

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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LEAP Market gains ground despite weaknesses

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The Leading Entrepreneur Accelerator Platform Market — better known as LEAP Market — has received much criticism and mixed reviews from investors, who claim it has not been living up to its main purpose in recent years. Criticism seems to vary from its lack of liquidity to not having a proper transfer listing framework, but one thing is clear: Small and medium-sized enterprises (SMEs) still chose to make the leap to its platform.

Over the past five years, the LEAP Market has attracted 48 companies in total — raising about RM250 million from their listing exercises — although five have been delisted between 2020 and now (see chart). The 43 LEAP companies have a combined market capitalisation of RM4.7 billion.

The adviser-driven LEAP Market was launched by Bursa Securities at Invest Malaysia Kuala Lumpur 2017, as a complementary marketplace to the Main and ACE Markets and an alternative platform for emerging companies, particularly SMEs, to raise capital.

There is no minimum operating track record or profit requirement for companies to list on the LEAP Market, but it is worth noting that only six companies are loss-making, suggesting that most of them are of good quality with a potential for growth.

Indeed, corporate observers opine that six out of 43 is a much better ratio as compared with companies listed on the Main and ACE Markets.

Shortcomings of the entrepreneur accelerator platform

Still, the LEAP Market has drawn its fair share of criticism, including its lack of liquidity and vibrancy. This is because Bursa Malaysia's third market is accessible only to sophisticated investors as prescribed under the Capital Markets and Services Act (CMSA) 2007.

In terms of market activity, only 10% of a LEAP-listed company is tradable. In other words, only a handful of investors can participate in the LEAP Market and these are mainly accredited investors.

Critics also point to the lack of a transfer listing framework to define a process of graduation from the LEAP Market to the ACE or Main Markets. Indeed, for that reason, several LEAP companies had decided to withdraw their listing status as they could no longer wait for the framework to be developed.

Bursa Securities recognises this. "While there may not be a transfer framework in place today, we are already working on developing the transfer framework," says the stock exchange controller in an email response to *The Edge*.

Cosmos Technology International Bhd is clearly aware of the LEAP Market's weaknesses. The integrated water technology solutions provider debuted on the market in March 2020, but took itself private in November 2021.

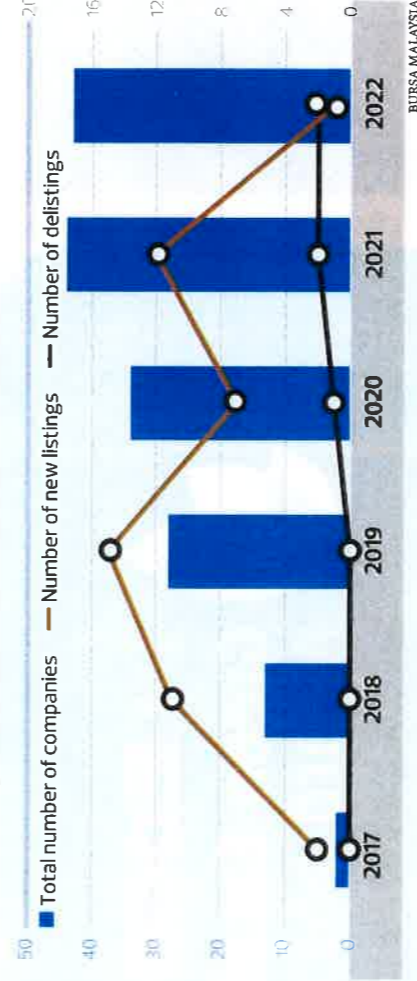
Managing director Datuk Chong Toh Wee says one of the issues that the company faced

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New listings on LEAP Market over the past 12 months

COMPANIES	LISTING DATE	AMOUNT RAISED (RM MIL)	ADVISER/MANAGING UNDERWRITER
Novelplus Technology	July 1, 2021	6	TA Securities
Dynafront Holdings	July 23, 2021	2.52	Hong Leong IB
Lim Seong Hai Capital	July 30, 2021	0	Astramina Advisory
Carzo Holdings	Sept 9, 2021	0	TA Securities
Steel Hawk	Oct 29, 2021	3.2	UOB Kay Hian Securities
Sunmow Holdings	Nov 25, 2021	0	DWA Advisory
Alpha Ocean Resources	Dec 8, 2021	3	Thinkat Advisory
Ray Go Solar Holdings	March 11, 2022	6.26	MainStreet

Listing statistics of LEAP Market companies



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and achieve greater milestones.

"It will be easier for the company to improve its image and profile with its stakeholders and widen its options for fundraising, enabling them to execute their expansion plans or tap the potential they see. In some cases, as we have seen, they can also use their shares as a commodity, such as issuing shares in lieu of cash in acquisition exercises," he says.

Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson concurs, noting that being listed brings an appeal of its own as there is price discovery when valuing the shares.

"With greater liquidity, the price discovery will be more representative of demand and supply. The spreads will be narrowed. Perhaps the companies aspiring to be listed on the LEAP Market are also hoping that a framework for promotion to the ACE Market is in the offing and will be released soon. That could be a motivation for the aspirants," he says.

Being listed on the LEAP Market also brings about some transparency as far as the company is concerned and increases the trust of stakeholders, especially the suppliers and customers of a company, he says.

These are expected to reduce the cost of funds when these companies seek funding, says Devanesan.

However, he acknowledges that the LEAP Market is still very much a work in progress, as there is no transfer framework for these companies to migrate to the ACE Market.

"The LEAP Market has served its purpose. There are aspirants who want to list there. But the LEAP Market can go to greater heights with a robust transitioning framework and greater liquidity," Devanesan says.

Tradeview Capital Sdn Bhd CEO Ng Zhu Hann agrees that although the intentions of regulators in launching the LEAP Market were good, the implementation is still a work in progress.

"The growth in the venture capital (VC) and private equity (PE) space in recent times has been encouraging for SME founders, be it for exit or growth. However, the LEAP Market provides visibility to the entire business landscape, including banks, financiers and dealmakers that would ordinarily be out of sight," he says. Ng points out that the positive effect of getting listed on the LEAP Market is not entirely quantifiable monetarily.

"Owners of LEAP companies could promote themselves to their clients and the public as being a listed entity governed by Bursa, enhancing the public profile which brings along market confidence. All in all, it is a quicker and more lenient way to get listed and raise funds by issuing shares without taking on debt to finance," he says.

Furthermore, LEAP companies could enjoy lower listing costs as they are only required to issue an information memorandum instead of a full prospectus.

"I believe these reasons are why the LEAP Market regime still has merits to exist today," he says.

companies and start-ups to increase their visibility and profile.

"In addition, the exposure to being listed and complying with post-listing obligations, including disclosure requirements, will ultimately contribute to their sustainable growth over the long term and help facilitate an easier path towards listing on the ACE Market."

Astramina Advisory Sdn Bhd founder and managing director Datin Wong Muh Rong believes many LEAP Market-listed companies float their shares on the market for profiling reasons, instead of fundraising.

"While a LEAP Market listing may not provide liquidity and a diversity of investors (compared with a listing on the ACE and Main Markets), it is a strong avenue for entrepreneurs seeking credible profiling. This is because the corporate governance, financial disclosure and audit oversight requirements for LEAP companies are very high," she tells *The Edge*.

Wong adds that LEAP companies that undergo these compliance requirements have to be of a certain quality, and thus, will be able to attain a certain level of branding.

Thinkat Advisory Sdn Bhd managing director Karl Fredericks is of the view that the LEAP Market's image can be improved.

"Unfortunately, it is often a target of derision, which is wholly undeserved. Given more promotion and support by the regulators, this can be easily improved," he remarks.

Fredericks believes many LEAP companies have good growth potential to become the blue chips of tomorrow.

"Being a listed firm may just be the right catalyst to spearhead the company to grow

the lack of liquidity in the LEAP Market as it was only applicable to sophisticated investors.

"While there is no regret for us in getting listed on the LEAP Market, we decided to delist the company in order to facilitate a proposed listing on the ACE Market, as we believe it is a bigger fundraising platform to support our expansion plan," he tells *The Edge*. Cosmos Technology's draft prospectus was submitted to Bursa Securities in January and is pending approval.

On how the LEAP Market can be improved, Chong believes that the regulators should quickly finalise the transfer framework. More importantly, he says, the LEAP Market's limitation to sophisticated investors should be removed. "It should be accessible to institutional and individual investors," he says.

Profiling an additional benefit

The question remains: Why are companies still keen to get listed on the LEAP Market, knowing even now that the platform has unresolved issues?

Bursa Securities highlights that the LEAP Market was created to serve a very specific segment — small companies and start-ups in the very early stages of growth.

"We believe there is a growing awareness that the LEAP Market offers additional benefits apart from fundraising. The LEAP Market is establishing itself as a trusted and reliable platform, providing investors access to potentially high-growth companies with the commitment of investing in a transparent and orderly market," says Bursa Securities.

It adds that the LEAP Market enables small



Wong: The existing requirement for disclosure for the LEAP companies is almost on par with Main Market-listed companies



Devanesan: The sooner a framework is in place, the more popular the LEAP Market will be



Fredericks: Unfortunately, it [LEAP Market] is often a target of derision, which is wholly undeserved



Ng: Without a transfer framework, LEAP companies are stuck in limbo without potential for progression

Making the leap to the ACE Market

Since 2019, many LEAP companies have been urging the regulators to formulate a clear and smooth board transfer framework. Three years have gone by and a proper transfer framework has yet to emerge.

Since 2020, five companies — Polymere Link Holdings Bhd, JM Education Group Bhd, Cosmos Technology, Zenworld Holdings Bhd (formerly known as MyKris International Bhd) and TT Vision Holdings Bhd — have been delisted from the LEAP Market. JM Education, an education counselling and student placement services provider, made its LEAP Market debut in February 2018 and was the third company to list on the third board. But in January last year, JM Education became the second company to delist from the platform, following Polymer Link.

For JM Education managing director Teh Cheong Hua, the illiquid nature of the LEAP Market is a major concern among investors. Secondly, the lack of a straightforward transfer mechanism to the ACE Market is another letdown.

"I would say the listing (on the LEAP Market) was a good experience for us. We do not discount the possibility of an ACE Market listing in the future, but we are not looking at it in the immediate term," he says.

More recently, on June 10, Aurora Italia International Bhd had proposed the withdrawal of listing from the LEAP Market to facilitate its listing on the ACE Market.

Still, some quarters say it makes a mockery of the LEAP Market if a LEAP company needs to be delisted before going to the ACE or Main Market.

Urgency to come up with transfer framework

Bursa Securities says it is continually looking at ways and means to improve and enhance the initial public offering (IPO) framework. However, it notes that these initiatives typically require rule changes as they would impact not only issuers, but also investors and other market participants. Hence, refining these initiatives takes time as it requires much thought and a thorough process.

"That said, we have made significant progress in developing a transfer framework and will be issuing a public consultation soon as part of the process of formalising the same. In essence, the transfer framework is meant to give an avenue for current LEAP Market-listed companies to apply for a transfer to the ACE Market while still being listed on the LEAP Market," the regulator says.

It adds that as these LEAP companies grow and arrive at the desired level of maturity, they may then graduate to a higher market and

Liberalising the LEAP Market

Due to the nature of the LEAP Market, its liquidity and trading volume are expectedly low.

According to Tradeview Capital Sdn Bhd CEO Ng Zhu Hann, many firms listed on LEAP have not even had a single trade year to date and therefore, the share price performance data is not meaningful as it is based on the movement of only a few active stocks in the market.

Nevertheless, the financial performance of companies on LEAP is impressive, delivering three-year average sales growth of 33% with earnings per share (EPS) growth of 27%. Taking the FBM100 as a comparison, its estimated three-year average growth between 2019 and 2021 was around 1% for revenue and 8% for EPS.

"Even for the ROE (return on equity), LEAP's three-year average is 10%, while the FBM100's three-year average is only 7.4%. In short, financially, LEAP companies are in fact quite impressive when compared against the overall market," he tells *The Edge*.

The question, however, is whether the restriction placed on the LEAP Market — that it is accessible only to sophisticated investors — should be lifted so that the general public can also invest in these companies.

If public investors are allowed to invest in peer-to-peer (P2P) and equity crowdfunding (ECF), why aren't they allowed to invest in LEAP companies?

After all, LEAP companies are generally more established than the issuers in P2P and ECF.

Bursa Securities points out that the ECF and P2P platforms offer funding for small and medium enterprises (SMEs) and start-ups without an immediate secondary market for investors to exit, similar to the LEAP Market. Neither is there a market price for such investments.

The LEAP Market, however, provides that additional reference point and an avenue to acquire or dispose of such investments. Also, LEAP has been conceptualised based on a low cost of listing and speedier time to market.

Bursa Securities explains that the regulatory framework was also formulated on the basis of proportionate and balanced regulation, which is appropriate for a qualified market where participation is limited to sophisticated investors who are regarded as more experienced compared with retail investors in general.

"This restriction also serves as a risk management measure to safeguard investor interests," Bursa Securities tells *The Edge*. However, with the amendments made to Schedules 6 and 7 of the Capital Markets and Services Act (CMSA) 2007, the categories of sophisticated investors have been widened and LEAP issuers can now tap into a larger pool of investors, it continues.

"Notwithstanding this, we are in continuous consultation and engagement with the relevant stakeholders, including regulators, advisers and policymakers, to further improve the LEAP Market ecosystem, for example studying ways to enhance the liquidity, accessibility and utilisation of the LEAP Market," it adds.

Bursa Securities also points out that as with most SME exchanges around the world, these companies' shares tend to generally have lower liquidity, higher volatility in business performance and carry higher risks than larger established companies on the ACE and Main Markets.

"Typically, these companies either have not made profits, or have just made nominal profits and do not have a proven track record. Since such companies are still at the early stages of development and commercialisation, it is only natural that we limit access to such investments to sophisticated investors who typically have a higher risk tolerance," it explains.

Astramina Advisory Sdn Bhd founder and managing director Datn Wong Muh Rong believes some restrictions on the LEAP Market should be lifted.

"For listing purposes, the fundraising can continue to be exclusively allocated to sophisticated investors

for now. But after the listing exercise, and especially once the financial accounts of these companies are out, normal retailers should be allowed to participate. For a start, perhaps they can invest with, say, a RM20,000 or up to RM50,000 cap. This gives them a feel of the LEAP Market while at the same time providing some risk management," she suggests.

Wong adds that there is a need to address this discrepancy. If Bursa does not allow retailers to participate and buy shares in LEAP Market stocks, in a way, the stock exchange is taking away the rights of individuals to buy into good companies.

"After all, the compliance and requirements for LEAP companies are already extremely high. So why make the hurdle for investment so high for normal investors? Retail investors nowadays are also getting more sophisticated," she says.

Thinkat Advisory Sdn Bhd managing director Karl Fredericks says while he fully appreciates and respects the regulators' motivation to protect retail investors, there are other, far riskier investments available to the investing public.

A good comparison would be crowdfunding where retail investors are allowed limited participation, while sophisticated investors face no restrictions.

"The typical company seeking crowdfunding carries higher risks as compared to a LEAP Market company, if you compare the disclosure and information for a crowdfunding company versus a LEAP Market candidate, it's much lower," he says.

Meanwhile, the information memorandums for LEAP Market listings are comparable or have even higher disclosure standards than listing prospectuses in certain jurisdictions, says Fredericks.

"Financial disclosure is to a very high level where it is compulsory for financial statements to be audited by AOB (Audit Oversight Board) registered auditors, and this is similar to the ACE and Main Markets. Thus, to level the playing field, we believe that retail investors should be allowed to invest in the LEAP Market, with appropriate safeguards or limits," he says.

Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson concedes that LEAP Market-listed companies do not have the track records of companies seeking listing on the Main and ACE Markets. Thus, there is greater risk from an investor's point of view.

"It is understandable then why regulators have restricted access to sophisticated and accredited investors. But that was five years ago, and much liberalisation has happened since then. We have licensed investing in cryptocurrency, as an example. As such, there is a need to re-evaluate whether the premises then are valid now," he says.

"Maybe, investment education propaganda along with sufficient bold caveats is what is needed before opening up the LEAP Market to all. What is important is that investors go in with their eyes wide open and aware of the risks. Nevertheless, there is a need to re-examine whether the premises under which the LEAP Market rules were formulated five years ago are still valid and relevant today," Devanesan adds.

Tradeview's Ng says he has always been a big believer in empowering retail investors. "Only by empowering them can our stock market be competitive. Instead of relying on foreign funds or local institutions' impetus for the stock market, retail investors are untapped catalysts. As seen in 2020/21, they can be a force to reckon with. So, my answer would be 'yes' to lift the restriction, but do not stop educating the public while enhancing surveillance as well as scrutiny of potential listing entities and key personnel background prior to approval," he recommends.

Ng points out that Malaysia has seen quite a number of failures from businesses that sought to raise funds via P2P and ECF. Both are inherently riskier than the LEAP Market, although the investment quantum involved is much smaller.

"A few ideas would include broadening the definition of approved investors to allow a bigger pool of investors to participate instead of just limiting it to sophisticated investors," he says.