

4QCY22 Investment Strategy

There's No Place Like Home

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FBMKLCI (pts)	
Current	Target
1,413.10	1,500↓

Summary

- We reduce our end-2022 FBM KLCI target by 5% to 1,500 pts based on 15.5x 2022F earnings (-9.4%), from 1,580 pts based on 16x previously, to reflect the prospect of extended higher interest rates globally that weighs down on equity valuations.
- We project FBM KLCI's earnings to grow by +11.6% in 2023 backed by: (i) the full-year impact of the reopening of the economy and international borders, (ii) robust domestic demand, and (iii) a low base in 2022 due to Cukai Makmur. We acknowledge that there could be downside risk to our earnings forecast in the event the global economy slips into a sharp slowdown or recession.
- If the current hyperinflationary cycle is to follow the *symmetrical* pattern in the past (particularly in 1974 and 1979-1980), it may take at least another 12-18 months before the current hyperinflationary cycle in the US (and the world as a whole) could come to an end.
- In Europe, while gas prices have come off by >40% since hitting a peak in August 2022, they are still >10x higher than the levels seen in 2019, resulting in widespread curtailment of production in energy-intensive industries such as steel, aluminium, zinc, fertilizers, cement and pulp & paper.
- Meanwhile, global supply chain disruptions are still far from over with the zero-Covid policy still being in full force in China, more so, ahead of the consequential 20th National Congress of the Chinese Communist Party in mid-October 2022.
- We advocate investors to seek refuge in domestically-driven sectors amidst rising external headwinds. We expect the government policy of strengthening support to domestic demand and economic activities—since the outbreak of Covid-19, through the pandemic recovery phase—will be *reinforced* in the coming Budget 2023 on 7 October 2022.
- Banks are the best proxy to Malaysia's resilient economy, in particular, domestic consumption. Similarly, earnings of telcos will be supported by domestic consumption and spared the external headwinds. Meanwhile, auto makers/distributors have strong earnings visibility underpinned by order backlogs sizeable enough to keep them going for the next 7-8 months.
- We believe mid-market retailers will continue to do well given their customer base that is skewed towards the M40 group of which spending power is less impacted by the high inflation given a healthy household balance sheet.
- We believe investors should build position in contractors ahead of the 15th General Election (GE15). There is a strong case for the government to embark on counter-cyclical fiscal pump-priming to shield the economy from the external slowdown.
- Our Overall Top Picks are MAYBANK, PCHEM, CIMB, DIGI, KLK, INARI, GAMUDA, ABMB, BAUTO and AEON.
- Our Top Shariah Picks are PCHEM, DIGI, KLK, TM, INARI, GAMUDA, TAKAFUL, BAUTO, AEON and OCK.

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End-2022 FBM KLCI Target of 1,500 pts

We reduce our end-2022 FBM KLCI target by 5% to 1,500 pts based on 15.5x 2022F earnings (-9.4%), from 1,580 pts based on 16x previously. The lower multiple is to reflect the prospect of extended higher interest rates globally, as the Fed raised its terminal rate forecast to 4.6% in 2023 following the Federal Open Market Committee (FOMC) meeting on 21-21 September 2022, from 3.8% which it estimated back in June 2022.

At 15.5x, we price our end-2022 FBM KLCI target at a discount to its 5-year historical average of 18x to reflect:

- the aggressive monetary tightening by major policy makers globally to battle inflation that weighs down on equity valuations and may tip the world into a recession/stagflation; and
- higher perceived market risk premium for Malaysia with the nation going to the polls in less than a year.

We project FBM KLCI's earnings to grow by +11.6% in 2023 backed by: (i) the full-year impact of the reopening of the economy and international borders, (ii) robust domestic demand, and (iii) a low base in 2022 due to *Cukai Makmur*. We acknowledge that there could be downside risk to our earnings forecast in the event the global economy slips into a sharp slowdown or recession.

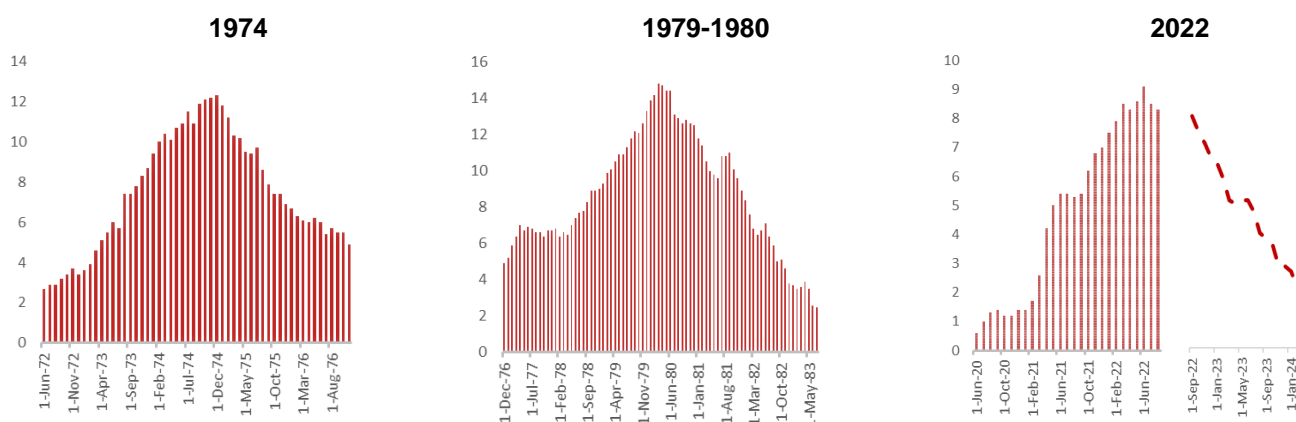
External Headwinds to Intensify

Higher rates in the US for longer. If history is any guide, it may take at least another 12-18 months before the current hyperinflationary cycle in the US (and the world as a whole) could come to an end. We will not dwell on the root causes of the hyperinflationary periods in the US around 1974 and 1979-1980—among others, multiple oil shocks, accumulation of deficit spending during the Vietnam war leading to the abolition of the convertibility of the US dollar into gold by President Nixon, expansionary monetary policy by the Fed then—which are still being hotly debated by academics at present. Instead, we will focus on the duration of the cycle, from trough to peak and back as follows:

During the hyperinflationary cycle around 1974, it took US CPI 30 months to climb from a trough of +2.7% YoY (June 1972) to a peak of +12.3% (December 1974), and 23 months to descend from the peak to a new trough of +4.9% (November 1976) (see Exhibit 1).

Similarly, during the hyperinflationary cycle around 1979-1980, it took the same index 39 months to climb from a trough of +4.9% YoY (December 1976) to a peak of +14.8% (March 1980), and 40 months to descend from the peak to a new trough of +2.5% (July 1983) (also see Exhibit 1).

If the current hyperinflationary cycle is to follow the *symmetrical* pattern in the past, having peaked at +9.1% YoY (June 2022) after climbing steadily for 25 months from a trough of +0.1% (May 2020) at the height of the pandemic, it means we would not see a new trough until mid-2024 (also see Exhibit 1).

Exhibit 1: The Symmetry of US Hyperinflation

Source: Kenanga Research, Bloomberg

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Reflecting the expectations of higher rates in the US for longer, the latest Fed Funds futures points to the Fed hiking another 75 bps to 3.75%-4.00% during the Federal Open Market Committee (FOMC) meeting in November 2022, followed by a 50 bps hike in December 2022 and a 25 bps hike in January 2023 to hit a terminal rate of 4.50%-4.75% (see Exhibit 2).

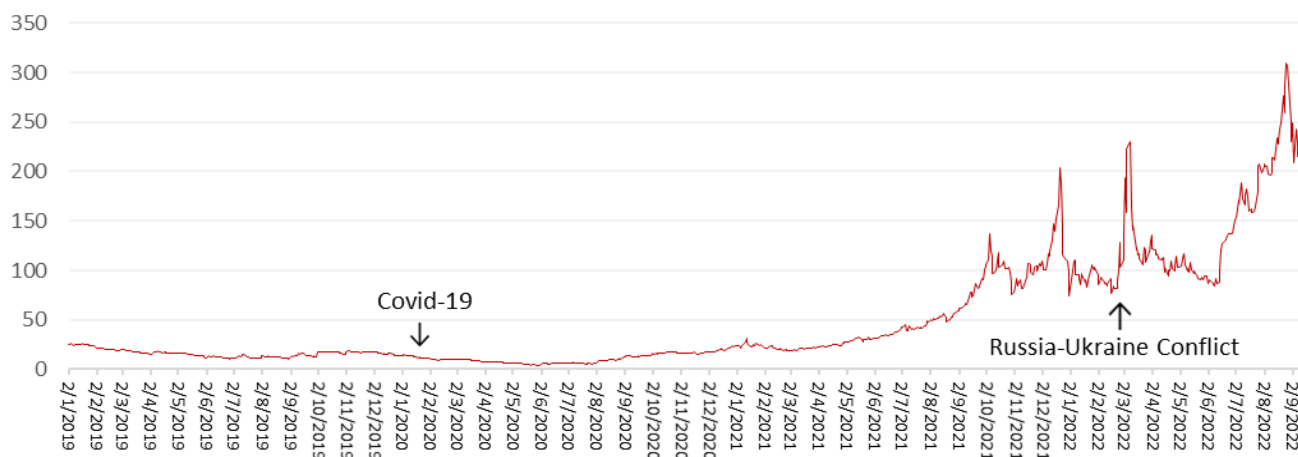
Exhibit 2: Fed Funds Rate Probabilities#

	3.25-3.50	3.50-3.75	3.75-4.00	4.00-4.25	4.25-4.50	4.50-4.75	4.75-5.00	5.00-5.25	5.25-5.50
2-Nov-22	0.0%	31.1%	68.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
14-Dec-22	0.0%	0.0%	0.0%	29.5%	67.0%	3.5%	0.0%	0.0%	0.0%
1-Feb-23	0.0%	0.0%	0.0%	0.5%	30.2%	65.9%	3.4%	0.0%	0.0%
15-Mar-23	0.0%	0.0%	0.0%	0.3%	16.6%	49.5%	32.0%	1.6%	0.0%
3-May-23	0.0%	0.0%	0.0%	0.3%	15.5%	47.3%	33.2%	3.6%	0.1%
14-Jun-23	0.0%	0.0%	0.0%	1.8%	18.7%	45.9%	30.2%	3.3%	0.1%
26-Jul-23	0.0%	0.0%	0.4%	5.0%	23.8%	43.0%	25.2%	2.7%	0.1%
20-Sep-23	0.0%	0.1%	1.9%	11.2%	30.1%	37.1%	17.8%	1.8%	0.1%
1-Nov-23	0.0%	0.6%	4.5%	16.4%	32.0%	31.7%	13.3%	1.3%	0.0%
13-Dec-23	0.3%	2.7%	10.9%	24.9%	31.9%	21.8%	6.8%	0.6%	0.0%

at the close on 23 September 2022

Source: CME Group, Kenanga Research

Energy crisis in Europe eases but far from over. Across the Atlantic, there is a sense of relief that European governments are finally getting their act together to prevent the energy crisis from deepening further, underpinned by the European Commission's proposal for a EUR140b windfall tax on producers of oil & gas and coal, as well as nuclear, solar and wind power. The tax proceeds will be used to subsidise energy bills of vulnerable households and businesses. Coupled with the rising gas inventories across the continent ahead of the winter months, Europe's benchmark Dutch Title Transfer Facility (TTF) gas futures price has come off by >40% to EUR176/MWh from a peak of EUR310/MWh back in August 2022 (see Exhibit 3).

Exhibit 3: Dutch TTF Gas Futures Price (EUR/MWh)

Source: Kenanga Research, Bloomberg

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However, at the current level that is still >10x higher than an average of EUR16/MWh in 2019 (prior to the pandemic and the Russia-Ukraine conflict), there is hardly a business case for energy-intensive industries to continue to produce. Already, there has been widespread curtailment of production of base metals (particularly, steel, aluminium and zinc), chemicals (including fertilizers), cement, pulp & paper and glass products on the continent. The curtailment could only get worse as cheaper energy locked in via forward contracts by other producers runs out over time.

Until and unless Europe could significantly reduce its dependence on Russian natural gas (which made up 40% of its total gas requirements prior to the Russia-Ukraine conflict), Russia will continue to hold Europe hostage by threatening to cut off—or actually cutting off—natural gas supplies to the continent against a backdrop of a prolonged Russia-Ukraine conflict.

Supply-chain disruptions to persist on China's zero-Covid policy. Meanwhile, global supply chain disruptions are still far from over with the zero-Covid policy still being in full force in the world's manufacturing heartland. China watchers generally agree that there will not be any meaningful relaxation of the rules—not to mention a U-turn—ahead of the consequential 20th National Congress of the Chinese Communist Party in mid-October 2022.

Key Investment Themes: Domestic Demand

Policy support reinforced with an election budget. We advocate investors to seek refuge in domestically-driven sectors amidst rising external headwinds. We expect the government policy of strengthening support to domestic demand and economic activities—since the outbreak of Covid-19, through the pandemic recovery phase—will be *reinforced* in the coming Budget 2023 on 7 October 2022, which is widely regarded as an election budget.

The domestic demand is likely to continue to be supported by initiatives such as: (i) financial assistance and social protection to the low-income group (but new withdrawals from Employees Provident Fund (EPF) are likely to be off the table for now), (ii) preserving existing jobs and creating new ones (via wage subsidy/sponsorship programmes), (iii) driving income growth (via reskilling/upskilling programmes and wage hikes), (iv) mitigating inflation via various subsidy programmes particularly on fuels, electricity and cooking oil (but they will likely be recalibrated to be more “targeted” and “sustainable”), and (v) the rollout of public infrastructure projects (that will unleash a multiplier effect throughout the economy).

Meanwhile, businesses, especially SMEs, are likely to continue to be supported by: (i) loan moratorium extension (that will help to ease short-term cash flows challenges) and micro credit programmes, (ii) incentives for technology adoption including automation and digitalisation (that will result in long-term productivity gains), (iii) incentives for ESG adoption (that will ensure long-term accessibility of product to the international market and the accessibility of the business to capital and credit), and (iv) incentives for research and development (to promote product innovation).

We like banks, telcos, auto makers/distributors, mid-market retailers and contractors. Banks are the best proxy to Malaysia's resilient economy, in particular, domestic consumption. Similarly, earnings of **telcos** will be supported by domestic consumption and spared the external headwinds (other than AXIATA that has sizeable operations outside of Malaysia). Meanwhile, **auto makers/distributors** have strong earnings visibility underpinned by order backlogs of about 400k units that could keep them going for the next 7-8 months.

We believe **mid-market retailers** are likely to repeat the strong sales recorded in 2QCY22 into the coming quarters (adjusted for the seasonal factor on the back of Hari Raya Aidilfitri) as: (i) consumers rekindle shopping-in-person that offers the sound-and-sight experience online shopping is unable to match, and (ii) their customer base is skewed towards the M40 group whose spending power is less impacted by the high inflation given a healthy household balance sheet. Also, mid-market retailers have been able to pass on higher costs and hence maintain their margins. On the other hand, while **F&B producers**—their peers in the consumer space—are likely to be able to maintain their sales too, this will be achieved at the expense of margins. F&B producers have little room to hike prices as their customer base is skewed towards the B40 group that is harder hit by the high inflation.

We believe investors should position themselves in **contractors** ahead of the GE15, although we gathered from the ground that a new wave of awards of public infrastructure projects is more likely to hit the market after the GE15, rather than before. There is also a strong case for the government to embark on counter-cyclical fiscal pump-priming to shield the economy from the external slowdown.

Our **Sector Recommendations, Overall Top Picks** and **Top Shariah Picks** and their rationales key investment statistics are reflected in Exhibits 4 to 8.

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Exhibit 4: Sector Recommendations, Rationales and Top Picks

	Sector	Rationale	Top Picks
OVERWEIGHT	Automobile	Order backlogs (including those booked by June 2022 and registered by March 2023 to enjoy the Sales and Services Tax exemption) and attractive new models.	BAUTO, MBMR
	Building Material	A proxy to renewable energy-based aluminium smelting (PMETAL).	PMETAL
	Construction	Award of infrastructure projects before and after the GE15, pump-priming to shield the economy from an external slowdown.	GAMUDA
	Consumer	A K-shaped recovery with mid-market retailers enjoying topline expansion while maintaining margins, but F&B players not being able to raise price enough to offset higher food commodity prices.	AEON, PADINI
	Financial	A proxy to resilient domestic demand, favourable loan/deposit rate re-pricing amidst a rate hike cycle.	MAYBANK, RHBBANK, CIMB, ABMB
	Gaming	Re-opening of the tourism industry, partially offset by lingering ESG concerns.	GENTING, GENM
	Oil & Gas	Sustained elevated crude oil prices.	PCHEM, DAYANG, VELESTO, UZMA
	Plantation	Sustained elevated crude palm oil prices.	KLK, HSPLANT, BPLANT
	Private Healthcare	Pent-up demand for elective surgeries, resilience amidst inflation due to low "price elasticity of demand" for healthcare services.	IHH
	Technology/EMS	Mild semiconductor inventory adjustments, US-China chip war to benefit players in Malaysia (western players diversifying away from China) and Malaysian players with presence in China (China's moves towards chip self-sufficiency).	INARI, SKPRES, PIE, KGB
NEUTRAL	Tele-communications	A proxy to resilient domestic demand while the selloff triggered by challenges in 5G rollout is overdone.	DIGI, AXIATA, TM
	Utility	A proxy to resilient domestic demand, coupled with recovery in electricity demand from the commercial and industrial segments.	TENAGA
	Aviation	Reopening of international borders, offset by absence of airport tariff hikes and financial distress in airlines.	none
	Media	Challenging transition from traditional to digital media.	MEDIA
	Plastics & Packaging	Margin expansion on falling resin prices, but vulnerable to a slowdown in the export market.	TGUAN
	Property	Higher effective mortgage rates and rising construction cost to weigh down on affordability.	ECOWLD, IOIPG, SIMEPROP
	REIT	Losing appeal to yield seekers on rising interest rates.	none
UNDERWEIGHT	Seaport & Logistics	A slowing global trade, but a bright spot from logistics services to e-commerce.	BIPORT, SWIFT
	Tobacco & Brewery	Price hikes to hurt demand, losing appeal to yield seekers on rising interest rates, ESG concerns.	none
	Gloves	ASP weighed down by persistent oversupply.	none

Source: Kenanga Research

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Exhibit 5: Overall Top Picks and Key Rationale

Top Pick	Rationales
MAYBANK (OP; TP: RM11.05)	MAYBANK is expected to continue providing sizable dividend returns (7-8%) even after its 2QFY22 provisioning of RM1.7b (mainly due to one-off specific bookings on leisure and oil & gas). Meanwhile, its ROE of 9% amidst stable dividend payments is highly favorable in addition to a high CASA profile (45%) that is supportive in keeping funding costs low. The bank's market leading loans and deposits share remains intact and is expected to expand in tandem with regional economic growth. It still commands a better-than-industry GIL ratio of 1.9% (vs. average 2.0%) in spite of its book size.
PCHEM (OP; TP: RM11.00)	PCHEM is a beneficiary of the elevated crude oil and petrochemical prices. Given its arrangement with Petronas, PCHEM benefits from a favourable feed-cost structure against peers – i.e. most of PCHEM's gas feed stock can be procured from Petronas at a fixed pre-agreed price, while others may be hampered by the volatile input cost environment. PCHEM also enjoys dominant market share regionally, which will be further cemented by the start-up of its Pengerang complex in 2HCY22 - increasing its capacity by ~15%.
CIMB (OP; TP: RM6.35)	Between the large cap banks, we gather that CIMB commands the most optimal mix in terms of fixed-rate financing (19%) and CASA mix (44%), putting it in an optimal position to benefit from the interest rate upcycle. Meanwhile, the group is also showing high resilience in its NOII, with its regional operations (Indonesia, Thailand) shielding the group. Additionally, CIMB has a solid green financing pipeline which we believe will show promising traction, backed by their regional footprint.
DIGI (OP; TP: RM4.25)	An exciting proposition due to its impending merger with Celcom Axiata. The new entity will be well entrenched in the public sector and migrant worker space, commanding the dominant market share in the mobile market at 42% (based on MCMC's Mar 2022 figures) and dwarfing other MNOs. The roll-out of 5G will likely further boost its subscribers given the absence of MAXIS in this early stage of the rollout. DIGI's margins have always been solid, the best under our telco universe at 49%, outpacing the industry average of 41%. Its gearing is among the lowest among its peers.
KLK (OP; TP: RM28.00)	Plantation earnings are easing entering 2023 but ratings are approaching a bottom, strongly indicating that a lot of bad news are already priced in. Within the sector, KLK is our pick for its strong management, defensive balance sheet, efficient operations and undemanding ratings. Moreover, while the sector saw minimal expansion upstream over the past five years, KLK grew 25-30% by acquiring IJM Plantations in early FY22. Strong operations in both Malaysia and Indonesia gives KLK the flexibility to expand faster while net gearing of just over 50% even after acquiring IJM Plantation is very manageable.
INARI (OP; TP: RM3.45)	While inventory adjustments are currently on-going in the semiconductor sector, we hold the view that they will be mild as end-users adjust to the new norm of maintaining high inventory levels. The escalating US-China chip war could benefit Malaysia which is seen as a neutral ground. INARI will continue to benefit from the positive market response to the latest US smartphone launch. We also like INARI for its direct involvement in the 5G supply chain and its ability to innovate, enabling it to retain highly demanding customers.
GAMUDA (OP; TP: RM4.70)	We like GAMUDA given: (i) the good chances of it garnering a significant slice of action in MRT3, (ii) its recent job wins in Australia and Singapore that speak eloquently for its competitiveness in the international market, (iii) the lumpy proceeds from the disposal of its toll assets, putting it in a strong position to participate in public infrastructure projects on a PFI or deferred payment model, or even giving out a special dividend, and (iv) its strong earnings visibility underpinned by an outstanding order book of RM14.4b.
ABMB (OP; TP: RM4.20)	In a high economic growth landscape, ABMB is poised to be a strong beneficiary given its leading SME mix (>30%) which has been the most depressed during the pandemic. In addition to its economic revival, the group's highest CASA ratio (50%) offers significant shelter in terms of funding cost. Broadly, ABMB is an appealing pick as they appear fundamentally stronger than its large cap peers with its solid ROEs of 10% (vs. 9%) and dividend returns of 6% (vs. 5%). In the small cap space, ABMB is also one of our favourite ESG banks for their accelerated headway in phasing off coal financing.
BAUTO (OP; TP: RM2.30)	Its premium mid-market Mazda brand offers the best of both worlds, i.e. targeting the mass middle-income group and yet commanding better margins than its peers in the mid-market segment. Including Peugeot and Kia marques, it has put onto the market eleven new models, and there will be another eight in the pipeline, making it the auto player with the most new line-ups in the market. Its earnings visibility is strongly underpinned by an order backlog of 10k units while dividend yield is attractive at about 5%.
AEON (OP; TP: RM1.95)	We like AEON for: (i) it is a good proxy to consumers rekindling shopping-in-person (vs. online) which offers the sound-and-sight experience that online shopping is unable to match, (ii) its expansion plans comprising five new stores in the pipeline in FY22-23F, i.e. four Komai-So discount stores and one full-fledged AEON store in IOI Putrajaya, as well as the rejuvenation of three existing AEON stores, and (iii) its digital transformation by introducing self-checkout terminals, which will reduce dependency on labour and improve productivity.

Source: Kenanga Research

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Exhibit 6: Overall Top Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd
MAYBANK	OP	8.58	11.05	28.8	102,703	12/2022	73.3	90.7	5.2	23.7	8.5	10.6	1.1	0.1	8.58	11.05
PCHEM	OP	8.62	11.00	27.6	68,960	12/2022	87.2	68.8	-5.0	-21.1	10.1	8.0	1.8	0.2	8.62	11.00
CIMB	OP	5.37	6.35	18.2	56,247	12/2022	52.2	65.9	21.9	26.2	9.7	12.3	0.9	0.1	5.37	6.35
DIGI	OP	3.46	4.25	22.8	26,902	12/2022	12.7	16.3	-14.8	27.7	3.7	4.7	41.9	1.6	3.46	4.25
KLK	OP	21.90	28.00	27.9	23,612	09/2022	200.0	176.0	-4.4	-12.0	9.1	8.0	1.8	0.2	55.00	28.00
INARI	OP	2.80	3.45	23.2	10,397	06/2023	11.0	12.1	4.2	9.8	3.9	4.3	4.1	0.2	2.80	3.45
GAMUDA	OP	3.95	4.70	19.0	10,235	07/2022	30.5	24.7	28.0	-19.2	7.7	6.2	1.1	0.1	3.95	4.70
ABMB	OP	3.65	4.20	15.1	5,651	03/2023	44.8	51.0	21.0	13.8	12.3	14.0	0.8	0.1	3.65	4.20
BAUTO	OP	1.90	2.30	21.1	2,207	04/2023	14.1	16.1	5.1	14.4	7.4	8.5	3.1	0.2	1.90	2.30
AEON	OP	1.44	1.95	35.4	2,022	12/2022	10.1	10.3	65.5	2.5	7.0	7.2	1.1	0.1	1.44	1.95

Source: Kenanga Research

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Exhibit 7: Top Shariah Picks and Rationales

Top Pick	Comments
PCHEM (OP; TP: RM11.00)	PCHEM is a beneficiary of the elevated crude oil and petrochemical prices. Given its arrangement with Petronas, PCHEM benefits from a favourable feed-cost structure against peers – i.e. most of PCHEM's gas feed stock can be procured from Petronas at a fixed pre-agreed price, while others may be hampered by the volatile input cost environment. PCHEM also enjoys dominant market share regionally, which will be further cemented by the start-up of its Pengerang complex in 2H2022 - increasing its capacity by ~15%.
DIGI (OP; TP: RM4.25)	An exciting proposition due to its impending merger with Celcom Axiata. The new entity will be well entrenched in the public sector and migrant worker space, commanding the dominant market share in the mobile market at 42% (based on MCMC's Mar 2022 figures) and dwarfing other MNOs. The roll-out of 5G will likely further boost its subscribers given the absence of MAXIS in this early stage of the rollout. DIGI's margins have always been solid, the best under our telco universe at 49%, outpacing the industry average of 41%. Its gearing is among the lowest among its peers.
KLK (OP; TP: RM28.00)	Plantation earnings are easing entering 2023 but ratings are approaching a bottom, strongly indicating that a lot of bad news are already priced in. Within the sector, KLK is our pick for its strong management, defensive balance sheet, efficient operations and undemanding ratings. Moreover, while the sector saw minimal expansion upstream over the past five years, KLK grew 25-30% by acquiring IJM Plantations in early FY22. Strong operations in both Malaysia and Indonesia gives KLK the flexibility to expand faster while net gearing of just over 50% even after acquiring IJM Plantation is very manageable.
TM (OP; TP: RM7.95)	It is among the first to commit to the 5G rollout. It has strengthened its broadband market share to c.74% (from its lowest point of 69% in 1H21) as it took advantage of connectivity issues faced by competitors during the pandemic. The downward pressures on its ARPU (due to competitive bundling offered to M40 and B40) have eased, manifested in a rebound in 2QCY22. TM has almost completed its nationwide fibre network expansion of 6m premises (under the Jendela Initiative) which would enhance its 4G coverage and accelerate its 5G services.
INARI (OP; TP: RM3.45)	While inventory adjustments are currently on-going in the semiconductor sector, we hold the view that they will be mild as end-users adjust to the new norm of maintaining high inventory levels. The escalating US-China chip war could benefit Malaysia which is seen as a neutral ground. INARI will continue to benefit from the positive market response to the latest US smartphone launch. We also like INARI for its direct involvement in the 5G supply chain and its ability to innovate, enabling it to retain highly demanding customers
GAMUDA (OP; TP: RM4.70)	We like GAMUDA given: (i) the good chances of it garnering a significant slice of action in MRT3, (ii) its recent job wins in Australia and Singapore that speak eloquently for its competitiveness in the international market, (iii) the lumpy proceeds from the disposal of its toll assets, putting it in a strong position to participate in public infrastructure projects on a PFI or deferred payment model, or even giving out a special dividend, and (iv) its strong earnings visibility underpinned by an outstanding order book of RM14.4b.
TAKAFUL (OP; TP: RM3.90)	TAKAFUL's share price weakness amidst uncertainties from the pending MFRS17 is unwarranted, as the group's operations are largely unaffected. The group's leading market share (36%) in bancatakaful is expected to reflect closely the anticipated increase in loans demand spurred by economic recovery. Meanwhile, ongoing digitalisation would make its products more assessable to the underserved retail market of RM13b in premiums. The reducing reliance on an agency workforce also positions the group firmly against disruptions in physical distribution.
BAUTO (OP; TP: RM2.30)	Its premium mid-market Mazda brand that offers the best of both worlds, i.e. targeting the mass middle-income group and yet commanding better margins than its peers in the mid-market segment. Including Peugeot and Kia marques, it has put onto the market eleven new models, and there will be another eight in the pipeline, making it the auto player with the most new line-ups in the market. Its earnings visibility is strong underpinned by an order backlog of 10k units while dividend yield is attractive at about 5%.
AEON (OP; TP: RM1.95)	We like AEON for: (i) it is a good proxy to consumers rekindling shopping-in-person (vs. online) which offers the sound-and-sight experience that online shopping is unable to match, (ii) its expansion plans comprising five new stores in the pipeline in FY22-23F, i.e. four Komai-So discount stores and one full-fledged AEON store in IOI Putrajaya, as well as the rejuvenation of three existing AEON stores, and (iii) its digital transformation by introducing self-checkout terminals, which will reduce dependency on labour and improve productivity.
OCK (OP; TP: RM0.95)	A bumper FY23F earnings backed by potential telco tower construction and fiberisation contracts worth RM250m. OCK is already involved in the 5G deployment locally via the upgrading of its existing 4G towers to support 5G service as well as the construction of new 5G towers. We see growth opportunities in the telco infrastructure space in Myanmar and Vietnam which are still relatively under-served especially in the rural areas. Its earnings are more stable and visible with about 63% of its revenue being recurring from telco tower maintenance (55,000 towers of which about 80% are in Indonesia) and telco tower leasing.

Source: Kenanga Research

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Exhibit 8: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd
PCHEM	OP	8.62	11.00	27.6	68,960	12/2022	87.2	68.8	-5.0	-21.1	10.1	8.0	1.8	0.2	43.6	5.1
DIGI	OP	3.46	4.25	22.8	26,902	12/2022	12.7	16.3	-14.8	27.7	3.7	4.7	41.9	1.6	12.6	3.6
KLK	OP	21.90	28.00	27.9	23,612	09/2022	200.0	176.0	-4.4	-12.0	9.1	8.0	1.8	0.2	55.0	2.5
TM	OP	5.67	7.95	40.2	21,476	12/2022	30.9	35.1	30.2	13.8	5.4	6.2	2.8	0.2	17.0	3.0
INARI	OP	2.80	3.45	23.2	10,397	06/2023	11.0	12.1	4.2	9.8	3.9	4.3	4.1	0.2	10.4	3.7
GAMUDA	OP	3.95	4.70	19.0	10,235	07/2022	30.5	24.7	28.0	-19.2	7.7	6.2	1.1	0.1	12.0	3.0
TAKAFUL	OP	3.35	3.90	16.4	2,805	12/2022	41.3	43.5	-16.0	5.2	12.3	13.0	1.4	0.2	14.0	4.2
BAUTO	OP	1.90	2.30	21.1	2,207	04/2023	14.1	16.1	5.1	14.4	7.4	8.5	3.1	0.2	9.9	5.2
AEON	OP	1.44	1.95	35.4	2,022	12/2022	10.1	10.3	65.5	2.5	7.0	7.2	1.1	0.1	4.1	2.8
OCK	OP	0.45	0.95	111.1	475	12/2022	3.0	5.2	22.4	74.4	6.7	11.7	0.7	0.0	0.5	1.1

Source: Kenanga Research

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Automotive

Earnings Underpinned by Order Backlogs

OVERWEIGHT



By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

We maintain OVERWEIGHT on the automotive sector. Our 2022 and 2023 TIV forecasts are 650k units (+28%) and 660k units (+2%), compared to Malaysian Automotive Association (MAA)'s target of 630k units (+24%) and 636k units (+1%), respectively (we believe MAA is likely to revise up its numbers along the way). Moving forward, vehicle sales should sustain into the next year underpinned by booking backlogs to the tune of some 400k units. Not all of these, particularly popular models with a waiting period of beyond 12 months, will be delivered and registered before end-March 2023 to enjoy the Sales & Service Tax (SST) exemption (despite the bookings being made prior to end-June 2022). This means TIV will not fall off the cliff after March 2023. Our sector top picks are MBMR (OP; TP: RM4.30) given its market leader position in national marques and BAUTO (OP; TP: RM2.30) for its positioning in the premium mid-market segment.



Maintain OVERWEIGHT with 2022 TIV target of 650k units (+28%) and 2023 TIV target of 660k units (+2%). Our 2022 and 2023 TIV forecasts are 650k units (+28%) and 660k units (+2%), compared to Malaysian Automotive Association (MAA)'s target of 630k units (+24%) and 636k units (+1%), respectively. With the stronger-than-expected TIV numbers in August 2022, we believe that MAA is likely to revise up its forecasts.

To ensure consumers keep coming back to the showrooms, automakers are putting onto the market newer models that also command better margins (see details on the page after next).

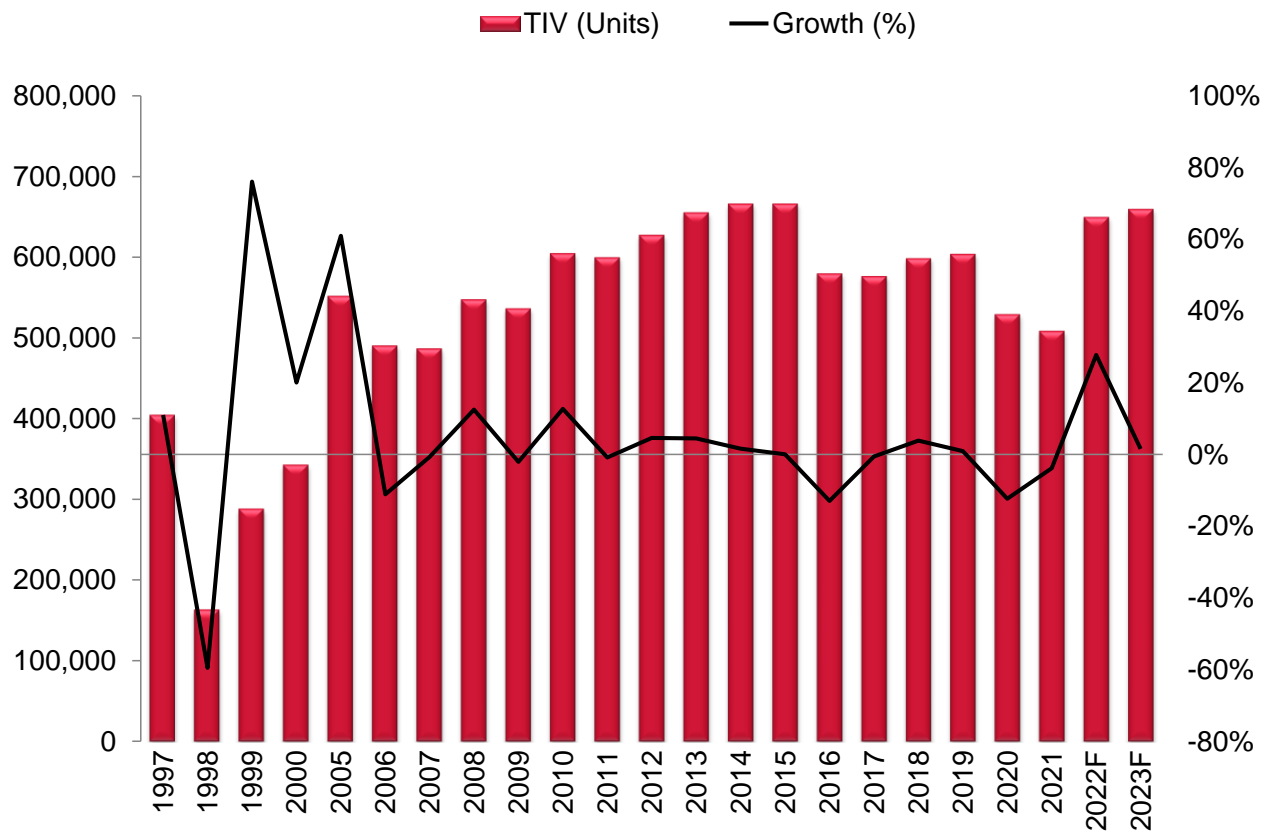
Currently, vehicles order backlogs are reaching to the tune of some 400k units (mostly vehicles of newer models that are currently out of stock). Not all of these, particularly new models with a waiting period of beyond 12 months (such as Perodua Alza), will be delivered and registered before end-March 2023 to enjoy the Sales & Service Tax exemption (despite the bookings being made prior to end-June 2022). This means TIV will not fall off the cliff after March 2023. Additionally, there will be launches of new battery electric vehicles (BEVs) that will still enjoy SST exemption and other EV facilities incentives up to 2023 for CBU and 2025 for CKD, underpinning the TIV.

We are unperturbed by the impact of the rising interest rates on vehicle sales. Assuming Bank Negara Malaysia is to raise the overnight policy rate (OPR) by another 25 bps to 2.75% in November, taking the total OPR hike for 2022 to a full percentage point (from 1.75% to 2.75%), this will only raise the monthly instalment for, say, a Perodua Myvi AV priced at RM60k (90% financing margin, 5-year tenure) by 4.6% from RM978 to RM1,023. We also note that the actual interest rates charged varies based on term, financiers, car models, individuals credit score and newer popular models are most likely be charged a lower effective interest rate range.

Our sector top picks are MBMR (OP; TP: RM4.30) and BAUTO (OP; TP: RM2.30). We like MBMR for its: (i) strategy to focus on affordably priced Perodua vehicles amidst the high inflationary environment with more than 200k units of back-logged bookings, (ii) highly sought-after Tier-1 OEM auto parts manufacturing line, and (iii) position in capitalising on both front for Perodua through its 22.58% stake and role as the largest Perodua dealership. On the other hand, we like BAUTO for: (i) its premium mid-market Mazda brand that offers the best of both worlds, i.e. targeting the mass middle-income group and yet commanding better margins than its peers in the mid-market segment, and (ii) its attractive dividend yield of 5%.

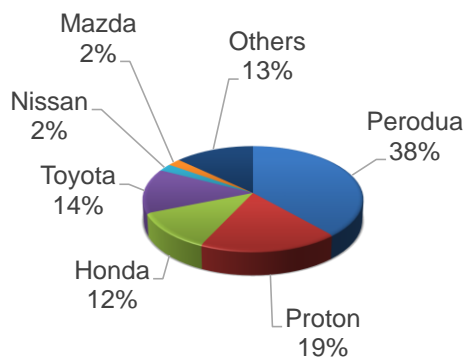
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TIV volume 1997-2023F



Source: MAA, Kenanga Research

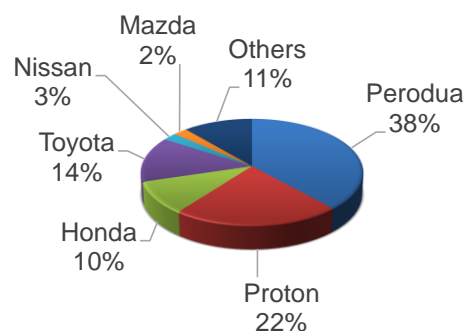
Market share of 8M2022 (Passenger and Commercial)



■ Perodua ■ Proton ■ Honda ■ Toyota
■ Nissan ■ Mazda ■ Others

Source: MAA, Kenanga Research

Market share of 8M2021 (Passenger and Commercial)



■ Perodua ■ Proton ■ Honda ■ Toyota
■ Nissan ■ Mazda ■ Others

Source: MAA, Kenanga Research

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Exciting New Launches

Perodua Ativa (in plan for hybrid model)



All-new Perodua Alza



All-new Toyota Veloz-3Q22



All-new Toyota Vios - 2023



Toyota Corolla Cross Hybrid



All-New Kia Carnival 8-seater



Proton SUV 7-seater- early 2023



Proton SMART#1 EV- 4Q23



Mazda CX-30 CKD by 4Q22



2022 Honda City Hatchback



All-new 2022 Honda HR-V



All-new Honda BR-V -2023



Source: Paultan.org

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.90	2.30	21.05%	2,207.0	Y	04/2023	14.1	16.1	5.1%	14.4%	13.5	11.8	3.1	24.4%	9.9	5.2%
DRB-HICOM BHD	MP	1.63	1.55	-4.91%	3,151.2	Y	12/2022	4.8	8.3	-55.8%	73.1%	33.9	19.6	0.3	1.0%	2.0	1.2%
MBM RESOURCES BHD	OP	3.37	4.30	27.60%	1,317.3	Y	12/2022	54.5	61.3	26.9%	12.4%	6.2	5.5	0.6	9.5%	22.0	6.5%
SIME DARBY BHD	OP	2.20	2.60	18.18%	14,981.8	Y	06/2023	17.7	19.5	0.5%	10.6%	12.5	11.3	0.9	7.4%	12.0	5.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.13	0.850	-24.78%	736.9	Y	12/2022	(3.6)	(1.0)	N/A	N/A	N.A.	N.A.	0.3	-0.9%	1.5	1.3%
UMW HOLDINGS BHD	OP	3.20	4.65	45.31%	3,738.5	Y	12/2022	34.2	35.7	78.9%	4.5%	9.4	9.0	0.5	5.4%	6.0	1.9%
Simple Average								20.3	23.3	11.1%	23.0%	15.1	11.4	1.0	7.8%		3.6%

Source: Kenanga Research

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28 September 2022

Aviation

Still Flying at Low Altitudes

By Raymond Choo Ping Khoon / pkchoo@kenanga.com.my

NEUTRAL



We reiterate our NEUTRAL view on the sector. We project AIRPORT's system-wide passenger throughput to almost double to 70m in 2022 (from 36m in 2021) and rise by another 44% to 101m in 2023 on the back of the reopening of international borders, but it's still a long way from matching the pre-pandemic level of 141m recorded in 2019. Similarly, we project CAPITALA's system-wide revenue seat km (RPK) to grow >5x to 22b in 2022 and almost double to 44b in 2023, but still falls short of the pre-pandemic level of 63b in 2019. Meanwhile, AIRPORT's much-needed tariff hike does not appear to be forth-coming in accordance with a recent consultation paper published by Malaysia Aviation Commission (MAVCOM), while the clock is ticking on a more viable and holistic regularisation plan to lift CAPITALA out of its Practice Note 17 (PN17) status. We do not have any pick for the sector.

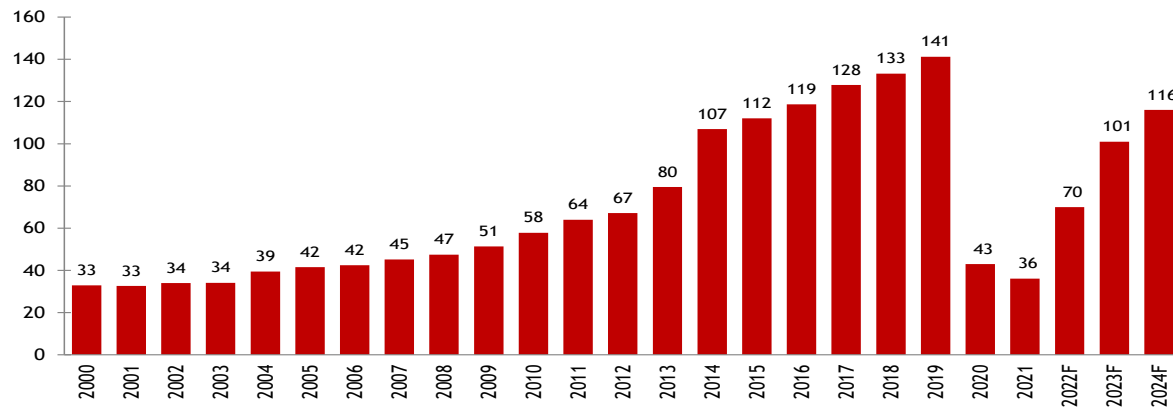
Further volume improvement for AIRPORT and CAPITALA in 2HCY22. We project AIRPORT's system-wide passenger throughput to continue to improve in 2HCY22 on the back of the reopening of international borders, which will pave the way for it to close to doubling YoY to 70m in 2022 (from 36m in 2021). Already, the total passenger traffic of its entire network of airports has continued to gain traction in Aug 2022, recording 7.8m, bringing 8M-YTD number to 49m (+166%). We expect the traffic to grow gradually in subsequent months driven by domestic seat capacity nearing 90% of pre-Covid level from July and international seat capacity is expected to recover to at least 50% of pre-Covid level during the same period. AirAsia and Scoot Airlines are the first international airlines to resume services to Kota Kinabalu International Airport on 16th and 29th April, respectively, after a two-year lull. Among the airlines that have resumed services are Thai AirAsia, AirAsia X, Vietjet Air and AirAsia covering Bangkok, Incheon, Hanoi and Hat Yai. Royal Brunei Airlines has resumed services to Kota Kinabalu from Bandar Seri Begawan, utilising Airbus 320neo with two-time weekly frequencies.

We see similar trend for CAPITALA's passenger demand in 2HCY22, paving the way for its system-wide revenue seat km (RPK) to grow >5x to 22b in 2022 based on our forecast (from low base effect as borders were closed for most part of 2021 due to the pandemic). It has recorded encouraging load factors at 159 international routes re-launched in 2HCY22. In August, AirAsia operated 108 aircrafts and will operate 160 by end of the year.

Beyond 2022, we project AIRPORT's system-wide passenger throughput to rise by another 44% to 101m in 2023, but it's still a long way from matching the pre-pandemic level of 141m recorded in 2019. Similarly, we project CAPITALA's RPK to almost double to 44b in 2023, but it still falls short of 63b prior to the pandemic in 2019.

AIRPORT's much-needed tariff hikes not forth-coming. Meanwhile, AIRPORT's much-needed tariff hike does not appear to be forth-coming in accordance with a recent consultation paper published by MAVCOM which does not augur well for its ability to generate enough cash flow for capex purposes, particularly for airport expansion and maintenance. While MAVCOM also proposes a mechanism for AIRPORT to recoup during the later years the losses incurred during the initial years, we are concerned over AIRPORT's cash flows over the immediate term.

CAPITALA's PN17 status remains an overhang. Despite the rising demand, we expect CAPITALA to remain in the red over the short term as economies of scale are still lacking in its airline operation while its digital business has a long gestation period. Meanwhile, the clock is ticking on a more viable and holistic regularisation plan to lift it out of the PN17 status. It will have until January 2023 to do so. We do not have any pick for the sector.

AIRPORT's System-wide Passenger Throughput*million passengers**Source: Kenanga Research, AIRPORT**The rest of the page is intentionally left blank*

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CAPITAL A BHD	MP	0.620	0.600	-3.2%	2,580	Y	12/2022	(51.5)	2.6	-174%	-95%	N.A.	24.0	(0.6)	55.4%	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	5.90	6.05	2.5%	9,789	N	12/2022	7.6	27.4	-84%	262%	77.8	21.5	1.3	1.7%	2.0	0.3%

Source: Kenanga Research

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28 September 2022

Banking

Riding on Sustained Demand

By Clement Chua | clement.chua@kenanga.com.my

OVERWEIGHT



We maintain our OVERWEIGHT call on the sector. Global recessionary concerns continue to press market sentiment, though we believe it open up opportunities in the banking space. Recent performance of 2QCY22 GDP (+8.9%) and Aug 2022 exports (+48% YoY) are highly supportive of growth prospects and demand for business loans. While this may taper down in 2023, we anticipate a continuing OPR up-cycle (two additional 25 bps hikes to 3.00% by 1QCY23) to cushion banking NIMs. For 4QCY22, we seek to pick names which are firmly positioned to benefit from the abovementioned boons, narrowing to those with: (i) a high growth SME-financing mix on better general economic performance, and (ii) optimal funds profile (i.e. low fixed-rate financing with high CASA mix). For the large cap banks, we highlight CIMB (OP; TP: RM6.35) which has also demonstrated defensive performance in NOII, contrary to most other banks thanks to its regional operations. MAYBANK (OP; TP: RM11.05) is still preferred for its dividend yield safety (7-8%). For the smaller banks, we look towards ABMB (OP; TP: RM4.20) which we awarded a higher ESG-rating thanks to its commendable green financing book. Fundamentally, the bank commands ROEs and dividend yields comparable to its larger cap peers.



OPR trajectory could be reaching its end. Approaching 4QCY22, we anticipate one last 25bps OPR hike in November. We do not anticipate BNM to be as aggressive as the US Fed following another 75 bps increase to the Fed Funds Rate (3.00-3.25%) in its September meeting as local inflation concerns are not as severe as abroad. While we do see gradual recovery to the supply chain and boosts to our overall economic output, developments in the Russia-Ukraine war could further press macro conditions, but we do not believe it would have as strong an impact as it did during the early days in Feb 2022.

Optimising tailwinds at hand. With the prospects at hand, we anticipate our newly revised GDP growth expectation of 6.7% to be met by a significant return in SME sector which was the most affected sector during past MCOs. Banking corporates also share similar sentiment with key loans growth strategies aimed at enabling SMEs to expand. Service sectors such as hospitality, retail and tourism are likely to be at the forefront. We identified the smaller cap banks (ABMB, AMBANK, and BIMB) to have a stronger SME identity which may solidify their position when this segment kicks off. Meanwhile, **in a rising rate environment**, it is more like that the banks with the greatest re-pricing power could capitalise on the introduction of higher rates. This would constitute having: (i) a low fixed rate financing mix, and/or (ii) a higher CASA-to-deposit ratio. Notably, BIMB and RHBBANK appear to have the highest variable loans rate profile while ABMB, CIMB and MAYBANK stand tall with CASA.

Loans and deposits profile of banks as of 2QCY22

2QCY22	ABMB	AFFIN	AMBANK	BIMB	CIMB	HLBANK	MAYBANK	PBBANK	RHBBANK
Gross loans (RM'm)	46,098	55,429	120,126	60,700	394,307	168,234	575,332	367,965	204,926
Domestic SME proportion	33%	17%	21%	20%	13%	18%	13%	19%	15%
Fixed rate financing %	18%	25%	20%	8%	19%	17%	27%	22%	12%
Customer deposits (RM'm)	48,651	64,452	121,393	54,891	420,937	195,227	608,155	388,252	225,942
CASA-to-deposit %	50%	21%	33%	36%	44%	34%	45%	32%	29%
Total assets (RM'm)	63,129	86,677	178,553	83,030	652,993	254,331	923,380	478,813	299,653
Shareholders' equity (RM'm)	6,325	10,098	17,017	6,669	60,323	30,989	84,698	49,098	27,428
Peer Loans Market Share	2.3%	2.7%	6.0%	3.0%	19.3%	8.2%	28.2%	18.2%	10.1%
Peer Deposits Market Share	2.3%	2.9%	5.8%	2.6%	19.8%	8.9%	28.4%	18.1%	10.6%
Loans growth (CY-YoY)	6.7%	15.0%	3.9%	8.0%	6.8%	8.0%	6.2%	4.5%	7.3%
Deposits growth (CY-YoY)	4.0%	19.8%	6.4%	11.6%	3.0%	6.8%	4.9%	3.5%	4.8%

Source: Kenanga, Companies

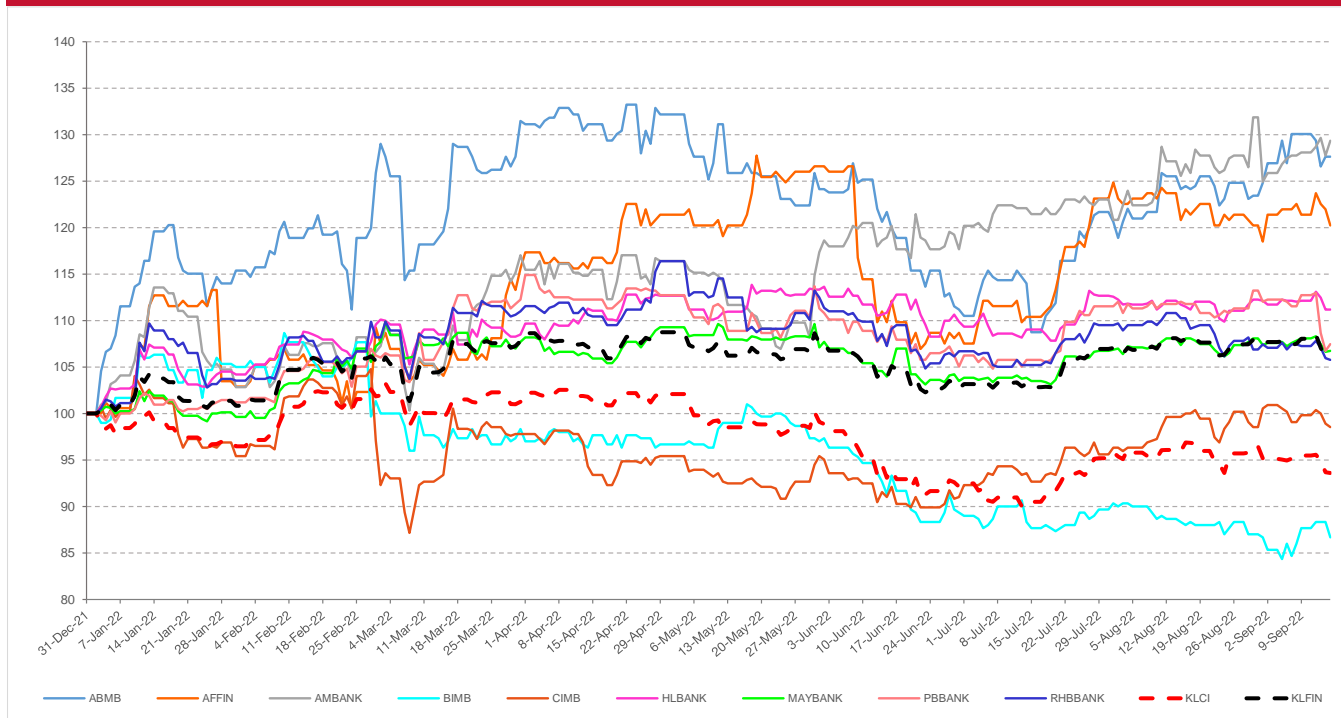
(refer to the overleaf for further commentary on industry fundamentals)

Maintain OVERWEIGHT on the banking sector. The investment thesis for the banking sector's resiliency remains affirmed and we believe additional attention could be given to names which demonstrate stronger performance thanks to the factors mentioned above. On top of the industry-wide boons of: (i) progressive write-backs of Covid-19 loan provisions, and (ii) earnings-surge post-prosperity tax in CY23, we feature our large cap Top Picks for 4QCY22 - **CIMB (OP; TP: RM6.35)** which is expected to command defensive NOII numbers as trading performances are supported by its regional arm, whereas peers are expected to still report diminishing returns. It also helps that CIMB was recently awarded a 4-star ESG rating by us for its sustainable financing efforts. **MAYBANK (OP; TP: RM11.05)** continues to be a favourite for dividends (7-8% yield) for those concerned with capital safety amidst ongoing uncertainties. Meanwhile, we like **ABMB (OP; TP: RM4.20)** amongst the small cap banks for being the leader in SME profiling as well as its considerable CASA mix. The stock's fundamentals are also comparatively better than its larger cap peers in terms of ROE (10%) and dividend yields (6%).

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Strength in banking stocks still holding up. We gather that the overall investment sentiment has been bogged down by ongoing macro concerns, which could be further amplified by developing unrest in certain regions, possibly allaying the mending of supply chain issues. Additionally, the rise in US Fed rates and recessionary concerns may cause foreign investors to exit less critical positions. That said, the banks are likely firmly positioned against the abovementioned headwinds as they are still poised to benefit from persisting loans growth tractions while benefitting from the OPR up-cycle to further cement profit margins. Only BIMB has yet to perform above index owing to earnings disappointments amidst untimely defaults from large corporate accounts and subsequent earnings misses.

YTD Performance of Banking Stocks against the KLCI and Bursa Finance Index (KLFIN)

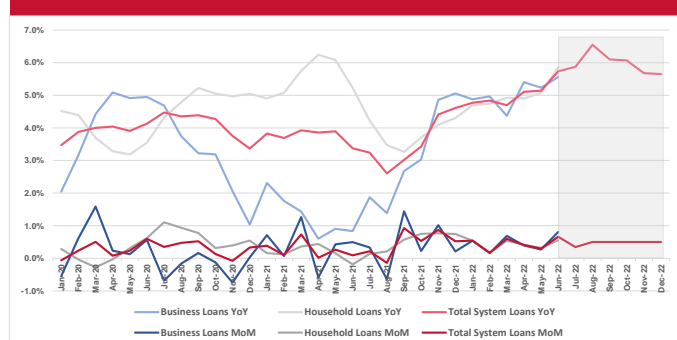


* as of our cut-off date at 15 Sep 2022

Source: Bloomberg

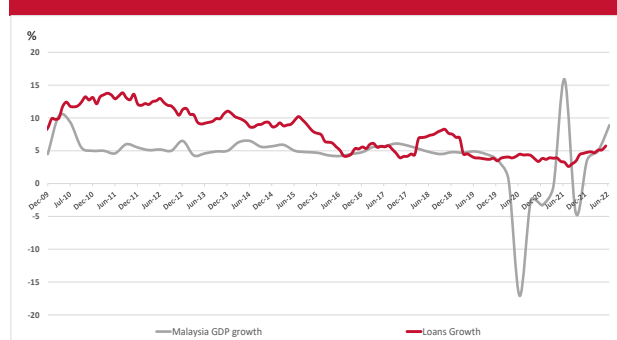
5.5-6.0% industry loans growth target firmly in line with GDP. July 2022 reported a 5.9% YoY system loans growth, which warranted us to upgrade our initial CY22 expectations from 5.0-5.5% to 5.5-6.0%. The recently reported 2QCY22 GDP growth of 8.9% further cements our view that our local economy is regaining its health and should translate to a higher demand for loans going forward. Albeit, there should be some easing in 4QCY22 as production bottlenecks ease but all this would justify our in-house 2022 GDP forecast of 5.7%. We anticipate the forerunners in the coming months to be business loans as working capital needs are expected to increase to cope with the growing economic output regardless of increasing OPR. Household loans may step back in meeting existing loan commitments while retailers may opt to capitalise on higher savings rates, instead.

YoY and MoM Loans Growth and Projection



Source: Kenanga

GDP and Loans Growth Trajectory

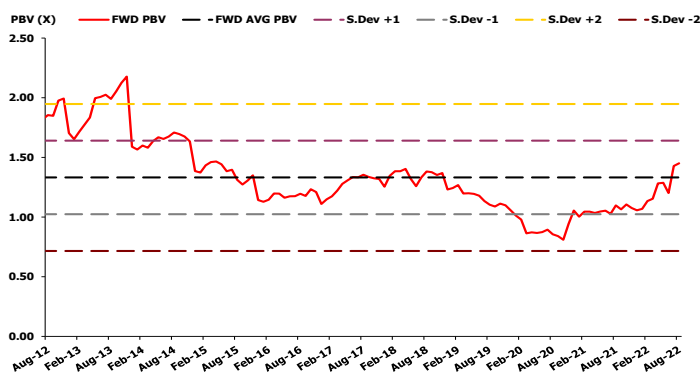


Source: Kenanga

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Banking valuations are relatively inexpensive.

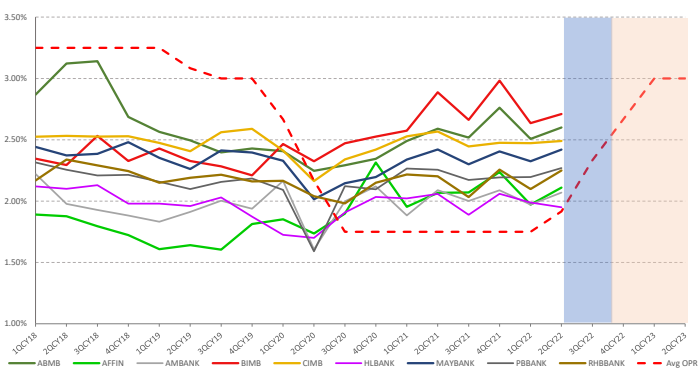
Arising from the Covid-19 pandemic, the equities market saw a sell-down stemming from the first lockdown in March 2020 which is now seen to be normalising. The banking sector trended similarly but had enjoyed a quicker recovery in sentiment thanks to tailwinds from: (i) sustained loans growth, (ii) rising OPR expectations, and (iii) better-than-expected asset quality. We anticipate these merits to persist, now with the addition of bumper earnings in CY2023 as profits normalise from CY2022 one-off prosperity tax. In spite of this, we gathered that the banking sector's Fwd. PBV valuations are still fairly undemanding, closely trailing its 10-year mean. We anticipate valuations to only rise further in the coming periods as dividend prospects materialise from year-end reporting, barring unexpected macro developments.

10-year Fwd PBV Standard Deviation lingering at mean levels

Source: Kenanga

Reaping OPR up-cycle. The plateauing of NIMs has expectedly ceased following the first OPR hike in May 2022, as the banks now have greater room for up-pricing loans books while rebalancing fixed deposit rates. CASA ratios could possibly taper down as fixed deposit products become more attractive, but it should still be outpaced by higher loan charges on average. The banks are guiding for an annualised NIMs expansion of 2-4 bps for each subsequent 25 bps hike.

Recall that we anticipated one further rate hike in BNM's November MPC meeting followed by another in the January or March 2023 meeting before steadying OPR at 3.00%.

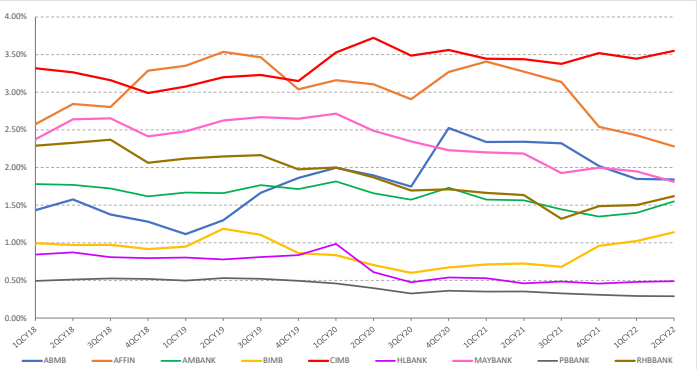
Est. Annualised NIMs

Note:

1. Blue bar indicates announced OPR yet to be reflected into reported earnings
2. Orange bar indicates our in-house OPR expectations in the coming periods

Source: Kenanga

Bump in GIL is not a concern. Sector-wide, GIL ratios did see an uptick during the 2QCY22 reporting season. However, we do not believe this would transpire to higher levels as we see it to be a normalisation of rates post-repayment assistance. Certain banks have notably been able to bring their GIL to more respectable levels and are expected to maintain similar asset quality as we do not anticipate further on-boarding of higher-risked assets. Notable performers are HLBANK and PBBANK which are amongst the industry lowest at 0.5% and 0.3%, respectively.

Est. GIL trends (1QCY18-2QCY22)

Source: Kenanga

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Peer Table Comparison

Name	Rating	Last Price asa of 15 Sep 2022 (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Curren t FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	
Stocks Under Coverage																		
AFFIN BANK BHD	OP	2.08	2.45	17.79%	4,690.1	N	12/2022	28.0	35.7	12.3%	27.5%	7.6	5.9	0.4	5.9%	11.0	5.2%	
ALLIANCE BANK MALAYSIA BHD	OP	3.65	4.20	15.07%	5,759.0	N	03/2023	44.8	51.0	21.0%	13.8%	8.3	7.3	0.9	10.5%	22.0	5.9%	
AMMB HOLDINGS BHD	OP	4.10	4.75	15.85%	13,412.5	N	03/2023	49.8	54.2	9.4%	8.8%	8.1	7.5	0.7	9.5%	16.0	4.0%	
BANK ISLAM MALAYSIA BHD	MP	2.60	2.45	-5.77%	5,560.6	Y	12/2022	19.5	24.4	-9.2%	23.0%	13.2	10.6	1.0	7.3%	9.7	3.8%	
CIMB GROUP HOLDINGS BHD	OP	5.37	6.35	18.25%	56,561.0	N	12/2022	52.2	65.9	12.6%	26.2%	10.3	8.2	0.9	8.7%	26.0	4.8%	
HONG LEONG BANK BHD	OP	20.70	23.35	12.80%	45,218.6	N	06/2023	194.3	201.5	21.0%	3.7%	10.7	10.4	1.3	12.3%	70.0	3.4%	
MALAYAN BANKING BHD	OP	8.86	11.05	24.72%	107,131.6	N	12/2022	73.3	90.7	5.2%	23.7%	12.2	9.9	1.2	9.8%	60.0	6.7%	
PUBLIC BANK BHD	MP	4.47	4.65	4.03%	90,065.6	N	12/2022	29.5	37.5	1.3%	26.9%	15.7	12.4	1.8	11.6%	15.5	3.3%	
RHB BANK BHD	OP	5.68	7.00	23.24%	24,303.7	N	12/2022	65.4	78.7	-5.6%	20.3%	8.8	7.3	0.8	9.2%	32.0	5.5%	
Simple Average												7.6%	19.3%	10.5	8.8	1.0	9.4%	4.7%

Source: Kenanga Research

Gordon Growth Model Inputs

Name	Cost of Equity (%)	Terminal growth (%)	Sustainable ROE (%)	Fair value P/BV (x)	Applied CY23E BVPS (RM)	Additional Remarks	TP (RM)	Call
ABMB	11.0	3.00	10.0	0.88	4.57	+5% ESG Premium	4.20	OP
AFFIN	11.3	3.00	7.0	0.48	5.08		2.45	OP
AMBANK	10.7	3.50	9.5	0.84	5.69		4.75	OP
BIMB	10.0	3.00	9.0	0.85	2.88		2.45	MP
CIMB	11.0	3.00	10.5	0.94	6.47	+5% ESG Premium	6.35	OP
HLBANK	9.7	3.50	12.0	1.37	17.02		23.35	OP
MAYBANK	9.7	3.25	12.5	1.43	7.70		11.05	OP
PBBANK	9.7	4.00	13.0	1.58	2.82	+5% ESG Premium	4.65	MP
RHBBANK	10.7	3.00	10.0	0.91	7.67		7.00	OP

Source: Kenanga Research

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Building Materials

Slightly Different Paths for Aluminium and Steel

OVERWEIGHT



By Lum Joe Shen | lumjs@kenanga.com.my; Teh Kian Yeong | tehky@kenanga.com.my

We maintain OVERWEIGHT on the sector, mainly anchored by our OUTPERFORM call on PMETAL on sustained elevated aluminium prices (USD2,400-2,500/MT in FY22-FY23 based on our assumptions) and its volume growth underpinned by the commissioning of its new P3 plant in October 2021, boosting its production capacity by 42%. Meanwhile, margins of long steel producer ANNJO and cable support system manufacturer ULICORP will continue to be weighed down by high-cost inventories. While we expect aluminium prices to ease in 2HFY22, the downside will be capped given the supply constraints in the global market as European producers cut production amidst skyrocketing gas prices. However, the same cannot be said for steel makers as weakening global demand will continue to weigh down on prices.

Downside to aluminium prices likely to be capped. The aluminium price has retraced, in line with other metals, from its recent peak of USD3,876/MT in March 2022 to USD2,200/MT-USD2,300/MT currently. While it may continue to ease in the near term, we believe the downside would be capped and unlikely to go back to the 2019 average of USD1,728/MT before the pandemic. This is due to the supply constraints in the global market as European producers cut production amidst skyrocketing gas prices. YTD, LME spot prices have averaged at USD2,855/MT, 16% higher than that of USD2,463/MT recorded in 2021. Meanwhile, the cost of input alumina for PMETAL (OP; TP: RM5.62) has been benign at 13.9% of aluminium price YTD, which is consistent with 13.7% in 2021 and lower than the normalised level of 16%-17%.

Weak global demand to weigh down on steel prices. We anticipate global steel demand to contract further in 2HCY22 on the back of: (i) China's intermittent lockdowns arising from Beijing's zero-Covid policy, (ii) a seemingly deepening property crisis in China, and (iii) weaker global economic growth no thanks to inflation. Nonetheless, we expect steel prices to bottom out in 2023 underpinned by: (i) infrastructure spending in China under its CNY500b infrastructure fund aimed to revive its Covid-stricken economy, (ii) India's USD530b national budget which heavily focuses on infrastructure development, (iii) ongoing Russian-Ukraine War which limits global steel supply given that these two countries are net exporters of steel, and (iv) the gradual reduction of steel-making capacity in China under Beijing's carbon-neutral initiatives. In 2021, China reduced its crude steel output to 1.03b tonnes (from 1.06b tonnes), and it has continued to pledge annual reduction.

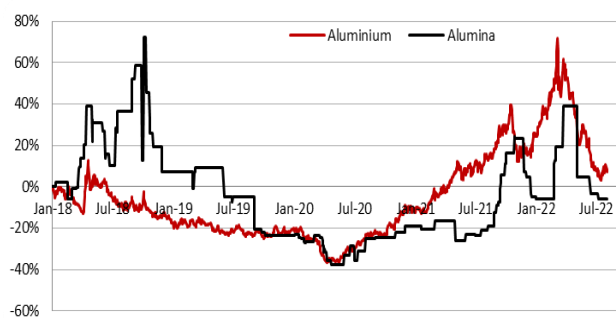
Our FY22F/FY23F steel rebar ASP assumptions are at RM3,050/RM,2700 per tonne (YTD 9MCY22 average stands at RM3,264/tonne). With expectations of further steel ASP decline in 2HCY22, we anticipate steel manufacturers under our coverage, ANNJO (UP; TP: RM0.85) and ULICORP (MP; TP: RM1.08), to continue facing margin pressures as its high inventory costs (typically 3-6 months' worth) lag the decline in ASPs. We do not have any top picks in the steel space.

Aluminium Prices



Source: Bloomberg, Kenanga Research

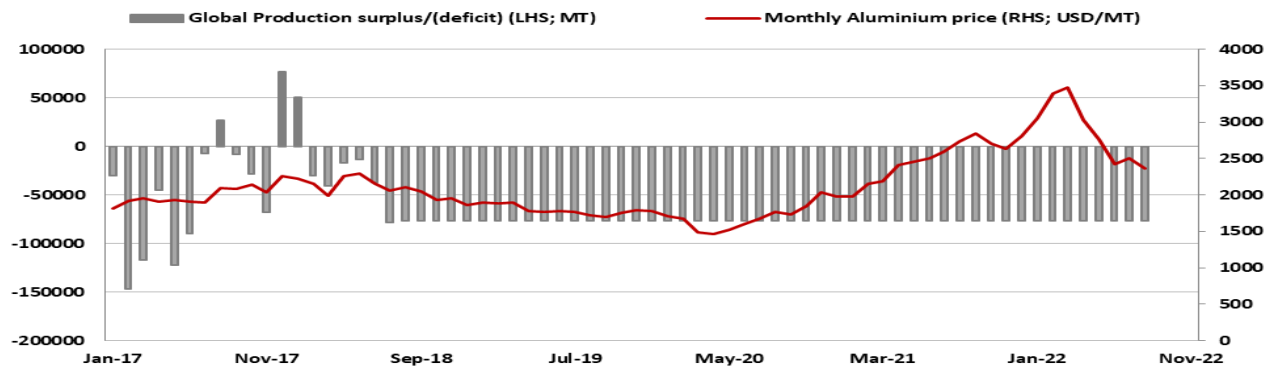
Aluminium vs. Alumina Prices – % Movement



Source: Bloomberg, Kenanga Research

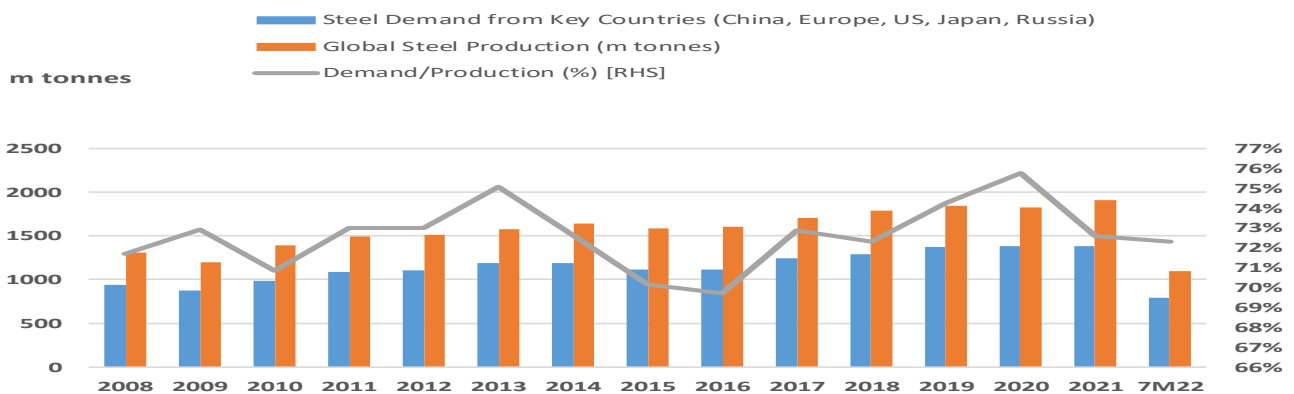
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Global Production Surplus/Deficit vs. Monthly Aluminium Price



Source: Bloomberg, Kenanga Research

Steel Demand/Production Dynamix



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 15 Sep 2022 (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.02	0.850	-16.67%	570.2	Y	12/2022	9.6	8.2	-78.6%	-15.4%	12.3	14.4	0.5	4.5%	2.1	2.1%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.72	5.62	19.07%	38,891.0	Y	12/2022	19.7	21.3	56.7%	8.0%	33.6	20.8	6.6	33.3%	7.9	0.8%
UNITED U-LI CORPORATION BHD	MP	1.06	1.08	1.89%	230.9	Y	12/2022	13.5	13.3	-33.1%	-2.0%	7.8	8.0	0.8	10.2%	5.0	4.7%
Simple Average								14.3	14.3	-18.3%	-3.1%	17.9	14.4	2.6	16.0%		2.5%

Source: Kenanga Research

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Construction

OVERWEIGHT

A Strong Case for Pump-Priming

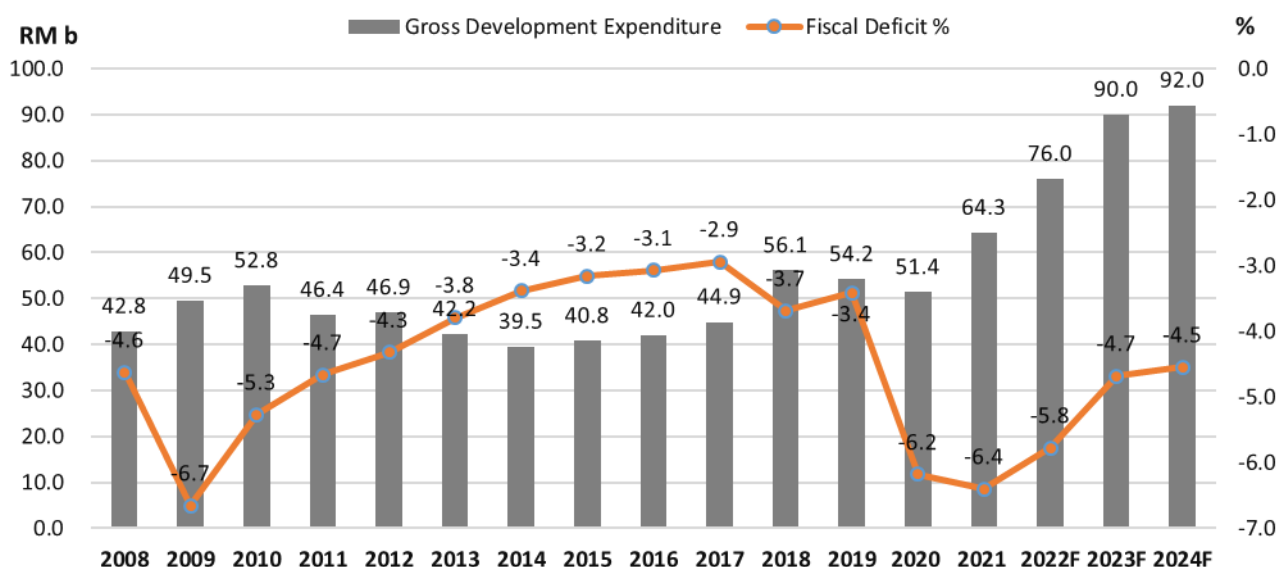


By Lum Joe Shen | lumjs@kenanga.com.my

We maintain OVERWEIGHT on the sector. We believe investors should add positions in the sector ahead of the 15th General Election (GE15), although we gathered from the ground that a new wave of awards of public infrastructure projects is more likely to hit the market after GE15, rather than before. There is also a strong case for the government to embark on counter-cyclical fiscal pump-priming to shield the economy from external slowdown. Meanwhile, the sector's headwinds are diminishing with the easing of labour shortage and building material costs. We raise the TP for our top pick GAMUDA by 12% to RM4.70 (from RM4.20) after we roll forward the valuation base year.

Higher gross development expenditure in Budget 2023. In the upcoming Budget 2023 to be announced on the 7th of October, we forecast a higher gross development expenditure of RM90b vs FY22's RM76b thanks to the absence of Covid-related funds in the previous Budget 2022 worth RM23b. Based on our channel checks, we also understand that there is unused gross development expenditure from Budget 2022. We understand that projects have been held back as tender prices put in by contractors did not meet (i.e. exceeded) budgets for most projects (due to soaring labour and material costs). The rollout of new public project will come handy at a time when order-books of most contractors are fast depleting.

Development Expenditure and Fiscal Deficit



Source: Kenanga Research

A new wave of jobs after GE15. We gathered from the ground that a new wave of awards of public infrastructure projects is more likely to hit the market after the GE15, rather than before. These will include MRT3, Pan Borneo Sarawak Phase 2, Pan Borneo Sabah, Central Spine Road and various flood mitigation and hospital projects. It is critical for the government to start rolling out new jobs as most key on-going infrastructure projects are already at their tail-end including MRT2, LRT3, Pan Borneo Phase 1. The tenders for the three civil packages under MRT3 will close Sep 2022 (delayed from Aug 2022) and we anticipate the award of contracts in early next year.

On the private sector front, there are opportunities in the construction of new semi-conductor plants and data centres locally as MNCs diversify their manufacturing bases geographically (away from China) to de-risk. We gathered that these contracts could be sizeable i.e. between RM1b to RM1.5b each. However, the same cannot be said for the office and high-rise residential segments given the persistent oversupply.

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Alternative funding model for mega projects. Given the fiscal constraints, mega projects could be implemented via public finance initiative (PFI) or deferred payment models. For instance, contractors of MRT3 may fund the project during the first two years of construction, only to be paid the entire amount in equal monthly instalments during the third and fourth years. Other projects that are likely to be carried out via these models are a flood mitigation project in the west of Klang Valley (reportedly with a price tag of RM5b to RM15b, depending on proposals by various bidders), PJD Link, Bangi Putrajaya Highway and Kuala Lumpur Northern Dispersal Expressway also known as KL Node).

Headwinds are easing. We believe the sector has seen the worst and should be poised for improved earnings in 2H given the gradual return of foreign workers and recent easing in commodity prices. Since end-June, certain key building material prices such as steel and aluminium have come off substantially due to the slowdown in China. So are diesel and bitumen on the back of weaker oil prices. Meanwhile, most new contracts being negotiated currently would have priced in the current market prices (which are higher) and have an element of price variations built in – to protect contractor's margins in the event of the huge swing in material prices. Hence, we believe the overall margins should gradually improve as the low-margin old jobs tail off and the new projects adjusted for higher input costs start to contribute.

Our top pick for the sector is **GAMUDA** given: (i) its strong chances of emerging as the tunnelling contractor for MRT3, (ii) its recent job wins in Australia and Singapore that speak eloquently for its competitiveness in the international market, and (iii) the lumpy proceeds from the disposal of its toll highway assets, putting it in a strong position to participate in public infrastructure projects on a PFI or deferred payment model, or even giving out a special dividend. We raise our TP for GAMUDA by 12% to RM4.70 (from RM4.20) after rolling forward our valuation base year.

Key Infrastructure Projects				
Projects	Value (RM b)	Ongoing	Status	
			Pending	
Federal Government Projects:				
MRT3	31	✓		
Pan Borneo Sarawak Ph2	n.a.			✓
Pan Borneo Sabah	15.3	✓		
JB-SG RTS	4.3	✓		
Central Spine Road	10.7	✓		
Sabah Sarawak Link Road	5.2	✓		
Flood Mitigation Projects	n.a.	✓		
Duke Phase 2A	6.3 (PFI)			✓
Waste to Energy (Kepong)	n.a. (PFI)			✓
PJD Link	n.a. (PFI)			✓
Bangi Putrajaya Highway	n.a. (PFI)			✓
KL Node	n.a. (PFI)			✓
State Government Projects:				
Penang Transport Masterplan	46			✓
Rasau Water Treatment Plant	4.5			✓
Iskandar BRT	2.56	✓		
Kuching Autonomous Rail Transit	6	✓		

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
GAMUDA BHD	OP	3.96	4.70	6.06%	10,260.6	Y	07/2022	30.5	24.7	28.0%	-19.2%	12.9	16.0	1.1	8.7%	12.0	3.0%
IJM CORP BHD	MP	1.64	1.75	6.71%	5,778.6	Y	03/2023	8.6	9.2	26.2%	6.9%	19.2	18.0	0.6	3.8%	6.0	3.7%
KERJAYA PROSPEK GROUP BHD	OP	1.15	1.42	23.48%	1,450.2	Y	12/2022	9.3	12.2	19.1%	30.9%	10.5	9.4	1.3	11.2%	4.5	3.9%
KIMLUN CORP BHD	OP	0.660	1.10	66.67%	233.2	Y	12/2022	7.9	12.7	2600.0%	59.3%	8.6	5.4	0.3	4.0%	1.5	2.3%
SUNWAY CONSTRUCTION GROUP BHD	MP	1.50	1.60	6.67%	1,934.0	Y	12/2022	9.8	9.8	0.4%	-0.8%	15.2	15.3	2.9	19.4%	5.0	3.3%
WCT HOLDINGS BHD	OP	0.415	0.620	49.40%	588.2	Y	12/2022	6.3	5.0	214.3%	-20.5%	6.6	8.4	0.2	4.4%	0.0	0.0%
Simple Average								12.1	12.2	481.3%	9.4%	12.2	12.1	1.1	8.6%		2.7%

Source: Bloomberg, Kenanga Research

Consumer

OVERWEIGHT

Mid-Market Retailers the Big Winners



By Ahmad Ramzani Ramli / ahmadramzani@kenanga.com.my / Tan Jia Hui / jhtan@kenanga.com.my

We upgrade our sector call to OVERWEIGHT, largely underpinned by our bullish view on mid-market retailers as: (i) consumers rekindle shopping-in-person, (ii) their customer base is skewed towards the M40 group whose spending power is less impacted by the high inflation given a healthy household balance sheet, and (iii) they have been able to pass on higher costs and hence maintain their margins. On the other hand, while F&B producers are likely to sustain their sales, this will be achieved at the expense of margins. F&B producers have little room to hike prices as their customer base is skewed towards the B40 group that is harder hit by the high inflation. Our sector top picks are AEON (OP; TP: RM1.95) and PADINI (OP; TP: RM4.10).



Consumption softens but will sustain. MIER 2QCY22 consumer sentiments index (CSI) fell 23 points to the 86 mark, below the consumer optimism threshold. Citing rising prices and subdued expectations for employment and finances, sentiment appears to be softening. Year-to-date (YTD) growth of total distributive trade sales as of July is hovering around the 20% mark. Based on our in-house forecast of 15% for the full year, growth is expected to taper off going forward as interest rate hikes and inflationary pressure squeeze consumption. We project consumption to soften from August onwards due to tighter financial conditions following Bank Negara Malaysia's back-to-back rate hike. On top of that, rising cost of living

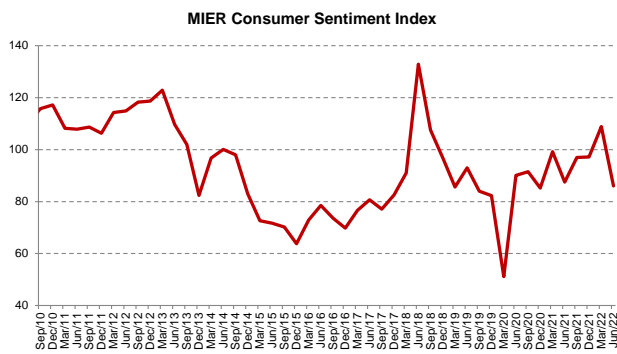
and impending global recessionary pressure due to China's persistent zero-COVID-19 policy and Europe's worsening energy crisis may also lead to a decline in consumer spending. We continue to expect growth in private consumption on the back of the reopening of the economy, but overall growth is expected to normalise significantly (estimated at +7.7% in 3QCY22 vs +18.3% in 2QCY22). However, Retail Group Malaysia (RGM) member associations, the Malaysian Retailers Association (MRA) and the Malaysian Retail Chain Association (MRCA) are positive on robustness ahead with the retail industry average growth rate expected at 62% for 3QCY22 (2QCY22: 62%). Department store-cum-operators are expecting sales to reach 99% YoY with the fashion and accessories sector at 165% YoY for 3QCY22. Owing to the firm recovery of the Malaysian retail industry since beginning of this year, RGM has revised its growth target for the retail industry to 32% YoY (from 13% previously).

Inflation mitigated by policies supportive of consumption. Despite the inflationary pressures we expect topline for the remainder of 2022 to be resilient supported by: (i) recovery in the labor market, (ii) end-of-year demand with supporting policies (e.g. higher minimum wages, wage subsidy program), and (iii) gradual pick-up in tourism activities. We believe the M40 group will continue to maintain spending underpinned by a healthy household balance sheet, but the B40 group will be struggling amidst depleting pandemic handouts and fund withdrawals. We expect the retail players to be able to defend their margins on a combination of better product mix and operational efficiency coupled with the absence of major supply disruptions especially from China. The same cannot be said for F&B producers that have not raised product prices steep enough to offset higher input costs, for the fear of demand destruction (as consumers down trade or switch to cheaper alternative) and loss of market share. F&B producers face renewed economic challenges - elevated input and logistics costs arising from inflationary pressure. On-going geopolitical tensions are stoking further inflationary pressures as energy prices surged amid volatile supply. Although commodities prices have gradually softened in the last few months, global indicators showed a reversed trend well into 2023, posing risks to earnings, indicating that pre-pandemic level margins is still a long way off especially for the F&B producers.

Our top picks are **AEON (OP; TP: RM1.95)** and **PADINI (OP; TP: RM4.10)**. We like **AEON** for: (i) it is a good proxy to consumers rekindling shopping-in-person (vs. online) which offers the sound-and-sight experience that online shopping is unable to match, (ii) its expansion plans comprising five new stores in the pipeline in FY22-23, i.e. four Komai-So stores (discount stores offering products at fixed prices of RM2.50, RM5 and RM10) and one full-fledged AEON store in IOI Putrajaya, as well as the rejuvenation of three existing AEON stores, and (iii) its digital transformation by introducing self-checkout terminals, which will reduce dependency on labour and improve productivity. We like **PADINI** for: (i) the strong spending power of its primary target customers, i.e. the M40 group, (ii) its strong net cash position enabling it to purchase inventory ahead of price hikes and potential supply disruptions, and (iii) innovative all-in-one (men, women and children) *Brand Outlet*, boosting the chances of garnering footfall from shoppers.

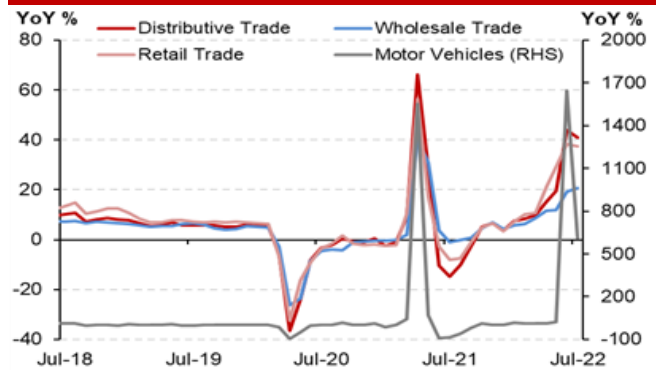
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Chart 1: MIER Consumer Sentiment Index



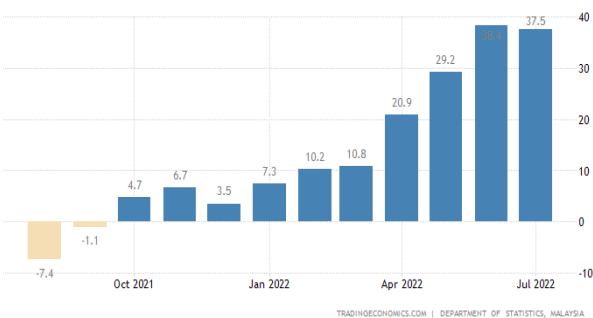
Source: MIER, Kenanga Research

Chart 2: Sales Value on the Uptrend



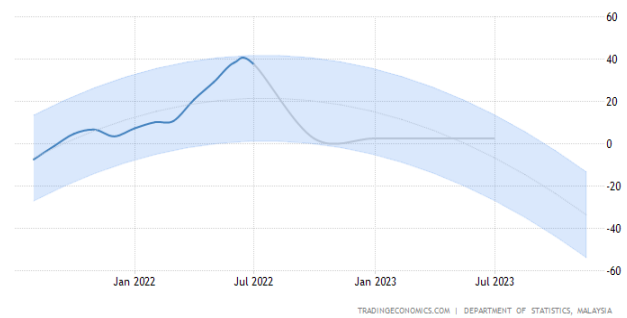
Source: Dept. of Statistics, CEIC, Kenanga Research

Chart 3: Malaysia Retail Growth % YoY



Source: Trading Economics, Kenanga Research

Chart 4: Malaysia Retail Growth % YoY



Source: Trading Economics, Kenanga Research

Table 1: Selected Commodities Price Data

Commodity		Annual Averages			Quarterly Averages		Monthly Averages		
		2019	2020	2021	Jan-Mar	Apr-Jun	Jun	Jul	Aug
					2020	2021	2022	2022	2022
Soybeans	\$/mt	369	407	583	663	627	737	678	671
Wheat	\$/mt	202	232	315	417	492	460	382	383
Coffee	\$/kg	2.9	3.3	4.5	6.0	5.9	6.0	5.6	5.9
Sugar	\$/kg	0.28	0.28	0.39	0.41	0.43	0.42	0.40	0.39

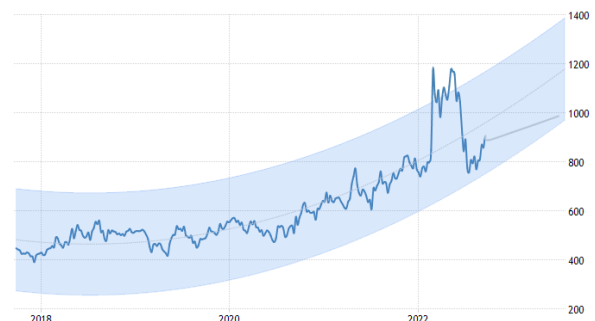
Source: World Bank, Kenanga Research

Chart 5: Soybeans Prices at USD/Bushel



Source: Trading Economics, Kenanga Research

Chart 6: Wheat Prices at USD/Bushel



Source: Trading Economics, Kenanga Research

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Chart 7: Milk Prices at USD/CWT



Source: Trading Economics, Kenanga Research

Chart 8: Coffee Prices at USD/Pound



Source: Trading Economics, Kenanga Research

Chart 9: Sugar Prices at Cents/Pound



Source: Trading Economics, Kenanga Research

Chart 10: Corn Prices at USD/Bushel



Source: Trading Economics, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
F&B AND RETAIL																	
AEON CO. (M) BHD	OP	1.44	1.95	35.42%	2,021.8	Y	12/2022	10.0	10.2	64.4%	2.5%	14.4	14.1	1.1	8.1%	4.1	2.8%
AMWAY (MALAYSIA) HOLDINGS BHD	MP	5.05	5.20	2.97%	830.1	Y	12/2022	36.5	34.7	62.6%	-4.8%	13.8	14.5	3.5	26.1%	27.0	5.3%
DUTCH LADY MILK INDUSTRIES BHD	MP	32.10	28.20	-12.15%	2,054.4	Y	12/2022	103.3	128.1	-73.3%	24.1%	31.1	25.1	4.9	16.5%	50.0	1.6%
FRASER & NEAVE HOLDINGS BHD	UP	22.32	23.15	3.72%	8,186.5	Y	09/2022	95.3	105.1	-11.6%	10.3%	23.4	21.2	2.7	12.0%	50.0	2.2%
MR D.I.Y.	MP	2.11	2.40	13.74%	19,890.6	Y	12/2022	5.4	7.1	17.1%	31.8%	39.3	29.9	13.9	39.2%	2.6	1.2%
MYNEWS HOLDINGS BHD	UP	0.470	0.500	6.38%	320.6	N	10/2022	(4.9)	2.3	-22.7%	-147.1%	N.A.	20.4	2.1	-22.1%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	128.70	119.75	-6.95%	30,180.2	Y	12/2022	299.6	272.2	23.3%	-9.2%	43.0	47.3	49.9	118.3%	290.0	2.3%
PADINI HOLDINGS BHD	OP	3.40	4.10	20.59%	2,236.9	Y	06/2023	22.6	28.6	-3.4%	26.4%	15.0	11.9	2.3	16.0%	10.0	2.9%
POWER ROOT BHD	MP	1.97	1.85	-6.09%	820.1	Y	03/2023	6.7	6.3	7.3%	-6.8%	29.4	31.5	2.7	13.4%	9.0	4.6%
QL RESOURCES BHD	OP	5.13	6.00	16.96%	12,484.7	Y	03/2023	12.6	16.1	41.6%	27.1%	40.6	31.9	4.0	10.8%	6.0	1.2%
Simple Average								58.7	61.1	10.51%	-4.57%	27.78	24.78	8.71	23.8%		2.4%
BREWERY & TOBACCO																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.48	11.20	6.87%	2,992.4	N	12/2022	89.6	94.6	-10.2%	5.6%	11.7	11.1	7.6	65.7%	85.0	8.1%
CARLSBERG BREWERY MALAYSIA BHD	MP	22.98	23.05	0.30%	7,026.1	N	12/2022	102.9	114.6	52.6%	11.4%	22.3	20.1	32.8	144.7%	103.7	4.5%
HEINEKEN MALAYSIA BHD	MP	23.70	25.60	8.02%	7,159.7	N	12/2022	119.5	128.4	46.9%	7.5%	19.8	18.5	18.1	91.3%	119.5	5.0%
Simple Average								104.0	112.5	29.8%	8.1%	18.0	16.5	19.5	100.6%		5.9%

Source: Kenanga Research

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Gaming

A Bet on Domestic Demand and Tourism

By Teh Kian Yeong | tehy@kenanga.com.my

OVERWEIGHT



We maintain **OVERWEIGHT** on the gaming sector. Earnings of casino operators will be driven by the return of tourists. Malaysia is on track to meet its tourist arrival target of 9.2m in 2022 (though it is still a long way to the 26.1m achieved in 2019 prior to the pandemic). Similarly, Singapore is also expecting 4-6m tourist arrivals in 2022 (vs. 19.1m in 2019). Meanwhile, while tickets sales of number forecast operators (NFOs) are domestically-driven and hence spared the external headwinds, they are vulnerable to higher inflation that is eating into consumer spending power. Our top picks for the sector are **GENTING (OP; TP: RM5.86)**, being a proxy to the recovery in tourism in both Malaysia and Singapore, and **SPTOTO (OP; TP: RM2.13)** by virtue of its attractive dividend yield of 8%-9%.



Casinos: GENM (OP; TP: RM3.64) will continue to benefit from the reopening of the economy (local visitors made up >80% of total visitors to its hilltop resort prior to the pandemic) and international borders (with foreign visitors returning from ASEAN countries, particularly, Singapore and Indonesia). Malaysia is on track to meet its tourist arrival target of 9.2m in 2022, with 3.59m recorded during the first seven months of 2022 out of which 1.46m or >40% came during the month of July. However, 9.2m is still a long way to the 26.1m achieved in 2019 prior to the pandemic.

Similarly, Singapore expects to receive 4-6m visitors in 2022 (vs. 19.1m in 2019). It had during the first seven months of the year recorded 2.2m out of which 727,000 or about a third came during the month of July. This will boost earnings of **GENS (Not Rated)** and parent **GENTING (OP; TP: RM5.86)**. On the other hand, GENM's operations in the UK and US have very much shrugged off the pandemic since 18 months ago.

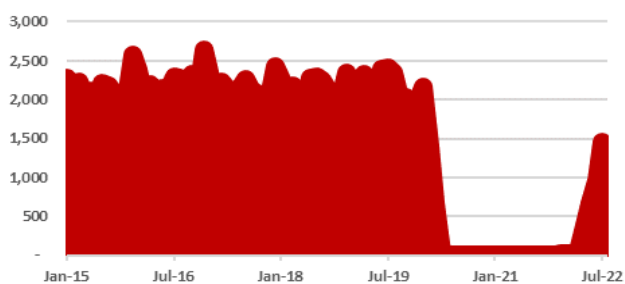
NFOs: ticket sales recovery but yet to return to pre-pandemic levels. Meanwhile, while tickets sales of NFOs are domestically-driven and hence spared the external headwinds, they are vulnerable to higher inflation that is eating into consumer spending power. We expect the recovery to plateau at 80%-85% of pre-pandemic levels. We expect **SPTOTO (OP; TP: RM2.13)** to have a better recovery path with ticket sales to recover to 89% of pre-COVID-19 level in FY23F (FYE: June) and 94% in FY24 as ticket sales for lottery games tend to pick up faster especially when the jackpots are snowballing, while **MAGNUM (MP; TP: RM1.59)** is only expected to see its ticket sales recovering to 72%/79% in FY22/FY23 as we expect its older-age customers group will be slow in returning to its outlets. Overall, we prefer SPTOTO to MAGNUM for the former's relative earnings stability and stronger recovery in ticket sales.

We still prefer GENTING to GENM as the former is a proxy to the recovery in tourism in both Malaysia and Singapore and has a more diversified earnings base including plantation. We also prefer SPTOTO to MAGNUM as the former offers a higher dividend yield of 8%-9% vs. 4%-7% of the latter.

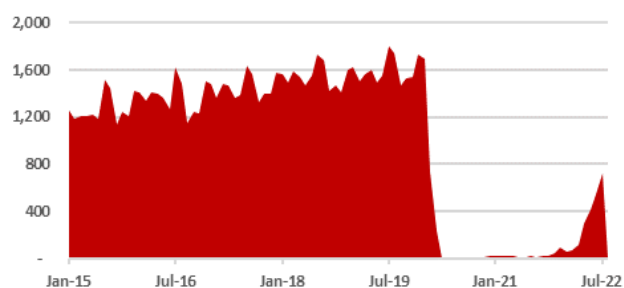


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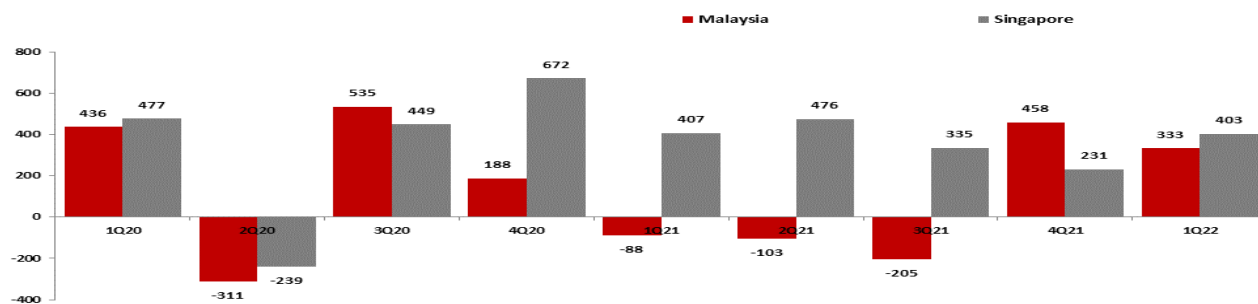
Malaysia Tourist Arrivals ('000)



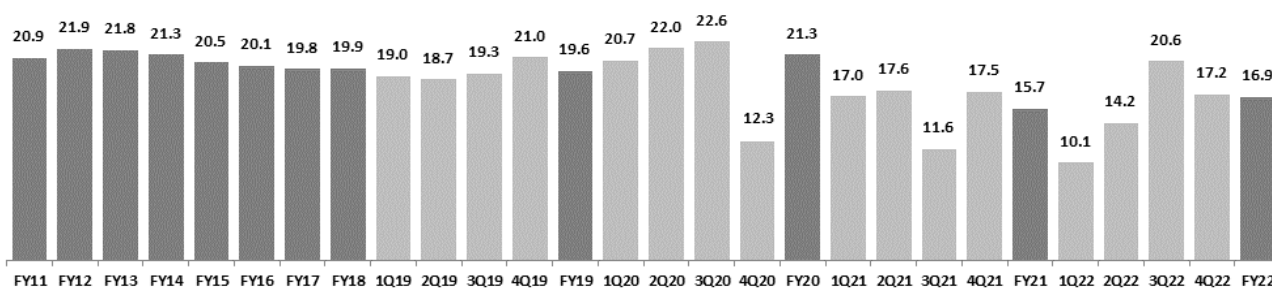
Singapore Tourist Arrivals ('000)



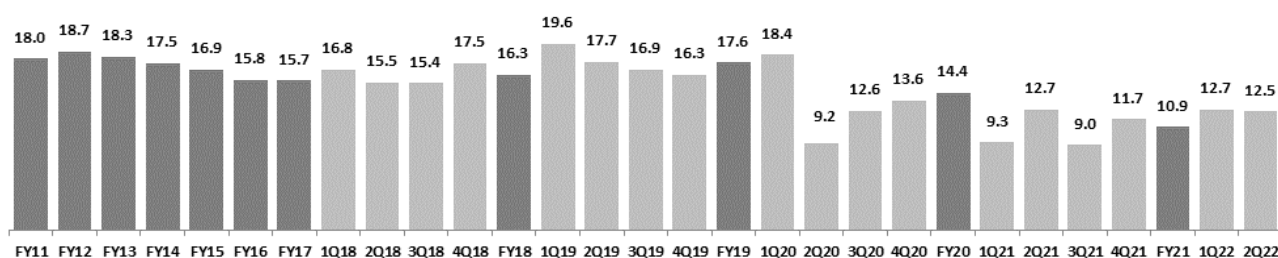
GENTING: EBITDA – Malaysia vs. Singapore (RM m)



SPTOTO: Average Ticket Sales Per Draw (RM m)



MAGNUM: Average Ticket Sales Per Draw (RM m)



Peer Table Comparison

Name	Rating	Last Price @ 15 Sep 2022 (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GENTING BHD	OP	4.47	5.86	31.10%	17,212.1	N	12/2022	20.3	30.6	30.2%	51.0%	22.1	14.6	0.5	2.4%	15.0	3.4%
GENTING MALAYSIA BHD	OP	2.88	3.64	159.47%	16,315.8	N	12/2022	7.2	16.6	159.5%	129.7%	40.0	17.4	1.3	3.1%	12.0	4.2%
MAGNUM BHD	MP	1.57	1.59	1.27%	2,256.4	N	12/2022	8.3	12.9	66338.9%	54.8%	18.9	12.2	0.9	5.0%	6.7	4.3%
SPORTS TOTO BHD	OP	1.94	2.13	9.79%	2,598.4	N	06/2023	19.7	20.7	64.4%	5.0%	9.9	9.4	2.9	30.8%	15.7	8.1%
Simple Average								13.9	20.2	16598.3%	60.1%	27.0	14.7	0.9	10.3%		5.0%

Source: Kenanga Research

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Gloves

UNDERWEIGHT

Oversupply to Persist, Weak Earnings Undertone



By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

Reiterate UNDERWEIGHT. According to Malaysian Rubber Glove Manufacturers Association (MARGMA), the rubber gloves industry is expected to turn the corner in 2023, a view more optimistic than ours at 2024. Our supply-demand forecasts are pointing towards excess capacity that will take at least two years to be completely cleared. Meantime, players will have to brace themselves for low utilisation which will inevitably lead to depressed ASP. Adding salt to the wound is customers' reluctance to commit to sizeable orders on expectations of further decline in product prices. We do not have any top pick for the sector.



Excess supply to persist. MARGMA holds the view that: (i) the global demand for rubber gloves is expected to return to growth in 2023 averaging between 12-15% per annum, after a 19% contraction to an estimated 399b pieces in 2022, and (ii) as such, supply-demand equilibrium will return in 6-9 months. However, we are less optimistic and expect oversupply to persist over the next 12-24 months. Based on our estimates, the demand-supply situation will only start to head towards an equilibrium in 2025 (against MARGMA's forecast of a supply-demand equilibrium in six to nine months)

when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. Our supply-demand projections are pointing towards a persistent oversupply over the next two years.

As a result of massive capacity expansion by incumbent players as well as new players during the pandemic years - enticed by super fat margins that had eventually evaporated —we estimate that the global glove manufacturing capacity is poised to jump by 22% to 511b pieces in 2022 (see chart on page 2). On the other hand, as more countries come out the other end of the pandemic, we project the global demand for gloves to ease by 19% in 2022 to 399b pieces (partly also due to the destocking activities along the distribution network). This will result in an excess supply of 112b pieces (assuming, hypothetically, capacity utilisation is maximised). In 2023, we estimate that the global glove manufacturing capacity will surge by another 16% to 595b pieces (as more capacity planned during the pandemic years finally come on-line) while the global demand for gloves resume its organic growth of 15% annually (taking our cue from MARGMA's projection of 10-15% growth in global glove demand yearly), resulting in the excess supply rising further to 136b pieces.

Oversupply, weak demand and low plant utilisation to persist. We expect the earnings undertone to remain weak on declining ASP, weakening demand, and excess supply. All in, the industry overcapacity could well mean that glove players have less pricing power to pass costs through and the situation is further aggravated by low industry utilization rate putting pressure on margins. The recent round of results reported by glove makers suggested that glove makers' earnings have yet to bottom with ASP expected to continue declining, exacerbated by low plant utilization averaging 50-60% which is likely to persist over the medium term amidst intense competition. Based on our channel checks, currently ASP has weakened to between USD18-20/1k pieces compared to USD21-24/1k pieces three months ago (compared to our FY23 assumption of USD20/21).

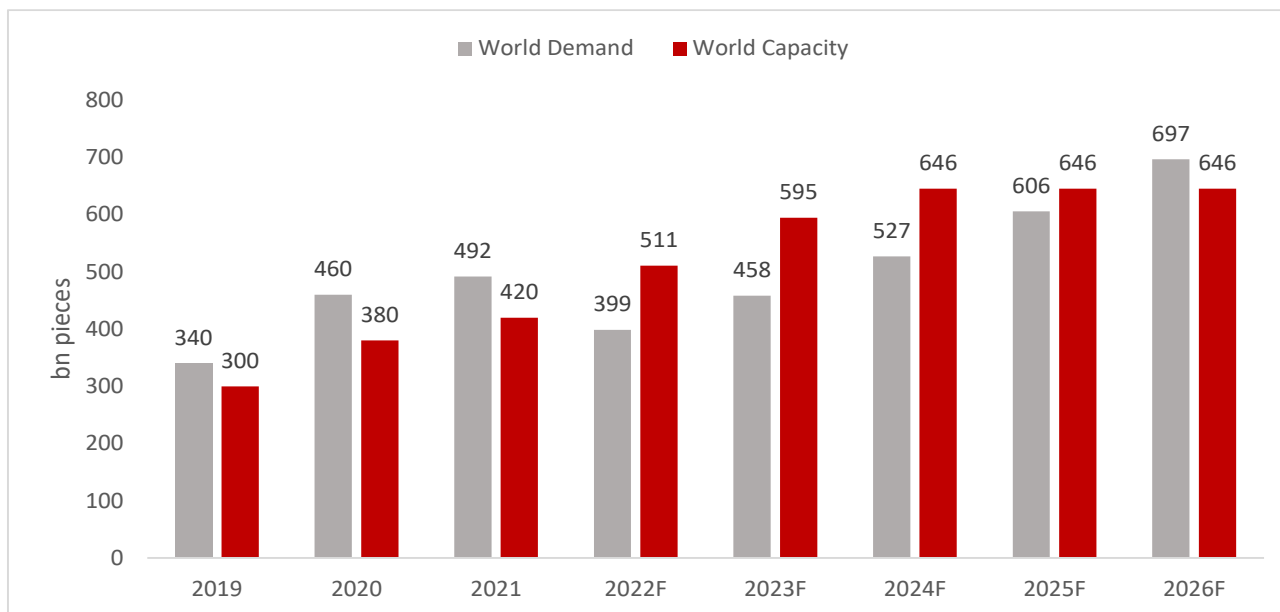
The situation is further aggravated by the softening demand as evident by the low utilization rate of glove players leading to oversupply putting further pressure on ASP coupled with customers' reluctance to commit to sizeable orders as they expect selling prices to ease further. Based on the latest quarterly results of glove players, the followings are our observations:- (i) players are unable to fully pass on the cost increase due to the current oversupply situation which is expected to remain challenging; (ii) apart from reduced economies of scale arising from volume that is less than optimum on the back of the soft demand evident from the low utilisation rate of 50-60%, players are adopting aggressive pricing to reduce inventory; and (iii) ASP over the short to medium term could be lower than pre-pandemic level due to the current supply-demand imbalance as evident in current low utilization of 50-60% but some players see ASP bottoming.

Our ratings are as follows: **HART (MP; TP: RM1.68)**, **TOPGLOV (UP; TP: RM0.60)**, **KOSSAN (UP; TP: RM0.85)** and **SUPERMX (UP; TP: RM0.62)**. We do not have any top pick for the sector.



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Estimated Global demand/supply - excess supply over CY22-CY24



Source: Kenanga Research

Estimated production capacity in Malaysia, China, Thailand and Others (billion pieces)

	CY22F	CY23F	CY24F
Malaysia	328	379	405
China	80	105	125
Thailand	68	76	81
Others	35	35	35
Total	511	595	646
Chg (%)	+22	+16	+9

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	MP	1.60	1.68	5.0%	5,468	Y	03/2023	8.3	8.0	-91%	-4%	19.4	20.1	1.0	5.4%	5.0	3.1%
KOSSAN RUBBER INDUSTRIES	UP	1.01	0.850	-15.8%	2,577	Y	12/2022	6.4	6.6	-94%	4%	15.9	15.3	0.6	4.0%	3.0	3.0%
SUPERMAX CORP BHD	UP	0.730	0.620	-15.1%	1,937	Y	06/2023	5.1	4.8	-81%	-7%	14.2	15.3	0.4	2.9%	2.0	2.7%
TOP GLOVE CORP BHD	UP	0.700	0.600	-14%	6,126	Y	08/2023	2.2	2.2	-25%	2%	32.6	31.9	1.0	3.1%	1.1	1.6%

Source: Kenanga Research

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Healthcare

Defensive Earnings

By Raymond Choo Ping Khoon | pkchoo@kenanga.com.my

OVERWEIGHT



Reiterate OVERWEIGHT. We like private healthcare providers given the inelastic demand and growing global healthcare expenditure projected to reach a total of USD10t by 2026. Amplifying the growing demand for private healthcare are rising chronic diseases across the globe, mainly driven by rapid urbanisation, lifestyles leading to changing diets, and rising obesity levels. Specifically, in terms of the global healthcare expenditures, almost half will be spent on three leading causes of death: cardiovascular diseases, cancer and respiratory diseases. Our top pick is IHH (OP; TP: RM7.20).

Global healthcare expenditure growth forecast at 3.5% CAGR over 2022-2026. Global healthcare expenditures are projected to reach a total of USD10t by 2026, increasing from USD8.4t in 2022, representing a CAGR of 3.5% during the five-year period (see table on page 2). Amplifying the demand for private healthcare are rising chronic diseases across the globe, mainly attributed to the rapid urbanization, lifestyles leading to changing diets, and rising obesity levels. Specifically, WHO reported that almost half of the global healthcare expenditures (USD4t) will be spent on three leading causes of death: cardiovascular diseases, cancer and respiratory diseases.

Recovery in elective surgeries expected to drive IHH's 2HFY22 earnings. IHH (OP; TP: RM7.20) expects patient throughput growth and revenue intensity to drive 2H earnings as demand for non-COVID related services including elective surgeries are recovering. Given the low "price elasticity of demand" of private healthcare services, IHH has been able to pass on cost inflation to customers and is reviewing a potential further price hike in 2HCY22 to realign with the corresponding cost increase. The group is seeing pent-up demand for elective surgeries including local and foreign patients returning across markets IHH operates in. We expect bed occupancy rate improvement to gain momentum in 2HCY22 which has yet to reach pre-COVID peak averaging 60-75% against 1HCY22 of 55-60%. There has been strong return of domestic patients as well as growth in foreign patients in Malaysia and Singapore as the group highlighted that volume of non-COVID patient throughput are at or near pre-COVID. Similarly, we expect inpatient throughput growth to gain momentum in 2HCY22 heading towards pre-COVID peak averaging between 20k to 90k per quarter against 1HCY22 of between 15k to 83k per quarter. All in, we expect 2H earnings to be better than 1H on the historical trend of 2H being normally the stronger half (for past three years, 2H accounted for between 60%-70% of full-year earnings). IHH is our top pick premised on: (i) its pricing power as the inelastic demand for healthcare allows providers like IHH the passing-on of higher cost amidst rising inflation, (ii) strong pent-up demand, especially for elective surgeries, from domestic and international patients as economies come out of the pandemic, and (iii) its commanding market position in countries it operates in.

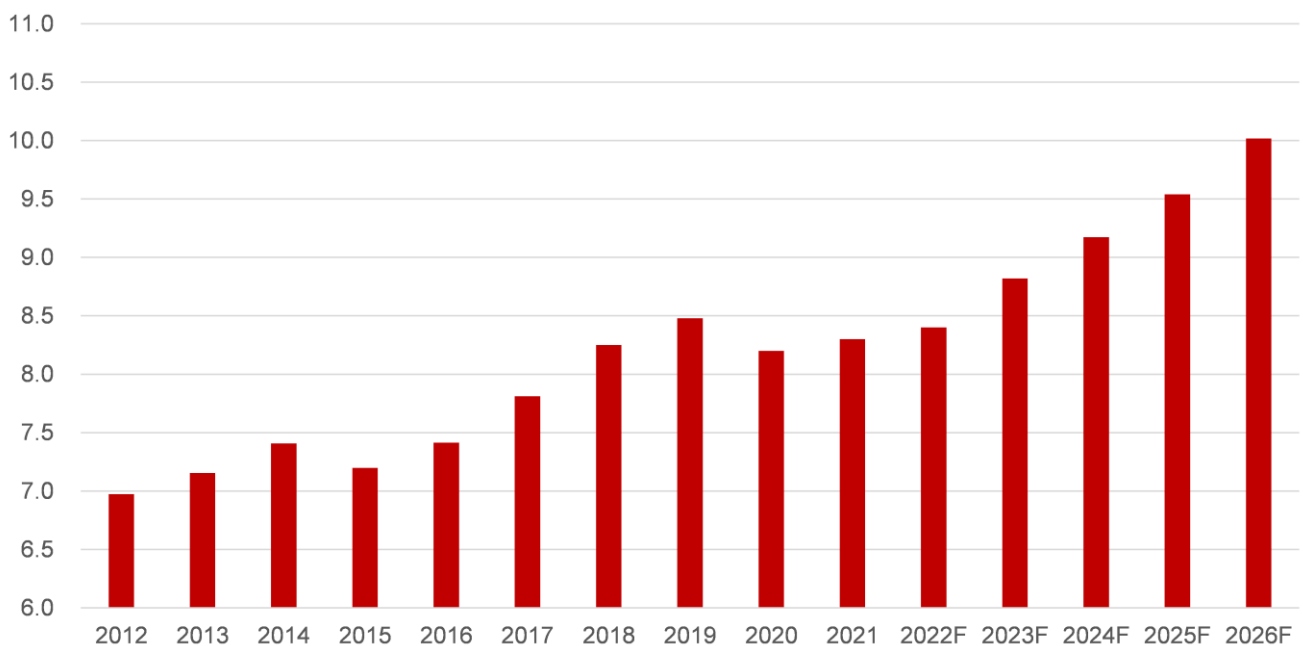
NOVA's new plant and widening distribution network to drive growth. Meanwhile, the stage is set for an explosive growth for NOVA over the next three years. Amplifying the growth potential is the surge in demand for health supplement products, as consumers take a more proactive stance towards their health and well-being, especially following the COVID-19 pandemic. As an indication, the group saw doubling of distributors to 900+ and is targeting to increase this to 1,200 by FY25. The group has over the past 12 months started penetrating into the local public hospitals. We like NOVA (OP; TP: RM1.09) for its business model which encompasses the entire spectrum of value chain from product conceptualization starting from R&D to manufacturing, with growth driven by capacity expansion, a widening distribution network and penetration into local public hospitals.

Pedestrian earnings growth for PHARMA (MP; TP: RM0.59) as vaccine sales fade. We project FY22F/FY23F earnings of PHARMA to be on a downtrend in the absence of lumpy vaccine sales. Nonetheless, the regular orders for medical supplies from the MoH concession will remain stable (as the concession is expected to be renewed end-2022). However, PHARMA is bracing for a margin squeeze due to the cost of input such as active pharmaceuticals ingredients (APIs) that has sky-rocketed in recent months. We believe PHARMA's inventory of cheaper APIs (APIs typically account for about 30% of total cost) will only last for the next 3-6 months. PHARMA would be unable to immediately and entirely pass on the higher cost of APIs given the restrictive terms of the concession with regards to price hikes, i.e. a revision in every three years, pegged largely to CPI. Meanwhile, we believe its Indonesia operation will continue to be driven largely by the growing product portfolio at its manufacturing arm. We like PHARMA for its strong earnings visibility backed by its long-term medical supply concession with the MoH, from which cash flow anchors a dividend yield of >5%. However, its appeal as a growth stock has diminished with falling demand for COVID-19 vaccine as most parts of the world are exiting the other end of the pandemic.

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New hospitals a drag on KPJ. We expect 2HCY22 patient throughput will continue to normalise with the return of elective surgeries as the pandemic moves towards an end. However, this may not spur the bottomline due to its high cost structure, including lumpy pre-operating expenses at Phase 2 of KPJ Damansara Specialist Hospital which will commence operations end-3QFY22. Meanwhile, other new hospitals will continue to weigh down on its overall earnings. We like KPJ for: (i) the inelastic demand for healthcare needs, allowing providers like KPJ to pass on higher cost amidst rising inflation, and (ii) its largest hospital network locally, putting it in a strong position to capitalise on a national healthcare insurance scheme, if it eventually materialises. However, it is unattractive from the standpoint of equity investment over the short term as its new hospitals are still under the earnings-dilutive gestation period.

Global Healthcare Expenditure (USDt) – 3.5% 2022F-2026F CAGR



Source: Kenanga Research, WHO, various

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	6.32	7.20	13.9%	55,654	Y	12/2022	18.6	20.5	2%	11%	34.1	30.8	2.4	7.1%	6.0	0.9%
KPJ HEALTHCARE BHD	MP	0.845	0.870	3.0%	3,670	Y	12/2022	2.8	3.4	129%	23%	30.3	24.6	1.6	5.4%	1.2	1.4%
NOVA WELLNESS GROUP BHD	OP	0.930	1.09	17.2%	296	Y	06/2023	6.7	7.9	20%	18%	13.9	11.8	2.6	19.8%	3.0	3.2%
PHARMANIAGA BHD	MP	0.57	0.590	3.5%	740	Y	12/2022	6.1	5.4	-54%	-12%	9.2	10.5	1.5	17.1%	3.3	5.8%

Source: Kenanga Research

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Media

The Uphill Battle Continues

By Ahmad Ramzani Ramlil ahmadramzani@kenanga.com.my

NEUTRAL



We reiterate our NEUTRAL call on the sector. While YTD adex growth has been encouraging, we remain wary of elevated operating costs eating into margins. Looking forward, we expect the recovery in adex to sustain until the end of the year as high-profile sporting events and holiday advertising campaigns buoy 4QCY22. However, we expect CY24 to be more muted in terms of adex growth given a wider market slowdown in growth and softening consumer sentiment. All in, we continue to like MEDIA (OP; TP: RM0.64) for its integrated approach to advertising via Omnia and effective cost consolidation efforts so far.



Adex recovery to sustain. We expect adex growth to sustain until the end of CY22, projecting a full-year adex growth of 10.9%. We believe advertiser spending will maintain the current level of optimism as the combination of the festive season and the World Cup boost adex across all channels. On a per-segment basis, we expect growth to be driven by the continued growth of digital media as well the resurgence of radio, which grew 21.7% YoY as of 1HCY22. We believe digital media will sustain its uptrend given both its strong performance so far (+41.1% YoY) as well as the general movement towards more integrated and better targeted advertising which sustained even during the pandemic.

Thus, we forecast full-year growth of 45% as we expect a strong 4QCY22, in line with the seasonal uptick in adex. Radio adex has also seen a strong rebound with the reopening of the economy which we believe will sustain into 4QCY22. The return of drivers to the road has been greatly beneficial to the segment and we expect the recovery momentum to continue moving forward as the full return to normalcy boosts listener numbers. FTA TV (+0.9% YoY in 1HCY22) and newspapers (+2.9% YoY in 1HCY22) are expected to sustain their current levels of growth, with full-year forecasts of 1% and 2%, respectively. FTA TV growth has remained marginal since the massive rebound in 4QCY21 which already beat pre-pandemic numbers. While adex has tapered off since then, we still expect a seasonally strong showing in 4QCY22 due to both the holiday season and the World Cup. On the other hand, newspaper growth is expected to taper off slightly in 4QCY22. While the segment did benefit from the reopening of the economy, it continues to face fierce competition from digital publications and high costs of print and distribution.

4QCY22 and beyond. The outlook for the sector remains a mixed bag. While 4QCY22 topline for most players is expected to be robust, heightened cost of operations due to increased content costs and global supply chain disruptions is expected to eat into performance. **ASTRO's (MP; TP: RM0.90)** margins are expected to tighten given the high costs associated with licensing the World Cup. While the group have historically recorded a minor uptick in viewership during these events, the subscriptions were normally short-lived with minimal impact on revenue. Combined with a contracting subscription base, the group's prospects for the rest of CY22 remain muted. Additionally, newspaper players face elevated costs of print and distribution as global supply chain disruptions and high commodity prices drove up the cost of raw materials (i.e. paper pulp). While supply chain disruptions are beginning to ease, overall costs are expected to remain elevated until the end of the year.

Looking towards CY23, we expect adex growth to normalise due to: (i) generally weaker economic growth, (ii) lack of major events compared to CY22, and (iii) the much stronger base as we shed the last of the pandemic period comparisons. On a broader level, Malaysia's economic growth is expected to moderate in CY23 with our in-house GDP growth forecast of 4%-4.5%, vs. 6.7% for CY22, in line with a slowdown in the global economy. We expect adex to ease due to the lack of major sporting events as well as a high base in CY22. The impact of a weak ringgit will also be felt from 2HCY23 as **ASTRO** has only locked in its licences for its foreign programming 12 months forward. On the bright side, content costs are expected to come down with the lack of major events and global supply chain disruptions are expected to ease in CY23, bringing down overall costs. However, the general outlook for the sector remains neutral as the rebound from the pandemic fades.

We maintain NEUTRAL on the sector. Despite positive signals from adex numbers, the sector continues to be bogged down by rising costs and contractions in non-media segments. We continue to like **MEDIA (OP; TP: RM0.64)** given: (i) its integrated approach to advertising via Omnia which we believe offers better demographic targeting and scalability, (ii) its effective cost consolidation efforts which we expect to continue as the company has guided that they are re-evaluating their out-of-home billboard segment and potentially shedding some lower traffic locations, and (iii) its prime position to capitalise on adex growth across multiple platforms given its performance thus far.



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Statistics in this report are correct at time of printing. Nielsen measures advertising spending based on published rate cards for traditional media. Digital ad spend is based on industry agreed "cost-per-mille" (CPM) rates.

Figure 1: Quarterly gross adex by medium					
Media Type	2Q22 (RM'm)	2Q21 (RM'm)	YoY Chg	1Q22 (RM'm)	QoQ Chg
Free-to-air television	802.7	877.1	-8.5%	862.4	-6.9%
Newspapers	234.3	234.3	0.0%	232.3	0.9%
Magazines	7.1	7.2	-1.1%	5.8	22.0%
Radio	100.8	93.7	7.5%	107.1	-5.9%
Cinema	23.1	3.9	487.0%	36.1	-36.2%
In-Store Media	6.2	7.4	-16.6%	6.5	-4.3%
Digital*	328.4	211.9	55.0%	308.2	6.6%
Total	1,502.6	1,435.5	4.7%	1,558.3	-3.6%
Total (ex-Digital)	1,174.2	1,223.6	-4.0%	1,250.1	-6.1%

Notes:

* Digital media does not account for adex from mobile in-app spend, social media, and search engines

Source: Nielsen, Kenanga Research

Figure 2: YTD adex change			
Media Type (YTD)	6M22 (RM'm)	6M21 (RM'm)	YoY Chg
Free-to-air television	1,665.1	1,649.4	0.9%
Newspapers	466.7	453.5	2.9%
Magazines	13.0	12.1	7.4%
Radio	207.8	170.8	21.7%
Cinema	59.2	5.6	956.5%
In-Store Media	12.6	38.4	-67.1%
Digital*	636.6	451.2	41.1%
Total	3,060.9	2,781.0	10.1%
Total (ex-Digital)	2,424.3	2,329.8	4.1%

Figure 3: Quarterly key newspaper languages gross adex					
Language	2Q22 (RM'm)	2Q21 (RM'm)	YoY Chg	1Q22 (RM'm)	QoQ Chg
West Msia					
BM	69.0	56.8	21.6%	49.2	40.2%
Chinese	57.3	50.0	14.6%	65.6	-12.8%
English	91.8	91.0	0.8%	85.6	7.2%
Others	16.3	36.5	-55.4%	31.9	-48.9%
Total	234.3	234.3	0.0%	232.3	0.9%

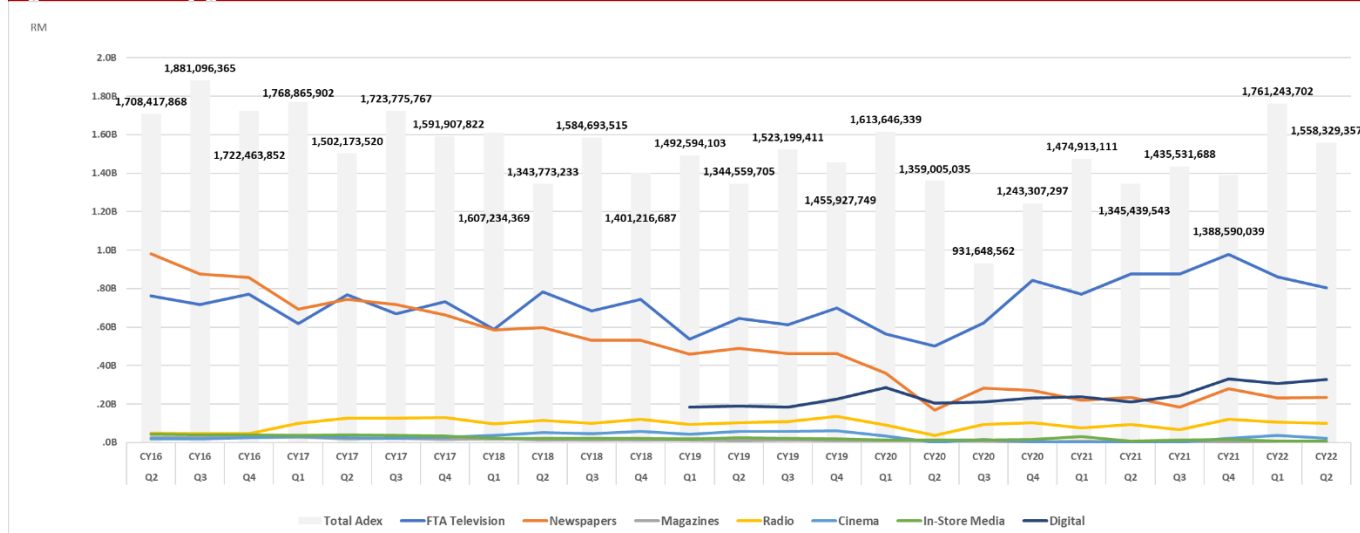
Notes:

* Others includes East Malaysian and tamil language papers

Source: Nielsen, Kenanga Research

Figure 4: YTD Key newspaper languages gross adex			
Language (Newspapers) (YTD)	6M22 (RM'm)	6M21 (RM'm)	YoY Chg
West Msia			
BM	118.3	98.0	20.7%
Chinese	122.9	115.4	6.5%
English	177.3	166.1	6.8%
Others	48.1	74.0	-35.0%
Total	466.7	453.5	2.9%

Figure 5: Quarterly gross adex



Source: Nielsen, Kenanga Research

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Peer Comparison – Media

Name	Rating	Last Price @ 15 Sep (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	MP	0.850	0.900	5.88%	4,432.3	N	01/2023	8.5	9.7	-6.2%	13.9%	10.0	8.7	3.4	35.4%	6.5	7.6%
MEDIA CHINESE INTERNATIONAL	MP	0.160	0.155	-3.13%	270.0	Y	03/2023	0.1	0.1	325.0%	23.5%	158.8	128.5	0.4	0.3%	0.6	3.8%
MEDIA PRIMA BHD	OP	0.455	0.640	40.66%	504.7	N	06/2023	5.6	6.4	12.3%	14.4%	8.1	7.1	0.8	9.6%	2.0	4.4%
STAR MEDIA GROUP BHD	MP	0.295	0.335	13.56%	213.8	Y	12/2022	1.0	1.0	188.6%	1.4%	30.5	30.1	0.3	1.1%	0.0	0.0%
Simple Average								3.8	4.3	129.9%	13.3%	51.9	43.6	1.2	11.6%		3.9%

Source: Bloomberg, Kenanga Research

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Malaysia REITs

Bright Spots in Industrial And Retail Segments

NEUTRAL

By Goh Yin Foo | gohyf@kenanga.com.my

We reaffirm our NEUTRAL call on the MREITs sector. While there are bright spots selectively in the industrial segment (which is seeing steady demand) and the retail space (in prime locations following a recovery from the pandemic effects), the broad sector is still plagued by persistent oversupply (particularly in the office space). Moreover, rising interest rates in a heightened inflationary environment could continue to cap share price performance of MREITs. We do not have any OUTPERFORM recommendation for MREITs under our coverage.

Challenging outlook persists. The recently released 1HCY22 Property Market Report by National Property Information Centre (NAPIC) showed that the overhang story – especially in the office and retail segments – is still weighing on the Malaysia REITs (MREITs) sector fundamentals. According to the half yearly report, as of end-June 2022, for the whole of Malaysia: (i) total purpose-built office space stood at 24.2m sq m with occupied space of 18.8m sq m, resulting in an occupancy rate of 77.7%, and (ii) overall retail space in shopping complexes was at 17.4m sq m of which 75.7% was occupied.

More supply to come. There will be more supply coming onstream with the NAPIC report projecting: (i) an additional 1.5m sq m under physical construction and another 1.1m sq m from planned supply (where building plan approvals have been obtained), which add up to a combined 10.7% of existing supply of purpose-built office space, and (ii) 1.6m sq m (from construction in progress) and 0.3m sq m (from planned supply) of retail space in shopping complexes in the pipeline (translating to an incremental 10.9% of existing supply).

On the other hand, post the knee-jerk recovery from the Covid-triggered movement restrictions, the underlying demand for office and retail spaces will likely remain soft in view of the uncertain economic outlook (amid recession and prolonged inflation fears) as well as the downsizing of office space requirements (as some companies adopt the hybrid work-from-home arrangement post-pandemic).

On balance, this is expected to exert further downward pressure on overall occupancy rates for both the purpose-built office space (which has been declining steadily from 82.8% in 1HCY18 to 77.7% in 1HCY22) and retail segment (down from 79.9% in 1HCY18 to 75.7% in 1HCY22) (see Chart 1 overleaf).

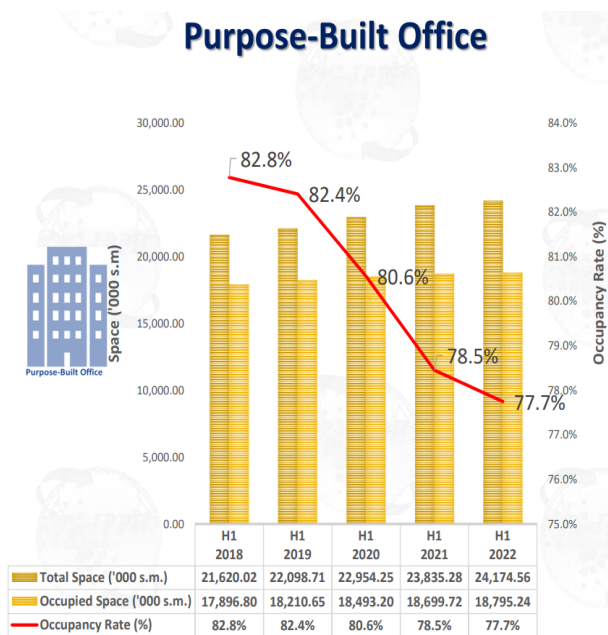
NEUTRAL sector call. We are keeping our NEUTRAL sector view. Broadly speaking, against a backdrop of persistent oversupply, MREITs with exposure in the right business segments (particularly in industrial and retail) and/or own property assets in prime locations (like the city centre) will continue to benefit from resilient rental income streams. Nonetheless, there is no top pick within the sector as investor sentiment will likely stay lukewarm with interest rates likely to shift higher going forward amid the heightened inflationary environment. Our assumption for the 10-year Malaysian Government Securities (MGS) yield – a risk-free benchmark used by us as a valuation reference to impute the corresponding yield spreads in deriving our individual target prices (refer Chart 2) – remains at 4.5%. This compares with the prevailing 10-year MGS yield of 4.13% (as at 15 September), which is still elevated following a previous climb from a trough of 2.40% in early August 2020 to a high of 4.50% in early May this year (see trend on Chart 3 next page).

We retain our MARKET PERFORM call for MREITs under our coverage except SENTRAL, which remains an UNDERPERFORM with TP of RM0.79 (notwithstanding its share price has fallen 11.4% since our downgrade on 22 August 2022).

Risks to our call include: (i) risk-free rate eases/hikes, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

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Chart 1(a): Occupancy Rate Trend For Office Space



Source: NAPIC

Chart 1(b): Occupancy Rate Trend For Retail Space



Source: NAPIC

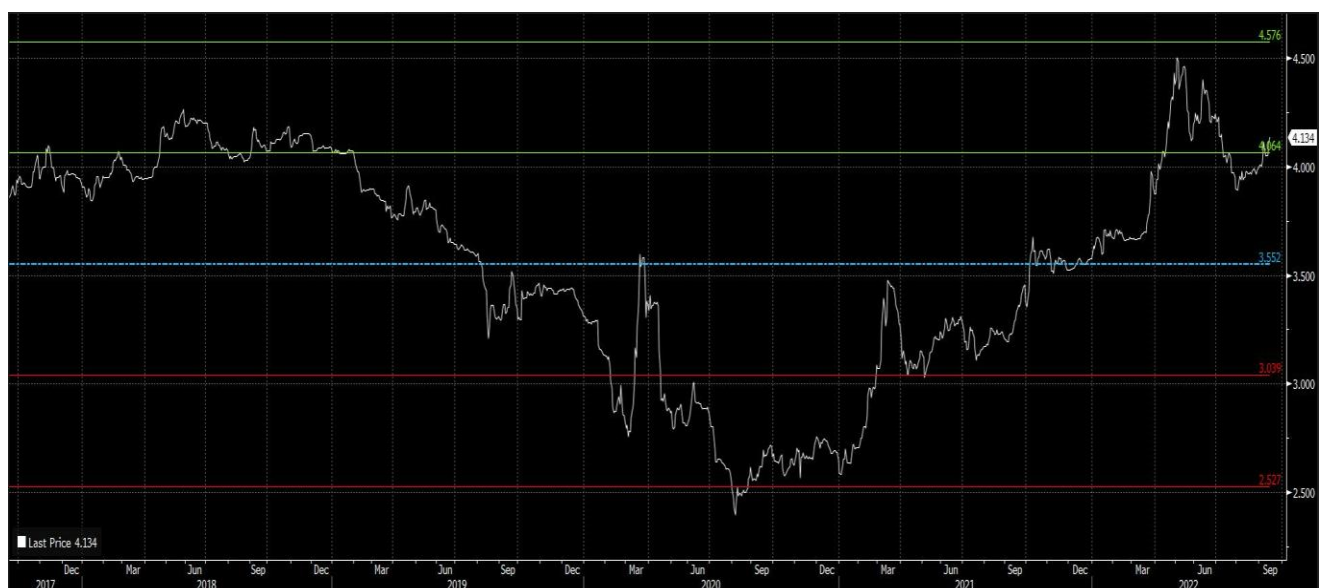
Chart 2: Target Yield At A Glance

REIT	Stock Call	Target Price (RM)	Target Yield^
AXREIT	Market Perform	1.95	5.3%
CLMT	Market Perform	0.51	7.5%
IGBREIT	Market Perform	1.65	6.0%
KLCC	Market Perform	6.60	5.5%
PAVREIT	Market Perform	1.42	6.0%
SENTRAL	Underperform	0.79	8.0%
SUNREIT	Market Perform	1.60	5.5%

^ Derived from yield spread above our 10-year MGS yield assumption of 4.5%.

Source: Kenanga Research

Chart 3: 10-Year Malaysian Government Securities (MGS) Yield Movements



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Gross Div. (sen)	Gross Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.87	1.95	4.28%	3,068.8	Y	12/2022	9.3	10.2	10.4%	9.9%	20.2	18.3	1.4	7.2%	9.3	5.0%
CAPITALAND MALAYSIA MALL TRUST	MP	0.540	0.510	-5.56%	1,163.8	N	12/2022	3.9	3.8	-	-1.5%	13.9	14.1	0.5	3.6%	3.9	7.2%
IGB REIT	MP	1.63	1.65	1.23%	5,840.6	N	12/2022	9.3	9.5	66.1%	4.4%	16.7	16.3	1.5	8.8%	9.7	6.0%
KLCCP STAPLED GROUP	MP	6.63	6.60	-0.45%	11,969.4	Y	12/2022	37.6	40.2	5.9%	6.9%	16.4	14.9	0.9	5.2%	33.1	5.0%
SENTRAL REIT	UP	0.895	0.790	-11.73%	959.2	N	12/2022	6.8	6.7	-11.7%	-1.5%	13.1	13.4	0.7	5.5%	6.5	7.3%
PAVILION REIT	MP	1.28	1.42	10.94%	3,911.3	N	12/2022	7.6	8.1	85.9%	6.8%	16.8	15.7	1.0	6.0%	7.9	6.2%
SUNWAY REIT	MP	1.43	1.60	11.89%	4,897.5	N	12/2022	9.5	9.9	41.8%	4.2%	14.2	14.5	0.9	5.4%	8.5	5.9%
Simple Average								12.0	12.6	33.1%	4.2%	15.9	15.3	1.0	6.0%		6.1%

Source: Kenanga Research

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Oil & Gas

A Resurgence of Activities

By Steven Chan / steven.chan@kenanga.com.my

OVERWEIGHT



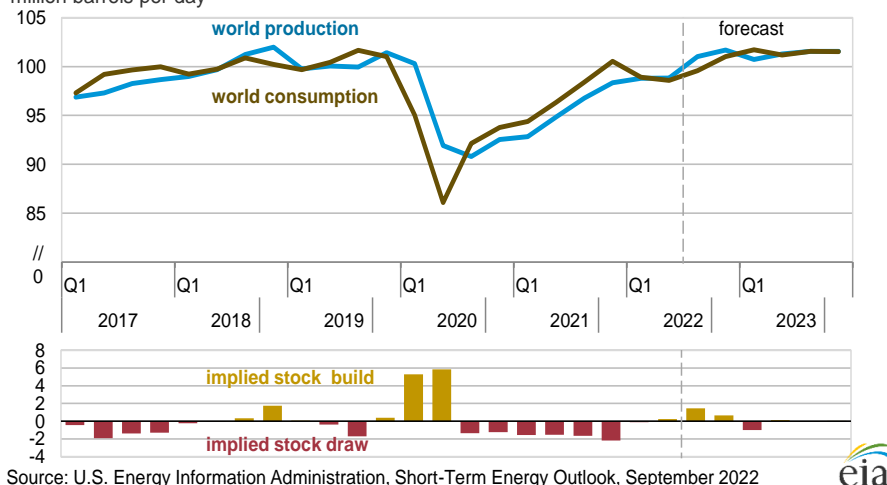
We maintain **OVERWEIGHT** on the sector. We believe oil prices will stay elevated, underpinned by continued supply disruptions and global demand recovery, although we lower our Brent crude oil price assumption by 10-11% to USD90-100/bbl (from USD100-110/bbl) for 2022-23. Activity levels are likely to surge in 2H CY22 as Petronas ramps up its capex spending if the national oil & gas giant stay with its full-year guidance of RM60b (RM19b spent in 1H CY22), while global offshore capex spending is also on track to surpass pre-pandemic levels. On the other hand, sector valuations have lagged the significant improvement in underlying fundamentals. Our sector top picks are PCHEM (OP; TP: RM11.00) and ARMADA (OP; TP: RM0.63).

Oil prices to stay elevated. Despite oil prices pulling back from its peak in June 2022 (likely as a reflection of overall increase in global inventories), we are still fully expecting oil prices to stay elevated at current levels throughout 2022-2023, underpinned by the continued supply disruptions coupled with the recovering global demand. Soaring use of hydrocarbons for power generation are boosting demand, with global demand expected to exceed 100m barrels per day (bpd) for the remainder of 2022 throughout 2023, slightly surpassing pre-pandemic levels. By July, Russian oil production was only 310k bpd below pre-war levels, while total oil exports were down just 580k bpd. With the EU embargo on Russian crude and product imports coming into full effect in February 2023, this is expected to further squeeze supply as a further ~1-1.3m bpd of crude would have to find new homes or be off-market. Meanwhile, OPEC is still suffering from severe limitations to its spare capacity, suggesting that substantial further output increases are highly unlikely in the coming months. The cartel's production cut compliance reached 359% in July, and as such, we feel that any new adjustments to production cut targets are largely symbolic rather than anything else at this point in time.

Overall, we are revising our **2022-23 Brent crude oil price assumption to USD90-100/bbl** (from USD100-110/bbl previously). This adjustment is to account for: (i) rerouting of Russian oil exports to India, China and Turkey, which coupled with seasonally higher Russian domestic demand have mitigated some supply losses, despite exports starting to see steep declines in Europe, US, Japan and Korea, (ii) extension of the US Strategic Petroleum Reserves (SPR) release to November and possibly beyond, from its prior expiration of October (President Biden's original announcement was to release 180m barrels by end-October, but so far only 155m barrels have been sold), and (iii) the slower-than-expected recovery of China under its zero-Covid policy, which impacts global outlook demand especially in 2023 (China is expected to be the largest driver of global demand growth in 2023). Nonetheless, despite the adjustment, this is still far higher than recent years, and sufficiently healthy enough to boost activity levels.

World Oil Production vs Consumption

World liquid fuels production and consumption balance
million barrels per day



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, September 2022



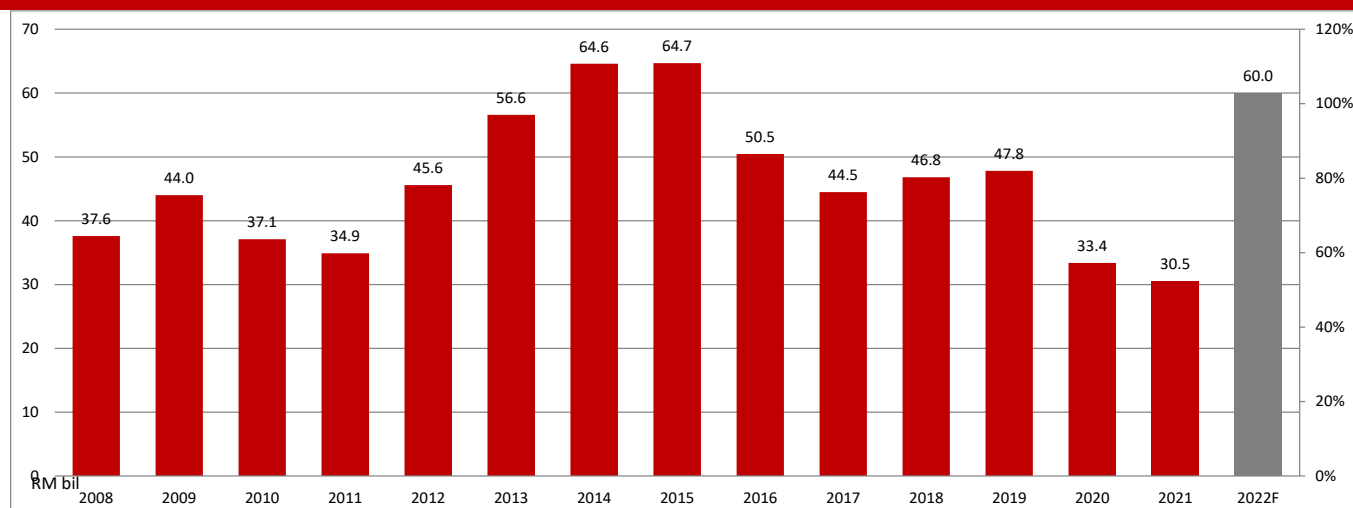
Source: EIA



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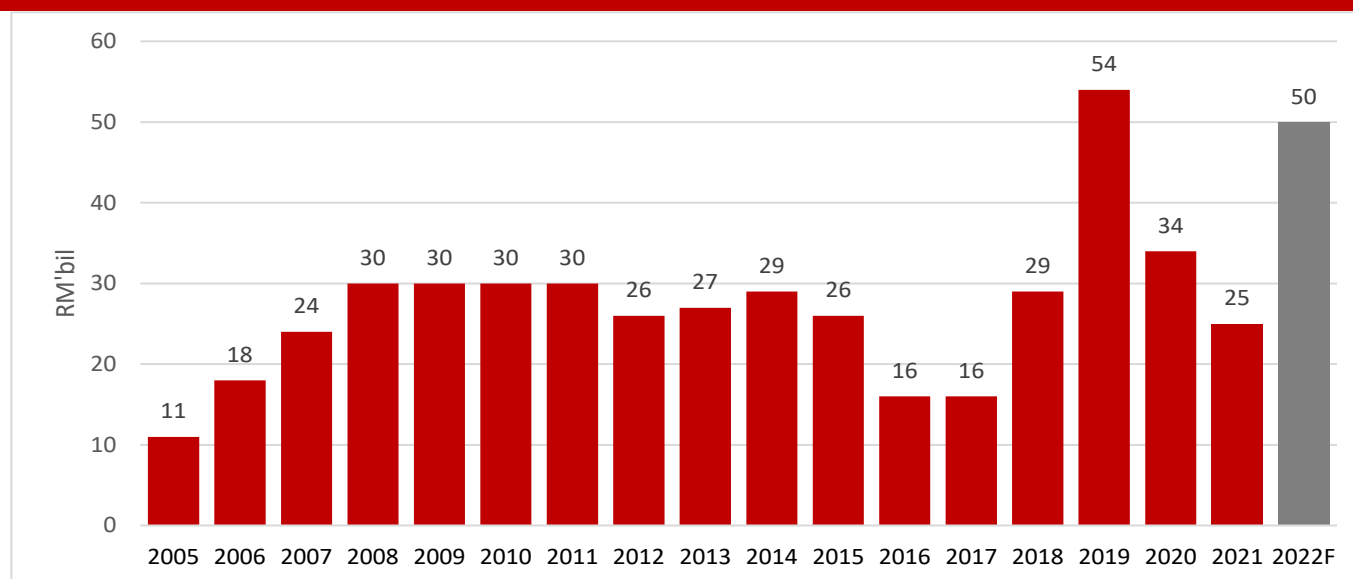
Steep recovery in spending and activity levels. Petronas is guiding to reach an annual capex of RM60b in 2022 (almost doubling YoY from RM30.5b in 2021, and the highest since 2015) – with most of it to be back loaded into 2HCY22. YTD, Petronas had only incurred capex of RM18.9b in 1HCY22 – trailing behind its full-year guidance. We believe the ramp up in capex spending from Petronas will result in higher local activity levels across the board, with prime beneficiaries to include the likes of **DAYANG** (from higher demand for offshore maintenance, and hook-up and commissioning works), **UZMA** (on higher brownfield activities – e.g., well services, oil production enhancements), as well as **VELESTO** (from pick-up in demand for jack-up drilling rigs). And while there are some concerns over Petronas' capex plans being jeopardised by its higher dividend commitment of RM50b in 2022 (doubled from last year's RM25b), we are unperturbed. Given the elevated oil prices, Petronas is set to post a strong set of FY22 earnings (barring any unforeseen major crash in oil prices), further strengthening its strong net-cash position of RM103b – its highest since 2018. Meanwhile, globally, 2022-2023 is also expected to see an aggressive ramp-up in offshore exploration and production (E&P) capex, well surpassing pre-Covid levels, as an aftermath of under-investments in the industry over the past several years. All three of our Bursa-listed FPSO players (i.e. **YINSON**, **MISC**, and **ARMADA**) have been actively participating in international job bids, with opportunities emerging from Latin America, Asia Pacific and Africa. The FPSO space is starting to see a supply squeeze – i.e., many global FPSO players are already pre-occupied with jobs developing at hand, and hence, more recent bids have started to see very few bidders, making it very much an operator market.

Petronas Yearly Capex (RM bil)



Source: Petronas, Kenanga Research

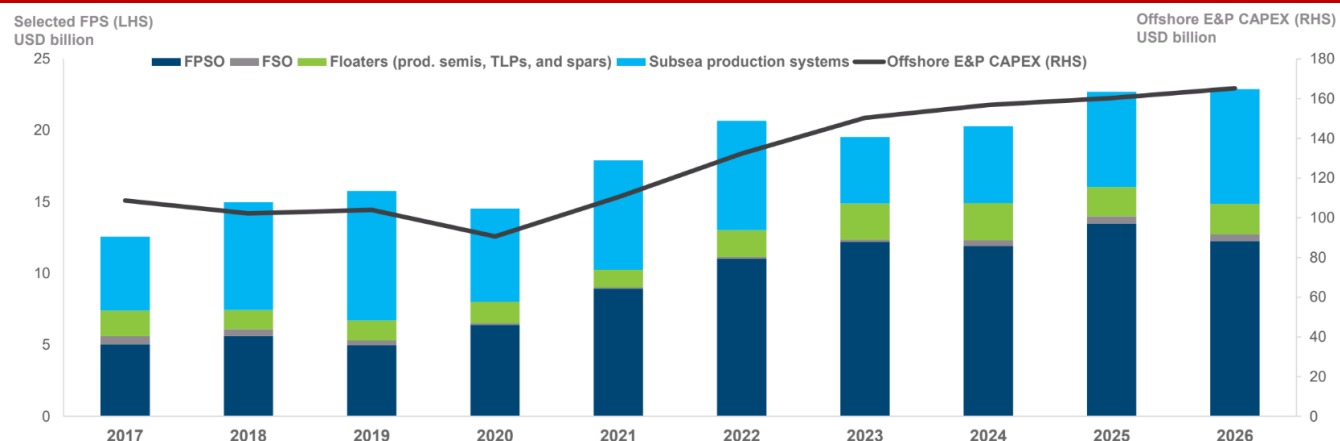
Petronas Yearly Dividends (RM bil)



Source: Petronas, Kenanga Research

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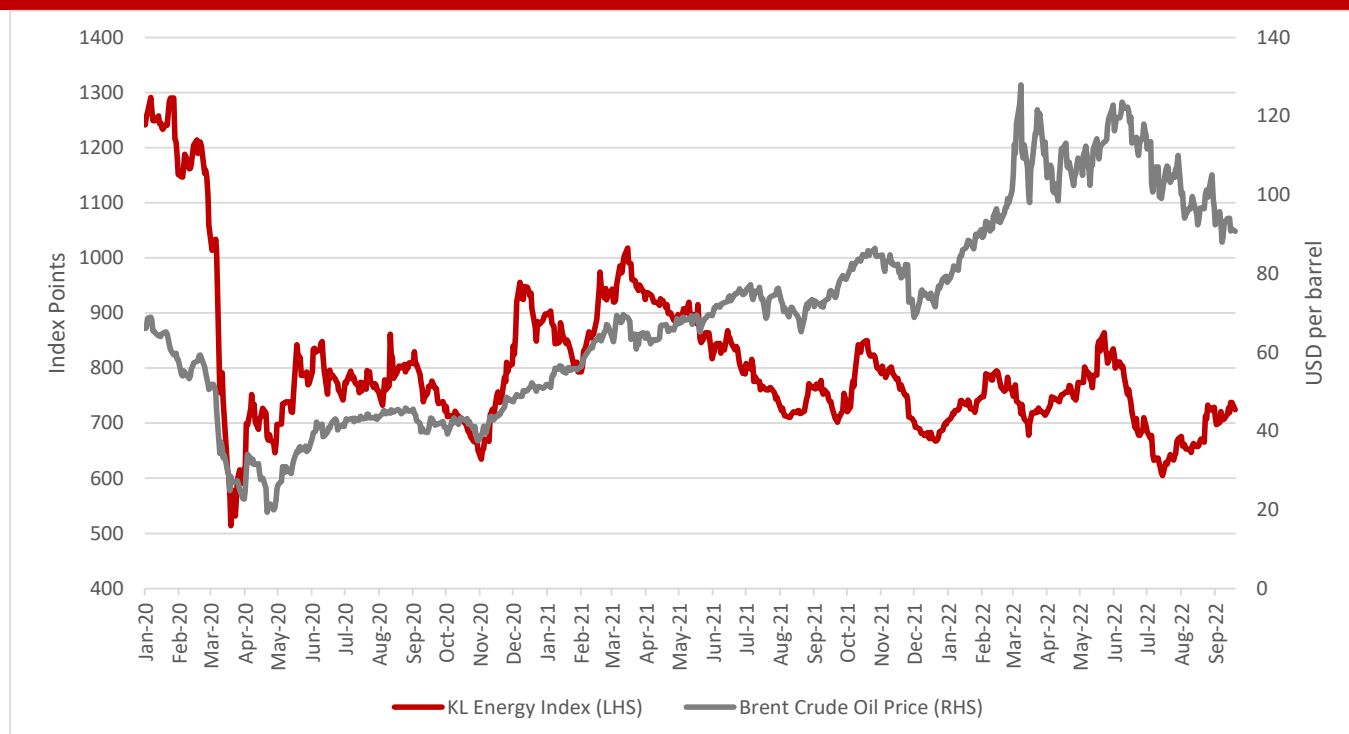
Global Offshore E&P Capex Spending / Global Floater Project Awards



Source: IHS Markit, MISC

Sector valuations still yet to fully reflect fundamental recovery. We believe valuations of the overall sector in general have still yet to fully reflect the underlying fundamental recovery anticipated for 2HCY22. Since mid-last year, the KL Energy Index has been trading at a divergence against the strength in crude oil. We believe this could be partially explained due to two possible reasons:- (i) the downfall of some notable names (e.g. SAPNRG, SERBADK), as well as underperformance of share price performance on selected large caps (e.g. YINSON, DIALOG), and (ii) with the majority of the sector consisting of local-centric services and equipment provider names, earnings for these companies are lagging in nature – i.e. sustained high oil prices may require some time to translate to actual work orders. Hence, with the anticipated earnings and activity recovery in 2HCY22, we believe selective buying opportunities are present within the contract space. Valuation-wise, the KL Energy Index's forward PER is still trading at trough levels similar to what we have seen in 1HCY20, suggesting that some laggard-play opportunities are present.

KL Energy Index versus Brent Crude Oil Price



Source: Bloomberg, Kenanga Research

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Our sector top picks are **PCHEM (OP; TP: RM11.00)** and **ARMADA (OP; TP: RM0.63)**.

We like **PCHEM** because it is a beneficiary of the elevated crude oil and petrochemical prices. Given its arrangement with Petronas, PCHEM benefits from a favourable feed-cost structure against peers – i.e. most of PCHEM's gas feed stock can be procured from Petronas at a fixed pre-agreed price, while others may be hampered by the volatile input cost environment. PCHEM also enjoys dominant market share regionally, which will be further cemented by the start-up of its Pengerang complex in 2HCY22 - increasing its capacity by ~15%. TP is pegged to 16x PER – in-line with other regional petrochemical giants (e.g. Formosa Chemicals, LG Chem).

We like **ARMADA** as it has restored its financial health with its borrowings level becoming more manageable (net-gearing level has been reduced to 1.2x currently, as compared to 2.4x in end-FY20). It is currently eyeing expansion and scouting for new jobs. The global FPSO market is currently tight at the moment, with ample job opportunities but limited competition as many incumbents are already fully loaded with jobs at hand. Operating within a tight and favourable market, we believe it is an eventuality for ARMADA to secure its next large-sized FPSO project to act as a re-rating catalyst for the stock. Our TP is derived from its SoP-valuation, and has yet to factor in any new win assumption.

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.435	0.630	44.83%	2,574.4	N	12/2022	11.4	11.1	-0.8%	-2.3%	3.8	3.9	0.6	15.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.12	1.30	16.07%	1,296.7	Y	12/2022	7.5	8.8	98.2%	17.5%	14.9	12.7	0.9	6.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.29	3.10	35.37%	12,921.5	Y	06/2023	9.5	9.9	5.1%	4.8%	24.2	23.1	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.13	7.05	-1.12%	31,826.5	Y	12/2022	27.6	28.0	-34.7%	1.4%	25.8	25.5	0.9	3.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.62	11.00	27.61%	68,960.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.9	12.5	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	21.26	22.25	4.66%	21,120.8	Y	12/2022	54.2	68.5	-1.8%	26.6%	39.3	31.0	3.8	9.6%	54.2	2.5%
UZMA BHD	OP	0.425	0.580	36.47%	149.6	Y	06/2023	5.3	7.1	28.6%	32.2%	8.0	6.0	0.3	3.5%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.115	0.160	39.13%	944.8	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	10.9	0.4	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.665	0.640	-3.76%	514.9	Y	12/2022	4.6	7.3	51.9%	56.4%	14.3	9.2	0.8	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.30	3.15	36.96%	6,679.0	N	01/2023	21.9	24.1	16.3%	10.3%	10.5	9.5	1.8	18.3%	6.0	2.6%
Simple Average								22.8	23.5	2.3%	16.7%	16.7	14.4	1.4	8.9%		1.6%

Source: Kenanga Research

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Plantation

Resilient & Defensive

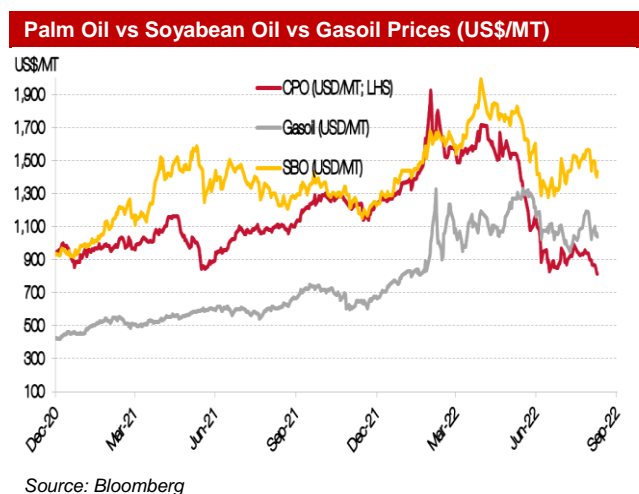
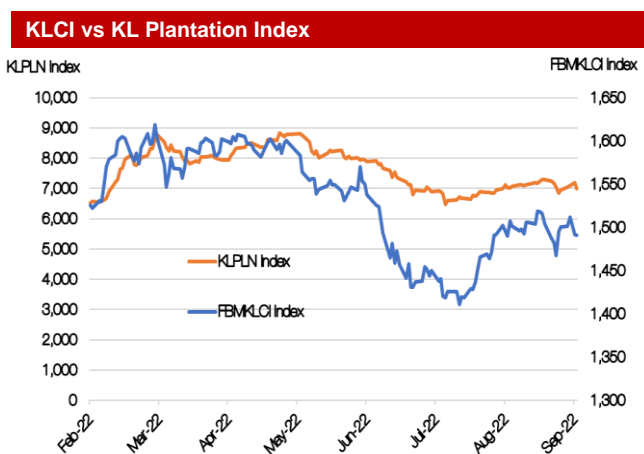
By Teh Kian Yeong | tehky@kenanga.com.my

OVERWEIGHT



Resilience amidst current global economic uncertainty is our investment case for the plantation sector. CPO prices should soften from RM4,500/MT in 2022 to RM4,000 in 2023 on rising edible oils supply but this recovery is fragile especially if subdued global demand starts reverting to its 3-4% YoY long-term growth norm comes 2023. For palm oil, its land yield efficiency and usage flexibility will continue to shine among oil crops. As the highest yielding oil crop, palm oil's price competitiveness should also draw more users searching for value as inflation erodes buying power. Its usage in both food (70%) and fuel (20%) further consolidates palm oil's dominance in the edible oil market. Coupled with the sector's asset-rich NTA and Shariah compliance (9.6% of FBM Shariah Index, 9.4% of FBMKLCI), we stay OVERWEIGHT on the sector. Our top pick is KLK (OP; TP: RM28.00).

Headwinds ahead but earnings to stay resilient. Recent 2QCY22 earnings reporting season marked the end of peak plantations earnings as palm oil prices eased by over 30% since June this year. So, earnings are expected to moderate into 2HCY22 but with margins staying quite robust. Although CPO prices have come off their peak levels, forecast average CPO prices of RM4,500/MT for 2022 and RM4,000/MT in 2023 are still decent. Production costs may be pushed up by rising fertiliser, labour and transportation costs, but all in all, cost should stay within the RM2,000 to 2,500 per MT range, translating to still rather healthy upstream margins for the plantation sector.



Supply is recovering but fragile. Palm oil (c.35% market share) and soybean oil (c.25% share) are the main edible oils in the world market and palm oil production is peaking while US soybean harvest has just started for 2022. This will ease the ongoing tightness but a good South American harvest in 1HCY23 will be required to provide a more convincing recovery. Meanwhile, palm oil output for 2022 may be flatter than earlier expected as labour shortages continue to constrain Malaysian production. Longer term, there is growing concern over ageing palms, which have been pulling yields down in Malaysia, may start impacting Indonesia as well. Nonetheless, for 2023 the improving supply outlook has led to softer CPO prices but we suspect equity investors have already priced in CPO at RM3,500-4,000/MT for 2023.

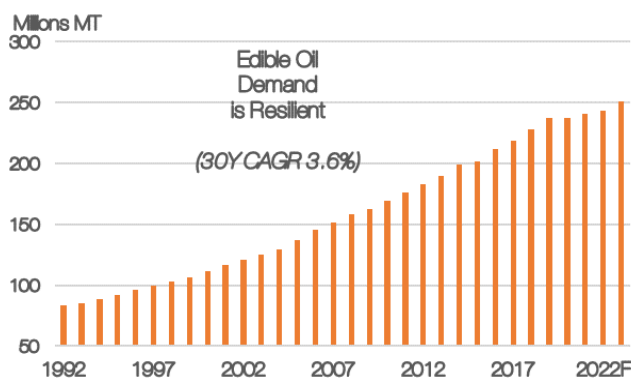
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Supported by rising population, affluence, and to some extent, more urban lifestyle, demand for edible oil has been growing steadily for decades. On average, consumption grew 3% YoY during the recent decade while the 30-year average standing even higher, at 3.6% a year. However, the negative impact of Covid-19 on economic activities, most notably the hospitality, travel and tourism sectors have weighted down demand to around 1% YoY since 2020. However, a reversion back to 3% growth as the world restarts into a new post-Covid norm is anticipated. Whilst the risk of demand staying subdued or even worsening due to an economic slowdown, we believe such likelihood is low as China has yet to even fully relax its zero-Covid policy. Most of all, the fundamental demand drivers are food and fuels, essential day-to-day consumables and Indonesia, the largest user of palm oil and palm biodiesel, has resumed road testing B40 biodiesel since late July after a 5-month delay. Indonesia currently runs a B30 blend with plans to adopt the B40 mix sometime this or next year.

We believe the plantation sector is slowly overcoming its ESG overhang. Core to this is oil palm's competitiveness. With an oil yield of 3.5 MT per Ha, it is the most productive oil crop in the world thus leaving the smallest environmental footprint and allowing the sector to stay profitable even after incorporating additional costs for ESG improvement. Encouragingly, the sector has progressed with many larger concerns already treating ESG as part of normal operations. A testament to the success is that about 16m MT of palm oil is now certified, meeting some of the highest ESG standards for agriculture produce worldwide. More importantly, the better managed groups are not resting on their laurels but pushing towards even higher palm oil yields of 6 MT per Ha, about 10x more efficient than other oil crops.

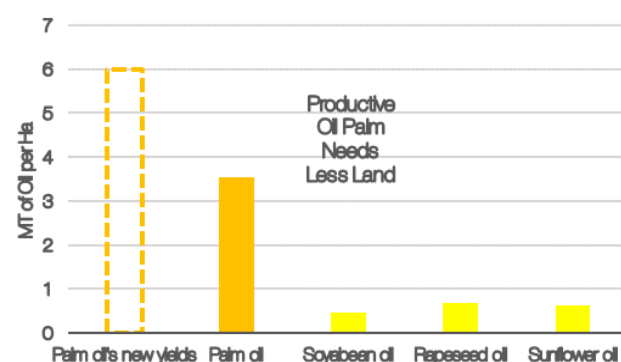
Defensive with undemanding ratings. Despite earnings downtrend, plantation sector ratings may be approaching a bottom. The sector, already trading at prospective FY23F P/BV of just 1.2x with FY22-23F PER of 10-11x, is approaching replacement level ratings. NTA (or BV) is also solidly backed by land bank with manageable-to-low gearing or even net cash. Longer term, the upstream earnings are supported by CPO usage in the production of essential daily consumables as well as in food and fuels. We also surmise that the equity market has factored in CPO prices of RM3,500-4,000/MT into FY23F earnings.

Global Oil Demand (million MT)



Source: Oil World, Kenanga Research

Oil Palm - The Most Productive Oilcrop (MT/Ha)



Source: Kenanga Research

Maintain **OVERWEIGHT** given the plantation sector's defensive qualities amidst current global economic uncertainty. Within the sector, we like **KLK (OP; TP: RM28.00)** for its track record, acquisition of IJM Plantations and strong Indonesian operations, hence the flexibility to still expand there. Meanwhile, **TSH (OP; TP: RM1.80)** offers long-term growth after de-gearing substantially and is now embarking to expand its upstream operations from 40K Ha to 60-65K Ha over the next 5-8 years. **HSPLANT (OP; TP: RM3.00)** offers pure upstream exposure with strong net cash holdings and dividend yields of 8.5%.

28 September 2022

Peer Table Comparison

Name	Rating	Last Price @ 15 Sept (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	OP	0.705	0.950	34.75%	1,579.2	Y	12/2022	14.0	7.3	28.9%	-47.5%	5.1	9.6	0.6	23.9%	14.0	19.9%
FGV HOLDINGS BHD	MP	1.46	1.55	6.16%	5,326.3	Y	12/2022	35.9	26.2	12.3%	-27.1%	4.1	5.6	0.8	22.1%	8.0	5.5%
GENTING PLANTATIONS BHD	OP	6.33	7.50	18.48%	5,679.3	Y	12/2022	65.1	53.8	45.2%	-17.3%	9.7	11.8	1.0	11.4%	31.0	4.9%
HAP SENG PLANTATIONS HOLDINGS	OP	2.35	3.00	27.66%	1,879.3	Y	12/2022	30.8	24.7	23.1%	-19.9%	7.6	9.5	0.9	13.9%	20.0	8.5%
IOI CORP BHD	MP	3.88	4.10	5.67%	24,104.0	Y	06/2023	26.0	22.6	-10.2%	-13.0%	14.9	17.1	2.2	15.3%	14.0	3.6%
KUALA LUMPUR KEPONG BHD	OP	21.90	28.00	27.85%	23,611.6	Y	09/2022	189.4	176.0	21.5%	-7.1%	11.6	12.4	1.8	17.1%	55.0	2.5%
PPB GROUP BHD	MP	17.04	17.00	-0.23%	24,241.1	Y	12/2022	111.8	107.4	6.2%	-3.9%	15.2	15.9	1.0	7.4%	40.0	2.3%
SIME DARBY PLANTATION BHD	MP	4.34	4.40	1.38%	30,014.2	Y	12/2022	36.3	29.7	24.5%	-18.1%	11.9	14.6	1.8	18.8%	26.0	6.0%
TA ANN HOLDINGS BHD	OP	3.69	5.50	49.05%	1,625.3	Y	12/2022	60.0	57.8	-8.9%	-3.8%	6.1	6.4	0.9	15.9%	50.0	13.6%
TSH RESOURCES BHD	OP	1.01	1.80	78.22%	1,394.0	Y	12/2022	16.1	16.1	2.1%	0.5%	6.3	6.3	0.6	36.2%	5.0	5.0%
UNITED MALACCA BHD	MP	5.43	5.30	-2.39%	1,128.6	Y	04/2023	48.2	40.5	-12.8%	-16.0%	11.3	13.4	0.8	7.2%	15.0	2.8%
Simple Average								62.0	55.5	10.3%	-12.6%	9.9	11.3	1.2	16.5%		5.5%

Source: Bloomberg, Kenanga Research

28 September 2022

Plastic Packaging

A Reopening Play, but Labour Shortage Weighs

By Tan Jia Hui | jhtan@kenanga.com.my

NEUTRAL

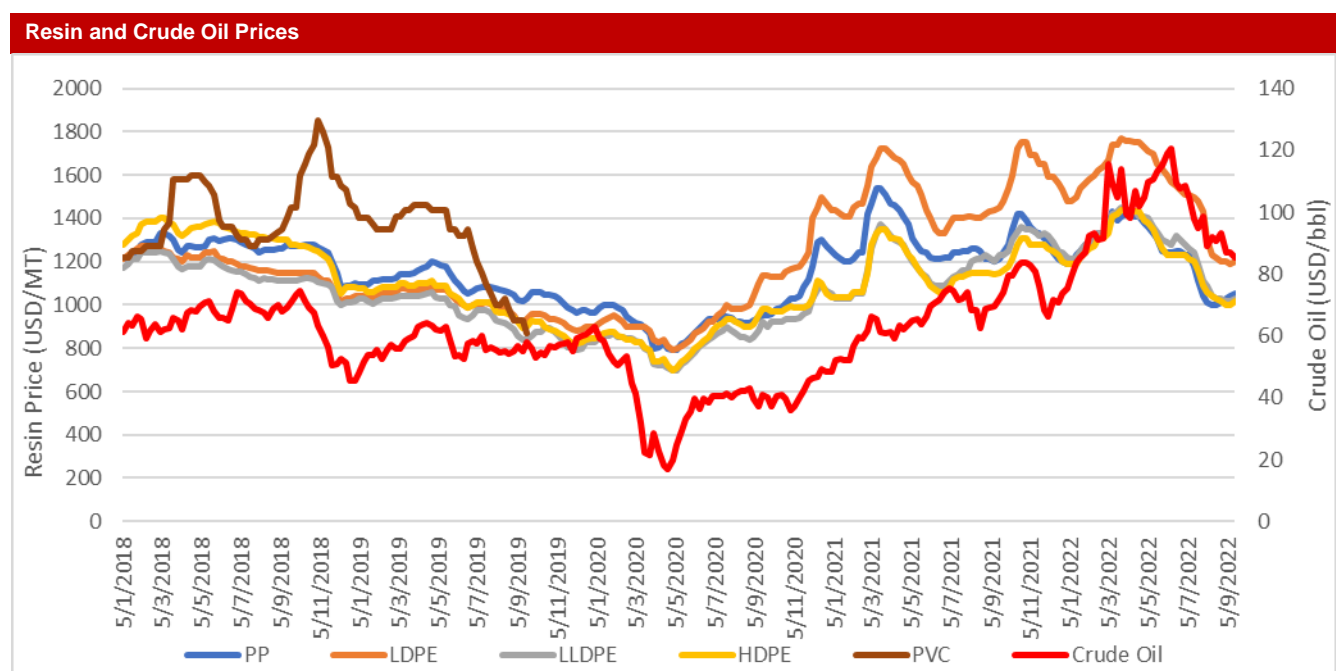


We reiterate our NEUTRAL call for the sector. The demand for plastic packaging continues to be driven by the reopening of economies with higher consumption from the industrial and F&B sectors. Players are also poised for better margins as selling prices of plastic packaging products have held up despite the falling cost of input resin. On the flip side, players have been hurt by the minimum wage hike, and labour shortage which has depressed plant utilisation rate, resulting in diseconomies of scale. The good news is players are gradually obtaining approvals from the authority to bring in foreign workers in batches from 2HCY22. Our sector top pick is TGUAN (OP, TP: RM3.99).

According to market researcher Mordor Intelligence, the global plastic packaging market is projected to grow at a CAGR of 3.5% for 2022-2027. Over the immediate term, the demand for plastic packaging will continue to be driven by the reopening of economies with higher consumption from the industrial and F&B sectors. Players are also poised for better margins as selling prices of plastic packaging products have held up despite the falling cost of input resin (see chart below). There could be further downside to resin prices given the ample supply in the market at a time when demand from a main consuming country, i.e. China, is weak on the back of intermittent lockdowns arising from Beijing's zero-Covid policy.

On the flip side, players have been hurt by the minimum wage hike and labour shortage. The labour shortage has weighed down on utilisation, resulting in diseconomies of scale. The good news is players are gradually obtaining approvals from the authority to bring in foreign workers in batches from 2HCY22. Foreign workers are essential in the manufacturing of plastic packaging products. Blown film products, for instance, come in different sizes and shapes, making the handling of them challenging to be automated. Also, the packing of finished courier and garbage bags have to be done manually.

Our sector top pick is **TGUAN (OP; TP: RM3.99)**. We like the company for: (i) its stronger earnings stability underpinned by a more diversified product portfolio; (ii) its strong growth prospects backed by capacity expansion for its premium products, and (iii) its higher market capitalisation and share liquidity vs. peers.



28 September 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<u>Plastic Pacakging</u>																	
BP PLASTICS HOLDINGS BHD	OP	1.48	1.63	10.14%	416.6	Y	12/2022	14.5	18.2	-12.1%	25.2%	10.2	8.2	1.6	16.8%	6.0	4.1%
SCIENTEX BHD	MP	3.75	3.33	-11.20%	5,816.2	Y	07/2022	24.8	35.7	-13.4%	44.0%	15.1	10.5	1.8	12.5%	7.4	2.0%
SLP RESOURCES BHD	MP	0.895	0.92	2.79%	283.7	Y	12/2022	5.5	6.6	0.0%	18.9%	16.2	13.6	1.5	9.3%	5.5	6.1%
THONG GUAN INDUSTRIES BHD	OP	2.61	3.99	52.87%	1,011.1	Y	12/2022	30.0	36.4	22.2%	21.2%	8.7	7.2	1.2	14.3%	5.5	2.1%
Simple Average								18.7	24.2	-0.8%	27.3%	12.6	9.9	1.5	13.2%		3.6%

Source: Bloomberg, Kenanga Research

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Property Developers

No End to Drought

By Lum Joe Shen | lumjs@kenanga.com.my

NEUTRAL



We maintain **NEUTRAL** on the sector as it continues to be weighed down by oversupply and cautious lending by the banks, while housing affordability is eroding on the back of rising interest rates and soaring construction cost, not to mention the already high household debt to GDP ratio in Malaysia. We believe the government may be more restrained when it comes to incentives for the property sector in Budget 2023 to minimise tax revenue loss. Our top picks are developers with strong cash flows that could anchor good dividends, namely, **ECOWLD (OP; TP: RM0.83)** and **IOIPG (OP; TP: RM1.60)**.

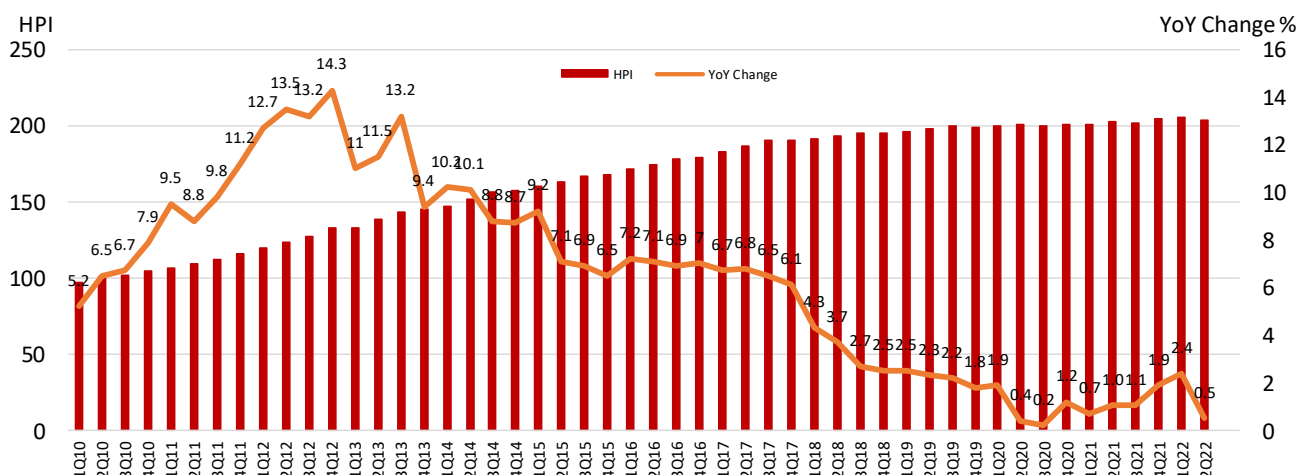
Macro headwinds persist. The operating environment for developers remains challenging, manifested in: (i) the flattish Malaysian house price index (HPI) over the recent years, having contracted QoQ in 2QCY22 despite rising building and land costs, (ii) loan approval rate remaining low at 37% (as of 1HCY22) compared to 43-52% during the upcycle in 2011-2014, and (iii) the household debt to GDP ratio remaining elevated. Meanwhile, housing affordability is eroding on the back of rising interest rates and soaring construction cost. The high construction cost also translates to higher selling prices, putting the viability of new launches at risk.

Market trends. Based on NAPIC's latest 2QCY22 publication, there was some reduction in units in circulation (which includes overhang and unsold under construction units) against the high recorded in 2021. Despite the reprieve, we note that there is still a long way towards recovery as units in circulation are still rather high versus historical levels – creating price competition and pressure for new unit launches. Within key states (KL, Selangor, Penang, Johor), we note that prices for terrace house were the only sub-segment that have shown growth since the onset of the pandemic while prices of high-rises and detached homes have declined. Taking the cue from the numbers, we believe developers focusing on landed townships (i.e. ECOWLD, IOIPG, and SIMEPROP) will fare better than the rest.

Budget 2023. We believe the government may be more restrained when it comes to incentives for the property sector in Budget 2023 to minimise tax revenue loss. The previous Home Ownership Campaign (HOC) spanning over 18 months from June 2020 to December 2021 resulted in RM957.8m tax revenues (from stamp duties) foregone to the government. We doubt that stamp duty discounts for properties worth up to RM2.5m will be re-introduced. Note that stamp duty waiver still apply to first-time purchasers for properties below RM500k.

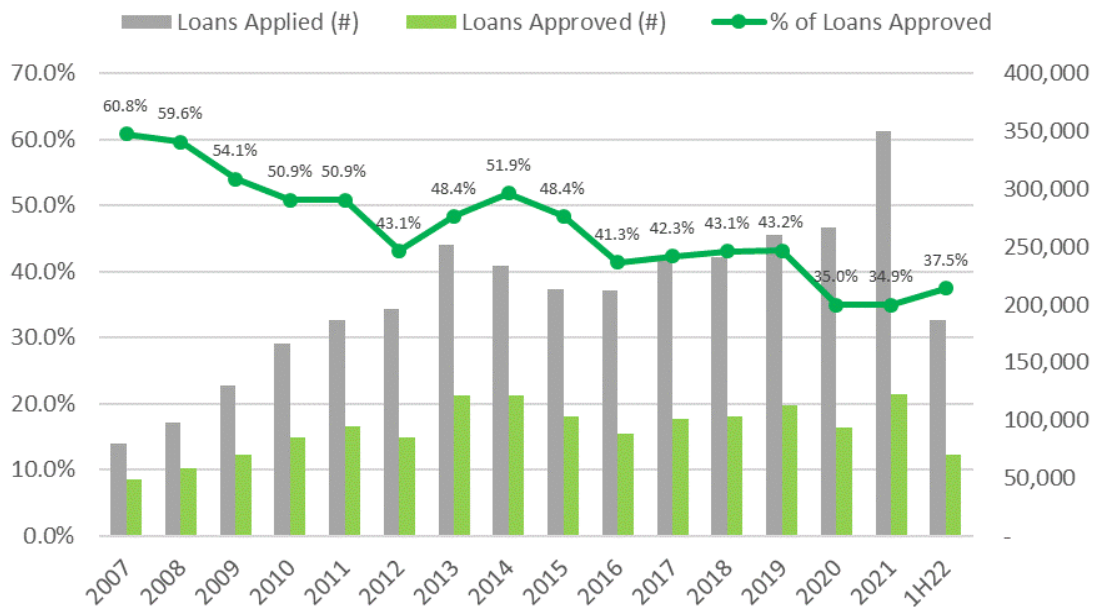
Our top picks are developers with strong cash flows that could anchor good dividends, namely, **ECOWLD (OP; TP: RM0.83)** and **IOIPG (OP; TP: RM1.60)**. We like ECOWLD for its strong branding while IOIPG is for the hidden value in its prime investment properties in the Klang Valley, Singapore and China, which could potentially be unlocked via a REIT.

Malaysian Housing Price Index (HPI)



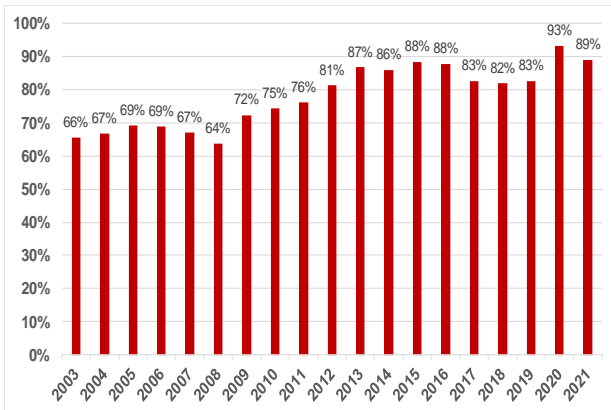
Source: Napic, Kenanga Research

Loan Approval Rate % (Loan approved/Loan applied)



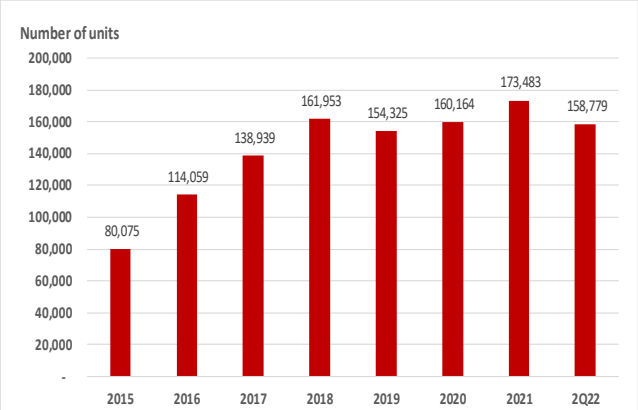
Source: BNM, Kenanga Research

Household Debt to GDP



Source: BNM, Kenanga Research

Overhang and unsold under construction



Source: NAPIC, Kenanga Research

28 September 2022

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
ECO WORLD DEVELOPMENT GROUP	OP	0.620	0.830	33.87%	1,825.5	Y	10/2022	8.0	8.0	-1.3%	-0.2%	7.8	6.9	0.4	4.9%	5.0	8.1%
IOI PROPERTIES GROUP BHD	OP	0.965	1.60	65.80%	5,313.4	Y	06/2023	13.5	14.3	4.2%	5.9%	7.1	6.7	0.3	4.0%	3.0	3.1%
MAH SING GROUP BHD	MP	0.520	0.600	15.38%	1,262.4	Y	12/2022	6.2	5.8	41.5%	-6.0%	8.4	9.0	0.4	4.9%	3.0	5.8%
MALAYSIAN RESOURCES CORP BHD	MP	0.320	0.340	6.25%	1,429.6	Y	12/2022	0.6	0.5	-75.8%	-23.2%	53.3	64.0	0.3	0.6%	1.0	3.1%
SIME DARBY PROPERTY BHD	OP	0.435	0.550	26.44%	2,958.4	Y	12/2022	3.5	3.8	68.9%	9.8%	12.5	11.4	0.3	2.5%	2.0	3.0%
SP SETIA BHD	UP	0.625	0.580	-7.20%	2,547.2	Y	12/2022	6.6	5.6	64.4%	-14.6%	9.5	11.2	0.2	2.9%	2.0	6.1%
SUNWAY BHD	OP	1.61	2.05	27.33%	7,871.4	Y	12/2022	8.6	14.4	29.3%	67.5%	20.1	12.0	0.8	4.4%	3.0	1.9%
UEM SUNRISE BHD	MP	0.270	0.320	18.52%	1,365.8	Y	12/2022	(0.9)	(0.6)	-139.3%	-165.2%	N.A.	N.A.	0.2	-0.6%	0.0	0.0%
UOA DEVELOPMENT BHD	MP	1.65	1.75	6.06%	3,972.3	Y	12/2022	9.1	10.6	-5.6%	16.2%	11.8	11.0	0.6	3.9%	10.0	7.9%
Simple Average								6.1	6.9	-1.5%	-12.2%	16.3	16.5	0.4	3.0%		4.3%

Source: Bloomberg, Kenanga Research

28 September 2022

Seaports & Logistics

Navigating Choppy Waters

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

NEUTRAL



We maintain our NEUTRAL call on the sector and remain cautious on seaport operators in general, buffeted by a weak outlook for global trade. The World Trade Organisation (WTO) recently downgraded its global trade growth forecast for 2022 to 3% (from 4.7%), while remaining cautious for 2023 at 3.4%. However, we see a bright spot in the logistics sector locally given that: (i) it is primarily driven by domestic demand, and (ii) it is also backed by a mega trend of growth in domestic e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a compounded annual growth rate (CAGR) of 11% from 2022 to 2027, while its size could reach RM1.65t by 2025 from RM1t currently. Our sector top picks are BIPORT (OP; TP: RM5.90) given its ability to weather macro challenges and SWIFT (OP; TP: RM1.01) for growth potential of its warehousing business expansion riding on domestic e-commerce market.



Challenging outlook for global trade. We remain cautious on seaport operators in general, buffeted by a weak outlook for global trade. The WTO recently downgraded its global trade growth forecast for 2022 to 3% (from 4.7%), while remaining cautious for 2023 at 3.4%. A recession in Europe is almost a foregone conclusion given the protracted Russia-Ukraine war, resulting in an energy crisis. Meanwhile, there is no sign of China coming out of the pandemic anytime soon given Beijing's ineffective zero-Covid

policy which is prolonging global supply chain disruptions. Globally, consumer confidence and spending are likely to take a beating on sustained elevated inflation, rising interest rates and as households deplete their pandemic relief funds. However, we believe **BIPORT** will be able to weather these macro challenges better thanks to: (i) its stable operation in the handling of LNG cargoes, (ii) a potential hike in tariffs of Bintulu Port as well as (iii) the long-term growth potential of Samalaju Industrial Port's hinterland in Samalaju, Sarawak driven by the growing investment in heavy industries.

Logistics to ride on e-commerce boom. However, we see a bright spot in the logistics sector locally given that: (i) it is primarily driven by domestic demand, and (ii) it is also backed by a mega trend of growth in domestic e-commerce. Industry experts project local e-commerce gross merchandise volume to grow at a CAGR of 11% from 2022 to 2027, while its size could reach RM1.65t by 2025 from RM1t currently.

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also a strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

On the back of a weaker global trade outlook, we cut our FY22F/FY23F earnings for **WPRTS** by 9% each, lower our TP by 4% to RM3.40 (WACC: 6.4%; TG: 2%) from RM3.55 but maintain our **MARKET PERFORM** call. Meanwhile, we downgrade **POS** to **UNDERPERFORM** (from MARKET PERFORM) with an unchanged DCF-derived TP of RM0.55 (WACC: 6.8%; TG: 0%) following a strong recovery in its share price which we believe is pre-mature. The conventional mail business of POS will continue to struggle to stay relevant in the digital age. It will also have to rethink the strategy for its courier business given that e-commerce players (such as Shopee and Lazada) are beefing up their in-house delivery services, as well as strengthening their tie-ups with certain logistics players.

Our sector top picks are BIPORT (OP; TP: RM5.90) and SWIFT (OP; TP: RM1.01) We like BIPORT for: (i) its steady income stream from handling LNG cargoes for Malaysia LNG Sdn Bhd (which typically makes up close to 50% of its total profits), (ii) a potential step-up in earnings if Bintulu Port is granted a significant hike in its port tariffs, and (iii) the tremendous growth potential of Samalaju Industrial Port backed by rising investment in heavy industries in Samalaju Industrial Park. We like SWIFT for its: (i) its leading position in the Malaysian haulage business commanding close to 10% market share, (ii) above peers' pre-tax profit margin of 10% compared to industry average of 4% with its integrated offerings and cost-service advantage, and (iii) growth potential of its warehousing business expansion riding on the domestic e-commerce market.

28 September 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	OP	5.10	5.90	15.69%	2,346.0	Y	12/2022	23.5	30.3	9.5%	28.9%	21.7	16.8	1.4	6.3%	13.5	2.6%
POS MALAYSIA BHD	UP	0.680	0.550	-19.12%	532.3	Y	12/2022	(8.5)	(3.9)	-134.0%	-146.2%	N.A.	N.A.	0.7	-8.3%	-	-
SWIFT HAULAGE BHD	OP	0.540	1.01	87.04%	478.4	Y	12/2022	6.4	7.2	29.7%	12.4%	8.4	7.5	0.7	8.7%	2.0	3.7%
WESTPORTS HOLDINGS BHD	MP	3.22	3.40	5.59%	10,980.2	Y	12/2022	16.8	19.5	-22.1%	16.2%	19.2	16.5	3.4	17.9%	12.6	3.9%
Simple Average								9.6	13.3	-29.2%	-22.2%	16.4	13.6	1.5	6.1%		2.6%

Source: Kenanga Research

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28 September 2022

Technology

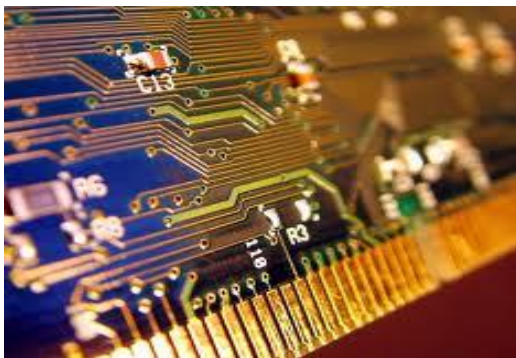
Mild Inventory Adjustments

By Samuel Tan | samueltan@kenanga.com.my

OVERWEIGHT



We keep our **OVERWEIGHT** rating on the technology sector. While inventory adjustments are currently on-going in the semiconductor sector, we hold the view that they will be mild as end-users adjust to the new norm of maintaining high inventory levels, having learnt the lessons the hard way during the chip shortage that is still fresh in their memory. Meanwhile, World Semiconductor Trade Statistics, a renowned data compiler and forecaster for the global semiconductor industry, still projects for the worldwide semiconductor market to grow by 13.9% and 4.6% in 2022 and 2023, respectively. We like **INARI (OP; TP: RM3.45)** as it is a proxy to the newly launched US smartphone that has attracted strong interest from consumers, and **SKP (OP; TP: RM2.10)** being the only meaningful proxy to a fast-growing premium brand for household and personal products.



A mild inventory adjustment cycle. We maintain our **OVERWEIGHT** stance on the technology sector heading into 4QCY22. While inventory adjustments are currently taking place with the likes of TSMC suggesting that it might continue into 1HCY23, the Taiwan-based semiconductor giant holds the view that the realignment period may be shorter as compared to previous cycles. In addition, our channel checks indicated that tech companies intend to continue maintaining a higher inventory level compared to past practices as they foresee a shallow dip which will be followed by an upcycle subsequently. This is evidenced by the commitment of local OSAT players such as UNISEM and MPI

which are carrying on with their respective major capacity expansions in both China and Malaysia that are expected to come online between 2HCY23 and early 2024.

Global chip sales to climb 13.6% YoY. Global chip demand continued to climb as Semiconductor Industry Association (SIA) reported a 13.3% YoY increase in semiconductor sales for 2QCY22 to USD152.5b. The latest data in July continued to show growth at 7.3% YoY as the US market led with YoY gains of 20.9%, followed by Europe (+15.2%) and Japan (+13.1%) which offset the slowdown in China (-1.8%) due to the prolonged lockdowns. However, with easing restrictions in China, we remain sanguine on the sector as our view is also echoed by the World Semiconductor Trade Statistics (WSTS) which forecast a 13.6% and 4.6% YoY gain for 2022 and 2023, respectively.

The escalation in the US-China chip war on the heels of the passing of USD52b CHIPS Act will likely benefit Malaysia which is seen as neutral ground. We understand that MNCs are beginning to relocate out of China and into Malaysia for chip packaging services. This trend is expected to be more prominent for US companies that received grants from the CHIPS Act. Meanwhile, China is showing no signs of slowing down from its aggressive push for technological superiority. Hence, companies such as **INARI** and **MPI** have adopted the "China for China; Malaysia for the West" strategy as they continue to expand their capacity in Kunshan and Suzhou, respectively, as well as their plants in Malaysia to benefit from both sides.

Latest US smartphone launch appears promising as the manufacturer kept its prices unchanged resulting in overwhelming pre-order traffic in China which crashed the tech giant's website, according to the South China Morning Post. The exuberance has also been witnessed on alternative Chinese e-commerce sites such as JD.com which recorded more than 2m orders within 24 hours after pre-orders opened, exhibiting similar momentum as seen during last year's launch. We attribute this phenomenon to the revenge spending behaviour among Chinese consumers given the prolonged lockdown. As such, we continue to like **INARI (OP; TP: RM3.45)** given its exposure to the US smartphone 5G radio frequency (RF) supply chain.

28 September 2022

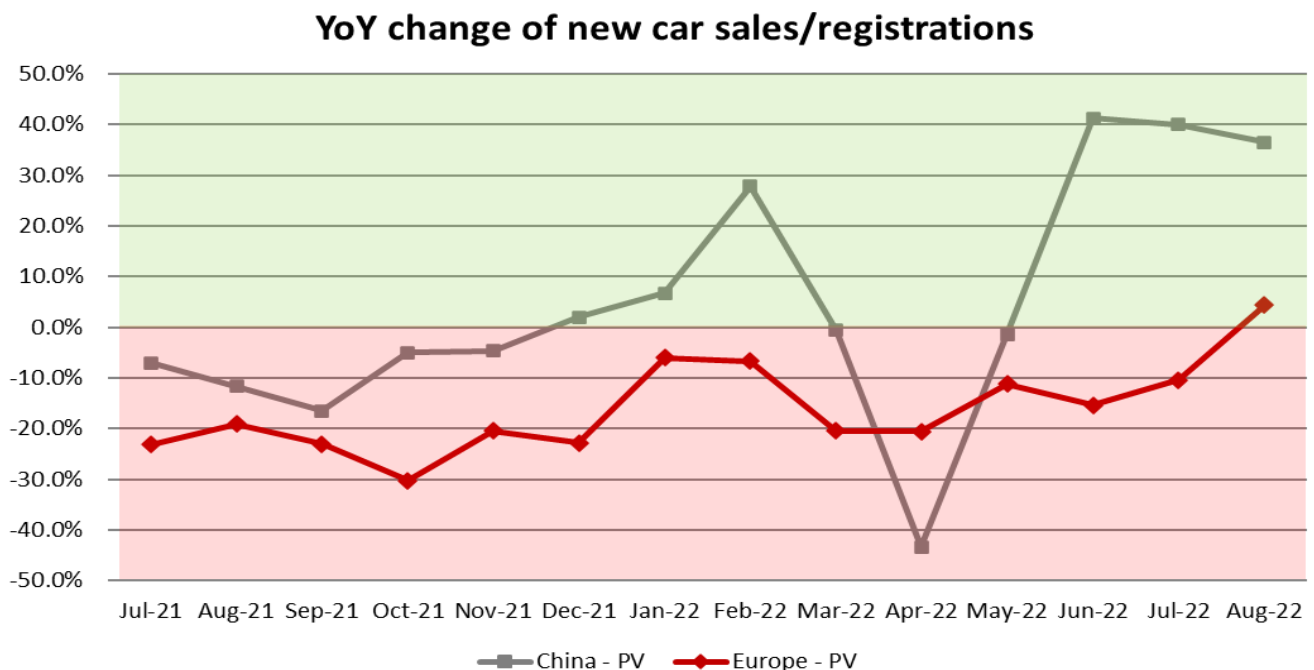
Worldwide Smartphone Sales to End Users by Vendor (m of units)								
Company	Shipments (units)			Growth		Market Share		
	2Q22	1Q22	2Q21	QoQ	YoY	2Q22	1Q22	2Q21
Samsung	62.4	73.6	59.1	-15.2%	5.6%	22%	23%	19%
Apple	44.6	56.5	44.4	-21.1%	0.5%	16%	18%	14%
Xiaomi	39.5	39.9	53.1	-1.0%	-25.6%	14%	13%	17%
Vivo	24.8	25.3	31.7	-2.0%	-21.8%	9%	8%	10%
Oppo	24.7	27.4	32.8	-9.9%	-24.7%	9%	9%	10%
Others	89.9	91.4	92.3	-1.6%	-2.6%	31%	29%	29%
Total	285.9	314.1	313.4	-9.0%	-8.8%	100%	100%	100%

Source: IDC

Continuing along the lines of revenge spending, **SKPRES (OP; TP: RM2.10)** stands to benefit as order volume for its key customer's household and personal products remain elevated, especially orders coming from China. Given the stickiness of its customer and absence of competition from peers, we believe SKPRES's services will continue to be heavily relied on as its customer looks to double their product range by 2025. Meanwhile, SKPRES has received requests to ramp up production further in anticipation of the year-end festive season. In addition, the group is expected to kick start the production of two new products in October which will contribute positively in 3QFY23. To cope with the additional lines, SKPRES has added 850 new workers in batches since June and will have another 250 workers coming in by September. This will bring its total workforce to approximately 7,500 workers.

Supply constraint for automotive semiconductor is expected to continue throughout 2022 as companies such as UNISEM (MP; TP: RM3.35) and MPI (MP; TP: RM34.50) indicated that their respective automotive customers continue to struggle with deliveries with wait time for certain car models ranging from 6 to 9 months while some new model launches are being pushed back. This situation may potentially drag beyond 2022 with the recovery of car sales in recent months in both China and Europe. However, we maintain a MARKET PERFORM call for those two stocks given China's ongoing lockdown which will likely impact their immediate-term prospects as UNISEM and MPI have operations in Chengdu and Suzhou, respectively.

Passenger vehicle (PV) sales/registrations growth (% YoY)



Source: CAAM, ACEA

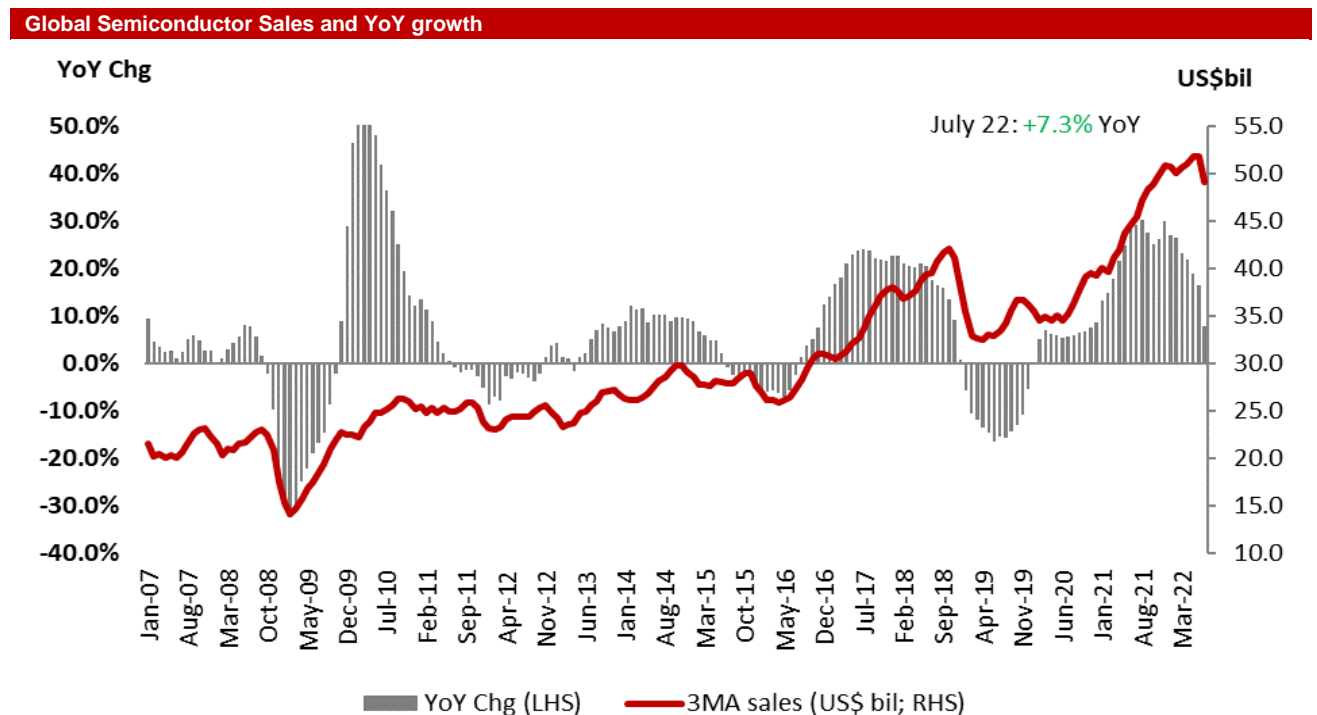
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Overall, we maintain our **OVERWEIGHT** stance on the technology sector. Our top picks are:

- (i) **INARI (OP; TP: RM3.45)**. We believe INARI will continue to benefit from the positive market reaction towards the latest US smartphone launch. We like INARI for: (i) having one of the best profitability in the OSAT space, (ii) its direct involvement in the 5G supply chain, and (iii) its constant improvement and innovation to ensure customer's stickiness. Our target price includes a +5% adjustment based on ESG given a 4-star rating as appraised by us.
- (ii) **SKPRES (OP; TP: RM2.10)** is expected to see subsequent strong quarters as the year-end shopping season draws near. We like SKP for: (i) being the main proxy to a brand with fast-growing premium household products, (ii) its ability to keep margins stable despite higher wages and raw material cost, and (iii) its customer's high dependency on the group. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us.

Worldwide PC Sales to End Users by Vendor (m of units)								
Company	Shipments (units)			Growth		Market Share		
	2Q22	1Q22	2Q21	QoQ	YoY	2Q22	1Q22	2Q21
Lenovo	17.9	18.6	20.4	-3.8%	-12.5%	25%	24%	25%
HP	13.5	15.9	18.6	-14.9%	-27.5%	19%	20%	23%
Dell	13.3	13.8	14.0	-3.7%	-5.3%	18%	18%	17%
Apple	6.4	7.0	5.8	-9.1%	9.3%	9%	9%	7%
Asus	4.7	5.6	4.9	-16.0%	-4.3%	7%	7%	6%
Acer	5.1	5.5	6.3	-7.9%	-18.7%	7%	7%	8%
Others	11.2	11.5	12.4	-2.8%	-9.5%	16%	15%	15%
Total	72.0	77.9	82.4	-7.5%	-12.6%	100%	100%	100%

Source: Gartner



Source: SIA

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WSTS Semiconductor Sales Forecasts by Product Type (Spring 2022 Q2 Update)								
	US\$ bil				YoY %			
	2020	2021	2022F	2023F	2020	2021	2022F	2023F
Discrete Semiconductors	23.8	30.3	33.4	34.7	-0.3	27.4	10.1	3.8
Optoelectronics	40.4	43.4	43.5	45.1	-2.8	7.4	0.2	3.7
Sensors	15.0	19.1	22.3	23.2	10.7	28.0	16.6	3.9
Integrated Circuits	361.2	463.0	534.0	559.4	8.4	28.2	15.3	4.8
Analog	55.7	74.1	90.3	96.1	3.2	33.1	21.9	6.4
Micro	69.7	80.2	85.0	88.0	4.9	15.1	5.9	3.6
Logic	118.4	154.8	192.2	207.8	11.1	30.8	24.1	8.1
Memory	117.5	153.8	166.5	167.5	10.4	30.9	8.2	0.6
Total	440.4	555.9	633.2	662.4	6.8	26.2	13.9	4.6

Source: WSTS

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM) @ 15/9/22	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net. Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	4.10	4.45	8.54%	5,072.6	Y	12/2022	11.3	14.4	27.1%	26.6%	36.1	28.6	5.6	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	0.920	1.10	19.57%	1,050.2	Y	12/2022	2.1	2.7	-16.4%	30.2%	44.7	34.3	2.0	4.5%	0.0	0.0%
INARI AMERTRON BHD	OP	2.80	3.45	23.21%	10,396.7	Y	06/2023	11.0	12.1	4.2%	9.8%	25.5	23.2	4.1	16.2%	10.4	3.7%
JHM CONSOLIDATION BHD	MP	1.12	1.30	16.07%	624.5	Y	12/2022	5.8	7.4	19.0%	27.4%	19.2	15.1	2.1	11.9%	0.5	0.4%
KELINGTON GROUP BHD	OP	1.37	1.70	24.09%	880.9	Y	12/2022	6.9	7.4	39.0%	7.5%	19.9	18.6	3.8	20.8%	1.7	1.2%
KESM INDUSTRIES BHD	MP	6.95	7.50	7.91%	299.0	Y	07/2022	4.2	16.7	-55.0%	300.0%	163.2	41.4	0.8	0.5%	9.0	1.3%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	29.60	34.50	16.55%	5,887.3	Y	06/2023	173.0	182.5	4.1%	5.5%	17.1	16.2	2.6	16.0%	35.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	2.97	3.70	24.58%	1,140.6	Y	12/2022	17.2	20.3	8.6%	18.4%	17.3	14.6	2.0	12.0%	7.0	2.4%
SKP RESOURCES BHD	OP	1.76	2.10	19.32%	2,749.8	Y	03/2024	11.6	12.4	6.3%	7.7%	15.2	14.2	3.0	21.1%	5.8	3.3%
UNISEM (M) BHD	MP	2.66	3.35	25.94%	4,290.8	Y	12/2022	15.0	16.7	22.1%	11.3%	17.8	16.0	1.9	10.8%	6.0	2.3%
Simple Average								25.8	29.3	5.9%	44.4%	37.6	22.2	2.8	13.0%		1.6%

Source: Kenanga Research

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Telecommunications

Safely Hoisted Amidst External Headwinds

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

OVERWEIGHT



We reiterate our OVERWEIGHT call for the sector. We believe telcos and investors alike will soon settle to accept the Single Wholesale Network (SWN) model. We believe the de-rating of the sector over the last two years has adequately reflected the market's reservation on the model, which means a reversal in share prices are likely on the cards once the dust finally settles. We also see telcos as domestically-driven plays (other than AXIATA) and hence spared the external headwinds. Our top picks within the sector are DIGI (OP; TP: RM4.25) and TM (OP; TP: RM7.95) as both will be able to improve their service offerings given the expanding coverage under the Jendela Initiative and impending roll-out of 5G services.



A final decision on 5G soon. After much delay, we believe four of the six telco operators are expected to sign on the dotted line with regards to the SWN in the 5G rollout. We reiterate our view the commitment by the MNOs to DNB's equity participation would likely boost DNB's credit rating in its bond-raising exercise to roll out 5G. This is also a win for national interest as it accelerates Malaysia's IR 4.0 progress, boosted by efficient mobile speeds at affordable tariffs. Firm commitment from all industry

players and stakeholders has seen 5G coverage reaching 27% of the population with the targeted 37% expected to reach by end of 2022. The coverage in urban and populated areas first makes perfect sense given the need for a more stable consistent coverage in densely populated and business areas. From other countries' experience we expect pricing for 5G services to be slightly higher which should minimize the impact of outlay costs.

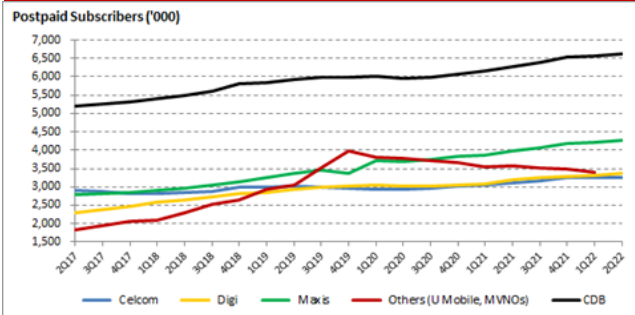
The 5G aside, we remain positive on the sector's outlook premised on resilient demand from both consumers and businesses, locally and regionally. Demand for local mobile and broadband will be supported with wider coverage at the end of Phase 1 of the Jendela Initiative. Players like AXIATA (via CELCOM) and DIGI looks set to benefit from the wider coverage and reaching to the remote corners of Malaysia, and the return of migrant workers. Telco operators which are able to roll out 5G services the soonest will have a first mover advantage given the limited availability of 5G at the moment.

Coverage widens. In providing wider 4G coverage and better broadband quality as the country transitions to 5G technology, the JENDELA initiative is seen to be on track and has even exceeded targets in some areas. As of 1HCY22 a total of 7.2m premises (2022 target: 7.5m) now have access to fibre broadband and 95.6% (vs 2022 target of 96.9%) of populated areas have access to the 4G coverage. Meanwhile, the average mobile broadband speed has also increased to 40.13 Mbps (megabits per second), surpassing the original Phase 1 target of 35 Mbps. In addressing connectivity challenges, satellite and 5G services have been accelerated to 4QCY22 from its initial Phase 2 target with 893 sites deployed with satellite broadband with selected places like Cyberjaya, Putrajaya and Kuala Lumpur having 5G access, to be followed by major towns in both Peninsular and East Malaysia. That said 2QCY22 saw industry players surpassing their fiberisation premises targets with Celcom over achieved the fiberisation by 126% followed by TM (109%), Maxis (107%) and TIME (104%). For the base stations upgrade, the five (5) key mobile broadband service providers have upgraded a total of 1,710 base stations, or 106.4% of its original target. Most of the service providers exceeded their respective targets such as Celcom (108%), Digi (106%), Maxis (136%) and U Mobile (108%). Similarly, the four key mobile broadband service providers – Celcom (100%), Digi (100%), Maxis (110%) and U Mobile (140%) – successfully achieved more than their respective targets for 2QCY22, constructing a total of 57 new 4G towers or 110% of its original target of 52 towers.

Our sector top picks are **DIGI (OP; TP: RM4.25)** and **TM (OP; TP: RM7.95)**. We like **DIGI** for: (i) its superior EBITDA margin at 47%-48% vs. the industry average of 41%, and (ii) the merger with Celcom, giving birth to a new market leader in the mobile market with combined market share of 44%, and (iii) its first mover advantage in providing 5G. We like **TM** for the positive tailwinds on the digital space as economies reopen and the enhanced network coverage nationwide boosting internet demand from both public and business.

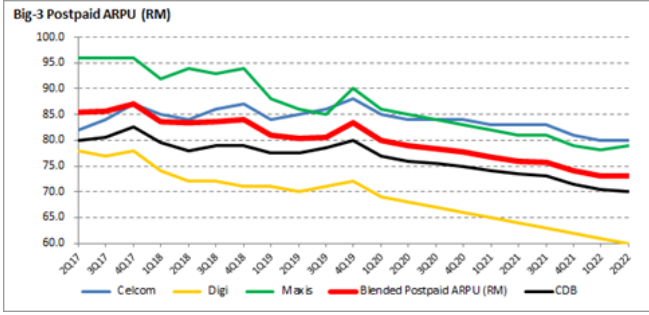
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Chart 1: Postpaid Subscribers



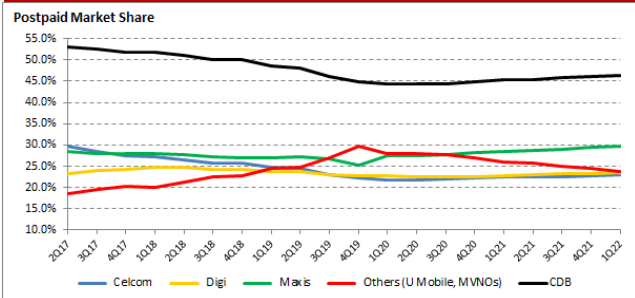
Source: Trading Economics, Kenanga Research

Chart 2: Big-3 Postpaid ARPU (RM)



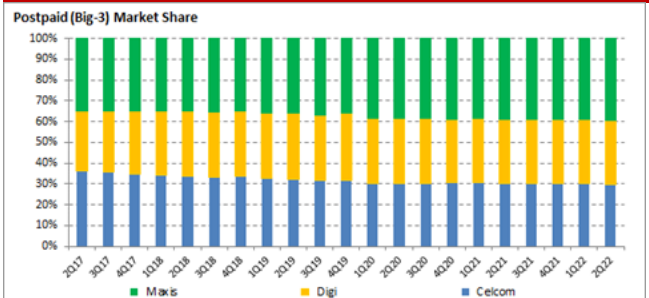
Source: Trading Economics, Kenanga Research

Chart 3: Postpaid Market Share



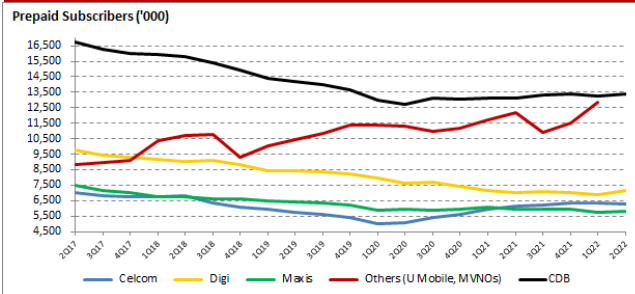
Source: MCMC, Companies, Kenanga Research

Chart 4: Big-3 Postpaid Market Share



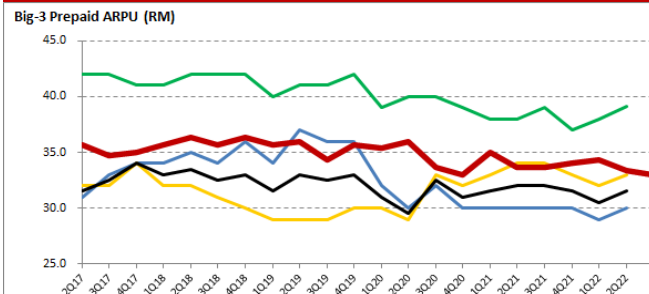
Source: MCMC, Companies, Kenanga Research

Chart 5: Prepaid Subscribers



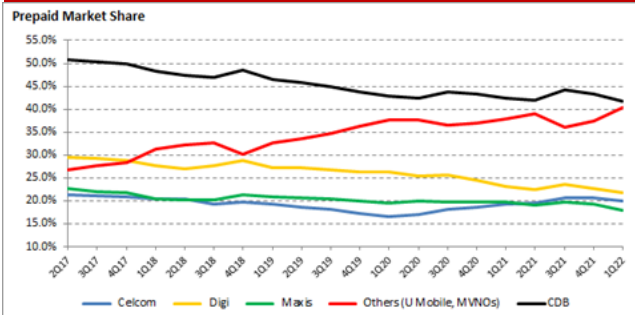
Source: MCMC, Companies, Kenanga Research

Chart 6: Big-3 Prepaid ARPU (RM)



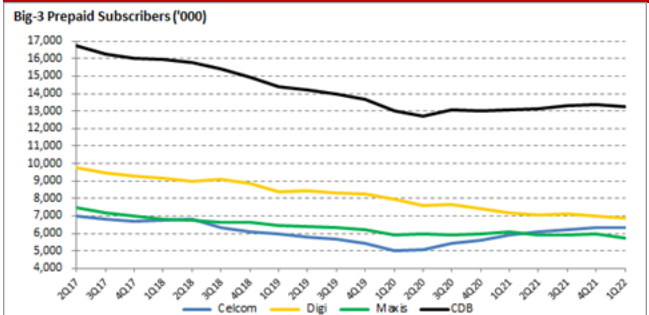
Source: MCMC, Companies, Kenanga Research

Chart 7: Prepaid Market Share



Source: MCMC, Companies, Kenanga Research

Chart 8: Big-3 Prepaid Subscribers



Source: MCMC, Companies, Kenanga Research

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Table 1: Malaysia's 5G rollout timeline

End-2021	Launched 5G in Putrajaya, Cyberjaya and selected areas in Kuala Lumpur.
2022	Deploy 5G in 5 major cities and districts in Selangor, Penang, Johor, Sabah and Sarawak.
2023	Expansion to 17 cities and rural areas.
2024	Achieve 80% 5G population coverage.
2025-2030	>90% coverage in populated areas (by 2027).

Source: Digital Nasional Berhad, Kenanga Research

Table 2: Valuations

Companies	Valuation Method	FY23 EV/EBITDA (x)	Current TP	Current Call	Previous TP	Previous Call
AXIATA	Sum-of-parts (refer below)		3.65	OP	3.45	OP
DIGI	Celcom DIGI valuation (refer below)	N.a	4.25	OP	3.70	OP
MAXIS	EV/EBITDA	9.0	3.90	OP	3.90	OP
OCK	EV/EBITDA	7.0	0.95	OP	0.45	OP
TM	EV/EBITDA	7.0	7.95	OP	6.70	OP

Source: Kenanga Research

Table 3: AXIATA Sum-of-Parts Valuation

Companies	Valuation Method	Multiple	Enterprise Value (RM' m)	Axiata's Stake (%)	Value to Axiata (RM' m)
XL (Indonesia)	EV / EBITDA	5.0	19,021	61.5%	11,698
Robi (Bangladesh)	EV / EBITDA	8.0	12,949	61.9%	8,015
Dialog (Sri Lanka)	EV / EBITDA	3.0	3,911	83.3%	3,258
Ncell (Nepal)	EV / EBITDA	5.0	4,901	80.0%	3,921
Smart (Cambodia)	EV / EBITDA	6.0	5,649	72.5%	4,096
Axiata Digital Services	EV / Sales	20.0	2,200	100.0%	2,200
edotco	EV / EBITDA	9.0	14,543	63.0%	9,162
Total Enterprise Value					42,349
(-) FY22E Net Debt and Minority Interest					20,226
(+) Celcom Digi 33% Value to AXIATA					16,828*
Total Equity Value					33,700
Fair Value/Share (RM)					3.65

*After NewCo discount of 20%

Source: Kenanga Research

Table 4: CELCOM DIGI Valuation (RM'm) on FY23E

CDB EBITDA	6,355
Asc. EV/EBITDA (x)	10.0
CDB Target EV	63,550
- Debt	12,315
- Additional Debt	1,700
+ Cash	2,707
- Cash to AXIATA	2,400
CDB Target MC	49,982
NOSO (m)	11,732
CDB TP (RM)	4.25

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
TELECOMMUNICATIONS																
AXIATA GROUP BHD	OP	2.80	3.65	30.36%	25,695.7	Y	12/2022	14.0	15.0	-3.1%	7.0%	20.0	18.7	1.4	7.2%	12.0
DIGI.COM BHD	OP	3.46	4.25	22.83%	26,901.5	Y	12/2022	12.7	16.3	-12.7%	27.7%	27.2	21.3	41.9	155.3%	12.6
MAXIS BHD	OP	3.78	3.90	3.17%	29,598.0	Y	12/2022	16.1	19.4	-6.0%	20.3%	23.5	19.5	4.4	18.9%	16.2
OCK GROUP BHD	OP	0.450	0.950	111.11%	474.5	Y	12/2022	3.0	5.2	36.6%	74.4%	15.0	8.6	0.7	4.6%	0.5
TELEKOM MALAYSIA BHD	OP	5.76	7.95	38.02%	21,817.0	Y	12/2022	30.9	35.1	-1.3%	13.8%	18.6	16.4	2.9	15.6%	17.0
Simple Average								15.3	18.2	2.7%	28.6%	20.9	16.9	10.2	40.3%	

Source: Kenanga Research

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Utilities

Regulated and Stable

By Teh Kian Yeong | tehky@kenanga.com.my

OVERWEIGHT



We maintain our **OVERWEIGHT** recommendation on the utilities sector as it offers defensive earnings which also anchor decent dividend yields for the players. Earnings of power utility **TENAGA** will be backed by a fixed rate of return of 7.3% on its regulated asset base with a 1.7% annual demand growth embedded in the Regulatory Period 3 (RP3) under the Incentive-based Regulation (IBR) framework, while gas utilities **PETGAS** and **GASMSIA** are in their final year of Regulatory Period 1 (RP1) and we still expect resilient earnings even in the coming Regulatory Period 2 (RP2) next January. Meanwhile, earnings for independent power producers (IPPs) are supported by power purchase agreements (PPAs). **TENAGA** is our top pick for the sector.



Power utilities: high fuel cost is sheltered under IBR. Indonesia coal benchmark price rose another 8% QoQ to USD319.94/MT in 3QCY22 from USD295.98/MT and against coal base price of USD79/MT under the RP3 parameter. This also indicates that **TENAGA's (OP; TP: RM10.17)** total fuel cost would increase further in 2HFY22 after a 135% YoY hike in 1HFY22. Although the increased fuel cost will eventually pass through to consumer or partly offset by KWIE fund with a 6-month lag, **TENAGA** may see weaker earnings in 2HFY22 and the lag effect of ICPT adjustment could be delayed into FY23 as well. Meanwhile, **TENAGA** is allowed to recover the cost of working capital for any costs involved in ICPT-related

receivables. So far, it has received a total of RM1.9b cost recovery for July and August from the government. This demonstrates the government's commitment in upholding the IBR framework and the ICPT mechanism. On demand-side, we expect 2022 to recover strongly by 5.8% (against 1.7% guided growth in RP3) after the pandemic-hit demand growth of -5.0% and +1.2% in 2020 and 2021, respectively. For 2023, we have projected a demand growth of 1.8% which is slightly higher than the guided growth of 1.7%.

Gas utilities: high gas price affected non-regulated business. With Petronas' Malaysia Preference Price (MRP) gas price staying above RM40/mmbtu currently from c.RM30/mmbtu in 1HCY22, **GASMSIA (MP; TP: RM3.43)** is likely to see good earnings generated from the non-regulated retail margin in 2HFY22 (from low base in 1QFY22) that could offset a slowdown in volume as guided by the company (we believe, on the back of lower production by glove makers that typically contribute a third of its business volume). However, the same cannot be said for **PETGAS (MP; TP: RM17.00)** as its non-regulated utility unit, which uses gas as fuel to generate and supply power, steam and industries gases to industries, could get hit in the coming 2HFY22 as similar to that in 2QFY22. Having said that, we still expect resilient earnings for the regulated businesses for both **PETGAS** and **GASMSIA** while the upcoming RP2 which starts next January could still see earnings growth even if the new rate of returns for regulated asset base (RAB) could be lower (we estimated RP1's rate of returns of below 8% for **PETGAS** and 7.3%-7.5% for **GASMSIA**). The lower rate of return may not impact earnings negatively as the size of RAB is getting bigger over the year. This has also been witnessed in **TENAGA** earnings as the rate of return fell to 7.3% in RP2 from 7.5% in RP1, its regulated earnings were still higher when it moved to a new RP period.

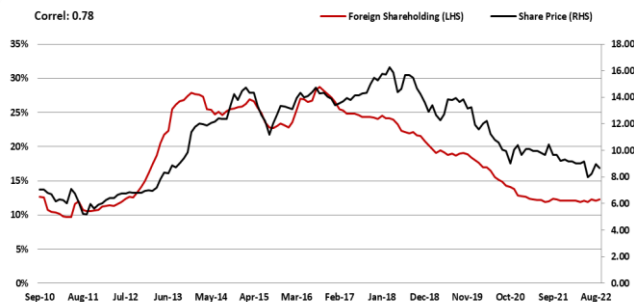
IPPs earnings to remain resilient. Given the sustained profitability at PowerSeraya, **YTLPOWER (OP; TP: RM0.97)** should see better earnings stability in 1HFY23 (financial year-end: Jun). Similarly, **MALAKOF (OP; TP: RM0.90)** should also see improved earnings stability in 2HFY22 following the completion of repair works in mid-February 2022 for the forced outage at TBE in 4QFY21. On the other hand, **SAMAIDEN (OP; TP: RM0.86)** is a poster child of the RE adoption in Malaysia, anchored by continued government-led program where we expect its earnings to grow 17% YoY in FY23 (financial year-end: Jun). However, we are cautious pertaining to the outlook of **PESTECH (MP; TP: RM0.35)** which is likely to be weighed down by margin compression on soaring input costs and less-than-optimal project execution on top of a depleting orderbook with slower new orders flow.

Resilient earnings; OVERWEIGHT reiterated. We continue to like the sector for its earnings defensiveness backed by regulated assets for power and gas utilities while earnings for IPPs are supported by PPA with assets helping to bridge earnings gap as certain old IPPs assets are expiring. These assets generate recurring cash flows which anchor dividend yield of 4%-7%. **TENAGA** is our top pick for the sector on the back of: (i) it being an economy reopening play

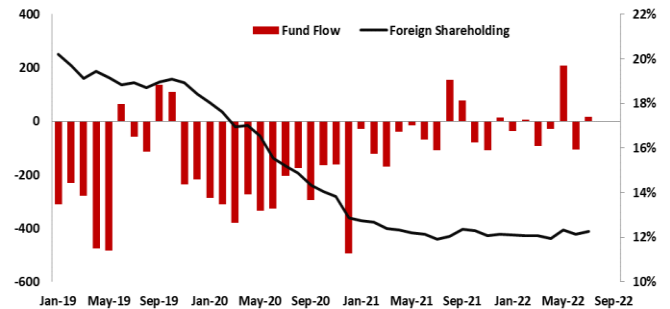


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underpinned by the recovery of electricity demand from the commercial and industrial sectors, (ii) its risk premium (largely due to the ballooning under-recovery of fuel costs) easing as energy prices come off their peaks, and (iii) it being a beneficiary of the return of foreign investors given its significant weighting in key indices.

TENAGA: Share Price vs. Foreign Shareholding

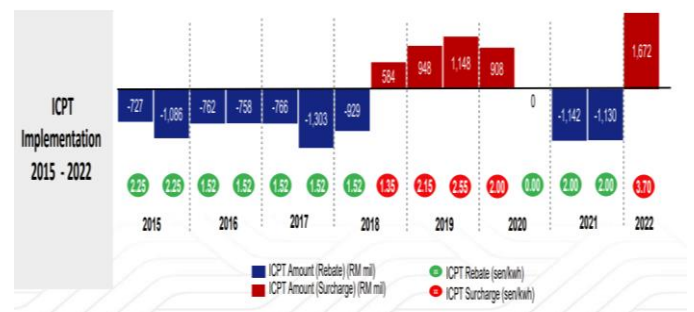
Source: Company/Bloomberg

TENAGA: Foreign Fund Flow vs. Foreign Shareholding

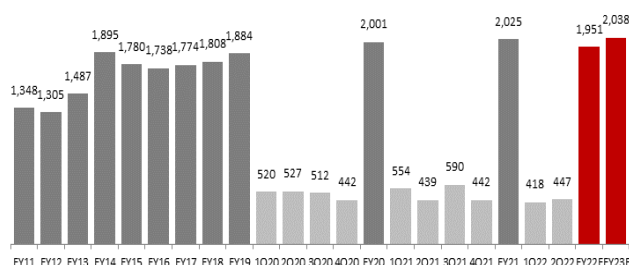
Source: Company/DIBots

Indonesia Coal Benchmark Price

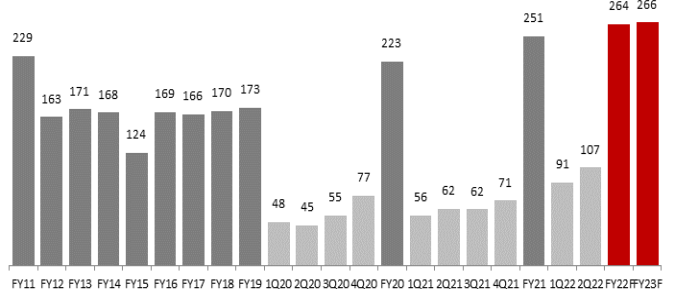
Source: Bloomberg

TENAGA: ICPT Adjustment

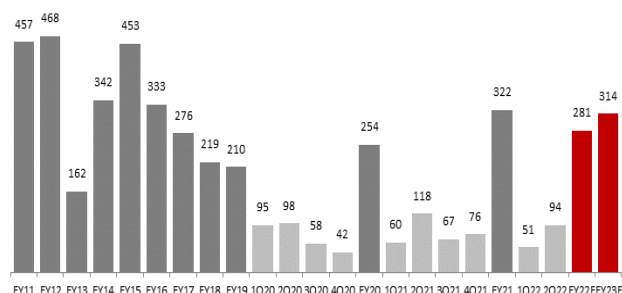
Source: Company

PETGAS: Profitability

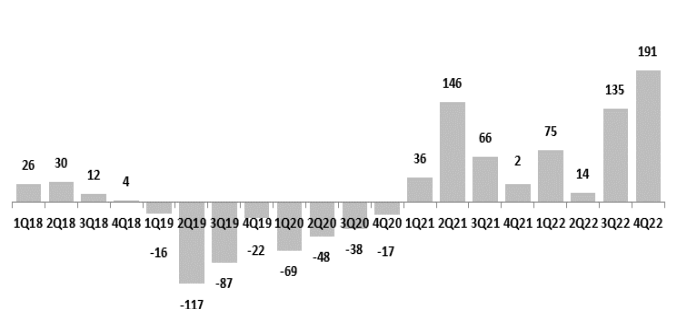
Source: Company

GASMSIA: Profitability

Source: Company

MALAKOF: Profitability

Source: Company

YTLPOWER: PowerSeraya Quarterly PBT

Source: Company

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Peer Table Comparison

Name	Rating	Last Price @ 15 Sep 2022 (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.53	3.43	-2.83%	4,532.5	Y	12/2022	27.3	25.4	39.4%	-7.0%	12.9	13.9	3.9	30.6%	24.6	7.0%
MALAKOFF CORP BHD	OP	0.705	0.900	27.66%	3,445.3	Y	12/2022	5.6	6.3	-12.6%	11.8%	12.5	11.2	0.6	5.2%	4.5	6.4%
PESTECH INTERNATIONAL BHD	MP	0.300	0.350	16.67%	295.4	Y	06/2023	3.5	4.7	368.1%	32.0%	8.5	6.4	0.4	5.2%	0.0	0.0%
PETRONAS GAS BHD	MP	16.50	17.00	3.03%	32,649.1	Y	12/2022	90.1	95.4	-11.9%	5.8%	18.3	17.3	2.3	13.1%	76.6	4.6%
SAMAIDEN GROUP BHD	OP	0.730	0.860	17.81%	281.1	Y	06/2023	4.7	5.5	16.9%	15.9%	15.5	13.4	2.2	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	8.76	10.17	16.10%	50,397.0	Y	12/2022	76.0	91.5	-9.5%	20.5%	11.5	9.6	0.9	7.5%	38.0	4.3%
YTL POWER INTERNATIONAL BHD	OP	0.740	0.970	31.08%	5,995.6	N	06/2023	4.5	4.8	41.3%	7.9%	16.5	15.3	0.5	2.8%	5.0	6.8%
Simple Average								30.2	33.4	61.7%	12.4%	13.7	12.4	1.6	11.4%		4.2%

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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