



# The Observer

04.01.2019

## MESSAGE FROM THE CEO

### Analysing Prestariang - the Minority Shareholder Perspective

As at 18 December 2018, Prestariang Bhd's share price was at 28.5 sen, giving it a market capitalisation of RM140.36 million. Year-to-date, the counter had plunged by 81.13%.

Prestariang's share price performance (or the lack thereof) offers important lessons for minority shareholders to learn and be mindful in particular of three risk factors, to be taken into consideration, when making their informed investment decisions.

These factors are:

1. Whether there is concentration risk (as with the SKIN project) and whether the company is highly dependent on government contracts (political risk).
2. Risk of major shareholder holding a substantial shareholding stake which has been pledged for margin financing
3. Key-man shareholding risk

**Whether there is concentration risk (as with the SKIN project) and whether the company is highly dependent on government contracts (political risk)**

The drop in the share price was substantially due to the announcement by the Home Minister Tan Sri Muhyiddin Yassin that the Cabinet had decided to scrap the RM3.5 billion national immigration control system (SKIN) project, in which Prestariang holds a 70% stake.

Whenever a company is dependent on one or a few customers for the bulk of their revenue, there is concentration risk. Applying Pareto's Law, it would relate to instances where 20% of your customers contribute 80% of your revenue - what more if the customers who contribute the 80% revenue is lesser than 20% or worse still, a single customer contributes 80% of the revenue.

(The SC is mindful of such risks and makes it a point to insist that concentration risks are disclosed in IPO prospectuses. Note that such risks are also disclosed in the Notes to the Financial Statements in the Annual Report).

Political risk has been heightened with the recent change in government (first time ever for Malaysia). The recent election results show that such political risk can materialise. And one can easily count and name the PLC casualties arising from the recent change in the government.

In risk management parlance, we talk of 'likelihood' and 'consequences', and the political risk of changes in government must be assigned a higher factor, going forward, both in terms of 'likelihood' and 'consequence'.

## **Risk of major shareholder holding a substantial shareholding stake which has been pledged for margin financing**

On 18 December 2018, media report stated that Prestariang's president and chief executive officer Dr Abu Hasan Ismail had ceased to be a major shareholder of the Company, after he was 'forced' to sell his entire shareholding due to a margin call.

The sale of 117.19 million shares, representing a 24.30% stake, took place on 14 December, according to a filing by the Company. (Earlier, on 22 and 23 October, Abu Hasan had also disposed of Prestariang shares amounting to a 3.13% stake, also to rectify a personal margin position).

There is disclosure in the Annual Report of Dr Abu Hasan's shareholdings via substantial shareholdings, directors' shareholdings as well as Top 30 shareholders, all in the form of indirect interest disclosed as follows:

### **SUBSTANTIAL SHAREHOLDERS**

	Direct interest		Indirect interest	
	No. of shares held	%	No. of shares held	%
Dr. Abu Hasan Bin Ismail 27.43	-	-	132,301,400	

### **DIRECTORS' SHAREHOLDINGS**

	Direct interest		Indirect interest	
	No. of shares held	%	No. of shares held	%
Dr. Abu Hasan Bin Ismail 27.43	-	-	132,301,400	

### **THIRTY LARGEST SECURITIES ACCOUNT HOLDERS**

No.	Securities Account Holders	No. of Shares	%
1	EKOHATI SDN BHD	100,001,800	20.73
4	ANJAKAN EVOLUSI SDN BHD	18,480,000	3.83
7	SIGMA DEDIKASI SDN BHD	13,819,600	2.87
Totalled up to		132,301,400	27.43

All in, Abu Hassan was 'forced' to divest all his 27.43% shareholding in Prestariang within two months. This force-selling also took a toll on the share price, much to the indignance and disadvantage of minority shareholders.

Whilst there is disclosure in the Annual Report of Dr Abu Hasan's shareholding, there is no indication or any stipulation as to whether his shareholding has been pledged for any margin financing. Although announcements on his share disposals stated that such disposals were to rectify his personal margin account position, such information would have been too late or meaningful for minority shareholders.

The question that needs to be asked is whether the shares pledged (for margin financing and/or loans) by major shareholders need to be disclosed clearly in the Annual Report so that investors can make better-informed investment decisions.

Or for that matter, should such disclosures on shares pledged (for margin financing and/or loans) be extended to include substantial shareholders, directors and Top 30 shareholders. To make such disclosures pragmatic, we could stipulate a threshold, of say above 20%, so as not to cause tedious irrelevant disclosures.

We, at MSWG, feel that such information is useful for informed decision-making. Minority shareholders will find it useful to know the extent of the major shareholders' pledged shares which are exposed to margin financing as this may have a direct impact on future share prices (if 'force-selling' were to happen).

Pledged shares are always at risk of being force-sold when share prices drop to a certain level (as stipulated in the conditions in the agreements pursuant to which margin financing is obtained). Such force-selling creates a downward pressure on share prices.

#### **Key-man shareholding risk**

Where the key-man is also a major shareholder, and all his shares are 'force sold', or he ends up with a substantially lesser shareholding, there is a risk that he may not be as committed as he has no 'skin in the game'. What real tangible assurance is there that the key-man major shareholder will continue to perform when he has no (or substantially reduced) shareholding in the company.

In Prestariang's case, Abu Hasan said he would remain as the president and CEO and has the support of the new institutional owners and the board of directors to continue to lead the management team. In a separate statement, the board of Prestariang also expressed its backing for Abu Hasan to continue leading the group.

Many minority shareholders invest in PLCs where the key-man major shareholder has a stake in the PLC as they see an alignment between the key-man major shareholder's interest and the minority shareholders interest. If there is a risk that the key-man major shareholder may end up not being a key-man major shareholder (or a key-man major shareholder with a substantially reduced shareholding), the minority shareholder will like to know about such risk possibilities.

It is worthy to note that the aforesaid happenings and the risks can also "strike" any other PLCs and warrant serious attention. It is, therefore, timely for regulators to consider whether there is merit in making the disclosure of pledged shares, which are subject to margin financing, of major shareholders and key-man major shareholders, a disclosure item. This piece of information will help minority shareholders make a better-informed investment decision.

## **MSWG'S QUICK TAKE ON ONGOING CORPORATE DEVELOPMENTS**

### **FSBM HOLDINGS BERHAD**

**Status of the issuance of the Annual Report in respect of the financial year ended 30 June 2018 pursuant to Paragraph 9.28(4)(b) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities")**

The Board of Directors' of FSBM Holdings Bhd ("FSBM" or "the Company") hereby announces that the Company is not able to issue its Annual Report that includes the annual audited financial statements together with the auditors' and directors' reports of the Company in respect of the financial year ended 30 June 2018 ("Outstanding Financial Statements/Annual Report 2018") by 31 December 2018 for submission to Bursa Malaysia Securities Berhad ("Bursa Securities") and shareholders as the Company is still striving to resolve the outstanding issues relating to the recoverability of certain trade and other receivables.

The Company requires more time to complete the Outstanding Financial Statements and will endeavour to issue and submit its Annual Report 2018 to Bursa Securities and shareholders on or before 29 March 2019 ("expected date of issuance").

With a view to expedite the issuance of the Annual Report 2018, Management is actively undertaking measures to resolve the above outstanding issues and discussing with the External Auditors in order to complete the Annual Report 2018 by the expected date of issuance.

Pursuant to Paragraph 9.28(5) of the Main Market Listing Requirements ("MMLR"), if FSBM fails to issue its Annual Report 2018 within five (5) market days after the expiry of the timeframe as stated in Paragraph 9.23 of the MMLR, i.e., 31 October 2018 which is a period not exceeding four (4) months from the close of the financial year ended 30 June 2018 (the last day of this 5 market days shall hereinafter be referred to as "the Suspension Deadline"), in addition to any enforcement action that Bursa Securities may take, Bursa Securities shall suspend trading in the securities of FSBM.

The suspension shall be effected on the market day following the expiry of the Suspension Deadline and shall be uplifted on the market day following the issuance of the Annual Report 2018 unless otherwise determined

by Bursa Securities. As such, FSBM's securities have been suspended from trading with effect from 9 November 2018.

Pursuant to Paragraph 9.28(6) of the MMLR, if FSBM fails to issue the Annual Report 2018 within six (6) months from the expiry of the timeframe, i.e., 31 October 2018, in addition to any enforcement action that Bursa Securities may take, de-listing procedures shall be commenced against FSBM.

Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6020909>

MSWG's comment: This is the fourth time FSBM announced a delay in submitting annual report for the financial year ended 30 June 2018 due to the outstanding issues relating to the recoverability of certain trade and other receivables.

The company first announced the delay on 31 October 2018. The announcement resulted shares of FSBM suspended with effect from 9 November 2019, in pursuant to Paragraph 9.28(5) of the Listing Requirements.

MSWG hopes the matter will be resolved by the board and the management soon, so as the shareholders would not be left in the dark.

### MSWG'S AGM WEEKLY WATCH 7 January - 11 January 2019

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](http://www.mswg.org.my).

Date & Time	Company	Venue
07.01.19 (Mon) 10.00 am	Concrete Engineering Products Bhd (AGM)	Institut Integriti Malaysia, Persiaran Tuanku Syed Sirajuddin, Kuala Lumpur
08.01.19 (Tues) 10.30 am	Top Glove Corporation Bhd (AGM)	Top Glove Tower of 16, Persiaran Setia Dagang, Setia Alam, Seksyen U13, 40170 Shah Alam, Selangor.
10.01.19 (Thur) 10.00 am	Suria Capital Holdings Bhd (EGM)	Wisma Sabah Ports, Sapangar Bay Container Port, Sapangar Bay, Kota Kinabalu, Sabah

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Concrete Engineering Products Bhd (AGM)	<p><u>Key Audit Matter- Impairment of Trade Receivables (Page 41 of the Annual Report 2018)</u></p> <p>Based on the impairment assessment, the Board recognised a cumulative allowance for impairment loss of RM10,691,910 in respect of the Group's and the Company's trade receivables as at reporting date.</p> <p>What is the prospect of recoverability of the amount? What actions have been taken to collect the impaired trade receivables?</p>
Top Glove Corporation Bhd (AGM)	<p>As stated on page 52 of the Sustainability Statement of the AR 2018, the Group recorded higher incident and severity rate in FY18, to 3.82 cases per 1,000 employees (2017: 2.31 cases) and 21.29 per million hours (2017: 14.05) worked respectively.</p> <p>i) What were the reasons for the increases in incident and severity rate?</p> <p>ii) What are the measures to be taken to ensure a safer workplace for all employees?</p>

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## MSWG'S WATCHLIST

### MERGE ENERGY BHD

INDEPENDENT ADVICE CIRCULAR TO THE HOLDERS IN RELATION TO THE UNCONDITIONAL MANDATORY TAKE-OVER OFFER BY WESTIARA DEVELOPMENT SDN BHD, CERDIK CEMPAKA SDN BHD, FINE APPROACH SDN BHD, ANJURAN UTAMA SDN BHD AND DATO' LEE TIAN HOCK (COLLECTIVELY, THE "JOINT OFFERORS") THROUGH HONG LEONG INVESTMENT BANK BERHAD TO ACQUIRE ALL THE REMAINING ORDINARY SHARES IN MERGE ENERGY BHD NOT ALREADY OWNED BY THE JOINT OFFERORS, ULTIMATE OFFERORS AND PERSONS ACTING IN CONCERT WITH THEM ("OFFER SHARES") FOR A CASH OFFER PRICE OF RM0.88 FOR EACH OFFER SHARE

#### Recommendation by KAF Investment Bank Berhad (KAF IB):

KAF IB is of the view that the Offer is NOT FAIR and NOT REASONABLE. KAF IB advises and recommends that Holders to REJECT the Offer.

#### Recommendation by the non-interested Directors:

The Non-Interested Directors have CONCURRED with the evaluation and recommendation of KAF IB that the Offer is NOT FAIR AND NOT REASONABLE and therefore, recommend the Holders to REJECT the Offer.

Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6021593>

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## MSWG'S VIGILANCE

### Listing of PN17 and GN3 companies

#### PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. BERJAYA MEDIA BERHAD
4. BERTAM ALLIANCE BERHAD
5. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
6. DAYA MATERIALS BERHAD
7. EKA NOODLES BERHAD
8. HB GLOBAL LIMITED
9. KINSTEEL BHD
10. KUANTAN FLOUR MILLS BERHAD
11. MAA GROUP BERHAD
12. MALAYSIA PACIFIC CORPORATION BERHAD
13. MAXWELL INTERNATIONAL HOLDINGS BERHAD
14. MULTI SPORTS HOLDINGS LTD
15. PERISAI PETROLEUM TEKNOLOGI BERHAD
16. RGT BERHAD (fka ASIA KNIGHT BERHAD)
17. STONE MASTER CORPORATION BERHAD
18. SUMATEC RESOURCES BERHAD
19. TH HEAVY ENGINEERING BERHAD
20. UTUSAN MELAYU (MALAYSIA) BERHAD
21. YFG BERHAD

#### GN3 Companies

1. G NEPTUNE BERHAD
2. IDIMENSION CONSOLIDATED BERHAD
3. WINTONI GROUP BERHAD

Please refer to the link below for the latest status of the company.

<http://www.bursamalaysia.com/market/listed-companies/list-of-companies/pn17-and-gn3-companies/>

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## LOCAL NEWS AND DEVELOPMENTS

Top Glove mulls Turkey factory

<http://www.theedgemarkets.com/article/top-glove-mulls-turkey-factory>

Exemption of RPGT, service tax from Jan 1, 2019

<https://www.theedgemarkets.com/article/exemption-rpgt-service-tax-jan-1-2019>

Stamp duty hike for properties over RM1m deferred for six months to July 1, 2019

<http://www.theedgemarkets.com/article/stamp-duty-hike-properties-over-rm1m-deferred-six-months-july-1-2019>

Public Bank appoints Lai Wan chairman

<https://www.thestar.com.my/business/business-news/2019/01/01/public-bank-appoints-lai-wan-chairman/>

Hyflux gets Maybank's approval to extend deadline

<https://www.thestar.com.my/business/business-news/2019/01/01/hyflux-gets-maybanks-approval-to-extend-deadline/>

PUC buys remaining 67% stake in Pictureworks

<https://www.thestar.com.my/business/business-news/2019/01/01/puc-buys-remaining-67-stake-in-pictureworks/>

Fortis auditors resign as IHH wants to streamline audit process

<https://www.thestar.com.my/business/business-news/2019/01/01/fortis-auditors-resign-as-ihh-wants-to-streamline-audit-process/>

Sim Leisure files preliminary IPO document with SGX

<https://www.thestar.com.my/business/business-news/2018/12/29/sim-leisure-files-preliminary-ipo-document-with-sgx/>

MAHB's bid to offload Indian airport stake fails

<http://www.theedgemarkets.com/article/mahbs-bid-offload-indian-airport-stake-fails>

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## GLOBAL NEWS AND DEVELOPMENTS

China's factory activity falls for first time in 2-1/2 years: official PMI

<https://in.reuters.com/article/us-china-economy-pmi-manufacturing-offic/chinas-factory-activity-falls-for-first-time-in-2-1-2-years-official-pmi-idINKCN1OU01C>

India cuts tax on palm oil imports; Malaysia to gain most

<https://www.thestar.com.my/business/business-news/2019/01/02/india-cuts-tax-on-palm-oil-imports-malaysia-to-gain-most/>

Big banks look to cut back, alter credit card rewards programs: WSJ

<https://www.reuters.com/article/us-banks-credit-cards/big-banks-look-to-cut-back-alter-credit-card-rewards-programs-wsj-idUSKCN1OV1SX>

Fatalities on commercial passenger aircraft rise in 2018

<https://www.reuters.com/article/us-airlines-safety-worldwide/fatalities-on-commercial-passenger-aircraft-rise-in-2018-idUSKCN1OW007>

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## MSWG TEAM

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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, save for FSBM Holdings Bhd and Merge Energy Bhd.*

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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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