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Rating upgrade to spur fund inflow

The Star, Malaysia

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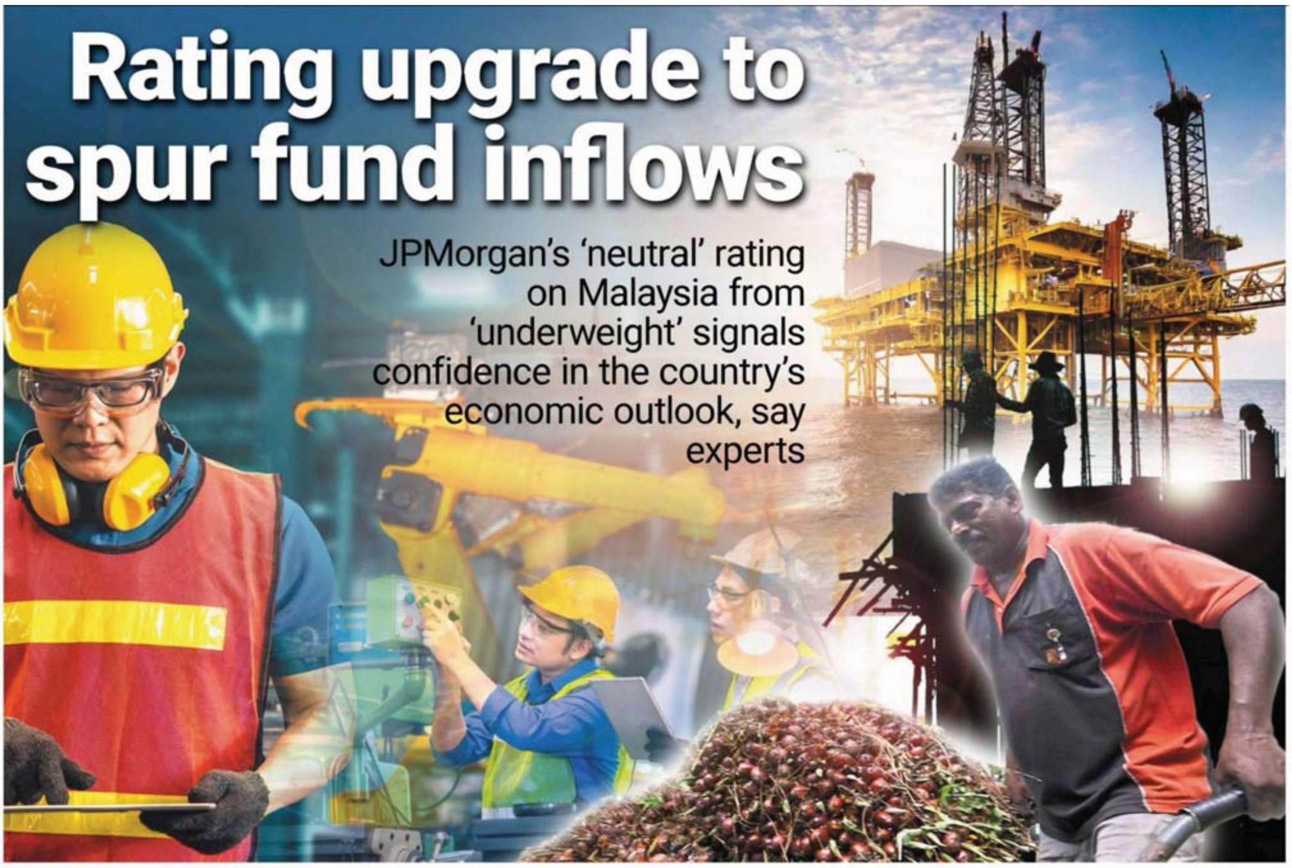
JPMorgan's 'neutral' rating on Malaysia from 'underweight' signals confidence in the country's economic outlook, say experts



ECONOMY

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PETALING JAYA: Analysts and fund managers are expecting further foreign fund inflows following a country upgrade by JPMorgan from "underweight" to "neutral."

The rating upgrade could send further longer-term foreign interest into Malaysian stocks, they said.

The rerating had seen the FBM KLCI rising steadily.

The benchmark index is comfortably passing the 1,600 to 1,610 resistance and may reach 1,750 in the near-to-medium term, according to technical chartists.

Chief executive officer and founder of Tradeview Capital Ng Zhu Hann said the report by JPMorgan is a sign of confidence in the country's economic outlook and could potentially increase fund inflows as it heads into the second half of the year.

"I'm not surprised by this rerating, but the timing to upgrade only now is a bit too slow.

"The FBM KLCI went up by some 230 points in a span of a year. The rerating can spur further inflows of foreign funds. In the past six months, the foreign funds returned, took profit and then they came in again," Ng told *StarBiz*.

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> Ng Zhu Hann

"The Malaysian stock market will continue to be the best performer this year.

"Some sectors that JPMorgan is 'overweight' on had seen their share prices go up such as Tenaga Nasional Bhd (TNB) and Westports Holdings Bhd.

"Focus will now be on the second and third liners including the small mid-cap stocks which have yet to run," Ng added.

He noted further catalysts could come from a potential US Federal Reserve rate cut which would benefit emerging markets including Malaysia.

"Potentially, the ringgit weakness will diminish, inflation will go down and it will be good for the overall economic sentiment," Ng said.

Former senior investment banker and seasoned investor Ian Yoong said the country is midway through the data centre investment theme, except for the power sector.

"The uptake of electricity from TNB and other power producers can only go up. Avoid the want-to-be data-centre plays. There is still a lot of value in non-data centre themed small mid-cap stocks," Yoong said.

"The outperformance of the domestic mega-caps, namely TNB and Telekom Malaysia Bhd, which are the largest data centre owners and operators in Malaysia, will most likely lift the FBM KLCI from the current 1,623 to 2,000 by the end of 2025.

"The confidence and trust in the leadership of the country grows by the day," Yoong added.

JPMorgan, in its upgrade report, noted that policy reforms, data centre investments and infrastructure buildout have become key tailwinds for Malaysia, in line with its outlook for this year, but they are progressing at a much stronger pace than it had anticipated.

In a TV interview with CNBC, JPMorgan head of Asia-Pacific (ex-Japan/China) Rajiv Batra said there were signs of this happening last year, adding that the quick pace of execution such as subsidy rationalisation is positively surprising.

"We need to give credit to the country's administration and hence, we have upgraded Malaysia to 'neutral'," Rajiv said.

"Foreign investors' positioning in Malaysia remains light, but there is greater upside once it inflects upwards. We are increasingly constructive on the Malaysian equities outlook, based on the tailwinds and raise our FBM KLCI target base case to 1,650 from 1,500 previously.

"Our preferred sectors and key picks include construction, utilities, technology, healthcare and ports," JPMorgan said.

On the flip side, it also acknowledged the challenges of subsidy rationalisation, external volatilities and potential impact of the upcoming US presidential election, which could result in weaker consumption spending, a stronger US dollar and external demand.

Also, the impending civil servant pay hike in Malaysia is expected to have a positive impact on consumption spending patterns.

It noted that the move would also help cushion the government's measures on fuel subsidy rationalisation, which could initially dampen consumer spending and overall economic activity.

"The immediate economic adjustments may result in short-term volatility and uneven sector performance. The renewable energy and electric vehicle sectors could see accelerated growth from higher fuel prices," JPMorgan said.

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Rajiv: Subsidy rationalisation to increase productivity

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"The cuts in the subsidies will go towards key policies that would increase economic productivity – literacy, people reskilling or even the progressive wage policy, which Malaysia is taking inspiration from Singapore," Rajiv said.

JPMorgan said attention would shift to the anticipated RON95 petrol subsidy rationalisation, noting it has a higher weightage to the consumer price index, at 5.5% compared with diesel at 0.2%.

It estimated that for every 10% increase in the RON95 retail price, it will add 0.5% points to the consumer price index compared with diesel at 0.02% points.

Meanwhile, the research house said political stability remained a key anchor that would continue to maintain investor confidence in the country.

"In our view, Malaysia's current political stability is a cornerstone for sustained economic growth and investor confidence.

"The next general election is not until February 2028, which is in another 3½ years. That provides the government with a substantial window to implement and demonstrate the effectiveness of its policies," the research house said.

"This stability ensures a more predictable and secure environment for businesses and investors, reducing the risk of sudden policy shifts and fostering long-term planning and investment, in our view," it pointed out.