MEDIA RELEASE

Malaysian Amanah Investment Bank Berhad (MIDF Investment)

Kuala Lumpur, 15th December 2016

ECONOMIC OUTLOOK

MIDF Investment is expecting 2017 to be another challenging year, underlined by uncertainties relating mainly to the policy pursuits of President-elect Trump, the shockwaves of Brexit and the volatile oil price environment.

As an open trading economy, Malaysia is not insulated from these developments. However, we expect the country to exhibit resilient economic qualities to absorb any external fallout. Indeed, we expect Malaysia's GDP growth to *accelerate slightly* in 2017 to 4.3%, compared with an estimated 4.1% in 2016. This recovery is based on the prospect of improved trade activity next year, although we acknowledge the threats to this posed by Trump's proclivity towards protectionist policies.

Trade activity has been moderating this year. Exports in the first ten months of the year contracted 0.6% year-on-year while imports fell by 0.1% year-on-year over the same period. For 2017, MIDF Investment expects better trade performance with a growth in total exports of 3.0%, supported by a positive recovery momentum in China's economy and stronger consumption by the U.S.

In tandem with the depreciation of the Ringgit, Malaysia is expected to enjoy a higher trade balance, which will be the catalyst for a stronger GDP next year. The main risk faced by Malaysia's growth lies not with protectionism, but with imports substitution. Countries with higher population, strong purchasing power, immense land mass and talent pool such as the US and China have been heading in the direction of imports substitution, threatening global trade activity.

The global economy is at a point where it is late in its business cycle. We would therefore be cautious in approaching 2017. In eight out of the first nine months this year, Malaysia's leading indicator index had been lower compared with the corresponding month in 2015. This is a phenomenon that we have not observed previously, except prior to an economic difficulty.

MIDF Investment expects oil price and the Ringgit to remain volatile next year, caused by the impending general election, the interplay of demand and supply in the crude oil market and the conduct of fiscal and monetary policies in the U.S. MIDF Investment is of the view that a USD/RM exchange rate of RM4.20 by end-2017 and an average Brent crude oil price of USD50 per barrel in 2017 should be a fair and undemanding expectation.

The consumer price inflation rate has remained moderate this year, mainly due to the lower pump prices compared to that in 2015. Inflation rate is expected to creep up to 2.8% in 2017, from an estimated 2.3% in 2016, attributable mainly to higher pump prices in 2017. This is based on the assumption that the price of RON95 will average RM1.95 per litre next year, reflecting our Brent crude oil forecast of USD50 per barrel.

MIDF Investment is of the view that despite the weakness in the Ringgit, there is room for interest rates to be lower. However, any move towards an easier monetary policy is unlikely to be aggressive, with the Overnight Policy Rate expected to be reduced by at most 25 basis points.

PROSPECTS FOR THE STOCK MARKET

All considered, we expect equity prices to make progress in 2017, after an uncharacteristically long three-year hiatus. The FBM KLCI index has lagged its benchmark counterparts in Thailand and Indonesia significantly this year, despite many Malaysian-listed names appearing competitively in regional rankings across various valuation metrics.

The Malaysian equity market has been weighed down mainly by depressed earnings performance in recent years. This is based on the empirically proven direct relationship between corporate earnings and equity prices. It was further exacerbated by 'noises' from short-term price volatility influenced by market sentiment and other situational issues. MIDF Investment believes that in the absence of these noises, there is value to be found in Malaysian offerings.

The aggregate earnings of the 30 companies that make up the FBM KLCI index is estimated to have rebounded +5.6% in calendar year 2016, after the decline of -12.8% in 2015. The recovery is expected to extend into 2017, as MIDF Investment is forecasting the aggregate earnings to grow +7.5% in 2017.

The valuation of the FBM KLCI is lower relative to many of its regional peers. The price-earnings ratio ("PER") of the FBM KLCI has been reverting to its long-term mean since its peak at end-2013. With a standard deviation to the mean PER (i.e. coefficient of variation) of 0.04, the valuation of FBM KLCI is nominally lower and relatively cheaper in comparison to most its main regional peers.

We do not foresee the equity market turning bear anytime soon. The market has found its base with the "hollowing out" of foreign portfolio capital in the last three years. The presence of "hot" foreign portfolio capital is currently very low, and any overhang has been virtually eliminated. The downside risk as a result of foreign dumping is very low.

The anticipated continuing recovery of earnings growth in 2017 may see the market benchmark inching out of the ongoing price recession. Therefore, premised on the rooted behaviour whereby earnings and price are trending broadly hand-in-hand, we reiterate our 2017 FBM KLCI target at 1,830 points which equates to PER17 of 17.1x.

MIDF Investment is upbeat on the aviation, construction, healthcare, insurance, plantation, power, transportation, and downstream oil and gas sectors. Despite the recent increase in crude oil price, we expect the prospect for the upstream oil and gas sector to remain very challenging.

GENERAL CAPITAL MARKET OUTLOOK

Gross amount of funds raised from the issuance of new corporate bonds and sukuk amounted to RM74.3 billion in the first 10 months of 2016, and is poised to break the RM80 billion mark for the full year. If materialised, this would be the fourth consecutive year that the gross issuance has exceeded the RM80 billion mark, after the record high issuance of RM121.2 billion in 2012.

MIDF Investment is confident that the RM80 billion mark in the gross issuance of corporate bond and sukuk can be achieved again in 2017.

An estimated RM38 billion worth of sukuk and corporate bonds will mature in 2017. Among the papers maturing next year are those issued by HLA Holdings Sdn Bhd, AMMB Holdings Bhd, Pengurusan Air SPV Bhd, TNB, UEM Sunrise and Axiata. Some of the issuers will require refinancing.

The consistency in terms of the amount of funds raised reinforces Malaysia's position as a global hub in sukuk issuance. There is a high degree of global investors' confidence in ringgit bonds, both public and privately issued. At the end of September, foreign investors held 51.3% of total outstanding Malaysian Government Securities, a high incidence indeed.

From investors' standpoint, there could still be ample liquidity but limited suitable bond offerings in terms of rating, sector and tenor. In general, credit rating of AA- or better is still being preferred especially under current economic conditions while sector concentration factor may limit appetite for property sector. Moreover, long tenor issuances may suit the requirement of provident funds and insurance companies but less so with the banking institutions.

In the Initial Public Offering market, we expect a resumption of the national capital market agenda to have more big-sized offerings in order to make Bursa more attractive for international portfolio capital. The last sizeable offering on Bursa was Malakoff Corporation in April 2015, the market capitalisation of which was RM6.75 billion as at 14 December.

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About MIDF

MIDF is a diversified group with substantial investments in the financial services industry. MIDF Group has evolved into a stronger and bigger entity, offering a competitive and diversified range of financial services to include Investment Banking via MIDF Amanah Investment Bank Berhad, Development Finance and Asset Management via MIDF Amanah Asset Management Berhad.

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