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

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❖ EMS faces more downside risks despite better outlook

The electronics manufacturing services (EMS) sector has been an important component of the Malaysian economy. Recent developments unfolding on the international landscape have enhanced the sector's attractiveness.

Among these events, the continuous on and off trade war between two economic superpowers - United States and China, has turned into a blessing for the EMS sector in Malaysia. Malaysian companies involved in the EMS sector have been beneficiaries from the spat between these countries. These companies have benefitted from increased orders due to diversion in the supply chain from the geopolitical tensions.

According to the Department of Statistics Malaysia, exports of electronics products to US and Europe increased recorded growth during the years of trade friction between the US and China.

The opening of borders post pandemic is another catalyst to boost the growth of the EMS as this will facilitate ease of exports.

In the same vein, data from the Semiconductor Industry Association (SIA), which tracks the semiconductor industry globally, revealed that the global semiconductor industry was valued at US$528 billion in 2021 and is poised to grow to US$1.03 trillion in 2029, registering a 12.2% compounded annual growth rate (CAGR) during the period.

These developments clearly demonstrate the long-term value proposition for Malaysian EMS companies as Malaysia is one of leading EMS players globally.

Local EMS players to watch out for

Having said that, our homegrown EMS companies are not without their own challenges.

Earlier on, some of them were plagued by forced labour issues which saw their share prices being battered. One such company is ATA IMS Berhad, a Johor-based EMS contract manufacturer which saw its main customer, Dyson, withdrawing its business because of the forced labour allegation. Dyson contributed some 81% of ATA IMS' revenue in FYE 2021 and the withdrawal of its business had caused a major loss of revenue to the latter.

On a similar note, the two local EMS giants - V.S. Industry Berhad and SKP Resources Berhad are taking steps to alleviate concerns on their labour practices.

It was reported that they have completed their social compliance audits, with findings that both companies have fully reimbursed all recruitment fees paid by their foreign workers in the past. They are on track to address or have already addressed all other minor remediable issues.

As for the concern on acute labour shortage nationwide, both V.S. and SKP Resources are on track with their foreign worker recruitment plan by bringing in 1,000 and 3,700 foreign workers respectively into their workforce by the end of August – September 2022.

Operationally, V.S. has been targeting customers who offer higher margin contracts to support its rapid expansion. With that, analysts expect it to post better financial performance in line with higher production volumes from higher utilisation rates at its facilities. For FY2021, V.S. recorded a revenue of RM4 billion while net profit came in at RM245.35 million.

As stated in a research note dated 19 August, CGS-CIMB Research has set a target price of RM1.21 for V.S. The stock closed at 99 sen as of 1 September.

Meanwhile SKP Resources is ramping up their production to cater to more orders from customers. It is constructing a multi-storey facility which is expected to be ready by early January 2023 and this will increase its production floor space by 60%.

For FY2022, SKP Resources registered a net profit of RM173.4 million on the back of RM2.32 billion revenue. The Company has a cash pile of RM42.56 million with borrowings of RM23.98 million at the end of 30 June 2022.

In terms of consensus view, there were 8 "buy" calls on the stock. CGS-CIMB Research has a RM2.56 target price for SKP Resources. Shares of SKP Resources closed at RM1.69 on 1 September.

Conclusion

Though the EMS sector is being touted as attractive, investors must also consider the downside risks and challenges moving forwards.

Firstly, EMS is a labour- intensive industry and Malaysia is still struggling with acute labour shortages.

On the other hand, the financial performance of these listed local EMS players would largely hinge upon the demand towards their clients' product as they mostly manufacture consumer electronics. Already there are concerns over slowing consumer demand and enterprises spending due to worsening macroeconomic condition in Europe and United States.

Also, a rising interest rate environment would result in higher required rate of return (derating of target PE multiple) by investors. As such, the drop in share prices does not necessarily mean stocks are cheap.

Lest we forget, there are still supply chain disruption in the semiconductor industry, though there are signs that these disruptions are abating.

All in all, some of our local EMS players are also exposed to customer concentration risk.

Also, do bear in mind that their valuations may be dampened by environmental, social and governance (ESG) issues despite the favourable outlook.

Short term gyrations are inevitable for our local EMS players, but the long-term outlook is favourable as demand for electronics is expected to rise in tandem with technological advances and market dynamics.

Ranjit Singh
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 5 – 9 September 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
05.09.22 (Mon) 02.00 pm	Ingenieur Gudang Berhad (EGM)	Ingenieur Gudang proposed to dispose a freehold land in Penang together with the buildings erected thereon to MTrustee for RM80.0 million. The proposal would provide an opportunity for the Company to realise the value of its investment at an attractive price and record a net gain on disposal of approximately RM19.8 million.
06.09.22 (Tue) 10.00 am	LTKM Berhad (AGM)	For FY2022, LTKM recorded a revenue of RM201.67 million, representing an increase of 47% as compared to RM137.40 million in FY2021. Its pre-tax loss narrowed to RM19.15 million (FY2021: loss before tax of RM28.44 million). Back in April 2022, it had announced its plan to fully divest the loss-making poultry business. This would mark its exit from the poultry industry. The corporate exercise is still ongoing.
06.09.22 (Tue) 10.00 am	Jiankun International Berhad (EGM)	Jiankun is proposing a private placement exercise of issuing up to

		98 million new shares, representing approximately 40% of its total number of issued shares to independent third-party investor(s).
07.09.22 (Wed) 09.30 am	Symphony Life Berhad (AGM)	For FY2022, Symphony Life chalked up an increase of 14% in revenue to RM297.6 million, in contrast to RM261.2 million revenue recorded in the preceding year. However, its net profit was lower at RM33.5 million compared to RM54.5 million in FY2021 due to higher cost of sales at RM236.9 million (FY2021: RM172.1 million), lower revenue contribution from property projects and the losses arising from the outcome of arbitration for the Arata @ Bukit Tunku project.
07.09.22 (Wed) 10.30 am	Jasa Kita Berhad (AGM)	Jasa Kita registered higher revenue of RM21.1 million, representing a growth of 5% compared to RM20.1 million reported in the preceding year. Consequently, it had managed to turn around its bottomline performance with a pre-tax profit of RM161,000 compared to a pre-tax loss of RM499,000 in the previous year. This represents its best performance since FY2018.
07.09.22 (Wed) 11.00 am	BLD Plantation Bhd (AGM)	BLD's revenue increased by 31.6% y-o-y to RM2.5 billion in FY2022 (FY2021: RM1.9 billion), while profit before tax jumped by 25.5% to RM112 million (2021: RM89.2 million) thanks to higher average selling price of products.
07.09.22 (Wed) 03.00 pm	Tasco Berhad (AGM)	For FY2022, the group turned in a record revenue of RM1.48 billion, reflecting an increase of RM534.8 million (or 56.5%) y-o-y from the RM946.6 million garnered in FY2021. The International Business Solutions segment recorded a stellar RM426.0 million (104.8%) y-o-y jump in revenue from RM406.4 million to RM832.4 million, while the Domestic Business Solutions segment recorded a commendable RM108.8 million (20.1%) y-o-y rise in revenue from RM540.2 million to RM649.0 million.

		Tasco's net profit grew in tandem with a RM24.0 million (55.0%) increase to RM67.7 million.
08.09.22 (Thur) 11.00 am	Oversea Enterprise Berhad (AGM)	The Group has been incurring losses over the last five consecutive years. For FY2022, its pre-tax loss increased slightly to RM7.65 million compared to a pre-tax loss of RM7.35 million in the previous year due to the COVID-19 pandemic that caused significant operational disruptions on its business.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
LTKM Berhad (AGM)	Revenue contribution from the sand mining segment increased by 10% to RM5.61 million (2021: RM5.08 million), while profit before tax contribution to the Group decreased significantly by 77% to RM0.22 million (2021: RM0.94 million) (page 7 of AR2022). Given that revenue contribution increased by 10%, what is the reason for the huge decrease in profit before tax contribution from the sand mining segment?
Jiankun International Berhad (EGM)	The profit from the construction of the One Le Tower is RM1.01 million, or a 3.7% margin based on the construction cost of RM27.31 million to be incurred by the Company. (Page 7 of the Circular) a) Why did the Company accept the construction work of the One Le Tower with a low 3.7% profit margin? What is the Company's average profit margin from the construction of high-rise buildings? b) Please explain how the Company will mitigate the rising construction material costs and shortage of construction workers that may affect both the progress of the constriction of the One Le Tower and the profit margin of the project.
Symphony Life Berhad (AGM)	The Group recorded losses from Alpine Return Sdn Bhd, ("ARSB"), 50% equity stake in a jointly controlled entity in FY 2022 due to the termination of sales and the development cost for Star Residential Tower 1 and Tower 2. (Page 40 of AR) a) What was the reason for the termination of the sales and development cost for the Star Residential Tower 1 and Tower 2. b) Did the Company receive any compensation from the termination of the contract? If yes, what is the amount.
Jasa Kita Berhad (AGM)	The costs incurred for the internal audit function in respect of the financial year ended 31 March 2022 was RM14,000 (Page 35 of AR 2022).

	Considering that the amount is rather small (approximately RM1,200 per month), is the Board and audit committee satisfied that a meaningful and effective internal audit function could be carried out? What were the areas of coverage during the year? How many internal audit reports were issued? What were the main recommendations of the internal audit function?
BLD Plantation Bhd (AGM)	The matured areas of approximately 31,420 hectares accounts for about 80% of the Group's total planted area (page 2 of AR2022). a) What is the Group's planted, unplanted and unplantable area in hectares ("Ha") of its total oil palm plantation land? b) Based on BLD's reply letter dated 21 December 2021 to MSWG's question raised at the previous AGM, it was stated that 5,400 Ha are planted with oil palm trees aged above 25 years. What are the Group's replanting plans for the financial year ending 2023 and what is the estimated CAPEX to be incurred? c) Please provide information such as planted, unplanted and unplantable area, age profile of the oil palm trees, categorising them accordingly to immature, young mature, prime and old and production cost in future annual reports, as it would be more meaningful to shareholders.
Tasco Berhad (AGM)	As the country is in a transition to endemicity, shoppers have returned to shopping malls and brick and mortar retail stores. This can be evidenced by the strong recovery in the retail business with some of the shopping malls and retail stores achieving transactions stronger than pre-Covid-19 pandemic sales. Coupled with the easing of logistic bottlenecks, is there any concern about potential oversupply of warehousing capacity in the Malaysian market in the medium term as several major logistics players, including TASCO, are currently embarking on significant expansion of warehousing space? Please explain.
Oversea Enterprise Berhad (AGM)	For five consecutive financial years, the Group has been incurring losses, with higher losses in the last two years (Loss after tax – FY 2022: RM7.567 million; FY 2021: RM7.684 million). (page 5 of AR 2022) What were the main reasons for the continuous losses? When is the Group expected to turn profitable? What are the plans to make the Group profitable?

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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.

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