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Worst performing counters in 1Q19

The possibility of weaker consumer purchasing power and weak 4Q18 earnings hit investor sentiment

by MARK RAO

THE soft Consumer Price Index figure for January and February in Malaysia and weaker manufacturing data abroad hit market sentiment on Bursa Malaysia with the exchange becoming laggard in the region and emerging-market sphere.

The benchmark FTSE Bursa Malaysia KLCI is down 2.7% year-to-date, while regional markets have made healthy gains over the same period.

The possibility of weaker consumer purchasing power and weak fourth quarter of 2018 (4Q18) earnings hit investor sentiment, leading to selling by local and foreign investors on Bursa Malaysia.

The banking sector was hit as investors feared the weaker price environment and slower real economy will see Bank Negara Malaysia's (BNM) Monetary Policy Committee having a bias to cut interest rate in its next meeting in May.

Investors also sold listed rubber glove makers, among the world's largest, on fears of weaker pricing power eating into profit margins.

Hence, not surprisingly, the two sectors' stocks saw some of the largest loss in market value in the 1Q. The following counters were hit particularly hard:

Pic by Afif Abd Halim

Analysts expect Public Bank to face slower loan growth and higher NIM pressure this year

Public Bank

The second-largest capped company on Bursa Malaysia, Public Bank Bhd lost billions in value in the 1Q on a challenging 2019 outlook with the bias of tighter margins for the banking sector on a possible cut in rates by BNM if economic activity slows this year.

The banking group lost 6.1% or RM5.82 billion in market value over the quarter to close the period with a market capitalisation of RM89.86 billion.

The stock fell heavily last month triggered by disappointing economic data and Finance Minister Lim Guan Eng's threat to levy windfall tax on local banks for failing to be more flexible in their lending activities.

Analysts expect the sector to face slower loan growth and higher net interest margin (NIM) pressure this year.

A favourite with foreign investors and dividend-based investors, Public Bank closed the first trading week of April at RM22.88 compared to RM24.76 at the end of 2018.

Hartalega

Prospects of a slowdown in demand from key markets coupled with rising operational costs have hit the glove makers' prospects and the downgrades by analysts have seen Hartalega Holdings Bhd and its peers losing market value as a result of selling pressure from investors.

The nitrile glove maker has lost RM5.06 billion in market value in the 1Q after its shares plunged 25% to RM4.63.

This came about in spite of the stronger earnings and revenue posted by the company in the recent quarter.

Weaker economic data from main consumer markets like the US, China and the European Union are pointing to a possible slowdown in demand for gloves.

A rise in the minimum wage rate, higher natural gas tariffs and rising raw material costs in 2019 have investors predicting tighter margins for glove makers, like Hartalega, despite the prospects of higher production levels.

Any upside for Hartalega is expected to come from its Next Generation Complex in Sepang, which is poised to cement the company's position as a global nitrile glove maker and further progress from its anti-microbial gloves business.

Hartalega closed the trading week at RM4.77 as opposed to RM6.14 at the end of 2018.

CIMB Group

Malaysia's second-largest bank by assets, CIMB Group Holdings Bhd's shares have had a tough 1Q with investors exiting the counters on fear that the weaker price environment and economic data could spell a weaker earnings period for banks if the central bank was to cut rates to support growth momentum.

CIMB's earnings grew 24.8% year-on-year (YoY) to RM5.58 billion in 2018 on lower loan loss provisions and despite revenue contracted 1.4% YoY to RM17.38 billion on weaker non-interest income.

The bank's management is predicting a loan growth of 6% in 2019 on support from expected loan expansion from its Malaysian and Indonesian operations.

However, investors appear less optimistic as most analysts are expecting a 5%-6% industry-wide loan growth this year.

CIMB has lost some RM4.78 billion in market value over the first three months of 2019 and ended the quarter with a RM49.23 billion market capitalisation.

The stock closed last week at RM5.11 compared to RM5.71 at the end of 2018.

TNB

The national power utility is among the market heavyweights that bore the brunt of the equity rout in 1Q, losing RM4.43 billion in market value over the three month period.

Tenaga Nasional Bhd's (TNB) market capitalisation stood at about RM72 billion for the 1Q and resulted in the company falling down the ranks to the fourth place among the top-capped companies on Bursa Malaysia with Petronas Chemicals Group Bhd taking the third spot on the back of a record financial year.

TNB recorded a net loss of RM134.3 million for 4Q18 on lower revenue and higher finance costs which dented investor confidence amid the weak market environment.

The lack of clarity over the company's future leadership in the period kept investors at bay and the appointment of new CEO Amir Hamzah Azizan has yet to reflect in higher share value.

Amir Hamzah replaces Datuk Seri Azman Mohd who led TNB since July 2012. The call by the government to review lower tariff rates due to a fall in feedstock input prices keep the pressure on TNB's stock price trajectory.

The counter closed the week at RM12.62 compared to RM13.60 at the end of 2018.

Top Glove

Much like Hartalega, rubber glove heavyweight Top Glove Corp Bhd's prospects are at risk of a global economic slowdown which could curtail pricing power and demand for gloves despite a growth in production volumes.

The company posted weaker earnings for the 2Q ended Feb 28 this year, with net profit slipping 2.95% YoY to RM105.79 million on higher income tax paid. Top Glove's shares declined 17.2% over 1Q19 to close at RM4.62, erasing RM2.45 billion in market capitalisation in the process.

Management has revealed fears over oversupply and rising raw material costs, but said the company expects to register an 8% to 10% revenue growth for its current fiscal year.

This is to be supported both by existing and new businesses, the latter including printing and chemical operations, and could rekindle buying interest in Top Glove's shares.