

Property and construction likely to get bigger index representation

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PETALING JAYA: The recent review of the Bursa Malaysia indices saw additions of a number of property and construction counters on key indices.

The FBM KLCI saw the addition of Sunway Bhd while the FBM70 Index saw the inclusion of IGB Real Estate Investment Trust (IGB-REIT), IJM Corp Bhd, IOI Properties Group Bhd (IOIProp), Pavilion-REIT, Sime Darby Property Bhd and Sunway Construction Group Bhd.

Their additions into the indices came in tandem with rising market capitalisation following the recovery in their share prices and valuations in the last one year.

This could also signal further investor interest in the counters particularly among asset or fund management companies.

The indices are regularly reviewed every half yearly by FTSE Russell and Bursa Malaysia Bhd and the recent review was announced on June 6.

The inclusions of IGB-REIT and Pavilion-REIT on the FBM70 index also indicated the resiliency of the domestic retail sector despite continued talks of an oversupply of retail space in Malaysia, according to analysts.

With the recent change, Sunway will also be the sole property-centric company to be part of the FBM KLCI.

Sunway has seen its shares rising by

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some 140% in the last one year.

The FBM KLCI which consists of 30 stock constituents and the FBM70 together constitute the Bursa Top100 index.

According to Bursa Malaysia, Malaysian companies listed on the Main Market and ACE Market are eligible for inclusion into the FBM indices if they met FTSE's international standards of free float, liquidity and investability.

Other FBM indices include the FTSE4Good Bursa Malaysia index and the FBM hijrah syariah index.

Being included into such indices will provide more global exposure since they can be used as a reference point for the creation of investment products such as exchange-traded funds, derivatives, structured products and index tracking funds.

Founder and chief executive officer of Fortress Capital Asset Management Datuk Thomas Yong said the higher index weightage of property counters would not affect ordinary active investors, who do not track the index constituents to their

portfolio but have a bigger impact on passive investors who track these indices closely, he adds.

“Any higher portfolio demand for property stocks by foreign funds, as a result of the index adjustment, will largely be from passive index funds,” Yong told *StarBiz*.

“While structural change to sector weightage introduces some additional portfolio demand for property stocks, at least from passive funds, positive assessments of sector fundamentals are needed for sustained investor interests to see meaningful valuation upgrades.

“The property sector has been under-owned by institutional investors for some time,” he added.

But even as sector valuation has recovered from recent lows, investors need to be convinced that supply-demand dynamics have turned before putting in more money, he said.

“Key indicators which are actively monitored on this front include affordability measures, potential shift in demand from foreigners, asset inflation cycle and any

beneficial regulatory changes,” he pointed out.

Housing and Local Government Minister Nga Kor Ming had said he anticipated the property sector to be resilient, underpinned by the government's commitment to provide a conducive environment for the sector to expand.

Nga noted that property counters rose from January 2023 to June with 76 out of 100 property counters on Bursa experiencing an increase in share prices.

Meanwhile, Finance Minister II senator Datuk Seri Amir Hamzah Azizan had said in March that the property market was an extension of the financial sector since property loans constituted a large part of the banking system.

Among the recent inclusions into the FBM70, IOIProp had seen a 120% appreciation in its share price in the last one year, Sime Darby Property by almost 200% and IJM Corp by 86% one-year gain and Sunway Construction by 137% rise during the same period.

The construction sector could see further gains ahead as project progress gathers momentum and new jobs are anticipated to flow in, according to Kenanga Research.

It is bullish on the construction sector's prospects on the back of the impending rollout of mega infrastructure projects such as Mass Rapid Transit 3, Pan Borneo phase two and flood mitigation projects.