MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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EFFECTIVE JAN 1 NEXT YEAR

STAMP DUTY HIKE BACKLASH SEEN

Analysts warn that average daily value may drop, with large traders hit the most

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TRADING on Bursa Malaysia will become more expensive for investors with the implementation of the stamp duty hike on Jan 1.

Larger traders would feel the impact more and might shift some of their trading activities to other regional exchanges with a lower cost friction, said market observers.

However, they might be prepared to pay if the higher cost could be offset by capital gains from higher share prices.

"It is all about entering and exiting a trade at the lowest cost possible. Of course, the trading cost is not the only factor that motivates the choice of an investment destination.

"Larger traders will always look for investment destinations that have attractive value propositions and competitive edges, even if there was increased cost," said Minority Shareholders Watch Group chief executive officer Devanesan Evanson.

He said some drop in the average daily value (ADV) traded could be expected, though the percentage drop might vary due to the ecosystem of each market and its peculiarities.

"The impact on listed companies will not be much as they do not trade in shares generally except for those public-listed companies (PLCs) with business strategies that involved investing in other PLCs and those indulging in share buy-backs.

"Likewise, there will be limited impact on those companies that are seeking a listing as their primary concern will be to achieve an attractive valuation during the initial public offering."

He said Bursa Malaysia would have to go back to the drawing board and restrategise on how to overcome the challenges posed by the increased stamp duty and to make the stock market more vibrant and attractive.

"Bursa Malaysia has a vested interest in this as a substantial portion of its revenue is tied to the ADVs."

Hong Leong Investment Bank Bhd analyst Jeremy Goh said the latest move would increase trading cost by up to 45 per cent for a trade size of RM1 million, and affect more than 60 per cent of Bursa Malaysia's demographic.

Larger traders, including domestic institutions and foreign investors, would be hit the hardest, he added.

Goh pointed out that the Stock Exchange of Hong Kong had raised its stamp duty earlier this year and its monthly ADV traded plunged by 44 per cent between February and last month.

He said the Hong Kong experience and comparison of trading cost within Asean suggested that a contraction in ADV seemed inevitable.

Affin Hwang Asset Management senior portfolio manager David Loh said the new rule would increase the trading cost significantly for institutional or retail investors with large transactions.

He said under the previous regime, it was set at 0.1 per cent with a maximum cap of RM200 per contract. Under the new rule, the rate has been increased to 0.15 per cent without any cap.

"So theoretically for a trade of RM1 million, the new stamp duty cost is RM1,500 versus RM200 (maximum cap) previously. As a result of the higher cost, we expect trading velocity to reduce substantially next year.

"Although the new rate will only take place next year, we are already starting to see the impact as investors begin to unwind big trading positions."

Loh added that the local market could become quieter or more muted as there would be less speculative or tactical trades being carried out.

OANDA senior market analyst for Asia Pacific Jeffrey Halley said the stamp duty alone was unlikely to have an effect on investors' strategies.

He said high frequency traders would be most affected by the stamp duty hike.

"But traders invest in stocks because they believe in the stocks, not the stamp duty. I don't think the stamp duty will change investors' decisions."