

## MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD  
(Incorporated in Malaysia – Company No. 524989-M)

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## Sime Darby counting on Battersea project – 41

# Small cap can be beautiful

• Under the radar mid and small-cap stocks to gain prominence from recent research scheme

• Be mindful when making investment decisions



by  
**Cheah Chor Sook**

**T**HE concept of “small is beautiful” espoused by British economist ER Schumacher came to mind when referring to the Mid and Small Cap (Mids) Research Scheme that was jointly unveiled by Bursa Malaysia and the Securities Commission recently.

In the manner Schumacher challenged the ideals that “bigger need not necessarily be better”, the research scheme – first mentioned during the tabling of Budget 2017 – is intended to elevate the profile of mid and small-cap companies while further spurring the vibrancy of this potentially high growth market segment.

News on the research scheme appeared on Oct 21 when Prime Minister Datuk Seri Najib Razak announced a RM3 bil fund by government-linked companies in his Budget 2017 speech.

### High expectation

Under the scheme, an inaugural batch of 100 mid and small-cap listed companies (the number is expected to climb to 300 eventually) will receive independent analyst coverage by licensed research houses.

This is seen as benefiting minority/retail investors as it will further enhance their level of literacy and knowledge while encouraging them to invest based on informed decision-making, thorough research, fundamental analysis and value investing instead of mere speculation or hearsay.

Given that many mid and small-cap listed companies tend to fall outside the radar of research houses and investment banks, there is high expectation that the research scheme could unveil some undervalued stocks which otherwise are unlikely to be uncovered by retail investors.

On a broader sense, the unveiling of mid and small-cap companies through the

research reports would also attract more foreign funds whose mandates could be investing in such companies. This would thus pave way for fund-raising opportunities through a wider spectrum of investors.

Nevertheless, an immediate challenge faced by research houses in producing accurate reports on many mid and small-cap companies lies in the lack of long track records to ascertain financial performance sustainability, according to the Minority Shareholder Watchdog Group (MSWG) general manager Lya Rahman.

“Many could also be growth companies, thus making it even more difficult for research houses to make reasonable assumptions in their analysis,” she tells *FocusM*.

### Effectiveness of scheme

The newly-initiated Mids research scheme will commence with 22 research houses providing research coverage to each of the eligible listed entity. Boasting a market capitalisation range of RM200 mil to RM2 bil, each of the selected companies will be assigned two research houses which in a way is useful to make comparison.

A task force chaired by the SC and comprising representatives from Bursa Malaysia, Retirement Fund Inc (KWAP), the Malaysian Investment Banking Association and Association of Stockbroking Companies Malaysia has been established to oversee the implementation of this scheme.

In the first quarter, the FTSE Small Cap Index grew by 16% while the FTSE Mid Cap Index increased by 11.6%, a testament that mid and small-cap stocks can offer attractive returns to investors, according to Bursa Malaysia chairman Tan Sri Amirsham Aziz.

This has prompted the revelation of two new indices – the FTSE Bursa Malaysia Mids Cap Index and FTSE Bursa Malaysia Mids

Cap Shariah Index – as part of the initiatives to track performance and generate more interest for the small and mid-cap market segment among capital market products.

Malaysian Investors’ Association president Datin Ho Choy Meng says the scheme seems similar to the one in April 2005 where Bursa Malaysia had put in place the CMDP-Bursa Research Scheme (CBRS). Its primary aim was to offer timely information to interested investors about registered listed firms through research done by participating analysts.

Back then, a pioneer batch of 304 firms participated in Scheme 1 (April 2005 to June 2007), of which 240 (79%) remained in Scheme 2 (July 2007 to October 2010) but the figure dwindled to a mere 55 pioneer firms (18%) in Scheme 3 (October 2010 to present).

“Why was there the dropout of these pioneers from CBRS?” she asks, citing a 2015 research by the Universiti Utara Malaysia entitled *An Overview of Capital Market Development Fund-Bursa Research Scheme*. “A plausible and possible answer could be a trade-off between the costs and benefits, especially to the participating firms which had to pay half the cost of research whether the final recommendation is a buy, hold, or sell.”

### Availability of information

More pertinently, Ho points to today’s internet invasive environment where the availability of information is only a click or a download away, with minimum cost or for free.

MSWG’s Lya observes that the integrity and transparency of financial data and information of mid and small-cap companies may not be as highly regarded – or they are subject to relatively higher risks than large-cap companies – thus making it tough for research houses to come out with accurate recommendations.

On this note, Lya urges investors to be mindful of such limitations by “thoroughly screening” the research reports to ensure that they do not overlook the risk aspects of those so-called undervalued gems.

“A key area to note is the comparison of the company’s fundamentals and key ratios such as price-earnings ratio, price-to-book ratio, return on equity and dividend yield with its peers and the industry,” she suggests. “One other important point to note is the price-earnings to growth ratio if such data is provided.”

Aside from historical data, the forecasts and projections of financial performance are important but investors have to watch out for the reasonableness of the assumptions used, adds Lya.

### Initial list of 100 participating companies

1. A & M Realty Bhd	54. Malayan Flour Mills Bhd
2. Ajinomoto (M) Bhd	55. MCT Bhd
3. Amcorp Properties Bhd	56. Mega First Corp Bhd
4. Apex Healthcare Bhd	57. N2N Connect Bhd
5. Apollo Food Holdings	58. Negeri Sembilan Oil Palms Bhd
6. Asia File Corp Bhd	59. Only World Group Holdings Bhd
7. Atilan Holdings Bhd	60. Oriental Food Industries Holdings Bhd
8. Boilemech Holding Bhd	61. Oriental Interest Bhd
9. BP Plastics Holding Bhd	62. PLE Industrial Bhd
10. CI Holdings Bhd	63. Panasonic Manufacturing Malaysia Bhd
11. Car-One Bhd	64. Pecca Group Bhd
12. CCM Duopharma Biotech Bhd	65. Perusahaan Sadur Timah Malaysia (Perstima) Bhd
13. Century Logistics Holdings Bhd	66. Persona Metro Holdings Bhd
14. Chin Teck Plantations Bhd	67. Petron Malaysia Refining & Marketing Bhd
15. Chin Well Holdings Bhd	68. Pintaras Jaya Bhd
16. Coccoland Holdings Bhd	69. Plenitude Bhd
17. Comfort Glove Bhd	70. Poh Huat Resources Holdings Bhd
18. CSC Steel Holdings Bhd	71. Power Root Bhd
19. Cycle & Carriage Birtang Bhd	72. Protasco Bhd
20. D&O Green Technologies Bhd	73. Salutica Bhd
21. Dagang NexChange Bhd	74. Sam Engineering & Equipment (M) Bhd
22. Destini Bhd	75. Sarawak Plantation Bhd
23. DKSH Holdings (M) Bhd	76. Sclcom (MSC) Bhd
24. ELK-Desa Resources Bhd	77. Selangor Properties Bhd
25. Elsoft Research Bhd	78. SHL Consolidated Bhd
26. Engtex Group Bhd	79. SLP Resources Bhd
27. ENRA Group Bhd	80. Southern Acids (M) Bhd
28. Fawell Farco Bhd	81. Spritzer Bhd
29. Fianma Holdings Bhd	82. Suria Capital Holdings Bhd
30. Fima Corp Bhd	83. SYF Resources Bhd
31. George Kent (M) Bhd	84. TAPPS Group Bhd
32. HCK Capital Group Bhd	85. Tascoc Bhd
33. HeveaBoard Bhd	86. Tasek Corp Bhd
34. Hill Industries Bhd	87. Teo Seng Capital Bhd
35. Hup Seng Industries Bhd	88. Three-A Resources Bhd
36. I-Bhd	89. Tien Wah Press Holdings Bhd
37. Ibraco Bhd	90. Titiaya Land Bhd
38. Jinhore Tin Bhd	91. TMC Life Sciences Bhd
39. Keck Seng (M) Bhd	92. Tomypak Holdings Bhd
40. Keem Industries Bhd	93. United Malacca Bhd
41. Kian Joo Can Factory Bhd	94. United U-Li Corp Bhd
42. Kim Hin Industry Bhd	95. Wellcall Holdings Bhd
43. Kim Loong Resources Bhd	96. White Horse Bhd
44. KKB Engineering Bhd	97. WZ Satu Bhd
45. KSL Holdings Bhd	98. YSP Southeast Asia Holdings Bhd
46. Kumpulan Fima Bhd	99. Yee Lee Corp Bhd
47. Kumpulan Perangsang Selangor Bhd	100. Yong Tai Bhd
48. Land & General Bhd	
49. Latitude Tree Holdings Bhd	
50. Lii Hen Industries Bhd	
51. Luxchem Corp Bhd	
52. Magna Prima Bhd	
53. Magni-Tech Industries Bhd	

### Participating research houses

1. Affin Hwang Investment Bank Bhd	13. Securities (M) Sdn Bhd
2. AllianceDBS Research Sdn Bhd	14. Malacca Securities Sdn Bhd
3. AmInvestment Bank Bhd	15. Maybank Investment Bank Bhd
4. Asia Analytica Sdn Bhd	16. Mercury Securities Sdn Bhd
5. BCT Asia Advisory Sdn Bhd	17. MIDF Amanah Investment Bank Bhd
6. BMB Securities Sdn Bhd	18. Public Investment Bank Bhd
7. CIMB Investment Bank Bhd	19. RHB Research Institute Sdn Bhd
8. Hong Leong Investment Bank Bhd	20. Standard & Poor’s Malaysia Sdn Bhd (CFRA Malaysia)
9. Inter-Pacific Research Sdn Bhd	21. TA Securities Holding Bhd
10. JF Apex Securities Bhd	22. Wilson & York Global Advisers Sdn Bhd
11. Kenanga Investment Bank Bhd	
12. Macquarie Capital	23. ZI Advisory Sdn Bhd



**Lack of long track records to ascertain financial performance sustainability, says Lya**