

Waiting for a Cooldown

But the bourse offers some good values

MALAYSIA'S ECONOMY MAY NO longer be too hot to handle. But, at 8.3%, its still-scorching growth figures continue to deter some investors worried about overheating. One fund manager who believes it's time to look again is Edmond Cheah, 42, head of the \$880-million Kuala Lumpur Mutual Fund. A graduate of the University of North London, Cheah previously worked at DCB Sakura Merchant Bankers in Kuala Lumpur. He spoke with Asiaweek's Steven K.C. Poh. Excerpts:

How does the economy look?

Concerns about overheating and the \$7.2-billion current-account deficit are diminishing. A surprise \$95.2-million trade surplus in May helped support the government's claim that the deficit is coming under control. Recent growth figures have also indicated the economy is moving to a more sustainable level. So a soft-landing scenario seems achievable. Still, investors' confidence may be tested by changeable trade data. If the economy encounters a hard landing, everyone suffers. Should that happen, it will put different strains on different sectors of the economy. If there is gross over-valuation in the stock market, the impact will be worse.

Is the deficit a worry?

The current-account deficit rocketed to a high of 8.8% of GNP in 1995, and is forecast to hit 7% this year. A large part of it is attributed to consumer spending. That makes the economy more exposed to external shocks, such as swings in confidence among the foreign investors who fund the bulk of the deficit.

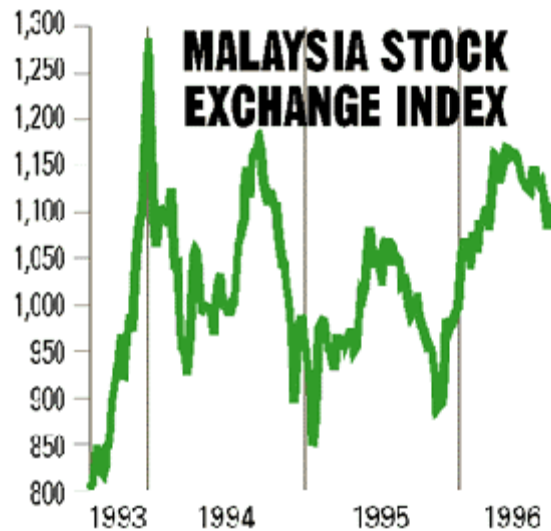
What other concerns do you have about the economy?

Political stability has always been a selling point for Malaysia. If this is threatened, market sentiment will be affected. There were rumors of discord between the premier, Mahathir Mohamad, and his deputy, Anwar Ibrahim. But it seems the succession issue is back to normal. Stability is important for the region too. Intra-ASEAN trade has been growing rapidly. This would be jeopardized by political unrest in, say, Indonesia or Thailand. Sustainable growth also requires foreign money to finance capital investment and to bolster the stock market. Individual countries are still vulnerable to fund managers adjusting their asset allocations within the region.

Has the recent power outage dampened investors' confidence?

The incident was blown out of proportion. A blackout can happen anywhere. The U.S.'s West Coast has suffered two within the last month. Still, it will give the government a good excuse to make Tenaga Nasional more efficient. At current levels, we believe the utility warrants a trading buy, as most of the bad news has already been discounted.

LOOKING AHEAD



How does the stock market look?

It is very volatile. The Second Board has been dominated by speculative plays. There were rumors of takeovers and lucrative contract awards, most of which were unfounded. Index stocks have been plagued by interest-rate concerns and the uncertain outlook on Wall Street. We view the market's current correction phase positively. It has made valuations more reasonable and helped reduce some of the speculative excesses, especially on the Second Board. These counters had been grossly over-valued for some time. With the improving economy, we are looking to accumulate quality stocks based on weakness. We also like corporate bonds because many of the one- to five-year bonds are tax-exempt.

How about corporate earnings?

The growth cycle has peaked and the period of explosive corporate earnings is over. The key now is to determine whether growth of 10% to 15% a year is achievable. There are companies that could make a lot of money, but not all are listed. That's because the stock market does not fully represent the various components of the economy. The electronics sector, for instance, makes up approximately 60% of Malaysia's exports. But it is poorly represented in the stock market. The oil and gas sector is another example. Only Petronas Gas is listed.

What stocks look good?

We like John Hancock Life Insurance. Its management is quite conservative. When times are bad, management sees a company through. I tend to pick monopolies. Perlis Plantation is a boring stock, but it's also a defensive one. It has monopolies in sugar and flour. I will also look at Tenaga Nasional and Genting, if the price is right, because they are essentially monopolies. In the property sector, I favor Eastern & Oriental, which is a niche developer. Most people do not know much about the firm, so the upside can be quite interesting. Malaysian Mining Corporation is also becoming interesting. It's moving into oil and gas, and is part of a consortium that owns the East Coast Highway concession.