MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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Private placement frenzy

Smaller listed entities in rush to raise funds in Q4

CORPORATE

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PETALING JAYA: More listed entities are raising funds via private placements in the fourth quarter as companies rush to take advantage of a relaxed ruling, which allows them to place out a higher percentage of shares, before the window closes on Dec 31.

According to announcements on Bursa Malaysia, about 50 companies have announced plans to raise funds through private placements since October compared to over 40 companies for the July-September period.

These include Bintai Kinden Corp Bhd, Adventa Bhd, KNM Group Bhd, KKB Engineering Bhd, Kobay Technology Bhd, Samaiden Group Bhd, SMTrack Bhd, Khee San Bhd and CN Asia Corp Bhd, as well as Green Packet Bhd, which is proposing to undertake a private placement of up to 40% of its shares.

These companies are looking to raise over RM2bil for working capital requirements, business expansion, diversification into new areas and repayment of borrowings, among other things.

This is amidst the economic reopening and a general expectation of an improved business environment.

While these placement exercises have enabled firms to tap fresh funds, the massive amounts of placement shares being issued by companies over the past one and a half years may not necessarily benefit minority shareholders.

Understandably, some small-cap companies may lack the track record to get bank borrowings and need fast cash to help them navigate the uncertainties brought on by the pandemic.

As minority shareholders are not included in the fund-raising process, the exercise would lead to earnings dilution for them and a risk of future speculation on shares as it is often not made known to whom these shares are placed.

In comparison to the increase in private placement activities, only a handful of companies had called for a rights issue from July to December.

In April 2020, Bursa Malaysia had announced relief measures and fundraising flexibilities, among which was the easing of the general mandate threshold for the issuances of new securities.

The relaxation allows a listed issuer to increase its general mandate threshold for new issue of securities up to 20% of its total number of issued shares from 10% previously.

The 20% general mandate must be approved by shareholders in a general meeting and may be utilised by the listed issuer to issue new securities until Dec 31, 2021. After that, the 10% limit under the Listing Requirements will be reinstated.

There has been no indication from the regulator on the possibility of an extension to the ruling.

Companies are, notably, in favour of placements to raise cash, given its faster execution process.

Note that for the year 2020, the Securities Commission reported a strong growth of 76% in secondary issuances, which came up to RM8bil.

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Multiple exercises over the past 12 months

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However, certain quarters observe that the relaxation of the general mandate by Bursa Malaysia may be misused by opportunists. While many carried out private placements, not all were in need of that capital.

Note that some companies have also undertaken multiple placement exercises over the past 12 months.

Additionally, many of the companies' proposals for private placements are vague on the utilisation of proceeds.

This makes it difficult for minority shareholders to assess if the funds raised are put to good use or if they would benefit the company's long-term prospects, thereby making up for the earnings dilution they would experience in the immediate term.

In an opinion piece for a local newspaper early this year, Minority Shareholders Watch Group chief executive officer Devanesan Evanson said that in some cases, it would have been more equitable to all shareholders had these companies raised funds through a rights issue instead.

A rights issue will not dilute the stake of shareholders.

Should the listed company have a proven track record of generating value for shareholders, he pointed out that minority shareholders will not hesitate to partake in the rights issue exercise.

"After all, by subscribing the rights shares, minority shareholders do not only prevent a potential dilution to their shareholding but can also expect their investment to appreciate over time," he said.

It remains to be seen if placement activities will stay buoyant when the threshold is brought back down to 10%. Notably, the ample liquidity seen in the market this year and last will also decrease, as the various stimulus packages run their course and monetary policy starts to tighten.