

Quarz Capital's recent trail of activist calls

ACTIVIST investor Quarz Capital Management has resurfaced, having built a substantial stake in Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (Sabana Reit) and arguing that the buyout bid from ESR-Reit is "too low". *The Business Times* (BT) looks at some of its recent activist engagements with listed companies in Singapore. **BY RACHEL CHIA**

Sabana Reit, ESR-Reit

Quarz raised its stake in Sabana Reit to 5 per cent last Thursday amid ESR-Reit's offer to buy out unitholders of Sabana Reit. Quarz told BT that the implied offer price – which represents a 26 per cent discount to Sabana Reit's book value – is too low.

"Unless the management of Sabana Reit's manager shows that they are willing to sell their personal properties at a 25 per cent discount to valuation, we are puzzled why they would propose to merge Sabana Reit at a 25 per cent discount to book value," it said.

Quarz last November called for the merger of the two real estate investment trusts (Reits), arguing that ESR Cayman's cross-ownership of the managers of both Reits puts Sabana Reit at a disadvantage when investment mandates overlap. At that point, Quarz said it was – together with its affiliates – one of the top five unitholders of Sabana Reit, though it did not disclose its stake then.



Teckwah Industrial

Quarz, the fourth-largest shareholder of Teckwah with a more-than-6 per cent stake, last Tuesday said the packaging, printing and logistics firm should return more cash to shareholders as dividends, to address what Quarz sees as a lack of cash discipline.

In an open letter addressed to the board and management, Quarz noted that the group's net profit had fallen to a 10-year low of S\$7.1 million in 2018.

"The company cites a challenging environment and has continuously emphasised the need to invest and retain a strong cash position which potentially results in the low dividend payout to shareholders," it said.

"Yet, while minority shareholders with about 70 per cent shareholding received a normalised dividend payout of S\$2.5 million per year, related family members of and including the largest shareholder (Chua Seng Tek Holdings) paid themselves estimated compensation and dividend of more than S\$3.5 million," it added.

Quarz hiked its stake in Teckwah to above 5 per cent in December last year, and last added to its position in April.

In a Tuesday statement responding to Quarz, Teckwah stood by its cash management policy.

Ascendas Hospitality Trust (A-HTrust), Ascott Reit

Last April, Quarz called for the merger of CapitalLand's two hospitality trusts, saying A-HTrust was undervalued due to its "suboptimal size", and should be merged with larger peer Ascott Reit.

Quarz said it has been a long-term unitholder of A-HTrust, but did not disclose its stake.

In December, A-HTrust and Ascott Reit completed the merger to form a stapled group, Ascott Residence Trust (ART). The new ART stapled securities began trading on Jan 2 this year.



Singapore Post (SingPost)

Quarz, which said in 2019 it held a long position on SingPost, last April recommended the sale of SingPost's US e-commerce businesses, Jagged Peak and TradeGlobal, to a strategic buyer. An earn-out clause could also yield better recovery of the acquisition costs, Quarz said.

The postal company tried to sell the struggling subsidiaries, which it first took stakes in in 2015. In September 2019, it said its six-month sale process for the units had closed with "no acceptable offers".

With that, Jagged Peak and TradeGlobal have filed for voluntary petitions for relief under Chapter 11 of the US Bankruptcy Code.

SingPost no longer includes Jagged Peak and TradeGlobal in its financial reporting. For the quarter ended June 30, 2019, the unaudited consolidated loss arising from the two subsidiaries was around S\$6.9 million.



Sunningdale Tech

In March 2019, Quarz urged high-precision plastic components maker Sunningdale Tech to increase shareholder value by reporting one-off costs separately from core net profit in its income statement, in order to give investors a better sense of the company's underlying fundamentals.

Quarz had said it has a less-than-5 per cent stake in Sunningdale Tech.

The fund added that combined with its affiliates, it has built up a "sizeable position" in the company.

The board of Sunningdale Tech later said it would give the recommendations "appropriate consideration". It added that it believed its "unwavering focus" on business fundamentals would bring "more enduring long-term value accretion to our shareholders".

In December 2018, the fund also called for Sunningdale Tech to return more cash to shareholders by distributing at least 60 per cent of core net income in 2019 as dividends.

Sunningdale Tech's board then said it welcomes constructive feedback.

"The recommendations made in the open letter will receive the appropriate consideration... in our continued effort to enhance shareholder value," it said.