



The Observer

*(MSWG will announce the findings and award winners for the **MSWG-ASEAN CORPORATE GOVERNANCE AWARDS 2019** on 19 September 2020. Further details will be made available on [MSWG's website](#) upon the release of results).*

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❖ What does share buyback mean to minority shareholders?

Essentially, a company which is flushed with extra cash have a few options at their disposal, of which repurchasing their own shares is one of them.

Other options include re-investing in the business itself, embarking on an acquisition spree or to distribute cash dividends to shareholders.

In a way, share buyback bears resemblance to a dividend policy which is to reward shareholders.

In theory, share buybacks would reduce the number of shares available in the market – and all things being equal – increases the earnings per share (EPS) of the remaining shares.

The higher EPS will probably translate into better valuation and thus benefiting shareholders in terms of rise in share price.

The difference between share buyback and cash dividend is that a stock buyback requires shareholders to sell off their shares to receive the cash in the form of capital gain.

Nevertheless, some economists and investors have argued that companies should be using their excess cash towards re-investing to facilitate growth (i.e. ramping up capacity) instead of acquiring their stock in the open market.

In fact, the scale and frequency of share buybacks have become so significant that even shareholders who presumably benefit from such corporate actions are questioning the motives of such corporate action.

Larry Fink, the chairman and CEO of BlackRock Inc. previously wrote that companies should engage in buybacks only when they are confident that the

return on those buybacks will ultimately exceed the cost of capital and the long-term returns of investing in future growth.

Do not forget to cancel the treasury shares

Espousing its thoughts on *Shareholder Value Creation Through Corporate Governance*, Dunross & Co, a long-term value investment firm said if and when a company decides to buy back shares, it is of utmost importance that the acquired shares are cancelled.

“A buy-back programme without cancellation of treasury shares will be interpreted as if the company will sell the shares back into the market eventually, thereby creating an overhang that will negatively impact the cost of equity.”

Technically, only when treasury shares are cancelled is there a reduction in the number of shares and hence an increase in the EPS. If PLCs sell back the treasury shares in the market, there is no reduction in the number of shares in float and increase in the EPS.

When companies buy back their own shares, cash on the company's balance sheets will be reduced. This will increase the return on equity (ROE) of companies as well.

However, shareholders must take note that the increase in ratios is not because of the improved profitability but due to a decrease in outstanding shares.

In addition, for companies which are flushed with cash, the prospect of bumping up EPS can be tempting, especially in an environment of low yield on corporate cash investments.

Additionally, companies that pursue share buybacks often believe that their stock is undervalued and is a good buy at the current market price.

Elsewhere, share buyback will create a level of support for the stock, especially during a recessionary period or during a market correction (as depicted by the recent plunge of glove stock prices).

Massive share buyback by glovemakers

Notably, glove manufacturers Top Glove Corporation Berhad and Supermax Corporation Berhad have in recent times splurged huge amount of money on share buyback following the plunge of glove stock prices after their meteoric rise over the past five months.

Both Top Gloves and Supermax had earlier announced a bonus issue of two-for-one and one-for-one on 24 and 27 July, respectively. Shares from the bonus

issue of Top Glove and Supermax were traded on an ex-bonus basis on 3 and 4 September respectively.

According to Bursa Malaysia filings, Top Gloves, the world's largest rubber glove producer, spent approximate RM210 million for its share buyback scheme on 9, 10 and 11 September.

The amount spent is equivalent to 17.35% of the company's cash pile of RM1.21 billion as of 31 August. It also owned investment securities worth of RM1.67 billion as of end-August.

Following the recent share buyback, Top Glove's cumulative net outstanding treasury shares have risen to 31.73 million shares compared to 1.98 million before the massive repurchase of shares.

Meanwhile, Supermax bought back 5.48 million shares in the open market on 10 September for RM36 million compared with its cash pile of RM1.18 billion as of 30 June.

Prior to this, Supermax had already spent about RM58.08 million between 15 and 30 April to buy back 28.7 million of shares. The glove maker has accumulative treasury shares of 143.26 million which is equivalent to a 5.26% stake in the company.

Statistics showed that share buybacks were increasingly popular among Malaysian PLCs. Value of share repurchased by local PLCs totalled RM1.56 billion in 2018 or about six times the RM264 million expended in 2017 (*Source: The Edge Malaysia, issue 11-17 March 2019*).

The ramp-up came amid the sharp decline in the local bourse following uncertainties brought about by a historic change in government as well as trade tensions between the US and China.

The number of companies that utilised such strategy during the period by buying back more than 2% of their outstanding shares also more than doubled to 23 compared with only 10 in the preceding year.

If a company buys back its shares for the sole purpose of stabilising its share price regardless of the intrinsic value, such action may create a short-term bump in share price, but the positive effect will soon fizzle out if there is no growth in actual value of the company.

As such, minority shareholders must decide whether they agree with their company undertaking a share buyback exercise. If they disagree with the board's buyback decision, the simplest way for them to show their displeasure is by voting against the resolution mandating share buybacks.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 21 September – 25 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 details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Broadcast Venue/Venue
21.09.20 (Mon) 10.00 am	Superlon Holdings Bhd (AGM)	Danau 3-5, Kota Permai Golf & Country Club, Kota Kemuning, Shah Alam
21.09.20 (Mon) 10.00 am	LFE Corporation bhd (AGM)	4th Floor, Campbell Complex, Jalan Dang Wangi, KL
21.09.20 (Mon) 11.00 am	Emico Holdings Bhd (AGM)	The Conference Room of Emico Holdings Bhd, Lebuhraya Kg. Jawa, Bayan Lepas
22.09.20 (Tue) 10.00 am	IJM Corporation Bhd (AGM)	Broadcast Venue at the Multipurpose Hall, Wisma IJM, Jalan Yong Shook Lin, PJ
22.09.20 (Tue) 10.30 am	RCE Capital Bhd (AGM)	Main Hall Level 1, PJ Tower, Jalan Persiaran Barat, PJ
22.09.20 (Tue) 10.30 am	Brem Holdings Bhd (AGM)	Crystal Crown Hotel Harbour View Port Klang, Persiaran Raja Muda Musa
23.09.20 (Wed) 10.00 am	Land & General Bhd (AGM)	Broadcast Venue at Meeting Room TR12-R02, Menara Symphony, Seksyen 13, PJ
23.09.20 (Wed) 10.30 am	Amcorp Properties Bhd (fka AMDB Bhd) (AGM)	Main Hall Level 1, PJ Tower, Jalan Persiaran Barat, PJ
23.09.20 (Wed) 11.00 am	Wang-Zheng Bhd (AGM)	No. 1, Jalan Utarid U5/19, Section U5, Shah Alam
23.09.20 (Wed) 11.00 am	PNE PCB Bhd (AGM)	Le Grandeur Palm Resort Johor, Jalan Persiaran Golf, Senai, Johor
23.09.20 (Wed) 02.30 pm	Atlan Holdings Bhd (AGM)	Broadcast Venue, Boardroom, 18th Floor, Menara Atlan, Jalan Ampang, KL
24.09.20 (Thur) 10.00 am	Lotte Chemical Titan Holdings Bhd (EGM)	Broadcast Venue at Tricor Business Centre, Manuka 2 & 3, Vertical Business Centre
24.09.20 (Thur) 10.00 am	KUB Malaysia Bhd (new) (AGM)	Function Room, KUB Malaysia, Capital, Oasis Square, Ara Damansara, PJ

24.09.20 (Thur) 03.00 pm	Eksons Corporation Bhd (AGM)	LA Hotel, MPT No. 299, Jalan St. Patrick, Tawau Sabah
25.09.20 (Fri) 09.00 am	Kanger International Bhd (AGM)	The Royal Selangor Golf Club, Jalan Kelab Golf, Off Jalan Tun Razak, KL
25.09.20 (Fri) 09.30 am	NTPM Holdings Bhd (AGM)	Bukit jawi Golf Resort, Sungai Bakap, Seberang Prai, Penang
25.09.20 (Fri) 10.00 am	SKP Resources Bhd (AGM)	Melati Room, Bangi Resort Hotel, Bandar Baru Bangi
25.09.20 (Fri) 10.30 am	Kossan Rubber Industries Bhd (EGM)	Kossan R&D Centre, PT 7836, Kaw. Perindustrian Meru Selatan, Klang
25.09.20 (Fri) 11.00 am	Southern Acids (M) Bhd (AGM)	Setia City Convention Centre, Jalan Setia Dagang, Shah Alam

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Superlon Holdings Bhd (AGM)	<p>Some of the reasons why Superlon's GP Margin retreated to 27% (FYE 2019: 29%) are as follows: -</p> <ul style="list-style-type: none"> a) the export revenue mix constituted a higher level of insulation sales to lower margin markets during the financial year; b) the competitive business environment; c) trading sales, which generate lower margins relative to the insulation sales, contributed to a larger percentage of our revenue. (Page 9 of the Annual Report 2020) <p>How will the Board plan to address these events?</p>
LFE Corporation bhd (AGM)	<p>As of 22 April 2020, LFE has successfully secured a new project and 4 sub-projects. These new projects have contributed approximately RM53.6 million of order book for the Company.</p> <ul style="list-style-type: none"> a) What is the total order book for the company currently? How long is this order book expected to last? b) Any major jobs which the Company will be tendering? What is the estimated value? c) What is the success rate of tender application?
Emico Holdings Bhd (AGM)	<p>The Company posted profit after tax of RM244k for FYE 2020 compared to RM 1.47 million in FYE 2019 which translates to a decline of more than 500%. As one of the biggest plastic trophy manufacturers in the world, the company reported that 50% of</p>

	<p>its FYE 2020 revenue or RM26.5 million was derived from the trophy business. (Page 13 of AR 2020).</p> <p>a) What are the Company's plans to reduce its dependence on the trophy business which has been severely affected by the Covid-19 pandemic as events are being curtailed on a massive scale thus slashing demand for trophies?</p> <p>b) In FYE 2020, 50% of the Company's revenue came from the European market. Given that European businesses had been hit adversely by the pandemic, what are the Company's plans of looking for alternative markets?</p>
IJM Corporation Bhd (AGM)	<p>IJM has recorded a revenue of RM7,075,072 in FY2020. It was the highest revenue since FY2016. However, the Group has recorded a profit before taxation of RM517,765, which was the lowest since the FY2016 (Page 38 of the Annual Report 2020).</p> <p>How does the Board plan to address the bottom-line result situation, moving forward?</p>
RCE Capital Bhd (AGM)	<p>RCE saw a sharp increase of 59% in allowance for impairment loss on receivables in Q1FY21 to RM7.16 million, as compared to RM4.5 million in Q1FY20, after taking into account the unfavourable impact arising from the further contraction of the forecasted real GDP.</p> <p>a) Considering the 17% contraction in Malaysia's second quarter GDP growth and worsening economic outlook, will the situation of increased impairment allowance persist for the rest of FY21?</p> <p>b) RCE's gross impaired financing improved to 7.1% in FY20 from 7.4% in FY19. Where does RCE's GIL ratio stand as compared with other banks and financial institutions in the personal financing segment? How will the GIL ratio perform in FY21 considering current economy condition and forward-looking macroeconomic variables?</p>
Brem Holdings Bhd (AGM)	<p>There is a net impairment loss of receivables of RM8,252,597 recorded in FY2020 (FY2019: RM330,957) (Page 52 of the Annual Report 2020).</p> <p>a) Why is there such a high increase in impairment loss? Which receivables are subject to the impairment loss?</p> <p>b) Is the amount recoverable?</p>

	<p>c) What are the measures taken to collect the receivables?</p> <p>d) How much of the impairment loss on the receivables have been recovered to-date?</p>
Land & General Bhd (AGM)	<p>Included in the sundry receivables is an advance payment of RM15 million made to a contractor in current year, which will be progressively settled over the duration of the contract. (page 122 of Annual Report)</p> <p>a) Why the contractor was given an advance payment of RM15 million? This is a departure from the norm as contractors are normally paid after completion of work done that has been certified.</p> <p>b) Please provide the name of the contractor.</p> <p>c) Is the contractor a related party?</p> <p>d) Please name the property project the Company has given to the contractor and what is the value of the contract work?</p> <p>e) What mitigating measures the Company has taken to ensure that the contractor will not default his obligation under the construction contract?</p>
Amcorp Properties Bhd (fka AMDB Bhd) (AGM)	<p>The Group recorded a profit after tax of RM4.5 million after taken into account the disposal of two pieces of contiguous land in Sepang that contributed RM16.3 million to the Group's profit before tax. (page 11 of Annual Report)</p> <p>a) Why did the Group sell the two pieces of land in Sepang? Why was the land not kept for development as the Group is a property developer and Sepang is fast developing into a township?</p> <p>b) Who is the buyer of the land?</p> <p>c) What is the market value of the land?</p> <p>d) Is there any remaining land in Sepang after the disposal? If so, what is the Group's plan for the remaining land?</p>
Wang-Zheng Bhd (AGM)	<p>The total fee for the internal audit function of the Company during FYE 2019 was RM 21,000. (Page 63 of AR 2019)</p>

	<p>a) Given that the fee is rather small (RM1,750 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?</p> <p>b) What are the areas covered by the internal auditors during FYE 2019?</p> <p>c) How many internal audit reports were issued during FYE 2019?</p>
PNE PCB Bhd (AGM)	<p>The total fee incurred for the internal audit function of the Group during the financial year ended 31 March 2020 was RM18,575.00. (Page 27 of AR)</p> <p>Given that the fee is rather small (approximately RM1,500 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?</p>
Atlan Holdings Bhd (AGM)	<p>Trade receivables that are past due for more than 120 days but not impaired has increased 91.25% to RM17.71 million in FY20 from RM9.26 million as at the end of FY19 (page 185, Note 26 Trade and other receivables, AR2020).</p> <p>What are the measures taken to expedite the collection of these overdue receivables? How much of these receivables have been recovered to-date?</p>
KUB Malaysia Bhd (new) (AGM)	<p>Total remuneration paid to former president and group managing director Datuk Abdul Rahim Mohd Zin increased approximately 25% year-on-year to RM1.62 million from RM1.3 million in FY18. The salary component in the total remuneration increase by 30% to RM1.13 million from RM870,000 in FY18 (page 91, Note 11 Directors' Remuneration, AR2019).</p> <p>Given that revenue has declined 23% and the Company is making losses from continuing operations in FY19 (refer to Q1), what is the rationale for the significant increase in remuneration for Datuk Abdul Rahim?</p>
Eksons Corporation Bhd (AGM)	<p>The Timber Division's inventories were written down by RM11.7 million in FYE 2020 (FY 19: RM4.6 million) due to the weak demand and lethargic economic conditions. (Page 13 of AR 2020)</p> <p>a) Does the Company foresee major write downs for its timber Division's inventories for FYE 2021 given the weak prevailing business conditions?</p>

	<p>b) If so, what is the projected amount of write downs in inventories that the Company expects going forward for FYE 2021?</p>
SKP Resources Bhd (AGM)	<p>Revenue from 1 major customer amounted to RM1,394,447,000 (2019: RM1,225,928,000), arising from sales of plastic products segment. (Page 122 of AR). The revenue contribution from the major customer constituted 76.3% and 74.1% of the respective Group revenue in FY2020 and FY2019.</p> <p>a) How long has the Group been dealing with this customer? What are the risks and probability of the customer exiting from any business deals with SKP?</p> <p>b) What measures have SKP taken or will institute to mitigate the customer concentration risk?</p>
Southern Acids (M) Bhd (AGM)	<p>The Oleochemical segment had incurred losses in the last two financial years (FY20: - RM3.2 million; FY19: - RM2.4 million). The loss before tax of RM3.2 million in FY20 was due to a decline in average selling price (ASP) of fatty acids and glycerine, notwithstanding a higher sales volume (page 12 of Annual Report 2020).</p> <p>a) What are the current dynamics of demand vs supply, and ASPs for the two key products?</p> <p>b) What is the outlook and catalysts for the Oleochemical segment in FY21 and FY22? Will the segment be profitable in FY21?</p> <p>c) SAB has cited competition, forex risk from exports and substitution of petrochemical products as the key risks faced by the Company.</p> <p>To what extent does petrochemical products pose a threat as substitutes to SAB's oleochemical products? What is the percentage of SAB's oleochemicals product portfolio that can be substituted with petrochemical products?</p> <p>d) With the volatility in crude oil prices, what would be the approximate crude oil price or range of prices to render petrochemical substitutes less price competitive?</p>

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)

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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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