

Exciting Leap Market developments

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MARKETS

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Leap Market excitement

OVER the past few months, one company listed on Bursa Malaysia's Leading Entrepreneur Accelerator Platform (Leap Market) has been doing something interesting.

The company is in the midst of buying two smaller businesses, but what is interesting is that the company plans to use its equity to fund those acquisitions.

This essentially means that the company will be paying the vendors of the smaller businesses with its shares, instead of cash.

A source says that the vendors have agreed to accept the shares as payment.

This is unique because for some time now, the perception that many have on the Leap Market is that it is a market that does not excite investors.

Leap Market's challenges of lacking liquidity due to it being limited to only approved investors has been one that has been well publicised.

And yet, this company has been able to convince sellers of assets to accept their Leap Market shares as payment. The question is, why would the vendors be interested in the shares if the Leap Market is seen as an "unexciting" platform?

One explanation is that the pandemic has hit small and medium-sized businesses badly.

This, in turn, has resulted in many such businesses struggling to stay afloat.



Listing transfer: Bursa Malaysia has clarified that Leap Market-listed companies can seek approval to be listed on the Ace or Main Market as long as they meet the stipulated listing requirements.

One option on the table is for the owners to sell their businesses. However, these companies may not get a good and preferred valuation during the soft market conditions currently.

Another possible explanation is that vendors of these smaller businesses are looking to merge with a listed company that tends to command larger valuation.

By leveraging on this situation, it is possible that the company on the Leap Market has offered to buy assets from the vendors, albeit by paying with its Leap Market-listed shares.

The upside for the seller is that the Leap Market-listed company could get listed on the Ace Market, going forward, following which the valuation of the shares would be much higher.

That would provide a good pay day for the vendor. The only drawback is that the vendor has to wait.

This then brings us to the point about Leap Market ascension to the Ace Market. This topic has been a hotly discussed one for some time.

In September last year, one business weekly speculated that a listing transfer framework for companies listed on the Leap Market could materialise as early as the first quarter of 2021.

Quoting Bursa Malaysia, the report said the capital market regulators were working on enhancements to improve the stock market ecosystem, including the Leap Market.

Legal implications

The Leap Market is akin to the over-the-counter (OTC) markets in the United States.



Wider participation: Retail traders viewing stock prices at a brokerage in Kuala Lumpur. Some observers believe retail investors should be allowed to participate in the Leap Market, subject to certain conditions.

These markets are created so as to legalise the selling of shares to the public of small companies that do not yet fulfil the requirements of the larger markets such as Nasdaq in the US or Ace Market in Malaysia.

Exceptions were made to the usual rules in order to lower the listing cost to be borne by the companies.

One big challenge is that existing regulations do not allow for the sale of shares to the public without a full blown prospectus.

During the listing on Leap Market, companies only need to issue an information memorandum, which keeps their listing costs down on things like legal and accounting fees.

Bursa Malaysia has also said previously that Leap Market's listing rules, including admission criteria and post-listing obligations for the platform, are actually far less extensive than those for the Ace and Main Market.

A lighter-touch regulatory regime is possible under the Capital Markets and Services Act 2007 (CMSA) as the target investors are limited to sophisticated investors as set out in Part I, Schedules 6 and 7 of the CMSA.

It is believed that Bursa Malaysia is in continuous consultation and engagement with the relevant stakeholders to improve the Leap Market further and address the criticism from the public.

When the US OTC markets and later the Leap Market were created, these platforms were not envisaged to have special treatment that would create a short-cut for companies to get into the bigger markets.

Apart from providing an avenue to raise funding without relinquishing a larger portion of equity, the listings on Leap Market help companies to build a better profile and recognition for themselves. Not only that, it also helps to prepare companies for Ace Market listing applications in the future.

However, with the Leap Market currently in its fourth year, there is a growing interest for the creation of a special board transfer framework into Ace Market.

“It is only natural for Leap Market companies to aspire towards getting listed on the Ace Market, considering how hot the latter market is among investors today,” says an investment banker, who adds that the value of a listed Ace Market shell can be more than RM100mil today.

A stronger driving force is that many Leap Market companies are making good progress in meeting requirements for the Ace market. This includes those embarking on mergers and acquisitions.

LEAP Market listed companies		
Company	Latest available market capitalisation (RM mil)	Price-to-Earnings ratio (times)
JM Education (Delisted)	-	-
Polymer Link (Delisted)	-	-
Uni Wall	578	
CE Technology	398	
Metro Healthcare	236.4	102.7
MyKris	223.5	21.35
TopVision	191.7	
MMIS	150	39.4
Ace Innovate	118.5	
Cosmos Technology	111.6	
CRG	108.8	26.74
ICT Zone	106.8	27.02
Astramina	100	
TT Vision	78.6	
Supreme Consolidated	78	11.6
Jishan	75.25	8.56
Manforce	75.2	
Fibromat	71.28	
Cloudaron	66.5	24.2
UCI Resources	63.35	33.93
Enest	62.78	
Smile-Link	62.6	0.68
Baba Eco	58.4	7.16
Amlex	57.6	
Redplanet	54.2	16.2
SL Innovation	52.7	
IDB Technologies	50	
EquitiesTracker	46.7	
GPP Resources	45.8	
BV Land	40.68	1.42
Matrix Parking	37.9	
Aurora Italia	30.6	
MCOM Holdings	28.3	31.9
Supergenics	26	
Seers	25.8	
Nova Pharma	23.8	
Red Ideas	20	
Polydamic	17.6	

Source: Bloomberg

TheStar graphics

Koh Kean Mum, who will be listing his vehicle Onetech Solutions Holdings Bhd on the Leap Market on May 4, says companies that want to do transfer listing to Ace Market are hindered by the absence of regulation. Nevertheless, he is positive that Bursa Malaysia would introduce adequate guidelines to allow transfer of listing from the Leap Market, considering the market interest.

On his part, Koh plans to undertake a listing transfer for Onetech in the next three years.

He mentions that some Leap counters have reached close to Ace Market requirements, hence it makes sense for such companies to undertake transfer listing.

Since 2017, a total of 38 companies have been listed on the Leap Market, raising a total of RM197mil.

However, the size to which some of these companies have grown to is remarkable.

Four Leap Market companies are worth more than RM200mil each, based on their market capitalisation.

One company called Uni Wall Aps Holdings Bhd has a market capitalisation of RM578mil, which is more than a number of Ace Market companies. Other big ones include CE Technology Bhd(RM398mil), Metro Healthcare Bhd (RM236mil) and MyKris International Bhd (RM223mil).

Other Leap Market companies are mostly below the RM100mil market capitalisation level.

Despite the criticisms on lack of liquidity in the Leap Market, Koh says that companies are still interested to be listed on the platform as it allows smaller-scale companies to undertake future acquisition by issuing new shares.

“This would help them grow in size and market reach, without taking on debt to finance acquisitions, ” he tells StarBizWeek.

Meanwhile, on the issue of lack of liquidity in the Leap Market, he suggests looking into loosening the definition of sophisticated investor to encourage greater investor participation.

Currently, only sophisticated investors, as defined under Schedules 6 and 7 of the CMSA, are allowed to invest in companies listed on the Leap Market.

Examples of a sophisticated investor include an individual whose total net personal assets exceeds RM3,000,000 or equivalent in foreign currencies, or an individual who has a gross annual income exceeding RM300,000 or equivalent in foreign currencies in the preceding twelve months.

However, it is a well known fact that many individuals do not bother wanting to go through the rigmarole of filing up the necessary documentation to become a “sophisticated investor” just so they can dabble in Leap Market shares, considering also that there is nothing stopping them from trading in the more exciting Ace or Main Markets of Bursa Malaysia or even stocks in overseas exchanges that do not impose such requirements.

“Perhaps, retail investors should also be allowed to participate in the Leap Market, subject to certain conditions. The existing regulations on investor threshold should be liberalised,” says Koh.

Another market observer raised a question about the relevance of preventing retail investors from participating in the Leap Market, although they are allowed to be involved in riskier platforms such as equity crowdfunding and peer-to-peer lending.

“It is high time for the regulators to allow retail investors in the Leap Market. Over the years, while we have been seeing a decline in Main and Ace Market listings, the interest in Leap Market has been encouraging, judging from the number of listings.

“By allowing retail investors to participate in the Leap Market, essentially we are creating more options for investors,” he says.

Transfer allowed

StarBizWeek has reached out to Bursa Malaysia and the Securities Commission (SC) on the issue of transfer of listing.

Bursa Malaysia clarified that Leap Market-listed companies can seek approval to be listed on the Ace or Main Market as long as they meet the stipulated listing requirements.

This is despite the fact that there is no transfer framework for the Leap Market to Ace or Main Market currently.

“Both Bursa Malaysia and the SC have commenced discussions to facilitate eligible public listed companies (PLCs) on the Leap Market to be listed on either the Ace or Main Markets as they prepare for their next stage of growth.

“Over the years, we have monitored the progress of these Leap Market listed PLCs and observed that the Leap Market has successfully provided a platform for many PLCs to grow their businesses and their profits.

“Several of these companies today may qualify for listing on Bursa Malaysia’s Ace or Main Market,” according to Bursa Malaysia.

Meanwhile, the SC did not respond to StarBizWeek queries.

Bursa Malaysia says it recognises that the funding requirements of every company change over time.

“This is integral to each company’s journey as it makes its way through its life cycle. As companies and businesses continue to grow, they also develop different means of raising capital.

“With this in mind, the stock exchange established and launched the Leap Market in July 2017, specifically to address the funding needs of the smaller and under-served segment,” it says.

The stock market regulator adds that the Leap Market is also aimed at creating a new source of investment for sophisticated investors in a more transparent and orderly market.

A source says that two Leap Market-listed companies are in talks with Bursa Malaysia for the transfer of listing to the Ace Market.

“In terms of earnings, both companies are qualified as their profit after tax is above RM5mil, hence making them appropriate to be listed on the Ace Market,” he says.

TAGS / KEYWORDS: **Leap Market** , **Listed Firms** , **Bursa Malaysia** , **Transfer** , **Main Board** , **Koh Kean Mum** ,