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SunBIZ
To look a gift horse in the mouth
Foreign funds see Bursa Malaysia as less attractive than regional peers

'Foreign funds see Bursa Malaysia as less attractive than regional peers'

BY **LEE WENG KHUEN**
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KUALA LUMPUR: While Malaysia's bond market is compelling to foreign funds, Affin Hwang Asset Management Bhd chief investment officer David Ng said the attractiveness of the local equity market is lower than that of other regional markets.

Speaking at a media briefing on the global market outlook for the second half of 2016, he said foreign funds could come back in the second half of the year if good growth is demonstrated.

"Other Asean markets have done well, so from the valuation standpoint, Malaysia is a laggard," he said.

Nevertheless, Ng noted Malaysia's relatively good bond yields are drawing fund managers' interest.

"Foreign inflows into Malaysian government bonds have been very strong. Foreign ownership is at an all-time high of 51%," he said.

Returns for 10-year Malaysian government securities, which yield 3.5%, are definitely better than the negative interest rate offered by 40% of developed market government bonds, he added.

Ng said Malaysia needs to figure out ways to draw foreign investments by capitalising on human capital following the pullback of investments within the oil and gas space. "Malaysia needs to look seriously at how to move the economy forward ... tourism, education and healthcare could offer some opportunities."

Ng favours Malaysia's dividend yielding stocks such as IGB Real Estate Investment Trust and Fraser & Neave Holdings Bhd (F&N). Besides that, he foresees the infrastructure and construction theme amid sluggish economic environment.

"People are prepared to pay a premium for companies of higher earnings certainty and F&N is of one of those examples," he said, noting that there are a handful of small and mid-cap stocks that pay high dividend yields, such as Classic Scenic Bhd.

While the aggregate corporate earnings for Malaysia may not be fantastic, Ng believes there will still be sectors with good earnings growth. One of his top picks is Tenaga Nasional Bhd, which gives earnings certainty and potentially higher dividend.

He, however, cautioned that the biggest risk that could trigger a reversal in fund flows is the potential US interest rate increase.

On the economic front, Ng is of the view that Malaysia's gross domestic product could sustain 4% growth this year, driven by the acceleration in government spending. He believes there will be no further reduction in the Overnight Policy Rate following a 25-basis point cut to 3% last month.

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Ng says Malaysian bonds are drawing foreign fund managers' interest