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

The Observer

"MSWG wishes all our Hindhu friends a joyous Deepavali celebration. May the Festival of Lights bring you great success, joy and good health. "

10.11.2023

❖ Risks and opportunities of diversification

Glovemakers Careplus Group Berhad (Careplus) announced its foray into manufacturing and assembly of energy efficient vehicles (EEV) recently. Careplus said that it was seeking opportunities to diversify into other viable businesses, given the challenges faced by all the major glove players in the market. This market was in a 'red ocean' fraught with over-supply and low average selling prices (ASPs).

On 25 October 2023, Careplus, at its EGM, explained to shareholders its reasons for diversifying into the electric vehicle (EV) industry. There was some scepticism on how it would fund its diversification into an industry far removed from glove manufacturing and the expertise of its new partners. Nevertheless, the explanation must have been convincing since 99.99% of shareholders voted in favour of the diversification.

Diversification is a strategic choice companies make to enter new business sectors, aiming to spread risk, capture new opportunities, and create long-term value.

While diversification can be a powerful growth strategy, it comes with various risks and opportunities.

Risks of diversification

1. **Financial risk:** One of the primary risks associated with diversification is financial. Entering a new sector requires significant capital investment, which can strain a company's financial resources. If the new venture does not perform as expected, it can lead to financial losses that affect the core business.

2. **Operational challenges:** Each industry has its unique operational requirements, and transitioning into a new sector often involves a steep learning curve. Inefficiencies or mistakes in operations can lead to increased costs and decreased profitability.

3. **Market risk:** Market conditions can change rapidly, and diversifying into a new sector can expose a company to unexpected market risks. For example, economic downturns or shifts in consumer preferences can negatively impact the performance of the newly diversified business.

4. **Brand and reputation risk:** A company's reputation is valuable. Diversifying into a sector with different values or ethical considerations can pose a risk to the company's brand if not managed carefully. Negative perceptions about one business can spill over and affect the entire brand.

5. **Cultural Misalignment:** Different industries may have distinct corporate cultures and norms. A lack of cultural alignment can lead to issues in integration, employee morale, and teamwork, which can ultimately affect the success of the diversification strategy.

Opportunities for diversification

1. **Risk mitigation:** Diversification can reduce the company's reliance on a single market or industry. This is particularly important in industries prone to cyclical fluctuations. By spreading investments across various sectors, a company can better weather economic downturn.

2. **Revenue growth:** Diversification offers the opportunity to tap into new sources of revenue. This can result from cross-selling products or services to existing customers, entering emerging markets, or capitalising on synergies between the diversified businesses.

3. **Innovation and learning:** Diversifying into a new sector often requires acquiring new skills and knowledge. This can lead to innovation and the development of new capabilities that benefit the entire organisation. Learning from different industries can foster creativity and a competitive edge.

4. **Global expansion:** Diversification can provide opportunities for global expansion. A company can leverage its existing resources, such as distribution networks or supply chain capabilities, to enter international markets more effectively.

5. **Portfolio balancing:** Companies can balance their portfolios to ensure a mix of businesses that are at different stages of life cycles. While some sectors may be mature and generate steady cash flow, others may be high growth, offering the potential for substantial returns.

Successful diversification strategies

1. **Thorough market research:** Prior to diversifying, extensive market research is crucial to understand the dynamics, potential risks, and opportunities of the new sector. This includes evaluating market size, competition, customer behaviour, and regulatory factors.

2. **Synergy identification:** Seek sectors where synergies can be leveraged between the core business and the new venture. This can lead to cost savings, cross-selling opportunities, and enhanced overall performance.

3. **Risk management:** Implement robust risk management practices to mitigate potential downsides. This includes financial contingency plans, monitoring of market conditions, and a well-defined exit strategy if the new venture underperforms.

4. **Talent and leadership:** Ensure the right talent and leadership are in place to drive the diversified business. This may involve hiring experts from the new sector or training existing employees to bridge the knowledge gap.

5. **Balanced portfolio:** Maintain a balanced portfolio of businesses to ensure a mix of cash cows and growth opportunities. This diversification strategy minimises the impact of business cycles and economic downturns.

6. **Flexibility and adaptability:** Companies should be flexible and adaptable, ready to adjust their diversification strategy in response to changing market conditions or new opportunities. Agility is key to success.

Diversification is a strategic decision for companies seeking growth and risk mitigation, but it has its challenges.

A case in point is the merger between Malaysia Building Society Berhad (MBSB) and Malaysian Industrial Development Finance Berhad (MIDF) from Permodalan Nasional Berhad (PNB). The merger would fill MBSB's current void in the corporate and investment banking segment.

Here is a merger of two government-linked companies (GLCs) owned by two government-linked investment companies (GLICs) – PNB and Employees Provident Fund (EPF). The merger would face relatively lesser challenges as the merging parties have the GLC culture. But even amongst GLCs, there are varying cultural differences, and it will not necessarily be a walk in the park.

On the other hand, the transactions between Lembaga Tabung Angkatan Tentera (LTAT), Boustead Holdings Berhad (BHB), and Kuala Lumpur Kepong Berhad (KLK) for the latter to acquire a 33% stake in Boustead Plantation Berhad (BPlant), drew mixed responses from the investing community.

Had the deal gone through, there may have been challenges in merging the GLC culture with the entrepreneur-driven culture – they both have their respective strengths.

This was probably a missed opportunity as the parties could have leveraged each other's strengths. BPlant would have benefitted from the superior yields and replanting expertise of KLK and its deep pockets, while LTAT and BHB as shareholders of BPlant would have reaped the resultant benefits.

To succeed in diversification, companies must carefully assess the risks, undertake thorough market research, and develop strategies that leverage synergies and innovation. Maintaining a flexible and adaptable approach is also essential in a constantly evolving business landscape.

Successful diversification can lead to revenue growth, portfolio balancing, and enhanced competitiveness, ultimately creating long-term value for the company and its stakeholders. However, a poorly executed diversification strategy can turn a venture into 'diworsification', resulting in financial setbacks and damaging the brand's reputation.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 13 -17 November 2023

For this week, the following are the AGMs/EGMs of companies in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
15.11.23 (Wed) 09.00 am	Key Asic Berhad (AGM)	The Group's revenue for FYE 2023 was RM20.82 million compared with RM13.59 million in FYE 2022. The higher revenue was largely due to higher demand for non-recurring services recorded in the financial year under review. With higher revenue, its net loss narrowed from RM8.64 million a year ago to RM5.37 million.
15.11.23 (Wed) 11.00 am	Ucrest Berhad (AGM)	Ucrest's revenue increased by 9.8% y-o-y to RM13.56 million in FY2023 (FY2022: RM12.35 million). Its flagship product, iMedic™ contributed almost all the revenue; the remaining is attributed by customisation and maintenance services of the platform. With two consecutive quarters of profit achieved in the second half of FY2023, it managed to chalk a net profit of RM0.101 million for the year, as opposed to a net loss of RM35.13 million in FY2022.
16.11.23 (Thur) 10.00 am	Sime Darby Berhad (AGM)	Sime Darby's revenue from continuing operations increased by 13.6% to RM48.3 billion in FY2023 (FY2022: RM42.5 billion). Meanwhile, it recorded a net profit of RM1.46 billion during the year - the highest net profit achieved since the demerger of the property and plantation arms in 2017.

		The record result was 32% higher than the RM1.10 billion in the previous years, thanks to improved results from the Industrial division in Australasia market, strong performance from the Motors business in Malaysia and gains on disposal of non-core assets, namely the properties in Hong Kong and the Weifang Port companies.
16.11.23 (Thur) 12.30 pm	Sime Darby Berhad (EGM)	The EGM will seek shareholders' approval for the proposed acquisition by Sime Darby Enterprise Sdn Bhd (SDESB), an indirect wholly-owned subsidiary of Sime Darby Berhad (Sime Darby), of approximately 61.18% equity interest in UMW Holdings Berhad (UMW) from Permodalan Nasional Berhad and AmanahRaya Trustees Berhad for RM3.57 billion or RM5 per UMW share; and the proposed mandatory take-over offer to acquire all the remaining UMW shares not already owned by SDESB and Sime Darby subsequent to the proposed acquisition.
16.11.23 (Thur) 10.00 am	Pecca Group Berhad (AGM)	Pecca posted a record-high revenue of RM221.3 million in FY2023, up by 34.6% y-o-y. This was primarily attributable to higher revenue from the automotive segment. Meanwhile, net profit for the year increased by 54.9% to RM35.4 million in FY2023. Thanks to strong revenue growth and improvement in cost efficiency, its net profit margin improved from 13.9% in FY2022 to 16.0% in FY2023.
16.11.23 (Thur) 10.00 am	Dialog Group Berhad (AGM)	Dialog closed its FY2023 with a 29.43% increase in revenue to RM3.00 billion (FY2022: RM2.32 billion) and a marginal increase in net profit to RM520.6 million. During the year, it saw increased activities from both domestic and international operations. The Malaysian operations benefitted from the upstream activities, while the international operations reported higher revenue and net profit from an improved business environment. Furthermore, the Group's joint ventures also contributed to higher net profit during the year under review.

16.11.23 (Thur) 10.00 am	Harn Len Corporation Bhd (AGM)	Harn Len registered a total revenue of RM280.3 million for 17-month FPE2023. EBITDA of the Plantation Segment remained squeezed with the rising plantation operating cost, distribution expenses and lower CPO oil extraction rate. The Group reported an operating profit of RM8.2 million in FY2023. However, excluding the reversal of a credit loss amounting to RM13.6 million, Harn Len would have recorded an operating loss in FY2023.
16.11.23 (Thur) 10.30 am	DPI Holdings Berhad (AGM)	In FYE 2023, DPIH achieved a marginal increase of 2% in revenue to RM51.7 million (FYE 2022: RM50.7 million) while recording a lower net profit of RM2.9 million compared to RM5.2 million in the previous corresponding period. The gross profit margin and net profit margin of 24% and 6%, respectively, were the lowest in the last 5 financial years, no thanks to the increase in raw materials, packaging costs and freight charges.
16.11.23 (Thur) 12.00 pm	DPI Holdings Berhad (EGM)	DPIH is seeking shareholders' approval for the Proposed Variation and Extension of the unutilised IPO Proceeds. Unutilised IPO proceeds of RM13.4 million will be reallocated to capital expenditure, product development and acquisition of a new factory with revised utilisation period up to 7 January 2025.
17.11.23 (Fri) 10.00 am	RGT Berhad (AGM)	For the FYE 2023, the Group reported a revenue of RM107.3 million, marking a 12% decline due to reduced demand for hygiene products in the Engineered Polymer Product (EPP) segment. Lower production output and increased fixed overhead costs led to a lower gross profit of RM24.2 million. The Group expanded its services as an Original Design Manufacturer, enhancing its in-house R&D capabilities to offer value-added services in product design across various sectors. Additionally, the Factory Automation and Precision Engineering (FAPE) segment provided

		integrated automation solutions, catering to specific industry needs.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Key Asic Berhad (AGM)	In FY2023, the Group has inked over RM70m of contracts and built up a very strong pipeline in turnkey ASIC design service business. (Page 7 of Annual Report 2023) a) What is the current outstanding order book for the Group? b) What is the amount of new contracts secured in FY2022? c) When is the RM70m of contracts secured in FY2023 expected to be fully recognised? d) With over RM70m of new contracts secured in FY2023 and in relation to the revenue of RM13.6m in FY2022 and RM20.8m in FY2023, does the Board anticipate the Group's turnaround and profitability in FY2024?
Ucrest Berhad (AGM)	The Group has invested R&D of 3D and multi-Dimensional ("MD") printing of healthcare, consumer, automotive and industrial products. The Group expects to see 3D or MD printing would be a significant revenue contributor. (page 12 of AR2023). a) How much is the Group's investment in R&D of 3D and MD printing? b) When will 3D or MD printing commence contribution to the Group's revenue and profit?
Sime Darby Berhad (AGM)	The Group's Electric Vehicles ("EVs") sales increased to 17.8% (FY2022: 4.5%) (page 12 of AR2023). In Malaysia, the Group have partnered with Build Your Dreams ("BYD") to distribute its EVs in the local Malaysian market. (pages 28&29 of AR2023) a) Of the 17.8% EVs sales, how much were from China and Malaysia? How many units of the Group's EVs were sold in Malaysia for FY2023 and to-date? b) How will the Group's electric vehicle models compete against the likes of Neta V or Chery? What are the competitive advantages of the Group's EVs? c) With Malaysia Government's announcement on several incentives for EVs, to what extent will there be a significant pick up for the Group's EVs, going forward?
Pecca Group Berhad (AGM)	The healthcare business contributed revenue of RM3.1 million in FY2023, down 81% from RM16.4 million in FY2022. Considering the marked slowdown in mask demand, the Group recognized an impairment loss of RM2 million for its mask production machines and RM0.75 million write-down on the value of raw materials in its inventory. (page 34 of AR 2023)

	a) Does the Group expect further impairment losses and inventories write-down in FY2024? b) The carrying value of receivables for the healthcare segment was RM5.32 million at the end of FY2023 (page 152 of AR 2023). How much of these receivables are from related parties? How long have these receivables been overdue?
Dialog Group Berhad (AGM)	The Group has invested in quoted shares listed outside Malaysia classified as non-current and current amounting RM38.2 million and RM24.7 million respectively. (Page 56 of FS Report) a) Why does the Group invest in quoted shares listed outside Malaysia? b) In which exchanges are the quoted shares outside Malaysia listed on? c) To which business sectors do the quoted shares listed outside Malaysia relate to? d) Was there any dividend income received from the quoted shares listed outside Malaysia in FY 2023? If yes, what was the amount?
Harn Len Corporation Bhd (AGM)	On 1 June 2023, Harn Len has completed the acquisition of Almal Resources Sdn. Bhd. (ARSB) that, through its wholly owned subsidiary, owns the rights to a 60-year lease of plantation land in Mukim Rompin, Pahang. The land is currently planted with pineapples and oil palms. (page 13 of AR 2023) a) What was the total planted area for pineapples as of 31 May 2023? b) What are the labour requirements for the plantation of pineapples compared to oil palm? c) What is the budgeted capex for FY2024 and its breakdown? d) When does the Group expect the pineapple plantation to contribute meaningfully to its bottom line?
DPI Holdings Berhad (AGM)	The sales of aerosol products decreased by RM3.59 million from RM42.11 million recorded in the FYE 2022 to RM38.52 million primarily due to a softening in demand throughout the financial year. (Page 17 of Annual Report 2023) a) Please elaborate further on the reasons for the lower demand for aerosol products. Were there changes in end-user preferences or did the Group face a more competitive environment in the market? b) Does the Group expect a demand rebound in FYE2024?
RGT Berhad (AGM)	As at 30 June 2023, the Group had invested approximately RM14.4 million in capital expenditure to increase and enhance its production capacity and capabilities with the investments

	funded through a combination of internally generated funds and bank borrowings. a) To which business segment of the Group was the capital expenditure allocated to? b) The lower production output and higher absorption of fixed overhead costs are the contributing factors to the decreased gross profit and gross profit margin (Page 16 of the Annual Report 2023 ("AR2023"). (i) Would the increase in production capacity further deteriorate the profit and/or profit margin of the Group? If the increase in production capacity has no impact on the profit or profit margin, please explain the reasons. (ii) How has inflationary pressure played a role in this decline? c) Which business segment will be the focus of the Group moving forward?

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DISCLOSURE OF INTERESTS

• *With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.