



# The Observer

20.072018

## MESSAGE FROM THE CEO

Sapura Energy Berhad held its AGM on 18 July 2018 for its Financial Year Ended 31 January 2018.

MSWG attended the AGM and raised some issues. Other institutional investors and retail investors also raised issues. The main issue raised relates to the remuneration of the PGCEO (President/Group CEO). The issue can be better appreciated from the following perspective of alignment of management (and directors) interest with shareholders interest.

In MSWG's pre-AGM letter to the company, we stated that there is no alignment of interest between shareholders and management.

Alignment, in the company's instance, mainly involves looking at the remuneration of the PGCEO in the light of the performance of the company.

If we examine the financial statements, we notice that the company is not in the best of health currently. Though the future may seem bright, alignment is about current alignment based on current circumstances.

The PGCEO mentioned at the AGM that the financial statements are a static reflection of a company's state of affairs...and indeed so. It is a dated, historic, static document. But shareholders, unfortunately, have nothing else but these to rely on if they want to look at financial statements that have been audited by an external auditor. The quarterly results may be more current but they are not audited.

Let us examine the financial statements on a year on year basis:

- The company's revenue fell from RM7,651m to RM5,895m
- The profit after tax of RM206m in 2017 become a loss after tax of RM 2,505m in 2018. Even if we remove the impairment of RM 2,132m, it is still a loss of RM373m.
- Total assets fell from RM37,449m to RM29,993m
- Shareholders fund fell from RM13,076m to RMRM9,450m
- Net assets per share fell from RM2.19 to RM1.59
- Net Debt to Equity increased from 1.16 times to 1.56 times

In addition to the above, no dividends were declared for the year. The non-declaration of dividend is understandable as the company needs to preserve funds given the above circumstances. In fact, the company is in dire needs fresh fund and hence the talk of a capital raising exercise and the IPO of it's Exploration and Production units (and possible unlocking of value for shareholders).

The share price, at its peak was at RM4.84 at end Dec 2013 and is currently trading at around RM0.60. Many shareholders had invested at higher prices and are substantially 'underwater'.

In these circumstances, MSWG is of the view that the PGCEO's remuneration is not aligned to the shareholders interest.

The PGCEO took home RM 71.92m for the year or about RM200,000 per day.

Alignment means sharing the pain with shareholders in bad times.

The PGCEO did share his pain in that he too has suffered due to the share price decline (he has a 15.9% stake) and the opportunity cost of not having exited earlier.

The PGCEO also mentioned that he could have sold his shares at RM4 but he did not. Selling the shares at RM4 may have been a blessing in disguise for many minority shareholders as they would have followed suit as they recognize the PGCEO as the key-man in the company. The minority shareholders would have exited at around RM4 and raked in tidy profits compared to the current price of around RM0.60.

He shared that there was a share covenant that he has with a financial institution with the condition that if he sells his shares below 10%, the loan will default (and that this was a reason for the high remuneration).

And that because of the refinancing that gave rise to this covenant, the company was able to enjoy lower rates of about 5% compared with peers in the industry who were paying 6% to 7% and that this was to the company's benefit.

But these are part and parcel of the game.

Generally, if your financials are weak, there will be a covenant on the major shareholder-entrepreneur's shares. If the company is major shareholder-entrepreneur-driven, a covenant may be imposed to ensure that he or she 'has skin in the game'. These are part and parcel of the game.

But at the end of the day, in the bigger scheme of things, the remuneration is still considered high.

It was also stated that the high remuneration was due to the PGCEO meeting KPIs.

We must understand that not all KPIs are created equal. More important KPIs would be those that enhance shareholder value like profitability as this directly correlates to share price enhancement and possibly dividend payments. KPI's that directly correlate to enhancing shareholder value should be weighted more heavily. KPIs like succession planning are important but they do not correlate directly to enhancing shareholder value.

Finally, MSWG's grouse is not with the PGCEO but with the independent directors who approved the high remuneration. That is why we voted for the PGCEO's re-election but voted against the two independent directors and re-election.

As an aside, in the interest of good governance, the PGCEO should not be a member of the Remuneration Committee. He can always attend by invitation of the Committee. Good governance demands that no executive directors sit on remuneration committees.

Remuneration remains an inexact science in that 'how much is deemed too much'. MSWG will give the benefit of the doubt if there is enhancement of shareholder value.

Going forward, we will continue to be vigilant looking out for what we consider non-alignment of shareholders interest and management and directors' remuneration.

Regards,

Devanesan

20 July 2018

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### MSWG'S AGM WEEKLY WATCH 23 - 27 JULY 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](http://www.mswg.org.my).

Date & Time	Company	Venue
25.07.18 (Wed) 11.00 am	Kim Loong Resources Bhd (AGM)	Amari Johor Bahru, Johor Darul Takzim
25.07.18 (Wed) 02.00 pm	Crescendo Corporation Bhd (AGM)	Amari Johor Bahru, Johor Darul Takzim
26.07.18 (Thur) 11.30 am	Talam Transform Bhd (AGM)	Pusat Beli Belah Pandan Kapital, Pandan Indah, KL

#### Some of the points of interest to be raised:

Company	Points/Issues to Be Raised
Kim Loong Resources Bhd (AGM)	<p>As stated in the MD&amp;A on page 27 of the Annual Report, the CPO inventory level stood at 21,000 MT which was higher than the normal level. This is partly due to marginal quality caused by excessive rainfall in the 4th quarter.</p> <p>The quarter results ended 30 April 2018 shows that the 'inventories' was still relatively high at RM53.523 million.</p> <p>(a) Please explain how excessive rainfall contributes to higher inventory levels?</p> <p>(b) What is the CPO inventory level (in MT) as at 30 April 2018?</p> <p>(c) Were any inventories written off during the three months ended 30 April 2018? Are there any anticipated write-offs for FY2019?</p>
Crescendo Corporation Bhd (AGM)	<p>As disclosed on page 133 of the Annual Report on the segmental information, the Education, Management Services and Others recorded a much higher external sales of RM16.4 million in FY 2018 as compared to RM6.3 million in FY 2016.</p> <p>(a) Please provide the external sales figure for the Education, the Management Services and the Others respectively for FY 2018 and FY2017?</p> <p>(b) The external sales increased by 160% in FY2018 as compared to FY2017. However, the segment result increased by 31% in FY2018 as compared to FY2017.</p> <p>What was the reason for the segment result to increase at a lower percentage compared to the external sales?</p> <p>(c) What is the outlook of the Education segment in FY 2019 as compared with FY 2018 in terms of student enrollment and profit?</p>

**Some of the points of interest to be raised:**

Talam Transform Bhd (AGM)	<p>As disclosed on page 128 of the Annual Report, the Group has entered into a settlement arrangement with IJM Group to settle the amount of RM179.41 million within 3 years to 21 May 2020.</p> <p>(a) How will the Group fund the settlement of the debt?</p> <p>(b) What will be the Company's expected gearing ratio based on the full settlement of the debt?</p> <p>(c) What is the frequency of the payment of the debt and when is the first payment date?</p>
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**MSWG'S WATCHLIST****PETALING TIN BERHAD ("PTB")****EXTENSION OF CLOSING DATE IN RELATION TO THE UNCONDITIONAL VOLUNTARY TAKE-OVER OFFER**

PTB has on 10 July 2018 announced that the closing time and date for the acceptance of the Offer has been extended from 5.00 p.m. on Thursday, 12 July 2018 to 5.00 p.m. on Thursday, 26 July 2018.

PTB shares held by the Offeror as at 6 July 2018 is 93.62%.

*[Source: PTB's announcement on Bursa Malaysia's website on 10 July 2018]*

**PASDEC HOLDINGS BERHAD ("PASDEC")****NOTICE OF CONDITIONAL MANDATORY TAKE-OVER OFFER BY JASA IMANI SDN. BHD****(l) Background**

Pasdec undertook a rights issue shares of 114,391,200 with an equivalent number of warrants on the basis of 2 Rights Shares for every 5 existing shares, at an issue price of RM0.35 per Rights Share and 1 free warrant for every 1 Rights Share subscribed that was completed on 11 July 2018.

The Pahang State Development Corporation ("PKNP"), a substantial shareholder of Pasdec has yet to obtain the approval from the Ministry of Finance Malaysia to subscribe for its entitlement of 42,558,260 Rights Shares with 42,558,260 warrants.

Jasa Imani Sdn. Bhd. ("JISB"), a substantial shareholder of Pasdec had provided an irrevocable undertaking to subscribe for the PKNP's entitlement as it wants to ensure that the rights issue with warrants would be fully subscribed.

On completion of the rights issue, JISB shareholding in Pasdec would increase from 27.98% to 38.61 % of the total number of issued shares of Pasdec.

Accordingly, JISB is obliged to extend a mandatory take-over offer for Pasdec shares pursuant to Section 218(2) of the Capital Markets and Services Act, 2007("CMSA").

(II) Mandatory take-over Offer by JISB

Dato' Sri Tew Kim Thin, the major shareholder of JISB is offering to acquire all the remaining Pasdec Shares and warrants not owned by the offeror for a cash price of RM0.525 per Offer Share and RM0.01 per Offer Warrant.

PKNP has irrevocably undertaken not to accept the offer in respect of its 26.57% shareholding in Pasdec after the completion of the Rights issue with Warrants.

The Share Offer price of RM0.525 was determined after taking into consideration the highest transacted price by the offeror in the past 6 months prior to the notice of take-over, being RM0.595 on 19 February 2018, and the subsequent ex-price of approximately RM0.525 after the adjustment being made for the Rights Issue with Warrants.

The offeror has the intention to maintain the listing status of Pasdec on the Main Market of Bursa Securities.

The Board of Pasdec will appoint Public Investment Bank Berhad as the Independent Adviser ('IA') to advise the non-interested Directors and the holders of the offer Securities in respect of the fairness and reasonableness of the offer.

*[Source: PASDEC's announcement on Bursa Malaysia's website on 10 July 2018 & 11 July 2018]*

### MSWG'S VIGILANCE

In the first half of 2018, there were 7 new admissions into PN17. The companies are:-

No	Company	Admission Date
1	Amtek Holdings Berhad	16 Jan 2018
2	APFT Berhad	19 Jan 2018
3	Berjaya Media Berhad	22 June 2018
4	Bertam Alliance Berhad	5 April 2018
5	China Automobile Parts Holdings Limited	15 Jan 2018
6	Daya Materials Berhad	1 March 2018
7	Sumatec Resources Berhad	2 May 2018

For detailed status of the PN17/GN3 companies, please click

[http://www.bursamalaysia.com/misc/system/assets/21857/Status\\_of\\_PN17\\_and\\_GN3\\_Companies\\_09July2018.pdf](http://www.bursamalaysia.com/misc/system/assets/21857/Status_of_PN17_and_GN3_Companies_09July2018.pdf)

In the course of our review of the annual report of the companies covered by MSWG in the first half of 2018, we note some companies with 'going-concern' issues raised by the Independent Auditors of the Company. These companies are:-

1. Perak Corporation Berhad
2. Alam Maritim Resources Berhad
3. Barakah Offshore Petroleum Berhad

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## LOCAL NEWS AND DEVELOPMENTS

KWAP to raise equities weightage amid market downturn

<https://www.theedgemarkets.com/article/kwap-raise-equities-weightage-amid-market-downturn>

Pasdec CEO steps down on contract expiry

<https://www.theedgemarkets.com/article/pasdec-ceo-steps-down-contract-expiry>

SST to be set at 6 percent for services, 10 percent for sales

<https://www.theedgemarkets.com/article/sst-be-set-6-percent-services-10-percent-sales>

Mohd Sidek steps down as KLCC Stapled Group chairman

<https://www.theedgemarkets.com/article/mohd-sidek-steps-down-klcc-stapled-group-chairman>

Malaysia's June inflation seen edging up 1.9% – RAM

<https://www.theedgemarkets.com/article/malaysias-june-inflation-seen-edging-19-%E2%80%94-ram>

Retail sector growth revised higher to 5.3% post-GE14

<https://www.thestar.com.my/business/business-news/2018/07/17/retail-sector-growth-revised-higher-to-5pt3pct-post-ge14/>

Hungarian investors see Malaysia as best gateway to ASEAN market

<https://www.theedgemarkets.com/article/hungarian-investors-see-malaysia-best-gateway-asean-market>

Putrajaya to implement B10 biodiesel in 2H19

<https://www.theedgemarkets.com/article/putrajaya-implement-b10-2h19-%E2%80%94-report>

## GLOBAL NEWS AND DEVELOPMENTS

India proposes 25% duty on China, Malaysia solar cells

<https://www.theedgemarkets.com/article/india-proposes-25-duty-china-malaysia-solar-cells>

China shifts gears to support economic growth amid trade conflict With US

<https://www.thestar.com.my/business/business-news/2018/07/17/china-shifts-gears-to-support-economic-growth-amid-trade-conflict-with-us/#UVHK7cG9WKXuOG8q.99>

Hong Kong regulator, banks launch blockchain-based trade finance platform

<https://www.thestar.com.my/business/business-news/2018/07/17/hong-kong-regulator-banks-launch-blockchain-based-trade-finance-platform/#qfWyKo0wFZVlvvkB.99>

China-Hong Kong discuss inclusion of dual-class shares in stock connect

<https://www.thestar.com.my/business/business-news/2018/07/18/china-and-hong-kong-discussing-inclusion-of-dual-class-shares-in-stock-connect/#fhc6if7okT9euFU6.99>

Bank Indonesia sticks to hawkish stance as it keeps rate on hold

<https://www.thestar.com.my/business/business-news/2018/07/19/bank-indonesia-sticks-to-hawkish-stance-as-it-keeps-rate-on-hold/#QheLzB4k3kmck2fJ.99>

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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, save for Petaling Tin Berhad & Pasdec Holdings Bhd.*
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### Feedback

We welcome your feedback on our newsletter and our work. Email us at [corporateservices@mswg.org.my](mailto:corporateservices@mswg.org.my) with your comments and suggestions.

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