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

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❖ Justifying CEO/BOD's remuneration with stock performance

Anything that is money-related has in recent times become a sensitive matter in our daily lives, no thanks to the economic and financial hardship that has befallen the global community following the eruption of the COVID-19 pandemic.

Amid a fragile economic environment where many in the workforce became unemployed or being subject to pay cuts, it is inevitable that minority shareholders are paying close watch on the remuneration package that is doled out to key management personnel, particularly the head honchos of listed companies and their boards of directors (BODs).

Pitted against rising volatility which have taken a toll on stock prices, surely it makes valid sense for investors who are left in the lurch with plunging stock prices to question if it is justified for CEOs and BODs to continue enjoying immense perks at their expense.

Painful revelation

Doubtlessly, the recent findings by the Securities Commission via its *Corporate Governance Monitor 2020* (CG Monitor 2020) on the board remuneration package of FTSE Bursa Malaysia's Top 100 (FBM100) Index constituents (as of 23 December 2019) will likely raise eyebrows.

This is especially so as minority shareholders weighed-in on the stock performance of the companies in question against the size of the remuneration even though it has recorded a decline from the previous year.

Six of the 10 companies with the highest total board remuneration are also on the top 10 listed companies with the highest-paid CEOs, which suggest that a significant portion of total board remuneration of these companies can be attributed to CEO pay packages.

This is despite five of the top 10 highest-paid boards in 2019 recorded a decline in total board remuneration from 2018, the largest being 23%.

The five which recorded a decline year-on-year (y-o-y) were Genting Bhd, Genting Malaysia Bhd, YTL Corp Bhd, Public Bank Bhd and VS Industry Bhd. Those which saw an increase y-o-y included IHH Healthcare Bhd, Sunway Bhd, AirAsia Group Bhd and Berjaya Corp Bhd.

Despite the decline, Genting Bhd still had the highest total board remuneration at RM172.24 million, followed by Genting Malaysia (RM77.80 million), YTL Corp (RM76.09 million), IHH Healthcare (RM63.03 million), Public Bank (RM62.77 million), AirAsia Group (RM60.50 million), Sunway (RM46.83 million), Berjaya Corp (RM39.50 million) and Leong Hup International Bhd (RM32.56 million).

Channelling discontentment

This brings us to the key question of how minority shareholders are able to voice their displeasure pertaining to the high remuneration that is dished out to key management personnel (including BODs) if measured against stock price performance of the companies that they invest in.

The main justification for high remuneration (inclusive of fixed income, bonuses or stock options) is that it is necessary to attract talent that is able to produce good returns for shareholders. Alternatively, the company will argue that despite the poor performance of the company, there was still hard work that was done by the BOD. By extension, the argument could also be that the BOD averted a greater decline in performance and for that they should be handsomely remunerated. What we can conclude is that BOD remuneration is an inexact science and one cannot take a simplistic approach to determine if it is 'high' or 'low'. We need to look at the context and peculiarities of the industry, amongst others.

It can even be argued that there seems to be a large element of luck in CEO/BOD remuneration. For example, a study found that a spike in world oil prices tend to lead to large increases in the salaries of CEOs at oil & gas companies – in other words, their head honchos enjoy large pay cheques as a result of factors that were outside of their control.

Fighting back

There is an in-built conflict of interest when we expect BODs to regulate their own remuneration regardless of the role of the nominating committees. Minority shareholders, and more importantly, major shareholders must play a proactive role by voicing their displeasure through the ballot.

Therefore, the best channel for minority shareholders to express their grouses is to leverage shareholder's activism by collaborating closely with institutional investors who tend to have bigger shareholding size. Alternatively, they can pursue the AGM/EGM platform to voice their discontent, hoping that the publicity will result in some self-restraint amongst the BOD members.

Institutional investors can influence CEO compensation directly through a monitoring or supervisory role. Their representation at the BOD level will allow them to perform a more active supervising role, thus able to prevent CEOs from controlling the board or behaving opportunistically with remuneration matters.

"This indicates that institutional investors collectively, are in a position to ensure that the remuneration is fair and commensurate with the role and performance of the director," concorded the SC's *Corporate Governance Monitor 2020*.

"Thus, institutional investors in exercising their stewardship role, should continue to engage the board in relation to remuneration, review the link between pay and performance, and exercise their votes accordingly."

Voting out ineffective directors

Minority shareholders must also not forget that the people in the best position to rein in the CEO's remuneration are none other than BOD members who render final approval to the CEO's pay package.

Inevitably, these directors are answerable to shareholders who vote them in, hence shareholders are more than capable to remove them for failing to protect their interest.

In this regard, minority shareholders must keep tabs on the performance of company directors, particularly the independent non-executive directors whose obligation is to act as the "eyes and ears" of shareholders.

Sometimes, directors are more responsive to CEOs (who are also substantial shareholders) as these CEOs are able to vote-in the independent directors. Moreover, once such an independent director sits on the board, the director tends to become patronising and unable to question the CEO's remuneration.

Understandably, being a member of a corporate board is an extraordinarily lucrative job, hence very few directors would wish to antagonise CEOs who tend to have large influence over their nomination and subsequent appointment (even though this goes through a formal voting process during the company's AGM/EGM).

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 19 October – 23 October 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
21.10.20 (Wed) 09.30 am	Nylex (Malaysia) Bhd (AGM))	Nylex is banking on the expansion of ethanol production facility to 10 million litres by 2022 to drive its long-term growth. The demand for ethanol, which is one of the key ingredients in the production of sanitizer, is on the rise recently. Another potential catalyst for Nylex is the proposed acquisition of Synergy Trans-Link Sdn Bhd (a logistic company) from Ancom Logistics Berhad (ALB) under a restructuring exercise proposed by its holding company – Ancom Berhad.
21.10.20 (Wed) 11.30 am	Ancom Logistics Bhd (AGM)	ALB posted a y-o-y higher revenue of RM30.9 million (FY19: RM29.7 million) and higher PBT of RM2.1 million (FY19: RM2.0 million), notwithstanding disruptions on its businesses caused by the COVID-19 pandemic. Recently, it has entered into an Offer to Purchase Agreement (OTP) with S7 Holdings Sdn Bhd ("S7") to acquire S5 Holdings Inc. While ALB is in the midst of conducting due diligence on S5 and its subsidiaries, it has placed a refundable deposit of RM10 million with S7 on the execution of OTP. Based on what assumptions that the amount of RM10 million refundable deposit is arrived, especially when the purchase consideration is yet to be known?

21.10.20 (Wed) 02.30 pm	Ancom Bhd (AGM	Ancom, the holding company of Nylex and ALB, turned loss-making in FY20 due to mixed performance delivered by its different business divisions. Performance of the industrial chemicals division was lacklustre in FY20 due to lower sales and dampened demand. This cause the division to post a pre-tax loss of RM6 million during the year.
22.10.20 (Thur) 09.30 am	TAS Offshore Bhd (AGM)	TAS' revenue in FY20 dropped 56.13% (RM20.70 million) to RM16.18 million (FY19: RM36.88 million) due to the decline in number of tugboats delivered. Pre-tax loss was RM75.22 million versus a profit of RM5.34 million in FY19. This was mainly due to the write down in value of inventories and impairment losses on deposits paid. With the negative impact of Covid-19 pandemic and weak market demand for vessels, will TAS be able to ride out the current economic turbulence?
22.10.20 (Thur) 10.00 am	Komarkcorp Bhd (AGM)	With the emergence of new shareholders, Komarkcorp has diversified its business into the manufacturing of face mask. At the same time, its core labelling and packaging business continued to be in doldrums with a 17% decrease in revenue to RM39.56 million in FY20. The Company continued to be in loss with a net loss of RM10.7 million. Will the face mask manufacturing able to uplift Komarkcorp back to black?

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Nylex (Malaysia) Bhd (AGM)	Ancom Berhad, the holding company of Nylex has proposed a restructuring exercise on 16 July 2020, involving its two subsidiaries namely - Ancom Logistics Berhad (ALB) and Nylex. The restructuring exercise will see ALB disposing its Synergy Trans-Link Sdn Bhd to Nylex. The Board has approved the proposed acquisition in principle subject to the terms and conditions to be determined later (Nylex's announcement dated 16 July 2020). How has STL performed financially in recent years? How will the proposed acquisition of STL be in the best interest of Nylex's shareholders? How will the acquisition strengthen Nylex's existing industrial chemicals business?
Ancom Logistics Bhd (AGM)	On 1 September 2020, ALB entered into an Offer to Purchase Agreement ("OTP") with S7 Holdings Sdn Bhd ("S7") whereby S7 agreed to deal exclusively with ALB for the sale of 901,321,377 ordinary shares (the "Sale Shares") representing 76.38% of the entire issued and paid-up share capital of S5 Holdings Inc. ("S5"). ALB placed a refundable deposit of RM10,000,000 ("Refundable Deposit") with S7 on execution of the OTP (Bursa announcement dated 1 September 2020). a) What was the basis and justification to arrive at the RM10 million refundable deposit? b) Is the Refundable Deposit being placed in an escrow account? If not, why? c) How was the Refundable Deposit funded? d) With the placement of RM10 million as a deposit, does the Group have sufficient cashflow for its operations?
Ancom Bhd (AGM)	As at end of FY20, Ancom made an impairment amounting to RM21.86 million on its trade receivables of RM221.07 million (page 114 of AR2020). The impaired amount is 9.8% of the total receivables during the year, as compared to 7.98% in FY19 (or equivalent to RM23.13 million out of total RM290 million trade receivables in FY19).

	a) What are the measures that could be taken to ensure better collection in the future? Given the significant impairment made, is there a need for Ancom to tighten its credit policy in order to reduce the risk of non-payment by customers? b) Why did the Company not renegotiate the terms of trade receivables or secure collateral or credit enhancement for trade receivables during FY20?
TAS Offshore Bhd (AGM	Revenue has been declining for the past 3 years since 2018 from RM48.46 million to RM16.18 million (page 5 of AR2020). The Group recorded revenues of RM16.18 million for FYE2020, which was mainly attributable to sales of tugboats and ferry to Indonesia and Singapore (page 10 of AR2020). Given that the demand for offshore support vessels is expected to remain low in the near future, and the slowdown in coal mining industry in Indonesia is expected to have negative impact on the demand for tugboats, has there been a change in the Group's strategies to address the declining annual performance?
Komarkcorp Bhd (AGM)	Komarkcorp has a low cash level of RM2.86 million against total borrowings of RM8.65 million as of 30 April 2020 (pages 52 & 53 of AR2020). With the new face-mask business commencing soon, how will the current low cash level be able to sustain the required working capital for the new face-mask business and the existing labelling business?

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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.

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