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MediaTitle	The Edge		
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PR Value	RM 77,841		



CAPITAL

Can Malaysia SCORE IN THE SECOND HALF?

Local stock market benchmark the FBM KLCI underperformed most major indices in the first half of the year, earning Bursa Malaysia many labels, including 'really, really boring'. Will the bourse remain an ugly duckling in 2H2019? See our story on [Page 36](#).

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Global uncertainties expected to extend into 2H2019

STORIES BY **KAMARUL AZHAR**

Nothing can be more distressing for local investors than Bursa Malaysia being labelled one of the world's worst major stock markets and described as "really, really boring" (Bloomberg, April 16, 2019).

Indeed, the bourse was an ugly duckling among its peers in the first half of the year with the benchmark FTSE Bursa Malaysia KLCI bucking the regional trend by declining around 1% to 1,672 points on June 28.

By comparison, the Stock Exchange of Thailand Index rose 11.2% while Singapore's Straits Times Index gained 10.3% during the period.

Not surprisingly, when the US Federal Reserve said it was looking at cutting the federal funds rate (FFR), many local players rejoiced. A lower FFR would mean a weaker US dollar, which in turn would redirect the funds of yield seekers into higher risk assets for better returns.

After all, for a defensive market that provides stability in times of crisis, Bursa has become quite inexpensive. Should there be a reversal of fund flow from safe havens to relatively riskier markets, it should be a beneficiary.

While these observations have their merits, economists and heads of research whom *The Edge* spoke to say it is not as easy as it seems.

They say global investors would need a lot of convincing, not only through macro data and corporate earnings but also the words and actions of policymakers on the international front to start reallocating some of their funds to riskier assets.

"Uncertainty about events on the geopolitical stage will induce higher volatility

Simulation of FBM KLCI based on prices of selected stocks

FBM KLCI (POINTS)	DIGI (RM)	AXIATA (RM)	CMB (RM)	IHH HEALTH-CARE (RM)	PETCHEM (RM)	MAYBANK (RM)	TENAGA (RM)	PUBLIC BANK (RM)
1,682	4.95	5.05	5.23	5.79	8.56	8.94	13.9	23.06
1,700	5.00	5.10	5.30	5.85	8.65	9.05	14.05	23.30
1,740	5.10	5.20	5.40	6.00	8.85	9.25	14.40	23.85
1,780	5.25	5.35	5.55	6.15	9.05	9.45	14.70	24.40
1,820	5.35	5.45	5.65	6.25	9.25	9.65	15.05	24.95

2019 year-end target for FBM KLCI

RESEARCH HOUSE / INVESTMENT BANK	2019 TARGET
Aminvestment Bank	1,820
MIDF Amanah Investment Bank	1,720
Maybank Investment Bank	1,680
Public Investment Bank	1,690
Hang Leong Investment Bank	1,700
CGS-CIMB Research	1,596

in the market as such happenings will impact sentiments. This in turn will result in an 'erratic' movement of share prices as seen in 1H2019," says Mohd Redza Abdul Rahman, head of research at MIDF Amanah Investment Bank.

"We advise clients to embark on a trading strategy to eke out decent returns rather

than a buy-and-hold strategy."

While funds may leave safe havens for riskier assets once the Fed goes on a monetary-easing path, the fact that it has to cut rates shows that the US economy is in need of support to keep expanding.

In other words, the global economy is not growing healthier but weaker. Apart from the slowdown in the world's largest economy, other major economic growth engines such as China, the EU, India and Japan are not firing on all cylinders unlike post the global financial crisis.

"Obviously, the US economy is in need of some form of support in order to sustain its growth. The fiscal stimuli enacted in late 2017 and early 2018 are wearing off. We can see that the US GDP growth is slowing, from 4.2% in 2Q2018 to 3.1% in 1Q2019," says Dr Afzanizam Abdul Rashid, chief economist of strategic management at Bank Islam Malaysia Bhd, in an email response to questions from *The Edge*.

"It's true that a lower FFR would mean a weaker US dollar. But safe haven currencies

would be in high demand during heightened uncertainty. So, the dollar could be stronger due to high demand from investors seeking refuge from volatility."

To be sure, foreign funds have started trickling into the local stock market. After a net outflow up until May, there was a net foreign fund inflow of RM134.6 million last month.

Local stock market players were encouraged by the reversal, which, coupled with expectations of clearer skies on the global economic front, indicated the possibility of a rally ahead on Bursa.

However, according to MIDF's Redza, the geopolitical events that plagued the world economy in the first half could extend into the second half of the year. "We have revised our FBM KLCI target to 1,720 points (from 1,800 previously) because of concerns about the prolonged effect of these geopolitical events that are expected to continue to cast a shadow on global growth prospects," he says.

The events that eroded investor confidence in the first half are still very much around.

While US President Donald Trump and China President Xi Jinping called a truce between the two countries at the G20 summit in Osaka last month, there is no deal on the table at the moment.

Apart from the trade war, investor confidence was also affected by uncertainties over Brexit, sanctions on Iran and Venezuela, tensions in the Korean peninsula and massive protests in Hong Kong.

These have had a pronounced impact on markets, particularly emerging markets whose economies are dependent on exports.

On the home front, doubts about whether

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there will be a smooth transition of power from Tun Dr Mahathir Mohamad to Datuk Seri Anwar Ibrahim still linger while questions as to Malaysia's membership of the FTSE Russell World Government Bond Index as well as being added to the US Treasury's currency watch list have added to concerns, especially for foreign investors.

Banks to help lift Bursa

Nevertheless, there is some upside for the Malaysian market. MIDF's Redza opines that despite being the worst-performing sector in the first half, banking showed resilience, particularly in loan growth and asset quality. Thus, an adjustment in the share prices of banks will not take long.

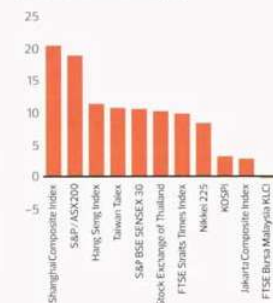
"With Bank Negara Malaysia taking steps to address concerns over FTSE Russell WGBI regarding market liquidity, we think banks will lead the FBM KLCI's rise as they have the largest sector weights in the index," Redza says.

However, the rise will likely be capped by continued pessimism about the plantation sector as crude palm oil (CPO) prices stay below RM2,000 per tonne, and worries about the impact of additional production capacity on the average selling price of rubber gloves, he adds.

Nevertheless, Redza believes any apprehension over regulatory changes in the telecommunications, power and airport sectors will subside as the government has been providing the public with more information and details of the changes it intends to make.

With all the anxiety about the outcome of the US-China trade war, geopolitical tensions and local economic and political factors, not to mention underperforming its

Year to date performance of selected Asian stock markets (%)



regional peers in the first half of the year, Bursa has become relatively cheap.

Joshua Ng, head of equity research for Malaysia, at AmInvestment Bank, says the FBM KLCI is currently trading at 18 times and 16.6 times the firm's projected 2019 and 2020 forecast earnings respectively, which is at a discount to its five-year historical average of about 18 times.

"Past experience tells us that this will be shortlived. So, we strongly advise investors to take advantage of the situation while it lasts," he says in a July 1 market outlook and strategy report for the second half.

Besides the inexpensive valuations, near-term catalysts include earnings surprises from Corporate Malaysia as well as optimism about the country's longer-term economic prospects, he adds in the report.

Ng opines that the firm's 1,820-point 2019 year-end target for the FBM KLCI is within reach, assuming the core component stocks trade at certain levels. These stocks are Malayan Banking Bhd (provided it trades to RM9.65 per share), Public Bank Bhd (RM24.95), **Tenaga Nasional Bhd (RM15.05)**, Petronas Chemicals Group Bhd (RM9.25), IHH Healthcare Bhd (RM6.25), CIMB Group Holdings Bhd (RM5.65), Axiata Group Bhd (RM5.45) and Digi.Com Bhd (RM5.35).

Go for active trading

As apprehension about the global economic and geopolitical situation will linger in the second half of the year, investors are advised to take an active trading approach, says Redza. This is because fear and cheer factors will result in share prices being affected by overreaction from investors.

"Fear over negative sentiment would result in heavy selling, pushing stocks lower than their fundamental value, while the cheer factor would result in investors chasing share prices higher, resulting in prices moving above their fundamental value," he says.

For an active trading strategy to be effective, investors should look at stocks with high velocity of at least above 40% of their daily trading volume. This, coupled with high price volatility, would be perfect for a trading portfolio, Redza adds.

"Investors should look to buy when the

stocks get beaten on the back of negative market sentiment, and prepare to sell when positive news influences share prices to overreact on an upward trend," he says.

He adds that CIMB, Maybank, Gabungan AQRs Bhd, AirAsia Bhd, D&O Green Technology Bhd and Dayang Enterprise Holding Bhd are some of the stocks that can be traded using the strategy.

Investors could also hunt for bargains whose fundamentals have been disconnected from their valuation as a result of negative market sentiment, says Redza. While these stocks have relatively low velocity for an active trading strategy, they are great add-ons to one's portfolio owing to their good dividend payouts or earnings growth, he says.

Such stocks include MIDF's top picks of Cahya Mata Sarawak Bhd, Muhibbah Engineering (M) Bhd, MMC Corp Bhd, Tune Protect Group Bhd and MBB Resources Bhd, he says.

Investors could still go for the buy-and-hold strategy but they would need to really monitor sudden or abrupt overreaction or under-reaction to share price movements, particularly in stocks with good dividend yield but which lack liquidity.

"Certain newsflows that have had a massive impact on the whole market, such as Malaysia's possible exclusion from the World Bond Index, will likely cause panic selling, which will result in a big contraction in prices. When that happens, investors could take advantage of it by adding defensive stocks with good dividend payouts," Redza adds. Such stocks include UEM Edgenta Bhd, IHH Healthcare, Malaysia Building Society Bhd and Petronas Dagangan Bhd. ■