

1Q19 Investment Strategy

Aim, Ready, Fire!

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FBMKLCI	1,690.58
Target	1,775.00 ↓

In a nutshell, our market view remains pretty much unchanged. The domestic economic growth is expected to be decent at 4.7% in 2019 while big caps' FY18E/FY19E earnings growth rates are estimated at 0.7%/6.9%. Nonetheless, we believe the local market may still remain stuck in a range-bound mode until significant rerating catalysts are seen. While the downside could be cushioned, upside is uninspiring with our end-2019 Index Target pegged at 1,775, implying FY18E/FY19E PERs of 16.9x/15.8x. Nonetheless, with >50% of listed stocks on Bursa Securities declining >20% in 2018, we believe values have emerged. Therefore, in this quarter we focus on stocks that were sold down heavily. We have selected (i) AEON (OP, TP: RM2.00), (ii) BIMB (OP, TP: RM5.05), (iii) MBSB (OP, TP: RM1.25), (iv) OCK (OP, TP: RM0.570), (v) PADINI (OP, TP: RM4.05), (vi) PESTECH (OP, TP: RM1.45), (vii) PWROOT (OP, TP: RM1.65), (viii) SKPRES (OP, TP: RM1.25), (ix) UEMS (OP, TP: RM0.850) and (x) WCT (OP, TP: RM0.850) as our 1Q19 Top Picks. Timing-wise, the ideal Buy on Weakness (B.O.W.) zone is between 1,670 and 1,620.



Short-term pain, long-term gain. We have little to say about the market turmoil in recent months. As far as we are concerned, the domestic economic growth is still decent and implementation of a few new measures by the new government should bode well for the long-term structural outlook of Malaysia. Nonetheless, with the sticky fiscal deficits, this weaker fiscal position makes Malaysia vulnerable to external hostile uncertainties, hence the short-term cyclical outlook remain challenging.

Market Outlook. For the local equity market, we believe 1Q19 should do well as 4Q and 1Q are normally the stronger quarters in terms of stock market performance. Coupled with the strong sell-downs of late, we reckon that weak-hands could have left the market and therefore, the market could turn more supportive going forth. In fact, market could also have bottomed at ~1,626.93 following the sell-down after the recent uninspiring corporate results season along with some substantial rating and earnings downgrades. Besides, with more than half of the entire Bursa Securities listed stocks declining >20% in 2018, we believe values have emerged. This can be seen from the historically low Forward PERs of FBM70 and FBMSC Indices.

We still see reasonably good probability for FBMKLCI swinging higher, say touching 1,800, as per our Simulation Study. Technically speaking, the FBMKLCI is still supported above its long-term uptrend line (since end-1998). And, it is believed that the FBMKLCI could still swing above the 1,800-psychological resistance should the uptrend support line (1,630 and rising) and the crucial 1,600-psychological support remain intact.

Latest Numbers. We have remodelled our earnings universe. As such, readers should be aware that the previous earnings growth estimates are not comparable with the new numbers. **Our FY18E/FY19E earnings growth rates for FBMKLCI are now estimated at 0.7%/6.9%.** The strong growth number for FY19 is due mainly to some number distortions caused by a few stocks, i.e. AIRPORT, AXIATA, IHH, PMETAL and TOPGLOV. **Based on consensus numbers, the market is expecting FY18E/FY19E earnings growth estimates of 5.5%/3.0%.**

Index Target. In line with the declining consensus target (from 1,895 as of end-Sep 18 to ~1,800 in end-Dec 18), **we have also revised down our end-2019 index target to 1,775** (from 1,805), **representing FY18E/FY19E PERs of 16.9x/15.8x.**

1Q19 Sector Outlook. Apart from upgrading Aviation to OVERWEIGHT but downgrading Building Materials to UNDERWEIGHT, our various sector ratings remain fairly stable as compared with the previous quarter.

Overweight	Aviation, Gaming and Power Utility.
Neutral	Automotive, Banks & Non-Bank Financials, Construction, Consumer, Media, MREITs, Oil & Gas, Plantation, Property, Technology/Semicon, Telco, as well as Transportations & Logistics.
Underweight	Building Materials, Healthcare, Gloves and Plastic Packaging.

Risks to our view include: (i) relatively high valuation premium over its regional peers, (ii) weaker crude oil and crude palm oil prices, and (iii) weaker market sentiment as per our Price-Volume Study.

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Looking Back

We have little to say about the market turmoil in recent months. Expected domestic economic growth was still described as "decent" at 4.7% for 2019 (vs. estimated 4.9% for 2018). The only explanation to the sell-off in equity market could be the expected sticky fiscal deficits of 3.4% in 2019 (vs. 3.7% in 2018) as well as the fast-weakening in Ringgit.

However, as the US Fed officials still expect gradual hikes in interest rate in 2019, the expected quantum and frequency could be lower than earlier expected. Based on Bloomberg consensus, we still expect the Fed to hike rates twice in the first half of the year, before a slowdown in GDP growth could potentially force it to the side lines in mid-2019 (or one hike in the first half of 2019 and one more round of hike in the second half). This expectation is obviously better in contrast to the earlier expected three (3) hikes in 2019. Besides, this expectation has also prompted Dollar Index to weaken (Figure 1) and hence boosting the Ringgit (Figure 2).

Domestic Growth: Short-term Pain, Long-Term Gain

Coming back to the domestic economy, the new government has thus far recognized public sector liabilities, not limited to those presently shown on its balance sheet, and strengthened both transparency and administrative efficiency. Critically, the budget also includes strategies to support the entrepreneurial part of the economy. We believe, overall, these measures bode very well for the long-term structural outlook of Malaysia.

Nonetheless, those measures may not support the domestic growth cyclically. In fact, with the stubborn fiscal deficits, this weaker fiscal position makes Malaysia vulnerable to external hostile uncertainties due to lower fiscal fire-power. Therefore, absolute performance of the local economy and equity market could still be pretty much hinged on global growth, commodities prices and the overall perceptions over Asian/EM markets. Should one believe commodities and global trade will continue to be negative (not only are commodity prices deflating but semiconductor prices are also falling, and their global shipments are also weakening), cyclical outlook could remain challenging.

The epicenter of domestic growth slowdown, however, will be the lacklustre construction activities. Moreover, Malaysian narrow credit growth as well as slower property market and cautious expenditure by Petronas could weaken purchasing power and impact domestic consumption despite lower consumption tax (SST to replace GST).

What to expect in 1Q19?

The Pros

- **Extending the relatively supportive 4Q18, 1Q19 is expected to do well as 4Q and 1Q are normally the stronger quarters** in terms of market performance in contrast to 2Q and 3Q (see Figure 3).
- Chart wise, **the FBMKLCI is still supported above its long-term (since end-1998) uptrend line**. It is believed that the FBMKLCI could still swing above the 1,800-psychological resistance should the uptrend support line (1,630 and rising) and the crucial 1,600-psychological support remain intact (Figure 4). The index is likely to trade sideways (between 1,600 and 1,900) if no major negative surprise emerges.
- YTD, we noticed that 156 stocks recorded >50% YTD declines and 348 stocks registered declines between 20% and 50% out of the entire list of ~900 stocks. While these readings may indicate market bearishness, the observations also imply that weak hands have been washed out from the market after these heavy sell downs. In fact, this can be seen from the sharp dip in Forward PER of FBM70 Index (from >15x in end-Nov18 to ~12x in end-Dec18, see Figure 5). While the dip in Forward PER of FBMSC Index was milder (from >9x to ~8x for the same period of time, see Figure 6), one cannot deny that valuations for most mid-and-small-cap stocks seem attractive especially if compared to valuations of FBMKLCI, which still trade near its 3-Year mean (see Figure 7).
- **Slower rate hikes in U.S.** Again, with the potential slower pace of U.S. interest hike, this expectation has prompted the Dollar Index to weaken. As such, foreign outflow could become more manageable going forward.

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Moreover, as Ringgit is relatively cheap and traded near its two-decade lows against many Asian currencies, this makes Malaysian equity market increasingly more competitive.

- As such, **market could have bottomed at ~1,626.93 following the sell-down post the recently uninspiring corporate results season** along with some rating downgrades. Note that based on our Monte Carlo Simulation Study, the 68% Confidence Interval is ranging from 1,613 to 1,848 (Figure 8). In addition, we also see higher probability for FBMKLCI to swing higher, say touching 1,800.

The Cons

- **Foreign funds outflow could get more manageable?** This view is mixed as our Modern Portfolio Theory (MPT) study suggests that portfolio manager should have allocated higher short-sell weighting to FBMKLCI as compared to the previous month (see Figure 9). As such, this explained the recent higher net foreign funds outflow of RM3,156m in 4Q18 vis-à-vis RM1,711m in 3Q18 despite the fact that the Malaysian ringgit is cheap and has nearly hit its two-decade lows against many Asian currencies. We reckon this situation is due to concerns over market valuations. Due to the stronger sell-down in regional indices, the Forward PER of FBMKLCI traded at >20% premium over its regional peers (Figure 10).
- **Weaker oil price (<USD55/barrel for Brent Crude) could be a pulling factor. From a charting perspective, CO1 has broken below its previous uptrend support line of ~USD63.5/barrel. The failure to climb back up above the aforementioned support-turned-resistance** is highly negative. In fact, the commodity is trending down within a well-established downtrend channel (see Figure 11).
- **Uninspiring Crude palm Oil (CPO) and its weak technical outlook (see Figure 12).** In fact, the CPO is trending down in a well-defined channel and only registered at <RM2,200/tonne currently. With such weaker outlook, we do not see any immediate rerating catalysts to emerge within the plantation sector.
- **The Accumulated Volume-Price Indicators of FBM70 and FBMSC have yet to show any sign of reversal, hence the overall market sentiment remains weak. However, as the indicator has shown sign of improvement for FBMKLCI** – the momentum indicator has crossed above the 30-day SMA from the negative territory (see Figure 13-15).

Latest Numbers and Index Target

While celebrating the New Year, we also take the opportunity to remodel our earnings universe. One of the major changes is the way we recognise index weighting of constituents. Previously, we took the simple average of the annual changes in weighting, but we have further fine-tuned it to semi-annual average. Besides, analysts have also reviewed their earnings estimates and target prices, especially those bashed down heavily. As such, we believe our previous earnings growth estimates are not comparable with the new numbers. Furthermore, note that, apart from remodelling our earnings universe, we saw changes in FBMKLCI constituents with AMBANK and TM re-joining the list of constituents.

Our FY18E/FY19E earnings growth rates for FBMKLCI are estimated at to 0.7%/6.9%. The strong growth number for FY19 is due mainly to some number distortions caused by AXIATA, IHH and the inclusion of TOPGLVE. We also see higher growth numbers from AIRPORT, HSPLANT and PMETAL. Based on consensus numbers, the market is expecting FY18E/FY19E earnings growth **estimates of 5.5%/3.0%**.

As for the Index Target, in line with the declining trend of the consensus target (end-Dec18: ~1,800; end-Sep18: 1,895), we have also revised down our end-2019 index target to 1,775 (from 1,805 previously), representing FY18E/FY19E PERs of 16.9x/15.8x. Our Index Target is derived via the average of the followings:-

- **Top-Down:** Deriving an index target of 1,780 based on our FY19E EPS estimate as well as the 2-year average median PER of 21.5x (for the entire earnings universe), and
- **Bottom-Up:** Revising down our index target from 1,780 earlier to 1,770 based on analysts' target price inputs.

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1Q19 Sector Outlook & Investment Strategy

Our Sector Ratings

Apart from upgrading Aviation to **OVERWEIGHT** but downgrading Building Materials to **UNDERWEIGHT**, our various sector ratings remain fairly stable as compared with the previous quarter (see Figure 16-18 for details).

Recall that we have upgraded Aviation sector post results season as driven by the **OUTPERFORM** calls on both AIRPORT (TP: RM8.95) and AIRASIA (TP: RM3.25). We remain positive on the future development of the sector due to more active involvement from the Transport Minister compared to the past. Besides, AIRASIA could also benefit from the decrease in fuel cost whereby jet fuel is down by 30% from its peak of USD99.1/bbl, coupled with more disposals of non-core investments in the cards, of which investors could benefit from potential special dividends.

On the other hand, in view of a more challenging outlook on both construction and property sectors, we have also downgraded Building Materials sector to **UNDERWEIGHT**.

Overweight	Aviation ↑, Gaming and Power Utility.
Neutral	Automotive, , Banks & Non-Bank Financials, Construction, Consumer, Media, MREITs, Oil & Gas, Plantation, Property, Technology/Semicon, Telco, as well as Transportations & Logistics.
Underweight	Building Materials ↓, Healthcare, Gloves and Plastic Packaging.

Source: Kenanga Research

Stock Picks: Aim, Ready, Fire!

In this quarter, we focus on stocks that were sold down heavily, as we believe values have emerged. We have short-listed stocks under our coverage that have been beaten down severely and review the earnings estimates and valuations to better reflect the underlying market condition. Stocks that still offer good upside, especially from reward-to-risk consideration, despite our aggressive cuts in earnings and target prices, are selected.

Apart from filtering out stocks that exhibit attractive upside, we have further short-listed stocks that could potentially see rerating catalysts, and preferably in the immediate term. Based on the steps mentioned above, we have created a stock watch list that comprises of ...

AEON (OP, TP: RM2.00)	BIMB (OP, TP: RM5.05)	DAYANG (OP, TP: RM0.810)
GAMUDA (OP, TP: RM3.05)	KERJAYA (OP, TP: RM1.20)	MBMR (OP, TP: RM2.60)
MBSB (OP, TP: RM1.25)	MPI (OP, TP: RM13.00)	MUHIBAH (OP, TP: RM3.20)
OCK (OP, TP: RM0.570)	PADINI (OP, TP: RM4.05)	PANTECH (OP, TP: RM0.550)
PESTECH (OP, TP: RM1.45)	PIE (OP, TP: RM1.70)	PWROOT (OP, TP: RM1.65)
SKPRES (OP, TP: RM1.25)	TCHONG (OP, TP: RM1.70)	UEMS (OP, TP: RM0.850)
UZMA (OP, TP: RM0.650)	WCT (OP, TP: RM0.850)	

Note that the brief comments on these stocks are featured in Figure 19. And, out of this list, we have selected 10 stocks that may see short-term catalysts, as our 1Q19 Top Picks (see the following Table). In general, we believe Oil & Gas stocks may take a longer time to consolidate due to unfavourable oil prices. As for export counters, due to the weakening of U.S. dollar coupled with the less exciting semicon sales growth, we are not too keen at this juncture.

1Q19 Top 10 stock's with highest potential capital gains (Closing as at 31 December 2018)

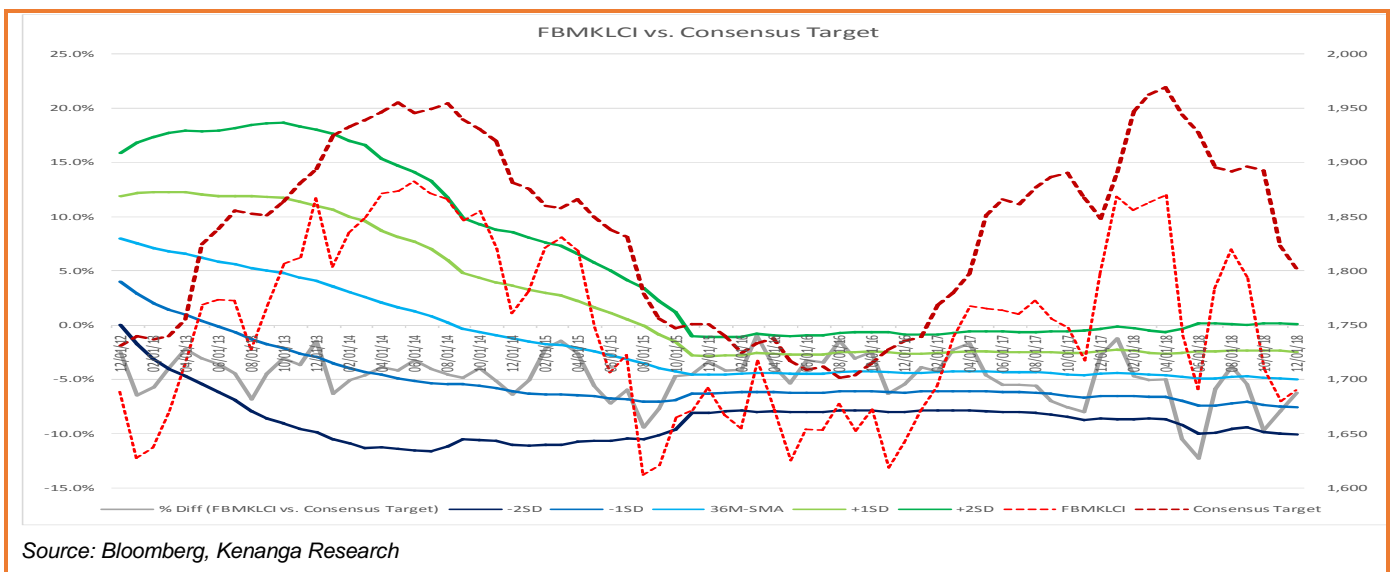
Stocks	Last Price (RM)	FY18/19 Core NP Growth	FY19/20 Core NP Growth	FY18 /19 Core PER	FY19/20 Core PER	FY18/19 Net Div Yield	FY18/19 ROE	Target (RM)	Upside	Rating
AEON	1.47	13.4%	14.1%	17.3	15.2	2.7%	6.0%	2.00	36.1%	OP
BIMB	3.56	6.4%	8.1%	8.8	7.8	4.4%	13.3%	5.05	41.9%	OP
MBSB	0.920	13.8%	16.8%	11.5	9.8	2.2%	7.0%	1.25	35.9%	OP
OCK	0.425	0.2%	19.7%	13.5	11.3	2.4%	6.5%	0.570	34.1%	OP
PADINI	3.51	1.2%	10.8%	12.8	11.6	3.3%	25.6%	4.05	15.4%	OP
PESTECH	0.990	49.8%	14.8%	8.3	7.3	0.0%	18.0%	1.95	46.5%	OP
PWROOT	1.38	258.1%	26.8%	15.2	11.6	5.8%	16.4%	1.65	19.6%	OP
SKPRES	1.05	-7.6%	17.6%	11.0	9.3	4.7%	20.4%	1.35	19.0%	OP
UEMS	0.665	19.9%	6.8%	9.0	8.4	1.5%	4.7%	0.850	27.8%	OP
WCT	0.675	-21.0%	20.5%	7.6	6.3	0.0%	3.8%	1.10	25.9%	OP

Source: Kenanga Research

Timing: Ideal Buying Levels

All in all, while we are not outright bullish, we are definitely NOT bearish, as most of the stock prices have corrected substantially. Nonetheless, as consensus keeps cutting target prices, including index target, the current index level is only traded at a mere ~6% discount to the current consensus target of ~1,802 despite a 6% decline in 4Q18. Based on our observation, the low-risk buying levels are below the -1SD level.

Discount between FBMKLCI and Its Consensus Target (as of end-Dec18) – No Meaningful Trading Signal!



Source: Bloomberg, Kenanga Research

While we do not rule out that the index could still swing above the 3-year mean (~1,710/15) and +1SD-level (~1,755/60) from here, the ideal entry levels remain between the -1SD and -2SD levels, implying 1,665/70 and 1,620 respectively. As such, **we will turn more aggressive should the FBMKLCI dip below 1,670.**

So far, as of end-Dec18, out of the Five (5) Algo-Trading Models (using monthly data) that we designed, the RSI Model is still showing a B.O.W. signal due to oversold technical condition, but the Mean-Reverting Historical PER Band Model is still emanating S.O.S. signal which was shown since end-Jul18. The other 3 models have yet to give any trading signals.

Appendix

Figure 1: Dollar Index – Weakening (inline with less aggressive in rate hike) despite uptrend remains intact



Figure 2: MYRUSD – Ringgit showing sign of strengthening on the expense of weaker U.S. Dollar



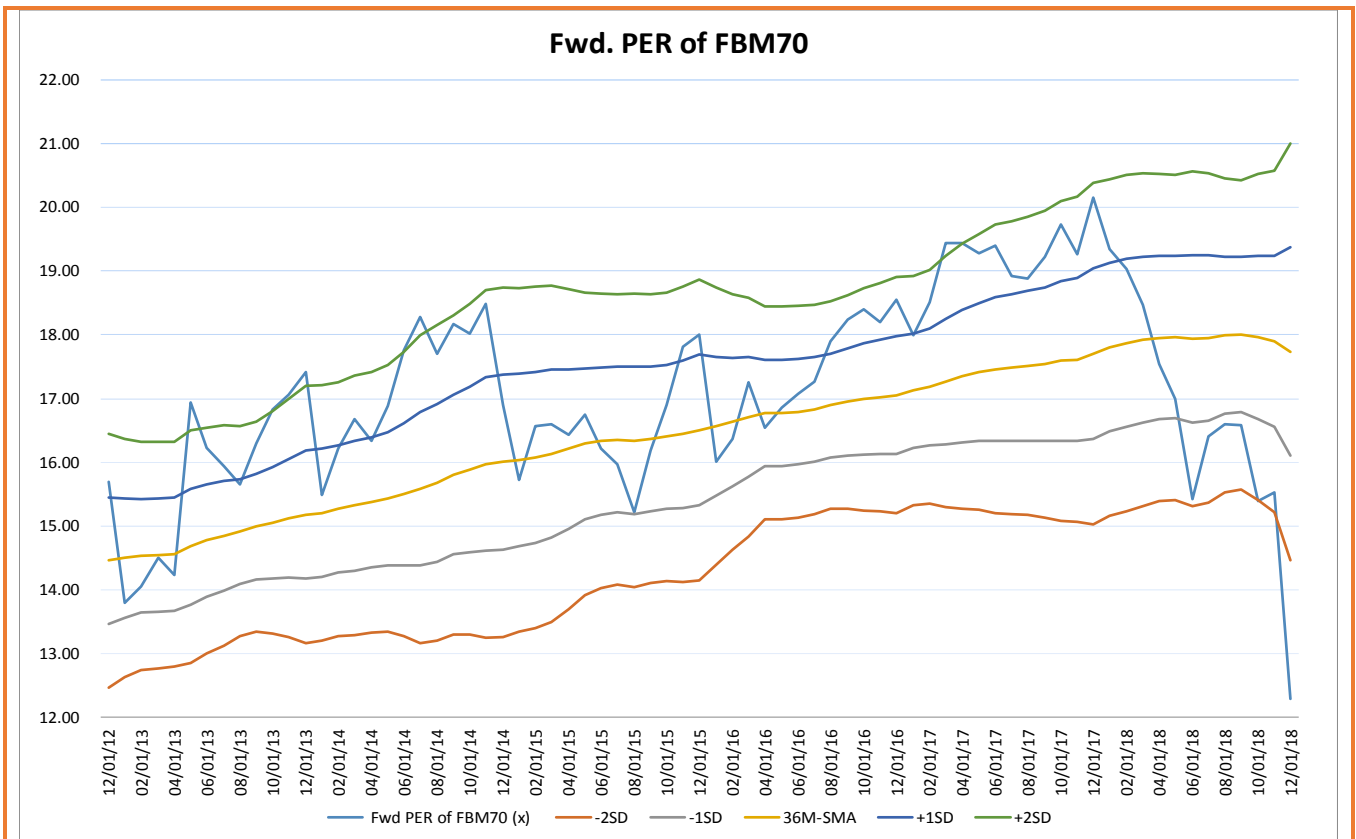
Figure 3: Seasonal Study of FBMKLCI – 4Q & 1Q are strong quarters!



Figure 4: Long-term Charting of FBMKLCI – Uptrend remains intact despite its recent test!

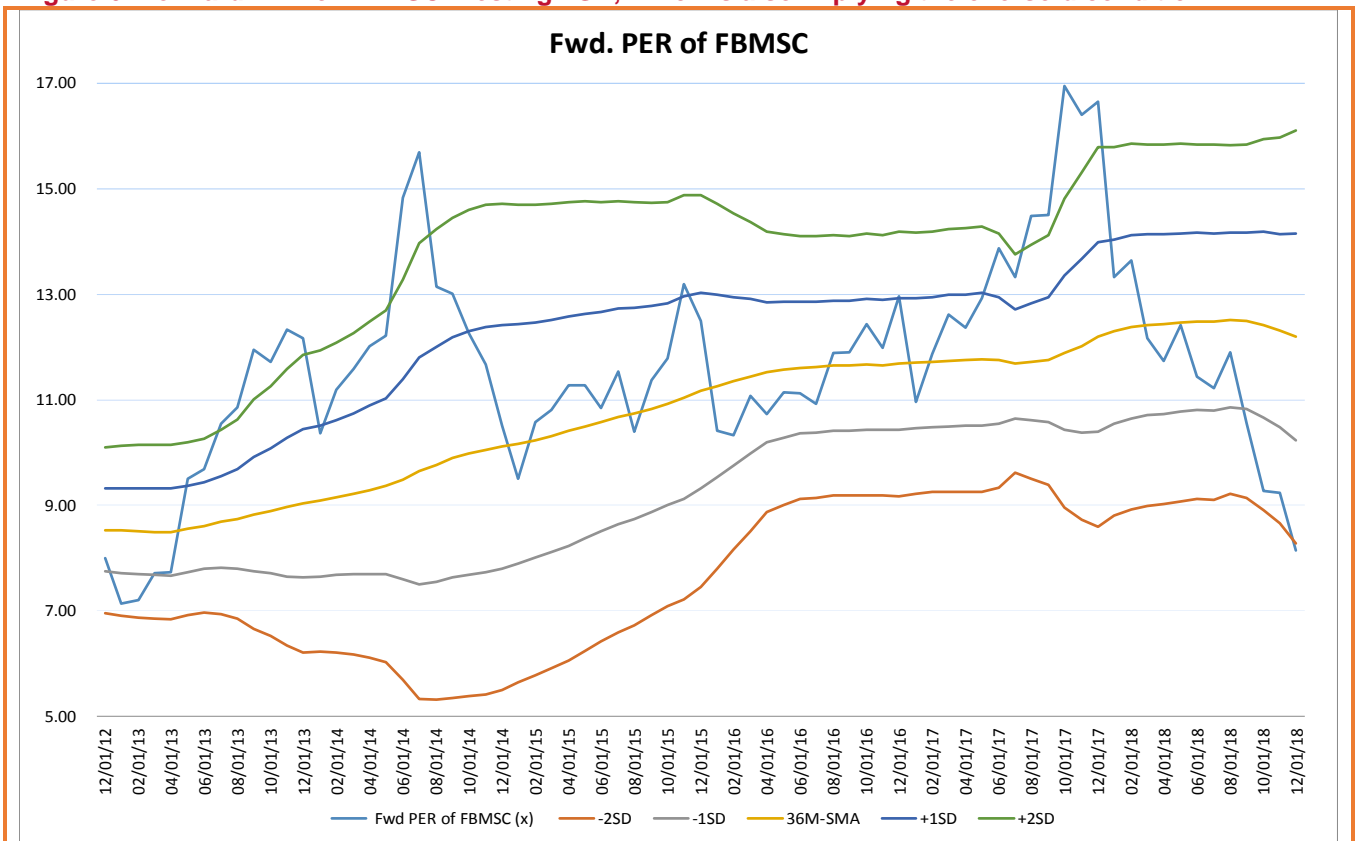


Figure 5: Forward PER of FBM70: Traded way below -2SD, implying a heavily oversold condition



Source: Bloomberg, Kenanga Research

Figure 6: Forward PER of FBMSC: Testing-2SD, which is also implying the oversold condition



Source: Bloomberg, Kenanga Research

Figure 7: Forward PER of FBMKLCI: Trading near its 3-year mean despite declined ~6% in 4Q18

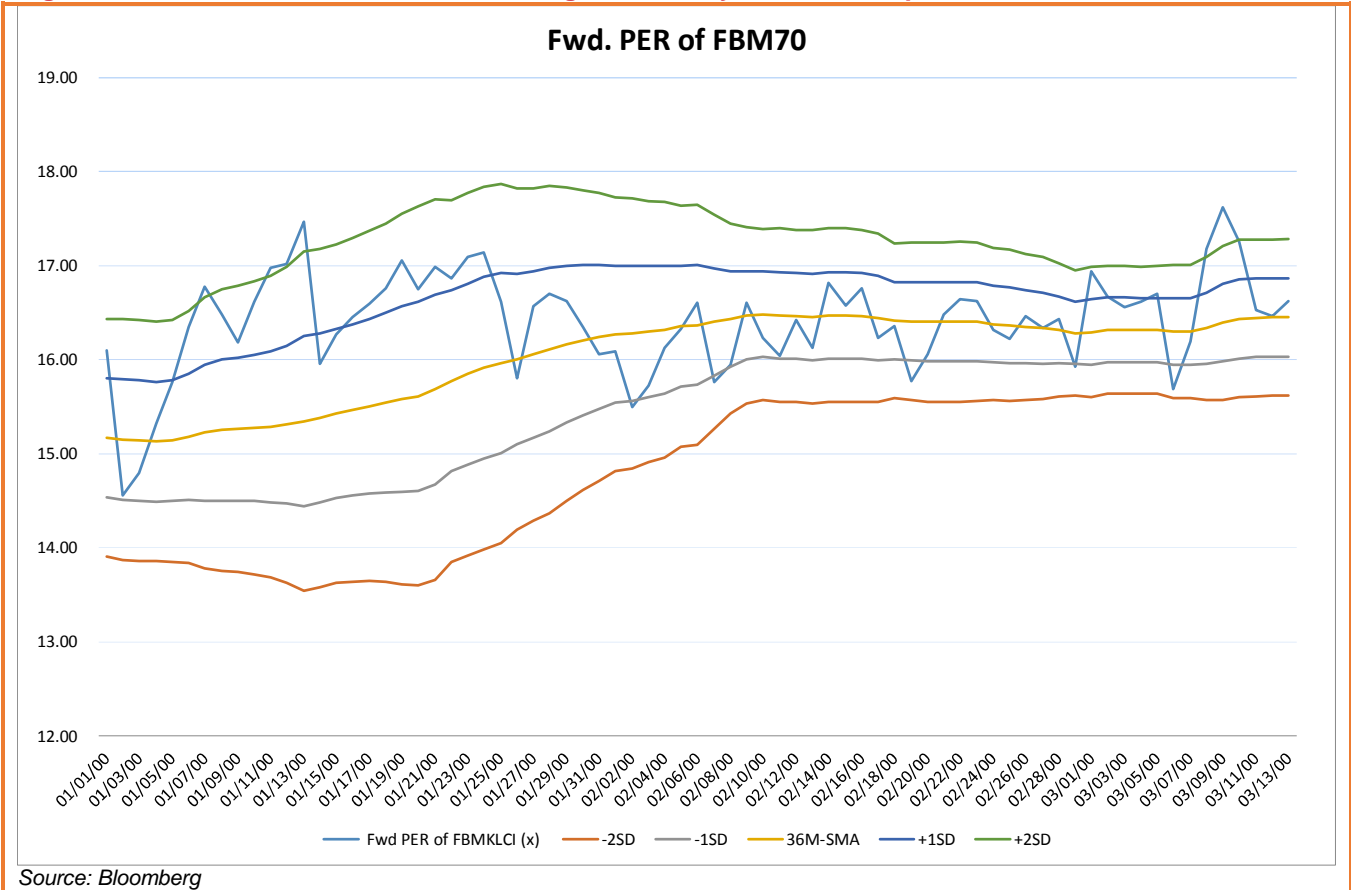
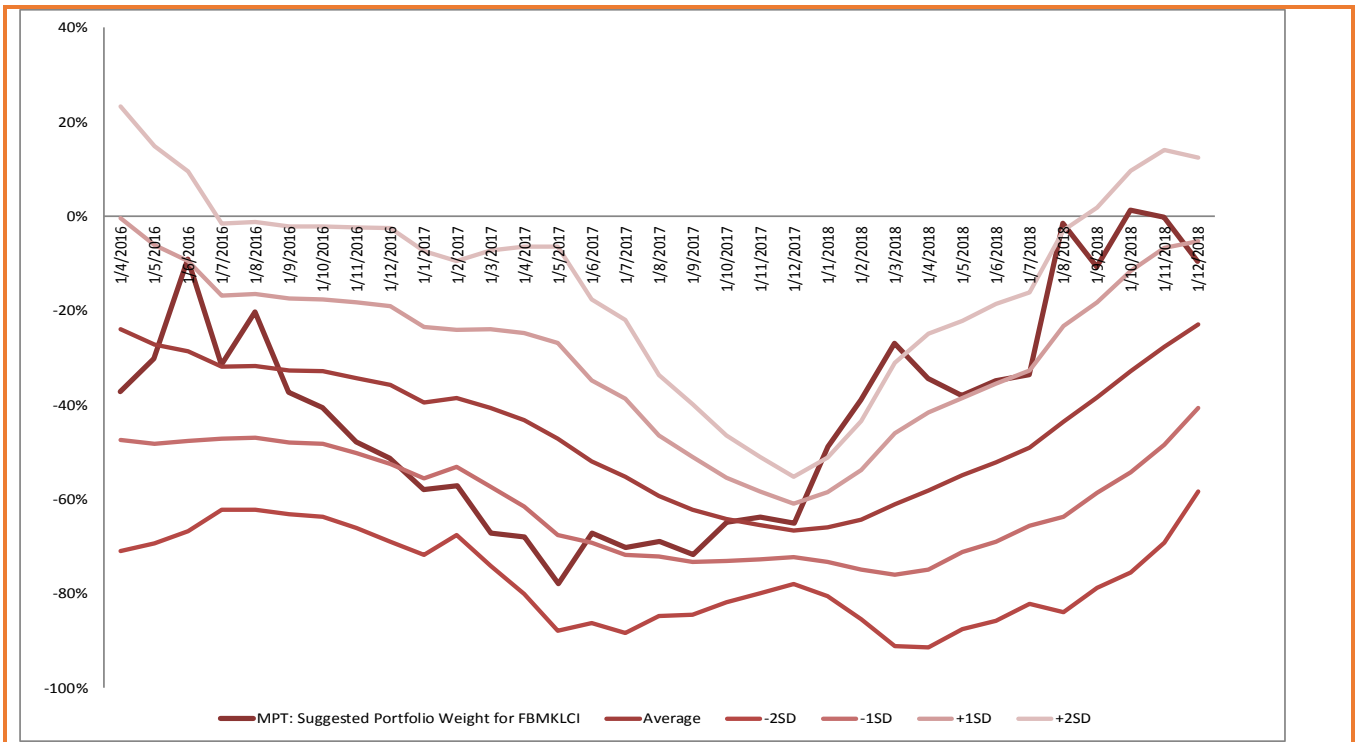


Figure 8: Simulation Study: Risk-Reward favours the upside for now with good potential to return above 1,800!

Distribution of Simulated FBMKLCI Till End-2019	1	2	3	4	5	6	7	8	9	10	Average
Mean	1,709.6	1,727.2	1,753.0	1,636.3	1,699.1	1,739.3	1,744.3	1,751.3	1,752.5	1,795.2	1,730.8
Standard Deviation	98.2	102.5	123.0	103.4	150.7	95.0	104.8	112.3	133.3	151.0	117.4
Kurtosis	0.8	(0.5)	0.3	(0.1)	1.0	1.3	(0.0)	1.2	0.5	(0.9)	0.4
Skewness	0.8	0.3	0.9	(0.4)	(0.2)	0.9	(0.4)	0.8	0.7	0.0	0.3
Range	615.6	505.6	631.6	520.0	892.8	567.4	516.9	694.1	759.5	691.2	639.5
Minimum	1,484.6	1,497.6	1,497.3	1,360.6	1,259.3	1,521.9	1,480.1	1,459.2	1,470.1	1,483.7	1,451.4
Maximum	2,100.2	2,003.2	2,128.9	1,880.6	2,152.1	2,089.3	1,997.0	2,153.3	2,229.6	2,174.9	2,090.9
Count	2,601	2,601	2,601	2,601	2,601	2,601	2,601	2,601	2,601	2,601	2,601
At 68% Confidence Level, FBMKLCI is expected to oscilate between and	1,611.4 1,807.8	1,624.7 1,829.6	1,630.0 1,876.0	1,532.9 1,739.7	1,548.5 1,849.8	1,644.3 1,834.3	1,639.5 1,849.1	1,639.0 1,863.6	1,619.2 1,885.8	1,644.3 1,946.2	1,613.4 1,848.2
Probability of KLCI <= =	1,600.0 13.2%	1,600.0 10.7%	1,600.0 10.7%	1,600.0 36.3%	1,600.0 25.5%	1,600.0 7.1%	1,600.0 8.4%	1,600.0 8.9%	1,600.0 12.6%	1,600.0 9.8%	1,600.0 14.3%
Probability of KLCI <= =	1,625.0 19.5%	1,625.0 15.9%	1,625.0 14.9%	1,625.0 45.7%	1,625.0 31.1%	1,625.0 11.4%	1,625.0 12.7%	1,625.0 13.0%	1,625.0 16.9%	1,625.0 13.0%	1,625.0 19.4%
Probability of KLCI <= =	1,650.0 27.2%	1,650.0 22.6%	1,650.0 20.1%	1,650.0 55.3%	1,650.0 37.2%	1,650.0 17.3%	1,650.0 18.4%	1,650.0 18.3%	1,650.0 22.1%	1,650.0 16.8%	1,650.0 25.5%
Probability of KLCI >= =	1,750.0 34.0%	1,750.0 41.2%	1,750.0 51.0%	1,750.0 13.6%	1,750.0 36.8%	1,750.0 45.5%	1,750.0 47.8%	1,750.0 50.5%	1,750.0 50.7%	1,750.0 61.8%	1,750.0 43.3%
Probability of KLCI >= =	1,800.0 17.9%	1,800.0 23.9%	1,800.0 35.1%	1,800.0 5.7%	1,800.0 25.2%	1,800.0 26.2%	1,800.0 29.8%	1,800.0 33.2%	1,800.0 36.1%	1,800.0 48.7%	1,800.0 28.2%
Probability of KLCI >= =	1,850.0 7.6%	1,850.0 11.5%	1,850.0 21.5%	1,850.0 1.9%	1,850.0 15.8%	1,850.0 12.2%	1,850.0 15.7%	1,850.0 19.0%	1,850.0 23.2%	1,850.0 35.8%	1,850.0 16.4%

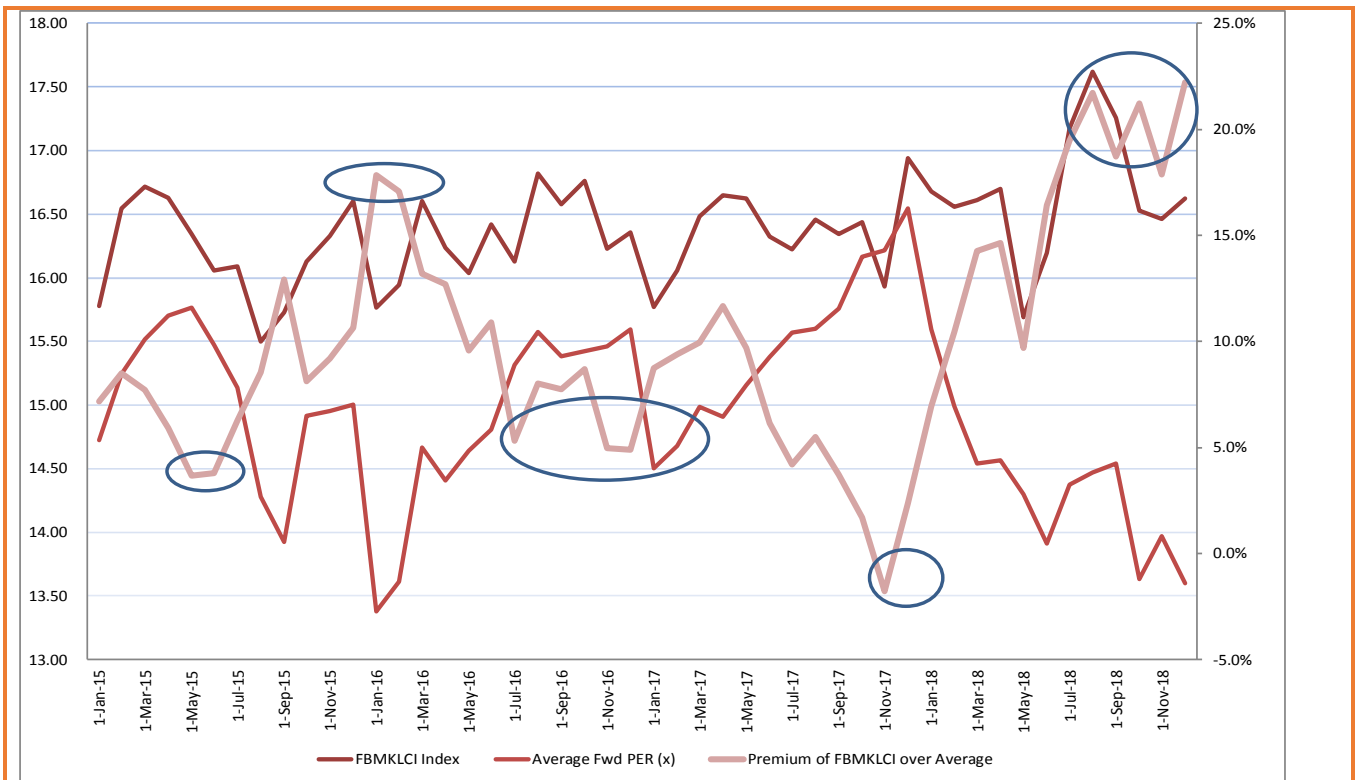
Source: Bloomberg, Kenanga Research

Figure 9: Modern Portfolio Theory (MPT): Allocation for Malaysian equity market weakens despite stronger MYR



Source: Bloomberg

Figure 10: Forward PER Valuation Premium of FBMKLCI over Selected Regional Peers (as at end-Dec18) – Charted new high, hence valuations not cheap



Source: Bloomberg

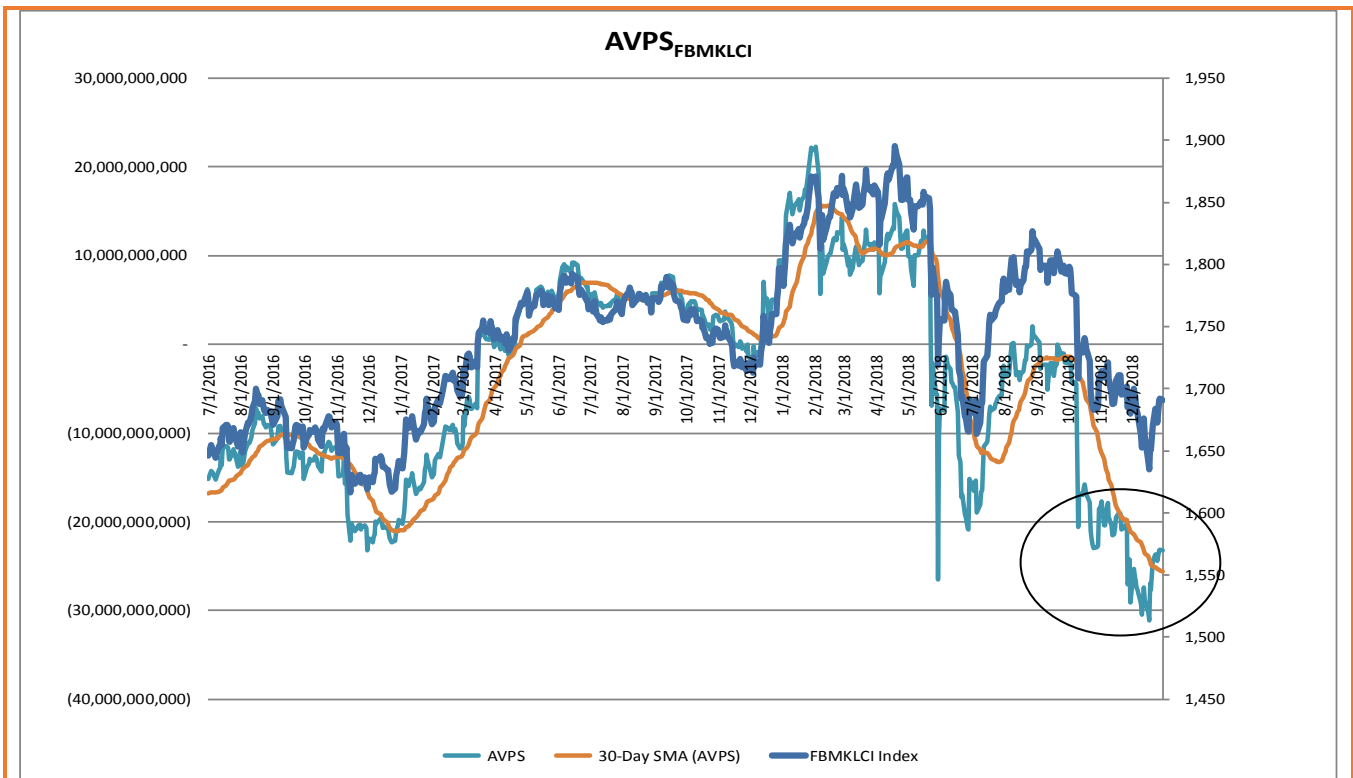
Figure 11: Brent Crude Oil: Immediate uptrend is broken!



Figure 12: Crude Palm Oil: Not exciting with downside bias!

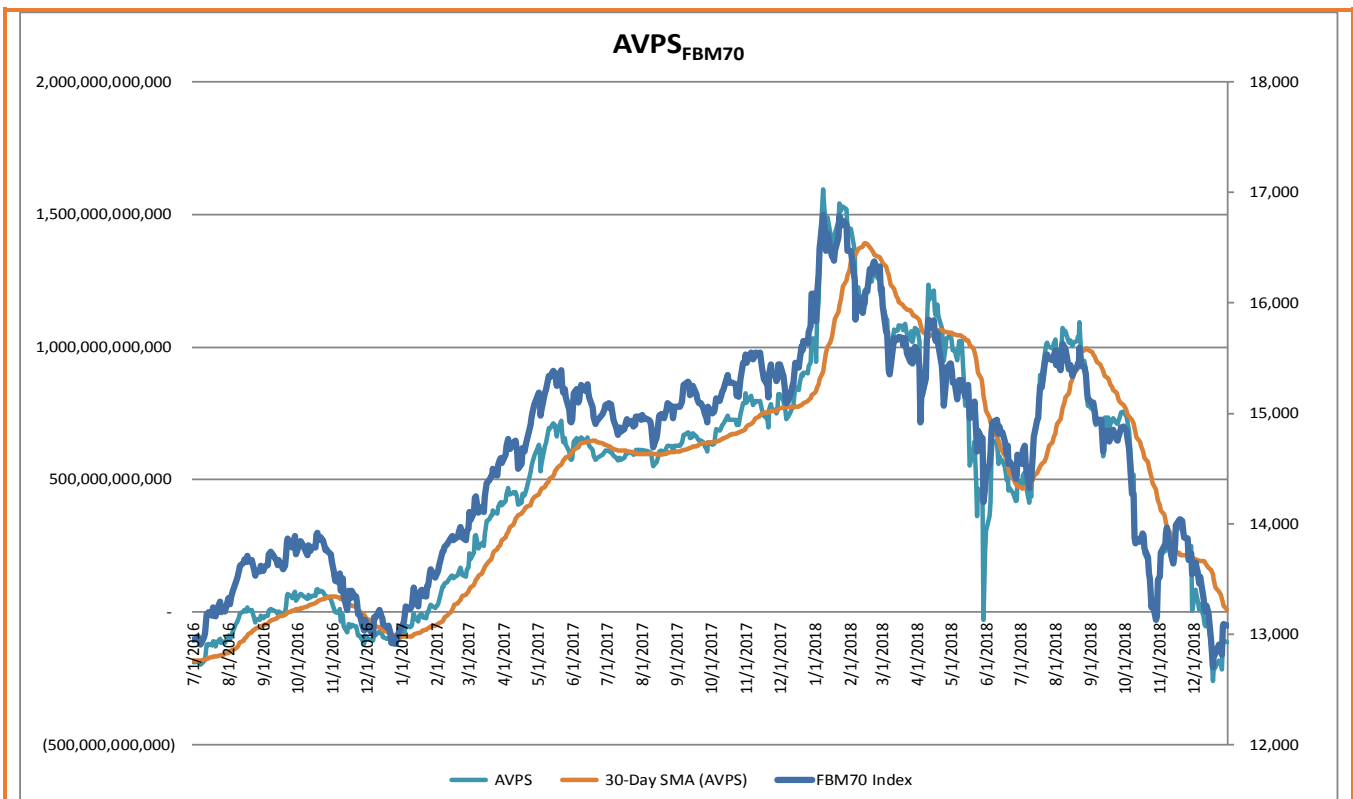


Figure 13: Accumulated Volume-Price Indicator for FBMKLCI – Showing tentative sign of improvement!



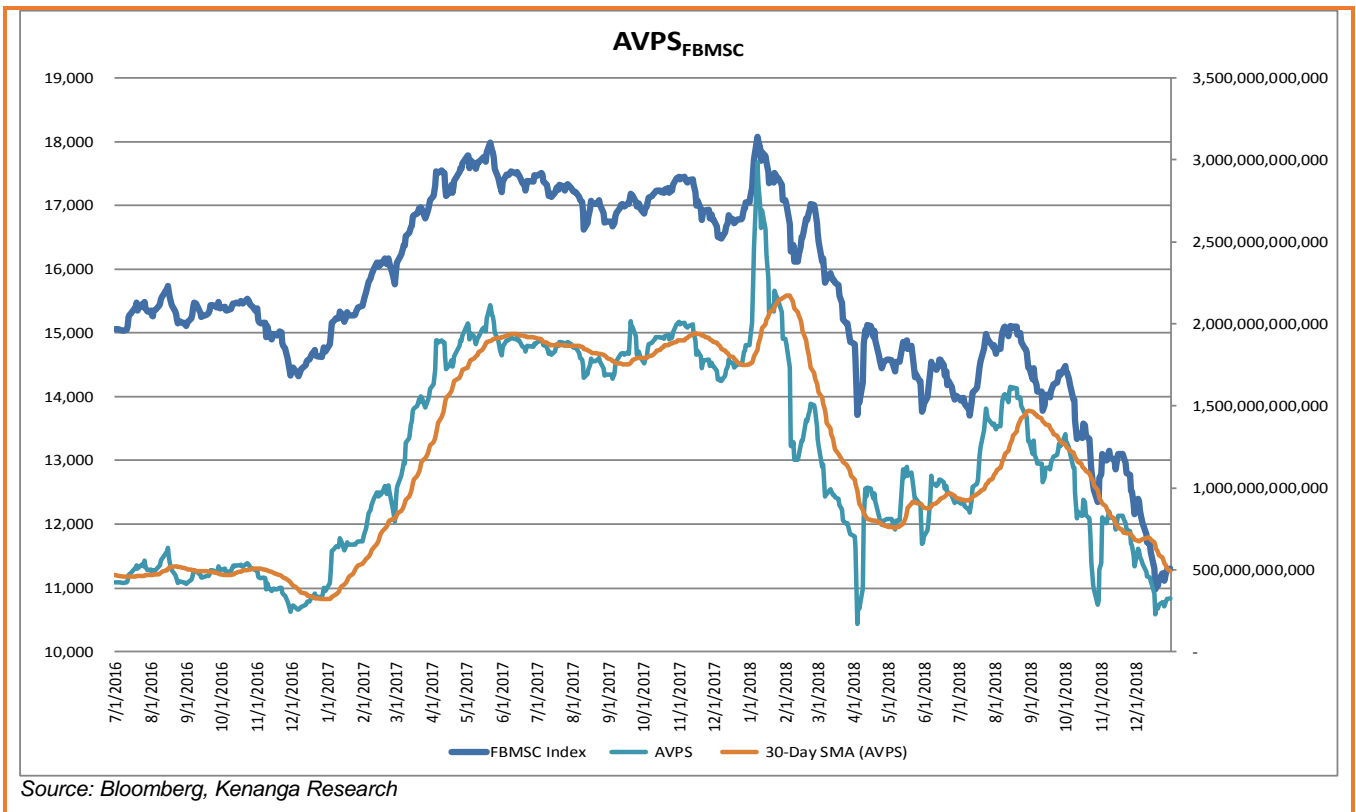
Source: Bloomberg, Kenanga Research

Figure 14: Accumulated Volume-Price Indicator for FBM70 – Still Downside Biased!



Source: Bloomberg, Kenanga Research

Figure 15: Accumulated Volume-Price Indicator for FBMSC – Still Downside Biased!



Source: Bloomberg, Kenanga Research

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Figure 16: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Aviation	Maintain	<ul style="list-style-type: none"> • Reiterate OVERWEIGHT on the sector, as we remain hopeful on the future development of the sector due to more active involvement from the Transport Minister compared to the past, and due to our recent upgrade in AIRPORT to OP; TP: RM8.95 (previously, MP; TP: RM8.60) • Mixed bag of results in 3QCY18, AIRASIA came in broadly within while AIRPORT came in above expectations; an improvement compared to 2QCY18, as both stocks were in line. The better-than-expected performance from AIRPORT was due to lower-than-expected operating cost, depreciation and tax. We kept our FY18-19E core earnings for AIRASIA unchanged but raised AIRPORT's by 13-8%. • For near-to-medium-term, AIRASIA (OP; TP: RM3.25) would benefit from the decrease in fuel cost whereby jet fuel is down by 30% from its peak of USD99.1/bbl, coupled with more disposals of non-core investments in the cards, which investors could benefit from potential special dividends. • For longer term, We think that AIRPORT (OP; TP: RM8.95) is worth a close watch to keep a close watch on AIRPORT as the potential implementation of RAB framework in 2019 could be a re-rating catalyst for the stock as they would be able to raise PSC charges based on Capex requirement. 	<p>OP: AIRASIA (TP: RM3.25) AIRPORT (TP: RM8.95)</p>
Gaming	Maintain	<ul style="list-style-type: none"> • Casino: beaten price offers attractive valuation. GENTING faced heavy sell-down after GENM hit triple whammies last November on casino duties hike, termination of Fox Theme Park and RM1.8b impairment on US Tribe's promissory notes. But GENTING is only trading at half of its SoP and positive sentiment may arise from the process of legalising casino in Japan. • NFO: ticket sales stabilised; minimal impact from special draw cut. Ticket sales trend has stabilised for the past one year which indicates the downtrend has bottomed. Meanwhile, the reduction of special draw days in 2019 should have minimal impact to the players as these draw days come with 10% additional tax which crimp profitability. • 2019 a challenging year. While 1Q is seasonally a strong quarter especially on business volume for CNY effect, bottomline will be affected on higher casino duties by 10% effective 1st Jan which we already adjusted in our model and the 50% special draw cut will reduce NFO players' earnings by 2-3%. • Value and yield in store; Keep OW. Sell-down in GENTING presents good value buy although the current issues with GENM will continue to suppress GENTING's share price. Downtrend in ticket sales abating, leading to sustainable yield of 6-7% for NFO players. 	<p>OP: BJTOTO (TP: RM2.55) GENTING (TP: RM7.55) MAGNUM (TP: RM2.25)</p> <p>MP: GENM (TP: RM3.10)</p>
Power Utility	Maintain	<ul style="list-style-type: none"> • Defensive sector. This sector offers resilient earnings where earnings of TENAGA are free from fuel cost movement risk under the ICPT framework with a 6-month lag adjusted basis while the IPPs are backed by 	<p>OP: MALAKOF (TP: RM1.00) PESTECH (TP: RM1.45) –</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>long-term PPAs.</p> <ul style="list-style-type: none"> • Government's commitment towards ICPT mechanism is key, following the 2nd surcharge of 2.15 sen/kWh in 1H19 for non-domestic customers, which is positive to sentiment. But, the continuation of surcharge after the KWIE fund is fully utilised, likely in 2020, is critical. • Earnings to improve further. TENAGA's earnings will be led by 2.1% electricity demand growth in 2019. YTLPOWR should see better earnings on the recommencement of Paka Power Plant but MALAKOF's upside is capped by capacity payment cut at SEV. PESTECH will see better 2HFY19 earnings as projects are in advance stages. • Maintain OW for the sector. TENAGA is our Top Pick with its undemanding valuation of 12x CY19 PER against FBMKLCI's 16x which is unwarranted given its index-linked heavyweight status and earnings quality profile while PESTECH is still an alternative small cap play. 	<p>Top Pick</p> <p>TENAGA (TP: RM16.45)</p> <p>MP:</p> <p>YTLPOWR (TP: RM1.05)</p>

Source: Kenanga Research

Figure 17: Underweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Building Materials	Downgrade	<ul style="list-style-type: none"> • Downgrade to UNDERWEIGHT outlook on Building Materials. • Bracing for a more challenging 2019. We believe 2019 will be a more challenging year in view of lacking sector catalyst and unexciting news-flow while weak property market and slow construction activities continue plaguing the building material players. • Cautious outlook on ANNJOO. Currently, China steel rebar prices are trading at c.USD489. Total effective cost for importing Chinese rebars is c.RM2,500 vs. current local rebars prices of RM2,200-RM2,350. We believe there will be minimal impacts to the earnings arising from the additional import threats as the current price differences between China and domestic steel prices appears to be sufficient buffer to fend off imports into our shores. Maintain MARKET PERFORM on ANNJOO with unchanged TP of RM1.25 • Downgrade ULICORP to UNDERPERFORM with lower TP of RM0.505 (from RM0.675) with lower ascribed valuation of 6.0x FY19E PER (previously 8.0x FY19E PER of FBMSC Index). Our 6.0x PER is lower than updated FBMSC Index's FY19E PER of 6.8x in line with sector negative sentiments and challenging operating environment. • Maintain MARKET PERFORM on PMETAL with an unchanged TP of RM4.80 based on 19.4x FY19E EPS of 24.7 sen. This reflects earnings growth of 52% on the basis of aluminium ASP averaging USD2,000-2,100/MT in FY19. While its long-term positive operating outlook and earnings growth potential remain intact, current volatility in the aluminium and alumina markets continue to disrupt 	<p>MP:</p> <p>ANNJOO (TP: RM1.25)</p> <p>PMETAL (TP: RM4.80)</p> <p>UP:</p> <p>LAFMSIA (TP: RM1.85)</p> <p>ULICORP (TP: RM0.505)</p> <p>WTHORSE (TP: RM1.20)</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>earnings visibility in the near term.</p> <ul style="list-style-type: none"> • Cautious outlook on LAFMSIA. We remain cautious over the overall group outlook in near-mid-term due to weak domestic demand woes and continuous overcapacity in the market leading to stiff competition and cement rebates wars. Based on channel checks, cement rebates in 4QCY18 for bulk cement represented 44% discount to the market price of RM370/MT, whilst bag cements are priced at a lower discount of 22% to the market price of RM19.25/bag. Maintain UNDERPERFORM with unchanged TP of RM1.85. • Bleak outlook over WTHORSE's near-immediate term outlook due to the slowing down of property and construction jobs in the market affecting its sales volume, coupled with rising cost pressure. Downgrade to UNDERPERFORM with lower TP of RM1.20 based on lower 0.4x Fwd. PBV (previously 0.5x Fwd PBV) pegged to FY19E BV/share of RM3.02. Our valuation is below than the current trough level of 0.5x which we believe is justified; (i) as we expect further de-ratings in lights of potential weaker earnings cycle than 3QFY18, (iii) FY19E to be the worst performance since its listing in 1999, (iii) WTHORSE has registered 3rd quarterly losses since 4Q17 (ii) the subdued property market suppressing demand for tiles, (iii) potential write-down in inventories from slow moving goods. 	
Healthcare	Maintain	<ul style="list-style-type: none"> • We maintain our UNDERWEIGHT rating on the sector which prospect is expected to be dull in terms of earnings growth while further capped by expensive valuations. • The just-concluded 3QCY18 results season was a mixed bag. IHH's 3Q18 earnings came in above expectations due to low base effect in in YTD 2017. KPJ came in within expectations. KPJ is confident that start-up costs from new openings will be absorbed by: (i) incremental ramp-ups from earlier openings, and (ii) steady contributions from matured hospitals. • KPJ's valuation appears to be attractive again, Reiterate OP. Earnings growth is expected to come from narrower losses and profitability for hospitals built 2-3 years ago including KPJ Klang, Rawang, Maharani, Pasir Gudang and Pahang. KPJ Perlis (greenfield, 90 beds) has commenced operations in 2Q18. The stock is currently trading at 15% and 30% discounts compared to its historical average of 28x and regional peers of 35x, respectively 	<p>OP: KPJ (TP: RM1.35)</p> <p>MP: PHARMA (TP: RM2.90)</p> <p>UP: IHH (TP: RM4.60)</p>
Plastics and Packaging	Maintain	<ul style="list-style-type: none"> • Mix 3QCY18 results. Plastic packagers' results were mixed with 3 above, 1 within and 1 below. This was an improvement vs. 2QCY18 when only 2 came within and 3 were below. The stronger-than-expected results were due to better property margins for SCIENTX, better operating margins for SLP and higher than expected tax recorded for TOMYPAK, while SCGM came in below due to margin pressure. We upgrade earnings and TP for SCIENTX and SLP on stronger results while we downgrade TP and earnings for SCGM. TGUAN and TOMYPAK's TP were left unchanged. • Capacity expansion on track. We expect capacity expansion across the sector to drive top-line growth over the long run, supported by continuous demand for niche 	<p>OP: SLP (TP: RM1.35)</p> <p>MP: SCGM (TP: RM1.15) SCIENTX (TP: RM8.50)</p> <p>UP: TGUAN (TP: RM1.95) TOMYPAK (TP: RM0.495)</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>plastic products, and increased use of stretch film driven by Industry 4.0. TOMYPAK is increasing capacity by 44% by FY20-21, SLP by 58% in FY19, while TGUAN will commission an additional stretch film production line in 4Q18 and SCGM by 65% in FY20. SCIENTX will continue to focus on ramping utilisation, targeting 70% over the next few years.</p> <ul style="list-style-type: none"> • Cost pressures still a concern. We are not overly concerned about top-line growth as most packagers recorded 3-9% revenue growth YoY-Ytd, save for TOMYPAK (-18%). However, we are cautious of volatile raw material prices, the variability of favourable product mix, and higher operating expenses that have caused margin compressions in recent quarters. Resin prices have increased c.8% Ytd, averaging at USD1,150-1,300/MT p.a., which is close to our resin cost estimate of USD1,200 -1,400/MT. That said, we noticed resin prices decline by c.6% QoQ, but believe this may not reflect immediately on improved earnings due to existing inventory of resin held at a higher cost, while most packagers have been grappling with weaker product margins and additional cost incurred during the fit-out stages from on-going capacity expansion. • Maintain UNDERWEIGHT. Maintain all calls and TP, save for SCGM, which we ascribe a MARKET PERFORM (from UP) call as share price has declined since our last report. We are comfortable with our sector call for now, which is lacking a convincing re-rating catalyst. However, we may look to increase earnings should resin prices maintain a consistently lower trend, and upon more stable earnings deliveries or favourable macro fundamentals for the sector. 	
Rubber Gloves	Maintain	<ul style="list-style-type: none"> • Reiterate UNDERWEIGHT due to rich PER valuations and flat sequential earnings growth. • Anecdotal evidence suggests that rubber gloves stocks' share price rally was led largely by massive PER expansion as earnings growth has been pedestrian over the past eight quarters. Our analysis suggests that the strong surge in share prices of glove stocks was mainly due to changes in the P/E multiple and not so much on earnings growth. Following a period of capacity consolidation starting back in mid-year 2016, which led to falling ASPs, nascent signs of glove-makers ramping up capacities are emerging again. The robust demand is attracting players to ramp up production. On the flipside, key upside risk is stronger-than-expected demand. • Our Top Pick in the sector is KOSSAN. We like Kossan for : 1) its strong high teens YoY earnings growth expected in subsequent quarters underpin by new capacity expansion; 2) it is moving from good to great due to transformation in the manufacturing processes via automation, hence potential margins expansion; and 3) it is trading at an unwarranted 25% discount to peers, the valuation gap should narrow considering the solid earnings growth ahead. Our TP is RM4.95 based on 25.5x FY19E EPS (+1.5 SD above 5-year historical forward mean) due to Kossan's strong high teens growth ahead. 	<p>OP: KOSSAN (TP: RM4.95)</p> <p>UP: HARTA (TP: RM5.15) SUPERMX (TP: RM2.60) TOPGLOV (TP: RM4.45)</p>

Source: Kenanga Research

Figure 18: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	Maintain	<ul style="list-style-type: none"> • The MIER consumer sentiment index scored 107.5 pts (-25.4pts QoQ, +30.4pts YoY) in 3Q18 which is above the optimistic threshold (>100pts) as consumer raced to spend during the remainder of zero-rated tax holiday • As expected, 3Q18 posted stronger performance from the remainder of zero-rated tax holiday, as well as lesser-than-expected SST price increment on CKD vehicles. • According to the MAA, TIV for 11M18 TIV was at 550,526 units (+5%); however, we maintain our 2018 year-end estimate at 590,000 units (+2%) as we expect slower sales in December 2018, due to short-working month from Christmas festive season and consumers holding back purchases in anticipation of new launches in 2019. • We introduced our 2019 TIV target at flat growth of 590,000 units, as we believe that the absent of one-off 2018 tax holiday will be netted-off by interesting new launches in 2019 includes all-new Perodua SUV (D38L), all-new Toyota Vios, all-new Toyota Yaris Hatchback (tentative) and competitive all-new models by Honda, Nissan, Mazda and Proton • Our sector top-pick is MBMR (OP; TP: RM2.60) for its undemanding 6.2x FY18E PER compared with average net profit growth of 15% per annum over the next two years. 	<p>OP: BAUTO (TP: RM2.50) MBMR (TP: RM2.60) TCHONG (TP: RM1.70)</p> <p>MP: DRBHCOM (TP: RM1.80) SIME (TP:RM2.55) UMW (TP: RM5.80)</p>
Banks and Non-Bank Financial Institutions	Maintain	<ul style="list-style-type: none"> • Maintained Neutral for the sector. We expect the sector's performance to remain as expected or guided. For CY18E we expect industry loans to be ~4.6% vs system's loans of ~5.3%. CY18E earnings expected at +6.7% (vs CY17: +9.7%) driven by (i) lower credit charge at 0.35% (ii) NIM at 2.2% (down by 5bps) due to the absence of additional rate hike and pausing of deposits intake (due to strategic reasons) and deferment of NSFR9 (iii) lower fee-based income at +1.4% (from +3.5% previously) to take into account positive of soft and volatile capital market activities in Q2, Q3 and Q4. • With employment stable and interest rates low, external headwinds are raising concerns on asset quality. Our view on selective asset growth by the banks still holds; but we expect the banks to have a higher risk appetite for retail loans/financing in light of the above-mentioned conducive domestic environment. External headwinds such as soft energy prices will likelihood see a spike in credit charge in 4Q18 for those who have significant exposure in this sector. • Due to concerns of moderate economic growth, half of the stocks in our banking universe are at undemanding valuations and at OUTPERFORM with AMBANK, CIMB, HLBANK, PBBANK and RHBBANK at MARKET PERFORM. We based our valuations on the banks' 5-year average P/BV and PER but with variance of between -0.5 to -1.0 SD to reflect: (i) moderate loans growth, and (ii) lower contribution from NOII on internal uncertainties ahead. While the depreciation in prices has created attractive propositions, fundamentally, we see no changes ahead and coupled with the absence of catalyst, we maintain the sector at MARKET PERFORM. • Our Top Pick for the sector is BIMB. We like BIMB for its loan portfolios that are skewed towards household (mostly 	<p>OP: AFFIN (TP: RM2.60) BIMB (TP: RM5.05) – Top Pick ABMB (TP: RM4.40) MBSB (TP: RM1.25) – Top Pick MAYBANK (RM9.75) TAKAFUL (TP: RM4.85)</p> <p>MP: AMBANK (TP: RM4.50) AEONCR (TP: RM15.80) BURSA (TP: RM7.60) CIMB (TP: RM6.05) HLBANK (TP: RM20.15) LPI (TP: RM16.30) PBBANK (TP: RM23.85) RHBBANK (TP: RM5.75)</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Construction		affordable housing and first-time buyers) supporting its FY18E target of 8%.	
	Maintain	<ul style="list-style-type: none"> • NEUTRAL due to the lack of catalyst as we do not see much infrastructure spending from government after the major cost reduction in two mega projects. • Better performances in 3QCY18 compared to 2QCY18. We saw an improvement in 3QCY18 compared to 2QCY18 with lesser disappointment. Out of 11 construction stocks within our coverage, 4 contractors disappointed, and the remaining came in within/broadly within. To recap, 2QCY18 registered 6 earnings disappointments. • Valuations. The KLCON is trading at extraordinarily weak levels considering the cycle of 2008-18 where it is trading at even lower levels of 7.0x PER (-3SD levels) compared to its 2008 Global Financial Crisis (GFC) trough levels of 8.0x, which was at -2.0SD levels. Interestingly, at its through levels back in 2008, KLCON was trading at a discount of 13.8% to KLCI. But today, KLCON is currently trading at unprecedented low-levels of 7.0x which is at -3.0SD levels (as of our cut-off date of 14th Dec 2018) in 10-years, with a discount of 58% KLCI's valuation, whereby both Fwd PER valuation and discount to KLCI are now at -3.0SD levels, which we believe is at severely oversold levels. • NEUTRAL view maintained as the sector lacks of catalyst at this juncture. However, we are still hoping for a silver lining as we usher into 2019, especially when KLCON is currently trading at a new low of 7.0x coupled with 58% discount to KLCI's valuation, which are both trading at 10-year -3.0SD levels. Hence, being selective with our picks, we advocate investor to adopt selective stock picking strategy on stocks that have minimal earnings in the near-to-mid term like GAMUDA and KERJAYA. As for the longer term (12 month), we advocate investors to keep an eye on WCT as we believe that the re-rating catalyst for WCT would strongly lies on their ability to de-gear in the next 12 months to 0.5-0.7x, through the clearance of inventories and the potential monetisation of its investment properties. 	<p>OP: GAMUDA (TP: RM3.05) MUHIBAH (TP: RM3.20) KERJAYA (TP: RM1.20) WCT (TP: RM0.850) – Top Pick</p> <p>MP: GKENT (TP: RM0.845) IJM (TP: RM1.85) HSL (TP: RM1.30) KIMLUN (TP: RM1.15)</p> <p>UP: MITRA (TP: RM0.290) SENDAI (TP: RM0.505) SUNCON (TP: RM1.30)</p>
Consumer	Maintain	<ul style="list-style-type: none"> • We reiterate our NEUTRAL rating on the consumer sector. • The immediate 4QCY18 should see weaker results as consumption is likely to be skewed towards the “tax holiday” season, while some would be backed by the CNY season • Normalising sentiment, weaker forex and passive government policies (i.e. SST, smoking ban at open air food outlets, excise sugar tax on beverages) may undermine growth potential towards domestically-sensitive players • The sector's rich valuations (particularly on large cap players) are likely to persist against the benchmark index thanks to the resiliency of its business nature. • For sector top picks, we have AEON (OP; TP: RM2.00). The stock is backed by expectations for meaningfully better results fuelled by better sales and cost environment. 	<p>OP: AEON (TP: RM2.00) – Top Pick PADINI (TP: RM4.05) – Top Pick PWROOT (TP: RM1.65) – Top Pick</p> <p>MP: AMWAY (TP: RM6.80) DLADY (TP: RM64.10) F&N (TP: RM33.30) HAIO (TP: RM2.60) HEIM (TP: RM18.60) NESTLE (TP: RM146.50) PARKSON (TP: RM0.250) SEM (TP: RM1.30)</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
			SPRITZER (TP: RM2.30) UP: BAT (TP: RM29.10) CARLSBG (TP: RM17.70) MYNEWS (TP: RM1.25) QL (TP: RM5.70)
Media	Maintain	<ul style="list-style-type: none"> • NEUTRAL view unchanged. • Traditional media revenue continued its declining trend in 3QCY18 with no sign of meaningful recovery. • Transformation programme continues coupled with further cost rationalization plans (i.e. optimize the human resources as well as operating costs). • Potential shares overhang (as a result of the impending stake-limit ruling) remain a major concern. • ASTRO in focus again with renewal M&A talk with MAXIS. • ASTRO (OP, TP: RM1.60) is our preferred pick for the sector due to its relatively resilient earnings (underpinned by its growing digital adex coupled with rising home shopping segment contribution) and attractive dividend yield (>7%). • Reiterate UNDERPERFORM ratings on MEDIA (TP: RM0.300) and MEDIAC (TP: RM0.150) and STAR (TP: RM0.600). 	OP: ASTRO (TP: RM1.60) UP: MEDIAC (TP: RM0.150) MEDIA (TP: RM0.300) STAR (TP: RM0.600)
MREITs	Maintain	<ul style="list-style-type: none"> • Results within. All MREITs' results were within expectations, a consistent trend over the past five quarters. YoY-Ytd, bottom-line was positive for most (-1 to 13%) on positive reversions, save for CMMT (-5%), SUNREIT (-7%) and MQREIT (-6%) on higher operating and financing cost. QoQ, top-line growth was mostly positive (1-11%), save for CMMT which was marginally lower by 1%. This translated to bottom-line growth for most (1-15%), save for CMMT (-5%) and MQREIT (-3%), which were within our expectations. • Tough reversions. We do not expect strong earnings improvements YoY due to the oversupply of both office and retail spaces. As such, strong reversions will remain challenging as tenants will prefer to prioritise occupancy over reversions. All in, we expect single digit to mild negative reversions for MREITs under coverage. • Unexciting fundamental outlook. FY18 will see minimal lease expiries 14-30% of NLA for MREITs under our coverage) save for CMMT (45%) which have mostly been accounted for. Meanwhile FY19 will see c. 21-53% leases up for expiry for MREITs under our coverage. We believe we have accounted for most foreseeable near-term risks, on modest FY18-19E average DPU growth of 3-2% YoY. • Conservative valuations as we are assuming a 10-year MGS target of 4.20% (vs. current levels of 4.10%) while our MGS spreads are above its historical targets for most MREITs as we remain conservative on the sectors lacklustre outlook due to; (i) oversupply of retail and office space, and (ii) potential interest rate hikes. Note that our valuations are based on a 10-year MGS target to 4.20% and above-average spreads (+0.5 to +1SDSD above historical averages) serve as a buffer for near-term 	OP: CMMT (TP: RM1.20) MP: IGBREIT (TP: RM1.55) MQREIT (TP: RM1.10) PAVREIT (RM1.55) SUNREIT (TP: RM1.65) UP: AXREIT (TP: RM1.35) KLCC (TP: RM6.90)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>fluctuations to the MGS and concerns of sector fundamentals</p> <ul style="list-style-type: none"> • MREITs earnings and Calls unchanged. However, we recently increased SUNREIT's TP to RM1.65 (from RM1.60) post rolling forward to FY20 upon the acquisition of Sunway Uni, and lowered CMMT's TP to RM1.20 on more conservative earnings. • Maintain NEUTRAL on a 10-year MGS target to 4.20% while our above-average spreads serve as a buffer for tough macro outlook and near-term fluctuations to the MGS. As MREITs are average gross yields of 6.3%, our NEUTRAL call is warranted, but CMMT stands out on attractive yields of 8.0%. 	
Oil & Gas	Maintain	<ul style="list-style-type: none"> • Volatile oil prices. Despite OPEC+ production cuts, oil prices have still displayed high volatilities of late, with the Brent breaching below the USD55/barrel-mark from its high of USD85/barrel in Oct-2018. Given the current supply-side concerns landscape coupled with an expected slowdown of global economy growth in 2019, we expect Brent to average the year at around USD60/barrel, within a trading range of USD55-65/barrel. • Petronas activity outlook indicates jobs flow in certain areas. Reading through Petronas' latest activity outlook for 2019-2021, we see a likely increase in activities for: (i) drilling rigs, benefiting the likes of VELESTO (ii) marine vessels, benefiting charterers such as ALAM, PERDANA, ICON, (iii) HUC & MCM, benefiting maintenance players such as DAYANG, SERBADK, and (iv) decommissioning, where UZMA has expertise. Conversely, we also see a possible decrease in offshore fabrications, affecting players such as SAPNRG and MHB. • Counters' fundamentals more relevant than ever. Having recently conducted a study of the relationship of the sector's valuations (i.e. PBV) against its fundamentals (i.e. ROE), we concluded that at current times of high uncertainties would result in a steeper valuation curve favouring fundamentally more solid counters, while weaker counters face heavy bash downs. As such, should sentiment/oil prices improve, we also expect these counters trading at lower valuations (and with lower ROE) to be quicker to re-rate. Overall, we identified possible bottom-fishing targets to include DAYANG, SAPNRG, UZMA, while resilient counters include DIALOG, SERBADK, YINSON on top of staple Petronas names. • Maintain NEUTRAL. With most of the names within the sector still plagued with balance sheet concerns and earnings instability, we still favour more resilient names (i.e. aforementioned DIALOG, SERBADK and YINSON on top of staple Petronas names). We selected SERBADK as our sector top-pick given its (i) commendable earnings growth delivery, coupled with (ii) superior ROE against its peers. 	<p>OP: DAYANG (TP: RM0.810) DIALOG (TP: RM3.80) MHB (TP: RM0.710) PANTECH (TP: RM0.550) PETGAS (TP: RM22.65) SERBADK (TP: RM4.45) UZMA (TP: RM0.650) YINSON (TP: RM5.00)</p> <p>MP: ARMADA (TP: RM0.150) GASMSIA (TP: RM3.05) PCHEM (TP: RM9.35) PETDAG (TP: RM25.50) SAPNRG (TP: RM0.340)</p> <p>UP: WASEONG (TP: RM0.570)</p>
Plantation	Maintain	<ul style="list-style-type: none"> • Seeing light at the end of the tunnel. We are turning more positive on the plantation sector for 1QCY19, as signs are pointing towards a sharp recovery in CPO prices. Over the next three months, key positive factors that we are monitoring closely are as follows: (i) easing trade tensions between the US and China, (ii) higher exports of Indonesian CPO to the EU and, (iii) falling stockpiles in 	<p>OP: CBIP (TP: RM1.10) GENP (TP: RM10.50) HSPLANT (TP: RM1.95)</p> <p>MP:</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>both Malaysia and Indonesia. Locally and in Indonesia, stockpiles are expected to fall in coming months as production slows down seasonally. On demand front, we believe there will be notable pickup in 1QCY19 coming from: 1) China, due to higher festive consumption during Chinese New Year; and 2) India, as import duty is set to be revised downwards from 44% to 40%, effective 1 January 2019. Recently, China has resumed purchases of US soybeans on a large scale, boding well for SBO prices and consequently, CPO prices given their high correlation.</p> <ul style="list-style-type: none"> • CPO price recovery under way. Riding on these factors, we expect CPO prices to improve to RM2,300-2,400/MT by the end of 1QCY19, and edge up further to RM2,500-2,600/MT in 2QCY19 as stockpiles continue diminishing amid low production season, before retracing to RM2,200-2,300/MT in 2HCY19 when output picks up again. Overall, we forecast 2019 CPO price at an average of RM2,400/MT, representing a YoY increase of 7%. • February results to be wet blanket. Nevertheless, we caution that February's results season could be a hurdle, as lower CPO prices likely overshadowed production pickups in 4QCY18. As such, we believe a strategic time to accumulate shares in planters is early-March, with the focus on bashed-down upstream players like HSPLANT. • Prefer bashed-down names and planters with good execution. We recommend selective exposure, opting for bashed-down names like (i) CBIP (OP; TP: RM1.10) given sizable orderbook replenishment expected in 1Q19 and the stock trades at an attractive FY19E PER of 7.7x (-2.5 SD); and (ii) HSPLANT (OP; TP: RM1.95) as share price appears overly punished at -3.5SD below PBV mean. We also favour GENP (OP; TP: RM10.50) for its above-average FFB outlook and stable earnings contribution from JPO and GPO, while the stock trades at an undemanding FY19E PER of 19.3x (-2.0 SD). We maintain MP but cut TP for (i) FGV, from RM0.965 to RM0.800, and (ii) JMPLNT from RM1.85 to RM1.50, while downgrading TAANN from OP to MP with unchanged TP of RM2.35. • Maintain NEUTRAL with the possibility of upgrading to OVERWEIGHT if the above catalysts take form. 	FGV (TP: RM0.800) JMPLNT (TP: RM1.50) IOICORP (TP: RM4.50) KLK (TP: RM25.70) PPB (TP: RM16.60) SIMEPLT (TP: RM5.00) TAANN (TP: RM2.35) TSH (TP: RM1.05) UP: SAB (TP: RM2.60) UMCCA (TP: RM4.80)
Ports & Logistics	Maintain	<ul style="list-style-type: none"> • Earnings growth risk to persist among parcel logistic players. As the last-mile delivery space continues to remain saturated following the increasingly intensifying competition particularly within the e-commerce space, margin compression is still apparent due to the price-elastic e-commerce volumes. Thus, we reiterate our stance to stay side-lined from this sub-sector until more meaningful earnings recovery can be seen, mostly likely attributed by companies maturing out of gestation phases from their current expansion plans. • Positive container throughput growth expected. Port Klang saw 9M18 container throughput dropping by 0.4% YoY due to tail-end residual effects from M&A and alliances reshuffling activities among global shipping liners. That said, we believe throughput has now bottomed out, and are expecting positive growth from here moving forward, with our 2019 forecasts growth of 5%, driven by organic economic growth coupled with the low-base effect. Moreover, we see minimal impact from U.S.-China trade wars as it should mostly only affect transpacific shipment 	MP: CJCEN (TP: RM0.490) MMCCORP (TP: RM0.950) WPRTS (TP: RM3.75) UP: POS (TP: RM1.50)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Property Developers		<p>routes. Global port activities are still healthy as there is no major decline seen in global container throughput indices YoY.</p> <ul style="list-style-type: none"> • Maintain NEUTRAL. We maintain our NEUTRAL stance on the sector, given the lack of any major rerating catalyst. We also take this opportunity to lower our TP and call for MMCCORP as we are concerned of earnings volatility. As for POS, we downgrade its TP as we changed our valuation methodology to PBV (from Sum-of-Parts) due to volatile and uncertain quarterly earnings ahead. 	
	Maintain	<ul style="list-style-type: none"> • Maintain NEUTRAL on Developers. • The KLPRP index has declined by 26%, underperforming the FBMKLCI (-7%) with the KLPRP marking the fourth consecutive year of underperformance against the broad-market, not to mention this year saw a markedly worst underperformance since 2009. • The sector still lacks catalysts while earnings quality is not stable considering inventory clearing efforts and REHDA's commitment to lower house prices by 10% (due to SST exemptions on construction/building materials) as per Budget-2019. • Over 1Q19, we will be monitoring the following events which could provide a better indicator of where the property sector is heading; (i) Affordable Housing Expo 2019, (ii) P2P lending scheme regulations by SC. At this juncture, expect current sales and earnings trajectory to be lacklustre - our universe's total sales/earnings trajectory are expected to be at -4% / -15% YoY in FY18E/FY19E and +2% / +13% YoY in FY19E/FY20E, respectively. • While our universe's average net gearing levels are healthy at 0.3x, implying that there is room to landbank, most developers prefer to be prudent and such news-flows will likely remain patchy until there are clear sector catalysts. • Valuations are scrapping the bottom with our universe's RNAV discounts at 67.7% (historical high: 70.5%), while our universe's discount range are pegged at -1.0SD to -2.0SD levels given issues with earnings quality and no significant signals of ROE recoveries. With earnings quality still being subjected to pressures and achieving local sales targets are still challenging due to the massive housing overhang in the market, we see no compelling recoveries in developers ROEs in the next 12-24 months; hence expect valuations to remain 'submerged'. • Nonetheless, prolonged low valuations could trigger M&As or even privatisations. Investors wanting to take position in developers which have low valuations will need to ride-out the uncertainties and earnings quality risks which may affect share prices over the next 12-24 months. • Our preferred pick is UEMS (OP; TP: RM0.850). 	<p>OP: ECOWLD (TP: RM1.15) MAHSING (TP: RM1.10) SIMEPROP (TP: RM1.10) SPSETIA (TP: RM2.45) SUNSURIA (TP: RM0.860) SUNWAY (TP: RM1.50) UEMS (TP: RM0.850) – Top Pick</p> <p>MP: AMVERTON (TP: RM1.00) HUAYANG (TP: RM0.410) IOIPG (TP: RM1.65) MAGNA (TP: RM0.955) MRCB (TP: RM0.750) UOADEV (TP: RM2.15)</p>
Technology / Semiconductor	Maintain	<ul style="list-style-type: none"> • New smartphone features to incentivise upgrades in 1Q19, but may not be sustainable. In 1QCY19, positive trading sentiment is seen for smartphone-related companies given Samsung's S9 launch that comes with more exciting 	<p>OP: MPI (TP: RM13.00) PIE (TP: RM1.70)</p>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		<p>features, but this may not be sustainable as RF content growth has likely reached a plateau.</p> <ul style="list-style-type: none"> • Automotive-centric players plagued by new emission standards in the Europe. Meanwhile, short-term prospects of automotive-centric players are dampened by new emission standards in the Europe. • In the EMS space, we see potential opportunity for SKPRES to capitalise on the loss of jobs by one of its local competitors recently, while PIE should higher orders from its telecommunication, industrial printing, medical and raw cable customers in FY19. • Maintain NEUTRAL with preference for EMS players, namely (i) SKP (OP; RM1.25) due to potential margins enhancement and new contracts in the pipeline post PCBA-line commencement, while the company only trades at FY19E/FY20E PER of 11.3x/9.4x; and (ii) PIE (OP; RM1.70) due to its higher NP margin relative to its peers, more advanced manufacturing capabilities as well as its strong parentage support from Foxconn Technology Group, and we see good value proposition at current price level with its FY19E PER at only 10.7x. We also like MPI (OP, TP:RM13.00) as profit margins are expected to improve after weak-margin products have been weeded out and replaced with higher-growth/margin sensor packages, while the company trades at an attractive FY19E ex-cash PE of 8.2x. • We have cut TP for (i) SKPRES from RM1.35 to RM1.25, (ii) PIE from RM2.00 to RM1.70 and (iii) KESM from RM10.20 to RM8.00; and downgraded D&O from OP to MP after reducing TP from RM1.00 to RM0.750. 	<p>SKPRES (TP: RM1.25) – Top Pick</p> <p>MP: D&O (TP: RM0.750) KESM (TP: RM8.00)</p> <p>AO: UNISEM (TP: RM3.30)</p>
Telecom-munications	Maintain	<ul style="list-style-type: none"> • Maintained NEUTRAL call for the sector. We believe the policies uncertainties would continue to keep investors at bay for the sector in 1H19 but expect the operational environment to be improved in the 2H19 once the authority concluded the National Fiber and Connectivity Plan (NFCP). • One of the key challenges highlighted by the authority (under the implantation of the NFCP) is to ensure buy-in from stakeholders to roll-out infrastructure as public utility. While further clarifications and discussions are required on the above statement, we do not discount that the government may have an intention to nationalise the telecommunication infrastructures. • Our recent M&As study on the regional telecommunication sector's targeted multipliers suggested that MAXIS and DIGI have traded at their fair values while AXIATA, TM and OCK's valuations may have rooms for expansion. • AXIATA (OP, TP: RM4.60) is our preferred pick for the sector (due to the stronger Celcom and earnings recovery at XL as well as bargain opportunity could potentially arise post the recent sharpest-than-expected decline in share price) while OCK (OP, TP: RM0.570) is retained as our preferred choice under the mid-cap telecom space in view of its: (i) healthy cash flow on the back of escalating recurring income trend, (ii) ability to ride the passive infrastructure sharing trend, and (iii) expanding EBITDA margin trend. 	<p>OP: AXIATA (TP: RM4.60) OCK (TP : RM0.570) – Top Pick</p> <p>MP: MAXIS (TP: RM5.55) DIGI (TP: RM4.65) TM (TP: RM2.50)</p>

Source: Kenanga Research

Figure 19: 2019 Stock Watch-out List

Stock	Comments	Expected Capital Gains	Expected "Floor Price"
AEON (OP; TP: RM2.00)	A lower target price of RM2.00 is based on lower 21x FY19E EPS, at -1.0SD of its 5-year historical mean PER (from RM2.60 based on 26.5x FY19E EPS, at its 5-year historical mean PER) to reflect the negative consumer sentiment post-SST implementation. Nevertheless, we still like AEON as our top pick for its 1) Anticipating stronger 4Q on the usual year-end promotion which historically accounted for 40% of earnings; 2) Absent of associates 1H share of operating loss at RM11.4m (divested in 1H18); 3) On-going operation restructuring, improving margin for retailing, and sustaining property income. FY19 earnings will be supported by a positive SSSG growth from malls rationalisation strategy. Note that, AEON recently been added to MSCI Global Small Cap Index.	RM0.530 (+36.1%)	RM1.45 (-1.4%)
BIMB (OP; TP: RM5.05)	We expect FY18E to be as guided (loans at ~8% YoY) with earnings supported by strong Takaful contribution with bottomline supported by stable asset quality implying a modest credit charge (20-25bps for FY18E). The recent redemption (RM500m) of its RM1.3b sukuk liabilities indicates strongly of BIMB intentions to clear its sukuk via internally generated funds. Trading almost the bottom of its 5-year mean (1.28x P/B) thus Undemanding with both ROE (~14%) and dividend yield (4.4%) second best amongst its Peers	RM1.41 (+41.9%)	RM3.53 (-0.8%)
DAYANG (OP; TP: RM0.810)	We believe recent sell-down was likely due to concerns over a possible capital raising in PERDANA (60.5% subsidiary) in the coming 12-18 months, under the purview of Corporate Debt Restructuring Committee (CDRC) of Bank Negara. Nonetheless, we still find value in the stock at this juncture, especially with its outlook improving given (i) strong contract flows of late, coupled with (ii) strong recent results, backed by improving vessels utilisation and higher topside maintenance work orders. We highlighted DAYANG to be a prime beneficiary in the oil and gas offshore maintenance space, which is expected to see higher activities flow moving into 2019. No changes to OP call. Our "floor price" is derived based on a PBV valuation of 0.45x at -1S.D. from mean (currently trading at 0.5x PBV).	RM0.270 (+50.0%)	RM0.480 (-11.1%)
GAMUDA (OP; TP: RM3.05)	The stock is backed by its decent dividend yield of 5.4% for a big-cap contractor coupled with their ability to compete for smaller jobs ranging between RM300-500m. Furthermore, we believe GAMUDA would be one of the strong contenders for KVDT job given their strong expertise in railway jobs having completed multiple railway projects in the past. Our floor price is derived based on 7.0x FY20E, which is at KLCON's 10-year -3.0SD, a level which we believe to be severely oversold.	RM0.710 (+30.3%)	RM1.70 (-27.4%)
KERJAYA (OP; TP: RM1.20)	Lowered construction multiple from 11x to 10x, removed net cash position from valuation as management intends to utilise for land banking activities. Our floor price is derived based on 7.0x FY19E, which is at KLCON's 10-year -3.0SD, a level which we believe to be severely oversold.	RM0.050 (+4.3%)	RM0.870 (-24.3%)
MBMR (OP; TP: RM2.60)	We like MBMR, with or without an M&A angle, for: (i) its deep value stake in 22.58%-owned Perodua (based on: our FY18E profit, attached 12x PER value, MBMR's stake at c.RM1.4b), and (ii) expected strong turn-around in the alloy-wheel division segment underpinned by the all-new MyVi and expected launch of the all-new Perodua SUV (D38L). The stock is trading at an undemanding 6.2x FY18E PER compared with average net profit growth of 15% per annum over the next two years	RM0.400 (+18.2%)	RM1.60 (-27.3%)
MBSB (OP; TP: RM1.25)	Expecting FY18E to be as guided with credit costs normalized (50-60bps vs 2017: 170bps) supporting bottomline.	RM0.330 (+35.9%)	RM0.900 (-2.2%)
MPI (OP; TP: RM13.00)	Beneficiary of stronger USD; profit margins are expected to improve as weak-margin products have been weeded out and replaced with higher-growth and higher-margin sensor packages; ex-cash PE now only at 7.8x.	RM3.05 (+30.7%)	RM8.60 (-13.6%)

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Stock	Comments	Expected Capital Gains	Expected "Floor Price"
MUHIBAH (OP; TP: RM3.20)	Further widen holding co. discount to 35%, as we opine that MUHIBAH need to find a strong footing on their core business while enjoying fruits of their investment in Cambodia Airports. Our floor price is derived based on 7.0x FY20E, which is at KLCON's 10-year -3.0SD, a level which we believe to be severely oversold.	RM0.410 (+14.7%)	RM2.45 (-12.2%)
OCK (OP; TP: RM0.570)	Our OCK target price of RM0.570 implied a forward PER of 19.8x, which is in-line with the average targeted M&A multiplier in the Asia Pacific (Emerging) market. Despite a lower target price, we are keeping our OUTPERFORM call unchanged on OCK given the stock could still able to provide a potential capital upside of 32% from here. We continued favour OCK in the mid-cap segment in view of its: (i) healthy cash flow on the back of escalating recurring income trend, (ii) ability to ride with the passive infrastructure sharing trend, and (iii) expanding EBITDA margin trend.	RM0.145 (+34.1%)	RM0.400 (-5.9%)
PADINI (OP; TP: RM4.05)	The share price has retraced 43% after our last UNDERPERFORM call and we believe that the negatives have been priced in. As such, we upgrade our call to OUTPERFORM, but at a lower target price of RM4.05 based on lower 14x CY19E EPS to reflect the lower earnings growth expectation (from RM4.90 based on 17x CY19 EPS). Nevertheless, we like the stock for its (i) resilient business models, focusing on the value-for-money segment in Brands Outlet, and (ii) expected improvement in SSSG and cost allocation as for FY19, the group targeted for not more than 10 outlets for the local market and Thailand market to streamline cost allocation, while maintaining its status quo for Cambodia operations.	RM0.540 (+15.4%)	RM3.20 (-8.8%)
PANTECH (OP; TP: RM0.550)	Sell-down due to suspension of all shipments of butt-weld fittings to the U.S. given the preliminary affirmative anti-circumvention determination issued by the U.S. Department of Commerce. Management guides that this could see a >20% reduction in earnings. From our understanding, inspection from the DOJ for a possible overturn of the determination is underway, with a final decision expected to arrive in around 1QCY19. No changes to OP call, with key risk being prolonging of U.S. shipments suspensions. Possible de-rating to "floor price" of 0.55x PBV at -2S.D. of its 5-year mean, if that happens.	RM0.115 (+26.4%)	RM0.380 (-12.6%)
PESTECH (OP; TP: RM1.45)	The sharp decline in share price especially after the release of weak 1Q19 results (dated 23 Nov) was due to the selling from the institution investors. The soft 1Q19 results was not unexpected given seasonality as it was in a raining season in Cambodia while the local KVDT and MRT2 projects were in early stages thus effecting progress claims. However, its profit margin and MI were back to normalised level after a volatile period in FY17-FY18 due to BOT's construction profit adjustment. With its RM2b orderbook in hand, we are comfortable with FY19 net profit estimates of RM90.8m. It trades at FY19 PER of 11x or -1SD from the 3-year mean, which is fairly attractive. In view of negative sentiment, we decided to value its EPCC earnings at -1SD 3-year mean of 11x, previous target price is reduced to RM1.45 from RM1.95 previously.	RM0.460 (+46.5%)	RM0.990 (-0.0%)
PWROOT (OP; TP: RM1.65)	After recalibration of valuations and trimming of earnings on export market, we believe medium term prospects are still expected to be intact and with high yields (6-7%). The restructuring exercise undertaken during 4Q18 should continue to translate positively, added by better commodity price exposure	RM0.270 (+19.6%)	RM1.20 (-13.0%)
PIE (OP; TP: RM1.70)	Reduce TP as we lower our sales assumptions by 10/12% and GP margin from 8% to 7% (-1 ppts). We believe our previous assumptions may have been too optimistic. However, we see good value proposition with its FY19E PER at only 10.7x, at a 11% discount to its closest EMS peers which is trading at 12.3x PER. Our TP is based on an unchanged FY19E PER of 14.0x, also -1 S.D below its 3-year forward PER.	RM0.210 (+14.1%)	RM1.35 (-9.4%)

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Stock	Comments	Expected Capital Gains	Expected "Floor Price"
SKPRES (OP; TP: RM1.25)	Reduced TP as we lower our sales assumptions by 8/7% amid slowdown in consumer spending. However, we see potential opportunity for SKPRES in the near term as one of its local competitors has lost some existing contracts from the same key customer shared by SKPRES due to unforeseen circumstances which we have not factored in. The TP is based on an unchanged FY20E PER of 12.0x, representing a -1 SD below its 3-year forward PER. Furthermore, the company only trades at FY19E/FY20E PER of 11.3x/9.4x, representing trough levels and also at a c.26% discount to its closest peers.	RM0.200 (+19.0%)	RM0.975 (-7.1%)
TCHONG (OP; TP: RM1.70)	Our TP is based on lower 12x FY19E EPS at its -1.0SD of 5-year forward historical mean PER (from 17x at its 5-year forward historical mean PER) to reflect the slower earnings growth for next 2 years given that its volume growth is limited by one new model launches each year. Nevertheless, we still like the stock for its: (i) strong turnaround in earnings after two consecutive years of losses with focus on high-margin vehicles, and (ii) expected expansion of its Indochina operations for larger market share volume	RM0.350 (+25.9%)	RM1.00 (-25.9%)
UEMS (OP; TP: RM0.850)	Expecting a stronger 4Q ahead and FY19 earnings will be supported by Aussie contributions. Valuations are all at trough levels – steepest RNAV discount applied in our universe.	RM0.185 (+27.8%)	RM0.600 (-9.8%)
UZMA (OP; TP: RM0.650)	Recent sell-down sparked by disastrous results announced previously. Nonetheless, we feel the sell-down is overdone beyond fundamental reasoning (TP implying 10% capital upside). We revalued the stock pegged to 0.4x PBV, which we believe is its floor valuation at -1.5S.D. from its 5-year mean. No changes to OP call. Possible rerating back to 0.5-0.8x PBV (implying up to -1S.D.) should upcoming results be able to deliver. UZMA is one of our highlighted names to benefit from increased brownfield oil and gas activities given capex-prudent landscape from oil majors.	RM0.075 (+13.0%)	RM0.555 (-3.5%)
WCT (OP; TP: RM0.850)	Our lowered TP from RM1.10 to RM0.850 is by ascribing 30% discount to its investment properties as some of it are still loss making. However, WCT's construction division remains highly competitive in the market as they are able to secure quite a number of external retail mall jobs. We shall consider removing the discount ascribed to its investment properties should they be able to monetise it in the next 12 months. We believe that WCT's current price to be the new floor as it is only trading at FY19E PBV of 0.28x.	RM0.175 (+25.9%)	RM0.675 (-0.0%)

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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