An Analysis of Why Public Listed Companies Go Private in Malaysia

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LAU CHEE CHIN @ LAU CHEUNG CHANG
Dedicated to my esteemed
Father & Mother
for showing me that
life is a process and not an event

Also dedicated to my Wife
for been a constant source of inspiration,
mentor and a guide to me.
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ABSTRACT

The trends of public listed companies going private in Malaysia’s stock exchange Bursa Malaysia has experienced a surge with 17 public listed companies being taken private in the first half of the year in 2007 together with approximately RM46.29 billion of market capitalisation being “wiped out” from our local bourse Bursa Malaysia.

In contrast, Bursa Malaysia only added RM3.74 billion in market capitalisation from the new public listing of 16 companies within the same period. Global leverage buyout volume for the first six months in the same period was estimated at US$450 billion (RM1.56 trillion), more than double the whole of last year 2006.

For the year of 2008, there have been already 29 privatisation proposals and only 18 new public listing on the Bursa Malaysia.

Traditionally, private companies going for public listing was a sign that a company had reached a certain threshold of size and profitability to attract public investors for further funding requirements and the expansion of business.

This study aims to examine this new trend on the Bursa Malaysia and also to find out the reasons for the public listed companies for choosing to go private whereby it is the reverse of a public listing exercise.
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CHAPTER 1
INTRODUCTION

1.1 Background

The number of public listed companies going private has increased sharply in recent years. Since the beginning of 2007, there was a series of privatisation of public listed companies on our local bourse, Bursa Malaysia. This is exactly the opposite of companies going for public listing. The trend of privatisation of public listed companies in the Bursa Malaysia has picked up steam with more than 20 privatisations since 2007 (source: Announcements from Bursa Malaysia).

The privatisation continued through 2008 with 21 privatisation proposals on the Bursa Malaysia. OSK Research Head Chris Eng said, “The wind of privatisation was expected to be strong next year in view of the low valuation of stocks, although earnings may contract but price-to-earnings ratio are still low”

Other factors that may fuel privatization include businesses that were fairly stable where there was no need to raise cash via equity, which in turn made the requirements of a listing such as the need to hold AGMs and issue annual reports.

Kenanga Investment Bank Head of Corporate Finance Debbie Leong agrees. She said other than cheap valuation, other motivating factors included the cost of maintaining the listing status. She said the same goes for companies
that were not benefitting from having a listing status, such as the inability to tap the capital market for funds due to lack of visibility to investors, low analyst coverage, or the mere fact that the companies were too small to attract institutional shareholders.

Analysts said privatisation also played a significant role in bringing stock prices closer to their intrinsic values. Privatisations are likely to involve small to mid-cap companies going forward, as the quantum involves in completing the privatisation would be smaller (less than RM100 million) and thus more manageable when it comes to funding in view of the current global credit crunch.

Bursa Malaysia’s Kuala Lumpur Composite Index had tumbled to 876.40 points on December 19, 2008, a 73% drop from its peak of 1,516.22 on January 2008. It is worth noting that the price-to-earnings ratio of the Kuala Lumpur Composite Index had also dipped to 10.10 times as of the week ended December 19, 2008 from a high of 16.84 times as of the week ended January 11, 2008. Its lowest price-earnings-ratio for the year was 9.31 times for the week ended October 24, 2008.

Bursa Malaysia has currently more than 982 public listed companies (as at 17 September 2008) with a total market capitalization in excess of RM930 billion. It is one of the largest Stock Exchange in South East Asia, No. 1 in terms of listed companies, No. 2 in terms of market capitalization after Singapore.
There are more than a total 86 new listings for the past 3 years from the year of 2006 until 2008, whereby there were 40 new listings in the year of 2006, 28 new listings in the year of 2007 and 18 new listings in the year of 2008 (as at 17 September 2008) on the Bursa Malaysia. Total money raised from the public listing exercise and other corporate exercise was RM 4.1 billion in 2006 and RM 16.8 billion in the year of 2007 (source: from Bursa Malaysia’s 2007 Annual Report)

“Some RM46.29 billion has been wiped out from Bursa Malaysia’s market capitalisation in the first half of the year of 2007, as 17 companies were taken private, a stock exchange official said. In contrast, the stock market added RM3.74 billion in market capitalisation from the listing of 16 companies in the same period.

Global leveraged buyout volume for the first six months of the year 2007 was estimated at US$450 billion (RM1.56 trillion), more than double the whole of last year of 2006.

The privatization of these companies signals a very mature and robust financial market, with a favourable credit market. The cycle of privatisation will turn when interest rate goes up and companies find it more expensive to raise funds from the credit market.” Selvarany Rasiah, Chief Regulatory Officer of Bursa Malaysia.

(Business Times Malaysia 20 June 2007)
Privatisations are done for a myriad of reasons but generally, the owner is motivated to do so when the share price does not reflect its fundamental value. Expectations are high that the rate of privatisation may pick up by the third quarter of 2009, once the global credit situation has eased and there is more clarity. Interestingly, PricewaterhouseCoopers Advisory Sdn Bhd, Senior Executive Director Tan Siow Ming says private equity firms may feature more prominently as an alternative source of financing for the privatisation exercises. Three factors, he says, may whet the appetite of private equity players in the “public to private deals”.

Firstly, they have a considerable amount of investible funds in their coffers; secondly they are able to leverage at reasonable cost given the current credit crunch; and thirdly, it may fit strategically with their overall investment strategy.
There are good investment opportunities even in adverse economic times. Many private equity funds are excited in times like these. They are more likely to find good deals with low or reasonable valuations compared to high or even irrational valuations during the boom times.

Founding partner and Chairman of Navis Capital Partners Richard Foystan believes that private equity firms will probably play a bigger role in fuelling the privatisation of listed companies in Asia. Navis is a private equity fund. "Many public listed companies are beginning to look attractively valued. We have taken two public listed companies private," says Richard Foystan. On November 18, 2008, Navis completed its tender offer for Singapore listed King’s Safetywear Ltd and the other company is Sah Petroleums Ltd, which is listed on the Bombay Stock Exchange. While we historically looked at mainly at private companies, we've recently started looking at public companies. Since we only invest in controlling stakes, this is with the expectation of taking them private.
The main regulations governing M&A transactions in Malaysia include the Companies Act 1965, the Capital Market & Services Act 2007 (‘CMSA’), the Guidelines for the Acquisition of Assets, Mergers and Takeovers issued by the Foreign Investment Committee of Malaysia (‘FIC Guidelines’), the Malaysian Code on Takeovers and Mergers 1998 (‘Take-over Code’) and the Listing Requirements of the Bursa Malaysia Securities Berhad (‘Bursa Malaysia’) for public listed companies.

Section 216 of the CMSA and the Companies Act 1965 govern M&A transactions that involve the sale or purchase of substantial assets by a public company while Section 217 of the CMSA and the Take-over Code regulate M&A transactions that involves the acquisition of voting shares which results in a change of control in a company. These regulations are put in place to protect the interests of shareholders and to ensure that all take-overs and mergers take place in a competitive, informed and efficient market. Also, the laws and regulations are to ensure all shareholders of a company involved in a take-over and merger situation receive fair and equal treatment.

Public listed companies in the Bursa Malaysia are taken private generally through a general offer to the shareholders of the public listed company. The conduct of the take-over schemes are regulated by the Securities Commission and are subject to the Malaysian Code on Take-Overs and Mergers 1998.
The general offer trigger is 33% where:

(i) an acquisition of 33% of voting shares by a person together with persons acting in concert with them (acquirer), or when

(ii) the acquirer already holds more than 33% but less than 50%, an acquisition of 2% within a period of 6 (six) months would require that such a mandatory offer be made.

Once the level of acceptance has reached 50% of more, the offer becomes unconditional. Some acquirer imposes a condition for a takeover such that it must have at least 50% of the shares in a voluntary takeover scheme, failing which the acceptance will be return to shareholders.
On the acceptance of the takeover breaches the 75% level, the listed company breaches the public shareholding spread requirement under the Listing Requirements of the Bursa Malaysia. The public listed company which fall short of the 25% spread requirement may request for an extension of time from Bursa Malaysia to rectify the situation. The company could be suspended or delisted unless the listed company finds means of increasing the public spread to at least 25% again if no extension of time is granted by Bursa Malaysia.

(Source: Bursa Malaysia Listing Requirements and Securities Commission Malaysian Code on Take-Overs 1988)
The most common methods of privatization observed on our Bursa Malaysia are as follows:

1. Direct offer – A voluntary general offer can be made for the rest of the shares not owned by the owner or related parties acting in concert.

2. Via a new company or special purpose vehicle company – The owner can use a new company or incorporate a special purpose vehicle company to acquire all his shares and the rest of shares owned by the other shareholders.

3. Acquire the business – In order to avoid rejection by some minority shareholders, more and more owners are using this method, i.e. seeking shareholders’ approval to sell the entire business and thereafter distribute the cash proceeds back to shareholders. The end effect is the same as cash offer for the shares.
1.2 Objectives of the Study

There have been numerous studies concerned the motive and/or reasons for mergers and acquisitions mostly in the United States, United Kingdom and Europe, but very few have addressed the motives and/or reasons for public listed companies going private. The number of public listed companies going private has increased sharply in recent years especially in Malaysia, as part of widespread corporate restructuring. Privatisation is the reverse of a public listing exercise. However, little evidence has been provided for similar applications in the Malaysian capital market. This paper aims to fill the gap and contribute to existing literature. The objective of this study is to determine the following:

1. What is the motive for a public listed company to go private?
2. How is the price earnings ratio and price to book valuation of a public listed company in relation to companies being taken private?

1.3 Scope of the Study

This study will cover all public listed companies listed on the Bursa Malaysia which is being taken private in 2007. It will examine the motives and/or reasons for public listed companies in Malaysia going private.
1.4 Purpose and Significance of the Study

There have been numerous studies concerned the motive and/or reasons for mergers and acquisitions, but very few have addressed the motives and/or reasons for public listed companies going private. The number of public listed companies going private has increased sharply in recent years especially in Malaysia, as part of widespread corporate restructuring and/or mergers and acquisitions. Privatisation is the reverse of a public listing exercise. The objective of this study is to examine why this new trend emerges and what causes it to happen.

1.5 Limitations of the Study

The privatisation of Malaysia’s public listed companies was a relatively new phenomena and/or trend that started in 2006 and picked up speed in 2007 throughout 2008, a relatively short period of study as compared to studies of privatisation of public listed companies in UK from 1997 to 2003 by (Renneboog, Simons and Wright 2005). Thus, the scope of the study is limited to Malaysia’s public listed companies in the Bursa Malaysia - going private in the year of 2007.
1.6 Organization of the Study

The paper is divided into five (5) chapters. Chapter two (2) of this study will cover the literature review and to provide evidence which found from the previous studies on various reasons behind public listed companies going private. It will be used to support discussion and findings from the data analysis. Development of hypotheses, selection of measures, sampling design, data collection procedure and analysis are outlined in Chapter three (3). Chapter four (4) draws some research result of this study and conclusion and recommendations will be presented in Chapter five (5).
CHAPTER 2

LITERATURE REVIEW

Before we delve into the rationale for the public listed companies to go private, it is imperative that we also understand why did the companies decided to become a public listed company. Roell (1996) documents five reasons why owners of firms decided to go public.

The first reason for a private company to go public is the access to finance. The motive for new finance includes the prospects of growth by acquisitions, funding for organic expansion and/or to refinance or repay bank borrowings. Fulghieri (1999) argues that entrepreneurs gain by going public because of diversified investors value the companies better than a not very diversified entrepreneurs. Pagano and Roell (1998) When a private company goes public, the initial owner can raise money while achieving the optimal ownership structure from the point of view of the initial owners. This optimal structure is not concentrated in that it maximizes firm value. By going public, the entrepreneur can raise money from many small investors without losing control.

The second reason for going public is enhanced company image and publicity Stoughton, Wong and Zechner (2001). The public listing serves to prove that the capital market is endorsing the company’s milestone in growing and also provides signal of longer term stability to suppliers, workforce and customers.
A subsequent well received listing in terms of share price increase and dividend payments serves to reassure banks to provide credit financing, suppliers will be more willing to grant trade credit, employees can expect a stable job or career, customers can expect the products or services will be supported after the purchase.

The third reason for a public listing is to motivate the management and employees. This is a natural response to the company’s signal of growth, but more importantly, share participation schemes such as Employee Share Option Scheme (ESOS) help retain and motivate senior management and employees. Holmstrom and Tirole (1993), a well informed stock price is of value in itself as an input into the managerial performance linked compensation.

The fourth reason, issuing the company’s share on the stock exchange is a means for the initial owners to cash out of their investments. Roell (1996) documents a few studies that report a significant share of the money raised from the public went to the original owners. Divestment by the initial owners does not necessarily have to happen at the initial public listing or offering, but rather tends to continue in the years following the initial public listing or offering. Brennan and Franks (1997) find that in less than seven years after the initial public listing or offering, almost two thirds of the company’s shares have been sold to outside shareholders. More specifically, Brennan and Franks (1997) argues that “The pattern of ownership post public listing is
consistent with the view that going public is a vehicle for the disposal of shares by the Directors, i.e. to cash out of their investments.”

Black and Gilson (1998) argues that exit or cashing out from a public listing rather than a private sale to private equity is optimal as the entrepreneur can retain management control.

The fifth reason for going public is when initial owners identify “mispricing” in the capital market whereby the valuations for the stock offering is very generous. Ritter (1991) argues the patterns of data are consistent with an initial public offering (public listing) market in which investors are periodically over-optimistic about earning potential of young growth companies and companies will take advantage of these “windows of opportunity”. Similarly, Lerner (1994) shows that venture capital backed companies go public when equity valuations are high and will choose to employ private financings when valuations are lower in the equity markets.

There are other reasons for private companies to decide to go for a public listing. Amihud and Mendelson (1988), going public make the company’s shares more liquid and more valuable to its owners whereby they could sell easily as compared to a being a private company. Benveniste and Spindt (1989) and Maug (2000), amongst others, argue that initial public offering for listing allows the entrepreneurs to use the share prices to infer investor valuations of their firms. This information can be used in investment decisions such as mergers and acquisitions via shares swap.
A related motivation for a company going public is to minimize the cost of capital and thus maximizing the value of the company. The lower the cost of capital in the public market versus the private market, the greater incentive is to remain as public listed company. This argument has been advanced by Modigliani and Miller (1963) and Scott (1976). This argument suggests that as the cost of capital for firms increase in public markets (due to increased costs or lower liquidity for example), firms are more likely to go private.

2.1 Efficient Market Hypothesis

Eugene Fama (1970) influential survey article, “Efficient Capital Markets” it was generally believed that stock markets were extremely efficient in reflecting information about individual stocks and about the stock market as a whole. The generally accepted view was that when information arises, the news spreads very quickly and is incorporated into the prices of the stock price of the listed company without delay.

Eugene Fama (1998) survey on event studies that seek to determine if stock prices respond efficiently to information such as earnings surprise, stock splits, dividend actions, mergers and acquisitions or new listing. The study shows that information is slow to reflect in the change in stock prices.
Eugene Fama (1970) identifies three (3) levels of market efficiency. These are:

1. Weak-form, where prices accurately reflect everything that can be learned from past prices.
2. Semi-strong form, where prices fully reflect all publicly available information.
3. Strong-form, where prices fully reflect all information.

Market efficiency does not require that the market price be equal to true value at every point in time. All it requires is that errors in the market price be unbiased, i.e., that prices can be greater than or less than true value, as long as these deviations are random.

The fact that the deviations from true value are random implies, in a rough sense, that there is an equal chance that stocks are under or over valued at any point in time, and that these deviations are uncorrelated with any observable variable. For instance, in an efficient market, stocks with lower price earnings ratios should be no more or less likely to under-valued than stocks with high price earnings ratios.

If the deviations of market price from true value are random, it follows that no group of investors should be able to consistently find under or over-valued stocks using any investment strategy.
Therefore if stock market is really efficient, there is no reason for public listed companies to go private when the market value does not reflect the true worth of the company itself.

2.2 The undervaluation theory

Asymmetric information theory suggests that information available to public investors is different from that available to the management. It is possible that management, which has superior information, perceives that the share price of their company is undervalued as compared to the true worth of the maximum value that can be extracted with the existing assets or projects on hand. Shah and Thakor (1988) suggest that when the owner or management has superior information about the return of the company’s assets they would act in the best interest of themselves ie. equity shareholders. The owner or management would not want to sell shares to the public to raise financing for a project perceived to be low risk and would instead finance via debt as they will stand to gain most from the point of return of equity (which is the owner or management).

Myers and Majluf (1984) examined the affect of asymmetric information on corporate financing choices. They assumed that management know more about the firm’s value than potential investors, thus would issue new shares to finance an investment opportunity. They developed an equilibrium model of the issue-invest decision that explains corporate financing behavior, in which,
the company or owner may refuse to issue stock and tend to rely on internal sources of fund or external financing via debt if the investment is perceived to be of lower risk since the benefits would fully accrue to the owner rather than other investors in the case of issuing new shares for financing. Their model shows that firms may refuse to issue stock, and therefore may pass up valuable investment opportunities.

Myers and Majluf (1984) also suggest that owner or management embarks on share buyback when the stock market undervalues the share price of the company. Since public listed companies going private is equivalent to 100% share buyback, it is hypothesized that public companies going private is undervalued in relation to those companies that do not go private.

Lowenstein (1985) argues that, when management is the acquiring party, it may employ specific accounting techniques to depress the pre-announcement share price Schadler and Karns (1990). Management can use the information asymmetry or “inside information” to their advantage in pre-buyout or pre-announcement whereby front running the transaction. Harlow and Howe (1993) and Kaestner and Liu (1996) reports that management buyouts are preceded by significant abnormal share purchasers by the management (insiders), whereby the outsiders of the management buyouts does not show such characteristics of abnormal share purchases. This suggest that there is pre-buyout insider trading associated with private managerial information.
Allen and Gale (1999) undervaluation of companies may limit the benefits from a public listing exercise in raising equity financing for further expansion. This would lower the amount raised from the equity fund raising if the valuation of the company does not reflect the intrinsic value of the company as public listed companies command a higher premium valuation as compared to private companies.

Maupin et al (1984) shows that management or shareholders perceive the undervaluation of their company are an important reason for them to decide to go private.

The wealth gains from going private may also be caused by undervaluation. The higher the discrepancy or undervaluation of the company and the potential value under private ownership, the larger the wealth gains in privatisation.

### 2.3 Liquidity and cheap funding

Several arguments for the benefits of public listed companies going private are related to the considerable use of debt in funding the purchase of all outstanding stocks (Kaplan 1989). It has also been suggested that public listed companies take on too little debt or too risk averse because of managerial preference (Jensen 1989) and that privatized companies are closer to their optimal capital structure, fully exploiting the tax and advantages of debt.

Morellec and Zhdanov (2007) analyzed the interaction between takeover activities and financial leverage. They believed that there is an asymmetric
equilibrium in financing policies with endogenous leverage, bankruptcy and takeover terms. This equilibrium predicts that the leverage of the winning bidder is below the industry average while acquirers should lever up after the takeovers. The dispersion in leverage ratios to various industries is also found to be related to cash flow volatility and bankruptcy costs.

The recent spate of privatisation is a liquidity-driven phenomenon supported by the present low interest rate and easy funding from private equity funds and bank funding encourage owners to take their undervalued stock private.

2.4 The free cashflow theory
Free cashflow is usually defined as the cashflow in excess of that required to fund all projects that have a positive net present value when discounted at a relevant cost of capital.

Jensen (1986) argues that many benefits in going private and leveraged buyout transactions seem to be due to the control function of debt. The desirable leveraged buyout candidates are frequently companies or division of larger companies that have stable business histories and substantial free cash flow – situation where agency costs of free cash flow are likely to be high. The literature on going private suggests that leveraged buyouts lead to efficiency gains because of higher debt payments and alignment of management incentives by increased equity positions (Jensen 1986). Thus, on motive for going private is to improve the incentive alignment and
governance structure of the firm. This motivation is particularly important for high free cashflow firms, which can more easily destroy value by wasting accessible cash flow. This motive for going private is well supported in Lehn and Poulsen (1989).

Using empirical results on executive remuneration and corporate performance, Murphy (1985) argues that management have incentives to retain resources and grow the company beyond its optimal size via acquisitions or some may called it “empire building”, which is in direct conflict with shareholders who wants higher dividend payment. This problem is most obvious in cash rich companies with low growth prospects, in exchange of debt for equity – management have committed in advance to pay out future cashflow rather than investing in negative net present value projects. The increased risk of default resulting from the recapitalization of the leverage buyout serves as motivating factor to make the company more efficient. Jensen (1986) Lowenstein (1985) In the carrot and stick theory, the carrot represents the increased managerial share ownership that allow management share ownership that allows management to reap more benefits from their efforts. The stick appears when companies borrow heavily in order to effect this incentive alignment, which forces the management to efficiently run the company to avoid default (Cotter and Peck, 2001)
According to the free cashflow theory, companies that generate large free cashflow may waste resources. Exchanging equity for debt in the privatization exercise will align the management and make the company’s capital budgeting decisions more efficient, too much debt will drain the resources to repay the debt.

2.5 The takeover defense theory

Lowenstein (1985) reports that some listed companies have decided to go private via management buyout as a final defensive measure against hostile shareholder or tender offer. Afraid of losing their jobs and career when hostile suitor takes control, management may take the company private. Stulz (1998) constructs a model in which pressures from the market for corporate control interact with managerial ownership and finds a curvilinear relationship with firm value.

Jensen and Ruback (1983) The high level of equity ownership by the management, makes it difficult for outsiders to make an attempt to take over. In short, the takeover defense hypothesis suggests that the premiums in public to private transactions reflect the fact that the management team may intend to buy out the other shareholders in order to insulate against an unsolicited takeover.
2.6 Regulatory constraints of a public listed company

Concerns over high cost of complying with Sarbanes-Oxley and other corporate reforms are driving a number of public listed companies especially small and mid-cap companies to consider to go private in the Wall Street equivalent to our Bursa Malaysia.

Sarbanes-Oxley Act of 2002, also known as the Public Accounting Reform and Investor Protection Act 2002 or commonly known as SOX is a United States federal law enacted on July 2002 in response to a number of major corporate and accounting scandals that includes Enron, WorldCom and also Arthur Andersen.

Sarbanes-Oxley requires the following:-

1. Public Company Accounting Oversight Board – to provide independent oversight of public accounting firms providing audit services (auditors) and to create a central oversight board responsible for registering auditors, defining the specific procedures for compliance audit, inspecting and policing conduct and quality control, enforcing compliance with SOX.

2. Auditor Independence – to establish standards for external auditor independence and to limit conflicts of interest. It will also covers the new auditor requirements, audit partner rotation, auditor reporting requirements and restricts auditing companies from providing non-audit services such as consulting for the same company.
3. Corporate Responsibility – management to take individual responsibility for the accuracy and completeness of corporate financial reports. It defines the interaction of external auditors and corporate audit committees and specifies the responsibility of corporate officers for the accuracy and validity of corporate financial reports especially the Chief Executive Officer and Chief Financial Officer to certify and approve quarterly financial reports.

4. Enhanced Financial Disclosures – enhanced reporting requirements for financial transactions, which include off-balance sheet transactions, pro-forma numbers and transactions by management. It requires internal controls for assuring the accuracy of financial reports and disclosure and to report material changes in financial condition.

5. Analyst Conflicts of Interest – designed to help restore investor confidence in reporting of company reports by analysts. It defines the code of conduct for analyst and requires disclosure of conflict of interest (if any).

6. Commission Resources and Authority – defines practices to restore investor confidence in analyst reports and the authority for Securities Exchange Commission to censure and bar professionals from practice as broker, analyst or dealer.
7. Studies and Reports – conducting research for enforcing actions against violations by listed companies and also audit firms. Studies and reports include effects of consolidation of public accounting firms, the role of credit rating agencies in the operation of capital markets and whether investment banks assisted companies to manipulate earnings and withhold financial information.

8. Corporate and Criminal Fraud Accountability - describes the specific criminal penalties for fraud manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protection for whistle-blowers (person who report wrongdoings).

9. White Collar Crime Penalty Enhancement – describes the increase of the criminal penalties associated with white-collar crimes and conspiracies, it recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as criminal offence.

10. Corporate Tax Returns – states that the Chief Executive Officer to sign the company tax return.
11. Corporate Fraud Accountability – identifies corporate fraud and records tampering as criminal offense and revises sentencing guidelines and increase penalties. This enables the Securities and Exchange Commission to temporarily freeze large and unusual payments.


Ronald Earnest Paul, a Republican congressman from United States on 14 April 2005 speech, “The Sarbanes-Oxley regulations are damaging American capital markets by providing an incentive for small US firms and foreign firms to deregister from US stock exchanges. According to a study by the prestigious Wharton Business School, the number of American companies deregistering from public stock exchanges nearly tripled during the year after Sarbanes-Oxley became law, while the New York Stock Exchange had only 10 new foreign listings in all of 2004. The reluctance of small businesses and foreign firms to register on American stock exchanges is easily understood when one considers the costs Sarbanes-Oxley imposes on businesses. According to a survey by Korn/Ferry International, Sarbanes-Oxley cost Fortune 500 companies an average of $5.1 million in compliance expenses in 2004. while a study by the law firm of Foley and Lardner found the Act increased costs associated with being a publicly held company by 130 percent.
In Malaysia’s context of regulations, we have our Bursa Malaysia Listing Requirement guidelines for public listed companies which had to adhere to, compulsory.

For example under Chapter 9 of the Bursa Malaysia Listing Requirements which sets out the continuing disclosure requirements that must be complied with amongst others, by a listed company, its directors and advisers.

9.02 - Corporate Disclosure Policy
9.03 - Immediate disclosure of material information

Chapter 10 of the Bursa Malaysia Listing Requirements which sets out the requirements that must be complied with in respect of transactions entered into by the listed company.

10.04 - Requirements in the case of transactions exceeding 5%
10.05 - Requirements in the case of transactions exceeding 15%
10.06 - Requirements in the case of transactions exceeding 25%

In terms of disclosure to or informing the public, the Bursa Malaysia Listing Requirements requires a listed company to make immediate announcements of all information which would reasonably be expected to have a material effect on the price, value or market activity of the listed company. In addition, the listed company is required to make immediate announcements of a transaction (as defined in under Chapter 10 of the Listing Requirements), where the percentage ratio is equal to or in excess of 5%. A company is required to issue a circular to its shareholders by setting out the information
on the transaction if the percentage ratio of the transaction is equal to or exceeds 15%. Subsequently, the listed company must seek an approval from its shareholders if the percentage ratio of the transaction is equal to or in excess of 25%. In the case of related party transactions, a listed company is required to make an immediate announcement regardless of the percentage ratio and it must seek an approval from its shareholders if the percentage ratio is equal to or exceeds 5%.

This privatization trend is experienced elsewhere throughout the world and become a global phenomenon as shareholders of these companies attempt to further enhance their shareholding values. In Malaysia, owners and major shareholders are driving the privatization of their public listed company by taking advantage of the low interest rate environment and high liquidity in the credit market for the purpose of unlocking the value of their undervalued stocks. Some of them are taking this privatization route for long term corporate strategic decisions such as the need to act fast particularly when making foray into foreign markets without being burden with the normal regulatory compliance imposed on a public listed company by Bursa Malaysia and other regulatory authorities.

Maxis Communications Bhd privatization was one of the largest corporate transactions in Malaysia and one of the largest buyouts in Asia Pacific. Maxis, is controlled by T Ananda Krishnan who is listed as Malaysia’s second richest man on the Malaysian Business 20 Richest list with a networth of RM20 billion. The market capitalisation of Maxis was more than RM39 billion as at
21 May 2007. He offered to buy out shareholders at a premium RM15.60 per share which amounts to RM16.4 billion for the remaining 41% stake he does not own. The offer price is 20% higher than the last traded price of RM13.00 per share.

Source: Malaysian Business June 2007

Raja Datuk Arshad, Chairman of Binariang GSM Sdn Bhd, the company created to undertake the privatisation exercise. De-listing gives us the flexibility to make hard decisions. To really grow, you need to make some aggressive, hard decisions but we need to do so by removing constraints of being a public listed company. The privatization will eliminate the impact of earnings volatility on public shareholders. As a public company, the management is under obligation to show results quarter on quarter and even as the majority shareholders, there is obligation to seek shareholder consent on the direction of the company. As a private company, management can secure the best capital structure for leverage and enhance the financial returns for the company which the minority shareholders may not agree as they want high dividend payout which may limit the potential of the company in the long run.

7 May 2007 on The Edge Financial Weekly Cover Story – Removing the PLC constraints

PricewaterhouseCoopers Advisory Sdn Bhd, Senior Executive Director Tan Siow Ming says another motivation to take a public listed company private is the reduced need to tap public funds for expansion or the inability to raise
funds publicly due to prevailing market conditions. “When the market valuation of the company is below the intrinsic value to major shareholder, it may be an opportune time to take it private if the benefits of being private outweigh the benefits of staying listed”

Copeland, Lemgruber and Myers (1987) argue that spin-offs can increase the value of the firm through improved managerial incentives. Andrade, Mitchell and Stafford (2001), studying a sample of US takeovers that took place between 1973 and 1998 found that they have a positive effect of the combined value of the two firms.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 The Data

Data is obtained from circulars to shareholders and respective companies’ annual reports as published by the companies, which are available from Bursa Malaysia’s website.

The sample of public listed companies going private is identified from Bursa Malaysia for the period of 2006 – 2008. During this period, there were more than thirty (30) companies that went private. The initial sample was reduced to sample of public listed companies that are being taken private in the year of 2007 after the following screening due to the sample size requirement for a balanced information analysis. However, preliminary data on privatisation in 2008 is also presented in the Table III, which
3.2 Methodology - Descriptive statistics

Share price based measures
The summary statistics on share price based performance and premiums offered are displayed in Table 1, List of general offers announced in year of 2007 for every transaction that happen in Malaysia. The size of public listed companies ranges from Mesdaq, 2nd Board and Main Board listed companies ranging from RM58 million to RM39 billion. The largest public listed company in the sample is RM39 billion for Maxis Communications. The average size is similar to the United States Leverage Buyout in Kaplan (1989) sample, after taking into consideration of exchange rate USD1 = RM3.50, our median size RM2.037 billion. The size of the companies involved range from RM53.7 million to RM25.717 billion in market capitalisation.

Industry composition
The sample of the public listed companies comes from a wide range of industry. The list of companies includes telecommunications, internet applications, manufacturing, trading, media, financial services, property, gaming, engineering, security services.
Valuation characteristics

The premium offered for the sample of the public listed companies in Bursa Malaysia’s privatisation for the year of 2007 ranges from 1.69% to 40.74% with an average / median of 13.61% premium. The premium for the average United Kingdom’s privatisation or buyout was 30%  Reenebog, Simons and Wright (2005)

International trends in privatisation

Mitchell and Mulherin (1996) 57% of United States public listed companies were then takeover targets or were restructured. Jensen (1991) The United States public listed companies going private buyout market developed from less than US$1 billion in 1979, to a peak of more than US$60 billion in 1998. In contrast, based on the findings Appendix I - the total market capitalization of buyout and privatisation on the Malaysia’s stock exchange Bursa Malaysia amounts to RM65.2 billion based on the market capitalisation of the companies being taken private for the year of 2007.

VALUATION METHODOLOGY

Price Earnings (“PE”) ratio

P/E ratio or its reciprocal earnings multiplier is one simple way in the valuation of equity securities. It is the most popular conventional yardstick which has been applied for years in investment decision making. It is started when Graham and Dodd (1934) have introduced the significance of earnings record and the concept of earning power which has been studied and applied until today by many scholars and financial market participants. It has been one of
the most important benchmark for equity valuation. Earning of the company has been used as a basis of market prices and to governed common stocks market. In other words, P/E valuation method indicates the relationship between earnings and stock value. Graham and Dodd (1934) again stressed that the main objective of P/E valuation method is to permit a ready comparison with the current market price which also deals with the actual behavior of the market participants (i.e. investors and speculators) and the valuation of P/E ratio itself. The fact that a common stock “is selling at N times earnings” is well accepted as a guidelines in buy and sell activities of equities. It is mentioned that a well performed company which is strong, successful, and promising usually sells at higher multiplier of current or average earnings than less successful company. Based on Graham and Dodd (1934), factors that govern the characteristics of P/E ratios are fully reflected in the financial data such as growth of sales and earnings in the past, the dividend rate and profitability which reflects to the rate of return on invested capital. Nevertheless, intangible factors such as nature and prospects of the industry, competitive position of the company and quality of management also exerted a highly important influence which gives an impact and controls the longer term expectations.

Graham and Dodd (1934) concepts has established what is known as “value approach” to investing. This approach suggested buying shares with low prices compared to some indicator of fundamental value such as earnings, book value, dividends or cash flow. It is formulated by using low P/E ratios and give consideration on the accounting performance of the company having productive assets which produce earnings and large dividends yields backed
by strong balance sheet. It generates a high percentage of returns in short-term income rather than capital gains. From various research conducted, results obtained provide evidence that low P/E stocks tend to outperform high P/E stocks and produce superior returns. Graham and Dodd (1934) also strongly recommended the long-term value approach as it is more rewarding approach. De Bondt and Thaler (1985) found that value strategies invest disproportionately in stocks that are under-priced and under-invest in stocks that are overpriced (i.e. glamour stocks), and this value strategies has outperform the market. Penman (1996) describe P/E ratio indicates future growth in earnings which is related to the expected future return on equity and negatively related to current return on equity. It also revealed that a high P/E can be associated with a firm that has poor future earnings liability and with even lower profits. Nevertheless, he concludes that P/E ratio is never a sufficient indicator of future return on equity. Later research by Anderson (2005) conclude that value investors using a P/E valuation method should insist on a long history of positive earnings for the companies in their portfolio, although there is no significant evidence that it is of value to mainstream investors.

Other researches which have supported Graham and Dodd (1934) on P/E application method were conducted by Basu (1977), Jaffe, Keim and Westerfield (1989) and Fama and French (1992). Basu (1977) examined the price performance of New York Stock Exchange (NYSE) industrial between fourteen years period of study, where stocks were ranked by E/P based on the previous financial year’s results and divided all the information into
quartiles. He determined empirically during the period of 1957 to 1971, the investment performance of common stocks is related to their P/E ratios and there was little apparent relationship between investment returns and the quartile’s beta value.

Jaffe, Keim and Westerfield (1989) tried to clarify the confused picture of the size and E/P effects resulting from the papers of Basu (1977) and Cook and Rozeff (1984). Beside that they are also taking into account the January effect. They used a long sample period starting from the year 1951 until 1986, largely eliminated survivorship bias. They found that the conflicting results of earlier studies could be ascribed to the power of different affect being variable over time. Considering the long time period as a whole, they agreed with Cook and Rozeff (1984) that the January, size and P/E effects were all significant.

Fama and French (1992) interpreted earnings-to-price ratio as a potential proxy to unnamed risk factors in explaining stock returns which also used as evidence of over or under-pricing and forming investment strategies.

Based on Lakonishok et. al. (1995), ‘glamour stocks’ are those stocks of which have good record and performed well in the past and the market is expected these stocks to perform well in the future. ‘Value stocks’ or the under-priced out-of-favor stocks are those stocks that have performed poorly in the past and expected to perform the same in the future. They also found that low P/E stocks have been under-priced relative to their risk and return
characteristics, however, it shows that investment in these stocks in fact earned above-market returns. This research has also provides evidence that value strategies able to yield higher returns because these strategies exploit the suboptimal behavior of the typical investor and not because these strategies are fundamentally riskier. Investing in such a high book-to-market stock, attracted more fundamental risks. However, consistent stronger average returns compensates the risk anticipated in the investment made. From the study conducted, value stocks approach had outperformed glamour stock quite consistently and performed well in ‘bad’ states of the world in which the marginal utility of wealth is high, making value stocks unattractive to risk-averse investors. In this study, I will also try to further explore the value strategies potential and it returns performance on KLSE after the Asian financial crisis 1997.

Another research conducted in 1997 by Fama and French on the international stock market has supported that value stocks have higher returns than growth stocks. Generally, these three researches (Basu (1977), Jaffe, Keim and Westerfiled (1989) and Fama and French (1992, 1997)) found that returns tend to be positively related to the P/E ratio and low P/E portfolios seem to earned higher absolute rates of returns.

Another study by Bartholdy (1998) found that changes in E/P ratios can be used to predict future returns in stocks and the existence of P/E effect although it may not be possible to distinguish it from the size and book-to-
market effect, and there is evidence of correlation between changes in EP ratios and returns.

Campbell et. al (2001) supported the P/E effect when he found that on a long time series of data, earnings valuation method has a special significance when compared with many other statistics that might be used to forecast stock prices. The valuation ratio has gives a careful evaluation on the fundamental value of corporation when it relates to stock prices.

Abhyankar et.al (2006) results imply that investors would unambiguously prefer a value to a growth portfolio which covers from 1951 to 2003 period. Research by the Brandes Institute Research (2007) documented that over the 28-year period from 1979 to 2006, large and small-capitalization stocks, value outperformed growth stocks over the long term period. Findings from the research documented that value stocks delivered consistent out-performance and its advantages appear evident for both large and small capitalization.

Uncalculated factor such as actual behavior of the market participants (i.e. investors and speculators) as mentioned earlier by Graham and Dodd (1934), is also need to be addressed in valuing stocks performance as well as to justify the existence of P/E anomaly. Basu (1977) documented price-ratio hypothesis emphasize that P/E ratios, due to exaggerated investors expectations, may gives some indication on the equity securities indicators of future investment performance. De Bondt, Werner and Thaler (1984, 1987)
found that high P/E stocks are “overvalued” whereas low P/E stocks are “undervalued” and companies with very low P/E’s are expected to be temporarily “undervalued”. This event occurred due to investors become excessively pessimistic after a series of bad earnings news of the company. This is also implied the overreaction behavior of investors which give an affect to the stock price movements. However, once the future earnings of the equity get back into track and start to earn positive earnings compared to the previous record, stock price will adjust itself. Investor overreaction to information also implies that price reversals may be predictable from past information and this finding contradicts to the weak form efficient market hypothesis. This has resulted that in any case of any new information on increased in earnings, will cause investors to overreact and bidding the price too high. However, Bartholdy et.al (1998) found that P/E ratio decrease in response to positive news and increases in response to negative news and changes in reported P/E ratios can be utilized to predict future returns in stocks. Dudney, et. al (2004) research discovered that tax rates and investor optimism are important factors affecting the P/E ratio.

The relation between stock returns and size effects and earnings to P/E ratio was also implemented in order to determine its impact on the stock’s performance. Fama and French (1992) found that company size and price-to-book value effects explain the differences in securities’ returns. It was further investigated by Fama and French (1995) and found that value stock anomalies can be explained by three-factor involving size, book-to-market value and excess return. Small-stock returns consistently respond more than
big-stock returns to the size factors in fundamentals. They also found that the market and size factors in earnings help explain the market and size factors in returns. Size is also related to profitability. Basu (1983) described that the size effect virtually disappears when returns are controlled for differences in risk and E/P ratios. It indicated that E/P effect, however, is not entirely independent of firm size and that the effect of both variables (earnings and size effect) on expected returns is considerably more complicated than previously documented in the literature. De Bondt et. al (1987) suggested that the size effect is a failure by the market to recognize the small firms’ higher growth potential. Cook and Rozef (1984), found that stock returns are related to both size and earnings/price ratio. Pandey (2001) study on Malaysian stock market during the period of 1993 to 2000, found that the smaller (low capitalization) size firms earn higher returns than the larger (high capitalization) firms. He also find significant positive relationship between E/P (it inverse P/E ratio) and stock return.

The greater the level of risk of a stock, the lower the earning multiplier (E/P) but high growth prospects may offset the risk and lead to higher earnings multiplier. Consequently, the rational investors, the earnings multiplier reflect their expectation about the growth potential of a stock and the risk involved. Basu (1977) found that contrary to CAPM, the higher returns on the low P/E portfolios were not associated with higher level of systematic risks. Cheng and McNamara (2000) indicated that P/E valuation method captures risk and growth of a stock; hence a firm’s value can be reasonably assessed based on the P/E ratio of its comparable firms within similar risks and growth.
Jain, et.al (2001) in their study on macroeconomic variables and the P/E ratio found that for the overall time period, at the univariate level, expected growth in real GDP and index of consumer confidence are significantly negatively associated with the E/P ratio and E/P ratio does not exhibit a statistically significant association (not correlated) with real interest rate and the two measures of economy-wide risks.

From various study conducted it was found that P/E ratio can stay above trend for an indefinite period of time. Alford (1992) discovered that P/E is an accurate measure of equity valuation which he concluded that much of the diversity of P/E is attributed to the variety in the level of risk and earnings growth of individual firms. Industry factor appears to be good proxy for risk and earnings growth related to P/E ratios. Alford also showed that the use of industry P/E multiplied by the firm’s earnings per share (EPS) was proved to be an accurate estimator of its equity and the assessment of the accuracy of P/E estimator was made under the efficient market hypothesis. In an efficient market, the market price changes randomly to reflect all new information. Thus, it can be used to test the accuracy of the theoretical price that Alford calculated, using P/E ratio. However, this conditions might not hold for many inefficient markets.

Weigand and Iron (2004) found that the level of market P/E ratio has been a good predictor of real earnings growth as far back as the 1880s but since 1960 changes in the market P/E explain a far greater amount of future
earnings growth than the level of the P/E. Based on result, suggest that variation in the market P/E ratio is based on rational and behavioral factors. Over time, both the level of the P/E and changes in this ratio have been increasingly good predictors of future growth in aggregate earnings. We find at high starting P/E ratios (21 and above) stocks deliver 10-year real returns that are in line with their long-term historical average, and that these high P/E periods are associated with the highest rates of real earnings growth on record.

Schleifer and Vishny (1994) defined value strategies as buying shares with low prices compared to some indicator of fundamental value such as earnings, book value, dividends or cash flow. They looked at stock prices between 1963 and 1990, and divided firms into ‘value’ or ‘glamour’ stocks on the basis of past growth in sales and expected future growth as implied by the then current P/E ratio. They found that the differences in expected future growth rates between the two types of share, as shown by P/E ratios, were consistently overestimated by investors. Glamour stocks grew faster for the first couple of years but after that the growth rates for the groups were essentially the same. Among the various measures of fundamental value, P/E did not produce as large effect as price-to-book value or price-to-cash flow, possibly because stocks with temporarily depressed earnings are lumped together with well performing glamour stocks in high expected growth/low P/E category.

So many researchers have reported observing the P/E effect, both in the United States and around the world, that its existence seems undeniable.
VALUATION METHODOLOGY

Price to Book ratio

When a firm is newly established, its value equals the investment made by the owners. A market value of the company’s shares begins to take shape when its operations shows promise of long term returns, such market value being the present value of future dividends. Under the generally accepted accounting principles based on historical costs, however, the book value remains relatively unchanged at the amount of the original investment plus the reinvestment of undistributed profits. Thus, the change in value of a firm may be considered as a change in the ratio between the market price of its shares and their book value. This is similar to the concept of value-added. At unity, the price-to-book-value ratio indicates that the market value and book value are identical; a ratio of greater than one would mean that the firm has added value, and vice versa for a smaller than one ratio.

The book value of a company is an important indicator of a company’s value as it tells us what the owner’s cost of a company is. No owner would be willing to sell a healthy and growing company at below cost unless the company has problems that are not known by the general public. Normally, we use book value per share (total shareholders’ funds divided by the outstanding number of shares of the company) to compare with the current stock price. Price-to-book ratio is computed by dividing the stock price by a company’s book value per share. It gives us the number of times the current stock is selling above or below the book value. A ratio of lower than one means the current stock price is trading at lower than its book value. Benjamin Graham and Dodd (1962) in
his book entitled Security Analysis said we should consider buying stocks with price-to-book of lower than 1.5 times. The number 1.5 times implies that the maximum price that we pay for a company should not exceed 50% of the owner’s cost.

Wilcox (1984) has shown that price-to-book - return on equity model appears to be superior to price-earnings ratio valuation model. Fama and French (1991) demonstrate that the ratio of book market value explains the differences in returns better than beta does, and think that size and price to book market ratios are proxies for other fundamentals.

According to Gordon Shapiro (1956) and Gordon (1962) constant dividend growth share valuation model, the price of shares equals the present value of the future cash flows from a company.

Empirical studies have also shown that size and price to book ratios are powerful predictors of stock returns. For example, Rosenberg et. al (1985) show that stocks with high price to book value outperform the market. Chan and Chen (1991) show that the price to book ratio has most significant positive impact on expected returns whilst Fama and French (1992) report high average returns on negative and high price to book companies. Meanwhile, Chen and Zhang (1998) show that value stocks – characterised by low market value relative to a typical stock (size effect) and low market price relative to book (book-to-market equity effect) – offer reliably higher returns in the United States, Japan, Hong Kong and Malaysia, corresponding to the higher risk.
The price-book value ratio can be related to the same fundamentals that determine value in discounted cashflow models. The value of equity in a stable growth dividend discount model can be written as:

\[
P_0 = \frac{DPS}{k_e - g_n}
\]

where,

- \(P_0\) = Value of equity per share today
- \(DPS_1\) = Expected dividends per share next year
- \(k_e\) = Cost of equity
- \(g_n\) = Growth rate in dividends (forever)

The PBV ratio is an increasing function of the return on equity, the payout ratio and the growth rate and a decreasing function of the riskiness of the firm.

This formulation can be simplified even further by relating growth to the return on equity.

\[g = (1 - \text{Payout ratio}) \times \text{ROE}\]

Substituting back into the P/BV equation,

\[
\frac{P_0}{BV_0} = \frac{ROE - g_n}{r - g_n}
\]

The price-book value ratio of a stable firm is determined by the differential between the return on equity and its cost of equity. If the return on equity exceeds the cost of equity, the price will exceed the book value of equity; if the return on equity is lower than the cost of equity, the price will be lower than the book value of equity. The advantage of this formulation is that it can be used to estimate price-book value ratios for private firms that do not pay out dividends.
The price-to-book ratio is also frequently used in valuing banking, finance and insurance companies. In most instances, it is quite difficult to search for financial institutions that are selling at below their book values. This is because the book value is mostly in cash.

Normally owners would not accept any value that is less than the book value. This explains why most analysts use the price-to-book ratio in valuing financial institutions.

H for Health refers to the financial health of a company. We use debt-to-equity ratio (D/E ratio) to determine the level of borrowings of a company.

It is computed by taking a company's total debts and dividing it by a company's total shareholders' funds.

A lower ratio implies that the company is using less debt but more equity to fund its operations. Even though cost of borrowing is lower than cost of equity, most investment gurus prefer companies to use less debt.

According to Graham, a good company should have a D/E ratio of less than 0.5x. It means that for every RM1 the owner puts into the company, the maximum amount that he should borrow is 50 sen.

The rationale is to look for companies with lower financial risk - lower borrowings mean companies pay less interest expenses and face lower bankruptcy risk.
M for Management refers to companies with high management quality. It is always very difficult to determine the management quality of a company.

Almost all investment gurus, like Graham, Philip Fisher and Warren Buffett say that the management quality is one of the most important factors in stock selection.
<table>
<thead>
<tr>
<th>Table I</th>
<th>Price to Book ratio</th>
<th>Price Earnings ratio</th>
<th>Net Asset Value</th>
<th>Market price</th>
<th>Market capitalisation</th>
<th>Offer price</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safeguards Corp Bhd</td>
<td>1.01</td>
<td>36.63</td>
<td>1.16</td>
<td>0.935</td>
<td>66.95</td>
<td>1.15</td>
<td>22.99%</td>
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<td>Cosway Corp Bhd</td>
<td>0.90</td>
<td>10.00</td>
<td>1.39</td>
<td>1.06</td>
<td>253.16</td>
<td>1.20</td>
<td>12.15%</td>
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<td>Johan Ceramics Bhd</td>
<td>0.59</td>
<td>-</td>
<td>0.51</td>
<td>0.27</td>
<td>14.30</td>
<td>0.30</td>
<td>11.11%</td>
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<tr>
<td>Ramatex Bhd</td>
<td>0.93</td>
<td>12.94</td>
<td>2.23</td>
<td>2.08</td>
<td>888.58</td>
<td>2.20</td>
<td>5.77%</td>
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<td>Sin Chew Media Bhd</td>
<td>1.18</td>
<td>13.33</td>
<td>1.02</td>
<td>3.08</td>
<td>845.60</td>
<td>4.00</td>
<td>29.87%</td>
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<tr>
<td>Nanyang Press Holdings Bhd</td>
<td>2.27</td>
<td>-</td>
<td>1.85</td>
<td>4.08</td>
<td>289.21</td>
<td>4.20</td>
<td>2.94%</td>
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<td>Rashid Hussain Bhd</td>
<td>3.40</td>
<td>-</td>
<td>2.74</td>
<td>1.64</td>
<td>1,185.37</td>
<td>1.80</td>
<td>9.76%</td>
</tr>
<tr>
<td>RHB Capital</td>
<td>1.79</td>
<td>19.82</td>
<td>2.66</td>
<td>4.38</td>
<td>12,597.83</td>
<td>4.80</td>
<td>9.59%</td>
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<tr>
<td>Malaysian Oxygen Bhd</td>
<td>3.79</td>
<td>19.48</td>
<td>3.96</td>
<td>12.9</td>
<td>1,702.48</td>
<td>15.00</td>
<td>16.28%</td>
</tr>
<tr>
<td>Seal Polymer Industries</td>
<td>1.12</td>
<td>17.13</td>
<td>0.98</td>
<td>0.98</td>
<td>172.02</td>
<td>1.10</td>
<td>12.24%</td>
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<tr>
<td>Ann Joo Steel Bhd</td>
<td>1.14</td>
<td>7.75</td>
<td>2.74</td>
<td>2.87</td>
<td>280.20</td>
<td>3.10</td>
<td>8.01%</td>
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<tr>
<td>Rohas Eucos Industries Bhd</td>
<td>1.13</td>
<td>8.19</td>
<td>1.83</td>
<td>1.77</td>
<td>96.41</td>
<td>1.80</td>
<td>1.69%</td>
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<tr>
<td>Island &amp; Peninsular Bhd</td>
<td>0.90</td>
<td>20.98</td>
<td>2.80</td>
<td>1.80</td>
<td>1,193.84</td>
<td>2.35</td>
<td>30.56%</td>
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<tr>
<td>Dunham Bush (M) Bhd</td>
<td>2.80</td>
<td>28.23</td>
<td>1.25</td>
<td>3.28</td>
<td>98.13</td>
<td>3.50</td>
<td>6.71%</td>
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<tr>
<td>Petaling Garden Bhd</td>
<td>1.49</td>
<td>13.81</td>
<td>1.67</td>
<td>2.15</td>
<td>616.20</td>
<td>2.50</td>
<td>16.28%</td>
</tr>
<tr>
<td>Maxis Communications Bhd</td>
<td>4.57</td>
<td>18.30</td>
<td>2.84</td>
<td>13.00</td>
<td>25,717.47</td>
<td>15.60</td>
<td>20.00%</td>
</tr>
<tr>
<td>UAC Bhd</td>
<td>1.20</td>
<td>11.6</td>
<td>4.05</td>
<td>4.22</td>
<td>319.95</td>
<td>4.85</td>
<td>14.93%</td>
</tr>
<tr>
<td>Nexnews Bhd</td>
<td>3.26</td>
<td>-</td>
<td>0.39</td>
<td>1.15</td>
<td>296.85</td>
<td>1.27</td>
<td>10.43%</td>
</tr>
<tr>
<td>Computer Systems Adviser Bhd</td>
<td>1.64</td>
<td>13.61</td>
<td>2.38</td>
<td>3.50</td>
<td>254.13</td>
<td>3.24</td>
<td>20.37%</td>
</tr>
<tr>
<td>Berjaya Capital Bhd</td>
<td>2.10</td>
<td>12.70</td>
<td>1.42</td>
<td>2.44</td>
<td>191.33</td>
<td>3.00</td>
<td>22.95%</td>
</tr>
<tr>
<td>Table I</td>
<td>Price to Book ratio</td>
<td>PE multiples</td>
<td>NAV</td>
<td>Market price</td>
<td>Market capitalisation</td>
<td>Offer price</td>
<td>Premium</td>
</tr>
<tr>
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<tr>
<td>MOL AccessPortal Bhd</td>
<td>4.25</td>
<td>95.38</td>
<td>0.146</td>
<td>0.445</td>
<td>53.70</td>
<td>0.58</td>
<td>30.34%</td>
</tr>
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<td>AmInvestment Group Bhd</td>
<td>2.20</td>
<td>17.2</td>
<td>1.68</td>
<td>3.10</td>
<td>2,904</td>
<td>3.70</td>
<td>19.35%</td>
</tr>
<tr>
<td>MIDF Bhd</td>
<td>1.01</td>
<td>14.84</td>
<td>1.89</td>
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<td>1.90</td>
<td>40.74%</td>
</tr>
<tr>
<td>Ranhill Power Bhd</td>
<td>2.69</td>
<td>-</td>
<td>0.80</td>
<td>1.92</td>
<td>131.56</td>
<td>2.15</td>
<td>11.98%</td>
</tr>
<tr>
<td>Tradewinds Plantation Bhd</td>
<td>1.78</td>
<td>91.3</td>
<td>2.13</td>
<td>2.74</td>
<td>2,106.03</td>
<td>2.73</td>
<td>-</td>
</tr>
<tr>
<td>Putrajaya Perdana Bhd</td>
<td>4.08</td>
<td>16.22</td>
<td>1.19</td>
<td>4.18</td>
<td>272.70</td>
<td>4.85</td>
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<td>0.68</td>
<td>9.55</td>
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<td>2.05</td>
<td>4,575.18</td>
<td>2.10</td>
<td>2.44%</td>
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<tr>
<td>Sindora Bhd</td>
<td>0.92</td>
<td>9.13</td>
<td>1.87</td>
<td>1.55</td>
<td>154.56</td>
<td>1.72</td>
<td>10.97%</td>
</tr>
<tr>
<td>Magnum Corporation Bhd</td>
<td>4.20</td>
<td>21.5</td>
<td>1.24</td>
<td>3.08</td>
<td>4,687.55</td>
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<tr>
<td>E&amp;O Property Development Bhd</td>
<td>2.13</td>
<td>12.35</td>
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<td>1,251.42</td>
<td>2.75</td>
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<td>WCT Land Bhd</td>
<td>1.65</td>
<td>13.93</td>
<td>1.27</td>
<td>2.10</td>
<td>700.07</td>
<td>2.09</td>
<td>3.98%</td>
</tr>
<tr>
<td>Simple Average / Median</td>
<td>1.14</td>
<td>18.42</td>
<td></td>
<td></td>
<td>2,037.64</td>
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<td>13.61%</td>
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<td>25,717.47</td>
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<td>1.69%</td>
<td>40.74%</td>
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<th>2004</th>
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<th>2006</th>
<th>2007</th>
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<td>KLCI Returns</td>
<td>907.43</td>
<td>899.79</td>
<td>1096.24</td>
<td>1445.03</td>
</tr>
<tr>
<td></td>
<td>14.29</td>
<td>(0.84)</td>
<td>21.83</td>
<td>31.82</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------</td>
<td>--------------------</td>
<td>---------------</td>
<td>--------------------</td>
</tr>
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<td>Safeguards Corp Bhd</td>
<td>21.48</td>
<td>1.38</td>
<td>NA</td>
<td>1.19</td>
</tr>
<tr>
<td>Cosway Corp Bhd</td>
<td>4.55</td>
<td>1.36</td>
<td>4.36</td>
<td>1.51</td>
</tr>
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<td>Johan Ceramics Bhd</td>
<td>23.81</td>
<td>0.60</td>
<td>NA</td>
<td>0.51</td>
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<tr>
<td>Ramatex Bhd</td>
<td>14.66</td>
<td>2.14</td>
<td>18.12</td>
<td>2.21</td>
</tr>
<tr>
<td>Sin Chew Media Bhd</td>
<td>NA</td>
<td>0.63</td>
<td>13.06</td>
<td>0.96</td>
</tr>
<tr>
<td>Nanyang Press Holdings Bhd</td>
<td>22.34</td>
<td>1.86</td>
<td>27.61</td>
<td>1.96</td>
</tr>
<tr>
<td>Rashid Hussain Bhd</td>
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<td>0.60</td>
<td>8.53</td>
<td>0.68</td>
</tr>
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<td>RHB Capital</td>
<td>9.32</td>
<td>2.31</td>
<td>12.77</td>
<td>2.46</td>
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<td>Malaysian Oxygen Bhd</td>
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<td>3.73</td>
<td>19.81</td>
<td>3.83</td>
</tr>
<tr>
<td>Seal Polymer Industries</td>
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<td>8.17</td>
<td>0.92</td>
</tr>
<tr>
<td>Ann Joo Steel Bhd</td>
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<td>2.52</td>
<td>13.49</td>
<td>2.59</td>
</tr>
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<td>Rohas Eucos Industries Bhd</td>
<td>7.12</td>
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<td>4.00</td>
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<td>3.22</td>
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<td>4.03</td>
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<td>Dunham Bush (M) Bhd</td>
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<td>1.04</td>
<td>9.57</td>
<td>1.12</td>
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<td>Petaling Garden Bhd</td>
<td>7.81</td>
<td>1.50</td>
<td>10.07</td>
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<td>UAC Bhd</td>
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<td>3.72</td>
<td>12.47</td>
<td>3.87</td>
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<td>Nexnews Bhd</td>
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<td>NA</td>
<td>1.46</td>
</tr>
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<td>1.95</td>
<td>19.50</td>
<td>2.00</td>
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<td>7.86</td>
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<td>7.89</td>
<td>1.33</td>
</tr>
<tr>
<td>Company</td>
<td>PE ratio</td>
<td>Price to Book</td>
<td>PE ratio</td>
<td>Price to Book</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------</td>
<td>---------------</td>
<td>----------</td>
<td>---------------</td>
</tr>
<tr>
<td>Courts Mammoth Bhd</td>
<td>15.71</td>
<td>1.95</td>
<td>13.72</td>
<td>1.95</td>
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<td>MOL AccessPortal Bhd</td>
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<td>16.32</td>
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<td>NA</td>
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<td>MIDF Bhd</td>
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<td>1.85</td>
<td>0.16</td>
<td>1.83</td>
</tr>
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<td>Ranhill Power Bhd</td>
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<td>0.84</td>
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<td>NA</td>
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<tr>
<td>Tradewinds Plantation Bhd</td>
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<td>2.72</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Putrajaya Perdana Bhd</td>
<td>NA</td>
<td>0.81</td>
<td>NA</td>
<td>1.10</td>
</tr>
<tr>
<td>EON Bhd</td>
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<td>12.38</td>
<td>4.07</td>
</tr>
<tr>
<td>Sindora Bhd</td>
<td>11.72</td>
<td>1.84</td>
<td>11.81</td>
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<tr>
<td>Magnum Corporation Bhd</td>
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<td>1.03</td>
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<td>1.07</td>
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<td>2.45</td>
<td>0.97</td>
<td>2.58</td>
<td>1.14</td>
</tr>
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<td>Simple Average</td>
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<td>11.56</td>
<td>1.80</td>
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<td>3.75</td>
<td>27.61</td>
<td>4.07</td>
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<td>Low</td>
<td>2.45</td>
<td>0.10</td>
<td>0.16</td>
<td>0.11</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KLCI Returns</td>
<td>907.43</td>
<td>899.79</td>
<td>1096.24</td>
<td>1445.03</td>
</tr>
<tr>
<td></td>
<td>14.29</td>
<td>(0.84)</td>
<td>21.83</td>
<td>31.82</td>
</tr>
<tr>
<td>Year (2008)</td>
<td>Target Company</td>
<td>Offer Price (RM)</td>
<td>NTA per share (RM)</td>
<td>Premium</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------------------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>----------</td>
</tr>
<tr>
<td>January 4</td>
<td>Pacificmas Bhd</td>
<td>4.30</td>
<td>4.24</td>
<td>+ 0.06</td>
</tr>
<tr>
<td>January 25</td>
<td>Scientex Packaging Bhd</td>
<td>1.30</td>
<td>1.95</td>
<td>- 0.65</td>
</tr>
<tr>
<td>February 1</td>
<td>Putra Perdana Bhd</td>
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<td>1.44</td>
<td>+ 3.41</td>
</tr>
<tr>
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<td>Naluri Corporation Bhd</td>
<td>0.75</td>
<td>0.93</td>
<td>- 0.18</td>
</tr>
<tr>
<td>February 25</td>
<td>Chase Perdana Bhd</td>
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<td>0.45</td>
<td>+ 0.15</td>
</tr>
<tr>
<td>February 25</td>
<td>Sitt Tatt Bhd</td>
<td>0.60</td>
<td>0.82</td>
<td>- 0.22</td>
</tr>
<tr>
<td>February 26</td>
<td>Metacorp Bhd</td>
<td>0.50</td>
<td>0.63</td>
<td>- 0.13</td>
</tr>
<tr>
<td>March 19</td>
<td>PK Resources Bhd</td>
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<td>3.72</td>
<td>-3.12</td>
</tr>
<tr>
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<td>Sunway Infrastructure Bhd</td>
<td>0.17</td>
<td>0.83</td>
<td>- 0.66</td>
</tr>
<tr>
<td>April 15</td>
<td>Sindora Bhd</td>
<td>1.72</td>
<td>1.97</td>
<td>- 0.25</td>
</tr>
<tr>
<td>April 17</td>
<td>Lading Perbadanan FIMA Bhd</td>
<td>4.20</td>
<td>1.72</td>
<td>+ 2.48</td>
</tr>
<tr>
<td>April 17</td>
<td>Loh &amp; Loh Corporation Bhd</td>
<td>4.85</td>
<td>2.59</td>
<td>+ 2.26</td>
</tr>
<tr>
<td>April 25</td>
<td>Saujana Consolidated Bhd</td>
<td>1.00</td>
<td>1.51</td>
<td>- 0.51</td>
</tr>
<tr>
<td>May 15</td>
<td>Bouestead Properties Bhd</td>
<td>5.50</td>
<td>5.26</td>
<td>+ 0.24</td>
</tr>
<tr>
<td>June 6</td>
<td>Ranhill Utilities Bhd</td>
<td>3.50</td>
<td>4.59</td>
<td>- 1.09</td>
</tr>
<tr>
<td>July 17</td>
<td>Harrison Holdings (M) Bhd</td>
<td>1.45</td>
<td>3.05</td>
<td>- 1.60</td>
</tr>
<tr>
<td>August 4</td>
<td>Aliran Ihsan Resources Bhd</td>
<td>0.90</td>
<td>1.40</td>
<td>- 0.50</td>
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<tr>
<td>September 5</td>
<td>Industrial Concrete Products Bhd</td>
<td>3.30</td>
<td>1.03</td>
<td>+ 2.27</td>
</tr>
<tr>
<td>September 13</td>
<td>M3ergy Bhd</td>
<td>1.20</td>
<td>3.38</td>
<td>- 2.18</td>
</tr>
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<td>September 18</td>
<td>Modular Techcorp Bhd</td>
<td>0.20</td>
<td>0.279</td>
<td>- 0.079</td>
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<td>September 22</td>
<td>VADS Bhd</td>
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<td>TH Group Bhd</td>
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<td>0.67</td>
<td>+ 0.08</td>
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<tr>
<td>December 15</td>
<td>DK Leather Bhd</td>
<td>0.52</td>
<td>0.27</td>
<td>+ 0.25</td>
</tr>
</tbody>
</table>

Table III: List of Public Listed Companies on the Bursa Malaysia Going Private (January – December 2008)
CHAPTER 4
RESEARCH ANALYSIS AND RESULTS

In table I, it shows the list of public listed companies on the Bursa Malaysia that was being taken private in the year of 2007.

The first column shows the price-to-book ratio of the sample list of public listed companies that was taken private. The average / median of the price-to-book ratio among the companies are 1.14 times while the lowest being 0.54 times and the highest being 4.25 times. The second column shows the price-earnings ratio of the sample list of public listed companies that was taken private. The average / median of the price-earnings ratio among the companies are 18.42 times while the lowest being 7.75 times and the highest 95.38 times. The third column shows the net asset value of sample of public listed companies. The fourth column shows the market price of the public listed companies at the time of the announcement of the offer to buyout the remaining outstanding shares not owned. The fifth column shows the market capitalisation of the respective companies. The average / median is RM2.03 billion while the smallest market capitalisation in the sample list was RM53.7 million while the biggest privatisation is RM25.7 billion. The sixth column shows the offer price for the remaining outstanding shares. The seventh column shows the premium offered for the public listed companies to be taken private in the privatization exercise. The average / median of the premium
offered was 13.61% while the lowest premium offered was 1.69% and the highest being 40.74%.

The table also shows the Bursa Malaysia’s Kuala Lumpur Composite Index which is the barometer of the performance of the stock market. It provides the yearly performance from the year 2004 until the year 2007. It has registered positive returns from the year 2004 to year of 2007 with the exception of year 2005 whereby there is a negative return on that year.

In Table II, it shows the historical valuation from the year of 2004 until the year of 2006 of the sample list of public listed companies on the Bursa Malaysia that is being taken private.

The first column of the table shows the price earnings ratio for the year of 2004 and the second column shows the price to book ratio for the year of 2004. The average / median for the price earnings ratio is 18.46 times while the lowest was 2.45 times and the highest being 64.23 times. The average /median price to book ratio is 1.75 times while the lowest is 0.10 times and the highest being 3.75 times.

The third column of the table shows the price earnings ratio for the year of 2005 and the fourth column shows the price to book ratio for the year of 2005. The average / median for the price earnings ratio is 11.56 times while the lowest was 0.16 times and the highest being 27.61 times. The average
The sixth column of the table shows the price earnings ratio for the year of 2006 and the seventh column shows the price to book ratio for the year of 2006. The average / median for the price earnings ratio is 26.43 times while the lowest was 2.58 times and the highest being 358.97 times. The average /median price to book ratio is 1.84 times while the lowest is 0.14 times and the highest being 4.32 times.

The table also shows the Bursa Malaysia’s Kuala Lumpur Composite Index which is the barometer of the performance of the stock market. It provides the yearly performance from the year 2004 until the year 2007. It has registered positive returns from the year 2004 to year of 2007 with the exception of year 2005 whereby there is a negative return on that year.

From the Table III, it shows the list of public listed companies on the Bursa Malaysia which is being taken private for the year of 2008. There are (26) twenty six companies that has proposed to be taken private, the offer price to acquire all outstanding shares for the (13) thirteen companies were below the NTA per share while the other (10) companies the offer price is above the NTA per share.
Based on the charts, it shows the historical share price from year of 2004 until year 2007 of the sample of public listed companies on the Bursa Malaysia that is being taken private.

From the list of charts, the historical share price has always been below the offer price that is offered by the shareholders or management for the privatisation exercise. The chart clearly shows the historical price trading on the Bursa Malaysia is much lower than its intrinsic value best known to the management. This is further evident from the historical valuation by the price-to-book ratio which is trending down prior to the privatization.

In terms of market reactions to the announcement on privatization, Asquith, Bruner and Mullins (1983) analysis showed that companies gain significantly during the twenty-one days prior to the announcement of acquisition or privatisation bids. Bidders’ abnormal returns are found to be positively related to the relative size of merger partners and merger bids significant increase the wealth of bidding firms’ shareholders. Asquith, Bruner and Mullins (1983) also examine the effects of form of financing and merger size on bidder and target stock return in mergers. Bidding firms’ returns are found to be positively related to cash bids, whereas equity financing has negative announcement effect on stock prices.
Bruner (2001) examined the profitability of the privatisation. He found that target shareholders earn sizable positive market returns while bidders earn zero adjustable returns.

Results showing the historical share price being lower than the offer price for the privatization proposals therefore confirming the undervaluation of the companies.

AmlInvestment

* As reported in The Edge Malaysia, front page on Monday, 14 May 2007. (Source: Bloomberg)
Ann Joo Steel

The movement in the market price and trading volume of AJ Steel for the past twelve (12) months up to and including 10 April 2007 has been illustrated in the chart below:

(Source: Bloomberg)

Berjaya Capital

The movement in the market price and trading volume of BCap Shares for the past five (5)-year period to 1 June 2007 are depicted as follows:

(Source: Bloomberg)
Cosway

The historical market price and the trading volume of Cosway Shares for the two (2)-year period from 1 April 2005 to 31 March 2007 are depicted as follows:

Source: Bloomberg

Courts Mammoth

The movement of the market prices of CMB Shares from June 2006, being twelve (12) months prior to the date of the announcement of the Notice is depicted in the following graph:

(Source: Bloomberg)
Computer Systems Advisers

To assess the historical market price performance of CSAM Shares, we have set out in the diagram below, the daily closing price movements and trading volumes for CSAM Shares for the 2-year period commencing 17 May 2005 up to 16 May 2007, and up to 29 January 2008, being the latest practicable date before the issue of this IAL ("LPD").

Notes:
A 16 May 2007, Offer Letter from CSC received.
B 30 August 2007, revised Offer Price of RM3.90 announced.
C 5 October 2007, SCR Agreement signed.

Dunham-Bush Malaysia

The movement in the prices of DBM Shares as traded on Bursa Securities from 25 April 2005 to 24 April 2007 (being two (2) years prior to the date of the serving of the Notice on 24 April 2007) is depicted in the graph below.

Assessment of the Proposed Realisation on 8 Sept 2006
The movement in the market prices and trading volume of EON Shares for the past 24 months from 2 November 2005 to 1 November 2007, being the date of the Notice are depicted in the chart below:

(Source: Bloomberg)

The movement of the market prices of J&P Shares from 25 April 2006, being twelve (12) months prior to the date of the announcement of the Notice, up to the LPD is depicted in the following graph.

(Source: Bloomberg)

From the graph above, it is noted that J&P Shares had been consistently trading below the Offer Price of RM2.35 for the twelve (12) months prior to the date of the announcement of the Notice up to the LPD.
Maxis

The following chart sets out historical daily closing prices of Maxis Shares traded on Bursa Securities for 1 year preceding the LFD:

(Maxis Share (RM)

KnC1

7 8 9 10 11 12 13 14 15
May 06 Jan 06 Jul 06 Aug 06 Sep 06 Oct 06 Nov 06 Dec 06 Jan 07 Feb 07 Mar 07 Apr 07 May 07

27 April 2007, last full trading day before the date of the Notice

(Source: Bloomberg)

MIDF

The movements in the prices of MIDF Shares as traded on Bursa Securities from 11 August 2002 to 10 August 2007 (being five (5) years prior to the last Market Day before the suspension of trading of MIDF Shares on 13 August 2007) are depicted in the graph below:

Offer Price: RM1.90

(Source: Bloomberg)
The movement in the market prices of MOLACS Shares as traded on Bursa Securities from 15 November 2005 to 14 November 2007 (being two (2) years before the last practicable date prior to the serving of the Notice) is depicted in the graph below:

(Source: Bloomberg)

The movement in the price and volume of MOX Shares for the past 3 years up to the LPD are as follows:

(Source: Bloomberg)
The movement of the market prices of NPHB Shares against the KLCI for the past twelve (12) months up to 28 February 2007 are depicted as follows:-

(Source: Bloomberg)

The movement in the prices of Nexnews Shares as traded on Bursa Securities from 8 May 2005 to 7 May 2007 (being two (2) years prior to the last Market Day before the serving of the Notice) is depicted in the graph below:-

(Source: Bloomberg)
Petaling Garden

The chart below shows the movement of the share price of PCI Shares for the past five (5) years up to 30 April 2007, being the last trading day prior to the service of the Notice.

<table>
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<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
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<td>2006</td>
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<td>2007</td>
<td>2.15</td>
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</tbody>
</table>

(Source: Bloomberg)

Ramatex

From 17 May 2007 up to and including 17 July 2007 being the Latest Practicable Date

(Source: Bloomberg)
RHB

The above graph shows the trading of RHB Shares for the last twelve (12) months up to 14 May 2007, being the last trading day prior to the date of the Notice. RHB Share price was on an increasing trend and had a closing price of RM1.75 on 14 May 2007, being the last trading day prior to the date of the Notice.

Rohas Eucos Industries

The movement in the market price and trading volume of REI Shares for the past six (6) months up to and including 5 November 2007 is illustrated in the chart below.

(Source: Bloomberg)
Safeguards

We set out below the chart showing the trading pattern for Safeguards Shares for the one (1) year up to the LPD.

(Source: Bloomberg)

Seal Polymer

Historical share prices and trading volume of SPiB Shares and Supermax Share

(Source: Bloomberg)
WCT Land

Historical share prices of WCTL Shares and WCTE Shares

(Source: Bloomberg)

Johan Ceramics

(Source: Bloomberg)
RHB Capital

We set out below a chart on the price movement of RHB Cap Shares from 1 June 2000 up to the LPD:

(Source: Bloomberg)

Tradewinds

The movement in the market price of TWP Shares for the past 12 months up to and including 13 February 2008 is shown in the chart below:

(Source: Bloomberg)
(i) **RPB Share price movements**

The movements in the prices of RPB Shares as traded on Bursa Securities from 15 September 2003 to 10 September 2007 (being four (4)-years prior to the last Market Day before the serving of the Notice on 11 September 2007) are depicted in the graph below:

(Source: Bloomberg)
CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

Summary and Conclusion

Privatisation is part of market mechanism to bring back prices closer to its intrinsic values. When a public listed company’s stock is excessively undervalued, it will attract takeover attempts. Unfortunately, in the Malaysian corporate world, hostile takeover normally faces strong resistance from the Board and dominant shareholders. As such, many public listed company stocks in Malaysia are trading way below their intrinsic value. Analysts argue that share buybacks provide a form of share price support and serve as a leading indicator of value as company which embarks on share buyback activity as signs of management belief that the stock is undervalued. The share buyback serves as a form of capital management where companies have three options to choose in dealing with the shares buyback. First, the shares can be cancelled, distribute the shares back to shareholders as dividend-in-specie or sell the share at a higher price in the stock market. Share buyback is similar to companies being taken private, the only difference is it constitutes 100% share buyback in order for the company to be taken private.
The findings in this paper, undervaluation of the public listed companies in the Bursa Malaysia is being the key reason for the management to consider taking the public listed company private. From the findings, there is strong support for the undervaluation theory considerations for the company to consider taking a public listed company private. In Table I, the premium offered for the companies in the privatization exercise range from 1.69% to 40.74% prior to the announcement of the take-over offer. This shows that the shares are undervalued therefore the premiums offered is to entice the existing shareholders to give up the shares in the company.

In Table II, the historical price-earnings ratio and price-to-book ratio for the year 2004 until 2006 showed a downward trend from 2004 to 2005 and trend upward in 2006 which is line with the overall stock market performance as shown in the KLCI performance.

From the excerpts of the management of Maxis Communications, regulatory constraints of being a public listed company is one of the reason for the company to go private so that management can focus on the business expansion without having to deal with the analyst and public shareholders expectations of short term performance quarterly reporting season. This was further supported by Thomas Hartman and Foley 2005 “The cost of being public in the year of Sarbanes-Oxley”
Data on private firms are not readily available after the privatization of the public listed companies to further gauge the benefits of being private company.

Privatisation is sometimes in the best interest of shareholders as it provides an opportunity to all shareholders to unlock their investment at an attractive premium over the market price.

Fewer good firms on Bursa after buyouts : JP Morgan
The fact that some of the companies privatized in recent times have been the good ones such as Maxis Communications Berhad (one of the largest privatisations on Bursa Malaysia)
“Malaysia, or Bursa as a market, will increasingly become less attractive to investors and we’ll lose out to other markets in the region” said Clement Chew the Head of Equity Capital Markets of JP Morgan Securities (Malaysia) Sdn Bhd

Overall, this evidence demonstrates that undervaluation of the firms’s stock prices could have a significant effect on the management on listing status of the firm. These findings are consistent with previous research on the reasons for companies to go private. It also supports the conclusion undervaluation is the potentially the most important reasons in privatisation.
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