

Headline	Five hurdles Bursa Malaysia has to overcome this year		
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Five hurdles Bursa Malaysia has to overcome this year

FBM KLCI has limited room for upside, especially with lack of strong growth catalysts — market observers

BY JUSTIN LIM & SAMANTHA HO

Gainers and losers of 1Q19

Over RM10 billion market capitalisation

KUALA LUMPUR: As corporate earnings failed to meet expectations in the first quarter of 2019 (1Q19), the FBM KLCI continued underperforming other Asian markets. It fell to a two-year low of 1,628.66 points last Monday and barely recovered to 1,641.81 points at last Friday's close.

Most market observers contacted by *The Edge Financial Daily* opined that there is limited room for upside in the benchmark index, especially considering the lack of strong growth catalysts.

Here are five hurdles that may continue to weigh on the KLCI:

1. Sluggish domestic corporate earnings growth

Malacca Securities Sdn Bhd senior analyst Kenneth Leong said the main reason the benchmark index's performance has been lacklustre and lagging behind those of neighbouring countries is its unattractive valuations amid sluggish corporate earnings growth.

"The key index is trading at a prospective price-earnings ratio (PER) of 16.3 times and 15.3 times for 2019 and 2020 respectively — slightly below the five-year average of 17.4 times, implying limited upside," Leong added.

On the other hand, regional peers, most of which saw their indexes take a beating last year, have PERs that are trading at a more appealing level. (see table)

For instance, as at end last year, the Shanghai Composite traded at a PER of 11.8 times compared with its historical five-year average of 15.8 times. Likewise, the Hang Seng Index's PER was 10.2 times versus its historical five-year average of 12 times, Leong noted.

"Should earnings growth continue to disappoint, the key index is likely to head south with the immediate support located towards the 1,630 level. Should that level fail to hold, the next key support is pegged at the 1,600 level. Unless there are any earnings surprises, any gains are capped towards the 1,700-1,730 levels," said Leong.

Meanwhile, RHB Research head of research Alexander Chia agreed that the forward PER of 16.9 times for the KLCI is already high compared with its regional peers.

Together with tepid earnings growth prospect this year — RHB estimates a growth of 0.7% versus the consensus forecast of 3% to 5% — Chia expects the trading market going forward

	TOP GAINERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Telekom Malaysia Bhd	11.76	3.13	75.61	18.40
2	Genting Bhd	26.18	6.80	19.06	12.59
3	Genting Malaysia Bhd	18.37	3.25	-	10.17
4	YTL Corp Bhd	11.73	1.11	44.58	9.90
5	RHB Bank Bhd	23.06	5.75	9.98	8.70
6	Axiata Group Bhd	37.92	4.18	-	6.36
7	Sime Darby Plantation Bhd	34.77	5.05	66.88	6.09
8	Fraser & Neave Holdings Bhd	12.90	35.18	33.75	5.95
9	Maxis Bhd	43.77	5.60	24.08	5.65
10	PPB Group Bhd	26.35	18.52	25.69	5.35

	TOP LOSERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Hartalega Holdings Bhd	16.02	4.79	32.85	-21.64
2	Top Glove Corp Bhd	11.89	4.65	26.89	-16.10
3	Malaysia Airports Holdings Bhd	11.76	7.09	18.40	-15.39
4	CJMB Group Holdings Bhd	48.78	5.10	8.56	-8.59
5	Sime Darby Bhd	14.96	2.20	17.74	-8.33
6	Petronas Gas Bhd	34.67	17.52	19.15	-7.62
7	Public Bank Bhd	89.21	22.98	15.86	-5.79
8	Tenaga Nasional Bhd	71.88	12.64	19.21	-5.36
9	Press Metal Aluminium Holdings Bhd	18.33	4.56	28.12	-5.28
10	Petronas Dagangan Bhd	24.84	25.00	29.24	-4.75

RM1 billion to RM10 billion market capitalisation

	TOP GAINERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Dayang Enterprise Holdings Bhd	1.31	1.36	8.06	151.85
2	Velesto Energy Bhd	2.51	0.31	-	69.44
3	FGV Holdings Bhd	4.34	1.19	-	66.43
4	Frontken Corp Bhd	1.15	1.10	22.89	57.32
5	My EG Services Bhd	5.33	1.53	69.55	56.92
6	VS Industry Bhd	1.97	1.09	13.64	51.94
7	Sunway Construction Group Bhd	2.53	1.96	17.50	50.25
8	Malaysian Resources Corp Bhd	4.05	0.92	53.49	49.59
9	Malaysia Marine and Heavy Engineering Holdings Bhd	1.30	0.81	-	49.54
10	Lafarge Malaysia Bhd	2.27	2.67	-	47.51

	TOP LOSERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	MSM Malaysia Holdings Bhd	1.20	1.71	33.53	-34.23
2	Unisem (M) Bhd	1.92	2.64	19.79	-19.51
3	Eastern & Oriental Bhd	1.30	0.91	20.54	-18.75
4	Kossan Rubber Industries Bhd	4.59	3.59	22.53	-16.63
5	Boustead Holdings Bhd	2.47	1.22	-	-13.48
6	Lotte Chemical Titan Holding Bhd	9.25	4.07	11.77	-11.90
7	Ta Ann Holdings Bhd	1.05	2.38	14.03	-11.85
8	Supermax Corp Bhd	2.01	1.53	16.69	-11.17
9	IOI Properties Group Bhd	7.54	1.37	9.66	-11.04
10	Ajinomoto Malaysia Bhd	1.09	17.98	18.39	-7.32

RM500 million to RM1 billion market capitalisation

	TOP GAINERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Naim Holdings Bhd	585.87	1.17	4.29	162.92
2	Iskandar Waterfront City Bhd	623.11	0.75	-	77.38
3	Malayan Flour Mills Bhd	821.89	0.84	26.26	77.29
4	Bahvest Resources Bhd	850.15	0.69	34.14	73.75
5	Gabungan AQRS Bhd	680.86	1.39	10.29	65.82
6	Media Prima Bhd	582.33	0.52	9.85	52.17
7	Coastal Contracts Bhd	627.86	1.19	-	50.63
8	JHM Consolidation Bhd	708.15	1.27	16.91	50.07
9	Can-One Bhd	570.69	2.97	12.25	50.00
10	George Kent (Malaysia) Bhd	646.34	1.20	7.70	46.23

	TOP LOSERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	MCT Bhd	743.07	0.51	6.26	-31.54
2	Pharmaniaga Bhd	549.67	2.11	12.72	-23.47
3	BLD Plantation Bhd	628.32	6.72	-	-10.88
4	Kawan Food Bhd	603.99	1.68	25.81	-10.79
5	YNH Property Bhd	618.33	1.17	38.84	-10.00
6	MyNews Holdings Bhd	941.37	1.38	32.93	-8.00
7	Elsoft Research Bhd	671.63	1.01	20.72	-6.18
8	Power Root Bhd	510.05	1.29	39.70	-5.34
9	NTPM Holdings Bhd	530.06	0.48	37.16	-4.95
10	PMB Technology Bhd	532.38	3.40	56.75	-4.48

Under RM500 million market capitalisation

	TOP GAINERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Zelan Bhd	76.04	0.09	-	260.00
2	Scormi Energy Services Bhd	304.41	0.13	-	225.00
3	SC Estate Builder Bhd	26.49	0.03	21.88	200.00
4	Petra Energy Bhd	362.66	1.13	-	179.01
5	PCCS Group Bhd	100.82	0.48	7.95	152.63
6	Konsortium Transnasional Bhd	52.36	0.13	-	136.36
7	Damansara Realty Bhd	165.55	0.52	8.01	131.11
8	Gets Global Bhd	42.21	0.34	-	131.03
9	Komarkcorp Bhd	48.37	0.28	-	128.00
10	KNM Group Bhd	387.11	0.17	-	120.00

	TOP LOSERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1	Stone Master Corp Bhd	2.70	0.03	-	-81.25
2	Dynaciate Group Bhd	40.06	0.09	-	-60.87
3	Brahim's Holdings Bhd	31.90	0.14	-	-51.79
4	Pan Malaysia Holdings Bhd	46.44	0.05	-	-44.44
5	Comintel Corp Bhd	8.40	0.06	-	-40.00
6	Avillion Bhd	128.78	0.15	-	-37.50
7	HLT Global Bhd	66.56	0.13	-	-36.59
8	Amtek Holdings Bhd	8.75	0.17	0.06	-35.19
9	Multi Sports Holdings Ltd	6.07	0.01	-	-33.33
10	Seni Jaya Corporation Bhd	23.51	0.58	-	-32.56

to lack strong growth catalysts.

As such, he foresees the trading band could drop to between 1,600 and 1,750, from 1,650-1,850.

2. Unfavourable domestic economic factors

A potential interest rate cut by Bank Negara Malaysia has already im-

pacted the KLCI, as seen in the sell-down among heavyweight banking stocks.

"More than 50% of the FBM KLCI

decline is attributed to the fall in prices of Public Bank Bhd, CIMB Group Holdings Bhd and Malayan Banking Bhd (Maybank), over con-

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cerns of the effects [of a rate cut] on their future incomes," highlighted Mohd Redza Abdul Rahman, head of MIDF Research.

While most analysts have said that the rate cut would not severely impact banks' earnings, credit rating firm Moody's Investors Services said such a move would "definitely lead to margin pressure" on local banks.

However, other sectors could benefit from the increase in liquidity and economic boost from the cut in the overnight policy rate. The key rate, which was raised by 25 basis points in January 2018 to 3.25%, was last reduced in July 2016, also by 25 basis points.

Separately, an appreciation in the ringgit has hurt exporters, including KLCI component stocks Top Glove Corp Bhd and Hartalega Holdings Bhd.

These stocks have also been battered over issues with foreign workers and a looming oversupply of rubber gloves due to a mismatch between capacity expansion and demand growth, highlighted Malacca Securities' Leong.

3. Lack of clarity on government policies

The government's best efforts notwithstanding, investors still seem to be regarding their commitment to clarity and transparency as just a lot of rhetoric.

"Domestically, investors are still looking for clarity on growth policies. [Setting a] 4.9% gross domestic product growth target is okay... but they are looking for policies to help corporate Malaysia," said RHB's Chia.

"For example, the Council of Eminent Persons report is not being made public. As for the National Economic Action Council — we haven't heard of any specific recommendations from them," he added.

The construction sector is one of the key areas where investors are hoping for more positive news flow to boost the nation's economy, said Rakuten Trade research head Kenny Yee.

"Though the construction sector has done well so far, we expect there are more to come with an abundance of projects coming on stream to a tune of RM300 billion," he said.

Succession planning, interestingly, remains another large concern for investors, despite Prime Minister Tun Dr Mahathir Mohamad repeatedly saying that Datuk Seri Anwar Ibrahim will be his successor, if that is the people's choice.

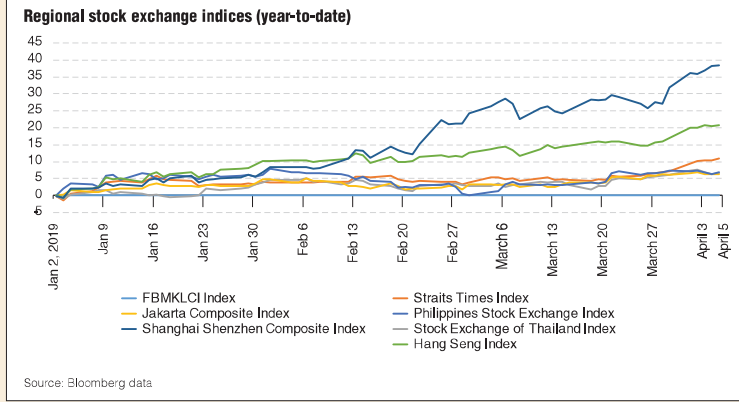
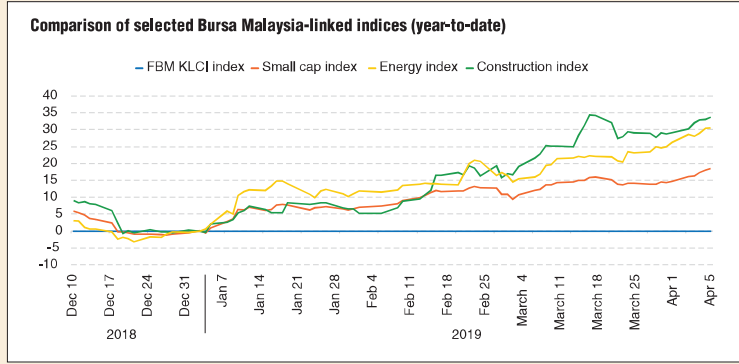
Chia said India and Indonesia's markets took some 18 months to bounce back after their 2014 elections, while Malaysia, he noted, faces the added uncertainty over its future leadership.

4. External headwinds

Uncertainties surrounding the US-China trade deal and the UK's decision to exit the European Union (EU) have continued to drag on market sentiment.

While there has been some optimism that the world's two largest economies can reach a deal to end their destabilising dispute, progress of the ongoing trade talks has been slow.

After the March 1 deadline for reaching a deal with China expired,



both countries are now aiming to reach a trade deal in the next four weeks, while US President Donald Trump has warned it would be difficult to allow trade to continue without an agreement.

"There has been some progress, but nothing concrete has been signed, except maybe China has been buying US soy in the past month. This has put pressure on global economic growth," said MIDF's Mohd Redza.

On the Brexit issue, he said signs are pointing to a further delay and this development has affected market sentiment, especially with the EU not doing so well economically, which has further pressured its ability to raise interest rates.

5. Pressure on palm oil

While the benchmark palm oil contract for June delivery on the Bursa

Malaysia Derivatives Exchange was up 1.3% at RM2,204 a tonne last Thursday, the benchmark palm oil price averaged RM2,124 a tonne in March, the lowest in three months.

MIDF's Mohd Redza said palm oil inventory remains high at above three million tonnes amid concerns over EU's decision to phase out the use of palm oil in biofuels, which has been pressuring plantation stocks.

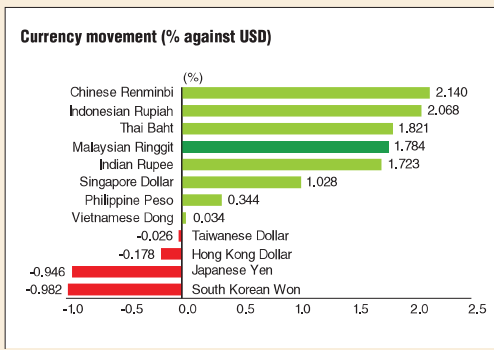
Malaysian palm oil stockpile hit its highest in nearly two decades in December at 3.22 million tonnes. In February, it eased to 3.05 million tonnes, but it was 1.3% higher than the previous month.

Last Friday, the ministry of primary industries said in a statement that Malaysian and Indonesian officials will visit Brussels today and tomorrow to voice their objection to the EU's delegated act that paves

the way to the phasing out of the use of palm oil in biofuels. The mission was agreed at end-February at the Council of Palm Oil Producing Countries meeting in Jakarta.

"Malaysia urges the European Union to provide equitable treatment across all oil crops biofuels and bioliquids in line with the World Trade Organization non-discriminative principles. Malaysia will continue to overcome disruptive and discriminatory practices on suppressing palm oil trade," the statement read.

Prior to last Friday's announcement, both Malaysia and Indonesia, two major global palm oil suppliers that collectively supply about 85% of global palm oil, had warned they were ready to retaliate against what they termed the EU's act of discrimination against the edible oil.



Regional forward price-earnings ratios (based on Bloomberg estimates)

Index	Average 1-Year Forward Price-Earnings Ratio
FBM KLCI	16.62
Straits Times Index	12.95
Jakarta Composite Index	15.63
Stock Exchange of Thailand Index	15.32
Philippines Stock Exchange Index	17.06
Hang Seng Index	11.17
Shanghai Shenzhen Composite Index	11.52