



MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

10 July 2015

## MESSAGE FROM THE CEO

The latest statistics show that Malaysian exports dropped 6.7% to RM60.5 billion in May from a year earlier, adding to the 8.8% year-on-year drop in April, and adding further concern to the current account numbers combining it with the already existing fiscal deficit, furthering pressures on the ringgit, which has already plunged to 16-year lows against the US dollar. Clearly, the impact to the country of weaker crude oil and commodity prices (like oil and gas, oil palm, natural rubber and timber-based products) have hurt the economy.

Over in China, where stocks have been in the downtrend and have reached its worst rout in twenty years, listed companies are taking unprecedented steps to shield their shares from further losses, by halting trade on the public markets.

Over half the listed stocks on China's two main exchanges are now halted from trading, which is a temporary respite for its owners, but more worrisome for minorities, since it leaves them with no chance to dispose of their holding. Nor, on the contrary, to purchase more at a cheaper price should they wish to.

The sentiments in the stock market we believe does reflect the investors' perception of the fundamental in the real economy. Our concern really centres on the possible contagion effect, given the amount of trade we do with China.

A last word, and they centre on public governance. We believe that public governance is important if not more than corporate governance, since it sets the tone from the top. We want to see public governance being exemplary in this uncertain economic environment to infuse confidence in the underlying market for the longer term.

Regards,

Rita

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## MSWG IN THE NEWS

### **KWAP CHIEF EXECUTIVE APPOINTED CHAIRMAN OF INSTITUTIONAL INVESTORS COUNCIL**

<http://www.thestar.com.my/Business/Business-News/2015/07/03/KWAP-chief-executive-appointed-chairman-of-MSWG-council/?style=biz>

### **MSWG TO QUESTION KPJ'S LAND DISPOSAL, ACQUISITION IN EGM**

<http://www.thestar.com.my/Business/Business-News/2015/07/08/mswg-to-raise-acquisition-and-disposal-issues-in-egm/?style=biz>

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## CAPITAL MARKET AND REGULATORY UPDATE

### **SC INTRODUCES MEASURES TO ENHANCE COMPETITIVENESS OF FUND MANAGEMENT INDUSTRY**

The Securities Commission Malaysia (“SC”) announced liberalisation to its rules governing the fund management industry, allowing the establishment of boutique fund management companies through a more facilitative structure.

With immediate effect, parties with niche fund management expertise can be licensed as boutique fund management companies with a paid-up capital of RM500,000 as compared to RM2 million for a full-fledged fund management licence.

In line with SC’s regulatory philosophy that advocates proportionality of regulation, licensing requirements are tiered according to the size and scale of business and clientele. Boutique fund management companies can manage assets up to RM750 million with a clientele of not more than 50 sophisticated investors.

The SC also introduced restricted dealing licences specifically for offering of securities and over-the-counter bonds via online platforms, giving investors wider access to the capital market through innovative business models driven by technology.

*[Source: Press release on the SC’s website on 8 July 2015]*

Link: [http://www.sc.com.my/post\\_archive/sc-introduces-measures-to-enhance-competitiveness-of-fund-management-industry/](http://www.sc.com.my/post_archive/sc-introduces-measures-to-enhance-competitiveness-of-fund-management-industry/) ]

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## MSWG’S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

### **HB GLOBAL LIMITED (“HBGL”)**

Bursa Malaysia alerted investors in relation to the recent sharp rise in the price of HBGL shares and issued an Unusual Market Activity (“UMA”) query on 7 July 2015. HBGL had on 8 July 2015 replied that the Directors and substantial shareholders of the company were not aware of any corporate development, rumour or report concerning the business and affairs of the Group and any other possible explanation that may have contributed to the UMA.

The share price of the company appreciated substantially from RM0.045 on 29 June 2015 to RM0.14 on 8 July 2015.

*[Source: HBGL's announcement on Bursa Malaysia's website on 7 July 2015 and 8 July 2015]*

**MSWG'S COMMENTS:**

HBGL's share price appreciated 311% in just a week where we did not sight any change in the company's fundamental. Shareholders should be aware that the company is a PN17 company seeking 2<sup>nd</sup> extension of time for its regularisation plan from the relevant authorities. Also in this cautious and uncertain environment, we hope investors to be aware of any eventuality of the company's extension of time being rejected and where the trading of HBGL's share price could be suspended and even delisted eventually.

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

FGV had signed a Heads of Agreement with the Rajawali Group to acquire:

- 37% non-controlling equity stake in Eagle High for USD680 million via USD632 million cash (RM2,380 million) and issuance of 95 million new FGV shares valued at USD47 million (RM177 million); and
- 95% equity stake in a 47,700 hectares greenfield sugar plantation in Papua Province in Indonesia for USD67 million cash (RM252 million)

Upon completion of the due diligence exercise expected by end of July 2015, FGV will enter into conditional sales and purchase agreement which is conditional upon FGV obtaining approval from its shareholders and the regulatory authorities.

The transacted price for Eagle High translated to a per share value of 774 Rupiah, represents a 72% premium over its last-traded price of 450 Rupiah. In terms of enterprise value (EV per ha), it is equivalent to USD17,400 per ha.

A Deposit of USD174.50 million which is approximately 25% of the acquisition price has been paid.

*[Source: FGV's announcement on Bursa Malaysia's website on 17 June 2015]*

**MSWG'S COMMENTS:**

We had an engagement with FGV on 8 July 2015 at our office where we raised our concerns and sought clarifications on the proposed acquisition of 37% stake in Eagle High Plantations from Rajawali Capital, Indonesia. The team was headed by FGV CEO, Dato Mohd Emir Mavani Abdullah.

Among the issues that were raised during the engagement were:

1. The valuations and the rationale given by the FGV's team. According to FGV, it is the
  - Best time to acquire and expand the land bank as the prevailing market price is low due to weak CPO prices and market conditions (assumption used at a CPO price of RM2,900 for cashflow projection);

- FGV needs a strong partner to venture into new business in Indonesia and Rajawali Group is a predominant group in Indonesia having good relationship in the local environment.
  - The age profile of FGV's palm trees will improve as the average age profile of the Eagle High's palm tree is 8 years old.
  - They are able to capitalise FGV's expertise to their Eagle High and vice-versa.
    - MSWG still raised some issues on the premium valuation which we believe required more in-depth scrutiny in relation to the assumptions. (CPO price of RM2,900 which was taken as one of the assumptions to be further looked at.)
    - On averaging down the age profile, MSWG was of the view that such simplistic consolidation and averaging does not add-up as it will acquire a 37% stake and thus only be able to hold as associate.
    - The length of time for FGV to break-even their investment and the internal rate of return.
3. FGV's representatives mentioned that after the completion of the due diligence, the actual pricing would be subject to the outcome of the due diligence investigation. The detailed outcome would be made known in the Circular to Shareholders. (Investors ought to await its outcome)
4. On the hefty deposit, the FGV's representative highlighted that the deposit would be refundable with interest if the conditions precedent are not met such as completion of the due diligence investigations and obtaining approvals from the parties:
- FGV's Board
  - Relevant Malaysian authorities
  - FGV's shareholders

For the benefit of the minority shareholders, copy of the presentation given by FGV during the engagement can be downloaded by clicking [here](#).

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## MSWG'S WATCHLIST

### **TENAGA NASIONAL BHD ("TNB")**

TNB announced that it has signed a Shareholders' Agreement ("SHA") with Mitsui & Co., Ltd. ("Mitsui"), 3B Power Sdn. Bhd. ("3B Power"), a local company incorporated by Mitsui, and JEP for the development of 2x1000MW coal fired power plant in Mukim Jimah ("the Project"). Mitsui, through 3B Power, holds 30% equity in JEP. The purpose of the SHA is for TNB and 3B Power to regulate both parties' rights and obligations in JEP.

Further documents executed with JEP are the Transmission Works Agreement (“TWA”) between TNB and JEP and Supplemental Coal Supply and Transportation Agreement (“Supplemental CSTA”) between JEP and TNB Fuel Services Sdn. Bhd. (“TNBF”), a wholly owned subsidiary of TNB. TNB awarded JEP to upgrade and extend the PMU 275kV Olak Lempit and PMU 500/275kV Lenggeng to accommodate and facilitate additional capacity from the Project.

The SHA, TWA and Supplemental CSTA are not subject to the approval of TNB’s shareholders and/or any other relevant regulatory authorities.

The SHA, TWA and Supplemental CSTA will not have any effect on the issued and paid-up share capital and the substantial shareholder’s shareholdings of TNB but will have a positive impact on the earnings of TNB over the life of the Project.

*[Source: TNB’s announcement on Bursa Malaysia’s website on 9 July 2015]*

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## LOCAL NEWS AND DEVELOPMENTS

HB Global shareholders flex their muscles

<http://www.thestar.com.my/Business/Business-News/2015/07/04/HB-Global-shareholders-flex-their-muscles/?style=biz>

Bursa Securities queries HB Global over share price spike

<http://www.thestar.com.my/Business/Business-News/2015/07/07/Bursa-Securities-queries-HB-Global-over-share-price-spike/?style=biz>

SC Charges Former Director of Linear Corporation Bhd

[http://www.sc.com.my/post\\_archive/sc-charges-former-director-of-linear-corporation-bhd/](http://www.sc.com.my/post_archive/sc-charges-former-director-of-linear-corporation-bhd/)

Court dismisses claim against ex-Kamdar chairman

<http://www.thestar.com.my/Business/Business-News/2015/07/04/Court-dismisses-claim-against-exKamdar-chairman/?style=biz>

Malaysian May exports decline on weaker commodity, E&E sales

<http://www.theedgemarkets.com/my/article/malaysian-may-exports-decline-weaker-commodity-ee-sales?type=Corporate>

Qualities of a successful CEO

<http://www.thestar.com.my/Business/Business-News/2015/07/04/Qualities-of-a-successful-CEO/?style=biz>

Mueller unveils a flat MAS structure

<http://www.thestar.com.my/Business/Business-News/2015/07/03/Mueller-unveils-a-flat-MAS-structure/?style=biz>

Dayang launches offer for Perdana Petroleum

<http://www.thestar.com.my/Business/Business-News/2015/07/03/Dayang-launches-offer-for-Perdana-Petroleum/?style=biz>

TM: It’s still too early to judge P1

<http://www.theedgemarkets.com/my/article/tm-it%E2%80%99s-still-too-early-judge-p1?type=Corporate>

Hussin Othman emerges as Scan Associates' substantial shareholder

<http://www.theedgemarkets.com/my/article/hussin-othman-emerges-scan-associates-substantial-shareholder?type=Corporate>

SC Revokes Licence of Lim Chin Wat for manipulative securities dealing

[http://www.sc.com.my/post\\_archive/sc-revokes-licence-of-lim-chin-wat-for-manipulative-securities-dealing/](http://www.sc.com.my/post_archive/sc-revokes-licence-of-lim-chin-wat-for-manipulative-securities-dealing/)

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## GLOBAL NEWS AND DEVELOPMENTS

10 Consequences of Greece's 'No'

<http://www.bloombergtv.com/articles/2015-07-05/10-consequences-of-greece-s-no->

Toshiba Profit Markdown Almost Double Earlier Estimates

<http://www.wsj.com/articles/toshiba-profit-markdown-almost-double-earlier-estimates-source-says-1436012268>

U.S. Jobless Claims Rise to 281,000

<http://www.wsj.com/articles/u-s-jobless-claims-rise-to-281-000-1435840335>

China rolls out emergency measures to prevent stock market crash

<http://www.reuters.com/article/2015/07/05/us-china-markets-outlook-idUSKCN0PF0DH20150705>

China to probe stock market manipulation

<http://www.bbc.com/news/world-asia-china-33376352>

S Korea to inject \$10bn into economy after Mers outbreak

<http://www.bbc.com/news/business-33375993>

Japan regulator urges banks to reduce cross-shareholdings

<http://www.reuters.com/article/2015/07/03/us-japan-banks-stocks-idUSKCN0PD11G20150703>

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## MSWG Analysts

Lya Rahman, General Manager, Corporate Services, [lyarahman@mswg.org.my](mailto:lyarahman@mswg.org.my)

Rebecca Yap, Head, Corporate Monitoring [rebecca.yap@mswg.org.my](mailto:rebecca.yap@mswg.org.my)

Quah Ban Aik, Head, Corporate Monitoring [banaik.quah@mswg.org.my](mailto:banaik.quah@mswg.org.my)

Norhisam Sidek, Manager, Corporate Monitoring [norhisam@mswg.org.my](mailto:norhisam@mswg.org.my)

Lee Chee Meng, Manager, Corporate Monitoring [cheemeng@mswg.org.my](mailto:cheemeng@mswg.org.my)

Wong Kin Wing, Manager, Corporate Monitoring, [kinwing@mswg.org.my](mailto:kinwing@mswg.org.my)

Hoo Ley Beng, Manager, Corporate Monitoring [linnert.hoo@mswg.org.my](mailto:linnert.hoo@mswg.org.my)

Nor Khalidah Khalil, Analyst, Corporate Monitoring [khalidah@mswg.org.my](mailto:khalidah@mswg.org.my)

Vinodth Ramasamy, Analyst, Corporate Monitoring [vinodth.ram@mswg.org.my](mailto:vinodth.ram@mswg.org.my)

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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 HB Global Limited.*
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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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