

12 May 2014
MALAYSIA EQUITY



FUND FLOW REPORT

Week Ended May 9, 2014

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FOR IMPORTANT DISCLOSURES**

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12 May 2014 | Strategy - Weekly Fund Flow

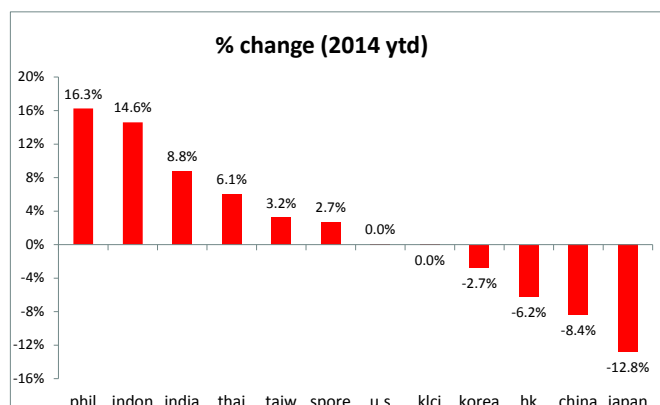
SLOW FLOW

A. MARKET SNAPSHOT

- It was another week of mixed performance in the global equity markets.
- Investors remained edgy over the prospect of a correction in the U.S, where the bellweather Dow Jones index closed the week at another record high, gaining 0.4%. However, the broader S&P500 fell a marginal -0.1% reflecting a selloff in internet shares.
- The performance of the U.S market is in keeping with its fundamentals. According to Bloomberg data, 76% of the 453 S&P500 constituents that have announced their 1Q14 profit have exceeded expectations. Earnings and sales grew by 5.5%yoy and 3%yoy respectively in the first quarter.
- Volatility in the Emerging market clearly surged last week. The Thai SET was the worst performing market in our table, having declined a significant -3.1%, after the Thai Prime Minister and nine ministers were ordered to step down by the court. After a lull, mass protests are returning to the streets of Bangkok, against the caretaker government, which is seen as aligned to the ex-PM Thaksin.
- Other Emerging markets fared at the other extreme of the spectrum. India's Sensex was the best performing market last week, gaining 2.6% as investors anticipate a favourable election outcome with the results due on May 16. The last leg of India's staggered five-week long election begins on Monday.
- The Philippines and Indonesia markets also closed comfortably in the greenzone. The Philippines Composite rose for the seventh consecutive week while the Jakarta Composite rebounded from a loss a week earlier. These two indices have gained 16.3%ytd and 14.6%ytd respectively, among the best this year.
- The KLCI registered its first weekly fall for the first time in a month, closing the week marginally lower by -0.1%.

Performance of major markets		
Weekly % change	Week before	Last week
India Sensex	-1.25	2.63
Phil Comp	0.87	1.55
Jakarta JCI	-1.20	1.23
CAC	0.33	0.43
Dow Jones	0.93	0.43
DAX	1.64	0.27
Taiwan Taiex	1.06	0.25
Straits Times	-0.46	-0.01
FTSE	2.05	-0.12
KLCI	0.44	-0.13
S&P500	0.95	-0.14
Korea KOSPI	-0.62	-0.15
China CSI300	-0.42	-1.15
Nikkei 225	0.20	-1.78
Hang Seng	0.17	-1.79
Thai SET	0.95	-3.10

Source: Bloomberg



B. TRACKING MONEY FLOW

- We suggested earlier that the flow of global fund to Asian equity was easing. This was confirmed with the aggregate net outflow last week
- After seven straight weeks of buying, global funds turned aggregate net seller of stocks in the seven Asian equity markets that we track (Korea, Taiwan, Thailand, Malaysia, Indonesia, Philippines and India ¹). The amount of outflow amounted to -USD680.6. In the preceding seven weeks, global funds pumped in USD14.7b into the seven markets, or an average of USD2.1b a week.
- Most of the outflow was from the more developed markets of Korea and Taiwan. Foreign funds sold Korean stocks for the second week running, but sold Taiwanese stocks for the first time after a strong buying stretch of 13 weeks. These two markets reflect the selldown of technology stocks, which is the contagion effect from the fallout on Wall Street.
- Foreign funds also sold Thai stocks after a 7-week stretch of buying. However, the amount was still small, only -USD72.8m, obviously reflecting investors' edginess over the state of politics in the country. The numbers are likely to get uglier this week.
- Elsewhere, the foreign buying stretch continued in Indonesia, Philippines and India. Malaysia also reported foreign buying.

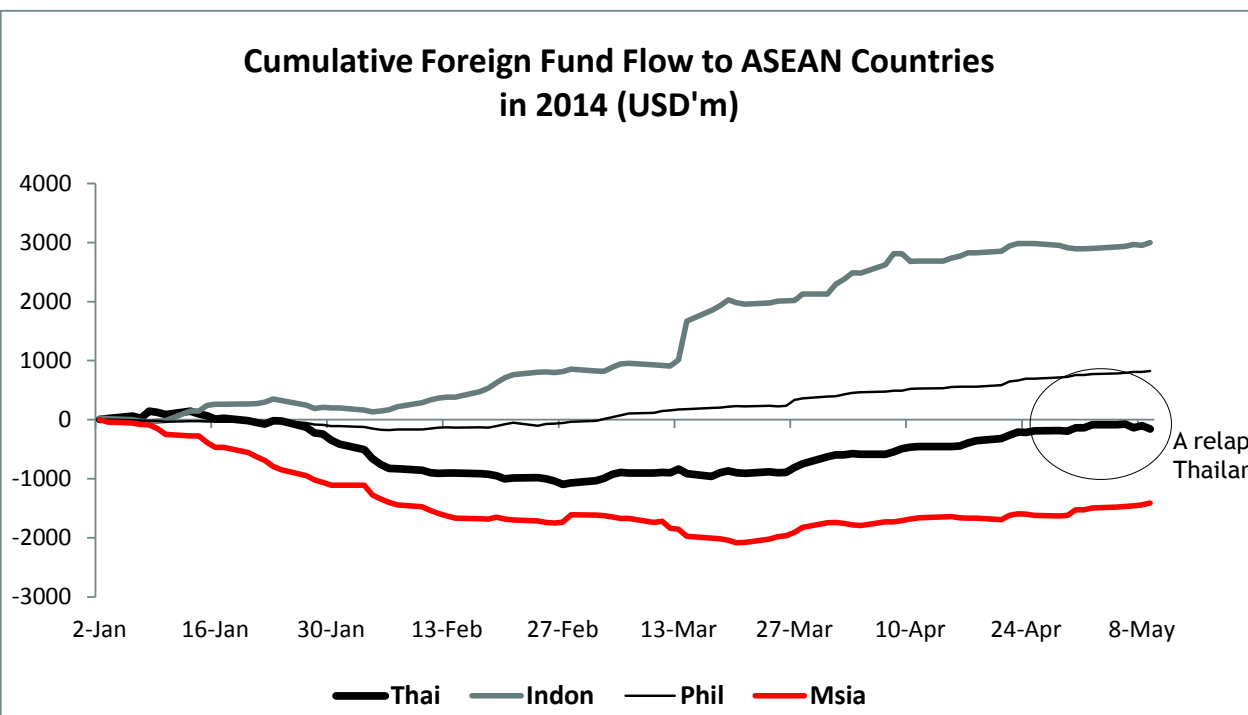
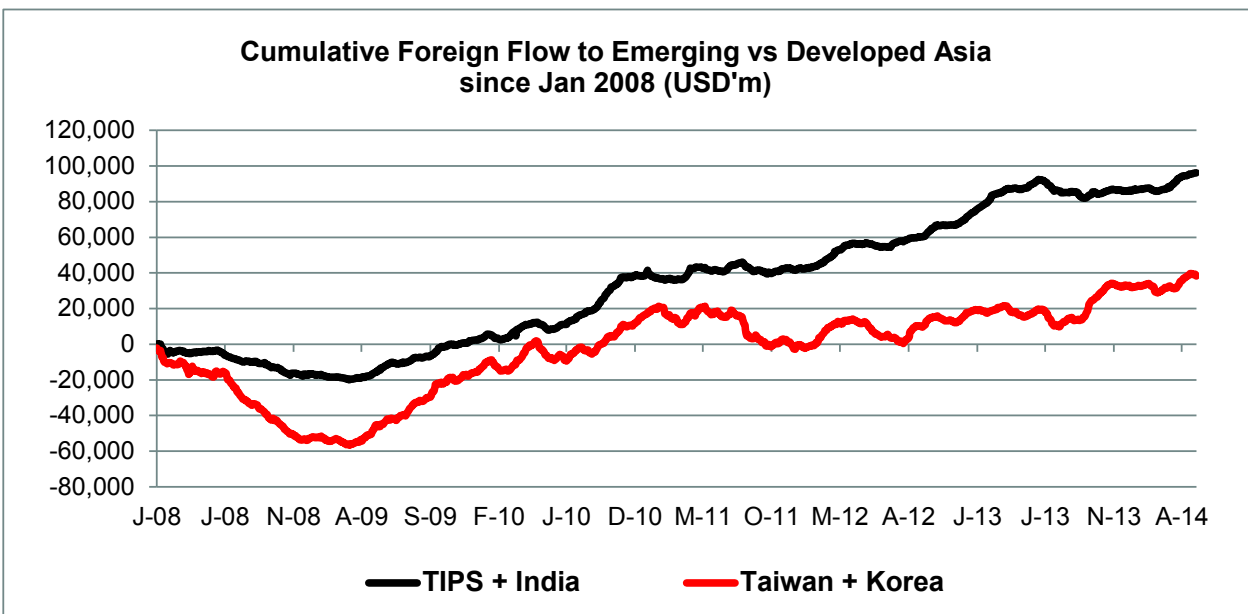
¹ These markets, for which fund flow data is publicly available, are our proxy for Asia.

WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)								
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
NOV 22	72.1	-285.4	-20.5	-57.1	311.5	-778.6	-164.1	-922.2
NOV 29	403.2	-532.2	24.7	59.1	210.8	665.8	-127.6	704.0
DEC 6	-729.4	-586.1	-96.9	-46.0	448.6	265.8	-198.9	-942.8
DEC 13	-1071.1	-428.4	-34.2	-47.1	821.0	580.8	-194.2	-373.2
DEC 20	2.9	-194.2	21.7	-77.3	969.8	37.4	-168.7	591.6
DEC 27	98.7	-52.0	-384.2	-2.1	222.1	277.4	-34.6	125.3
JAN 3	-564.8	18.1	15.1	3.1	116.4	2.2	10.3	-399.6
JAN 10	390.7	71.3	-29.6	-36.3	-55.8	181.2	-209.6	311.9
JAN 17	-111.1	-62.4	274.0	-4.1	268.6	877.3	-217.8	1024.6
JAN 24	-82.1	-50.3	66.2	15.3	158.4	327.8	-378.8	56.6
JAN 31	-775.4	-392.3	-128.1	-85.0	-500.5	-581.7	-263.4	-2726.4
FEB 7	-1149.3	-416.3	22.3	-57.8	-213.9	-2251.7	-329.5	-4396.2
FEB 14	-142.6	-71.6	163.3	31.9	-11.3	197.8	-228.6	-61.2
FEB 21	127.8	-84.7	376.8	79.3	331.3	1036.0	-28.2	1838.2
FEB 28	636.3	-80.5	96.5	18.7	313.9	655.6	90.4	1730.9
MAR 7	127.4	163.8	96.1	139.3	838.9	355.4	-67.0	1654.0
MAR 14	-1245.6	-7.7	717.1	72.4	119.8	527.0	-301.2	-118.2
MAR 21	-616.2	2.4	284.4	49.7	1213.1	82.2	-101.9	913.6
MAR 28	426.4	164.0	174.4	135.3	1027.1	1041.5	253.1	3221.4
APR 4	1522.7	159.7	353.7	103.2	856.8	1202.3	33.2	4231.7
APR 11	994.1	132.0	205.3	61.9	299.3	701.6	127.6	2521.8
APR 18	410.3	100.8	140.3	32.6	41.9	739.8	-5.8	1459.8
APR 25	524.0	167.0	155.9	136.6	247.4	770.5	50.4	2051.9
MAY 2	-503.3	101.7	-82.7	76.9	322.4	299.1	123.2	337.4
MAY 9	-668.5	-72.8	95.5	52.0	180.0	-348.7	82.0	-680.6

Source: Various countries' exchanges. These figures are subject to revisions.

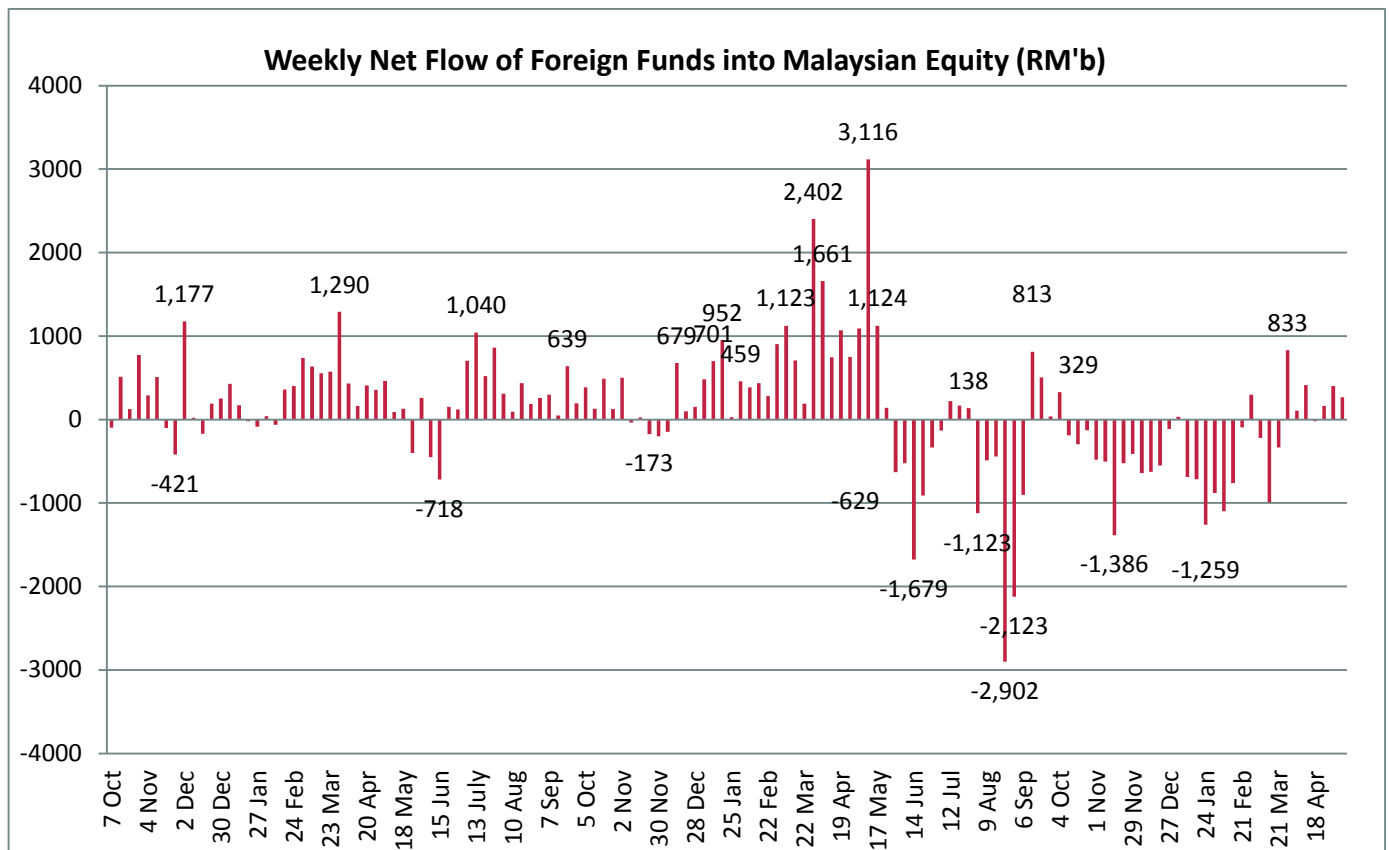
NET FLOW (USD'm)	TIPs + India	Taiwan + Korea	Total
2008	-17,195	-53,106	-70,301
2009	20,580	40,063	60,642
2010	35,690	29,234	64,924
2011	2,748	-17,801	-15,053
2012	31,302	19,976	51,278 (55,663*)
2013	12,446	13,500	25,946 (27,170*)
2014	9,449	5,312	14,769 (13,355*)

TIP = Thailand, Indonesia, Philippines * including Malaysia



C. MALAYSIA

- Foreign funds had been buying Malaysian stocks for three consecutive weeks, and in six out of the last seven weeks. They increased their portfolio holdings of Malaysian stocks by RM265.8m last week, after adding RM402m the week before.
- The mop-up rate in the open market (i.e excluding off-market deals) was moderate, averaging only RM53.2m per day and ranged RM25m-RM96m. However, it was noticeably steady. Foreign funds were net purchasers on Bursa every single day last week. Buying momentum appears to be picking up, as the amount had risen progressively during the week to peak on Friday at RM96m.
- The steady flow of foreign portfolio capital over the last two months has reduced the cumulative net outflow from Malaysia in 2014 to -RM4.7b in the year-to-date. In 2013, Malaysia reported a net inflow of RM3.0b.
- The moderate rate of foreign accumulation is reflected by the significant drop in participation. The average daily foreign participation rate (average daily gross purchase and sale) fell significantly to only RM672m from RM1.1b the week before. Indeed, it was the lowest this year, as portfolio managers probably kept quiet ahead of the public holiday on Tuesday. We expect participation rate to stay depressed this week.
- Retail investors remained anxious, offloading -RM31.9m, after selling -RM113.8m the week before. Participation rate continued to plunge, to only RM682m, among the lowest this year.
- As expected, local institutions sold gain last week, amounted to -RM233.9m, after clearing -RM288.6m the week before. Participation of the local funds also fell significantly to RM1.96b. It was the first time that participation rate averaged below RM2b this year. Last year, it averaged RM1.9b.

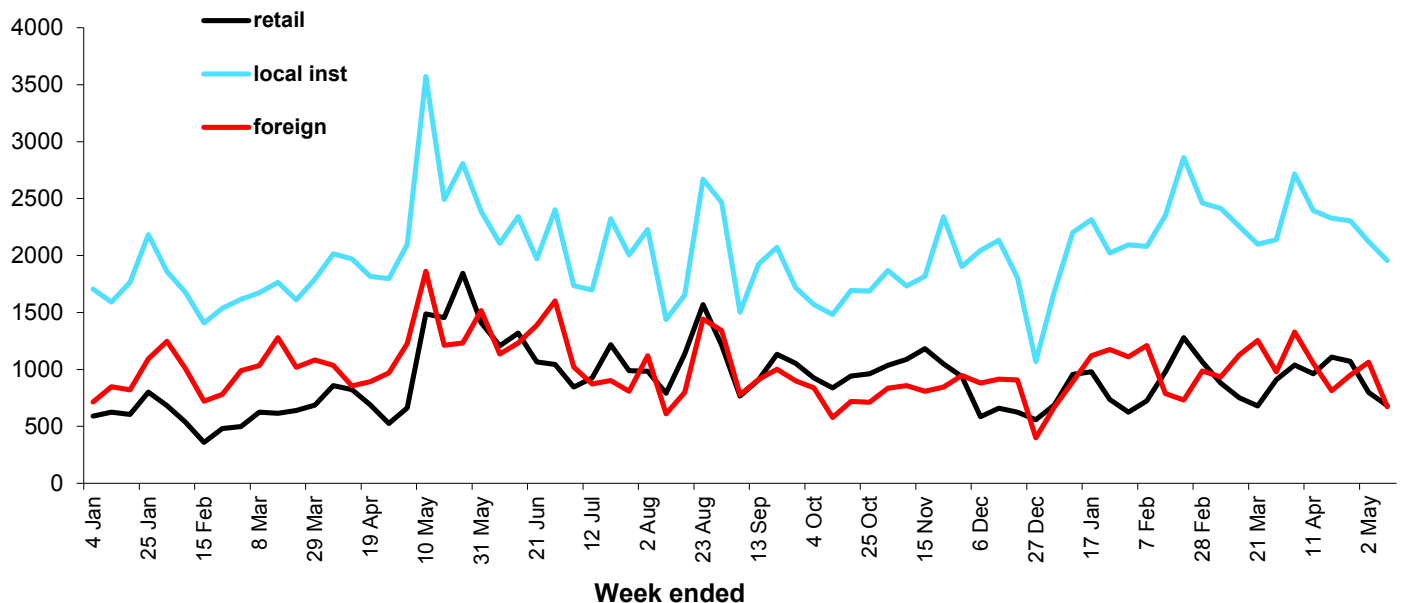


Source: Bursa, excluding off-market trades

BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	NET (USD)*
DEC 20	1557.5	1560.2	-2.7	4785.3	4233.7	551.6	1992.6	2541.5	-548.9	-168.7
DEC 27	1092.9	1134.9	-42.0	2216.3	2060.2	156.1	743.2	857.3	-114.1	-34.6
JAN 3	1391.3	1360.9	30.4	3345.9	3410.2	-64.3	1359.3	1325.4	33.9	10.3
JAN 10	2442.1	2340.4	101.7	5799.8	5215.1	584.7	1889.8	2576.2	-686.4	-209.3
JAN 17	1481.3	1459.3	22.0	3821.4	3127.3	694.1	1323.9	2040.0	-716.1	-217.0
JAN 24	1839.1	1844.6	-5.5	5689.7	4425.2	1264.5	2307.1	3566.1	1259.0	-378.8
JAN 31	1283.2	1211.7	71.5	4595.8	3787.2	808.6	1779.5	2659.6	-880.1	-263.4
FEB 7	1502.5	1394.8	107.7	4655.6	3667.2	988.4	1870.1	2966.2	-1096.1	-329.5
FEB 14	2428.0	2468.4	-40.4	6279.0	5478.4	800.6	1593.8	2354.0	-760.2	-228.6
FEB 21	3204.9	3194.0	10.9	7193.9	7111.3	82.6	1783.0	1876.5	-93.5	-28.2
FEB 28	2749.0	2584.1	164.9	5923.0	6384.1	-461.1	2613.0	2316.8	296.2	90.4
MAR 7	2198.5	2206.0	-7.5	6148.8	5922.4	226.4	2224.0	2442.9	-218.9	-67.0
MAR 14	1919.2	1840.2	79.0	6095.9	5185.6	910.3	2324.6	3313.9	-989.3	-301.2
MAR 21	1674.4	1721.6	-47.2	5438.6	5056.8	381.8	2966.6	3301.2	-334.6	-101.9
MAR 28	2276.4	2274.1	2.3	4929.7	5764.7	-835.0	2866.3	2033.6	832.7	253.1
APR 4	2555.8	2633.0	-77.2	6775.8	6806.3	-30.5	3374.9	3267.2	107.7	33.2
APR 11	2416.8	2396.6	20.2	5766.2	6200.8	-434.6	2842.9	2428.5	414.4	127.6
APR 18	2762.7	2774.2	-11.5	5831.2	5801.0	30.2	2023.3	2042.0	-18.7	-5.8
APR 25	2653.3	2696.6	-43.3	5702.2	5824.0	-121.8	2459.2	2294.1	165.1	50.4
MAY 2	1540.6	1654.4	-113.8	4097.0	4385.6	-288.6	2329.5	1927.1	402.4	123.2
MAY 9	1688.1	1720.0	-31.9	4775.2	5009.1	-233.9	1812.9	1547.1	265.8	82.0

* Estimate by MIDF Research based on prevailing exchange rate.
Source: Bursa's preliminary data

Participation Rate : Daily Average for the Week (RM'm) since Jan 2013


D. TOP 100 STOCKS: MONEY FLOW ²

- Tables below lists the Top 10 Net Money Inflows and Net Money Outflows for the week ended 10 May 2014 among the largest 100 market capitalized stocks on Bursa Malaysia.

TOP 10 NET MONEY INFLOWS

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
GENTING MALAYSIA BHD	5.33	-0.10	-0.71	BOW
TELEKOM MALAYSIA BHD	4.48	-3.35	0.32	-
BURSA MALAYSIA BHD	3.05	-0.35	0.13	-
SAPURAKENCANA PETROLEUM BHD	2.99	-0.78	-0.70	BOW
IJM CORP BHD	2.77	-3.01	-0.63	BOW
BERJAYA SPORTS TOTO BHD	2.23	1.71	0.79	-
PETRONAS GAS BHD	2.08	-0.49	-0.17	BOW
WESTPORTS HOLDINGS BHD	1.79	0.04	9.06	-
TOP GLOVE CORP BHD	1.50	0.23	-1.67	BOW
MISC BHD	1.21	-0.71	-0.31	BOW

Source: Bloomberg, MIDFR; Note: BOW - Buy on weakness, SOS - Sell on strength (Bloomberg defined)

- Genting Malaysia Berhad recorded the highest net money inflow totaling RM5.33m last week. Its share price nonetheless lost -0.71% for the week. As mentioned last week, the Genting group submitted a US\$1m application fee to the New York State Gaming Commission to establish a casino. If accepted, it would be its third casino in the United States.
- Telekom Malaysia came in second with RM4.48m net inflows. Its share price rose 0.32% week-on-week despite the retreating broader market. TM announced (i) it may complete the acquisition of 57% stake in Packet One Networks (P1) by the third quarter of this year, and (ii) it is finalizing talks with the government on 2nd phase of HSBB project.
- Bursa Malaysia attracted the third highest net money inflow of RM3.05m during the review week. Moreover, its stock price gained 0.13% during the week despite the weaker FBM KLCI. Bursa Malaysia recently said that it expects IPO activities to pick up pace in the coming quarters.

TOP 10 NET MONEY OUTFLOWS

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PUBLIC BANK BERHAD	-18.69	-13.68	0.40	SOS
PETRONAS DAGANGAN BHD	-12.38	1.69	-11.85	-
TENAGA NASIONAL BHD	-10.18	-2.27	0.84	SOS
CIMB GROUP HOLDINGS BHD	-4.53	-0.71	-1.08	-
BRITISH AMERICAN TOBACCO BHD	-4.45	-13.59	-1.48	-
MAXIS BHD	-4.04	-1.39	-0.86	-
UMW OIL & GAS CORP BHD	-3.78	-1.44	0.48	SOS
AXIATA GROUP BERHAD	-3.76	-9.99	2.23	SOS
IOI CORPORATION BHD	-3.75	-6.04	1.41	SOS
DIGI.COM BHD	-3.47	-10.89	0.36	SOS

Source: Bloomberg, MIDFR; Note: BOW - Buy on weakness, SOS - Sell on strength (Bloomberg defined)

- Public Bank registered the largest net money outflow during the review week totaling -RM18.69m. The net outflow was a continuation of the previous week in which it experienced the second highest new outflow totaling -13.68m. As highlighted last week, Public Bank recently announced a renounceable rights issue at a discount of 20-35% to its theoretical ex-rights price which may result in dilution to its earnings per share.
- Petronas Dagangan saw the second largest net money outflow of -RM12.38m last week. Most notably, its share price slumped -11.85% after it announced weaker than expected results. Its 1Q earnings declined to RM155.1m from RM237.1m a year earlier.

² Money flow indicates whether a particular stock is being more heavily purchased or sold. Money flow generally confirms price trend. As price rises, money flow is usually positive, vice versa. A divergence may portend a reversal in price trend. A rising stock price with a negative money flow can indicate a future price correction, vice versa.

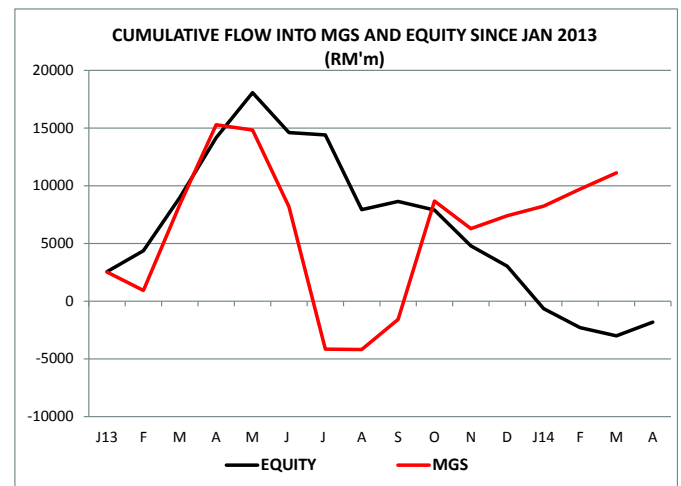
How is money flow calculated? When a trade is performed, its price is compared to the price of the previous trade (the first trade of the day is compared to the previous day's close). If the prices differ, either upticks or downticks, the value of the trade (price multiplied by number of shares) is added to or subtracted from the money flow respectively.

Source: Bloomberg, MIDFR

D. THE WEEK AHEAD

LOWER REGULATORY RISKS FOR CAPITAL FLOWS

- It was a pivotal week indeed for the market although the reactions could have been stronger. Soundbits from the central bank suggest that the stance of monetary policy may be shifting after staying still for an extended period of time. And as experienced investors would tell, a shifting monetary stance will have a strong long-term influence on the market.
- To begin with, regulatory risks from the perspective of international portfolio investors declined after Governor Zeti reaffirmed in an interview on Tuesday (6 May) Bank Negara's commitment to keep the capital account in the balance of payments open. According to Governor Zeti, Malaysia has put in place good policies to ensure that the economy remains vibrant and is prepared for any capital inflow. Verbatim, the Governor was quoted in the press as saying:
 - » "We saw inflows as well as reversals and we believe our financial system can cope with this kind of volatility."
 - » "As it has generated excess liquidity in our system. Of course, we absorb and sterilise these inflows, but at the same time, we've implemented the macroprudential measures to rein in the too rapid credit growth"
- The subject matter was clearly capital inflow, specifically to Asia, a trend which we have been highlighting in the last couple of months. Malaysia has indeed been attracting global portfolio capital. With its economic fundamentals improving, the ringgit is seen as a safe destination among Emerging markets. Most of the money has moved into risk-free government securities as shown in the chart, obviously responding to the Government's fiscal reforms. In contrast, a sizeable amount of international money has left equity, probably attracted by more promising upsides in other Emerging markets.



"FINANCIAL IMBALANCES" & CAPITAL FLOWS

- The interview with the Governor sets the tone for the Monetary Policy Committee (MPC) meeting. The MPC unexpectedly raised its concerns over financial imbalances in its statement:
 - » "Going forward, the degree of monetary accommodation **may need to be adjusted** to ensure that the **risks arising from the accumulation of these imbalances** would not undermine the growth prospects of the Malaysian economy"
- The next MPC meeting will be on 10 July, followed by 18 September. Having given a clear warning about its consternation over financial imbalances, we will not be surprised if the OPR were to be increased on 10 July. We do not expect the quantum to be significant, probably a 50 basis point hike, to be spread over the two next MPC meetings. It will take the OPR to 3.50%, which we believe to be the long-term equilibrium OPR for Malaysia.
- Much depends on the direction of inflation. The level of prices had been rather stable in March, after rising disconcertingly for 6 consecutive months. It could be that the second round effects of price rise and the strength of inflationary psychology have died down. It would enable Bank Negara to dissect the CPI numbers and judge whether demand have outweighed the cost factors.
- However, it is inevitable that inflation rate will stay elevated in the months ahead, as warned by the MPC. The CPI for April will be released on May 21, and we expect inflation to stay around the 3.5%yoy mark.

- A tightening of monetary policy at this juncture will not alter the valuation of the market significantly. The banking sector may receive some short-term boost due to the repricing of variable rate loans. The last tightening phase was quite extended, stretching more than a year (from 4 March 2010 to 5 May 2011), during which the KLCI rose by about 30% (see chart). However, as we had alluded to earlier, any increment in the OPR this time around is unlikely to be significant. It will reflect more of an adjustment, rather than real tightening.
- However, last week's development would be interesting from the flow of fund perspective. It would alter the relative prices of financial assets. The ringgit gained strongly, while the prices of fixed income instruments retraced significantly last week. This will serve to increase the volatility in the equity market, a phenomenon already seen in the market for small and mid cap stocks (see chart).
- The bottomline is that the fundamentals of the economy is intact and improving, as evidenced by the MOC statement last week. In such a scenario, any market volatility should be welcomed by long-term investors, not just traders. It is an opportunity to accumulate on weakness.

OPR vs KLCI



Volatility of FBM Smallcap has increased



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