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**The planned release of a more affordable range of smartphones and tablets for the Christmas season is a reason for the anticipated flat quarter.**

– Free Industrial Zone, Penang Companies' Association president Heng Huck Lee





Banks' non-interest income may come under pressure ›2

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China eases rules on foreign investment ›7


## Ekuinas steps up outsourcing programme

By LIM WING HOOI
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**PETALING JAYA:** Ekuiti Nasional Bhd (Ekuinas), the government-owned private equity fund, has selected CMS Opus Private Equity Sdn Bhd, KAF Fund Management Sdn Bhd (KFM) and RM Capital Partners Sdn Bhd as its latest outsource partners, according to industry sources.

This would be Ekuinas' second tranche of selecting outsourced fund managers (OFMs), having already picked CIMB Private Equity Sdn Bhd, KFH Asset Management Sdn Bhd and Navis Capital Partners as outsource partners in the first tranche announced in July 2010.

The concept of outsourcing funds to other private equity players is not uncommon in the private equity field as a means of garnering more investment opportunities and returns.

However government-owned private equity firms like Ekuinas and Mavcap or Malaysia Venture Capital Bhd also play a role of boosting local private equity and venture capital players by giving them funds to manage.

Sources said these new OFMs would receive around


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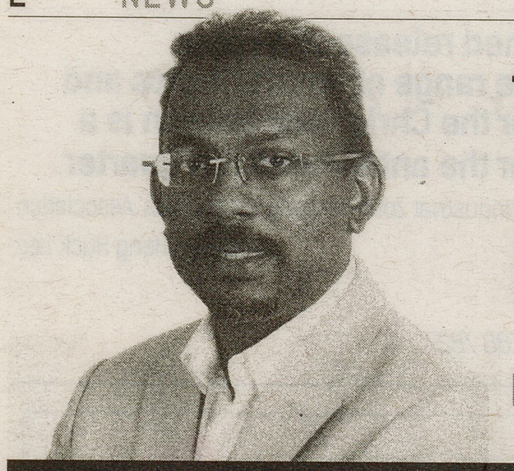

# Taking a leaf from Kulim-NBPOL case

## Debate between parties in buyout a healthy example

Raisen D'etre by **RISEN JAYASEELAN**

THE repartee between Kulim (Malaysia) Bhd and the independent directors of New Britain Palm Oil Ltd (NBPOL) is a great example of the depth of debates that should take place in buyouts that involve minority shareholders. Sadly, we rarely see such detailed arguments put forward in buyout situations involving our own companies here.

The Kulim-NBPO discussions should give us a lesson of what independent directors and top management of companies as well as those wanting to buy out listed companies, should be doing – each fighting for the best deal in the most clearly argued and well-researched manner, thus helping the minority to make a more informed decision.

You can read those arguments online here: http://www.nbpol.com.pg/wp-content/uploads/downloads/2013/08/NBPOL-Target-Company-Statement-6-Aug-2013.pdf (for the independent directors report) and http://www.bursamalaysia.com/market/listed-companies/company-announcements/1378785 (for Kulim's response to that).

Kulim had made a partial offer to the shareholders of London and Papua New Guinea-listed NBPOL in June at a price of £5.50 (RM28) per share. Kulim is already the major shareholder of NBPOL but wants to raise its 48.97% in NBPOL to 68.97%.

A partial offer simply means that as opposed to wanting to buy all the outstanding shares in the target company, Kulim will only want a portion of that.

The key arguments by both sides have centered on the true value NBPOL's shares and rightfully so as that goes to the crux of the matter. As they say, there's a price for just about everything and capital markets are formed precisely to help us all achieve this many-splendored thing called "price discovery".

Clearly though, valuation is a subjective matter. And precisely because of that, we need to see much more debate and analysis when Malaysian listed companies are faced with buyout proposals.

Notably in the NBPOL case, the independent advisor, BDO, used a number of valuation matrix to assess the value of NBPOL's shares. It used discounted cash flow (DCF) as its primary valuation method and explained in three clear bullet points why it thought that was the best way to value NBPOL. Aside from that, it also crunched NBPOL's enterprise value (EV) and earnings before interest, depreciation and amortisation (EBITDA) number to come up with cross-checking valuation methods of EV/EBITDA, EV to hectare.

That wasn't the end of the matter though. In many valuation methods, certain assumptions are made and these assumptions in turn have a big influence on the final valuation numbers.

Hence in its respond to the independent valuation by BDO, Kulim rightfully challenged some of those assumptions. For example, Kulim reckoned that BDO's assumption that the long-term price for crude palm oil (CPO) of US$1,100 per tonne was too aggressive, supporting that with some good arguments and facts. Kulim also said BDO had used a rather low weighted average cost of capital (WACC, what is the discount rate used in the calculation of DCF) that does not take into account the realities of doing business in Papua New Guinea.

Minority shareholders of NBPOL have all these to help them formulate their decision on whether to accept the offer by Kulim. Sadly, the same cannot be said of many instances of buyouts of Malaysian listed companies.

So, the next time a major shareholder tries to buy back his company on the cheap, here's the message to independent advisors and directors of the target company – don't fall short of your role. Draw strength and lessons from the NBPOL case. Minority shareholders of Malaysian-listed companies deserve no less.

Senior business editor RISEN JAYASEELAN wonders if the reason why Kulim isn't considering making a generous full general offer for NBPOL's shares is because of the difficulty in securing funding to do so, considering Kulim's current debt levels as well as the current low prices of CPO.



# Selected firms to raise additional RM20mil

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RM60mil each from Ekuinas and were expected to raise from private sources, additional RM20mil as part of the deal.

It is unclear how many private equity firms participated in the selection process in this second tranche.

In a reply to *StarBiz*, Ekuinas said it was in the process of finalising the selection of OFMs for its second tranche.

"We will make an announcement in mid-September as to the outcome of this selection process and will share all pertinent details then," Ekuinas said.

Ekuinas, a government-linked private equity fund management company which promotes bumiputra participation in the economy, launched the outsource programme in December 2009.

Ekuinas allocated RM400mil in the first tranche and the three fund managers raised RM143mil from private sources.

Rohana Mahmood

Azam Azman

In its website, Ekuinas mentioned it planned to appoint seven to 10 OFMs to manage the RM10bil fund in a three-year period.

The investment size by the OFMs can range from RM15mil compared to direct investments of RM30mil per investment and the OFMs are selected based on their ability to raise external capital, terms of the fund, organisation structure, business strategy and the teams' private equity experience.

CMS Opus Private Equity Sdn Bhd, headed by managing director Azam Azman, is an investment management company established with a joint-venture partner, Opus Capital Sdn Bhd, under Sarawak's largest conglomerate Cahya Mata Sarawak Bhd.

CMS Opus invests primarily in growth assets in oil and gas services.

KAF Fund Management Sdn Bhd (KFM) is a Malaysian financial services group with interests ranging from stock broking, investment banking, Islamic banking and research, and is part of KAF Group founded by executive chairman Datuk Khatijah Ahmad.

RM Capital Partners Sdn Bhd is founded by Datuk Rohana Mahmood, who is also Ethos Capital chairman and partner. Their investments include OMNIPetromaritime Sdn Bhd, which is an international provider of service vessels to the offshore oil and gas industry, which was later consolidated into Icon Offshore Bhd. RM Capital Partners had also invested in Masterskill, a provider in nursing and allied health education.

# Banks' non-interest income may come under pressure

By **DALJIT DHESI**
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**PETALING JAYA:** Non-interest income, which makes up between 20% and 35% of the banking system's total income, could come under pressure this year in view of the recent surge in bond yields, which could dampen capital-raising activities and impact banks' fee-based income.

Analysts said the US Federal Reserve's intention to taper off its US$85bil (RM278bil) a month bond-buying programme this year or early 2014 had led to the recent spike in bond yields in emerging markets, including Malaysia, which could potentially slow fee-based or non-interest income of banks.

A month-long selling has pushed the 10-year Malaysian Government bond yields to their highest in 2½ years.

RAM Ratings co-head of financial institution ratings Sophia Lee told *StarBiz* that banks' non-interest income would be affected by the recent spike in bond yields, if they had a large proportion of longer tenure securities that were held for trading.

"If the securities are classified as available for sale, the mark-to-market losses from these securities would affect the capital ratios. The yield spike for longer tenure securities seems to be more apparent although yields of shorter tenure securities have also increased.

"We note that some banks have switched from holding longer tenure securities to shorter tenures beginning this year, which could mitigate the impact to some extent. Most banks also hedge against interest rate risks, which might lessen their losses," she said.

Lee said banks' proportion of non-interest income to gross income ranged from 20% to 35%, given that lending was still their mainstay.

With keen competition in the lending market, tighter consumer lending regulations and increasingly stricter capital and liquidity requirements under Basel III, she said banks were striving to build up their non-interest income.

In terms of non-interest income, she said wealth management, bancassurance, transaction banking, treasury and investment banking solutions were the main areas of focus for banks.

Alliance Research banking analyst Cheah King Yoong, meanwhile, expressed concerns that rising bond yields and volatility in equities in emerging markets as a result of the Fed's planned move could hold up capital-raising activities in the region.

He said that recent meetings with the management of banking groups revealed many capital-raising activities for Economic Transformation Programme (ETP)-related projects had been deferred to next year, while the investment banking mandates secured were mainly from private initiatives.



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