



Time for a Reality Check

The Opposition's increasing inroads into Sarawak as indicated by the recent state election results is not something to be taken lightly. As a matter of fact, it is an indication of what the Barisan Nasional will be up against in the next general election.

THE MAY 20 Sarawak state election produced some unexpected results. The state Barisan Nasional (BN), which is different from the national-level ruling coalition, was returned to power, but with its pride dented.

It lost nine seats to the Opposition, making it its worst performance since 1987. The BN won 62 seats in the enlarged State Legislative Assembly. For the Opposition, it was a huge gain from a mere two in the last assembly.

The Democratic Action Party (DAP) was the principal beneficiary of the changing mood among the urban voters. It won six seats. The Sarawak National Party and Parti Keadilan Rakyat (Keadilan) took one each. The ninth Opposition seat went to an independent.

The biggest loser among the BN parties was the Chinese-based Sarawak United People's Party. It lost badly to the DAP in the urban areas.

Whether Prime Minister and BN Chairman Datuk Seri Abdullah Ahmad Badawi 'sensed' that something was amiss or not – he said he did – the results showed that there was considerable anti-government sentiment in the state.

There were three main factors at play. First, the general uncertainty about the direction the country is heading. Second, the uncertainty about the direction the state is heading, and third, the growing question about the ageing leadership of the state BN.

Held soon after the widely criticised fuel price increases and coinciding with the general listlessness of the economy, the urban-based Chinese trading community decided to send an unmistakable message to the political masters in Kuching and Kuala Lumpur that it did not like what it saw.

Although they might not be the worst hit by the lacklustre economy, being traders and having greater access to information, they knew that things were not right and the government had to be reminded about it.

The rural voters, on the other hand, being poor and having limited access to information, continued to depend on the government. Many social thinkers are in agreement that one of the characteristics of poor people is their dependence on the government.

Waiting for action

WHILE statistically, the economy appears to be doing well – a growth of 5.2% in the final quarter of last year and a forecast of 6% this year – at the micro level, the picture is less rosy.

Consumer prices, even by conservative official estimates, are rising fast. In April, the Consumer Price Index (CPI) was 4.6%. The price of *ikan kembung* (mackerel), the most affordable fish, has risen to as high as RM8 to RM9 a kilogramme in the rural areas and as much as RM11 in Kuala Lumpur.

Given the fact that income levels are considerably lower in the rural areas compared to those in urban centres, the near identical prices of most consumer items in the rural and urban markets mean that rural consumers are being badly affected.

Even traders, like those in Sarawak, who voted in favour of the Opposition, are feeling the effects of rising prices – the latest being the 12% increase in electricity tariffs – and falling purchasing power. Not all cost increases can be passed on to the consumer, because

purchasing power will eventually determine the marketability of their goods and services.

Other than the economy and the uncertainty about the future of its leadership, Sarawak voters were also displeased with what they saw as a mismatch between the promises of transparency and their practice.

They specifically pointed to government contracts being given without open tenders and almost invariably to the same group of people.

If the Chinese, who collectively control 40% of the corporate wealth of the country and are the most economically advanced, are feeling the effects of the lacklustre economy, then the situation must be worse for the poorer Malays, Indians, Ibans and Kadazans.

Unlike the rural Bumiputeras, the Chinese and, to a certain degree, the Indians are less attached to the ruling parties. In the specific case of Sarawak, Tan Sri Abdul Taib Mahmud's position as the longest-serving Chief

country in the coming general election unless the Abdullah Administration can reverse the growing sense of uncertainty about the direction the country is heading.

Speaking to the Malaysian Press in faraway Sharm El-Sheikh in Egypt, Abdullah talked about sensing something amiss about the Sarawak election.

He told the Malaysian journalists accompanying him that even before the voting, he had sensed that the BN would be losing several seats.

The Prime Minister said he did not want to talk about it publicly. 'I can't explain my feelings to the public but I will say them to Tan Sri Taib,' he said before departing for Japan after attending the World Economic Forum meeting.

This led the *Malaysia Today* Internet newspaper to headline "The Clairvoyant Malaysian Prime Minister". Ironically, there are people who have spoken in hush about the Prime Minister's so-called third-dimensional

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Minister is no longer a cause for celebration. In fact, it has become a liability.

The people want change. Taib is ageing. On the day he was sworn in as Chief Minister for the sixth term, he celebrated his 70th birthday. The fixing of the election date was clearly timed to coincide with the celebration of his birthday.

Despite the election, the succession issue remains murky, giving the people a reason to be worried about the future of the state. Sarawak, of all Malaysian states, is not known to be kind to weak leaders.

Taib is strong and progressive but after being in power for 25 years, he is losing his shine. His family's high-profile involvement in business via Cahya Mata Sarawak Bhd (CMSB), which some say, stands for 'Chief Minister Sarawak', is beginning to generate negative vibes.

Of clairvoyance and politics

SARAWAK politics may not mirror the rest of the country's but the progress made by the Opposition is telling. The state has always been a BN stronghold and could be counted on to bolster the BN at the centre.

So, the strong showing by the Opposition could signal a greater swing away from the BN in the rest of the

gift. A close ally of the Prime Minister, who today chairs scores of public and private companies and claims to practise *tasawuf*, once spoke openly at a University Malaya forum about Abdullah being a blessed person.

All I know is that Abdullah is well-known for dispensing *doa* – Quranic prayers seeking Allah's help and guidance – to all and sundry, including businessmen who are facing million-ringgit suits.

I don't think we would have needed a clairvoyant – even if we subscribed to the presence of such a person – to predict the outcome of the Sarawak state election with some measure of accuracy.

To begin with, the DAP has always had a strong foothold in the Chinese-majority areas in the state and, from time to time, has been able to offer charismatic local leaders like Sim Kuang Yang, popularly known as Sky.

In the 1999 general election, Keadilan and Parti Islam SeMalaysia (PAS) joined the fray. They didn't win but didn't do too badly either. They won a respectable number of votes. The strong support for Abdullah in the 2004 general election pushed them aside.

But the fact that the DAP has successfully staged a comeback – increasing its take from two to six – and Keadilan has won its first ever seat suggests that the solid

support for the BN in 2004 is beginning to show signs of eroding.

The Prime Minister, whether he is clairvoyant or not, had sensed the right thing. There has been an element of rejection of the BN in Sarawak.

The voter turnout dropped by 3.3 percentage points from the last state election in 2001. The BN's popular votes fell by 9% while those of the Opposition rose by nearly as much, suggesting that those who abstained were mostly BN supporters.

If the Sarawak voters had come to grips with reality and had decided to send a strong signal to the state BN, the same can happen with voters in the rest of the country in the coming general election, which must be held by 2008.

VALUATION TIME

THE ECM Libra-Avenue Capital Resources merger continues to hawk attention. Barring any unforeseen circumstances, the deal is as good as done.

Shareholders of both companies have given their approval and, going by the stance of the regulatory authorities thus far, the deal is unlikely to face any roadblocks.

Such issues as valuation, where the smaller ECM Libra has been accorded a higher value than the larger Avenue Capital, and the eventual control and management of the merged entity have not attracted shareholders' objection. ECM Libra has been valued at 1.4 times its historical net tangible asset (NTA) compared to Avenue Capital's below one. ECM Libra's shareholders' fund stands at RM572 million as opposed to Avenue Capital's RM831 million.

Maybe they are being practical. Instead of being caught up in the 'unhappy' past, they are hoping for something better in the merged entity.

Both companies were once 'hot' counters, although they no longer are. Those who had invested in them some years back would have suffered considerable capital depreciation.

But since the merger talk became known, the share prices of both counters have been inching up. Without prejudice, let us consider the movements of their share prices in the last year. The shares of Avenue Capital have risen from a 52-week low of 52 sen to a high of 86 sen while ECM Libra has risen from 65 sen to RM1.19.

Whether the steady rise is the result of speculation or genuine market valuation is hard to say. It's almost a rule that companies involved in takeovers and mergers will become the subject of speculation.

If investors like a merger or a takeover, the shares of the entities involved will rise in price. If they do not like it, the prices will fall.

But, of course, there is always the possibility that the parties involved in the exercise would themselves promote 'a play' for the shares of the affected companies to either 'chase' their prices up or down.

It is to the advantage of a vendor company to have the price of its shares pushed up. In that way, it gets more money from the buyer. The latter, on the other hand, would do all it can to maintain a high price for its own shares so that it can buy the former more cheaply since most mergers and acquisitions (M&As) involve share transfers and swaps.

What differentiates the ECM Libra-Avenue Capital merger from other ongoing M&A activities is the involvement of several high-profile personalities in the deal.

ECM Libra is identified with two well-known personalities who are intimately close to the Prime Minister – Datuk Kalimullah Masheerul Hassan, the deputy chairman of The New Straits Times Press (Malaysia) Bhd, and Khairy Jamaluddin, the deputy Umno Youth Chief and Abdullah's son-in-law.

At the end of last December, Kalimullah and his two ECM Libra partners – Chief Executive Officer Lim Kian Onn and Chief Operating Officer Chua Ming Huat – sold 3% or 12.99 million shares to Khairy at a price of 71 sen a share, thereby valuing his purchase at RM9.22 million.

Avenue Capital, on the other hand, is controlled by the government via the Ministry of Finance Incorporated, Bank Simpanan Nasional and Khazanah Nasional, and by most measures is larger than ECM Libra.

In the wider perspective, it's to everybody's advantage to have a strong and more vibrant stock market, which Bursa Malaysia has not been for a very long time. It is, in fact, the worst performing stock exchange in Asia.

The 'wealth effects' generated by a vibrant stock market have always been important to consumer spending. You buy rice, fish and basic clothes with your hard-earned salary. You buy a modest home with your Employees' Provident Fund (EPF) withdrawal and bank loan.

Only a fool will use his salary and EPF savings to buy a new Mercedes S Class, a Rolex watch or an Italian-tailored suit. It is for this reason that the stylishly refurbished Starhill shopping mall in Bukit Bintang is still waiting for things to happen.

For the sake of this beloved country of ours, I hope things will start to happen soon. The results of the Sarawak state election are, as Deputy Prime Minister Datuk Seri Mohd Najib Abdul Razak pointed out, a wake-up call. **mb**

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