MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

24.06.2022

❖ Investing in inflationary and challenging economic environment

That the US Federal Reserve (Fed) has gone on an overdrive to stem inflation by rising interest rate has sent Wall Street into a bear market or a situation whereby an index like the S&P 500, the Dow Jones Industrial Average (DJIA), Nasdaq Composite or even an individual stock has fallen 20% or more from their recent high.

In the week ended 17 June, the S&P 500 dropped 5.8%, its biggest weekly loss since March 2020 – dipping deeper into bear market territory. Meanwhile, the blue-chip DJIA slid 4.8% to fall below 30,000 for the first time since January 2021. During the same period, the tech-heavy Nasdaq slipped 4.8%, down 33% from its record high.

The market retreat at Wall Street is in tandem with the Fed's hawkish measure of raising its benchmark interest rates by 0.75% in its most aggressive hike since 1994.

This came about after the US consumer price index (CPI) rose 8.6% in May from a year ago, the highest increase since December 1981. Core inflation excluding food and energy rose 6%. Both were higher than expected.

Having brought the level of its benchmark funds rate to a range of 1.5%-1.75% – the highest since just before the COVID-19 pandemic began in March 2020 – the Federal Open Market Committee (FOMC) now is expected to further hike existing rate to 3.40% by end-2022 which is higher than the initial expectation of 1.90% forecasted in March 2022.

The ripple effects

The Fed's incessant stance of tightening the interest rate rather than normalisation will create considerable pressure on Asian central banks to accelerate their rate hikes, especially in the context of recent portfolio investment outflows across the region.

US Fed chairman Jerome Powell had also indicated a 50 to 75 basis points (bps) rate hike for the next FOMC meeting on 26 to 27 July.

Back home, Bank Negara Malaysia (BNM) is expected to increase the overnight policy rate (OPR) by 25bps in its next Monetary Policy Committee (MPC) meeting from 5 to 6 July after the 25bps hike at the previous 10 and 11 May meeting.

Economists expect "hawkish" pivots among ASEAN central banks after the Fed's front-loading its interest rate hikes. They now projected another 25bps hike by end-2022 to raise the OPR to 2.5% versus the previous view of another 25bps hike later in 2H 2022 to 2.25%.

Inflationary impact on investors

The above chain of events has resulted in Bursa Malaysia being shrouded in volatility as investors recalibrate risks around (i) elevated inflation, (ii) potential capital outflows amidst an aggressive Fed, (iii) protracted Russia-Ukraine war, (iv) heightened US-China conflict and (v) political fluidity amid speculation of 15th General Election in 2H22.

Briefly, inflation diminishes the purchasing power of consumers while inflating input prices resulting in manufacturers having to pass their higher production cost to consumers.

Unless their incomes rise in tandem and adequate measures are put in place to contain inflation and preserve employment, consumers may see an erosion in their purchasing power.

When the purchasing power of consumers goes down, they are only able to purchase less with the same amount of money.

Such development is normally negative for consumer-driven stocks like FMCG (fast moving consumer goods) or consumer durables as the ability of consumers to spend goes down. These companies may have to absorb higher production costs or even reduce their profits if they are unable to pass the increased costs to consumers.

When inflation goes up and the interest rates also go up, the cost of capital will also move up in tandem.

Cost of capital is a combination of cost of equity and the cost of debt. When the bond yields go up, the cost of capital goes up, too, hence the future cash flows of the company will be valued lower. Given that discounting future cash flows is one of the equity valuation methods, whenever the rate of discounting goes up obviously equity valuations go down.

Growth vs value stock

Although there is no perfect inflation hedge, historical data shows that value investing strategies have performed very well – on average – during inflationary periods but generally do not fare that well during periods of low inflation.

As its name implies, growth investing values companies on their future earnings as opposed to their past or present earnings while inflation is the process by which money in the future becomes less valuable in the present.

Therefore, in high inflation periods, future earnings become less valuable and current earnings become correspondingly more valuable. Since "value stocks" are valued on their current earnings, it has been said that inflationary periods are better for value stocks (e.g., banks) than for growth stocks (e.g., tech companies) and vice versa.

In a calm economic climate, investors expect growth stocks to earn substantial capital gains because of strong growth in the underlying company. This expectation can result in these stocks appearing overvalued because of their generally high price-to-earnings (PE) ratios.

On the contrary, value stocks are often under-rated or ignored by the market, but they may eventually gain value. Investors also attempt to profit from the dividends they typically pay. Value stocks tend to trade at a low PE ratio.

Best stocks for inflationary periods

More broadly, stocks are expected to take a hit when inflation spikes, but inflation can also mean that the economy is growing.

Since inflation increases the cost of goods, businesses with less reliance on raw materials could be expected to perform better than those with cost-intensive products.

Blue-chip stocks may also perform better than growth stocks during inflationary periods because they generally carry less debt. Also, any rise in interest rates will increase financing costs for a company that depends on debt-fueled growth.

Banks are on the other end of that equation – their profit on loans increases when interest rates rise. However, higher interest rate may also suppress credit demand from consumers.

While theoretically inflation may be negative for bonds and equities, a certain degree of rising inflation is synonymous with growth in gross domestic product (GDP).

Even in major economies like the US and Japan, efforts are being placed to revive inflation back to the 2% level. That is supposed to be the cut-off level which will spur growth. Looking back at world growth over the last 20 years, one would notice that GDP has never grown substantially when the inflation was at very low level.

While obscenely high inflation can wreak havoc on economy, certain threshold of inflation is required to incentivise producers and businesses. Henceforth, rising inflation has certain downside risks, but it is also essential for growth.

Striking this delicate balance is essential to keep the macro economy on a right footing.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 27 June – 1 July 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
27.06.22 (Mon) 10.00 am	Pertama Digital Berhad (AGM)	The Company had previously launched the eJamin and MySMS which were to facilitate the bail process at the Courts and Government's messaging system. Going forward, the Company's performance will depend on it launching digital products with cater to the markets needs and have mass appeal.
27.06.22 (Mon) 10.00 am	Jiankun International Berhad (AGM)	For FY2021, its revenue increased to RM59.9 million (FY2020: RM58.7 million) and the PBT of RM4.5 million (FY2020: RM7.8 million). The decrease in net profit was mainly due to the share-based payment under share issuance scheme, impairment in receivable and valuation loss from properties in China.
27.06.22 (Mon) 03.00 pm	OCK Group Berhad (AGM)	OCK posted a net profit of RM32.6 million in FY2021, exceeding the RM31.6 million recorded in FY2020. Its revenue totalled to RM488.2 million, represented 3.1% increase y-o-y from RM473.5 million recorded in FY2020. The share of recurring revenue had contributed 68% of its revenue in FY2021 as compared to 66.0% in FY2020. In terms of amount, FY2021's total recurring revenue has increased by 6.2% to RM331.8 million as compared to FY2020.
28.06.22 (Tue) 10.00 am	KPJ Healthcare Berhad (AGM)	KPJ's Bed Occupancy Rates (BORs) declined to 43% in FYE 2021 from 47% in FYE 2020. Going forward, the Company should devise strategies to tap into the revival of the health business as the pandemic transitions into an endemic stage by capitalising on its position as one of the largest chain of hospitals in the country.
28.06.22 (Tue) 10.00 am	LFE Corporation Berhad (AGM)	LFE recorded revenue of RM32.9 million in FY2021, a 145% increase as compared to RM13.4 million in the preceding financial year. This was mainly contributed from existing projects in Malaysia. The Group recorded loss from operations of RM11.1 million for

		FY2021 mainly due to one–off expense incurred for impairment loss on overdue contract asset and receivables total of RM12.6 million. The newly acquired subsidiary, Cosmo Property Management has an outstanding unbilled contract value of RM104 million as of FY2021, which provides earnings visibility in the coming years.
28.06.22 (Tue) 11.30 am	Minda Global Berhad (AGM)	Minda posted its maiden net profit of RM3.5 million in FYE 2021. Its Strategic Turnaround Plan had delivered the results envisaged and the Company was enroute to achieve better performance in FY2023 by adhering to its Turnaround Plan and aggressive marketing strategies to increase student enrolment.
28.06.22 (Tue) 02.00 pm	Velesto Energy Berhad (AGM)	On the back of lower rig utilisation of 48%, Velesto's revenue for FY2021 was 31% lower y-o-y at RM378 million from RM547 million in FY2020. Its drilling services posted a revenue of RM359 million, which was 33% lower than the preceding year. Meanwhile, its oilfield services segment posted revenue of RM17.1 million, 63% higher, year-on-year. Drilling Services remained the main contributor to velesto's revenue, contributing 95% of Group top-line performance. Nevertheless, Velesto managed to narrow its net loss to RM91 million from RM492 million in the previous year, due to insurance claims for NAGA 7 and the absence of impairments which amounted to RM462 million in FY2020.
29.06.22 (Wed) 09.00 am	XL Holdings Berhad (AGM)	XL recorded strong revenue at RM84.3 million in FY2022 compared to RM27.8 million in FY2021. However, this did not translate to its bottom line as it only registered a net profit of RM116,000 in FY2022. It should take measures to optimise its cost structure to ensure that its strong top line performance trickles down to its bottom line numbers.
29.06.22 (Wed) 10.00 am	Priceworth International Berhad (AGM)	Priceworth recorded losses of RM39.6 million for the financial period ended

		31 December 2021 (FYE 30 June 2020:- losses of RM62.3 million). The decrease in losses was mainly due to the increase in sales as its production has gradually resumed due to operational disruptions in previous year. The gain on disposal of fixed assets and reversal of impairment on receivables are also the factors contributing in better financial performance.
29.06.22 (Wed) 10.00 am	TSH Resources Berhad (EGM)	TSH's 90% owned subsidiary PT Bulungan Citra Persada has entered into an agreement to dispose of its 13,898.26 hectares of oil palm plantation land in Indonesia's North Kalimantan province for a cash consideration of Rp2,428.86 billion (equivalent to approximately RM731.09 million). Most of the proceeds will be used to repay its borrowings, hence reducing its gearing level from 0.68 times to 0.28 times.
29.06.22 (Wed) 10.30 am	Aeon Credit Service (M) Berhad (AGM)	Eyes are on the details of an Islamic digital bank to be set up by a consortium consists of Aeon Credit, AEON Financial Service Co and MoneyLion. The consortium has successfully obtained approval from the MoF and BNM for an Islamic digital banking licence on 29 April 2022. Upon the award of licence by BNM, the successful applicants will undergo a period of operational readiness that will be validated by BNM through an audit before they can commence operations. This process may take between 12 to 24 months.
30.06.22 (Thur) 10.00 am	Mah Sing Group Berhad (AGM)	Mah Sing recorded a net profit of RM160.9 million for FY2021, up from the RM94.3 million registered in the preceding year. The better bottomline performance was achieved on the back of a higher revenue of RM1.75 billion in FY2021, representing a growth of 14.38% compared to the RM1.53 billion revenue in FY2020.
30.06.22 (Thur) 10.30 am	SMTRACK Berhad (AGM)	The Group recorded a revenue of RM6.1 million for 17-month financial

		period ended 31 December 2021 as compared to RM1.8 million registered in FYE2020. The higher revenue was mainly attributable from trading of equipment relating to IT and RFID. It registered a lower net loss of RM7.4 million as compared to RM10.1 million in FY2020 due to higher impairment on trade receivables, other receivables and amount due from associate incurred in FY2020. The Group had changed its year ended from July 2021 to December 2021.
01.07.22 (Fri) 10.30 am	Fitters Diversified Berhad (EGM)	Fitters has proposed to issue up to 1.86 billion new shares together with up to 1.24 billion free detachable warrants on the basis of 3 rights shares with 2 free warrants for every 1 existing Fitters share held. The fund raising exercise is expected to raise up to RM149 million which would be utilized for the working capital for the palm oil mill (40.3%), repayment of borrowings (33.6%) and funding for fire services projects (25.6%).

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Pertama Digital Berhad (AGM)	1. Administrative and General Expenses of the Company rose sharply to RM7.6 million in FYE 2021 compared to RM950k in FYE 2021. (Page 60 of AR 2021) What were the reasons for the sharp increase? 2. Other Expenses rose significantly in FYE 2021 to RM21.6 million from RM356k in FYE 2020. (Page 60 of AR 2021) What were the reasons for the substantial increase?
Jiankun International Berhad (AGM)	The Group provided an impairment loss of RM4.24 million from other receivables under non-current assets in FY 2021. (Page 115 of AR) The impairment loss is an amount due from Silverland Capital Sdn. Bhd, ("SCSB"). a) How long has the amount due from SCSB been outstanding?

<table>
<tr><td></td><td>b) Why SCSB refused to transfer and/or cause the registration of ownership and title of the property units in Silverlakes Brands Village to a subsidiary of the Group?

c) Has the property project carried out by SCSB been completed? If not, when will be the completion date?</td></tr>
<tr><td>OCK Group Berhad
(AGM)</td><td>1. Group revenue increased by RM14.677 million from RM473.506 million in FY2020 to RM488.183 million in FY 2021. However, cost of sales rose by RM16.491 million from RM347.467 million to RM363.958 million. Thus, gross profit declined by RM1.814 million from RM126.039 million to RM124.225 million. (page 97 of AR 2021)

What were the main reasons for the increase in cost of sales which was not commensurate with the increase in revenue? Going forward, how would the Group manage the increasing cost of sales?

2. As at end FY2021, Group current liabilities stood at RM447.935 million which exceeded Group current assets of RM406.101 million. (pages 99 - 100 of AR 2021)

a) What exactly happened and caused the Group to be in such a situation?

b) How would the Group be able to manage its liquidity to meet its current liabilities when due?

c) How does the Management propose to address the situation to ensure that current assets exceed current liabilities at a healthy level?</td></tr>
<tr><td>KPJ Healthcare Berhad
(AGM)</td><td>Impairment for Trade Receivables increased significantly to RM11.6 million in FYE 2021 from a reversal of RM21,000 in FYE 2020. (Page 195 of AR 2021)

a) What were the reasons for the significant increase?

b) Have the credit policies of the Company been reviewed to ensure only credit-worthy customers are given credit?

c) Do you foresee a further spike in impairment as the economy is still weak?</td></tr>
<tr><td>LFE Corporation Berhad
(AGM)</td><td>There were substantial increases in impairment charges for the Group and Company for the following items in FY2021: (Page 52 of AR2021)
<table>
<tr><td></td><td colspan="2">Group</td><td colspan="2">Company</td></tr>
<tr><td></td><td>2021</td><td>2020</td><td>2021</td><td>2020</td></tr>
<tr><td></td><td>RM'000</td><td>RM'000</td><td>RM'000</td><td>RM'000</td></tr>
<tr><td>Impairment loss/ (reversal of impairment loss) on:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>- Contract assets</td><td>5,225</td><td>(116)</td><td></td><td></td></tr>
<tr><td>- Trade receivables</td><td>6,850</td><td>257</td><td></td><td></td></tr>
<tr><td>- Other receivables</td><td>556</td><td>478</td><td></td><td></td></tr>
</table></td></tr>
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<table>
<tr><td></td><td><table><tr><td>- Investment in subsidiary companies</td><td>-</td><td>-</td><td>39,095</td><td>176</td></tr></table>
a) What were the main reasons for the substantial impairment losses for each item?

b) For each item, what is the likelihood of further impairment or reversal or recoverability, as applicable, in FY2022?</td></tr>
<tr><td>Minda Global Berhad (AGM)</td><td>Net impairment losses on trade receivables increased significantly to RM4.1 million in FYE 2021 from RM2 million in FYE 2020. (Page 67 of AR 2021)

a) What was the reason for the substantial increase in impairment?

b) How much of this impairment have been recovered to-date?

c) What percentage of these impairment are expected to be non-recoverable?

d) Is the impairment expected to increase, going forward?</td></tr>
<tr><td>Velesto Energy Berhad (AGM)</td><td>The Group has written off Rigs, Hydraulic Workover Units, (“HWU”) and drilling equipment amounting to RM988.4 million in FY 2021 as compared to RM0.9 million in FY 2020. (Page 192 of AR)

The Naga 7oil rig had an accident and had to be fully written off and it has been included in the written off assets valued at RM988.4 million.

a) Please provide a breakdown of the written off amount of RM988.4 million by category of assets.

b) Will there be further write off in the assets class of Rigs, HWUs and drilling equipment in FY2022? If yes, what is the estimated amount?</td></tr>
<tr><td>XL Holdings Berhad (AGM)</td><td>The Company recorded strong revenue performance for FYE 2022 when revenue reached RM84.3 million compared to RM27.8 million in FYE 2021. However, the top line improvement did not trickle down to its Profit After Tax (PAT) when it registered a PAT of only RM116k for FYE 2022 compared to a PAT of RM469k for FYE 2021. (Page 12 of AR 2022)

It is apparent that better management of its cost could result in the Company registering a higher PAT.

What are the measures that the Company has taken/will take to contain its costs better so that it can enhance its PAT for FYE 2023?</td></tr>
<tr><td>Priceworth International Berhad (AGM)</td><td><u>Material Uncertainty Related to Going Concern</u>
The external auditors draw attention to Note 2 in the financial statements, which indicates that the Group incurred a gross loss of RM16,588,318, net loss of RM39,539,615 and negative operating cash flows of RM7,885,979 during the period ended</td></tr>
</table>

	31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets by RM79,948,802, and the Group has not complied with the repayment terms of its bank borrowings. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern (Page 48 of the Annual Report 2021). a) How does the Board plan to address the abovementioned issues highlighted by the external auditors? b) On the issue of current liabilities exceeding current assets, will the Company be able to meet its short-term obligations in FYE2022?
Aeon Credit Service (M) Berhad (AGM)	With rising inflationary pressure, imminent further rate hike and looming recession (as predicted by some economists and business executives), it is feared that consumer consumption would be affected. With the challenging macroeconomic outlook, does AEONCR expect a slowdown in credit demand across all its financing segments? Have the recent global developments changed AEONCR's outlook on the Malaysian economy?
Mah Sing Group Berhad (AGM)	The Glove Manufacturing business is grouped under the Manufacturing business segment that also includes the Plastic Manufacturing business. The Manufacturing business segment recorded a higher revenue of RM370.3 million in FY 2021 as compared to RM288.2 million in FY 2020. However, the segment loss was RM8.46 million in FY 2021 as compared to a segment profit of RM15.95 million in FY 2020. (Pages 267 & 268 of AR) a) What is the revenue and segment loss of the Glove Manufacturing business in FY 2021? b) With the heightened competitions from new players and the average selling price of rubber gloves retracing from its high at the peak of the COVID-19 pandemic. Is the Glove Manufacturing business expected to record a higher loss in FY 2022? If yes, what is the expected loss? c) Of the twelve production lines in the Glove Manufacturing business, how many are in production and what is the production utilisation rate of the production lines as at May 2022 as compared to March 2022. d) Does the Company have any expansion plan for the Glove Manufacturing business? If yes, please outline the expansion plan in terms of the number of production lines to install,

<table>
<tr><td></td><td>annual production of gloves from the new lines and when is it targeted to be completed.

e) It was reported in the Edge Malaysia dated 24 May 2022 that the Company is considering selling the Glove Manufacturing business. Is the news accurate? What are the reasons the Company is considering selling the Glove business?</td></tr>
<tr><td>SMTRACK Berhad
(AGM)</td><td>Revenue (Note 4.1, page 74 of AR2021):
<table>
<tr><th></th><th>1.8.2020 to 31.12.2021</th><th>1.8.2019 to 31.7.2020</th></tr>
<tr><td>Types of goods or services</td><td>RM</td><td>RM</td></tr>
<tr><td>RFID technical support and maintenance services</td><td>1,981,132</td><td>1,652,255</td></tr>
<tr><td>Air freight and aviation related services</td><td>57,753</td><td>134,605</td></tr>
<tr><td>Trading of equipment</td><td>4,103,925</td><td>-</td></tr>
<tr><td>Total</td><td>6,142,810</td><td>1,786,860</td></tr>
</table>

a) Revenue contribution from trading of equipment of RM4.1 million (FYE2020: Nil). Is the revenue contribution from trading of equipment sustainable, going forward or one off in nature? What is the outlook and prospects in terms of demand for such equipment, going forward?

b) What is the reason for the low revenue contribution from the air freight and aviation related services of RM57,753 to the Group's total revenue?

To-date, what is the revenue contribution from the air freight and aviation related services to the Group?</td></tr>
<tr><td>Fitters Diversified Berhad
(EGM)</td><td>Under its renewable and waste-to-energy division, the Group owns and operates a palm oil mill in Kuala Ketil, Kedah with a milling capacity of 60MT per hour. The palm oil mill operations have been the Group's largest revenue contributor, contributing more than 35% to the Group's revenue in the last 5 financial years.

The main raw material for the Group's mill operations is FFB, which is supplied from surrounding estates, dealers and smallholders. The profitability of the palm oil mill depends on the constant supply of FFB. The prices of FFB have been volatile but had experienced an overall upward trend in the recent 2 years. This leads to a higher working capital requirement for the Group's palm oil mill.

As such, the Group intends to utilise proceeds of up to RM60.00 million from the Proposed Rights Issue with Warrants to fund the working capital for its palm oil mill. (page 12 of the Circular to shareholders dated 16 June 2022)

a) What was the average utilisation rate for your palm oil mill in FY2021? Could you please provide the annual utilisation</td></tr>
</table>

	rate for the last 5 years? What is the required utilisation rate for the mill to break even? b) How old is the mill? How much do you have to spend on maintenance capex every year? Any impairment losses recognised over the last 5 years? c) What has been the average ROE for this business segment over the last 5 years? Could you please provide the revenue and net profit/loss breakdown over the last 5 years? d) Despite being the largest revenue contributor to the Group, the palm oil mill business appears to be loss-making in most of the last 5 years. Why is the Group still injecting more capital into a loss-making business? e) Do you have any plans to dispose of this mill? What is the net book value of this mill?

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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.