STRATEGY

FBM KLCI 2020 Target: 1,400 pts

FBM KLCI Cut On GDP Revision

KEY INVESTMENT HIGHLIGHTS

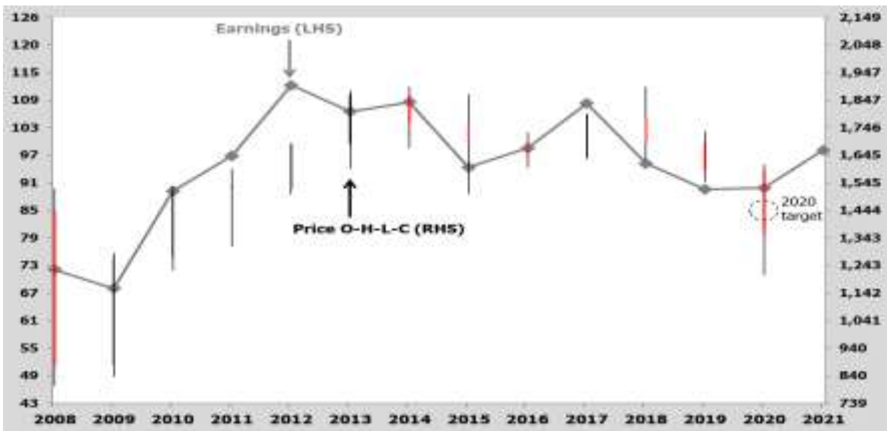
- **GDP target for 2020 revised down (from 2.7%) to 1.0%**
- **Hence cut FBM KLCI target for this year (from 1,480) to 1,400 points**
- **The market is now enjoying a midway 'bear market' rebound**
- **Market rebound buoyed by hope of 'flattening curve' and slew of stimulus announcements**
- **Expect monthly sequential recovery due to pent-up demand as MCO progressively relaxed**
- **However, second downward thrust may later appear as pent-up demand satisfied and year-on-year performance remains relatively weak as policy measures take time to fully cascade**
- **Our baseline scenario is that an outright recession would be avoided, technical-type notwithstanding**
- **Hence relatively shallow and quick second downward thrust in the third quarter**
- **But lack of policy traction may result in deep and prolonged second downward thrust**

GDP 2020 ESTIMATE REVISED DOWN

The Malaysian government announced another two weeks extension of the Movement Control Order (MCO) last Friday. Although we foresee Malaysian economy to continue expanding in 2020, it will be significantly moderated. In light of the MCO extension and the likelihood of some restrictions to remain in place even after the MCO ends, vide Malaysia: Challenging Global and Domestic Environment Limit Expansion, we revised our GDP growth forecast for 2020 to 1.0% from 2.7% previously.

FBM KLCI 2020 TARGET CUT

In line with (i) the downward revision (as above stated) to our GDP target for this year, and (ii) the diminution in (Bloomberg) consensus EPS20 estimate for the FBM KLCI to 90.6 points currently (from 95.6 points at the onset of the covid-19 crisis), we thereby cut our FBM KLCI year-end 2020 baseline target (from 1,480 points) to 1,400 points while maintaining our PER20 valuation target of 15.5x, which equates to -2.0SD (standard deviation) of its 5-year (2014-18) historical average.



MARKET CONSOLIDATION TO BE FOLLOWED BY ANOTHER SELLING PRESSURE

In reference to our strategy report, The Bear Market Waves, we highlighted that a bear market empirically follows a 3-wave (down-up-down) pattern. In the same report, we also postulated that the local equity market was either nearing or may have even reached its midway bottom.

As it turned out, the FBM KLCI has since rebounded by as high as 111 points buoyed by (i) the hope of 'flattening curve' (i.e. the number of active cases in Malaysia is showing sign of plateauing), and (ii) a series of stimulus announcements totalling RM260b.

Moving forward, during the next few months, we expect the market barometer to consolidate at between 1,400 and 1,250 points range while underlying sentiment remains edgy with occasional bouts of heightened price volatility.

Moreover, as the movement restrictions are progressively relaxed or some even uplifted, we may begin to witness month-on-month recovery due to pent-up demand in the economy.

However, we also expect that the market may encounter another wave of selling pressure, i.e. second downward thrust, possibly in the third quarter as the real extent of economic/corporate earnings impacts of covid-19 become manifest.

Despite the liquidity injections (both fiscal and monetary) worth trillions of dollars by various governments and monetary authorities worldwide, we reckon it would take a bit of time for the world's real economy and corporate activities to fully recover from the great covid-induced pause.

On above score, in the ensuing quarter, the economic/corporate earnings data may continue to deteriorate (based on year-on-year basis while the monthly sequential jump may peter out as pent-up demand in the aftermath of the economic pause is duly satisfied). During this period, we may see the next wave of selling in the equity market.

MARKET RECOVERY IN FINAL QUARTER IF ECONOMY SEEN TO SKIRT OUTRIGHT RECESSION

We also suggested that if the economy were to skirt an outright recession (the technical-type notwithstanding), we may witness a rather shallow and quick second downward thrust to be followed a period of recovery. In this regard, as per the latest revision, MIDF Research economists expect the Malaysian economy to pose a positive 1.0% GDP growth in 2020.

Hence looking further forward into the final quarter of this year, in the absence of an ensuing recession, the equity market would swiftly establish a footing for a gradual upward march, a similar scenario to what transpired in the aftermath of 1987 market crash. Moreover, we reckon the massive amount of financial liquidity injected into the system would also help to propel the recovery of world's equity market with the local benchmark FBM KLCI scaling towards our 2020 baseline target.

However, if the world's economy were to enter into an outright recessionary period (which implies lack of policy traction in regard to both the monetary and fiscal measures taken by the authorities), we may see a deeper and more protracted second downward thrust.

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.