

Sime Darby's strange purchase and sale of E&O
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Tiger is wary of the word "strategic". Many a sin has been committed by using its name in vain. When Sime Darby bought a stake in Eastern and Oriental some three years ago, it called it strategic. But now it is selling part of the stake – to retain existing management. What gives?

Some three years back, in August 2011, our home-grown multi-national Sime Darby made a strange purchase – a 30% stake in Penang-based property developer Eastern and Oriental Bhd (E&O) for RM766 million or RM2.30 per share.

The strange thing about the purchase – it was made at a 60% premium to the market price then from three shareholders – E&O managing director Terry Tham, prominent businessman Wan Azmi Wan Hamzah and Singapore stockbroking group GK Goh Holdings Ltd.

Why would Sime Darby make such an investment and at a 60% premium to the market? The only rationale the company gave was this, reproduced verbatim: The proposed acquisition represents an opportunity for the Sime Darby group to acquire a strategic investment in a renowned property development company primarily operating within the luxury residential market in the Klang Valley and Penang.

Really? What is so strategic about that? Since when did Sime Darby become an investment holding company for renowned property developers? And shouldn't Sime Darby develop its own abilities to utilise the largest landbank of any company in Malaysia to become a renowned property developer in its own right? In a different incarnation, this Tiger dealt with those issues here.

Subsequently Sime Darby became embroiled in a mess when other E&O shareholders, peeved by the 60% premium they never got, lobbied strongly for the Securities Commission to require Sime Darby to launch a general offer for the E&O shares.

The SC eventually ruled that Sime Darby need not and held that the company was not acting in concert with the three shareholders from which it bought the E&O shares, but

not before some violent fluctuations in the E&O share price which saw the stock hit limit up. Tiger, in its previous life, wrote about it here.

Now after going through all that hell, and less than three years since, Sime Darby announced yesterday it is reducing its stake by 9.9 percentage points by selling it back to one of the vendors from August 2011 – none other than E&O MD Terry Tham – a strange sale in Tiger's books.

Oh but why? Let's put up the rationale in verbatim: The proposed disposal will further align the interests of Terry Tham and key senior personnel with that of E&O. In addition, Sime Darby will make a return on investment of approximately 28% on its average cost of investment and a profit of RM56 million in the 3 years since its initial acquisition.

First, it's hard to see how a sale just to Terry Tham will align the interests of other key senior personnel with that of E&O while it certainly will of Tham with E&O. In any case, didn't Tham sell part of his stake for a 60% premium over market to Sime Darby less than three years ago. Why won't he do it again for the right price?

Perhaps it is because a three-year collaboration agreement made with the three shareholders in conjunction with Sime Darby's earlier purchase of E&O will expire soon and a new arrangement has to be made. But does Tham, who spends a lot of his time in UK, the only person who can run E&O? Surely Sime Darby does not have to bear the brunt of keeping Tham in E&O.

(The collaboration agreement provided for the sharing of expertise, leveraging on each other's core competencies and the exploitation of economic opportunities jointly.)

Or perhaps Sime Darby got a good price for the shares. The day before the deal, E&O closed at RM2.40. At RM2.90, Sime Darby got a premium of 21% over the market price. Three years ago, Terry Tham got a 60% premium over the market price!

And remember, Tham is managing director of E&O – he knows the company inside out. if he is prepared to buy at RM2.90, he must know something. This would most likely relate to the massive area in Penang that E&O is reclaiming from the sea.

Some stockbrokers are very positive on E&O with AmResearch affirming a buy with a fair value of RM3.90 a share – a 15% discount to its net asset value of RM4.61 a share, which includes the significant accretion from the Seri Tanjung Pinang 2 reclamation.

Why then settle for a 21% premium over market price and a 28% gain over three years (less than 8% annually) when most of the gains will come later as the reclamation as well as plans for development on these lands are crystallised.

Perhaps, Sime Darby was afraid of a situation ala Liew Kee Sin and SP Setia when Liew left SP Setia ostensibly because Permodalan Nasional Bhd (PNB) made a general offer for SP Setia to try and oust him.

The Edge Financial Daily reported today as follows: "It is learnt that the share sale aims to retain senior management to continue managing and charting E&O's strategy over the years....this move was taken to prevent the property firm from falling into the same situation SP Setia is in now."

Really? The truth of the matter was that PNB, already the largest shareholder of SP Setia for many years, had to make a general offer once it crossed the 33% threshold from 32.9%. Liew continued as CEO of SP Setia, under an agreement with PNB, even as droves of SP Setia executives deserted the company for Eco World Development Group, where it came to pass Liew had a major interest. A fellow Tiger's take on this is given here with SP Setia and PNB the clear loser

What is to stop Terry Tham from doing a Liew in the case of E&O? If he gets a good price for his E&O stake, can't he just walkaway? What makes a company like Sime Darby think that the only way forward for E&O is to keep Tham?

Isn't that what PNB did with Liew when it bent over backwards (it may have been forced to do so) and gave Liew all kinds of assurances and carte blanche despite equity control to keep him only to see him depart with key staff to Eco World?

GRRRRR!

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