



The Observer

14.09.2018

MESSAGE FROM THE CEO

PLCs sitting on large cash balances

Every now-and-then, we come across PLCs sitting on large cash balances.

Inevitable, minority shareholders, and even institutional shareholders, sometimes raise the following question to the Board at AGMs: “Why don’t you distribute some of the cash rather than just sitting on it?”

For these shareholders, their rationale is simple: if you do not have any plans to use the money (like capex) over the next few years, why do you not return the money to shareholders as dividends.

Shareholders often phrase their statement to the Board as the PLCs ‘not sweating their assets (cash) enough’. The cash is merely sitting in the PLC and the PLC is only getting FD rates. This is not the reason why the shareholders parted with their cash to invest in the PLC, especially during the IPO.

To be fair, some of these PLCs do declare dividends while some do not. While some dividends are generous, the other dividends are not so...barely above the Fixed Deposit (FD) rates.

The answer from the Boards are often that the cash is being held as a ‘war chest’...we do not know what bargains (acquisitions/takeovers) will come our way in the future and when it does come, we must have sufficient cash. The PLCs argue that with cash settlement terms, they can obtain better prices and at the same time not affect their gearing ratios adversely.

Both the shareholders request and the PLCs response have merit. But is there a middle ground?

PLCs with substantial cash balances should declare generous dividends. The word ‘generous’ itself is subjective in the context of the savings for a ‘war chest’. Perhaps, what would appease the shareholders is a dividend yield that would be at least, above their popular opportunity cost i.e. the FD rate. Of course, ‘the more the better’ as far as shareholders are concerned, especially the minority shareholders.

From the PLCs perspective, their Boards need to consider what is enough for a ‘war chest’ and what should be declared as a healthy dividend. There can be a great temptation for these PLCs to have a ‘the more the better’ attitude (also) in relation to their increasing cash balances...and adopt a somewhat miserly attitude when it comes to declaring dividends.

From a financial statement analysis perspective, sitting on idle cash does not do any favours to the PLC. It creates a situation where your ‘return on capital employed’ is low.

Another trend that we have noted is in relation to the share price of such PLCs in that their share prices do not increase in tandem with the increasing cash balances. In fact, the share prices of most of such PLCs, which often

have a business as usual model, trade sideways when it comes to their share prices. There are no share price increases to enhance the long-term value of the shareholders.

What we have noticed in some of the AGMs that we have been attending is that there is an increasing trend for shareholders to ask such questions at the AGMs of PLCs with large cash balances.

The advice to such PLCs is to be prepared to answer such questions convincingly.

Shareholders have parted with their money to invest in the PLC and expect a decent dividend. When the PLC went for an IPO, it was the shareholder who parted with their cash for the PLC to increase their operations...and by the same logic, the PLC should return the cash if they have no other foreseeable use for it.

Regards,
Devanesan
14 September 2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

FGV HOLDINGS BERHAD ("FGV" or "the Company")

The Company had on 12 September 2018 announced that FGV received a letter from the Minister of Finance (Incorporated), FGV's Special Shareholder on 12 September 2018 withdrawing their nomination of Dato Zakaria Arshad as Government Appointed director in implementing FGV's new Constitution.

On 13 September 2018, the Board of Directors of FGV announced that a Notice of Inquiry has been issued to the Group President/Chief Executive Director ("GP/CEO") of FGV on following the conclusion of internal investigations into 10 critical issues that has resulted in financial loss for FGV and its shareholders.

Following the Notice of Inquiry, the powers and authorities vested in Dato' Zakaria Arshad as the GP/CEO of FGV have been suspended commencing from 13th September 2018, pending further notification by the Board.

FGV will continue its business as usual. In the interim, the Special Board Committee 2 comprising of four (4) FGV Directors, namely its Chairman, Datuk Wira Azhar Abdul Hamid, Datuk Dr. Salmiah Ahmad, Dr. Mohamed Nazeeb P.Alithambi and Datin Hoi Lai Ping, will take over the responsibilities to perform the functions of the GP/CEO of FGV.

MSWG's Comments:

Once again, FGV is in the spotlight. For the second time within a period of less than 2 years, its GP/CEO is suspended from duties following the conclusion of the internal investigations into 10 critical issues.

Given the importance of the role of a CEO in a Company, the suspension of a CEO will, to a certain extent, affect the smooth running of the business operations. In addition, the necessary investigation on the suspected wrongdoings has and will divert the attention of the Board and management from running the business of the Company. This will impact the enhancement of long-term shareholder value and the interests of stakeholders.

Having the right candidates on the Board and the right candidate as CEO to run the Company is the first defence level. It would mitigate the risk of wrongdoings that could lead to prolonged and complicated investigations. The Special Shareholder (Golden Share) of FGV has the right to nominate some candidates to the Board as Government Appointed Directors to run the Company. We are of the view that all nominated candidates should, nevertheless, be subject to a through and robust selection process carried out by the Nominating Committee of the Company. The Nominating Committee of the Company should be given the opportunity to play their role to assess all the nominated candidates with a view of selecting the right candidates for the Company. If a candidate nominated by the Special Shareholder is deemed unsuitable, the Nominating Committee should highlight this to the Special

Shareholder in a formal manner. That should be the least expected of the Nominating Committee in such circumstances.

MSWG'S AGM WEEKLY WATCH 18 September - 21 September 2018

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	Venue
20.09.2018 (Thur), 10.30 am.	Brem Holdings Bhd	Crystal Crown Hotel, No. 12, Lorong Utara A, Off Jalan Utara, PJ
21.09.2018 (Fri), 9.30 am.	Turiya Berhad	Menara Suruhanjaya Koperasi Malaysia, Changkat Semantan, Bukit Damansara, KL
21.09.2018 (Fri), 9.30 am.	NTPM Holdings Berhad	Bukit Jawi Golf Resort, Seberang Perai Selatan, Pulau Pinang.

Some of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Brem Holdings Bhd	<p>The Group is expected to secure new contracts and generate reasonable profit margin in future and is actively involved in tendering contracts and aims to win tenders to raise the Group profile in civil engineering and construction industry (page 16 of the Annual Report 2018).</p> <p>What is the Group's current tender book value and how much contract value does the Group intend to bid for in the next few years?</p>
Turiya Berhad	<p>1. We refer to the Independent Auditors' Report disclosed on pages 154 to 159 of the Annual Report and would like to seek clarifications on the qualified opinion pertaining to treatment of other investment as non-current asset and classified as held for sale.</p> <p>(a) Please elaborate on the auditors' inability to obtain sufficient and appropriate audit evidence that the sale is highly probable.</p> <p>(b) What was the basis for the Group's assessment and opinion that there was no impairment loss on the other investment?</p> <p>2. As disclosed in the Independent Auditors' Report, there is also concern that as at 31 March 2018, the Group's and the Company's current liabilities exceeded their current assets (excluding non-current assets classified held for sale) by RM3,734,554 and RM3,801,122 respectively.</p> <p>In relation to the Group's response stated on page 155 of the Annual Report, please elaborate on the Group's ability to generate sufficient cash inflows and also the expected estimated cash inflows from the tenancy for the investment property.</p>
NTPM Holdings Berhad	<p>As stated in the Managing Director's Review and Management Discussion & Analysis on page 2 of the Annual Report, the decrease in the Group's profit was mainly due to erosion of profit margin for tissue paper products that had higher cost of raw materials. Other factors are increased labour cost and electricity tariff, spillover effects of MYR depreciation against USD on imported raw material and increased operating expenses.</p>

Some of the points of interest to be raised:	
	What are the key measures taken to ensure that the Group is able to sustain its performance in FY2019?

MSWG'S WATCHLIST

UNISEM (M) BERHAD ("Unisem" or "the Company")

RECEIPT OF NOTICE OF PRE-CONDITIONAL VOLUNTARY CONDITIONAL TAKE-OVER OFFER

The Board of Directors of the Company ("Board") announced that the Board has on 12 September 2018, received a notice together with a pre-conditional announcement ("Pre-Conditional Offer Announcement") from Maybank Investment Bank Berhad ("Maybank IB") in relation to the voluntary conditional take-over offer to be undertaken by Huatian Electronics Group (HK) Limited and Huatian Technology (Malaysia) Sdn Bhd (collectively referred to as "Chinese Offerors") and Mr John Chia Sin Tet, Mr Alexander Chia Jhet-Wern, Jayvest Holdings Sdn Bhd and SCQ Industries Sdn Bhd (formerly known as SCQ Industries Berhad) (collectively referred to as "Malaysian Offerors") ("Joint Offerors") that upon satisfaction of all the pre-conditions stipulated in Section 2 of the Pre-Conditional Offer Announcement ("Pre-Conditions"), to acquire all the issued shares in the Company, not already held by the Joint Offerors ("Offer Shares"), in accordance with the Rules on Take-Overs, Mergers and Compulsory Acquisitions ("Rules") ("Offer").

[Source: Unisem's announcement on Bursa Malaysia's website on 12 September 2018]

SAPURA ENERGY BERHAD

EXECUTION OF HEADS OF AGREEMENT FOR THE PROPOSED SALE OF FIFTY PER CENT EQUITY IN SAPURA UPSTREAM SDN BHD (SAPURA UPSTREAM) (FORMERLY KNOWN AS SAPURA EXPLORATION AND PRODUCTION SDN BHD) TO OMV AKTIENGESELLSCHAFT (OMV AG)

The Board of Directors of the Sapura Energy Berhad ("SEB" or "Company" or "Group") wishes to announce that the Company ("Seller") have today entered into a Heads of Agreement ("HOA") for the proposed sale of a fifty per cent stake in its wholly-owned subsidiary, Sapura Upstream to OMV AG ("Purchaser") (SEB and OMV AG collectively known as "the Parties"). The parties have agreed to continue ongoing negotiations on an exclusive basis.

The HOA expresses the intentions of the Parties to form a strategic partnership premised on creating sustainable long-term growth, expanding portfolios and future business activities while realising synergies in the value chain.

The HOA will suspend any ongoing listing process for Sapura Upstream pending the completion of the negotiations and definitive agreements.

[Source: SEB's announcement on Bursa Malaysia's website on 12 September 2018]

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. ASIA KNIGHT BERHAD

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

GN3 Companies

1. G NEPTUNE BERHAD
2. 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/>

LOCAL NEWS AND DEVELOPMENTS

Malaysian palm oil/Vegoils: Market factors to watch Thursday Sept 13

<https://www.thestar.com.my/business/business-news/2018/09/13/palm-oil-market-factors-to-watch-september-13/>

M'sian and Chinese parties in bid to take over Unisem

<https://www.thestar.com.my/business/business-news/2018/09/13/msian-and-chinese-parties-in-bid-to-take-over-unisem/>

Ringgit opens higher against US\$ on higher oil prices

[https://www.thestar.com.my/business/business-news/2018/09/13/ringgit-opens-higher-against-us\\$/](https://www.thestar.com.my/business/business-news/2018/09/13/ringgit-opens-higher-against-us$/)

Sapura Energy shares up on disposal of O&G arm

<https://www.thestar.com.my/business/business-news/2018/09/13/sapura-energy-shares-up-on-disposal-of-og-arm/>

MoF removes Zakaria as appointee in FGV's board

<http://www.theedgemarkets.com/article/mof-removes-zakaria-appointee-fgvs-board>

GLOBAL NEWS AND DEVELOPMENTS

Asian shares win reprieve on Sino-US trade talk hopes

<https://www.thestar.com.my/business/business-news/2018/09/13/asian-shares-win-reprieve-on-sino-us-trade-talk-hopes/>

There's an Inflation Crisis Brewing in the Philippines

<https://www.bloomberg.com/news/articles/2018-09-12/inflation-crisis-brewing-in-the-philippines-is-hurting-consumers?srnd=markets-vp>

Brexit, Bad News and Weather Take Blame for U.K. Housing Woes

<https://www.bloomberg.com/news/articles/2018-09-12/brexit-bad-news-and-weather-take-blame-for-u-k-housing-woes?srnd=markets-vp>

U.S. Asks China for New Round of Trade Talks Led by Mnuchin

<https://www.bloomberg.com/news/articles/2018-09-12/u-s-is-said-to-propose-new-round-of-trade-talks-with-china>

Alibaba teams up with Russian tech giant

<https://www.thestar.com.my/business/business-news/2018/09/12/alibaba-teams-up-with-russian-tech-giant/>

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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.*

Feedback

We welcome your feedback on our newsletter and our work. Email us at corporateservices@mswg.org.my with your comments and suggestions.

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