



AmInvestment Bank

Market report
29 Jan 2020

STRATEGY

Malaysia: 2019-nCoV – a SARS-like market slump?

1,670

End-2020 FBM KLCI Target (pts)

(Maintained)

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Rationale for report: Market update

Investment Highlights

Market rerating delayed, but not derailed

- According to the latest CNN reports, the 2019-nCoV outbreak, more commonly known as Wuhan coronavirus, has thus far infected more than 4,500 people globally and claimed 106 lives in China. To contain the spread of the virus, nearly 60mil people have been placed under partial or full lockdowns in Chinese cities.
- Stock markets all around the world have reacted negatively to the escalation in the outbreak, with no exception to FBM KLCI that lost 21pts or 1.4% to 1,551pts yesterday. For now, we are maintaining our end-2020 FBM KLCI target to 1,670 pts based on 17.5x our 2020F earnings projection (+7.6%), which is at a discount to its 5-year historical average of about 18x.
- We believe **the outbreak will delay, but will not derail a potential market rerating in 2020** driven by catalysts including:
 1. Investors' creased appetite for risk assets, particularly, emerging market (EM) equities including Malaysian equities, conditional upon: (i) the US Fed is to maintain its narrative of not tightening monetary policy (which shall keep the dollar's strength in check; (ii) the sustained high equity valuations in developed markets (DM), prompting investors to look elsewhere for opportunities, including EM equities; and (iii) the US-China trade tensions are to ease; and (iv) the global recession risk is to continue to moderate;
 2. A change in Malaysia's perceived country risk premium following significant political events; and
 3. A play on the ringgit, driven by events such as: (i) FTSE Russell is to retain Malaysia in the World Government Bond Index; (ii) a steep rise in crude oil prices (Malaysia is a net exporter of oil & gas) on geopolitical tensions; and (iii) an end to the easing cycle with no further cut in the overnight policy rate by Bank Negara Malaysia (BNM) in 2020.
- We believe the latest outbreak could be most comparable to the two major global pandemics over the last two decades, i.e. Severe Acute Respiratory Syndrome (SARS) in 2002/2003 and H1N1 in 2009/2010.

The SARS scenario

- The SARS outbreak lasted for about nine months from Nov 2002 to Jul 2003. It infected about 8,000 people with a death toll of about 800 people globally.
- During the epidemic, FBM KLCI lost more than 20% at the worst point, slipping from 794pts (Apr 2002) prior to the outbreak to a low of 630pts (Apr 2003) (Exhibit 1). **FBM KLCI had stayed depressed for eight months** from Oct 2002 to May 2003 at 630-671pts. We believe the weak performance of the market could also be partially attributable to consolidation or profit-taking activities by investors, after a strong recovery from the burst of the dotcom bubble in 2001.
- Another interesting point to note is that after the epidemic was declared over, FBM KLCI had gained a hefty 231pts or 34% over the next 9-12 months, rising from 671pts in May 2003 to 902pts in Mar 2004.

The H1N1 scenario

- The H1N1 outbreak lasted for about one and a half years from Apr 2009 to Aug 2010. The estimates of people infected and killed by the pandemic are still inconclusive until today.
- **FBM KLCI was indifferent to the H1N1 outbreak.** Thanks to the ultra-loose monetary policy promulgated by major central banks in the world in the aftermath of the global financial crisis in 2008/2009, FBM rallied by 569pts or 65% from 873pts (Mar 2009) prior to the outbreak to 1,442pts (Aug 2010) (Exhibit 2).

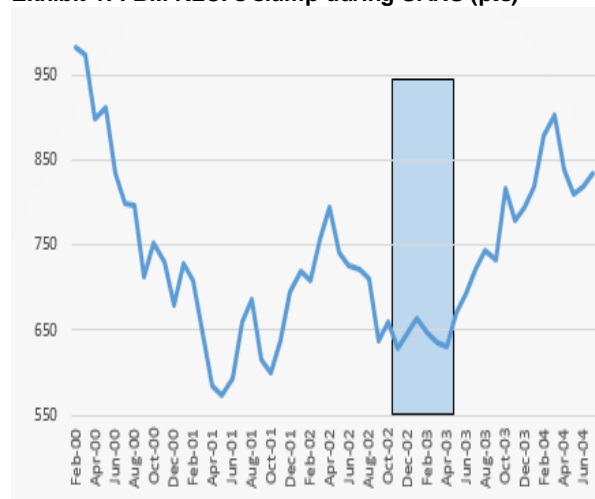
The SARS scenario more likely to play out

- While we are positive on the outlook for the market over the next 12 months, **we believe investors should exercise caution over the next 3-6 months** as it appears that the current 2019-nCoV outbreak will not go away or taper off anytime soon, and it will probably get worse before it gets better.
- More so, key stock markets in most parts of the world have been scaling record highs since the beginning of the year, leaving investors with plenty of room to take profits. We believe the downside risk to the local market is more limited given FBM KLCI's major underperformance in 2019.

Our Overweight sectors and top buys

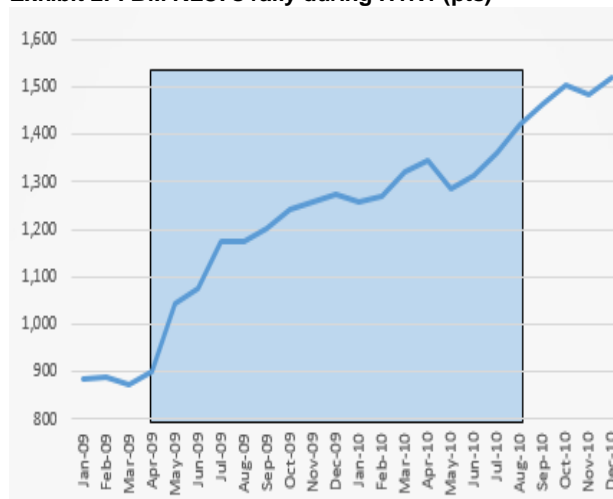
- In terms of sector, we are **OVERWEIGHT** on **banks, consumer, electronic manufacturing services, oil & gas, glove** (a surge in demand for gloves and expansion in valuation multiples during an epidemic) and **utilities (Exhibit 4)**. Our top picks are **Maybank, Tenaga Nasional, RHB Bank, Westports, Kossan, Serba Dinamik, DRB-Hicom, MMC Corp, MBM Resources** and **Guan Chong (Exhibit 3)**.

Exhibit 1: FBM KLCI's slump during SARS (pts)



Source: Bloomberg, AmlInvestment Bank

Exhibit 2: FBM KLCI's rally during H1N1 (pts)



Source: Bloomberg, AmlInvestment Bank

Exhibit 3: Top Buys

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS*	DY*
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	(x)	(%)	(sen)	(%)
Malayan Banking	BUY	8.46	9.80	15.8	94,201.0	Dec	75.5	82.7	5.5	9.5	11.2	10.2	1.2	10.8	58.2	6.9
Tenaga Nasional	BUY	12.74	15.80	24.0	71,899.5	Aug	98.6	99.7	1.1	1.2	12.9	12.8	1.1	9.0	49.3	3.9
RHB Bank	BUY	5.74	6.50	13.2	23,017.4	Dec	62.7	66.7	5.7	6.4	9.2	8.6	0.9	9.9	25.1	4.4
Westports Holdings	BUY	4.00	4.81	20.2	13,640.0	Dec	20.9	22.5	6.3	7.5	19.1	17.8	2.8	17.0	15.7	3.9
Serba Dinamik	BUY	2.26	3.00	32.7	6,969.5	Dec	17.5	19.8	14.0	12.7	12.9	11.4	2.8	22.9	11.2	4.9
Kossan Rubber	BUY	5.01	5.28	5.4	6,407.5	Dec	21.1	22.3	21.1	5.6	23.7	22.5	3.8	17.4	8.4	1.7
DRB-Hicom#	BUY	2.24	3.18	42.0	4,330.5	Mar	11.1	13.7	59.8	23.3	20.2	16.4	0.6	2.0	3.0	1.3
Guan Chong	BUY	3.04	3.49	14.9	3,064.0	Dec	22.0	26.9	4.6	22.4	13.8	11.3	3.1	24.3	5.0	1.6
MMC Corporation	BUY	0.93	1.58	69.9	2,831.9	Dec	9.2	9.1	9.8	-0.3	10.2	10.2	0.3	2.9	5.0	5.4
MBM Resources	BUY	3.82	5.54	45.0	1,492.5	Dec	50.3	51.4	0.8	2.0	7.6	7.4	0.8	11.2	20.1	5.3

FY20F Refers to FY21F, FY21F refers to FY22F

Source: AmlInvestment Bank

Exhibit 4: Sector Weighting

OVERWEIGHT	
Banks	Sustained loan growth, stable NPL, proxy to economy
Consumer	Rising consumerism, spending on consumer discretionary goods
Electronic Manufacturing Services	Proxy to growing demand for high-tech consumer electronics
Oil & Gas	Geopolitical tensions to buoy crude oil prices
Glove	A surge in demand and expansion in valuation multiples during an epidemic
Utilities	Defensive play in low interest rate environment, Tenaga's demerger
NEUTRAL	
Automotive	Proton's turnaround and Perodua's dominance, offset by weaker sales of non-national cars
Media	Disruption by digital/social media, but depressed share prices may attract M&As, including privatisation
Private Healthcare	Strong growth prospects driven by aging population and rising affluence, but in the price
Property	Muted prospects, but depressed valuations cap downside
REITS	Defensive play in low interest rate environment, offset by e-commerce's encroachment
Plantation	CPO prices to ease as production recovers
Technology	US-China trade/tech war, smartphone slump on 4G to 5G transition
Transport	Ports benefit from trade diversion, intense competition in express delivery and air travel segments
Telecommunications	Sector consolidation falls through, competition remains
UNDERWEIGHT	
Building Materials	Weak local construction and property sectors, slowing global growth, elevated input costs on supply disruptions
Construction	Cutbacks in public infrastructure spending, high valuations

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