



MALAYSIA EQUITY RESEARCH | OCTOBER 13, 2014

<p>Week Ended October 10, 2014</p>	Foreign Flow Meter	
	 Tide	LOW (declining)
	 Current	STRONG (from MODERATE)

- The world's equity markets remain stuck in a rut for the third consecutive week, as damage in the bellweather markets worsened.
- The KLCI had its worst week this year, falling -1.74% last week. It has lost -3.1% for the year until Friday.
- Global funds attrition from Asian equity continued for the fifth consecutive week. Aggregate outflow from Emerging Asia quickened in pace. The most damage was in the Philippines where foreign selling was the highest this year.
- The Malaysian equity market may be bucking the trend. "Foreign" investors snapped up Malaysian equity for the first time in six weeks. In the preceding five weeks, foreigners offloaded a massive -RM1.68b net.
- Expect a red October for the equity market, the first monthly decline in 6 years, and only the third time in 13 years. The technicals are also weak.
- The mountain is rather too high for the market to climb. As of last Friday, the KLCI was down -2.0% for the month while the FBM70 had lost -3.8%.
- Budget 2015 is unlikely to reverse the trend. Globally, risk aversion towards equity is high and there was no rebound in the bellweather market on Friday, after the selloff on Thursday.
- However, expect the fundamentals of the ringgit to be strengthened with the continued improvement of the Federal Government's finance.

IN CHOPPY WATERS

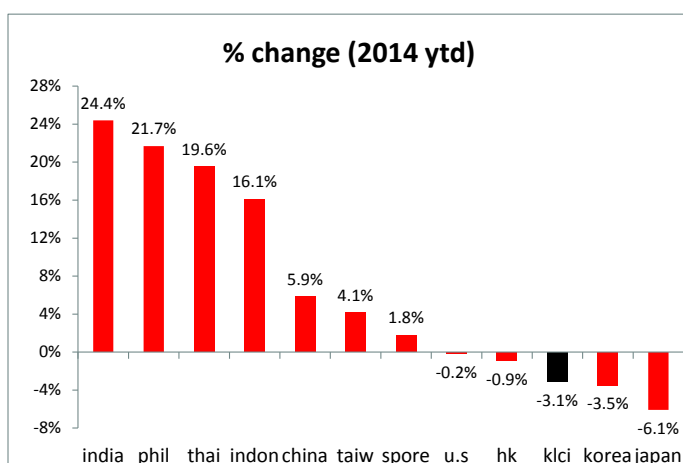
A. MARKET SNAPSHOT

- The world's equity markets remain stuck in a rut for the third consecutive week, as damage in the bellweather markets worsened.
- Employment statistics from the U.S. set the tone for the market last week. U.S employers added 248k workers to payrolls in September, higher than the 215k expected. Unemployment rate fell to 5.9%, the lowest since July 2008, and from 6.1% in August. That caused the dollar to rally and pushed gold prices to below USD1,200/oz.
- However, the impact on Asian markets were mitigated because markets in India, Malaysia, the Philippines and Singapore were closed on Monday, while China remained shut until Wednesday due to the "Golden Week" holiday.
- The real downer came on Tuesday after the IMF cut its world growth forecast to 3.8% in 2015, from the 4% forecast made in July. Wall Street retreated significantly while stock prices in Asia fell on Wednesday.
- The heightened volatility on Wall Street in particular was very apparent. The S&P500 fell -1.5% on Tuesday, rebounded +1.8% on Wednesday, plummeted -2.1% on Thursday and continued the fall by -0.7% on Friday.
- The selldown on Thursday was triggered by the European Central Bank President Mario Draghi who warned that there are signs the euro-area's economic growth is slowing and policy makers must lift inflation from an "excessively low" level. Falling crude oil price was also not helping the situation. European markets dominated the bottom of the table with France's CAC the worst hit, falling -4.9%.
- Asian markets fared better. Indeed, China's CSI300, Jakarta Composite and the Hang Seng managed to eke out positive return. The Hang Seng in particular arrested its four-week decline, during which it lost a significant -8.6%.
- The KLCI had its worst week this year, falling -1.74%. For the year-to-date performance, the KLCI has lost -3.1%, but is no longer at the bottom of the table, being "overtaken" by the KOSPI and Nikkei225.

Performance of major markets		
Weekly % change	Week before	Last week
China CSI300	0.57	0.64
Jakarta JCI	-3.57	0.28
Hang Seng	-2.59	0.10
Straits Times	-1.18	-0.90
India Sensex	-0.22	-1.02
Phil Comp	-0.20	-1.10
Thai SET	-1.87	-1.12
Taiwan Taiex	1.30	-1.54
KLCI	0.02	-1.74
Korea KOSPI	-2.73	-1.78
Nikkei 225	-3.21	-2.60
Dow Jones	-0.60	-2.74
FTSE	-1.83	-2.88
S&P500	-0.75	-3.14
DAX	-3.11	-4.42
CAC	-2.57	-4.86

Source: Bloomberg

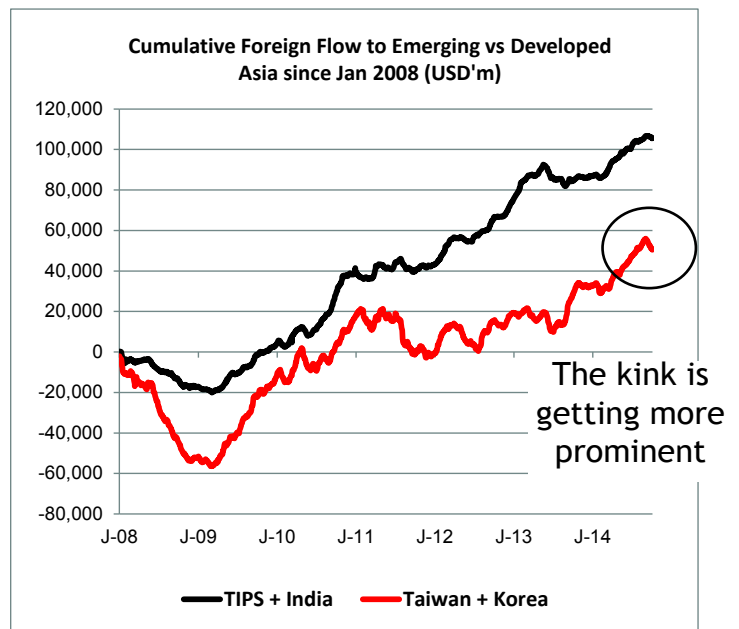
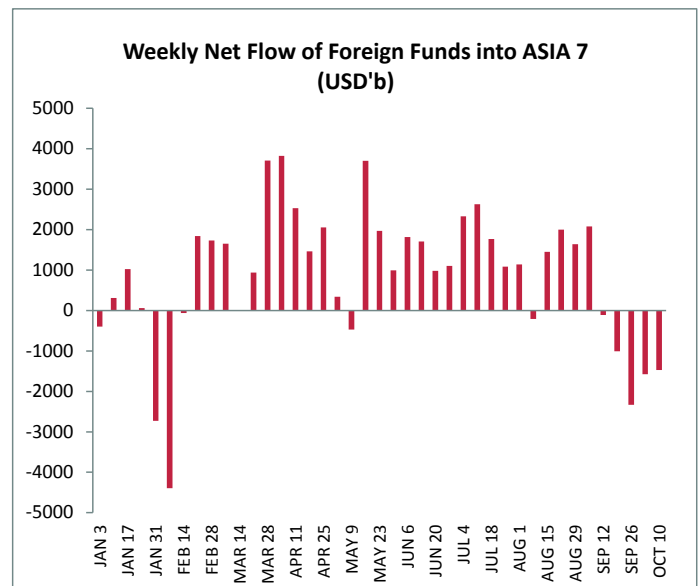
Major Asian indices



Source: Bloomberg

B. TRACKING MONEY FLOW - ASIA

- Attrition of global funds from Asian equity continued for the fifth consecutive week.
- Funds classified as “foreign” were, in aggregate, net sellers of stocks in the seven Asian¹ exchanges that we track (Korea, Taiwan, Thailand, Malaysia, Indonesia, Philippines and India). The amount sold amounted to USD1.47b last week, compared with USD1.57b the week before (see bar chart).
- The outflow was broad-based, affecting “Developed” Asia², as represented by Taiwan and Korea, as well as “Emerging Asia”, as represented by the markets in Thailand, Indonesia, Philippines (TIPs), Malaysia and India.
- The tide out from “Developed” Asia lessened slightly in strength last week. The slower outflow from Taiwan was offset by an accelerating movement out of the Korean market.
- In Korea investors remain cautious over currency risks and lacklustre corporate earnings of major players, such as Samsung Electronics and POSCO. Samsung Electronics warned last week that its 3Q14 earnings may drop 60%yoy, under pressure from Chinese competitors. Samsung may go down the roads trodden by once-dominant mobile phone producers such as Nokia and Motorola, unless it can arrest its declining market share. The Bank of Korea slashed its policy rate by a 0.25%-point to 2.25% in August and the market is expecting another rate cut to a record low 2% at its next meeting.
- Aggregate outflow from our Emerging Asia universe quickened in pace last week. The most damage occurred in the Philippines where foreign selling was the highest in a week this year. Global funds are taking profit in Manila after being bullish for the most part of the year. The PSEi index is up 21.7%



NET FLOW	TIPs + India	Taiwan + Korea	Total (USD'm)
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	19,657	19,564	36,200 (35,242^)

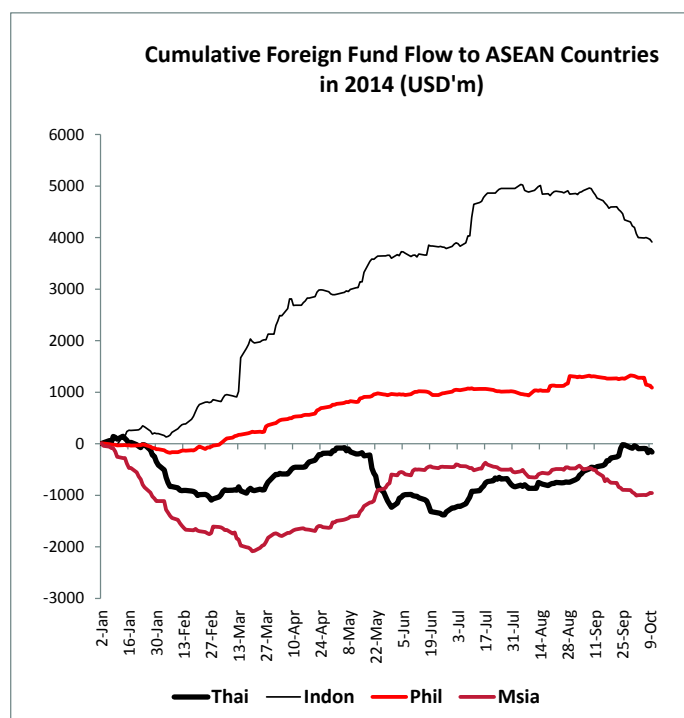
TIP = Thailand, Indonesia, Philippines ^ including Malaysia

¹ These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia.

² Technically, the Korea and Taiwan markets have not yet been classified as “developed” under the MSCI. We use the term liberally only for tracking purposes.

this year.

- Aversion to Indonesian stocks continued to linger last week, but the intensity appears to be declining. The main issue with Indonesia is with the ability of Jokowi, who takes office on Oct. 20, to implement a policy agenda that includes cutting fuel subsidies, improving tax collection and reducing bureaucracy. Jokowi faces the so-called Red-White coalition that backed losing presidential candidate Prabowo Subianto. Although Jokowi won 53% of the votes in the presidential election, his coalition controls only 37% of seats in the new parliament. The Red-White grouping includes the Golkar party and Prabowo's Gerindra party and has 53% of the seats.
- Moderate foreign selldown was also recorded in Thailand for the second consecutive week, but it reflected regional weakness.



Source: Various countries' exchanges, via Bloomberg. These figures are subject to revisions. Aggregated by MIDFR.

WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

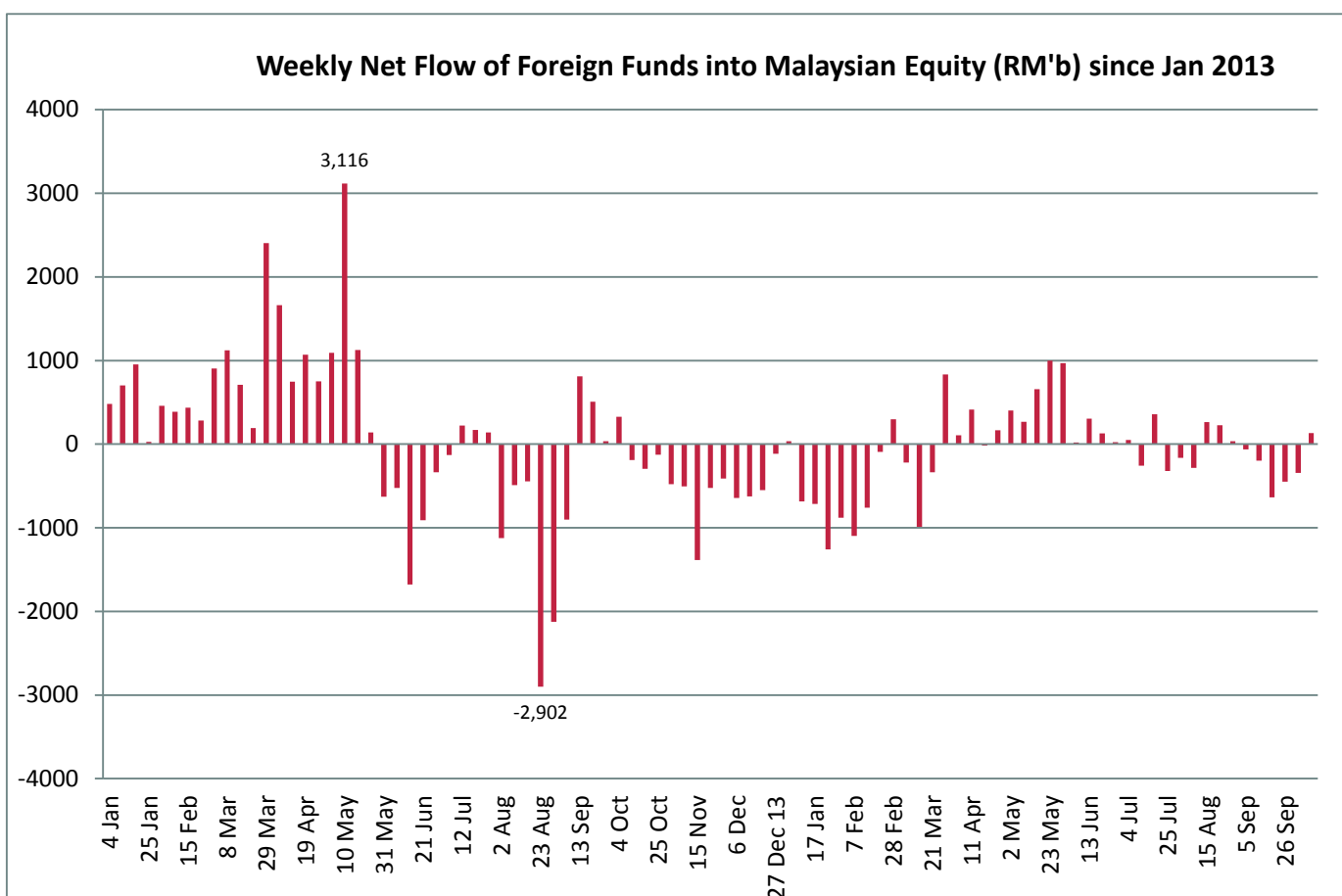
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
APR 18	410.3	100.8	140.3	32.6	41.9	739.8	-5.8	1459.8
APR 25	524.0	167.0	155.9	136.6	247.4	770.5	50.4	2051.9
MAY 2	-503.3	101.7	-82.7	76.9	322.4	299.1	123.2	337.4
MAY 9	-668.5	-72.8	95.5	52.0	390.2	-348.7	82.0	-470.4
MAY 16	1236.5	-77.9	330.2	82.7	1637.8	285.2	203.6	3697.9
MAY 23	1060.8	-599.5	313.3	68.7	277.4	537.0	311.1	1968.3
MAY 30	256.1	-398.5	-39.7	-10.7	398.3	489.2	300.7	995.5
JUN 6	293.7	246.0	99.0	-18.6	1008.0	181.6	6.0	1815.8
JUN 13	105.6	-62.5	-15.7	70.6	850.9	664.2	95.3	1708.3
JUN 20	69.1	-273.6	154.7	-70.4	-65.7	1125.7	39.9	979.7
JUN 27	359.2	3.4	-51.1	42.0	46.7	694.0	7.8	1102.0
JUL 4	821.8	106.0	45.2	51.3	740.1	547.8	15.5	2327.7
JUL 11	610.5	293.5	816.1	20.4	731.0	239.0	-81.0	2629.5
JUL 18	796.5	186.1	215.3	0.0	422.1	32.9	111.8	1764.6
JUL 25	547.3	52.7	91.5	-49.8	323.1	220.5	-101.1	1084.3
AUG 1	1423.2	-152.3	0.0	-4.1	-460.6	383.3	-51.5	1137.9
AUG 8	148.6	-29.2	-72.2	-67.8	367.6	-466.7	-88.9	-208.6
AUG 15	700.6	82.4	-38.1	86.8	441.8	96.3	82.2	1451.9
AUG 22	499.0	32.7	54.3	96.5	288.7	956.6	71.5	1999.4
AUG 29	405.5	4.1	-56.5	189.1	139.2	948.8	11.7	1641.9
SEP 5	440.6	213.1	70.6	-16.3	793.6	598.8	-19.2	2081.0
SEP 12	-204.8	88.6	-148.0	2.2	432.0	-222.7	-61.5	-114.2
SEP 19	-354.7	169.0	-171.5	-31.9	31.9	-456.9	-197.1	-1011.1
SEP 26	-661.0	253.5	-247.9	-6.1	-366.5	-1164.6	-137.8	-2330.5
OCT 3	-309.1	-75.9	-344.4	20.3	107.2	-866.2	-104.8	-1572.9
OCT 10	-716.4	-64.4	-88.9	-189.7	-197.8	-256.2	41.3	-1472.0

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

FUND FLOW REPORT

C. TRACKING MONEY FLOW - MALAYSIA

- Amid regional weakness in equity prices and investors' generally apparent aversion towards equity, the Malaysian equity market may be bucking the trend as far as foreign money flow is concerned.
- While prices were being battered, investors classified as "foreign" had been snapping up Malaysian equity in the open market (i.e excluding off-market deals) on Bursa last week. The net amount purchased of +RM134m was relatively decent for a 4-day week. Foreign investors had been selling in the preceding five consecutive weeks, offloading in total a massive -RM1.68b net during the period.
- Foreign investors were net buyers in three out of the four trading days last week. The damage was on Wednesday when there was global selloff after the IMF's growth downgrade. Still, the amount sold was small, only -RM2.2m.
- On cumulative basis, foreign investors remained net sellers of Malaysian stocks in 2014, and the net outflow as of last Friday was -RM3.25b. In 2013, Malaysia reported a net inflow of +RM3.0b.
- Foreign participation rebounded to "elevated" (>RM1b) last week after being in the "moderate" bracket (RM0.75-1.0b) in the preceding two weeks. Daily average gross purchase and sale rose to RM1.01b.
- Meanwhile, "brave" opportunistic retail investors are busy mopping up shares at knocked-down prices. Retailers bought a strong +RM178m, the highest in a week this year. Retail participation (average daily gross sales and purchases) was still moderate at RM942m, as most players stayed on the sideline assessing the situation.
- Local institutions were bearish, having sold -RM312.3m last week. Participation rate remained elevated at RM2.4b, indicating plenty of trading activity by the local fund managers.

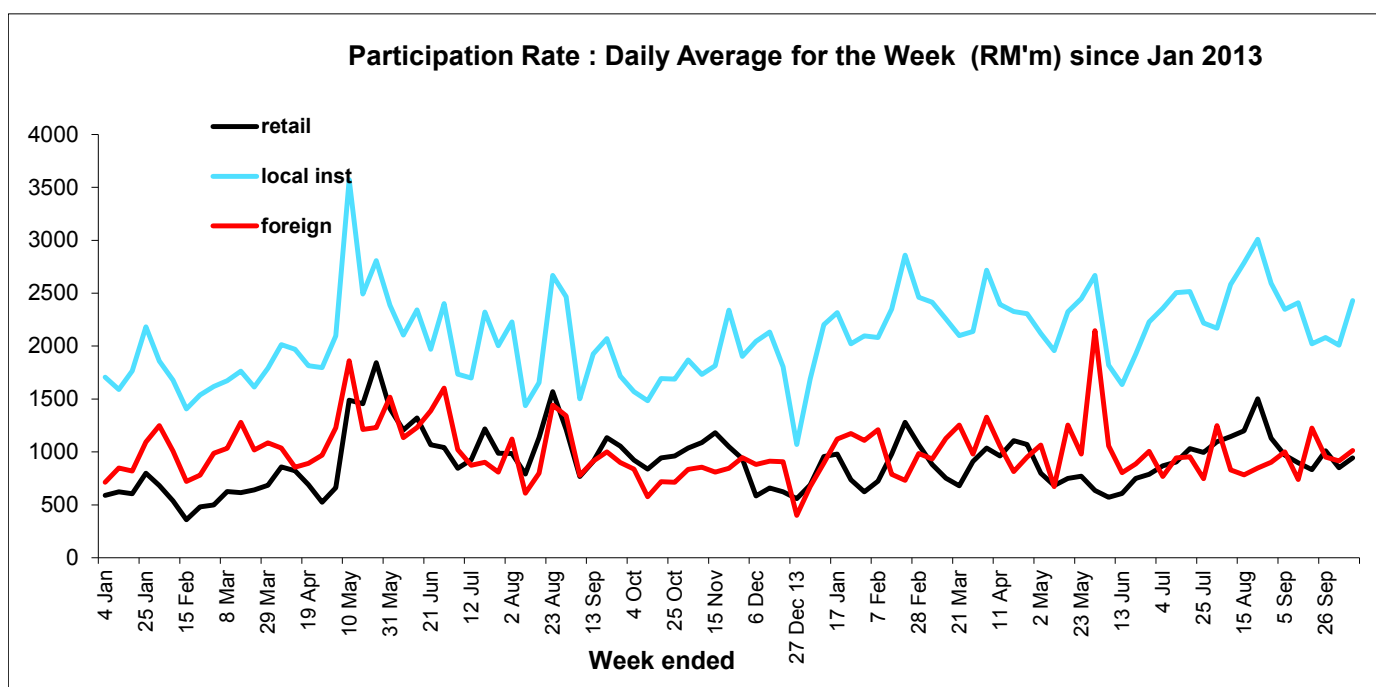


Source: Bursa, excluding off-market trades

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)*
MAY 16	1473.0	1525.3	-52.3	4346.6	4951.1	-604.5	2837.2	2180.4	656.8	203.6
MAY 23	1899.5	1950.7	-51.2	5649.1	6597.1	-948.0	2950.0	1950.8	999.2	311.1
MAY 30	1521.4	1657.4	-136.0	6252.8	7083.8	-831.0	5848.0	4881.0	967.0	300.7
JUN 6	1377.6	1473.0	-95.4	4586.9	4511.6	75.3	2655.8	2635.7	20.1	6.0
JUN 13	1478.1	1558.3	-80.2	3977.0	4202.6	-225.6	2165.1	1859.3	305.8	95.3
JUN 20	1830.5	1913.3	-82.8	4784.6	4830.5	-45.9	2283.5	2154.8	128.7	39.9
JUN 27	1937.0	2002.5	-65.5	5592.1	5551.6	40.5	2528.4	2503.4	25.0	7.8
JUL 4	2043.4	2292.8	-249.4	5993.8	5794.7	199.1	1942.4	1892.1	50.3	15.5
JUL 11	2193.5	2330.6	-137.1	6459.4	6064.6	394.8	2226.7	2484.4	-257.7	-81.1
JUL 18	2024.6	2101.0	-76.4	4893.9	5173.3	-279.4	2087.2	1731.4	355.8	111.8
JUL 25	2429.3	2550.8	-121.5	5767.0	5324.6	442.4	1705.0	2025.9	-320.9	-101.1
AUG 1	1624.9	1660.7	-35.8	3353.6	3152.8	200.8	1792.4	1957.4	-165.0	-51.5
AUG 8	2843.0	2880.5	-37.5	6617.1	6294.2	322.9	1931.3	2216.7	-285.4	-88.9
AUG 15	2985.5	3016.8	-31.3	6852.4	7082.7	-230.3	2090.5	1828.9	261.6	82.2
AUG 22	3689.5	3819.6	-130.1	7473.0	7569.4	-96.4	2234.7	2008.2	226.5	71.5
AUG 29	2768.6	2879.9	-111.3	6523.4	6448.5	74.9	2272.6	2236.2	36.4	11.7
SEP 5	1873.7	2005.4	-131.7	4790.0	4597.1	192.9	1970.0	2031.2	-61.2	-19.2
SEP 12	2223.6	2257.8	-34.2	6142.5	5911.0	231.5	1748.2	1945.5	-197.3	-61.5
SEP 19	1674.4	1655.2	19.2	4352.0	3735.4	616.6	2130.7	2766.5	-635.8	-197.1
SEP 26	2528.4	2528.2	0.2	5429.0	4981.8	447.2	2157.1	2604.5	-447.4	-137.8
OCT 3	2135.1	2117.2	17.9	5183.9	4859.5	324.4	2116.0	2458.3	-342.3	-104.8
OCT 10	1974.1	1795.8	178.3	4705.7	5018.0	-312.3	2095.3	1961.3	134.0	41.3

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



D. TOP 100 STOCKS: MONEY FLOW ²

- Tables below list the Top 10 Net Money Inflows and Net Money Outflows for the week ended 28 June 2014 among the largest 100 market capitalized stocks on Bursa Malaysia.

TOP 10 NET MONEY INFLOWS

- Tenaga Nasional (TNB) attracted the highest net money inflow of RM25.69m last week. Its share price was unchanged for the week against a -1.74% drop in the FBM KLCI. TNB is expected to announce record earnings in its FY14 results (due anytime soon) as it benefits from favourable fuel costs.
- KL Kepong came in second with RM10.36m net inflow. Nonetheless, its share price underperformed the broader market with a -4.30% weekly drop. Note that continuing money inflow amidst retreating share price indicates buy on weakness (BOW) stance among investors.
- Hap Seng Consolidated recorded the third highest net money inflow of RM5.80m. Its share price outperformed the FBM KLCI by 2.24ppts last week.

TOP 10 NET MONEY OUTFLOWS

- Nestle Malaysia registered the largest net money outflow during the review week totaling -RM33.18m. Nonetheless, its share price advanced 0.87% as against FBM KLCI which recorded a -1.74% retreat. It is noteworthy that over the past two weeks, its share price has outperformed the market benchmark by 2.77ppts. Hence the money outflow was arguably attributable to investors cashing out pursuant to its recent price outperformance and not driven by any negative fundamentals. The net outflow amidst rising share price may indicate Sell on strength (SOS) stance among some investors.
- Digi saw the second largest net money outflow of -RM12.36m last week. The stock was an outperformer during the past two week as it outdid the market barometer by 2.40ppts. Hence the money outflow was also arguably attributable to investors cashing out pursuant to its recent price outperformance and not driven by any negative fundamentals. The net outflow amidst rising share price may indicate SOS stance among some investors.
- Sime Darby came in third with -RM5.81m net outflow. However, its share price outperformed the broader market last week. Sime Darby's proposal to buy New Britain Palm Oil Ltd. (NBPOL) was a positive move as it would be earnings enhancing.

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
TNB	25.69	-1.05	0.00	-
KL KEPONG	10.36	4.05	-4.30	BOW
HAP SENG CONS	5.80	3.41	0.50	-
CIMB	4.68	-9.04	-4.58	BOW
IHH HEALTH	4.06	0.87	-4.80	BOW
IJM CORP	3.22	0.62	0.00	-
GAMUDA	3.00	1.11	0.00	-
HLEONG BANK	2.67	1.03	-2.07	BOW
PUBLIC BANK	2.49	8.42	-2.77	BOW
MISC	2.46	2.72	-1.18	BOW

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

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
NESTLE	-33.18	16.65	0.87	SOS
DIGI	-12.36	1.88	0.34	SOS
SIME DARBY	-5.81	-5.80	0.00	-
ASTRO	-4.99	0.72	-2.74	-
SAPURAKENCANA	-4.26	5.12	-10.10	-
AXIATA	-3.76	-1.43	0.00	-
LPI CAPITAL	-2.84	-0.15	0.69	SOS
UMW HLDGS	-2.53	-3.47	-3.33	-
MBSB	-2.26	-2.19	8.68	SOS
UMW O&G	-2.09	-1.46	-8.38	-

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

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

E. THE WEEK AHEAD

SEPTEMBER BLUES, RED OCTOBER!

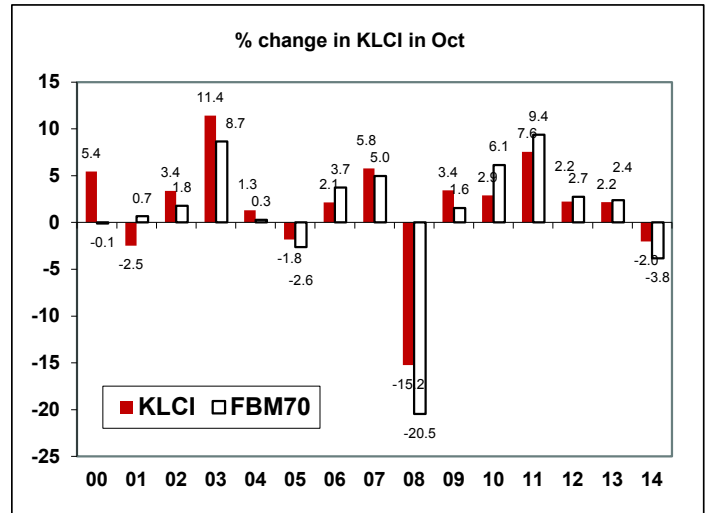
- We wrote two weeks ago raising our optimism that October is going to be a reversal in fortune compared with the September blues experienced. This is based on history indicating a higher probability of October returning a positive outcome.
- We are being proven wrong. We believe it is going to be a red October in 2014; the first monthly decline in six years, and only the third time in 13 years! (see chart)
- The mountain is rather too high to climb for the market to turn around the situation. As of last Friday, the KLCI was down -2.0% for the month while the FBM70 had lost -3.8%.

TECHNICALLY VERY WEAK

- The technicals are advising to stay away from the market. The KLCI and FBM70 are deep below the long-term support, as represented by the 200-day moving average (DMA) line. We are particularly concerned by *how fast* the race to the bottom had been, and we do not believe that the market has settled.
- Friday was the fourth worst 1-day performance for the KLCI this year. It has only been 7 trading days, but October is already the worst month for the FBM70 this year, and the second worst for the KLCI.
- We are particularly agitated with the spectre of a “death cross” for the KLCI. This occurs when there is a negative crossover between the 50DMA and 200DMA lines i.e the former cuts the latter from above (see chart). Such an event spells a long-term downswing.
- If the current state of depressed sentiment were to persist this week, the small and mid-caps will be the most vulnerable. The FBM Smallcap index only broke the 200DMA last week, and it could be *racing* to the bottom, as had been the case with FBM70 and (to a lesser extent) the KLCI.

MARKET-NEUTRAL BUDGET

- Budget 2015 is unlikely to reverse the trend. Globally, risk aversion towards equity is too high. There was no rebound in the bellweather market on Friday, after the selloff on Thursday.
- However, we expect the fundamentals of the ringgit to be strengthen with the continued improvement of the Federal Government’s finance. The bulk of the volatile portfolio money has already left the country (since May 2013). The process has been rather orderly, which is positive for the market. We remain positive on the long-term fundamentals of Bursa.



FBM KLCI looking at the spectre of a “death cross”.



FBM70 deep below support



FBM Smallcap is most vulnerable if sentiment stays weak



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