

23 JUL 2001

LEAD UEM-TAKEOVER

GOVERNMENT OFFERS TO TAKEOVER UEM

By: Mohd Arshi Daud and Mohsin Taib

KUALA LUMPUR, July 23 (Bernama) -- The government, via its investment arm Khazanah Nasional Bhd, today offered to take over United Engineers (Malaysia) Bhd (UEM), a unit of debt-ridden conglomerate Renong Bhd.

Through its wholly-owned Syarikat Danasaham Sdn Bhd, a special purpose investment vehicle, Khazanah Nasional today served a notice of conditional voluntary offer to the board of directors of UEM.

It offered to buy 99.78 percent of UEM shares or 815,303,483 shares of 50 sen each at RM4.50 a piece cash and 98.84 percent of UEM warrants or 98,053,203 warrants at 40 sen per warrant cash.

Danasaham is also offering to acquire all new ordinary shares of 50 sen each in UEM that may be issued pursuant to the exercise of any offer warrants in UEM.

Khazanah already owns around 0.22 percent or 1.773 million 50 sen ordinary shares in UEM and about 1.16 percent or 1,151,600 UEM warrants.

News broke last week that the government is taking over the Renong group. Shares of UEM and Renong, suspended since July 18 pending an announcement, were last quoted at RM3.56 and 80.5 sen respectively.

Danasaham's takeover offer is at a 26.4 percent premium above UEM's shares pre-suspension price and a 52 percent discount over UEM's warrants price of 83 sen.

Renong controls 37.92 percent of UEM while UEM has a 32.6 percent stake in Renong.

Renong, saddled with RM13 billion in debts, has interests in construction, highways, hotels, banking and property development.

Prime Minister Datuk Seri Dr Mahathir Mohamad last week hinted on the government taking over Renong when he told the media that the government was looking for a solution to Renong's financial woes.

Announcing Danasaham's takeover offer today, merchant bankers, Aseambankers Malaysia Bhd, said Danasaham has no intention to revise its offer prices.

It also said that Danasaham intends to delist UEM from the Kuala Lumpur Stock Exchange following the successful completion of the voluntary offer.

To delist UEM, a giant infrastructure group, Khazanah needs to have at least 90 percent control of the former.

Analysts believe that Khazanah would not face much resistance to meet this ceiling because Renong and the Employees Provident Fund (EPF) are said to be willing to accept the offer.

The EPF and other government-linked agencies are estimated to own 13 percent of UEM.

One analyst said with Danasaham firmly stressing that it would not revise the offer, investors would have their hands tied and would have to accept the RM4.50 price.

"With limited funds, the government has indicated that the offer will be a take it or leave it thing," he said.

"While the market was expecting a RM6 per share offer, investors now have to contend with just cutting their losses (with the RM4.50 offer)," he said.

Some analysts had even put UEM's value at way above RM10 a share.

A fund manager meanwhile said the offer has raised question marks surrounding the UEM-Renong group.

They include whether the government would stay firm on (UEM's former

vice chairman) Tan Sri Halim Saad's put option obligation; on when the government would take over Renong; and even whether the government would take over other troubled corporate groups.

There are so many unanswered questions and details from the offer are not sufficient yet, he added.

Halim, had in 1998, committed to a RM3.2 billion put option to buy 32 percent of Renong's paid-up capital from UEM.

Halim, a controlling shareholder of Renong has only paid RM100 million as the first instalment of the put option.

"If Khazanah is firm in asking Halim to honour the option, the market would not deem the takeover of UEM as a bailout exercise.

"As long as the market sees that the government is abiding by corporate governance in the deal, then that should be alright," said a dealer.

He also said that UEM's takeover might be a prelude to the government taking over of Renong as hinted by the Prime Minister last week.

"We are quite surprised that the government is taking over UEM and not Renong initially. Maybe Renong's problem is too complicated, too messy. Maybe the government is doing it stage by stage," he added. -- BERNAMA

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