

# CGS-CIMB Securities: Dividend yield play to keep local equities attractive

BY LEE WENG KHUEN

More investors are investing abroad in search of better returns due to the underperformance of the local equity market over the years. Unfortunately, 2023 hasn't looked encouraging so far either, with the FBM KLCI down 8.1% year to date.

Still, market players contend that it isn't all doom and gloom. Malaysia continues to offer steady growth for investors, says Khairi Shahrin Arief Baki, deputy CEO of sales at CGS-CIMB Securities.

"It's amazing that our banks are giving an average 5% dividend yield, with an expected 17% earnings growth for this year. Malaysian Banking Bhd's dividend yield is even more than 6%," he tells *The Edge* in an interview.

The banking industry is expected to register 17% growth in core net profit for 2023, underpinned by non-interest income expansion and the absence of the one-off prosperity tax, according to Khairi, who had previously served as CEO of i-VCAP Management Sdn Bhd.

"Our banking sector is well capitalised, and we have no issue with whatever is going on in the US banking industry," he adds.

Bloomberg data shows that Malaysia Building Society Bhd has the highest trailing 12-month dividend yield of 13.6% within the banking sector; RHB Bank Bhd and CIMB Group Holdings Bhd lag at 7.5% and 5.4% respectively. Other big-cap stocks that offer decent dividend yields are Petronas Chemicals Group Bhd (6.3%), Genting Malaysia Bhd (5.9%), Sime Darby Bhd (5.1%) and Axiata Group Bhd (5%).

With the economy forecast to expand 4% to 5% this year, Khairi believes there are still pockets of opportunities in the local equity market, with banking, healthcare, renewable energy and real estate investment trusts (REITs) among his top sectors.

Stock-wise, CGS-CIMB's favourite picks include Public Bank Bhd, Tenaga Nasional Bhd, IHH Healthcare Bhd, RHB Bank, Telekom Malaysia Bhd, Gamuda Bhd, YTL Corp Bhd, Sunway Bhd, Yinson Holdings Bhd, IJM Corp Bhd, IGB REIT, Astro Malaysia Holdings Bhd, Sime Darby Property Bhd, Bermaz Auto Bhd, Dayang Enterprise Holdings Bhd, Power Root Bhd, Wah Seong Corp Bhd and Muhibbah Engineering (M) Bhd.

The research house's FBM KLCI year-end target of 1,610 points suggests an upside of 17.1% based on last Thursday's close of 1,374.64 points — the lowest since October 2022.

"Malaysia has been very steady despite volatility in the global markets. While the FBM KLCI has been flat, investors should zoom closer. For example, look at our IPO (initial public offering) market," Khairi suggests.

Admittedly, most new listings on



Bursa Malaysia — especially those involved in the technology industry — have been encouraging.

Khairi observes that bumiputera investors' interest in the IPO market has grown tremendously in the last three to four years.

"I've been in this industry for 20 years. The shares made available to bumiputera investors approved by Miti (Ministry of Investment, Trade and Industry) used to be undersubscribed. But now they (bumiputera investors) can't get the shares. The market has changed a lot in the last three to four years and it's very exciting now ... people

really want to put their money in IPOs and that helps the market to grow."

While Malaysia and Singapore investors are more inclined towards the dividend yield play, Khairi says the reopening of borders following the Covid-19 pandemic lockdowns has prompted more investors to seek opportunities in Asean and North Asia.

In the Asean region, Indonesia and Thailand are perceived to have better growth potential. Khairi advises investors in Indonesian equity to take a look at the consumer sector, which is rising on the back of a

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growing middle-income group.

Incidentally, investors under the age of 40 form the bulk of those tending to invest abroad, observes Khairi, adding that Malaysian investors have shown more interest in the US, Europe and even Australia in recent years.

"The reason is that if their portfolio is benchmarked against the MSCI, then 50% of the investment has to be in the US."

On investment strategies for the US market, he says investors can choose familiar names that have performed well, such as Coca-Cola Co, Starbucks Corp, McDonald's Corp, Alphabet Inc, Apple Inc and Microsoft Corp.

Despite the persistent net selling by foreign funds on Bursa Malaysia, Khairi stresses that local equities remain resilient, and that equity disposals are because funds are rebalancing based on their portfolio weightage.

For the week ended June 2, foreign investors net offloaded RM506.5 million worth of local equities — the seventh consecutive week of net outflows. And they have been sellers for 16 out of 22 weeks this year, with a total net foreign outflow of RM2.96 billion, according to MIDF Research.

On the other hand, local institutional investors turned net buyers at RM372.9 million during the week under review, taking total net inflow to RM2.79 billion year to date, after being net buyers for 16 out of 22 weeks.

Amid a rising interest rate environment, local institutions are expected to turn more to fixed income instruments and sukuk. Apart from that, Khairi says local funds are also looking at the private equity market to tap the potential of these companies before they go for listing at a later stage.

Touching on the upcoming six state elections, he remarks: "The political risk is always there, but the market is mature enough to react to [any developments]. There are areas where you don't have to touch the politically-linked stocks."

In a June 6 report, CGS-CIMB says it believes Selangor and Penang will remain in the hands of the ruling coalition, but that Kedah, Kelantan and Terengganu — which are under opposition control — are unlikely to see a shift in power. Meanwhile, Negeri Sembilan is likely to see a close race, with the base case being that the ruling coalition will retain control.

Unfortunately, the research house expects the poor market sentiment to continue for the next few months despite market forward valuations falling to two standard deviations below the post-global financial crisis mean.

"Moving closer to 4Q2023, we expect two significant rerating catalysts to emerge, causing a potential structural shift in liquidity flows and domestic sentiment. These are a convincing breakdown of the US Dollar Index below the psychological 100 mark; and further easing of political uncertainties in Malaysia post-the six state elections that are expected to be held by end-August. This will help pave the way for Prime Minister Datuk Seri Anwar Ibrahim's administration to focus on medium-term economic plans and policy reforms."

To be a bit more defensive, Khairi advises investors to look at exchange-traded funds (ETFs), which are not so volatile. That said, Malaysia's ETF space is not as robust as that in the developed markets due to the smaller market size with lower liquidity and ETFs being less favoured by funds here, as well as fewer product choices.

"In the US, there are 1,000 ETFs to choose from, but we probably only have 10 to 20."

Moreover, in line also with investors increasingly looking at overseas stocks, Khairi notes they have been able to buy foreign ETFs easily in recent years, and not be restricted to local ETFs.

Nonetheless, to boost the vibrancy of the local ETF market, he observes the need for improvement in financial literacy on ETFs for retail investors, with a proper market making structure.

CGS-CIMB is a joint venture between CIMB Group Holdings Bhd and China Galaxy Securities Co Ltd (CGS).

Last September, CGS-CIMB group CEO Carol Fong confirmed a split between the brokerage's parent companies, with CGS eventually assuming full control. The split is still pending authorities' approval and there is no timeline to complete the deal, according to Khairi.

CIMB's equity interest in CGS-CIMB is about 25%, with CGS holding about 75%. ■

## Companies with highest dividend yield on Bursa Malaysia (ex-FBM KLCI constituents)

COMPANY	DIVIDEND YIELD (%)	YTD SHARE PRICE CHANGE (%)
Hektar REIT	16.3	-6.4
Malaysia Building Society Bhd	13.6	1.6
Tambun Indah Land Bhd	13.3	13.7
Ta Ann Holdings Bhd	12.2	-11.9
Boustead Plantations Bhd	12.0	4.7
Marco Holdings Bhd	10.5	8.8
Chin Well Holdings Bhd	9.7	-20.0
AmFirst REIT	9.5	-8.5
Pinehill Pacific Bhd	9.4	-21.8
Formosa Prosonic Industries Bhd	8.9	-25.7
Mycron Steel Bhd	8.8	-20.7
Hap Seng Consolidated Bhd	8.6	-47.0
Malakoff Corp Bhd	8.5	-6.9
FGV Holdings Bhd	8.5	-0.8
Pantech Group Holdings Bhd	8.2	3.5
Pharmanila Bhd	8.2	-33.0
British American Tobacco (M) Bhd	8.2	-8.6
Sentral REIT	8.0	-5.0
Innoprise Plantations Bhd	7.9	-20.8
Tallworks Corp Bhd	7.9	-3.5

## FBM KLCI constituents with highest dividend yield on Bursa Malaysia

COMPANY	DIVIDEND YIELD (%)	YTD SHARE PRICE CHANGE (%)
RHB Bank Bhd	7.5	-8.3
Malayan Banking Bhd	6.8	-1.4
Petronas Chemicals Group Bhd	6.3	-24.2
Genting Malaysia Bhd	5.9	-6.3
CIMB Group Holdings Bhd	5.4	-15.9
Sime Darby Bhd	5.1	-13.5
Axiata Group Bhd	5.0	-7.4
Tenaga Nasional Bhd	4.9	-3.4
Kuala Lumpur Kepong Bhd	4.7	-4.5
Maxis Bhd	4.6	7.0