

## Malaysia: Unit trust industry - beating the odds

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- In spite of dismal performance of the underlying real economy, the local stock market (along with other global markets) has locked-in some handsome gains over the past three months.
- If stock markets are a gauge of better things to come, it would seem that a bottoming phase might have happened in the first half of the year. But the jury is still out on whether the current bear is simply offering a temporary reprieve.
- In the meantime, the local unit trust industry has certainly benefitted from the reversal in fortunes of the equity market. Since December 08, the net asset value of the unit trust funds jumped 22.1% or almost RM30B to RM163B at the end of May 09, although it has yet to reach the record high of RM175B achieved in December 2007. The unit trust industry essentially has almost recouped the 24% losses incurred during the present crisis.
- The stock market, on the other hand, had recovered only 20% in recent months after losing by 40% in the first ten months of 2008.
- As a result of the different fortunes, the industry penetration into the stock market as reflected by the NAV/market capitalization ratio had hit a record high of 21% in February this year and remained above the 20% levels the months after up to May 2009 from 16% at the beginning of 2008. PNB as the industry leader contributed 55% towards this achievement.
- The steadier NAV performance of the unit trust industry was not only contributed by the recovery of the general stock market but also from selling of units. Units in circulation (UIC) during the first five months of this year rose by 7.1% or 16.9B units to 257B units. It had in fact, exceeded the 16B units sold in the same period of 2008.
- ASNB contributed 53% or 8.9B units of the total new UIC during that period, largely derived from additional units of ASW2020 and ASM (22%) as well as reinvested dividends (estimated at 50%).
- The other unit trust companies had also successfully sold 8.1B of new units during January to May this year despite of the challenging economic situation. In the same period of last year, however, a larger 10.1B units were subscribed by investors. To a larger extent, the sustained take-up rate displayed by the other players, as a group, was attributed to the purchase of existing funds rather than new launches.
- In the first five months of this year, a total of 23 new funds were launched, nine in the 1Q09 and 14 funds in April and May. Given that the equity market had performed favourably in the first two months of the 2Q09, the portfolio of these funds would have generated respectable returns. Unfortunately, a larger proportion of the new products introduced to the market were bond and guaranteed funds, rather than equity funds.
- Investor response to the new 23 launches was lukewarm, as reflected by the extremely low subscription rate. Out of the 11B units approved, only 0.9B units were subscribed, representing a subscription rate of 8.4%.
- It appears that investor had read the market well by subscribing or switching to existing equity funds to ride the bull rather than go for new low risks products.
- Going forward, if it is true that the economy have bottomed out in the first half before recovery could emerge towards the later part of this year, the unit trust industry should stay on course to register stronger growth in the coming months.
- Along the way, although we expect some correction in the stock market it should not hamper the further expansion of the unit trust industry.
- For the whole of this year, we expect the UIC of the industry to expand by 10% to 12% or 26B to 266B units. This would match the 26B units sold in 2008, representing a growth of 12.4%.
- Our forecast, while does not look in tune with the downturn of the general economy, it essentially means that during uncertain times investor will go for safer and yet attractive instruments return-wise. The prevailing low interest rate environment, which could extend over the medium term (six months to a year), has and will certainly add some impetus to the growth of the industry going forward.

# MALAYSIA: UNIT TRUST INDUSTRY AND STOCK MARKET

	Outstanding										Change	
	2001	2002	2003	2004	2005	2006	2007	2008	May-09	2009F	Jan-May08	Jan-May09
AFS (B Units)	106.0	123.2	163.9	211.4	252.1	315.1	434.5	503.4	529.0	571.1	49.7	25.5
% YOY	17.4	16.2	33.0	29.0	19.2	25.0	37.9	15.9	9.2	13.4	11.4	5.1
UIC (B Units)	71.4	83.9	95.3	114.6	139.4	151.1	213.4	240.0	256.9	266.0	15.9	16.9
% YOY	11.8	17.6	13.6	20.2	21.7	8.4	41.3	12.4	12.0	10.9	7.4	7.1
NAC (B Units)	10.0	10.2	10.3	10.4	10.9	11.2	12.3	13.0	13.4	13.7	0.4	0.3
% YOY	4.4	1.6	1.3	1.3	4.2	2.7	10.0	6.3	5.0	5.2	3.6	2.3
NAV (RM B)	47.7	54.3	70.7	84.7	98.5	118.9	175.4	133.6	163.1	181.0	-8.8	29.5
% YOY	9.4	13.7	30.2	19.8	16.3	20.7	47.6	-23.8	-2.1	35.5	-5.0	22.1
NAV/Market Cap (%)	10.3	11.3	11.1	11.7	14.2	14.0	15.9	20.1	20.4	-	16.7	20.7
Bursa Malaysia												
KLCI	696.1	646.3	793.9	907.4	899.8	1,096.2	1,445.0	876.8	1,044.1	-	-168.9	167.4
% YOY	2.4	-7.1	22.8	14.3	-0.8	21.8	8.5	-17.2	-18.2	-	-11.7	19.1
Market Cap	465.0	481.6	639.3	722.0	695.3	848.7	1,106.2	663.8	797.8	-	-134.9	134.0
% YOY	4.6	3.6	32.7	12.9	-3.7	22.1	8.5	-14.7	-17.9	-	-12.2	20.2

F: Research Division Forecast