MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

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❖ Do due diligence before investing

Amid the surging number of COVID-19 cases which has raised concerns of a second or probably third wave of infection, it will be meaningful to take a step back to evaluate how far the Malaysian stock market has progressed since the imposition of the Movement Control Order (MCO) on 18 March.

Understandably, many stocks nose-dived as panic escalated over the financial impact of a lockdown on the economy and profitability of public listed companies.

It wasn't till mid-May when a recovery was in sight with glove-related stocks hoarding the limelight and eventually sparked an astonishing rally with a boom in demand in tandem with rising COVID-19 infection rate across developed economies, notably the United States and Europe.

Over the past seven months, we have exposed various market vulnerabilities following the sudden rebound considering prevailing weaknesses in the overall global and domestic economic structure.

In the absence of a medical solution (i.e. the rolling out of cost-effective vaccines for the masses), the strength of the recovery remains highly uncertain. This has prompted the International Monetary Fund to further revise downward its global output projection in 2020 substantially from -3% (in April) to -4.9% in June.

Buying frenzy

Against the backdrop of ample liquidity stemming from the government's economic stimulus exercise – and amid the low interest rate environment with existing fixed deposit rates no longer appealing – retail investors took to the stock market in droves.

The buying craze which somehow ignited interest in penny stocks saw daily traded volume and value ballooning to record highs of 27.8 billion shares (11 August) and RM10.45 billion (4 August) respectively.

Many penny stocks which jumped into the personal protective equipment (PPE) sphere – rubber gloves, face masks/material for face masks, protective suits, hand sanitisers, or by associating themselves with the pharmaceutical and healthcare industry – would garner instant interest.

This buoyed the local bourse to be the best performing market among emerging markets in ASEAN from 1 January to 30 July this year. Having plunged to a 10-year low of 1,219.72 points on 19 March, the FBM KLCI soared to close at a high of 1,611.42 on 29 July (which was 1.4% higher than the end-2019 close of 1,588.76).

Once the dust has settled

Generally, except the Big-Four glove counters (Top Glove Corp Bhd, Kossan Rubber Industries Bhd, Hartalega Holdings Bhd, and Supermax Corp Bhd), many counters which caught retail frenzy in the May-August period have largely consolidated with some having given back a substantial value of their gains.

Alas, earnings are not the reason these companies hogged the limelight. A majority of retail players bought these counters as they were heavily promoted in share investing forums or online blogs.

This vastly explained why many 'resurrected' loss-making companies found themselves back to square one recently.

Notable examples include Inix Technologies Holdings Bhd which soared from a 52-week low of 1.5 sen to an intraday high of 89 sen on 11 August but has given up much of its gain to settle at 21.5 sen on 7 October.

Other notable examples are:

- Green Packet Bhd which spiked from a 52-week low of 39.5 sen to RM1.65 on 19 May but found itself languishing at 53 sen on 7 October.
- XOX Bhd which shot up from a 52-week low of 1 sen to an intraday high of 39.5 sen on 27 August but closed at 12 sen on 7 October.
- K-One Technology Bhd which spiralled from a 52-week low of 9 sen to an intraday high of 70.5 sen on 6 August but retreated to 37.5 sen on 7 October.
- MQ Technology Bhd which jumped from a 52-week low of 1 sen to an intraday high of 30.5 sen on 3 August but saw its share price shrunk to 12.5 sen on 7 October.

Be an educated investor

Short-lived rebounds as depicted above bring to mind the need for retail investors who leverage social media as their source of stock market information/education to filter noises from the pump and dump operators.

Such concerns are rampant not only in Malaysia given the Hong Kong's Securities and Futures Commission has recently revealed that 20% of stock manipulation schemes they are investigating are being perpetrated via social media (*Source: South China Morning Post, 25 September 2020*).

The modus operandi is such that the fraudsters typically purchase a significant portion of shares in a small company with low liquidity, thus driving up the stock price.

They then use social media platforms like Facebook, WhatsApp, and WeChat to spread favourable – normally false news about the company – by sometimes posing as investment experts to draw in more buyers, thus enabling the fraudsters to offload their shares.

Turbulence ahead

With the six-month loan moratorium period ended last September – except for borrowers who lost their jobs or having to take a pay cut – many retail investors would probably have less money to roll in the coming days.

On the health of the economy, Finance Minister Tengku Datuk Seri Zafrul Aziz recently revealed that fiscal injections into the economy currently stand at around 20% of gross domestic product (GDP) with debt-to-GDP of around 53% but "will end at around 56%" (*Source: The Edge CEO Brief, 6 October 2020*).

In August, the Parliament voted to allow the government to borrow up to 60% of its GDP as part of temporary measures to ease the impact of the COVID-19 pandemic on businesses. Including the Prihatin Supplementary Initiative Package (Kita Prihatin) amounting to RM10 billion, Malaysia has rolled out more than RM305 billion in stimulus packages thus far this year.

Doubtlessly, not everything is gloomy as the recent bullish performance had facilitated several successful initial public offerings (IPOs) and secondary fund-raising exercises which provided a funding source for companies to sustain and grow their business, which in turn supports the economy.

According to Bursa Malaysia, RM2.23 billion have been raised from 11 IPOs (RM292 million) and 158 secondary offerings (RM1.94 billion) throughout January – July 2020 (*Source: Bernama, 3 September 2020*).

Moving forward, investors must not let their guard down but continue to be vigilant in their investment decisions bearing in mind many economic sectors have yet to fully recover from the health crisis, the impact of which would be reflected in their unimpressive third and fourth quarter financial results.

Pitted against the highly volatile market, the hard truth is such that not every investor who entered the stock market walks out a winner, especially when a majority of them are greenhorns – i.e. first-time investors or millennials – who expect to make a fortune from the stock market to compensate for losing their jobs.

The inability to separate truth from rumours, human greed, or unfamiliarity with the cyclical nature of certain stocks point to the unsustainable nature of the buying frenzy with many inexperience investors still licking their wounds months after the May-August peak.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 12 October – 16 October 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
13.10.20 (Tue) 10.00 am	LKL International Bhd (AGM)	The medical supplier has benefitted from the COVID-19 pandemic. This is demonstrated by its turnaround performance in FYE2020 after two consecutive years of losses. Moving forward, the company is expected to be in a better financial position due to the increased demand for its products from the pandemic that has not shown signs of receding.
15.10.20 (Thur) 10.00 am	Kein Hing International Bhd (AGM)	Kein Hing which provides sheet metal forming and precision machining services, has recorded a 14% decline in its revenue to RM202.3 million in FY2020 (FY19: RM

		235.3 million). The sharp decrease in revenue was due to business disruption caused by the COVID-19 pandemic and reduced demand over its products.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
LKL International Bhd (AGM)	The Company recorded a net profit for FYE 2020 of RM4.5 million compared to a net loss of RM2.8 million which was mainly due to the COVID-19 pandemic which had stoked the demand for the Company's products. (Page 11 of AR 2020) a) What are the Company's strategies to enhance its product offerings to ride on the COVID-19 pandemic wave? b) How does the company intend to expand its exports during the pandemic?
Kein Hing International Bhd (AGM)	The total fee for the internal audit function of the Company during the financial year ended 30 April 2020 was RM20,000 (Page 50 of the Annual Report 2020). Given that the fee is rather small (approximately RM1,600 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function? What are the areas covered by the internal audit function? How many internal audit reports were issued during the said period?

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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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