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Stock Watch

We present 50 stocks on Bursa Malaysia with the largest institutional funds. Also, what are the 40 stocks that saw the biggest inflow and outflow of funds?

P8-10

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Navigating a tricky 2019

- **Institutional** shareholdings amount to roughly RM1.2 tril but large funds have been panned for crowding out the market
- **All eyes** are on some of the bourse's heavy hitters and how they will manage a volatile year



by **Emmanuel Samarathisa**

One measure of strength of a listed company is how much in institutional funds it attracts. While that may not necessarily mean it is a favoured stock, it does to a certain extent indicate its prospects.

So how influential are institutional investors in the Malaysian stock market? Bloomberg data shows that local and foreign institutional holdings in Bursa Malaysia counters amount to a staggering 316.00 billion shares worth an estimated RM1.02 tril.

But this year, just like the last, is set to be challenging for both overseas and local funds. At the time of writing, foreign funds have become net sellers of Malaysian equity.

In March, foreign investors sold RM1.56 bil, bringing total outflows so far this year to RM135 bil. This is in contrast with last year when there was foreign net inflow of RM2.2 bil ahead of the 14th general election in May.

The benchmark FBM KLCI, a market barometer, has been dubbed "the only laggard in Ascian with a year-to-date loss of 2.8%". MIFP analyst Adam Rahim wrote in an April 1 note.

If the cannon is the MSCI country benchmarks, then Malaysia ranks last at 12% for the lowest percentage of free float shares among the five Southeast Asian markets.

Naturally, such powerful influence wielded by the country's financial heavy hitters have drawn both praise and criticism from market observers.



Funds will flow back to Malaysia, says Adam

Some believe this illiquidity in the market points to a crowding out effect by government-linked investment companies (GLICs). Others, however, point to these GLICs' ability to be defensive during heavy fund outflows so as to prevent the market from crashing.

Local players have their own problems, too. GLICs, which consist of the country's largest funds such as the Employees Provident Fund, seem to be crowding out the market due to a cap on foreign investments by Bank Negara Malaysia, limiting their choice of investments and leaving them to snap up large tranches of local stocks. Some of these GLICs, like sovereign wealth fund Khazanah Nasional Bhd, are expected to sell some of their shares in the name of boosting public coffers, which research houses like Nomura have cautioned could result in a market overhang.

Indeed, all eyes are on how institutional investors will react to Malaysia's open economy and the externalities at home and abroad which have put pressure on the country's finances. This is because institutional holdings are present in all of the country's blue-chip stocks, which also

consist of government-linked companies (GLICs) or companies that are under the control of a GLIC where the GLIC is a majority shareholder or single largest shareholder.

"During the past few years, political drama, low oil and commodity export prices and the slowdown in China have deeply affected Malaysia's economy," Bain & Co's partner Usman Akhtar and practice director Johanne Dessard tell *FocusM*.

To get a full picture of what's at stake, we present a snapshot of the Top 50 counters on Bursa with the largest institutional shareholdings (see table).

From the list, some of these names are obvious suspects. Maybank, for example, is not only the largest counter on Bursa but also the largest bank in the country. There are other blue-chip darlings such as Axiata, Petronas Chemicals, Maxis and CIMB. But slicing the table into gainers and losers provides some interesting insights.

Of gains and losses

In terms of gainers, Sapura Energy tops the list, thanks to the support of its parent, Permodalan Nasional Bhd (PNB). Last year, its chief executive officer Tan Sri Shahril Shamsuddin caused a stir over his total pay package of RM7.92 mil for the

financial year ended Jan 31, 2018. Such a staggering amount meant he earned nearly RM200,000 a day, but best of all he managed to stave off a move by institutional investors to remove him as CEO. In fact, when that pay package was announced, Shahril managed to get about 82% of the

Top 50 institutional friendly counters

COMPANY	INSTITUTIONAL SHARES HELD (AS AT APRIL 3)	OVERALL VALUE
Malayan Banking Bhd	8.72b	RM80.69b
Axiata Group Bhd	7.65b	RM31.85b
Petronas Chemicals Group Bhd	7.26b	RM66.09b
Maxis Bhd	7.19b	RM39.81b
CIMB Group Holdings Bhd	6.93b	RM35.52b
Sapura Energy Bhd	6.9b	RM2.48b
Digi.Com Bhd	6.86b	RM31.64b
Velesto Energy Bhd	5.91b	RM1.77b
YTL Power International Bhd	5.53b	RM4.81b
Sime Darby Bhd	4.9b	RM0.85b
Sime Darby Plantations Bhd	4.63b	RM23.28b
Sime Darby Property Bhd	4.61b	RM5.03b
Malaysia Building Society Bhd	4.54b	RM4.26b
IOI Corporation Bhd	4.43b	RM19.8b
Tenaga Nasional Bhd	4.38b	RM55.2b
Genting Malaysia Bhd	4.09b	RM3.03b
Malakoff Corp Bhd	3.46b	RM3.11b
MISC Bhd	3.60b	RM23.96b
UEM Sunrise Bhd	3.56b	RM2.99b
Astro Malaysia Holdings Bhd	3.64b	RM5.64b
TA Global Bhd	3.54b	RM9.50m
SP Setia Bhd Group	3.35b	RM7.35b
Genting Bhd	3.06b	RM20.53b
Westports Hldgs Bhd	3.02b	RM11.2b
Dialog Grp Bhd	3.1b	RM9.79b
RHB Bank Bhd	2.97b	RM16.81b
KPI Healthcare Bhd	2.97b	RM2.97b
Telekom Malaysia Bhd	2.88b	RM9.14b
IGB Real Estate Investment Trust	2.68b	RM4.99b
Bumi Armada Bhd	2.48b	RM47.3m
GD Express Carrier Bhd	2.72b	RM9.26m
Malaysian Resources Corp Bhd	2.60b	RM2.34b
IJM Corp Bhd	2.13b	RM4.7b
YTL Corp Bhd	2.17b	RM2.3b
My EG Services Bhd	2.18b	RM3.18b
Hap Seng Consolidated Bhd	2.09b	RM20.61b
Focus Dynamics Group Bhd	1.89b	RM2.65m
AMMB Holdings Bhd	1.86b	RM8.3b
Hong Leong Bank Bhd	1.86b	RM37.36b
BH Healthcare Bhd	1.73b	RM9.4b
Petronas Gas Bhd	1.81b	RM31.76b
IOI Corp Bhd	1.65b	RM28.98b
Eco World Development Grp Bhd	1.64b	RM1.51b
Boustead Plantations Bhd	1.72b	RM1.346b
Pavilion Real Estate Investment Trust	1.71b	RM3.11b
KLCCP Stapled Grp	1.76b	RM13.75b
JCY International Bhd	1.61b	RM3.22m
UOA Development Bhd	1.62b	RM3.46b
AirAsia X Bhd	1.48b	RM3.57m
Inari Amertron Bhd	1.45b	RM2.35b

Source: Bloomberg



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Top 20 gainers

COMPANY	INCREASE (APRIL 3, 2018 - APRIL 3, 2019)	TOP INSTI SHAREHOLDER (LOCAL)	TOP INSTI SHAREHOLDER (FOREIGN)
Sapura Energy Bhd	169.51%	Permodalan Nasional Bhd	Vanguard Grp
Inari Amertron Bhd	43.80%	Kumpulan Wang Persaraan (Diperbadankan)	Vanguard Grp
Boustead Plantations Bhd	36.51%	Lembaga Tabung Angkatan Tentera	Dimensional Fund Advisors, LP
Malaysian Resources Corp Bhd	14.89%	Employees Provident Fund	Norges Bank Investment Management
Bumi Armada Bhd	13.55%	Permodalan Nasional Bhd	Norges Bank Investment Management
Petronas Gas Bhd	12.43%	Petroleum Nasional Bhd	Vanguard Grp
Pavilion Real Estate Investment Trust	11.05%	Employees Provident Fund	Qatar Investment Authority
Malayan Banking Bhd	9.46%	Permodalan Nasional Bhd	Vanguard Grp
Air Asia X Bhd	9.15%	AIA Bhd	Government Pension Fund of Norway
SP Setia Bhd Group	9.04%	Permodalan Nasional Bhd	Aberdeen Standard Investments (Asia) Ltd
Velesto Energy Bhd	8.63%	Permodalan Nasional Bhd	Vanguard Grp
Petronas Chemicals Group Bhd	7.09%	Petroleum Nasional Bhd	Vanguard Grp
AMMB Holdings Bhd	5.13%	Permodalan Nasional Bhd	Australia and New Zealand Banking Group Ltd
Tenaga Nasional Bhd	5.09%	Khazanah Nasional Bhd	Vanguard Grp
GD Express Carrier Bhd	4.85%	N/A	Temasek Holdings Pte. Ltd.
Sime Darby Property Bhd	4.67%	Permodalan Nasional Bhd	Vanguard Grp
Malaysia Building Society Bhd	3.24%	Employees Provident Fund	Tajbhamon International Islamic Bank
UGA Development Bhd	2.76%	Employees Provident Fund	Value Partners Ltd
Sime Darby Plantations Bhd	2.05%	Permodalan Nasional Bhd	Vanguard Grp
Asiatia Group Bhd	0.59%	Khazanah Nasional Bhd	Vanguard Grp

Source: Bloomberg Bursa Malaysia

Top 20 losers

COMPANY	DECREASE (APRIL 3, 2018 - APRIL 3, 2019)	TOP INSTI SHAREHOLDER (LOCAL)	TOP INSTI SHAREHOLDER (FOREIGN)
Mah Sing Group Bhd	71.92%	Permodalan Nasional Berhad	Value Partners Ltd
IOI Corp Bhd	67.37%	Employees Provident Fund	Vanguard Grp
IHH Healthcare Bhd	67.34%	Khazanah Nasional Bhd	Mitsui & Co Ltd
Malakoff Corp Bhd	14.71%	Employees Provident Fund	Vanguard Grp
IJM Corp Bhd	10.24%	Permodalan Nasional Berhad	Vanguard Grp
UEM Sunrise Bhd	9.80%	Khazanah Nasional Berhad	The National Farmers Union Mutual Insurance Society Limited
RHB Bank Bhd	8.87%	Employees Provident Fund	Mubadala Investment Company PJSC
Genting Malaysia Bhd	8.45%	Great Eastern Life Assurance (Malaysia) Bhd	GIC Private Limited
Eco World Development Grp Bhd	8.26%	Employees Provident Fund	Vanguard Grp
CIMB Group Holdings Bhd	8.06%	Khazanah Nasional Bhd	Vanguard Grp
Genting Bhd	8.02%	Great Eastern Life Assurance (Malaysia) Bhd	OppenheimerFunds, Inc.
MyEG Services Bhd	7.40%	Employees Provident Fund	Government Pension Fund of Norway
MISC Bhd	7.17%	Petroleum Nasional Bhd	Vanguard Grp
Dialog Grp Bhd	5.62%	Employees Provident Fund	GIC Private Limited
Astro Malaysia Holdings Bhd	4.24%	Khazanah Nasional Bhd	State Street Corp
YTL Corp Bhd	3.20%	Employees Provident Fund	Vanguard Grp
Sime Darby Bhd	3.20%	Permodalan Nasional Bhd	GIC Private Limited
Digi.Com Bhd	2.29%	Employees Provident Fund	Vanguard Grp
Westports Hldgs Bhd	2.02%	Employees Provident Fund	Vanguard Grp
Maxis Bhd	0.70%	Employees Provident Fund	Vanguard Grp

Source: Bloomberg Bursa Malaysia

votes to keep his job as director of the company.

But displeasure did not translate to an apparent disapproval for Sapura. A few months later, the company announced that it wanted to raise RM4 bil from a rights issue in an attempt to pare down its whopping RM14 bil debt. The cash call, which was supported by PNB, was completed on Jan 16 this year with the asset manager emerging as the single largest shareholder with a 40% stake. Sapura Technology Sdn Bhd - which is controlled by Shahril - is now the second-largest shareholder with a 16.1% stake.

Concerns were raised when Sapura mooted the rights issue. But PNB defended the raising of its stake, pointing to Sapura's attractiveness underlined by a strong track record and a global footprint in more than 20 countries. The other point that had been an issue is PNB's commitment of RM2.68 bil

to the entire exercise by giving an undertaking to subscribe for some of the unsubscribed shares and RCPS-1.

But analysts believe the amount is just a fraction of PNB's assets under management which amounts to RM288.1 bil as of Aug 31 last year. "When Sapura undertook the rights issue and when it was converted, PNB's shareholding naturally increased. But the fund increasing its stake comes as no surprise. It's a long-term investment the fund can stomach," says an analyst. It must be noted that among the big lenders to Sapura is Maybank, which is also controlled by PNB.

What has to be observed is whether the rights issue will pan out accordingly for Sapura. When Sapura announced the cash call, its share price sank below the rights issue price of 30 sen for two consecutive trading days (Dec 19-20). Despite the good news and the backing of PNB, investors

weren't convinced and further dampening prospects were a reversal of the upward trend of crude oil prices. At the time of writing, the counter was hovering around 36 sen. Only time will tell if it breaks through the 40 sen mark.

The other winners in the list include Velesto, Inari Amertron and Tenaga Nasional Bhd. Velesto, formerly known as UMW Oil & Gas Corp Bhd and is another PNB stock, was in the news two years ago when PNB pledged to take up its full entitlement under UMW Oil & Gas' proposed right issues with warrants, costing the asset manager more than RM800 mil.

As for losers, Mah Sing and IOI Corp lead the pack. But upmarket healthcare services provider IHH Healthcare, controlled by Khazanah, may seem like a surprising entrant. However, it has to be said that the decrease in institutional share-

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Institutional investors, GLICs and GLCs defined

INSTITUTIONAL investors are generally the big boys on the block. They are organisations that invest on behalf of their members and, because of their prominence in the economy, face fewer protective regulations as they are usually governed by specific regulations as well as armed with an armada of professionals. Generally, there are six types of institutional investors: endowment funds, commercial banks, mutual funds, hedge funds, pension funds and insurance companies.

In Malaysia, there are both local and foreign funds. Dominating the market are the Malaysian players in the form of government-linked investment companies (GLICs). They are: Minister of Finance (Incorporated) or MoF Inc, sovereign wealth fund Khazanah Nasional Bhd, retirement fund the Employees Provident Fund, Bumiputera asset manager Permodalan Nasional Bhd (PNB), armed forces pension fund Lembaga Tabung Angkatan Tentera (LTAT), pilgrims' fund Lembaga Tabung Haji (LTH), and public services pension fund Kumpulan Wang Persaraan (Diperbadankan) (KWAP).

These GLICs control what are known as government-linked companies (GLCs). These GLCs can be listed or unlisted. The listed companies are usually reputed for either having monopolistic control of a certain sector such as utilities company Tenaga Nasional Bhd or a preferred blue-chip stock such as Malayan Banking Bhd (Maybank).

So GLCs are defined as companies that have a primary commercial objective and are under the control of a GLIC. A GLIC has control over a GLC when it is the majority shareholder or single largest shareholder and when it has the ability to exercise and influence major decisions such as appointment of board members and senior management. According to MoF Inc, the body does monitor the performance of GLCs through key performance indicators reports as well as portfolio reports. Companies are required to submit both reports to the Government Investment Companies Division on a quarterly basis.

It is believed that GLICs are evident among the top 30 companies on Bursa Malaysia and is crowding out the market. One reason is because of a 30% foreign exposure cap on investments, giving funds like EPF a hard time to invest as it receives money inflow on a monthly basis and which has to be deployed quickly to ensure a steady stream of returns.

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Into private equity

ONE way GLICs can diversify is to venture into private equity, an alternative investment class and which consists of capital that is not listed on a public exchange. A notable example is KWAP's investment in ride-hailing giant Uber. Despite being criticised for its lack of transparency, private equity provides a viable option for large funds looking to deploy capital other than in equities or alternative assets.

Here, Bain & Co's partner Usman Akhtar and practice director Johanne Dessard talk about the private equity sector in Malaysia and what could be expected this year.

What is the firm's outlook for Malaysia this year? What are some of the headwinds and opportunities as well as sectors that Bain & Co will be focusing in guiding investments to the country?

Twenty eighteen was a solid year for private equity in Southeast Asia. Southeast Asia deal value at US\$12.5 bil (RM50.98 bil) was down from 2017's US\$15 bil, an all-time high but 38% higher than the 2013-17 historical. Beyond consumer-oriented deals, internet and technology fuelled deal activity, accounting for 63% of Southeast Asia's total deal count in 2018.

Malaysia deal activity was subdued in

2018, with seven transactions over US\$10 mil totalling US\$520 mil deal value, down more than 50% from the historical average. Deal activity was restrained, with all deals done in 2018 below the US\$250 mil mark. The tepid activity across Malaysia was certainly not due to a lack of motivation. But according to our 2019 Asia-Pacific PE survey, macro softness, lack of attractive deal opportunities and increased competition were some of the top considerations that were quoted by Southeast Asia focused investors as factors that keep them awake at night.

However, Malaysia remains a prominent PE market, and ranks #3 in terms of deal value, based on past five years' activity. We should not conclude that the market has declined in appeal as it can be normal for markets that are not that deep in deal count to fluctuate in value as they can be swung by one/two mega-deals.

Since Malaysia is very much dependent on institutional investors, what is your observation of institutional appetite/sentiment in the country and also the region? How can institutional investors incorporate a Malaysia strategy into their portfolios?

Investors/LPs are overall quite bullish on SE

Asia. According to EMPEA, this region has consistently been rated amongst the top 2 in terms of attractiveness versus other emerging markets. It was No. 1 in 2018. Net return expectations for SE Asia are the highest for the 2017 vintage funds compared to developed and developing economies, according to the same source, with 74% LPs expecting net IRR to be above 16%.

Malaysia is an important economy in SE Asia, with solid macro fundamentals. The Economist Intelligence Unit is predicting that real GDP growth will be in the range of 4.8-4.9% in the years ahead. If foreign investment was another measure, it has been oscillating between US\$9 bil and US\$12 bil since 2010, making the country one of the higher recipients of FDI in SE Asia. According to the government, it recorded a big jump in 2018, at about US\$20 bil.

The authorities seek to position Malaysia as a gateway to the Asean market by offering various incentives to foreign companies, notably the status of pioneer company and tax reductions associated with investments. The country benefits from a high-skilled and English-speaking workforce. As such, the country is ranked 15 out of 190 economies by the World Bank in its Doing Business 2019

report, gaining eight spots from the previous year.

Taking a long-term view, that suggests that 2018's dearth of activity in Malaysia was not necessarily representative of a structural decline in its appeal, but may have been the type of fluctuation that can happen in PE markets that are of moderate size as total deal value can be swung by just one or two large deals.

What are some of the risks that investors should consider when investing in Malaysia?

During the past few years, political drama, low oil and commodity export prices and the slowdown in China have deeply affected Malaysia's economy, putting pressure on the country's finances. Fierce competition and rising multiples, meanwhile, make it increasingly difficult to find good companies at a fair price.

What this means is that creating consistent long-term value will depend on a PE fund's ability to sharpen its execution in early phase of the game - finding attractive targets at entry, adding value during hold and ensuring a growth story at exit. Winners will be those funds that can raise their game when it comes to execution.

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Local funds optimistic, anticipating new measures

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holdings is not due to any negative news but the sell-down of a portion of Khazanah's stake to Japan's largest sogo shosha Mitsui & Co Ltd.

Khazanah divested 1.4 billion shares or a 16% stake in IHH to Mitsui at RM6 a share for RM8.42 bil cash. Khazanah's shareholding, following the disposal, has decreased to 26.05%, making Mitsui the largest shareholder. An analyst believes this to be the reason for the stock being the top loser in the institutional shares list.

"I believe it's Khazanah selling off some of its stake to Mitsui," the analyst says. Khazanah has stated that moving forward it would seek out institutional holders or "big strategic holders" in its bid to divest some of its holdings, especially those in large-cap companies as evidenced with IHH. "For that kind of transaction, you obviously need to find the right kind of global strategic investor who wants the asset and is willing to pay the right price for it," Khazanah MD Shahril Ridza Ridzuan had said in a March interview.

Other losers in the list include companies in the Khazanah and EPF stables such as property developer UEM Sunrise, banking group CIMB Holdings and ports and logistics company Westports Malaysia. For CIMB, one of the reasons for lower institutional holdings is the bank's sale of a small stake for at least RM364 mil through a bookbuilding exercise, says an analyst covering the stock. This was in reference to reports that Khazanah would be seeking to dispose of 66.99 million shares in CIMB, or a 0.66% stake, at between RM5.78 and RM5.90 a share. CIMB's shares are around RM5.10 currently.

Upside on the horizon

So what's next for the Malaysian market, especially stocks with a concentrated institutional holding? Nomura Malaysia equity research head Tushar Mohata notes that results have been mixed. "In spite of



Malaysia remains a hot address for institutional investors, says Mohata

the outflows, MSCI Malaysia actually outperformed most of the other emerging markets last year as prospects of reforms, higher oil prices and strong local institutional liquidity kept valuations supported for most of the year. However, in 2019, Malaysia has underperformed, mainly as flows have returned to other emerging markets like China. Malaysian corporate earnings have disappointed but valuations are rich," he says.

But Mohata notes that Malaysia remains an attractive destination for institutional investors. "The question is a mix of 1) valuations (are they cheap enough vs peers?), 2) earnings rebound prospects, 3) local institutional support (making it relatively stable in times of volatility), 4) interesting sectors (like technology, gloves) which are not there in other markets," he says.

UOB Kay Hian head of research Vincent Khoo notes that institutional appetite will very much be governed by government policy. "But local institutional

investors are optimistic since at the end of the day, the government is mindful that we don't go into an economic tailspin. The local players are also trying, to some extent, to prepare for a potential phase of new measures on fiscal stimulation and market-friendly measures," he notes.

"But this hinges on government measures. As for outlook, on the buy side, we expect the government to undertake sensible measures to stimulate the economy while at the same time ensure sanctity of contracts."

Indeed, after Pakatan Harapan (PH) came into power and formed the government, the coalition made good on its promise to review infrastructure projects and initiate a slew of reforms. Prime Minister Tun Dr Mahathir Mohamad told *FocusM* in a recent interview that his administration would be open to the "dismantling" of monopolies.

"Yes, if that is necessary, go ahead. All this while the monopoly has been there. But if you think that it should not be a monopoly, okay, let's open it up and let people come in and compete. But it is not always the best solution," he says. If this happens, companies such as Tenaga and Telekom, both of which are supported by GLICs, would see further volatility.

Also, Padiberas Nasional Bhd (Bermas), Puspakom, Pharmaniaga Bhd and My EG Services Bhd have been identified as monopolies and are currently being reviewed by the government, according to Domestic Trade and Consumer Affairs Minister Datuk Seri Saifuddin Nasution Ismail.

"A lot of sources are being controlled by some individuals and big companies. The government is looking for ways to spur businesses towards healthy competition in the market," Saifuddin told reporters on April 3. He added that a special task force had been set up to study the monopolistic structure of some businesses and services that could have contributed to the high cost of living in the country.

At the recent Invest Malaysia conference, Mahathir reiterated his desire to see the private sector play a pivotal role in the nation's economy, hand-in-hand with the GLICs. "The government-linked companies are often said to crowd out the private sector. This is not the intention. Our desire is to have the GLICs play certain catalytic roles to support the economy. We would like to invite the private sector to join the GLICs in fulfilling some of the national economic agenda," he told conference participants.

"We would like to see the private sector play a bigger role in contributing towards the economy. The government will also continue to welcome foreign investment from all countries. The focus is not about which country the investment originates from, but it is about the value proposition of the ventures which have to bring balanced benefits to both sides. Fundamentally, the ventures must be commercially and economically sound and provide strategic advantages to our country."

As for foreign outflows, there may be some good news. MIDE's Adam believes that what Malaysia is witnessing is a general trend across the region and that funds will flow back into the country. "We opine that the current trend of net foreign outflows from Bursa is a general trend, considering the batch of general elections happening in Asia. Foreign investors are probably heading into countries such as Indonesia and India as their general elections approach. This is similar to what happened in Malaysia, where there was an influx of foreign funds into the Malaysian market ahead of the 14th General Election.

But after the election concluded, foreign investors packed their bags and started heading to peers such as Indonesia. Henceforth, we do not discount the possibility of foreign funds making their way to Malaysian shores in the next few months once elections are done in the respective nations," he says.