SECTOR REVIEW

SINGLE COUNTRIES

MALAYSIA (3.0 STARS — ATTRACTIVE)

- Exports accelerated 21.5% y-o-y in August, following a 30.9% increase y-o-y in July
- Imports expanded 22.6%y-o-y in August, following a 21.8 % growth in July
- Trade Balance increased to RM9.87b in August from RM8.03b in July
- Industrial Production grew by 6.8% y-o-y in August
- CPI expanded to 4.3% y-o-y in September 2017 as compared to the prior 3.7% y-o-y in August
- Nikkei Malaysia PMI declined to 49.9 from previous reading of 50.4

MARKET OUTLOOK

As of 26 October 2017, KLCI companies were expected to post EPS of 106.93, 113.95 for 2017, 2018 respectively, representing earnings growths of 6.6% for both years. These translated into PE ratios of 16.2X and 15.2X for 2017 and 2018 respectively. As a whole, KLCI index's 2017 earnings estimates saw a downgrade of -0.2% over the month. Over the same period, British American Tobacco Malaysia Berhad, a manufacturer of tobacco products saw the largest earnings downgrade as the company registered lower revenue and net profits on both quarter-on-quarter and year-on-year basis due to the increasing volume of illegal cigarette trade. On the other hand, surprisingly, the telecommunications sector posted one of the highest earnings upgrade (+0.69%) over the month, mainly due to the above expectation quarterly earnings from one of its constituents – Maxis Berhad. The company delivered strongest quarterly earnings in five years for third quarter of 2017. The ameliorating quarterly earnings was on the back of growth in revenue due to the improving demand for mobile data services during the 3-month period ended 30 September 2017.

Malaysia's exports registered 21.5% year-on-year growth in August, outperforming the consensus estimates of 21.0% expansion. The growth in August's exports was mainly driven by the strong global demand for the local manufactured goods especially the electrical and electronic products (E&E) and commodities related products. The E&E sector which accounts for about 37.8% of total exports saw more than 20% year-on-year and 11.2% month-on-month growth in August. Moving forward, the E&E sector is expected to continue its momentum given the expectation of strong sales for iPhone X and the rise of Artificial Intelligence (AI) which could further drive the global demand for E&E products.

Thanks to the strong exports growth and the implementation of FEA rules back then in late 2016, Malaysia's international reserves grew healthily on year-to-date basis, surpassing the US$100 billion level to USD 101.4 billion as of 20 October 2017. According to the central bank, the current reserves position is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. As compared to a year ago, the current reserves position indicates that the central bank has a stronger ability to weather external uncertainties.

The KLCI Index fell by -1.83% in October 2017, causing valuations for 2017 to decline slightly over the month. As of 25 of September 2017, the KLCI index was trading at 16.2X estimated PE ratio, which is slightly higher than our fair estimate of 16.0X. We continue to have a positive view on the local equity market underpinned by improving fundamental 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
EASTSPRING INVESTMENTS EQUITY INCOME FUND