



# The Observer

18.12.2020

## ❖ How much risk can Tropicana stomach in its “strategic investment” in Top Glove?

Top Glove Corporation Bhd's share buyback activities have taken a new twist recently when property developer Tropicana Corporation Berhad announced that it had snapped up 11.25 million Top Glove shares worth RM73.06 million on 2 December.

Top Glove's founder and executive chairman Tan Sri Lim Wee Chai is also the non-independent non-executive chairman of Tropicana. Lim holds a 11.07% stake in Tropicana.

In a filing to Bursa Malaysia dated 3 December, Tropicana said the purchase of Top Glove shares was conducted “at prevailing market prices from the open market” via its indirect wholly-owned Desiran Reality Sdn Bhd. This translated into an average price of RM6.49 per share, representing about a 0.14% stake in Top Glove.

In justifying its action, Tropicana said the purchase of Top Glove shares would enable it to capitalise on the investment in Top Glove “with favourable long-term prospects” of the glove industry due to its high global demand.

“The acquisition can allow Tropicana to benefit from the prospects of the manufacturing and trading of gloves which is largely contributed by increased demand globally for gloves due to the on-going COVID-19 pandemic and also the growth in the global healthcare services industry,” noted the property developer.

Lim, who holds an 11.07% stake in Tropicana, is also the chairman and founder of Top Glove where he holds a 25.68% stake.

The glove tycoon had bought into Tropicana in October 2017 from Tan Sri Danny Tan Chee Sing and his two related companies, Golden Diversity Sdn Bhd and Aliran Firasat Sdn Bhd, for an undisclosed sum.

However, Tropicana's shareholders may not sit well with the fact that the acquisition of Top Glove shares was funded by internally generated funds, especially since the

property developer does not seem to have a 'healthy war chest' in view of the prolonged soft property market.

As at 30 September, Tropicana's cash balance amounted to RM703.8 million. However, its long-term borrowings swelled to RM2.82 billion from RM1.57 billion a year ago, while its short-term liabilities shrank to RM528.7 million from RM942.2 million. On top of that, the developer has issued perpetual bonds of RM248.2 million.

### **Query from Bursa Malaysia**

Further to its 3 December announcement, Tropicana received a query from Bursa Malaysia which sought additional information about its acquisition of Top Glove shares.

Of interest is the issue of conflicting core businesses to which Tropicana reiterated that while the glove industry remains a "favourable long-term prospects", it has chosen to invest in Top Glove instead of other glove companies as Top Glove is the world's largest manufacturer of gloves. Top Glove currently captures around 26% of the world market share for rubber gloves.

"Top Glove has also demonstrated steady growth with a compound annual growth rate of 23.1% for revenue and 28.2% for profit after tax over the past 20 years," Tropicana further rationalised.

Notably, Lim who is deemed an interested party in the acquisition exercise by virtue of his interest in Top Glove and Tropicana, has abstained from all deliberations and voting concerning the acquisition.

Additionally, Tropicana's audit committee holds the view that the exercise is:

- In the best interest of the company;
- Fair, reasonable and on normal commercial terms; and
- Not detrimental to the interest of the minority shareholders.

### **A wise investment?**

In all fairness, Tropicana's purchase of Top Glove shares can be deemed as a strategic investment if the company has matching risk appetite for the myriad of business challenges that Top Glove is currently encountering.

To name a few, Top Glove is shrouded by myriad accusations of labour abuses. On top of this, the Ministry of Human Resources has opened 19 investigation papers against six subsidiaries of Top Glove over offences involving workers' dormitories.

The enforcement operations were carried out on Top Gloves' worker dormitories in Kedah, Perak, Kelantan, Negeri Sembilan and Johor after the discovery of a COVID-19 cluster at a Top Glove workers dormitory in Meru, Klang.

To rub salt into its wound, JP Morgan recently issued a startling research report on the glovemaker with an “underweight” recommendation and a fair value of RM3.50. To be fair, this valuation was an outlier as most other research houses had more optimistic fair values of more than double JP Morgan's fair value. Top Glove was traded at RM6.70 on 17 December.

The research house reasoned that the supernormal growth cycle for glove makers has passed, and the anticipation of a huge oversupply in the market as glove demand decelerates in tandem with the accelerating pace of testing for COVID-19.

For the record, JP Morgan has also initiated coverage of Top Glove's competitors Hartalega Holdings Bhd and Kossan Rubber Industries Bhd with similar “underweight” ratings.

When the market opened on 14 December, Top Glove shares slid 60 sen or 8.7% to close at RM6.30 due to the downgrade by JP Morgan.

#### ❖ **Puzzling boardroom changes at Inix**

Frequent changes at board level surely do not augur well for certainty and continuity at the board level.

That said, the nominating committee of public limited companies (PLCs) needs to review its nominating process – particularly with regard to the selection of directors – to facilitate a smooth appointment process.

The onus is on the nominating committee to ensure that the candidate for any board position should have adequate knowledge about the company they wish to join before being accepted for the position.

The candidate should be furnished with all the important and relevant information about the company they wish to join. The board should be transparent in disclosing such information to the potential directorship candidate.

At the same time, the potential candidate shall perform own due diligence, e.g., a background checks on the company, the board members and senior management to better understand the company.

Miscommunication and misinformation factors may have contributed to the rampant 'change-of-guard' at Inix Technologies Holdings Bhd.

With barely five days into the job, Tan Sri Mohamad Fuzi Harun has stepped down from his role as the independent and non-executive chairman of Inix.

In a filing to Bursa Malaysia dated 7 December, Inix said the former inspector-general of police (IGP) resigned from his post "to spend more time on personal interest and on-going businesses". It is both surprising and puzzling as to why Mohamad Fuzi resigned in less than a week into the job.

Mohamad Fuzi, 61, has succeeded Macau tycoon Wan Kuok Koi, who resigned as Inix's chairman on 2 December. Wan was appointed the group's chairman back in August.

Surely, Fuzi's sudden need and realisation "to spend more time on personal interest and on-going businesses" could not have happened within a mere five days. As such, the reason for resignation has raised more questions than answers among the investing fraternity.

The investing fraternity is bound to speculate on this five-day sudden resignation. Many will tend to read between the lines and speculate as to the reasons for the sudden resignation.

Fuzi's successor is former YLI Holdings Bhd chairman Tan Sri Syed Mohd Yusof Syed Nasir who is also the non-independent non-executive director of Titijaya Land Bhd.

Syed Mohd Yusof who is popularly known as Tan Sri Jojo has vast exposure in diverse areas such as property development, construction, media, entertainment, hotel management & hospitality, food & beverage, banking and information technology.

Inix's Board certainly showed its faith in the new chairman with a press release titled "Inix becomes an International Glove Supplier under the leadership of Tan Sri Jojo" published shortly after the new appointment.

The Company recently has signed two Memorandum of Agreements with L & S Gloves Sdn Bhd and World Glove International Group Sdn Bhd to acquire stakes in the two companies. Such a move will enable it to be involved in the supply and distribution high quality of latex and nitriles gloves locally and internationally.

Investors tend to shun away from uncertainty. Let us hope that the appointment of new Chairman and the foray into gloves will augur well for Inix's shareholders.

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

---

## MSWG AGM/EGM Weekly Watch 21 – 25 December 2020

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	Quick-take
21.12.20 (Mon) 09.00 am	Saudee Group Bhd (AGM)	<p>Revenue has been relatively consistent at about RM78million for FYE 2020, it suffered a loss of more than RM30million compared to the loss of RM425,000 in the year before. The hefty losses was due to inventory write-off of RM25million.</p> <p>As with many companies, Saudee is seeking approval from shareholders to issue more shares. On the other hand, it is also seeking shareholders' approval for share buy-back activities. This is against the backdrop of a challenging business environment and cash flow stresses.</p>
21.12.20 (Mon) 09.30 am	SEAL Incorporated Bhd (AGM)	<p>For the financial year ended 30 June 2020, the Group recorded a revenue of RM38.6 million and profit before tax RM19.9 million, a decrease of RM61.6 million in revenue and RM8.1 million in profits before tax.</p> <p>Property development and construction generates about 33.5% of the Group's revenue while property management and property investment contribute about 49.1%.</p>
21.12.20 (Mon) 10.30 am	CME Group Bhd (AGM)	<p>Things do not look well for CME. It had been issued another statement of "Material Uncertainty Related to Going Concern" (MUGC) for the fourth consecutive years by its external auditor.</p> <p>Nevertheless, it managed to record a net profit of RM178,000 in FY2020 after four consecutive years of net loss.</p> <p>However, the sustainability of its profitability is questionable as it</p>

		remained loss-making in the first quarter ended 30 September 2020.
22.12.20 (Tue) 09.30 am	MCE Holdings Bhd (AGM)	Despite an 8.06% y-o-y growth in revenue to RM74.81 million, MCE continued to bleed red ink with LAT of RM5.79 million as its business operations and a customer of it were severely disrupted by the MCO imposed. On the other hand, it seems to be no progress for the Bukit Raja land acquired in FY2014 which is earmarked for a healthcare facility. As such, MCE's performance continues to be driven by the car maker's demand. Given the challenging operating environment, the effectiveness of the Group's strategies remains to be seen.
22.12.20 (Tue) 10.00 am	Karex Bhd (EGM)	Karex proposed to acquire the remaining 30% stake in Global Protection Corp, a distributor of sexual wellness products in North America for RM42.26 million. The acquisition is expected to bode well for the condom manufacturer.
22.12.20 (Tue) 11.30 am	Subur Tiasa Holdings Bhd (AGM)	The Group registered a 5% growth in revenue to RM329.9 million in FY2020.  The timber and oil palm plantation segments accounted for 59% and 39% of the Group's revenue.  LAT was lower at RM25.6 million (FY2019: RM35.8 million) which comprised mainly provision of impairment loss in timber segment.
23.12.20 (Wed) 10.30 am	Nexgram Holdings Bhd (AGM)	Nexgram has been making losses for the past four years with the highest LBT of RM63.3 million recorded in FY2020.  Its greatest challenge now is to address the material uncertainty related to going concern raised by auditor for its FY2019 account. Besides, its shareholders' equity is also 50% or less of its share capital based on its unaudited fourth quarter results ended 31 July 2020. These two events caused it triggered the Rule 8.04 and Paragraph 2.1(g) of Guidance Note 3

		<p>(GN3) of the Ace Market Listing Requirements (ACE LR).</p> <p>Nevertheless, Nexgram will not be classified as a GN3 listed issuer and will not be required to comply with the obligations pursuant to Rule 8.04 and GN3 of the ACE LR for a period of twelve (12) months from the date of the announcement.</p>
23.12.20 (Wed) 11.00 am	INSAS Berhad (AGM)	<p>Insas's retail and car business have been adversely affected by the COVID-19 pandemic. Segmental revenue decline 37% y-o-y to RM39 million, while pre-tax profit halved to RM1 million from RM2 million last year.</p> <p>In addition, its investment holding &amp; trading division turned loss-making to -RM49 million, due to unrealised mark to market loss of financial assets at fair value.</p> <p>It expects FY2021 to be another challenging year due to the lingering effect of pandemic.</p>

<b>One of the points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
Saudee Group Bhd (AGM)	<p>The Group will continuously improve its production efficiency and further realise the plan to penetrate a bigger share in HORECA and OEM segments (Page 18, Annual Report).</p> <p>a) What is the current market share of the Company in the HORECA and OEM Segment?</p> <p>b) What are the Company's strategies to increase its market share in these segments?</p> <p>c) Is there a target market share and timeframe for the Company to realise its plan?</p>
SEAL Incorporated Bhd (AGM)	<p>The Group recognised a fair value gain on investment properties amounting to RM17.1 million in FY 2020 as compared to RM1.01 million in FY 2019. (page 83 of Annual Report)</p>

	<p>a) Please provide a breakdown of the fair value gain on the investment properties by category as disclosed on page 83 of the Annual Report and value?</p> <p>b) What is the occupancy rate of each category of investment property in FY 2020 and FY 2019?</p> <p>c) What is the gross rental yield of each category of investment property?</p>
CME Group Bhd (AGM)	<p>The Chairman position of CME has been vacant since FY2000. The Board said it will continue to assess the need to fill the position from time to time (page 3 of Corporate Governance Report).</p> <p>Why does it take two decades for the Board to assess the need to appoint a chairman and to identify a suitable candidate to fill the position?</p>
MCE Holdings Bhd (AGM)	<p>In order to maintain the competitiveness in the local and global automotive market, the Group will continue with its existing push to enhance its product technology by upgrading its existing production facilities and also mitigate increasing costs through its various cost reduction initiatives which includes improvement of production processes and productivity together with realignment of its supply chain (page 47 of AR2020).</p> <p>a) What is the level of automation on the Group's production facilities?</p> <p>b) To-date, how effective are the Group's various cost reduction initiatives? What are the results achieved to-date in terms of cost saving?</p>
Karex Bhd (EGM)	<p>Including the RM42.26 million to be spent by Karex to purchase the remaining 30% stake in Global Protection Corp. (GP), Karex's total investment in GP would have amounted to RM70.95 million. GP is involved in the sale and distribution of sexual wellness products, primarily condoms in North America.</p> <p>How long will it take for Karex to achieve breakeven for the investment?</p>
Subur Tiasa Holdings Bhd (AGM)	<p>Good Agricultural Practices ("GAP") are embedded in the estate management system to improve the FFB yield and fruit quality with higher oil extraction rate (Page 11 of the AR).</p> <p>The Company achieved commendable yield improvement in the year, which consistently surpassed the average yield in the respective regions in Sarawak (Page 12 of Annual Report 2020).</p>



	<p>a) As GAP is embedded in the estate management system, does the Company expect the yield to continue to surpass the average yield in Sarawak's respective regions?</p> <p>b) What is the Company's current and targeted average FFB yield and oil extraction rate to achieve in the next two financial years?</p>
Nexgram Holdings Bhd (AGM)	<p>There was a write-off of land held for property development of RM23.99 million during FYE 2020 as compared to RM17.55 million in FYE 2019. (Page 15 of AR).</p> <p>Why were there substantial write-offs of land held for property development in both years? What happened to the land?</p>
INSAS Berhad (AGM)	<p>The investment holding &amp; trading division of Insas comprises investment in both local and overseas listed equities that are involved in property, e-commerce, logistics, consumer products and financial services sectors. Some of the key equity investments are Ho Hup Construction Company Berhad, Omesti Berhad and SYF Resources Berhad.</p> <p>a) Are there any strategies for the Group to optimize the return from these equities investment in FY2021?</p> <p>b) How would Insas' investee companies perform in FY2021? For perspective, the investment holding &amp; trading division recorded a pre-tax loss of RM49.2 million in FY2020.</p> <p>In view of the one to five years investment horizon adopted by Insas, is there any investment that is up for recalibration?</p>

### MSWG TEAM

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