

SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Exports accelerated 10.0% y-o-y in Jun, following a 32.5% increase y-o-y in May
- Imports expanded 3.7% y-o-y in Jun, following a 30.4% growth in May
- Trade Balance increased to RM 9.88b in Jun from RM5.49b in May
- Industrial Production grew by 4.0% y-o-y in Jun
- CPI moderated to 3.2% y-o-y in Jul as compared to the prior 3.6% y-o-y in Jun
- Nikkei Malaysia PMI improved to 48.3 from previous reading of 46.9

MARKET OUTLOOK

As of 24 August 2017, KLCI companies were expected to post EPS of 108.05, 114.18 and 123.51 for 2017, 2018 and 2019 respectively, representing earnings growths of 7.7%, 5.7% and 8.2% for the three respective years. These translated into PE ratios of 16.4x, 15.6x and 14.4x for 2017, 2018 and 2019 respectively. As a whole, KLCI index's 2017 earnings estimates saw a tepid downgrade of -0.3% over the month. Over the same period, Materials sector with its only constituent, Petronas Chemical Group Berhad saw upward earnings revision of 1.34%, as the group recorded strong quarterly earnings growth of more than 100% year-on-year in 2Q 17. The strong growth in 2Q 17 earnings was supported by better than expected plant utilisation rate at 90% for the quarter, above the world-class performance threshold of 85%. On top of that, the group also registered higher average selling price, higher sales volume and lower operating that boosted the 2Q 17 earnings.

Malaysia's economic activity expanded by 5.8% year-on-year in 2Q 17, outperforming the consensus estimates of 5.4% of expansion and previous quarter's 5.6% of growth. The local economy expanded at the fastest rate in more than 2 years in the second quarter of 2017 anchored by strong growth in private sector and a broad-based expansion in exports of manufactured goods and commodities. The private sector was the main driver for second quarter GDP growth as both the private consumption and private investment registered high single digit growth rate of 7.1% and 7.4% respectively. In fact, the encouraging growth in private consumption and investment was a result of improving consumer sentiment and business confidence. According to Malaysian Institute of Economic Research (MIER), both consumer sentiment index and business confidence index strengthened to 2-year high of 80.7 and 114.1 point respectively. Both indices suggested that the local consumers and business owners are turning positive on the local economic outlook for the next 3 to 6 months.

On the external trade front, Malaysia's exports grew faster than imports for 2 consecutive months. As such, the local net exports growth turned positive in 2Q 17. The strong momentum in local exports growth together with the slowdown in imports was the main driver for the performance of net export in 2Q 17. For the month of June, Malaysia's exports registered an increase of 10.0% year-on-year. We continue to witness strong demand for the local electrical and electronic products (+15.1%) as well as palm oil and palm oil based products (15.8%). Moving forward, our local exports' growth might be moderated due to the end of low base effect. However, we believe that the gradual improvement in commodity prices and the current global development (IMF predicts world trade volume to rise by 4% in 2017) will remain supportive to the local exports sector.

The KLCI Index registered a tepid gain of 0.77% in August 2017, causing the estimated PE ratio for 2017 to increase slightly over the month. As of 24 of August 2017, the KLCI index was trading at 16.4X estimated PE, which is slightly higher than our fair PE of 16.0X. We continue to have a positive view on the local equity market underpinned by improving fundamentals of our local economy. With the current fair valuation, the local stock market is expected to deliver a rather reasonable return for investment horizon over the next 3 years on a relative basis. As such, we maintained the star ratings for Malaysia at **3.0 stars "Attractive"**.

**RECOMMENDED FUND:
KENANGA GROWTH FUND
EASTPRING INVESTMENT EQUITY INCOME FUND**