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'Local stocks attractive enough to woo back foreign funds'

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MALAYSIAN stocks, at current valuations, are attractive enough to woo foreign funds back into the country, even those that left the country at the height of the 1997/1998 Asian financial crisis, ING Financial Markets says.

Uday Jayaram, who heads ING equity research in Malaysia, expects the Kuala Lumpur Stock Exchange (KLSE) bellweather index to reach 870-points within the next 12 months on a healthy economic outlook, presence of genuine retail interest in the market and signs of revived foreign interest in recent months.

The KLSE Composite Index (KLCI) closed at 741.76 points yesterday. It has risen 14.77 per cent, or 95.44 points, year-to-date.

"We have seen interest from funds from the US and Europe, and these are investors who have not visited Malaysia since exiting during the 1997/1998 Asian financial crisis.

"If foreign funds increase their weightings on Malaysia by just two percentage points, and excluding substantial shareholding in (locally-listed multinationals like) British American Tobacco and Nestle, we are looking at RM70 billion additional foreign money into the market," Uday said at a media briefing in Kuala Lumpur yesterday on ING's views and strategies for Malaysia equities.

The value of Malaysian shares in foreigners' hands as at July 31 was RM100 billion, a 15 per cent increase over end-2002 figure. This accounts for 17.8 per cent of market capitalisation, down from 19.5 per cent in 2000.

He said there is a good potential level of upside on smaller capitalised stocks, such of banking and property sectors, which means the gains would not necessarily translate into a higher KLCI.

ING in its latest 140-page report dubbed "Buy Now: Improving Visibility" notes significant growth potential in Johor Baru due to several infrastructure projects like the RM3.6 billion second-phase expansion for Port of Tanjung Pelepas, the RM6 billion KTM Double Tracking project, the development of the Senai airport, the RM0.7 billion upgrading of the Pasir Gudang highway, the proposed Desaru-Senai highway and the RM1.5 billion proposed construction of new bridge to Singapore to replace existing causeway.

Uday said investing in property stocks like IOI Properties Bhd and SP Setia Bhd could be a way investors can participate in the potential growth

in the state.

He also said Prime Minister Datuk Seri Dr Mahathir Mohamad's resignation next month is seen as an "opportunity for change", with Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi taking "the helm with about three decades of political experience under his belt".

The ING report also notes the changing of "the old guard in several previously prominent listed companies, with a breed of younger and more investor-oriented professional managers taking over", specifically naming 37 corporate and political figures ING expects to gain prominence over the next five years.

"The KLSE has been a laggard for most of this year, but we expect the level of awareness and foreign interest in this market to increase significantly over the next 12 months, following recent political and corporate changes, as well as an expected smooth political transition.

"While Malaysia is still expensive on an absolute basis, valuations have relatively dropped sharply against peers in Thailand and Indonesia," Uday said.

While capital controls put in place during the financial crisis have been lifted, the existence of the ringgit peg is perceived by certain investors as capital controls.

"The perception among investors is that the removal of the peg means the removal of capital controls and from that point, (the removal) will be seen as very positive. If the peg was to go, the ringgit could appreciate by as much as 10 to 13 per cent," he said.

The ringgit peg is the last of the capital control measures put in place by Malaysia to turn around the economy during the Asian financial crisis.

He also said ING may revise upwards its economic growth forecast of 5 per cent for Malaysia, following measures put in place to boost consumption in Budget 2004.

On slow foreign direct investment (FDI) inflows in recent years due to stiff competition from cheaper countries like China and Vietnam, Uday said Malaysia has sustained a healthy 4 per cent economic growth despite the sharp FDI drop.

"It is not a case of do-or-die without FDI. FDI is only the forth-leg and not a key engine of growth. It is important, but it is not the primary driver for growth. What we need is for domestic consumption to increase," he said.

He also said the rise in Mesdaq counters is a reflection of the return of genuine retail interest in the market, and not manipulation or euphoria as seen during 1986/87.

"I don't think the stock prices are anywhere near the dotcom hype valuations during the first half of 2000."

He added that investors will not be overly-concerned with talk of construction projects being given to a select group of companies "if the projects are managed to deliver returns".