



# A NASCENT RECOVERY FOR MALAYSIA'S EQUITY MARKET

After a lacklustre 2019, the stock market may start to gain traction in 2020 as investors focus on companies' fundamentals and potential earnings growth

For many local investors, 2019 has been a year to forget. With the local bourse being Asia's worst-performing major stock market, Bursa Malaysia has a tough task trying to lure investors back.

A weak earnings outlook and political risks have reduced appetite for local equities, which are heading toward a second year of losses, extending 2018's worst showing since the global financial crisis.

Global funds have pulled out more than US\$2 bil (RM8.3 bil) from Malaysian stocks in 2019, the biggest outflow among emerging Asian equity markets.

When Prime Minister Tun Dr Mahathir Mohamad took office in May last year, he pledged to boost the stock market. However, things have not panned out as he had envisaged. Investors have generally been underwhelmed by a cut in public spending, a weak ringgit and uncertainty over the succession of power.

The FTSE Bursa Malaysia KLCI Index's 12-month forward earnings estimate has declined more than 12% since the Pakatan Harapan coalition assumed power in May 2018, according to data compiled by Bloomberg.

Business sentiment had taken a beating after the government shelved several large infrastructure projects and cut spending to rein in its massive debt. However, public finances may get a boost after Finance Minister Lim Guan Eng loosened the purse strings for the 2020 Budget and the authorities stepped up efforts to recoup billions of dollars lost in the 1MDB scandal.

Sentiment toward Malaysian stocks has also been hurt by the weakening macro data. The economy expanded 4.4% last quarter, the slowest pace in a year, while exports recorded the biggest slump since 2016 in September. Global funds are



Ahmad Najib Nazlan

on guard after FTSE Russell said it may drop Malaysia from its World Government Bond Index.

Things do appear gloomy for the Malaysian equity market without even throwing in the external factors into the mix such as slowing global economic growth, the US-China trade war and geo-political risks.

### Outlook for 2020

So as we move into 2020, are there any bright spots for the Malaysian equity market or will things get from bad to worse next year?

Maybank Asset Management Sdn Bhd CEO Ahmad Najib Nazlan believes that the local equity market will rebound and gain its traction.

"The Malaysian equity market in 2020 may stage a good recovery from the current lacklustre mood as investors focus on companies' fundamentals and potential earnings growth rather than concerns on political and policy uncertainties during the leadership transition period," he says.

He also expects the earnings growth of Malaysian equities next year to be around 7%, which reflects the decent gross domestic product (GDP) growth of above 4.5% and continuous investments from the government and private sectors.

He adds the sectors that can perform well in the coming year include banking, plantation, energy and construction. On the other hand, he thinks that real estate investment trusts (REITs), telcos and utilities would be the laggards.

On what would potentially have the greatest impact on the Malaysian equity market next year, Ahmad Najib believes the slowing global economy is the main threat for the local stock market. "The slowing economy is partly due to the trade war and geo-political risks," he adds.



Kenny Yee

BASICALLY 2019 HAD UNDERPERFORMED BADLY VIS-À-VIS REGIONAL PEERS. IN ADDITION, CORPORATE EARNINGS GROWTH FOR 2020 SHOULD SURPASS THAT OF 2019.

So what strategies should investors adopt to ride through market volatility and reap decent returns?

"Being nimble and having a dynamic asset allocation between defensive and growth stocks will be key to ride through current markets' uncertainties. Aside from that, having a bit more cash from profit taking activities helps in opportunistic buying of oversold stocks," he adds.

### A little positivity

Rakuten Trade head of research Kenny Yee sees the outlook for the Malaysian equity market in 2020 to be "slightly positive".

"Basically 2019 had underperformed badly vis-à-vis regional peers. In addition, corporate earnings growth for 2020 should surpass that of 2019," he adds.

However, he says Rakuten Trade views a protracted trade war to have the most impact on regional markets as well as China of which our market and currency is closely correlated to.

Yee anticipates that corporate earnings will likely improve next year. "We estimate 2020 should

be a better year for corporate Malaysia than 2019. Corporate earnings is expected to see around a 4% decline (this year) thereafter to grow by almost 6% in 2020.

"In terms of valuation though our market PE remains above regional peers, the average premium however has narrowed as YTD we have underperformed the rest of Southeast Asia," he adds.

Yee expects the construction sector to lead the way with the banking sector also to see some improvements. "The fact that Bank Negara Malaysia did not reduce interest rates should be a good indication that Malaysian banks should remain in solid footing." ■