Why You Canâ??t Always Trust Analyst Reports

Description

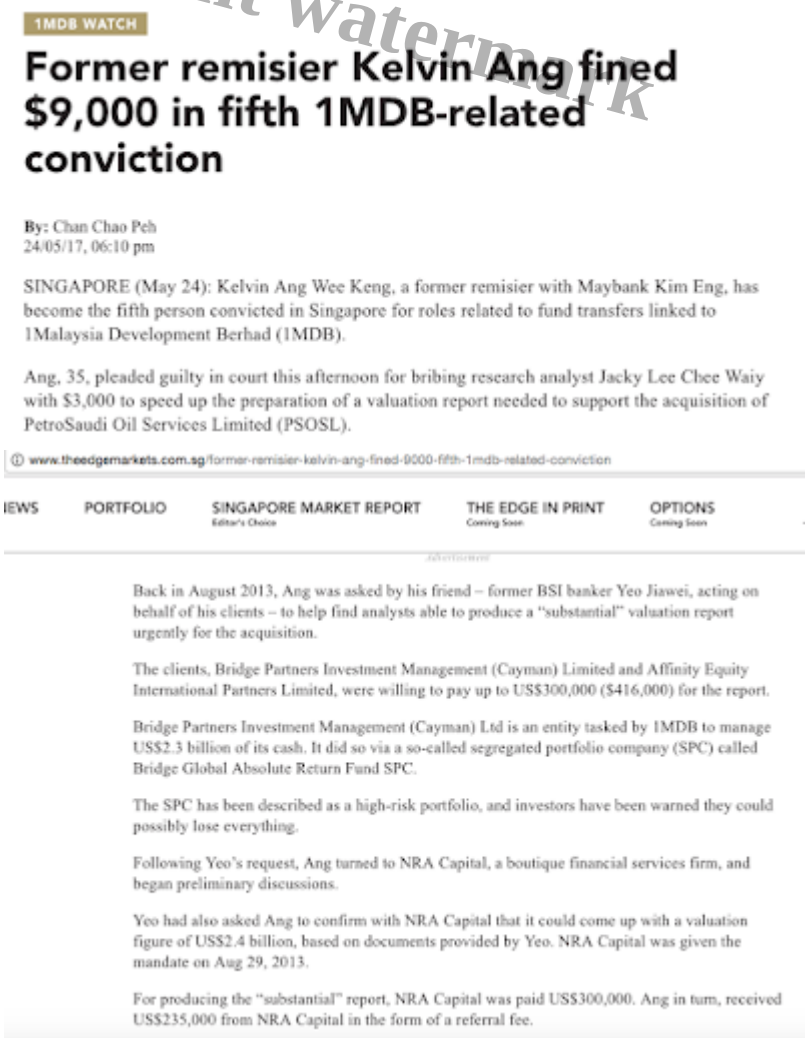
Can we really trust analyst reports when it comes to stock recommendations?

My answer is no. Iâ??ve never trusted analyst reports. While I do read them, I donâ??t rely on them to decide whether or not to buy a certain stock. Sometimes when the opportunity is right, Iâ??ll even go in the opposite direction of what these reports tell us to do. When theyâ??re all saying â??Buyâ?•, Iâ??ll sell. When they say â??Sellâ?•, Iâ??ll wait a few more weeks and then start buying in.

The sections I always have the biggest issue with are the valuations and target prices.

If youâ??re one of those who have always taken analyst reports to be the gospel truth, perhaps this will make you think twice.

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1MDB WATCH

Former remisier Kelvin Ang fined $9,000 in fifth 1MDB-related conviction

By: Chan Chao Peh
24/05/17, 06:10 pm

SINGAPORE (May 24): Kelvin Ang Wee Keng, a former remisier with Maybank Kim Eng, has become the fifth person convicted in Singapore for roles related to fund transfers linked to 1Malaysia Development Berhad (1MDB).

Ang, 35, pleaded guilty in court this afternoon for bribing research analyst Jacky Lee Chee Waiy with $3,000 to speed up the preparation of a valuation report needed to support the acquisition of PetroSaudi Oil Services Limited (PSOSL).

ⓘ www.theedgemarkets.com.sg/former-remisier-kelvin-ang-fined-9000-fifth-1mdb-related-conviction

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Back in August 2013, Ang was asked by his friend – former BSI banker Yeo Jiawei, acting on behalf of his clients – to help find analysts able to produce a "substantial" valuation report urgently for the acquisition.

The clients, Bridge Partners Investment Management (Cayman) Limited and Affinity Equity International Partners Limited, were willing to pay up to US$300,000 ($416,000) for the report.

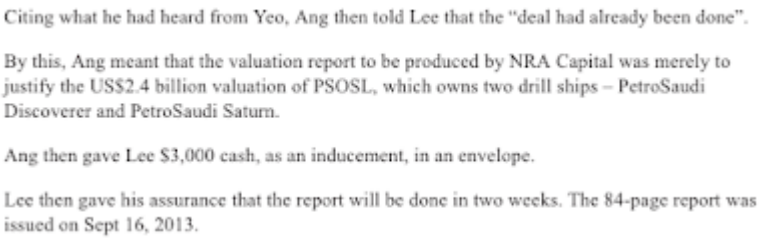
Bridge Partners Investment Management (Cayman) Ltd is an entity tasked by 1MDB to manage US$2.3 billion of its cash. It did so via a so-called segregated portfolio company (SPC) called Bridge Global Absolute Return Fund SPC.

The SPC has been described as a high-risk portfolio, and investors have been warned they could possibly lose everything.

Following Yeo's request, Ang turned to NRA Capital, a boutique financial services firm, and began preliminary discussions.

Yeo had also asked Ang to confirm with NRA Capital that it could come up with a valuation figure of US$2.4 billion, based on documents provided by Yeo. NRA Capital was given the mandate on Aug 29, 2013.

For producing the "substantial" report, NRA Capital was paid US$300,000. Ang in turn, received US$235,000 from NRA Capital in the form of a referral fee.



Citing what he had heard from Yeo, Ang then told Lee that the "deal had already been done".

By this, Ang meant that the valuation report to be produced by NRA Capital was merely to justify the US$2.4 billion valuation of PSOSL, which owns two drill ships – PetroSaudi Discoverer and PetroSaudi Saturn.

Ang then gave Lee $3,000 cash, as an inducement, in an envelope.

Lee then gave his assurance that the report will be done in two weeks. The 84-page report was issued on Sept 16, 2013.

The above screenshots are taken from The Edge.

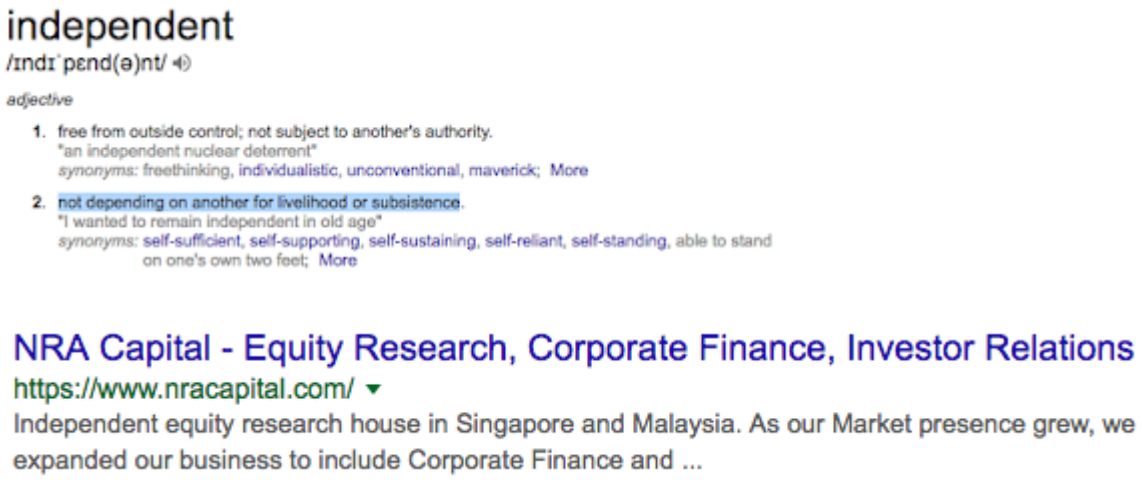
In summary, what happened was:

- Former banker **Yeo Jiawei** asked his remisier friend **Kelvin Ang Wee Keng** to help find analysts able to produce a report to justify the US$ 2.4 billion valuation of PetroSaudi Oil Services (PSOSL).
- The clients (associated with 1MBDB) were willing to pay up to US$ 300,00 for the report.
- **Kelvin Ang** turned to **NRA Capital** and confirmed that they could produce this report. For producing this â??substantialâ?• report, NRA Capital was paid US$ 300,000.
- **Kelvin Ang** received US$ 235,000 from NRA Capital in the form of a referral fee.
- **Kelvin Ang** pleaded guilty in court on 24 May 2017 for bribing research analyst **Jacky Lee Chee Waiy** with S$ 3,000 to speed up the preparation of this valuation report.
- MAS has now publicly announced its intention to serve prohibition orders to **Mr Kevin Scully, Chief Executive Officer of NRA Capital,** and its former **Head of Research, (Jacky) Lee Chee Waiy.**

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You can read the original reports here, here and here.

Note that NRA Capital touts itself as an â??independent equity research houseâ?• (their words, not mine). In case we differ in our understanding of the word â??independentâ?•, Iâ??ve turned to the proper dictionary definition for the term.



independent
/ɪndɪˈpɛnd(ə)nt/

adjective

1. free from outside control; not subject to another's authority.
   "an independent nuclear deterrent"
   synonyms: freethinking, individualistic, unconventional, maverick; More
2. not depending on another for livelihood or subsistence.
   "I wanted to remain independent in old age"
   synonyms: self-sufficient, self-supporting, self-sustaining, self-reliant, self-standing, able to stand on one's own two feet; More

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Credits: NRA Capital, taken from their DeClout report

Please tell me Iâ??m not the only one who can see the huge irony here.



A 80% upside? Seriously? But DeClout has not done so well in the past one year, and neither was the listing of
Procurri as successful as NRA Capital said it could be.Take a look at its share price below:

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Not that Iâ??m surprisedâ?¦ Remember
how I predicted that Procurriâ??s share price would tank in my INDEPENDENT analysis
two months after NRA Capital published theirs?

In MASâ?? announcement, they also had this to say:

> *â??Mr Lee had been the primary person in NRA working on the valuation. Apart from accepting the bribe, he was also* ***found to have applied inappropriate methodology and assumptions in the valuation of PSOSL****. As CEO of NRA, Mr Scully had failed to ensure that his analystâ?¦had exercised sufficient care, judgment and objectivity in the valuation of PSOSL.â?• (The Monetary Authority of Singapore, 30 May 2017)*

Now we know that not all analysts reports are as independent as they claim to be.

Iâ??ve always found it disturbing that so many retail investors depend on their brokers and analyst reports for their investment decisions. *XX just issued a â??Buyâ?• call on Stock A with Target Price of $3.50? Okay, I better buy now then!*

I owe a thank you to my friend TTI for first sounding the alert on this, and I hope that more people become aware about this serious matter. Please, think critically the next time you read analyst reports.

L, who is one of those typical not-so-highly-educated aunties, lost a fortune listening to these experts' opinions and the e
of her broker.
oker made a fortune while she lost hers.
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With love,
Budget Babe

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