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Issues on the Valuation of Tender Offers in the Philippines

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The announcements of tender offers have almost always raised several concerns, such as issues on undervaluation, non-availability of fairness opinion reports, and insufficient action on the part of the regulators. This paper discusses a number of such issues related to the valuation methods used in determining tender offer prices, especially those leading to the delisting of the shares. These issues may include the reasonableness of the assumptions used in the valuations. Aside from evaluating the different theoretical valuation models, this study also examines other concerns related to these tender offers such as the independence of the valuation entities. As a result, this study therefore presents suggestions towards addressing these aforementioned concerns that are being raised for regulators to consider.

Keywords: tender offer prices, stock prices, valuation methods, securities regulations

1 Introduction

Tender offer is defined as a:

> …publicly announced intention by a person acting alone or in concert with other persons (hereinafter referred to as "person") to acquire outstanding equity securities of a public company as defined in SRC Rule 3, or outstanding equity securities of an associate or related company of such public company which controls the said public company.
> - Section 19.1.8 of the Implementing Rules and Regulations (IRR) of the Securities Regulation Code (SRC) (SEC, 2015, p. 45)

Mandatory tender offers are conducted when a person or group of persons acting in concert, intends to acquire 35% of a public company in one or more transactions within a period of 12 months (Section 19.2 of IRR of SRC) (SEC, 2015, p. 45). Mandatory tender offer is also conducted when a company is voluntarily delisting from the stock market (See Figure 1. Tender Offer Process Leading to Voluntary Delisting).

1.1 Complaints on Tender Offers Leading to Delisting

Complaints generally arise when tender offers leading to delisting of publicly listed companies at the PSE are made. Common complaints are related to undervaluation of tender offer prices, non-availability of fairness opinion reports, and the seemingly insufficient courses of action from the regulators to protect small investors (See Table 1. Summary of Complaints on the Undervaluation of Tender Offer Prices). For the tender offerors or bidders, it is in their interest to bring down the tender offer prices because this will reduce the cost of the offer. Unfortunately, the bidders also represent the controlling stockholders who can exert control over the members of the board of directors and, more crucially, the voting shares. Given the ownership structure of these companies, only the regulators can potentially protect the interest of the small investors.

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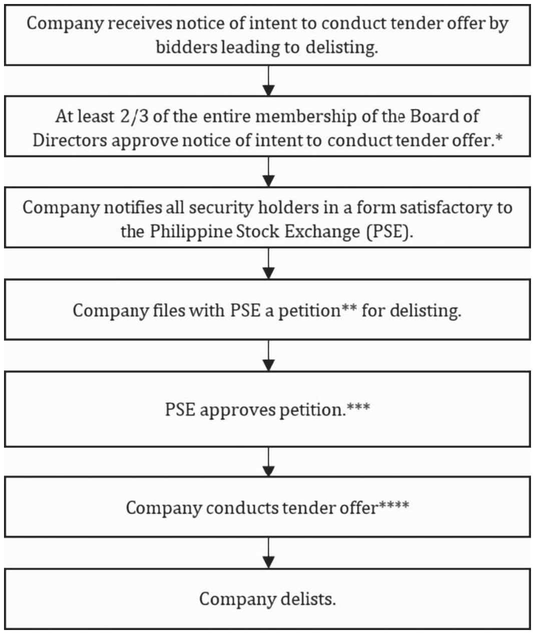
Figure 1. Tender Offer Process Leading to Voluntary Delisting (PSE, 2020)



*In addition to the board approval, the number of votes against the delisting proposal should not be more than 10% of the total outstanding and listed shares of the listed company. This is approved during a stockholders' meeting.
**Petition for delisting includes proposed tender offer terms and conditions at least 60 days in advance of the date when delisting shall become effective.
***PSE generally approves petition for delisting provided that the company applying for delisting does not have any unpaid fees or penalties due to the exchange.
****PSE requires company/ bidders to submit a fairness opinion or a valuation report, stating that from a financial point of view of the person making such opinion/report based upon certain procedures followed and assumptions made, the terms and conditions of the tender offer are fair. The bidders must obtain at least 95% of the issued and outstanding shares of the listed company.

Table 1. Summary of Complaints on the Undervaluation of Tender Offer Prices[1]

Company	Complaints
Liberty Telecoms (LIB)	Tender offer price set at PHP2.20 per share. The main argument for the undervaluation was the transfer of the 700 MHz frequency in March 2015 from TORI, LIB's wholly-owned subsidiary, to Bell Telecommunications Philippines, Incorporated, an affiliated company without proper disclosure (Lazo, 2016). The disclosure was only made a week before the conduct of the tender offer in 2016, more than a year after the transfer was made. A local brokerage firm valued LIB at PHP5.02 per share if the frequency was still with LIB.
Melco Resorts and Entertainment (Philippines) Corporation (MRP)	Tender offer price set at PHP7.25 per share. Disappointed investors believed that this tender offer price was unfair, especially when compared to its private placement price in 2013 at PHP14.00 per share (Francia, 2018, para. 4). Stock market analysts thought that the offer price was below the comparable gaming companies in the Philippines and Macau (Loyola, 2018, para. 9). They also believed that the tender offer price was discounted when compared to

[1] Except for MPI, the complaints stated in this table were based from the article Regulatory Issues on Tender Offers Leading to Delisting in the Philippine Stock Market (Cayanan, 2020).

Company	Complaints
	the consensus fair value estimate of MRP given its expected turnaround both in revenues and profits (Loyola, 2018, para. 10). MRP reported a net income of PHP1.89 billion in the first six months of 2018, more than 430% higher over the same period in 2017 (Francia, 2018, para. 9). "They did their [FOO[2]] at PHP14.00, and now that they are earning, they would price it at almost 50 percent lower," Jervin De Celis, an equities trader from Timson Securities, said (Ballesteros, 2018).
Travellers International Hotel Group, Incorporated (RWM)	Tender offer price set at PHP5.50 per share. RWM had an IPO in 2013 at PHP11.28 per share. PSE director Vivian Yuchengco made the following statements during her interviews in ANC: There is no premium in the tender offer price in the delisting of Resorts World operator Travellers International. Tender offer price for the delisting is currently at P5.50 compared to its original initial public offering price (IPO) of P11.28 in 2013. That is prompting the stock exchange to review our delisting rules because you know the ones who suffer are the small investors like now there's about 10 percent left in the Resorts World. We weren't aware of the delisting until it was announced, and there were a lot of media saying they've lost 51%, they've lost so much money and then all of a sudden, they're delisting. So, I really don't know how to tighten the delisting rules on that but we're looking at other countries to see how do they handle this type of delisting. - ("PSE eyes review," 2019, paras. 2 - 5)
Lopez Holdings Corporation (LPZ)[3]	Tender offer price set at PHP3.85. When tender offer was conducted, LPZ had an effective 34.6-percent interest in First Gen Corp. which had a current market capitalization of PHP116 billion at that time. This implied that First Gen was worth around PHP40 billion to LPZ. With LPZ's 4.54 billion shares outstanding, this was equivalent to close to PHP9 per share, much higher than the delisting tender offer price of P3.85 per share (Dumlao-Abadilla, 2021a). The estimated PHP9 per share did not include the other investments of LPZ, e.g. ABS CBN and Rockwell Land Corporation.
Metro Pacific Investments Corporation (MPI)	Tender offer price set at PHP4.63 per share. Some equity analysts find the price low. April Tan, COL Financial Head of Research, said: The tender offer price represents a steep 54 percent discount to our net asset value estimate for MPI and 47 percent discount to our fair value estimate for the stock. Furthermore, the tender offer price is at a 5.5 percent discount to the market value of MPI's 47.5 percent stake in Meralco of P4.90 per share. As such, from a valuation perspective, we deem the tender offer price of P4.63 per share to be too low. - (Loyola, 2023, para. 11 - 12) According to Abacus Securities, "the tender offer price is about 34 percent to 35 percent lower than the estimated book value of MPIC at end of the first quarter of 2023" (Loyola, 2023, para. 9).

[2] Follow-on-offer.

[3] LPZ initially planned to delist LPZ. However, after the announcement was made, the management decided to reduce the number of shares that would be subjected to tender offer and decided to keep the company listed.

The availability of fairness opinion reports related to these tender offers is another concern because these are not generally available.[4] Without these reports, analysts and investors who want to determine the bases for setting the tender offer prices were at a loss. The objectivity of these reports is another issue because the company or the bidders planning to conduct tender offers hire the valuation entities. Combined, this oftentimes forces external commentators, analysts, and investors to resort to their own means of evaluating whether or not these tender offers are indeed reasonable. In turn, this may question the trustworthiness and the reliability of whatever publicly available information there are out there related to the tender offer in question.

However, even if the valuation entities are hired by the PSE, they may still have to rely on the representations of management regarding critical assumptions on the revenue and expense forecasts that may be crucial for some valuation methods like the discounted free cash flow models.[5] Given the asymmetry of information, the management has the upper hand in influencing the assumptions and the disclosures that will be provided to the public even before the actual announcement of the tender offer plans.

"A lot of people were agitating the PSE to hire another fairness opinion provider to validate, but we didn't want to do it because valuation is… an art, not a science. We can be valuing the same company, but we come up with different results," said Ramon Monzon, PSE president and chief executive officer (CEO) when asked about the low tender offer price of Melco Resorts and Entertainment Philippines Corp. (MRP) way back in 2018 (Ballesteros, 2018).

While there were some tender offers that were more acceptable to the investing public, the case of MRP was not the first time that concerns were raised on the fairness of tender offer prices. In the past, complaints were also raised against the tender offer prices of Liberty Telecoms Holdings, Incorporated (LIB) and Travellers International Hotel Group, Incorporated (RWM) (Cayanan, 2020). Recently, there are also complaints regarding the tender offer price of MPI that also announced to have voluntary delisting.

Amidst these complaints, the regulators have done little to protect the interest of the small investors. Small investors are forced to tender their shares when faced with the situation because subsequent disposal of shares of a delisted company will be a challenge due to liquidity problems. As a consolation, the PSE came up with improved tender offer rules for voluntary delisting in 2020. According to the PSE, the approval to delist should be made by at least 75% of the outstanding and listed shares of the company, and objection against the delisting should not be more than 10% of the outstanding and listed shares. This is a very significant revision from the original provision where it only required a simple majority from the board of directors. Setting a 10% objection threshold is a very good development. The problem, however, is that small investors are generally fragmented. Consolidating their votes to go against the controlling stockholders require significant resources to coordinate amongst themselves to establish a credible opposition voice.

In this study, the issues related to the different valuation methods used in setting tender offer prices are analyzed and discussed. These include the discounted cash flow model, price to earnings ratio (PER), price to book ratio (P/B ratio), the net asset value (NAV), and the volume weighted average price (VWAP). This paper also examines the issues related to the independence of the valuation entities that provide fairness opinions.

2 Objectives of the Study

Amidst this background, this paper has the following objectives:

1. To document the issues related to the valuation methods used in tender offers as applied to listed Philippine companies.
2. To determine the problems with the existing system where the valuation entities are hired by the tender offerors.

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[4] It is available for some companies, e.g. EDC and LPZ (but for LPZ, the delisting did not push through).

[5] These revenue and expense forecasts are also important for market approach valuation methods that include the price-to-earnings ratio (PER) because forward PERs are generally used by analysts in valuing a stock using this method.

3. To recommend measures that will improve the process of valuing tender offers in the Philippines to better protect minority stockholders.

Analyzing the issues related to the valuation of tender offers can have policy implications that will hopefully mitigate the complaints and will lead to fairer tender offers in the future.

3 Review of Literature

> The delisting process has the most negative impact on the small investors. There is evidence that agency problems and insiders' interests play into the decision to go dark and that, at least for some firms, cost savings are not the only consideration. For minority investors, delisting is "the final nail in the coffin for a stock". Once they are no longer publicly traded, the shares become practically worthless. Many investors have argued that this rule is detrimental to shareholders since it makes it too easy for companies to withhold financial information (p.4). However, current U.S. legislation doesn't provide effective tools for their protection (p. 34) - (Khort, 2014)

There are three common approaches to valuation. These are (1) the income approach that includes the discounted cash flow (DCF) methods, (2) the market approach that includes the price earnings ratio (PER) and other relative valuation methods, and (3) the asset-based approach that is initially based on book values and later adjusted for the fair market values. In 2015, a survey was conducted by KPMG to determine the valuation methods used in the Australian market. It was participated by 29 respondents composed of representatives from accounting firms, investment banks, large corporations, valuation boutiques, and infrastructure funds. The results show that the income approach and the market approach were equally popular while a few considered the use of the asset-based approach ("Australian Valuation," 2015).

The DCF method is based on a simple proposition:

> The value of an asset is not what someone perceives it to be worth but it is a function of the expected cash flows on that asset. Put simply, assets with high and predictable cash flows should have higher values than assets with low and volatile cash flows (Damodaran, 2006, p. 4). This is a valuation method commonly used for going concern companies.

Damodaran (2006, p. 6), however, thought that using DCF is in some sense an act of faith, believing that every asset has an intrinsic value that can be estimated by looking at an asset's fundamentals. Intrinsic value is the "value that would be attached to an asset by an all-knowing analyst with access to all information available right now and a perfect valuation model." This analyst does not exist and therefore, there is no way to find out if the DCF valuations are close to the mark or not (Damodaran, 2006, p. 6). DCF has four variants: (1) cash flows are discounted at risk-adjusted discount rate, (2) expected cash flows are adjusted for risk to arrive at certainty equivalent cash flows and are discounted at risk-free rate, (3) the business is valued first without debt and subsequently adjusted for the marginal effects on value due to borrowing (adjusted present value approach), and (4) a business is valued based on the excess returns it is expected to generate from its investments (Damodaran, 2006, p. 7).

In the DCF valuation, the terminal value may account for majority of the computed value of a stock. However, there are criticisms that terminal value computations can be manipulated. Damodaran in 2012 further explained that:

> This is because analysts either use multiples to get these values or because they violate one or both of two basic propositions in stable growth models. One is that the growth rate cannot exceed the growth rate of the economy. The other is that firms have to reinvest in stable growth to generate the growth rate. In fact, as we showed earlier in the chapter, it is not the stable growth rate that drives value as much as what we assume about excess returns in perpetuity. When excess returns are zero, changes in the stable growth rate have no impact on value (p. 245).

In an asset-based valuation, the focus is primarily on the assets in place. Afterwards, the value of each asset is estimated separately. The value of the business is estimated by adding the resulting individual asset values. "For companies with lucrative growth opportunities, asset-based valuations will yield lower values than going concern valuations" (Damodaran, 2006, p. 50).

The book value can be a reasonable proxy for mature companies predominantly invested in fixed assets, but this may not be true for high growth companies that are expected to generate excess returns (Damodaran, 2006). Benjamin Graham, who was dubbed as the father of value investing, and considered by Warren Buffet as one of his greatest teachers at Columbia Business School, considered a stock cheap if its market price falls below its book value. This was one of the methods he used in identifying undervalued companies. However, the problem with book value is that it ignores the effects of profitability and opportunities from reinvestments. The low market valuation may also be a reflection of the company's poor fundamentals (Piper & Fruhan, 1981).

Relative valuation methods like PER are useful, but only if used with considerable care and caution. An analyst must understand the reasons that justify the particular price earnings multiples. For example, a high PER may be justified by higher earnings prospect (Piper & Fruhan, 1981). Damodaran identified the following as key determinants of PER: expected growth rate in earnings per share, cost of equity, and the payout ratio (Damodaran, 2006). However, one of the problems in using relative valuation methods is the identification of comparable companies.

> A comparable firm is one with cash flows, growth potential, and risk similar to the firm being valued. It would be ideal if we could value a firm by looking at how an exactly identical firm - in terms of risk, growth and cash flows - is priced – (Damodaran, 2006, p. 65)

A common approach in identifying comparable companies is to look for companies coming from the same sector.

> The implicit assumption being made here is that firms in the same sector have similar risk, growth, and cash flow profiles and therefore can be compared with much more legitimacy. This approach becomes more difficult to apply when there are relatively few firms in a sector. - (Damodaran, 2006, p. 65)

Regarding the tender offer price leading to delisting, the rules in selected Asian countries are listed below for the sake of comparison:

Thailand ("A global guide," 2020, p. 98):

The tender offer price must not be lower than one of the following prices:

a. the highest acquired price that: (i) the offeror; (ii) related person of the offeror; (iii) a person acting in concert with the offeror; or (iv) related person of (iii) has paid to acquire the shares within 90 days before commencement of the tender offer
b. the five-business day weighted average market price before the board of directors of the listed company approves the delisting
c. the net total asset that is marked to market
d. the fair price appraised by an independent financial adviser

Indonesia ("A global guide," 2020, p. 60):

The minimum offer price must be higher than the prices mentioned below:

a. the highest market price of the relevant shares on the Indonesian Stock Exchange (IDX) in the last 90 days before the announcement of the independent shareholders meeting (which contains the taking private plan)
b. the nominal/par value
c. the highest price reached in the regular market during the two-year period before the announcement of the independent shareholders' meeting (adjusted for any changes in nominal value of the shares in the last two years), plus a premium in the form of a return on investment over the last two years, calculated as the shares' initial public offering price multiplied by the average of the three-month Indonesian Central Bank certificate (SBI) rate, or the interest rate of other equal government bonds that prevails when the approval from independent shareholders is obtained

d. the fair value based on an appraisal by an independent registered OJK[6] appraiser that is appointed by the public company, where the appointment and the value are approved by the independent shareholders

Japan (“A global guide,” 2020, p. 63):

There is no legal restriction on the minimum or maximum offer price. The common valuation process in a take-private transaction is as follows:

a. The bidder performs its valuation of the target and provides for the rationale behind the determination of such offer price in the tender offer registration statement (“Tender Offer Registration Statement”)
b. The target obtains its own valuation from an independent third-party appraiser to examine whether the price offered by the bidder is fair and reasonable. The target’s position statement (“Target Position Statement”) must contain an opinion of the target’s board as to whether the board will support the tender offer to be launched by the bidder and recommend that the target’s shareholders tender their shares in the tender offer.

These provide very interesting insights as to the strengths and weaknesses of the current systems in the Philippines compared to these Asian examples. As observed, there are several layers in the processes of coming up with a tender offer price, especially for the purposes of delisting. In other words, aside from the aforementioned valuation methods, there are other considerations that are involved as well. These will be discussed later on in this study to complement the findings arising from the analysis and discussion of these valuation methods.

4 Methodology

In conducting this study, the following activities were conducted:

1. A review of past research work that discuss the advantages and disadvantages of different valuation methods was made.
2. A review of available fairness opinions of tender offers of selected Philippine companies was made based on publicly available disclosures.
3. An evaluation of the reasonableness of the assumptions used in the valuation of selected tender offers were made based on what past research have said and on expert opinion.
4. An examination of the present practices on the valuation of tender offers in the Philippines was made to determine if the minority stockholders are protected with the system.
5. A development of recommended measures to improve the process of valuing tender offers and to better protect the minority stockholders was done.

5 Findings

5.1 Overview and Description of the Study Sample

From 2015 to 2020, there were 11 cases of delisted companies (See Table 2. List of Delisted Common Stocks from PSE For the Period 2015 to 2020). Out of these 11, six were voluntary delisted while five were involuntary delisted. The reasons cited by PSE for the involuntary delisting were mostly related to noncompliance with reportorial requirements, but other reasons such as the SEC’s orders of dissolution and liquidation of the group’s assets and trading violations were also specified. Unlike the other cases of involuntary delisting, MRP conducted a tender offer prior to its delisting.

Based on the available media reports, there were no observed complaints on the tender offers of Pepsi-Cola Products Philippines, Inc., Energy Development Corporation (EDC), Splash Corporation, and Republic Cement & Building Materials, Inc. One of the possible reasons for the lack of complaints against the EDC tender offer was the availability of the valuation report. Also, the tender offer price of PHP7.25 was actually a 21.8% premium over the closing price of PHP5.95 on August 2, 2017, and also had a 21.5% premium over the six-month volume weighted average price (VWAP) of the common

[6] OJK – Indonesia Financial Services Authority

shares (EDC, 2017, p. 3). However, for the other companies, it was not clear why there were no complaints reported on their voluntary delisting.

Towards the end of 2020, another company, Lopez Holdings Corporation (LPZ) planned to have voluntary delisting and had its tender offer set at PHP3.85 per share (Dumlao-Abadilla, 2020). In January 2021, the management changed its plans to delist, but proceeded with the tender offer. The number of shares acquired was reduced to keep its listing at the PSE (Dumlao-Abadilla, 2021b). Based on available media reports, there were also observed complaints on the tender offer of LPZ (refer back to Table 1).

Table 2. List of Delisted Common Stocks from PSE (For the Period 2015 to 2020)

	Name of Company	Reasons for Delisting	Effectivity Date
1	Pepsi-Cola Products Philippines, Inc. (PCPPI)	Voluntary	December 18, 2020
2	Travellers International Hotel Group, Inc. (RWM)	Voluntary	October 21, 2019
3	Melco Resorts and Entertainment (Philippines) Corporation (MRP)	Involuntary (public float fell below minimum requirement) (Rivas, 2019)	June 11, 2019
4	Energy Development Corporation (EDC)	Voluntary	November 29, 2018
5	Calata Corporation (CAL)	Involuntary (violation of trading and disclosure rules) (Francia, Jan. 22, 2019)	December 11, 2017
6	Uniwide Holdings, Inc. (UW)	Involuntary (SEC's order of dissolution and liquidation of group's assets and violation of disclosure requirements) (Dumlao-Abadilla, 2017)	October 26, 2017
7	Liberty Telecoms Holdings, Inc. (LIB)	Voluntary	November 26, 2016
8	Splash Corporation (SPH)	Voluntary	October 7, 2016
9	Republic Cement & Building Materials, Inc. (LRI)	Voluntary	April 25, 2016
10	Gotesco Land, Inc. (GO)	Involuntary (capital deficiency and non-compliance with reportorial requirements) (Dumlao-Abadilla, 2016)	March 18, 2016
11	Marsteel Consolidated, Inc. (MC)	Involuntary (non-compliance with reportorial requirements) (Dumlao-Abadilla, 2015)	August 15, 2015

Source: PSE (n.d.)

5.2 Issues with the Valuation Methods Used

Based on these provided disclosures, the following valuation methods were used by the companies that conducted tender offers:

1. Discounted Cash Flows (DCF)
2. Volume weighted average price (VWAP)
3. Price -to-earnings ratio (PER)
4. Price-to-book ratio (P/B ratio)
5. Net asset value (NAV)

The next section dissects and evaluates these specific valuation methods as to their respective effects to the resulting tender offer prices.

5.2.1 Discounted Cash Flow (DCF)

There are two versions of this model: the discounted free cash flow to firm model (FCFF) and the discounted free cash flow to equity model (FCFE). Based on the FCFF model, the estimated free cash flows to firm[7] are discounted by the weighted average cost of capital (WACC). From the computed

[7] Free cash flow to firm is the operating cash flows less capital expenditures.

present values of the free cash flows, net debt[8] is deducted and the resulting value is divided by the outstanding number of shares to determine the value per share. For FCFE, free cash flows to equity[9] are discounted by the cost of equity.

Based on the FCFF model, assumptions have to be made on the following:

1. Revenues
2. Operating expenses
3. Changes in working capital
4. Capital expenditures
5. Cost of equity
6. Cost of debt
7. Weighted average cost of capital (WACC)
8. Terminal growth rates

To determine the fair value of a stock using this model, reasonable assumptions have to be used. It must be noted, however, that the valuation entity can come up with any number it wishes by simply tweaking the variables in the model. If a valuator wants to bring down the value of a stock, they can come up with more pessimistic assumptions on the revenues and terminal growth rates, which in turn can bring down the projected income and operating cash flows. The valuation entity may also rely on the assumptions provided by tender offerors in projecting revenues and terminal growth rates.

Another critical variable with this valuation technique is the discount rate. Different models can be used in estimating the cost of equity, most of which are theoretical in nature such as the capital asset pricing model (CAPM) or based on the dividend discount model (DDM). It is more difficult to overstate the cost of debt because the existing interest rates on a company's loans as disclosed in the notes to financial statements can be used as indicators. Or if a company has bonds, then their effective yields in the exchanges can serve as good estimators. Valuators who want to bring down tender offer prices can be inclined to overstate these costs of financing, and eventually, the WACC.[10]

However, based on SEC Rule 19, the Securities and Exchange Commission (SEC) does not encourage the use of this model, unless there are sufficient bases to do so, as shown in the provision below:

> 19.2.6.2.5. The firm shall not include prospective financial information (including forecasts and projections) unless it has made sufficient inquiries to satisfy itself that the information on which it relied was prepared on a reasonable basis. It shall also disclose how and why it finds such inquiries sufficient and utilize several of the methodologies in 19.2.6.2.3 above. Discounted cash flow methodology which invariably uses forward looking information may only be used if the firm has reasonable grounds for doing so. If the firm considered the use of prospective information, the reasons shall be indicated in the report - (SEC, 2015)

Based on these disclosures, the cost of equity and the weighted average cost of capital (WACC) used in the valuation of MRP and LPZ using the discounted cash flow models were made available. In its tender offer in 2018, MRP used 17.56% for its cost of equity and 15.56 for its WACC for its valuation using FCFF (MRP SEC Form 17-C, 2018). Data from the Bureau of Treasury show that the yield on 10-year Republic of the Philippines (ROP) bond in 2018 was only 6.61%, giving the MRP's cost of equity almost an 11% premium. According to Aswath Damodaran's estimate, the equity or market risk premium for the Philippines in 2018 was 7.27% (Damodaran, 2018). Considering the fact that despite the high discount rate used, the valuation still ended up with PHP7.25, it would be interesting to find out what would have been the value had the WACC used was lower by even just 2%.

On the other hand, LPZ used a more reasonable rate of 7.55% for its cost of equity when compared to the yield of 10-year ROP bond of 3.08% in 2020 and a market risk premium of 6.56% (Damodaran, 2021) as of January 2021. LPZ used the FCFE approach as one of its valuation models (LPZ, 2021). There were no data related to these variables that were gathered on the valuation of the other companies that conducted tender offers during the period covered in the study.

Terminal values account for most of the value of a stock using this model. Therefore, the assumptions behind the terminal growth rates are very important in using these valuation methods.

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[8] Net debt is the cash and cash equivalents less the market value of debt.

[9] Free cash flows to equity is the operating cash flows less capital expenditures plus net debt issued (repaid).

[10] Higher WACC means lower present values for the free operating cash flows.

Unfortunately, not much can be said about this in this paper because of the limited data available for analysis.

5.2.2 Volume Weighted Average Price (VWAP)

VWAP provides the average price of a stock during a given trading day based on the volume and prices. This may be useful in valuing a stock if it is actively traded.

In its response to the complaints against its tender offer price, MRP claimed that its tender offer price of PHP7.25 per share was 11.2% premium over its six-month VWAP and 14.2% premium over its three-month VWAP (MRP SEC Form 17-C, 2018, Annex A #2).

In the case of RWM, its tender offer price of PHP5.50 was slightly higher than its six-month VWAP of PHP5.46 and three-month VWAP of PHP5.49 (Francia, 2019c). Note however, that disclosures provided by management affect prices. The reported net income of RWM for the six-month period ending June 30, 2019 was much lower as compared to the same period in 2018. On August 14, 2019, Businessworld, reporting on RWM's second quarter earnings, mentioned that, "The owner and operator of Resorts World Manila (RWM) posted a 52% drop in attributable profit for the second quarter of 2019, weighed down by higher borrowing costs" (Francia, 2019b, p. 1).

Similarly, RWM's parent company, Alliance Global, Inc. (AGI), made a press release on the same second quarter performance of RWM as well. It said that, "Second quarter net income declined by 52% compared to the same period last year to P599 million due to higher finance charges and increase in depreciation expense" (News and Press Release, 2019, para. 3). However, in an interview with ANC, PSE director Vivian Yuchengco said that, "We weren't aware of the delisting until it was announced, and there were a lot of media saying they've lost 51%, they've lost so much money, and then all of a sudden they're delisting" (ANC 24/7, 2019).

An analysis of the 2019 second quarter operating performance of RWM would show that the reported operating profit before taxes was actually up by 195% if the other income of PHP1.48 billion in the second quarter of 2018 is taken out (RWM, Q2 2019). It was also true that the financing cost significantly increased to PHP518.6 million in the second quarter of 2019 from PHP20.6 million in the same period in 2018 due to increased borrowing.

In the case of LPZ, its tender offer price of PHP3.85 was higher than the 30-day, 60-day, 90-day, and one-year VWAPs of PHP2.34, PHP2.48, PHP2.49, and PHP3.03, respectively (LPZ, 2021). It must be noted, however, that the prices covered in computing LPZ's VWAPs were during the pandemic period where stock prices were generally down.

5.2.3 Price-to-Earnings Ratio (PER)

The PER is a common valuation method where the market price of a stock is divided by its earnings per share (EPS). A high PER indicates a potential high growth in the future earnings. Technology companies can trade at high PER because of expected better earnings in the future.

Some managers of listed companies guide their investors regarding the prospects of their companies through stock market briefings. Some do it at the start of the year, and quarterly updates are provided, especially before or immediately after the announcement of quarterly reports. To a certain degree, managers can influence the expectations of investors and the PERs of their companies.

Table 3 shows the PERs of MRP. For 2018, the price used was the last trading price in September 2018 because the tender offer started the following month. The EPS used was the annualized EPS reported as of the nine-month period ending September 30, 2018. As shown in Table 3, there was a wide range of PERs ranging from negative 13.50 to 123.83 over the period covered in the study (See Table 3. Price-to-Earnings Ratios of MRP).

Table 3. Price-to-Earnings Ratios of MRP (2015 to 2018)

	2015	2016	2017	2018
Prices at the end of each year, except 2018	2.29	3.78	7.43	7.05
EPS	- 1.82	- 0.28	0.06	0.51
PER	- 1.26	- 13.50	123.83	13.91

Source: MRP (2015-2018)

Table 4 shows the PERs of RWM. For 2019, the price is based on the closing price on the last trading day in June 2019 because the company had its tender offer in August 2019. The EPS used is the annualized EPS based on the EPS reported for the first half of 2019. As shown in the table, the PERs ranged from 15.09 to 221.11 (See Table 4. Price-to-Earnings Ratios of RWM). The high PER in 2017 was due to the lower reported net income for the year. In 2017, the operation of RWM was shut down because of an untoward incident that killed 36 people (Serapio, 2017). In addition, both MRP and RWM are in the gaming business, but RWM seemed to be trading at a premium based on PER.

Table 4. Price-to-Earnings Ratios of RWM (2015 to 2019)

	2015	2016	2017	2018	2019
Prices at the end of each year, except 2019	4.40	3.29	3.98	5.31	5.48
EPS	0.26	0.22	0.02	0.09	0.10
PER	16.92	15.09	221.11	57.72	54.80

Source: RWM (2015-Q2 2019)

Table 5 shows the PERs of LPZ from 2015 to 2020 that ranged from negative 6.41 to positive 6.15 (See Table 5. Price-to Earnings Ratio of LPZ). As compared to RWM and MRP, the PERs are relatively lower.

Table 5. Price-to-Earnings Ratios of LPZ (2015 to 2020)

	2015	2016	2017	2018	2019	2020
Prices at the end of each year	6.60	7.80	5.60	4.00	3.71	3.72
EPS	1.35	1.42	0.91	1.27	1.16	- 0.58
PER	4.89	5.49	6.15	3.15	3.20	- 6.41

Source: LPZ (2015-2020)

As shown in these three tables, the PERs of companies can vary significantly even within the same company. This wide range of PERs can be used to justify any tender offer price using this method that the bidders want to offer to smaller investors. Therefore, this provides so much significant leeway on the part of the companies, much to their own benefit, but can also be much to the detriment of smaller investors.

5.2.4 Price-to-Book Ratio (P/B Ratio)

The P/B ratio is another method used in valuing a stock. It is computed by dividing the stock price by the book value per share. A high P/B ratio indicates that a stock may be expensive while a low P/B ratio may indicate undervaluation. However, some investors may interpret these ratios differently. A low P/B ratio may indicate low growth for a company and possible overstatement of its assets, while a high P/B ratio may signify potential high growth for a company.

The P/B ratios of MRP, RWM, and LPZ are shown in Tables 6, 7, and 8. Note that MRP's P/B ratios are consistently high as compared to those of RWM and LPZ. Based on this ratio, MRP seemed to be trading at a premium as compared to RWM.

Table 6. Price-to-Book Ratios of MRP (2015 to 2018)

	2015	2016	2017	2018
Prices at the end of each year, except 2018	2.29	3.78	7.43	7.05
Book value per share	1.17	0.89	0.96	1.34
Price-to-book ratio	1.96	4.24	7.77	5.26

Source: MRP (2015-2018)

Table 7. Price-to-Book Ratios of RWM (2015 to 2019)

	2015	2016	2017	2018	2019
Prices at the end of each year, except 2019	4.40	3.29	3.98	5.31	5.48
Book value per share	2.65	2.81	2.79	2.88	2.92
Price-to-book ratio	1.66	1.17	1.43	1.85	1.88

Source: RWM (2015-Q2 2019)

Table 8. Price-to-Book Ratios of LPZ (2015 to 2020)

	2015	2016	2017	2018	2019	2020
Prices at the end of each year	6.60	7.80	5.60	4.00	3.71	3.72
Book value per share	11.88	13.06	13.83	15.02	15.98	15.42
Price-to-book ratio	0.56	0.60	0.40	0.27	0.23	0.24

Source: LPZ (2015 – 2020)

LPZ has consistently traded at low P/B ratios as shown in Table 8, especially for the period 2018 to 2020. It can be inferred, however, that LPZ's assets were fairly stated during this period because its external auditor, SGV & Company, rendered an unqualified opinion over the group's consolidated financial statements. There were impairment losses recognized during this period amounting to PHP288 million, PHP715 million, and PHP234 million, for the years 2020, 2019, and 2018, respectively (LPZ, 2020). LPZ also recognized more than PHP7 billion share in the net loss of associates, including the losses incurred by ABS-CBN in 2020 (LPZ, 2020). However, despite the PHP7 billion share in the net loss of associates recognized in 2020 and the more than PHP1.2 billion impairment losses recognized from 2018 to 2020, the book value per share of LPZ at the end of 2020 remained high at PHP15.42.

It is interesting to know why the valuation entity did not consider the book value per share in determining the fair value of LPZ's tender offer price. Of all the valuation techniques, the book value per share is supposed to provide the most objective basis because it is not subject to several assumptions that are made in other approaches, such as the DCF methods. Also, if the assets are impaired, Philippine Accounting Standards (PAS) 36 require that impairment losses be recognized in the financial statements, and would expectedly affect valuation as well.

In 2016, Francis Ed Lim, then-president of SharePHIL,[11] suggested that the book value per share be considered among the valuation options for tender offers. In a statement, he said that:

The tender offer price for cases not covered by Sec. 19 should be the highest of three prices, for example, the highest of the price in the range of valuation, book value or general weighted average of the shares within a given period of time (Mariano, 2016, para. 8).

5.2.5 Net Asset Value (NAV)

NAV is fair value of assets less the fair value of its liabilities. This valuation is important in determining what it would cost to recreate a business. While judgment is needed in determining which of the company's assets and liabilities to include in the valuation, this method is relatively easier to apply than the traditional income-based and market approaches ("Reading between the lines," 2017, p. 38).

Based on publicly available information, only LPZ is known to have applied this NAV technique in determining its tender offer price among the companies covered in this paper. Its valuator, KPMG, considered the fair market value of its in investments in the Philippine depositary receipts and First Philippine Holdings (FPH) which are considered the main drivers of its NAV. KPMG also applied a holding company discount to consider the historical perspective that holding companies trade at a discount (Dumlao-Abadilla, 2020, para. 9).

The prices used in determining the fair values were during the pandemic and may not reflect the intrinsic values of the shares. Many of the shares traded at PSE were discounted during the pandemic

[11] SharePHIL is Shareholders Association of the Philippines.

because of negative sentiment among investors. While listed at PSE, the Philippine depository receipts and FPH are not as actively traded as the other stocks. This situation may not represent the real values of LPZ's investments.

A more actively traded stock that is indirectly owned by LPZ is First Gen Corporation (FGEN). As of September 30, 2020, FGEN is 67.74% owned by FPH, that in turn, is 50.78% owned by LPZ. This gives LPZ a 34.4% indirect interest in FGEN. Based on FGEN's stock price of PHP23.35 on the last trading day of September 2020, this investment is worth PHP28.93 billion. Dividing this value by LPZ's outstanding shares as of that date translate to a value of PHP6.37 per LPZ share. It must be noted that FGEN's last trading price in 2020 was PHP28.15. This implies that LPZ should be valued atPHP7.68 per share. This valuation ignores the other investments of FPH such as Rockwell Land Corporation, another listed company, and ABS CBN, which despite its loss of franchise was still trading above PHP7.00 per share at that time.

In the case of RWM, using NAV as among the alternative valuation methods would have been interesting as well. In its response to queries regarding its tender offer price, MRP management acknowledged RWM's significant and valuable landbank for its future expansion (MRP SEC Form 17-C, 2018) and they should not be directly compared. Unfortunately, the fairness opinion report of RWM was not made available to the public and therefore, it is not known whether RWM's valuator considered this landbank in the valuation.

5.3 Other Issues

In this part of the research, we look into other cases involving complaints on tender offer prices with different contexts. This is to illustrate how other issues aside from the choice of the valuation approach can also produce very interesting insights as to how tender offer prices work.

In 2016, the tender offer of Liberty Telecom (LIB) by the parent company Vega Telecom, Inc. (VTI) was faced with a lot of complaints from investors. The tender offer price of PHP2.20 per share was considered "above and a premium" on the prospective fair value range of PHP0.08 to PHP0.33 per LIB share by Punongbayan & Araullo (P&A), the valuation entity commissioned by VTI to render "fairness opinion" (Somera, 2016, para. 7). It was not clear what valuation methods were used by P&A in determining the fair value range.

However, a local stock brokerage firm, Papa Securities, valued each LIB share at about PHP5.00. This valuation was based on the assumption that LIB still had control over the 700 MHz frequency that was previously granted to them (Dumlao-Abadilla, 2016). But unknown to the public, the license over this frequency was transferred to Bell Telecommunications Philippines, Inc. (BellTel), a wholly-owned subsidiary of VTI, without any consideration. This piece of information was disclosed to the public more than a year later and one week before VTI's tender offer in August 2016 (Cayanan & Rodriguez, 2020). P&A did not include the frequency in its valuation because it was no longer with LIB when the valuation was conducted.

When summoned by the Securities and Exchange Commission (SEC) to explain the issue, San Miguel Corporation (SMC), the parent company of VTI when the transfer of frequency was made, explained that the frequencies are not owned by the telco companies to which they are assigned. As a result, these frequencies are not considered "assets" of the telco companies (Cayanan & Rodriguez, 2020). In fact, on May 30, 2016, SMC sold VTI to Globe Telecom and PLDT for PHP70 billion. The main reason behind the acquisition by Globe and PLDT was the 700 MHz frequency that was expected to improve internet speed, improve indoor coverage, and facilitate rollout in the regional and rural areas (PLDT, 2016).

Despite the complaints filed against it, the tender offer was still consummated on October 20, 2016. For non-disclosure violations, SEC fined SMC PHP346,000. SEC, however, took the view that radio frequencies could not be valued unless used. Indeed, it is very important to remember that the frequencies were actually not being used at the time of the sale (Camus, 2016, para. 6). Steve Mackay, director and founder of Creator Tech, valued the 700 MHz frequency within the range of US$900 million to US$2.7 billion (Olandres, 2016, para. 5).

5.3.1 Valuation Entity

While PSE accredits the entities that provide fairness opinions on tender offers, it is the tender offerors who hire their services. Hence, it is expected that that they will be loyal to their clients, and can therefore adopt an approach that is most favorable to their clients. This observation was first validated by Hayward & Boeker (1998), who found out that investment bankers are inclined to accommodate their clients' interests. They further pointed out that, "This behavior is inconsistent with analysts' professional obligation to provide unbiased and objective advice to investors, yet corporate finance influenced analysts in almost every investment bank we studied" (Hayward & Boeker, 1998, p. 17).

In addition, Francis Ed Lim commented about the independence of the valuation entity as well, saying that, "The appraisal company or the valuation company is hired by the issuer or the tender offeror and, in fact, their fees are paid by the tender offeror or issuer. Because of that, some shareholders are asking how they could be impartial." (Mariano, 2016, para. 5). In fact, in 2016, SharePHIL proposed to the PSE that the latter should hire their own valuation entities. To date, PSE has not yet adopted this suggestion.

6 Discussion

In this section, the following issues are discussed: the undervaluation of tender offers, non-availability of fairness opinions, and the role of the regulators in protecting minority stockholders.

6.1 Undervaluation of Tender Offers

The fact of the matter is that no tender offeror or valuation entity will realistically admit that their tender offer prices are undervalued. However, based on the cases illustrated in this study, the results provide indicators that there is indeed some undervaluation going on. For example, the prices used in computing VWAPs used by LPZ were mostly from the pandemic period where and when stock prices are generally depressed because of significantly unfavorable business conditions at that time. It is noteworthy to point out that FGEN, a more actively traded stock that was indirectly owned by LPZ was omitted in the estimations of LPZ's NAV. Furthermore, the book value was also not considered, defying what the valuation approach suggests.

The timing of the tender offers and the announcement of negative news need to be analyzed as well. A PSE director was able to observe this when she was interviewed in ANC about the tender offer of RWM. As shown earlier, press releases about the second quarter performance of RWM in 2019 (before the tender offer announcement) highlighted the decrease in net income by more than 50%, but failed to emphasize the more than 100% improvement in operating income. If the company was doing a private placement at that time, it would be interesting to know if the decrease in net income would still be highlighted, or would the significant improvement in the operating income will be emphasized as well. In fact, it can be even both. This is a prime example as well as to how management can influence how information is conveyed to the public, and how they can also tilt existing information asymmetries to their favor.

Regarding the DCF models, a significant number of assumptions may come from tender offerors, especially involving revenue forecasts and terminal growth rates. This situation alone serves as a major limitation on the use of the model in the valuation, unless the valuators can come up with their own independent assumptions based on their appreciation of the companies' businesses and their respective industries.

Furthermore, the terminal value can account approximately 75% of the value in a five-year DCF model, and about 50% of the value in a 10-year DCF model (Terminal Value, 2023). This terminal value accounts for the future free cash flows of a company in perpetuity. It is a challenge as to how much of the distant future a valuation entity can foresee, especially with increasing intensities of volatility and uncertainty in today's business environment. This argument may be one of the reasons why the SEC does not encourage the use of DCF models, unless there are strong justifications to use them.

In addition, the use of the appropriate discount rates can also be a challenge. Several models can be used in estimating the cost of equity. Specifically, it is the estimation of the cost of equity which can be subjected to a number of biases. For example, different values for betas[12] can be computed if daily, weekly, or monthly returns are used. The duration of the period covered in the estimation, say five years or 10 years, can also lead to different computed betas.

To further illustrate this, while there are historical differences among the PERs and P/B ratios of different companies, there are also observed wide fluctuations in these ratios even within the same company. RWM traded with a PER ranging from 16.92 to 221.11 from 2015 to 2019 while MRP traded at negative 13.50 to 123.83 PER over the same period. For P/B ratio, RWM traded within the range of 1.17 to 1.88 while MRP traded within the range of 1.96 to 7.77 over the 2015 to 2019 period. These numbers provide evidence that a valuation entity can come up with a tender offer price that is within these ranges and be able to justify the assumption (See Table 9. Summary of Issues Leading to Tender Offer Price Undervaluation).

Table 9. Summary of Issues Leading to Tender Offer Price Undervaluation

Company	Valuation Method	Issues that Led to Undervaluation
LIB	Undisclosed	The value of the 700 MHz frequency was not included in the valuation because this frequency was transferred to an affiliated company more than a year before the tender offer. This transfer was only disclosed to the public a week before the tender offer. This 700MhZ frequency was the main reason why PLDT and Globe bought the telecom companies of SMC for almost PHP70 billion.
MRP	DCF	The 17.56% cost of equity is high considering the 10-year ROP bond rate of 6.61% and equity risk premium of 7.23% at that time. Given the 5.00% interest on its long-term debt with a face value of PHP15 billion (MRP, 2017), the WACC of 15.56% is also relatively high. A high discount rate or WACC would mean lower present value for the free cash flows and lower valuation for the stock. Note also that the company reported PHP1.89 billion net income in the first half of 2018, 430% higher over the same period in 2017. This implies that moving forward, the income numbers will be improving. But this was also the time when the management decided to delist depriving small investors of the opportunity to share in the profitable operations of the company.
RWM	Undisclosed	The press release in the company's net income in the first half of 2019 emphasized the 52% decline in the net income. The actual increase in the operating income by 195% for the same period was not highlighted. This is after taking out the effect of the PHP1.48 billion other income in the second quarter of 2018.
LPZ	Net asset value	One of the valuation methods used by the valuation entity was NAV where the computed value was PHP3.65, even lower than the tender offer price of PHP3.85. The valuation entity applied 26.7% holding company discount that may be unusually high. Also, for purposes of computing NAV, LPZ's share in FPH was considered. FPH is not actively traded. FGEN, a more actively traded stock is more than 34% indirectly owned by LPZ. Using this as a basis, the value of LPZ should be PHP6.37 per LPZ share based on the last trading price in September 2020 of PHP23.35, and PHP7.68 per LPZ share based on the last trading price of PHP28.15 in 2020. The article published in Inquirer even valued this indirect share in FGEN at PHP9 per share (refer to Table 1). This valuation does not even include the share in ABS CBN and indirect share in Rockwell Land Corporation.

[12] Beta is used in estimating the cost of equity based on CAPM.

Company	Valuation Method	Issues that Led to Undervaluation
MPI	Undisclosed	According to April Tan, research head of ColFinancial, the tender offer price of PHP4.63 per share represents 54% of their computed NAV, and 5.5% discount to MPI's 47.5% stake in Meralco which translates to PHP4.90 per share. Abacus Securities claimed that the tender offer price is 34% to 35% lower than their estimated book value of MPI at the end of the first quarter of 2023.

6.2 Non-availability of Fairness Opinions

It is obviously difficult to assess the fairness of a tender offer because data are not available. The valuation entities do not wish to make their studies made available to everyone, and they have so many disclaimers.

In an initial public offering (IPO), prospectuses are made available to investors so that they can assess whether the IPO price provides upside potential. A tender offer, especially those leading to delisting, is like a death sentence to an investment because moving forward, it will be difficult to unload the shares if the tender offer is not availed. Yet, the bases of setting the prices as indicated in the fairness opinion reports are not readily available.

6.3 Role of Regulators in Protecting Minority Interest

PSE has come up with measures to improve the tender offer rules. In 2020, PSE required that delisting must be approved by at least two-thirds of the entire membership of the board, but not less than two of all its independent directors. "Also, the number of votes cast against the delisting proposal should not be more than 10% of the total outstanding and listed shares of the listed company" (Dumlao-Abadilla, 2021a, para. 3).

In spite the recent rules instituted by PSE, a number of issues remain unresolved, such as the following:

1. Who should hire the valuation entity?

As stated in the previous section, whoever hires the valuation entity, assumptions on revenue and expense forecasts have to be made. The inputs of management on this step are critical and valuation analysts may, to some extent, initially rely on management's representation. A more objective valuation analysts, however, should validate these representations. This situation will have higher probability of happening if the valuation analysts are more independent.

2. How can access to fairness opinion reports be improved?

Section 2.d of the voluntary delisting rules of PSE, the listed company must submit a fairness opinion or valuation report stating the fair value or range of fair values of the listed security (PSE Memorandum CN- No. 2020 – 0104, 2020). So far, among the companies listed in Table 2 that filed for voluntary delisting, only LPZ and EDC made their fairness opinion reports available as part of their disclosures through SEC Form 19-1. PSE is not clear as regards the intended audience of the fairness opinion report. It is one of the requirements of the voluntary delisting rules, but is it part of the required disclosures to the public?

3. How can minority stockholders be protected from untimely disclosure of a material information that can adversely affect the value of their investments such as what happened to LIB minority stockholders?

For the non-disclosure of the 700 MHz frequency from LIB subsidiary to an affiliated company, LIB was only penalized PHP346,000 by SEC. LIB was able to subsequently undervalue its tender offer price at PHP2.20 as a result of this transfer of frequency. San Miguel Corporation (SMC), the parent company of LIB at that time, was able to subsequently dispose all its telecom companies to PLDT and Globe Telecom for almost PHP70 billion in 2016 with the 700 MHz as the main source of value. This narrative seems to award non-compliance with the rules.

As Ramon Monzon said, valuation is an art. Valuation entities can actually come up with any number that they want and be able to justify them using all these valuation jargon. This is the reason why the regulatory environment has to be strengthened. Otherwise, there will be no strong and influential entity who will protect the minority stockholders.

7 Recommendations

To improve the tender offer process, the following recommendations are made:

1. PSE should follow the suggestion of SharePHIL in 2016 to have the PSE hire the valuation entities. To make the valuators more objective and more careful in their assessment, more than one valuation entity should be hired. PSE should then decide which valuation to adopt to standardize across different cases of estimating tender offer prices. The cost of the valuation entities should be for the account of the tender offeror.
2. PSE should make the fairness opinion reports accessible to the public. If a prospectus is made available to potential investors during IPO offering, all the more that a fairness valuation report related to a tender offer, especially the one leading to delisting, be made available to the public. The investors have the right to scrutinize the bases of the valuation, and the report should not be limited to the board and controlling stockholders. By making these reports available to the public, the valuation entities may be more careful and unbiased in the conduct of valuation because their reputation may also be at stake. These fairness valuation reports should be disclosed to the public the moment a tender offer leading to delisting is announced. This is to give equity analysts and investors enough time to assess the reasonableness of the tender offer price.
3. SEC and PSE should come up with rules and guidelines regarding the valuation of intangible assets, such as the license to radio frequencies that was a major concern in the valuation of LIB tender offer. Technical experts may be hired by PSE when issues of this nature come up. The costs should be for the account of tender offerors.
4. SEC and PSE should impose higher penalties on non-disclosure of a material information. Both SEC and PSE should review these penalties because a company may simply opt to pay the penalty if the amounts are negligible, such as the fine of PHP346,000 to LIB for a late disclosure. Compliance with disclosure requirements can probably improve if SEC and PSE will make the top management share in the cost of the penalty, instead of the company shouldering the entire cost. Charging the company with the entire cost will further aggravate the situation of minority stockholders considering that they have nothing to do with the negligence or improper decisions of management.
5. Make the relisting of companies, or any other company related with the group conducting a voluntary delisting longer (e.g. five years). This is to impress upon the listed companies that being listed is a privilege because it provides them better access to capital. This privilege should not be abused by letting them delist anytime they want, and allow them to relist anytime they want. The regulators should think of the welfare of the minority stockholders. If the tender offer prices are undervalued, what options do they have? Once a stock is delisted, it will be difficult to unload their shares if they do not tender their shares. By making the relisting rules more stringent, companies planning to delist will have second thoughts. For minority stockholders, having their shares listed will always be an advantage as compared to having them delisted.
6. PSE can consider including among the options for tender offer price rules and policies from the Indonesian Stock Exchange (IDX) that include the following:

The highest price reached in the regular market during the two-year period before the announcement of the independent shareholders' meeting (adjusted for any changes in nominal value of the shares in the last two years), plus a premium in the form of a return on investment over the last two years, calculated as the shares' initial public offering price multiplied by the average of the three-month Indonesian Central Bank certificate (SBI) rate, or the interest rate of other equal government bonds that prevails when the approval from independent shareholders is obtained. ("A global guide," 2020, p. 60).

PSE can modify the reference rate for the interest used in estimating returns from the IPO price.

8 Concluding Remarks

If the valuation entities have all the information and are unbiased, the different valuation methods for determining tender offer prices should converge into, more or less, similar values. However, a study about the Philippine stock market has shown that the Philippine stock market is not efficient (Cayanan, 1994). This means that there is an information asymmetry. The controlling stockholders have upper hand as regards the intrinsic values of their companies. Since they hire the valuation entities, they can also control what information to share with them that can affect the valuations.

The discounted cash flow valuation models are theoretically sound, especially for going concern operations. However, they are also prone to possible manipulation. The valuation entity can come up with any number he wants by playing around with the assumptions. This is the reason why making the fairness opinion reports available is very crucial in determining the reasonableness of the assumptions used. Note that the SEC has reservations on the use of this approach, unless the valuation entities have very strong reasons to use it.

Relative valuation models like the PER are also useful for going concern operations. The problem with these models is the availability of comparable companies that can be used as benchmarks. As revealed in this paper, even within the same company, there can be a wide range of earning multiples from one year to another. This can open window for valuation entities to choose a number that will please their clients.

As Mr. Monzon puts it, valuation is an art. Analysts valuing the same company can come up with different results depending on the valuation methods and the assumptions used. Given the wide range of possible valuations that can be created, policy makers can start with values that have more objective foundations, the book values. Independent appraisers can then be hired to adjust book values to their fair market values. Applying these asset-based approaches does not mean ignoring the other valuation methods. For high-growth companies, the DCF valuation methods can be appropriate.

To make the tender offerors fairer and more objective in setting tender offer prices, PSE should require the availability of the fairness opinion reports to the public the moment a tender offer is announced. This will provide equity analysts and investors, both retail and institutional, to evaluate whether the tender offer price is reasonable or not. Making these fairness opinion reports available at the early stage of the tender offer will also motivate valuation entities to do a more objective assessment because their outputs are subject to public scrutiny.

For future studies, it will be good to estimate the range of potential tender offer prices given the availability of data. This is the reason why the fairness opinion reports should be made available. From the data provided, sensitivity analysis can be made to test the reasonableness of the tender offer prices estimated by the valuation entities.

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