



Better outlook: Investors watch a stock trading board at a private stock market gallery in Kuala Lumpur. A good number of local fund managers are quietly becoming more optimistic and seeing opportunities following a bleak 2018 that was defined by house cleaning and new appointments in government entities. — AP

It's time for bargain hunting

Plenty of stocks at discounted levels in the market

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PETALING JAYA: After stocks were battered in 2018, investors are now looking at stock picking at discounted levels as the market chewed on uncertainties that roiled equities over the past year.

A change in government along with global concerns arising from external issues such as the US-China trade war has made the investing community more sanguine.

A good number of local fund managers are quietly becoming more optimistic and seeing

opportunities following a bleak 2018 that was defined by house cleaning and new appointments in government entities.

All the kitchen sinking of the past year was a necessary pain, with stocks staging one of their worst performance as margin calls snowballed in the last quarter of 2018. The silver lining is that this has provided an opening to buy.

"The current negativity is excellent for investors. We should be happy that the item we bought at the supermarket six months ago is at a 50% discount at the moment," said former investment banker Ian Yoong.

The year 2018 ended with the FBM KLCI clos-

ing 5.17% or 92.12 points down to 1,690.58.

Yoong is positive on Malaysia's economic prospects. He said the biggest catalyst for Malaysian equities would be confidence, as foreign investors were initially appalled by the mess that the new government uncovered.

"We now have a more level playing field, less corruption and greater transparency. This is surely a foundation for an economic upturn.

"This boom will not be immediate as there is much work that has to be done but as surely as day follows night, the upturn will come. This gold-

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Index hit sobering levels, thanks to sell-down in last quarter 2018

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an opportunity comes once every decade," Yoong explained.

Rakuten Trade Sdn Bhd vice-president of research Vincent Lau said the FBM KLCI has reached more sobering levels thanks to the sell-down in the last quarter of 2018.

"It was a bit overdone but the good thing is that we get to buy the stocks we like at a much cheaper price. We are also revisiting some companies which we previously didn't look at because of high valuations," he said.

As at Dec 28, Malaysia had seen a total foreign net outflow of RM11.65bil. As such, Malaysia is set to record its largest yearly foreign net outflow since 2015 which saw RM19.49bil of equities being pulled out. This amount offsets foreign net inflow of RM10.33bil in 2017.

"It is true that there is a lot of fear in the market. When we talk to the clients, sentiment is negative and they are cautious about re-entering the market. Timing the market is very hard. Our opinion is that nothing has fundamentally changed in the last six months of 2018.

"All the fears that have been repeated last month, were the same fears repeated six months ago. So we feel this is more of a correction, which presents a good opportunity to buy," said Lau.

Yoong added that valuations in the small to mid-cap space are compelling with many stocks trading at single-digit price-earnings ratios, below book value and in net cash positions.

Astramina Advisory managing director Wong Muh Rong believed that the second half of 2019 would be better than the first half. In the first half, business owners and investors are still affected by the unsettled politics of the new government. There is also the uncertain world markets and the trade war issues to contend with.

"The market is disturbed partially with the less decisive directions of the government. This is with regards to the contractual agreements signed by the previous government.

"Capital market needs clarity on



Lau: We are revisiting some companies which we previously didn't look at because of high valuations.

the sanctity or validity of the agreements or concession agreements signed by the previous government as many decisions are based on that.

"Without that being clear, markets will be agitated, which will negatively impact all players and stakeholders alike," she explained.

"Contractual agreement is binding and it should not be changed just for the sake of it. Our market needs to observe the rule of law, unless there are element of 'overpricing' or 'misrepresentation'. The dignity and sanctity of these contracts are critical to ensure a high confidence level in our capital market," she added.

Yoong also believed that the new government should not cancel contracts unless there are valid legal grounds to do so.

"The cancellation of highway tolls should be postponed indefinitely. The sanctity of legal contracts should be upheld. Investors have come to realise that the new government is indeed genuine in its efforts to improve the economy. I notice that confidence is improving in December.

"My wish is for the new government to have that clarity soon, so both the equity and debts market can have a clear direction," said Wong.

She added that 2019 is likely to be a year of restructuring or consolidation for assets owners, as the depressed market presented the best opportunities to undertake rationali-



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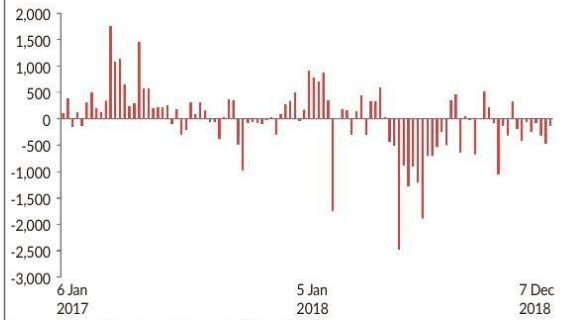
sation and restructuring exercises.

For one, it is a great time for buyers to look for prime assets or businesses as there are now more willing sellers.

"I foresee a lot of merger and acquisition (M&A) activities, especially in the second half of 2019, as there are more willing sellers now. Furthermore, we should be seeing more owner-driven M&A or restructuring exercises," said Wong.

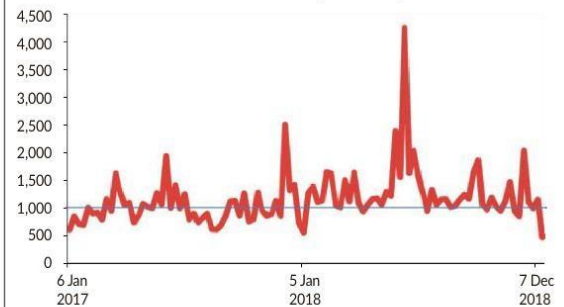
Meanwhile, with the abundance of SME businesses looking for opportunities as they grow larger in

Weekly Net Flow of Foreign Funds into Malaysian Equity since Jan 2017 (RM'mil)



Source: Bursa Malaysia preliminary statistics, MIDFR

Foreign Participation on Bursa: Daily Average for the Week since Jan 2017 (RM'mil)



Source: Bursa Malaysia preliminary statistics, MIDFR

size, Wong foresees more of these companies opting for a LEAP market listing.

"There is now more understanding on the LEAP market. Companies are starting to realise that this is a platform for them to grow via capital markets without the need to undertake any backdoor listing, reverse takeover or initial public offering in the Main or ACE Market, where the cost is higher," she explained.

Lau said he would not be surprised to see more companies

being taken private in 2019.

"The cheaper pricing is making it compelling for owners. Furthermore, with the tough business environment, it becomes a challenge to deliver good earnings every quarter. Now is the best time to take the company private, build it up and eventually list it at a better valuation," said Lau.

On the global front, Yoong is confident that the China-US trade war will be resolved in 2019. "This will provide a huge boost to global equity markets," he said.