A good move

PLASTIC packaging manufacturer Scientex Bhd this week launched a mandatory takeover of Daibochi Bhd to expand its flexible packaging business.

Investors will recall that Scientex is also in the property segment.

Earlier this month, the company admitted that there is an oversupply of residential houses priced above RM500,000. The group's new focus will be on units priced below RM300,000, it said.

It appears that the company's recent moves have gone down well with the market, with Scientex's share price on a general uptrend in recent weeks.

Its strategy to expand its packaging business makes sense amid the current US-China trade war and improving consumer sentiment globally.

Analysts say the trade war could present an opportunity for the firm to grab some market share from China companies.

In fact, Scientex has already said that it is seeing an uplift in enquiries from the US for its packaging products.

It's been reported that one of the main catalysts for the growing demand is the growth of the food and beverage industry in the region which requires heavy packaging. This brings us to the fact that when a company makes a good decision, sticking to what it is good at, shareholders will tend to be supportive.

Likewise, companies which make bad decisions will be met with fury.

Since 2001, Scientex's net profit and revenue have achieved fresh records every year.

The PE factor

PRIVATE equity, or PE as it is known in corporate lingo, provides much-needed capital to companies.

This investment often takes place prior to companies being taken public. The idea is for the PE professionals to not only provide money but also knowhow and connections, and inculcate better governance structures in companies so that they are primed for the capital market.

But there is a downside. Because PE funds are hard-pressed to exit at profits, they then serve up public flotations at high values.

And this seems to be the case with the two upcoming large initial public offerings (IPOs) coming to Bursa Malaysia early next year.

QSR Brands (M) Holdings Bhd, which operates the Kentucky Fried Chicken (KFC) and Pizza Hut chains, is reportedly looking to list at a price-earnings ratio (PER) of more than 30 times, while Leong Hup International Bhd that is involved in livestock feed manufacturing, egg production and poultry farming, at over 20 times earnings.

Both companies are returning to the stock market after having been taken private a few years ago.

With the exception of QL Resources Bhd and TPC Plus Bhd, the average PER for other poultry stocks is between 7.65 times and 15.32 times.

Meanwhile, Bursa's current PER value stands at 18.23 times.

Perhaps, the huge consumer play and growth story of these poultry-related stocks justify those lofty valuations. But the fact remains that there are cheaper listed companies for investors to pick from. Clearly, the PE element in both those deals has contributed heavily to the high values for their IPOs.

In the case of QSR, it is PE firm CVC Capital Partners Ltd, while for Leong Hup, it is Affinity Equity Partners (Singapore) Pte Ltd.

So, the issue is, did these PE firms bring so much value to the two companies to justify the high values?

That's what investors ought to look out for in the prospectus of these companies as they come onto the market.

Sondakh's RM2.6bil sweetheart deals

GOLDMAN Sachs is not the only foreign party that walked away with sweetheart deals under the former regime of Datuk Seri Najib Tun Razak.

Closer home is another group – the Rajawali Group of Indonesia – that is controlled by Tan Sri Peter Sondakh.

As details emerge following financial due diligence done in the Federal Land Development Authority (Felda) and Bank Pembangunan Malaysia Bhd, Sondakh's group of companies appear to hold the advantage in deals in which it would be hard for the Malaysian companies to recover their investments.

Felda is the most hit, following the purchase of 37% in PT Eagle High Plantations Tbk at a premium of 215%. The transaction was completed in May 2017 at a cost of RM2.25bil with financing coming from the federal government.

Although the federal government provided the financing via a bond issue, Felda is to repay the loans within three years on the assumption that Eagle High Plantations gets the Roundtable on Sustainable Palm Oil (RSPO) accreditation for its oil palm plantations.

If the RSPO accreditation is not obtained, then the Rajawali Group has to buy back the 37% block from Felda at 6% interest per annum.

However, what happens if the Rajawali Group is unable to fulfil its end of the obligations should Felda choose to exercise the option to sell the stake back?

Felda would be left holding a 37% block in a plantation in Indonesia, which it cannot control. Taking a legal suit is an option, but it would be a tedious process.

When Felda closed its books in December 2017, it incurred an impairment on investment to the tune of RM1.7bil due to the Eagle High Plantations stake.

Apart from the Eagle High Plantations deal, Sondakh partnered government companies to build and operate the St Regis Hotel in Langkawi and the Langkawi International Convention Centre.

Sondakh's companies have a 40% stake in both Nautical Resort Sdn Bhd and Garuda Suci Sdn Bhd. The other shareholders are Lembaga Pembangunan Langkawi and Aset Tanah Nasional – two entities that were under the Finance Ministry in the previous government.

Bank Pembangunan gave a total loan of RM304.29mil to build the hotel and convention centre. Both ventures are suffering losses and the debts have not been paid up yet.

Considering that government-owned entities control the major stake in the hotel and convention centre, they are most liable for the debts.

So, where is the risk for Sondakh in the deal?