

International Business News

Troubled Swiss bank UBS picks new chairman

Beleaguered Swiss bank UBS on Wednesday saw the departure of another top management figure, disclosing that chairman Peter Kurer will not seek re-election and that former Swiss finance minister Kaspar Villiger has been picked as a replacement.

The latest change comes barely a week after the bank's chief executive Marcel Rohner resigned and was replaced by former Credit Suisse chief executive Oswald Gruebel. It gave a boost to the share price, which opened up 3.34 percent at 10.22 Swiss francs. At mid-day it was trading up 5.06 percent at 10.39 francs, outperforming the overall market which was up 0.87 percent.

UBS has been struggling to recover after losing billions in the US subprime home loan crisis and the ensuing financial meltdown. It is also caught up in a legal dispute with the United States over a tax evasion probe.

UBS vice-chairman Sergio Marchionne said the "extent and speed of deterioration of market conditions" could not have been forecast, and credited Kurer for helping to put UBS "back on track."

Kurer, formerly the bank's chief legal officer, became chairman a year ago after Marcel Ospel stepped down amid the bank's mounting losses.

China seeks Europe takeover targets

A high-level Chinese business delegation will head for Europe this weekend to explore acquisition targets, the first mission of its kind, state media reported Wednesday.

The delegation will look mostly at companies with a strong record in manufacturing, clean energy and environmental protection, while financial firms are unlikely to be on the shopping list, the China Daily said.

"We will be exploring opportunities for financial participation in European companies," said Commerce Minister Chen Deming, who headed a just-returned mission to Europe charged with buying high-technology equipment.

That trip -- to Switzerland, Germany, Britain and Spain -- netted more than 13 billion dollars in deals.

The upcoming tour will cover a number of nations, including Britain, but not France, according to the Oriental Morning Post, which gave no further details.

The Ministry of Commerce had no comment on the trip when contacted by AFP.

China's growing appetite for mergers and acquisitions makes sound business sense, according to Li Jian, a researcher with the Chinese Academy of International Trade and Economic Cooperation.



Herbert Hainer, chairman of German sports equipment and clothing maker Adidas, poses with a ball during a press conference to present his company's business report yesterday in Herzogenaurach, Germany. Adidas posted a 2008 profit that exceeded its target, but the company warned that business would be tougher this year.

GM unit Opel might shed 3,500 jobs

German automaker Opel, a unit of stricken US giant General Motors, might cut at least 3,500 jobs if the government does not step in, the head of GM Europe said in an interview published on Wednesday.

Salary cuts are already expected, Carl-Peter Forster told the mass circulation daily Bild Zeitung, and "on top of that comes the elimination of hopefully no more than 3,500 posts," he said.

"That is just what we want to avoid," he added. General Motors, which has asked the US government for loans of around 30 billion dollars (24 billion euros), is also in talks with German authorities on how to save its German subsidiary, which employs almost 26,000 workers.

GM is also speaking with the governments of Belgium, Britain and Spain, where Opel has other plants.

Forster told Bild that "3.3 billion euros in loans or direct share holdings by 2014 are needed to save all these sites."

But German authorities have shown less inclination to bail out the auto sector than they did when banks got into trouble late last year.

Indonesia cuts key interest rate by 50 basis points

Indonesia's central bank cut its key interest rate by half a percentage point Wednesday to 7.75 percent to stimulate flagging growth in Southeast Asia's largest economy amid the global economic crisis.

The move came as the finance minister warned that plunging exports could hurt growth forecasts and donors launched a 5.5-billion-dollar standby loan facility to buttress the country's finances.

Bank Indonesia said the rate cut took into account figures showing export sales had plunged 36 percent in January compared to the year before, the biggest drop in 22 years.

"The economic slowdown in developed nations has triggered a drop in Indonesia's exports, which will eventually affect Indonesia's overall economic well being," it said.

Indonesia has cut its growth forecasts for 2009 from more than six percent to about 4.5 percent due to the global economic slump.

GLOBAL SLOWDOWN

The world awash in crude oil

AP, New York

Supertankers that once raced around the world to satisfy an unquenchable thirst for oil are now parked offshore, fully loaded, anchors down, their crews killing time. In the United States, vast storage farms for oil are almost out of room.

As demand for crude has plummeted, the world suddenly finds itself awash in oil that has nowhere to go.

It's been less than a year since oil prices hit record highs. But now producers and traders are struggling with the new reality: The world wants less oil, not more. And turning off the spigot is about as easy as turning around one of those tankers.

So oil companies and investors are stashing crude, waiting for demand to rise and the bear market to end so they can turn a profit later.

Meanwhile, oil-producing countries such as Iran have pumped millions of barrels of their own crude into idle tankers, effectively taking crude off the market to halt declining prices that are devastating their economies.

Traders have always played a game of store and sell, bringing oil to market when it can fetch the best price. They say this time is different because of how fast the bottom fell out of the oil market.

"Nobody expected this," said Antoine Halff, an analyst with Newedge. "The majority of people out there thought the market would keep rising to \$200, even \$250, a barrel. They were tripping over each other to pick a higher forecast."

Now the strategy is storage. Anyone who can buy cheap oil and store it might be able to sell it at a premium later, when the global economy ramps up again.

The oil tanks that surround Cushing, Okla., in a sprawling network that holds 10 percent of the nation's oil, have been swelling for months. Exactly how close they are to full is a closely guarded secret, but analysts who cover the industry say Cushing is approaching capacity.

There are other storage tanks in the country with plenty of extra room to take on oil, but Cushing is



This file picture shows Shell Oil's oil and gas terminal on Bonny Island in southern Nigeria's Niger Delta. More than 30 tankers, each with the ability to move 2 million barrels of oil from port to port, are moored across the globe, from the Texas coast to the calm waters off Europe and Nigeria.

the delivery point for the oil traded on the New York Mercantile Exchange. So the closer Cushing gets to full, the lower the price of oil goes.

Some oil is ending up in giant ships and staying there. On these supertankers, rented by oil companies such as Royal Dutch Shell, there is little for crews to do but paint and repaint the decks to pass time.

More than 30 tankers, each with the ability to move 2 million barrels of oil from port to port, now serve as little more than floating storage tanks. They are moored across the globe, from the Texas coast to the calm waters off Europe and Nigeria.

"It gets expensive to do this," said Phil Flynn, an analyst at Alaron Trading Corp. "If you're

sitting on a bunch of oil and you're stuck paying storage and insurance, and you can't find a buyer, you may have to sell it at a discount just to get rid of it."

On the other hand, as storage units on land have filled up, the companies that own the tankers have profited. Tanker companies charge an average of \$75,000 a day, three times as much as last summer, to hold crude, said Douglas Mavrinas, an analyst with Jefferies & Co.

Demand for oil began to increase steadily in the early 1980s, and it went into overdrive in recent years as the Chinese economy surged and as producers pumped lakes of oil out of the ground to take advantage of a spike in prices. Then recession gripped the globe, frozen credit

markets made things worse, and inventories swelled.

Refineries in the US have cut way back on production of gas as the economy weakens and millions of Americans, many of them laid off, keep their cars in the garage.

The latest government records show U.S. inventories are bloated with a virtual sea of surplus crude, enough to fuel 15 million cars for a year. Inventories have grown by 26 million barrels since the beginning of the year alone. Oil from Saudi Arabia, the United Arab Emirates and Nigeria is finding few takers, even though much of it is used to make gasoline in the United States.

There are so many players in the international oil market that no one has enough control to sway

prices. Opec slashed production by more than 4 million barrels a day, and still the price of a barrel of crude languishes near \$40. At its peak, it traded at \$147 a barrel.

Experts aren't sure what will happen when all that oil finally comes ashore.

One fear is that with oil prices so low, companies will slash drilling and production, setting the world up for an energy crunch that would send prices soaring. The number of oil and gas rigs operating in the United States has fallen a staggering 39 percent since August.

Others say prices would plummet if companies forced millions of barrels onto the market at once.

"If everyone's running for the exits at the same time, they'll engineer a price collapse," Flynn said.

COLUMN

IFTY ISLAM

Importance of Grameenphone IPO

As I have written in previous columns, Bangladesh can take a good deal of pride in the relative resilience of both the stock market and the economy to the current global financial crisis.

But assessing the potential bottlenecks for us to achieve an 8 percent inclusive growth target, a critical factor likely to limit the future growth of companies and emergence of new entrepreneurs, is a lack of risk capital and an over-reliance on over-collateralised bank lending.

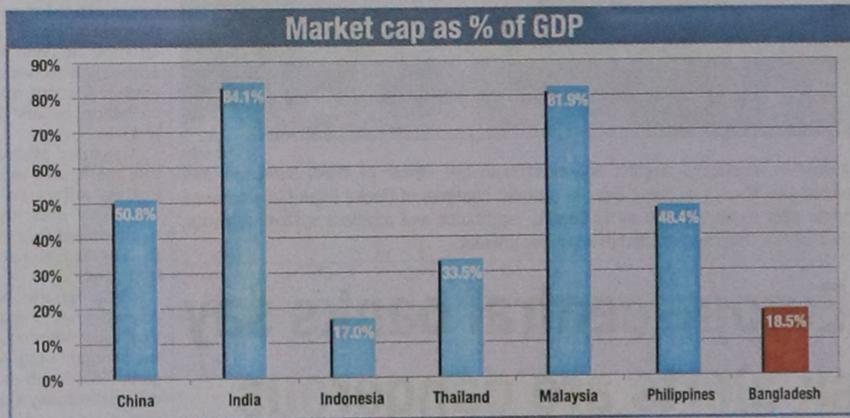
One way to overcome these constraints is certainly to attract more Foreign Direct Investment (FDI) and foreign portfolio flows. But I would argue, an equally pressing objective for the new government should be to focus on how best to grow the domestic capital markets and develop new domestic investors.

As the chart illustrates, Bangladesh has one of the lowest market capitalisation/GDP ratios in Asia and indeed among emerging markets more broadly. Even after last year's 55 percent market decline, India stands at 84.1 percent and we are also well behind Pakistan and Sri Lanka.

This reflects more than 90 percent of Bangladesh's top 100 companies have not yet listed. We have to ask why and what the costs are of allowing this situation to continue.

In this context, I want to address the current uncertainty about the timing of the IPO of Grameenphone (GP) and why I believe a successful stock market flotation will be a pivotal catalyst in our capital markets development.

A Daily Star article, dated March 4 stated: "Grameenphone's initial public offering is likely to be further delayed, despite fulfillment of the market regulator's conditions by the mobile phone operator, putting the pre-IPO investors, including the institutional ones in disar-



ray. The government is now more focused on settling the ongoing crisis stemming from the BDR mutiny."

Clearly we all recognise the need in the immediate aftermath of the BDR mutiny tragedy for the government to deal with many pressing issues. But there is also a need to show the international community that Bangladesh is still a good place for foreign investors to consider.

Against this backdrop, I would like to discuss why approval by the SEC for a GP flotation to occur in Q2 is so important and address some potential concerns regulators may have: Firstly, the largest IPO in Bangladesh's history is likely to trigger greater interest from foreign investors to come to the Bangladesh market. There may be some potential concerns from the stock market authorities that a fresh demand for \$65 million of capital from the market might affect the values of other stocks or indeed the overall level of the market. However, if the GP brand is sufficiently strong domestically and internationally, we are likely to see significant new interest from foreign as well as local investors.

Also, contrary to conventional

economic wisdom, supply will likely create new demand. So we might argue that a successful GP flotation will help support the market by attracting new investors. This is particularly relevant as the current global stock market turmoil is increasing the interest in frontier markets like Bangladesh, which have low correlations with global markets. International investors will be attracted to invest in a GP issue not only on the basis of a strong brand, but also good corporate governance and transparency.

Although the proposed IPO will be domestic rather than specifically targeted at international investors, as was the original intention last summer, it would still be surprising if GP's first issue did not see purchases even in the secondary market from overseas buyers.

By contrast, a second delay to the GP issue will almost certainly send a negative signal to international investors about the commitment to developing Bangladesh's capital markets. The risk is that they focus on other frontier markets in Asia such as Vietnam and Cambodia.

As I highlighted in my last column about FDI, there is a great

deal of competition among countries for global investor attention. We need to ensure we maintain their interest and confidence in investing in the Bangladesh economy.

A second potential issue is the valuation of the proposed IPO. It is critical that we move away from the net asset value (NAV) method of IPO towards a more market-based valuation method. In that context, the proposal by the SEC to move to a book-building method of valuation is important and should be introduced as soon as possible. No owners will sell a business at a massive discount to their true value and a failure to change this will see the DSE/CSE fail to attract major companies to list.

Coming back to the GP issue, valuation techniques are complicated by typically focus on international and local comparisons for Price/Earnings (P/E) ratios. GP does not appear expensive to us at their Tk 7 face value that has been proposed.

By international standards, Bharti Airtel, India's leading mobile company, trades at a slight P/E premium to our estimates for GP. But we would argue that GP has a far more dominant market

position and brand name than Bharti in India. In addition, mobile penetration in Bangladesh will likely increase from around 28 percent currently, as it remains low, certainly relative to the 80 million mobile subscribers in Pakistan with a population of 160 million, versus 150 million in Bangladesh.

Investors, who might potentially be interested in investing in GP or any other telecom companies that come to market, need to see their future earnings growth prospect, the outlook for new 3G (third generation) wireless networks, industry consolidation and cost reduction opportunities.

We still see significant scope for all the mobile companies in Bangladesh, including GP, to develop a broader range of value-added services, such as mobile banking, greater internet access, doctor on call, Cell Bazaar. This suggests the earnings prospects for them are reasonably attractive. But ultimately, the strong demand seen for the \$ 60 million pre-IPO placement seen in December suggests valuations were not unreasonable.

In conclusion, we would argue that developing Bangladesh's capital markets is an important objective for the new government. The decision to broaden the number of asset managers is a welcome step.

The SEC has also been taking some important initiatives in starting the book-building process. But it is important we recognise the damage that might be caused by yet another delay to the GPIPO.

Hopefully a successful flotation later this year will provide the catalyst we need both to attract international investors and for the next phase of the stock market development.

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