

Adding value to stocks

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THE strong performance of the SpaceX initial public offering or IPO on Nasdaq is a sign that the US exceptionalism trade is starting to reappear.

The listing attracted money from institutional and retail investors from across the world, including a listed company on Bursa Malaysia.

Although SpaceX is still a loss-making company, investors were drawn in by the pedigree of its iconic founder Elon Musk and to its narrative around the potential of the space economy and the company's big plans.

The timing of the listing was also right. International investors have been increasing their exposure to the artificial intelligence (AI) megatrend, underpinned by strong returns amid resilient economic data, elevated rates and the gravitational pull of the Magnificent-7 stocks.

With the United States and other developed markets or DMs on the cusp of enjoying stronger sustainable economic growth rates while China continues to underperform, it all points to sustained outflows from emerging markets or EMs like Malaysia.

The troubling signs are already there. After enjoying net inflows in the four months of 2026, the trajectory on Bursa Malaysia turned outwards sharply with net outflows of RM3.7bil in May, bringing the year-to-date figure to flat.

The exchange experienced some RM22bil in outflows in 2025 as investors sought better returns elsewhere. Foreign ownership of stocks has also fallen to fresh lows of about 18%.

A JP Morgan report last month noted improving shareholder returns is crucial for Asean markets to revitalise their stock markets amidst a challenging macro backdrop.

The flow of capital across borders shows that the days of benchmarking against peers in the domestic market and tolerating long-standing corporate governance issues are numbered.

With market access made easy by electronic trading and trading apps, policymakers and market regulators across Asia, including Bursa Malaysia and the Securities Commission (SC), have come to realise that market reform measures are necessary for the domestic equity market to attract and retain investor interest and continue growing. Relying on sustainability and environmental, social and governance or ESG benchmarks are insufficient.

Regulators in Japan and South Korea have responded with "value up" programmes of their own to tackle their own undervaluation issues like low price-to-book ratios, inefficient capital use and governance gaps with the aim to boost liquidity, broaden the stock universe and attract inflows.

The changes made under the programmes have seen their respective benchmarks hitting historic highs this year, helped greatly by the tailwinds of the AI thematic play and the tech-heavy scale of some of their corporate entities.

As the value up programmes have shown signs of success, Asean markets like Singapore, Malaysia and Thailand have jumped on the bandwagon.

The inflection point

Bursa Malaysia and the SC launched the MY Value Up Programme in April as a voluntary initiative. The main aim of the programme is to shift corporate culture towards active value creation for shareholders, JP Morgan believes.

Bursa Malaysia chief executive officer (CEO) Datuk Fad'l Mohamed tells *StarBiz 7* the move is timely.

"Malaysia's capital market is at an inflection point. The fundamentals are in place – strong companies, an established regulatory framework, and a well-functioning market infrastructure.

"The priority now is to strengthen how companies articulate and deliver value to investors," he says.

He backs the voluntary method as introducing more prescriptive or punitive measures in the programme (such as in Japan and South Korea) too early could risk resistance or compliance in form rather than substance.

While Japan's value up programme focused on broader, sustained corporate governance and management reform to tackle its own underperformance, MY Value Up is primarily a stock market/capital market reform tool.

"MY Value Up is structured as a principles-based initiative, giving companies the flexibility to tailor value creation plans in line with their operating context. It enables boards and management teams to build capability and confidence progressively.

"This is important given that companies are starting from different levels of maturity across areas such as investor engagement, capital allocation disclosure and forward planning. "This is consistent with



■ Troubling signs point to sustained outflows from emerging markets like Malaysia

■ MY Value Up gives companies the flexibility to tailor value creation plans

■ Better governance will count for nought if Malaysia continues to be a laggard

Malaysia's broader regulatory philosophy, which emphasises market-driven improvement and 'apply or explain' principles, rather than prescriptive mandates," Fad'l adds.

MY Value Up is no quick fix for the local equity market. Outcomes in peer markets generally take years to materialise.

MY Value Up primarily aims to encourage better mid to long-term strategy disclosure, clearer communication of growth stories, stronger governance, capital efficiency (eg, return on equity or RoE), return on invested capital, total shareholder returns metrics), and investor engagement to address valuation discounts, improve liquidity, and shift companies' focus from compliance to active value creation.

Some local corporates already have experience doing that. Banking groups like CIMB Group Holdings Bhd, Malayan Banking Bhd and RHB Bank Bhd have announced strategic plans such as Forward 30, M25+ and Progress 27, respectively. These have been well received by the investment community, with stocks' share prices outperforming the benchmark.

Now, the regulators say it's time for the others to step up.

As an incentive, government-linked investment companies (GLICs) like the Employees Provident Fund (EPF), Permodalan Nasional Bhd (PNB), Retirement Fund (Inc) or KWAP and others plan to direct capital toward participating firms as reward.



Ng: The danger of chasing trends in the stock market is that investors tend to ignore the fundamental principles of a company's profitability.

"The corporate sector needs to be incentivised via fund flow and investments.

"If indeed GLICs like the EPF, PNB, KWAP, Tabung Haji and Lembaga Tabung Angkatan Tentera are committed to deploying capital to corporates that meet the RoE targets, then there is greater motivation for corporates to participate actively," Ng Zhu Hann, founder and CEO of Tradeview Capital, a boutique asset management company, tells *StarBiz 7*.

While about 250 of Malaysia's roughly 1,100 listed companies have a RoE of above 8%, the equity market's capitalisation has only increased by 2.3% over the decade, well below the Malaysian economy's growth average about 5%, suggesting that companies are not effectively translating economic growth into market value.

As a result, 28% of Malaysia's top 100 listed companies trade below their book value. Many



Fad'l: The MY Value Up programme enables boards and management teams to build capability and confidence progressively.

companies also suffer from weak capital productivity compared to regional peers. Their weaker return on assets indicates that capital is not being used as efficiently as it could be.

The stability, low beta and somewhat defensive nature of Malaysia's stock market is insufficient to attract foreign funds to maintain participation for the long-term.

The heavy weightage of old economy stocks operating in mature markets doesn't help the cause either.

Nevertheless, sustained dividend yields and progressive increase in RoE would be a good catalyst for the market, Ng says. He believes any progress made by the MY Value Up programme must be supported by fund flows from local institu-



Ismet: Boards should be more explicit in articulating their value-creation strategy and the expected outcomes.

dominance of family-run enterprises, conglomerates and state-owned entities, where decision-making power is often concentrated among a limited group of shareholders, resulting in a lack of clear separation between ownership and management.

However, strengthened governance frameworks have been a key driver behind the rerating and robust market performance in Japan, South Korea and Singapore in recent years.

For Malaysia, though, a broader emphasis on returns is needed, much like when the government embarked on the GLC transformation programme of the early 2000s.

In that programme, much was made about governance and transparency but the focus was on improving shareholder return mainly by picking off the low hanging fruits of what those companies were capable of doing, earnings-wise. In Malaysia's case, the Minority Shareholders Watch Group (MSWG) believes the most immediate issue for local boards is to make shareholders understand their actions clearly. "Many companies communicate their operational achievements well, but investors often struggle to understand how those achievements will ultimately translate into shareholder returns. "Boards should, therefore, be more explicit in articulating their value-creation strategy, how capital is allocated, the expected outcomes, and how success will be measured over time," says Ismet Yusoff, the CEO of MSWG. He adds that from MSWG's

Figure 1: Overview of the core components of value up plans

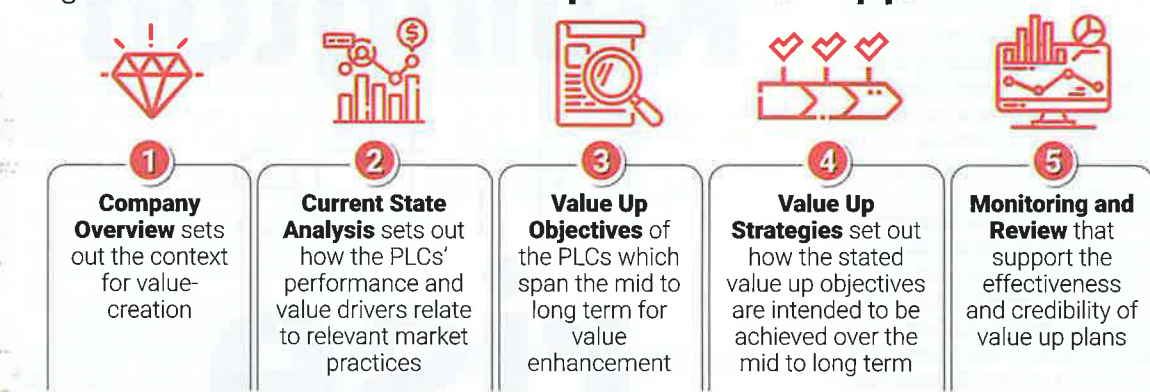


Figure 2: Objectives and intended outcomes of MY Value Up



RM3.7bil
Net outflows from Bursa Malaysia in May

engagements with listed companies, underperformance is often linked to a combination of governance and strategic shortcomings.

Among the common issues observed are weak oversight of capital allocation decisions and a tendency to focus on short-term operational matters rather than long-term value creation.

In some cases, boards may also lack the diversity of skills needed to navigate changing market conditions, Ismet says.

Shareholders step up

Ismet says constructive shareholder activism can play an important role in strengthening market discipline and corporate accountability. The country has seen increasing shareholder engagement over the years, particularly from institutional investors, but there remains scope for greater participation.

Ng of Tradeview believes there is a need for a dedicated value up activist fund to ensure the success of the MY Value Up programme.

He says the fund can start with a RM2bil allocation from the government or respective GLICs as seed money to be matched with private sector funds just like Singapore's Equity Market Development Programme.

"This value up activist fund will then act as the fund to catalyse change to meet objectives of the government to boost capital market vibrancy," he opines.

Although voluntary at present, the MY Value Up programme may become more mandatory later if uptake is insufficient.

While MY Value Up is now targeting mainly the top 88 companies with a minimum market capitalisation of RM4bil, smaller companies are welcomed to participate.

Without clear articulation of strategic ambitions to boost earnings and returns, all the good intentions of what better governance will bring will count for nought if Malaysia continues to be a laggard.