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Bursa closes at intraday low 16

Local equity market tumbles on poor corporate results, nation's debt

We are heading into the results season and investors are closely monitoring the companies' performances, says analyst

by MARK RAO

Pic by Muhd Amin Naharul

The Parliament building in Kuala Lumpur. Investors are also monitoring the new govt's fiscal direction — the country's RM1t debt and probes into the 1MDB scandal

THE equity market slumped to an almost five-month low as disappointing corporate results, uncertainty over the future of major contracts and the country's ballooning RM1 trillion debt level, forcing a broad-based sell-off.

The main FTSE Bursa Malaysia KLCI tumbled 40.78 points to close yesterday's trading at 1,804.25, the lowest since the market closed at 1,803.45 on Jan 4 this year. Investors who profited from the steep rise of consumer product stocks also exited the market.

CIMB Investment Bank Bhd head of Malaysia research and regional Ivy Ng said investors have reacted to the disappointing corporate results of several companies.

"The results for companies such as Telekom Malaysia Bhd (TM) and Axiata Group Bhd have come in below expectations and the market appears to be selling on this," she told *The Malaysian Reserve (TMR)*.

"We are heading into the results season and investors are closely monitoring the performances of the companies."

TM, Axiata, Lafarge Malaysia Bhd, Petronas Chemicals Group Bhd and British American Tobacco (M) Bhd delivered disappointing first-quarter results.

Axiata's share price plummeted 64 sen, or 12.62%, to RM4.43, shaving about 10 points from the main index. The telecommunications giant posted a net loss of RM147.41 million for the quarter compared to a net profit of RM239.02 million a year ago.

Investors are also monitoring the new government's fiscal direction — the country's RM1 trillion debt and probes into the 1Malaysia Development Bhd (1MDB) scandal.

Ng said investors are digesting some of these domestic changes that have either been proposed or are ongoing.

"On the corporate front, investors are looking at how individual companies perform under this scenario, especially with many construction projects likely to come under review by the ruling coalition," Ng said.

The future of several mega projects is also up in the air. These include the RM50 billion Kuala Lumpur-Singapore high-speed rail and RM55 billion East Coast Rail Link, as well as other projects backed by Chinese investments.

Two major gas pipeline projects, namely the Trans Sabah Gas Pipeline and Multi Products Pipeline stretching from Sandakan to Kimanis and Melaka to Jitra respectively, are also expected to come under review.

"Companies engaged in toll concession and construction, and counters perceived as politically linked, have already seen some negative impact due to these developments," Ng said.

Ng said the market is also watching how the government will compensate and manage the country's fiscal direction with the zero-rated Goods and Services Tax, which will come into effect on June 1.

Oanda Corp head of trading for Asia Pacific Stephen Innes said near-term political risk is clouding the performance of Malaysian markets, including the performance of the ringgit and local bonds.

"The current ringgit level looks very attractive as do local bond yields," Innes told *TMR*.

"When you add in crude oil prices to the equation, there are a lot of positive elements, but near-term uncertainty continues to hold back the markets."

Since appreciating to RM3.86 against the US dollar on April 2 this year, the ringgit has lost ground against the greenback, falling to as low as RM3.98 this week.

Higher US bond yields, dollar strength and the ongoing US-China trade rift have contributed to the depreciation of the local note, while internal political developments have kept investors largely at bay.

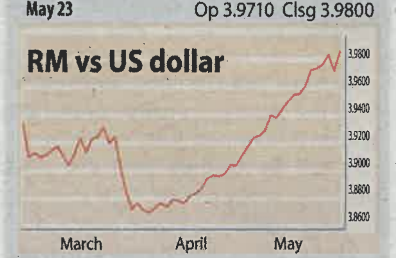
But Brent oil price has risen to the US$80 (RM318.40) per barrel level, providing the strength to support the ringgit.

Innes, however, predicts the US dollar to weaken as the market addresses the growing US budget deficit over the coming months.

"Once the US dollar shows the first convincing signs of buckling, the ringgit will advance below the RM3.80 mark and, provided that oil prices remain firm, could test the RM3.70 level later this year."

RINGGIT EASES AGAINST US DOLLAR

May 23 Op 3.9710 Clsg 3.9800



Credit: Bloomberg

THE ringgit closed lower against the US dollar ahead of the release of the US Federal Reserve minutes yesterday, said a dealer. At 6pm, the local unit was quoted at 3.9800/9850 versus Tuesday's close of 3.9655/9685. Oanda Corp head of trading in Asia Pacific Stephen Innes said lack of fiscal clarity was keeping foreign investors at bay. Despite foreign investors shying from the local

MSM's 1Q18 profit helped by lower costs

by KEVIN WONG

MSM Malaysia Holdings Bhd said lower material costs and the favourable foreign-exchange rate helped the sugar maker post a net profit of RM15.81 million for the first quarter ended March 31, 2018 (1Q18), thus sustaining the path to profitability since the second half of last year (2H17).

Earnings per share for the quarter stood at 2.25 sen as revenue for the quarter fell by 14.2% year-on-year (YoY), or RM90.98 million, to RM549.06 million due to a 7% reduction in the overall tonnage sold and lower average selling prices.

The country's leading refined sugar producer and subsidiary of Felda Global Ventures Holdings Bhd noted that the improved performance was helped by a reduction in administrative expenses, down 33% quarter-to-quarter, or RM9.1 million, from RM23.8 million.

"The 1Q18 performance shows encouraging signs towards a healthy balance sheet. It certainly is a continuous turnaround process and MSM's direction is firm to reinforce its leading role in this business," said MSM ED Datuk Khairil Anuar Aziz.

He said the group will continue to strengthen its operational focus by marking down its raw sugar cost by 23.1% against 1Q17.

"This was hampered by an increase in the average refining cost due to higher fuel cost, which resulted from an upward revision of the gas tariff in January by 16%," he said.

Khairil said for the past year, the group has been prudent with its cost management initiatives to ease pressure on its margins.

"The group's current quarter pretax profit of RM20.94 million is considered a feat as it shows a steady recovery and outperforms the corresponding quarter last year.

"The cost management initiatives are now sustainably embedded across the group. Ideally, we plan to maintain discipline in cost and operational efficiency," he said, adding the group is focused on investments in its profitable assets to maximise cashflow regeneration.

MSM plans to further improve its inventory management, supply and distribution efficiency, and operating expenditure optimisation to remain resilient for the remaining quarters.

Khairil said sugar yields have improved significantly due to the Asian monsoon rains, which have led a global sugar glut.

"Global supply is estimated to beat demand by 10.4 million metric tonnes in the current season, 26% more to erase shortages for the past two seasons," he said.