SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Exports rose by 1.6% y-o-y in Nov 18, down from a 17.7% y-o-y growth in Oct 18
- Imports rose 5.0% y-o-y in Nov 18, down from a 11.4% y-o-y growth in Oct 18
- Trade Balance decreased to RM 7.55 billion in Nov 18 from RM 16.32 billion in Oct 18
- Industrial Production grew 2.5% y-o-y in Nov 18, down from a 4.2% y-o-y growth in Oct 18
- CPI rose 0.2% y-o-y in Dec 18, unchanged from Nov 18

MARKET OUTLOOK

As of 28 January 2019, KLCI companies are expected to post EPS of 103.8 for 2019 and 110.5 for 2020, representing earnings growth of 2.1% and 6.4% respectively. These translate into PE ratios of 16.4X and 15.4X for 2018 and 2019 respectively. As a whole, KLCI index's earnings estimates saw a downgrade of about -1.9% over the month. The healthcare sector posted one of the highest earnings downgrades (-1.7%) as two of its constituents, Top Glove Corp. Bhd and Hartalega Holdings Bhd saw their 2019's earnings growth downgraded by -0.5% and -1.3% respectively. The expectation of a softening dollar as well as firmer crude oil prices were part of the reason that led to the earnings downgrade. On top of that, the expectation of increasing rubber gloves supply from China after the environment clampdown has also posted a challenging outlook for local glove manufacturers.

On the macroeconomic front, after exceptional growth of 17.7% in October 2018, Malaysia exports expanded by only 1.6% year-on-year in November 2018, well below the consensus estimate for 6.6% growth. The main drag for November's exports was the electronic and electrical products (E&E) segment which shrank by -1.7% year-on-year. The decline in E&E demand was due to slowdown in global semiconductor sales as well as the increasing competition (the rise of low-cost manufacturing and assembly in ASEAN). On the flipside, refined petroleum products (+49%) and liquefied natural gas (+26.4%) which accounted for more than 7% and 5% of total exports respectively were the main drivers for Malaysia's exports in November.

Malaysia's December consumer price index rose by 0.2% year-on-year, lower than the consensus estimate for a 0.3% of growth. According to the Department of Statistics Malaysia, the growth in the overall index was due to the higher price for housing, water, electricity, gas and other fuels (up 2%), restaurants and hotels (up 1.3%), alcoholic beverages and tobacco (up 1.1%), education (up 1.1%) and food and non-alcoholic beverages (0.7%). On a month-on-month basis, the CPI grew by 0.1% in comparison to November 2018. For the first quarter of 2019, we believe the Malaysia's inflation is likely to remain within a manageable range due to the subsidy of domestic fuel price and the lower Brent crude oil price. Given the current low inflation coupled with the expectation of a moderating economic growth for Malaysia in 2019, Bank Negara Malaysia has recently maintain the benchmark interest rate (OPR) at 3.25%.

The KLCI Index posted 1.8% of gain in January 2019 amid the strong rebound in global equity markets helped by talk of policy stimulus in China as well as the optimism of a resolution to the US-China trade dispute, causing the estimated PE for 2018 to decrease over the month. As of 28th of January 2019, the KLCI index was trading at 16.4X estimated PE, which represents a slight premium compared to our fair PE of 16.0X. Although we expect some short-term volatility in the local equity market due to the unsettled global uncertainties, we are maintaining a positive view on the local equity market over the medium-to-long term, supported by the still robust local private sector. 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