

Malaysia Strategy

Fund flows

Foreign net sell continues

Foreign investors sold a net MYR1.3b of Malaysian equities in Dec 2015, bringing the total net sell to MYR19.7b for 2015 (highest since the data was available from early-2010). This was 2.9x the MYR6.9b net sell in 2014. Consequently, the cumulative foreign net buy since early-2010 has tapered to just MYR7.2b at end-2015 versus MYR26.9b end-2014. Foreign shareholding in the market was down 1.2-ppt YoY to 22.6% as at end-2015, from 23.8% end-2014. The net sell has continued into the new year.

Pressure points

Our views for 2016, highlighted in our “2016 Outlook & Lookouts” report on 14 Dec 2015 are unchanged. We expect volatility to persist; largely externally induced, compared with 2015, with headwinds revolving around US’ monetary policy normalisation, China’s structural slowdown, and the impact to EMs. An ‘externally induced’ wild card for Malaysia is crude oil price which has fallen further to USD32/bbl (Brent). The fluid crude oil price situation could rekindle concerns on fiscal and current account balances.

Target and growth

Our end-2016 KLCI target is 1,800, which continues to tag the KLCI to, at about its mean PER valuation (our 1,800 implies 15.6x 2017 PER). This, in turn, is premised on our 7.5% KLCI core earnings growth forecast in 2016, 7.7% in 2017. Bottom-up, based on the target prices for the KLCI stocks under our coverage, we derive 1,790. 2016 corporate earnings would receive a boost from a lower statutory corporate tax rate by 1-ppt. The earnings risk however remains on the downside; pressure points are at the banks, consumer-related and plantation sectors.

Strategy

We continue to advocate a defensive core equity portfolio - telco, utility, consumer staples, selected REITs, healthcare - with the thematic and value stocks to provide the outperformance. Key thematic, in our view, will revolve around: (i) substantial construction awards relating to rails, highways, TODs, (ii) continued strength in the USD, (iii) Sarawak’s state election in 2Q16, (iv) a strong El Nino in 1H16, and a potential La Nina towards end-2016, (v) Shariah investing. Longer term, investors should strengthen their portfolio: (i) in the niche export sectors, which are TPPA beneficiaries, (ii) which will benefit from China’s One Belt, One Road.

Top BUYs

Stock	Bloomberg Code	Mkt Cap (USD m)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E		P/BV		Dividend Yield (%)	
							CY15F	CY16F	CY15F	CY16F	CY15F	CY16F
Tenaga Nasional	TNB MK	16857.0	Buy	13.12	16.00	21.9	9.0	10.0	1.5	1.4	2.4	2.7
Petronas Chemicals	PCHEM MK	13605.0	Buy	7.47	7.80	4.4	18.9	16.9	2.3	2.2	2.4	2.9
Genting Bhd	GENT MK	6203.9	Buy	7.28	9.05	24.3	16.9	14.5	1.0	0.9	0.4	0.5
Gamuda	GAM MK	2525.0	Buy	4.61	6.00	30.2	14.0	16.0	1.6	1.7	2.8	2.6
Top Glove	TOPG MK	1978.3	Buy	13.84	16.60	19.9	23.5	20.9	5.0	4.6	1.9	2.4
BIMB Holdings	BIMB MK	1383.3	Buy	3.94	4.50	14.2	10.2	11.2	1.7	1.6	3.2	3.1
AFG	AFG MK	1215.9	Buy	3.45	4.20	21.7	8.6	9.5	1.1	1.0	4.9	4.9
Inari Amertron	INRI MK	792.8	Buy	3.70	4.15	12.2	23.1	17.4	6.5	5.5	2.4	2.3
AirAsia	AIRA MK	880.7	Buy	1.39	1.75	65.5	4.8	4.8	0.8	0.7	0.0	0.0
MCIL	MCIL MK	234.3	Buy	0.61	0.73	19.7	6.6	7.4	1.2	1.1	6.5	6.6

Source: Maybank Kim Eng

SEE PAGE 7 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

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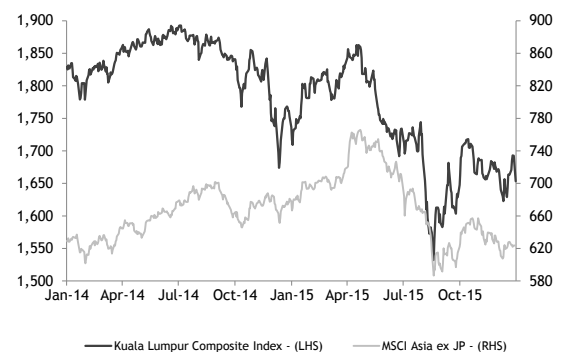
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Current KLCI: 1,655.1 (6 Jan)

YE KLCI target: 1,800 (unchanged)

Country Index vs MSCI



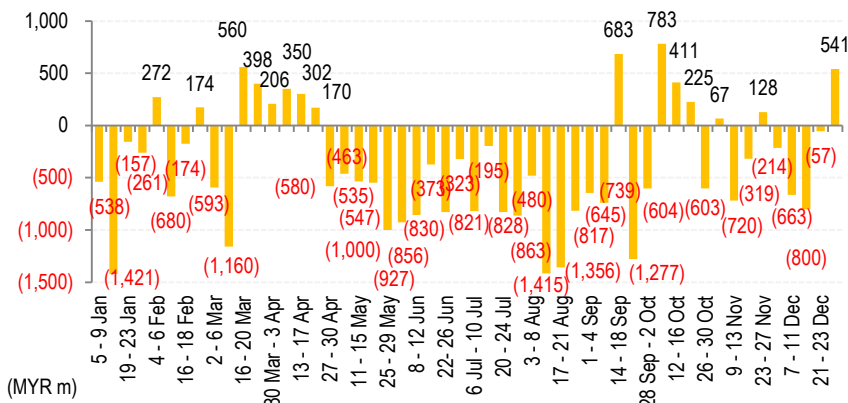
Sector weights

Overweight	Underweight
<u>Top down</u>	
Construction	Building material
Glove	Property
Semiconductor	
<u>Bottom up</u>	
Shipping & ports	
Utility	

Substantial foreign net sell

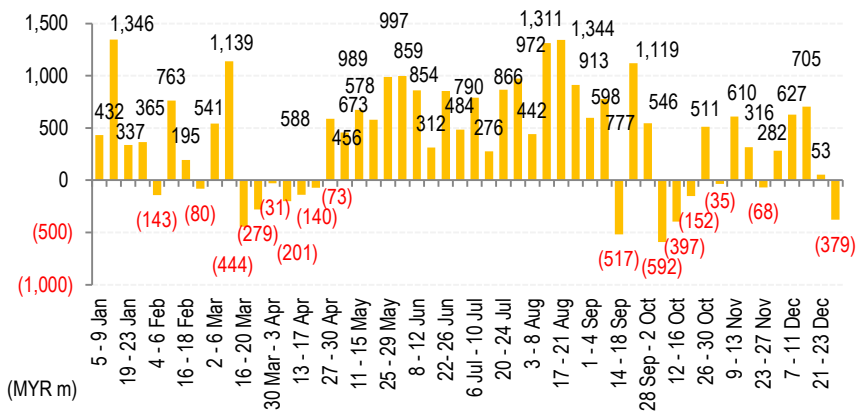
Foreign investors were net sellers of Malaysian equities in Dec 2015, at MYR1.3b. The bulk of the selling occurred in the earlier part of the month (continuing on from the month before), while they turned net buyers from 22 Dec until 31 Dec, probably to ride on year-end window dressing activities. Domestic institutions were net buyers in December, while retailers were net sellers. Consequently, foreign net sell in the whole of 2015 climbed to MYR19.7b (in 37 out of the 52 weeks), which was 2.9x the MYR6.9b net sell in 2014. Domestic institutions were net buyers at MYR23.6b in 2015 (2014: MYR10.3b net buy) while retailers were net sellers at MYR1.9b (2014: MYR1.2b net sell).

M'sian equities: Weekly foreign net buy / (sell) since Jan 2015 (MYR b)



Source: Bursa Malaysia, Maybank KE (chart)

M'sian equities: Weekly domestic institutions net buy / (sell) (MYR b)

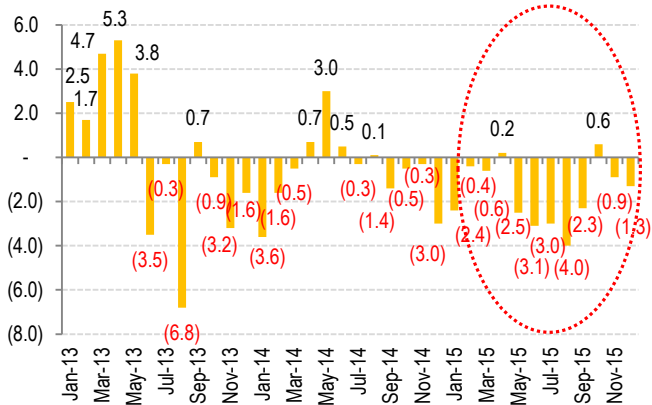


Source: Bursa Malaysia, Maybank KE (chart)

Cumulative foreign net buy tapered substantially

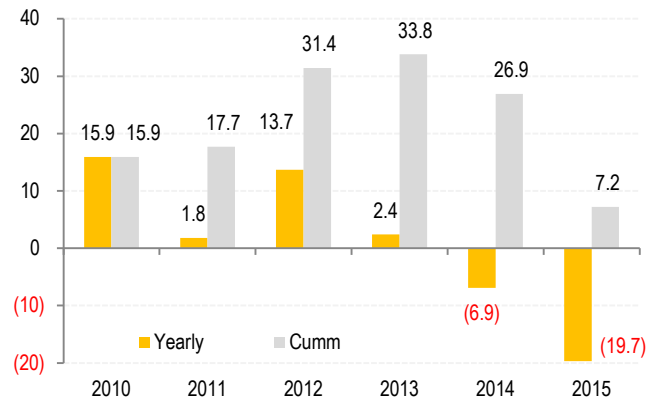
Consequently, the cumulative net buy by foreign investors since early-2010 have tapered to just MYR7.2b as at end-2015 compared to MYR26.9b as at end-2014. Among ASEAN EMS, foreign net selling in 2015 has been the heaviest on Malaysia, followed by Thailand, for the second consecutive year.

Malaysian equities: Monthly foreign net buy/(sell) (MYR b) - Foreigners were net sellers in 10 out of 12 months in 2015



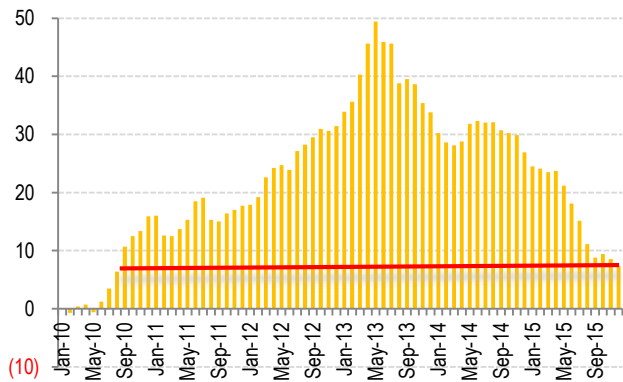
Source: Bursa Malaysia, Maybank KE (chart)

Malaysian equities: Yearly and cumulative foreign net buy/(sell) since 2010 (MYR b) - Cumulative foreign net buy has tapered to just MYR7.2b at end-2015



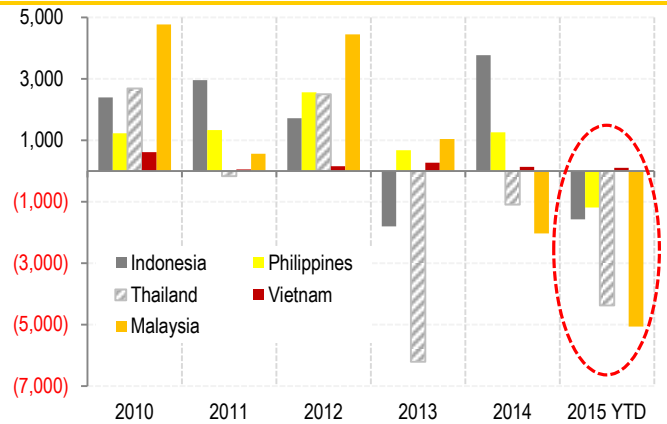
Source: Bursa Malaysia, Maybank KE (chart)

M'sian equities: Cumulative net foreign buy (MYR b) - Back to pre-Sep 2010 levels



Source: Bursa Malaysia, Maybank KE (chart)

Regional equities: Foreign fund flows into/(out of) equities, yearly (USD b) - Heaviest net sell in Malaysia in 2015

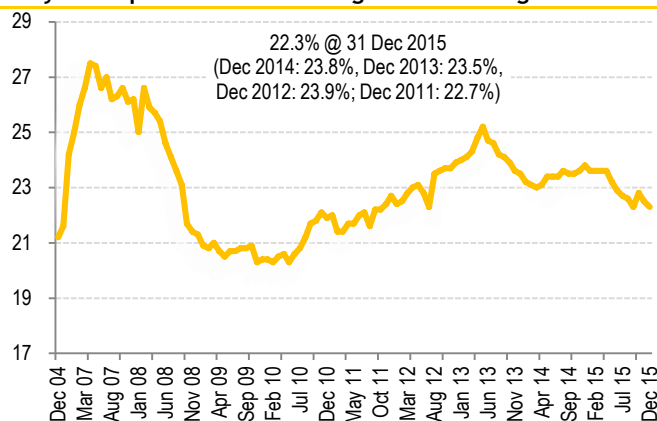


Source: Bursa Malaysia (for M'sia), Bloomberg, Maybank KE (chart)

Continued tapering in foreign holdings

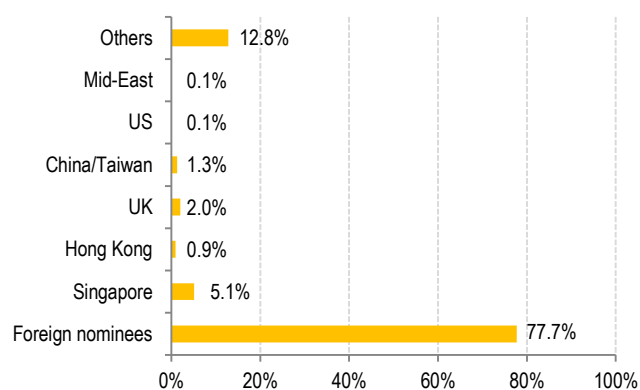
Malaysian equities foreign shareholding was down 1.5-ppts YoY to 22.3% end-Dec 2015, compared to 23.8% at end-Dec 2014. At 22.3%, this is 2-ppts above the recent low of 20.3% in Feb 2010 (GFC/post-GFC lows were 20+% over Jan 2009-Jul 2010) but 2.9-ppts below a recent high of 25.2% at May 2013, after the 13GE, just before the US QE taper tantrum. Based on total capitalisation of MYR1.69tr for the entire market as at end-Dec 2015 (MYR1.65b Dec 2014), we estimate the foreign holdings' portion was MYR378b at end-Dec 2015 (MYR393b Dec 2014).

Malaysian equities: Market foreign shareholding



Source: Bursa Malaysia, Maybank KE (chart)

M'sian equities: Foreign ownership by nationality, Sep '15



Source: Bursa Malaysia, Maybank KE (chart)

Selling continues into the new year

Foreign selling on Malaysian equities returned, and we saw a total net sell of e.MYR480m in the first four trading days of 2016. This was triggered by developments in China. The structural slow down of China's economy, which is entering a new era of sub-7% growth, is one of our three concerns for the external sector in the current year.

Market valuations

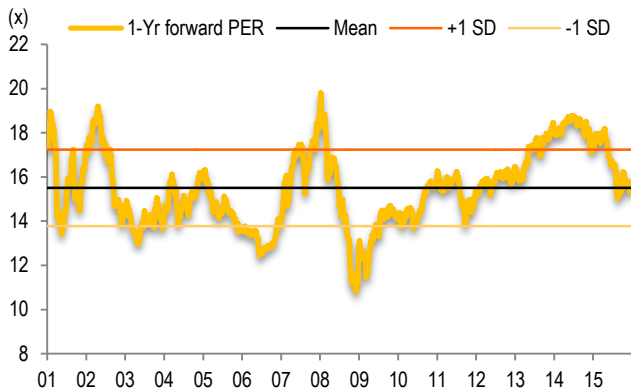
The KLCI's PER valuation, on 12M rolling forward core earnings, was at 16.1x at the start of 2015, but downward earnings revisions throughout the year has resulted in the PER de-rating to 15.8x as at 31 Dec 2015. At 15.8x, this is at about its long-term mean PER valuation (since 2001) of 15.5x (1SD is 1.7x). The KLCI's trailing P/BV has also retraced to 1.78x, which is at 0.3SD below its long-term mean (since 2001) of 1.89x (1SD is 0.33x). Market risk premium (market yield minus 10Y MGS yield of 4.23%) was at 215bps compared to about 157bps at the start of 2015. At yesterday's close of 1,655.1, the KLCI trades at 15.4x/14.3x 2016/2017 PERs based our core earnings growth forecasts of 7.5%/7.7%.

Malaysia market earnings growth & valuations as at 31 Dec 2015

		2015A	2016E	2017E
KLCI @ 1,692.5	PE (x)	16.9	15.8	14.7
Earnings Growth (%)		-0.2%	7.5%	7.7%
Maybank KE's Research Universe	PE (x)	17.8	16.5	15.0
Earnings Growth (%)		-0.3%	8.2%	9.5%

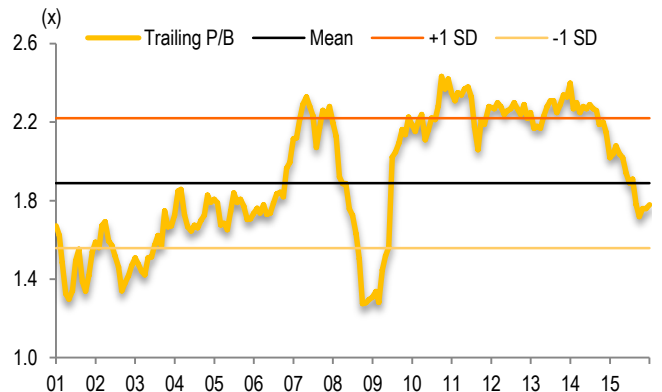
Source: Maybank KE

KLCI's 12M forward PER, at 15.8x (31 Dec)



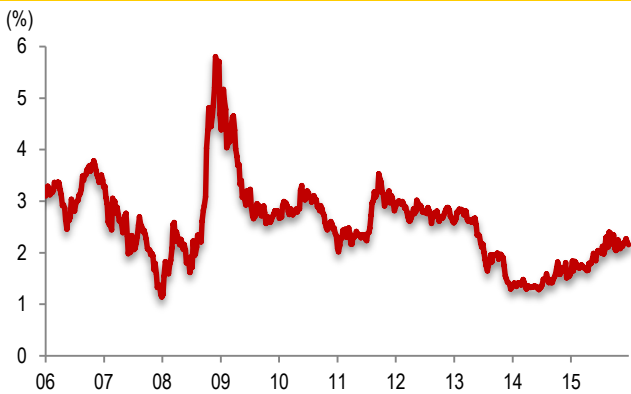
Source: Maybank KE, Bloomberg

KLCI's trailing P/B: 1.78x (31 Dec)



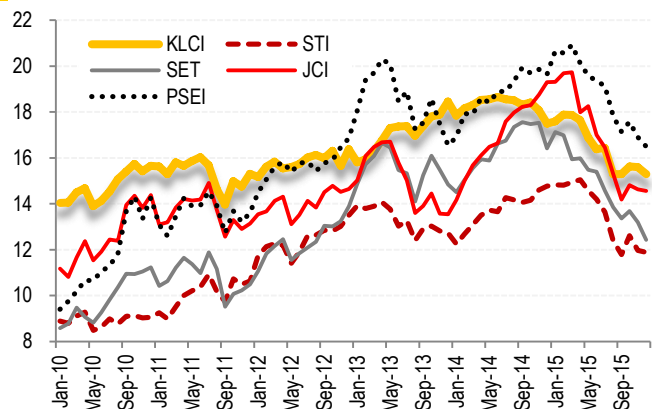
Source: Maybank KE, Bloomberg

KLCI: Equity risk premium, at 215bps (31 Dec)



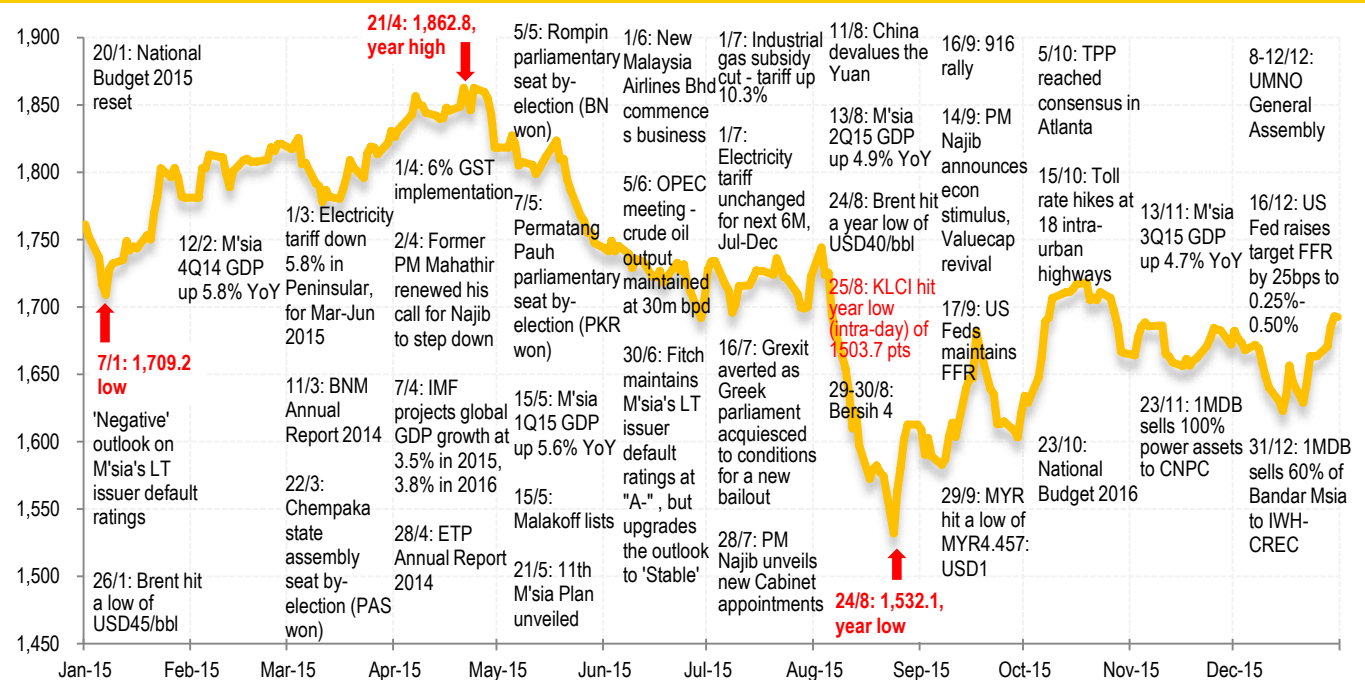
Source: Maybank KE, Bloomberg

KLCI's 12M fwd PER vs regional



Source: Bloomberg consensus (data), Maybank KE (computation)

KLCI's 2015 journey, major events



Source: Maybank KE (compilation)

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