

Equity Market Review & Outlook

REVIEW

- ▶ November was another volatile month for Malaysian equities as it continued its correction path on the back of continued weak reported corporate earnings for 3Q 2014 which did not do much for market sentiment. The expectations from the release of the updated list of Shariah compliant stocks as approved by the Securities Commission (Malaysia) Shariah Advisory Council by end November, sent omitted SapuraKencana's share price lower. Oil and gas stocks corrected sharply as global oil prices dipped sharply lower by almost 18% mom, as OPEC decided not to cut production in a meeting held on the 27 Nov 2014, clarifying their position that they will not compromise on market share in the wake of growing US production.
- ▶ The Malaysian equity market underperformed its regional peers, with the KLCI closing at 1,820.9 pts, lower by 34.3 pts or 1.85% mom. The broader market underperformed the KLCI with the FBM Emas Index declining 2.67% mom. The KLCI outperformed FBM Small Cap Index which declined by 7.07%. Average value traded on Bursa in November declined 6.6% mom to RM1.98bn per day.
- ▶ The sector indices on the local bourse closed mostly down for November, with the best performing sectors being Industrial (+1.59%) and Consumer (-0.85%). The worst performing sectors were the Technology (-5.07%), and Property (-4.31%).

OUTLOOK

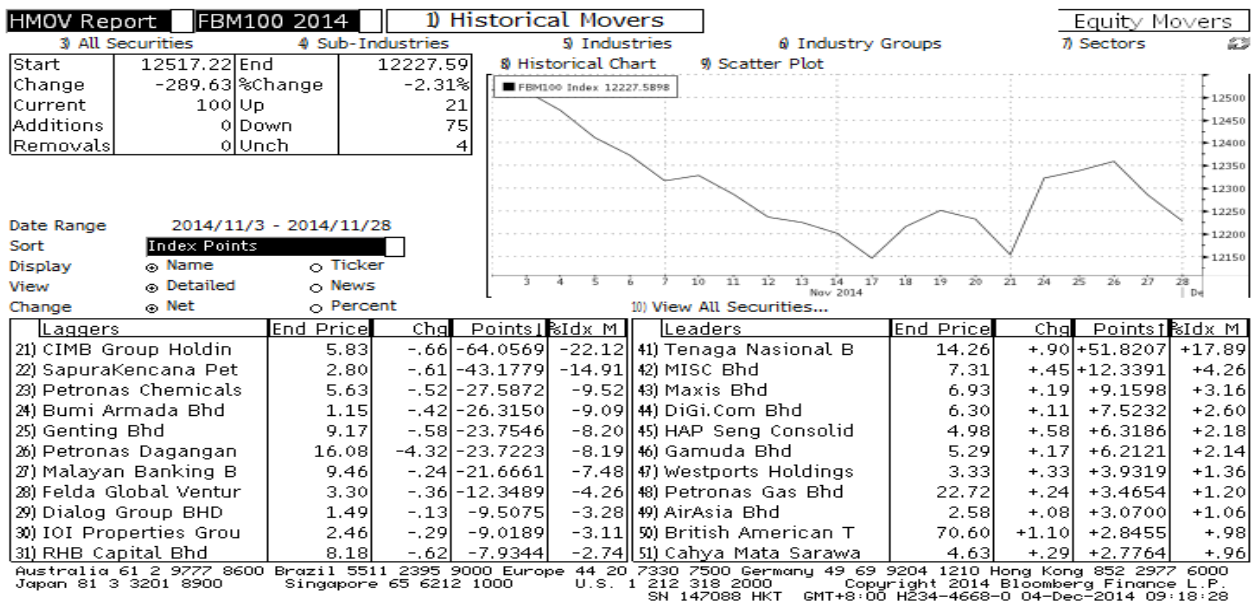
- ▶ Global markets may continue to be volatile over the next few months given the uncertainty over the timing of rate increases in the US, and the impact of the stronger US dollar as a currency. The impact of sharply weaker oil prices is a concern for Malaysia, which may have an impact on fiscal revenues going forward, although the managed float system for petrol and diesel will help offset some of this revenue loss with a lower subsidy bill.
- ▶ Domestically, the rest of 2014 will likely see softening of consumer demand, given the lagged impacts from the hike in interest rates in July by 25bps, and the earlier petrol hikes. Should oil prices remain sustainably lower, Malaysia will likely stand out as the least to benefit versus our regional peers. This may impact market sentiment for the month of December, which traditionally tends to end positively for Malaysia.
- ▶ We were already relatively cautious on the market and have trimmed our exposure on the oil and gas stocks. We believe the difficult steps the government is taking towards fiscal consolidation is a necessary one, and does not preclude the fact that there are still interesting investment ideas in Malaysia. As always, in periods of sharp market corrections, it provides us an opportunity to accumulate selective fundamentally strong stocks at attractive valuations.

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NEWS HIGHLIGHTS

- Tenaga Nasional will receive a fuel cost recovery of RM848m (savings from the 1st Generation PPA renegotiations earlier) and the Energy Minister indicated that electricity tariffs would remain unchanged until June 2015.
- IJM's unit Road Builders and Silk Holdings have mutually decided to abort the RM395m acquisition (and sale by Silk Holdings) of 100% equity interest in Sistem Lingkaran-Lebuhraya Kajang Sdn Bhd. The deal was called off following the non-fulfilment of certain conditions precedent within the agreed timeline.
- The government has abolished subsidies for RON95 and diesel at the pump effective December 1 and replaced them with a managed float system. Pump prices for RON 95 dropped by 4 sen/litre to RM2.26. RON 97 prices which were already previously not subsidized fell by 9 sen/litre to RM2.46. Diesel prices however rose slightly by 3 sen/litre to RM2.23/litre.

INDEX PERFORMANCE & MOVERS



Source: Bloomberg

Indices	Last Price		MoM Changes	
	31-Oct-14	30-Nov-14	+/-	%
FBMKLCI	1855.2	1820.9	-34.3	-1.85%
FBMMES	6586.0	6319.8	-266.3	-4.04%
FBM100	12517.2	12227.6	-289.6	-2.31%
FBM70	14133.0	13582.2	-550.8	-3.90%
FBMSCAP	17694.8	16443.5	-1251.3	-7.07%
FBMEMAS	12882.9	12539.1	-343.8	-2.67%
FBMSHA	13346.4	13036.3	-310.1	-2.32%
FBMHJRAH	14923.9	14942.3	18.3	0.12%
MSCI APxJ	485.7	478.3	-7.4	-1.52%

Source: Bloomberg