

MONDAY FEBRUARY 16, 1998

| FEB 9 – FEB 13, 1998 | 1 YEAR<br>AGO | 1 MONTH<br>AGO | LAST<br>WEEK |
|----------------------|---------------|----------------|--------------|
| Market Cap (RM bil)  | 870.4         | 313.1          | 434.1        |
| — Main Board         | 805.4         | 295.5          | 406.8        |
| — Second Board       | 65.0          | 17.6           | 27.3         |
| KLCI (pts)           | 1259.10       | 503.89         | 685.50       |
| SBI (pts)            | 618.18        | 132.34         | 199.98       |
| 3-mth Klibor         | 7.335         | 9.380          | 11.010       |
| RM/US\$              | 2.4735        | 4.5900         | 3.9250       |

## WEEKLY VOLUME LEADERS

| counter | Close<br>(RM) | High<br>(RM) | Low<br>(RM) | +/-<br>(RM) | +/-<br>(%) | Vol<br>(m) |
|---------|---------------|--------------|-------------|-------------|------------|------------|
| Renong  | 1.760         | 1.950        | 1.370       | 0.170       | 10.69      | 132.6      |
| Intria  | 0.950         | 1.190        | 0.790       | 0.000       | 0.000      | 96.1       |
| MRCB    | 2.390         | 2.820        | 1.910       | 0.080       | 3.46       | 87.6       |
| UEM     | 4.200         | 5.300        | 3.880       | -0.400      | -8.70      | 84.8       |
| Ekran   | 1.260         | 1.600        | 1.060       | -0.130      | -9.35      | 79.7       |

## WEEKLY TOP GAINERS

| counter        | Close<br>(RM) | High<br>(RM) | Low<br>(RM) | +/-<br>(RM) | +/-<br>(%) | Vol<br>(m) |
|----------------|---------------|--------------|-------------|-------------|------------|------------|
| AMDB           | 1.080         | 1.360        | 0.795       | 0.465       | 75.61      | 11.4       |
| Chongai        | 2.940         | 3.400        | 2.100       | 1.220       | 70.93      | 1.6        |
| Tronoh         | 6.150         | 6.750        | 3.600       | 2.170       | 54.52      | 1.3        |
| Timbermaster-W | 1.400         | 1.750        | 0.950       | 0.485       | 53.01      | 36.5       |
| Kelanamas-W    | 0.470         | 0.650        | 0.310       | 0.160       | 51.61      | 6.7        |

## WEEKLY TOP LOSERS

| counter        | Close<br>(RM) | High<br>(RM) | Low<br>(RM) | +/-<br>(RM) | +/-<br>(%) | Vol<br>(m) |
|----------------|---------------|--------------|-------------|-------------|------------|------------|
| MCBH-W         | 0.340         | 0.550        | 0.340       | -0.160      | -32.00     | 0.208      |
| Diethelm       | 0.900         | 1.400        | 0.900       | -0.300      | -25.00     | 0.043      |
| SBC-C          | 0.305         | 0.450        | 0.305       | -0.090      | -22.78     | 0.026      |
| Mosaics-W      | 0.590         | 0.850        | 0.590       | -0.170      | -22.37     | 0.102      |
| PWE Industries | 6.950         | 9.550        | 6.200       | -1.950      | -21.91     | 1.842      |

## WHAT'S INSIDE

Economics & Strategy  
Opposition to Indonesia's currency  
peg and RHB-BOC merger failure  
add to short-term weakness ..... 2

Corporate Development  
Union Paper Holdings: Accounts are  
qualified, shareholders' funds in  
negative territory ..... 3

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## ECONOMICS & STRATEGY

Opposition to Indonesia's currency peg and RHB-BOC merger failure add to short-term weakness

We view the Indonesian economic, social and political situations as having a significant impact on the investing mood this week. On the local front, the collapse of merger talks between the RHB group and Commerce Asset-Holdings is expected to influence the market negatively. We would take buying opportunities when the market reverses closer to short-term support level of KLCI 650 pts.

**Indonesia — currency or political stability?** Indonesia has an unenviable task at hand about its currency problem: should it proceed with a currency board and incur the wrath of IMF (and risk the pullback of US\$40b bailout package)? Food riots leading to next month's national election press authorities to stabilise the rupiah. But the economy is unprepared for the proposed solution.

Indonesia has courted expert advice to implement a fast-track development of a Currency Board to peg the rupiah, with the aim of stabilising the currency and the larger economy. Previously, the Central Bank would intervene to maintain the proclaimed forex parities. The currency board, however, would replace the Central Bank's national forex facilities with a pledge to hold sufficient forex reserves to trade the rupiah at a preset rate. Although the IMF assists in various countries' management of such pegs, it shares the view of the World Bank and US Federal Reserve in opposing the Indonesian plan. The peg plan nominally requires reserves to equal the country's base money, estimated at 78 trillion rupiah (or US\$15.6b, if the peg is set at 5,000 per US dollar). This is the lion's share of Indonesia's current reserves of US\$19b.

The establishment of such a mechanism would also compromise the central bank's monetary and interest rate control. Money supply and interest rates would be relegated to the vagaries of rupiah demand — as determined by any pronounced parities. Without the central bank as lender of last resort and guarantor of domestic deposits and loans, precarious banks with low capitalisation, high gearing and high nonperforming loans could become immediate casualties.

The peg plan undercuts the government's resolve to reduce future fiscal spending, since all state expenditure will have to come from fiscal budget outlays. It also requires the renegotiation of the IMF bailout package, as well as growth and interest rate targets. **[Jihad A. Shams 253-1626]**

**Implications of RHB-BOC merger failure:** Now that the RHB-BOC merger talks have collapsed, it's back to the drawing board again. The failure to achieve any progress of beyond the negotiation table is somewhat expected because of the lack of synergies. But the spiteful end to these merger negotiations looks as acrimonious as when it was broached two weeks ago. Both groups are helmed by politically-connected tycoons of differing alliance — Halim Saad is Daim Zainuddin's protege while Abdul Rashid Hussain is seen building bridges with Anwar Ibrahim. It should be clear to investors that relinquishing control was not negotiable to either party. It is also interesting to note that Commerce Asset-Holding has shifted its attention to state-owned Bank Bumiputra — previously tipped to be heading the RHB group's way. It lends some credence to talks that Rashid, who allegedly profited from the ringgit's meltdown, was (at some point) out of favour with the current leadership.

Of greater consequence, the failure spells deep resentment and distrust among well-connected groups prevailing in government-implored mergers, and will put a brake to the bandwagon effect on banking stocks in the equity market. Banking stocks could come back into play closer to the government-imposed March 31 deadline, but our view remains negative for this week. **[David Yong 466-3929]**

## CORPORATE DEVELOPMENT

Union Paper Holdings: Auditor qualifies financial statements

Union Paper Holdings' latest annual report for the financial year ended Aug 31, 1997 shows a continued deterioration in its financial position. Chaired by former Deputy PM Tun Ghafar Baba, the company is involved principally in the manufacture and sale of tissue and paper products. Due to margin pressures from intense competition the group has been bleeding red ink for the last four financial periods.

**Negative shareholders' funds:** The latest annual report is interesting because (1) the audited loss after taxation was RM5.6m vs unaudited figures (loss) of RM4.3m announced in Dec 1997 and (2) the auditors, Low Beng Kooi & Co qualified their report — akin to a "red flag" warning of corporate health. The *unaudited* figures would have left them with a positive shareholders' funds of about RM0.6m vs the *audited* RM0.7m deficit. The group had net current liabilities of RM48.8m (FY96: RM41.3m) as at end-FY97.

The capital deficit means that if the group were to be liquidated with assets sold at net book value, creditors and lenders will get less than a ringgit for every ringgit owed. Oriental Bank, a subsidiary of MIDF, is the group's sole principal banker according to the annual report. The group had bank borrowings of RM10.1m on the balance sheet date.

The auditors stated that the ability of the firm to continue operations is "dependent upon the availability of continued financial support and the ability of the Group to operate profitably in the future." This is the first qualified auditors report we have come across in many months. (It is notable that Dataprep Holdings' accounts, which shows a larger capital deficit of RM27.2m in FY March 97, was unqualified by Price Waterhouse).

**Bottomline:** While the ringgit's depreciation has so far helped overseas sales, Union Paper's cost of raw materials like local waste paper and imported virgin pulp have escalated. In March 1997, the ailing company was to be rescued via a proposed reverse takeover by Datuk Mohamad Karim Haji Abdullah Omar (former CEO of Permodalan Negeri Selangor Bhd), Norlia Shamsuddin and Abdul Rashid Maidin. The exercise involved the injection of companies with interests in property development and construction for RM171m, to be paid by 42.5m new Union Paper shares at RM4.00 each and RM1m cash. Given the difficult economic and equity market conditions, the proposals are likely to be deferred or aborted. Dim prospects of the injection of a new viable business and high risk of bankruptcy make Union Paper a compelling sell at RM2.70. **Avoid.**  
**[Chris Leow CFA 253-1626]**