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MTP meant to 'nudge' firms to strengthen fundamentals: SGX

Official says investors also benefit from lower trading costs due to better liquidity and narrower bid-ask spreads

By **Melissa Tan** *melissat@sph.com.sg* *@MelissaTanBT*

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THE point of imposing a minimum trading price (MTP) of S$0.20 for mainboard-listed stocks is to nudge companies trading below that price level to improve their business fundamentals, Singapore Exchange (SGX) head of listing compliance June Sim said in a phone interview on Wednesday.

If an issuer has to embark on a massive share consolidation just to get its price above the MTP, that signals that a consolidation alone will likely not be enough and the firm will have to take other steps to boost its price, such as doing a reverse takeover or acquisition, she added.

"We're not trying to get rid of companies but to nudge them to improve their financial performance... at the start they can do a consolidation, but they must always be on their toes. They shouldn't think they can do a consolidation and just sit back.

"For companies that do nothing, if their share price keeps gravitating downwards ... in the long run they'll just suffer. I don't think there's any incentive for a company to remain that way."

Ms Sim was responding to points made in a Business Times report published on Wednesday, in which analysts had raised concerns about what would happen if a stock falls below S$0.20 even after consolidation. Her comments came after SGX said in February that it would impose an MTP to boost the local stock market's quality, claiming that "higher-priced shares have better liquidity" and are "less susceptible to speculation and market manipulation".

Analysts had also told BT that issuers would have to foot legal fees to comply with the rule and may be distracted from their business due to focusing on the MTP, while investors may be left with odd lots or cancelled shares after MTP-related share consolidations. In addition, analysts said that the MTP could draw speculators or short-sellers to penny stocks and fail to eliminate the impression that the local stock market is speculative.

Noting that a stock might not stay above S$0.20 after consolidation, Ms Sim said that having an MTP would encourage companies to strengthen their financial performance and look at other

options to boost their share price, including organic growth. Having stronger fundamentals translates to better share price performance, she said, adding:"We cannot regulate their financial performance, but if we don't have this (MTP), some companies won't even move to improve their fundamentals."

Investors also benefit from the MTP since their trading costs would be lower due to better liquidity and narrower bid-ask spreads, she said. When asked about heightened speculator interest in penny stocks, Ms Sim said: "If you don't have it (MTP), it's even worse ... because your market cap is still the same. So you can't say that because we have MTP it encourages speculation - in fact it's the other way round. If you don't have MTP, it will be easier to manipulate or speculate on a one-, two-cent stock compared with one with a higher price."

Mainboard stocks have until March 1 next year to get their six-month volume-weighted average price above S$0.20. If they fail to do so, they go on a watchlist for three years. Companies that do not meet the MTP by Feb 28, 2019 may be delisted or can choose to move to the Catalist board, which has no MTP.

Ms Sim said that even if there is a market downturn, firms that end up on the watchlist have three years to leave it, and that length of time would be "more than enough to cover one economic cycle".

She added that companies do not need to hire lawyers when taking steps to meet the MTP since the SGX has simplified the application process and has a "compliance form" that issuers can fill in themselves. Minus legal fees, the most a firm would have to pay out-of-pocket would be the cost of holding an extraordinary general meeting and printing documents such as shareholder circulars, she said. SGX has waived its fees for MTP-related share consolidation till March 2017.

The Securities Investors Association of Singapore (Sias), an investor lobby group, echoed her comments in a statement on Wednesday evening. Sias president David Gerald said that share consolidations should not be the be-all and end-all for firms, and it was more important for issuers to "look at how they can strengthen their fundamentals and improve their business outlook so as to improve shareholder value".
