

## 3QCY22 Report Card

### Corporate Earnings Generally Resilient

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FBM KLCI	
Current	Target
1,491.51	1,500 ↔

Corporate Malaysia delivered a set of encouraging 3QCY22 results. On one hand, companies in the consumer space enjoyed brisk demand as the pandemic tailed off and life returned to normalcy, while oil & gas players were buoyed by increased activity levels. On the other hand, high inflation reverberated across the economy, hurting companies with weak pricing power. Following the results season, we lower our CY22F FBM KLCI earnings contraction projection slightly to -9.1% (from -9.3%) while moderating CY23F growth to +10.1% (from +11.4%) largely to reflect weaker plantation earnings, and maintain our end-2022 FBM KLCI target of 1,500 pts.

#### A Set of Encouraging 3QCY22 Results

FBM KLCI component stocks' 3QCY22 results were encouraging with 17%, 45% and 38% beating, meeting, and missing our projections, compared with 10%, 52%, and 38%, respectively in 2QCY22 (Exhibit 1).

Against the market consensus, the numbers were relatively stable with "above", "within" and "below" at 13%, 50% and 37% vs. 13%, 43% and 43% in 2QCY22, respectively (also see Exhibit 1).

Five FBM KLCI component stocks under our coverage beat our projections, namely **AXIATA** (strong performance from regional markets), **MISC** (strong petroleum shipping freight rates), **PPB** (strong performance across the board), **PETDAG** (strong volume and favourable product prices), and **TM** (lower operating cost).

On the other hand, eleven FBM KLCI component stocks under our coverage missed our projections, namely, **GENM** (higher tax), **GENTING** (higher tax at **GENM** and lower plantation profits at **GENP**), **HARTA** and **TOPGLOV** (weak selling price and sales volumes), **IHH** (weaker performance from operations in Singapore and Turkey), **INARI** (subdued new smart phone launch of a US client), **IOICORP** (non-recurring high CPO prices in coming quarters), **MRDIY**, **NESTLE** and **SIMEPLT** (cost pressures), and **PMETAL** (higher depreciation charges and tax).

Among the key reasons for the results beating or missing our forecasts (including those of non-FBM KLCI stocks) were as follows:

- A strong recovery in demand: **AXIATA**, **BAT**, **DAYANG**, **DLADY**, **DRBHCOM**, **F&N**, **HEIM**, **KGB**, **KPJ**, **MEDIAC**, **MRCB**, **MYNEWS**, **PADINI**, **PETDAG**, **PPB**, **STAR**, **SUNWAY**, **UZMA**, **WASEONG** and **YINSON**.
- Margin expansion: **GASMSIA**, **MISC**, **SCIENTX**, **ULICORP**, **WCT** and **YTLPOWR**.
- Cost pressures: **AIRPORT**, **BPLANT**, **BPPLAS**, **ENGTEX**, **GENP**, **HSPLANT**, **MRDIY**, **NESTLE**, **SIMEPLT**, **TGUAN**, **TSH** and **UMCCA**.
- Weak selling prices: **ANNJOO**, **FGV**, **GENP**, **HARTA**, **HSPLANT**, **IOICORP**, **PMETAL**, **POS**, **SUPERMX**, **TOPGLOV** and **TSH**.
- Weak demand: **HARTA**, **INARI**, **KESM**, **MEDIA**, **PHARMA**, **POS**, **SUPERMX** and **TOPGLOV**
- China lockdowns: **MPI** and **UNISEM**

#### FBM KLCI FY22F Earnings Growth Raised Slightly, End-2022 FBM KLCI Target Maintained

Following the results, we lower our CY22F FBM KLCI earnings contraction projection slightly to -9.1% (from -9.3%) while moderating CY23F growth to +10.1% (from +11.4%) largely to reflect weaker plantation earnings, and maintain our end-2022 FBM KLCI target of 1,500 pts based on 15.5x CY22F PER, which is at a discount to its 5-year historical average of 18x to reflect the inevitable valuation deflation across asset classes against a backdrop of an aggressive monetary tightening by major policy makers globally.

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We hold the view that under a new “unity” government based on a “power sharing” model, the prevailing policy inclinations are likely to remain at least over the immediate term including pro-business stance, protectionism for local industries, business-as-usual for government-linked companies, strong fiscal support to the economy including cash handouts and fuel and food subsidies (to cushion consumers from the rising cost of living amidst sustained high inflation globally) and pump-priming via the rollout of public infrastructure projects (to shield the economy from external slowdown and headwinds).

As such, we continue to advocate investors to seek refuge in domestically-driven sectors including banks, telcos, auto makers/distributors, mid-market retailers and construction, amidst rising external headwinds. We believe the “unity” government will be supportive of domestic consumption.

Our **overall top picks** and **top shariah picks** are reflected in Exhibits 2 to 3.

**Exhibit 1: Quarterly Results of FBM KLCI Component Stocks**

	2Q2022						2Q2022						
	KENANGA			CONSENSUS			KENANGA			CONSENSUS			
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below	
AXIATA	1			1				1			1		
CIMB		1			1		1				1		
DIGI		1				1		1					1
DIALOG		1			1				1				1
GENM			1			1			1				1
GENTING			1			1			1				1
HARTA			1			1			1				1
HLBANK		1			1		1						1
HLFG		0			1			0		1			
IHH			1			1		1			1		
INARI			1			1		1			1		
IOICORP			1			1		1			1		
KLK		1			1			1					1
MAXIS		1			1			1			1		
MAYBANK		1			1			1			1		
MISC	1			1					1				1
MRDIY			1			1			1				1
NESTLE			1		1			1		1			
PBBANK		1			1			1			1		
PCHEM		1			1			1			1		
PPB	1			1			1			1			
PETDAG	1			1				1			1		
PMETAL			1			1			1				1
PETGAS		1			1			1		1			1
RHBBANK		1			1			1			1		
SIMEPLT			1			1			1				1
SIME		1			1			1			1		
TM	1				1			1			1		
TENAGA		1			1				1		1		
TOPGLOV			1			1			1				1
<b>Total</b>	<b>5</b>	<b>13</b>	<b>11</b>	<b>4</b>	<b>15</b>	<b>11</b>	<b>3</b>	<b>15</b>	<b>11</b>	<b>4</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>Total (%)</b>	<b>17</b>	<b>45</b>	<b>38</b>	<b>13</b>	<b>50</b>	<b>37</b>	<b>10</b>	<b>52</b>	<b>38</b>	<b>13</b>	<b>43</b>	<b>43</b>	<b>43</b>

Source: Kenanga Research, Bloomberg

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**Exhibit 2: 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				
MAYBANK	OP	8.63	10.40	20.5	104,027.1	12/2022	73.5	87.5	5.5	19.1	12.2	10.2	1.2	9.9	60.0	7.0
PCHEM	OP	8.54	11.00	28.8	68,320.0	12/2022	87.2	68.8	-5.0	-21.1	9.8	12.4	1.8	19.0	43.6	5.1
CIMB	OP	5.80	6.40	10.3	61,857.6	12/2022	52.2	66.4	21.8	27.1	11.8	9.3	1.0	8.7	26.0	4.5
DIGI	OP	4.00	4.25	6.3	31,100.0	12/2022	12.7	16.3	-14.8	27.7	31.4	24.6	48.4	155.3	12.6	3.2
KLK	OP	20.90	25.50	22.0	22,533.5	09/2023	159.2	140.9	-21.4	-11.5	13.1	14.8	1.5	12.2	50.0	2.4
GAMUDA	OP	3.98	5.20	29.4	10,312.5	07/2023	35.0	43.6	10.8	24.7	11.5	9.3	1.2	10.4	50.0	12.6
ABMB	OP	3.87	4.20	8.5	5,991.2	03/2023	45.5	52.1	22.9	14.6	8.5	7.4	0.9	10.7	22.0	5.7
BAUTO	OP	1.96	2.30	17.3	2,279.0	04/2023	14.1	16.1	5.1	14.4	13.9	12.2	3.2	24.4	9.9	5.1
AEON	OP	1.38	1.95	41.3	1,937.5	12/2022	8.9	10.2	46.4	15.1	15.5	13.5	1.1	7.2	4.1	3.0
MYNEWS	OP	0.62	0.70	12.9	422.9	10/2022	-3.1	3.2	-50.6	202.3	-19.9	19.4	1.9	-9.0	0.0	0.0

Source: Kenanga Research

**Exhibit 3: 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				
PCHEM	OP	8.54	11.00	28.8	68,320.0	12/2022	87.2	68.8	-5.0	-21.1	9.8	12.4	1.8	19.0	43.6	5.1
DIGI	OP	4.00	4.25	6.3	31,100.0	12/2022	12.7	16.3	-14.8	27.7	31.4	24.6	48.4	155.3	12.6	3.2
MAXIS	OP	3.84	4.07	6.0	30,067.8	12/2022	16.1	16.1	-3.8	0.3	23.9	23.8	4.6	19.1	19.0	4.9
KLK	OP	20.90	25.50	22.0	22,533.5	09/2023	159.2	140.9	-21.4	-11.5	13.1	14.8	1.5	12.2	50.0	2.4
TM	OP	5.60	8.30	48.2	21,397.7	12/2022	38.2	38.1	60.9	-0.1	14.9	14.9	2.8	19.2	21.0	3.8
GAMUDA	OP	3.98	5.20	29.4	10,312.5	07/2023	35.0	43.6	10.8	24.7	11.5	9.3	1.2	10.4	50.0	12.6
TAKAFUL	OP	3.56	3.90	9.6	2,980.8	12/2022	41.3	43.5	-16.0	5.2	8.6	8.2	1.5	18.0	14.0	3.9
BAUTO	OP	1.96	2.30	17.3	2,279.0	04/2023	14.1	16.1	5.1	14.4	13.9	12.2	3.2	24.4	9.9	5.1
AEON	OP	1.38	1.95	41.3	1,937.5	12/2022	8.9	10.2	46.4	15.1	15.5	13.5	1.1	7.2	4.1	3.0
OCK	OP	0.43	0.95	120.9	453.4	12/2022	3.0	5.2	22.4	74.4	14.3	8.2	0.6	4.6	0.5	1.2

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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