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

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❖ How Bursa Malaysia's diverse stakeholders are impacted by Budget 2022

Budgeting can perhaps be likened to a game of chess – a game where careful planning, strategic thinking and risk taking conjure in the quest to distribute scarce financial resources around without being able to satisfy/please every stratum of the society.

Such is the gist of the RM332.1 billion expansionary Budget 2022 – the nation's largest to-date – which boasts a pro-recovery fiscal dynamic approach. Maybank IB Research has pointed out that the Budget also has a negatively-biased equity market impact – no thanks to the broad 2022 earnings drag as a result of the one-off Cukai Makmur (CM) a.k.a prosperity tax.

"Reflecting windfall tax earnings growth overhang – and caution regarding potential for further levies given the tenuous fiscal position – we cut end-2021 FBM KLCI target to 1,530 from 1,720 previously," projected the research house in its Budget 2022 review dated 31 October 2021.

This one-time additional corporate tax of 33% is applied on companies reporting taxable income in excess of RM100 million (24% for the first RM100 million).

RHB Research estimated a worst-case impact of up to 12% on corporate earnings although this should be offset by the positive spill-over to the broader economy from the expansionary budget proposals.

"Such a windfall tax is unprecedented in scope and scale – and should be categorised by investors as a policy risk as well as a negative from the perspective of attracting new foreign direct investments and regional competitiveness, reflecting the country's narrow revenue bandwidth and limited fiscal headroom," deduced head of research Alexander Chia.

In the view of Affin Hwang Asset Management senior director of equites Gan Eng Peng, it's all about being penny wise but pound foolish in the Government's quest to raise a projected windfall tax of up to RM4.9 billion.

"We believe the wealth destruction via the capital markets could be greater than the potential income raised. This 37% spike in tax rate effectively wipes out most of the already modest 5% -10% earnings growth of 2022," he argued.

"Markets are priced-off future growth, the lack of which leads to potential derating as well as immediate kneejerk sell-down to account for this impact. We think the broader market might correct 1%-3% in the near-term, potentially wiping off RM20-50 billion in value."

Like Maybank IB Research, Kenanga Research also adjusted downward its FBM KLCI target for 2021 in view of adverse impact from the imposition of Cukai Makmur.

"As the taxable income in excess of RM100 million will be subjected to an additional 9% tax rate (given the current statutory tax rate of 24%), the EPS (earnings per share) of the FBM KLCI could be reduced by 9% from RM1.08 to 98.1 sen by our estimates," justified head of Research Koh Huat Soon.

"We project that based only on the 30 KLCI component stocks, the Government stands to gain an incremental RM5.8 billion additional tax income from this measure. Our earlier target for the KLCI of 1,611 is hence reduced to 1,601 or by less than 1% given that this only results in a one-off impact."

Stamp duty hike

In addition to the prosperity tax, Budget 2022 has also proposed to raise the stamp duty rate on contract notes to 0.15% from the current 0.1% with the ceiling and service tax removed.

Commenting on the matter, CGS-CIMB Research was negatively surprised by the move to raise the stamp duty rate of contract notes for the trading of shares on Bursa Malaysia to 0.15% (equivalent to RM1.50 for every RM1,000) from 0.1% as well as the decision to abolish the stamp duty limit of RM200 (introduced in 2003) for each related contract note effective 1 January 2022.

This, CGS-CIMB said, is partially offset by the exemption from the 6% service tax on brokerage services related to the trading of shares.

"We are negative on this as it will raise the transaction cost for the trading of shares. We estimate this could raise total transaction cost from 0.18% to 0.32% of value of trade of RM5 mil assuming a brokerage rate of 0.15%," projected the research house.

"This is because the increase in stamp duty cost to RM7,500 from a max value of RM200 more than offsets the savings from the service tax of RM400. The higher transaction cost could push high-volume stock market traders to venture into other stock exchanges with lower transaction cost and dampen trading activities in the local market. This is likely to be negative for stockbrokers in Malaysia and Bursa."

Palm oil windfall levy thresholds

Elsewhere, Budget 2022 has also proposed adjustments to the threshold for imposing palm oil windfall profit levy from RM2,500/tonne to RM3,000/ for Peninsula and from RM3,000/tonne to RM3,500/tonne for Sabah and Sarawak.

The levies for both Peninsular and East Malaysia which were 3.0% and 1.5% respectively are now equalised to 3.0% for both. Essentially, this revision works to the benefit of planters in Peninsular Malaysia and are negative to East Malaysia planters at the current crude palm oil (CPO) price.

ESG agenda

On a more positive note, Budget 2022 deserves praises for incorporating the inclusivity and sustainability themes which are aligned with the global momentum of environment, social and governance (ESG) and the 17 UN Sustainable Development Goals (SDGs).

With the global push towards ESG compliance, Budget 2022 has reinforced the need for Malaysian companies and the local supply chain to adopt ESG frameworks premised on higher value creation.

This would also resonate with international investors who increasingly demand more robust ESG strategies, potentially attracting higher-value investments.

Inevitably, investors and stakeholders are scrutinising various supply chain sustainability aspects of businesses – from carbon emissions to diversity and inclusion, be it gender, race, age or ability.

While larger businesses lead in ESG practices, relatively smaller businesses are beginning to pivot as they endeavour to meet growing customer demands in those aspects.

"Sustainability is no longer just a highly topical issue for activist investors and non-governmental organisations," commented ICAEW (Institute of Chartered Accountants in England and Wales) Malaysia head Loh Wei Yuen.

"It is in the spotlight for policymakers, regulators and businesses who are integrating these measures into their core strategies. Now is the time to make the decisive step towards global standard-setting for the benefit of all."

While more Malaysian companies have already begun to embrace sustainability, it cannot be denied that more must be done to integrate ESG practices into decision-making processes to ensure that organisations thrive financially while creating value for the Malaysian society, environment and economy.

At least one female director in PLCs - a move in the right direction

In the same light, Budget 2022 promotes gender diversity vis-à-vis the empowerment of women's participation in the economy. The time has come to strengthen female directorship composition in public listed companies (PLCs) by ensuring at least one female director is appointed in all PLCs.

Such mandatory appointment of female board representation in PLCs not only improves corporate governance but signals a shift towards a more inclusive and diverse Malaysian corporate culture.

This is also in line with the practice of having a board that comprises 30% women directors under the Malaysian Code on Corporate Governance (MCCG). As MCCG is a Code premised on the 'apply or explain an alternative' approach, there is no mandatory requirement to have a woman director on the board of PLCs.

Currently, 252 Malaysian PLCs have no woman directors on their Board – with 4 of the PLCs being in the top-100 category.

When persuasion and influence through advocated practices in a principle-based Code do not have the desired outcome, there is a need for mandatory requirements. After all, about half of the Malaysian population comprise women. Surely, having at least one woman on a board is not such an insurmountable task.

It is preferable if at least one of the women directors occupies the position of independent non-executive directors so that they may bring an independent women-perspective to board deliberations.

MSWG is convinced that there are adequate women of calibre to satisfy the demand for independent women directors. Where there is a will, there is a way. As a prerequisite, there must be a 'will'.

Conclusion

The Budget has taken a utilitarian approach to do the greatest good for greatest number of people. Some will feel short-changed. Many will have an alternate approach as to how the Budget should be formulated. It is perhaps a case of the end justifying the means.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 8 – 12 November 2021

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
11.11.21 (Thur) 09.30 am	AirAsia Group Bhd (EGM)	AirAsia will seek shareholders' approval for the proposed renounceable rights issue of up to RM1.024 billion in nominal value of 7-year redeemable convertible unsecured Islamic debt securities

		(RCUIDS) with a nominal value of RM0.75 each based on the Shariah principle of Murabahah (via Tawarruq arrangement) on the basis of 2 RCUIDS with 1 free detachable warrant for every 6 ordinary shares in AAGB held. To meet the minimum subscription level, AirAsia has procured the entitlement undertakings from the undertaking shareholders and will make arrangements for the minimum underwriting.
12.11.21 (Fri) 09.00 am	Key Asic Bhd (AGM)	For FY2021, Key ASIC recorded net loss of RM7.95 million due to higher expenses. The COVID-19 pandemic has dampened the economy but at the same time, has accelerated in the adoption of Internet of medical Things (IoMT). Key ASIC sees hospitals and equipment manufacturers actively looking for IoMT technologies to revolutionize their products and infrastructure in hospitals to better manage patients remotely and to protect the frontline medical professionals. The outlook of the Group's business is positive due to the strong demand for healthcare related products.
12.11.21 (Fri) 11.00 am	Ucrest Bhd (AGM)	The Group doubled its revenue to RM25.5 million (2020: RM12.3 million) and recorded net profit of RM11.6 million for FYE2021 as compared to a loss of RM20.7 million in the previous year. This was mainly due to iMedic™ contributing most of the revenue and profits, while the rest is attributed by customization services of the platform. The Group's iMedic™ continues to gain traction and adoption by doctors.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
ACME Holdings Bhd (EGM)	The Group's subsidiary, Supportive Technology Sdn Bhd ("STSB") has an outstanding trade receivable of RM 1,323,727. STSB has collected RM212,914 of this outstanding amount. (Page 6 of the Circular) a) Please name the trade debtor(s) who have yet to settle the outstanding debt? b) Why was STSB unable to collect the remaining outstanding trade receivables? c) What are the measures taken to recover the outstanding trade receivables? d) What is the probability that STSB will be able to recover the outstanding trade receivables? What is the expected amount to be collected?
Key Asic Bhd (AGM)	The Group's allowance for impairment losses on trade receivables amounting to RM18.96 million represents 96% of the Group's trade receivables of RM19.74 million in FY2021 (Note 9, page 94 of AR 2021). a) What are the profiles of the customers with long outstanding trade receivables? Please include details such as country, amount due, overdue period etc. b) What actions have been taken to recover the said amount? c) What percentage of these impairments are expected to be non-recoverable? d) To-date, how much of these impaired trade receivables have been recovered?
Ucrest Bhd (AGM)	On 6 September 2021, UCrest Technology Ltd, a wholly owned subsidiary of the Company, entered into a Master Service Agreement with Limited Liability Company "Human Vaccine", a wholly owned subsidiary of Russia Direct Investment Fund ("RDIF") for production of Sputnik V vaccines, following the MOU signed between the Company and RDIF (Note 32, page 141 of AR2021). When is the expected commencement of delivery of the Sputnik V vaccines? How and to what extend will it contribute to the Group's revenue for financial year ending 2022 and going forward?

MSWG TEAM

Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)
Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)
Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)
Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)
Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)
Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)
Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)
Rita Foo, Manager, Corporate Monitoring, (rita.foo@mswg.org.my)
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)

DISCLOSURE OF INTERESTS

•With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.

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