

# MARKET COMMENTARY

July, 2016 / Issue 12

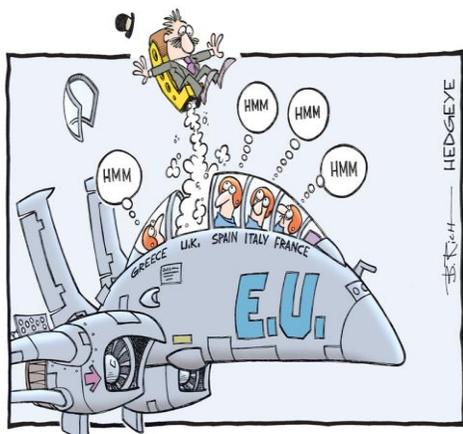
## CONTRIBUTOR:

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Crisis affords opportunities.

We have been cautious but as we envisage a stabilizing environment in the second half of the year, our cash buffer presents us with the opportunities to rebuild on our equity position.



CARTOON BY: HEDGEYE

## OUR HOUSE VIEW

### Time To Be Incrementally Constructive On Equity Markets

- The EU's Maastricht constraint is now truly globalised, manifested in the US Fed's own monetary inaction. The US economic recovery might be patchy but nowhere near recessionary either. Market volatility aside, this is not necessarily a negative outcome for Asia. In this world of heightened uncertainty, the relative certainty might well be the economic recovery coming through in Asia.
- The fundamental investment case for Asia has largely been obscured by unprecedented currency weakness as capital exit the region. Our view is that the US Dollar-Asian currency cross-rates are likely to be stable going forward, allowing economic and corporate fundamentals to come to the fore.
- Signs of green shoots are unfolding, the positive lagged impact from the combination of easier monetary conditions and fiscal stimulus. Corporate earnings are likely to have bottomed out in the first half of 2016 with potential for upside surprises.
- Nonetheless, the FBM KLCI may remain volatile against the backdrop of overbearing external uncertainties that could undermine Malaysia's modest economic growth and corporate profits. Softer external demand, renewed weakness in commodity prices, especially crude oil and gas, and the Malaysian Ringgit are the factors we need to monitor closely.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.06.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	17,930.0	0.8	1.9	17.6
NASDAQ	4,842.7	-2.1	-4.4	31.8
DAX	9,680.1	-5.7	-9.9	22.0
KLCI	1,654.1	1.7	-2.3	18.4
USD / MYR	4.03	-2.4	-6.1	-

SOURCE: BLOOMBERG (AS AT 30/06/2016)

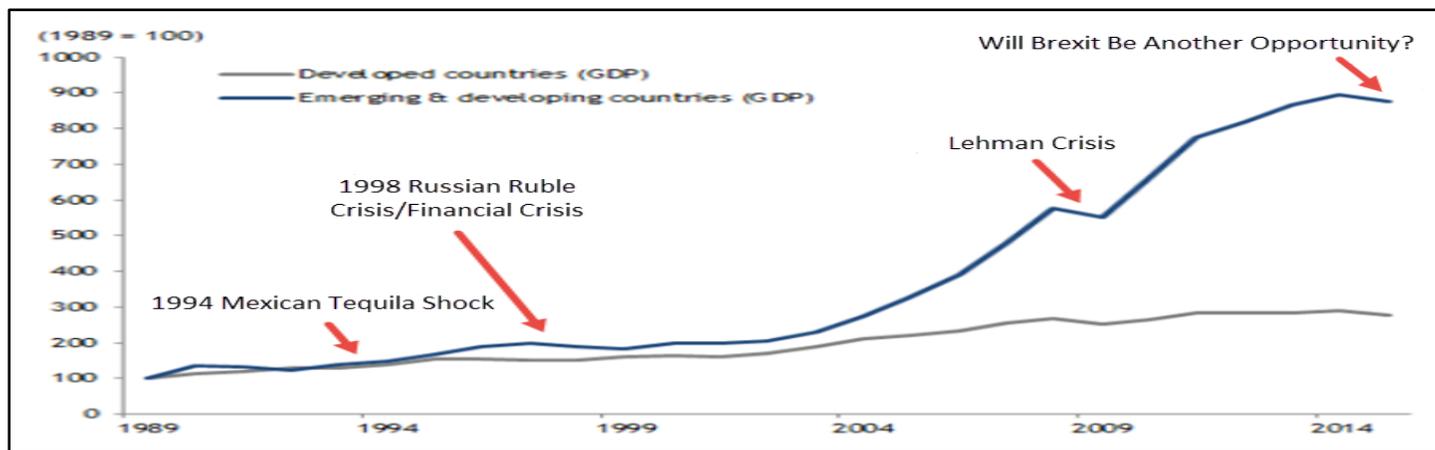
## BREXIT – OPPORTUNITIES ARISE OUT OF CRISIS

*“The future is never clear. You pay a very high price in the stock market for a cherry consensus. Uncertainty is the friend of the buyer of long-term value.” Warren Buffett*

### The Long View

Will Brexit be Asia’s next great investment opportunity? Looking back, the Asian and Lehman Financial Crisis had looked like the end of the World at those points in time but now, mere blips in the grander scheme of things.

FIGURE 2: THE BLIPS IN ASIA’S ECONOMIC GROWTH



SOURCE: IMF

### A Different Constructive Brexit View

Brexit was an event of little historical precedent. Many have found themselves easily caught by the emotional responses immediately after this historic vote for the UK to leave the Euro Union (EU). We have given ourselves time to ponder through the various commentaries and reaction of the markets. We do acknowledge that the process will be fraught with uncertainties and the corresponding risks and volatility for equity markets.

### Stating The Facts

We heard a lot of tough talk.

However, critically on 2<sup>nd</sup> July, the foreign ministers of the so-called EU Original 6 members consisting of Germany, France, Italy, Luxembourg, Belgium, and the Netherlands, issued an unusual joint statement, acknowledging the need to recognize the different levels of ambitions for Member States and the need to find better ways to deal with these different levels of ambitions, and the start of a political reflection to give an impulse to further reforms.

Pushed to the brink of the cliff, there may be the likelihood for policymakers around the world to embark on more reflationary policies, especially EU member countries who will escape the shackles of EU strictures (the fate of Greece and Cyprus is bared for all to see), and this is positive news for risk assets. Nonetheless, as with the Brexit vote, we may need to be vigilant that this binary outcomes can still spook markets and necessitate a change to our view too.

### Brexit Likely To Marginally Benefit Asian Equities

In truth, the economic impact will only hit us, upon UK’s successful exit negotiation from the EU, and this may well take the greater part of two years. In the meantime, whoever takes over the political helm, including the Bank of England, will push

through whatever necessary policies to cushion the negative repercussions when they do come. Clearly, any acrimonious separation from the EU would almost tether the UK into a recessionary scenario, with resultant fall-out over the entire EU, as well as the global environment.

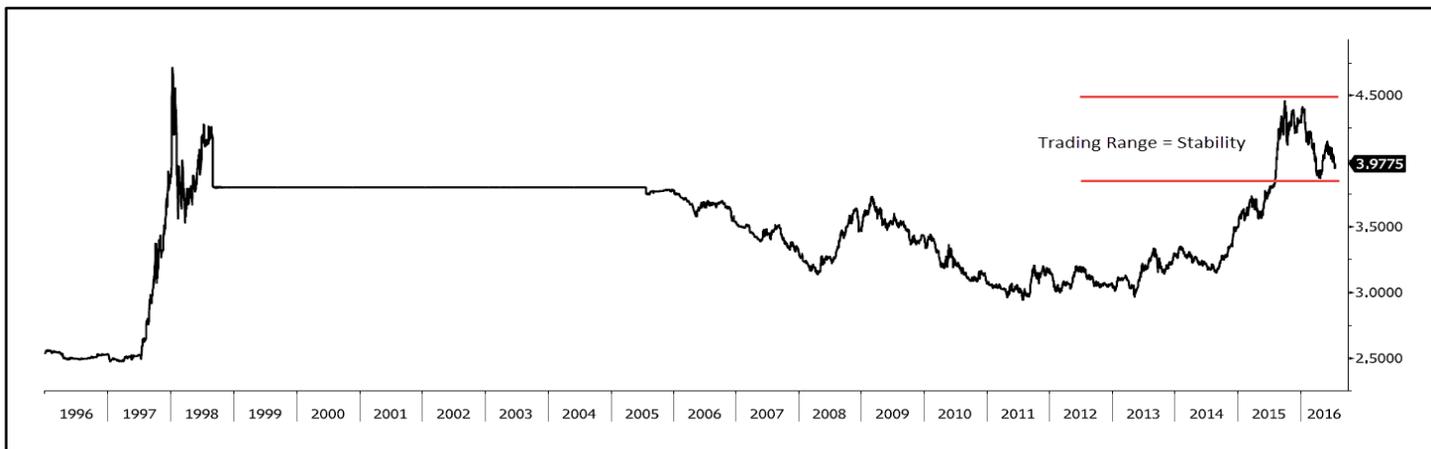
We believe that potential capital flows out of the UK and potentially even from the EU is more likely to gravitate toward Asia. The reasons are fundamentally simple; (1) Asian economies are bottoming-out and on a path of recovery in 2016, (2) Asian Central Banks have room for both monetary easing and fiscal priming supporting growth (BNM just cut its OPR), and (3) a flatter US monetary normalizing trajectory is supportive of Asian currencies, all factors for a virtuous investment cycle.

It will also be the case, on the flip side, that any alternative benign resolution of this UK-EU saga against the gloom of naysayers should also be positive for global economic stability and even growth momentum, benefitting Asia as the world manufacturing oasis, for both consumer and industrial products.

### **Strengthening Ringgit And Supportive Bond Market**

In our last issue of the Newsletter Issue 11, we were hopeful of a stabilising Malaysian Ringgit, not a bad thing considering the heightened volatility we have experienced in recent times. The Malaysian Ringgit has recovered post the Brexit aftermath and appears to be trading in a nice band.

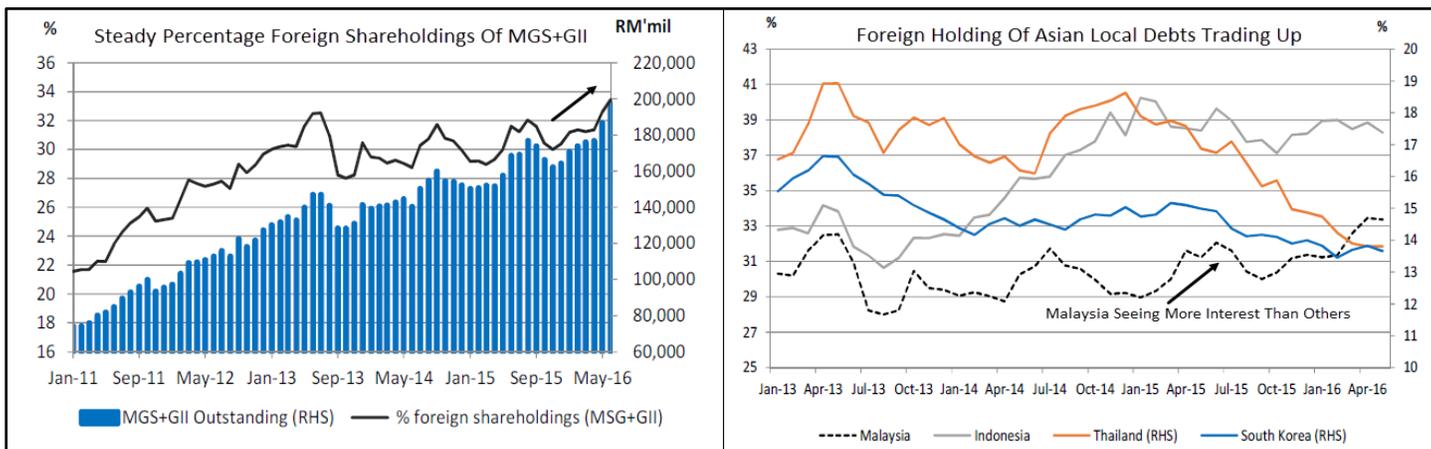
**FIGURE 3: USD/MYR CHART (1996 – 2016)**



SOURCE: BLOOMBERG (DATA AS AT 18/07/2016)

Meanwhile, as highlighted also in Issue 9, we continue to see strong interest in Malaysian debt market. In fact, Malaysia's bond market has benefitted more than its neighbours!

**FIGURE 4: STRONG FOREIGN INTEREST IN MALAYSIAN BONDS**



SOURCE: BNM/FAST/VARIOUS/AMBAK GROUP

## **Strategy For Second Half 2016**

In Issue 9 of our Newsletter, we discussed at length the decision then to gravitate our portfolio away from US Dollar benefitting exporters towards domestic consumption plays. This change in investment strategy has helped us to avoid the share price fall-out of many exporter names, most notably the rubber gloves industry.

We remain fundamentally focused, paying particular attention to quality companies with industry leading positions and strong management track records. Many of the names we hold in the portfolios are those that are relatively immune to negative Brexit effect.

Three-A Resources Bhd is a market leader in F&B ingredients, supplying a variety of intermediate food products to F&B MNCs, the likes of global brandnames such as Nestle, Coca-Cola, and Lee Kum Kee.

Spritzer Bhd, the biggest bottled water company in Malaysia, engages in the production of mineral water, distilled water, drinking water and carbonated flavoured water.

Both the companies mentioned above, supply consumer necessities and are less exposed to the UK/EU.

Any sell-off in these names would be due to negative market sentiment irrelevant to their specific fundamentals giving us the opportunities to add more to our positions.

## **SELECTED HOLDINGS**

**FIGURE 5**

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2016	EPS (\$) 2016	GROWTH (%) 2016	P/BVPS 2016	DY (%) 2016
YTL HOSPITALITY REIT	YTLREIT MK EQUITY	1.09	13.63	0.08	11.10	0.73	7.34
SPRITZER	SPZ MK EQUITY	2.39	11.95	0.20	20.48	1.44	2.09
THREE-A	TARE MK EQUITY	1.38	19.08	0.07	N/A	2.16	1

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 18/07/2016) & AISB

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