

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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ESG investing makes an impact

BY **JENNY NG**

While the de-rating of certain companies on Bursa Malaysia owing to sustainability issues has been taking place in recent years, 2021 may be remembered for the significant impact environmental, social and governance (ESG) investing has had on local equities.

The most recent and palpable effect was seen in the sharp sell-down in stocks of electronics manufacturing service (EMS) providers when news of forced labour involving these companies emerged. As news of potential labour problems at VS Industry Bhd spread on Dec 2, the Employees Provident Fund reacted swiftly, selling 21.67 million shares in the EMS counter and ceasing to be a substantial shareholder the very same day.

Later in the day, Kumpulan Wang Persaraan (Diperbadankan) followed suit, disposing of 6.58 million shares in the company.

The sell-down of VS Industry shares coincided with an investor briefing organised by Credit Suisse, where migrant worker rights activist Andy Hall touched on the Responsible Business Alliance's audit on the company, among other concerns.

VS Industry's share price reached a 52-week low of 99.5 sen that day.

Competitor SKP Resources Bhd was also not spared as selling pressure weighed on its shares. Both VS Industry and SKP Resources eventually and separately issued joint statements with Hall, promising to further improve the welfare of foreign labour in their employment.

In the Minority Shareholders Watch Group newsletter on Dec 17, its CEO Devanesan Evanson said these developments

show that ESG will feature prominently in fund managers' investment decisions.

"It will not be profit-at-all-costs for these fund managers. They will be prepared to take a lower profit or even a loss to send the right message to the market – that ESG matters," he wrote, adding that fund managers' preferences and inclinations will have an impact on share prices, and this will be another consideration that minority shareholders should watch out for.

During the year, it is evident that plantation stocks decoupled from the rally in crude palm oil (CPO) price as foreign funds shunned these counters due to environmental and sustainability concerns. Despite CPO reaching a historic high of RM5,000 per metric tonne for a year-to-date gain of 62%, the KL Plantation Index actually lost 11%.

Commenting on the de-rating of companies on Bursa Malaysia due to ESG requirements, Chris Eng, chief strategy officer of Etiqa Insurance and Takaful, a member of the Maybank Group, says the pressure from ESG investors will raise the operating standards and practices of companies in the long run despite the short-term pains.

"It's a clash of standards and expectations between practice and the evolving expectations of foreign investors. The perception may change one day but not in the next few years, which is a pity," he says.

On the lacklustre performance of plantation stocks, Eng thinks the production of palm oil can be sustainably managed, but investing in the producers requires in-depth research. "The problem is the perception of palm oil is negative. And given the negligible percentage of plantation stocks in the portfolios of foreign funds, they are avoided totally," Eng explains. ■