

# MARKET COMMENTARY

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## CONTRIBUTOR:

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Global Islamic AUM was US\$60.65 billion at the end of 2014. Malaysia is the 2<sup>nd</sup> largest domicile after Saudi Arabia, making up 30.7% of this AUM.

Malaysia was the fastest growing market in 2014, and also accounted for 47% of the US\$2.27 billion raised worldwide.

Read on to find out why we are positive on the Shariah investment momentum.

## OUR HOUSE VIEW

### US Interest Rate Hike Uncertainty Over, All Eyes On China Now

- The US interest rate normalisation cycle has begun. Our central view remains that of a benign interest rate upcycle. Short-term volatility should eventually give way to a more steady state.
- Our China base case is for reflationary policies to take hold over the economy over the next three to six months. Meanwhile supply side reforms will likely be a transitory pain necessary to anchor the economy on a more sustainable structural recovery.
- The Asian economic outlook 2006 should be an improvement after a wretched 2015. The low base effect, whether economic data-points or the equity market correction, should help make 2016 comparison more benign. This benign backdrop will be augmented by better policy support and therefore constructive for equity market performance.
- We expect Malaysia's equity performance to remain volatile and the Ringgit to persist on a depreciating path going forward, due to prevailing global uncertainties. The weakening Ringgit would be amplified if the foreigners decide to liquidate in a big way. Global funds have pulled RM18.4bn from Malaysian equities and RM12.3bn from debt market in 2015. Despite the Fed's move, we expect that BNM will maintain OPR at 3.25% throughout 2016.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.12.15	1 MTH (% change)	YTD 2015 (% change)	PER 2015
D. JONES	17,603.9	-0.7	-1.2	14.0
NASDAQ	5,065.9	-0.8	7.0	27.3
DAX	10,743.0	-5.6	9.6	19.9
KLCI	1,693.1	1.3	-3.9	17.2
USD / MYR	4.29	0.7	22.7	-

SOURCE: BLOOMBERG (AS AT 30/12/2015)



CARTOON BY: B. RICH (HEDGEYE)

## AT THE CUSP OF A SHARIAH INVESTMENT BOOM

**"EPF WILL OFFER ITS MEMBERS A SHARIAH-COMPLIANT INVESTMENT OPTION IN 2017. THIS WILL CREATE THE LARGEST SHARIAH FUND OF ITS KIND IN THE WORLD."**

**PRIME MINISTER NAJIB RAZAK (23<sup>RD</sup> APRIL 2015)**

### QUICK FACTS – DID YOU KNOW...

- The global Muslim population is 23.4% of the world's population in 2010 and is forecasted to grow at twice the rate of the non-Muslim population over the next two decades.
- The Muslim population is also very young, with people under the age of 30 making up 60% of the population in Muslim majority countries.

SOURCE: CIA WORLD FACTBOOK

### Shariah Investing Is Already A Fast Growing Market Yet Still Underpenetrated

Islamic AUM of FMCs grew 23.2% CAGR 2009-2014, outstripping the total industry AUM CAGR growth of 13.7%. As a percentage of the Malaysian stock market capitalization, Islamic AUM is still only 6.7% as at end 2014.

**FIGURE 2: MARKET SHARE FOR ISLAMIC AUM IS STILL SMALL & WILL GROW**

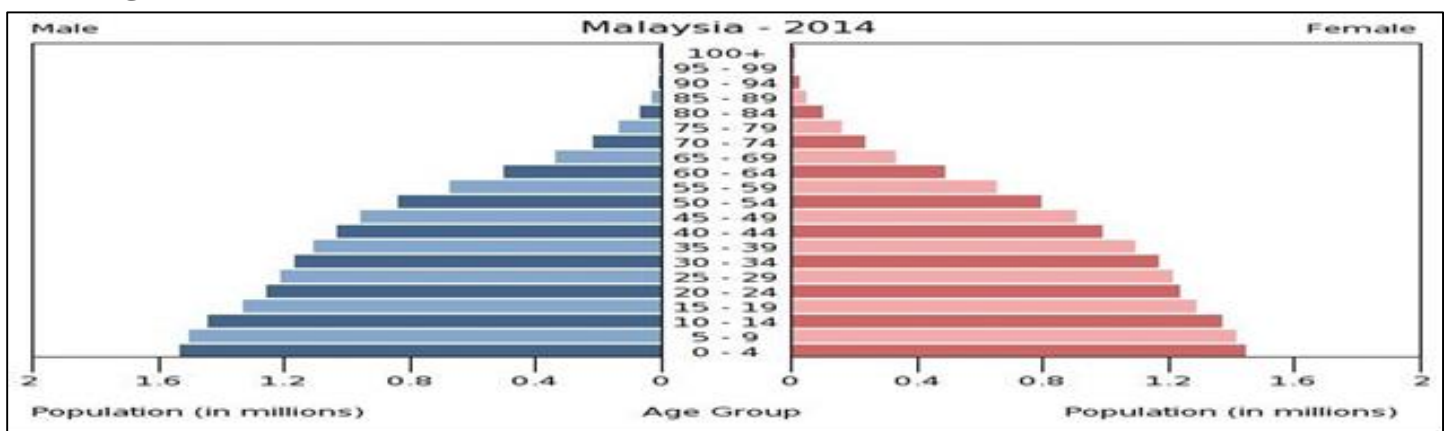
	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	CAGR
<b>Islamic Assets Under Management (AUM)</b>							
Islamic AUM of FMCs (MYR b)	NA	48.0	64.2	79.6	97.5	110.6	23.2%
Total industry AUM (MYR b)	NA	377.5	423.6	505.1	588.4	630.0	13.7%
% of Islamic AUM to total industry AUM	NA	NA	15.2%	15.8%	16.6%	17.6%	
<b>Malaysia equities market cap (MYR b)</b>							
Malaysia equities market cap (MYR b)	999.5	1,275.3	1,284.5	1,465.7	1,702.2	1,651.2	
% of Islamic AUM to total Malaysia market cap		3.76%	5.00%	5.43%	5.73%	6.70%	

SOURCE: MAYBANK IB RESEARCH

### Institutional Money The Beginning Of The Next Wave

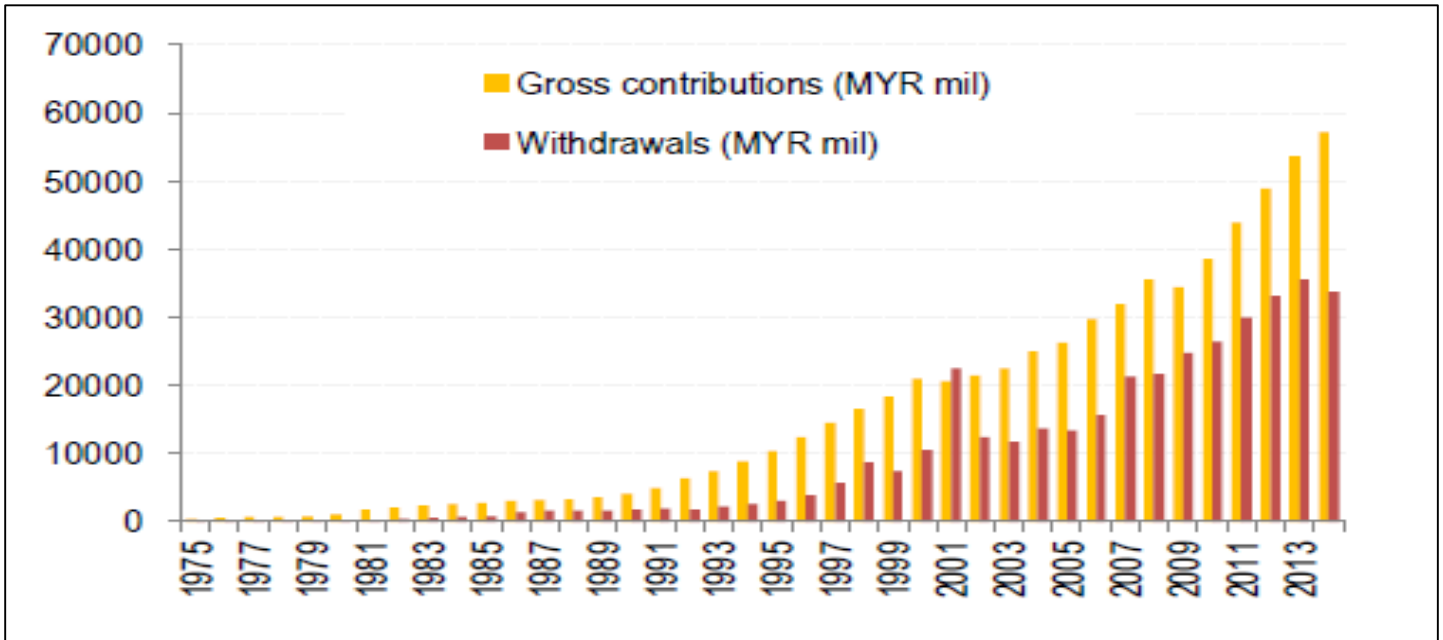
Demographic profile of Malaysia – young, growing, more educated, and more affluent - points to a more influential EPF in the future. The 18<sup>th</sup> May 2015 results of an EPF member consultative exercise indicated that 71% of respondents are in support of a switch to a Shariah-compliant investment savings program.

**FIGURE 3: THE MALAYSIAN POPULATION IS STILL VERY YOUNG**



SOURCE: CIA WORLD FACTBOOK (UPDATED 30/06/15)

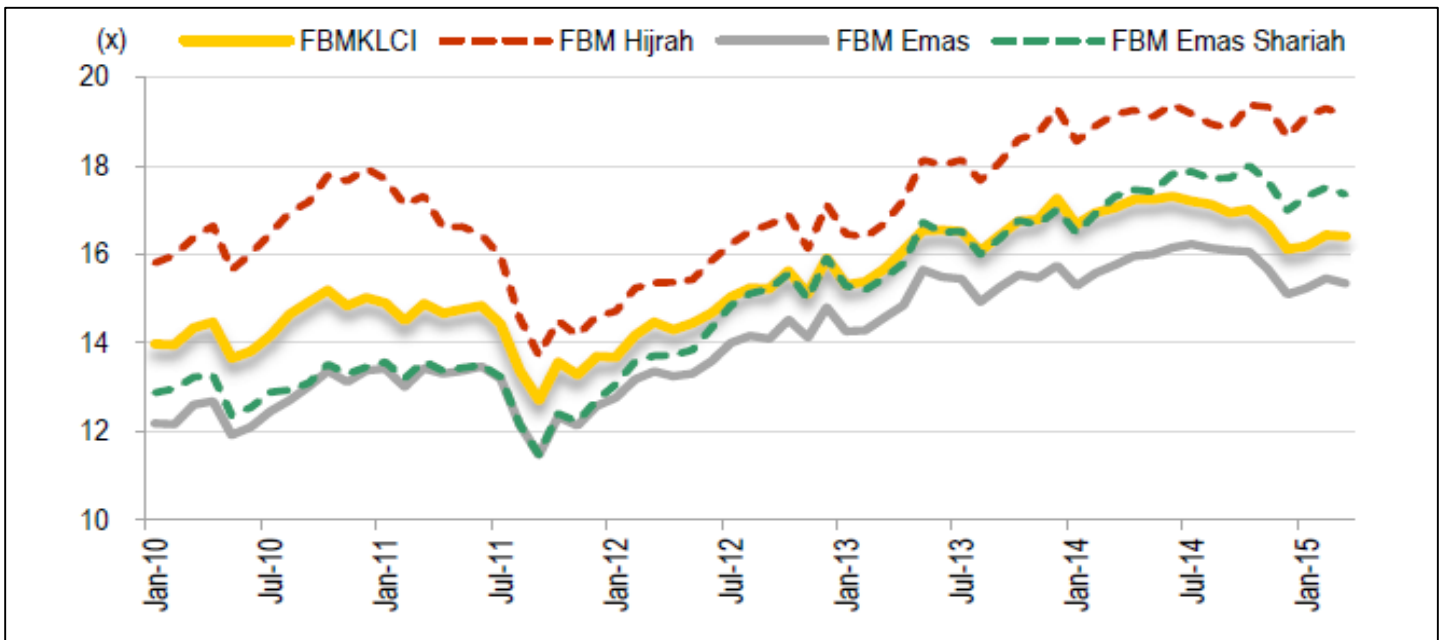
**FIGURE 4: EPF MEMBER CONTRIBUTION WILL INCREASE EXPONENTIALLY ON THE BACK OF THIS YOUNG POPULATION**



SOURCE: BANK NEGARA MALAYSIA, MAYBANK KE

**Shariah Indices On Malaysian Bourse Likely To Continue Outperformance**

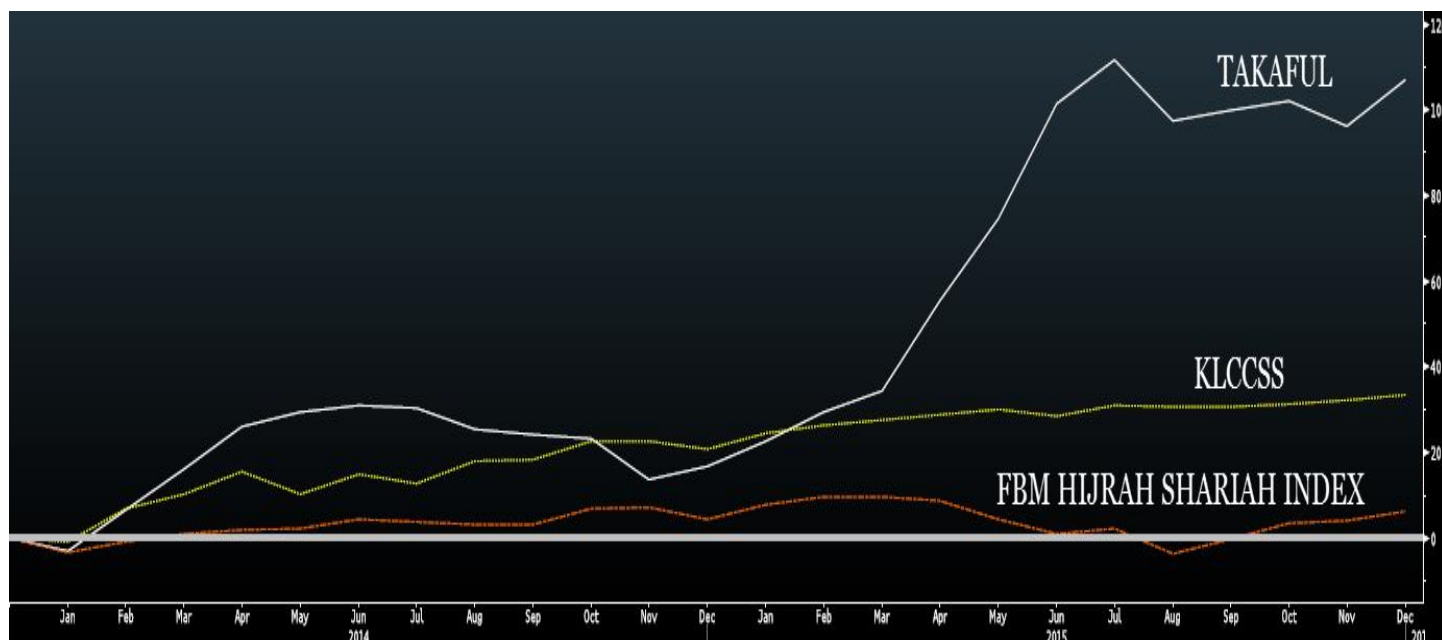
**FIGURE 5: SHARIAH STOCKS PROMINENCE TO DRIVE THE MARKET**



SOURCE: MAYBANK KE

**Financials, While A Smaller Composition Of The Index Is Likely To Enjoy Scarcity Value Due To The Limited Number Of Names Available For Investment**

**FIGURE 6: TAKAFUL & KLCCSS RELATIVE OUTPERFORMANCE OVER THE FBMHS INDEX**



SOURCE: BLOOMBERG (AS AT 31/12/15) [KLCCSS = KLCCP STAPLED GROUP]

**SELECTED HOLDINGS**

**FIGURE 7**

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2015	EPS (\$) 2015	GROWTH (%) 2015	P/BVPS 2015	DY (%) 2015
SYARIKAT TAKAFUL	STMB MK EQUITY	3.84	20.41	0.19	8.67	5.33	3.74
BIMB	BIMB MK EQUITY	3.80	11.62	0.33	-8.15	1.79	3.22
KLCCP STAPLED GROUP	KLCCSS MK EQUITY	7.00	18.04	0.39	-25.38	1.21	4.81

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 20/01/16)

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