MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M)

The Edge Malaysia – Monday, November 15, 2021 (**C**) – **Part 1**

No further extension of relief measures for affected listed issuers, says Bursa

BY **KANG SIEW LI**

As the measure that gives financially distressed public-listed companies (PLCs) a temporary reprieve from being classified as a Practice Note 17 (PN17) and Guidance Note 3 (GN3) listed issuer ends in less than two months, Bursa Malaysia says there will be no more blanket extension. However, applications for further extension will be considered on a case-by-case basis.

In view of the government's decision to open up all economic sectors with over 95% of the country's adult population fully vaccinated along with the reducing rate of new Covid-19 cases, a spokesperson for Bursa says the market regulator has no plans to extend the existing temporary relief measures any further.

"But if there are any applications by [affected] companies for a further extension of the existing relief measures, Bursa could consider such applications on a case-by-case basis," the spokesperson says in an email response to questions from *The Edge*.

While it is clear some companies have benefited from the reprieve as they are given more time to regularise their financial condition, it has also drawn criticism that the regulatory authorities are simply propping up companies with a low chance of survival.

In April last year, when the Covid-19 pandemic hit, Bursa and the Securities Commission Malaysia (SC) introduced the waiver as part of a package of measures aimed at alleviating the impact of Covid-19 on businesses. Under the waiver, companies that triggered any of the suspended criteria between April 17, 2020, and June 30, 2021, would not be classified as a PN17 and GN3 company for 12 months.

The waiver has been extended twice since then, with the latest extension granting companies that trigger the PN17 or GN3 suspended criteria between July 1, 2021, and Dec 31, 2021, an 18-month relief period, compared with 12 months previously.

The SC's Annual Report 2020 shows that a total of 13 companies benefited from the relief measure in 2020, and AirAsia X Bhd (AAX)

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BAKER TILLY MALAYSIA

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was one of them. However, the low-cost, long-haul carrier slipped into PN17 status last month after triggering a non-PN17 suspended criterion when its external auditor, Messrs Ernst & Young PLT (EY), expressed a disclaimer of opinion on its accounts for the 18 months ended June 30, 2021.

The carrier has been loss-making since the financial year ended Dec 31, 2018 (FY2018) and in October 2020 filed a plan to restructure RM63.5 billion of its debt, which was reduced to RM33.65 billion after a proof of debt exercise conducted by AAX to determine and finalise the list of scheme creditors and the value of their scheme amount. Last Friday (Nov 12), AAX managed to obtain a near-unanimous approval for its debt restructuring scheme from its creditors, which would enable a proposed corporate restructuring and RM500 million fundraising to proceed.

A check on Bursa by *The Edge* shows companies that have managed to stave off relegation to the PN17/GN3 category until well into 2023 include AirAsia Group Bhd, Alam Maritim Resources Bhd, Marine & General Bhd, Ireka

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Corp Bhd, GETS Global Bhd, Top Builders Capital Bhd (formerly Ikhmas Jaya Group Bhd), Khee San Bhd, Annum Bhd (formerly Cymao Holdings Bhd), Bahvest Resources Bhd and Impiana Hotels Bhd.

Andrew Heng, group managing partner at Baker Tilly Malaysia, says the relief measures for listed issuers that were announced by Bursa and the SC came swiftly and at the right time when companies were battling with the challenges in both safety concern from the deadly virus while juggling to deal with the negative business impact from economic lockdowns over the last two years.

"These relief measures are welcomed by listed issuers in Malaysia, as it not only allows more time for them to submit their financial statements, but for certain companies that were badly hit to have the breathing space to restructure their Covid-19-affected business to avoid suspension and delisting amid the pandemic," he tells *The Edge*.

"The relief measures had definitely helped entities, especially those that operate in the industries that are most impacted by the Covid-19 pandemic such as airline, leisure, travel and hotel industries, as these entities were shut or were not allowed to operate in full capacity in light of the Movement Control Order during the pandemic.

"If I were to single out a particular relief that I think is most effective or fit for purpose, it would be the period of relief granted to listed issuers with inadequate levels of operations from triggering of any PN17/GN3 suspended criteria between July 1, 2021, and Dec 31, 2021. This is because certain entities could have triggered this suspension criterion purely as a consequence of the economic lockdown, which is a global crisis," he says.

"The suspended criteria — which include the criteria on shareholder's equity, the ability of the listed issuers to continue as a going concern and the default in payment — are closely linked to the performance of the listed issuers. Without the relief measures on these suspended criteria, I believe that there will be more affected entities classified as PN17/GN3 due to low or even zero revenue during this economic lockdown. Hence, the relief measures are vital to provide a space for the affected listed issuers to resolve their affairs, to regularise their temporary unsatisfactory condition and to restructure their bank borrowings, during this unprecedented time in history," notes Heng.

There were 20 companies classified as PN17 and two under GN3, representing 2.43% of 905 companies listed on Bursa's Main Market and ACE Market as at Nov 1, 2021.

Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson concurs, noting that granting relief periods to listed issuers that trigger the suspended PN17 or GN3 criteria was the right thing to do based on the context at that time.

He observes, however, that the extension of time has not been of much help due to the lingering effects of the pandemic and the numerous and prolonged lockdowns, which saw businesses suffer, financiers and "white knights" hesitant, and fundraising opportunities dry up.

"The end was never in sight and that uncertainty further exacerbated the recovery process," he says.

The Bursa spokesperson says it is of the view that the non-classification as a PN17 or GN3 company for the relief period had allowed the affected listed companies to focus their efforts on sustaining and improving their business, operations and financial condition during this challenging period without additional regulatory burden.

"As of today, there are 13 affected issuers benefiting from our relief measures. Moving forward, all listed issuers are expected to fully comply with the provision of listing requirements," the spokesperson says.

Calling a spade a spade

Bursa's decision not to extend the PN17/GN3 waiver would come as welcome news to MSWG, which has maintained that companies that trigger the PN17 criteria should continue to be classified as one.

"In 'substance', they are PN17 and going about calling them not-PN17 is an exercise in 'form'. Some minority shareholders may actually end up investing in these PN17 companies that are financially distressed as they are not flagged out as PN17 companies. In this regard, the investors cannot make an informed decision. In short, classify them for what they are (a PN17 company) and at the same time, help them with the extensions of time and other concessions. Substance should prevail over form," Devanesan tells *The Edge*.

Baker Tilly Malaysia's Heng concedes that the unintended consequence of the PN17/GN3 waiver is that some listed issuers, who had already performed poorly before the pandemic, may have escaped the suspension, and shareholders' interests may not have been safeguarded in this circumstance.

"For example, badly managed listed issuers may have accumulated significant losses or low shareholders' equity amounts even before the pandemic. In my personal view, setting additional conditions, such as only certain industries that are badly affected by the pandemic can enjoy this relief measure, may help to address this unintended consequence," he says.

In MSWG's weekly newsletter dated Aug 14, 2020, Devanesan highlighted that some companies had already shown signs of trouble brewing even way before the pandemic. "Thus, the current health crisis might as well be made a scapegoat or escape route to legacy issues faced by those companies that triggered the PN17/GN3 criteria," he said.

He cited GETS Global as an example, which had posted several quarters of losses before the pandemic hit. "Meanwhile, candy maker Khee San has long been known for its default on multiple loan payments and is in litigation with banks to resolve its issues," he added.

'Keep the relief measures, but fine-tune them'

It remains to be seen whether the relief measures, such as the temporary waiver from being classified as a PN17 company, have helped to put listed companies on a better footing than the earlier stages of the pandemic. This may not seem the case thus far judging by the list of affected PLCs compiled by *The Edge*, which showed that the percentage ratio of the shareholders' fund over their respective share capital has mostly remained below the 50% threshold that otherwise would have triggered the PN17 criteria, even after being granted the waiver (refer to the table above).

It is still too early to say, according to Heng.

"As to whether any companies are better off financially today, it may be too early to judge at this juncture as the country is still trying to recover from the pandemic as businesses gradually open. As of today, international borders have remained closed except for certain approved travel," he says.

"Many entities, for example, the airline and hotel operators that have been severely impacted by the pandemic, are still suffering from the negative effects because of the pandemic and will take time to fully recover.

"The ripple effects are still unfolding, and it is unlikely that the true impact of this pandemic can be measured until the situation stabilises," he adds.

Heng believes Bursa and the SC should continue to grant further extension of the waiver to listed issuers as part of the National Recovery Programme, but it should fine-tune the relief measures to be industry-specific rather than a "free for all" for all entities.

"The extension of the relief should be for all entities in the selected industries, without the need to submit an application for such relief measures. We all understand how complicated the application can be in seeking relief, especially in trying to justify that the business is still affected by Covid-19.

"The economy in Malaysia is still recovering. Many businesses have only just been allowed to operate recently, that is, in the last quarter of 2021. It is still too soon to tell. In short, the waiver is still very much needed for those affected listed issuers in order for them to resolve their affairs, to regularise their temporary unsatisfactory condition to recover from the Covid-19 pandemic and to return to its pre-pandemic trend," he says. ■

Selected companies under the PN17 and GN3 relief measures

		TRIGGER DATE OF PN17/GN3 SUSPENDED CRITERIA	SHAREHOLDERS' EQUITY (RM MIL) [A] (AS OF TRIGGER DATE)	SHARE CAPITAL (RM MIL) [B] (AS OF TRIGGER DATE)	[A] / [B] (%)	SHAREHOLDERS' EQUITY (RM MIL) [A] (AS OF LATEST QUARTERLY REPORT)	SHARE CAPITAL (RM MIL) [B] (AS OF LATEST QUARTERLY REPORT)	[A] / [B] (%)
1	AirAsia Group Bhd	July 8, 2020	2,968	8,023	37.0	(2,328)	8,462	-27.5
2	Alam Maritim Resources Bhd	Aug 30, 2021	217.414	437.993	49.6	217.414	437.993	49.6
3	Marine & General Bhd	Sept 30, 2021	34.223	270.003	12.7	34.223	270.003	12.7
4	Ireka Corp Bhd	Aug 27, 2020	77.514	181.288	42.8	35.971	181.288	19.8
5	GETS Global Bhd	June 30, 2020	31.156	69.145	45.1	90.198	156.045	57.8
6	Top Builders Capital Bhd	June 30, 2020	33.763	191.687	17.6	(188.831)	193.687	-97.5
7	Khee San Bhd	July 10, 2020	34.327	109.790	31.3	(67.806)	109.790	-61.8
8	Annum Bhd	July 15, 2020	44.813	91.680	48.9	68.742	93.464	73.5
9	Bahvest Resources Bhd	June 30, 2020	129.704	284.314	45.6	110.573	67.221	164.5
10	Impiana Hotels Bhd	Nov 11, 2021	(41.596)	456.230	-9.1	(41.596)	456.230	-9.1

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Companies under PN17 as at Nov 1, 2021

1	AirAsia X Bhd
2	Asia Media Group Bhd
3	Barakah Offshore Petroleum Bhd
4	Bertam Alliance Bhd
5	Brahim's Holdings Bhd
6	China Automobile Parts Holdings Ltd
7	Comintel Corp Bhd
8	Daya Materials Bhd
9	Dolomite Corp Bhd
10	FSBM Holdings Bhd
11	Iqzan Holding Bhd (Formerly Ire-Tex Corp Bhd)
12	Konsortium Transnasional Bhd
13	Malaysia Pacific Corp Bhd
14	Nationwide Express Holdings Bhd
15	Perak Corp Bhd
16	Scomi Energy Services Bhd
17	Scomi Group Bhd
18	Seacera Group Bhd
19	Sumatec Resources Bhd
20	TH Heavy Engineering Bhd

Companies under GN3 as at Nov 1, 2021

1	G Neptune Bhd
2	Idimension Consolidated Bhd

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Re-examining the fundamentals of firms not classified as PN17/GN3 listed issuers

BY **KANG SIEW LI**

A total of 13 companies have more than 1½ years to avoid becoming a Practice Note 17 (PN17) and Guidance Note 3 (GN3) company, thanks to regulatory relief measures introduced by Bursa Malaysia and the Securities Commission Malaysia last year.

A check on the local bourse reveals that they include AirAsia Group Bhd, Alam Maritim Resources Bhd, Marine & General Bhd, Ireka Corp Bhd, GETS Global Bhd, Top Builders Capital Bhd (formerly Ikhmas Jaya Group Bhd), Khee San Bhd, Annum Bhd (formerly Cymao Holdings Bhd), Bahvest Resources Bhd and Impiana Hotels Bhd.

It is worth noting that companies like AirAsia and GETS Global have made concerted efforts to regularise their financial condition by restructuring their debt or diversifying their income. The following is a look at how some of the companies have performed in the past year.

GETS Global Bhd

GETS Global is among the beneficiaries of the temporary relief measures for listed companies. It triggered financially distressed company status in June last year after its shareholders' equity of RM31.16 million fell to less than 50% of its share capital of RM69.15 million as at March 31, 2020. Its external auditors, Messrs PKF, had also flagged a material uncertainty related to its ability to continue as a going concern on its accounts for the financial period ended June 30, 2019.

Through end-June this year, the group had increased its shareholders' equity to RM90.2 million — representing 58% of its share capital of RM156.05 million.

Nevertheless, its latest results for the quarter ended June 30, 2021, shows that GETS Global is still a loss-making firm, with a net loss of RM15.35 million on revenue of RM7.71 million. It had cash and bank balances of RM24.21 million while borrowings stood at RM39.69 million as at June 30, 2021. This put it in a RM15.48 million net debt position.

To generate additional income from its operating activities, GETS Global has also diversified into the glove manufacturing business, reducing its reliance on its existing bus operations. The glove manufacturing business commenced operations in May and has begun to contribute to the group's revenue.

Last December, GETS Global saw the emergence of a new controlling shareholder in businessman Low Bok Tek — via his private vehicle ADA Capital Investments Ltd — with a 45.07% stake, following the completion of a private placement. All eyes are on Low, the former CEO of glove maker Latexx Partners Bhd, to take the company forward.

Khee San Bhd

Khee San triggered the PN17 suspended criteria in July 2020 after it defaulted in its payments, totalling RM73.3 million, to several banks. The candy maker has been making losses for nine straight quarters since June 30, 2019, posting a net loss of RM2.98 million on revenue of RM7.92 million for the most recent quarter ended June 30, 2021 (4QFY2021).

Its liquidity crisis has become even more urgent, as it had negative shareholders' equity of RM68.53 million as at end-June 2021. In addition, cash and bank balances amounted to RM2.39 million while borrowings totalled RM74.97 million.

In its filing with Bursa to announce its 4QFY2021 results on Sept 27, Khee San said it continues to pursue its claims involving the banks and the cases are now at the appeal stage at the Court of Appeal. "So far, in principle, all creditors and majority of the creditor banks are agreeable but only one creditor bank has refused to accept the offer."

AirAsia Group Bhd

Like its Malaysia-based peers, AirAsia was unprofitable even before the pandemic, as the airline market was suffering from overcapacity and irrational competition. The region's largest low-cost carrier triggered the PN17 suspended criteria in July 2020 after its external auditor, EY, issued an unqualified audit opinion with material uncertainty relating to its ability to continue as a going concern on its accounts for the financial year ended Dec 31, 2019 (FY2019). At the same time, its shareholders' equity of RM1.11 billion came in below 50% of its share capital of RM8.02 billion as at March 31, 2020.

With the pandemic decimating flights, the airline remains deeply loss-making, although it has been busy reinventing itself as a technology company, which fetches a higher valuation. In February, AirAsia also managed to attract Hong Kong businessman Stanley Choi Chiu Fai to become one of its biggest shareholders.

During that period, AirAsia has also been busy raising fresh funds to shore up its balance sheet, including obtaining approval from Danajamin Nasional Bhd for an 80% guaranteed loan of up to RM500 million. In an Oct 6 report, PublicInvest Research noted that the RM500 million club facility, together with other funding and monetisation exercises, will have raised RM2.1 billion for the carrier, which is within AirAsia's guidance of new capital in the RM2 billion-to-RM2.5 billion range.

While investors and analysts are positive on AirAsia's financial restructuring plan on the back of an expected recovery in travel as countries gradually reopen their borders, the outcome of its lease restructuring and the pace of air passenger traffic recovery remain uncertain. Of the 20 analysts covering the stock, 13 have a "sell" call, four a "buy" and three a "hold", with an average target price of 85 sen. AirAsia's share price has risen 31.03% year to date to close at RM1.14 last Friday, which translates into a market capitalisation of RM4.44 billion.

At end-June 2021, AirAsia had negative shareholders' equity of RM2.33 billion and a share capital of RM8.46 billion.

"Because AirAsia was given an extension of time, it helped them prepare its business case. But whether the airline was able to raise funds because of the extension or because they were able to put a good business case, that's another question," says an industry observer.

"PN17 classification is not a dead end for a company, but it serves as an investors' alert and to compel the affected companies to regularise their financials within the deadline. In AirAsia's case, whether it is a PN17 company or not, its restructuring is ongoing."