

21 AUG, 2023

Blue-chip stocks in focus as foreign funds return



The Edge, Malaysia



BY LEE WENG KHUEN

The recent return of foreign funds to the local bourse has fuelled a strong momentum in blue-chip stocks, especially in banking and plantation. Since early July, the Bursa Malaysia Financial Services Index and Plantation Index have gained 7.1% and 5% respectively, contributing to the 6.3% rise in the benchmark FBM KLCI. At the same time, the Technology Index has also delivered a stellar performance, rising 5.9%, though none of the tech stocks is an FBM KLCI constituent. Among the big caps, Petronas Chemicals Group Bhd has seen the highest gain of 14.2%, closing at RM6.85 last Wednesday after slipping slightly below RM6 in early July. Settling at RM5.73 last Wednesday, CIMB Group Holdings Bhd is the best-performing banking stock as its shares are up 13.2% since early July. The counter hit a recent low of RM4.80 in May.

Having increased 8.8% from early July, Public Bank Bhd has rebounded to above the RM4 level to close at RM4.19.

Malayan Banking Bhd (Maybank), the country's largest bank, topped RM9 — a level last achieved in September 2022 — after a 4.6% rise to RM9.03.

Plantation stocks IOI Corp Bhd and Sime Darby Plantation Bhd have surged 7.8% and 7.2% respectively, boosted by expectations that crude palm oil (CPO) prices will remain elevated on the back of low production of soybean oil, as well as a weak ringgit.

Interest in Tenaga Nasional Bhd has also been encouraging, resulting in its shareholders enjoying a 10.4% gain since early July. The counter closed at RM9.99 last Wednesday after briefly touching the RM10 level.

In an Aug 9 note, Hong Leong Investment Bank Research points out that there was

Blue-chip stocks with the highest share price gain since early July

COMPANY	SHARE PRICE ON AUG 16 (RM)	GAIN SINCE EARLY JULY (%)	TARGET PRICE (RM)	UPSIDE/DOWNSIDE POTENTIAL (%)	TRAILING 12-MONTH PE (X)	FORWARD 12-MONTH PE (X)	MARKET CAP (RM BIL)
Petronas Chemicals Group Bhd	6.85	14.2	6.55	-4.4	11.4	16.0	54.8
CIMB Group Holdings Bhd	5.73	13.2	6.17	7.7	10.5	9.1	61.1
Genting Bhd	4.57	12.6	5.63	23.2	NA	16.7	17.6
Tenaga Nasional Bhd	9.99	10.4	11.03	10.4	15.7	12.0	57.8
Genting Malaysia Bhd	2.69	9.3	3.13	16.4	NA	23.3	15.2
Public Bank Bhd	4.19	8.8	4.52	7.9	12.5	11.8	81.3
IOI Corp Bhd	4.02	7.8	4.25	5.7	15.6	17.3	24.9
Dialog Group Bhd	2.21	7.3	2.91	31.7	25.1	24.5	12.5
Sime Darby Plantation Bhd	4.45	7.2	4.38	-1.6	16.9	28.4	30.8
CelcomDigi Bhd	4.40	7.1	4.44	0.9	46.6	29.6	51.6

material net foreign fund inflows for Tenaga shares worth RM305 million in June and July.

"Tenaga has continued to sustain its earnings with an improving balance sheet and cash flow for the past quarters. Tenaga is also a major beneficiary of the NETR (National Energy Transition Roadmap), promoting earnings growth and accelerating transitioning of its ESG goal towards 'Net Zero 2050'," the research house says.

It expects a stronger dividend payout from the utility giant in FY2023 to regain investors' interest. In FY2022, a 46 sen dividend was declared.

To sum up, foreign investors have been net buyers of local equities for the past five weeks, with net buying for the week ended Aug 11 surging to RM465.5 million from

RM130.5 million the week prior, according to MIDF Research. The top three sectors that saw foreign net inflows were financial services at RM274.3 million, technology (RM66 million) and plantation (RM65 million).

Year to date, however, foreigners have net sold RM2.46 billion on the local bourse. Local institutions have been net buyers during the same period at RM2.68 billion, while net selling by local retailers is valued at RM220.1 million.

Koh Huat Soon, regional head of research at Maybank Asset Management Sdn Bhd, attributes the strong buying in blue-chip stocks to undemanding valuations and the removal of anxiety overhang after the conclusion of the state polls.

"The market risk premium may narrow

with political certainty," he tells *The Edge*.

Being the laggard in the regional market, the FBM KLCI is trading at a price-earnings ratio of 13.2 times, which is still lower than its three-year average of 18.3 times, according to Bloomberg data.

Danny Wong, CEO of Areca Capital Sdn Bhd, says there could be a tailwind for Malaysian equities if the US Federal Reserve is eventually done with the rate hike cycle, with potentially better growth here.

"Year to date, there is still net foreign outflow. But in the past two months, it has been very encouraging. I expect this to be very sustained because the inflow amount is still small. Also, this is in view of the weak currency and positive economic growth of 4% to 5%. Post-state elections, we are seeing stability. It's a very important catalyst for the foreign funds to return.

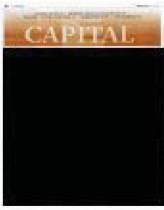
"Many stocks here are under-owned, such as YTL Power International Bhd and IOI Properties Group Bhd; not only under-owned by foreign investors, but also local investors," he points out.

Nonetheless, in view of external headwinds, especially with China's economy wobbling, Inter-Pacific Securities head of research Victor Wan sees limited upside in local equities, while banking stocks are considered already fairly valued.

"The market focus will be on corporate earnings and the economy. For example, expectation of an improvement in the second-half earnings performance has helped lift market sentiment," he notes.

Koh, however, believes there is still value in banks, partly supported by attractive dividend yields.

"As the year progresses, analysts' forecasts will be based on the 2024 price-earnings valuation and I believe earnings per share will grow then."

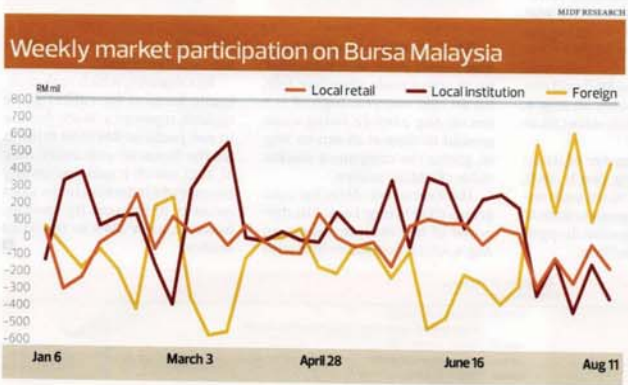


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For instance, CIMB and Public Bank are perceived to have an upside potential of 7.7% and 7.9%, based on the consensus target prices for the stocks of RM6.17 and RM4.52 respectively.

Wong says banking stocks, as a proxy to the economy, will remain attractive if they can deliver earnings growth with a decent dividend payout.

Koh is more cautious about the tech sector, "as the recovery looks a bit hazy".

"If you look at the results of some global bellwethers, like TSMC (Taiwan Semiconductor Manufacturing Co) and Hon Hai Precision Industry Co, the guidance wasn't really that good.

"The previous quarters' guidance by TSMC was that the inventory drawdown would probably bottom towards the end of 3Q this year. But in the latest results, TSMC has said that that expectation has been pushed back to 4Q or even next year.

"In terms of where the bottom is, it is not really that clear yet. This is despite the fact that the Fed's latest pause indicates that inflation has become less of a threat, and next year, you're likely to see rates moving down and that could be a tailwind because tech is a growth sector. But again, I'm trying to see when the earnings will turn around," he adds.

Hon Hai expects 2023 sales to fall after previously forecasting flat revenue, and has sounded a warning about demand for the devices it makes for Apple Inc and other global firms.

Although some tech firms have shown some improvement in their latest quarterly results, Koh is unsure if "that will come in a big way".

In an Aug 17 note, CGS-CIMB Research maintains its "underweight" rating on the semiconductor sector, given the sector's

unappealing risk-reward owing to limited room for upside earnings surprises while valuations are still demanding.

Commenting on the plantation sector, Koh doesn't rule out upside risk as market consensus has CPO prices potentially trending lower in 2024.

"On average, we may end 2023 at around RM3,600 to RM3,700 a tonne. And I'm seeing a lot of analysts forecasting RM3,500 for 2024, which is flat or lower than 2023. To me, it seems there is upside risk for the plantation sector."

For the remainder of 2023, Koh says that all eyes will be on Budget 2024, which many observers have commented will need to focus on aggressive fiscal consolidation.

That said, Koh opines that impactful infrastructure projects, such as the Mass Rapid Transit 3 or MRT3, will make a big difference to Malaysia's economy.

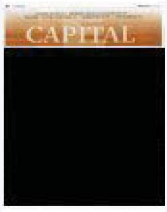
On foreign buying interest, Wong says the glove sector may attract some interest when market demand picks up amid higher average selling prices.

Abrdn plc (formerly known as Aberdeen Asset Management plc) emerged as a substantial shareholder of Kossan Rubber Industries Bhd last March, after acquiring a 5.074% stake in the company. Its shareholding in the glove maker has since increased to 5.49%.

Recently, Abrdn also became the fifth-largest shareholder of Farm Fresh Bhd following the purchase of a 5.01% stake on Aug 10.

Overall, Wong is bullish on the second-half outlook as he expects a market rally within the next 12 months.

"Politically, the situation is stable. While the market has priced in the slow recovery in China, the recession risk in the US is slightly better at this moment and maybe can be avoided."



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SUMMARIES

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