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# WHAT'S WENT WRONG WITH MESDAQ MARKET?

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# WHAT'S WENT WRONG WITH MESDAQ MARKET?

## ABSTRACT

What's wrong with companies listed in the MESDAQ market as more and more is leaving for more established counter of the main board of Bursa Malaysia. There is the general perception that companies listed in the MESDAQ Market lack in quality – low prices. This study looks at the problem of MESDAQ by analyzing various criteria such as stock returns and the number of press release by the SC in relation with the civil suit cases due to financial fraud of the companies listed under the MESDAQ Market. The results show that the return for MESDAQ Market index is lower than that of the Main Board index. The results also show more companies in the MESDAQ Market fail do not follow the rules and procedures of the Security Commission.

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*Keywords:* MESDAQ market, technology based firms, high growth companies

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## 1. Introduction

The main goal for the establishment MESDAQ Market is to steer the economy of a country from a labor intensive manufacturing to a high growth, technology intensive and services oriented one. This is in line with the government acknowledgement of the need for establishment of the MSC (Multimedia Super Corridor) in order to achieve the goals of Vision 2020, The Securities Commission (SC) also plays an important part by proposing to the government the need for establishment a source of financing to fund the development of the technology based and high growth potential companies in the form of equity market. As a result, the market grows tremendously during 2003 to 2006. In 2005, for example, a record number of 46 initial public offerings (IPO) are registered following the MESDAQ Market easy listing rules, which is more than the total IPOs for both the Main and Second Boards. However, shocking news has been circulated among the player in the market that more companies are leaving or likely to leave the MESDAQ Market for more established and well Board. The main reason for the migration is the general perception among investors that the companies listed in this counters are nor performing as expected and in the long run it might be difficult to attract more potential investors. They believe the trend is likely to continue for a long time unless the authority moves in to tighten the regulation. The other reason for moving out as suggested by many analysts is that the stocks of these companies deemed as too speculative in nature.

There are many companies listed in the MESDAQ Market which fail to perform as expected even though they have been in the business for more than 20 years. Among other factors believe to have affected the performance of the MESDAQ Market is that the companies listed in this market has higher risk while the returns is not immediate and very uncertain. It is a market meant only for the well-informed investor. Moreover, many regard the MESDAQ Market as a “third class” board behind the Main and Second Board in term of its prices. For instance, 31 companies listed in the MESDAQ Market are trading below their spilt-adjusted initial public offering (IPO). For example Discomp Bhd, with IPO price of RM 0.50 and is traded at RM 0.32 and it is reported losses of RM574, 000 for it financial years ended December 2006. Some companies listed in the MESDAQ Market are also not lived up to the plans listed in their prospectuses. For example, Intelligent Edge Bhd (IE), the software company listed in 2002 as a provider web-enable applications tailored to the hospitality, manufacturing and logistics sector has moved into the new area of providing proprietary content and applications tailored to the entertainment and media industry, which is quite different from its main areas since it faces difficulties in securing new business mandates.

Other concern is that some founders of the MESDAQ companies may not be staying on long enough to see their business plans through. Although entrepreneurs should be allow to realize some value from their investments, for the new companies an asset in term of intellectual are very important such as in business plans intellectual property and people who running the company. At presents, the promoter of the MESDAQ companies, typically founding shareholder subject to moratorium, which lock up 45% of their share. They allowed selling one third of that 45% every year, after one year. However in the case of Intelligent Edge (IE), listing in February 2000, one the company’s founder and promoters, have complete sold their share in the IE. All this happened in a company that have arguably yet to live up to its original plans as stipulated in its prospectus. It is understood that the Security Commission will possibly reduce the moratorium to ensure the promoters are not allowed to sell down until their proposed business plan goes through.

In light of the above discussion, this study investigates the main problems of the MESDAQ Market. The significance of this study is threefold. First, the results from the study can offer valuable lessons to the Malaysian policymaker as whether small stock market/board such as the

MESDAQ Market of Bursa Malaysia is still relevant and significant in facing fast changing global capital market scenario. Second, a better understanding of the Bursa Malaysia' market behaviour under a more liberal and globally integrated market environment will enhance on the capability to forecast its future behaviour. Such forecast, in turn, is very important to potential investors, domestic and foreign alike. It provides improved estimates regarding sales and profits which would enhance their ability to value their worldwide investment strategies. Finally, the study provides insight on whether Malaysia which is still considered as a small in term of its capital market size really needs to have more than one board/market.

The remainder of the paper is organised as follows: Section 2 briefly describes the MESDAQ and Bursa Malaysia markets. Section 3 examines the data and the method used for the analysis. Section 4 reports the findings and section 5 concludes with some recommendations.

## 2. Background on the MESDAQ and Bursa Malaysia

MESDAQ is the acronym for the Malaysian Exchange for Securities Dealing and Automated Quotation. In March 2002, the MESDAQ Market merged with Bursa Malaysia Securities Bhd as part of the consolidation process of the exchange and as a result it sparked renewed interest in the MESDAQ among market player. The MESDAQ's role is similar to that of the successful the NASDAQ exchange in the United States. By establishing the newer market, it can promote information and technology intensive industries as well as to develop a strong science and technology base through research and development. Moreover, the creation of the MESDAQ Market will give better option for weaker small-medium industries (SMI) sector in Malaysia to develop in the market tailored for them seems many of them are not qualified to be listed in the main or second board. This in line with the government intention of providing much needed industrial support to the multinationals.

### The Listing of Bursa Malaysia

The total number of listed companies and the number of newly listed companies for all the counters of the Bursa Malaysia are shown in tables 1 and 2. There is tremendous increase in total listing from year to year until 2006 for all the counters particularly for the MESDAQ Market. However, the number decreases a bit in 2007. For the new listing, the MESDAQ Market has shown tremendous increase from 2002 until 2005. However, it starts to fall in 2006 onward. The year 2007 sees the fall even greater across all counters. Table 3 reports the indices for all three counter during the sample period. The main counter and the MESDAQ Market show similar upward trend during the sample period except for the year 2005.

Table 1: Total number of listed companies (as at 18 Jul 2007)

Years	Main Board	Second Board	MESDAQ Market
2007	643	240	126
2006	649	250	128
2005	646	268	107
2004	622	278	63
2003	598	276	32
2002	562	294	12

Source: Bursa Malaysia 2007

Table 2: Number of new listing (as at 16 Jul 2007)

Years	Main Board	Second Board	MESDAQ Market
2007	9	5	3
2006	10	8	22
2005	16	17	46
2004	15	26	31
2003	16	22	20
2002	22	22	7

Source: Bursa Malaysia 2007

Table 3: Major Indices (as at 18 Jul 2007)

Year	Composite Index	Second Board Index	MESDAQ Market Index
2007	1286.9	103.3	120.5
2006	1096.2	92.0	119.9
2005	899.8	80.4	87.1
2004	907.4	110.9	162.5
2003	793.9	140.6	152.3
2002	646.3	98.2	83.3

Source: Bursa Malaysia 2007

### 3. Data and Methodology

The study use two set of data obtained from Datastream. First, the study employed indices for all three boards starting from July 2002 through September 2007. These data are used in analysing the indices and its returns. The year 2002 is chosen since the data is available from that year following it merger with the KLSE as part of consolidation process. Second, daily prices of 18 companies from the Main Board, the Second Board and the MESDAQ Market of the Bursa Malaysia for the period from August 2005 through September 2007 which consists of 537 observations are employed to analyse each individual companies' prices and its returns. The starting year of 2005 is chosen since many of the new listing in the MESDAQ Market take place in this year. The samples for the companies are chosen arbitrarily.

In measuring the qualitative or behaviour aspect of the quality, we look into how strictly the companies follow the rules and procedures lay down by the regulator, in this case the Security Commission. Tables 5A and B report the descriptive statistics for the indexes and return for the three boards.

The returns for the indexes and the prices are calculated as follows:

$$\Delta R_t = P_t - P_{t-1}$$

Where  $\Delta R_t$  is the return at time  $t$ ,  $P_t$  is the price at time  $t$  and  $P_{t-1}$  is the price at time  $t-1$ .

Table 5: Descriptive Statistics for the Indices and Returns for the Period 2002-2007

<b>A. Index</b>	N	Minimum	Maximum	Mean	Std. Deviation
MESDAQ.	1489	72.89	177.53	<b>116.09</b>	23.37
Main.Board	1489	616.46	1392.18	881.88	185.34
Second.Board	1489	79.26	154.73	107.28	18.02

<b>B. Return</b>	N	Minimum	Maximum	Mean	Std. Deviation
MESDAQ	1489	-.3360	.1177	<b>.000203</b>	.0205325
Main Board	1489	-.0417	.0486	-.000388	.0072516
Second Board	1489	-.0530	.0743	.000223	.0106451

#### 4. Results

##### Prices and Returns

The mean prices and mean returns for each sample companies listed in the MESDAQ Market are reported in table 6. The results show that the mean prices are extremely low which is about RM0.458. Out of 18 companies only two have a price above RM1.00. They are OSK and Perisai OTL.Teknologi which have a price of RM2.2315 and RM1.1315, respectively. Their mean price and mean returns are RM0.458 and RM0.00007, respectively. The mean price and mean return for the Main Board and Second Board are also reported in table 6. For the Main Board, the mean price and mean returns are RM2.558 and RM-0.000388, while the Second Board has RM0.938 and 0.0002238, respectively.

Table 6: The Mean Prices and Mean Returns of the Companied Listed in the MESDAQ Market

Company	N	Mean Price	Std. Dev.	Min./Max	Mean Return	Std. Dev.	Min./Max
AKN	537	0.32162	0.11453	0.18000 0.65000	-0.00084	0.01502	-0.07000 0.07000
Asiaep	537	0.3632	0.3154	0.1400 1.1300	0.00035	0.02594	-0.31000 0.15000
At. Systemiz	537	0.22693	0.06561	0.11000 0.41000	-0.00013	0.01245	-0.06000 0.10000
DVM Tech	537	0.12840	0.02985	0.07000 0.28000	0.00004	0.00926	-0.06000 0.08000
EB Capital	537	0.5558	0.2578	0.0400 1.3300	-0.00064	0.03730	-0.16000 0.20000-
Envair Holding	537	0.26892	0.08213	0.16000 0.55000	0.00043	0.02043	-0.11000 0.33000
Fast Track Solution	537	0.17328	0.03758	0.13000 0.30000	-0.00002	0.00977	-0.04000 0.07000
Iris	537	0.3635	0.2819	0.0700 1.3700	0.00035	0.03791	-0.36000 0.24000
Kyron	537	0.23773	0.04283	0.16000 0.38000	0.00000	0.00998	-0.06000 0.08000

Key West	537	0.22225	0.08225	0.10000 0.54000	0.00022	0.01600	-0.05000 0.26000
Nasionc	537	0.17155	0.06709	0.04000 0.34000	-0.00024	0.01018	-0.04000 0.07000
Nova	537	0.09715	0.02999	0.04000 0.20000	0.00006	0.00789	-0.03000 0.07000
OSK	537	<b>2.2315</b>	0.4949	1.2000 3.0600	0.00168	0.05647	-0.27000 0.45000
Perisai OTL. Tek.	537	<b>1.1315</b>	0.1518	0.7300 1.5500	0.00054	0.02691	-0.14000 0.13000
Gpro	537	0.12702	0.03565	0.07000 0.29000	-0.00039	0.00839	-0.05000 0.05000
Mobif	537	1.2002	0.8613	0.4000 3.6000	-0.00082	0.09493	-1.83000 0.26000
Puc Fo	537	0.13644	0.02170	0.08000 0.21000	-0.00013	0.01037	-0.05000 0.06000
YTL	537	0.28970	0.22549	0.13000 0.98000	0.00073	0.02456	-0.17000 0.21000
<b>Mean Price for the Sample Companies Main Board Second Board</b>		<b>RM0.458</b>	<b>0.544</b>		<b>0.00007</b>	<b>0.02410</b>	
		<b>RM2.558</b>	<b>2.671</b>		<b>-0.000388</b>		
		<b>RM0.938</b>	<b>0.888</b>		<b>0.0002238</b>		

### Results of Behaviour or Qualitative Analysis

In order to gauge whether the companies listed in the MESDAQ Market follow rules and procedures, the study listed news report of civil suit case due to financial fraud from the Security Commission website news release during 2002 until 2008. There are altogether three civil suit cases and one still under investigation. The study also compared the results with those of the Main Board and the Second Board. During the period, the Main Board has the same number of civil suit cases while the Second Board has less than that. Thus, when we compared the number of civil suit case due to financial fraud between these three boards, it is found that companies listed in the MESDAQ Market has the highest percentage of civil suit of financial fraud cases. This is due to the fact that the companies' population of the Main Board and the Second Board is much higher than that of the MESDAQ Market. The civil suit cases due to financial fraud of the companies in the MESDAQ market are listed below.

### The cases related to the financial fraud of the MESDAQ market.

#### Case One

*The Securities Commission (SC) has files a civil suit following its investigation into the utilisation of the public issue proceeds by the FTEC Resources Bhd (FRB), which uncovered that Kenneth Vun, managing director and a shareholder of the FRB has utilised a portion of the proceeds totaling RM2.496 for his own benefit and personal use. The sum represents part of proceeds raised by FRB in an initial public offering in 2003. This utilisation of proceeds was not in compliance with the conditions set by the SC in the listing approval of FRB. It is also revealed that Kenneth Vun's personal utilisation of the proceeds had not been reflected in the FRB Group's unaudited quarterly financial statements for the first quarter ending on 31 March 2004 released to Bursa Malaysia Securities Bhd.*



### Case Two

*The Securities Commission (SC) has been investigating Hospitech Resources Bhd (Hospitech) for possible breaches of securities laws. Hospitech's Board of Directors on 19 April 2006 voluntarily withdrew the company's intended listing and quotation on the MESDAQ Market of Bursa Malaysia Securities Berhad. Hospitech's Board of Directors on 19 April 2006 voluntarily withdrew the company's intended listing and quotation on the MESDAQ Market of Bursa Malaysia Securities Berhad. All application monies pertaining to Hospitech's Initial Public Offer (IPO) exercise are currently held in trust accounts.*

### Case Three

*The Securities Commission (SC) has charged three individuals for their involvement in the submission of false information to the SC. This is in relation to NasionCom Holdings Bhd (NasionCom) financial statements for the year ended 31 December 2005 and NasionCom Prospectus for listing on the MESDAQ Market. NHB had submitted false information to the SC with respect to revenue on sales that were not transacted, in its 2005 financial statements and thus, has breached section 122B(a)(bb) of the Securities Industry Act 1983.*

### Case Four

- a. Bursa Malaysia Securities Berhad (Bursa Malaysia), in consultation with the Securities Commission (SC), has decided to declare the securities of IRIS Corporation Berhad (IRIS) as "Designated Securities" with immediate effect. The counter has been designated due to excessive speculation and unusual patterns observed in the trading of IRIS shares.*
- b. The Securities Commission (SC) has initiated a milestone civil enforcement action against eight foreign parties and two Malaysians in relation to the manipulation, market rigging and fraud of Iris Corporation Berhad (Iris) shares. In addition, the SC sanctioned two stockbroking companies and two dealer's representatives involved in the case.*

## **6. Conclusion**

The market price of stock reflects among other things, market opinion about the quality of a firm management. In this paper, we examine the problem of companies in MESDAQ market by analyzing their stock returns. We also analyse the number of press release by the SC in relation with the civil suit cases due to financial fraud of the companies listed under the MESDAQ Market. We compare all the results with those of the Main Board and the Second Board.

The results of the study show that stock returns for companies in the MESDAQ Market are extremely low. The results also indicate that more companies under the MESDAQ Market fail to follow the rules and procedures imposed by the SC compared to its counterpart. The results, in general, suggest that the MESDAQ Market are facing problem based on the criteria discussed above. Moreover it looks like that most of the companies in this market have no interest in MESDAQ. They want to move to the Main Board as soon as they are allowed to do so possibly because of a wider coverage and also their companies are accorded with greater recognition and acceptance among investors.

The significance of this study rests with the fact that a better understanding of the MESDAQ Market of Bursa Malaysia would aid potential investors as well as high growth and technology based firms of the quality or lack of it of the market. However, during the past few years the MESDAQ Market finds it hard to attract investors since it is considered a high-risk market and in general it is more illiquid compared to the Main Board.

To ensure the survival of the MESDAQ Market and to be more attractive in term of investibility in the future, we recommend the following: Firstly, the SC should come out with rigorous but acceptable listing standards that require firms to make their affairs transparent that can reduce the probability of financial fraud. The SC should not only look for respectable numbers of listings but also enhancing the quality of each listing companies. Secondly, the SC should look into the possibility of merging MESDAQ Market with more mature market such as the Main Board. We believe that Malaysia capital market is still small compared with other developed markets and it does not need too many boards since it will create more administrative problem and possibly more cost to both regulator and companies.

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