



The Observer

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Short-selling: Two sides of the coin

Investors can heave a huge sigh of relief with the recent decision by the Securities Commission (SC) and Bursa Malaysia to further extend the temporary ban on short-selling till 31 December this year.

The suspension, which came into force since 24 March and was later extended on 28 April is part of a slew of proactive measures to mitigate potential risks arising from heightened volatility and global uncertainties as a result of Covid-19.

It applies to Intraday Short Selling (IDSS) and Regulated Short Selling (RSS), as well as intraday short selling by Proprietary Day Traders. Permitted Short Selling (PSS) is not affected by the temporary suspension of short selling as PSS is necessary for market makers to market make the relevant securities such as exchange traded funds efficiently, said SC in a media release.

In Asia, South Korea (till September) and Indonesia (until further notice) have also imposed short-selling bans, while market regulators in Thailand, Taiwan and India have tightened their rules to make the practice of short-selling more difficult.

However, six European Union states – Austria, Belgium, France, Greece, Italy and Spain – have scrapped their bans on short-selling introduced during bouts of extreme market volatility in March with effect from 18 May.

There is, however, a mixed view as to whether the temporary ban of short-selling activity is justified for the betterment of the stock market.

World Federation of Exchanges (WFE) disagrees with short selling bans

Despite being perceived as an effective measure to cushion extreme market volatility, a recent academic research published by the World Federation of Exchanges (WFE) has pointed to short-selling bans being disruptive for the orderly functioning of markets.

Short-selling ban is found to reduce liquidity, increase price inefficiency, hamper price discovery and having negative spill-over effects in other markets. Additionally, WFE said there are evidence suggesting that banning short-selling during periods of heightened uncertainty seems to exacerbate, rather than contain, market volatility.

The industry group argued that short-sellers do not behave differently from any other traders during periods of price decline and heightened volatility, and contribute less to price declines than regular 'long' sellers.

"Based on the existing evidence, the WFE recommends that financial regulators do not introduce short-selling bans as the academic literature demonstrates not only their lack of effectiveness, but their negative impact on market quality," WFE chief Nandini Sukumar pointed out.

"We would urge jurisdictions that have imposed such bans to reconsider in the light of the evidence."

Moreover, short-selling ban – although deemed as psychologically advantageous – "would have pretty much no effect on the market volatility or pricing but may have an impact on liquidity," according to Ihor Dusaniwsky who monitors short selling at S3 Partners, a firm specialising in financial data and analytics.

"Overall, the vast proportion of selling activity in the market has been long selling and not short-selling," revealed Dusaniwsky, commenting on the blame levelled at short-sellers for the drastic fall of US stocks in March.

Ironically, short-selling has been instrumental in forcing German fintech company Wirecard AG to recently admit that it has 1.9 billion euros (US\$2.1 billion) of cash missing from its business.

Although short-sellers (majority of which are hedge funds) were reported to make paper profits of US\$2.6 billion off Wirecard's recent plunge, they mostly felt 'vindicated' over the fact that the company has since 2015 been denying accusations of corruption, corporate fraud and lax money laundering controls in part related to illegal online gambling.

South Korea - A moderate view

South Korea is readying to propose tougher criminalisation and heavy penalties on illicit short sale before the ban on the speculative investment tool is lifted in September, according to the country's Financial Services Commission chairman Eun Sung-soo (*Source: Pulse News, 12 June 2020*).

"The cap will not be entirely lifted even when short sale is allowed back (after a six-month ban)," said the top financial policymaker. This means short-selling

is likely to be permitted on a gradual basis as the market regulator fixes problems in the existing system and gauge market opinion on the timing of its revival.

“We must coolly assess whether the stock gains over the last three months are attributed to the ban on short sale or the overall global market recovery,” added Eun.

Short-selling on South Korea’s stock markets is mostly done by institutional and foreign investors. Last year, 99.16% of the short-selling was by foreigners (59.09%) and institutional investors (40.07%).

This is due to the complicated process for retail investors to borrow stocks and their lack of awareness of the process.

Hwang Sei-woon, a researcher at the Korea Capital Market Institute, suggested a gradual reintroduction of short selling to curb the stock market from overheating (*Source: Korea Times, 18 June 2020*).

Lifting of the ban can start with large-cap companies that exceed 30 trillion won (about RM107 billion) in market capitalisation while small and mid-cap companies can remain shielded from short-selling “attacks.”

Hong Kong – no ban on short selling

As for Hong Kong which did not ban short-selling even when volatility peaked in March, the city’s Securities and Futures Commission (SFC) has been closely monitoring derivatives markets and short-selling data to ensure that trading activity in those areas does not pose any financial stability or systemic risks.

Hong Kong has a robust short-selling regulatory regime specifically designed to limit any potential distortion of the normal price-discovery function of markets while recognising the potential benefits of short-selling.

Conclusion

Pitting both views together, it would be fair to deduce that short-selling would be an ideal trading strategy should stability prevail in the market as opposed to a fragile market environment where extreme volatility would exacerbate further downspin.

Such is the mantra for markets that have temporarily suspended short-selling although it does undoubtedly facilitate price discovery on the longer term.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 6 July - 10 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
06.07.20 (Mon) 10.00 am	Sino Hua-An International Bhd (AGM)	The Company has expanded into restaurant and information technology businesses as the current manufacturing and sales of metallurgical coke and other related by-products continued to record losses.
08.07.20 (Wed) 10.00 am	Media Prima Bhd (AGM)	Media Prima recorded net loss of RM185.5 million in FY19 against net profit of RM59.0 million in FY18 due to several one-off impairments and measures to scale down its workforce Its challenge is to generate sufficient new revenue from commerce and non-advertising sources. It also needs to grow income from digital initiatives and expand revenue sources beyond Malaysia to offset the decline in traditional revenue.
09.07.20 (Thur) 10.00 am	Carlsberg Brewery Malaysia Bhd (AGM)	The brewer will face strong headwinds in FY20 with expected decline in sales and production due to COVID-19 pandemic. For the Q1FY20, its revenue declined 10.6% to RM589.9 million with net profit decreased 16.7% y-o-y to RM73 million. In addition, Carlsberg has to deal with political pressure with calling for the ban on all alcohol production to reduce the number of drunk driving accident. On top of this, the Kuala Lumpur City Hall also announced the freeze of granting new liquor license application.

09.07.20 (Thur) 10.00 am	Puncak Niaga Holdings Bhd (AGM)	New businesses like plantation, and concession and facilities management businesses have started to generate returns.
09.07.20 (Thur) 10.00 am	UEM Sunrise Bhd (AGM)	To bring UEM Sunrise to greater heights, the Company has adopted innovative approaches by wide adoption of digital tools and Industry 4.0 technologies.
09.07.20 (Thur) 12.00 pm	KPJ Healthcare Bhd (AGM)	Thanks to health tourism, KPJ recorded the highest ever revenue from the segment last year with a year-on-year growth on revenue of 7%.
10.07.20 (Fri) 10.00 am	Kossan Rubber Industries Bhd (AGM)	Revenue increased to RM2.22 billion in FY19 (FY18:RM2.14 billion) attributed to a 7.8% increase volume sold, though average selling price declined by 5.4% during the same period. PBT increased to RM276.4 million (FY18: RM249.3 million). Capitalising on strong glove demand, KOSSAN is ramping up its production capacity with plan to complete its Plant 19 by the 1st half of 2020. By then, its total installed capacity will then rise to 32 billion pieces of gloves per annum.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Sino Hua-An International Bhd (AGM)	<p>The Group acquisition in Touchpoint International Sdn. Bhd. ("Touchpoint") and business of Wavetree PLT resulted in a provisional goodwill amount of RM55.1 million.</p> <p>The vendors provided a profit guarantee of not less than RM3,000,000 for the 12 months period ending 30 June 2021 ("Profit Guarantee"). Should the EBITDA fall below the Profit Guarantee, the purchase consideration shall be reduced by RM10,000,000 for every EBITDA shortfall of RM1,000,000 and the reductions shall be reflected in the final payment tranche. (page 99 of Annual Report)</p> <p>a) Please explain why the Company pays a high valuation of goodwill for this acquisition?</p> <p>b) Why has the vendor only provided an one year profit guarantee as the norm is a 3 year profit guarantee?</p>

	<p>c) How much profit has been generated from TouchPoint from the acquisition date to 31 May 2020?</p> <p>d) How much is the final payment tranche of the acquisition and when is it expected to be paid?</p> <p>e) The reduction in purchase consideration is considered high, by an amount of RM10 million for every EBITDA shortfall of RM1 million. Please explain the rationale</p>
Media Prima Bhd (AGM)	<p>The last decade has witnessed a significant shift in the media industry as more disruptive trends and technologies such as process automation, digital advertising ("digital adex"), big data and artificial intelligence become more prevalent (page 10 of AR2019)</p> <p>How has the Group strategized and progressed in addressing all these disruptive trends and technologies to move forward?</p>
Carlsberg Brewery Malaysia Bhd (AGM)	<p>The Company continues to battle the contraband market through close partnership with the Confederation of Malaysia Brewers Berhad (CMBB) and the Ministry of Finance, Royal Malaysian Customs and other government agencies, with visible and commendable results. (Page 30 of the Annual Report)</p> <p>a) How severely has the revenue of the Company been affected by the contraband alcoholic beverage market?</p> <p>b) Moving forward, is the contraband market expected to grow and continue to be significant threat to the Company's business?</p>
Puncak Niaga Holdings Bhd (AGM)	<p>The Group incurred concession costs of RM199,914,000 in FY2019, representing an increase of more than 100% as compared to the previous financial year of RM81,039,000 (Page 133 of the Annual Report 2019).</p> <p>What are the details of these costs? What are the reasons for the Group to incur a significant increase in concession costs in FY2019?</p>
UEM Sunrise Bhd (AGM)	<p>In the MD/CEO's Letter to Shareholders, it was mentioned that in order to bring UEM Sunrise to greater heights, innovative approaches supported by wide adoption of digital tools and Industry 4.0 technologies will be the key source of differentiation.</p>

	<p>a) Please explain what are the digital tools and Industry 4.0 technologies that the Group had deployed?</p> <p>b) What is the expected CAPEX in adopting the digital tools and Industry 4.0 technologies?</p> <p>c) What will be the expected savings from the adoption of the digital tools and industry 4.0 technologies?</p> <p>d) Will there be a reduction in headcount arising from the adoption of digital tools and Industry 4.0 technologies? If yes, what is the expected number?</p>
<p>KPJ Healthcare Bhd (AGM)</p>	<p>KPJ has opened three new hospitals in 2019, namely KPJ Bandar Dato' Onn (operations commenced in February 2019 with a total of 30 beds), KPJ Batu Pahat (operations commenced October 2019 with a total of 29 beds) and KPJ Miri (operations commenced December 2019) (Page 79 of the 2019 Integrated Report)</p> <p>a) What are the current occupancy rates and patient volumes for the hospitals?</p> <p>b) As the hospitals are still under the gestation period, how does KPJ manage the hospitals' operating expenses to minimise the impact to bottom-line results? What is the earnings outlook for the hospitals in FY2020?</p>
<p>Kossan Rubber Industries Bhd (AGM)</p>	<p>With the rapidly rising demand for gloves especially with the emergence of Covid-19 pandemic, all the glove players are aggressively ramping up their production capacities.</p> <p>a) Growth in demand for gloves is hinged on increased health awareness. Is the current spike in demand a sustainable one? Is there any concern for overcapacity once COVID-19 subsides?</p> <p>b) Kossan's current installed capacity stands at 29 billion pieces per annum. What is Kossan's average utilization rate of the glove production plants? Does the Company have further room to scale up production?</p> <p>c) Kossan's sales volume of gloves increased 7.4% year-on-year in the first quarter of FY20. What is the expected volume growth Kossan seeks to achieve in FY20? Among the different products including examination and surgical gloves, which</p>

	<p>are the products that will drive Kossan's sales volume and profit margin?</p> <p>d) How has Kossan's sales lead time change before and after the COVID-19 pandemic? When does the Company expect a normalization in lead time going forward?</p> <p>e) Considering capacity expansion exercises undertaken by industry players, is there a risk of diminishing market share if capacity expansion exercises of the other players outstrip Kossan's?</p>
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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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