MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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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.

❖ From family-managed to professionally managed

Berjaya Corporation Bhd (BCorp) and its founder Tan Sri Vincent Tan (TSVT) have been in the limelight recently, following a series of announcements lately.

On 16 March 2021, BCorp announced the appointment of Abdul Jalil bin Abdul Rasheed as the new Group Chief Executive Officer (CEO) of BCorp effective from 16 March onwards.

Jalil took over the position from TSVT's eldest son, Dato' Sri Robin Tan (DSRT) who was re-designated as Deputy Executive Chairman of BCorp effective the same day. The BCorp's appointment of the first non-family member to helm a family-controlled conglomerate is a welcome surprise to corporate Malaysia.

According to the *Malaysian Code on Corporate Governance*, it is a good CG practice when the positions of Chairman and CEO are held by different individuals.

In the press release issued by BCorp, it was stated that the new appointments were made to transform BCorp into an institutionalized corporation managed by professionals.

In line with this, BCorp announced the redesignation of its Executive Chairman, TSVT, to non-executive Chairman, effective 5 April 2021. DSRT has also indicated that he will be relinquishing his executive position once the Group's transformation process and plan have stabilized.

This augurs well as there will not be any confusion as to who holds the highest executive position (which may be tantamount to the *de facto* CEO); whether it is the Executive Deputy Chairman or CEO.

On 27 March, BCorp founder and executive chairman TSVT announced that he does not wish any of his children to be involved in the group's listed companies and wishes to let professional managers run them. "We need to have a clear demarcation of listed and private entities", he stressed.

The share price of BCorp closed at 18 sen on 16 March 2021 and it jumped 16.7% to close at 21 sen on the following day after the announcement of Jalil's appointment. On 31 March 2021, the stock reached its 5-year high of 45.5 sen, representing a jump of 153% from 16 March 2021.

Listed vs private entity

While the above announcements seem to be well-accepted by the market and the investing fraternity, what has caught our attention is the comment from the tycoon TSVT that "*we need to have a clear demarcation of listed and private entities*".

The importance of having clear demarcation of listed and private entities should never be underestimated.

A private entity is owned by private investors, while a public listed company (PLC) is owned by the general public who own shares in the company.

The key difference between the two is - the change in "*control and accountability*" when a private entity is converted to a public listed company (PLC).

Investors who buy shares in a PLC get their partial ownership in the company. That ownership translates into a voting right to have a say in the navigation of the company.

A PLC may have tens of thousands of shareholders, but private companies may have only a handful of shareholders who are usually family members. Usually, these shareholders wear multiple hats, they are the board members and the decision makers as well.

Drawbacks of family-controlled lister companies

When a private / public company become a PLC, one of the things that the owners find it hardest to let go is the "control" of the entity.

Often, the original founders and owners strive to keep their "control" of the PLC by dominating the board and/or key management positions. It is not uncommon for the owner to be the Chairman of the Board and for his children to hold key management positions in the Company.

"Accountability" is another challenge for these family-controlled listed companies. It is challenging for the owners to acknowledge that they must be accountable to so many stakeholders and shareholders, especially since their business have done well in the past without such "interference".

The lack of accountability may lead to the abuse of minority shareholders' rights by compromising transparency, fairness and adequacy of disclosure.

Some other common drawbacks of a family-controlled PLC include: -

1. *Large board size and family dominated board*
   There are small and mid-cap family-controlled listed issuers with 8 directors, of whom, half of the directors are family members who hold executive directorships.

2. *Excessive remuneration, especially for the founder*
   The Securities Commission in its Corporate Governance Monitor 2020 (CG Monitor 2020) revealed that, the top 10 highest paid boards in 2019 were from family-controlled companies. This finding was similar to the CG Monitor 2019 - where the top 10 highest paid CEOs in 2018 were also from family-controlled companies.

3. *Significant related party transactions (RPTs)*
   There tends to be a significant number of RPTs (of larger values) in family-controlled companies. Investors should be vigilant of such related party transactions, especially transactions with companies which have common directors and/or common ownership.

4. *Succession planning*
   Leadership succession could be a challenge for family-owned businesses. Family issues tend to get in the way. A common challenge is the unwillingness to let go and to pass the reins onto a successor.

Considering the above drawbacks of family-controlled PLCs, it is good if there is a clear dichotomy between ownership and management; and to this end, allowing professional managers to run the listed company is a virtue.

Good corporate governance for family-controlled companies can also be enhanced by appointing sufficient number of independent directors on the Board; this is crucial to ensure that the interests of minority shareholders are recognized and protected.

Linnert Hoo
Head of Research & Development

❖ AMMB's private placement

Following its 1 April announcement to call for a proposed private placement exercise – which was a surprise for the market, AMMB Holdings Bhd (AMMB) again reached out to the Minority Shareholders Watch Group (MSWG) to address our concerns and queries. MSWG met AMMB at 4.30pm on 2 April – the day after the announcement.

(AMMB had earlier reached out to MSWG to address concerns regarding the RM2.83 billion settlement related to 1Malaysia Development Bhd (1MDB)).

On the same day, along with the announcement on the placement, the banking group also announced that it is undertaking an assessment of goodwill to ascertain the value of impairment that will be reflected in its financial results for the fourth quarter ended 31 March 2021.

AMMB also met other shareholder and stakeholder groups to address concerns on the placement exercise and the assessment of goodwill.

Why not a rights issue?

Earlier, on the morning of the announcement (1 April), the Minority Shareholders Watch Group commented that a placement exercise will affect the interest of minority shareholders in terms of shareholding dilution and will deprive minority shareholders from enjoying future upside in the share price, in view that the RM2.70 illustrative placement price was at a discount of 9.77% compared to the 5-day volume weighted average price.

It has now been determined that the placement price will be RM2.75 - and the closing price of the share at the time of writing (8 April 2021) was RM3.15.

The market was given to understand that the Bank remained resilient and unstressed after accounting for the effects of the RM2.83 billion settlement. Thus, the placement exercise came as a surprise to the market.

AMMB's justification for the placement

AMMB explained that the implementation of the private placement was to further strengthen AmBank Group's capital base by accelerating the build-up of its Core Equity Tier 1 capital.

During our meeting with AMMB, AMMB's management stressed that a rights issue carries substantial downside risks.

Firstly, its two major shareholders would be unable to take up their respective rights allocation due to shareholding caps imposed by the regulators.

It was also highlighted that apart from the two major shareholders, another shareholder holding a substantial block also indicated that they will not be able to participate in the rights issue as they have fully invested.

Secondly, a placement can raise funds expeditiously and is less costly compared to a rights issue,

Thirdly, with the risk of such major undersubscription, the underwriters of the rights issue would have demanded higher fees to compensate for their underwriting risks and this would drive rights issue costs higher.

Fourthly, AMMB will be diligent in the selecting of placees in that they will try to identify placees who will be able to value-add to the banking group.

Fifthly, a placement would bring in the funds sooner than a rights issue. Thus, the timely replenishment of capital may also lead to earlier rating upgrade of AmBank Group's rating by rating agencies.

(Last month, RAM Rating Services Bhd downgraded the credit ratings of AmBank Group and its subsidiaries to AA3 from AA2, due to the RM2.83 billion global settlement related to 1MDB).

Conclusion

Based on the reasons given in support of a placement in lieu of a rights issue, MSWG can understand the rationale for the placement.

It is unfortunate that this rationale was not available in the announcement made by AMMB through Bursa Malaysia and/or the press release. It would have pre-empted the question 'why a placement and not a rights issue' and AMMB could have avoided the need to reach out to the various shareholder and stakeholder groups individually to explain their rationale for the placement.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 12 – 16 April 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
14.04.21 (Wed) 10.00 am	Carlsberg Brewery Malaysia Bhd (AGM)	Carlsberg Group revenue decreased by 21% to RM1.8 billion compared to the previous year due to lower sales in Malaysia and Singapore which had been impacted by the implementation of various MCOs and Circuit Breaker measures respectively since March 2020. Net profit was lower by 44.3% to RM162.2 million compared to previous year. Core net profit was RM174.6 million, if adjusting for one-off tax settlement of RM6.4 million with Royal Malaysian Customs and one-off restructuring costs of RM9.9 million. With the on-going pandemic and weaker consumer sentiment, Carlsberg is taking cautious view over the outlook for 2021 and is confident that the cost management and cash-preserving measures will help ensure a

		reasonable financial performance in 2021.
14.04.21 (Wed) 11.00 am	Malaysia Marine and Heavy Engineering Holdings Bhd (AGM)	The Group suffered a higher loss of RM401.3 million in 2020 compared to RM34.2 million loss in the prior year notwithstanding the higher revenue of RM1.6 billion against RM1.0 billion in 2019. The higher loss was mainly attributable to the combined impact of the COVID-19 pandemic and oil price collapse which include among others, the impairment loss on property, plant and equipment and right-of-use assets .as well as on trade receivables.
15.04.21 (Thur) 10.00 am	CIMB Group Holdings Bhd (AGM)	Last year, CIMB launched the recalibrated Forward23+ to deliver better performance and shareholders' return by 2024. However, analysts deemed the targets set are "stretched" and ambitious. Nevertheless, the Bank anticipates significantly better financial performance in FY2021 on the back of economic growth, with expected lower provisions and better top-line performance.
15.04.21 (Thur) 10.00 am	Malayan Banking Bhd (AGM)	Capital and liquidity conservation will remain the utmost priority for Maybank, given lingering uncertainties over a potentially weakening credit environment. Besides, the 2021 also marks the first year of M25 – Maybank's new five-year strategy, in which the bank is set to differentiate itself through digitalisation and data analytics to better understand and serve its customers while capturing new business opportunities.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
AT Systemization Bhd (EGM)	We note that Non-Executive Directors will be eligible to participate in the Proposed Employees' Share Option Scheme ("ESOS").

	MSWG does not encourage the practice of giving ESOS options to Independent Directors. Independent Directors are required to be impartial. Receiving shares under the ESOS may compromise their independence and/or impartiality or at least create such a perception. Independent Directors should be paid a fee that is commensurate with their roles and responsibilities according to the skills and experience they bring to the Company. The ESOS Scheme, by definition, is meant for employees.
Carlsberg Brewery Malaysia Bhd (AGM)	The Group has recognised in its financial statements an allowance for inventories written-down amounting to RM2.56 million (2019: RM925,000) and write-off of finished goods amounted to RM5.98 million (2019: RM1.54 million) (Note 15, Page 166 of AR2020). a) What were the reasons for the allowance for inventories written-down amounting to RM2.56 million (2019: RM925,000)? b) What were the reasons for writing-off inventories of RM5.98m (2019: RM1.54 million)? c) With the economic uncertainties resulting from the on-going pandemic which may impact the saleability of inventories, are further write downs of inventories (similar to the amounts in FY2020) expected for FY2021?
Malaysia Marine and Heavy Engineering Holdings Bhd (AGM)	The Group has recently ventured into the fabrication of structures for offshore windfarms as more players enter the renewable energy space. (page 20 of AR) a) What is the orderbook that the Group has secured from this new venture to-date? b) What is the competitive edge of the Group over its competitors in securing new windfarm contracts?
CIMB Group Holdings Bhd (AGM)	CIMB's return of equity (ROE) has been lagging the industry peers for years with a record low of 2.1% posted in financial year ended 31 December 2020 (FY2019: 9.3%). The underperforming ROE has led to a significant decline in shareholders' value with five-year total shareholders' return of -23.6% as of 15 October 2020. Hence, CIMB has outlined five strategies under the recalibrated Forward23+ strategy to deliver better shareholders' return & ROE performance.

	By 2024, CIMB aspires to achieve a cost-to-income ratio of 45% (FY2020: 52.2%) and achieve a ROE that will place CIMB at the top quartile among ASEAN banks with ROE of at least 12% - 13% (FY2020: 2.1%). However, some analysts deemed these aspirations as 'stretched'. What are the catalysts that will enable CIMB to achieve these ambitious targets by FY2024?
Malayan Banking Bhd (AGM)	The allowances for impairment losses on loans, advances, financing and other debts doubled to RM4.6 billion as compared to RM2.29 billion in FY2019, on the back of proactive provisioning taking into account the weakened macroeconomic variables and weaknesses in certain businesses and corporate accounts (page 39 of AR2020). Besides, the net charge-off rate was doubled at 88 bps for FY2020 as compared to 44 bps in FY2019. What is the outlook for Maybank's asset quality in FY2021? Will the net credit charge-off rate and level of loan provision remain elevated in FY2021?

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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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