



# The Observer

**12.01.2024**

## ❖ **What lies ahead for Kuchai? Disposal deal sets stage for multiple scenarios**

Low-profile Kuchai Development Berhad and Sungei Bagan Rubber Company (Malaya) Berhad (Sg Bagan) recently hogged the public limelight again with major corporate exercises that will streamline the structure and consolidate the assets of the two companies.

On 29 December 2023, Kuchai announced a proposal to dispose of all its assets and liabilities to Sg Bagan for RM275.5 million (Proposed Disposal), which will be satisfied entirely via the issuance of 27.52 million new Sg Bagan shares at an issue price of RM10.01 per share.

Subsequently, Kuchai will hold a 29.37% stake in Sg Bagan, after which the shares will be distributed to Kuchai shareholders (Proposed Distribution) through proposed capital reduction and repayment, and proposed dividend-in-specie. In turn, Kuchai shareholders would have direct exposure to Sg Bagan.

For every 1,000 Kuchai shares shareholders own, they will be entitled to 222 Sg Bagan shares under the proposal. The controlling shareholders, Kluang Rubber Co (Malaya) Bhd (Kluang Rubber), will get the lion's share of the Sg Bagan shares being distributed.

Notably, this would be the second time Kuchai distributed its shares in Sg Bagan after having distributed its 26.51% stake in Sg Bagan to shareholders in September 2022.

Kuchai and Sg Bagan shared similar business activities in investment holdings and rental of property, with the latter also carry out oil palm plantation activities. They are controlled by a common major shareholder, Kluang Rubber, who owns 42.2% stake in Kuchai and 43.5% in Sg Bagan.

### **What's in store for Kuchai and Sg Bagan?**

The proposed disposal will eventually enable Kuchai and Sg Bagan to consolidate, synergise and merge their investments into Sg Bagan.

For shareholders of Kuchai, the Proposed Distribution will provide the entitled shareholders with an opportunity to participate in the prospects and future growth of the enlarged Sg Bagan which will take over the assets and liabilities in Kuchai.

Upon completion of the Proposed Distribution, the only assets and liabilities remaining with Kuchai are the cash and bank balances amounting to RM83.81 million, equipment, prepayments, other payables, tax payable and deferred tax liability. This may result in Kuchai being classified as a “Cash Company” that requires a regularisation plan later.

Kuchai said it intends to maintain its listing status and, therefore, will use its best endeavours to identify potential new businesses and assets to be acquired. Furthermore, shareholders of Kuchai should note that the successful implementation of regularisation plans may take years to materialise. If all else fails, the cash pile amounting to RM83.81 million sitting in Kuchai will need to be returned to its shareholders.

Besides, a back-of-the-envelope calculation (as shown below) to work out the estimated value of Kuchai suggests that its closing price of RM1.55 on 11 January have likely priced in the upside of the proposals.

$$\begin{aligned} & \text{Cash and bank balances in Kuchai after Proposed Disposal} + (\text{total no. of new Sg Bagan shares to} \\ & \text{be issued} \times \text{Sg Bagan closing share price as of 11 January 2024}) \\ = & \frac{\hspace{10em}}{\text{total no. of Kuchai shares as of 18 December 2023}} \\ & = \frac{\text{RM83.81 million} + (27.52 \text{ million} \times \text{RM4.41})}{123.75 \text{ million shares}} \\ & = \text{RM1.66 per Kuchai share} \end{aligned}$$

For now, the movements of Kuchai share would largely hinge upon the ups and downs of Sg Bagan.

As for Sg Bagan, the Group will continue to own its existing businesses, namely the production and sale of fresh oil palm fruit bunches as well as long-term portfolio investment in securities while its wholly owned subsidiaries are involved in investment holding.

At the close of trading on 11 January, Sg Bagan was traded at RM4.41 compared to RM3.23 prior to the announcement of proposals, which suggests investors view the proposals positively. The uptrend movement of Sg Bagan share price is also positive for Sg Bagan’s minority shareholders.

The Proposed Disposal is regarded as a related party transaction pursuant to Paragraph 10.08 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (MMLR) in view of the interests of certain directors and major shareholders of Kuchai.

In addition, the transaction is deemed a major disposal pursuant to Paragraph 10.02(eA) of the MMLR as it involves the disposal of substantially all of Kuchai’s assets to Sg Bagan, which may result in Kuchai being no longer suitable for continued listing on the Main Market of Bursa Malaysia Securities Berhad.

Given the above, Mercury Securities Sdn Bhd has been appointed as the independent adviser (IA) to Kuchai to advise the non-interested directors and non-interested shareholders of Kuchai on the Proposed Disposal. Meanwhile, Public Investment Bank Berhad has been appointed as the IA to provide the non-interested directors and non-interested shareholders of Sg Bagan with an independent evaluation of the exercise.

**Minority shareholders should await the independent advisers' circulars on the exercise to make informed decisions.**

**By MSWG Team**

### **MSWG AGM/EGM Weekly Watch 15 – 19 January 2024**

For this week, the following are the AGMs/EGMs of companies 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](http://www.mswg.org.my).

<b>Date &amp; Time</b>	<b>Company</b>	<b>Quick-take</b>
17.01.24 (Wed) 10.00 am	Fraser & Neave Holdings Bhd (AGM)	In FY2023, F&N achieved a record year, with its annual revenue crossing the RM5 billion (FY2022: RM4.47 billion) mark for the first time.  At the same time, its net profit jumped by 40% or RM153.69 million to RM536.9 million, compared to RM383.2 million a year ago.  The significant increase in net profit included a one-off remeasurement gain of previously held equity interest in Cocoland Holdings Berhad amounting to RM89.26 million and the consolidation of financial contribution from Cocoland.
18.01.24 (Thur) 10.00 am	Concrete Engineering Products Berhad (AGM)	The Group recorded a profit before taxation of RM1.15 million in FYE2023 compared to RM0.34 million in FYE2022.  The increase in profit before taxation derived mainly due to increase in better operating cost control offset by the provision for decrease in fair value of quoted investment.
19.01.24 (Fri) 02.00 pm	Prolexus Berhad (AGM)	In FYE 2023, Prolexus achieved a 112% increase in net profit to RM19.9 million (FYE 2022: RM9.4 million) despite posting a lower revenue of RM223.2 million during the year (FYE 2022: RM237.4 million).

		<p>The increase in net profit was mainly attributable to the gain on other investments, including fair value gain on other investments of RM11.7 million and gain on disposal of other investments of RM17.3 million.</p> <p>Excluding these gains on other investments, Prolexus would be in loss-making position from its core businesses.</p>
19.01.24 (Fri) 02.30 pm	Prolexus Berahd (EGM)	<p>Prolexus is seeking shareholders' approval for the resolutions below:</p> <ul style="list-style-type: none"> <li>(i) Proposed Renounceable Rights Issue of up to RM102.6 million of 5-year Irredeemable Convertible Unsecured Loan Stocks ("ICULS")</li> <li>(ii) Proposed establishment of an Employees Share Scheme ("ESS")</li> <li>(iii) Proposed allocation of award of Prolexus shares and/or ESOS options to directors.</li> </ul> <p>The proceeds arising from the Proposed Rights Issue of ICULS are intended to be utilised for Installation of roof-top solar photovoltaic systems, working capital, repayment of bank borrowings, acquisitions and/or investments in assets and/or businesses.</p>

<b>One of the points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
Fraser & Neave Holdings Bhd (AGM)	<p>F&amp;N plans to invest RM1.3 billion over the next two years to complete the first phase of the integrated dairy farm in Ladang Permai Damai in Gemas, Negeri Sembilan, by early 2025.</p> <p>The first milking is expected in early 2025, with a herd of 2,000 cattle capable of producing about 20 million litres per year.</p> <ul style="list-style-type: none"> <li>a) The intensive capital expenditure will likely take a toll on F&amp;N's bottomline. Please share the near and medium-term impact of such significant capex on the Group's financial performance, balance sheet, cash flow and future dividend payout.</li> <li>b) Upon completion of the first phase in 2025, what is the expected capex for the subsequent phase of works? Please elaborate on the proposed funding structure for the next phase of expansion.</li> </ul>

Concrete Engineering Products Berhad (AGM)	<u>Financial Performance</u>	
	Financial Year Ended 31 August	
	2023 RM'000	2022 (Restated) RM'000
Revenue	132,680	148,276
Operating profit	3,768	634
	<i>(Source: Page 17 of the Annual Report 2023/AR2023)</i>	
	As reported above, despite recording a year-on-year lower revenue, CEPCO achieved an operating profit of RM3,768,000 in FYE2023 compared to RM634,000 in FYE2022. This represents an increase of 494.32% or RM3,134,000.	
	a) What has caused CEPCO to record such a remarkable increase in operating profit? Is this good performance from the operation sustainable? Does the Board expect operating profit to grow further in FYE2024?	
	b) What is the outlook for the Group revenue from both local and export markets in FYE2024?	
Prolexus Berhad (AGM)	The Group's gross profit margin (GPM) decreased over the last 3 financial years to 14% in FYE 2023 (FYE 2022: 17%; FYE 2021: 18%). The GPM for 2024Q1 further dropped to 7% based on the company announcement dated 28 December 2023.	
	What are the internal and external factors that resulted in decreasing GPM in FYE 2023? Are there any inventories written down subsequent to FYE 2023?	

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