MINORITY SHAREHOLDERS WATCH
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The misalignment between benchmark indices and economic health

There has been widespread criticism in recent times that the upside momentum of the stock market is no longer guided by economic fundamentals but instead – in a poetic tone – leading a life of its own that is detached from economic reality.

This is especially evident in the Dow Jones Industrial Average (DJIA) which is reputed to be one of the most cited global financial barometers.

For starters, the longest bull market in history is still very much alive and kicking despite the ravages of the COVID-19 pandemic which are likely to affect corporate profits for the next few more quarters – not to mention the health crisis having already inflicted massive unemployment worldwide and disruptions on businesses.

In fact, the US' foremost benchmark index is not far off its all-time high of 29,551.42 which was reached on 12 February this year judging from its close of 28,606.31 points on 16 October.

By virtue of the DJIA being the financial media's most referenced US market index, many lay investors have mistakenly leverage the tracker of 30 of the most highly capitalised and influential companies in the US economy (market caps in excess of US$100 billion) as the ultimate gauge of the stock market's pulse.

Well, even if the DJIA remains a good indicator of general market trends/direction, the benchmark index may not provide an ideal representation of the overall market sentiment given the New York Stock Exchange is home to some 2,800 companies while the DJIA only tracks the performance of 30 component stocks.

Henceforth, a similar argument applies to the S&P 500 and Nasdaq Composite which together with DJIA, make up three of the most-followed stock market indices in the US and the world. Although the S&P 500 represented 500 of the largest US corporations, a subset of truly giant corporations is driving market gains.

Rich man's game

As Heather Boushey, president and CEO of the Washington Centre for Equitable Growth, aptly puts it, "stocks are overwhelmingly owned by the top 1%" and "most directly, it indicates the financial health of the richest among us" (Source: Washington Post, 10 September 2020).

Echoing Boushey's observation is Nobel-winning economist Paul Krugman who said stock prices have never been closely tied to the state of the economy for they are disconnected from indicators such as jobs and economic output.

Krugman argued that the market values of tech companies, for instance, have little to do with their profitability or the economy. "Instead, they're all about investor perceptions of the fairly distant future," he justified. In other words, as long as investors expect Apple to be profitable years from now, they barely care what will happen to the US economy over the next few quarters.

As pointed out by McKinsey & Company in a recent paper titled *Wall Street Versus Main Street: Why the Disconnect?*, the US stock market has remained resilient during the COVID-19 crisis because of three critical factors that reflect certain truisms about (i) valuations, (ii) the market's composition, and (iii) investors' expectations.

To begin with, the stock market values individual companies from various sectors, and these companies add up to the whole. Therefore, under current circumstances, performance differs vastly within and across sectors.

Performance of companies in oil and gas, banking, and travel, have been negatively impacted by the pandemic.

Some companies in pharmaceuticals and in technology, media, and telecommunications (TMT) are actually doing better now than they were at the beginning of the year – in part because the introduction of new products and services affects them more than the health of the broader economy does.

As a result, the stock market's aggregate value remains resilient.

Underperformers aplenty

In the same merit, it can be observed that the FBM KLCI bears similarity to the DJIA in that it comprises 30 of the largest companies by full market capitalisation on Bursa Malaysia's Main Board.

As it can be observed, the performance of the benchmark index may or may not have bearing on the market direction of the other 735 Main Market companies or that of 135 ACE Market and 35 LEAP Market companies which altogether make up a total of 934 companies in the local bourse.

In fact, the performance of Malaysian stock market has been very much dominated by glove-related counters in recent times, especially that of the Big Four glove counters which have out-performed many of their peers from other industrial or economic sectors.

This is especially true as many companies in the financial services, construction/real estate, oil & gas, consumer products/services and plantation (palm oil) sectors are still languishing from the effects of financial devastation stemming from the COVID-19 health crisis.

A good example is the narrowing gap between Malayan Banking Berhad's (Maybank) market capitalisation and that of Top Glove Corporation Berhad which is touted as the world's largest rubber glove maker.

Meanwhile, another rubber glove maker, Hartalega Holdings Berhad, has taken the spot as the third largest company on Bursa Malaysia, pushing Public Bank Berhad to the fourth place (albeit a very small gap exists between them).

This has led to speculation that two other major glove counters, namely Supermax Corporation Berhad and Kossan Rubber Industries Berhad, are very likely to replace Genting Berhad and Genting Malaysia Berhad – two lacklustre FBM KLCI component stocks – in the next review of the benchmark's constituents.

Minority shareholders should not be fixated with the rally in FBMKLCI index which only tracks the top-30 PLCs by market capitalisation. They must be aware of the disconnection between the FBMKLCI index and the other PLCs and invest in an informed and discerning manner.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 26 October – 30 October 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.

Date & Time	Company	Quick-take
26.10.20 (Mon) 10.00 am	Glomac Bhd (AGM)	Glomac achieved a reasonable performance in FY20 notwithstanding business disruptions caused by COVID-19 and MCO. Revenue was lower at RM245.8 million (FY19: RM273.4 million). However, gross profit rose 8% to RM89.3 million and gross profit margin expanded to 36.3%, thanks to contribution from higher margin project at Lakeside Boulevard in Puchong as well as cost savings from completed phases at Saujana KLIA in Sepang.
26.10.20 (Mon) 10.00 am	Fibon Bhd (AGM)	Fibon's key challenge is to address its declining profit trend over the last five years. Its revenue declined 11.07% y-o-y to RM13.62 million in FY20 due to lower sales volume. Net profit declined to RM2.15 million in FY20 from RM2.81 million in FY19.
27.10.20 (Tue) 10.00 am	Eurospan Holdings Bhd (AGM)	The company has been making losses for the past three financial years although it has managed to narrow its losses for FY20. The company is still cash flow positive and for FY21 it must manoeuvre through the pandemic which has curtailed the demand for its products especially in its export markets. The company must ensure that its products remain relevant in its markets and ensure that it is brought back to the path of profitability.
27.10.20 (Tue) 03.00 pm	EcoFirst Consolidated Bhd (AGM)	Like its property industry peers, EcoFirst also saw a decline in its revenue to RM150 million in FY20, as compared to RM221.3 million in FY19, due to delay the handover of completed units to property owners and movement restrictions. In tandem with the decline in revenue, its net profit declined to RM17.1 million in FY20, versus RM22.6 million in FY19.
28.10.20 (Wed) 09.00 am	Apollo Food Holdings Bhd (AGM)	Apollo Food saw its revenue declining since FY17 with an average decline of 4.34% every FY. However, as the confectionaries manufacturer is not inclined to join price war, it takes some

		better and more effective strategies to reverse the declining trend.
28.10.20 (Wed) 10.00 am	IOI Properties Group Bhd (AGM)	IOI Properties recorded a 4% decline in revenue to RM2.12 billion in FY20 (FY19: RM2.2 billion) due to lower contribution from property investment and hospitality and leisure segments, caused by the MCO which started on 18 March. Meanwhile, pre-tax profit was lower at RM897.09 million in FY20 due to asset value write-down of RM132.62 million which was caused by an oversupply of office space and the uncertainty caused by the COVID-19 pandemic.
28.10.20 (Wed) 10.00 am	Pintaras Jaya Bhd (AGM)	Pintaras Jaya saw a 18.35% growth in revenue to RM374 million in FY20 (FY19: RM316 million). Despite work stoppages from March to June 2020 due to movement restrictions imposed to contain COVID-19, it managed to maintain a pre-tax and net profit margin of 10.5% and 8.5%. The profit margin is in line with its FY19 performance.
28.10.20 (Wed) 02.30 pm	Pensonic Holdings Bhd (AGM)	The onset of the Covid -19 pandemic has brought the phenomenon of working from home on a larger scale than before. This has resulted in a higher demand for electrical appliances as people spend more time at home. In turn, this has stoked the demand for its products. The company is also venturing into the production of appliances based on IoT concept. This is also expected to have positive result on Pensonic as more people become home bound and rely on smart devices.
30.10.20 (Fri) 10.00 am	IOI Corporation Bhd (AGM)	Although IOI posted a y-o-y higher revenue of RM7.80 billion (FY19: RM7.39 billion), it registered a lower PBT of RM826.7 million (FY19: RM872.6 million) mainly due to lower contribution from the resource-based manufacturing segment and the higher net forex translation loss on foreign currency denominated borrowings and deposits of RM207.9 million (FY19 net forex loss of RM102.1

		million). The management has embarked a five-Year Plan (2020-2024) in this March to increase its resilience and competitiveness. Despite the challenges posed by the Covid-19 pandemic, IOI is expected to be able to withstand the external shocks.
30.10.20 (Fri) 10.30 am	Hong Leong Bank Bhd (AGM)	Net profit of HLB was lower at RM2.49 billion, represented a decrease of 6.4% as compared to FY19. The decline was attributable to an allowance amounted RM327.66 million for impairment losses on loans, advances and financing. In order to build up buffer against the risks arising from the COVID-19 pandemic. On the other hand, asset quality and capital adequacy remained robust with a GIL ratio of 0.61%, CET1 ratio of 13.7%, Tier 1 Capital ratio of 14.2% and Total Capital ratio of 16.5%.
30.10.20 (Fri) 02.30 pm	Hong Leong Financial Group Bhd (AGM)	Performance of HLFG is highly tied to performance of its 64.37% subsidiary HLB. In line with a lower profit in HLB and insurance business, HLFG's net profit declined 4.6% y-o-y to RM2.8 billion. Overall, the prospect for banking and insurance businesses will remain challenging in FY21.

One of the points of interest to be raised:

Company	**Points/Issues to Be Raised**
Glomac Bhd (AGM)	The Group provided RM24.6 million fair value loss on the investment properties. Please provide the breakdown of the fair value loss by type i.e. retail mall, commercial property units and car parks and residential property units respectively. (page 48 of Annual Report)
Fibon Bhd (AGM)	For the last 5 financial years since FY2016, Group revenue has been hovering between approximately RM13 million to RM18 million without much growth. Profit after taxation has also been on a declining trend; registering the highest amount of RM5.0 million in FY 2016 and continuously declining to the lowest amount of RM2.1 million in FY2020. (Page 12 of AR)
Eurospan Holdings Bhd (AGM)	Are there any plans to diversify the Group's business? Have any concrete measures been taken to grow the revenue and profit?

EcoFirst Consolidated Bhd (AGM)	The Company has been in loss making position for the last 3 financial years. For FYE 2020 it narrowed its loss after tax position to RM 2.49 million from RM3.95 million in FYE 2019. (Page 37 of AR 2020) What are the Company's strategies to bring the company back to profitability?
Apollo Food Holdings Bhd (AGM)	Revenue of Apollo Food is in a downtrend since FY17 with revenue declined gradually from RM208.92 million to RM174.94 million in FY20. This is equivalent to an average decline of 4.34% every financial year. a) Apollo Food has cited that market competition was the main contributor to the decline in revenue. As Apollo Food is not inclined to join the price war (Apollo Food's reply to MSWG dated 26 December 2019), how does the Group plan to increase the market share from competitors? b) How effective are current strategies in reversing the declining revenue trend?
IOI Properties Group Bhd (AGM)	The Group recorded fair value loss on investment properties and impairment loss on investment properties amounting to RM54.4 million and RM50.4 million respectively in FY 2020. (page 293 of the Annual Report). The fair value loss on investment properties is in respect of freehold land and buildings while the impairment loss on investment properties is in respect on leasehold land and buildings (page 229 of Annual Report) To which investment properties do the fair value loss and impairment loss relate to?
Pintaras Jaya Bhd (AGM)	<u>Manufacturing</u> 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? 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). i) How will the Board address the shrunk revenue from manufacturing?

	ii) Given the abovementioned situation, what is the outlook for PJB's manufacturing to remain profitable in FY2021?
Pensonic Holdings Bhd (AGM)	The Company was of one of the pioneers among local branded electrical appliance manufacturers to venture into the production of smart appliances which were based on the Internet of Things, (IoT), (Page 6 of AR 2020) It said that it was currently developing devices such as plug tops, IR Controllers and On – Off switches which would be available by year end. a) What is the progress of the development of the said devices? b) What is the projected revenue expected from the sales of such products for FYE 2021?
IOI Corporation Bhd (AGM)	The Group aims to diversify planting of crops away from full reliance on oil palm to other crops such as coconut and kenaf to limit the Group's exposure to palm oil price volatility (page 6 of Annual Report 2020 ("AR2020")). a) When does the Group target to commence planting of coconut? b) Given that local planters are facing challenges from influx of cheaper Indonesian coconuts in the market, how does the Group plan to penetrate the Malaysian coconut market to compete against local planters and imports of coconuts?
Hong Leong Bank Bhd (AGM)	HLB is developing an environmental, social and governance (ESG) policy for corporate, commercial and SME clients, which will then be used to assess the environmental and social risks associated with HLB's lending and financing activities (page 95 of AR2020). a) When does HLB expect to finalize and adopt the ESG framework? b) Where does HLB stand among industry peers in terms of ESG initiatives? How does the Bank plan to improve its industry standing in ESG initiatives? c) Bank Negara Malaysia said the strong demand for green financing is not matched by the supply side due to information gaps between financiers and green promoters.

	The central bank has also called for financial institutions to build their capacity and capabilities to better assess the viability of green projects, as limited technical know-how on the green sector can lead to hesitation in financial institutions to provide funding. What are the actions that will be taken to meet the call by the central bank to further promote the ESG agenda?
Hong Leong Financial Group Bhd (AGM)	HLA Holdings Sdn Bhd (HLAH), the insurance holding company of HLFG, recorded a 17.4% decline in net profit to RM228 million in FY20 (FY19: RM275.4 million) due to a 36% decrease in Hong Leong Assurance's (HLA) net profit to RM141 million (FY19: RM221 million). The Insurance business is the second largest net profit contributor for HLFG after the banking business. What are the factors which will support the performance of both life and general insurance business in view of the current low interest rate environment and the slowdown in economic activities?

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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.