SOUTH EAST ASIA

MALAYSIA – 3.0 STARS (ATTRACTIVE)

- Exports rose 17.9% y-o-y in Jan 18, following a 4.7% increase y-o-y in Dec 17
- Imports expanded 11.6% y-o-y in Jan 18, following a 7.9% growth in Dec 17
- Trade Balance increased to RM9.71b in Jan 2018 from RM7.30b in Dec 17
- Industrial Production grew by 3.0% y-o-y in Jan 18, slightly faster than 2.9% growth in Dec 17
- CPI decelerated to 1.4% y-o-y in Feb 18 as compared to the prior 2.7% y-o-y in Jan 18

MARKET OUTLOOK

As of 23 March 2018, KLCI companies are expected to post EPS of 112.46, 120.76 for 2018, 2019 respectively, representing earnings growths of 6.0% and 7.4% respectively. These translate into PE ratios of 16.6X and 15.4X for 2018 and 2019 respectively. As a whole, KLCI index's earnings estimates saw an upgrade of 0.4% over the month. Analysts continue to favour Financial sector, revising its earnings estimates upward by 0.3% over the month. Hong Leong Financial Group and Public Bank Berhad contributed most of the earnings upgrade. Consumer Staples (+0.1%) and Materials (+0.2%) were among other sectors that witnessed positive earnings revision.

Moody's has recently affirmed Malaysia's local and foreign currency issuer and senior unsecured bond ratings at A3. In its announcement, Moody's has also cited some possible risks to Malaysia, which include a slowdown or stall in economic growth, increasing debt burden or any external events that could weaken the MYR. In addition to that, the credit rating agency has also stated that Malaysia's debt-to-GDP ratio runs high among A-rated sovereigns. Given that most of the government debt are denominated in local currency (~97%), Moody's is in the view that Malaysia is insulated from global economic events such as currency or interest rate shocks to a certain extent.

On the external trade front, Malaysia exports' growth leapt to 17.9% year-on-year in January 2018 after easing to 4.7% previously. The jump was attributable to growth in all major sectors and increased trade with its major trading partners. Expansion in trade with Malaysia's trading markets was seen across the board with exports growth driven by ASEAN, Greater China as well as the European region. Within segments, manufactured goods saw the most growth of 20.4% year-on-year, driven by robust exports of E&E products and chemical products. On imports, intermediate goods and capital goods imports growth both declined by 1.7% and 3.1% respectively, offsetting the increase in consumption goods imports over the month.

The KLCI Index continues to make gains in March, inching up 0.89% despite the escalation in market volatilities amid uncertainties over trade war talks in the US. As of 23rd of March 2018, the KLCI index was trading at 16.6X estimated PE ratio, which presents a slight premium compared to our fair PE of 16.0X. We are maintaining a positive view on the local equity market, supported by improving fundamentals of the local economy. Given the expectation of stronger corporate earnings and a better economic backdrop, 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

MALAYSIA (3.0 STARS – ATTRACTIVE)

Why we like it

1. Private Consumption to Sustain Its Growth Momentum
   - Domestic consumption recovered and was the main driver for economic growth in 2017, as consumer acclimatise with the implementation of GST and removal of various subsidies;
   - Consumer sentiment is starting to paint a better picture and households' confidence on economic outlook is improving, evidenced by stronger consumer loan growth within the banking sector;
   - A moderate inflation condition will continue to be supportive of spending appetite going forward.

2. Exports Riding on Tech-related Goods Demand
   - Despite a slowdown in December 2017's figure, exports growth surged back to 17.9% level in January 2018 amid growth in all major sectors, suggesting that the exports growth trend and robust trade activities could continue into 2018;
   - External demand for electrical and electronics products may continue to drive growth on the exports front moving forward;
   - Within imports, we foresee local demands for capital goods and intermediate goods to moderate amid a high base effect in quarters ahead;
   - However, domestic demand for consumer goods should find some support from the current Ringgit strength.

3. Institutional liquidity to support local equity market
   - Historically, there is strong participation of institutional funds within the local market which will continue to serve as a buffer to cushion market performance should any selloff occur;
   - We have witnessed the resiliency of Malaysia's equity market: FBMKLCI Index managed to finish both February and March in the black despite worries on US inflation and exchange of words between China and US on trade-related topics.

4. The continuation of Earnings Upward Revision Trend
   - The trend of upward revision in earnings have continued into 2018, portraying signs of positivity on the local bourse.
   - A health external demand plus a recovering local consumption suit well for Malaysia's macroeconomic picture, and these elements are positive input for corporate earnings;
   - As of 23rd March 2018, the P/E ratio for Malaysia's equity market stands at 16.6x and 15.4x for 2018 and 2019.
   - Given the slight premium valuation for Malaysia's equity market, earnings growth would be the major contributor to equity return, which is expected to come in at mid-single digit by end of 2018 – earnings growth for 2017 & 2018 are 6.0% and 7.4% respectively.

What we don't like

1. High Debt to GDP Level Could Cap Growth
   - Moody's has sighted Malaysia's debt-to-GDP level (51%) is higher than that of its peers (average 41%) in its recent ratings update on Malaysia;
   - While a huge portion of the debt is denominated in Ringgit, the current debt level could still present some risks to the nation should there be any significant impact or headwinds from the external environment.