

Alpine/Alps buyout price undervalued compared with Clarion/Faurecia deal, says shareholder Oasis

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- Oasis supports merger at 'the right price'
- Alps, Alpine should look for third-party buyers
- Oasis estimates 43% investors could reject merger

Alps Electric's [TYO: 6770] valuation of **Alpine Electronics** [TYO: 6816] for its proposed buyout should be benchmarked to Faurecia's [EPA:EO] JPY 2,500 a share acquisition of Clarion [TYO: 6796], which was announced today (26 October), according to Phillip Meyer, chief operating officer of Alpine investor **Oasis Management**.

The sale of car navigation company Clarion shows how undervalued Alpine is under Alps' current proposal to acquire the remaining 59.57% it does not own through a share swap, said Meyer. Alpine shareholders would receive 0.68 Alps shares for each Alpine share they own under the proposal.

Based on Clarion metrics, Alpine should be acquired for between 2.5x and 6x Alps' current offer, the COO said.

Hitachi [TYO: 6501] announced on Friday afternoon that it would sell its 63.8% stake in Clarion to France-based auto parts maker Faurecia at JPY 2,500 a share for JPY 89.9bn (USD 801m).

"In other words, Alps should be paying between JPY 4,300 and JPY 10,700 per share for Alpine, far higher than Alps' current JPY 1,700 offer," Meyer said, basing on the Clarion valuation calculated from a news article published on Friday morning.

Alps, an electronic component manufacturer that holds 40.43% of Alpine, said on 27 July 2017 it would acquire the remaining publicly held shares of the automotive components manufacturing subsidiary effective 1 January 2019.

The Alpine share price closed 0.55% higher at JPY 1,833 in Tokyo on Friday, resulting in a negative 7.26% spread versus the implied offer price of JPY 1,700. Alps ended the day at JPY 2,500, down 1.81% from the previous day's close.

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Oasis, a Hong Kong-based activist which holds a 9.9% stake in Alpine, reckons that Alps and Alpine should look for a third-party buyer because there will be multiple third parties who will pay a premium to Alpine shares, as opposed to a discount to the shares Alps is offering.

“Oasis is supportive of the Alps merger but not at this price,” Meyer said. “Alps is offering a price that is at a discount to what we believe is Alpine’s true value.”

According to Oasis’ analysis, Clarion’s EV/EBITDA is 10.1x compared with 1.5x for Alpine, a discount of around 85% to Clarion’s multiple. Alpine’s forecast net income for the fiscal year ending March 2019 is 6x Clarion’s. Alpine’s balance sheet is far better than Clarion’s, Meyer said.

“Alps’ offer for Alpine is far too low and massively undervalued. If Alpine continues with this price, Oasis will reject the planned merger proposal and call all the other minority shareholders to reject the offer,” he noted.

Oasis estimated that some 43% of the Alpine shareholders will reject the merger at its EGM in December, based on results of the June AGM, conversations it has had with other shareholders, and information it has received from the people in the market, according to Meyer.

It is calling for a JPY 300-a-share special dividend at Alpine’s upcoming EGM on condition that the merger is rejected. Alps has already said if the merger is successful it will use Alpine’s excess cash to conduct a share buyback, recognizing that Alpine has excess cash.

“So we are simply putting a scenario where whether the merger is successful or not, there should be a correct use of this excess cash to return to investors,” the COO said.

However, if the merger is approved, appraisal rights lawsuits could be the next option, Meyer said. Oasis plans to meet with its legal counsel in Tokyo this week to review and consider all of its options they may have.

Oasis is scheduled to sponsor an Alpine Investors’ Day on 7 November at the Shangri-La Hotel in Tokyo: the first of its kind in Japan. Meyer said Seth Fischer, the Oasis chief investment officer, and Masaharu Hino, former commissioner of Financial Services Agency and currently special adviser to Oasis, will speak at the investors’ day.

The objective of the event is to encourage dialogue among Alpine investors to discuss issues and ask questions. Oasis’ valuation adviser will take questions from participants.

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Shinji Yamazaki, senior manager of Alpine's Finance and Public Relations Department, declined to comment whether Alpine is undervalued in the light of the Clarion deal because he does not know details of the Clarion deal.

Oasis also suggested that Alpine sell its holding of 3.6m Honda Motor [TYO: 7267] shares valued at about JPY 10.7bn. However, Yamazaki said it was not possible to dispose of them immediately because the automotive company is an important client for Alpine.

by Norie Hata in Tokyo

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