MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

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The costly price of ignorance

In the world of stock investing, ignorance can sometimes be a bliss, at other times, a 'big-time' bane.

Imagine all the huffing and puffing to chase a stock without allowing common sense to prevail first. Is there any business logic behind a spike in the price of the stock? Or is it merely a speculative drive by some market manipulators?

This is presumably what happened to investors of oil & gas support services provider Icon Offshore Bhd which recently undertook a share consolidation exercise.

The stock experienced a steep ascent for three days from 22 January to 24 January when its price peaked at 81.5 sen at the closing (after touching a high of 95 sen). This is a 95.8% jump from the stock's closing price of 3.5 sen on 21 January.

In a Bursa Malaysia filing dated 9 January, the company announced that it would undertake a series of corporate exercises entailing among others, a 50:1 share consolidation as at 5pm on 23 January (ex-date on 22 January) along with rights issue with warrants (on the basis of 100 rights shares for every one Icon Offshore share held after the share consolidation date).

There are three likely possibilities of what had transpired:

• Caught off-guard: Many retail investors might not have been aware of the intended corporate exercises. Having missed the company announcement, they might have rushed to sell their shares after seeing the price "shooting to the stars" without realising that the quantity they thought they once owned is now "one-fiftieth" of what it used to be.

This would result in massive short selling (during the transition period) which would lead to a hefty buyback (post-consolidation, the number of Icon Offshore shares shrunk significantly from 1.18 billion shares to a mere 23.54

million shares. Traded volume on 22 and 23 January stood at 66.72 million and 38.57 million shares, respectively).

• Hidden potential: Some witty investors might have seen room for further price hike. On paper, the price of the shares should increase by the same multiple in which the share was consolidated. Hence, Icon Offshore should be valued at RM1.75 (3.5 sen x 50) post its consolidation exercise based on the closing price of 3.5 sen on 21 January (prior to the upward spiral which culminated in its double limit-up on 22 and 23 January).

But this is a theoretical assumption. Share price movements are also subject to market forces/sentiment. Bear in mind the image of Icon Offshore as a debt-laden company, hence its expectation for the share consolidation exercise is to increase its share reference price while enhancing its profile among investors and reducing its share price volatility.

• Herd mentality: Many ill-informed "bull chasers" joined the fray to reap quick profit without any clue of the risks that lay ahead.

Truth sinks in

When investors came to their senses following the move by Bursa Malaysia Securities Bhd to declare the securities of Icon Offshore (mother shares and the company's ordinary rights with warrants) as "designated counters" with effect from 28 January due to excessive speculation. (Designated counters require upfront payment before buying and the shares must be in the CDS account before selling). By then, many investors had already been caught with their pants down.

Upon resumption of trading after the Chinese New Year break, the share price of Icon was battered for three consecutive trading days to close at 24 sen on 30 January) with an average traded volume of 670,000 shares.

The moral of the story is that investors need to keep abreast of developments in the counters in which they invest. They must also know the effect of the various corporate actions e.g. share split, share consolidation. Such knowledge is a part of making informed investment decisions.

Bursa Malaysia summed this up well when declaring the securities of Icon Offshore as "designated counters": "Investors are advised that their investment decisions should be made on an informed basis, including an assessment of the fundamentals of the company."

As the cookie crumbles

Confectionery maker London Biscuits Bhd is in liquidation. Normally, they say companies involved in the consumer sectors are resilient. Some minority shareholders, based on the 'resilient' argument, may have just bought and locked up their investments in London Biscuits, for after all, investments are for the long term.

Shareholders must monitor their investments. If you are too busy, or do not know how to monitor your investments, get someone else to monitor them – perhaps your dealers' representative (or remisier). Informed investment decision making means just that – you should be informed (or keep yourself informed) of developments on a timely basis.

London Biscuits' financial woes peaked in November 2019 when it announced an impairment of RM394.2 million of its ever-increasing receivables — an amount that was higher than its revenue of RM391.73 million for financial year ended 30 September 2019. Imagine that, your impairment was more than the latest full year revenue, that is a danger sign.

Prior to the impairment, there were foretelling signs that troubles were brewing ahead for the Company. In June 2019, a board member and the chief financial officer stepped down within 10 days of their appointment.

Then suppliers filed winding-up petition to claim back money for purchase of raw materials. And it does not stop there. The confectionery maker had also defaulted in payment to 11 financial institutions involving hundred million of ringgit.

Minority shareholders who had sold their shares then may have salvaged some part of their investments. But those who clung on, on the hope of a comeback, only have themselves to blame. The Company's shares have been suspended since 21 January 2020.

The moral of the story: there is no substitute to monitoring the developments of your investee companies - learn to read red flag signals and make a rational decision based on the signals. Some say that you should cut-loss when there is no visibility – after all, you can always buy-back when there is visibility, if you want to.

By Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 10 February 2020 – 14 January 2020

Below are the AGMs/EGMs of companies that 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
13.02.20 (Thursday) 10.00 am	Sasbadi Holdings Bhd (AGM)	Apart from the long credit period granted to customers, it has also impaired significant level of trade receivables (about 7% of total receivables) in FY18 and FY19. Why?
14.02.20 (Friday) 10.00 am	SCH Group Berhad (AGM)	Things seem starting to look brighter for SCH with 2.5 times increase in revenue and a turnaround in profit level thanks to the quarry-related and equipment rental business.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Sasbadi Holdings Bhd (AGM)	The Company grants a long credit period of as much as 330 days to its clients (page 125 of AR2019). Why was such a long credit period granted to clients as compared to the common practice of maximum 180 days?
SCH Group Berhad (AGM)	On page 8 (Chairman's Statement), it is stated that the Company saw its first full financial year that consolidated the two new acquisitions made by the Company. The acquisitions enabled it to diversify into the fertilizer and equipment rental industries. However, we note on Page 138 that the fertilizer products segment registered a segment loss of RM899,102 for FYE 31 August 2019. (a) Please explain the rationale for diversifying into these two businesses and the synergy with its existing business. (b) What were the reasons for the fertilizer products segment to register a segment loss of RM899,102 for FYE 31 August 2019 and is the segment expected to turn profitable in FYE 31 August 2020?

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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 except Icon Offshore Bhd.

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