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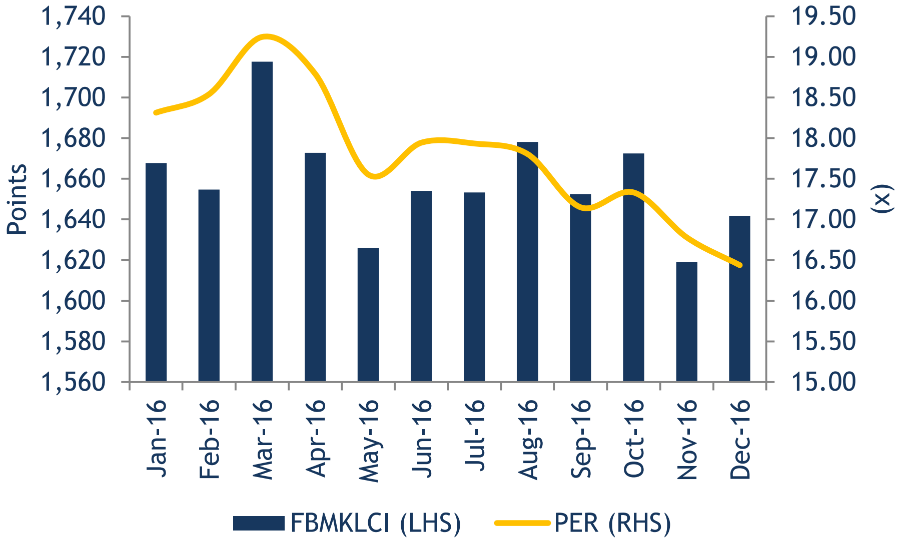
Tuesday, January 10, 2017

Market Access

"Expect Foreign Investors to Return Soon"

FBMKLCI Index and PER
(January 2016-December 2016)



Source: Bloomberg, M&A Securities

It was a tumultuous time for the emerging market economies (EMEs) in 2016 and we think that the storm is not over yet. The headwinds from 2016 may well continue into 2017 and the chief tail risk may come from the US president-elect business and foreign policy. His combative style and loose cannon way may step on some toes and this may create a sense of uncertainty and nervousness. Additionally, the strong statement by US Federal Reserve on the outlook of US policy strategy may suggests that getting dipper into the EMEs' equity market is risky more so when the US is resolute to heighten its policy rates adjustment.

As US president-elect fiscal policy may be harbinger to inflationary pressure, the US Federal Reserve may take this opportunity to clamp inflation hard before it gets out of hand. Hence, 70 basis points of Federal Fund rate (FFR) adjustment may be its minimum. Added with some chance of oil price rally, the time is ripe for Janet Yellen to call the shots in big way. Nonetheless, all is not lost. There are some catalysts that could drive the local market this year including the election theme and the strengthening of Ringgit. These two drivers should be enough to lure foreign investors back

We expect them to return after a long hiatus from the EMEs equity market. As Malaysia is among the very few of EMEs that will hold general election this year, foreign investors may train their eyes towards the country. The incumbent party's steady political grip is another hard to resist proposition. On that score, we expect foreign investors to nibble with the FBM30 and FBM50 stocks first. Having said that, we predict FBMKLCI to end 1H17 at 1,750 pegged at PER of 16.5x.

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Among the development to watch for in 1H17 includes:

1) **Installation of 45th US President in January 2017**

Donald Trump will become the 45th US president on 20th January 2017. Before even taking the seat of the world's most powerful leader, Trump has caused a lot of uproar centre, left and right. His policy against Taiwan may upset China, his determination to put a block to Trans Pacific Partnership (TPP) may angry some countries, his intervention to influence the US Federal Reserve independence may risks the reputation of the central bank, his policy to erect a wall along Mexico border may invite a backlash. All these are among the examples that are negative for the global equity market. At this stage, EMEs will have the most to lose as Trump fiscal strategy is highly inflationary that will support the case for faster interest rate adjustments. This will inevitably bode well for the USD at the expense of others. With this, it is quite unlikely for global commodity prices to rally strongly as it will be dampened by the strength of the USD. Additionally, the attack of Trump over China may cause Beijing to retaliate by putting into cold storage the plan to revalue Yuan.

Beijing may not agreeable to that knowing the fact that it has the world's largest stock of US Treasury bonds and forex reserves (in USD). Hence, Trump is starting its presidency on the left footing. The seemingly endless sensitive remarks by Trump may cause investors' confidence to rattle, suggesting that investment in equity market is risky. Whilst it is too early to predict all is lost for the US over Trump business and foreign policy the existing situation may only push investors to the sideline. The uncertainty and changing of goal post is negative for global equity market. This rough ride can be from the medium to long haul.

2) US Federal Reserve Policy Strategy

Janet Yellen four-year term as the chairman of US Federal Reserve will end in January 2018. There are rumours in the grapevine that president-elect Trump does not have a cozy relationship with her. Therefore, Trump may choose his own army to lead the most powerful central bank in the world. Having built a reputation as inflation and unemployment expert, Janet Yellen departure (if yes) may cause another tumultuous period for the global equity market.

The global equity markets have generally resigned to the fact that the US will hasten its policy adjustment and with her departure and with president elect policy the FFR could get adjusted bigger-than-expected. This could be at the expense of EMEs currency putting another great strain on their importation cost and hence, EMEs growth potential. 2017 is heralded as new beginning but the water can be choppy and unpredictable due to the tail risks coming from the US.

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3) Commodity price – Upside Limited

Although global growth is expected to be higher this year but we think the demand for global commodity may continue to be dampened by the strength of USD. Even without Trump's inflationary fiscal policy the US Federal Reserve has committed for tighter policy rate this year. As a result, USD may gain, weighing on global commodity prices, unless the structural issue as in the supply-and-demand imbalance can tipped towards the latter.

Otherwise, its quite unlikely for global commodity prices to rally strongly more so when 1) China is resolute to reduce its imbalance 2) Eurozone growth is still in state of hibernation 3) supply-and-demand issue is still pervasive especially for oil, CPO and soy oil. In short, the catalyst for global commodity prices is almost negligible that could put a dampener on prices.

4) Malaysia's 14th General Election

Its quite likely that Malaysia's 14th General Election (GE) may be called this year judging by the hints and ground work done by the incumbent party, Barisan Nasional (BN). As always with the GE around the corner the interest of foreign investors may get stronger and this can lift the FBMKLCI higher. Additionally, Malaysia presents an attractive case for foreign investors to return as 1) Ringgit is hugely undervalued 2) there is sizeable number of undervalued stocks in local market and hence, endless bottom fishing. 3) the risk of BN not to retain power is small and hence, no untoward business and foreign policy risks. The risk of changing guard is also small and 4) Malaysia's fundamentals and growth potential is strong with stable political outlook.

Therefore, Malaysia's presents an attractive proposition for investors to not only nibble but accumulate after their long hiatus since 2013/14 (note: since the historical Ben Bernake tapering slowdown). We predict this to take place a few months before the GE and our bet is that foreigners will target the FBM30 and FBM50 stocks first given their huge liquidity and big market capitalization. Banks, oil & gas and healthcare players may be the usual suspects.

5) Ringgit Outlook

Ringgit is hugely undervalued currently. Given its fair value of RM3.75-RM4.00 its just a matter time for Ringgit to reverse its course and starts trading near its fair value. At the moment Ringgit performance is dampened by external headwinds and we expect this to recede slowly soon. As mentioned, the undervalued Ringgit will appeal foreign investors and this will be among the chief catalyst that will pull foreign investors back.

Malaysia being integrated in the global financial markets cannot run away from the wrath of volatile external conditions and this is what has been weighing our performance. Fortunately, Malaysia has a very interesting proposition and its fundamentals and strong growth prospects will be the main criteria that will pull foreign funds back. The stable political conditions will be icing on the cake. As usual, foreign investors would usually target the FBM30 stocks first followed by FBM50 driven by their good corporate governance, polished management, strong liquidity and big market capitalization.

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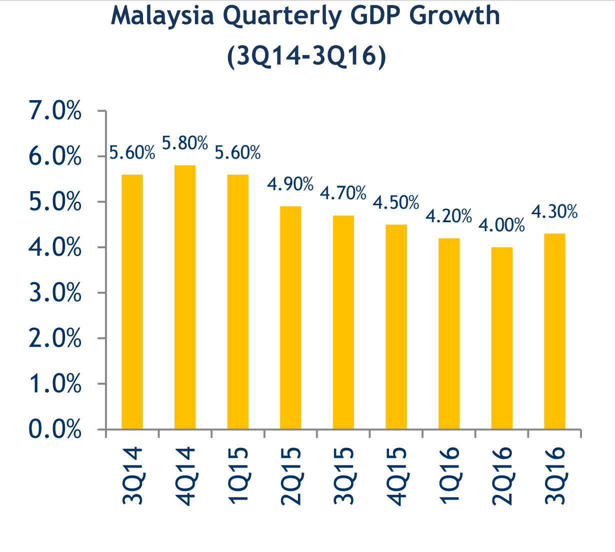
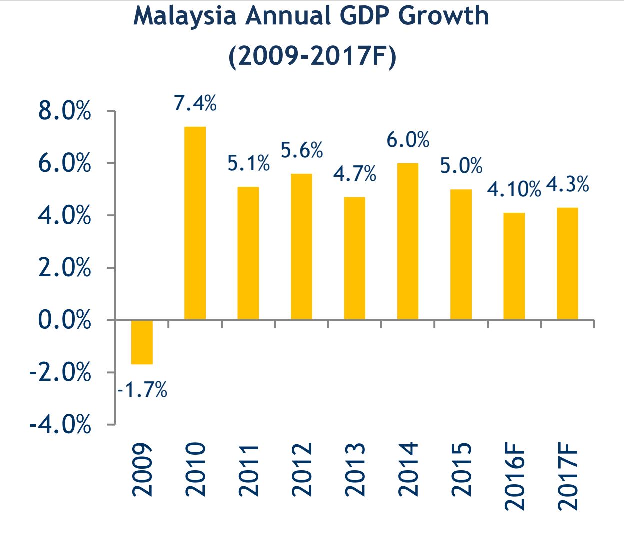
Their return could be soon driven by the fast approaching 14th GE. Of note, Malaysia is one of the very few EMEs that will hold general election this year and this is priceless. Added with Ringgit undervaluation, the case to invest in Malaysia has grown stronger. Having said that, FBMKLC is poised to end 1H2017 at 1,750 based on PER of 16.5x.





Source: Bloomberg, M&A Securities

Table 1: BNM Policy Meeting Schedule (2017)

Schedule of BNM Monetary Policy Committee Meetings for 2017	
MPC Meeting No.	**Dates**
1st	19th January
2nd	2nd March
3rd	12th May
4th	13th July
5th	7th September
6th	9th November

Source: BNM, M&A Securities

Table 2: FOMC Meeting Schedule (2017)

US Federal Reserve FOMC Policy Meetings for 2017	
FOMC Meeting No.	**Dates**
1st	31st-1st January/February
2nd	14-15 March
3rd	2-3rd May
4th	13-14th June
5th	25-26th July
6th	19-20th September
7th	31-1st October/November
8th	12-13th December

Source: FOMC, M&A Securities

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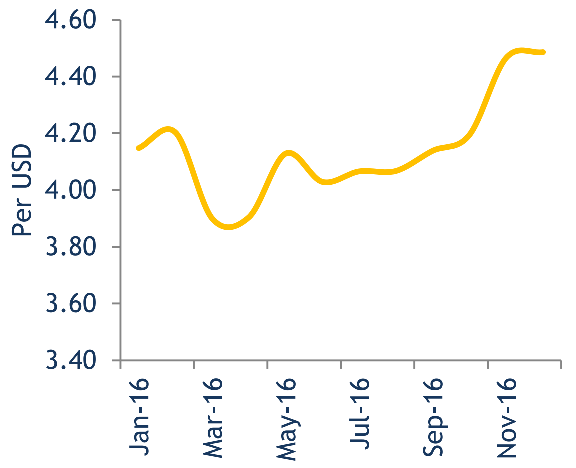
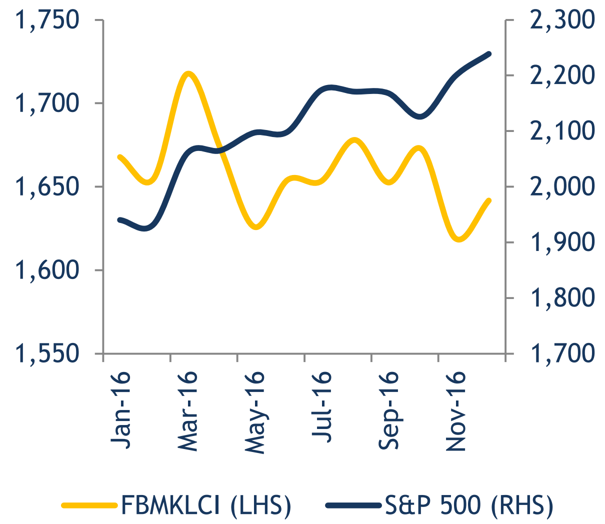
Ringgit Per USD
(January 2016-December 2016)

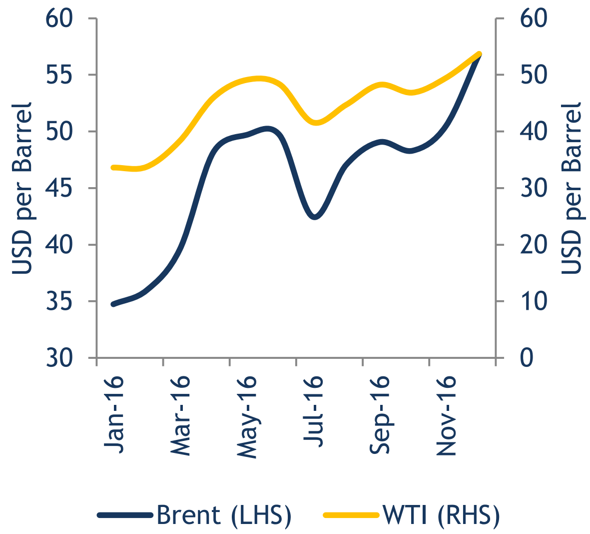


FBMKLCI vs. S&P 500
(January 2016-December 2016)

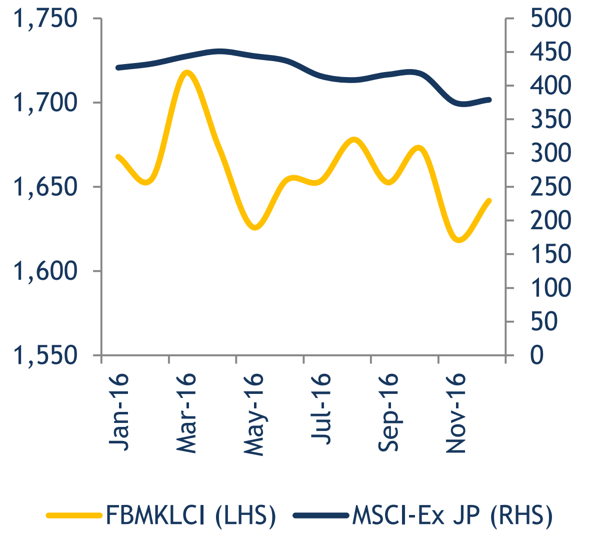


Source: Bloomberg, M&A Securities

Oil (WTI and Brent)
(January 2016-December 2016)



FBMKLCI vs. MSCI AP ex-Japan
(January 2016-December 2016)



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STOCK RECOMMENDATIONS

BUY *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY *Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD *Share price is expected to be between -10% and +10% over the next 12 months.*
SELL *Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT *The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL *The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT *The sector is expected to underperform the FBM KLCI over the next 12 months.*

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