MSWG
MINORITY SHAREHOLDERS WATCH GROUP

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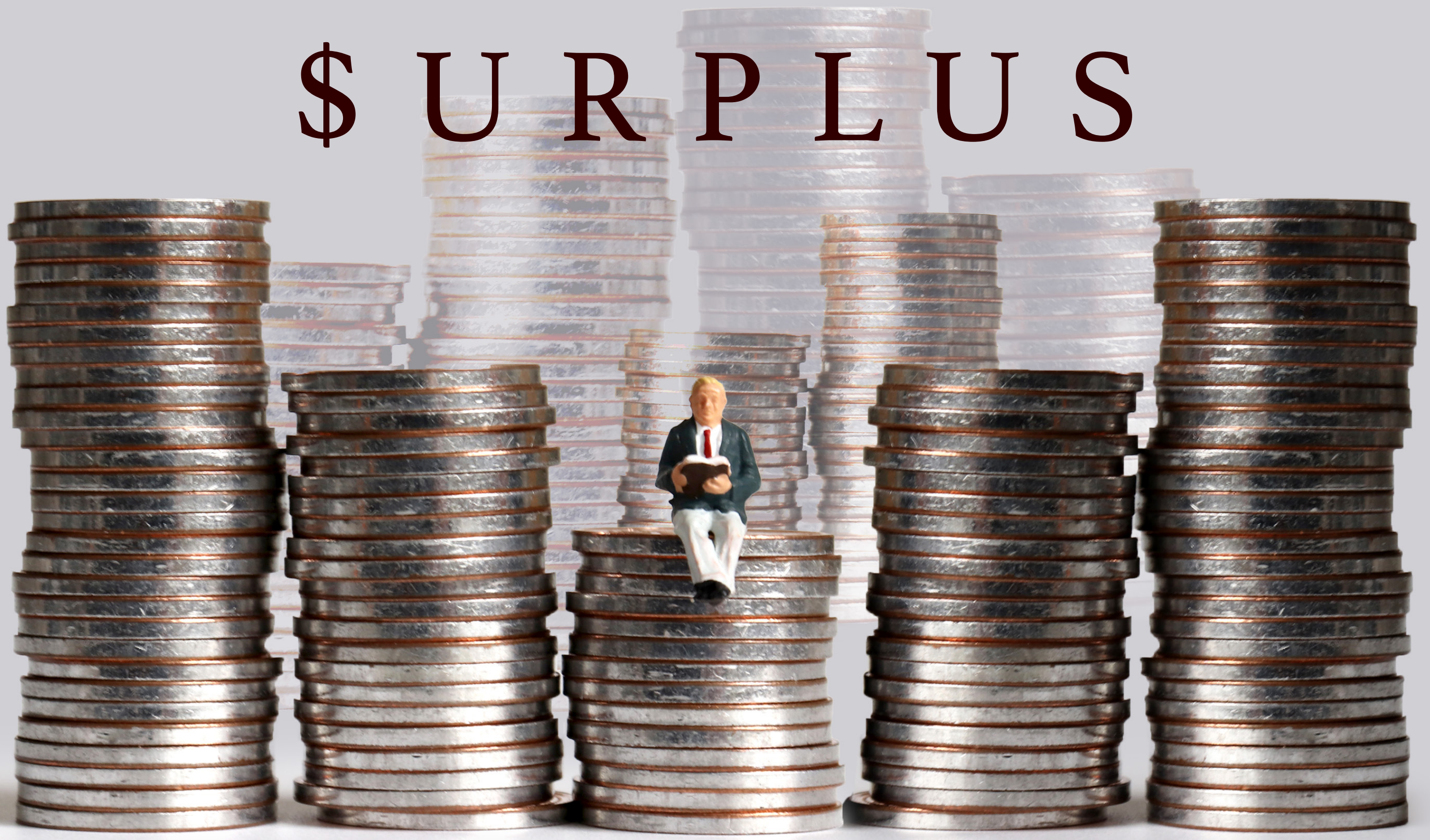

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WHEN CORPORATES SIT ON CASH, INVESTORS SIT IN THE DARK

A fortress of cash may signal corporate prudence. However, when public listed companies (PLCs) hoard excessive cash for years without a transparent or strategic plan for its use, it raises concerns about capital management and corporate governance.

Idle cash doesn't just sit there – it erodes shareholder value, depriving investors of the returns they deserve. Nowhere is this clearer than in the cases of Computer Forms (M) Berhad (CFM), Insas Berhad (INSAS) and Eksons Corporation Berhad (EKSONS) – PLCs that have long drawn scrutiny for their unproductive cash hoards.

Computer Forms (M) Berhad

Founded in 1961, CFM operates in the printing and packaging industry. Despite its low-growth core business, the Company holds a large cash reserve, stemming from its 2021 sale of four land parcels in Setapak, Kuala Lumpur to FCW Holdings Berhad for RM91.1 million.

As of 31 December 2024, CFM is sitting on a net cash position of RM86.12 million, or 66% and 72% of its total assets and equity, respectively. MSWG raised questions on the high cash level in its recent AGM, but CFM avoided a direct explanation, relying instead on vague buzzwords (see sidebar). The Company should clarify plans to address the gap – such as dividends or share buybacks – rather than citing "debt reduction," which contradicts its substantial net cash position.

Without a clear investment or acquisition plan, CFM's idle cash hoard is not contributing to value creation. Shareholders, instead of seeing potential for growth, are left questioning the Company's commitment to maximising shareholder value. This situation reflects poor governance practices, as the board has not demonstrated effective leadership in managing the Company's financial resources.

EXCERPT OF Q&A WITH COMPUTER FORMS (M) BERHAD

MSWG's Question

CFM has a net cash position of RM86.3 million (as of 30 September 2024), which is significantly higher than its market cap of RM31 million as of 19 February 2025.

Does the Group have any plans to unlock value for shareholders by returning some of its cash through dividends or share buybacks?

CFM's responses:

The company will consider the industry growth prospects and shareholder expectations to adapt strategies dynamically to maximize shareholder value. Operational enhancements such as debt reduction, spin-offs and growth initiatives are always on the map of the Company as long as it is not detrimental to the shareholder value. The Company will cautiously evaluate the cash position to leverage the needs of its operating activities, geographical market expansion, strategic reinvestment and any potential approaches that will yield remarkable returns to improve shareholders value.

Insas Berhad

Insas, a diversified investment holding company, has also faced criticism for hoarding cash without deploying it to benefit shareholders. As of 31 December 2024, Insas held **RM921.4 million** of net cash, representing about one-third of its total assets and equity.

For years, minority shareholders have been asking Insas about its plan to use its billion-ringgit cash pile. Some shareholders repeatedly requested the Company return some of the cash through dividends. However, Insas continues to maintain a prudent and conservative approach to managing its coffers (see sidebar).

Insas maintained that a stable 2.5 sen cash dividend per share for FY2024, has provided a reasonable dividend yield of 2.7%. The Board was satisfied with the dividend payout as it would preserve the retained earnings for the long-term growth of the Company.

EXCERPT OF Q&A WITH INSAS BERHAD

MSWG's Question

The cash-rich position and current low dividend payout ratio of 20% indicate that Insas is capable of rewarding shareholders with higher dividends. Will the Board consider rewarding shareholders with a higher dividend? Otherwise, how does the Management unlock and maximise the value of the healthy cash pile?

Insas' responses:

We expect FY2025 to be another challenging year ahead. In light of global economic uncertainties, the management has maintained a prudent and conservative approach, ensuring sufficient cash reserves to meet the funding requirements of the core business units and provide flexibility for the Group to invest in good investment opportunities that may come along. The Group is constantly looking for and evaluating good and viable investment prospects that can generate attractive return on investments.

Further, minority shareholders opined that the successful listing of its stockbroking subsidiary M&A Securities Sdn Bhd via a reverse takeover (RTO) back in 2023, has relieved Insas from the need to support working capital for the stockbroking business. Moreover, the RTO exercise means the stockbroking arm can fulfil its future equity and debt funding requirements through the financial and capital markets independently.

Insas also holds a 13.52% stake in Inari Amertron Berhad, valued at RM1.066 billion—far higher than its market capitalisation of RM610 million. Year after year, shareholders remain frustrated as the Company fails to articulate a clear strategy for unlocking value for shareholders.

Eksons Corporation Berhad

Eksons, now mainly involved in property development, is another PLC sitting on excess cash without a clear deployment strategy. As of 31 December 2024, Eksons' short-term investment securities, term deposits, cash and bank balances amount to **RM265.23 million**, representing 66% of its total assets of RM402.38 million. A substantial RM246.4 million was invested in short-term investment securities, primarily managed by international investment banks outside Malaysia. EKSONS has been allocating a significant portion of its cash to investment securities since FY2018. It has no bank borrowings.

In responding to MSWG's questions on the strategy to reinvest its cash reserves or any consideration to return excess cash to shareholders (see box article below), Eksons said it was reviewing potential core business, and the priority would be to acquire new businesses or to invest in property development when conditions are favourable.

Q&A WITH EKSONS BERHAD

MSWG's Question

As of the end of FY2024, the Group's short-term investment securities, short-term fixed deposits, cash, and bank balances amount to RM283.74 million, accounting for approximately 68% of its total assets of RM418.32 million. This brings the Group close to triggering the Cash Criterion under Paragraph 8.03 of Bursa Securities Main Market Listing Requirements, potentially classifying it as a Cash Company.

a) Does the Group have any strategic plans to reinvest its cash reserves in acquiring a new core business, given the cessation of plywood operations and the need for new project launches since 2018?

b) If there are no immediate plans for acquisition, will the Board consider distributing additional dividends to return excess cash to shareholders?

Eksons' responses:

a) The Group is in the midst of reviewing potential core businesses for the Group besides assessing the property development viability of its land in Seremban 3.

b) *Our priority would be to acquire new businesses or to invest in our property development if conditions are favourable. Distribution of dividends will be considered as part of the strategy of running a sustainable company.*

In a market ripe with growth opportunities, this idle cash risks eroding shareholder value, exemplifying how prolonged unutilised reserves can lead to value destruction.

Why Hoarding Cash Is Value Destructive

The issue with PLCs holding excessive cash without a strategic plan goes beyond idle capital. It's a matter of governance. When a company has a significant cash reserve, shareholders expect the management to invest the funds in growing the business, reduce debt, or return the cash to shareholders. Failing to do so can be perceived as a missed opportunity for value creation.

Companies that hoard cash without a clear plan for its use raise questions about the competence and priorities of their management and board. Investors who expect a return on their capital may grow frustrated by the lack of action. This can erode trust in the leadership and result in negative sentiment, further impacting the company's stock price.

Unlocking Value

Cash-rich companies with limited growth prospects, such as CFM, INSAS, and EKSONS, should prioritise returning excess cash to shareholders through dividends or buybacks. Dividends provide immediate returns and signal confidence while share buybacks reduce outstanding shares, boosting earnings per share and stock prices. Both methods can help unlock value and alleviate the concerns surrounding excess cash.

However, such measures require board accountability. Minority shareholders must demand transparency through AGMs, advocating for clear capital management frameworks.

One such example is IFCA MSC Berhad, which clearly states its plan to retain not more than RM70 million in cash on the balance sheet, and if so, the Board plans to return 100% of excess cash to shareholders primarily in the form of cash dividends.

If the cash balance drops below RM70 million due to major value-enhancing opportunities, IFCA MSC shall have the liberty to temporarily adjust the dividend payout to restore the cash balance, if necessary.

Conclusion

Persistent cash hoarding by PLCs like CFM, Insas and Eksons raises concerns about capital management practices. Idle reserves may limit shareholders' potential returns, such as return on equity (ROE), and erode investors' confidence.

To address this, the Board should review its strategies to enhance shareholder value and actively monitor the Group's ROE. If the PLCs are over-capitalised, the Board should consider right-sizing its balance sheet and returning excess capital to shareholders via dividends. The board of directors should take a more proactive approach to ensuring financial resources are managed effectively and aligned with shareholder interests.

Ultimately, minority shareholders should hold companies accountable for capital management decisions, encouraging PLCs to deploy or distribute reserves to shareholders.

[END]

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

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