SINGLE COUNTRIES

MALAYSIA (3.0 STARS — ATTRACTIVE)

- Exports rose 14.4% y-o-y in Nov 17, following a 18.9% increase y-o-y in Oct 17
- Imports expanded 15.2%y-o-y in Nov 17, following a 20.9% growth in Oct 17
- Trade Balance declined to RM 9.95 billion in Nov 17 from RM 10.56 billion in Oct 17
- Industrial Production grew by 5.0% y-o-y in Nov 17
- CPI accelerated to 3.5% y-o-y in Dec 17 as compared to the 3.4% y-o-y in Nov 17
- Nikkei Malaysia PMI declined to 49.9 in Dec 17 from a previous reading of 52.0

MARKET OUTLOOK

As of 26 January 2018, companies in the KLCI Index are expected to post an aggregate EPS of 112.19 and 119.73 for 2018 and 2019 respectively, representing earnings growths of 5.7% and 6.7% for 2018 and 2019 respectively. This translates into PE ratios of 16.5X and 15.5X for 2018 and 2019 respectively. As a whole, KLCI index's 2018 earnings estimates saw an upgrade of 0.4% over the month. Over the same period, Tenaga Nasional Berhad saw the largest earnings upgrade (3.4%) as the company registered 24% jump in net profit for three months ended 30 November 2017. On top of that, analysts are positive on the prospect of the company as they foresee stable earnings outlook and healthy asset growth to offset the impact from the higher base tariff moving forward.

Malaysia's Central Bank, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points for the first time in three and half years. The latest floor and ceiling rates of the corridor for the OPR were raised to 3.00% to 3.50% respectively. The central bank shared its belief that the growth momentum of the local economy is likely to sustain into 2018, underpinned by synchronised global growth which would boost the local trade growth and its recovering domestic demand as a result of favourable income and labour market condition. As such, the central bank opines that the rate hike is appropriate in order to prevent a build-up of risks that could arise from interest rates being too low for a prolonged period of time. Having said that, we believe that the central bank is not likely to further tighten its monetary policy over the near term given its intention to normalise the interest rates and given that further hikes would weigh on domestic economic growth ahead.

Malaysia's November 2017 exports came in above expectations despite the end of the low base effect, growing 14.4% year-on-year. On absolute terms, Malaysia's exports rose to all time high of RM 83.50 billion in November. Similar to previous months, Malaysia's exports were driven by manufactured goods, which account for more than 80% of the country total exports, particularly the E&E products which grew by 21% over the same period, underpinned by the robust worldwide demand for the semiconductor products. Moving forward, we believe that synchronised global growth is likely to provide support to the local trade.

The KLCI Index soared by 3.41% over the course of January 2018, however, with the upward revision in the KLCI's earnings growth (+5.7%), the estimated PE for 2018 decreased slightly over the month. As of 26 January 2018, the KLCI index traded at an estimated PE ratio of 16.5X, which is slightly higher than our fair PE ratio of 16X. We continue to have a positive view on the local equity market underpinned by improving fundamentals of the local economy. Given the expectation of stronger corporate earnings and a more favourable economic backdrop, the local stock market is expected to deliver a rather reasonable return for an investment horizon spanning over the next 3 years. As such, we maintained our star rating for the Malaysian equity market at **3.0 stars "Attractive"**.

RECOMMENDED FUND:
ABERDEEN MALAYSIAN EQUITY