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

# The Observer

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**17.02.2023**

## ❖ CBP ban uplifted - a valuable wake-up call for PLCs to be serious on ESG

That the US Customs and Border Protection (CBP) has essentially lifted its Withhold Release Order (WRO) that has prevented palm oil-related products of Sime Darby Plantation Berhad (SDP) from entering the US over the past two years is a victory for the planter and the quest to promote sustainable business model among Malaysian PLCs in general.

Recall that the US CBP had in December 2020 raised the issue of "forced labour" against SDP by slapping the latter with a WRO that essentially prevented the Company's palm oil products from entering the US.

The decision was based on sufficient, though not conclusive, information or evidence triggered apparently by a petition sent to US CBP in April 2020 by non-governmental organisation (NGO) Liberty Shared.

This lasted till 3 Feb this year when US CBP "modified" the WRO to allow SDP to resume exports of its palm oil products to US.

Although commercially, the US is a small market for SDP – having accounted for less than 5% of its revenue in FY2021 – the ban has triggered concerns over SDP's ESG image, especially with regard to its ESG rating.

With that, SDP's reputation is at stake, with the Company priding itself as the world's largest producer of certified palm oil. Bans and allegations could potentially dent or even nullify such claims.

### Beyond SDP

Swiftly after the ban by CBP, SDP made a slew of changes in its labour practices and standards. The planter also introduced several industry firsts measures as part of its renewed commitments.

Aside from SDP, glove maker YTY Industry Holdings Sdn Bhd and all its subsidiaries also saw some relief when the US CBP issued a modification to its WRO, which then allowed for the resumption of shipments of its single-use gloves into the US.

While the group is in the process of notifying US customers of this positive development and to re-establish its long-standing supply relationship with them, it nevertheless acknowledged that the imposition of the WRO by US CBP has strengthened its commitment to uphold international labour standards in the near future.

Earlier on 9 September 2021, the US CBP similarly modified its forced labour finding on Top Glove Corporation Berhad, which would permit the world's largest glove maker to resume the importation of disposable gloves made at Top Glove facilities in Malaysia.

In hindsight, Top Glove did recognise that the year-long ban by the US customs authorities on Top Glove's exports to the US has served as a "wake-up call" for the world's largest medical glove maker to avoid similar predicaments in the future.

Above all else, its management said the ban was a learning experience that had improved the company's ESG markers in addressing claims of forced labour.

The experience has prompted Top Glove to take various initiatives towards addressing forced labour concerns by having upgraded hostel facilities for its migrant workers, who account for a majority of its factory workforce and even promised to compensate them for the fee they paid to employment agents in their home countries.

Other big glovemakers, such as Hartalega Holdings Berhad and Kossan Rubber Industries Berhad have also since taken similar action to refund the fees, which labour activists claim would result in debt bondage.

**Lessons learnt**

On a bigger scale, the environmental, social and governance (ESG) agenda with key focus on sustainability will continue to be at the forefront of how SDP and other PLCs conduct their businesses in the future.

Therefore, the social aspect within the ESG spectrum requires economic sectors with heavy reliance on foreign labour, e.g., manufacturing and plantation, to prioritise on two fronts:

- Doing what is morally right for how we treat others reflects who we are as a company and as a nation

- Investors and stakeholders nowadays are much more conscious about social justice, corporate governance and corporate malpractice; hence addressing their concerns would augur well for a company's profile, top line, bottom line and reputation. More so, investors may choose to shy away from companies that breach ESG practices.

**Devanesan Evanson**
**Chief Executive Officer**

## MSWG AGM/EGM Weekly Watch 20 – 24 February 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 |
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| 20.02.23 (Mon)<br>2.30 pm | WCE Holdings Berhad | The EGM is to seek shareholders' approval for the proposed disposal of the entire 40% equity interest in Radiant Pillar Sdn Bhd held by WCE Holdings Berhad ("WCEHB" or "Company") and its subsidiaries to IJM Properties Sdn Bhd for a total cash consideration of RM494 million. |
| 22.02.23 (Wed)<br>10.00 am | CEKD Berhad | CEKD saw a 7.9% growth in its revenue to RM30.45 million in FY2022, mainly due to higher contribution from its manufacturing segment in the second half of FY2022. Meanwhile, its pre-tax profit improved marginally by 1.2% to RM9.26 million after adjusted for RM1.92 million one-off listing expenses.<br><br>It derived 85% of its revenue from local market with the remaining 15% from export markets. |
| 23.02.23 (Thur)<br>10.00 am | Melati Ehsan Holdings Berhad | For FY2022, Melati Ehsan recorded a close to five-fold increase in pre-tax profit to RM26.14 million compared to RM4.570 million in the previous year. The commendable result was attributed to its property development segment and construction projects.<br><br>In addition, the increased profit was also attributed to the disposal of lands held for property development. |
| 23.02.23 (Thur)<br>11.00 am | Kuala Lumpur Kepong Berhad | KLK saw its revenue increase by 36.4% y-o-y to RM27.15 billion (FY2021: RM19.91 billion). However, its net profit was slightly lower at RM2.17 billion (FY2021: RM2.26 billion).<br><br>The strong topline performance was due to higher CPO prices, but higher production costs and wages have squeezed its bottomline. |

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| | | The Group's manufacturing division saw another record-breaking year while the property division contributed steadily to the Group. |
| 23.02.23 (Thur)<br>11.00 am | INSAS Berhad | The EGM is to seek Insas shareholders' approval to dispose of M&A Securities to SYF Resources Berhad for RM222 million to be satisfied via the issuance of about 1 billion SYF shares at an issue price of 22 sen each.<br><br>Upon completion of the Proposed M&A Disposal, Insas and its PACs will collectively hold 67.12% equity interest in SYF, in turn M&A Securities will be a wholly-owned subsidiary of SYF. |
| 23.02.23 (Thur)<br>11.30 am | Fiamma Holdings Berhad | The Group's revenue increased by 9.5% to RM369.98 million in FY2022 from RM338.02 million a year ago, driven mainly by its trading and services segment which sales increased following the lifting of pandemic-related restrictions and re-opening of the economy.<br><br>Meanwhile, its pre-tax profit grew at a slower pace of 5.6% to RM56.60 million in FY2022 from RM53.61 million a year ago, due primarily to higher production costs, stiff competition and the depreciation the ringgit. |
| 23.02.23 (Thur)<br>2.15 pm | Batu Kawan Berhad | In line with the financial performance of its main subsidiary Kuala Lumpur Kepong Berhad (KLK), Batu Kawan reported higher revenue of RM28.22 billion (FY2021: RM20.71 billion) in FY2022.<br><br>Meanwhile, its pre-tax profit was 12% higher at RM3.44 billion (FY2021: RM3.08 billion).<br><br>The record pre-tax profit was due largely to stronger prices and higher sales volumes of palm products.<br><br>Excluding non-operational gains of RM503.84 million from FY2021 pre-tax profit, the Group's pre-tax profit for FY2022 would have been 33% higher than the year before. |
| 24.02.23 (Fri)<br>10.00 am | Wellcall Holdings Berhad | Wellcall's revenue increased to RM177 million in FY 2022 from RM157 million in FY 2021. Meanwhile, PBT was slightly lower at RM45 million in FY2022 |

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| | | compared to RM46 million in FY2021. The lower profit mainly arose from the allowance for impairment loss of investment in an associate company.<br><br>It expects to see a gradual recovery in the industrial rubber hose industry.<br><br>The demand for low and medium industrial rubber hoses seems to picking up, as seen in its expanding orderbook. |
| 24.02.23 (Fri)<br>11.00 am | EITA Resources Berhad | For FY2022, Eita recorded a revenue of RM363.6 million, compared to RM302.4 million for FY2021. Nevertheless, its pre-tax profit decreased by RM2 million or 7.4% to RM24.9 million compared to RM26.9 million in the year before due to margin compressions for projects, fair value loss on derivatives and higher write-down of inventories. |
| 24.02.23 (Fri)<br>2.30 pm | DIGI. Com. Berhad | The EGM is to seek shareholders' approvals for:<br><br>i) the payment of Directors' fees and benefits to Non-Executives Directors<br><br>ii) recurrent related party transactions of a revenue or trading nature with various related parties; and iii) the proposed change of name from Digi.Com Berhad to CelcomDigi Berhad. |

**One of the points of interest to be raised:**

| **Company** | **Points/Issues to Be Raised** |
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| WCE Holdings Berhad | The RAM Ratings report of West Coast Expressway's guaranteed sukuk published on 3 Nov 2022 stated that the full completion of the West Coast Expressway ("WCE") was targeted for 14 March 2025. Separately, Sinchew's article dated 6 December 2022 quoted YB Tuan IR Izham bin Hashim, the Chairman of Selangor State Infrastructure and Public Amenities, Agriculture Modernisation, and Agro-Based Industry Committee saying WCE would be fully operational in 2025. However, on page 10 of the Circular to Shareholders dated 31 January 2023, its states that the full completion of the WCE Project is expected to be in year 2024.<br><br>Please clarify the expected completion date of WCE project. |

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| CEKD Berhad | The Group currently has seven manufacturing operations, of which five factories are in Kuala Lumpur and two factories are in Penang. In FY2022, CEKD acquired a new factory to expand its capacity and has commenced operation in December 2022. (Page 2 of Annual Report (AR 2022)<br><br>a) What was the total production capacity and average utilisation rate for your six factories in FY2022?<br><br>b) What is the total production capacity after the commencement of the seventh factory in December 2022? When do you expect this factory to be profitable and run at optimal capacity?<br><br>c) Who are your closest competitors in Malaysia and what are your competitive advantages against them? |
| Melati Ehsan Holdings Berhad | The Group's finance costs increased sharply to RM2,056,902 in FY2022 from RM30,160 in FY2021(Page 44 of the Annual Report 2022).<br><br>Does the Group expect the finance cost to remain at the same level or higher in FY2023? How does the Board intend to manage the finance costs, moving forward? |
| Kuala Lumpur Kepong Berhad | 1. The Group's trade receivables written off increased to RM4.7 million (2021: RM45,000) and other receivables written off amounting to RM6.3 million (2021: Nil) (page 120 of AR2022).<br><br>What comprises the trade receivables and other receivables that have been written off? What were the measures taken to recover the said amounts prior to them being written-off?<br><br>2. Write down of inventories to net realisable value increased significantly to RM285.8 million (2021: RM34.8 million) (page 120 of AR2022).<br><br>What were the major inventories that were subjected to such a huge write down? Are the inventories written down still usable or saleable? |
| Fiamma Holdings Berhad | Fiamma's trading and services segment revenue increased by 9.1% to RM339.8 million in FY2022 from RM311.5 million a year ago. The increase was attributed to higher sales due to the lifting of pandemic-related restrictions and re-opening of the economy.<br><br>a) Did Fiamma implement any price increases in FY2022? If yes, what was the average price increase in percentage terms, and was revenue growth in FY2022 attributable more to sales volume or price increases?<br><br>b) Which brands and products generated the most sales for the Group in FY2022 and which saw the highest growth? |

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| | c) The segment's pre-tax profit margin in FY2022 was lower at 15.7% compared to 17.8% a year ago. What is your outlook for profit margins in FY2023? Do you expect your profit margins to moderate or stabilize moving forward? |
| Batu Kawan Berhad | The Group expects the Industrial Chemical division to face some headwinds in FY2023 coming from raw material prices hikes and high energy cost. (Page 41 of AR2022)<br><br>To what extent is the Group able to pass the increase in raw material prices and high energy cost to its customers? |
| Wellcall Holdings Berhad | The Group recorded a fairly consistent profit before tax ("PBT") of RM45 million for FYE 2022 as compared to PBT of RM46 million recorded in the corresponding period of the preceding financial year. Slightly lower PBT was achieved mainly arising from allowance for impairment loss on investment in an associate company.<br><br>The associate company is involved principally in the business of manufacturing, marketing and sale of composite hose and fittings. Why is it making losses? What is the reason for the further allowance for impairment loss of investment in the associate company? |
| EITA Resources Berhad | Based on the current Order Book, TransSystem Continental Sdn. Bhd. ("TSC") will be busy with projects over the next few years, especially with three major contracts secured in 2022 from Tenaga Nasional Berhad and Sarawak Energy Berhad. Meanwhile, it will continue to bid for more projects to strengthen its position in the market. (Page 16 of AR 2022)<br><br>a) What is the total value of the three major contracts? When will these contracts expire? What is the Group's current total order book?<br><br>b) What is the total value of bids? What is the probable success rate? |


**MSWG TEAM**

Devanesan Evanson, Chief Executive Officer (devanesan@mswg.org.my)
Rita Foo, Head, Corporate Monitoring (rita.foo@mswg.org.my)
Norhisam Sidek, Manager, Corporate Monitoring (norhisam@mswg.org.my)
Lee Chee Meng, Manager, Corporate Monitoring (chee.meng@mswg.org.my)
Elaine Choo Yi Ling, Manager, Corporate Monitoring (elaine.choo@mswg.org.my)
Lim Cian Yai, Manager, Corporate Monitoring (cianyai@mswg.org.my)
Ooi Beng Hooi, Manager, Corporate Monitoring (ooi.benghooi@mswg.org.my)
Jackson Tan, Manager, Corporate Monitoring (jackson@mswg.org.my)
Clint Loh, Manager, Corporate Monitoring (clint.loh@mswg.org.my )


***DISCLOSURE OF INTERESTS***

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

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