



## OVERVIEW

December 2014

Global stock markets were mostly lower in December. The FTSE All World Index declined -1.89% month-over-month, dragged by energy shares responding to crude oil price declines. The US stock market was resilient, with the S&P 500 falling mildly by -0.25%, while the Dow Jones Industrial Average gained 0.12%. Year-to-date, both indices have gained 13.69% and 10.04%, respectively. The Dow Jones ASEAN Islamic Total Return Index (MYR-denominated), meanwhile, contracted -0.75%, affected by the weak Malaysian stock market.

### Malaysia

Foreign reserves fell to US\$120.7 billion as at 15 December from US\$125.7 billion a fortnight ago. In ringgit terms, foreign reserves dropped to RM394.1 billion, but were still sufficient to finance 7.9 months of retained imports and were equal to 1.1 times the short-term external debt. Reserves declined mainly due to foreigners' net selling of equities and bonds, but this was mitigated by the trade surplus, which nevertheless narrowed due to falling commodity prices. During the first half of December, foreign investors disposed of US\$785 million of equity on rising concern of fiscal slippage as oil prices headed towards multiyear lows. Reflecting investors' concern, the FBM KLCI fell -2.62% in 2014 and was touted as the worst-performing market in Asia.

### Indonesia

Exports contracted by a larger magnitude of -14.6% year-over-year in November, from -2.2% year-over-year in October, dragged by declining commodity prices. Imports, meanwhile, contracted at a slower pace of -7.3% year-over-year, as the weakening Indonesian rupiah has resulted in imports being more pricey, dampening demand. Net-net, the trade account reversed into a deficit of US\$426 million, from a small surplus of US\$12 million in October, suggesting a larger trade deficit in the fourth quarter of 2014. Separately, the headline inflation reached its peak in December at 8.4% year-over-year in the aftermath of a fuel price hike. Foreign investors sold US\$634 million of equity, but the Jakarta Composite Index was still up 1.62% for the month, supported by local institutions. Year-to-date, the JCI has gained 24.80%.

### Philippines

Economic data was positive, with merchandise exports rising 2.9% year-over-year in October, driven by the exports of electronic products. Remittances from overseas Filipino workers (OFWs) remained strong: In October,



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**The rapid collapse in crude oil prices created uncertainties for stock markets around the world.**

| Market Indicators                   | Current Value | 1 Month  | YTD      | 1 Year   |
|-------------------------------------|---------------|----------|----------|----------|
| FBM EMAS Shariah (RM)               | 12,507        | -3.60% ▼ | -1.43% ▼ | -1.43% ▼ |
| FBM KLCI (RM)                       | 1,761         | -2.92% ▼ | -2.62% ▼ | -2.62% ▼ |
| Dow Jones ASEAN Islamic (RM)        | 8,122         | -0.75% ▼ | 11.19% ▲ | 11.19% ▲ |
| S&P 500 (US\$)                      | 3,769         | -0.25% ▼ | 13.69% ▲ | 13.69% ▲ |
| Dow Jones Industrial Average (US\$) | 17,823        | 0.12% ▲  | 10.04% ▲ | 10.04% ▲ |
| FTSE All World (US\$)               | 275           | -1.89% ▼ | 4.78% ▲  | 4.78% ▲  |
| MSCI All Country World Index (US\$) | 417           | -1.89% ▼ | 4.80% ▲  | 4.80% ▲  |
| MSCI Emerging Markets (US\$)        | 402           | -4.61% ▼ | -2.19% ▼ | -2.19% ▼ |

|                     | Current | 1 Month Ago | 1 Year Ago |
|---------------------|---------|-------------|------------|
| Ringgit per US\$    | 3.50    | 3.40        | 3.28       |
| Crude oil (US\$)    | \$53.27 | \$66.15     | \$98.42    |
| Crude palm oil (RM) | RM 2291 | RM 2147     | RM 2628    |

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remittances from OFWs rose 7% to US\$2.2 billion, the highest level in any single month. Foreign direct investments (FDIs) also breached a new record, with net inflow of FDIs increasing 116% in September to US\$680 million. Favorable private sector growth prospects and structural improvements in fiscal management led Moody's Investors Service to upgrade the Philippine government rating by one notch from Baa3 to Baa2. Despite these positive developments, foreign investors were net sellers for the month, disposing of US\$128 million of equity, paring the 2014 gain of the Philippines Stock Exchange Index to 25.46%.

## Singapore

The economy grew a weaker-than-expected 1.5% year-over-year in the fourth quarter of 2014 as the manufacturing sector shrank, slowing from the third quarter's 2.8% expansion. All key sectors weakened in the final quarter of 2014, with manufacturing contracting 2% year-over-year due to a decline in transport engineering, electronics, and general manufacturing outputs. December manufacturing PMI, meanwhile, posted a reading of 49.6, which was a decline of -2.2 percentage points over the previous month. Having said that, the Straits Times Index (FSSTI) still advanced 0.70% in December, bringing the year-to-date gain to 9.62%.

## Thailand

November macro reports showed recovery is still elusive, with factory output falling -3.5% year-over-year, affected by continued weak exports. Exports contracted -1% year-over-year, hit by the slump in oil prices and weak rubber demand from China. Private consumption, meanwhile, only improved 0.7% year-over-year as households remained cautious on spending in light of high debt levels and depressed farm incomes. Pressure is piling on the military government to ramp up infrastructure spending to spur growth. Given the soft economic data, the Bank of

Thailand decided to revise its 2015 GDP growth estimate downward to 4% (from 4.8%) and maintain the one-day repurchase rate at 2.0%, which was the lowest level in four years. Despite lacking real sparkle, the market seems to have shrugged off the poor results, signaling it expects a stronger recovery in 2015 with the SET Index rising 19.04% in 2014.

## COMPANY REVIEW

Universal Robina (URC PM) reported strong results supported by a 13% year-over-year revenue increase, a 17% jump in gross profit, and a 39% rise in core net profit. The company saw double-digit growth of its branded consumer foods division, with 23% year-over-year growth in Philippine business and 8% growth in international business overall.

Al-'Aqar Healthcare REIT (AQAR MK) had a steady third quarter. Year-over-year, gross rental income and net profit increased mildly at 1.6% and 1.7%, respectively, helped by an annual increment on rental income.

## PORTFOLIO TACTICS

The rapid collapse in crude oil prices created uncertainties for stock markets around the world. As at 6 January, Brent crude was trading at US\$51.10 per barrel, 55% lower than its peak of US\$115. The economies of oil-exporting countries such as Malaysia will be hurt, while oil-importing countries (the rest of the ASEAN-5) may benefit. Moving into 2015, ASEAN stock markets' volatility may escalate given possible capital reversals due to the strengthening of US economy. Against this headwind, we remain selective in picking stocks, focusing on companies that have solid and long-term growth profiles, such as Consumers (e.g., Universal Robina and Jollibee Foods), Health Care (e.g., Bangkok Dusit and KPJ), Building Materials (e.g., Semen Indonesia) and Telcos (e.g., Advanced Info Service).

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