

25/04/1998

A lesson for the investors

SOME of today's most successful corporate figures had previously faced adversity, even bankruptcy, and had risen from the ashes, so to speak. Of course, there are many others who never recovered, but the point is that being under receivership is not necessarily the end of the road for a corporation or an entrepreneur. Receivership, is in fact, a normal procedure provided for in the legislation governing companies; normal because companies face difficulties even in the best of economic times. In the current not-so-good circumstances, it is only natural to expect more companies to be in trouble. However, it benefits no one for the receivers and managers of companies going through hard times to be too hasty in seeking to begin winding-up procedures.

The first option should involve an attempt to revive the foundering companies. This could involve various measures, including a corporate restructuring, debt reconstruction or an outright corporate takeover. Companies under receivership should be liquidated as a last resort and only after all options to put the company back on its feet have been explored and exhausted. The remarks by Prime Minister Datuk Seri Dr Mahathir Mohamad that some of the companies which are currently under receivership could be revived reflect precisely such sentiments. No company likes to be in this position, not least because the word receivership conjures up an image of a business having been poorly managed. The simple truth is that many a good company or businessman were caught totally offguard by the regional financial storm. Even the most conservative of entrepreneurs are affected. In the immediate future, the market may well see more failures as companies find themselves unable to service their obligations or forced to default on contracts, through no fault of theirs.

Given the economic downturn, corporations have not unexpectedly come under heavy pressure. In fact, financial results for the year ended December 31 1997 painted a gloomy picture of earnings since the crisis hit the country in July last year. Corporate results for the period were generally lower, with some companies reporting pre-tax losses, and the worst may not be over for many. This will be because it is always hard to make up for lost ground but it will also be for the fact that the Malaysian economy has reached a level of maturity to see high industrial integration and interdependence. Linkages magnify adverse conditions during a downturn as much as they do spinoffs during boom times.

Recent reports have given rise to a great deal of speculation on whether certain companies will go under. The rumour-mills have indeed been busy, churning out sensationalist "stories" about companies being overwhelmed by multi-million ringgit debts and about major corporate figures supposedly facing insurmountable financial problems. There is no denying that some companies and corporate figures are feeling the heat, but market talk often has a life of its own, and invariably gets blown out of all proportions. The newly concluded deal for the taking over of Sime Bank by Rashid Hussain Bhd (RHB) is a case in point. Prior to the announcement of the funding package, talk abounded that RHB would not be able to raise the required funds. There were also suggestions that the group was in fact "forced" to acquire Sime Bank. The deal has been finalised and the doubters put in their place.

Hopefully, this will be a lesson for the stock market investors,

primarily, when they are next passed a piece of "information" about such and such a company or businessman, that they will be able to distinguish between fact and fiction, or worse, vicious lies, and to react rationally rather than succumb to the herd instinct. As for the appointed receivers and managers, they must be able to distinguish between companies that were inherently badly managed and those which suffered solely because of sudden unforeseen risks arising from the fallout from the regional financial turbulence, and the consequent thinning of opportunities.

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