

Bracing for a “Manic’ Trading Days

KLCI: 1,858.26 points

MSCI and FBMKLCI indices Rebalancing Exercise

2018 Year-end Target: 1,900 points

There are two key events that will have a significant impact to the trading activities in Bursa Malaysia to be implemented at close of the trading days of Thursday 31st May 2018 and Friday 15th June:

i. MSCI Equity Indexes May 2018 Index Review

MSCI rebalancing exercise. MSCI Inc. released the outcome for its May 2018 Semi-Annual Index Review for all the MSCI Equity Indexes. The relevant changes to the constituents in each index will be effective as of the close of 31 May 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 May 2018 - Deletion and Addition

MSCI Global Standard Index		MSCI Global Small Cap Index	
Additions (3)	Deletion (2)	Additions (4)	Deletion (8)
F&N Holdings *	Sapura Energy*	Boustead Plantations	GD EXPRESS Carriers*
MY EG Services*	YTL Power International	Kerjaya Prospek	Iskandar Waterfront City
Top Glove Corp*		Malakoff Corporation	Karex
		Vitrox	KSL Holdings
		Sapura Energy*	MKH
			MY EG Services *
			Taliworks Corp
			Top Glove Corp*

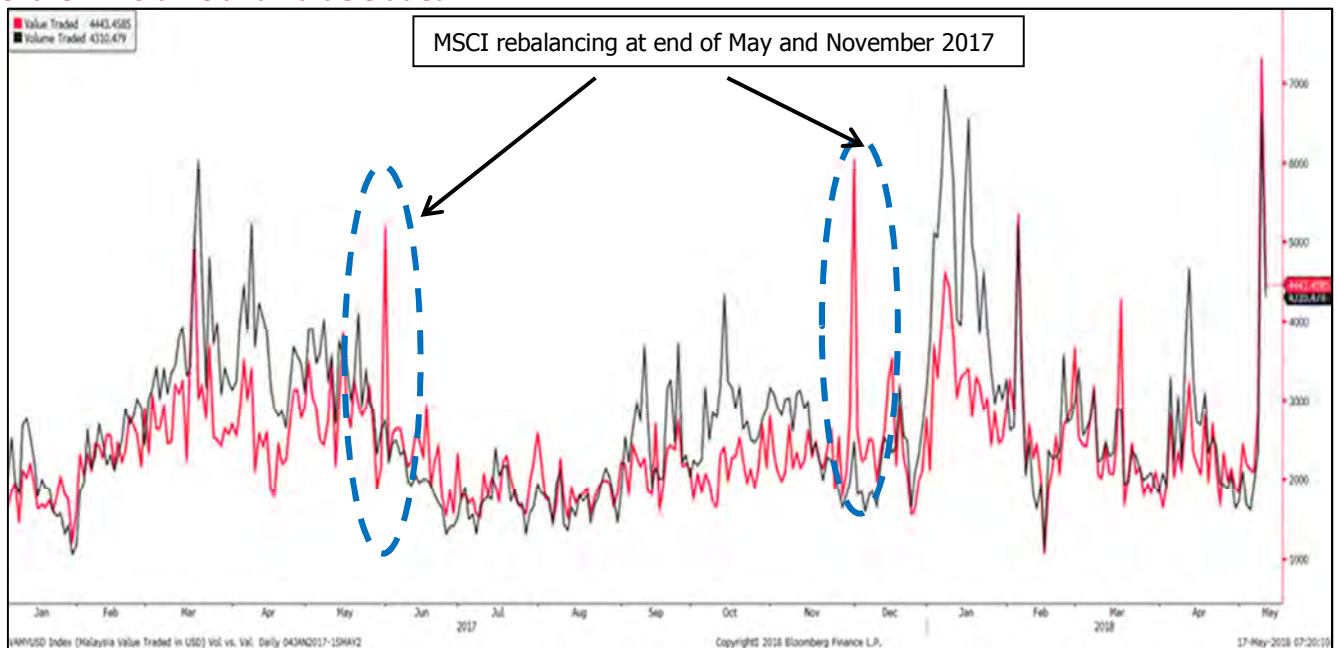
Source: MSCI

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

ii. FBMKLCI Index June 2018 Index Review

Outcome of First Semi-Annual Review of FTSE Bursa Malaysia Index Series to be out soon. FTSE Bursa Malaysia Index Series semi-annual review is expected to be completed on 31st May 2018 as well, with announcements of the outcome to be made known afterwards. 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, 15 June 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"> Sovereign Wealth Fund 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 	Holdings fall below 10%
30% or greater	<ul style="list-style-type: none"> Holdings under pension fund, insurance fund or investment companies are generally not considered as restricted. However, restriction can take place when a single portfolio holding is 30% or greater. 	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"> 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.
Non-constituent of FBMKLCI 30	<ul style="list-style-type: none"> 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.

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 criteria mentioned above. Based on our interpretation of the index rules, we calculated the percentage change in the market cap of the stocks for the period between 18 December 2017 (effective date of 2nd semi annual review in 2017) and 14 May 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

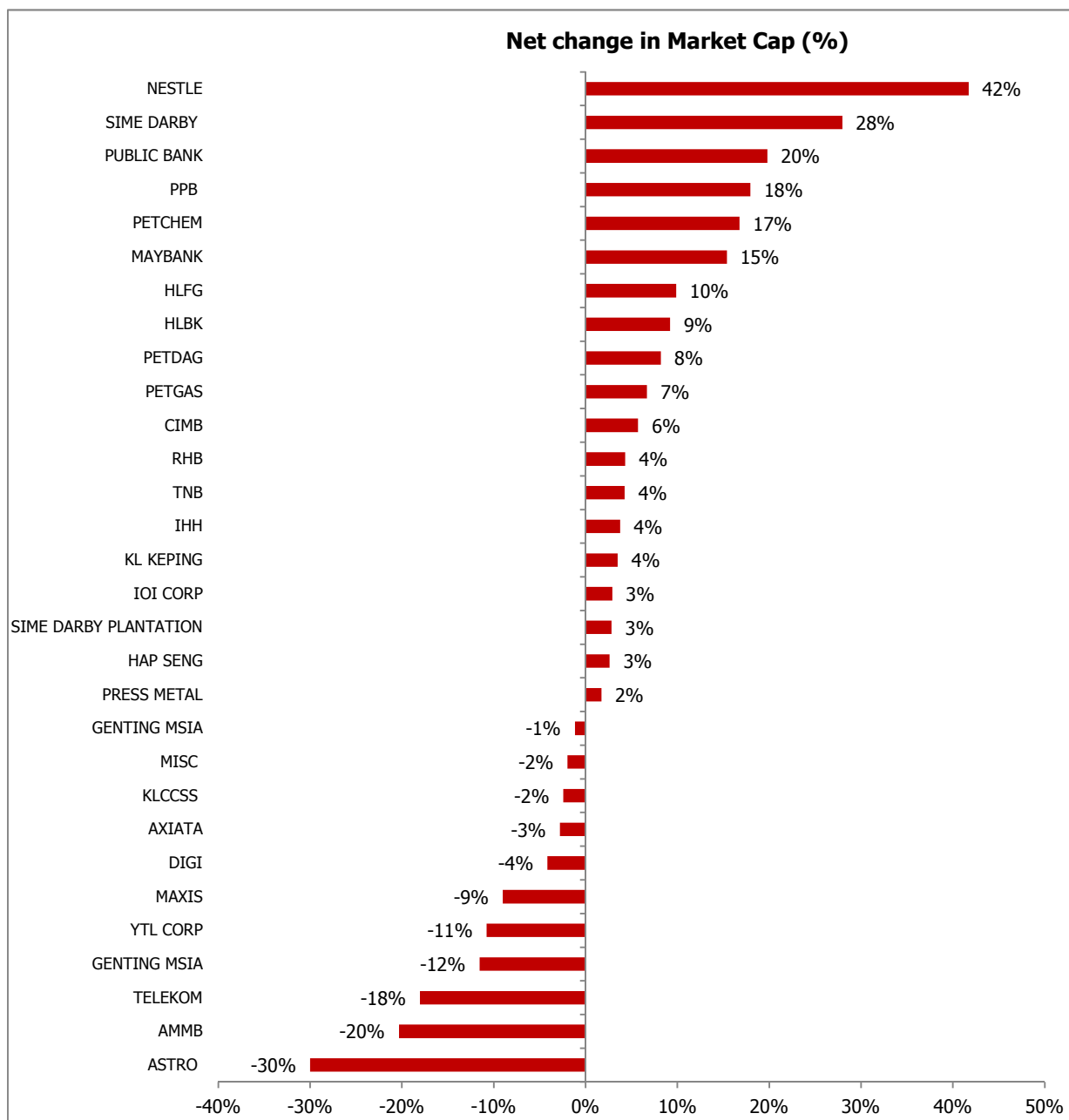


Table 2: Change in ranking based adjusted on market cap for current constituents of FBMKLCI

Company	Market Cap as at 18 Dec '17 (RM'b)	Market Cap as at 14 May '18 (RM'b)	Adjusted Market Cap Rank as at 18 Dec '17	Adjusted Market Cap Rank as at 14 May '18	Change in Rank
NESTLE	23.4	33.1	32	22	10
SIME DARBY	14.3	18.4	30	23	7
PUBLIC BANK	79.9	95.8	3	2	1
PPB GROUP	20.1	23.7	25	24	1
PCHEM	59.6	69.6	5	5	0
MAYBANK	102.3	118.0	1	1	0
HLFG*	19.7	21.6	43	38	5
HLBK	34.7	37.8	28	28	0
PETRONAS DAGANGA	24.3	26.2	27	27	0
PETGAS	32.5	34.7	12	11	1
CIMB	58.0	61.3	4	4	0
RHB BANK *	20.4	21.3	33	33	0
TNB	87.1	90.9	2	3	-1
IHH	48.2	50.0	7	6	1
KL Kepong	26.1	27.0	17	18	-1
IOI CORP	27.7	28.5	16	16	0
SD PLNTN	36.0	37.1	9	8	1
HAP SENG	23.7	24.3	26	29	-3
PRESS METAL	19.2	19.6	35	35	0
GENTING	34.7	34.3	6	7	-1
MISC	31.9	31.2	14	14	0
KLCCS*	14.1	13.8	49	53	-4
AXIATA	48.4	47.1	8	9	-1
DIGI.COM	37.3	35.8	11	13	-2
MAXIS B	46.4	42.2	13	15	-2
YTL CORP*	14.0	12.5	31	32	-1
GENT MSIA	31.3	27.7	10	10	0
TELEKOM	22.9	18.8	19	25	-6
AMMB	13.1	10.4	22	31	-9
ASTRO*	13.6	9.5	23	37	-14

Source: Bloomberg, MIDFR

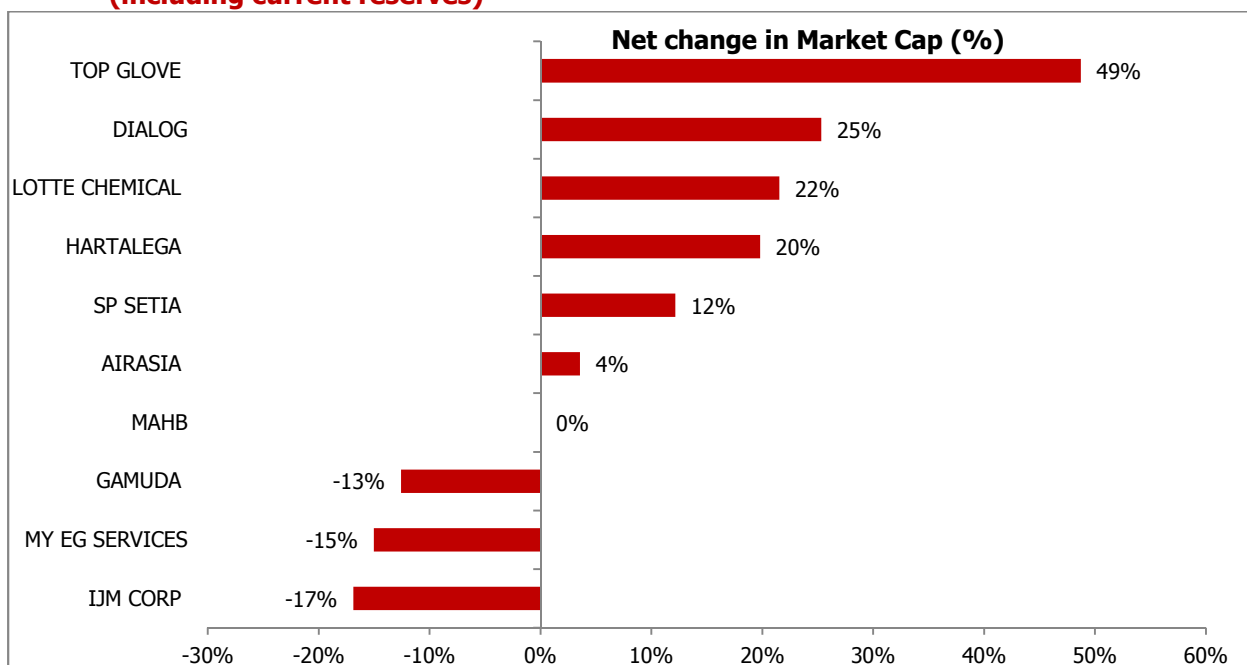
Note: *-at the risk of exclusion

Current constituents at risk of exclusion. Based on the change of market capitalisation of the current constituents of the FBM KLCI 30 between 18 December 2017 (last rebalancing) and 4 May 2018, we found that Astro Malaysia has the largest decline of 30%. Even in terms of ranking based on adjusted market capitalisation, Astro Malaysia went down by 14 notches from 23 in Dec 17 to 37 in mid-May 18. Astro also has smallest market cap at RM9.8b with other components having an unadjusted market cap of above RM10b. YTL Corp too is another constituent at risk of exclusion on the basis of adjusted market cap ranking as its rank had gone down beyond the 30th spot during the period under review.

Adding in the liquidity factor. If the factor of liquidity were to be added into consideration on top of adjusted market cap rank, KLCCP Stapled Group would be one with the highest possibility of being removed from the list. Despite having a minor decline in market cap of -2% from Dec 17 to May 18, the ranking of KLCCP Stapled Group based on adjusted market cap went down by 4 places, from 49 to 53 during the same period. Volume wise, the volume for KLCCP Stapled Group based on its median daily trading volume per month has been below the 0.04% threshold for 12 straight months prior from March 2017 to April 2018.

Financials and banks at risk. Hong Leong Financial Group is another constituent which is danger 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 17 months since December 2016. Based on adjusted market cap ranking, Hong Leong Financial Groups advanced 5 spots higher to only settle at the 38th spot. Another financial stock, RHB Bank appears to be at risk for exclusion from the index as with its turnover based on daily trading volume per month being above 0.04% for five of 12 months prior to the upcoming rebalancing exercise.

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 18 Dec '17 (RM'b)	Market cap as at 14 May '18 (RM'b)	Adjusted Market Cap Rank as at 18 Dec '17	Adjusted Market Cap Rank as at 14 May '18	Change in Rank
TOP GLOVE	8.7	13.0	36	21	15
DIALOG**	13.8	17.3	15	12	3
LOTTE CHEMICAL **	10.9	13.2	55	51	4
HARTALEGA **	16.6	19.9	24	20	4
SP SETIA	10.2	11.4	38	36	2
AIRASIA	11.3	11.7	29	30	-1
MAHB**	14.1	14.1	20	19	1
GAMUDA **	11.9	10.4	18	17	1
MY EG SERVICES	7.7	6.5	40	34	6
IJM CORP	9.9	8.2	21	26	-5


Source: Bloomberg

Note: ** stock under reserve list

Possible inclusions from reserve list. From the 5 stocks under the reserve list, Dialog Group and Hartalega has the biggest potential to be included in the upcoming rebalancing exercise due to: (i) positive change in adjusted market cap ranking, (ii) significant increase in market cap value and (iii) their turnover based on median daily trading volume per month stood above 0.05% for more than 10 of the 12 months prior to the next review.

Meanwhile, Lotte Chemicals is the one that has the least chance of being included in the next review despite having a 22% increase in adjusted MCAP as its ranking only went up to the 52nd spot (previously 65th). Nonetheless from a liquidity perspective, Lotte Chemical's turnover based on median daily trading volume per month stood above 0.05% since its listing last year.

Aside from the stocks under the reserve list, we view that Top Glove and IJM Corp are strong candidates to be considered for the next FBM KLCI review due to their ranking in adjusted market cap which does not exceed 30 and their turnover based on median daily trading volume per month stood above 0.05% for more than 10 months prior to the next review. Note that Top Glove will also be included into the MSCI Global Standard Index.

Retain our FBM KLCI 2018 target of 1,900 points. The steps towards interest rate normalisation of major economies (i.e. United States and Eurozone) is expected to be more prevalent in 2018 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 recently declared goods and services tax (GST), which will be zero-rated effective 1 June 2018. However, for now we are maintaining our FBM KLCI 2018 year-end target of 1,900 points which is equivalent PER18 of 15.9x and +0.3SD. 

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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.