OSK Investment Banking Wealth Management Trading

MALAYSIA EQUITY
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Daily

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Corporate News Flash

SEG International

Technical MGO Triggered

EDUCATION

BUY

Fair Value	**RM2.17**
Previous	**RM2.17**
Price	**RM1.81**
Shariah Compliant	YES

THE BUZZ

SEG International (SEGi) has received a notice of unconditional takeover offer from Navis Capital through the latter's fully-owned subsidiary Pinnacle Heritage Solutions SB (PHS) which currently holds a 27.8% stake in SEGi. The offer is pegged at a price of RM1.714 per share and RM1.214 per outstanding warrant.

OUR TAKE

Sequence of the entire saga. To recap, Navis Capital emerged as the single second largest shareholder in SEGi after its fully-owned subsidiary PHS took up 148.5m shares and 61.1m warrants early this month at RM1.71/share and RM1.21/warrant respectively. This makes Navis Capital's stake in SEGi second only to Dato' Sri Clement Hii who held 158.9m shares and 76.2m warrants back then. Nonetheless, Navis Capital has acquired another 18.0m warrants from Dato' Sri Clement Hii yesterday in an off-market transaction, putting itself on the brink of becoming the single largest shareholder in SEGi with its total investment in SEGi now standing at RM349.6m. Upon the full conversion of all outstanding warrants and excluding existing treasury shares of 26.0m, Navis Capital's stake in SEGi works out to be 31.5%, while Dato' Seri Clement Hii would in turn hold 30.0% of the company.

Shareholders' agreement between the two parties. Following the acquisition of the said warrants, PHS had entered into a shareholder's agreement with Dato' Sri Clement Hii to regulate the rights and obligations of both parties as shareholders of SEGi. And as a consequence of the agreement, the two parties which hold a combined 57.6% stake in SEGi (or an effective 61.5% upon the full conversion of warrants) triggered a Mandatory General Offer (MGO) on SEGi. With that, PHS proposed to acquire all the remaining 226.0m shares (ex-treasury shares of 26.0m) and 52.0m warrants in SEGi not held by PHS and Dato' Sri Clement Hii currently at RM1.714 per share and RM1.214 per warrant respectively. This brings the MGO cost to as much as RM450.4m, assuming full acceptances on both shares and outstanding warrants by minority shareholders.

Unattractive pricing. In our previous report, we highlighted that any privatization offer has to be priced at a minimum of RM2.10/share to entice the minority shareholders. The final offer of RM1.714/share is on par with Navis Capital's entrance cost but fell short of our expectations and it is at a significant 5.3% discount (instead of premium) to its last closing of RM1.81. Given the unappealing MGO valuation which translates into 14.2x FY12 PER and 12.9x FY13 PER based on a fully enlarged share base vis-à-vis our FV of RM2.17 at 18x FY12 PER, we advise minorities to reject the offer.

Unlikely to hit delisting threshold of 75%. Navis Capital highlighted its intention of not maintaining the listing status of SEGi should its holdings in SEGi coupled with Dato' Sri Clement Hii's hit the 75% threshold. While we think the minority shareholders are unlikely to accept the MGO offer, we took a look at SEGi's shareholding structure among its top 30 shareholders to better determine the potential outcome. Excluding the two largest shareholders, the shareholding spread is rather fragmented with stakes ranging from as low as 0.3% to 2.0% according to SEGi's 2011 annual report. Hence, we believe Navis Capital is not likely to garner enough acceptances to reach the 75% threshold from the current 61.5% level to de-list SEGi from Bursa Malaysia.

Why not seek exemptions from MGO instead of a lowball offer? Judging from the lowball offer, we believe the MGO was launched strictly from a technical perspective as the two parties hold over 33% of voting shares in SEGi and we opine that Navis Capital acted solely on the basis of achieving compliance with Bursa rulings and has no concrete intentions to take over the company for now. While some may argue that it could have instead sought approval to obtain the necessary exemptions from triggering a MGO, we believe the takeover offer tabled at RM1.714/share signifies Navis Capital's confidence in elevating SEGi to the next level of growth in the long run. This is also to better protect minorities' interests as the offer would likely provide a floor pricing on the counter and it also provides an more convenient exit option for some, given SEGi's relatively low share liquidity with an average of only 0.5m shares transacted per day.

Knee jerk reaction likely. That said, we expect some negative pressures on its share price when the market opens today. As an immediate response, there could be possible knee-jerk reactions to the lower-than-expected pricing for the much-anticipated takeover offer. Nonetheless, given that the stock was hovering at about RM1.70/share level prior to the emergence of Navis Capital, we believe any share price retracement is likely to be limited and temporary in nature.

BUY. Having said all that, we continue to like SEGi and we believe the emergence of Navis Capital – which is now the single largest shareholder assuming the full conversion of warrants – would prove beneficial to the company in the long run. Despite the pricing of the takeover offer coming in below our earlier expectations, we would not read too much into the MGO which we believe is likely to have been triggered from a technical perspective. We believe this should instead set the "minimum" benchmark value for SEGi shares in the eyes of Navis Capital and given that the acceptances of the offer by minorities are irrevocable, we opine that Navis Capital is merely seizing the opportunity to increase its stake in SEGi at its previous entry cost of RM1.71/share. Hence, maintain BUY at an unchanged FV of RM2.17 based on 18x FY12 PER and a fully enlarged share base.

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated (NR): Stock is not within regular research coverage

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