

STRATEGY

FBM KLCI 2020 Target: 1,680 pts

Fund Flows; A Review of 2019

Foreign net outflow in 2019 from Bursa still no match to the year 2015

KEY INVESTMENT HIGHLIGHTS

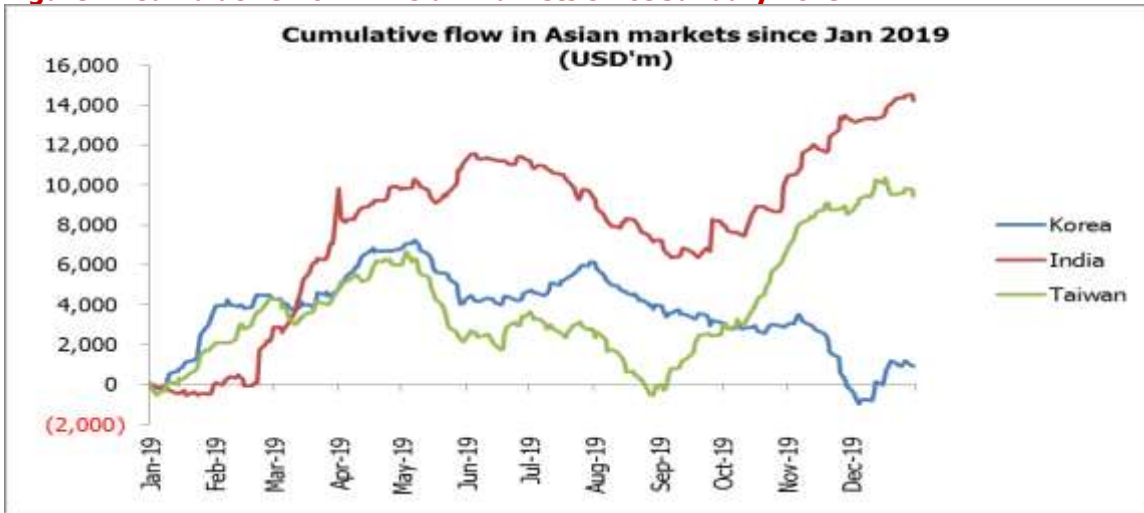
- In 2019, foreign investors accumulated USD23.65b worth of local equities in the seven Asian markets we track
- India was the darling amongst foreign investors with an annual foreign net inflow of more than USD10b
- International funds sold –RM11.14b of local equities from Malaysia in 2019 but was no match to the >RM15b foreign net outflow seen in 2015
- Participation of foreign investors (measured in value and volume traded) were higher in 2019 compared to the preceding year
- Foreign investors still have interest in Malaysia perhaps with an increasing focus on other asset classes particularly the bond market which saw foreigners flocking into the bond market at a tune of RM8.1b in November 2019
- We reiterate our year-end 2020 baseline target for the FBM KLCI at 1,680 points

i. Fund Flow in major Asian markets

An auspicious year for Asia. In 2019, international investors accumulated USD23.65b worth of local equities in the seven Asian markets we track (South Korea, Taiwan, India the Philippines, Thailand, Indonesia, Malaysia), the second highest in the past five years (from 2015 to 2019). Last year's total foreign net inflow in Asia offset circa 60.0% of the –USD39.00b of foreign net outflow 2018. Overall, international investors were net buyers in nine out of 12 months during 2019 with April recording the highest monthly foreign net inflow of USD10.33b in the seven Asian markets under our coverage.

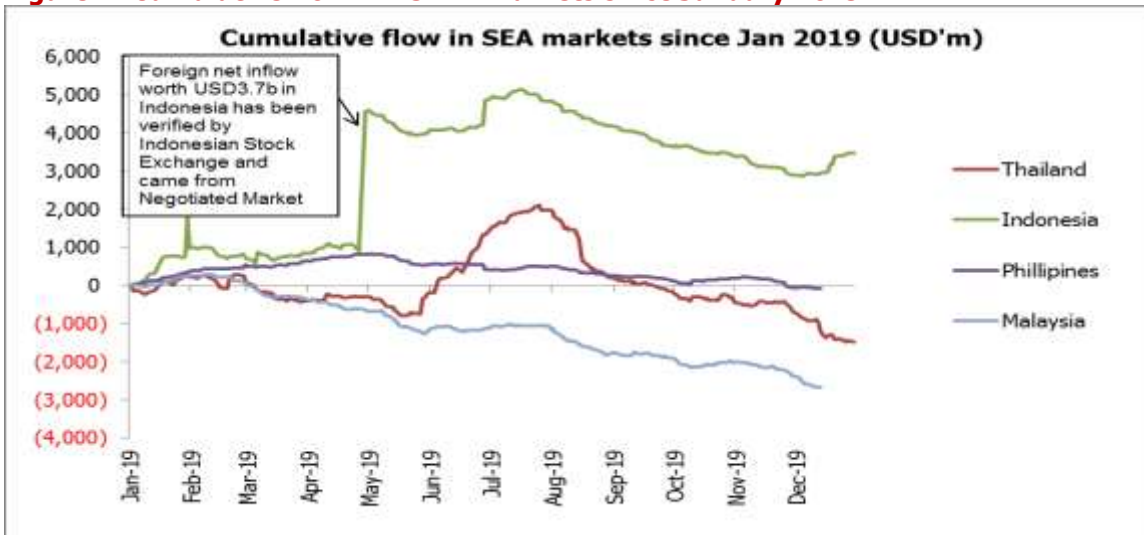
India was the winner in Asia. India recorded a total foreign net inflow of USD14.23b net, the highest amongst the seven Asian markets we monitor with the last four months of the year seeing a foreign net inflow of at least USD800m in each month. This amount mopped up by foreign portfolio investors is way higher than what was contributed by local funds which bought approximately USD6.00 to USD7.00b of Indian equities according to ET Intelligence Group. We note that out of 52 trading weeks, foreign funds were net buyers in 22 out of 52 weeks. Overall, offshore funds in India bought the most local funds in five years amongst the other markets. Meanwhile in ASEAN markets, Indonesia was the only market which saw a foreign net inflow in 2019. Foreign funds in Jakarta snapped up USD3.47b local equities in 2019 after two straight years of foreign net selling. It was notable that the daily foreign net inflow to Jakarta spiked to USD3.67b on 29 April 2019 from a foreign net outflow of –USD61.3m on the day before which came from the negotiated market as verified by the Indonesian Stock Exchange. The return of foreign funds into Indonesia was most likely due to the massive spending plans of around USD455.00b over the next five years by the government of Indonesia for infrastructure.

Figure 1: Cumulative flow in Asian Markets since January 2019



Source: Bloomberg, MIDFR

Figure 2: Cumulative flow in ASEAN Markets since January 2019



Source: Bloomberg, MIDFR

Figure 3: Annual Foreign Flow in the Seven Asian Markets

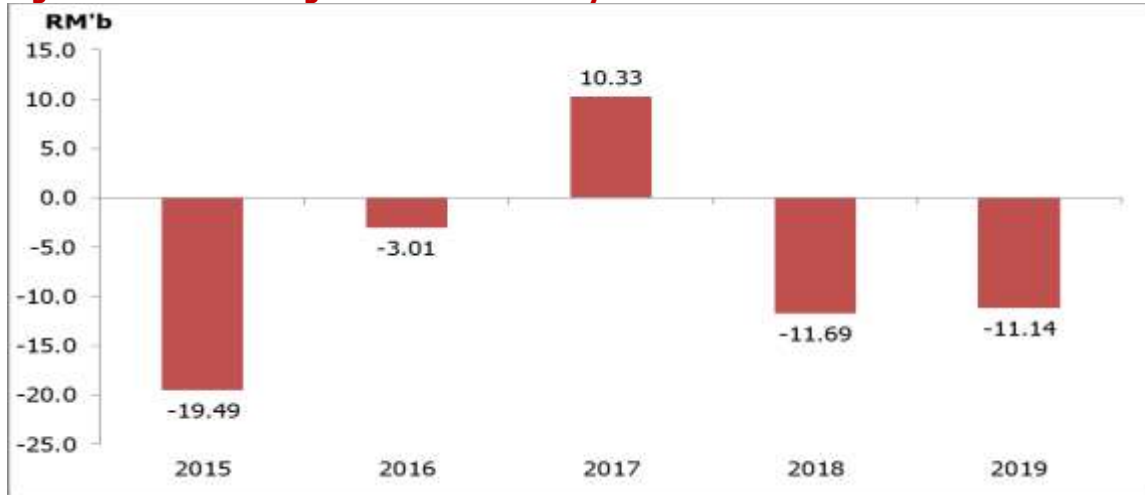


Source: Bloomberg, Bursa Malaysia, MIDFR

ii. Fund Flow in Malaysia

In 2019, foreign investors pulled out –RM11.14b of local equities from Malaysia, lower compared to –RM11.69b seen in the previous year. In terms of weeks, offshore funds were net buyers in 18 out of 52 weeks compared to 31 weeks of foreign net buying in 2018. While the total foreign net outflow from Malaysia was little changed in 2019 and remained the largest amongst the ASEAN markets we monitor, this was no match for the massive foreign net selling of –RM19.49b seen in 2015.

Figure 4: Annual Foreign Fund Flow in Malaysia

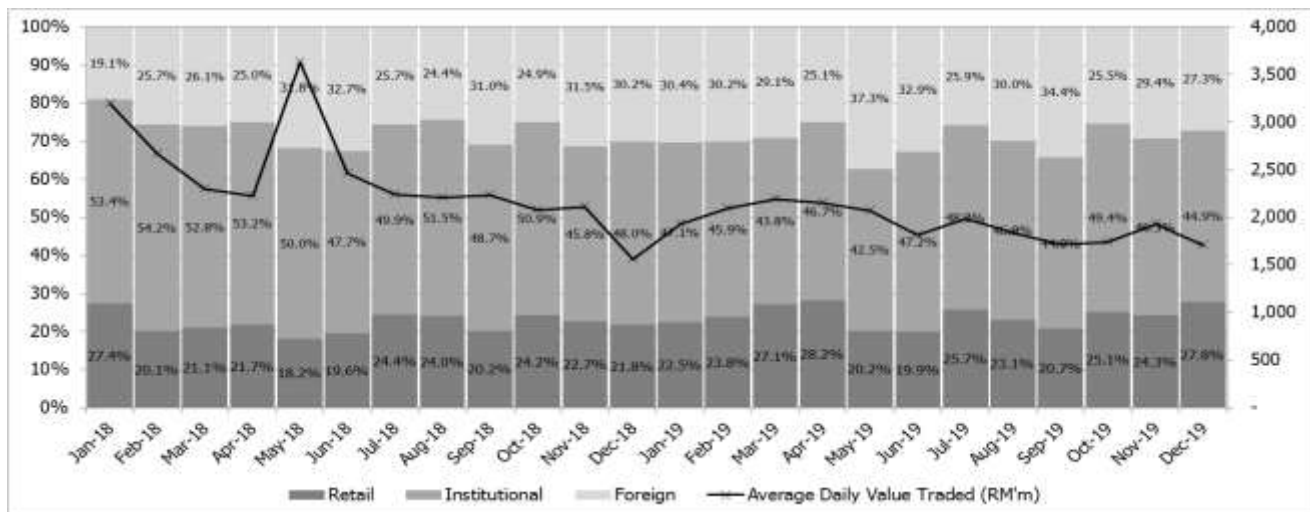


Source: Bursa Malaysia, MIDFR

Nevertheless, the percentage of foreign investor’s participation from the total value traded in the market averaged at 29.8% in 2019 versus 27.4% in the preceding year of the same period. Likewise, the percentage of volume traded by foreign investors out of the total market also inched higher by +2.3ppts.

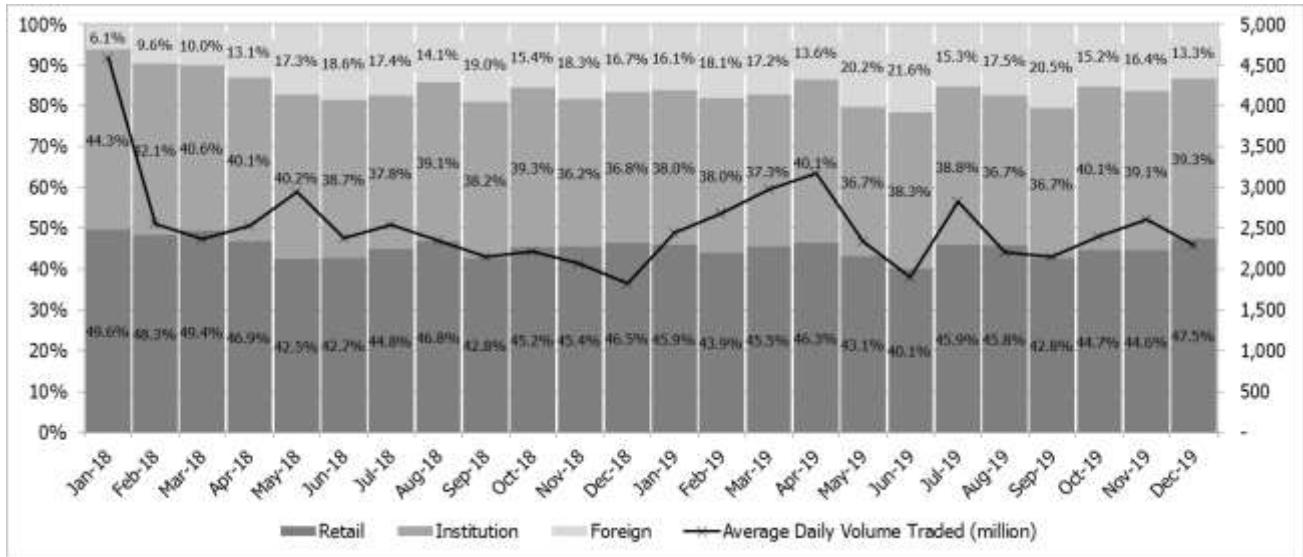
The rebalancing activities related to the MSCI indices which takes place at end of May and November, have always resulted in the surge in the value and volume traded in the market especially on rebalancing. These come from the needs for fund managers, especially the ETFs which benchmarked MSCI indices, to replicate the new index constituents whilst minimizing the tracking errors. The latest MSCI rebalancing exercise which took place on 26 November 2019 saw value and volume traded surge to RM4.2b and 3.4b shares respectively.

Figure 5: Trading Participation (%) vs Average Daily Value Traded(RM'm)



Source: Bloomberg, MIDFR

Figure 6: Trading Participation (%) vs Average Daily Volume Traded (million)



Source: Bloomberg, MIDFR

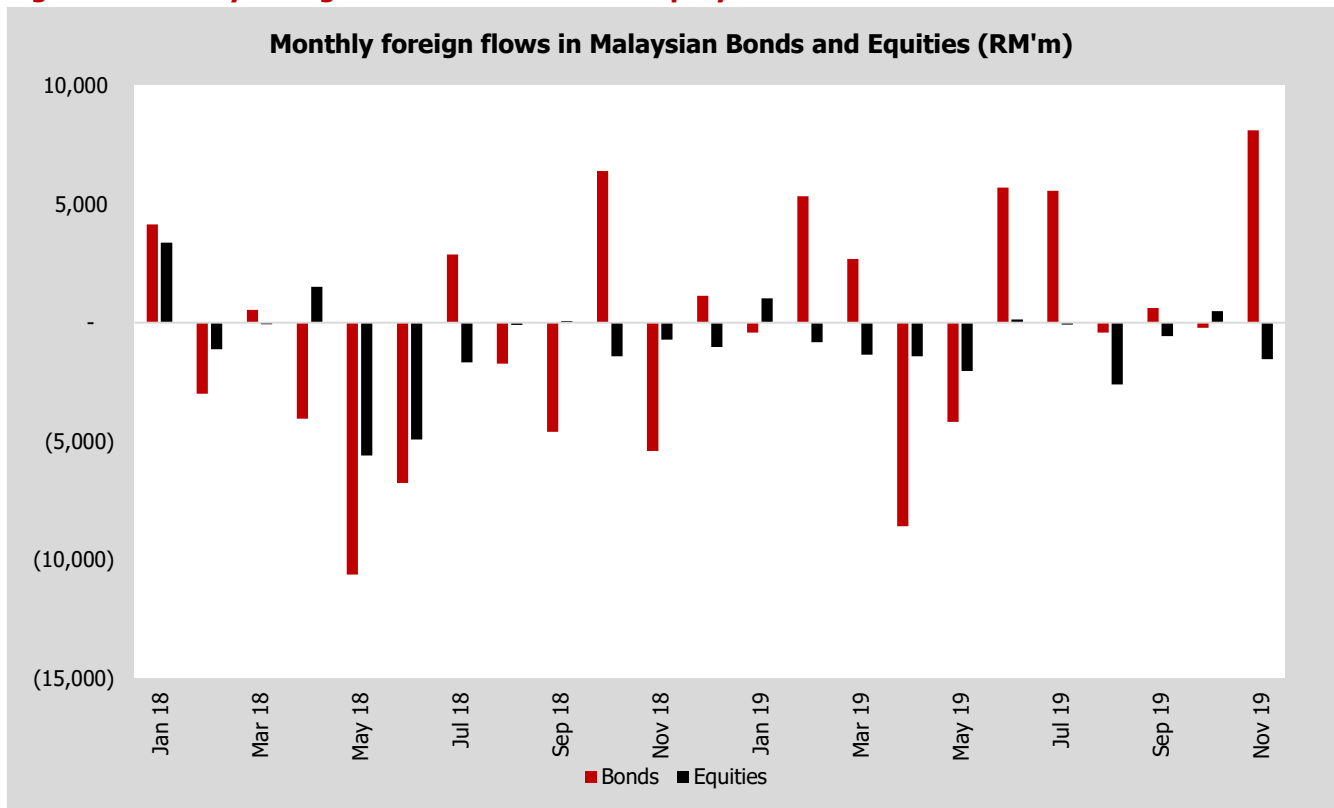
Another perspective to look at is the foreign ownership on stocks listed on Bursa based on market capitalisation remains resilient by hovering at 23.0% since May 2019 to the latest available data point in September 2019. In fact during 2017 when we had a foreign net inflow for the year, foreign shareholding level was at 22.9%. What it means by high foreign net outflow could be that foreign investors sold their shares earlier on expectation that the market will drop and then re-entered the market after the market fell. Hence, the transaction value during selling is higher (at higher share price) but registered as negative but when purchasing, the value is smaller (due to lower share price but at positive sign for buying). Therefore a net outflow would occur. Note that this levels are also affected by disposals/acquisitions made by strategic shareholders such as disposal of Lafarge stake by Bluecircle (a French investor) to YTL (seen net foreign outflow), and Mitsui acquiring IHH stake from Khazanah (seem as net foreign inflow), as long as the transactions are affecting listed companies on Bursa Malaysia.

With volume and value traded remaining strong and foreign shareholding levels based on market cap was little changed compared to the period when there was a yearly foreign net inflow, we opine that foreign investors still have interest in Malaysia perhaps with an increasing focus on other asset classes particularly the bond market which saw foreigners flocking into the bond market at a tune of RM8.1b in November 2019.

Figure 7: Foreign Shareholding level based on Market Capitalisation




Source: Bursa Malaysia

Figure 8: Monthly Foreign Flows Into Bond and Equity Market


Source: Bank Negara Malaysia, Bursa

Going into 2020, assuming a baseline scenario in which (1) the US-China trade dispute fails to achieve full closure, and (2) the East Asian region continued to be beset by the relative lack of liquidity-induced macro reflationary prospects, we foresee a situation whereby equities valuation would remain depressed.

Under above circumstances, the FBM KLCI may see its valuation tapering towards the lower end of its historical range. Hence our baseline target for the FBM KLCI in 2020 is pegged to PER of 16.5x, which equates to -1.0SD (standard deviation) of its 5-year (2014-18) historical average.

As the EPS for 2020 is forecasted at 101.8, we reiterate **our year-end 2020 baseline target for the FBM KLCI at 1,680 points.** 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> 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 <i>fall</i> 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.