

Foreign funds making a comeback

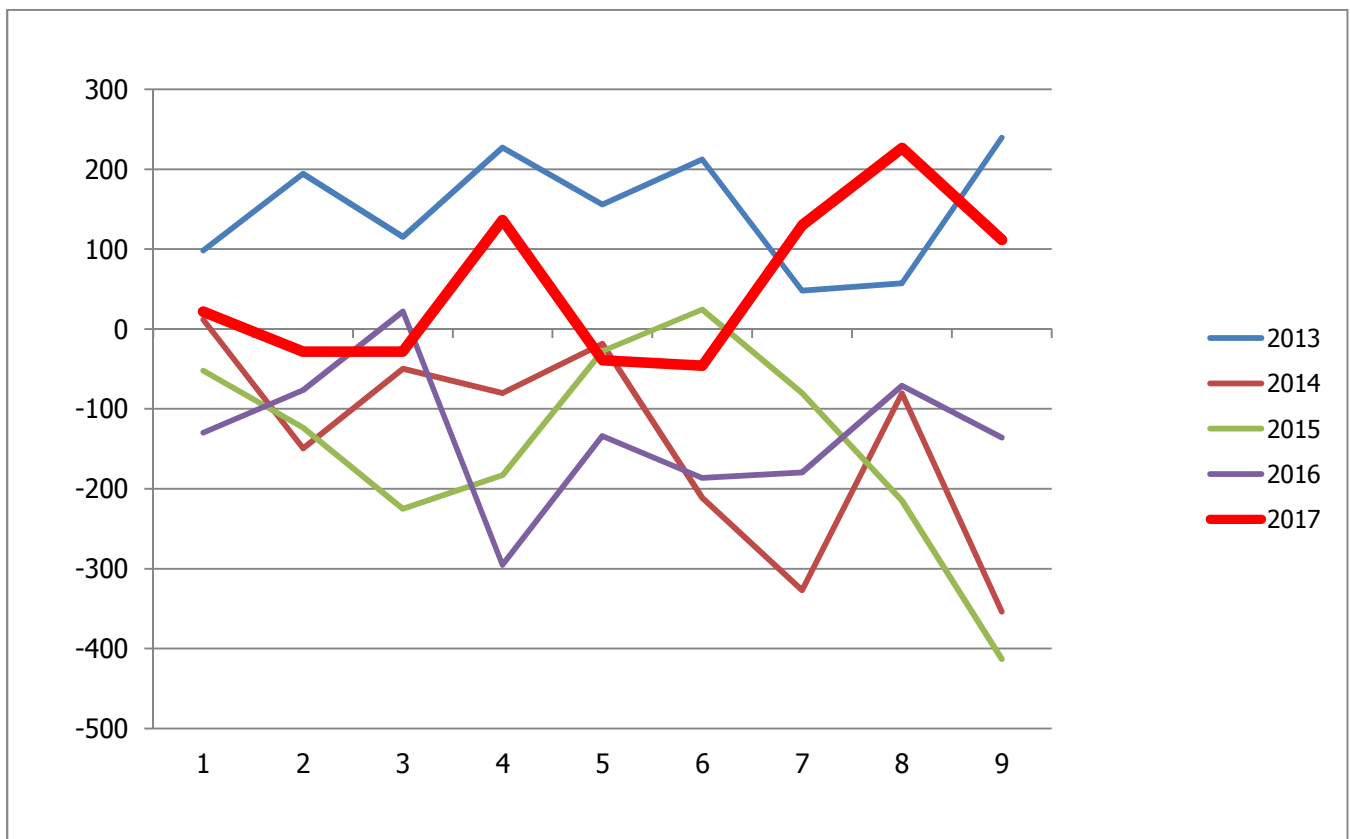
The potential beneficiaries

FBM KLCI: 1,658.84

(2017 Year-end Target: 1,830 points)

- **Highest foreign net inflow since 2013.** Foreign investors have been making a comeback on Bursa thus far this year. They had been net buyers in five out of the first nine trading days in 2017. Indeed the aggregate net inflow of foreign funds in the first nine days of this year amounted to RM485m had been the highest since 2013, which corresponded with the year of the last general election (see chart below).
- **Three-day haul is highest since September last year.** Most notably, foreign investors had been net purchasers in the last three trading days (Wednesday, Thursday, and Friday). The three-day haul of RM468m is the highest since September last year. The sequential-day inflow is a positive sign that confidence is returning.
- **Expectation of an election year.** It is no coincidence that the foreign funds are returning in what is widely expected to be an election year. Markets in this region tend to perform well when the electorates go to the poll, and signs are abound that the incumbent government will call for an election this year. Foreign funds are therefore expected to take tactical position in local stocks ahead of the polling date.

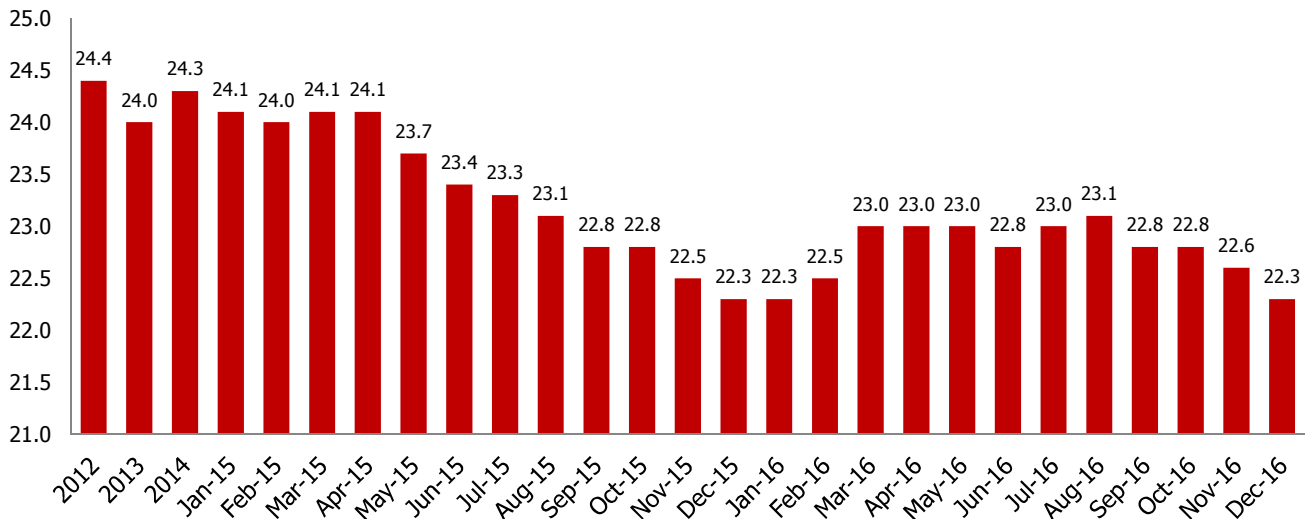
Chart 1: Net foreign flow in the first 9 trading days of 2017 (RM'm)



Source: Bursa

- **Foreign shareholdings have been on a downtrend over past years.** Based on Bursa's data, the percentage of foreign shareholdings based on market capitalisation in the local bourse was at 22.3% as of December 2016, a drop from the post-financial crisis high of 25.2% in May 2013.

Chart 2: Foreign shareholdings based on market capitalisation (%)



Source: Bursa, MIDFR

- **The latest comeback could benefit some familiar local names.** While it may still be too early to be too optimistic, but if the momentum of foreign net inflows persists, buying interest is likely to return to the familiar heavyweight names that came down in tandem with the general decline in foreign shareholdings during the past years. We listed below stocks that we believe have the potential to attract higher foreign shareholdings moving forward.

Table 1: Stocks that may attract higher foreign shareholdings in 2017

Stocks	Foreign shareholdings as at (%)*		Last Price (RM) (as at 13 Jan '17)	Target Price (RM)	52-Week High (RM)	52-Week Low (RM)
	End of 2015	End of 2016				
Digi.Com	10.1	9.9	4.91	5.02	5.25	4.31
Axiata	15.2	10.3	4.72	4.74	6.20	4.11
Sime Darby	13.7	12.6	8.52	9.05	8.60	7.00
CIMB	27.0	25.8	4.82	5.90	5.10	3.89
Maybank	17.4	15.7	8.32	8.10	9.20	7.25
Petronas Dagangan	7.6	6.7	23.78	24.80	26.30	22.16
Sapura Kencana	26.0	21.0	1.69	1.71	2.18	1.29
IHH Healthcare	20.4	19.7	6.32	6.58	6.79	6.15

Source: Bloomberg, MIDFR

*excludes strategic shareholding

- **FBM KLCI year-end target.** We reiterate our FBM KLCI 2017 year-end target of 1,830 points which equates to PER17 of 17.1x. 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.