

Is the Stock Market of Malaysia Overheated?

A study from January to August 2020

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Introduction

The month of August 2020 is a significant month of Bursa Malaysia with FTSE Bursa Malaysia KLCI Index (KLCI) registering this year's high of 1618.01 on 10 August 2020, a 34% increase from its lowest point of 1207.80 on 19 March 2020, when the world is overwhelmed by the negative impact of the Covid-19 pandemic and lockdown. By August 2020, the market managed to recover and return to its pre-Covid level. At the time of writing, the KLCI ended the last trading day of August with a steep daily drop of 1.9% to 1525.21. On the same day after the market is closed, the government announced a further extension of recovery movement control order in Malaysia to 31 December 2020.

Some important questions at this juncture for investors are: how is the intrinsic valuation of the overall stock market in Malaysia? Is it still time to buy or is the market overheated?

The objective of this article is to analyse overall performance of the stock market of Malaysia for the period January-August 2020. The key indicators in the sample statistics are FTSE Bursa Malaysia KLCI Index (KLCI), FSTE Bursa Malaysia Top 100 Index and the FTSE Bursa Malaysia Emas Index in order to have a broad view of the large cap, medium cap and small cap stocks.

The valuation methodologies used in this study include summary statistics, fundamentals analysis using forward PE, and technical analysis (Relative Strength Index and Moving Average). In addition, the volatility of the market is also evaluated to measure the riskiness of the state.

1. Summary Statistics

The summary statistics as at 28 Aug 2020 is as follows:

	Index as at end of Aug 2020	This Year's high	This Year's low
FTSE Bursa Malaysia KLCI Index	1,525.21	1,618.01 (10 Aug 2020)	1,207.80 (19 March 2020)
FTSE Bursa Malaysia Top 100 Index	10,886.75	11,347.89 (3 Aug 2020)	8,112.63 (19 March 2020)
FTSE Bursa Malaysia Emas Index	11,085.58	11,476.63 (6 Aug 2020)	8,257.78 (19 March 2020)

Source: Thompson Reuters Eikon (last retrieved on 28 August 2020)

The indices have recovered from their lowest point on 19 March 2020. These indices are currently trading at its pre-covid-19 level. As compared to the FTSE KLCI Index's 5-year high of 1895.18 on 19 April 2018, the fundamentals today are very different due to weaker earnings and uncertainty from the impact of Covid-19 pandemic.

2. PE Multiples

The KLCI is currently trading at 1-year forward PE ratio of 19.89 times based on statistics from Refinitiv Datastream. The scale of PE band ranges from -1 to +1, with a value of zero closes to its mean. The analysis of forward PE bands show that the market is trading below its short-term PE band, indicating a selling pressure over the last 5 days. For one year horizon, the KLCI is fairly valued. The 1-year forward PE band of Bursa 100 of 0.70 shows that there is a limit the upside potential of the share prices as the fundamentals have been reflected in the valuation.

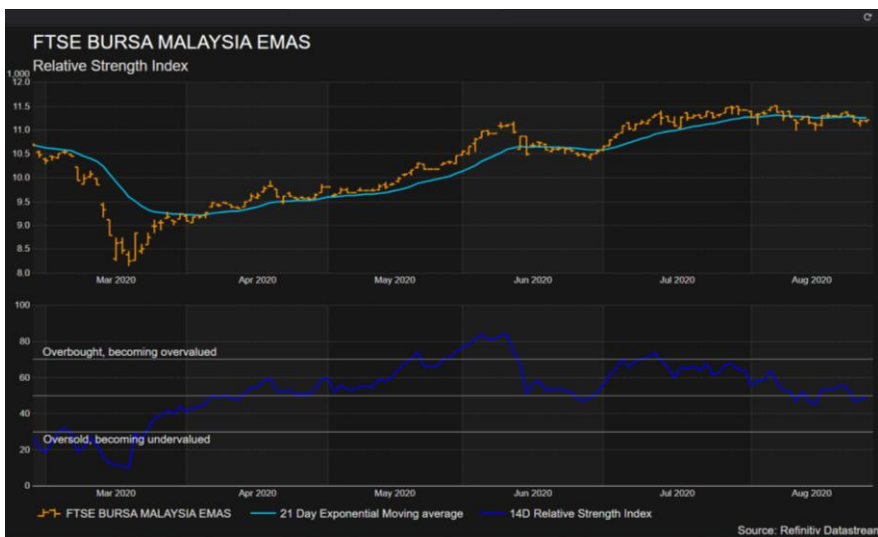
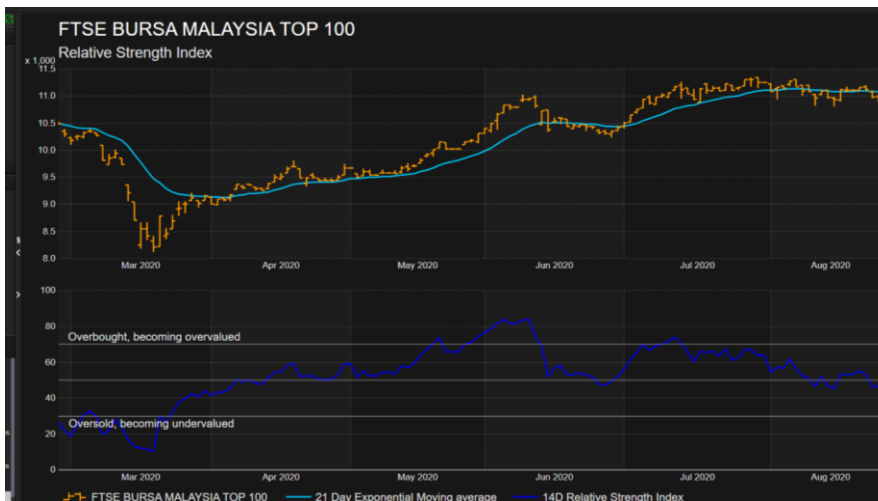
	Historical PE	Forward PE Ratio (1-Year)	5-Day forward PE band	1-month forward PD band	3-month forward PE band	1-year forward PE band	Dividend Yield	Market Cap (RM)
FTSE Bursa Malaysia KLCI Index	19.55	19.89	-0.45	-0.30	0.10	0.35	3.52%	983.65B
FTSE Bursa Malaysia Top 100 Index	20.24	19.56	-0.40	-0.35	0.40	0.70	3.36%	1.32T
FTSE Bursa Malaysia Emas Index	NA	NA	NA	NA	NA	NA	NA	685.96B

Source: Thompson Reuters Eikon (last retrieved on 28 August 2020)

* Author's estimate

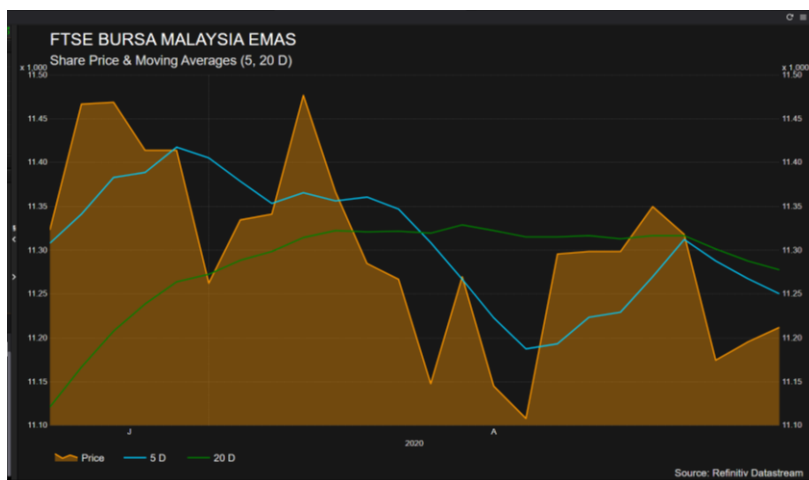
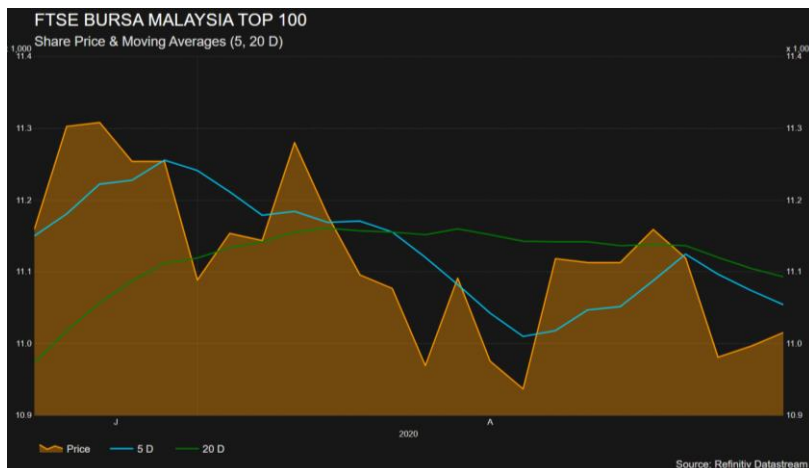
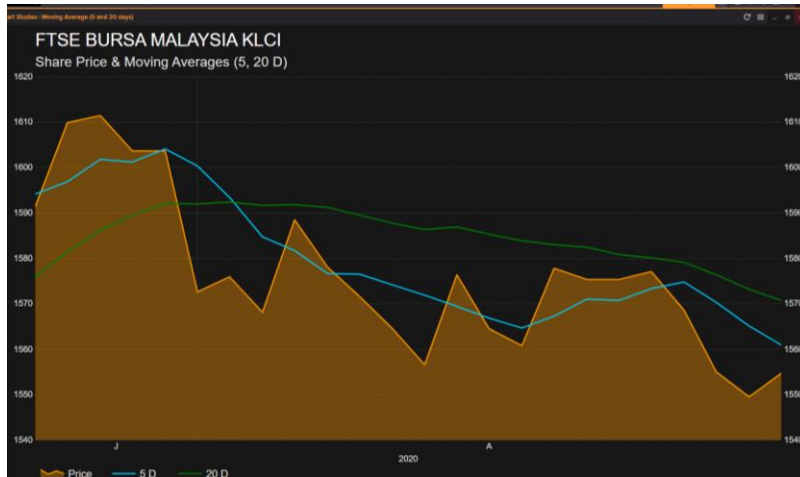
3. Relative Strength Index

The figures show the 1-year Relative Strength Index for all the three indices. There is no sign of overbought or oversold. One can conclude that there is no momentum or strength to create a bullish sentiment further.



4. Moving Average

The following graphs show the 5-day and 20-day moving average of the three indices. The 1-month moving average of KLCI indicated a sell signal on August 21 due to downward selling pressure. Since them, the signal to re-enter the market to buy stocks is weak.



5. Volatility

The market volatility for the last 5 days had increased to 5.23%, which is high relative to 200-day volatility of 1.36%, presenting both opportunities and risks to investors. The market volatility may remain in near term, as it can be caused by both buying and selling pressures.

FTSE Bursa Malaysia KLCI Index	Volatility %	Adjusted daily volatility*
5-Day Volatility	11.69	5.23
10-Day Volatility	11.98	3.79
30-Day Volatility	14.51	2.65
50-Day Volatility	14.00	1.98
90-Day Volatility	15.90	1.68
120-Day Volatility	23.29	2.13
200-Day Volatility	19.27	1.36

Source: Thompson Reuters Eikon (last retrieved on 28 August 2020)

* Author's calculation

Conclusion

To answer the research questions, the current valuation of overall stock market is fair. The overheating sign has eased with the adjustment over the last few trading days in end of August. The long-term fundamentals are already reflected in the current pricing. Unless there are extremely good news or strong economy recovery to stimulate the market, the overall trend would most likely to remain horizontal with moderate short-term volatility for the coming month (September 2020).

Investors need to be cautious to avoid excessive speculation as the riskiness of the market remains high. Investing in companies with good fundamentals to preserve capital is important. Detailed analysis of individual stocks to identify value stock is essential to derive value from investment.

Reference and Acknowledgement:

Refinitiv Thompson Reuter Eikon