

Five hurdles Bursa Malaysia has to overcome this year

FBM KLCI has limited room for upside, especially with lack of strong growth catalysts — market observers

BY JUSTIN LIM & SAMANTHA HO

KUALA LUMPUR: As corporate earnings failed to meet expectations in the first quarter of 2019 (1Q19), the FBM KLCI continued underperforming other Asian markets. It fell to a two-year low of 1,628.66 points last Monday and barely recovered to 1,641.81 points at last Friday's close.

Most market observers contacted by *The Edge Financial Daily* opined that there is limited room for upside in the benchmark index, especially considering the lack of strong growth catalysts.

Here are five hurdles that may continue to weigh on the KLCI:

1. Sluggish domestic corporate earnings growth

Malacca Securities Sdn Bhd senior analyst Kenneth Leong said the main reason the benchmark index's performance has been lacklustre and lagging behind those of neighbouring countries is its unattractive valuations amid sluggish corporate earnings growth.

"The key index is trading at a prospective price-earnings ratio (PER) of 16.3 times and 15.3 times for 2019 and 2020 respectively — slightly below the five-year average of 17.4 times, implying limited upside," Leong added.

On the other hand, regional peers, most of which saw their indexes take a beating last year, have PERs that are trading at a more appealing level. (see table)

For instance, as at end last year, the Shanghai Composite traded at a PER of 11.8 times compared with its historical five-year average of 15.8 times. Likewise, the Hang Seng Index's PER was 10.2 times versus its historical five-year average of 12 times, Leong noted.

"Should earnings growth continue to disappoint, the key index is likely to head south with the immediate support located towards the 1,630 level. Should that level fail to hold, the next key support is pegged at the 1,600 level. Unless there are any earnings surprises, any gains are capped towards the 1,700-1,730 levels," said Leong.

Meanwhile, RHB Research head of research Alexander Chia agreed that the forward PER of 16.9 times for the KLCI is already high compared with its regional peers.

Together with tepid earnings growth prospect this year — RHB estimates a growth of 0.7% versus the consensus forecast of 3% to 5% — Chia expects the trading market going forward

Gainers and losers of 1Q19

Over RM10 billion market capitalisation

TOP GAINERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Telekom Malaysia Bhd	11.76	3.13	75.61	18.40
2 Genting Bhd	26.18	6.80	19.06	12.59
3 Genting Malaysia Bhd	18.37	3.25	-	10.17
4 YTL Corp Bhd	11.73	1.11	44.58	9.90
5 RHB Bank Bhd	23.06	5.75	9.98	8.70
6 Axiata Group Bhd	37.92	4.18	-	6.36
7 Sime Darby Plantation Bhd	34.77	5.05	66.88	6.09
8 Fraser & Neave Holdings Bhd	12.90	35.18	33.75	5.95
9 Maxis Bhd	43.77	5.60	24.08	5.65
10 PPB Group Bhd	26.35	18.52	25.69	5.35

TOP LOSERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Hartalega Holdings Bhd	16.02	4.79	32.85	-21.64
2 Top Glove Corp Bhd	11.89	4.65	26.89	-16.10
3 Malaysia Airports Holdings Bhd	11.76	7.09	18.40	-15.39
4 CIMB Group Holdings Bhd	48.78	5.10	8.56	-8.59
5 Sime Darby Bhd	14.96	2.20	17.74	-8.33
6 Petronas Gas Bhd	34.67	17.52	19.15	-7.62
7 Public Bank Bhd	89.21	22.98	15.86	-5.79
8 Tenaga Nasional Bhd	71.88	12.64	19.21	-5.36
9 Press Metal Aluminium Holdings Bhd	18.33	4.56	28.12	-5.28
10 Petronas Dagangan Bhd	24.84	25.00	29.24	-4.75

RM1 billion to RM10 billion market capitalisation

TOP GAINERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Dayang Enterprise Holdings Bhd	1.31	1.36	8.06	151.85
2 Velesto Energy Bhd	2.51	0.31	-	69.44
3 FGV Holdings Bhd	4.34	1.19	-	66.43
4 Frontken Corp Bhd	1.15	1.10	22.89	57.32
5 My EG Services Bhd	5.33	1.53	69.55	56.92
6 VS Industry Bhd	1.97	1.09	13.64	51.94
7 Sunway Construction Group Bhd	2.53	1.96	17.50	50.25
8 Malaysian Resources Corp Bhd	4.05	0.92	53.49	49.59
9 Malaysia Marine and Heavy Engineering Holdings Bhd	1.30	0.81	-	49.54
10 Lafarge Malaysia Bhd	2.27	2.67	-	47.51

TOP LOSERS	MARKET CAP (RM BIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 MSM Malaysia Holdings Bhd	1.20	1.71	33.53	-34.23
2 Unisem (M) Bhd	1.92	2.64	19.79	-19.51
3 Eastern & Oriental Bhd	1.30	0.91	20.54	-18.75
4 Kossan Rubber Industries Bhd	4.59	3.59	22.53	-16.63
5 Boustead Holdings Bhd	2.47	1.22	-	-13.48
6 Lotte Chemical Titan Holding Bhd	9.25	4.07	11.77	-11.90
7 Ta Ann Holdings Bhd	1.05	2.38	14.03	-11.85
8 Supermax Corp Bhd	2.01	1.53	16.69	-11.17
9 IOI Properties Group Bhd	7.54	1.37	9.66	-11.04
10 Ajinomoto Malaysia Bhd	1.09	17.98	18.39	-7.32

RM500 million to RM1 billion market capitalisation

TOP GAINERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Naim Holdings Bhd	585.87	1.17	4.29	162.92
2 Iskandar Waterfront City Bhd	623.11	0.75	-	77.38
3 Malayan Flour Mills Bhd	821.89	0.84	26.26	77.29
4 Bahvest Resources Bhd	850.15	0.69	34.14	73.75
5 Gabungan AQRs Bhd	680.86	1.39	10.29	65.82
6 Media Prima Bhd	582.33	0.52	9.85	52.17
7 Coastal Contracts Bhd	627.86	1.19	-	50.63
8 JHM Consolidation Bhd	708.15	1.27	16.91	50.07
9 Can-One Bhd	570.69	2.97	12.25	50.00
10 George Kent (Malaysia) Bhd	646.34	1.20	7.70	46.23

TOP LOSERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 MCT Bhd	743.07	0.51	6.26	-31.54
2 Pharmaniaga Bhd	549.67	2.11	12.72	-23.47
3 BLD Plantation Bhd	628.32	6.72	-	-10.88
4 Kawan Food Bhd	603.99	1.68	25.81	-10.79
5 YNH Property Bhd	618.33	1.17	38.84	-10.00
6 MyNews Holdings Bhd	941.37	1.38	32.93	-8.00
7 Elsoft Research Bhd	671.63	1.01	20.72	-6.18
8 Power Root Bhd	510.05	1.29	39.70	-5.34
9 NTPM Holdings Bhd	539.06	0.48	37.16	-4.95
10 PMB Technology Bhd	532.38	3.40	56.75	-4.48

Under RM500 million market capitalisation

TOP GAINERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Zelan Bhd	76.04	0.09	-	260.00
2 Scomi Energy Services Bhd	304.41	0.13	-	225.00
3 SC Estate Builder Bhd	26.49	0.03	21.88	200.00
4 Petra Energy Bhd	362.66	1.13	-	179.01
5 PCCS Group Bhd	100.82	0.48	7.95	152.63
6 Konsortium Transnasional Bhd	52.36	0.13	-	136.36
7 Damansara Realty Bhd	165.55	0.52	8.01	131.11
8 Gets Global Bhd	42.21	0.34	-	131.03
9 Komarkcorp Bhd	48.37	0.28	-	128.00
10 KNM Group Bhd	387.11	0.17	-	120.00

TOP LOSERS	MARKET CAP (RM MIL)	LAST PRICE	P/E	TOTAL RETURN YTD
1 Stone Master Corp Bhd	2.70	0.03	-	-81.25
2 Dynaciate Group Bhd	40.06	0.09	-	-60.87
3 Brahim's Holdings Bhd	31.90	0.14	-	-51.79
4 Pan Malaysia Holdings Bhd	46.44	0.05	-	-44.44
5 Comintel Corp Bhd	8.40	0.06	-	-40.00
6 Avillion Bhd	128.78	0.15	-	-37.50
7 HLT Global Bhd	66.56	0.13	-	-36.59
8 Amtek Holdings Bhd	8.75	0.17	0.06	-35.19
9 Multi Sports Holdings Ltd	6.07	0.01	-	-33.33
10 Seni Jaya Corporation Bhd	23.51	0.58	-	-32.56

to lack strong growth catalysts. As such, he foresees the trading band could drop to between 1,600 and 1,750, from 1,650-1,850.

2. Unfavourable domestic economic factors

A potential interest rate cut by Bank Negara Malaysia has already im-

pacted the KLCI, as seen in the sell-down among heavyweight banking stocks.

"More than 50% of the FBM KLCI

decline is attributed to the fall in prices of Public Bank Bhd, CIMB Group Holdings Bhd and Malayan Banking Bhd (Maybank), over con-