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## One Day Vision Opportunity

We own a decent stake in ophthalmology business Vision Eye Institute (VEI) and have spent the past week working on a capital raising to fix the company's balance sheet once and for all. For the most part, we've been working to stop broker Bell Potter from stitching us up (only partly successfully, unfortunately). But that's all by the bye.

There's an interesting opportunity on offer, potentially for today only. The company is undertaking a 2 for 3 rights issue which, in conjunction with a \$4.5m placement, will raise about \$27m. The deal was announced yesterday and the shares trade ex-rights tomorrow. The shares closed at \$0.51 yesterday, and the rights are priced at \$0.34. If you buy at \$0.51 and take up your rights, your average cost per share will be \$0.44.

Those investors who don't want to take up their rights will be much better off selling on market today as the share price will drop tomorrow when they trade ex-rights. More importantly, those investors who *can't* take up their rights *have* to sell on market today. Only investors who are resident of Australia or New Zealand are entitled to participate in the offer, so if you are an overseas holder of Vision you are being forced to sell your shares\*.

I have no idea what percentage of the register they represent but, even if it's relatively small, forced sellers create opportunities. Ingenia internalised its management back in June and issued new securities as part of the deal. The consequences were the same, non-residents of Australia and New Zealand were not allowed to purchase the securities – so were forced to sell prior to the meeting. The share price traded from \$0.23 in March down to \$0.18 at the time of the meeting, despite a significant amount of good news. Post the meeting it bounced back to \$0.24 in less than six weeks.

I doubt we will see as pronounced an effect with Vision, but I reckon it will trade higher than the theoretical ex-price tomorrow and perhaps meaningfully higher over the next few weeks.

If not, today's buyer will be left with a stock trading on a price-earnings ratio of 6-7 times, with a conservatively geared balance sheet, \$27m of franking credits and likely to recommence dividends in August 2013. You could be stuck with worse.

*\*Vision has applied to ASIC to allow them to issue the ineligible shareholders' rights to Bell Potter, for Bell Potter to exercise them and then sell the shares on market and pass the proceeds back to the original shareholder. This eases the pressure on forced sellers to an extent, but with ASIC approval yet to be received it is an uncomfortable option.*

*Both funds managed by Intelligent Investor Funds have interests in Vision Eye Institute, have participated in the placement and sub-underwritten a portion of the rights issue.*