

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No.200001022382 (524989-M))

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Peculiar G3 Global warrant price

Investing in warrants provide better leverage as the movement of the warrant price is usually much greater than the mother share

COMMENTARY

by DEVANESAN EVANSON

RETAIL investors know for a fact that public-listed companies (PLC)-issued warrants provide an indirect way to acquiring the PLC stock.

Warrant prices tend to move in tandem with the mother share price. Given the characteristic of warrants, warrants price should be lower than its mother share price.

Investing in warrants provide better leverage as the movement of the warrant price is usually much greater than the mother share. In other words, they provide a “bigger bang for the buck”.

Warrant holders should always remember to exercise their right to buy the company's share at the exercise price or sell their warrants



As at Oct 1, 2020, G3-WA was traded at RM3.01 which is 15.32% higher than the price of its mother share, which stood at RM2.61

in the open market prior to the warrants' expiry date.

A rare instance occurs when the warrant price is higher than its mother share. The warrants of low-profile G3 Global Bhd (G3-WA), which is traded in the Main Market, under the consumer products sector, has been priced

higher than its mother share.

G3-WA which was listed on Oct 9, 2017, has its origin in G3 Global's rights issue-cum-warrants exercise which entailed the listing of 275 million rights shares along with 206.25 million free detachable warrants.

G3-WA has a conversion period

of five years and an exercise/conversion ratio of 1:1 with a strike price of 10 sen. It is scheduled to expire on Oct 2, 2022.

G3-WA which commenced trading at 71 sen (on Oct 9, 2017), started trading above its mother share price on May 12 this year, when it closed at RM2.95 (against RM2.71 for its mother share).

The gap was even wider at 34.16% on Sept 10, when G3-WA was priced at RM3.22 against its mother share which was trading at RM2.40.

As at Oct 1, 2020, G3-WA was traded at RM3.01 which is 15.32% higher than the price of its mother share, which stood at RM2.61.

With the conversion ratio of 1:1 and strike price of 10 sen, it makes little sense for investors to buy and convert G3-WA into mother share now unless they are confident the share price of G3 Global will eventually rise beyond the price of the warrant they purchased.

Though the time-value factor may fuel the rally of G3-WA as investors are willing to pay a higher premium for a longer

expiry period, but is such a “high” premium warranted?

Investing in a warrant at a price above the mother share will definitely cost more for an investor to own the mother stock, compared to direct purchase of mother share in the open market.

Given the rule of thumb that investors will always do their best to maximise their profit, it is also very unlikely for warrants to be traded above their mother shares without some form of manipulation coupled with participation from some uninformed investors, Caveat Emptor.

Do your homework and be informed before you put your money into an investment.

Perhaps, regulators may look into unusual occurrences like this.

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