SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Exports contracted by -0.3% y-o-y in Aug 18, up from a 7.6% y-o-y growth in Jul 18
- Imports rose 11.2% y-o-y in Aug 18, up from a 10.3% y-o-y growth in Jul 18
- Trade Balance decreased to RM 1.61 billion in Aug 18 from RM 8.30 billion in Jul 18
- Industrial Production grew 2.2% y-o-y in Aug 18, down from a 2.6% y-o-y growth in Jul 18
- CPI rose 0.3% y-o-y in Sep 18, up from a prior 0.2% y-o-y growth in Aug 18

MARKET OUTLOOK

As of 26 October 2018, KLCI companies are expected to post EPS of 103.21, 110.45 for 2018, 2019 respectively, representing earnings growth of 3.0% and 7.0% respectively. These translate into PE ratios of 16.3X and 15.2X for 2018 and 2019 respectively. As a whole, KLCI index's earnings estimates saw a tepid downgrade of about -0.3% over the month. Among all, the plantation counters were the main contributors to the earnings downward revision in FBMKLCI index with IOI Corp Bhd's earnings declining -2.3%. Generally, analysts believe that the weak CPO price, which has already declined by more than 15%, is likely to hurt the overall earnings of the plantation counters.

On the macroeconomic front, Malaysia's September manufacturing PMI growth was one of the strongest in 10 months at 51.5 points. The robust employment was the main driver for the upward momentum in the headline PMI as the rate of job creation seen in September was the strongest since the first month of the survey's operation in July 2012. On top of that, according to the survey, the volume of new work received by Malaysian manufacturers increased for the second month despite the introduction of new SST in September, showing sign of recovery in the local manufacturing sector. Moving forward, although we see downside risks for the local manufacturing sector amid the on-going trade disputes between US and China as well as the policy uncertainties on the local front, we believe that the local manufacturing sector is likely to post reasonable growth in the last quarter of 2018.

Malaysia's September consumer price index rose by 0.3% year-on-year, representing a marginal acceleration from the previous month's 0.2% year-on-year expansion but lower than the consensus estimate for a 0.6% growth. One of the key reasons that led to the rather muted inflation in September was the impact of unchanged RON95 fuel price over the past couple of months. Moving forward, although we do expect the local inflation to trend higher gradually, it is likely to trend within a manageable range. Hence, we see no pressure for the central bank to take any action to tighten the country's monetary policy.

The KLCI Index declined by -6.5% in October 2018 amid tightening global liquidity, continuing trade disputes between US and China, as well as the slowdown in the China's third quarter economic activity, causing the estimated PE for 2018 to decrease substantially over the month. As of 24th of October 2018, the KLCI index was trading at 16.3X estimated PE, which represents a slight premium compared to our fair PE of 16.0X. Although we do expect some short-term volatility in the local equity market due to the global uncertainties, we are maintaining a positive view on the local equity market over the medium-to-long term, supported by the still strong economic activity. As the local stock market is expected to deliver a rather reasonable return for investment horizon over the next 3 years on a relative basis, hence, we maintained the star ratings for Malaysia **at 3.0 stars "Attractive"**.

RECOMMENDED FUND:
KENANGA GROWTH FUND
EASTSPRING INVESTMENTS EQUITY INCOME FUND