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TWC offer turns more appealing

Shareholders expected to fully subscribe to TWS shares



P.K. Poh

PETALING JAYA: It's a fair wind that's blowing towards the Tradewinds group as a higher share price in Tradewinds (M) Bhd (TWS) currently has made the offer for sale of TWS shares an attractive one for the shareholders of Tradewinds Corp Bhd (TWC).

In a de-gearing exercise, TWC has offered to sell its entire stake of 53% in TWS to the former's shareholders at RM3.80 a share on the basis of 142 TWS shares for every 1,000 TWC shares held.

At TWS' closing of RM4.70 on Wednesday, it works out to a profit on paper of 90 sen, or 24%, for those who subscribe to the shares.

TWS' share price increase tracked that of subsidiary Tradewinds Plantation Bhd (TWP), whose share price has gained about 28% since early October when the group-wide exercise was announced. Prospects for further upside in TWS share price are also positive.

TWC shareholders are, therefore, expected to fully subscribe to the TWS shares. It is hoped that all would send in their acceptances because if they did not, the offer would lapse, and the shares would be offered to subscribers of excess shares.

First, they would, of course, have to vote on the exercise at an EGM on Thursday. The meeting will be held for TWC shareholders to vote on two proposals, namely, the offer for sale to its own shareholders of its TWS shares and the acquisition of 907 acres in Bandar Nusajaya, Johor for RM145mil cash.

The corporate exercise was initiated by TWC to address its borrowings, which stood at RM2.4bil at group level.

In addition, it is intended for TWC to "move from its diversified structure to one focused on

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Move will lower TWC debts to RM760mil

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property development and hotels," director and adviser P.K. Poh told StarBiz recently.

The plan involves a de-merger of TWC from the plantation interests held in TWS and TWP. In the process, the offer for sale of TWS shares would raise cash proceeds of about RM600mil for TWC.

Poh pointed out that while TWC currently had debts of RM2.4bil at group level, about half of that resided in TWS and TWP.

Hence, cash proceeds from the sale of TWS and the de-merger would lower TWC's debts to about RM760mil.

Earlier, there were reports that TWC explored the idea of selling all its hotels to reduce its debts. The company has since opted for the current de-merger plan to sell off its plantation interests instead.

"A lot of thought was put into the scheme, which will keep everything within the Tradewinds family," Poh said.

While TWC would lose its plantation assets, it would receive adequate value in the form of cash for them, he added.

Furthermore, TWC shareholders who subscribe to the TWS shares would directly own the plantation shares rather than through TWC, he added.

As for TWC, it would forego the revenue and profit contribution from the plantation division but, from a cash-flow perspective, part of the cash proceeds from the sale of TWS shares would be used to repay bank loans.

"That would give rise to interest savings of up to RM21mil a year, which is about equal to the dividends that TWC received from its stake in TWS," he said.

In terms of cashflow, therefore, the figure will not diminish. Dividends received from plantations are not high partly because TWC is two levels away from TWP where most of the plantations reside, although TWS also owns some plantations.

As TWC owned 53% of TWS, which in turn had 70% interest in TWP, TWC's effective stake in TWP was only 37%, Poh pointed out.

The location of the Nusajaya land was strategic as it "is smack in the middle of the Iskandar Development Region, on a road that connects to the Second Link to Singapore," said Poh, who retired from his post of managing director of Dijaya Corp Bhd earlier this year.

Dijaya is the developer of the Tropicana Golf & Country Resort and Damansara Indah Resort Homes in Petaling Jaya.