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Comment

Home run for housing

The financially-challenged have struggled to put a roof over their heads, but hopefully, that can be changed

"We understand that the loan applications of 60% of buyers of affordable homes are rejected by banks and financial institutions due to age or poor credit scores."

Better Malaysia Foundation

TYCOON Tan Sri Vincent Tan has been busy texting his friends and businessmen about his affordable home project for low-income Malaysians, notably the B40 (bottom 40% or poor) group.

His passion for this runs deep, so he's adept at rattling off statistics and facts to back his arguments on how the country can do better.

His close associates are used to the Berjaya Corp Bhd chairman talking about becoming vegetarian and promoting Tzu Chi, the Taiwan-based Buddhist charity organisation.

But convincing top government leaders and policymakers on affordable homes has consumed his time since announcing that he and his son, Datuk Seri Robin Tan, will step down from their executive roles at Berjaya.

On Wednesday, Vincent, who heads the Better Malaysia Foundation (BMF), launched a new social enterprise programme to assist the government in addressing home ownership aspirations.

He has done his homework, evaluated the costs and learned that loans are a major stumbling block for the B40. Other related issues can only be ironed out by the government and banks.

But the idea of affordable homes isn't something Vincent woke up with one morning recently and decided to work on.

In March, this writer was called on by former Hong Kong chief executive Leung Chun-ying's office to organise a breakfast with Malaysian businessmen. Leung came to Kuala Lumpur to update Malaysian investors on the impact of the ongoing demonstrations there led by the youths.

Common complaints in the discussion included housing and jobs, which have been recurring themes for resentment.

The flats in Hong Kong are expensive and tiny, and even that the young have little hope of owning. Organising large-scale protests there has been easy because most people spend their time mainly in the streets instead of their homes.

Vincent asked one vital question: with the Hong Kong government possessing huge foreign reserves, why can't a fraction be used to ensure people had homes, referencing Singapore.

Hong Kong foreign currency reserve assets rose to US$493.5bil (or RM2.03 trillion) in January 2021 from US$491.8bil in December 2020, the Hong Kong Monetary Authority announced in January. The reserve assets represent over six times the currency in circulation, or about 48% of the Hong Kong dollar, it was reported.

Leung was caught off guard and appeared flabbergasted. There were more follow-up questions from other tycoons in the room, who said that the Hong Kong rich had merely made their money from properties. And for a place with such a huge talent pool, it hasn't become another Silicon Valley, with digital product discoveries and all.

Putting it bluntly, our public housing record is just as bad, if not worse, as Hong Kong's.

Our government agencies have not been able to compete with Singapore's Housing Development Board (HDB), which has been able to provide homes for most Singaporeans.

The housing areas there have proper facilities and are well-maintained, and there are no HDB homes which degenerate into slums.

There is also the question of location. Building affordable homes away from the cities because land is cheaper has led to poor response because public transport service is just as bad.

It is common for people in Tokyo and London to live away from the cities because a one-hour train ride can be comfortable and reliable. It is easy to travel from Seremban to Kuala Lumpur for work, although we don't hear about many people from Ipoh doing the same.

By right, Johoreans should be able to make a round trip to Kuala Lumpur in a couple of hours, but that is another miss as the high-speed rail idea has been quashed, at least for now.

Vincent is pushing the concept that BMF, in collaboration with Berjaya Land Bhd, has designed a 900-sq-ft five-bedroom, four-bathroom show apartment specifically for this initiative.

He said affordable housing could realistically be priced from RM120,000 to RM300,000 for an apartment, with sizes starting from 450 sq ft up to 900 sq ft, in the Klang Valley.

"This price range is achievable with the government's support, in terms of charging lower land premiums and nominal development charges for affordable housing projects."

As such, Tan urged the government to implement strategic initiatives for banks and financial institutions to provide 100% financing to B40 house buyers with two-generation home loans of between 40 and 60-year duration, so that loan repayments would be affordable and manageable.

That apart, he added that the government should also guarantee the home loans of B40 house buyers, so they can be offered at a lower interest rate.

According to the BMF, banks and financial institutions must also play their part by providing loans with 100% financing to the B40 house buyers.

"We understand that the loan applications of 60% of buyers of affordable homes are rejected by banks and financial institutions due to age or poor credit scores," noted the foundation.

Vincent's argument is that the key problem is the rejection of loans, which has also affected property developers who want to build affordable homes in allotted areas.

So, even well-meaning developers have found this to be a major hurdle as they, too, need to pay the banks when construction begins for these affordable flats.

But Vincent can't pull this off unless the government extends support in terms of charging lower land premiums and nominal development fees for these housing projects.

The Federal and State Governments must also be willing to sell development land cheaply to developers to build affordable houses, especially in urban locations close to transportation hubs, which would translate to lower purchase prices for low-income house buyers.

The issue of affordability in the quest of putting a roof above one's head was sparked by a concern raised by Prime Minister Tan Sri Muhyiddin Yassin recently, that the B40

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Two compelling proposals – Paragon Globe and Sanichi Technology

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As for rights issues, two compelling proposals deserve mention. The first was from Paragon Globe Bhd (PGB). On April 7, 2021, the company proposed to undertake a rights issue on the basis of four for one with the issue price of the rights shares assumed at just 7.5 sen per share.

Based on the five-day volume-weighted average price of PGB before the announcement of RM1.03, the rights were priced at a huge 71.8% or 19.1 sen discount to the theoretical ex-rights price of 26.6 sen.

For the rights issue, the company will be issuing some 746.6 million new shares and thus its total share base will rise by five-fold to 933.3 million shares. PGB intends to raise RM56mil from this rights issue exercise.

What is odd is that the company's balance sheet as at end of December 2020 is rather strong. It shows that PGB has a net asset value per share of RM1.27 and has a very manageable net debt level of just about RM11.2mil, translating to a net gearing of just 4.7%.

Surely, PGB could raise funds via debt funding to make its balance sheet more optimal, and even if it needs to raise funds for land acquisition and construction of its medical centre, the rights issue could be priced at a more competitive and compelling price.

PGB could have easily gone for a one-for-one rights issue priced at RM0.30 per share to raise the same amount of even one-for-two rights issue priced at RM0.60 per share. In this way, at least the dilutive effect is manageable.

The second recent case is that of Sanichi Technology Bhd (STB). In STB's case, the company undertook multiple private placements involving the issuance of some 495.9 million shares between November and December last year.

In February this year, STB announced plans to consolidate 10 existing shares into one share, and to support its new business venture into glove manufacturing, the company proposed a rights issue on the basis of six rights shares together with three free warrants for every one consolidated share held, with the rights issue priced at just 8 sen per share.

However, unlike PGB, in STB's case, the rights shares were priced at 23.4% of the theoretical ex-all price, which is rather realistic when taking into consideration the underlying share price of the company.

In STB's case, the company's base-case scenario will see it raising some RM96.2mil, as highlighted in its circular to shareholders. STB has a relatively strong balance sheet as it was sitting in a net cash position of about RM99mil as of Dec 31, 2020. Hence, STB's rights issue to raise RM96.2mil is rather perplexing considering that it is a net cash company.

Based on the examples above, the relaxation of private placement exercise has indeed opened a flood gate for corporates to raise funds. In addition, to rights issue exercises to raise fresh funds, companies are also rampantly issuing new shares in all sorts of forms, especially with esos, share investment schemes (SIS), and long-term incentive plan (LTIP).

Some of these new shares offered are rather large, with up to 30% of the current share base. On top of that, with sweeteners like warrants thrown in with rights issues, the exercise of the warrants too is resulting in some of these companies seeing their share base ballooning rather quickly and by few-fold in a short time.

While regulators have relaxed the rules on companies undertaking fundraising up to the end of this year, it is hoped that the manner whereby corporates undertake these exercises is done responsibly and not in a manner that is detrimental to the market in general and to their existing shareholders in particular, which leads to very heavy dilutive effect.

For shareholders that are invested in companies that are undertaking these exercises, especially massive private placements and other forms of share issuances, it is hoped that they do realise that the enlarged share base and dilutive effect is detrimental to their interest in the company.

It is time to be cautious on companies with massive dilutive effect arising from share placements or issuance via esos, SIS and LTIP.

Pankaj C. Kumar is a long-time investment analyst. Views expressed here are the writer's own.