2QCY23 Investment Strategy

Taking a Page from Immediate Past Playbook

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FBM KLCI (pts)	
Current	Target
1,420.35	1,610↔

Summary

- We maintain our end-CY23 FBM KLCI target of 1,610 pts based on 15.5x our projected FBM KLCI CY23F earnings (+10.5%), at a discount to its 5-year historical average of 18x to reflect valuation compression across asset classes on the heels of aggressive monetary tightening by major policy makers globally since CY22.
- We believe the market in 2QCY23 will continue to be beset by a lack of conviction, both to buy, and to a certain extent, to sell, similar to what happened during the greater part of 1QCY23.
- Globally, investors are still awaiting the elusive signs of inflation finally being reined in. Complicating the situation are mixed signals from the continued strength in the US economy (especially, the labour market, and to a certain extent, consumer spending), and the recent banking crisis in the US and Europe.
- Locally, while the new government continues to advance its policy reform agenda in favour of a more progressive, pro-consumer, pro-competition and free-market approach, it will do so at a more measured pace and subtle way, ahead of the six state elections that are widely expected to be held in Jun 2023.
- We are taking a page from the playbook of 1QCY23, as we believe 2QCY23 is likely to pan out like 1QCY23. Our top sector picks are **telcos, banks, construction, retailers** and **auto makers/distributors**.
- Telco stocks stood out in 1QCY23 thanks to their earnings resilience with telecommunications services having evolved into a basic necessity of modern life. We believe telco stocks will continue to do well in 2QCY23 for the same reason. In addition, the sector could be poised for a major re-rating if the new government reviews the current single wholesale network (SWN) model for the 5G roll-out to promote competition and innovation.
- We believe the sell-down on banking stocks in 1QCY23, on the heels of the banking crisis in the US and Europe, was unjustified. The banking crisis in the US, particularly has been sparked off largely by the massive losses in the bond portfolio of US banks due to a steep 475bps jump in the Fed funds rate in just slightly over a year. During the same period, the Overnight Policy Rate (OPR) of Bank Negara Malaysia (BNM) only increased by 100bps.
- We expect a more broad-based re-rating of the construction sector in 2QCY23 after a modest 1QCY23 almost solely carried by GAMUDA's strong share price performance. We expect roll-out of more public infrastructure projects led by flood mitigation projects and MRT3.
- Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. This augurs well for retailers and auto makers/distributors.
- Our **overall top picks** are **PBBANK, CDB, MAXIS, RHBBANK, KLK, GAMUDA, KPJ, BAUTO, SUNCON** and **AEON**.
- Our **top Shariah picks** are **CDB, MAXIS, KLK, GAMUDA, KPJ, BAUTO, PADINI, SUNCON, AEON** and **MBMR**.

Table of Contents

End-CY23 FBM KLCI Target of 1,610 pts Maintained

We maintain our end-CY23 FBM KLCI target of 1,610 pts based on 15.5x our projected FBM KLCI CY23F earnings (+10.5%), at a discount to its 5-year historical average of 18x to reflect valuation compression across asset classes on the heels of aggressive monetary tightening by major policy makers globally since CY22.

We believe the market in 2QCY23 will continue to be beset by a lack of conviction to buy, and to a certain extent, to sell, similar to what happened during the greater part of 1QCY23.

Globally, investors are still awaiting the elusive signs of inflation finally being reined in. Complicating the situation, are the continued strength in the US economy (especially, the labour market, and to a certain extent, consumer spending) and the recent collapse of two regional banks in the US, i.e. Silicon Valley Bank and Signature Bank and the near-collapse of another, i.e. First Republic Bank, and the rescue of Credit Suisse by rival UBS backed by the Swiss National Bank in Europe.

Locally, while the new government continues to advance its policy reform agenda in favour of a more progressive, pro-consumer, pro-competition and free-market approach, it will do so in a more measured pace and subtle way, ahead of the state elections in Selangor, Kelantan, Terengganu, Negeri Sembilan, Kedah and Penang, widely expected to be held in Jun 2023.

Sticky Inflation and Strength in US Economy

Since Mar 2022, the Fed has raised the target range of its funds rate by a steep 475bps to 4.75%-5.00% from 0.00%-0.25%. On the heels of the collapse of two regional banks and the near-collapse of another, and considering that the Fed also has an eye on "financial stability" (apart from its stated dual mandate of "maximum employment" and "price stability"), the latest Fed Funds futures point to the target range of the Fed Funds rate to pause at the current level of 4.75%-5.00% during the Federal Open Market Committee (FOMC) in May and Jun 2023, before the Fed reverses its course and embarks on rate cuts from Jul 2023.

Exhibit 1: Fed Funds Target Rate Probabilities#

(%)	3.00-3.25	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
3-May-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%	65.8%	34.2%
14-Jun-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	31.6%	50.6%	17.8%
26-Jul-23	0.0%	0.0%	0.0%	0.0%	0.0%	31.3%	50.5%	18.0%	0.1%
20-Sep-23	0.0%	0.0%	0.0%	0.0%	28.8%	48.9%	20.6%	1.6%	0.0%
1-Nov-23	0.0%	0.0%	0.0%	16.4%	40.3%	32.8%	9.8%	0.7%	0.0%
13-Dec-23	0.0%	0.0%	12.6%	34.7%	34.6%	15.1%	2.8%	0.2%	0.0%
31-Jan-24	0.0%	8.9%	28.2%	34.6%	20.9%	6.5%	0.9%	0.0%	0.0%
20-Mar-24	6.6%	23.1%	32.9%	24.5%	10.2%	2.4%	0.3%	0.0%	0.0%
1-May-24	23.3%	32.8%	24.3%	10.1%	2.4%	0.3%	0.0%	0.0%	0.0%

 # at the close on 23 Mar 2023
Source: CME Group, Kenanga Research

This is in defiance of the Fed's signal during its Mar 2023 FOMC meeting for at least another hike and that rate cuts within this year are not its "baseline expectations", as the Fed indicated that its fight on inflation is far from over.

The latest economic numbers point very much to the same conclusion as inflation has been easing at a much slower pace (or even showing signs of resurgence) as evidenced by PPI, CPI and the Fed's preferred inflation gauge PCE price index in Jan 2023 all surprising to the upside, although they did show some moderation in Feb 2023. Partially underpinning this sticky inflation has been the strength in the labour market as displayed in the non-farm payrolls both in Jan and Feb 2023 beating market expectations, and consumer spending that has softened but not fallen off the cliff.

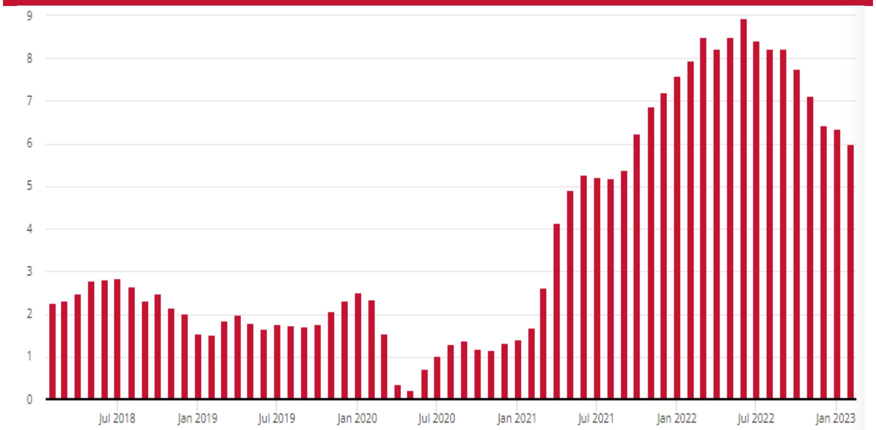
Exhibit 2: Selected Recent US Economic Numbers

	Month	Actual*	Estimate	Variance
Retail sales (mom)	Feb	-0.4%	-0.3%	Missed
PPI (yoy)	Feb	4.6%	5.4%	Missed
CPI (yoy)	Feb	6.0%	6.0%	Met
Non-farm payroll	Feb	311k	205k	Beat
Average hourly earnings (mom)	Feb	0.2%	0.3%	Missed
ISM manufacturing prices paid index	Feb	51.3	45.1	Beat
PCE price index (yoy)	Jan	5.4%	5.0%	Beat
PPI (yoy)	Jan	6.0%	5.4%	Beat
CPI (yoy)	Jan	6.4%	6.2%	Beat
Retail sales (mom)	Jan	3.0%	1.8%	Beat
Non-farm payroll	Jan	517k	185k	Beat
Retail sales (mom)	Dec	-1.1%	-0.8%	Missed
CPI (yoy)	Dec	6.5%	6.5%	Met

**Before subsequent revision*

Source: Kenanga Research, investing.com

Exhibit 3: US CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Key Investment Strategy: Stick with 1QCY23 Playbook

We do not expect inflation in the US to moderate enough during 2QCY23 to allow the Fed to pivot away from its hawkish stance. The widening cracks in the banking system in the US (ironically attributable to the Fed raising the interest rates too rapidly) only make the Fed's already tough fight against inflation even more precarious.

While the jury is still out there on whether the Fed is done with the rate hikes during the current cycle, or is just waiting for the dust to settle in the banking system, we believe the reality is that inflation will remain stubborn and unlikely to tick down significantly over the next three months.

Locally, ahead of the state elections in Selangor, Kelantan, Terengganu, Negeri Sembilan, Kedah and Penang, widely expected to be held in Jun 2023, we do not expect announcement of major policy reforms, particularly, those with regards to the rationalisation of fuel and electricity subsidies, while Prime minister Datuk Seri Anwar Ibrahim has repeatedly said that the reintroduction of the GST is now off the table because of the "low income level" of the population.

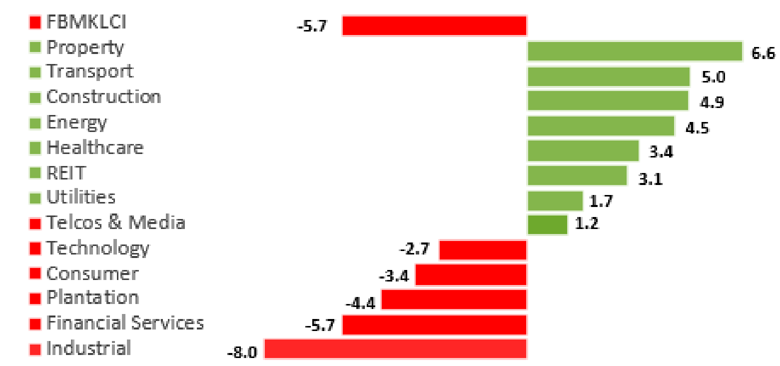
A well-thought-out subsidy rationalisation plan could spark a re-rating of the local market, if it would lead to a significant improvement in the government's fiscal position. According to Deputy Minister of Finance I Datuk Seri Ahmad Maslan, the prevailing subsidies on petrol, diesel, liquefied petroleum gas, electricity, cooking oil, chicken, eggs and other consumer goods will add up to a total subsidy bill of RM66.3b in 2023. Similarly, the reintroduction of the GST (presumably at a rate that is not too burdensome to consumers) could also be well received by the market as it will broaden the tax base, ensuring the long-term fiscal sustainability of the nation.

We are taking a page from the playbook of 1QCY23, as we believe 2QCY23 is looking to play out like 1QCY23, with the exception of the one-off boost from China's reopening that benefitted the energy, REIT and transport sectors in 1QCY23 but will wear out in 2QCY23.

Our top sector picks are **telcos, banks, construction, retailers** and **auto makers/distributors**.

Against an uninspiring 1QCY23 with the benchmark FBMKLCI slipping 5.7%, telco stocks stood out nicely with Bursa Malaysia Telecommunications & Media Index bucking the trend with a 1.2% gain. We believe this could be attributable to the earnings resilience of telcos with telecommunications services having evolved into a basic necessity of modern life. Digital applications for work or pleasure, such as short messaging, virtual meeting, electronic cash payment, e-hailing, online shopping and online food and grocery delivery have become entrenched in everyday life. The telco sector could also be poised for a major re-rating if the new government is to review the current SWN model for the 5G rollout (to promote competition and innovation) or revise the existing terms to the advantage of the mobile network operators (MNOs). We believe telco stocks will continue to do well in 2QCY23, repeating their performance in 1QCY23, as mentioned.

Exhibit 4: Bursa Malaysia Performance by Sector



**at the close on 23 Mar 2023*
Source: Bursa Malaysia, Kenanga Research

However, the same cannot be said for banking stocks with Bursa Malaysia Financial Services Index slipping 5.7% in 1QCY23, very much in lockstep with FBM KLCI. We believe the sell-down on banking stocks in 1QCY23, on the heels of the banking crisis in the US and Europe, was unjustified. The banking crisis in the US, particularly, has been sparked off largely by the massive losses in the portfolio of US Treasury bonds and mortgage-based securities of the banks due to a steep 475bps jump in the target range of the Fed funds rate in just slightly over a year. During the same period, the OPR of BNM only increased by 100bps to 2.75% from 1.75%.

Bursa Malaysia Construction Index rose 4.9% driven largely by a double-digit gain in the share price of **GAMUDA (OP; TP: RM5.15)** as it strengthened its foothold in the booming construction market in Australia via the acquisition of Australian construction firm Downer Transport Projects that came with an order book of AUD2b (RM6b). We expect a more broad-based re-rating of the construction sector in 2QCY23 ahead of the roll-out of more public infrastructure projects locally. It is specifically mentioned in Budget Speech 2023 that six flood mitigation projects will be re-tendered by Jun 2023 including Sungai Johor flood mitigation plan, dual-function reservoirs (flood mitigation and raw water storage) at Sungai Rasau and Sungai Klang in Selangor and Sungai Golok Integrated River Basin Management Project Phase 3 in Kelantan.

Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST as mentioned, while the B40 group continues to benefit from various financial assistance programmes especially direct cash hand-outs. Also helping, are a relatively stable economy and healthy job market, coupled with a strong household balance sheet of the M40 group. This augurs well for retailers and auto makers/distributors.

Our **Sector Recommendations**, **Overall Top Picks** and **Top Shariah Picks** and their rationales and key investment statistics are reflected in Exhibits 5 to 9.

Exhibit 5: Sector Recommendations, Rationales and Top Picks

	Sector	Rationale	Top Picks
OVERWEIGHT	Automobile	Sizeable order backlogs, strong new bookings driven by attractive new models, good dividend yields.	BAUTO, MBMR
	Building Material	Firm prices of aluminium, ferrosilicon and manganese.Revival of water projects.	OMH, ENGTEX
	Construction	The roll-out of public infrastructure jobs led by flood mitigation projects and MRT3.	GAMUDA, SUNCON
	Consumer	Consumer spending supported by government subsidies, financial assistance to the low-income group, a relatively stable job market and a healthy household balance sheet of the M40 group.	AEON, PADINI, QL
	Financial	Sustained loans growth and the write-back of Covid-19 loan provisions.	PBBANK, RHBBANK
	Gaming	Re-opening of the tourism industry, partially offset by lingering ESG concerns.	GENTING, GENM
	Healthcare	Pent-up demand for elective surgeries, strong pricing power, rising affluence and aging population.	KPJ, KOTRA, NOVA, MGRC
	Tele-communications	Earnings resilience underpinned by tele-communications having evolved into a basic necessity of modern life. Potential review on the SWN model for 5G roll-out.	CDB, MAXIS, OCK
NEUTRAL	Aviation	Reopening of international borders, offset by absence of airport tariff hikes and regularisation plan of an airline	None
	Media	Flattish adex. Challenging transition from traditional to digital media.	MEDIA
	Oil & Gas	Sustained capex spending by oil majors on firm oil prices, offset by weak downstream product spreads.	ARMADA, WASEONG, DIALOG, YINSON
	Plantation	Firm CPO prices offset by rising production cost.	KLK
	Plastics & Packaging	Export-dependent, and hence feeling the full brunt of global economic slowdown.	TGUAN
	Property	Higher effective mortgage rates and rising construction cost weighing down on affordability.	ECOWLD, IOIPG, SIMEPROP
	REIT	Losing appeal as a yield play on elevated interest rates.	PAVREIT
	Seaport & Logistics	A slowing global trade, but a bright spot in logistics services to e-commerce.	BIPORT, SWIFT
	Technology/EMS	Prolonged inventory adjustment cycle, but bright spots in contracting services to new semiconductor foundry projects and rising cybersecurity demand.	KGB, LGMS
	Utilities	Earnings defensiveness backed by regulated assets or long-term offtake agreements, but already priced in by the market	MALAKOF, YTLPOWR
UNDERWEIGHT	Gloves	Persistent overcapacity.	None

Source: Kenanga Research

Exhibit 6: Overall Top Picks and Key Rationale

Top Pick	Rationales
PBBANK (OP; TP: RM4.90)	We like PBBANK for its high-quality assets, reporting a gross impaired loan ratio of 0.4% (vs. peer average: 1.5%) thanks to its heavy allocation towards highly collateralized accounts (i.e. home loans). This is further supplemented by its loan loss coverage of 270% (vs. peer average: 145%) which provides significant allowances in the event of an unexpected downturn. Meanwhile, the stock's recent sell-down on concerns of changes in shareholding structure could be overdone. We anticipate an inversion in the stock's sentiment as further clarity on the matter materializes.
CDB (OP; TP: RM4.64)	The new market leader in the mobile market at 43% share, arising from the merger of Celcom and DIGI, CDB boasts network capacity with wider and in-depth coverage and superior EBITDA margin. Celcom's 4G and 4G+ cover 96% and 90% of the population while DIGI's 4G and 4G+ are at 95% and 80%, respectively. Its competitive pricing and attractive bundling appeal to the B40group and migrant workers B40. The 5G roll-out will boost its subscribers given the absence of MAXIS in the 5G space at present.
MAXIS (OP; TP: RM4.52)	It boasts strong branding and customer loyalty especially in the premium segment. It is ahead of its competitors in terms of constructing new 4G towers, fiberisation of premises and upgrading of existing towers under Jendela Phase 1 to expand of 4G coverage, facilitate the 5G deployment and enhance customer experience. Its attractive bundling of home internet and mobile services drives growth at its home internet segment. Digitalisation of corporations and SMEs boosts its B2B revenue.
RHBBANK (OP; TP: RM7.10)	RHBBANK possesses an industry-leading CET-1 ratio of 17.0% (vs peer average: 14%), giving the bank sizeable buffers in meeting unexpected shocks to capital requirements and provisioning. The group has also recently provided consistent dividend payouts of c.60%. Even when we assume a slightly more conservative payout of c.55%, RHBBANK looks to offer dividend yields of 7-8% which is at par to its largest peers. Also, developments on its upcoming digital bank with Boost could support market interest.
KLK (OP; TP: RM27.00)	A lot of bad news is already priced into the plantation sector, which is currently trading at around 1x PBV on average. Yet, poor ongoing Latin American soybean harvest looks likely to tighten recovering global edible oil supply. Firm CY23F CPO price of RM3,800/MT is thus maintained and is expected stay firm into CY24. If the weather proves unfriendly, higher CPO prices cannot be ruled out. Our sector pick is KLK, thanks to its strong regional upstream operations, good track record and defensive balance sheet.
GAMUDA (OP; TP: RM5.15)	We like GAMUDA given (i) it being the front-runner for the tunneling job for MRT3, (ii) its competitiveness within the international space as showcased by the multiple job wins in Australia, Singapore and Taiwan, (iii) its strong war chest with a net gearing of 0.07x after the disposal of its toll highways, (iv) its robust earnings visibility underpinned by a high outstanding order book of RM20.5b, and (v) its efforts to expedite growth in the renewable energy space in line with global sustainability goals.
KPJ (OP; TP: RM1.50)	We expect patient throughput to continue to recover throughout CY23, driven by the return of elective surgeries and medical tourists, while the longer-term prospects of private healthcare are underpinned by rising affluence and aging population. We also like KPJ for: (i) the low "price elasticity of demand" for healthcare service, which mean players are less vulnerable to high inflation as they could pass on the higher cost, and (ii) its strong market position locally with the largest network of 29 private hospitals (vs. only 16 of IHH Healthcare's Malaysia operation in the second place).
BAUTO (OP; TP: RM2.90)	We like BAUTO for: (i) its strong earnings visibility backed by an order backlog of 8k units for Mazda, Kia and Peugeot vehicles (half of its 2023 target sales of 19k units), (ii) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products that appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, and (iii) its attractive dividend yield of about 7%.
SUNCON (OP; TP: RM2.13)	We like SUNCON for: (i) its strong earnings visibility underpinned by a record outstanding order book of RM11.9b, (ii) its strong chance of garnering a slice of action in the RM45b MRT3 project given its strong track records in mega rail projects, (iii) its diverse capabilities including building, infrastructure, solar, mechanical, electrical and plumbing works, and (iv) recurring jobs from parent and sister companies growing their property development, retail mall operation, private healthcare, and education businesses.
AEON (OP; TP: RM1.80)	Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. We also like AEON for: (i) the return of shoppers post the pandemic, (ii) its customer base that is skewed towards the M40 group whose spending power is less impacted by high inflation, and (iii) its digital transformation, particularly, the introduction of self-checkout for customers that will result in cost savings.

Source: Kenanga Research

Exhibit 7: 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
PBBANK	OP	3.95	4.90	24.1	76,672	12/2023	35.9	37.0	13.8	3.2	11.0	10.7	1.4	13.4	18.0	4.6
CDB	OP	4.34	4.64	6.9	50,915	12/2023	18.4	19.4	182.7	5.8	23.6	22.3	3.1	13.1	15.6	3.6
MAXIS	OP	4.02	4.52	12.4	31,477	12/2023	15.9	16.7	21.9	-9.3	25.3	24.1	5.0	19.6	16.0	4.0
RHBBANK	OP	5.50	7.10	29.1	23,361	12/2023	77.4	77.6	15.8	0.2	7.4	7.4	0.8	10.7	43.0	7.8
KLK	OP	20.80	27.00	29.8	22,431	09/2023	171.6	168.4	-15.3	-1.9	12.1	12.4	1.5	13.1	50.0	2.4
GAMUDA	OP	4.14	5.15	24.4	11,006	07/2023	35.0	43.6	10.8	24.7	12.3	9.9	1.3	10.4	50.0	12.1
KPJ	OP	1.10	1.50	36.4	4,801	12/2023	4.7	5.3	21.6	13.0	23.0	20.3	2.1	9.2	3.0	2.7
BAUTO	OP	2.20	2.90	31.8	2,564	04/2023	21.6	22.8	61.1	5.6	10.2	9.7	3.6	37.2	15.1	6.9
SUNCON	OP	1.62	2.13	31.5	2,089	12/2023	12.6	13.2	19.4	4.8	12.8	12.2	3.1	24.9	5.0	3.1
AEON	OP	1.30	1.80	38.5	1,825	12/2023	9.1	10.0	15.2	9.4	14.2	13.0	1.0	7.3	4.0	3.1

Source: Kenanga Research

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Exhibit 8: Top Shariah Picks and Rationales

Top Pick	Comments
CDB **(OP; TP: RM4.64)**	The new market leader in the mobile market at 43% share, arising from the merger of Celcom and DIGI, CDB boasts network capacity with wider and in-depth coverage and superior EBITDA margin. Celcom's 4G and 4G+ cover 96% and 90% of the population while DIGI's 4G and 4G+ are at 95% and 80%, respectively. Its competitive pricing and attractive bundling appeal to the B40group and migrant workers B40. The 5G roll-out will boost its subscribers given the absence of MAXIS in the 5G space at present.
MAXIS **(OP; TP: RM4.52)**	It boasts strong branding and customer loyalty especially in the premium segment. It is ahead of its competitors in terms of constructing new 4G towers, fiberisation of premises and upgrading of existing towers under Jendela Phase 1 to expand of 4G coverage, facilitate the 5G deployment and enhance customer experience. Its attractive bundling of home internet and mobile services drives growth at its home internet segment. Digitalisation of corporations and SMEs boosts its B2B revenue.
KLK **(OP; TP: RM27.00)**	A lot of bad news is already priced into the plantation sector, which is currently trading at around 1x PBV on average. Yet, poor ongoing Latin American soybean harvest looks likely to tighten recovering global edible oil supply. Firm CY23F CPO price of RM3,800/MT is thus maintained and is expected stay firm into CY24. If the weather proves unfriendly, higher CPO prices cannot be ruled out. Our sector pick is KLK, thanks to its strong regional upstream operations, good track record and defensive balance sheet.
GAMUDA **(OP; TP: RM5.15)**	We like GAMUDA given (i) it being the front-runner for the tunneling job for MRT3, (ii) its competitiveness within the international space as showcased by the multiple job wins in Australia, Singapore and Taiwan, (iii) its strong war chest with a net gearing of 0.07x after the disposal of its toll highways, (iv) its robust earnings visibility underpinned by a high outstanding order book of RM20.5b, and (v) its efforts to expedite growth in the renewable energy space in line with global sustainability goals.
KPJ **(OP; TP: RM1.50)**	We expect patient throughput to continue to recover throughout CY23, driven by the return of elective surgeries and medical tourists, while the longer-term prospects of private healthcare are underpinned by rising affluence and aging population. We also like KPJ for: (i) the low "price elasticity of demand" for healthcare service, which mean players are less vulnerable to high inflation as they could pass on the higher cost, and (ii) its strong market position locally with the largest network of 29 private hospitals (vs. only 16 of IHH Healthcare's Malaysia operation in the second place).
BAUTO **(OP; TP: RM2.90)**	We like BAUTO for: (i) its strong earnings visibility backed by an order backlog of 8k units for Mazda, Kia and Peugeot vehicles (half of its 2023 target sales of 19k units), (ii) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products that appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, and (iii) its attractive dividend yield of about 7%.
PADINI **(OP; TP: RM6.00)**	Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. We also like PADINI for: (i) it being a beneficiary of consumers replenishing their wardrobes for their return to offices and schools, and social activities, (ii) the strong spending power of its primary target customers, i.e. M40 group, given their healthy household balance sheets, and (iii) its strong net cash position enabling it to purchase inventory ahead of price hikes and potential supply disruptions.
SUNCON **(OP; TP: RM2.13)**	We like SUNCON for: (i) its strong earnings visibility underpinned by a record outstanding order book of RM11.9b; (ii) its strong chance of garnering a slice of action in the RM45b MRT3 project given its strong track records in mega rail projects; (iii) its diverse capabilities including building, infrastructure, solar, mechanical, electrical and plumbing works; and (iv) recurring jobs from parent and sister companies growing their property development, retail mall operation, private healthcare and education businesses.
AEON **(OP; TP: RM1.80)**	Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. We also like AEON for: (i) the return of shoppers post the pandemic, (ii) its customer base that is skewed towards the M40 group whose spending power is less impacted by high inflation, and (iii) its digital transformation, particularly, the introduction of self-checkout for customers that will result in cost savings.
MBMR **(OP; TP: RM4.60)**	We like MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 220k units (more than half of its 2023 target sales of 314k units), (ii) it being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 7%.

Source: Kenanga Research

Exhibit 9: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
CDB	OP	4.34	4.64	6.9	50,915	12/2023	18.4	19.4	182.7	5.8	23.6	22.3	3.1	13.1	15.6	3.6
MAXIS	OP	4.02	4.52	12.4	31,477	12/2023	15.9	16.7	21.9	-9.3	25.3	24.1	5.0	19.6	16.0	4.0
KLK	OP	20.80	27.00	29.8	22,431	09/2023	171.6	168.4	-15.3	-1.9	12.1	12.4	1.5	13.1	50.0	2.4
GAMUDA	OP	4.14	5.15	24.4	11,006	07/2023	35.0	43.6	10.8	24.7	12.3	9.9	1.3	10.4	50.0	12.1
KPJ	OP	1.10	1.50	36.4	4,801	12/2023	4.7	5.3	21.6	13.0	23.0	20.3	2.1	9.2	3.0	2.7
BAUTO	OP	2.20	2.90	31.8	2,564	04/2023	21.6	22.8	61.1	5.6	10.2	9.7	3.6	37.2	15.1	6.9
PADINI	OP	3.79	6.00	58.3	2,493	06/2023	35.8	39.7	53.0	10.8	10.6	9.5	2.6	25.3	10.0	2.6
SUNCON	OP	1.62	2.13	31.5	2,089	12/2023	12.6	13.2	19.4	4.8	12.8	12.2	3.1	24.9	5.0	3.1
AEON	OP	1.30	1.80	38.5	1,825	12/2023	9.1	10.0	15.2	9.4	14.2	13.0	1.0	7.3	4.0	3.1
MBMR	OP	3.44	4.60	33.7	1,345	12/2023	65.6	67.7	-4.6	3.2	5.2	5.1	0.6	12.0	26.0	7.6

Source: Kenanga Research

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Automotive

Car Buyers Lured by Attractive New Models

OVERWEIGHT

↔

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

We maintain OVERWEIGHT on the automotive sector. We project a CY23 total industry volume (TIV) of 720k units, matching the record level achieved in CY22. Our optimism is underpinned by: (i) strong consumer confidence supported by a stable economy and a healthy job market, (ii) the affordability of motor vehicle underpinned by the recent pause in OPR hikes by Bank Negara Malaysia and stable new car prices thanks to the deferment of new excise duty regulations, and (iii) attractive new car models. Earnings visibility of the industry is strong, backed by a booking backlog of 350k units as at end-Feb 2023, which is equivalent to almost half of our 2023 TIV projection. Our sector top picks are MBMR (OP; TP: RM4.60) and BAUTO (OP; TP: RM2.90), both with an attractive dividend yield of about 7%.

Record year in CY22 poised to be repeated in CY23. We project a CY23 TIV of 720k units that will match the record level achieved in CY22. Our optimism is underpinned by: (i) strong consumer confidence supported by a stable economy and a healthy job market, (ii) the affordability of motor vehicle underpinned by the recent pause in OPR hikes by Bank Negara Malaysia and stable new car prices thanks to the deferment of new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 8%-20%), and (iii) attractive new models launched by players. Our projection is about 11% higher than 650k units projected by Malaysian Automotive Association (MAA).

The industry's total booking backlogs have held up, at about 350k units in recent months despite heavy deliveries. This indicates strong buying interest, lured by attractive new model launches by players. We foresee a similar pattern throughout the rest of the year.

Attractive new models. In the space of local brands, both Perodua and Proton models have been selling well, as they are competitively priced against the non-national brands. They also offer improved technological features (i.e, digital speedometer, fuel-efficient engine and highly-responsive gearbox) and safety features (i.e. autonomous braking assistance and 4-to-6 airbags). Perodua is ahead in the new model race with the launch of the all-new Perodua Axia (improved features such as digital speedometer and emergency braking assistance) followed by two more face-lifted models this year, and one new model in early 2024 (sedan). On the other hand, Proton will launch the first mild-hybrid electric vehicle (MHEV) for the local brand, its all-new Proton X90 within the next three months, all-new Proton S50 (C-segment Sedan) and Proton SMART (BEV) by year-end, and five face-lifted models, all within CY23.

In the space of non-national brands, automakers are shifting away from the highly competitive low-margin segment such as 7-seater SUVs and focus on premium products that will appeal to the middle-income group such as those offered by **BAUTO**. Honda, for instance, is replacing its 7-seater variant of Honda BR-V with WR-V (small 5-seater SUV) expected to be launched within the next six months. Car buyers are spoilt for choice with new launches including Mazda CX-30 CKD, Peugeot Landtrek, Peugeot e-2008 (EV), Kia Sorento, Kia Sportage, Kia Carens, Honda WR-V, Honda CR-V, Toyota Vios, Toyota Yaris, Toyota GR86, Toyota GR Corrolla and Nissan Serena.

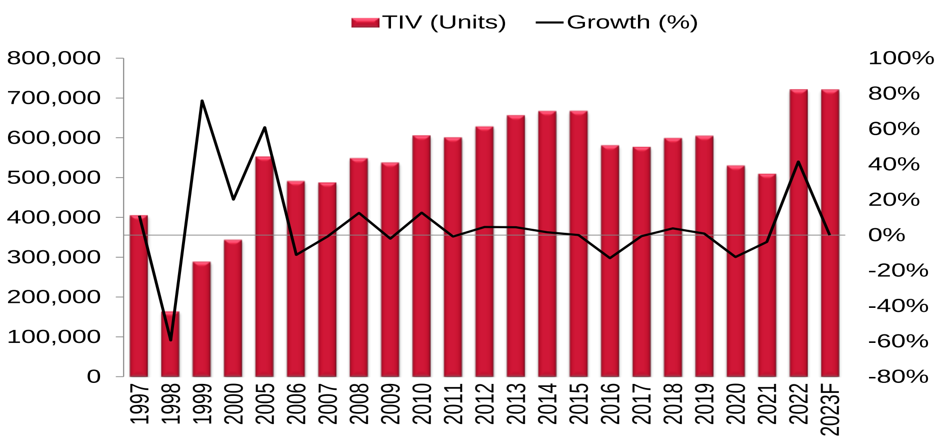
More battery electric vehicles (BEVs) in the market. Additionally, vehicle sales will be supported by new BEVs which enjoy SST exemption and other EV facilities incentives up to CY25 for CBU and CY27 for CKD. BEVs' new registration have leapt significantly for the past two years (from 274 units in CY21 to 2,631 units in CY22) and is on track to meet national target for EVs and hybrid vehicles which are 15% of total industry volume (TIV) by CY30, and 38% of TIV by CY40.

Better margins for players. Apart from the strong booking backlog of 350k units, earnings visibility of players will also be supported by margins improvement due to new models such as all-new Perodua Axia which is priced higher by between 11% and 14% at RM38.6k and RM49k, with 27k units in new booking. The improvement in margins will also be underpinned by: (i) softening prices of commodities and key components, (ii) stabilisation of the USD/MYR exchange rate, and (iii) gradual run-down of high-cost inventory as automakers ramp up production to deliver booking backlogs.

Our sector top picks are:

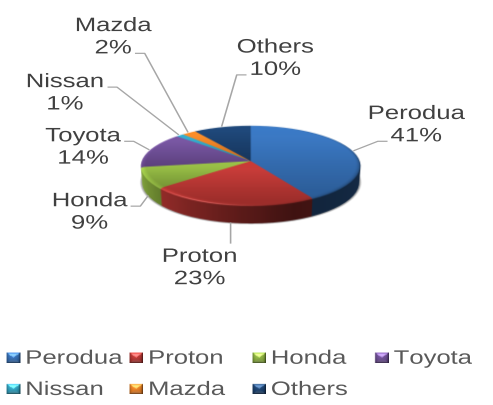
- **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 220k units (more than half of its CY23 target sales of 314k units), (ii) it being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 7%.
- **BAUTO** for: (i) its strong earnings visibility backed by an order backlog of 8k units for Mazda, Kia and Peugeot vehicles (half of its CY23 target sales of 19k units), (ii) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products that appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, and (iii) its attractive dividend yield of about 7%.

TIV volume 1997-2023F



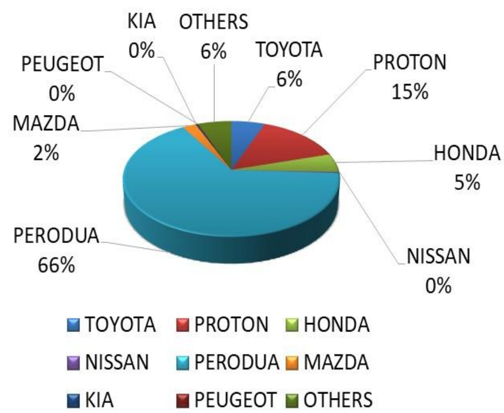
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) 2MCY23



Source: MAA, Kenanga Research

Booking Backlog (Passenger) as of Feb-2023



Source: MAA, Kenanga Research

Exciting New Launches

Perodua Ativa (plans for hybrid model)

All-new Perodua Alza

All-new Toyota Veloz

All-new Toyota Vios in 2023

All-new Perodua Axia 2023

All-New Kia Carnival 8-seater

Proton x90 7-seatar in 1HCY23

Proton SMART#1 EV in 4Q23

Mazda CX-30

2022 Honda City Hatchback

All-new Honda CR-V 2023

All-new Honda WR-V in 1H23

Source: Paultan.org

Peer Table Comparison

Name	Rating	Last Price (RM) as at 24 March 2023	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																	
BERMAZ AUTO BHD	OP	2.18	2.90	33.03%	2,531.0	Y	04/2023	21.6	22.8	61.1%	5.6%	10.1	9.6	3.6	37.2%	15.1	6.9%
DRB-HICOM BHD	MP	1.38	1.40	1.45%	2,667.5	Y	12/2023	15.4	16.2	-1.9%	5.3%	9.0	8.5	0.3	3.4%	2.0	1.4%
MBM RESOURCES BHD	OP	3.45	4.60	33.33%	1,348.6	Y	12/2023	65.6	67.7	14.5%	3.2%	5.3	5.1	0.6	12.0%	26.0	7.5%
SIME DARBY BHD	OP	2.15	2.60	20.93%	14,622.2	Y	06/2023	17.3	19.0	-1.8%	10.1%	12.5	11.3	0.9	7.3%	12.0	5.6%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.10	0.800	-27.27%	739.2	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	3.0	2.7%
UMW HOLDINGS BHD	OP	3.62	4.70	29.83%	4,229.2	Y	12/2023	35.9	38.3	6.6%	6.7%	10.1	9.4	0.9	9.4%	15.0	4.1%
SECTOR AGGREGATE					**26,137.7**					**-25.6%**	**-22.3%**	**9.4**	**8.8**	**1.1**	**11.2%**		**4.7%**

Source: Kenanga Research

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Aviation

Now Everyone Can Fly

NEUTRAL

↔

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

We maintain our NEUTRAL view on the sector. We expect the recovery of business and leisure air travel to continue throughout CY23. Activity is also poised to return to pre-pandemic levels in CY24, as reflected in Tourism Malaysia's projection of 16.1m tourist arrivals in Malaysia in CY23, up 60% from 10.1m in 2022. This will translate to continued rise in passenger throughput at AIRPORT (MP; TP: RM7.00) and passengers carried at CAPITALA (UP; TP: RM0.67). However, each player has its own unique set of issues. For AIRPORT, a tariff hike pegged to CPI recently proposed by Malaysia Aviation Commission (MAVCOM) may not be sufficient for AIRPORT to generate enough cash flows for capex purposes, particularly for airport expansion and maintenance. Meanwhile, 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.

Tourist arrivals to rise 60% to 16m in CY23. We maintain our **NEUTRAL** view on the sector. We expect business and leisure air travel to continue to recover throughout CY23 with activity poised to return to pre-pandemic levels in CY24. According to Tourism Malaysia, tourist arrival in Malaysia is expected to jump 60% to 16m in CY23 from an estimated 10m a year ago (see Exhibit 1). A key driver is Chinese tourists that historically contributed to an estimated 12% of total tourist arrivals in Malaysia. In 2024, we project tourist arrivals to jump further by 24% to 20m, compared to pre-pandemic level of 26m. This will translate to continued rise in passenger throughput at **AIRPORT** and passengers carried at **CAPITALA**.

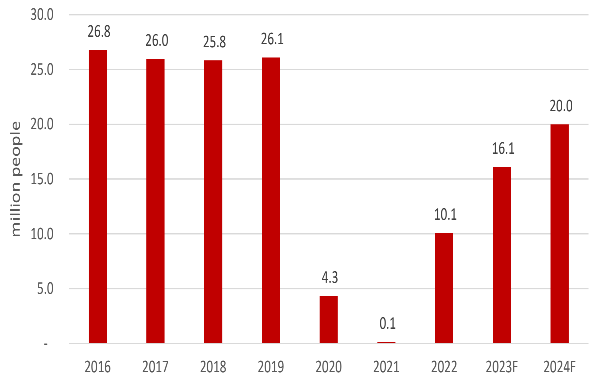
AIRPORT's passenger throughput in FY23-24 raised by 5-7%. We raise our projection for **AIRPORT**'s system-wide passenger throughput by 5% and 7% to 122m and 131m in FY23 and FY24, respectively, but it still has some way to go from matching the pre-pandemic level of 141m recorded in 2019. By the same token, we also raise our FY23-24F net profit forecasts for **AIRPORT** by 2-3%, respectively, while lifting our TP slightly from RM6.80 to RM7.00 based on unchanged 22x FY24F EPS or at a 40% discount to closest peer Airport of Thailand due to its smaller market capitalisation. Note that Thailand's tourism revenue is 3x larger than Malaysia. We expect traffic trajectory to grow in subsequent months as airlines continue to reactivate more aircrafts to match increasing demand. Amplifying traffic growth trajectory is aircraft movements that are pointing towards increased medium and long-haul flights to Perth, Sydney and Auckland, Southeast Asia and South Asia destinations. Recently, KL International Airport saw the return of Kuwait Airways after a seven-year hiatus, while two other foreign carriers i.e. KLM Royal Dutch Airlines and All Nippon Airways, will resume non-stop flight operations to Amsterdam and Tokyo, respectively. In addition, Malaysia Airlines has increased its flight frequency to Tokyo from November 2022. AirAsia Group meanwhile is focusing on its medium haul operations and has increased its Malaysia AirAsia X flights to 44 weekly across 10 routes since November 2022.

Further volume improvement for CAPITALA in CY23. Looking into CY23, we project **CAPITALA**'s system-wide revenue seat km (RPK) to grow 52% to 35b in FY23, after recovering by 20b to 24b in FY22. **CAPITALA** expects its passenger demand to continue to rise moving into CY23. Last year in Nov 2022, the group already operated 125 aircrafts and is currently targeting to get 140 operational aircrafts to reach full fleet utilisation by 2QCY23. Its digital segment is expected to remain loss-making. Its airasia Super App is expected to grow, underpinned by the continued resurgence of travel demand from borders reopening and tactical campaigns, alongside expected growth from airasia Food, Ride and Xpress. Additionally, Teleport is expected to continue expanding throughout CY23 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform extending its services to include new loan products.

Pegging airport tariffs to CPI may not be sufficient to raise enough for capex. Meanwhile, in a recent consultation paper published by MAVCOM, the proposal to raise airport tariffs based on CPI may not be sufficient for **AIRPORT** to generate enough cash flows for capex purposes, particularly for airport expansion and maintenance. While MAVCOM also proposes a mechanism for **AIRPORT** to recoup losses incurred during Regulatory Period 1 (RP1) in Regulatory Period 2 (RP2), we are concerned over **AIRPORT**'s cash flows over RP1. While the proposals in this MAVCOM consultation paper are not cast in stone, they do significantly raise **AIRPORT**'s earnings risk over the medium term.

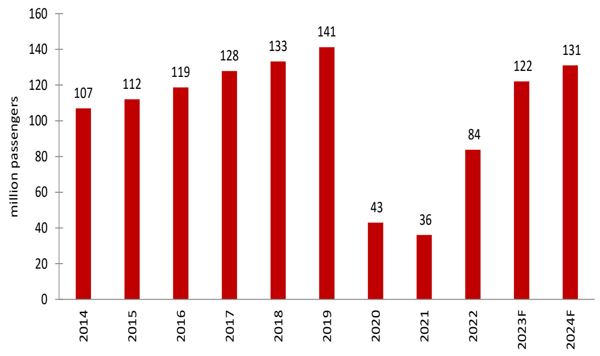
CAPITALA's regularisation plans to exit PN17 in the works. The group plans to announce the details of its PN17 regularisation plan by mid-April 2023 with completion expected by end-3QCY23. While we continue to like CAPITALA for being a beneficiary of the recovery in air travel as the pandemic comes to an end, we are mindful of it still being under the PN17 status.

Exhibit 1: Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

Exhibit 2: AIRPORT's Passenger Throughput*



**million passengers*
Source: Kenanga Research, Company

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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																	
CAPITAL A BHD	UP	0.750	0.670	-10.7%	3,122	Y	12/2023	2.6	3.8	-97%	48%	29.0	19.5	(0.6)	NM	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	6.75	7.00	3.7%	11,200	Y	12/2023	28.4	32.0	31%	12%	23.8	21.1	1.5	6.2%	13.0	1.9%

Source: Kenanga Research

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Banking

Far from Being in Shambles

OVERWEIGHT

↔

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

We maintain our OVERWEIGHT call on the sector. The recent collapse of certain US banks (Silicon Valley Bank, Signature Bank) and abrupt takeover of systemically important Credit Suisse by UBS have unnerved many on the integrity of the global financial system. The consensus view points to factors leading to the debacles being idiosyncratic, and by most measures, have been contained. Locally, we believe the landscape remains highly sound and stable with limited risk of contagion, with key notes being: (i) continued economic expansion, albeit lower from CY22 higher growth base (in line with our CY23 industry loans growth target of 4.0%-4.5% from CY22 of 5.7%), (ii) tight and adequate capital and liquidity controls, (iii) well-guarded asset quality and provision management, and (iv) limited direct exposure to non-ASEAN markets. Meanwhile, we believe OPR will remain steady state at 2.75% throughout CY23, giving banks and the economy space to adjust against inflation headwinds. That said, we understand that current investor sentiment could be wavering and may demand safer bets to remain invested. Hence, our sector top picks are: (i) PBBANK (OP; TP: RM4.90) for its stellar asset quality and highly collateralised loans portfolio, a fair trade-off for lower-than-industry growth, and (ii) RHBBANK (OP; TP: RM7.10) for its leading CET-1 and refreshed dividend potential (c.7% yield) serving as a high-yield alternative.

Safe from a perfect storm? The ongoing commotion in the global banking scene appears to be mainly rooted in mismanagement and nonchalance on concentration risks. We summarise the key banes to be: (i) lackadaisical capital and liquidity management, (ii) investment risk oversight against developing macros, and (iii) heavily skewed and undiversified customer profiles. While the intense hike of US Fed rates (+475 bps since March 2022 vs. BNM's OPR +100 bps since May 2022) is partially pointed as one of the catalysts, we believe better control of the above could lead to different outcomes. On the contrary, we have evaluated key readings between Malaysian banks which we believe are largely sheltered against similar occurrences. This is thanks to tight regulation imposed by BNM to ensure strict adherence to capital and risk management, also enabled by frequent stress testing and scrutiny. *(refer to the overleaf our analysis at "A Case to Favour Malaysian Banks")*

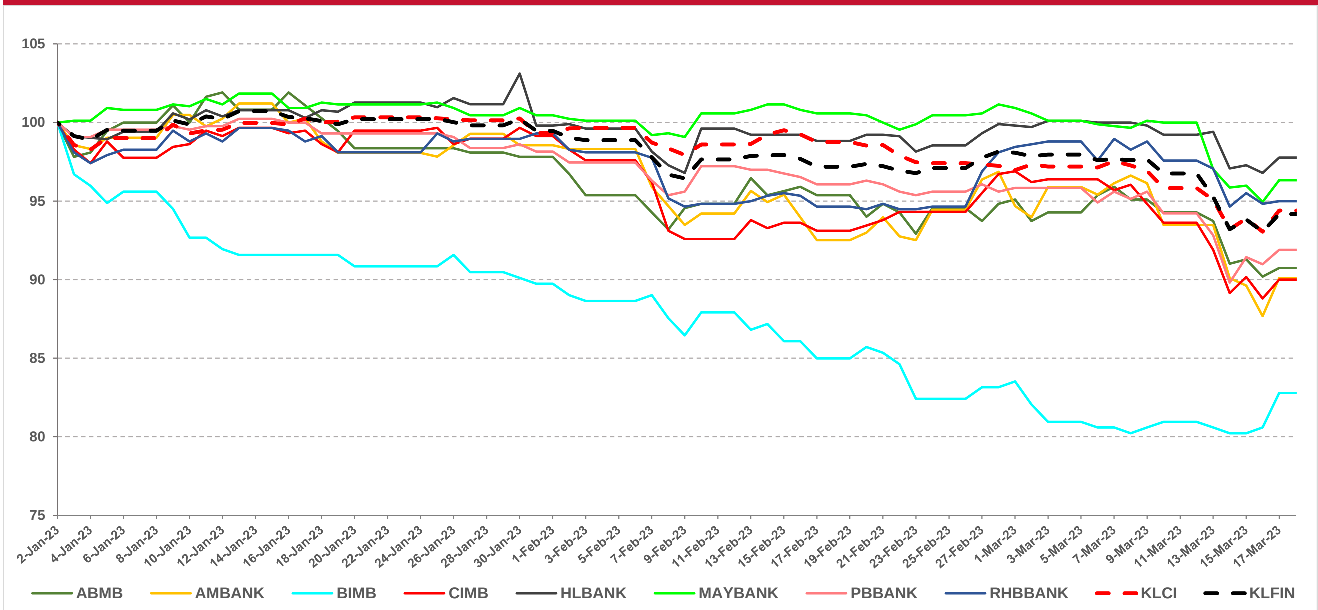
Local macros remain firm. We opine that the stability of the Malaysian landscape would be reason enough for investors to stay invested with the banks. The country is still expected to ride on a more modest recovery path, with our in-house CY23 GDP expectation of 4.7% (CY22: 8.7%). This is carried by strong export-driven manufacturing industries which could be supported by reopening economies. Meanwhile, the overall services industry could remain intact as the retail, food & beverages and tourism sub-segments could still be in demand, albeit with possible moderation as consumers may down trade in the face of general inflation. All in, we perceive this to be supportive to the strength and stability of the domestic financial system, as opposed to more heavily inflation-affected markets such as the United States (CY22 GDP: 2.7%, CY23 consensus estimates: 0.9%). This is also apparent in respective Dec 2022 CPI inflation readings of 3.3% and 6.5% for Malaysia and the United States. *(refer to the overleaf for further commentary on industry fundamentals)*

Earnings expected to expand in spite of shaky top line. Looking towards 1QCY23 earnings, the banks are anticipating similar shifts of slower fund-based income on the back of abating loans growth and softer interest margins as price competition for deposits heightens. On the flipside, non-interest income which were previously dragged by subsequently lower investment returns are expected to normalise. This could be chiefly led by the absence of hefty fair value losses from fixed income securities on stabilising interest rates. Meanwhile, more active trading conditions could boost brokerage performance while also encouraging fee-based income streams, namely wealth management. Ultimately, while income streams may show mixed signals, we opine that the banks should collectively reflect easing credit cost numbers, with some hints of write-offs as Covid-related provisions could lapse. In addition, the ending of prosperity tax would be a definite blessing to bottomline, with some banks previously seeing effective tax rates of c.30%. Within our coverage, we still anticipate a commendable c.12% increase in FY23 earnings across the sector.

Maintain OVERWEIGHT on the banking sector. We continue to believe that the fundamentals of the banking sector is well grounded and is not likely to experience any pressures which gravitates anything close to what is happening abroad. That said it is understandable if investors prefer to stay on the side line as global sentiment for the financial sectors have tumbled. While this could present numerous buying opportunities across our coverage calls, we opine to selectively promote names which offer greater safety nets amongst its peers. We also avoid banks with a higher non-interest income exposure as investors may also view this space with greater caution. With that, for 2QCY23, we opt to promote: **(i) PBBANK** as it is the leading bank in terms gross impaired loans (GIL) reading at 0.4% (vs peer average: 1.5%) backed by a highly collateralised loans book thanks to a substantial mortgage portion (41% of total books). Meanwhile, its recent shares sell-down owing to uncertainties of its shareholder and ownership structure may see an inversion when clarity on the matter unfolds. We also like **(ii) RHBBANK** as we believe the relevancy of strong capital safety will be in the limelight once more. RHBBANK continues to lead its peers with its CET-1 buffers (17% vs peer average: 14%). On the other hand, RHBBANK's dividend prospects become more promising with targeted payouts of c.55% looking to generate yields of 7%-8%. Also, developments on its upcoming digital bank with Boost could support interest.

Shaky start of the year. Unlike CY22, banking stock shares experienced mixed performances in relation to key indices. Despite having reported commendable 4QCY22 earnings in Feb 2022; YTD-Mar 2023, only **HLBANK (OP; TP: RM23.35), MAYBANK (OP; TP: RM10.10)** and **RHBBANK** have outperformed the FBM KLCI and KL Financial Index, albeit still lower than when they started the year. We see these names to be credited as more conservative bets by investors for their asset quality safety and dividend returns. Notably, although PBBANK also demonstrated strong earnings (beating our FY22 forecast), concerns over its shareholdings structure has led to some apparent profit taking since Dec 2022. **BIMB (MP; TP: RM2.30)** was the main underperformer possibly due to guidances that asset quality could lag from inflation-led affordability concerns, owing to its high retail portfolio.

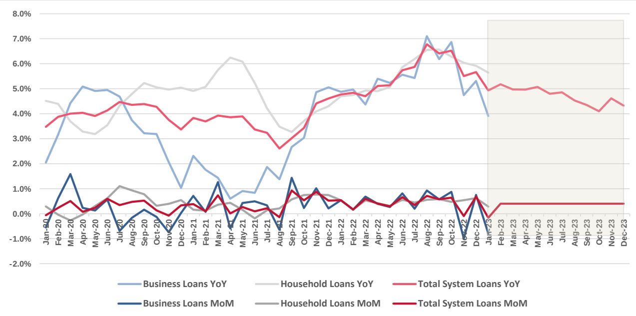
YTD CY23 Performance of Banking Stocks against the FBM KLCI and Bursa Finance Index (KLFIN)



Source: Bloomberg

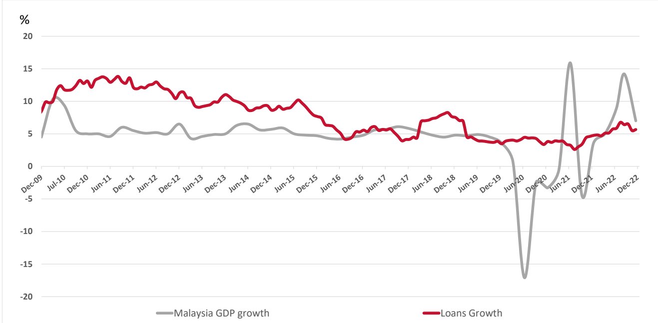
CY23 industry loans could peg lower at 4.0%-4.5% (CY22: 5.7%). Jan 2023 industry statistics reported a 4.9% YoY system loans growth, reflective of better spending sentiment from both household and business accounts. This could also be pushed by earlier financing bookings in anticipation of subsequently higher OPR, which saw four 25 bps hikes from May 2022 to Nov 2022. That said, it also translated to a MoM cooling off by 0.2%, as customers may be less impulsive with regards to further lending decisions. Businesses may also hold back amidst a possible easing in economic activities as inflationary pressures progressively materialise. **This is in line with our in-house GDP target for CY23 of 4.7% (from 8.7% in CY22).**

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

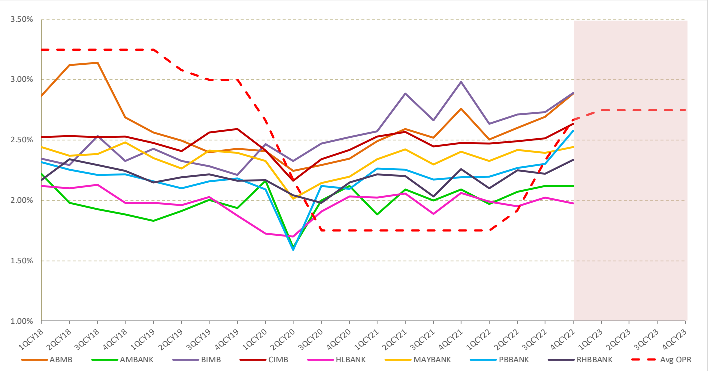
GDP and Loans Growth Trajectory



Source: Kenanga Research

NIMs to erode amidst flat OPR expectations. Past OPR hikes did result in expanding NIMs as loan rates were more proactively re-priced from variable rate financing whereas deposit rates tend to lag, mainly due to locked fixed deposit rates. However, **we anticipate that OPR could remain in a steady state throughout CY23** which could make industry profit rates less obscure, allowing banks to better identify competitive pricing opportunities to capture market share. Ultimately, this could dilute the NIM gains that banks enjoyed in the past year. This ties in with the lower margin guidances for CY23 by corporates, with some anticipating double digit-level compression.

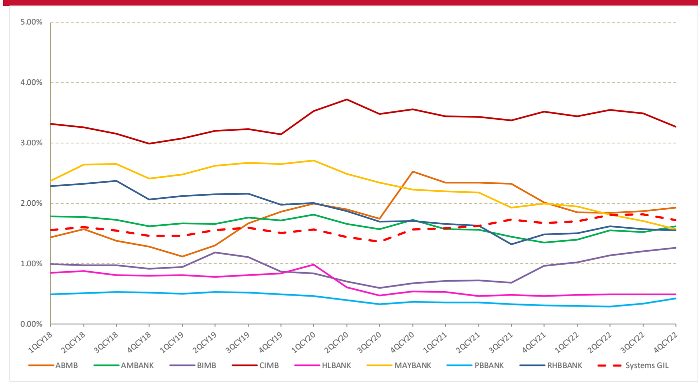
Est. Annualised NIMs



Note:
- Orange bar indicates our in-house OPR expectations in the coming periods
Source: Kenanga Research

Coverage GIL mostly unconcerning. Sector gross impaired loan (GIL) appears to have settled at a normal state, as past increments were contributed from certain troubled accounts falling to delinquency from the lapse of repayment assistance programs. That said, while some banks are easing progressive improvements, some are seeing minor bumps as inflationary pressures have pushed previously healthy accounts into close observation. However, we are still not perturbed by this as most banks are still operating below system GIL levels. **CIMB (OP; TP: RM6.55)** continues to be the outlier owing to its wide regional exposure (i.e. Indonesia and Thailand) which distorts group-wide readings. HLBANK and PBBANK persist to be the industry gold standard with GIL readings of 0.5% and 0.4%, respectively, thanks to strict credit risk measures and selective retail-focused portfolios.

Est. GIL trends (1QCY18-4QCY22)



Source: Kenanga Research

A Case to Favour Malaysian banks

As mentioned, we identified the key factors for the recent fallout of foreign banks to be due to mismanagement as well as heavily concentrated asset profiles, aggravating their exposure to very specific risk factors. We provide the following tables to extol that Malaysian banks are shielded from such incidences.

Asset Breakdown

4QCY22	ABMB	AMBANK	BIMB	CIMB	HLBANK	MAYBANK	PBBANK	RHBBANK
Total assets (RM'm)	**65,088**	**185,205**	**89,852**	**665,956**	**265,189**	**947,813**	**493,263**	**310,788**
Gross loans	47,276	126,338	65,942	407,057	172,281	587,122	376,892	212,200
Financial Investments	11,528	44,542	15,455	218,983	69,234	311,842	82,164	79,740
FVTPL - Malaysia	*306*	*7,865*	*299*	*33,200*	*6,760*	*38,627*	*949*	*3,089*
FVTPL - Outside Malaysia	*-*	*435*	*-*	*17,841*	*639*	*15,868*	*-*	*910*
FVOCI - Malaysia	*8,387*	*23,474*	*12,093*	*58,676*	*28,816*	*120,706*	*54,867*	*38,974*
FVOCI - Outside Malaysia	*-*	*24*	*7*	*26,086*	*1,023*	*57,943*	*169*	*6,234*
FVAC - Malaysia	*2,835*	*12,744*	*3,055*	*64,533*	*31,518*	*71,757*	*25,570*	*27,007*
FVAC - Outside Malaysia	*-*	*-*	*-*	*18,646*	*476*	*6,942*	*608*	*3,525*
As % of total assets								
Gross loans	73%	68%	73%	61%	65%	62%	76%	68%
Financial investments - Malaysia	18%	24%	17%	23%	25%	24%	16%	22%
Financial investments - Outside Malaysia	0%	0%	0%	9%	1%	9%	0%	3%

Source: Companies, Kenanga Research

Financing focused, as banks should be. It has been identified that Silicon Valley Bank (SVB)'s failure was due to disparities in its capital management, namely having a large proportion of its assets being locked in low-yielding US government bonds (>40% of total assets) which suffered major face value revaluation from the aggressive 475 bps hike in US Fed Rates.

With regards to the Malaysian banks, we identified that only the largest banks (CIMB, MAYBANK) have total investments of slightly more than 30% of their overall assets. Focusing on risks that they could be exposed to further downward revaluation of bonds, FVOCI holdings do not make more than 20% of total assets with further comfort taken that most allocation are towards Malaysian issuers (government and corporate). Given the Malaysian economic macros and inflation are more stable than the US, we believe BNM can continue to afford mild and progressive rate hikes, if any, prompting better bond price security relative to other markets.

Customer Breakdown

4QCY22	ABMB	AMBANK	BIMB	CIMB	HLBANK	MAYBANK	PBBANK	RHBBANK	Peer Average	Industry
Loans Interest Rate Profile										
Fixed Rate	18%	21%	8%	19%	17%	28%	22%	11%	18.0%	
Variable Rate	82%	79%	92%	81%	83%	72%	78%	89%	82.0%	
Loans Demographic										
Individuals / Retail	49%	54%	74%	53%	65%	50%	68%	50%	57.8%	
SME	35%	21%	4%	13%	18%	12%	19%	15%	17.0%	
Foreign Entities	1%	1%	0%	10%	2%	7%	1%	15%	4.8%	
Others	15%	24%	22%	24%	15%	30%	11%	20%	20.4%	
Deposits Demographic										
Individuals / Retail	43%	40%	14%	42%	50%	38%	53%	35%	39.4%	
Business Enterprise	34%	51%	35%	38%	47%	45%	29%	52%	41.4%	
Government and Statutory Bodies	7%	4%	34%	3%	2%	8%	3%	9%	8.9%	
Others	16%	5%	16%	16%	1%	9%	15%	3%	10.3%	
CASA-to-deposit ratio	45.8%	32.2%	33.6%	42.1%	31.8%	39.1%	29.9%	29.2%	35.5%	29.0%
Loan-to-deposit ratio	95.1%	107.5%	111.9%	91.3%	88.1%	93.4%	95.7%	93.8%	97.1%	86.0%
Gross impaired loans ratio	1.93%	1.62%	1.27%	3.27%	0.49%	1.57%	0.42%	1.55%	1.51%	1.72%
Loan loss coverage ratio	125.0%	95.3%	124.5%	93.1%	210.1%	127.5%	272.0%	112.8%	145.0%	97.4%
CET-1 capital	15.1%	12.2%	13.6%	14.5%	13.0%	15.7%	14.6%	16.9%	14.4%	15.2%

Source: Companies, Kenanga Research

Shelter from stormy weather. Further on SVB, its bank run was also aggravated by its extremely low concentration on retail depositors (<3% of total books have deposits of less than USD250k), catering mostly to niche start-up and venture capital funds market. Between Malaysian banks, we can see that most have a sizeable inclination towards retail depositors (peer average: 39%). That said, some may argue that an excessive deposits liquidity from a high CASA-to-deposit ratio could ease the occurrence of bank runs, most Malaysian banks register a loan-to-deposit ratio of less than 100%, which should support unexpected shifts in funding requirements.

On the flipside, we see loans demographics to also be fairly retail driven, mostly made up by safer collateralised mortgage financing. To reiterate, we believe asset quality risks between Malaysian banks to be mostly well managed with most banks still reserving provisions and management overlays amidst unexpected asset quality shocks. Loan loss coverage readings also appear well cushioned with most banks lingering above 100%.

Further, all banks conserve significant CET-1 with industry readings being close to 15%. This is well above BNM's slated requirement of 7.0% for CET-1 and 8.5% for Tier 1 capital. This is starkly higher against US Fed's minimum CET-1 requirement of 4.5%. The safety that this provides is capital buffers against unexpected losses which may arise from unexpected lumpy impairments while securing a dividend pool which could be paid out to investors.

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Peer Table Comparison

Name	Rating	Last Price as of 23/3/2023 (RM)	Target Price (RM)	Upside	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
ALLIANCE BANK MALAYSIA BHD	OP	3.25	4.40	35.4%	5,031	N	03/2023	44.7	49.4	20.9%	10.4%	7.3	6.6	0.7	10.5%	22.0	6.8%
AMMB HOLDINGS BHD	OP	3.74	5.00	33.7%	12,369	N	03/2023	51.0	54.8	12.0%	7.4%	7.3	6.8	0.7	9.7%	16.0	4.3%
BANK ISLAM MALAYSIA BHD	MP	2.19	2.30	5.0%	4,914	Y	12/2023	26.2	27.2	14.4%	4.2%	8.4	8.0	0.7	8.1%	15.5	7.1%
CIMB GROUP HOLDINGS BHD	OP	5.21	6.55	25.7%	55,565	N	12/2023	59.7	68.4	14.3%	14.7%	8.7	7.6	0.8	9.7%	30.0	5.8%
HONG LEONG BANK BHD	OP	20.02	23.35	16.6%	43,398	N	06/2023	197.0	199.7	22.7%	1.4%	10.2	10.0	1.2	12.5%	70.0	3.5%
MALAYAN BANKING BHD	OP	8.49	10.10	19.0%	102,340	N	12/2023	79.6	79.3	15.7%	-0.3%	10.7	10.7	1.2	11.0%	68.0	8.0%
PUBLIC BANK BHD	OP	3.95	4.90	24.1%	76,672	N	12/2023	35.9	37.0	13.8%	3.2%	11.0	10.7	1.4	13.4%	18.0	4.6%
RHB BANK BHD	OP	5.50	7.10	29.1%	23,361	N	12/2023	77.4	77.6	15.8%	0.2%	7.1	7.1	0.7	10.7%	43.0	7.8%
Sector Aggregate					**328,197**					**12.4%**	**4.9%**	**9.7**	**9.3**	**1.0**	**10.5%**		**5.8%**

Source: Kenanga Research

Gordon Growth Model Inputs

Name	Cost of Equity (%)	Terminal growth (%)	Sustainable ROE (%)	Fair value P/BV (x)	Applied BVPS (RM)	Call	Target Price (RM)	Remarks
ALLIANCE BANK MALAYSIA BHD	11.0	3.0	10.0	0.88	4.78	OP	4.40	+5% ESG Premium
AMMB HOLDINGS BHD	10.7	4.0	9.5	0.82	6.05	OP	5.00	
BANK ISLAM MALAYSIA BHD	10.4	3.0	8.0	0.68	3.38	MP	2.30	
CIMB GROUP HOLDINGS BHD	11.0	3.0	10.5	0.94	6.63	OP	6.55	+5% ESG Premium
HONG LEONG BANK BHD	9.7	3.5	12.0	1.37	17.05	OP	23.35	
MALAYAN BANKING BHD	9.7	3.25	12.0	1.36	7.44	OP	10.10	
PUBLIC BANK BHD	9.7	4.0	13.0	1.58	2.94	OP	4.90	+5% ESG Premium
RHB BANK BHD	10.7	3.0	10.0	0.91	7.79	OP	7.10	

Source: Kenanga Research

Building Materials

Opportunities in Non-Ferrous Metals

OVERWEIGHT

↔

By Teh Kian Yeong l tehky@kenanga.com.my; Nigel Ng l nigel@kenanga.com.my

We maintain OVERWEIGHT on the sector. We see a diverging price outlook - positive for non-ferrous metals due to lingering global supply constraints and increased demand stemming from China's reopening, but less favourable for steel due to the lethargic construction activity and property market in China. Domestically, we see potential in water piper makers as the government is poised to accelerate the roll-out of water projects, in both new water treatment plants and non-revenue water (NRW) reduction initiatives. Our sector top picks are ferrosilicon (FeSi) and silicomanganese (SiMn) producer OMH (OP; TP: RM2.95) and large-diameter mild steel water pipe maker ENGTEX (OP; TP: RM0.75).

Stable price outlook for non-ferrous metals. YTD, prices of non-ferrous metals have held up thanks to China's reopening. We also gathered that European aluminium smelters have not significantly raised their production despite the easing in fuel cost. YTD, LME aluminium prices have averaged at USD2,404/MT, which is 2% higher than USD2,364/MT in 2HCY22. Meanwhile, YTD, SiMn and FeSi prices have averaged at USD1,080/MT and USD1,638/MT, which are within a 3% deviation from USD1,063/MT and USD1,682/MT registered in 2HCY22, respectively. At these price levels, aluminium smelter **PMETAL (OP; TP: RM6.30)** and FeSi and SiMn producer **OMH** should be able to deliver decent profits.

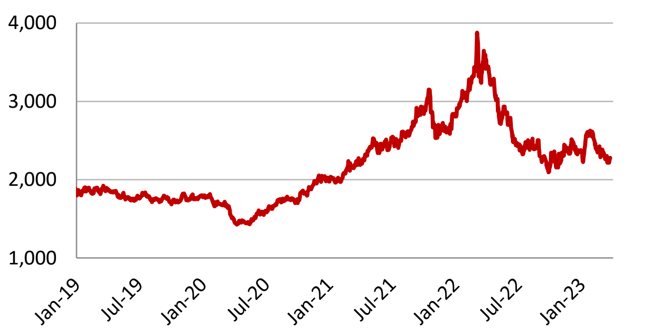
Absence of catalyst to take steel prices higher. World Steel Association projects global steel demand to grow by only 2.2% in 2023 to 1,881.4m MT given the slow rollout of infrastructure projects as well as a property market that is still recuperating from a recent debt crisis in China. While steel prices, for both long and flat steel, have rebounded from the lows in Nov 2022 on China's reopening, we see no major catalyst to take them significantly higher. As such, **ANNJOO (UP; TP: RM0.80)** and **ULICORP (OP; TP: RM1.36)** will still not be able to significantly raise selling prices to boost margins.

Revival of water projects a boon to pipe makers. To cope with the rising demand for treated water (and to avert a potential water crisis), the government is expected to roll out more new water treatment plant projects to boost production, as well as to accelerate the water pipe replacement programme to bring NRW down to 25% by 2025 from 34% in 2020 (statistics from Suruhanjaya Perkhidmatan Air Negara or SPAN show that about 70%-75% of NRW stems from leaks, bursts, and damages to pipes and fittings). This augurs well for large-diameter mild steel water pipe maker **ENGTEX**.

Maintain OVERWEIGHT on the sector. Our sector top picks are:

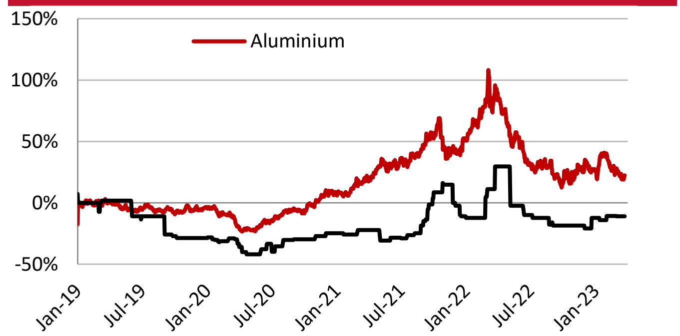
- **OMH** given: (i) its structural cost advantage over international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30%-36% to 610,000-640,000 metric tonnes per annum over the medium term, and (iii) its appeal to investor keen on clean energy source.
- **ENGTEX** given**:** (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel pipes and ductile iron pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.

Aluminium Prices



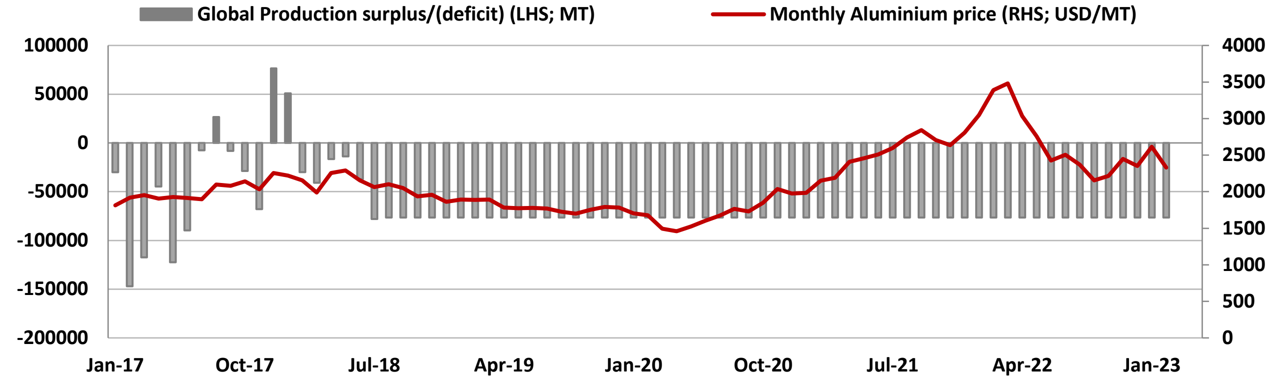
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement



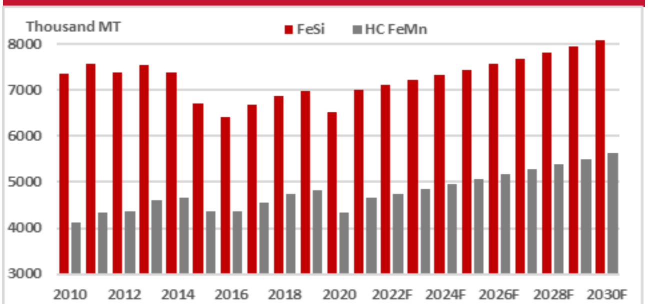
Source: Bloomberg, Kenanga Research

Global Production Surplus/Deficit vs. Monthly Aluminium Price



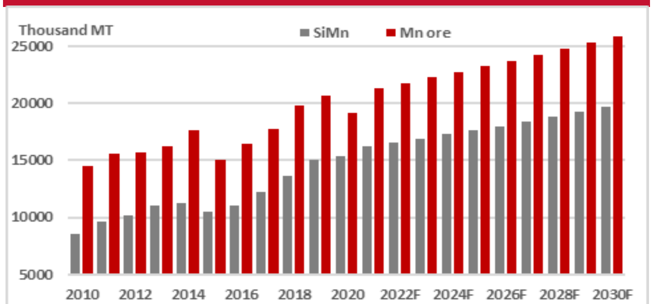
Source: Bloomberg, Kenanga Research

Global Consumption of FeSi and HC FeMn (2010-2030)



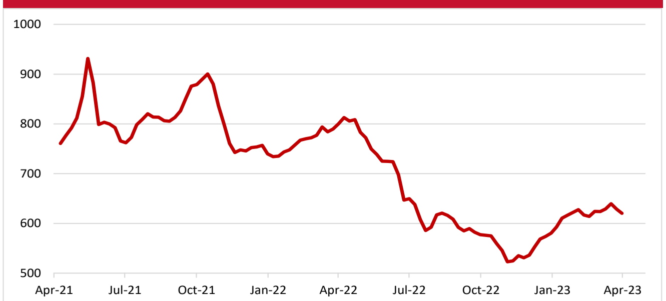
Source: AlloyConsult/World Steel Association

Global Consumption of SiMn and Mn Ore (2010-2030)



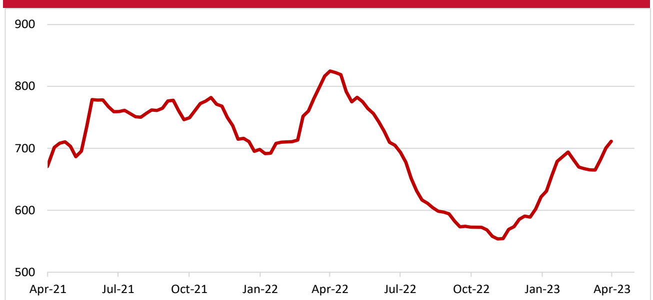
Source: AlloyConsult/World Steel Association

China Rebar Steel Prices



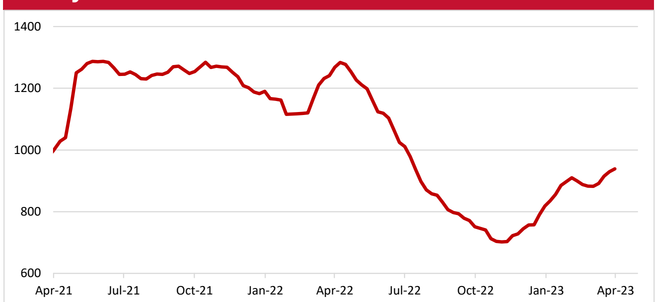
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 23/3/23 (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	1.17	0.800	-31.62%	656.8	Y	12/2023	4.6	10.9	-84.4%	136.0%	24.9	10.8	0.5	1.9%	1.0	0.9%
ENGTEX GROUP BHD	OP	0.650	0.750	15.38%	281.3	Y	12/2023	10.6	11.0	45.5%	3.7%	6.1	5.9	0.3	5.6%	0.8	1.2%
OM HOLDINGS LTD	OP	2.16	2.95	36.57%	1,595.4	Y	12/2023	46.8	42.0	16.8%	-10.4%	3.8	4.2	0.8	18.7%	6.6	3.1%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.70	6.30	34.04%	38,726.2	Y	12/2023	21.4	22.9	22.9%	7.3%	25.5	23.6	5.0	24.5%	8.5	1.4%
UNITED U-LI CORPORATION BHD	MP	1.05	1.36	29.52%	228.7	Y	12/2023	17.0	15.0	-16.1%	-11.6%	6.2	7.0	0.8	12.8%	5.0	4.8%
Sector Aggregate					**41,488.4**					**34.7%**	**5.6%**	**18.7**	**17.7**	**3.4**	**18.2%**		**2.3%**

Source: Kenanga Research

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Construction

OVERWEIGHT

A New Wave of Projects Led by Flood Mitigation

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

We remain OVERWEIGHT on the sector. We expect a more broad-based re-rating of the construction sector in 2QCY23 ahead of the rollout of more public infrastructure projects locally, particularly six fast-track flood mitigation projects specifically mentioned in Budget 2023. Similarly, the flow of private sector jobs is equally promising with plenty of fast-track semiconductor foundry and data centre building contracts up for grab. Meanwhile, the operating condition has improved with the return of foreign workers and easing cost of construction materials. Our top picks for the sector are GAMUDA (OP; TP: RM5.15) and SUNCON (OP; TP: RM2.13) given their sizeable order backlogs and strong chances of garnering a slice of action in the imminent RM45b MRT3 project given their strong track records in mega rail projects in recent years.

Public projects to pick up. We expect a more broad-based re-rating of the construction sector in 2QCY23 ahead of the rollout of more public infrastructure projects locally. It was specifically mentioned in Budget 2023 that six flood mitigation projects will be re-tendered by June 2023, including Sungai Johor flood mitigation plan, dual-function reservoirs (flood mitigation and raw water storage) at Sungai Rasau and Sungai Klang in Selangor and Sungai Golok Integrated River Basin Management Project Phase 3 in Kelantan, backed by a record development expenditure of RM97b. Players can also look to various airport expansion jobs and the much-anticipated MRT3 (albeit at a reduced budget of RM45b vs. RM50b previously).

Plenty of private sector jobs too. As MNCs diversify their manufacturing bases geographically (away from China) to de-risk, there have been growing opportunities in the construction of new semiconductor plants and data centres locally where the contract sizes are relatively larger, ranging between RM1b to RM1.5b each. We have seen **SUNCON (OP; TP: RM2.13)** and **KERJAYA (OP; TP: RM1.50)** already benefitting from such contracts in CY22.

Order books to grow. Amidst a slow public job market in CY22, some contractors that are reliant on public jobs i.e. **IJM (MP; TP: RM1.70)** and **WCT (OP; TP: RM0.60)** have seen their order books depleting to a 4-year low, as draw-down of orders exceeded replenishment. Nonetheless, upon the rollout of public jobs mentioned above, we expect their order book to improve in CY23.

Improving operating condition. Meanwhile, the operating condition has improved with the return of foreign workers and easing cost of construction materials such as steel, aluminium, diesel and bitumen. Meanwhile, most new contracts currently under negotiation would incorporate the latest prices (which are higher) and also with an element of price variation built in - to protect margins in the event of huge swing in material prices. Hence, we believe overall margins should gradually improve as the older low-margin jobs trail off to be replaced by new projects adjusted for higher input costs.

Reiterate OVERWEIGHT. Aside from the better earnings trajectory projected, we believe a sector re-rating is in the making on expectation of awards of public infrastructure jobs after a long drought. Our top picks for the sector are:

(1) **GAMUDA** given: (i) it being the front-runner for the tunnelling job for MRT3, (ii) its competitiveness in securing new jobs within the international market, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record high outstanding order book of RM20.5b, and (v) its efforts to expedite growth in the renewable energy space in line with global sustainability goals.

(2) **SUNCON** for: (i) its consistent replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, (iii) its net cash balance sheet that allows it to participate in deferred payment model projects, and (iv) its all-time high outstanding order book of RM11.9b alluding towards strong earnings growth in the immediate term.

Key Infrastructure Projects			
Projects	**Value (RM b)**	**Status**	
		Ongoing	**Pending**
Public Projects:			
MRT3	45.0		√
Pan Borneo Sarawak Ph 2	n.a.		√
Pan Borneo Sabah	15.3	√	
Johor Bahru-Singapore RTS	4.3	√	
Central Spine Road	10.7	√	
Sabah Sarawak Link Road	5.2	√	
Various Flood Mitigation Projects	n.a.		√
Rasau Water Treatment Plant	4.5	√	
Iskandar BRT	2.56	√	
Kuching Autonomous Rail Transit	6.0	√	
Privatised Projects:			
Penang Transport Masterplan	46.0		√
Duke Phase 2A	6.3		√
Waste to Energy (Kepong)	n.a.		√
Petaling Jaya Dispersal (PJD) Link	n.a.		√
Bangi Putrajaya Highway	n.a.		√
Kuala Lumpur Northern Dispersal Expressway (KL Node)	n.a.		√

Source: Kenanga Research, media

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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	4.14	5.15	24.40%	11,006.5	Y	07/2023	35.0	43.6	7.4%	24.7%	11.4	9.1	1.2	10.4%	50.0	12.1%
IJM CORP BHD	MP	1.61	1.67	3.73%	5,655.8	Y	03/2023	8.6	9.2	26.2%	6.9%	18.9	17.7	0.6	3.8%	6.0	3.7%
KERJAYA PROSPEK GROUP BHD	OP	1.16	1.50	29.31%	1,462.8	Y	12/2023	12.2	14.0	31.0%	14.6%	9.5	8.3	1.3	14.6%	6.0	5.2%
KIMLUN CORP BHD	OP	0.735	1.12	52.38%	259.7	Y	12/2023	12.9	15.6	18.9%	20.5%	6.0	4.9	0.4	6.6%	2.0	2.7%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.62	2.13	31.48%	2,088.8	Y	12/2023	12.6	13.2	19.4%	4.8%	12.8	12.2	3.1	24.9%	5.0	3.1%
WCT HOLDINGS BHD	OP	0.425	0.600	41.18%	602.3	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.9	11.5	0.2	2.7%	0.5	1.2%
Simple Average					**21,075.9**					**12.8%**	**18.7%**	**13.2**	**11.1**	**0.9**	**6.5%**		**4.7%**

Source: Bloomberg, Kenanga Research

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Consumer

OVERWEIGHT

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Undiminished Spending Appetite

By Ahmad Ramzani Ramli l ahmadramzani@kenanga.com.my l Tan Jia Hui l jhtan@kenanga.com.my l Jack Lai Yuan Khai l jacklai@kenanga.com.my

We maintain our OVERWEIGHT call with our focus still on the retailers. Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. Meanwhile, the B40 group continues to benefit from various financial assistance programmes especially direct cash handouts. Moreover, a relatively stable economy and a healthy job market, coupled with a strong household balance sheet of the M40 group, provide additional support to the sector. Our top picks are AEON (OP; TP: RM1.80), PADINI (OP; TP: RM6.00), and QL (OP: TP: RM6.66)

Consumer optimism returns. We continue to expect positive consumer sentiment going into 2QCY23 as the MIER consumer Sentiment Index (CSI) has once again breached the optimism threshold of 100 points; jumping 6.9 points to 105.3 in 4QCY22. Consumer sentiment has continued to improve, albeit cautiously, as financial expectations strengthened alongside receding inflationary fears. However, despite the relatively stable household finances, MIER did note that spending plans were on a slight decline as consumers continued to feel the pinch of higher interest rates and a softer macroeconomic outlook but the pause in rate hike by BNM might see the return of spending on bigger-ticket items. Given the potential global slowdown in economic growth, we maintain our in-house GDP growth forecast of 4.7% (vs. 8.7% in 2022), underpinned by the recovery of the labour market and tourism aided by a weak MYR. Nonetheless, we believe consumer spending will remain robust as income tax cuts and cash handouts provide some level of support.

Resilient retailers. Similarly, we expect retail sales to sustain throughout 2023 following a 33.3% YoY increase in 2022. This is achieved following a strong 4QCY22 (+13.7% YoY) as accommodative policies and the healthy balance sheet of the M40 mitigated a 25bps hike in OPR in early November. With the local retail sales having recovered to pre-pandemic levels, Retail Group Malaysia (RGM) projects the local retail sales to only grow 3.5% in 2023 from a significantly higher base in 2022. Nonetheless, it still sees strong YoY growth of 9.2% in 1QCY23 (before tapering off). Specifically, department stores are projected to achieve a higher growth of 15.8% during the same period which augurs well for **AEON** and **PADINI.**

Volatile commodities prices. On the flipside, commodities prices have not fallen back to pre-pandemic levels. Consumer staple producers under our coverage are concerned over a renewed escalation of the Russian-Ukrainian conflict, leading to another round of food commodities supply-chain disruptions (barring this, indicators and consensus views are pointing to softer food commodities prices heading to 2024, but still above the pre-pandemic levels). Sugar is an exception with prices expected to continue to climb well into 2024. On the other hand, milk prices have been on a downward trend and are poised to return to the pre-pandemic levels by early 2024, which bode well for **DLADY (MP; TP: RM29.78)** and **NESTLE (UP; TP: RM121.18)**.

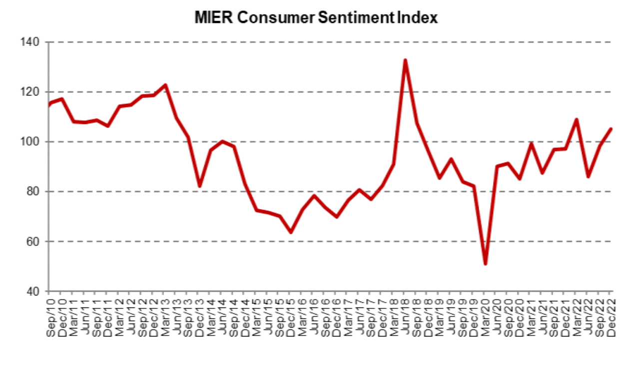
Conversely, the outlook for tobacco producers and brewers is looking cloudier. Most companies under our coverage foresee 2023 to be challenging as they expect rising inflation to dampen sales volumes, and volatile input costs. Furthermore, the recently announced regulations on tobacco and vapour products seem mixed for **BAT (MP; TP: RM12.00)**. On one hand, the regulation on vapour products brings about a more level playing field between the two competing tobacco products (and potentially narrowing the price gap between them) as well as provides opportunity for the group to introduce its own product as it had previously commented that it would only do so once the market was legalised and regulated. On the other hand, the existing large base of small sellers could feed into the illicit market once regulations are put in place. Furthermore, the Generational Endgame bill could signal the government's intentions to sunset the industry.

Despite sustained high inflation, we expect consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST, while the B40 group continues to benefit from various financial assistance programmes especially direct cash handouts. Also helping, are a relatively stable economy and a healthy job market, coupled with a strong household balance sheet of the M40 group. The return of international tourists, especially those from China, will also contribute to footfall in malls and stores, benefitting fashion retailers and F&B restaurants.

Our top picks for the sector are:

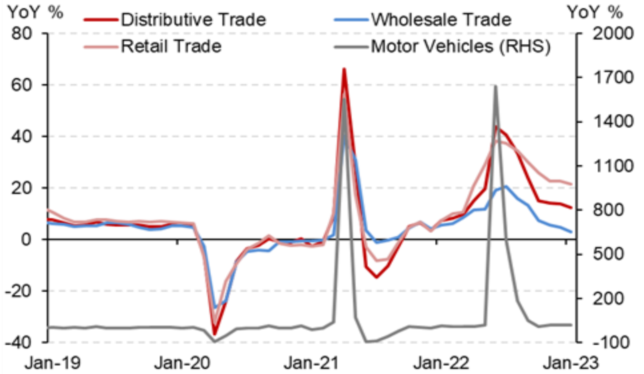
- **AEON** for: (i) the return of shoppers post the pandemic, (ii) its customer base that is skewed towards the M40 group whose spending power is less impacted by high inflation, and (iii) its digital transformation, particularly, the introduction of self-checkout for customers, resulting in cost savings and reduced labour dependence.
- **PADINI** for: (i) being a beneficiary of wardrobes replenishment as consumers return to offices and schools, and social activities, (ii) the strong spending power of its primary target customers, i.e. M40 group, given their healthy household balance sheets, and (iii) its strong net cash position enabling it to purchase inventory ahead of price hikes and potential supply disruptions.
- **QL (OP; TP: RM6.66)** for (i) the sustained strong export demand for its marine products as exports have normalised post pandemic (with China's reopening), (ii) its strong *Family Mart* convenience store franchise given its appealing Japanese-themed products and continued outlet expansion, (iii) the strong growth potential of its poultry business in the region on rising affluence resulting in rising protein intake in diet; and (iv) the return of market-driven prices for chicken and eggs locally with the potential lifting of ceiling prices by 2Q23.

Exhibit 1: MIER Consumer Sentiment Index



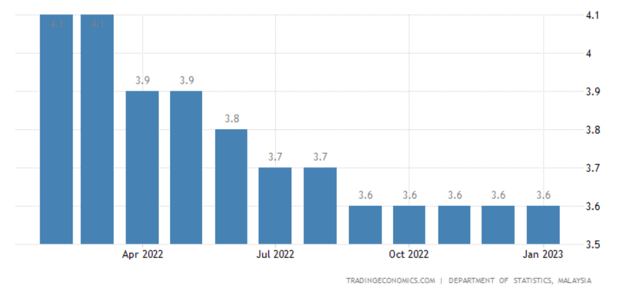
Source: MIER, Kenanga Research

Exhibit 2: Sales Value on the Uptrend



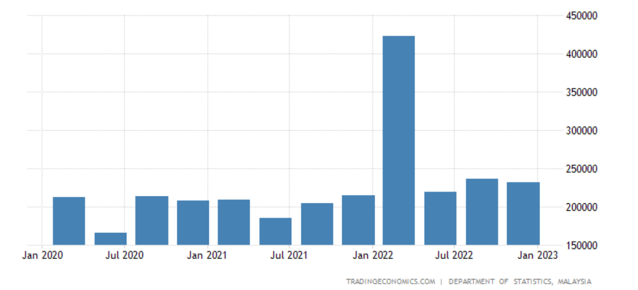
Source: Dept. of Statistics, CEIC, Kenanga Research

Exhibit 3: Malaysia Unemployment Rate



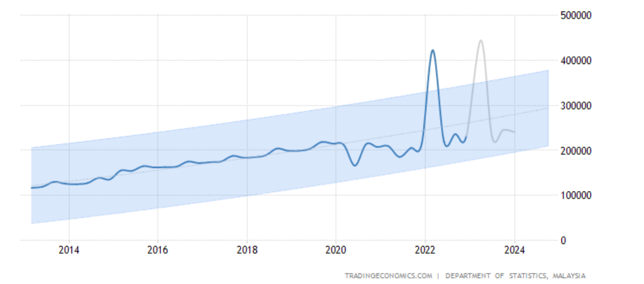
Source: Trading Economics, DOSM, Kenanga Research

Exhibit 4: Malaysia Consumer Spending (RM mil)



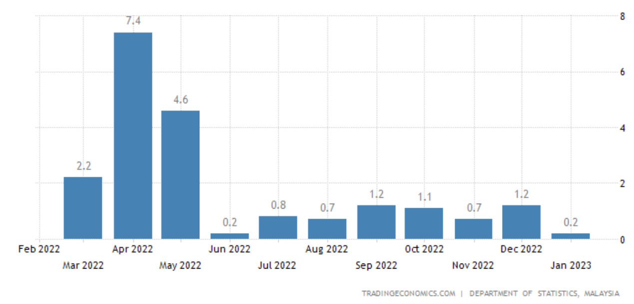
Source: Trading Economics, DOSM, Kenanga Research

Exhibit 5: Malaysia Consumer Growth (RM mil)



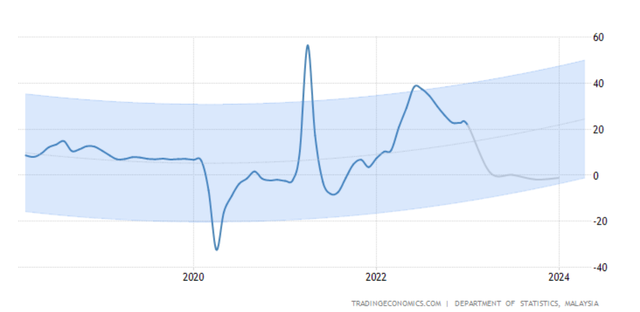
Source: Trading Economics, DOSM, Kenanga Research

Exhibit 6: Malaysia Retail Growth (%, MoM)



Source: Trading Economics, DOSM, Kenanga Research

Exhibit 7: Malaysia Retail Growth (%, YoY)



Source: Trading Economics, DOSM, Kenanga Research

Exhibit 8: Selected Commodities Price Data – Actual Market Prices (USD)

Commodity	Unit	Annual Market Prices			Quarterly			Monthly	
		2020	2021	2022	2Q22	3Q22	4Q22	Jan 23	Feb 23
Soybeans	$/mt	407	583	675	727	671	640	627	651
Wheat	$/mt	232	315	430	492	395	416	380	395
Coffee (Arabica)	$/kg	3.32	4.51	5.63	5.88	5.82	4.88	4.56	5.06
Sugar	$/kg	0.28	0.39	0.41	0.43	0.40	0.40	0.42	0.45

Source: World Bank, Kenanga Research

Exhibit 9: Soybeans Prices at USD/Bushel

Source: Trading Economics, Kenanga Research

Exhibit 10: Wheat Prices at USD/Bushel

Source: Trading Economics, Kenanga Research

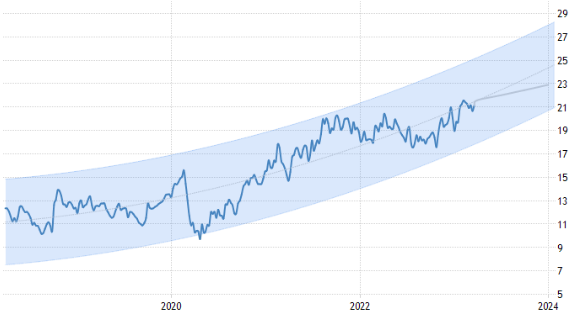
Exhibit 11: Milk Prices at USD/CWT

Source: Trading Economics, Kenanga Research

Exhibit 12: Coffee Prices at USD/Pound

Source: Trading Economics, Kenanga Research

Exhibit 13: Sugar Prices at Cents/Pound



Source: Trading Economics, Kenanga Research

Exhibit 14: Corn Prices at USD/Bushel

Source: Trading Economics, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM) @ 23 Mac 2023	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.
CONSUMER																	
AEON CO. (M) BHD	OP	1.30	1.80	38.46%	1,825.2	Y	12/2023	9.1	10.0	15.2%	9.4%	14.2	13.0	1.0	7.3%	4.0	3.1%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.10	29.78	14.10%	1,670.4	Y	12/2023	139.4	135.3	-64.0%	-2.9%	18.7	19.3	3.8	21.7%	50.0	1.9%
FRASER & NEAVE HOLDINGS BHD	OP	25.48	26.11	2.47%	9,345.5	Y	09/2023	118.6	129.1	13.5%	8.8%	21.5	19.7	2.9	14.1%	62.5	2.5%
MR D.I.Y.	MP	1.65	1.85	12.12%	15,564.1	Y	12/2023	6.7	7.4	32.4%	11.4%	24.8	22.3	8.9	39.4%	3.5	2.1%
MYNEWS HOLDINGS BHD	OP	0.585	0.760	29.91%	399.1	N	10/2023	3.4	4.2	-229.3%	23.0%	17.0	13.8	1.8	9.9%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	134.60	121.18	-9.97%	31,563.7	Y	12/2023	303.0	305.1	14.6%	0.7%	44.4	44.1	44.9	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.79	6.00	58.31%	2,493.5	Y	06/2023	35.8	39.7	53.0%	10.8%	10.6	9.5	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.11	2.70	27.96%	898.9	Y	03/2023	13.1	14.3	108.8%	9.5%	16.2	14.7	2.8	18.0%	10.0	4.7%
QL RESOURCES BHD	MP	5.70	6.66	16.84%	13,871.8	Y	03/2023	14.3	17.7	60.3%	23.5%	39.8	32.2	4.4	12.1%	6.0	1.1%
Sector Aggregate					**79,896.7**					**20.9%**	**9.1%**	**29.2**	**26.8**	**6.3**	**21.6%**		**2.2%**
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.50	12.00	14.29%	2,998.1	N	12/2023	102.1	103.5	11.0%	1.4%	10.3	10.1	7.6	75.4%	99.0	9.4%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.00	23.05	9.76%	6,420.7	N	12/2023	114.6	126.4	13.9%	10.3%	18.3	16.6	24.6	145.0%	100.0	4.8%
HEINEKEN MALAYSIA BHD	MP	27.10	27.70	2.21%	8,186.9	N	12/2023	138.9	147.8	12.3%	6.4%	19.5	18.3	20.7	94.8%	138.9	5.1%
Sector Aggregate					**17,605.6**					**12.5%**	**6.3%**	**16.5**	**15.6**	**17.6**	**105.0%**		**6.4%**

Source: Bloomberg, Kenanga Research

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Gaming

Good Old Days are Returning

OVERWEIGHT

↔

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

We maintain OVERWEIGHT on the gaming sector as leisure travel normalises post the pandemic. Tourism Malaysia projects 16.1m tourist arrivals in Malaysia in 2023, up 60% from 10.1m in 2022. Over the causeway, the Singapore Tourism Board expects a big jump in visitor arrivals to the island republic of 12m-14m this year over 4.7m recorded last year, underpinned by the return of international tourists, especially those from China. This should benefit casino operators GENM (OP; TP: RM3.56) and GENS (Not Rated), as well as their parent company GENTING (OP: TP: RM5.86). Meanwhile, we project ticket sales of number forecast operators (NFOs) to return to 90% of pre-pandemic levels by end-2023. Largely domestically-driven, their earnings are less directly exposed to external headwinds. Our top picks for the sector are GENTING, being a proxy to the recovery of tourism in both Malaysia and Singapore, and SPTOTO (OP; TP: RM1.95) given its double-digit dividend yields.

Casinos - Benefitting from the return of leisure travel.

- Tourism Malaysia projects 16.1m tourist arrivals in Malaysia in 2023, up 60% from 10.1m in 2022, while neighbouring Singapore Tourism Board expects visitor arrivals to the island republic to reach 12m-14m this year as opposed to 4.7m last year, underpinned by the return of international tourists, especially those from China. At 16.1m in 2023, there is still plenty of room for Malaysia's tourist arrivals to rise as it makes up only 62% of the pre-pandemic peak of 26.1m in 2019.
- **GENM** will also benefit from the revival and rejuvenation of domestic leisure travel, as local visitors made up >80% of the total visitors to the Genting Highland's resort prior to the pandemic. Meanwhile, **GENS** is set to draw more visitors over the next three months with the *Van Gogh: The Immersive Experience exhibition*, while a newly renovated Festive Hotel will be re-launched in May as a lifestyle destination hotel with 389 rooms. Meanwhile, **GENM's** operations in the UK and US have very much shrugged off the pandemic since 2021 with earnings having already recovered to pre-pandemic levels. Newly opened Resorts World Hudson Valley in Dec 2022, the newest casino in New York State, is expected to deliver its maiden contribution in FY23.

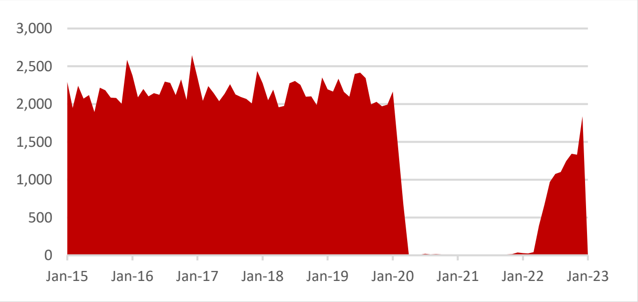
NFOs - Recovery in ticket sales on track.

- There is a business continuity concern for operations of NFOs in Selangor, Penang and Negri Sembilan in the event of a change in the state government post the state election, widely expected to be held in Jun 2023 (NFO operations have already been banned three other states due for the state election, i.e., Kelantan, Terengganu and Kedah). There is also concern over sustained high inflation eating into consumer disposable income affecting spending on betting games.
- The good news is that NFO ticket sales are mainly domestically-driven and therefore less directly exposed to external headwinds. We expect the ticket sales recovery to plateau at 80%-85% of pre-pandemic levels before slowly picking up to the 90% level by end-2023. We expect **SPTOTO** to have a stronger recovery path with ticket sales returning to 87% of pre-pandemic level by FY23 (FYE: June) and 90% by FY24, given the potential boost from a spike in ticket sales of lotto games in the event their jackpots snowball, while **MAGNUM (OP; TP: RM1.39)** may only see its ticket sales recovering to 78%/80% of the pre-pandemic level by FY23/FY24 as we expect the return of its customers, predominantly in the older-age group, to be gradual. Overall, we prefer **SPTOTO** to **MAGNUM** for the former's stronger recovery of ticket sales and hence superior earnings.

Regulatory risk. Meanwhile, we rate the risk of casino and NFO licenses being revoked in Malaysia as low following the formation of a "unity" government led by a moderate Pakatan Harapan coalition.

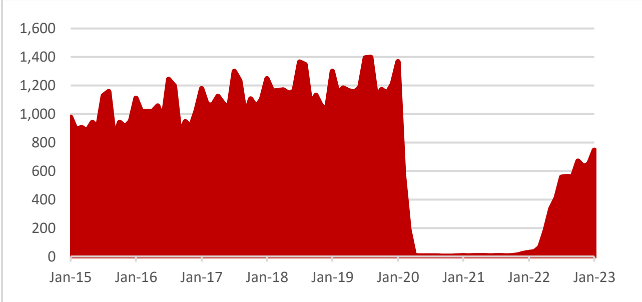
Our top picks for the sector are **GENTING**, being a proxy to the recovery of tourism in both Malaysia and Singapore, and **SPTOTO** given its double-digit dividend yields.

Malaysia's Monthly Tourist Arrivals ('000)



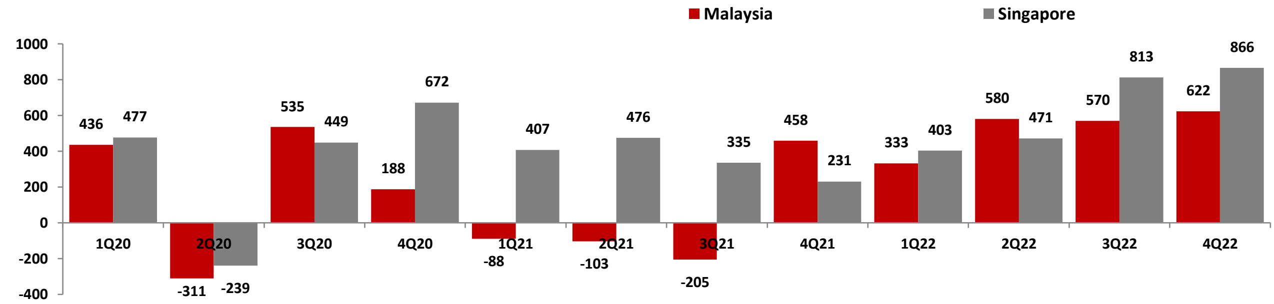
Source: CEIC

Singapore's Monthly Tourist Arrivals ('000)



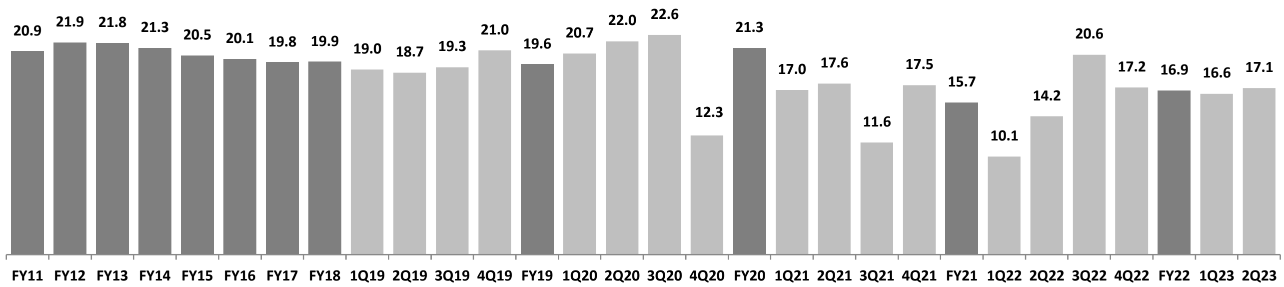
Source: CEIC

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



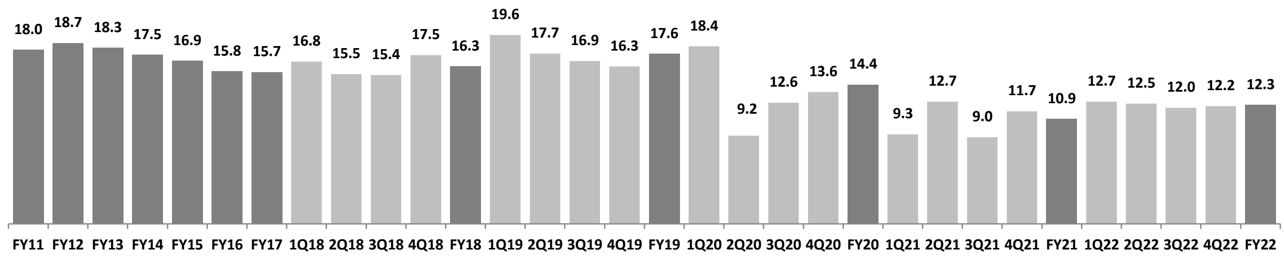
Source: Company

SPTOTO: Average Ticket Sales Per Draw (RM m)



Source: Company

MAGNUM: Average Ticket Sales Per Draw (RM m)



Source: Company

Peer Table Comparison

Name	Rating	Last Price @ 23/3/23 (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
Stocks Under Coverage																	
GENTING BHD	OP	4.56	5.86	28.51%	17,558.6	N	12/2023	36.3	42.7	344.7%	17.6%	12.6	10.7	0.5	4.2%	16.0	3.5%
GENTING MALAYSIA BHD	OP	2.58	3.56	37.98%	14,622.8	N	12/2023	16.6	21.1	5940.9%	27.5%	15.6	12.2	1.1	7.5%	15.0	5.8%
MAGNUM BHD	OP	1.09	1.39	27.52%	1,566.5	N	12/2023	12.3	12.6	75.9%	2.0%	8.8	8.7	0.7	7.4%	9.9	9.0%
SPORTS TOTO BHD	OP	1.45	1.95	34.48%	1,955.0	N	06/2023	20.1	20.8	68.1%	3.6%	7.2	7.0	2.1	29.6%	16.1	11.1%
Sector Aggregate					**35,702.9**					**405.9%**	**18.7%**	**12.8**	**10.8**	**0.7**	**5.7%**		**7.4%**

Source: Kenanga Research

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Gloves

UNDERWEIGHT

↔

It Takes Time for Demand to Catch Up

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

We reiterate our UNDERWEIGHT rating on the sector. We expect the sector to continue to face a challenging and competitive business landscape ahead due to elevated costs, subdued average selling price and massive capacity leading to suppressed industry utilization rate. We beg to differ from the view of Malaysian Rubber Glove Manufacturers Association (MARGMA) that the industry will turn the corner in 2023 as our demand-supply forecast shows that it will take at least another two years of consistent demand growth to fully fill the current excess capacity in the industry. We believe the pivot is more likely to happen in 2024 and do not have any top pick for the sector.

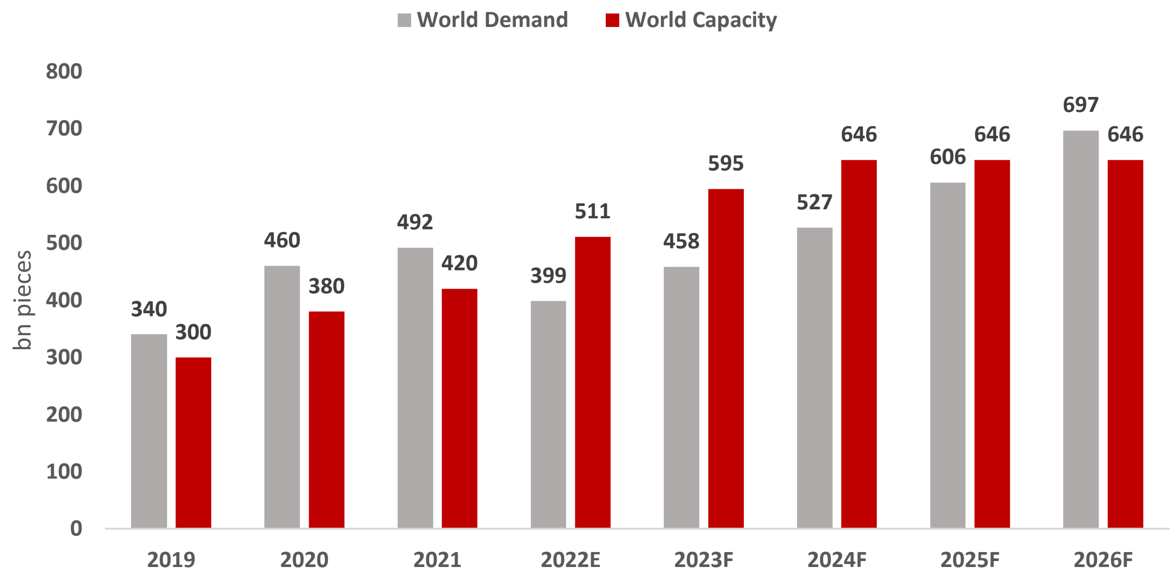
Operating environment remains challenging throughout 2023. We reiterate our view that the challenging and competitive business landscape currently faced by the sector will persist throughout 2023. As such, we continue to expect players to incur losses moving into 2Q23 due to elevated costs of raw material, energy and labour against subdued average selling price (ASP/1,000 pieces of USD19-21 vs. cost/1,000 pieces of USD21-23), and massive capacity leading to suppressed industry utilization rate averaging 35%-40%. As gathered from our channel checks, some players are hopeful that the rate of decline in ASP is slowing, whilst others believe selling prices have bottomed. Hopeful that selling prices have bottomed out, certain players will attempt to raise prices from end-Mar 2023 by an average of 5%-10%, from ASP of USD19-21 to USD20-22 for the Mar to April shipments. We are uncertain if this is viable as we gathered from sources that Chinese players are selling at USD17 per 1,000 pieces. Furthermore, the prospect of raising ASP is challenging due to the current massive overcapacity situation. In view of the increasingly challenging business landscape, glove players are prioritising production at their newer and more efficient factories while temporarily leaving the older ones idle.

Oversupply to persist. We expect the challenging operating environment to persist in subsequent quarters plagued by massive oversupply, reluctance of customers to commit to sizeable orders and hold substantial stocks. MARGMA projects 12%-15% growth in the global demand for rubber gloves annually from 2023, following an estimated 19% contraction to 399b pieces in 2022. It believes the supply-demand equilibrium may return in six to nine months. However, we beg to differ, expecting the overcapacity situation to persist at least over the next two years. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in 2025 when there is virtually no more new capacity coming onstream while the global demand for gloves continues rising 15% per annum underpinned by rising hygiene awareness. Still, capacity is seen to expand further in 2023. We project the demand for gloves to rise by 15% in 2023, which is consistent with MARGMA's forecast. However, this will do little to ease the overcapacity situation as the global glove production capacity will grow another 16% to 595b pieces during the year, as more capacity planned by incumbent and new players during the pandemic years - enticed by super-fat margins that had evaporated - finally come on-line. This will result in the excess capacity rising by 22% to 137b pieces from 112b pieces in 2022. The expanded overcapacity means low prices and depressed plant utilisation will likely persist in 2023. Not helping the already dire situation is the reluctance of customers to commit to sizeable orders and hold substantial stocks on expectations of further decline in prices.

Our 2023 forecasts assume: (i) an ASP per 1,000 pieces of USD20, translating to an estimated 10% decline from 2022, and (ii) an average plant utilisation of 40% vs. an estimated 60% in 2022. During the 2014/2015 downturn, ASP of nitrile gloves went as low as USD17/USD18 per 1,000 pieces while industry utilisation was at around 65%-70%.

We advocate investors to avoid the sector for now, and not have any top pick for the sector.

Estimated Global Demand/Supply - Excess Supply over CY22-CY24



Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM) @ 23 Mar 2023	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	UP	2.02	1.35	-33%	6,903	Y	03/2023	0.7	(0.7)	-99%	-202%	287.4	N.A.	1.3	0.5%	3.0	1.5%
KOSSAN RUBBER INDUSTRIES	UP	1.37	0.850	-38%	3,496	Y	12/2023	(1.1)	0.9	-101%	-19%	N.A.	153.0	0.9	-0.7%	0.0	0.0%
SUPERMAX CORP BHD	UP	0.955	0.700	-27%	2,526	Y	06/2023	(6.3)	0.9	-124%	-86%	N.A.	106.9	0.6	-3.6%	0.0	0.0%
TOP GLOVE CORP BHD	UP	1.02	0.580	-43%	8,167	Y	08/2023	(5.5)	0.5	-291%	-91%	N.A.	202.5	1.6	-8.3%	0.0	0.0%

Source: Kenanga Research

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Healthcare

A Clean Bill of Health

OVERWEIGHT

↔

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

Reiterate OVERWEIGHT. We see earnings catalysts from all three areas of healthcare under our coverage, i.e. (1) private hospitals (the return of elective surgeries), (2) pharmaceuticals and over-the-counter (OTC) drugs (rising health consciousness), and (3) immunotherapy (increasing adoption as a cancer treatment method). We like private healthcare providers given the inelastic demand and growing global healthcare expenditure, projected to reach USD10t by 2026. We expect both domestic and international patient throughputs, and medical tourism to continue to recover throughout 2023, driven by the return of elective surgeries over the immediate term, while the longer-term prospects of private healthcare are underpinned by rising affluence and an aging population. Our top picks are KPJ (OP; TP: RM1.50) and KOTRA (OP; TP: RM7.00).

1. Private Hospitals

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 chart on next page). Amplifying the demand for private healthcare are surging chronic diseases across the globe. Specifically, WHO reported that almost half of the global healthcare expenditures (USD4t) will be spent on three leading causes of death: (i) cardiovascular diseases, (ii) cancer, and (iii) respiratory diseases.

We project **IHH (OP; TP: RM7.00)**'s patient throughput growth and revenue intensity to drive 2023 earnings on sustained demand for elective surgeries.

For 2023, we expect IHH's revenue per inpatient growth of 10%-15% (vs. 18% in 2022 due to low base effect in 2021), inpatient throughput growth of 10%-15% (vs. 10% in 2022) and bed occupancy rate (BOR) of 60%-73% (vs. 56%-70%% in 2022) for its hospitals in Malaysia, Singapore, India and Turkey. We believe the key growth factor for its inpatient throughput and BOR will be the return of elective surgeries and medical travel, the addition of new beds (previously constrained by staff shortages) and the first full-year contribution from the Acibadem Ataşehir hospital.

We also like IHH for its pricing power as the inelastic demand for private healthcare service allows providers such as IHH to pass on the higher cost amidst rising inflation, and its presence in multiple markets, i.e. Malaysia, Singapore, Turkey and Greater China.

Similarly for **KPJ (OP; TP: RM1.50) w**e expect its patient throughput to grow 14% (vs. 12% in FY22) with BOR of 66% (vs. 58% in 2022) to be driven by recovery in demand for its services, particularly, non-Covid-related ones including elective surgeries.

We like KPJ for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 28 private hospitals (vs. 16 of the next largest player IHH). We expect the stock to be re-rated following: (i) the divestment of its loss-making Indonesian operations, and (ii) its newer hospitals turning EBTDA positive post gestation period.

2. Health Supplements and OTC Drugs

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

This augurs well for **KOTRA (OP; TP: RM7.00)** that manufactures and sells OTC supplements and nutritional and pharmaceutical products with key flagship household brands such as *Appeton, Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

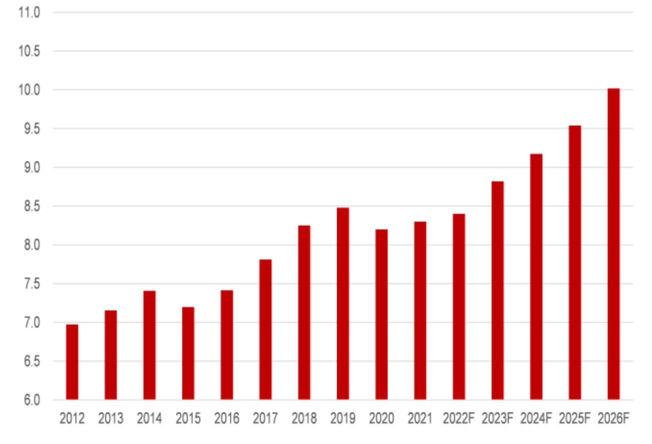
Meanwhile, backed by a new plant, widening distribution network and penetration into local public hospitals, we expect **NOVA (OP; TP: RM1.00)**'s FY23 volume to rise by 10%, fuelled by gradual ramp-up of its new plant and the full-year impact from 35 new SKUs introduced in FY22. We like also **NOVA** for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

3. Immunotherapy

According to Immunotherapy Drugs Market by Type, Therapy Area, End User - Global Forecast to 2025 by an India-based market research firm, the size of the global immunotherapy market is projected to grow to USD275b by 2025 from USD163b in 2020, translating to a CAGR of 11%, driven largely by the rising adoption of immunotherapy in the treatment of diseases especially cancer, as well as post conventional treatments. Meanwhile, according to Verified Market Research, within the segment of cancer immunotherapy alone, the global CAR T-cell therapy market is expected to grow at a CAGR of 63.8% to USD51b by 2028 from USD590m in 2020.

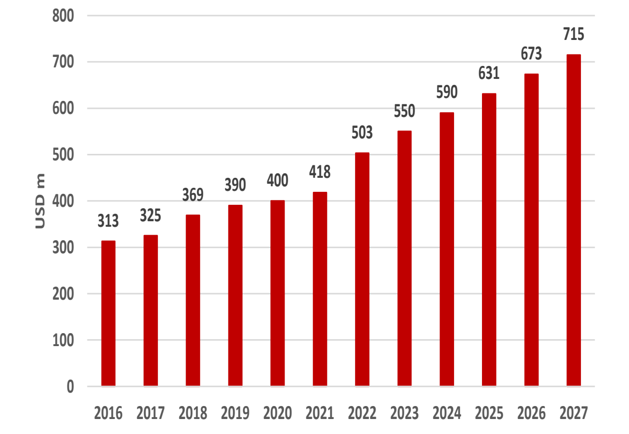
Earnings growth of **MGRC (OP; TP: RM0.95)** will gather momentum in 2H 2023, driven by maiden contributions from Thailand and the Middle East as it ramps up its distribution network and footprint overseas for its biopharmaceutical products. Already, the group had, in its 1QFY23 (Jul-Sep), registered maiden contributions from Thailand and the Middle East and expect orders to continue in coming quarters. We like **MGRC** for its exclusive rights to deliver such immunotherapy treatment in the region under a long-term licensing agreement with reputable principals. In addition, it is also the leading provider of genetic sequencing and analysis in Southeast Asia.

Global Healthcare Expenditure (USDt)



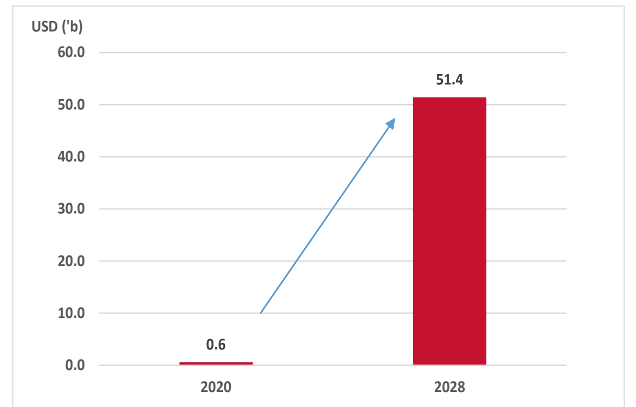
Source: Kenanga Research, WHO, various

OTC Pharmaceuticals market in Malaysia



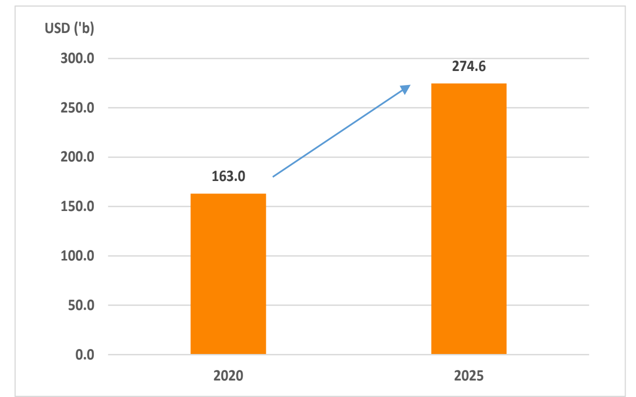
Source: Kenanga Research, Various

Global Market for CAR-T Cell Therapy



Source: Kenanga Research, Verified Research Market, Various

Global Market for Immunotherapy Drugs



Source: Kenanga Research, Various

Peer Table Comparison

Name	Rating	Last Price (RM) @ 23 mar 2023	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	5.82	7.00	20.3%	51,251	Y	12/2023	18.8	20.7	20%	10%	30.9	28.2	1.9	6.2%	7.0	1.2%
KOTRA INDUSTRIES BHD	OP	5.59	7.00	25.2%	827	Y	06/2023	42.8	46.7	2%	9%	13.1	12.0	2.7	23.0%	19.0	3.4%
KPJ HEALTHCARE BHD	OP	1.10	1.50	36.4%	4,801	Y	12/2023	4.7	5.3	22%	13%	23.4	20.7	2.1	9.2%	3.0	2.7%
MALAYSIAN GENOMICS RESOURCE CENTRE BHD	OP	0.580	0.950	63.8%	76	Y	06/2023	3.8	5.5	-28%	44%	15.1	10.5	1.5	11.8%	0.0	0.0%
NOVA WELLNESS GROUP BHD	OP	0.885	1.00	13.0%	282	Y	06/2023	5.7	6.7	2%	18%	15.6	13.2	2.5	16.9%	3.0	3.4%

Source: Company, Bloomberg, Kenanga Research

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Media

Could Have Seen Best Times of the Year

NEUTRAL

↔

By Jack Lai Yuan Khai l jacklai@kenanga.com.my

We reiterate our NEUTRAL view on the sector as we continue to see relatively muted adex growth of 2.8% for CY23 (vs. actual growth of 8.6% in 2022). We believe the sector could experience a soft patch in 2QCY23 as the early Chinese New Year and *Hari Raya season* could have resulted in advertising spend being front loaded into 1QCY23. Overall, we continue to expect digital adex to be the main driver for growth in CY23 while traditional media channels remain flattish. Our top pick for the sector is MEDIA (OP; TP: RM0.51) for its integrated approach to advertising via Omnia, and its cost rationalisation efforts.

A soft patch expected for 2QCY23. We continue to forecast a more conservative full-year adex growth of 2.8% in CY23 (vs. the actual growth of 8.6% in CY22) due to a combination of the lack of major events and global macroeconomic headwinds signalling a softer outlook for adex. 2QCY23 specifically could also see weaker adex as the early Chinese New Year and *Hari Raya* festivities could result in advertisers front loading their advertising spending into 1QCY23. Additionally, while consumer sentiment is improving, inflationary pressure and looming recessionary fears continue to cloud the global economic outlook, putting a dampener on overall sentiment in spite of the full reopening of the economy. Overall, the topline for media players is expected to be slightly softer across the board in 2QCY23 given the lack of catalysts to draw advertisers.

Traditional media - We continue to forecast flattish full-year adex growth across the traditional media channels, growing 1%-2% as the segment has already broadly recovered to pre-pandemic levels. 2QCY23 adex is also expected to come off QoQ given the majority of festive advertising campaigns occurring within 1QCY23 and 4QCY22 due to the early holidays this year.

Zooming in on individual traditional media channels, FTA TV and radio adex may come off slightly during 2QCY23 as advertisers prioritise 1QCY23 in their full-year budgets. However, both segments have been able to sustain their adex growth coming out of lockdown, as FTA TV maintained the elevated adex levels it saw during the pandemic and radio already broadly returning to pre-pandemic adex levels in CY22. We also believe that newspaper adex has stabilised after the drastic fall it saw during the lockdown. While longer-term growth prospects for the medium are limited, adex numbers have been hovering only slightly above pandemic levels even after the reopening, leading us to believe that it has bottomed out for now.

In terms of cost, we see pressures easing across the board for the sector. The cost of raw materials is expected to come off in CY23 with the recovery of the global supply chain which should benefit the newspaper printing segment. However, this may only come during 2HCY23 given the limited recovery so far and current geopolitical situation. **ASTRO's (MP; TP: RM0.73)** content costs are also expected to come off significantly with the lack of major sporting events (e.g. Olympics, World Cup). On the other hand, the economy reopening has been detrimental to the home-shopping segment which enjoyed a brief boom during the lockdowns. Both **ASTRO** and **MEDIA** reported significant declines in home-shopping revenue of 55% and 58%, respectively, and even falling into losses. They have both acknowledged that the segment is struggling with the return of the brick-and-mortar shopping experience and are attempting to transition to a more desirable business model. However, the process seems long and winding given that the medium itself is somewhat antiquated, facing significant competition from both traditional stores as well as much larger digital platforms. Furthermore, touching on **ASTRO** specifically, we may see the lagged impact of the MYR weakness during 2HCY22 on the group's content costs in CY23. While net costs are still expected to come down, the group may see elevated costs during 2HCY23 given that the group secures its content a year ahead. Overall, players are still facing some headwinds and we remain cautious on the sector outlook, especially amid the inflationary pressure and recessionary fears dampening consumer sentiment.

Digital media - We also continue to maintain our more conservative CY23F growth rate of 10% for digital media (vs. actual growth of 25.5% in CY22). With the exception of an unexpected dip in digital adex during 4QCY22, the platform has continued to grow resiliently since Nielsen first began recording its adex. However, given the persistent macroeconomic headwinds and limited catalysts for the sector as a whole, we expect growth to normalise in CY23, especially after the significantly stronger base in CY22. We also believe that the drop in digital adex during 4QCY22 was a blip that stemmed from MYR/USD exchange rate weakness and the returning demand for in-person advertising channels. Thus, we continue to expect the medium to grow as advertisers gravitate towards the platform enabling it to capture a growing portion of overall adex.

NEUTRAL view maintained for the sector. 2QCY23 looks poised to be a softer period in what is already expected to be a minor downcycle for the sector. Nevertheless, for sector pick, we continue to like **MEDIA** for its: (i) integrated approach to advertising which we believe offers better demographic targeting and scalability, (ii) strong cost optimisation following the consolidation of its advertising divisions into Omnia, and (iii) leading position in the FTA TV space in which it commands the largest market share. However, we remain wary of its struggling loss-making segments.

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.

Fig. 1: Quarterly Gross Adex by Medium

Media Type	4Q22 (RM'm)	4Q21 (RM'm)	YoY Chg	3Q22 (RM'm)	QoQ Chg
Free-to-air television	970.7	978.9	-0.8%	854.4	13.6%
Newspapers	279.2	280.7	-0.5%	277.4	0.6%
Magazines	7.6	8.3	-8.0%	5.9	28.4%
Radio	132.2	120.8	9.4%	100.7	31.2%
Cinema	48.0	23.6	103.6%	24.7	94.5%
In-Store Media	6.9	16.9	-59.0%	4.9	42.1%
Digital*	306.5	332.1	-7.7%	344.6	-11.1%
Total	**1,751.2**	**1,761.2**	**-0.6%**	**1,612.7**	**8.6%**
Total (ex-Digital)	**1,444.7**	**1,429.2**	**1.1%**	**1,268.1**	**13.9%**

Fig. 2: YTD Adex Change

Media Type (YTD)	12M22 (RM'm)	12M21 (RM'm)	YoY Chg
Free-to-air television	3,490.1	3,503.2	-0.4%
Newspapers	1,053.0	919.2	14.6%
Magazines	26.5	25.4	4.5%
Radio	440.7	358.4	23.0%
Cinema	131.9	29.2	351.8%
In-Store Media	24.5	69.0	-64.5%
Digital*	1,287.6	1,026.4	25.5%
Total	**6,454.4**	**5,930.8**	**8.8%**
Total (ex-Digital)	**5,166.7**	**4,904.4**	**5.3%**

Notes:
** Digital media does not account for adex from mobile in-app spend, social media, and search engines*
Source: Nielsen, Kenanga Research

Fig. 3: Quarterly Newspaper Gross Adex by Language

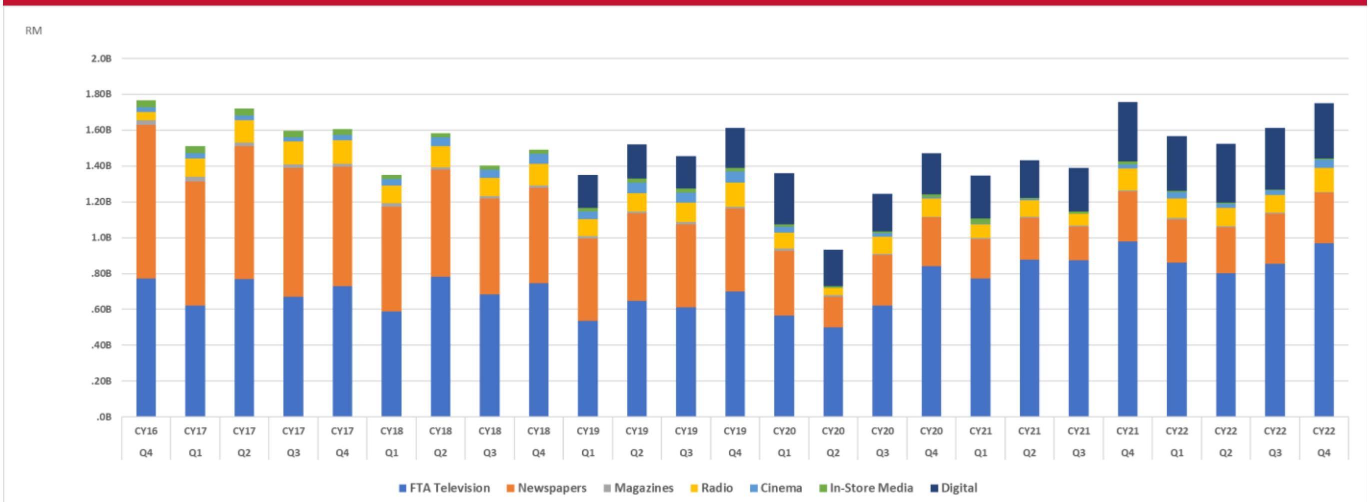
Language (Newspapers) (YoY)	4Q22 (RM'm)	4Q21 (RM'm)	YoY Chg	3Q22 (RM'm)	QoQ Chg
West Msia					
BM	52.7	75.6	-30.3%	55.7	-5.3%
Chinese	54.0	77.9	-30.7%	55.5	-2.7%
English	93.4	111.4	-16.2%	90.7	2.9%
Others	79.2	15.7	402.7%	75.6	4.8%
Total	**279.2**	**280.7**	**-0.5%**	**277.4**	**0.6%**

Fig. 4: YTD Newspaper Gross Adex by Language

Language (Newspapers) (YTD)	12M22 (RM'm)	12M21 (RM'm)	YoY Chg
West Msia			
BM	217.1	216.5	0.3%
Chinese	267.9	237.3	12.9%
English	348.1	350.6	-0.7%
Others	219.8	114.8	91.5%
Total	**1,053.0**	**919.2**	**14.6%**

Notes:
** Others includes East Malaysian and Tamil language papers*
Source: Nielsen, Kenanga Research

Fig. 5: Quarterly Gross Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price (RM) @ 23 Mac 2023	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	0.705	0.730	3.55%	3,676.2	N	01/2024	8.3	7.5	28.9%	-10.6%	8.5	9.5	2.6	34.9%	6.3	8.9%
MEDIA CHINESE INTERNATIONAL	MP	0.160	0.160	0.00%	270.0	Y	03/2023	0.6	0.6	2325.0%	-2.1%	27.8	28.4	0.4	1.4%	0.6	3.8%
MEDIA PRIMA BHD	OP	0.410	0.570	39.02%	454.8	N	06/2023	7.1	5.7	41.7%	-19.6%	5.8	7.2	0.7	12.0%	2.0	4.9%
STAR MEDIA GROUP BHD	OP	0.325	0.335	3.08%	235.5	Y	12/2023	1.1	1.3	12.5%	18.5%	29.1	24.5	0.4	1.2%	0.0	0.0%
Sector Aggregate					**4,636.5**					**32.6%**	**-11.3%**	**8.7**	**9.8**	**1.4**	**15.5%**		**4.4%**

Source: Bloomberg, Kenanga Research

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Malaysia REITs

Bright Spot in Strategically Located Malls

NEUTRAL

↔

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

We reiterate our NEUTRAL call on MREITs amid the still challenging industry fundamentals. Generally, the sector remains clouded by persistent oversupply (particularly in the office sub-sector) but there are bright spots selectively in the resilient industrial segment and strategically located retail space. Moreover, MREITs may face valuation headwinds due to elevated interest rates and a heightened inflationary backdrop, which may limit their share price performance. From a valuation perspective, our sector pick is PAVREIT (OP; TP: RM1.43) while SENTRAL (UP; TP: RM0.79) remains an UNDERPERFORM.

When the going is still tough. The challenging outlook for the Malaysia REITs (MREITs) sector still persists. According to the recently released 2022 Property Market Report by the National Property Information Centre (NAPIC), the supply-demand imbalance continues to weigh especially on the office and retail segments. Extracting the data (as of end-December 2022) for the whole of Malaysia, the latest yearly report unveiled an occupancy rate of: (i) 78.5% for the purpose-built office space (based on an occupied space of 19.1m sq m against total office space of 24.3m sq m), down slightly from 78.9% end-2021, and (ii) 75.4% for retail space in shopping complexes (derived from occupied space of 13.2m sq m on total retail space of 17.5m sq m), sliding further from 76.3% end-2021. See Exhibit 1 overleaf.

More supply in the pipeline. Going forward, we believe the occupancy rates for both the purpose-built office space and retail segment will remain under pressure. Against the already overhang backdrop, more supply is expected to come onstream as the NAPIC report has forecasted: (i) for the purpose-built office space, an incremental 1.53m sq m is under physical construction and another 0.99m sq m attributable to planned supply (where building plan approvals have been obtained), accounting for a combined 10.4% of existing supply, and (ii) for retail space in shopping complexes, 1.38m sq m (from construction in progress) and 0.35m sq m (from planned supply) may be added (representing an extra 9.9% of existing supply).

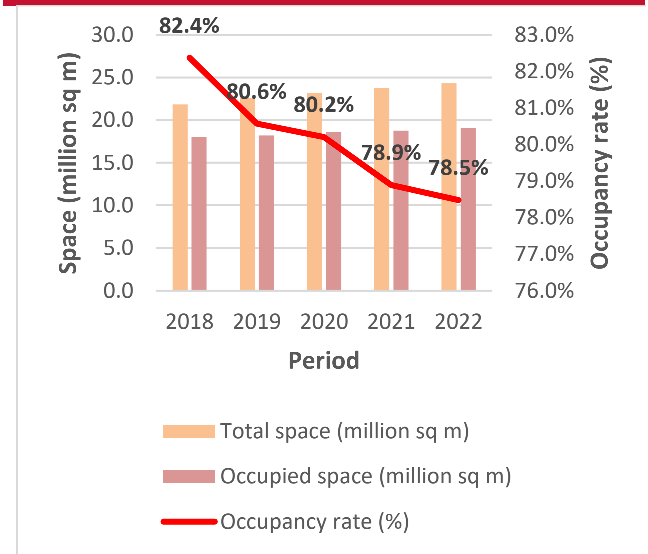
On the demand side, following the full resumption of economic activities post the pandemic, the take-up rate for office and retail spaces will likely be muted amid the prevailing jittery economic prospects and elevated inflation worries.

MGS yield headwinds ahead. 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 – has climbed from a recent low of 3.74% in late January this year to as high as 4.06% in early March before slipping to 3.90% currently (Exhibit 2). This follows its previous slide from a high of 4.55% in October last year due to initial expectations that global interest rates might have peaked already. Yet, amid the volatile movements, we reckon interest rates could remain elevated in view of the sticky high inflationary environment, prompting us to maintain our 10-year MGS yield assumption at 4.5% for our computation of individual target yields (Exhibit 3).

NEUTRAL sector view. Amid the still challenging industry dynamics, our NEUTRAL sector view stays. We still like MREITs with the following attributes: (i) niche in the right business segments particularly in industrial and retail, and/or (ii) own property assets in prime and strategic locations, which will continue to provide resilient rental income streams**.** On valuation grounds, **PAVREIT (OUTPERFORM; TP: RM1.43)** remains our sector pick, offering potential total return of 13.1%. We remain cautious on **SENTRAL (UNDERPERFORM; TP: RM0.79)**.

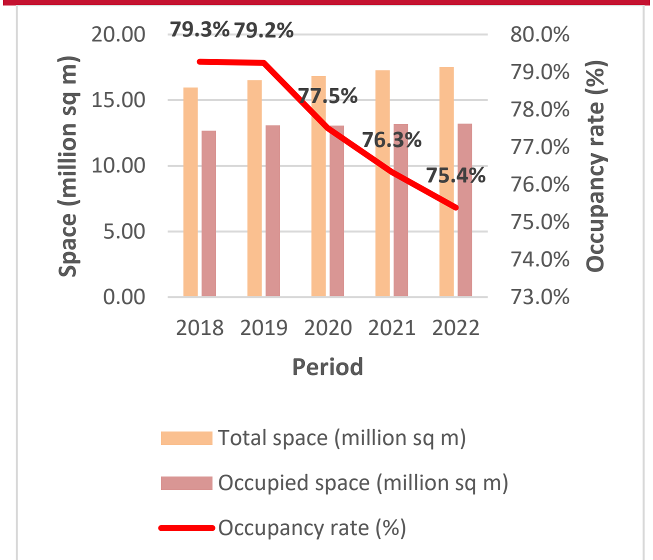
Risks to our call include: (i) risk-free rate eases/strengthens, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

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



Source: NAPIC, Kenanga Research

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



Source: NAPIC, Kenanga Research

Exhibit 2: 10-Year MGS Yield Movement

Source: Bloomberg, Kenanga Research

Exhibit 3: Target Yield At A Glance

REIT	Stock Call	Target Price (RM)	Target Yield^ (%)
AXREIT	MP	1.89	5.5
CLMT	MP	0.51	7.5
IGBREIT	MP	1.65	6.0
KLCC	MP	6.60	5.5
PAVREIT	OP	1.43	6.0
SENTRAL	UP	0.79	8.0

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

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.
AXIS REIT	MP	1.86	1.89	1.61%	3,238.4	Y	12/2023	10.5	10.9	9.4%	3.8%	17.7	17.1	1.2	6.8%	10.4	5.6%
CAPITALAND MALAYSIA MALL TRUST	MP	0.515	0.510	-0.97%	1,376.0	N	12/2023	3.8	4.2	-7.3%	10.5%	13.5	12.1	0.5	3.7%	3.8	7.4%
IGB REIT	MP	1.74	1.65	-5.17%	6,247.4	N	12/2023	9.5	9.8	1.1%	3.2%	18.3	17.8	1.5	8.8%	9.9	5.7%
KLCCP STAPLED GROUP	MP	6.85	6.60	-3.65%	12,366.5	Y	12/2023	40.2	41.6	5.0%	3.5%	17.0	16.5	0.9	5.2%	36.3	5.3%
SENTRAL REIT	UP	0.860	0.790	-8.14%	921.7	N	12/2023	6.7	6.6	-2.9%	-1.5%	12.9	13.0	0.7	5.4%	6.3	7.3%
PAVILION REIT	OP	1.34	1.43	6.72%	4,098.7	N	12/2023	8.3	8.8	1.2%	6.0%	16.2	15.3	1.0	6.5%	8.6	6.4%
Sector Aggregate					**33,728.5**					**7.3%**	**3.1%**	**16.9**	**16.4**	**1.0**	**6.0%**		**6.0%**

Source: Kenanga Research

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Oil & Gas

Activities to Sustain Despite Softer Oil Prices

NEUTRAL

↔

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

We maintain our NEUTRAL call for the sector, as well as our average Brent crude oil price assumption of USD80/bbl in CY23 (vs. USD99/bbl in CY22). Oil prices are likely to be capped over the immediate term amidst a supply overhang (as selective Asian markets are well fed with Russian crude exports re-routed from its traditional European market). Nonetheless, the weaker YoY oil prices should not deter industry spending. Petronas is looking at a capex of RM300b for the next five years (averaging to ~RM60b per year) – representing a 43% increase from the previous five-year period, while global offshore E&P capex continues to remain on the rise. We see opportunities in selective contractor names, i.e. ARMADA (OP; TP: RM0.75) and WASEONG (OP; TP: RM0.97). Meanwhile, DIALOG (OP; TP: RM3.10) and YINSON (OP; TP: RM3.65) are our preferred picks within the big-cap space.

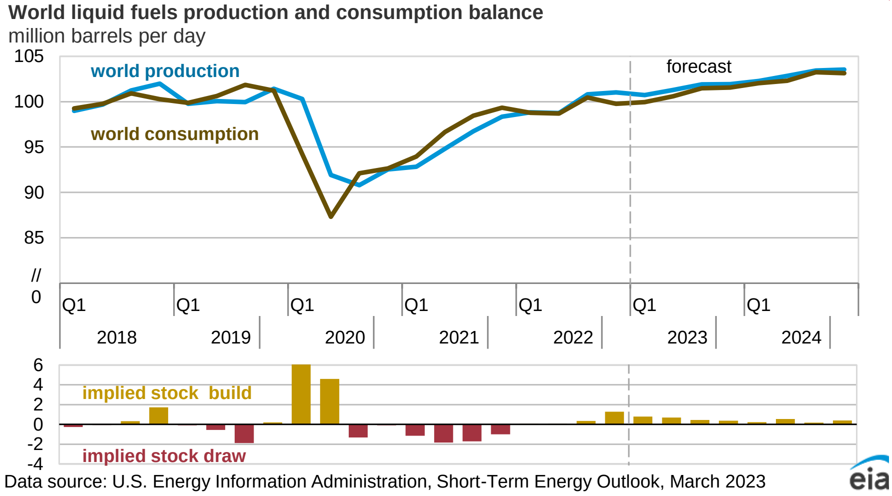
Oil prices to be capped amidst a supply overhang. Oil prices are likely to be capped over the immediate term amidst a supply overhang as Russian oil has gradually found its way back to the system. India, and to a lesser extent, China are now well fed with Russian crude exports at discounted prices, re-routed from its traditional European market.

Recall, oil prices surged in CY22 following the Russian-Ukrainian conflict, leading to swift sanctions on Russian oil exports. This coupled with the steep recovery in oil demand especially in the EU and North America as the world transitioned into a post-pandemic era, as well as OPEC's inability to ramp up productions in a short period of time, led to a global shortage that drove oil prices up.

As at Feb 2023, Russia's oil production was at near pre-war levels, with India and China accounting for >70% of the country's crude exports. Note that Russia is the third largest oil producer in the world, only behind the US and Saudi Arabia, contributing to ~10% of global productions. Hence, a resurgence of Russian oil back into the circulation of global markets will have a significant impact to the global supply-demand balance.

On the demand-side, China's reopening will remain the biggest driver for demand growth throughout CY23, especially in the 2H (while the demand growth for the rest of the world plateaus as the economies having recovered fully from the pandemic). Given the increased production from the US and OPEC, the oil market is well prepared to cope when global oil demand finally returns to the pre-pandemic level of >100m barrels per day. W**e** maintain our current Brent crude oil price assumption of USD80/bbl in CY23 (vs. an average of USD99/barrel in CY22).

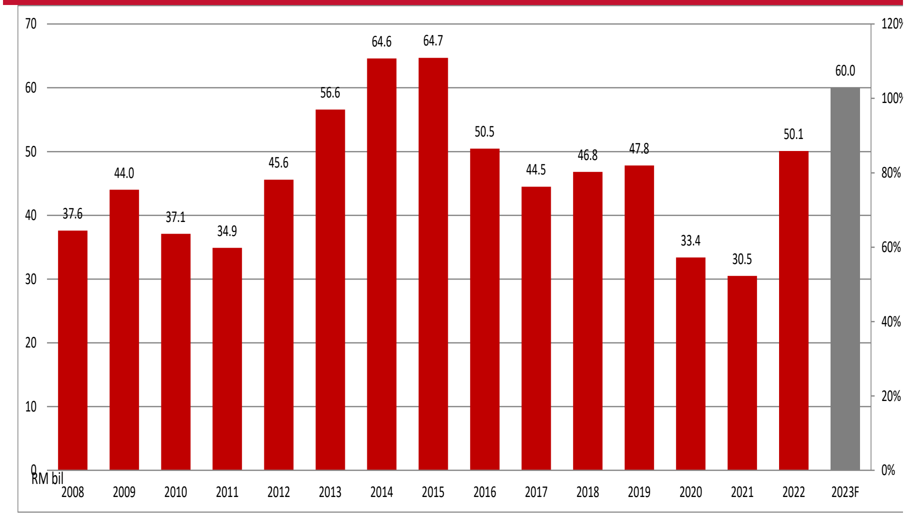
World Oil Production vs Consumption



Source: EIA

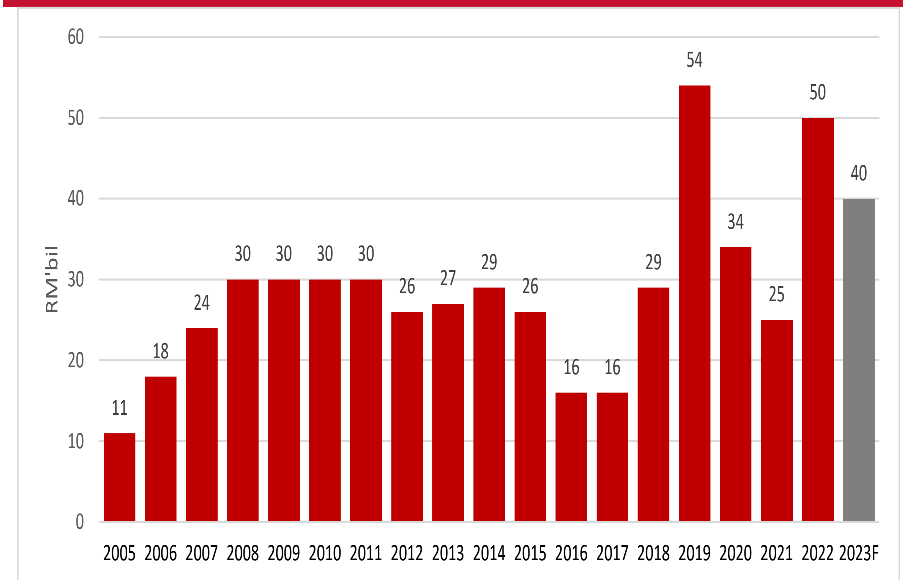
Increased Petronas capex to sustain activity levels. Going forward, Petronas is guiding a capex spending of RM300b for the next five years of FY23 – FY27 (thus averaging to ~RM60b per year) – representing a 43% increase from the previous five-year period of RM208.5b, with over 80% of it allocated for its core business in hydrocarbons. This is expected to continue sustaining local activity levels. Prime beneficiaries of higher Petronas capex, and in sustained local activity levels, include the likes of **DAYANG** (from higher demand for offshore maintenance, and hook-up and commissioning works), **UZMA (OP, TP: RM0.90)** (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). Meanwhile, globally, CY23 is expected to see a further ramp-up in offshore exploration and production (E&P) capex, especially from CY20-CY22 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 (MP; TP: RM7.50)**, 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. Additionally, pipe-coating player **WASEONG** will also be another prime beneficiary of the global oil and gas capex cycle – given its unique market position operating effectively in a duopoly against Canadian-listed Shawcor Ltd.

Petronas Yearly Capex (RM bil)



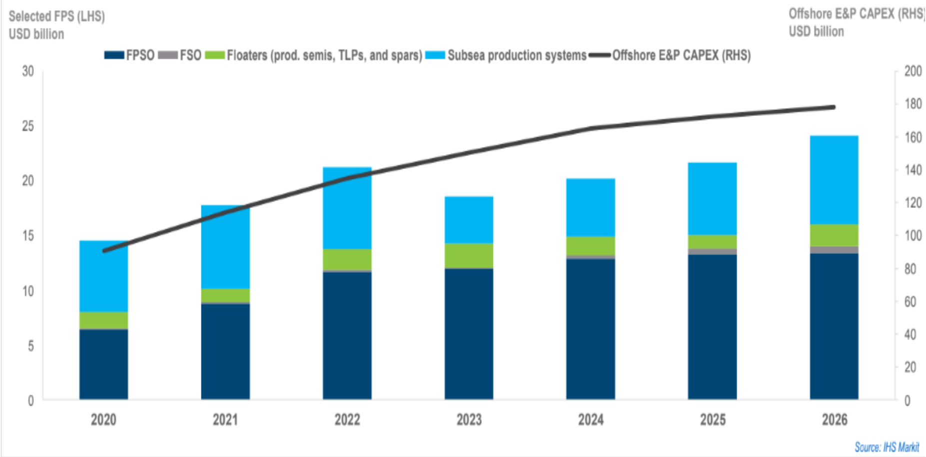
Source: Petronas, Kenanga Research

Petronas Yearly Dividends (RM bil)



Source: Petronas, Kenanga Research

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



Source: IHS Markit, MISC

Maintain NEUTRAL on the sector, given (i) limited catalyst on Petronas-linked big-cap names, coupled with (ii) weak downstream product spreads. We see opportunities in selective contractor such as **ARMADA** and **WASEONG**. Meanwhile, **DIALOG** and **YINSON** are our preferred picks within the big-cap space.

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Peer Table Comparison

Name	Rating	Last Price @ 23/3/23 (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	0.610	0.750	22.95%	3,610.0	N	12/2023	13.1	13.6	1.0%	3.5%	4.6	4.5	0.6	13.9%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.33	1.90	42.86%	1,539.8	Y	12/2023	11.2	12.6	12.0%	11.8%	11.8	10.6	1.0	8.6%	3.0	2.3%
DIALOG GROUP BHD	OP	2.31	3.10	34.20%	13,034.4	Y	06/2023	9.5	9.9	5.1%	4.8%	24.4	23.3	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.16	7.50	4.75%	31,960.4	Y	12/2023	47.0	48.9	-11.6%	4.1%	15.2	14.6	0.8	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	MP	6.80	7.80	14.71%	54,400.0	Y	12/2023	65.3	52.2	-18.9%	-20.0%	10.4	13.0	1.3	12.9%	33.0	4.9%
PETRONAS DAGANGAN BHD	MP	20.96	24.00	14.50%	20,822.8	Y	12/2023	83.2	87.6	11.0%	5.2%	25.2	23.9	3.6	14.4%	83.3	4.0%
PETRON MALAYSIA REFINING	MP	4.45	4.35	-2.25%	1,201.5	Y	12/2023	81.9	91.9	-26.6%	12.2%	5.4	4.8	0.5	9.6%	16.0	3.6%
UZMA BHD	OP	0.625	0.900	44.00%	220.0	Y	06/2023	7.7	9.9	85.0%	28.5%	8.1	6.3	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.195	0.190	-2.56%	1,602.0	Y	12/2023	0.7	1.3	-36.1%	73.3%	26.3	15.2	0.7	2.6%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.775	0.970	25.16%	600.1	Y	12/2023	10.7	12.8	6.1%	19.1%	7.2	6.1	0.9	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.42	3.65	50.83%	7,033.7	N	01/2024	20.8	25.2	-18.4%	21.2%	11.6	9.6	1.5	13.7%	2.0	0.8%
Sector Aggregate					**136,024.8**					**-11.7%**	**-5.9%**	**12.9**	**13.7**	**1.2**	**10.0%**		**1.9%**

Source: Kenanga Research

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Plantation

Supply Recovery to Stay Fragile in CY24

NEUTRAL

↔

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

Fragile supply recovery for CY23 may now extend into CY24 on a subdued inventory outlook following smaller-than-expected soyabean surplus in South America. Fortunately, palm oil supply should recover in CY23 with CPO prices likely to stay relatively firm over CY23 and into CY24 unless palm, soy or rapeseed harvests prove exceptionally good later in CY23. We are keeping our CY23F CPO price of RM3,800 per MT intact but revising up CY24F CPO price from RM3,500 to RM3,800 per MT. Positive factors for the sector include: (i) palm oil being an essential food and fuel for markets in emerging economies such as China, India and Indonesia, (ii) players' asset-rich NTA, and (iii) share valuation at 1.1x PBV with a lot of the bad news already priced in. It is also Shariah compliance (9.6% of FBM Shariah Index, 9.4% of FBMKLCI) but we are keeping our NEUTRAL weight intact in the absence of a strong upside catalyst. Our CPO price upgrade for CY24 is a positive but not enough to justify an upgrade. Our sector pick is KLK (OP; TP: RM27.00) and PPB (OP, RM19.30).

Recovery of edible oil supply in CY23 is underway but less robust than expected. Record outlook for a Brazilian soyabean harvest is likely but so is for a very poor Argentinean harvest. While Brazil is the top producer, Argentina is actually more important for international trade, often ranking as the 3rd or 4th largest edible oil exporter in the world after Indonesia, Malaysia and sometimes Russia. Fortunately for the edible oil supply market, palm oil supply should also improve. However, even as supply recovers, demand is also expected to recover, potentially at a faster pace:

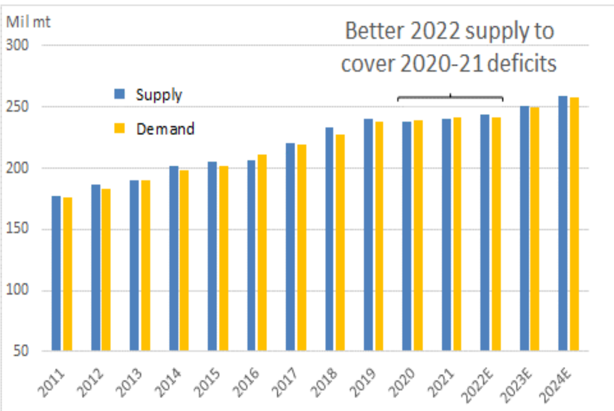
1. **Asia Pacific's demand for food and fuel**. Asia Pacific is the world's biggest market for edible oil. Notable users such as China - the world's no. 1 market - is already consuming almost as much as the EU and US combined while India should surpass the US soon with Indonesia close behind. Demand from the region is also expected get higher on demographic growth and rising affluence. Among the most widely used edible oil in the region is palm oil.

2. **Abundant, affordable and flexible.** Before it overtook soyabean oil to become the leading edible oil by volume around the turn of this century, palm oil used to enjoy premium prices. Commanding around 35% of market share currently and half of all edible oil traded internationally, palm oil is often more affordable than many other alternatives.

3. **Biofuel demand.** Much like the EU, Indonesia's biofuel policy aims to improve energy security and preserve the environment but also to support the rural economy. Today, US and Indonesia are near equal as the 2nd and 3rd biggest biofuel users after EU. Biofuels such as bioethanol is derived from sugar/starch-rich crops (sugarcane or corn) while biodiesel is from edible oils. The main palm-based biodiesel market is Indonesia which just raised its B30 blend to B35 in Feb this year. Brazil also recently raised its soy-based biodiesel B10 blend to B12 last week with B15 as the target by 2026.

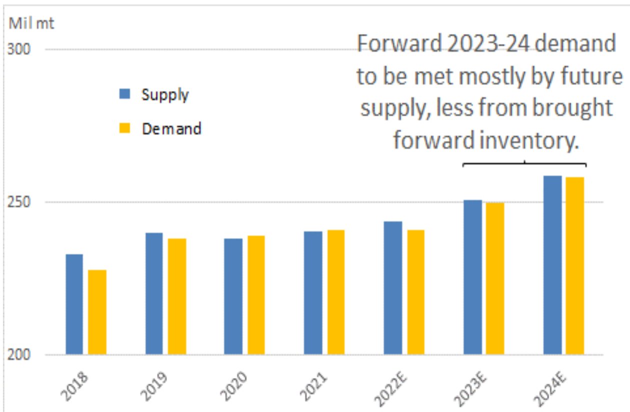
With robust demand recovery, we maintain a fragile CY23 supply-demand outlook with firm CPO prices likely. Our present concern is that the tight balance may extend into CY24 on likely smaller-than-expected South American soyabean surplus. Higher palm oil production of 3-5% YoY in CY23 should ease oil supply, even if on a limited scale.

Long Term Edible Oil Demand – Resilient



Source: Oil World, FAO, Kenanga Research

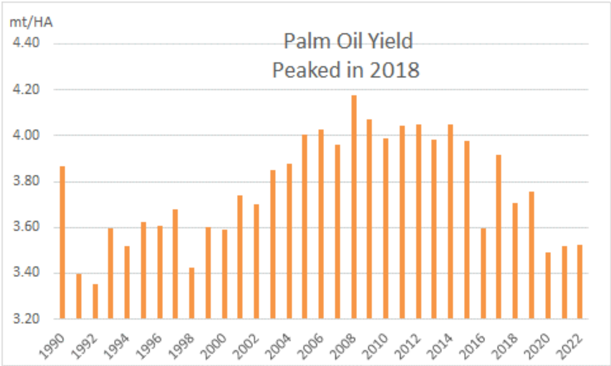
Covid Has Dampened Demand Growth



Source: Oil World, FAO, Kenanga Research

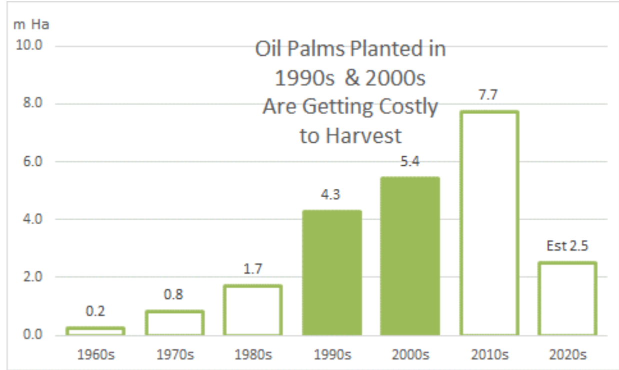
Nevertheless, easing labour shortfall in Malaysia should help nudge FFB up by 1-2m MT YoY. Longer term, the growth for palm oil looks less rosy. Expansion in the form of new oil palm planting is slowing due to tighter regulations. Indonesia, which has 15m Ha area of oil palm trees has only 3-4m Ha left for the crop while Malaysian oil palm area has been contracting even before reaching a voluntary cap of 6.5m Ha. This implies fewer young and prime palms over the coming years while palms planted in the 1990s and 2000s are growing older and taller, slowing down harvest, lowering FFB yield and pushing up costs. Replanting will eventually be necessary leading to a production pause for 3-5 years.

CPO Yield Still Trending Down



Source: Oilworld, Kenanga Research

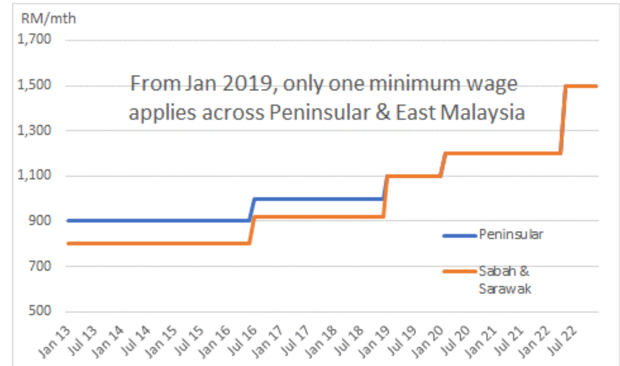
Sizeable Replanting Ahead



Source: Kenanga Research

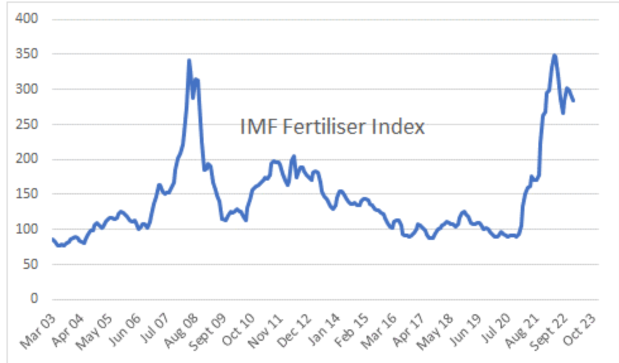
Cost is easing but still elevated and sticky. Fertiliser cost has eased by around 20% from the peak in 2QCY22 but wage increase will need time to be absorbed, mainly by improving productivity through better planting material, mechanisation and/or field operations. Meanwhile for CY23, cost inflation will be negated in part by recovering FFB yields among some Malaysian planters as the workers shortage eases. Overall, CPO production cost is estimated to have risen from RM2,000 (or less) in CY21 to RM2,000-2,500 per MT for CY23.

Minimum Wage Hikes in Malaysia



Source: Kenanga Research

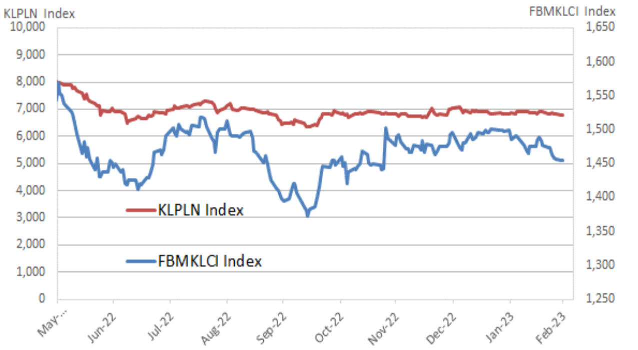
Elevated Fertiliser Prices Despite Easing



Source: IMF, Kenanga Research

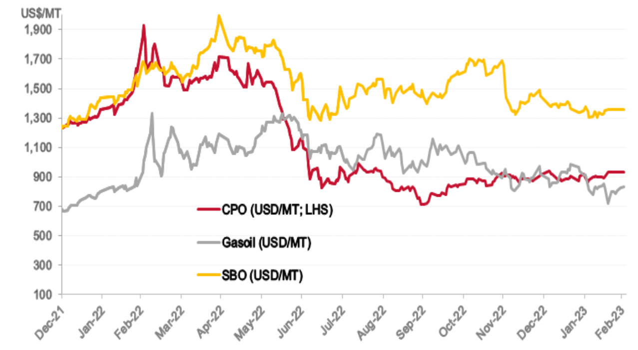
Defensive demand, balance sheet and ratings. The plantation sector is currently already trading close to book value which is often understated as many players hold estates which are worth more than their reported value. Gearing is not excessive either with some holding net cash. Although costs have risen resulting in tighter margins, they are still decent overall and palm oil is also an essential consumable (as food and fuel), popular with emerging economies. The sector is also Shariah compliant (9.6% of FBM Shariah Index, 9.4% of FBMKLCI). However, there is no strong upside catalyst even though the sector is highly defensive and ratings are far from demanding. Sector consolidation is a possible upside but best evaluated on a case-by-case basis. **Maintain NEUTRAL with KLK (OP, TP RM27.00) as our sector pick** given its track record, efficient upstream operations and strong regional presence. Thanks to non-oil palm agribusiness, consumer and FMCG contributions, **PPB (OP, RM19.30)** should see earnings bottoming out earlier than peers. **TSH (OP; TP: RM1.35)** is set to expand its planted area from 40k Ha to 60k-65k Ha after paring net debt from RM816m in FY21 to RM179m for FY22 (9% net gearing). **HSPLANT (OP; TP: RM2.30)** offers pure upstream exposure with strong net cash holdings and decent dividend yields prospects.

KLCI vs KL Plantation Index



Source: Bloomberg, Kenanga Research

Palm Oil vs Soyabean Oil vs Gasoil Prices (US$/MT)



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 23 Mac (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
PLANTATION																	
FGV HOLDINGS BHD	MP	1.62	1.40	-13.58%	5,910.0	Y	12/2023	23.8	23.9	-38.6%	0.3%	6.8	6.8	0.9	13.3%	8.0	4.9%
GENTING PLANTATIONS BHD	MP	5.87	5.50	-6.30%	5,266.6	Y	12/2023	40.9	41.8	-21.9%	2.1%	14.3	14.0	0.9	7.0%	20.0	3.4%
HAP SENG PLANTATIONS HOLDINGS	OP	1.79	2.30	28.49%	1,431.4	Y	12/2023	19.2	20.1	-25.0%	4.8%	9.3	8.9	0.7	7.8%	12.0	6.7%
IOI CORP BHD	MP	3.88	4.20	8.25%	24,083.8	Y	06/2023	26.8	21.2	-7.6%	-20.8%	14.5	18.3	2.2	15.7%	14.0	3.6%
KUALA LUMPUR KEPONG BHD	OP	20.80	27.00	29.81%	22,431.5	Y	09/2023	171.6	168.4	-10.5%	-1.9%	12.1	12.4	1.5	13.1%	50.0	2.4%
PPB GROUP BHD	OP	16.56	19.30	16.55%	23,558.3	Y	12/2023	122.8	136.4	-19.5%	11.1%	13.5	12.1	0.9	6.6%	45.0	2.7%
SIME DARBY PLANTATION BHD	UP	4.23	3.65	-13.71%	29,253.5	Y	12/2023	24.3	23.8	-17.8%	-2.1%	17.4	17.8	1.7	10.0%	16.0	3.8%
TA ANN HOLDINGS BHD	MP	3.18	3.90	22.64%	1,400.7	Y	12/2023	41.7	42.5	-45.9%	2.0%	7.6	7.5	0.8	10.4%	25.0	7.9%
TSH RESOURCES BHD	OP	1.00	1.35	35.00%	1,380.2	Y	12/2023	12.4	12.1	-39.5%	-2.1%	8.1	8.3	0.6	14.6%	3.0	3.0%
UNITED MALACCA BHD	MP	5.40	5.00	-7.41%	1,132.8	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.9	15.2	0.8	5.3%	15.0	2.8%
Sector Aggregate					**115,848.6**					**-19.6%**	**-2.4%**	**13.2**	**13.5**	**1.1**	**10.4%**		**4.1%**

Source: Bloomberg, Kenanga Research

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Plastic Packaging

Not Spared the Global Slowdown

NEUTRAL

↔

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

We reiterate our NEUTRAL call as the export-dependent sector will not be spared the global economic slowdown over the immediate term. More competition from European manufacturers are also anticipated given the sharp fall in gas prices there. However, weaker sales volumes could be partially mitigated by the easing of certain cost pressures and on-going positioning by players towards higher-margin products. We remain positive on the sector's longer-term prospects as players have fairly aggressive expansion plans to take advantage of the eroding competitiveness of their overseas rivals. Our sector top pick is TGUAN (OP, TP: RM3.28).

We maintain **NEUTRAL** on the export-dependent sector that will not be spared the global economic slowdown over the immediate term. We also see European manufacturers gradually making a comeback in a more significant way on the heels of the sharp drop in their gas prices, giving Malaysian manufacturers a run for their money.

Europe's benchmark Dutch Title Transfer Facility (TTF) gas futures price has come off by >80% from the recent peak of above EUR300/MWh to below EUR40/MWh thanks to a mild winter in Europe (see Exhibit 1). Nonetheless, Malaysian producers may be able to draw some comfort from consensus that is still pointing to Dutch TTF gas futures price to average at EUR50-60/MWh in CY23.

On the other hand, Malaysian producers have to contend with rising energy cost following a hike in electricity tariff in Jan 2023. We believe this is manageable as typically electricity only makes up 4%-6% of total production cost of plastic packaging players. Also helping, is the Green Electricity Tariff (GET) programme of **TENAGA (MP; TP: RM9.64)** that offers an exemption to Imbalance Cost Pass-Through (ICPT) surcharge of 20.0 sen/kWh via a subscription charge of 3.7 sen/kWh (resulting in an effective savings of 16.3 sen/kWh). However, this offer to buy renewable energy is capped at 30% of total electricity consumption, subject to the availability of quota and only valid for six months ending 31 Jun 2023 for now. We understand that **TGUAN, BPPLAS (MP; TP: RM1.23)** and **SCIENTX (UP; TP: RM2.99)** have signed up for the programme.

Exhibit 1: Dutch TTF Gas Futures Price

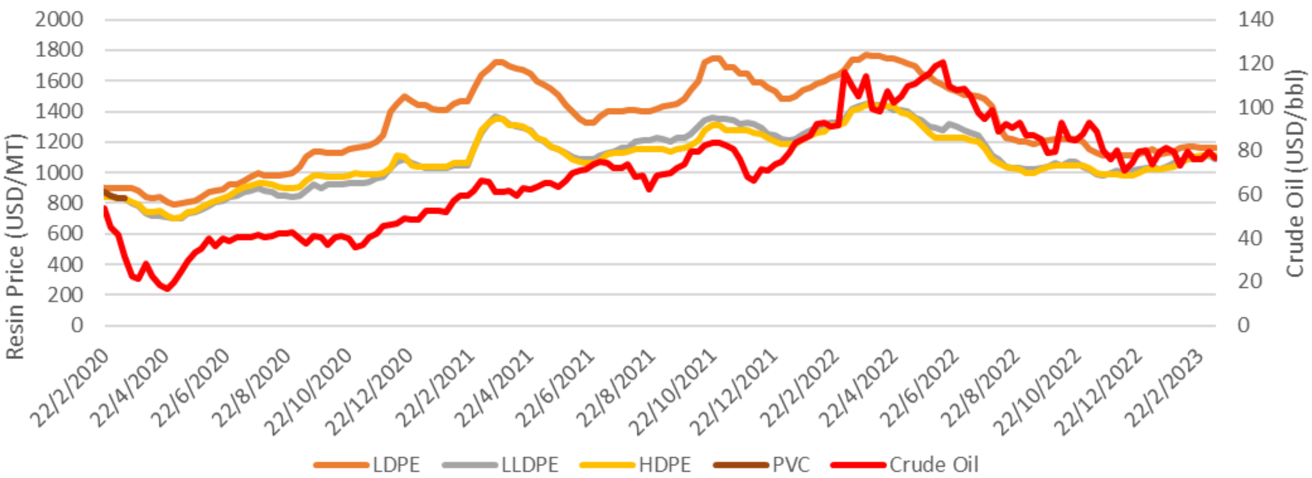
Source: Bloomberg, Kenanga Research

Meanwhile, weaker sales volumes due to the global economic slowdown as well as the return of European manufacturers could be partially mitigated by the on-going positioning by players towards higher-margin products such as premium stretch films and premium blown film packaging. Also helping, are softening cost of input resin (see Exhibit 2) as well as the easing in labour shortage that should boost productivity and efficiency.

Meanwhile, over the longer-term, market researcher Mordor Intelligence projects the global plastic packaging market to grow at a CAGR of 3.5% in 2022-2027. We believe local players could grow at a faster pace during the period as they gain market shares from overseas manufacturers that are losing competitiveness due to the rising production cost. Plastic packaging players under our coverage have put in place fairly aggressive expansion plans to take advantage of the situation (see Exhibit 3).

Our sector top pick is **TGUAN.** We like the company for: (i) its earnings stability underpinned by a more diversified product portfolio, (i) its earnings growth prospects underpinned by expansion in production capacity for premium products such as nano stretch films and courier bags, and a deeper penetration into the Europe and US markets, and (iii) its product innovation via R&D and collaboration with the likes of ExxonMobil to create more environmentally-friendly products.

Exhibit 2: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Exhibit 3: Expansion Plans of Key Players

Company	Completed in CY22	Completion beyond CY22
SCIENTX **(UP; TP: RM2.99)**	• Robotic stretch film plant in Shah Alam • Blown film plant in Chemor • Cast polypropylene (CPP) machine • Metalizer machine	• None
TGUAN **(OP; TP: RM3.28)**	• 3 blown films machines commissioned in Dec 2022	• Its 9th and 10th nanosctretch film machine will be commissioned in 1HFY23 • 4th and 5th blown film machines will be commissioned in end of FY23
BPPLAS **(MP; TP: RM1.23)**	• 10th cast stretch film line commissioned in Dec 2022	• 2 co-extrusion blown film machines will commissioned in end of FY23

Source: Companies, Kenanga Research

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.
Plastic Pacakging																	
BP PLASTICS HOLDINGS BHD	MP	1.19	1.23	3.36%	335.0	Y	12/2023	13.6	15.1	23.9%	10.7%	8.7	7.9	1.3	15.8%	5.5	4.6%
SCIENTEX BHD	UP	3.43	2.99	-12.83%	5,320.1	Y	07/2023	30.6	35.5	15.0%	16.0%	11.2	9.7	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.940	1.09	15.96%	299.5	Y	12/2023	6.8	7.4	33.3%	8.8%	13.8	12.7	1.6	11.5%	5.5	5.9%
THONG GUAN INDUSTRIES BHD	OP	2.27	3.28	44.49%	888.4	Y	12/2023	30.3	35.3	4.7%	16.4%	7.5	6.4	1.0	14.4%	5.5	2.4%
SECTOR AGGREGATE					**6,843.0**					**19.2%**	**13.0%**	**10.3**	**9.2**	**1.4**	**14.3%**		**3.8%**

Source: Bloomberg, Kenanga Research

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Property Development

Survival of the Fittest

NEUTRAL

↔

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

We maintain our NEUTRAL view on the sector which is being weighed down by an oversupply situation and cautious bank lending, exacerbated by erosion of purchasing affordability on the back of rising interest rates and elevated construction cost, not to mention the already high household debt-to-GDP ratio in Malaysia. Certain highly-geared developers would also be saddled with a heavier debt servicing obligation due to higher interest rates, worsening their already tight cash flows affected by slow sales take-up. Our top sector picks are developers that are able to buck the trend of lacklustre sales, translating to strong cash flows to anchor good dividends, namely, ECOWLD (OP; TP: RM0.83) and IOIPG (OP; TP: RM1.60).

Challenging times persist. We do not foresee any significant improvement in the prospects of the sector in 2QCY23 amid sustained high inflation and interest rates, and an unfavourable global economic outlook that may prompt potential house buyers to postpone purchases. We expect the weak fundamentals of the industry to persist throughout 2023 including: (i) the lack of a demand-pull (and to a certain extent, cost-push) price appreciation as reflected in a weak house price index growth despite the rising construction cost since CY20, and (ii) the still elevated household debt to GDP ratio at 85% in 1HCY22.

While the loan approval rate for CY22 already recovered back to pre-pandemic levels of 43%, it still pales in comparison to 45%-51% seen during the upcycle in CY11-CY14. Meanwhile, housing affordability is eroding on the back of rising interest rates and elevated construction cost. Property developers are struggling to pass on higher construction cost to end-buyers as price hikes will hurt take-ups, putting the viability of the new launches at risk as they sacrifice margins over sales.

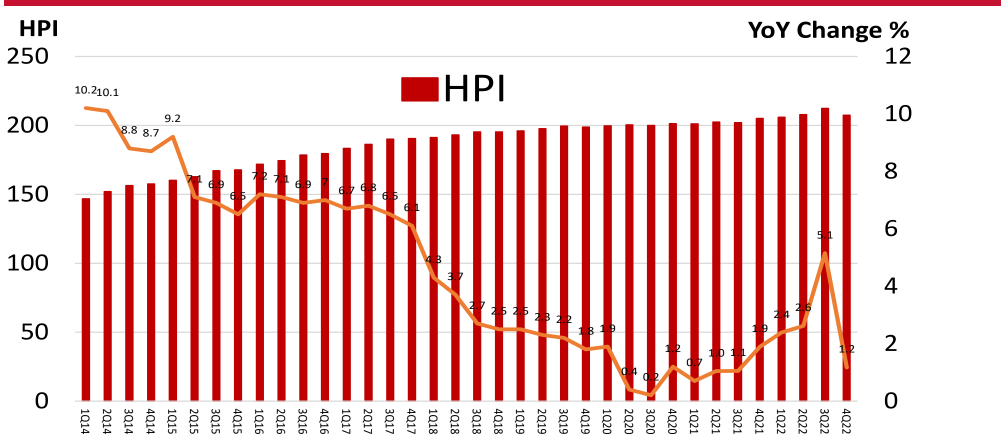
Developers' margins which had held up well over the last two years are likely to trend down in CY23. They will feel the full brunt of contracts entered at high prices with their contractors in CY21-22 during the pandemic (amidst sky-rocketing prices of construction materials and labour shortages), as the delivery of these building contracts accelerates in CY23.

Overhang trends down but remains high. Based on NAPIC's latest 4QCY22 publication, units in circulation decreased (which includes overhang and unsold under construction units) against the peak recorded in CY21. 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 – likely creating price competition and pressure for new unit launches. Overhangs continue to come from the high-rise segment (condo/serviced apartments) in KL, Johor and Selangor with the largest portion of it being priced within the RM500k-RM1m segment.

Balance sheet concerns linger. We remain extremely cautious over some developers' high borrowings levels which would translate to higher financing costs and potential liquidity crunch in the current interest rate up-cycle. Already faced with a tough operating climate, these developers' earnings will be hurt further by their high financial leverage. Such a developer under our coverage is **SPSETIA (UP; TP: RM0.38).**

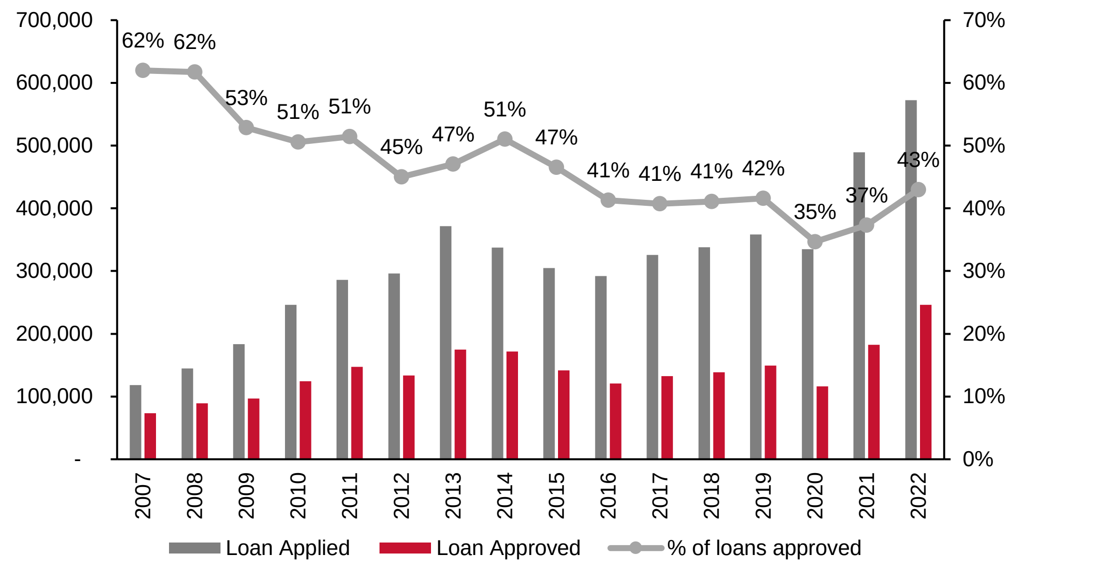
Maintain NEUTRAL. While share prices of property companies could have found the bottom (as most of them only trade at a fraction of their RNAV), there is no re-rating catalyst in sight. Under this highly challenging operating environment, we continue to prefer developers with strong cash flows that could anchor good dividends, namely, **ECOWLD** for its strong branding, and **IOIPG** for the hidden value in its prime investment properties in the Klang Valley, Singapore and China that could potentially be unlocked via a REIT.

Malaysian Housing Price Index (HPI)



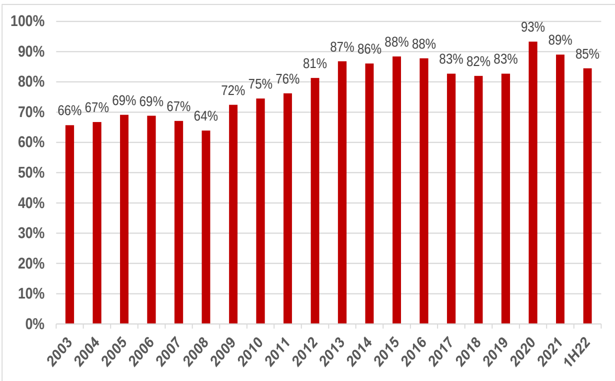
Source: NAPIC, Kenanga Research

Loan Approval Rate % (Loan approved/Loan applied)



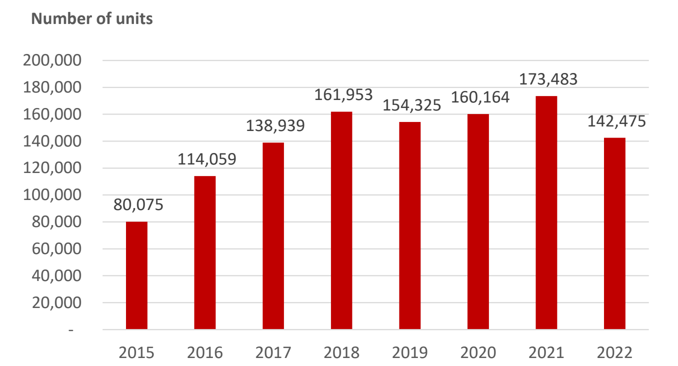
Source: BNM, Kenanga Research

Household Debt to GDP



Source: BNM, Kenanga Research

Overhang and Unsold under Construction



Source: NAPIC, Kenanga Research

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	0.710	0.830	16.90%	2,090.5	Y	10/2023	8.3	8.4	2.1%	1.5%	8.9	7.9	0.4	5.0%	5.0	7.0%
IOI PROPERTIES GROUP BHD	OP	1.11	1.60	44.14%	6,111.8	N	06/2023	13.5	14.3	4.2%	5.9%	8.2	7.8	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.600	0.700	16.67%	1,456.6	Y	12/2023	6.6	7.0	1.9%	6.9%	9.1	8.5	0.4	4.6%	4.0	6.7%
MALAYSIAN RESOURCES CORP BHD	MP	0.335	0.340	1.49%	1,496.6	Y	12/2023	0.7	1.3	-32.7%	84.1%	47.2	25.4	0.3	0.7%	1.0	3.0%
SIME DARBY PROPERTY BHD	OP	0.505	0.550	8.91%	3,434.4	Y	12/2023	4.1	4.6	-16.5%	11.3%	12.3	11.0	0.4	3.0%	2.0	2.6%
SP SETIA BHD	UP	0.610	0.380	-37.70%	2,486.0	Y	12/2023	2.9	2.0	15.5%	-31.9%	21.0	30.5	0.2	1.8%	1.5	6.2%
UOA DEVELOPMENT BHD	MP	1.63	1.75	7.36%	3,924.1	Y	12/2023	10.6	11.7	-2.7%	10.2%	11.6	10.9	0.6	4.5%	10.0	8.0%
Simple Average					**28,627.1**					**-1.2%**	**5.6%**	**16.0**	**15.1**	**0.4**	**3.7%**		**4.8%**

Source: Bloomberg, Kenanga Research

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Seaports & Logistics

Global Trade Hit by Slowdown and Regulations

NEUTRAL

↔

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

We maintain our NEUTRAL call on the sector. Amid the global economic uncertainty, the World Trade Organisation (WTO) projects the global merchandise trade volume to only inch up by 1% in CY23, down sharply from a 3.5% expansion in CY22. This does not augur well for seaport operators like WPRTS (MP; TP: RM3.65). Additionally, stricter regulations on carbon emissions may pose new challenges to global trade. However, we see a bright spot in the domestic logistics sector as: (i) it is driven internally and less directly exposed to external headwinds, and (ii) it is a beneficiary of the booming e-commerce. Our sector top picks are BIPORT (OP; TP: RM6.00) and SWIFT (OP; TP: RM1.00).

Slowing global trade. The WTO projects global merchandise trade volumes to only inch up by 1% in CY23, down sharply from a 3.5% expansion in CY22, amid the global economic uncertainty. Also, consumer confidence and spending globally are likely to take a beating on sustained elevated inflation, rising interest rates and the slowing global economy.

These issues do not augur well for seaport operators like **WPRTS**. 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 tariff hike at 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.

Additionally, stricter regulations on carbon emissions may post new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulation of IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sector remain unclear (especially for CBAM which is still pending finalisation), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade), especially those originating from China, which is a major exporter of iron & steel and aluminium to the EU.

(1) Under the new IMO rules, effective January 2023, all ships must report their carbon intensity and will be rated accordingly. The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.

(2) Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported importers, on a quarterly basis as well as any carbon price paid in a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

Logistics to ride on e-commerce boom. However, we see a bright spot in the logistics sector locally as: (i) it is domestically driven and less directly exposed to external headwinds, and (ii) it rides on the booming e-commerce. Industry experts project the 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 strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

Our sector top picks are:

- **BIPORT** for: (i) the steady income stream from handling LNG cargoes for Malaysia LNG Sdn Bhd (that typically makes up close to 50% of its total profit), (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.
- **SWIFT** for: (i) its leading position in the Malaysian haulage business commanding close to 10% market share, (ii) its value-adding integrated offerings resulting in a superb pre-tax profit margin of 10% compared to industry average of 4%, and (iii) the tremendous growth potential of its warehousing business, riding on the booming domestic e-commerce.

Peer Table Comparison

Name	Rating	Last Price as at 24th March 2023 (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	5.00	6.00	20.00%	2,300.0	Y	12/2023	31.3	32.0	21.8%	2.2%	16.0	15.6	1.3	8.1%	17.4	3.5%
POS MALAYSIA BHD	UP	0.560	0.460	-17.86%	438.4	Y	12/2023	(6.9)	(2.1)	-153.3%	-129.9%	N.A.	N.A.	0.6	-6.8%	0.0	0.0%
SWIFT HAULAGE BHD	OP	0.475	1.00	110.53%	422.7	Y	12/2023	7.1	7.7	11.6%	8.0%	6.6	6.2	0.6	9.4%	2.2	4.6%
WESTPORTS HOLDINGS BHD	MP	3.62	3.65	0.83%	12,344.2	Y	12/2023	20.6	21.7	9.3%	5.5%	17.6	16.6	3.6	20.9%	15.5	4.3%
SECTOR AGGREGATE					**15,505.2**					**-27.6%**	**-28.5%**	**13.4**	**12.8**	**1.5**	**7.9%**		**3.1%**

Source: Kenanga Research

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Technology

NEUTRAL

↔

China's Reopening Fails to Lift Prospects

By Samuel Tan l samueltan@kenanga.com.my

We maintain our NEUTRAL rating on the technology sector as we anticipate the on-going industry inventory adjustment to extend into 2QCY23. We gathered from players under our coverage that there has not been a major boost in chip demand on the heels of the recent China's reopening which will remain over the medium term. *World Semiconductor Trade Statistics (WSTS)* projects global chip demand to fall by 4.1%, following a disappointing 3.3% growth in 2022 (vs. an expectation of 4.4%). As a maturing technology, the outlook for smart phones will remain bleak as new models would likely incorporate only minor incremental upgrades while the replacement cycle lengthens. Not helping either is the volatile demand for automotive semiconductors as car manufacturers rationalise their inventories amidst economic uncertainties. That said, we selectively prefer players with strong earnings visibility, i.e. KGB (OP; TP: RM1.92), LGMS (OP; TP: RM1.50), and PIE (OP; TP: RM4.05).

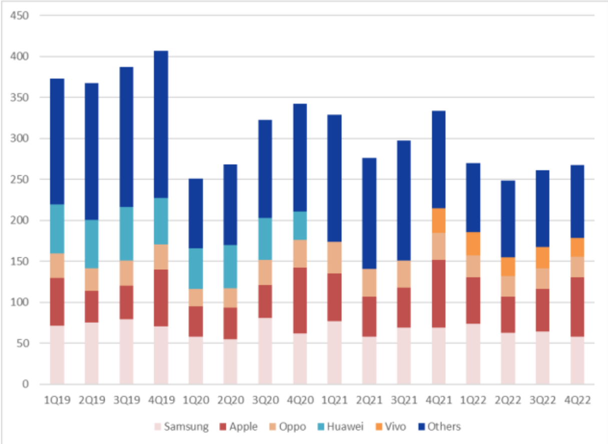
We maintain our **NEUTRAL** call on the technology sector owing to prolonged industry inventory adjustments. *WSTS* projects a contraction of 4.1% in 2023 as chip demand will continue to be dampened by weaker demand, particularly for consumer electronics, due to high interest rate and inflation. This comes as 2022 global semiconductor sales growth of 3.3% fell short of WSTS's estimate of 4.4% owing to significant slowdown in 2HCY22.

Global chip demand has continued to contract since its first YoY decline in September 2022. Subsequently in December 2022, sales in the US turned negative for the first time with a 6.1% YoY decline, joining China and Asia Pacific markets in the negative growth trajectory. Although the announcement of China reopening its borders in January 2023 lifted overall sentiment then, it had actually provided little boost to the underlying demand. This is evident by the muted demand in January 2023 (-18.5% YoY) as reported by the Semiconductor Industry Association (SIA) across US (-12.4%), Europe (+0.9%) and Japan (+0.7%), China (-31.6%) and Asia Pacific (-19.5%). Hence, the exuberance in KLTEC index earlier in 2023, where it rallied c.10%, was short-lived and later deteriorated into a c.12% decline.

Following an uninspiring 4QCY22 results during which the much-anticipated year-end demand boost failed to materialise, many players such as **D&O (UP; TP: RM3.51), MPI (UP; TP: RM20.00) and UNISEM (MP; TP: RM3.10)** guided for an underwhelming 1HCY23 outlook as China's reopening has yet to translate into meaningful recovery. Not helping either is the high interest rates and inflation that led to downbeat order forecasts from customers. To prevent further margin erosion, MPI has opted to delay the completion of its second plant in Suzhou by three months. Meanwhile, **JHM (MP; TP: RM0.80)** also indicated that it will continue to put its Batu Kawan expansion on hold.

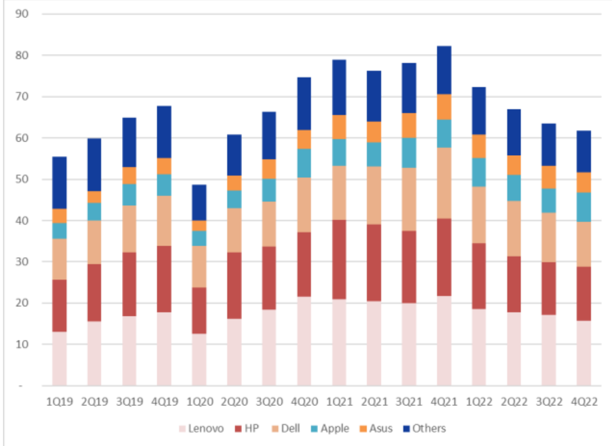
On smart phones, in the absence of a year-end shopping spree, the 4QCY22 global device shipment declined 20% YoY. The prospects are expected to remain cloudy owing to: (i) the smartphone market entering its seasonal low cycle in 1QCY23, (ii) waning consumer interest to upgrade as the smart phone technology approaches the mature stage, and (iii) beginning of ASP decline after a rapid increase in the last few years from $334 in 2019 to $415 in 2022. Therefore, the *International Data Corporation* (IDC) in early Mar 2023 had revised its 2023 global smartphone shipment forecast from a 2.8% growth to a contraction of 1.1%. We also maintain our neutral view on **INARI (MP; TP: RM2.60)** given its large exposure (c.60% of group revenue) to the smart phone radio frequency (RF) business. While the group managed to sustain its revenue by delivering more legacy RF models as a measure to cushion the underwhelming demand for the latest model, this was at the expense of margins. Meanwhile, its venture into new products as well as the ramp-up in its China's operations will not be quick enough to cushion the immediate weakness.

Exhibit 1: Worldwide Smartphone Sales to End Users (mil of units)



Source: IDC

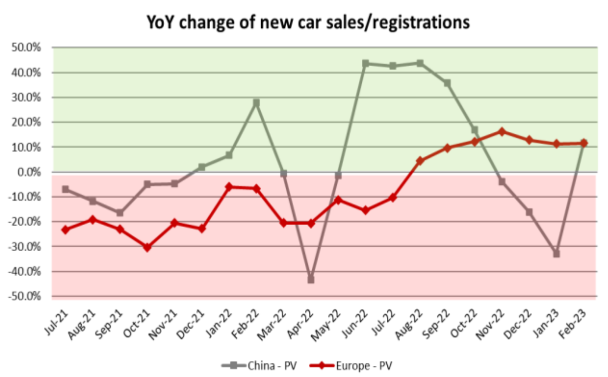
Exhibit 2: Worldwide PC Sales to End Users (mil of units)



Source: Gartner

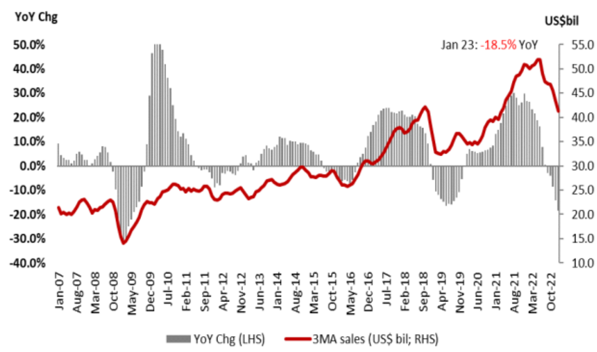
Automotive demand in 2023 thus far has yet to show a pickup in numbers as consumers scale down on large-ticket item purchases amidst growing uncertainties surrounding the macro environment. China car sales on a YoY basis plunged -32.9% in Jan (owing to the Chinese New Year holidays) followed by a 11.6% recovery in Feb while Europe car sales growth hovered around c.11% for both periods. However, note that these numbers came from a low base comparison in the prior year due to the much worse semiconductor shortage in early 2022. While the long-term trend of electric vehicle adoption remains intact, the immediate outlook remains choppy owing to economic fears. As such, many car manufacturers are still in the mode of rationalising their existing inventories.

Exhibit 3: Passenger vehicle (PV) sales/registrations growth (% YoY)



Source: CAAM, ACEA

Exhibit 4: Global Semiconductor Sales and YoY growth



Source: SIA

However, it is not all doom and gloom as the electronic manufacturing services (EMS) segment offers some opportunities. Players such as **PIE (OP; TP: RM4.05)** and **NATGATE (OP; TP: RM1.50)** which are in the industrial products space have continued to benefit from growing demand. **PIE** is expected to see an uptick in demand for its assembly of application-specific integrated circuits (ASIC) equipment given the recent rebound in crypto currencies while **NATGATE** has a robust pipeline of projects (i.e. optical transceivers) transitioning from prototype into mass production which will contribute meaningfully in FY23.

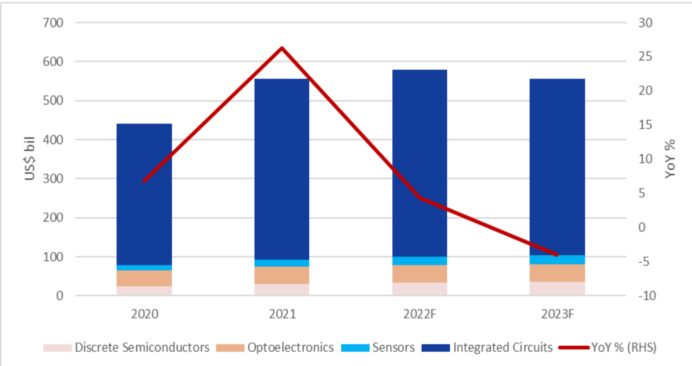
We also see value in selected names that possess resilient earnings visibility such as **KGB (OP; TP: RM1.92)** which is expected to thrive despite the temporary slowdown in the semiconductor space, buoyed by its RM1.7b order book as well as prospects from its tender book which recently ballooned to RM2b. As such, we believe **KGB** will remain an excellent proxy to the trend of wafer fabs expanding capacity for future recovery in chip demand and acts a safe harbour under this current challenging period. On the other hand, **LGMS (OP; TP: RM1.50)** will continue to gain from the growing demand for cyber resilience, in tandem with the expansion of the digital economy. Due to the strict qualifications necessary, the barrier of entry in this industry is quite high. To further enhance its competitive advantage, the company is expanding into emerging digital economies like Cambodia and Vietnam, which are only just beginning to realise the importance of cybersecurity.

Amidst the growing tension between US and China spilling into the race for technological supremacy, **OPPSTAR (UP; TP: RM1.30)** — Malaysia's first home-grown integrated circuit (IC) designer that debuted on the local bourse on 15 March 2023 — has been thrusted into the limelight as a beneficiary of Chinese integrated device manufacturer (IDM) looking for alternative design solution due to restricted access to design software and fabrication equipment by the US. The group's business proposition has also been very well received by the investing community owing to its niche exposure to the front-end semiconductor space which is higher up the value chain. However, its valuation has become rich after the recent run-up in share price, hence we downgrade our call from **OUTPERFORM** to **UNDERPERFORM** with an unchanged TP of RM1.30.

Overall, we maintain our **NEUTRAL** stance on the technology sector for the medium term as we expect softening of demand to continue into 1HCY23. However, we are selectively positive on:

1. **KGB** for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its robust earnings visibility underpinned by both robust order book of RM1.7b and tender book of RM2b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China.
2. **LGMS** for: (i) its unique exposure to the growing cybersecurity business, (ii) the deep moat around its business given the high barrier to entry created by the tough qualification process as a vendor, and (iii) its new proprietary certification software which is expected to be the next earnings driver.
3. **PIE** for: (i) its comprehensive skillset, making it a one of the top-choice EMS providers for MNCs, (ii) various competitive advantages it enjoys as a unit of Foxconn, and (iii) its diversified and evolving client base, from those involved in communication devices, power tools and the latest decentralised finance (DeFi) equipment.

Exhibit 5: WSTS Semiconductor Sales Forecasts by Product Type (Fall 2022)



Source: WSTS

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM) @ 23/03/23	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	UP	4.21	3.51	-16.63%	5,210.8	Y	12/2023	10.3	14.0	31.6%	35.5%	40.7	30.0	5.5	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.860	1.05	22.09%	981.7	Y	12/2023	3.0	3.4	21.3%	12.9%	28.7	25.4	1.8	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.41	2.60	7.88%	8,996.4	Y	06/2023	10.2	11.5	-3.2%	12.7%	23.6	21.0	3.5	15.0%	9.7	4.0%
JHM CONSOLIDATION BHD	MP	0.840	0.800	-4.76%	506.0	Y	12/2023	5.3	5.9	40.0%	10.6%	15.8	14.3	1.4	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.51	1.92	27.15%	970.9	Y	12/2023	8.7	9.0	1.1%	3.2%	17.3	16.8	3.4	21.3%	2.4	1.6%
KESM INDUSTRIES BHD	MP	7.40	8.24	11.35%	318.3	Y	07/2023	(10.0)	6.7	-2250.0%	-32.6%	N.A.	111.1	0.9	-1.2%	7.5	1.0%
LGMS BHD	OP	1.18	1.50	27.12%	538.1	Y	12/2023	3.5	5.9	26.2%	69.8%	33.9	19.9	5.4	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES	UP	29.00	20.00	-31.03%	5,768.0	Y	06/2023	81.1	130.6	-51.0%	61.0%	35.8	22.2	2.8	7.9%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.34	1.50	11.94%	2,779.1	Y	12/2023	5.5	6.5	32.2%	18.6%	24.5	20.7	8.1	39.6%	0.0	0.0%
OPPSTAR BHD	UP	2.21	1.30	-41.18%	1,406.0	N	12/2023	3.1	4.0	18.1%	29.6%	71.8	55.4	48.8	90.7%	0.8	0.4%
PIE INDUSTRIAL BHD	OP	3.57	4.05	13.45%	1,371.0	Y	12/2023	22.5	25.3	22.0%	12.5%	15.9	14.1	2.2	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.29	1.20	-6.98%	2,015.4	Y	03/2023	9.7	7.9	-11.1%	-17.9%	13.3	16.3	2.3	17.8%	4.8	3.7%
UNISEM (M) BHD	MP	3.09	3.10	0.32%	4,984.4	Y	12/2023	15.4	17.2	2.1%	11.4%	20.1	18.0	1.9	10.0%	6.0	1.9%
Simple Average										-6.7%	18.2%	25.2	21.3	6.8	20.3%		1.3%

Source: Kenanga Research

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Telecommunications

The Need for Speed and Affordability

OVERWEIGHT

↔

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

We maintain our OVERWEIGHT call on the sector as telecommunications services have evolved into a basic and yet vital necessity of modern life, underpinning the earnings resilience of players. The government's commitment to bridge the digital divide and push Industrial Revolution 4.0 will further boost investment and demand for telco services. Wider coverage, better affordability and faster speed are set to boost subscription and ARPU. The protracted saga of the 5G model appears close to be resolved, with potential adjustments to the existing terms working to the advantage of mobile network operators (MNOs). Our sector top picks are CDB (OP; TP: RM4.64) and MAXIS (OP; TP: RM4.52).

The protracted saga of the Single Wholesale Network (SWN) and its owner Digital Nasional Bhd (DNB) appears close to a resolution. The new government seems to rally firmly behind the DNB-led SWN with the emphasis on an expeditious roll-out of 5G in preparation for the impending 6G in the coming years. The government also emphasises the need to bridge the digital divide between the T20 and B40 groups as it accelerates Malaysia to Industrial Revolution 4.0 (IR4.0). The current government review of the roll-out by DNB looks heavily to favour the telcos in terms of costs and roll-out mechanism.

We view the prospective earnings of telcos to remain resilient as telecommunications have evolved into a necessity of modern life. Inflation is not seen as major threat in the telco space as seen in the regional markets, in fact subscribers remain robust as digital applications such as short messaging, virtual meeting, electronic cash payment, e-hailing, online shopping and online food and grocery delivery become entrenched in everyday life as consumers look for ways to reduce costs and time consumption. With the introduction of the Unity package and revision of the MSAP recently, consumers can enjoy attractive prices for their telecommunication needs and at the same time churn out higher subscription for the telcos based on needs, speed and affordability.

Demand for local mobile and broadband will be supported by wider coverage of both 5G and 4G. The wider coverage of 4G (population coverage of 97% at end of 2022) saw mobile broadband speed reaching a mean of 116Mbps. Coverage of 5G reached 47% at end of 2022 with tests which showed that Malaysia's 5G achieved download/upload speeds 17x/6x faster than 4G. Malaysia uses mostly 5G non-standalone access technology and this requires 5G users to be connected to 4G when using 5G and benefiting from carrier aggregation with 4G bands. According to *OPENSIGNAL,* **MAXIS** is among the top global high performer with score of 97% above the global average of 89% in terms of percentage of time users spend with a 4G or better connection which is not a surprise as **MAXIS** was already ahead in terms of fiberisation, base stations upgrade and new 4G towers (completed by end of 3QCY22).

Phase 2 of Jendela will be focusing on internet coverage mostly in remote and interior geographical conditions leveraging on multiple technologies such as 4G, 5G and satellite connectivity ensuring higher speeds and mobility coverageplus adding 1.5m premises (from 7.5m currently) in broadband access, hence ultimately achieving broadband speeds of 100Mbps (from 52MBps) by 2025. DNB's initial target for 5G coverage of 80% of populated areas by 2024 has been brought forward by the government to end-2023 (more so in the East Coast and Borneo states). Telco infrastructure providers **OCK (OP; TP: RM0.69)** and Edotco of **AXIATA (OP; TP: RM3.96)** will benefit from both Jendela and the 5G roll-outs domestically. Telco infrastructure spending is also anticipated to surge as countries such as Indonesia, Laos and Vietnam are set to enhance their 4G services and start their 5G journey in 2023.

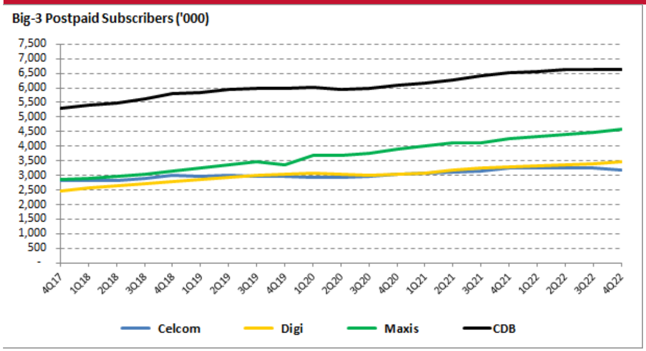
Lower prices are also expected to boost demand. The government has introduced the Mobile Internet Prepaid Unity Data Plan and the Fixed Broadband Unity Package to help the B40 group, veterans, elderly and the disabled. MCMC has also introduced its revised Mandatory Standard Access Pricing (MSAP) which will see cheaper broadband packages offered by the telcos. The government's engagement with DNB to bring forward the 5G population coverage is expected to lower the current access costs DNB is charging to the telcos. These initiatives will provide room to the telcos in providing services at reduced prices without compromising on their margins. These reduced prices will benefit players like **CDB (OP; TP: RM4.64)** and **TM (OP; TP: RM7.69). CDB** covers practically the whole of Malaysia with 4G population coverage of 96% whilst **TM** has the largest Point of Presence (POP) at 79% and 73% of the market share of the broadband market.

Our sector top picks are **CDB** and **MAXIS.**

We like **CDB** for the following reasons: (i) it is the new market leader in the mobile market with a combined market share of 43% on the heels of the merger of Celcom and DIGI, (ii) Celcom's key points are its network capacity with wider coverage while DIGI has in-depth coverage with an emphasis on urban areas. Celcom's 4G and 4G+ cover 96% and 90% of the population, while DIGI's 4G and 4G+ are at 95% and 80%, respectively, (iii) its competitive pricing and attractive bundling to attract migrant, domestic customers and the B40, (iv) superior EBITDA margins of both DIGI and Celcom at 5ppts−6ppts above the industry average of 41%−42%, and (v) roll-out of 5G will boost subscribers given the absence of MAXIS' presence in this space currently.

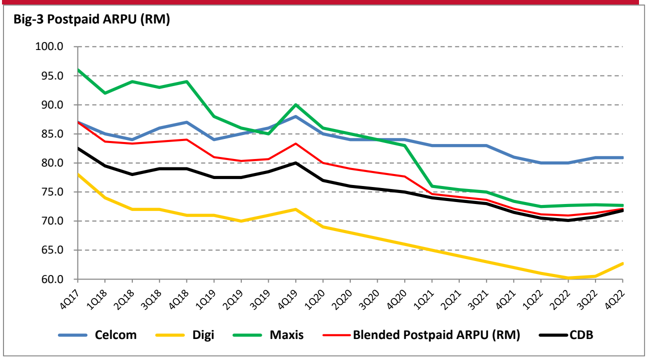
We are positive on **MAXIS** given: (i) its strong branding and customer loyalty, especially in the premium segment, and (ii) the resilient demand for its services as it is ahead of its competitors in terms of putting up new 4G towers, fiberisation of premises and upgrading of existing towers, thus boosting its B2B revenue as both corporates and SMEs continue to upgrade their digitalisation.

Exhibit 1: Big-3 Postpaid Subscribers



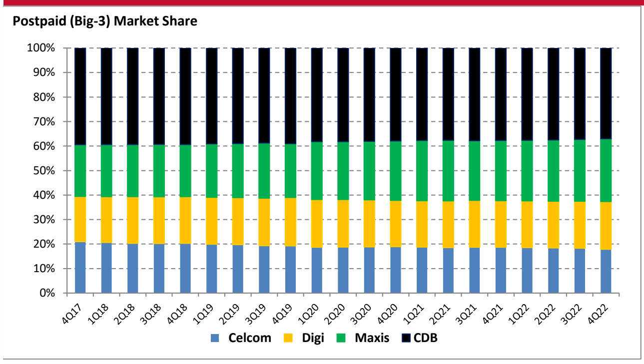
Source: MCMC, Companies, Kenanga Research

Exhibit 2: Big-3 Postpaid ARPU (RM)



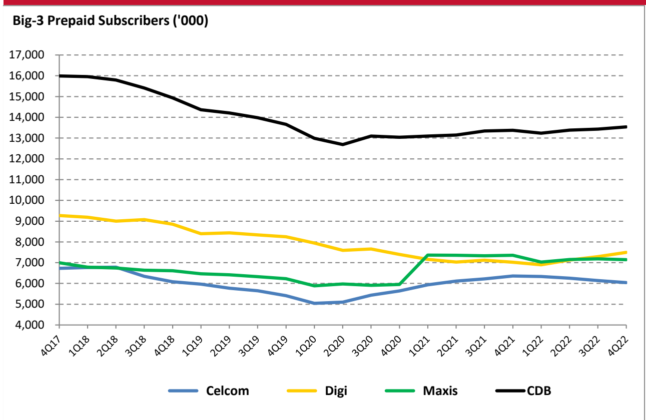
Source: MCMC, Companies, Kenanga Research

Exhibit 3: Big-3 Postpaid Market Share



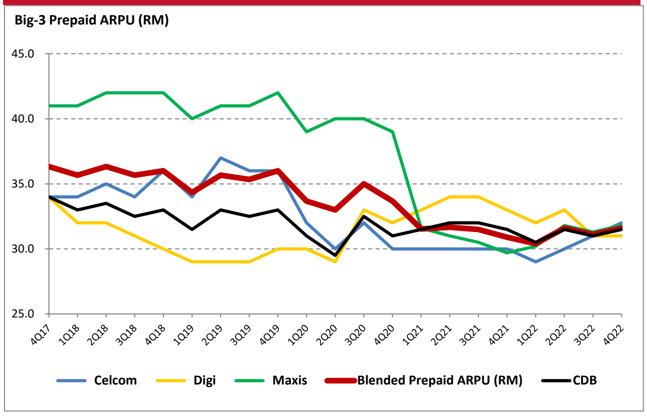
Source: MCMC, Companies, Kenanga Research

Exhibit 4: Big 3 Prepaid Subscribers



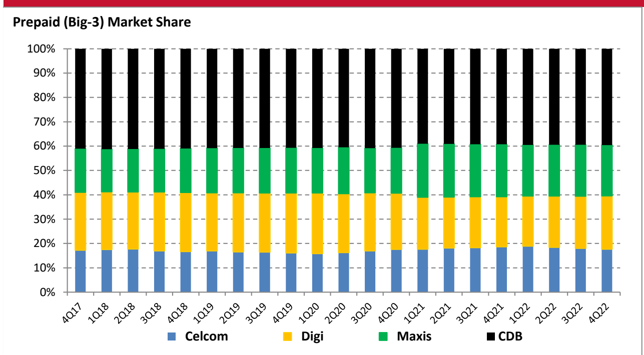
Source: MCMC, Companies, Kenanga Research

Exhibit 5: Big-3 Prepaid ARPU (RM)



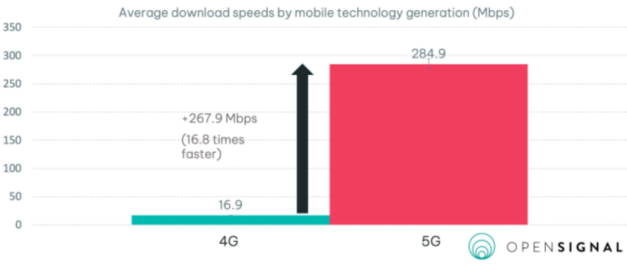
Source: MCMC, Companies, Kenanga Research

Exhibit 6: Prepaid Market Share



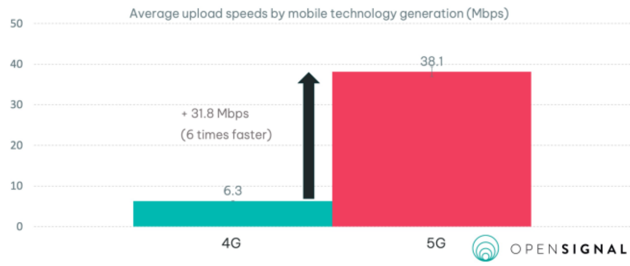
Source: MCMC, Companies, Kenanga Research

Exhibit 7: 5G download speeds in Malaysia



Source: OPENSIGNAL

Exhibit 8: 5G upload speeds in Malaysia



Source: OPENSIGNAL

Exhibit 9: Malaysia's revised 5G roll-out timeline

End-2021	Launched 5G in Putrajaya, Cyberjaya and selected areas in Kuala Lumpur.
2022	Deployed 5G in 5 major cities and districts in Selangor, Penang, Johor, Sabah and Sarawak – 47 % nationwide coverage achieved.
2023	Achieve 80% 5G population coverage.
2025-2030	>90% coverage in populated areas (by 2027).

Source: DNB, Kenanga Research

Exhibit 10: Nationwide 5G coverage %

State	Coverage of Populated Areas (end-CY22) Targeted	Actual
Kuala Lumpur	97.1	97.5
Putrajaya	97.3	97.1
Selangor	85.0	89.5
Melaka	55.0	51.3
N. Sembilan	49.5	49.7
Johor	30.0	52.3
Pulau Pinang	30.8	41.1
Perak	16.8	37.7
Sarawak	34.7	32.4
Sabah	21.9	27.9
Pahang	0	18.2
Terrengganu	0	10.8
Kelantan	0	11.7
Kedah	0	13.1
Perlis	0	9.5
WP Labuan	0	0
Total	**37.9**	**47.1**

Source: DNB, Kenanga Research

Exhibit 11: Malaysia's revised 5G roll-out timeline

End-2021	Launched 5G in Putrajaya, Cyberjaya and selected areas in Kuala Lumpur.
2022	Deployed 5G in 5 major cities and districts in Selangor, Penang, Johor, Sabah and Sarawak – 47 % nationwide coverage achieved.
2023	Achieve 80% 5G population coverage.
2025-2030	>90% coverage in populated areas (by 2027).

Source: DNB, Kenanga Research

Exhibit 12: Most Improved Experience YoY

Experience	Companies
Games Experience	**YES, CELCOM**
Voice App Experience	**YES, CELCOM**
Download Speed Experience	**CELCOM, YES, MAXIS, DIGI**
Upload Speed Experience	**CELCOM, YES, UNIFI**
Time in 4G/5G	**DIGI, U Mobile**

Source: OPENSIGNAL

Exhibit 13: AXIATA's Sum-of-Parts Valuation

Unit	Valuation Basis	Multiple (x)	EV (RM'm)	Axiata's Stake (%)	Value to Axiata (RM'm)
XL (Indonesia)	EV / EBITDA	5.0	21,134	61.5%	12,998
Robi (Bangladesh)	EV / EBITDA	8.0	13,812	61.9%	8,550
Dialog (Sri Lanka)	EV / EBITDA	3.0	3,911	83.3%	3,258
Link Net (Indonesia)	EV / EBITDA	4.0	874	66%	695
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					**44,760**
(-) FY22E Net Debt and Minority Interest					**20,252**
(+) CDB's 33% Value to AXIATA					16,256*
Total Equity Value					**36,353**
TP (RM)					**3.96**

**After a 20% holding company discount*
Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM) @ 23 Mac 2023	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																	
AXIATA GROUP BHD	OP	3.00	3.96	32.00%	27,536.9	Y	12/2023	13.2	15.6	-23.7%	18.5%	22.7	19.2	1.5	6.6%	12.0	4.0%
CELCOMDIGI BHD	OP	4.34	4.64	6.91%	50,914.7	Y	12/2023	18.4	19.4	79.3%	5.8%	23.6	22.3	3.1	13.1%	15.6	3.6%
MAXIS BHD	OP	4.02	4.52	12.44%	31,477.2	Y	12/2023	16.5	16.7	9.5%	0.8%	24.3	24.1	5.0	19.6%	16.0	4.0%
OCK GROUP BHD	OP	0.435	0.690	58.62%	458.7	Y	12/2023	3.6	5.4	13.6%	49.3%	12.0	8.0	0.6	6.3%	0.5	1.1%
TELEKOM MALAYSIA BHD	OP	4.82	7.69	59.54%	18,421.9	Y	12/2023	30.5	29.4	0.6%	-3.6%	15.8	16.4	2.2	13.7%	17.0	3.5%
SECTOR AGGREGATE					**128,809.5**					**13.7%**	**5.7%**	**22.0**	**20.8**	**2.5**	**11.9%**		**3.3%**

Source: Bloomberg, Kenanga Research

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Utilities

Softening Fuel Prices Largely a Boon

NEUTRAL

↔

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

We remain NEUTRAL on the sector as most key stocks are fully valued. Having said that, the sector offers earnings defensiveness, particularly due to their regulated asset base model which provides recurring dividends for yield seekers. Recent softening of fuel prices augurs well for fuel consumers TENAGA (MP; TP: RM10.00) and PETGAS (MP; TP: RM17.13), but works against GASMSIA (MP; TP: RM3.54) as lower gas prices erode retail margins. Meanwhile, it is business as usual for IPPs such as YTLPOWR (OP; TP RM: RM1.09) and MALAKOF (OP; TP: RM0.95) as their earnings are secured by water-tight PPAs. Our top pick for the sector is YTLPOWR.

Power utility: Fuel costs are tapering. We project electricity demand growth of 1.8% in CY23, which is slightly higher than the guided growth of 1.7% under the RP3 parameter. The demand growth will be driven largely by the recovery in the industrial sector in Peninsular Malaysia. In terms of fuel costs (for both coal and gas), we believe they have already peaked in 4QCY22. For instance, the Indonesian benchmark coal price has retracted by 5% YTD to an average of USD291/MT from USD307/MT in 4QCY22. As a result, **TENAGA** guided for a lower Imbalance Cost Pass-through (ICPT) of RM12.0b in 2HFY23 vs. RM16.2b in 1HFY23 (**TENAGA** will fully recover the amount from: (i) a 20 sen/kWh ICPT surcharge from non-domestic customers, and (ii) a RM10.4b payment from the government. This will result in its ICPT receivables declining to RM12b by June 2023, from RM16.9b in 4QFY22. A strong cashflow will help to bring down **TENAGA**'s debts and interest serving cost. Recall, **TENAGA** was hit by high borrowing cost in 4QFY22 as it resorted to short-term borrowing to fund working capital due to ballooning under-recovery of fuel cost.

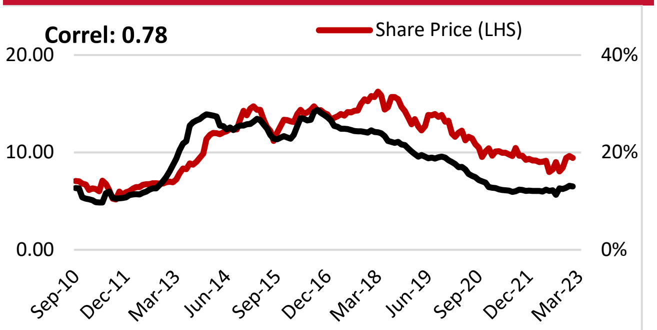
Gas utilities: Earnings intact despite lower WACC under RP2. A lower WACC under the RP2 for gas utilities commencing Jan 2023 is cushioned by the expanding regulated asset base (RAB). We estimate that the WACC under RP2 is at a high 7% for **PETGAS** and 7.3%-7.5% for **GASMSIA.** Additionally, under RP2, **PETGAS** is allowed to pass through forex fluctuation and gas prices.

The softening of fuel prices recently augurs well for **TENAGA**. This is because while it can pass on the higher fuel costs under the ICPT regime, there is always a time lag. Similarly, lower gas prices are positive to **PETGAS** as its non-regulated business, namely, the utilities division uses gas as fuel to generate and supply power, steam and industries gasses to industries. On the flip side, weaker gas prices work against **GASMSIA** as its retail margins are calculated based on a fixed percentage on the gas price.

PowerSeraya drives YTLPOWR's earnings growth. With improved operating environment (higher retail price and stable input cost) in Singapore, PowerSeraya and the newly acquired Tuaspring (effective June 2022) should deliver sustained profitability. Recall that PowerSeraya (FYE June) posted pre-tax losses of RM242.1m and RM172.4m in FY19 and FY20, respectively, before turning around with a PBT of RM591.4m in 1HFY23. PowerSeraya will continue to drive **YTLPOWR's** earnings growth. Meanwhile, **MALAKOF** should also see improved earnings stability having completed the low-pressure turbine blade failure repair works in Feb 2022 at its 1,000MW coal-fired power plant Tanjung Bin Energy. To recap, the failure resulted in unplanned outages from 4QFY21 to 1QFY22. On the other hand, **SAMAIDEN (OP; TP: RM1.15)** is expected to see a stronger 2HFY23 on accelerated progress billings from its order book of c.RM325m that will keep it busy for the next 2-3 years.

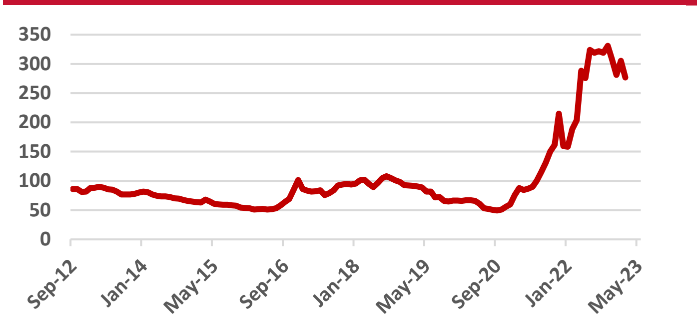
We remain **NEUTRAL** on the sector as most key stocks are fully valued. Having said that, the sector offers earnings defensiveness, particularly due to their regulated asset base model, and hence recurring dividends for yield seekers. **YTLPOWR** is our sector top pick for: (i) improved earnings prospects with the turnaround of PowerSeraya, and, (ii) resilient Wessex Water's earnings, which should anchor a dividend yield of c.6%.

TENAGA: Share Price vs. Foreign Shareholding



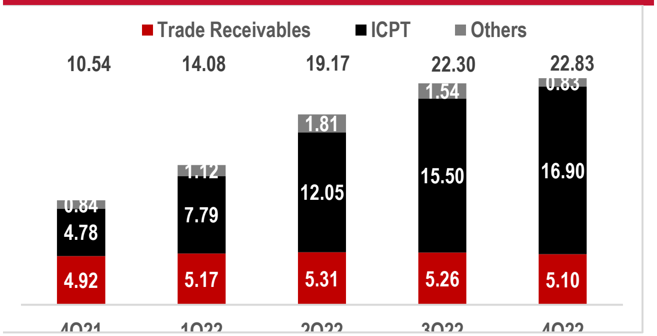
Source: Company/Bloomberg

Indonesia Coal Benchmark Price



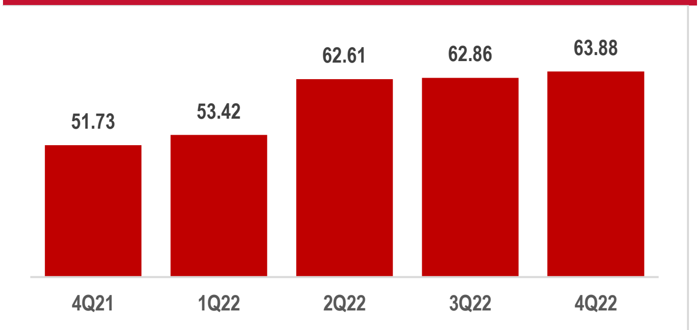
Source: Company/DIBots

TENAGA: Trade & Other Receivables



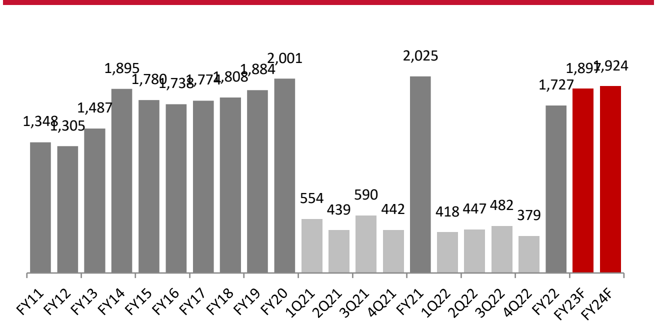
Source: Bloomberg

TENAGA: Borrowings



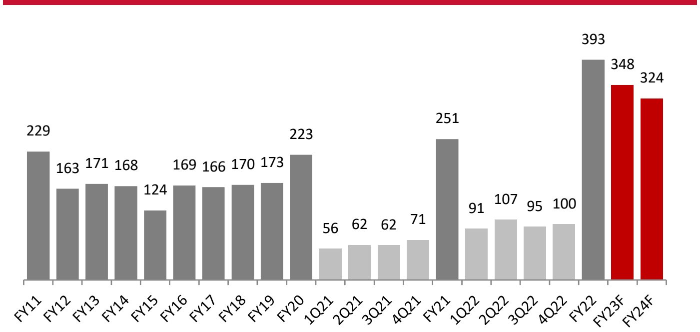
Source: Company

PETGAS: Profitability



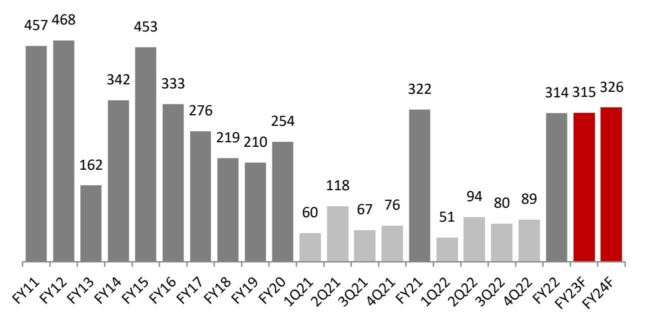
Source: Company

GASMSIA: Profitability



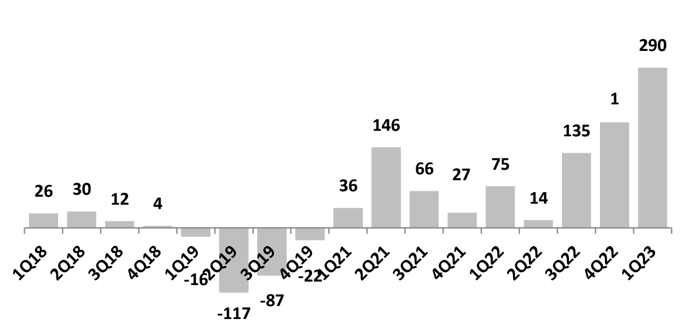
Source: Company

MALAKOF: Profitability



Source: Company

YTLPOWR: PowerSeraya Quarterly PBT



Source: Company

Peer Table Comparison

Name	Rating	Last Price @ 23/3/23 (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	3.17	3.54	11.67%	4,070.3	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.7	12.6	2.9	26.2%	19.0	6.0%
MALAKOFF CORP BHD	OP	0.685	0.950	38.69%	3,347.6	Y	12/2023	6.5	7.1	3.7%	8.4%	10.5	9.7	0.6	5.9%	5.2	7.6%
PETRONAS GAS BHD	MP	16.56	17.13	3.44%	32,767.8	Y	12/2023	95.8	97.2	9.8%	1.4%	17.3	17.0	2.4	14.3%	81.5	4.9%
SAMAIDEN GROUP BHD	OP	0.900	1.15	27.78%	346.5	Y	06/2023	4.7	5.5	16.9%	15.9%	19.1	16.5	2.8	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	9.56	10.00	4.60%	54,999.4	Y	12/2023	83.2	84.4	24.1%	1.4%	11.5	11.3	0.9	8.0%	41.6	4.4%
YTL POWER INTERNATIONAL BHD	OP	0.860	1.09	26.74%	6,967.9	N	06/2023	9.8	10.6	207.9%	8.9%	8.8	8.1	0.5	6.1%	5.0	5.8%
Sector Aggregate					**102,499.4**					**24.4%**	**2.1%**	**12.6**	**12.3**	**1.7**	**12.7%**		**4.8%**

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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