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

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Beware of the double-edged low interest rate sword

It is not an illusion nor deception that the bulls are charging at all corners in Bursa Malaysia in recent times.

Fuelled by the glove stock rally, the FBM KLCI had emerged the best performing index among the ASEAN markets for the first half of 2020. After a dismal performance in 2019 (31 December 2019: 1,588.76 points), the benchmark index has tested the 1,600-point mark.

On 8 July, Bursa Malaysia posted a fresh record high in trading volume of 11.807 billion units, erasing the 11.21 billion units recorded on 18 May, according to stock market data. Earlier on 29 May, the local bourse achieved another cracker with trading value skyrocketed to an all-time high of RM9.308 billion.

Ironically, the stock market feat has come at the oddest of time. The world's economy and financial strength is still reeling from the COVID-19 pandemic. On 14 July, the Statistics Department revealed that Malaysia's unemployment rate has risen to 5.3% in May from 5% the previous month.

Malaysia is not alone in experiencing a bullish trend at the oddest of time. Flushed with 'artificial' liquidity in the form of economic reviving fiscal/stimulus packages by their respective governments, a very similar pattern is also observed across stock markets in developed economies.

OPR cut a boon to equities markets?

Further spurring the upward momentum are interest rate cuts by central banks to boost borrowing among the economic sectors that have been adversely impacted by the pandemic, while theoretically encourages spending and increase domestic trade transactions.

In the quest to expedite Malaysia's economic recovery from the impact of the COVID-19 pandemic, Bank Negara Malaysia (BNM) had on 7 July slashed another 25 basis points (bps) off the overnight policy rate (OPR) for the fourth time this year to a record low of 1.75% points. The central bank has cut cumulatively 125bps in OPR since the beginning of this year.

Though an OPR reduction spells good news for those on business or property loans, ordinary savers looking for more returns on their savings accounts and fixed deposits will be disappointed. The interest rates for these savings instruments will be reduced in tandem with the OPR cut.

This is exactly where the concern lies. On 25 June, The Edge reported that year-to-date, net retail investments on Bursa Malaysia have increased more than one-fold to RM5.83 billion compared with RM2.45 billion for the whole of last year.

Disconnection from reality

Prospects of falling interest rates – coupled with the erroneous assumption that the stock market is an ideal avenue to make some quick bucks – have overly energised the stock market in uncertain times.

With the equity market being touted as the sexiest of asset classes for investors to indulge in, the key danger is that the lines between "investing" and "speculating" are getting blurred among the retail investor community as human greed creeps in.

With online trading that boasts low brokerage fee and readily accessible trading platform at their fingertips, many retail investors have conveniently kept the lurking COVID-19 menace out of their judgment.

While the broad-based rally has thus far been sustainable, seasoned market observers have raised concerns as to how long the party would last. In all fairness, the rally has not been supported much by substantial improvement in market fundamentals, but rather sentiment and expectations.

Using banks as a barometer of economic strength, the outlook is bleak with the financial sector enduring downside risk to earnings, driven by softening topline growth, rising vulnerabilities due to heightening non-performing loans and increasing cost pressures.

Moving forward, across the board corporate earnings of listed companies are likely to remain lacklustre/muted for the rest of 2020 as the continuing COVID-19 fears globally stoke uncertainties.

Precautionary measures

Fortunately, the market regulators have anticipated the 'brewing storms' by putting in place safeguard measures.

Against the backdrop of volatile global market conditions, continued economic weaknesses and the re-escalation of geopolitical tensions, the Securities Commission and Bursa Malaysia had on 10 July jointly revised the existing market management and control mechanisms to provide added stability and confidence in the marketplace.

The revisions which encompass the dynamic and static price limits of FBM KLCI component stocks as well as the circuit breaker are applicable for a six-month period from 20 July 2020 to 18 January 2021.

Following the announcement on 10 July, circuit breaker levels will be reduced from to two – when the FBM KLCI records a decline of 10% and 15% within a trading day – from three levels currently (10%, 15% and 20%).

There is no change for the first level. Trading will still be halted for one hour if triggered between 9am and 11.15am as well as between 2.30pm and 3.30pm, and will be halted for the rest of the trading session if triggered from 11.15am to 12.30pm or from 3.30pm to 5.00pm.

However, for the second-level circuit breaker, trading will be halted for the rest of the day as soon as the index falls by an aggregate of or more than 15% of the previous market day's closing index.

To curb excessive price change of FBM KLCI component stocks, the market regulators have also capped the upper limit price and lower limit price of the stocks at +30% and -15% respectively (for static price limit) as well as the upper dynamic limit and lower dynamic limit at +8% and -5% respectively (for dynamic price limit).

Recall that the last time Bursa Malaysia triggered a circuit breaker was on 10 March 2008 when the FBM KLCI fell by 130.01 points, more than 10% from the previous close of 1,296.33 points (StarBiz, 14 July 2020).

To sum up, investors must refrain from over-estimating the strength of the stock market considering the vulnerabilities surrounding the economy at the present time. They should not err by 'swapping' their life savings – even if their interest earnings are diminishing – to get even by turning to the stock market for solace.

Taking a leaf from history, there is high tendency for stocks whose upward momentum defy gravity to encounter a turbulent landing at the end of the day.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 20 July - 24 July 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
20.07.20 (Mon) 09.00 am	Pharmaniaga Bhd (AGM)	Recent increase in the share price of Pharmaniaga was spurred by its potential future involvement in the repackaging of Covid-19 vaccine.
21.07.20 (Tue) 09.30 am	Boustead Heavy Industries Corp. Bhd (AGM)	Its revenue has been declining for the past 4 years since 2016. Its net loss increased to RM116.7 million (FY18: -RM108.3 million), while its gearing ratio had increased significantly to 2.6 times (FY18: 1.18 times). Will the Group be able to address its dismal annual performance, amidst the on-going Covid-19 pandemic which is likely to impact the Group's various business segment?
21.07.20 (Tue) 10.00 am	Adventa Bhd (AGM)	Adventa continued to incur loss from continuing operation in FY19 with a lower year-on-year revenue. Nevertheless, the distribution of personal protective equipment may offer some bright spots to the Company in FY20
22.07.20 (Wed) 09.30 am	Boustead Holdings Bhd (AGM)	Boustead Holdings's net loss widened to RM73.1 million in 1QFY20 due to weaker performance across all its divisions except pharmaceutical and plantation. Will it be able to pose a better performance this year?
22.07.20 (Wed) 10.00 am	DRB-Hicom Bhd (AGM)	DRB-HICOM changed its financial year end from 31 March to 31 December. For the financial period ended 31 December 2019, its pre-tax profit increased to RM472.5 million vs pre-tax loss of RM46.9 million in the last corresponding period. Net profit increased significantly to RM439.1 due to the divestment of Alam Flora

		and improved performance of its automotive segment. It would have incurred net loss of RM137 million from continuing operations during the period if without the divestment of Alam FLora. Besides, the on-going Covid-19 pandemic is expected to pose adverse impact to the Group's businesses and financial performance. Will it be able to remain profitable going forward? Meanwhile, despite current challenging environment, it has proposed to increased fees for non-executive directors by 100% to up to RM2.22 million from 23 July 2020 until the conclusion of the next AGM (Resolution 4, Notice of Meeting), DRB-Hicom said it had not revised directors' fee since 2012 and this revision will make its directors' fee comparable to its peers. MSWG views the proposed revision is significant in view of current challenging economic environment. Is such increase reasonable in current environment? The revision will definitely increase the Group's expenses going forward. Shareholders are advised to vote wisely on Resolution 4.
22.07.20 (Wed) 11.00 am	Wong Engineering Corporation Bhd (AGM)	Its revenue remained about the same at RM60.9 million in FY19 (FY18: RM60.5 million) but net profit has declined to RM5.2 million (FY18: RM8.7 million) due to higher cost of sales. Three customers collectively contributed 64% of the Group's trade receivables as at the end of the reporting period.
23.07.20 (Thur) 09.00 am	Watta Holdings Bhd (AGM)	Watta would have been in red for second consecutive years, if it was not due to revaluation surplus on investment properties amounted to RM5.238 million. Its revenue declined

		to RM13.4 million (FY18: RM16.1 million) with net profit of RM1.929 million (FY18: - RM3.1 million). The operating environment in 2020 is expected to be uncertain and very challenging in view of the Covid-19 pandemic, when will the Group be able to deliver better financial performance this year?
23.07.20 (Thur) 09.00 am	Dutch Lady Milk Industries Bhd (AGM)	Dutch Lady's profits are largely determined by the commodity price of milk and the fluctuations of foreign currencies. Its revenue for 1HFY20 dropped to RM251million compared to RM264 million in the last corresponding period. It has announced the acquisition of an industrial land in Bandar Enstek for RM56.8 million for its future manufacturing activities. At the meantime, it continues to collaborate with government agencies to increase the production of local fresh milk.
23.07.20 (Thur) 11.00 am	KYM Holdings Bhd (AGM)	KYM's paper sacks division may face headwinds in 2020 especially its sales of paper sacks to the cement industry which in turn will be affected by economic slowdown.
24.07.20 (Fri) 10.30 am	SMTRACK Bhd (EGM)	With a low cash level of RM4,657 as of 29 June, SMTRACK proposed to issue private placement of up to 53 million new shares representing 30% of current number of issued shares to investors. It had done two rounds of private placements in the past 3 years. This exercise will have a dilutive impact on the shareholdings of existing shareholders. It remains uncertain on how the proceeds could help to improve its financial position, especially with a loss-making track record over the past three years.

24.07.20 (Fri) 11.00 am	Poh Huat Resources Holdings Bhd (AGM)	The furniture maker expects the full impact of Covid-19 pandemic to be fully reflected in the second half of 2020 with strong downside risk going forward.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Pharmaniaga Bhd (AGM)	COVID-19 has disrupted global supply chain with concerns over the security of supply of active pharmaceutical ingredients (APIs) as most of the APIs are imported. Has Pharmaniaga experienced any difficulty securing, or failed to secure, APIs? What are the alternatives available for Pharmaniaga to source for APIs in times like this?
Boustead Heavy Industries Corp. Bhd (AGM)	The Group recorded a loss after taxation ("LAT") of RM116.7 million (2018: LAT of RM108.3 million) and its gearing ratio had increased significantly to 2.6 times (2018: 1.18 times) (page 4 of Annual Report 2019 ("AR2019")). a) The Group has declining revenue for the past 4 years since 2016 and increasing LAT for the past 2 years since 2018. How does the Group plan to address the dismal annual performance? b) The Group's gearing ratio has more than doubled since 2018. What is the Group's optimum gearing ratio? How does the Group intend to achieve its optimum gearing ratio? c) How will the Group prepare itself to meet its debt obligations, especially the settlement of payables, loans and borrowings repayments, on a timely manner?
Adventa Bhd (AGM)	Adventa would have been loss-making in FY19 had it not been for the profit of RM34.7 million from the disposal of a subsidiary. Its net loss from continuing operations amounted to RM12.5 million as compared to pro-rated net loss of RM26.03 million in the preceding 12-month period (page 37, Annual Report 2019) *. Meanwhile, revenue from continuing operations also decreased year-on-year to RM30.22 million compared to pro-

	rated revenue of RM35.65 million in the preceding 12-month period (page 77, Note 4, Financial Statements, AR2019) *. This is also the second financial period in which Adventa incurred losses from continuing operations. What are the strategies to turn-around the loss-making businesses? Can shareholders expect a turnaround in FY20? *Pro-rated calculation based on net loss from continuing operation of RM31.42 million and revenue from healthcare business of RM41.59 million for FPE 31 December 2018).
Boustead Holdings Bhd (AGM)	The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) was RM455 million, a 35.0% increase compared to RM337 million in the previous year. However, the Group's results were weighed down by impairments at the Heavy Industries and Plantation Divisions, amounting to RM844 million and RM176 million respectively. This was compounded by the RM47 million impairment recorded by its Property Division. The Group was also faced with a one-off amortisation impact of RM247 million owing to the recognition of the remaining unamortised Pharmacy Information System (PhIS) investment under the Pharmaceutical Division. As a consequence, the Group posted a loss of RM1.3 billion for the year (Pages 46-48 of the Annual Report 2019). How does the Board plan to address the Group's underperforming companies which have caused such heavy impairments?
DRB-Hicom Bhd (AGM)	Resolution 4 - To approve the payment of Directors' fees up to an aggregate amount of RM2,220,000.00 to the Non-Executive Directors from 23 July 2020 until the conclusion of the next Annual General Meeting. Due to the COVID-19 pandemic, the Group will find it difficult to estimate the financial impact of the MCO and consequential economic fallout in the current financial year ending 31 December 2020 (page 124 of AR).

Board/Board Committee	Existing Fees (per annum)		Revised Fees (per annum) (effective from 23 July 2020)	
	Chairman	Member	Chairman	Member
Board	RM140,000	RM90,000	RM300,000	RM180,000
Board Audit Committee	RM17,000	RM12,000	RM60,000	RM40,000
Board Nomination and Remuneration Committee	RM10,000	RM8,000	RM10,000 (No Change)	RM8,000 (No Change)
Board Risk & Sustainability Committee	RM10,000	RM8,000	RM30,000	RM20,000

The Group has explained that the rationale for the revision to the Group's Directors' Remuneration Framework is for the Group to formulate Directors' compensation which is comparable with its regional peers, given that it has not been revised since 2012 (page 65 of AR).

Nevertheless, MSWG is of the view that the proposed revised fees for the Board's Chairman and Members of 100% and above from the existing fees are high considering the current pandemic environment where pay-cuts and lay-offs are widespread.

a) Is it reasonable to increase the fees for the Board's Chairman and Members by such a significant amount in such dire times?

b) Will not such significant increase in Directors fees affect the Group's performance adversely, going forward? (Note: the Group's net for the financial period from continuing operations was RM137.0 million (FY2019: Net loss from continuing operations of RM26.8 million))

c) Given such a challenging economic condition, does the Group have any cost optimisation plans such as staff-related cost cutting measures to be carried out during the financial year ending 2020 e.g. salary reduction, lay-offs?

SWS Capital Bhd
(AGM)

1. The Group has recorded loss after Tax for two consecutive years; the losses escalated to RM 10.699 million for the 16-months period ended 31 December 2019 (FY2018: RM0.923 million) (Page15 of AR2019)

a) What are the group's strategies to turnaround the Company especially in relation to sales & marketing, cost control and manufacturing efficiency?

b) When is the Group expected to return to breakeven?

	2. A prepayment of RM823,628 is being written off in the 16-month-financial period ended 31 December 2020. (Page 127 of the Annual Report). What is nature of the prepayment that is being written off?
Wong Engineering Corporation Bhd (AGM)	We note on Page 14 of the Annual Report (Chairman's Statement) that the Manufacturing division had invested RM3.7 million during the financial year and a further RM1.7 million of capital acquisition has been contracted for. These capital investments are focused on enhancing its capacity and capabilities through newer and more efficient machines as well as upgrades to its manufacturing plant and facility as the Group ventures into new market and expand into higher value-added activities in the supply chain. a) What is the current capacity and the enhanced capacity and when will the enhanced capacity be expected to be onstream? b) Please brief shareholders on the progress or achievements of the Group's ventures into new markets as well as expansion into higher value-added activities in the supply chain.
Watta Holdings Bhd (AGM)	The Group reported profit after tax of RM1.929 million for the year 2019 as a result of a revaluation surplus on its assets. The surplus arising from the revaluation of its investment properties amounted to RM5.238 million (page 12 of Annual Report 2019 ("AR2019")). a) Without the revaluation surplus the Group would have recorded two consecutive years of losses after tax and declining revenue. Is the Group expected to reduce its losses, going forward? b) The Group's business is dependent on repairing handphones that are under warranty and repairing 'out of warranty' handphones. This business continues to experience ongoing highly competitive pressures. Will the Group's current strategies be able to turnaround the business or ensure profitability? When is the Group expected to show profits?
Dutch Lady Milk Industries Bhd (AGM)	From 2018, the Company's ultimate holding company, Royal FrieslandCampina N.V. ("RFC") has implemented the Fast Forward programme to support its Route 2020 Strategy (page

	39 of the Annual Report). The Company also described in its Management Discussion & Analysis that the outlook for 2020 looks volatile and uncertain, driven by the current development of the COVID-19 pandemic. The Company anticipates an economic slowdown in the rest of 2020 which could have impact on the purchasing power of Malaysians. In addition, global uncertainty could further impact foreign exchange and milk prices (Page 44 of the Annual Report). a) How will the current challenges presented by Covid-19 affect the Company's activities/operations and business strategies going forward? b) What are the measures taken to ensure that business operations are not significantly disrupted due to COVID-19 related restrictions? c) What is the impact on the Company's supplies, distribution, trade receivables as well as the labour force due to the pandemic?
KYM Holdings Bhd (AGM)	Multiwall Industrial Paper Sacks division recorded a higher operational loss of RM4.87 million due to lower domestic sales, lower selling price and higher raw materials cost (page 14 of AR2020). a) Does KYM expect the division to be profitable in FY21? b) To what extent will the demand for KYM's industrial paper sacks be affected, especially the sale to local cement industry, due to economic slowdown? c) Sales to Malaysia and Singapore market was down 26.6% and 53.5% to RM51.59 million (FY19: RM70.15 million) and RM8.31 million (FY19: RM17.87 million) respectively (page 98, Note 44 Segment Information – Geographical Segments, AR2020). Does this signal a shift in customers' preference from KYM's products towards its competitors? Is the decline in sales in the two markets an industry-wide issue or a temporary setback faced by the Company? How will the Company improve sales performance in the two markets?

Country View Bhd (AGM)	The Group has disposed investment properties amounting to RM25.5 million that resulted in the Group recording a loss of RM1.1 million, or 4.3% (Pages 63 and 93 of Annual Report) a) Please explain the reasons why the investment properties were sold at a loss? b) What is the type of the investment properties that were sold? c) What is the gross and net rental yield of the investment properties sold prior to its disposal?
SMTRACK Bhd (EGM)	As at the 29 June 2020, the cash and bank balances of SMTrack is approximately RM4,657 and its trade receivables was at approximately RM3.54 million. As such, there is a need for the Company to raise funds expeditiously for its general working capital (Section 3, page 6 of Circular). a) Given the dire state of the Company with cash and bank balances of approximately RM4,657, does the SMTrack have ready investor(s) to subscribe for the Proposed Private Placement, immediately? b) Trade receivables stood at approximately RM3.54 million, are this collectable? What is the current status of the collection of trade receivables?
Poh Huat Resources Holdings Bhd (AGM)	Poh Huat foresees the full impact of the Covid-19 pandemic to be fully reflected in the second half of FY20 (page 6, Performance Review, Quarterly Financial Result for the period ended 30 April 2020). a) How bad will the situation be in terms of financial and operational performance in the second half? b) Customer A, B, C and D collectively contributed 62.55% (RM438.48 million) of Poh Huat's RM700.99 million revenue in FY19. Is there any significant decrease in order, or cancellation shipments by the four customers due to the Covid-19 pandemic? c) Has the Company faced difficulty in collecting receivables from customers during this challenging time?

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•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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