

Bracing for a "Manic" Mid- Year Again *MSCI and FBMKLCI indices Rebalancing Exercise*

KLCI: 1,639.37 points

There are two key events that will have a significant impact to the trading behaviour of investors in Bursa Malaysia come this Thursday 29th May 2019 and 6th June 2019:

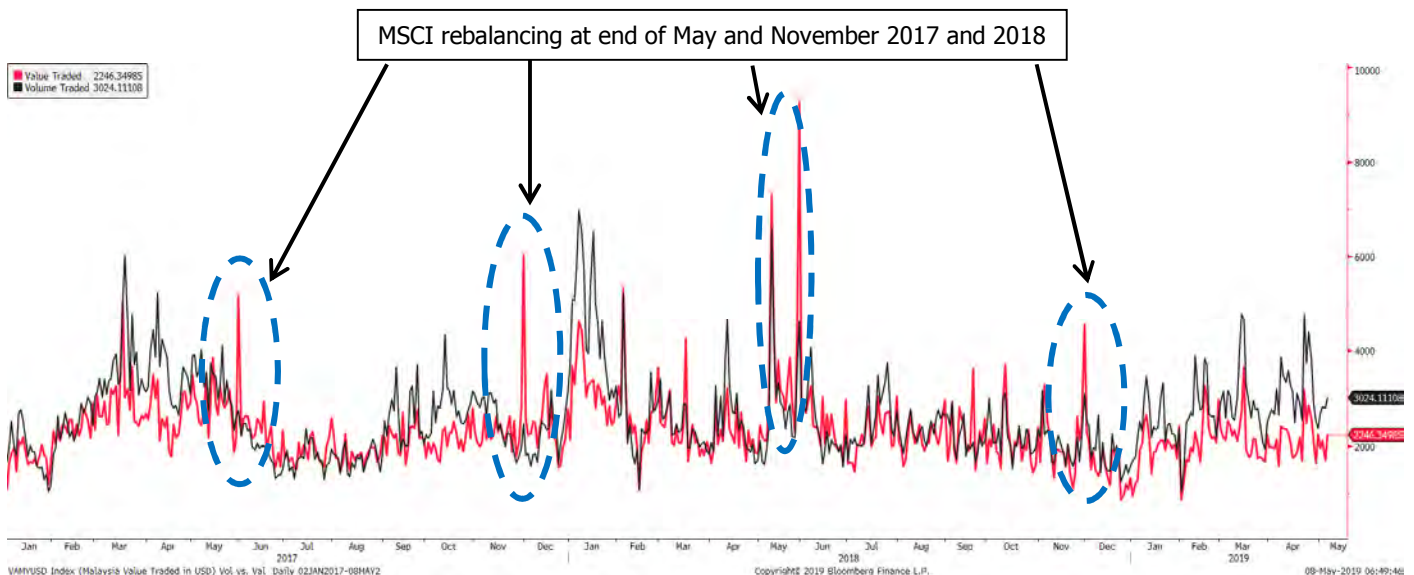
i. MSCI Equity Indices May 2019 Semi Annual Review

MSCI rebalancing exercise. MSCI Inc. will be releasing the outcome for its May 2019 Semi-Annual Index Review for all the MSCI Equity Indexes next week. The relevant changes to the constituents in each index have taken into effect as of the close of 31st May 2019.

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 2018.

Chart 1: Volume and Value traded



ii. FBMKLCI Index June 2019 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 June 2019. 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 June 2019.

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

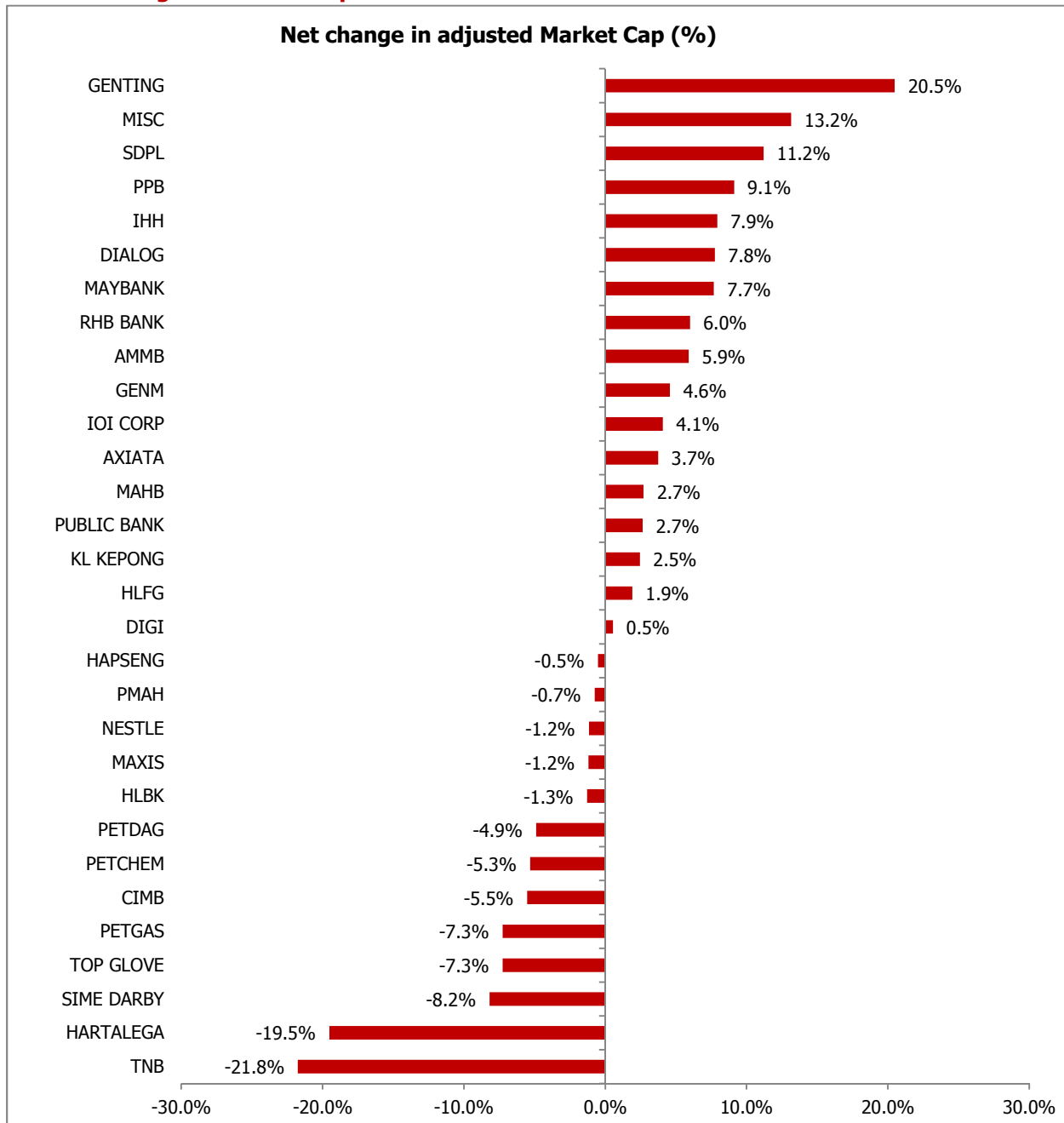
b) Liquidity criteria to be eligible for inclusion

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 percentage. We calculated the percentage change in the adjusted market cap of the stocks for the period between 21 December 2018 (the time during which the changes for the 2nd semi annual review in 2018 took place) and 30 April 2019, (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 on adjusted market cap for current constituents of FBMKLCI¹

Company	Adjusted Market cap as at 21 Dec '18 (RM'b)	Adjusted Market cap as at 30 Apr '19 (RM'b)	Rank as at 21 Dec '18	Rank as at 30 May '19	Change in Rank
GENTING	9.9	12.0	28	24	4
MISC	23.2	26.3	14	13	1
SD PLANT	23.3	25.9	13	14	-1
PPB GROUP	17.2	18.8	19	18	1
IHH	38.8	41.9	4	3	1
DIALOG	10.0	10.7	27	27	0
MAYBANK	67.8	73.1	1	1	0
RHB BANK	17.2	18.2	20	20	0
AMMB	7.2	7.7	34	34	0
GENM	8.7	9.1	32	31	1
IOI CORP	19.1	19.9	16	15	1
AXIATA	26.8	27.9	12	11	1
MAHB ²	6.2	6.3	39	40	-1
PUBLIC BANK	35.0	36.0	6	6	0
KLK	18.6	19.1	17	17	0
HLFG ²	18.0	18.4	18	19	-1
DIGI	27.8	28.0	11	10	1
HAP SENG	17.1	17.0	21	21	0
PRESS METAL	12.8	12.7	23	23	0
NESTLE	29.4	29.1	10	9	1
MAXIS	37.0	36.5	5	5	0
HLBK ²	33.9	33.5	7	7	0
PETDAG	20.1	19.2	15	16	-1
PETCHEM	60.1	56.9	2	2	0
CIMB	31.4	29.7	8	8	0
PETGAS	29.6	27.4	9	12	-3
TOP GLOVE ²	7.2	6.6	35	38	-3
SIME DARBY	11.0	10.1	25	28	-3
HARTALEGA	14.5	11.7	22	25	-3
TNB	49.6	38.8	3	4	-1

Source: Bloomberg, MIDFR

Note: ¹ - ranked based on the net changes in adjusted market cap (as in chart 2)

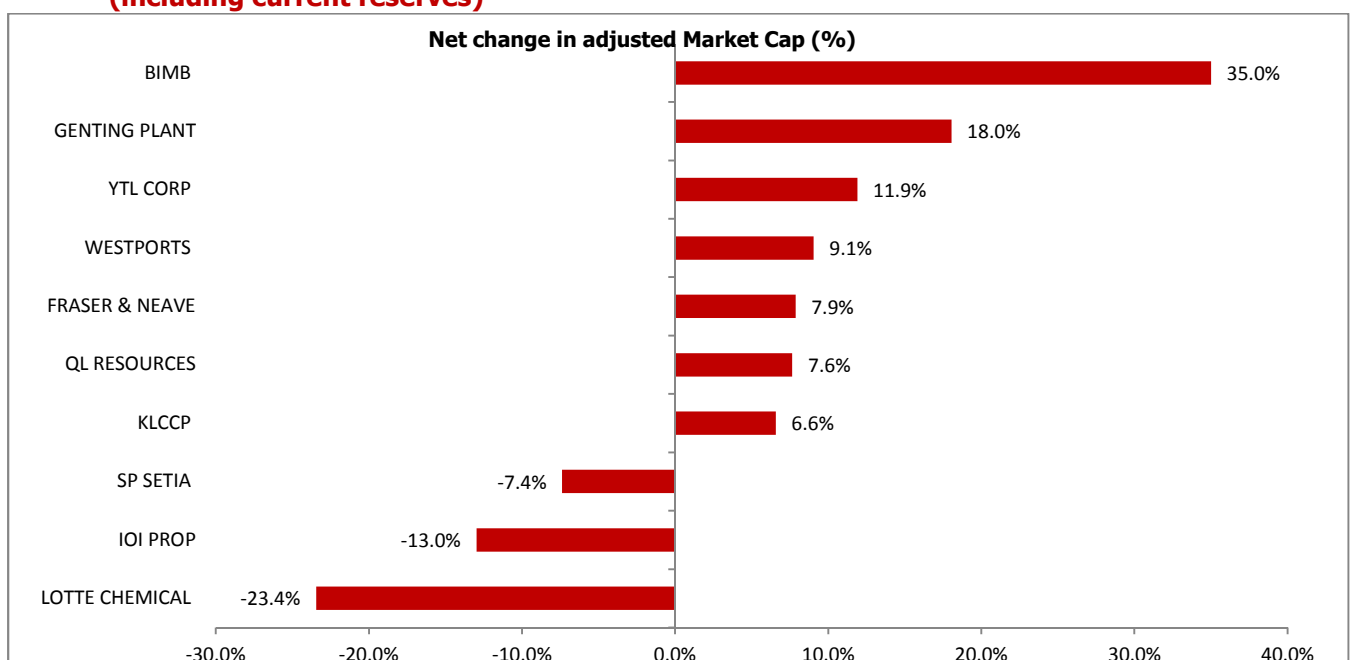
² -at the risk of exclusion

Current constituents at risk of exclusion. Based on the change of adjusted market capitalisation of the current constituents of the FBM KLCI 30 between 21 December 2018 (last rebalancing) and 30 April 2019, we found that **Top Glove Corporation Berhad** experienced the fourth largest decline of 7.3%. Even in terms of ranking based on adjusted market capitalisation, **Top Glove Corporation Berhad** went down by 3 notches to the 38th spot between late-Dec '18 and end-April'19. It was notable that **Top Glove Corporation Berhad** has a rather small adjusted market cap of RM6.6b while the majority of other components having an unadjusted market cap of above RM10b.

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. Despite the 2.7% increase in terms of adjusted market cap from Dec'18 to April '19, the ranking of **MAHB** based on adjusted market cap went down by one notch, from 39 to 40 during the same period. In addition, MAHB had the smallest adjusted market cap amongst the constituents of only RM6.3b compared to the majority of other constituents which have an adjusted market cap of above RM10b. Volume wise, the volume for **MAHB** based on its median daily trading volume per month has been below the 0.04% threshold for 9 out of 12 months prior to this June's semi-annual review.

Financials and banks are also at risk. **Hong Leong Financial Group Berhad** and **Hong Leong Bank Berhad** are two other constituents which have 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 more than 20 months since July 2017. Nonetheless, **Hong Leong Financial Group** and **Hong Leong Bank Berhad** may be saved by its adjusted market cap ranking which stood at the 19th and 7th spot between Dec 2018 and April 19.

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



Source: Bloomberg

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

Company	Adjusted Market cap as at 21 Dec '18 (RM'b)	Adjusted Market cap as at 30 Apr '19 (RM'b)	Rank as at 21 Dec '18	Rank as at 30 April '19	Change in Rank
BIMB	5.3	7.2	42	35	7
GENT PLTN	5.4	6.4	41	39	2
YTL CORP ³	8.7	9.7	31	30	1
WESTPORTS ³	10.4	11.4	26	26	0
F&N ³	9.2	10.0	29	29	0
QL ³	7.2	7.7	36	33	3
KLCCP	12.5	13.3	24	22	2
SP SETIA	7.7	7.2	33	36	-3
IOI PROP	6.9	6.0	38	41	-3
LOTTE ³	5.3	7.2	30	37	-7

Source: Bloomberg


Note: ³ - stock under reserve list

Possible inclusions from reserve list. From the 5 stocks under the reserve list, **Westports Holdings Berhad** has a strong potential to be included in the upcoming rebalancing exercise. Its 9.1% increase in adjusted market cap from late Dec '18 to end-April' 19 which made the ranking in terms of adjusted market cap up to remain at the 26th spot. This should offset **Westports'** turnover based on median daily trading volume per month which stood above the 0.05% threshold for 8 out of the 12 months prior to the next review in June 2019, only two months short of the minimum 10 months required for the liquidity test outlined by FTSE Russell.

YTL Corporation Berhad is another stock with the possibility to be included in this round of index review due to the: (i) 11.9% increase in adjusted market cap value and (ii) its adjusted market cap ranking advancing by 1 spot to the 30th position for the period from Dec '18 to end April' 19. This will be strengthened by the stock's median daily trading volume per month which remained above 0.05% for more than 10 out of the 12 months prior to this June' index review.

Meanwhile, we note that **Lotte Chemical Titan Holding Berhad** to has a slim chance of being included in the next review as its ranking in terms of the adjusted market cap dropped from the 30th spot in Dec'18 to the 37th spot as of end April'19. In addition, **Lotte Chemical Titan Holding Berhad** also recorded the largest decline in adjusted market cap between late-Dec'18 and end-Apr'19 of 23.4%. The stock's turnover based on median daily trading volume per month stood above 0.05% for only one out of the 12 months prior to the next review this June.

Upgrade into the reserve list. Aside from the stocks under the reserve list, we view that **KLCCP Stapled Group Bhd** is a strong candidate to advance into the reserve list for the next FBM KLCI review due to its 6.6% jump in adjusted market cap value from late-Dec'18 to end-April'19 which pushed its ranking in adjusted market cap from the 24th to 22th spot.

Possible headwinds ahead. 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 spillover effects to the broader region. Domestically, the macro picture remains healthy with GDP growth expected at 4.9% this year while corporate earnings growth at circa middle single-digit. For now, we maintain our FBM KLCI year-end 2019 target at 1,800 points pending the outcome of the on-going Q1 CY2019 results season. 

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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 <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.