

Fundamentally, a Good Bet

KLSE may get boost from corporate profits

INVESTORS CAN expect Malaysian stocks to climb this year on the back of continued improvement in corporate earnings, predicts Ching Lai Huat, executive director of one of the nation's oldest unit trusts. Ching's company, the MIC-TPG Unit Trust Fund, was set up in 1976 and manages about \$100 million. The 42-year-old former merchant banker, who has a master's degree from Manila's Asian Institute of Management, sees the Kuala Lumpur Stock Exchange (KLSE) bouncing back and the index hitting an all-time high in 1997. He spoke recently with Asiaweek's Steven K.C. Poh.

With the KLSE 100 points below its January 1994 high, how do you think Malaysian stocks are valued?

Relative to the euphoric prices back then and given the major corporate earnings growth in the last three years, they are not pricey. Also, the Kuala Lumpur Composite Index is slightly below the historic average of its price-earnings ratio. An investor must also factor in the p/e of each stock. The p/e of the KLSE is currently 24 compared with its historical average of 27.



(Source: Datastream)

The KLSE Second Board is outperforming the Main Board this year. Do you think that will continue?

The performance of the Second Board is too volatile and not easy to sustain. However, it will not just fizzle away. It is an attractive hunting ground for speculators. One does not need as much fundamental detail and knowledge as when investing on the Main Board. Our funds, being conservative in nature, generally avoid the Second Board.

How do you view the current level of liquidity within the Malaysian system?

Liquidity is under control with the central bank maintaining a tighter policy. That means domestic liquidity will not be sufficient for a broad-based bull run. For that to happen, foreign funds have to

come in. Their movements are difficult to predict. Therefore, we can only expect a rotational bull run and investors will have to settle for a pendulum swing of funds [a generally strong market characterized by volatility]. The economy has proven to be resilient. Many foreign fund managers are revising their Malaysia weightings upward.

What major concerns will affect your investment decisions?

The important factors are political stability, earnings growth, inflation rates and interest rates. Domestic concerns include the current-account deficit and how the inflation rate may be affected, assuming utility giant Tenaga Nasional gets an electricity rate hike as expected this year. A high level of capital imports is expected. Lumpy items can cause the trade deficit to jump and result in the dampening of market sentiment. The on-going Malaysian Airlines and Malaysian International Shipping Corp. fleet expansion programs are examples of capital goods imports that can skew the numbers. On the international front, something to keep a watch on is a heavy correction on Wall Street, which is quite possible.

What would be a fair level for the Composite Index at the end of this year?

The KLSE is currently very active, with high volumes traded on a daily basis. An expected reduction in interest rates will help boost the market. I expect the Composite Index will rise above its previous high and either finish the year at 1,450 or hit that level at some point.

Are you concerned that special issues and other developments are expected to soak up some \$15 billion in cash from the market this year?

The Malaysian market capitalization is more than \$300 billion. Hence \$15 billion worth of special issues represents only 5% of total market capital. Foreign funds coming into the KLSE could easily make such a reduction insignificant. However, new issues, rights issues, warrants and debt issues could have some effect on individual stock performance.

Will corporate earnings this year be within expectations?

In line with the growth in GDP, corporate earnings should continue to show improvement. With worldwide economic expansion, commodity prices are also expected to remain firm.

What sectors do you like?

Our favored sectors are infrastructure and manufacturing. We like loan stocks for their low risks and finance for merger plays. Public Bank is currently trading at a p/e of 12 and has the capacity to increase its loan business substantially. Southern Bank is a smallish bank with good earnings and is a potential merger candidate. Hong Leong Industries has good management, and earnings per share are expected to increase 10% this year. It is currently trading at a discount to its 1996 price. We also like Kian Joo Can Factory, which we think should grow up to 15% this year. It is also looking into possible joint ventures with foreign partners. Last but not least, we like Metacorp, a cash-rich toll collector that should recover after underperforming last year.