# Further improvement in economy seen

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THE Year of the Golden Dragon is expected to witness further improvement in the economy.

On the economic front, the further improvement will augur well for the stock market.

Market adversaries, like inflation, are expected to remain tame in 2000 while pro-market factors such as liquidity are expected to remain easy in line with low interest rates.

Last year, corporate earnings grew by 29.1 per cent. In 2000, we expect the same earnings to grow by 25.8 per cent.

The influential factors for 2000 would be the improvement in the Malaysian economy, higher disposable income of Malaysians, full recovery of the Japanese economy which will spur higher exports from Malaysia, influx of portfolio investment as MSCI reinstates Malaysia and the low inflation environment expected to prevail in 2000.

The negative factors, however, are the continued strengthening of the yen which will erode earnings of yen-sensitive counters such as Tenaga Nasional Bhd and Proton, the thinning of banking margins with the continued environment of low interest rates and low loans growth, rising cost pressures and lower crude palm oil and timbr prices.

However, the positive factors are expected to outweigh the negative factors. Hence, healthy earnings growth can be anticipated for 2000 and 2001.

Both, Government fiscal and monetary policies are expected to remain accommodative, which will be beneficial to the Kuala Lumpur Stock Exchange (KLSE)'s performance. As evident in the 2000 Budget, the construction and property sectors were given priority in terms of favourable measures.

Furthermore, the higher disposable income accorded with the reduction in income tax will lead to higher consumption activities which will again augur well for the market.

Infrastructure development will continue to be given emphasis, particularly for construction, upgrading and improvement of roads and highways as well as rail projects, ports and airports. The allocation of RM5.3 billion to infrastructure development will benefit a range of companies that are involved in the construction of roads, ports and airports.

The year of the Golden Dragon will see the Government continuing to be market-friendly. While we expect the peg to remain at US$1/RM3.80, there might be further administrative relaxation with regards to capital controls, which will allow foreign funds easier access to the KLSE.

Even if the peg is revalued, the revaluation will reflect an appreciation of the ringgit versus the US dollar, which in turn will result in revaluation gains rather than losses. Hence, a revaluation should not have any negative impact.

With Prime Minister Datuk Seri Dr Mahathir Mohamad's recent announcement that his deputy, Datuk Abdullah Ahmad Badawi will succeed him if he steps down, speculation on his choice of a successor ended ahead of party elections expected at the end of first half of 2000.

There were concerns that political instability could arise if there is a prolonged battle within Umno for the president's position. Nevertheless, with the general elections over and new Cabinet line-up announced, Malaysia's political scenario is not expected to be as eventful as in 1999.

On the external front, world markets will continue to keep an eye on US interest rates. The emergence of inflationary pressures may lead to a monetary tightening in the US. Funds are expected to exit the US capital markets and seek other venues of investment.

With Malaysia's reinstatement into the MSCI, it is expected that these funds will flow into the country as portfolio investment. Regional markets are expected to perform well in 2000.

In terms of price to earnings ratio, the SJ uni- verse is trading at a market price earnings ratio of 23.6 times which is still considered favourable. Our outlook for the financial year 2000 in terms of market performance is positive given the further recovery in the domestic economy and the various factors mentioned above.

The highest price earnings multiple belongs to the telecommunication sector at 40.2 times 12 month forward earnings. Telekom Malaysia, the sector's dominant firm, trades at 41.5 times 12 month forward earnings. The technology sector will trade at 16.5 times 12 months forward earnings, falling from 60.6 times in 1999 due to the significant earnings projections. Most other sectors will see an increase in price earnings ratio for year 2000, as fi- nancial year 1999 was tax-free year.

We recommend investors to remain overweight on certain sectors, as well as defensive blue-chips, especialy those which will continue to benefit from the economic recovery and the low interest rate environ- ment as well as the ex- pected influx of our portfolio investment with the MSCI's reinstatement in May. — *By SJ Securities Sdn Bhd*