MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

11.09.2020

❖ Is there a tell-tale sign of the stock market bubble bursting?

The writing has been on the wall all this while. With the COVID-19 pandemic remaining very much unabated, many seasoned market observers have already expressed concern that the stock market is very unlikely to sustain an upward momentum continuously.

But blinded by their new-found wealth – with the local bourse having scaled record highs in both volume and traded value since the March meltdown – many retail investors (in particular, newbies and millennials) have in recent times been letting their guard down, oblivious to the very fact that the overall economic fundamentals remain weak at best.

They have disregarded many warning signs – the most notable being the International Monetary Fund's projection of a deeper recession with global output expected to decline 4.9% in 2020 – by assuming that a bumper year is in store for the stock market.

After closing at its lowest level since the global financial crisis in October 2009 at 1,219.72 on 19 March, the FBM KLCI has rebounded gallantly on the back of the glove, tech and healthcare stock rally to end at 1,611.42 on 29 July before the gradual downslide began.

On 9 September, the benchmark index plunged below the psychological 1,500-point mark to close down 22.6 points or 1.49% to 1,496.72 (down nearly 6% year-to-date).

Although this is far from a market correction which suggests a decline of 10% or more in the FBM KLCI index from its most recent peak, there are lingering vulnerabilities in the wider market as evidenced by recent release of half-year financial results which took into account full impact from the COVID-19 pandemic.

As the market is presently in a consolidation (profit taking) phase, it may be worthwhile to identify signs of a much bigger market catastrophe – the bursting of market bubble – which would suggest a freefall that can have devastating effect on the entire stock market.

Given that many amateur investors had entered the market "to make ends meet" at the height of the Movement Control Order (MCO), identifying the tell-tale signs of stock market bubble is crucial to enable them to exit the market safely.

Throwing caution to the wind

Interestingly, current developments in the global stock markets seems to match the five stages of basic bubble pattern espoused by economist Hyman P. Minsky in his pioneering book *Stabilizing an Unstable Economy* (1986).

Minsky was one of the first economists to explain the development of financial instability and its interaction with the economy. The five stages or trends put forth by Minsky are:

- **Displacement:** A displacement occurs when investors get enamoured by a new paradigm such as an innovative new technology or interest rates that are historically low (and which may go even lower).

- **Boom:** Prices rise slowly at first but then gain momentum as more and more participants enter the market, setting the stage for the boom phase. Fear of missing out on what could be a once-in-a-lifetime opportunity spurs more speculation (as evident in retail investors entering the stock market in droves).

- **Euphoria:** During this phase, caution is thrown to the wind as asset prices skyrocket. Valuations reach extreme levels during this phase as new valuation measures and metrics are touted to justify the relentless rise (the glove stock rally).

- **Profit-taking:** In this phase, the smart money (institutional investors or fund managers) – heeding the warning signs that the bubble is about at its bursting point – starts offloading their positions by taking profits (stock prices tumbling 30%-50% from their recent highs).

- **Panic:** Asset prices reverse course and descend as rapidly as they had ascended. Faced with margin calls and plunging values of their holdings, investors and speculators suddenly see the urge to liquidate at any price albeit too late (this dreaded phase has yet to occur but must be avoided at all cost).

Stark reality

The five patterns illustrated above suggest that the stock market will eventually follow fundamentals, henceforth investors must trade/invest with utmost caution given prospects of healthy corporate earnings are far from great at this moment in time.

After all, economists have acknowledged that there is a wide disconnect between the underlying lacklustre economic growth prospects and the liquidity-driven bullish stock market (many businesses regardless of size have already or in the midst of folding up, thus creating massive unemployment).

In a way, the current market direction is very 'artificial' in nature for stock markets the world over are being spurred by over US$14 trillion (RM60 trillion) in stimulus programmes and packages – both in fiscal and monetary forms – to rescue economies from the devastation of the health crisis.

Suffice to say that at the time of writing, the glove stock sell-down has been a drag to market sentiment in the local bourse as much as how the tech stock rout is dampening the five-month rally in the US markets.

Remember that the current market jitters are further exacerbated by a fragile political outlook both domestically and globally (amid the looming Sabah state polls on 26 September and US election in November) and concerns of a prolonged health crisis with the raging second/third wave of the COVID-19 pandemic (health experts are dumbfounded on how to produce sufficient vaccine to shield seven billion of the world's population).

Other reality checks insofar as the Malaysian stock market is concerned include a six-month moratorium on loan repayments which comes to an end on 30 September. There is also a fragile political state of affairs and prospects of subdued oil prices in tandem with a global rebound in COVID-19 cases.

In essence, investors must wise up to the harsh reality that no stock counter or rally will be able to defy gravity for a long time regardless of the optimism expressed by market analysts.

History has proven again and again that financial markets are neither rational nor efficient, hence any investment strategy that ignores that reality is doomed to fail miserably.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 14 September – 18 September 2020

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
15.09.20 (Tue) 09.30 am	Hartalega Holdings Bhd (AGM)	Share price of the company has had a strong run in tandem with the increased demand for gloves in line with the rise in Covid-19 cases around the globe. However, the news that a vaccine was on the verge of being discovered sent shares of glove companies including Hartalega south. This coupled with PLCs jumping into the bandwagon of glove manufacturing. Will it result an oversupply in glove moving forward?
15.09.20 (Tue) 10.00 am	AirAsia X Berhad (AGM)	AirAsia X reported a net loss of RM650.3 million, as compared to net loss of RM301.5 million in 2018. The COVID-19 pandemic will continue to negatively impact the Group's financial performance severely till at least early 2021 and its ability to continue to operate as a going concern will be very much dependent on how it solves its liquidity constraints including negotiating with lessors, maintenance service providers and financial institutions.
15.09.20 (Tue) 02.00 pm	Eastern & Oriental Bhd (AGM)	E&O suffered a pre-tax loss of RM155.6 million in FY20 due to the write down of property development costs of RM69.9 million, fair value loss on investment properties of RM120.2 million and impairment loss on property, plant and equipment of RM19.5 million.
15.09.20 (Tue) 03.00 pm	Prestariang Bhd (EGM)	The Company's circular did not state the proposed composition of the LTIP Committee which will decide on the allocation of the ESOS. MSWG recommends that independent directors be part of the Committee to deliberate and monitor the granting of

		options to employees and Executive Directors. This will ensure better oversight of the ESOS Committee in assessment of qualified recipients and the respective quantum of the option.
17.09.20 (Thur) 10.00 am	Datasonic Group Bhd (AGM)	The Company recorded an increase of 66% in net profit to RM60.4 million for FY 20 compared to RM36.4 million in FY19. Datasonic is heavily dependent on government contracts such as the MyKad project to sustain its earnings. It expects prospect for the coming quarters will be brighter in line with economic recovery and new business opportunities in the areas of public security, public health, and e-commerce

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Hartalega Holdings Bhd (AGM)	Derivatives financial liabilities increased significantly to RM39 million in FYE 2020 compared to RM1.8 million in FYE 2019. (Page 86, AR 2020). In view of the sharp rise in these liabilities, has the Company taken adequate measures to hedge its derivative exposure?
Airasia X Bhd (AGM)	In the Group's 2nd quarter results ended 30 June 2020, under commentary on prospects, it is stated that in the current circumstances, the Company continues to face severe liquidity constraints. In the short term the Company will need to seek agreement with major creditors to restructure outstanding liabilities, which have accrued during the period since the start of the Covid-19 pandemic, in order to continue as a going concern. (Page 25). a) When and what is the significant amount of borrowings due for repayment? b) What is the estimated timeline the Group is looking at to solve its liquidity constraints in order to continue as a going concern? Was there any reassessment of right-of-use ("ROU") assets and any other affected areas for impairment? What is the amount impaired and if no reassessment done, why?

AT Systemization Bhd (EGM)	On the acquisition of PGSB: a) Why has the Group decided to acquire PGSB? b) Is PGSB currently profitable or loss-making? c) What is the valuation method used in the acquisition of PGSB's glove business? d) Do the vendors of PGSB provide a profit guarantee to the Company? If yes, what is the amount and for what period?
Eastern & Oriental Bhd (AGM)	The Company disposed a piece of land at a cost of RM8 million as stated on pages 28 & 29 of the Annual Report. a) What is the reason for the land being disposed at cost? b) What is the size and location of the land? c) What is the market value of the land? d) Who is the buyer of the land?
Datasonic Group Bhd (AGM)	The Company recorded Profit After Tax (PAT) of RM60.4 million for FYE 2020 compared to RM36.4 million in FYE 2019 which translates to an increase of 66%. (Page 23, AR 2020). Despite the sharp increase, the Company's dividend payout ratio in FYE declined to 67% in FYE 2020 compared to 93% in FYE 2019. What were the reasons for the decrease in the dividend payout for the Company in- light of the stronger set of results in FYE 2020?

MSWG TEAM
Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)
Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)
Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)
Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)
Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)
Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)
Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)

DISCLOSURE OF INTERESTS

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

DISCLAIMER

This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).

The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.

MSWG must be acknowledged for any part of this newsletter which is reproduced.

MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.