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Rumour on UEM delisting may keep players sidelined

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THE benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) rose for four consecutive days to close last week on an impressive note on reports that foreign funds were in the market.

Week-on-week, the KLCI jumped 33.82 points or 5.7 per cent to close at 626.81 while the broader Emas Index rose 6.43 points or 4.5 per cent to close at 148.72 on relatively high volumes of above 370 million shares in the last two sessions.

Last week's rebound was helped by a report that the US National Association of Purchasing Management's June manufacturing sector index rose to its best level this year, prompting optimism that the worst may be over for the recession-plagued industry. A US recovery is crucial for Malaysia, which exports one-fifth of its goods to the US.

The market's rally was despite United Engineer's warrant being sold down on fears that Tan Sri Halim Saad, the former vice-chairman of UEM, may take UEM private. UEM-W plunged 45 sen or 46.3 per cent in just two weeks, from 97 sen to close at 52 sen last Friday.

So far, Halim has not come out to clear the air on this rumour. His silence is fuelling rumours that he may indeed take UEM private. If so, then UEM-W will be worthless - hence its sharp price decline over the last two weeks. Let us hope he won't surface now and say he is not taking UEM private. It may be too late. For if he should announce it now, UEM-W will likely rebound - and investors will be wondering who had bought the 40,000 lots on the way down?

The rumour on the de-listing of UEM may well turn out to be the market's achilles' heel this week as players may remain sidelined ahead of a scheduled July 14 repayment of RM100 million by Halim as part of his deal under a previously agreed put option with UEM. Alternatively, the market may discount this piece of news and limit the damage only to the UEM group while the index continues to rise.

So far, the UEM issue has taken a back seat. Market participants were drawn into the market last week by the sharp rallies in index-linked stocks led by Tenaga Nasional, Telekom and Maybank on reports of foreign buying. Week-on-week, Tenaga rose RM1.00 or 11.4 per cent to RM9.75, Telekom was up 85 sen or 9.6 per cent to RM9.65 while Maybank gained 90 sen or 8.7 per cent to RM11.20.

Plantation stocks also helped fuelled last week's rally as rising prices of palm oil rubbed off onto stocks like Sime Darby, which rose 42 sent or 10.6 per cent to RM4.38 while IOI was higher by 39 sen or 14.7 per cent to RM3.04. Technically speaking, weekly volume last week was unusually high; this coupled with a breakout of its consolidation mode, exceeding the high of 607.02 (June 14) and the high of 620.48 (May 3) implies a market determined to turn itself around.

For the first time since April 28, last year, our P.I. System Trader indicator has triggered a monthly "buy" signal after 15 months of downtrend. The KLCI had succeeded in breaching the 620.48 resistance. If this level can be exceeded by the end of July, the market shall be viewed as having bottomed out. A look at the fund-flow table (Table 1) will reveal that the best three bourses in the Asian region last week were Thailand, Indonesia and Malaysia with South Korea downgraded to fourth place. But what the table has also revealed is that only the KLCI is strong, implying funds are moving mostly into index-linked stocks. The

broader market, as reflected by the Emas Index, is not as strong. This scenario is reminiscent of the period between September 1998 and January 1999. During that period, the market inched up in steps amid political uncertainties stemming from Datuk Seri Anwar Ibrahim's arrest, riots and disturbance to the Commonwealth games. Obviously, retail investors did not benefit much from that rally.

The current rally we are witnessing share similar characteristics with that of between the September 1998-January 1999 period. Last week, although the KLCI rose by 33.82 points to 626.81, few retail investors bought. Our research showed that those who had shares bought earlier (stale bulls) sold into strength instead. Psychologically speaking, many retail investors remain sceptical and would not participate in the market. But technically, we may see this market continuing to inch upwards, led by selective index-linked stocks like TMT just like in 1998-1999. Lower liners will likely remain lacklustre.

Last Wednesday, major dailies reported that more than 10,000 Bumiputera entrepreneurs who are saddled with non-performing loans (NPLs) can receive financial assistance from a special fund called "Entrepreneurs Recovery and Development Fund" launched by the Prime Minister Datuk Seri Dr Mahathir Mohamad.

Out of the RM500 million allocated, RM120 million will be set aside to resolve the problems of NPLs currently faced by Bumiputera entrepreneurs. In a nutshell, the banks will take a "hair cut" where 40 per cent will deducted from the principal sum owing. Accumulated interest payments and penalties imposed by banks will be abolished. The Government will then provide financial assistance of 30 per cent to the borrower to repay the banks while the balance of 30 per cent of the loan can be settled over a period of not more than 18 months.

The innovativeness of this scheme should be lauded. Its objective is to help out financially strapped entrepreneurs who were affected by the sudden collapse of the Malaysian economy brought about by George Soros's hedge funds attack on our currency in 1997 and 1998. The Malaysian economy grounded to a halt in 1998 with a growth rate of near zero per cent. For many Bumiputera businessmen, they are still carrying this heavy baggage even after three years.

The nightmares from the attacks on the Malaysian and Asian currencies in 1997-1998 by hedge funds are still denying many businessmen from having a good sleep. Needless to say, if not for the Government's unorthodox approach of implementing selective capital controls in September 1998, Malaysia could well be an International Monetary Fund aid recipient and be under its dictate.

But despite selective capital controls, it is a fact that hedge funds have hurt the country's economy where all Malaysians are affected. These financial problems brought on by the financial crisis, we are sure, are faced by all sectors of the business community and not just by one sector of the population.

This is a national problem. Unless it is resolved, good entrepreneurs, especially from the small- and medium-sized industries (SMIs), will find it hard pressed to survive due to working capital constraints let alone generating enough monies to repay their debts to the banks.

Without these SMIs, Malaysia's economic growth will be hampered. Hence, we feel it would be a good idea for the Government to recognise that this problem is one on a national scale and to extend a helping hand to each and every community whose businessmen happen to suffer from the same dilemma.

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