

MINORITY SHAREHOLDER WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
 (Incorporated in Malaysia – Company No. 524989-M)

The Edge Malaysia – Monday July 15, 2019 (Part 1)

LEAP Market companies ask for clear and seamless transfer

BY LIEW JIA TENG

It has been two years since Bursa Malaysia introduced the Leading Entrepreneur Accelerator Platform – better known as the LEAP Market – as an alternative capital-raising platform for small and medium enterprises (SMEs). Indeed, Malaysia was the first Asean country to launch such a platform for these underserved companies to raise much-needed capital and realise their true potential.

Launched at Invest Malaysia Kuala Lumpur 2017, the LEAP Market is seen as a stepping stone for SMEs to transfer to the ACE Market or even the Main Market in the future. Two years on, some of the enterprises are ready to take that leap of faith. However, the regulators, namely the Securities Commission Malaysia (SC) and Bursa Malaysia, have yet to formulate a framework to make the transfer possible. In other words, the springboard that is supposed to help facilitate the jump is not there.

When contacted by *The Edge*, the SC says it has started “a preliminary discussion” with Bursa to explore a possible transfer listing framework to define a process of graduation from the LEAP Market to the ACE or Main Markets. The discussion entails looking at the entire application process required for such a migration.

“We will ensure that there is no potential for regulatory arbitrage, particularly in corporate governance and adequacy of information. An appropriate announcement will be made if such a framework is issued. Until then, we are not able to comment further,” says an SC spokesperson in an email reply.

The SC did not say how long it will take to finalise the transfer framework.

In an interview with *The Edge* last month, Bursa CEO Datuk Muhamad Umar Swift disclosed that key stakeholders were engaged in ongoing discussions with the SC as they awaited a transfer framework from the regulators.

Considering that the LEAP Market is designed to allow entrepreneurs to access quick capital to grow their business, Umar opined that the framework should be time-saving and cost-efficient. But he also warned of the possibility of regulatory arbitrage.

“Ideally, the whole transfer process should be seamless but the bottom line is, it has to be rules-based. We want it to be easy, we want to mitigate cost, but we don’t want certain people to use LEAP as a mechanism to get into ACE. We need to address the potential regulatory arbitrage. That’s our main concern,” the newly appointed chieftain had told *The Edge*.



PICTURES BY SUHAMAIYUSUF/THE EDGE

Opinions are divided on whether the SC should get involved in the transfer of LEAP Market companies



KENNY YAP/THE EDGE

Chew: We don’t want to wait too long. The longer we stay on the LEAP Market, the longer our value will be locked.



Ng: When we went for listing on the LEAP Market, we were under the impression we would be getting a seamless transfer

Cumulative profits of LEAP Market companies in the past 3 years

COMPANIES	FINANCIAL YEAR END	RM MIL	RM MIL	RM MIL	RM MIL	CUMULATIVE 3-YEAR PAT
		FY2016 PAT	FY2017 PAT	FY2018 PAT	FY2019 PAT	
Cloudaron Group Bhd	March 31	1,724	5,225	5,224	5,208	15.7
Red Ideas Holdings Bhd	Dec 31	-0.543	-1,431	-1,958		-3.9
JM Education Group Bhd	Dec 31	2,262	2,272	2,339		6.9
Metro Healthcare Bhd	Dec 31	3,334	1,648	1,821		6.8
Nova Pharma Solutions Bhd	Dec 31	2,818	2,649	2,164		7.6
Polymer Link Holdings Bhd	Sept 30	4,739	4,251	4,005		13.0
SL Information Bhd	Dec 31	2.17	4.203	1.715		8.1
Seers Bhd	Dec 31	1,391	1,175	-3,870		-1.3
Amlex Holdings Bhd	March 31	NA	1.75	3.431	0.255	5.4
MyKris International Bhd	March 31	NA	6.617	7.122	6.788	20.5
Topvision Eye Specialist Bhd	Dec 31	0.436	1.574	1.291	0.899	3.3
CRG Inc Bhd	June 30	NA	3,334	3,772	0.899	NA
Manforce Group Bhd	Sept 30	4,505	4,882	2,506		11.9
Uni Wall Aps Holdings Bhd	Dec 31	0.891	3,643	5,118		9.7
Supreme Consolidated Resources Bhd	Sept 30	2.41	1,168	4,088	3,778	7.7
EquitiesTracker Holdings Bhd	Dec 31	-0.269	0.685	0.754		1.2
Smlle-Link Healthcare Global Bhd	Dec 31	3,436	3,705	2,168		9.3
TT Vision Holdings Bhd	Dec 31	4,267	4,847	2,802		11.9
Fibromat (M) Bhd	Dec 31	5,132	6,157	2,867		14.2
Matrix Parking Solution Holdings Bhd	Dec 31	0.204	2,512	NA		
CE Technology Bhd	July 31	4,128	7,065	4,745	3,324	15.9
					(6-mth)	

*MyKris International has the highest 3-year cumulative profit of RM20.5 million, followed by CE Technology. Cloudaron and Fibromat

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Bursa Malaysia – IPO overview

Criteria	Main Market	ACE Market	LEAP Market
Adviser	Licensed investment banks	Sponsor-driven for (CP/investment bank)	Adviser-driven for suitability
Profit track record	Aggregate PAT of 3 to 5 years of >20m, with >5m for the latest FY	Nil	Nil
Processing period	~6 months to 9 months	~3 months to 6 months	~3 months
Listing cost	~2.5m – 4m	~2m to 3m	~800K – 1.5m
Financial reporting	Quarterly and annual audited	Quarterly and annual audited	Semi-annual and annual audited
Public spread	Minimum 25%	Minimum 25%	Minimum 10%
Moratorium	6 months from listing date	6 months from listing date	12 months from listing date
Approving authority	SC and Bursa Malaysia	SC and Bursa Malaysia	Bursa Malaysia
Listing offering document	Prospectus	Prospectus	Information memorandum
Average funds raised	>30m	~20m to 29m	5m to 20m
Average daily trading volume	1800b shares	400m shares	0.2 to 0.5m shares
Average daily trading value	2000m	100m	0.1m to 0.3m
Remarks			Only for sophisticated investors >3m net assets/10m net assets No need for independent audit committee or independent directors

ships and trust companies need to have assets worth more than RM10 million.

“I am okay with the low liquidity in the LEAP Market because I knew we were going to be transferred a year after listing. This is just an interim stage for us,” Chew says. “Still, this has been a big challenge to us. We don’t want to wait too long. The longer we stay here on the LEAP Market, the longer our value will be locked.”

Fibromat managing director and CEO Danny Ng Kian Boon concurs, saying that some LEAP Market companies are “scratching their heads” now. “When we went for listing on the LEAP Market, we were under the impression that we would be getting a seamless transfer. Otherwise, why would we do it? If getting listed on the LEAP Market can’t help us get a step closer to the ACE Market, then we might as well go straight to the ACE Market.”

Suffice it to say, many of the LEAP Market companies, including Fibromat and MyKris, as well as clean-room gloves maker CE Technology Bhd and cloud solutions provider Cloudaron Group Bhd, have churned out fairly sizeable profits, which are even better than those of many ACE Market companies.

For instance, Fibromat posted a net profit of RM5.1 million in its financial year ended Dec 31, 2016 (FY2016), RM6.1 million in FY2017 and RM2.8 million in FY2018, for a cumulative three-year profit of RM14.2 million (see table).

MyKris reported a net profit of RM6.6 million in its financial year ended March 31, 2017 (FY2017), RM7.1 million in FY2018 and RM6.7 million in FY2019, for a cumulative three-year profit of RM20.5 million. In fact, these figures exceed the profit requirement for migration to the Main Market of at least RM20 million in the past three full financial years as well as a net profit of at least RM6 million in the most recent financial year.

Seamless transfer equals no prospectus?

For perspective, the SC does not get involved in the initial public offerings (IPOs) of LEAP Market companies as no prospectuses are required. The submission of LEAP Market listings only require an information memorandum, which is subject to the approval of Bursa. But when it comes to the prospectus-based ACE Market and Main Market, the SC plays an important role as the gatekeeper.

Now, if the LEAP Market companies want to migrate to the ACE Market, should they be required to issue a prospectus that is subject to the approval of the SC?

Or should they be allowed to seamlessly transfer to their desired board once they meet the relevant criteria? Can they get listed on the



HARRIS HASSAN/THE EDGE

Devanesan: The envisaged framework is expected to be less costly and less tedious than a fresh listing as the LEAP Market candidates are no strangers to the regulators

ACE Market more flexibly and efficiently?

Opinions are divided. Certain quarters argue that if a prospectus is required, the SC will inevitably be involved in the graduation of LEAP Market companies. Essentially, this is no different from applying for a new listing on the ACE Market.

The conservatives, however, opine that the SC or Bursa should be firm in insisting that the ACE Market remain prospectus-based. Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson says the transfer framework should be “very friendly” as the LEAP Market candidates are known to the regulators anyway.

“The envisaged framework is expected to be less costly and less tedious than a fresh listing as the LEAP Market candidates are no strangers to the regulators,” he tells *The Edge*.

Having said that, Devanesan feels that the SC should still be involved in the graduation of LEAP Market companies as the investors are “a different kettle of fish”.

He says trading in LEAP Mar-

ket-listed companies is limited to sophisticated investors, and there is a presumption that they are in a better position to evaluate risks and protect themselves.

The ACE and Main Market investors, meanwhile, are the public at large and, therefore, need some paternalistic regulatory protection compared with the high-net-worth investors.

“The SC has no choice but to be involved, perhaps with a light touch if possible. What is of paramount importance is that you are not dealing with strangers to the capital market ecosystem when dealing with LEAP Market candidates,” Devanesan stresses.

As the LEAP Market candidates are approved for listing by Bursa, they would have undergone due diligence and have a track record to enable the regulator to weigh their suitability to be elevated to the ACE or Main Market, he adds. Malaysian Investors Association (MIA) president Ho Choy Meng also acknowledges that the LEAP Market companies would have already gone through the capital access process and regulations required of a company preparing for a listing.

But she insists that it is not a good idea for the regulators to push for seamless transfers just for the convenience of a few migrating LEAP counters upgrading to ACE counter status.

“What is a bit of inconvenience? The ultimate aim here is to be a good security guard to make sure no undesirable elements slip through the gate and cause damage to the reputation of the organisation,” she says.

“Oftentimes, the noblest objectives could be manipulated by unscrupulous syndicates out for their own gains at the expense of innocent victims on the stock market. Genuine investors wish to see a more effective enforcement of the rules so that nefarious

syndicates can have no chance to create havoc to the detriment of other market players.”

Datuk Feizal Mustapha, a seasoned corporate finance adviser, begs to differ. “We can make the transfer process from the LEAP Market to the ACE Market more efficient without compromising standards. That would be most welcomed by the market. I believe Bursa and the SC are already in discussions on this, so let’s see how things proceed,” he says.

Feizal believes the SC and Bursa are moving in the right direction in formulating a transfer framework. “In the UK, companies listed on the AIM Market wanting to transfer to the Main Market of the London Stock Exchange have to delist first, then apply for listing again. The situation in South Korea is similar. The US too is not seamless.”

He agrees with (Bursa CEO) Umar’s comment that the LEAP Market should not be seen as a backdoor or shortcut to the ACE Market. However, he insists that no major issues stand in the way of a LEAP Market company wanting to transfer to the ACE Market. That is because companies still need to meet certain criteria to be listed on the ACE Market.

Seers Bhd managing director and founder Datuk Ken Foo Kwok Hsing says he would not be unnerved by the involvement of the SC. “We are only a baby. We are still at an early stage. We are in no hurry. I am fine with the involvement of the SC even if we are required to launch a prospectus. There is no shortcut, to be honest. After all, we are jumping from a river to an ocean,” he says.

Foo recapitulates that trading in LEAP Market companies is restricted to sophisticated investors. But considering that any public investor can buy into shares of ACE Market companies, their interests need to be protected.

“I personally feel that launching a prospectus, although troublesome, is something that has to be done; it’s fair to everyone. A rule is a rule. It is how it is. It is a big boy’s game,” he says. “All I wish for is that the criteria is not that stringent. The scrutiny process has been done. From 1st step to 10th step, we have walked five steps already; you can’t expect us to go back to step one again,” says Foo.

Enhanced information memorandum

MyKris’ Chew and Fibromat’s Ng suggest that the regulators consider an enhanced version of information memorandum rather than a full prospectus.

“The SC will have to play a role in the ACE Market as a gatekeeper. I don’t think we should bypass them. Their interest is to protect the public interest, that I agree with. But whether I need to go to the extent of a full prospectus, I think not. I am fine to upgrade my information memorandum,” says Chew. He adds that if the regulators make it compulsory to have a prospectus, the LEAP Market companies will have to start all over again.

“Is it possible for us to come out with something that is between information memorandum and prospectus? If the regulator insists on a prospectus, then it is essentially a new listing, not a transfer,” Chew explains.

Ng concurs with the view. “They need to set certain parameters. They can ask us to comply with certain requirements, tick the checklist, ask us to provide more information. We are totally fine with that. We would be happy to come out with an enhanced version of information memorandum but not to the extent of a full prospectus, maybe a hybrid prospectus,” he says.

“Don’t get me wrong; we are not asking you to relax everything. We are just asking you to give us a clear, seamless way. We are not asking for a totally seamless transfer. We just want it to be easier than applying for a new listing.”

Interestingly, the SC and Bursa had, in a June 18 joint statement, stated that they would continue to work with the industry to design a facilitative and efficient ecosystem to enhance the attractiveness of the market.

“As market discipline continues to strengthen, the SC and Bursa will proportionately scale down the intensity of regulatory discipline. Moving forward, the regulators will adopt a facilitative and dynamic surveillance and supervisory approach in tandem with the maturity of the market and the level of market discipline achieved,” said the statement.

The transfer framework will once again put the two regulators’ balancing act to the test. ■