

CHAPTER 3

INTRODUCTION TO BURSA MALAYSIA AND DATA DESCRIPTION

3.1 The Malaysian Stock Market

The Malaysian stock market known as Bursa Malaysia is one of the most prominent emerging markets in the region. A Bank Negara report in 2005 indicated that compared with other markets, Malaysia was ranked twenty-third in the world.

Singapore was part of Malaya from until 1966. In 1966 Singapore broke away from the federation and became an independent country. Even after separation many businesses and organisations co-existed for many years. Historically, the first formal securities business organization was the Singapore Stockbrokers' association established in 1930. It was re-registered as the Malayan Stockbrokers' Association in 1937. The Malaysian Stock Exchange was initially set up in March 1960, and public trading of stocks commenced in May 1960 in the clearing house of Bank Negara. The Capital Issues Committee (CIC) was established in 1968, to supervise the issuance of shares and other securities by companies applying for listing or for those already listed on the Exchange. Following the termination of interchangeability with Singapore and the floating of the Malaysian Dollar, the Malaysian Stock Exchange was separated into the Kuala Lumpur Stock Exchange (KLSE) and the Stock Exchange of Singapore (SES) in 1973.

On April 14, 2004, the Kuala Lumpur Stock Exchange was renamed Bursa Malaysia Berhad, following a demutualization exercise. On 18 March, 2005, Bursa Malaysia was listed on the Main Board of Bursa Malaysia Securities Berhad.

On 6th July 2009, Bursa Malaysia introduced an enhancement of the Kuala Lumpur Composite Index. The KLCI adopted the FTSE's global index standards and became known as the FTSE Bursa Malaysia KLCI.

The FTSE Bursa Malaysia KLCI adopted the internationally accepted index calculation methodology to provide a more investable, tradable and transparent managed index. The constituents free float adjusted only by the investable portion included in the index calculation. With this new method the constituents of the FTSE Bursa Malaysia KLCI shrunk from 100 to 30 companies to enhance the tradability of the index, while remaining representative of the market.

Table 3.1 Coverage of the FTSE Bursa Malaysia Index Series

Index name	No of Companies	Full Market Cap (MTRm)	Net Market Cap (MYRm)	% of FBM EMAS (Full Cap)	% of FBM EMAS (Net Cap)	% of Main Board Universe
FTSE Bursa Malaysia KLCI	30	468,802.0	294,693.6	69.79	72.45	64.89
FTSE Bursa Malaysia Mid 70 Index	70	135,543.4	75,206.2	20.18	18.49	18.76
FTSE Bursa Malaysia Top 100 Index	100	604,345.3	369,899.8	89.97	90.94	83.66
FTSE Bursa Malaysia Small Cap Index	209	67,390.1	36,852.3	10.03	9.06	9.33
FTSE Bursa Malaysia EMAS Index	309	671,735.5	406,752.0	-	-	92.98
FTSE Bursa Malaysia Small Cap Index	245	15,611.8	10,085.8	2.32	2.48	2.16

Source: FTSE Group data as at 30th April, 2009

3.1.1 Bursa Malaysia Main and Sector Indices

a. FTSE Bursa Malaysia KLCI Index (Ticker: FBMKLCI)¹

This index comprises of the 30 largest companies by full market capitalisation on the Bursa Malaysia's Main Board. When launched on 6th July 2009, it replaced the Bursa Malaysia KLCI Index. It started at the closing value of the KLCI Index on 3rd July 2009 and inherited the full history of the KLCI index.

¹ All information on sectors retrieved from the Bloomberg website.

b. Kuala Lumpur Construction Index (Ticker: KLCON)

The Kuala Lumpur Construction Index is a capitalisation-weighted index of all stocks involved in the construction sector. It was developed with a base value of 100 on 16th October 1991 with Emas (KLEMAS) as parent index. At present there are 50 constituents in this index.

c. Kuala Lumpur Consumer Index (Ticker: KLCSU)

The Kuala Lumpur Consumer Index is a capitalisation-weighted index of all stocks involved in the consumer sector. The index was developed with a base value of 100 on 16th October 1991 with Emas (KLEMAS) as parent index. At present there are 139 constituents in this index.

d. Kuala Lumpur Finance Index (Ticker: KLFIN)

The Kuala Lumpur Finance Index is a capitalisation-weighted index of all stocks involved in the finance sector. The index was developed with a base value of 100 on 16th October 1991. The parent index is KLEMAS. At present there are 38 constituents in this index.

e. Kuala Lumpur Industrial Index (Ticker: KLIND)

The Kuala Lumpur Industrial Index is a capitalisation-weighted index of all stocks involved in the industrial sector. Developed with a base value of 100 on 16th

October 1991 with Emas (KLEMAS) as the parent index. At present there are 24 constituents in this index.

f. Kuala Lumpur Industrial Production Index (Ticker: KLPRO)

The Kuala Lumpur Industrial Production Index is a capitalisation-weighted index of all stocks involved in the industrial production sector. The index was developed with a base value of 100 on 16th October 1991. The parent index is Emas (KLEMAS). At present there are 265 constituents in this index.

g. Kuala Lumpur Mining Index (Ticker: KLTIN)

The Kuala Lumpur Mining Index is a capitalisation-weighted index of all stocks involved in the mining sector. It was developed with a base value of 100 on 16th October 1991. The parent index is Emas (KLEMAS). At present there is only 1 constituent in this index.

h. Kuala Lumpur Plantation Index (Ticker: KLPLN)

The Kuala Lumpur Plantation Index is a capitalisation-weighted index of all stocks involved in the plantation sector. The index was developed with a base value of 100 on 16th October 1991. The parent index is Emas (KLEMAS). There are 43 constituents in this index.

i. Kuala Lumpur Properties Index (Ticker: KLPRP)

The Kuala Lumpur Properties Index is a capitalisation-weighted index of all stocks involved in the property sector. The index was developed with a base value of 100 on 16th October 1991. The parent index is Emas (KLEMAS). At present there are 88 constituents in this index.

j. Kuala Lumpur Services Index (Ticker: KLSER)

The Kuala Lumpur Services Index is a capitalisation-weighted index of all stocks involved in the service sector. The index was developed with a base value of 100 as of 16th October 1991. The parent index is Emas (KLEMAS). There are 177 constituents in this index.

k. Kuala Lumpur Technology Index (Ticker: KLTEC)

The Kuala Lumpur Stock Exchange Technology Index is a capitalisation-weighted index of both KLSE main board and KLSE second board Technology sector stocks (On 1st January 2011, the KLSE second board was removed and all constituents joined the KLSE main board). Companies in the index include telecom, electronics and computer related firms, and are deemed to create and further technology. The index is one of the major indices on the KLSE, and has a base value of 100 as of 31st December 1999. At present there are 29 constituents in this index.

Table 3.2: Summary of sectors on Bursa Malaysia

	Sectors	No. of constituents as at January 10 th 2011
1	Construction	50
2	Consumer	139
3	Finance	38
4	Industrial	24
5	Industrial Production	265
6	Mining	1
7	Plantation	43
8	Property	88
9	Service	177
10	Technology	29
	TOTAL	854

Source: Bursa Malaysia

3.2 Data description

The Bursa Malaysia data for analysis was taken from the Bloomberg datastream. The Bloomberg terminals were available in the Graduate School of Business and also at the Business and Accountancy faculty computer terminal in the main campus. The data from 1st January 2000 to December 2010 was used for creating appropriate models.

The main benchmark index, the FBMKLCI and all recorded sector indices data was retrieved for the eleven year period. The daily closing prices were used. The available observations for all indices were 2710 except for the Technology sector which had 2624 observations.

The eleven year data was also segregated into yearly data for more detailed analyses. All analyses was done using EViews computer software. The results from the analyses are extended in appendices.