



The Observer

28.01.2022

In conjunction with the upcoming Chinese New Year, MSWG would like to wish all subscribers' and readers another year of joy, prosperity, and abundance return.

❖ Concerns abound over Genting HK spill-over effect on Genting Bhd and Genting Malaysia

News flow gained momentum that billionaire Tan Sri Lim Kok Thay had stepped down as Genting Hong Kong Limited (Genting HK) chairman and chief executive officer on 24 January – just days after the cruise operator filed to wind up its business as it failed to secure funding to pay off its debts. Both the stocks of Genting Bhd and Genting Malaysia Berhad were subject to knee-jerk reaction from investors (from foreign funds to local institutions to retailers).

This is despite stock analysts opining that Genting HK's woes would not hit the other Genting Group of companies.

Their observation is centred on the notion that the Genting Group's business operations in Malaysia and Singapore – Genting, Genting Malaysia and Genting Singapore Limited – have no cross shareholdings with Genting HK except for Kok Thay being a common stakeholder of all four. He owns a 76% stake in Genting HK.

The likelihood of Kok Thay directly bailing out Genting HK with financial help from entities within the Genting Group seems unlikely. However, there are concerns that there may be some form of financial manoeuvre to recoup investment losses. This is given the Genting Group's history of measures which had in the recent past irked the minority shareholders' fraternity.

RPT and share pledges

Recall that in August 2019, Genting Malaysia proceeded with a related party transaction (RPT) to acquire 38% stake in loss-making US casino operator Empire Resorts, Inc. via its indirect wholly owned subsidiary Genting (USA) Limited for RM573.2 million cash from its controlling shareholder Kok Thay (who previously owned 84% interest of Empire Resorts). This was met with criticism from the investing fraternity.

Kok Thay was the chairman and chief executive of Genting Malaysia before he was redesignated as the deputy chairman and chief executive of the company in August 2020.

Following the announcement of the RPT, billions of ringgit of market capitalisation evaporated from Genting Malaysia as it came under fierce selling pressure from investors. Parent company, Genting Bhd, too, was not spared from the heavy selling.

Coincidentally, this sell-down marked a journey of long-term share price consolidation for Genting and Genting Malaysia which was exacerbated by the plunge in travel demand due to the COVID-19 pandemic.

On the other hand, Empire Resorts has been dragging Genting Malaysia's financial performance since then with the latter recording share of losses in an associate amounting to RM285.1 million in financial year ended 31 December 2020. In FY2019, the Group recognised a share of loss of RM31.6 million upon the completion of the acquisition of Empire Resorts in November 2019. Genting Malaysia owns 55.7% effective interest in Empire Resorts (*Source: Genting Malaysia's AR2020*).

Another closely watched matter is the substantial number of shares that Kok Thay had pledged as collateral for loans. It was reported that almost all of Kok Thay's 76% stake or 6 billion shares in Genting HK was committed – up from 5.5 billion shares he pledged in April 2020 (*Source: StarBiz, 22 August 2020*).

Additionally, he had also pledged 550 million of his Genting Bhd shares – or 32% of his holdings – compared with 70 million a year earlier as of March 2020, according to the company's annual reports (*Source: Bloomberg Quint, 20 August 2020*).

Interestingly, Genting Malaysia had once invested in Genting HK but had disposed of its 17% block for US\$415 million in 2016. From 1998 until that period, the Company had invested more than US\$750 million and impaired more than RM2 billion of its investment in the Hong Kong entity, according to Maybank Investment Bank Research report.

Knock-on effect

As Genting HK filed for liquidation, its bankers are likely to suffer the brunt.

On 23 January, Singapore's *The Straits Times* reported that three Malaysian banks are among the chief unsecured creditors of Genting HK with a combined exposure of US\$600 million. The three banks were cited as Malayan Banking Bhd (Maybank), CIMB Bank Bhd and RHB Bank Berhad. All the three banks said they do not disclose or comment on their exposure to specific clients.

Maybank dismissed the allegations that it will face financial repercussion owing to its exposure to Genting HK as “baseless”. The Bank reiterated that it observes strict accounting treatments related to provisioning and impairment of loans. It also has a rigorous asset quality monitoring process in place whereby vulnerable borrowers are identified and managed accordingly from the onset of any potential asset quality weakness.

Meanwhile, CIMB Bank stressed that it has already taken proactive measures such as prudent provisioning to protect its asset quality. As such, its business remains resilient, and capital remains strong.

Conclusion

While the fall of Genting HK poses no earning impact on the Malaysia- and Singapore-listed Genting companies, market sentiment shows otherwise. Minority shareholders are advised to monitor closely their investments in Genting Group of companies.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 31 January – 4 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
31.01.22 (Mon) 03.00 pm	Serba Dinamik Holdings Berhad (AGM)	Serba Dinamik's recorded net loss of RM185.37 million for the 18-month financial period ended 30 June 2021, compared to RM497.98 million in FY2019. The worsened bottomline performance was due to impairment of trade and other receivables and inventories written down value. The O&M business remains the bread and butter of the Group with segmental revenue of RM7.39 billion and segmental profit of RM1.238 billion.

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Serba Dinamik Holdings Bhd (AGM)	The maturities profile of the Group's financial liabilities shows a carrying amount of RM4,534 million, of which RM2,369 million of the financial liabilities are due less than 1 year, constituting 52.2 % of the Group's total financial liabilities. (Page 123 of AR). a) Please explain the reason for the high concentration of the Group's financial liabilities due less than 1 year. b) Please explain how the Group would be able to meet the financial obligation of the Group's financial liabilities and Sukuk Wakalah that are due in 2022?

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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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