Kenanga Investors

**Date:** 1 August 2017

# *Ask The Experts:*
# 2H2017 Market Outlook: Will The Run Continue?

***Fundsupermart.com.my (1 August 2017)***
***Youtube (31 July 2017)***


**Mr. Liong Chee How, Senior Portfolio Manager of Kenanga Investors Berhad comments about the outlook for the Malaysian economy during the second half of 2017.**

**View video:** https://www.youtube.com/watch?v=tz3ffekYbxE

1. **Malaysia's gross domestic product ("GDP") was revised upward by the World Bank and it has forecasted that Malaysia's economy will grow by 4.9% compared with the earlier forecast of 4.3% in its January report. What is your forecast and outlook for Malaysia's economy for the rest of the year?**

   Following the stronger than expected 1Q GDP growth of 5.6% yoy which beats estimate of 4.8% year-on-year ("yoy"), we have seen economists upgrading 2017's GDP growth. Based on the latest Bloomberg statistics, consensus is now expecting 2017 GDP growth of 4.7%. During last year's budget announcement in October 2016, the Ministry of Finance ("MOF") has given a projected 2017 GDP growth range of 4%-5%. We expect 2017 growth to come in at the higher end of the MOF's forecast range. We continue to have a positive outlook for the economy in 2017. Stronger growth is boosted by higher commodity prices, sustained infrastructure spending and higher exports.

2. **What is your view on Malaysia's record low purchasing manager's index ("PMI) in June? Is this an early sign of economic slowdown?**
   Malaysia's June manufacturing PMI fell to the low of 46.9 in June after climbing to a high of 50.7 in April. The survey however revealed an uptick in June exports with new orders abroad increasing. We note that the industrial production index ("IPI") growth was above 4.0% for the past three months, which was above 2016's monthly average of 3.8%. This leads us to believe that manufacturing was likely going through a soft patch as June was the fasting month which is seasonally, a slower month. We expect manufacturing to gradually pick up and continue its growth path despite it being at a moderate pace compared to 1H2017.

3. **Malaysia's corporate earnings growth in the first quarter 2017 is off to an encouraging start after two years of decline. How much further upside is there for investors and what is your take on the earnings outlook?**
   After three years of disappointment, corporate earnings are finally back to growth in 2017. The consensus is now expecting 6%-7% earnings growth in 2017 which we believe is reasonably achievable. This will be supported by stronger infrastructure spending, foreign direct investment ("FDI"), higher commodity prices and also good export numbers.

4. **Where do you find the most promising opportunities? Are there any sectors that are likely to do better this year?**
   In Kenanga Investors, we always stick to our bottom-up stock picking strategy with less priority on sector calls. Our 2017 investment themes are centred on beneficiaries of infrastructure spending and rising China FDI, manufacturers or exporters with niche products, GLC reforms or restructuring plays and companies leveraged to domestic consumption.

5. **Malaysia's exports have recorded four consecutive months of double-digit growth in 2017. In your opinion, what is the reason behind the Electrical & Electronics ("E&E") export surge over the recent months?**
   Malaysia had very strong export growth for the first five months in 2017, driven by the recovery in commodities and E&E exports. Commodity prices especially oil and CPO price has recovered significantly yoy. Meanwhile, the surge in E&E exports was boosted by the upcoming iPhone replacement cycle. Most technology companies we visited

6. **Malaysia small cap segment has rallied about 20% in the first half of 2017. What is your view on the local small cap segment? Do you think the rally is sustainable?**
   After a very strong rally in the small cap space, we now expect the small cap index to correct and consolidate in 3Q2017. Seasonally, we know that the 3Q is always the weakest and slowest of months for emerging markets including Malaysia. Nonetheless, we continue to like the small cap stocks which generally offer cheaper valuation and stronger potential earnings growth compared to large cap stocks. In Kenanga Investors, our small caps investing strategy is always bottom-up stock picking backed by fundamental research and a thorough understanding of the company's business model. Selective small caps with solid fundamentals which continue to deliver earnings growth will likely to continue its outperformance in 2H2017.

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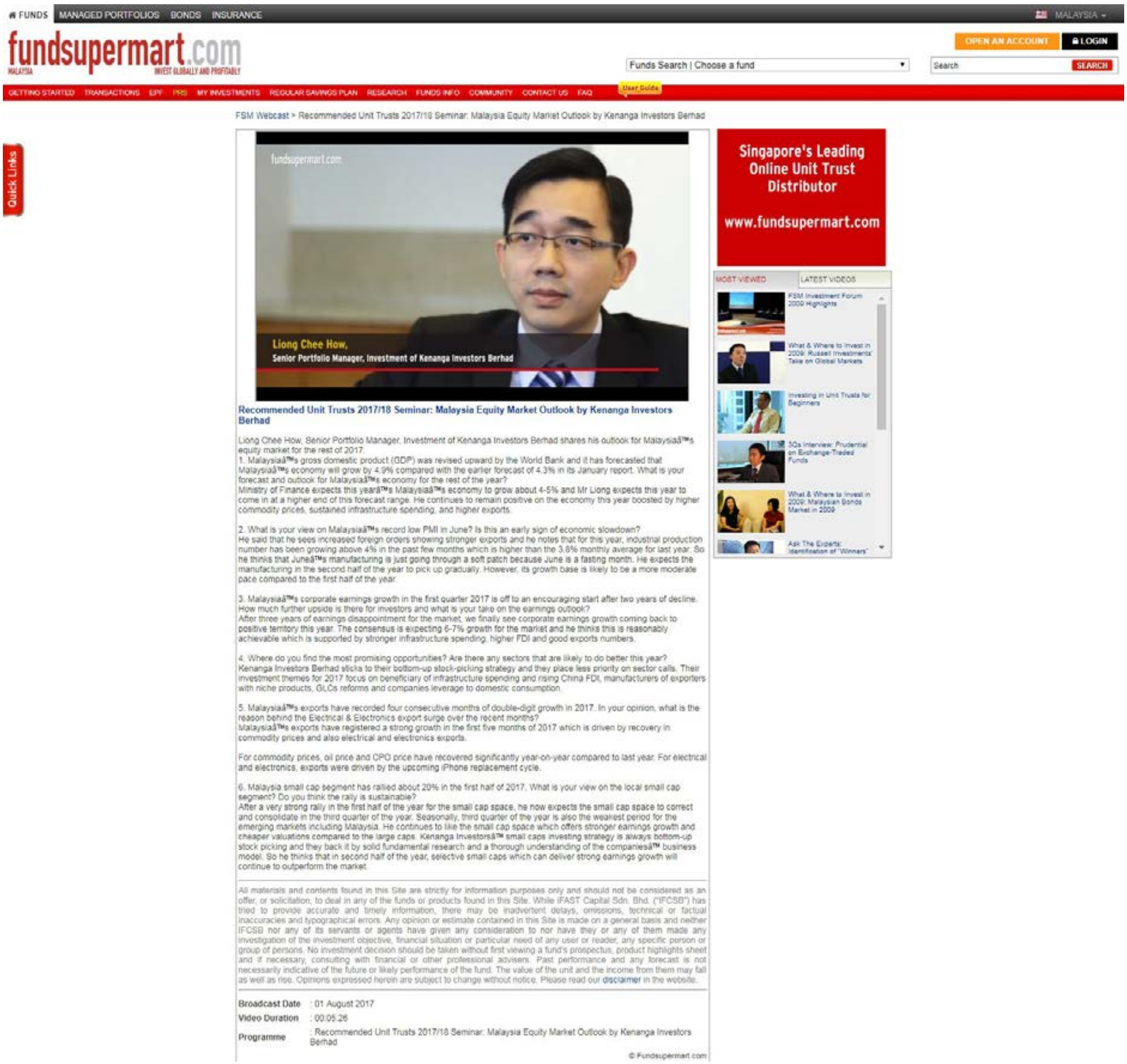
***Source(s):***

*Fundsupermart.com:* [https://www.fundsupermart.com.my/main/fsmwebcast/Recommended-Unit-Trusts-2017-18-Seminar-Malaysia-Equity-Market-Outlook-by-Kenanga-Investors-Berhad-8652&1](https://www.fundsupermart.com.my/main/fsmwebcast/Recommended-Unit-Trusts-2017-18-Seminar-Malaysia-Equity-Market-Outlook-by-Kenanga-Investors-Berhad-8652&1)




**Recommended Unit Trusts 2017/18 Seminar: Malaysia Equity Market Outlook by Kenanga Investors Berhad**

Liong Chee How, Senior Portfolio Manager, Investment of Kenanga Investors Berhad shares his outlook for Malaysiaâ™s equity market for the rest of 2017.

1. Malaysiaâ™s gross domestic product (GDP) was revised upward by the World Bank and it has forecasted that Malaysiaâ™s economy will grow by 4.9% compared with the earlier forecast of 4.3% in its January report. What is your forecast and outlook for Malaysiaâ™s economy for the rest of the year?
Ministry of Finance expects this yearâ™s Malaysiaâ™s economy to grow about 4-5% and Mr Liong expects this year to come in at a higher end of this forecast range. He continues to remain positive on the economy this year boosted by higher commodity prices, sustained infrastructure spending, and higher exports.

2. What is your view on Malaysiaâ™s record low PMI in June? Is this an early sign of economic slowdown?
He said that he sees increased foreign orders showing stronger exports and he notes that for this year, industrial production number has been growing above 4% in the past few months which is higher than the 3.8% monthly average for last year. So he thinks that Juneâ™s manufacturing is just going through a soft patch because June is a fasting month. He expects the manufacturing in the second half of the year to pick up gradually. However, its growth base is likely to be a more moderate pace compared to the first half of the year.

3. Malaysiaâ™s corporate earnings growth in the first quarter 2017 is off to an encouraging start after two years of decline. How much further upside is there for investors and what is your take on the earnings outlook?
After three years of earnings disappointment for the market, we finally see corporate earnings growth coming back to positive territory this year. The consensus is expecting 6-7% growth for the market and he thinks this is reasonably achievable which is supported by stronger infrastructure spending, higher FDI and good exports numbers.

4. Where do you find the most promising opportunities? Are there any sectors that are likely to do better this year?
Kenanga Investors Berhad sticks to their bottom-up stock-picking strategy and they place less priority on sector calls. Their investment themes for 2017 focus on beneficiary of infrastructure spending and rising China FDI, manufacturers of exporters with niche products, GLCs reforms and companies leverage to domestic consumption.

5. Malaysiaâ™s exports have recorded four consecutive months of double-digit growth in 2017. In your opinion, what is the reason behind the Electrical & Electronics export surge over the recent months?
Malaysiaâ™s exports have registered a strong growth in the first five months of 2017 which is driven by recovery in commodity prices and also electrical and electronics exports.

For commodity prices, oil price and CPO price have recovered significantly year-on-year compared to last year. For electrical and electronics, exports were driven by the upcoming iPhone replacement cycle.

6. Malaysia small cap segment has rallied about 20% in the first half of 2017. What is your view on the local small cap segment? Do you think the rally is sustainable?
After a very strong rally in the first half of the year for the small cap space, he now expects the small cap space to correct and consolidate in the third quarter of the year. Seasonally, third quarter of the year is also the weakest period for the emerging markets including Malaysia. He continues to like the small cap space which offers stronger earnings growth and cheaper valuations compared to the large caps. Kenanga Investorsâ™ small caps investing strategy is always bottom-up stock picking and they back it by solid fundamental research and a thorough understanding of the companiesâ™ business model. So he thinks that in second half of the year, selective small caps which can deliver strong earnings growth will continue to outperform the market.



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| **Broadcast Date** | : 01 August 2017 |
| **Video Duration** | : 00:05:26 |
| **Programme** | : Recommended Unit Trusts 2017/18 Seminar: Malaysia Equity Market Outlook by Kenanga Investors Berhad |

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