MSWG
MINORITY SHAREHOLDERS WATCH GROUP

The Observer
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KEY HIGHLIGHTS

- Companies must exercise caution when engaging ‘ESG experts’ due to risks of inadequate expertise.
- Developing internal ESG capacities is crucial for tailored, sustainable long-term strategies and compliance.

The global push for sustainability is becoming increasingly urgent. According to the World Economic Forum, sustainability has become critical for organisations to remain relevant and competitive in today’s world. Much like digital transformation, driving sustainability requires organisations to transform every division of their business.

The Paris Climate Agreement has made it clear that governments must be stricter. Countries like Sweden and Germany have legally binding net-zero targets for 2045, while the UK, Canada, Japan, and others have a 2050 net-zero commitment. The EU's taxonomy, which regulates businesses based on their environmental sustainability, affects not only EU businesses but also global firms that do business in the EU. Considering the move by many governments toward sustainability, organisations should start transforming their operations to become more sustainable. Being proactive about sustainability will lead to better relations with regulatory bodies.

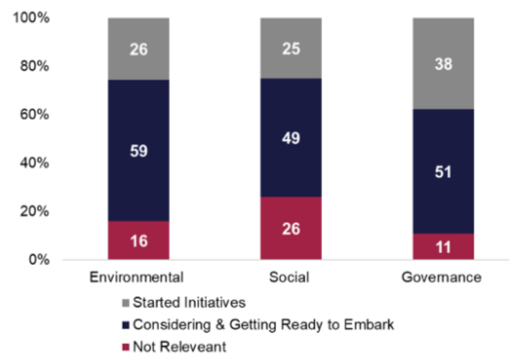
Investor pressure is one of the most powerful factors shaping the shift towards sustainability. Investors increasingly pay attention to environmental, social, and governance (ESG) factors when making investment decisions. Companies that demonstrate a commitment to sustainability are often seen as more attractive investment opportunities. Gartner research finds that 85% of investors considered ESG factors in their investments in 2020, while 91% of banks monitor the ESG performance of investments. Moreover, minority shareholders are recognising that addressing sustainability is equally important as financial and operational performance, as these issues can significantly impact a company's overall performance. Therefore, minority shareholders should ask and challenge the board and management at AGMs on how the company addresses sustainability risks and opportunities and what their sustainability strategies and plans are.

The pressure for better sustainable practices has landed on our shores. Increasing pressure from trade partners has led to an obligation to comply with growing domestic regulations for better ESG practices. Malaysia's exports amount to RM129.7B, primarily to Singapore, China, the USA, and the EU. This immense trade volume means that Malaysian companies must adhere to international standards and expectations regarding ESG practices. A notable example is the Malaysian glove industry, where exports were halted due to issues related to social compliance. This incident underscores the importance of robust ESG practices, as failures in these areas can lead to significant business disruptions and loss of market access.

Locally, regulators have implemented numerous requirements to strengthen practices, including moving towards the adoption of IFRS S1 and IFRS S2, emphasising the need for robust ESG practices. These initiatives reflect a broader global trend where regulatory bodies increasingly prioritise sustainability. Companies that fail to comply with these regulations risk facing penalties, losing investor confidence, and damaging their reputation.

With an increasing number of millennials and Gen-Z consumers, demand for sustainable products is also rising. According to the Institute of Capital Market Research, in Malaysia, 70% of investors are more likely to invest in options that promote ESG, while 74% will invest in options that enable good causes. This generational wealth transfer represents a significant opportunity for companies prioritising ESG, as younger investors are more inclined to support businesses that align with their values.

According to the UN Global Compact, despite growing demands for ESG requirements, only one-third of Malaysian companies have started with the initiative. One reason may be the need for more capacity to understand the subject matter, build in the requirements, identify risks, and develop further. Many companies need help navigating the complex and evolving landscape of ESG, which encompasses many issues, from carbon emissions and waste management to human rights and corporate governance.

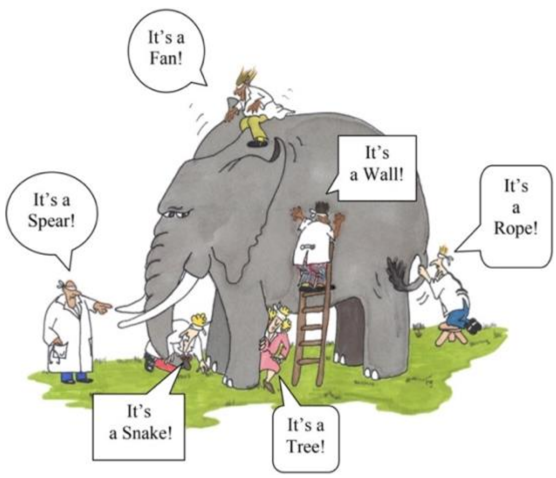


Source: The Malaysian Sustainability Pulse Report, 2022

The Trajectory of ESG Consulting

Companies may resort to external parties to facilitate advising, strategising, and managing ESG matters. The trajectory of ESG consulting is undeniably upward. As regulatory requirements tighten and investor scrutiny intensifies, companies recognise that ESG is not a passing trend but a fundamental aspect of business strategy. ESG consultants will continue to play a pivotal role in this transformation, helping companies navigate the complexities of sustainability, ethical governance, and social responsibility. Verdantix's latest research shows that the ESG and sustainability consulting market is expected to grow to $16 billion by 2027. It will grow at a compound annual growth rate (CAGR) of 17% per year until the end of 2027, meaning the market will have grown 156% from its 2021 size. Several factors drive this growth, including increasing regulatory requirements, investor expectations, and consumer demand for sustainable products and services.

The Rise of Self-Proclaimed ESG Experts



However, the rapid growth of the ESG consulting market has also led to the rise of self-proclaimed ESG experts. Some of these consultants, primarily from boutique firms, are merely self-proclaimed ESG experts with no proper technical capacity to understand the complexity of the issues that relate to the company. One can't be an expert on overall ESG matters. You may be technically sound in policy compliance, reporting, carbon trading, or emission data collection, but only ESG partially. This field is still new, and people are still settling down with the concept and finding ways to implement it effectively. We want to avoid the pitfalls described by John Godfrey Saxe in his parable "The Blind Men and the Elephant."

The presence of unqualified consultants poses a significant risk for companies. Engaging with a consultant needing more expertise can lead to effective or harmful ESG strategies. Companies may invest in initiatives that do not deliver the expected benefits or fail to meet regulatory requirements. Additionally, relying on poor advice can damage a company's reputation and erode stakeholder trust.

Choosing the Right ESG Consultant

Given the importance of ESG and the potential pitfalls of engaging an unqualified consultant, companies should consider several factors when identifying a suitable consultant for advising on ESG or sustainability matters.

Credentials and Experience: Look for consultants with relevant credentials and a proven track record in ESG. This includes academic qualifications, professional certifications, and practical experience with other companies in your industry. Verifying the consultant's claims and ensuring they have the expertise needed to address your specific ESG challenges is essential.

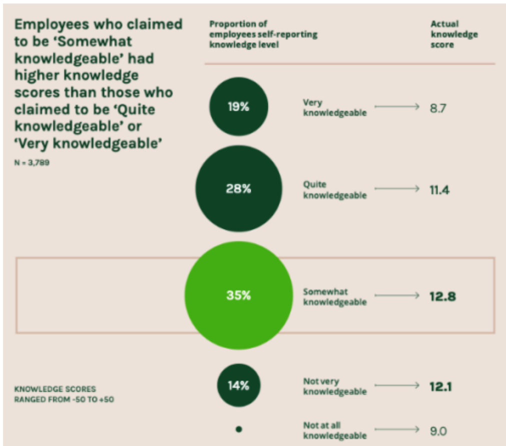
Specialisation: Ensure the consultant has expertise in the specific ESG areas most relevant to your business. A one-size-fits-all approach is rarely practical, and specialised knowledge can make a significant difference. For example, a company in the manufacturing sector may require expertise in environmental management and supply chain sustainability. At the same time, a financial services firm may need advice on governance and ethical investing.

Reputation and References: Check the consultant's reputation in the market. Seek references from other businesses that have used their services and ask about their experiences and outcomes. Positive testimonials and case studies can provide valuable insights into the consultant's capabilities and the results they have achieved for other clients.

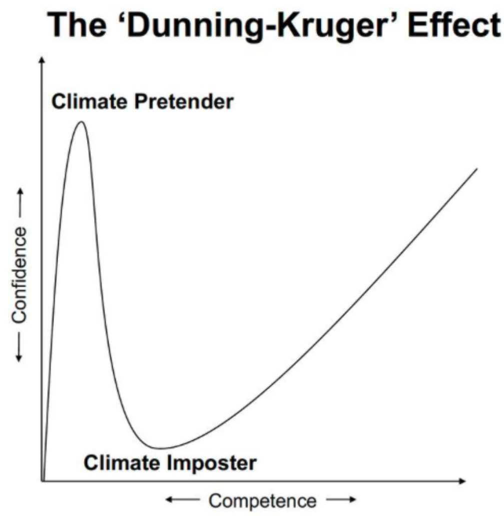
Transparency and Methodology: Understand the consultant's methodology and ensure they are transparent about their processes. A good consultant should be able to explain their approach clearly and how it will be tailored to meet your company's needs. Transparency in methodology ensures that the consultant's recommendations are based on sound principles and can be effectively implemented.

Integration with Business Strategy: The consultant should demonstrate how ESG practices can be integrated into your overall business strategy rather than being treated as an isolated set of activities. ESG initiatives should align with your company's goals and objectives, enhancing long-term value creation and competitive advantage.

External experts will undoubtedly know more than you do, but that doesn't mean they know what you need to know. This is why we believe incorporating ESG expertise into a company's operations is crucial. Engaging external ESG consultants can provide the necessary knowledge and strategies to jump-start ESG initiatives. However, relying solely on external experts is not a sustainable long-term strategy. Companies must develop internal capacities, as internal teams possess a deeper understanding of the business, its culture, and its unique challenges. This dual approach allows companies to leverage external expertise while building a solid internal foundation for ongoing ESG efforts.



A recent survey by Kite Insight of over 7,000 employees from different industries revealed a surprising finding: respondents who claimed to be only 'somewhat' knowledgeable about climate change had higher knowledge scores than those who claimed to be 'quite' or 'very' knowledgeable. This highlights a critical issue: overconfidence in one's knowledge about ESG and climate change can lead to ineffective solutions.



According to Professor Andreas Rasche, many people are overconfident regarding their climate knowledge, a phenomenon psychologists call the "Dunning-Kruger" effect. This cognitive bias means that those with lower levels of competence in an area tend to overestimate their expertise. In the context of sustainability, this overconfidence can be particularly dangerous, as ESG-related problems often require testing new knowledge and acknowledging that some existing solutions need to be revised in specific contexts.

The fast-paced evolution of sustainability knowledge underscores the importance of building internal ESG capacity within companies. By developing their teams' expertise, companies can ensure that their ESG strategies are current and tailored to their specific needs. Overreliance on external consultants can result in generic solutions that may not fully address a company's unique challenges. Moreover, an internal team continuously updating its knowledge and skills will be better equipped to adapt to emerging trends and regulations. While external ESG consultants can provide valuable short-term assistance, investing in internal capacity building is essential for long-term sustainability success.

As the global focus on sustainability intensifies, companies must navigate the complexities of ESG with care and strategic foresight. While external ESG consultants can provide valuable expertise and guidance, it is essential to be wary of self-proclaimed experts and ensure thorough vetting. Equally important is developing internal ESG capabilities, enabling organisations to implement tailored, effective, and sustainable strategies that align with their unique needs and long-term goals. By balancing external support with robust internal capacity, companies can achieve compliance, enhance their market position, and drive meaningful progress in their sustainability journey.

Sources:

1) https://www.icmr.my/wp-content/uploads/2023/08/ESG-Integration-in-Malaysia.pdf
2) https://kiteinsights.com/hubfs/Every-Job-Is-A-Climate-Job-Kite-Insights.pdf
3) https://www.verdantix.com/insights/blogs/verdantix-forecasts-17-annual-growth-rate-in-esg-and-sustainability-consulting-spend-between-2022-and-2027
4) https://www.icmr.my/wp-content/uploads/2021/10/FINAL-VERSION-The-Rise-of-Millennial-and-Gen-Z-Investors.pdf

MSWG AGM/EGM Weekly Watch 8 – 12 July 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.

Date & Time	Company	Quick-take
03.07.24 (Wed) 11.00 am	Sapura Industrial Berhad (AGM)	In FY2024, the Group achieved a lower net profit of RM7.4 million (FY2023: RM9.0 million), primarily attributed by the increase in electricity cost due to Tenaga Nasional's Imbalance Cost Pass-Through (ICPT) tariff increase effective January 2023, as well as transition expenses related to the relocation of coil spring plant from Port Klang to Bangi. In addition, results for FY2023 included one-off gain and items not in FY2024, i.e. gain on sale of Cold Drawn Bar line of RM0.8 million and write back of inventories and debts of RM1.2 million.
10.07.24 (Wed) 11.00 am	KYM Holdings Berhad (AGM)	In FY2024, KYM reported a lower revenue at RM101.13 million compared to RM120.38 million a year ago. Nevertheless, it recorded a higher net profit of RM13.05 million (FY2023: RM8.93 million), primarily contributed by a one-off gain from the sale of land. If excluding the one-off gain of RM15.28 million, KYM would have been loss-making during the year, which is unable to sustain the operating expenses and finance costs.
10.07.24 (Wed) 11.00 am	Innature Berhad (EGM)	The EGM will seek shareholders' approval for the proposed acquisition of 100% equity interest in Blu Restaurant Sdn Bhd (Blu Restaurant) for a total cash consideration of RM21.25 million. Blu Restaurant operates a restaurant under

Date & Time	Company	Quick-take
		the franchise name “Burger & Lobster” in Suria KLCC mall. Furthermore, Blu Restaurant has the exclusive development and operating right to expand and operate the “Burger & Lobster” restaurant chain in Vietnam, Indonesia and Malaysia. Besides, it also seeks approval for the proposed diversification to include the undertaking and provision of food and beverages services and related activities. The proposed diversification will enable the Group to undertake the proposed acquisition that is expected to provide additional channel of revenue.
11.07.24 (Thur) 02.30 pm	XOX Berhad (EGM)	The Company proposed a share consolidation where every 30 existing shares held will be consolidated into 1 share. The lower number of shares available in the market may reduce the volatility of trading prices for the shares.

Points of interest:	
Company	**Points/Issues to Be Raised**
Sapura Industrial Berhad (AGM)	The strong demand for new vehicles pressured most OEMs and the supply chain ecosystem of vendors and suppliers to operate at near-full capacity, demonstrating resilience and strength to deliver. (Source: Malaysian Automotive Association (MAA) Market Review 2023). (Page 28 of AR) a) Was the Group operating at near full capacity in FY 2024 as a result of buoyant demand for new motor vehicles? If yes, at what capacity is the group operating? If not, why? b) Is the Group expected to continue to enjoy stronger growth in revenue and profit in FY 2025? If yes, please provide the reasons.

Points of interest:	
Company	**Points/Issues to Be Raised**
KYM Holdings Berhad (AGM)	1. In FY2024, KYM reported a lower revenue at RM101.13 million compared to RM120.38 million a year ago. Both Multiwall Industrial Paper Sacks (Paper Sacks) and Carton Box divisions saw lower sales recorded. The decline was especially acute in the Paper Sacks division with a 15.21% y-o-y. Nevertheless, it recorded a higher net profit of RM13.05 million (FY2023: RM8.93 million), primarily contributed by a one-off gain from the sale of land. a) If excluding the one-off gain, KYM would have been loss-making during the year with a gross profit of RM10.9 million, which is unable to sustain the operating expenses and finance costs (page 72 of AR2024). How will KYM perform in the absence of such a one-off gain in FY2025? b) In Q1FY2024, KYM reported a slight decline in revenue due to lower sales by the Carton Box division, but partially offset by higher revenue from the Paper Sacks division. Nevertheless, the Manufacturing segment (comprised of Paper Sacks and Carton Box divisions) reported a PBT of RM1.65 million compared to a pre-tax loss of RM1.016 million in the previous year. Will such momentum be sustained throughout FY2025? Does the Company expect to see a recovery in the sale of Paper Sacks and Carton Box divisions after a drastic decline in FY2024? Has the Company started to experience the spillover effects of recovery in construction activities locally? What are the utilisation rates for KYM's plants in Selangor and Perak? 2. Disruption in the global supply chain, fluctuation in paper roll prices and weakening of the ringgit pose

Points of interest:	
Company	**Points/Issues to Be Raised**
	significant challenges to the operations of the Paper Sacks division. Meanwhile, The Red Sea crisis has exacerbated supply chain disruptions, leading to higher logistics costs and longer delivery lead time due to route diversions. This has resulted in delays for raw materials sourced from Europe. a) How different were the logistics costs and lead time before and after the crisis? b) Is there any concern about the supply of raw materials due to the longer lead time and costs? What is the current raw materials inventory turnover ratio? c) The Group is securing alternative supply from North America, are the quality of materials compatible with the European suppliers? How different is the cost between the two?
Innature Berhad (EGM)	In terms of the outlook of the F&B industry for Malaysia, Indonesia and Vietnam, how many full-service luxury high-end restaurants in a similar category as "Burger & Lobster" were open and closed in 2022 and 2023?

Announcement