



Let the dust settle

Emerging stock markets and currencies have reacted with angst over Donald Trump's triumph. However, we read from the international press an increasing softening stance on his protectionism rhetoric. On the other hand, fiscal stimulus commitment, if it shines through, could be good for global growth. We believe the appropriate action would be to let the dust settle. Meanwhile, Malaysia's fundamentals remain resilient and RM weakness looks manageable. We remain positive on Malaysia, but acknowledge that risks have risen.

Not specific to Malaysia

The KLCI has fallen by 2.8% in just 4 trading days post the US Presidential Election outcome. The Ringgit, which is typically less volatile, is down by 1.9% to RM4.29/US\$. The key point to make is that this drop is not specific to Malaysia. Regional markets like Indonesia, the Philippines and Thailand, are off by 2.7-6.5% in the same period, with their respective currencies down 1.3-3.5%. The sharp gyrations are due to the general view that trade protectionism by Trump, if he were to carry through on his campaign rhetoric, would hit emerging markets hardest. However, there are already signs of a softening by Trump. If this were to occur, fear of protectionism may be overdone, especially if fiscal stimulus commitment comes through.

Risk residing in the Ringgit

The bigger unknown lies with the Ringgit. This is because offshore trading of the Ringgit non-deliverable forward (NDF) has dropped by more than the onshore rate, by 3% over the same period to a low of RM4.34 causing panic among investors. The situation is very similar to the Yuan at the start of the year, when the offshore exchange rate traded at a wide discount to the onshore rate. Investors were short the smaller offshore rate with the hope of triggering outflows from the larger onshore market in China, thus pocketing a profit from the trade. In Malaysia's case, we understand that the NDF is relatively thinly traded with higher volatility. However, BNM has stated that it does not recognise the NDF trade and urges participants to observe onshore transactions for Ringgit FX rates. At end-September, M1 from Malaysia was RM358bn, or 88% of its latest international reserves of RM405.5bn (at 31 October). In other words, there are enough reserves to cover, even if all M1 exits Malaysia. However, risk lies in M2 at RM1.49tn after excluding foreign currency deposits, or at 3.7x reserves (M3 at RM1.5tn). If residents begin repatriating cash overseas, this could trigger a panic and vicious downward spiral, and be very detrimental to Malaysia.

Resilient macro strength

We do not expect that to be the case. This is because Malaysia's fundamentals remain sound. Its current account surplus has rebounded to 2% of GNI in 3Q16 from 0.6% in 2Q16, which was likely the trough. Meanwhile, the recent 3Q16 GDP also showed a rebound to 4.3% from 4% in 2Q16. In addition, Malaysia has primary commodities that are unlikely to be susceptible to trade barriers as these are internationally traded, or referenced off benchmarks. Palm oil, LNG and crude net exports made up 97.3% of the trade balance for the first eight months of 2016.

Let the dust settle

We recommend investors stick to our 8 structural investment themes (see **Mind the gap**). However, for those opting to play recent Ringgit weakness, we like **Top Glove (TOPG MK, RM5.10)**, **Genting M'sia (GENM MK, RM4.49)**, **YTL REIT (YTLREIT MK, RM1.17)**, **IOI Props (IOIPG MK, RM2.27)**, **Globetronics (GTB MK, RM3.70)**, and **Inari (INRI MK, RM3.32)**, all BUY-rated. However, a weak Ringgit is generally negative to the stock market given a high proportion of domestically-driven businesses.

Strategy

Malaysia Strategy

KLCI 1,616.64
@ 14 November 2016

POSITIVE (maintain)

KLCI Target: 1,760

Previous target: 1,746

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	4.77	5.74
GENTING MALAYSIA	BUY	4.49	5.00
GLOBETRONICS	BUY	3.70	4.88
INARI	BUY	3.32	3.54
IOI PROPERTIES	BUY	2.27	2.89
JAKS RESOURCES	BUY	1.00	1.60
KPJ	BUY	4.18	5.01
PAVILION REIT	BUY	1.68	2.00
PUBLIC BANK	BUY	19.52	21.88
SCICOM	BUY	2.10	2.74
SUNWAY CONSTRUCTION	BUY	1.64	2.03
TA ANN	BUY	3.74	4.67
TENAGA	BUY	14.14	16.50
TIONG NAM	BUY	1.65	2.10
UOA DEVELOPMENT	BUY	2.45	2.64
WCT	BUY	1.93	2.00
WESTPORTS	BUY	4.28	4.90
YTL REIT	BUY	1.17	1.60
Top Sells			
MCIL	SELL	0.67	0.50
MEDIA PRIMA	SELL	1.25	1.03
STAR	SELL	2.45	2.13
UMW-OG	SELL	0.80	0.73
UNISEM	SELL	2.28	1.98
TELEKOM	SELL	6.35	5.85

Source: Affin Hwang, pricing as of 14 November 2016

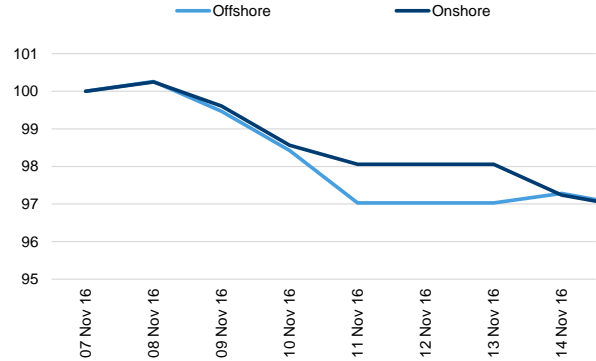
Focus Charts

Fig 1: What happened to the Yuan in early 2016...



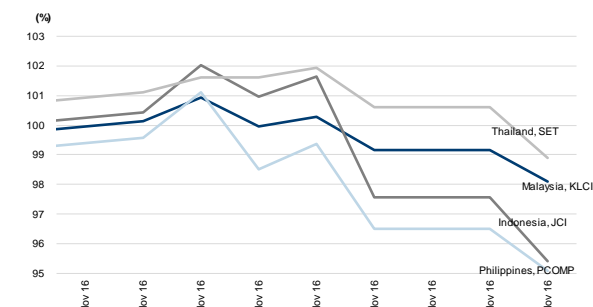
Source: Bloomberg

Fig 2: ...is also happening to the Ringgit now



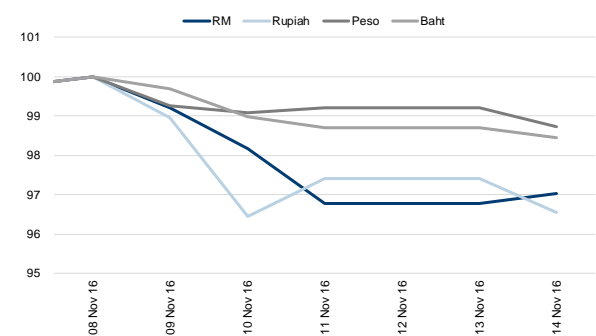
Source: Bloomberg

Fig 3: Regional weakness not specific to Malaysia



Source: Bloomberg

Fig 4: Similar for regional currencies



Source: Bloomberg

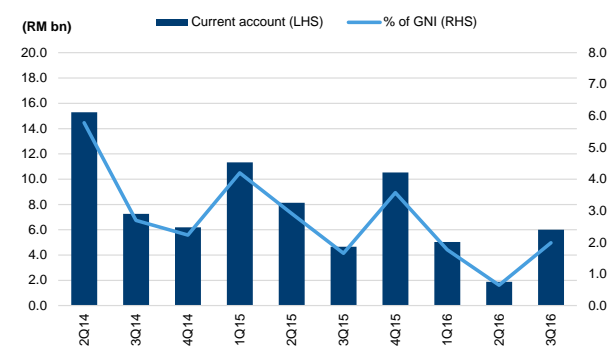
Fig 5: GDP growth has rebounded

GDP by Expenditure Components	%yoy				%qoq				% pts to GDP growth			
	4Q15	1Q16	2Q16	3Q16	4Q15	1Q16	2Q16	3Q16	4Q15	1Q16	2Q16	3Q16
Total Consumption	4.5	5.1	6.4	5.9	6.1	-7.5	2.2	5.5	3.0	3.3	4.1	3.4
Private consumption	4.9	5.3	6.3	6.4	-1.9	0.8	0.6	7.0	2.4	2.9	3.3	3.4
Public consumption expenditure	3.3	3.8	6.5	3.1	40.3	-32.7	9.8	-0.5	0.6	0.5	0.8	0.4
Total Investment	2.7	0.1	6.1	2.0	-1.2	-0.1	10.2	-6.2	0.7	0.0	1.7	0.5
Private investment expenditure	4.9	2.2	5.6	4.7	-23.8	34.3	15.2	-11.1	0.6	0.4	1.1	0.8
Public investment expenditure	0.4	-4.5	7.5	-3.8	45.8	-37.4	-1.5	6.9	0.1	-0.4	0.5	-0.3
Domestic Demand	4.0	3.6	6.3	4.7	4.0	-5.6	4.4	2.1	3.7	3.4	5.8	4.3
Net exports	4.3	-12.4	-7.0	5.9	-1.5	-9.9	-5.1	25.8	0.4	-1.2	-0.6	0.5
Exports	4.0	-0.5	1.0	-1.3	2.9	-8.1	0.0	4.3	2.9	-0.3	0.7	-0.9
Imports	4.0	1.3	2.0	-2.3	3.5	-7.8	0.6	1.8	2.6	0.8	1.3	-1.5
Changes in inventories	-49.5	-189.9	-153.7	57.3	446.1	-281.3	-147.2	40.9	0.5	2.0	-1.3	-0.5
GDP (2010 real prices)	4.5	4.2	4.8	4.3	3.2	-4.6	2.3	3.1	4.5	4.2	4.8	4.3

GDP by Economic Activity	%yoy				%qoq				% contribution pts to GDP growth			
	4Q15	1Q16	2Q16	3Q16	4Q15	1Q16	2Q16	3Q16	4Q15	1Q16	2Q16	3Q16
Agriculture, Forestry and Fishing	1.5	-3.8	-7.9	-5.9	-11.4	-15.1	5.8	18.2	0.1	-0.3	-0.7	-0.6
Mining and Quarrying	-1.3	0.3	2.6	3.6	8.6	2.3	-1.9	-4.5	-0.1	0.0	0.2	0.3
Manufacturing	5.0	4.5	4.1	4.2	4.2	-4.9	5.3	-0.1	1.1	1.0	1.0	0.9
Construction	7.4	7.9	8.8	7.9	-1.1	4.9	-5.3	9.8	0.3	0.4	0.4	0.4
Services	5.0	5.1	5.7	6.1	4.7	-4.7	2.2	4.1	2.6	2.8	3.1	3.2
Import duties	39.1	27.0	4.1	5.7	14.9	-4.7	-4.5	1.1	0.4	0.3	0.1	0.1
GDP (2010 real prices)	4.5	4.2	4.8	4.3	3.2	-4.6	2.3	3.1	4.5	4.2	4.8	4.3

Source: Affin Hwang, BNM

Fig 6: Current account surplus widened



Source: BNM

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