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Foreign interest returning to Malaysia

BY NUR AZLIN ABDUL KARIM

For the first time in years, foreign investors are expressing keen interest in Malaysia and this bodes well for the local stock market, says Teng Chee Wai, managing director of Affin Hwang Asset Management Bhd.

"Now, big foreign asset managers are willing to ask questions about Malaysia and are looking for ideas on where to invest in the country. In the past, they did not even want to listen. The sudden change of heart was due to good sentiment and momentum observed in Malaysia and Asia last year," he says.

The Asian market is off to a good start, with Malaysia the top performing market in the region, says Teng during his presentation on "Expecting the Unexpected" at *The Edge*-Citigold Wealth Forum 2017.

The local market is currently enjoying a rally and one of the key drivers is the restructuring of some of the Malaysian corporates, he points out. "For example, Permodalan Nasional Bhd will be restructuring the companies under its umbrella because the current corporate structure does not reflect the true value of these companies. Also, if you were to track [new PNB chairman] Tan Sri Abdul Wahid Omar's career path, every company that he has restructured has made great returns. These companies include Telekom and Maybank."

Teng believes that the worst is over for Malaysia, especially for the banking sector. "Last year was a really tough period for banks because they were paying fixed deposit rates that were too high. Banks were giving rates of 4.5%, which did not give them enough of a margin to take on deposits at those levels," he says.

"Today no one offers you fixed deposit rates above 4%, so margins are back to more normalised levels. That is why the market tends to believe that the worst is over for the sector and why you see sustained revenue."

Despite the positive signs, Teng cautions investors to be mindful that markets will continue to behave in a short and sharp manner, just like they did last year. One example, he says, was when a local stock hit limit-up (daily stock trading limit of 30%) for the first time in years earlier this month.

"We have forgotten that a Malaysian stock can go limit-up. On March 10, we saw the stock hit limit-up on the back of a major corporate restructuring. That is good news because it tells me that 'animal spirits' are coming back into the country. But when this happens, remember not to get carried away," says Teng.

GLOBAL EVENTS AND THEIR INFLUENCE ON THE ASIAN MARKET

This year, there has been a sustained global recovery, so it is very likely that the US Federal Reserve will have raised interest rates by the time this pullout goes to print. What will an interest rate hike mean for Asia?

Teng says, based on what he has observed, the response of the market will vary, depending on the context of how and why the rate hike was done. "It all depends on cycles. At the turning point of the interest rate hike, markets tend to be extremely volatile as we saw from 2013 to 2015. Because the markets are so used to zero interest rates at the point of reversing those policies, they will get the jitters.

"If the rise in interest rates is moderate, measured and does not disrupt growth, and if the reason for raising the rates is that there has been economic growth, the markets can absorb the interest rate hike. But if the markets view that the rise in interest rates is due to factors such as inflation, then they can react negatively.

"Do we think the markets will collapse when the Fed raises interest rates? No, it is well discounted by now. So, we do not believe that in this particular cycle, the US interest rate hike will have a significant negative impact on Asian markets."

Instead, the greater impact on the region's markets will come from the new US president's decisions and policies, he says. This geopolitical risk will affect investments in Asia and could possibly derail the markets.

"President Donald Trump is a politician who is not a politician, thus how he manages or handles China, or vice versa, will have a big influence on Asia. How will China respond to his policies? These are the

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geopolitical risks that will play out in Asia next year or so," says Teng.

He also expects monetary policies to tighten from now on. "The US has already started tightening its policy. In Malaysia, we can expect interest rates to rise slowly over time, but it will not be significant. For example, fixed deposit rates will not go above 4%. That is because while the economy is stable and rising, it is not robust," he says.

OPPORTUNITIES IN INFRASTRUCTURE

Teng points out that the infrastructure boom in Asia is partly due to the influx of funds from China's One Belt, One Road initiative. "This is interesting in our perspective and we need to find ideas to invest here.

The amount of funding that will go into this space is significant."

The impact of this initiative on Malaysia will be significant, he says, not only because of the amount that will be deployed to build infrastructure in the country but also because Malaysia has become a strategic investment for China. "The funds coming in will be helpful for Malaysia in terms of foreign direct investment, the ringgit and our reserves."

Teng says investors could look at Indonesian, as well as Malaysian, construction companies to take advantage of the Asean infrastructure boom. "However, investors must be patient and not give up too soon. Understand the dynamics of the industry and companies, then buy and hold for some time."

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SUMMARIES

For the first time in years, foreign investors are expressing keen interest in Malaysia and this bodes well for the local stock market, says Teng Chee Wai, managing director of Affin Hwang Asset Management Bhd. "Now, big foreign asset managers are willing to ask questions about Malaysia and are looking for ideas on where to invest in the country. In the past, they did not even want to listen.