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PEG-based ranking

Among the Top 100 stocks

KLCI: 1,778.16

(2015 Year-end Target: 1,900 points)

- **Relative sanguinity in the broader economy...** “We are not in a crisis”, stressed PM Najib Razak during the recent announcement of revised Budget 2015. The financial community, particularly among the economists polled by Bloomberg, seems agreeable to that statement as the consensus Malaysia’s Real GDP growth estimates for 2015 and 2016 now stands at 4.75% and 5.00% respectively. Furthermore, the nation’s Nominal GDP growth for this year and next may be even higher at circa 8% assuming GDP Deflator closely reflects the CPI consensus forecasts of 3.5% and 3.0% respectively.

Growth comparison

	Malaysia Real GDP	FBM KLCI Earnings
2014	6.00	1.92
2015F *	4.75	1.55
2016F *	5.00	8.11


Source: Bloomberg, MIDFR; * Bloomberg consensus

- **...is less reflected at the equity market level.** However, the relative optimism in the broader economy is less reflected at the equity market level. This is clearly evident by the tepid analysts’ consensus FBM KLCI earnings growth estimate of merely 1.6% for 2015. It must also be noted that the less than encouraging earnings growth figure may come on the heels of an equally disappointing growth rate of 1.9% in 2014. This situation is rather unusual as empirical data shows that the trajectory of FBM KLCI earnings growth normally exceeds that of the broader economy as represented by the Nominal GDP. Nevertheless, only in next year that earnings growth rate is expected to recover to a more reasonable 8.1%.

List of stocks with PEG of less than 1.0 among the Top 100

Name	Mkt Cap (RM mn)	Price 11-MAR-15	Price (%YTD)	PER *	2-y CAGR **	PEG
DRB-HICOM	3,847.14	1.99	13.7%	14.42	40.8%	0.35
MY EG SERVICES	3,341.84	2.78	31.8%	42.77	103.0%	0.42
BUMI ARMADA	6,218.25	1.06	-2.8%	13.77	30.7%	0.45
PRESS METAL	4,295.89	3.32	28.2%	10.61	19.8%	0.54
IOI PROPERTIES	7,746.64	2.05	-12.9%	14.86	25.4%	0.59
ECO WORLD DEVELOPMENT	3,841.93	1.95	13.1%	81.25	119.0%	0.68
SARAWAK OIL PALMS	2,417.55	5.50	6.6%	15.49	22.5%	0.69
BERJAYA AUTO	2,886.38	3.55	7.6%	13.05	18.4%	0.71
MAH SING GROUP	3,974.75	2.07	0.1%	9.95	13.3%	0.75
EASTERN & ORIENTAL	2,616.48	2.14	4.6%	24.05	31.4%	0.77
AIRASIA	6,567.82	2.36	-13.2%	7.69	9.1%	0.85
IJM CORP	10,747.47	7.17	9.1%	17.97	19.2%	0.94
CIMB GROUP	48,857.73	5.80	4.3%	11.91	12.4%	0.96
MMC CORP	7,429.94	2.44	2.1%	19.06	19.6%	0.97

Source: Bloomberg, MIDFR; Notes: * based on earnings of FY1 (current), ** based on earnings growth of FY2 (next) & FY3 (subsequent)

- **Under this situation**, valuation yardstick such as price earnings ratio (PER) may fail to capture the growth recovery in coming years. Hence in our quest to search for value, price earnings growth (PEG) may provide a better guidance. An acceptable rule of thumb with regard to the PEG valuation is that 1.0 being the parity with anything below considered as a bargain, and vice versa. Therefore, applying the same PEG yardstick on individual stocks among the Top 100 market capitalized companies on Bursa Malaysia helped to reveal some compelling valuation laggards.
- **DRB-Hicom comes out on top.** It should be noted that the above PER and PEG calculations were respectively based on consensus earnings estimates for current (FY1) financial year as well as the compounded annual growth of consensus forecasted earnings for next (FY2) and subsequent (FY3) financial years. The final tally shows DRB-Hicom came out on top with PEG of 0.35.
- **Property sector over represented.** In total, there are only 14 stocks among the Top 100 which currently trade at below the valuation parity. It is interesting to note that Property stocks, particularly those regarded as reputable township developers, dominate the list with 4 representatives on the table. 

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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.