Service Stream: Profit on Offer

On January 24 Service Stream Limited announced, along with a questionable share placement to Thorney Group (see our recent blog entry 'Calling all Service Stream Shareholders
'), a *non-renounceable* rights issue to shareholders.

The rights issue entitles eligible shareholders, those who held shares in Service Stream before Friday 28 March, to apply for two new shares for every eleven held at a price of 18 cents.

Service Stream's current stock price is 22.5 cents which implies a 4.5 cent valuation for each right. Because this is a non-renounceable rights issue, those shareholders who aren't interested in accepting the offer, either because they are not inclined to add to their holdings or because they're not 'cashed-up', are not able to sell the rights on-market.

If you are one of these shareholders, do not despair. There is another way to extract value out of the offer.

If you subscribe to the offer (the paperwork is due by 22 April) and then sell the same amount of shares you are bound to receive under the offer today, you should earn a profit of the same magnitude of the current value of your rights allocation.

For example if you held 55,000 shares of Service Stream before 28 March, then, you would be entitled to purchase 10,000 new shares at 18 cents per share (55,000 divided by eleven, multiplied by two).

If you sold 10,000 shares from your existing holding today, you would pocket $2,250. You could then use $1,800 from these proceeds to pay for your new shares. The $450 difference is your profit which, incidentally, is the same amount that you would have received if you were able to sell the rights on-market.

Please note that this analysis does not take into consideration brokerage, taxes, and most importantly your personal financial situation.