

**MSWG****MINORITY SHAREHOLDER WATCHDOG GROUP****Badan Pengawas Pemegang Saham Minoriti Berhad**

Incorporated in Malaysia * Company No. 524898-M

The Observer

09.02.2018

VOICE OF MSWG

The local capital markets received a boost this week when a slew of new measures to stimulate market vibrancy were announced.

These included liberalising margin financing rules, allowing intraday short selling to ALL investors and introducing a new category of traders who trade on their account, known as 'Trading Specialists', the idea being of course to boost market participation.

There were also other measures, including the introduction of a volume-based incentive programme and giving new investors a fee waiver on trading and clearing fees for six months, both also designed to encourage more participation.

The PM also announced the establishment of the Malaysia-Singapore Connect, enabling stock market investors on either side of the divide to trade in the other's capital markets seamlessly.

On Short Selling

Presently, Malaysia only permits investors to buy shares ('go long') if they believe them to be undervalued. It does not allow investors to sell stocks that they do not own, if they believe the stock is overvalued ('go short'), except for securities which fulfil certain requirements for regulated short-selling.

Even when introduced, several safeguards were put in place like covered short selling whereby the stock must be first borrowed using the Stock Borrowing and Lending (SBL) mechanism. The counters on which such short selling can be carried out were also limited.

Naked short selling was only available to certain dealer representatives who had to close their short positions on an intra-day basis. The 'uptick rule' further ensures that they can only short at a price higher than the last done price.

Whether it is primal in nature (the unpopular stigma against those who bet a stock will go down) or simply being contrarian to market participants wanting (or willing) the stock to go higher, short selling has traditionally been frowned upon.

From an efficient-market hypothesis standpoint, short selling plays an important role in markets as they facilitate price discovery, increase liquidity and enhance market efficiency.

This latest proposal to liberalise short selling acknowledges its importance as a market strategy since a stock can only be accurately priced if it allows market participants to evaluate it (and act accordingly) on both ends of its pricing pillars - that you buy undervalued stocks as you expect the price to go up and that you sell overvalued stocks as you expect the price to go down.

The Securities Commission Chairman Tan Sri Ranjit Ajit Singh was quick to add the SC's stance that 'naked' short selling will remain prohibited. It is unsure, however, that prohibiting naked short selling will achieve the intended outcome.

On Malaysia-Singapore Connect

This week's initiatives were aimed at increasing local market vibrancy and cross-border integration with Singapore's markets, with the challenges of joint market regulation by the SC and the Monetary Authority of Singapore.

This corresponds with the ongoing efforts of the ASEAN Capital Markets Forum (ACMF) to enhance financial connectivity across ASEAN capital markets.

This bilateral link extends beyond trading to include post-trade arrangements like clearing and settlements and depository operations. 'Operationalising' these activities, including the cross-border supervisory and enforcement arrangements, will be facilitated by the lessons learnt from the now-defunct ASEAN Trading Link (terminated last year - five years after its launch).

We are optimistic more value enhancing market collaboration will occur between Malaysia and Singapore.

This Week's Market Correction

The breathless speed at which the markets climbed in 2018 came to a rude pause this week. The entire region followed America's cue and relinquished most, if not all, of the year-to-date gains, ostensibly due to inflationary fears.

Or put more simply, the fear that the rates of economic growth/recovery here and in the US might trigger a quicker pace of rate increases, which could send highly leveraged economies into recession.

These fears are not entirely unfounded. But it is also partially a case of over-reaction resulting in a severe market correction.

Household debt remains high in Malaysia, hovering somewhere around 90% of GDP, while corporate debt also remains high, thanks to a decade of accommodative interest rates.

This same phenomenon of low rates has also seen our government debt, including contingent liabilities, remaining stubbornly elevated at somewhere around 75% of GDP, which is also a concern.

If borrowing costs were to increase, recessionary concerns might heighten, though it is calming that these concerns will occur in a period where our underlying economy is showing healthy signs of progress and recovery.

MSWG TEAM

9 February 2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

CAELY HOLDINGS BHD (“CHB”)

CHB had on 16 January 2018 announced that the company was proposing to undertake a bonus issue of 40,000,000 Warrants, on the basis of one (1) Warrant for every two (2) existing ordinary shares in CHB held by the entitled shareholders of CHB on an entitlement date to be determined later (“Proposed Bonus Issue of Warrants”).

[Source: CHB’s announcement on Bursa Malaysia’s website on 16 January 2018]

MSWG’S COMMENTS:

MSWG is concerned that the Board of CHB had responded to an Unusual Market Activity (“UMA”) query by Bursa Malaysia on 5 January 2018 that they were not aware of any corporate developments, rumours or reports concerning the business and affair of the Group and that there are no other possible explanations that may have contributed to the UMA although just 11 days later they announced the Proposed Bonus Issue of Warrants on 16 January 2018.

It is highly unlikely that the Board was not aware of the Proposed Bonus Issue of Warrants on 5 January 2018. The UMA may have been caused by those trading on privileged information, i.e. the forthcoming Proposed Bonus Issue of Warrants announcement. We hope Bursa Malaysia could solicit more information from the Board to determine if the Board was aware of the Proposed Bonus Issue of Warrants on 5 January 2018, the date the company replied the UMA and establish the truth of the matter. The regulators expect a level playing field and that all price sensitive information be announced on a timely manner.

MSWG'S AGM WEEKLY WATCH 12 - 16 FEBRUARY 2018

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholder Watchdog Group’s (MSWG) watch list.

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	Venue
13.02.18 (Tue) 09.30 am	Puncak Niaga Holdings Bhd (EGM)	Concorde Hotel Shah Alam, No. 3, Jalan Tengku Ampuan Zabedah C9/C, Shah Alam

13.02.18 (Tue) 11.00 am	Kuala Lumpur Kepong Bhd (AGM)	Wisma Taiko, 1 Jalan S.P. Seenivasagam, Ipoh, Perak
13.02.18 (Tue) 02.30 pm	Batu Kawan Bhd (AGM)	Wisma Taiko, 1 Jalan S.P. Seenivasagam, Ipoh, Perak
15.02.18 (Thur) 10.30 am	TH Heavy Engineering Bhd (EGM)	Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, KL

The points of interest to be raised:	
Company	Points/Issues to Be Raised
Puncak Niaga Holdings Bhd (EGM)	We noted that on page 11 of the Circular, the range of value could potentially be reduced by up to RM25.32 million if the deferred tax assets are not realisable. What steps are being taken by Puncak Niaga Group to realise the deferred tax assets?
Kuala Lumpur Kepong Bhd (AGM)	<p>1) As stated in the Financial Review on Page 26 of the annual report, in FYE2017, the business operating profit of Oleochemicals Division showed a 61% decline, from RM299.4 million in FY2016 to RM115.5 million in FY2017. The decline was due to a major stock write-down and asset impairment which was caused by hedging of the raw material purchases as reported in the Chairman's Statement on Page 18 of the annual report.</p> <p>Could the Board share the hedging policy of the Group for the purchase of raw material? Would there be any change in the policy to ensure that the same write-down would not happen in future?</p> <p>2) The Group has planted about 8,000 hectares of oil palm in Liberia of which 40% are matured with ages ranging from 4 to 9 years. As reported in the Management Discussion & Analysis on Page 29 of the annual report, the progress in Liberia is slow pending the resolution of several land issues, the execution of the recommended High Carbon Stock approach methodology and the social impact exercise with the local communities.</p> <p>(a) What were the revenue and net profit contributed by Liberia Operations in FY2017?</p> <p>(b) What would be the hectarage of oil palm maturing in FY2018 and what would be the profit contribution expected from Liberia operations in FY2018?</p> <p>(c) Could the Board update the progress on the land issues, the execution of the recommended High Carbon Stock approach methodology and the social impact exercise with the local communities?</p>
Batu Kawan Bhd (AGM)	<p>1) As reported in the Chairman's Statement on Page 22 of the Annual Report 2017, the profit contribution from Menara KLK building for FY2017 was RM2.66 million which was 38% lower than the profit contribution for FY2016. The decline was due to vacancies after some tenants exited upon completion of their tenancies.</p> <p>(a) What were the occupancy rates of Menara KLK as at 30 September 2017 and 30 September 2016? What is the current occupancy rate?</p> <p>(b) What is the percentage of tenancies due for renewal in FY2018 and what is</p>

The points of interest to be raised:	
	<p>the expected renewal rate?</p> <p>(c) Given that the oversupply of office space, especially in the Klang Valley is expected to continue in 2018, what are the measures and strategies adopted to retain the existing tenants and to attract new tenants to the building?</p> <p>2) Note 21 to the Financial Statements indicates that the joint ventures registered a loss of RM75,820,000 in FYE2017 compared to a profit of RM25,797,000 in FYE2016.</p> <p>(a) Which joint venture/s had contributed to the loss in FYE2017?</p> <p>(b) To what extent does the Company control the business operations of the joint venture? Are there any Board Representatives in the joint venture companies?</p> <p>(c) Is the joint venture concerned expected to turn-around in FYE2018?</p>
TH Heavy Engineering Bhd (EGM)	<p>As disclosed on page 10 of the Circular, the Proposed JX Nippon Contract Novation can only be implemented subject to the outcome of the GMOS Appeals and any further appeals that may be filed either by GMOS or the Company.</p> <p>What are the Board's plans if the Proposed JX Nippon Contract Novation cannot be implemented?</p>

MSWG'S WATCHLIST

KINSTEEL BERHAD ("KINSTEEL")

The Board of Directors of Kinsteel announced that Bursa Malaysia had vide its letter dated 5 February 2018 informed that after due consideration of all facts and circumstances of the appeal submitted by the company to Bursa Malaysia on 4 January 2018 had decided to grant the company an extension of time until 30 June 2018 to submit its regularisation plan to the relevant authorities for approval provided that the company makes the requisite announcement by 31 March 2018.

[Source: Kinsteel's announcement on Bursa Malaysia's website on 5 February 2018]

LOCAL NEWS AND DEVELOPMENTS

Retail sector enters consolidation phase

<https://www.thestar.com.my/business/business-news/2018/02/05/retail-sector-enters-consolidation-phase/>

Bond, equity markets record inflow of RM5b in Dec 2017- BNM

<https://www.nst.com.my/business/2018/01/330288/bond-equity-markets-record-inflow-rm5b-dec-2017-bnm>

PMI rises to 50.5 in January

<http://www.thesundaily.my/news/2018/02/02/pmi-rises-505-january>

Quek steps down as chairman of Hong Leong Capital

<http://www.theedgemarkets.com/article/quek-steps-down-chairman-hong-leong-capital>

Regulatory conditions should be more conducive for banks to be creative or innovative, says Nazir

<http://www.theedgemarkets.com/article/current-regulatory-environment-not-helpful-banks-be-creative-or-innovative-says-nazir-razak>

Ahead of EU ban, Putrajaya sets eye on China as largest palm oil importer

<http://www.themalaymailonline.com/money/article/ahead-of-eu-ban-putrajaya-sets-eye-on-china-as-largest-palm-oil-importer#9Vct4qX1UiiKSift.97>

KWAP becomes the first local pension fund of the Principles for Responsible Investment (PRI).

<https://www.nst.com.my/business/2018/02/332965/kwap-becomes-first-local-pension-fund-principles-responsible-investment-pri>

GLOBAL NEWS AND DEVELOPMENTS

China January factory growth remains strong

<https://www.thestar.com.my/business/business-news/2018/02/02/china-january-factory-growth-remains-strong/>

A private indicator of China's economy just came in better than expected

<http://www.theedgemarkets.com/article/private-indicator-chinas-economy-just-came-better-expected>

Yellen admits disappointment over exit in rare interview

<http://www.themalaymailonline.com/money/article/yellen-admits-disappointment-over-exit-in-rare-interview#007e2ZM1ippRBkVk.97>

Former Fed chair Alan Greenspan sees bubbles in stocks and bonds

<http://www.theedgemarkets.com/article/former-fed-chair-alan-greenspan-sees-bubbles-stocks-and-bonds>

Indonesia still chasing US\$150bil budget shortfall

<https://www.thestar.com.my/business/business-news/2018/02/01/indonesia-still-chasing-us150bil-budget-shortfall/>

Bitcoin slides 11% to lowest level since late November

<http://www.thesundaily.my/news/2018/02/01/bitcoin-slides-11-lowest-level-late-november>

German car production stalled by 24-hour strikes

<http://www.theedgemarkets.com/article/german-car-production-stalled-24hour-strikes>

Fed orders Wells Fargo to halt growth over compliance issues

<http://www.themalaymailonline.com/money/article/fed-orders-wells-fargo-to-halt-growth-over-compliance-issues1#3c3txmFVqu5eEYez.97>

UK house prices show surprise pick up in January – Nationwide

<http://www.theedgemarkets.com/article/uk-house-prices-show-surprise-pick-january---nationwide>

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DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter save for Caely Holdings Bhd.*
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Feedback

We welcome your feedback on our newsletter and our work. Email us at corporateservices@mswg.org.my with your comments and suggestions.

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