

Did short-sell play on Olam start in May?

Data shows shares loaned out spiked that month

By **AARON LOW**

MUDDY Waters may have started to build its short positions against commodities player Olam International as early as six months ago.

Data from Markit, a financial services information firm, shows that the percentage of Olam shares being loaned out spiked in May.

Short-sellers borrow a company's shares to sell them in the belief the share price will fall. If they are correct, they can buy them back at a lower price and profit from the difference.

Markit said that up to the beginning of May, about 5 per cent of Olam's total shares were out on loan.

But by the end of that month, this had doubled to about 10 per cent and has been steadily rising to 13.4 per cent as of Monday this week, said Markit corporate communications director Alex Borg.

"The point is that after May the amount of stock on loan shot up and that is probably short-selling, that is investors betting the share price would fall," he said.

"It could have been Muddy Waters and others building their positions."

At about the same time that the short-interest spiked, Olam shares also tumbled, falling

from \$2.30 at the start of May to about \$1.61 on June 1.

Asked about whether the company knew that the short-interest in its stock had shot up in May, Olam spokesman Aditya Renjen said the company does not comment on market activity.

Muddy Waters also declined to comment on the data, saying: "Muddy Waters does not discuss the specifics of its trading positions for obvious reasons. We do not partner or collude with anyone who is not part of the research process."

On Monday, the founder of Muddy Waters, Mr Carson Block, shocked the local investing community when he said he is betting against the shares of Olam, one of the biggest firms by market capitalisation here.

He accused the commodities giant of booking profits on transactions before it is clear how deals will work out over time.

Olam is "heavily" indebted and aggressive in how it reports so-called biological gains on its investments, he said.

But Olam has since hit back at the short-seller, calling the attack unfair and baseless.

Olam has also initiated a defamation suit against Mr Block and his firm, according to papers filed with the High Court here.

Dealers told The Straits Times that they have been receiving calls to search for Olam shares to loan.

One dealer said that just two months ago, he got a call from a fellow broker to ask for two million Olam shares to borrow.

"I didn't find any. To be fair, I was a bit puzzled then, but after Muddy Waters' public



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Olam has filed a defamation suit in the High Court against Muddy Waters' Mr Block, who said Olam was "heavily" indebted.

attack, I understand why now," he said.

At the 13.4 per cent level, Olam is also the most-shortest stock in the FTSE All-Share In-

dex, which measures the performance of the majority of companies listed on the stock exchange here.

The next company with the highest percentage of its shares short-interest is Swiber Holdings, with 6.67 per cent of its stock being loaned out.

Singapore Management University finance professor Melvyn Teo noted that short-sellers like Mr James Chanos, an American hedge fund manager and founder of Kynikos Associates, build up their positions over time before announcing to the public what they believe is wrong with the company.

"They form an investment thesis, build their positions, then go out to the media and tell them why they shorted the stock and what's wrong with them," he said.

"It's quite common for dedicated short-sellers to operate in this way."

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