

The Observer

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❖ **Rising shareholder activism across Asia**

Commonly associated with companies in the West, shareholder activism is gradually gaining traction in other jurisdictions, especially in Asia.

Often seen as a relative backwater for shareholder activism, Asian companies have not faced the same level of activism that Western companies have been accustomed to. However, the region is becoming a breeding ground for activist shareholders as the latter seek more opportunities beyond their traditional stronghold in the West.

Furthermore, the rise of shareholder activism in the East is also fuelled by growing focus and heightening scrutiny on corporate governance and transparency from the investing public.

According to figures from Insightia - a data provider on shareholder activism, shareholder voting and corporate governance, the number of US companies subjected to activist demands has been falling since 2016 from 662 companies to a new low of 461 companies in 2021.

Meanwhile, the number of Asian companies subjected to activist campaigns rose from 95 in 2016 to 134 in 2021. The Asian continent has gone from representing 7.3% of global activist targets in 2015 through consecutive increases to 14.5% in 2021.

Booming demands from activists

Shareholder activism is back on the upswing in the aftermath of the COVID-19 pandemic. Notably, the scale of activists' campaigns reached a new height in the first half of 2022 with the number of Asian companies subjected to activists' demands increasing by 34% to 126, compared to 94 companies in the previous corresponding period. (Source: Insightia's Shareholder Activism in H1 2022 report)

In contrast, the number of US companies targeted by activists merely grew 7.4% to 390 in the first half from 363 in the year before.

Over the six months, activist shareholders have made 256 demands to Asia-based investee companies. The report showed that most of the demands revolved around the appointment and removal of personnel (28.9%), environmental, social and governance (ESG, 27.34%) and return of cash to shareholders (20.3%).

Sector-wise, companies from the industrial, consumer cyclical and technology industries were subjected to activists demands the most with 25%, 18% and 17% of total companies involved.

Japan and Korea continued to top the chart of shareholder activism in Asia by making up more than half of the activist campaigns launched.

Shareholders' concern shift to ESG

On the other hand, we have seen the ESG agenda which has quickly risen in activists' priorities when launching their campaigns against Asian companies.

There is an apparent shift in shareholder activism towards ESG in 2022 (referring to table below). Across Asia, the number of corporate actions related to ESG has grown by approximately 60% in the first half of 2022 from 44 in the previous period. Above all, the number of ESG proposals (70) targeted at Asia-based companies in the first six months of 2022 alone, has surpassed the total ESG proposals (58) tabled in 2021.

Asian companies targeted by demand type

Demand Type	Full Year			H1 YTD			
	2019	2020	2021	2019	2020	2021	2022
Appointment of personnel	53	55	59	37	37	34	46
Removal of personnel	45	50	46	30	30	27	28
Oppose M&A	5	9	12	2	2	6	3
Push for M&A	8	14	9	4	7	4	4
Divestiture	15	19	14	11	15	11	17
Capital structure	5	9	9	3	3	6	10
Operational	4	11	9	2	7	5	6
Return cash to shareholders	35	29	34	30	21	27	52
Environmental	0	1	5	0	1	5	20
Social	0	1	3	0	1	2	4
Governance	44	46	50	34	32	37	46
Remuneration	10	5	14	9	5	11	20
Total	224	249	264	162	161	175	256

Source: Insightia's Shareholder Activism in H1 2022 report

Governance continues to be a central issue and board oversight on ESG matters is increasingly important to investors, including heightened interest in specific themes related to climate risk oversight and board composition.

Year-to-date, the focuses of activist shareholders in 2022 were highly concentrated on the environmental and governance aspects of the ESG agenda/framework.

Of the 22 Asian companies that were subjected to environmental proposals in H1 2022, a majority (18) of them were subjected to demands related to climate change and greenhouse gas (GHG) emissions. Activist shareholders would push their agenda by requesting companies to either amend a policy, provide information, or address a concern relating to climate change and GHG emissions.

On top of that, activists had levelled governance-related demands at 68 companies with most of them related to the amendment of company policy (24), disclosure of

information (19), change of board composition (8) and board independence (7). Some of the requests made by activists in making their governance-related claims are:

- call for amendment or repeal of bylaw/policy relating to the company's corporate governance
- call for reconfiguration of boardroom structure, usually by appointing more independent directors
- calls for greater transparency or for the company to clarify certain information, usually regarding the company's books and records, or the results of investigations.

Driving change from the bottom up

Minority shareholders are often seen in a vulnerable position by virtue of their minority interest in a company. Under the majority rule principle, minority shareholders do not have sufficient voting power to exert their control over a company nor cast a significant influence over the direction of a company.

However, gone are the days when minority shareholders passively wait for boards and managements to make the change at the top. Given the global backdrop of rising shareholder activism, minority shareholders too could make changes in companies' policy and management by making their concerns and displeasures known.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 1 – 5 August 2022

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
01.08.22 (Mon) 10.00 am	Computer Forms (Malaysia) Berhad (EGM)	CFM has proposed a private placement of up to 30% of its issued shares, a bonus issue of warrants on the basis of 1:2 and an establishment of a share issuance scheme (SIS) of up to 15% of its issued shares to eligible directors and employees. It also proposed to allocate SIS options to all the directors on the Board including four independent directors.
04.08.22 (Thur) 10.00 am	Alliance Bank Malaysia Berhad (AGM)	Alliance Bank has recorded a strong rebound in financial performance for its FY2022 with a 60% increase in net profit to RM572.8 million on the back of lower impairment of provision made during the year. This represented an increase of 59.7% or RM214 million y-o-y.

		<p>The provision for loans and impairment decreased by 59.2% y-o-y to RM217.4 million from RM533 million the year before.</p> <p>Meanwhile, it recorded a loan growth of 4.6%, mainly driven by the SMEs and commercial segment, where both grew by 12.4% respectively.</p> <p>In line with the strong performance recorded, dividend per share was higher at 18.5 sen compared to 5.8 sen and 6 sen in the two years before.</p>
04.08.22 (Thur) 10.00 am	Chin Hin Group Berhad (EGM)	The EGM is to seek shareholders' approval for its proposed 1-for-1 bonus issue of new ordinary shares in Chin Hin and the proposed disposal of its entire equity interest in Solarvest Holdings Berhad for a cash consideration of RM103.28 million.
05.08.22 (Fri) 03.30 pm	Lingkaran Trans Kota Holdings Berhad (EGM)	The EGM is to seek shareholders' approval for its proposed disposal of all the securities in Lingkaran Trans Kota Sdn Bhd to Amanat Lebuhraya Rakyat Berhad and the proposed disposal of all the securities in Sistem Penyuraian Trafik KL Barat Sdn Bhd to Amanat Lebuhraya Rakyat Berhad, in respect of Littrak Holding's 50% direct interest in Sprint Holdings.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Alliance Bank Malaysia Berhad (AGM)	<p>In FY2022, Alliance Bank had intensified its effort to incorporate sustainability agenda in its lending activities. Some of the efforts put are:</p> <ul style="list-style-type: none"> - The establishment of a board-level Group Sustainability Committee and a Sustainability Strategy Framework with three topline goals to be achieved by FY2025. - The development of ESG Risk Acceptance Criteria (RAC) with a General RAC and four industry-specific RACs, as well as the rollout of an ESG Screener Tool. <p>a) Where does the Bank see itself in its ESG journey as compared to other banking peers?</p> <p>b) The Bank previously had set a target of achieving RM5 billion (cumulatively) new sustainable business by FY2025. However, the target had been increased to RM10 billion by FY2025 as stated in AR2022.</p> <p>What prompted Alliance Bank to make the adjustment to the target?</p>

	<p>c) Alliance Bank has announced the prohibition of lending for coal-fired power plants, coal mines and businesses that extract oil and gas via unconventional methods.</p> <p>Are the Bank's existing commitments affected by this lending prohibition? What is Alliance Bank's current financing exposure to these sectors? When does the Bank expect to fully phase out its presence in these sectors?</p> <p>d) Which are the sectors subjected to Alliance Bank's industry specific RACs? What is the size of financing originated from these ESG sensitive sectors?</p> <p>What would be the actions taken on existing clients who are unable to comply with the Bank's ESG RAC? How does the Bank help these clients to make the necessary transition to adopt sustainable practices in their business operations?</p>
Lingkaran Trans Kota Holdings Berhad (EGM)	<p>In Annexure I of the independent advice letter (page 103 & 104 of the circular to shareholders dated 14 July 2022), the management has projected a revenue growth of 18.7% for LITRAK for FY2023 (ending 31 March 2023). Based on audited FY2022 results, LITRAK recorded a full-year revenue of RM400.932m for FY2022. This translates into a projected full-year revenue of approximately RM475.906m for FY2023.</p> <p>a) Is the projected full-year revenue of approximately RM475.906m for FY2023, which is significantly below the revenue achieved in year 2019, too conservative, considering i) Traffic volumes for FY2023 are anticipated to recover to levels observed in year 2019 (page 104 of the circular to shareholders) during which LITRAK reported revenue of RM516.034m (FY19); and ii) Daily traffic volume of 444,000 plying LDP in April 2022 was 7% higher than pre-MCO daily traffic volume of 416,000? (Gamuda Berhad's 3QFY22 investors briefing slides no. 14 https://gamuda.listedcompany.com/misic/qr/Q322briefing.pdf)</p> <p>b) If the projected traffic volumes and revenue for FY2023 above are underestimated, will this lead to significant undervaluation of the enterprise value and the equity value of the offer as the projected traffic volumes and revenues from FY2024 onwards are derived from FY2023 projected traffic volumes together with annual traffic growth rates?</p>

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- With regard to the companies mentioned, MSWG holds a minimum number of shares in all the companies covered in this newsletter.
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