



MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

26 June 2015

## MSWG IN THE NEWS

### MSWG TO RAISE OIL AND GAS VENTURE AT DNEX AGM

<http://www.thestar.com.my/Business/Business-News/2015/06/23/MSWG-to-raise-oil-and-gas-venture-at-DneX-AGM/?style=biz>

## MARKET AND REGULATORY UPDATE

### MALAYSIAN ECONOMIC INDICATORS: LEADING, COINCIDENT & LAGGING INDEXES APRIL 2015

Jadual 4 : Indeks Komposit dan Indeks Difusi (samb.)

Table 4 : Composite Index and Diffusion Index (cont'd)

Tempoh Period	Indeks Komposit Composite Index			Indeks Difusi Diffusion Index		
	Indeks Pelopor (IP) Leading Index (LI)	Indeks Serentak (IS) Coincident Index (CI)	Indeks Susulan (ISL) Lagging Index (LG)	Indeks Pelopor (IP) Leading Index (LI)	Indeks Serentak (IS) Coincident Index (CI)	
	2005=100	2005=100	2005=100	Peratus (%)	Peratus (%)	
	Perubahan Tahunan Annual Change (%)	Perubahan Tahunan Annual Change (%)	Perubahan Tahunan Annual Change (%)	Peratus (%) Per cent (%)	Peratus (%) Per cent (%)	
2015						
Jan./Jan.	119.6	2.3	122.9	2.7	140.4	2.8
Feb./Feb.	117.8	0.9	123.3	2.9	140.1	2.1
Mac/Mar.	119.3	2.8	123.9	4.4	141.9	3.0
Apr./Apr.	118.6	0.9	122.5	2.2	139.0	-0.6
					71.4	83.3
					42.9	50.0
					85.7	83.3
					71.4	66.7

The Leading Index (LI) which monitors the economic performance in advance showed a decrease of 0.6% in April 2015 to 118.6 points from 119.3 points in the previous month. Three out of seven components of LI recorded a decrease led by Real Money Supply, M1 (-0.4%), followed by Real Imports of Semi Conductors and Number of Housing Units Approved which registered negative 0.2%, respectively. The annual change of LI declined to 0.9% from 2.8% recorded in the preceding month.

The Coincident Index (CI) which measures the current economic activity decreased by 1.1% in the reference month. This was due to the decrease recorded in Real Salaries & Wages in the Manufacturing sector (-0.5%), Volume Index of Retail Trade (-0.4%) and Real Contributions to EPF (-0.2%). The annual change of CI slowed to 2.2% as compared to 4.4% in March 2015.

The annual change of LI and CI remained favourable albeit a lower growth as compared to the previous month. Supported by both Diffusion Indexes which were above 50.0%, this suggests that the Malaysian economy will continue to expand at a slower rate in the months ahead.

*[Source: Department Of Statistics, Malaysia (24 June 2015)]*

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## **MSWG's QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS**

### **AIRASIA BERHAD ("AIRASIA")**

There were several accounting issues surrounding AirAsia's treatment of its associates business raised by Hong Kong based research house GMT Research Ltd.\* (GMT). Among the several key issues were:

- a) ".....we estimate that it has managed to inflate profits by 39% over the past five years through related party transactions with associates"...., and "The company is basically creating profits and flattering its operating cash flow by abusing associates"
- b) "AirAsia now needs a recapitalisation that will dilute existing shareholders by more than 100% and we see at least 42% downside with fair value...."
- c) "The parent company, let alone its associates, is overleveraged and needs recapitalisation."
- d) Consolidation of its associates' accounts, sustaining the income derived from its associates in Indonesia and Philippines and amount of related party transactions within the Group business.

In response to the issue on consolidation, AirAsia has stated that it does not consolidate the accounts of its associates' operations in Thailand, Indonesia, Philippines and India due to regulatory reasons as the Company is not allowed to own more than 49% (40% in the Philippines) equity interest in each of the entities. Therefore, the associates' profits and losses are being taken into account on AirAsia's income statement via equity accounting method set by the regulators. Although there are regulatory barriers, we recognise that we are to operate as one big economic entity because of the intertwined nature of our business.

[\*GMT's website: <https://gmtresearch.com/airasia>

Link:

[http://disclosure.bursamalaysia.com/FileAccess/apbursaweb/download?id=65366&name=EA\\_GA\\_ATTACHMENTS](http://disclosure.bursamalaysia.com/FileAccess/apbursaweb/download?id=65366&name=EA_GA_ATTACHMENTS) ]

*[Source: AAB's announcement on Bursa Malaysia's website on 17 June 2015]*

### **MSWG'S COMMENTS:**

We noted the reports of GMT and the company's response.

The non-consolidation of its associates' account is in compliance with the requirements of MFRS 10 and the regulatory requirements of operating countries.

The Company faces several challenges going forward and need to address as follows:

- a) The prolonged USD appreciation against ringgit could impact the company's balance sheet negatively as about 79% of its borrowings of RM12.7 billion are USD denominated. The company would have to address this impact and its huge borrowings. In addition, revenue received from passenger fares were mainly transacted in local currencies, a mismatch.
- b) As to Indonesia AirAsia (IAA) and AirAsia Inc. (Philippines AirAsia) advances of about RM900.0 million at around 6% interest given to them, questions would arise on whether these associates would be able to service these debts, considering that they are in the "red" in the light of tougher operating conditions in Philippines and Indonesia.
- c) Challenges were also exacerbated in its new set-ups in Thailand and India. The Company is exposed to the risk of being too dependable of its revenue from its associates, and this would be a concern if the Associates' performances deteriorated and begin to default on its obligations to the Group.
- d) These challenges are not new to the Board and Management, we hope they would address the challenges accordingly.

#### **FELDA GLOBAL VENTURES HOLDINGS BERHAD ("FGV")**

FGV had signed a Heads of Agreement with the Rajawali Group to acquire:

- 37% non-controlling equity stake in Eagle High for USD680 million via USD632 million cash (RM2,380 million) and issuance of 95 million new FGV shares valued at USD47 million (RM177 million); and
- 95% equity stake in a 47,700 hectares greenfield sugar plantation in Papua Province in Indonesia for USD67 million cash (RM252 million)

Upon completion of the due diligence exercise expected by end of July 2015, FGV will enter into conditional sales and purchase agreement which is conditional upon FGV obtaining approval from its shareholders and the regulatory authorities.

The transacted price for Eagle High translated to a per share value of 774 Rupiah, represents a 72% premium over its last-traded price of 450 Rupiah. In terms of enterprise value (EV per ha), it is equivalent to USD17,400 per ha.

A Deposit of USD174.50 million which is approximately 25% of the acquisition price has been paid.

Eagle High has a land bank of 419,000 ha, out of which only 137,606 ha or about 1/3 are planted with average palm tree profile of 8 years.

The reasons stated by the Company for the acquisition are to expand the land bank of the Group and to improve the age profile of the palm crops. It would be also in line with the Group's transformation program.

*[Source: FGV's announcement on Bursa Malaysia's website on 17 June 2015]*

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**MSWG'S COMMENTS:**

Among the issues and concerns MSWG has on the acquisition are as follows:-

1. The MGO requirement. With the acquisition of 37% stake in Eagle High from Rajawali, Rajawali's stake would be reduced to 28.5%. Would this acquisition trigger any regulatory requirements, such as Mandatory General Offer (MGO)? If yes, would the Company be able to get the MGO waived? Otherwise, would the Company still proceed with the acquisition? And if so, what would be the outlay for acquiring the balance?
2. The justification of the hefty premium of 72% based on the market price of the acquired company's share.
3. The underlying assets acquired through Eagle High.
  - a) The 1/3 of the land are planted with average palm trees profile of 8 years. What is the FFB production per ha, the Oil Extraction Rate (OER) and oil yield per ha from the planted area? Is there any further CAPEX expected to be incurred to ensure continuous yield from these estates?
  - b) The 2/3 vacant land's conditions and encumbrances.
    - Whether it is a swampy land.
    - Whether it is plantable.
    - Whether the titles are encumbered.
    - The duration of the lease, etc
4. FGV's plans for the future development for the parcels of lands and the further capital commitments.
5. Sustainability accreditation of the proposed acquired plantations. Sustainability has always been integral to FGV's business. Are the proposed acquired plantations accredited with the sustainability certification? If no, what is the expected cost to pursue it?
6. The justification of the high percentage of deposit paid. Were there any other bidders for the acquisition? What are the terms & conditions for FGV to get back its refundable deposit?
7. The source of funding for the acquisition and the impact of the acquisition on the earnings and gearing of the Group?
8. The time for the acquisition to contribute positive results to the Group.

We hope that FGV's Board & Management would consider these issues together with other risks when conducting a thorough due diligence process in terms of financial, legal and technical considerations before making the acquisition.

Being a material acquisition, a simple majority approval of 50% +1 share from shareholders is required. All shareholders are eligible to vote in the EGM for the purpose.

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## MSWG's WATCHLIST

### **LYSAGHT GALVANIZED STEEL BERHAD ("LGSB")**

The Board of Directors of Lysaght announced that the Company has despatched the new Form of Proxy for the election of Directors for the Adjourned 36th Annual General Meeting to be held on 30 June 2015 to all shareholders. A copy of the new Form of Proxy together with explanatory letter dated 24 June 2015 is attached in the following link of Bursa Malaysia.

*[Bursa Link:*

*[http://disclosure.bursamalaysia.com/FileAccess/apbursaweb/download?id=65476&name=EA\\_GA\\_ATTACHMENTS](http://disclosure.bursamalaysia.com/FileAccess/apbursaweb/download?id=65476&name=EA_GA_ATTACHMENTS) ]*

*[Source: LGSB's announcement on Bursa Malaysia's website on 24 June 2015]*

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## LOCAL NEWS AND DEVELOPMENTS

Pressure builds on APAC sovereigns: Fitch

<http://www.nst.com.my/node/89451>

Petronas may face legal action on LNG project in Canada - report

<http://www.thestar.com.my/Business/Business-News/2015/06/24/Petronas-may-face-legal-action-on-LNG-project-in-Canada/?style=biz>

Dufu names CEO and CFO as those whose power was suspended

<http://www.thestar.com.my/Business/Business-News/2015/06/23/Dufu-says-CEO-and-CFO-are-the-suspended-executives/?style=biz>

Two Kinsteel audit committee members resign

<http://www.thestar.com.my/Business/Business-News/2015/06/23/Two-Kinsteel-audit-committee-members-resign/?style=biz>

Tanjung Offshore files reports with police, MACC

<http://www.theedgemarkets.com/my/article/tanjung-offshore-files-reports-police-macc?type=Markets>

TNB plans US\$2.7b Islamic bond after agreeing to power plant deal

<http://www.thesundaily.my/news/1469685>

Lysaght Galvanized: It's business as usual despite boardroom tussle

<http://www.thesundaily.my/news/1468221>

AirAsia unable to consolidate associate companies

<http://www.thesundaily.my/news/1468222>

Masteel's auditor issues qualified opinion on FY14 financials

<http://www.theedgemarkets.com/my/article/masteels-auditor-issues-qualified-opinion-fy14-financials?type=Markets>

BNM's international reserves falls by RM2.2b as at June 15

<http://www.theedgemarkets.com/my/article/bnm%E2%80%99s-international-reserves-falls-rm22b-june-15?type=Markets>

Why Felda is under fire for Rajawali deal

<http://www.thestar.com.my/Business/Business-News/2015/06/20/Why-Felda-is-under-fire-for-Rajawali-deal/?style=biz>

MPC appoints auditor to address queries

<http://www.thestar.com.my/Business/Business-News/2015/06/19/MPC-appoints-auditor-to-address-queries/?style=biz>

Consumer Price Index Malaysia May 2015

[https://www.statistics.gov.my/index.php?r=column/cthemByCat&cat=106&bul\\_id=SWRvaDY1T1REMDvVSFdCZGJqZzM2QT09&menu\\_id=bThzTHQxN1ZqMVf6a2l4RkZoNDFkQT09](https://www.statistics.gov.my/index.php?r=column/cthemByCat&cat=106&bul_id=SWRvaDY1T1REMDvVSFdCZGJqZzM2QT09&menu_id=bThzTHQxN1ZqMVf6a2l4RkZoNDFkQT09)

After being hit in April, vehicle sales rise in May

<http://www.theedgemarkets.com/my/article/after-being-hit-april-vehicle-sales-rise-may?type=Markets>

More transparency needed in contingent liabilities

<http://www.theedgemarkets.com/my/article/more-transparency-needed-contingent-liabilities?type=Markets>

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## GLOBAL NEWS AND DEVELOPMENTS

China June factory activity shows signs of stabilization

<http://www.reuters.com/article/2015/06/23/us-china-economy-pmi-hsbc-idUSKBN0P304U20150623>

Greek Talks Face Hurdles as Finance Chiefs Ready to Meet

<http://www.bloomberg.com/news/articles/2015-06-23/greek-crisis-talks-face-hurdles-as-finance-chiefs-ready-to-meet>

U.S. New-Home Sales Rise to 7-Year High

<http://www.wsj.com/articles/u-s-new-home-sales-rise-to-7-year-high-1435068249>

US factory activity growth at slowest since October 2013: Markit

<http://www.cnbc.com/id/102781082>

Japanese equities hit 18-year high

<http://www.ft.com/intl/cms/s/0/a167b554-1a1e-11e5-8201-cbdb03d71480.html#axzz3dxM71Yf7>

KPMG to be investigated over BNY Mellon audits

<http://www.theguardian.com/business/2015/jun/23/kpmg-to-be-investigated-over-bny-mellon-audits>

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# MSWG Analysts

Lya Rahman, General Manager, Corporate Services, [lyarahman@mswg.org.my](mailto:lyarahman@mswg.org.my)  
Chong Chee Fern, General Manager, Corporate Monitoring [chongcf@mswg.org.my](mailto:chongcf@mswg.org.my)  
Rebecca Yap, Head, Corporate Monitoring [rebecca.yap@mswg.org.my](mailto:rebecca.yap@mswg.org.my)  
Quah Ban Aik, Head, Corporate Monitoring [banaik.quah@mswg.org.my](mailto:banaik.quah@mswg.org.my)  
Norhisam Sidek, Manager, Corporate Monitoring [norhisam@mswg.org.my](mailto:norhisam@mswg.org.my)  
Shahnul Niza Bin Dato' Dr. Mohd Yusof, Manager, Corporate Monitoring [shahnul.niza@mswg.org.my](mailto:shahnul.niza@mswg.org.my)  
Lee Chee Meng, Manager, Corporate Monitoring [cheemeng@mswg.org.my](mailto:cheemeng@mswg.org.my)  
Wong Kin Wing, Manager, Corporate Monitoring, [kinwing@mswg.org.my](mailto:kinwing@mswg.org.my)  
Nor Khalidah Khalil, Analyst, Corporate Monitoring [khalidah@mswg.org.my](mailto:khalidah@mswg.org.my)  
Vinodth Ramasamy, Analyst, Corporate Monitoring [vinodth.ram@mswg.org.my](mailto:vinodth.ram@mswg.org.my)

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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 save for Lysaght Galvanized Steel Berhad.*
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## Feedback

We welcome your feedback on our newsletter and our work. Email us at [mswg.ceo@mswg.org.my](mailto:mswg.ceo@mswg.org.my) with your comments and suggestions.

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