Time for ‘fit and proper’ tests for directors of listed companies, not just for financial institutions.

The example of DLF Holdings, which has not demonstrated much corporate governance and internal controls since its Catalist listing, raises the question of accountability.

By MAK TEE TOON and CHEW YI HONG

On Feb 19, 2020, Catalyst-listed DLF Hold-
ings announced that it was selling a 62.3% stake in its technology arm, Silver BUFFET, to KT Teknologi Bhd for RM23.5 million. This was MALAYSIA’s largest-ever tech deal, valued at RM84 million.

On Feb 26, 2020, DLF listed only in July 2018. Having to sell a car to improve cash-flow so soon after its IPO raises a lot of questions and is symbolic of the state the company is in.

A desktop search found a car with the same make, model, and same registration date, listed by the dealer mentioned by the company. It was listed on Feb 19, 2020, the date the company announced the disposal.

The dealer’s listings showed no other BMWs in the previous three months. The remarks in the listing stated that the previous owner had returned the number plate, suggesting it likely has value.

All the above—same dealer, same model and make, same registration date and valuable number plate—suggest that it is almost certainly the same car.

The car plate, SSK3333B, would have listed value. In fact, the very exact car registration was listed for 2014 for RM1,070. Other “SSXXX” plates listed today also asking prices of between RM30,333 and RM12,800.

If this is the case, does the company still own the number plate? Or did it sell the plate separately and receive the proceeds?

The reason why we raise this issue is because the company has not demonstrated much corporate governance and internal controls since its listing.

LISTING THROUGH PLACEMENT

DLF listed in July 2018 entirely by placement, with 18.5 million shares at RM3.23 each. The controlling sharehold-
ers were Mafani Fan Chee Seng, the executive chairman, and Wendy Chee, an executive director and the CEO.

The placement raised RM4,255 million, or 51.12 million going to PrimePartners Corporate Finance (PFS), which was the sponsor, issue manager and placement agent. PFS received an additional RM490,000 through 2,608,700 new shares as part of its management fee for acting as sponsor and issue manager. The net proceeds of RM243.5 million were for general working capital and to fund acquisitions and alliances.

Not surprisingly, the shares rarely traded after listing. For instance, in the six months prior to this article, there were 0.0000 shares traded on the market on two trad- ing days.

And it has been all downhill since listing.

REVERSAL OF FORTUNE

The offer document portrayed a promising mechanical engineer and IT provider with a regional footprint. Its unaudited income statements showed impressive upward trajectories for revenues and profits. Revenues increased by more than 52% year on year, from RM13.7 million in 2017 to RM22.3 million in 2018. Profit before tax grew by 100% per cent and profit after tax by 427 per cent.

Curiously, despite the significant revenue increase, selling and distribution expenses and administrative expenses swelled by 70 per cent from just RM75,594 to RM521,337 and RM107,252, respectively.

Its first half-year results for the period to June 30, 2018, post-listing continued to show strong growth. Despite revenue falling by 6.8 per cent compared to the corresponding previous half-year, gross profit increased by 33 per cent and profit before tax by 144 per cent.

However, the unaudited FY2018 results announced on March 1, 2019, showed a total reversal of fortunes. Revenue fell by 15.2 per cent compared to FY2017, gross profit by 34.2 per cent, and net profit before tax from RM83.87 million to a loss of RM960.05 million (later adjusted to RM51.02 million loss based on audited accounts in April 2019). Profit after tax dropped from RM33.7 million to a loss of RM18.1 million (or RM25.4 million in audited accounts).

A 58.9% fall in revenue from mechanical and electrical services was largely responsible for the fall in revenues, which the company attributed to the completion of a hospital project and trade tensions between US and China, the latter resulting in reduction of purchases of its products from US customers.

Why did the company not issue a profit warning? While uncertainty in the global economic outlook was listed in the offer document under the long list of risk factors, it did not mention the trade tensions between US and China. The offer document said: “Our business is susceptible to the general economic conditions in Singapore.”

In March 2018, the US initiated import tariffs on cer- tain goods. In early April, China imposed tariffs of up to 25 per cent on 128 US products, and the US responded almost immediately with plans for 25 per cent tariffs on the same value of imports. In other words, the trade war had started several months before DLF’s IPO, but it was not mentioned in the offer document.

The company did not identify any major US custom- ers in its offer document, while its annual report shows two geographical segments of Singapore and Maldives for FY2017 and FY2018. So, what US customers and products does DLF refer to?

FRIENDS BECOMING FOES?

At the AGM on April 30, 2019, the CEO (who was the second-largest shareholder) and the three independent directors were voted out by the largest shareholder, Mr Foo, who himself was voted in with 100 per cent of the votes. The CEO, who was removed as a director, ap-pears to be clearly taken by surprise by the move to oust him, as the share count indicated that he had voted for Mr Foo.

The cessation announcements for the four directors who were voted out all stated there were no unresolved issues or matters that needed to be brought to the attention of the shareholders. The sponsor stated that it was satisfied that there were no other material rea- sons for their cessation. Did the sponsor interview the directors concerned?

SCQ queried the company. Two weeks later, on May 15, the company disclosed in its reply that some share- holders (including Mr Foo) were not satisfied with the performance of the CEO. They also decided to remove the independent directors to restructure the board with the change of management.

The three independent directors are the wrong appointees? Was dissatisfaction of the chairman/largest shareholder with the CEO not an matter that needed to be brought to the attention of shareholders?

On May 30, the company announced the appoint- ment of three new independent directors through a formal appointment process managed by the sole di- rector – the largest shareholder and executive chair- man.

The financial controller, who was then the most senior financial executive in the company, resigned on July 3 with immediate effect “to pursue other career op- portunities.” A replacement was announced that same day. The sponsor was satisfied that there were no other material reasons for her cessation. Did the company disclose the cessation promptly, when it first became aware of her intention to leave?

MORE BAD NEWS

About three weeks later, the company issued a profit warning for its 1H2019 results and the results released on Aug 14 were a catastrophe.

Revenue had collapsed 92 per cent to RM674.000 compared to RM39.54 million for the previous corres- ponding period. Gross profit fell from RM33.05 million to a loss of RM122.000, and net profit before tax had fallen from RM2.26.00 million to a net loss of RM5.62 million.

The fall in revenue was said to be due mainly to the

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Whatever its reasons, DLF’s latest account is a stark contrast to its initial offer. The company’s share price had more than doubled from RM5 in February to RM12 in June 2018, before falling back to RM4.74 by the end of 2019. The board’s failure to restructure the board and to manage the company properly has led to a significant loss of investor confidence.

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One more thing, DLF is selling another car for RM1,001—but we do not know its number plate.

Source: The Business Times, p19 Date: 3 March 2020