

Stock picks for 2H16

Analysts maintain cautious stance on FBM KLCI

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KUALA LUMPUR: Given the rather unpredictable scenario in the first half of 2016 (1H16) — the ringgit strengthened after its slump in 2H15, oil prices still yet to recover since their downturn in June 2014 and Brexit — analysts are retaining a cautious stance on the FBM KLCI.

Last Friday, the FBM KLCI closed at 1,668.40. Year to date, it has dropped 1.4% since closing at 1,692.51 on Dec 31, 2015.

In a recent strategy note, RHB Research said the Brexit vote had added another layer of uncer-

tainty to equity markets that are already in a matured stage of growth.

"The local economy is also suffering from weak exports, soft consumer sentiment and slowing domestic demand, which is manifesting itself in a sharp slowdown in money supply growth.

"We retain our cautious stance on equity markets given that we are already in a matured stage of the global growth cycle, with rising risks — although we believe that there is a low risk of a global recession in the immediate term. Policy easing is expected to continue, although policy ammunition is diminishing," wrote RHB.

HLIB Research, in its strategy note, said the move by Bank Negara Malaysia (BNM) to cut the overnight policy rate (OPR) from 3.25% to 3% in view of the potential weakening of the external sector is positive for the market.

"The readiness of BNM to support economic growth via easing is overall positive for the market.

"Coupled with [an] improved fiscal position, low foreign shareholding and possibility of a snap election, there is potential for the market to recharge to a higher level despite [a] still-lacklustre earnings outlook," said HLIB.

The Edge Financial Daily

spoke to the heads of leading research houses on their take on stocks that are worth watching in 2H16.

Some of them cautioned that it is difficult to stock-pick in the evolving global market.

"We may be bullish on certain stocks at this point of time but the trend may go against them later," said one head of research who requested not to be named.

Inter-Pacific Securities head of research Pong Teng Siew offered a similar view, saying it is hard for him to generalise stocks at the moment given the market's volatility.

Pong said he does not see any

specific sector being a clear beneficiary under the current market condition.

"You may say the current market is good for exports [but] those stocks under the sector may not be doing well," he told *The Edge Financial Daily*.

We have still managed to list 10 that analysts think deserve attention in 2H16. The stocks are CIMB Group Holdings Bhd, Tenaga Nasional Bhd, BIMB Holdings Bhd, Kerjaya Prospek Group Bhd, Aeon Credit Services (M) Bhd, Lingkaran Trans Kota Holdings Bhd, Sunway Construction Group Bhd, Press Metal Bhd, AirAsia Bhd and IHH Healthcare Bhd.



Chan Ken Yew
Head of research
Kenanga Research

Sunway Construction Group Bhd



WE remain positive on the construction sector, banking on news flow of awards for the remaining packages of Pan Borneo Highway, the mass rapid transit 2, at least 10 civil packages from the light rail transit 3 and 16 packages from the Sungai Besi-Ulu Klang Elevated Expressway, besides the Damansara-Shah Alam Elevated Expressway, which we would be expecting from August 2016 onwards.

Hence, we are including big-cap contractors like Sunway Construction Group Bhd (SunCon), which we initiated recently into our Top Pick for the third quarter of calendar year 2016.

We like SunCon for its strong execution track record, which positions it as one of the few major beneficiaries from the projects mentioned above.

That said, we also like it for its strong balance sheet that has a strong net cash position of RM300 million, which shows minimal risks of a cash call compared with other contractors.

For the first quarter ended March 31, 2016 (1QFY16), SunCon posted a 15.5% fall in net profit to RM29.06 million from RM34.37 million a year ago, due to lower revenue and profit margin.

Quarterly revenue also fell 14.5% to RM424.35 million from RM496.07 million in 1QFY15, attributable to lower delivery volume of existing projects.

SunCon shares rose 1.85% or three sen to close at RM1.65 last Friday, after 2.45 million shares changed hands, with a market capitalisation of RM2.13 billion.