MALAYSIAN ECONOMY AND CAPITAL MARKET

“Embracing Global Headwinds”
Economic Performance and Trends

Overview
- The Malaysian economy has remained firm despite ongoing global uncertainties.
- Malaysia stands a chance to attract foreign inflows given a combination of factors including:
  1. better economic growth prospects than developed nations;
  2. low debt level;
  3. higher savings rate;
  4. sound banking system;
  5. manageable inflationary pressure;
  6. decisive structural reforms;
  7. stronger currency; and
  8. clear vision to drive domestic expansion.

Figure 1: TA’s Forecasts

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2H11</th>
<th>Q311</th>
<th>Q411</th>
<th>Q112</th>
<th>Q212</th>
<th>Q312</th>
<th>Q412</th>
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</thead>
<tbody>
<tr>
<td>GDP YoY%</td>
<td>5.4</td>
<td>4.6</td>
<td>6.6</td>
<td>6.0</td>
<td>6.7</td>
<td>5.6</td>
<td>5.0</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>CPI YoY%</td>
<td>3.5</td>
<td>2.2</td>
<td>3.8</td>
<td>3.7</td>
<td>3.8</td>
<td>3.0</td>
<td>2.4</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Trade Balance: RM/bn</td>
<td>113.9</td>
<td>122.5</td>
<td>48.4</td>
<td>20.4</td>
<td>28.0</td>
<td>31.5</td>
<td>31.0</td>
<td>30.0</td>
<td>30.0</td>
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<tr>
<td>BNM overnight rate: end period</td>
<td>3.00</td>
<td>3.50</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.25</td>
<td>3.25</td>
<td>3.50</td>
</tr>
<tr>
<td>Malaysian Ringgit: end period</td>
<td>2.80</td>
<td>2.80</td>
<td>2.90</td>
<td>2.95</td>
<td>2.90</td>
<td>2.90</td>
<td>2.90</td>
<td>2.80</td>
<td>2.80</td>
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</table>

Source: TA Securities
Economic Performance and Trends

Robust Trade Balance

- The overall trade balance continues to post a surplus for the 164th consecutive month through to 1H11.
- To date 1H11, exports registered a growth of 6.6% amounting to RM336.6bn while imports expanded by 9.6% to RM277.74bn. Cumulatively, net exports have amounted to RM58.9bn.
- Singapore remains as Malaysia’s main exports and imports market accounting for 12.8% of total exports and 13.0% of total imports.
- Full year 2011 trade projections:
  1) exports growth of 5.3% YoY
  2) imports to accelerate by 6.0%
  3) trade surplus amounting to RM113.9bn.

Source: Department of Statistics, TA Securities
Domestic Driven Growth to Persist

- The Malaysian economy registered a YTD growth of 4.4% in 1H11.
- Growth will be driven by strong domestic demand and intra regional trade.
- The Malaysian economy is expected to grow by 5.4% in 2011 before tapering off to 4.6% in 2012.

Figure 4: GDP Growth (YoY %)

<table>
<thead>
<tr>
<th>GDP Components</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011f</th>
<th>2012f</th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11f</th>
<th>4Q11f</th>
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<tbody>
<tr>
<td>GDP</td>
<td>4.8</td>
<td>(1.6)</td>
<td>7.2</td>
<td>5.4</td>
<td>4.6</td>
<td>10.1</td>
<td>9.0</td>
<td>5.3</td>
<td>4.8</td>
<td>4.9</td>
<td>4.0</td>
<td>6.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Demand Side</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Government Final Consumption Expenditure</td>
<td>9.9</td>
<td>3.9</td>
<td>0.5</td>
<td>4.2</td>
<td>6.0</td>
<td>6.7</td>
<td>7.3</td>
<td>(8.8)</td>
<td>0.1</td>
<td>8.9</td>
<td>4.0</td>
<td>6.4</td>
<td>0.1</td>
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<tr>
<td>Private Final Consumption Expenditure</td>
<td>8.7</td>
<td>0.7</td>
<td>6.5</td>
<td>5.3</td>
<td>8.0</td>
<td>5.2</td>
<td>7.9</td>
<td>6.7</td>
<td>6.4</td>
<td>6.7</td>
<td>6.4</td>
<td>4.3</td>
<td>3.8</td>
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<tr>
<td>Gross Fixed Capital Formation</td>
<td>1.1</td>
<td>-5.6</td>
<td>9.8</td>
<td>6.1</td>
<td>7.6</td>
<td>5.8</td>
<td>12.9</td>
<td>10.1</td>
<td>10.0</td>
<td>6.5</td>
<td>3.2</td>
<td>7.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Exports</td>
<td>1.7</td>
<td>-10.5</td>
<td>9.9</td>
<td>4.3</td>
<td>6.0</td>
<td>19.1</td>
<td>14.0</td>
<td>6.8</td>
<td>1.7</td>
<td>1.4</td>
<td>4.1</td>
<td>6.4</td>
<td>5.0</td>
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<tr>
<td>Imports</td>
<td>2.1</td>
<td>-12.2</td>
<td>15.1</td>
<td>3.9</td>
<td>6.8</td>
<td>27.8</td>
<td>22.6</td>
<td>11.2</td>
<td>3.5</td>
<td>8.4</td>
<td>3.2</td>
<td>2.7</td>
<td>1.7</td>
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<tr>
<td>Supply Side</td>
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</tr>
<tr>
<td>Agriculture, Forestry &amp; Fishing (AF)</td>
<td>4.3</td>
<td>0.6</td>
<td>2.1</td>
<td>3.6</td>
<td>2.0</td>
<td>7.2</td>
<td>2.8</td>
<td>3.0</td>
<td>(3.9)</td>
<td>(0.2)</td>
<td>6.9</td>
<td>4.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>-2.4</td>
<td>-6.3</td>
<td>0.2</td>
<td>0.4</td>
<td>1.5</td>
<td>1.0</td>
<td>1.5</td>
<td>(0.7)</td>
<td>(1.2)</td>
<td>(4.2)</td>
<td>(9.2)</td>
<td>5.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Manufacturing (Mfg)</td>
<td>1.2</td>
<td>-9.3</td>
<td>11.4</td>
<td>5.5</td>
<td>2.5</td>
<td>17.1</td>
<td>16.0</td>
<td>7.6</td>
<td>6.2</td>
<td>5.6</td>
<td>2.1</td>
<td>7.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Construction</td>
<td>4.2</td>
<td>5.9</td>
<td>5.1</td>
<td>4.3</td>
<td>4.5</td>
<td>8.6</td>
<td>4.1</td>
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<td>5.6</td>
<td>3.8</td>
<td>0.6</td>
<td>5.4</td>
<td>7.1</td>
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<tr>
<td>Services</td>
<td>7.6</td>
<td>3.1</td>
<td>6.8</td>
<td>6.6</td>
<td>6.0</td>
<td>8.6</td>
<td>7.4</td>
<td>5.3</td>
<td>6.1</td>
<td>6.4</td>
<td>6.3</td>
<td>7.4</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia, TA Securities
Economic Performance and Trends

Monetary Policy

- Policy revamps include:
  1) four separate OPR increases of 25bps each since March 2010.
  2) cumulative SRR hikes of 3.0pp to 4.00% by May 2011.
  3) tighter credit standards by banks.

OPR

- Bank Negara raised the OPR once this year by 25bps to 3.00% during the monetary policy meeting in May 2011 and is has been unchanged since.
- BNM is anticipated to gradually normalize rate raising it to pre-crisis level of 3.50% by the end of 2012, with OPR increases of 25bps each expected during the MPC meets in 1H and 2H12.
Robust Trade Balance

Modest Inflation

- Malaysia’s CPI grew during 1H11 given the elevated commodity prices and energy cost, while food prices rose on the back of the shortage of supply.
- Cumulatively, CPI registered a growth of 3.0% as at 1H11.
- Removal/reduction of subsidies will exert cost push pressure on 2012’s CPI.
- Full year inflation to remain modest at an average growth of 3.5% and 2.2% for 2011 and 2012 respectively.

Full Rate of Employment for 2011 and 2012

- Malaysia has persistently registered full rate of employment since March 2009
- YTD 1H11, the unemployment rate averaged 3.1%.
- Unemployment rate of between 3.0% and 3.5% for both this year and next.
Economic Performance and Trends

Ringgit Fluctuates in an Orderly Manner

- Ringgit appreciates vis-à-vis USD in tandem with the strengthening of regional currencies.
- The accumulation of the international reserves held at BNM totalling USD136.1bn as at YTD 15th August 2011.
- Continued inflow of funds into Malaysia. The balance of payment had registered a surplus totalling RM15.9bn in 1Q11 driven mostly by the current account segment.
- Firm economic fundamentals, political stability, a healthy balance sheet, solid economic growth prospects and prevailing interest rate are in favour of a strong Ringgit.
- Our year-end projection for the Ringgit is RM2.90 per USD for 2011.

Source: Bank Negara Malaysia, TA Securities
Overview

According to the SC’s Annual Report 2010, Malaysia’s capital market crossed the RM2tn threshold for the first time ever as at end-2010.

As for equities, Malaysia lagged neighbours like Indonesia, Thailand and Philippines in 2H11. The FBM KLCI was not spared from the concerns over potential double-dip in the US and Euro zone.

As at 5th September, the FBM KLCI has fallen 9% from its July 11th peak of 1,597.

Figure 11: FBMKLCI’s Relative Performance

Figure 12: FBMKLCI vis-à-vis Other Regional Indices

<table>
<thead>
<tr>
<th>Index</th>
<th>Close (CY10)</th>
<th>EPS CY10</th>
<th>EPS CY11</th>
<th>EPS CY12</th>
<th>EPS Growth (%) CY10</th>
<th>EPS Growth (%) CY11</th>
<th>EPS Growth (%) CY12</th>
<th>CY10-12 EPS CAGR (%)</th>
<th>PER CY11</th>
<th>PER CY12</th>
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<tbody>
<tr>
<td>FBMKLCI (M’sia)</td>
<td>1,499.74</td>
<td>91.3</td>
<td>103.5</td>
<td>113.4</td>
<td>32.7</td>
<td>13.4</td>
<td>9.5</td>
<td>11.4%</td>
<td>16.4</td>
<td>14.5</td>
</tr>
<tr>
<td>KOSPI (Korea)</td>
<td>1,793.31</td>
<td>150.8</td>
<td>184.5</td>
<td>205.2</td>
<td>56.6</td>
<td>22.4</td>
<td>11.2</td>
<td>16.7%</td>
<td>11.9</td>
<td>9.7</td>
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<tr>
<td>LQ45 (Indo’sia)</td>
<td>702.43</td>
<td>37.4</td>
<td>45.7</td>
<td>54.2</td>
<td>29.7</td>
<td>22.2</td>
<td>18.6</td>
<td>20.4%</td>
<td>18.8</td>
<td>15.4</td>
</tr>
<tr>
<td>HANG SENG (HK)</td>
<td>20,260.10</td>
<td>1651.7</td>
<td>1955.6</td>
<td>2142.8</td>
<td>34.7</td>
<td>18.4</td>
<td>9.6</td>
<td>13.9%</td>
<td>12.3</td>
<td>10.4</td>
</tr>
<tr>
<td>PSEi (Philippine)</td>
<td>4,332.63</td>
<td>316.5</td>
<td>312.0</td>
<td>340.7</td>
<td>36.8</td>
<td>-1.4</td>
<td>9.2</td>
<td>3.8%</td>
<td>13.7</td>
<td>13.9</td>
</tr>
<tr>
<td>FSSTI (S’apore)</td>
<td>2,874.40</td>
<td>207.0</td>
<td>220.4</td>
<td>240.4</td>
<td>15.3</td>
<td>6.5</td>
<td>9.1</td>
<td>7.8%</td>
<td>13.9</td>
<td>13.0</td>
</tr>
<tr>
<td>SET 50 (Thai)</td>
<td>1,086.32</td>
<td>53.2</td>
<td>62.2</td>
<td>69.4</td>
<td>25.9</td>
<td>16.9</td>
<td>11.7</td>
<td>14.2%</td>
<td>20.4</td>
<td>17.5</td>
</tr>
<tr>
<td>TWSE (Taiwan)</td>
<td>7,819.39</td>
<td>574.2</td>
<td>632.2</td>
<td>739.3</td>
<td>75.9</td>
<td>10.1</td>
<td>16.9</td>
<td>13.5%</td>
<td>13.6</td>
<td>12.4</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia, TA Securities
Capital Market Performance and Trends

Overview

- The number of new listings from January to 15 August, 2011 was 25, which was a slight 13.8% contraction from 29 companies in 2010.
- Main Market listing only accounted for 60% of total listing compared to 79.3% last year as IPOs in the Ace Market gained momentum.
- The average daily trading value of RM1,873.6mn as at August 15th, 2011 was 34.8% higher than last year’s average of RM1,389.7mn as sentiment improved and listing of government-linked companies created interest.
- Blue-chip benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) slipped to a fresh 11-month low of 1,423 on severe panic selling on 9th August prior to a rebound later that week.

Source: Bloomberg, TA Securities
Capital Raising Exercise in 1H

- Corporations raised RM33.1bn in the form of bonds and medium term notes (MTN). This translates to a 70.8% jump compared to RM19.4bn a year ago.
- The public sector also raised a substantial amount of funds, issuing some RM51.4bn worth of debt securities in 1H 2011 vs. RM35.5bn in 1H 2010.
- Malaysian Government Securities (MGS) totalling RM31.8bn was raised (up 50.6% from RM21.1bn in 1H 2010) - accounting for 62% of total debt securities issued.
Capital Market Performance and Trends

Steepling of the Yield Curve
- The Malaysian yield curve continues to point towards an upward trend but less steep now compared to last year, indicating that BNM’s tightening monetary stance could be easing.

Widening of Pricing Gap
- The pricing gap for lower quality A-rated bonds continues to widen indicating flight-to-quality.
- Foresee the issuance of more top notch investment grade PDS (Private Debt Securities) going forward.

Bond Market to Remain Active in 2H
- ETP programme to drive bond market.
- Evidently, total PDS issued by the private sector in 1H 2011 has more than quadrupled while total funds raised by the public sector grew by a moderate 33.6% YoY.
Capital Market Performance and Trends

Rising Demand for Funds

- The total funds approved to be raised from RM-denominated (Private Debt Securities) PDS increased by 150% to RM34.3bn.
- Finance, insurance, real estate and business services segment raised the most fund (RM13.1bn) followed by the government (RM9.3bn), utilities (RM6.7bn) and construction (RM2.5bn)

System Flushed With Ample Liquidity

- The system continued to be flushed with ample liquidity given the uninterrupted rise in M3.
- We also foresee an inflow of liquidity due to the abundance of new market opportunities via SC’s efforts

![Figure 21: Breakdown of Debt Securities Raised by the Private Sector](image)

![Figure 22: M3 (RM bn)](image)

Source: Bank Negara Malaysia, TA Securities
Major Market and Regulatory Developments and Prospects for the Securities Industry

Regulatory policies

- Recently, SC revised guidelines on PDS, sukuk and trust deed to ensure higher operational efficiency and disclosure in the bond market.
- Going forward, we foresee SC intensifying prudential and conduct supervision of market institutions and intermediaries over a broad range of regulatory concerns.

Capital Market Master Plan 2 – Growth Driver

- Underscores plan to more than double capital market value to RM5.8 trillion by 2020 from current RM2 trillion with “Growth with Governance” being the theme.
Uncertain Times But Long-term Prospects Intact

- Global economy fraught with issues. It has brought upon uncertainties and led to weak sentiments.
- Any announcement of third quantitative easing (QE3) is likely to trigger a short-term rally in commodities and emerging market equities as funds flow towards high yielding assets.
- US and European governments should undertake swift structural reforms and incentivize businesses to elude a double-dip scenario.
Major Market and Regulatory Developments and Prospects for the Securities Industry

- The FBM KLCI to remain volatile in the 2H11 as investors react to every piece of negative news after three unexpected global events shook equity markets, i.e. the unrest in Middle East and North African regions, Tsunami and nuclear scare in Japan, and downgrade of the US sovereign rating by Standard & Poor’s. Our end-2011 FBM KLCI Index target is 1,490 using a mid-cycle PER of 14.5x.

- Greater volatility ahead but downswing could be capped at 1,340 based on CY12 PER of 12.3x (which is the average PER of 2008). However, it could be severe based on historical accounts if the US and European economies are in a tailspin.

- End-2012 target of 1,560 is based on mid-cycle PER of 13.5x.
THANK YOU