2QCY21 Investment Strategy

Start of A New Cycle

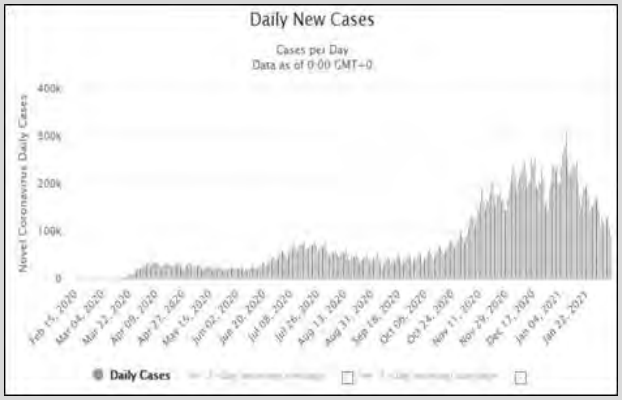
FBMKLCI	1,573.51
Target	1,745.00 ↑

By Koh Huat Soon / hskoh@kenanga.com.my

Domestic economic conditions are set to improve substantially from 2QCY21 onwards, setting the stage for a strong 49% rebound in the FBMKLCI's FY21E EPS. For sure, inflation is rising but fears that central banks will need to tighten monetary conditions soon are misplaced. The projected global GDP recovery of 5.5% in 2021 from -3.5% in 2020 bodes well for Malaysia's exports, benefiting the tech sector especially, and while selected consumer and tourism-related sectors have already moved on the economic reopening theme, there remain undervalued laggards in the REITs and Hospitality space. Banks are seen benefitting from the steepening of the yield curve amidst stabilising OPR, improving credit costs and stronger loans growth. The backdrop of robust corporate earnings and economic recovery and easy monetary conditions that are far from tightening lead us to value the FBMKLCI at 15.6x FY22E EPS giving a year-end target of 1,745. We have OVERWEIGHT call on: Automotive, Banks, Building Materials, Construction, Gaming, REITS, Rubber Gloves, Technology and Utilities. Top picks for 2QCY21 are: AXREIT (OP, TP: RM2.25), GAMUDA (OP, TP: RM4.17), GENTING (OP, TP: RM5.97), INARI (OP, TP: RM4.00), KLCC (OP, TP: RM7.55), MAYBANK (OP, TP: RM9.10), PTRANS (OP, TP: RM1.15), RHBBANK (OP, TP: RM6.40), TENAGA (OP, TP: RM12.72) and TGUAN (OP, TP: RM3.00).

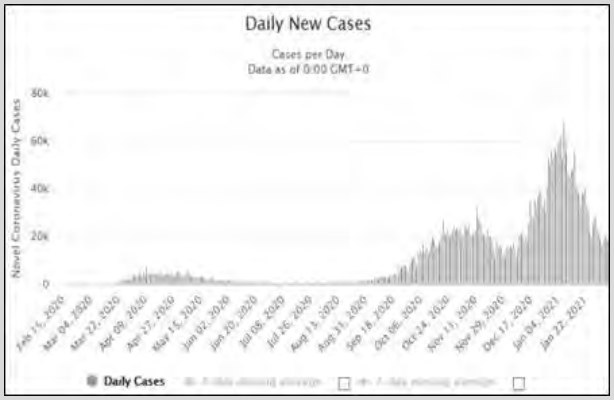
The economic landscape looks more promising as corporate earnings head back to pre-Covid-19 levels: Barring the occasional disruption to vaccinations caused by precautionary measures taken due to post-inoculation side effects, infection rates are generally falling worldwide. There are no less than five vaccines that are being widely administered globally and so having just one or two being held back pending probes on safety will only temporarily slow, and not stop their deployment, in our view. With Malaysia's 2020 GDP contraction of 5.6% behind us, the economy entered 2021 struggling to overcome the impact of MCO 2.0 due to spikes in daily new cases. This portends for a weak 1QCY21 while 4QCY20 results season was mildly positive, beating low expectations. However, by mid-March, daily new cases fell to less than 1,500 and it was clear that the 5,725 recorded on 29th January was likely the peak. And globally, some lockdowns and deployment of effective vaccines in the developed markets are starting to work, as can be seen in daily cases receding (see charts 1-4 below). And it should continue doing so as the northern hemisphere heads into warmer months.

Chart 1 : USA



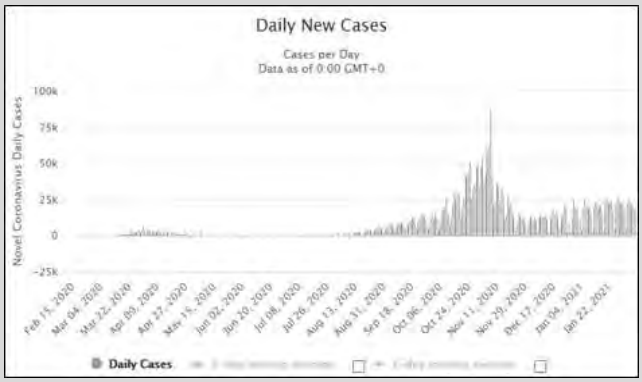
Source: Worldometer

Chart 2 : UK



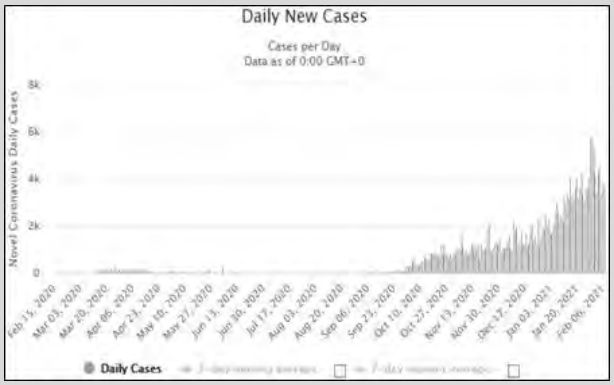
Source: Worldometer

Chart 3 : France



Source: Worldometer

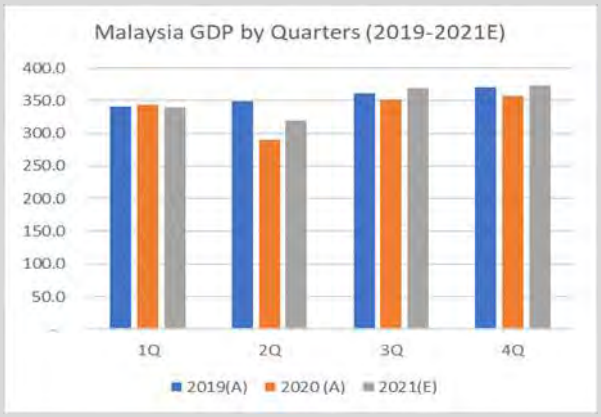
Chart 4 : Malaysia



Source: Worldometer

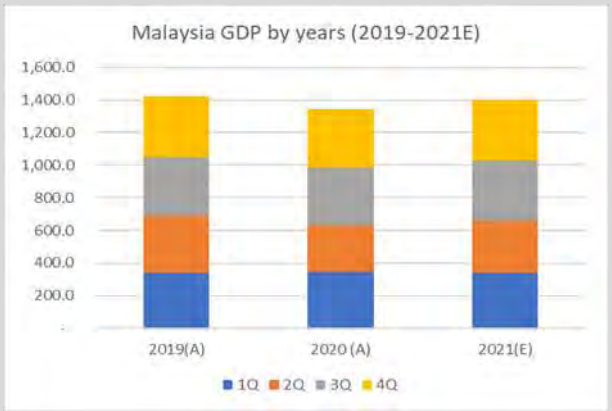
So in terms of GDP, 1QCY21 should likely be the last quarter of negative YoY growth. Moving ahead to 2QCY21, we see the momentum turning positive YoY and beyond that, towards 3QCY21 and 4QCY21, to rise both YoY as well as sequentially (charts 5 & 6).

Chart 5: Malaysia GDP by Quarters



Source: BNM, Kenanga

Chart 6: Stacked Quarterly GDP



Source: BNM, Kenanga

Table 1: the latest GDP growth projections are as follows:

Country	GDP%	2021	2022
Malaysia	KNK	4.5	5.3
	Consensus	5.5	5.0
	BNM	6.0 – 7.5	n.a
United States	Consensus	5.5	3.8
	Fed Reserve	6.5	3.3

Source: Bloomberg, Kenanga

Table 2: Inflation projections:

Country	CPI%	2021	2022
Malaysia	KNK	1.8	2.1
	Consensus	1.8	1.9
United States Core PCE	Consensus	1.8	1.9
United States Core PCE	Fed Reserve	2.2	2.0

Source: Bloomberg, Kenanga

Drivers of GDP growth in 2021: External demand recovery, Private Consumption and Investments

Economic recovery driving corporate earnings growth will be underpinned by:-

(i) recovery in global trade activity,
(ii) rise in private consumption as job market and economy gradually recover, and
(iii) pick-up in private and public investments via infrastructure developments.

Recovery in global demand:

As net exports account for 6.5% of GDP (exports: 61.6% against imports: 55.1%), Malaysia stands to benefit from a recovery in global GDP growth from -3.5% in 2020 to 5.5% in 2021. Global trade of goods and services is expected to rebound 8.1%, according to the IMF. For Malaysia, the impact on corporate earnings in the electrical & electronics (E&E) goods and rubber gloves (Malaysia is the world's largest rubber gloves producer with 68% global market share) sectors would be especially pronounced.

It is fortunate also that China, as one of the world's first to recover from the pandemic and a close second to the US in terms of GDP, is Malaysia's largest trading partner. According to Malaysia's Department of Statistics, the two-way trade value between China reached RM316.6b in 2019, accounting for 17.2% of Malaysia's total trade whereby exports to China reached RM140.9b and imports were valued at RM175.7b. A 10% increase in export value to China could easily bump up Malaysia's GDP by close to 1%.

Due to the uneasy trade relations with the US, China's growth model of the past that depended on consistent trade surpluses with the US is no longer tenable. China is turning inwards to expanding domestic demand as the way forward. This bodes well for Malaysia's exports to China. Malaysia's semiconductor industry has also benefited from the reorganisation of global supply chains where trade diversion activities have resulted in Malaysian factories becoming alternative suppliers. More than just a beneficiary of realignment in the global semiconductor supply chain, our OVERWEIGHT call on the technology sector is as much on the back of supernormal demand for semiconductors driven by sharp increase in work-from-home demand for consumer end-point devices; global auto sales recovery with rising semiconductor contents and expansion in data centres to accommodate higher web computing activities. The recent 16% retracement off the peak in the KL Technology Index is a healthy breather following a 79% rally since the last correction in September 2020 which presents a good buying opportunity. Our top pick is INARI (OP; RM4.00) riding on 5G adoption in smartphones and data centre expansions.

Turnaround in private sector demand:

After seeing contractions of 4.3% and 11.9% in private consumption and investment respectively in 2020, we forecast a rebound to 4.5% and 6.1% in 2021. Re-hiring activities and improved wage prospects will lead to improvement in consumer spending. Although the imposition of MCO 2.0 has weighed on growth, the impact has been less severe than MCO1.0 in 2020 as:-

i) Most economic sectors allowed to operate subject to SOPs. The key sectors in manufacturing, construction, agriculture, trade, services and retail were allowed to operate compared to the more severe lockdown of MCO 1.0 in March/April last year.
ii) Growth in digital payments and e-commerce helps offset some loss in disrupted physical transactions. In the recently released 4QCY20 GDP report, BNM noted the growing momentum of digitalisation which further supports economic activities under the new norms. Amongst notable developments are firstly, a 49% increase in online banking transaction volumes in 2020 over 2019; secondly, a 135% increase in merchant registrations for QR acceptance, and thirdly, a 131% increase in e-wallet transactions.
iii) Improved commodity prices especially Brent oil at $62 per barrel and CPO price of over RM4,000 per MT, compared to April 2020 low of RM2,000.

GENTING (OP; TP: RM5.97) is our top travel & leisure pick. Earnings will recover quickly once travelling curbs are lifted when the positive impact of vaccine rollout takes effect, although we caution that the pace of recovery in 2021 may be erratic before reaching any resemblance of "business as usual" that is more likely to occur in 2022. In terms of public sector investments, infrastructure developments on rail projects namely, MRT2, LRT3 and ECRL (in addition to privately funded LSS4) are expected to accelerate with an expected easing in infections and improved SOPs from 2QCY21. Our top pick is GAMUDA (OP; RM4.17) being the front runner for MRT3 and for its rising exposure to Australia's construction scene.

Covid curtailment sets the backdrop for corporate earnings recovery

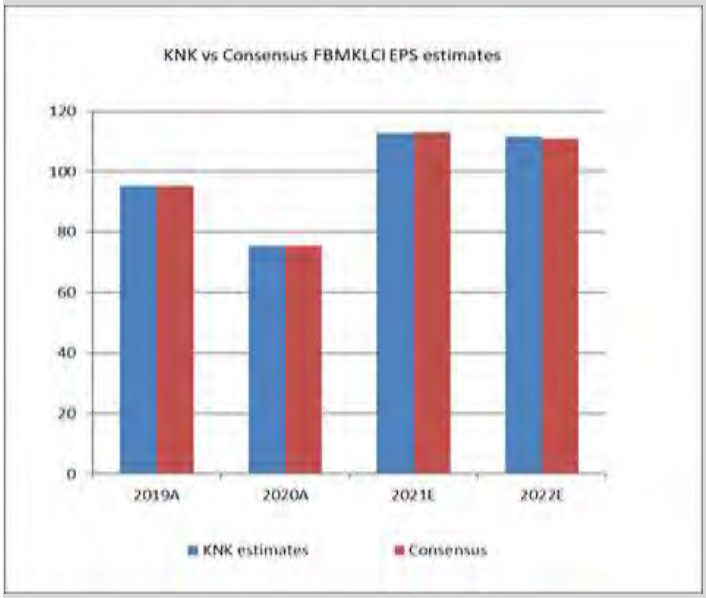
This 49% EPS bounce in FY21 is more than the result of a low-base impact. At projected 112.8 sen, it is some 18% higher than pre-pandemic's 95.2 sen in 2019 (chart 7), thanks to rubber gloves, plantation (with CPO prices of RM4,000 per MT, and currently well above 2019's range of between RM2,000-RM3,000) and banks entering a new recovery phase (chart 8).

Table 3: Sectors Ratings

Overweight	Automotive, Banks/Non-bank Financials, Building Materials, Construction, Gaming, REITS, Rubber Gloves, Technology, Utilities.
Neutral	Consumer, Healthcare, Media, Oil & Gas, Plantation, Plastic Packaging, Property, Telecommunications, Tobacco & Brewery, Transport & Logistics.

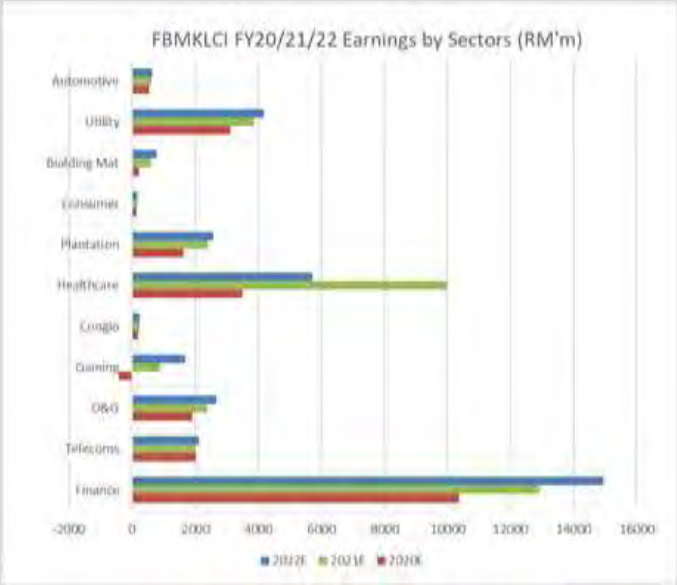
Source: Kenanga

Chart 7: KNK vs Consensus FBMKLCI EPS Estimates



Source: Bloomberg, Kenanga

Chart 8: FBMKLCI FY20/22 Earnings by Sectors



Source: Bloomberg, Kenanga

Our year-end 2021 target is 1,745: This target is arrived at by applying a forward PE of 15.6x to FBMKLCI projected FY22 EPS of 111.8 sen. The 15.6x PE reflects earnings yield of 6.41%, which against our chosen risk-free rate of 3.30% (based on 10-year MGS yield as proxy), implies an equity market risk premium of 3.11% (chart 9). This is half a standard deviation above the 10-year mean. We believe the small premium over mean is justifiable to provide for risks associated with general election and the uneven pace of an early stage recovery cycle. In terms of the applied PE, 15.6x is also close to half a standard deviation above 10-year mean justified by an environment of low interest rates by historical standards and an abundance of liquidity (chart 10). Under these conditions, equity markets' PE ratios tend to be elevated by low funding costs.

Chart 9 : FBMKLCI Equity Risk Premium

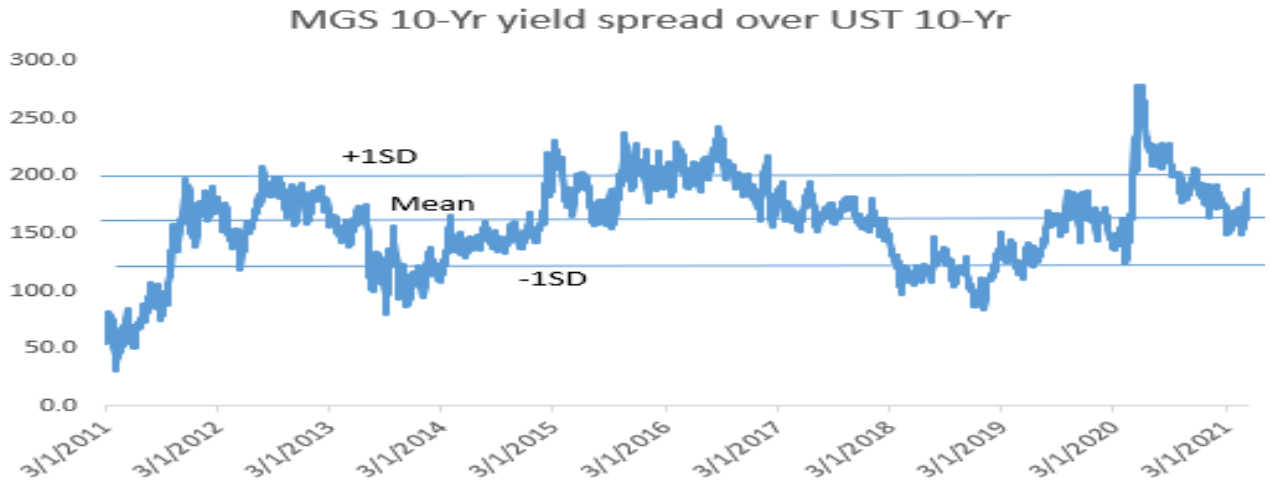
Source: Bloomberg, Kenanga

Chart 10 : FBMKLCI Blended Forward PE

Source: Bloomberg, Kenanga

The risk-free rate assumption is increased by 20bps to 3.30%: We started 2021 with the 10-year MGS yield at 2.65% and projected a rise to 3.10%. Less than a quarter into the new year, it has reached a recent peak of 3.49% in mid-March driven by US yield curve steepening before retreating to 3.33% currently. Over the last 13 years, the annual changes in the 10-year yield has ranged between -77 and +107 basis points and we rate it very unlikely that an extreme 100 bps increase to 3.70% will be reached this year. With the Fed's interest rate policy having already moved to "average inflation rate targeting", the US Fed Funds rate is expected to remain low till 2023. This should, indirectly at least, prevent the 10-year MGS yield from rising too much over 3%. In arriving at our target PE level, we have raised our risk-free rate from 3.10% a quarter ago to 3.30%. Given our view that the US yield curve steepening is mostly done with this year, and with the FTSE Russell's decision in March to remove Malaysia from its watchlist, retaining its membership in the World Government Bond Index, Malaysia's sovereign bonds will likely continue attracting foreign funds. This may even narrow the MGS 10-year spread over UST, where the past 10-year average at about 158bps (chart 11).

Chart 11: MGS 10-Y yield spread over UST



source: Bloomberg

Sensitivity of PE and target FBMKLCI to risk-free rate: We provide below the sensitivity of the FBMKLCI target to each 20bps movement of the RFR (table 4). To give a sense of the size of variabilities in 10-year MGS yields over the past 10 years, the annual changes have ranged between -77bps and +107bps. The base case risk-free rate is at mean spread over the current UST 10-year yield of 1.74%. We believe the risk-free rate used is robust given Malaysia's status in the FTSE Russell WGBI remaining intact, and barring downgrades in rating which is a low risk event in our view.

Table 4: Sensitivity of FBMKLCI target to Risk Free Rate

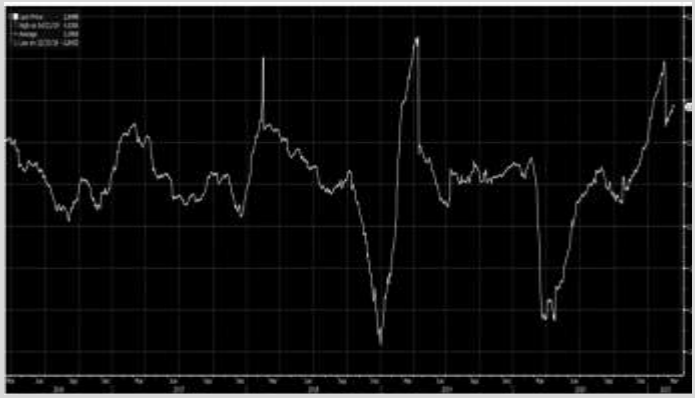
Risk Free Rate (%)	Spread over UST (bps)	Std Dev from 10-Y Mean	PE (x)	FBMKLCI Target
2.90	116	-1.0 SD	16.6	1,855
3.10	136	-0.5 SD	16.1	1,800
3.30	156	Mean	15.6	1,745
3.50	176	+0.5 SD	15.1	1,688
3.70	196	+1.0 SD	14.7	1,643

Source: Kenanga

Welcome inflation!

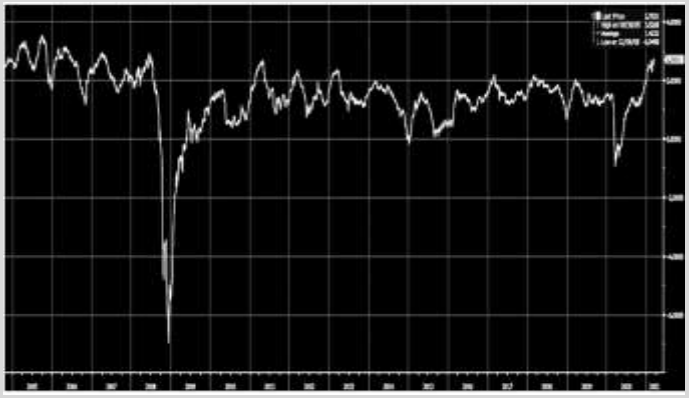
Near-term risks underpinned by how inflationary expectations develop in the US and hence interest rates, have been well debated of late. These expectations are expressed by the steepening of the yield curve which is reaching the final stages of adjustments in our view. With economies on the mend, inflation in the US will rise appreciably in 2021 before moderating in 2022. On the local front, the current environment benefits stocks with pricing power and those recently hit by fears of rising rates should bounce back. After the recent spurts in the long-term rates, we see potentially 30-40bps rise at most in both MGS 10-Year and UST 10-Year before finally stabilising by the end of 2Q21. Banks and REITs are prime beneficiaries. We see the US 1-year breakeven (currently at 2.85%, chart 12) and 2-year breakeven (2.70%, chart 13) as leading indicators of future US inflation ahead of the Treasury yield curve. They have started to retreat following the FOMC on 17th March wherein the Fed guided for core inflation to rise to 2.2% by end 2021 and to moderate to 2.0% end 2022. We see inflation expectations stabilising in the 2QCY21 near current levels.

Chart 12: US1-Yr Breakeven



Source: Bloomberg

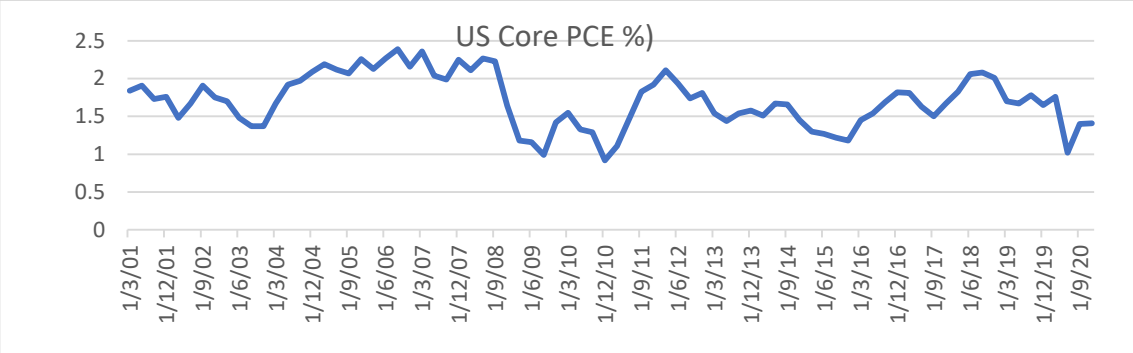
Chart 13: US2-Yr Breakeven



Source: Bloomberg

The US core PCE remains low currently. Over a 20-year period, the current core PCE of 1.40% (see chart 14) is at one standard deviation below this period's mean of 1.71%. The Fed now guides the market to prepare for 2.2% by end-2021, at one and half standard deviations above, which we believe is a robust enough guidance. Yet in guiding for a swing of over two standard deviations in less than a year, the Fed has assured that it is not changing course on monetary accommodation. In any case, at the previous peaks such as those in 2006 of around 2.6%, inflation did not cause major upheavals in stock markets.

Chart 14: US core PCE



Source: Bloomberg

Inflation rising at the early stages of an economic recovery is not a negative for equities if it can be contained. After all, central banks in major developed economies – such as the BoJ, faced with deflationary risks for the longest time – have been trying for years to generate healthy inflation. The US Federal Reserve has set the inflation target at 2.0% - a level well above where core PCE had mostly been since the end of the GFC in 2009. So, this early stage of its development is generally welcome.

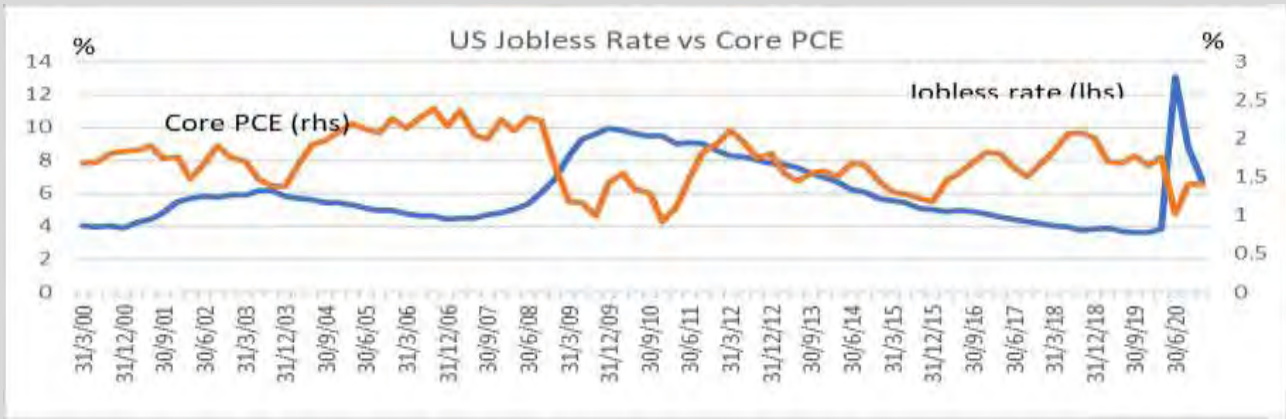
There is the risk though, that central bankers and politicians becoming too complacent and do not respond quickly enough to contain it, leading to a longer lasting unwelcome runaway rise in prices. Such a scenario would be detrimental to most asset classes including bonds and equities. Such is not our base case however. Our base case is that global markets will ease into the rising inflation expectation via an orderly steepening of the yield curve which is nearing the end of its steepening adjustment, in our view.

Markets also see that the Fed will continue with accommodative monetary stance in 2021. The Fed Funds rate will remain until the core PCE finally averages 2.0%, as has been clearly communicated by the Fed Chairman (effectively abandoning the traditional pre-emptive stance). We believe the trigger point for Fed action would be when core PCE finally crosses the 2.0% mark and remain above for at least a 6-month period. But this is not likely a 2021 event, in our view. Why?

i) There remains considerable slack in the US labour market: Latest unemployment figures in the US point to 6.3% jobless rate which represents a high degree of slack in the job market. Full employment in the US is represented by a jobless rate of about 4%, below which structural inflationary pressures is said to start to build. But despite hitting below 4% for most of 2019, inflation was largely absent (see unemployment rate vs core PCE in chart 15). This is partly because wage growth had been rather tepid in 2018/19 and also of the tail-end effect of pre-Trump globalisation in which China and other emerging markets were low cost producers for the world market.

ii) Supply-side bottlenecks to ease: As the economy reopens, pent-up demand will immediately lead to price pressures with supply side bottlenecks easing after a time lag in putting employment and production capacities back in place. Hence, a potential inflation spike is likely to be short-lived, in our view.

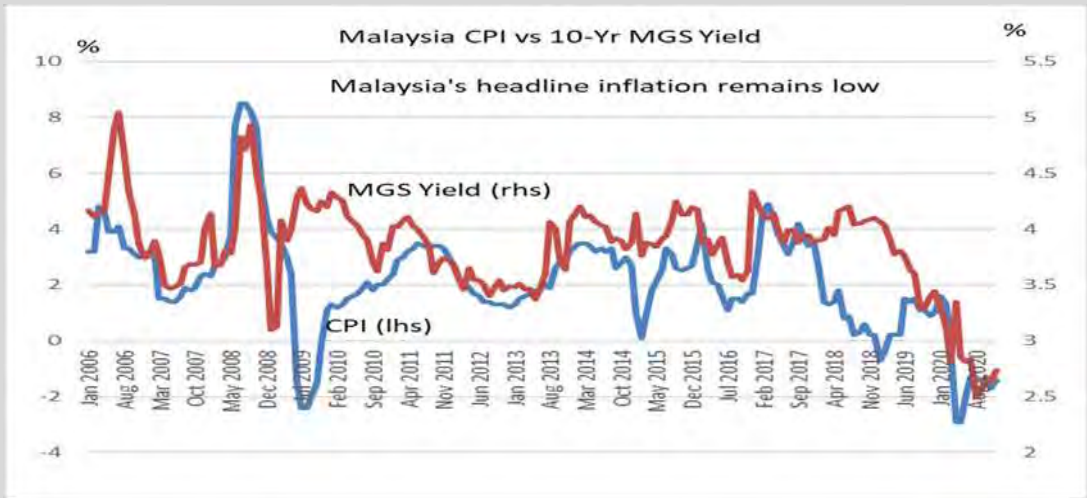
Chart 15: Unemployment vs core inflation



Source: Bloomberg

In Malaysia, the recent rise in bond yields has its roots in the US, fuelled by a growing concern over higher inflation. Although domestic inflation is low in Malaysia (see chart 16), the global coupling of bond markets leads to higher yield and borrowing costs in the MGS market.

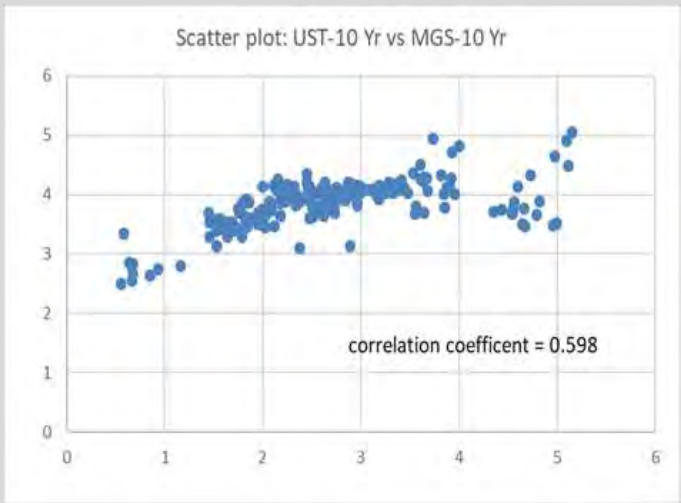
Chart 16: CPI & MGS-10 Year Yield



Source: BNM, Bloomberg

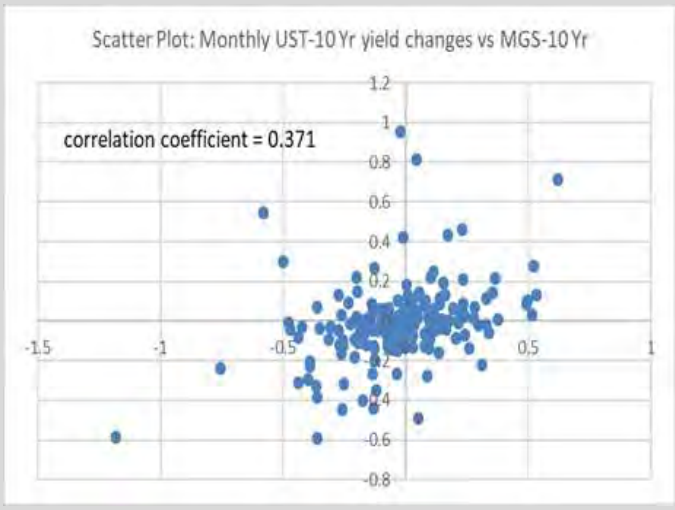
The UST 10-year yield has a moderate correlation of 0.60 with the MGS 10-year and correlation of 0.37 in terms of monthly fluctuations (see charts 17 and 18). Hence, a yield curve steepening in the US will almost certainly impact Malaysia's bond market.

Chart 17: UST 10 Yr vs MGS 10 Yr



Source: Bloomberg

Chart 18: Monthly yield changes (10-Yr UST vs MGS)

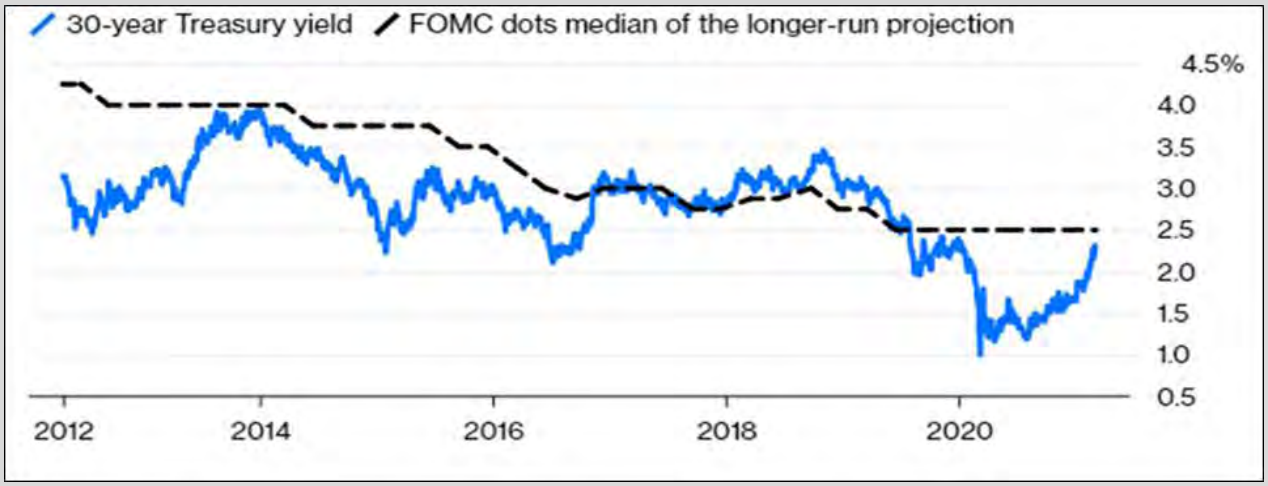


Source: Bloomberg

The US long bond yields are peaking:

If the US Treasury market is the source of upheavals seen in global bond markets recently, just how much higher can longer term Treasury yields go from here? When the Fed released its updated dot plot on 17th March, it did not raise the longer term "neutral rate" from 2.5% (a neutral rate indicates a monetary policy that is neither accommodative nor restrictive and keeps the economy at maximum employment with inflation at 2%). This is important because historically, the Fed's dot plot has served as a soft cap on longer term Treasury yields – more specifically the 30-year UST. According to Bloomberg data, during previous rising yield cycles, long bond yields hovered around those longer-term dots but never quite breached them. Recently, the 30-year touched a peak of 2.39% late Feb. Currently it is at 2.30% just 20 bps off the dot plot. Any movement upwards is likely to be limited and short-lived based on UST behaviour in the past (see chart 19).

Chart 19

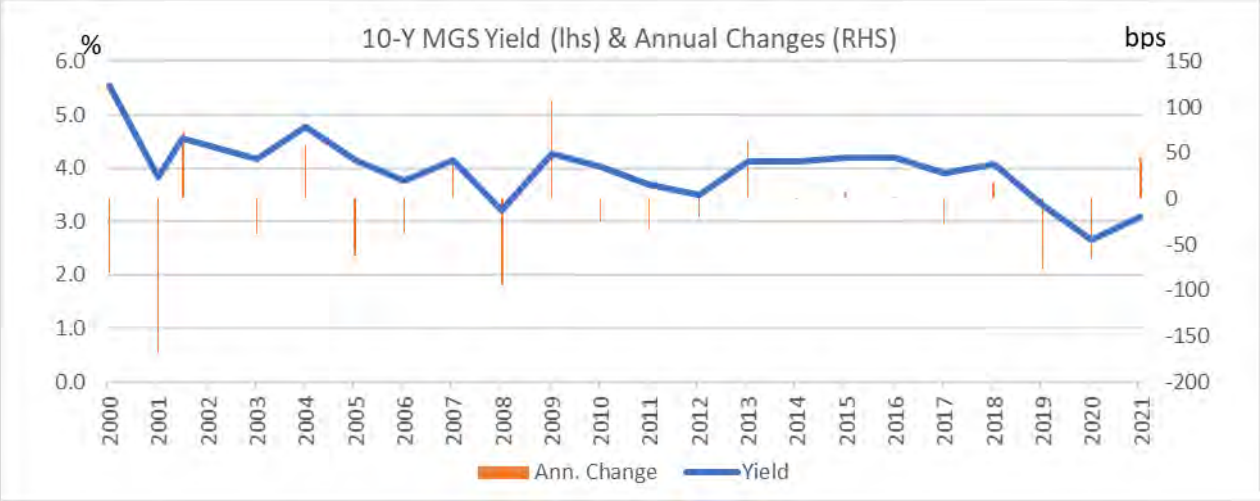


Source: Bloomberg

In Malaysia, the 10-year MGS has risen 65 bps to 3.30% currently. Over the past 10 years the year-to-year fluctuations in yields have been within +/- 100 bps. Our base case is that the 10-year yield will settle at 3.30% by the end of 2021. If there were to be extreme swings during the year, it could potentially rise another 40 bps to 3.70% but having risen

from 2.65%, its rise is already almost three-quarters complete. Given the limited headroom towards the 2.5% long-term dot-plot in the US and the already huge rise in yields at home, we believe that the 10-year yield will likely stabilise at current levels of 3.30% (see chart 20).

Chart 20:10-Yr MGS yield and annual changes (2000 – 2020)



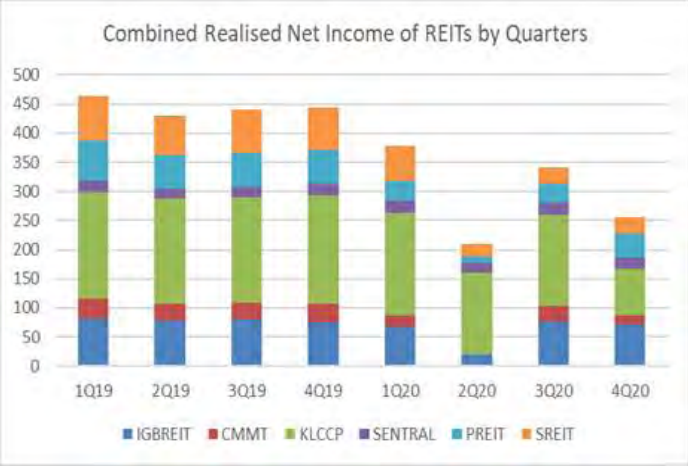
Source: Bloomberg, Kenanga estimates for 2021E

As the economy opens up further, many Covid-hit sectors are just starting on their recovery journeys. However, certain stocks that are large and liquid, namely GENTING, GENM, AIRPORT, CARLSBG and HEIM have moved up significantly on expectations of recovery within this year, while others in the hospitality sector and retail REITS are languishing badly behind (chart 21). The variability of realised net incomes of the retail REITs reflects the pattern of lockdowns since March 2020 (chart 22) – not surprisingly so since many retail tenants dealing with non-essential goods and services had to shut during severe MCOs with mall operators obliged to give rental supports in the form of rebates. Even when lockdowns were eased and limited opening hours were imposed, social distancing reduced the capacity utilisation of stores. As can be seen in chart 22, 2QCY20 was the worst hit when strict MCO was first applied. A second wave that hit in 4QCY20 following infections from the Sabah election campaigning disrupted the recovery but the impact was less severe as mall operators were better prepared. While more 'mini-waves' cannot be ruled out, mall operators, retailers and shoppers are now better able to deal with required procedures and hence the negative impacts should likely be lesser.

Chart 21: Relative performance of Covid victims

Source: Bloomberg

Chart 22: REITs Quarterly Combined Realised Net Income

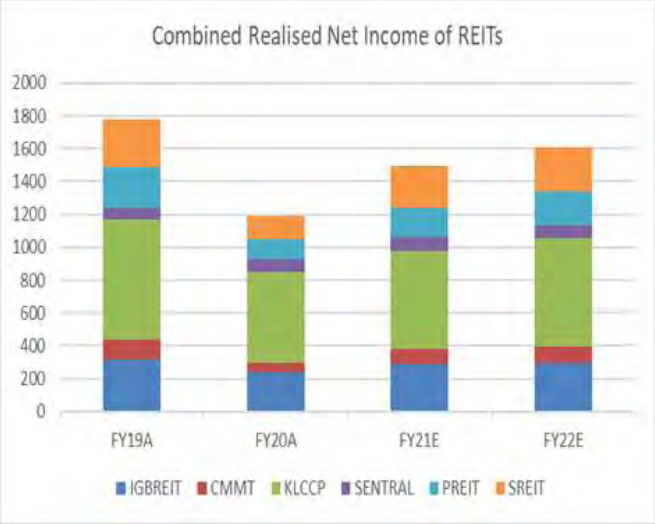


Source: Bloomberg

Net income should pick up strongly later this year on expectations that infections will drop sharply in the 2HCY21. We expect the recovery momentum to extend into 2022 (see chart 23). But such a prospect is not yet priced into retail REITs with deep values waiting to be reaped. Top on our BUY list among the recovery laggards are KLCC (OP; TP: RM7.55) and PTRANS (OP; TP: RM1.15), which although is not a REIT, it has growing recurring incomes that will benefit from easing of movement restrictions.
REITs are clear laggards in 2020 as well as YTD 2021; but holds promising prospects of reversal this year.

i) Distributions collapsed since last year, but we believe they have bottomed. While distributions are at their lowest ever, prices of REITs and corresponding yields have fallen (see chart 24).
ii) Strong rebound in income is expected, driven by reduced rental rebates as a result of a recovery in footfall and shopping purchases, and for hotels, the easing of travel restrictions at least in terms of domestic travel.
iii) Real estate as an asset class is an inflation hedge – even if cap rates increase, the numerator i.e. rental income should rise during a period of recovery. The return of pricing power would ensure the sustainability and robustness of income distributions and hence value preservation.
iv) Compared to bonds, REITs is a more attractive risk-adjusted asset class as economic recovery gathers pace. The performance of REITs has partly been affected by concerns over a sharp rise in discount rates this year but as we have argued, the process of yield curve steepening reflecting inflationary prospects is nearing completion and we don't see significant movements in the curve for the rest of this year. AXREIT (OP; TP: RM2.25) is our other pick in the REIT space.

Chart 23: REITs combined incomes (2019A-2022E)



Source: Bloomberg

Chart 24: REITs' Trailing Yields vs Price

Source: Bloomberg

Banks possess pricing power as the yield curve steepens:

From just 2.650% end Dec 2020, the 10-year MGS yield has climbed to a high of 3.486% on 15th March 2021 before retreating to 3.272% on 30th March. During this period, the short terms yields also rose but at a steadier and gradual pace (reflecting still some caution over the pace of recovery), giving rise to a steeper yield curve. This steepening mirrors that of US Treasuries which in turn, points to expectations of rising inflation. In the local context, the massive amount of money (specifically M1 supply) courtesy of BNM's policy cuts on OPR and SRR, a massive Budget 2021 and widening reach of vaccinations has raised expectations of economic recovery pushing long term yields higher. The silver lining here is that such an improvement will spur demands for loans and banking services where we have factored in a pick-up in loans growth from 3.4% to 5.0%.

Banks will benefit in this environment because banks borrow short term and lend over the long term at longer term rates. Hence a steepening yield curve will earn it more on lending relative to what it pays on deposits, expanding the spread or NIMs. Rebound in NIMs is also helped by high CASA ratios exceeding 30%. We see no rate cuts this year, with the OPR to remain at 1.75% given expectation that improvements in the economy will gather pace from the 2Q21

onwards and the labour market staying resilient. Not only that, in an improving economic environment and given that most banks have already front-loaded provisions in the 4QCY20, credit charge will most certainly come down. Although higher risk-free rate would dampen the Gordon-growth derived target prices of bank stocks, the impact will be offset by lower risk premium on the back of an improving operating environment. Our top picks are MAYBANK (OP; TP: RM9.10) and RHBBANK (OP; TP: RM6.40).

Appendix

2QCY21 Top 10 Stock Picks (Closing as at 19 Mar 2021)

Stocks	Last Price (RM)	FY20/21 Core NP Growth	FY21/22 Core NP Growth	FY20/21 Core PER	FY21/22 Core PER	FY20/21 Net Div Yield	FY20/21 ROE	Target (RM)	Upside	Rating
AXREIT	1.93	-1.8%	1.6%	19.9	19.5	4.5%	6.2%	2.25	16.6%	OP
GAMUDA	3.75	43.5%	10.3%	17.7	16.0	1.6%	6.2%	4.17	11.2%	OP
GENTING	5.53	-213.0%	70.3%	18.4	10.8	2.2%	7.8%	5.97	7.96%	OP
INARI	3.28	80.0%	15.8%	39.0	33.7	2.2%	23.3%	4.00	21.9%	OP
KLCC	7.01	46.6%	10.3%	21.2	19.5	4.2%	5.4%	7.55	7.7%	OP
MAYBANK	8.38	14.0%	19.7%	12.9	10.8	6.7%	8.7%	9.10	8.6%	OP
PTRANS	0.80	-1.0%	18.7%	12.9	10.6	3.9%	9.9%	1.15	43.7%	OP
RHBBANK	5.49	-18.1%	16.0%	10.8	9.3	3.2%	7.7%	6.40	16.6%	OP
TENAGA	10.56	25.8%	8.9%	12.4	11.4	4.0%	8.5%	12.72	20.4%	OP
TGUAN	2.14	15.8%	8.5%	9.3	8.5	2.1%	13.0%	3.00	40.2%	OP

Figure 1: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	Maintain	• **We maintain OVERWEIGHT with 2021 TIV target of 585k units (+11% YoY).** • We believe the new volume-driven launches (i.e. Perodua ATIVA, Proton X50, Honda City and Nissan Almera) could help spur sales along with the overflowing back-logged bookings and further boosted by the extension of SST exemption to 30th June 2021, seasonal promotions and more new launches expected in the 2H of the year. • MIER's 4QCY20 CSI posted 85.2 points (-6.3ppt QoQ, +2.9ppt YoY), which falls after three quarters of recovery, due to prolonged MCO which affected financial and job confidence with year-shopping plans taken a breather as consumer held back purchases in preparation for MCO 2.0 in January 2021, but cushioned by various government assistance and on-going government vaccination program to re-energise the economy with Kenanga economics research team projected GDP growth to rebound by 4.5% in 2021 (MoF: 6.5% - 7.5%; 2020: -5.6%). • Our sector pick is MBMR (OP; TP: RM4.90) as a pure proxy to the largest national Perodua dealership and deep value in its 22.58% stake in Perodua.	**OP** DRBHCOM (TP: RM2.50) MBMR (TP: RM4.90) SIME (TP: RM2.55) UMW (TP: RM4.35) **MP** BAUTO (TP: RM1.50) TCHONG (TP: RM1.30)
Banks and Non-Bank Financial Institutions	Maintain	• **We maintain our OVERWEIGHT call on the sector.** • We anticipate fewer headwinds against system loans growth supported by projected recovery in GDP alongside our house-view that OPR could remain at 1.75% throughout the year, • Cost saving efforts implemented by the banks in the prior year should continue to support bottom-lines while credit cost allowances should also be less distended with most banks already front-loaded provisions in the	**OP** BIMB (TP: RM5.25) LPI (TP: RM15.10) MAYBANK (TP: RM9.10) - *Top Pick* MBSB (TP: RM0.820) RHBBANK (TP: RM6.40) - *Top Pick* TAKAFUL (TP: RM6.00)

		4QCY20 period and with less restrictive movement controls liberating business activities • **Our Top Picks for 2QCY21 are**: ➢ **MAYBANK (OP; TP: RM9.10**) for its attractive package of industry-leading dividend yields, solid ROE and loans market share amongst industry peers. Its high CASA-to-deposit ratio provides cheap source of funds to support future loans growth. ➢ **RHBBANK (OP; TP: RM6.40)** for its strong CET-1 reserves which enable greater capital management flexibility for the group. It also commands the only applied valuation which is above its negative standard deviation territory within our coverage, which could speak for the continuous market support for the stock.	**MP** AEONCR (TP: RM10.15) AMBANK (TP: RM3.05) BURSA (TP: RM9.65) HLBANK (TP: RM18.50) PBBANK (TP: RM4.55) **UP** ABMB (TP: RM2.50) AFFIN (TP: RM1.40) CIMB (TP: RM3.60)
Construction	**Maintain**	• Albeit the immediate term headwinds, **we keep our OVERWEIGHT call for the sector,** underpinned by vaccination efforts which will strengthen the economic recovery play coupled with FY21 being the year when contract awards gather steam. • We also find KLCON's valuation which is still trading below its 5-year mean appealing. • Our preferred picks lie within the small mid cap space which are under-owned and command low market expectations – providing room for upside surprises. • These name under our coverage include KIMLUN (OP; TP: RM1.30), MRCB (OP; TP: RM0.65), KERJAYA (OP; TP: RM1.50) and WCT (OP; TP: RM0.675). • As for the big caps, we like GAMUDA (OP; TP: RM4.17) for their lead role in MRT3 and growing exposure in Australia.	**OP** GAMUDA (TP:RM4.17) - ***Top Pick*** HSL(TP: RM1.20) IJM (TP:RM2.20) KERJAYA (TP:RM1.50) KIMLUN (TP:RM1.30) MUHIBAH (TP:RM1.25) SUNCON (TP:RM2.10) WCT (TP:RM0.675) **UP** GKENT (TP: RM0.56) MITRA (TP:RM0.215)
Gaming	**Maintain**	• **A recovery play; maintain OW.** 1QCY21 seen to be hit by MCO 2.0 but business should pick up swiftly from 2QCY21 as the vaccination program progresses. GENTING remains as our TOP PICK for earnings recovery play while the NFOs are for income seekers, offering >5% yields. • **Casinos awaiting borders re-opening to boost earnings,** as witnessed with strong volume after business resumption in 3QCY20. GENTING is still our preferred pick for strong GENS' numbers and theme park opening to drive GENM's non-gaming revenue. • **Ticket sales to normalise in 2HCY21.** NFO ticket sales are back to 80-85% of pre-COVID level again after a brief dip in MCO 2.0. Ticket sales are likely to normalise to pre-COVID level in 2HCY21 with the continuous enforcement clamping down on illegals which is still key to ticket sales growth. • **A better earnings prospect in 2021.** NFO earnings recovery is faster than casinos given the social distancing rule, operating space factor and cross-border travelling restriction impacting casino patrons. But, casinos should recover swiftly as borders re-open on the back of vaccine roll-outs.	**OP** BJTOTO (TP: RM2.45) GENM (TP: RM3.35) GENTING (TP: RM5.97) - ***Top Pick*** **MP** MAGNUM (TP: RM2.15)
MREITs	**Upgrade**	• Rebound poised for 2HFY21 with the absence of strict MCOs and weighing on the recovery brought about by the proper roll out of vaccines which should intensify from Feb 2021 to March 2022, as scheduled. As such, 2HCY21 should see improvements in shopper and hospitality traffic which we have priced into our earnings model.	**OP** AXREIT (TP: RM2.25) - ***Top Pick*** KLCC (TP: RM7.55) - ***Top Pick*** MQREIT (TP: RM0.970)

		• Industrial-based AXREIT will remain the most resilient player in the segment, while office MREITs should see improved occupancy across the board. • All in, expect FY21-22E DPU growth of 7.8-7.9%. • We increase our MGS target to 3.3% (from 3.1%) in light of the steepening yield curve, but lower our spreads to average to +0.5SD levels (from +0.5Sd to +1.5SD). As a result, MREITs' target prices are increased by 3-13%.	**MP** CMMT (TP: RM0.590) IGBREIT (TP: RM1.80) PAVREIT (TP: RM1.30) **UP** SUNREIT (TP: RM1.15)
Rubber Gloves	**Maintain**	• The latest reported results of TOPGLOV suggest that the ASP trend is expected to soften in subsequent quarters albeit at a slow pace on the back of still robust demand. However, we do not expect ASP to fall off a cliff despite average lead time being reduced from 300 days in early Jan 2021 to 200 days currently, compared to 20-30 days pre-COVID-19 supported by post-pandemic demand growth averaging 15%-20% per annum. • Furthermore, we believe share price retracements of 50-60% over the past few months have priced-in weakness in ASP trend moving into 2H 2021. Glove stocks under our coverage are currently trading at unwarranted 6-10x CY22 PERs and offering dividend yield of 6-8%, Furthermore, we have conservatively assumed ASP of USD40-46/1,000 pieces for CY22. In our view, from the perspective of a long-term investor, there is still significant value to be derived from Malaysian glove players which command 65-68% of global market share and have consistently evolve and innovate in terms of products offerings, capacity expansion and plant modernization via automation. • Our target price PER of glove stocks is conservatively at 30% discount to 5-year historical forward mean averaging between 15x to 28x with earnings expected to normalize moving into 2022. • Top Pick for the sector is HARTA (OP; TP: RM17.00) with the stock trading at 9x CY22E EPS offering 7% dividend yield.	**OP** HARTA (TP: RM17.00) KOSSAN (TP: RM6.00) SUPERMX (TP: RM7.80) TOPGLOV (TP: RM6.80)
Technology / Semiconductor	**Maintain**	• We reiterate our OVERWEIGHT call on the technology sector going into 2QCY21 as the demand for semiconductor continues to intensify after a remarkable year in 2020 despite the pandemic. We see the recent share price retracement (-16% off the peak) in the KL Technology index as a healthy breather following a 79% rally since the last correction in September 2020. With fundamental demand for chips expected to remain strong throughout the entire 2021, we believe that the current condition serves as an opportunity for investors to reposition for greater growth in the coming quarters ahead. Note that the World Semiconductor Trade Statistics (WSTS) is anticipating a 10.9% growth in 2021 (vs. 6.8% in 2020). • One important fact to understand is that the current chip shortage is mainly a demand issue, not a supply issue. The heightened demand for chips was led by a confluence of several events such as the: (i) sharp increase in demand for consumer end-devices owing to the work from home trend (ii) higher game console sales as gaming hours climbed tremendously (as evident by Steam login hours) and remains elevated, (iii) boom in automotive sales as consumers opt for private vehicle instead of public transport to	**OP** D&O (TP: RM4.20) INARI (TP: RM4.00) - ***Top Pick*** KGB (TP: RM2.60) MPI (TP: RM43.00) PIE (TP: RM4.00) SKPRES (TP: RM3.00) UNISEM (TP: RM10.00) **MP** KESM (TP: RM14.20) JHM (TP: RM2.35)

		practice social distancing, (iv) expansion in data centres to accommodate higher web computing activities (ie. e-learning, web conferencing, media streaming) and (v) massive surge in crypto mining activities due to the rise in cryptocurrency prices. • We have identified INARI (OP; RM4.00) and MPI (OP; RM43.00) to ride the adoption of 5G in smartphones and data centre expansion, with the latter further benefiting from the rapid adoption of electric vehicles. In addition, we believe Kelington Group (OP; RM2.60) will be a key proxy to the massive expansion in the upstream wafer fabs, given its unique exposure to the front-end semiconductor space.	
Utility	**Maintain**	• TENAGA is committed to green energy partly to address the ESG concern. It has formed a JV with Sunseap to export 100MW of electricity to Singapore and acquired the latter's 39% stake in a 21.6MW solar power plant in Vietnam. It has also won 50MW contract under LSS4 and pledged not to invest in greenfield coal plants. • Gas utility remains resilient as earnings for PETGAS and GASMSIA are safeguarded under IBR which was proven during this pandemic period. While PETGAS' RP1 base tariff will remain unchanged over 2020-2022, the quarterly reviewed gas selling price will affect GASMSIA's retail margin mildly which is 1% based on selling price but margin spread ex-retail margin remains at RM1.80-2.00/mmbtu. • Improved prospects for IPPs. With value already written down to zero for KEV and completion of unplanned outage at TBE, MALAKOFF expects low earnings volatility. Meanwhile, a sustainable turnaround at PowerSeraya helps to boost YTLPOWR's earnings meaningfully but overall positives are already priced in. • Defensive is key attribute; still OW. A good defensive sector under these uncertain times given their earnings defensiveness. Besides, the sector also offers above average dividend yields of 4-7%. TENAGA is still our TOP PICK for 2QCY21 Strategy Report.	**OP** GASMSIA (TP: RM2.91) MALAKOF (TP: RM1.05) PESTECH (TP: RM1.46) TENAGA (TP: RM12.72) - ***Top Pick*** **MP** PETGAS (TP: RM16.97) YTLPOWR (TP: RM0.72)

Figure 2: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Aviation	**Maintain**	• Although availability of vaccines has renewed optimism for air travel returning to normal sooner than expected, we only expect air travel to recover at a gradual pace starting from 2H 2021. In terms of profitability, we are expecting airlines including AirAsia to continue facing tougher operating conditions at least in the 1H 2021 until the widespread availability of vaccines, as there could be sporadic resurgence of COVID-19 infections. • For the sector, we prefer Malaysia Airport Holdings Berhad (MAHB), being the monopolistic airport operator in the country. The yet-to-be signed Operating Agreement (OA) could be an impetus for a re-rating catalyst for MAHB. On the other hand, faced with losses on collapse in passenger loads, and cash flows challenges, AirAsia is in need to raise capital. We prefer MAHB (OUTPERFORM; TP: RM7.50)	**OP** AIRPORT (TP: RM7.50) **UP** AIRASIA (TP: RM0.70)

Building Materials	**Maintain**	• Maintain Neutral as we think the rally for long steel manufacturer under our coverage (ANNJOO) might have overpriced in the prospects of the commodity rally. Being a manufacturer of commodity, current Fwd. valuations of 16x is a stretch. • That said we believe flat steel player ULICORP would continue to be consistent with earnings delivery with most of their smaller competitors eliminated mostly during this pandemic - allowing them to regain market share and pricing power. • Meanwhile, we remain upbeat on PMETAL for aluminium prices' up-cycle. Furthermore, its new additional 42% new capacity this Jan, potential logistic cost savings and favourable raw material costs should propel earnings to new heights. PMETAL is still an OP with TP of RM13.00.	**OP** PMETAL (TP: RM13.00) ULICORP (TP:RM1.45) **UP** ANNJOO (TP: RM1.57)
Consumer	**Maintain**	• NEUTRAL for the sector on the lack of short-term re-rating catalysts and demanding valuations. • We still maintain the view that consumption will be resilient and on the uptrend, buoyed by stimulus packages, low interest rates environment and the vaccination roll-out. The previous cautious and muted consumer sentiment will head north given the vaccination roll-out boosting both business and consumer sentiments. • Retail counters (i.e. AEON, AMWAY and PADINI) should see pent-up demand given the easing of lockdown and the upcoming festive season. F&B counters, especially those with higher exposure to in-home consumption (i.e. MYNEWS, NESTLE, QL and SESM) would remain fairly resilient. • We stay selective on the sector as most counters' valuations remain elevated; favourite pick is PADINI (OP; RM3.50) premised on the vaccine rollouts, easing of lockdown, its household name and the upcoming festive season.	**OP** AEON (TP: RM1.30) CARLSBG (TP: RM25.65) MYNEWS (TP: RM1.00) PADINI (TP: RM3.50) SEM (TP: RM1.55) **MP** AMWAY (TP: RM5.45) DLADY (TP: RM34.55) F&N (TP: RM32.55) NESTLE (TP: RM138.60) PWROOT (OP; RM1.80) QL (TP: RM6.60) HEIM (TP: RM22.35) **UP** BAT (TP: RM11.45)
Healthcare	**Upgrade**	• We upgrade the sector from UNDERWEIGHT to NEUTRAL rating largely due to our Outperform call on IHH Healthcare. IHH is set for earnings recovery in FY22 underpinned by its India operation and Acibadem (Turkey) showing signs of a faster-than-expected recovery with both markets registering profits in 4QFY20. Elsewhere, pent-up demand and ramp-up of the CEE (Central Eastern Europe) region business coupled with deleveraging of non-LIRA debt exposure has alleviated finance cost for Acibadem. Pharmaniaga's 4QFY20 result came in below expectations due to lower-than-expected concession demand. (vi) KPJ's lack of re-rating catalyst and new hospitals under gestation period could continue to be a drag to earnings; hence, we reiterate our Market Perform call. • For stock pick, we prefer IHH on these merits:- (i) solid captive markets in growth locations, (ii) commanding market positions specifically in Singapore, Malaysia and Turkey, (iii) a strong management.	**OP** IHH (TP: RM6.05) **MP** KPJ (TP: RM1.00) **UP** PHARMA (TP: RM2.50)
Media	**Upgrade**	• We upgrade the sector to NEUTRAL from UNDERWEIGHT as we believe adex will continue its upward trend moving forward. According to Nielson's 4QCY20 data, total adex is showing some gradual	**OP** ASTRO (TP: RM1.05) **MP**

		improvements with digital adex commanding a higher share of total adex (CY20: 19% of total adex, up by 6ppt YoY). That said, media players are left with the challenges to upscale their digital platforms to remain competitive as the digital trend continues to grow with Youtube controlling c.85% of the digital adex. • Moreover, we upgrade MEDIAC from UNDERPERFORM to NEUTRAL and its TP from RM0.155 to RM0.190 based on FY22E P/NTA of 0.5x (previously 0.4x, -0.5 SD to 3-year mean) as we believe its travel segment is set to recover from 2HCY21 onwards as countries worldwide are gradually relaxing their international border restrictions (e.g. France, a major tourist destination, has relaxed its travel restrictions for selected countries and US aims to open borders in mid-May 2021). • We continue to prefer ASTRO (OP, TP at RM1.05) for its high dividend yield (10%) and more resilient subscription-based model as opposed to other advertising-dependent players.	MEDIAC (TP: RM0.190) **UP** MEDIA (TP: RM0.365) STAR (TP: RM0.295)
Oil & Gas	**Maintain**	• Brent crude prices have enjoyed an impressive rebound rally this year, underpinned by: (i) weather-led supply disruptions, particularly in the U.S., (ii) OPEC's decision to maintain current production level. • That said, we still see possible downside risks to oil prices (possibly even dipping below the USD60/barrel-mark momentarily), especially after supply constraints start to normalise. Meanwhile, (i) demand-supply dynamics are still fragile, with full recovery to pre-pandemic levels expected only in 2023, and (ii) OPEC inevitably increasing productions sometime this year, given its record low production capacity utilisation. • Overall, we revised our Brent crude price average assumptions: 2020 – USD60/barrel (from USD50/barrel previously), and 2021: USD65/barrel (new). • Nonetheless, Brent crude prices hovering within the USD55-65/barrel range will still be healthy enough to see a gradual recovery of activity levels. Petronas' capex commitment of RM40-45b per annum for the next five years, while still below pre-pandemic levels, is still a healthy rebound of ~20-35% from 2020. • Realistically, we do not expect to see activities to recover to pre-pandemic levels any time soon, but the slow recovery will still be more than sufficient to keep contractors afloat. • Maintain NEUTRAL on the sector. TOP PICKS: SERBADK and DIALOG.	**OP** ARMADA (TP: RM0.49) DAYANG (TP: RM1.80) DIALOG (TP: RM4.35) SAPNRG (TP: RM0.21) SERBADK (TP: RM2.80) UZMA (TP: RM1.00) YINSON (TP: RM6.95) **MP** PCHEM (TP: RM7.50) WASEONG (TP: RM0.72) **UP** PETDAG (TP: RM17.60) VELESTO (TP: RM0.11)
Plantation	**Maintain**	• Even though a near-term CPO price correction is expected, we maintain our NEUTRAL call on the sector as we think valuations have priced in the expected decline. Both the KLPLN index and most planters under our coverage are trading at near -1.0SD from mean. • Our CY21 CPO price forecast remains at RM3,000/MT. • For as long as CPO price remains elevated, our preferred picks are pure Malaysian upstream planters that are able to fully capitalise on high CPO price like HSPLANT (OP; TP: RM2.15). • To weather through softer CPO price, integrated player KLK (OP; TP: RM25.40) is our preferred pick with better earnings stability, cushioned by its downstream.	**OP** HSPLANT (TP: RM2.15) KLK (TP: RM25.40) PPB (TP: RM20.70) SIMEPLT (TP: RM5.50) **MP** FGV (TP: RM1.30) GENP (TP: RM8.95) IJMPLNT (TP: RM1.95) IOICORP (TP: RM4.55) TAANN (TP: RM3.00) UMCCA (TP: RM5.30) **UP** TSH (TP: RM1.00)

Plastics and Packaging	**Maintain**	• Maintain NEUTRAL on the sector but there are some value to be picked up. • High resin costs. The slight decline in resin prices at the turn of the year proved short-lived, as an unexpected deep-freeze in Texas and continued strong economic recovery drove petrochemical prices through the roof. Across the plastic resins, YTD, prices are up by 15% to 30% to USD1,300/MT ~ USD1,700/MT. • Resin prices to peak soon. However, we are of the view that resin prices will peak some time in 2QCY21 given (i) resumption of supply from US petrochemical plants post-winter and (ii) expectations of new petrochemical supplies from China in 2HCY21. Our CY21 average resin price assumption ranges between 1,100USD/MT ~ 1,200USD/MT). • ASPs catching up. ASPs tend to lag resin price movements, and our channel checks indicate that ASPs are catching up, allowing costs to be passed through. In fact, a sharp rise (vs. gradual) in resin costs means a sharp rise in ASPs too. For example, SCGM has hiked ASPs to match the hike in resin costs (c.20%). Surprisingly, customers are accepting of higher ASPs. • There's light at the end of the tunnel. We believe that with higher ASPs locked in, plastic manufacturers can at least maintain their margins when resin prices plateau. Should resin prices decline on influx of new Chinese capacity, they could enjoy a period of margin expansion. • Top pick - TGUAN (OP, TP: RM3.00). Accumulate on weakness. Our preferred sector pick is Thong Guan, as the Group continues to pass on higher costs while expanding volume growth for high margin products (e.g. Nano-stretch films and courier bags). We also maintain OP on SCGM (TP: RM2.62) as its current valuation is overly pessimistic and does not account for ASP hikes.	**OP** SCGM (TP: RM2.62) TGUAN (TP: RM 3.00) - ***Top Pick*** **MP** SCIENTX (TP: RM3.75) SLP (TP: RM0.95) **UP** TOMYPAK (TP: RM0.415)
Property	**Maintain**	• **Overall, maintain Neutral.** • Despite being in a recovery year which would see better sales on the back of the low interest rate environment, we opine that the outlook of the sector remains clouded. The pent-up sales demand would likely last this year before coming off in FY22 in our opinion. • Structural issues regarding affordability, overhangs and policies still persist. • That said, given the cheap valuations (in terms of PBV) of property counters, we believe there will be occasional rotational plays into the sector throughout this year. • Our preferred picks within the sector would be developers with product offerings targeting the affordable segment who can still maintain sales and earnings amidst this weak climate. We also like names with deeply discounted PER. (i.e. MAHSING).	**OP** MAHSING (TP: RM1.05) MRCB (TP: RM0.675) **MP** ECOWLD (TP: RM0.66) IOIPG (TP: RM1.32) SUNWAY (TP: RM1.54) UOADEV (TP: RM1.76) **UP** SIMEPROP (TP: RM0.56) SPSETIA (TP: RM0.94) UEMS (TP: RM0.40)

Telecommunications	**Maintain**	• **Maintain NEUTRAL on the sector** • In the near term, the focus will still be striving towards JENDELA targets, with the aim of shutting down 3G by the end of 2021. There could still be some accelerated depreciation of 3G assets but we believe that the market has already accounted for that and is largely seen as one-off in nature. • The general trend among the telcos is in driving efficient use of and avoid duplication of assets, as seen in: (i) Joint fibre rollout and sharing among Digi, Celcom and Maxis; (ii) Single ownership of the 5G spectrum by MoF-owned SPV (Digital Nasional Berhad). • While we see these efforts as possibly reducing capex for telcos, we are cautious as continued stiff competition (namely in price) could continue to weigh on ARPUs. DNB ownership of the spectrum leaves MNOs competing for market share by price and service. MVNOs' access to 5G capacity also poses the threat of additional competition to the MNOs. • Our preferred sector picks include AXIATA (OP; TP: RM4.40) for its exposure to continued growth in regional markets and TM (OP; TP: RM6.85) for its long-term growth prospects from its cloud and data segments.	**OP** AXIATA (TP : RM4.40) TM (TP: RM6.85) **MP** DIGI (TP: RM3.55) MAXIS (TP: RM4.90) OCK (TP: RM0.540)
Transports & Logistics	**Maintain**	• We keep our NEUTRAL call on the sector, premised on gradual earnings recovery from ports players starting from 2021 on the back of Covid-19 vaccinations roll-outs, normalization of domestic and global economic activities, as well as pent-up demand effect in general. • Nonetheless, the recovery path could be uneven, depending heavily on how well the Covid-19 vaccinations progress. • On the other hand, POSM is expected to take a longer route to profitability in a challenging environment as profitability at its postal services segment is capped and it will continue to operate in a competitive environment pressured by price and cost challenges, further hampered by loss of revenue from ground handling and in-flight catering as international borders still closed, netted off by the high parcel volume from stronger e-commerce and online market place demand. •	**OP** PTRANS (TP: RM1.15) - ***Top Pick*** **MP** MMCCORP (TP: RM1.05) POS (TP: RM0.875) WPRTS (TP: RM4.20)

Source: Kenanga Research

Figure 4: 2Q21 Top Picks List

Top Picks	Comments
AXREIT (OP; TP: RM 2.25)	We favour AXREIT for its robust resilience during the pandemic. The Group is possibly the only MREIT under our coverage confident of positive reversions, and downsides are limited with minimal expiries of 18% (of which it has already locked in 32% on positive reversions). Fundamentally, the Group is actively acquiring numerous bite-size industrial assets, targeting an amount of RM135m for now, supported by its low gearing of 0.33x, which could potentially accrete up to 5% additional earnings in FY21. Essentially, we believe AXREIT's valuations are severely undervalued given its solid growth trajectory vs. MREIT peers that have struggled especially in FY20. As FY21 is poised to be a recovery year, lower spreads are warranted, to 1.0ppt @ historical average levels (from 1.4ppt @ +0.5SD), and we increase our MGS target to 3.3% (from 3.1%) in light of the steepening yield curve. We like AXREIT's Shariah-compliant status, with attractive total returns of 21% on decent gross dividend yield of 5%.
GAMUDA (OP; TP: RM 4.17)	Prospects to remain bright as we anticipate 2021 to be a major replenishment year for Gamuda. Besides the recent PTMP award (worth RM5b), we have high hopes on Gamuda to win at least one contract in Australia (out of the 3 packages they were shortlisted) worth c.AUD1.6b-AUD2.6b. On top of that, Gamuda continues to be a front runner for MRT3 contract which we think should be a government's priority project when it comes to recommencement of mega infrastructures.
GENTING (OP; TP: RM5.97)	GENTING is the key play for earnings recovery as it should recover quickly once travelling restrictions are lifted especially with vaccines currently being roll out. With GENS taking the driver seat of earnings recovery, we prefer GENTING over GENM. However, near-term earnings are likely to be choppy before attaining "business as usual" level in 2022. However, key risk remains i.e. if there is more RPT deal in the future.
INARI (OP; TP: RM 4.00)	Current radio frequency (RF) orders from key customer remain robust, pointing to a sustained momentum going into 3QFY21 (FYE June), bucking the typical seasonal trend. Current utilisation rate is at 90% which is expected to stretch further to 95% with addition of five more SiP lines in its P34 plant to a total of 22 lines by end-2020. Inari is currently doing the back-end testing for a HK-based customer who specialises in optical receivers and expects to qualify for full-line assembly in January 2021. In addition, the group has been working with a Swiss-based company on sub-module assembly for the impedance matching network equipment. We believe FTY21 will be a superb year for INARI owing to the 5G adoption in smartphone, defying all seasonal factors.
KLCC (OP; TP: RM 7.55)	We like KLCC for its premium asset quality, highly stable office segment with tenants on longer term leases (5 years vs. retail of 2-3 years) and it's easy to manage triple-net-lease (TNL) structure. We believe KLCC is the perfect combo for a retail and hospitality comeback story from 2HCY21 onwards with the opening up of the economy upon successful rollout of vaccinations, whilst being well supported by its extremely stable office segment which makes up at least 50% of the portfolio EBIT. In anticipation of an improving economy, we lower our spread to historical average levels to 0.9ppt (from 1.2ppt @ +1.0SD) on FY21E, and increase our MGS target to 3.3% (from 3.1%) in light of the steepening yield curve. Downside is limited and we expect KLCC to remain a favourite among institutional investors as it is one of the few Shariah-compliant MREITs. Current yields of 4.5% are decent vs. large cap MREITs of 4.5-5.0%, commanding 12% total returns.
MAYBANK (OP; TP: RM9.10)	MAYBANK has industry-leading dividend yields (7-8%) and dividend-to-ROE amongst its peers. We also projected MAYBANK to be one of the better beneficiaries from economic recovery, being the leader with 28% and 29% market share in total deposits and total financing, respectively, among the 10 banks within our coverage. On another note, concerns of its high fixed-rate loan proportion (c.28%) could be offset by access to cheaper funds (CASA-to-deposit ratio: c.40%), muting the effects of rate hikes.
PTRANS (OP; TP: RM1.15)	We continue to like Perak Transit with vaccines rolling out and anticipated lifting of lockdown restrictions. We also anticipate recovery in footfall in PTRANS' own and managed terminals, which bodes well for their A&P and retail leasing revenues. The two maiden managed terminals will make up c.4% of FY22E CNP. With more TMS contracts (@ PAT margin of c.60%) in the pipeline (2 to 3 more in FY21), and an anticipated rise in footfall at Terminal Kampar Putra, we continue to favour Perak Transit as an economic re-opening and recovery play.
RHBBANK (OP; TP: RM6.40)	RHBBANK is a sound pick for investors seeking safety, boasting a leading CET-1 reserve of 16.2% which enables greater allowance to implement capital management strategies. Following the recent global settlement saga as seen in AMBANK (MP; TP: RM3.00), investors could be emphasising greatly on capital reserves. It does not hurt that RHBBANK comes with the next best dividend returns of 4-5% amongst the rest of its conventional peers (2-4%).
TENAGA	After a hit by COVID-19 impact of RM1.13b in 2QFY20-3QFY20, any adjustment in FY21 is

(OP; TP: RM12.72)	expected to be minimal, thus earnings are set to normalise. So far, out of RM245m electricity discount to six sectors in 1HY21, TENAGA only expects to absorb RM13m while the rest will be funded by KWIE. As such, it trades at cheap valuation of FY21/FY22 PER of 12x/11x despite its quality earnings profile and heavyweight index-linked status. Its earnings certainty is fair as fuel cost risk is filtered by the ICPT framework while electricity demand and ASP are adjusted through revenue cap and price cap to shelter earnings from volatility. It also offers decent yields of c.4%.
TGUAN (OP; TP: RM3.00)	TGUAN continues to be our top pick in the plastics packaging sector as they are able to comfortably pass on higher costs. In fact, in an environment where resin costs fall gradually/remain flat, TGUAN may be able to sustain their elevated ASPs. Our channel checks indicate that resin suppliers are starting to guide for flat prices for the coming weeks, showing signs of flattening resin prices. TGUAN continues to grow their higher-margins products, Nano-stretch film and courier bags, allowing them to sustainably grow margins, all the while continuing its volume growth across all its segments. The top pick for plastics packaging sector with TP of RM3.00 @ 13x PER on FY21E EPS of 23.1 sen.

Source: Kenanga Research

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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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