

Cheaper valuation of emerging market stocks set to attract strong foreign investment, says Rakuten Trade

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KUALA LUMPUR (Sept 26): Foreign appetite for emerging markets including Malaysia is expected to remain strong for the remainder of the year as investors are looking to diversify funds in light of the widening risk-reward ratio on Wall Street as another Federal Reserve rate hike looms.

According to Rakuten Trade head of research Kenny Yee, the net inflow recorded, particularly in Southeast Asian countries such as Malaysia and Indonesia, in the last few weeks shows that profit-seeking investors are leveraging the low valuation in stocks in these countries to subsequently gain exposure to the region's high-growth markets.

Foreign investors continued to net buy on Bursa Malaysia at RM550.9 million a week ago, which was the highest net foreign inflow over the past eight weeks. Indonesia recorded a net foreign fund inflow of US\$110.6 million (RM518.77 million) last week, ending six straight weeks of net outflows.

"With an interest rate increase by the Federal Reserve expected in November, that would increase the risk and reward proposition in Wall Street. So investors who are risk-averse would certainly look into broadening their funds," said Yee in a webinar titled "Navigating The Unknown: Malaysia's 4Q2023 Market", on Tuesday.

He added that foreign shareholding has also improved significantly as more long-term foreign investors are returning to Bursa Malaysia, prompted by the continuous inflows into the emerging market.

"This is happening despite the first six months of net outflow. Most of the funds that flow in Malaysia are now long-term investors and not short-term investors. We can see this since July this year," he added.

On retail participation, he expects the average trading volume to improve, buoyed by strong trading activities in the smaller cap stocks comprising companies with market capitalisations of between RM500 million and RM2 billion.

He anticipates the FBM KLCI to possibly test the 1,560 level by end-2023 based on 16 times price-to-earnings ratio (PER).

The online broker said it expects the ringgit to strengthen to 4.20 against the greenback by the end of the year despite the increase in interest rate differential be-



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Kenny Yee

tween US dollar and ringgit.

"There is already a huge disparity between US 10-year Treasury yield (UST) and our 10 year Malaysian Government Securities (MGS). Ringgit has weakened quite a bit, but we may see some short term correction. But if you average it out, the impact is not too much," he said.

Positive on banking, oil & gas and REITs

Rakuten Trade equity research vice president Thong Pak Len said sectors such as banking, oil and gas, REITs and construction are set to benefit the most from improving risk sentiment in the market.

He said banks' net-interest margins are expected to improve in the last quarter of the year on easing credit cost and lower effective taxes.

"Banks have displayed resilience and achieved solid earnings in the recent quarterly results. We like Malayan Banking Bhd, RHB Bank Bhd and CIMB Group Holdings Bhd for their solid dividend yield while AMMB Holdings Bhd for its attractive valuations," said Thong.

An uptick in capital expenditure (capex) for offshore exploration and production globally, as an aftermath of under-investment in the industry over the past years, is set to boost the oil and gas sector further, he adds.

"Petronas is looking at a capex of RM300 billion for the next five years, av-

eraging circa RM60 billion a year or a 43% increase from the previous five-year period. We like Bumi Armada Bhd, Uzma Bhd, Yinson Holdings Bhd and Dialog Group Bhd," he added.

Rakuten also placed "overweight" call on REITs as retail REIT remains positive with continuous improvement of footfall, particularly with tourists' arrival an injection in the arm for shopping malls and hotels in the final quarter of the year.

Top picks on this sector include Sunway REIT, and IGB REIT.

Meanwhile, the construction sector is expected to see growth catalysts from improving work packages and project replenishment during the quarter under review, said Thong.

"We believe the sector has seen the worst given the stabilisation of building material and labour costs. Expect better job replenishments with imminent rollout of MRT3 and six flood mitigation projects reportedly to be worth RM13 billion. Revival of RM43 billion Melaka Gateway will provide additional impetus," he added.

Lastly, Rakuten remained "neutral" on the plantation and the property sectors. It noted the falling crude palm oil (CPO) prices have recently weakened to below RM4,000 per metric tonne, while the property sector is still affected by affordability, oversupply issues and cautious lending by banks.