

GOING PRIVATE

Is Tan Sri Azman Hashim's decision to take AmcorpGroup private a way to unlock its value? Or are there other reasons behind this move?

By Gurmeet Kaur



Azman's plan to take Amcorp private has generated interest

TAN Sri Azman Hashim's plan to take AmcorpGroup Bhd (Amcorp) private has added some colour to the stock market. The deal could potentially have an impact on as many as three listed counters, all part of his Amcorp group.

Azman is offering RM1.40 per Amcorp share to take the company private. He is doing this as part of a plan to institutionalise the banking group. As Azman owns 38.06% of Amcorp, he has offered to acquire the remaining 700 million plus Amcorp shares – the company has a paid-up capital of RM1.06 billion. This would cost him around RM920 million. The price tag of RM1.40 represents a hefty premium of 34.6% to Amcorp's last traded price (prior to the announcement) of RM1.04.

The RM1.40 price was reached after factoring in the five-day and three-month weighted average market prices of RM1.04 and RM1.01 respectively to Jan 13. As at March 31, 2005, Amcorp had a net tangible asset per share of RM1.46.

However, according to CIMB Research's Tan See Ping, the RM1.40 offer price is at a discount to CIMB's estimated revised net asset value (RNAV) of RM1.48 per Amcorp share.

This is also why some observers have speculated that Azman's privatisation plan may have to do with his disillusionment over the market's treatment of Amcorp. The stock has declined by about 30% from its high of RM1.50 a share about a year ago and has languished since. 'Taking the group private means that Azman can unlock its real value,' comments a research head.

The stated rationale for the move was to give shareholders the opportunity to realise their investment since Amcorp's share price has not breached the RM1.40 per share mark for the last 11 months.

But there could be another more valid reason for Azman's plans. Banking regulations require Azman and Amcorp to reduce their shareholding in AMMB Holdings Bhd (AMMB).

Indeed, in 2004, Bank Negara Malaysia (BNM) required Azman to reorganise his stakes in AMMB and AmInvestment Group Bhd (AmInvestment) into a new investment holding company in which some of the shares would then be offered to institutional investors. Amcorp owns 32.9% of AMMB and 11% of AmInvestment.

BNM stipulated this condition when it approved the listing of AmInvestment in May 2005, so as to ensure it was in compliance with

the regulatory limits on the shareholding of banking institutions. Azman was given two years from the listing of AmInvestment to comply with this rule.

A strategic investor may come in

Media reports have suggested that Azman will sell part of his stake in Amcorp to a strategic overseas investor. Robert Kong of Citigroup Investment Research says, 'We believe the privatisation is merely a prelude to the strategic sale, and as an opportunity to maximise value for Azman and ease the stake sale by removing the layers of corporate structure.'

Tan reckons that Azman will pare down Amcorp's and his own effective stake in AMMB only after gaining full ownership of the 32.9% in AMMB. 'One possible scenario we envisage is Amcorp placing out 12.9% of AMMB to a strategic investor, thus reducing its direct stake to the required 20% and leaving Azman with an effective 20% stake in AMMB via his 100% holding company Amcorp. He will then need to cut his stake in Amcorp by 50% to comply with regulatory requirements,' Tan says.

Recent media reports have quoted Amcorp's Managing Director Soo Kim Wai as saying that Azman is proposing to take Amcorp private and use it as a special purpose vehicle. Soo said Azman would then offer a 40% stake in Amcorp to other investors while retaining 60%. But Soo added that before an offer can be made to institutional shareholders, Amcorp would first have to divest non-core assets and only hold banking assets.

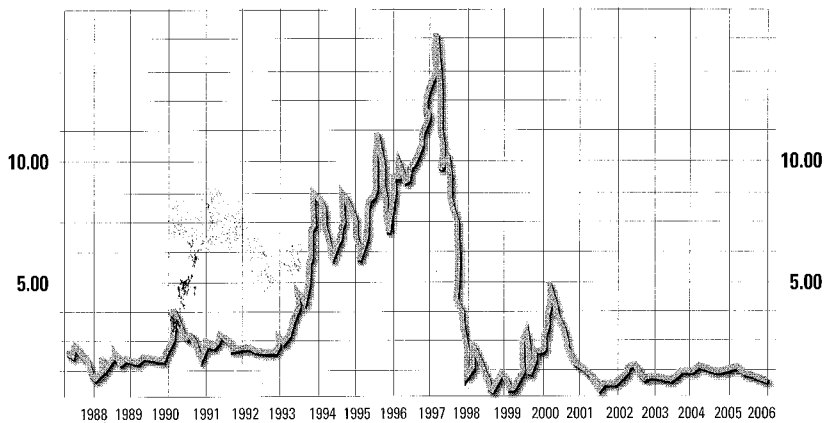
Amcorp's non-core assets include large property developments and an information technology subsidiary.

Is Azman consolidating his power?

There is also wide speculation that Azman's move could be driven by a need to prevent a hostile takeover bid of the group. 'Amcorp's low valuation makes it a potential takeover target,' notes an analyst.

OSK Investment Research's Chan Ken Yew says that Azman's privatisation plan may not just be for paring down stakes. 'Judging from recent developments within Killinghall (M) Bhd amid the CIMB group and Southern Bank merger talks, the move can also be deemed as a consolidation of power by Azman to prevent any

AMCORPGROUP'S PRICE PERFORMANCE CHART



Source: Investamatic

undesirable takeover bid,' Chan opines. He adds that Amcorp offers a cheaper indirect route for the acquisition of AMMB and AmInvestment.

On the other hand, Chan notes the possibility that the exercise could lead to merger talks. 'Post-privatisation would see Azman emerge as the single largest shareholder and that could possibly facilitate and further ease any merger negotiations.'

He adds that, merger talks aside, the paring down of Azman's stake could potentially invite a foreign banking strategic partner into the group. 'Recall the recent partnership of the group's insurance arm with the Insurance Australia Group, which took a 30% stake in AmAssurance,' notes Chan.

According to Kong, press reports in the past have named Singapore's DBS Bank and Australia & New Zealand Banking Group Ltd (ANZ Bank) as potential suitors for AMMB, 'as both are interested in entering the consumer banking segment in Malaysia'. 'AMMB's strong consumer franchise is potentially attractive to a foreign strategic investor as the sector liberalises by 2007/2008,' says Kong. He adds that among the potential domestic merger possibilities are with Bumiputra-Commerce Holdings Bhd.

Will the privatisation go through?

It's left to be seen if minority shareholders will sell their Amcorp shares at RM1.40 to Azman. One analyst points out that there

could be some resistance from minority shareholders. 'Despite the fact that the offer allows Amcorp shareholders the opportunity to realise their investment above the existing market price, some (shareholders) may think RM1.40 is too low.' From a valuation angle, the RNAV per share, by analyst estimates, ranges from RM1.48 to as high as RM1.80. If the consensus target prices of Amcorp's assets, namely AMMB and AmInvestment, are taken into account, the RNAV per share (of Amcorp) could be even higher.

On the other hand, Tan points out that Amcorp's minority shareholding is fragmented and there is, therefore, no one party which could block the deal.

But there is one party to watch out for, namely, Peter Cundill & Associates (Bermuda) Ltd, which had a 9.66% direct interest in Amcorp as at end July 2005. This group further increased its stake in Amcorp to 13.87% as at Jan 10, 2006. Together with its associate company, the Ivy Cundhill Global Value Fund, which owns 5.25% of Amcorp, the Cunhill group holds a strategic 19.12% of Amcorp, Chan points out. 'Hence should this group act as a friendly party to Azman, chances of the deal going through are high,' he says.

Analysts say the proposed Amcorp deal is further proof that developments taking place in the banking sector indicate that a round of mergers and acquisitions in the sector is in the offing. And because of this, banking stocks could lead a rally in the local bourse in the coming weeks. **mb**