CAPITALCORP INVESTMENT WEEKLY

MONDAY DEC 15, 1997

DEC 8 – 12, 1997	1 YEAR AGO	1 MONTH AGO	LAST WEEK
Market Cap (RM bil)	797.30	482.60	377.3
— Main Board	742.46	439.45	349.82
— Second Board	*54.8*	*43.2*	*27.5*
KLCI (pts)	*1,199.69*	*684.49*	*574.92*
SBI (pts)	*542.73*	*341.86*	*214.62*
3-mth Klibor	7.325	8.770	8.960
RM/US$	2.5105	3.2700	3.7955

WEEKLY VOLUME LEADERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
Tenaga Nasional	6.850	9.500	6.700	-0.400	-5.52	41.5
Telekom	9.650	12.600	9.250	-0.350	-3.50	36.7
Magnum	2.440	2.920	2.310	0.070	2.95	35.2
Commerce	1.960	2.920	1.850	-0.040	-2.00	33.1
Sime Darby	3.640	4.560	3.560	-0.320	-8.08	29.7

WEEKLY TOP GAINERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
Uniphoenix Corp	10.500	10.500	6.100	4.600	77.9	5.9
Trenergy	2.670	4.500	1.600	1.070	66.7	5.1
Ayer Hitam Tin	2.60	2.800	1.430	0.610	42.07	0.4
Taiping Con	0.650	0.840	0.505	0.145	28.71	6.9
CAHB—W	0.500	0.580	0.380	0.090	21.9	2.0

WEEKLY TOP LOSERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
MCL Corp	11.500	47.500	11.500	-36.000	-75.8	0.1
Hexza—T	0.01	0.050	0.010	-0.030	-75.00	0.4
Esprit Corp	2.580	7.450	2.580	-4.870	-65.37	0.1
Pembinaan YCS	1.630	3.220	1.590	-2.970	-64.6	14.9
Bescorp	1.710	3.200	1.670	-2.850	-62.50	2.4

WHAT'S INSIDE

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ECONOMICS & STRATEGY

No clear signs of crisis abating

Historic WTO pact signed: Major trade superpowers and developing countries struck a historic accord in favour of liberalisation and globalisation under the Word Trade Organisation (WTO) pact signed on Friday. Highlighting that ground-breaking agreement is Malaysia's victory in its spat with the US over its offer for the opening up of the financial services sector to competition.

Kuala Lumpur insisted that big insurers like the AIG and Aetna groups reduce their presence to no more than 51% (from 100% and 82%, respectively) in favour of local partners; it remains to be seen if this could be achieved by March 1999, without the acrimony that dogged the WTO negotiations until its conclusion on Saturday. That should come as positive news for local well-capitalised insurers in building up their portfolios, expertise and technologies upon the onslaught of competition. That aside, the WTO pact should be seen as a referendum for free trade that cuts both ways: guaranteed access for Western multinationals into the financial markets of developing economies on one hand, and the benefits of long term capital flows into the capital-hungry Asian and other developing economies.

Asian crisis deepens: Overshadowing that event is the seemingly interminable Asian currency crisis that has gripped the region for the past six months. It now appears that not even the IMF-engineered financial bailout can be considered the panacea to the ills of debt-ridden countries like South Korea or Thailand. Market benchmarks in Seoul, Jakarta and Bangkok are at record lows, and so are their currencies. Wall Street stumbled last week on earnings warnings, losing 318 points on a trot. How long can corporate America insulate itself from the effects of Asian economic ills?

Watch industry indicators: The Malaysian market, despite its austerity measures last Friday, had a brief respite — thanks to Khazanah Nasional's buying/selling on Monday and Tuesday. But once reality kicks in, we are left wondering if at all investors should have chased stocks in its aftermath. The National Economic Advisory Council, still void of members, has yet to prescribe its views or cures.

Major industry indicators, least of all an economic hard-landing, suggest that it is too early to pick up stocks at this stage. Interest rates are still on its uptrend, and should remain biasedly so to check prices, in the wake of renewed inflationary threats (higher prices of sugar, milk, flour and poultry produces). That spells high cost of production for food and beverage producers, assuming they do not pass through the increases immediately. The ringgit has slumped to yet another round of selling at RM3.80/US dollar, corporates are re-assessing their interest-coverage ratios and banks are busy plugging their liquidity problems.

And the last word on bankruptcy: studies by Edward Altman (1960), whose Z-model predicts corporate failures, show that the best time to buy distressed companies is not before or during foreclosures; it is six months after. The same may not necessarily apply to country-investing, but the collapse that followed the euphoric response to bailout packages in Thailand, Indonesia and South Korea has one similar message: don't rush in until the dust has settled.

This week, we still believe in holding back purchases at current market levels. It will soon become evident that the economic package announced last Friday may not be enough to get Malaysia over its problems. The government-led austerity measures will have to be complemented with private sector initiatives, for it is huge private sector debt that undermines the very stability of the financial system in the country. **[David Yong 466-3929]**

CORPORATE DEVELOPMENTS

Hospital Pantai on a buying spree

Cash-rich Hospital Pantai has been busy collecting substantial stakes (more than 5%) in Phileo Land Bhd and Tongkah Holdings since August 1997. But it failed to declare these open market purchases until early this month – way beyond the statutory two-week disclosure requirement.

Hospital Pantai has 14.7% stake in Tongkah... The healthcare company, 21%-owned by Tongkah Holdings and 35.5%-owned by Mokhzani Mahathir, now holds 14.7% stake in Tongkah, thus creating a cross-holding with a common denominator/shareholder. Hospital Pantai collected 16.4m shares on Aug 29 (at RM4.64 per share) and another 3.6m shares between Sept 5 and Nov 26 (at RM1.60-RM4.39 per share). That represents a 12.2% increase from its initial block of 2.2% prior to Aug 29. The cost of amassing that 14.7% stake in Tongkah: RM87.4m.

...and 18.6% stake in Phileo Land: Hospital Pantai has also belatedly disclosed its acquisitions of 5.5m Phileo Land shares from Sept 12 to Nov 17, at an estimated price of RM5.07-RM7.49 each. That nudged its stake in Phileo Land to 18.6% from 14.7% amassed since late September. Last Saturday, Hospital Pantai revealed that it had bought into Phileo Land as early as mid-August, about the same time that Phileo Land proposed its restricted offer for sale of Phileo Allied shares. As of Nov 18, Hopsital Pantai has accummulated 18.6% stake in Phileo Land at an estimated cost of RM190m cash.

Question: Did Hospital Pantai have the central bank's approval to buy into Phileo Land, which has a 20% stake in banking and securities group Phileo Allied Bhd? Or is approval not necessary given that its indirect stake in Phileo Allied only amounted to 3.6%?

Last July, Phileo Land had proposed to offer its 20% stake in Phileo Allied to its minority shareholders on 1-for-3 basis at RM4.00 each — then at a discount to the market price of RM4.54. Then, it was deferred "until further notice" in early October, at the same time when Hospital Pantai was quietly buying up shares in the open market.

Was it to allow Hospital Pantai — in its quest to become a financial services group — precious time to buy up more of Phileo Land shares so as to increase its entitlement to Phileo Allied shares? Whether it makes perfect fit for Hospital Pantai is too early to tell, but a share of Phileo Allied group would constitute an important building block to expand its interest beyond an insignificant finance company called Perdana Finance.

All in, Hospital Pantai has spent a total of RM277.4m cash on its open market purchases. That has diminished a large portion of its net cash reserves of RM554m following the lucrative sale of its stake in Singapore-listed healthcare group Parkway International. Based on the original terms of the Phileo Land's ROS scheme, Hospital Pantai would need to fork out another RM28.6m to subscribe for the Phileo Allied shares.

As in our report (Investment Weekly Sept 15, 1997), we reiterate our sell recommendations on Tongkah Holdings (high gearing and demanding valuation) and Hospital Pantai (selling core healthcare business for an entry-level exposure to financial services), due to the detriments of their restructuring exercise. **[David Yong 466-3929/Alicia Lau 253-1626]**

STATE OF THE MARKET

Status	**Dec 31, 1995**	**Dec 31, 1996**	**Dec 12, 1997**	**Forward**
With Telekom/Tenaga				
Total Earnings	15.1	17.5	22.0	24.3
Growth (%)	–	15.7	25.8	10.3
Total Capitalisation	328.7	411.5	195.6	195.2
Market Valuation	**21.7x**	**23.5x**	**8.9x**	**8.0x**
Without Tenaga/Telekom				
Total Earnings	12.8	15.8	18.6	20.2
Growth (%)	–	23.6	18.0	8.6
Total Capitalisation	258.1	329.0	145.0	145.2
Market Valuation	**20.2x**	**20.9x**	**7.8x**	**7.2x**

Note: *The status of the market is reflects earnings and market capitalisation of 100-component stocks but excluded Aokam Perdana, Hexza Corp, Kumpulan Emas, Leong Hup, KL Industries, Promet, Uniphone, Golden Plus, Palmco, Sitt Tatt, Time Engineering and Datuk Keramat. Because there are (1) no consensus earnings or (2) negative earnings profile, the resultant market PERs are understated i.e. the actual market valuation is higher than stated above.*