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Right issues make strong comeback

RIGHTS issues are making a strong comeback to the local capital market. Last year companies made 37 rights issues and raised RM6.11 billion. These issues injected a total of 4.921 billion shares into the market and led to a capital increase of RM3.34 billion. In 1998, a paltry RM422.04 million was raised from only five rights issues, which injected 622.89 million new shares and resulted in a capital increase of RM394 million. The impact on the Kuala Lumpur Stock Exchange (KLSE) as a result of the increased number of rights issue is quite clear. The KLSE's Composite Index gained 226 points last year to close at 812.33 after crashing to a low of 261.33 points in September 1998.

Analysts are understandably very excited with the increase in the number of rights issues. It's a good indicator of economic recovery. It reflects the confidence of the companies as well as confidence in these companies. This is especially so when one analyses that there was a surge during the second half of 1999 - only RM1.318 billion was raised during the first half from nine rights issues while the remaining RM4.792 billion was raised from 28 rights issues during the second half. It is most natural, therefore, to expect that this momentum will continue strongly into the year 2000.

The investing public is obviously ready for more cash calls. Anticipation of the KLCI breaching the 1000-point mark this year is very high. Even the Prime Minister, Datuk Seri Dr Mahathir Mohamad, is confident that the Composite Index will reach at least 900 points by the end of the year. Remember, though, that Dr Mahathir's forecast tends to be very conservative. The Prime Minister, after all, refused repeatedly to revise the official forecast of 1 per cent economic growth rate for 1999 when even the original doomsayers had admitted that 3-4 per cent would be a piece of cake for the Malaysian economy. The KLSE's first trading day 21-point gain is a very encouraging sign. With the engines of the economic chugging along smoothly, perhaps towards a decade of uninterrupted high growths that Malaysia experienced after the mid-1980s economic slowdown and before the Asian crisis of 1997, the stage is being set for another boom cycle on the KLSE.

That will depend, however, on several factors. Is the economic recovery sustainable, for example? This is important because Malaysia has just gone through - and survived without aid - its worst financial and economic crises. If the gross domestic product grows convincingly over the next few years, this will have a tremendous impact on stocks. If it grows this year and slumps back next year on account of domestic or international factors, the outlook is not going to be as bullish. Another factor that will influence the KLSE's performance is how the illegal CLOB issue is resolved between Malaysia and Singapore. Since the over-the-counter scheme was banned by the Malaysian Government in September 1998, the KLSE Composite Index rebounded from a low of 261.33 points to close above 812 points at the end of 1999. A solution to the CLOB problem, whether it should come from Malaysia or/and Singapore or the World Trade Organisation, must not in any way hamper the growth of the CI or hinder the progress of the Malaysian stock market.

The most important factor that determines the recovery of Malaysian stock market, however, lies with the players themselves. If Malaysians have not learnt from the stock market crashes in the region as a result of

the 1997 crisis, and chances are they would never learn and they will be making the same mistakes again. Fortunately, the authorities have introduced some new rules to help them along and ensure that they don't go back to the old bad habits. At the same time, the authorities have introduced guidelines to ensure that companies adhere to transparency and good governance. The Securities Commission and the KLSE will also need to work closely together and ensure that offenders are dealt with swiftly and sternly so as to serve the necessary lesson to others.

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