MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Observer

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Kindly be informed that MSWG's new telephone number is +603-27320010 with immediate effect.

❖ Mitigating the slippery path of palm oil price swings

As with the glove and technology stocks rallies in recent times, history has been proven right yet again with regard to the meteoric rise of plantation stocks' prices: progressive rises will be followed by regressive falls. Whether a minority shareholder is smiling or not depends on when he bought into the stock and when he sold the stock. The danger is when retail investors enter close to the peak and as such suffer huge downside (or become a long-term shareholder). When asked why they did not enter earlier, the reply will most probably be that they were 'monitoring' the stock. And when the fear of missing out kicked in, they would have finally decided to buy the stock near its peak.

Analysis paralysis has been a weakness for many minority shareholders. Then again, 'fools rush in where angels fear to tread'. Somewhere in between lies the right time to buy a stock and the right time to sell a stock. Hardly ever will a shareholder be able to buy a stock at its absolute low and sell it at its absolute high - though we always hope for this.

To recap, crude palm oil (CPO) prices have fallen by about 50% from its peak of about RM8,000/metric tonne (MT) in early March to about RM4,000 per MT currently (as in Bursa Malaysia CPO futures contract for spot month September 2022) due to wide-ranging factors:

- Rising palm oil exports from Indonesia (following Jakarta's move to flush out palm oil inventories accumulated since March 2022)
- Improved supply visibility on major vegetable oils
- Rising stockpile in Malaysia on higher output and lower exports
- Easing concerns on labour shortage in Malaysia
- Seasonal uptrend in the palm oil output cycle; and
- Recent aggressive interest rate hikes by the US Fed which have dampened overall market sentiment

The rally originating from geopolitical concerns over the disruption of global edible oil supply, which stemmed from the Russia-Ukraine conflict, has been short-lived.

Another external event that triggered the CPO price rally was the imposition of an export ban on palm oil by Indonesia – the world's largest palm oil producer – to curtail its domestic price hike of cooking oil in early April 2022.

However, the export ban was lifted barely two months later, leading to the plantation stock price rally fizzling out as CPO prices eased to RM5,105/MT in June and eventually to RM4,157/MT on 8 July.

The sharp plunge in CPO prices after 10 June was attributed to the replacement of the export ban with the Domestic Market Obligation (DMO) by the Indonesian government.

The DMO requires firms to supply a portion of their products to the domestic market via the government's bulk cooking oil programme and links DMO volumes to their export permits and quotas/rights. Indonesia later said it has issued export permits for a total of 2.44 million MT of palm oil from May till 5 July.

Given the excess stockpile, Indonesia's palm producers will need to entice buyers by lowering CPO prices – causing local and international CPO prices to fall significantly in recent weeks.

On the same note, most research houses expect Malaysia's palm oil stockpile to rise due to competition from Indonesia palm oil – as such, the CPO price outlook in Malaysia will mirror closely developments in Indonesia.

More recently, the Malaysian Palm Oil Board's (MPOB) June 2022 stockpile hit a seven-month high of 1.66 million MT on higher palm oil output and lower exports which was partly offset by higher domestic consumption.

With bloated inventories in Indonesia, analysts expect Malaysia's palm oil to lose market share to Indonesia in the coming months, resulting in a gradual pick up in MPOB's inventory. As such, CPO prices would probably remain under pressure in the second half of 2022.

While Indonesia's move to flush out palm oil inventories will likely suppress near-term CPO prices, some are of the view that the recent severe CPO price decline is overdone. This is given that the supply prospects of major vegetable oil remain uncertain while demand prospects have turned more favourable on the back of improved CPO price competitiveness following the recent correction.

External factors overwhelm fundamentals

Against the declining CPO prices, analysts have mixed opinions of what the future holds for Bursa Malaysia-listed planters. It is a case of the blue sky turning cloudy overnight. There is no denial that minority shareholders who bought into plantation counters near their peak could easily be staring at a paper loss of around 30%, if not more.

In all frankness, this misfortune has little to do with greed but with how one reads the market for the commodity. It also depends on how one rides through the volatile commodities market whose prospects differ from one commodity to another.

This is surely a tricky 'mind game' considering that there is no guarantee that even the most seasoned or learned investor can walk away unscathed from the short-lived plantation stock rally.

Above all else, it must be acknowledged that most plantation counters are backed with fundamentals.

Nevertheless, oil palm planters are price takers. They have no control over pricing. The best they can do is to keep costs low and raise their yields and productivity.

In essence, with rising concerns of inflation and recession spooking the entire capital market ecosystem, what is certain is that planters will have to brace for higher cost structure and possibly more subdued CPO prices moving forward.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 18 – 22 July 2022

For this week, the following are the AGMs/EGMs of companies which are 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
19.07.22 (Tue) 09.30 am	AYS Ventures Berhad (AGM)	AYS has delivered its best-ever performance in FY2022 with a record revenue and net profit. Net profit surged to RM116.524 million from RM24.57 million in the year before on the back of strong revenue of RM1.12 billion (FY2021: RM753.66 million). This stellar performance was primarily due to rising global steel prices and effective cost control measures.
20.07.22 (Wed) 10.00 am	Sapura Resources Berhad (AGM)	The Group's revenue stood at RM45.2 million for FY2021, represented a marginal decrease of RM0.8 million or 1.7% as compared to the year before. However, it recorded widened loss of RM243.5 million mainly due to the impairment of the Master Lease Agreement in relation to its JV agreement with KLCC (Holdings) Sdn Bhd amounted to RM172.8 million.
20.07.22 (Wed) 10.30 am	JKG Land Berhad (AGM)	JKG's financial performance continued be robust in FY2022 with a pre-tax profit of RM33.1 million on the back of RM184.8 million revenue. The Property Development segment which accounted for 98% of the

		Group's total revenue, continued to be the key driver of the Group's operations whereas the revenue from Cultivation of Palm Oil and Other operations makes up the remaining 2%.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
AYS Ventures Berhad (AGM)	There is an impairment loss on trade receivables of RM3,912,000 in FY2022 (FY2021: RM1,260,000) (Page 99 of the Annual Report 2022). a) Is the amount recoverable? If so, what are the measures taken to recover the receivables? b) What is the expected amount to be recovered in FY2023?
Sapura Resources Berhad (AGM)	The downsizing exercise of an anchor tenant at Sapura@Mines has inevitably resulted in a reduction of the Group's tenanted office space which subsequently impacted revenue. The Group is diversifying its Sapura@Mines tenant base by targeting small and medium sized enterprises (SMEs) to fill up the vacated space by the anchor tenant. (Page 19 of AR) a) Please name the anchor tenant that has downsized its office space. b) What is the current office space of the anchor tenant as compared to prior to the downsizing? c) What is the loss in rental income per annum from the anchor tenant as it downsized its office space? d) Has the Group been able to attract SMEs to fill up the vacated space by the anchor tenant? If yes, what is the size of the office space occupied by the SMEs. e) What is the current occupancy rate of Sapura@Mines as of June 2022 as compared to FY 2022?
JKG Land Berhad (AGM)	The Group's profit before tax for the past 3 consecutive financial years, has increased to RM33.1million (FY 2022), RM29.9 million (FY 2021) and RM25.3 million (FY 2020). (Page 12 of AR) The Company however has not declared any dividend for the past 3 financial year. Its last dividend payment of 0.1 sen was in FY 2019. (Page 12 of AR) a) Why did the Company not declare any dividend even though the Group has been recording increasing profit for the past 3 consecutive years? b) Under what circumstances the Company will declare a dividend payment to reward its shareholders?

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DISCLOSURE OF INTERESTS

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

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