MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Observer

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❖ Understanding the glove sector stock rally conundrum

The writing has been on the wall since late 2020 that glove counters would encounter softening market demand and selling prices after a meteoric rise in both demand and share price which commenced at the height of the COVID-19 pandemic (around mid-2020).

Given the forward-looking nature of the stock market, it must be pointed out that there are two contradicting-yet-valid views among investors that are impacting the direction of glove stocks in current times:

- The first view is that with the advent of COVID-19 vaccines, the pandemic will be over, prompting demand for gloves to fall (hence, earnings of glove makers will revert to pre-pandemic levels); and

- The second view is that glove demand will stay high with increasing awareness over hygiene and health (demand for gloves will stay healthy in the post-COVID-19 pandemic era) especially with the advent of the new Omicron variant.

Recall that even if glove stocks are perceived to be nearing the tail-end of their super bull run, there can still be intermittent upsides with short-term catalysts. A good example will be the recent Omicron COVID-19 variant scare which sparked a glove stock rally.

The emergence of Omicron has 'resuscitated' the languishing glove sector whereby the Big-Four glove counters which were already hovering near their 52-week lows found themselves back in the spotlight amid concerns that the Omicron variant had spread to North America, Europe, Australia and Asia.

Interestingly, Macquarie Equities Research (MQ Research) believes that intensifying news flow on Omicron will likely bring incremental buyers to the glove sector, particularly as investors check out of potentially negatively affected sectors (travel, hospitality, consumer discretionary).

MQ Research further expects potential Omicron news flow to spark glove share price rallies, thus setting a 'floor price' for gloves given the possibility of future newer variants arriving and igniting similar share price surges.

This prompted the research house to raise its prospects of glove stocks due to (i) potential increased sales volume bump from Omicron; and (ii) heightened upside share price volatility from Omicron news.

However, given that glove makers under its radar are currently operating at sub-optimal utilisation rates (i.e. Top Glove Corp Bhd: 60-65%; Hartalega Holdings Bhd: 65-70%; Kossan Rubber Industries Bhd: 80%), MQ Research believes that another wave in COVID-19 infections would only result in higher sales volumes but not increased average selling prices (ASPs) given the ample available supply.

Alongside the two opposing views is a striking observation that has to do with the downsizing of glove stock holding by institutional investors such as the Employees Provident Fund (EPF), in recent times.

Frequent share disposals can be observed among the Big-Four glove makers particularly Top Glove Corp Bhd with EPF's interest down from 6.26% on 30 September to 6.04% on 1 December, Hartalega Holdings Bhd (1 December: 7.8%; 29 September: 8.29%) and Kossan Rubber Industries Bhd (1 December: 8.19%; 29 September: 8.59%).

Although the EPF's decision to part ways with some of its glove stock holdings may befit its investment strategy or is the outcome of its internal research of the sector's overall outlook, there is no denying that this could trigger a herd mentality among other institutional investors or even minority shareholders who will perceive such action as an act of "losing faith" in the sector/counter.

Doubtlessly, the bearish impression stemming from the disposal of a big chunk of stocks can be misconstrued as a selling signal of the related industry/sector.

An influx of supply and new players

On the other hand, buoyed by the glove sector's strong performance last year, many new players – both domestically and abroad – have entered the market to get a share of the pie. According to the Malaysian Rubber Glove Manufacturers Association (MARGMA), it will take three years before equilibrium between demand and supply can be achieved.

Inevitably, intensifying competition among both incumbent players and new entrants could further push the ASP downwards. MIDF Research earlier projected ASP to normalise by the first half of 2022 and return to the cost-plus basis model. It expected ASP to be around US$60 per 1,000 pieces and US$29.00/1,000 pieces for CY2021 and CY2022 respectively, as compared to the peak of US$130.00 achieved in 1H 2021.

Notwithstanding this, the research house estimated the ASPs to remain above pre-COVID-19 level owing to a structural change in glove usage globally due to the pandemic.

Currently, Malaysia accounts for 68% of the global glove supply, followed by Thailand (13-18%), China (10%), then Indonesia and Vietnam. Hartalega's CEO Kuan Mun Leong expects China to command 23% of global gloves supply while Malaysia sees its market share dropping to 60% by end-2022.

Below are some challenges that Malaysian glovemakers will encounter in the foreseeable future:

- **Impending oversupply:** Although a price war is unlikely locally due to the existence of a pricing mechanism for glove prices, there are already signs of an international price war with industry players from China selling their gloves at a more attractive rate in Europe relative to their Malaysian counterparts to gain a larger market share.

  Therefore, analysts expected that the aggressive entry of new players into the glove sector could hurt margins moving forward.

- **Transition to the endemic phase:** Besides, established players are gradually recording lower bottom lines as the ASP of gloves normalise compared to the stronger earnings gained during the onset of the pandemic.

  This will be a challenge to the new entrants in the glove industry who have yet to see significant and consistent contributions from their new venture.

- **Fluctuating interest in gloves:** With the current rising global vaccination rates, ASPs would remain under pressure moving forward except for short-term interests.

Conclusion

With multiple factors in play, minority shareholders with indulgence in glove stocks must have ample understanding of what triggers stock sell-off or downgrading (both rating and target prices) of the glove sector or individual stock by research houses, for example.

They must be able to look beyond analysts' reports and must be able to arrive at their valuation objectively.

At the end of the day, every investor must formulate a methodology that they follow strictly when investing. Tweak your methodology as you become wiser but staying true to your methodology instils self-discipline.

And your methodology must let you arrive at your intrinsic value which will play an important part in your informed decision making.

Some key metrics that should figure prominently in the minority shareholders investing methodology are:

- **The cash flow and profit track record** - Remember profit is an opinion, but cash is a fact.

- **The prospective performance** - In the case of glove counters, this will require a forward-looking view on the ASP of gloves given China's massive unloading of gloves in the international glove market. It is trite economic theory that super-profits only last short term. As more new players join the game, market supply will increase and then the market will gradually shift back to equilibrium.

- **Economic moat** - Whether the company has a competitive advantage over its competitors.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 13 – 17 December 2021

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch 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	Quick-take
13.12.21 (Mon) 10.30 am	Ekovest Bhd (AGM)	The profit before tax ("PBT") for FYE2021 stood at RM120.4 million, which is higher than the PBT reported in FYE2020 of RM90.7 million. This is mainly due to the overall higher revenue reporting in FYE2021.
14.12.21 (Tue) 10.00 am	Berjaya Land Bhd (AGM)	BJLand reported a 5% increase in revenue to RM5.41 billion and pretax loss of RM42.23 million for FY2021 compared to revenue of RM5.16 billion and pre-tax profit of RM213.62 million in FY2020. The higher sales were primarily driven by higher new and used car sales from H.R. Owen and the property development and investment business segment. As for the higher pre-tax profit, it was mainly contributed by the substantial gain from the disposal of the hotel component of Four Seasons, Kyoto, Japan, as well as the negative goodwill of RM28.23 million recognised on the acquisition of 75% equity

		interest in Icelandair Hotels Group ehf.
15.12.21 (Wed) 11.00 am	Technodex Bhd (AGM)	Technodex's revenue increased by 10.5% y-o-y to RM58.8 million (FY2020: RM53.2 million) mainly due to higher sales from the Hardware, Software and Professional Services segment. However, it recorded a lower LBT of RM5.0 million (FY2020: LBT of RM10.2 million) mainly contributed from the one-time net gain on disposal of MyProperty Data Sdn. Bhd. classified in other operating income amounting to RM2.5 million.
15.12.21 (Wed) 11.00 am	Latitude Tree Holdings Bhd (AGM)	The Company had a stellar year in FY2021 where net profit increased by a whopping 220% to RM53.8 million compared to RM16.8 million in FYE 2020. Moving forward, the Company should increase its online presence and seek new markets to enhance revenue in FY2022.
16.12.21 (Thur) 10.00 am	Uzma Bhd (AGM)	The Group recorded a drop in revenue of RM168.2 million or 30% to RM384.2 million, from RM552.4 million in the previous financial year. Despite the reduction in revenue, the Group has improved the Gross Profit Margin to 36% from 31%, mainly due to a better overall margin from ongoing and completed projects during the financial year under review compared to the previous financial year.
16.12.21 (Thur) 10.00 am	Berjaya Corporation Bhd (AGM)	BJCorp recorded a higher revenue of RM7.46 billion compared to RM6.99 billion in the previous financial year.

		However, it recorded a pre-tax loss of RM260.39 million as compared to a pre-tax profit of RM173.46 million in the previous financial year, primarily due to impairment of assets and inventories written off totalled about RM280.43 million. Berjaya Hotels and Resorts Division registered a significantly higher LBT of RM272.9 million as compared to RM27.1 million in the previous financial year.
16.12.21 (Thur) 10.00 am	Lotte Chemical Titan Holdings Bhd (EGM)	The EGM is to seek shareholders' approval for a RPT that involves the award of EPC work by LCT's Indonesian subsidiary to Lotte Engineering Corporation, which is 43.8% owned by Lotte Chemical Corporation (LCC). LCC is the controlling shareholder of LCT with 75.9% direct interest.
17.12.21 (Fri) 10.00 am	Borneo Oil Bhd (AGM)	Borneo Oil registered second consecutive year of profit in FY2021 since FY2017 with a net profit of RM28.48 million as compared to RM1.598 million in the year before. However, this was due to the reversal of of impairment and fair value gain on investment. Without the reversal of impairment and fair value gain of investment, Borneo Oil would have been loss-making in FY2021.
17.12.21 (Fri) 10.00 am	Hiap Teck Venture Bhd (AGM)	Hiap Teck's share of profits from JV entity jumped significantly to RM76.01 million (FY2020: RM3.84 million) as a JV project turned around and posted its first year of operational profits. Overall, it registered a remarkable PBT of RM194.59 million in FY2021 as compared to RM8.69 million in

		the preceding financial year, representing an increase of 2,139%.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Ekovest Bhd (AGM)	<u>Construction Operations</u> a) What is the progress of DUKE Phase 3 project? Is the project on schedule? b) What is Ekovest's current construction orderbook? How long will the current order book last? c) What is the targeted order book replenishment for the next two financial years? d) The Group is still pursuing the DUKE Phase 2A as well as the KL River City project to secure more infrastructure projects (Page 14 of the Annual Report 2021). What is the progress of the abovementioned effort?
Berjaya Land Bhd (AGM)	Inventories written down increased significantly from RM4.356 million in FY 2020 to RM29.531million in FY 2021. (Page 185 of AR) What comprise these inventories and what are the reasons for such a substantial increase in write-downs? What measures have been taken to minimize such write-downs in future? Is such high write-down expected in the forthcoming year?
Technodex Bhd (AGM)	Revenue based on the geographical location of the Group's customers (Note 32.2, page 110 of AR2021): a) Revenue contribution from customers in Hong Kong increased significantly to RM22.9 million (2020: RM13.1 million). What is the reason for the huge increase? What is the expected demand from Hong Kong customers for the Group's products and services, going forward? b) Revenue contribution from customers in Indonesia was zero (2020: RM1.6 million). Why was there zero revenue contribution from Indonesia? c) Revenue contribution from customers in Singapore decreased to RM0.7 million (2020: RM4.0 million). What is the reason for the significant decrease? Does the Group expect revenue contribution from Singapore to improve going forward?

Latitude Tree Holdings Bhd (AGM)	Company is on the lookout for businesses or assets that are related and which will synergise with its activities. (Page 9 of AR 2021) Has the Company identified any potential businesses that it intends to acquire to enhance its performance?
Uzma Bhd (AGM)	The Group has written off RM24.52 million of other receivables in FY 2021 as compared to RM0.45 million in FY 2021. (Page 176 of AR) a) Please provide the categories of other receivables (RM25.13 million) in FY 2021 and (RM24,42 million) in 2020 respectively? b) What were the difficulties faced by the Group in the collection of the other receivables as the amount written off is substantial in FY 2021? c) Please provide the other receivables that were written off by category and amount in FY 2021.
Berjaya Corporation Bhd (AGM)	1. Other income decreased significantly from RM1,122.884 million in FY 2020 to RM398.853 million in FY 2021. (Page 104 of AR) What are the major items that registered significant decreases and what are the reasons for the decrease? What is the outlook for FY 2022? 2. Allowance for impairment on receivables - other receivables increased significantly from RM2.097 million in FY 2020 to RM11.430 million in FY 2021. (Page 246 of AR) What are these other receivables and what is the probability of recovery? 3. Inventories written off/down increased substantially from RM11.753 million in FY 2020 to RM48.874 million in FY 2021. (Page 246 of AR) What are these inventories and what are the reasons for such massive write-offs/downs? Are there any possible measures that can be taken to minimise such write-offs/downs in future?
Lotte Chemical Titan Holdings Bhd (EGM)	On 28 October 2021, LCT's subsidiary, LCI, had issued letter of awards (LOAs) to LEC to undertake EPC works on part of the LINE project for USD1,645.6 million. LEC is 43.8% owned by Lotte Chemical Corporation (LCC), which in turn is the controlling shareholder of LCT with 75.9% direct interest.

	The LOAs awarded to LEC comprise an onshore LOA and an offshore LOA. The onshore EPC contract will be entered into by LCI, LEC and an Indonesian company, whereas the offshore EPC contract will be entered into by LCI and LEC. a) What are commercial benefits of implementing such structure to LCI and LCT? b) What are the potential legal and tax issues that may arise due to the splitting? How does LCT deal with these potential risks? c) Will an umbrella agreement entered between LCI and the onshore and offshore contractors ensure that any gaps that arise because of the split structure are appropriately covered? d) As the award of works to LEC is a related party transaction, what is the assurance that such RPT is not detrimental to the interest of LCT's minority shareholders?
Borneo Oil Bhd (AGM)	Borneo Oil's revenue continued to decline to RM51.4 million in FY2021, the lowest since FY2017, but net profit is higher at RM28.48 million (2020: RM1.598 million), primarily due to reversal of impairment resulting in a fair value gain on investment of RM26.4 million. Without the reversal of impairment resulting in the fair value gain of investment, Borneo Oil would have been loss-making in FY2021. a) Excluding this one-off gain, what would be the Group's operating profit/loss for FY2021? b) Will the Group be able to remain profitable (without such one-off gains) going forward?
Hiap Teck Venture Bhd (AGM)	<u>Eastern Steel Sdn. Bhd. ("ESSB"), a joint-venture company</u> For FY2021, the Group recorded a share of gain of RM76.01 million from ESSB as compared to RM3.84 million in the preceding financial year. ESSB's current project to further enhance cost effectiveness is the development of a 400,000 MT coke oven plant. The first 100,000 MT was completed in June and the second 100,000 MT in October 2021. The next 200,000 MT is expected to complete in FY2022. The new coke oven plant is expected to significantly reduce production costs and improve ESSB's profitability going

	forward and enhance its contribution to the Group (Page 11 of the Annual Report 2021). a) Considering the significantly increased share of gain and the current development in ESSB, what is the prospect of the Group achieving another good contribution from the joint-venture company in FY2022? b) What is the progress of the 200,000 MT coke oven plant development? Is the plant on schedule? c) With the new coke oven plant, what is the expected reduction in the production costs?

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