

MONDAY JULY 13, 1998

| JULY 7 — 10, 1998 | 1 YEAR AGO | 1 MONTH AGO | LAST WEEK |
|---------------------|---------------|----------------|--------------|
| Market Cap (RM bil) | 703.6 | 303.6 | 261.8 |
| — Main Board | 643.0 | 288.3 | 248.2 |
| — Second Board | 60.6 | 15.3 | 13.6 |
| KLCI (pts) | 1,008.52 | 489.86 | 428.62 |
| SBI (pts) | 530.72 | 107.57 | 94.96 |
| 3-mth Klibor | 11.10 | 11.06 | 11.04 |
| RM/US\$ | 2.4915 | 3.8800 | 4.2600 |

WEEKLY VOLUME LEADERS

| <i>counter</i> | <i>Close</i> <i>(RM)</i> | <i>High</i> <i>(RM)</i> | <i>Low</i> <i>(RM)</i> | <i>+/-</i> <i>(RM)</i> | <i>+/-</i> <i>(%)</i> | <i>Vol</i> <i>(m)</i> |
|------------------|-----------------------------|----------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Tenaga Nasional | 4.600 | 5.100 | 4.500 | -0.550 | -10.68 | 23.2 |
| Time Engineering | 0.385 | 0.665 | 0.375 | -0.290 | -42.96 | 22.4 |
| MBf Capital | 0.480 | 0.690 | 0.450 | -0.210 | -30.43 | 17.0 |
| United Engineers | 1.460 | 1.930 | 1.410 | -0.450 | -23.56 | 17.0 |
| Telekom | 6.500 | 7.550 | 6.350 | -1.050 | -13.91 | 14.7 |

WEEKLY TOP GAINERS

| <i>counter</i> | <i>Close</i> <i>(RM)</i> | <i>High</i> <i>(RM)</i> | <i>Low</i> <i>(RM)</i> | <i>+/-</i> <i>(RM)</i> | <i>+/-</i> <i>(%)</i> | <i>Vol</i> <i>(m)</i> |
|--------------------|-----------------------------|----------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| SBC-T | 0.070 | 0.070 | 0.050 | 0.020 | 40.00 | 0.012 |
| Saujana | 0.600 | 0.600 | 0.490 | 0.150 | 33.33 | 0.038 |
| TAP Resources | 1.720 | 1.720 | 1.350 | 0.320 | 22.86 | 0.010 |
| Granite Industries | 0.480 | 0.495 | 0.410 | 0.070 | 17.07 | 0.578 |
| Komarkcorp | 1.390 | 1.400 | 1.190 | 0.200 | 16.81 | 0.009 |

WEEKLY TOP LOSERS

| <i>counter</i> | <i>Close</i> <i>(RM)</i> | <i>High</i> <i>(RM)</i> | <i>Low</i> <i>(RM)</i> | <i>+/-</i> <i>(RM)</i> | <i>+/-</i> <i>(%)</i> | <i>Vol</i> <i>(m)</i> |
|----------------|-----------------------------|----------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Farlim | 1.210 | 5.000 | 1.210 | -3.790 | -75.80 | 0.176 |
| Arus Murni-W | 0.120 | 0.260 | 0.120 | -0.150 | -55.56 | 0.251 |
| F&N-W | 0.030 | 0.050 | 0.030 | -0.030 | -50.00 | 0.080 |
| Kulim-W | 0.030 | 0.050 | 0.030 | -0.030 | -50.00 | 0.533 |
| FACB-W | 0.110 | 0.200 | 0.100 | -0.090 | -45.00 | 0.004 |

WHAT'S INSIDE

| | |
|---------------------------------|---|
| Economics & Strategy | |
| A weak market to avoid | 2 |
| Technical View | |
| Further downside in store | 3 |

This report is also accessible from Capitalcorp Securities' website at <http://www.capitalcorp.com.my> and <http://www.mir.com.my/lb/fund>

This report is prepared by Capitalcorp on the basis of publicly available information and other sources believed to be reliable. It is provided for information purposes only and cannot be considered as an offer to sell, or a solicitation of any offer to buy. While reasonable care has been exercised to ensure the content is accurate and opinions given are fair and reasonable, Capitalcorp makes no representation as to its accuracy and completeness. Under no circumstances should this report be relied upon as such. From time to time, Capitalcorp or its affiliates or officers or employees may have a position or interest in the shares, options, rights and/or warrants of the said subject of this report, to the extent permitted by law. This report is provided solely for the clients of Capitalcorp, who are expected to seek advice from their stockbrokers or investment advisors without reliance on this report. Neither the company nor any director, officer or employee shall accept any liability whatsoever for any direct or consequential loss arising from investment decisions based on this report. This report may not be reproduced, distributed or published by any recipient in any manner for any purpose without the expressed consent from Capitalcorp.

ECONOMICS & STRATEGY

A weak market to avoid for now

Free falling: The KLCI closed the week at nine-year low of 428.62 pts, cracking through its previous low of 435.30 set on June 16. A weaker ringgit (-3.1%) at RM4.26 to the dollar, talk of non-performing loans at 30%+ and jitters over the financial health of the big corporations are compounding the decline. Time Engineering and Renong were suspended after trading briefly on Friday. Strangely though, United Engineers, which owns 32% and is in turn 32.6%-owned by Renong was not suspended, giving investors an excuse to sell. UEM share price collapsed 20% (36 sen) to RM1.46. Tenaga which offers one of the most direct plays on the ringgit by virtue of its huge unhedged foreign debt (about 60% of total debt), fell 3.4% (16 sen) to RM4.60. Maybank fell 5.8% (24 sen) to RM3.92 due to concerns over industry NPLs. Further statements by Deputy Finance Minister Affifuddin Omar over the "excessive" margins that banks charge did not inspire confidence in the sector which desperately needs profits to buffer the higher NPLs. Banks are allowed to charge lenders up to maximum of 4% spread over their BLRs.

What the economy needs is stability. Business operates most effectively and invests in new processes when the fiscal and financial environment is reasonably stable. Hence, the frantic rush to help businesses suffering from high interest rates (by cutting the statutory reserve requirements and consequently ringgit depreciation) may in fact be one of the causes of below par economic performance.

Events to watch: Malaysia may not need help from the IMF but it clearly needs foreign money — about RM20b for the asset management company, infrastructure fund and socio-economic projects. The country, which has never previously tapped the international bond market as a sovereign borrower, will probably have to do so very soon. This is why rating announcements by houses like Standard & Poors and Moody's will be closely monitored. Such ratings will partly determine the amount of premium over US Treasuries that the bonds will have to offer. A good benchmark would be government-owned Petronas bond issues, which carry 400-500bp premium presently.

The problem is that investors have lost money on the recent US\$4b bond issue by South Korea and the US\$1.25b issue by the Russian Federation. How Malaysia is different is subject to convincing arguments and problems peculiar to the country.

Cautious ahead of the revised GDP growth figures: Deputy PM Anwar Ibrahim is expected to announce a lower GDP target for this year, after saying 2-3% needs further fine-tuning. In Singapore, stocks were hit by the PM Goh Chok Tong's comments that chances of a recession next year there were fairly high. While most private sector economists were already looking at a recession in 1999, stocks were dampened by official recognition on the health of the economy.

Budget policy outlook: With an expansionary fiscal policy and falling tax revenues, the risk of higher taxes on inelastic sectors like gaming, tobacco and breweries has significantly increased. The brewery companies are already bracing themselves for a 15% hike in excise duties. Trimming exposure to stocks like Carlsberg, Guinness, RJ Reynolds, Rothmans, MTC, Tanjong, Berjaya Sports Toto, Magnum and Resorts is recommended. **[Chris Leow CFA, 254-9966]**

TECHNICAL VIEW

More downside in store

The KLCI closed at 428.62 pts, a massive 45 pts lower than the previous week. The reasons were multi-fold. The ringgit was dragged lower by a weak yen, which indirectly affected investor's sentiments throughout the week. On top of that, there were growing concerns regarding the health of big corporates seeking court protection from creditors. MBF Holdings reported it was planning a restructuring of its assets, not long after Renong confirmed market rumours that it was hiring Credit Suisse First Boston to reorganise its debts.

The past two weeks' consolidation broke down below 450 on Thursday and confirmed the market's bias to the downside. The price action is still within the daily down-channel (*see chart*). This basic charting technique suggests that the market is still in a downtrend. Only a break above this channel will imply the end of the downtrend from 742 pts. The RSI is at 30 and pointing down, although it has started to diverge. The daily MACD signal line is starting to fall off, but is still positively biased. The momentum has gone into negative territory again, suggesting more downside. Classical charting techniques using a triangle estimation implies a downside target of 395-400 pts, before a counter-rally can take place.

On a larger scale, the wave-count suggests that the index is now within an intermediate buy zone between 415 and 455. The just-concluded consolidation is now noted as the 4th wave and we are in the midst of a 5th wave drop. The target of this wave is anywhere between 400 and 415. A valid confirmation of this can only come later, when the downchannel breaks on the upside. Watch out for a daily reversal signal to initiate long positions. **[P. Cherry Simon 254-6677]**

