

12 OCT, 2024

What lies ahead

The Star, Malaysia

AS we are in the final stretch of 2024, how will the market perform in the fourth quarter (4Q24)?

StarBiz 7 spoke to three fund managers about their predictions.



AHAM Capital
Deputy head of equity
DAVID LOH

THE FBM KLCI is poised to maintain its positive momentum.

The Malaysian economy is clearly doing well, as seen in the robust gross domestic product showing in the first half, which exceeded market expectations.

This early success can be attributed to an effective rollout of sound economic policies. For instance, the visa-free travel arrangements with China and India have produced excellent results, while the Johor-Singapore special economic zone is anticipated to replicate the successes seen in the Hong Kong-Shenzhen zone.

Having said that, we are keeping a close eye on potential short-term outflows towards the recovering China market. Having performed admirably this year, particularly in US dollar terms, the FBM KLCI is an easy target for profit-taking.

Although there has been some rotation into China, we believe that once conditions stabilise, investors will shift their focus back to domestic fundamentals, which have improved significantly over the past 12 months.

We like the utilities sector, riding on the New Energy Transition Roadmap and the influx of data centres into Malaysia.

Power demand is expected to surge, underpinned by strong foreign direct investment and ongoing industrialisation activities. Utility companies and their service providers will be kept busy in the coming years. We also see opportunities in the construction sector, as public infrastructure spending is set to resume.

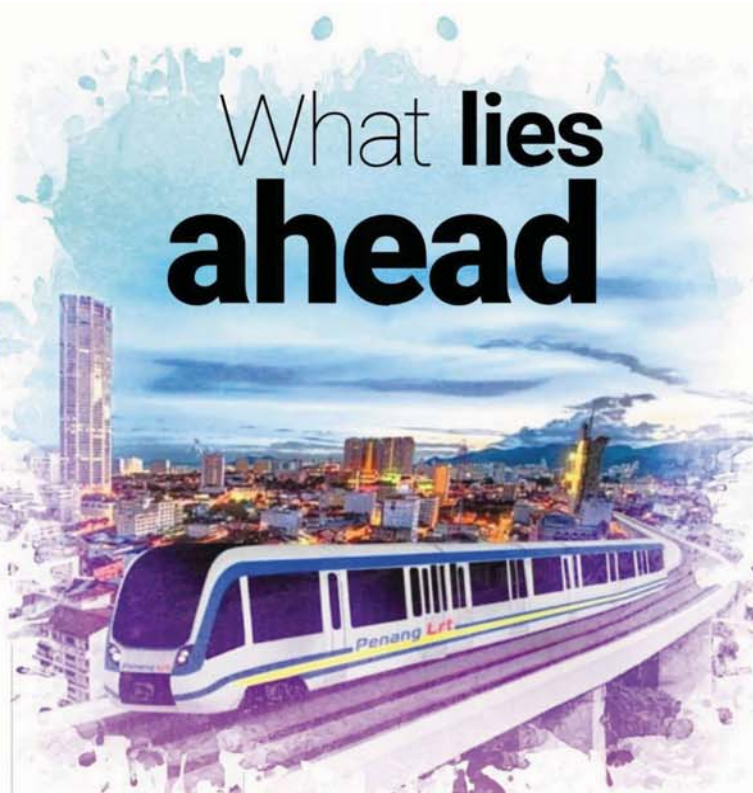
After nearly two years of reorganising our fiscal structure, the government now has the headroom to stimulate the economy.

More details are likely in the Budget 2025 announcement.

The private sector is also performing well, supported by industrial development and a solid recovery in the property market.

With strong order book potential and stable building material prices, we believe contractors' profits could reach new highs. Amongst the key risks we are monitoring include a potential escalation of tensions in the Middle East.

Any unexpected shift in the US Federal Reserve's (Fed) monetary policy could be a headwind for emerging markets like Malaysia.



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Areca Capital
CEO and executive director
DANNY WONG

WE expect the market to consolidate in these few weeks due to global headwinds like the US elections, Middle East tensions, and capital outflows to China. Budget 2025 next week could offer a clearer direction.

The consensus FBM KLCI target ranges from 1,650 to 1,790, with an average upside of 5% by year-end.

Projections vary between a 1% and 10% gain. We align with foreign brokers' cautious outlook, as the FBM KLCI has delivered a 16% year-to-date (y-t-d) total return and a 7.5% y-t-d ringgit appreciation, as of Oct 7, equating to a 23.9% gain.

This could trigger profit-taking and outflows to seek better alpha in China, where investors are reacting positively to recent stimulus measures since Sept 24. Nonetheless, we see value in small and mid-cap stocks, expecting a divergence from large caps in 4Q24. There are pockets of opportunities, especially when shares price soften but fundamentals remain. During the recent 2Q24 results announcement, 16% of stocks under our coverage beat expectations, led by utilities, 59% were in line, primarily from healthcare and transportation; and 26% fell short, driven by the tech sector.

Moving into 4Q24 and 2025, we are "overweight" on construction and technology. In construction, we expect a decent 4Q24, driven by accelerated work, job flows, and rising data centre construction activities in Johor.

Some RM90bil in Budget 2024 is allocated for development, and we anticipate Budget 2025 will prioritise major infrastructure projects like MRT 3, Kuala Lumpur-Singapore high-speed rail, Penang LRT, and Sabah Sarawak Link Road.

In technology, global semiconductor sales were up 20.6% year-on-year, with five consecutive months of growth. After recent stock declines, we see a buying opportunity with decent valuations and multi-year growth prospects.

The key challenges ahead include the potential for a Fed's sudden pivot, where a reversal of the anticipated 100 basis points rate cuts could trigger global capital outflows.

An escalating Middle East war may destabilise energy markets and harm global stability. A negative budget surprise, such as tax hikes or a higher minimum wage, could hurt corporate profits, while a sharp ringgit appreciation could negatively affect export sectors, leading to weak earnings reports.

Domestically, any sudden political instability could impede policy rollout and dampen sentiment.

We believe these risks are largely contained for now.

■ Early success due to rollout of sound economic policies

■ Consumer, construction, property, telecommunications, and utilities sectors to watch

■ Middle East war may destabilise energy markets and harm global stability



Fortress Capital
Chief executive officer
DATUK THOMAS YONG

THE outlook for the Malaysian equity market remains favourable despite the recent pullback from a high of 1,680, which we see as a healthy correction.

This creates an opportunity for investors to enter sectors with strong structural growth trends.

Based on the FBM KLCI constituents earnings trajectory into the second half, we expect the index to end 2024 at between 1,700 and 1,750, reflecting price-earnings (PE) ratio of around 16 times. While this is higher than the current PE of 15 times at 1,635, we believe it is justified by ongoing structural reforms and numerous sector-specific re-rating.

Key sectors to watch for 4Q24 and into 2025 include consumer, construction, property, telecommunications, and utilities. The consumer sector is set to benefit from a stronger ringgit, especial-

ly companies reliant on foreign-denominated raw materials imports.

The 4% to 7% civil servant pay raise by Dec 1 is expected to boost consumer demand.

However, investors should remain cautious in picking consumer stocks as the potential scale back of RON95 fuel subsidies may have negative implications. The construction and property sectors are poised for growth, driven by a surge in data centre projects in both the Klang Valley and Johor.

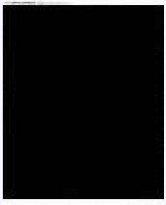
These projects, which have short turnaround times, serve as a buffer against potential delays in public infrastructure rollout, particularly as the government works to reduce its budget deficit.

While the government has underspent its 2024 development budget, a strong pipeline remains. This includes projects like the Penang light rail transit (LRT), Pan Borneo Sabah and Sarawak-Sabah Link Road, Mass Rapid Transit (MRT) 3, and the privately funded Subang Airport rejuvenation.

The property sector is also set to benefit from increased demand driven by infrastructure developments and the spillover from data centre expansion.

Meanwhile, the telecommunications and utilities sectors are well-positioned, with continued investment in 5G rollouts, expected higher demand for power due to data centres, and renewable energy projects supported by the government's National Energy Transition Roadmap.

The immediate challenge facing the Malaysian equity market is fund flow volatility. A potential source of volatility is the upcoming US presidential election, and global uncertainty, particularly regarding US-China relations.



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SUMMARIES

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