3Q19 Investment Strategy

Rain or Shine, Market Goes On

FBMKLCI	1,683.62
Target	1,745.00 ↔

By Chan Ken Yew / kychan@kenanga.com.my

Our view remains unchanged. While we still believe that the local equity market is expected to potentially register a turning point between Dec 2018 and Sep 2019, absence of re-rating catalysts has generally clamped investment sentiment and capped the upside. Despite the uninspiring growth numbers, we are not giving up, as we begin to see improvements in market data and statistics. Besides, the comeback of a multi-year bull cycle is not entirely impossible as per our Cycle Study. However, timing wise, as the FBMKLCI is now only traded at a mere 3.1% discount against Consensus Target, we believe the upside could be limited until we see a major upgrade in index target. As such, we prefer to adopt a Buy on Weakness (B.O.W.) approach within the index range of 1,635-1,595. Based on our investment Strategy, we have selected ABMB (OP, TP: RM4.25), CIMB (OP, TP: RM6.25), D&O (OP, TP: RM0.675), HARTA (OP, TP: RM5.85), KOSSAN (OP, TP: RM5.25), MBMR (OP, TP: RM3.45), MYNEWS (OP, TP: RM1.55) , PANTECH (OP, TP: RM0.690), PWROOT (OP, TP: RM1.75) and SAPNRG (OP, TP: RM0.430) as our 3Q19 Top Picks.

Fundamentally speaking, the FY19E/FY20E earnings growth rates for FBMKLCI remain uninspiring at 14.7%/3.6% (from 17.6%/2.4% in the previous quarter). Post results and house-keeping in our earnings numbers and target prices, **we have fine-tuned our end-2019 index target to 1,745** (from 1,750 previously), **representing FY19E/FY20E PERs of 19.0x/18.0x**.

A step closer to our turnaround dream? While the growth numbers may not be exciting, market data and statistics are getting stronger. For instance, on the charts, the monthly slow stochastic has tentatively shown a sign of turnaround. Buying momentum has turned stronger as per our Volume-Price Study. Besides, our Modern Portfolio Theory ("MPT") Study suggests that the capital allocation to Malaysia equity market should improve while the Simulation Study also suggests better reward-to-risk ratio for the upside. Even for the mid-and-small-cap stocks, with the Forward PER of both FBMSC and FBM70 just overcoming their respective mean and -1SD levels, we reckon that there are more upside spaces for these indices.

M&As: The waiting game is over? The domestic market has been languishing at current levels for quite a while and is certainly in need of a massive boost to blast out of its doldrums. Therefore, we reckon what the market really needed is some sort of corporate transformation within the domestic players; namely some M&As, resulting in the emergence of new solid entities. In fact, we are excited over the Telenor/Axiata proposal and view it as a potential catalyst to boost the sentiment of the local bourse. We also believe that such merger talks may not only be limited to the telco sector and we could probably see the emergence of M&A talks in the banking sector as well, which may act as a major market catalyst. Recall that prior to the consolidation of the banking sector in 2006/07, the valuations for the banking sector, as per the KLFIN Index, were trapped at ~16x PER or ~1.6x PBV. During the height of the banking consolidation activities, these valuations charged to >20x or ~2.5x respectively. Likewise, the valuations of FBMKLCI also recorded multi-year highs of 16.1x and >2.2x for its PER and PBV, from 12.2x and <2.0x.

3Q19 Sector Outlook. Compared with the previous quarter, we have downgraded Construction and Plantations sectors to UNDERWEIGHT from NEUTRAL. On the contrary, we upgraded a few NEUTRAL sectors to OVERWEIGHT namely Aviations, Banks & Non-Bank Financials, Gloves and Technology/Semicon sectors. The others are rated NEUTRAL.

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

2Q19 Market Review

The local equity benchmark index, FBMKLCI, staged a strong rebound to ~1,680-level, after registering an intraday low at 1,572.03 on 14 May 2019, due mainly to the easing of the U.S.-China trade tension and markets seem convinced that the US Federal Reserve ("Fed") is likely to cut interest rate in the near future. In fact, the local market sentiment was probably boosted by the 25bps cut in Overnight Policy Rate ("OPR") to 3% by Bank Negara Malaysia ("BNM") in early May 2019.

Last week, China and the U.S. had agreed to resume trade talks after the close of the G20 summit in Osaka, Japan. While President Trump declined to get into specifics of the deal with China, he has agreed not to put new tariffs on Chinese goods (but the current U.S. tariffs on Chinese imports will remain in place). On a separate issue, President Trump also said he would allow American companies to sell to Huawei, which the U.S. Commerce Department blacklisted last month. All these positive developments will support trading/investment sentiment of the local and regional markets in the immediate term.

3Q19 Market Outlook

- Our view remains unchanged, we still believe that the local equity market, as per the FBMKLCI, is **expected to register a potential turning point (or a bottom in this case) between Dec 2018 and Sep 2019** *(please refer to our 2Q19 Investment Strategy Report dated 02 April 2019 for details).* In fact, the slow stochastic technical indicator has tentatively shown a sign of turnaround in the monthly price chart (see Figure 1). A further follow-through in the momentum oscillator will reinforce the finding of our Cycle Study.
- However, the absence of re-rating catalysts has, thus far, clamped the investment sentiment and capped the market upside. This can be seen from the consensus numbers. As of end-Jun 2019, consensus Index Target registered at ~1,725. This target is ~30 points lower in contrast to the consensus target of 1,755 as of end-Mar 2019. In fact, should one compare this index target to last year-end's number of ~1,800, it would be approximately 4% lower.
- From fundamental earnings points of view, this is pretty much comprehensible, as we only project **FY19E/FY20E earnings growth of 14.7%/3.6%** (from 17.6%/2.4% in the previous quarter). *Recall that the growth in FY19E is due to the low base in FY18A, which was recorded at -12.9%. The FY18A/FY19E/FY20E growth rates would be restated to 1.2%/-2.6%/4.6% if core earnings numbers are adopted in our Earnings Model.*
- As for the consensus numbers, we notice the similar trend. Based on Bloomberg data (see Figure 2), FBMKLCI FY19E/FY20E net earnings are expected to grow by 23.4%/6.9% (vis-à-vis 26.7%/6.3% earlier).
- **Post results and house-keeping in our earnings numbers and target prices,** we have fine-tuned **our end-2019 index target to 1,745** (from 1,750 previously), representing **FY19E/FY20E PERs of 19.0x/18.0x**. Our Index Target is derived via the average of the followings: -
  - o **Top-Down:** Deriving an (unchanged) index target of 1,780, as we roll over our valuation yardstick based on our FY20E earnings estimates, and
  - o **Bottom-Up:** Revising up our index target slightly from 1,720 to 1,710 based on analysts' latest target price inputs.
- Despite such uninspiring numbers, there is hope yet and we are not giving up. In fact, we are beginning to see improvements in market data and statistics.

Getting Stronger

- Modern Portfolio Theory ("MPT") Study suggests that the capital allocation to Malaysia equity market surged to ~23% (end-Jun19) from -11% (as of end-Mar 2019) despite weaker Ringgit against US dollar (from RM4.0820 to RM4.1320) (see Figure 3).
- In fact, tactically speaking, despite experiencing a fierce selldown from foreign investors (foreign outflow of RM3.3b QTD or RM4.8b YTD), the domestic market was still able to defend the 1,600-psychological support level, suggesting the resiliency of the local market.

- **In line with the recent rebound in FBMKLCI,** the Forward PER of FBMKLCI is now traded at ~16.4% premium over its regional peers (Figure 4), up from the recent low of 12.3% in end-Apr 2019. While this premium has yet to revert back to its 36-month mean of 11.2%, it has, nonetheless, declined from its peak of ~23% in end-Dec 2018.
- **The Accumulated Volume-Price Indicators (AVPI) of FBMKLCI, FBM70, FBMSC and FBMEMAS have all turned positive with all these indicators being supported above their respective 30-day simple moving average ("SMA"), indicating that the buying momentum is strong** (Figure 5-8). Apart from the local benchmark indices, **we also noticed the same pattern for Dow Jones Industrial Average ("DJIA") and S&P 500 Index** (Figure 9 & 10).
- **Based on historical Forward PER band of FBMKLCI, FBM70 and FBMSC indices, it seems that there is still some upside albeit getting limited to FBMKLCI.** The Forward PER of FBMKLCI has surpassed the +1SD-level above its 36-month mean of 16.9x (see Figure 11). Historically speaking, the Forward PER could test and surpass the +2SD-level of 17.3x (or translating into an index level of ~1,700) before seeing a correction. Both the Forward PERs of FBMSC and FBM70 have just surpassed their respective mean and -1SD levels, hence more rooms for the mid-and-small-cap stocks in our view (see Figure 12 & 13).
- The aforementioned optimistic views are also supported by our Monte Carlo Simulation Study. The study still suggests a fairly positive reward-to-risk profile for the upside. From Figure 14, it is clear that the study suggests substantial higher upside probability (>1,760 @ >30%) as opposed to the downside (<1,620 @ <20%).

A step closer to the impossible?

All told, despite a potential short-term correction in the benchmark index, as per the near +2SD-level in Forward PER of FBMKLCI as well as the near +1SD-level of the discount between FBMKLCI and the consensus of (-2.7%) (see Figure 15), we remain hopeful on the comeback of a bull cycle that would probably lead the market to chart new highs in the next 1-2 years. Of course, the million-dollar question is what can be the catalysts? Despite a potentially better-than-expected Budget announcement and a more favourable external condition, we believe Mergers and Acquisitions ("M&A") could act as the much-needed and much-awaited market catalysts.

The M&A catalysts. The domestic market has been languishing at current levels for quite a while and is certainly in need of a massive boost to blast out of its doldrums. While we reckon the recent euphoria over the reviving of certain mega infrastructure projects have had rekindled some buying interests, the magnitude remains less than desired. Therefore, we reckon what the market really needs is some sort of transformation within the domestic companies namely some M&As resulting in the emergence of new solid entities.

The waiting game is over? We have seen numerous examples where domestic companies failed miserably in their attempts to go regional. As a result, many opted to remain within their domicile, hence the lack of regionalisation news-flow of late. Until recently, we were all taken aback by the news of a possible Telenor/Axiata merger which may rouse the M&A theme again in Malaysia. We are excited over the Telenor/Axiata proposal and view it as a potential step-up catalyst to boost the sentiment of the local bourse. Whilst the merger will enjoy Telenor's presence in the country but most importantly, we foresee this as a platform to transform Axiata into a mega regional telecommunication player. Therefore, we believe M&As with regional giants should be the way forward for local companies to embark on their regional quests and we also believe such merger talks may not only be limited to the telco sector. In fact, we could probably see the emergence of M&A talks in the banking sector.

Moreover, with the advent of digitalisation, one cannot but to embrace such technology advancement going forward especially for prominent sectors namely Banks and Telecommunication. Already we are seeing many traditional banks losing their market share from the emergence of digital banking service providers as this is already a major disruptive force within the banking sector. If the local banks do not heed such warnings, many will find it too late once the "Digital Tsunami" hits. Hence, we reckon it is high time for banks be on a lookout for regional collaborations and to strengthen their core. And more importantly, should the above-mentioned expectations materialise, they should also serve as market catalysts.

Recollecting the banking M&A's impact. Recall that prior to the consolidation of the banking sector in 2006/07, the domestic market was trapped below the 1,000-point landmark for several years. However, once the consolidation took effect, there was a buying overdrive propping the benchmark index to above the 1,000-mark and beyond. In fact, the FBMKLCI broke the 1,500-mark before the US subprime debacle derailed the run-up in 2008.

Meanwhile, the valuation for the banking sector, as per the KLFIN Index, also jumped from a ~16x PER or ~1.6x PBV thresholds to >20x or ~2.5x levels during the height of the banking consolidation activities (see Figure 16). Likewise, the FBMKLCI back then, also recorded multi-year high of 16.1x and >2.2x in PER and PBV, respectively, from 12.2x and <2.0x (see Figure 17).

3Q19 Sector Outlook & Investment Strategy

Our Sector Ratings

Compared with the previous quarter, we have downgraded Construction and Plantations sectors to UNDERWEIGHT from NEUTRAL.

On the contrary, we have also upgraded a few NEUTRAL sectors to OVERWEIGHT. These sectors are Aviations, Banks & Non-Bank Financials, Gloves and Technology/Semicon sectors. The others are rated NEUTRAL (please refer to Figure 18-20 for details).

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

Source: Kenanga Research

Upgrades

We upgraded **Aviation sector** from NEUTRAL to OVERWEIGHT post the May 2019 reporting season due to the special dividend angle on AIRASIA coupled with more clarity on the Regulatory Asset Base (RAB) framework from the second consultation paper released by MAVCOM, which seems to be positive for AIRPORT.

As for the **banking and non-bank financial sectors**, our bullish call is premised on undemanding valuations and potential merger talks as well as the potential goodies for the sector in the upcoming budget, while operationally, the sector remains challenging due to external uncertainties.

Our investment case for **gloves sector** is based on: (i) our analysis that the new capacity expansion is slower than expected, which should help maintain the supply-demand equilibrium, (ii) earnings growth to resume in subsequent quarters, boosted by higher ASPs, and (iii) favourable USD/MYR forex. Besides, glove stocks are presently trading at more palatable valuations following sharp share price retracements YTD.

While some uncertainties remain amid trade war, we reckon that the outlook for the **Technology/Semicon sector** is turning slightly more encouraging apart from more palatable valuations. In the automotive sub-segment, we are seeing possible signs of recovery in major markets like China and the Europe in 2H19 as the adverse effect of new emission standards dissipates. In the smartphone sub-segment, although the Radio Frequency ("RF") content growth in the upcoming flagship model may be limited, we believe sales volume should remain relatively stable from last year given decent functionality upgrade, not to mention that the 3Q is usually a much stronger quarter (on QoQ basis) in conjunction with the model launch.

Downgrades

Moving into 3QCY19, while the **construction sector** will be one of the sectors in the limelight before the announcement of Budget 2020, we do not expect any announcement of new mega infrastructure contracts but a repetition of old projects with reduced contract sum like LRT3 and MRT2. As such, we strongly believe that the sector's re-rating catalyst is premised on the government's firm direction on the future development plans like the potential continuation of MRT3 and HSR. Under current situation, we opine that investors should take the opportunity to do some top slicing.

For the plantations sector, we believe CPO prices will remain under pressure in 3Q19, potentially trading in the range of RM1,800-2,100/MT and averaging only RM2,000/MT in 2019, as stockpiles in both Indonesia and Malaysia are likely to start picking up soon. We believe planters (especially upstream-centric ones) will continue to hit a rough patch in coming quarters with CPO prices hovering around current levels, overshadowing any production pickup in 2H19.

Stock Picks

For this quarter, we are seeing more bullish comments from our analysts. Hence, our stock picks will mainly focus on the sectors that we have upgraded recently; namely Banking, Glove and Semicon sectors. For these three sectors, we have recommended 5 Top Picks – **ABMB (OP, TP: RM4.25), CIMB (OP, TP: RM6.25), HARTA (OP, TP: RM5.85), KOSSAN (OP, TP: RM5.25)** and **D&O (OP, TP: RM0.675)**.

MYNEWS (OP, TP: RM1.55) and **PANTECH (OP, TP: RM0.690)** are selected based on Bottom-Up approach. In our recent Company Update Report dated 26 Jun 2019, we highlighted MYNEWS for its: (i) double-digit earnings growth (c.20% vs SEM's at c.7%), and (ii) above-industry earnings margin (c.7% vs SEM's at c.2%). While new store openings will drive growth, it will be enhanced further with the introduction of ready-to-eat food and the new Maru Café offerings. Besides, we also believe that MYNEWS is unaffected by the absent of festivities in 3QCY19 due to its merchandise mix skewed towards basic consumer daily needs. PANTECH, on the other hand, could be a potential "dark-horse"-play within the oil and gas sector, premised on a restoration of earnings visibility and dividend pay-out, given its recently-announced uplift of its U.S. shipment suspension. As such, we expect a stronger set of 2H19 results. In addition, PANTECH could also benefit from the increase in local offshore fabrication works.

As for Top Picks from other sectors, we continue to like **MBMR (OP, TP: RM3.45), PWROOT (OP, TP: RM1.75)** and **SAPNRG (OP, TP: RM0.430)**. These 3 stocks were also our Top Picks in the previous quarter. Out of these three stocks, **we believe the M&A angle is also applicable to MBMR**. It has been almost a year since the expiration of UMW's proposal to acquire MBMR at consideration price of RM2.56/share (5.9x FY19E EPS,-1.0 SD) to gain controlling shareholding over Perodua (UMW owned 38% of Perodua, while MBMR effective stake at 22.58%). As of the cut-off date, MBMR is trading at RM2.88 (6.7x FY19 EPS), far from to the proposed price. However, MBMR has since grown stronger in earnings (>20%) premised on the stronger Perodua contribution. Given the recent positive development that MBMR has ceased its alloy-wheel plant business (switching Perodua supply to other alloy wheel players, namely, Citic Dicastal and Pako Automotive), we believe a potential acquirer may need to offer a much higher price now, say close to our fair value of RM3.45 (8x FY19E EPS, -0.5 SD of its 5-year historical Fwd. PER). Recall that, last year, despite MBMR's major shareholders leaning towards agreement with the take-over proposal, its board of directors (BOD) and Perodua's principal (Daithatsu) seem to be in disagreement. Nonetheless, after a few rounds of change in its BOD since last year, MBMR could be primed for takeover again.

3Q19 Top 10 Stock Picks (Closing as at 21 June 2019)

Stocks	Last Price (RM)	FY19/20 Core NP Growth	FY20/21 Core NP Growth	FY19 /20 Core PER	FY20/21 Core PER	FY19/20 Net Div Yield	FY19/20 ROE	Target (RM)	Upside	Rating
ABMB	3.76	7.2%	9.2%	10.2	9.3	4.8%	9.8%	4.25	13.0%	OP
CIMB	5.23	-18.9%	-4.0%	11.2	11.3	4.3%	8.5%	6.25	19.5%	OP
D&O	0.560	7.6%	13.4%	14.2	11.7	2.0%	11.6%	0.675	20.5%	OP
HARTA	5.25	11.6%	6.7%	34.5	32.3	1.3%	21.2%	5.85	11.4%	OP
KOSSAN	3.96	23.7%	6.0%	20.5	19.4	1.5%	17.7%	5.25	32.6%	OP
MBMR	2.88	1.8%	2.0%	6.8	6.7	2.1%	8.9%	3.45	19.8%	OP
MYNEWS	1.37	21.1%	20.6%	28.7	23.8	0.7%	10.2%	1.55	13.1%	OP
PANTECH	0.555	1.3%	6.4%	8.8	8.3	2.9%	7.6%	0.690	24.3%	OP
PWROOT	1.55	44.0%	13.1%	14.5	12.4	5.8%	18.0%	1.75	12.9%	OP
SAPNRG	0.305	-76.0%	258.5%	97.4	27.2	0.0%	0.4%	0.430	41.0%	OP

Source: Kenanga Research
Note: Please refer to Figure 21 for brief comments on Top picks.

Timing: Ideal Buying Levels @ 1,635-1,595

Again, there is no concrete trading signal emerging as per our (Monthly) Algo-Trading Model. From PER perspective; it is still a "Sell On Strength" (S.O.S.) as the valuation of FBMKLCI is still relatively high by historical standard. Nonetheless, **as the FBMKLCI only traded at a mere 3.1% discount (against Consensus Index Target of 1,725), we believe the upside could be limited until we see a major upgrade in index target.**

Based on our trading rule, **the ideal B.O.W. levels should be below the -1SD-level (or <1,595 or 7.6% discount)** (see Figure 15). **For investors with higher risk appetite, pullbacks below the 36-month mean level of ~1,635 (or 5.2% discount) would be good opportunities to "Buy into Weakness"**.

Appendix

Figure 1: Monthly FBMKLCI Charting – Bullish Reversal Candle Pattern coupled with Positive Crossover in Fast Stochastics (Slow Stochastics has shown Tentative Sign of Turning Around)

Source: Bloomberg

Figure 2: Consensus Earnings Forecasts of FBMKLCI as per Bloomberg Data – FY18A/FY19E/FY20E Earnings Growth Rates of 1.2%/-2.6%/4.6%

FBMKLCI Index | 96) Actions | 97) Export | 98) Settings | Financial Analysis

FTSE Bursa Malaysia KLCI Index - Kuala Lumpur C... Compare <Sec> Periods 40 Annuals Cur MYR

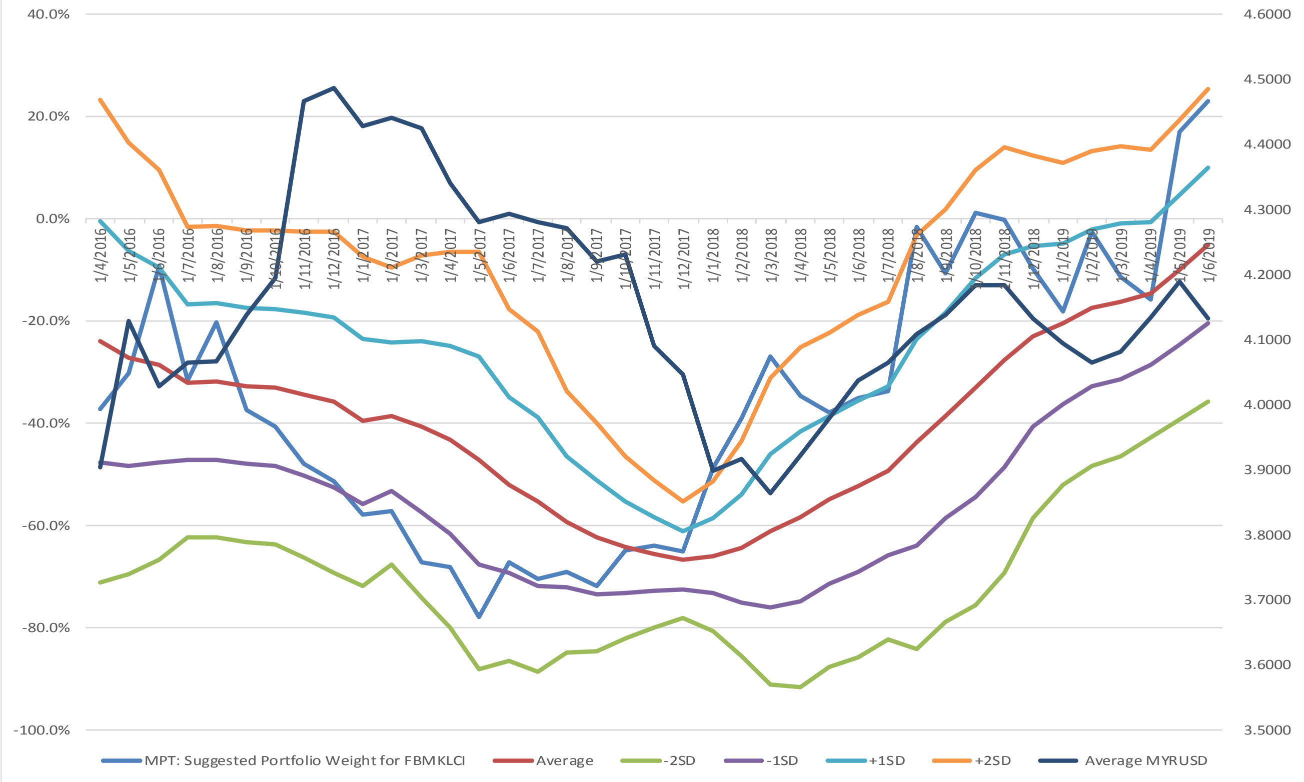
1) Key Stats | 2) Fundamentals | 3) Custom

11) Income Statement | 12) Balance Sheet | 13) Cash Flow

12 Months Ending	2014 Y 12/31/2014	2015 Y 12/31/2015	2016 Y 12/30/2016	2017 Y 12/29/2017	2018 Y 12/31/2018	Current 06/30/2019	2019 Y Est 12/31/2019	2020 Y Est 12/31/2020
Income & Expenses p...								
Sales	675.41	650.48	592.91	662.05	612.54	613.13	624.93	656.70
Gross Margin %	—	—	—	—	—		34.75	33.40
EBIT	143.12	135.64	134.61	145.58	115.30	114.38	119.56	129.12
Margin %	19.40	18.84	22.77	22.16	18.80	18.65		
EBITDA	205.15	200.02	198.27	226.45	174.10	172.00	194.91	206.39
Margin %	30.37	30.75	33.44	34.20	28.42	28.05		
R&D Expense	0.80	0.80	0.83	0.09	0.08	0.65		
Earnings	108.19	94.15	98.28	104.47	79.58	78.94	98.22	105.01
Earnings before XO	108.19	94.15	98.28	104.47	79.58	78.94		
Diluted Earnings from Co...	107.31	92.88	93.10	103.57	88.95	88.88		
Earnings, Positive	108.19	98.76	98.28	104.47	92.43	91.36	98.22	105.01

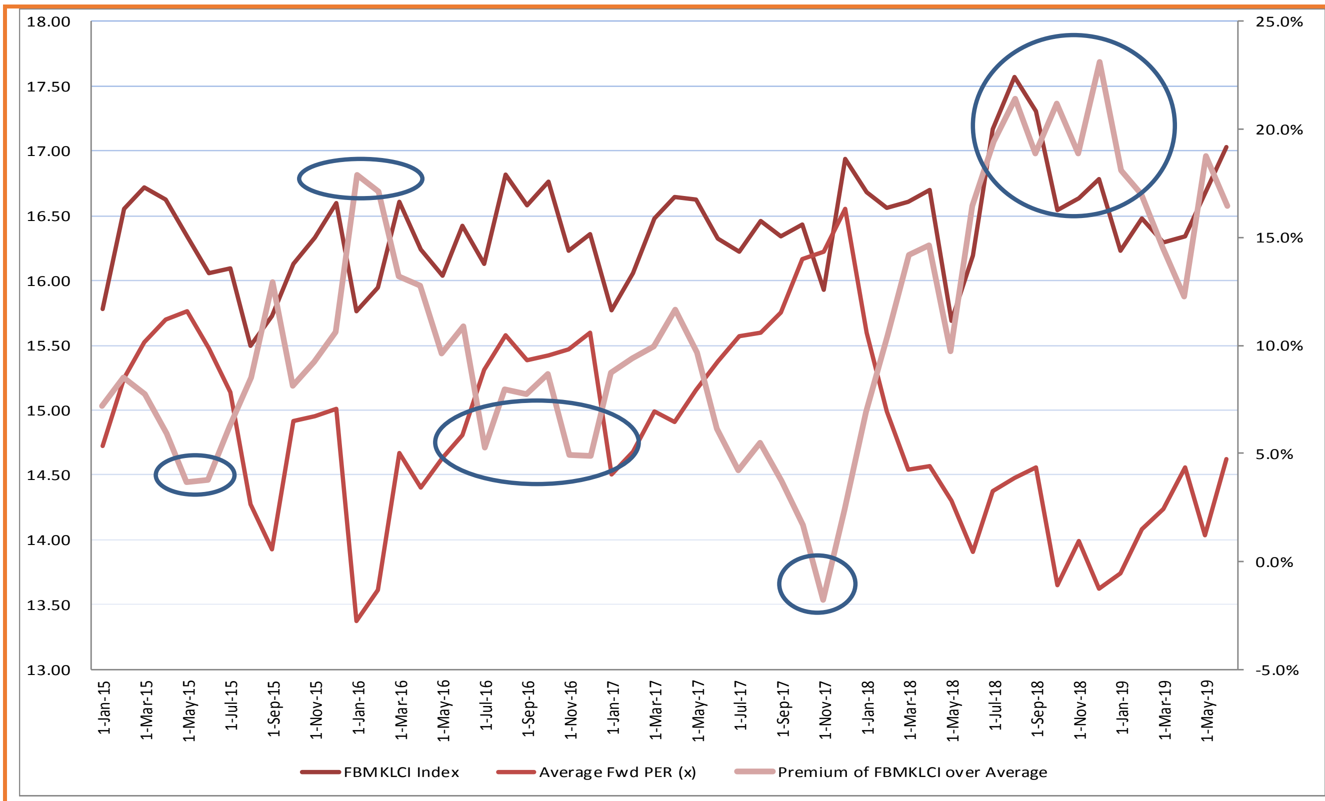
Source: Bloomberg

Figure 3: MPT: Allocation for Malaysian Equity Market Has Improved (as at end-Jun19)



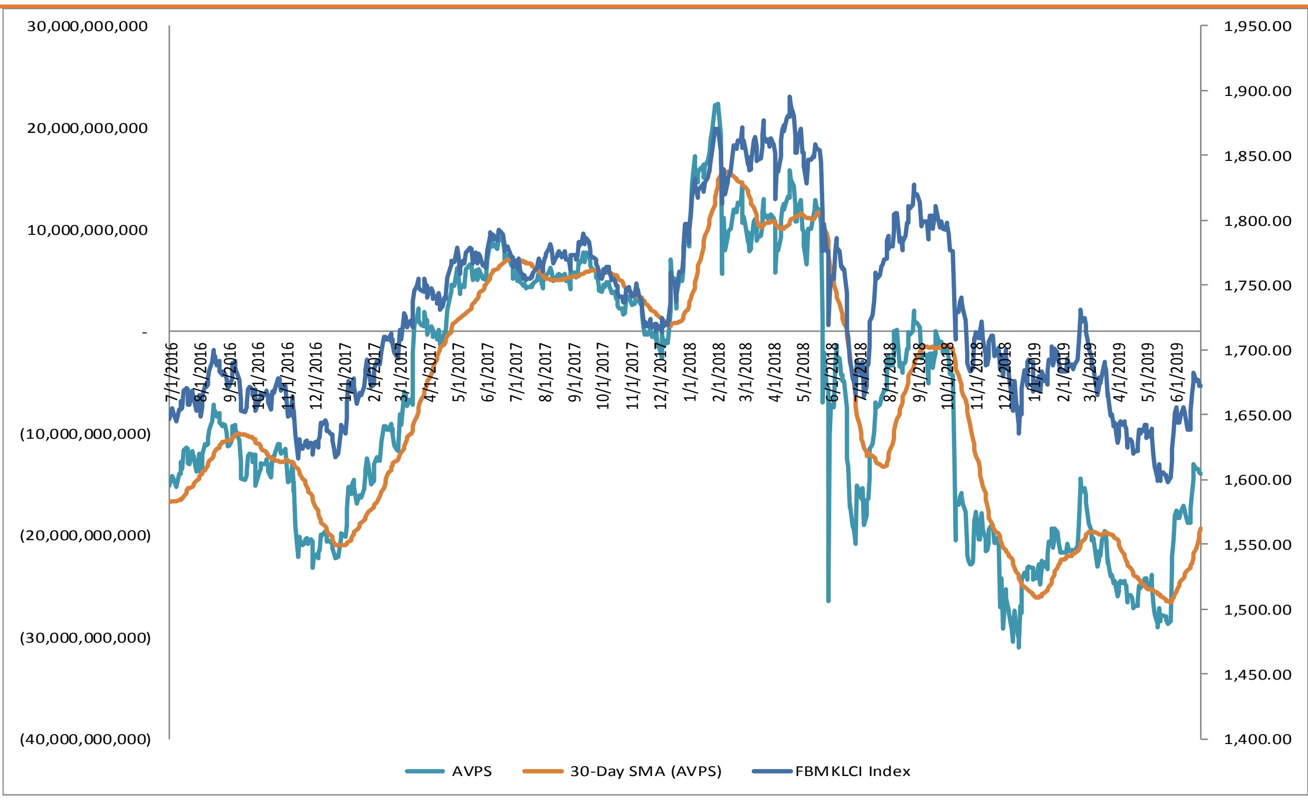
Source: Kenanga Research, Bloomberg

Figure 4: Forward PER Valuation Premium of FBMKLCI over Selected Regional Peers (as at end-Jun19)



Source: Kenanga Research, Bloomberg

Figure 5: Accumulated Volume-Price Indicator for FBMKLCI (as at end-Jun19)



Source: Kenanga Research, Bloomberg

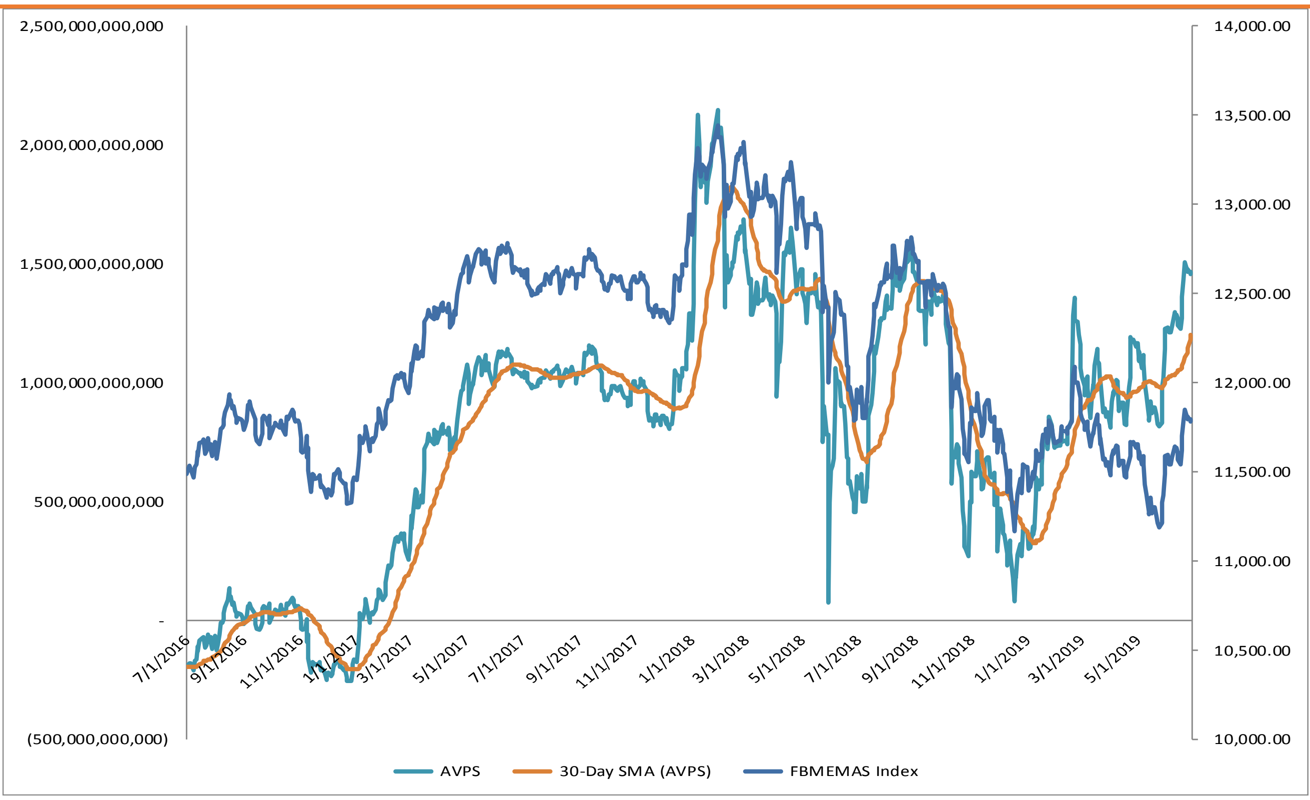
Figure 6: Accumulated Volume-Price Indicator for FBM70 (as at end-Jun19)

Source: Kenanga Research, Bloomberg

Figure 7: Accumulated Volume-Price Indicator for FBMSC (as at end-Jun19)

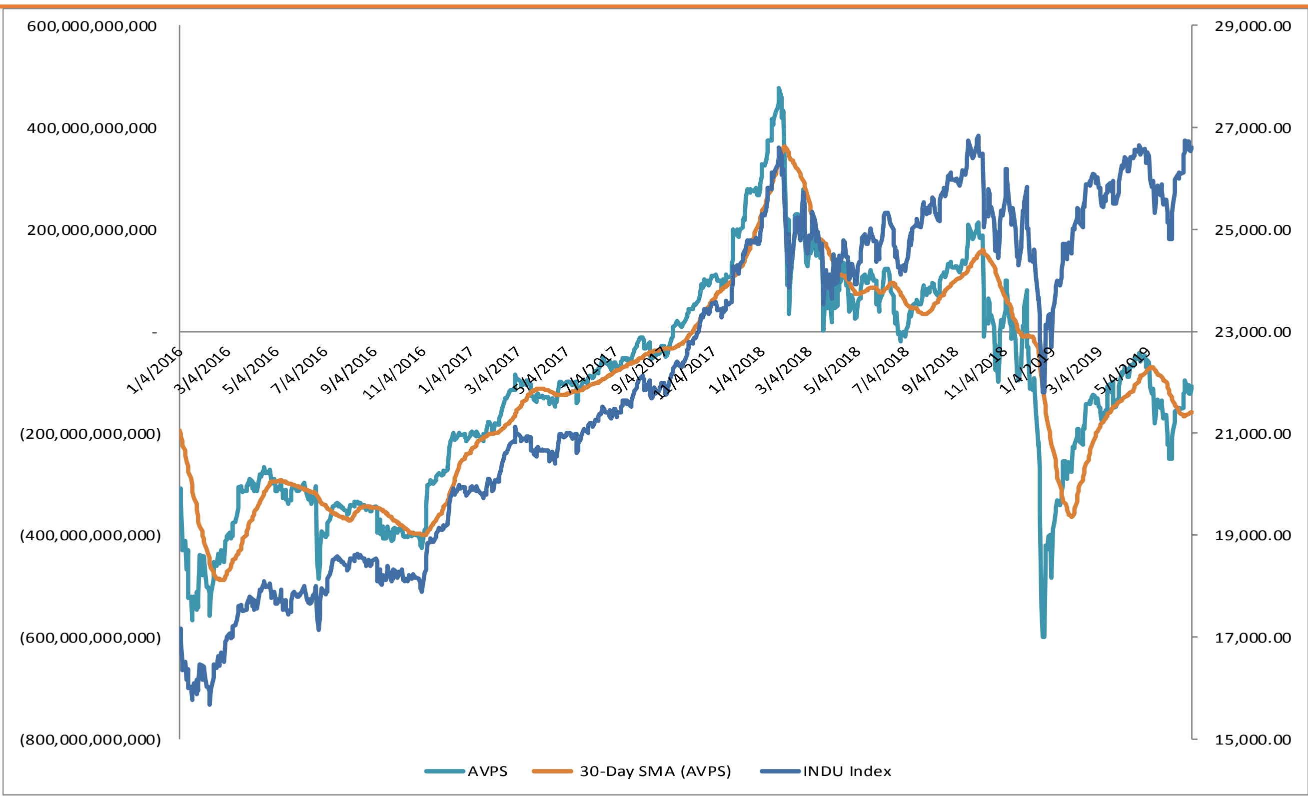
Source: Kenanga Research, Bloomberg

Figure 8: Accumulated Volume-Price Indicator for FBMEMAS (as at end-Jun19)



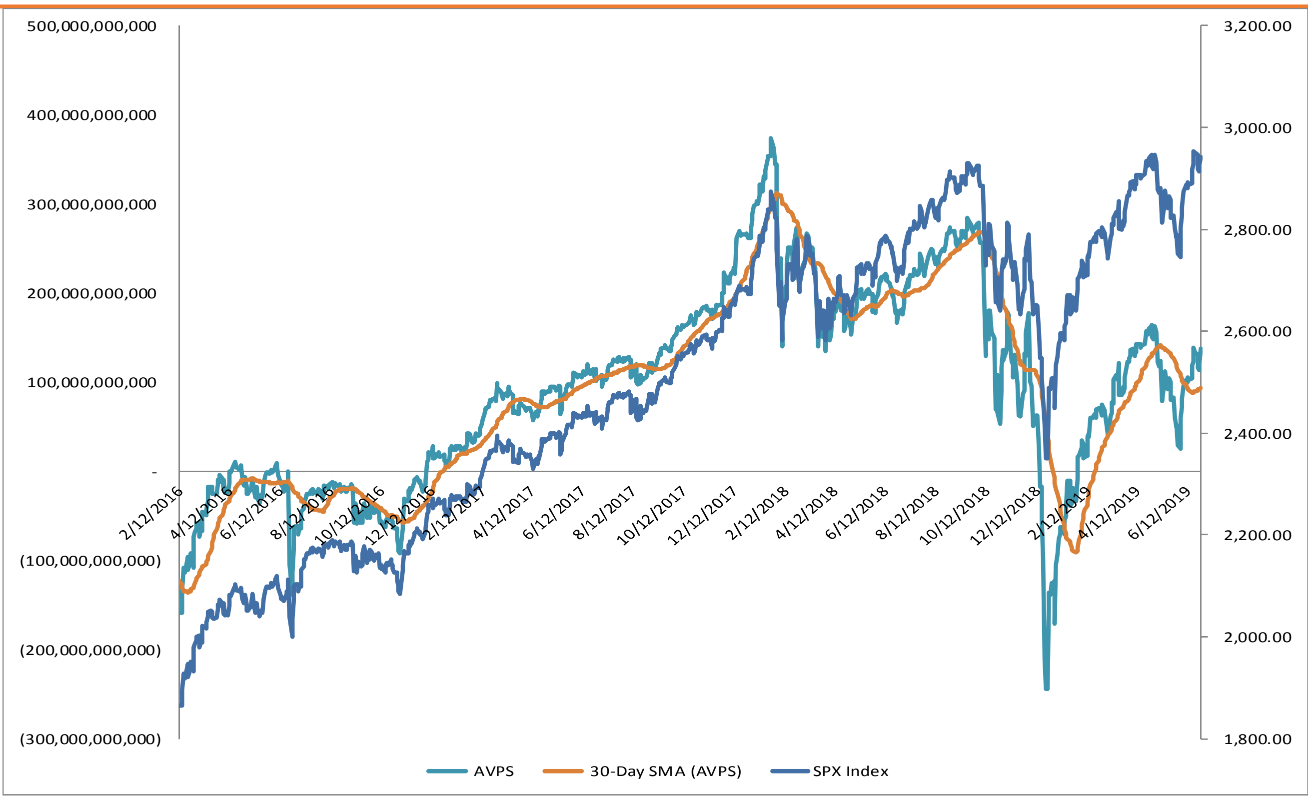
Source: Kenanga Research, Bloomberg

Figure 9: Accumulated Volume-Price Indicator for DJIA (as of end-Jun19)



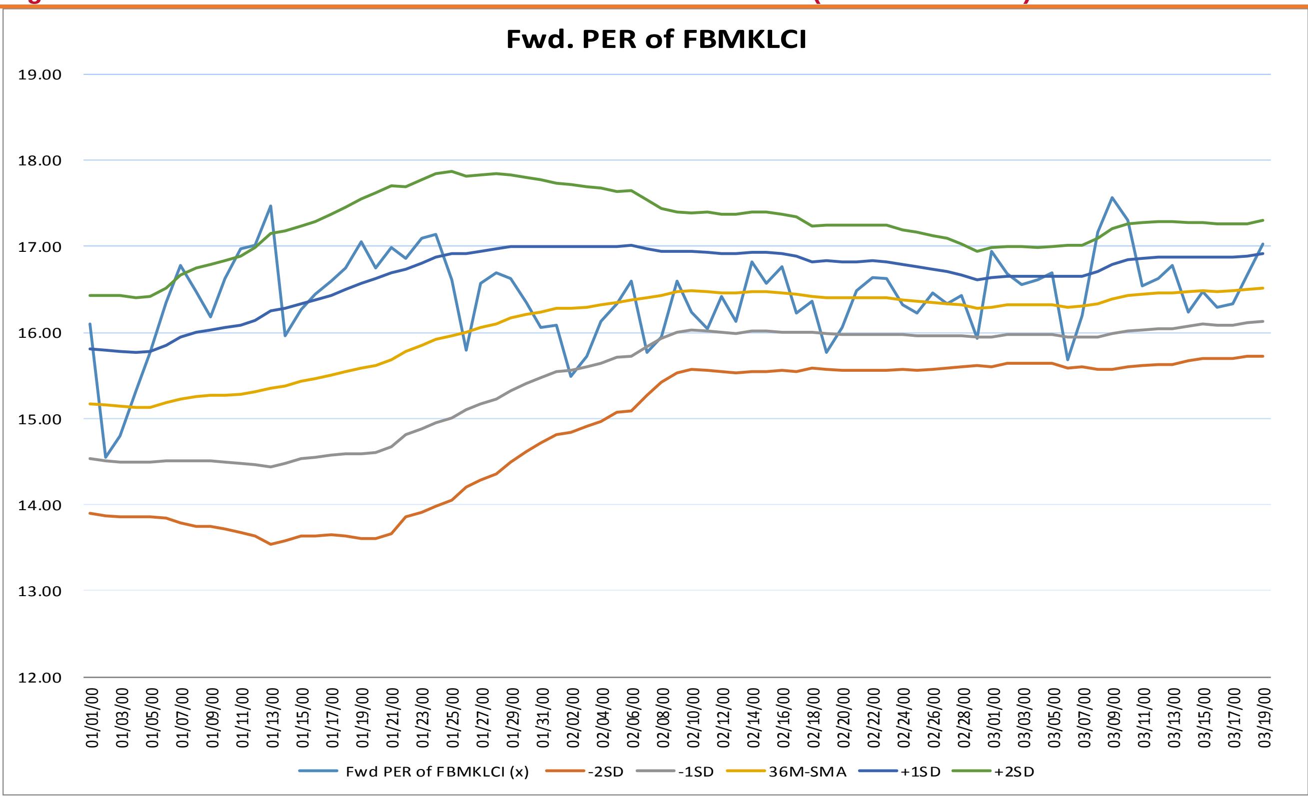
Source: Kenanga Research, Bloomberg

Figure 10: Accumulated Volume-Price Indicator for S&P500 (as of end-Jun19)



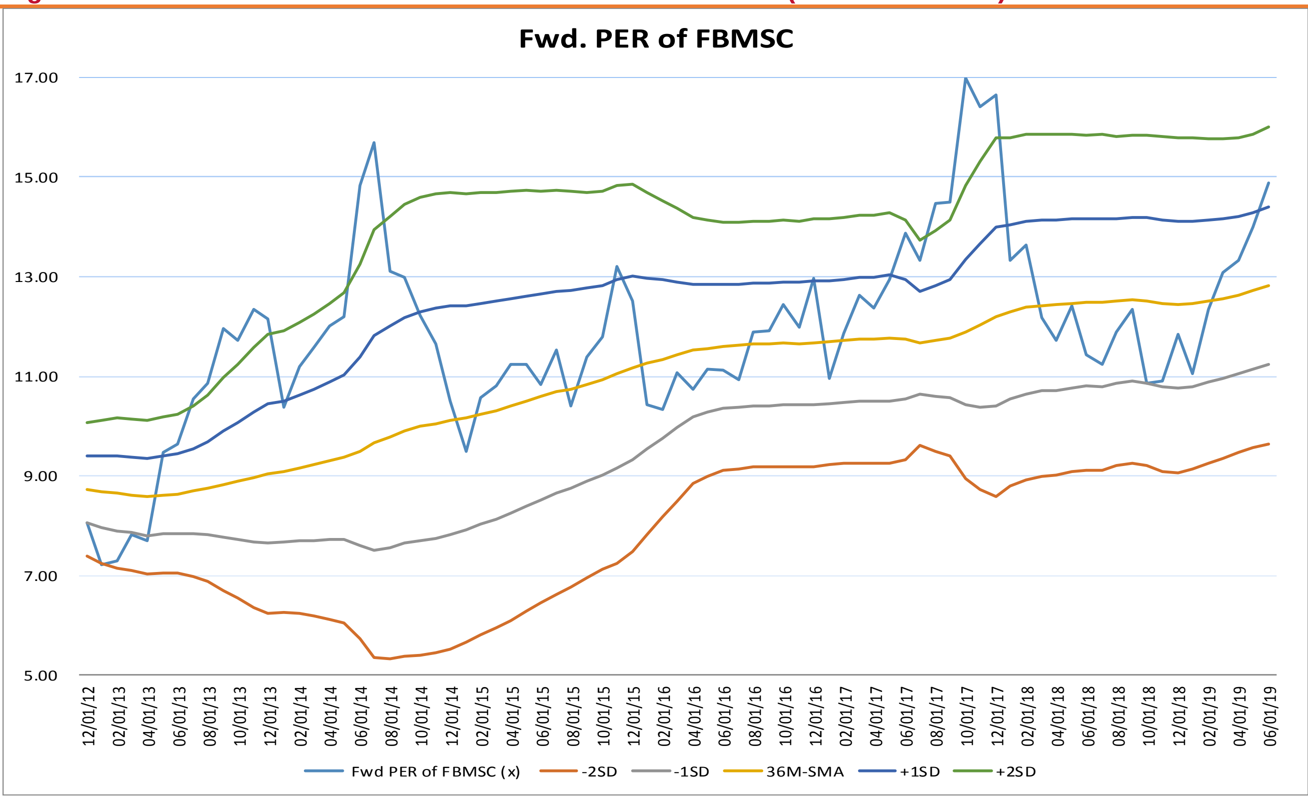
Source: Kenanga Research, Bloomberg

Figure 11: 36-Month Historical Forward PER Band for FBMKLCI (as of end-Jun19)



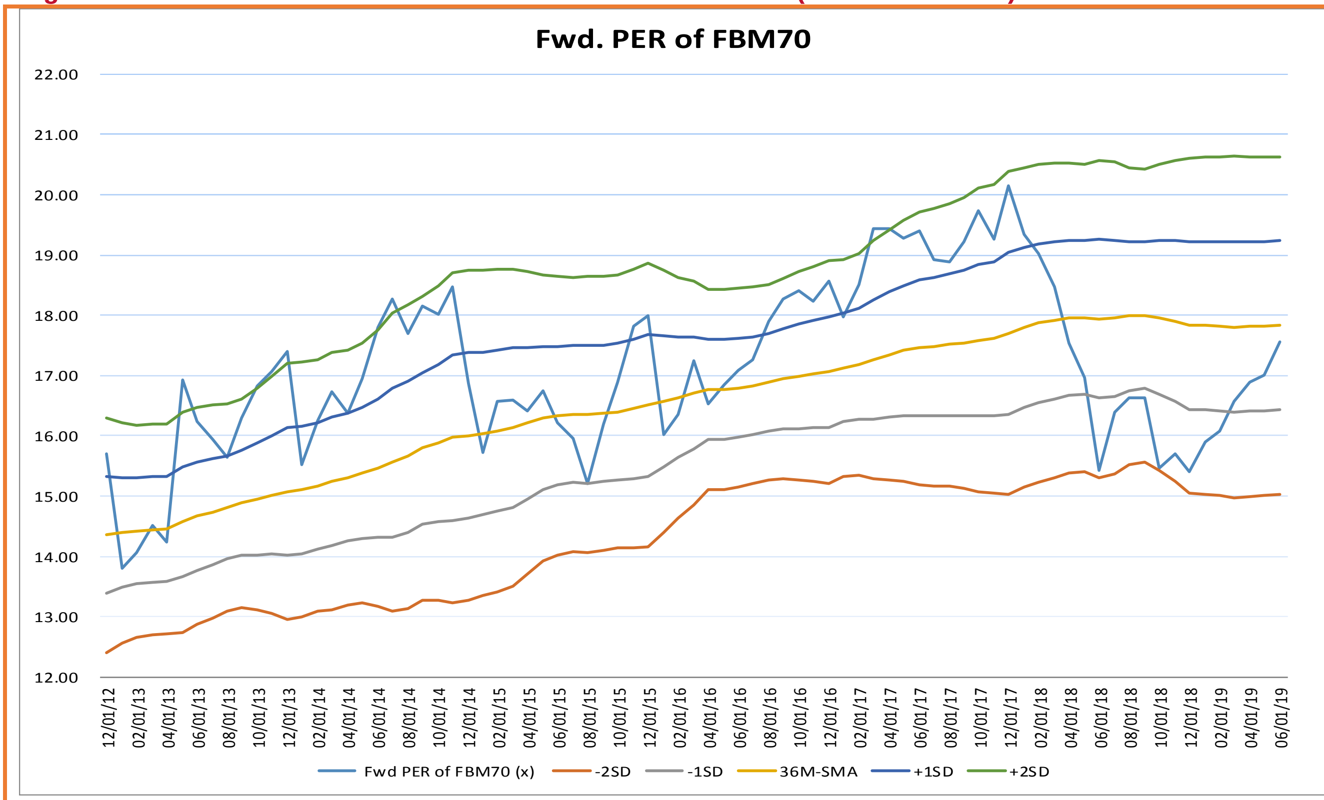
Source: Kenanga Research, Bloomberg

Figure 12: 36-Month Historical Forward PER Band for FBMSC (as of end-Jun19)



Source: Kenanga Research, Bloomberg

Figure 13: 36-Month Historical Forward PER Band for FBM70 (as of end-Jun19)



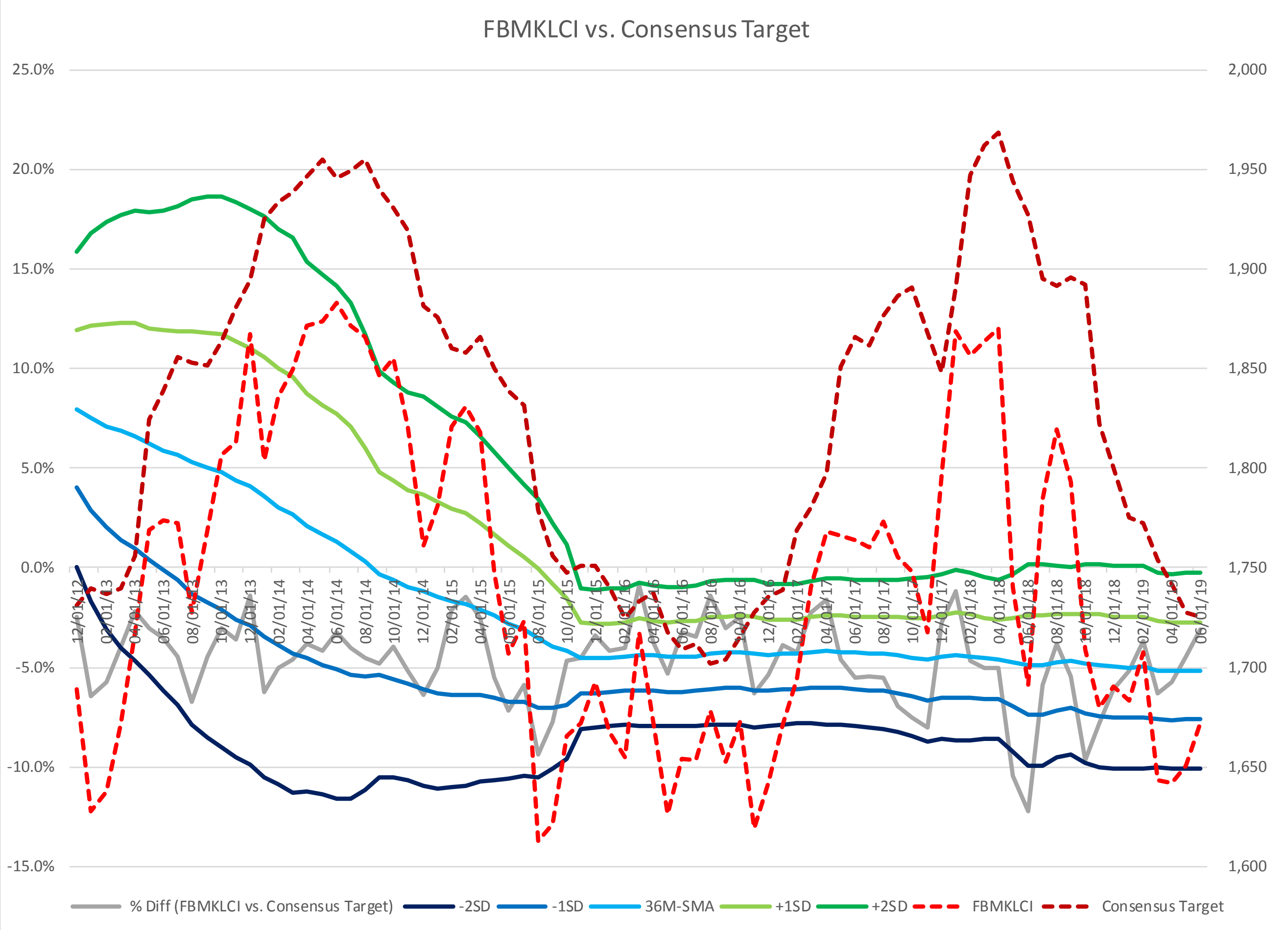
Source: Kenanga Research, Bloomberg

Figure 14: Monte Carlo Simulation (Until end-2019): Reward-to-Risk Favours The Upside!

Distribution of Simulated FBMKLCI Till End-2019	1	2	3	4	5	6	7	8	9	10	Average
Mean	1,700.8	1,769.1	1,729.4	1,729.8	1,695.7	1,704.8	1,681.4	1,769.7	1,701.2	1,667.3	**1,714.9**
Standard Deviation	114.8	130.1	94.7	107.2	119.7	89.9	99.8	96.3	87.3	103.0	**104.3**
Kurtosis	(0.5)	(0.0)	0.6	1.3	1.0	0.6	1.3	(0.9)	0.3	(0.4)	**0.3**
Skewness	0.0	0.8	0.4	0.3	(0.3)	0.6	1.0	0.2	(0.0)	0.2	**0.3**
Range	575.5	618.2	535.3	641.3	800.4	523.7	572.0	462.5	511.1	515.8	**575.6**
Minimum	1,417.7	1,530.7	1,491.3	1,420.8	1,306.1	1,480.2	1,466.8	1,542.6	1,456.9	1,422.2	**1,453.5**
Maximum	1,993.2	2,148.9	2,026.6	2,062.1	2,106.5	2,003.9	2,038.8	2,005.1	1,968.0	1,938.0	**2,029.1**
Count	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	**1,321**
At 68% Confidence Level,											
FBMKLCI is expected to oscilate between	1,586.0	1,639.1	1,634.7	1,622.5	1,576.0	1,614.9	1,581.7	1,673.4	1,613.8	1,564.2	**1,610.6**
and	1,815.5	1,899.2	1,824.1	1,837.0	1,815.4	1,794.6	1,781.2	1,865.9	1,788.5	1,770.3	**1,819.2**
Probability of KLCI <=	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	1,570.0	**1,570.0**
=	12.7%	6.3%	4.6%	6.8%	14.7%	6.7%	13.2%	1.9%	6.7%	17.3%	**9.1%**
Probability of KLCI <=	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	**1,600.0**
=	19.0%	9.7%	8.6%	11.3%	21.2%	12.2%	20.7%	3.9%	12.3%	25.7%	**14.5%**
Probability of KLCI <=	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	1,620.0	**1,620.0**
=	24.1%	12.6%	12.4%	15.3%	26.3%	17.3%	26.9%	6.0%	17.6%	32.3%	**19.1%**
Probability of KLCI >=	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	**1,700.0**
=	50.3%	70.2%	62.2%	60.9%	48.6%	52.1%	42.6%	76.5%	50.5%	37.5%	**55.2%**
Probability of KLCI >=	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	1,730.0	**1,730.0**
=	39.9%	61.8%	49.7%	49.9%	38.7%	38.9%	31.3%	66.0%	37.1%	27.1%	**44.1%**
Probability of KLCI >=	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	1,760.0	**1,760.0**
=	30.3%	52.8%	37.3%	38.9%	29.6%	26.9%	21.5%	54.0%	25.0%	18.4%	**33.5%**

Source: Kenanga Research, Bloomberg

Figure 15: Discount between FBMKLCI and Its Consensus Target (as of end-Jun19)



Source: Kenanga Research, Bloomberg

Figure 16: Historical Financial Highlights of KLFIN Index (CY2014 – CY2011)

Bursa Malaysia Finance Index (KLFIN) - Highlights

12 Months Ending	CY 2004 12/31/2004	CY 2005 12/30/2005	CY 2006 12/29/2006	CY 2007 12/31/2007	CY 2008 12/31/2008	CY 2009 12/31/2009	CY 2010 12/31/2010	CY 2011 12/30/2011
Valuation Metrics								
Price/Earnings	14.28	15.73	18.90	23.81	8.41	13.38	13.68	12.51
Price/Earnings, Positive	13.42	13.49	16.21	20.43	7.84	13.34	13.65	12.42
Price/Earnings before XO	14.28	15.73	18.90	23.81	8.41	13.41	13.63	12.51
Price/Book Value	1.67	1.63	1.96	2.47	1.19	1.88	2.09	1.99
EV/Sales	—	—	—	—	—	—	—	—
EV/EBIT	—	—	—	—	—	—	—	—
EV/EBITDA	—	—	—	—	—	—	—	—
Dividend Yield	4.58	7.08	—	—	8.70	2.51	4.72	4.44
Fundamentals								
Gross Margin	—	—	—	—	—	—	—	—
Operating Margin	-4.10	29.62	—	—	34.18	29.38	39.59	45.38
Profit Margin	24.53	19.14	—	—	24.21	21.23	30.33	35.01
Return on Assets	5.27	0.99	—	—	1.01	0.92	1.30	1.25
Return on Equity	70.42	10.51	—	—	14.14	11.02	15.47	15.92

Source: Bloomberg

Figure 17: Historical Financial Highlights of FBMKLCI Index (CY2014 – CY2011)

FTSE Bursa Malaysia KLCI Index - Kuala Lumpur Composite Index (FBMKLCI) - Highlights								
	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
12 Months Ending	12/31/2004	12/30/2005	12/29/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/30/2011
Valuation Metrics								
Price/Earnings	14.93	15.36	12.23	16.06	12.15	18.67	17.05	15.84
Price/Earnings, Positive	14.51	13.98	11.71	15.24	11.12	18.67	17.05	15.03
Price/Earnings before XO	14.93	15.36	12.23	16.20	12.15	18.67	17.05	15.84
Price/Book Value	1.79	1.71	1.96	2.28	1.30	2.14	2.35	2.28
EV/Sales	2.29	2.11	2.33	2.41	1.57	3.04	3.00	2.76
EV/EBIT	—	—	—	—	—	15.05	13.14	12.90
EV/EBITDA	8.49	8.44	9.67	9.71	7.72	9.30	8.98	8.59
Dividend Yield	3.42	4.39	3.33	3.53	6.40	2.77	3.67	3.43
Fundamentals								
Gross Margin	—	—	—	—	—	—	—	—
Operating Margin	—	—	—	—	—	18.77	21.47	19.87
Profit Margin	—	—	—	—	—	12.91	15.24	14.55
Return on Assets	—	—	—	—	—	1.98	2.51	2.44
Return on Equity	—	—	—	—	—	12.37	14.71	15.00

Source: Bloomberg

Figure 18: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Aviation	**Maintain**	• **Within expectations,** for 1QCY19, two stocks under our aviation sector coverage namely AIRASIA and AIRPORT registered satisfactory results as both came in broadly within expectations. • **Implementation of RAB**. As the first cycle of RAB is scheduled to be enforce by next year 1st January 2020, there are still some clarity needed from the second consultation paper released recently, i.e. AIRPORT's approved CAPEX that is to be discussed with all of its stakeholders; we deem that this could be one of the major hurdle especially when the direction on the development of airports could differ with the needs of one the leading market player. • **Maintain OVERWEIGHT**. To recap, we upgraded the sector from NEUTRAL to OVERWEIGHT post the May-19 reporting season due to the special dividend angle on AIRASIA coupled with more clarity on the RAB framework from the second consultation paper released by MAVCOM which seems to be positive for AIRPORT. However, considering the recent share price surge for AIRPORT, we are downgrading AIRPORT to MARKET PERFORM with an unchanged Target Price of RM8.70. While we continue to maintain an OUTPERFORM call on AIRASIA premised on its special dividend angle which investors could expect by August-19.	**OP:** AIRASIA (TP: RM2.20) **MP:** AIRPORT (TP: RM8.70)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Banks and Non-Bank Financial Institutions	**Upgrade**	• While view the sector challenging due to external uncertainties we are inclined to upgrade it to **OUTPERFORM** due to undemanding valuations plus potential total returns >10% with a clear and clarity coming in post Budget 2020 and accommodative interest rates supporting loans growth. • With employment expected to stable, external headwinds are raising concerns on credit demand and asset quality. Hence, our view on selective asset growth by the banks still holds; we do not expect any changes in such strategy in light of the concerns on external risks ahead. The stable domestic economy and employment are expected to support a normalised credit costs for 2019 coupled with accommodative interest rates. At present, positive/stable economic outlook (on the home front) coupled with low unemployment is backing resilient household spending, supporting loans growth. with the recent interest rate cut looking to bolster credit demand and lower credit charge. • Most of the stocks in our banking universe are undemanding hence at **OUTPERFROM** with only BIMB, HLBANK, and PBBANK and at **MARKET PERFORM.** While BIMB, HLBANK and PBBANK valuations are stretched, we upgrade RHBBANK to **OUTPERFORM** due to the recent divestment news coupled with an undemanding valuation. **Our Top Pick for the sector is ABMB and CIMB.** We like both given that their loan traction are likely to improve ahead with the potential likelihood of M&A as valuations are undemanding.	**OP:** AFFIN (TP: RM2.40) ABMB (TP: RM4.25) ***– Top Pick*** AMBANK (TP: RM5.10) CIMB (TP: RM6.25) ***– Top Pick*** MBSB (TP: RM1.15) MAYBANK (RM10.35) RHBBANK (TP: RM6.05) TAKAFUL (TP: RM6.50) **MP:** BURSA (TP: RM6.85) BIMB (TP: RM4.80) HLBANK (TP: RM20.05) LPI (TP: RM16.50) PBBANK (TP: RM24.10) **UP:** AEONCR (TP: RM14.75)
Gaming	**Maintain**	• **Casino: a better picture from 10% gaming duties hike,** came better than market's expectation which is good for sentiment for GENM. Valuation for GENTING remains attractive which trades at 44% discount to its SoP while positive sentiment may arise from the legalising of casino in Japan. • **NFO: ticket sales continued to rise.** Meaningful improvement in ticket sales seen in the past few quarterly results as enforcement been clapping down on illegal operators. In fact, latest quarterly results showed its average ticket sales per draws were the highest in six years. Overall ticket sales are expected to come off in the near term given the reduction in special draws. But minimal impact as these special draws come with 10% additional tax which crimp profitability. • **An off-peak season 2QCY19 quarter ahead,** after a seasonally peak CNY quarter. A mixed outlook for casino operators as GENS faces challenging business condition while the gaming tax hike will hit GENM's profit margin. But, the continuous clamping down on illegal operator will help to boost ticket sales which will benefit NFO players. • **Keep OVERWEIGHT for value and yield.** GENTING is still a good value buy and the earnings clarify from GENM should help to improve sentiment further. Abating downtrend in ticket sales leads to a sustainable yield of 5%-6% for NFO players. But, we cut MAGNUM to MP on recent price rally.	**OP:** BJTOTO (TP: RM3.00) GENM (TP: RM3.80) GENTING (TP: RM7.65) **MP:** MAGNUM (TP: RM2.55)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Rubber Gloves	Upgrade	• **Upgrade from NEUTRAL to OVERWEIGHT.** • Our investment case is based on: (i) our analysis that the new capacity expansion is slower-than-expected, which should help maintain the supply-demand equilibrium, (ii) earnings growth to resume in subsequent quarters, boosted by higher ASPs, (iii) favourable USDMYR forex. • Rubber glove stocks are presently trading at a more palatable valuations following sharp retracement in YTD 2019 share prices of rubber glove stocks under our coverage led by HARTA (-15%%), TOPGLOV (-11%), KOSSAN (-9%) and SUPERMX (-5%). • Based on current valuations, we believe all the negatives could have been priced in, rubber gloves stocks are now trading between slightly above mean compared to an average of +2.0 SD indicating values emerging. • We raised SUPERMX TP from RM1.50 to RM1.70 based on higher 17.5x FY20E PER (compared to 15.5x previously at +0.5 SD above its historical forward average). We raise our PER from 15.5x to 17.5x which is in-line with our target valuation of +1.0 SD above 5-year forward average for peers. • Our Top Pick in the sector is HARTA (OP; TP: RM5.85). We like HARTA for: (i) its "highly automated production processes" model, which is moving from 'good' to 'great' as they are head and shoulders above its peers in terms of better margins and reduction in costs, (ii) constantly evolving via innovative products development, and (iii) its nitrile gloves segment, which is booming.	**OP:** HARTA (TP: RM5.85) – ***Top Pick*** KOSSAN (TP: RM5.25) – ***Top Pick*** **MP:** TOPGLOV (TP: RM4.70) SUPERMX (TP: RM1.70)
Technology / Semiconductor	Upgrade	• **Showing positive signs.** In 3Q19, though some uncertainty remains amid trade war, we reckon that the outlook for the technology sector is turning slightly more encouraging, while valuations have also become more palatable. In the automotive segment, we are seeing possible signs of recovery in major markets like China and the Europe in 2H19 as the adverse effect of new emission standards dissipates. In the smartphone market, while the future North American flagship model (likely to be launched in 3Q19) is unlikely to support 5G, it is expected to feature a triple-camera system and reverse wireless charging capability. As such, although the radio frequency (RF) content growth in the upcoming flagship model may be limited, we believe sales volume should remain relatively stable from last year given decent functionality upgrade, not to mention 3Q19 is usually much stronger QoQ in conjunction with the model launch. • **5G to be valuation kicker.** We look forward to more commercial launches of 5G worldwide as it will not only drive the offtake of existing products (especially those relating to data infrastructure, radio frequency and sensors) but also lead to the creation of new/next-generation products and services. With the ban on Huawei "somewhat" lifted, the 5G rollout could potentially progress as planned, thus resuscitating the sentiment in the technology sector. • **EMS space also looking bright.** PIE has recently seen an influx of enquiries from companies looking to	**OP:** D&O (TP: RM0.675) – ***Top Pick*** KESM (TP: RM8.70) MPI (TP: RM12.10) PIE (TP: RM1.55) SKPRES (TP: RM1.40) **UP:** UNISEM (TP: RM2.15)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		shift their supply chains out of China and we gather that some orders have already materialised. Meanwhile, prospects for SKPRES remain promising as they continue to see contracts driven by its major customers' shift to newer, evolutionary models. • **Upgrade sector stance to OVERWEIGHT** (from NEUTRAL previously). Overall, with a potential turn of the tide in the technology sector (especially in the automotive segment), while valuations have also become more palatable, we reckon it is opportune to revisit the technology sector. We select (i) D&O (OP, TP: RM0.675) and (ii) KESM (OP, TP: RM8.70) as our top picks, both prime proxies for the automotive market recovery.	

Source: Kenanga Research

Figure 19: Underweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Building Materials	**Maintain**	• UNDERWEIGHT outlook on Building Materials maintained. • **Aluminium scene remains challenging.** Overall, market remain challenging for steel and aluminium counters, largely due to i) higher raw material cost as a result of production and supply disruptions, ii) lower average selling prices lead by oversupply situation and intense competition in the domestic market further depressed the company's margin. Despite the revival of a few mega-infrastructure project announced by the government, we believe than the revenue will kick in to the industry in the later quarter considering the slower work progress as some of the projects are still undergoing redesigning and tendering phases. Besides, resumption of the projects at reduced cost and intense competition in the tendering phase will further restrict the potential earning. Hence, we opine that 2019 continue to be a tough year for building materials sectors lead by unfavourable market sentiment. • **Remain cautious on long-steel players for FY19** as we expect weaker earning performance in the subsequent quarter driven by higher iron ore prices resulted from i) Vale's accident which lead to lower iron ore output from Brazil and ii) increasing iron ore demand from China in line with it's higher steel production. According to the data released by MITI, iron ore was trading at USD100/MT as at May 2019, 16% and 41% higher than trading prices as at March and Jan 2019 respectively. In addition, mismatch of steel production output and consumption volume will further erodes the company's margin. However, with the hybrid production approach, ANNJOO has the flexibility to alter their cost structure based on cheapest available raw material, hence having advantage to outperform its peers in the market. Overall, we opine that FY2019 will be the tough year for ANNJOO while awaiting for more projects announced and iron ore prices to moderate. • **All-in,** we maintain our calls on PMETAL (MP; TP: RM4.50) and ANNJOO (UP; TP: RM1.15).	**MP:** PMETAL (TP: RM4.50) **UP:** ANNJOO (TP: RM1.15)
Construction	**Maintain**	• **Budget-20 expectations.** Moving into 3QCY19, one of the limelight would be Budget-20. However, we do not expect any announcement of new mega infrastructure contracts	**OP:** MUHIBAH (TP: RM3.20)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		but a repetition of old projects with a reduced contract sum like LRT3 and MRT2. • **ECRL a boon for contractors?** We believe that amongst the mega infrastructure projects in the pipeline, ECRL would still be in the limelight should its contract flows pick up pace given its sheer size of RM44.0b after cost reduction. However, we believe that ECRL would benefit the small-cap players over the big-cap players as the project margin and execution duration could be less attractive to the big-cap players. • **Maintain UNDERWEIGHT.** Recently, we upgraded GAMUDA from UP to MP with a higher TP of RM3.75 (from RM2.90) premised on the strong improvement in its property division, better than expected construction margins and strong drive to venture overseas i.e. Australia market. While we reiterate our UP call on SUNCON, we upgraded its TP to RM1.45 (from RM1.40) as we revised our order-book replenishment assumptions higher to RM1.8b. However, we maintain that the sector's re-rating catalyst is premised on the government's firm direction on the future development plans like the potential continuation of MRT3 and High-Speed Rail. Under current circumstances, we opine that investors should take the opportunity to do some top slicing.	**MP:** GAMUDA (TP: RM3.75) GKENT (TP: RM1.15) KERJAYA (TP: RM1.20) KIMLUN (TP: RM1.35) WCT (TP: RM0.815) **UP:** HSL (TP: RM1.25) IJM (TP: RM1.80) MITRA (TP: RM0.200) SUNCON (TP: RM1.45)
Healthcare	**Maintain**	• We maintain our UNDERWEIGHT rating on the sector which is expected to be dull in terms of earnings growth and further capped by expensive valuations. • Overall, we still believe that the healthcare industry will continue to enjoy stable growth supported by the growing healthcare expenditure, rising medical insurance and an aging population demographic. The 1QCY19 results season saw a mixed bag of results. IHH's 1Q19 earnings came in within expectations due to higher-than-expected revenue per inpatient. KPJ came in below expectations due to lower-than-expected revenue per inpatient. PHARMA came inline with expectations. • We downgrade PHARMA from Market Perform to Underperform due to concerns of Government reviewing all medical supplies concession agreements of which PHARMA has a 10-year contract ending in November 2019. • **KPJ's valuation appears to be attractive again, Reiterate OP.** We like KPJ because: (i) start-up costs from new openings will be absorbed by incremental ramp-ups from earlier openings and steady contributions from matured hospitals, and (ii) the stock is currently trading at 20% and 40% discount compared to historical average of 27.5x and regional peers of 35x, respectively.	**OP:** KPJ (TP: RM1.20) **UP:** IHH (TP: RM4.90) PHARMA (TP: RM2.35)
Plantation	**Maintain**	• **Rising stockpiles to hinder CPO price recovery**. We believe CPO prices will remain under pressure in 3Q19, potentially trading in the range of RM1,800-2,100/MT and averaging only RM2,000/MT in 2019, as stockpiles in both Indonesia and Malaysia are likely to start picking up soon. • **Biodiesel lacking fuel.** Additionally, while biodiesel mandates seem to be panning out well (expected to absorb c.13% of CPO production in Indonesia and c.4% in Malaysia), the intensifying US-China trade war tensions are likely to be a dampener on soybean oil prices like what happened last year. Hence, we believe this will dwarf any positive trade/demand impact on CPO and	**OP** CBIP (OP; TP: RM1.10) **MP** HSPLANT (MP; TP: RM1.50) IOICORP (MP;TP: RM4.35) TAANN (MP;TP: RM2.40) TSH (MP;TP:RM0.90) **UP**

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		keeping its prices under pressure in the near term, as the two commodities are close substitutes with their prices highly correlated (>0.90). • **Weaker results to linger.** We believe planters (especially upstream-centric ones) will continue to hit a rough patch in coming quarters (but likely still within expectation as it has already been accounted for in our latest earnings adjustments) with CPO prices hovering around current levels, overshadowing any production pickup in 2H19. However, potential exceptions are (i) IOICORP, as its oleochemical margins are likely able to sustain on stable demand for specialty products; and (ii) PPB, as soybean crush margins are likely to improve when the adverse effect of the African swine fever outbreak subsides. • **Reiterate UNDERWEIGHT** on the plantation sector. Our top pick and only OUTPERFORM call is CBIP (OP; TP: RM1.10), given attractive valuation (8.1x FY20E PER, implying -2.5SD) and a torrent of contract flows lately.	FGV (UP;TP:RM1.05) GENP (UP; TP: RM9.00) IJMPLNT (UP; TP: RM1.40) KLK (UP; TP: RM22.00) PPB (UP; TP: RM16.00) SIMEPLT (UP; TP: RM4.00) UMCCA (UP;TP: RM4.90)

Source: Kenanga Research

Figure 20: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	**Maintain**	• We believe that consumers are changing their preference toward **value-for-money (volume buy) national marques to satisfy their needs**, while non-national marques are focusing on higher-margin low-volume models (catering to higher-purchasing power consumers). • No changes to our 2019 TIV target of 600,000 units matching MAA's target factoring the extra boost from national marques (Proton and Perodua). • Given the stronger expected growth in National Marques volume, we upgrade DRBHCOM to MP from UP with a TP of RM2.20 from RM1.80 to factor better contribution from Proton, and we downgrade TCHONG to MP from OP with a lower TP of RM1.60 from RM2.15 to factor in its diminishing market share especially in non-national marques. • **Looking forward to 3QCY19 and 4QCY19.** Overall, car sales volumes for 3QCY19 is expected to be weaker than 2QCY19 but to recover with a better sales on 4QCY19 from the usual year-end promotion and new model launches. • Our sector top-pick is MBMR (OP; TP: RM3.45) for its strong Perodua contribution.	**OP:** BAUTO (TP: RM3.00) MBMR (TP: RM3.45) – ***Top Pick*** **MP:** DRBHCOM (TP: RM2.20) SIME (TP:RM2.35) TCHONG (TP: RM1.60) UMW (TP: RM5.80)
Consumer	**Maintain**	• **We reiterate our NEUTRAL rating on the consumer sector.** • Albeit with the rising global uncertainties of late, we believe that consumers sentiment are expected to remain stable going forward while discretionary spending may take a step back from the weaker Ringgit. • This is premised on: (i) strengthened consumers spending power following an Overnight Policy Rate cut by Bank Negara Malaysia to 3%, and (ii) relatively sticky demand for our consumer staples, which was evidenced by minimal to	**OP:** AEON (TP: RM2.10) PWROOT (TP: RM1.75) – ***Top Pick*** MYNEWS (TP: RM1.55) – ***Top Pick*** **MP:** AMWAY (TP: RM5.90)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		nil negative impact to sales amid passive government policies (i.e. SST, smoking ban) • The upcoming excise sugar tax on beverages effective Jul'19 looks to raise prices across most packaged beverage products as most manufacturers look to pass down the tax. However, we suspect it would not be overly detrimental to demand given the low quantum of increase on the affected products (i.e. 40.0sen/litre or 10.0sen/250ml can serving). • **For our 3Q19 top pick, we highlight MYNEWS (OP; TP: RM1.55)** for its (i) double-digit earnings growth (c.20% vs SEM's at c.7%), and (ii) above-industry earnings margin (c.7% vs SEM's at c.2%). While new store openings will drive growth, it will be enhanced further with the introduction of ready-to-eat food and the new Maru Café. • **In the F&B space, PWROOT (OP; TP: RM1.75) is chosen** for the anticipated delivery of strong growth numbers, driven by (i) better sales and cost management, and (ii) better hedged commodity positions. Solid dividend yield of (c.6-7%) could also act as the cherry on top.	BAT (TP: RM28.10) CARLSBG (TP: RM23.00) DLADY (TP: RM62.90) F&N (TP: RM36.60) HEIM (TP: RM23.25) NESTLE (TP: RM137.00) SPRITZER (TP: RM2.40) PADINI (TP: RM3.75) **UP:** HAIO (TP: RM1.95) QL (TP: RM6.05) SEM (TP: RM1.35) PARKSON (TP: RM0.240)
Media	Maintain	• **Reiterate our NEUTRAL view** as we expect the weak adex outlook to persist, in lieu of the (i) lack of key sport events (ii) weak on-going consumer sentiment and (iii) continual digital disruption. Furthermore, we do not expect any uptick in total gross adex given the lack of major events in 2H19. • **ASTRO (OP, TP: RM2.00) remains our preferred pick** driven by its resilient earning and cheap valuation, given that it is trading at Fwd. FY20E PER of 11x vs. our media coverage average of 15x. In addition, we continue to like it for its attractive dividend yield (>7%). • The sector continues to embrace the digital disruption and search for new revenue stream. However, further gestation is required before meaningful contribution could be seen. With that, we maintain our UNDERPERFORM rating on MEDIA (TP: RM0.260) and STAR (TP: RM0.600). Meanwhile we reduce our TP for MEDIAC based on the previous result but maintain our MARKET PERFORM call as the share price is trailing near its current level.	**OP:** ASTRO (TP: RM2.00) **MP:** MEDIAC (TP: RM0.200) **UP:** MEDIA (TP: RM0.260) STAR (TP: RM0.600)
MREITs	Maintain	• **Results within.** All MREITs' results met expectations. **QoQ,** most MREITs saw bottom-line growth (1-10%), save for KLCC (-1%), MQREIT (-1%), and AXREIT (-20%). **YoY-Ytd,** topline growth was mostly positive, save for CMMT (-2%) and MQREIT (-6%) on lower rental contributions. As a result, bottomline also followed suit while SUNREIT declined marginally (-1.6%) on higher financing cost. • **Unexciting fundamentals.** MREITs' reversions outlook remains mundane on expectations of single-digit reversions at best as the oversupply of retail, office and even hotels. Industrial assets are a more stable option as reversions are on par with other asset classes (i.e. low single digits) but lease terms are longer c.6-10 years (vs. 2-3years for retail and office) providing earnings stability over a longer term. All in we expect menial FY19-20E DPU growth of 3-1%. • **Lowering our 10-yr MGS target on US Fed dovishness.** In the June 19 meeting, the US Fed signalled that they may consider lower rates going forward given the uncertainty of trade talks and future growth rates. This	**OP:** CMMT (TP: RM1.15) MQREIT (TP: RM1.15) **MP:** AXREIT (TP: RM1.80) IGBREIT (TP: RM1.80) KLCC (TP: RM7.65) PAVREIT (RM1.75) SUNREIT (TP: RM1.90)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		would put more downward pressure on the MGS in the near term, which is a positive for MREITs valuations. As a result, we lower our 10-yr MGS target to 3.70% (from 3.90%) in anticipation of potential rate cuts. • **Trimming CMMT's earnings to be more conservative on valuations.** Post relooking at our assumptions, we are trimming CMMT's earnings by 8-7% in FY19-20E to RM147-149m in line weaker margins observed in its recent 1Q19 results on higher operating cost which may follow suit in coming quarters. Note that CMMT has consistently come in within for the past 6 quarters. • **All in, we increase MREITs TP's by 3-6%,** save for CMMT which is lowered by 8%. Even so, CMMT warrants an OP call on a lower TP of RM1.15 (from RM1.25). • **Maintain NEUTRAL** on a lower 10-year MGS target of 3.70% and historical average spreads which is justified given MREITs earnings stability over the past 2 years while most negative news has been accounted for. MREITs are offering average gross yields of 5.7% which we deem decent, warranting our NEUTRAL call. However, CMMT stands out on above average yields of 6.6% even after most downsides have been priced in.	
Oil & Gas	Maintain	• **Brent crude at a comfortable range.** Despite pulling back from a high of USD74/barrel in April, we feel current Brent crude prices trading at a range of USD60-70/barrel to be at a "sensible" level. At current prices, oil majors are more than comfortable in maintaining or even increasing production, with oil field economics making further investments feasible at current prices. However, while recent demand growth concerns may limit further price upside, we believe it is crucial for OPEC to continue its production cuts beyond the current June cut-off when it meets in early July in order to sustain current price levels. Overall, we keep our 2019-2020 average Brent price assumption of USD65/barrel unchanged. • **Still no contract bonanza yet.** Despite stabilising oil prices of late, we have still yet to see a significant jump in contract flows locally ever since peaking in 2014-2015. While more established names with commendable delivery execution are still managing to secure some new jobs, albeit at more competitive rates, smaller names are still expected to see further balance sheet restructuring before they can rebalance themselves in order to competitively bid for jobs once again. • **Over-reliance on local job?** Nonetheless, a large sum of the local oil and gas service and equipment providers are still heavily reliant on local job flows. That said, while Petronas has committed to higher upstream capex for this year, we suspect that a large portion of it will still be sanctioned to more lucrative investments overseas, and hence, may not necessarily lead to a significant boost of jobs being cascaded down to local contractors. • **Maintain NEUTRAL.** With all said, we continue be selective in our picks, preferring names with a strong international presence, healthy balance sheet and visible earnings delivery. Favoured picks include SERBADK and YINSON, although SAPNRG and PANTECH are highlighted as our tactical plays for an earnings turnaround story.	**OP:** DIALOG (TP: RM3.80) PANTECH (TP: RM0.690) – ***Top Pick*** SAPNRG (TP: RM0.430) – ***Top Pick*** SERBADK (TP: RM4.80) YINSON (TP: RM7.75) **MP:** MHB (TP: RM0.770) MISC (TP:RM6.65) PCHEM (TP: RM8.75) PETDAG (TP: RM24.95) **UP:** ARMADA (TP: RM0.180) DAYANG (TP: RM0.800) UZMA (TP: RM0.610) WASEONG (TP: RM0.620)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Plastics and Packaging	**Maintain**	• **Mix 1QCY19 results.** Plastic packagers' results were mixed with 2 below, and 3 within. This quarter saw fewer surprises vs. 4QCY18 when only 2 came within. TOMYPAK and SCGM came below due to weaker top-line and higher-than-expected raw material costs. Meanwhile, SCIENTX, SLP, and TGUAN were within expectations. • **Focussed on ramp up utilisation.** Plastics packagers have been focusing on capacity expansion over the past three years and aims to ramp up utilisation to drive sales. For now, we expect SLP to gradually increase annual capacity by 58% by FY21. SCIENTX will continue focusing on ramping utilisation, targeting 75% over the next few years while TOMYPAK is also set on improving utilisation to c.67% by FY21. SCGM is working hard to increase capacity from current levels of c.50%. Meanwhile, TGUAN will continue to invest in R&D to improve sales and margins for existing products (i.e. Stretch Films). • **Concerned on cost pressures.** We are cautious on the cost outlook given the volatile raw material prices, the volatility of a favourable product mix and transition costs from expansion, resulting in margin compressions in recent quarters. Resin prices are currently range bound between USD1,000-1,200/MT, but we are slightly more conservative estimating resin cost at USD1,200-1,400/MT as resin price have been volatile and we do not discount the possibility that resin prices bouncing back. Even if resin price stabilise at current levels, we believe effect may not reflect immediately due to existing inventory of resin held at higher cost, while most packagers are still grappling with weaker product margins and additional cost incurred during the fit-out stages from on-going capacity expansion. Most packagers are recording weaker EBIT margins YoY of -2ppts to -11ppts, save for SLP that has flattish margin. TGUAN is the only one that saw EBIT margin improvement of 2.7 ppts. • **Maintain NEUTRAL.** No changes to all our calls and TPs. We are comfortable with our sector call as sector's macro-economic fundamentals are unexciting while we believe we have priced in most foreseeable earnings downsides for the sector. Having said that, we will continue monitoring plastic packagers' margins closely as catalyst hinge on stable margin improvements with new capacity growth and consistently lower resin price.	**MP:** SCIENTX (TP: RM8.15) SLP (TP: RM1.35) TGUAN (TP: RM2.40) **UP:** SCGM (TP: RM0.805) TOMYPAK (TP: RM0.430)
Property Developers	**Maintain**	• Over 2QCY19, property stocks saw some weakness in share prices with KLPRP registering -0.4% return vs. 3.8% in 1QCY19. However, KLPRP's YTD performance still beats KLCI with a return of 5.5% vs. KLCI's return of 0.8%. Following a severe bashing down of property stocks back in 4QCY18. • Our universe's average unbilled sales are at 1.3 years or unchanged from (last quarter) with average net nearing of 0.3x. While sales trajectories are still uninspiring, with headline sales mainly broadly within due to typically slow 1Q, we expect sales to pick up from 2H onwards especially 4Q due to developers' aggressive marketing efforts. • Recently, we also invited to a discussion with Malaysia Accounting Standard Board (MASB) along with parties from BURSA, SC, and major developers on the interpretation of IAS 23. The discussion mainly focuses on the challenges in the adoption of IAS 23 latest by July-	**OP:** ECOWLD (TP: RM1.15) IOIPG (TP: RM1.65) MAHSING (TP: RM1.05) SPSETIA (TP: RM2.45) SUNSURIA (TP: RM0.760) **MP:** LBS (TP: RM0.495) SIMEPROP (TP: RM1.10) SUNWAY (TP: RM1.60) UOADEV (TP: RM2.15) UEMS (TP:RM0.835)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		2020, whereby developers are no longer able to capitalise their borrowing costs on on-going projects under current practise, and the adjustment of the capitalised interest must be made retrospectively. • While the adoption of IAS 23 would have a negative impact to developers bottom-line that would affect dividend pay-out, we are neutral as it has no impact to our DCF driven RNAVs on developers as we have already factored in the financing cost at project levels. In other words, the adoption of IAS 23 has no impact to developers' cash flow, but accounting profit due to timing of project recognition. • As the impact from IAS 23 is yet to be ascertained, we are taking a more conservative approach in reducing our earnings estimates for certain developers by 10%-15% for FY20E. • While we might expect some knee jerk reaction on the adoption of IAS 23, we believe that valuations will stabilise and remain range bound at current levels until there are significant catalysts (e.g. easing of lending liquidity to the sector) or improvements in ROEs which are now at a record lows. Most of our universe's RNAV/SoP discounts are pegged at -1.0SD to historical trough levels, in-line with ROE trends. • **Reiterate NEUTRAL on Developers**. We continue to believe that Investors should look at rotational laggards with OUTPERFORM recommendations like ECOWLD, IOIPG, MAHSING and SPSETIA. This time around, we took the opportunity to downgrade HUAYANG from MP to UP with an unchanged TP of RM0.335.	**UP:** AMVERTON (TP: RM1.00) MAGNA (TP: RM0.740) MRCB (TP: RM0.750) HUAYANG (TP: RM0.335)
Ports & Logistics	**Maintain**	• **No signs of recovery for logistics players.** In the previous quarters, both CJCEN and POS were loss-making, largely dragged by an industry-wide margin compression which is unlikely to recover in the near-term. As such, we opt to stay side-lined from this sub-sector as we await signs of meaningful earnings recovery, most likely from: (i) companies maturing out of their expansion gestation phases, and (ii) an eventual consolidation of the industry. • **Port throughput growth picking up?** Notably, Port Klang posted an exceptionally strong throughput growth of 12% YoY for 1Q19. We believe that this may persist further, supported by the increase in Ocean Alliance calls following the realignment of most shipping lines. Nonetheless, we opt to maintain our assumption of c.5% container throughput growth for FY19 due to (i) an expected slowdown in throughput growth levels from 2H19 due to the previous year's high base effect, and (ii) minimal impact from trade war as it is more likely to impact the Asia-American trade route. (Historically taking up only c.5-9% of the total throughput volume). • **Maintain NEUTRAL** on the sector, given the lack of any major rerating catalyst. Within our coverage, most of the calls are MARKET PERFORM due to the unexciting earnings growth prospect while most negatives are already priced in. Meanwhile, logistics players such as POS and CJCEN are given UNDERPERFORM calls due to their bleak outlook.	**MP:** MMCCORP (TP: RM1.10) WPRTS (TP: RM3.75) **UP:** CJCEN (TP: RM0.370) POS (TP: RM1.30)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Telecom-munications	Maintain	• **Maintain NEUTRAL call for the sector.** • The overall landscape appears to be increasingly competitive as incumbent telcos are progressively losing market share to smaller players with more value-for-money propositions. • The market still awaits further development of the AXIATA-Telenor merger. The proposal is still in its due diligence phase and amidst the Merger and Acquisitions guidelines released by the MCMC in May'19. Overall, we believe that the merger could be an overall benefit to the celco industry, with: (i) more creation of local jobs, (ii) better use of infrastructure to boost public connectivity, and (iii) more robust product offerings. • Though TM saw a surge in sentiment following its recent solid results, we believe there could be some easing with the company due to provide a resolution by Jul'19 on Streamyx's poor connectivity and service delivery to consumers. we believe that TM could either resolute to (i) phasing off of the Streamyx product in favour of wireless broadband, or (ii) investing in expanding its fibre footprint. However, either of which could potentially cloud near-term prospects owing the financial commitments required to execute these suggestions. • On the large cap space, we continue to lean towards DIGI (MP; TP: RM4.65) for its stable earnings prospects and above-industry dividend yield. OCK (OP, TP: RM0.630) 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.	**OP:** OCK (TP : RM0.630) **MP:** DIGI (TP: RM4.55) TM (TP: RM3.95) **UP:** AXIATA (TP: RM4.30) MAXIS (TP: RM4.90)
Utility	Maintain	• **Weaker earnings in the coming quarter for TENAGA,** given the seasonally strong 1Q19 earnings on lower opex and capex recognition. But earnings for FY19/FY20 will be similar to FY18's RM5.4b on the back of 7.3% asset return. Nonetheless, Government's commitment towards ICPT mechanism is key. But the continuation of surcharge after the KWIE fund will be fully utilised, likely in 2020, a key critical factor. • **PETGAS to face tariff decline; lower margin spread for GASMSIA in RP2?** PETGAS to face two step-downs in earnings in RP1 and RP2 as base-tariff is expected to reduce sharply by 60% to RM0.502/GJ in 2026 from RM1.248/GJ in 2018. GASMSIA is in final year of RP1. Potential reduction in asset return rate for RP2. If return rate drops to 7.3% from 7.5%; earnings could drop 5% as margin spread fall to RM1.50-1.70/mmbtu from RM1.80-RM2.00/mmbtu. • **IPPs need to fill up earnings gap,** as PPA Extension Contracts for YTLPOWR's Paka and MALAKOF's PD Power are expiring soon beside the already weakened earnings. Two new offshore greenfield projects for YTLPOWR will only be ready in 3-4 years while MALAKOF is still looking for new projects. Thus, near-term earnings' prospects are weak. • **Maintain NEUTRAL,** in view of lacklustre prospects for the Utilities players in the near to mid-term. But we reckon the sector offers decent yields of >3%. We cut TENAGA to MP given the recent price rally. However, despite the dulling prospects for the sector, PESTECH is still an alternative small cap play.	**OP:** MALAKOF (TP: RM0.900) PESTECH (TP: RM1.40) **MP:** GASMSIA (TP: RM3.05) PETGAS (TP: RM16.55) TENAGA (TP: RM13.40) YTLPOWR (TP: RM0.880)

Source: Kenanga Research

Figure 21: 3Q19 Top Picks List

Top Picks	Comments
ABMB (OP; TP: RM4.25)	**ABMB's better** RAR loans looks like to translate better margins for the bank. The better RAR loans translated to higher margins coming from SME's & Commercial, Consumer unsecured and Alliance One Account compared to lower RAR (mortgages, HPs and corporates). ABMB's NIM are above the industry average (2.31%) and 2nd only after MBSB, as CASA ratio the highest in our banking universe. With loans driven by better RAR loans, risks of NIM compression are mitigated. We feel traction for its Alliance One Account are favourable (although its mortgage related) as its i) migrating existing mortgage loans or cannibalizing existing mortgage loans from other banks thus competitive pricing minimised. Our TP is now at RM4.25 based on a target PBV of 1.1x (implying a 0.5SD below its 5-year mean) to reflect risks Trading almost at its 5-year low, valuations are undemanding coupled with dividend yield that is attractive (+4.7%) in our banking universe total potential returns at ~+18%.
CIMB (OP; TP: RM6.25)	CIMB's domestic loans have consistently outperformed the industry (in high single digits) and we expect Indonesian loans to be gaining traction in 2H19, with the recent Presidential elections ar4e concluded. CASA ratio is the 2nd highest with NIM compression likely mitigated with the influx of SME's and Corporate loans coming instream by end of 2019. While GIL is still a concern, credit costs are looking stable and normalized. TP is at RM6.25 (as we roll-over to FY20E) ascribing a target PBV of 1.03x implying a 0.5SD-level below its 5-year mean. Valuations are still undemanding coupled with a decent dividend yield of 4.0% giving a total upside >20%.
D&O (OP; TP: RM0.675)	We see D&O as a prime proxy for the potential recovery in the automotive market in 2H, amplified by its rising LED content in passenger vehicles and its augmenting market share. The introduction of smart LED (boosting ASP substantially) and growing focus on higher-margin exterior lightings also offer bright prospects and ensure sustainable long-term growth. These prospects are backed by its ongoing factory expansion plan, which could increase production capacity as much as 3x. Having corrected 40-50% from the 52-week high of RM1.00 (on 4 Oct 2018), D&O's current share price (RM0.52 as of 28 June 2019) appears highly attractive, implying only 14x FY20E PER vs. the peer average of 18x.
HARTA (OP; TP: RM5.85)	We like HARTA for: (i) its "highly automated production processes" model, which is moving from 'good' to 'great' as they are head and shoulders above its peers in terms of better margins with solid improvement in production capacity and reduction in costs, (ii) constantly evolving via innovative products improvement, and (iii) its nitrile gloves segment, which is booming.
KOSSAN (OP; TP: RM5.25)	We like Kossan because (i) it is trading at an unwarranted 28% discount to peers' PER average considering that its net profit growth is the highest at 23.7% compared to peers average at 12%; and (ii) moving from purely conservative into a more aggressive expansion mode justifying PER expansion.
MBMR (OP; TP: RM3.45)	We like the stock for its: (i) its deep value stake in 22.58%-owned Perodua, (ii) dual-income streams as the largest Perodua dealer and as a parts supplier for most of the popular marques, and (iii) expected improvement in earnings with the recent cessation of alloy wheel business. Our TP is based on 8x FY19E EPS (-0.5SD of its 5-year mean Fwd. PER) and the stock is currently trading at an undemanding 6.5x FY19E PER.
MYNEWS (OP; TP: RM1.55)	We highlight **MYNEWS (OP; TP: RM1.55)** for its (i) double-digit earnings growth (c.20% vs SEM's at c.7%), and (ii) above-industry earnings margin (c.7% vs SEM's at c.2%). While new store openings will drive growth, it will be enhanced further with the introduction of ready-to-eat food and the new Maru Café offerings. We believe that MYNEWS is unaffected by the absent of festivities in 3QCY19 due to its merchandise mix skewed towards basic consumer daily needs. Our TP is based on 27x FY20E EPS (at -1.0SD of its 3-year mean Fwd. PER, also in line with regional peers' average PER)
PANTECH (OP; TP: RM0.690)	Potential "dark-horse"-play within the oil and gas sector, premised on a restoration of earnings visibility and dividend pay-outs, given its recently-announced uplift of its U.S. shipment suspension. As such, expect strong 2H results. PANTECH could also potentially benefit from the increase in local offshore fabrication works.
PWROOT (OP; TP: RM1.75)	PWROOT looks to benefit from various tailwinds, mainly led by: (i) higher sales growth potential following the rationalisation of its distributor network locally and for exports, (ii) more favourably hedged commodity prices, and (iii) improving operational efficiency. The group's high export mix (i.e. +50% of total sales) also adds to the defensiveness of the stock against any weakness in the local market while also benefiting the group from the strong USD rates. Additionally, solid dividend yields of +6% could be of interest to yield-seeking investors. Our TP of RM1.75 is premised on a 17.0x FY20E PER, in-line with the stock's -1SD over 3 years mean. The valuation is at a discount of OLDTOWN's implied privatisation valuation of 19.0x Fwd. Per, which we think is not excessive given the return in confidence in earnings delivery by the new management of PWROOT.
SAPNRG (OP; TP: RM0.430)	Tactical play with limited downside, capitalising on an anticipated turnaround in the 2H of this year post-recapitalisation exercises, underpinned by: (i) finance costs savings from borrowings repayments, (ii) depreciation savings from impairments last year, and (iii) profit recognition from 2-year's high order-book of RM17.3b, with projects load-out mostly occurring in the 2Q-3QCY19.

Source: Kenanga Research

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.***

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my