THE BUSINESS TIMES

FRI, MAY 08, 2015

HOCK LOCK SIEW

SGX's minimum trading price: painful but necessary

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8 May 5:50 AM

EVEN though it has been more than a year since the Singapore Exchange (SGX) proposed the introduction of a minimum trading price (MTP) of S$0.20 for stocks to remain listed on the mainboard, and even after dozens of companies have already embarked on share consolidations so as to satisfy the MTP which kicks in next March, there is still opposition (see, for example, "Minimum trading price seen working against share issuers, investors", BT May 6).

For one, critics question SGX's assertion that higher-priced counters are less susceptible to manipulation and ask whether affected stocks would enjoy more liquidity after consolidation than before.

Others cite real-life cases of companies which have over the past year undertaken some form of consolidation or the other but whose share prices have then weakened to below their consolidated prices.

For the first two areas relating to ease of manipulation and liquidity, consequences of having an MTP are open to debate but SGX's research does suggest both areas will see improvements.

The third worry - that stocks could quickly fall below S$0.20 after consolidation - is arguably the most pressing as it implies that persistently loss-making companies would have to constantly resort to consolidation to stay listed. This admittedly would be an absurd state of affairs which could well become reality - if the companies concerned do nothing to improve their fundamentals.

Herein lies the crux of the issue - MTP cannot be seen as a static undertaking but a dynamic one.

Even though it is purely an accounting, cosmetic exercise that does not affect company fundamentals, it at least forces managements to constantly be on their toes to (a) ensure superior performance in terms of growth, revenues and profits which should then translate into a higher share price and (b) be more proactive in engaging the investment community if there's a danger of the price falling below the specified threshold.

In other words, painful though the introduction of MTP is - and change is always difficult if the

status quo has been in place for years - it is a necessary "evil", the imposition of financial Darwinism of a sort that essentially forces companies to shape up or ship out.

This was the point correctly made by the managing director of a local firm in a BT article last October when he noted that many penny stocks are at rock-bottom prices and because these cannot drop further, it means these under-performing companies are actually over-valued.

"When such counters are consolidated to meet the MTP, we would see drastic price corrections to reflect more accurately the companies' valuations. Such companies would again run foul of the MTP requirement, unless a sustainable turnaround plan is in progress," he said.

The key here is the need to have turnaround plans, strategies and initiatives to try and lift bottom lines and share prices out of their doldrums instead of wallowing for years on end in penny mediocrity and underperformance.

For companies with no turnaround plans in place, there is always the option of downgrading their listing to Catalist where no MTP will apply - at least not yet.

MTP detractors should also note that the authorities have also been quite generous in allowing companies 36 months after March next year to boost their shares if the price falls below S$0.20, which means the first delistings if any, would only occur after March 2019.

They should also note the unpalatable alternative which the exchange is trying to address, namely that if nothing is done to try and raise the quality bar, the local market would then continue to be labelled a penny/sub-penny market populated by hundreds of stocks which could trade as low as S$0.001.

Having such a reputation brings with it many negatives, one of which is that it makes it that much more difficult to attract big listings and their attendant liquidity, a glaring problem this year with only two small-cap entrants so far on Catalist.

All told, MTP should be seen as a calculated, painful but necessary gamble by SGX which, if it pays off, should lead to a better stock market.
