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Technical indicators show bourse still bullish

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THE week before last, the market was spooked by rumours that former Finance Minister Tun Daim Zainuddin was under investigation. But we did mention in our column that it was merely a convenient piece of news for syndicates to take profits as the market had by then already rallied for six consecutive sessions. We concluded by classifying the pull-back as a "correction" and expected the market to continue with its rally last week.

However, the rally we envisaged did not materialise. Week-on-week, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) was lower by 1.53 points or 0.26 per cent while the Emas Index was off by 0.25 point or 0.18 per cent.

Weekly volume was, however, only half of the previous week, reflecting sidelining by investors for fear of negative surprises surfacing at the Umno General Assembly.

"Everybody is waiting for the outcome of the Umno General Assembly. There is a lack of participation from both foreign and local players," said an institutional dealer from a local brokerage house.

As opposed to previous years where Umno delegates raised contentious issues, the tone of the debates were different this time around. The Prime Minister, Datuk Seri Dr Mahathir Mohamad, himself was happy with the quality of the debates presented on the first day of the assembly.

"I see that the focus is on strengthening Umno this year! I think it is a little different from previous years. This time, they are more spirited and look more intent on talking about unity in the party and strengthening Umno."

Those who expected "fireworks" didn't see any. Its absence obviously had a positive influence on market players or at the very least, a stabilising effect on them - hence the noticeable lack of selling pressure.

Umno linked stocks, however, were flat but did not depreciate which is a good sign. This state of calm was reflected in the weekly charts when many "dojis" or "spinning tops" were seen.

A "doji" and "spinning top" seen in a consolidation market implies indecision. But on balance, the majority of Western indicators we are monitoring are still bullish.

Technically speaking, therefore, we tend to view the market as still positive. Perhaps, there could be a post Umno General Assembly rally.

HLG Securities alludes to this view when they said in a report that "The trend for the past eleven years indicate a very high probability that the index will recover in the week after the Umno General Assembly.

For the last couple of weeks, the MCA was embroiled in a hot debate over the purchase of Nanyang Press Holdings Bhd by Huaren Holdings Sdn Bhd. The deal involves buying a 72.35 per cent stake in Nanyang from Hume Industries. Despite having being endorsed by 80 per cent of the presidential council on May 23 and again in the May 30 central committee meeting when 32 members voted in favour of the takeover and 8 opposed, critics were aplenty from the Chinese community fearing that the independence of the daily would be prejudiced by the takeover by a political party.

To resolve this issue, the President of MCA, Datuk Seri Ling Liong Sik called for an Extraordinary General Meeting (EGM) to be held on June 24.

As this article was written last Friday, we have yet to know if MCA delegates will resolve to ratify the purchase of Nanyang. But judging from

Nanyang's price and volume activity, we noticed that Nanyang's price did not fall even after the controversy surfaced from May 30.

On May 30, the price of Nanyang stock was at RM4.80 (ex div). Last Friday, Nanyang closed at RM5.25, up 45 sen from May 30's price.

One of the idiosyncrasies of the stock market is, when bad news can't trigger a fall in a stock's price, then it is viewed as "strong".

Applying this adage to Nanyang, what the market players are saying indirectly is, Nanyang shares are still viewed as "cheap" even if the delegates at the EGM reject Huaren's purchase.

Fortunately for those who bought Nanyang, this controversy has drummed up a lot of interest in this stock. Assuming if the delegates at the EGM reject the purchase, it is not the end of Nanyang.

By now, at least two parties or consortiums are keen to takeover Nanyang, with one willing to pay as high as RM6.10 per share. Our technical analysis shows that buying interest in Nanyang is very much alive even till last Friday. If MCA delegates ratify the purchase, Nanyang should rally further to test RM6.90 if based on Elliott's Wave theory.

Should the delegates reject Huaren's purchase, it is not inconceivable for the MCA President to use another option - and that is to make an offer of Nanyang shares to members of MCA. With a paid-up capital of only 61.19 million shares, a 72.35 per cent stake will amount to 44.27 million shares or 44,270 lots.

If indeed Nanyang is offered to MCA members, there will most probably be a gross over-subscription, given the limited number of shares available. If this strategy is applied, then it will be along the same principle and concept as that used on Multi-Purpose Holdings where unlisted shares were offered to MCA members before it became a public-listed company.

The way we see it, either way, Nanyang shares should move higher this week.

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