



The Observer

28.09.2018

MESSAGE FROM THE CEO

The Quarterlies – Do We Still Need Them

In Malaysia, PLCs are required to announce their quarterly financial statements within two months of the quarter end.

There is growing debate on the merits and demerits of such quarterly announcements.

Some countries are doing away with the quarterly announcements, and replacing it with six-month announcements, for several reasons.

Regulators in Malaysia are probably revisiting the merits and demerits of these quarterly announcements.

At MSWG, we prefer the quarterly announcements as it gives the shareholders an early ‘heads-up’ on the financial situation of the PLC. The quarterly transparency will facilitate informed decision-making. Also, price discovery is facilitated by more frequent disclosure of information.

Donald Trump of the United States said last month that the six-month basis ‘would allow greater flexibility and save money’. The part about ‘greater flexibility’ is cryptic, at its best. The part about ‘saving money’ cannot be substantial. PLCs do produce monthly management financial statements that are expected to be ‘reliable’ for decision making and to be reliable, they must adhere to the accounting standards (MFRS, in Malaysia).

The annual audited financial statements are but a summation of these ‘reliable’ monthly management financial statements. If they can produce ‘reliable, monthly management financial statements, then the PLC can do a three-month summation of these ‘reliable’ financial statements and announce them as the quarterly announcements.

Some say quarterly reporting gives rise to short term investing. This is debatable based on the definition of what is deemed ‘short term’. Arguably, some would feel that even six months can be deemed short term and thus adopting a six-month reporting time frame may not overcome the short termism. And who are we to say that ‘short term investing’ is not a good or positive trait. They do give rise to velocity which is the life-blood of any stock exchange. Markets comprise both short term investors and long-term investors and it would be unfair to discredit the former in preference of the latter.

Another argument against quarterly reporting is that they can distort the overall actual financial performance of the firm. Taking such a position is patronising as this would than assume that investors are naïve of this possibility. Or in other words, it is better to assume that investors are aware of this risk and will take this risk into consideration when making their investment decisions.

For cyclical industries and industries dependant on fluctuating international parameters, we must give credit that the investors will take these factors into consideration when making their investment decisions.

Another argument for doing away with quarterly reporting is that CEOs would slash spending, delay starting a beneficial project, or book sales ahead of time to meet their quarterly earnings targets.

That is why we have boards, whose membership includes independent directors, to ensure that such things do not happen. It should be noted that the strategy of the PLC is owned by the board. Anyway, the last point about 'book sales ahead' looks highly suspicious and may run fowl of probity.

Perhaps a two-tier approach may be workable. Perhaps we can distinguish between 'larger' companies (akin to the MCCG's definition of Large Companies) and 'others' and subject one of these categories to quarterly reporting and the other, to six-monthly reporting. The question is which of these two categories should be subject to which of these requirements. The 'larger' companies generally have greater financial resources and have more sophisticated finance functions and at the same time are well covered by research analysts. The 'other' companies do not have that much financial resources and have less sophisticated finance functions and are not so well covered by the research analysts - some are not covered at all. There are jurisdictions that have subjected the 'larger' companies to quarterly announcements whilst exempting the 'other' companies from quarterly announcements (and requiring them to report on a 6-month basis).

The task of the regulators is not going to be easy. They will have to engage with the various stakeholders and decide...perhaps make a utilitarian decision...the decision that causes the greatest good to the greatest number of people.

But from the MSWG perspective, we prefer quarterly announcements as it facilitates an early 'heads-up' which in turn facilitates price discovery.

Regards,
Devanesan
28 September 2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

Thomson Reuters Global Diversity and Inclusion (D&I) Index for 2018

Thomson Reuters had on 6 September 2018 announced the 2018 top-100 most diverse and inclusive organizations globally as ranked by the Diversity & Inclusion (D&I) Index. Over 7,000 public listed companies were ranked globally based on environmental, social and governance (ESG) data. Three Malaysian companies are ranked in the top 100. Digi.com ("Digi") is the sole Malaysian Company to make the top 50. The other two Malaysian companies are Nestle (Malaysia) Bhd ("Nestle") ranked 88th and CIMB Group Holdings ("CIMB") Bhd ranked 95th.

[Source: <http://www.theedgemarkets.com/article/digi-ranks-top-50-global-diversity-and-inclusion-index>]

MSWG's Comments:

Congratulations DiGi, Nestle and CIMB. These companies have brought pride to themselves and the country.

Traditionally, investors have based their investment decisions on the fundamental valuation of companies. Now, there is an increased emphasis on ESG factors (especially climate change) when contemplating an investment/divestment decision. Investors and companies are becoming more aware of the impact of the ESG factors on the risk and return of an investment in the long term. For example, environment risks on depletion of natural resources, climate change impact, social risk on health and safety of the employees, displacement of local communities and their economic disadvantages, compliance risk on regulations and reporting, etc. greater emphasis needs to be placed on the impact of ESG factors on the business and the economy of a nation.

We are glad to see Malaysian Companies shine in the global platform and hope to see more Malaysian companies in global listings/rankings.

MSWG'S AGM WEEKLY WATCH 1 October- 5 October 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.

Date & Time	Company	Venue
02.10.18 (Tue), 10.30 am	Malakoff Corporation Berhad	Hotel Istana, 73, Jalan Raja Chulan, KL
03.10.18 (Wed), 10.00 am	Bermaz Auto Berhad	Bukit Jalil Golf & Country Resort, Jalan Jalil Perkasa 3, Bukit Jalil, KL

Some of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Malakoff Corporation Berhad (EGM)	<p>As stated on page 28 of the Circular, Alam Flora Group was granted tax exemption on its statutory business income by the Ministry of Finance. However we note that proforma profit attributable to the owners of Malakoff was calculated based on the net profit attributable to 97.37% equity interest in Alam Flora for FYE 31 March 2018 of RM96.8 million was adjusted to take into account the corporate income tax rate of 24%.</p> <p>Please clarify whether Alam Flora Group will continue to enjoy the tax exemption on its statutory business income going forward?</p>
Bermaz Auto Berhad (AGM)	<p>1) We noted that there was a sharp decline in internal audit cost to RM59, 414 in FY2018 as compared to RM95, 595 in FY2017.</p> <p>What was the reason for the sharp decline and whether the scope of internal audit function could have been compromised?</p> <p>2. Despite higher profit after tax in FY2018 (RM151.0 million) compared to FY2017 (RM131.5 million), dividend per share decreased significantly from 18.5 sen in FY2017 to 8.55 sen in FY2018.</p> <p>Though the higher profit could justify higher executive directors' remuneration, we noted that the remuneration saw a very sharp increase of 97.6% from RM2.657 million in FY2017 to RM5.252 million in FY2018. (See Page 114)</p> <p>Could the Board explain the much lower dividends and the increase in executive directors' remuneration?</p>

MSWG'S WATCHLIST

AXIATA GROUP BERHAD ("AXIATA")

AXIATA WILL CONTINUE TO EVALUATE ALL OPTIONS AVAILABLE FOR ITS STAKE IN M1 LIMITED

[Source: AXIATA's announcement on Bursa Malaysia's website on 27 September 2018]

SUMATEC RESOURCES BERHAD

Bursa Malaysia Securities Berhad (Bursa Malaysia Securities) has publicly reprimanded Sumatec Resources Berhad (SUMATEC) in respect of the company's fourth quarterly report for the financial year ended 31 December 2016 (QR Dec 2016) announced on 28 February 2017 which was in contravention of paragraph 9.16(1)(a) of the Bursa Malaysia Securities Main Market Listing Requirements (Main LR).

Paragraph 9.16(1)(a) of the Main LR states that a listed issuer must ensure that each announcement made is factual, clear, unambiguous, accurate, succinct and contains sufficient information to enable investors to make informed investment decisions.

SUMATEC had failed to ensure that the QR Dec 2016 took into account the adjustments announced on 28 April 2017 (the Adjustments).

[Source: SUMATECs announcement on Bursa Malaysia's website on 25 September 2018]

D.B.E. GURNEY RESOURCES BERHAD ("DBE")

CONDITIONAL MANDATORY TAKE-OVER OFFER FROM AMINVESTMENT BANK BERHAD ("AMINVESTMENT BANK") ON BEHALF OF DOH PROPERTIES HOLDINGS SDN BHD ("DOH PROPERTIES" OR "OFFEROR") TO ACQUIRE ALL THE REMAINING ORDINARY SHARES AND WARRANTS OF DBE NOT ALREADY HELD BY THE OFFEROR, JOINT ULTIMATE OFFERORS AND PERSON ACTING IN CONCERT WITH THEM FOR A CASH CONSIDERATION OF RM0.035 PER OFFER SHARE AND RM0.01 PER OFFER WARRANT, RESPECTIVELY ("OFFER")

[Source: DBE's announcement on Bursa Malaysia's website on 24 September 2018]

APEX EQUITY HOLDINGS BERHAD ("APEX" OR THE "COMPANY")

TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS): NON RELATED PARTY TRANSACTIONS APEX EQUITY HOLDINGS BERHAD ("APEX" OR THE "COMPANY") HEADS OF AGREEMENT IN RELATION TO THE PROPOSED MERGER OF BUSINESSES OF APEX AND MERCURY SECURITIES SDN BHD ("MERCURY SECURITIES")

The Board of Directors of Apex announced that the Company has entered into a heads of agreement ("HOA") with Mercury Securities for the proposed merger of businesses of Apex and Mercury Securities via the transfer by Mercury Securities to Apex of its stockbroking, corporate advisory and other related businesses ("Business") together with the requisite business assets and business liabilities for a consideration of RM140.00 million ("Proposed Merger").

[Source: APEX's announcement on Bursa Malaysia's website on 21 September 2018]

HB GLOBAL LIMITED

BURSA MALAYSIA SECURITIES PUBLICLY REPRIMANDS HB GLOBAL LIMITED FOR BREACH OF THE MAIN MARKET LISTING REQUIREMENTS

Bursa Malaysia Securities Berhad (Bursa Malaysia Securities) has publicly reprimanded HB Global Limited (HBGLOB) in respect of the company's fourth quarterly report for the financial year ended 31 December 2016 (QR Dec 2016)

announced on 28 February 2017 which was in contravention of paragraph 9.16(1)(a) of the Bursa Malaysia Securities Main Market Listing Requirements (Main LR).

Paragraph 9.16(1)(a) of the Main LR states that a listed issuer must ensure that each announcement made is factual, clear, unambiguous, accurate, succinct and contains sufficient information to enable investors to make informed investment decisions.

HBGLOB had failed to ensure that the QR Dec 2016 took into account the adjustments announced on 28 April 2017 (the Adjustments).

The public reprimand was imposed pursuant to paragraph 16.19(1) of the Main LR after taking into consideration all facts and circumstances of the matter including the materiality of the breach and upon completion of due process.

[Source: HBGLOB's announcement on Bursa Malaysia's website on 19 September 2018]

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. ASIA KNIGHT BERHAD
4. BERJAYA MEDIA BERHAD
5. BERTAM ALLIANCE BERHAD
6. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
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. PETROL ONE RESOURCES BERHAD
18. STONE MASTER CORPORATION BERHAD
19. SUMATEC RESOURCES BERHAD
20. TH HEAVY ENGINEERING BERHAD
21. UTUSAN MELAYU (MALAYSIA) BHD
22. YFG BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. WINTONI GROUP BERHAD

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

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

MARKET AND REGULATORY UPDATE

Bursa Malaysia Berhad ("Bursa Malaysia" or the "Exchange") announced enhancements to the Exchange's sector classification and sectorial index on 24 September 2018, introducing five new sectors among other changes,

effectively aligning Bursa Malaysia's sector classification with internationally recognised standards in line with its vision to be a leading, responsible and globally-connected ASEAN Marketplace.

The new sector classification is intended to ensure that Bursa Malaysia's sector and sectorial index series continues to appropriately represent the global equity markets, enabling asset owners, asset managers and investment research specialists to make consistent global comparisons by industry.

The key changes introduced are:

- Five (5) new sectors and the corresponding indexes:
 - i. Energy;
 - ii. Healthcare;
 - iii. Telecommunications & Media;
 - iv. Transport & Logistics; and
 - v. Utilities
- Three (3) existing sectors and the corresponding indexes will be broadened and renamed to better reflect the businesses of PLCs:
 - i. Consumer Products will be renamed to Consumer Products & Services;
 - ii. Finance will be renamed to Financial Services; and
 - iii. Industrial Products will be renamed to Industrial Products & Services
- Four (4) sectors will be removed:
 - i. Hotel;
 - ii. Infrastructure Project Companies;
 - iii. Mining and its corresponding index; and
 - iv. Trading/Services and its corresponding index

[Source: <http://www.bursamalaysia.com/corporate/media-centre/media-releases/5809>]

LOCAL NEWS AND DEVELOPMENTS

PNB ready to help turn around underperforming 'core companies'

<https://www.thestar.com.my/business/business-news/2018/09/28/pnb-ready-to-give-financial-aid/>

Axiata likely to reject Keppel-led US\$1.4bil offer for Singapore mobile firm M1

<https://www.thestar.com.my/business/business-news/2018/09/28/axiata-likely-to-reject-keppel-led-offer-for-singapore-mobile-firm-m1/>

Bank Negara: Financial system resilient even under severe stress

<https://www.thestar.com.my/business/business-news/2018/09/27/bank-negara-financial-system-resilient-even-under-severe-stress/>

Bursa resumes slide ahead of US Fed decision

<https://www.thestar.com.my/business/business-news/2018/09/26/bursa-resumes-slide-ahead-of-us-fed-decision/>

Sapura Energy shares rise on RM815mil contracts

<https://www.thestar.com.my/business/business-news/2018/09/25/sapura-energy-shares-rise-on-rm815mil-contracts/>

Bursa falls on cancelled trade talks, oil surges on Opec decision

<https://www.thestar.com.my/business/business-news/2018/09/24/bursa-weighs-on-cancelled-trade-talks-oil-surges-on-opec-decision/>

GLOBAL NEWS AND DEVELOPMENTS

Asian shares edge up in early trade after Wall Street gains

<https://www.thestar.com.my/business/business-news/2018/09/28/asian-shares-edge-up-in-early-trade-after-wall-street-gains/>

Oil prices edge up amid uncertainty over fallout from Iran sanctions (Update)

<https://www.thestar.com.my/business/business-news/2018/09/28/oil-rises-as-investors-fret-over-iranian-supply-gaps/>

US Fed raises interest rates, sees at least 3 more years of economic growth

<https://www.thestar.com.my/business/business-news/2018/09/27/fed-raises-rates-sees-at-least-three-more-years-of-economic-growth/>

Trump Attacks OPEC Again, Demanding Cash for Military Protection

<https://www.bloomberg.com/news/articles/2018-09-25/trump-attacks-opec-again-demanding-cash-for-military-protection?srnd=markets-vp>

Japan Is Asia's M&A King While China Gets the Pushback

<https://www.bloomberg.com/view/articles/2018-09-24/japan-s-overseas-deals-aren-t-facing-the-same-pushback-as-china-s>

The Strong Dollar Is Driving Profits for U.S.-Focused Companies

<https://www.bloomberg.com/news/articles/2018-09-24/strong-dollar-drives-profit-strength-in-domestic-u-s-companies>

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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 Sumatec Resources Berhad, D.B.E. Gurney Resources Berhad, Apex Equity Holdings Berhad, and HB Global Limited.*

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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