

MARKET COMMENTARY

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Following on our introductory regional piece in our January 2017 edition of the monthly newsletter, we bring to our readers the first thematic idea from our regional portfolio.

Through subsequent pieces of the monthly newsletter, we hope to enlighten our readers on more of our ideas from the region.

OUR HOUSE VIEW

Still Constructive For A Longer-Term Sustainable Equity Market

- Geopolitical issues such as the nuclear provocations of North Korea, UK snap elections, the worry over the French election, or even the fading belief in the Trump stimulus, have not derailed the Asian equity market rally, even if we have seen a patchy April month.
- Monetary tightening and financial deleveraging will pressure the Chinese equity market short-term. Nonetheless, the singular commitment to sustaining quality growth, is a sharp contrast to the uncertainty of US policy communiqué. Furthermore, the improving economic environment complemented by a stellar earnings reporting season is likely to sustain equity market performance.
- The local equities market should benefit due to arising positive catalysts from renewed ringgit strength, less geopolitical tensions and Eurozone jitters following a likely victory for a euro-friendly French president. Therefore, given the improved upside potential sparked by the positive catalysts, we remain positive on the local bourse and our trading strategy for May to buying on weakness.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.04.17	1 MTH (% change)	YTD 2017 (% change)	PER 2017
D. JONES	20,940.5	1.3	6.0	18.4
NASDAQ	6,047.6	2.3	12.3	32.8
DAX	12,438.0	1.0	8.3	20.2
KLCI	1,768.1	1.6	7.7	17.5
USD / MYR	4.34	-1.9	-3.2	-

SOURCE: BLOOMBERG (AS AT 30/04/2017)



CARTOON BY: HEDGEYE

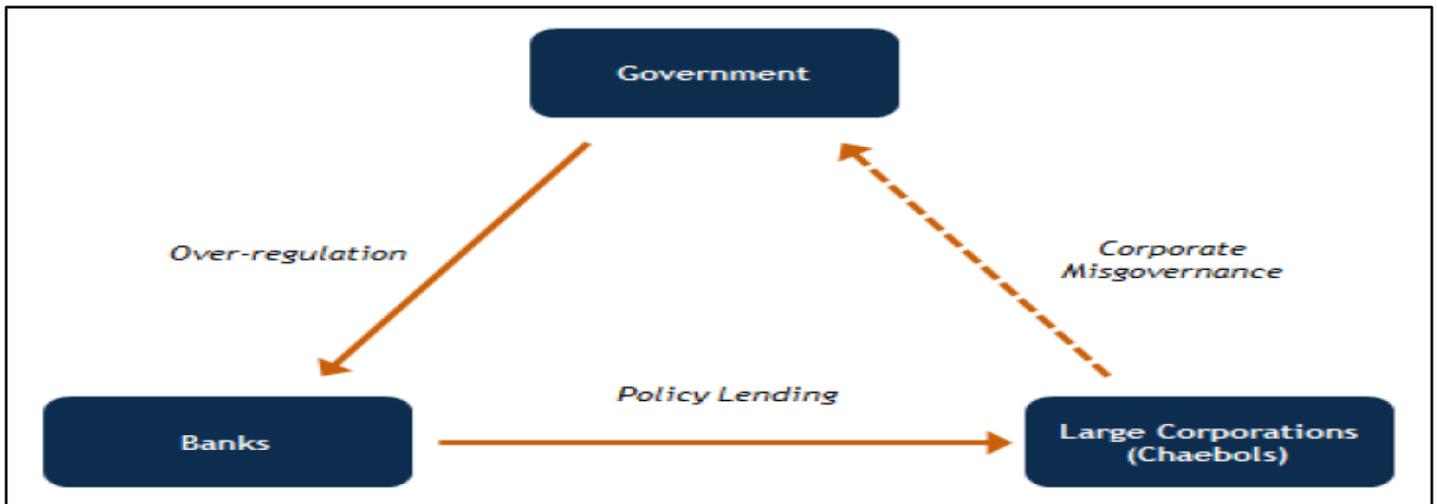
DISCOUNTING KOREA NO MORE

Dominating giants in their respective fields, why does Samsung Electronics trade at a substantial discount to Taiwan Semiconductor (TSMC)? The comparative list goes on and on, Pohang Steel (POSCO) against other leading steel producers, and Hyundai Motors against its Japanese peers Toyota and Honda Motors.

Foremost, in this so-called 'Korean Discount', is the distrust, in particular that of foreign investors, in the Korea Inc. business model, where the Korean government provided many forms of national support, mostly driven through its financial system, for its export oriented chaebols, with lofty ambitions to become global players.

The following figure depicts the existing 'unholy' relationship among the Korean government, chaebols, and Korean banks.

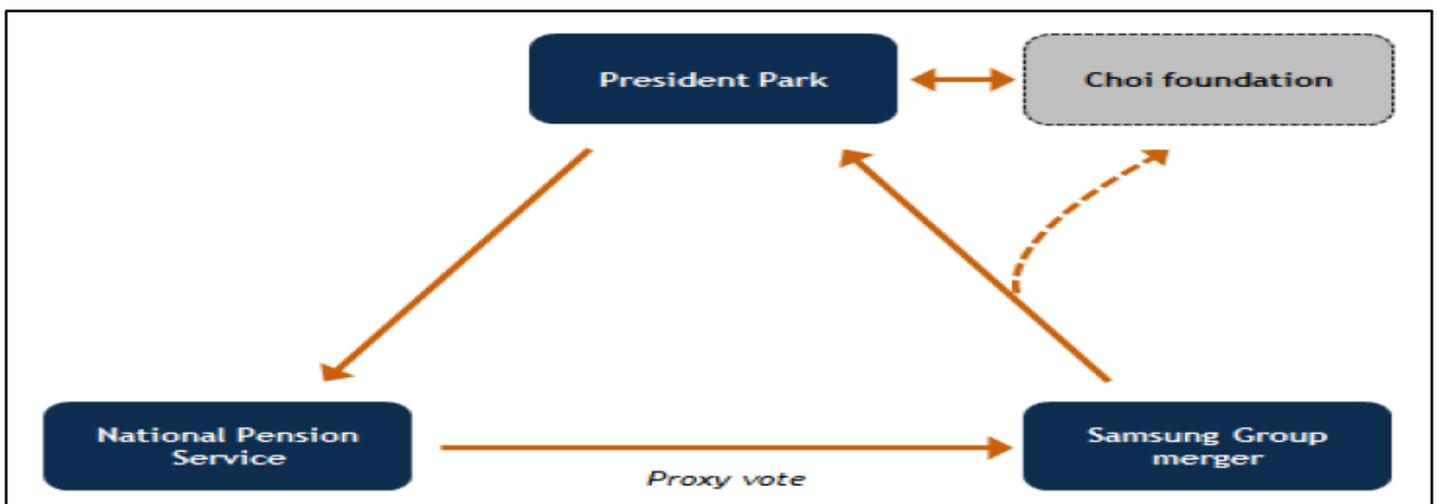
FIGURE 2: TRIANGLE BREAKING DOWN



SOURCE: MIRAE ASSET DAEWOO ALPHA STRATEGY TEAM

And, this 'unholy' trinity relationship, was compounded further by the scandal surrounding outgoing Korean President Park Geun Hye, whose close aide Choi Soon Sil, abused her unofficial personal relationship to seek for donations from several conglomerates including Samsung.

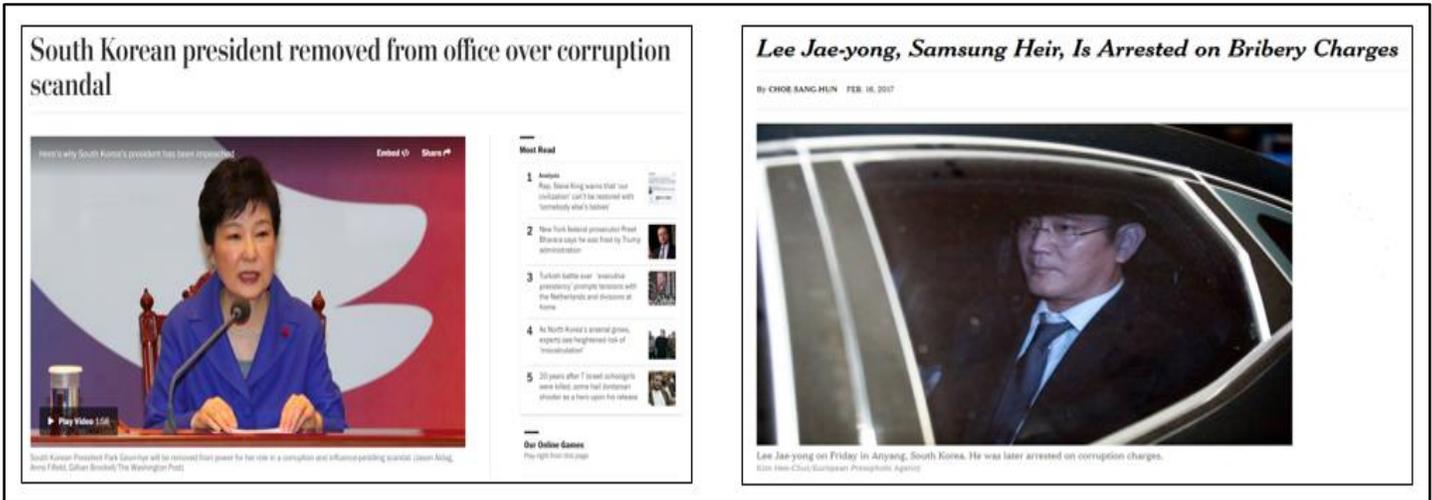
FIGURE 3: A WRONG TURN FOR PRESIDENT PARK



SOURCE: MIRAE ASSET DAEWOO ALPHA STRATEGY TEAM

The public outcry and subsequent impeachment of Park Geun Hye meant that public sentiment going forward demand that this ‘unholy’ trinity must come to an end, that there will no longer be anymore collusive relationship between the Korean government and the Korean chaebols.

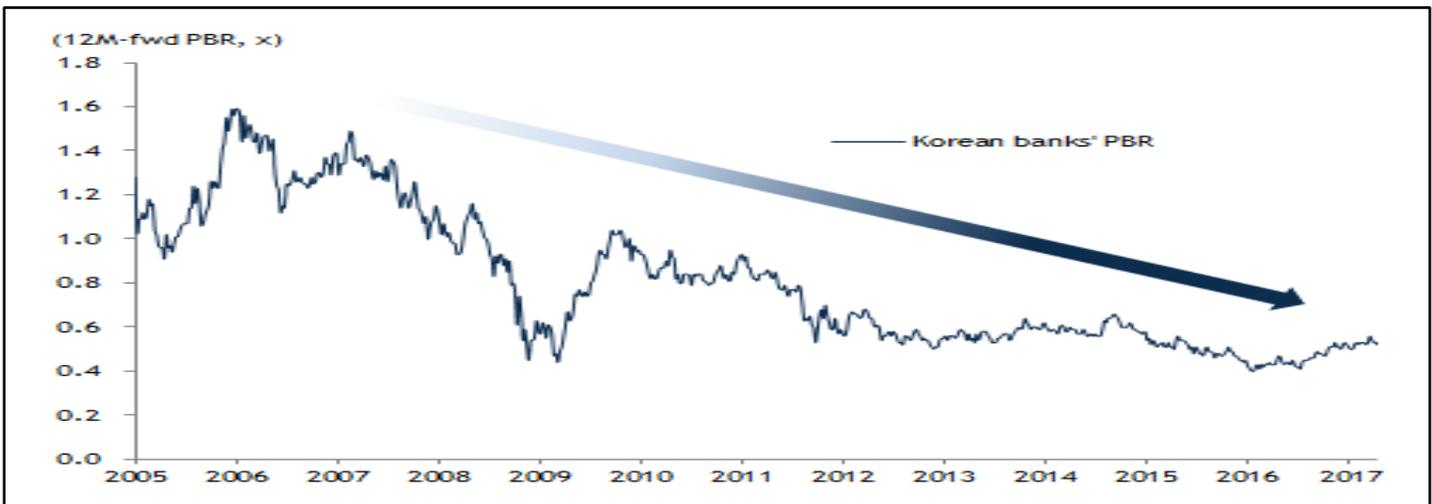
FIGURE 4: SOUTH KOREAN PRESIDENT IMPEACHMENT & SAMSUNG HEIR ARREST



SOURCE: THE WASHINGTON POST & THE NEW YORK TIMES

It is very clear that Korean banks are the biggest losers from this ‘unholy’ relationship. It is no wonder that Korean banks have gone through a massive de-rating, reflecting investors’ mistrust in the financial system.

FIGURE 5: KOREA’S MISALLOCATION OF CAPITAL



SOURCE: MIRAE ASSET DAEWOO ALPHA STRATEGY TEAM

It will also be the case, that the Korean banks, unshackled from previous burden, be the biggest beneficiaries. It is our belief that we are at the cusp of a re-rating.

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