

Bracing for a “Manic’ Thursday
MSCI Rebalancing & Sime Darby Demerger

KLCI: 1,719.86 points
2018 Year-end Target: 1,900 points

There are two key events that will have a significant impact to the trading behaviour of investors in Bursa Malaysia come this Thursday 30th November 2017:

i. MSCI Equity Indexes November 2017 Index Review

MSCI rebalancing exercise. MSCI Inc. released the outcome for its November 2017 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 30 November 2017.

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 stocks are as follows:

Table 1: Deletion and Addition of Stocks under the MSCI Indexes

MSCI Global Standard Index		MSCI Global Small Cap Index	
Additions (3)	Deletion (0)	Additions (4)	Deletion (7)
Nestle’ *		Eco World International	CB Industrial Product
Press Metal		George Kent	Jaya Tiasa Holdings
SP Setia *		Hengyuan Refining Co	JCY International
		Petron Malaysia	Media Prima *
			Prestariang
			Tropicana Corporation
			Tune Protect Group *

Source: MSCI

Note: * under MIDFR coverage

ii. Demerged Sime Darby Resumes Trading

Demerged Sime Darby to resume trading. Trading of Sime Darby Berhad shares was suspended from 27-November to 29-November in view of its demerger of Sime Darby Plantation Berhad and Sime Darby Property Berhad. The reference price for Sime Darby Plantation is RM5.59. This is followed by Sime Darby Property at RM1.50 and lastly Sime Darby Berhad at RM1.85. On 30-November, Sime Darby Pure Play strategy will complete with all three companies to be traded on Bursa.

Besides the two key events, market has also seen another key event last week when the Securities Commission releases the updated list of Shariah Compliant Securities on 23rd November 2017.

iii. Securities Commission's latest list of Shariah Compliant securities.

Updated list of Shariah Compliant securities. The latest list, approved by its Shariah Advisory Council and became effective last Friday, 24 November 2017, covers 686 shariah compliant securities in total which makes up 76% of the total stocks listed on Bursa Malaysia. 33 stocks added while 22 stocks were deleted. The new list added 33 newly-classified Shariah-compliant securities and excludes 22 from the previous list issued in May 2017 as shown below.

Table 2: Newly classified Shariah-compliant securities

No.	Stock	No.	Stock
1	Advancecon Holdings Berhad	18	Lotte Chemical Titan Holding Berhad
2	Air Asia X Berhad*	19	Luxchem Corporation Berhad
3	Ancom Berhad	20	MMS Ventures Berhad
4	Apollo Food Holdings Berhad	21	N2N Connect Berhad
5	AppAsia Berhad	22	Nakamichi Corporation Berhad
6	Asia Bioenergy Technologies Berhad	23	Oldtown Berhad*
7	Bina Puri Holdings Bhd	24	Pineapple Resources Berhad
8	Excel Force MSC Berhad	25	Prolexus Berhad
9	George Kent (Malaysia) Berhad	26	SC Estate Builder Berhad
10	Gopeng Berhad	27	Sealink International Berhad
11	GSB Group Berhad	28	Tan Chong Motor Holdings Berhad*
12	HSS Engineers Berhad	29	Tatt Giap Group Berhad
13	Inta Bina Group Berhad	30	TFP Solutions Berhad
14	Jaks Resources Berhad	31	TPC Plus Berhad
15	Kamdar Group Berhad	32	United U-Li Corporation Berhad*
16	Kejuruteraan Asastera Berhad	33	Xinghe Holdings Berhad
17	K-One Tehcnology Berhad		

Source: Securities Commission

Note: * under MIDFR coverage

Affected stocks under MIDFR coverage. There are four stocks under MIDFR's coverage that have been newly classified Shariah compliant securities which are: (i) **Air Asia X Berhad**, (ii) **Oldtown Bhd**, (iii) **Tan Chong Motor Holdings Bhd** and (iv) **United U-Li Corporation Bhd**. Whereas, only two stocks under our coverage were removed from the Shariah-compliant list which are **Digi.com Berhad** and **Tiong Nam Logistics Berhad**. Both of these companies were excluded from the Shariah-compliant list based on their conventional debt to asset ratio which exceeded the shariah compliant ratio of 33%.

Table 3: Newly classified Shariah non-compliant securities

No.	Stock	No.	Stock
1	AE Multi Holdings Berhad	12	HCK Capital Group Berhad
2	BCM Alliance Berhad	13	Heng Huat Resources Group Berhad
3	Bertam Alliance Berhad	14	Jian Kun Resources Berhad
4	BTM Resources Berhad	15	Kim Loong Resources Berhad
5	Careplus Group Berhad	16	Malaysian Bulk Carriers Berhad
6	Dancomech Holdings Berhad	17	PUC Berhad
7	Digi.com Bhd*	18	SEG International Berhad
8	Eden Inc. Berhad	19	Sona Petroleum Berhad
9	Eversendai Corporation Berhad	20	Techfast Holdings Berhad
10	Global Oriental Berhad	21	Tiong Nam Logistics Berhad*
11	Gunung Capital Berhad	22	Wintoni Group Berhad

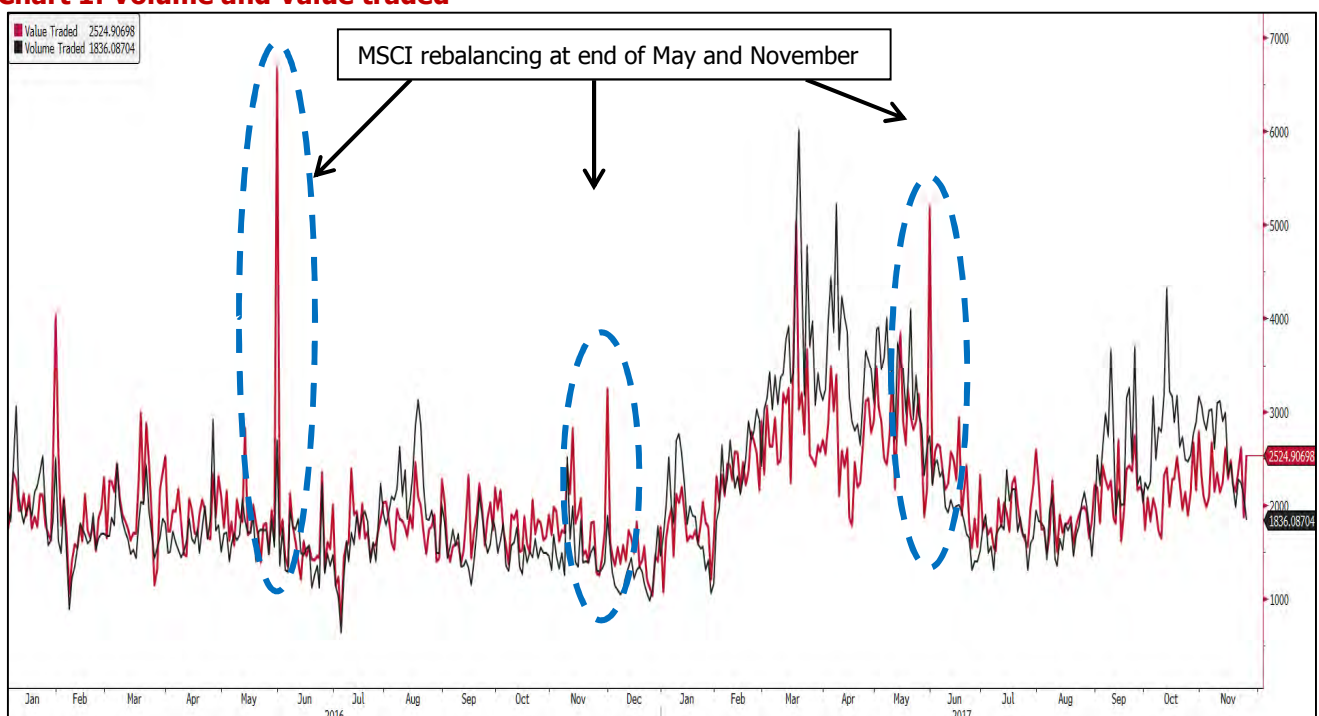
Source: Securities Commission

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 this week as evidenced by the previous rebalancing exercises in May and November 2016, and the most recent rebalancing exercise in May this year.


Chart 1: Volume and Value traded



Source: Bloomberg

FBMKLCI to temporary have 32 members, but two will be demoted at market close. For FBMKLCI, there will be a special day of which the index will have 32 members on 30th November 2017. Based on the FTSE Bursa Malaysia Index Series Rules (Clause 6.2.6), the lowest ranking companies in FTSE Bursa Malaysia KLCI Index by full market capitalization as at the close the trading day will be demoted from the index. As a result, and the end to the trading day on 30th November 2017, the two lowest market capitalization index members will cease to be FBMKLCI index constituents and will be demoted to the FTSE Bursa Malaysia Mid 70 Index.

Outcome of Semi-Annual Review of FTSE Bursa Malaysia Index Series to be out soon. FTSE Bursa Malaysia Index Series semi-annual review is expected to complete on 30th November 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 December 2017.

Reaffirm FBM KLCI 2018 year-end target of 1,900 points. The tightening bias especially 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. However, we look forward to the expected growth in corporate earnings and also the outcome of the 14th General Election which must happen next year to provide the impetus for FBMKLCI to climb higher in 2018. On this score, we reaffirm our FBM KLCI 2018 year-end target of 1,900 points which is equivalent PER18 of 16.7x and +0.9SD. 

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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.