

The Observer

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ANALYST'S MESSAGE



By Chong Chee Fern

Q&A Session at AGMs – The Highlights and What to Expect

Following last week's Message on "A Peek into AGMs" , we feel its apt that we continue with our sharing, focusing this time on the Q&A session which is deemed as the crux and the most interesting and "colourful" moment of the AGM.

Q&A session will usually take up the most time in the AGM's first agenda which is on the tabling of audited financial statements although questions will also be raised subsequently after the tabling of each resolution. These are the trying moments where the company's Board members and senior management staff will be put to the test and challenged to respond to various questions raised by shareholders.

In view of its importance and the challenges, therefore, prior to the AGM, the company would most likely have done their homework to be prepared for all the likely questions, combing through the annual report, sustainability report, corporate governance report and even recent pertinent media news, if any. There is certainly a lot of hard work. Notwithstanding, the company could still be caught by surprises on the AGM day as the questions can come from so many angles!

The test is also how the Board of directors manages shareholders' expectations. To set the tone right, never, never, at any time, should the Chairman show his impatience or arrogance in dealing with questions as it will not only create an uncondusive atmosphere but may also incur the wrath of shareholders. The Chairman may land himself/herself in hot soup, with an angry or nasty shareholder "shelling" him/her..... this had happened and is not surprising.

So what are the likely or common questions?

Without doubt, the profits and revenue are among the key areas which draw significant attention especially if there is a substantial decline. Declining gross profit margin is also another concern. Or where profits and revenue have been growing well, the question is whether the growth is sustainable. If a company has been incurring losses, shareholders would be interested to know when it will turn around.

One red flag could be a case where the increase in revenue and profits is so unrealistically substantial that it may seem too good to be true given the economic and industry conditions. The amount of trade receivables may also be incredibly high. This certainly warrants further analysis and questioning.

In situations where the increase in trade receivables is significantly higher than the increase in revenue, if it is not due to the sales generated towards the closing year end, there may be a concern that collectability of sales may slow down resulting in long overdue receivables. Related to trade receivables may also be the high impairment due to probable unrecoverable receivables. This is unhealthy and operating cash flows may decline. Consecutive years of negative operating cash flows warrant further analysis and explanations.

Concentration risk in a few customers is a risk that shareholders are also very concerned with as the company is exposed to the vulnerability of a sharp drop in turnover if the company were to lose some of these customers. The company should allay the fears of shareholders by addressing or mitigating this risk soonest possible.

Substantial borrowings with high gearing ratio have always been a favourite question of shareholders. It will expose the company to unnecessarily high risk particularly in a rising interest rate environment and a depressed economy. This will further baffle shareholders especially if at the same time the company still has substantial cash.

How do you explain such a situation to a shareholder who asks why the company has so much cash and yet it is not used to reduce the substantial borrowings'?

One likely answer given is that the company wishes to maintain a war chest to be prepared for any potential asset acquisition. But does it make sense or would there not be an opportunity cost involved if the situation remains about the same for several years and yet there are no acquisitions made? Or alternatively, why not have a standby credit line and draw on it only when the opportunity arises? However, what may not favour this approach may be the commitment fee to be paid for standby credit line. Another situation is where loans have just been drawn down and on a snapshot position you will have substantial cash on the assets side and at the same time correspondingly high borrowings reflected on the liabilities side. Some companies defend their action stating that they do not wish to use the cash to fully settle their borrowings as they wish to still maintain a banking relationship with the banks.

From the macro viewpoint, the industry outlook, prospects, competitive advantages, market share, foreign exchange impact are important areas. Among the possible key drivers are capacity, utilisation, capital expenditure, expansion plans, whether domestically or globally, and diversification. Shareholders may also be keen to know whether a company has significant recurring income. Segmental analysis is also another area of interest.

Research and development, automation plans, cost optimisation, hedging, risk management are some other areas which shareholders may question.

Notwithstanding its financial performance, the company's share price performance is of paramount importance to shareholders. Shareholders may voice out their unhappiness if the company's share price has been underperforming. They may also query if directors are found disposing substantially their shares. In some cases, they will also comment on the share's lack of liquidity, if it is the case, and also comment adversely on the company's investor relations unit, if it is deemed to be not "working hard enough".

Interestingly, at an AGM a few years back, one shareholder commented that the company had been performing well financially but sadly its share price had not performed as expected. He attributed it to the company's investor relations unit for not being sufficiently active in promoting the company. Subsequently, the company was seen to be very active in its investor relations' activities and its share price appreciated.

At the subsequent AGM, the same shareholder complimented the company, in particular its investor relations unit, for doing a good job as the share price had performed.

Apart from share price, dividend is obviously close to the hearts of shareholders and is certainly another hot topic. Shareholders will obviously question the Board if there has been no dividend declared particularly if not declared for a few years or if the amount paid is too low. It is good practice that a company should share its profits in the form of reasonable dividend payments to shareholders unless there is strong justification not to do so. Shareholders may also like to know whether there is any dividend policy and the dividend pay-out ratio. They may also look forward to a dividend reinvestment plan if the company has not adopted such a plan.

Private placements, if carried out too often, may incur the displeasure of shareholders as there will be dilution to existing shareholders' holdings and also the company's earnings per share. In relation to share buy-backs, shareholders will find it difficult to understand if the company were to cancel the treasury shares instead of selling back to the market to realise capital gains especially if the gains are very substantial.

Questions relating to corporate governance are also gaining momentum. These include independent directors with long tenure exceeding 9 years, Board succession planning, Board diversity, poor attendance of directors at Board meetings and frequent changes of Board members.

Of late, one item which draws shareholders' attention is directors' remuneration. Shareholders will be irked by excessive directors' remuneration or substantial increases especially if the company is not performing well financially.

The aforesaid questions and issues are not exhaustive as there are also many specific questions pertinent only to the industries in which companies operate.

In conclusion, we are pleased to see that some form of healthy shareholder activism is at work. This is manifested in the form of increasingly good questions and issues, which can be pressing and demanding, raised by shareholders, to keep the Board members on their toes so that they may work diligently in the interests of all shareholders and stakeholders.

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

Change of Boardroom

IRE-TEX CORPORATION BERHAD (“IRETEX” or “the Company”)

APFT Berhad (“APFT” or “the Company”)

Both IRETEX and APFT had announced on 23 April 2019, resignation of 3 of their Directors respectively.

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135113>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135093>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135073>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6108857>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135093>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135113>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6135073>

<https://www.theedgemarkets.com/article/apft-chairman-directors-resign-after-just-three-months-job>

<https://www.theedgemarkets.com/article/iretex-sees-681-stake-traded-offmarket-three-directors-leave-board>

MSWG’s Comments

We note that there were multiple resignations of directors from 2 listed companies; IRETEX and APFT. The reason for the resignation was cited as ‘due to personal reasons’ or ‘to pursue personal interest’ as announced to the Exchange, Bursa Malaysia.

Summary of the changes are as illustrated as below:

PLC	Director	Designation	Date of Appointment	Date of Resignation	Reason for Resignation
IRE-TEX CORPORATION BERHAD	Tan Yeang Tze	Executive Director	4 April 2019	23 April 2019	To pursue personal interest
IRE-TEX CORPORATION BERHAD	Dato Faisal Zelman bin Abdul Malik	Independent and Non-Executive Director	2 July 2018	23 April 2019	To pursue personal interest
IRE-TEX CORPORATION BERHAD	Teoh Tuck Wah	Non-Independent and Non-Executive Director	15 April 2019	23 April 2019	To pursue personal interest
APFT Berhad	Datuk Md Ismail Hamdan	Independent and Non-Executive Director (Non-Executive Chairman)	23 Jan 2019	23 April 2019	Due to personal reasons
APFT Berhad	Laxmi Devi Murugan	Independent and Non-Executive Director	18 Jan 2019	23 April 2019	Due to personal reasons
APFT Berhad	Loganathan Vadivelu	Independent and Non-Executive Director	18 Jan 2019	23 April 2019	Due to personal reasons

Noted that most of the Directors were appointed recently within the last 1-3 months except Dato Faisal of IRETEX who was appointed less than 1 year ago in July 2018.

All except 1 Director are Non-Executive Directors and mostly Independent Directors.

Independent directors bring to the Board an independent perspective, apart from their duty to act in the shareholders' best interests. They are required to exercise their fiduciary duty in good faith, with their oversight responsibilities, in the best interests of shareholders.

Therefore, it is worrying, especially for shareholders as they largely rely on the Independent Directors to safeguard their interests. One Independent Director resigning 'due to personal reasons' sounds like a norm, but with 3 Independent Directors resigning together for the same reasons..... one would wonder what a coincidence!

For good governance, the Nomination Committee should step in to undertake a thorough review of the underlying factors leading to the exit of these Directors (an exit interview) to ascertain the 'actual' reasons for their resignations.

On a separate note, we also note-that the previous auditor of APFT, Messrs. Adam & Co. had indicated that they did not wish to continue to act as the Auditors of the Company at the last AGM held on 26 July 2018. Subsequently, APFT took approximately 8 months to appoint a new auditor, Messrs PKF on 28 March 2019.

Similarly, in IRETEX's case it took the Company approximately 9 months to appoint a new auditor, Messrs. Baker Tilly Monteiro Heng on 9 April 2019 after the resolution on the re-appointment of Messrs. UHY as Auditors of the Company which was tabled at the Company's last AGM was not carried on 23 June 2018.

Shareholders should raise their concerns on the issues highlighted above in the upcoming AGMs and get the assurance from the Board on their commitment to act in the best interests of all stakeholders.

MSWG'S AGM WEEKLY WATCH 29 April – 3 May 2019

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	Venue
29.04.19 (Mon) 10.00 am	Affin Bank Bhd (fka AFFIN Holdings Bhd)	The Royale Chulan Kuala Lumpur
29.04.19 (Mon) 10.30 am	Petronas Chemicals Group Bhd	The Majestic Hotel Kuala Lumpur
29.04.19 (Mon) 11.00 am	Poh Huat Resources Holdings Bhd	Holiday Inn Melaka in Jalan Syed Abdul Aziz, Melaka
30.04.19 (Tue) 09.00 am	Suiwah Corporation Bhd	Sunshine Square Complex, 1, Jalan Mayang Pasir, Bayan Baru, Penang
30.04.19 (Tue) 10.00 am	OSK Holdings Bhd	Kuala Lumpur Convention Centre, KLCC, Jalan Pinang
30.04.19 (Tue) 10.00 am	Petronas Gas Bhd	Mandarin Oriental Kuala Lumpur
30.04.19 (Tue) 10.00 am	Cahaya Mata Sarawak Bhd	Borneo Convention Centre Kuching, The Isthmus, Sejingkat, Kuching, Sarawak
02.05.19 (Thu) 10.00 am	Sime Darby Property Bhd	Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, KL
02.05.19 (Thu) 11.00 am	Malaysia Airport Holdings Bhd	Sama-Sama Hotel, KL International Airport, Sepang
03.05.19 (Fri) 10.00 am	Amtel Holdings Bhd	Bukit Jalil Golf & Country Resort, Jalan Jalil Perkasa 3, Bukit Jalil, KL

Points of interest to be raised:

Company	Points/Issues to Be Raised
Affin Bank Bhd (fka AFFIN Holdings Bhd)	<p>As stated on page 37, MD&A, the property market remained sluggish and subdued in F2018 with an overhang of 30,000 unsold completed residential units entering 2019.</p> <p>What strategy is your Group employing in 2019 to maintain its performance in the mortgage segment that continued to register strong growth, increasing by RM2.1 billion from RM8.5 billion in 2017 to RM10.5 billion in 2018?</p>

	Can you elaborate on the statement "Capitalising on the robust demand for more affordable property, the Bank shifted to focus on selective acquisitions in this segment"?
Petronas Chemicals Group Bhd	<p>Despite a weak petrochemical market and heavy year of plant turnaround in Financial Year ("FY") 2018, PCG recorded higher revenue, profit after tax, EBITDA, total dividend and total assets compared to FY 2017 as disclosed on page 12 of PCG's Integrated Report <IR> 2018. However, EBITDA margin dropped from 38.0% in 2017 to 35.6% in 2018.</p> <p>What were the main factors that contributed to the overall lower EBITDA margin in 2018?</p>
Poh Huat Resources Holdings Bhd	The proportion of material costs over total sales has increased to 59.9% in FY18 compared to 55.4% the year before (page 19 of Annual Report 2018). What is the strategy to manage the bottomline? Is there an intention to pass through the cost to customers?
Suiwah Corporation Bhd	What effort has been taken by the Board, save for the Interested Directors, to negotiate for a higher offer price which is closer to Suiwah's estimated value of RM4.93 to RM5.20 per share for the benefit of the Entitled Shareholders?
OSK Holdings Bhd	<p>Will the Company reconsider its decision to proceed with the listing of the Cables Division on The Stock Exchange of Hong Kong ("HKEX") as the market sentiment has improved?</p> <p>(a) How much is the revenue and profit contribution from the cables plant in Vietnam for FY2017 and FY2018?</p> <p>(b) What is the Capex to be incurred for the installation of new machines at the Melaka factory?</p> <p>(c) What is the additional increase in production volume from the new machines installed?</p>
Petronas Gas Bhd	<p>1) In the Chairman's Statement on page 10 of PGB's Annual Report ("AR") 2018, PGB pledges its support of the government's aspiration for a competitive market via the liberation of the gas market with the Third Party Access ("TPA") which took effect since 16 January 2018.</p> <p>On page 16 of the AR 2018, the MD/CEO has further shared that the TPA itself does not affect PGB as a new entity established by PETRONAS meets the requirement</p>

	<p>under TPA. However, tariffs decided by the Energy Commission could affect PGB's revenue due to the newly introduced Incentive Based Regulation ("IBR") mechanism used to determine the tariff.</p> <p>a) Please elaborate further on the impact of IBR on PGB's revenue and earnings in 2019 and 2020.</p> <p>b) What are the opportunities and challenges (if any) for the Company moving into a more regulated environment?</p>
Cahaya Mata Sarawak Bhd	<p>In FY2018, CMS has recorded its share of losses of RM546,000 of joint ventures (FY2017: share of profits of RM31.9 million).</p> <p>a. What are the reasons for the share of losses reported in the Group's accounts (page 50 of the Integrated Annual Report 2018)?</p> <p>b. In terms of investment risk, are there any new measures that have been identified by CMS to manage the risk of over-reliance on joint venture partners (page 91 of the Integrated Annual Report 2018)?</p>
Sime Darby Property Bhd	<p>It was reported in the Financial Times newspaper dated 23 March 2019 that the 2nd and 3rd phases of the Battersea Power Station project has run into difficulty. A number of house buyers from the 2nd phase are claiming their deposits back and cancelling their purchases.</p> <p>(a) How serious is the cancellation problem?</p> <p>(b) Is the project plagued by cost overrun as reported?</p> <p>(c) Is there heavy staff turnover and low morale effecting the staff of the Battersea Power Station Development Company?</p> <p>(d) What are the measures taken to overcome the problems mentioned in (b) and (c), if true?</p>
Malaysia Airport Holdings Bhd	<p>We note from Page 99 of the Annual Report that in FY2018, revenue from project and repair maintenance operations segment rose by 4.5% to RM162.2 million (FY2017: 155.2) with Qatar operations representing about 90% of the revenue stream. Qatar operations registered revenue of RM149.1 million (FY2017: RM137.6 million), growing by 8.4%. Meanwhile revenue from the Malaysia operations declined by 26.0% to RM13.1 million (FY2017: RM17.7 million).</p>

	<p>(a) Why did revenue from Malaysia operations decline and why does it form only a small portion of the segment revenue?</p> <p>(b) Are there plans and measures to be taken to increase this revenue significantly?</p>
<p>Amtel Holdings Bhd</p>	<p>Under Note 14 (page 105) of the AR2018, we note that other receivables increased significantly to RM8,333,356 (2017: RM249,415) which was due to amount owing by a former subsidiary. The increase is alarming.</p> <p>(a) What is the Board's view on the collectability of the said amount?</p> <p>(b) Is there a repayment schedule and are there interest charges on the former subsidiary for the said amount owing?</p> <p>To-date, how much of the other receivables have been collected?</p>

MSWG'S WATCHLIST

IRIS CORPORATION BERHAD ("IRIS" or "the Company")

The Board of Directors of IRIS wishes to announce that the Company has on 24th April, 2019 commenced legal proceedings in Kuala Lumpur High Court ("the suits") against:-

1. TAN SRI RAZALI BIN ISMAIL ("**1st Defendant**");
2. DATUK TAN SAY JIM ("**2nd Defendant**");
3. YAM TUANKU DATO' SERI SHAHBUDDIN BIN TUNKU BESAR BURHANUDDIN ("**3rd Defendant**");
4. DATO' HAMDAN BIN MOHD HASSAN ("**4th Defendant**");
5. DATO' EOW KWAN HOONG ("**5th Defendant**");
6. CHAN FEOI CHUN ("**6th Defendant**");
7. SYED ABDULLAH BIN SYED ABD KADIR ("**7th Defendant**");
8. DATUK NOOR EHSANUDDIN BIN MOHD HARUN NARRASHID ("**8th Defendant**"); and

DATUK NIK AZMAN BIN MOHD ZAIN ("**9th Defendant**").

9. The suit concerns the Company's investment in Border Control Solutions Limited ("**BCS**"). The Company brought this action for loss suffered from the Defendants' failure to discharge their respective fiduciary duty, duty of fidelity and/or duty to exercise reasonable care, skill and diligence as Directors of the Company at that material time.

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6136897>

G3 GLOBAL BERHAD ("G3" or "the Company")

Bursa Malaysia's Securities Berhad has on 26 April 2019 issued an Unusual Market Query ("UMA") on the sharp price of G3's shares recently.

In this respect, investors are advised to take note of the Company's replt to the above UMA query which will be posted at Bursa Malaysia's website under the company announcement, <http://www.bursamalaysia.com/market/listed-companies/company-announcements/> when making their investment decision.

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6139137>

SEACERA GROUP BERHAD (“SEACERA” or “the Company”)

The Board of Directors of Seacera (“Board”) wishes to announce that the Company has on 26 April 2019 defaulted in the payment of principal and profits to AmBank Islamic Berhad (“AmBank”).

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6139421>

MSWG’S VIGILANCE

PN17 Companies

1. APFT BERHAD
2. BERJAYA MEDIA BERHAD
3. BERTAM ALLIANCE BERHAD
4. BRAHIM’S HOLDINGS BERHAD
5. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
6. COMINTEL CORPORATION BERHAD*
7. DAYA MATERIALS BERHAD
8. EKA NOODLES BERHAD
9. HB GLOBAL LIMITED
10. KINSTEEL BHD
11. KUANTAN FLOUR MILLS BERHAD
12. MAA GROUP BERHAD
13. MALAYSIA PACIFIC CORPORATION BERHAD
14. MAXWELL INTERNATIONAL HOLDINGS BERHAD
15. MULTI SPORTS HOLDINGS LTD
16. PERISAI PETROLEUM TEKNOLOGI BERHAD
17. STONE MASTER CORPORATION BERHAD
18. SUMATEC RESOURCES BERHAD
19. TH HEAVY ENGINEERING BERHAD
20. UTUSAN MELAYU (MALAYSIA) BERHAD
21. YFG BERHAD
22. SEACERA GROUP BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. IDIMENSION CONSOLIDATED BERHAD
3. WINTONI GROUP BERHAD

Please refer to the link below for the latest status of the companies.

<http://www.bursamalaysia.com/market/listed-companies/list-of-companies/pn17-and-gn3-companies/>

REGULATORY NEWS

Joint statement on the 16th bilateral meeting between Bank negara Malaysia and the Securities Commission Malaysia

<https://www.sc.com.my/news/media-releases-and-announcements/joint-statement-on-the-16th-bilateral-meeting-between-bank-negara-malaysia-and-the-securities-commission-malaysia>

LOCAL NEWS AND DEVELOPMENTS

World Bank expects positive impact from ECRL, Bandar Malaysia revival

<https://www.theedgemarkets.com/article/world-bank-expects-positive-impact-ecrl-bandar-malaysia-revival>

Price cap on RON95 petrol may be removed

<https://www.thestar.com.my/business/business-news/2019/04/23/price-cap-on-ron95-petrol-may-be-removed/>

The most and least corrupt nations in ASEAN

<https://www.focusmalaysia.my/Columns/the-most-and-least-corrupt-nations-in-asean>

China's Xi says Belt and Road must be green, sustainable

<https://www.thestar.com.my/business/business-news/2019/04/26/chinas-xi-says-belt-and-road-must-be-green-sustainable/>

GLOBAL NEWS AND DEVELOPMENTS

Goldman agrees to US\$22m settlement with China watchdog

[https://www.thestar.com.my/business/business-news/2019/04/24/goldman-agrees-to-us\\$22-settlement-with-china-watchdog/](https://www.thestar.com.my/business/business-news/2019/04/24/goldman-agrees-to-us$22-settlement-with-china-watchdog/)

Wanted: New Bank of England boss

<https://www.bbc.com/news/business-48035122>

Huawei row: UK to let Chinese firm help build 5G network

<https://www.bbc.com/news/uk-48032286>

Taiwan's Top Stock Investor says Tech Frenzy is getting extreme

<https://www.bloomberg.com/news/articles/2019-04-24/taiwan-s-top-stock-investor-says-tech-frenzy-is-getting-extreme?srnd=premium-asia>

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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 except for Ire-Tex Corporation Berhad and Iris Corporation Berhad.*

Feedback

We welcome your feedback on our newsletter and our work. Email us at corporateservices@mswg.org.my with your comments and suggestions.

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