PREMIUM

Catalist watch

Why sponsors stay in the Catalist game

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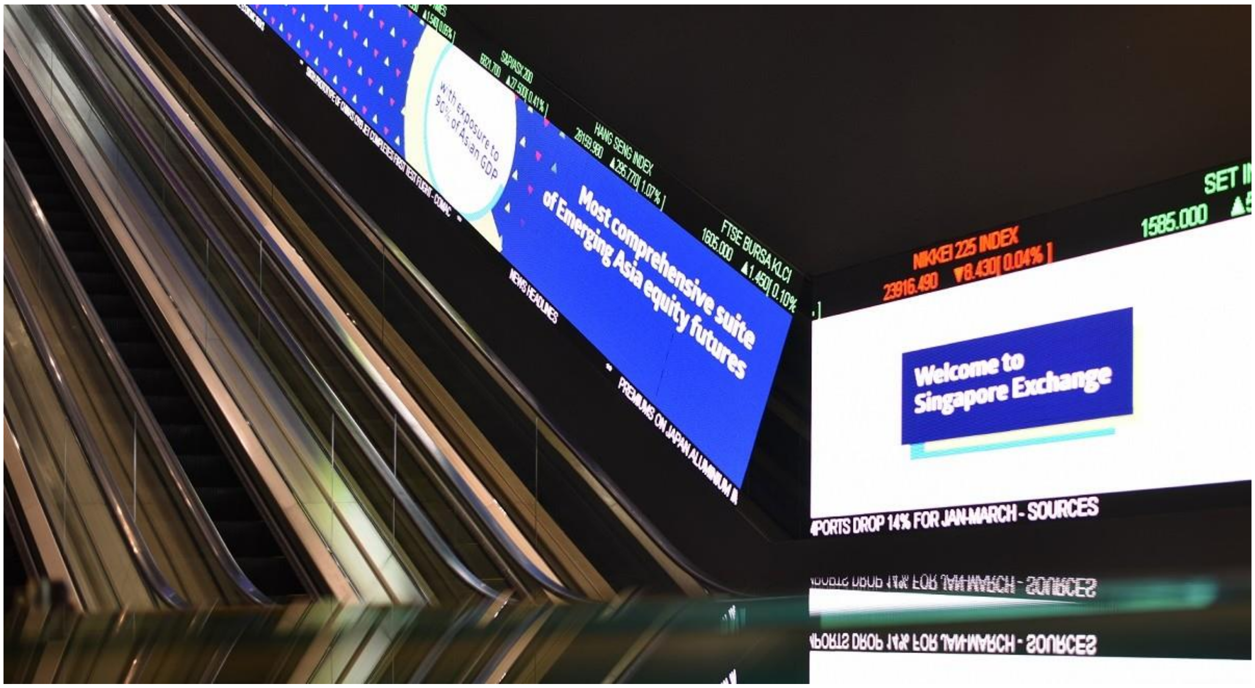

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Some 20 sponsors compete to oversee the 200-odd listed companies on SGX's Catalist board. Is keener competition leading to more supervisory oversight and conflict of interest situations?

Sponsors are vital to the Catalist board of the **Singapore Exchange** (SGX). They assess the suitability of companies that want to list on the board and assist them in doing so. They also ensure that Catalist-listed companies are in continuous compliance with SGX listing rules. While a full sponsor can do both tasks, a continuing sponsor can only do the latter.

But being a sponsor — either full or continuing — has become increasingly difficult of late. With more than a dozen active sponsors vying for the 200-odd Catalist-listed companies, competition can be stiff. As a result, fees of sponsors have come under intense pressure.

The role and responsibilities of a sponsor have changed emphasis in recent times. Sponsors are now increasingly tasked to perform supervision and oversight duties akin to those of a frontline regulator. This is in addition to their traditional role of assisting companies in their quest for growth.

Furthermore, the sponsors' scope of work has been tightened. In an Aug 19 publication, Singapore Exchange Regulation (SGX RegCo) outlined various recommendations and findings to improve the work of sponsors. These include due diligence standards for continuing sponsorship work, assessing the suitability of the board and key management of sponsored companies, continuous monitoring of sponsored companies and conflict of interest and sponsor independence. Any dereliction in regulatory duties could result in stern action from SGX RegCo.

On Nov 13, the Association of Banks in Singapore (ABS) in collaboration with SGX RegCo announced the revision of the ABS Listings Due Diligence Guidelines. The update was made to raise the standards of due diligence conducted on companies that want to list on SGX.

Under the guidelines, issue managers are expected to perform diligence work related to the IPO, reverse takeover (RTO) and listing process in accordance with certain recommendations. These guidelines also apply to full sponsors assessing the suitability of Catalist-listing aspirants. For example, issue managers are to give a harder look at whether the company's internal controls are adequate and effective, considering the company's expansion plans.

So, with this challenging environment, why do corporate finance and legal firms want to be a sponsor? Is it worth the potential hassle and trouble if one of their sponsored companies gets entangled in a scandal? Why not quit being a sponsor?

Varied reasons

The Edge Singapore interviewed a wide spectrum of sponsors. They included sponsors who have been operating from the start of the sponsor-based regime in 2007 to those that have just entered the fray, as well as others in between. And they tell a variety of reasons for being in the business.

Starting with PrimePartners Corporate Finance, which is a full sponsor and pioneer, CEO Mark Liew admits that these "existential" questions do surface from "time to time", especially when a sponsored company gets into trouble. But he says that it is still a "positive" business as it is "functioning" and generating revenue.

"The decision is that we want to continue in the [sponsor] business," Liew says. "It still allows us to have touchpoints with our clients and it leads to other business opportunities. I see it as one piece of a broader ecosystem."

Yee Chia Hsing, head, Catalist and managing director of CIMB Bank (Singapore Branch), agrees. He notes that as part of a banking group, being a sponsor enhances CIMB's strategy to provide services to SMEs.

More importantly, in its capacity as a sponsor, CIMB has so far avoided "potential pitfalls" and sponsored only "quality" companies. "Our internal processes are rigorous enough that we feel that we still can manage the risks. We do not have much [corporate] scandals happening," he says.

Ong Hwee Li, CEO of SAC Capital, says while the challenge lies in dealing with "difficult" companies, he takes comfort that companies under SAC Capital's guidance have achieved growth. Of course, the sponsor fees are a motivating factor too, he says. "If you ask me, it is worth it — from our effort and the satisfaction of seeing [these companies] become better," he says.

Ong adds that SAC Capital is unlikely to quit the sponsor business any time soon because the corporate finance firm has been a sponsor for "a long time". SAC Capital was appointed a full sponsor in 2014 and "we will continue" to do so, says Ong.

Liew of PrimePartners admits 'existential' questions do surface when a sponsored company gets into trouble but the business is still a revenue generator

Ong of SAC Capital says the challenge lies in dealing with 'difficult' companies and he takes comfort that companies under its guidance have grown

Yee of CIMB says even if the due diligence done on a company turns out fine, this does not guarantee it will not get into trouble later

At ZICO Capital, CEO Alex Tan acknowledges that sponsors are feeling the heat because of the tighter regulatory requirements. This is compounded by the challenge of offering a competitive fee, while balancing the need to pay salaries and be profitable, he adds. But he believes things would improve over time.

"Eventually, I think it would be worth it all," he says. "If you ask me will Singapore continue to be the financial centre that it is now, I can't see why the market will not come back in a way that is conducive to make the tradeoff positive for everyone," says Tan. ZICO has been a full sponsor since 2016.

Meanwhile, RHT Capital (RHTC) managing director Mah How Soon says that having the sponsor business enables the firm to compete for corporate finance deals. He points out that many of the mega deals are dominated by the likes of **Goldman Sachs**, **JPMorgan Chase** and **UBS** while local banks clinch the intermediate ones.

“So, if we do not play in the Catalist field, it is difficult for us to play in the Mainboard field. Therefore, the continuing sponsor business is part and parcel of us having the licence to advise Catalist-listed companies in terms of their corporate finance requirements,” says Mah.

This view is similarly shared by a spokesperson for a continuing sponsor, who prefers not to be identified. He says the sponsor business provides visibility for the company and its other businesses. “Many times, by being involved in all these regulatory and corporate governance matters, it increases the experience profile of the organisation,” the spokesperson adds.

Despite established incumbents, there have been new sponsors. For instance, W Capital Markets and Evolve Capital Asia were appointed as full sponsors in April last year. What drew them into this field?

Wayne Lee, chairman and CEO of W Capital, says the sponsor business allows the firm to provide an integrated array of corporate finance services. “It gives us the opportunity to get to know companies inside out. Because of that, we can provide more corporate finance services that are adding value to the mid- to long-term business prospects of the companies,” he says. Of course, the fees are a motivating factor too, he adds.

While Lee acknowledges the risk that comes from sponsoring a company, he says there is no return without risk. It is about finding the right risk-return profile, he adds.

Jerry Chua, CEO and managing partner of Evolve Capital Asia, shares a similar view. He acknowledges that the regulatory-related responsibilities of a sponsor can be “onerous”. However, being a sponsor allows Evolve

Capital Asia to provide corporate finance services as part of a broader range of offerings it can sell.

For example, Evolve Capital Asia will be more than just an introducer and broker for a company going IPO. As a sponsor, Chua will fight in the "trenches" with the company. He will also handhold them and build better and tighter business relationships with them. "I see the IPO as the start of a journey," he says.

PHOTOS: ALBERT CHUA/THE EDGE SINGAPORE

Tan of ZICO Capital says sponsors are feeling the heat because of tighter regulatory requirements and the challenge of offering a competitive fee

Chua of Evolve Capital Asia says being a sponsor allows it to provide corporate finance services as part of a broader range of offerings it can sell

Lee of W Capital says sponsoring a company is a risk but there is no return without risk

Sponsors under fire

To be sure, the local stock market has seen several scandals involving Catalist-listed companies over the last few years. As a result, many shareholders lost money as the share prices of these companies tanked. In response, SGX RegCo has been strengthening its regulatory framework and acting against errant directors, external auditors and other stakeholders. Sponsors, too, have been made to carry their share of the responsibility.

Take for instance Novus Corporate Finance. On July 14 this year, it had assumed the continuing sponsor role for **Axington Inc**. Just a month later, things blew up.

Terence and Nelson Loh, two cousins who assumed control over the company, triggered a public relations scandal. Together with their partner

Evangeline Shen Che, the trio's joint entity, Bellagraph Nova Group (BN Group) announced a bid for English football club Newcastle. BN Group sent out a doctored photo of the trio with former US president Barack Obama.

While BN Group has no direct links to Axington, the trio's involvement with the latter brought Novus into the crosshairs. On Aug 24, SGX RegCo released a statement, saying it had "engaged" Novus pertaining to its role as the continuing sponsor of Axington. This came after Shen, 32, was appointed Axington's non-independent, non-executive chairman on July 15. Six other individuals were also appointed. The Lohs, interestingly, were not among them.

SGX RegCo said that in general, all directors appointed to the board of a Catalist-listed company are required to be assessed by the company's nominating committee and continuing sponsor. This requires taking into account their experience, expertise, character and integrity. "Where necessary, appropriate investigations should be undertaken to evaluate suitability in light of recent developments," the regulator says.

SGX RegCo added that it expects "a response from Novus soon". But as at press time, Novus has yet to respond publicly to SGX RegCo. Novus declined to speak to *The Edge Singapore* for this article.

Meanwhile, BN Group had retracted a series of claims and statements made in its marketing materials and press releases that led to a mass resignation of five Axington directors, including Shen and former US ambassador to Singapore Kirk Wagar. As at Sept 1, the board is just left with just two independent directors, Roberto Dona and Low Junrui. The Lohs are reportedly looking to offload their stake in the company. On Nov 10, Axington announced that Nexia TS Public Accounting Corp had resigned as its auditor. Trading in shares of Axington has been suspended since Aug 31.

Novus is not the only sponsor to have come under fire. On Jan 22, RHTC was slapped with a notice of compliance (NOC) from SGX RegCo. It remains the only sponsor to be publicly reprimanded by the regulator in that manner.

RHTC was directed to demonstrate its independence and avoidance of conflict of interests. This was because SGX RegCo found that many of its sponsored companies had procured services from several of its sister companies. For one, **Synagie Corp** and **Metech International** have engaged RHT Corporate Advisory (RCA) as their designated share registrar. **Jubilee Industries Holdings** and **Accrelist** have engaged RHT Communications and Investor Relations (RCIR) as their designated investor relations team.

In its Jan 22 notice, SGX RegCo said it is aware that RHTC, RCA and RCIR are part of the RHT group of companies under RHT Lex Ultra (RHT Group). It also noted that the RHT Group shares common directors and/or shareholders with RHTLaw Taylor Wessing and its associated entities. RHTLaw has provided legal and other services to certain sponsored companies of RHTC.

In an emailed statement to *The Edge Singapore* on Jan 24, RHTC clarified that RHT Corporate Advisory is not part of the RHT Group of Companies. This came following the disposal of the corporate advisory unit to In.Corp Global in May 2019. RHTC said it had conveyed this change in relationship to SGX. The sponsor also declared that it is a separate legal entity and is always separately and independently managed by its own board of directors and management team.

“With regard to the notice of compliance from SGX and [RHTC]’s independence, [RHTC] will be responding to SGX and we welcome this opportunity to elucidate our independence as a sponsor of Catalist-listed companies. As a Catalist sponsor, RHTC does not influence in any way the listed companies which it sponsors with regards to the selection and appointment of service providers of these listed companies, as long as such service providers are suitable, competent and have the relevant track record," says RHTC in its email.

When asked, RHTC's managing director Mah says he believes that RHTC has not done "anything materially wrong". But he concedes that there could be "gaps in practices", which he says happens to everyone.

However, Mah is baffled as to why SGX RegCo had only issued an NOC against RHTC. After all, the related companies of other sponsors have also provided services to their sponsored companies, he points out. "It's something that you have to ask SGX," he says.

In response to queries from *The Edge Singapore*, SGX RegCo says the NOC was issued for RHTC to demonstrate the absence of conflict of interest given the scope of services the RHT Group or RHTLaw offers companies. "That Catalist sponsors are independent of the [companies] they sponsor is crucial to preserving the integrity and high standards of the Singapore market," says an SGX spokesperson.

Asked whether the matter involving RHTC was resolved, SGX RegCo did not confirm. "We have engaged [RHTC] on the issue of independence arising from our NOC. However, these engagements are confidential," adds the spokesperson.

When companies turn 'crazy'

So, was it fair for SGX RegCo to have acted against sponsors?

The way SAC Capital's Ong sees it, if a company gets into trouble because of certain irregularities and its sponsor has failed to perform its duties, then it is fair for the sponsor to be reprimanded. However, if a company gets into trouble because of a commercial decision, then it is a different matter altogether, he says.

Ong illustrates his point through the example of **Kitchen Culture Holdings**, of which SAC Capital is its sponsor. The company, which provides furnishings and equipment for kitchens on Aug 13 announced that it is buying a 30% stake in big data firm OOWAY Technology for $23.92 million.

Lim Wee Li, executive chairman and CEO of Kitchen Culture, called the acquisition a chance for the company to explore alternative businesses. Jim Rogers, co-founder of OOWAY Group that owns OOWAY Technologies, said that he believes the “complementary strengths” of OOWAY and Kitchen Culture will yield “exciting results” in the future.

Yet what possible synergies could be realised between a provider of kitchen furnishings and equipment and a Big Data firm? When asked, Ong says he does not know. But in his view, the acquisition is a commercial decision, he says. And if the company believes it is commercially viable, it is not his place to stop it. “Because how would I know that the venture will lose money?” he reasons.

That said, even if a company gets entangled in a fraud case, ZICO’s Tan says it is unfair to put the blame entirely on the sponsor. After all, the company also has its own board of directors, as well as internal and external auditors. They, too, have a role to play to provide the checks and balances. “It cannot just be the sponsor who is responsible for the [blow-up],” he says.

And depending on the context, the sponsor may have performed its duties diligently and yet the company has gone “wayward”, Tan says. This, however, does not necessarily mean that the sponsor is incompetent or negligent in its duties, he says. It is like how a misbehaving child does not necessarily reflect bad parenting if the parents have done everything they could, he says. In addition, he points out that it is not “realistic” to expect a sponsor to prevent a company from getting into trouble.

CIMB's Yee agrees. He says the outcome of a sponsor's due diligence on a company may turn out to be fine today. But there's no guarantee things might change and that the company gets into trouble later.

Take the example of **Singapore Kitchen Equipment**. CIMB has been its sponsor since the company's IPO in 2013. On Sept 13, Singapore Kitchen announced that CEO Sally Chua Chwee Choo is under probe by the Corrupt Practices Investigation Bureau in connection with entertainment expenses and sales commission relating to projects undertaken. Besides Chua, Alan Lee Chong Hoe, the company's other executive director, and senior sales manager Alvin Chiao Shan Ren are under probe as well.

Yee says he could not have known or prevented the company's management from allegedly misbehaving. "For example, today you are a perfect guy. But I can't guarantee that tomorrow you will kee siao (turn crazy) and whack your girlfriend or your mother-in-law," he says. "I don't have a crystal ball. I can only assess you for what you are today. It is the same for companies."

Independence questioned

What about the question of a sponsor's independence or lack thereof? Mak Yuen Teen, associate professor of accounting at NUS Business School and leading corporate governance activist, wonders if the large number of sponsors is contributing to the erosion of their independence.

Currently, there are 16 full sponsors and four continuing sponsors in the market. With 216 Catalist-listed companies, the ratio of these companies to sponsors is less than 11, says Mak. In comparison, the UK's Alternative Investment Market (AIM) — of which the Catalist board is modelled after — has 34 nominated advisors (the equivalent of a sponsor). With 850 AIM-listed companies as at Jan 31, 2019, that translates to a ratio of 25, he says.

According to SGX's website, PrimePartners currently has the lion's share with 51 sponsored companies under its charge. Other sponsors with sizeable portfolio of companies include SAC Capital with 34 sponsored companies; RHTC with 23 sponsored companies; ZICO Capital with 20 sponsored companies; and CIMB Bank with 18 sponsored companies. Novus Capital, despite being relatively new to the game, has mandate for 10 companies currently — including Axington. W Capital assumed its first appointment as a sponsor for **LionGold Corp** on Aug 12, while Evolve Capital Asia has none so far.

“There is a question of whether there are too many sponsors given the number of Catalist[-listed companies], which may lead some sponsors to look for other work which may lead to conflicts or treat their sponsorship business as ancillary,” Mak posted on his blog on Aug 13.

Indeed, with fewer sponsorships to go around, sponsors and their respective parent companies would naturally seek adjacent businesses to supplement their top line. After all, all businesses are profit-seeking and would not want to be loss-making.

Indeed, quite often, sponsors and listed companies cite “commercial reasons” for ditching one another. For example, prior to Oct 22, Novus Capital actually had 11 companies, instead of 10 now: it quit as sponsor for **Sunrise Shares Holdings** due to “commercial reasons”. The relationship cuts both ways. **Zhongxin Fruit and Juice** changed from PrimePartners Corporate Finance to UOB KayHian on May 23 as it “is of a view that UOB KayHian may be better positioned to advise on its future corporate actions”.

In any case, most sponsors would argue that the commercial interests do not impact their independence nor have conflict of interests as long as the necessary internal controls are in place. This would include a China wall that segregates the operations of the sponsor from that of other businesses. But where should the line be drawn when many of the sponsor’s related companies are also providing services to the sponsored companies?

ZICO’s Tan says if such a scenario depicts sponsors as having conflict of interests, then banks too should be seen as similarly entangled. He notes that several banks have sponsor business and they have lent money to the sponsored companies. Moreover, sponsored companies have their corporate accounts with these banks. “Wouldn’t that be conflict [of interests] as well?” he says.

Tan admits that sometimes sponsored companies would ask him to recommend services for share registrar, company secretary and other things. And he would inform them that ZICO’s related companies do offer such services. But the decision on whether to procure these services lies with the sponsored company, he says.

Ultimately, Evolve Capital Asia’s Chua says a sponsor must have the “right” motive from the start — even if it means turning down potential opportunities to sponsor companies. According to Chua, many have wondered why Evolve Capital Asia has yet to sponsor a company. This, he explains, is not because Evolve Capital Asia is less competitive or lacks certain expertise compared to others. In fact, Evolve Capital Asia is equally capable and has had received requests from three companies to be their sponsor, he says.

But he turned down all their requests because of certain “legacy issues” and misalignment with Evolve Capital Asia’s goal. “Frankly speaking, it’s not like I’m doing this to get [more] money,” he says. “There must be an angle where I can help and add value from a commercial perspective. We want to grow with them,” he says.

The way Chua sees it, the sponsor’s goal should be to help companies grow and bring them to market, he says. But if the sponsor has a different agenda, it “defeats the purpose”, he adds. “So, I hope their goal is similar to my goal — to advise business owner or companies and bring them to the next level in whichever format that is most appropriate,” Chua says.

TAGS: SINGAPORE EXCHANGE REGULATION (SGX REGCO) - PRIMEPARTNERS CORPORATE FINANCE - CIMB BANK (SINGAPORE BRANCH) - SAC CAPITAL - ZICO CAPITAL - RHT CAPITAL - W CAPITAL MARKETS - EVOLVE CAPITAL ASIA