The Bulletin

APRIL 2020 CAPITAL MARKETS MALAYSIA NEWSLETTER

COVID-19: Securities Commission Malaysia Announces Relief Measures for Capital Market Participants

To ease the cost burden of capital market participants, the SC announced several relief measures on 24 March 2020 that will immediately benefit 231 licensed entities, 30 registered audit firms and 9663 licensed individuals. these measures complement the wider relief effort under the Economic Stimulus Package 2020 (ESP 2020) announced by the Government on 27 February 2020.

1 For holders of Capital Markets Services Licence (CMSL) and Capital Markets Services Representatives Licence (CMSRL)

- Waiver of the SC's annual licensing fees for 2020 on **the core regulated activity**[1] **of all CMSL entities** with Profit Before Tax of RM5 million or less during Financial Year 2019.
  - A qualified CMSL entity which has already made the payment prior to the announcement on 24 March will be offered a credit to offset against next year's licensing fees. This amount will be credited into their respective accounts in the Electronic Licensing Application (ELA) system but processing fee remains applicable and chargeable.
- Waiver of the annual licensing fees for the Year 2020 for all **individual CMSL holders and CMSRL holders**.
  - Individual CMSL holders and CMSRL holders (including Trading Representatives) who have made the payment prior to the announcement on 24 March will be offered a credit to offset next year's licensing fee. This amount will be credited into their respective accounts in the Electronic Licensing Application (ELA) system but processing fee remains applicable and chargeable.
- Reduction of the minimum **Continuing Professional Education (CPE)** requirements from the current 20 CPE points to 10 CPE points effective 1 July 2020 for a period of 12 months for all CMSRL holders and Employees of Registered Persons (ERPs).
  - This will ease the burden of CMSRL holders and ERPs whose licence anniversary date or cycle period falls between 1 July 2020 and 30 June 2021. Individuals who have collected more than 10 CPE points prior to their licence anniversary date in the second half of 2020, may carry forward their excess points to the next anniversary period.

For example, Person A and Person B shares the same anniversary date of 15 August 2020. To date, Person A has collected 5 CPE points, while Person B has fulfilled the 20 CPE points. Person A will be required to collect the remaining 5 CPE points by the anniversary date of his licence. Person B will be allowed to carry forward the excess of his 10 CPE points to the next anniversary or cycle period.

- Licensed intermediaries and registered persons are expected to monitor and ensure that their representatives comply with the CPE requirement.
  - Reduction of the minimum **training requirements** to three days from the current five days, effective 1 July 2020 for a period of 12 months for Trading Representatives and Marketing Representatives

2 For Public-Listed Companies (PLCs)

- Waiver of all listing related fees for a period of 12 months for companies with market capitalisation of less than RM500 million seeking to list on the Main Market.
- Waiver of all listing related fees for a period of 12 months for companies seeking to list on the LEAP and ACE Markets.

3 For Audit Oversight Board

- One-off training subsidy for existing registered firms of Audit Oversight Board (AOB) with less than 10 audit partners, up to RM30,000 per firm for Approved Training Programmes conducted by the Malaysian Institute of Certified Public Accountants (MICPA).

4 For Participating Organisations/Brokers

Margin financing flexibilities for brokers and investors

- Effective 27 May until 30 September 2020, brokers may, at their discretion, not make margin calls or impose haircuts on any collateral and securities purchased and carried in margin accounts.
- Previously, brokers were required to automatically liquidate clients' margin accounts if the equity in those accounts falls below 130% of the outstanding balance. Brokers may avail themselves of this flexibility and modification provided they can comply with their own capital adequacy ratio and shareholder funds as required by Bursa Malaysia.
- Brokers can now accept other collaterals, such as bonds, unit trusts, gold and immovable properties to maintain their clients' margin accounts, and value these collaterals accordingly.
  - Brokers, trading participants, clearing participants and authorised depository agents are encouraged to operate shorter counter service hours for their clients.

Other flexibilities are given to licence holders

- The SC have also accorded several regulatory reporting reliefs to licensed persons and other stakeholders which were communicated on 20 March 2020.
- Details of the various reliefs can be obtained at the link below.
  https://www.sc.com.my/resources/media-releases-and-announcements/sc-grants-regulatory-flexibilities-for-market-participants

Can PLCs hold their AGMs after the six-month period from the close of their financial year?

- Pursuant to a statement issued by Companies Commission Malaysia(SSM) on 16 March 2020, PLCs may apply to defer their Annual General Meetings (AGMs) with the SSM, beyond the prescribed 6-month period as stipulated under the Companies Act 2016.
- In addition, the SC has granted a 2-month extension for Real Estate Investment Trust (REITs) managers of listed REITs with financial year-end of 31 December 2019 to hold their AGMs by 30 June 2020.
  Listed issuers are reminded to comply with their continuing disclosure obligations under the Listing
- Requirements including the obligation to make immediate announcements of any material information to ensure that shareholders and investors continue to receive information in a timely manner.

Can PLCs defer the announcement of quarterly or annual reports?

- Listed issuers are granted an automatic one-month extension for issuance of quarterly and annual reports for the Main and ACE Markets, as well as semi-annual and annual audited financial statements for the LEAP Market, that are due on 31 March 2020 and 30 April 2020.
- More information on the extension of time can be found in Bursa's announcements dated 17 March 2020 and 26 March 2020 at www.bursamalaysia.com

An Analysis by RAM Ratings:

Malaysian Banks Resilient Enough to Weather Storm in 2020

"Escalating headwinds on both the domestic and global fronts pose greater downside risks to the performance of banks this year, even though we believe that Malaysian banks – with their strong fundamentals and prudent risk management – will be able to weather the storm,"

- Sophia Lee, Co-Head of Financial Institution Ratings

While we have maintained a stable outlook on the Malaysian banking sector for 2020, we highlight that banks face heightened uncertainties and challenges in the still evolving economic landscape. Key expectations for the sector are outlined in RAM's Banking Insight. These include:

- Loan expansion to slow to 1.0%-2.0% (2019: +3.9%), with a downward bias
- Asset quality indicators to weaken with gross impaired loan (GIL) and credit cost ratios rising to 1.70%-1.90% (end-January 2020: 1.56%) and 50 bps (2019: 30 bps), respectively, even after considering banks' relief measures
- Capital buffers to remain sturdy
- Funding and liquidity to stay healthy
- Softer profitability amid slower credit growth, compressed net interest margin (NIM) and heftier credit losses

The decade has gotten off to a rocky start with the outbreak of COVID-19 and political uncertainties. The far-reaching implications of the pandemic are anticipated to compound the effects of the US-China trade dispute, which had already slowed down the global economy in 2019. "We expect banks to closely monitor their credit exposures amid the present challenging scenario and envisage a pick-up in rescheduling and restructuring (R&R) activities," highlights Sophia Lee, Co-Head of Financial Institution Ratings.

Although the immediate impact of COVID-19 will be felt in the airline and tourism-related industries, retail trade, restaurants and hotel segments as well as in certain manufacturing sub-segments, spillover effects will be broad-based across economic sectors. Malaysian banks are extending temporary financial relief to affected borrowers, which include the R&R of credit facilities as well as a moratorium on loan repayments of up to six months. Although banks do not need to set aside provisions for loans that come under the relief measures now, impairment charges may be pushed out to 2021 if borrowers' weaknesses stretch beyond short-term cashflow issues.

In light of current events that saw the collapse of oil prices, fresh risks may emanate from the oil and gas sector as the steep drop in oil prices threatens to derail recovery charted by the industry in the last two years. Although the situation is still fluid, persistently weak prices will constrict activity and again lead to repayment difficulties, as witnessed several years ago.

During this tumultuous period, RAM estimates that the banking system's GIL ratio may worsen to 1.70%-1.90% in 2020 (end-January 2020: 1.56%) after taking banks' forbearance measures into consideration – this is equivalent to a 15%-30% increase (or about RM3 bil-7 bil) in absolute GILs. "As events are still unfolding, our best estimate of credit cost ratio stands at 50 bps, which is still manageable in our view," said Wong. Even in a hypothetical stress scenario that assumes a doubling of impaired loans to RM54 bil (resultant GIL ratio of around 3%), banks' earnings would weaken significantly but pre-provision profits should sufficiently absorb credit losses without affecting capital buffers.

The banking system's common equity tier-1 capital ratio stood at a robust 14.3% at the end of 2019.

Apart from pressures on asset quality, RAM notes that Malaysian banks' loan growth has been dwindling even before the onset of challenges brought on by COVID-19. Against the backdrop of weak business and consumer sentiments, the banking system's loan growth clocked in at a multi-year low of 3.9% in 2019, as did aggregate credit expansion (+4.7%), which includes corporate bond issuances. Malaysia's weaker loan growth in 2019 largely mirrored the performance of most of its regional peers amid a softer global economy.

"For now, we have pencilled in a loan growth of 1.0%-2.0% for 2020 (2019: +3.9%) but we highlight downside risks to our forecast given the evolving nature of the current environment," highlights Lee. The rapid spread of COVID-19 domestically and globally in recent weeks is anticipated to significantly weaken domestic demand and result in a more pronounced contraction in trade activities. Domestic political uncertainties also add to the plethora of downside risks in this regard, although overshadowed by the global health crisis at this juncture. In the event economic conditions worsen drastically, we foresee that it could be challenging for the banking system to achieve even a 1.0% loan growth this year.

Liquidity is anticipated to stay healthy in 2020. Although the banking system's liquidity coverage ratio came within a higher range of 140%-160% last year (2018: 130%-150%), Bank Negara Malaysia (BNM) had lowered the statutory reserve requirement (SRR) in November 2019 and more recently, in March 2020 (-150 bps cumulatively). The SRR currently stands at 2.0% – if the need to shore up the financial system's liquidity arises, the regulator would still have room to reduce the SRR (1.0% was the historical low between March 2009 and March 2011). We point out that Malaysian banks have limited dependence on offshore wholesale funding (less than 10% of the total banking system's funding liabilities), which lowers their susceptibility to any tightening in global liquidity conditions.

Looking ahead, topline pressure and potentially heavier impairment charges amid the current environment could dent banks' earnings this year (the eight banking groups' pre-tax ROA came in at 1.4% in 2019). BNM has slashed the overnight policy rate twice in 1Q 2020 to mitigate downside risks to Malaysia's economic growth, which will undoubtedly crimp NIMs further.

VC Focus:

A Conversation with Vynn Capital's Victor Chua

Against the backdrop of Malaysia's developing entrepreneurship ecosystem the rise in the number of homegrown start-ups that are slowly becoming regional names has created natural demand for seed and growth funding. Recognising this development, Securities Commission Malaysia started nurturing the venture capital industry. As of July 2019, there are 104 venture capital corporations (VCC) and Management Corporations (VCMC) in Malaysia.

We catch up with Victor Chua, founder of Vynn Capital, an early stage venture capital firm based out of Malaysia to find out his views on VC strategy and the industry in general. The firm, Victor tells us focusses on specific industry segments as its differentiating strategy. Victor, who is also Chairman of the Malaysian Venture Capital and Private Equity Association (MVCA), is a former investment manager of Malaysia Venture Capital Berhad (MAVCAP). After a stint at MAVCAP he launched his career into a Pan-Asia venture platform, Gobi Partners, managing the Shanghai-based venture capital firm's Southeast Asia investment strategy, and then founded Vynn Capital to focus on early stage technology investment opportunities in the region.

So what is key to a successful VC enterprise? Victor breaks it down for us:

Collaboration and partnership are twin pillars of a successful VC enterprise. Playing the role of an active advisor to the team behind portfolio companies whilst providing support in market expansion and business development are paramount. As is the ability to landscape opportunities available for young companies that are typically growing at a pace that is way beyond the capacity of internal resources. Long term partnership to portfolio companies is crucial, given that the typical investment holding period is around 5 to 7 years. An industry-specific approach, (in the case of Vynn, they focus on mobility/travel tech, property tech, food/FMCG tech and female tech) and an emphasis on portfolio synergy rather than a 'homerun covers all' strategy is key. And finally, Victor suggests that being a subject matter expert would add great value to LPs who have invested in your fund.

Victor's fund has invested into enterprises in both Malaysia and Indonesia and we had the opportunity to speak to a couple of Vynn Capital's investee companies.

Carsome is a C2B used car marketplace that is already in 4 countries, backed by MUFG and Daiwa from Japan as well as other investors from the U.S., China, Malaysia and Indonesia. Operating in a US$40 billion used car market, the company currently transacts more than 40,000 cars annually totalling more than US$300 million in transacted value. Carsome has raised US$85 million in the past to fuel expansion and key hires in building capabilities for the organization. As the company aims to digitalise car trading in the market by offering a better customer experience, it has significant room to increase market share in the highly fragmented landscape. Raising capital to fuel technological advancement meant that they were able to create an innovative and holistic trading environment, which they believe helped in capturing a market leader position five years after operations.

"Vynn Capital decided to invest into Carsome due to the expansibility of the business model. From a marketplace, the company has expanded into other lines of businesses, such as financing and moving forward into insurance and warranty. The business model is highly scalable and it solves a common pain point for the region – lack of transparency in the used car industry." Victor highlighted that it is also the team's ability to adapt and welcome good business partners that attracted Vynn Capital to invest into the company. For any young company, the ability to attract good business partners would propel growth.

Another investee company of Vynn Capital's is Dropee - a SaaS-enabled marketplace that connects local independent retailers to brands like Unilever and Nestle via an ordering app. Dropee, as explained by founders Lennise and Aizat, focuses primarily in the FMCG market with a goal of helping both retailers and suppliers digitize their entire supply-chain for a more precise and predictable inventory distribution across the chain. Dropee matches and then facilitates the transactions between retailers and suppliers, tackling a huge industry of 140,000+ underserved retailers in Malaysia which they say contributes over $ 110B in Malaysia alone.

Their most recent feat, they tell us, is receiving investment and enrolment into the Y Combinator programme – one of the most prestigious Silicon Valley seed accelerators. Amidst the global COVID pandemic, Dropee has successfully maintained 30-50% month-on-month growth and has big plans to help retail businesses stay afloat post covid situation. Funding received from Vynn Capital enabled expansion and growth – of over 400% in transactions volume & revenue compared to last year. Most recently, the co-founders of Dropee were also included in the Forbes Asia 30 under 30 list of 2020.

Similar to Carsome, Dropee's business model is highly scalable. As a marketplace, the company grew into becoming a tech provider to enable offline businesses to get online. As the company provides software for digitalization, the company learns more about the industry they are in and eventually expanded their services to include working capital financing as well. The model is scalable such that it could partner with Carsome to start an automotive marketplace and Dropee could also work with the rest of the portfolio companies of Vynn Capital as most of them have synergistic value amongst each other. The team behind Dropee is also familiar with the industry they are in, given their background and network. All these coupled, became the reason for Victor's belief in the company's potential.

Vynn Capital has come a long way since its inception in 2018. When asked what were some key learnings from their investment track record Victor points to the need for large investors to work with local investors to source for hidden gems, that it is important to be focused and specialized, with an emphasis on portfolio synergy rather than a 'spray-and-pray approach' and of course, as with all things – having the right partner is always key (in this case, in making positive return to investments!)

CMM Analysis:

How is COVID-19 impacting Sustainable Investing?

As governments around the world struggle with the inevitable economic fallout from the Coronavirus pandemic, and with steadily declining stock markets, investors are of course grappling with the effects of this crisis on their investments. There is certainly no silver lining here, but we were interested to find out how SRI (Sustainable and Responsible Investment)-related investments were faring against others in this time of unprecedented market chaos, and what the outlook will be for sustainable investing post-pandemic.

In evaluating the performance of SRI or ESG funds, advocates have long argued that companies with a serious sustainability mandate should have lower declines relative to their peers.

Indeed, well before the start of this pandemic, there have been indications that ESG funds seem to do better than their traditional counterparts during times of market volatility. In 2019 Blackrock published a white paper (Sustainability: The Future of Investing, February 2019) with research suggesting that ESG-friendly portfolios could be more resilient during a downturn. More recently, a series of reports and analyses by leading industry players seem to suggest that SRI, or ESG-friendly investments have in fact performed better than their conventional counterparts in the first quarter of 2020.

A Research Note published by HSBC on 25 March (ESG Stocks Did Best in COVID-19 Slump) provided an analysis of the performance (between 10 December 2019 when the crisis started and 23 March) of 613 shares of global companies valued over US$500 million where climate solutions generate at least 10% of revenues. Their study indicated that climate-focused stocks outperformed others by 7.6% from December, and by 3% since February. HSBC also analysed 140 stocks with the highest ESG scores and values above the global average and found that ESG shares beat others by approximately 7% for both periods.

As markets around the world see stocks plummeting it appears that ESG-related funds are proving their mettle. A recent Bloomberg report (Older ESG Funds Outperform Their Newer Rivals in Market Tumult, 14 March) stated that an analysis of the 2,800 ESG-themed funds they track globally showed that these funds fell by an average of 12.2% this year as of mid-March 2020 compared with a 23.2% drop of the Standard & Poor's 500 Index.

Research conducted by Bank of America Merrill Lynch (source: BofAML European Equity Strategy, Bloomberg, as at 24 March 2020) during this same period highlighted a similar result: MSCI ESG Leaders indices have outperformed mainstream equivalents in most geographies, although modestly.

By all accounts, the data seems to point to a promising future for sustainable investing. What then will this future look like after a global catastrophe on such a scale? And how might the pandemic shape global perspective on sustainable companies going forward? We look to industry for some answers.

Investor and stakeholder groups have begun to respond to the inevitable consequences of COVID 19. In a statement last week, the Principles of Responsible Investments (PRI) laid out a seven-point action plan, calling for immediate investor actions to support investee companies during these very trying times, which includes, among others, a reminder to maintain a long term focus in investment decision making. Fiona Reynolds, CEO of PRI, in a blog entry on 27 March (COVID-19: harnessing the power of collective investor action for change) implores the responsible investment community to step up its actions on social issues, particularly those around human and labour rights, pointing out in particular the plight of workers left vulnerable by economic downturns.

On its part, the UN Global Compact, the world's largest corporate sustainability initiative, made a special appeal to business leaders providing guidance through its Ten Principles with a specific reminder to support workers, communities and companies during these difficult times.

Rejina Rahim, managing director of Nomura Asset Management Malaysia tells us, "It would be a sheer waste of opportunity to help the future world if the pandemic has not taught us anything. If anything, the time to act is now. The Social and Sustainable aspect of investing can no longer be binary and needs a multi-factor and multi solution approach for a holistic solution to be found. This pandemic should be used to drive the SRI agenda to the forefront of public policies and consciousness of the general investing public."

Indeed, how a company treats its workers and suppliers during such tumultuous times will have an impact on returning customers after this crisis is over. We have already seen in a matter of weeks the positive press garnered by corporations that have stepped up to address the unfortunate social consequences of this catastrophe. Whether it translates into an upsurge in interest in sustainable companies will be interesting to note. Could the 'S' factor in ESG be the catalyst for future growth in sustainable investments?

If this pandemic teaches us anything, it is that for the sake of humanity we must come together to do the right thing - for the greater good. Angelia Chin-Sharpe, Chief Executive Officer, BNP Paribas Asset Management Malaysia posits, "The global COVID-19 situation has highlighted the scope and power of what can be achieved with a coordinated and focused effort. With this in mind, when we emerge from the current predicament, a key question will be if the collaboration and focus can be maintained and harnessed to address the climate crisis or other global issues requiring a focused and coordinated response."

In its simplest form, responsible investing is the deliberate practice of investing in corporations and funds that prioritise positive environmental, governance and social impact over financial returns. Perhaps once this crisis is over we will emerge with a transformed view of how we value businesses and corporations – a view that may positively impact the growth of sustainable investing.