

MARKET COMMENTARY

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Earlier, investors were concerned that the Malaysia government wasn't been pragmatic with its earlier Budget in the midst of a crude oil price collapse but the revised Budget should instil some confidence.

We see some opportunities for us from this revised Budget.

OUR HOUSE VIEW

Fear Is a Contagion, Certainty Needed To Stabilize Market

- Fear is spreading fast; bubble-ish Wall Street, Euro bank concerns, on top of worries over China's credit binge. Market volatility is likely to persist without any clarity on all the three issues.
- The US Fed may be pressured to delay a likely rate hike in March 2016. A weakening of the crowded long US Dollar trade may provide some reprieve for emerging equity markets.
- China remains a challenging environment. Our base case is still for reflationary policy to take hold in the next three to six months. However, there is a lack of confidence.
- A potentially weak US Dollar will give Asian Central Banks more room and confidence to ease monetary policy more aggressively. This, combined with a reflating China, is a potent recipe for emerging market recovery.
- Likewise, these current uncertainties will continue to magnify the volatility of the Malaysian equity and currency markets. We remain vulnerable should foreigners decide to liquidate in a big way as they did in 2015.



CARTOON BY: HEDGEYE

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 29.01.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	16,466.3	-6.5	-6.5	14.5
NASDAQ	4,614.0	-8.9	-8.9	37.1
DAX	9,798.1	-8.8	-8.8	20.1
KLCI	1,667.8	-1.5	-1.5	17.8
USD / MYR	4.15	-3.3	-3.3	-

SOURCE: BLOOMBERG (DATA AS AT 29/01/16)

REVISED MALAYSIA BUDGET 2016, CLARITY BREEDS CONFIDENCE

To Be Or Not To Be?

Finally on the 28th January 2016, Prime Minister Datuk Seri Tun Najib Razak announced a revised Budget 2016, barely 3 months after the original Budget 2016 in October 2015. This recalibration was essential following a continuous slump in crude oil prices that threatened to push the original projected fiscal deficit from 3.1% of GDP to 3.5% of GDP.

The revised Budget is based on the key assumption that crude oil price will remain between the range of US\$30-35 per barrel for the year 2016, against the original assumption of US\$48 per barrel.

FIGURE 2: MALAYSIA 2015 REVISED BUDGET TARGET

	January 2016 Target	October 2016 Target
Oil Price (USD/Barrel)	30-35	48
GDP	4.0%-4.5%	4.0%-5.0%
Budget Deficit	-3.1%	-3.1%

SOURCE: MINISTRY OF FINANCE (MALAYSIA)

Revised Budget Focuses On Increasing Welfare Of Malaysians

Which are the parts of the revised Budget relevant for us?

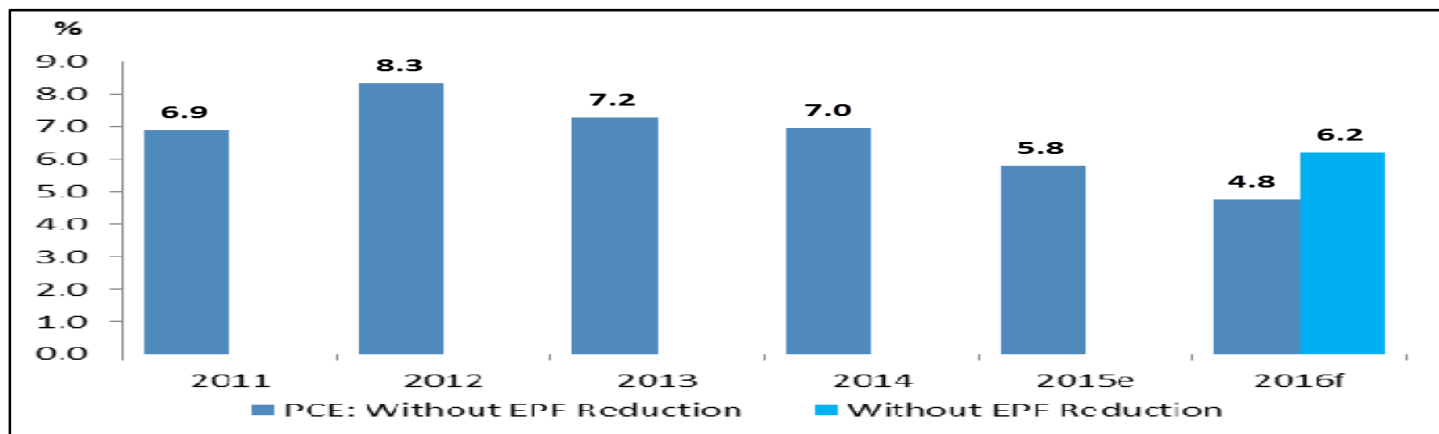
FIGURE 3: 2016 BUDGET RECALIBRATION

No.	Restructured & Recalibrated Measures
1	The Government agrees to reduce the employees' contribution to the Employees Provident Fund (EPF) by 3% beginning March 2016 to December 2017. However, the contribution by employers will remain. This measure is expected to increase private consumption expenditure by RM8 billion a year.
2	The Government will provide a special tax relief of RM2,000 to individual taxpayers with a monthly income of RM8,000 or below for the year of assessment 2015. Through this measure, although the Government will forego revenue of RM350 million, it will provide individual tax savings of up to RM475 which will benefit two million taxpayers.

SOURCE: MINISTRY OF FINANCE (MALAYSIA)

How significant is the impact? According to TA Securities, the reduction in EPF contribution is expected to increase private consumption expenditure by RM8bn, pushing up consumption growth from the earlier projected +4.8% yoy to +6.2% yoy.

FIGURE 4: PRIVATE CONSUMPTION GROWTH ESTIMATION WITH & WITHOUT EPF REDUCTION RATE

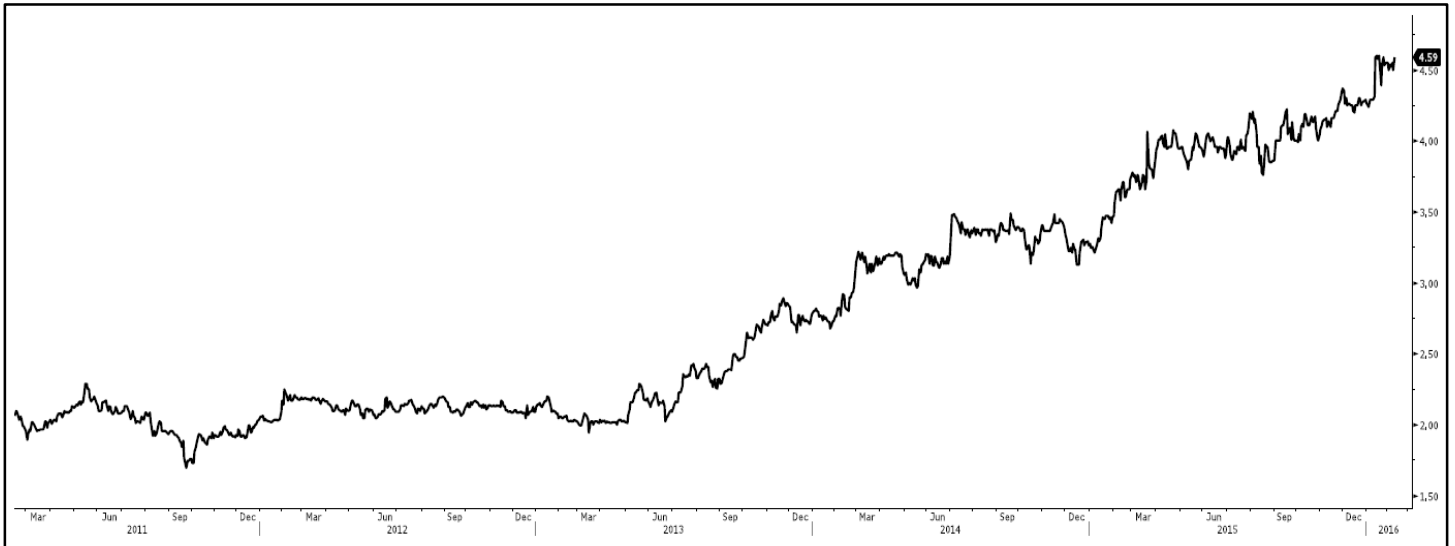


SOURCE: DOS, TA SECURITIES

Who Benefits?

These changes are low hanging fruits to put more money in the pocket of consumers. In particular, mid income earners are the largest beneficiaries as these 'savings' are a larger percentage of their take-home pay. In term of sectors, the retail and F&B subsectors are likely to benefit. Companies such as QL Resources Bhd, Spritzer, & Nestle.

FIGURE 5: QL RESOURCES BERHAD



SOURCE: BLOOMBERG (DATA AS AT 12/02/16)

Will The Ringgit Recover?

If the Malaysian government is able to execute this Budget and keep the deficit within target, we should expect the Malaysian Ringgit to better reflect the improving economic fundamentals. Already, even in the midst of this global equity market meltdown, the Malaysian Ringgit has risen against the US Dollar.

FIGURE 6: USD/MYR



SOURCE: BLOOMBERG (DATA AS AT 12/02/16)

SELECTED HOLDINGS

FIGURE 7

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2016	EPS (\$) 2016	GROWTH (%) 2016	P/BVPS 2016	DY (%) 2016
QL RESOURCES	QLG MK EQUITY	4.50	25.86	0.17	13.73	3.54	0.94
SPRITZER	SPZ MK EQUITY	2.34	11.70	0.20	20.48	1.41	2.14
NESTLE	NESZ MK EQUITY	75.00	27.34	2.74	7.45	20.89	4.07

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 16/02/16)

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