MSWG
MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Observer

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In conjunction with the upcoming Chinese New Year, The Observer will take a break next week. The publication of The Observer will resume on 19 February. For those who are celebrating, MSWG would like to wish all subscribers' and readers another year of prosperity and abundance return. Stay safe and stay healthy.

❖ Keep emotions in check; exacting revenge can be a lose-lose proposition

"Weak people revenge. Strong people forgive. Intelligent people ignore." – German mathematician and physicist Albert Einstein (1879-1955)

"Strategy without tactics is the slowest route to victory. Tactics without strategy are the noise before defeat." – Sun Tzu, ancient military strategist and author of *The Art of War*

THE above quotes are directed to all retail investors, especially the next-gen or so-called millennial investors.

It has been said that a defining trait of these social media-savvy newbie investors is the pursuit of both financial return and positive social impact by leveraging fast, digital and automated solutions.

While it is understandable that these younger retail investors are by nature more aggressive than their older peers, they must know where to draw the line. One good example is by not getting carried away with the high-risk GameStop-inspired game plan.

In all fairness, to rebel against what is perceived to be market injustice is understandable, but this must be done wisely. After all, discretion is the better part of valour.

They should make their investment decisions based on premises and bases rather than on emotions, especially retaliation and anger.

Buying a stock at higher and higher prices will only mean lower upside potential and higher downside risk. Worse still, when the music stops you may end up holding an overpriced baby.

How the frenzy unfolded

The GameStop-inspired frenzy has its root in herd mentality where amateur retail investors collectively ganged 'to teach' sophisticated/professional investors – short-sellers, hedge funds, institutional investors – a lesson for undermining the value of certain stocks.

The David-versus-Goliath movement involved GameStop Corp, an American video game, consumer electronics, and gaming merchandise retailer. Aside from GameStop, other notable names include BlackBerry and AMC Entertainment Holdings Inc.

Propelled by a mix of greed and anger alongside the endless flow of get-rich-quick hype and ideas delivered via social media, these amateur investors have piled into trades of 'under duress' stocks while pushing their prices to dizzying heights.

Shares of GameStop have surged about 800% in just one week (from US$39.12 on 20 January to US$347.51 on 27 January) as the Main Street piled in and forced hedge funds like Melvin Capital Management to lose billions on their short positions. These small investors discussed stocks on the "WallStreetBets" forum on Reddit anonymously while fuelling the GameStop rally.

Meanwhile, in a copycat version of "WallStreetBets", a similar forum dubbed as "BursaBets" took shape in Malaysia on 28 January.

The thread centred on Malaysian online retail 'armies' who are keen to squeeze out short-sellers and prop up the share price of glovemakers to a level that they deem to reflect the underlying fundamental of glovemakers.

True enough, shares of glovemakers such as Top Glove Corp Bhd jumped 14.33% to an intraday high of RM7.12 two minutes into trading on 29 January, from its closing price of RM6.21 on 27 January. The stock market was closed for Thaipusam holiday on 28 January.

Eventually, the share price of Top Glove gained 8.53% to close at RM6.74 on the day, with a hefty 161.62 million shares exchanging hands. As expected, Top Glove's counterparts also enjoyed the spoils. Hartalega Holdings Bhd chalked up 66 sen or 5.41% to RM12.86, while Supermax Corp Bhd rose 24 sen or 3.66% to RM6.80 and Kossan Rubber Industries Bhd was up 19 sen or 4.46% higher to RM4.45.

While it will be interesting to see if the "BursaBets" initiative is here to stay – with the growing number of followers and talks of targeting other individual stocks or economic sectors, minority shareholders are advised to exercise diligence by being aware of the risks involved in such initiatives.

Below are some risks of the GameStop-inspired frenzy:

Risk of the 'hot stock' sentiment fizzling out: Market key opinion leaders may propose a shift to another stock once there is little room left to push up the price of the existing stock. The impending danger here is that he/she is able to command the herd mentality.

On 2 February, GameStop's stock price nosedived US$135 or 60% in a single session to US$90 from the previous trading day. The shares plunged another 42% on 4 February to close at USD53.50. As a perspective, the stock closed at US$347.51 on 27 January. Its 52-week high price is US$483.00.

Stock fundamentals are not the primary concern: The chief aim is centred on rallying the price of a stock to teach "the shorties" (institutional buyers or hedge funds who short the stock) by making them lose out on their short position. Henceforth, the game plan hinges very much on sentiment rather than the stock's fundamentals.

The imposition of buying restriction: The upward price swing can easily be impeded by margin requirements – or the amount that investors can borrow to execute trades – that are imposed by brokerages in view of rising volatility or risk for a particular security.

Differing fundamentals between GameStop and glovemakers: While GameStop is a loss-making brick-and-mortar video retailer, the local glovemakers are fundamentally-sound companies which have recently netted record-breaking earnings.

Liquidity: GameStop is a relatively illiquid stock with a small number of shares available on the open market compared to glovemakers like Top Glove which recently completed a one-for-one bonus issue.

With Top Glove's share capital having expanded to 8.02 billion shares – with 3.95 billion free float shares according to Bloomberg – it could be an uphill task to lift the glove maker's share price in a sustained manner.

Share price trends: As countries accelerate their COVID-19 vaccination efforts, the market is valuing the glove makers at a lower premium. This is on top of an increasing number of analysts slashing their target prices albeit retaining their "buy" call on glovemakers.

As share prices of glovemakers climb, the selling pressure is also likely to intensify, coming not just from short-sellers but also those who are holding long positions.

Restricted short selling: Besides the powerful share price rally, another factor that has short squeezed the hedge funds in the case of GameStop is that the net short position was as high as 138%. In other words, the stock was shorted more than its size of issued shares (*The Edge*, 30 January 2021).

The hedge funds were doing “naked short selling” – short selling without any scrip in hand. The shortage of GameStop shares got even worse in the already illiquid counter when the fund managers were trying to cover their short positions and retail investors piled in the market. As a result, a short squeeze happened.

Bursa Malaysia, however, has imposed a 4% limit on the net short position of each approved security that is allowed for short selling.

In comparison, the net short position at Top Glove was at 244.26 million or 2.98% of its share capital as of 4 February, according to the stock exchange’s data. This is vastly different from GameStop.

Besides, the market dynamics between the US and Malaysia differ. In Malaysia, regulated short selling (RSS) is only applicable to approved securities in the RSS list which currently comprises 218 securities.

Furthermore, the RSS trades require investors to either borrow the approved securities to be short-sold or have confirmation of borrowing of the approved securities. RSS must be undertaken in a designated account where sell orders must be placed at the best offer price or higher.

Market regulators keeping an eye

Whatever the choice is, the Securities Commission (SC) and Bursa Malaysia are closely monitoring the local stock market in light of the current price surge of selected stocks in the US markets that are fuelled by social media chatrooms against short-sellers.

“Malaysian investors are advised to be cautious of social media chatrooms that try to influence investors to buy or sell certain stocks based on speculation or rumours,” the market regulators pointed out in a joint media statement.

“Investors should also be wary of discussions in these social media chatrooms that may trigger securities breaches such as the provision of investment advice or stock recommendations without a licence.”

Any person found guilty may be liable to a fine not exceeding RM10 mil or imprisonment not exceeding 10 years or both, the market regulators warned.

In short, institutional investors tend to have deeper pockets. This is not to underestimate the retailers’ purchasing power. At the end of the day, it may become an issue of who has deeper pockets and the stamina to sustain their initiatives.

Eventually, such action by both parties in trying to counter each other will create volatility in the share prices and this may be a risk to the short-term investors.

We all want to buy at the lowest and sell right at the top of the market, but not everyone can do that. And when the game of musical chairs stops playing and everyone rushes to take a seat, will you be one of the lucky ones, or will you be left out in the cold?

As always, minority shareholders should consider this new game in town and make informed decisions according to their risk appetites.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 8 – 12 February 2021

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
08.02.21 (Mon) 10.00 am	Aemulus Holdings Bhd (AGM)	Aemulus' revenue y-o-y decreased by 33% to RM19.3 million (2019: RM28.8 million). The COVID-19 pandemic and the implementation of travel restriction have affected its financial performance for the first half of its financial year. For FYE2020, the Group remained loss-making with a loss of RM3.6 million as compared to a loss of RM3.2 million in the previous year. With the expansion in the China market via its joint venture company, TMSS Technology (Jiashan) Co., Ltd., can turn around the Company?

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Aemulus Holdings Bhd (AGM)	Loss for the financial year was RM3.6 million (2019: RM3.2 million loss) (page 62 of Annual Report 2020 ("AR2020")). The Group sees strong signals of recovery in FYE2021 (page 22 of AR2020"). a) Given the negative impact of Covid-19 pandemic on the Group's business operations, particularly on the Group's

	revenue which recorded a 33% decrease, to what extent will the Group's joint venture with TMSS Technology (Jiashan) Co. Ltd. ("TMSS") address the downward pressure on operating performance especially the bottom-line performance?

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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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