

# MALAYSIA SHARE PLEDGE MARKET, AN OUTLIER IN ASIA

The Malaysia market represents an outlier in equity-backed financing and an opportunity for private credit

## BACKDROP

- There is broad demand for capital onshore in Malaysia, as a significant segment of the economy was underserved by traditional bank financing even prior to the Covid epidemic.
- An analysis by EquitiesFirst identified the Malaysian market as a significant regional outlier for loans employing listed equity shares as collateral.

## KEY TAKEAWAYS

### Highest Proportion

- Malaysia has the highest proportion of companies which have disclosed a share pledging transaction as a percentage of total listed companies.

### 55% Average Price Appreciation

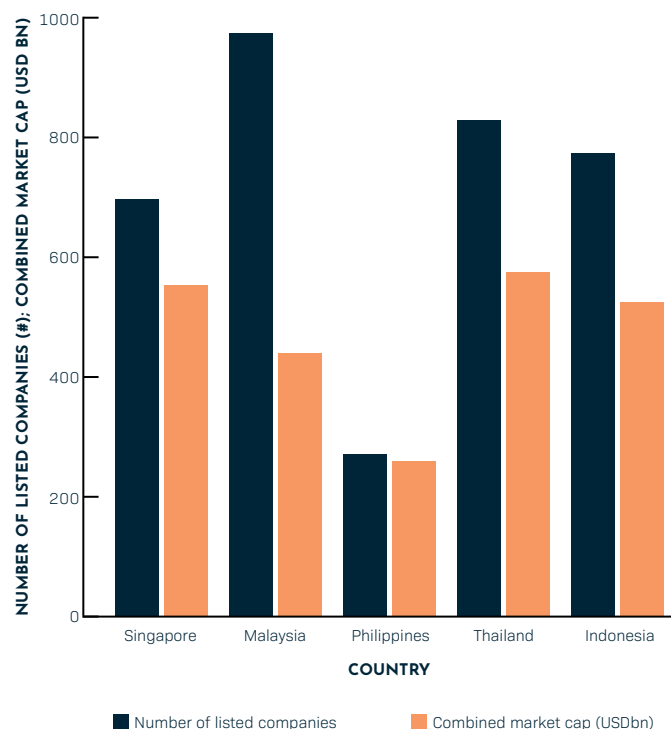
- 55% average price appreciation after the disclosure of the share pledging related transactions to date\*.

### 49% Average Outperformance

- 49% average outperformance to FTSE Bursa Malaysia KLCI Index after the disclosure of the share pledging transactions to date\*.

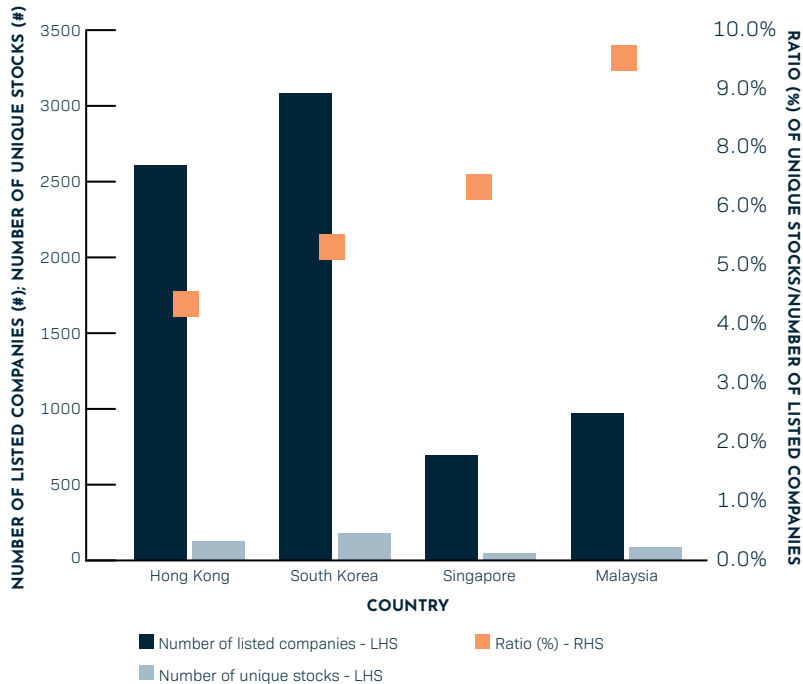
The stock market in Malaysia is one of the largest in Southeast Asia ("SEA") with 971 listed companies. The total market capitalization of Malaysian-listed companies is also comparable with other markets in SEA.

#### MARKET SIZE COMPARISON IN SOUTHEAST ASIA\*



Public disclosure is generally required when a major shareholder or director of a listed company pledges their shares. We have analyzed the number of instances for which there has been a disclosed share pledge transaction in several major Asian markets including Hong Kong, South Korea, Singapore and Malaysia.

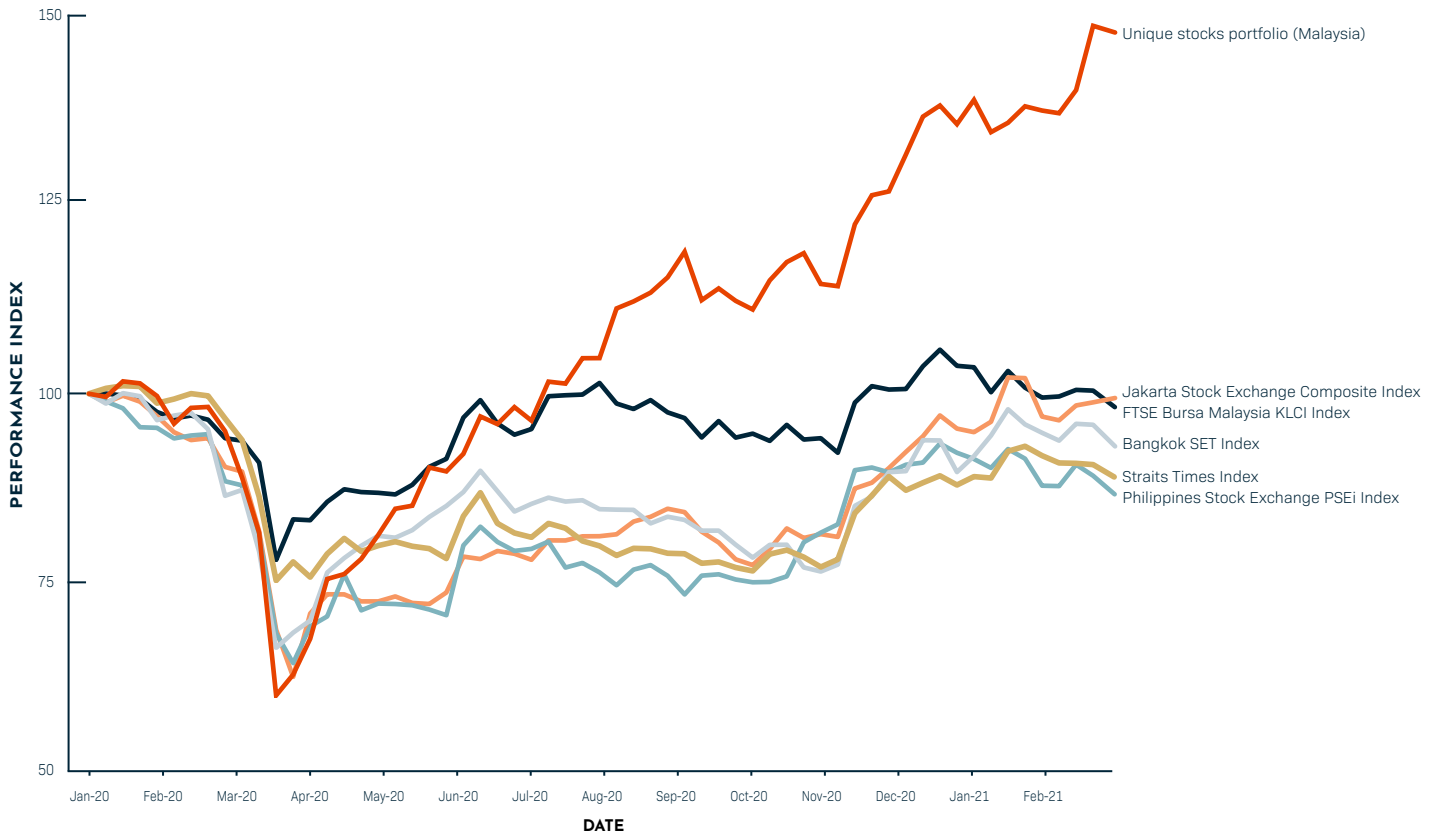
### PROPORTION OF UNIQUE STOCKS PLEDGED TO TOTAL NUMBER OF LISTED COMPANIES



While South Korea has the highest number of listed companies and absolute number of unique stocks pledged, Malaysia has the highest proportion of companies with pledged shares as a % of the total universe of listed companies. **Despite having only 971 listed companies, Malaysia has around 90 instances of unique stocks pledged.** To put this into perspective, the Hong Kong market has 2,608 listed companies but only around 100 instances of unique stocks pledged.

We have indexed the share price performance of the **90 unique stocks** in Malaysia from January 2020 to February 2021 on an equally-weighted basis and compared the performance with major stock indices in Malaysia.

### RETURN COMPARISON (REBASED)



EquitiesFirst is a global investment firm which specializes equity-backed financing for long-term, concentrated shareholders. Over the past 18 years, EquitiesFirst has provided capital to hundreds of investors and entrepreneurs around the world. (<https://equitiesfirst.com/hk/>)

Source: Bloomberg data (as of 22 February 2021)

## MALAYSIA SHARE PLEDGING MARKET ANALYSIS METHODOLOGY

Whenever there is a change in shareholding in Malaysia, the company discloses “the circumstances by reason of which the change has occurred”. While the specifics vary widely, we used keyword searches to identify disclosures related to share pledging transactions during the period from January 2015 to February 2021.

This includes:

### PLEGDED SECURITIES ACCOUNT

**1,309** Disclosures

### FINANCING

**81** Disclosures

### SALE & PURCHASE AGREEMENT

**20** Disclosures

### DISPOSAL OF PLEDGED SHARES BY THE BANK

**6** Disclosures

### LOAN FACILITY

**4** Disclosures

### MASTER SHARE SALE & REPURCHASE AGREEMENT

**4** Disclosures

### LOAN AGREEMENT

**1** Disclosure

### BANK LOAN

**1** Disclosure

**42,357 disclosures** under  
**Changes in Director's Interest**  
(Section 219 of CA 2016)

**620 disclosures**  
related to share pledging  
transactions

**65 unique companies**

**171,535 disclosures** under  
**Changes in Substantial  
Shareholder's Interest** (Section  
138 of CA 2016)

**806 disclosures**  
related to share pledging  
transactions

**82 unique companies**



Total of

**90 unique stocks**

Across both populations

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Source: Bloomberg data (as of 22 February 2021), Bursa Malaysia (February 2021)  
Asia Pacific Guide to Private Credit, BakerMcKenzie, 2020.  
World Bank Enterprise Surveys

We analyzed the share price movement of the 90 unique stocks immediately after their most recent share pledging-related disclosures and aggregated the performance data below:

**+0.7%**

Price change 1 day after the disclosure

**+0.1%**

Price change 1 week after the disclosure

**-1.9%**

Price change 1 month after the disclosure

**+55.5%**

Price change to date\* after the disclosure

## MALAYSIA OPPORTUNITY

The private credit market potential remains untapped by private investors and specialist funds as most lending activities are dominated by traditional institutions which hold banking licenses onshore. However, exemptions for offshore entities to transact with Malaysian borrowers using

Malaysian assets as security are not uncommon. These can be an essential source of liquidity during times of economic crisis when local bank credit is tightened and risk appetite is reduced.

## UNDERSERVED BY TRADITIONAL BANKING

**15.7%**

Percentage of investments financed by banks

**68.1%**

Percentage of firms without a bank loan/line of credit

**16.7%**

Proportion of working capital financed by banks

**12%**

Percent of firms identifying access to finance as a major constraint

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\* As of 22 Feb 2021

Source: Bloomberg data (as of 22 February 2021), Bursa Malaysia (February 2021)

Asia Pacific Guide to Private Credit, BakerMcKenzie, 2020.

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## CONTACT US



### GORDON CROSBIE-WALSH

CEO Asia

+852 3958 4589

gcrosbie-walsh@equitiesfirst.com

### BANGKOK

+66 2059 0242

THinfo@equitiesfirst.com

### BEIJING

+86 10 5929 8670

info@equitiesfirst.com

### HONG KONG

+852 3958 4500

HKinfo@equitiesfirst.com

### SEOUL

+82 2 6370 5180

info@equitiesfirst.com

### SHANGHAI

+86 21 8033 3601

info@equitiesfirst.com

### SINGAPORE

+65 6978 9100

SGinfo@equitiesfirst.com

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