MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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❖ Is Top Glove's massive share buyback intended for greater good?

A simple calculation suggests that share buybacks may boost share prices by decreasing the number of outstanding shares in the market. Thus, the fewer outstanding shares means the remaining shareholders now own a larger piece of the pie.

However, share buybacks also reduce a company's cash position. As such, the company's coffer shrinks in tandem with the quantum of share buybacks.

Let's examine Top Glove Corp Bhd's share buyback exercise which has somehow become a daily routine.

This follows a retreat of glove stock prices in recent times with the advent of COVID-19 vaccine roll-outs, while a 'production lockdown' at company level due to widespread COVID-19 infection among its workforce has cast concerns over Top Glove's profit outlook.

From September till 2 December, the world's largest glove producer has spent RM1.28 billion on share buybacks*. This equals to about 68% of the group's net profit of RM1.87 billion for its financial year ended 31 August 2020.

The amount spent on share buybacks has also surpassed its cash and cash balances at the end of FY2020 which amounted to RM1.21 billion. Additionally, Top Glove has RM1.67 billion worth of investment securities.

As of 2 December, Top Glove's cumulative net outstanding treasury shares stands at 177.78 million, an equivalent of a 2.17% stake.

*(*Article titled "Top Glove spent another RM70m to buy back own shares today" dated 2 December 2020, published on The Edge Markets)*

Boon or bane?

Questions therefore abound if Top Glove's share buyback has a collateral motive to support its share price, and if it is indeed the right market strategy or would it be counter-productive in the longer term.

Obviously, Top Glove's management believes that the stock itself is undervalued.

But if the share buybacks were to prevent its share price from dropping lower, this may be a herculean task as the daily traded volume of the stock easily amounts to tens of million shares. There is no guarantee that after having forked out RM1 billion on share buybacks, Top Glove's shares will not continue their downward momentum (if there is any).

As suggested by some market observers, it will probably be better if a company reports increasing profit and revenue every quarter while rewarding shareholders with better dividend payout, and thereby supporting its share price.

Top Glove may also invest the money it spent on share buyback to construct more plants to produce more gloves, to acquire state-of-the-art equipment or even to improve its production/marketing efficiency.

Likewise, if the RM1.28 billion were to be paid out as dividend, Top Glove's shareholders would probably use the dividend received to buy more Top Glove shares as a token of support towards the company.

And if Top Glove wants to reserve its cash, it may consider a dividend reinvestment scheme that allows shareholders to elect to receive shares (at a discount to the market price) in lieu of the cash dividend.

However, investors must not assume that buyback represents the most efficient use of capital. They need to look deeper into the decision-making process to assess if the management is really making the best possible capital allocation decision for growing shareholder value over the long-term.

In essence, it is only fair to judge whether a share buyback is a good thing or otherwise on a case-by-case basis.

To Top Glove's credit, the company is not borrowing external money to facilitate the exercise.

For now, we may give the benefit of the doubt to Top Glove's Board and management who have a reputation and stellar track record of enhancing long-term shareholder value.

❖ The flurry of unabated glove/PPE and vaccine deals

Business opportunities always abound. Even amid a pandemic-stricken economy, there is wealth to be made if one possesses the enterprising foresight to cut the diamond.

In this regard, it is always a marvel to witness the creativity-cum-courage of penny stocks – especially those which have taken a plunge into the glove/personal protective equipment (PPE) and vaccine sphere – to spur the interest of investors.

It is common for PLCs to use media houses as a conduit to engage investors, alongside popular existing social media platforms such as WhatsApp chat, Telegram, Facebook groups or even private chatroom.

In so doing, the companies will likely engage a media/investor relations outfit to craft palatable media releases that appeal to the taste buds of the editors. At the end of the day, media endorsement will be the 'icing on the cake' to complement the pitch.

Some companies have even gone to the extent of inviting the investing fraternity to visit their plants to drum up interest.

But all that glitters is not gold, investors must not trust what they read/see on the surface; they must be able to read between the lines and make informed decisions. Likewise, they must refrain from blindly following the advice of so-called investment gurus.

There is a good chance that the guru could be wrong or worse still, working in cohort with other market manipulators. It is best for every investor to conduct his/her own research on the company that he/she wishes to invest in.

Areas to consider include the company's financial strength, its performance track record and the reputation of the board and major shareholders.

Whenever there is doubt on the validity of a claim, investors should take further initiative to verify the truth and apply a huge dose of common sense. Often enough when our instinct tells us that the piece of information is too good to be true, it is likely to be so.

Minority shareholders must be mindful of not being victims of irrational exuberance – the unfounded market optimism that lacks a real foundation of fundamental valuation, but instead rests on psychological factors.

In the words of Benjamin Graham, "investment is most intelligent when it is most businesslike".

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 7 – 11 December 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
07.12.20 (Mon) 10.00 am	Revenue Group Bhd (AGM)	Cashless payments have experienced an uptick during the pandemic and if the Company is able to pivot its business to take advantage of the upsurge in demand it will see higher profitability for FYE 2021.

08.12.20 (Tue) 10.00 am	Gamuda Bhd (AGM)	For FY2020, Gamuda posted a 5% decline in its revenue to RM6.8 billion. Excluding a one-off non-cash impairment of RM148 million on its IBS assets, the Group posted an annual core earnings of RM520 million, a 26% decrease from last year's RM700 million in earnings.
08.12.20 (Tue) 10.30 am	MK Land Holdings Bhd (AGM)	Despite challenging environment, MK Land recorded a higher revenue of 17% or RM30 million to RM202 million in FY2020 as compared to RM172 million in FY2019. The increase in revenue is due to sales and construction progress from various projects in the central region e.g., Residensi Suasana@Damai at Damansara Damai, Rumah SelangorKu project in Taman Bunga Raya, as well as the northern region projects at Meru Perdana.
09.12.20 (Wed) 11.00 am	Trive Property Group Bhd (EGM)	One of the resolutions that Trive Property intends to seek shareholders' approval in the EGM is the proposed acquisition of 40% equity interest in Avenue Escape Sdn Bhd (AESB) for RM9.91 million in cash. AESB is the owner of Persoft Tower in Petaling Jaya, Selangor. Trive Property acquired the other 60% stake of AESB in 2019. For the record, the occupancy rate of Persoft Tower has been low at 38% as at September 2020. Given the on-going Covid-19 pandemic and prolonged business uncertainties, why does Trive Property in urge to acquire the remaining 40% equity interest in AESB? Moreover the performance of Persoft Tower has been lacklustre and the absent of a concrete asset

		enhancement plan to improve the state of Persoft tower.
11.12.20 (Fri) 10.00 am	Berjaya Land Bhd (AGM)	Berjaya Land recorded a lower revenue of RM5.16 billion and pre-tax profit of RM185.4 million in FY2020 (14-month FPE2019: RM7.30 billion revenue, RM546.4 million pre-tax profit). Its businesses have been adversely impacted by the Covid-19 pandemic. The Number Forecast Operator (NFO) business is expected to maintain its market share in FY2021 while the property development business segment will be impacted by slower property sales. On the other hand, the occupancy rates and the revenue from events at the hotels, resorts, clubs and recreation business segment are expected to remain low.
11.12.20 (Fri) 10.00 am	Jaycorp Bhd (AGM)	The Company had weathered the pandemic for FYE 2020 quite well with a marginal decline in its profitability. For FY2021, its performance hinges on its exports markets mainly in US and Europe which can resume normalcy if a vaccine is found. Its construction division is expected to see challenges from stiff competition and lesser property development projects.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Revenue Group Bhd (AGM)	For FYE 2020, the Company had only impaired RM RM 282,875 out of RM6,420,192 of trade receivables that had been outstanding for more than 90 days. (Page 149 of AR 2020) What are the reasons for not impairing all the amount of trade receivables that had been outstanding for more than 90 days?
Gamuda Bhd (AGM)	<u>Financial Performance</u>

	<table><tr><td></td><td colspan="5">Financial Year Ended 31 July</td></tr><tr><td>RM' million</td><td>2020</td><td>2019 (Restated)</td><td>2018 (Restated)</td><td>2017</td><td>2016</td></tr><tr><td>Core net profit</td><td>520</td><td>700</td><td>832</td><td>700</td><td>626</td></tr></table> (Page 31 of the Annual Report 2020) In FY2020, Gamuda recorded the lowest core net profit since FY2016. How does the Board plan to address the Group's deteriorating core net profit, moving forward?
MK Land Holdings Bhd (AGM)	The Group has to focus on cost-optimisation strategies to ensure the liquidity of the Group is adequate as well as look into realignment of resources focusing on maximising productivity. (page 2 of the Annual Report). a) Please explain the cost-optimisation strategies the Group has implemented to date? b) Through the cost-optimisation exercise, the Group managed to reduce the administrative expenses, by 19% for FY 2020 (RM48.5 million) as compared to FY2019 (RM59.8 million). What are the types of administrative expenses that the Group has managed to reduce as a result of the cost-optimisation exercise and the RM value of each category of expense? c) Please explain the areas in which the Group has been able to increase productivity as a result of the implementation of the productivity strategies? d) What are the realignment of resources the Group has implemented and what is the resultant savings?
Trive Property Group Bhd (EGM)	Persoft Tower's occupancy rate was 38% as at September 2020. Gross annual rental income of Persoft Tower has declined since FYE2018 to RM1.9 million (FYE2019: RM2.2 million) (Section 2.2, page 4 of the Circular dated 24 November 2020 ("Circular")). Trive acquired 60% equity interest of Avenue Escape Sdn Bhd ("AESB") on 12 March 2019 when the market value of Persoft Tower was RM85 million (circular dated 22 April 2019). In relation to the proposed acquisition of the remaining 40% of equity interest in AESB ("Proposed Acquisition"), Persoft Tower's market venue is RM83.4 million (Section 2.2, page 4 of Circular). a) AESB is a 60% subsidiary of Trive, its financial results are consolidated by the Group and Trive has control over AESB. Given the low occupancy rate, the declining rental income of Persoft Tower and its market value, what is the urgency to acquire the remaining 40% equity interest in AESB with cash?

	b) Many businesses have been impacted by Covid-19 pandemic, is it viable to spend RM9.9 million cash for the 40% equity interest in AESB when the return on investment of the earlier acquisition of 60% equity interest in AESB has yet to be seen?
Berjaya Land Bhd (AGM)	Sports Toto Malaysia Sdn Bhd ("Sports Toto"), the principal subsidiary of the Group which operates the gaming business was allowed to resume business on 17 June 2020 after being closed since the imposition of the Movement Control Order ("MCO") on 18 March 2020, which resulted in the cancellation of 40 draws. (Page 11 of Annual Report – AR) How is Sports Toto's performance (including number of draws) since 17 June 2020 till to date compared to the period of approximately 6 months till 8 March 2020? What is the current and expected growth rate?
Jaycorp Bhd (AGM)	The construction division of the Company registered a decrease in turnover from RM8.0 million in FYE 2019 to RM7.9 million in FYE 2020. The segment result decreased from RM3.6 million (profit) in FYE 2019 to RM0.4 million (loss) in FYE 2020. Disruptions to operations arising from the MCO hampered progress on the construction division's current projects throughout the year. (Page 19 of AR 2020) What are the measures taken by the Company to return this division back to profitability in FYE 2021?

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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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