

MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

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Revitalising The LEAP MARKET

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In its seventh year, Bursa Malaysia's Leading Entrepreneur Accelerator Platform is seeing sluggishly low trading and few new listings. Regulators are hoping to revive it via a five-year road map. Will it work?
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Revitalising the LEAP MARKET

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50 YEARS OF MALAYSIAN STOCK MARKET

BY LIEW JIA TENG

The Leading Entrepreneur Accelerator Platform — better known as the LEAP Market — is often seen as a stepping stone for small and medium enterprises (SMEs) looking to eventually list on Bursa Malaysia's ACE Market and Main Market. To date, 53 companies have been listed on it since its launch in 2017.

The LEAP Market, however, had been criticised for not having a transfer framework to facilitate the migration to Bursa's other markets. Also, its low trading volumes, mainly because the trading of shares is restricted to sophisticated investors, have hampered robust price discovery.

These shortcomings have prompted five companies — Polymer Link Holdings Bhd, JM Education Group Bhd, Zenworld Holdings Bhd (formerly known as MyKris International Bhd), Cosmos Technology International Bhd (KL: COSMOS) and TT Vision Holdings Bhd (KL: TTVHB) — to withdraw their listing from the LEAP Market since 2020.

In fact, Cosmos and TT Vision had to undergo the hassle of delisting from the LEAP Market before they could submit a fresh application to be listed on the ACE Market due to the lack of a transfer framework at the time. Critics argued that the cumbersome process not only undermined the original purpose of the LEAP Market but also imposed a financial burden on the companies, compelling them to incur advisory fees twice.

The long-awaited LEAP Market transfer framework to facilitate the migration to the ACE Market was finally introduced in April 2023. The process is not totally seamless, however, because the applicant must still apply to withdraw its listing from the LEAP Market and accord its shareholders an exit offer, or any other alternative exit mechanism, that is equitable to them.

But to give credit where it is due, under the new transfer framework, a company is delisted from the LEAP Market only upon its successful transfer and listing on the ACE Market. Previously, a company would have to withdraw its listing on the LEAP Market before attempting to list on the ACE Market, risking its listing status should the transfer fail.

New listings on the LEAP Market peaked in 2019 (see chart) but these have slowed due to various unresolved issues. There was only one listing in 2023 and there has been none so far this year.

Industry players are urging regulators to take action to revitalise and reinvigorate the LEAP Market as an SME feeder market and to serve as an effective bridge to the ACE Market and Main Market.

But the key questions are: What are the strategies and initiatives to crowd in investments and introduce flexibility to enhance the attractiveness of the LEAP Market? What specific measures can be implemented to break the stagnation and end the drought of new listings?

The new road map

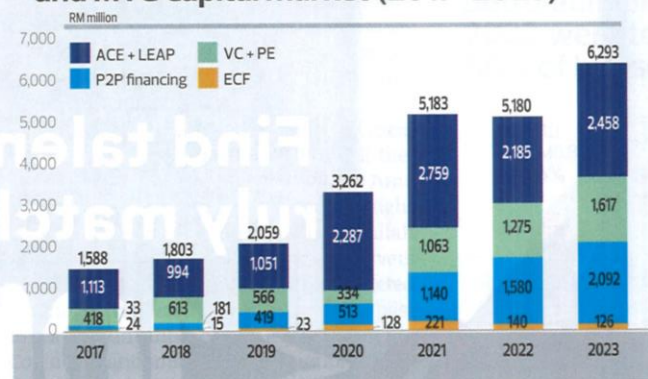
The Securities Commission Malaysia (SC) last Thursday unveiled its "Catalysing MSME and MTC Access to the Capital Market: Five-Year Roadmap (2024-2028)", which has 36 initiatives under nine strategies.

These include enhancing fundraising pathways, facilitating innovative products for micro, small and medium enterprises (MSMEs) and mid-tier companies (MTC), boosting their market readiness and awareness, growing capital market touchpoints and re-energising the LEAP Market.

According to SME Corp Malaysia, MSMEs in the country are defined as companies with

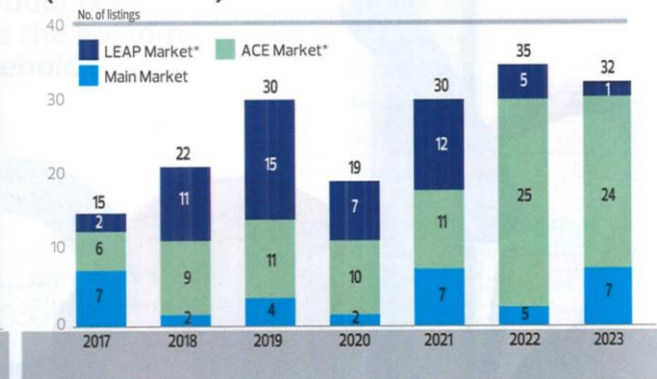


Amount of capital raised in MSME and MTC capital market (2017-2023)



Note: The data shown represents the fundraising amount in the MSME and MTC capital market and may not reflect the total fundraising amount for MSMEs and MTCs. This roadmap acknowledges that MTCs also raise funds on the Main Market. However, for the purpose of analysis, the roadmap focuses on the LEAP Market and ACE Market as the majority of issuers on these fundraising channels consisting of MSMEs and MTCs.

Number of listings on the public market (2017-2023)



Note: *MSME and MTC capital market

an annual revenue of up to RM50 million or employing up to 200 full-time employees in the manufacturing sector, or annual revenue of up to RM20 million or employing up to 75 full-time employees in other sectors.

As for MTCs, according to Malaysia External Trade Development Corp, they are defined as companies with an annual revenue of between RM50 million and RM500 million in the manufacturing sector, or between RM20 million and RM500 million in other sectors.

For perspective, MSMEs and MTCs account for 98% of the total number of companies in Malaysia, contribute 74% to the country's gross domestic product and employ 64% of the local workforce.

Funds raised in the MSME and MTC capital market rose nearly fourfold from 2017 to 2023, increasing from RM1.59 billion to RM6.29 billion (see chart), representing a compound annual growth rate of 25.8%.

As at end-April this year, there were 178 companies listed on the ACE Market, with a total market capitalisation of RM40 billion, and 48 companies listed on the LEAP Market, with a total market capitalisation of RM6.3 billion. The two markets collectively raised RM12.8 billion from 2017 to 2023.

Unfortunately, the utilisation of capital market financing among MSMEs and MTCs has been relatively low, with some MSMEs even unaware of such capital market solutions. If the initiatives under the new road map are successfully implemented, the MSME and MTC capital market could potentially increase to RM40 billion in 2028, says SC chairman Datuk Seri Dr Awang Adek Hussin.

"These companies listed on the ACE and LEAP Markets all started out as MSMEs. Many have succeeded to grow big and get listed. We are confident many more will follow in their footsteps if we have a more structured

approach to assist them as envisaged in the road map," he says.

Bursa Malaysia CEO Datuk Muhamad Umar Swift says the stock exchange operator is fully supportive of the road map. "We're excited about the initiatives to strengthen the LEAP Market, which will help overcome demand-side obstacles and cultivate a robust pipeline of ready issuers."

Muhamad Umar elaborates that the enhancements, such as widening the pool of listing advisers and expanding the methods of remuneration for advisers, signify the regulators' ability to listen and refine frameworks in accordance with market needs.

"Together with industry players, we will engage in further dialogue with the SC to implement initiatives that fit the strategies identified in the road map, to cultivate a vibrant and inclusive marketplace that firmly supports national development. The exchange will continue to widen our offer-

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ings to support MSMEs and MTCs to thrive and grow by having cost-effective access to capital market financing and other vital sustainability-related solutions,” he says.

Broaden eligible investor class for LEAP Market within a year

In the road map, the SC concedes that limited access and investment restrictions have contributed to liquidity and exit concerns.

“Access to the LEAP Market is currently limited to sophisticated investors. This may act as a barrier to a greater supply of capital for these market segments. Retail investors are increasingly seeking investment opportunities with high returns,” it notes.

“In order to tap into this source of capital, listed investment vehicles would benefit retail investors by enabling them to leverage the expertise of investment professionals and intermediaries. Proper investor safeguards would be essential, alongside product innovation, to attract more retail participation.”

Currently, sophisticated investors refer to individuals or entities that meet certain criteria set by the SC. First, there are high-net-worth individuals (HNWIs) with total assets of more than RM3 million. Second, there are trust companies registered under the Trust Companies Act 1949 with more than RM10 million, or its equivalent in foreign currency, under management. Third, there are accredited investors such as licensed persons, unit trust schemes, banks and closed-end funds approved by the SC and Bank Negara Malaysia.

In February this year, a new initiative was introduced to attract a more diverse investor base locally and regionally and encourage greater capital flow into the LEAP Market. Key features of the new guidelines on categories of sophisticated investors include a new category that takes into account the knowledge and experience of investors.

Potential investors in this category are assessed based on their education, recognised financial association membership and practical experience in relevant sectors such as banking, capital markets or insurance. Additionally, further flexibility on financial thresholds were introduced to expand the pool of HNWIs.

Astramina Advisory Sdn Bhd founder and managing director Datin Wong Muh Rong acknowledges that the regulators “have done a lot in the past few years” in terms of broadening the definition and pool of sophisticated investors.

“Now, it is no longer just based on income and net worth. They also look at your qualifications, for example, whether you are a C-suite executive and if you have certain qualifications,” she tells *The Edge*.

The definition of sophisticated investor is not the issue, Wong points out. Instead, what the authorities need to do is to allow retail investors to participate in the LEAP Market — but only in companies that have been listed for more than a year and have already had their accounts audited and published on the Bursa website.

She insists that sophisticated investors are only needed to participate during the pre-initial public offering and IPO stages. This is similar to the normal private placement exercises undertaken by ACE or Main Market companies, which allow the participation of only sophisticated investors.

“Once the company has been listed for more than a year and has already had its audited accounts published, this means the company would have been listed for almost two years. At this point, retail investors should be allowed to invest in the LEAP Market. There is no longer a need to particularly protect the retail investor, as all publicly available information is accessible,” says Wong.



Astramina's Wong acknowledges that the regulators have done a lot in the past few years in terms of broadening the definition and pool of sophisticated investors



MSWG's Ismet: Regulators should consider liberalising the LEAP Market to include retail investors. An expanded and diversified investor base is essential for a vibrant and dynamic LEAP Market.



Tradeview Capital's Ng highlights that the lack of liquidity and transactions have affected the efficiency and potential positive economic impact of the LEAP Market



Baker Tilly's Heng: We need to see an increase in the promotion and awareness of the LEAP Market among investors and companies.

She reiterates that prohibiting retail investors from investing in LEAP Market companies can be perceived as excluding them from the opportunity to invest in potentially strong and good companies and hindering value creation.

Minority Shareholders Watch Group CEO Dr Ismet Yusoff concurs that it is crucial for regulators to reconsider the decision to restrict the LEAP Market to only sophisticated investors.

“Regulators should consider liberalising the LEAP Market to include retail investors. An expanded and diversified investor base is essential for a vibrant and dynamic LEAP Market,” he tells *The Edge*.

“The current limitation on market participants results in thinly traded volumes, which poses challenges for investors attempting to enter or exit positions. Increased liquidity would lead to more accurate price discovery, better reflecting supply and demand, and would help narrow the bid-ask spread.”

In today's financial landscape, retail investors are becoming increasingly savvy and sophisticated. Therefore, they should be allowed to participate in the LEAP Market, says Ismet. “To facilitate this transition, it is essential to provide comprehensive investment education to retail investors, coupled with clear and sufficient warnings about the risks involved before opening the LEAP Market to the public.

“Additionally, enhancing surveillance and scrutiny of potential listing entities and thoroughly vetting the backgrounds of key personnel prior to approval are crucial steps to safeguard retail investors. These measures will help ensure a secure and transparent market environment while broadening access to investment opportunities.”

Widening the pool of listing advisers in the next two to three years

Small firms often face high costs associated with fundraising, in particular the professional fees and compliance expenses. While this applies to various capital market instruments, market engagements have revealed that high costs and compliance requirements are particularly challenging when it comes to listing, according to the SC.

The estimated total listing cost for the LEAP Market is about RM1 million to RM2 million (constituting 13% of total funds raised). This translates into a higher average listing cost relative to the raised amount when compared to 9% in the ACE Market

and 4% in the Main Market, another factor to consider before listing on the LEAP Market.

In the road map, the SC pointed out that although the process of obtaining listing approval has been expedited from a regulatory perspective, market engagements indicate that there are instances where the preparation to meet the compliance requirements for listing may take two to three years. “This highlights a need for targeted measures aimed at reducing costs and addressing the readiness of the smaller companies to move the needle for high-potential companies that are capital market-ready and primed for listing.”

Therefore, the SC is now considering allowing start-up accelerators, venture capitalists, private equity players, remisiers, as well as legal and accounting firms, to assume the role of approved advisers for the LEAP Market listing.

This initiative aims to diversify the pool of listing advisers, especially those with different areas of expertise relevant to SME segments. Its main objective is to encourage a more competitive market in the adviser space and a better pool of expertise to provide support services for SMEs.

But first, regulatory requirements surrounding the eligibility criteria for LEAP Market-approved advisers need to be reviewed.

Besides, the SC also aims to allow alternative means of remuneration for advisers, in lieu of cash, to provide financial management flexibility and help financially strained SMEs reduce their cash outflows. An example of an alternative remuneration method is payment in the form of equity.

Baker Tilly Malaysia group managing partner Andrew Heng believes that introducing more flexible listing rules that accommodate the unique needs and characteristics of SMEs could attract a wider range of companies to the market.

“There are a lot of interesting, successful and sustainable businesses in Malaysia that may not fall into the typical categories of businesses that we are used to seeing in a listed entity. We need to see an increase in the promotion and awareness of the LEAP Market among investors and companies. Following the initial listings, there just has not been enough buzz surrounding the LEAP Market as an ideal platform for listing,” he tells *The Edge*.

Heng opines that broadening the list of approved advisers could make it easier for SMEs to find suitable advisers to assist them

in the listing process. This, in turn, provides benefits such as a lower barrier to entry for companies considering listing on the LEAP Market, while potentially lowering the cost of listing for SMEs.

In addition, opening up the pool of approved advisers could broaden the investment ecosystem, bringing deeper industry knowledge and investment experience, which would attract more investors to the market.

“As for Baker Tilly, we remain focused on our role as reporting accountants for IPO cases, where our specialised resources and expertise have made us the leading firm in relation to the number of IPO files completed each year. We are always keen to play our part in helping the market grow. While we are not ruling out the possibility of exploring new roles, our primary commitment is to continue excelling in our current focus area,” he stresses.

Missing the point?

Astramina's Wong says the issue with listing advisers is not about expanding the pool. Instead, the real issue is that whoever has been approved as the LEAP Market adviser should be given visibility and clarity that they will be able to hold their client's hand when they transfer to the ACE Market.

“If these advisers sponsor the LEAP client when it is small, surely they should not be discriminated against as the adviser when the client is now bigger and on a better footing and is seeking a transfer to the ACE Market. The progression for the adviser should be clearly spelt out. As it is, the criteria that are set out for the LEAP Market adviser to act as a transfer adviser for ACE Market are currently way too stringent and not practical for implementation,” she points out.

For example, one of the current criteria for the approved adviser to LEAP companies to qualify as a joint approved adviser for ACE Market companies is that they must hire qualified personnel who have been approved by the authorities, says Wong. “These are called ‘qualified persons’. There are presently about 100 qualified persons in the market and all of them are now engaged by the various investment banks in Malaysia. Thus, all of them are busy and presently fully utilised.

“The probability of these qualified personnel joining a LEAP Market adviser is low. This is because by joining a company that advises LEAP companies, they lose their qualifications after a few years [as they need to be with an investment bank as part of the licensing requirement]. So, which logical qualified personnel would join a LEAP adviser then?”

Therefore, she feels that the natural progression would be for the existing LEAP Market adviser to be able to fully advise and act on its own when it is time for the LEAP company to make the transition to the ACE Market.

Lack of liquidity and transactions

Boutique fund house Tradeview Capital Sdn Bhd CEO Ng Zhu Hann highlights that the lack of liquidity and transactions have affected the efficiency and potential positive economic impact of the LEAP Market.

“As transactions continue to be low or inactive, it has deterred potential companies from considering listing on the LEAP Market as a viable revenue. I do acknowledge the effort taken by Bursa and the SC in trying to make the LEAP Market more vibrant by introducing the framework for transfer to the ACE Market. However, the crux of the LEAP Market issue is investor participation. Limiting the LEAP Market to only sophisticated investors and the additional process

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LEAP Market could flourish with retail participation

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to get verified as a sophisticated investor are among the issues faced,” he tells *The Edge*.

According to Ng, the fact that retail investors are entirely excluded from the LEAP Market does not make sense, considering that they are allowed to participate in peer-to-peer (P2P) financing and equity crowdfunding (ECF) campaigns, which clearly are far riskier than the LEAP Market.

“It is my genuine belief that the LEAP Market can flourish if the regulators allow retail participation [with the same limitations as P2P financing and ECF platforms] and encourage higher public spread requirements from the current 10% to a minimum of 20%. This will address the pressing liquidity issue,” he suggests.

Ng says nevertheless, the SC’s move in February to broaden the definition of sophisticated investors is a positive development. In the past, these referred to HNWI’s (RM300,000

per annum for individuals, RM400,000 per annum for spouses or RM1 million in capital market products), accredited investors and companies with net assets exceeding RM10 million.

Today, the definition has been broadened to include the knowledge and experience of individuals, for instance, those who have financial degrees related to the capital markets such as certified public accountant, chartered accountant and Chartered Financial Analyst.

“This is a good move because the measurement is no longer just based on monetary considerations alone. On this end, credit must be given to the SC for its willingness to adopt a pro market development initiative to expand [the definition of] sophisticated investors. This is in line with jurisdictions around the world and cannot be removed in entirety,” he says.

“Allowing retail investors to participate with a threshold [maximum investment of

RM30,000 to RM50,000 per annum] is the next move that the SC can do to encourage participation. After all, there are many retail investors who dabble in speculative stocks in the ACE Market that are of higher risk compared with some of the good quality names on the LEAP Market.”

On widening the pool of listing advisers, Ng urges the SC to consider regulated entities with an investment advice licence — namely the Capital Markets Services Licence — for investment advice, as well as Audit Oversight Board-certified audit firms or law firms that have partners with relevant capital market experience and need to be registered with the regulators.

“There must be some level of control over the approved advisers to ensure scrutiny is there for the companies being listed on the LEAP Market as we do not want any questionable companies being listed while regulators are considering broadening the

pool of eligible investors. Tradeview Capital would definitely be keen to play a part as an approved adviser,” he says.

Ng reiterates that the issue with the LEAP Market is not the supply of companies but the lack of trading activity.

“If investor participation increases, naturally there will be more companies wanting to list on the LEAP Market. Resolve the transaction activity and everything will likely fall into place. This is also in line with the SC’s agenda to support SMEs via the capital market through the five-year MSME road map that was launched on Thursday,” he notes.

As the regulators seek to draw more funds and give advisers greater flexibility, the SME, MSME and MTC fundraising and investment environment is anticipated to be more vibrant in the coming years. With these changes, it will be worth watching to see whether the LEAP Market finally lives up to its promise. ■