

Topic 18 - LEAP MARKET OF BURSA MALAYSIA (CONTINUE)

WHAT COULD WE EXPECT FROM COMPANIES TO BE LISTED IN LEAP MARKET FROM EXPERIENCES OF OTHER MALAYSIAN COMPANIES THAT ARE LISTED IN SIMILAR SOPHISTICATED MARKETS IN OVERSEAS

1. FACTORS THAT APPEAL TO PROMOTERS

Following from previous article, in my opinion, LEAP market is expected to have following appeals to SME promoters: -

1. Increasing the **ability to access into fund raising more easily**, by placement block of shares to new investors to meet future requirements;
2. **Raising the profile** of the business as customers and suppliers generally prefer to deal with a listed company;
3. It is **relatively cheaper cost** to be listed in LEAP market;
4. The **rules** for listing in LEAP market is **lesser stringent** that the existing ACE markets; and
5. It provides an opportunity for **early access** to the capital market.

Hence, it is likely companies would have chosen to be listed in LEAP even though in appearance it may seem qualified for ACE market but do not meet the more stringent rules of ACE. Such companies, may not qualify for ACE market due to unable to meet the size and profitability records and possibly LEAP market may be a consideration.

Malaysian Investors Looking Abroad Before LEAP Market

Prior to having a LEAP market, some SME companies in Malaysia have resorted to explore listing abroad in similar type of exchanges in overseas, specifically targeted to sophisticated investors that are prepared to take more investment risks.

In 2016, there were two Malaysian companies that were listed in London, AIM and ISDX markets.

A. Green & Smart Holding Plc (GSH)

GSH is involved in the building of gas plants at palm oil mills and capture the gas emitted from the palm oil mills, (i.e. methane) and use the gas to generate electricity and sell to Tenaga. GSH has working agreements with FELDA and FELCRA via GSH's associated companies, to invest in building bio gas plants at palm oil mills owned by FELDA and FELCRA. Its role is acting as EPCC contractor in building the gas plants at palm oil mills for its associated companies.

The sales of electricity from the power generation plants is accounted in two of its associated companies of GSH whereby the equity ownership is 15% for palm oil mills owned by FELCRA and 25% for palm oil mills owned by FELDA. Besides, GSH also undertakes the commissioning of its own gas plant at the point of listing (i.e. May 2016).

B. DagangHalal Plc

DagangHalal Plc's core business is providing the halal verification so that a consumer will know that the products bought are from a supplier that possess the halal certification bodies such as JAKIM and other Certification Bodies recognized by JAKIM.

DagangHalal Plc does not provide the halal certification but act as an intermediary to assist consumers to verify that a product has the necessary certification before making a decision to purchase. The certification is by JAKIM and halal certification bodies that has no linkage to DagangHalal Plc.

2. HIGH VALUATION COMMANDED AT THE TIME OF ADMISSION IN AIM AND ISDX

From below, we can see that the promoters have managed to command a high price to book valuation in both cases and we may expect to see the same in Malaysian LEAP Market. However, investors shall be cautioned that the liquidities for both companies are extremely low.

Company		Green & Smart Holdings Plc	DagangHalal Plc
Exchange		AIM, London	ISDX, London
Listing Date		6 May 2016	7 April 2016
Pre-money, Net asset (RM million)		9.1	2.6
Post-money, Market capitalization (RM million)		144	83
Amount raised during IPO (RM million)		25 ^{note 1}	24 ^{note 2}
Pre-money to Book Ratio at time of Admission	0 to 10 times		
	10 to 20 times	√	
	More than 20 times		√
Others		Admission price was 9.0 pence and recent price was 8.6 pence per share	Admission price was 25.0 pence and recent price was 26.5 pence per share. Company made a loss of RM 10 million in the first year of listing.
<p>Note 1: Raised GBP4.0million or almost RM25million by issuing 16.1% of its shares to sophisticated investor pools from Malaysia and abroad.</p> <p>Note 2: Raised GBP0.3million or almost RM1.7million by issuing 2.0% of its shares to sophisticated investors abroad, However, prior to listing, the company has managed to raise RM 22.1 million from Malaysian investor. Meaning only 7% of funds are raised in overseas and balance are raised in Malaysia pre-IPO and during IPO.</p>			

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3. LOW TRADING LIQUIDITY – LESS ACTIVE MARKET

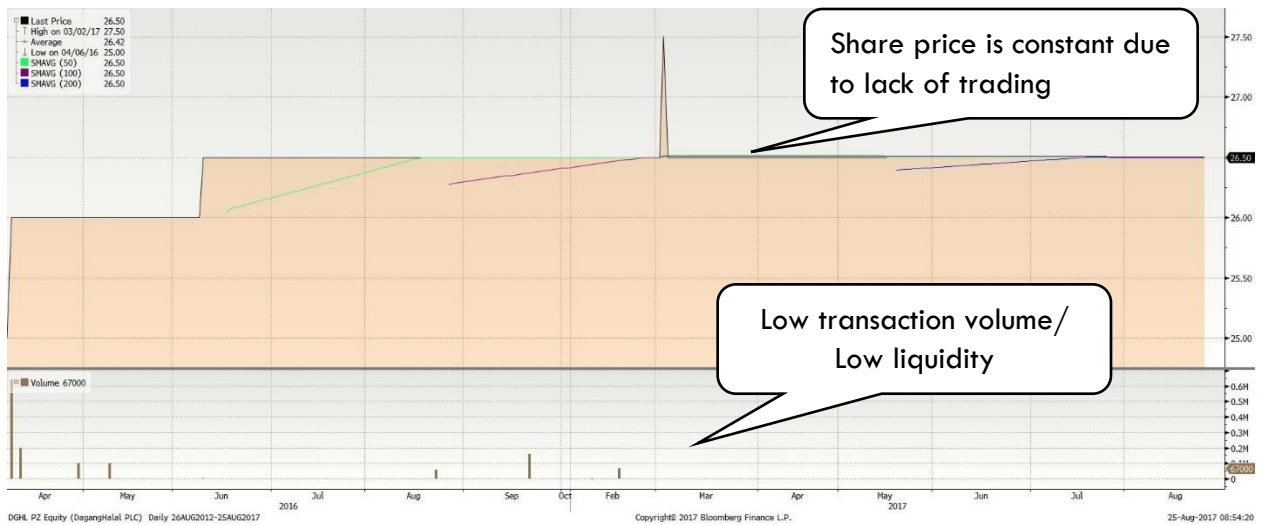
Early accessibility to capital market with high valuation commanded in both cases, may come with a sacrifice, as liquidity is low for a non-active market which is only open for sophisticated investors. This means investors need to have a **longer holding period** in such market. Tabulated below is the share price for both companies from listing date to present.

A. Green & Smart Holding Plc (GSH)



Source: Bloomberg

B. DagangHalal Plc



Source: Bloomberg

4. CONCLUSION

A ranking of the two companies that were listed in overseas market in 2016 and the aspiring potential companies to be listed in LEAP based on based on 3 characteristics. Its net assets, revenue and profit after tax prior to listing is as listed below.

Pre-money Financial Statistic based on Latest Publicly Available Information											
Listed / To be Listed	Issuers / Potential Issuers	Sector	Net Assets			Revenue			Profit After Tax		
			A = < RM1million	B = RM1-10million	C = RM10-20million	D = <RM5million	E = RM5-25million	F = RM25-45million	G = <RM1million or loss	H = RM1-2million	I = RM2-5million
			A	B	C	D	E	F	G	H	I
Listed aboard	Green & Smart Holding Plc	Manufacturer of biogas plants and IPP									
	DagangHalal Plc	Information Technology									
To be Listed in LEAP Market	Agrofresh International Group Sdn Bhd ^{note1}	Agriculture Trading and Bio-Technology	See note 1 below								
	Red Ideas Holdings Sdn Bhd ^{note2}	Not available in public disclosure	See note 2 below								
	Polymer Link Sdn Bhd	Manufacturer -Powered Plastics									
	Trustgate Bhd	Information Technology									
	Accent Wellness Global Sdn Bhd	Healthcare- customized compounding medication									
	East West One Group Sdn Bhd ^{note3}		See note 3 below								
	Macfeam Sdn Bhd	Manufacturer -structural tubular									
	Upstream Downstream Process & Services Sdn Bhd	Engineering services – Oil and gas									
	ProEight Sdn Bhd	Manufacturer engineering company- mechanical seals									
	Safetyware Sdn Bhd ^{note4}	Manufacturer -industrial safety products									

Note1: Incorporated on 9 June 2017 with an objective to be involved in plant tissue culture.

Note2: Incorporated on 7 June 2017 with objective not yet disclosed in public domain.

Note3: Incorporated on 30 December 2013, and until 30 April 2016, it has not commenced operations. However, there were two plantation schemes launched on 13 February 2017 and 8 March 2017 under East West One Consortium Bhd and East West Horizon Plantation Bhd having common directors and individual shareholders with East West One Group Sdn Bhd.

Note4: Incorporated in 2003 with three subsidiaries. The results as tabulated are not consolidated as Safetyware Sdn Bhd has three subsidiaries which results are not consolidated in the analysis above.

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If experiences learnt from both cases shall repeat in the LEAP market, we shall expect as follows: -

- Companies listed in LEAP may command a relatively higher valuation due to growth potential of such early businesses, but it comes with a considerable business risks as well as business is in still early growth stage
- Trading volume of shares is expected to be low (low liquidity)
- It is meant for sophisticated investors with a longer holding power, higher disposable income and better appetite for risks.

The author wishes to declare that the author and Asia Equity Research do not have any share ownership in any of the companies discussed prior to this and until current date. This article is prepared by Ong Tee Chin, CFA, FRM, and represents the view of the author. He can be contacted at general@aer.global for any further enquiries on the contents of this article.