

# Checking the Covid-19 bandwagon

As more and more companies venture into the healthcare sector due to the pandemic, investors are getting swayed by them. But is real value being created by these firms?

## HEALTHCARE

By ROYCE TAN  
roycetam@thestar.com.my

DURING the late 1990s, the dotcom boom took the market by storm.

This was when a speculative investment bubble formed around internet companies largely in markets in the United States.

The soaring prices of Internet start-ups encouraged investors to pour more money into any company with a “.com” or an “e-something” in its business plan.

The dotcom boom was followed by the dotCom crash, which saw many start-ups fail as investors cut off funding, or the proposed businesses proved to be unprofitable.

To a smaller extent, the Malaysian market is in a similar situation.

A significant number of listed companies here have jumped on the coronavirus (Covid-19) bandwagon.

Announcements of their plans to, say, get into the manufacturing of face masks and personal protective equipment (PPE) or the distribution of ventilators have sent these stocks skyrocketing.

Investors are getting swayed by these companies. But is real value being created by these firms?

The issue was so prevalent that Bursa Malaysia stepped in to send a strong message to all listed companies – avoid using “exaggerated”, “flamboyant” or “overstated” words in disclosures on Covid-19-related investments to prevent unwarranted price movements.

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There has been a surge in Covid-19 disclosures, with companies announcing the diversification of their businesses conforming to the new norm, mainly healthcare-related, but some do not even have concrete plans.

Year-to-date (YTD), this has seen some counters recording rather exorbitant growths in prices, with some even close to a 400% jump.

The local bourse has told companies to refrain from any form of promotional disclosure activity.

Bursa says it has observed a spike in Covid-19-related disclosures recently, where listed issuers are taking advantage of the business opportunities arising from the pandemic to venture into various new investments or business collaborations, including by way of a memorandum of understanding (MoU), letter of intent (LoI) and distributor-

ship agreement, relating to, among others, the manufacturing of PPE, ventilators, hand sanitisers, face masks, the distribution of Covid-19 rapid diagnostic test kits or to develop or distribute health supplements.

### A gentle reminder

Kenanga Research head Koh Hui Soon says it is not surprising to see companies seizing opportunities in businesses related to Covid-19 treatments or prevention, but imposing stricter standards of disclosures can help deter companies from disclosing frivolous plans. “Investors should not depend entirely on announcements alone in making investment decisions. They should follow up with more thorough enquiries,” he says.

CGS-CIMB research head Ivy Ng opines that the guidance is for bet-

ter transparency so investors can better assess the impact of Covid-19 on listed companies from the operational, profitability and financial soundness perspective.

Minority Shareholders Watch Group (MSWG) chief executive officer Devanesan Evanson says the disclosure guidance is nothing new and Bursa is just reminding all the listed companies of their listing obligations, which is to make immediate disclosures if there is any price-sensitive information in terms of business prospects and profitability.

“And they are also reminding the companies of another listing requirement which states that they cannot make promotional disclosures, because a lot of them are jumping on the bandwagon of sanitisers, masks and PPEs.

“It’s fairly understandable that they jump on the bandwagon

because that is the money-making initiative, but maybe, a bit more granular disclosure has to be made, ie, how you want to do it, what’s your business plan and business model,” he says.

He adds that as far as minority shareholders are concerned, they have assumed that the announcements are fair and accurate because they are official announcements under the listing requirement.

“But of course common sense should prevail regardless of the announcements,” he highlights.

Devanesan also says that Bursa can play a part by insisting or guiding listed companies in enhancing the granularity of their disclosures.

And that is exactly what Bursa has been doing. Among recent queries by the local bourse was one that involved Ace Market-listed K-One Technology Bhd.

The group announced on June 1 that it had been granted a non-exclusive licence agreement (Nelai) by the Nasa Jet Propulsion Laboratory (Nasa-JPL) in the United States to manufacture and distribute the Ventilator Intervention Technology Accessible Locally (Vital) ventilators worldwide.

It said this was to meet the shortage of ventilators in specific countries and also to prepare for the second wave of Covid-19 infections as countries begin to lift their respective lockdowns.

Bursa Malaysia hit them with a query the next day requesting for additional information for public release within one market day, which includes the expected commencement date of manufacturing, the estimated total cost, which



Increasing usage: Nurses checking their PPE suits in Kuala Lumpur General Hospital. More companies are getting into the manufacturing of face masks and personal protective equipment due to skyrocketing demand arising from the pandemic.

## Bursa Malaysia-listed companies that have announced Covid-19 related ventures



Company	Share price as at June 12 (RM)	Year-to-date change (%)	Market cap (RM'mil)	High (RM)	Low (RM)	Trailing price to earnings (x)
AT Systematization	0.145	262.5	325.8	0.16	0.02	-
Caely Holdings	0.37	-18.68	61.6	0.485	0.195	-
Ho Wah Genting	0.525	400.0	266.9	0.545	0.07	-
Karex	0.495	-10.81	496.2	0.605	0.28	-
Key Alliance Group	0.055	57.14	37.4	0.11	0.01	-
K-One Technology Bhd	0.52	160.0	379.0	0.54	0.095	61.46
MYEG	1.45	31.82	5,008.6	1.48	0.795	20.42
M3 Technologies	0.065	44.44	41.8	0.07	0.02	-
mTouche Technology	0.06	-40	39.7	0.195	0.06	-
Nexgram Holdings	0.025	66.67	51.7	0.03	0.005	-
Nova Wellness Group	0.69	32.69	219.2	0.80	0.36	15.90
Notion Vtec	0.675	5.47	339.4	0.893	0.283	13.89
Ni Hsin Resources	0.125	-16.67	38.9	0.18	0.06	-
Prolexus	0.61	-25.61	106.6	0.835	0.31	17.38
PNE PCB	1.04	110.1	138.4	1.38	0.39	-
Permaju Industries	0.675	-17.18	126.4	0.995	0.60	-
Scicom (MSC)	0.96	-23.2	341.2	1.251	0.54	15.20
Supercomnet Technologies	1.01	39.31	649.4	1.15	0.32	34.47
SCGM	1.77	14.94	339.0	1.92	0.757	104.12
Sanichi Technology	0.07	40.0	77.6	0.115	0.035	-
UWC Holdings	3.70	73.44	2,035.7	3.89	1.10	48.56

Source: Bloomberg data

countries K-One planned to sell the ventilators to and also the profile of its targeted customers.

K-One, whose business is mainly in electronic manufacturing solutions and cloud computing, was among those that jumped on the Covid-19 bandwagon by venturing into the manufacturing of nasal swabs, which are used to collect fluid specimens from the back of the nasal cavity.

YTD, K-One's share price has jumped 136.36% to 52 sen.

Another interesting one is that of lingerie manufacturer Caely Holdings Bhd, which announced that it was venturing into the making of face masks and PPE with Ni Hsin Resources Bhd, which manufactures stainless steel cookware.

Among companies that just hopped on the Covid-19 train are tech firms Scicom (MSC) Bhd and Key Alliance Group Bhd, listed on the Main Market and Ace Market respectively.

Scicom announced on May 18 that it had launched Malaysia's first Integrated Covid-19 testing platform with Qualtras Medical Group Sdn Bhd, to help both employers and employees seamlessly manage all screening requirements while Key Alliance announced on May 22 that it had been appointed by South Korean firm ITDF Co Ltd, to register, market and distribute the Care Gene Covid-19 RT PCR Kit, produced by Wells Bio Inc.

Bursa also served them with a query to seek more detailed information about the duration of the appointment, registration of the kit with the health authorities and target customers.

### Spillover effect from the rubber glove boys

Thursday marked an important

day for investors chasing up stocks which are supposedly benefiting from the global pandemic.

On that day, the biggest rubber glove producer, Top Glove Corp Bhd, posted stellar profits, close to a five-fold jump for its third quarter ended May 2020, which was within analyst expectations.

The group's net profit for the quarter was RM347.9mil and this is already 93.88% of its financial year 2019 (FY19) net profit.

It is not surprising that rubber glove counters have been leading the pack with the greatest growth in share prices as they hit new highs almost daily.

Comfort Gloves Bhd has gone up 270.89% to RM2.93 YTD, while industry giants like Top Glove and Hartalega Holdings Bhd have jumped 263.44% to RM16.90 and 134.02% to RM12.52.

But then, even the rubber glove players are taking a cautious stance. Not one to rest on his laurels, Top Glove's founder and executive

chairman Tan Sri Dr Lim Wee Chai and his managing director Daruk Lee Kim Meow were quick to bring the group back down to earth and start gearing up for the anticipated competition in the market, which is expected to happen some two years after Covid-19 subsides, which will see the supply and demand for gloves balancing out.

"Competition will always be there when supply is more than demand. During this pandemic, the demand is more than supply, so competition is very minimum.

"The competition will come in after Covid-19, and this will take another one to two years, so it is important for the company to stay fit and healthy during good and bad times.

"We will continue to improve during this period and build our

income and reserves and prepare ourselves for the following years," Lim told a virtual briefing on Thursday.

And while the group envisages a strong finish for its FY20 and even stronger results in upcoming quarters, Lee stresses that there is no time to be complacent and Top Glove will be building its reserves for rainy days.

Perhaps, rubber gloves manufacturers that are really doing well in the business should see benefits, as there is yet to be any sign of the pandemic abating.

Looking at how Top Glove's results would set the tone for other rubber glove and healthcare players, it is no wonder that "diversification" is becoming a contagion for many companies.

Even Top Glove is not spared as it is now trying its hands on producing face masks, which Lim says is very popular as their products were pre-booked even before production began.

Top Glove had just received its machine to produce face masks a week ago and started production on Wednesday.

"It's selling very well. Profit margin is very good, despite having the prices of the face masks reduced from RM1.50 to 80 sen a piece because raw material prices are also down," Lim says.

It may be more feasible for a company as big as Top Glove to embark on something new, but still in the nature of its business - healthcare.

For those only looking to ride the pandemic wave, what are the chances that their investments will truly bear fruit?

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