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

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Transparency in remuneration

THERE are a couple of things that we can take away from the debate arising from Sapura Energy Bhd's remuneration paid to its top executive Tan Sri Shahril Shamsuddin.

One is not to take investors/shareholders for granted, and secondly, the importance of communication.

Remuneration paid to directors is deliberated by a Remuneration Committee which makes a recommendation to the board, which then is eventually approved at the company's AGM.

So, if a top executive is paid a hefty remuneration that seems "out of the ordinary", it should be explained in the annual report, which is an important element in the genre of public discourse.

In Sapura Energy's case, the Minority Shareholder Watch Group voiced their unhappiness over Shahril's total pay package of RM71.92mil for the financial year 2018 (FY18) at the company's AGM earlier this week.

A representative of MSWG said after the AGM that the issue of Shahril's remuneration was brought up many times in previous AGMs, but the company only "noted the matter" without taking any action.

According to the company's 2018 annual report, Shahril was paid a salary and related emoluments of RM7.24mil. He was also awarded with a RM55mil bonus, which was based on the prior year's group performance and achievements, along with RM9.34mil in defined contribution plan and RM348,000 in various benefits-in-kind.

Past annual reports showed that Shahril's total remuneration between FY14 and FY17 was above the RM80mil band, with the bulk of it comprising huge bonus payments. Shahril is Sapura Energy's single largest shareholder with a 15.9% stake.

A day after the shareholders meeting, it came to light that Shahril's remuneration was tied to a share covenant that he has with financial institutions when the company refinanced its huge RM14bil borrowings.

Shahril told a local financial daily that if he were to sell his shares to below 10%, the loan would default, and if he were to step down from being the CEO, the loan would also be in default.

However, the share covenant issue was not stated in the annual reports.

Why was it left out?

With growing shareholder activism, listed companies need to have sound shareholder communication.

This is especially the case when it involves directors' remuneration.

Sapura Energy counts funds like the Employees Provident Fund (EPF), The Retirement Fund Inc, Amanah Saham Bumiputera and Lembaga Tabung Haji as shareholders.

These institutions manage money from the members of the public and are compelled to play a "watchdog role".

The market often perceives these funds as not being robust enough in promoting good corporate governance and corporate accountability. The case of Sapura Energy dispels this.

Malaysia Inc 2.0

IN his previous term as Prime Minister Tun Dr Mahathir Mohamad introduced the concept of Malaysia Inc. It was meant to be a bond between the public and private sectors, both working together to develop the country.

Malaysia Inc worked well as Malaysia managed transformed itself from an agrarian economy and saw the rapid industrialisation and the growth of manufacturing as the base of the economy.

It was during that time of Malaysia Inc where many of the privatisation projects were undertaken to rebuild national finances and kick start growth where businesses flourished, job in abundance were created and both the public and private sector flourished.

This time around, revisiting Malaysia Inc may seem like the right thing to do. The country's finances need to be rebuilt, and there is a lot of scope for privatisation of government owned companies.

Many of them however will be smaller than the giant state owned enterprises that were headed to the stock market and help build corporate Malaysia.

The need to restart Malaysia Inc is also similar with the objectives when it first started. As the government seeks to shore up its finances, cut out the fat and eradicate corruption, its hands will be tied and preoccupied with rebuilding the civil service.

The role of creating growth, employment and wealth will then fall on the private sector, which has always been the priority of the government regardless of the times.

The private sector, however, needs to know the rules of the game has changed.

For long, there has been too much emphasis on who you know rather than what you can do. Hands had to be greased and that adds to the cost of doing business.

But now, with Malaysia Inc 2.0, the private sector would have fairer access to the market and choose what they want to do without being crowded out by the public sector and government-linked companies.

The government now has a golden chance to make Malaysia Inc 2.0 to be much better than the first iteration. And it should take that opportunity to make the private sector the engine of growth a more lasting one than before.

Silver lining in the dark cloud

PRESIDENT Donald Trump is ready to scale up the trade war by imposing tariffs on US$505bil worth of goods from China.

This has rattled stock markets across the world with German Chancellor Angela Merkel describing the situation as "very serious" and that it requires a quick solution.

China in return has so far devalued the yuan, which is the text book solution when a country faces trade wars. The yuan may depreciate now and appreciate a year later – depending on the relationship between the US and China.

Meanwhile, the manufacturers in China are not taking chances. They are looking at re-locating their factories to countries in the region. They feel that the trade war will be a long-term affair and impact their operations.

The trade war has also expedited the plans by some manufacturers to re-locate their operations due to the rising wages in China.

Heading the list of countries that manufacturers from China are re-locating are places where wages are generally lower such as Vietnam and Myanmar. It has been reported that some 30 manufacturers are already heading to Myanmar to look for suitable places to start factory operations.

It would be not be long before manufacturers from China start looking at countries such as Malaysia and Thailand where the rule of law is followed and manufacturers are well supported by good infrastructure.

The trade war has its positives although as a whole it is bad for global trade.