CAPITALCORP INVESTMENT WEEKLY

MONDAY MARCH 9, 1998

MARCH 2— 6, 1998	1 YEAR AGO	1 MONTH AGO	LAST WEEK
Market Cap (RM bil)	877.5	452.9	429.2
— Main Board	808.5	427.2	404.3
— Second Board	*69.0*	*25.7*	*24.9*
KLCI (pts)	*1249.84*	*728.19*	*690.36*
SBI (pts)	*647.31*	*189.46*	*180.26*
3-mth Klibor	7.385	10.050	10.960
RM/US$	2.4650	3.8700	3.9750

WEEKLY VOLUME LEADERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
TA Enterprise-W	0.295	0.380	0.285	-0.070	-19.18	41.8
Commerce	2.800	3.360	2.760	-0.380	-11.95	35.7
Arus Murni	1.440	1.790	1.200	-0.330	-18.64	35.3
Intria Bhd	0.875	1.030	0.860	-0.125	-12.50	27.0
TimberMaster	2.410	3.080	2.400	-0.430	-15.14	22.1

WEEKLY TOP GAINERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
B Singer-C	1.360	1.360	1.150	0.240	21.43	0.1
Pintaras Jaya	2.780	2.960	2.340	0.440	18.80	1.4
Mitrajaya Holdings	3.320	3.620	2.590	0.482	16.98	2.3
UCP Resources	2.200	2.320	1.930	0.290	15.18	1.2
NCK Corp	2.560	2.610	2.200	0.310	13.78	0.5

WEEKLY TOP LOSERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
Commerce-T	0.450	0.750	0.450	-0.260	-36.62	1.6
WCT Engineering	2.200	3.380	2.180	-1.180	-34.91	1.8
LHH-W	0.290	0.450	0.290	-0.150	-34.09	1.5
Gopeng-W	0.405	0.575	0.395	-0.185	-31.36	0.3
Arus Murni-U	2.520	3.600	2.520	-1.080	-30.00	0.1

WHAT'S INSIDE

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ECONOMICS & STRATEGY

Three recent major developments suggest that the market could be severely tested for its credibility this week: Sime Darby's divestment of Sime Bank, Petronas-MISC-Konsortium deal and the impending results of the Renong group.

Sime Darby released its interim results with an expected red ink on its P&L. The focus, however, will be on the salvage value it can get out of Sime Bank from Rashid Hussain Bhd, which will have a direct implication in another shareholder KUB Holdings. That remains in speculation. The Petronas-MISC-Konsortium pact does appear to benefit the latter by turning it debt-free, but a backlash on MISC (with substantial foreign shareholdings) cannot be ruled out at this stage.Like the Sime Bank sale, the price tags for the Petronas-MISC-Konsortium deals remain concealed. The Renong group is expected to release its results (interims and finals) after 5pm today. In our discussion with UEM’s CEO Saturday, we have some indications on what the numbers will look like, and they look atrocious (with the exception of Propel).

In the face of such portentous news, we view the market this week negatively with a major downside risk. All these — and official remarks about bouying banks in distress — have been met with cynicisms, leading to renewed weakness of the ringgit in the forex markets.

Sime Darby gives up banking after a costly blunder: The losses incurred by Sime Darby in this Dec 97 interims should not come as a shock. The thunder is lost after mid-week’s announcement of losses by its 60%-owned Sime Bank - a major casualty of equity and currency meltdown in the second half of 1997. The divestment of Sime Bank will result in an estimated RM1.8b loss to the group, assuming its salvage value at net tangible assets. The offer by Rashid Hussain Bhd for Sime Bank will have an implication on Sime Bank’s 30% owner KUB Holdings, whose shareholders are mainly ordinary members of Umno. With a net tangible assets of RM368m, Sime Darby can possibly get its share of RM221m in consolation — that means it would be some RM1.6b poorer in its misadventure with the former UMBC banking group. On the surface, any form of premium on the Sime Bank sale cannot be justified, given the acute underlying financial stress there. It is noteworthy that the bank itself had provision totalling RM917m for its exposure in Labuan, Thailand and Indonesian markets, larger than the stockbroking arm's RM713m provision.

Sime Darby's other core businesses are either marginally better or lower in the interim pre-tax profits, with the exception of its plantations and Hong Kong operations. Its plantation earnings rose by 44.4% to RM107.3m while its HK unit returned 85.3% higher pre-tax profits of RM137.9m. Excluding its financial services unit, Sime darby recorded a respectable 13.4% growth in pre-tax profit from RM551m to RM624.7m.

Sime Darby: Interims Pre-tax Profit By Division, Excluding Exceptional Items

Division	**1H97**	**1H96**	**%chg**
Plantations	107.3	74.3	+44.4
Tyre Manufacturing	23.0	19.3	+19.2
Heavy Equipment/Motor Vehicles	77.5	80.4	-3.6
Property Development	75.9	61.6	+23.2
Malaysia	55.4	57.5	-3.7
Hong Kong	137.9	74.4	+85.3
Singapore	43.0	49.5	-13.1
Philippines	(1.7)	(0.4)	n.m
Australia	64.5	63.6	+1.4
Investment Income	18.3	14.5	+26.2
Interest (net)	23.6	36.3	-35.0
	624.7	**551.0**	**+13.4**
Financial Services	(1,775.8)	233.5	(860.5)
(Loss)/Profit Before Tax	**(1,152.1)**	**784.5**	(-246.8

Petronas-MISC-Konsortium deal will face acid test of credibility: The MoUs between Petronas, MISC and Konsortium Perkapalan will be scrutinised for an iota of financial bailout for Mirzan Mahathir's Konsortium Perkapalan Bhd. Under the provisional agreements, Petronas will sell its subsidiary Petronas Tankers (which provides management services to LNG shipping business) for new MISC shares; this will take its present stake in MISC from 29.34% to above 50%. MISC will later buy two major assets from Konsortium by paying cash — its 100%-owned Pacific Basin Bulk Shipping Ltd and its 51% stake in LNG carriers Asia LNG Transport and Asia LNG Transport Two, nine ships and two new builts.

The deals, though not unexpected, appears to be testing investors' resolve by stalling on the valuation and price tags. The valuation of Pacific Basin could be critical, especially in view of unconfirmed reports of heavy losses as well as a reduction in the value of shipping assets. There are benchmark values for Pacific Basin (RM575m) and the shipping assets (RM400m) under the terms of Konsortium-Diperdana corporate exercise, which has now been aborted. The value of the shipping assets, according to PNSL Holdings, has since depreciated by as much as RM280m under the current shipping market conditions.

Based on whatever little information released, we expect the market to be unforgiving to MISC. Konsortium appears to be the net beneficiary by having its balance sheets debt-free post-restructuring. While the MISC-Konsortium deal has been defended as pure commercial pact, the straight-cash terms may circumvent regulatory scrutiny. That MISC's minority shareholders' protection may be sacrifice in the process could risk the market's ire soon. That announced, the spotlight could next fall on Resorts World/Genting's purported consideration for an investment in PNSL Holdings.

Renong/UEM results will surprise on the downside: The outcome of our discussion with UEM Saturday is enlightening but could be alarming; earnings will surprise significantly on the downside. Renong and UEM, cross-holding each other, will present their results on late Monday, which will highlight two additional components to their Profit & Loss accounts: a large provision for forex translation losses and deferred taxation.

Renong Bhd is expected to report a major deterioration in its interim earnings to Dec 31, 1997 on three setbacks: forex provision, ballooning interest expense and weaker overall contributions from its subsidiaries and associates. It only recorded RM22.9m earnings (-72%) to show in the 1Q results due to high interest expense. For the 1H results to Dec 1997, its large exposure to foreign-denominated loans could induce a provision enough to wipe out even 12 months' of profits (FY96 earnings: RM536.4m). The provision on its US$225m Eurobonds Tranche I issued in Oct 1994 itself is about RM400m by our estimate. Renong faces bond redemption at 129.7% of the principal amount with accrued interests as early as Oct 1999. Another RM200m provision may be expected on the US$175m Tranche II issued in July 1995, redeemable at 124.8% the principal amount by July 2000.

United Engineers (UEM) will likely produce a sharp decline in earnings for the full 12 months to Dev 31, 1997 because of some RM200m in forex translation losses as well as a unquantified but "significant" provision for deferred taxation. The UEM group has some US$150m of borrowings in its debt portfolio. Fortunately, all its Eurobonds issued inFeb 1994 have been fully converted in early 1997 before the market crashed.

The provision for deferred taxation, amounting to RM91m up to its 3Q results to Sept 97, relates to timing differences in respect to PLUS capital expenditure, which has since been scaled back or deferred in view of the economic slowdown. The results will also incorporate a one-and-a-half month equity accounting of Renong's losses but somewhat cushioned by the recognition of RM160m government compensation for reduced toll rates in January last year. However, there will be no provision for dimunition in the value of its 722.9m shares in Renong — bought at an average of RM3.24 per share but last traded at 55% less at RM1.47 — because it is "preserved" by the put option granted by its ultimate owner Tan Sri Halim Saad.

Having said that, we take a slightly positive view of the situation in UEM; the group will likely adopt an aggressive accounting policy on the belief that a disappointing results will do little to its already downtrodden share price.

UEM is close to sealing a deal to sell a 20% stake in PLUS (ordinary shares and preferences shares) for “not less than RM1.5b” cash. While there are many suitors, the Employees Provident Fund will likely emerge as PLUS’ new shareholder by next week. Cash-raising from an initial public offering of PLUS shares is not expected until the second half of 1999. That sale will immediately slash its outstanding debts totalling RM2.7b after the recent RM2.34b controversial purchase of a 32.6% stake in its associate Renong Bhd. Its strategy is to convert some of its short-term debts into long-dated obligations, primarily via a low coupon US$400m Yankee bond issue. The bond issue is still subject to a rating exercise, which could take a couple of months to complete.

Elsewhere within the group, expect poor results across the board (mainly reflects a slowdown in the construction industry and forex provisions), with the exception of Propel, whose earnings are expected to improve on higher income from projects under its maintenance. **[David Yong 466-3929]**