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Benchmark index touches all-time high

BY **KAMARUL ANWAR**

In the past week, Tenaga Nasional Bhd's announcement of a 15% tariff hike effective next year helped push the FBM KLCI to a new all-time high.

While there was a buying frenzy of Tenaga shares amid expectations of a big jump in the utility group's earnings, most of the benchmark index's component stocks had been trading sideways since the post-general election rally. Thus, one has to wonder whether the FBM KLCI still has any upside potential, especially since it has always been trading at a higher valuation compared with its regional peers.

"Going into 2014, corporate earnings are expected to grow another 5% to 15% overall. This, in theory, is the upside of the market, assuming that there is no de-rating or re-rating of the market," says Hwang Investment Management Bhd head of equities Gan Eng Peng.

"We don't think the market will re-rate much more as it is not cheap anymore. Neither do we think it will de-rate much, as the abundance of liquidity is propping up valuation."

He says the investment fund is of the opinion that the FBM KLCI has more upside in the near term, given that December and January are usually the stronger months for market performance.

"This is due to the fund repositioning for the New Year [and a tendency] to start the year with more optimism. Earnings forecasts tend to be higher at the beginning of the year before analysts mark down their forecasts as the year progresses."

The FBM KLCI closed at 1,824.86 points last Thursday — one of four days last week that saw new records being created. It went as high as 1,828.46 points on Wednesday, which was a new intraday high. The last time it touched a new intraday high was on May 6 when it reached 1,826.22 points.

When compared with the corresponding period last year, the benchmark index has risen by 208.63 points or 12.91%. Gan, however, says the FBM KLCI's rise is not that significant if reinvested dividends are factored in.

"The FBM KLCI has done about 11% return this year with dividend reinvested. It has been climbing steadily since 2009. Overall, we think the pace of the climb has not been excessive and reflects the economic growth of the country and corporate growth of the listed components," he says.

Bloomberg data, however, shows that the benchmark index's earnings per share (EPS) estimate for this calendar year-end will be 106.98 sen, down from last year's 112.15 sen. Malaysia's economy, too, is expected to grow between 4.5% and 5% this year, softer than last year's 5.6% growth.

Nonetheless, the consensus estimate for next year's EPS is 117.42 sen, which shows an average year-on-year growth of 9.76%.

While Tenaga was the obvious cause of the recent jump in the FBM KLCI, Inter-pacific Securities Sdn Bhd head of research Pong Teng Siew says the revised and leaner list of syariah-compliant securities set by Securities Commission Malaysia resulted in a lot of movements in the composite index.

"With a smaller number of syariah-compliant component stocks, there has been a portfolio-reshuffling exercise done by syariah funds and this resulted in the FBM KLCI becoming sensitive towards this movement.

"While the portfolio-reshuffling exercise will obviously not benefit banking stocks, there have been movements within plan-

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Foreign funds heavy sellers of Malaysian equities

FROM PAGE 38

tation stocks. [Last] Thursday, for example, Felda Global Ventures Holdings Bhd and IOI Corp Bhd became some of the day's biggest movers," he says.

In total, 148 counters across the bourse have been removed, with YTL Power International Bhd, Bumi Armada Bhd, S P Setia Bhd and AirAsia Bhd being the stocks with the biggest market capitalisations taken out of the list.

Though Pong agrees that there is usually a year-end rally, he thinks there is a possibility that the early part of next year "could be quieter".

"[The FBM KLCI] has been very good in the past few weeks. However, what's not so encouraging is the persistent negative breadth and the trading is not broadly participated in. By the end of this quarter, things could be quieter."

Nonetheless, Pong says local institutional funds, which are cash rich, will do enough buying to offset the selling that could happen after the end of this quarter.

Gan says this large pool of local institutions — which have allowed the FBM KLCI to trade at a decent premium over its regional peers — have led to foreign investors coming to Malaysia.

"Foreign investors are increasingly more accepting of [the major presence of local institutional funds] and often come to Malaysia as a hiding place during periods of volatility. So while the FBM KLCI is overvalued in the strict sense, it is not if we factor in the special circumstances."

He also points out that despite the recent rise in the FBM KLCI, foreign funds have been relatively heavy sellers of Malaysian equities.

MIDF Research's report shows that foreign funds have been net sellers since the week ended Oct 4.

"Their selling has been more than absorbed by domestic buying. We think the negativity of the Asean space from the foreign perspective has been well absorbed by domestic liquidity. So while in the short term it is a bit stretched in terms of the run — if you can even call it that — the downside should not be more than 2% to 3% from the current levels from the profit taking," says Gan.

When it comes to catalysts for the FBM KLCI, he says the government's efforts to improve its public finances through the subsidy rationalisation programme could attract investors.

"On a regional basis, Malaysia is seen as being more advanced and bolder in putting its house in order. Compared with Thailand and Indonesia, the picture is clearly better [in Malaysia] in terms of politics and the economic management of the country.

"If the [Malaysian] government can continue its pace of subsidy rationalisation through the year and implement what it proposes, investors should award the country with a strong ringgit and higher market levels." E

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52-week FBM KLCI component stock movers

STOCK	END PRICE (AS AT DEC 5)	PERCENTAGE INCREASE / (DECREASE)
Tenaga Nasional	RM10.94	57.41
Petronas Dagangan	RM30.56	32.07
PPB Group	RM15.12	27.27
Petronas Gas	RM23.30	26.77
Hong Leong Financial Group	RM15.72	23
Genting Malaysia	RM4.21	21.33
IHH Healthcare	RM3.96	21.10
IOI Corp	RM5.80	19.83
Public Bank	RM18.46	18.64
Kuala Lumpur Kepong	RM24.40	17.87
Petronas Chemicals Group	RM6.74	17.63
AMMB Holdings	RM7.45	15.86
Genting	RM10.08	14.16
UMW Holdings	RM12.50	13.64
Axiata Group	RM6.72	13.32
Maxis	RM7.21	11.96
British American Tobacco (M)	RM63.18	11.59
UEM Sunrise	RM2.30	10.58
Malayan Banking	RM9.74	7.51
SapuraKencana Petroleum *	RM4.37	6.07
Sime Darby	RM9.51	6.02
RHB Capital	RM7.80	3.72
MISC *	RM5.25	3.55
CIMB Group Holdings	RM7.65	2.27
Bumi Armada **	RM3.81	1.60
YTL Power International **	RM1.54	0.65
Malaysia Marine and Heavy Engineering Holdings ****	RM4.41	unchanged
DiGi.Com	RM4.80	-0.62
Felda Global Ventures Holdings ***	RM4.59	-1.71
Astro Malaysia Holdings ***	RM2.85	-2.40
Hong Leong Bank	RM14.20	-3.27
Telekom Malaysia	RM5.25	-3.85
YTL Corp	RM1.59	-10.17
AirAsia ****	RM2.53	-10.28

*Added on June 24, 2013
*Removed on June 24, 2013
***Added on Dec 24, 2012
****Removed on Dec 24, 2012

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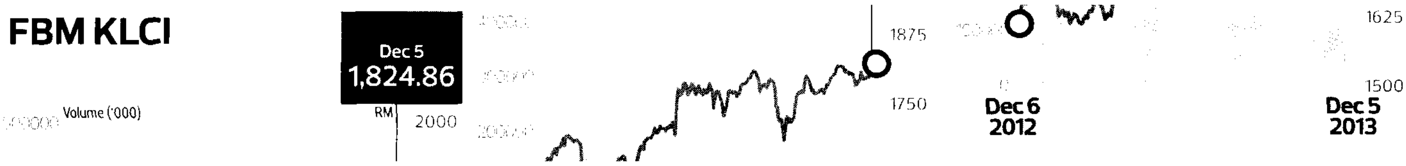

Tenaga's planned 15% tariff hike next year helped push the FBM KLCI to a new all-time high