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Is RM3.25 a fair price for Integrax?

Too early to tell if Perak Corp will sell its stake as the board has yet to get shareholders' approval

BY AFIQ ISA

KUALA LUMPUR: Last Wednesday, Tenaga Nasional Bhd (TNB) revealed how serious it was about acquiring Integrax Bhd. The utility company raised its offer price for the port operator to RM3.25 per share, up 50 sen from its initial bid of RM2.75.

The revised offer came on the heels of Perak Corp Bhd's (fundamental: 1.9; valuation: 1.2) remark that it would part with its 15.74% equity interest in Integrax (fundamental: 1.65; valuation: 0.6) for RM3.25 apiece.

However, given the strategic value of Lumut Port — Integrax's core asset — the company's other shareholders may not still consider the higher offer price fair because TNB (fundamental: 1.3; valuation: 1.8) relies solely on the port for the import of coal.

In fact, sources familiar with the matter said Amin Halim Rasip, Integrax's largest shareholder with a 23.09% stake, is unlikely to accept the offer. If that is the case, TNB may have difficulties in gaining a controlling stake in Integrax, let alone take the port operator private.

Amin, who is deputy chairman of Integrax, has vehemently opposed TNB's takeover attempt and rejected its RM2.75 per share offer shortly after it was made.

In a circular, Integrax noted Amin's

aspirations to grow the company and its port assets, which comprise the Lekir Bulk Terminal (LBT) and the Lumut Maritime Terminal (LMT).

TNB's rationale for the privatisation plan is simple. It wants full control of Integrax so that it can secure the handling of coal supply to its power plant in Janamanjung, Perak, which is expected to generate close to a fifth of Peninsular Malaysia's electricity supply by 2017.

LBT in Lumut currently handles more than seven million tonnes of coal a year. With TNB's Manjung 4 coal-fired power plant expected to commence operations this month, another three million tonnes per year will be added to LBT's coal throughput.

Interestingly, TNB's revised offer was announced at the same time as a new 25-year coal-handling contract for the 1,000mw Manjung 5 power plant, which begins operations in 2017. RHB Research is in favour of the new offer. "The revised offer is 32% above our RM2.46 per share valuation of Integrax, premised solely on the earnings outlook of TNB's five power plants in Manjung and the dividend stream from LMT. The offer also implies a forward earnings multiple of 29 times, which we think is generous," said its analyst Ahmad Maghfur Usman.

Integrax's minority shareholders



may be strongly tempted to sell at RM3.25 as they stand to gain at least 85 sen per share had they bought the stock last year, when it fluctuated between RM1.90 and RM2.40.

The company reported a FY2014 net profit of RM38.69 million, down 5.42% from RM40.91 million in FY2013. Its current net asset value per share stands at RM2.13, substantially below TNB's offer.

Some said given LBT's crucial position in the handling and delivery of fuel to TNB's power plants, its earnings potential and asset appreciation should fetch a much higher valuation than RM3.25. M&A Securities Sdn Bhd, which is the independent adviser for the deal, has pegged a

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net asset value per share of RM3.62 to Integrax in a Feb 16 report.

Perak Corp's valuation of Integrax came from its own adviser, Affin Hwang Investment Bank Bhd. The group is expected to hold an extraordinary general meeting (EGM) by the end of this month to seek the approval of its shareholders to sell its Integrax stake.

Perak Corp will pocket some RM150 million cash if it accepts the revised offer, giving it a net divestment gain of RM52.31 million.

In a statement, the Minority Shareholders Watchdog Group advised Integrax's shareholders to take into account the different valuations in order to make an informed decision. "Minorities have to decide whether to sell based on their respective risk-reward profiles and investment horizons while also taking into account how they view the prospects for the company."

For now, it looks like TNB's priority is to secure Perak Corp's stake, which would lift its shareholding to 38.86%. For the takeover offer to be unconditional, TNB will need to obtain at least 13% of the remaining share base held by Integrax's minority shareholders and gain at least 51% control of the port operator.

However, it is too early to conclude that Perak Corp will definitely sell its stake as its board has yet to obtain

the approval of its shareholders. It is worth noting that its substantial shareholder, Sime Darby Properties Sdn Bhd, blocked its privatisation just a few months ago, saying the offer from the Perak State Development Corp was not attractive enough. So, will Sime Darby play hardball again? This could be interesting to watch.

Excluding the stakes owned by TNB, Perak Corp and Amin, Integrax's share base amounts to some 114 million. A look at the company's top shareholders shows a smattering of fund managers with stakes ranging from 1% to 4%, which could ultimately decide the outcome of TNB's takeover attempt.

The closing date for the revised offer is March 31. It is likely that by then, Perak Corp would have held its EGM and made known its acceptance.

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