

Headline	More upside in 2014		
MediaTitle	The Star		
Date	28 Dec 2013	Language	English
Circulation	298,821	Readership	1,839,000
Section	Star BizWeek	Page No	8
ArticleSize	674 cm <sup>2</sup>	Journalist	Yvonne Tan
PR Value	RM 93,804		



# More upside in 2014

## A better outlook awaits the local stock market

By YVONNE TAN

yvonne@thestar.com.my

**C**OME every new year, predictions and views are given on how the stock market will perform.

While there tends to be differing opinions on certain areas like stock picks, a couple of views have been constant all these years.

One is that the stock market will end better than the year before but not without the volatility factor in between, second is that challenges especially from the global front will continue to have an impact on the market.

As at Dec 27, the FTSE Bursa Malaysia KLCI (FBM KLCI) ended the year up 10.2% to 1,861.06 points.

Against key regional markets, the local stock market was one of the best performers, outperforming most except the Taiwan and Vietnam markets.

The relatively better performance was attributed partly to Bursa Malaysia playing catch-up with its peers after being a laggard in 2012 ahead of the general election (GE13) in May last year.

MIDF Research sums it well when it says that in essence, it was a largely politics-driven market during the first half of 2013 and a substantially liquidity-driven one in the later half of the year.

### A better outlook

This year, with the local political risk factor removed from the market after last year's GE13 and a better economic outlook due to more stringent economic measures, analysts and fund managers have every reason to be even more upbeat than usual.

Areca Capital's Danny Wong says he is looking at mid-caps, stocks with strong earnings potential and those with clear growth catalysts.

"In general, my top three sectors are beneficiaries of economic growth - oil and gas, plantation and the export-oriented electronic and electrical sectors.

"I also like mid-small caps which include Barakah Offshore Petroleum Bhd, Inari Bhd, Kumpulan Fima Bhd

and Eastern & Oriental Bhd (E&O)," says Wong who helps manage some RM900mil in funds.

He is allocating lesser assets this year in long-term fixed income securities in view of a potentially better economic growth and a good equity outlook.

Malaysia's economy is expected to experience a 5% year-on-year growth in 2014 from the estimated 4.6% growth this year, according to economist predictions.

"Our local corporates are expected to continue to deliver strong earnings which could then push the index to a higher level."

Positive signs from the world's biggest economies such as US, Europe, Japan and China, are likely to lift corporate earnings and spill over to equity markets as well, he adds.

One of the most obvious signs of a global recovery is the fact that global semiconductor sales reached a new record of US\$27bil (RM84mil) in September, up almost 9% year-on-year and 6.6% month-on-month.

Experts are expecting the momentum to continue going by the huge global appetite for tablets and smartphones that do not seem to be wavering any time soon.

In its 2014 market outlook report, MIDF concurs saying improved external outlook would see exports recovering faster this year but "it is unlikely to be in the main seat of growth drivers".

"The stronger exports growth is likely to be in the E&E - a more stable exports earnings source, which would then be accompanied with a pick-up in the manufacturing sector that would offset the loss of momentum expected in domestic demand."

MIDF, which has a FBM KLCI target of 1,900 for 2014 is advocating a risk-balance portfolio and continues to recommend a portfolio with combination of stocks that have inherent earnings quality, good earnings growth potential, and/or attractive valuation.

Among its top ten picks which fit this criteria are property firms Faber Group Bhd, Glomac Bhd, SapuraKencana Petroleum Bhd and TH Plantation Bhd.

Fortress Capital Asset Management's Thomas Yong says measured against its Asean peers, Malaysia remains "head and shoulders" above most of its peers, particularly for its sound economic management and political stability.

"In the asset allocation context within the Asean bloc, we are positive on Malaysia," he says, based on the aforesaid reasons as the ringgit and Bursa Malaysia provide a superior risk return payoff in comparison to its Asean peers.

Still, when comparing Malaysia with the rest of Asia, Yong is not as positive.

He is more cautious on Malaysian equities when compared to North Asian markets such as China.

The FBM KLCI is currently trading at 2014 price earning ratio (PER) of about 16 times, with EPS growth of 12% while the China H-share Index is trading at about 8x PER and 9% earnings per share or EPS growth.

"The large premium is not justified when we are expecting a cyclical rebound of exports in the larger economies of North Asia as US and Europe recovers from the aftermath of the 2008 financial crisis."

Yong notes that the economic fundamentals of North Asian countries are also "far more superior".

The multi-year outperformance of the ASEAN markets in the last few years have turned as North Asia markets rebound from record lows driven by recovery of demand from the US and Europe.

"As investment capital fuelled by low US interest rates environment reverses and move out of ASEAN markets, ASEAN central banks will keep interest rates higher and longer to counter currency volatility, thus rendering monetary policy less effective in promoting growth."

Yong's stock and sectors picks are also Barakah Offshore for oil & gas, Gamuda Bhd for infrastructure and

Headline	More upside in 2014		
MediaTitle	The Star		
Date	28 Dec 2013	Language	English
Circulation	298,821	Readership	1,839,000
Section	Star BizWeek	Page No	8
ArticleSize	674 cm <sup>2</sup>	Journalist	Yvonne Tan
PR Value	RM 93,804		

construction and PPB Group Bhd for plantation.

TA Securities Kaladher Govindan says he remains positive on the Malaysian market as the house's end-2014 index target is 1,910 based on CY15 PER of 15.4 times.

In the same vein, TA does not foresee compelling reasons for the FBM KLCI to trend much higher than the end-2014 forecast as PER and price to book valuations are steep vis-à-vis its ROE, unless earnings outlook improves.

Its focus is on fundamentally solid small and mid-cap plays with its top buy picks including Sunway Bhd, Iris Corp Bhd, Perisai Petroleum Teknologi Bhd, UMW Holdings Bhd, Tenaga Nasional Bhd and Sapura Kencana.

## Challenges

The US Federal Reserve's potential tapering of its current US\$85bil a month purchase of assets globally is first and foremost on everybody minds although it has been a recurrent theme for months now.

Still, a Citigroup Capital Markets report notes that investors seem better positioned for the taper this year versus last year, and countries are somewhat better positioned policy-wise than before.

"Although our local market could succumb to selling pressure post Quantitative Easing or QE cuts, we believe the defensive nature of our equity market, supported by strong

domestic economy, would entice many

cash-rich domestic funds to bottom fish," says TA in its strategy report.

This is so that they ride on the index recovery when the capex upcycle picks up momentum with the rollout of domestic contact awards and improvement external demand, it notes.

Concerns on slower growth in China, a recurring US debt ceiling impasse as well as corporates failing to deliver on earnings as a result of recent subsidy cuts could also provide short-term volatility spurts in the market throughout the year.



Headline	More upside in 2014		
MediaTitle	The Star		
Date	28 Dec 2013	Language	English
Circulation	298,821	Readership	1,839,000
Section	Star BizWeek	Page No	8
ArticleSize	674 cm <sup>2</sup>	Journalist	Yvonne Tan
PR Value	RM 93,804		



- ① The FBM KLCI has climbed up 10.2% so far this year.
- ② Wong's top sectors are oil and gas, plantation and electronic and electrical.
- ③ Yong is more cautious on Malaysian equities when compared with North Asian markets such as China.