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Dissidents move to spill 'dysfunctional' RHG board

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DISSIDENT shareholders in RHG Ltd have stepped up their attack on the rump of the failed Rams Home Loans business, vowing to spill a "dysfunctional" board after the chairman, John Kinghorn, backed down on plans to delist the company.

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The shareholders, headed by funds managers Geoff Wilson and Karl Siegling, yesterday rejected Mr Kinghorn's olive branch, calling for director renewal and pressing on with plans to take control in the boardroom.

Mr Siegling said the board's behaviour after a controversial low-ball share buyback was dysfunctional.

"They've backtracked on everything they said they would do," Mr Siegling said. "It highlights the inconsistency of the board.

"We say a board that puts forward a delisting proposition, then backs down, a board that opens a sale process, which is then closed and is now open again, and a board that tells us the business is risky yet one member is keen to buy it all, to my mind that doesn't seem consistent. The board is not functioning very well."

Two weeks ago Mr Kinghorn announced a \$243 million share buyback at 88¢ a share that would have seen him and his son, Geoffrey, increase their stake from 24 per cent to as high as 80 per cent by not taking part.

Shareholders criticised Mr Kinghorn for the offer, coming well below the company's own \$1.16-a-share asset valuation, as an attempt to take control of the company on the cheap.

Mr Kinghorn sold the Rams Home Loans business, which he founded, just days before the onset of the global financial crisis, pocketing \$650 million. The company, which relied on short-term money market funding, was forced to sell its brand and network to Westpac, keeping only the existing mortgage book, run by RHG.

While initially an unattractive investment, the collapse of competition in the home loan market combined with high rates and fees

saw RHG become increasingly profitable as the mortgage book ran off.

In a statement yesterday Mr Kinghorn said he had "assumed" that having offered to distribute the company's assets to shareholders, "that all or substantially all shareholders would avail themselves of the buyback offer and that I would be one of the few remaining shareholders".

Dissident shareholders viewed this as a low-ball grab for control.

But Mr Kinghorn argued that the business is risky with a growing high rate of loan defaults.

Mr Siegling dismissed the claim, saying: "The Kinghorn board is at pains to tell us how risky the business is and how it still faces significant headwinds. That may be true but the share price has quadrupled so something is improving, and why is he so intent on owning it himself?"

Mr Kinghorn also announced that the independent director John McGuigan, who offered to resign after the buyback, would now stay on. The dissident shareholders have proposed keeping Mr Kinghorn as chairman but

removing remaining directors, to be replaced by three independent directors of their own.

The Intelligent Investor analyst and investor Steven Johnson said Mr Kinghorn should agree to board renewal.

"The ideal outcome here would be for John Kinghorn to call the proposed directors and tell them he's prepared to add them to the board immediately as a sign of his commitment to treating all shareholders fairly. That way we could vote through next week's buyback, encourage everyone not to participate and get on with distributing capital in the most effective way possible."

Two weeks after announcing a sale process of the business had failed to find a buyer, Mr Kinghorn said RHG would continue to "seriously consider any cash offer".

Matthew Kidman, of Wilson Asset Management, said: "We think the changes that the existing board has announced show that the board is not functioning very well. They wouldn't have announced a delisting and no dividend if they didn't want it. We don't think that the full value, which is significantly above where it is now, will be realised until a majority independent board is functioning properly."

The dissident group is recommending shareholders vote immediately against the RHG buyback, which will go to a shareholder vote next week.

This story was found at: <http://www.smh.com.au/business/dissidents-move-to-spill-dysfunctional-rhg-board-20110418-1dlph.html>