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Positive elements in store for FBM KLCI

Corporate earnings growth and strong ringgit forecast

STOCK MARKET

PETALING JAYA: AmInvestment Bank Research (AmBank Research) has posted a base-case forecast of 1,545 for the FBM KLCI by year-end, driven by projected corporate earnings growth and prospects of a stronger ringgit, among other factors.

The research house is predicting earnings growth for the premier index to reach 14.4%, led primarily by the oil and gas (O&G) sector with a forecast 20% expansion, followed by plantation, power and financial services.

"This is comparable to *Bloomberg*'s FBM KLCI index earnings growth consensus of 13.6% for 2024," it said in a report yesterday.

According to the research house, other elements that could positively affect the FBM KLCI this year include its below-median price over earnings ratio valuation of 13.6 times, highly compelling dividend yields and the current low foreign shareholding of 19.6%, amid reinvigorated expectations of infrastructural rollouts with a firm government mandate.

However, it conceded that the optimism could be tempered by rising probability of a global recession from the aftermath of an extended 500 basis-point US interest rate hike cycle, which will drive volatility across all markets.

In addition, comparing the Malaysian bourse with its Asean counterparts, AmBank Research pointed out that earnings prospects of other countries in the region have likewise recovered, with Indonesia expected to grow by 35%, Thailand by 18% and the Philippines by 16%.

They, however, would pale in comparison to Vietnam's anticipated index earnings growth of 52% in 2024.

"Hence, although Malaysia's forecast corporate earnings growth for 2024 outpaces the United States' 12% and and the UK's predicted decline of 7.6%, the other Asean countries' steeper trajectories are likely to draw higher foreign investor interest," acknowledged the research outfit.

> "We also like small cap stocks with robust brand names that can safely navigate inflationary pressures such as Spritzer Bhd and niche agrichemical producer Ancom Nylex Bhd, as well as grossly undervalued companies such as Deleum Bhd."
>
> AmBank Research

Furthermore, AmBank Research suggested that sector and stock selection will be key to relative investment outperformance, given rising risks of a US-led global recession for the first half of the year.

This is especially when local consumption spending could be mitigated by subsidy rationalisation plans amid slightly higher inflation.

The research house is "overweight" on the O&G, construction, technology, manufacturing, ports, power, property, real estate investment trust, glove and transportation sectors.

It listed CIMB Group Holdings Bhd, RHB Bank Bhd, Tenaga Nasional Bhd, Telekom Malaysia Bhd, Gamuda Bhd, Sunway Bhd and Pavilion-REIT among its top stock selections.

It added: "We also like small cap stocks with robust brand names that can safely navigate inflationary pressures such as Spritzer Bhd and niche agrichemical producer Ancom Nylex Bhd, as well as grossly undervalued companies such as Deleum Bhd."

On a separate note, AmBank Research is tipping the ringgit to touch RM4.50 to the dollar by the end of the year, premised on an initial baseline soft-landing economic scenario in the United States.

However, it recognised that downside risk to that prediction is more pronounced because a US Federal Reserve rate cut is unlikely to take place any time before mid-2024.

This is as the lag effects from tightening measures of 2023 should continue to surface in the coming months.

It said dollar weakness is expected to resurface once US economic indicators soften further, paving the way for a back-loaded rate cut.