NUS National University of Singapore

Source: *The Business Times,* Front Page and p2
Date: 13 August 2020

Catalist issuers underperforming, sponsor conflicts need fixing: study

Study by NUS raises concerns about the quality of the listings on the secondary board and the conflict-of-interest issues among sponsors

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MORE than half the companies listed on the Catalist board of the Singapore Exchange (SGX) incurred losses for fiscal year 2019, with those having been listed longer more likely to underperform.

A study that observed this has raised concerns about the quality of the listings on the secondary board set up to cater to fast-growth companies. The study also questioned the independence of Catalist sponsors, in particular the two top players.

Co-authored by Associate Professor Mak Yuen Teen of the National University of Singapore (NUS) Business School and Chew Yi Hong, an investor and researcher, the study looked at Catalist issuers with fiscal year 2019 net income available.

Of 214 companies, 56.5 per cent or 121 companies made losses for FY 2019. Among those listed for under seven years, 37 per cent were making losses; among those listed for longer than that, however, 71 per cent were making losses.

The authors of the study said: "While not conclusive, this is contrary to expectations, as one would expect growth companies to start as relatively unprofitable, and then become more profitable over time."

The weak aggregate financial performance contrasts with the strong performance of many Catalist-listed stocks this year.

The FTSE ST Catalist Index, for instance, has gained 13.9 per cent year to date; the benchmark Straits Times Index is down 20.5 per cent.

But Prof Mak said the performance of the Catalist index constituents, which would be the largest of the Catalist-listed companies, are not representative of the board.

He added that a long-term study is needed to assess the performance of Catalist companies since the first listing in 2008. "A study of all the stocks that have been listed over the 12 years will tell us how Catalist has really done."

The study, which also examined all 20 Catalist sponsors, urged a review of the Catalist board, citing concerns over the conflicts of interest in the sponsors regime. Sponsors and their affiliates may provide financial advisory, corporate secretarial, share transfer agent and legal services to the issuers they sponsor.

"A robust sponsor-based regime requires greater transparency in sponsor and non-sponsor fees; greater restrictions on other work that can be undertaken by sponsors; greater restrictions on relationships between sponsors and issuers; and additional safeguards where the fees earned from non-sponsor work by the sponsor or its affiliates are substantial," the report said.

Unlike a Mainboard listing, which is subject to review and approval by the SGX and the Monetary Authority of Singapore (MAS), a Catalist listing is supervised and approved by its appointed sponsor. Sponsors are answerable to the SGX under the Catalist rules, and are subject to SGX reviews.

Prof Mak and Mr Chew argued that sponsors might hesitate to report disclosure or compliance breaches by issuers because they do not want to lose revenue from the fees issuers pay them.

Issuers are free to change sponsors after three years of listing on Catalist, and may, for instance, choose to drop sponsors that they do not see eye to eye with.

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Prof Mak told The Business Times that it is time to relook the 12-year old Catalist, which was set up in November 2007 as the successor of Sesdaq and modelled after the Alternative Investment Market (AIM) in the United Kingdom. AIM is now struggling.

"There are questions over the quality of Catalist listings, especially those over the last three years, including accounting and corporate-governance issues emerging soon after listing," Prof Mak said.

"The sustainability of the Catalist board in its present form is highly dependent on the ability of the exchange to address the issue of the independence of sponsors. The tension between cost of listing and robustness of the sponsor-based regime is not easy to reconcile."

As of May 2020, there were 215 companies listed on Catalist and 20 sponsors – 16 full sponsors and four continuing sponsors. The top three sponsors are PrimePartners Corporate Finance (PPCF), SAC Capital (SACC) and RHT Capital (RHTC), sponsoring 55 companies (25 per cent), 35 (16 per cent) and 25 (about 12 per cent), respectively.

Nearly a fifth or 38 issuers disclosed that they paid non-sponsor fees to their sponsor for the financial year covered, including one that disclosed non-sponsor fees paid to an affiliate. Another five issuers disclosed other fees – not included in non-sponsor fees – paid to an affiliate of the sponsor.

PPCF was most commonly paid fees for non-sponsor services by companies it sponsored. About 30 per cent, or 17, of its sponsored issuers did so just for the one year studied. In most cases, the nature of the advisory services was not disclosed. Even when they were, information was scant.

The largest amount of non-sponsor fees paid was S$1.12 million to PPCF, by DLF Holdings for acting as sponsor, issuer manager and placement agent. PPCF also received an additional $0.6 million through the issue of 2.6 million new shares with a three-month moratorium, as part of its management fee for acting as sponsor and issue manager.

The nature of the non-sponsor services was disclosed in all cases involving large amounts paid to sponsors, except for issuers sponsored by PPCF.

The study also found that RHT affiliates often provided other services to issuers sponsored by RHTC. Of the 25 issuers under RHTC, 10 received corporate secretarial, investor relations and/or share registrar services from affiliate firms of RHTC.

There were also cases of directors of RHTC-sponsored issuers who serve or had recently served on boards of RHT affiliates or who do other work for RHT affiliates. Similar relationships were rare for other sponsors.

The study also found that 102 out of the 261 issuers had changed their sponsor at least once, with 37 having had at least three different sponsors since their listing on Catalist; nine have had four sponsors and two have had five.

Issuers sponsored by Asian Corporate Advisors (ACA), RHTC, Stamford Corporate Services (SCS) and ZICO under-performed the overall median for corporate-governance and financial performance indicators.

In contrast, issuers under CIMB Bank and UOB Bank out-performed the median. However, the authors cautioned that this was based on only single-year indicators.

Responding to the study, SGX Regulation (SGX RegCo) said the process of improving the Singapore markets, including Catalist, is a continuous one that needs the involvement of all stakeholders.

"SGX RegCo welcomes the active participation of the market community, including insights from academic research, that helps us in this journey.

"Such feedback has aided in improving our existing regulatory measures such as the close monitoring of sponsors through inspections and regulatory reporting, continuous dialogues and compliance guidelines, as well as our upcoming inaugural "Findings and Recommendations on Continuing Sponsorship Work", which we will publish soon."