

There is still light at the end of the tunnel

Viewing the market holistically

FBM KLCI: 1,677.64

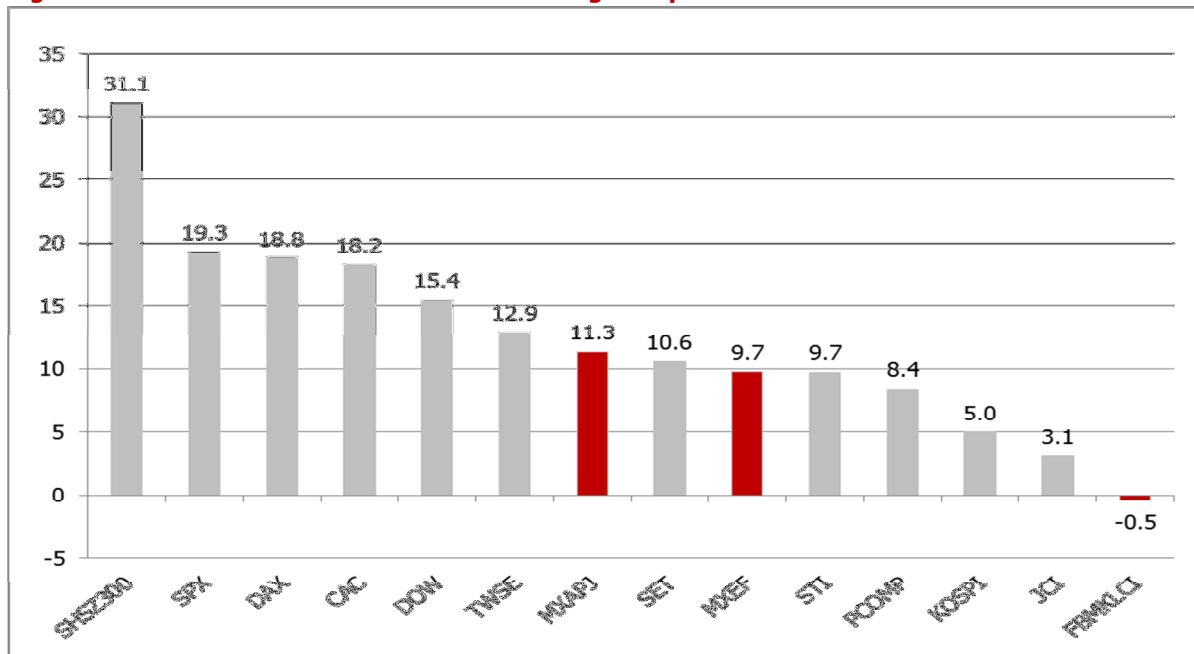
(2019 Year-end Target: 1,720 points)

- FBM KLCI has been on a flattish trend so far this year with a YTD growth of less than 1.0% but expect earnings is expected to grow by mid-single digit amid supportive economic policies
- FBM Small Cap Index and FBM 70 Index have substantially outperformed the FBMKLCI Index on a year-to-date basis, recording gains of 19.1% and 13.9% respectively
- Year-to-date decliners were led by the financial services sector albeit at a measureable level of only -2.9%, but having a big impact over the decline of FBMKLCI
- Number of gainers was found to exceed the number of losers by a huge variance of more than 40 for mid-caps
- Opportunities abound; the construction sector stands out potential upside despite having seen tremendous gains. We continue to like the laggard banking sector with resilience earnings and strong asset quality
- We reiterate our FBM KLCI year-end 2019 target at 1,720 points which equates to PER19 17.5x

What can we learn from YTD market performance?

- As of last Friday, the FBM KLCI has peaked at 1,702 points on 22 January 2019, so far this year, before tapering to the 1,670-1,690 points level recently, pointing to a year-to-date growth of less than 1.0%. In tandem with the benchmark index remaining range bound, we note that the overall market volume in 1HCY2019 was almost half of what was seen in the same period last year.

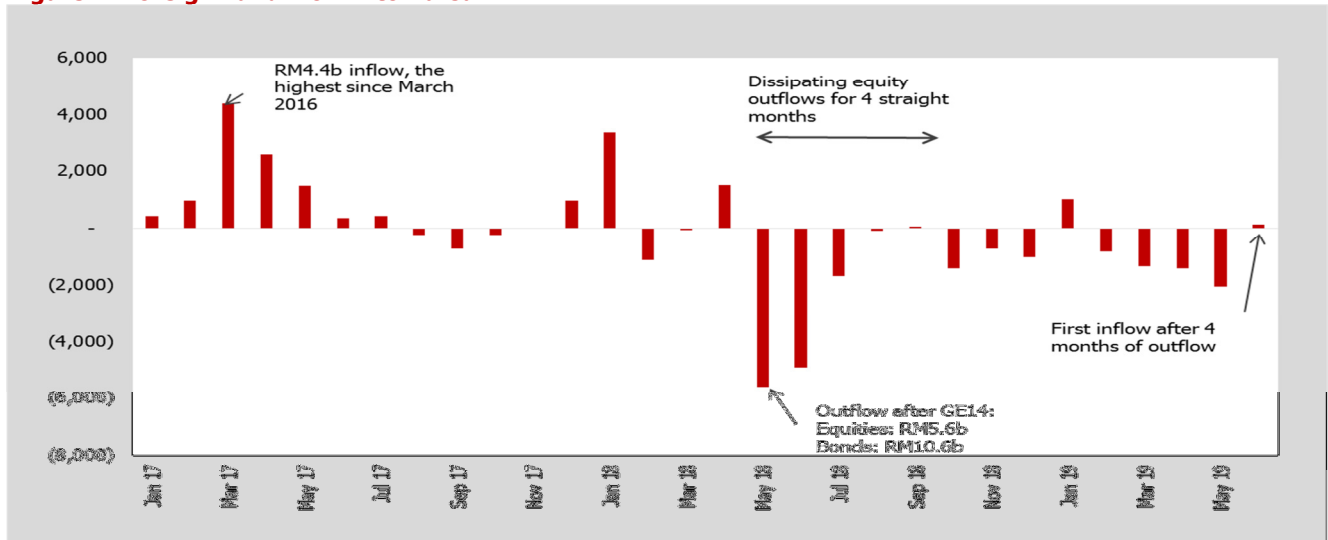
Figure 1: YTD Performance of FBM KLCI versus global peers



Source: Bloomberg

- **Momentum of foreign net inflows gaining pace.** Nonetheless, June 2019 recorded the first monthly inflow in five months of RM134.6m net compared to the massive foreign net outflow of -RM4.93b in the same month last year. Foreign investors too have been net buyers of Malaysian equities for the past three weeks, paring down the year-to-date foreign net outflow as of 5 July 2019 to -RM4.43b.

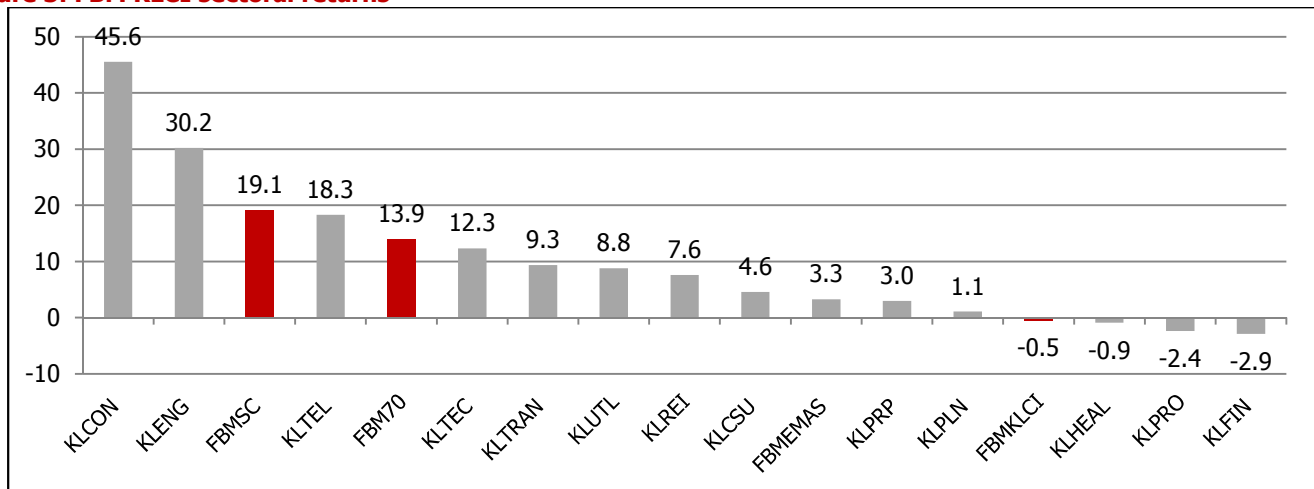
Figure 2: Foreign Fund Flow into Bursa



Source: Bloomberg

- Sectoral gainers outnumber decliners on Bursa.** The FBM Small Cap Index and FBM 70 Index have substantially outperformed the FBMKLCI Index on a year-to-date basis, recording gains of 19.1% and 13.9% respectively. Meanwhile, 10 out of 13 sectors on Bursa have recorded a year-to-date gain with construction, energy and telecommunications leading gainers, advancing by more than 10.0%. Hence, it came to no surprise that the advance in the FBM Small Cap index and FBM 70 Index were mainly attributable to construction stocks. For example, half of the top 10 gainers in the FBM Small Cap Index and FBM 70 Index were construction companies.
- Financials, healthcare and industrial production were major laggards on FBMKLCI.** On the other hand, year-to-date decliners were led by the financial services sector albeit at a measureable level of only -2.9% or a decline of 21.0 points. The other two major laggards were industrial production and healthcare which saw a decline of 7.2 and 3.2 points respectively on a year-to-date basis. With the FBMKLCI Index having seven banks as their constituents which are also heavyweights, the drop of the FBMKLCI Index was inevitable.
- Despite the negative returns, we remain positive on banks.** We noted that banking income performance in 1QCY19 have been slightly muted due to net interest margin (NIM) compression. This came mostly from deposit competition and may be exacerbated in later quarters by the OPR cut. However, we believe that this issue has been overplayed. The impact of the OPR cut to NIM will normalise as deposits were also re-priced lower. Besides, we believe that there are still positives for banks such as the downtrend of expenses and the low credit cost. This should be able to alleviate the weakness in income. Hence, we maintain our POSITIVE view on the sector as we are still cautiously optimistic of the overall banking sector. As such, it is more tactful to view the local bourse on a sectoral level rather than an index level to generate returns.

Figure 3: FBM KLCI sectoral returns



Source: Bloomberg

Table 1: Top Gainers of FBM70 Index

Stock	Sector	Last Price as of 5 July 2019 (RM)	YTD Change (%)
Ekovest	Construction	0.87	97.7
Lafarge Malaysia	Construction	3.52	94.5
Gamuda	Construction	3.88	70.2
Velesto Energy	Oil and Gas	0.3	66.7
Sunway Construction Group	Construction	2.12	63.1
Telekom Malaysia	Telco	4.28	62.1
VS Industry	Industrial Production	1.15	62.0
Yinson Holdings	Oil and Gas	6.7	59.5
FGV Holdings	Plantation	1.14	58.3
Malaysian Resources Corp	Construction	0.96	57.4

Source: Bloomberg

Table 2: Top Gainers of FBM Small Cap Index

Stock	Sector	Last Price as of 5 July 2019 (RM)	YTD Change (%)
KNM Group	Oil and Gas	0.32	300.0
Iskandar Waterfront City	Property	1.08	157.1
Dayang Enterprise Holdings	Oil and Gas	1.32	144.4
Econpile Holdings	Construction	0.8	105.1
YNH Property	Real Estate	2.55	96.2
Frontken Corp	Construction	1.33	90.0
Gadang Holdings	Construction	0.93	82.4
Datasonic Group	Technology	0.72	80.0
Ho Hup Construction Co	Construction	0.54	68.8
WCT Holdings Bhd	Construction	1.11	68.2

Source: Bloomberg

Table 3: Top Laggards of FBM KLCI Index

Stock	Sector	Last Price as of 5 July 2019 (RM)	YTD Change (%)
Hartalega Holdings	Healthcare	5.22	-14.3
Top Glove Corp	Healthcare	4.84	-12.2
Press Metal Aluminium Holdings	Construction	4.32	-10.0
Petronas Gas	Utilities	17.54	-6.7
Hong Leong Bank	Finance	19.02	-6.1
Public Bank	Finance	23	-5.7
Petronas Chemicals Group	Oil and Gas	8.63	-5.3
CIMB Group Holdings	Finance	5.37	-3.8
IOI Corp	Plantation	4.29	-2.9
Malayan Banking	Finance	8.97	-2.2

Source: Bloomberg

- Comparison of returns between market capitalization groups.** Another way of viewing the performance of local market is the returns of respective market capitalization groups (big, middle and small). Across these three market capitalization groups, the number of gainers was found to exceed the number of losers by a huge variance of more than 40 for mid-caps. Based on our analysis, we found that Mid-Cap stocks listed on Bursa recorded a year-to-date market cap adjusted gain of 19.0%, outperforming the market cap adjusted returns seen for big-market capitalization stocks and small-market capitalization stocks of 6.8% and 9.5% respectively.

Table 4: YTD Returns of Big-Cap stocks (%)

Sector	Big Cap	Mid Cap	Small Cap
Automobiles & Components	14.0	7.7	-
Banks	-1.6	-	-
Capital Goods	26.1	36.3	10.1
Commercial & Professional Services		66.8	2.0
Consumer Durables & Apparel	4.5	40.6	3.8
Consumer Services	17.0	2.5	7.9
Diversified Financials	8.0	15.7	13.7
Energy	10.3	53.1	29.8
Food & Staples Retailing	-	3.5	28.0
Food, Beverage & Tobacco	3.8	8.2	8.6
Health Care Equipment & Services	0.1	0.9	-
Household & Personal Products	-	20.2	-15.8
Insurance	36.6	10.4	49.2
Materials	-3.6	12.2	14.1
Media & Entertainment	12.6	40.6	-2.9
Pharmaceuticals, Biotechnology		28.7	-1.5
Real Estate	7.1	10.4	2.8
Retailing	18.3	10.5	28.1
Semiconductors	12.2	-13.4	-3.5
Software & Services	53.3	23.3	-2.0
Technology Hardware & Equipment	11.1	48.6	10.7
Telecommunication Services	23.3	-	64.2
Transportation	8.9	8.1	3.2
Utilities	3.6	19.7	8.5
Overall Return	6.8	19.0	9.5

Source: Bloomberg, MIDFR

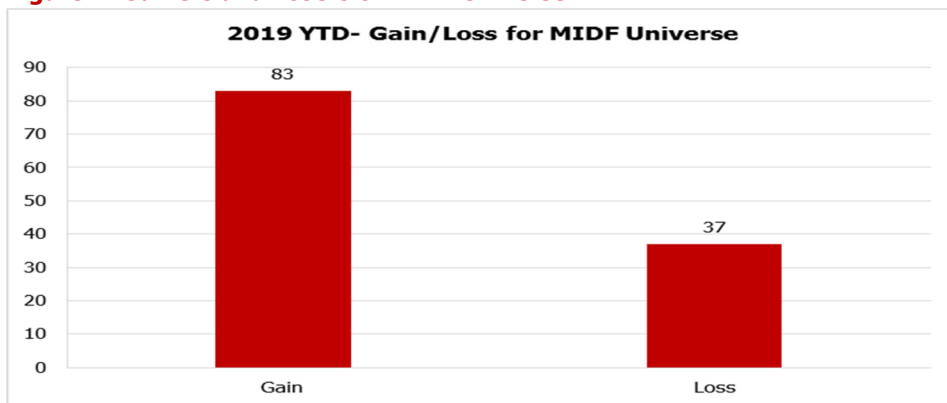
Note: GICS applied for sector classification

- Materials and Banks were the laggards.** It was notable that within the big market cap space, Materials and Banks were only the laggards, with losses amounting to -3.6% and 1.6% respectively, while Healthcare was relatively unchanged with 0.1% gain.

Are there opportunities out there in 2H 2019?

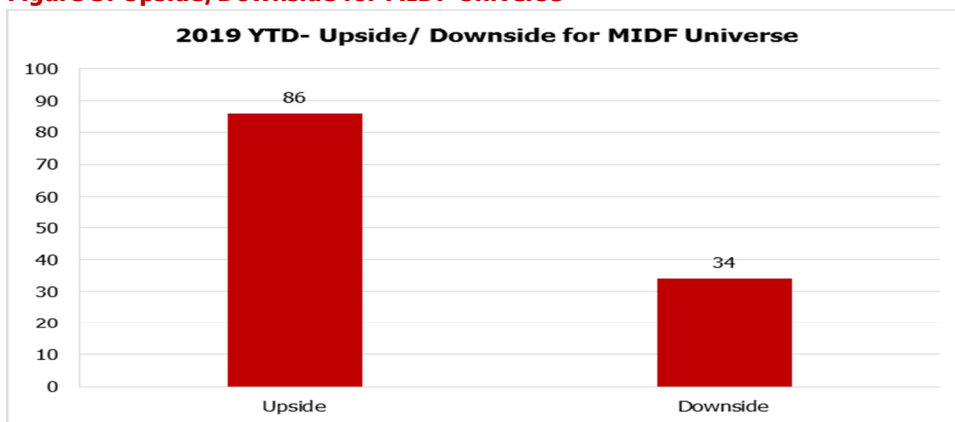
- **Drilling down into our stock universe.** Based on our stock universe, we found that there were 83 stocks with year-to-date gains compared to 37 stocks with year-to-date losses. In terms of upside or downside potential, the number of stocks with potential upside exceeded the ones with downside by a difference of 52 stocks. Despite most stocks in our universe recording gains, 71% of them (59 stocks) still have upside potential compared to their respective target prices. And of the 37 counters that saw declines, 73% (27 stock), we believe, have upsides.

Figure 4: Gainers and Losers of MIDF Universe



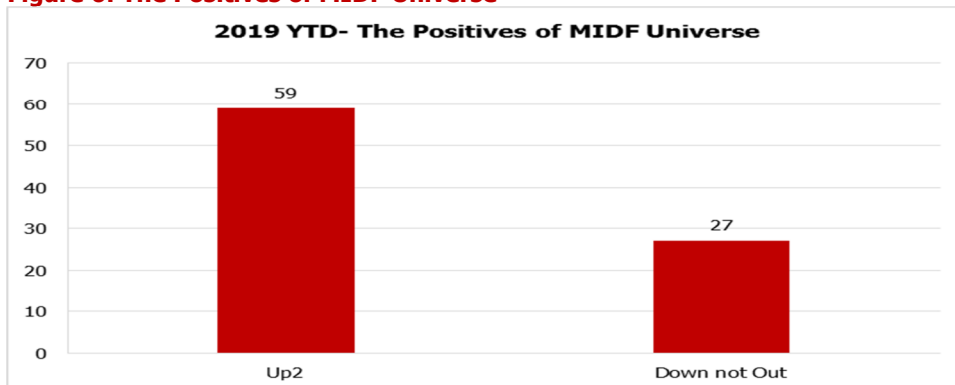
Source: MIDFR

Figure 5: Upside/Downside for MIDF Universe



Source: MIDFR

Figure 6: The Positives of MIDF Universe



Source: MIDFR

Note: Up2- Stocks with YTD gains and potential upside

Down not Out- Stocks with YTD decline but has potential upside

What are our top picks?


- 2019 FBM KLCI target at 1,720 points.** The US Fed is expected to be less aggressive in regard to its monetary stance this year which may be positive to EM currencies (including Ringgit) as well as to commodity prices. Moreover, the slowing China's economy may prompt more stimulus measures (both monetary and fiscal) by the local authorities with positive spill over effects to the broader region. Meanwhile, we are sanguine on the prospect of de-escalation in the ongoing US-China trade spat as both parties are seen as seeking acceptable solutions to the dispute. Domestically, the macro picture remains healthy with GDP growth expected at 4.9% this year while corporate earnings growth at circa middle single-digit. All factors considered, we reiterate our FBM KLCI year-end 2019 target at 1,720 points which equates to PER19 17.5x and our top picks below. 

Table 5: Summary of MIDF Research's Top Picks (as of 5 July 2019)

Stock	Sector	Call	Last Price (RM)	YTD Total Return (%)	Target Price (RM)	Price Upside (%)	Dividend Yield (%)	Total Upside (%)
MMC Corp	Transport	BUY	1.17	52.6	1.31	12.0	3.0	15.0
KKB Engineering	Construction	BUY	1.30	52.1	1.47	13.1	1.5	14.6
Bermaz Auto	Finance	BUY	2.68	27.9	2.85	6.3	6.6	12.9
Tune Protect	Industrial Products	BUY	0.72	31.6	0.92	27.8	4.2	32.0
Ranhill	Utilities	BUY	1.25	26.8	1.45	16.0	4.6	20.6
CMS	Construction	BUY	3.04	16.0	3.85	26.6	2.1	28.7
UOA Development	Property	BUY	2.24	13.3	2.45	9.4	6.3	15.7
UEM Edgenta	Industrial Products	BUY	2.95	7.8	3.28	11.2	5.6	16.8
Muhibbah	Construction	BUY	2.79	0.4	3.73	33.7	2.2	35.9
Maybank	Finance	BUY	8.97	-2.1	11.00	22.6	6.5	29.1
CIMB	Finance	BUY	5.37	-5.0	6.80	26.6	4.8	31.4
Petronas Chemicals	Industrial Products	BUY	8.63	-5.4	10.43	20.9	4.3	25.2

Source: MIDFR, Bloomberg

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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.