

## **Construction, banking stocks still have legs to run — analysts**

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KUALA LUMPUR: Stocks in the construction and banking sectors still have legs to run despite the market rally seen so far this year, according to analysts.

“Internally, we are currently overweight on the banking and construction sectors,” Etiqa Insurance and Takaful head of research Chris Eng Poh Yoon told The Edge Financial Daily.

However, he flagged that the positive recommendation on the banking sector could change in May, depending on how the market goes and how banks’ first-quarter financial results pan out.

While he is positive on both the banking and construction sectors, Eng stressed that the investment strategy now is to gradually take profit from the market rally.

“I think there has to be a pullback before it (bull run) can continue later,” Eng added.

The first four months of this year has seen the benchmark FBM KLCI gain 7.7% to 1,768.06 points and the FBM Small Cap Index climb 20% to 17,661.72 points.

During the same period, the Bursa Malaysia Construction Index has risen 19.5% to 340.03 points, while the Bursa Malaysia Finance Index increased 13.3% to 16,301.17.

Areca Capital Sdn Bhd chief executive officer Danny Wong concurred that the market is likely to see a correction in the near term.

“There is still room for some performance in terms of corporate earnings. Having said that, in the past four months, some of the small- to mid-cap counters have run up a fair bit. But in index terms, the rise is still in the single-digit [percentage]. So, I don’t expect a big correction. The mid- and small-caps have some room for correction,” Wong said.

He said that the quarterly earnings would play a crucial factor in determining the magnitude of the correction in the market.

“The quarterly earnings are very important. This coming reporting season will somewhat give an indication if there is a trend of earnings recovery from the last quarter. If there is a trend, I think there would be a very mild correction only. The second half of this year could be better [for earnings].

“But I think in May, we will likely [see a correction],” he said.

Wong shared that his preferred sectors are banking and technology.

“On banking, when loan growth is back, along with global growth, I think earnings will recover. There’s also a low base effect from last year. There was a fair bit of impairments done last year and it’s unlikely to happen again [in the same magnitude] this year. All these point to [a] good set of results,” he said.

Wong pointed out that while share prices of banks may have run up, when viewed from a one-year perspective, they are trading at reasonable valuations compared with their historical prices.

As for the technology sector, Wong said the improvement in export numbers indicated a more positive outlook for tech counters. The Bursa Malaysia Technology Index has risen 48.8% to 32.85 this year.

According to Wong, consumer stocks may no longer be preferred when the market bull run continues. “People might switch to other counters,” he said, adding that some of the consumer stocks have run up quite a bit since the last few years.

Mercury Securities Sdn Bhd research head Edmund Tham shared that the market sentiment remained bullish, especially among institutional fund managers.

Tham told The Edge Financial Daily that the Malaysian equity market will remain strong as long as the US and regional markets remain bullish.

“My personal view is that the infrastructure stocks would do well. I’m looking at those with market capitalisation of below RM1 billion,” he said.

Tham added that in short term, tech counters and those with news flow on mergers and acquisitions or other corporate exercises could attract interest.

“As for the long term, I think commodities would be a good pick. Oil and gas, crude palm oil, and even gold-related counters should benefit from the comeback in commodities,” Tham said.

MIDF Research has set a year-end target for the FBM KLCI at 1,830 points, on the back of better corporate earnings growth. “Earnings growth in 2017 is expected to be strong despite the pressure seen on the ringgit and also the uncertainty on the geopolitical front,” it said in a report last Friday.