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Mesdaq's success depends on retail investors

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TWO hot topics today are the development of Malaysia's Multimedia Super Corridor (MSC) and the synergistic establishment of the Malaysian Exchange of Securities Dealing and Automated Quotation (Mesdaq). To promote the MSC, Prime Minister Dr Mahathir Mohamad took great trouble to meet world corporate leaders in California, the United States, and lure them with numerous incentives and concessions.

To support the MSC, we need Mesdaq. The Malaysian version of the highly successful American Nasdaq, Mesdaq is supposed to spearhead the MSC by providing an OTC market whereby high-risk/high-reward venture companies can source development funds through listing.

While many analysts are confident that the MSC will be a success, others are worried about Mesdaq. One doubting Thomas, a top Malaysian analyst, said Mesdaq will only succeed if financial institutions and fund managers support it. There are worries about such abuses as cornering and share manipulation, in view of the low RM2 million minimum paid-up capital. However, taking the second board as a guide, I think the success of Mesdaq will depend on the mass participation of retail investors and speculators. The liquidity problem of Kloffe can be traced to low retail participation. Financial institutions and unit trusts are run by conservative people. They fear taking risks. This was noted recently by Dr Mahathir when he said that bankers should take risks sometimes.

Since Mesdaq deals with companies that have little or no proven record, we can expect little or no support from bankers and fund managers. Mesdaq-listed companies have a higher order of risk, compared with second board companies. If local bankers and fund managers are now frightened of the volatile second board, what do you expect of them when Mesdaq is being established?

Remember the time when financial institutions capped second board companies at RM8 to RM10 when the counters were trading between RM20 and RM140 per share? Some of them refused to finance second board counters, and when such purchases were allowed, it was based on the understanding that these shares were to be valued at zero for margining purposes. If bankers and fund managers have no respect for companies with RM10 to RM20 million paid-up capital, can we expect anything better from them for a Mesdaq-listed company? A Mesdaq company has a RM2 million minimum paid-up capital, and no track record.

Lityan is connected to the MSC, but are there any financial institutions interested in buying its shares at RM38 or even RM20 per share? (See 'Lityan Joins in MSC Telemedicine Project', New Straits Times, March 18). MCSB is another MSC-related stock which had a pre-tax loss of RM19.4 million in 1996. (MB, Dec 1, 1996) Will fund managers buy MCSB shares at RM40, RM20 or even RM10? Mesdaq counters will be even more airy fairy since they would concentrate on R&D instead of PER (price earnings ratio) or EPS (earnings per share).

Kloffe has low liquidity because local institutions are not participating, and this can be traced to their aversion to risk. Retailers (around 25 per cent) shun the CI futures for the opposite reason: not enough volatility or risk in the 100 blue chips. The three call warrants issues were failures for the same reason. But the second board is a roaring success because it is swamped by risk-loving local and Singaporean investors!

We should not worry about abuses of the Mesdaq mechanism (see Editor's Note, MB, March 1). That is the problem of the Securities Commission. Many second board companies are believed to be cornered, due to the low free float. The 15-30 per cent free float sets a classical scenario for share manipulation and cornering, as illustrated in Reminiscences of a Stock Operator.

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