

MONDAY AUGUST 17, 1998

AUGUST 10 — 14, 1998

	1 YEAR AGO	1 MONTH AGO	LAST WEEK
Market Cap (RM bil)	652.37	254.65	203.91
— Main Board	593.61	241.37	192.76
— Second Board	58.76	13.28	11.15
KLCI (pts)	918.54	420.33	327.98
SBI (pts)	486.63	92.50	77.32
3-mth Klibor	7.510	11.030	10.520
RM/US\$	2.5200	4.0300	4.1600

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	2.500	2.980	2.390	-0.480	-16.11	26.84
Sime Darby	2.100	2.280	2.070	-0.180	-7.89	19.43
Magnum	0.810	0.955	0.800	-0.145	-15.18	18.70
Telekom	6.300	6.500	5.950	-0.150	-2.33	17.77
TRI	0.750	2.150	0.745	-1.400	-65.12	13.97

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>
B Land-W	0.090	0.300	0.040	0.040	80.00	0.339
SBC-T	0.030	0.030	0.030	0.010	50.00	0.001
Arus-U	0.600	0.600	0.600	0.155	34.83	0.005
Tanco-C	0.245	0.245	0.245	0.060	32.43	0.001
Hicom-U	0.780	0.780	0.780	0.180	30.00	0.003

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>
TRI	0.750	2.150	0.745	-1.400	-65.12	13.97
Penas Corp	2.600	4.500	2.400	-3.200	-55.17	0.091
Cygal	0.280	0.580	0.280	-0.300	-51.72	0.426
B Singer-T	0.005	0.010	0.005	-0.005	-50.00	1.881
Juang Kuang-W	0.045	0.080	0.045	-0.045	-50.00	0.031

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ECONOMICS & STRATEGY

Tenaga Nasional should look to the future, poser on Danaharta's valuation

The Great Tenaga Nasional—IPPs Debate: What ails the national power utility? For the answer, look no further than the the aftermath of the infamous Sept 1992 blackout. The government, as majority owner of the behemoth corporation, licensed several independent power producers to plant up power stations in strategic locations. The result is the emergence of a new breed of blue chips called Malakoff, YTL Power and Powertek — all milking Tenaga under a much-criticised power purchase agreements (PPAs).

Today, the unprecedented economic crisis begs a reflection and review of the role of IPPs in the context of "national service." Calls have been made for IPPs to be flexible in their arrangements with Tenaga Nasional. That is a valid request. However, "flexibility" is vague term without any point of reference. It has been argued that no substantial solution can be extracted without altering the terms and conditions of the PPAs. On the surface, that may be true. But it will be a damage beyond repair, a risk the market could ill-afford. One step forward for Tenaga Nasional will also be 10 steps backward, not only for the power industry but also for the country's financial market.

In many ways, we are relieved to hear that the current discussions between the two sides are focused on efforts outside the framework of the PPAs. What have been signed and sealed cannot be undone. The government, as majority shareholders, had the opportunity to help Tenaga Nasional in 1992/93. It didn't. So it must grit its teeth and bear the consequences. Tinkering with its policies haphazardly will most likely backfire. Today, it has rightfully taken a hands-off attitude towards the latest controversy. The remedy, in our view, lies in the future policies for the power industry. Thence, perhaps, the favour could be returned, and the balance of policy achieved. **[David Yong 466-3929]**

Danaharta's dilemma: Pengurusan Danaharta Nasional Bhd, the entity which will be responsible for buying over bad loans from banks, is likely to face a lot of pressure over the pricing of the loans and collateral. Transactions will be carefully scrutinised by domestic and foreign investors not only to ascertain fairness but also for benchmarking the value of comparable assets. The valuation process for Danaharta will be different from that conducted by fund managers because while the latter is usually for minority interests, the former would involve majority or strategic stakes.

A strategic holding almost always costs more than a minority stake. Buying a controlling interest enables the acquirer to exercise significant influence or control over the financial and operating policies and strategic direction of the company. In many cases, a new owner can add value to the business through, for instance, wider business contacts, easier access to capital markets for fund raising, more advanced technology or stronger management. The difficult part is translating this "value added" into hard numbers.

It is our opinion that Danaharta is more likely to err on the aggressive rather than conservative side, when pricing assets. Given its objective of taking the burden of managing bad loans off banks, the largest problem loans will almost inevitably get its priority. And it is perceived that the biggest debts are usually incurred by large and well-connected companies to fund the acquisition or development of strategic assets such as telecommunication networks, toll roads, airplanes and other infrastructure projects. For many of these projects, we suspect the fair value will probably be below investment cost, given the poorer economic conditions. It will not be an easy task to convince bankers and borrowers alike that they have to swallow more losses.

Complicating matters further is the concept of **fair value** which should not be viewed as a precise figure but a range of values along a probability distribution curve. Thinking in these terms certainly helps in these unique times when regional and global markets are shaken by such factors as Japan's economic health, the strength of the Chinese yuan, Indonesia's social stability and the state of the US stockmarket and the Russian financial crisis.

Danaharta will reduce the number of asset disposals at fire-sale prices. While this is good news for prospective sellers, it spells bad news for hard-nosed and cash-rich companies looking to pick up cheap assets. This group includes such company as YTL Corp, Genting, KL Kepong, Golden Hope, K&N Kenanga, Cold Storage, Camerlin Group and Sarawak Enterprise. **[Chris Leow CFA 254-9966 ext 361]**