Bull’s The Call

On April 11 the indices of the Colombo Stock Exchange (CSE) took a jump a big one, in comparison to the day-figures for some time now. It kept moving up causing a string of activity and excitement among investors.

The big move for that day was prompted by a large parcel of Sampath Bank shares bought at prices between Rs 53 and Rs 55 per share. An unknown foreign buyer bought a block of 3 million shares through a Colombo broker. From that point on the market took off playing on the hopes of the optimist punters of the CSE.

What was the impetus? Stock brokers said that the market rally which started last month, was largely on improved sentiments. The reasons they give for the up- turn are: The PA win in the local government polls dispelling some of the political overhangs by lending stability and cohesiveness to the political arena; the surprising move between the President and the Opposition Leader to work together on the ethnic conflict, boosting investor confidence and market sentiment; the economy which has reached the bottom being expected to recover this year – GDP growth estimate for 1997 stands at 4.4%; the reduction in the Statutory Reserve Ratio (SRR) rupee deposits to 12% has brought down lending rates, thus having a favorable impact on corporate borrowing costs; tourist arrivals in February increasing by 18.5% to 35,010 arrivals.



A pretty picture indeed. However Asian Wall Street Journal gave another angle to this scenario. An article on April 16 said. that a new fund was shifting its monies to sub-continent shares. The report which originated from Hong Kong said ‘high-flying stock markets such as Kuala Lumpur and Jakarta had fallen back to earth with a thud in the past month…. According to the report, a newly launched fund management company, Geomatrix (HK) Ltd seeking superior returns for investors were taking concentrated bets on markets where profits are accelerating while selling in markets where earnings growth is stumbling.

If this be the case and Sri Lanka is targeted by foreign fund managers, then the rise in the index levels can only be artificial. As it is known from past experience, the only way to sustain our market is through foreign funds. Ronnie de Mel, a former finance minister says that this jump means nothing as our economic fundamentals such as the budget deficit, inflation, production and exports still remain unchanged.

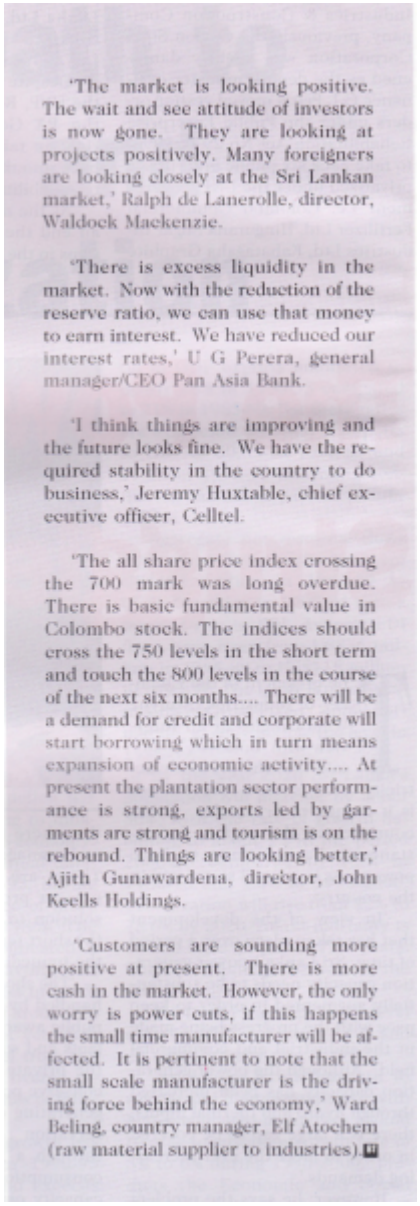
The Asian Wall Street Journal reporting on Geomatrix says that the strategy requires fleet footed investing. Geomatrix’s latest review of its investment model, in late March showed profit growth accelerating fastest in the Indian subcontinent. The lights were flashing green,’ Howe, chief executive officer of Geomatrix says, and in a matter of days, the Pacific Hedge Fund’s holdings there surged from just 2% of its

net asset value to 28%. That total will jump to at least 55%, he says. That injection of money into India, Pakistan and Sri Lanka is coming at the expense of Malaysia and the Philippines, where Geomatrix is moving to liquidate all of its holdings, as well as Indonesia and Hong Kong, where the company is having its stakes, Howe says.

The Geomatrix model relies heavily on corporate profit forecasts collected by the US based Institutional Broker Estimate System. IBES gathers all the earnings revisions made by brokerage research houses late each month, and spits out profit-growth-momentum data for each market. Howe then selects the top three to five countries for buying, while selling short the weakest two or three markets. 'We make a top-down decision (on which countries to invest in) based entirely on hot- tom-up data,' says Howe. The model relies on the work of thousands of analysts across the region, visiting companies and updating their profit projections. The signals that the model gives on earnings momentum provide the surest means of anticipating market trends, he argues.

The process isn't mechanical. The model gives us signals but still leaves final judgments on valuation and other factors for us to make," says Howe, who spent 10 years in Asia with Rowe Price-Fleming International before launching his own company.

Manjula Kumarasinghe manager institutional sales, Jardine Fleming HNB Securities says that foreign investors are looking for stocks that represent a proxy of the economy, highly diversified into all quarters of the economy and most important the stock should be liquid so that they can get in and get out at any time. The stocks that are targeted by the foreign buyers are ones that are on a free float stocks available in the CDS and the custodian services. Taking these parameters into consideration, one could see that foreign funds, if ever they come it is to play the market. The question now arises will the small time local retailers get their fingers burnt once again?



'The market is looking positive. The wait and see attitude of investors is now gone. They are looking at projects positively. Many foreigners are looking closely at the Sri Lankan market,' Ralph de Lanerolle, director, Waldock Mackenzie.

'There is excess liquidity in the market. Now with the reduction of the reserve ratio, we can use that money to earn interest. We have reduced our interest rates,' U G Perera, general manager/CEO Pan Asia Bank.

'I think things are improving and the future looks fine. We have the required stability in the country to do business,' Jeremy Huxtable, chief executive officer, Celltel.

'The all share price index crossing the 700 mark was long overdue. There is basic fundamental value in Colombo stock. The indices should cross the 750 levels in the short term and touch the 800 levels in the course of the next six months.... There will be a demand for credit and corporate will start borrowing which in turn means expansion of economic activity.... At present the plantation sector performance is strong, exports led by garments are strong and tourism is on the rebound. Things are looking better,' Ajith Gunawardena, director, John Keells Holdings.

'Customers are sounding more positive at present. There is more cash in the market. However, the only worry is power cuts, if this happens the small time manufacturer will be affected. It is pertinent to note that the small scale manufacturer is the driving force behind the economy,' Ward Beling, country manager, Elf Atochem (raw material supplier to industries).

Meanwhile, TA Securities say the appointment of Mano Tittawela as the director general of PERC is expected to solicit positive blessings from the investment circles. 'Tittawela's appointment is expected to provide a real drive to kick start the entire state privatization program with more vigor. We expect better response from the overseas investors under the direction of the new DG at PERC which will bode well for the local bourse."

"Closer investigation of the current buying spree suggests that it may be more a case of market waiting and hoping for good news than one that is convinced about

the economic and political fundamentals,' says a stock analyst from TA Securities. "This tempts us to derive a prognosis that the market is gathering more speculative steam than exploring fundamental reasons to justify the current rally. Inevitably such a situation further enhances the risk profile of the market provided the are fundamentals stubbornly resisting any upgrading. This in addition to the possibility of profit taking might trigger a correction in the share prices until and unless the quarterly progress reports suggest the underlying recovery in the economy and specially in the corporate profitability. This might reactivate another mini rally provided the earnings forecast reach respectable heights indicating the fundamental strength of the quoted companies and their respective industries. Meanwhile on another front the enthusiasm created by the inauguration of the Ceylon Heavy Industries & Construction Company, previously the Ceylon Steel Corporation was slightly dampened as the deputy minister of fi- nance GL Peiris moved vesting orders under the Public Enterprise Rehabilitation Act No 29 of 1996, to take back six public enterprises privatized under the UNP Government i.e. Colombo Commercial Fertilizer Ltd, Hingurana Sugar Industries Ltd, Kahatagaha Graphite Lanka Ltd, Kantale Sugar Industries Ltd, Lanka Loha Hardware Ltd and Mattegama Textiles Ltd.

Despite much criticism from the UNP, Ronnie de Mel said that the PA Government was quite right in taking these enterprises back into their control with a view to rehabilitating them. As the month of April came to an end there were more positive signs in the political arena with the appointment of Inder Kumar Gujral as India's latest Prime Minister. Gujral has had close ties with the Sri Lankan Government and hopes were high among political circles that he would support peace talks and settlements between the Lankan Government and the LTTE. Foreign minister Lakshman Kadirgamar left for India on a good will mission immediately after Gujral took office.