MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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CORPORATE

G3 Global's third cash call raises eyebrows

Company's market capitalisation plunges to RM94mil

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AS G3 Global Bhd plans another cash call for the third year in a row, the proposal has raised eyebrows considering that the group's share base keeps ballooning post-pandemic.

Dilution of existing shareholders aside, the enlarged share base seems to have also weakened the share price as G3 Global's market capitalisation shrunk tremendously.

From about RM1.6bil at some point in 2019, its market capitalisation has plunged to just RM94mil currently.

G3 Global is developing the airport integrated security and safety system (AIS3) for both Kuala Lumpur International Airport terminals.

The company made headlines back in 2019 when it announced the development of Malaysia's first artificial intelligence park worth US$1bil. The project, however, was not completed likely due to the company's weak financial position.

Quite frankly, private placements are the lifeline for G3 Global, which sits on accumulated losses of RM66mil.

The company has undertaken two rounds of private placements post-Covid-19 with the first in June 2022, and second in May 2023. Both rounds raised a total of RM37.7mil.

Following this, the number of outstanding shares (Nosh) has increased by more than half or 1.3 billion units.

Currently, the Nosh stands at 3.77 billion. If the proposal announced on June 26 to place out 377 million new shares, or 10% of the share base, is completed, this would raise the Nosh to over four billion units.

The proposed private placement looks to raise up to RM9.8mil. G3 Global wants to use RM4.15mil of the proceeds to fund the AIS3 project and RM1.85mil for future information and communications technology projects.

From the balance amount, about RM3.4mil will be utilised for its working capital.

> **"Shareholders may realise long-term gains if the company effectively utilises the proceeds from the share issuance to enhance its revenue and profitability."**
>
> Ismet Yusoff

G3 Global had secured the RM118mil AIS3 project in May 2022 and was supposed to complete it in March this year.

The group, however, says that the completion date has been postponed to the end of September 2024, as additional scope of work had been added to the project.

This has also resulted in an additional cost of RM11.62mil.

"The AIS3 project is at its final phase of completion with unrecognised revenue of RM52mil," it said in a filing with Bursa Malaysia on June 26.

G3 Global's tendency to place out new shares frequently to selected investors has not gone unnoticed.

The Minority Shareholders Watch Group (MSWG) had in 2023 questioned the need for G3 Global to opt for another private placement instead of a rights issue.

At that time, G3 Global was in the midst of a private placement to raise funds for the AIS3 project.

According to MSWG, private placements do not provide an opportunity for existing shareholders to increase their equity stake further and participate in the growth of the company.

It will also dilute their existing shareholdings.

The biggest impact is often felt by the minority shareholders, comprising mostly retail investors.

This is considering that in many cases of private placements, the investors who take up the new shares are usually aligned to the major shareholders.

In response to MSWG's question, G3 Global concurred that a private placement will dilute the existing shareholders' shareholdings.

However, it also noted that the private placement in 2023 was needed to bring in strategic investors who believe in G3 Global's value despite its current loss-making position.

By practice, every round of private placement must obtain shareholders' approval, but it can be exempted if the shareholders have provided the authority for the board of directors to issue shares.

In the case of G3 Global, in the AGM held on June 27, the resolution to provide the authority for directors to issue shares has been approved.

Shareholders owning 2.38 million shares approved the resolution.

However, it is worth noting that the non-free float of G3 Global, or those shares owned by major shareholders and their friendly parties, alone amounted to 2.53 million shares, according to *Bloomberg* data.

Under such circumstances, an analyst tells *StarBizWeek* that public shareholders stand zero chance of defeating the resolution even if they disagree.

"This is typical in companies where the public float is small. As for G3 Global, the free float is just over 30%. Also, private placement shares are typically sold at a discounted price to the new investors. This naturally keeps the share price weak," says the analyst.

Utilisation is key

Private placement is a preferred fund-raising method for companies as they do not require the green light from market regulators.

It is also not necessary to disclose the names of investors taking up the new placement shares.

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Notably, private placements are the fastest way to bring in strategic investors.

However, a private placement could be a bane to shareholders if the exercise takes the form of a kickback scheme or some self-dealing on the part of the major shareholders.

Sometimes, private placements to a "friendly party" may be an effort to thwart an impending hostile takeover or to strengthen the grip on the listed company.

MSWG chief executive officer Ismet Yusoff, however, asserts that not all private placements are being misused.

"It all depends on the utilisation of proceeds.

"Shareholders may realise long-term gains if the company effectively utilises the proceeds from the share issuance to enhance its revenue and profitability," he says.

Rakuten Trade head of equity sales Vincent Lau says that private placements, if undertaken frequently, can dilute the earnings per share of a company.

However, as long as the proceeds raised from the private placements are utilised in value-accretive means, he opines that the corporate exercise may turn advantageous to the company.

"Taking G3 Global as an example, it is a company that has been loss-making for years and so, it is not easy to get bank borrowings for its projects.

"Private placement is probably the only option left on the table," says Lau.

Frequent cash calls are not unique to G3 Global alone.

For instance, the then loss-making TWL Holdings Bhd had from 2021 to 2023 undertaken two rounds of rights issue and a private placement.

TWL also proposed another private placement exercise in 2023, but it was aborted earlier this year.

Private placement exercises have emerged as the preferred fundraising path for many cash-strapped companies, in the aftermath of the Covid-19 pandemic breakout.

Notably, this was after Bursa Malaysia, in April 2020, temporarily upped the private placement general mandate to 20% of a company's issued share capital from 10% previously.

Companies could also issue up to 30% of their existing share capital in a placement if they receive shareholders' approval at an extraordinary general meeting.

In an earlier analysis by MSWG, 79 private placements were announced between Jan 1 and Sept 3, 2020.

However, given that the pandemic is over and market activities have normalised, the question is whether Bursa Malaysia should tighten the frequency of private placements, especially for companies deemed problematic.

Lau disagrees and states it is "not good" to restrict companies' ability to place out new shares.

He adds that there are sufficient safeguards in place to prevent misuse of private placements.

"The minority shareholders must do their own due diligence to protect their interest."

MSWG's Ismet advises minority shareholders to closely monitor the utilisation for private placement proceeds.

"Minority shareholders should exercise their rights to question the board if they found the funds raised were not utilised as planned.

"They should deliberate if they should stay invested in such a company if no convincing reason was given.

"If there are elements of misuse of funds raised via private placements, then it is the role of the regulators to investigate.

"Enforcement is key, rather than limiting the issuance of private placements," says Ismet.