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Rebound time

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THE warrant market recovered from its low of 147 in late June to close at 162 by early July. The low point of 147 marked the period of unsettling local and overseas developments.

On the local scene, the focus was on politics following the Prime Minister's decision to quit and, to a lesser extent, the tussle between Telekom and TRI over board representation. On the overseas scene, Wall Street was in a confounding mode: while it was trying to make sense of the Enron collapse, another major scandal suddenly appeared when WorldCom announced an overstatement of earnings by some US\$3.8 billion. And there was the concern over the weakening dollar, hovering below 120.0 to the yen.

Just as the market was weighting on the prospect of further downside, the local market took a sudden up move, moving from the warrant index low of 147 to 162. The renewed confidence was partly preempted by the news conference by Datuk Seri Dr Mahathir Mohamad upon his return from a holiday. The boardroom Telekom/TRI tussle was resolved. And coincidentally, Dow recovered slightly from its Double Bottom low of 8,900; it was the July 4 Independence Day.

Sentiment is likely to brighten over the near term. Corporate concerns aside, the recovering story on the US economy is still a viable option. The US service sector continued to expand for a fifth month in June, factory orders rose for a third month in May and claims for unemployment benefits were down to their lowest level since March 2001.

The warrant market is in its early stage of positive signals. The warrant market gearing (share price over warrant price), which is a measure of the speed of recovery of warrants, dips to 2.8x from 3.0x, signalling a rebound of warrants. Warrant premium is lower at 106 per cent from the 114 per cent of late June, reflecting the appreciating warrants relative to the fixed exercise prices.

While the TA All-Warrant index may have bottomed out at 147, the Kuala Lumpur Stock Exchange Composite Index (KLSE CI) is exhibiting strong signs of bottoming at the recent 703 low. It is likely for the CI to have gained ahead of the Maxis listing on the July 8 and Plus listing on July 17. The sheer size of Maxis of 2.45 billion shares will have an impact on the market outlook. On the balance of probability, the Maxis and Plus share prices should perform, otherwise the sentiment will be affected.

It is likely for the CI then to retrace part of the loss from the sell-off from the 816 high. A retracement to 794 on the CI from the current 740 level is within the bound of reasonableness considering the current bargain-hunting on both the blue chips and lower liners.

On the warrant market, Mitra-WA and Antah-WA will expire on their respective dates of Aug 9, 2002 and Aug 30, 2002. While Antah-WA is worthless, Mitra-WA may have a fighting chance as the warrant is in-the-money. Meanwhile, UMW-WA and DRBHCOWA have moved to a neutral rating as the warrants are not attractive on their overvalued levels.

Most warrants are in a lacklustre situation with the exception of a few. CAMERLN-WA received a sudden jerk when the underlying share took off on trading buy on the news of some buying interest in its 22 per cent stake in Singapore-listed BIL International; however, there was nothing firm. It was refreshing as the share was shunned during the dotcom meltdown.

CAMERLN-WA of RM0.70 is undervalued against the Black Scholes fair value

of RM0.90. On the technical chart, the warrant has broken out of its sideways consolidation and is targeting the overhead trendline of RM0.84.

Newly listed Dewina-WA attracted trading interest ahead of the prospect of the underlying share being lifted off the PN4 condition following the rights issue. Dewina-WA is worth a fair value of at least RM0.70. There was some interest in Nepline-WA.

Until the market picks up, the warrant market will remain quiet with some interest here and there similar to the current trading interest on Dewina and CAMERLN.