Analyse This

A new research scheme sheds light on some of the previously neglected nooks of the Bursa Malaysia.

By Gurmeet Kaur

IF THE recently launched Capital Market Development Fund (CMDF)-Bursa Malaysia Research Scheme works out as planned, then it will be a shot in the arm for Bursa Malaysia's liquidity, as it is intended to create interest in smaller capitalised stocks that typically don't get any research attention. Not only that, since research houses will be paid to do this research, it is expected that their work will be more independent and thereby more attractive to all investors.

Cynical investors have often alleged that research produced by brokerages which have a corporate finance arm tend to be more biased. Such research, they reckon, has a tendency to promote companies which are the clients of the corporate finance division. However, such allegations have never been proven, and so-called 'Chinese Walls' exist in theory to keep the divisions of a financial group running as separate and independent functions.

Presumably, under this scheme, none of these conflict of interest issues would arise. The scheme entails coverage of stocks by at least two research houses, each of which will be paid RM15,000 per annum. The total price of RM30,000 is split equally between the company being covered and Bursa Malaysia, which has allocated RM7.5 million from CMDF for this scheme.

The CMDF, which was created in January this year, is a statutory fund that was set up as part of the policy proposal for the demutualisation of Bursa Malaysia. The fund, which is to be used for the development of the Malaysian capital market, received an allocation of 30% of the shares of Bursa Malaysia.

***Yusli:** Bursa Malaysia is facilitating the entire process*

Allocation committee to play key role

Since Bursa Malaysia is facilitating the entire process, the odd situation of companies asking research analysts directly for coverage is avoided, explained Yusli Mohd Yusoff, Bursa Malaysia's chief executive officer at the recent launch.

Under the scheme, companies interested in getting analysts' coverage will contact Bursa Malaysia, which in turn will conduct its own selection process, choosing to fund only companies which are deemed in need of coverage.

Herein lies perhaps the most crucial aspect of this scheme – an allocation committee will be established by Bursa Malaysia to decide not only which companies get coverage but also which research houses conduct the research. 'The committee will take into consideration such issues as the sectoral expertise within the research houses,' explains Yusli.

Upon deciding which companies are entitled to this scheme, it is understood that preference will be given to 'under-covered' stocks, as well as those that seem to have a good story to tell.

'There are many gems among the smaller cap stocks on Bursa Malaysia, but little is known about them,' notes a head of research.

Bursa Malaysia says that it is in the process of selecting members of this committee. These members would need to have a sound knowledge of the equity research industry, and at the same time not be linked with the financial institutions lest there be fears of a conflict of interest.

They should also be aware of which companies on Bursa Malaysia are extensively covered by research analysts, as well as those that aren't. From the latter group, the committee members will be making very crucial judgment calls regarding the allocation of funds for the coverage of the most deserving companies. It is widely understood that only around 100 listed companies in Malaysia are sufficiently covered by research analysts, leaving over 800 companies under-researched.

Any takers?

For this scheme to work, there must be interest from listed companies, research houses and investors. If any one of these three parties does not buy in, the scheme could lack effectiveness.

At the moment, it would be premature to gauge their interest level, as Bursa Malaysia is just beginning to introduce the scheme to its listed companies. However, research houses have already indicated a strong interest. In fact, a handful of foreign research houses have been the first to give their names to the scheme. These include Standard & Poor's, Citigroup, ABN AMRO, CSFB and Macquarie.

Finally, investors must pay serious attention to the research produced, especially those from the retail segment for which this scheme is intended. After all, it will be freely available to them. It is hoped that retail investors will steer away from the perils of the herd mentality and 'buying on rumour' syndrome, and to invest according to the fundamentals of companies as expressed by the research reports from this scheme.

In the end, the CMDF-Bursa Malaysia Research Scheme will not be a magic bullet for increasing liquidity in the capital market, as admitted by Bursa Malaysia's Yusli himself. Nevertheless, it will be a good attempt at achieving that, and a clever way of spending the CMDF money. As Yusli says, 'Greater transparency leads to greater trading volume, lower bid offer spreads and better investment decisions by both retail and institutional investors. Basically, consistent and timely information leads to better-informed investment decisions, facilitates greater investor understanding of listed companies and raises the profile of listed companies. It is clear that information begets liquidity.' mb

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- A newspaper reports that Nasimuddin had won the bid, which later turns out to be untrue.
- Syed Mokhtar offers DRB-Hicom's entire motor operations to Nasimuddin in a compromise bid to end the dispute.
- A newspaper reports that Nasimuddin had won the bid that again proves to be untrue.

As this column mentioned in its Nov 16 issue, certain parties with vested interests are trying to interfere in the name of settling the dispute. There is a world of difference between interfering and mediating. When we mediate, we don't take sides and are objective. This is despite the fact that Abdullah's stand has been quite clear – that the government has no preferred bidder and that an amicable solution should be found to settle the dispute.

With this latest turn of events, readers of newspapers will be wondering if what they read is believable. Of course, it depends which newspaper you read.

At the end of the day, whatever decision made must comply with good corporate governance and be in the best interest of all shareholders and debtors.

So, one can say that misreporting Abdullah's statements amounts to lampooning the Prime Minister. Surely, this can't be responsible journalism? It would be sad if Abdullah's advice goes unheeded, or worse, his statements are misreported and misinterpreted.

Why not let the highest bidder win? Won't it benefit the debtors who are owed hundreds of millions of ringgit?

The government has until now been very reluctant to intervene, preferring the warring factions to settle it among themselves. Now, the Prime Minister has asked Second Finance Minister Tan Sri Nor Mohamed Yakcop to mediate.

It would be sad if Abdullah's advice goes unheeded, or worse, his statements are misreported and misinterpreted.

He has now openly stated that he is agreeable to Syed Mokhtar's proposal to divest DRB-Hicom's automotive business to Nasimuddin. We should respect the Prime Minister's views as he has the interest of shareholders at heart.

All parties should support his push for a higher level of corporate governance and transparency in the corporate sector.

And that includes reporting events as they unfold in a transparent and unbiased way – even if we seem to have our own preferences. mb