

## Bracing for a “Manic’ Year End Again

### MSCI and FBMKLCI indices Rebalancing Exercise

**KLCI: 1,699.72 points**  
**2018 Year-end Target: 1,800 points**

There are two key events that will have a significant impact to the trading behaviour of investors in Bursa Malaysia come this Thursday 30<sup>th</sup> November 2018:

#### i. MSCI Equity Indices November 2018 Semi Annual Review

**MSCI rebalancing exercise.** MSCI Inc. released the outcome for its November 2018 Semi-Annual Index Review for all the MSCI Equity Indexes. The relevant changes to the constituents in each index have taken into effect as of the close of 30 November 2018.

**Stocks affected under two broad MSCI index Group:** A total of 14 stocks across MSCI Global Standard Index and the MSCI Global Small Cap Index groups are involved in the rebalancing exercise. The affected Malaysian stocks are as follows:

**Table 1: MSCI Indices Rebalancing Exercise November 2018 - Deletion and Addition**

MSCI Global Standard Index		MSCI Global Small Cap Index	
Additions (1)	Deletion (4)	Additions (5)	Deletion (10)
QL Resources *	Astro Malaysia Holdings*	Aeon*	7 Eleven Malaysia Holdings
	FGV Holdings*	FGV Holdings*	AirAsia X*
	MY EG Services*	Hibiscus Petroleum	Axis REIT*
	UMW Holdings*	MY EG Services*	Datasonic Group
		UMW Holdings*	Ekovest
			George Kent
			Pestech International
			Syarikat Takaful*
			Ta Ann Holdings*
			QL Resources*

Source: MSCI

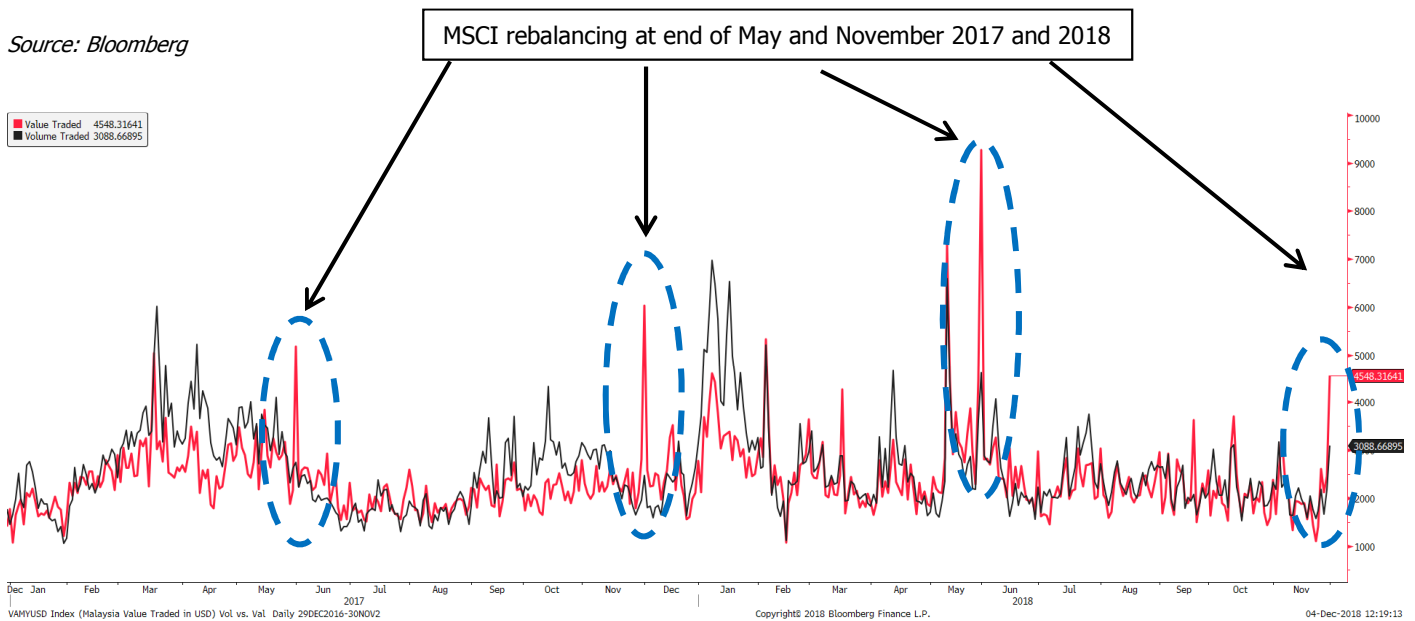
Note: \* under MIDFR coverage

## What should we expect to happen?

**Brace for a significant increase in trading activities.** MSCI rebalancing exercises have resulted in significant increase in trading activities, both in trading volume and value of transactions. The needs for fund managers, especially the ETFs which benchmarked MSCI indices, to replicate the index constituents whilst minimizing the tracking errors, would result in significant trading activities on the rebalancing day. Henceforth, we expect volume and value traded to be high for the week of the rebalancing as evidenced by the previous rebalancing exercises in May and November 2017, and the most recent rebalancing exercise in May this year.

### Chart 1: Volume and Value traded

Source: Bloomberg



Source: Bloomberg

## ii. FBMKLCI Index November 2018 Semi Annual Review

**Outcome of First Semi-Annual Review of FTSE Bursa Malaysia Index Series to be out soon.** The outcome of FTSE Bursa Malaysia Index Series semi-annual review will be announced on 6 December 2018. FBMKLCI as with the other indices belonging to this index series will see changes of its constituents resulting from the index review after the close of markets on Friday, 21 December 2018.

**Main criteria of FTSE for inclusion in FBMKLCI 30.** These are among the main considerations for inclusion into FBMKLCI Index:

### a) Free Float

Free Float restrictions where holding is	Type of shareholder affected	Remain restricted until
10% or greater	<ul style="list-style-type: none"> <li>Sovereign Wealth Fund</li> <li>Founders, promoters, former director, founding venture capital and private equity firms, private companies, individuals (including employees) and shares held by several holders acting in concert</li> </ul>	Holdings fall below 10%
30% or greater	<ul style="list-style-type: none"> <li>Holdings under pension fund, insurance fund or investment companies are generally not considered as restricted.</li> <li>However, restriction can take place when a single portfolio holding is 30% or greater.</li> </ul>	Holding falls below 30%

Source: FTSE Russell

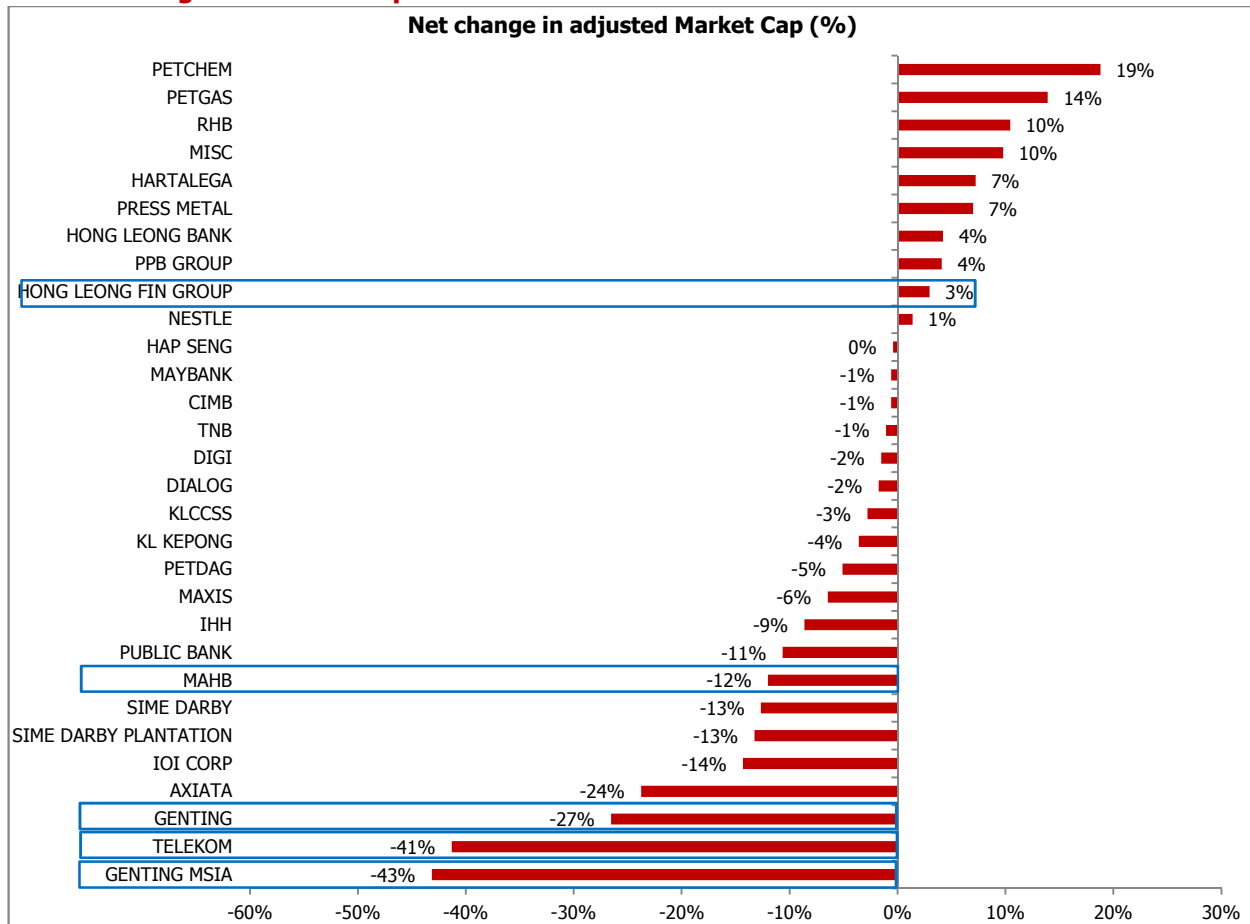
### b) Liquidity criteria to be eligible for inclusion

Type of stock	Criteria for eligibility for inclusion
Existing constituent of FBMKLCI 30	<ul style="list-style-type: none"> <li>Has a turnover of at least 0.04% of its share in issue based on its median daily trading volume per month for at least ten of the 12 months prior to the semi-annual review.</li> </ul>
Non-constituent of FBMKLCI 30	<ul style="list-style-type: none"> <li>Has a turnover of at least 0.05% of its share in issue based on its median daily trading volume per month for at least ten of the 12 months prior to the semi-annual review.</li> </ul>

Source: FTSE Russell

**Ranking done based on adjusted market capitalisation.** Adjustments to the market capitalisations of stocks listed on Bursa according to the free float percentage. We calculated the percentage change in the market cap of the stocks for the period between 15 June 2018 (effective date of 2<sup>nd</sup> semi annual review in 2018) and 30 November 2018, (refer to chart 2). Ranks were also assigned according to the size of adjusted market cap of the stocks for both dates and the changes in the rankings were observed (Refer to Table 2).

**Chart 2: Change in market cap for current constituents of FBMKLCI**



Source: Bloomberg, MIDFR

**Table 2: Change in ranking based adjusted on market cap for current constituents of FBMKLCI**

Company	Market Cap as at 15 June '18 (RM'b)	Market Cap as at 30 Nov '18 (RM'b)	Adjusted Market Cap Rank as at 15 June '18	Adjusted Market Cap Rank as at 30 Nov '18	Change in Rank
GENT MSIA*	14.3	8.1	22	33	-11
TELEKOM*	10.5	6.1	30	39	-9
GENTING*	13.5	9.9	24	28	-4
AXIATA	33.2	25.3	7	12	-5
IOI CORP	22.0	18.9	14	16	-2
SIME DARBY PLANTATION	23.0	19.9	13	15	-2
SIME DARBY	12.4	10.9	26	26	0
MAHB*	6.5	5.8	37	40	-3
PUBLIC BANK	39.2	35.1	6	6	0
IHH	39.6	36.2	5	5	0
MAXIS	39.7	37.1	4	4	0
PETDAG	21.0	19.9	16	14	2
KL KEPONG	19.4	18.7	17	17	0
KLCCSS	12.9	12.5	25	24	1
DIALOG	11.0	10.8	29	27	2
DIGI	27.6	27.2	11	11	0
TNB	52.4	51.8	2	3	-1
CIMB	32.5	32.3	9	8	1
MAYBANK	69.2	68.8	1	1	0
HAP SENG	17.1	17.1	20	20	0
NESTLE	29.4	29.8	10	9	1
HONG LEONG FIN GROUP*	17.9	18.4	18	18	0
PPB GROUP	17.2	17.9	19	19	0
HONG LEONG BANK	32.9	34.3	8	7	1
PRESS METAL	11.9	12.7	27	23	4
HARTALEGA	13.8	14.8	23	22	1
MISC	21.1	23.1	15	13	2
RHB	15.4	17.0	21	21	0
PETGAS	25.9	29.5	12	10	2
PETCHEM	50.3	59.7	3	2	1

Source: Bloomberg, MIDFR

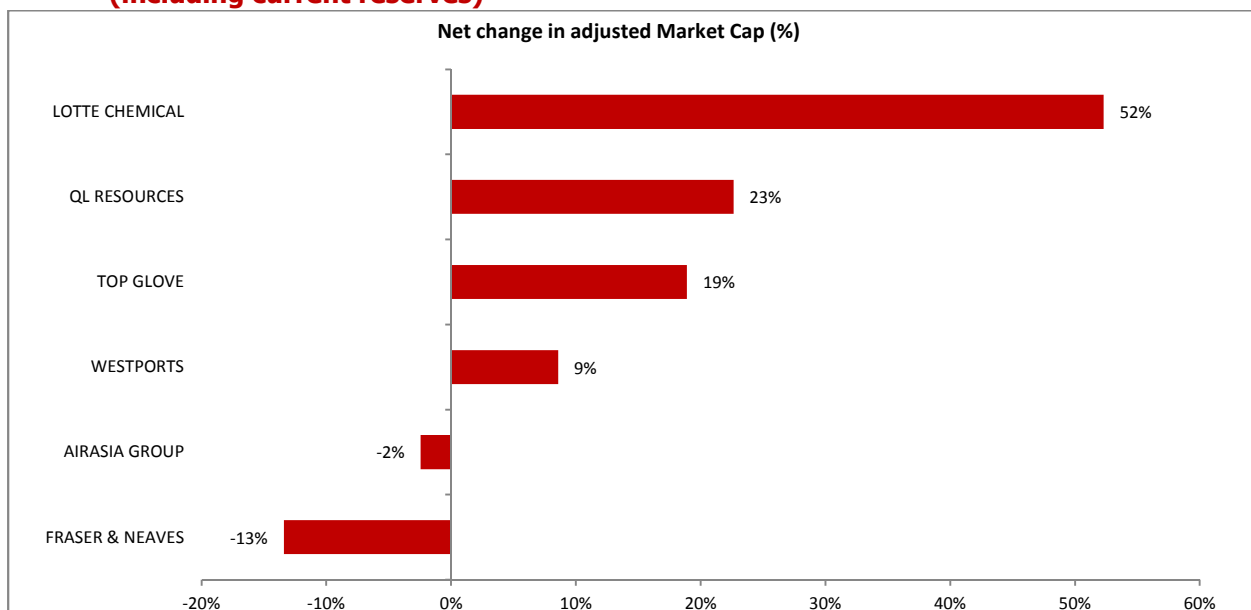
Note: \*-at the risk of exclusion

**Current constituents at risk of exclusion.** Based on the change of market capitalisation of the current constituents of the FBM KLCI 30 between 15 June 2018 (last rebalancing) and 30 November 2018, we found that **Genting Malaysia Berhad** and **Genting Berhad** experiencing one of largest declines of 43% and 27% respectively. Even in terms of ranking based on adjusted market capitalisation, **Genting Malaysia** and **Genting** went down by 11 and 4 notches to the 33<sup>rd</sup> and 28<sup>th</sup> spot respectively between mid-June '18 to 33 in end-Nov'18. It is notable that both companies have a rather small market cap of RM8.1b and RM9.9b while the majority of other components having an unadjusted market cap of above RM10b. **Telekom Malaysia Berhad** too is another constituent at risk of exclusion on the basis of adjusted market cap ranking as its rank had gone down beyond the 30<sup>th</sup> spot during the period under review in addition to having the smallest market cap amongst the constituents of only RM6.6b after facing a 41% drop.

**Adding in the liquidity factor.** If the factor of liquidity were to be added into consideration on top of adjusted market cap rank, **Malaysia Airports Holdings Berhad (MAHB)** would be one with the highest possibility of being removed from the list. As the stock faced a decline in market cap of -12% from June '18 to Nov '18, the ranking of **MAHB** based on adjusted market cap went down by 3 places, from 37 to 40 during the same period. Volume wise, the volume for **MAHB** based on its median daily trading volume per month has been below the 0.04% threshold for 12 straight months prior from Dec 2017 to Nov 2018.

**Financials and banks which are at risk.** **Hong Leong Financial Group Berhad** is another constituent which has the risk of being taken out from the index as its volume based on median trading volume per month has remained below the 0.04% level for 24 months since December 2016. Nonetheless, Hong Leong Financial Group's may be saved by its adjusted market cap ranking which remained at the 18<sup>th</sup> spot between June 2018 and Nov 18.

**Chart 3: Change in market cap for potential FBMKLCI inclusions (including current reserves)**



Source: Bloomberg

**Table 3: Change in ranking based on market cap for possible constituents of FBMKLCI**

Company	Market Cap as at 15 June '18 (RM'b)	Market Cap as at 30 Nov '18 (RM'b)	Adjusted Market Cap Rank as at 15 June '18	Adjusted Market Cap Rank as at 30 Nov '18	Change in Rank
LOTTE CHEMICAL **	6.4	9.7	38	30	8
QL RESOURCES	6.4	7.8	39	34	5
TOP GLOVE**	7.2	8.5	34	31	3
WESTPORTS** **	10.3	11.2	31	25	6
AIRASIA GROUP**	4.0	3.9	53	54	-1
FRASER & NEAVES **	11.4	9.8	28	29	-1

Source: Bloomberg


Note: \*\* stock under reserve list

**Possible inclusions from reserve list.** From the 5 stocks under the reserve list, **Top Glove Corporation Berhad** has a strong potential to be included in the upcoming rebalancing exercise. While its 18.9% increase in adjusted market cap from mid-June '18 to end-Nov' 18 only brought the ranking in terms of market cap up to the 31<sup>st</sup> spot from the 34<sup>th</sup> position, **Top Glove Corporation's** turnover based on median daily trading volume per month stood above the 0.05% for more than 10 of the 12 months prior to the next review in December.

**Westports Holdings Berhad** is another stock with the possibility to be included in this round of index review due to the: (i) 18.9% increase in market cap value and (ii) positive change in adjusted market cap ranking from the 31<sup>st</sup> to 25<sup>th</sup> spot for the period from June '18 to end Nov' 18. These criteria will offset the turnover based on median daily trading volume per month which only stood above 0.05% for 9 out of the 12 months prior to this December's index review.

Meanwhile, we note that **Fraser and Neave Holdings Berhad** and **Lotte Chemical Titan Holding Berhad** to have a slim chance of being included in the next review despite their ranking in terms of the adjusted market cap advanced to the 29<sup>th</sup> and 30<sup>th</sup> spot as of end Nov'18 respectively. The reason is that both stocks have a turnover based on median daily trading volume per month on average stood below 0.05% for more than 2 of the 12 months prior to the next review this December.

**Upgrade into the reserve list.** Aside from the stocks under the reserve list, we view that **QL Resources Bhd** is a strong candidate to advance into the reserve list for the next FBM KLCI review due to its 22.6% jump in adjusted market cap value from mid-June'18 to end-Nov'18 which pushed its ranking in adjusted market cap from the 39<sup>th</sup> to 34<sup>th</sup> spot. Moreover, **QL Resources Bhd** will also be included into the MSCI Global Standard Index.

**Possible headwinds ahead.** The steps towards interest rate normalisation of major economies (i.e. United States, Eurozone and Emerging markets) is expected to be more prevalent in 2019 against a backdrop of general improvement in macro environment. This situation is likely to exert a degree of downward pressure on risk assets valuation next year. On the other hand, this could be mitigated by expect positive impact should the new Malaysian federal government are able to deliver on their election promises, such as the Sales and Services Tax which came into effect on 1 September 2018. 

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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.