

01/08/2000

Avenue assets throws a spanner in the works

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'I WISH the stock price would better reflect the actual economic value of your company but I guess the impending merger has put a cap on its value.'

These words perhaps sum up the feelings of outgoing Phileo Allied Bhd (PAB) chief executive officer Tong Kooi Ong in his farewell note to shareholders in the company's 2000 Annual Report in May.

Tong, who has since resigned as CEO in May, was apparently referring to the merger exercise between PAB and the country's largest banking group, Malayan Banking Bhd. He has since moved on to emerge as a substantial shareholder of Gemtech Resources and is said to be building up a media empire.

Maybank's offer to acquire PAB by offering one new share for six PAB shares has not gone down well with PAB shareholders. The offer effectively values PAB at RM1.2 billion or RM2.50 per share in exchange for Maybank's RM15 per share. PAB shareholders would end up owning a mere 3.3 per cent of Maybank's enlarged share capital.

PAB shareholders feel their shares are worth much more. Indeed, days before the announcement, PAB shares were trading at around RM3.50 each on expectations that the swap would be on the basis of one for four.

Avenue Assets Bhd, which has a substantial 18.42 per cent stake in PAB, is particularly irked. It openly opposed Maybank's offer, saying it was 'unable to support the scheme'. Avenue Assets' head of corporate finance Richard Ong says that RM3.20 would have been a more reasonable offer.

The substantial shareholder of Avenue Assets is Mokhzani Mahathir who holds his stake through Pantai Holdings Bhd. Maybank is controlled by investment giant Permodalan Nasional Bhd (PNB). Avenue Assets was formerly known as Phileo Land Bhd and was controlled by Tong and his business associates.

Tong was also, until recently, in control of PAB, which has an interesting past. It was Tong, who at that time owned Phileo Peregrine Securities, who effected a reverse takeover of Linatex Process Rubber Bhd in the early nineties. It later become PAB. The company then moved into banking by acquiring the Kota Kinabalu branch of Singapore-based United Overseas Bank (UOB) and subsequently, Cooperative Central Bank (CCB). In 1995, it acquired Petra Finance and re-named it Allied Finance.

Being a latecomer to the banking scene, PAB knew it had to be different to survive. In 1996, Tong was quoted as saying, 'If we were to succeed, we had no choice but to play the game differently from the rest of the pack.'

So, are PAB shareholders being shortchanged by Maybank? Is there more than meets the eye? Says Soon Teck Onn, head of research at Nomura Advisory Services, 'It really depends on the books. The accounts have to be vetted thoroughly. I suppose PAB shareholders would have preferred a ratio of four PAB shares for one Maybank share.'

The one-for-six ratio values Phileo Allied at 1.2 times price to net tangible asset (NTA). This, say analysts, is low compared to 1.5 times valuation for other banks. In fact, they point to Maybank's proposed acquisition of Pacific Bank Bhd at 1.5 times NTA.

Other analysts, however, point out that Maybank's accounting policies are more conservative than PAB's both in terms of non-performing loans and bad debt provisions. Thus, it is the adjusted NTA and not the book NTA which should be used for valuation.

PAB minorities believe 1.5 times to 2.0 times book NTA would be fair.

They base it on PAB's NTA of 186 sen as at April 30, 2000 and 213 sen upon the full conversion of its 1996/2000 ICULS. Apparently, Avenue Assets had bought its stake in PAB at a book value of RM3.94 per share. Given its 68.4 million PAB shares, Avenue Assets would end up incurring a book loss of nearly RM100 million.

The PAB Group recorded its best ever results with a pre-tax profit of RM211 million for the year ended Jan 31, 2000. The bank reported a profit of RM212 million while Phileo Allied Securities' profit was RM23 million.

To be sure, Avenue Assets could not oppose the pricing as it was not a party to the negotiations between Maybank and PAB. Currently, the PAB board comprises just Datuk Md Taib Abdul Hamid and Ahmad Abdullah. Tong resigned at the end of May this year. It is not clear why, despite its substantial stake, Avenue Assets has no board representation as yet on PAB.

In any case, Avenue Assets may not be the only unhappy party. Nearly 17 per cent of PAB shares are held by foreigners. They too are likely to oppose the deal. Another substantial shareholder of PAB is Ahmad Abdullah with a 13.53 per cent stake.

Why Maybank opted to carry out the merger through Section 176 of the Companies Act is still unclear but it could be because it provides for an exchange of shares via a scheme of arrangement. In this case, it would have to obtain the approval of 75 per cent of PAB shareholders - a doubtful possibility. If it had opted to make a general offer for PAB, it would have had to obtain at least 90 per cent approval - an even more remote possibility.

But some prefer to look at the merger in another light. Since the deal favours Maybank, PAB shareholders who receive Maybank shares can at least benefit. According to Arab-Malaysian Securities, the acquisition will be marginally positive for Maybank.

It estimates that Maybank's NTA per share will increase by six per cent to RM4.65 while earnings per share (EPS) will increase by 0.7 per cent to 72 sen for FY2001. It also says there will not be any material negative impact on Maybank's return on capital (ROE). PAB shareholders can also benefit from any upside potential to Maybank's share price.

So, what will Maybank do with the listed status of PAB? Soon does not discount the possibility of injecting one of its units such as Mayban Finance into it. Analysts have speculated that one of the reasons for Avenue Asset's reluctance to let go of PAB could be due to a plan to beef up its stockbroking businesses. PAB currently owns Phileo Allied Securities Bhd.

Avenue Assets on its part, controls Johor-based Kestral Securities and is in the midst of buying over Penang-based Soon Theam Securities and KL-based MGI Securities. So, Phileo Allied Securities could always be the anchor in such a merger.

But Ong dismisses such talk and says Avenue Assets is not interested in Phileo Allied Securities. 'We already have three firms and are well on our way towards becoming a universal broker.'

Likewise, Maybank too may have big plans for Phileo Allied Securities which can be merged with Mayban Securities. Another merger possibility is Mayban Securities and MIDF Sisma Securities.

At the end of the day, say some analysts, Maybank does not really need a bank like PhileoAllied given Maybank's dominant position. Agrees Soon, 'Perhaps, that it why it is not willing to pay that much.' And that means the likelihood of Maybank topping the offer is remote.

The big question now: Will Bank Negara Malaysia intervene to help resolve the stalemate?

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