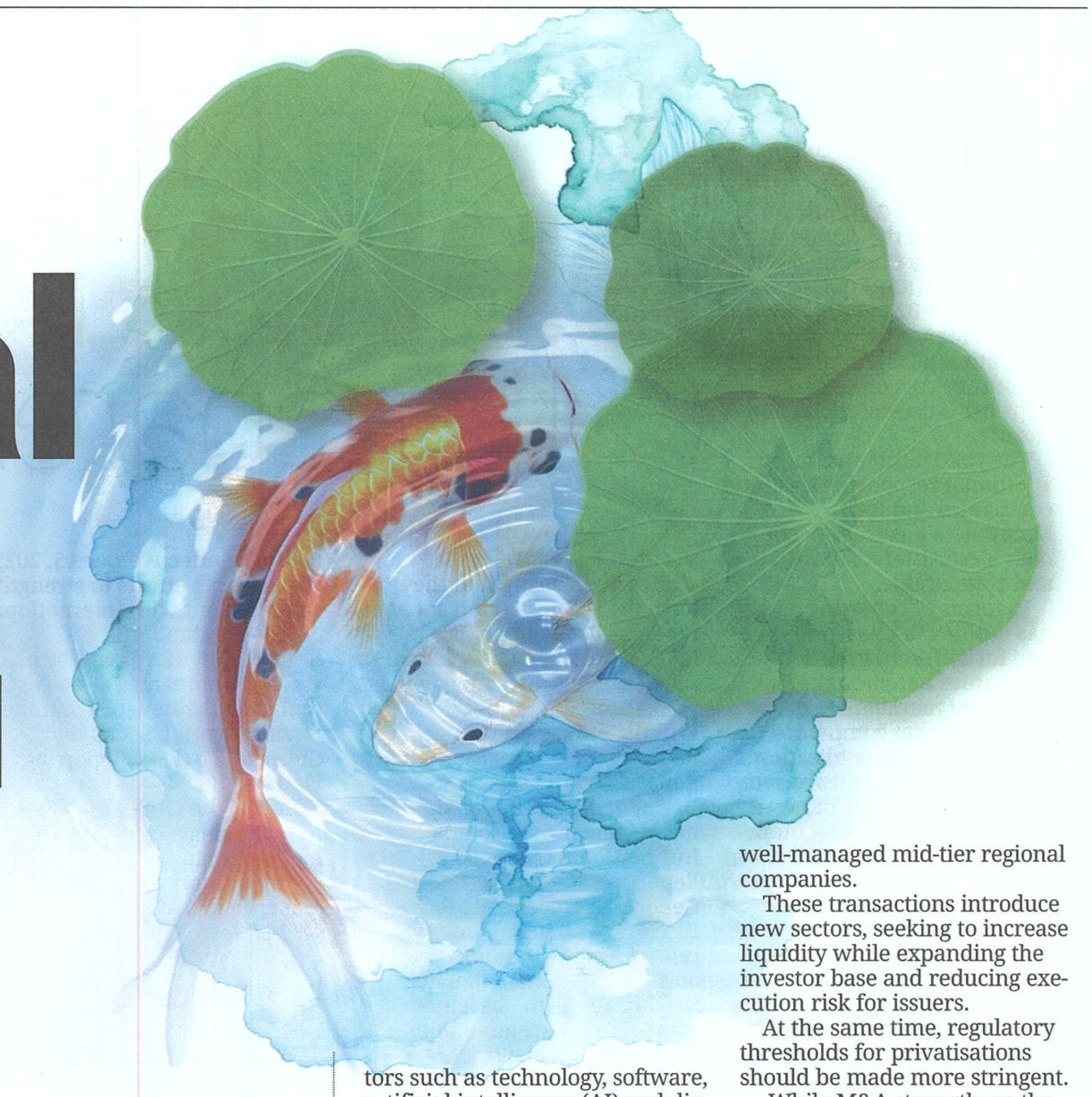
CMP4's critical role in capital markets



A POND may appear calm when water finds its own level, but without fresh inflows and outflows, it eventually stagnates.

Capital markets behave very much the same way. Against this backdrop and as the Securities Commission (SC) prepares to unveil the Capital Market Masterplan 4 (CMP4), Malaysia's capital market finds itself at a point of transition.

Capital is more mobile, competition for listings is more intense and market relevance is increasingly shaped by speed, liquidity and adaptability.

The challenge before policymakers is not merely to refresh an existing framework but also to recalibrate how it operates in a faster, more dynamic and competitive global landscape.

The conclusion of CMP3 in 2025 marked meaningful progress, particularly in disclosure standards, digital financing initiatives and sustainability-linked frameworks.

Despite these advances, market activity has softened, liquidity has dwindled and Malaysia continues to lose high-growth companies to overseas exchanges.

The indexes over the past three decades reflect this. In early 1996, the FBM KLCI was trading around the low-1,000s, while the Dow Jones Industrial Average stood at about 6,500.

Today the FBM KLCI trades at 1,680-1,690 points, while the Dow Jones sits above 48,000, representing more than a seven-fold global gain compared to a modest rise at home.

The relatively low growth of Bursa Malaysia's index (merely around 1.4x) reflects not cyclical weakness but unresolved "structural" issues.

This does not imply weak regulation or deficiencies in governance. Rather, it points to misalignments in how capital is formed, recycled and retained within Malaysia's public market.

These structural misalignments have become more visible as the competitive landscape for capital has expanded beyond the public equity market itself.

DATIN WONG MUH RONG
Managing director of Astramina Advisory Sdn Bhd

This competitive pressure no longer comes solely from other public exchanges.

Today, capital competes across a far wider set of alternatives – global equities, private markets, digital assets and increasingly frictionless online trading channels that allow investors to deploy funds across borders with ease from their mobile devices.

Cryptocurrencies, private equity, venture capital and overseas markets now sit alongside domestic equities as viable destinations for risk capital, intensifying competition for liquidity, attention and participation.

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Why IPOs alone are insufficient to stimulate market activity

At its core, a vibrant capital market is conventionally driven by two engines: initial public offerings (IPOs) and mergers and acquisitions (M&A).

Malaysia's regulatory framework has historically focused heavily on IPOs, while M&A – particularly reverse takeovers (RTOs) and backdoor listings (BDLs) – has been treated with disproportionate caution.

This creates imbalances whereby IPOs become the dominant growth pathway while M&A activities could result in privatisation, with capital being removed from the public market instead of being recycled, leaving in its wake lost opportunities for corporate renewal and transformation.

Globally, RTOs and BDLs are legitimate avenues for M&A-led growth, with minority shareholders protected.

When a transaction results in a change of control or business direction, minorities are safeguarded through transparent exit mechanisms, including the mandatory general offer (MGO) requirement.

CMP4 should therefore aim to recalibrate this approach, allowing market-driven M&A to flourish while maintaining strong disclosure and shareholder protection mechanisms.

The cooling of trading activity on Bursa Malaysia since the pandemic actually reflects deeper structural constraints in the composition of the listed market.

Malaysia's exchange remains dominated by mature, traditional businesses that meet historical profit and cash-flow listing tests.

By contrast, high-growth sectors such as technology, software, artificial intelligence (AI) and digital platforms, now the main drivers of global market liquidity and valuation rerating, remain somewhat under-represented.

This is not due to a lack of entrepreneurial capability. Rather, it reflects a framework that is misaligned with modern growth business models.

High-growth companies typically invest heavily before turning profitable.

Requiring positive operating cash flows at the point of listing places Malaysia at a competitive disadvantage and explains why companies such as Grab ultimately chose to list overseas.

The recent market segmentation consultation conducted by the SC, which proposed removing positive operating cash flow as a key requirement along with other changes, should be lauded as it clearly demonstrates that the authorities have acknowledged structural issues and are seeking immediate modifications.

CMP4 should therefore aim to move towards a more forward-looking assessment of listing suitability, supported by robust disclosure, rather than rigid reliance on backward-looking profitability metrics.

Differentiate through M&A-led listings supported by a pragmatic approach for foreign ones

Malaysia cannot realistically compete with the United States, Hong Kong or Singapore for top-tier global technology listings.

However, it can position itself as a credible regional platform for M&A-driven listings and corporate transformation. This is our nation's "sweet spot".

Liberalising the RTO and BDL framework – with greater emphasis on market capitalisation thresholds rather than narrow profit or sector tests – would allow Bursa Malaysia to attract well-managed mid-tier regional companies.

These transactions introduce new sectors, seeking to increase liquidity while expanding the investor base and reducing execution risk for issuers.

At the same time, regulatory thresholds for privatisations should be made more stringent.

While M&A strengthens the market, delistings weaken it.

CMP4 should therefore aim to actively discourage unnecessary exits from the public market.

Foreign listings should continue to be encouraged, but with a pragmatic shift in emphasis.

Rather than relying solely on traditional IPOs, Malaysia should welcome foreign companies through M&A routes (RTO or BDL) that allow them to acquire or merge with existing listed entities.

For many second- and third-tier regional companies, this approach offers faster market access, lower execution risk and built-in capital flexibility.

Some Malaysian companies with strong cash reserves could serve as potential hosts for mid- and second-tier AI or information technology companies – which typically cannot meet the profit test or qualify as IPOs – to consider listing on Bursa Malaysia, provided that market capitalisation can be included as a criterion for RTO or BDL consideration.

Over time, such transactions can significantly enhance the diversity and dynamism of Bursa Malaysia.

As Malaysia's capital market evolves, regulators must learn to trust market maturity while ensuring advisers, promoters, and issuers uphold high standards of disclosure and conduct.

Today's investors are sharper, savvier and better equipped to act when information is clear, timely, and complete.

The success of CMP4 therefore hinges on striking the right balance: giving companies the flexibility to raise capital and transform, while safeguarding minority shareholders and enforcing rules credibly.

If we get this right, Malaysia's capital market stands to regain depth and liquidity, emerging stronger, more competitive and future-ready for the investment community today and the next generation to come.

The right way for Sunway

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> Sunway has not picked up a single IJM share in the open market, although they are trading at a steep discount

> Sunway should have been better advised if there was risk in proceeding with this offer

> Investigation clouds investors' perception of the value Sunway can generate

BY now, most investors are familiar with the conditional voluntary take-over offer presented by Sunway Bhd on IJM Corp Bhd, valuing the latter at RM11.04bil or RM3.15 per share.

The proposed consideration will be satisfied via the issuance of 1.759 billion new Sunway shares valued at RM5.65 per share, worth some RM9.937bil, plus RM1.104bil in cash.

In summary, IJM shareholders will receive 501 new Sunway shares plus RM315 for every 1,000 IJM shares held. The deal remains conditional upon Sunway obtaining shareholders' approval at an Extraordinary General Meeting (EGM), as well as Sunway crossing the 50% ownership threshold, which will allow the offer to turn unconditional.

Sunway must dispatch the offer document to IJM shareholders by Feb 2.

There are several issues with respect to Sunway's offer and how the company could have provided a much better deal to IJM shareholders, as well as the timing of the offer itself.

Here are three factors as to how Sunway should have approached the IJM deal:

> An easier swap ratio

Instead of having a strict 90% share swap and 10% cash offer, Sunway should have made some adjustments to the offer with 500 new Sunway shares valued at RM5.65 each and adjusted the cash offer to RM0.325 instead.

A one-sen higher cash offer could have reduced the incidence of odd-lots for smaller retail investors.

Based on this scenario, Sunway would have to fork out an additional RM35mil in cash and reduce the number of new shares to be issued under the conditional offer to 1.753 billion new shares, a reduction of 6.2 million new Sunway shares.

> Timing of offer

One of the issues with the offer is that the new Sunway shares will not be entitled to the upcoming Sunway Healthcare Holdings Bhd (SHH) public issue.

Based on the dividend-in-specie that existing Sunway shareholders will receive on the basis of one SHH share for every 10 Sunway shares held, it can be estimated that the value per Sunway share is between 12 and 15 sen.

Assuming the higher end of 15 sen per share, Sunway should have adjusted the value of this dividend-in-specie, as IJM shareholders who accept the offer are not entitled to the new SHH shares.

Based on the calculated value of RM0.15 per Sunway share, it is equivalent to 7.5 sen per IJM share; Sunway should have adjusted the cash offer to IJM shareholders from 31.5 sen to 39 sen instead. In essence, the total value of the offer will increase to RM3.225 per IJM share from the current RM3.15 per share.

To avoid the complications arising from the SHH public issue, Sunway should have waited for the distribution of SHH shares to its shareholders to be completed before launching the conditional take-over offer. That would have removed doubts and valuation arising from the SHH shares to be distributed.

> Walk the talk

At the time of launching the offer, Sunway held zero shares in IJM. Since Jan 12 to the time of writing, Sunway has not picked up a single IJM share from the open market, although they are trading at a steep discount from Sunway's offer price.

In merger and acquisition deals, it is vital for the offeror to show its seriousness by making open market purchases.

Buying IJM shares from the open market is not only cheaper, but Sunway will also reduce the number of new Sunway shares it will issue, as well as the cash portion under the deal.

Some 532 million IJM shares have changed hands in the market up to Jan 22, and Sunway could have purchased some and even have emerged as a substantial shareholder.

Instead, based on disclosures to Bursa Malaysia, the active market buyers/sellers were Sunway's principal adviser, Maybank Investment Bank Bhd, and its appointed international financial adviser, UBS AG and other major institutional shareholders.

Having discussed three key points when it comes to this mega-deal, there are obviously other issues at play, and the potential arbitrage opportunities for both investors and Sunway shareholders.

Due diligence

It is not that Sunway woke up in the morning of Jan 12 and decided to launch the conditional offer. The conglomerate and IJM had previously denied that there was any merger talk in November last year.

Surely, even when Sunway decided to launch the offer, they must have done some form of legal due diligence to ensure they would not be subject to potential liabilities, especially with the current investigation by an enforcement agency.

While the timing of these investigations can be said to be coincidental to derail Sunway's move, news about this issue first surfaced in October last year, and Sunway should have been better advised if there was an added risk to the conglomerate, should it proceed with this offer.

Arbitrage opportunities

For Sunway shareholders, as there is a given swap ratio for IJM shares, shareholders have an opportunity to arbitrage their Sunway shares with IJM shares, without assuming additional risk, other than losing their entitlement to SHH shares.

At Thursday's closing price of RM5.57, a Sunway shareholder could sell 1,000 Sunway shares in the open market and use the proceeds to buy 2,000 IJM shares at RM2.64.

Excluding transaction costs, this will allow a Sunway shareholder to generate a net cash inflow of RM290 per 1,000 Sunway shares sold.

As Sunway has made it clear that it is not backing out of the IJM deal, accepting the offer would mean that a Sunway shareholder who has swapped his/her share for two IJM shares will receive 1,002 Sunway shares plus RM630 in cash based on the swap ratio of 501 Sunway shares for every 1,000 IJM shares plus RM315.

All in, a Sunway shareholder will generate a net cash inflow of RM920 per 1,000 Sunway shares that are sold in this arbitrage opportunity.

Minus the potential value of the SHH shares of approximately RM150 per 1,000 Sunway shares, the net gain is still a decent RM770 per 1,000 Sunway shares, translating to a risk-free gain of about 13.8%.

For investors, there is also an indirect opportunity to get Sunway shares at a lower price than the market.

An investor who buys 2,000 IJM shares at the last traded price of RM2.64 and accepts the conditional take-over offer will be issued 1,002 Sunway shares at a cheaper entry cost of RM4.64 per Sunway share ((RM2.64 x 2,000) – (RM0.315 X 2,000))/1,002.

Imputing a theoretical adjusted price of RM5.42 after the SHH distribution, investors stand to make a 16.8% return using this strategy. (Note: The above is a mere analysis of the differing scenarios and not advice or an invitation to trade Sunway or IJM shares.)

In conclusion, while Sunway's move to pursue this voluntary general take-over offer on IJM seems attractive on the surface, it could have been done at a better swap ratio as well as after the distribution of SHH shares.

In addition, the ongoing investigation clouds investors' perception of the value Sunway can generate, but the market prices of the two firms provide arbitrage opportunities for both Sunway shareholders and investors looking at the deal, especially if Sunway is able to turn the offer into an unconditional take-over offer.