

The logo for MSWG (Minority Shareholder Watch Group) features the letters 'MSWG' in white, bold, sans-serif font on a dark blue rectangular background.

MINORITY SHAREHOLDER WATCH GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

01.06.2018

## MESSAGE FROM THE CEO

On 30 May 2018, the FBM KLCI index saw its biggest one day drop since October 2008, plunging 56.56 points or more than 3% to emerge as the worst-performing index in the region.

Construction and infrastructure-related counters were the worst casualties with some counters hitting limit down, namely George Kent (Malaysia) Berhad, Gamuda Berhad and HSS Engineers Berhad. Other major losers included YTL Corporation Berhad and Malaysian Resources Corporation Berhad (MRCB). There are four main reasons for the above:

1. The KL-Singapore High-Speed Rail (HSR) project will be scrapped...unless Singapore could convince Malaysia to proceed with it.
2. The MRT 3 rail project will be scrapped.
3. The ECRL is being reviewed in detail.
4. That all major contracts will be reviewed.

Some listed companies will be affected by these decisions as their order-books will now be lowered substantially.

Share prices may nose-dive further. There will be both rational and irrational selling of shares driving prices much lower. There will be instances where the share price will be substantially lower than the true value (the intrinsic value) of the shares.

In the midst of plummeting share prices, some listed companies may carry out share-buy backs.

### Share buy-backs

Recently, a reporter from a local non-English newspaper posed the following questions to MSWG:

“As we welcomed a new government, some of the ex-government contract-related stocks like MYEG and George Kent had experienced serious sell-off. We noted that both companies have bought back their shares to stabilise their share price performance.

However, we are concerned about this kind of situation. Isn't it not appropriate for the management to indulge in shares buy-back when the situation is unstable and company outlook is unclear?

Also, there is a possibility of major shareholders using the share buy-back to defend their own position when under hostile situation, an action which is totally unfair to the minority”.

Listed companies carry out share buy-backs because they feel that the share price is substantially lower than its intrinsic value - they see future upside to their share prices i.e. the market is not valuing their shares fairly. Here, listed companies are acting just like any other investor who will buy a share for the same reason, i.e. the share price is substantially lower and the market is not valuing the shares fairly.

Except, at least theoretically, the listed company is in a better position to value their share price as they know more about their own company. But what they cannot be certain of is the future turn-of-events like cancellation/re-negotiation of major contracts. Investing is, after all, a bit of crystal-ball gazing and requires us to take a view of the future.

### **What is not permitted**

Stabilising the share price is incidental to the share buy-back process which often tends to have a stabilising effect. If a company buys back its shares for the sole purpose of stabilising the share price regardless of the intrinsic value, such action may tantamount to creating a false market - an offence under the securities laws.

If the company carries out a share buy-back for some ‘friendly parties’ to exit at a higher price given share buy-backs often have the effect of increasing the share price -- especially if it is an illiquid stock -- such action may also tantamount to the creation of a false market along with the creation of an unfair playing field.

Hence, the intention for carrying out a share buy-back is relevant.

### **How should minority shareholders view share buy-backs**

Basically, minority shareholders need to take a view as to whether they agree with the company undertaking the share buy-back exercise (that the share price is substantially lower compared to the intrinsic value of the share). If they share the company’s view, then they will invest or remain invested in that counter.

Conversely, minority shareholders may take the view that the intrinsic value of the shares should be much lower than the current share price, hence contrarian to the view of the company that is carrying out the share buy-back. In such instances, the shareholder will sell his shares.

Summarising in one line, if you do not agree with the board’s decision to buy-back, sell.

Regards,

Devanesan

*1 June 2018*

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## MSWG'S AGM WEEKLY WATCH 4 - 8 JUNE 2018

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholder Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at [www.mswg.org.my](http://www.mswg.org.my).

Date & Time	Company	Venue
04.06.18 (Mon) 10.00 am	Genting Plantations Bhd (AGM)	26th Floor, Wisma Genting, Jalan Sultan Ismail, KL
04.06.18 (Mon) 10.00 am	Green Packet Bhd (AGM)	Tropicana Golf & Country Resort, Jalan Kelab Tropicana, Off Persiaran Tropicana, PJ
04.06.18 (Mon) 10.00 am	Air Asia X Bhd (AGM)	CAE Kuala Lumpur, Lot PT25B, Jalan KLIA S5, Southern Support Zone, KLIA
04.06.18 (Mon) 10.30 am	TIEN WAH PRESS HOLDINGS BERHAD (AGM)	Armada Hotel, Lot 6, Lorong Utara C, Section 52, PJ
05.06.18 (Tue) 10.00 am	Genting Malaysia Bhd (AGM)	26th Floor, Wisma Genting, Jalan Sultan Ismail, KL
05.06.18 (Tue) 10.00 am	MAA Group Bhd (AGM/EGM)	Mutiara Complex, 3½ Miles, Jalan Ipoh, KL
05.06.18 (Tue) 10.30 am	TH Heavy Engineering Bhd (AGM)	Kelab Darul Ehsan, Taman Tun Abdul Razak, Jalan Kerja Air Lama, Ampang Jaya
05.06.18 (Tue) 03.00 pm	Manulife Holdings Bhd (AGM)	TPC Kuala Lumpur, 10 Jalan 1/70D, Off Jalan Bukit Kiara, KL
06.06.18 (Wed) 10.00 am	Genting Bhd (AGM)	26th Floor, Wisma Genting, Jalan Sultan Ismail, KL
06.06.18 (Wed) 10.00 am	PRG Holdings (AGM)	Hotel Armada Petaling Jaya
06.06.18 (Wed) 10.00 am	Olympia Industries Bhd (AGM)	Hotel Istana Kuala Lumpur
06.06.18 (Wed) 10.00 am	Dagang Nexchange Bhd (AGM)	Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, KL
06.06.18 (Wed) 10.00 am	LBS Bina Group Bhd (AGM)	TPC Kuala Lumpur, 10 Jalan 1/70D, Off Jalan Bukit Kiara, KL
06.06.18 (Wed) 10.00 am	WCT Holdings Bhd (AGM)	New World Petaling Jaya Hotel, Paradigm, Kelana Jaya
06.06.18 (Wed) 11.00 am	Utusan Melayu (Malaysia) Bhd (AGM)	Dewan Utusan Melayu (Malaysia) Bhd, No. 44, Jalan Utusan, KL
06.06.18 (Wed) 02.30 pm	Vivocom Intl Holdings Bhd (EGM)	M Hotels, Hock Lee Centre, Jalan Datuk Abang Abdul Rahim, Kuching, Sarawak
07.06.18 (Thur) 09.30 am	Astro Malaysia Holdings Bhd (AGM)	Connexion @ Nexus, No. 7, Jalan Kerinchi, Bangsar South City
07.06.18 (Thur) 02.00 pm	Petron M'sia Refining & Marketing Bhd (AGM)	Grand Dorsett Subang Hotel, Jalan SS12/1, Subang Jaya
07.06.18 (Thur) 02.30 pm	Oriental Holdings Bhd (AGM)	Bayview Hotel Georgetown Penang, 25A, Farquhar Street, Penang
07.06.18 (Thur) 02.30 pm	Mulpha International Bhd (AGM)	Bale Club, Multi-Purpose Hall, No. 1, Jalan Polo, Leisure Farm, Gelang Patah, JB
08.06.18 (Fri) 11.30 am	Daibochi Plastic & Packagings Industry Bhd (AGM)	Ramada Plaza Melaka, Jalan Bendahara, Melaka

09.06.18 (Sat) 11.00 am	KPS Consortium Bhd (AGM)	Klang Executive Club, Persiaran Bukit Raja 2, Bandar Baru Klang
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**The points of interest to be raised:**

<b>Company</b>	<b>Points/Issues to Be Raised</b>
Air Asia X Bhd (AGM)	<p>Under Note 20 on page 196 of the Annual Report, there was an allowance for impairment of receivables amounting to approximately RM57.09 million in 2017 (2016: RM0.74 million).</p> <p>(i) Please explain to the shareholders the reasons for the substantial increase in the impairment of receivables?</p> <p>(ii) How much of the impaired receivables have been recovered to-date?</p>
TIEN WAH PRESS HOLDINGS BERHAD (AGM)	<p>As disclosed in the Statement of Profit or Loss and Other Comprehensive Income on page 75 of the Annual Report, Other Expenses increased from RM13.39 million in FY2016 to RM49.53 million in FY2017.</p> <p>Please provide the breakdown of these expenses.</p>
MAA Group Bhd (AGM/EGM)	<p>On page 36 of the Management's Discussion &amp; Analysis ("MD&amp;A"), it is stated that staff cost ( including Executive Directors) of the Continuing Operations increased by 30.2% to RM20.7 million in 2017 (2016: RM15.9 million that excluded a non-recurring bonus associated with the disposal of MAA Takaful and staff retrenchment payment arising from corporate restructuring).</p> <p>(i) What were the reasons for the increase of RM5.1 million for staff costs for MAAGAP? Would the Group expect the staff costs to increase further in FY 2018, and if so, why?</p> <p>(ii) Based on page 50 of the Corporate Governance Overview Statement, the total remuneration of Executive Directors ('ED') (4 directors out of 10) for FY 2017 amounted to RM5.9 million or 28.5% of the total staff costs of RM20.7 million.</p> <p>Please explain the high percentage of ED's remuneration since the Group has yet to regularize its business since being placed under PN17 in 2011 taking into consideration its FY 2017 results which the Group registered a drop of total operating revenue of almost 178.4 million (FY2017 RM119.024 million against RM297.438 million in FY 2016) and a Profit Before Tax ("PBT") of only RM28.6 million in FY 2017 against RM266.5 million in FY 2016.</p> <p>Given the above figures, the ED's remuneration of RM5.9 million alone constituted 20.6% of the PBT of FY 2017 of RM28.6 million (Page 35, MD&amp;A).</p>
TH Heavy Engineering Bhd (AGM)	<p>At the Extraordinary General Meeting held on 15 February 2018, the Shareholders of the Company had approved the novation of the JX Nippon Contract to Yinson Energy Sdn. Bhd. for a cash consideration of RM374 million. As stated on page 13 of the Annual Report, the Company is now in the final stages of completing the novation.</p> <p>What is the status of the Proposed Novation and when is the expected completion date?</p>

<b>The points of interest to be raised:</b>	
Manulife Holdings Bhd (AGM)	<p>On page 21 of the Annual Report, 2017, it is stated that Manulife Insurance Berhad's market share for year-to-date Quarter 4 2017 was 2.7% marginally lower than 2.8% in year-to-date Quarter 4 2016. Overall, the industry grew by 1.7% (excluding group contracts) as compared to 17.5% in 2016).</p> <p>(i) What is the target for the segment in FY 2018?</p> <p>(ii) Would there be a concern for the group's insurance business to sustain its business above the expected industry growth in 2018?</p>
WCT Holdings Bhd (AGM)	<p>The Engineering and Construction segment recorded revenue and operating loss of RM1.39 billion and RM32.8 million respectively as compared to RM1.57 billion and an operating profit of RM74.0 million respectively in the preceding year (Page 14 of the Annual Report 2017).</p> <p>How does the Board plan to address this decline in the operating result? What is the likelihood of a turnaround for FY2018? Please explain.</p>
Petron M'sia Refining & Marketing Bhd (AGM)	<p>As stated in the Management Discussion and Analysis on page 25 of the Annual Report, the Company expects an increase in its capital expenditure in FY2018 as the Company will continue to expand its Retail and Commercial network and start on major projects at Port Dickson Refinery ("PDR").</p> <p>(i) What will be the estimated total capital expenditure for FY2018? Please provide the breakdown of the capital expenditure.</p> <p>(ii) How many new stations will be constructed in FY2018?</p>

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## LOCAL NEWS AND DEVELOPMENTS

Leading Index up 0.3 per cent in March, momentum to continue

<https://www.nst.com.my/business/2018/05/373168/leading-index-03-cent-march-momentum-continue>

Consumer Price Index climbs 1.4% in April

<https://www.thestar.com.my/business/business-news/2018/05/24/consumer-price-index-climbs-14-in-april/#6AkAiA1ugb1fHZK2.99>

Malaysia's debts and liabilities soar past trillion ringgit mark

<https://www.thestar.com.my/business/business-news/2018/05/25/total-national-debt-now-80-of-gdp/#DOGxDFhb0mheyZD1.99>

Tun Razak Exchange investors seeking clarity

<https://www.thestar.com.my/business/business-news/2018/05/28/trx-investors-seeking-clarity/>

TIM: Corruption has cost the country 4% of GDP value annually

<https://www.thestar.com.my/business/business-news/2018/05/26/tim-corruption-has-cost-the-country-4-of-gdp-value-annually/#g54JmQT3LifQO1Cc.99>

MoF reveals details of RM1.087 trillion government debt

<http://www.theedgemarkets.com/article/mof-reveals-details-rm1087-trillion-government-debt>

Malaysia's c.bank gives land purchase deal details to anti-graft agency  
<http://www.theedgemarkets.com/article/malysias-cbank-gives-land-purchase-deal-details-antigrft-agency>

Factors to consider in toll removal plan  
<http://www.theedgemarkets.com/article/factors-consider-toll-removal-plan>

Act now for the environment through responsible investing  
<https://www.thestar.com.my/business/business-news/2018/05/26/act-now-for-the-environment-through-responsible-investing/#ZsAcv5ir5ql2oVl1.99>

UMW says no to takeover price revision for MBM Resources  
<http://www.thesundaily.my/news/2018/05/24/umw-says-no-takeover-price-revision-mbm-resources>

Bursa Malaysia introduces enhanced US Dollar denominated palm olein futures contract  
<http://www.bursamalaysia.com/corporate/media-centre/media-releases/5685>

Businesses must reduce prices pending SST implementation: Customs D-G  
<http://www.thesundaily.my/news/2018/05/27/businesses-must-reduce-prices-pending-sst-implementation-customs-d-g>

Abdul Azeez no longer Tabung Haji chairman  
<http://www.theedgemarkets.com/article/abdul-azeez-no-longer-tabung-haji-chairman>

SC reprimands Khee San, fines its directors RM1.86m  
<http://www.theedgemarkets.com/article/sc-reprimands-khee-san-fines-its-directors-rm186m>

MyEG rubbishes MACC probe claims  
<http://www.thesundaily.my/news/2018/05/25/myeg-rubbishes-macc-probe-claims>

Malaysia rises two spots to 22 on World Competitiveness list  
<http://www.theedgemarkets.com/article/malaysia-rises-two-spots-22-world-competitiveness-list>

SC Releases Updated List of Shariah-compliant Securities by Shariah Advisory Council  
[https://www.sc.com.my/post\\_archive/sc-releases-updated-list-of-shariah-compliant-securities-by-shariah-advisory-council-2/](https://www.sc.com.my/post_archive/sc-releases-updated-list-of-shariah-compliant-securities-by-shariah-advisory-council-2/)

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## GLOBAL NEWS AND DEVELOPMENTS

China April industrial profit growth rebounds to six-month high  
<https://www.malaymail.com/s/1635412/china-april-industrial-profit-growth-rebounds-to-six-month-high>

US weekly jobless claims rise, but labor market tightening  
<http://www.theedgemarkets.com/article/us-weekly-jobless-claims-rise-labor-market-tightening>

UK inflation rate at 13-month low adds to BoE's policy puzzle  
<https://www.thestar.com.my/business/business-news/2018/05/24/uk-inflation-rate-at-13month-low-adds-to-boes-policy-puzzle/#Pt6UiGf1s75GgJPr.99>

China plans tariff cut on wide range of consumer goods

<https://www.thestar.com.my/business/business-news/2018/05/25/china-plans-tariff-cut-on-wide-range-of-consumer-goods/#vMuwDUtR7cCYpmyk.99>

EU agrees new capital rules, large banks secure easier terms

<http://www.theedgemarkets.com/article/eu-agrees-new-capital-rules-large-banks-secure-easier-terms>

Japan's 2017 external assets fall, still biggest creditor nation

<https://www.thestar.com.my/business/business-news/2018/05/25/japans-2017-external-assets-fall-still-biggest-creditor-nation/#PulvdiL7z5DOCxcu.99>

New S'pore exchange starts trading

<https://www.thestar.com.my/business/business-news/2018/05/26/new-spore-exchange-starts-trading/>

Bank Indonesia's New Governor Is Wasting No Time on Rate Hikes

<http://www.theedgemarkets.com/article/bank-indonesias-new-governor-wasting-no-time-rate-hikes>

Indonesia plans 25% biodiesel rule from 2019

<https://www.thestar.com.my/business/business-news/2018/05/25/indonesia-plans-25-biodiesel-rule-from-2019/#uxtj6JA7L16fgUrB.99>

BOJ member warns against overly stimulating demand with easy policy

<https://www.thestar.com.my/business/business-news/2018/05/24/boj-member-warns-against-overly-stimulating-demand-with-easy-policy/#AOglJSrJc21cky6.99>

Erdogan Surrenders to Market as Rate Rise Halts Lira's Collapse

<http://www.theedgemarkets.com/article/erdogan-surrenders-market-rate-rise-halts-liras-collapse>

U.S. Beats Hong Kong to Reclaim Global Competitiveness Crown

<http://www.theedgemarkets.com/article/us-beats-hong-kong-reclaim-global-competitiveness-crown>

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### DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.*

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## Feedback

We welcome your feedback on our newsletter and our work. Email us at [corporateservices@mswg.org.my](mailto:corporateservices@mswg.org.my) with your comments and suggestions.

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