

Private Placements and Minority Interests: The Philippine Case

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Presentation Outline

- Introduction
- Objectives of the study
- Methodology
- Findings
- Conclusion

Definition of Private Placement

- Section 1, Article II of the Philippine Stock Exchange (PSE) revised listing rules defines private placement as the sale of securities to less than twenty (20) persons.

Types of Private Placements

- New issuance of shares to less than 20 investors.
- Sale of substantial number of shares of existing investor to another investor
- Top-up placement and subscription agreement – is a type of private placement where the vendor or seller of the shares will subscribe to exactly the same number of shares at the same price they sold such shares to private investors.

Objectives of the Study

- To determine the impact of private placements on minority stockholders.
- To assess the adequacy of regulatory safeguards in protecting the interest of minority stockholders.

Methodology

- Gathered cases of equity private placements from Philippine listed companies from 2010 to 2015 based on disclosures in PSE and published news articles.
- Gathered stock market data from Thomson Reuters Eikon.
- Used “market-adjusted returns” model in measuring abnormal returns.

Methodology

- Identified applicable Philippine laws and rules related to private placements.
- Read published articles on private placements.

Data

18 private placements from 2010 to 2015 coming from:

11 PSE-indexed stocks (15 private placements)

3 non-PSE-indexed stocks

Funds generated from these private placements: PHP147.6B

	No. of Private Placements	Sector Index	Size of the Offer in Millions PHP	Weight in PSEI as of January 8, 2016
PSEi-Indexed Stocks				
Ayala Corporation	1	Holding Firm	12,400	5.85%
Alliance Global, Inc.	1	Holding Firm	7,860	2.21%
Ayala Land, Inc.	1	Property	16,000	8.18%
First Gen	1	Industrial	7,500	0.86%
GT Capital	1	Holding Firm	9,848	3.54%
JG Summit Holdings, Inc.	2	Holding Firm	14,275	5.83%
Megaworld	1	Property	10,725	1.43%
Metro Pacific Investments Corp.	3	Holding Firm	23,629	2.34%
Petron Corporation	1	Industrial	5,405	0.49%
SM Investments Corp.	1	Holding Firm	6,525	10.06%
Universal Robina Corp.	2	Industrial	<u>19,440</u>	<u>5.84%</u>
			<u>133,607</u>	<u>46.63%</u>
Non-PSE Indexed Stocks				
Global Estate Resorts, Inc.	1	Property	5,650	
Nihao	1	Mining and Oil	388	
RCBC Bank	1	Financial	<u>7,950</u>	
			<u>13,988</u>	

PSEi-indexed Subsidiaries	Parent Company	Sector Index	Weight in PSEI as of January 8, 2016
Banco De Oro (BDO)	SM Investments Corp.	Financial	5.38%
Bank of the Phil. Islands (BPI)	Ayala Corporation	Financial	5.21%
Energy Development Corp. (EDC)	First Gen	Industrial	1.77%
Emperador (EMP)	Alliance Global, Inc.	Industrial	0.92%
Globe Telecom (GLO)	Ayala Corporation	Services	1.73%
Metrobank (MBTC)	Financial	Financial	3.91%
MERALCO (MER)	Metro Pacific Investments Corp.	Industrial	2.24%
Robinsons Land Corp. (RLC)	JG Summit Holdings, Inc.	Property	1.35%
SM Prime Holdings, Inc.	SM Investments Corp.	Property	<u>6.22%</u>
Total			<u>28.73%</u>

Rules and Regulations on Private Placements

1. Section 39 of the Corporation Code of the Philippines (Batas Pambansa Bilang 68)
2. Article V of the Revised Listing Rules of the Exchange (PSE) – Additional Listing of Securities
3. Interpretation of the Rule on Additional Listing of Shares for Placing and Subscription Transaction
4. Section 6 of “The Corporate Governance Guidelines for Companies Listed on the Philippine Stock Exchange” which enumerates the recommended measures on protecting minority interests
5. Revised Code of Corporate Governance which applies to corporations that sell equity or debt securities to the public

Findings

Of the 18 samples, 4 were offered at a premium compared to closing prices at $t = -1$. (MEG, GERI, URC (2012) and RCBC) while 14 were offered at a discount.

In the US, private placements made from 1995 to 2007 were offered at an average discount of 12.87%

The 18 samples had an average discount of 5.33% based on the closing prices a day prior to announcement date and PP offer price. Taking out those offered at premium and taking out Ni which was offered at 55% discount, the average discount would be 6.91%.

On the announcement date ($t = 0$), average negative excess return was 1.93%

Cumulative negative excess return for 10 trading days was 2.97%

	PP Announcement Date	PP Offer Price	Stock Price a Day Prior to Announcement	PP Discount
PSE Index Stocks				
Ayala Corporation	November 20, 2014	660.00	717.00	-7.95%
Alliance Global, Inc.	July 11, 2014	28.30	29.80	-5.03%
Ayala Land, Inc.	January 12, 2015	33.00	35.00	-5.71%
First Gen	January 21, 2015	25.25	26.00	-2.88%
GT Capital	February 3, 2015	1,130.00	1,180.00	-4.24%
JG Summit Holdings, Inc. -1	January 21, 2015	61.00	70.05	-12.92%
JG Summit Holdings, Inc. -2	February 2, 2012	25.00	28.35	-11.82%
Megaworld	May 24, 2013	4.29	3.93	9.11%
Metro Pacific - 1	February 10, 2015	4.90	5.24	-6.49%
Metro Pacific -2	January 23, 2013	4.60	4.91	-6.31%
Metro Pacific -3	July 9, 2011	3.60	3.79	-5.01%
Petron Corp.	March 28, 2014	11.50	13.40	-14.18%
SM Investments Corp.	August 2, 2013	900.00	961.50	-6.40%
Universal Robina Corp. -1	October 4, 2013	115.00	116.00	-0.86%
Universal Robina Corp. - 2	June 4, 2012	62.00	61.00	1.64%
Non-PSE Indexed Stocks				
Global Estate Resorts, Inc.	June 21, 2013	2.26	1.91	18.32%
Nihao	December 30, 2010	1.35	2.97	-54.55%
RCBC Bank	September 30, 2014	64.00	53.60	<u>19.40%</u>
Average discount for all				-5.33%
Average discount without those offered at premium				-10.31%
Average discount without Nihao and those offered at premium				-6.91%

	Excess Returns at Announcement Date	Cum. Excess Returns (5 Days After)	Cumulative Excess Return (10 Days After)
PSE Index Stocks			
Ayala Corporation	-4.87%	-4.09%	-4.68%
Alliance Global, Inc.	-3.71%	-7.80%	-14.12%
Ayala Land, Inc.	-2.73%	-2.35%	-4.12%
First Gen	0.29%	16.02%	12.90%
GT Capital	1.93%	0.52%	-0.80%
JG Summit Holdings, Inc.	-0.50%	-11.10%	-10.87%
	-1.73%	-7.83%	-10.06%
Megaworld	2.13%	-3.90%	3.21%
Metro Pacific Investments Corp.	-4.39%	-3.61%	-2.45%
	-2.04%	3.58%	1.08%
	-5.37%	-7.17%	-5.93%
Petron Corporation	-12.17%	-11.19%	-7.47%
SM Investments Corp.	-6.67%	-12.04%	-18.98%
Universal Robina Corp.	1.67%	1.53%	4.24%
	0.12%	6.43%	0.39%
Non-PSE Index Stocks			
Global Estate Resorts, Inc.	-3.48%	-8.16%	-8.67%
Nihao	6.02%	4.69%	8.00%
RCBC Bank	0.78%	2.04%	4.94%
Average Excess Returns	-1.93%	-2.47%	-2.97%
Average excess returns without those offered at premium	-2.45%	-2.92%	-3.80%
Average excess returns without Nihao and those offered at premium	-3.10%	-3.50%	-4.71%

	Announcement Date	Cum. Excess Returns (5 days after)	Cum. Excess Returns (10 days after)
Average excess returns in %	-1.93%	-2.47%	-2.97%
Estimated Loss to Minority Stockholders in PHP	29,183,001,516	37,348,193,650	44,908,556,736
Average excess returns without those offered at premium in %	-2.45%	-2.92%	-3.80%
Estimated Loss to Minority Stockholders in PHP	31,553,285,365	37,606,364,598	48,939,789,546
Average excess returns without Nihao and those offered at premium	-3.10%	-3.50%	-4.71%
Estimated Loss to Minority Stockholders in PHP	39,888,393,339	45,035,282,802	60,604,623,428

Day	Mean	t-stat	CA	t-stat
1	-2.45%	(0.56)	-2.45%	(2.08)
2	-0.64%	(0.14)	-3.09%	(1.83)
3	0.27%	0.15	-2.82%	(1.36)
4	-0.89%	(0.85)	-3.71%	(1.54)
5	0.37%	0.19	-3.34%	(1.24)
6	0.42%	0.19	-2.92%	(0.99)
7	-0.08%	(0.05)	-2.99%	(0.94)
8	0.08%	0.07	-2.91%	(0.85)
9	-0.69%	(0.30)	-3.60%	(0.99)
10	0.43%	0.21	-3.17%	(0.83)
11	-0.64%	(0.43)	-3.80%	(0.95)

Findings

- Pre-emptive rights or the rights of stockholders to subscribe to new share issuances can be waived as stated below in Section 9 of the Corporation Code of the Philippines (CCP - Batas Pambansa Bilang 68):

Section 39. Power to deny pre-emptive right. All stockholders of a stock corporation shall enjoy pre-emptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, **unless such right is denied by the articles of incorporation or an amendment thereto**: Provided, that such pre-emptive right shall not extend to shares to be issued in compliance with laws requiring stock offerings or minimum stock ownership by the public; or to shares to be issued in good faith with the approval of the stockholders representing two-thirds (2/3) of the outstanding capital stock, in exchange for property needed for corporate purposes or in payment of a previously contracted debt.

Findings

- The disclosures provided by companies conducting private placement were insufficient.

Section 4 of Article V requires the disclosures of the details of the private placements including **the timetable for its execution, aggregate value of the consideration, and the basis upon which the consideration was computed.**

Section 3 of Interpretation of the Rule on Additional Listing of Shares for Placing and Subscription Transaction is even more explicit as regards its comprehensive corporate disclosure requirements for these transactions which include, among others, the number of shares to be issued and the placing price of the shares.

Findings

- PSE issued a set of corporate governance guidelines for listed companies. The protection of the minority stockholders are found in Section 6 of the guide. Nowhere in these guidelines was the protection of minority stockholders from private placements mentioned.

Findings

- Non-controlling interests are not protected based on guidelines on corporate governance – refer to guideline no. 6 of PSE Corporate Governance Guidelines. Nowhere in this guideline were non-controlling interest protected from private placements.