

1QCY22 Investment Strategy

Returns Amidst Volatility

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

FBMKLCI	1,502.01
Target	1,654.00 ↑

Malaysia’s policy transition from monetary accommodation and fiscal expansion to austerity and consolidation raises the risk of volatility in the stock market in 2022. However, this will only likely happen in the 2HCY22 and after GE15. Until then conditions are supportive for positive stock market returns: liquidity remaining ample while value has emerged following YTD 2021’s steep market decline and regional underperformance. And for all the anxieties that the recent floods have caused, the implied 4QCY21 earnings results had already suggested that FY21 final quarter’s earnings would be the year’s lowest despite commodity prices holding up and anecdotal evidence of a surge in economic reopening activities (briefly disrupted by the floods notwithstanding), plus encouraging data of leading economic indicators released recently. But catalysts are lacking and there will be the usual pre-election inertia that will drag the market advance and so returns will not be broad-based. For large caps, we expect the FBMKLCI EPS to come in at 108.6/99.8/111.0sen for FY21E/FY22E/FY23E. Valuing the FBMKLCI on a forward PE multiple of 14.9x FY23E EPS of 111.0 sen, we arrive at an end-CY22 target of 1,654. As for small caps, with the FBMSC having lost 11% from 4QCY21’s peak, values have emerged from which to build some meaningful tactical positions. We have OVERWEIGHT calls on: Building Materials, Gaming, Media, O&G, REITs, Technology and Utilities. Top picks for 1QCY22 are: ABMB (OP, TP: RM3.25), AXREIT (OP, TP: RM2.15), DIALOG (OP, TP: RM3.50), F&N (OP, TP: RM32.45), GHLSYS (OP, TP: RM2.30), KGB (OP, TP: RM2.50), KLCCSS (OP, RM7.35), MISC (OP, TP: RM8.05), PADINI (OP, TP: RM3.20) and RHBBANK (OP, TP: RM6.50). Our two additional top picks for non-GLC funds are: BJTOTO (OP, TP: RM2.23) and GENTING (OP, TP: RM6.38).

A look back at recent corporate earnings results: 3QCY21 ended on a negative note. The upside surprises were skewed heavily by outperformers in the plantation sector where 11 of 12 stocks we cover exceeded market’s expectation including ours. Plantations accounted for nearly a third of all the expectation beaters which is disproportionately high considering that planters make up just 8% of total stocks under coverage. That said, the overwhelming beats within the plantation space mean little, as going forward, the market views that CPO price has peaked at above RM5,000/MT and we expect it to average just RM3,500/MT in 2022, hence our Neutral call on the sector. On the disappointers though, the cast was more widespread, which spans Gaming, O&G and Consumer sectors among the larger ones, as well as Autos, Media and Tobacco & Brewery sectors amongst the smaller sectors that reported results below expectations. The upgrade in FY21E EPS from 106.1 sen to 108.6 sen was on strong planters’ upgrades mostly.

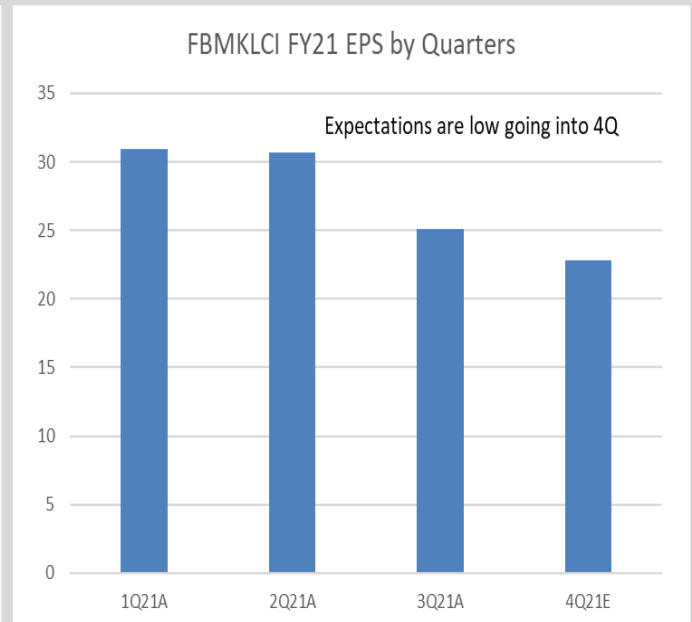
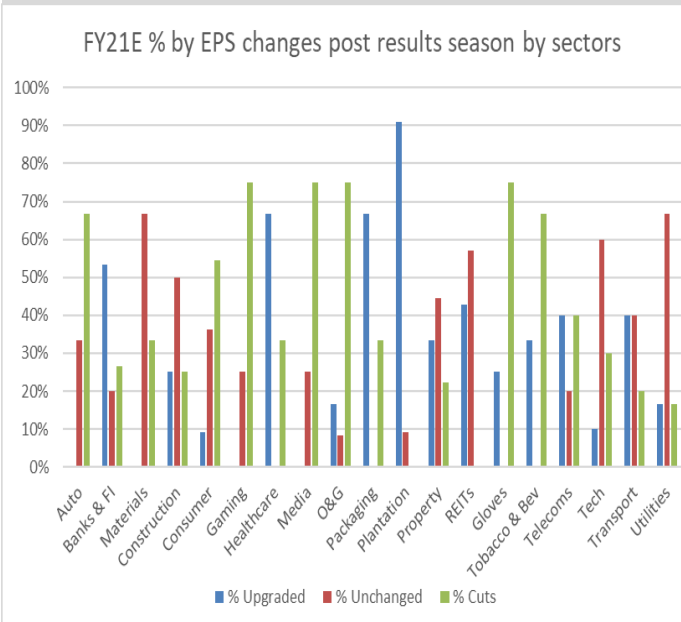
Even before the floods hit, the market has already built in a pessimistic outlook for 4QCY21’s earnings prospects: During the post-results review, our team revised EPS forecasts of the full year where 37% of our stocks universe EPS were downgraded, 33% upgraded (with plantations accounting for a quarter) and 30% left unchanged. Excluding planters, the percentage of upgraded EPS forecasts fell to 27% while those that were cut rose to 40%. We noted that besides the rubber gloves and energy sectors, major EPS cuts involved consumption-related plays namely autos, consumer & retail, gaming, media and tobacco & brewery sectors – due to margin pressures from rising input costs (for consumer & retail players especially) and erring on the side of caution in assumptions about the impact of lockdowns on spending (Exhibit 1). So while the severe floods in mid-Dec would likely impact 4QCY21 earnings, it helps that even before this event, the market has already built in very conservative earnings estimates around lockdown-related impacts which we now think may have been overly aggressive given anecdotal evidence of a surge in economic reopening activities. This low expectations for 4QCY21 is reflected by the implied 4QCY21 EPS showing a sequential decline from an already disappointing 3Q (Exhibit 2).

Prosperity tax and glove downgrades disrupt FY22: For FY22, we cut FBMKLCI EPS from last quarter’s Strategy note estimate of 108.1 sen to 99.8 sen, to account for glove makers’ big downgrades and the impact of Prosperity Tax which taxes chargeable income in excess of RM100m by a higher rate of 33% versus the standard statutory corporate

tax rate of 24% at each business unit level. On the 3QCY21 results, 37% of our stocks universe fell short of expectations, which was worse than 28% that disappointed in the 2QCY21. Among the bell-weather FBMKLCI components, 46% came within, 29% above and 25% below.

Exhibit 1: Post-3Q21 EPS upgrades/downgrades by sector

Exhibit 2: FBMKLCI FY21 Quarterly EPS Estimates



Source: Kenanga estimates

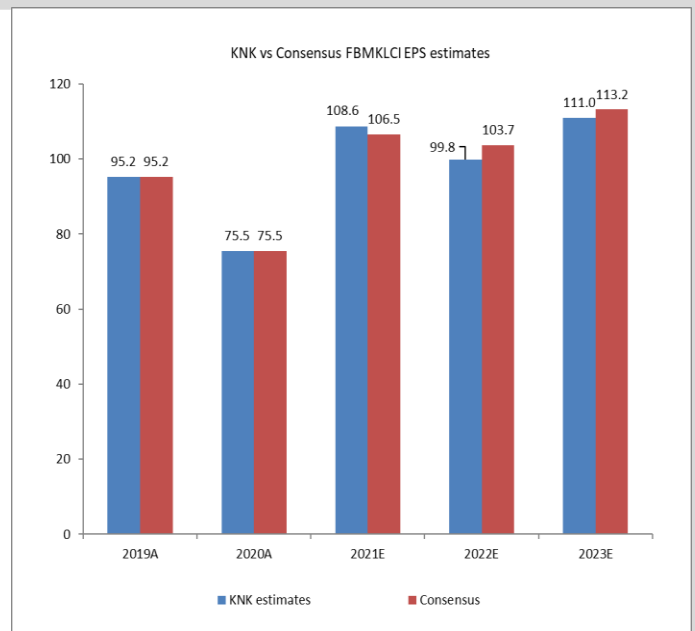
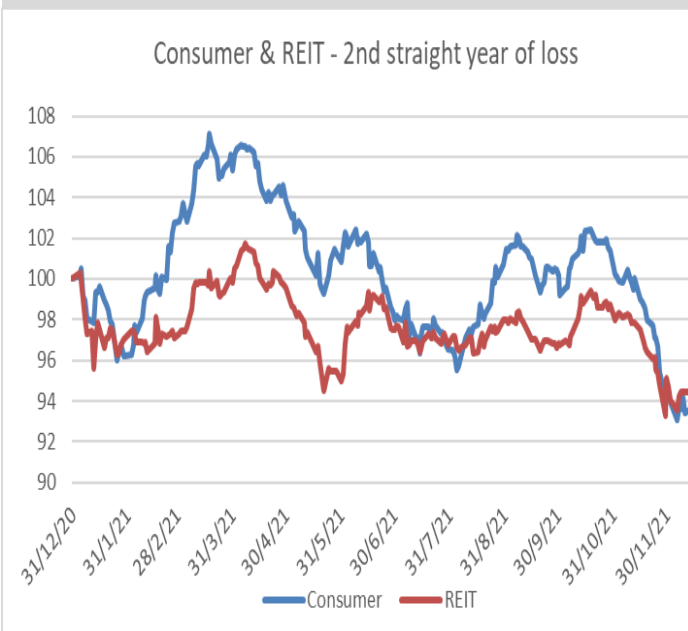
Source: Bloomberg, Kenanga

Management guidance were generally one of cautious optimism: Among the corporates we contacted, those within the consumer and retail sectors caveat their guidance for FY22 on an improved post-pandemic landscape where businesses are no longer weighed down by extensive lockdowns, at least not on a scale as experienced in the past two years. Our base case assumption is that Covid-19 will remain an appreciable risk in 2022, but of lesser severity in terms of the economic and social impacts compared to that experienced in 2020/21. With 97% of the adult population and 87% of the adolescent population (12-17 years old) already fully vaccinated, the advent of anti-viral pills and the expected delivery of the 3-dose Omicron neutraliser vaccine from Pfizer early 2022, we are confident that another prolonged widespread lockdown can be averted. The KL Consumer and REITs indices – two among sectors most impacted by the pandemic – are still more than 10% below pre-pandemic levels, where economic reopening investment opportunities are available in abundance, yet hitherto ignored (see Exhibit 3). As for the Banks, 3QCY21 has seen credit costs generally trending down both sequentially and YoY. We expect credit costs to continue improving in the final quarter at least on YoY basis given elevated pre-emptive provisions of 4QCY20. While some NIM squeeze was observed due to mild impact of modification losses, this will not repeat. Coupled with loans growth guidance ranging 3-4% for CY22, the outlook appears sanguine for banks going into next year.

Exhibit 4 shows that on an aggregate basis, Malaysia’s large caps as represented by the FBMKLCI components earnings are expected to recover in FY21, exceeding that of the pre-Covid 2019’s level (based on projections post 3QCY21 results). Delving into the numbers by sectors reveal that the banks, by its massive 35.6% index weight with earnings rebounding off a low base accounted for much of the KLCI’s recovery as did the plantation sector (9.8% by index weight) and PMETAL (4.4%), given that palm oil and aluminium prices in 2021 and expectations up till 2023 were significantly higher than 2019’s. And for a limited time in 2021, rubber gloves manufacturers enjoyed supernormal profits. While banks earnings are projected to recover close to 2019’s level, the only FBMKLCI sectors still likely to lag below are gaming, telcos and utilities (Exhibit 5). Reflecting that prices are generally not keeping pace with improvement in earnings, many sectors saw their PER falling sharply in the past 12 months (Exhibit 6)

Exhibit 3: KL Consumer & REIT Index fall 2 straight years

Exhibit 4: KNK vs Consensus FBMKLCI EPS Estimates



Source: Bloomberg, Kenanga

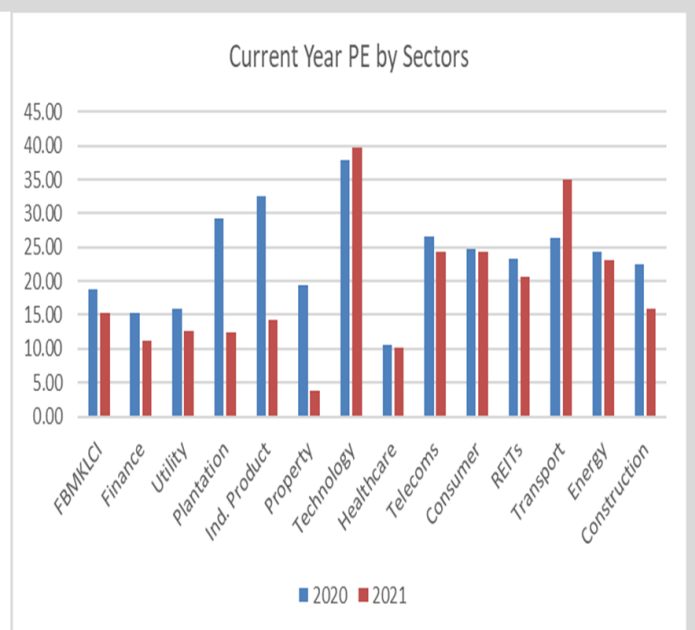
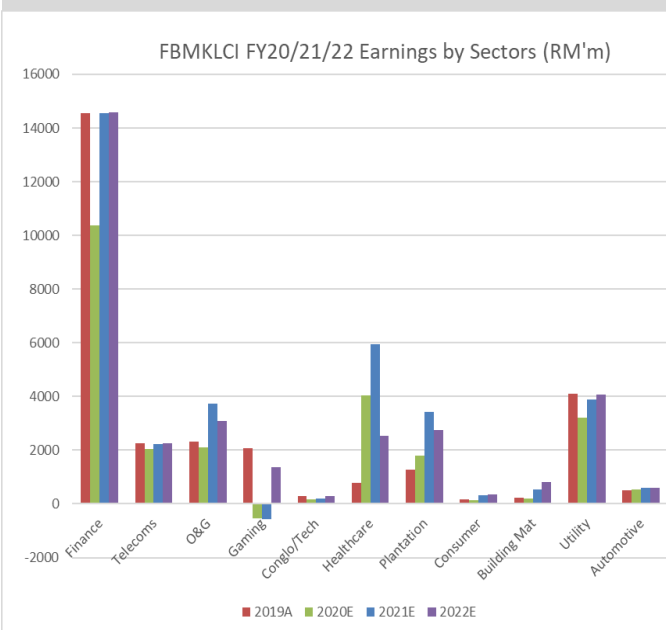
Source: Bloomberg, Kenanga

Kenanga's Sector Calls for 1QCY22

Overweight	Building Materials, Gaming, Media, Oil & Gas, REITs, Technology, Utilities.
Neutral	Automotive, Banks & Non-Bank FIs, Construction, Consumer, Healthcare, Packaging Manufacturers, Plantation, Property, Rubber Gloves, Telecommunications, Tobacco & Brewery, Transport & Logistics.
Underweight	None

Exhibit 5: Only gaming, telco, utility EPS still below 2019

Exhibit 6: Many sectors' PEs fallen the past 12 months

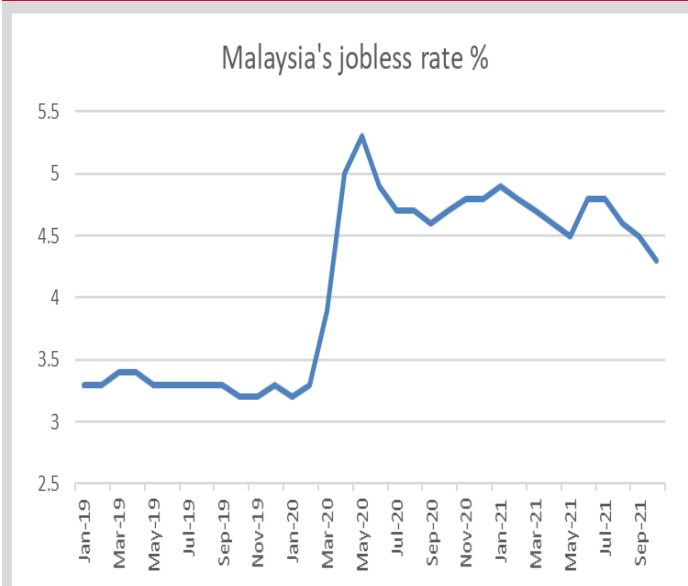


Source: Bloomberg, Kenanga

Source: Bloomberg, Kenanga

GE15 is likely to be called in 2022: Signs that suggest the likelihood of GE15 to be called well before the July 2023 deadline are firstly, the resounding win by the BN in the November Melaka state election, followed by a convincing win by GPS (a close BN ally) in the December Sarawak state election where it won 93% of State seats. Secondly, economic data released during the 4QCY21 are suggesting the current recovery is intact for now and should likely hit the government’s targeted 3.0-4.0% growth (KNK: 3.5% - 4.0%) for 2021. Unemployment has been trending down since August, thanks to the lifting of lockdown (Exhibit 7) while Production Manufacturing Index (PMI) expanded to 52.3 – the second consecutive month of reading above 50 and the highest since April, and export momentum remains very strong (Exhibit 8). Thirdly, the opposition side is today more fragmented after the Sheraton Move and it looks highly unlikely for Pakatan Harapan, Bersatu and Parti Pejuang to regroup. And finally, the pandemic looks to be subsiding. These events should likely embolden the ruling coalition to call an election possibly as early as 2QCY22 in our view.

Exhibit 7: The Jobs Market is improving



Source: Dept of Statistics, CEIC, Kenanga

Exhibit 8: PMI is picking up



Source: Dept of Statistics, IHS Markit, Bloomberg, Kenanga

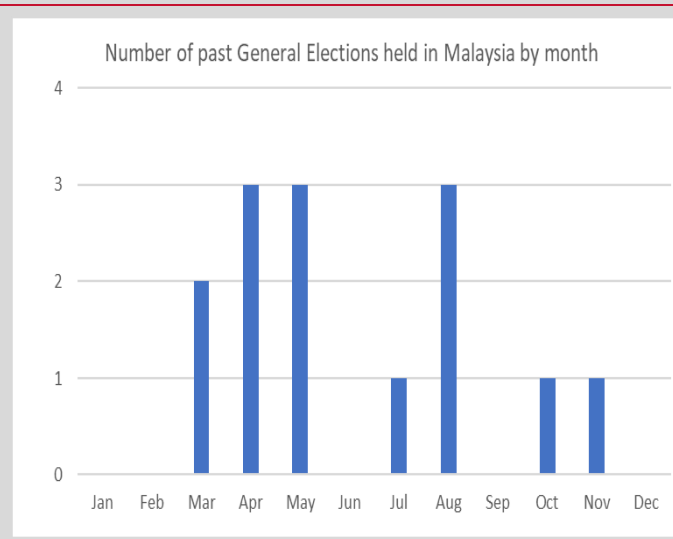
We expect subdued stock-market activities ahead of GE15 given prevailing cautiousness over the outcome and policy risks. To us, these conditions present opportunities to increase position in equities, the case made more compelling by how much the market has fallen in absolute terms and relative to peers in 2021 (see Exhibit 9).

Exhibit 9: KLCI 2021's Regional Laggard – value emerging

% Regional Peers	USD			Local Currency		
	2021 YTD	2020	2019	2021 YTD	2020	2019
FBMKLCI	-11.0	3.0	-3.2	-6.3	2	-3.5
Straits Times Index	5.3	-11.1	7.3	8.8	-12.4	6.2
Jakarta Composite	4.6	-5.7	5.7	8.1	-3.9	2.4
Stock Exchange of Thai	0.4	-8.1	8.0	11.8	-8.4	0.8
Philippines Stock Exchange	-2.4	-2.5	7.5	1.4	-7.8	4.4

Source: Bloomberg

Exhibit 10: Months of Past Malaysian General Elections

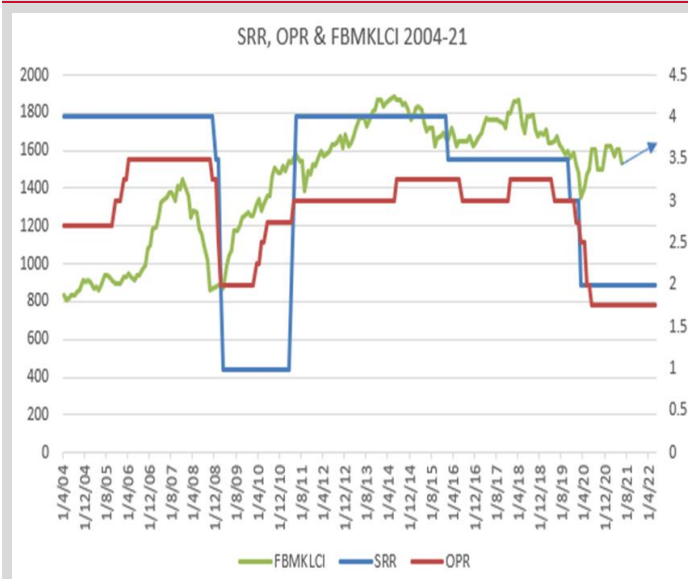


Source: Bloomberg

Based on historical records of general elections in Malaysia since 1959, elections were mostly held in Apr, May and August. In post-80s Malaysia, we note that 6 out of 9 GEs or two-thirds, were held in the first half and they have all been held in either in March, April or May (see Exhibit 10 on months in which GEs were held since 1959). This year, given Ramadan in April followed by Hari Raya in early May, we believe late May to be the earliest time for the Prime Minister to call GE15. However, assuming that the September 13th MoU signed with the largest opposition bloc Pakatan Harapan is honoured in which one of the terms of agreement was to not dissolve Parliament before 31st July 2022, then it looks almost certain that GE15 will be held in August. The last quarter is an unlikely quarter to hold GE as the east coast states are prone to flooding due to the seasonal north east monsoon towards the year-end.

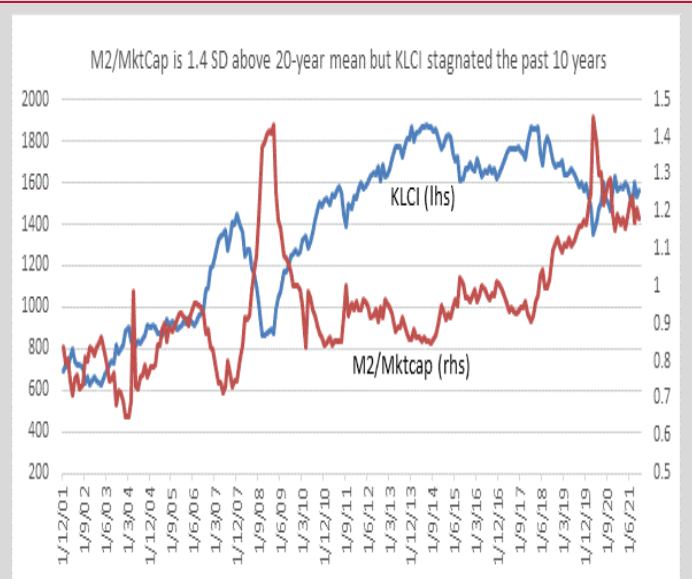
Liquidity remains ample, no tightening is expected in 1QCY22: In its final Monetary Policy meeting for the year on the 3rd November, BNM stated that “Overall, the balance of risks to the global growth outlook remains tilted to the downside, attributed mainly to uncertainty surrounding the emergence of variants of concern, the risks of prolonged global supply chain disruptions, and potential risk of heightened financial market volatility amid adjustments in monetary policy in major economies”. And, the lockdown in major Malaysian states during much of 3QCY21 was a setback to recovery as the GDP contracted 4.5% YoY or 3.6% QoQ that quarter. Given this disappointing third quarter and against what we see as a guarded prognosis on the state of the Malaysian economy by the central bank going forward, we do not expect BNM to lift policy accommodation soon. We expect OPR to remain at 1.75% and SRR at 2.0% during the 1HCY22. On the record of BNM’s SRR management in response to the GFC’s subprime crisis, it took 30 months after the first reduction in Nov 2008 before BNM started to raise it in Apr 2011 in what was a response to a V-shaped recovery (Exhibit 11). Unlike the GFC, the present recovery is uneven, not forgetting that 3QCY21 contraction marked a double dip and as such will take longer to lift policy accommodation compared to the GFC. We are now only about 20 months in accommodative mode. We further believe that the tightening would only likely be a post-GE15 event. When BNM finally tightens by raising OPR and SRR, we expect heightened market volatility as liquidity reduces. But the Banks are likely to benefit from NIM expansion associated with rising interest rates.

Exhibit 11: SRR, OPR vs FBMKLCI



Source: BNM, Bursa Malaysia

Exhibit 12: High M2 relative to FBMKLCI

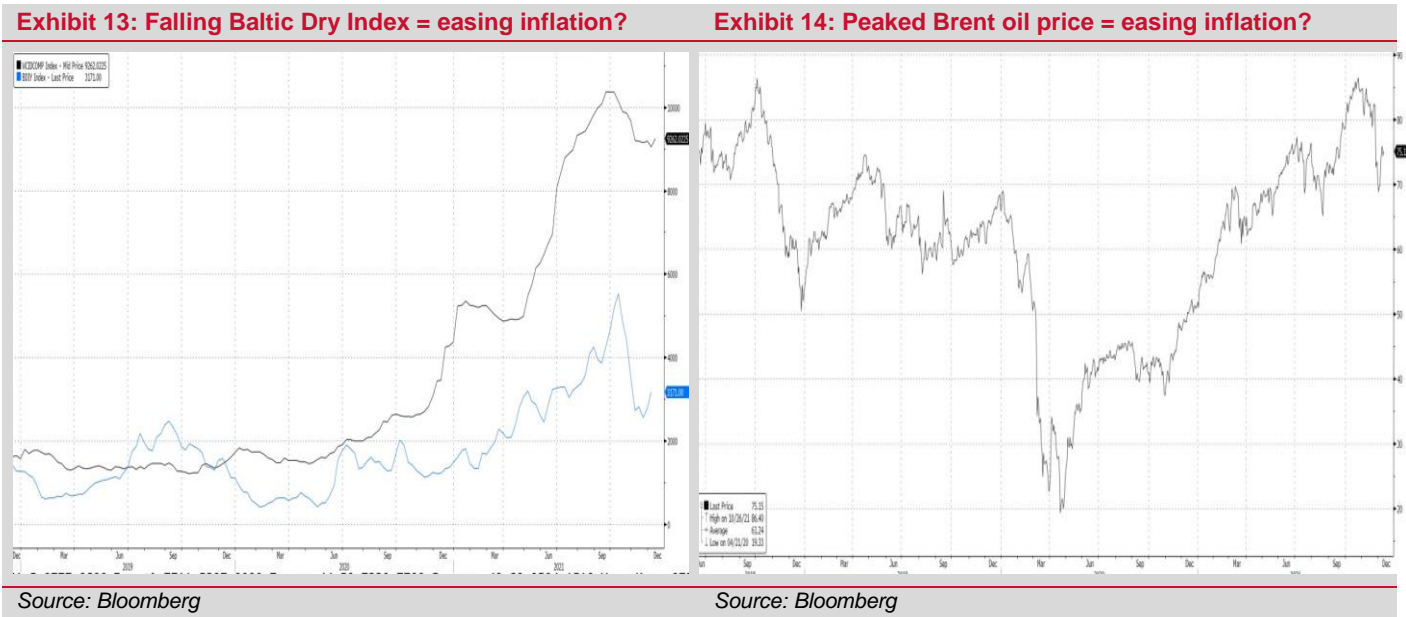


Source: BNM, Bloomberg, Kenanga

For now, while the SRR and OPR remain low, M2 supply has been strong and liquidity is above average. As at end Oct 2021, the ratio of M2/total market cap was 1.18. This is 1.4SD above 20-year mean of 0.95. The last time the KLCI was at 1,500 during pre-Covid period was Dec 2011 when the M2/market cap ratio was only 0.95 (Exhibit 12). This reflects the case that there is plenty of liquidity seen not put to work investing in risk assets.

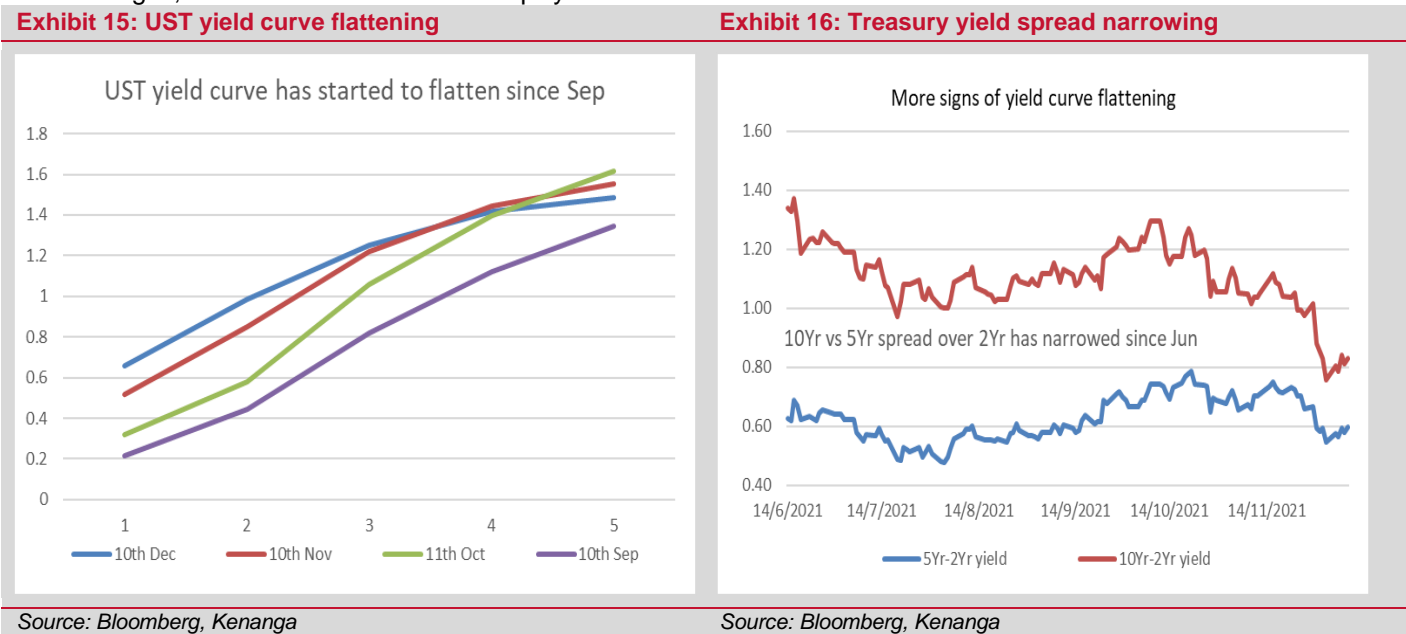
A major external risk is FOMC potentially over-tightening... Covid-19 had been the major bugbear in the last 24 months, and we believe that while it could resurface from time to time with threats of variants, it will be relegated to a side note probably late into 2022. With most of the population fully vaccinated, the advent of anti-viral pills and the experience and familiarity in dealing and living with it, it will turn endemic. Instead, our risk focus is now moving away from the pandemic and inflation risks to overtightening risks. Our base case is that inflation is peaking heading into 1QCY22. There are several leading market signals suggesting this: if one of the major contributors to rising inflation recently has been supply chain bottlenecks, one of the most crucial indicators of logistics bottleneck easing is the rapid decline in the Baltic Dry Index. The freight management index also appears to have peaked as has Oil (Exhibit 13 and

14). And China's economy, a major consumer of commodities, is consolidating after a period of tightening and following decarbonisation policy that have dampened demand for fossil fuel and base metals.



.....making the US stock markets vulnerable to a major correction: A major risk that could adversely impact the local market in our view, is the prospect of FOMC doing too much as it embarks on an accelerated taper program and raising the Fed Funds rate – almost a certainty in the 1HCY22. That inflation risk has risen considerably over the past one year is widely and well discussed. During the last taper that began in January 2014, 10-year UST yield actually fell throughout the course of that year. This time around, complicated by rising inflation, not only has the 10-year yield been declining since the Fed made the case to taper, the yield curve has started to flatten (Exhibit 15). The Treasury yield spreads of 10Y-2Y and 5Y-2Y have shown signs of converging (Exhibit 16). If taken to the extreme, this trend risks approaching a yield curve inversion (widely interpreted as forward indicator of heightened recessionary risks) which may happen if the Fed is deemed to be overtightening.

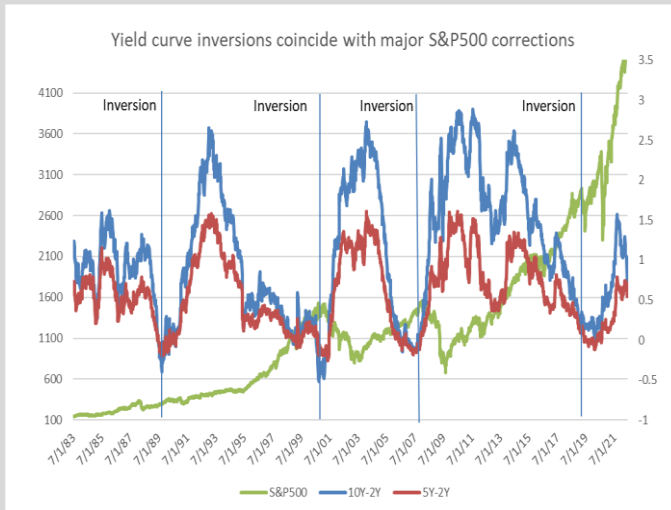
If such an event occurs, expect a huge correction in US equities as has been the experience with past inversion periods (Exhibit 17). Throughout the course of 2021, the US equity market indices have been charting a series of historical highs, one after another. The US equity market has not corrected more than 5% over the last 12 months.



The US market volatility is likely to rise in 2022 and it is highly vulnerable to risks and policy missteps. Given the correlation of US with the rest of the world, Malaysia will be impacted. While Malaysia is less correlated to the SPX compared to the larger and developed global stock markets, the FBMKLCI nevertheless has an appreciable correlation

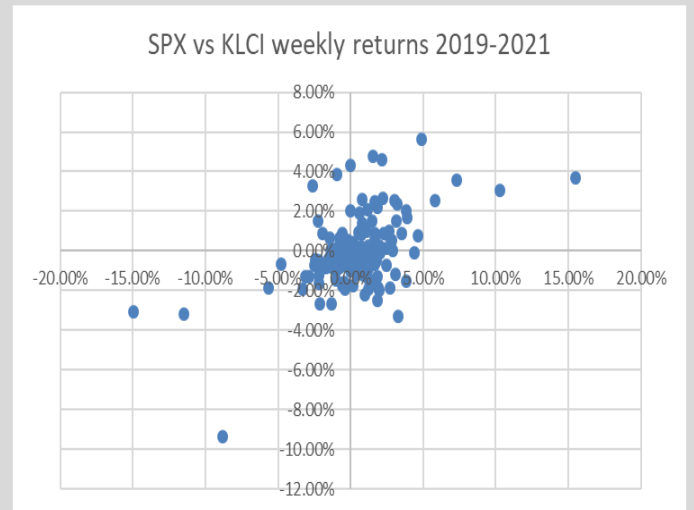
of about 50% currently (Exhibit 18). We note that this R2 correlation has risen during the past 3-year period (2019-2021) compared to 20 years ago during which the weekly returns correlations between the two markets were just 17% for 2000-2004 and 38% for 2005-2009. At times of extreme volatilities, such correlations are amplified.

Exhibit 17: UST headed towards inversion?



source: Bloomberg, Kenanga estimates

Exhibit 18: R-squared between SPX & FBMKLCI is c.50%

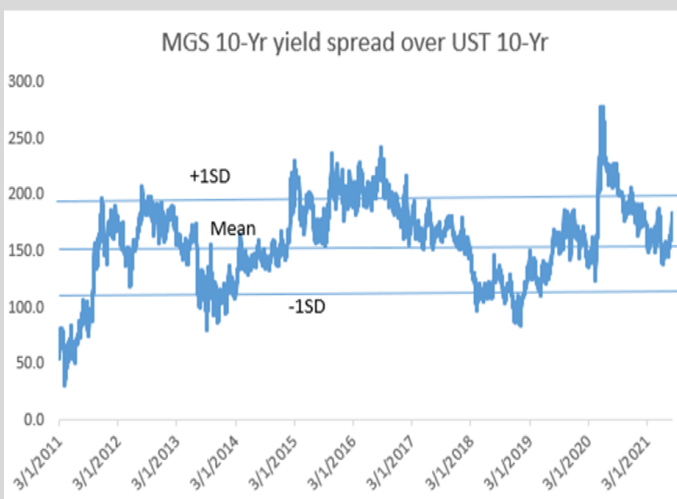


source: Bloomberg, Kenanga estimates

Our end-2022 FBMKLCI target is 1,654: Despite the UST 10-year yield having fallen and potentially remaining below 1.50% throughout 1QCY22, we expect Malaysia’s proxy for the risk-free rate, namely the 10-year MGS yield to hover close to 3.60% relatively unchanged from 4QCY21. It represents an expanded 210bps spread above the UST 10-year that is over 1SD above mean (Exhibit 19), appropriately so to reflect heightened emerging market risk in a tightening US monetary setting.

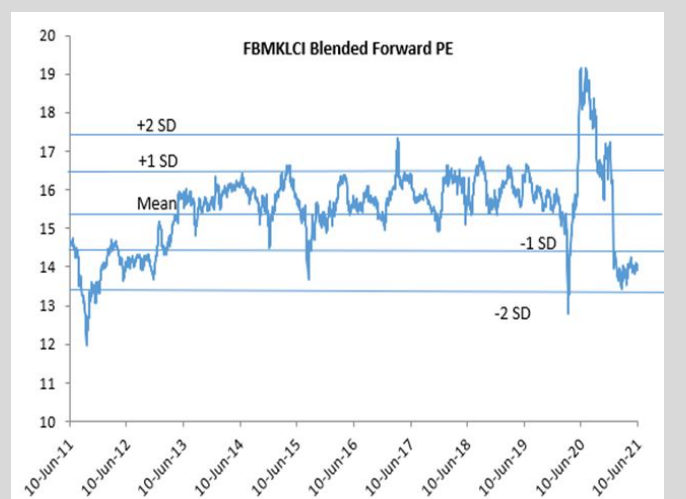
On the risk-free rate of 3.60%, we then add an equity market risk premium of 3.10% which is 0.5SD above mean (for the same reason of heightened emerging market risk), the sum of which implies a target PER of 14.9x, which happens to be at 0.5SD below mean (Exhibit 20). The risk variables upon which the target PER is based reflect risk levels that are higher than historical averages and so enhances the robustness of the valuation target. On FY23E EPS of 111.0 sen therefore, we have our year-end target for the FBMKLCI at 1,654 points.

Exhibit 19: MGS 10-Y yield spread over UST 10-Y



Source: Bloomberg, Kenanga

Exhibit 20: FBMKLCI Forward PE



Source: Bloomberg, Kenanga

Key theme 1: Economy reopening

In recommending economic reopening as one of the investment themes, we are not suggesting the end of the pandemic as an enabling condition. Far from this, the threat that new variants – and Omicron will not be the last – pose

will remain. However, the world is today dealing with something more familiar than was the case two years ago and so should be better prepared in their responses. There will continue to be new cases daily, but health facilities are better equipped, operating procedures and new hygiene habits have continue to ease into place, vaccination developments are keeping pace with new variants and society have begun to learn to live with the virus. It is a matter of time in the near future, when the intensity of the pandemic ebbs into an endemic but even before that, the pace of everyday lives has started to regain a semblance of normality. In Malaysia, lockdown was lifted in October giving hope that economic activities can normalise. With the resumption of domestic interstate travel and easing of restrictions on international travel, the increased mobility will lead to a surge in consumer spending with retail, e-payment gateway operators, hospitality and logistic sectors as the key beneficiaries. Our preferred pick in the e-payment space is GHLS which we expect to benefit from increased MDR (merchant discount rate) as onsite retail transactions increase and eventual recovery in cross border spending when borders reopen fully. Banks are naturally beneficiaries of this theme for which our top picks are RHBBANK and ABMB. RHB Bank has the added appeal of being one of the sector's best dividend yielders at 5%. As the only listed bank bidding for a digital bank license jointly with Boost, we think it has a better than even chance of winning which might be an added catalyst when the winners are announced in 1QCY22. As for Alliance Bank, it had the highest earnings upgrade post-results among banks and could see the best earnings delivery as economic reopening improves prospects for the SMEs where loan demand and credit cost assumptions could positively surprise.

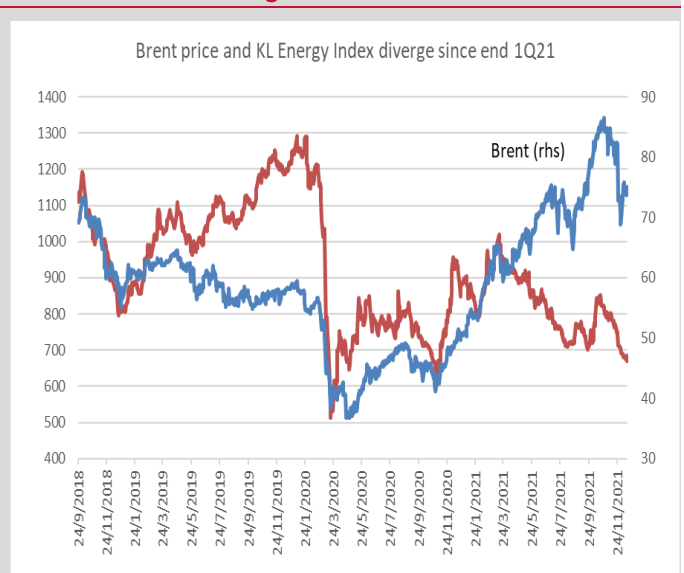
Also to benefit from the reopening theme are selected Oil & Gas plays, a sector on which we have an Overweight stance since the last quarter from the view of demand boost and normalisation of output with the removal of work restrictions. Before the Omicron disruption recently, the global demand for oil has headed back to pre-pandemic levels as air travel started to recover albeit gradually and land mobility recovered rapidly, Yet, the KL Energy Index (KLENG) is Bursa Malaysia's second worst performing sector YTD after gloves, having lost 25% in price terms compared to the FBMKLCI and FBM100's losses of about 9% each (Exhibit 21). This comes after having been the worst sector laggard in 2020. As exhibit 22 shows, there is a disconnect between oil price recovery and the returns of the KLENG Index since 2QCY21. Part of the reason could be down to Petronas' austere outlook in terms of capex that lowers expectations of jobs for many listed contractors and restrictive work orders that were part of Covid-19 SOPs. We believe that when confidence in the economic reopening theme takes hold and the price of oil stabilises in a sustainable way, the stocks will eventually catch up with the recovery of oil price. For these reasons, the Oil & Gas sector falls nicely into the category of deep "Value Plays" which is our second key theme.

Exhibit 21: 2021 a bad year for Gloves and Energy



source: Bloomberg, Kenanga estimates

Exhibit 22: Price divergence between KLENG & Brent



source: Bloomberg, Kenanga estimates

Key theme 2: Emergence of Value

Following the broad sell-off in 2021, an increasing number of value stocks have emerged as evidenced by the negative returns in many sectors (Exhibit 23). But we expect many among them to remain trapped in value given the lack of catalysts and poor macro and regulatory environment weighing them down. Sectors that fall under this category are: (i) Property – affordability issue worsened by the adverse financial impacts of Covid-19 on household and the supply overhang; (ii) Construction – policy flip flops, high input costs and stretched government finances adversely impacting margins and may require financing models that shift the weight of risks to the private sector in funding mega infrastructure projects;

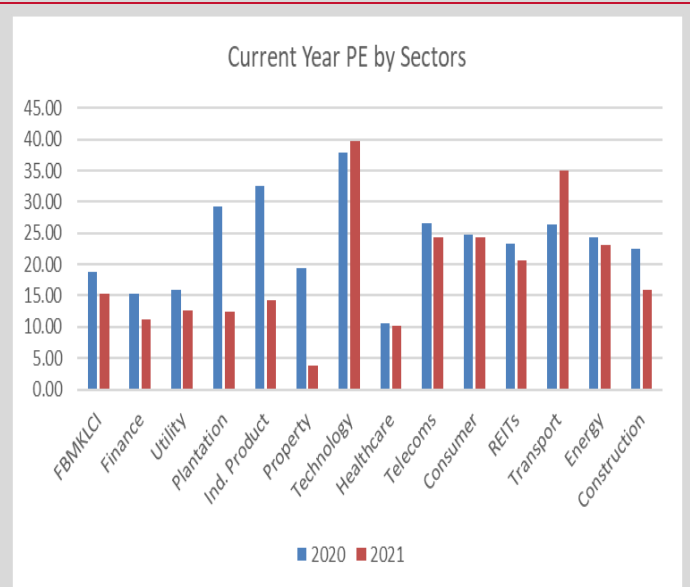
Despite the PER of the property and construction sectors falling sharply from a year ago, we maintain our NEUTRAL call for these two sectors (Exhibit 24). Sectors with value that has potential catalysts are O&G, REITs, Consumer and Gaming given upside potential from faster-than-expected pace of economy reopening, DIALOG is one of our top value picks as it trades at almost 30% discount to SoP of RM3.50. With lockdowns easing, Petronas’ RAPID facilities are expected to commence in the coming months, improving prospects for its Pengerang Phase 3. This coupled with a recovery in downstream activities provide ample growth for the next two years at least.

Exhibit 23: Tech the best, Healthcare the worst in 2021



Source: FTSE Russell, Bloomberg

Exhibit 24: PE changes by sector from a year ago



Source: FTSE Russell, Bloomberg

Key theme 3: Low Interest Rate and Bond Yields

We forecast the OPR to stay at 1.75% during the 1H22 as the BNM sees risks to the downside from “threats of variants of concern”. On the yield curve, we expect to see the 10-year yield (proxy to the risk-free rate) hover at 3.40% to 3.60% reflecting the current high level of liquidity. It will remain so in at least the first half of next year given that the SRR will also remain stable at 2.0% and not raised till closer to end 2022. As for the US Treasuries, we believe that the longer end (i.e. 5-year and above) yields will remain depressed as long as the Fed continues to propagate expectations of raising the Fed Funds rate and accelerate the taper. With OPR and local bond yields remaining low in the near term, the investment landscape looks safe for yield stocks.

For as long as yields remain low, investors will seek income yielders such as high dividend yielders and REITs especially those with retail exposures. Recall that the value of a REIT is the present value of income distribution flows discounted by a rate tied to the 10-year MGS yield. Hence, any downside to the MGS 10-year yield would raise the target prices of REITs, adding greater capital gain potential and hence total returns. We like REITs because from a valuation perspective, they enjoy upside from low cost of funds while from an operating business perspective, the retail spending crowd is normalising – perhaps gradually, but surely. AXIS REIT remains a top pick despite not being able capture the retail spending recovery due to its resilient industrial property and warehouse portfolio. Our other REIT top pick KLCCP offers a decent net yield of 4.1% while AXIS REIT offers a defensive 4.7% net yield. Other high yielders are BJTOTO and MISC. MISC potentially yields 5% as they pay a fixed amount of 30.0-33.0 sen a year from very stable cash flows, most of it anchored by long-term LNG contracts from Petronas. BJTOTO is appealing for its yield resiliency. We expect ticket sales to recover to 80% of pre-Covid levels by mid-2022 with full recovery by the end of FY06/23. In the meantime, the stock yields 6-7%.

Key theme 4: Strong USD

The USD will be a strong currency in 2022 on the expectation of hikes in Fed Funds rate in 2022 and beyond. A strong USD vs. MYR cuts both ways. While it may deter fund inflows and does not support liquidity, exporters benefit. The prime beneficiaries are technology, gloves, plastic packaging manufacturers. There is much more than a strong USD that keeps us OVERWEIGHT on the tech sector. Its main appeal continues to be that this sector enjoys secular growth from increasing demand for tech equipment driven by 5G development, electric vehicles (EV), and continuing adoption of remote working and smart devices that keep evolving. That there is a demand-supply gap is evident from the frequent reports of component shortages which signal promising order fulfilment activities across the entire semiconductor chain in the months heading into 2022. We believe that these positive prospects are validating premium valuations for the sector. Our top pick is KGB, a prime beneficiary of semiconductor shortages as it has won multiple UHP supply and construction contracts from several expanding wafer foundries in the region such that 2021 marks the best year ever in terms of order-book wins that exceeded RM1bn. Genting whose earnings are globally diversified with significant earnings derived from the US and UK would also benefit from a stronger USD amidst a recovery in patronage.

Below, our 1QCY22 Top 10 Stock Picks (Closing prices as of 17th Dec 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
ABMB	2.90	53.0%	4.8%	8.1	7.8	4.8%	8.5%	3.25	12.1%	OP
AXREIT	1.93	11.9%	1.6%	18.6	18.6	4.7%	6.2%	2.15	11.4%	OP
BJTOTO	1.87	2.4%	40.3%	13.6	9.7	5.9%	22.6%	2.23	19.3%	OP
DIALOG	2.47	-7.9%	15.4%	25.0	21.7	1.2%	12.8%	3.50	41.7%	OP
GENTING	4.48	-111.1%	6737.5%	n.m.	10.6	1.5%	-0.1%	6.38	42.4%	OP
F&N	25.60	0.3%	16.9%	23.4	20.0	2.5%	13.7%	32.45	26.8%	OP
GHLSYS	1.79	-10.4%	71.5%	75.2	43.8	0.0%	5.6%	2.30	28.5%	OP
KGB	1.68	84.6%	45.5%	33.3	22.8	0.8%	17.9%	2.50	48.8%	OP
MISC	6.89	-10.0%	1.4%	15.8	15.6	4.8%	5.7%	8.05	16.8%	OP
RHBBANK	5.30	18.0%	-0.2%	7.8	7.9	5.8%	9.2%	6.50	22.6%	OP
KLCCSS	6.40	-1.0%	20.6%	21.3	21.3	4.2%	5.4%	7.35	14.8%	OP
PADINI	2.77	75.4%	48.3%	19.2	13.0	3.2%	11.6%	3.20	15.5%	OP

Figure 1: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Building Materials	Maintain	<ul style="list-style-type: none"> • Maintain OW given our optimism on PMETAL and ULICORP for their promising earnings prospects. However, we expect softer earnings for ANNJOO amidst the lower steel ASPs while lagging raw material prices from the previous quarters play catch-up. • PMETAL to benefit from high aluminium prices as demand outstrips supply. In addition, its new additional 42% capacity, potential logistic cost savings and favourable raw material costs should propel earnings to new heights. • ULICORP's earnings to remain consistent as most of their smaller competitors were diminished during this pandemic - allowing the former to regain market share and pricing power to produce a strong pipeline of earnings in the upcoming quarters • For ANNJOO, we foresee earnings weakening in the subsequent quarters on lower margins from lower steel ASPs while lagging raw material prices from previous quarters play catch-up. 	<p>OP: PMETAL (TP: RM6.96) ULICORP (TP: RM1.85)</p> <p>MP: ANNJOO (TP: RM1.70)</p>
Gaming	Maintain	<ul style="list-style-type: none"> • A recovery play, maintain OW. With the reopening of NFOs on 14 Sep 2021 and RWG on 30 Sep 2021 and COVID-19 now treated as endemic, the gaming sector is poised to be a major beneficiary of recovery play in 2022. TOP PICKs in 1QCY22 are GENTING for its deep value and BJTOTO for its attractive dividend yield. • Prefer GENTING over GENM for its deep valuation which will also benefit from the recovery theme on GENM, GENS and the new RWLV. New outdoor theme park Genting SkyWorlds will drive GENM's non-gaming revenue. • NFOs still offer attractive dividend yield. While ticket sales post-MCO 3.0 lockdown have been slow, the worst is over for NFOs as ticket sales should recover to 80%-85% of pre-COVID level in 1HCY22 before a fully recovery in 2HCY22, resuming their above average dividend yields of >6%. The continuous enforcement clamping down on the illegal players is still the key to ticket sales growth. • A better year ahead in 2022. To turn around in the upcoming 4QCY21 after a lockdown-led loss-making 3QCY21. Meaningful recovery in 2022 and a full recovery from 2023 onwards are expected. 	<p>OP: BJTOTO (TP: RM2.23) GENM (TP: RM3.41) GENTING (TP: RM6.38)</p> <p>MP: MAGNUM (TP: RM1.96)</p>
Media	Maintain	<ul style="list-style-type: none"> • We maintain our call at OVERWEIGHT. • With lockdowns out of the picture in 4QCY21, we believe this will help to boost advertisers' marketing budget for the quarter. • Moreover, World Bank is projecting the Malaysian economy to recover by 5.8% in 2022 on the back of stronger domestic demand; thus, this will further spur demand for advertisements. • MEDIA's Omnia segment which has performed greatly since its launch in 2QFY20 due to its integrated marketing nature would reap significant benefit from the rise in adex as the group owns a lion's share in FTA-TV market which is currently the leading traditional platform in the adex industry. 	<p>OP: ASTRO (TP: RM1.07) MEDIA (TP: RM0.560)</p> <p>MP: MEDIAC (TP: RM0.175)</p> <p>UP: STAR (TP: RM0.285)</p>

<p>Oil & Gas</p>	<ul style="list-style-type: none"> All in, we continue to pick ASTRO (OP, TP: RM1.07) and MEDIA (OP, TP: RM0.560) as our top picks. We like ASTRO for its attractive dividend yield of 7.7% and taking progressive steps in fulfilling their ambition to be the country's top OTT aggregator and an ISP. As for MEDIA, it is due to improved margins as a result of cost cutting exercises in the broadcasting and publishing segments in FY20.
	<p>Maintain</p> <ul style="list-style-type: none"> Oil demand expected to recover back to pre-pandemic levels in 2022. Oil demand-supply equilibrium is expected to rebalance back to >100m barrels per day in 2022 – close to pre-pandemic levels. As a comparison, oil demand was at its lowest at ~80m bpd in the middle of the pandemic in April 2020. Nonetheless, we believe upcoming supply growth from U.S. and OPEC+ may outpace the slowing growth rates in demand, leading to milder oil prices in 2022. Nonetheless, we believe this is not a cause for concern as oil prices above USD50 per barrel will still be sufficiently healthy to maintain current pipeline of activities. As a comparison, Petronas is looking at crude oil prices to hover between USD55-60 per barrel over the next five years for its budgeting and investment decisions. 2022 to be a recovery year, in line with a reopening theme. Throughout 2020-2021, local contractors faced issues in executing jobs given the movement restrictions. In tandem with the economic reopening, we believe activity levels will start to see a recovery in 2022. Petronas is looking to increase capex to RM40-45b in the next five years, up from RM33b in 2020. Globally, upstream E&P spending is also expected to improve in 2022, leading to increased job opportunities. Sector currently trading near trough valuations. The KL Energy Index has been the worst performing sector since start of 2020 – making it a huge laggard. YTD-2021, the KL Energy Index was the second worst performing sector, only behind healthcare (which is predominantly the rubber glove counters). In fact, throughout most of 2021, the sector has been trading at a divergence away from the strength in crude oil prices. With the sector still trading at -1SD discounted from mean valuations, bargain opportunities might still be present. Maintain OVERWEIGHT. No changes to 2022 average Brent crude oil price assumption of USD65 per barrel. As for stock picks, this quarter we opted to go more defensive with DIALOG and MISC. <p>OP: ARMADA (TP: RM0.57) DIALOG (TP: RM3.50) MISC (TP: RM8.05) UZMA (TP: RM0.67) YINSON (TP: RM7.35)</p> <p>MP: DAYANG (TP: RM1.00) PCHEM (TP: RM8.75) PETDAG (TP: RM18.90)</p> <p>UP: SAPNRG (TP: RM0.04) VELESTO (TP: RM0.10) WASEONG (TP: RM0.63)</p>
<p>MREITs</p>	<p>Maintain</p> <ul style="list-style-type: none"> Economic reopening, 4QCY21 should be the best YTD. Retail MREITs are seeing mall shopper traffic gradually picking up to 80% of pre-Covid levels and the expectation of revenge buying and holiday season shopping all packed in the last quarter imply that 4QCY21 should be the best quarter YTD. Due to concerns of new Covid variants, we remain mildly cautious on the retail sector should there be further MCO restrictions, but <p>OP: AXREIT (OP↔ ; TP: RM2.15 ↔ KLCC (OP ↔; TP: RM7.35 ↔) CENTRAL (OP ↔; TP: RM0.935 ↔)</p> <p>MP:</p>

		<p>the likelihood of this is low at this juncture. However, we remain confident on the industrial sector, namely AXREIT which is our TOP PICK as it has continued to fare well throughout the pandemic on positive reversions and minimal lease expiries. Our other TOP PICK is KLCC on the reopening theme benefitting the retail and hospitality segments, and further backed by its stable office segment.</p> <ul style="list-style-type: none"> Maintain OVERWEIGHT as we expect earnings to improve in 4QCY21 while our valuations are more forward looking. Our FY22E CNP should remain intact for now. We are comfortable with our 10-year MGS target of 3.6% which errs on the conservative side, and have pegged MREITs' TP at +0.5SD to +1SD due to the still volatile Covid-19 situation in the near term. Even so, we believe the sector warrants an OW primed on a comeback story with the reopening of the economy. 	<p>CMMT (MP ↔; TP: RM0.580 ↔) SUNREIT (MP ↔; TP: RM1.35 ↔) PAVREIT (MP ↔; TP: RM1.30 ↔) IGBREIT (MP ↔; TP: RM1.70 ↔)</p>
<p>Technology / Semiconductor</p>	<p>Maintain</p>	<ul style="list-style-type: none"> We reiterate our OVERWEIGHT call on the technology sector for 1QCY22 as we continue to observe aggressive expansions among semiconductor players. INARI (OP; TP: RM4.80) recently committed RMB463m (c.RM299m) cash to form a JV with China Fortune-Tech Capital (a VC firm incorporated by SMIC) to set up a plant in China, offering OSAT related businesses. Western Digital has set aside RM1b for a new plant in Sarawak while Intel has proposed an RM30b expansion in Penang. There were a slew of fab expansions in Singapore by GlobalFoundries, Micron and Siltronic as front-end players continued to increase capex in an effort to solve the chip shortage situation. Out of the 5 names mentioned above, KGB (OP; TP: RM2.50) has secured orders from 4 of them, further reinforcing our investment thesis of KGB as a prime proxy for front-end semiconductor expansion which is expected to continue in the near to medium term. We believe the recent decline in Inari's share price is an overreaction given that Apple's recent initiative to strengthen its in-house wireless connectivity systems is targeted towards 5G modem rather than replacing existing RF suppliers. On the prosperity tax, we see negligible impact (c.1%-3%) to the stock under our coverage thanks to exemptions like pioneer tax status and reinvestment allowance. We continue to like GHL (OP; TP: RM2.30) as a proxy to the recovery in consumer spending as the economy reopens and higher adoption of e-payment in Asia. 	<p>OP KGB (TP: RM2.50) GHL (TP: RM2.30) INARI (TP: RM4.80) MPI (TP: RM56.20) D&O (TP: RM6.60) UNISEM (TP: RM4.90) PIE (TP: RM4.30) SKP (TP: RM2.60)</p> <p>MP KESM (TP: RM11.40) JHM (TP: RM1.80)</p>
<p>Utility</p>	<p>Maintain</p>	<ul style="list-style-type: none"> Power utilities: RP3 will likely see lower rate of return, but this is unlikely to affect TENAGA's earnings negatively on higher value of RAB over the years as added capex would balance the downside. TENAGA's earnings will remain resilient in the future as long as IBR remains in place. Gas utilities: earnings remain resilient in the final year of RP1 in 2022 and beyond given the IBR framework which was proven during this pandemic period. The new RM541m gas pipeline project in Pulau Indah and RM460m gas compressor station in Kluang are new earnings growth avenues for PETGAS. GASMSIA will expand its non-regulated 	<p>OP: GASMSIA (TP: RM3.00) MALAKOF (TP: RM1.01) PESTECH (TP: RM1.11) TENAGA (TP: RM11.41) YTLPOWR (TP: RM0.89)</p> <p>MP: PETGAS (TP: RM17.02)</p>

business, with the retail margin to expand earnings growth.

- **Better IPPs earnings.** YTLPOWR turned positive as PowerSeraya turned around for five quarters since 1QFY21, suggesting that the worst is over while YES' losses narrowed on higher subscribers base boosting economies of scale. MALAKOF saw better earnings after completing plant outages in 1QFY21.
- **Defensive is key quality; 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%.

2: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	Maintain	<ul style="list-style-type: none"> • Maintain NEUTRAL with 2021 TIV target at 505k units (-5%) and a stronger recovery next year with 2022 TIV target of 600k units (+19%). • Driven by economic re-opening activities, and further driven by the 100% sales tax exemption on CKD passenger vehicles and 50% on CBU including SUV and MPV for six months until 30th June 2022 on growing number of back-logged bookings for popular models (up to 6 months) and stream of new models launches in 2022. • Nevertheless, for certain models, the recovery in car production could be limited by the on-going global constraint in semiconductor chip supply. • The MIER CSI 3QCY21 at 101.7 points (+37.4ppt QoQ, +10.2ppt YoY) exceeded the optimism threshold after three years as consumers became more confident on spending for major consumer durables and high-value discretionary items locally given the still restricted overseas travelling • Our sector picks are MBMR (OP; TP: RM3.50) and DRBHICOM (OP; TP: RM1.80) given their exposure to the national marques' strong volume growth. 	<p>OP: DRBHCOM (TP: RM1.80) MBMR (TP: RM3.50) SIME (TP: RM2.40)</p> <p>MP: BAUTO (TP: RM1.65) UMW (TP: RM3.20)</p> <p>UP: TCHONG (TP: RM1.00)</p>
Banks and Non-Bank Financial Institutions	Maintain	<ul style="list-style-type: none"> • We maintain our call on the sector to NEUTRAL. • Banks are expected to see uplift in earnings on the back of better loans growth in line with economic recovery in addition to lower credit cost inputs with possible bumps from write-backs from provisions. • That said, NIM pressures are expected as the presently low cost of funds normalise from greater competition for deposits. • Bank Negara Malaysia is expected to award up to 5 digital bank licenses in 1QCY22, which could hamper sentiment for the near-term. • Our Top Pick for 1QCY22 are: <ol style="list-style-type: none"> ABMB (OP; TP: RM3.25) as a solid proxy for economic recovery, backed by its high SME mix (46% vs. peer average of 35%) and strong ROE (9%) within the small banks space. Previous asset quality concerns arising from previous AOA programs should have eased with industry-wide moratorium and TRAs levelling investors' expectation. RHBBANK (OP; TP: RM6.55) as a strategic pick 	<p>OP :</p> <ul style="list-style-type: none"> • ABMB (TP: RM3.25) • BIMB (TP: RM3.20) • BURSA (TP: RM7.60) • CTOS (TP: RM2.00) • MAYBANK (TP: RM10.55) • RHBBANK (TP: RM6.50) • TAKAFUL (TP: RM5.85) <p>MP</p> <ul style="list-style-type: none"> • AEONCR (TP: RM16.60) • AFFIN (TP: RM1.55) • AMBANK (TP: RM3.15) • CIMB (TP: RM5.20) • HLBANK (TP: RM18.20) • LPI (TP: RM14.20) • MBSB (TP: RM0.540) • PBBANK (TP: RM3.85)

for pursuing a digital banking license, which a successful award in 1QCY22 could spur sentiment. Dividends are also second best in the industry.

Construction

Maintain

- Expect a bumpy recovery in 2022 amidst elevated building material prices, labour constraints and Covid-19 SOP compliances.
- FY21 replenishments have been decent but not strong. Consequently, overall outstanding orderbook for contractors under our coverage continues to decline on a YoY basis.
- FY22 replenishment prospects seems challenging as public project rollouts are hindered by government's weak fiscal position while private projects will be lesser on reduced office needs (post Covid) and oversupply of residential high rises.
- Prefer the smaller contractors given the more appealing PER and any upside surprise to replenishment can materially move earnings. Such names include KIMLUN (OP; TP: RM1.25).

OP:
 KERJAYA (TP:RM1.50)
 KIMLUN (TP:RM1.15)
 MUHIBAH (TP:RM1.25)
 IJM (TP:RM1.90)

MP:
 SUNCON (TP: RM1.52)
 HSL(TP: RM0.95)
 WCT (TP:RM0.62)
 GAMUDA (TP:RM2.80)

Consumer

Maintain

- Lacking a solid rerating catalyst, we reiterate NEUTRAL for the Sector. Top-lines are expected to be robust but earnings will still be crimped given the downside pressure on margins. As the nation is in a recovery phase, resilient top-lines are expected, underpinned by pent-up demand and two major festive seasons on the horizon. This will benefit Retailers and boost F&B producers' production utilization up to full capacity as easing restrictions coupled with speedier roll-out of booster shots inject further confidence into the economy.
- Bottomline will still be challenging given still elevated input prices and freight charges coming from a volatile supply issue. Labor issue might still creep up as the economy recovery accelerates. The unfavorable Ringgit pose further challenges given that predominantly most of the stocks in our consumer stocks universe are domestic players relying on imported raw materials and commodities. We observe that the large players are yet to pass rising costs to consumers given the still fragile recovery.
- Given these risks, we reiterate NEUTRAL for the sector but there a number of undervalued stocks in our consumer stocks universe given the sharp correction in prices recently.
- Our favorites are: F&N and Padini as both will benefit from the coming festive seasons coupled with solid balance sheets.

OP:
 AMWAY (OP ↔; TP: RM6.05 ↓)
 AEON (OP ↑; TP: RM1.60 ↓) •
 DLADY (OP ↑; TP: RM40.20 ↔)
 F&N (OP ↑; TP: RM32.45 ↓)
 MRDIY (OP↑; TP: 4.10 ↔)
 MNEWS (OP ↑; TP: RM1.00 ↑)
 PADINI (OP ↑; TP: RM3.20 ↔)
 QL RESOURCES (OP ↑; TP: RM6.00 ↔)
 BAT (OP ↔; TP: 16.70 ↑)

MP:
 SEM (MP↔; TP: RM1.60↔)
 NESTLE (MP ↔; TP: RM138.90 ↓)
 CARLSBERG (MP ↔; TP: RM23.10 ↔)
 HEIM (MP↔; TP: RM23.60 ↓)
 PWROOT (MP ↑ TP: RM1.35 ↑)

Healthcare**Maintain**

- Maintain Neutral. The bright spot is IHH Healthcare which has shown strong earnings recovery due to a turnaround into profitability, underpinned by both its India operation and Acibadem which continued to show signs of faster-than-expected recovery, registering their fourth consecutive quarterly profits in 3QFY21. Elsewhere, pent-up demand and ramp-up of the CEE (Central Eastern Europe) region business coupled with de-leveraging of non-lira debt exposure has also alleviated the finance cost of Acibadem. However, the sharp share price run-up looks to have rendered current valuations fairly-valued, which seem to have over-priced the positive near-term prospects. 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, and (iii) a strong management. Our calls are as follow: IHH (Market Perform; TP: RM6.65) and KPJ (MP; TP: RM1.01) and UP for Pharamianga (MP; TP: RM0.74).

MP:

IHH (TP: RM6.65)

KPJ (TP: RM1.03)

PHARMA (TP: RM0.74)

Plastics and Packaging**Maintain**

- We maintain NEUTRAL on the sector.
- Uptrend of resin prices. Resin prices continued to increase due to logistic disruption and power cut disruption in China which caused tight resin supply. We expect resin prices will decrease and gradually stabilize in 2QCY22 due to inflow of new resin capacity from the petrochemical manufacturers.
- Elevated ASP. Our channel checks discover that plastic players have increased their ASP across products range in tandem with the surge in resin prices through cost-plus mechanism.
- Strong growth outlook. We gathered that plastic players' utilization rate is at 65%-75% to fulfil their backlog orders after MCO restriction were lifted. Some plastic players like TGUAN, BPPLAS and SLP guided stronger demand from their Japanese customers due to electricity crisis in China which saw diversion of orders to Malaysia.
- Maintain NEUTRAL on the sector as upside potential from better product mix is negated by the downside risk of global freight issue and labour shortages. We remain bullish on TGUAN (OP; RM3.68) on its resilient demand and long-term capacity expansion, especially on its premium products.

OP:

BPPLAS (Ex-all TP:

RM2.22)

SCGM (TP: RM3.13)

SLP (TP: RM1.18)

TGUAN (TP: RM3.68)

MP:

SCIENTEX (TP: RM4.42)

UP:

TOMYPAK (TP:0.485)



<p>Plantation</p>	<p>Maintain</p> <ul style="list-style-type: none"> Stay NEUTRAL on the sector with CY22 CPO price forecast of RM3,500/MT. Plantation sector underperformed the market in CY21 in spite of record CPO prices. CPO prices have since eased from its peak in October on expectations of supply uptrend in CY22, not only for palm oil but soyabean and rapeseed as well. Nevertheless, current inventory levels remain tight and improvements have been gradual. Hence, until the stronger projected output in CY22 is able to lift inventory levels, the price downside for CPO may be limited until 2Q or even 3Q of CY22. Key factors to watch out in CY22 are: (a) palm oil production as the Malaysian authorities seek to ease the ongoing shortfall in field workers which has been hampering FFB output, (b) eventual soyabean harvest as SBO-CPO premium has been narrowing, eroding away the competitiveness of palm oil, (c) adverse developments that may lead the oil and fats market to downgrade current expectation of better supply in CY22 e.g. poor weather, supply chain disruption or the resurgence of another Covid variant which locks down or hamper movement. Meanwhile, the world's third largest producer and user of biodiesel, Indonesia is looking likely to maintain B30 blend in light of high palm oil prices. The prospects of launching the planned B40 blend by end CY22 is looking less likely with some talks of delay until 2025. Nevertheless, an earlier rollout will be positive for the sector as Indonesia's biodiesel is almost entirely palm based. Our integrated pick with defensive overall margin against the CPO price variability is KLK (OP; RM21.32), while we also like SIMEPLT (OP; RM3.80) as its earnings are relatively shielded by forward sales. <p>OP: GENP (TP: RM6.64) HSPLANT (TP: RM1.90) KLK (TP: RM21.32) SIMEPLT (TP: RM3.80)</p> <p>MP: FGV (TP: RM1.49) IOICORP (TP: RM3.78) PPB (TP: RM16.70) TAANN (TP: RM3.38) TSH (TP: RM1.04) UMCCA (TP: RM5.20)</p>
<p>Ports and Logistics</p>	<p>Maintain</p> <ul style="list-style-type: none"> We keep our NEUTRAL call on the sector, premised on gradual earnings recovery from ports players starting 2022 on the back of Covid-19 booster vaccinations rollouts, normalization of domestic and global economic activities, as well as pent-up demand effect in general. On the other hand, POSM's transformation strategy is expected to bear fruits latest by 2HFY22. POSM is facing capped profitability in its Postal/Courier businesses from tight prices and costs. This is offset by stringent cost-cutting measures and turnaround improvement from both of its logistics and aviation divisions capitalizing on freight management business, automotive-related business and aviation division's rising contribution from e-commerce warehousing, higher cargo tonnage handled (increasing number of flights), and ground handling businesses. <p>OP PTRANS (TP: RM0.850) POS (TP: RM0.850)</p> <p>MP: WPRTS (TP: RM3.95)</p>

<p>Property</p>	<p>Maintain</p>	<ul style="list-style-type: none"> Maintain NEUTRAL as sector still plagued with affordability, policy and oversupply issues. We feel the sector still lacks sustainable earnings visibility and growth to justify a rerating in valuations. While sales numbers reported by developers have been generally decent YTD, we believe it would be increasingly hard to drive sales in FY22 given: (i) absence of HOC discounts and (ii) expected interest rate hikes on the back of a persisting oversupply issue. The high unsold units in circulation and declining HPI are indicators that developers will find it increasingly challenging to drive sales while maintaining margins. That said, we feel that certain developers' share price has undershot fair valuations and now provides appealing risk-to-reward ratio for bottom fishing trading opportunities. Such names include: UEMS (OP; TP: RM0.40), SUNWAY (OP; TP: RM2.05) and SIMEPROP (OP; TP: RM0.735). 	<p>OP: SIMEPROP (TP: RM0.605) SUNWAY (TP: RM2.05) UEMS (TP: RM0.40) IOIPG (TP: RM1.32)</p> <p>MP: UOADEV (TP: RM1.76) ECOWLD (TP: RM0.85) MRCB (TP: RM0.345) MAHSING (TP: RM0.75)</p> <p>UP: SPSETIA (TP: RM1.19)</p>
<p>Rubber Gloves</p>	<p>Downgrade to Neutral</p>	<ul style="list-style-type: none"> Downgrade from Overweight to Neutral. Taking the cue from Top Glove's latest results briefing and in tandem with industry-wide ASP and margin slide, we are cutting our CY22E margin and ASP assumptions for gloves stocks under our coverage. The recent round of reporting season for glove makers suggest that the ASP and margin trends have softened faster than expected and will likely continue to remain weak over the next two quarters. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment signalling acceleration in overall market ASP normalization. While prices could fall further, glove manufacturers are of the view that ASP is unlikely to go below pre-COVID pricing considering that the cost structure has risen amongst others including social compliance costs and the still stubbornly high nitrile feedstock cost. Our ratings are as follows: HART (OP; TP: RM7.50) and TOPGLOV (MP; TP: RM2.05). KOSSAN (MP; TP: RM1.80) and SUPERMX (MP; TP: RM1.45). 	<p>OP: HARTA (TP: RM7.50)</p> <p>MP: TOPGLOV (TP: RM2.05) KOSSAN (TP: RM1.80) SUPERMX (TP: RM1.45)</p>
<p>Telecommunications</p>	<p>Maintain</p>	<ul style="list-style-type: none"> Maintain NEUTRAL on the sector as the uncertainty around DNB's single wholesale network (SWN) continues to weigh on sentiment. YTL Communications' YES is the first MNO to offer 5G on DNB's SWN, which may prove to be disadvantageous as there is currently no clear pricing and service level agreements between the telcos and DNB. The large MNOs (Celcom, Digi, Maxis and Umobile) are not in a rush to sign up for DNB's SWN and offer 5G, as they prefer certainty on pricing and quality of service, which in turn provide MNOs certainty on their service quality to subscribers. Negotiations between MNOs, DNB and MCMC are on-going, aiming for an agreement in 1QCY22, but we believe there are real risks of further delays. We upgrade DIGI (TP: RM3.80) and MAXIS (TP: RM4.00) from UP to MP after the share price correction since our Nov-15 2021 downgrade. Their valuations are currently in multi-year lows, which we think fairly price in their dim and uncertain prospects. Maintain OP on TM (TP: RM7.00) as we continue to like the tailwinds behind its various business segments. We pick AXIATA (TP: 	<p>OP: AXIATA (TP : RM4.30) TM (TP: RM7.00)</p> <p>MP: DIGI (TP: RM3.80) MAXIS (TP: RM4.00) OCK (TP: RM0.50)</p>

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RM4.30) as our sector favourite, as it provides exposure to regional markets (providing hedge against negative news flow in Malaysia), edotco's growth and potential IPO, and its digital businesses.

Figure 4: 2Q21 Top Picks List

Top Picks	Comments
ABMB (OP; TP: RM3.25)	We favour ABMB as a solid beneficiary of economic reopening. It has the highest SME mix (46%) amongst its banking peers (vs. average: ~35%) and could see better comparative acceleration in loans growth. Its expected ROE of c.9% also puts it ahead of similarly-sized peers. We also expect more generous dividend payouts as the group is firmer on its capital management, rising up to potential yield of c.5% (vs. average: 4.4%). Our TP is based on a GGM-derived PBV of 0.73x CY22E.
AXREIT (OP; TP: RM2.15)	AXREIT has remained resilient during this pandemic and is the only MREIT under our coverage confident of positive reversions, with limited downsides on minimal lease expiries at 18% (of which it has already locked in 87% with positive reversions). Fundamentally, the Group is actively acquiring numerous bite-size industrial assets, targeting RM187m worth for now, supported by its low gearing of 0.27x, which could potentially accrete up to 6% additional earnings in FY22. We believe AXREIT's valuations are severely undervalued given its solid growth trajectory vs. MREIT peers that have struggled especially in FY20. We also like AXREIT's Shariah-compliant status, with attractive potential total return of 16% on decent gross dividend yield of 5.1% vs. MREITs peers average of 5.7%.
BJTOTO (OP; TP: RM2.23)	A high yielding stock. With post MCO 3.0-lockdown reopening, the worst is over, with BJTOTO resuming their above-average dividend yields of >6%. Although recovery has been slow post reopening, ticket sales are expected to pick up slowly to reach 80%-85% of pre-Covid level in 1HCY22 and a full recovery by 2HCY22.
DIALOG (OP; TP: RM3.50)	YTD, DIALOG has been one of the worst performing FBMKLCI index counters (just behind glove makers). Recent earnings have seen some decline, dragged mainly by slower downstream activities given the lockdowns and slower activity levels. That said, we are hopeful for 2022 to be a year of recovery given the gradual resumption of activities. Meanwhile, its stable midstream operations also provide a defensive base to cash flows and earnings. At current share prices, market is failing to price in any future expansions from Pengerang which we think is likely as Petronas' Pengerang Integrated Complex (PIC) is set to commence soon, which we believe will help boost prospects for further investments into Pengerang.
GENTING (OP; TP: RM6.38)	GENTING, which is in deep value, is a good pick for recovery play as its business should recover quickly once cross-border restrictions are relaxed and lifted, especially for both GENS and GENM. The new Resort World Las Vegas could be a wild card judging from initial data. However, a key risk remains i.e. if there is more RPT deal in the future.
F&N (OP; TP: RM32.45)	Premised on the economy recovery, easing of restrictions coupled with pent-up demand and incoming festive season ahead. Earnings have been generally robust although 3Q saw a blip given the FMCO. Its diversity in food business, canned milk and export sales (ASEAN and MENA region) should be a boon. Its investment in the Sri Nona Group has proved its worth in the last festive season and is providing a platform for exporting Halal food. Its high cash surplus implied that expected future investment will be internally funded nullifying funding costs and it is comfortably positioned to ride on the economic recovery. Undervalued given the expected recovery and pent-up demand, we reiterate OUTPERFORM .
GHL SYS (OP; TP: RM2.30)	GHL continues to see MoM improvement in its transaction volume and increase in merchant footprint since mid-2021. We believe this trend will likely continue as there is an urgent need for currently cash-based merchants to digitalise their payment acceptance system in order to remain relevant in the current situation where adoption of e-wallet is being accelerated due to the pandemic. As the festive season draws near, we are optimistic for QoQ growth in its upcoming

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KGB (OP; TP: RM2.50)	<p>4QFY21 performance, backed by higher consumer spending and interstate travel.</p> <p>KGB ended the year with a bang after securing RM195m (RM85m on 6 Dec and RM110m on 22 Dec) worth of UHP-related jobs in December alone, propelling value of job wins this year to RM1.18b while the current orderbook soared to RM1.23b. The RM85m award was for a customer involved in solid state memory while the latter RM110m award was for a silicon wafer manufacturer. With the amount of orderbook on hand, we are sanguine for a strong 4QFY21 performance, followed by a record FY22.</p>
MISC (OP; TP: RM8.05)	<p>MISC is one of the best dividend yielders among blue-chip counters with a stable ~5% yield (pays absolute dividends of 30.0-33.0 sen per share every year). LNG shipping is its largest cash flow generating segment, backed by stable long-term (i.e. 15-20 years) contracts, with Petronas being its biggest client. This, coupled with its low correlation to the fluctuations of oil prices, make MISC a defensive pick within the sector.</p>
RHBBANK (OP; TP: RM6.50)	<p>RHBBANK is the only listed bank participating for a digital banking license for which we think it has favourable odds of winning, thanks to Axiata Digital (via Boost)'s already strong presence in the e-money/e-wallet space. This should assist penetration of digital banking products and accelerate adoption, which is one of BNM's aspirations. That said, it is not expected to be a meaningful earnings contributor in the near-term. Meanwhile, it also offers the second best dividend yield amongst the other banks (5-6%). Our TP is based on a GGM-derived PBV of 0.88x FY22E. Second best dividend yield amongst the other banks (5-6%). Our TP is based on a GGM-derived FY22E PBV of 0.84x.</p>
KLCCP (OP;TP:RM7.35)	<p>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 easy to manage triple-net-lease (TNL) structure. We anticipate stronger quarters ahead especially from 4QCY21 onwards post the easing of MCO which is expected to benefit the retail segment, while the Group's portfolio is backed by its main yet stable office segment. As such we believe potential downsides to earnings have largely been accounted for, including conservative valuations of an applied +1.0SD spread to our 10-year MGS target of 3.6%. KLCC remains a favourite among institutional investors as it is one of the few Shariah-compliant MREITs. Current yields of 5.4% are decent vs. large cap MREITs of 5.7%, commanding potential 20% total return.</p>
PADINI (OP; TP:RM3.20)	<p>Premised on economy recovery, easing of restrictions coupled with pent-up demand and incoming festive seasons ahead. We feel that its share price has bottomed out given the reopening of the economy. TP is pegged to FY22E PER of 22x (vs. its 5-year peak PER of 37x). Its solid net cash of RM518m (or RM0.80/share) implied another potential bumper dividend payout.</p>

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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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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