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MELEWAR-WB: Mother share safer bet as out-of-money warrant cornered



by
Alan Voon

The new warrant of Melewar Industrial Group Bhd (Melewar) made its debut at Bursa Malaysia on Aug 24, 2018. It was issued as a sweetener to subscribers of Melewar's recently completed one for one rights issue.

Subscribers of two rights shares at 20 sen per share would receive one free warrant. However, the rights issue was under-subscribed with a subscription rate of just under 60% as the rights issue price was not set at an attractive level even with the free warrant.

The share price has now fallen substantially below the rights issue price and was last traded at 15.5 sen at the close of trading on Sept 4, 2018. MELEWAR-WB, which rose to as high as 11 sen on the first day of trade, ended trading at 7 sen on Sept 4.

Melewar Group's principal activity is in the midstream sector of the steel industry, principally in the manufacture of cold rolled coil steel sheets and steel tubes and pipes, through its 71.3% interest in its listed subsidiary, Mycron Steel Bhd (Mycron).

The other business of the group is conducted through its 100% owned subsidiary, Melewar Integrated Engineering Sdn Bhd,



Melewar's warrant is trading at an extremely high premium of over 200%

involved in engineering services.

In the financial year ended June 30, 2018, Melewar recorded a 6% growth in revenue to RM816.09 mil compared with RM772.78 mil a year ago.

This led to the group reducing its net loss to only RM0.63 mil compared with RM78.22 mil in the previous financial year.

While the steel sector continued to record profits, the engineering division suffered losses of more than RM2 mil.

In the notes accompanying the financial results, Melewar indicated that the

prospects for the next financial year remain tough due to the effects of domestic consolidation made worse with the fallout from the prolonged trade wars of its major trading partners.

The tit-for-tat anti-trade measures, if escalated further, risk pushing regional and global economies into a financial crisis and any prospect for better performance by the group will be diminished.

The major shareholder of Melewar, Tunku Datuk Yaacob Khyra increased his stake in the company to 45.84% following

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Melewar Industrial Group Bhd (Sept 4, 2018)

Warrant Price:	7 sen
Share Price:	15.5 sen
Exercise Price:	40 sen
Warrants Expiry Date:	18/8/2023
Premium:	203.2%
Gearing:	2.21
Underlying Historical Volatility:	53.7%
Warrant's Implied Volatility:	77.1%
Delta:	0.66
Effective Gearing:	1.46

the rights issue which saw very little participation from minority shareholders.

Tunku Yaacob subscribed for 82.38 million rights shares accounting for more than 61% of the total rights share being taken up. This also means that the major shareholder ended up with 41.19 million warrants leaving only 25.76 million in the hands of the public.

With the warrant exercise price set at more than double the mother share price, MELEWAR-WB currently trades at an extremely high premium of over 200%.

Its theoretical valuation is also high as the warrant's implied volatility is much higher than that of the mother share.

Nevertheless, the warrant has attracted traders' attention due to it being cornered with very little free float.

Investors who are bullish on the potential turnaround of the company should be better off buying into the mother share which is just rebounding off its decade low price of 14 sen. **FocusM**

Alan Voon is CEO of Warrants Capital Sdn Bhd