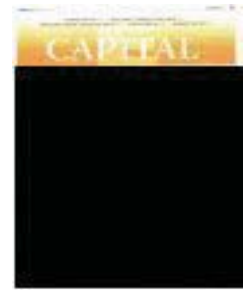


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EPF takes profit on gains, seeks better timing to re-enter market

BY LEE WENG KHUEN

Taking advantage of recent gains in the benchmark FBM KLCI, the Employees Provident Fund (EPF) has locked in some profit for its 14.8 million members by trimming its holdings in a number of portfolio blue chips, banking stocks in particular.

The country's largest pension fund made the move after the index rose by 111.58 points or 7.5% to 1,601.38 points on Aug 30, from a nine-month low of 1,489.8 points on Aug 6.

But will the EPF's paring of its shareholding in local stocks affect support for the local market? And what about the role of foreign funds, which have been mostly absent for the greater part of the past two years but have been nibbling of late?

As at Sept 10, foreign investors remained net buyers of local equities for the fifth consecutive week even though it was at a slower pace of RM433.16 million from RM786.42 million in the prior week, according to MIDF Research.

Year to date, foreign funds were still net sellers to the tune of RM3.79 billion, while local institutions had offloaded RM6.04 billion worth. Fortunately, retail investors stepped into the breach and were the only net buyers amounting to RM9.83 billion.

The EPF has invested in 24 of the 30 FBM KLCI component stocks. Recent stock exchange filings reveal that the pension fund has embarked on a selling mode in most of the constituents, especially banking stocks, as the Financial Services Index had gained as much as 5.6% in the past month.

Among the banking stocks, RHB Bank Bhd was trimmed the most by the EPF at 0.518 percentage point (ppt), followed by CIMB Group Holdings Bhd (0.45ppt), Public Bank Bhd (0.44ppt), Hong Leong Bank Bhd (0.295ppt) and Malayan Banking Bhd (0.118ppt).

Banking stocks were also hit by Putrajaya's directive to financial institutions last week to exempt recipients entitled to a loan moratorium from interest payments for a period of three months.

Even though analysts say the impact is manageable for banks, investors are wary of the directive's impact on bank earnings.

In other sectors, the EPF has also been disposing of certain counters.

Owing to high crude oil prices, there has been net buying by the EPF in oil and gas-related counters such as MISC Bhd (+0.05ppt) and Petronas Gas Bhd (+0.08ppt), although it sold 0.06% in Dialog Group Bhd, which analysts believe is undervalued.

The pension fund's response to glove stocks has also been mixed. It disposed of a 0.05% stake in Top Glove Corp Bhd on de-



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EPF shareholding changes in FBM KLCI constituents

COMPANY	SHAREHOLDING AT MID-SEPT 2021 (%)	SHAREHOLDING AT MID-AUG 2021 (%)	SHAREHOLDING CHANGE (PPT)	ONE-MONTH SHARE PRICE CHANGE (%)
Axiata	16.992	17.035	-0.043	6.3
CIMB	15.1	15.55	-0.45	3.9
Dialog	11.82	11.88	-0.06	2.7
Digi.Com	15.078	15.075	0.003	5.4
Hartalega	8.303	8.155	0.148	-11.4
Hong Leong Bank	9.975	10.27	-0.295	1.3
IHH Healthcare	8.825	9.199	-0.374	12.8
IOI Corp	13.196	13.292	-0.096	4.3
Kuala Lumpur Kepong	15.121	15.315	-0.194	1.2
Malayan Banking	14.112	14.23	-0.118	3.0
Maxis	11.968	11.985	-0.017	22.9
MISC	11.46	11.41	0.05	4.3
Nestle	9.207	9.284	-0.077	1.1
Petronas Chemicals	7.776	7.924	-0.148	-0.5
Petronas Dagangan	11.047	11.047	No change	6.0
Petronas Gas	13.108	13.028	0.08	5.4
PPB	12.252	12.223	0.029	1.1
Public Bank	14.64	15.08	-0.44	1.5
RHB Bank	41.084	41.602	-0.518	1.7
Sime Darby Bhd	9.181	9.653	-0.472	6.2
Sime Darby Plantation	16.92	17.064	-0.144	9.4
Telekom Malaysia	17.293	17.613	-0.32	3.1
Tenaga Nasional	17.52	17.7	-0.18	5.4
Top Glove	6.176	6.226	-0.05	-13.9

clining average selling prices, yet increased its shareholding in Hartalega Holdings Bhd by 0.148ppt to 8.303%.

In telco stocks, the EPF reduced its exposure in Axiata Group Bhd and Maxis Bhd by 0.043ppt and 0.017ppt respectively, but bumped up its shareholding in Digi.Com Bhd by 0.003ppt.

As the share prices of plantation stocks rose on resilient crude palm oil prices, the pension fund disposed of stakes in IOI Corp Bhd, Kuala Lumpur Kepong Bhd and Sime Darby Plantation Bhd by 0.096ppt, 0.194ppt and 0.144ppt respectively.

It is worth pointing out that in non-FBM KLCI constituents, the EPF did not transact in the shares of Malaysia Building Society Bhd (MBSB) in the past month, even though the bank's share price has appreciated by as much as 6.5%. The pension fund remains the largest shareholder of MBSB with a dominant 65.87% stake.

The EPF's shareholding in Malaysian Resources Corp Bhd, Globetronics Technology Bhd, IJM Corp Bhd and Gamuda Bhd also remained unchanged as at mid-September.

But the fund acquired more shares in stocks under the recovery theme such as Malaysia Airports Holdings Bhd, Sunway REIT and Axis REIT.

Areca Capital Sdn Bhd CEO Danny Wong says the EPF's decision to buy or sell is dependent on its mandate and market liquidity.

"It is so big and cannot just join the 'herd movement' — buying when the market is buying or selling when the market is selling. This will escalate the volatility in the market, which is not in its interest.

"It usually sells when there is volume. But when people are selling, then that is the time to collect enough shares because of the liquidity," he tells *The Edge*, adding that the portfolio weightage may change over time, subject to the performance of each segment.

"For example, [in] this round, big-cap stocks have moved faster than small-cap stocks, [so] the big funds will rebalance and restructure their portfolios," Wong explains.

No reason to sell

Given the improving market outlook, Wong sees no reason for institutional investors to sell. "Perhaps, they are just readjusting their portfolios, moving funds into other segments like technology, or from growth to reopening sectors," he says.

Although Malaysia has been plagued by political instability, which has led to foreign funds shunning the local bourse, he thinks such a risk factor has been diminishing as local stocks are beginning to look attractive in line with the economic recovery.

As global markets head further north, the

CONTINUES NEXT PAGE

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Corporate earnings sustainability key to boosting investor confidence

FROM PREVIOUS PAGE

risks of a reversal in the local market may rise, but Wong is not unduly concerned as he believes emerging markets will benefit when US stocks reach toppish levels.

"There has been some decoupling from the US market and the situation is very different right now. When there is huge liquidity in global markets, investors tend to take profit after the US market rallies. They don't allocate too much funds to high-return markets, which have already performed. Instead, they would allocate more to emerging markets where they can see higher growth.

"Emerging markets, including Malaysia, will actually attract international funds that seek high returns. Although there could be short-term volatility, the long-

term strategy is to focus more on high-growth markets," Wong explains.

On the domestic front, last week's landmark signing of a bipartisan memorandum of understanding (MoU) on "political transformation and stability" between the federal coalition government and the opposition Pakatan Harapan coalition ought to provide a timely boost to the stock market — at least in the short to medium term.

One of the implications of the MoU is that the 15th general election will not be held until August 2022 at the earliest. This is expected to help stabilise the political landscape and perhaps attract more foreign funds into Malaysian equities.

That said, the sustainability of corporate earnings is still key to boosting investor confidence. ■

EPF shareholding changes in main non-FBM KLCI constituents

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COMPANY	SHAREHOLDING AT MID-SEPT 2021 (%)	SHAREHOLDING AT MID-AUG 2021 (%)	SHAREHOLDING CHANGE (PPT)	ONE-MONTH SHARE PRICE CHANGE (%)
Malaysia Building Society	65.871	65.871	No change	0.8
Malaysian Resources Corp	36.205	36.205	No change	17.4
Bermaz Auto	19.677	20.008	-0.331	4.0
Globetronics Technology	18.06	18.06	No change	-1.4
IJM Corp	16.66	16.66	No change	3.3
Yinson	17.422	16.967	0.455	9.6
Sunway REIT	15.21	15.17	0.04	0.7
Axis REIT	15.406	15.374	0.032	No change
Malaysia Airports	15.449	15.207	0.242	16.9
Gamuda	14.63	14.63	No change	16.4