



# The Observer

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## Discovering the price of hope

*"After all, what does the stock market sell us if not the unfounded hope of a rosy future?" – Japanese writer Haruki Murakami (b. 1949)*

*"The stock market is filled with individuals who know the price of everything, but the value of nothing." – American investor Phillip Fisher (1907-2004)*

The above two quotes aptly describe the erratic nature of the stock market that investors must pay heed to, lest they stand to lose massive fortune by the sole virtue of allowing greed to get over them or for assuming that good times will last forever.

Drugmakers Pfizer-BioNTech and Moderna recently revealed that the COVID-19 vaccines they are developing can reduce an individual's chances of contracting COVID-19 by about 95% and 94.5% respectively.

Such positive developments have prompted another rally in stock markets around the world. Even amid a COVID-19 infection spiral, stock market records were broken at Wall Street during 16 November overnight trading with the DJIA soaring 470.63 points or 1.6% to close at 29,950.44 – only about 50 points shy of the 30,000 mark, a level it has never crossed in its history.

At the same time, the Nikkei 225 index touched a 29-year high on 16 November after the Japanese economy posted its first expansion in four quarters and as progress in developing a COVID-19 vaccine continued to lift global markets.

The FBMKLCI was not left behind. Bolstered by these positive developments, the benchmark index had increased 85.83 points or 5.6% to 1610.15 on 16 November, from 1524.32 points on 9 November, as investors piled into banks and leisure stocks while reducing their stakes in glove makers – in pursuit of an "economic re-opening" investment theme on the positive development of a COVID-19 vaccine.

No doubt the latest development has allowed investors "to dare hope" that an ultimate cure is underway, though many challenges remain ahead.

A major concern is the production of vaccines which is expected to remain in short supply till 2021. Besides, the distribution of the vaccine will be another daunting challenge as the two vaccines required the doses to be kept at between -70C (for Pfizer-BioNTech) and -20C (Moderna) to remain effective.

Moreover, to be effective in stopping the spread of the virus, at least 70% of the population of the world is required to be vaccinated. Hence, it will take a long time to produce the vaccines needed.

### **Sustainability factor**

Dozens of listed biotech and healthcare companies have entered the race to produce treatments or cures for COVID-19 since March 2020 when the pandemic swept through the world.

On a similar note, many more have jumped into the personal protective equipment (PPE) sphere that range from gloves to rubber gloves, face masks/material for face masks, protective suits, hand sanitisers or by associating themselves with the pharmaceutical and healthcare industry.

With so many companies – from multinationals to large-, mid- and small-cap counters – having wooed investors by promoting themselves as thematic players of the COVID-19 pandemic, the utmost concern is what will happen if the hype over the COVID-19 pandemic diminishes all of a sudden?

Over time, history has proven time and again that such euphoria can start to wane with the effluxion of time.

While doubts still linger around the potential vaccine, investors must be wary that their welfare – notably the financial risk that they have to undertake – is never the concern of brokers or bankers.

### **Stock market is detached from real economy**

With stock market valuations becoming more stretched in recent times, investors are reminded to bear in mind that there is a vast disconnection between the stock market and real economy.

Markets serve to price in the future today, hence asset prices will always run ahead of fundamentals, regardless of the current doldrum state of economy and the burgeoning COVID-19 cases recorded globally.

While World Health Organization chief Tedros Adhanom Ghebreyesus hailed “encouraging” news about COVID-19 vaccines, he also expressed concern about surging cases in many countries.

“We remain cautiously optimistic about the potential for new tools to start to arrive in the coming months,” he told a virtual press briefing. “This is no time for complacency. A vaccine on its own will not end the pandemic.”

As of 19 November, global COVID-19 infections have soared past 57 million cases with more than 1.36 million deaths while health experts are cautioning that there are still difficult and dangerous months ahead.

The harsh reality, therefore, stems from the very fact that the stock market – at least in theory – is only interested in future corporate earnings growth, hence there is nothing surprising about it being disconnected from the real world.

The economy can be doing extremely poorly, but flushed with liquidity, notably from the government-induced stimulus packages – coupled with a low interest rate environment and the privilege of loan moratorium – the stock market will thrive.

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

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### **MSWG AGM/EGM Weekly Watch 23 – 27 November 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).

<b>Date &amp; Time</b>	<b>Company</b>	<b>Quick-take</b>
24.11.20 (Tue) 10.00 am	Padini Holdings Bhd (AGM)	<p>The retail industry has suffered a slump and expected to continue in the short term.</p> <p>Similar to other players in the retail industry, Padini is reviewing its digital strategy. Going forward, COVID-19 is demanding innovation and non-traditional methods of carrying out business. A detail action plan with specific targets will be necessary for its long-term sustainability.</p>

25.11.20 (Wed) 10.00 am	Prestariang Bhd (AGM)	The termination by Microsoft as a supplier for the company come January 2021 is a major blow to the Company's. Its future performance will also depend on its ability to realise cash from the disposal of non-core assets. The Company's litigation against the Government of Malaysia for the termination of the SKIN project would also have a telling effect if the Company is successful in the RM733 million suit.
25.11.20 (Wed) 10.00 am	AWC Bhd (AGM)	<p>AWC registered its first net loss since FY08 due to the weaker performance from the Engineering and Environment divisions.</p> <p>Moving on, the cautious spending sentiment of public and private sectors amid the COVID-19 pandemic may dampen investment on new projects and thus resulted in lesser projects available for AWC to manage.</p>
25.11.20 (Wed) 10.00 am	Leweko Resources Bhd (AGM)	<p>Leweko's foray into property development and construction in 2019 after exiting its timber business is bound to face major headwinds going forward as the pandemic causes demand for property to be lukewarm.</p> <p>Although being a new player in the construction business, the Company has chalked up a decent orderbook of RM40 million till June 30, 2020. Going forward, a strong revival in the demand for its products is envisaged when the pandemic goes away.</p>
25.11.20 (Wed) 10.30 am	Parkson Holdings Bhd (AGM)	Parkson had on 15 October 2020 announced that it has triggered Bursa Malaysia Securities Berhad's Practice Note 17. In addition, Parkson's external auditor has issued a conditional audit opinion on its account. Its ability to survive will depend on how its Board and management restructures and

		reviews its business strategies. Cash and leadership are paramount during such times.
25.11.20 (Wed) 11.00 am	Inari Amertron Bhd (AGM)	<p>Inari's revenue dropped 8.2% y-o-y to RM1.06 billion (FY19: RM1.15 billion), while net profit was lower at RM156.4 million (FY19: RM192.3 million), due to lower production volume, changes in product mix, and higher depreciation cost arising from the additional capex of RM89.4 million FY2020.</p> <p>Its operation continued to generate healthy cash flow with cash and cash equivalents of RM594.6 million at the end of FY20.</p> <p>The prospect of Inari remains rosy as the advancement and rollout of new technologies like 5G, IoT and AI will continue to drive demand for semiconductors.</p>
26.11.20 (Thur) 10.00 am	Pestech International Bhd (AGM)	<p>Pestech registered a lower revenue of RM797 million for FY20 (FY19: RM811 million). Its PBT declined 14% y-o-y to RM84 million due to a 21% increase in financing cost. Overall, its net profit went down 26% y-o-y to about RM64 million as compared to RM86 million in FY 2019.</p>
27.11.20 (Fri) 09.00 am	Jaya Tiasa Holdings Bhd (AGM)	<p>Jaya Tiasa's revenue increased 10% y-o-y to RM701.9 million (FY19: RM637.7 million), while net loss improved to RM72.0 million vs a net loss of RM265.3 million in FY19.</p> <p>The loss was mainly due to operating loss suffered in the timber segment and impairment losses related to the timber operations.</p> <p>The oil palm division finally turned around to a PBT of RM47.5 million in FY20 from net loss of RM126.8 million in FY19.</p> <p>However, the timber activities remained sluggish with a loss of</p>

		<p>RM68.8 million (FY19: RM58.9 million loss) before impairment.</p> <p>Moving forwards, with better quality FFB input and improved OER, coupled with lower operating cost, Jaya Tiasa may reap better profits if CPO prices trend upwards.</p>
27.11.20 (Fri) 10.00 am	Pintaras Jaya Bhd (AGM)	<p>PJB recorded a revenue of RM374 million in FY20 as compared to RM316 million in FY19. PBT and PAT are higher at RM39.3 million and RM31.7 million respectively despite work stoppages of 3 to 4 months from March to June 2020 due to movement restrictions imposed for COVID-19.</p> <p>Despite the uncertainties, the Board believes that PJB will remain profitable for FY2021 underpinned by an order book of RM400 million.</p>
27.11.20 (Fri) 10.00 am	Scicom (MSC) Bhd (AGM)	<p>Despite hiccups in Scicom's e-resolution business due to the deferment of arrival by international students, its financial performance appeared unaffected with a 12.5% and 9.1% growth in revenue and net profit to RM181.33 million and RM22.05 million respectively.</p>
27.11.20 (Fri) 10.00 am	Karex Bhd (AGM)	<p>Karex net profit of RM228,000 in FY20 is the lowest since it went public in FY20, despite an increase in revenue to RM395.06 million (FY19: 378.48 million) during the year.</p> <p>Riding on the strong demand for glove due to the COVID-19 pandemic, Karex also announced the intention to venture into glove manufacturing business.</p> <p>However only time can tell how the new venture will churn out for Karex.</p>

27.11.20 (Fri) 10.30 am	Metronic Global Bhd (AGM)	Metronic has been making losses since FY16, while its revenue has been on a declining trend. Its financial performance will continue to be in a doldrum until it manages to formulate and execute an effective turnaround strategy.
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<b>One of the points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
Padini Holdings Bhd (AGM)	<p>Given the current challenges presented by Covid-19, Padini implemented measures to control cost, optimize working capital, preserve cash and streamline its operations. It also introduced digital retailing and changes in consumer behavior is being considered in the areas of marketing, merchandising and its supply chain (Page 12, Annual Report).</p> <p>a) What are the measures being undertaken to streamline the Company's operations?</p> <p>b) Are any of Padini's stores expected to close-down?</p> <p>c) Have supply of the Company's products been disrupted?</p> <p>d) What are the issues on the demand and supply side of products? What are the Company's plans to mitigate these issues?</p>
Prestariang Bhd (AGM)	<p>The Company's subsidiary, Prestariang Systems Sdn Bhd (PSSB) was informed by Microsoft that it will cease being a Channel Partner from January 31, 2021. Microsoft had been one of Prestariang's major suppliers for its Software and Sales divisions. (Page 9 of AR 2020)</p> <p>a) What is the potential loss of revenue for FYE 2021 if this cessation is factored into the revenue stream of the Company?</p> <p>b) What are the steps being taken by the company to find alternative suppliers and also how will the Company ensure that the quality of its services would not suffer if it chooses an alternative supplier as Microsoft is one of the main software names in the market?</p>
AWC Bhd (AGM)	Cautious spending sentiment of public and private sectors amid the COVID-19 pandemic may have dampened the investment on new projects and thus resulted in lesser projects available to be managed and contracted.

	<p>a) As the business of AWC relies heavily on new projects to replenish its orderbook, how does AWC mitigate the potential impact of a scale-back in the award of new contracts?</p> <p>b) Has there been any renegotiation with asset owners/clients on the scope of works and value of contracts due to the worsening economic outlook? If yes, what is the impact on AWC?</p> <p>c) How will the four business divisions namely facilities, engineering, environment, and rail divisions fare in FY21?</p>
Leweko Resources Bhd (AGM)	<p>The Company ventured into the property development and construction business in 2019 after exiting the timbre business in that year. As of June 30 2020 the Company was awarded construction contracts worth RM40 million in the area of Semenyih and Shah Alam. (Page 10 of AR 2020)</p> <p>a) What is the Company's current construction orderbook and tenderbook?</p> <p>b) What are the Company's strategies to face the lethargic property sector in FYE 2021?</p>
Parkson Holdings Bhd (AGM)	<p>Given the current challenges, Parkson is confident that China's retail market has recovered gradually and will adopt a prudent strategy besides diversifying into various operation models to widen its income sources. In addition, the Company will emphasize on cost containment, improving its stores' productivity and optimizing operational efficiency (Page 37, Annual Report).</p> <p>The Company had also on 15 October 2020, announced that it has triggered one of the prescribed criteria pursuant to Paragraph 8.04 and Practice Note 17 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Company has not been designated as a PN17 company and has been allowed 12 months to re-assess and announce whether it continues to trigger any of the prescribed criteria in PN17 of the Main LR. (Page 36, Annual Report). In this regard,</p> <p>a) What are the Company's plans in improving its position, specifically, its plans to diversify, its cost management measures and improving its operational efficiency?</p> <p>b) What is the expected impact on the Company's cash flow position, particularly in the next 12 months?</p>
Inari Amertron Bhd (AGM)	<p>On 18 August 2020, Inari entered into a Shareholders Subscription Agreement with MIT Semiconductor Pte Ltd to set up an entity in</p>

	<p>Malaysia to carry on the business of supplying customized semiconductor process tools. Subsequently, the entity has been set up on 24 September 2020 namely, Inari MIT Sdn Bhd with 51% equity interest held by Inari Matrix Sdn Bhd (page 9 of Annual Report 2020 ("AR2020")).</p> <p>To what extent is Inari MIT Sdn Bhd expected to contribute to the Group's revenue?</p>
Pestech International Bhd (AGM)	<p>PESTECH's gearing ratio has been increasing from FYE 2016 to FYE 2020 (FY 2016: 0.97; FY 2017: 1.09; FY 2018: 1.40; FY 2019: 1.84; FY 2020: 1.98) (Page 4 of AR 2020).</p> <p>i) What is the cause for the increase over the years?</p> <p>ii) What is the Company's optimum gearing ratio range?</p>
Jaya Tiasa Holdings Bhd (AGM)	<p>Recruitment and retention of manpower are main challenges in palm oil business, particularly under MCO imposed by the government since the majority of the Group's workforce are foreigners. The shortage of workers has and will continue to disrupt the normal workflows and eventually translate to lower productivity and margins to the Group unless this can be resolved (page 15 of AR2020).</p> <p>a) What is the Group's breakdown between local and foreign workers?</p> <p>b) Given that labour shortage is a risk in the palm oil business, does the Board have any plans on mechanisation and automation, that has been implemented or to be implemented, in the efforts to enhance operational efficiencies and productivity?</p>
Pintaras Jaya Bhd (AGM)	<p><u>Manufacturing</u></p> <p>a) What is the latest capacity utilisation rates for PJB's factories? What are the planned optimal utilisation rates that the Group expects for the factories in FY2021?</p> <p>b) The Group's manufacturing revenue of RM28.5 million decreased by 21% compared to last FY. PBT shrank by 58% to only RM1.7 million. Competition remained very intense amidst subdued demand and coupled with COVID-19, it was challenging even to be profitable (Page 36 of the Annual Report 2020).</p> <p>i) How will the Board address the shrunk revenue from manufacturing?</p>

	<p>ii) Given the abovementioned situation, what is the outlook for PJB's manufacturing to remain profitable in FY2021?</p>
Scicom (MSC) Bhd (AGM)	<p>International students visa applications and the provision of ancillary services to international students are some of the key income streams for Scicom's e-solution business.</p> <p>a) How has the e-solution business been affected by the deferment of arrival by international students due to the COVID-19 pandemic?</p> <p>b) In what ways has Scicom improvised the international student recruitment processes to accommodate the new norm arising from Covid-19 pandemic? Are these changes effective in engaging the partners and students?</p>
Karex Bhd (AGM)	<p>Despite a slew of acquisitions (e.g., the acquisition of 70% stake in Global Protection Corp in 2014 and 2018, the acquisition of 100% stake in Pasante Healthcare Limited in 2016, the acquisition of intellectual property from Line One Laboratories Inc (USA) in 2017), as well as ongoing expansion activities on the condom, catheter and lubricant manufacturing in the last few years, Karex's net profit attributable to shareholders fell to an all-time low in FY20 since Karex went public in November 2013.</p> <p>The Company recorded a net profit attributable to shareholders of RM228,000 in FY20, as compared to RM66.68 million in FY16, being the highest ever net profit recorded (Karex's Annual Reports).</p> <p>a) For the past few years, external factors such as challenging tender and commercial market landscape, volatile commodities prices and social compliance cost on the employment of foreign labour have dampened Karex's bottom line. What are Karex's plans to address these challenges?</p> <p>b) How effective are current strategies in reversing the declining bottom line?</p>
Metronic Global Bhd (AGM)	<p>MGB has been making losses since FY16 with the widest net loss of RM17.86 million recorded in FY20. At the same time its revenue has been on a declining trend from RM48.06 million to RM19.04 million in FY20 (page 5 of AR2020).</p> <p>To address this, MGB has embarked on a transformation journey in the first half of 2020 and is now conducting a comprehensive review of the viability of MGB's businesses and operations.</p>

	<p>a) Based on the review conducted, what are the key issues in MGB that need to be addressed?</p> <p>b) How long will the transformation programme take to be completed?</p> <p>c) What are the expected outcomes from these turnaround initiatives? How will the transformation exercise improve MGB's current lacklustre financial performance?</p>
iCapital.Biz Bhd (AGM)	<p><u>Dual-listing project expenses amounting to RM6.68 million. (Page 40 of the Annual Report 2020)</u></p> <p>Does the dual-listing expenses charged to the Statement of Profit and Loss for FYE 2020 relate to the dual-listing proposal that was approved by the Securities Commission on 11 July 2012? If yes, what was the reason for this charge to be recognised only in FYE 2020 – after 8 years?</p>

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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.

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