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

The Observer

26.05.2023

❖ Should you invest in penny stocks?

Penny stocks have become more popular than ever, tempting investors with a low cost of entry and the prospect of significant financial gains. Stories of shares making gains of over 200% in just months add to their appeal, and new trading technology makes it easier than ever to enter the market.

At the height of the penny stock fever in August 2020, the phenomena of Bursa Malaysia-listed companies hitting limit up were not rare. On 7 Aug 2020, share prices of 12 stocks were limit-up, including HLT Global Bhd, LKL International Bhd and ES Ceramics Technology Bhd. These three were below 20 sen at the start of 2020.

There are a few different ways to define Malaysia's penny stocks. They are called small-cap stocks because of their low market capitalisation, e.g., less than RM200 million. Often, penny stocks have chequered financial performance. Many are loss-making and have no distribution of dividends to shareholders.

Penny stocks are considered lucrative but high-risk bets. Investors are drawn to penny stocks for their low prices and hopes of huge profit upside despite the high risks involved.

Their low share prices and low liquidity mean high volatility and hence more opportunities to reap huge profits or incur massive losses. A trader can potentially make about 20% - 30% in intraday profit.

How to identify penny stocks

Some of the typical characteristics of a penny stock include:
- Small company.
- High price volatility
- Highly prone to speculative activities
- Unproven, opaque companies
- Chequered financial track record

Should you invest in penny stocks?

You may consider investing in penny stocks if:
- You have a high-risk tolerance level.
- You are an experienced investor.
- You are willing to cut your losses if the stock price falls significantly.

- You have a long investment time frame and are willing to ride out the volatility.
- You are happy to take a bit of a "gamble".

If you are keen to invest in Malaysian penny stocks, here are some tips to help you get started.

1. Do your research.
   This is essential for all investments, particularly high-risk investments like penny stocks. Blue chip stocks are, by nature, lower-risk options as they have a long history of strong financial performance.

2. Plan a strategy and stick to it.
   Before you start buying, decide which penny stocks you will invest in and how much you will invest in each one. It is also important to decide what price you would sell if the share price falls and stick to it to avoid the "I'll just hold a little longer and see if the price jumps back up" mentality. The same applies to gains.

3. Do not make emotional decisions.
   It can be easy to get emotionally attached to a penny stock, as they are often the underdogs in a portfolio. So, when their stock price fall further, one may find themselves making excuses as to why they should keep holding. This is why it is important to formulate a strategy, and leave the emotions out of it.

4. Do not get sucked in by the "cheap" prices.
   Penny stocks may appear "cheap" due to their low share prices compared to other stocks but do not base our investment decision solely on share prices.

   One factor influencing a company's stock price is the supply and demand for the securities. So, some penny stocks may appear "cheap", but you need to ask yourself why this is so.

5. Invest only what you can afford to lose.
   Do not put all your eggs in the penny stock basket. It can be a good play with any disposable income but not your retirement savings.

Conclusion

Trading in penny stocks is not for the faint-hearted. Penny stocks come with significant risk. Potential investors should be careful to understand what they are getting into.

Successful traders tend to be experienced and have a sophisticated understanding of the field. They have often developed comprehensive methods of analysis to distinguish between wheat and chaff. And they can devote much time to trading and monitoring the fast-moving market.

If you are new to investing, penny stocks may not be for you. But if you fully understand the risks involved, it may work for you. Ultimately, it is about making informed decisions.

Happy investing.

Lee Chee Meng
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 29 May – 2 June 2023

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.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
DRB-Hicom Berhad (AGM)	Composites Technology Research Malaysia Sdn. Bhd.'s ("CTRM") earning was RM560 million in 2022, albeit 45% lower than its pre-pandemic range. (page 112 of AR2022) a) To-date, what is CTRM's total outstanding value of contracts? b) Given the resurgence of activities in the aviation industry, what is the total value of tenders submitted for the aerospace segment?
CCK Consolidated Holdings Berhad (AGM)	Included in the assets of the Group were freehold lands with a total carrying amount of RM936,000 (2021: RM936,000) which were held in trust by a third party. (page 84 of AR2022) What is the rationale for allowing the Group's freehold lands as mentioned above to be held in trust by a third party? Who is the said third party?
Velesto Energy Berhad (AGM)	The impairment loss charge for trade receivables for the year 2022 was RM3.47 million as compared to RM0.84 million charge in FY 2021. (Page 198 of AR) The Group has concentration of credit risk in the form of outstanding balances due from 9 (2021: 9) debtors representing 94% (2021: 98%) of the total net trade receivables (Page 198 of AR) a) Please explain the reason for the higher impairment charge on trade receivables in FY 2022. b) Please name the debtor(s) with the top two impairment charges in FY 2022. c) Has the Group been able to collect the outstanding debt from debtors mentioned in (b) above after FY 2022. If yes, what was the amount collected from each debtor to date?.
CB Industrial Product Holding Berhad (AGM)	The Group recorded total impairment loss on receivables of RM51.48 million in FY2022 compared to RM4.18 million in FY2021. (page 86 of AR 2022) Please explain the nature of this huge impairment loss on receivables.

	Does the Group expect further impairment loss on receivables in FY2023? What is the possibility of recovering these impairments and the estimated percentage that can be recovered? Have any of these impairments been recovered to date?
Citaglobal Berhad (AGM)	Apart from lower revenue recorded and higher financing costs, which are the main contributors to the reduction of profit, the loss-making segment will need to also face the challenge of maintaining a right sized overhead cost in order to manage highly aggressive pricing by smaller sized competitors (Page 19 of AR2022). How does the Board plan to address the abovementioned challenges moving forward?
Techna-X Berhad (AGM)	The Group's investments in associates namely Guangxi Aerospace Bidou New Energy Industry Technology Co., Ltd., ("GABNEIT") and its subsidiary recorded revenue of RM4.6 million and RM4.3 million in FYs 2022 and 2021 respectively. However, the associates recorded a substantial increase in loss of RM51.1 million in FY 2022 as compared a loss of RM1.2 million in FY 2021. (Page 113 of AR) a) What were the reasons CABNEIT and its subsidiary suffered such huge loss in FY 2022? b) What measures have been taken to mitigate the losses of CABNEIT and its subsidiary from reporting higher losses in FY 2023? c) What is the outlook of CABNEIT and its subsidiary in FY 2023?
IHH Healthcare Berhad (AGM)	Medical inflation is a global challenge faced by all healthcare providers, and one which IHH is tackling quickly. IHH will do so through delivering Value-Driven Outcomes (VDO), which provides better or similar medical clinical outcomes at a lower cost. This is done through measuring activities, consumables and time spent on each procedure and eliminating any superfluous elements to reduce bill size for patients. (page 29 of AR 2022) What are the key indicators under the VDO? What level of success has been achieved particularly in terms of reducing bill size for patients which may also enhance IHH's competitiveness (provide some supporting data)?
Chin Hin Group Berhad (AGM)	The Board disclosed some short-term and long-term measures to reduce the liquidity risks of the group at the 8th AGM of the company. However, as of 31 December 2022, the group's net gearing remained high at 1.10x (2021: 1.12x). Even with the disposal of the remaining stake in Solarvest Holdings Bhd in 2022, which raised proceeds of RM103.28m, and the RM56.055m obtained from a private placement exercise, the

	group's net debt increased further from RM698.4m as of 31 December 2021 to RM734.8m as of 31 December 2022. a) Considering that Chin Hin operates in cyclical industries and in view of the challenging operating environment, which includes an inflationary environment, increased interest rates, property overhang, and overall economic challenges, what measures is the group taking to reduce the liquidity risk? b) What level of the group's net gearing is the Board comfortable with? c) Given the current financial position of the group, why is the company seeking shareholders' approval for share buyback?
Subur Tiasa Holdings Berhad (AGM)	The external auditors have drawn attention to Note 4 in the financial statements (on page 61 of AR2022), indicating a going concern issue as the Group's current liabilities exceeded its current assets by RM378.8 million as of 31 Dec 2022 (2021: RM393.8 million). This raises concerns about the Group's ability to generate sufficient cash flows to meet its obligations for the next 12 months from the end of the reporting period and questions the appropriateness of using the going concern basis in the preparation of the financial statements, despite the Group recording a net profit of RM44.7 million (2021: RM73.0 million) and net operating cash inflows of RM96.9 million (2021: RM172.5 million) for the financial year. a) The Group prepared a 12-month consolidated cash flows forecast for 2023 to support the financial statements being prepared on a going concern basis. What is the cash flow forecast for FY2023 and what were the assumptions used? b) What contingency plans does the Group have in place if the cash flows from the oil palm plantation segment or the financial support from bankers do not meet expectations?
Duopharma Biotech Berhad (AGM)	In 2023, Duopharma Biotech faces challenges due to regulatory changes, including increased electricity tariff for commercial operations and overtime payment requirements for workers earning RM4,000 and below, resulting in significant cost implications (page 23 of AR2022). a) What are the expected incremental cost increases for electricity expenses and staff expenses in 2023? What is the projected total increase in operating expenses in 2023? b) What strategies are in place to offset these cost pressures? Are there anticipated cost savings in raw material expenses due to market conditions or operational improvements? Please provide specific figures or projections for the expected reduction in costs.
Syarikat Takaful Malaysia Keluarga Berhad (AGM)	Despite higher profit before zakat and taxation year-on-year, STMKB net profit contracted by 23% to RM319 million from RM412 million in FY2021, mainly due to higher tax expenses caused by the imposition of one-time "Cukai Makmur"

	charged by the federal government in FY2022 for profits exceeding RM100 million. a) What would STMKB's net profit be if the impact of Cukai Makmur is excluded? b) Generally, 2022 was an exemplary year for banks and insurers, with the resumption of economic activities leading to demand for financial solutions after two years of lockdowns and movement restrictions. Does STMKB foresee a normalisation in demand for life and general takaful in FY2023? What is the management guidance on contribution growth for life and general takaful?
Genting Malaysia Berhad (AGM)	The Group will continue to focus on ramping up its operations at RWG to pre-pandemic capacity whilst building on its service delivery and product offerings to enhance the quality of guest experience. (page 3 of AR 2022) In which segments or entities has the Group not operated at full capacity? What is the current estimated level (%) of operations and when does it expect to operate at full capacity?
LKL International Berhad (AGM)	During the financial period ended 2022 (FPE2022: 15-month period), the Group registered a Losses Before Interest, Tax, Depreciation and Amortisation (LBITDA) of RM17.56 million after taking account of non-cash accounting adjustments to write down the fair value of the quoted investments of RM12.80 million and deterioration in the net realisable value of aged nitrile glove inventories held in hand of RM16.06 million. It is noticeable that, without these non-cash accounting adjustments, the Group would have achieved an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM11.30 million for the FPE 2022 (Page 6 of the Annual Report 2022/AR2022). a) Which quoted investments are involved in the fair value reduction/loss exercise? What is the rationale for acquiring those quoted investments? b) How does the Board manage the risks of investing in quoted investments? What is the Board policy on investing in quoted investments? What is the selection process of investee companies? c) How does the Board plan to address the deterioration in the net realisable value of the aged nitrile glove inventories before it becomes obsolete?
Star Media Group Berhad (EGM)	1. SMG Land Sdn Bhd, a wholly owned subsidiary of Star Media has entered into sale and purchase agreement with Matang Berhad ("Matang") to dispose two units of factory and office building in the Star Business Hub ("Property") for RM33 million. The disposal consideration of the Property will be satisfied in the following manner:

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<tr><th>Mode of settlement</th><th>(RM)</th><th>(%)</th></tr>
<tr><td>Consideration Shares</td><td>28,881,300</td><td>87.52</td></tr>
<tr><td>Cash</td><td>4,118,700</td><td>12.48</td></tr>
<tr><td>Total</td><td>33,000,000</td><td>100.00</td></tr>
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(page 37 of the Circular dated 16 May 2023 (“Circular”))

a) What factors influenced Star Media's decision to accept most of the disposal consideration to be satisfied via Matang shares (87.52% of the total purchase consideration) rather than opting for an all-cash transaction?

b) It is the intention of Star Media to retain the 13% stake in Matang as strategic investment. By holding Matang shares, the Company will be exposed to volatility in market prices and liquidity risks which are beyond the control of the Company. Furthermore, the future income stream from this investment would depend on dividend declaration from Matang at its discretion. Would it not be better to receive cash upfront whereby the Company could utilise the cash proceeds for share buyback or place in fixed deposits to earn interest income, thereby enhancing shareholder value?

c) Why did Star Media decide to make Matang a preferable choice over other plantation companies for diversification purposes? What are the appealing factors that make Matang, a desirable company for investment?

2. The Proposed Disposal is deemed a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of certain Directors and major shareholders of Star Media and Matang (page 25 of the Circular).

a) Has Star Media engaged in an open-tender exercise to receive quotes from third parties before concluding the deal with Matang?
b) What are the due diligence steps taken by Star Media before selecting Matang as the purchaser for the Property?
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<td>Guan Chong Berhad
(AGM)</td>
<td>The Group’s revenue has grown consistently over the last five years, from RM2.27 billion in FY2018 to RM4.42 billion in FY2022. However, profit before tax (PBT) margin has declined consistently during the same period, from 9.2% to 4.3%. As a result, ROE has declined from a high of 28.5% in FY2018 to 9.0% in FY2022.

What were the main reasons for the decline in PBT margin over the years?

What are the Group’s strategies to improve its profit margins going forward?</td>
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	How much has the Group spend on capex over the last five years? What is the budgeted capex for FY2023?
Genting Berhad (AGM)	**Group RM million** **2022** **2021** Impairment loss – other receivables 47.4 11.8 Net impairment/(reversal) for the financial year - trade receivables 196.0 (56.8) Write-off against receivables (415.2) (67.8) (page 184 of AR 2022) 1. What is the nature of other receivables with impairment loss of RM47.4 million? Why was there a huge increase in impairment loss from RM11.8 million in 2021 to RM47.4 million in 2022? Has any impairment loss been recovered to-date and what is the probability of recovering the balance? 2. Why was there a huge impairment loss of RM196.0 million on trade receivables in 2022? Has any impairment loss been recovered to-date and what is the probability of recovering the balance?
Malaysia Airports Holdings Berhad (AGM)	In November 2022, Malaysia Airports was granted a 99-year lease over 8,537 acres of land in the immediate vicinity of KUL (KLIA Aeropolis Lands) by the Government of Malaysia (GoM). The investor-friendly terms of the lease will strengthen Malaysia Airports' ability to accelerate off-terminal opportunities around KUL and generate long-term economic value for the nation. (Page 21 of Annual Report 2022). a) What off-terminal opportunities is Malaysia Airports planning to pursue with the sizeable land? b) In the medium to long term, what percentage of off-terminal opportunities are projected to contribute to the group's top line and bottom line? c) What are some of the key off-terminal projects that have been developed at KUL, and how much recurring income is generated yearly from the completed projects at KUL? d) Malaysia Airports will be undertaking revision and amendment to the masterplan for KLIA Aeropolis. The approvals of the Development Order from the local authorities are expected in 2023 (Page 103 of Annual Report 2022). What is the key revision to be made to the masterplan for KLIA Aeropolis?
Frontken Corporation Berhad (AGM)	The first phase of the Group's new plant (Plant 2) at the Southern Taiwan Science Park, Kaohsiung was completed sometime towards the end of 2022. (page 14-15 of Annual Report (AR) 2022) a) What is the current utilisation rate and headcount for Plant 2?

	b) Does the Group still expect Plant 2 to run at full capacity sometime this year? c) As mentioned last year, the Group expects phase 2 of Plant 2 to be in operation sometime in Q3 of 2023. Is this still on track? d) It was reported that the world's largest contract chipmaker is cutting capex due to weakening demand. Is Frontken also seeing a decline in demand? e) What is the outlook for your semicon business?
Leong Hup International Berhad (AGM)	In an attempt to increase the supply of broiler chickens to the Malaysian market, the government imposed an export ban of broiler chickens on 1 June 2022, initially on a 100.0% basis but subsequently relaxed to an approximately 50.0% reduction since 11 October 2022. While the broiler chicken export ban has been partially lifted by the Malaysian government, the 50.0% export quota meant that our Singapore slaughtering operation was operating at well below design capacity. (Page 37 of Annual Report 2022) a) Please explain why the Singapore slaughtering operation was operating at well below design capacity following the partial lifting of the broiler chicken export ban? Additionally, was the group exporting over 50% of its broiler chickens to Singapore before the export ban? b) How likely is the group to regain its market share in Singapore once the export ban is completely lifted? c) Does the export ban affect the group's export of table eggs to Singapore?
BSL Corporation Berhad (AGM)	BSL recorded a loss after tax of RM10.2 million for the 16-month period (the period). The loss after tax was mainly attributed to the provision for the customs court case amounting to RM11.1 million and fair value loss recognition on other investment amounting to RM1.4 million (Page 22 of the Annual Report/AR2022). a) Without the significant amount of the provision for the customs court case, BSL would have registered a profit after tax during the period. What is the outlook for the financial performance in FY2023? Does the Board expect the Company to return to register a positive financial result in FY2023? b) What measures have been taken by the Board and management to ensure that any issue with customs or other authorities that can materially impact the Group's financial performance will not recur moving forward?

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•*With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.

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