

\$7b Citic placement sets poser for stock exchange

BY DON SPAIN

THE \$7.17 billion placement by Citic Pacific raises the implications of a possible "waiver" allowing it to bypass the normal requirement of minority shareholder approval of the deal.

It also led to analysts questioning the short-term effect on the company itself and the length of time that it took for Citic to make the announcement.

After waiting two days for the release of the widely leaked announcement, the details came as a surprise to no one.

Although no official reason for the delay has been given by the company, it is widely believed that the document was held up pending approval from China's State Council, the ultimate controller of Citic's parent company.

Involving \$7.17 billion worth of shares, this is the largest placement in the history of the Hongkong Stock Exchange and it will make Citic Pacific a major mainland player on the local bourse.

On completion of the placement, Citic Pacific will become the 17th largest listed company in Hongkong in terms of market capitalisation. However, by offering

551.8 million shares at \$13 per share, the company is attempting to place roughly 30.5 per cent of its total share capital.

According to exchange rules, it will need to gain the approval of its minority shareholders before going ahead with the deal.

Speculation mounted that the stock exchange was about to grant the company a "waiver" allowing it to bypass this rule in order to expedite the deal.

Analysts were worried about such a move.

"If the exchange grants a waiver it will set a dangerous

precedent, meaning the interests of companies with strong political connections placed above the minority shareholders," a broker with an American securities firm said.

A stock exchange official declined to comment on whether or not a waiver was being discussed, saying "it is not our policy to comment on an individual case".

"Whether we approved a waiver or not we would inform the company who would be responsible to make an announcement," he said.

Brokers were in agreement that such a waiver would set a bad precedent, especially as

Citic has drawn criticism for the two-day delay between the suspension of trading in its shares and the release of the placement announcement.

Investors also had doubts about the timing of the placement.

"Some brokers are worried that Citic is doing the placement now because it will be the last opportunity this year to do some large-scale fund raising," K S Ng, an assistant director at Barclays de Zoete Wedd (BZW), said.

However, BZW was sticking to its "buy" recommendation for Citic Pacific shares, forecasting a \$940 million boost to 1993 earnings before tax, as a

result of the Hongkong Telecom acquisition.

A senior analyst at Baring Securities was more cautious, predicting that the acquisition would have no effect on earnings per share in 1993.

He said 1994 earnings per share depended on the timing and contribution to earnings of the chemical treatment plant.

The shares of Citic Pacific closed down 10 cents at \$13.30 after falling to an intra-day low of \$13.10 in the wake of the announcement.

Hongkong Telecom closed unchanged at \$9.55 on a total of 1.2 million shares traded.

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