

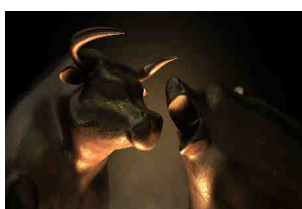
# Investment Strategy

## This Too Shall Pass

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|                |                 |
|----------------|-----------------|
| <b>FBMKLCI</b> | <b>1,551.64</b> |
| <b>Target</b>  | <b>1,712.00</b> |

Reminiscent of the SARS impact of 2003, global markets have started to sell off on rising anxiety over the risk of the Coronavirus (2019-nCoV) becoming a global pandemic. Considering the challenges in containing the spread during the Lunar New Year migration, we should brace for heightened market volatility as the number of confirmed cases should rise sharply in coming days. Specific to Malaysia, VMY 2020 will be impacted most, likely throughout 1H2020, given that tourists from China make up the 3<sup>rd</sup> largest arrivals and are a main target for this year's campaign. However, if the lesson of SARS is to be learnt, it is that this crisis will come to pass. During SARS 2003, stock markets in China bottomed as the number of new cases peaked, around two months after the news initially made global headlines in a big way. Unfortunate as this seems, we see this episode as a buying opportunity for those insufficiently positioned in equities. We anticipate a V-shaped recovery on tourism and retail-related stocks especially: Our picks for the rebound are GENTING (OP; TP: RM7.00), AIRPORT (OP; TP: RM9.90), PADINI (OP; TP: RM4.00), KLK (OP, TP: RM32.90), GENM (MP; TP: RM3.30) and TAKAFUL (OP; TP: RM6.85).



**Parallels with the SARS experience?** During the SARS crisis, the infection was first detected in November 2002. Between then and February 2003, 5 people had died and over 300 were reported to have fallen ill of SARS in Guangdong province, China. During this time, stock markets in Asia were at peaks around mid-Jan 2003 (before CNY on 1<sup>st</sup> Feb). It was after CNY that the downward momentum in Asia gathered pace before reaching a crescendo in March/Apr. From peak to trough, the FBMKLCI fell 8.4% (or 8.9% if the intraday

low was considered), while the Hang Seng Index and Singapore Straits Times fell 14.8% and 14.7%, respectively (see below). Using the scale of the SARS correction as a guide, a potential drop of over 8% for the domestic market could see the FBMKLCI bottoming at 1,481 from the recent high of 1,617 points at end December.

| Stock Market        | FBMKLCI    | HSI        | FSSTI      |
|---------------------|------------|------------|------------|
| Market Peak         | 675.87     | 9,873.49   | 1,373.17   |
| Date of Peak        | 21 Jan '03 | 15 Jan '03 | 14 Jan '03 |
| Market Trough       | 619.22     | 8,409.01   | 1,170.85   |
| Date of Trough      | 11 Mar '03 | 25 Apr '03 | 10 Mar '03 |
| Peak-to-Trough Loss | -8.4%      | -14.8%     | -14.7%     |



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**Confirmed cases to rise sharply:** As with SARS, the Coronavirus also started infecting victims in the weeks leading up to the large scale CNY travelling season within China. Hence, we would expect the impact from heightened contagion due to the migration of people to be similar to the SARS experience but probably no worse if one considered that this time around, authorities have at least imposed a lockdown on the city of Wuhan – ground zero of the virus. And, in terms of mortality rate, the statistics so far indicate that the Coronavirus might be less fatal than SARS based on the ratio of deaths for every confirmed case so far. As at 27<sup>th</sup> Jan 2020, the latest WHO report on the Coronavirus stated that there were 2,798 confirmed cases globally with 80 deaths recorded. This ratio of 1 death for every 35 cases so far seems less fatal compared to 1 death for every 11 SARS cases.

In an uncanny way, we seem to again be facing a post-CNY sell-off, spooked by risk of viral spread which in our opinion is unlikely to unfold into a global pandemic. However, as in the case of 2003, it may take up to two months before markets bottom. With the FBMKLCI trending down since late December and falling 1.3% yesterday – the first trading day post CNY - the FBMKLCI now trades at 15.3x 12-month forward PE. This is about -1.2x standard deviation below the 5-year mean of 15.9x. On our technical reading, our chartist is of the opinion that while 1,550 is a key support level, the FBMKLCI remains caught in a medium-term downward sloping trend channel. Hence, there is a chance for the FBMKLCI to head towards the psychological threshold of 1,500 points last visited in August 2015. And, based on a potential 8% retracement to 1,481, a level below 1,500 would certainly make a compelling entry point.



**Negative impact on tourism:** In the 9MCY19, China tourists – the third largest number of arrivals - were the second largest in terms of tourist expenditure at RM12.8b after Singapore (RM16.3b). Given that the Chinese were recently among the fastest growing arrivals (+29.0% in 2018 and +5.7% in 9MCY19) and a main target for the VMY2020 campaign, we see downside risk to the government's target of 30m tourist arrivals (+11%) and RM100b income (+13%). During the SARS crisis, GENM and GENTING fell 29% and 23% from peak to trough respectively. GENM (MP; RM3.04) already trades at 13.2x 12-month forward PE and GENTING (OP; RM5.60) at 8.9x – both are at 2 standard deviations below their respective 5-year averages. The other affected tourism and retail plays which we have OP recommendation are AIRPORT and PADINI.

**Below our technical commentaries on the 6 picks:**

| Stock   | Technical Takes  |
|---------|--|
| AIRPORT | Stock could see a technical rebound from an oversold position, with resistance target seen at RM6.90. On the downside, key support level could be found at RM5.80. Fundamental target price is RM9.90.                     |
| PADINI  | Stock may see key support level at RM3.00. Resistance level is at RM3.45. Fundamental target price is RM4.00.  |
| GENTING | Stock could rebound from a technically oversold position, which may then lift the share price to a resistance barrier of RM6.20. Support level is seen at RM4.90. Fundamental target price is RM7.00.                      |
| GENM    | Stock is approaching an oversold territory. Support level is seen at RM2.90. An ensuing relief rebound may potentially lift the share price to a technical resistance target of RM3.45. Fundamental target price is RM3.30 |
| KLK     | Stock is in a sideways trading pattern, which is expected to range bound between its support level of RM21.00 and resistance level of RM25.50. Fundamental target price is RM32.90.  |
| TAKAFUL | Stock is oversold with RSI falling below 30. Immediate support level is seen at RM4.50 with resistance target at RM5.00. Fundamental target price is RM6.85.   |

**More upside seen for glove makers:** Given that this pandemic scare is yet to peak, we see more upside to glove stocks despite the sharp run-up in share prices recently. The four stocks we cover have delivered YTD returns of 14% - 34%. While KOSSAN and HARTA are closing in on their target prices and TOPGLOV and SUPERMX have exceeded theirs, they have room left to reach 2 standard deviations above mean levels. Another 10% leg up in the near term on these stocks would not be entirely surprising.

| Stock   | Closing price (RM) | YTD gain (%) | Price at +2SD (RM) | Upside to +2SD (%) | Current Target Price (RM) |
|---------|--------------------|--------------|--------------------|--------------------|---------------------------|
| KOSSAN  | 5.01               | 20.4         | 6.20               | 23.7               | 5.25                      |
| TOPGLOV | 6.00               | 27.7         | 6.80               | 13.3               | 4.25                      |
| SUPERMX | 1.86               | 33.8         | 2.33               | 25.3               | 1.75                      |
| HARTA   | 6.25               | 14.1         | 7.43               | 18.9               | 6.50                      |

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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