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## Minority Lion holders seek Mirzan's help

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SOME minority shareholders of Lion Corp Bhd are unhappy with the company's RM5.3 billion debt restructuring exercise which they say helps controlling shareholder Tan Sri William Cheng consolidate his position at their expense.

Upset that their interests will be heavily diluted while Cheng's stake in the company remains intact, they are looking to Lion Corp's single largest minority shareholder, businessman Encik Mirzan Mahathir, in the hope that he will negotiate better terms for them as a group.

Mirzan appears unlikely to make a move on the issue soon, however, and will wait for independent advisors' conclusions on the deal, said his representative on the Lion Corp board, Mr Loo Hooi Keat.

"This deal will dilute his stake, but we would like to reserve our judgement for now," Loo told Business Times in a telephone interview.

"As the single largest minority shareholder, Encik Mirzan will have a lot of say, but he wants to look at the deal objectively," he said, pointing out that voicing an opinion now may unfairly pressure the independent advisors.

Mirzan currently owns about 20 per cent of Lion Corp, while Cheng holds about 58 per cent.

The absence of details makes a precise analysis of shareholdings difficult, but Mirzan could see the 20 per cent stake he bought in 1995 more than halved to 8.4 per cent.

This is based on the assumption that its existing warrants and a proposed issue of debt securities remain unconverted into new shares, and also leaves out shares attached to bonds that the company will issue to creditors.

Under the deal unveiled two weeks ago, the dilution is largely due to Lion Corp's proposal to consolidate its interest in associate company Amsteel Corp Bhd.

Lion Corp said it will buy a chunk of Amsteel shares from Cheng and related parties to help boost its 29-per cent stake to 46 per cent after the debt restructuring.

In return, it will issue new shares and convertible debt securities, giving him 63 per cent of the restructured Lion Corp.

What troubles minority shareholders is how Cheng will get the bulk of these Amsteel shares.

Cheng is proposing to inject his 30-per cent interest in a related company, Akurjaya Sdn Bhd, into Amsteel, and will receive 711 million new Amsteel shares in return.

Amsteel itself already owns 70 per cent of Akurjaya, which in turn holds 40 per cent of the Lion Group's hot-rolled steel plant, Megasteel Sdn Bhd.

However, Akurjaya is planning to sell its interest in Megasteel to Lion Corp for RM1.25 billion. Since Lion Corp intends to set off inter-company loans owed by Amsteel as part-payment, Akurjaya will eventually end up holding an unspecified amount of Lion Corp bonds.

Lion Corp will issue 110 million new shares and RM382.3 million in irredeemable loan stocks (ICULS) to buy Cheng's Amsteel shares, which come up to 888.07 million including shares he already owns in the company.

Effectively, he will swap a 30-per cent interest in a company that will eventually hold Lion Corp bonds - company officials say Akurjaya owns other businesses too - for new shares and debt securities in Lion Corp,

helping him stay in firm control of the entire group.

And a sale of these debt securities may even help Cheng recoup part of RM200 million in cash he is pumping into the company.

In a written reply to Business Times, Lion Corp officials said Cheng plans to sell to minority shareholders RM108 million worth, or about 28 per cent, of the loan stocks he will receive.

The company said these ICULS will be offered at RM1 each under the non-renounceable restricted offer, on the basis of one ICULS for each share owned.

Lion Corp officials said the proposed offer will not be underwritten, so Cheng will not get cash for any ICULS which are not taken up under the offer.

"In this respect, the proposed restricted offer for sale is not intended to be an avenue for the offerors to raise cash," they said.

Still, Cheng is not the only one to swap shares in Amsteel for those in Lion Corp. The Group is issuing 83.05 million new shares to Lembaga Tabung Angkatan Tentera (LTAT) to buy 92.22 million Amsteel shares the armed forces' retirement and welfare fund currently owns. LTAT will basically exchange an existing 7.3 per cent stake in Amsteel for a 19 per cent interest in Lion Corp.

A disgruntled minority shareholder, who wants to be known only as Mr Ee, argues that he and other small investors are at a big disadvantage due to this issue of new Lion Corp shares and convertible loan stocks. "It is unnecessary for Lion Corp to consolidate its interest in Amsteel, which is not going to be a large contributor (to group earnings)," he said.

He sees the most immediate impact to Lion Corp's earnings coming from Megasteel, which it will own entirely after the exercise, and its paper and plywood division under Sabah Forest Industries Sdn Bhd (SFI).

SFI's parent, second board company Posim Bhd, is due to be taken private by another unit in the group, steel bar maker Lion Land Bhd.

"We are being diluted because Lion Corp is issuing so many shares to (increase) its Amsteel stake, and these Amsteel shares are part of the RM700 million Cheng is supposed to inject into the company as part of the debt restructuring," he pointed out. "These are all assets within the same group."

Furthermore, the earnings per share would double without the dilution. "This EPS dilution is grossly unfair to minority shareholders," Ee added.

Loo, Mirzan's representative on the Lion Corp board, believes minority shareholders should consider other features that could make the deal worthwhile before making up their minds.

For one, the exercise results in Cheng's interest concentrated at the holding company level, instead of at almost every level currently.

"This will bring a cleaner structure and a clearer decision-making process, since the potential for conflict of interests are reduced," he argues.

"Aside from the dilutive effect, this structure could be good (for the longer term)," he said. "If this exercise creates a lot of value, then even a diluted interest will be worth more than it is now."

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