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Islamic funds in a spot?

Revised syariah list excludes 148 firms, includes big cap stocks

by **Madiha Fuad**

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KUALA LUMPUR: The removal of 148 companies, including several companies with large market capitalisation, from the revised Securities Commission Malaysia's (SC)

syariah-compliant list may have a dampening effect on Islamic-based funds, especially Lembaga Tabung Haji (LTH).

Big cap companies excluded from the revised list are YTL Power International Bhd, Bumi Armada Bhd, S P Setia Bhd, AirAsia Bhd,

Panasonic Manufacturing (M) Bhd, Malaysian Resources Corp Bhd (MRCB), Parkson Holdings Bhd and Dutch Lady Milk Industries Bhd.

Other names excluded are Silver Bird Group Bhd, Southern Steel Bhd, Berjaya Food Bhd, Pantech

Group Holdings Bhd, SKP Resources Bhd, Yinson Holdings Bhd and Sapura Resources Bhd.

As at last Friday, LTH held an 8.8% stake in MRCB, 6.93% in Parkson Holdings, 4.55% in Pantech and 5% in SKP Resources.

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'Long-term investors should take advantage of the selling pressure'

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As stipulated by SC, LTH and those in a similar situation have to dispose of these securities within six months from last Friday, in the event that the respective market prices of such securities exceed or are equal to the investment costs. During the six-month period, dividends received and capital gains realised from the disposal may be retained by investors. They need not channel any portion of the dividends and capital gains to baitulmal and charitable bodies.

The SC, which updates the syariah-compliant list twice a year, has excluded the highest number of listed companies from the list to date due to the new screening methodology used. It has included financial ratio benchmarks under which cash

placed in conventional accounts and instruments, and interest-bearing debt must be less than 33% of the company's financial position.

A fund manager told *The Edge Financial Daily* that LTH, which invests in diverse stocks, will miss out on the profitability that big cap stocks offer.

"Islamic funds will have fewer companies to invest in, as most of the big companies with good fundamentals have been removed from the list," he said, adding that big cap companies generally generate more value and profit.

However, Areca Capital Sdn Bhd CEO Danny Wong said while the revised list will give Islamic funds less choice, he is of the view that this will not mean Islamic funds will gain less profit. "Yes, the choice will be less but investing in other companies will also be profitable ... It just depends on the time of the cycle during which they invest."

He said other options for Islamic funds include investing in international syariah markets or sukuk market, taking into account the numerous sukuk issuances globally.

"Some investors may sell off their securities in the stocks, but this won't cause a big impact as conventional investors will see this as the time to accumulate, especially liquid stocks

which have good fundamentals," said Wong.

He said Malaysia stands a chance to attract international investors through the more stringent syariah-compliant list, which will be beneficial for stocks that remain in the list.

Alliance Research analyst Bernard Ching believes long-term investors should take advantage of the selling pressure that may kick in as Islamic investors cash out on non-syariah compliant stocks. "We recommend that investors accumulate under-invested syariah-compliant stocks such as Brahim Holdings Bhd, OldTown Bhd, Suria Capital Holdings Bhd and Cahya Mata Sarawak Bhd."

Ching pointed out that interest in large cap and liquid syariah-compliant stocks will also be firm favourites

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among investors who need to re-balance their portfolios. He recom-

mended SapuraKencana Petroleum Bhd, Telekom Malaysia Bhd, Tenaga Nasional Bhd and DiGi.Com Bhd.

Companies removed from Syariah list

Companies	Market capitalisation (RM)
YTL Power International Bhd	12.9 billion
Bumi Armada Bhd	11.7 billion
S.P Setia Bhd	7 billion
AirAsia Bhd	6.7 billion
Parkson Holdings Bhd	3.8 billion
Dutch Lady Milk Industries Bhd	3.1 billion
Keck Seng (M) Bhd	2.7 billion
Malaysian Resources Corp Bhd	2.3 billion
Amway (M) Holdings Bhd	2.1 billion
Tasek Corp Bhd	1.8 billion
Panasonic Manufacturing (M) Bhd	1.4 billion
Yinson Holdings Bhd	1.3 billion
Hup Seng Industries Bhd	722.4 million
Southern Steel Bhd	666.9 million
Pantech Group Holdings Bhd	560.8 million