



The Observer

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❖ Improved job numbers but downside risks remain

In his magnum opus, *The Wealth of Nations* published in 1776, the Father of Economics Adam Smith argued that the enlargement of production rather than the trade sector would create greater wealth for the country.

As it is, the four factors of production namely labour, land, capital and entrepreneurship are the essential inputs which allow the production of goods and services. These factors are considered the building blocks of an economy, intricately interwoven to keep the wheels of the economy spinning.

The importance of labour in an economy could not be stressed enough. Economists believe that a quality workforce will drive economic growth by way of higher productivity and innovation. Workers in turn enjoy better living standards by way of higher wages. The higher wages would in turn boost consumer spending and create demand for goods and services provided by firms.

This is the reason job numbers are an important indicator for governments and central banks to assess the health of an economy and set monetary policy.

Locally, our labour market is still reeling from the impact of the COVID-19 pandemic.

Since the COVID-19 pandemic hit the shores of Malaysia in early 2020, the government had implemented various phases of movement control order (MCO) to curb the spread of the disease. Businesses are required to observe strict standard operating procedures (SOPs) by limiting their business hours and workforce. Businesses whose top line and bottom line were affected, had resorted to pay-cuts or laying off their workers to ensure business survivability.

This inadvertently triggered a soaring unemployment rate. The number of unemployed people increased 57.3% to 826,100 in May 2020, from 525,200 in February (before the COVID-19 pandemic hit). As a result, the unemployment rate spiked to 5.3% as compared to 3.3% during the same corresponding period.

The year 2020 saw the unemployment rate rise to 4.5% in 2020 compared to 3.3 % in 2019. Notably, this was the highest unemployment rate recorded since 1992, according to data by the Department of Statistics Malaysia (DOSM). Overall, the number of unemployed people jumped 40% year-on-year to 711,000 from 508,200 in 2019.

In addition, the number of people who worked less than 30 hours due to the nature of work or insufficient work had increased 65% to 556,800 from 337,600. This caused the share of those who work less than 30 hours per week to the total of employed persons increase by 1.5% to 3.7% in 2020 as compared to 2.2% in 2019.

The unemployment rate remained above 4.5% for most of the months of 2021. Nevertheless, things have begun to look up for Malaysians. As the economy is opening, more businesses resumed their activities. This had propelled the number of unemployed people to drop below 700,000 for the first time since April 2020.

DOSM said the improved labour force condition was in line with the revival of more economic and social activities, thus reducing the number of unemployed persons.

Cautious job market outlook

Kenanga Research expects the 2021 unemployment rate to settle within its projection of 4.6% before improving in 2022 to 3.9%, in line with the broad re-opening of the domestic economy underpinned by the progress of the COVID-19 vaccination campaign. The research house expected the local economy to continue its recovery momentum, bolstered by various ongoing policy support and robust external demand.

While policymakers and government cheer over the improved job numbers, economists cautioned that the outlook may not be as rosy as expected.

Dr Geoffrey Williams, Professor and Dean of the Institute of Postgraduate Studies at Malaysia University of Science and Technology, was reported saying that the public should be cautious whether the fall in unemployment is an improvement in economic and social conditions or due to government policies. (Source: Article titled "*Underemployment remains a concern amid lowest unemployment rate*" dated 11 January 2022 published on The Malaysian Reserve)

He expected the headline unemployment rate to continue declining in December 2021 and 2022. The fall in the headline unemployment figure will be seen as positive and reflects the easing of restrictions that allow businesses to open again and take on workers they had previously fired.

On the flip side, he noticed that there has been an increase in low-paid jobs too. He noted there was an increase of 20,100 own account workers which are mainly daily wage earners in small and medium enterprises or gig-economy workers on low salaries. There was also an increase of 4,700 in unpaid family workers and an increase in those who are self-employed by 3,800. Taken together, this is 28,600 precarious workers on low pay.

"So, although the unemployed number has fallen and the number both in work and in the labour force has risen, the quality of jobs and wages are low," he said.

While cheered over the improved job numbers, Professor of Economics at Sunway University Business School Dr Yeah Kim Leng wished to see the creation of more high-value jobs through new investments to truly help lift the job market and create a more skilled workforce.

He deemed the current phase as just a resumption of economic activities and a normalisation of demand after the setbacks of the COVID-19 lockdowns. Also, the shortage in supplies in many industries may generate greater demand for employees.

Jobs aplenty but of lower quality

Now, the local labour market appears to experience a job quality crisis. Jobs are aplenty in labour-intensive industries i.e., manufacturing, plantation, but they seem to be of lower quality. This is unhealthy for our economy and development in the long run.

The Malaysian Rubber Glove Manufacturers Association (MARGMA) has in recent times appealed to the Government to allow foreign workers to enter the country to meet growing demand, citing a critical shortage of 25,000 workers since 2019.

The association said, notwithstanding Human Resources Ministry's local hiring programmes such as JobsMalaysia and PenjanaKerjaya since 2019, these programmes have seen little success as the take-up rate is way below MARGMA's targeted 10,000 local workers.

Similarly, some PLCs cited manpower woes as one of the reasons they posted poor financial performance. For instance, electronic manufacturing service provider ATA IMS Bhd attributed its Q2FY2022 net loss of RM11.17 million to manpower woes which were further exacerbated by the imposition of full movement control order (FMCO) during the period.

Over at the plantation front, analysts noted that the planned intake of foreign workers to address the labour shortage issues in the industry appeared to have been delayed. The labour shortage problem will likely be partially alleviated in the first half of 2022.

Anthony Dass, the group chief economist and head of AmBank Research said the prevalence of low-quality jobs in the labour market may hinder economic growth and strain public budgets. (Source: Article titled "*Quality jobs needed to aid recovery momentum*" dated 10 January 2022 published on The Star Online)

As people involved in such jobs generally receive minimum wage, their purchasing power is limited by their pay. They are also more susceptible to financial stress, income insecurity and ill health. Also, businesses may benefit from the increase of quality jobs, in line with improved economic competitiveness. In this 21st century, a "race to the bottom" is no longer a winning economic development formula.

It is now in the hand of policymakers to attract quality investments to create quality employment for Malaysians. At the same time, we must buck up our education system to create a quality and skilled workforce. If the trend of low-quality jobs persists, Malaysia risks being trapped in the middle-income bracket.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 17 – 21 January 2022

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
17.01.22 (Mon) 10.00 am	Fraser & Neave Holdings Bhd (AGM)	<p>F&N managed to grow its revenue by 3.6% y-o-y to RM4.13 billion despite the tough operating environment.</p> <p>However, its net profit declined 3.7% to RM395.1 million in FY2021, mainly due to higher increased commodity and freight costs and restructuring expenses. This was partially mitigated by investment tax incentives at F&B Thailand and deferred tax assets recognised for F&B Malaysia.</p> <p>Moving forward, it remains cautious given ongoing challenges and global uncertainties. It does not expect the market to return to pre-pandemic conditions anytime soon and foresee that commodity prices will remain inflated moving forward.</p>
20.01.22 (Thur) 10.00 am & 10.30 am	Revenue Group Bhd (EGM)	<p>Revenue Group will be holding two EGMs next Thursday to seek shareholders' approval for two resolutions.</p> <p>The first resolution is on the proposed acquisition of 4 plots</p>

		<p>of leasehold lands with buildings erected from Starplus Corporation Sdn Bhd for RM24.50 million and RM19.50 million respectively. The Proposed Acquisitions represent an opportunity for Revenue Group to acquire strategic properties, which will enable it to expand and consolidate operation under one roof.</p> <p>In addition, it also seeks to obtain approval for a proposed extension of the combined profit guarantee period from 30 September 2020 to 31 December 2020 in relation to the acquisition of 51.0% equity interest in Buymall Services Sdn Bhd by its wholly-owned subsidiary Revenue Harvest.</p>
20.01.22 (Thur) 11.00 am	Johan Holdings Bhd (AGM)	<p>For the 18-month financial period ended 31 July 2021, Johan had recorded a net profit of RM161.06 million, thanks to the disposal of Diners Club (Singapore) Pte Ltd and Diners Pay Pte Ltd in 2021. Notably, this was the first time it chalked up net profit since FY2012.</p> <p>However, this performance may not be sustainable as it had incurred loss from continuing operation.</p> <p>Moving forward, its financial performance is expected to be driven by its new expansion into glove manufacturing activities.</p>
21.01.22 (Fri) 10.30 am	Astino Bhd (AGM)	<p>For FY2021, Astino had achieved the highest PBT since it was listed in Bursa Malaysia back in 2003. The improvement on PBT was mainly due to heightened average selling prices boosting profit margins.</p>

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Fraser & Neave Holdings Bhd (AGM)	<p>One of the key focus areas of F&B Malaysia and F&B Thailand is to build the Group's online presence to connect more effectively with consumers (page 68 & 76 of AR 2021).</p> <p>(a) How successful is the Group's e-commerce business such as F&N Life, online stores on Shopee and Lazada in Malaysia, and <i>nom aroi</i> in Thailand? How much e-commerce sales accounted for the Group's total revenue for FY2021?</p> <p>(b) What are the plans to further expand e-commerce business? What are the metrics used by the board to track the Group's progress in e-commerce in Malaysia and Thailand?</p>
Johan Holdings Bhd (AGM)	<p>Dynacare Sdn Bhd - a 60%-owned subsidiary of Johan targeted to commence the commercial production of a glove manufacturing plant in Perak by end of November 2021.</p> <p>(a) Has Dynacare begun to contribute financially to the Group?</p> <p>(b) To whom will Dynacare sell its gloves to? How does it compete with other glove producers amidst the current lower average selling prices and influx of gloves supply in the market?</p> <p>(c) It was reported that the glove manufacturing plant would cost RM624.1 million to complete. Upon completion, the plant will house 42 production lines. How much had Johan invested in the gloves business? Does Johan plan to tap into equity financing to fund the new business? To recap, Johan had completed a rights issue exercise in July 2021 and raised RM38.93 million to fund the glove business.</p> <p>(d) How long will it take for Dynacare to achieve breakeven from its investment?</p>
Astino Bhd (AGM)	<p>Practice 4.2 of the Malaysian Code on Corporate Governance (MCCG) states that if the Board continues to retain the independent director after the twelfth year, the Board should seek annual shareholders' approval through a two-tier voting process.</p> <p>The Board through Resolution 10 is seeking shareholders' approval for an independent director who has served for more than 12 years, to continue to act as Independent Non-Executive Directors of the Company.</p>

	Is the Board going to implement the two-tier voting process at the upcoming AGM as per Practice 4.2? If the Board does not intend to implement the two-tier voting process, please explain why?
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•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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