



The Observer

07.06.2024

❖ Minority shareholders are urged to exercise prudent judgment in takeover offers

The recent surge in merger and acquisition (M&A) activities among Malaysian public listed companies (PLCs) can be attributed to challenging market conditions.

These conditions drive companies to merge or acquire others to achieve synergistic benefits, economies of scale, rapid market expansion, entry into new markets, and diversification of products and services. Consequently, many PLCs are targeted for M&A as controlling shareholders seek to reposition their businesses in an evolving market.

KEY HIGHLIGHTS

- Recently, we have seen a number of PLCs targeted for M&A as controlling shareholders seek to reposition their businesses in an evolving market.
- MSWG suggests minority shareholders conduct thorough analyses before reacting to takeover offers. They should do comprehensive analyses by looking into the details of the proposals from both the offer documents/Circular as well as that of the independent advice circular/letter.

Just last month, there was a flurry of takeover offers, including:

- On 15 May, a Khazanah Nasional Berhad-led consortium unveiled its intention to take Malaysia Airports Holdings Berhad (MAHB) private by offering RM11 apiece for shares that it does not already own.
- On 27 May, NTT Data Japan Corporation (NTTD Japan) unveiled its intention to acquire a 58.73% stake in GHL Systems Berhad for a purchase price of about RM724 million, with a mandatory offer for the remaining shares it does not own at RM1.08 per share.
- On 28 May, YTL Power International Berhad, through its indirect 70%-owned subsidiary SIPP Power Sdn Bhd, offered 99.5 sen/share in Ranhill Utilities Berhad after it scooped up shares related to the company's chairman and chief executive Tan Sri Hamdan Mohamad for RM405.2 million.
- Also, on 28 May, MPH Capital Berhad said its controlling shareholder and chairman, Tan Sri Surin Upatcoon, plans to take the credit services provider private through a selective capital reduction totalling RM748.11 million. Under the capital repayment

proposed by Tan Sri Surin Upatkoon and his family, who together control 43.07% of MPH, entitled shareholders will receive RM1.70 per share.

Appraising takeover proposals

Minority Shareholder Watch Group (MSWG) suggests minority shareholders conduct thorough analyses before reacting to takeover offers.

Minority shareholders should be aware that there are four main methods of acquiring control of a PLC in Malaysia, notably via (i) voluntary offer, (ii) mandatory offer, (iii) scheme of arrangements (SOA), and (iv) acquisition of assets and liabilities (for details, please refer to [Baker McKenzie "Global Public M&A Guide"](#)).

Shareholders should conduct comprehensive analyses by examining the details of the proposals in both the offer documents/Circular and the independent Advice Circular (IAC)/Independent Advice Letter (IAL).

Under Paragraph 3.06 of the Rules of Take-Overs, Mergers and Compulsory Acquisitions, the board of directors of the offeree shall appoint an independent adviser (IA) to provide comments, opinions, information and recommendations on the take-over offer in an IAC/IAL.

These documents shall contain all information, comments, opinions and recommendations from the IA regarding whether the take-over offer price is fair or reasonable, enabling the shareholder concerned to make an informed decision on the offer.



The following is what the next course of action should be for minority shareholders once the offer document/Circular and IAC/IAL are made available (in no particular order):

Research before reacting: It is crucial to peruse the IAC/IAL. Minority shareholders should understand why an offeror is making a potential takeover offer.

Generally, the IAC/IAL shall include but not limited to the following information:

- The rationale of the offer
- Valuation of the offeree's shares – is the offer price fair and reasonable?
- IA will select the most appropriate valuation methodologies to assess the offer.
- The offeror's long-term justification for the take-over offer
- The offeror's intentions regarding the offeree company and its employees
- The listing status of the offeree
- Views of the IA and its recommendation to shareholders either to accept or reject the take-over offer based on the fairness and reasonableness of the take-over offer

Assess the listing status of the offeree: Understanding the offeror's intention regarding the listing status of the offeree is essential, as this would dictate the availability of options for shareholders to consider a takeover offer.

If an offeror intends to maintain the offeree's listing status, shareholders can always realise their investments at prevailing market prices after the closing date. However, prices and trading volume are not guaranteed to remain the same.

Conversely, shareholders have limited options if an offeror aims to take the company private and would not address the shortfall in the public shareholding spread. They might end up holding shares in an unlisted entity should they choose not to accept the offer.

But of course, there are cases like FGV Holdings Berhad (FGV), where the offeror tried to take the company private back on 28 December 2020; its notice to shareholders mentioned that it does not intend to maintain FGV's listing status. Nevertheless, the offeror did not successfully take FGV private; FGV remains listed and faces non-compliance with the public shareholding spread under Paragraph 8.02(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Subsequently, on 28 August 2023, the Board announced its intention to rectify FGV's non-compliance with the public spread requirement.

Understand the advice and recommendations from the offeree company's independent directors: Under a proposed selective capital reduction and repayment exercise (proposed SCR), the offer will be put forward to the board of directors (BoD, save for the interested directors) for their deliberations.

Subsequently, the company will decide whether to implement the Proposed SCR for shareholders' consideration and approval in an extraordinary general meeting. The BoD is entitled to make enquiries to satisfy themselves and ensure that the offeror can implement the offer.

Then, in the circular to the entitled shareholders, the BoD shall make a statement about whether the SCR offer is fair, reasonable and in the best interests of the company and shall recommend to the company's entitled shareholders whether they should vote in favour of accepting the SCR Offer.

Similarly, the BoD would also provide its recommendations for takeover offers to shareholders.

Evaluate the fairness and reasonableness of the offer: In the case of a take-over offer (either voluntary or mandatory), upon the receipt of the offer document from an offeror, the board of the offeree shall appoint an IA to provide comments, opinions, information and recommendations on a take-over offer in an IAC.

The IA shall be responsible for all comments, opinions, information, and recommendations disclosed in the IAC.

An IA shall determine what information it requires to form its views, opinions and recommendations on a take-over or merger transaction. Meanwhile, the offeree shall provide full access to the relevant premises and documents to the IA so that the latter can perform its duties.

Conclusion

We urge minority shareholders to conduct their comprehensive analysis by examining the granular details of the proposals in both the offer documents/Circular and the IAC/IAL.

It is paramount not to rely solely on hearsay from unlicensed and non-qualified social media gurus or influencers, commentators, and bloggers alike. Consult a financial professional adviser if minority shareholders have any doubts about the course of action to be taken regarding take-over offers.

As always, minority shareholders should make their own informed investment decisions according to their respective risk appetites. The decision is yours.

By MSWG Team

MSWG AGM/EGM Weekly Watch 10 – 14 June 2024

The following are the AGMs/EGMs of companies on the Minority Shareholders Watch Group's (MSWG) watch list for this week.

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.

Points of interest:	
Company	Points/Issues to Be Raised
MI Technovation Berhad (AGM)	Embarking into the second 5-Year Roadmap for FY2024 to FY2028, the Group will focus on implementing efficient capital management to support the healthy development of its major business units and various companies by fostering the development of continual innovation. The Group foresees that its organizational transformation will be an unprecedented journey in the company history through a daring experiment for a large-scale organizational growth. (page 13 of Annual Report (AR) 2023) a) Please provide more details on the Group's second 5-Year Roadmap. What specific strategies will be implemented? b) What are the specific targets set in terms of financial performance? c) What are the major capex plans or investments under this roadmap?
Pekati Group Berhad (AGM)	The Group's trade receivables and contract assets credit impaired that were past due more than 90 days have increased from RM9.6 million in FYE2022 to RM11.0 million in FYE2023 (page 150 of AR2023).

Points of interest:	
Company	Points/Issues to Be Raised
	<p>a) What difficulties did the Group face in collecting trade receivables that were past-due for more than 90 days as the outstanding amount increased?</p> <p>b) Who are the customers who make up this category (past due 90 days) of the Group's receivables on FYE2023, and what are their profiles?</p> <p>c) To date, how much of the overdue amount has been collected?</p>
GDEX Berhad (AGM)	<p>1. Two (2) of the Group's Key Management resigned in 2024 namely, Mr Lim Chee Seong, the Chief Financial officer who resigned on 28 May 2024 and Mr. Lee Kah Hin, the Chief Investment Officer who resigned on 25 February 2024.</p> <p>To what extent have the two (2) Key Management resignations impacted the Group? What is the Group's succession planning in relation to these resignations?</p> <p>2. The Group's GHG Emissions (tCO₂e) increased from 19,396.98 tCO₂e in FY2022 to 20,211.19 tCO₂e in FY2023. Increases were noted in both Scope 1 (Company vehicles) and Scope 2 (Energy consumption). (page 61 of AR 2023)</p> <p>a) GDEX is proactively replacing one-tonne and three-tonne trucks with lighter, more fuel-efficient models to reduce greenhouse gas emissions (page 62 of AR 2023). What is the total number of trucks that need to be replaced, and by when?</p> <p>b) The Group's consumption of diesel was 6,697,657.54 litres in FY2023, slightly higher than 6,522,459 litres of diesel consumed in FY2022 (page 62 of the AR 2023). With the recent announcement by the Government on the rationalisation of the diesel subsidy, to what extent will it impact the Group? What are the Group's plans for wider use of EVs?</p>
Far East Holdings Berhad (AGM)	<p><u>Replanting</u> In FY2023, 179.30 hectares (443.05 acres) had been replanted and this reflects the Group's continuous efforts to improve the age profile of its plantings and achieve better yields. In the year 2024-2028, 993.92 hectares (2,455.98 acres) are scheduled for replanting (Page 46 of AR2023).</p>

Points of interest:	
Company	Points/Issues to Be Raised
	<p>a) What is the progress of the ongoing replanting exercise?</p> <p>b) How many hectares are expected to be covered, and based on the current economic conditions, including the impact of inflation, how much will it cost the Group to complete this schedule replanting exercise for FY2024?</p>
Supercomnet Technologies Berhad (AGM)	<p>In FY2023, about RM12.87 million in revenue was contributed by the automotive segment (FY2022: RM15.89 million). The segment was affected by reduced orders. However, the decline in demand is only expected to be temporary. (Page 27 of AR2023)</p> <p>a) Please provide further details regarding the temporary reduction in orders and indicate when the Group expects these orders to return to normal levels.</p> <p>b) Currently, the automotive segment has only one customer, Stellantis for the Peugeot brand. Does the Group have any plans to diversify its customer base to mitigate concentration risk?</p>
Genting Malaysia Berhad (AGM)	<p>"As part of the Group's ongoing efforts in reducing its environmental impact, the Group is reviewing and finalising plans to introduce new energy management initiatives at RWG, which include the installation of solar rooftops at viable properties and the implementation of a district cooling system for the resort." (Page 43 of Sustainability Report 2023)</p> <p>Please provide an overview of the Group's current energy portfolio, specifying the proportion of renewable energy sources compared to grid electricity. Has the Group established any specific targets and timelines for future energy mix objectives?</p>
Time dotCom Berhad (AGM)	<p>Many companies are increasingly focusing on emissions reduction targets, carbon neutrality, and achieving net zero status areas due to growing awareness about climate change and the need for sustainable practices.</p> <p>As a large telecommunication company, what are the Group's plans regarding emissions reduction targets, carbon neutrality, and achieving net zero status?</p>
BCM Alliance Berhad (AGM)	<p>The Group has increased its investment in quoted shares to RM8.86 million as of 31 December 2023 from RM2.57 million at the end of 2022 as part of its initiatives to drive values for shareholders over the long term. Although BCM suffered losses during FY2023, the Group has a strong financial position that puts it in a favourable position to</p>

Points of interest:															
Company	Points/Issues to Be Raised														
	<p>leverage on the economic recovery and mitigate downside risks with its resilient and diversified portfolio. (page 23 of AR 2023)</p> <p>a) Please provide the breakdown of the realised and unrealised losses on quoted shares for FY2023.</p> <p>b) What are the quoted shares held and their respective values as of 31 December 2023?</p> <p>c) What has been the average holding period of quoted shares in the past?</p> <p>d) How long does the Group expect to hold on to the remaining quoted shares?</p>														
Favelle Favco Berhad (AGM)	<p>At the Group's 31st AGM, the management/board stated that FFB's strategy for the next six (6) to twelve (12) months is to expand its business to new countries, create more crane models, enter a new segment, and find new acquisition or investment opportunities to drive the Group's growth.</p> <p>a) Which countries has FFB expanded its business into as part of its growth strategy within the last six to twelve months? What are the driving factors behind the decision to expand into these countries?</p> <p>b) What is the new market segment that FFB entered recently? What factors influenced the decision to venture into this segment, and how does it align with the Group's overall objectives?</p> <p>c) Are there any types of acquisitions or investments that FFB is considering to facilitate its growth strategy? What criteria are being used to evaluate potential acquisition targets or investment opportunities? Have any targets been identified?</p>														
Chin Hin Group Berhad (AGM)	<p>1. In FY2023, the Group raised RM449.8 million through equity financing and debt financing which represents 14.2% of the Group's total assets at the end of FY2023.</p> <table border="1" data-bbox="639 1738 1362 2038"> <thead> <tr> <th></th> <th>RM'000</th> </tr> </thead> <tbody> <tr> <td>Increase in advances from directors</td> <td>89,344</td> </tr> <tr> <td>Increase in borrowings</td> <td>238,653</td> </tr> <tr> <td>Issuance of Perpetual Medium-Term Notes (MTN)</td> <td>30,000</td> </tr> <tr> <td>Chin Hin Group Property Berhad (CHGP) - Private placement</td> <td>86,672</td> </tr> <tr> <td>CHGP – Conversion of warrants</td> <td>5,159</td> </tr> <tr> <td>Total</td> <td>449,828</td> </tr> </tbody> </table>		RM'000	Increase in advances from directors	89,344	Increase in borrowings	238,653	Issuance of Perpetual Medium-Term Notes (MTN)	30,000	Chin Hin Group Property Berhad (CHGP) - Private placement	86,672	CHGP – Conversion of warrants	5,159	Total	449,828
	RM'000														
Increase in advances from directors	89,344														
Increase in borrowings	238,653														
Issuance of Perpetual Medium-Term Notes (MTN)	30,000														
Chin Hin Group Property Berhad (CHGP) - Private placement	86,672														
CHGP – Conversion of warrants	5,159														
Total	449,828														

Points of interest:

Company	Points/Issues to Be Raised												
	<p>(Reference to pages 117,219 and 186 of AR2023)</p> <p>a) Please elaborate on the need for these financings and how the funds were utilised.</p> <p>b) The Group issued RM30 million perpetual MTN carrying a high-interest rate of 7.5% per annum. At the same time, the Group also accepted advances of RM89.3 million from its directors. Did the Group face difficulties in extending borrowings from banks? If not, please explain the reasons for seeking financing from its directors.</p> <p>2. The Group's other investments increased sharply from RM10.5 million at the end of FY2022 to RM267.9 million at the end of FY2023, representing 8.5% of the Group's total assets. Specifically, unit trusts and quoted shares accounted for RM21.9 million and RM239.9 million, respectively. (Page194 of AR2023)</p> <p>a) Please justify the rationale for deploying such a significant portion of the Group's financial resources in these investments, particularly quoted shares, given that the Group was already in a negative operating cash flow position. Why did the Group not prioritise the repayment of borrowings?</p> <p>b) In which countries are the Group's investments in unit trusts and quoted shares?</p>												
Muhibbah Engineering (M) Bhd (AGM)	<table border="1" data-bbox="584 1375 1331 1648"> <thead> <tr> <th></th> <th>RM'000 2023</th> <th>RM'000 2022</th> </tr> </thead> <tbody> <tr> <td>Group's operating profit*</td> <td>3,710</td> <td>25,510</td> </tr> <tr> <td>Less: Favco's operating profit#</td> <td>(84,532)</td> <td>(59,731)</td> </tr> <tr> <td>Operating loss excluding Favco</td> <td>(80,822)</td> <td>(34,221)</td> </tr> </tbody> </table> <p>* Refer to page 58 of AR2023 # Refer to page 54 of Favco's AR2023</p> <p>Excluding operating profit from Favelle Favco Berhad (Favco), a listed subsidiary of the Company involved in the Crane and Intelligent Automation divisions, the Group actually incurred an operating loss of RM80.8 million in FY2023 (FY2022: RM34.2 million). This indicates poorer performance in the remaining divisions, namely the Construction & Engineering division and the Marine division.</p>		RM'000 2023	RM'000 2022	Group's operating profit*	3,710	25,510	Less: Favco's operating profit#	(84,532)	(59,731)	Operating loss excluding Favco	(80,822)	(34,221)
	RM'000 2023	RM'000 2022											
Group's operating profit*	3,710	25,510											
Less: Favco's operating profit#	(84,532)	(59,731)											
Operating loss excluding Favco	(80,822)	(34,221)											

Points of interest:	
Company	Points/Issues to Be Raised
	<p>a) Please elaborate on the reasons for the underperformance in the Construction & Engineering division and Marine division, respectively.</p> <p>b) What is the outlook for the underperformed divisions for the rest of 2024? What action plans have been taken to improve earnings?</p>
WCT Holdings Berhad (AGM)	<p>In FY2023, Engineering and Construction Division recorded revenue and operating loss of RM1.15 billion (FY2022: RM1.47 billion) and RM219.8 million (FY2022: operating profit of RM47.7 million) respectively. Lower revenue in the current year were mainly due to the slower construction progress, whereas the operating loss was due to project margins being lowered due to prolongation, materials and labour costs escalation. The lowered margins led to the reversal of profits which have been accrued on the various projects. (Page 14 of AR2023)</p> <p>a) Please provide further details on the projects that were subject to profit reversals.</p> <p>b) Is the Group liable for project prolongation, and are there escalation clauses for material and labour costs in the contracts?</p> <p>c) Has the Group submitted additional claims related to project prolongation and the increased costs of materials and labour to its clients?</p>
Coastal Contracts Bhd (AGM)	<p>For the charter of JUGCSU, the charterers had requested for a temporary suspension of the bareboat charter hire under the current contract from 27 November 2023 onwards until the charterers managed to finalise the terms and conditions of the extension of existing contract/new contract with Pemex. (page 15 of Annual Report (AR) 2023)</p> <p>a) What were the reasons for the temporary suspension by the charterers?</p> <p>b) What is the latest status of the JUGSCU charter?</p> <p>c) Does the Group expect an extension of the existing contract with the charterers?</p> <p>d) What were the revenue and pre-tax profit contributions from JUGCSU in FY2023?</p>
Capital A Berhad (AGM)	<p>1. "The proposed disposal of the aviation business and proposed business combination with Aetherium to create Capital A International (CAPI) are only the first</p>

Points of interest:	
Company	Points/Issues to Be Raised
	<p>steps being explored in our pursuit of unlocking shareholder value and we are also looking ahead to more possibilities."</p> <p>"For the remaining three businesses, we aim to undertake corporate exercises to unlock their values subject to conducive market conditions and the requisite approvals. Move Digital, Teleport and CAAS may see possible spin-off listing or M&A exercises and the final business to remain will inherit the listing status of Capital A Berhad" (Letter to shareholder dated 30 April 2024)</p> <p>a) What specific businesses and assets will remain under Capital A after the disposal and various corporate exercises undertaken to unlock their value?</p> <p>b) How will the remaining businesses be positioned to ensure sustainable growth and profitability?</p> <p>2. Bursa Malaysia Securities Berhad had granted the Company an extension until 30 June 2024 to submit its regularisation plan to the relevant regulatory authorities.</p> <p>The Company has less than one month to submit its regularisation plan. Is the Company on track to make such a submission?</p>
Genting Berhad (AGM)	<p>TauRx is pursuing regulatory interactions and submissions for its oral anti-tau product, hydromethylthionine mesylate (HMTM) to seek regulatory approval in the US, UK and other territories.</p> <p>The "investments & others" segment has recorded a negative adjusted EBITDA of RM484.9 million (Page 132 of IAR2023)</p> <p>How much has been invested in TauRx to date? How much more investment is required before HMTM can be commercialised?</p>
Lii Hen Industries Bhd (AGM)	<p>As one of the leading exporters to U.S, the Group's operation was affected by the decline in consumer demand since 2022. The U.S importers, distributors, wholesalers, and retailers had been cautious in their stockholding level to avoid overstock situations, with the onset of impending economic downturn further exacerbating business sentiments. The high inflation and falling discretionary incomes deterred consumers from</p>

Points of interest:	
Company	Points/Issues to Be Raised
	<p>purchasing high ticket items like furniture. As a result, all the Group's products registered negative growth in the current year under review (Page 4 of Annual Report 2023/AR2023).</p> <p>a) To what extent will the abovementioned factors adversely impact the growth of LHIB's products in FY2024?</p> <p>b) What are the current orders for the Group's products? Are the current orders lower or higher compared to previous year?</p>
Mudajaya Group Berhad (AGM)	<p>In FY2023, the Group recorded a notable 51% increase in revenue to RM460.7 million compared to RM305.2 million a year ago. This was largely due to consolidation of the full-year's revenue contribution from Real Jade, which had successfully delivered revenue of RM251.8 million or 55% of the Group's total revenue for the year. (Page 25 of AR2023)</p> <p>a) What was Real Jade's net profit or loss contribution to the Group in FY2023? If Real Jade did not achieve the targeted annual profit after tax range of RM48 million to RM60 million as presented at the EGM on 20 October 2022, please provide the reasons.</p> <p>b) Please provide an operational and financial review of Real Jade in FY2023 and its outlook for FY2024.</p>
Pegasus Heights Berhad (AGM)	<p>In 2023, the Group faced a multitude of challenges which led to increased costs across the board. (Page 4 of AR)</p> <p>a) Please name the multitude of challenges faced by the Group in FY 2023.</p> <p>b) Has the Group managed to overcome some or all the challenges faced by the Group in FY 2023? Please name the challenges the Group has overcome.</p> <p>c) What is the Group's expected financial performance in FY 2024 after overcoming some or all the challenges faced by the Group last year?</p>

MSWG TEAM

Dr Ismet Yusoff, Chief Executive Officer (ismet@mswg.org.my)
Rita Foo, Head, Corporate Monitoring (rita.foo@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)
Jackson Tan, Manager, Corporate Monitoring (jackson@mswg.org.my)
Nur Amirah Amirudin, Manager, Corporate Monitoring (nuramirah@mswg.org.my)

Yan Lai Kuan, Manager, Corporate Monitoring (yan.laikuan@mswg.org.my)
Lam Jun Ket, Manager, Corporate Monitoring (lam.junket@mswg.org.my)

DISCLOSURE OF INTERESTS

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

DISCLAIMER

This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).

The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.

MSWG must be acknowledged for any part of this newsletter which is reproduced.

MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.