

JP Morgan says General Election is key market risk for Malaysia
The Malaysian Reserve
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JP Morgan believes the upcoming 13th General Election (GE) is the key market risk for Malaysia and the stock market will rally if the Barisan National (BN) retains or improves on its current 137 parliamentary seats in the elections.

While uncertain when the elections will be called, the American investment bank believes the market will experience a relief rally should Prime Minister Datuk Seri Mohd Najib Razak lead BN to retain its current seats or win short of the two third majority in what is likely to be a fiercely contested GE.

A two third majority win by BN could trigger a big rally as such and as a result would ensure political stability, accelerate private and foreign direct investment and enable the execution of proposed projects announced under the economic transformation programmes.

"The sectors that benefit the most will be construction, oil and gas, banks, property and media. Top picks in these sectors include Dialog Group Bhd, IJM Corp Bhd, IJM Land Bhd, CIMB Group Holdings Bhd and Media Prima Bhd," JP Morgan said in a report dated on May 22.

Stocks linked to Umno such as UEM Land Holdings Bhd, MMC Corp Bhd and Malaysian Resources Corp Bhd (MRCB) would also do well if the current BN-led government retains or improves on its hold in parliament.

JP Morgan expects the market to ease off when Parliament is dissolved as was the case in 2008.

Hence the bank promotes a cautious short-term strategy pre-elections, favouring a political stocks which offer earnings and dividend growth prospects such as Sime Darby Bhd, KPJ Healthcare Bhd, AirAsia Bhd and Axiata Group Bhd.

A centre for strategic engagement (Cense) joint study with JP Morgan revealed a likelihood of BN retaining at least 137 seats it now holds with a plus minus 5% margin as the Malay middle ground voters swing back to BN but due to the way the seats are drawn and delineated, greater numbers do not translate to more seats.

A weaker showing of less than 122 seats by the BN-led government or a Pakatan Rakyat (PR) win would be negative for the market, the bank's report stated.

In the event BN wins a simple majority, the investment bank advised selling of politically linked counters like MRCB, MMC and UEM Land which are likely to do poorly.

Should the outcome of the elections be neutral with BN holding about the same number of seats, JP Morgan advised buying stock on shortterm weakness.

A win by PR led by Datuk Seri Anwar Ibrahim would lead to policy changes and breed uncertainty for at least nine to 12 months, JP Morgan believes, thus it advised investors to sell.

The policy impact will be felt across industries such as utilities, construction, gaming and transportation, JP Morgan said.

It advised investors to stay out of companies like MRCB, IJM, UEM Land, Tenaga

Nasional Bhd, YTL Power International Bhd, Gamuda Bhd, Malaysian Airport Holdings Bhd and Genting Malaysia Bhd.

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