BUSINESS DEALS

Malaysia's IJM urges shareholders to reject Sunway takeover bid

Move follows independent assessor saying construction firm had been undervalued

The directors of Malaysian construction company IJM Corp on Friday urged shareholders to reject a takeover bid from the Sunway Group. © Reuters

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BANGKOK -- One Malaysia's biggest corporate takeover attempt in years appeared to be on the brink of failure on Friday after an independent adviser hired to assess the offer declared it was "not fair and not reasonable."

The 11 billion ringgit ($2.8 billion) bid by the conglomerate Sunway Group for construction company IJM Corp had sparked controversy about both its merits and for political reasons.

Sunway's offer to IJM shareholders was seen by some analysts as audacious. This was not only due to its scale but because Sunway proposed to pay only 10% in cash and 90% in newly issued Sunway shares.

The IJM board of directors formally recommended that shareholders reject the deal after receiving the assessment of an independent adviser, a process legally required for all such offers in Malaysia. Of most significance, the adviser, M&A Securities, found that Sunway's offer of 3.15 ringgit per IJM share significantly undervalued the latter company.

The report concluded that IJM's value based on a sum of parts valuation stood at between 5.84 and 6.48 ringgit per share. This is despite IJM shares not having traded above 3.00 ringgit since the start of the year -- which had prompted a number of equities analysts to recommend the deal.

The assessor's valuation sparked surprise in some quarters. "This is so much higher than I expected," Wong Muh Rong, managing director of Astramina Advisory, told Nikkei Asia.

Wong's own preliminary analysis had put IJM's value at around 16-18 billion ringgit, implying a share price of between 4.56 and 5.13 ringgit.

The report further found that the benefits to IJM shareholders of accepting a smaller stake in Sunway were uncertain, stating that "anticipated benefits cited by the Offeror are forward-looking in nature and contingent" whereas "IJM Group is currently in an active value-creation phase."

Other observers Nikkei spoke to echoed this view. "IJM and Sunway are doing basically the same thing -- they are primarily in construction. So even though they are able to expand the market cap though the merger at the end of the day there's not much value creation," Mazli Noor, fellow of the Institute of Corporate Directors Malaysia, told Nikkei.

Shares in IJM closed down 5.3% at 2.32 ringgit following the announcement. Sunway's shares dropped 0.8% to 5.14 ringgit.

Despite the takeover offer now looking likely to fail, the process has not necessarily been a total loss for Sunway.

"Tactically, Sunway has everything to gain and little to lose from this voluntary bid," said Wong. Not only did it take advantage of Sunway's higher share valuations, but it also put a rival on the defensive.

"Operationally, given that Sunway and IJM compete in certain tenders and bidding opportunities, the voluntary offer may also serve to divert IJM management's attention, potentially reducing their focus on day-to-day operations and strategic execution."

The likely rejection of the deal will also head off further political controversy around the matter.

Some politicians had portrayed the takeover offer as a Chinese Malaysian company taking over an ethnic Malay business. On March 5 the Malaysia Anti-Corruption Commission announced it had launched an investigation into the bid -- even as the body itself has faced accusations in parliament of abuse of power to extort businesses.

Neither Sunway nor IJM responded immediately to requests for comment.

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