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

The Observer

(Since the imposition of Movement Control Order (MCO) by Malaysian government beginning from 18 March 2020, public listed companies have postponed their general meetings while some have proceeded with virtual general meetings.)

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Is the stock market defying the COVID-19 gravity?

The current buying frenzy of stocks at a time when the world is still struggling to battle the COVID-19 pandemic is a little mind-boggling – or scary – to say the least.

The way corporate America is treating the COVID-19 economic devastation as a 'non-event' as evident by the upward spiralling of the benchmark Dow Jones Industrial Index (DJIA), the S&P 500 and NASDAQ Composite in recent times is nothing short of astonishing.

In every likelihood, the father of macroeconomics John Maynard Keynes is spot on with his notion that "the market can remain irrational longer than you can remain solvent".

After briefly dipping below 20,000 points (to 19,898.92) on 18 March following its record high of 29,551.42 on 12 February in what was touted as the longest bull market in history, the DJIA has rebounded quite remarkably (with the exception of the 12 and 13 May sessions where it lost a cumulative 974.02 points to 23,247.97).

Even against the backdrop of 20.5 million job losses in April with a spike in unemployment rate to 14.7% from 4.4% as per the US Labour Department's statistics – both are post-World War II records – investors seem to bet on the worst of the pandemic has passed by pricing in the optimism of an economic rebound.

Some market strategists have pointed out that a bulk of the losses have somewhat been concentrated in the travel, leisure and hospitality sector whose underperformance has overshadowed strength in other areas of the market.

And with the government and Federal Reserve providing record stimulus measures, some argue that once businesses do get back up and running, the recovery process will be swift.

One wonders if discounting what is going to happen six months from now is a wise projection given the fight to flatten the curve (of new infection) is far from over in most developed economies.
After all, reopening the economy hastily can be a costly mistake especially when the production of vaccine may require anything from 12 to 18 months before they can be declared safe for use on humans.

Disconnection with economic reality

Having revealed that the world economy has entered its worst recession since the 1930s Great Depression on 9 April, the International Monetary Fund (IMF) has again warned that the global economic downturn from COVID-19 could be worse than first projected.

This is after recent economic data for many countries came in below the fund's already pessimistic forecast for a 3% contraction in 2020.

"With no immediate medical solutions, more adverse scenarios might unfortunately materialise for some economies," IMF managing director Kristalina Georgieva pointed out. "It is the unknown about the behaviour of this virus that is clouding the horizon for projections."
Back home, Malaysia's economy slowed down to 0.7% in the first quarter due to the significant impact from measures to contain the COVID-19 pandemic with Bank Negara Malaysia expecting the adverse effects to be seen more in the second quarter.

This comes on the heels of a 17.1% year-on-year jump in unemployed persons to 610,500 in March 2020 (the figure is two months late) due to adverse impact from the Movement Control Order (MCO) which first came into effect on 18 March.

Even as the Government is gradually allowing "safe" businesses to resume operations despite extending the existing MCO (conditionally) to 9 June, the sad truth remains that many small medium enterprises which constitute 98.5% of total firms and providing close to 70% of employment in the country are reeling from insolvency.

In the words of Prime Minister Tan Sri Muhyiddin Yassin, Malaysia's economy lost RM2.4 billion every single day business was suspended during the MCO.

Ironically, investors tend to interpret economic data differently (or turn a blind eye on them). Chart-wise, the FBMKLCI is currently testing the 1,400 level after

having nosedived to close near an 11-year low at 1,219.72 points on 19 March (year-to-date, the benchmark index is still down about 12%).

On 13 May, the benchmark index soared 17.2 points or 1.25% to 1,397.13 with traded volume across Bursa Malaysia touching an all-time high of 9.59 billion shares.

Let common sense prevail

Realistically, nobody knows for sure if the ensuing recovery would be "U", "W" or "V-shaped" given the ever looming prospect of a fresh wave of the COVID-19 pandemic.

Probably a good harbinger is that investor extraordinaire Warren Buffett is staying on the sidelines – ready to pounce – with a US$137 bil cash pile. Market observers who are familiar with the way the famed investor's Berkshire Hathaway Inc operates reckon that Buffet didn't think the first-quarter stock-bashing was such opportunity.

Judging from the severity of lockdown-related measures to global economies thus far, one doesn't need rocket science to project that most businesses would be in the red for at least two financial quarters.

This means high likelihood of many dividend-yielding or bellwether stocks underperforming the expectations of investors.

As it is, Malaysian banks are finding themselves squeezed for they are not allowed to impose additional interest on hire-purchase instalments during the six-month loan moratorium period (which is part of the government's economic stimulus package).

This may trigger a RM4.4 billion modification loss under the MFRS9 accounting standard, according to Maybank IB Research.
Uncertainties are also lingering on the political front even with the first ever motion of no confidence against a sitting Prime Minister being ruled out during the one-day parliamentary sitting on May 18 – an ever good trigger for foreign funds to exit the market.

Above all else, the US Government's intensifying attempts to fan anti-China rhetoric – probably a blame game to divert attention from its direct responsibility for the COVID-19 health crisis – could lead to a US-China trade war 2.0 amid an escalation of calls to impose economic sanctions on the latter.

The bottom line is investors have to be wary of the long and winding road with lurking uncertainties out there. Nobody can foretell at this juncture when an absolute recovery will happen. The best strategy is perhaps to heed the adage "moderation is key" and to always prioritise health over wealth.

Virtual general meetings - the way forward

Last Thursday, MSWG and Boardroom Corporate Services Sdn Bhd jointly organized a webinar titled "The Future of AGM – Fully Virtual / Hybrid AGM". It was an insightful session as Boardroom shared its practical insights on the conduct of virtual general meetings.

The webinar attracted 240 participants. The speakers addressed concerns revolving around the legal aspects, the 'dos and don'ts' of virtual meeting, the registration process; and this was followed by a panel Q&A session on the subject matter.

The virtual general meetings are here to stay during the Conditional Movement Control Order (CMCO) and may continue to be a regular feature even after the CMCO is lifted, either as virtual or hybrid general meetings.

Below are our observations and comments based on our participation at a few virtual general meetings:

Pre-AGM/EGM

1. The registration process to join the virtual meeting should be clearly stated in the notice of meeting to shareholders. In some instances, there were no administrative details stated in the PLCs' notice of meeting. Shareholders will have to go the 'extra mile' to obtain such information from the PLCs' corporate websites.

Based on our experience, shareholders are required to first create a user account with the service provider. Upon confirmation of successful registration as users, the shareholders will proceed to register themselves for participation at the meeting via a Remote Participation & Voting (RPV) facility.

Registration for RPV will close 24 or 48 hours before the meeting. Once shareholders have completed the registration, it will take some time for them to receive the acceptance notice from the service provider, and the required ID and password to log-in to the meeting.

Shareholders will only receive the acceptance notice and the ID & password after the completion of the registration process.

The procedures may vary slightly according to different service providers.

For investors who have shares in several PLCs, they will have to undergo the same process for each PLCs general meeting i.e. key in the same details for multiple companies. As such, it is important that shareholders keep track of the deadlines to register for a virtual AGM especially during the AGM peak season.

As these are the initial virtual AGMs, we expect the registration and verification processes to be further streamlined and enhanced to ensure better shareholder-experience.

Gone are the days when a shareholder can turn up at the 11th hour at the meeting venue to participate in a physical general meeting. With virtual general meetings, shareholders cannot participate in the meeting without the meeting ID, Remote Participation User ID and Password. And do be aware of the 48-hour or 24-hour cut-off time for registration.

2. The ability for PLCs and shareholders to participate in virtual general meetings without hiccups (e.g. 'buffering') depends a lot on the bandwidth and choice of location. PLCs are advised to ensure appropriate bandwidth and suitability of broadcast venue.

During AGM/EGM

1. The virtual AGM should replicate, as far as possible, the physical AGM.

2. It is better if shareholders questions are streamed 'live' instead of being collated and moderated by a moderator. With the latter, there is a risk that certain relevant albeit sensitive questions may not be forwarded to the Board (for answering) by the moderator.

3. It would be even better if shareholders are able to participate in the meeting verbally instead of communicating via real-time text submission. However, we were told by a service provider that such a feature would cost more.

Post AGM/EGM

1. There could be disruptions during the meeting due to internet connection, as a result of which shareholders may miss certain parts of the meeting. PLCs should publish the 'key matters discussed' during the meeting on their website as soon as possible, preferably within a month. Some PLCs have gone the extra mile by posting video recording of the meeting on their website.

2. Some shareholders' questions raised at the meeting are not answered at the meeting; the explanation given is that the PLC will communicate with the shareholder later individually. The Board should address all relevant questions raised by shareholders at the meeting during the meeting and not after the meeting. If, for whatever valid reason, the PLC is unable to answer the questions raised at the meeting during the meeting, the questions and answers should be published in a public platform, such as the company's website.

Other Matters

1. Many shareholders presume there will be significant cost savings arising from holding a virtual general meeting as there is no need to spend much on venue, food and door gifts. Some shareholders have asked whether these savings can be distributed as additional dividends. (Dividends are the prerogative of the Board)

There is increased cost when conducting a virtual AGM. The cost will vary depending on the features and facilities provided by the service providers.

2. Door gifts are the prerogative of the PLC, though there is no such thing as a physical 'door'. The presence of a shareholder at virtual meeting will be determined based on their log-in details.

Shareholders will miss the aura of a physical meeting; the small talk with fellow shareholders, the interaction with company directors, the ability to verbally articulate questions from the floor, and the enjoyment of the food and beverages served.

But on the other hand, a virtual AGM is more comfortable; no travelling to-and-from the meeting venue as we can attend from the comfort of our premises. Also, virtual meetings eliminate the physical queuing process to register for the meeting. The virtual general meeting avoids the long and dreadful queuing process especially during general meetings of some large PLCs.

They say 'change' is the only constant. This is a learning curve for all shareholders. As such, we encourage minority shareholders to embrace technology and actively participate in virtual general meetings.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 18 - 22 May 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
19.05.20 (Tue) 10.30 am	Eco World International Bhd (AGM)	The Board maintains the 2-year sales target of RM6 billion, to be achieved by the Group over FY19 and FY20. Closing sizable BtR deals will be important for the Group to achieve this target.
19.05.20 (Tue) 03.00 pm	Eco World Development Group Bhd (AGM)	After it recorded the historical highest profit before tax of RM266.0 million in FY2019. It aims to declare its first dividend in FY 2020.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Eco World International Bhd (AGM)	Properties under development classified as inventories have increased substantially from RM460.3 million to RM909.9 million in FY2019, an increase of RM449.63 million or 97.7%. (page 130 of Annual Report) How much of these properties are from BtR property project for FYs 2018 and 2019?
Eco World Development Group Bhd (AGM)	The completed properties classified under inventories has increased by RM428.0 million or 253.1% from RM169.1 million in FY2018 to RM597.1 million in FY2019. (page 141 of Annual Report) (a) Please provide the location of the completed properties; (b) What is the breakdown of the completed properties by types i.e. landed, apartments, condominiums, commercial and industrial units and its values (in RM millions) as at FY2019; (c) What are the measures taken to reduce the number of completed properties? How successful were the measures?

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