Tenaga's takeover offer for Integrax hits a wall

BY **LIEW JIA TENG**

Tenaga Nasional Bhd's plan to take Integrax Bhd private has hit a snag — the port operator's founder cum major shareholder, Amin Halim Rasip, said he will reject the takeover offer of RM2.75 per share.

Now, the question is, will Tenaga raise its offer price to gain full control of Lumut Port, which takes care of the coal requirements of Tenaga's power plants nearby. The offer of RM2.75 is already at a premium of 21.7% to the closing price of Integrax (fundamental: 1.65; valuation: 0.60) prior to the takeover announcement.

At that price, the takeover offer would cost Tenaga RM644.23 million, which RAM Ratings describes as "negligible in relation to the utility group's key financial metrics".

At press time, Tenaga (fundamental: 1.3; valuation: 1.0) did not immediately respond to request for comment by *The Edge*.

Amin, the single largest shareholder of Integrax with 22.81% deemed equity interest (see chart), has now single-handedly blocked the privatisation deal. Without his supporting votes, Tenaga, which holds a 22.12% stake, would not be able to garner 90% acceptance from the shareholders with non-interested shareholding — equivalent to 77.88% or 234.27 million shares.

Last Friday, Amin, who is also the deputy chairman of Integrax, said he will not part with his shares at RM2.75 each as the offer price is not fair and not reasonable, noting that Tenaga's offer does not reflect the value of Integrax.

"There is more value to be gained and I recommend that shareholders reject the Tenaga offer [of RM2.75 per share] and, depending on shareholders' needs in the near term, hold out for a much higher price and derive significant value and more shareholder benefits for the long term," he said.

In the statement, Amin said his remarks were made solely based on his capacity as a shareholder and did not represent the views of Integrax's board of directors and management.

Following the opposition, it remains to be seen if Tenaga will withdraw its takeover offer as, even if all the remaining shareholders accept the offer, it would not be able to meet its main objective of taking Integrax private.

So far, the company's third largest shareholder Perak Corp Bhd, which is controlled by Perbadanan Kemajuan Negeri Perak (PKNP), has yet to reveal its stance on the takeover offer.

Perak Corp (fundamental: 1.9; valuation: 1.2) holds a 15.74% stake in Integrax. The state-controlled entity could not be reached for comments.

Interestingly, PKNP — the state government body under the purview of the menteri besar of Perak — had just in October last year withdrawn its selective capital reduction (SCR) offer to take Perak Corp private at RM3.90 per share. The withdrawal was made after Sime Darby Property Bhd informed the company that it intended to vote against the proposed SCR at the extraordinary general meeting.

An analyst who tracks Integrax says he expects some resistances from PKNP and Perak Corp. "They (PKNP) want Lumut Port to play a bigger role in future. Their objective is not just making money but also to uplift the social economic growth in Perak."

The hefty premium price that Tenaga is willing to pay seems like an irresistible offer for many minority shareholders, considering that Integrax's shares have not been traded at the RM2.75 level in the past 10 years.

However, it is still an offer that Amin and Perak Corp can afford to resist. The former is eyeing a deal from Vale International SA and is taking Integrax's future earnings into consideration. The latter, meanwhile, relies on the port business to provide a stable and consistent income.

The cash offer from Tenaga values the Lumut port owner at a price-to-book value of 1.3 times, as well as a historical price-earnings ratio of 20.2 times, based on Integrax's net asset value per share of RM2.09 as at Sept 30, 2014, and its earnings per share of 13.6 sen in the financial year ended Dec 31, 2013.

Integrax is a zero gearing and cash rich company. Its net cash position stood at RM154.6 million as at Sept 30, 2014, with total assets worth RM749.3 million.

However, RHB Research and Kenanga Research have advised the minority shareholders of Integrax to accept the offer.

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Possible tie-up with Vale could be deal-breaker

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The deal-breaker could be Integrax's possible tie-up with Brazilian mining player and logistics operator Vale. It is understood that Tenaga has always wanted Integrax to focus on the utility group's coal requirements for its power plants while the likes of Amin and Perak Corp want Integrax to serve Vale and other clients.

In 1999, Lekir Bulk Terminal (LBT) executed a jetty terminal usage agreement (JTUA) with TNB Janamanjung Sdn Bhd for the provision of coal unloading and delivery services to the power station. JTUA 2 was signed in 2012 to provide a new additional grab ship unloader for the handling of coal for the Manjung 4 power plant, which is scheduled to begin operations in the first quarter of 2015.

Currently, Tenaga is in talks with Integrax on JTUA 3 for the new Manjung 5 power plant. Analysts anticipate that the agreement could be secured in 2016, but the earliest contribution from this project is expected to come only in 2018.

Hong Leong Investment Bank Research analyst Daniel Wong tells *The Edge* that there has always been some disagreement between Tenaga and Integrax's board on the future planning of the port utilisation at Lumut Port.

"If big players such as Vale come into the picture, Integrax will have to give a high allocation to them (the new customers)," he says.

To recap, Integrax first signed a transhipment agreement with Vale in 2009, but it was subsequently scrapped in 2010 when Amin and his brother, Harun Halim Rasip, could not agree on how Vale's iron ore requirements should be handled.

Eventually, Harun resigned as CEO of Integrax and sold his 22% stake in the company to Tenaga at RM1.60 apiece.

In his statement, Amin highlighted that Integrax's port assets, namely LBT and Lumut Maritime Terminal (LMT), have high enterprise and strategic values, as well as proven track records as catalysts in the growth of Perak's resource and industrial base.

"As a business, we are insulated and not sensitive to commodity price movements as commodities like coal [are still needed] irrespective of commodity prices," Amin said.

LMT is jointly-controlled by Integrax and Perak Corp, while LBT is 80% owned by Integrax. E

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