MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Minority Shareholders Watch Group is now on Twitter. The presence at Twitter is the first step for us to create strong social media presence and engage with our stakeholders more effectively. Do follow MSWG's Twitter account at @MSWGMalaysia and share your thought on our tweets from time to time.

❖ Rights issue galore: Newbie investors cannot afford to be complacent

As part of a temporary relief measure to tide over the PLCs' difficulty in raising working capital and repaying bank borrowings, the Securities Commission Malaysia ("SC") and Bursa Malaysia have allowed listed issuers to proceed with their proposed rights issue once the controlling shareholders have given their irrevocable undertaking to subscribe for their full entitlement. The new rights shares issued is allowed up to 50% of the total number of issued shares ("Enhanced Rights Issue Mandate"). The relief measure, which is aimed at expediting fund raising to assist eligible listed issuers affected by the COVID 19 pandemic, is available till 31 December 2021.

Since the introduction of the Enhanced Rights Issue Mandate in November 2020, we have seen many PLCs, particularly penny stocks, quickly capitalising on the relaxation and flexibility of the Enhanced Rights Issue Mandate. On top of that, sweeteners like warrants are commonly thrown in with the rights issue, resulting in some of these companies seeing their share base ballooning rather quickly and by few-fold in a short time.

One of the penny stocks that had recently taken advantage of the Enhanced Rights Issue Mandate is Pasukhas Group Bhd ("Pasukhas"). Pasukhas completed a private placement exercise which involved the issuance of 81,441,000 new shares (representing 10% of the then existing total number of issued shares) on 18 September 2020. Less than three months later, it completed another private placement which involved issuance of 268,757,000 new shares (representing 30% of the existing total number of issued shares) on 4 December 2020.

Besides the two private placements, within a short period of 3 months, 991,989,752 of Pasukhas' new shares were issued pursuant to a rights issue with warrants. These were listed on 21 July 2021, - a mere 7 months after the last private placement.

Details of valid acceptances and excess applications received for the rights issues exercise are as follows:

	No. of Rights Shares	% of total issue
Total valid acceptances	186,547,381	18.80
Total valid excess applications	805,442,371	81.16
Total valid acceptances and excess applications	991,989,752	99.96
Total Rights Shares available for subscription	992,394,432	100.00
Not subscribed for	404,680	0.04

Total valid acceptance was only 18.80%. This could mean that many of the entitled shareholders did not subscribe to the rights allocated to them despite the discounted price. The bulk of the shareholders may have thought that they would not be 'in the money' by subscribing to the rights issue and thus chose not to take up their rights entitlements. As for the PLC, it should analyse and ask itself why so many shareholders did not take up their rights entitlements.

The high valid excess application could mean that besides the undertaking shareholders, other parties could have scooped up the rights shares and free warrants.

Tell-tale signs

Shareholders may be tempted by the prospect of buying discounted shares through a rights issue especially if there are some warrants thrown-in as sweeteners. But it is not always a certainty that you are getting a bargain. When it comes to certain PLCs, you may need to think twice before parting with your hard-earned money by subscribing for the rights issue. This applies to both small and big PLCs.

Below are some tell-tale signs, of PLCs, that minority shareholders should take note of:

1. They have huge share base with no decent earnings.
2. They undertake frequent fund-raising exercises, such as private placement or rights issue.
3. They issue lots of shares under an employee share option scheme (ESOS) or under a private placement, thus diluting minority shareholdings.
4. They undertake huge rights issue exercise to raise fund from shareholders for working capital.
5. They have significant financial instruments that would have a shareholding-dilution effect in the future, such as warrants, irredeemable convertible unsecured loan stock (ICULS) or irredeemable convertible preference shares (ICPS).

6. They frequently announce numerous memorandums of understanding (MOUs) or collaborative agreements. Most of these either fizzle-off or are terminated or take an unreasonably long time for completion.
7. They frequently churn out articles, reports and announcements of business ventures, joint ventures (JVs) to create interest and excitement. Good companies will not do this - they produce good results without hyping-up interest and excitement.
8. They show losses quarter after quarter, year after year, and these losses are due to management incompetence - external uncontrollable factors are understandable.
9. They use large portions of company's funds to acquire non-core assets, invest in dubious JVs and investments.
10. They use company fund to invest/speculate in listed stocks.

In general, the more the tell-tale signs, the higher the risk. As always, minority shareholders should delve deeper into a PLC before parting with their hard-earned money through a rights issue.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 2 – 6 August 2021

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
05.08.21 (Thur) 11.00 am	Amcorp Properties Bhd (fka AMDB Bhd) (EGM)	The EGM is to seek shareholders' approval for the proposed selective capital reduction and repayment exercise pursuant to Section 116 of the Act. The non-entitled shareholders intend to privatise AMPROP with cash offer price of RM0.90 per share which is lower than the estimated value of RM1.04 per AMPROP share, derived using the sum-of-parts valuation method.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Amcorp Properties Bhd (fka AMDB Bhd) (EGM)	The Net revaluation deficit arising from the Selected Properties (after accounting for tax effects) is RM93.3 million. This brought the estimated value per AMPROP Share to a lower figure of RM1.04. (Page 58 of Circular) (a) What are the factors that had caused the drop in the value of the Selected Properties below the carrying amount? (b) Are the Selected Properties values expected to recover after the COVID-19 pandemic? If so, the offer price is at a higher discount based on the value per share. How have the non-interested directors addressed this issue to make sure that the SCR offer price is fair and reasonable?

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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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