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

The Observer

31.05.2024

❖ Risk diversification - Don't put all eggs in one basket

KEY HIGHLIGHTS

- From Guan Chong to InNature, their challenges have adequately illustrated the criticality of sound and robust risk management.
- The types and levels of risks are constantly evolving. It has become imperative for PLCs to be cognisant of wide-ranging disruptive factors from the sourcing of raw materials to the manufacturing and selling of the finished products.

Navigating the corporate world is a perilous journey. Who would have thought that climatic changes stemming from the ill effects of global warming could severely devastate the supply chain and potentially trigger disruption along the entire production line?

A case in point is Guan Chong Berhad—Asia's largest and the world's fourth largest cocoa processor—which is facing cocoa bean supply risk-cum-record prices given the current climate crisis and disease that is pummelling crops among top West African growers.

The New York and London-listed cocoa futures markets experienced considerable volatility in 2023, reaching 35-year and 46-year highs of more than US$4,200 and GBP 3,500 per metric tonne, respectively. Prices have continued to rise and reach new historical highs in 2024, with nearly US$10,000 per metric ton in March 2024.

This price surge has presented a challenge for cocoa grinders, who face increased input costs for raw materials. Given this situation, shareholders are concerned about how the Company manages the impact of high input costs due to supply shortages amid the climate change environment.

In response to shareholders' concern, Guan Chong stressed that it had diversified the source of cocoa beans from minor growers in the likes of Ecuador, Peru, and Indonesia to diversify supply risk from cocoa bean heavyweights like Ivory Coast and Ghana. Ivory Coast and Ghana are home to 60% of the world's cocoa output.

The high cocoa bean prices are a double-edged sword. While acknowledging that Guan Chong has embarked on contingency measures by sourcing beans from minor growers in other countries to minimise disruption to operations and cash flow generation, credit rating agency MARC Ratings remains concerned about the impact on the credit profile of the cocoa grinder Guan Chong from a prolonged supply-demand dislocation due to the high cocoa bean price environment.

MARC Ratings has downgraded its rating on Guan Chong's sukuk programmes to "negative" from "stable." The revision came about because the significant spike in cocoa bean prices from US$3,835/tonne to US$9,193/tonne—or a 140% jump—between October 2023 and March 2024 has piled considerable pressure on Guan Chong's working capital needs.

"This could lead to a sharp increase in their borrowing levels, with leverage positions potentially increasing to above 1.5 times," projected MARC Ratings.

Although cocoa prices are forecasted to decline from the recent peak recorded in March 2024, MARC Ratings nevertheless expects prices to remain elevated compared to pre-escalation levels of US$3,000/tonne.

Meanwhile, the higher-than-expected margin from average selling price (ASP) upticks and favourable hedging position have propelled Guan Chong to historic high net earnings of RM92 million on the back of RM1.87 billion revenue for its 1Q FY2024 ended 31 March 2024.

InNature's supply risk challenge

On the other hand, hot on the heels of unfavourable developments in The Body Shop (TBS) UK, Germany and Belgium early this year, cosmetic and personal care products retailer InNature Berhad announced its plan to enter the food and beverage (F&B) business.

In May 2024, it proposed acquiring Blu Restaurant Sdn Bhd – the "*Burger & Lobster*" franchisee in Malaysia (excluding the outlet Genting Highlands), for RM21.25 million. InNature said the proposed diversification into the F&B business will contribute immediately to the Group while diversifying its revenue stream. Ultimately, it expects the contribution from the F&B business to contribute 25% or more of its net profit.

InNature is the franchisee of TBS in Malaysia, Vietnam and Cambodia. As of end-1Q 2024, the Group has 120 stores, of which 76 are in Malaysia, 41 in Vietnam, and 3 in Cambodia. Since its listing on the Main Market of Bursa Securities in 2020, the Group has been reliant on the revenue generated from retailing cosmetic and personal care products, which accounts for nearly all of its total revenue.

Since the beginning of 2024, TBS UK, Germany and Belgium were reportedly put under administration due to financial distress. Subsequently, InNature reassured the market that the Company was operating as usual, as its franchisor, The Body Shop International (TBSI), clarified that events in the UK and several European markets had nothing to do with franchise partners like InNature. TBSI is also the sole supplier of The Body Shop products, according to InNature's prospectus.

Despite such assurance, its share prices told us otherwise. On 4 March 2024, InNature closed at an all-time low of 28 sen on mounting concerns about supply and revenue concentration risks. The counter went public in February 2020 with an IPO price of 64 sen per share.

Conclusion

The various incidents above illustrate the criticality of sound and robust risk management. Risks may stem from multiple sources, including financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents and natural disasters.

The types and levels of risks are constantly evolving. It has become imperative for PLCs to be cognisant of wide-ranging disruptive factors, from the sourcing of raw materials to the manufacturing and selling of finished products.

This can be done by implementing a feasible risk management framework to identify, assess, control and mitigate threats to an organisation's capital, earnings and operations.

In essence, robust risk management is essential to identifying and controlling threats and vulnerabilities that could negatively impact an organisation.

By MSWG team

MSWG AGM/EGM Weekly Watch 3 – 7 June 2024

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.

<table>
<tr><th colspan="2">Points of interest:</th></tr>
<tr><th>Company</th><th>Points/Issues to Be Raised</th></tr>
<tr><td>Citaglobal Berhad (AGM)</td><td>
<u>Financial performance</u>
<table>
<tr><th></th><th>FY2023</th><th>FY2022</th><th>FY2021</th><th>FP2020</th><th>FY2019</th></tr>
<tr><td></td><td>1-Jan-23 to 31-Dec-23</td><td>1-Jan-22 to 31-Dec-22</td><td>1-Jan-21 to 31-Dec-21</td><td>1-Sep-19 to 31-Dec-20</td><td>1-Sep-18 to 31-Aug-19</td></tr>
<tr><td></td><td>12 months</td><td>12 months (Restated)</td><td>12 months</td><td>16 months</td><td>12 months</td></tr>
<tr><td></td><td>RM'000</td><td>RM'000</td><td>RM'000</td><td>RM'000</td><td>RM'000</td></tr>
<tr><td>Revenue</td><td>205,501</td><td>213,884</td><td>247,382</td><td>303,276</td><td>388,389</td></tr>
<tr><td>Profit/(Loss) Before Taxation</td><td>13,822</td><td>(39,779)</td><td>4,761</td><td>(63,534)</td><td>(95,174)</td></tr>
</table>
(Source: Page 3 of the Annual Report 2023/AR2023)

As shown above, we commend Citaglobal for returning to a profitability trajectory when it recorded a profit before tax of RM13,822,000 in FY2023 compared to a loss before tax of RM39,779,000 in FY2022. Based on the current economic conditions and outlook, what is the Group's prospect of maintaining a positive result in FY2024?
</td></tr>
<tr><td>UEM Edgenta Berhad (AGM)</td><td>
Throughout FY2023, UEM Edgenta generated significantly higher waste from operations and waste it managed for clients, as shown in the table below:
<table>
<tr><th></th><th>2022</th><th>2023</th></tr>
<tr><td>Waste generated from operations</td><td></td><td></td></tr>
<tr><td>Waste generated (Metric tonnes)</td><td>567.45</td><td>1,498.97</td></tr>
</table>
</td></tr>
</table>

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<tr><td></td><td>
<table>
<tr><td>Hazardous waste generated (tonnes)</td><td>512.41</td><td>724.54</td></tr>
<tr><td>Waste diverted from disposal (million cubic metres per year)</td><td>10.60</td><td>604.93</td></tr>
<tr><td>Waste directed to disposal (million cubic metres per year)</td><td>556.85</td><td>894.04</td></tr>
<tr><td>Disclosure of three years of waste recycled (tonnes)</td><td>0.05</td><td>0.63</td></tr>
<tr><td>Waste managed for clients</td><td></td><td></td></tr>
<tr><td>Total Waste Managed by Edgenta for clients (tonnes)</td><td>16,435.95</td><td>67,114.11</td></tr>
<tr><td>Directed to Disposal (tonnes)</td><td>15,652.64</td><td>20,398.30</td></tr>
<tr><td>Hazardous (tonnes)</td><td>12,921.31</td><td>5,508.83</td></tr>
<tr><td>Non Hazardous (tonnes)</td><td>2,730.93</td><td>15,010.75</td></tr>
<tr><td>Diverted to Disposal</td><td>4,582.45</td><td>46,715.22</td></tr>
</table>
Source: page 140 of IAR 2023

a) Why did UEM Edgenta generate significantly higher waste from operations without significant changes in businesses and operations?

b) Similarly, why did your clients generate much more waste in FY2023? Is the waste managed for clients, which is independent of the Company, being part of the sustainability metrics measured against the Board and Management?
</td></tr>
<tr><td>Pharmaniaga Berhad (AGM)</td><td>
The loss before interest, taxation, depreciation, and amortisation (LBITDA) of RM22.3 million for FY2023 was primarily attributed to a one-off provision of RM63.9 million for stock obsolescence from the slow demand of pandemic-related consumables inventory such as personal protective equipment and a write-down of RM4.1 million of plant and equipment. (Page 25 of IR2023)

The Group has recorded consecutive provisions for stock obsolescence on pandemic-related inventories, following a substantial provision of RM552.3 million for slow-moving COVID-19 vaccine inventories in FY2022.

a) When were these pandemic-related consumables inventory purchased by the Group?

b) Are these pandemic-related consumables inventory related to back-to-back orders? If so, why were these items not sold to customers and does the Group have the right to claim for the loss? If not, does this indicate inefficiency in inventory management and what corrective actions have been taken?
</td></tr>
</table>

Points of interest:	
Company	**Points/Issues to Be Raised**
	c) What is the carrying amount of pandemic-related consumables inventory aged more than 3 years as at 31 December 2023? d) At the previous AGM, the Company mentioned collaborating with strategic partners to facilitate the sale of vaccine stocks to other countries. Please provide an update on this collaboration and the amount recovered by the Group.
CTOS Digital Berhad (AGM)	The Group's trade receivables credit impaired that were past due more than 150 days have increased significantly from RM726,000 in FYE2022 to RM3.6 million in FYE2023 (pages 186-187 of AR2023). a) What difficulties did the Group face in collecting trade receivables that were past due for more than 150 days as the outstanding amount increased? b) Who are the customers and who make up this category (past due 150 days) of the Group's trade receivables in FYE2023 and what are their profiles? c) To date, how much of the overdue amount has been collected?
OCK Group Berhad (AGM)	"In October 2023, OCK Setia Engineering Sdn Bhd accepted letter of acceptance from the Ministry of Education Malaysia ("MOE"). This agreement involves the provision of rental services of eco-friendly information and communication technology ("ICT") hardware that meets green requirements for teaching and learning purposes in Sarawak's MOE school computer laboratories. The contract is valued at approximately RM48.7 million over a duration of 65 months." (Page 31 of Annual Report 2023 "AR2023") a) How does the above align with the Group's long-term strategic goals? b) Please provide some examples of eco-friendly ICT hardware. How does this hardware meet the green requirements?
Kerjaya Prospek Group Berhad (AGM)	As part of the sustainability disclosure related to climate change, the Group disclosed the greenhouse (GHG) emissions of the Construction Segment for the past three years. a) Has the Group established key targets for its climate change-related sustainability approaches?

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<tr><td></td><td>b) Would the Group consider further disclosing the GHG emissions intensity, which considers emissions relative to the scale of activity or output, for ease of comparison in the future?</td></tr>
<tr><td>Mr D.I.Y Group (M) Berhad
(AGM)</td><td>The Group's Scope 1 and Scope 2 emissions increased significantly, as shown below.
<table><tr><th>Total Emissions (tCO2e)</th><th>FYE2021</th><th>FYE2022</th><th>FYE2023</th></tr><tr><td>Scope 1</td><td>0.3</td><td>0.27</td><td>0.48</td></tr><tr><td>Scope 2</td><td>70,046</td><td>93,749</td><td>116,616</td></tr></table>(page 30 of SR2023)

What contributed to this significant increase, and what is the Group's target and plan to reduce total Scope 1 and Scope 2 emissions in the upcoming years?</td></tr>
<tr><td>UEM Sunrise Berhad
(AGM)</td><td>The Company reported 8 whistleblowing cases in FY 2023 as compared to 9 cases in FY 2022. (Page 125 of IAR)
a) What is the nature of these 8 whistleblowing cases?

b) Are there any merits in these 8 whistleblowing cases? If yes, please name them.

c) What corrective actions the Company has taken on these 8 whistleblowing cases?</td></tr>
<tr><td>Malaysia Building Society Berhad
(AGM)</td><td>MBSB's net profit for FY2023 rose by 6.9% to RM491.8 million, mainly attributed to the one-time gain of RM354.38 million from acquiring Malaysian Industrial Development Finance Berhad (MIDF).

Without the one-off gain, MBSB's net income would be significantly lower at RM917 million, resulting in a profit of around RM140 million compared to RM460.19 million in FY2022 (pages 179, 262 and 263 of IAR2023).

a) Without the one-off gain from acquisition this year, how would MBSB's bottom-line perform in FY2024?

b) MBSB's operating income declined sharply to RM878 million compared to RM1.29 billion previously, primarily affected by significantly higher income attributable to depositors at RM1.47 billion, against RM892 million in the previous year).

The higher funding cost resulted in a sharp decline of 108 bps in net profit margin (NPM) to 1.82%.

Does the Group expect further margin compression in FY2024? What is the management guidance for NPM? Would the strategy of acquiring high-quality</td></tr>
</table>

Points of interest:	
Company	**Points/Issues to Be Raised**
	customers for better asset quality be at the expense of NPM? c) As of 31 December 2023, fixed-rate portfolio constituted 36%, or RM15.42 billion, of MBSB's total RM42.04 billion gross loans, financing and advances (LFA) (page 221, Note 8(v) – LFA by profit rate sensitivity, IAR2023). Efforts are underway to convert the fixed rate portfolio to variable rate in FY2024 (page 12 of IAR2023). What are the expected benefits of financing conversions? What is the optimal ratio of fixed rate portfolio of total LFA? How long would it take for the Group to complete the conversion exercises?
Paramount Corporation Berhad (AGM)	As of 31 December 2023, the Group's inventory of completed properties stood at RM61 million, of which 93% were commercial properties including a sales gallery that is currently showcasing The Atera development. (Page 27 of IAR) a) What were the reasons the Group has difficulty in selling the completed commercial properties? b) Where is the location of unsold completed commercial properties with the number of units and value as of FY 2022 and FY 2023? c) Please provide the ageing profile of the unsold completed commercial; properties in the ranges of less than 1 year,1 to 2 years and more than 2 years by units and values respectively for FYs 2022 and 2023. d) What were the measures taken by the Group to speed up the sales of unsold completed commercial properties? e) Will the Group slowdown in the launching of commercial properties in view of the difficulty in selling them? If not, why?
MSM Malaysia Holdings Berhad (AGM)	One of the key challenges for the sugar industry is the Malaysia Government policies on sugar retails prices. Currently, Malaysia sets sugar ceiling prices at RM2.85/kg for coarse sugar and RM2.95/kg for refined sugar which is the world's lowest controlled sugar prices compared to neighbouring countries like Thailand and Indonesia (page 52 of Annual Integrated Report (AIR) 2023).

Points of interest:	
Company	**Points/Issues to Be Raised**
	Malaysian Government has provided an incentive for the local Joint Sugar Industry in the final quarter of 2023. This incentive is important for MSM to offset some of the costs associate to produce 24,000 tonnes of refined sugar at a fixed selling price of RM2.85/kg (page 28 of AIR 2023). a) Fourth quarterly results 2023 saw the Group registered profits before tax of RM53.2 million as compared to the previous three quarter of losses in 2023 (page 22 of AIR 2023), how much was this attributed to the incentive received from the Malaysian Government in the final quarter of 2023? b) The Group reported profit after tax for the first quarter ended 31 March 2024 (1QFY2024) of RM41.7 million compared to a net loss of RM35.8 million in the same period last year. Do you expect the Group to return to profitability in FY2024? c) With the launch of Central Database Hub (Padu) system which will allow the Government to streamline its aid to eligible targeted recipients and is expected rollout in 2H2024. Please comment if this will address the structural price change for long term sugar industry sustainability.

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