

MARKET COMMENTARY

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Season Greetings!

As the year draws to a close, we hope that the issues and ideas raised throughout the year has been of help to our investors.

We would like to take this opportunity to thank and wish our investors a fruitful 2016.

Any feedback and suggestions on how we can further improve our newsletter would be appreciated.

OUR HOUSE VIEW

Emerging Clarity Supportive For Markets

- The drag-out of the lift-off in US interest rate will potentially end with the first rate hike in mid-December, the signal towards the normalization of the US interest rate cycle. This action removes a major uncertainty for the stock market. The US Fed will guide for a benign upcycle in Fed fund rate.
- China President Xi Jin Ping has committed to a minimum 6.5% GDP growth and to achieve that, we think that this anti-corruption drive that is three years in the making will have to come to an end sooner rather than later. It is equally important that at near zero CPI and negative PPI, President Xi does not end up pushing China to the brink of deflation. This will coincide with the 13th 5-Year Plan, the first of his regime and the impetus to solidify his legacy.
- However, for the Malaysian economy, the fast approaching 2016 appears challenging and may be affected by unwelcomed policy decisions of key global economies. Furthermore, with most commodity prices in the doldrums and domestic consumption still reeling on the back of the sharp increases in prices of household goods after the implementation of GST, Malaysia definitely requires solid catalysts to sustain the positive sentiment in the equity market. We see a few domestic factors emerging as drivers for the local bourse. However, the ability to hold on to gains is highly dependent to external news flows.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.11.15	1 MTH (% change)	YTD 2015 (% change)	PER 2015
D. JONES	17,719.9	0.3	-0.6	15.4
NASDAQ	5,108.7	1.1	7.9	30.7
DAX	11,382.2	4.9	16.1	22.3
KLCI	1,672.2	0.4	-5.1	17.2
USD / MYR	4.26	-1.0	21.8	-

SOURCE: BLOOMBERG (AS AT 30/11/2015)



CARTOON BY: HEDGEYE

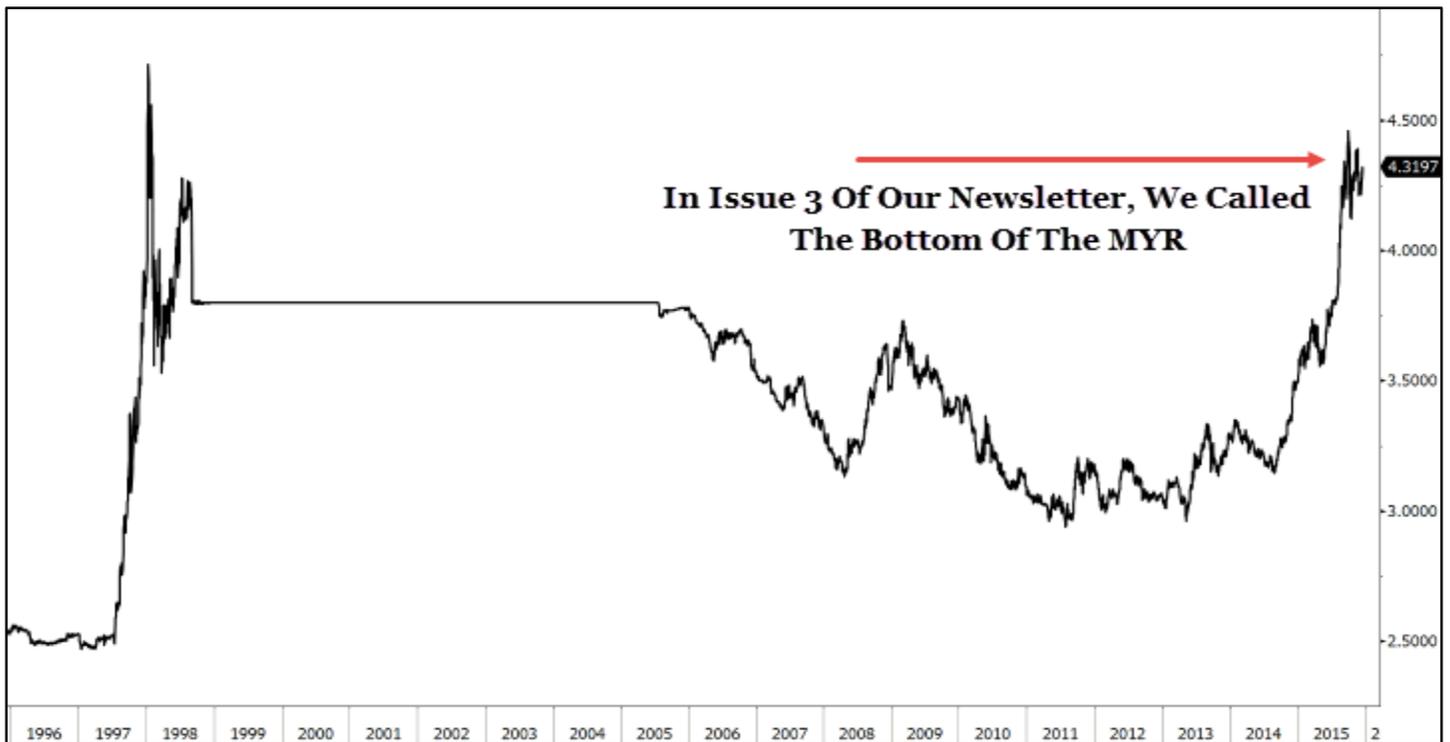
IS THE MALAYSIAN RINGGIT DUE FOR BETTER DAYS?

We have discussed extensively our views on the Malaysian Ringgit in Issues 1, 2, and 3 of our newsletter. We feel that it is appropriate to revisit the issue again. Our Ringgit view will set the tone for our Malaysian Outlook and Strategy outlined below.

Our view in Issue 3 of the newsletter was that Malaysia's economic health is relatively better than in 1997 and that the larger explanation for the weakness of the Malaysian Ringgit has to do with the unprecedented political uncertainty and the vulnerable capital position of the country due to the problems of 1MDB.

Why are we calling for a better performance for our Malaysian Ringgit? The reasons are simple; (1) Our Prime Minister Najib appears to have consolidated his position and (2) The sale of Edra (power assets) and potentially also the sale of real estate from 1MDB to foreign investors. Therefore, the two issues pressuring the Ringgit are no longer the thorns in the flesh.

FIGURE 2: THE RINGGIT AWAKENS?



SOURCE: BLOOMBERG

OUR MALAYSIAN OUTLOOK & STRATEGY 2016

In the short to medium term, the local equity market could remain choppy as foreign sellers dominate capital market ahead of potential interest rate hike in the US. Furthermore, weak sentiment after China's lower GDP projection of 6.5% for the next five years adds to the already weaker outlook for commodities and deflationary concerns in Europe and Japan.

Key dampeners in 2016 are continued disappointment in corporate earnings, the vulnerability of the Ringgit, unexpected monetary tightening, further correction in commodity prices and global economic and geopolitical tension in the Middle East.

Thus, we are still maintaining our cautious stance regarding the direction of the local stock market and our investment strategy is still skewed towards defensive, value and situation stocks. Nevertheless, any sell-down in the stock market will be good opportunities to accumulate good quality names for the medium to long-term.

SARAWAK STATE ELECTIONS

The Sarawak state elections are due by mid-2016. We expect that CM Adenan could potentially call for state elections earlier than expected.

In the latest polls in 2011, the ruling coalition BN won 55 seats out of 71 seats or 77% of the Sarawak state seats, preserving BN's two-thirds majority, with 55% of the popular vote. Although Sarawak's population is only 2.5 million or 9% of Malaysia's population, there are 31 parliamentary seats in Sarawak or a disproportionately high 14% of Malaysia's total.

Based on our analysis on the performance of Taib-linked stocks (Cahaya Mata Sarawak, Naim Cendera, Ta Ann, Dayang, SIG Gases, Sarawak Cable) and the Tiong-linked stocks (Jaya Tiasa, Subur Tiasa and Media Chinese) during the 16 April 2011 and the 20 May 2006 state elections, we conclude that in general, these stocks outperform 1, 3 and 6 months before the state elections, but beware, most underperform thereafter.

SELECTED HOLDINGS

FIGURE 3

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2015	EPS (\$) 2015	GROWTH (%) 2015	P/BVPS 2015	DY (%) 2015
CAHAYA MATA SARAWAK *	CMS MK EQUITY	5.13	23.5	0.2	1.9	2.8	1.7
SYARIKAT TAKAFUL*	STMB MK EQUITY	3.73	19.8	0.2	8.7	4.9	1.9
QL RESOURCES**	QLG MK EQUITY	4.21	24.1	0.2	14.4	3.3	1.0
TENAGA NASIONAL**	TNB MK EQUITY	13.04	11.1	1.2	8.3	1.4	2.2

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 14/12/15)

Footnote:

* Data Based On Fiscal Year 12/2015

** Data Based On Fiscal Year 03/2016

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