

# MARKET COMMENTARY

April, 2017 / Issue 21

## CONTRIBUTOR:

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In terms of Global Islamic AUM, Malaysia is the 2<sup>nd</sup> biggest player, after Saudi Arabia, making up 40% of this AUM.

The establishment of EPF's Shariah-compliant investment option to its contributors last year will create the largest Shariah fund in the world. This development is a game changer for the country's unit trust industry and investment direction.

## OUR HOUSE VIEW

### Consolidating For a Longer-Term Sustainable Equity Market

- Asian equity markets, as measured by the MSCI Asia ex-Japan Index, returned 11.6% in Malaysian Ringgit terms, in the first quarter of 2017, possibly one of the best ever quarters of recent years. More importantly, the performance of the equity markets is being supported by an improving economic environment that has also resulted in many corporates reporting better than expected profitability.
- Post the US decision to strike at Syria, the re-deployment of a US aircraft carrier towards North Korea, has heightened geo-political tension closer to home. Asian equity markets might be due a healthy consolidation phase awaiting developments over the Korean Peninsula. Our central case remains a favourable outcome.
- In the medium to long term, we expect the current upward momentum to prolong. However, three events are expected to affect the market in 2Q2017 namely the French elections in April and May, potential shutdown of the US Government if Congress could not agree on the budget by April and the result of extending production cuts for another 6 months beyond this June in OPEC's meeting. Any significant corrections below psychological support level of 1,700 level is a good opportunity to buy.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 31.03.17	1 MTH (% change)	YTD 2017 (% change)	PER 2017
D. JONES	20,663.2	-0.7	4.6	18.8
NASDAQ	5,911.7	1.5	9.8	110.8
DAX	12,312.9	4.0	7.3	19.6
KLCI	1,740.1	2.7	6.0	17.1
USD / MYR	4.43	-0.3	-1.4	-

SOURCE: BLOOMBERG (AS AT 31/03/2017)

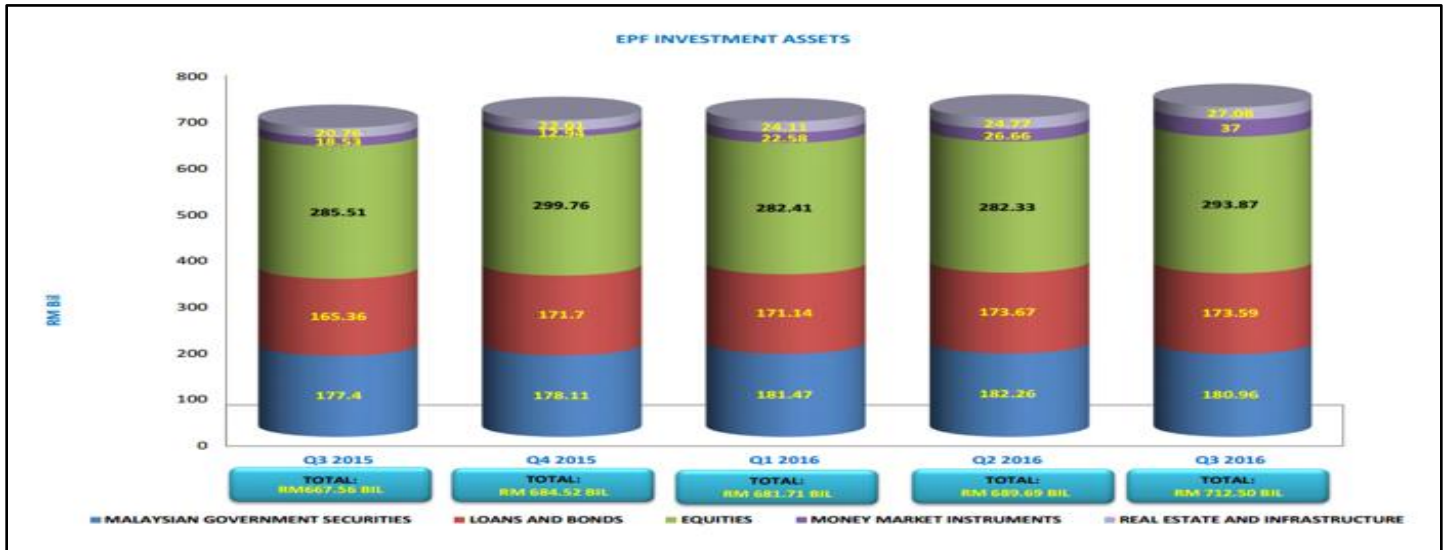


CARTOON BY: HEDGEYE

## THE CREATION OF THE LARGEST SHARIAH FUND IN THE WORLD

In April 2015, Malaysia's Prime Minister Dato Sri Najib Tun Razak announced that the Employees Provident Fund (EPF) will offer its members a Shariah-compliant investment option in 2017. Furthermore, according to him ***“this will create the largest Shariah fund in the world”***.

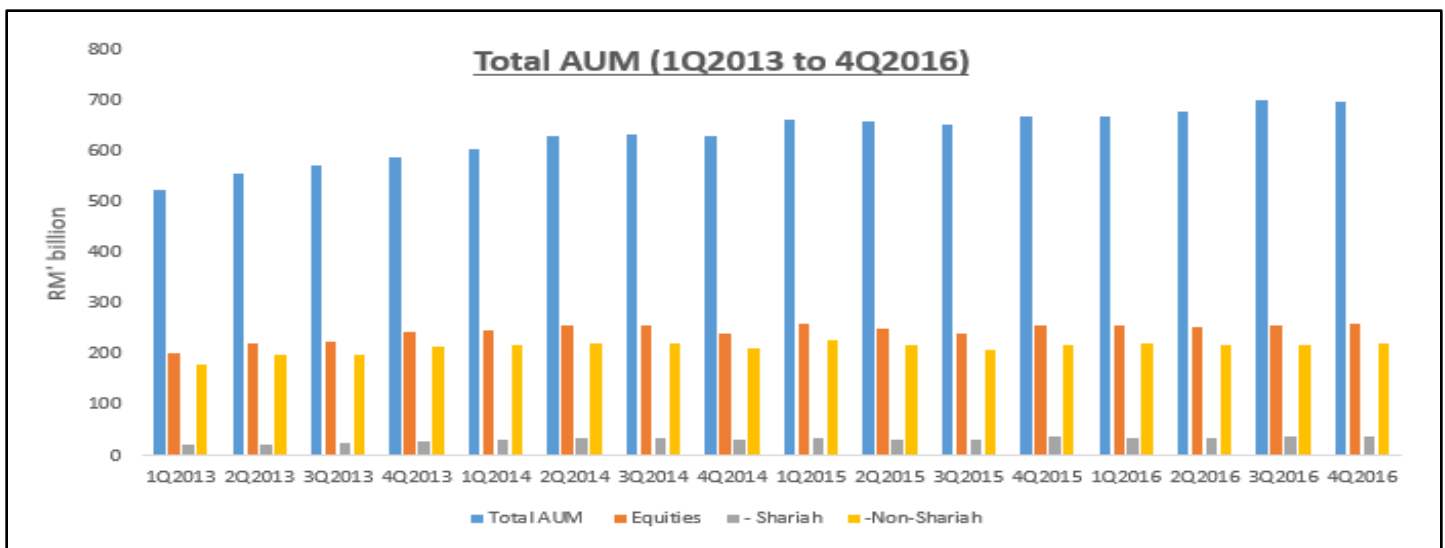
FIGURE 2: EPF INVESTMENT ASSETS



SOURCE: EPF

On 14 August 2016 (after six days registration), EPF has announced that 25% (or RM25.1 bn) from the initial allocation of RM100 bn for Simpanan Shariah 2017 has been subscribed by its investors. EPF expects Simpanan Shariah to increase by RM20bil every year.

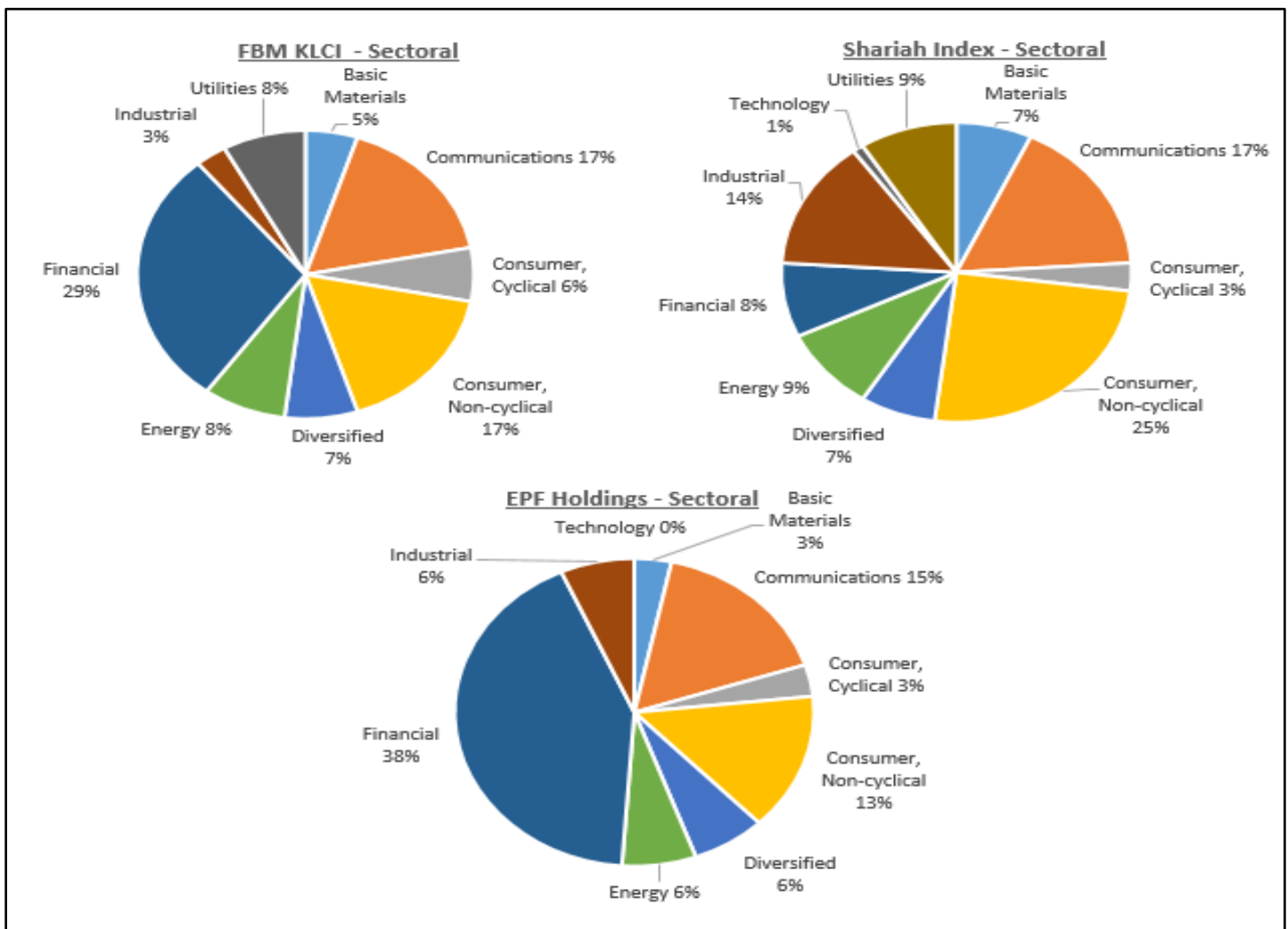
FIGURE 3: EPF's TOTAL AUM (1Q2013 TO 4Q2016)



SOURCE: EPF

As at 3<sup>rd</sup> Quarter 2016, EPF has a total AUM of RM712.5 bil, of which 52% is in fixed income and 41% in equities. The initial Shariah allocation of RM100 bil is only 14% of EPF's funds. However, this fund could expand at a rate of 20%-30% pa (if RM20-30 bn is added per annum), much faster than EPF's AUM, which has been posting an average rate of growth of 4.6% for the past 3 years. Over the long term, we believe that Shariah allocation will become increasingly significant.

FIGURE 4: SECTORAL BREAKDOWN (FBM KLCI, SHARIAH INDEX & EPF's HOLDINGS)



SOURCE: EPF & BURSA MALAYSIA

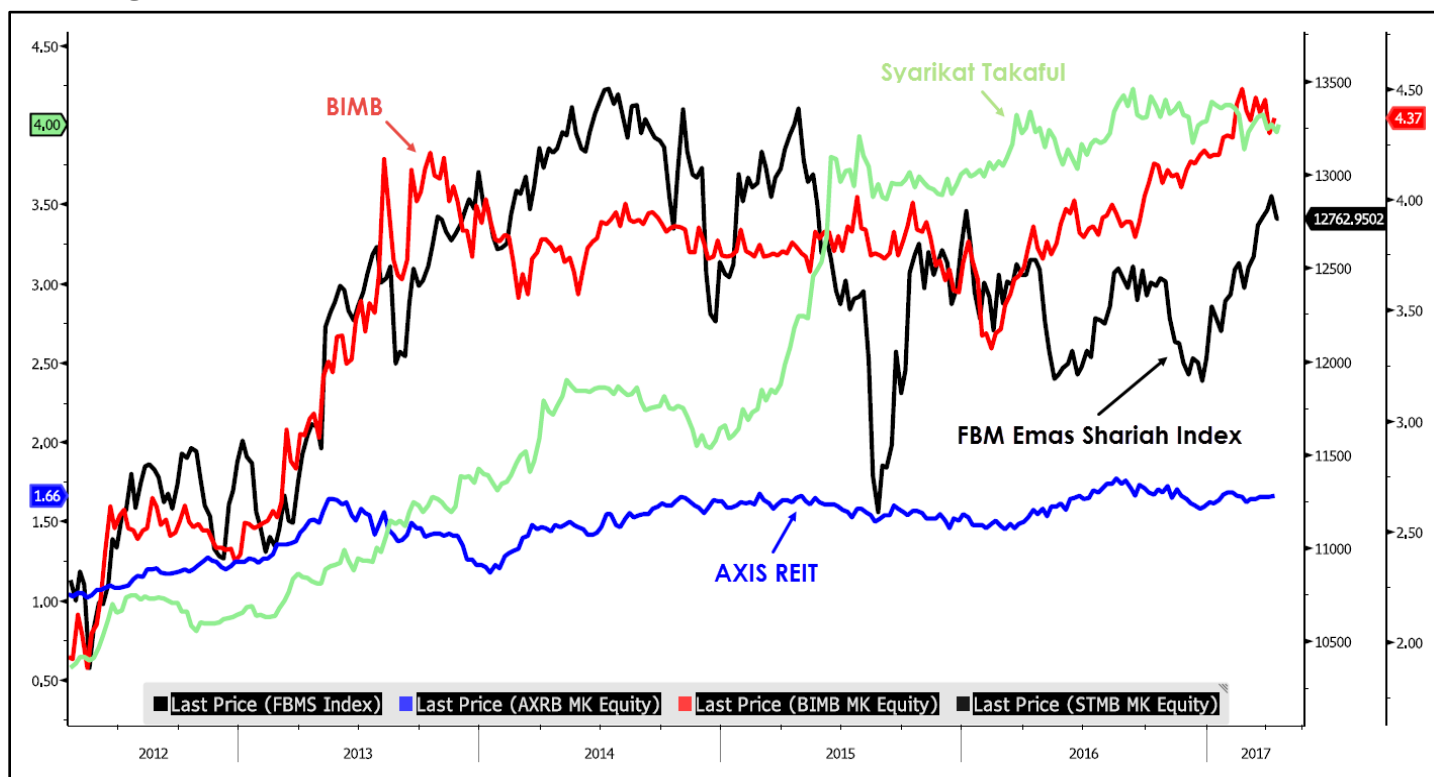
### What Does This Mean To The Country's Equity Market?

Against the backdrop of the strong take-up for the Shariah Savings fund by the Muslim population in Malaysia making about 61% of this country's total population, we expect EPF to focus more on Shariah-compliant stocks in its investment decision in medium to long terms.

As a result of this:-

- Overall, the banking sector (mostly non-Shariah) will receive less attention by the EPF for the time being, with the shift towards Shariah. Nevertheless, BIMB Bhd and Syarikat Takaful Malaysia Bhd are expected to receive more attention by the EPF as these 2 companies are the only Shariah compliant financial companies listed in this country;
- Furthermore, we expect Shariah compliant REIT-based-companies such as KLCC Staples Bhd and Axis REIT Bhd as there are limited numbers of Shariah compliant REIT companies as comparison to non-Shariah REIT-based-companies.
- Lastly, Shariah heavyweight sectors may retain their premiums. Among main big cap market cap stocks in the Shariah Index are Tenaga, IHH, Petronas Chemicals, Axiata and Sime Darby.

**FIGURE 5: FBM EMAS SHARIAH INDEX vs AXIS REIT vs BIMB vs SYARIKAT TAKAFUL**



SOURCE: BLOOMBERG (AS AT 17/04/2017)

## SELECTED HOLDINGS

**FIGURE 6**

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2017	EPS 2017	GROWTH (%) 2017	P/BVPS 2017	DY (%) 2017
AXIS REIT	AXRB MK EQUITY	1.66	18.86	0.09	-20.72	1.34	4.97
BIMB	BIMB MK EQUITY	4.37	11.68	0.37	6.25	1.67	2.97
SYARIKAT TAKAFUL	STMB MK EQUITY	3.95	16.60	0.24	10.70	5.90	3.01

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 14/04/2017)

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