MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

# The Observer

**01.01.2021**

***The 2020 had been a tumultuous year for many of us. As the 2021 kicks in, the MSWG team would like to wish you peace, joy and prosperity throughout the coming year.***

***On the other hand, we are glad to announce that MSWG is now on Twitter. The presence at Twitter is the first step for us to create strong social media presence and engage with our stakeholders more effectively. Do follow MSWG's Twitter account at @MSWGMalaysia and share your thought on our tweets from time to time.***

***Thank you for your continued support. We look forward to engaging with you in the years to come.***

## ❖ Understanding share consolidation and share split

Share consolidation and share split are two very common corporate exercises that investors may encounter throughout their investing journey.

Often, we encounter instances where shareholders inadvertently sell off their shares upon seeing a sharp rise in share price, not knowing that the increase was due to a share consolidation exercise.

Investors should be aware of the reason behind the share price movement before they decide to invest/divest a stock. A sudden rise or decrease in share price may be attributed to a share consolidation or share split exercise, which does not affect the aggregate value of their investment. Investors are strongly advised to peruse the available public announcements to keep abreast of changes in their investees especially when they see a material change in the prices; the announcements may indicate the reasons for the material changes.

### What are share split and share consolidation exercises?

Share split and share consolidation are regulated corporate actions conducted by companies to increase or reduce the number of shares traded on the stock exchange.

Both share consolidation and share split exercises are subject to shareholders' approval in the form of a special resolution at a general meeting, under Section 84 (1) of Company Act 2016.

In a share split, a company divides its number of issued shares by a pre-determined ratio. For instance, Company X which has 100 shares with a share price of RM10 per share, has proposed to divide the number of shares issued on the basis of 1-to-10. The number of shares it owns post-exercise will increase to 1,000 shares (100 shares x 10) with an adjusted share price of RM1 (RM10 / 10) each. Its market capitalization will remain unchanged at RM1,000.

Conversely, a share consolidation (reverse share split) works the other way-round by merging the number of issued shares based on a specified ratio.

Assume that a few years later, Company X decides to consolidate the number of shares it owns by 10-for-1. With an existing share price of RM1 and 1,000 issued shares. The number of shares available in Company X will be reduced to 100 shares (1,000 shares /10) with an adjusted share price of RM10 (RM1 X 10) post-consolidation. Its market capitalization stays unchanged before and after the exercise.

Ceteris paribus, there should be no capital appreciation before and after the share split/consolidation exercise. As such, neither shareholders' investment value nor the company's share capital will change.

Having said that, the asset value and earnings per share will be affected due to the splitting/consolidating effect.

**Why does a company split/consolidate its shares?**

There are several reasons companies consider carrying out a share split. Firstly, splitting shares increases the number of issued shares circulating in the market. With more shares available in the market, companies hope the trading liquidity of their shares will be improved.

Secondly, the psychological factor may play its part in a share split exercise. As the price of a stock gets higher and higher, some investors especially retail investors may feel the stock is "unaffordable". A share split can make shares seemingly more "attractive" and "affordable" to investors (even though the underlying value of the company has not changed).

With more shares in hand, shareholders also feel they have more shares to trade than before. This has the practical effect of increasing liquidity of the stock.

Meanwhile, share consolidation is commonly undertaken by listed entities which have a very large share base and low trading price. A share consolidation will result in a reduction in the number of shares available in the market.

Doing so will probably boost the company's market perception due to the common stigma attached to a penny stock, or to avoid delisting from stock exchanges, such as New York Stock Exchange and NASDAQ that impose the minimum bid price rule.

If a stock falls below the minimum bid price and remains lower than the threshold over a certain period, it risks being delisted from the exchange.

Moreover, share consolidation is perceived as another alternative for companies to reduce share volatility and speculative trading with a higher share price and lower number of issued shares after the consolidation.

**The two sides of the same coin**

Since both exercises will have zero effect on the fundamental value of the stock, critics are of the view that these are nothing but creative corporate exercise without any real business proposition.

It is worth noting that legendary value investor Warren Buffett is a firm believer of no-split. The Class A share of Buffett's flagship investment vehicle Berkshire Hathaway (BRK) has never undergone a share split. As of 29 December 2020, it is the most expensive publicly traded stock in the world with a share price of US$344,820.

By refusing to split the Class A share, Buffett seeks to attract like-minded investors who believe in long term plays with an extended investment horizon. By keeping the price high, it also discourages short-term trading which would increase the stock's volatility.

Interestingly, Buffett's BRK Class B shares which are traded at a fraction of the Class A price has the history of share split with a 50-to-1 split back in 2010. While some might argue that this is against Buffett's no-split stance on Class A shares, this duality is understandable, as it avails an affordable version of BRK to average investors.

On the other hand, proponents of share split/consolidation believe that the exercises will bring the share price down/up to a more "attractive" level (despite the zero effect on the fundamental value of the stock), thus enticing the entry of more new investors. The participation of new investors will then improve the dynamism and vibrancy of the stock.

A stock which was once perceived as "expensive" will be traded at lower price level after share split, while a penny stock which was shunned by investors in the past, now looks more enticing in the eyes of investing public after share consolidation.

As the stock is now traded at a more attractive price level after the exercise, they hope the participation of new investors will add to the dynamism and vibrancy of the stock.

However, be aware that share price alone does not necessarily reflect the value of the company. A higher share price does not necessarily equate to a good stock to hold. Similarly, a low share price could well be an undervalued gem waiting to be discovered. Thus, do not judge a stock by its share price in isolation.

Always remember, the age-old market adage, "Price is what you pay, value is what you get'.

**Conclusion**

In essence, both share split and share consolidation exercises should have no negative bearing on the part of shareholders. Share split/consolidation increases/decreases the number of shares held by shareholders with every shareholder being equally affected or simply, nobody loses out. Ceteris paribus, the two exercises should have a net neutral effect on one's investment.

But then again, when has the market ever been rational?

**Devanesan Evanson**
**Chief Executive Officer**

## MSWG AGM/EGM Weekly Watch 4 – 8 January 2021

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders 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.

| Date & Time | Company | Quick-take |
|---|---|---|
| 06.01.21 (Wed) 10.30 am | Top Glove Corporation Bhd (AGM) | Top Glove has experienced stellar growth in FY2020 due to the Covid – 19 pandemic which resulted in very strong demand for gloves. However, Top Glove's reputation was somewhat adversely affected by allegations of providing its workers of poor living accommodation. This has serious repercussions to the Company as ESG (Environmental, Social, Governance) considerations are becoming more important among investors in making their investment decisions. The Company has vowed to address the issue and in the coming financial year, it remains to be seen if it can improve this aspect of its operations. |

| | | |
|---|---|---|
| 07.01.21 (Thur)<br>10.00 am | KESM Industries Bhd<br>(AGM) | KESM saw a 22% decline in revenue to RM241 million in FY20 as compared to RM307.4 million in FY19 due to lower volume for burn-in, testing and EMS. The significant drop in U.S. car sales, coupled with the impact of the COVID-19 pandemic has affected its performance.<br><br>However, its net profit plummeted to RM96,000 (FY19: RM6.3 million).<br><br>Nevertheless, it expects the demand, particularly for electric vehicles to improve progressively from January 2021 onwards. |
| 07.01.21 (Thur)<br>10.00 am | KESM Industries Bhd (EGM) | The EGM is to seek shareholders' approval for its proposed renewal of existing shareholders' mandate for recurrent related party transactions for a revenue or trading nature. |
| 08.01.21 (Fri)<br>10.30 am | V.S. Industry Bhd<br>(AGM) | V.S. revenue in FY2020 declined 18.5% y-o-y to RM3.24 billion due to the imposition of MCO in Malaysia, resulted in the temporary stoppage in production, and lower order volume from one of its key customers.<br><br>Thus, its net profit dropped to RM116.5 million in FY2020 from RM165.4 million in FY2019. However, the Board believes that V.S. will perform better in FY2021, buoyed by the recovery of global and local markets and trade diversion opportunities from US-China trade war. |

| **One of the points of interest to be raised:** | |
|---|---|
| **Company** | **Points/Issues to Be Raised** |
| Top Glove Corporation Bhd (AGM) | Top Glove was in the news in December 2020 as it was reported that the Labour Department had ordered a probe into the alleged poor living conditions in some of its workers' dormitories. Although the Company had recorded stellar financial performance for FYE 2020, its perceived lack of attention to the living conditions of its workers may tarnish its reputation among investors who weighed ESG (Environment, Social, Governance) considerations as their prime yardstick for their investments. The Company's attention towards this |

| | |
|---|---|
| | matter is especially pressing as it's a member of the Dow Jones Sustainability Indices (DJSI) for Emerging Markets.<br><br>What are the measures being taken by the Company to address the issue of poor living conditions for workers in some of its dormitories? |
| KESM Industries Bhd (AGM) | 'Write-down of inventories' increased to RM1.4 million (2019: RM0.2 million) (page 69 of AR2020).<br><br>a) What were the reasons for the huge increase in write-down of inventories?<br>b) Are the inventories written down still salable? Are there any foreseeable write-downs for the financial year ending 2021? |
| SYF Resources Bhd (AGM) | The Company has been in a loss-making position for the last 3 financial years. (FYE 2018 to FYE 2020)<br><br>For FYE 2020, the Company managed to reduce its after tax loss position from RM44 million in the previous year to RM19.8 million.<br><br>What are the measures being taken by the Company to ensure that it returns to profitability in FYE 2021? |
| V.S. Industry Bhd (AGM) | The team made major breakthroughs by successfully securing two new customers from the US in August and October 2020 respectively, both of which were a result of the trade diversion. (Page 9 of AR).<br><br>How substantial are the contracts and the respective contract periods, with these two new customers, if any? Is the Group expecting securing further contracts in the short or medium term arising from the trade diversion? |

**MSWG TEAM**


Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)
Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)
Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)
Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)
Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)
Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)
Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)


***DISCLOSURE OF INTERESTS***

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

***DISCLAIMER***

*This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).*

*The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.*

*MSWG must be acknowledged for any part of this newsletter which is reproduced.*

*MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.*