MINORITY SHAREHOLDERS WATCH GROUP
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❖ Of reduced board lots, automatic transfers, and growth opportunities for SMEs

The Madani Economy Framework recently announced by the Prime Minister Datuk Seri Anwar Ibrahim includes three facets that will benefit the capital market in general and Bursa Malaysia and minority shareholders specifically.

Reduced board lots

The framework mentions reducing lot sizes and allowing fractional share investment.

Currently, a board lot, the minimum lot size for trading, is 100 shares. But there are some companies that shareholders desire, but buying a board lot of it may be too expensive (in terms of entry costs) for them.

Take Nestle (Malaysia) Berhad, the most expensive stock (by share price) listed on Bursa Malaysia, as an example. It closed at RM133 per share on 4 August 2023. Buying a board lot of Nestle shares would cost RM13,300 – well above the monthly salaries of most Malaysians and much more above their disposable income. It would take at least a few months of savings to buy one board lot of Nestle.

Besides, there are many other stocks traded in the RM20 to RM30 price range; buying a board lot of these would cost RM2,000 to RM3,000. Thus, reducing the board lot size will make the pricey shares cheaper to buy.

If the board lot is reduced to, say, ten shares, then a board lot of Nestle will cost RM1,330. And the board lots costing RM2,000 to RM3,000 would then cost RM200 to RM300 – a level that is more affordable for retail shareholders.

In Bursa Malaysia, there are 10 counters that trade between RM20 to RM30 per share, and another 11 counters trade between RM10 to RM20 per share. The rest trade at below RM10.

Notwithstanding this, two collateral issues must be addressed. Firstly, there are also penny stocks that would become much cheaper, possibly a fraction of a sen if reduced board lots are implemented across the board. Secondly, the transaction cost may be more than the cost of a reduced board lot.

But all things being equal, reduced board lot means more minority shareholders can now afford to nibble at certain stocks, which could translate into increased trading volume and value, thus contributing to greater liquidity.

On the other hand, enabling fractional share trading by investors is another much-discussed topic. We have a somewhat illiquid odd lots market where odd lots are traded. But fractional share investment is a different ball game altogether.

Fractional share investments allow investors to buy a portion, or fraction, of a stock based on a nominal amount that the investor can afford – not based on a particular number of shares. Fractional shares make investing in companies with a steep price tag more accessible. So, investors may be able to buy, say RM10 of a certain counter.

This is a game changer and much thought and research need to be done as there may also be substantial system and rule changes, and transaction cost considerations to enable this.

Automatic transfers to Main Market

In terms of pecking order in the Malaysian equities market, it is the Main Market followed by the ACE Market and then the LEAP Market. And there are frameworks in place for the latter two to ascend to the next level.

The automatic transition of listings from the ACE Market to the Main Market of Bursa Malaysia announced under the Madani Economy Framework will be advantageous for ACE market companies, as being listed on the Main Board carries a premium – an implied accreditation of sorts.

There should be a set of criteria to be met, and if these are fulfilled, then the promotion from the ACE Market to the Main market should be automatic or near automatic. The ease of mobility, the timeliness, and the seamlessness to migrate from the ACE Market to the Main Market will greatly motivate more companies (mostly SMEs) to seek listing on the ACE Market. They can see the Main Market is within their reach – the light at the end of the tunnel - and they know what exactly needs to be done to reach the light.

ACE Market companies are no strangers to the regulators as they are already under the purview of the Securities Commission (SC) and Bursa Malaysia. The rules that apply to them are substantially similar. As such, there should be no need for protracted evaluations, laborious assessments, and extensive due diligence.

The collateral benefit that Main Market companies have is that they can come under the radar of institutional investors. This is because some institutional investors are restricted by their investment mandates to invest only in Main Market companies.

The benefits of having institutional investors are manifold. There is the implied accreditation that comes with such institutional investment. There is stronger financial support for fund-raising corporate exercises. There is the participation of professional nominee directors in the investee's board if the investment stake is substantial enough. These alone are enough motivation for ACE companies to want to migrate to the Main Market.

Growth opportunities

The Madani Economy Framework also wants to fund small and medium industries to take advantage of new growth opportunities. But the impetus must be attractive enough to whet the appetites of the SMEs.

There are a whole lot of SMEs that form the backbone of the Malaysian economy which can become a ready pipeline for listing on the ACE and Main Markets. The result will be more listed companies, more sub-sectors, higher market capitalisation, more market volume, and more choices for shareholders to invest in.

There is no reason why SMEs would not seek listing as the cost of share capital is nil compared to bank borrowings if impediments are removed. To this end, a frank and open discussion with SMEs, and their representative organisations, will enable the identification of the impediments that hinder them from seeking listing.

In conclusion, the Madani Economy Framework announcements can move the needle and provide a substantial impetus to the stock exchange and trading volume. And the spillover benefits are there for many stakeholders, especially for shareholders. But, as always, execution is key.

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