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Supply of shares outpacing demand?

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DURING a clubhouse conversation recently, someone warned: "If you are going for a first-day kill on PLUS shares, forget it. Expect a small premium or even a below-offer price performance on that day".

That was a personal opinion, of course, which he was entitled to, and may not necessarily be correct. But the person is a stockbroker and his reasoning seems to make some sense.

PLUS Expressways Bhd is a company that manages the country's longest dual-carriage expressway. That alone ensures its success as a company, the highway being at par with any other in the world.

In terms of cashflow, PLUS is in an enviable position, the cash machines at every of its toll booths have not stopped ringing since it started operations. People have complained everytime PLUS increases its toll rates but the convenience its expressway offers has been so enormous that they just will not stop using the facility.

So it seems, at least according to the friend, PLUS itself is not the issue for those hoping to cash in fast on the company's initial public offering.

One may not realise it but we are approaching a period quite similar to that in the early 1990s. Like it was then, every business organisation now wants to go public. There was a time in the early 1990s when hardly a day went by without a share balloting ceremony, when business journalists would dutifully witness captains of companies picking thousands of envelopes containing share applications from investors.

And having photocopies of one's identity card ready became a common practice since new offers for shares could come anytime. One of the favourite questions then was, "can you get me a pink form?"

Now, invitations for share balloting are again coming in fast and furious, and more and more days newspapers are getting extraordinarily thick carrying share prospectuses and application forms of companies making share offers.

So what has these got to do with PLUS shares and the friend's view?

Essentially it boils down to economics, where although not always noticeable, demand and supply tend to sway towards equilibrium.

Back in the early 1990s, demand for new shares outstripped supply for a variety of reasons, which explained why almost every new issue was overwhelmingly over-subscribed and why any attempt by retail investors to examine the fundamentals of companies were often ridiculed.

Also scoffed at was the idea of investing long-term in newly listed companies. The main draw was simply the prospect of a good listing premium, therefore fast money, and nothing else.

Retail investors looked forward to the first day of listing when they could dump their shares, pay off their share financing and pocket the difference.

Today, however, the money may not come as fast.

Together with the flotation of PLUS another giant will also be joining the KLSE main board soon. If anything, both their IPOs have not produced the kind of over-subscription rates seen in the early 1990s. In between the two large offers, several other companies have also conducted their own flotations, sapping up even more funds.

While merchant bankers and stock promoters have tried to make their various offers interesting, including by lowering the par value of the

offered shares, investor response has generally not been up to expectations.

The market itself does not seem to be quite so attractive these days. It remains shaky and volatile. Although everyone was cheering for the Composite Index to hit the 800-point level a month ago, the imminent collapse of US telecommunications company WorldCom has spoiled the day.

And that came immediately after Prime Minister Datuk Seri Dr Mahathir Mohamad announced his retirement too.

Market watchers said many potential investors are now holding back their investment plans, at least until some level of certainty is restored.

Demand for shares have thus been relatively poor compared with previous boom times. It goes to reason therefore that there is little likelihood of buyers scrambling for PLUS shares on the counter's first day of trading.