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Headline: PUC Minorities Should Not Be Shortchanged



PUC minorities should not be shortchanged

When ACE Market-listed PUC Bhd revealed that it has proposed to buy the remaining 67% stake in Pictureworks Holdings Sdn Bhd for RM167.5 mil, many were surprised with the higher price tag compared with the 33% stake it acquired six months ago.

PUC bought the 33% stake in the imaging services company for RM52.8 mil, or RM8.69 per share, via shares and cash. If going by the same purchase price for the 33% stake, PUC should fork out only RM107.2 mil for the remaining stake in Pictureworks. This works out to be 56% higher than what it paid for the same company just six months ago!

Interestingly, PUC is taking over Pictureworks from several vendors including its group managing director and

CEO Cheong Chia Chou, who is a major shareholder of both PUC and Pictureworks.

What has changed in the short period to warrant a much higher valuation for Pictureworks? Granted that the deal comes with a profit guarantee of RM25 mil and RM28 mil for the financial years ending Dec 31, 2019 and Dec 31, 2020 respectively. But is the profit guarantee structured in a fair manner to PUC's minority shareholders?

The purchase price represents a price-to-earnings (PE) multiple of about 9.43 times forward earnings based on the average profit guarantee of RM26.50 mil. In the event of a shortfall in profit, PUC will be paid the differential amount. Is this fair?

Instead, if Pictureworks fails to meet the profit guarantee amount, the purchase price for Pictureworks should

be adjusted accordingly.

For instance, if Pictureworks only managed to record a profit of RM20 mil in FY19 and RM23 mil in FY20, then the company should compensate PUC RM47.15 mil (RM5 mil in average profit shortfall for two FYs based on a PE of 9.43 times) instead of just RM5 mil for the profit shortfall.

Another concern is the cashflow position of PUC as it still needs to fork out a substantial amount in cash. As of Sept 30, 2018, its cash and bank balances stood at RM4.23 mil. For the 33% stake, PUC had to pay RM32 mil in cash on a staggered basis. Minorities should not have to fork out money again for a possible cash call for the deal.

Pictureworks may provide the much-needed boost for PUC but minorities should not end up with the short end of the stick. **FocusM**