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RM60bn fund to shore up shares (HL)

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THE Government has established a RM60 billion fund to prop up the Kuala Lumpur Stock Exchange (KLSE) and counter persistent selling by foreign funds.

Khazanah Nasional Bhd, the investing arm of the Government, will pump RM30 billion into the fund through bond issues. Another RM30 billion will come from other sources, Prime Minister Datuk Seri Dr Mahathir Mohamad announced yesterday.

With the fund, the Government will buy shares at a premium to their market price from local investors. Shares disposed of by foreigners will be bought at market price, he added.

If the fund proves insufficient to boost the local bourse, he said the Government is prepared to pump in more money.

Dr Mahathir spoke to reporters after addressing Umno delegates ahead of today's Umno Youth and Wanita assemblies and tomorrow's Umno general assembly. The press conference took place an hour after the close of trading on the KLSE, which saw its Composite Index (KLCI) ending 5.65 per cent, or 44.97 points, down at a 50-month low of 750.76.

He said the Government is injecting the RM60 billion into the market to help investors caught by the sharp drop in share prices caused by continued manipulation of the local stock and currency markets by the foreign funds.

Some of the problems facing these investors are related to margin calls made by banks when share prices drop to below the value at which the shares were pledged to the banks as collateral to obtain loans.

Investors caught in such a situation are hard pressed by the banks to make up for the shortfall.

"If (the borrower) cannot get it, he will be facing problems. He will be bankrupt. As such, he will be a burden to himself and to society.

"That is why (the Government is) prepared to buy these shares," Dr Mahathir said.

Asked how much the premium would be, Dr Mahathir said: "We haven't decided exactly what the premium would be, but we will buy at a premium, because the share value, even with the premium, is still profitable. (This is) because the PE (price-price earnings) ratio is very good."

Asked if the RM60 billion would be enough, he said: "We'll see. If not, we will pump in more."

He sees no problem in raising the funds locally, without having to borrow from external sources. "We have the resources."

As to whether Malaysia is getting assistance from oil-rich Brunei, Dr Mahathir said: "No, we are not dependent on any party. We will manage it ourselves."

The move to establish the fund to boost the KLSE came less than a week after the Prime Minister gave the green light for local funds, including Permodalan Nasional Bhd, Employees Provident Fund, Pensions Trust Fund and Khazanah, to enter the local bourse in a big way to fight market manipulators. The four have combined funds of close to RM200 billion.

He also said several local corporations and foreign parties are willing to join the campaign.

Also last Thursday, the 100 component stocks of the KLCI were declared designated securities by the KLSE, thus halting short-selling activity in them.

Last Friday, the Prime Minister said in its fight against the manipulators, the Government would help prop up the stock market until the KLCI breaches 1,000 points. Dr Mahathir has identified American speculator George Soros as the "rouge speculator" behind the turmoil in the region's currency and stock markets.

On the KLSE yesterday, the KLCI opened at 797.06 and minutes later hit a high of 797.88, before descending to an intra-day low of 747.68 in the second session.

Most analysts expressed their surprise yesterday when local players did not make a strong presence in the second session after such heavy profit-taking activities in the earlier part of trading.

"I believe they will make a comeback tomorrow, maybe not in a big way but enough to cushion the market from sliding further," said one analyst.

Leading the fall in the KLCI was a RM1.20 decline to RM7.00 in the share price of Tenaga Nasional, followed by other blue chip stocks such as UE (M), RM1.40 to 10.30; Maybank, 70 sen to RM18.30; Rashid Hussain Bhd, 55 sen to RM5.75; and Malaysia Airlines, 45 sen to RM5.00.

When asked how he expected the market to react to the fund, Dr Mahathir said: "We'll see. I don't know how the market will react because the market is very peculiar. When the company is doing very well, the price (of its shares) goes down. So it's a crazy market. (The players) are not going for fundamentals, they are just gambling, especially the foreign ones."

Dr Mahathir was optimistic about prospects of the economy. "I can't say for the region but I am sure that Malaysia will be able to recover.

"Fundamentally, we are very strong. All the companies are doing very well and inflation is very low. Growth is still projected at more than 8 per cent. There has been no problem about our deficit rising; deficit has risen a little simply because of the exchange rate. But government expenditure will also show surplus this year, from our calculations."

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