MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Observer

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❖ Before becoming a minority shareholder – some considerations

There has been a flurry of Initial Public Offerings (IPOs) on Bursa Malaysia of late. In October alone, there were five companies en-route to listings on Main and ACE Market of Bursa Malaysia.

With choices aplenty, some potential minority shareholders may be in two minds whether to invest in an IPO or not.

Making an informed decision

Malaysia has progressed to the disclosure-based regime whereby investors are to make their investment decisions based on the information disclosed; in short, buyer beware. The disclosure-based regime seeks to ensure, not whether the investment is appropriate for investors but, whether all material information is disclosed to investors.

Previously, under the merit-based regime, regulators adopted a somewhat paternal approach when it came to the IPO price determination. Some may be able to recall the heydays when every IPO was a winner by leaps and bound. It was then never an issue of whether you made money on an IPO, (that was a given), but of how much money you made. Gone are those days, an IPO can tank upon listing nowadays.

Now, under the disclosure-based regime, investors are expected to read the disclosed publicly-available information before they make an investment decision. The same rule applies to the investment in an IPO.

The IPO Prospectus can be a daunting piece of documentation, for instance, a recent popular big IPO had 376 pages in its Prospectus. Investors are encouraged to read the whole prospectus, or at the very least, the investors should read what they consider the more important sections. What each investor considers important will vary from investor to investor.

A typical IPO prospectus consists of the following information, amongst others:

- Prospectus summary and details of IPO
- Risk Factors
- Information on group
- Business and industry overview

- Information on Promoters, Substantial Shareholders, Directors and Key Senior Management Staff
- Related Party Transactions
- Conflict of Interest
- Financial Information
- Accountants' report
- Additional Information

It seems like, as if, everything is important and relevant. However, potential investors may choose to zoom into certain areas if they do not have the luxury or patience of reading the whole prospectus.

Almost always, investors will look for the IPO pricing considerations and the valuation metrics like the price-to-earnings ratio and the price-to-book ratio and how these compare to the listed competitors.

The valuation at which existing PLCs in the same industry are trading may be indicative of the price of the IPO share post listing, though no two companies are exactly alike.

A low IPO price by itself can be misleading as it may not be indicative of value. One should be reminded of the saying that Price is what you pay, Value is what you get.

Lack of price discovery

There are several reasons why investors are strongly encouraged to read the IPO Prospectus before they put their money in a newly-listed counter.

Firstly, shares of a newly-listed company do not have the benefit of the price discovery mechanism that existing listed shares have. In fact, some investors refrain from subscribing IPO shares, as they prefer to wait for the shares to be listed before deciding whether to invest in the shares. They prefer to have the benefit of the price discovery mechanism to precede their investment decision.

In fact, some investors adopt this wait-and-see approach as an investment strategy; they will only consider investment post listing with the hindsight of price discovery.

Skin in the game

Secondly, some IPOs are entirely a public offer (new shares being issued) or may also include an offer for sale (sale of shares by existing shareholders). An important consideration will be how much shares the selling shareholders will continue to hold after the IPO, this will suggest their commitment and faith in the newly listed PLC; a measure of their skin in the game.

In addition, some members of the board and management may have a good reputation and some may not. Obviously, the former is preferable to the latter.

Going through an IPO Prospectus may provide investors with some idea of the background and experience of the promoters, directors and key management staff - another key factor to decide whether to invest.

Competitive advantage and market share

Thirdly, some IPO aspirants have a competitive advantage compared to the existing listed competitors in the same industry. This may be a motivation for them to embark on an IPO. An example will be a listing-seeking pharmaceutical company, which has a marketable Covid-19 vaccine.

Likewise, whether the IPO aspirant commands a larger market share among the PLCs in the same sector will be an important consideration. Such information is also readily available in the Prospectus.

Price stabilization mechanism

Lastly, some IPOs have a price stabilizing mechanism (also known as the Greenshoe Option) carried out by an appointed price stabilizing manager. The appointment of a stabilizing manager will be stated in the IPO Prospectus.

A stabilizing bid is a purchase or sale of stock by stabilizing managers to stabilize or support the secondary market price of a security immediately following an IPO. In certain cases, the price of the newly issued shares may falter or be shaky post listing.

Throughout the duration of the price stabilization period, the normal market price discovery mechanism is superseded by the price stabilizing mechanism. There may be a risk that the share price may fall after the price stabilization period. Hence, waiting until the end of the price stabilisation period could be a strategy adopted by some investors.

In short, investing in IPOs can be risky as there is no benefit of the price discovery mechanism. This is akin to exploring uncharted territory. As always, diligent informed decision making will be the order of the day. There is no substitute for reading the Prospectus – at least the parts that you consider important.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 2 – 6 November 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
04.11.20 (Wed) 10.00 am	TMC Life Sciences (AGM)	TMC Life Sciences recorded a lower profit before tax of RM18.4 million, representing a 40% drop as compared to the 10-month financial period ended 30 June 2019. This drop was mainly driven by higher depreciation charge, lower interest income and higher staff costs.
04.11.20 (Wed) 10.30 am	Hong Leong Industries Bhd (AGM)	Hong Leong Industries recorded a y-o-y lower revenue of RM2.31 billion (FY19: RM2.53 billion). Meanwhile, its PBT was also lower at RM323 million (FY2019: RM498 million) due to lower sales recorded across all product segments, and decline profit contribution from associate company in FY20. Nevertheless, with a net cash level of RM1.18 billion, Hong Leong Industries is expected to weather the adverse impact of the COVID-19 pandemic.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
TMC Life Sciences (AGM)	Thomson Hospital Kota Damansara (THKD) The expansion of THKD has been delayed due to the movement control order (MCO) and is now scheduled to open in the third quarter of 2021 (Page 10 of Annual Report 2020). The expansion will enable THKD to bring even more services and facilities to the community, including, among others: • 600 Beds • 11 Operating Theatres • More than 150 Specialist Outpatient (Page 6 of the Annual Report 2020) Upon commencement of operation, what is the THKD's targeted growth rate in both top-line and bottom-lines for the next two financial years?
Hong Leong Industries Bhd (AGM)	During FY2020, Hong Leong Yamaha Motor Sdn Bhd rolled out a new Extended Warranty programme for all Yamaha models which allows its customers to enjoy better product value and longer protection terms (page 15 of Annual Report 2020 ("AR2020")).

	How was the response for Yamaha motorcycles after the roll out of the new Extended Warranty programme?

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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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