MSWG MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

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❖ Peculiar G3-WA price

Retail investors know for a fact that PLC-issued warrants provide an indirect way to acquiring the PLC stock.

Warrant prices tend to move in tandem with the mother share price. Given the characteristic of warrants, warrants price should be lower than its mother share price. Investing in warrants provide better leverage as the movement of the warrant price is usually much greater than the mother share. In other words, they provide a 'bigger bang for the buck'.

Warrant holders should always remember to exercise their right to buy the company's share at the exercise price or sell their warrants in the open market prior to the warrants' expiry date.

A rare instance when warrant price is higher than its mother share

The warrants of low-profile G3 Global Bhd (G3-WA), which is traded in the Main Market, under the consumer products sector, has been priced higher than its mother share.

G3-WA which was listed on 9 October 2017 has its origin in G3 Global's rights issue-cum-warrants exercise which entailed the listing of 275 million rights shares along with 206.25 million free detachable warrants.

G3-WA has a conversion period of five years and an exercise/conversion ratio of 1:1 with a strike price of 10 sen. It is scheduled to expire on 2 October 2022.

G3-WA which commenced trading at 71 sen (on 9 October 2017), started trading above its mother share price on 12 May this year when it closed at RM2.95 (against RM2.71 for its mother share).

The gap was even wider at 34.16% on 10 September, when G3-WA was priced at RM3.22 against its mother share which was trading at RM2.40. As at 1 October 2020, G3-WA was traded at RM3.01 which is 15.32% higher than the price of its mother share, which stood at RM2.61.

With the conversion ratio of 1:1 and strike price of 10 sen, it makes little sense for investors to buy and convert G3-WA into mother share now, unless they are confident that share price of G3 Global will eventually rise beyond the price of the warrant they purchased.

Though, the time-value factor may fuel the rally of G3-WA as investors are willing to pay a higher premium for a longer expiry period, but is such a 'high' premium warranted?

Investing in a warrant at a price above the mother share will definitely cost more for an investor to own the mother stock, as compare to direct purchase of mother share in open market.

Given the rule of thumb that investors will always do their best to maximize their profit, it is also very unlikely for warrants to be traded above their mother shares without some form of manipulation coupled with participation from some uninformed investors,

Caveat Emptor. Do your homework and be informed before you put your money into an investment.

Perhaps, regulators may look into unusual occurrence like this.

❖ Indecisiveness as to JAKS rights issue plan

JAKS Resources Bhd has recently revised its rights issue-cum-warrants (RIW) exercise twice in a span of four months.

When JAKS announced the RIW exercise **on 22 May**, it mooted an **issuance of up to 402.28 million rights shares along with 201.14 million warrants**, on the basis of two rights shares with one warrant for every four JAKS shares held.

The issue price of the rights share is 40 sen per share. At this point of time, JAKS has 651.12 million shares in circulation. This exercise is expected to raise **minimum RM130 million and maximum RM160.92 million** of proceeds. The exercise price of the warrants is assumed at 85 sen per JAKS share.

Then on **13 July**, JAKS first revised its RIW exercise by deciding instead **to raise between RM200 million and RM289.64 million** by entailing an **issuance of up to 1.28 billion rights shares together with 643.64 million warrants** on the basis of eight rights shares along with four warrants for every five JAKS shares held. The issue price of the rights share is 22.5 sen per share. Accordingly, the exercise price of the warrants is now assumed at 50 sen per JAKS share.

JAKS said the revised minimum subscription level of RM200 million will enable the Group to raise higher gross proceeds from the proposed RIW exercise as compared to the original minimum subscription level of RM130 million announced on 22 May. As such, it will be able to reduce its reliance on bank borrowings in view of an improved equity market conditions.

Thus, between 22 May and 13 July, a period of less than 3 months, the amount to be raised changed from RM130 million - RM160.92 million, to RM200 million - RM289.64 million, representing an increase of 53.85% - 80%. At the same time, the number of rights shares it plans to issue has tripled to 1.28 billion from 402.28 million proposed earlier.

Subsequently, in a stock exchange filing dated **27 August**, JAKS announced that it has received approval from Bursa Securities to **issue up to 2.41 billion rights shares and 1.2 billion warrants**, on the basis of three rights shares for every one JAKS share held, and one warrant for every two rights shares subscribed. The issue price of the rights share is 12 sen each. The **maximum amount raised will remain the same at RM289.64 million**.

Henceforth, the exercise price of the warrants is now assumed at 28 sen per JAKS share.

The crux of the matter is the frequent amendments on the proposal within a short period. Shareholders of JAKS would have assumed that the Board, the management and the advisor had decisively fixed the 'nuts and bolts' of the proposal before they present the proposals for shareholders' deliberation.

The constant changes on the RIW exercise will create unnecessary confusion among shareholders, result in uncertainties and volatilities in share price. To a certain degree, shareholders may have lost their confidence on the Board and management.

JAKS' indecisiveness and the potential "super dilutive effect" of the RIW exercise may have resulted the gradual depreciation of JAKS' share price from RM1.03 on 22 May (when it first announced the cash call exercise to raise RM160.92 million) to the current level of between 82 sen and 85 sen.

Each revision has resulted in value depreciation of share price and this has resulted in much misery to minority shareholders of JAKS (as well as to minority shareholders holding the rights-to-subscribe).

Despite the discontent raised by its minority shareholders, JAKS' RIW exercise was approved by shareholders at its extraordinary general meeting on 24 September.

Devanesan Evanson
Chief Executive Officer

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
08.10.20 (Thur) 10.00 am	Bermaz Auto Bhd (AGM)	Bermaz recorded a 30.4% decrease in its revenue to RM1.76 billion in FY20 (2019: RM2.52 billion), due to lower vehicle sales volume from local market and business disruption caused by the imposition of the MCO to curb the outbreak of the COVID-19 pandemic. Accordingly, its pre-tax profit had decreased 61.2% y-o-y to RM131.98 million (2019: RM340.56 million). Given that Covid-19 pandemic is still evolving, its business performance remains challenging for FY2021.
08.10.20 (Thur) 11.00 am	Analabs Resources Bhd (AGM)	Analabs will continue to bank on its manufacturing and construction businesses to drive its performance in FY21.
09.10.20 (Fri) 10.00 am	D'Nonce Technology Bhd (AGM)	D'nonce has seen a new Board and management line-up installed after a boardroom tussle took place in 2019. It is anyone's guess on how the new Board and management bring the Company to greater height.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Bermaz Auto Bhd (AGM)	The Executive Directors salaries and other emoluments had increased to RM5.8 million (2019: RM4.5 million) (Note 25, page 140 of AR2020). The Group also expects to implement appropriate austerity measures to mitigate the current conditions such as tightening of operational costs and overheads and introducing new marketing strategies via e-platform to cater for the "new normal" (Note 39, page 154 of AR2020).

	Are there any plans to review the salaries of the Directors as part of the Group's austerity measures to mitigate the current conditions for the financial year ending 2021?
Analabs Resources Bhd (AGM)	1) The cost of internal audit services for FY20 was RM14,301.69 (page 38 of AR2020). Given the Company's revenue of over RM100 million during the year, the internal audit fee is considered low, i.e. about RM1,200 a month. a) How does the audit committee assure itself that the low internal audit fees provide adequate coverage and that the internal audit function is effective? b) What were the areas covered by the internal auditors during FY20? c) How many internal audit reports were issued during FY20? What are some of the significant findings of the internal audit and key risks identified?
D'Nonce Technology Bhd (AGM)	1) In the 16-month financial period ended 30 April 2020 (FPE2020), D'nonce has unearthed a slew of breaches of internal control and financial irregularities involving a former key management personnel of the Group, after conducting an independent investigation review. a) Upon the conclusion of the independent investigation review, what are key risks and weaknesses identified by D'nonce's external and internal auditors on its internal control system and risk management system? b) How does the Group plan to manage these weaknesses and risks?

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)
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.

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