MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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❖ Investing in warring times: 10 considerations for minority shareholders need to live with

Man's inhumanity to man makes countless thousands mourn! - Robert Burns

As opposed to wielding weapons of mass destruction in their possession, the United States and its allies seem contented – at least till this juncture – to merely waging economic war on Russia after the latter launched military invasion into Ukraine on 24 February 2022.

Though it could be assumed that – for now at least – the Russia-Ukraine conflict looks like an "internal affair" limited to the Ukrainian soil, however, the financial/economic repercussions can easily transcend the Ukrainian boundaries.

Below are 10 scenarios as to how the global economy and capital markets will pan out by uncertainties stemming from the raging Russia-Ukrainian war:

Unlikely spark a WWIII: While Russia will eventually occupy some strategic sites in Ukraine, the US and its allies are unlikely to intervene militarily as Ukraine is not a member of NATO (North American Treaty Organisation).

This is despite the 27-nation European Union (EU) having decided, for the first time in its history, to supply weapons to a country at war by making available EUR450 million (US$507 million) of weaponry to its eastern neighbour.

Russian President Vladimir Putin has put his country's nuclear deterrent on high alert on 27 February in the face of a barrage of Western reprisals for his war on Ukraine. However, retaliation against Russia by western forces will be meted out via harsh economic sanctions.

Waging economic war: The US, European Union (EU), United Kingdom and Japan have reacted with a package of sanctions against Russian individuals and entities to harm them financially.

In the strongest economic sanctions yet, the US and EU said on 26 February that they would banish big Russian banks from the main global payments system SWIFT and announced other measures to limit Moscow's use of a US$630 billion foreign reserve.

The British oil major BP announced it would give up its 19.75% stake in Russian oil giant Rosneft, potentially resulting in a write-down of as much as US$25 billion on its balance sheet. This was followed by another oil giant Shell which said it would also exit all its Russian operations, including a major liquefied natural gas plant.

On the other hand, Nasdaq Inc and Intercontinental Exchange Inc's New York Stock Exchange (NYSE) have temporarily halted trading in the stocks of Russia-based companies listed on their exchanges due to regulatory concerns as they seek more information following economic sanctions imposed on Russia.

Fuelling commodity price boom: Fuelled by the Russian-Ukraine crisis, commodity prices have sky-rocketed as evident in the spiralling of oil, crude palm oil (CPO), aluminium and steel prices while bond markets rallied.

That Brent crude has spiked to breach a 14-year high of US$105/barrel while CPO futures prices have touched an all-time high RM8,000/metric tonne on 1 March at the expense of sunflower oil supply disruption.

Investors should closely watch the reaction of the EU and NATO considering Europe's dependence on Russian energy which is one of Putin's key leverage. Elsewhere, a flight to safe-haven assets such as greenback and gold is expected to continue.

Risk of stagflation: Soaring commodity prices on top of elevated inflation may further slow global economic growth. This would pile up the pressure on how central banks recalibrate monetary policy in times of uncertainty.

The world is still recovering from supply disruptions stemming from shortages of manpower, raw material and logistical delays. Eventually, manufacturers have no better option than to pass down cost increases in their operations to end consumers.

Inflationary pressure: Locally, inflationary pressure will mount from surging food prices - the largest component in the CPI basket (weight: 29.5%). This will be exacerbated by rising costs of animal feeds and fertilisers given Malaysia remains a net importer of food products.

Malaysia continues to rely on imports to ensure sufficient food supply such as seafood, processed food and other primary agricultural produce.

Although the Government's decision to cap retail fuel prices will reduce the price pressure on consumers, rising import costs and higher commodity prices will hit local producers, thus increasing the likelihood of price hikes for goods and services.

Global trade disruptions: In addition to being a major oil producer, Russia is also a major supplier of wheat, aluminium, palladium, nickel, and other commodities. This explains the importance of Russia as a major trading partner for Europe and China.

In a similar light, Ukraine also plays a vital role in the global supply of rare gases such as neon gas which is used in semiconductor production. Together with rising prices, shortages of these commodities will likely add to disruption in the global supplies of chips, machinery, equipment and even food.

Minimal impact on Malaysia's exports: Bilateral trade-wise, any decline in trade from Russia and Ukraine would pose a minimal direct impact on Malaysia's exports because the size of exports to both Russia and Ukraine only accounted for 0.4% of total exports in 2021.

This share has been the same (at 0.4% of exports) even in 2015-2019 during the pre-pandemic period. Consequently, the combined size of trade with Ukraine and Russia covered only 0.5% of Malaysia's total trade.

Greater indirect impact from weaker EU demand: While the direct impact is limited, concerns abound for the electrical & electronic (E&E) sector as prolonged supply disruptions will weigh down on global production and international trade activity in 2022.

This indirect spill-over effect could come from weaker export demand, particularly from European economies that are involved in the global supply chain of the semiconductor industry. For the record, exports to EU-27 countries accounted for 8.4% of total exports and 8.1% of Malaysia's total trade in 2021.

In a broader sense, the escalation of tension has the potential to trigger immediate and rapid fuel and food price inflation across the European continent.

As EU member countries buy from Russia 41.1% of their imported gas and 27% of their oil, any restriction of supplies would quickly lead to higher energy prices. That would ripple through the economy from higher heating and fuel bills to costlier transportation and power for businesses.

Benefitting from high commodities prices: Nevertheless, Malaysia is likely to benefit from the high commodity prices.

This will help to cushion the potential adverse impact on trade from the potential disruption in the global supply chain. Last year, Malaysia registered a surplus in trade for these three commodities, including refined petroleum.

On the fiscal front, the Government will gain from higher oil-related income due to tax collection and royalties from oil companies. With oil prices hovering above US$100/barrel currently, the collection of petroleum income taxes (PIT) could exceed RM12.4 billion in 2022 (Budget 2022 assumes oil prices to be around US$67/barrel in 2022-2024).

Apart from PIT and royalties, additional oil-related revenue could be generated from a higher duties charged on petroleum trade.

Inflow of foreign funds: Lastly, foreign funds inflow into Bursa Malaysia is likely to continue in tandem with rising risk in the US and European markets, as well as tightened monetary policies by the Federal Reserve or the European Central Bank (ECB).

The presence of foreign investors will boost the local bourse after a dismal net outflow of RM3.15 billion in 2021. As of the end of February, international funds have been net buyers on Bursa for six out of eight weeks.

Thus far, foreign investors were the leading net buyers of Malaysian equities with an inflow of RM2.7 billion followed by RM600 million from retail investors. Local institutions were the only net sellers to the tune of RM2.8 billion.

Opportunities for minority shareholders:

Global financial markets, including the FBM KLCI, was rocked on 24 February after Russia launched a full-scale invasion of Ukraine.

Amid this geopolitical fallout, market risks premiums will inevitably spike while investor sentiment plunges. However, the current crisis could be an opportunity for investors to accumulate positions in value stocks and recovery plays.

Nevertheless, the prolonged crisis between Russia and Ukraine could endanger the pace of global economic recovery in a post-pandemic era. In the near term, do expect a shift to defensive sectors – consumer, healthcare, utilities, basic materials, REITs and resilient high dividend-yielding stocks.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 7 - 11 March 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
07.03.22 (Mon) 10.00 am	UMS Holdings Berhad (AGM)	In FY2021, UMS' revenue increased by 11.29% to RM63.78 million from RM57.31 million and its net profit rose by 182.70% to RM5.51 million from RM1.95 million mainly due to a project sale of RM2.19 million in FY2021 as compared to no project sale in FY2020. Prior to FY2021, its revenue was on a declining trend over the last 4 financial years.
07.03.22 (Mon) 11.00 am	Muhibbah Engineering (M) Berhad (EGM)	MEB will seek shareholders' greenlight to approve its rights issue exercise of issuing up to 256.59 million rights shares on the basis of 1 right share for every 2 existing shares held.

		The bulk of the gross proceeds will be utilized for partial repayment of interest-bearing borrowings.
08.03.22 (Tue) 10.00 am	Priceworth International Berhad (EGM)	The EGM is to approve PWI's proposed variation to the minimum conversion price of its redeemable convertible notes from 12 sen to 5 sen.
09.03.22 (Wed) 10.00 am	MKH Berhad (AGM)	For FY2021, MKH's revenue and pre-tax profit increased by 0.2% and 38.3% to RM913.6 million (FY2020: RM911.9 million) and RM161.1 million (FY2020: 116.5 million) respectively, due to the higher contribution from the plantation division and the inclusion of unrealised foreign exchange gains of RM8.0 million.
11.03.22 (Fri) 10.00 am	Digistar Corporation Berhad (AGM)	Digistar recorded a 37% y-o-y decline in revenue to RM16.5 million in FY2021(FY2020: RM26.3 million) due to significantly lower revenue contribution from the hospitality segment. Consequently, it turned loss-making with a pre-tax loss of RM7.96 million as compared to a pretax profit of RM0.63 million in previous year. It anticipates the tourism sector will be turning around and is seeing a quick rebound in occupancy rates for its Imperial Heritage Hotel in Melaka.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
UMS Holdings Berhad (AGM)	The revenue for the Group has increased by RM6,468,000 or 11.29% to RM63,782,000 from RM57,314,000 and profit before tax has increased by RM3,559,000 or 182.70% to RM5,507,000 from RM1,948,000 mainly due to a project sale of RM2,186,000 in the current year ended 30.9.2021 as compared to no project sale in the previous year ended 30.9.2020. (page 36 of AR 2021) What is the nature of the project sale? What are the challenges to secure project sales and what measures have been taken to grow such sales?

MKH Berhad (AGM)	The amount of the Group's trade receivables in the age-band of 60 to 90 days past due not impaired has increased to RM3,491,092 in FY 2021 from RM344,843 in FY 2020, an increase of 912 %. Similarly, the trade receivables in the age band of 90 to 120 days past due not impaired has also increased substantially by 1989%, from RM181,116 in FY 2020 to RM3,782,848 in FY 2021. (Page 177 of AR). The Group's normal trade credit term ranges from 7 to 90 days a) Please explain the reasons for the high trade receivables that are past due 60 to 90 days not impaired, and 90 to 120 days not impaired respectively? b) What is the make-up of the trade receivables that are past due 60 days to 90 days not impaired and past due from 90 days to 120 days not impaired by the Group's main business segments like property development and construction, plantation business, manufacturing, and trading respectively? c) How much of the trade receivables that are past due 60 to 90 days not impaired, and 90 to 120 days not impaired that have been collected as of January 2022 respectively?
Digistar Corporation Berhad (AGM)	The Group reported a revenue of RM16.52 million (2020: RM26.26 million) and incurred a loss before tax of RM7.96 million as compared to a profit before tax of RM0.63 million in preceding year. (page 10 of AR2021) Given that the Group's business activities involve construction, property development, central monitoring system (CMS) and hotel management, which of the Group's business activities will drive revenue growth and bring the Group back to profitability?

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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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