ASIA COUNTRY STAR RATINGS

MALAYSIA (3.5 STARS – ATTRACTIVE)

1. Malaysia 1Q 10 GDP rose by 10.1% from 4.4% which exceeded market consensus forecast of 8.5%. Economic recovery was broad-based led by expansion in domestic demand owing to higher private spending supported by public expenditure, coupled with continued strong external demand.
2. Exports grew at a smaller pace of 26.6% y-o-y in Apr 10 (Mar 10: 36.4%) largely due to a pullback in demand for E&E (Electronic & Electrical) exports which rose by 21.6% (Mar 10: 31.8%). Non-E&E exports continued to sustain its growth at 30.1% (Mar 10: 39.3%) but at a smaller pace as well. Exports will continue to expand but at a more moderate pace going forward. Global PMI grew at a slower pace in May which could signal easing demand globally.
3. In tandem with moderation in exports growth, industrial production had a slower growth of 10.1% in Apr 10 (Mar 10: 14.2%). Manufacturing and electricity sectors posted slower growth of 14.3% (Mar 10: 20.5%) and 12.1% (Mar 10: 24.9%) respectively but mining sector turned around to post positive growth of 0.8% (Mar 10: -0.5%) on higher output of natural gas.
4. Inflation edged slightly higher at 1.6% in May 10 (Apr 10: 1.5%), mainly driven by inflation in food prices. Going forward, inflation will be moderate with possible upside risks owing to possible subsidy restructuring for petrol and electricity tariff.
5. BNM raised OPR (Overnight Policy Rate) by another 25 basis points to 2.5% on 13 May 2010 following a stronger-than-expected GDP growth in 1Q 10. Nonetheless, the central bank expressed concerns over the sustainability of the economic recovery triggered by Europe debt crisis and waning effects of the stimulus measures. The current OPR level remains accommodative and supportive of economic growth.
6. Private spending should lead Malaysia's economic growth going forward with support from the government. MIER (Malaysia Institute of Economic Research) has posted continued gains in CSI (Consumer Sentiments Index) and BCI (Business Conditions Index) which remained above parity for the fourth consecutive quarter, indicating further expansion in private expenditure.
7. Leading index rose at a slower pace of 3.9% in Apr 10 (Mar 10: 11.2%), signaling moderation in economic growth going into 2H10.
8. Malaysian Prime Minister announced the 10th Malaysia Plan on 10th June 2010 to chart the economic growth over the next 5 years. Among the highlights includes empowering the private sector to lead the economy and reducing the footprint of the government. Subsidies on energy will be gradually reduced as well to strengthen the fiscal position of the government in addition to preparing the private sector to cope with higher costs and move up the value chain.
9. We are upgrading our earnings growth forecast for 2010 to 27.7% from 23.7% driven by earnings upgrades from sectors such as banks, utilities, telecommunications and gaming. Consequently, 2011 earnings growth will be lower at 12.8% owing to higher base.
10. We are maintaining a 3.5-stars rating on Malaysian market. The estimated PE for the Malaysian equity market is at 14.9x and 13.3X for 2010 and 2011 respectively.