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ANOTHER COMPANY MAKES SPECTACULAR DEBUT ON KLSE

KUALA LUMPUR, April 28 (Bernama) -- Another company, Computer Systems Advisers (M) Bhd, made a spectacular debut on the Kuala Lumpur Stock Exchange (KLSE) today.

Its initial offer price of RM2.80 per share on the second board shot to a high of RM9.95 before settling at RM7.85.

The company, which is involved in systems integration, software services and information technology, made a public issue of only 5.985 million shares.

Nobody can say exactly why the stock made such a high premium but it is interesting to note that 5.361 million shares were traded today, which could mean that all but a handful of the shares made available to the public in the flotation exercise were traded.

There had been many comments on so-called "excessive speculation" on stocks listed on the KLSE when their prices made steep gains in a short span of time, especially new listings like CSA today.

Prime Minister Datuk Seri Dr Mahathir Mohamed recently commented at a dinner attended by the securities industry community that he saw no reason why the opening price of new share issues was four times or five times above the offer price.

The reasons for sudden and sharp price movement have been provided many times by analysts, including KLSE executive chairman Datuk Nik Mohd Din Nik Yusoff, who attributed to manipulation and excessive speculation.

Nik Din said a day after Datuk Seri Mahathir's comments that it was not easy to catch the manipulators or the syndicates that manipulate the counters.

The syndicates playing on stocks are also often linked to insider trading, he added.

Some market watchers believed that in a few new listings, the price of the debutantes were pushed upwards by their promoters, who are their directors and merchant bankers who advise the companies on the public flotation, to boost the image of the companies that are being listed.

Nik Din said if the KLSE is certain that a stock's movement is due to syndicate play it will move in to investigate.

The KLSE is also known to have a formula whereby when the price of a certain counter reaches a certain level it designates the counter.

When a counter is made a Designated Counter, most of the time, only cash trading is allowed.

It is also believed that the manipulators must be big players with deep pockets as buying a few million shares worth RM10 each would take a lot of money.

"It is not the work of the people in the street pushing the price of a listed company as it will take a lot of shares," said an analyst, adding that the smaller the company the easier it is to get manipulated.

That is why second board companies, whose paid-up share capital is not more than 40 million shares, record exorbitant premiums when their shares debut on the stock exchange.

The analyst said even without manipulation, prices of second board stocks are more volatile than those of the main board. "It is the law of supply and demand at work," he added.

For second board companies, the supply of shares is limited compared to the main board companies, whose paid-up share capital must be more than 40

million shares.

Many commentators, including Datuk Seri Mahathir who said "it is good to have speculation on the local market but too much of it is not good", never define excessive speculation.

Under the previous Securities Commission (SC) listing rules, the initial offer price of a company seeking a flotation is decided by the SC, which sometimes set the gross price earnings (PE) ratio of four to seven times although the market PE for the sector could be about 17 to 20 times.

For example, Tamadam Bonded Warehouse Bhd's gross PE was 4.68 times when it made a listing with a RM2.00 offer price in October 1994, Sinmah Resources Bhd's gross PE was 5.66 times at an offer price of RM3.10 in April 1995, Khee San Bhd's gross PE was 7.60 times on RM2.80 offer price in February 1996 and Dialog Group Bhd's gross PE was 7.1 times on RM2.75 offer price in March 1996.

Under the current guidelines, the price is set by negotiation between the advisor, usually a merchant bank, and the company itself.

An officer of a merchant bank said the company would most often ask for a high price to get as much proceeds as possible from the flotation, but the advisor would advise that higher price might not get the required response from the public.

The advisor and the underwriters for the share offer to the public would prefer a low price for the shares. This is because if the shares are not fully subscribed, the underwriters will have to subscribe them.

That is why the price of an IPO must be lower than the market's PE to give the benefit of a premium when the company makes its debut, said the banker.

Under the present listing rules, the basis on which the price of an IPO is set is on the net PE and closer to the market's PE for the individual sector in which the company belongs.

For example, Jaya Jusco Stores Bhd's net PE was 10.9 times when the company went for listing with RM4.30 offer price in October 1996, Crescendo Corporation Bhd's net PE was 14.8 times on RM4.00 offer price in February 1997 and Rubberex Corporation (M) Bhd's net PE was 12.5 times on RM2.25 in March 1997.

Because of this, the premium fetched on debut should not be as spectacular as previously.

It was said that the opening premium of main board companies was reduced to on average 60 percent over the offer price, from more than 100 percent previously.

For the second board companies, which are said to be easily manipulated, the premiums recorded were still "exorbitant". -- BERNAMA

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