

**MSWG****MINORITY SHAREHOLDER WATCHDOG GROUP****Badan Pengawas Pemegang Saham Minoriti Berhad**

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

11 March 2016

## CAPITAL MARKET UPDATE

### **MALAYSIAN CAPITAL MARKET GROWS ACROSS ALL SEGMENTS EXPANDS TO REACH RM2.82 TRILLION**

The Malaysian capital market grew across all segments in 2015, with its size expanding 2.1% to RM2.82 trillion, equivalent to 2.5 times the size of the domestic economy.

The equity market increased by 2.6% to RM1.70 trillion from RM1.65 trillion in 2014, while the bond and sukuk market grew by 1.4% to RM1.12 trillion, according to the Securities Commission Malaysia (SC) in conjunction with the release of its 2015 annual report.

The Malaysian capital market continued to be a major source of financing with RM90 billion raised through the primary market for the fourth consecutive year. A total of RM86 billion was raised through bonds while RM4 billion was raised via initial public offerings (IPOs). An additional RM17 billion was also raised through the secondary equity market.

The size of Islamic capital market grew by 6.7 per cent in 2015 to RM1.7 trillion against RM1.59 trillion in 2014.

### **Focus in 2016**

Amongst its initiative in 2016, the SC is expected to formulate CG priorities for the next five years with a revised Malaysian Code on Corporate Governance 2016.

It will continue to leverage on technology to offer innovative market-based financing solutions.

*[Source: Media release on the SC's website on 10 March 2016]*

### **MSWG'S COMMENTS:**

We believe the efforts by the SC to improve and facilitate innovative products and delivery channels as well as enhance its corporate governance regime will pave a way for broader, deeper and more resilient capital market. We expect that in the light of a more challenging global environment in the near and intermediate future, corporate governance matters will be more critical. More focus would need to be on fair play and good market conduct to protect investors' interest against any form of negative behaviour in a more volatile market.

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## SECTORIAL UPDATE

### FINANCIAL RESULTS (UNAUDITED) OF PLANTATION COMPANIES FOR YEAR ENDED 31 DECEMBER 2015 [MSWG'S COVERAGE ON PLANTATION COMPANIES]

No	Company	Mkt Cap (RM'000)	Revenue	Net Profit (RM'000)			EPS (sen)		Share Price	P/E	DY	Note
			Inc/ (dec) %	2015	2014	Inc/ (Dec)	2015	2014				
1	Genting Plantations Bhd	8,630,422	-16%	176,595	383,777	-54.0%	24.5	49.3	11	44.9	0.5%	
2	United Plantations Bhd	5,494,745	-2%	292000	279000	4.7%	141.0	134.0	26.4	18.7	3.8%	
3	Kulim (Malaysia) Bhd	5,463,758	36%	1,417,519	308,441	359.6%	109.8	12.6	3.92	3.57	9.6%	1
4	Felda Global Ventures Bhd	5,289,820	3%	312,006	538,652	-42.1%	3.2	8.9	1.45	45.3	2.8%	
5	TSH Resources Bhd	2,650,463	-25%	-98,025	150,227	-165.3%	-7.4	10.3	1.9	Nil	1.1%	2
6	Boustead Plantations Berhad	2,400,000	-14%	72,259	52,418	37.9%	4.9	4.3	1.5	30.6	8.7%	
7	Sarawak Oil Palms Bhd	1,915,402	27%	88,317	123,399	-28.4%	19.3	26.3	4.34	22.5	0.0%	
8	Hap Seng Plantations Bhd	1,904,000	-12%	96,448	128,312	-24.8%	12.1	16.0	2.38	19.7	3.4%	
9	Far East Holdings Bhd	1,102,842	-23%	80,653	104,254	-22.6%	50.4	65.9	7.800	15.5	3.9%	
10	Kretam Holdings Bhd	1,050,010	-7%	-5,032	10,759	-146.8%	-0.3	0.6	0.560	Nil	0.0%	
11	TDM Bhd	1,029,755	-1%	72,472	54,376	33.3%	5.0	3.8	0.695	13.9	0.0%	
12	TH Plantations Bhd	998,752	-7%	23,929	59,580	-59.8%	7.0	5.5	1.130	16.1	0.0%	
13	BLD Plantation Bhd	813,450	-7%	-5,875	33,017	-117.8%	-6.6	35.6	9.200	Nil	0.0%	
14	Rimbunan Sawit Bhd	751,798	-23%	-62,332	2,753	-2364.2%	-2.7	0.2	0.530	Nil	0.0%	3
15	Sarawak Plantations Bhd	495,600	-14%	20,534	60,885	-66.3%	7.6	21.9	1.770	23.2	2.5%	
16	Negri Sembilan Oil Palms Bhd	277,800	-5%	7,101	-5,002	-242.0%	8.6	-5.1	3.960	46.2	1.5%	
17	Riverview Rubber Estates Bhd	259,402	4%	6,322	9,432	-33.0%	9.7	12.1	4.000	41.4	1.5%	
<b>Average</b>							22.72	23.66		20.1	2.3%	

Note:

1. Increase in net profit was mainly due to a gain of RM1.34 billion on disposal of NBPOL which was concluded in February 2015.
2. A one-off cost of RM139 million in relation to discontinue operation of its indirect wholly owned subsidiary, Eko Pulp & Paper Sdn Bhd was charged in FY2015.
3. An Impairment loss of RM20 million on Investment in associate was made in FY2015.

**MSWG'S COMMENTS:**

For the year 2015, 76% of the companies under our coverage had revenue declines ranging from 1% to 25% and profit declines ranging from 23% to over 2,000% y-o-y.

The main factors that had caused the poorer bottom line numbers were the lower average crude palm oil (CPO) prices and the rise of labour cost squeezing margin. [The average CPO price was down by 9.6% to RM2,53.50.]

Saying this, CPO prices had been trending higher since the beginning of the year 2016 and it is expected to maintain or have a slight upside trend in view of the El Nino impact which is expected to cause overall reduction in the inventory stock level. This, however, could be negated by the global softening of consumption due to the spill-over effect of the China slowdown.

Labour shortages and rising operational cost would still remain the main challenge for most of the Malaysian plantation companies. Freeze on recruitment of foreign worker is expected to aggravate the labour problems in the industry.

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### **MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS**

#### ***SINO HUA-AN INTERNATIONAL BERHAD ("SINO HUA-AN")***

The Board of Directors of Sino Hua-An announced that Yehua Coking Co. Ltd ("Yehua"), a wholly-owned subsidiary of Sino Hua-An, had entered into a Lease Agreement with Linyi Xin Jiang Quan Metal Material Technology Co. Ltd on 29 January 2016, for the leasing of some of its coking ovens ("the Lease").

Following the above Leasing, the company had triggered Paragraph 8.03A of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia whereby Sino Hua-An has been purportedly deemed to have temporarily suspended its major operations.

In view of the above, the Board of Directors announced that the company will submit an application to Bursa Securities to seek a waiver from complying with Paragraph 8.03A (2) and (3) of the MMLR.

*[Source: Sino Hua-An's announcement on Bursa Malaysia's website on 29 January 2016 and 4 March 2016]*

#### **MSWG'S COMMENTS:**

We are concerned that it would not have the level of core operation that is adequate to warrant continued listing after the proposed Lease.

We are also concerned that if such waiver is given, would there be an alternative business which is good for the company? Whether there is a significant change in the business direction of the company?

#### ***CLIQ ENERGY BERHAD ("CLIQ ENERGY")***

The Board of Cliq Energy announced that the company had received numerous proposals from liquidators to undertake the liquidation process and the company will be undertaking an evaluation process to shortlist the liquidator and once the selection of the liquidator is made, the company will make another announcement.

*[Source: Cliq Energy's announcement on Bursa Malaysia's website on 7 March 2016]*

### **MSWG'S COMMENTS:**

As recently reported, CLIQ had failed to meet the acquisition period and faces imminent liquidation process. Despite this development, another SPAC, Sona Petroleum Berhad had announced the acquisition of Stag Oilfield, located offshore Western Australia for approximately US\$25 million, a discount of 50% of its initial pricing subject to shareholders' approval.

Given that SPACs come with various risk and challenges in line with the company's targeted market/industry, the major risk assessment of the Company would involve the Board and management expertise. With Sona's EGM coming up soon, shareholders need to consider whether the acquisition at 50% discount of its original offer of US\$50 million is a bargain in the current environment of uncertainty or exit the deal and recoup the investment.

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### **MSWG'S WATCHLIST**

#### **FELDA GLOBAL VENTURE HOLDINGS BERHAD ("FGV")**

The Board of Directors of FGV announced that based on FGV's reply to the Bursa Malaysia's query on 3 March 2016, Bursa Malaysia has written to FGV via a letter dated 7 March 2016 to inform that the proposed acquisition by Felda Global Ventures Downstream Sdn Bhd, a wholly-owned subsidiary of FGV of 81,566,106 issued and fully paid-up ordinary shares of Zhong Ling Nutril-Oil Holdings Limited, representing 55% of the issued and paid-up share capital of the company from Zhong Hai Investment Holdings Limited and the other vendors, would be subject to FGV shareholders' approval in compliance with Chapter 10 of the Main Market Listing Requirements.

*[Source: Announcement on Bursa Malaysia's website on 7 March 2016]*

#### **MALAYSIA BUILDING SOCIETY BERHAD ("MBSB")**

The Board of Directors of MBSB announced that MBSB proposes to undertake a renounceable two-call rights issue of new MBSB Shares to the entitled shareholders of MBSB on a basis and issue price to be determined and announced later, to raise gross proceeds of up to RM2.00 billion.

*[Source: Announcement on Bursa Malaysia's website on 10 March 2016]*

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### **LOCAL NEWS AND DEVELOPMENTS**

Against predicted recovery, Malaysian exports hit by surprise fall  
<http://www.themalaymailonline.com/money/article/against-predicted-recovery-malaysian-exports-hit-by-surprise-fall>

SC Appoints New Deputy Chief Executive  
[http://www.sc.com.my/post\\_archive/sc-appoints-new-deputy-chief-executive/](http://www.sc.com.my/post_archive/sc-appoints-new-deputy-chief-executive/)

FGV says no human trafficking at its estate  
<http://www.thesundaily.my/news/1719958>

Change in succession plan at Public Bank

<http://www.thestar.com.my/business/business-news/2016/03/04/change-in-succession-plan-at-public-bank/>

'Raids will tarnish steel makers' name'

<http://www.theedgemarkets.com/my/article/%E2%80%98raids-will-tarnish-steel-makers%E2%80%99-name%E2%80%99?type=Corporate>

SC Revokes Licences of Two Individuals

[http://www.sc.com.my/post\\_archive/sc-revokes-licences-of-two-individuals/](http://www.sc.com.my/post_archive/sc-revokes-licences-of-two-individuals/)

Malaysia's biggest bank says Islamic loans overtake conventional

<http://www.theedgemarkets.com/my/article/malaysia%E2%80%99s-biggest-bank-says-islamic-loans-overtake-conventional?type=Corporate>

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## GLOBAL NEWS AND DEVELOPMENTS

U.S. trade deficit widens as exports hit five-and-a-half-year low

<http://www.reuters.com/article/us-usa-economy-trade-idUSKCN0W61KG>

Iran hopes to raise March oil exports on higher European sales: sources

<http://www.reuters.com/article/us-oil-iran-exports-idUSKCN0W51JZ>

FACTBOX-New UK rules hold bank bosses accountable for misconduct

<http://www.cnn.com/2016/03/06/reuters-america-factbox-new-uk-rules-hold-bank-bosses-accountable-for-misconduct.html>

Bank for International Settlements Raises Questions About Impact of Negative Rates

<http://www.wsj.com/articles/bank-for-international-settlements-raises-questions-about-impact-of-negative-rates-1457262061>

Exchanges merger will settle London versus Frankfurt fight

<http://www.ft.com/intl/cms/s/0/1ae4fc5c-e2dd-11e5-ac45-5c039e797d1c.html>

Jim Rogers: There's a 100% Probability of a U.S. Recession Within a Year

<http://www.bloomberg.com/news/articles/2016-03-04/jim-rogers-there-s-a-100-probability-of-a-u-s-recession-within-a-year>

6 Reasons You Need To Up The Budget For Your CSR Program

<http://www.forbes.com/sites/causeintegration/2016/01/28/6-reasons-you-need-to-up-the-budget-for-your-csr-program/#1cd470911dd4>

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## DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter save for Cliq Energy Berhad.*

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## Feedback

We welcome your feedback on our newsletter and our work. Email us at [mswg.ceo@mswg.org.my](mailto:mswg.ceo@mswg.org.my) with your comments and suggestions.

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