SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Malaysia GDP grew by 5.4% y-o-y in 1Q 18
- Exports expanded 2.2% y-o-y in Mar 2018, following a -2.0% decline y-o-y in Feb 17
- Imports declined -9.6% y-o-y in Mar 2018, following a -2.8% contraction in Feb 17
- Trade Balance improved to RM 14.96 billion in Mar 18 from RM 9.02 billion in Feb 17
- Industrial Production grew by 3.1% y-o-y in Mar 18
- CPI accelerated to 1.4% y-o-y in Mar 18 as compared to the prior 1.3% y-o-y in Mar 18

MARKET OUTLOOK

As of 25 May 2018, KLCI companies are expected to post EPS of 110.96, 118.92 for 2018, 2019 respectively, representing earnings growths of 4.6% and 7.2% respectively. These translate into PE ratios of 16.2X and 15.1X for 2018 and 2019 respectively. As a whole, KLCI index's earnings estimates saw a downgrade of -1.12% over the month. Among all sectors, Industrials saw the largest earnings downgrade of -12.8% which was mainly contributed by one of its constituents, MISC Bhd (-18.7% earnings downgrade). Reason being, the company posted a rather disappointing earnings result, with the earnings for 1Q 18 declining by 54% year-on-year. On top of that, analysts also expect that the sluggish LNG spot rates due to the huge pile-up of new deliveries in 2018 is likely to affect the earnings of the company in this segment over the next few quarters.

On the flipside, there were only two sectors saw earnings upgrade over the month which are the consumer staple (+0.2%) and consumer discretionary (+3.6%) sector. Both sectors are likely to benefit from the several promises and policies of the new government such as the abolishment of GST and toll collections as well as the reintroduction of petrol subsidy which are expected to boost the disposable income of Malaysian household.

On the macroeconomic front, Malaysia's economic activity expanded at a healthy rate of 5.4% year-on-year in 1Q 18, falling slightly short of consensus estimate for a 5.5% growth. The local economy witnessed a broad-based expansion from all the five sectors, Services (+6.5%), Manufacturing (+5.3%), Agriculture (+2.8%), Construction (+4.9%) and Mining & Quarrying (+0.1%). From the expenditure approach, the backbone of Malaysia's economy – private consumption maintained its strong momentum, growing by 6.9% over the last quarter, in line with the improving consumer sentiment in the first quarter of 2018. Local net exports also contributed positively to the 1Q GDP growth due to a contraction in imports of goods and services. Moving forward, we believe that the Bank Negara Malaysia's forecast of 5.5% to 6.0% of growth for full year 2018 is achievable underpinned by the strong private consumption and the still healthy external demand.

Malaysia's consumer price index came in at 1.4% year-on-year in April 2018, slightly higher than the 1.3% year-on-year increase in the previous month. According to the department of statistic Malaysia, Malaysia headline inflation for January to April 2018 period increased by 1.7% as compared to the corresponding period last year. The main contributors to the local inflation were the indices for food and non-alcoholic beverages and restaurants and hotels which expanded by 2.6% and 2.2% respectively. Moving forward, although the world crude oil price is trading at the multiple-year high level, with the re-subsidisation of domestic fuel price and withdrawal of GST proposed by the new government, we believe that the inflationary pressure would remain calm. As such, we expect that the Bank Negara Malaysia is likely to maintain its monetary policy with no further hike in 2018.

The KLCI Index fell -2.94% in May 2018 amid the higher national debt concern and the possible sovereign downgrade, causing the estimated PE ratio for 2018 to decrease slightly over the month. As of 25 May 2018, the KLCI index was trading at 16.2X estimated PE ratio, which presents a slight premium compared to our fair PE of 16.0X. We are maintaining a positive view on the local equity market, supported by improving fundamentals of the local economy. Given the expectation of stronger corporate earnings and a better economic backdrop, 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
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