



The Observer

(Following the announcement made by Prime Minister, YAB Tan Sri Muhyiddin Mohd Yassin on 25 March 2020, and in relation to the extension of Movement Control Order to 12 May 2020 to contain the COVID-19 outbreak, public listed companies have postponed their general meetings while some have proceeded with virtual general meetings.)

05.06.2020

A raw trade-off in the pipeline for Boustead Holdings' minority shareholders

In tandem with the current economic spell which have left many listed companies undervalued, privatisation is often deemed a strategic move by major shareholders to acquire the companies cheaply or to turnaround loss-making companies faster as a privatised company does not have to abide with obligations under the Listing Requirements.-

Therefore, the mulling by Lembaga Tabung Angkatan Tentera (LTAT) to privatise diversified conglomerate Boustead Holdings Bhd (BHB) at 80 sen per share to protect its core interest – the financial welfare of its estimated 250,000 members – is not surprising.

BHP used to be a cash cow for the armed forces fund by being the primary source of dividend income for LTAT but it has turned into a drag in recent times. Over the past three years, the group's dividend per share has been on a downward trend.

LTAT holds some 1.2 billion shares or 59.4% stake in BHB. For the financial year ended 31 December 2019 (FY19), BHB did not declare a dividend. Previously, it had declared a five sen dividend in FY18, 11 sen in FY17, and 17.5 sen in FY16.

Aside from LTAT, other substantial shareholders in BHB include the Retirement Fund Inc (KWAP) which holds a 9.19% stake and the Employees Provident Fund (EPF) with a 4.99% stake. Needless to say, these institutional shareholders will have a strong say on whether any privatisation offer is successful or not.

Bloodbath

Performance-wise, BHB continue to remain in the red by having doubled its net loss to RM1.39 bil during FY19 from RM573.2 mil a year ago, notwithstanding its revenue rose slightly to RM10.33 bil (FY18: RM10.19 bil).

BHB's bottom line during FY19 was impacted by impairments at the Heavy Industries and Plantation Divisions which amounted to RM844 mil and RM176 mil respectively.

In addition, its Pharmaceutical Division was affected due to recognition of the remaining unamortised Pharmacy Information System (PhIS) costs amounting to RM247 mil.

Against the backdrop of BHB being in the state of "profuse bleeding" with bleak prospect of a swift turnaround, it is understandable that desperation has prompted LTAT to test the waters by mooted the estimated RM665 million privatisation exercise.

The caveat emptor for LTAT's proposal to take the debt-laden and loss-making BHB private is the emphasis that its notification does not amount to a firm intention that it will undertake the proposal.

"Accordingly, there can be no certainty that we will proceed with the proposal," read the media statement issued by LTAT. "If we decide to proceed with the Proposal, we expect to propose an offer price of RM0.80 per ordinary share in BHB (Boustead)," the statement read.

"This offer price is indicative only and non-binding. The final offer price in relation to the Proposal (if undertaken) is subject to finalisation by LTAT."

Ironically, as per BHB's Bursa Malaysia filing dated 29 May, the controlling shareholder has yet to officially submit its privatisation plan to the company despite having publicly expressed its interest to take BHB private.

Poor uptake rate

Minority shareholders need to understand that taking BHB private will enable LTAT to have as much leeway as possible to break up and sell the former's assets as they are worth much more on their own.

While the privatisation exercise was positive for LTAT from the standpoint of stock market analysts, the indicative price for minority shareholders to accept the deal was a tad too low.

As to why the 80 sen offer price dwarfs the group's net tangible asset per share of RM1.85, the likely reason is that many assets in BHB's stable are distressed assets, illiquid and generate weak returns. As of 31 December 2019, BHB's total borrowings amounted to RM7.9 billion against RM940.4 million deposits, cash and bank balance.

Also noteworthy is that both BHB and LTAT have equity interest in four listed companies, namely Affin Bank Berhad, Boustead Plantations Bhd, Boustead Heavy Industries Corp Bhd (BHIC) and Pharmaniaga Bhd.

The privatisation will see LTAT strengthening its grip in these PLCs. BHB holds a 20.73% stake in Affin Bank, being the third-largest shareholder after LTAT which is the largest stakeholder (35.33%) and Bank of East Asia (23.56%).

For Boustead Plantations, BHB is the planter's largest shareholder with a 57.42% stake while LTAT is the second-largest shareholder (12.1%). At BHIC, BHB is the controlling stakeholder at 65% with LTAT holding a 8.16% stake. While at Pharmaniaga Bhd, BHB holds a 56.09% stake with LTAT owning an 11.23% holding.

Judging from the lukewarm response by virtue of BHB's share price since the announcement of intent by LTAT on 28 May, there seems to be an aura of reluctance from minority shareholders to the 80 sen offer price; the closing price on June 4 was 68 sen.

But for the time being, many minority shareholders will be waiting with bated breath as to whether there will be an offer price; and thereafter, for the advice from Independent Advisers.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 8 - 12 June 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
09.06.20 (Tue) 10.00 am	Malakoff Corporation Bhd (AGM)	The completion acquisition on Alam Flora last year will see the latter generates full year stable contribution in FY20. However it may have to contain with reduction in demand for electricity during MCO period.
09.06.20 (Tue) 10.30 am	CAB Cakaran Corporation Bhd (AGM)	The demand supply and prices of live broilers and processed chicken meat are the key factors determining its performance.

		<p>Given that it is an essential business, how has COVID-19 pandemic impacted the Group?</p> <p>It has made some investment to upgrade its equipment and processes of its factories and farms in the past, is it still on track to improve its financial performance in FY20?</p>
09.06.20 (Tue) 11.00 am	Tiger Synergy Bhd (AGM)	The property developer recorded higher net loss in FY19 due to the absence of new property project. It has targeted several new launches in FY20.
09.06.20 (Tue) 02.00 pm	Bumi Armada Bhd (AGM)	The profit recorded in FY19 was due to monetisation of non-core assets and higher utilisation of FPSO. It will be impacted by current low crude oil price as oil majors may cut down their capex.
10.06.20 (Wed) 10.00 am	Petronas Dagangan Bhd (AGM)	Some major challenges it has to contain in FY20 are the low oil prices, cautious consumer spending and the development of energy efficient vehicles (EEV).
10.06.20 (Wed) 10.00 am	Telekom Malaysia Bhd (AGM)	<p>TM posted a 3.3% decline in revenue to RM11.43 billion due to lower contribution from all segments except data and non-telecommunication related services.</p> <p>Nevertheless, its PAT was higher at RM632.7 million in FY19 (FY18: RM153.2 million) due to lower operating costs and the absence of impairment provision amounted to RM982.5 million for its fixed and wireless network assets in FY18.</p>
11.06.20 (Thur) 10.00 am	Sime Darby Plantation Bhd (AGM)	Amidst COVID-19 outbreak, the planter expects its operating results would remain satisfactory

		<p>based on a preliminary assessment.</p> <p>With India resumes the purchase of Malaysian palm oil recently, zero CPO export duty rate announced in June and the US-China Trade War 2.0, how would it fare in FY20?</p>
11.06.20 (Thur) 10.30 am	Press Metal Aluminium Holdings Bhd (AGM)	Net profit for the Q1FY20 was lower y-o-y at RM102.56 million (Q1FY19: RM115.1 million) due to lower aluminium price during the quarter. It expects a challenging year ahead as reduced economic activities and worldwide shutdowns have affected demand and prices of aluminium.
12.06.20 (Fri) 10.00 am	OSK Holdings Bhd (AGM)	It recorded its highest profit in FY19 due to higher property sales and actively clearing off completed properties.
12.06.20 (Fri) 10.00 am	Sunsuria Bhd (AGM)	The property developer aims to improve the short, medium and long term performance by focusing on logistic, trading and digital development endeavours in the future.
12.06.20 (Fri) 10.00 am	PPB Group Bhd (AGM)	<p>Its Film Exhibition and Distribution segment will be adversely affected by the COVID-19 pandemic due to mandatory closure of entertainment outlets during MCO and CMCO period.</p> <p>Besides, being a Large company, it has also departed from several CG practices namely the establishment of remuneration policies to determine the remuneration of directors and senior managements, nor finalise a definite plan to adopt integrated reporting.</p>

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Malakoff Corporation Bhd (AGM)	<p>The government has rolled out of the 10-year Malaysia Electricity Supply Industry 2.0 (MESI 2.0) master plan.</p> <p>The master plan intends to do away from the current long and fixed period of Power Purchase Agreement (PPA) regime to a capacity and energy market.</p> <p>In addition, power generators will be allowed to source own fuel to optimise cost, as opposed to sourcing from Tenaga Nasional Bhd (TNB) and Petroliam Nasional Bhd only.</p> <p>a) How does a capacity and energy market mechanism differ from the existing PPA model that promises guaranteed capacity and energy payment? How will such change affect or benefit Malakoff's power generation business in Malaysia?</p> <p>b) How will the Company benefit from the liberalisation of the fuel procurement market to IPPs under MESI 2.0?</p> <p>c) MESI 2.0 also talks about the opening up of the electricity retail market where the industry is opened to multiple suppliers who can offer competitive packages to consumers. Will this be the next segment of growth for Malakoff?</p> <p>d) What are the other changes the Company is expected to see in local power industry with the rollout of MESI 2.0?</p>
CAB Cakaran Corporation Bhd (AGM)	<p>The Group's allowance for impairment losses on trade receivables increased significantly to RM19.6 million (2018: RM11.4 million) (Note 25, page 149 of AR2019).</p> <p>a) How much of the allowance for impairment losses of RM19.6 million are attributable to related parties?</p> <p>b) How much of the RM19.6 million of the allowance for impairment losses are aged more than one year?</p> <p>c) What actions have been taken to recover the said amount?</p>

	d) To-date, how much of the impaired trade receivables have been recovered?
Tiger Synergy Bhd (AGM)	<p>The Group's has impaired 90.9% (RM9.78 million) of its Trade Receivables of RM10.76 million in FY2019. The reason for the high impairment is due to one single customer's trade receivable constituting 71% of the total Trade Receivables that is uncollectable.(page 118 of Annual Report)</p> <p>a) What is the nature of the single customer's debt? What measures have the Company taken to recover the debt?</p> <p>b) What are the measures the Company has taken to reduce the concentration of single-customer risk moving forward?</p> <p>c) The high impairment charge is indicative of internal control weaknesses in Group's/Company's Finance/Credit Control Department. What are the measures taken to improve policies and procedures, including the credit control processes, to ensure such high impairment will not recur?</p>
Bumi Armada Bhd (AGM)	<p>One of the key targets outlined by the Company in 2019 is to monetise assets that are unlikely to contribute positively in the short to medium-term of the Group's financial position in 2019.</p> <p>a) What are the types, and monetary value, of assets the Group has identified to monetise in FY 2019?</p> <p>b) What is the financial impact from the monetised assets to the Group's financial position in FY2019?</p> <p>c) Will the Company continue to monetise assets in FY 2020 and what will be the amount?</p>
Petronas Dagangan Bhd (AGM)	<p>The company stated that it will accelerate the pace of transformation going forward (Page 20 Integrated Annual Report); this is also further described in the Management Discussion and Analysis (Page 54 Integrated Annual Report).</p>

	How will the COVID-19 outbreak and the lockdown in Malaysia, aggravated by falling oil prices, impact the company in relation to its transformation program going forward.
Telekom Malaysia Bhd (AGM)	<p>Based on the segment reporting, TM ONE has the highest EBIT and the highest EBIT margin. (Page 20 of FS 2019)</p> <p>In view of this, is TM focusing more on this segment? What measures have been taken to further grow this segment more aggressively?</p>
Sime Darby Plantation Bhd (AGM)	<p>Upstream operations continued in its implementation of efficiency improvement and cost reduction initiatives (page 61 of AR2019). Cost reduction initiatives will be one of the main drivers of improvement in 2020 and beyond (page 64 of AR2019).</p> <p>a) How much cost reduction was achieved by the Group for FY2019?</p> <p>b) What would be the targeted percentage of cost reduction in financial year ending 2020?</p> <p>c) Would any of the cost cutting measures in financial year ending 2020 involve fees/salary reduction or lay-offs?</p>
Press Metal Aluminium Holdings Bhd (AGM)	The Group's EBITDA margin registered a decreasing trend since FY2016 (Page 8 of the Annual Report 2019). What steps are being taken to reverse the trend?
OSK Holdings Bhd (AGM)	<p>The Capital Financing Division recorded a revenue of RM70.1 million and a PBT of RM34.4 million in FY2019 compared with revenue of RM60.9 million and a PBT of RM26.9 million in FY2018. (page 20 of Annual Report</p> <p>a) What is the impact of lower OPR rate on the Division's PBT in FY2020?</p> <p>b) Please explain the impact of the Covid-19 pandemic on the Division's delinquent borrowers. Has the Company extended any financial relief, like the deferment of loan repayment period to the borrowers, so that they can ride through this difficult period?</p> <p>c) What measures have the Company taken to enable the Division to operate in the 'new normal' environment?</p>

	<p>d) What are the Non-Performing Loan (“NPL”) ratios for the Division for both FYs 2019 and 2018</p>
Sunsuria Bhd (AGM)	<p>The Group's subsidiary, Sunsuria Forum Sdn. Bhd. (“SFSB”) reported a lower revenue of RM21.0 million in FY 2019 as compared to RM255.3 million in FY 2018.</p> <p>SFSB recorded a loss after tax of RM7.3 million in FY2019 as compare to a profit after tax of RM101.3 million in FY 2018. (pages 124 & 125 of Annual Report)</p> <p>a) What are the reasons for SFSB recording a lower revenue and a higher loss in FY 2019?</p> <p>b) What is the outlook of SFSB in FY 2020?</p> <p>c) Why did the Company subscribe for the 2.55 million new SFSB shares for RM44.37 million (issue price of RM17.4 per share) on 4 April 2019?</p>
PPB Group Bhd (AGM)	<p>In relation to the transactions related to subsidiaries of associates, the freight costs increased from RM52 million to RM131million. (Page 169, Financial Statements)</p> <p>Please explain the nature of these freight costs. Why was there a significant increase compared to the previous year?</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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