**MINORITY SHAREHOLDERS WATCH GROUP**
*BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD*
(Incorporated in Malaysia – Company No. 200001022382 (524989-M))

The Star, Starbiz- Tuesday, 21 December 2021 **(C)**

StarBiz Special

# Scrutinising private placements

## It's time for firms to assess benefits of such shares

CORPORATE

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Devanesan Evanson

PETALING JAYA: Shareholders of companies that have conducted large share issuances through private placements should conduct an assessment on the benefit those shares have brought to their company.

With the leeway for companies to issue more than 10% of their shares in a placement ending at the end of this year, experts said companies will have to be accountable for the value that these placements have brought to the firm.

Given that the market situation appears under control, Minority Shareholders Watch Group chief executive officer Devanesan Evanson said there is justification for a scale back of the relaxation.

With huge amounts of shares being issued via placements primarily, there have been questions over the benefit that this has brought to companies issuing those shares.

Investment analyst Pankaj C. Kumar said that once the window closes, shareholders will need to start scrutinising these fundraising exercises.

"Once it is over, I think it will come back to normal. Shareholders will have more say over matters of raising funds and whether it is for a genuine purpose because the flexibility for companies won't be there anymore.

"Companies will have to be genuine in their fundraising. There will be little room for them to take advantage to expand their balance sheet through increased share issuances," said Pankaj.

Devanesan said that with placements, funds can be raised quickly and cheaply for company purposes.

A rights issue takes time and the cost can be high. Likewise, banks have become very prudent with their loans, so accessing a loan can be difficult and even then, the interest cost can be high.

"Also, some placees add value to the company as they have a special expertise or a competitive advantage. Thus, it is always an added advantage if the placee can provide such special expertise or a competitive advantage to the company.

"It all depends on how productively the placement funds are used – if used productively, the enhanced shareholder value outweighs the dilution effect," said Devanesan.

The flexibilities accorded to listed companies by Bursa Malaysia to expedite fundraising have helped many raise the capital needed to capture new opportunities over the past year.

However, some companies have been said to have also misused the ruling to issue massive amounts of new shares to the detriment of minority shareholders.

There has been a notable increase in share issuances since April last year, particularly through private placements.

While some of these are genuine fundraising efforts to enable firms to fulfil working capital requirements or diversify and expand, Pankaj noted that some companies do take advantage of the flexibility.

"Certain companies have made multiple new issuances and through different ways such as share issuance schemes, employee share option schemes or private placements.

"However, if you look into these companies, they don't have that many employees and have enough cash in their books.

"So these companies have seen their share base, maybe, tripled through various share issuances. In this case, share placements are only used to expand their market capitalisation and balance sheet rather than add real value to the company," he said.

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# Flexibility is to support listed issuers during pandemic

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As new share issuances put pressure on share prices and dilute existing shareholders' stake due to the ballooning of issued shares, minority shareholders are often left with little choice but to bear the losses.

And if the funds raised from these placement exercises are not used for proper investments, there will be no value enhancement for the company and shareholders.

The flexibility in fundraising was part of Bursa Malaysia's relief measures announced in April last year to support listed issuers during the pandemic.

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.

Although the relaxation would help companies that have funding limitations, Pankaj noted that more scrutiny should have been made on companies making share placements, especially those that had carried out multiple placements.

Notwithstanding the flexibility, he also highlighted that listed companies should uphold a higher standard of governance.

"They should still call for an AGM. This is about companies stepping up in terms of governance. The (fundraising) mandate should be supported by the shareholders, and not just the management and interested directors," he added.

However, it is not all a negative experience.

Rakuten Trade head of equity sales Vincent Lau pointed out that the relaxation has also been beneficial for companies that needed funding amid the onslaught of the pandemic.

Most of them, particularly mid-cap companies, may have difficulties in securing loans due to a lack of track record or if they were loss-making.

"I think it is a good initiative from the regulators and a lot of companies were able to raise funds from it," said Lau.

He added that companies were able to use the funds to build preemptive buffers, prepare for a turnaround or move into new businesses.

Lau also opined that retail investors were savvy enough to judge if these placement exercises would add to the companies' potential.

"I think some of them were excited about the new ventures that these companies were going into and jumped on the opportunity to buy their shares.

"They see the trading opportunities and for existing shareholders, they don't mind supporting these turnaround stories.

"Investors these days are quite savvy and there are a lot of avenues for them to educate themselves."