

15th General Election

No Coalition Has the Numbers, Yet

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FBMKLCI	
Current	Target
1,449.32	1,450↓

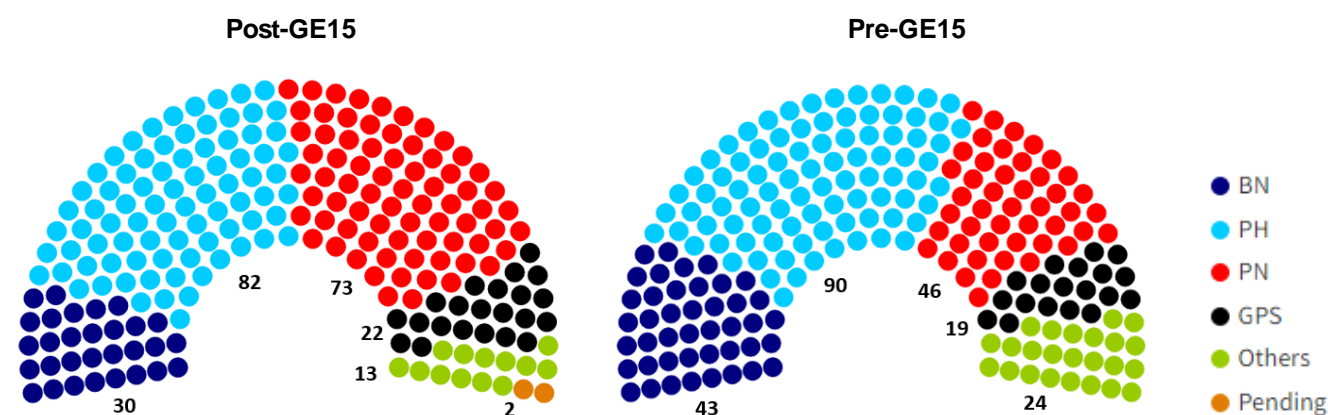
The newly concluded 15th General Election (GE15) does not seem to have resolved the political impasse that has beleaguered the nation over the last two-and-a-half years. In the absence of any coalition commanding a simple majority, at best, Malaysia will only usher in another joint government or minority government. This makes it extremely challenging for new policy initiatives and reforms to be pushed through. We cut our end-2022 FBM KLCI target by 3% to 1,450 pts (from 1,500 pts) to reflect the new reality. Nonetheless, we continue to advocate investors to seek refuge in banks, telcos, auto makers/distributors and mid-market retailers as we believe the government of the day post GE15, will continue to be highly supportive of domestic consumption.

No coalition commands a simple majority of 112 seats or more.

The newly concluded GE15 does not seem to have resolved the political impasse that has beleaguered the nation over the last two-and-a-half years. In the absence of any coalition commanding a simple majority of seats of 112 or more, the palace has instructed leaders of political parties and coalitions that command a large number of seats in the parliament to inform Istana Negara by 2pm today of the agreed combination of political parties to form the next government and the prime minister (PM) candidate.

In GE15, the Pakatan Harapan (PH) coalition emerged the biggest winner with 82 seats (a slight reduction from 90 immediately before the dissolution of parliament), followed by Perikatan Nasional (PN) with 73 seats (a sharp increase from 46 immediately before the dissolution of parliament), Barisan Nasional (BN) with only 30 seats (from 43 immediately before the dissolution of parliament) and Sarawak-based Gabungan Parti Sarawak (GPS) with 22 seats (from 19 seats immediately before the dissolution of parliament) (see Exhibit 1).

Exhibit 1: Parliament Post- and Pre-GE15

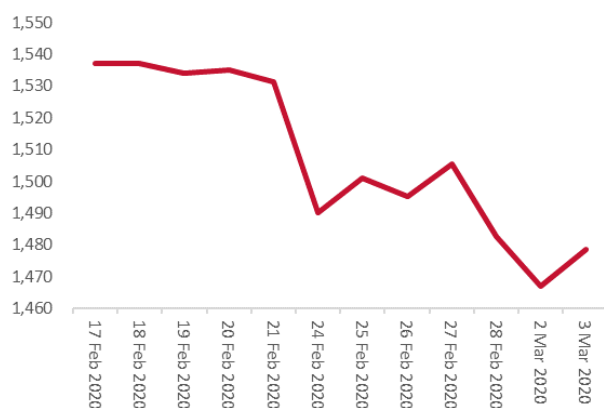


Source: Kenanga Research, Media

We expect a knee-jerk market selloff due to the following reasons.

1. At best, Malaysia will only usher in another joint government, also known as a minority government, post the GE15 (assuming a joint government could be formed). A joint government means the decision-making process will continue to be hampered by incoherence of ideologies, making it challenging for new policy initiatives and reforms to be pushed through; and
2. Whether, in the first place, a deal could be struck between two or more coalitions to form a joint government. During late-Feb 2020 in the aftermath of the “Sheraton Move” that brought down the PH government, leaving the country without a functioning government and a PM, the FBM KLCI fell as much as 4.6% from 1,537 pts in mid-Feb to a low of 1,467 pts on 2 Mar 2020 (see exhibit 2).

21 November 2022

Exhibit 2: FBM KLCI during “Sheraton Move” in 2020

Source: Bursa Malaysia, Kenanga Research

We cut our end-2022 FBM KLCI target to 1,450 pts.

This is after we moderate our valuation basis to 15x our 2022F earnings projection (-9.3%), from 15.5x previously. Nonetheless, we continue to advocate investors to seek refuge in domestically-driven sectors including banks, telcos, auto makers/distributors and mid-market retailers, amidst rising external headwinds. We believe the government of the day post the GE15, will continue to be highly supportive of domestic consumption.

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