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CM Pacific joins delisting train as majority shareholder launches offer

Company's successful exit would shrink local bourse's market cap by more than S$1.5 billion

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MAY 10, 2016 5:50 AM

Singapore

TOLL road operator China Merchants Holdings (Pacific) - a billion-dollar company - has moved to delist from the Singapore stock exchange in yet another sign of hollowing out in the local market.

The firm, which has a reputation among investment circles as a dividend stock, is currently valued at S$1.5 billion.

China Merchants, or CM Pacific, announced a cash offer of S$1.02 a share on Monday morning. A similar offer was also made for the firm's HK$150 million (S$26 million) of convertible bonds.

The offer price is at a 23 per cent premium to the company's last full trading day's closing price of S$0.83, which is also the counter's approximate price in the last six months on a volume-adjusted basis. Notwithstanding the premium to the last traded price, a DBS analyst had last month put out a "buy" call with a target price of S$1.25.

The offer is also at a 7 per cent premium to its net asset value per share of HK$5.44 (S$0.953) at end-March.

"Amidst the challenging market conditions, the offer presents shareholders with a clean cash exit opportunity to realise their entire investment in the shares at a significant premium," said DBS Bank, which is acting for offeror Easton Overseas Ltd.

Easton owns 75.88 per cent of CM Pacific, and is an indirect wholly-owned subsidiary of state-linked China Merchants Group.

DBS also cited low trading liquidity of the firm's shares. Bloomberg data shows a one-year average trading volume of around 830,000 shares a day, which works out to about 0.3 per cent of its public float.

By delisting, CM Pacific will be able to enjoy more management flexibility and will not have to deal with compliance and other costs to maintain its listing status, DBS added.

When approached, DBS declined to comment on whether the company has plans to relist elsewhere.

CM Pacific, which was listed on the SGX mainboard in 1981, went through several incarnations before its current form. As of end-2015, the group operates eight toll roads, including two joint ventures. Group revenue excluding joint ventures was HK$2.2 billion in 2015.

Analyst Paul Yong from DBS, one of two research houses to cover the stock, had a target price of S$1.25 and a "buy" call in an April 29 report. He cited CM Pacific's consistent and attractive dividend yields. He said there was also room for the company to borrow more to fund acquisitions.

Contacted by e-mail on Monday, Mr Yong said he was unable to comment on the buyout price as DBS is the financial adviser to the offeror.

CIMB analysts Roy Chen and William Tng had a S$0.94 target price and an "add" call in a May 1 note. They noted the firm's "decent" forward yield of 6.7 per cent then.

In a Monday note, CIMB advised clients that the offer price was good and they should take it. It said the firm could be at risk from China's slowing growth among other things.

Traffic growth at CM Pacific's four newly-acquired toll roads might also not meet aggressive projected forecasts, CIMB said. "Constant failure to meet traffic growth projections would lead to an impairment in book value of the toll assets."

CIMB also said CM Pacific's owners might have decided to delist the firm as it had mostly not traded at a valuation above book value, where it makes more sense to issue shares to fund asset purchases.

Observers told The Business Times that the counter's dismal trading volume and valuation might explain why its owners are seeking a delisting.

They said the development was not healthy for the local bourse, and could be the beginning of a trend of China firms moving out.

SGX is in the midst of an initial public offering (IPO) drought on the mainboard with no new listings this year and just one last year. Five firms debuted on the Catalist board this year.

Kelvin Tay, regional chief investment officer at UBS Wealth Management, said that many stocks are trading below their book values and companies could see privatisation opportunities.

"If I'm a majority shareholder, I will delist a firm if it's trading at, say, 30 per cent below book value. It doesn't make sense to keep it listed given the time, energy and money you have to spend on reporting requirements."

Terence Wong, a former RHB Singapore research head who is now CEO of investment firm Azure Capital, said companies that are being privatised are quality companies that have been trading in the doldrums.

Delistings of Chinese companies could be a trend if better valuations are found in the A-share market, he said. But if trading interest returns to the local market, companies from China could still list here. "It's good for regional expansion, you can get your name out," he said.

Asked to comment on the latest delisting, SGX told BT that delistings "from time to time are part and parcel of any capital market and also provides opportunities for investors". "Our platforms continue to support companies in public fundraising with recent successes in new IPOs and secondary fundraising through rights issues and placements," it said.

Separately, BT understands that there is also talk of other smaller companies with substantial controlling shareholders pondering delisting.

They include worker dorm operator Centurion Corp, department store operator Parkson Retail Asia, and civil engineering firm CSC Holdings.

CM Pacific traded two cents higher to S$0.85 last Friday before trading was halted in the afternoon.

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