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Uneven foreign recovery offers chance to pick up quality stocks

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PETALING JAYA: Foreign shareholder recovery, which has yet to become broad-based, offers an opportune window to accumulate overlooked quality stocks, according to Kenanga Research.

"Amid a largely bank-driven rally to start 2026, interest in the FBM KLCI has firmed up since mid-last year.

"But as foreign shareholding gains have remained narrow in breadth, this presents opportunities to pick up quality names," it said in a note.

The research house noted that foreign shareholdings have improved since hitting a low in September 2025, but this has been relatively concentrated in a few stocks.

"We also observed that since the middle of 2025, the time from which the broader FBM KLCI ascended, only a handful of stocks showed improvement in foreign shareholding," it added.

These stocks include Sime Darby Bhd; dividend favourites Malayan Banking Bhd and RHB Bank Bhd; and Press Metal Aluminium Holdings Bhd.

The rest, meanwhile, were close to neutral or declined.

MBSB Research's fund flow report for the week ended Feb 6, 2026 echoes the uneven foreign recovery, revealing that the top three sectors for net foreign inflows were financial services at RM162mil, plantation at RM37mil and construction at RM34.2mil.

"The top three sectors that recorded net foreign outflows were technology (RM54.5mil), property (RM45.2mil) and utilities (RM41.7mil)," it said.

Kenanga Research is of the view that laggard sectors such as construction, solar and utilities offered good risk-reward potential.

"We foresee some of the laggard year-to-date (y-t-d) sectors being in construction, primarily being weighed down by Gamuda Bhd, which is one of the worst-performing stocks in FBM KLCI y-t-d.

"We believe concerns for the solar sector are overblown at this juncture, despite acknowledging some risks relating to panel prices," it said.

"Within utilities, we also foresee Tenaga Nasional Bhd performing better ahead."

Additionally, the research house said its key conviction sector, banks, still has upside potential due to stronger market fundamentals such as lower investment risk, more rigorous capital management, and higher payout ratios, which have yet to be fully reflected in valuations.

"While we expect price gains to be less pacy in banks as the ringgit stabilises, this sector has not yet been fully priced for its improved fundamentals," it said.

Kenanga Research noted that, while some volatility should be anticipated in the first quarter of 2026, it expects the FBM KLCI to benefit from capital movements out of the Indonesian market.

Across Asian markets, foreign shareholders continued a three-week streak of net selling totalling US$9.84bil, led by South Korea, Taiwan, Vietnam and Indonesia, according to MBSB Research's weekly fund flow report.

Meanwhile, India, Thailand, the Philippines and Malaysia led in recorded net foreign inflows.

"Malaysia has historically been a good place to shelter relative to Asean in the face of geopolitical risks, and could now also benefit from sentiment as investors looking to reposition away from Indonesia in the short term," Kenanga Research said.

The FBM KLCI advanced yesterday, moving in line with a strong regional market performance as most major Asian indices posted solid gains by the close.

The benchmark index settled 18.47 points, or 1.07%, higher at 1,751.30.