Kenanga Investors

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Ask The Experts:

2H 2016 Malaysian Market Outlook - Malaysia's Earnings Growth Continues to be Challenging.

Mr. Liong Chee How, Senior Portfolio Manager of Kenanga Investors Berhad comments about the outlook for the Malaysian economy for the second half of 2016.

View video: https://www.youtube.com/watch?v=4B0CjRRDQs0

1. **Malaysia's GDP has been moderating with the first quarter of 2016 coming in at 4.2% y-o-y growth. Do you think Malaysia will continue to undergo a moderation in GDP growth for the coming few months? What is your outlook for Malaysia's economy for the rest of the year?**
   Mr Liong thinks that the weakness in GDP growth is attributed to weak export and private investments. Nevertheless, the government has taken measures to boost consumer disposable income which include minimum wage hike, cut of 3% EPF contribution and civil servants pay hike. In addition to that, the government has taken measures to implement more infrastructure projects including MRT 2, LRT 3, etc. Bank Negara has also cut Overnight Policy Rate (OPR) rate by 25 basis points to 3% which will lend support to Malaysia's GDP growth.

2. **How much further upside is there for investors and are valuations still appealing? FBM KLCI Index continued to see earnings downgrades on a year-to-date basis, with analysts slashing earnings forecasts by -3.4% and -3.9% for 2016 and 2017. What is your take on the earnings outlook?**
   He thinks there is limited upside to the market as earnings have been disappointing for the FBM KLCI and earnings came in quite weak in March 2016 reporting quarter. The disappointment came from various sectors such as plantations, oil and gas, timber, etc. Only the airline sector outperformed while banks and telcos were generally in line. So, he thinks that the earnings growth will continue to be challenging for the rest of the year.

3. **Do you think small cap segment is a better investment opportunity at this point of time as compared to the big cap segment? Why?**
   The investment team in Kenanga Investors Berhad adopts a bottom-up approach which means they look at earnings growth, valuations and dividend yield in terms of stock picking. As long as stocks offer reasonable valuations, good earnings growth and attractive dividend yield, they think that these stocks offer attractive investment opportunities. So regardless of the big cap or small cap, they tend to look at stocks from the quality perspective.

4. **Where do you find investment opportunities in Malaysia? What sectors or themes do you have the most and least preference for?**
   They are constantly looking for new investment ideas. As there is limited upside to the market, they look at non-index stocks. Regardless of the economy environment, they believe there are companies who can deliver earnings growth. They prefer defensive sectors such as consumer (F&B sector), utilities, REITs as they offer 5-7% dividend yield and construction. Oil and gas as well as plantations are two sectors they have the least preference for due to weak CPO price and oil price.

5. **Do you think investors should opt for investments with a dividend investing strategy amid a slowing economy and increasingly volatile markets?**
   He thinks investors should always select unit trusts that are compatible with their investment objectives and risk tolerance. In this increasingly volatile market environment, dividend investing strategy is likely to do well relative to the market. If Bank Negara continues to cut rate, then dividend stocks will likely to outperform the market. However, he thinks that investors should not disregard other stocks that could deliver good earnings growth as they could also outperform the market.

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Source:

Fundsupermart.com: https://www.fundsupermart.com.my/main/fsmwebcast/Ask-The-Experts-Malaysia%E2%80%99s-Earnings-Growth-Continues-to-be-Challenging--7376&1

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Ask The Experts: Malaysia's Earnings Growth Continues to be Challenging

Liong Chee How, Vice President, Investments at Kenanga Investors Berhad, shares with Fundsupermart his outlook for Malaysia for the remaining months.

1. Malaysia's GDP has been moderating with the first quarter of 2016 coming in at 4.2% y-o-y growth. Do you think Malaysia will continue to undergo a moderation in GDP growth for the coming few months? What is your outlook for Malaysia's economy for the rest of the year?

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