

# Defensive stocks to dodge trade war in 2020

*Construction, consumer staples and e-commerce stocks, and Bursa Malaysia's REITs are safe defensive plays against market volatility*

by DASHVEENJIT KAUR

**THE** FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), which gauges Malaysia's 30 largest listed firms, is headed for its worst year in at least a decade.

As the US-China trade war rages on amid slowing economic growth and political uncertainty, investors would do well to have a keen eye amid such a tepid picture for markets in the new year.

Rakuten Trade Sdn Bhd research VP Vincent Lau believes construction, consumer staples and e-commerce stocks and Bursa Malaysia's real estate investment trusts (REITs), are safe defensive plays against market volatility.

"Construction and consumer-related stocks would not be directly impacted as they are domestic-driven," he told *The Malaysian Reserve*.

REITs and e-commerce stocks would also be a safe bet for next year.

Year-to-date, the FBM KLCI is down 7.1%, while carrying the unceremonious title of Asia's worst-performing market.

Hong Leong Investment Bank Bhd believes downside risks to growth will persist, arising from unresolved global trade uncertainty and domestic policy ambiguity.

"A re-escalation of trade tensions could exacerbate slowing global demand and spill over to the domestic economy, delaying investment and export activity further," it said in its 2020 Economic Outlook report.

However, like Lau, the research house anticipates growth in construction to pick up in 2020, driven by the continuation of mega projects.

"The civil engineering subsector is forecast to pick up as the Light Rail Transit Line 3 (LRT3) and Mass Rapid Transit Line 2 (MRT2) are expected to pick up implementation speed. However, the residential and non-residential subsectors are expected to grow at a slower pace owing to the property overhang," it added.

## Construction

TA Securities Holdings Sdn Bhd projects the construction sector to grow by 3.7% year-on-year (YoY) in 2020, largely on the acceleration and revival of mega projects.

Ongoing mega projects include the East Coast Rail Link (ECRL), MRT2,



7-Eleven is estimated to have around 2,300 convenience stores nationwide and has long been a reliable, quick, one-stop shop

LRT3 and the Pan Borneo Highway.

Inter-Pacific Research Sdn Bhd said the sector will benefit from new projects like the Johor Baru-Singapore RTS and the RM8.3 billion Klang Logistics Corridor.

MIDF Amanah Investment Bank Bhd believes the industry will grow between 8% and 13% next year, based on higher allocations to cover the developments of rural connectivity, general infrastructure and East Malaysia.

Gabungan AQRs Bhd appears to be an analyst favourite, with MIDF and Affin Hwang Investment Bank Bhd (Affin Hwang Capital) calling the stock their top 'Buy'.

In the third quarter of 2019 (3Q19), construction contributed 89.2% to the group's total revenue.

Income in 3Q19 came largely from work progress for the Sungai Besi-Ulu Kelang Highway, Pusat Pentadbiran Sultan Ahmad Shah and LRT3.

As of Sept 30, 2019, Gabungan AQRs' outstanding construction orderbook stood at RM1.8 billion, which will keep the company busy until 2022.

Despite sector and economic headwinds, Gabungan AQRs continues to be resilient and is efficiently cruising ahead, according to analysts.

The stock, which closed at RM1.19 yesterday, has advanced 51% in the past 52 weeks and is trading at 12 times its estimated earnings per share (EPS) for the coming year.

## Consumer Staples

Consumer stocks are commonly seen as a safe harbour among Malaysian equities due to their domestic nature.



Construction and consumer-related stocks will not be directly impacted as they are domestic-driven, says Lau

These shares represent companies manufacturing common household products that individuals are either unwilling or unable to eliminate from their budgets, even in times of financial trouble.

Hence, consumer staples and the companies that produce them are seen as non-cyclical and able to maintain stable growth regardless of the state of the economy.

Of note is 7-Eleven Malaysia Holdings Bhd's proposal to acquire Caring Pharmacy Group Bhd, which has received positive feedback from markets and analysts.

7-Eleven last month proposed a conditional mandatory general offer (MGO) for Caring at RM2.60 per share, valuing the pharmacy group at RM566 million.

The MGO will be triggered after 7-Eleven completed its RM143.5 million acquisition of a 25.35% stake in Caring from Motivasi Optima Sdn Bhd, bringing its total shareholding in Caring to 38.57%.

Maybank Investment Bhd analyst Jade Tam, who has a 'Hold' call

on 7-Eleven, said Caring offers inroads into a growing retail pharmaceutical and personal goods market, which 7-Eleven has no foothold in.

"The acquisition could enhance 7-Eleven's net profit by RM13.5 million per annum assuming low borrowing costs," Tam said.

7-Eleven is estimated to have around 2,300 convenience stores nationwide and has long been a reliable, quick, one-stop shop. However, it faces stiff competition from the likes of MyNEWS.com and Japan's FamilyMart, hence the move into pharmaceuticals appears wise.

Shares of 7-Eleven, which last traded at RM1.43 yesterday, has advanced 12% in the past 52 weeks and are trading at 29 times the company's estimated EPS for 2020.

## E-commerce

Cashless payment solutions provider Revenue Group Bhd has been making headlines lately. The group recorded a 54% YoY jump in net profit for the first quarter ended

Sept 30, 2019, as revenue expanded 12% YoY.

The earnings were driven by higher income from the rental of its electronic data capture (EDC) terminals, higher electronic transaction processing income and the inclusion of revenue contribution from two newly acquired subsidiaries, Anypay Sdn Bhd and Buy-mall Services Sdn Bhd.

The cashless payment solutions provider also plans to further deploy its all-in-one digital payment terminals in FY20. It currently supplies EDC terminals to most banks in Malaysia, while its digital payment terminals are available at Public Bank Bhd, Hong Leong Bank Bhd and OCBC Bank (M) Bhd.

The stock, which last traded at RM2.01 yesterday, has jumped 53% in the last 52 weeks.

## REITs

In such volatile equity markets, retail REITs are especially liked for their stable income and high dividend distribution yield.

In a recent note, Affin Hwang Capital said six of the REITs under its coverage have outperformed the FBM KLCI in four of the past five years.

"The REITs' defensive earnings, stellar yields and a low correlation to benchmark indices make them a good investment proposition during economic uncertainties ahead," it said.

Stock-picking is vital in the current economic situation, where the oversupply of properties, weak consumer sentiment and slowing growth could affect occupancy rates and rental reversions and hence, REITs' earnings and distributions.

"We recommend that investors stick to the big-cap Malaysian REITs with prime properties, long-term rental agreements and proven earnings records. We would put a higher emphasis on earnings sustainability than yields," the research house added.

Among analysts' top picks is IGB REIT, which has Mid Valley Megamall and The Gardens Mall in its portfolio.

Affin Hwang Capital raised its recommendation on IGB REIT to 'Buy' with a target price of RM2.15, implying an 11% increase from the last price. Analysts surveyed by Bloomberg raised their consensus one-year target price for the stock by 1.7% in the past three months.

IGB Bhd, the major unitholder of IGB REIT, is also planning to list its Kuala Lumpur-based commercial assets through a Main Market listing of the IGB Commercial REIT.