MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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❖ Some strategies for minority shareholders amid Omicron stock market volatility

Doubtlessly, the Omicron COVID-19 variant has given investors flashbacks to early 2020 when the pandemic first began spreading around the globe.

Recall that the variant made a dramatic media entrance on Black Friday (26 November 2021), triggering a global stock market sell-off after the World Health Organization (WHO) described Omicron as a variant of concern (highly transmissible although less severe than the Delta variant).

As cases sprouted across the globe, governments have rapidly enacted bans on travelling from high-risk countries while extending COVID-19 social distancing rules.

On 6 February, Malaysia's new coronavirus cases crossed the 10,000 marks with 10,089 cases reported. The last time Malaysia surpassed the 10,000 cases mark was on 2 October 2021 with 10,915 cases. Since then, the number of daily cases has risen to 20,939 as of 11 February 2022. Most of the new cases were in categories one and two and were either asymptomatic or only displayed mild symptoms.

With the present R0/Rt reading of 1.2, Malaysia is expected to reach 22,000 COVID-19 cases by end-March, according to Health Ministry director-general Tan Sri Dr Noor Hisham Abdullah.

As Omicron (or other emerging variants) is likely to become a regular disruptive feature in the global stock markets throughout 2022, below are some measures or events that minority shareholders should watch out for to safeguard their investments.

Past lessons

Thankfully, previous experience in managing the containment of the pandemic will come in handy coupled with the fact that thus far, hospitalisation rates are manageable in stark contrast to rising COVID-19 cases.

While a hard lockdown with curfews, travel restrictions and border closures can be discounted, the impact of self-isolating, social distancing and health protocol can mean another round of headwind for businesses.

Nevertheless, with the lower mortality and ongoing vaccination drive, there is likely a lower risk of prolonged and stricter lockdown measures.

Here are some of the headwinds that investors should watch out for in the coming months amid heightened concerns over Omicron virus:

Supply chain disruption

For the past two years, the global supply chain was facing unprecedented pressure on the back of movement disruptions caused by the COVID-19 pandemic. Though it appears that supply chain disruptions are easing but it could get worse if the Omicron wave forces lockdowns in major economies again.

On top of that, IHS Markit added that while the pandemic has been significant in driving the disruption – with the Omicron variant creating new uncertainties – it is not the only factor as substantial capacity, logistical and labour challenges also exist beyond the pandemic.

Compared with a year ago, energy prices of crude oil, coal and natural gas are substantially higher owing to strong demand that has come with economic rebound.

Volatile market

In 2020, COVID-19 wreaked havoc on the economy with the stock market posting one of its steepest declines in history at the early stages of the pandemic as investors were worried about the impact of the COVID-19 coronavirus pandemic. Whether there will be a repeat of that crash because of Omicron is anyone's guess.

But the forward-looking nature of the stock market has enabled a V-shape rebound insofar as the Dow Jones Industrial Index is concerned. After soaring to a record high of 29,551.42 on 12 February 2020, the Dow plummeted a record 2,997.10 points (12.93%) to close at 20,188.52 on March 16.

Nevertheless, the 2020 recession was followed by a booming stock market with the Dow already surging past 30,000 points by 24 November 2020. The market continued to climb with the Dow closing at an all-time high of 36,799.65 after hitting an intraday record of 36,934.84 on 4 January 2022.

Like the Dow, Brent crude oil which saw its price tumble to US$9.12/barrel on 21 April 2020 – a far cry from the US$70/barrel fetched at the beginning of 2020 – has also rebounded strongly to the US$92/barrel mark on 8 February 2022 with analysts predicting oil to hit US$100/barrel amid demand recovery combined with falling stockpiles and supply disruptions.

Above all else, these lessons taught investors that not all is doom and gloom as evident by how both the glove and tech stocks rallied to historical highs prior to the baton being passed to recovery theme stocks as the pandemic subsided and prospects of the economy re-opening brightened up.

OPR hike

It is widely expected that the central bank will keep its overnight policy rate at 1.75% until the end of this June, then gradually raise the benchmark overnight policy rate (OPR) beginning in the third quarter due to mounting inflationary pressures.

Research houses like CGS-CIMB Research had estimated two rounds of 25bps rate hikes by Bank Negara Malaysia (BNM) in the second half even as concerns were raised with respect to the quantum of the hike given that higher inflation could further weaken consumers' purchasing power.

From the research house's perspective, the rate hikes by BNM reflects several factors, namely (i) the economic conditions in 2022 are expected to be better than 2021 with lesser risk of lockdown and improved labour market environment; (ii) while higher inflation is projected, the increase is not excessive given prompt government reaction; and (iii) the interest rate level is still very accommodative for consumers and businesses.

Prioritising fiscal consolidation

At the macroeconomic front, World Bank said Malaysia's fiscal consolidation will need to be prioritised to ensure effective government spending and revenue collection in the medium-term.

This is given Malaysia's fiscal deficit is expected to widen to 6.5% in 2021 following an upward revision in spending by 0.6% of gross domestic product (GDP) while revenue collection slipped downwards by 0.5% of GDP.

Higher spending has been facilitated by an increase in the debt ceiling to 65% in October 2021, but debt service charges are expected to rise further to 18.4% in 2022.

Co-existing with COVID-19

Finally, endemic is the word that many investors must grow accustomed to as more economic sectors in Malaysia re-open for business while social and travel restrictions are gradually being lifted.

When COVID-19 becomes an endemic disease, it means the infection will not go away and will continue to be transmitted.

Whether it is the Omicron, Delta or IHU variants, COVID-19 is here to stay, hence everyone must get used to managing their lives while co-existing with virus. The time has come to resume life by adjusting to new norms while adapting to different yet safer working/living environment.

Transitioning from a pandemic to endemic stage is about the community seeing a growing number of people who are immune to the virus, either through surviving natural infection or through vaccination.

Tweaking investing strategies

Even if the Omicron variant does end up causing new shutdowns, investors need not abruptly ditch their investment strategies. It took less than five months for markets to recover from the initial COVID-19 fear in early 2020 with any subsequent dips being quickly reversed.

At this juncture, delving in stocks with strong fundamentals may be the best formula to give one's portfolio the best chance of surviving any potential volatility.

With rigorous research and financial planning aptness, one should continue to invest smartly/consistently, true to the belief that opportunities abound amid adversities. The mantra to follow is to buy when there is fear in the market that depresses the prices of good stocks – and to sell when greed sets in.

If stock prices fall, keep investing during downturns as it could be a fantastic opportunity to buy quality stocks at a discount. If prices surge, take profit as the market is volatile. It depends on your investment philosophy which may even vary according on a counter basis - a trading strategy for some counters or a long-term strategy for others.

On the hindsight, avoid getting caught up in the market's day-to-day movements, especially by indulging in speculative trading – unless you have the stomach for it – it can be stomach churning and nerve wrecking. If you adopt investing as a long-term strategy, it doesn't necessarily matter how the market performs over days, weeks, or months or even a couple of years.

So long as one's portfolio is made up of quality stocks, one's investments are likely to thrive over the long term regardless of the immediate market direction.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 14 – 18 February 2022

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
14.02.22 (Mon) 10.30 am	Hextar Industries Berhad (AGM)	Hextar's revenue increased marginally by RM1.7 million or 1.4% to RM123.0 million in FY2021 (FY2020: RM121.3 million). However, it was back to the black with net profit of RM1.9 million for FY2021 compared to a net loss of RM7.9 million in the year before. This is mainly due to

		lower selling and distribution expenses, lower impairment loss for inventories and financial assets and reversal of tax refund and overprovision. It is dependent on the agriculture industry since most of its revenue is generated through the manufacture and distribution of fertilisers to agriculture industry.
16.02.22 (Wed) 10.00 am	Sasbadi Holdings Berhad (AGM)	Sasbadi continued to be loss-making with net loss widened to RM9.251 million as compared to net loss of RM8.952 million in FY2020. The resurgence of COVID-19 cases and the reimplementation of the MCO had adversely impacted its overall operations.
17.02.22 (Thur) 11.00 am	Kuala Lumpur Kepong Berhad (AGM)	KLK's revenue increased by 27.6% y-o-y to RM19.9 billion (FY2020: RM15.6 billion). Its net profit increased significantly by 192.2% to reach a record-breaking net profit of RM2.258 billion (FY2020: RM772.6 million) mainly due to the buoyant palm products prices, the sterling performance of its KLK Oleo and practically all its other business sectors. For FY2022, it will be focusing on consolidating its assets, enhancing synergies and operational integration.
17.02.22 (Thur) 02.15 pm	Batu Kawan Berhad (AGM)	For FY2021, the Group's revenue improved substantially by 29% y-o-y to RM20.71 billion (FY2020: RM16.07 billion) from stronger CPO and palm kernel selling prices. Its PBT surged more than two times on the back of higher revenue to RM3.08 billion (FY2020: 1.26 billion), and several non-operational, one-off items reported under Investment Holding/Others. Excluding these non-operational items, its PBT for FY2021 would be RM2.58 billion, or 105% higher than the previous year. The current strong palm

		product prices are projected to sustain which will augur well for the profitability of the plantation division while its Oleochemical and Industrial Chemical sectors are expected to sustain their performances in FY2022.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Hextar Industries Berhad (fka SCH Group Berhad) (AGM)	During the current financial year, HIB's manufacturing plant located in Sarawak has recorded a lower revenue by 18.1% as compared to FY 2020 due to the shortage of raw material supplies, restriction in production capacity and logistics hours. (page 31 of AR 2021) (a) Has the shortage of raw material supplies been resolved? (b) With palm oil prices remaining bullish for the last few years, did HIB capitalise on it to grow its revenue? How was the performance for the 1st half of FY 2022 and what is the outlook for the 2nd half?
Sasbadi Holdings Berhad (AGM)	Group revenue remained about the same over the last two years (FY2021: RM62.902 million; FY2020: 62.814 million). However, cost of sales increased significantly from RM46.553 million in FY2020 to RM51.629 million in FY2021 (Page 72 of AR). What were the reasons for the sharp increase in cost of sales? Going forward, how is the Group going to manage it?
Kuala Lumpur Kepong Berhad (AGM)	Geographically, 55% of the Group's oil palm planted area is in Indonesia, 43% in Malaysia and about 2% in Liberia. (page 28 of AR2021) Given the recent implementation of the new Indonesian regulation which requires local palm oil producers there to sell 20% of their production to domestic refiners at fixed prices, to what extent will it impact the Group's financial performance in financial year ending 2022?
Batu Kawan Berhad (AGM)	CCM's chlor-alkali chemical business posted lower earnings y-o-y, which were attributable to lower caustic soda prices, higher production costs due to plant downtime in its Pasir Gudang ("PGW") site and internal restructuring costs. One of its plants at PGW which commissioned in January 2020 was not able to operate at maximum capacity and thus suffered a capacity

	reduction throughout FY2021. The affected plant is expected to be restored to its full capacity in February 2022. (page 39 of AR2021) (a) What were the main reasons that have caused the plant downtime at Pasir Gudang? (b) What was the cost incurred to restore the affected plant to its full capacity? (c) What is the status of the affected plant?

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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.