MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 200001022382 (524989-M)

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KNM in spotlight again

THE ongoing saga at asset-rich KNM Group Bhd seems to have had some interesting developments this week.

Stock exchange filings show that its chief executive officer Terence Tan Koon Ping had disposed of three million shares into the open market this week.

These shares were part of Tan's exercise of the recently granted employee share option scheme (Esos).

Tan, the former chief financial officer of KNM, started helming the group when he assumed the role of CEO in July 2020 following the stepping down of founder and former group CEO Lee Swee Eng.

Group chief financial officer Wong Toh Sing also sold 1.75 million shares this week. Of these, 1.65 million were from the Esos exercise.

KNM's recent Esos offering, with exercise price of 11 sen, had caught the attention of the market, including the Minority Shareholder Watch Group (MSWG), which had sought an explanation from KNM at its recent AGM.

MSWG, according to reports, had raised the issue of why former executive vice-chairman Gan Siew Liat and people connected to her had been allocated 87% of the total 91.976 million Esos shares issued and exercised last year.

Meanwhile, MAA Group Bhd, which surfaced as a substantial shareholder in the group last month with a 7.01% stake, also increased its stake this week. Latest filings shows that the cash-rich MAA now holds a direct 7.982% stake with another 2.4% held indirectly.

On the business front, a tranche of RM370mil bond is due in November in Thailand. One wonders if KNM has made any progress towards this.

The previous KNM board under Lee had talked about unlocking value at German-based Borsig GmbH – the group's prized asset, which is a major contributor to the bottom line. Part of the money to be raised will go to repay debts.

KNM will remain a company watched by all, especially on what moves MAA decides to nudge it toward, considering that it is now one of the largest shareholders.

Making the most of a situation

GLOVE stocks and property development is not a mix that is unique in Malaysia. Top Glove Corp Bhd has had its involvement in buying into property development companies that was aimed at diversifying and lifting its earnings.

Such diversification did not always translate to immediate appreciation by investors in Top Glove but it was the huge jump in earnings that saw investors take huge positions and see a generational spike in the share price of many rubber glove companies, including Top Glove.

The need for diversification had mellowed over the past few years, as building up capacity in rubber glove manufacturing was what companies were chasing after both prices of rubber gloves and demand led to huge boosts in profitability and cashflow of the rubber stocks.

But venturing into property development at this juncture might raise some questions after Rubberex Corp (M) Bhd entered into a conditional deal to take a substantial stake in the development of Empire City Mall.

The company says the proposed diversification exercise comes at a time when the rubber glove industry's outlook seems to be waning from its peak of supernormal profits and sky-high average selling prices towards normalisation, as Malaysia and the rest of the world enters the endemic phase of the Covid-19 pandemic.

It is good hindsight for the board of Rubberex to venture out at a time when cashflow was still strong for the rubber glove maker. It believes that by capitalising on the current global economic reopening and recovery themes, its first foray and diversification into property investment is in line with the group's long-term strategy of delivering sustainable growth, steady income and value creation to the shareholders.

Empire City Mall has a strategic location going for the development and has been independently valued at RM1bil. The question that bears watching is whether the high-rise development can galvanise buying interest at a time when the overhang in property is still high and what other glove companies do to take advantage of what Rubberex says is a period before the supernormal profit starts to ebb.

M&A Securities reversing into SYF

SOME shareholders of SYF Resources Bhd weren't too impressed with the proposed exercise in which boutique investment bank M&A Securities Bhd gets reversed into their company. SYF shares dropped by almost 20% since the announcement. However, it should be noted that SYF's shares were trading at a mere 17 sen a year ago.

The exercise is a detailed one involving new share issuance – a total of 1.58 billion new SYF shares at an issue price of 14 sen per share – plus a planned dividend to SYF shareholders of a total of 18 sen per share.

There is also a rights issue and a restructured issuance of new shares to certain eligible directors and employees of the enlarged SYF and others.

M&A Securities is valuing itself at 1.2 times its book value. That may be higher than most banks listed on Bursa Malaysia but one could argue that M&A Securities is quite different from banks.

It is a very niche player in financial services and does not have the kind of huge asset base and related compliance pressures on it compared with banks. These, in turn, tends to hinder bank's growth and margins, comparatively speaking.

M&A Securities posted a net profit of RM18.81mil for the financial year ended June 30, 2021, a doubling from RM9.22mil a year earlier. Considering the many deals that M&A Securities can be seen to be involved in, its profits are likely to keep growing.

Aside from that, with M&A Securities listed through this exercise, it no longer needs to rely on its parent Insas Bhd as its sole funding source.

While Insas will end up with a massive 75.9% stake in the new entity, which will be called M&A Capital Bhd, there is now the possibility of new strategic shareholders coming in to not only bring more capital but also new deal flows and perhaps into new growth markets overseas.