Keep investment healthy, suspend counters longer
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Tiger is not happy about announcing deals prematurely to the market as it opens the way for stock price manipulation and speculative investment. Shouldn't counters be suspended for much longer until tentative deals are inked and shook upon?

When not keeping its limbs motionless and its eyes closed for extended periods of time, Tiger prowls the stock market. Occasionally it finds something interesting. But Tiger only buys after much deliberation on whether the price is right, the company is good, the management is reliable.

Like that investor Warren Buffet said: "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

But these days it's hard to tell if a company is wonderful or fair, if its price is fair or wonderful, in part no thanks to a little thing called 'heads of agreement'.

You see, dear reader, when companies sign a heads of agreement for a deal, it looks good. It sounds good. The company is progressing if the deal goes through, shareholders gain (if the deal is good) and share price logically rise if the company's value is enhanced.

But the key operative word there is 'if'. A heads of agreement is non-binding. Either party can walk away (admittedly, at a cost most of the time). It's not a done deal.

And if something that affects the share price is not yet a done deal, should it be announced? Or should the shares still be trading until the deal is done and dusted?

Sunsuria — lapse a letdown

Take Sunsuria Bhd, which was until recently Malaysia Aica Berhad. Roughly six months ago on Jan 24, its major shareholder Ter Leong Yap said he is may inject assets into the company, which he later estimated to be worth RM10 billion in land bankafter signing the heads of agreement (HOA) on May 19.

This was good news for shareholders and investors. Ter, under his private development outfit Sunsuria, has an established track record of over 20 years and he is looking to bring that into the listed company after taking over from previous major shareholder Robert Tan Hua Choon.

Over this time period investors have been looking forward to such a deal. On Jan 23 Sunsuria's share price was RM1.03 and it peaked to just below RM1.70 not two months later (see price chart).

But then the HOA was left to lapse this week on June 18. By yesterday's 5.00pm bell the share price was RM1.32 after dipping 11 sen for the day.

So much for the excitement over such a tasty assets injection exercise. Investors banking on the deal to go through were left with blue balls, which is not a very nice condition, let Tiger tell you.

Ideal Jacobs — are investors speculating?

More recently, this week investment holding company Ideal Jacobs (Malaysia) Corporation Berhad signed a HOA with Cekap Technical Services Sdn Bhd and MECIP Global Engineers Sdn Bhd in another RTO deal.

Its announcement comes after a three-day suspension from June 13 to June 17.

The two companies, Cekap Technical and MECIP, are currently oil and gas players and seek to list through Ideal Jacobs and the deal will see Ideal Jacobs acquire both companies through the issuance of new shares.

Now this is far from a done deal. Much detail is not yet available —the first that comes to mind is how much dilution will existing shareholders see from the shares issuance.

But that has not deterred courageous (or should Tiger say reckless?) investors from betting on a good overall deal for them.

Since early this month — strangely before the suspension and subsequent announcement — Ideal Jacobs has been shooting up from about 22 sen per share to 37 sen per share at yesterday's close of trading (see price chart).

It seems to Tiger that many are buying in assuming the deal will go through, factoring the oil and gas diversification into their purchase consideration.

But what if the deal doesn't happen in the end? A HOA is, as Tiger has mentioned above, non-binding. Either party can walk away.

Tanjung Offshore — same story

Another recent example is oil and gas outfit Tanjung Offshore Berhad. It wassuspended for three days from June 3 before announcing two HOAs with Bourbon Asia that effectively means a reverse takeover (RTO).

Similarly to Ideal Jacobs, though, the counter had shot up from 58.5 sen in late May to 65 sen per share in early June, despite the announcement only made on June 5 and trading resuming the next day.

In Tanjung Offshore's case, it is especially glaring how uncertain the proposed deal is. Not only can the other side walk away — again, HOAs are non-binding — but for the deal to go through, it needs Ekuiti Nasional Berhad (Ekuinas)'s permission to do so as it had signed a non-compete clause when selling its offshore support vessels (OSVs) in 2012.

For the record, Tanjung Offshore did not ask Ekuinas before signing the HOAs and announcing it, only approaching Ekuinas afterwards.

Now would Ekuinas let Tanjung Offshore re-enter into a business that competes with its soon-listing unit Iconic Offshore whose fleet of OSVs include those sold by Tanjung Offshore two years ago?

Tanjung Offshore hearts would say yes but Tiger's brain says no. Doesn't make sense to allow a competitor in does it? So was it wise to announce the HOAs before actually getting Ekuinas' consent in hand?

Longer suspensions?

Now the question here is should a share price-moving deal — a deal that can mean a world of difference in the company's prospects going forward and subsequently its fair value — be announced before it is a done deal?

There would be an argument for a big fat no. If it's not confirmed then news of it opens room for speculative buying, which deters sensible investors. And sensible, long-term investors are what companies look for, isn't it.

But on the other hand Tiger understands the need for openness — if the company is working on a deal, naturally the management would like to give its shareholders a headsup.

In which case maybe the question is should shares be allowed to trade when a valuation-affecting deal is still up in the air?

Tiger thinks it shouldn't. If a deal is uncertain then it is unfair to trade as some investors may have more access to vital information than those who do not. This means not all investors are on equal footing in assessing the stock's fair value in order to make a purchase decision or not.

So the best way forward, in Tiger's opinion, is stop such stocks from trading at all. That way the playing field is level. Something great may happen, it may not, in the meantime share price would remain frozen until the picture becomes clear one way or another.

Maybe it would reduce overall trade volume but in this instance it is only right for shares to be suspended until the deal is ironed out. That way when the trading resumes, everyone has equal amounts of information. No guessing, no punting.

Otherwise insider trading remains rampant, much room remains for stock manipulation and investors unhappy over being short-changed by the more unscrupulous denizens of the stock market would leave — in the end, wither healthy investment market?

GRRRRR!!

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