

Review: Foreign funds making a comeback

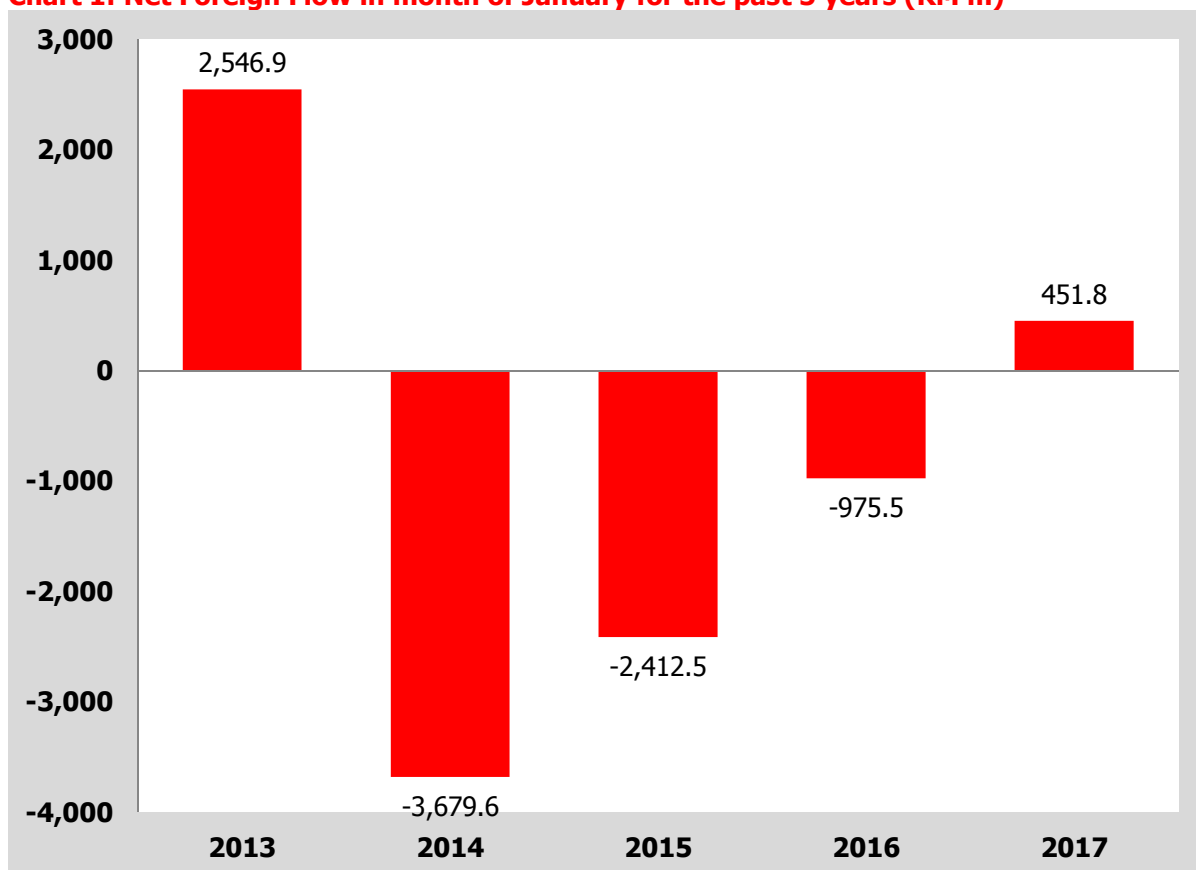
Momentum may persist in months to come

FBM KLCI: 1,708.08

(2017 Year-end Target: 1,830 points)

- Potential beneficiaries of the return of foreign funds.** Referring to our report dated 17 January 2017, we have highlighted 8 stocks with the potential to attract higher foreign shareholdings in 2017. Based on the latest available data, between the end of year 2016 and end of January 2017, (i) 4 of the 8 stocks highlighted have registered higher percentage of foreign shareholdings, (ii) 3 stocks with unchanged percentage of foreign shareholdings, while (iii) only 1 stock recorded lower percentage of foreign shareholdings. The general rise in foreign shareholdings was arguably underpinned by the comeback of foreign investors to Bursa thus far this year.
- Recap on comeback of foreign investors in January.** The foreign investors have been net buyers on Bursa year-to-date in 2017. Indeed the aggregate net inflow of foreign funds in January this year of RM451.8m was the highest since 2013, which happened to be the year of the last General Election (see chart below).

Chart 1: Net Foreign Flow in month of January for the past 5 years (RM'm)



Source: Bursa, MIDFR

- February could signal another auspicious month of net foreign buying.** Given that the month of February 2017 itself has recorded a higher net inflow of RM687.9m as of last week, it therefore looks auspicious to be yet another month of net foreign buying. We also reckon the positive momentum may sustain in the months to come in part due to the likelihood of healthier macro environment (i.e. sustained domestic and improving external demands) as well as recovery in corporate earnings performance this year.

- We list below the 8 stocks which we believe have the potential to attract higher foreign shareholdings moving forward.

Table 1: Summary of stocks that have potential to attract higher foreign shareholdings in 2017

Stocks	Foreign shareholdings (%)*		Last Price (RM) (22-Feb)	Target Price (RM)	52-Week High (RM)	52-Week Low (RM)
	End 2016	End Jan-2017				
Digi.Com	9.9	10.3	5.09	4.55	5.13	4.31
Axiata	10.3	10.4	4.80	4.74	6.03	4.11
Sime Darby	12.6	13.3	9.13	9.05	9.30	7.10
CIMB	25.8	25.8	5.08	5.90	5.19	4.11
Maybank	15.7	16.1	8.42	8.10	9.20	7.50
Petronas Dagangan	6.7	6.7	24.22	24.80	25.54	22.16
SapuraKencana	21.0**	21.0**	1.92	1.71	2.18	1.29
IHH Healthcare	19.7	18.7	6.20	6.58	6.79	6.15

Source: Bloomberg, MIDFR

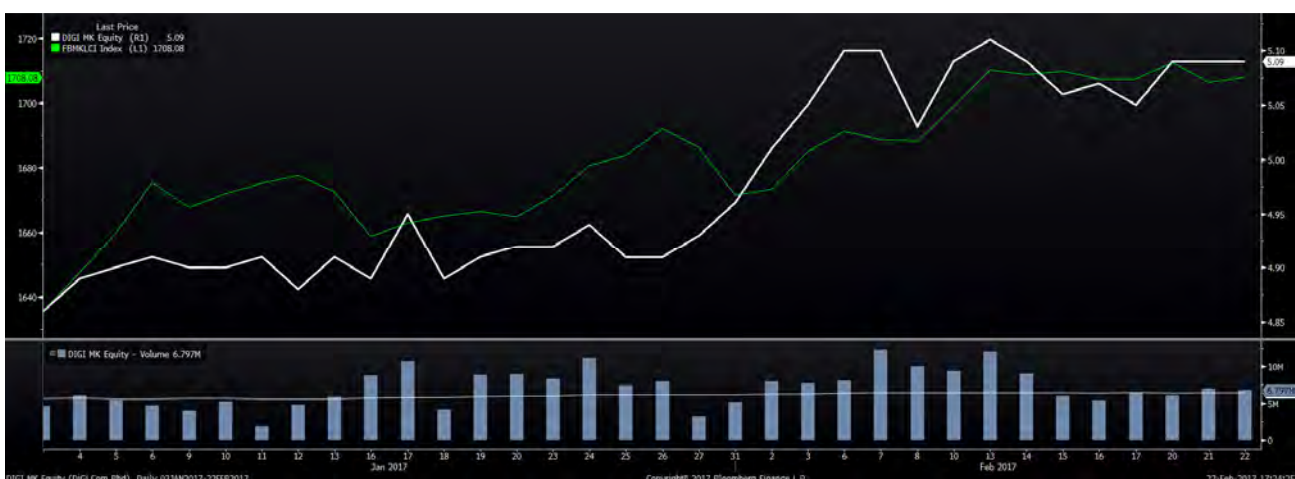
*excludes strategic shareholding

**includes strategic shareholding

REVIEW ANALYSIS OF STOCKS WITH POTENTIAL TO ATTRACT HIGHER FOREIGN SHAREHOLDINGS

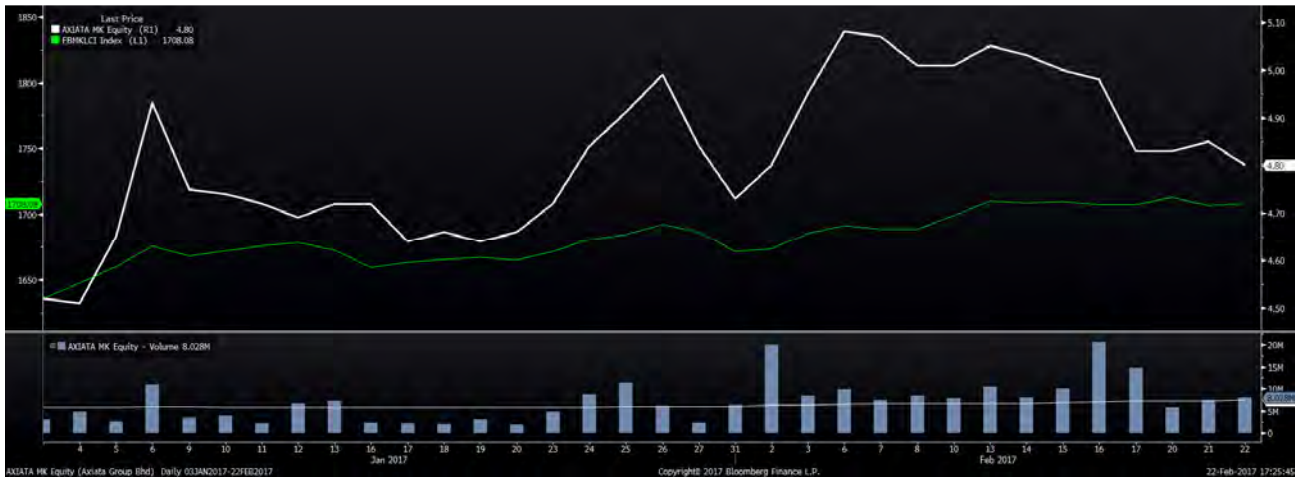
We list below the 8 stocks together with our review analysis whereby (i) the percentage of foreign shareholding is compared between the end of 2016 and end of January 2017, and (ii) price performance is tracked from 3 January 2017 to 22 February 2017.

- **Digi.com (NEUTRAL; TP: RM4.55)**



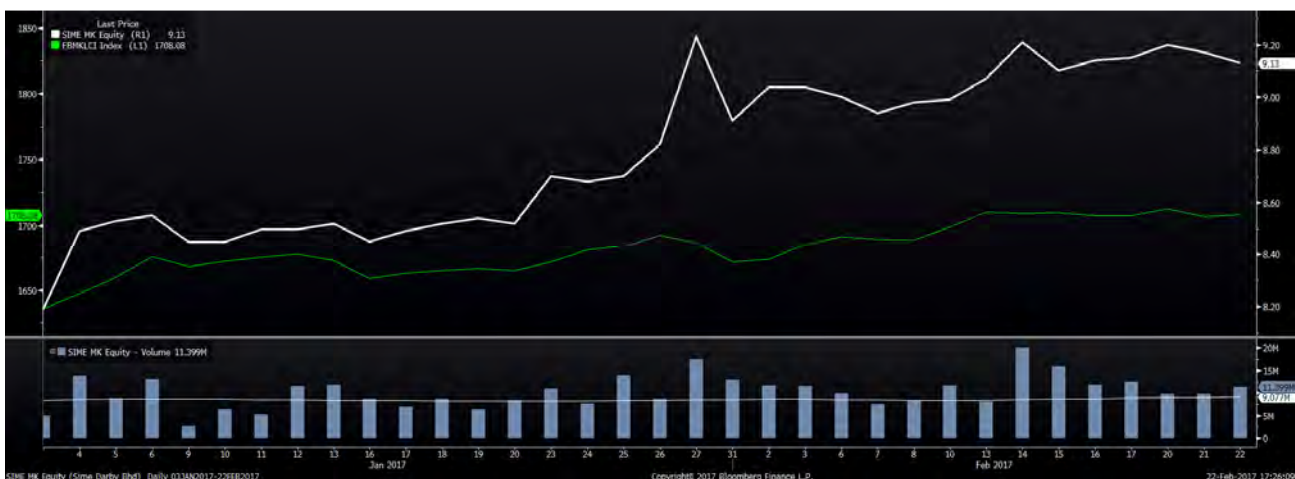
Digi recorded a +0.4% increase in foreign shareholdings while its stock price rose by +4.7% from RM4.86 on 1 January 2017 to RM5.09 as of yesterday. It announced resilient financial results in 4Q2016 with solid EBITDA that was up +5.7%yoy and higher normalized profit after tax at +7.3%yoy which may have attracted interest from foreign funds. Moving beyond January, Digi has planned to raise RM5b via a sukuk programme to support its network upgrades with one of it being the activation of its 900MHz spectrum in July which entails wider coverage and better indoor penetration. Such plans would bode well to draw more foreign funds to the stock despite the anticipated price competition between mobile service providers.

- Axiata (NEUTRAL; TP: RM4.74)**



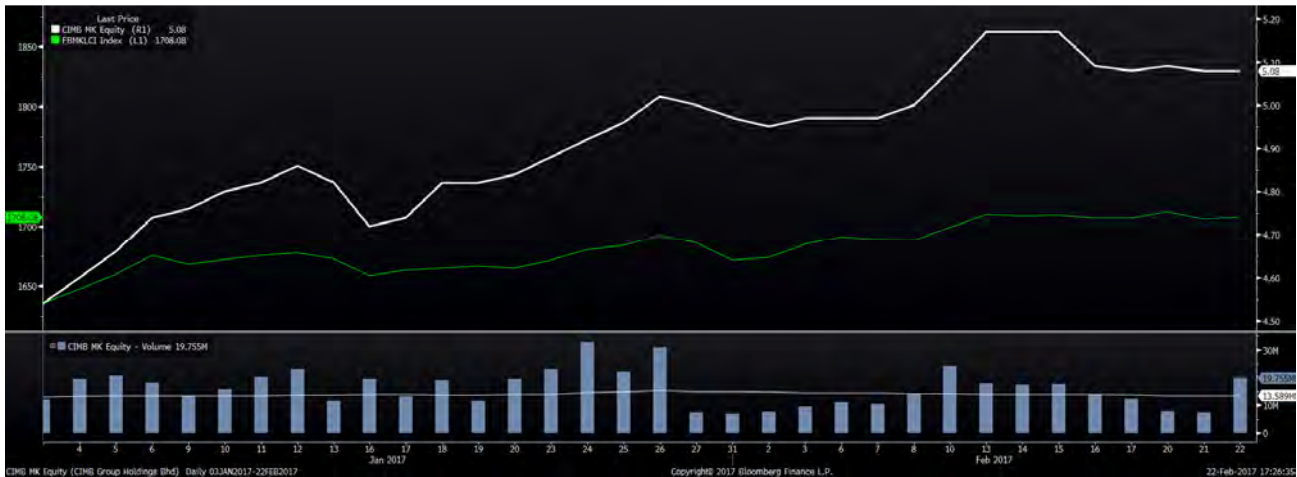
Axiata’s stock price increased by +6.2% and performed relatively better than the FBM KLCI Index during the period under review. However, there was a marginal increase of only +0.1% in terms of percentage of foreign shareholding in Axiata. This could be attributed to the expected decline in its upcoming 4Q2016 earnings, mainly brought about by our concern on Celcom’s outlook. Further erosion in average revenue per user (ARPU) is expected to occur due to intense price competition that may give rise to current subscribers switching to other mobile operators.

- Sime Darby (NEUTRAL; TP: RM9.05)**



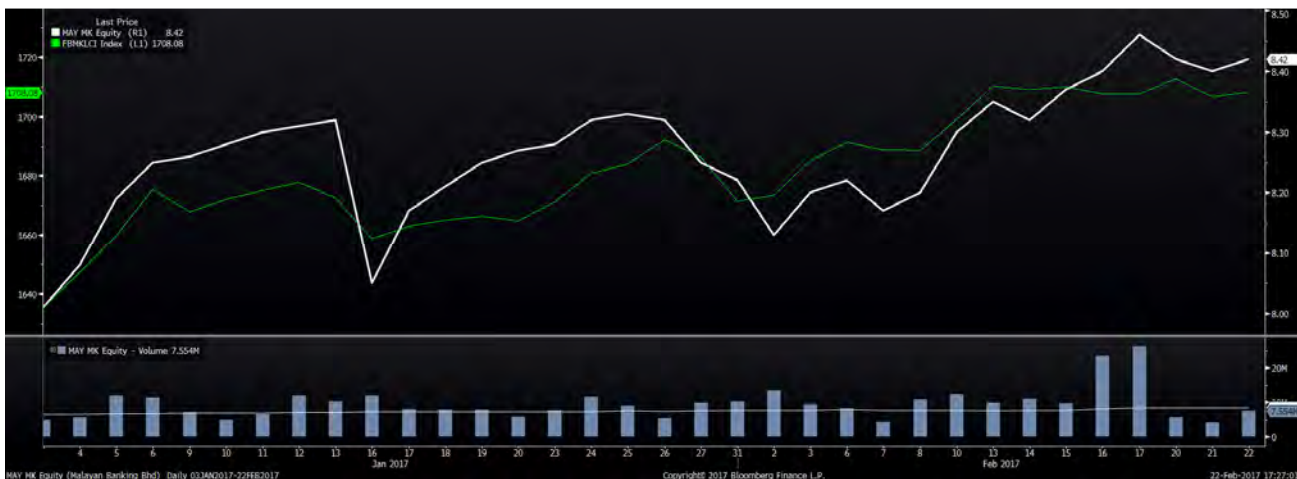
Sime Darby experienced the biggest percentage increase in foreign shareholding which was +0.7%. A main factor that may have attracted foreign investors to Sime Darby would be the company’s plan to segregate its businesses into three separate listed vehicles that sent it share price up on 26 January after the announcement. Under this plan, the plantation (Sime Darby Plantation Bhd) and property (Sime Darby Property Bhd) businesses will be separately listed while the trading and logistics operation will remain under the current listed vehicle. The plantation business will incorporate the world’s largest certified sustainable palm oil production operation that will have 603,000 hectares of land for plantation out of the total 989,000 hectares of land making it the world’s largest plantation company. Meanwhile, the property business will be listed with: (i) a land bank including areas in the Malaysia Vision Valley in Carey Island, (ii) the planned high-speed rail link with Singapore and (iii) the involvement in the development of Battersea Power Station in London. Overall, Sime Darby share price rose by a hefty +11.5% and outperformed the FBM KLCI Index throughout the period under review.

- CIMB (BUY; TP: RM5.90)**



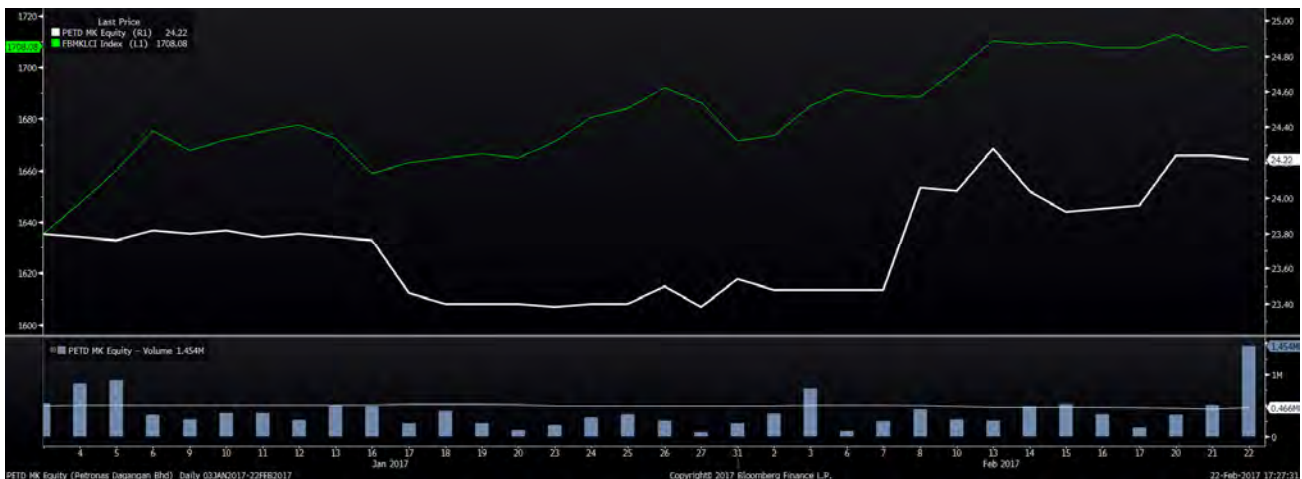
CIMB was one of the few stocks that had its percentage of foreign shareholding unchanged from end of the year 2016 to end of January 2017. Perhaps it is a bit too early for foreign investors to chip in as they remain cautious given CIMB's exposure to weak operating environment in Singapore. Despite that, CIMB Niaga, its Indonesian subsidiary, announced commendable growth in FY16 with a +119% growth in core net profit. Overall, CIMB share price performance has been good with a +11.9% increase on absolute basis and outperforming the FBM KLCI Index throughout the period under review.

- Maybank (NEUTRAL; TP: RM8.10)**



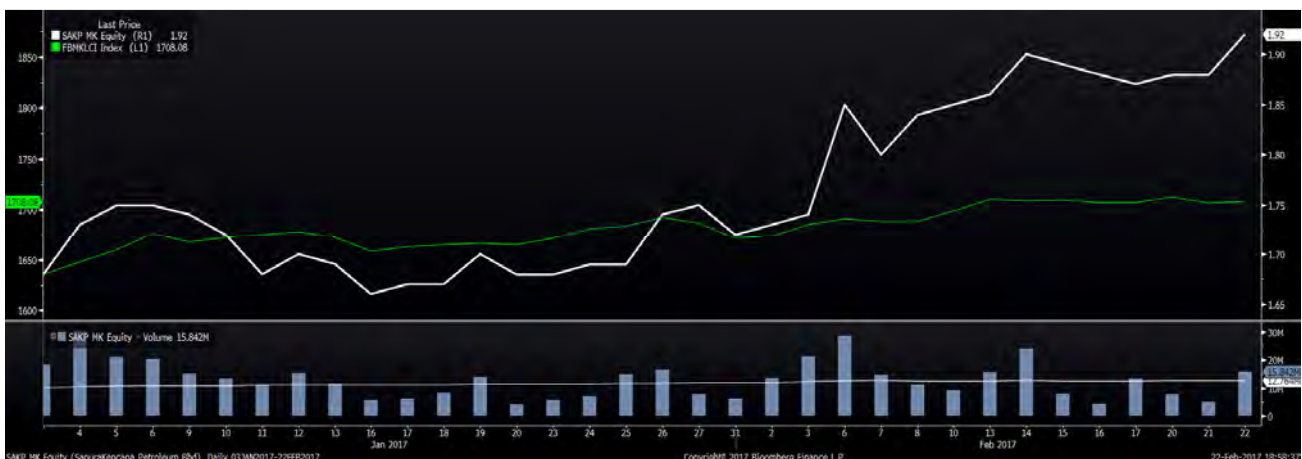
The percentage of foreign shareholding in Maybank increased by +0.4% to 16.1% at the end of January 2017. A notable announcement that took place in January 2017 was its plans to dispose its 69% stake in Indonesian-listed PT Wahana Ottomitra Multiartha Tbk (WOM Finance) to maximize its capital use and streamline its customer segmentation. Overall, it should be noted that Maybank slightly outperformed the FBM KLCI Index during the review period.

- Petronas Dagangan (NEUTRAL; TP: RM24.80)**



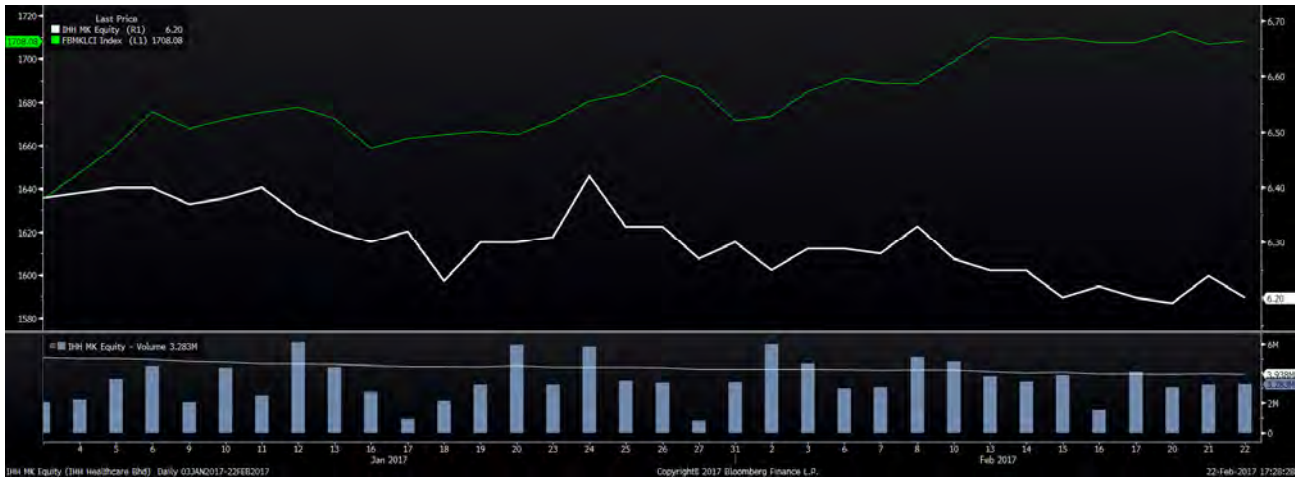
No changes were reported in the percentage of foreign shareholdings for Petronas Dagangan (PetDag). Not much attention was drawn due to the cancellation of PetDag’s planned disposal of a 100% stake in its Vietnam unit, Thang Long LPG Co Ltd to Totalgaz Vietnam LLC Ltd that is not expected to have any material effect on its financial position. In addition, on relative basis, PetDag underperformed the benchmark index during the period under review which made it more unattractive. Nevertheless, the stock price of PetDag increased by +1.8% from RM23.80 to RM24.22 on an absolute basis during the period under review.

- SapuraKencana (NEUTRAL; TP: RM1.71)**




The percentage of foreign shareholdings in Sapura Kencana as at January 2017 remain muted at 21.0% notwithstanding that SapuraKencana bagged RM1.34b worth of contracts earlier this year. Going forward, foreign shareholdings in SapuraKencana may gain traction once the jobs for the contract are started. Nonetheless, SapuraKencana outperformed the FBM KLCI for the period under review.

- IHH Healthcare (NEUTRAL; TP: RM6.58)**



IHH Healthcare was the only stock that experienced a decline in percentage of foreign shareholdings between the end of 2016 and January 2017. This occurred despite the IHH's proposed acquisition of a hospital building in Perak, via its subsidiary, Pantai Medical Centre Sdn Bhd to reduce operating costs in the long run. We opine that buying momentum has not kicked in yet. In terms of share price performance, IHH's share price declined by - 2.8% from RM6.38 to RM6.20 during the period under review.

FBM KLCI year-end target. We reiterate our FBM KLCI 2017 year-end target of 1,830 points which equates to PER17 of 17.1x. 

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.