

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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(Part 2)

The alternative market has drawn harsh scrutiny due to some bad apples

A place for ACE?

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In an efficient stock market environment, a company's share price would generally be driven by its core fundamentals such as its financial performance and outlook, business prospects and management quality. But in reality, there's really no clean-cut equation that could perfectly explain the "buy and sell" forces that ultimately determine the movement of a company's share price.

Financial markets are as much a place for investment as it is for speculation, as other factors such as sentiment and greed also come into play.

Be that as it may, the recent rout of some newly-listed shares on Bursa Malaysia's ACE Market has revived concern among certain quarters of the investing public over the quality of companies going on the board and their vulnerability to speculative activities.

At the centre of attention have been the performances of XOX Bhd and MClean Technologies Bhd counters.

XOX fell on its debut last Friday to 52 sen, representing a discount of 35% from its initial public offer (IPO) price of 80 sen. A day before listing, the mobile virtual network operator announced it made a net loss of RM1.67mil for the quarter ended March 31, 2011.

XOX continued its slide over the week, closing at 44 sen yesterday.

MClean, which came to the ACE Market last month, had also failed to impress, with its share price ending yesterday's trade at 23 sen, almost half of its IPO price of 52 sen. The Singapore-based precision cleaning service provider for hard disk drives also reported a net loss for the quarter ended March 31, 2011 of RM196,000.

"No doubt, such cases would somehow strengthen the perception of some parties that the relatively 'easier' requirement for listing on the ACE Market has opened the floodgates to some poor quality companies to go on board. But this perception may not necessarily be true all the time," an investment banker tells *StarBizWeek*.

"And to be fair, the initial quarterly financial results should not be taken as the absolute test of the quality of a company," he adds.

Volatile trade

There have been seven new listings on



Teak Capital's Chok says one needs to do due diligence before investing in ACE companies.



Mayban Ventures' Ho says venture capitalists and entrepreneurs need a vibrant ACE Market.



MSWG's Bushon says there have been many fundamentally-sound companies that began at ACE-level.

the ACE Market so far this year, four of which have been trading at a premium to their offer prices. XOX and MClean are among the three currently trading below their IPO price. The other is industrial labels and nameplates manufacturer Ideal Jacobs (M) Corp Bhd.

But what sets Ideal Jacobs apart is that it made a net profit of RM371,000 for the quarter to March 31, 2011, and this was announced five days before the company went on board on May 18.

On its debut, Ideal Jacob saw its share price trade at an intra-day high of RM1.10, which was 307% above its IPO price of 27 sen, before closing at 43 sen that day and ending up at 25 sen yesterday.

The perception that many ACE Market listed shares are generally more susceptible to manipulation stems from the fact that these companies have relatively smaller share base and market capitalisation.

"Prices of some of these stocks can see significant movements in intra-day trading, and for no particular reason at that ... needless to say, therefore, there is a strong perception that speculative trading among these stocks is quite prevalent at times," an analyst explains, pointing to recent movements of Tricubes Bhd and Ingenuity Solutions Bhd.

Loss-making Tricubes has seen significant activity in its share price and heavy trading volume since the announce-

ment of the controversial 1Malaysia email project in April. The counter of Ingenuity Solutions last month also witnessed similar activity, triggering an unusual market activity query from Bursa Malaysia.

These scenarios, however, are not unique to Malaysia. ACE Market equivalents in other parts of the world, such as Singapore Stock Exchange's Catalyst and Hong Kong Stock Exchange's Growth Enterprise Market, or GEM, are also subject to such volatility while many of the companies listed on these exchanges are also trading below their IPO prices. Nevertheless, these alternative markets have been widely accepted as critical components of the capital markets in their countries.

Playing its ACE

ACE Market is Malaysia's version of the alternative market. It was created in August 2009 to succeed the Mesdaq Market.

The latter, launched in October 1997, was targeted mainly at high-growth and technology-based companies for listings, while the improved ACE Market is open to companies of all sizes and from all industries.

ACE Market generally has less stringent requirements for listing compared with that of the Main Market of Bursa. For instance, there is no minimum operating track record or profit requirement

and no minimum IPO price for listings on the ACE Market.

The removal of these entry barriers has made it easier for SMEs (small and medium-sized enterprises) and smallish, but fast-growing companies to tap the capital market for funds.

"SMEs are the backbone of Malaysia's economy; there's certainly a need to provide a 'less complicated' avenue for the industry to raise capital so that they can continue to grow," says Mayban Ventures Sdn Bhd director of private equity Andrew Ho.

According to SME Corp Malaysia, SMEs represent about 99% of total business establishments and account for 56% of total employment in the country.

The segment's contribution to Malaysia's gross domestic product (GDP) at 31% currently is still relatively low compared to that of most other industrial and developing countries, whose SMEs typically account for 40%-60% to their GDP. But this only means that there is ample room for SMEs in Malaysia to grow.

SME Corp believes that the industry would grow at 8.5% this year, superseding that of the country's official GDP growth target of 6%.

"The creation of the ACE Market hence is in line with Malaysia's economic aspiration and needs; by virtue of it being an easily accessible avenue for SMEs to raise capital for expansion, it is actually