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

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Time for stock analysts to contemplate self-censorship by not 'over-prospecting'

In these uncertain times when various unthinkable events have taken place, it can be a misdemeanour for key opinion leaders to raise false expectations that may lead to the downfall of people who follow these leaders' viewpoints.

In tandem with the adage that the pen of stock analysts can be mightier than the sword, a recent company update on Top Glove Corporation Bhd had its analyst pondering if the world's largest gloves manufacturer can ever breach the RM100 barrier.

While this eyebrow-raising contemplation – expressed vis-à-vis the headline "Can Top Glove break RM100?" – is thought provoking, it can be misconstrued as an endorsement of optimism given our stock market has gone berserk over "anything to do with gloves".

In all fairness, it deserves a mention nevertheless that the analyst has furnished justification to his lofty valuation.

Having already raised the price target of Top Glove by 107% to RM46.40 (previously RM22.40) – which is probably the highest thus far if pitted against his other peers – the analyst envisages that the possibility of cracking RM100 can be realised on two counts:

- Should investors be willing to peg the stock at 52x CY21E price-to-earnings ratio which is similar to competitor Hartalega Holdings Bhd's valuation; and

- Should average selling price of gloves increases by at least 10% month-on-month for FY21E.

"Our fair value has not factored in the change in share base from the recently proposed 1 existing share for 2 bonus share exercise," he further rationalised.

Together with the target price obtained from eight other local research houses (the lowest being RM25.40), the average target price of Top Glove stands at RM30.43.

If Top Glove were to trade at RM100 apiece, this would mean its market capitalisation will reach a whopping RM269 billion. In fact, there has not been any Malaysian-listed company reaching the RM150 billion mark (*The Edge, 23 July 2020*).

In the grand scheme of things

Set against the backdrop of looming concerns over a second/third wave attack from the COVID-19 pandemic, the sustainability of our stock market is as good as anybody's guess.

Worst still, amid the current low interest rate environment which rendered conventional fixed deposit yields unattractive, many retail investors have shifted their funds to the equities market in search of better returns.

Fuelled by the glove rally and heavy churning of penny stocks, the local bourse hit a fresh record yet again on 20 July with volume climbing to 12.49 billion shares, erasing the previous record of 11.807 billion shares set on 8 July.

Nobody would expect Top Glove to be ranked second only to Malayan Banking Bhd's market capitalisation of RM86.22 billion. At its closing price of RM25.88 on 30 July, the glove counter boasted a market cap of RM69.98 billion, having surpassed Public Bank Bhd (valued at RM66 billion).

If "bizarre" is the right choice of word to use, then it is nothing short of astonishing that even Top Glove's running mate, Hartalega, has temporarily dethroned the most expensive banking stock in Bursa Malaysia with a RM69.51 billion market cap to come in third.

Above all else, the glove wealth has also either minted new billionaires among company founders (in US$ term) or further enriched the fortunes of existing ones.

After a dismal showing over the past two years or so, the glove craze has also propelled Bursa Malaysia into the list of top regional performer by having posted a 0.94% year-to-date return as of 30 July.

Moderation is the key to everyone's well-being

Although we believe that every stock analyst is professional in carrying out their duties, a little self-restraint or self-censorship can go a long way into helping our investing public make better judgment of the companies that they are investing in.

Try to factor in the welfare of the audiences that are not only made up of institutions but also retail investors. With temptation soaring, it is inevitable that buying decision is often blurred or laced with human greed.

As it is, the line between investing and speculating or stock punting is getting thinner by the day with some over-zealous retail investors 'going for the broke' to make ends meet after having lost their employment.

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.

Even Bursa Malaysia Bhd CEO Datuk Muhamad Umar Swift has acknowledged that retail investors had played a major role in helping the local bourse reach a strong profit growth in its second quarter for the financial year ending 31 December 2020 (*StarBiz, 29 July 2020*).

Returning in droves, the value of shares traded by retail investors amounted to RM32.3 billion in June which compares significantly to the foreigners' RM14.6 billion and local institutional funds' RM30.28 billion. In comparison, retail investors' value of traded shares a year earlier was only RM5.48 billion (*StarBiz, 25 July 2020)*.

Thankfully, Bursa Malaysia's chairman Tan Sri Abdul Wahid Omar assuaged that share margin financing levels seen across retail investors are not at elevated levels as investors were merely switching their investments from term deposit into the share market in search of better yields (*The Edge, 28 July 2020*).

Moral obligations

To sum up, there is a need for the stock analyst fraternity to do their part in bridging the current disconnection between economic fundamentals and financial markets instead of fanning the flames of greed among the investing public.

On moral grounds, every citizen of this country is duty-bound to lend each other his/her shoulder in our battle against the COVID-19 pandemic which is still wreaking havoc the world over.

While newfound fortunes of gargantuan scale have knocked on the doors of glove manufacturers, the same cannot be said of other industry players, many of whom have been badly bruised financially by the current health crisis and would deem themselves lucky to be able to keep their businesses afloat.

Notably their banking counterparts are expected to lose RM6.4 billion during the loan moratorium between April and September 2020 as revealed by Finance Minister Tengku Zafrul Abdul Aziz in the Parliament on 27 July.

And upon the expiry of six-month blanket automatic loan moratorium on 30 September, banks will continue to offer targeted financial assistance via "restructuring and rescheduling" for affected borrowers.

Despite having a crippling effect on the financial performance of listed financial institutions, these exercises are necessary to tide over big and small borrowers from the damning effect of the current health crisis.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 3 August – 7 August 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
03.08.20 (Mon) 11.00 am	Kerjaya Prospek Group Bhd (AGM)	The Group will continue to bid for construction projects to replenish its order book.
04.08.20 (Tue) 10.30 am	WZ Satu Bhd (EGM)	WZ Satu seeks shareholders' approval to undertake a rights issue of ICPS with warrants exercise to fund future construction projects.
04.08.20 (Tue) 11.30 am	WZ Satu Bhd (EGM)	The EGM is to seek shareholders' approval to ratify terms in a letter agreement for the settlement of RM12 million guaranteed amount for the acquisition of Misi Setia Oil and Gas Sdn Bhd back in Jul 2014 for RM27 million.
05.08.20 (Wed) 10.00 am	WCT Holdings Bhd (AGM)	WCT aims to reduce its gearing level via various de-gearing initiatives.
06.08.20 (Thur) 10.00 am	My E.G. Services Bhd (AGM)	It had changed its FYE from 30 June to 30 September for FP2018, and subsequently, from 30 September to 31 December for FP2019. It continued to deliver a solid revenue of RM593.58 million during the 15-month FP2019 (FP2018: RM562.27 million), while profit before tax was RM306.94 million (FP2018: RM128.47 million). As a leading provider of digital services, will the COVID-19 outbreak lead to more opportunities to MYEG?
06.08.20 (Thur) 11.00 am	My E.G. Services Bhd (EGM)	The EGM is to seek shareholders' approval to establish a dividend reinvestment plan, an ESOS, and to diversify business into the provision of financial services. However, as part of good corporate governance practice, MSWG does not encourage the practice of allocating ESOS to independent non-executive directors.
07.08.20 (Fri) 09.30 am	HB Global Limited (AGM)	Business of HB Global in the first quarter of FY20 ended 31 March 2020 was badly affected by the COVID-19 outbreak in China. It turned loss-making during the period with a loss of RM6.5 million against RM5.5 million profit during the last corresponding quarter.

		Prospect of its business will remain uncertain in FY20.
07.08.20 (Fri) 03.00 pm	Mudajaya Group Bhd (AGM)	With a debt-to-equity ratio of approximately 5 times. Mudajaya intends to reduce its gearing and strengthen its balance sheet via various financing options.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Kerjaya Prospek Group Bhd (AGM)	As of 31 December 2019, the Group's inventories (completed properties) level stand at RM64,617,271, representing an increase of 30.2% as compared to the previous financial year of RM49,647,360 (Note 12, Page 122 of the Annual Report 2019). How does the Group intend to manage these inventories, moving forward?
WCT Holdings Bhd (AGM)	<u>Engineering and Construction Division</u> a) During the financial year under review, the Division recorded an operating loss of RM17.7 million (FY2018: operating profit of RM136.7 million) mainly due to provision for additional losses of RM146.7 million following the unfavourable Final Arbitral Award (Page 10 of the Annual Report 2019). As the arbitration has come to an end, does the Board expect the Division to return to profitability in FY2020? What is the outlook for this Division in FY2020? b) The Division is expected to continue to be supported by its outstanding orderbook of over RM5 billion and to focus on project execution to deliver sustainable level of financial results. The recently secured buildings construction job worth RM1.2 billion has further strengthened the Group's outstanding orderbook (Page 23 of the Annual Report 2019). How long will this orderbook last? What is the targeted orderbook replenishment in FY2020?
My E.G. Services Bhd (AGM)	Revenue contribution from Commercial Based Services and Products in relation to services rendered decreased to RM271.8 million (FP2018: RM400.1 million) (Note 38, page 165 of Annual Report for the 15-months financial period ended 31 December 2019 ("AR2019")).

	What is the reason for the significant decrease? Does the Group expect the declining trend of revenue contribution from Commercial Based Services and Products in relation to services rendered to continue, going forward?
My E.G. Services Bhd (EGM)	In line with better corporate governance, MSWG does not encourage the practice of giving options to independent non-executive directors as they play the governance role (and not an executive role) in the Company and are responsible for monitoring the option allocation to employees and executive directors. Under the Proposed Allocation of ESOS, there are three independent non-executive directors ("INEDs") namely Tan Sri Dato' Dr Muhammad Rais Bin Abdul Karim, Datuk Mohd Jimmy Wong Bin Abdullah and Wong Kok Chau are eligible to subscribe for new shares (Resolution 5, 6 and 7, Notice of EGM). The risk is that the independent directors may be fixated with their share price and this may affect their impartial decision-making, which should be made without reference to share price considerations. a) Why is the Proposed ESOS extended to the three INEDs since they do not perform executive roles? Are the directors' fee and other benefits that they receive not adequate to compensate the services rendered by them? b) It is stated that the Proposed ESOS is also extended to non-executive Directors of the Group in recognition of their contributions towards the growth and performance of the Group (page 17 of the Circular on Proposed ESOS). What are the performance metrics that will be adopted by the ESOS Committee to assess the eligibility of INEDs under the Proposed ESOS?
HB Global Limited (AGM)	Property, plant and equipment (PPE) of the Company with a carrying amount of RMB76.65 million (FY18: RMB82.79 million) was previously used in the duck farming business, which operations had ceased (page 80 of AR2019). Furthermore, there was an addition of RMB23.53 million in PPE during FY19, comprised of RMB15.7 million of leasehold land, buildings and infrastructure, RMB500,000 of plant machinery and RMB7.32 million of construction work in progress.

	a) Apart from looking for lessee to generate some income to the Group on the PPE related to duck farming, what are the other actions taken, or to be taken, to maximize the value of the assets? b) What is the nature of the additions of PPE related to leasehold land and construction work in progress?
Mudajaya Group Bhd (AGM)	By operating segments, both Mudajaya's construction contracts and power recorded an over 50% decline in the total revenue contribution (Note 32, Pages 176-177 of the Annual Report 2019), which are as follows: <table><tr><td></td><td colspan="3"><u>Total Revenue</u></td></tr><tr><td><u>Operating Segments</u></td><td>FY2019 (RM'000)</td><td>FY2018 (RM000)</td><td>Declined by</td></tr><tr><td>Contraction Contracts</td><td>258,260</td><td>638,514</td><td>59.6%</td></tr><tr><td>Power</td><td>50,585</td><td>298,902</td><td>83.1%</td></tr></table> a) How does the Board plan to address the decline in the total revenue contribution from both operating segments in the next two financial years? b) What is the outlook for these two segments in FY2020?

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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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