

## Olam Survives as Short-Seller Block Proves Investors' Friend

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Sunny Verghese, chief executive officer of Olam International Ltd., said today's annual strategic review has "taken on a sense of urgency with regard to all the recent developments surrounding Olam." Photographer: Munshi Ahmed/Bloomberg

The backing from the government-owned investor has buoyed shareholder confidence amid expectations Olam will reduce spending and lower its \$1 billion profit target in today's annual strategic review. It comes after Olam sued the short-seller Block, whose Muddy Waters firm likened the company to failed energy trader Enron Corp.

"Short-sellers act as a disciplining mechanism for firms to be more prudent in the way they operate," Melvyn Teo, director at BNP Paribas Hedge Fund Centre at Singapore Management University, said by phone. "It's comforting to some investors that Temasek increased its holding of Olam."



Short interest in Singapore-based Olam as a percentage of shares outstanding peaked at a record 13.4 percent on Nov. 15, according to data compiled by Markit and Bloomberg. It declined to 7.8 percent as of April 19, still the highest among the 30 companies in the city's benchmark Straits Times Index. (FSSTI)

Temasek is Olam's largest shareholder, according to data compiled by Bloomberg, after it raised its stake from about 16 percent in November. The investment firm remains "comfortable with Olam's credit position and longer term prospects," Temasek spokesman Stephen Forshaw said yesterday by e-mail.

Carson Block, founder and research director at Muddy Waters LLC. Photographer: David Paul Morris/Bloomberg

### ***'Sense of Urgency'***

The review, which will include spending and free cash flow, has "taken on a sense of urgency with regard to all the recent developments surrounding Olam," Chief Executive Officer Sunny Verghese said Feb. 7. The company's Hung Hoeng Chow, associate general manager of investor relations, declined to comment about the profit target and the review ahead of its release.

Muddy Waters in a November report questioned Olam's debt, acquisitions and accounting and likened it to Enron, the Houston-based company that was once the world's largest energy trader before it plunged into bankruptcy in December 2001 following revelations it was using off-balance-sheet vehicles to hide billions of dollars in losses and inflate the stock price. Olam rejected the allegations and sued the short-seller, a case it abandoned this month after investor feedback.

Muddy Waters declined to say whether it had profited from its bet against Olam or whether it was currently shorting the stock, in an e-mail reply to questions yesterday. Block first revealed he was betting against the stock on Nov. 19.

### ***Profit Target***

Olam in 2011 revised its target for profit after tax to \$1 billion by 2016, up from a goal of \$454 million by 2015 set two year earlier. Net income was S\$370.9 million (\$299 million) last fiscal year. The company will spend about S\$1.7 billion this fiscal year and part of next, and won't be free cash flow positive until at least fiscal 2014, it said in January.

"They would either have to slow down on spending," or sell some assets, said James Koh, an analyst with Maybank Kim Eng Holdings Ltd. in Singapore. "If there's a slow down in spending, it stands to reason they will have to lower their target as well."

Olam shares -- pushed as low as S\$1.395 after Block's allegations -- have rebounded in Singapore trading. They were last at S\$1.675, compared with S\$1.74 before Block's first assault. Other bets by Block have yielded different results.

### ***Sino-Forest***

Tree-plantation operator Sino-Forest Corp. plunged 74 percent before eventually filing for bankruptcy. American depository receipts of Focus Media Holding Ltd. (FMCN), the Shanghai-based advertising company that Block said overstated its network, gained 16 percent in the past year.

"Short-sellers are extremely important to markets," said Jim Rogers, chairman of Rogers Holdings, who holds some Olam stock. "Most of the frauds are found by short-sellers."

For shareholders, there's also new rules on short-selling, first proposed in 2010, that may help investments decisions. The Singapore Exchange set a regulation from March 11 that requires orders to be marked as a short-sell -- selling borrowed shares to buy back later at a lower price. It also started daily reports on short-sales volume and value.



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Still, some say shareholders have already won.

“Olam is now approaching their annual strategy review with an emphasis on making Olam a stronger company going forward and therefore less vulnerable to similar attacks,” said David Gerald, president of the Securities Investors Association of Singapore. “Usually it is the investors who will lose, but fortunately it has not been so in this case.”