

MARKET COMMENTARY

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There are valid reasons to be cautious again this year on the Malaysia equity market after three straight years of negative performances.

Nevertheless, despite all the negative factors/news surrounding the local stock market, it has remained relatively resilient, as we believe that most of the negatives have already been priced in by investors.

OUR HOUSE VIEW

Beginning Of Emerging Over Developing Market Outperformance?

- The US equity market remains on its modest upward trajectory but yet Treasury market has reversed some losses and the US Dollar has also lost some ground. Post Trump's inauguration, profit taking and a dose of realism may be taking ground. Rhetoric aside, investors are likely to want to see some concrete execution before committing more funds.
- As our global economic thesis pick-up crystallises, our Asian economies that were already coming off their own adjustments have seen this leg of recovery potentially magnified by President Trump's big fiscal push. As argued in our previous newsletter, Asian equity markets and currencies are finally reflecting their fundamentals.
- More importantly, the earnings results season now underway has thrown up more positive than negative surprises. This reflationary trend, portends to further earnings growth momentum, key to valuations that should sustain the equity market upturn.
- The FBM KLCI enjoyed strong double-digit gains, sparked by strong buying commitment from local funds, with buying momentum spilling over to small caps and oil & gas related penny stocks on the back of firmer ringgit and crude oil price trend. This positive trend is expected to continue in short term.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 31.01.17	1 MTH (% change)	YTD 2017 (% change)	PER 2017
D. JONES	19,864.1	0.5	0.5	18.9
NASDAQ	5,614.8	4.3	4.3	34.1
DAX	11,535.3	0.5	0.5	18.1
KLCI	1,671.5	1.8	1.8	17.3
USD / MYR	4.43	-1.3	-1.3	-

SOURCE: BLOOMBERG (AS AT 31/01/2017)



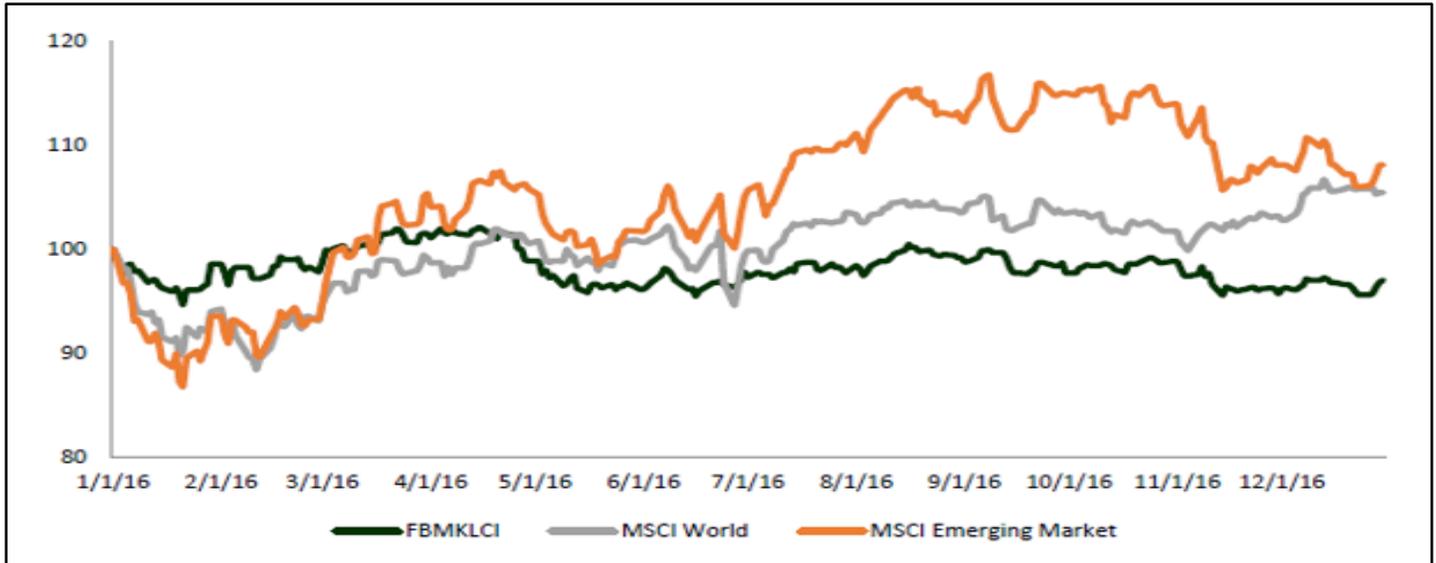
CARTOON BY: HEDGEYE

THE LOCAL STOCK MARKET HAS UNDERPERFORMED AND PERHAPS OVERSOLD?

Trading on the local bourse started the year on a positive note in line with other regional bourses. Nevertheless, on a year-to-date basis, the key barometer of Malaysia equity market is still below its 52-weeks high.

In our opinion, the following 2 factors will provide support and limit selling in the Malaysian equities market. The KLCI's 1,600 level remains a critical support level from a fundamental and technical perspective.

FIGURE 2: FBM KLCI GROSSLY UNDERPERFORMED IN 2016



SOURCE: BIMB RESEARCH

FIGURE 3: KEY INDEX PERFORMANCE LAST 1 YEAR

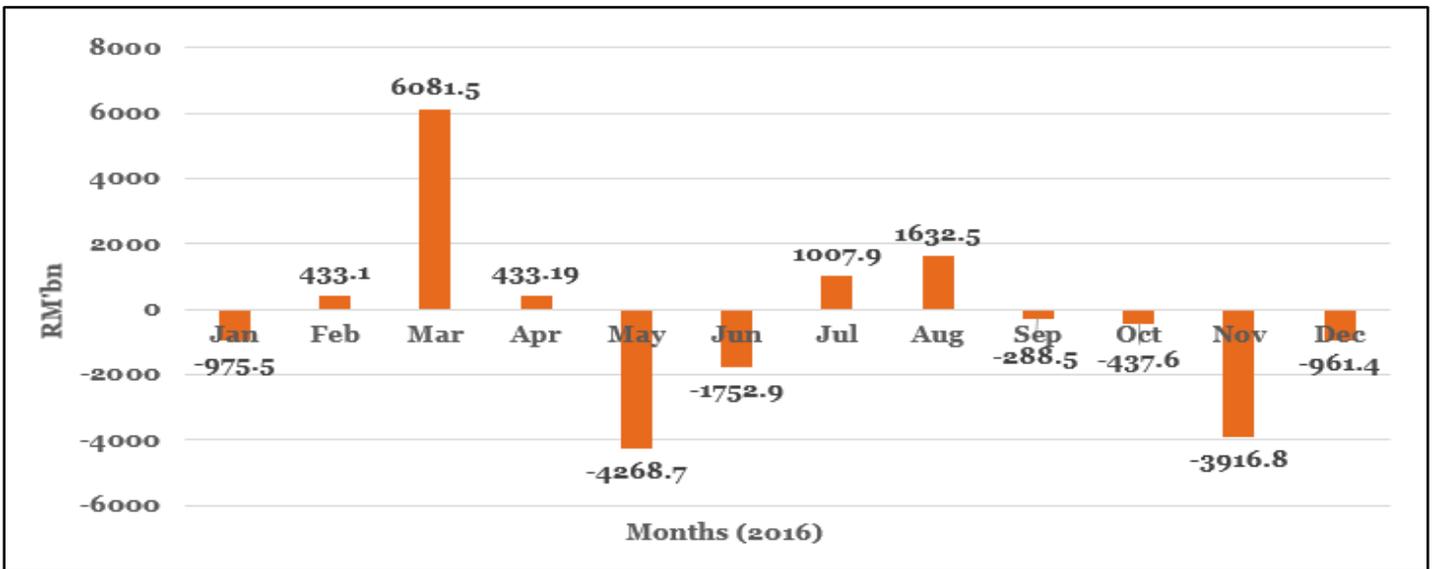
Index	Price as at 5/1/17	YTD Change %	MoM Change %	1 week change %	52 Week High	52 Week Low	% vs 52 Week High
FBMKLCI	1670.1	1.7	2.5	1.7	1729.1	1600.9	-3.4
FBMHS	13701.3	2.0	2.7	2.0	14253.0	13123.9	-3.9
FBMEMAS	11669.0	1.8	2.5	1.8	11997.1	11176.9	-2.7
FBMEMAS Shariah	12257.6	2.0	2.8	2.0	12759.9	11775.7	-3.9
S&P 500	2269.0	1.3	2.6	1.3	2277.5	1810.1	-0.4
FTSE 100	7195.3	0.7	6.1	0.7	7212.0	5499.5	-0.2
Nikkei 225	19454.3	1.8	6.0	1.8	19615.4	14864.0	-0.8
HSI	22493.5	2.2	-0.8	2.2	24364.0	18278.8	-7.7
SHCOMP	3154.3	1.6	-1.4	1.6	3363.0	2638.3	-6.2
KOSPI	2049.1	1.1	3.0	1.1	2073.9	1818.0	-1.2
STI	2962.4	2.8	0.4	2.8	2980.8	2528.4	-0.6
JCI	5348.5	1.0	1.4	1.0	5491.7	4408.8	-2.6
SET	1569.0	1.7	3.5	1.7	1574.9	1221.0	-0.4
MSCI AC World Index	429.6	1.8	3.1	1.8	429.7	351.3	0.0
MSCI AC Asia Ex. Japan Index	527.4	2.5	0.5	2.5	562.8	434.8	-6.3
MSCI Emerging Market Index	881.7	2.3	2.3	2.3	930.0	686.7	-5.2

SOURCE: APEX INVESTMENT SERVICES BHD (AISB)

The selling activities in Malaysian equities by foreigners is relatively limited due to continued disposal of shares by foreign institutions for the past 3 years. Last year, foreign institutions were net sellers of Malaysia equities amounting to RM3.9bn, and this was completely offset by domestic institutions, which were the net buyers.

For 2016, Malaysia is the only market that has net outflow, and therefore, Malaysia would have three straight years of net foreign outflows as compared to our regional peers.

FIGURE 4: FOREIGN INSTITUTIONS WERE NET SELLERS IN NOVEMBER 2016 (-RM3.9 BILLION)



SOURCE: APEX INVESTMENT SERVICES BHD (AISB)

In addition, FBM KLCI index is made up of 30 large capitalisation stocks with total market capitalisation in excess of RM1.59 trillion. Out of these 30 large capitalisation stocks, 80% are essentially controlled by government-linked-funds or government-linked-companies such as EPF, PNB, KWAP and Khazanah. EPF and KWAP have gradually increased their holding in these companies over the past few years as a result of their investment mandates.

There are advantages and disadvantages of high local equity holdings in these companies - advantages such as long-term shareholders while disadvantages such as lack of market liquidity for their shares. Furthermore, these local players are unlikely to sell-down their holdings during the current uncertainties surrounding the market.

FIGURE 5: FBM KLCI (2012 – 2017)



SOURCE: BLOOMBERG (AS AT 13/02/2017)

From a technical from of view, for the past 2 years, except for August 2015, a strong support level for FBM KLCI is seen at 1,600 level and a tight trading range in between 1,600 and 1,700 level.

SELECTED HOLDINGS

FIGURE 6

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2018	EPS 2018	GROWTH (%) 2018	P/BVPS 2018	DY (%) 2018
TENAGA NASIONAL BERHAD	TNB MK EQUITY	13.66	10.22	1.34	-0.74	1.23	2.32
MISC BERHAD	MISC MK EQUITY	7.61	15.07	0.51	4.99	0.85	3.97

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 13/02/2017)

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