



MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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❖ A rare case of warrant price runs ahead of its mother share

Some interesting developments happened at Metronic Global Berhad last week.

First, it was the resignation of former attorney general Tan Sri Mohamed Apandi Ali as its independent non-executive director on 14 July. Apandi, 72, who was appointed to the board in July 2021 resigned "due to personal commitments", according to the Group's filing with Bursa Malaysia.

On the same day, Metronic also announced the emergence of Fitters Diversified Bhd as the Group's new substantial shareholder after its unit Fitters Property Development Sdn Bhd subscribed for Metronic's rights shares and excess rights shares recently.

Fitters Diversified now holds a 13.255% indirect stake or 201 million shares in Metronic which is involved in the provision of hardware and software required for buildings' control and management. This is followed by Sanichi Technology Berhad with 13.068% stake and BCM Alliance Berhad with 6.66% stake.

But these developments pale in comparison to the extreme price volatility of its newly issued warrants. Subscribers of Metronic's recently completed rights issue exercise would be laughing all the way to the bank for having reaped handsome profit from the free warrants that came with their subscriptions.

Shareholders of Metronic were entitled to subscribe to six rights shares (at 6 sen per rights share) together with two free warrants B for every one existing share held.

The rights issue exercise was completed on 13 July with the listing and quotation of 1.3 billion rights shares and 433.19 million Warrants B on Bursa Malaysia. The warrants have a conversion period of three years until 5 July 2025 and an exercise/conversion ratio of 1:1 with a strike price of 6 sen.

On 13 July, Metronic Warrant-B rose sharply to end its maiden trading day at 11.5 sen after opening at 3 sen apiece in the morning.

On the following day, Metronic Warrant-B spiked to an intraday high of 39.5 sen before closing at 21.5 sen. At 21.5 sen, it represented an almost 140% premium over its mother share's closing price of 9 sen.

Fast forward to 19 July, the warrant again displayed high volatility as it climbed to an intraday high of 31 sen before ending the day at 16 sen – an intraday price difference of more than 50% – with 61.62 million warrants traded.

But how long can the price frenzy hold is anybody's guess. The warrant price further retreated 4 sen or 25% to 12 sen the following day (20 July) with 56.82 million warrants traded.

Observant investors would remember that the share price of Metronic fell in active trade back in November 2021 after its proposed diversification, share consolidation and rights issue with warrants.

The company had informed the local bourse of its diversification plan to include the design, research and development, installation, engineering, procurement, construction, commissioning and maintenance of solar photovoltaic panels, equipment and facilities as well as other related activities, including solar leasing.

Currently, the group is principally involved in the engineering business, mainly in relation to the provision of building automation services specialising in the field of the intelligent building management system and integrated security management system, e-project management of mechanical and electrical services as well as supply of engineering systems and equipment.

Prior to this rights issue exercise, it had completed the consolidation of every 10 existing ordinary shares into one share.

A precedent

That Metronic Warrant-B is pricier than its mother share is not something unprecedented on Bursa Malaysia. Back in October 2020, MSWG had raised a red flag on G3 Global Bhd warrants which were priced higher than its mother share.

A stark difference between Metronic Warrant-B and the G3 Global Warrants 2017/2022 is that the latter only 'overtook' the price of its mother share three years down the road as opposed to 'immediately' as in the case of Metronic Warrant-B.

Listed on 9 October 2017, the G3 Global Warrants 2017/2022 were part of G3 Global's rights issue-cum-warrants exercise which entailed the listing of 275 million rights shares along with 206.25 million free detachable warrants.

The warrants had a conversion period of five years until 2 October 2022 and an exercise/conversion ratio of 1:1 with a strike price of 10 sen.

Having commenced trading at 71 sen on 9 October 2017, the warrants first traded above its mother share on 12 May 2020 when it closed at RM2.95 (against RM2.71 for its mother share).

The gap widened to 34.16% on 10 September 2020 with the G3 Global Warrants 2017/2022 hitting RM3.22 against its mother share's RM2.40.

As of 1 October 2020, the warrants were traded at RM3.01 or 15.32% higher than the price of the mother share which stood at RM2.61.

Back then, MSWG commented that with the conversion ratio of 1:1 and a strike price of 10 sen, it made little sense for investors to buy and convert the G3 Global Warrants 2017/2022 into the mother share unless they were confident that the share price of G3 Global would eventually rise beyond the price at which they purchased the warrants.

The price of G3 Global Warrants 2017/2022 has plummeted multiple folds to a mere 4.5 sen while the mother share was last traded at 4 sen on 20 July 2022 – a costly lesson indeed to investors who had entered G3 Global Warrants 2017/2022 with the hope that its price could spike further.

Conclusion

As for Metronic Warrant-B, cracks have started to appear with price fatigue becoming obvious as the warrant price plummeted 83% from its all-time high of 39.5 sen to 6.5 sen on 21 July. All in a matter of six trading days!

These are all tell-tale signs of not only poor price sustainability but elements of manipulative forces at play.

The extreme volatility of Metronic Warrant-B seems to be the result of both manipulative and speculative activities as there has been no substantial improvement in the fundamentals of the company.

In all fairness, part of the share/warrant price surge could be due to speculators hoping to make a quick buck by attempting to ride on the upward momentum. While speculation is not illegal, the leveraging of manipulative manoeuvres, notably the 'pump and dump' scheme, is.

In this regard, the regulators are surely in a better position to determine whether there was manipulation in the trading of Metronic Warrant-B as they have access to more data, investors and brokers, in addition to sophisticated surveillance systems.

Henceforth, retail investors – especially newbies – must be aware that it is an oddity when warrant prices exceed the mother share prices. Therefore, trading amid such abnormal situation entails higher risks. Greedy investors can end up catching a falling knife or getting caught with their pants down. Like Warren Buffett said, *"Only when the tide goes out do you discover who's been swimming naked."*

Maybe the local bourse could consider intervening in such instances with a timely investor alert. Market investors do tend to have short memories and timely memory-joggers do create awareness.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 25 – 29 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
26.07.22 (Tue) 10.00 am	Dynaciate Group Berhad (EGM)	Dynaciate is seeking shareholders' approval for the following resolutions: <ul style="list-style-type: none"> - Proposed private placement of up to 465.56 million shares in Dynaciate, representing up to 40% of Dynaciate shares in issue. - Proposed change of name of the company from "Dynaciate Group Berhad" to "Ingenieur Gudang Berhad"
27.07.22 (Wed) 09.30 am	Resintech Berhad (EGM)	Resintech is seeking shareholders' approval for two resolutions below: <ul style="list-style-type: none"> - Proposed bonus issue of up to 50.3 million shares on the basis of 1 bonus share for every 3 existing shares held. - Proposed bonus issue of up to 100.62 million free warrants on the basis of 1 warrant for every two existing shares held.
27.07.22 (Wed) 10.00 am	Gamuda Berhad (EGM)	Gamuda is seeking shareholders' approval for the proposed disposals by: <ul style="list-style-type: none"> - Kesas Holdings Berhad of all the securities in Kesas Sdn Bhd to Amanat Lebuhraya Rakyat Berhad (ALR) - Sistem Penyuraian Trafik KL Barat Holdings Sdn Bhd (Sprint Holdings) of all the securities in Sistem Penyuraian Trafik KL Barat Sdn Bhd (Sprint) to ALR - Projek Smart Hpldings Sdn Bhd (Smart Holdings) of all the securities in Syarikat Mengurus Air Banjir & Terowong Sdn Bhd (Smart) to ALR
27.07.22 (Wed) 11.00 am	Kim Loong Resources Berhad (AGM)	Kim Loong Resources recorded a 75% increase in revenue to RM1.70 billion in FY2022, being a new milestone for the group. On the other hand, its pre-tax profit jumped 46% to a record high of RM210.33 million.

		<p>The strong financial performance was mainly due to high CPO prices, as well as its operational efficiencies during a challenging year.</p> <p>The management forecasts its FFB production for FY2023 to be 15% higher than FY2022 assuming the labour shortage problem is not deteriorating any further.</p>
27.07.22 (Wed) 02.00 pm	Crescendo Corporation Berhad (AGM)	Crescendo had recorded decline in financial performance with a lower revenue and net profit of RM217.1 million and RM21.5 million recorded in FY2022. This was as compared to RM222.9 million of revenue and RM26.8 million of net profit in FY 2021.
28.07.22 (Thur) 09.00 am	Systech Bhd (AGM)	<p>Systech saw its revenue declined marginally by 2% to RM22.4 million (FY2021: RM22.8 million) mainly due to the softening market within the segment of e-Business solutions and e-Logistics solutions.</p> <p>However, it recorded a significantly higher net loss RM21.7 million (FY2021: LAT of RM0.4 million) mainly due to an impairment of goodwill on two of its subsidiaries and the write-off of development expenditure related to two of the e-Business solutions subsidiaries.</p> <p>It expects business operating environment to remain challenging in the near term.</p>
28.07.22 (Thur) 10.00 am	Hap Seng Consolidated Berhad (EGM)	The EGM is to seek shareholders' approval for its proposed disposal of its entire stake in HS Credit (Birmingham) Ltd to Lei Shing Hong Capital Limited for a cash consideration of British Pound Sterling 127.8 million.
28.07.22 (Thur) 10.00 am	Sapura Energy Berhad (AGM)	<p>Sapura Energy recorded revenue of RM4.1 billion in FY2022, which was 23% lower than the RM5.3 billion recorded in FY2021, primarily due to the lower contribution from the E&C segment.</p> <p>It posted a net loss of RM9.1 billion for FY2022, compared to a net loss of RM160.9 million in the previous financial year.</p>

		The loss in FY2022 comprised an operating loss of RM2.2 billion and RM5.6 billion in provision for impairment. The Group recognised a RM3.3 billion provision for impairment on goodwill and a RM2.3 billion provision for impairment on property, plant, and equipment in FY2022.
28.07.22 (Thur) 11.00 am	Atlan Holdings Berhad (AGM)	<p>For FY2022, Atlan reported a revenue of RM257.2 million, a decrease of 33.8% year-on-year, mainly because most of the duty-free outlets remain closed due to the restrictions on border travel.</p> <p>It reported a pre-tax loss of RM3.9 million in FY2022 representing an improvement of 88.0% or RM28.6 million, mainly due to lower operational expenses arising from cost optimisation measures, closure of certain outlets, and the absence of impairments on goodwill and property, plant and equipment in FY2022.</p>
28.07.22 (Thur) 11.00 am	Pantech Group Holdings Berhad (AGM)	<p>Pantech's trading revenue increased by 51.11% to RM411.50 million (FY2021: RM272.32 million) with the segment profit increased to RM47.05 million (FY2021: RM33.52 million) due to the increased deliveries to the O&G sector, higher trading volume, and robust demand.</p> <p>Meanwhile, its manufacturing segment recorded a revenue of RM339.98 million with segmental profit jumped 309.41% y-o-y to RM59.01 million due to the resumed operations from the previous limited operating capacity and robust export demand.</p>
29.07.22 (Fri) 10.00 am	ES Ceramics Technology Bhd (EGM)	<p>The EGM is to seek shareholders' approval for resolutions below:</p> <ul style="list-style-type: none"> - Proposed Acquisition of the entire equity interest in Evermix Concrete Sdn Bhd by the Company (70%) and its wholly-owned subsidiary Euroceramic Technologies Co., Ltd (30%) for RM83 million to be satisfied by a combination of cash payment of RM65 million and the issuance of 56.25 million new shares in ES Ceramics at an issue price of

		<p>RM0.32 per share amounting to RM18 million.</p> <p>- Proposed Diversification of the existing business of the Company and its subsidiaries to include manufacturing and trading of construction materials.</p>
29.07.22 (Fri) 10.30 am	PGF Capital Berhad (fka Poly Glass Fibre (M) Berhad) (AGM)	<p>PGF had recorded lower revenue of RM57.55 million in FY2022, represented a decrease of 11.61% or RM7.56 million compared to RM65.11 million in the year before. This was due to the unprecedented business challenges that arise from COVID-19.</p> <p>Its PBT was also lower at RM2.96 million in FY2022 (FY2021: PBT of RM10.54 million) due to the lower output and lower sales volume from the glasswool manufacturing segment.</p>

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Kim Loong Resources Berhad (AGM)	<p>The management forecasts the FFB production for FY2023 to be 15% higher than FY2022 assuming the labour shortage problem is not deteriorating any further. (page 24 of Annual Report (AR) 2022)</p> <p>a) Where is the 15% FFB production growth going to come from?</p> <p>b) How many workers do you require to achieve this forecast?</p>
Crescendo Corporation Berhad (AGM)	<p>Looking ahead, the property markets will continue to remain challenging in the short to medium-term due to rising cost of building materials, commodities and shortage of workers caused by the prolonged COVID-19 pandemic/endemic. (Page 22 of AR)</p> <p>a) Are the Group's property projects impacted by the rising cost of building materials and shortage of workers caused by the prolonged COVID-19 pandemic/endemic? If yes, please elaborate the impact.</p> <p>b) What are the measures taken by the Group to mitigate the challenges mentioned in item (a) above and how successful are these measures expected to be in terms on the impact on the profit margin of the property projects to be launched?</p> <p>c) Does the Group intend to introduce Industrialised Building System, ("IBS") to save time, cost of material and labour? If not, why?</p>

<p>Systemtech Bhd (AGM)</p>	<p>Allowance of impairment in respect of trade receivables written off increase to RM923,000 (2021: RM10,000) (Note 32.2 (b), page 91 of AR2022).</p> <p>a) What was the reason for the huge increase in trade receivables written off?</p> <p>b) What comprises the trade receivables that have been written off?</p> <p>c) What were the measures taken to recover the RM923,000 prior to being written-off?</p>
<p>Sapura Energy Berhad (AGM)</p>	<p>Cash flow constraints have resulted in missed payments by the Group to vendors, with overdue payables amounting to more than RM1 billion by end FY2022. (Page 10 of AR)</p> <p>Please explain the measures taken by the Group to address the RM1 billion cash flow constraints faced by the Group.</p>
<p>Atlan Holdings Berhad (AGM)</p>	<p>What were the occupancy rate and average rental rate for the 23-storey office tower, Menara Atlan, as at 31 December 2019, before the Covid-19 pandemic in Malaysia? And what are the current occupancy rate and average rental rate for Menara Atlan?</p>
<p>Pantech Group Holdings Berhad (AGM)</p>	<p>The Manufacturing Division has three plants in Malaysia and one in the United Kingdom (Page 13 of the Annual Report 2022).</p> <p>a) What is the current capacity of the Division's plants?</p> <p>b) What is the previous and current capacity utilisation rates of the Division's plants?</p> <p>c) What is the targeted capacity utilisation rates that the Division expects for its plants in FYE2023?</p>
<p>ES Ceramics Technology Bhd (EGM)</p>	<p>The Company is to acquire Evermix Concrete Sdn Bhd's, ("ECSB") for a purchase consideration of RM83 million, to be satisfied by a combination of cash payment of RM65,000,000 and issuance of Consideration Shares at the Issue Price of RM0.32 per Consideration Share amounting to RM18,000,000.</p> <p>The Group's has RM64.82 million cash and bank balances as of February 2022. With the acquisition of ECSB, the Group has limited cash and bank balances to operate.</p> <p>a) What options does the Group have to ensure that the Group's operation is not affected by its low cash and bank balances post acquisition?</p> <p>b) Why did the Group not opt for a higher share issuance amount as part of the settlement of ECSB acquisition instead of a higher cash payout?</p> <p>c) Is the ECSB acquisition too big for the Group in view of its limited cash and bank balances?</p>

PGF Capital Berhad (fka Poly Glass Fibre (M) Berhad) (AGM)	<p>The longer-term strategy is for the Group to invest in marketing, production improvements and automation that enables the Group to manufacture and sell more glass mineral wool ("GW") to markets that fetch better selling price (Page 12 of the Annual Report 2022).</p> <p>a) When does the Group intend to start investing in the abovementioned initiatives? What is the budget requirement for the investment in marketing, production improvement, and automation?</p> <p>b) Which markets fetch a better selling price for the Group's GW? What competitive advantages does the Group have over the rivals in the targeted markets?</p>
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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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