AHAM CAPITAL
ASSET MANAGEMENT

19 March 2024

FUNDAMENTAL FLASH

Malaysia Outlook | Back in Business

Prepared by AHAM Asset Management

It has been a strong start to Malaysian equities for the year with the KLCI benchmark index up by 6.75%, outperforming regional peers such as Thailand and Indonesia that posted -1.07% and 0.70%, respectively *(Source: Bloomberg, as of 15 March 2024).*

This positive momentum is underpinned by incremental improvements in the local macro environment, coupled with a ramp-up in policy implementation. In our latest Fundamental Flash, we delve into the case for Malaysian equities and why opportunities are ripe for investors today.

Crown Jewel in the South

Johor is poised to emerge as the new pivotal growth engine in the south, bolstered by the recent Memorandum of Understanding (MOU) for the Johor-Singapore Special Economic Zone (JS-SEZ) signed between both countries' leaders early this year.

The agreement aims to enhance trade between Malaysia and Singapore, improving the flow of goods and people across borders.

Initiatives such as a passport-free clearance system and the upcoming Rapid Transit System (RTS) Link will further strengthen connectivity between Johor and Singapore, with the RTS Link expected to be operational by January 2027.

With potential parallels to the success of Shenzhen - a special economic zone linked to Hong Kong, Iskandar Malaysia could similarly emerge as a vibrant hub for economic activity.

Flashpoints

- Malaysian equities have seen a robust start to the year, outperforming regional counterparts with the KLCI benchmark index up by 6.75%.
- Johor poised to emerge as a new pivotal growth engine, bolstered by the MOU for the Johor-Singapore Special Economic Zone.
- Other policy frameworks like NETR and NIMP would help pave the way for sustainable growth and in attracting FDIs.
- Political stability and macro tailwinds such as a peak in the Fed's tightening cycle have rekindled investors' interest in local equities as reflected in positive fund flows YTD.
- With strong policy execution and fiscal reforms, the Malaysia theme is poised to remain strong, offering potential upside until valuations reach historical means.

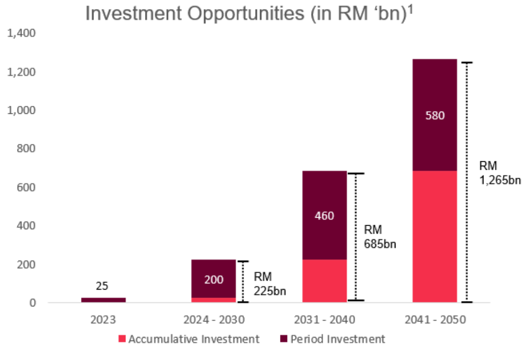
The agreement is expected to be signed during the 11th Malaysia-Singapore Leaders' Retreat later this year with implementation possibly as early as 2025.

New Pathways to Growth | NIMP & NETR

Other policy frameworks such as the National Energy Transition Roadmap (NETR) is also a game-change for the industry.

Approximately RM 637 billion of investment is required to achieve the NETR's renewable energy (RE) target of 70%.

Graph 1: Catalysing RE Investments



Source: Ekonomi.gov.my "National Energy Transition Roadmap" as of 29 Aug 2023.

This could lead to investment opportunities across an array of areas including smart grid solutions, energy efficiency initiatives, and energy storage solutions.

In addition, the New Industrial Master Plan (NIMP) that charts Malaysia's course towards next-generation manufacturing would help spur innovation as well as develop new and existing clusters.

We also see mutually reinforcing benefits by leveraging on existing and upcoming infrastructure projects across the country.

The completion of major initiatives such as the East Coast Rail Link (ECRL), Pan-Borneo Highway, and various seaports are expected to catalyse regional and state economic development by expanding manufacturing activity as well as exports.

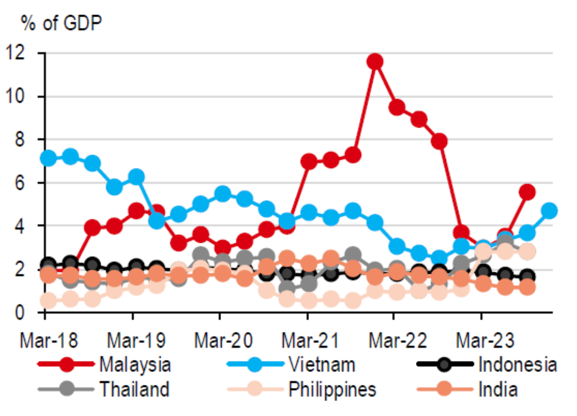
Most importantly, the above policy frameworks would lay the groundwork for sustainable growth as well as provide a clear narrative of the country's economic direction to global investors.

This could attract significant foreign direct investments (FDI) into Malaysia particularly in the Electrical & Electronics (E&E) segment.

As global supply chains are reconfigured due to a multi-trade relocation trend, Malaysia is well-positioned in the region to attract the bulk of FDI flows as global MNCs diversify their manufacturing base.

Since the 3Q'2023, Malaysia's foreign direct investment (FDI) flows has outpaced its regional peers with more than half of these investments directed towards the manufacturing sector.

Graph 2: FDI Flows as % of GDP



Source: HSBC Global Research as at 01 February 2024
Note: 2018 to 2021 Average figure is the average sum from 2018 to 2021

Turning Tides

Since the formation of the unity government, we have seen political stability paving the way policy implementation by offering investors a clear roadmap for growth.

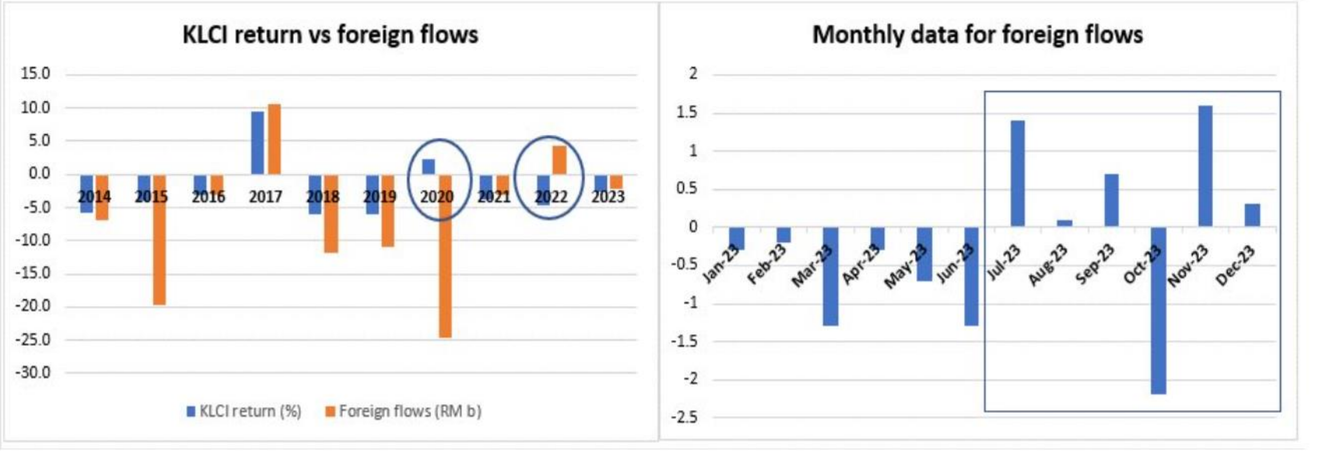
This has been further reinforced by the anti-hopping law as well as strong royal backing for political stability.

A resumption of earnings growth, coupled with macro tailwinds such as a peak in the US Federal Reserve's tightening cycle and a softening US dollar have also rekindled interest in the local market as seen in a resurgence in foreign flows since July 2023.

Fund flows has continued its positive momentum in 2024 with January witnessing net inflows of RM0.70 billion, followed by RM1.30 billion in February. This augurs well for the local market indicating sustained investor confidence.

Looking ahead, we anticipate the Malaysia theme to continue strongly in 2024, potentially offering further upside until valuations reach historical means. If the growth and reform story takes hold, coupled with strong execution, the market may exceed mean valuations presenting ample opportunities for investors.

Graph 3: Foreign Flows Could Drive Up Market



Source: Bursa and Bloomberg as of 4 January 2024

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