



# The Observer

06.03.2020

## Trade with caution in times of uncertainty

With the advent of globalisation, capital markets are hypersensitive to on-going events around the globe.

Amid today's borderless world, there is great likelihood that every segment of the economy – from the industry player to the most seasoned investor – will crumble under global scale uncertainties such as financial crisis, political turmoil (including war), geopolitical trade conflicts, to name a few adversities.

Of late, even health-related disasters can pose a major setback to stock markets as evident by a spike in the number of coronavirus cases worldwide.

Reacting to concerns of the COVID-19 epidemic escalating to a pandemic level – having already reached the shores of Middle East, Europe and the US – stock markets around the world have been adversely impacted as evident by the Dow Jones Industrial Average which shed 14% on the last trading day of February from its record high of 29,551.42 set on 12 February.

This put the benchmark index on a correction mode which is generally defined as a decline of 10% from a recent high.

Uncertainty is the inability to forecast future events. At the micro level, most companies would predict sales and production trends for the investing public to follow assuming normal market conditions, but increasing level of uncertainty can make these numbers significantly inaccurate.

Domestically, the COVID-19 outbreak is touted to impact the tourism industry, including spending on hotels, retail outlets, transportation, restaurants and the manufacturing sector on the back of demand and production disruptions in China.

Uncertainty at the macro level tends to affect the economy or financial market as a whole. Often enough, this is beyond the control of individual companies nor the investor community.

A good example is the double whammy situation in which local investors have to contend with fragility on the political front as well as fears of the COVID-19 rearing its ugly head on a massive scale.

Whether it is a political turmoil or the threat of war or global recession, it is common for institutional investors to reduce their exposure in stocks deemed risky by moving their funds to other markets or to other asset classes like precious metals, government bonds and money-market instruments.

The sell-off which stems from the re-positioning of large portfolios can cause the stock market to depreciate.

### **Window of opportunity**

Although there is bloodbath in the stock market, those who understand why it behaves in such manner will know how to position themselves accordingly. After all, any ensuing sell down does present ample buying opportunity to lion-heart investors who foresee value in the battered stocks.

Below are half a dozen useful tips/checklist for minority shareholders or retail investors to emerge unscathed from investing during uncertain times:

- Eradicate gambling tendency: Abstain from indulging in risky or speculative stocks. Apportion the available fund wisely by buying only what one can afford to lose.
- Have adequate holding power: Often, investors tend to succumb to knee-jerk reactions during times of uncertainty which resulted in their making sub-optimal investment decisions. These can frequently lead to huge losses as well.
- Stay focused on the long-term: It is important to remember that stock markets are both cyclical in nature and that they can be highly irrational over shorter time periods. Henceforth, uncertainty is a commonplace with downturns bound to occur frequently. Nevertheless, most market setbacks

have typically been followed by recoveries, thus enabling the patient and long-term investor an opportunity to reap profits.

- **Maintain diversified portfolios:** To mitigate the impact of volatility, build a diversified portfolio with an intelligent spread across various asset classes. A well-diversified portfolio will ensure that sharp movements in any one asset class will have a disproportionate impact on the overall portfolio.
- **Stay disciplined:** Create a well-defined financial plan which is capable of absorbing the risk and meeting one's return expectations over the long-term. More importantly, stay disciplined and follow through the investment strategy without succumbing to uncertainty-induced fear and biases.
- **Pursuing a defensive strategy:** Select stocks that are deemed to be recession proof (i.e. those in the healthcare/pharmaceutical sector), high dividend yielding, those that are trading at reasonable valuations (i.e. having low price-to-earnings ratios, diversified operations or conservative balance sheets) or good companies with large share repurchase programmes.

Stock guru and investor extraordinaire Warren Buffett once said, "Be fearful when others are greedy and be greedy when others are fearful".

**Devanesan Evanson**  
**Chief Executive Officer**

## MSWG AGM/EGM Weekly Watch 9 March 2020 – 13 March 2020

Below are the AGMs/EGMs of companies that 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](http://www.mswg.org.my).

Date & Time	Company	Quick-take
09.03.20 (Monday) 10.00 am	UMS Holdings Bhd (AGM)	Group revenue has decreased from RM86.2 million in FY18 to RM68.0 million in FY19 while net profit has been declining from RM16.0 million in FY2015 to RM3.0 million in FY2019. The challenge is growing the revenue and profit significantly. It may have to explore expanding the business overseas beyond Singapore.
12.03.20 (Thursday) 10.00 am	Digistar Corporation Bhd (AGM)	Losses have narrowed to RM1.4 million (2018: loss of RM14.9 million), but will the Company be able to turnaround with the recent acquisition of a loss-making subsidiary and the responsibility of assuming net liabilities amounted to RM3.1 million due to the acquisition?
12.03.20 (Thursday) 11.00 am	Digistar Corporation Bhd (EGM)	Proposed private placement of up to 20% of the total number of issued shares of the Company at an issue price of not more than 10% discount to the 5-day VWAP of Digistar Shares. 50% of the placement shares to be allotted to its Group MD who is also a major shareholder – some skin in the game? Can the injection of fresh funds save the Company? Or is it just another dilution to its minority shareholders?
13.03.20 (Friday) 10.30 am	Visdynamics Holdings Bhd (AGM)	Amidst the challenging business environment in the semiconductor industry, the Group registered lower revenue and profits in FY2019. With the current COVID-19 outbreak, will the Company perform better this year?

<b>One of the points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
UMS Holdings Bhd (AGM)	<p>Based on Note 29 (Page 102), we note that revenue from both West Malaysia (RM75.3 million in FY2018 to RM62.2 million in FY2019) and Singapore (RM7.1 million in FY2018 to RM3.8 million in FY2019) has declined substantially.</p> <p>How does the Board plan to address the decline in revenue? What is the outlook for FY2020?</p>
Digistar Corporation Bhd (AGM)	<p>During the financial year, the Company acquired fifty thousand (50,000) ordinary shares in Full Image Sdn Bhd ("FISB"), representing the entire issued and paid-up share capital of FISB for a total purchase consideration of RM50,000.</p> <p>The fair value of net liabilities acquired by the Group amount to approximately RM3.1 million (Note 3, page 55 of AR2019). The goodwill arising from the acquisition is not expected to generate future economic benefits to the Group. Hence, full impairment on goodwill has been made at the end of financial year (Note 3, page 56 of AR2019).</p> <p>(a) What is the rationale for acquiring FISB when the acquisition is not expected to generate future economic benefits to the Group resulting in a full impairment on goodwill whilst the Group has to assume net liabilities of RM3.1 million?</p> <p>(b) What are the Group's plans for FISB, going forward?</p> <p>(c) FISB's other payables and accruals amount to RM4.1 million (Note 3, page 56 of AR2019). What comprises these other payables and accruals and when are the payables due?</p> <p>(d) Upon completion of the acquisition, FISB contributed losses of approximately RM1.8 million to the Group (Note 3, page 56 of AR2019). When will FISB breakeven?</p>
Visdynamics Holdings Bhd (AGM)	<p>Note 7, Short Term Investment – Investment in unit trust funds amounting to RM3.8 million (2018: Nil) (page 7 of AR2019).</p> <p>(a) What is the rationale for investing in unit trust funds instead of investing in business operations?</p> <p>(b) What is the Company's investment policy for purchase and disposal of unit trust funds?</p>

	(c) What is the minimum expected return on such investment?
--	-------------------------------------------------------------

## MSWG TEAM

Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)  
Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)  
Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)  
Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)  
Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)  
Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)  
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring,  
(khalidah@mswg.org.my)

---

## DISCLOSURE OF INTERESTS

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

---

## DISCLAIMER

*This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).*

*The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.*

*MSWG must be acknowledged for any part of this newsletter which is reproduced.*

*MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.*

**ENDS. /**