

LEAD STORY

Bursa appealing

amid fears of double dip recession

BY Melody Song

Global markets and economies were jittery last week as fears of a possible double dip recession re-emerged after cracks appeared in the fragile economic recovery of the past year.

In such uncertain times, investors that have funds tied up in markets that are perceived to be at higher risk of a second dip, such as the US and the eurozone, may find Malaysia's defensive equity market appealing.

CIMB Principal Asset Management chief investment officer Raymond Tang says should a double dip recession occur in the major markets, a knee-jerk reaction may be for investors to look at Malaysia as a safe haven to park their funds.

However, whether this is for the short or long term depends on the appetite of the investors, he comments.

"Malaysia's defensive market may see some foreign assets coming in because of concerns of a double dip, but bear in mind that foreign ownership here is already low.

"Investors may decide to park their funds in the equity market temporarily or they may choose to park them in the bond market instead because of our high valuation."

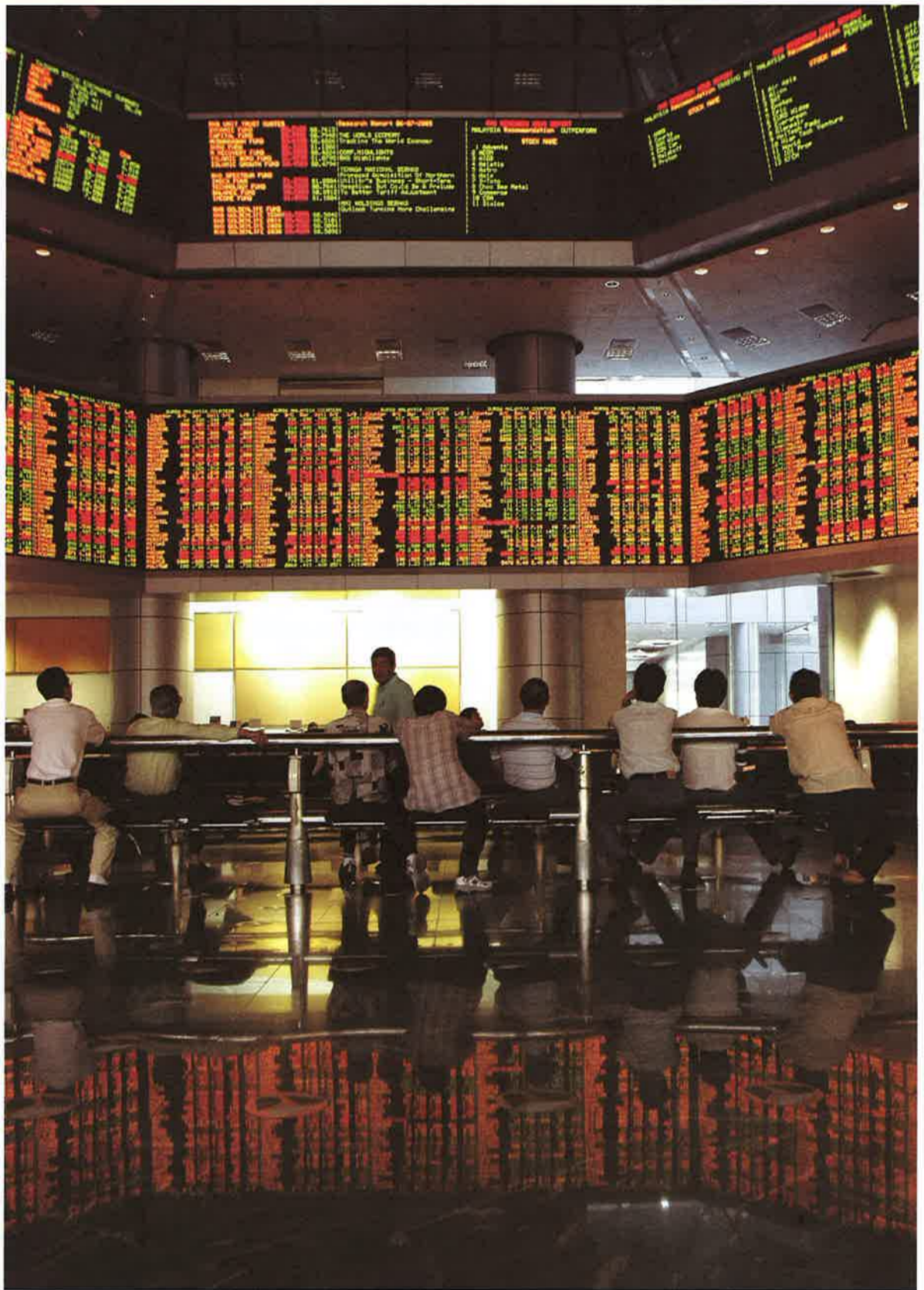
Foreign ownership of equities on Bursa Malaysia is at the lowest since January 2007, with foreign fund holdings in the market dropping 0.3 percentage points to 20.3% in May 2010, says CIMB Research in a note dated June 28.

It observes that the local market saw foreign investors top the list of net sellers in May, to make it the sixth consecutive month of outflows.

Net outflow in May was US\$84 million while year-to-date net selling amounted to US\$308 million.

The brokerage house says the net outflow of funds was not surprising

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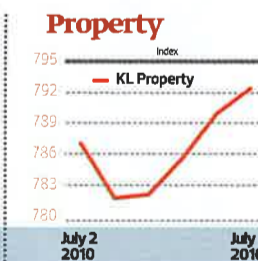
signposts



THE KL FINANCE INDEX closed at 11,951.7 points last Friday, rising marginally from 11,872.2 points a week ago. Leading gainers included CIMB Group Bhd and LPI Capital while Allianz Malaysia, Hong Leong Financial Group and Alliance Financial Group were among the laggards.



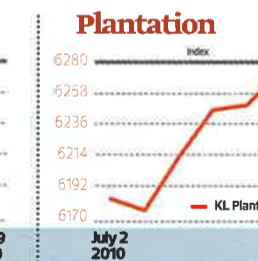
THE KL INDUSTRIAL INDEX jumped almost two points w-o-w to end at 100.29 points last Friday. Titan Chemicals Corp Bhd, Three-A Resources Bhd and Wah Seong Corp Bhd were among the gainers while Lafarge Malayan Cement and Petronas Gas Bhd were among the losers.



THE KL PROPERTY INDEX gained five points w-o-w to end at 792.43 points last Friday. UEM Land Holdings Bhd and IGB Bhd were among the leaders while the laggards included Sunway City Bhd and TA Global Bhd.



THE KL CONSTRUCTION INDEX ended at 244.96 points last Friday, rising 3.5 points from the previous Friday's close. Gamuda Bhd and IJM Corp Bhd led the gainers while Malaysian Resources Corp Bhd, Muhibbah Engineering Bhd and UBG Bhd led the losers.



THE KL PLANTATION INDEX added 90.7 points w-o-w to close at 6,273.94 points last Friday. IOI Corp and Genting Plantations were among the leaders while Boustead Holdings and TSH Resources were among the laggards.

Regional markets rise on positive news

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Last week, Bank Negara Malaysia raised its overnight policy rate by 25 basis points to 2.75%, the third increase so far this year. This resulted in the ringgit strengthening against the US dollar.

The regional markets rose last week as investors digested news of declining US jobless claims, China's improving business environment and South Korea's interest rate hike, all of which pointed to a recovery in the world economy.

South Korea's Kospi added 1.43% to close at 1,723.01 points last Friday while the Hang Seng Index rose 1.64% to finish at 20,378.66 points.

The Kospi perked up after South Korea decided to raise its benchmark interest rate to 2.25% from a record low of 2% while Hang Seng's advance came in the wake of news that Shanghai-based commercial banks are offering loans for third home purchases again and have eased lending policies on second-home acquisitions. — By Chong Jin Hun

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given the declining appetite for risk since news of the European debt crisis caught the attention of investors earlier this year.

"For the month of June, we expect further net selling but on a more moderate scale as the FBM KLCI rebounded strongly during the month. There should have been some buying as investors sought safety in low-beta defensive markets," it says.

That both foreign and domestic investors have been reducing their weightings in local equities should mean that the market would be less affected if there is future selling pressure versus its regional peers, the research house adds.

On the lack of foreign ownership, Malaysian Industrial Development Finance Bhd (MIDF) CEO and chief investment officer Scott Lim says it is not particularly a cause for concern, although it makes the equity market less exciting.

The lack of exposure in foreign funds means lower volatility on the stock market, although this could also be viewed as carrying lower earnings potential.

High valuations a turn-off?

Despite being a safer haven than other markets, Malaysia's high valuations make it an expensive buy against regional peers such as Indonesia and Singapore, which both trade at lower valuations and have higher earnings growth prospects.

In a July 5 note, CIMB Research has an "overweight" call on Malaysia with a year-end FBM KLCI target of 1,450 points based on a target price-earnings ratio (PER) of around 15 times.

While this could be seen to be on the high side versus Indonesia's PER (12 times based on FY2011F) and Singapore's PER (12.8 times based on FY2011F), Lim says this does not mean the market is overpriced.

"The higher PER here is due in part to the high valuations of many government-linked companies (GLCs). There are also a lot of undervalued and under-researched companies in Malaysia versus more exciting financial centres like Singapore and Hong Kong," he observes.

"If you look deeper, you can find a lot of mid-cap companies selling at very good valuations; sometimes even below 10 times PER. As most companies are locally based, earnings are also locally driven; hence, present market growth is not very exciting."

CIMB Principal's Tang says despite the comparatively more expensive valuations, it is likely that foreign investors here are not looking at money-generating, but capital preservation and protection.

"There are all sorts of investors out there," he adds.

Perception issues

In its report, CIMB Research says it sensed "significant investor concern over the possibility of a double dip" among Asian and European investors following its month-long roadshow during which it presented its views of the Malaysian economy and the stock market in 2H2010.

It says although investors want to buy into Malaysia's transformation

BURSA, CIMB RESEARCH

Foreign ownership in Malaysia



Month-end aggregate holdings by country (US\$ mil)

	HONG KONG	SINGAPORE	MALAYSIA	INDONESIA	THAILAND	OTHERS	EM ASIA
Feb 08	31,398	14,973	9,865	7,267	9,555	177,379	250,437
Weightings in EM Asia	12.5%	6.0%	3.9%	2.9%	3.8%	70.8%	100.0%
May	22,039	11,666	5,383	8,638	8,382	176,453	232,561
Weightings in EM Asia	9.5%	5.0%	2.3%	3.7%	3.6%	75.9%	100.0%
27-mth aggregate chg	-30%	-22%	-45%	19%	-12%	-1%	-7%
27-mth weighting chg	-24%	-16%	-41%	28%	-6%	7%	0%
27-month net sell	(3,738)	(3,322)	(3,863)	46	(717)	7,164	(4,430)
Net sell/Feb 08	-12%	-22%	-39%	1%	-8%	4%	-2%

EPFR, CIMB RESEARCH

story, they cannot shake off nagging concerns about the government's ability to execute changes and the political will to see them through.

"There is considerable doubt about Malaysia's ability to push through subsidy rollbacks and make politically unpopular decisions.

"This perception, together with the lack of liquidity and excitement on Bursa, could be a hindrance to new inflow of foreign funds," it says, adding that overall, there is a 30% probability of a double dip global recession.

However, with some positive policy news flow expected in the com-

ing months, including Budget 2011 which will be tabled on Oct 15, the research house says it expects investor interest to pick up.

While some economists say another fall in the global economy is unlikely on the grounds that it is simply an equity correction taking place, some consumer confidence surveys conducted in the US indicate that a sense of pessimism prevails among consumers.

The pervading fears, which Citi Investment Research & Analysis says are "overdone", are exacerbated by the slowing economic growth in the US, where



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MALAYSIA INDONESIA SINGAPORE THAILAND

FORWARD BANKING



Manager
CIMB Principal
 ASSET MANAGEMENT

Raymond Tang unemployment is again on the rise, and lingering concerns about the eurozone's debt crisis as governments mull further austerity measures.

The IMF's chief economist Olivier Blanchard played down concerns about a double dip last Thursday, saying the chances of it occurring were small, although what is happening in Europe could dampen the pace of recovery.

On the home front, Minister in the Prime Minister's Department Tan Sri Nor Mohamed Yakcop said the country was not expected to face a double-dip recession as both the local and regional markets were doing well despite underperforming in 2Q2010.

He reiterated that the government's target of 6% GDP growth this year was still achievable and that 2Q2010's underperformance compared to the previous quarter had been accounted for in the 6% target.

CIMB Principal's Tang agrees that a double dip may not occur in Malaysia despite what the markets appear to believe.

"This fear is based on feelings and feelings can change. What investors can do now is focus on the fundamentals, which is the actual economic data itself," he says.

MIDF's Lim adds that even in the unlikely event of a double dip in Asia, the local bourse will not go down as much as the more bearish investors think.

"Of course if a double dip happens overseas, we will see a slowdown here. But because of the low presence of foreign investors, we will see less volatility in the market," he says.

He expects the market to go into correction in 2H2010, although if a W-shaped recovery takes place, the correction would be deeper due to a slowdown in exports.

"But for now, it is too early to tell," he comments.