Picking Up the Pieces

Some Yahaya-linked firms remain good buys

By Steven K.C. Poh / Kuala Lumpur

When the helicopter carrying Yahaya Ahmad crashed March 3, investor confidence in some of the most-watched stocks on the Kuala Lumpur stock exchange threatened to plunge along with it. Yahaya was hand-picked by Prime Minister Mahathir Mohamad to run Proton, Malaysia's showpiece national auto company. His flagship company, DRB, had won big privatization projects and is spearheading the development of a national motorcycle. One worry: that Kuala Lumpur may no longer back Yahaya's firms. Mazwin Zahid, a motor analyst at Caspian Research, says the concerns are overblown: "On fundamentals, the earnings of the group are still good."

Still, prices fell when the bourse allowed trading in nine Yahaya-linked companies to resume March 10. Within days, however, most recouped their losses. EON, the distributor of Proton cars, even gained 2.4% from its pre-suspension level. "People won't stop buying a Proton car just because the group chairman is dead," says Mazwin. The government also signalled its support by quickly endorsing the appointment of Yahaya associate Saleh Sulong as group chairman.

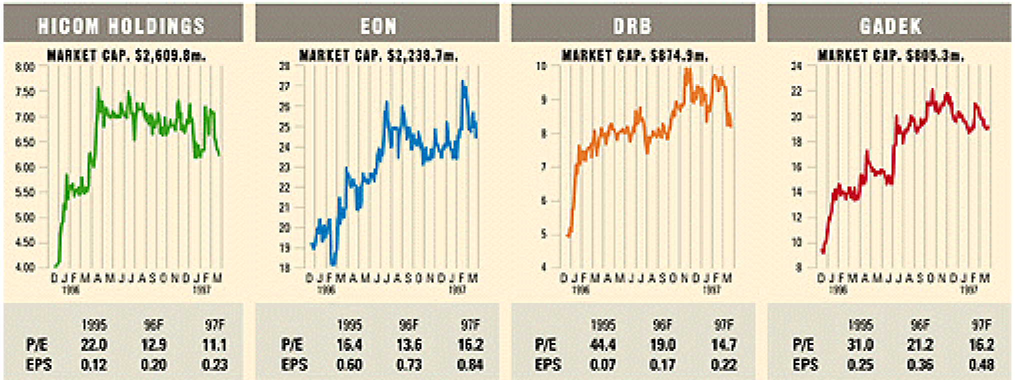
Should you buy, hold or sell? Analysts are bullish on EON and holding company Gadek, mixed on Hicom Holdings and DRB, and neutral on Proton, Gadek Capital, Eastern Pacific Industrial, wood- products maker Golden Pharos and Kedah Cement.

Both Alan Inn of TA Securities and Hui Mei Ling of Peninsula Research have a buy on EON. Hui expects 61.3%-owned EON Bank to show double-digit growth in the next two years. Inn considers the Proton distributor as undervalued. Based on the consensus profit forecast by 32 stockbrokerages, EON trades at 16 times projected 1997 earnings (see chart below).

And Proton itself? Hui says the carmaker, which has about 63% of the domestic market because of stiff tariffs levied on foreign makers, is fairly valued. It is doubling capacity to 500,000 cars by the turn of the century in a bid to boost exports. "The heavy capital expenditure could impede earnings in 1998 and 1999," warns Hui. Other industry watchers worry about Proton's ability to assimilate ailing British sports car maker Lotus, which the Malaysian firm acquired last year.

Inn and Ng Su Peng of HLG Securities like Gadek. "It has the most diversified earnings," says Ng. The jewel in Gadek's crown, adds Inn, is its 70%-owned construction firm, Perspec: "The current order book stands at $688 million." He values Gadek at $10.65 per share — that's 39% higher than the counter's closing price last week. Gadek owns 32% of another favorite, Hicom, which has interests in vehicle manufacturing, engineering, building materials and property. "Hicom is trading [20%] below its revalued net asset value of about $3," reckons Loke See Ooi of Worldsec Securities Consulting. But not everyone is a fan. Says Inn: "Hicom's operations lack focus and need streamlining."

Owned 65.8% by Yahaya, DRB saw its share price fall 6.8% after the accident. It was down another 7.3% last week. The company was trading at a premium, says Inn, "because of Yahaya's strong connections, his entrepreneurial skills and the anticipation of more lucrative deals." The stock may now be oversold. "DRB's fundamental earnings remain intact despite Yahaya's death," says Jenny Yeow of Merrill Lynch. Agrees Lai Tak Heong of Crosby Research: "The DRB-Hicom stable has some of the PM's pet projects in it. Come what may, you will still see a lot of government support."



All money values in U.S. dollars except share prices, which are in Malaysian ringgit. Sources: Asiaweek Research, Datastream, The Estimate Directory