



## Singapore Establishment Challenged by Short-Seller Block on Olam

By Klaus Wille - Dec 17, 2012 12:01 AM GMT+0800

When Carson Block likened Olam International Ltd. (OLAM) to fraud-ridden Enron Corp., he challenged more than the accounting of the Singapore-based commodities firm. He also took on Temasek Holdings Pte, the government-owned investment company whose money has helped build the city-state into a corporate dynamo known as Singapore Inc.

Temasek is Olam's second-largest shareholder, with a 16 percent stake that has lost more than \$100 million in value since Nov. 19, when Block's Muddy Waters LLC first questioned the validity of the company's finances and said it was betting against the stock. Temasek is also the biggest shareholder in many of the country's best-known companies, including DBS Group Holdings Ltd. (DBS), Southeast Asia's largest bank, Singapore Telecommunications Ltd. (ST) and Singapore Airlines Ltd. (SIA)

"Carson Block is putting his whole reputation on this one," said Low Chee Keong, associate professor of corporate law at the Chinese University of Hong Kong. "He's taking on the Singapore government, Singapore Inc. here."

Temasek is standing behind Olam, putting its own reputation as one of the world's savviest investors on the line. When Olam said two weeks ago it would sell as much as \$1.25 billion in bonds and warrants to existing shareholders, Temasek, run by Ho Ching, the wife of Singapore Prime Minister Lee Hsien Loong, agreed to buy any rights not taken by other investors.

### 'Vote of Confidence'

The state investment firm could end up owning as much as 29 percent of Olam if it exercises all the warrants in 2016 at the earliest, according to Sunny Verghese, Olam's chief executive officer. Kewalram Singapore Ltd. is currently Olam's biggest investor, with a 20 percent stake. Kewalram will take part in the rights issue, which is in the best interest of Olam, it said in an e-mailed statement Dec. 10.

Temasek, asked for comment, referred to a statement it issued Dec. 3 on Olam's bond offering. Temasek executives are "comfortable with Olam's credit position and longer-term prospects, and are pleased to have another opportunity to invest in the company, alongside other shareholders," David Heng, senior managing director of investments, said in the release.

"This is a strong vote of confidence we are seeing from Temasek," Verghese, 53, said at a press conference in Singapore after Olam announced the rights issue.

Block declined to comment about Temasek through his external spokesman, Zach Kouwe, at Dukas Public Relations Inc. in New York.



## Financial Hub

Temasek, whose S\$198 billion (\$162 billion) in assets are a source of pride for the country of 5.3 million at the tip of Malaysia, isn't often second-guessed on investments. The firm was set up in 1974 to nurture the development of the city-state's companies, and its total return has averaged 17 percent a year.

Singapore has emerged as Asia's center of wealth management and a foreign-exchange trading hub. The city had \$512 billion of private-banking assets in 2010, the largest such pool of money in the region, according to the latest available figures from the Boston Consulting Group. It was the fourth-largest foreign-exchange center in the world in April 2010 and Asia's biggest after Tokyo, according to a triennial survey of 53 central banks by the Bank for International Settlements.

The city-state is among only seven countries with a stable AAA ranking, the highest, from Standard & Poor's, Fitch Ratings and Moody's Investors Service.

## International Focus

Temasek is wholly owned by Singapore's Ministry of Finance. Government of Singapore Investment Corp., the city's sovereign wealth fund, is entrusted with managing more than \$100 billion of the city's foreign reserves and most of its investments are outside of Singapore spread over a mixture of assets, including equities and real estate. While both are long-term-focused investors, Temasek tends to be more opportunistic in buying and selling assets.

The Singapore government doesn't decide how the two asset managers should manage their investments, Josephine Teo, minister of state for finance, said in Parliament earlier this year in response to queries from lawmakers.

Two-thirds of Temasek's portfolio is now outside of the country, compared with predominantly Singapore-based holdings in 2002. Banks remain the biggest part of its holdings even as they make up a smaller portion of the portfolio, with financial services accounting for 31 percent of assets, down from 36 percent a year earlier, it said in its annual report in July that covered the 12 months to March 31.

Temasek's globalization has left it more exposed to economic turmoil far from home. It suffered a negative return of 30 percent in the year ended March 2009, as the credit crisis drove losses on its holdings in banks and other financial companies.

## Nigeria Roots

Temasek agreed to invest in Olam in June 2009 and the commodities trader makes up 0.3 percent of its portfolio. The investment firm has since increased its energy and resources holdings to weather Europe's debt crisis and a tepid U.S. economic recovery. Its return was



1.5 percent in the most recent fiscal year, while the MSCI World Index (MXWO) fell 1.7 percent.

Olam was founded in 1989 in Nigeria by the Kewalram Chanrai Group as an export company to secure foreign currency, according to Olam's website. Today, Olam is the fifth-largest publicly traded global wholesaler of agricultural products ranked by revenue, after Bunge Ltd., Archer-Daniels-Midland Co., Noble Group Ltd. and Glencore International Plc, according to data compiled by Bloomberg.

The company supplies agricultural products to 12,300 customers in 65 countries and employs more than 18,000 people, according to its website.

### Accounting Methods

Block, the research director and founder of Los Angeles-based Muddy Waters, said at a conference in London last month that Olam is aggressive in reporting gains on assets such as plantations, crops and cattle. Olam will fail and recoveries for investors will be "negligible," Block said.

Olam dismissed claims it faces insolvency, pointing to its more than S\$10 billion of liquidity, and said the allegations by Muddy Waters are false and misleading. It sued Muddy Waters and Block in the Singapore High Court on Nov. 21, calling Block's remarks malicious falsehoods.

Profit in the year ended June 30 fell 14 percent to S\$370.9 million on lower earnings from Olam's cotton and wood product businesses. The stock has declined 19 percent since Block's Nov. 19 call and is down 34 percent this year, the second-worst performer on Singapore's benchmark index in 2012.

A global accounting standard introduced in 2003 forces companies every three months to value living things from wheat crops to cattle, or so-called biological assets. As Olam branched out from being the world's second-largest rice trader and acquired dairy farms and almond plantations, the company began to apply the rules that accountants themselves say are riddled with subjective assumptions on future prices, inflation, production and costs.

### Mixed Record

"Companies like SingTel and Singapore Airlines are strategic investments for Temasek" and Olam isn't, said Melvyn Teo, director at BNP Paribas Hedge Fund Centre at Singapore Management University. "They must have seen great prospects in the company and in the commodities business in general."

Block, a 36-year-old lawyer, has had a mixed track record. Tree-plantation operator Sino-Forest Corp. slumped 74 percent before eventually filing for bankruptcy protection in March after Muddy Waters claimed the company overstated its assets. Shares of New Oriental



Education & Technology Group Inc. (EDU) and Focus Media Holding Ltd. (FMCN) rebounded after initial slumps when Block questioned their accounting. Both companies have denied any wrongdoing.

Temasek has shown it's not afraid to raise its stake in companies amid signs of trouble. In 2008, it increased its holdings in Merrill Lynch & Co. and Barclays Plc even after the value of its initial investments slumped, as it sought to help the firms replenish capital after credit markets seized up.

### Merrill Lesson

Temasek sold its 3.8 percent stake in Bank of America Corp. (BAC), which had bought Merrill Lynch, in the first quarter of 2009 at a loss that may have been \$4.6 billion, based on the average share price in the period. Temasek has never detailed the size of the loss or of that on the sale of its stake in London-based Barclays.

As those losses demonstrate, "Temasek does not have the ability to dictate market behavior, nor should they even try," Michael Dee, a former senior managing director at Temasek, said in an interview Dec. 7. "The best thing any investor can do is to determine what the truth is and respond. Wall Street is littered with the roadkill of investors who thought they could shape the market to their desires and ignore reality."

The Merrill Lynch investment was hasty because the world was in the throes of the global financial crisis, said Eugene Tan, assistant law professor at Singapore Management University. Temasek has learned from that and done its due diligence on Olam, he said.

### Olam Consulted

"Temasek has certainly consulted with Olam and they understand the story," said Chong Yoon-Chou, Singapore-based investment director at Aberdeen Asset Management Asia Ltd., which manages \$80 billion in Asia and doesn't own Olam shares in its funds. "This is a single-case event where the other party involved has a track record of short selling. With Merrill, we had the wider context of the global financial crisis."

Short sellers borrow shares and sell them, betting a decline in prices will allow them to buy back at lower costs.

Temasek's backing of Olam, which handles more than 90 percent of world trade in peanuts and is one of the top six cotton traders, goes back as far as 2003 when the investment company was one of three investors that bought stock before Olam's 2005 initial public offering. Temasek sold that stake for S\$118.6 million in 2006.

"This underlines the long-term nature of its investment and that it has been an investor since before any of the Muddy Waters allegations occurred," Victoria Barbary, senior researcher at the Sovereign Investment Lab at Milan's Bocconi University, said.

### Enron Comparison



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Olam said it faces no risk of insolvency after Muddy Waters likened the company to failed energy trader Enron in a 133-page report Nov. 28. Houston-based Enron, once the world's largest energy trader, filed for bankruptcy in December 2001 after revelations it was using off-balance-sheet vehicles to hide billions of dollars in losses and inflate its share price.

Olam isn't another Enron, Dee, now a private investor, said in a Bloomberg Television interview Dec. 7.

"I completely reject" the Enron comparison made by Muddy Waters, he said. Olam is "a company that saw a tremendous business opportunity, to take an existing platform and grow it on the back of relatively inexpensive debt. And perhaps executed that a little bit too fast and too far."

The stock closed at S\$1.405 Dec. 14, below the S\$1.60 paid by Temasek for 13.76 percent on June 1, 2009. Shares surged as much as 13 percent the day Temasek announced its purchase in 2009.

Financing costs for Olam have risen since Block's Nov. 19 comments. Its 5.75 percent notes due September 2017 yielded 7.86 percent as of 4:32 p.m. in Singapore Dec. 14, according to prices from Standard Chartered Plc. That's 132 basis points, or 1.32 percentage points, higher. It reached a record 10.26 percent Nov. 30.

Temasek's support for Olam is an attempt to protect its investment and to avoid any domino effect, said Singapore Management University's Tan.

"If the investment turns out to be bad, that will be a severe blow in the eye of the public," he said. "However, investors know that there are always hits and misses. The investment community understands that this is a judgment call for Temasek."