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CEO MORNING BRIEF

EPF prefers dividends or business expansion to share buyback

BY ANIS HAZIM
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KUALA LUMPUR (June 15): Recently the Employee Provident Fund (EPF) has voted against the proposed share buyback schemes in seven companies, all of which declared lower dividends in 2022.

They are Mr DIY Group (M) Bhd, Malakoff Corp Bhd, CTOS Digital Bhd, Genting Plantations Bhd, Pentamaster Corp Bhd, IHH Healthcare Bhd and Tan Chong Motor Holdings Bhd.

The pension fund is going to vote against Sunway Construction Group Bhd's share buyback resolution at its upcoming AGM on June 19.

The EPF reveals on its website that the rationale for opposing these companies' proposed share buyback schemes is that spare cash should be utilised for higher dividends to reward shareholders or for business expansion for better growth.

However, it is worth noting that EPF does not have a blanket policy against share buyback activities. It has voted for the proposed share buyback schemes in companies such as VS Industry Bhd, Fraser & Neave Holdings Bhd (F&N), Kuala Lumpur Kepong Bhd (KLK), CIMB Group Holdings Bhd, MISC Bhd, United Plantations Bhd, UOA Development Bhd, MBM Resources Bhd, Kerjaya Prospek Group Bhd and Oriental Holdings Bhd.

According to data compiled by The Edge, F&N, MISC, KLK, UOA and Oriental maintained their dividend payout in FY2022, while CIMB, MBM, United Plantations and Kerjaya Prospek paid higher dividends during the year. VS Industry, on the other hand, has consistently declared above RM1 in dividends, though the payout was lower in FY2022.

EPF's holding firms that proposed share buyback in 1H2023

Company	Shareholding (%)	Approve	Reject	Dividend (RM) FY2022	Dividend (RM) FY2021
CIMB Group Holdings Bhd	14.050	✔		26.00	22.99
MISC Bhd	12.792	✔		0.33	0.33
Genting Plantations Bhd	12.596		✘	0.34	0.30
Fraser and Neave Ltd	11.805	✔		0.60	0.60
CTOS Digital Bhd	11.620		✘	1.875	1.183
Kuala Lumpur Kepong Bhd	11.207	✔		1.00	1.00
UOA Development Bhd	10.321	✔		0.10	0.10
Malakoff Corp Bhd	10.224		✘	0.052	0.051
IHH Healthcare Bhd	10.189		✘	0.07	0.06
Sunway Construction Group Bhd	9.702		✘	0.055	0.052
Oriental Holdings Bhd	8.891	✔		0.40	0.40
MBM Resources Bhd	8.293	✔		0.43	0.26
United Plantations Bhd	8.226	✔		1.40	1.15
Kerjaya Prospek Group Bhd	7.242	✔		0.60	0.35
Pentamaster Corporation Bhd	6.727		✘	0.20	0.20
VS Industry Bhd	6.536	✔		2.00	4.20
Tan Chong Motor Holdings Bhd	6.442		✘	0.03	0.015
Mr DIY Group (M) Bhd	5.384		✘	0.024	0.029

Source: Bursa Malaysia, EPF website as of June 14, 2023

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The EPF has substantial stakes of over 5% in about 80 companies on Bursa Malaysia.

Genting Plantations, Tan Chong Motor and Mr DIY are the companies that EPF opined should utilise their substantial cash balances to pay higher dividends to shareholders rather than buy back shares.

The pension fund also opines that Sunway Construction could utilise its cash balance for business expansion and higher dividends.

Also, the EPF believes there could be better utilisation of cash for IHH Healthcare.

In rejecting Pentamaster's share buyback, the EPF said the semiconductor equipment vendor has weak free cash flow generation with no dividend policy.

"We view that the proposed share buyback will not bring value enhancement to the company and its shareholders," it said.

Similarly, the EPF said CTOS' share buyback scheme does not add much value to the pension fund and its shareholders. Instead, it prefers more cash dividends from the credit-reporting agency.

EPF also noted that Malakoff's share buyback will not significantly impact its shareholders. "Taking into consideration the company's negative performance and growth prospects, we are in favour of dividend payments," it said.

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Better control with share buyback

Having a share buyback scheme will allow companies to have better control of cash utilisation, said Investment Management Bhd chief investment officer Choo Swee Kee.

"Once dividends are paid out, they have no control over the money paid, and existing shareholders may not use it to buy more shares to support the share price. They (shareholders) can only hope that the dividend yield may attract more interest in their stock," Choo told *The Edge*.

With share buyback, the board will have the incentive to support the company's share price, especially if they have millions of share options.

"The higher the share price is being supported, the higher the value of the share options," he said.

Choo is of the view that paying dividends is a better option as it directly benefits all shareholders, while the share buyback scheme could be manipulated by the company.

"Share buyback does not generate realised income gains for institutional investors while dividend does, accounting-wise," he added.

According to him, the share buyback scheme has also recently stirred a debate in the US, where President Joe Biden has attacked some companies for spending money on buybacks rather than investing in their operations and called on the Congress to quadruple the tax on such stock repurchases.

Meanwhile, Areca Capital Sdn Bhd chief executive officer Danny Wong views that share buyback may be superior to reward the shareholders compared to dividends.

"It is actually a better form — the company uses the cash (balance) to create more value for its shareholders — one thing good about this (share buyback) versus the dividend as dividend is after tax," Wong told *The Edge*.

He explained with the dividend, the company pays out a portion of its profits to shareholders, who are subsequently taxed based on their individual ordinary income tax, while with a share buyback, the company repurchases shares from the open market and then cancels them, thus reducing the number of outstanding shares.

"(Share buyback) is (a) more effective (way) to utilise the cash rather than use it for expansion (business). The company is actually using the cash as capital to buy back the shares. So it is a kind of investment to the company," he said.