

CIMB-RHBC-MBSB MERGER: EPF WAIVER REJECTED Lower odds, but we believe merger still possible

It was announced that Bursa Securities has rejected the request for waiver of Paragraph 10.08 (7) (a) of the Main Listing Requirements which required EPF (a common major shareholder in RHB Cap, CIMB Group and MBSB) to abstain from voting in the proposed three way merger of RHB Cap, CIMB and MBSB. As highlighted by Bursa Securities, the rationale for this decision was due to potential conflict of interest given EPF's controlling stakes in MBSB (64.5%) and RHB Cap (41.5%).

Our views on the announcement:

- With EPF abstained from voting, only the remaining shareholders holding 58.5% stake in RHB Cap will be eligible to vote for the deal. These are Aabar Investments (21.2%), OSK Holdings (9.9%) and minority shareholders (27.4%).
- The proposed merger involves swapping of RHB Cap with CIMB Group shares at the agreed share swap ratio of 0.72x (1 RHB Cap share for 1.38 CIMB Group shares) to acquire all assets and liabilities of CIMB Group. This route is governed under Section 176 of Companies Act. As reported by the press earlier, this will require 50% + 1 share of the eligible voters of RHB Cap to vote for and approve the deal. It will be different than if CIMB Group were to acquire all assets and liabilities of RHB Cap. Under the latter's route, it will require 75% shareholders' approval at RHB Cap's level.
- We took a closer look at the shareholding structure of RHB Cap pre- and post-merger and the agreed pricing for RHB Cap shares for the deal as seen in Table 1 below. With EPF abstained from voting, the probability of securing 50% + 1 share approval of RHB Cap shareholders for the deal is now lower.
- Nevertheless, we opine that there is still a possibility of securing the required threshold level of 50% + 1 share to approve the deal at RHB Cap level. With the exception of Aabar Investments which has been reported to have a higher cost of RM10.80 per RHB Cap share, we believe that the other shareholders eligible to vote are likely to benefit from the agreed valuation for RHB Cap shares at RM10.028 (PB multiple of 1.44x). It is a premium compared to the current share price of RM8.52 (PB multiple of 1.22x based on net assets per share as at 30th June 2014).

TABLE 1: Summary of pricing for shares of CIMB, RHB CAP and MBSB which have been agreed in principal

	CIMB	RHB Cap	MBSB
Net Assets ('Mil)	36,625	17,957	4,030
Number of shares ('Mil)	8,337	2,573	2,755*
Net asset per shares (RM)	4.28	6.97	1.50
Agreed price per share (RM)	7.24	10.028	2.82
PB multiple based on agreed price	1.70x	1.44x	1.91x

*Based on fully dilutive number of shares.

- The proposed merger is ROE dilutive in the immediate term as cost synergies are likely to be realized only over a longer term. Hence, we believe that investors taking a long term perspective are still likely to vote for the deal at RHB Cap level as the merged RHB-CIMB will likely be ROE accretive over a longer period of time.
- Also eventually, once the RHB Cap has been merged with CIMB Group, all assets of the latter will be transferred to the merged entity and CIMB Group shares will be delisted. With a larger asset base of the merged entity, we believe this will likely command a higher valuation than the current value of RM10.028 for RHB Cap. This should then be positive for the shareholders.
- With regard to MBSB, even with EPF abstained from voting, we expect 75% MBSB shareholders' approval to be secured for the deal. This is based on the attractive valuation of MBSB shares at RM2.82 for the deal (PB multiple of 1.91x) which was higher than our expectation.

Table 2: Changes to key shareholders' stake pre- and post-merger

Existing RHB Cap share capital @ 30/6/2014 :	2,572 mil shares
New shares to be issued for share swap with RHB Share valued at RM10.028 and CIMB Group shares at RM7.27. Share swap exchange: 1 RHB Cap share for 1.38 CIMB Group share.	6,041 mil shares
Enlarged share capital of RHB Cap:	8,613 mil shares
Aabar Investments' (Aabar) current shareholdings in RHB Cap (pre merger)	21.2%
Aabar's number of shares in RHB Cap	545 mil shares
Aabar's shareholdings in merged RHB-CIMB (post merger)	6.3%
OSK Holdings (OSK) current shareholdings in RHB Cap (pre merger)	9.9%
OSK's number of shares in RHB Cap	255 mil shares
OSK's shareholdings in merged RHB-CIMB (post merger)	2.9%
EPF's current shareholdings in RHB Cap (pre merger)	41.5%
EPF's number of shares in RHB Cap	1,067 mil shares
EPF's current shareholdings in CIMB Group (pre merger)	14.5%
EPF's number of shares in CIMB Group	1,209 mil shares
EPF's shareholdings in merged RHB-CIMB (post merger)	22.4%
Khazanah's current shareholdings in CIMB Group (pre merger)	29.6%
Khazanah's number of shares in CIMB Group	2,468 mil shares
Khazanah's shareholdings in merged RHB-CIMB (post merger)	20.6%

- Overall, we view that deal may still achieve the minimum threshold of shareholders' approval at RHB Cap level despite EPF being barred from voting. This is based on our expectation that investors will take on a longer term perspective in regard to the value creation of the merger deal. Hence, we revised our TP for CIMB Group to RM7.27 (previously RM7.70) which is in line with the valuation agreed for its shares under the proposed merger deal while our TP for RHB Cap shares remained at RM10.70 pegged to FY15 PBV of 1.4x. We maintain our NEUTRAL and BUY calls on CIMB Group and RHB Cap shares respectively. 

Kelvin Ong, CFA
kelvin.ong@midf.com.my / 03-21738353

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TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
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POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
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