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Stock market uptrend remains firm

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THE Kuala Lumpur stock market's short term uptrend remains intact although it needs to digest the excesses created recently by punters chasing after shares of public listed companies which have bought into obscure information technology (IT) and internet related companies with much hype but miserable bottom lines.

The market is now rife with so-called IT companies with "I can help fry your stock" tags trying to woo companies that have been badly bashed by the recession and are struggling to keep afloat. Their aim is to make some quick bucks while the market is still bullish and give all kinds of excuses as to what and where they went wrong when the bears start raiding.

The market began the new year on a right footing with a general re-rating of the market on strong economic figures and speculation that RHB Capital, Arab-Malaysian Bank and Hong Leong Bank will be anchor banks. As it turned out, the equity investors were right in chasing up the prices of these bank stocks. Bank Negara approved the formation of ten anchor banks compared with six earlier and set the deadline for completion of the consolidation exercise to end this year. Upon completion of the merger, each of the banking groups will have minimum shareholders' funds of RM2 billion and asset base of RM25 billion.

The market rally soon spilled over to healthy and promising IT companies' share prices which were related on to the global IT wave led by stocks on US-based Nasdaq. Soon thereafter third-rated, remotely IT related companies caught punters' attention and the buying frenzy sent the market to giddy heights and has now dabblers licking their wounds from a steep and totally unwarranted market plunge across the board in early March.

There will certainly be another IT-related run-up in shares prices and it is hoped it will be a more informed and fundamentally supported rally. Investors would certainly appreciate if the authorities instruct companies announcing IT related tie-ups to give full details on the track record of the acquiree companies, prospects and justification for the purchase consideration. Otherwise, it is feared small investors may be taken for a ride again and suffer huge losses and cause a market crash.

While the market is upbeat on continued good economic indicators, three key issues, namely the shaky Wall Street, the unresolved CLOB issue and the forthcoming UMNO elections could derail the market.

The New York Stock Exchange's barometer the Dow Jones industrial average fell from a hinge of over 11,000 points early last month to below 10,000, closing at 9,862.12 points on February 25. The first retreat below 10,000 point level in 11 months. Federal Reserve chairman Alan Greenspan has expressed fear that the US economy has to slow down significantly and inflation capped otherwise the stock market bubble could burst.

On the CLOB issue, although the two exchanges have agreed on certain terms, the 172,000 affected investors seem divided on the next course of action. Securities Investors Association of Singapore president commented recently as to why Scheme A provides for only one company and why effective capital was chosen over Bintang Melewar under scheme A, CLOB shares will be released in phases over 13 months from July. Investors will pay a transfer fee of 1.5% based on the CLOB shares as of February this year. This offer closes on March 31.

The UMNO elections has always been a "hot seat" as aspiring politicians

try to outdo each other so that they will be singled out as future leaders, not least for taking over the reins from UMNO President and Prime Minister Datuk Seri Dr Mahathir Mohamed.

Market sentiment was also recently dampened by Telekom Malaysia's sharp decline in profits for last year and also the complicated DRB-Hicom merger, which logically should concentrate on decentralising into smaller and more accountable business units instead of creating a heavy conglomerate which could easily run into complacency.

The market rose above 1,000 point on the KLSE composite index in February and remained above the level for seven market days in heavy volume trading. Among the active stocks was Time Engineering, which is seen by many analysts as the future leader in the telecommunications industry. Its share price rose RM1.20 during the month to RM4.42 with a total volume of 161.527 million units.

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