



The Observer

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Should short-selling be suspended indefinitely during time of crisis?

Amid the current bearish stock market sentiment, it is not surprising for retail investors to point finger at the Bursa Malaysia-sanctioned short selling activity as the primary reason for the downfall of their stock prices.

On 9 March, the local bourse imposed a one-day suspension on the proprietary day trading and intraday short selling (IDSS) of multiple oil & gas (O&G) stocks after the last done price of nine approved securities dropped more than 15% from their reference prices.

The affected counters included Dayang Enterprise Holdings Bhd, Velesto Energy Bhd, Hibiscus Petroleum Bhd, Bumi Armada Bhd, Serba Dinamik Holdings Bhd, Dialog Group Bhd, Coastal Contracts Bhd, Wah Seong Corp Bhd, and Muhibbah Engineering (M) Bhd.

Very broadly, many listed O&G counters encountered a sharp plunge which coincided with what was deemed as the biggest oil price crash since 1991 (Brent crude futures dived 31.5% to US\$31.02 a barrel).

Outside the O&G realm, Datasonic Group Bhd has on 27 February requested Bursa Malaysia to remove its stock from the regulated short-selling (RSS) approved securities list and “to investigate any short-selling activity or manipulation of the company’s share price”

This rare and probably the first request of such nature followed the sudden plunge of Datasonic shares by 36 sen or 25.71% to RM1.04 on 26 February.

For the record, there are currently 215 eligible RSS approved securities in Bursa Malaysia’s latest RSS list which is reviewed every six months.

Recall that RSS was re-introduced in 2007 after it was banned in September 1997 at the height of the Asian Financial Crisis. Back then, short sellers were blamed for much of the chaos that resulted from the sell-down in Southeast Asian stocks and currencies.

The IDSS came into being on 16 April 2018 in line with Bursa Malaysia's vision of further developing the local capital market. It allows investors to sell first and buy the securities later with the condition that all sell positions must be closed off by the end of day via:

- Borrow the securities under the Securities Borrowing and Lending Agreement;
- Perform a manual buying in process or permit the transaction to be subject to auto buying in;
- Transfer the securities from another securities account, subject to the transfer rules; or
- Utilise his/her existing shares to cover the position.

Failure on the part of the short seller to close off his/her sell position with a buy position by the end of a market day is a breach of the Bursa Malaysia Securities Bhd rules.

Circuit breaker intact

Statistically, there is a need to emphasise that RSS-related transactions only made up a fraction of the volume and value of shares traded in the local bourse.

To debunk the myth that short selling is the main culprit which triggers massive fall of stock prices amid prevailing bearish sentiment, let's take a close look at the RSS volume on the following two trading days:

- On 6 March, RSS accounted for a mere 10.23 million shares valued at RM31.2 million against the total of 2.68 billion shares valued at RM2.29 billion that was traded on that day (FBM KLCI closed down 7.93 points or 0.53% at 1,483.1).
- On 9 March, a volume of 15.37 million shares valued at RM38.59 million was transacted via RSS prior to the suspension of short selling to stem further price erosion of the approved securities (FBM KLCI closed down 58.94 points or 3.97% at 1,424.16). The overall volume and value of shares traded that day stood at 6.71 billion shares and RM3.68 billion, respectively.

Furthermore, short selling in Malaysia is regulated, meaning there is a cap to its maximum downside and daily trading volume (the daily maximum limit is 3% of outstanding shares per security).

At the end of the day, suffice to say that IDSS is intended for experienced investors who are not only gutsy enough to endure high market risks by rowing against the tide, but possess substantial knowledge of the counter they are shorting.

Above all else, short selling is an advanced form of speculating, hence not an appropriate game plan for newbies or the faint-hearted investors to pursue.

Covid-19 and the AGM Season

The AGM peak season is just around the corner. Covid-19, which has been declared as 'pandemic' by WHO, is presenting itself to be a real risk for all attendees of AGM.

All the risk relating to Covid-19 could have been mitigated if more PLCs had adopted Practice 12.3 of the Malaysian Code on CG which states that PLCs should leverage on technology to facilitate electronic voting in absentia and remote shareholders' participation at General Meetings.

The following suggestions are made to mitigate the risk of Covid-19 for shareholders attending the AGMs:

1. The PLCs should carry out temperature scans on those attending before allowing them to enter the premises.
2. The PLC may exercise its discretion to ask shareholders who have a consistent cough to vacate the premises. This needs to be done tactfully.
3. If big crowds are expected, PLCs may consider having separate registration areas for those who intend to stay on for the meeting (after registered themselves) and those who do not, to avoid congestion in one confined area. They may be ushered separately.
4. Food and beverages, if served, should be pre-packed. It is best to avoid open food along with self-service (buffet style).
5. Shareholders should exercise self-discipline and stay away from AGMs if they are not feeling well. They can ask proxies to attend instead.
6. PLCs should make available hand sanitisers and masks for shareholders.
7. Try and avoid physical contact like shaking hands, though it does seem rather awkward. A Namaste or a salute (or something similar) may be an appropriate greeting.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 16 March 2020 – 20 March 2020

Below are the AGMs/EGMs of companies that 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 & Venue	Quick-take
17.03.20 (Tue) 09.30 am	Notion VTEC Bhd (AGM) Première Hotel, Bandar Bukit Tinggi 1/KS6, Jalan Langat, Klang	The Group received an interim insurance payment of RM10 million during FY19. Its profit would have been lower if without the insurance compensation. With the current outbreak of Coronavirus, can the Group achieve its targeted revenue? Can the company improve its profit in FY20?
17.03.20 (Tue) 10.30 am	Notion VTEC Bhd (EGM) Première Hotel, Bandar Bukit Tinggi 1/KS6, Jalan Langat, Klang	The meeting is to seek shareholders' approval for a bonus issue exercise.
19.03.20 (Thur) 10.00 am	Sunsuria Bhd (AGM) Sunsuria City Celebration Centre, Persiaran Sunsuria, Bandar Sunsuria, Sepang	It aims to improve the short, medium and long term performance by focusing on logistic, trading and digital development endeavours in the future.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Notion VTEC Bhd (AGM)	The Company's gross profit ("GP") margin for 2019 is higher than the margins in 2018 and 2017 (page 4 of Annual Report 2019 ("AR2019")). The GP margin has increased to 16.1% (2018: 5.4%) for the financial year ended 30 September 2019 ("FYE2019"). Which of the Company's products have contributed to the increase in GP margin? Is the said GP margin sustainable going forward?
Sunsuria Bhd (AGM)	The Group's subsidiary, Sunsuria Forum Sdn. Bhd. ("SFSB") reported a lower revenue of RM21.0 million in FY 2019 as compared to RM255.3 million in FY 2018.

SFSB recorded a loss after tax of RM7.3 million in FY2019 as compare to a profit after tax of RM101.3 million in FY 2018. (pages 124 & 125 of Annual Report)

(a) What are the reasons for SFSB recording a lower revenue and a higher loss in FY 2019?

(b) What is the outlook of SFSB in FY 2020?

(c) Why did the Company subscribe for the 2.55 million new SFSB shares for RM44.37 million (issue price of RM17.4 per share) on 4 April 2019?

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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.

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