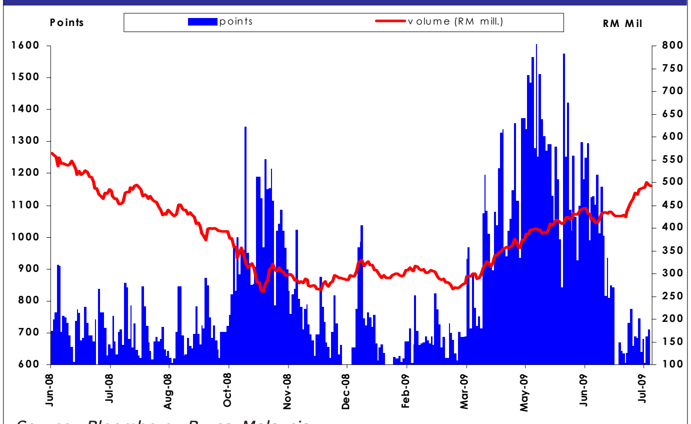
Stock Market

AMB

MALAYSIA - Rally of hope...

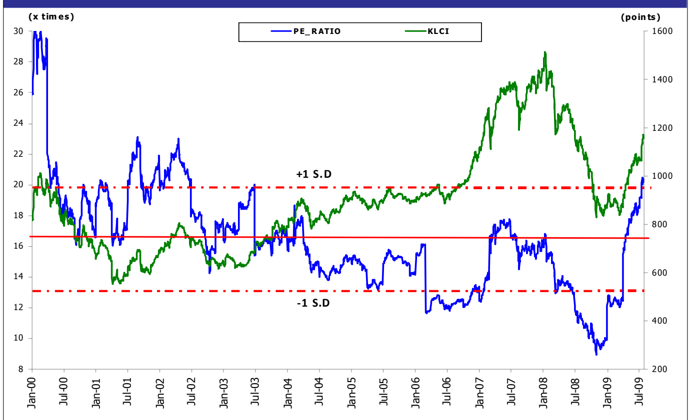
30 JULY 2009
2009/0002

FBM KLCI (PRICE MOVEMENTS vs VOLUME)



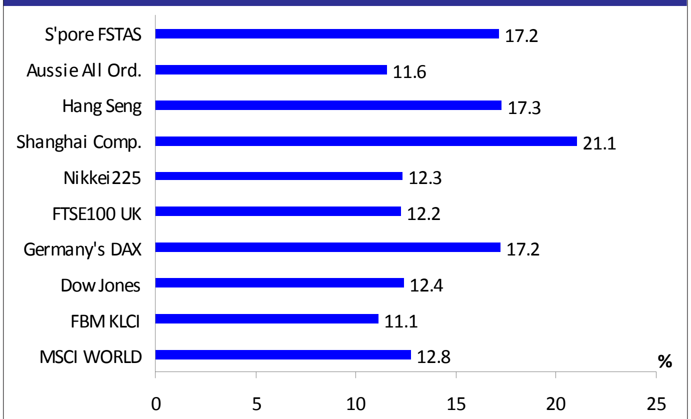
Source: Bloomberg, Bursa Malaysia

FBM KLCI (PRICE vs PRICE TO EARNINGS)



Source: Bloomberg, Bursa Malaysia

WORLD INDICES (% FROM MOST RECENT BOTTOM)



Source: Bloomberg, Bursa Malaysia

- 14% in 25 days – the high velocity of the stock market got many investors puzzled. Whether this rally is genuine or a simple case of vicious liquidity driving stocks into a short term bubble, has been the hot topic among every capital market participants.

- Such a leap however is not a stranger in the local bourse and in fact appeared many times during the recovery leg of the 1997/98 crisis and 2000/01 slowdown. Also, the local stock movement was in tandem with regional and major stock indices (see chart).

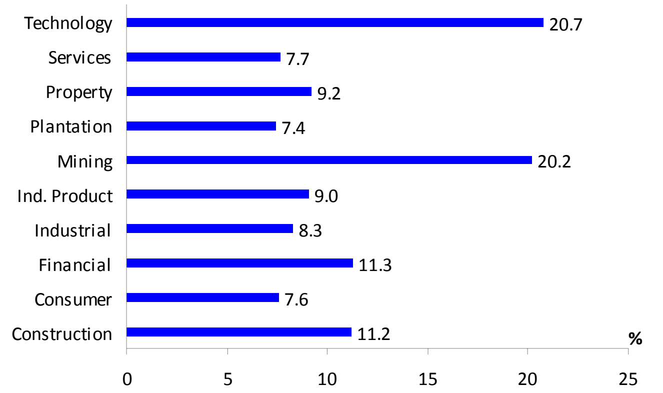
- Technically, the stock market rally seems pretty much convincing – high volume trading reflected buoyant participation among investors while broad rally across all boards and sectors demonstrated healthy breadth and the rally is not only concentrated on the blue chips counters. Valuations, on the other hand, indicated that stocks are in the expensive region as earnings momentum did not justify the price increase.

- The main reason of the global stock rally was initiated in the US, where companies reported earnings for 2Q09 had mostly beat consensus estimates and sparked investors' hope that earnings will continue to improve hereon. Concerns however arose from the fact that earnings estimates had been downgraded to such low levels that positive surprises appeared imminent. Also, profits generated during the quarter were largely derived from cost cutting measures and stock reductions while running way below their production capacity.

- Similarly, Malaysia's 2Q09 earnings results had also kicked off on a positive note. 40 companies reported so far recorded an average 47.1% q-o-q growth vis-à-vis the -72.8% recorded in 1Q09. Together with the aforementioned factors in the US, orders were generally seen to be picking up slightly especially from Singapore and China where industrial productivity is ramping up. Even this performance, in our view, is very fragile as demand was mostly in terms of intermediate goods and not final goods.

- The rebound in quarterly earnings had obviously provided a reason for stocks to rally, and with ample and cheap liquidity waiting on the sidelines, any 'better-than-expected' news would attract long awaiting fund managers and investors' back into the ring.

KL SECTORS (% FROM MOST RECENT BOTTOM)



Source: Bloomberg, Bursa Malaysia

- Furthermore, the Government's moves had been obvious. With the additional fund for Valuecap Sdn. Bhd. (RM5B), the introduction of EQUINAS (RM500M to RM5B), liberalization measures announced thus far and the soon-to-be-announced Amanah Saham 1Malaysia with an initial portfolio size of RM10B would indeed provide direct and indirect support to the stock market in the immediate to medium term.

- Additionally, the flight to safety (unit trust funds) is also benefitting the local stock market. Year-to-date, the unit trust industry posted a net inflow of 22B unit, with a net asset value of approximately RM15B worth of funds to be invested.

- Thus, we believe that the current rally is mostly liquidity driven as investors, with the fear of being left behind, joined the rally while hoping for a clearer sign of recovery to emerge.

- On the flip side of the coin, the rally in the global stock market could in turn stir up confidence among investors and provide some comfort towards consumers to start spending again.

- With less bad news and more signs of stabilization emerging in the domestic and global economy, we opine that the FBM KLCI has possibly established a new support level of 1,100 points. Whether it will be tested or not, depends on the sustainability of the earnings' momentum and thus, the prospect of economic recovery.

- The way the stock market rallied since its bottom in March this year indicated a V-shape recovery, which in our view is quite unlikely. Improvement of the local economy is expected to be modest and for it to go back to the growth path pre-global financial crisis will require a stronger recovery in the developed economies.

- As a result, our end-year target for the FBM KLCI Index remains unchanged at 1,150 points as there was no fundamental and significant event occurred since our previous report. PNB