

TRADE WISE

Pesona Metro closer to completing game-changing deal

BY BEN SHANE LIM

After over two years of negotiations, Pesona Metro Holdings Bhd is close to taking over the concession for Universiti Malaysia Perlis (UniMAP), giving it a steady stream of annual income, just as the company is about to complete construction of the student hostels.

The concession is expected to generate a net cash contribution of RM10 million per annum to the construction company's bottom line, once the entire exercise is completed. Note that this is net of operating costs like maintenance, as well as interest and principal repayments. For perspective, Pesona Metro's trailing 12-month net profit was RM14.64 million. That works out to a potential boost of 68.3% to net profits.

However, it is important to note that Pesona Metro can only confidently take over 70% of the concession, pending shareholder approval. The remaining 30% requires a waiver from the government's Public Private Partnership Unit for the bumiputera ownership requirement.

Recall that the 30% bumiputera requirement is one of the main reasons that this acquisition has been dragged out for so long.

Even a 70% stake, however, would boost Pesona Metro's earnings by almost 50%. The 70% stake acquisition is expected to be completed within 60 days from the passing of the resolution by Pesona Metro's shareholders.

It is important to note, however, that Pesona Metro will also be issuing new shares as part of the total acquisition consideration of RM29.15 million. Only RM1.5 million will be settled in cash while the balance via the issuance of 39.5 million new Pesona Metro shares at 70 sen apiece.

This will dilute Pesona Metro's shareholders by around 6%. Hence, if the acquisition is successful, it would increase Pesona Met-

ro's earnings per share (EPS) from 2.24 sen to 3.55 sen (on an enlarged share base). That is a 58.4% increase.

Meanwhile, a 70% acquisition would increase EPS to 3.16 sen, or 41%.

To recap, Pesona Metro has proposed to take over up to 100% of SEP Resources Sdn Bhd, which is equally controlled by Maszealan Mohamad and Mohamed Izaran Mohamed Al Amin. SEP Resources itself does not hold the concession, but owns the rights to fully take over Budaya Positif Sdn Bhd, the concession holder.

Budaya Positif is a special purpose vehicle that owns the concession for the design, development and maintenance of student hostels for UniMAP.

It is understood that Pesona Metro would not have to incur any additional costs to call in the rights. Budaya Positif is currently owned by Pembinaan SPK Sdn Bhd, which is in turn wholly owned by SPK-Sentosa Corp Bhd, which was delisted in 2013.

Also recall that it was Budaya Positif that awarded the RM129.8 million construction of UniMAP to Pesona Metro in the first place. As a private finance initiative, Budaya Positif had taken on all the funding requirements for the project.

According to Companies Commission of Malaysia records, Budaya Positif has an outstanding RM110 million charge, owed to Maybank Islamic Bhd. Hence, Pesona Metro will assume this debt.

Pesona Metro had net cash of RM9.3 million as at March 31.

On top of that, Budaya Positif owes about RM20 million to Pesona Metro for the construction work done. In total, the project cost about RM129.8 million to construct, whereas Budaya Positif was only able to fund RM110 million via borrowings. The balance is owed to Pesona Metro.

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Pesona Metro will be converted to equity in Budaya Positif as well. Hence, the total cost for the acquisition will work out to RM49.15 million.

So, is Pesona Metro getting a good deal?

Firstly, note that Pesona Metro is issuing its new shares based on a price of 70 sen per share. That is a steep premium to last Friday's share price of 39 sen. This is good for Pesona Metro's existing shareholders, since it means the company issues fewer shares.

Secondly, in its announcement to Bursa Malaysia, Pesona Metro states that the purchase consideration of RM29.15 million is at a discount to the discounted cash flow value of the concession.

CH International Advisory Sdn Bhd values the concession at between RM38.06 million and RM43.58 million. The valuation was arrived at by "discounting the free cash flows from the concession to the present value at the discount rates based on the adjusted weighted average cost of capital of between 10.03% and 11.03%".

Hence, the purchase consideration represents a discount of between 23.4% and 33.11%.

Including the conversion of RM20 million owed by Budaya Positif to debt, however, the total cost is RM49.15 million. In this case, the total cost comes at a premium of between 22.6% and 11.33%. But this is on a discounted cash flow basis.

In cash terms, however, the concession will pay out about RM200 million over the remaining 20-year concession. Recall that the total concession, including construction, was for 22 years and six months.

Hence, Pesona Metro should be able to recover its total cost in about five years. Note that the concession's cash payment already takes into account both interest and principal payment from the RM110 million loan.

Put it all together, and Pesona Metro looks set up for a modest bump-up in earnings, all else being equal. Based on the valuation of 16 times earnings, Pesona Metro is potentially worth between 56.8 sen and 50.56 sen a share (assuming 100% acquisition and 70% acquisition respectively).

Currently, Pesona Metro is trading at 16.96 times earnings, based on last Friday's closing price of 39 sen. Note that Pesona Metro's share price has been tightly range bound since late last year. This can be attributed to the low trading volume of the stock, although it has an estimated free float of 23.1%.

Recall that Pesona Metro is 40.6% controlled by Kombinasi Emas Sdn Bhd and 17.03% by Sincere Goldyear Sdn Bhd.

Interestingly, these two companies have also emerged as shareholders in other listed companies like Lay Hong Bhd and Spring Gallery Bhd.

Kombinasi Emas is 80% controlled by Wie Hock Beng, the managing director of Pesona Metro, and 20% by his brother, Wie Hock Kiong.

Sincere Goldyear is 70% controlled by Hock Beng and 20% by Hock Kiong.

Pesona Metro's management declined to comment for this story.