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The best performance for the Malaysian stock market in a decade. Is it sustainable?

The Edge, Malaysia

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So far this year, the Malaysian stock market has been performing better than it has had in more than a decade. At its year-high in May, the FBM KLCI was up by 12%, which was higher than all the annual gains since 2010. Notably, Bursa Malaysia also outperformed many of its counterparts in the region, including markets in Singapore, Hong Kong, Indonesia, Thailand and South Korea. The gains are underpinned by two main, and somewhat related, themes — AI-driven data centre boom and residential property recovery.

Malaysia has been making the news as a rapidly growing data centre hub in Asean, attracting billions of dollars' worth of investments including from tech giants such as Microsoft and Google as well as local data centre developers like YTL Power. Most of the data centres will be located in Johor. Additionally, the global AI boom is also resulting in some spillover excitement in the local tech sector.

At the same time, the residential property sector has been seeing sustained demand recovery since the pandemic lows and is recording the highest sales since the mid-2010s. Property stocks with exposure to Johor did particularly well — as they are expected to also benefit from the rapid transit system connection with Singapore, currently under construction, as well as a more streamlined immigration process that should lead to greater economic connectivity between the island state and Malaysia. Some of these property developers are also gaining from land sales to data centre developers.

The construction sector outperformed on the back of the property sector recovery and as an immediate beneficiary of data centre investments. Over time, there will be other downstream beneficiaries, such as suppliers of electrical and cooling systems and, ultimately, power company, Tenaga Nasional. Chart 1 shows the relative performance of the major sectors on Bursa Malaysia so far this year.

Most of this year's market gains, mainly over two periods of time — in the first two months of 2024 and in April-May — coincided with rising foreign fund inflows. Foreign fund flows turned negative between March and mid-April. During this period, local institutional investors stepped in to buffer the worst of the impact from the foreign sell-off. As a result, the benchmark index remained fairly stable (see Chart 2).

Chart 1

The best-performing sectors are those related to AI-data centres and property recovery themes

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Here are the key takeaways from the above observations. One, foreign fund inflow is the key driver behind rising stock prices. And two, local institutions have been big buyers in the market this year, probably due in part to the government's call to invest more in the domestic market. In effect, these domestic institutions are cashing out foreign funds, enabling the latter to sell at prices that are higher than they would otherwise be. Whether this turns out to be a smart move depends on whether foreign buyers return and bid stock prices even higher. Foreign funds have been net buyers in Bursa in only two of the last 10 years, in 2017 and 2022. Interestingly, retail investors, by and large, appear unconvinced of this rally — being consistent, and the biggest group of, net sellers in the market. Is this a sign of lack of confidence in the local bourse?

Foreign funds have turned cumulative net sellers once again, since the last week of May. This is one reason why the Bursa rally has lost momentum of late. Fundamentally, we think the strong stock gains are likely to have priced in much of the near-medium-term earnings improvements from the data centre investments, as well as semiconductor and property sector recoveries. Valuations have risen and further upside would likely require fresh catalysts.

Our Malaysian Portfolio has outperformed both the FBM KLCI and FBM Emas Index this year, gaining 15.5%, despite its relatively lower risk profile, including a comparatively high level of cash.

CCK Consolidated is the best-performing stock in the portfolio, having gained 52.3% since we acquired the stock in late-April 2024. We like CCK for its consistent earnings from the retail segment, which grew 9% year on year (y-o-y) in 1Q2024 and is expected to be relatively resilient. CCK's shares surged sharply higher in late-May on the back of news that private equity firm Creador would be taking up a stake in its wholly-owned Indonesian retail mart business. There is yet clarity on how the proposed equity sale will boost its growth potential. And the stock has given back some gains since the initial excitement. Nevertheless, we think it remains an attractively priced consumer stock, trading at a price-earnings ratio of less than 11 times, and a proxy for the Sarawak economy.

The outlook for **KSL Holdings**, a Johor-centric property developer, remains bright given the sustained strong demand for property in the state. Last year, the number of residential property transactions in Johor recovered to the peak level in 2014 — and continued to grow by 24.3% y-o-y in 1Q2024. Despite its strong share price gains this year, the company is still trading at an undemanding price-to-book ratio of 0.5 times.

The property sector recovery also bodes well for **UOA Development**. We expect demand for its properties and sales to continue to improve. The company is currently priced at about 0.8 times book value and has consistently paid dividends over the years, thanks to its strong balance sheet. Net cash totals some RM1.9 billion currently. We estimate yields of at least 5%-6% at the prevailing share price.

Our investment in **Maybank** is yet another relatively safe bet, with decent loan book expansion and steady dividend yields. The company paid dividends of 60 sen per share in the last one year, giving shareholders a yield of 6%.

Insas, meanwhile, remains a severely undervalued holding company, trading at a significant discount to its net cash (RM1.1 billion or about RM1.70 per share) and the market value of its 13.7% stake in Inari, worth about RM1.9 billion currently. We are still hopeful that its controlling shareholders-management will eventually unlock value in the company.

Chart 2

Market rallies during periods of foreign fund inflows

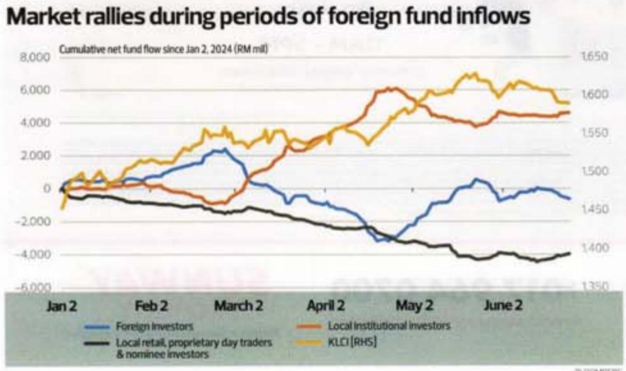

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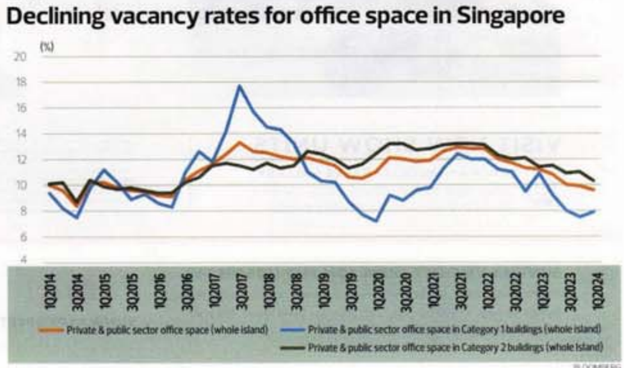
Chart 3

Declining vacancy rates for office space in Singapore



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IOI Properties Group (IOIPG) recently announced that it had received a proposal from group CEO Lee Yeow Seng on the sale of his privately owned company Shenton 101 Pte Ltd. The plan is to redevelop its commercial property, Shenton House, located in Singapore's Central Business District, into Grade A offices with luxury-branded serviced residences. Shenton 101 bought Shenton House for S$538 million in November 2023. IOIPG's purchase consideration will be determined based on the actual cost of investment incurred as at the date of acquisition.

The overall occupancy rate of offices in Singapore has been improving since 2017, with the vacancy rate falling to 9.6% in 1Q2024. The vacancy rate for Category 1 buildings — defined as buildings located in the Downtown Core and Orchard Planning area that are relatively modern, command higher rentals and have large floor spaces and gross floor area — is even lower at 7.9% (see Chart 3). Hence, we view the proposed redevelopment of Shenton House as a positive move for IOIPG that will capitalise on the strong demand for modern offices in Singapore.

The Malaysian Portfolio gained 1.4% for the week ended July 8. All stocks in our portfolio ended higher save for CCK Consolidated, which was unchanged. The top gainers were Insas Bhd - Warrants C (+5.5%), UOA Development (+4.9%) and KSL Holdings (+2.6%). Last week's gains lifted total portfolio returns to 212.3% since inception. This portfolio is outperforming the benchmark FBM KLCI, which is down 11.7%, by a long, long way.

The Absolute Returns Portfolio also gained for the week, up 1.6% and boosting total returns since inception to 2.3%. The biggest gainers were DBS (+6.8%), Airbus (+4.8%) and OCBC (+4.5%). On the other hand, D R Horton (-3.1%), Home Depot (-2.4%) and Berkshire Hathaway (-1.1%) ended lower last week.

Malaysian Portfolio

	QUANTITY	AVERAGE COST (RM)	COST OF INVESTMENT (RM)	CURRENT PRICE (RM)	CURRENT VALUE (RM)	GAIN/(LOSS) (RM)	GAIN/(LOSS) (%)
SHARES HELD							
Insas Bhd	124,700	0.777	96,907.0	1.080	134,676.0	37,769.0	39.0
UOA Development Bhd	28,300	1.663	47,051.0	1.910	54,053.0	7,002.0	14.9
Insas Bhd - Warrants C	134,800	0.417	56,205.0	0.290	39,092.0	(17,113.0)	(30.4)
CCK Consolidated Holdings Bhd	46,200	1.038	47,932.5	1.530	70,686.0	22,753.5	47.5
IOI Properties Group Bhd	23,300	2.140	49,862.0	2.210	51,493.0	1,631.0	3.3
KSL Holdings Bhd	28,500	1.750	49,875.0	1.950	55,575.0	5,700.0	11.4
Malayan Banking Bhd	5,100	9.810	50,031.0	10.020	51,102.0	1,071.0	2.1
Total shares held			**397,863.5**		**456,677.0**	**58,813.5**	**14.8**
Cash balance (as a % of portfolio)					167,995.4		26.9
Realised profits/(losses)					365,858.9		
CHANGE SINCE LAST UPDATE							
Portfolio							1.4
FBM KLCI							1.5
Portfolio returns since inception			**200,000.0**		**624,672.4**	**424,672.4**	**212.3**
Portfolio returns (annualised)							**21.8**
Portfolio beta							**0.6**
Risk-adjusted returns since inception							**334.9**

PERFORMANCE COMPARISON	AT PORTFOLIO START	CURRENT	CHANGE (%)	RELATIVE PORTFOLIO OUTPERFORMANCE (%)
FBM KLCI	1,829.7	1,615.3	(11.7)	224.1
FBM EMAS	12,700.4	12,460.7	(1.9)	214.2

Footnotes:
Current price is as at July 3, 2024 *Portfolio started on Oct 10, 2014, with RM200,000* *Data sourced from Bloomberg*

Disclaimer: This is a personal portfolio for information purposes only and does not constitute a recommendation or solicitation or expression of views to influence readers to buy/sell stocks. Our shareholders, directors and employees may have positions in or may be materially interested in any of the stocks. We may also have or have had dealings with or may provide or have provided content services to the companies mentioned in the reports.