SECTOR REVIEW

SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Exports accelerated 32.5% y-o-y in May, following a 20.6% increase y-o-y in Apr
- Imports expanded 30.4% y-o-y in May, following a 24.7% growth in Apr
- Trade Balance fell to RM 5.49 billion in May from RM 8.75 billion in April
- Industrial Production grew by 4.6% y-o-y in May
- CPI moderated to 3.6% y-o-y in Jun 2017 as compared to the prior 3.9% y-o-y in May
- Nikkei Malaysia PMI declined to 46.9 from previous reading of 48.7

MARKET OUTLOOK

As of 24 July 2017, KLCI companies were expected to post EPS of 108.4, 114.9 and 123.3 for 2017, 2018 and 2019 respectively, representing earnings growths of 8.1%, 6.0% and 7.3% for the three respective years. These translated into PE ratios of 16.3X, 15.3X and 14.3X for 2017, 2018 and 2019 respectively. As a whole, KLCI index's 2017 earnings estimates saw a tepid upgrade of 0.4% over the month. Over the same period, the financials sector saw upward earnings revision of 0.90%. Within the financials sector, Hong Leong Financial Groups received the largest earnings upgrade of 7.02%, as the group's business units (Insurance division, Investment Banking, Retail Banking) continue to contribute positively to the growth in its net profit. On top of that, the group also enjoy strong growth in the contribution from its associate, Bank of Chengdu (BOC).

Malaysia's industrial production accelerated by 4.6% year-on-year in May, beating consensus estimates for a 4.1% growth and previous month's 4.2% year-on-year expansion. The strength in May's industrial production was mainly driven by manufacturing sector (+7.3% year-on-year) and electricity production (+2.5% year-on-year), while the mining activity shrank by 2.3% year-on-year. According to the source of data that we obtained, the expansion in the manufacturing sector mainly contributed by electrical and electronics products (+11.6%), and food, beverages and tobacco (+12.9%). The strong growth in the manufacturing sector was in line with the higher than expected Malaysia's exports in May, where we continue to see strong demand for shipments of electrical and electronic products. Contrarily, the production from the mining sector which included oil and gas, extended its decline from April, falling 2.3% year-on-year in May. The dwindling mining output is a result of declining crude production as previously Malaysia pledged to cut oil production by 20,000 barrels per day following a decision by OPEC to continue with production cuts for a further nine-months ending first quarter, 2018. All in all, the better than expected industrial production suggested a better prospect for stronger economic growth for Malaysia.

Malaysia's June inflation moderated to 3.6% growth year-on-year from the previous month's 3.9%. Transport and Food & Non-Alcoholic Beverages continue to be the main drivers for the local inflation. A week before the inflation data, Bank Negara Malaysia (BNM) decided to keep the Overnight Policy Rate (OPR) unchanged at 3.00%, saying that the current stance of monetary policy is accommodative and supportive of economic activity. Moving forward, we expect BNM to maintain the OPR at 3.00% for the rest of the year given the moderation in local inflation.

The KLCI Index declined by -0.98% in July 2017, causing the estimated PE ratio for 2017 to drop slightly over the month. As of 24 of July 2017, the KLCI index was trading at an estimated 16.3X PE ratio, which is slightly higher than our fair PE of 16X. We continue to have a positive view on the local equity market underpinned by ameliorating corporate earnings and 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:
ABERDEEN MALAYSIAN EQUITY