



The Observer

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We would like to wish our readers a Happy New Year. May 2022 bless us with good health, joy and happiness.

❖ A dozen risks and opportunities await minority shareholders in 2022

In a nutshell, 2022 will mark the third successive year the world grapples with unsettled COVID-19 complications which first reared its ugly head at the outset of 2020.

Domestically, 2021 has continued to witness a large degree of socio-economic devastation from loss of livelihoods and business shutdowns due to the imposition of total lockdowns. This was done to contain a spike in COVID-19 infection with the national healthcare system occasionally being stretched to its limit amid high fatality rates.

As the world is anticipated to remain mired in uncertainties for a third year running, below are some scenarios of what Malaysians can expect in the year ahead:

- **Battle against Omicron and other soon-to-be-identified COVID-19 variants to rage on:** Nobody knows for sure if the world is gradually moving from a pandemic to endemic stage or if the current vaccination programmes at domestic and global levels can put the global health crisis under control.

The latest COVID-19 wave – with booster shots no longer an option but swiftly becoming a necessity – has dented optimism that global recovery is underway as the world ushers in 2022.

- **Return of lockdowns:** At the time of writing, the Netherlands has led Europe to impose lockdown measures as new cases of the omicron variants are quickly overtaking the previously dominant delta variant.

Many European governments have gone further than the US in re-imposing curfews, closures, and travel restrictions. Ireland is shutting pubs at 8pm while Greece, Italy and Spain have re-introduced outdoor mask mandates. In Austria, people without proof of vaccination or COVID-19 recovery can leave home only for essential reasons.

Gauging by such unpleasant developments, investors should brace for temporary suspension of production, travel/movement restrictions and supply chain disruption to impact their investee companies or even market momentum.

On a positive note, the authorities (including market regulators) would have wised up from previous experiences regarding the most effective measures to manage the pandemic this time around.

- **Second guessing GE15:** It is anybody's guess as to when Malaysia will stage its next general election although formally the 15th General Election (15GE) must be held in or before July 2023.

Judging from the current political scenario, prospect of an early federal election remains high due to ongoing political uncertainties.

As in previous elections, the outcome of GE15 will have bearing on the direction of both the stock market as well as individual stocks that are perceived to be 'linked' to politicians who come to power.

- **Financial policy transition:** Malaysia has a policy transition from monetary accommodation and fiscal expansion to austerity and consolidation. This raises the risk of volatility in the stock market in 2022 but this is only likely to happen in 2H 2022 and/or after the GE15.

Until then, Kenanga Research expects conditions to be supportive for positive stock market returns as liquidity remains ample, while value has emerged following 2021's steep market decline and regional underperformance.

"And for all the anxieties that the recent floods have caused, the implied 4Q 2021 earnings results already suggested that earnings during the final quarter would be the lowest," added the research house.

- **Fiscal constraint:** It will be interesting to see how the 12th Malaysia Plan (12MP) for the 2021-2025 period coupled with expediting the 4th Industrial Revolution (4IR) will spur economic growth while at the same time keeping government finances in check after battling one of the country's biggest economic shock.

For 2021, RHB Research forecasts Malaysia's gross domestic product (GDP) growth to be maintained at 5.4% year-on-year while growth for 2022 is projected at 5.5% with risks tilted to the upside.

With government debt having hit 64.3% of GDP in 2Q 2021 – after rapidly escalating from 52.5% of GDP in 4Q 2019 – Fitch Solutions Country Risk & Industry Research is toying with the notion that the 70% threshold is not far off.

- **Side effect from Cukai makmur (windfall tax):** The prosperity tax taxes corporate profit above the RM100 million threshold at 33% instead of the headline 24% in the year of assessment 2022 (FY2022). The one-off prosperity tax will enrich the Government's coffer by about RM3.9 billion. There will be an impact on minority shareholders as less will be available for dividends. For PLCs, less will be available as

internally generated funds. But on a broader perspective, the tax will benefit the rakyat (citizens) – who are very important stakeholders from a PLC-perspective.

According to CGS-CIMB Research, the Government may raise additional net revenue of RM400 million from the following Budget 2022 changes:

- A 50% rise in stamp duty rate on contract notes for trading of shares on Bursa Malaysia to 0.15% from 0.1%;
- Abolishment of stamp duty limit of RM200; and
- Exemption of 6% service tax on brokerage services related to share trading.

However, on 30 December 2021, the Ministry of Finance announced that the stamp duty cap for the trading of shares will be reinstated at RM1,000, with a rate of 0.15%. This is a welcome reprieve for the stock market.

Meanwhile, the rationale for an increase in windfall profit levy rate for Sabah and Sarawak from 1.5% to 3% is to streamline the levy with Peninsular Malaysia, which has been paying a levy of 3% since 2008. These changes are seen to be less punitive on the stock market compared to capital gains tax.

- **Return of IDSS and PDT short selling after 22-month suspension:** Intraday short-selling (IDSS) and intraday short-selling by proprietary day traders (PDT short sale) will resume on 1 January 2022 as the Securities Commission Malaysia (SC) and Bursa Malaysia will lift the temporary suspension as scheduled.

The two temporary suspensions are scheduled to expire on 31 December 2021 following two extensions from its initial expiry of 28 February and later, on 29 August 2021. The temporary suspension was put in place in March 2020 in view of the global equity rout then.

- **Don't undermine ESG risks:** Against the backdrop of constant change and COVID-19 related challenges, environmental, social and governance (ESG) - related issues are increasingly gaining traction among companies, investors, regulators, government agencies and other stakeholders.

This is primarily due to the increased public awareness on pressing issues such as climate change, environmental degradation, and human rights. As ESG-related issues are rapidly becoming new and urgent business risks for companies due to their potential magnitude and impact on both financial and operational performances, minority shareholders should be wary as to how failure to adhere to ESG elements can adversely impact stock price.

- **Tail-end of glove rally:** Almost all research houses concurred that the near-term outlook for glove makers remains weak due to declining average selling prices (ASPs) and lower sales volume which only pointed to normalising global supply-demand dynamics.

Rubbing salt into the wound are other issues such as lower utilisation rates and additional operating costs on stricter standard operating procedures (SOPs) as well as labour shortage.

Moreover, it is inevitable that stiff competition posed by China glove makers with their price under-cutting maneuvers as well as that emanating from new entrants, who rushed into the glove sector during the peak cycle in end-2020, can also hamper price competitiveness.

- **Mixed CPO price prospect:** 2022 will likely be a year of two halves insofar as crude palm oil (CPO) price trend is concerned. Prices in 1Q 2022 will remain lofty before weakening thereafter as the anticipated palm oil output recovery happens in 2H 2022.

"Our CPO ASP forecast for 2022 is RM3,200/metric tonne (2021E: RM4,300/MT). We doubt the anticipated palm oil supply recovery in 2022 will compensate for our lower year-on-year ASP forecast," opined Maybank IB Research in its 2022 plantation sector outlook.

"But the market has never deemed current CPO price of >RM5,000/MT to be sustainable as evidenced by the KL Plantation Index having lagged CPO price rally. This is partly due to ESG concerns as a few large caps were under investigation by the US CBP (Customs and Border Protection) for alleged weak labour practices."

- **Sustainability of retailer-powered market:** Year-to-date, 2021 has been very much a retail-driven market with retail investors cumulatively being net buyers of Malaysian equities to the tune of RM12.44 billion as of the week ended 24 December.

On the contrary, local institutions and foreign investors were net sellers to the tune of RM9.27 billion and RM3.17 billion respectively. To re-cap, 2020 saw retailers emerging net buyers amounting to RM13.84 billion followed by local institutions at RM10.41 billion while foreign investors were net sellers to the effect of RM24.75 billion.

How 2022 will pan out in terms of market participation is still as good as anybody's guess. Concerns have been raised about the sustainability of retailers' participation given that the high volatility factor might adversely impact their holding power as opposed to foreign funds and local institutions.

- **Normalisation of interest rate:** Malaysian Rating Corp Bhd (MARC) expects Bank Negara Malaysia (BNM) to maintain its overnight policy rate (OPR) at 1.75% before it normalises interest rates after mid-2022.

Meanwhile, Fitch Solutions Country Risk & Industry Research expects the central bank to increase its overnight policy rate (OPR) by 2.25% in 2022 to protect the value of the ringgit and maintain its interest rate advantage.

Recall how the low interest rate environment (OPR at 1.75%) which has been in place since 7 July 2020 has been instrumental in boosting retail participation in Bursa Malaysia although market observers have expressed concern over the market being liquidity-driven without any fundamentals.

Nevertheless, the OPR hike prediction is in tandem with developments in the US economy with the Federal Reserve likely to raise interest rates as early as March 2022 in the face of "alarmingly high inflation".

Fed officials expect three interest rate increases in 2022 followed by three more in 2023. A two-notch adjustment is also penciled in for 2024, bringing the main policy rate closer to 2%.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 3 – 7 January 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
03.01.22 (Mon) 10.00 am	Poh Kong Holdings Bhd (AGM)	<p>Poh Kong's PBT surged by 35.5% to RM52.8 million in FY2021 compared to the preceding year mainly due to higher sales of gold jewellery and gold investment products. Notwithstanding the improved results, the lockdowns (MCO 2.0 & MCO 3.0) in year 2021 have adversely impacted the Group's business which saw a sharp decline in revenue during these periods.</p> <p>The Group will continue to monitor closely the uncertainties due to the pandemic and is confident that it has put in place adequate measures to meet the challenging ahead for FY2022.</p>
06.01.22 (Thur) 10.00 am	SYF Resources Bhd (AGM)	<p>SYF's acquisition of a 100% stake in M&A Securities Sdn Bhd from Incas Berhad for RM 222 million raises questions as the company has no prior knowledge or experience in the business of stockbroking. The stockbroking business is well entrenched with many established players and margins have been under</p>

		pressure due to stiff competition.
06.01.22 (Thur) 10.00 am	RGT Bhd (EGM)	RGT will seek shareholders' approval to acquire the remaining 40% stake in Rapid Growth Technology Sdn Bhd (RGTSB) for RM85.6 million, to be satisfied via the issuance of 267.5 million in RGT at an issue price of 32 sen per share. RGT already owns 60% interest in RGTSB.
06.01.22 (Thur) 10.30 am	Top Glove Corporation Bhd (AGM)	The company plans to ramp up production of gloves from 100 billion pieces per annum currently to 200 billion pieces per annum by 2025. This move raises questions as the Average Selling Prices (ASPs) is on the downtrend as capacity increases due to many new entrants to the industry.
07.01.22 (Fri) 10.30 am	Poly Glass Fibre (M) Bhd (EGM)	Poly Glass Fibre had announced a proposal to issue 79.99 million New Irredeemable Convertible Preference Shares (ICPS) on the basis of 1 ICPS for every 2 existing ordinary shares in Poly.
07.01.22 (Fri) 10.30 am	V.S. Industry Bhd (AGM)	For FY 2021, the Group recorded a revenue of RM4.00 billion, an increase of 23.4% y-o-y from RM3.24 billion in the previous year. The double-digit growth was primarily attributed to higher sales orders received from key customers in Malaysia and Indonesia. It registered its highest ever net profit which soared 2.1 folds or 110.6% YoY to RM245.4 million as compared to RM116.5 million in FY2020.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Poh Kong Holdings Bhd (AGM)	The lockdowns (MCO 2.0 & MCO 3.0) have adversely impacted the Group's business which saw a sharp decline in revenue during these periods. However, sales

	<p>were boosted by the Group's swift mitigation measures taken to ramp up its capacity for online and digital interaction, live commerce as well as digital marketing activities and mobile applications. But the dramatic rise in online sales by more than 157% from last financial year is insignificant compared to actual sales through its 89 retail outlets (page 25 & 36 of Annual Report (AR) 2021).</p> <p>a) What is the recovery in footfall and in sales of retail outlets since the easing of Covid-19 restrictions in August 2021? Does the management expect the retail stores sales to lag in its recovery? If so, how has the Group adapted to the challenges?</p> <p>b) What is the proportion of the online vs traditional sales turnover that the Group is expecting in the consumer's landscape, going forward?</p> <p>c) Poh Kong introduced its own mobile loyalty programme, Jeweland, aimed at increased engagement and interaction with its customers (page 40 of AR 2021). How successful is this mobile app since its launch? How many users have signed up?</p> <p>d) Poh Kong's jewellery collections have been made available at leading e-commerce sites such as Lazada, Shopee, Superbuy and it added another online platform Vettons in FY2021 (page 40 of AR 2021). What are the plans to grow online platforms? Please elaborate further on your digital roadmap/strategy. What are the metrics used by the board to track the Group's progress in e-Commerce?</p>
<p>SYF Resources Bhd (AGM)</p>	<p>The Company, had on 6 October 2021, entered into a share sale agreement with Mico Chipboard Berhad, to dispose the entire 20,000,000 ordinary shares, representing 100% equity interest in Seng Yip Furniture Sdn Bhd, a wholly owned subsidiary company of SYF, for a total disposal consideration of RM50.00 million. (Page 17 of AR 2021).</p> <p>a) What was the rationale for the sale of Seng Yip Furniture Sdn Bhd since furniture makers have been enjoying brisk business throughout the pandemic?</p> <p>b) How much was the gain on this disposal?</p>
<p>Top Glove Corporation Bhd (AGM)</p>	<p>The Company plans to increase its production capacity of gloves from the current 100 billion pieces per annum to 201 billion per annum by December 31, 2025. (Page 52 of AR 2021)</p> <p>What is the rationale for this huge increase given that the Average Selling Prices (ASPs) of gloves is on a downtrend and the entry of many new players into the market because of strong demand due to the pandemic?</p>
<p>V.S. Industry Bhd (AGM)</p>	<p>Recently, migrant worker rights' activist, Andy Hall made comments on workers' welfare relating to several local</p>

	<p>EMS companies, including V.S. To mitigate the situation, V.S. Industry had quickly engaged with Hall pertaining to his concerns raised.</p> <p>a) What specifically were the issues raised by Hall?</p> <p>b) Was V.S. able to fully address his concerns? What actions, if any, have been taken subsequently?</p>
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MSWG TEAM

Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)

Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)

Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)

Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)

Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)

Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)

Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)

Rita Foo, Manager, Corporate Monitoring, (rita.foo@mswg.org.my)

Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)

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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