

Staying Rational

Donald Trump has emerged as the US President-Elect with 289 electoral votes by beating Hillary Clinton's 218 votes on the last count even as not all the 538 total votes have been counted. He will be the 45th President of the United States of America. We believe that investors should view this election outcome as business as usual. Our stock and sector recommendations are based on long term sustainable themes such as Malaysia being a developed nation by 2020, private consumption, young demographics, investment cycle etc which are durable in nature, and we recommend sticking to these themes. Hence, we remain Positive on Malaysia and maintain our 2017 year-end KLCI target of 1,760.

A Brexit moment

Financial markets see this similar to the Brexit moment where the vote outcome is interpreted as irrational, bad for markets, and may have long term implications on global economy. If voters were seen as irrational, we believe that we should stay rational in assessing Donald Trump's stunning victory.

Trump presidency may not be as bad as feared

Firstly, there was little in terms of comprehensive policy articulation during his election campaign. On the other hand, the media chose to highlight his election rhetoric that were mostly outrageous. In reality, we believe these are impractical and at best challenging to implement. Hence, we should be patient and wait for Donald Trump's official policy formulation when he will be held responsible and assessed in his role as the President of the United States.

Secondly, while the President is the most powerful executive of the United States and by default in the world, there are checks and balances in its political structure that does not enable him to act in a manner that is detrimental to the United States. For example, new legislation will need to go through Congress, though Republicans have majority in both Senate and House of Representatives.

Thirdly, the main recurring economic relationship of the United States with the rest of the world is its interaction in trade. As with Brexit, rolling back existing trade agreements are fraught with difficulties. An immediate reaction could be to abstain from new trade agreements such as TPP, which both parties in their election campaign talked it down. Note that TPP needs passage through Congress.

Lastly, Malaysia is in a better position than many other countries if we assume a dire case with significant trade barriers through higher tariffs on goods levied by the US. This is because Malaysia has a good mix of commodity exports and manufactured goods. While manufactured goods could get impacted in this dire scenario, primary commodities may not be affected as they are based on or referenced off globally traded prices. This provides resiliency to Malaysia's macro position, in our view.

For equities

From an equity perspective, Malaysia's stock market is domestically skewed hence, we believe the direct impact on companies is muted. Of all the sectors, rubber products segment is one that exports directly to the US, while Genting Group has business exposure in the US. As such, we think the Malaysian market should remain resilient. In fact, Malaysia is mostly seen as defensive and in adversity should perform better than other markets.

Strategy

Malaysia Strategy

KLCI 1,647.62

@ 9 November 2016

POSITIVE (maintain)

KLCI Target: 1,760

Affin Hwang's 8 investment themes

1. Developed nation by 2020
2. Ongoing investment cycle
3. Large middle-income society
4. Shift from public to private services
5. Private consumption
6. Young demographics
7. Rapid earnings growth
8. High dividend yield

Source: Affin Hwang

Key market statistics

	2016E	2017E
GDP growth (%)	+4.2	+4.4
KLCI EPS growth (%)	0.0	+6.3

Source: BNM, Affin Hwang estimates and forecasts

Top calls for 2017

Stock	Rating	Price (RM)	TP (RM)
Top Buys			
GAMUDA	BUY	4.85	5.74
GENTING MALAYSIA	BUY	4.68	5.00
GLOBETRONICS	BUY	3.65	4.88
INARI	BUY	3.28	3.54
IOI PROPERTIES	BUY	2.35	2.89
JAKS RESOURCES	BUY	1.00	1.60
KPJ	BUY	4.19	5.01
PAVILION REIT	BUY	1.74	2.00
PUBLIC BANK	BUY	19.68	21.88
SCICOM	BUY	2.14	2.74
SUNWAY CONSTRUCTION	BUY	1.62	2.03
TA ANN	BUY	3.53	4.67
TENAGA	BUY	14.28	16.50
TIONG NAM	BUY	1.68	2.10
UOA DEVELOPMENT	BUY	2.49	2.64
WCT	BUY	1.80	2.00
WESTPORTS	BUY	4.33	4.90
YTL REIT	BUY	1.22	1.60
Top Sells			
MCIL	SELL	0.67	0.50
MEDIA PRIMA	SELL	1.25	1.03
STAR	SELL	2.44	2.13
UMW-OG	SELL	0.82	0.73
UNISEM	SELL	2.37	1.98
TELEKOM	SELL	6.49	5.85

Source: Affin Hwang, pricing as of 9 November 2016

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Business as usual

In conclusion, we believe that investors should view this election outcome as business as usual at least for now. Our stock and sector recommendations are based on long term sustainable themes such as Malaysia being a developed nation by 2020, private consumption, young demographics, investment cycle etc which are durable in nature, and we recommend sticking to these themes.

Risk

The biggest risk is if the US recoils significantly into protectionism that hurts global economy and set off a world recession resulting in falling trade, decline in Brent price and impairs Malaysia's macro fundamentals, which in turn would have an impact on the stock market and company earnings. However, this is not our base case.

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