

**MINORITY SHAREHOLDER WATCHDOG GROUP**  
**BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD**  
 (Incorporated in Malaysia – Company No. 524989-M)  
**Focus Malaysia – May 26th – June 1st, 2018 (C)**

# Reforms will spur the market

• **Bursa teaches a lesson on business and politics**

• **Firms need to take a hard look at board composition**

the basic salaries of ministers by 10%, disbanding several government agencies and reviewing some mega projects by the previous government.

This measures will lead to a lift in consumer and business sentiment and will translate into a recovery of private consumption and business investment. In essence, this is also where the true capability of Finance Minister Lim Guan Eng – a trained chartered accountant who is backed by a track record of making Penang a top foreign direct investment (FDI) destination for manufacturing during his two-term tenure as Chief Minister – will be determined.

**Never mix politics with business**

At a more micro level, an immediate market reform that should be considered is the barring of politically-linked individuals from sitting on the boards of listed companies, according to Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson.

In this regard, he points to Bank Negara Malaysia's clear stance with its corporate governance (CG) requirement that a director of a financial institution must not be an active politician. An active politician refers to an individual who is a member of any national or state legislative body, or who is an office bearer of, or holds any similar office or position in a political party.

In fact, when it comes to Anti Money Laundering requirements, Politically Exposed Persons are subject to Enhanced Customer Due Diligence as opposed to normal Customer Due Diligence.

"These requirements are testament to the fact that there is an increased risk when politics mixes with business or when we have politicians on the board of listed companies," he tells *FocusM*.

"Even now, we can think of two or three listed companies with politicians or politically-linked persons on their board which are suffering negative publicity on allegations of fraud or malpractices."

However, the Malaysian Code on Corporate Governance (MCCG) does not make any reference to active politicians as directors of listed companies. It rather expects boards to determine their own risk appetite and their own board composition through the nominating committee.

As the MCCG does not specifically rule out the participation of politicians on the boards of listed companies, Devanesan stresses the need for self-censorship to ensure listed entities remain neutral or apolitical all the time.



by **Cheah Chor Sook**

**M**arket players say Bursa Malaysia is faring reasonably well in fending off the big fluctuations in fortune and the cautious sentiment post 14th General Election (GE14).

It was comforting to note that investors were supporting the local bourse despite concerns on the country's RM1 tril debt and uncharted territory where policies of the new Pakatan Harapan government were concerned.

The FBM KLCI has been choppy. It nosedived as much as 50 points to a low of 1,800 in early trade upon resuming trading on May 14 in a knee-jerk reaction. However, it later rallied by 75 points to 1,875 before settling at 1,850.42 or 3.91 points higher.

The local bourse completed its first week of post-election trading (May 8) a commendable 0.43% or 7.99 points higher at 1,854.50 as investors warmed up to new government delivering on election pledges. On May 24, the Index slipped below the 1800 point mark.

Global funds dumped RM2.48 bil worth of local equities during the week of May 14-18 according to MIFD Research. But moving forward, the research house said it was cautiously optimistic that the cumulative figure may gradually pick up as more political clarity comes into the picture. "Despite recording the largest weekly outflow among the four ASEAN markets we monitored last week, Malaysia is still the major beneficiary of foreign inflows," added MIFD Research.

Prime Minister Tun Dr Mahabir Mohamad has been quite successful in alleviating concerns over potential downgrade in credit rating due to the implementation of the zero-rated goods and services tax (GST) effective June 1. This is on the back of an anticipated rise in oil revenue for 2018 and a cut in government expenditure to offset the GST revenue loss.

The Prime Minister also announced several other cost-cutting measures such as trimming



**Bursa ended its first week of post-election trading a commendable 0.43% or 7.99 points higher**

"The same rule applies to head honchos in the likes of managing directors, CEOs and other directors who at personal level are entitled to their political party preference," explains Devanesan.

"At professional level, however, they should not compromise their integrity by demonstrating their political affiliation as there is no way they can fathom the collective interest of all shareholders when it comes to supporting political parties – leave alone the fact that political parties should

share price fluctuations given their personal views may be construed as the corporate view/preference.

He further reminds listed companies that while the government of the day is a legitimate stakeholder as there is only one government, political parties are not stakeholders as there are many of them and they are the personal choice of an individual.

"We have noticed in the past that there is a correlation between their political party preferences



**Too many politically linked counters, says MIA's Ho**

not be considered as stakeholders of a listed company."

**Preserving integrity**

Devanesan also urges minority shareholders to hold listed companies accountable as they have a moral obligation to enhance shareholder's value instead of pursuing a political cause by openly rallying behind certain political parties.

In his observation, chairman, managing directors and CEOs who become the face of listed companies are at greater risk of subjecting their companies to



**Devanesan: Ensure listed firms remain neutral or apolitical**

and the share price movement – this is unfair to the minority shareholders when share prices tank due to explicit political patronage," he cautions.

Echoing Devanesan's concerns, Malaysian Investors' Association (MIA) president Datin Ho Choy Meng is appalled that there are too many politically-linked counters as well as political appointees on the boards of listed companies in Bursa Malaysia.

"When the adverse political winds blew away their advantage based on connections and associations, some of these counters

suffer the ignominy of heavy sell down," she observes.

Ho was referring to the massive sell-down inflicted on shares of companies such as George Kent (M) Bhd and MyEG Services Bhd (MYEG) (see table) given both counters are perceived to be linked to the Barisan Nasional coalition.

George Kent which was last traded at RM3.94 prior to the election day dipped 60.1% to RM1.57 on May 18 while its market cap plunged to RM884.3 mil from RM2.2 bil on the eve of election (the counter hit limit down on May 14 and 15 while a floor price was imposed by Bursa Malaysia on May 16 at RM1.94).

Likewise, MYEG which last traded at RM2.58 prior to the election day plummeted 64.1% to 92.5 sen on May 18 while its market cap was reduced to RM3.3 bil (the counter further hit limit down on May 14 and 15 while a floor price was set for the counter at RM1.27 on May 16). "Many minority shareholders – most of whom retail investors – would inevitably have been caught with their pants down," she laments. "However, if these losers (the listed companies) have confidence in the long-term viability of their own counters, this is an opportunity to engage in share buy-back."

On the longer-term, however, Ho expresses optimism on the resilience of the local bourse given its ability "to outlive previous financial crises". She also halts the two-day of non-trading (declared as public holiday) which had allowed for cooler heads to prevail thus preventing adverse panic knee jerk reactions to the incumbent government's shocking defeat.

"Panic-selling and pessimism do not last," she reckons. "It was reassuring to see no panic selling across the board. There were only a few casualties among the said politically linked counters." **FocusM**

**Fate of some politically-linked stocks (including government projects)**

COUNTER	CLOSING PRICE ON MAY 8 (EVE OF ELECTION)	CLOSING PRICE ON MAY 18 (FIRST WEEK OF TRADING POST ELECTION)	% OF PRICE FALL
Ahmad Zaki Resources Bhd	72 sen	38.5 sen	46.5%
Cahaya Mata Sarawak Bhd	RM4.13	RM2.48	40%
Garnuda Bhd	RM5.10	RM4.03	21%
George Kent (M) Bhd	RM3.94	RM1.57	60.1%
MYEG Services Bhd	RM2.58	92.5 sen	64.1%