SECTOR REVIEW

SINGLE COUNTRIES

MALAYSIA (3.0 STARS – ATTRACTIVE)

- Exports expanded 26.5% y-o-y in Feb, following a 13.6% increase y-o-y in Jan
- Imports increased 27.7% y-o-y in Feb
- Trade Balance improved to RM 8.71b in Feb from RM 4.71b in Jan
- Industrial Production grew by 4.7% y-o-y in Feb, up from 3.5% y-o-y in Jan
- CPI surged 5.1% y-o-y in March 2017, up from the prior 4.5% y-o-y in Feb
- Nikkei Malaysia PMI improved to 49.5 from previous reading of 49.4

MARKET OUTLOOK

As of 21 April 2017, KLCI companies were expected to post EPS of 106.22, 112.71 and 117.40 for 2017, 2018 and 2019 respectively, representing earnings growths of 5.9%, 6.1% and 4.2% for the three respective years. These translated into PE ratios of 16.5X, 15.6X and 15.0X for 2017, 2018 and 2019 respectively. As a whole, the KLCI index's 2017 earnings estimates saw tepid upgrades of 0.9% over the month. The financials sector posted the biggest earnings upgrades amongst all, up by 0.95%, probably due to the improving earnings growth amid lower provisions and better cost controls. On the other hand, the consumer staple sector saw a moderate downward earnings revision of -0.51%, with one of its constituents, British American Tobacco Malaysia Berhad's 2017 earnings being revised downward by -8.18% over the month. This was probably due to the poor first quarter earnings result in 2017, with both of the company's revenue and net profit declining by -34% and -25% respectively on a year-on-year basis. The dip in BAT's revenue and earnings was attributed to the growth in illicit cigarettes volume which rose to a record high of 57.1% of total cigarette consumption as of December 2016.

In March, Malaysia headline inflation surged to more than 8-year high of 5.1% year-on-year. The surge in inflation was primarily due to the elevated petrol price, with the low base effect accentuating the surge. Although Malaysia's real interest rate has dipped into negative territory due to the spike of inflation rate, we believe that it is unlikely to trigger the Bank Negara Malaysia (BNM) to hike OPR, as the inflationary pressure was largely cost-push rather than demand-pull. On top of that, an OPR hike this year could weigh on the recovery of the local economic growth. Hence, we expect BNM to keep OPR unchanged this year. However, the possibility of a rate cut by the central bank, in order to provide support to local economy, should not be totally ruled out as the currency fluctuation of the Ringgit moderated.

The KLCI Index increased by 0.59% in March 2017, causing the estimated PE ratio for 2017 to increase slightly over the month. As a result, the KLCI index is currently trading at 16.5X estimated PE, which is slightly higher than our fair PE ratio of 16.0X. This year, corporate earnings are expected to improve, supported by increasing external demand, expansion in private consumption, increasing government spending and escalating foreign direct investment. Consequently, these catalysts will probably result in a GDP growth rate that is within the range of 4.0% to 5.0%. With the expectation of improving corporate earnings coupled with a fair market 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