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

The Observer

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Falling in love with gloves

There is no envy or intention whatsoever to spoil the party here except that the glove craze has shown no sign of abating with market participants of all sizes still eyeing every opportunity to own a stake in glove-related establishments.

Against the backdrop of the COVID-19 pandemic – and with heightened concerns of a second wave of outbreak raging – billions have been added to the net worth of rubber glove counters (not to mention the personal wealth of their founders/major shareholders) in the first half of 2020 alone.

MQ Tech's Towering Ambition

MQ Technology Bhd has emerged the latest proxy to Bursa Malaysia's glove rally following confirmation that it is in contention alongside Top Glove Corp Bhd – the world's largest rubber glove manufacturer – to acquire glove manufacturer Latexx Partners Bhd from its Austrian-based parent Semperit AG.

While one should not undermine the ACE Market counter for having towering ambition, it is mind-boggling as to how a company which has been loss-making for the past five years can afford to finance the acquisition of Latexx Partners.

According to a New Straits Times report dated 18 June, Latexx Partners which was delisted from Bursa Malaysia in June 2013 following its takeover by the Semperit Group would be sold for about RM300 million.

For the record, MQ Tech which specialises in high-precision moulds and magnetic coils for hard disk drives has slipped deeper into the red for the financial year ended 31 December 2019 by posting a widened net loss of

RM7.48 million from RM5.22 million in the previous financial year. Its annual revenue also shrank to RM9.65 million from RM24.65 million.

As at the end of FY19, the Company has cash and bank balances of RM340,378 with RM13, 334 of bank borrowings.

Acquistions in Rubberex Triggering an MGO

MQ Tech aside, the share price of chemical products maker Hextar Global Bhd (previously Halex Holdings Bhd) has also surged with news flow pointing to one of its executive directors, Datuk Ong Choo Meng, as having raised his stakes in Rubberex Corp Bhd, thus triggering a mandatory general offer (MGO) at RM1.80 per share or 38.4% discount over the rubber glove manufacturer's closing price on 23 June.

However, it is worth noting that Hextar Global does not own a single share in Rubberex.

In a Bursa Malaysia filing on 22 June, Rubberex said Ong and his 90%-held Hextar Rubber Sdn Bhd have bought an additional 20.63% stake in Rubberex, raising their collective interest to 50.18% – above the 33% threshold that triggers the MGO for the remaining shares that they do not own in the company.

Bursa's Timely Reminder

This brought to mind the warning from Bursa Malaysia that listed companies that are taking advantage of business opportunities arising from the COVID-19 pandemic must ensure that they give factual, accurate, relevant, and up-to-date disclosures to the market regulator.

In a statement dated 11 June, the market regulator said it observed a surge in COVID-19-related disclosures lately on listed issuers venturing into various new investments or business collaborations, including by way of memorandum of understanding, letter of intent and distributorship agreement.

Among others, these were to manufacture personal protective equipment, ventilators, hand sanitisers and face masks; distribute COVID-19 rapid diagnostic test kits; and develop or distribute health supplements.

It also reminded the listed issuers against using vague and ambiguous words that might be "exaggerated, flamboyant, over-stated or over-zealous or to engage in any promotional disclosure activity which may mislead investors or cause unwarranted price movement and activity in the trading of listed issuer's securities."

Has the peak of the glove sector been scaled?

While the exact number of glove-related deals in the pipeline is anybody's guess, one wonders if the peak has been scaled even as reputable research houses continue to issue stretchy valuations with historical price-earnings ratios of over 100 times.

Despite the heightened optimism on prospects of the glove sector, shareholders should be aware of the risks associated with their investment in the sector. Are the valuation of these counters overstretched? Is the demand for COVID-related products sustainable? Will an oversupply situation emerge in near future with the imminent success of developing COVID-19 vaccines?

It is also worth noting that brokerage houses have recently tightened their share margin valuation on glove-related counters to reduce their over-exposure to the sector.

Investors are reminded of the age-old advice of not putting all their eggs in one basket; diversification is an essential tool to mitigate risks.

Bigger Picture

Very broadly, investors must be wary of the widening disconnection between stock market and economic fundamentals. Buoyed by the glove rally, Bursa Malaysia posted a record high trading value of RM9.31 billion on 29 May on the back of a heavy trading turnover of 9.308 billion shares (the record high in terms of trading value is 11.21 billion shares worth RM4.41 billion on 18 May).

Similar to Wall Street, economists have cautioned that the stock market is presently spurred by an abundance of artificial liquidity in the form of stimulus package that was rolled out by the government, hence the sustainability aspect of it once the tap has run dry.

No thanks to the lockdown exercise to contain the spread of COVID-19, many listed companies are poised to report dismal financial results in their FY2020 which will inevitably be a drag on the overall stock market performance.

In a recent economic report, AmBank Group chief economist and member of the Economic Action Council secretariat, Anthony Dass, has projected unemployment rate to hit 6% or higher this year – worse than during the 1997 Asian financial meltdown and 2008 global financial crisis when unemployment rose to 3.2% and 3.7% respectively.

"The risk of companies going under remains high, apart from restructuring and engaging in mergers and acquisitions," opined Dass.

"Also, it remains unclear how the labour market will be when the wage subsidy programme which started in April, ends. It provided financial relief to employers who face revenue constraints and saved 2.2 million jobs."

Other headwinds include a dip in the country's gross domestic product (GDP) and rising debt level.

Hit by slumping global trade and demand which has become a regional trend, Malaysia's GDP growth is forecast to contract 4% this year before growing 6.5% in 2021, according to the Asian Development Bank's recent Asian Development Outlook 2020 Supplement.

This projection somehow runs parallel with the International Monetary Fund's further lowering of its 2020 global GDP estimate to a contraction of 4.9% from a 3% contraction in April.

Elsewhere, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz has warned that the country's debt level could hit the statutory limit of 55% of GDP by end-2020 from 52% currently following "the implementation of measures to save lives, protect livelihoods and stimulate the economy".

This comes on the heels of the RM260 billion Prihatin Rakyat economic stimulus plan (PRIHATIN), which was followed by the RM35 billion short-term economic recovery plan (PENJANA) aimed at stimulating the Malaysian economy, of which the government's direct fiscal injection totalled RM45 billion.

On a similar note, any extension of the Bank Negara Malaysia-sanctioned loan moratorium which ends in September could significantly reduce banks' cash inflow while having an adverse impact on the system's liquidity.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 29 June - 3 July 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
29.06.20 (Mon) 09.30 am	Dagang Nexchange Bhd (AGM)	DNEX's revenue decreased marginally to RM290.5 million in FY19 from RM293.5 million the year before, whilst net profit declined significantly from RM51.9 million to RM35.5 million due to completion of key projects in the first half of 2019. It derived 70% of its revenue from the government sector where it charges fixed and non-adjustable fees based on services and projects it provided.
29.06.20 (Mon) 10.00 am	POS Malaysia Bhd (AGM)	For the eight months financial period ended 31 December 2019, its net loss increased to RM215.6 million against net loss of RM165.8 million in FYE 31 March 2019. Meanwhile its loans and borrowings increased to RM62.5 million in FPE 31 Dec 2019 (FYE March 2019: RM495 million), while finance cost increased to RM36.3 million (FYE March 2019: RM21.6 million). However, amid the challenging environment and loss-making position, it proposed to pay RM31.3 million of dividend to shareholders. What is the rationale of this and where will the money come from?
29.06.20 (Mon) 10.00 am	UOA Development Bhd (AGM)	The Company has committed RM40.8 million for the construction of investment properties in FY2019. This will further increase the size of investment properties of the Company.

29.06.20 (Mon) 10.00 am	Vitrox Corporation Bhd (AGM)	Revenue in FY19 reduced by 14% to RM339.6 million (FY18: RM394.7 million), while PAT reduced by 24.5% to RM79.7 million (FY18: RM105.5 million). Net cash and cash equivalents increased to RM191.6 million (FY18: RM148.7 million). It continues to deliver profitable financial performance since its inception, even under challenging global macroeconomic and geopolitical uncertainty such as USA-China Trade War.
29.06.20 (Mon) 10.00 am	Wellcall Holdings Bhd (AGM)	Despite a slight decrease in revenue for 2019, but it managed to register a higher gross profit margin due to operational efficiency
29.06.20 (Mon) 11.00 am	Public Bank Bhd (AGM)	With industry lowest gross impaired loan (GIL) ratio of 0.5%, Public Bank is poised to be the most defensive bank player against any increase in loan loss provisions due to COVID-19 pandemic.
29.06.20 (Mon) 02.00 pm	Velesto Energy Bhd (AGM)	The company returned to profit due to higher utilisation of its oil drilling rigs and better chartered rates. The current low oil price may pose a challenging environment to the Company.
29.06.20 (Mon) 02.30 pm	Lotte Chemical Titan Holdings Bhd (AGM)	In view of current economic condition, Lotte Chemical Titan (LCT) is undertaking a strategic review on the implementation of the large scale Lotte Chemical Indonesia New Ethylene Project (LINE Project). It is not known will the project be further delayed after experienced several industry headwinds previously.
29.06.20 (Mon) 06.00 pm	Bintulu Port Holdings Bhd (AGM)	The Group recorded higher revenue in FY19 at RM716.42 million. However, PBT declined to RM179.0 million from RM211.1 million due to the absence of extraordinary income recognised in FY18. The rise of new potential transhipment hubs, both locally and regionally will threaten the Group's position.

30.06.20 (Tue) 10.00 am	Tenaga Nasional Bhd (AGM)	TNB has pledged a total RM250 million under the two electricity bill assistance schemes announced by government earlier. Nevertheless, analysts believe such extra CSR expenses is manageable at group level.
30.06.20 (Tue) 10.00 am	Malaysia Airport Holdings Bhd (AGM)	It hit the 100th million passenger mark for airports in Malaysia with record-high revenue of RM5.2 billion in 2019. However year 2020 which began with optimism, came to almost a standstill for the aviation industry as many countries borders remained close. The outlook now remains uncertain amidst the on-going Covid-19 pandemic.
30.06.20 (Tue) 10.00 am	Comfort Gloves Bhd (AGM)	Comfort Gloves achieved encouraging result in the first quarter ended April 30 2020 with revenue increased to RM152.9 million from RM120 million a year ago. It will continue to be benefited from increased global glove consumption as health awareness improves.
30.06.20 (Tue) 10.00 am	Malaysia Building Society Bhd (AGM)	Being the newest bank in Malaysia, MBSB will have to speed up its business plan to catch up with other larger players in this country.
30.06.20 (Tue) 10.00 am	CIMB Group Holdings Bhd (AGM)	Concerns mount on the extent of increase in loan loss provisions due to the six-month loan moratorium period extended to individuals and SMEs
01.07.20 (Wed) 10.00 am	Berjaya Corporation Bhd (EGM)	BCorp seeks shareholders' ratification for the disposal of its interest in Four Seasons Hotel & Hotel Residence in Kyoto for JPY50.79 billion (RM2.06 billion). The proposed disposal was announced in February this year. The disposal was completed on 10 March 2020 and the Group received JPY49 billion in cash, whilst the leaseback of the Hotel took effect on the same day. BCorp's controlling shareholder Tan Sri Dato' Seri Vincent Tan Chee Yioun

		has indicated his intention to vote in favour of the resolution in the EGM.
02.07.20 (Thur) 10.00 am	Serba Dinamik Holdings Bhd (AGM)	The Company is diversifying into power generation, water treatment and utilities sectors to broaden the revenue stream so as not too dependent on oil & gas sector.
02.07.20 (Thur) 10.00 am	Hap Seng Consolidated Bhd (AGM)	Moderate revenue growth for plantation, credit finance and automotive businesses. But trading and building material businesses recorded a decline in revenue

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Dagang Nexchange Bhd (AGM)	The Group is looking forward to concluding the divestment of Ping Petroleum Limited, whose value has increased over the years. Book value of the Group's investment stood at RM216 million as at 31 December 2019. In 2016, DNeX completed the acquisition of 30% interest of Ping at a cost of US$10 million (page 8 of AR). Why did the Group decide to dispose its investment? How does the Group plan to utilize the disposal proceeds?
POS Malaysia Bhd (AGM)	POS Aviation recorded a drop in customer satisfaction rating to 50% (FYMar2019: 100%), whilst POS Logistics customer satisfaction rating dropped to 66% (FYMar2019: 80%) (page 67 of AR). a) What were the nature of the major dissatisfaction? b) Did it result to any loss of customers? c) What measures have been taken to improve the situation?
UOA Development Bhd (AGM)	The capital commitment of the Group as at 31 December 2019 was at RM40.8 million mainly for construction of investment properties as disclosed in the MD&A Statement (page 4 Annual Report). a) Where are the location of the investment properties? b) What are the type of construction that will be carried out at the investment properties? c) When will the investment properties be completed?

	d) Has the Company any anchor tenants for the investment properties? If yes, please name the anchor tenants.
Vitrox Corporation Bhd (AGM)	1. How has the Covid-19 pandemic and the Malaysian Government's enforcement of Movement Control Order ("MCO") impacted the Group in terms of operations and supply chain? 2. Given the on-going Covid-19 pandemic and the trade war between USA & China, the outlook for the semiconductor market remains uncertain. a) How has this impacted the Group's orders from its customers? b) How many months of orders does the Group have at present?
Wellcall Holdings Bhd (AGM)	On Page 7 (MD&A), it is stated that in FYE 2019, the fundamentals of demand for its industrial rubber hose remain strong resulting from the gradual recovery of both the emerging and developed countries. How will the US-China trade war, the Covid-19 pandemic and the oil market crash and volatility, impact the dynamics of demand and supply and the cost of material?
Public Bank Bhd (AGM)	Local banks have granted an automatic six-month moratorium for all their individual and SMEs customers starting from 1 April 2020 to help relieve clients' financial burden due to COVID-19 pandemic. a) What is the size of the loans involved in the six-month moratorium to the Group's total gross loans, financing and advances (LAF)? b) Given substantial loan exposure in residential properties, passenger vehicles and commercial lending to SMEs (which in total accounted for 74.4% of the Group's total gross LAF in FY19), what is the likelihood of increases in provision of 12-month and lifetime expected credit losses (ECL) due to the loan-moratorium and the challenging economic outlook? To what extent is the gross impaired loan ratio (GIL) (FY19: 0.5%) expected to increase in FY20?
Velesto Energy Bhd (AGM)	The emergence of renewable energy on the agenda of most governments has led to an increasing shift from fossil fuels, oil and gas. The emphasis is now on solar, hydro, wind, offshore thermal energy and bio-diesel. (page 41 of Annual Report)

	What is the Group's future strategic business direction in view of the emergence of renewable energy's importance as the Group's current business is centered on fossil fuels?
Lotte Chemical Titan Holdings Bhd (AGM)	Under Note 9, Key Management Personnel Compensation, page 43 of Financial Statements 2019, compensation to group's executive directors namely Dr. Lee Dong Woo and Mr. Lee Kwan Ho increased 157% year-on-year (y-o-y) to RM4.87 million from RM1.87 million (Practice 7.1 CG Report 2018 & 2019). a) Remuneration received by Dr. Lee in FY19 increased 147% y-o-y to RM2.84 million from RM1.15 million, while Mr. Lee's remuneration increased 172% y-o-y to RM1.98 million from RM723,751 in FY18. Notwithstanding a 9% decline in revenue to RM8.44 billion and a 44% decrease in net profit to RM443 million in FY19 (FY18: RM9.25 billion, RM785 million), what are the performance targets achieved by the two EDs to justify such a sharp pay rise? b) For other executive directors of subsidiaries, their salaries increased significantly from RM1.632 million in FY18 to RM6.5 million in FY19 (page 43 of Financial Statements 2019). What are the reasons for the substantial increase in salaries of executive directors in subsidiaries?
Bintulu Port Holdings Bhd (AGM)	As at end of FY 2019, the Group has huge short-term deposits of RM609.0 million placed with licensed banks and earning interest rates between only 3.0% p.a. to 3.6% p.a. On the liability side, it has outstanding Sukuk Murabahah totaling RM938.8 million with higher rates payable ranging from 4.5% p.a. to 5.65% p.a. and lease liabilities totaling RM564.6 million. Does the Group really need to hold such substantial cash after considering various needs and instead use a significant portion of it to reduce the Sukuk Murabahah and lease liabilities?
Tenaga Nasional Bhd (AGM)	TNB recorded a lower Equivalent Availability Factor (EAF) of 83.35% in FY19 for generating capacity in Peninsular Malaysia, against 89.92% in FY18. The EAF recorded is also the lowest since FY14 (excluding financial period ended 31 December 2017) with EAF of 85.5% recorded. In addition, TNB's Equivalent Unplanned Outage Factor (EUOF) also spiked to 6.63% from 3.24% in FY18, suggesting a lower reliability recorded in TNB's stations during the year.

	The lower EAF and EUOF in the year were mainly due to prolonged forced outage in TNB Janamanjung Sdn Bhd Unit 2 (120 days in FY19 versus 5 days in FY18) and Kapar Energy Ventures Unit 6 (151 days in FY19 versus 52 days in FY18) due to technical faults. (Sources: Annual Reports, Presentation to Analysts) What are the lessons the management can draw from the outages? What are the findings from the Root Cause Analysis conducted on the two plants due to the outages? What measures should TNB take to further strengthen asset reliability and to prevent such occurrence in the future?
Malaysia Airport Holdings Bhd (AGM)	The financing model for capital expenditure at airports was due to undergo a complete change with the impending introduction of the Regulated Asset Base ("RAB") framework by the Malaysian Aviation Commission (MAVCOM) (page 5 of AR2019). At the end of 2019, the Government announced the merger of the Civil Aviation Authority of Malaysia (CAAM) and MAVCOM, two of Malaysia Airports' main regulators (page 6 of AR2019). How will the changes in the Government since March 2020 and the impending merger of MAVCOM and CAAM, affect MAHB's funding model for capital expenditure at airports, going forward? What are the chances of the RAB framework not being introduced?
Comfort Gloves Bhd (AGM)	As the top few rubber glove manufacturers are increasing their production very aggressively, how would the smaller players like Comfort strategise to ensure that their market share would not be eroded? What competitive advantages does Comfort have to counter the threat?
Malaysia Building Society Bhd (AGM)	Household is one of the most vulnerable and hardest-hit segment during economic downturn. a) Given that the household sector made up approximately 73% (RM26.12 billion) of RM35.86 billion MBSB's gross loans, financing and advances as of FY19, what are the strategies to ensure debt collection remain intact after the six-month loan moratorium period? b) How well is MBSB prepared to deal with expected rising insolvency and liquidation among firms post COVID-19?

	c) As part of risk management, will MBSB revise the 2022 target of achieving a retail-to-corporate financing ratio of 70:30 (page 55 of AR2019) to achieve a more balanced financing portfolio?
CIMB Group Holdings Bhd (AGM)	BNM had issued the Exposure Draft on Licensing Framework for Digital Banks (Exposure Draft) on 27 December 2019 to encourage innovative application of technology in the financial sector. a) Does CIMB Group see the necessity to acquire a digital banking licence to complement operation of CIMB Bank in Malaysia? b) Digital banks are expected to offer products and services that could help to address market gap in the underserved and unserved segment which may include micro, small and medium enterprises in a sustainable manner (page 6 of the Exposure Draft). Are the underserved and unserved segments worthwhile for CIMB Bank to address as these segments are generally perceived to incur high servicing cost and low revenue potential? c) Do you foresee digital banks will possess formidable challenges to conventional banks like CIMB Bank in the years to come?
Serba Dinamik Holdings Bhd (AGM)	1. The Group recorded a loss on disposal of trade receivables of RM8.0 million in FY 2019 that is RM5.2 million or 185.7% higher than RM2.8 million recorded in FY 2018. (page 218 of Annual Report) a) What is the reason for the trade receivables being sold at a loss and why is the amount increasing? b) Please explain why the Company has entered a Non-Recourse Receivables Purchase Framework Agreement ("NRRPFA") with a licensed bank as compared to the normal practice of in-house collection of trade receivables? (page 27 of Annual Report) c) Please provide the salient features of the NRRPFA? d) What is the fee paid to the licensed bank in FYs 2019 and 2018 for this service?
Hap Seng Consolidated Bhd (AGM)	The Division's mills, which include Jeroco Palm Oil Mill 1, Jeroco Palm Oil Mill 2, Tomanggong Palm Oil Mill and Bukit Mas Palm Oil

	Mill, recorded an average utilisation rate of 69.2% in 2019 (2018: 68.8%) (Page 13 of the Annual Report 2019). a) What are the latest average utilisation rates for the Division's mills? What are the planned average utilisation rates that the Division expects for the mills in FY2020? b) The Division will continue to optimise operational efficiencies to mitigate the effects of rising production costs (Page 13 of the Annual Report 2019). What has the Division achieved in terms of operational efficiencies? What are the areas for improvement that the Division has identified?

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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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