

General Election : Market Reactions *The Election Effect*

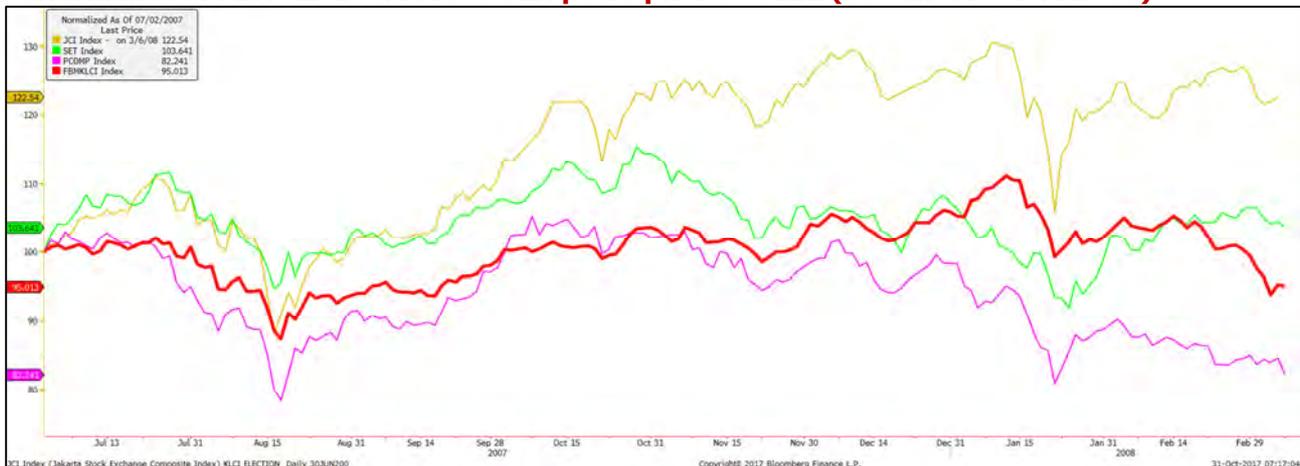
KLCI: 1,748.35 points

2017 Year-end Target: 1,830 points

Malaysia's 12th General Election in 2008 (GE12)

The **GE12**, held on 8th March 2008, was anticipated to be just another national election. Pursuant to its stellar performance during GE11 in 2004, the Barisan Nasional (BN) ruling incumbent was expected to win again comfortably, albeit with a lesser parliamentary majority (BN won 90% of parliament seats in 2004) but well ahead of the customary 2/3 mark. Looking back to the months leading up to GE12, the local equity market was rather indifferent towards the upcoming election as the FBM KLCI moved along in concert with its emerging ASEAN peers, i.e. Jakarta's JCI, Bangkok's SET and Manila's PCOMP.

Performance of FBM KLCI relative to SEA peers prior to GE12 (30 Jun '07 – 7 Mar '08)



Source: Bloomberg

As it turned out, the federal ruling incumbent fared worse than expected in GE12, whereby it failed to retain the 2/3 majority in parliament for the first time since 1969. The BN coalition also lost an unprecedented 5 states, i.e. Kedah, Perak, Pulau Pinang, Selangor and Kelantan, to the opposition parties.

FBM KLCI reacted negatively to results of GE12



Source: Bloomberg

Post-election selloff. The results of the GE12 surprised almost everyone, including the local equity market which reacted by staging a huge sell off. The benchmark FBM KLCI shed 123 points, or 9.5%, from the pre-GE12 Friday's close of 1,296 points to settle at 1,173 points on Monday's close after the election.

Malaysia's 13th General Election in 2013 (GE13)

The local market clearly perturbed during pre-GE13 months. The nation's political equations have totally changed ever since GE12 and so has the market psyche in regard to national election and its probable outcomes. Consequently, looking back to the months leading up to GE13, the local equity market was clearly perturbed by the impending election as evident by its stark underperformance vis-à-vis emerging ASEAN peers.

Performance of FBM KLCI relative to SEA peers prior to GE13 (30 Jun '12 – 3 May '13)



Source: Bloomberg

Federal ruling incumbent clinged on to power despite a unified & organized opposition in GE13 held on 5th May 2013. The Federal ruling incumbent obtained 60% of the 222 Parliament seats that were up for grabs, slightly lower than the 63% majority or 140 seats won in GE12.

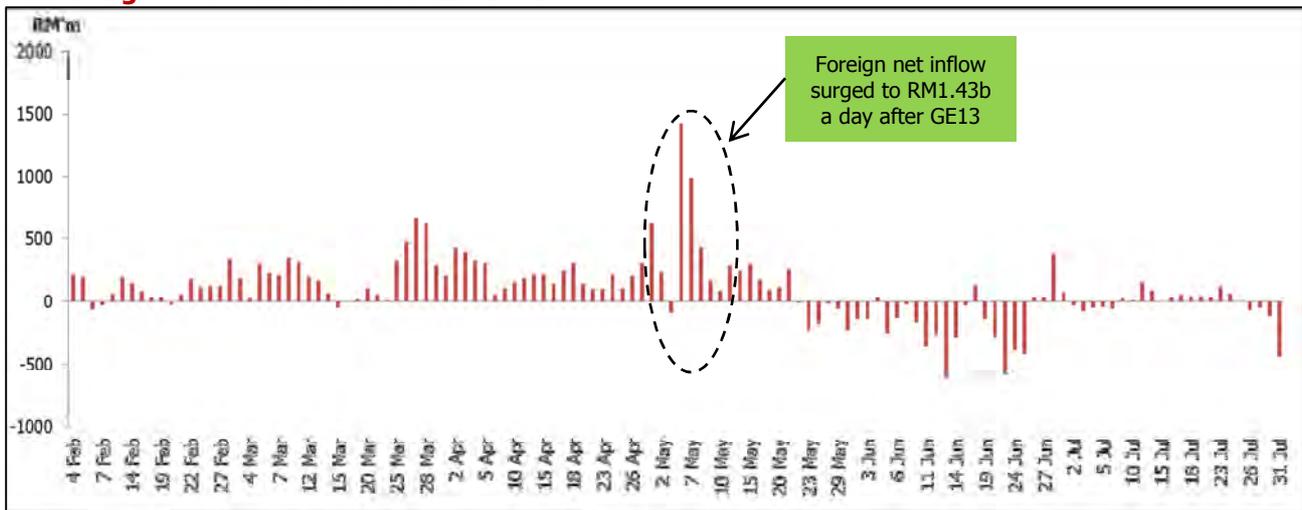
Local equity market reacted by staging a "relief rally" with the FBM KLCI at fresh record high on Monday after the election. The local bourse surged 3.38% to close at 1,752 points on post-election Monday. Furthermore, foreign investors loaded up RM1.43b net of Malaysian equity on the Monday after the election which has never been surpassed ever since. Despite the benchmark experiencing some pullbacks after the election where it retreated to circa 1,730 level on the back of persistent foreign selling (pursuant to US Fed Chair Ben Bernanke's QE taper statement), the FBM KLCI got back on track, posting an annual gain of 11% with a total annual foreign net inflow of RM3.03b in 2013.

FBM KLCI "relief rally" after GE13



Source: Bloomberg

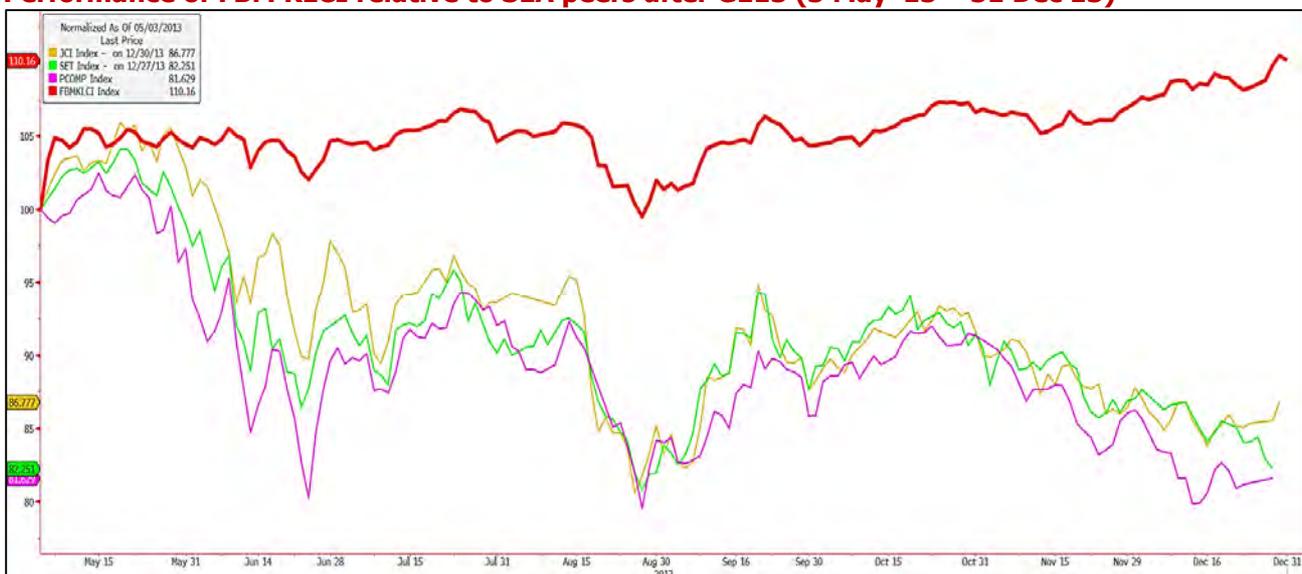
Net foreign inflow before and after GE13



Source: Bursa Malaysia preliminary statistics, MIDFR

The local market clearly rejoiced during post-GE13 months. With all the election uncertainties dissolved and a refreshed familiar government back in place, the victory brought back a sense of relief to investors. Therefore, looking back to the post-GE13 months, the local equity market was clearly rejoiced as evident by its stark outperformance vis-à-vis emerging ASEAN peers.

Performance of FBM KLCI relative to SEA peers after GE13 (3 May '13 – 31 Dec'13)



Source: Bloomberg

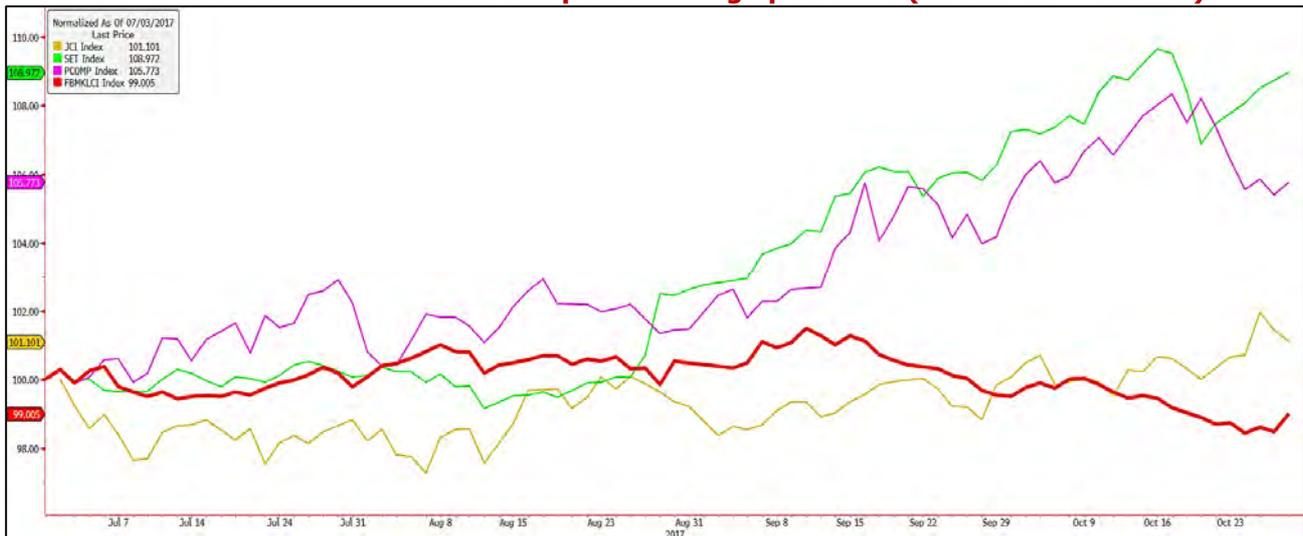
Malaysia's Upcoming 14th General Election (GE14)

Next election to be called on or before August 2018. The parliament will be automatically dissolved on 24th June 2018, hence GE14 must be called on or before one month from that date.

In comparison to SEA peers, the FBM KLCI seems to mirror the pre-GE13 trend. It seems that the FBM KLCI is at it again leading up to GE14, underperforming against its emerging ASEAN peers. Therefore it is highly likely that the FBM KLCI will once again show a reversal of trend, outperforming its regional peers if the federal ruling incumbent were to remain in power post-GE14.

We expect federal ruling incumbent may benefit from a fractured opposition hence possibility of 3-corner fights. Sungai Besar & Kuala Kangsar by-elections in mid-2016 were the most recent examples of 3-corner fights won by BN with huge majority; a stark contrast to the razor-thin margins in 2013.

Performance of FBM KLCI relative to SEA peers leading up to GE14 (30 Jun '17 – Current)



Source: Bloomberg

We expect local equity market to stage another “relief rally”. On this score, looking at the previous GE13, while FBM KLCI movements were relatively muted prior to the election, the market barometer staged a post-election relief rally as uncertainty over the leadership was removed. Henceforth, if the GE14 outcome favours the federal incumbent, we can expect another post-election rally (albeit smaller magnitude vis-à-vis post-GE13) coupled with commendable foreign inflow.

We reiterate our FBM KLCI 2017 year-end target of 1,830 points. We reiterate our FBM KLCI 2017 year-end target of 1,830 points which equates to PER17 of 17.1x and +1.1SD. Likewise, we reaffirm our FBM KLCI 2018 year-end target of 1,900 points which is equivalent PER18 of 16.7x and +0.9SD.

We are revising our stock recommendation thresholds. Effective from today, our stock recommendation thresholds will be revised to 10% from 15% and to -10% from -15% (Please refer to below **GUIDE TO RECOMMENDATIONS**). 

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be >-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >-10% 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.