

02 June 2023

# 1QCY23 Report Card

## Generally Underwhelming

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FBMKLCI	
Current	Target
1,383.01	1,480↓

Corporate Malaysia delivered an underwhelming set of 1QCY23 results. Companies were hit by weak commodity prices, the full brunt of higher electricity tariffs and labour cost, a slowdown in the global economy, a reduction in the accounting useful life (for telco assets), and high-cost inventories. On a brighter note, banks demonstrated superb earnings resilience. Following the poor 1QCY23 showing, we now project CY23F FBM KLCI earnings to contract by 1.2% (from +10.5%) and reduce our end-2023 FBMKLCI target to 1,480 pts (from 1,610 pts).

### A Set of Underwhelming 1QCY23 Results

FBM KLCI's 1QCY23 results showed a significant QoQ deterioration with 7%, 48% and 45% beating, meeting and missing our projections, compared with 31%, 45% and 24%, respectively, in 4QCY22 (Exhibit 1).

Against the market consensus, similarly, the numbers came in weaker QoQ with "above", "within" and "below" at 7%, 53% and 40% vs. 20%, 53% and 27% in 4QCY22, respectively (also see Exhibit 1).

### Key Culprits

Companies, including non-FBM KLCI component stocks under our coverage universe, were hit by:

1. weak commodity prices, including those of CPO, aluminium and steel;
2. the full brunt of higher electricity tariffs and labour cost (pursuant to the amendment of the Employment Act 1955 effective 1 Jan 2023);
3. the slowdown in the global economy (hurting those in the semiconductor space, EMS, petrochemicals, port operations and plastic packaging);
4. the reduction in the accounting useful life for telco assets (while non-cash in nature, it resulted in lower FBM KLCI aggregate earnings); and
5. high-cost inventories eating into margins in the steel, automotive and grocery F&B sectors.

On a brighter note, the index-heavy financial sector—the bedrock of the economy and the stock market—demonstrated superb earnings resilience.

### Winners and Losers

Only two FBM KLCI component stocks under our coverage beat our projections, namely, **MISC** (strong petroleum shipping freight rates) and **PETDAG** (a strong sales volume).

On the other hand, 13 FBM KLCI component stocks under our coverage missed our projections, namely, **AXIATA** (accounting adjustments at associate **CDB**), **CDB** (accounting adjustments for a reduced useful life for telco assets), **GENM** (tourist arrivals fell short of expectations), **GENTING** (poor tourist arrivals at **GENM** and low CPO price realised at **GENP**), **INARI** (weak orders for radio frequency products), **IOICORP**, **KLK** and **SIMEPLT** (low CPO prices realised, higher cost), **MRDIY** (weak top line growth and margins), **PCHEM** (a weak sales volume and low spreads), **PPB** (weak recovery in its food and consumer segments), **PMETAL** (low aluminium prices realised) and **SIME** (weak auto dealership profits in China).

There was a high number of non-FBM KLCI component stocks under our coverage that were in the red during the quarter with the most common reasons being a significant slowdown in top line (due to the decline in the sales volume and/or selling price) and/or a steep rise in cost. These included **ANNJOO**, **DAYANG**, **HARTA**, **JHM**, **KESM**, **KPS**, **MALAKOF**, **MEDIAC**, **MGRC**, **MPI**, **MYNEWS**, **POS**, **SUPERMX**, **TCHONG**, **TOPGLOV** and **WCT**. Another group of companies, for very much the same reasons, barely broken even including **D&O**, **FGV**, **GENM**, **KIMLUN** and **TSH**.

### FBM KLCI FY23F Earnings Growth and End-2023 FBM KLCI Target Cut

Following the underwhelming set of 1QCY23 results, we now project FBM KLCI earnings to contract by 1.2% in FY23F (from +10.5% previously), followed by 7.5% growth in CY24F (from +2.3% previously). Consequently, we cut our end-2023 FBM KLCI target to 1,480 pts (from 1,610 pts) based on 16x CY23 PER, which is at a discount to its 5-year historical average of 18x to reflect valuation deflation across asset classes against a backdrop of an aggressive monetary tightening by major policy makers globally.

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We believe the market will continue to face stumbling blocks in realising its full potential, a situation it has found itself in during the greater part of this year, thus far.

Globally, the Fed is still some way from a dovish pivot on the back of a stalling disinflation and persistent strength in the labour market in the US, although cracks are already showing in their regional banks, commercial real estate market and to a lesser extent, consumer spending.

Locally, while the unity 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 now expected to be held in Aug 2023.

Our top sector picks remain to be telcos (earnings resilience and the introduction of dual wholesale network model for the 5G roll-out), banks (unjustified selloff triggered by the banking crisis in the US and Europe), construction (the imminent roll-out of public infrastructure projects), retailers and auto makers/distributors (resilient consumer spending backed by a stable job market, government subsidies and financial assistance to the low-income group).

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

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

	1Q2023						4Q2022					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AM BANK		1			1			1			1	
AXIATA			1			1	1			1		
CIMB		1			1			1			1	
DIGI			1			1	1			1		
DIALOG		1			1			1			1	
GENM			1			1			1			1
GENTING			1			1			1			1
HLBANK		1			1			1			1	
HLFG		0			1			0			1	
IHH		1			1			1		1		1
INARI			1			1		1			1	
IOICORP			1		1		1			1		
KLK			1			1	1			1		
MAXIS		1			1				1			1
MAYBANK		1			1			1			1	
MISC	1			1			1			1		
MRDIY			1			1		1			1	
NESTLE		1			1			1			1	
PBBANK		1			1		1				1	
PCHEM			1			1			1			1
PPB			1			1	1				1	
PETDAG	1			1			1				1	
PMETAL			1			1		1			1	
PETGAS		1			1			1			1	
QL		1			1		1			1		
RHBBANK		1			1			1			1	
SIMEPLT			1			1		1				1
SIME			1			1		1			1	
TM		1			1				1			1
TENAGA		1			1				1			1
<b>Total</b>	<b>2</b>	<b>14</b>	<b>13</b>	<b>2</b>	<b>16</b>	<b>12</b>	<b>9</b>	<b>13</b>	<b>7</b>	<b>6</b>	<b>16</b>	<b>8</b>
<b>Total (%)</b>	<b>7</b>	<b>48</b>	<b>45</b>	<b>7</b>	<b>53</b>	<b>40</b>	<b>31</b>	<b>45</b>	<b>24</b>	<b>20</b>	<b>53</b>	<b>27</b>

Source: Kenanga Research, Bloomberg

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## Exhibit 2: Overall Top Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd				
PBBANK	OP	3.81	4.90	28.6	73,955	12/2023	36.0	37.2	14.1	3.3	10.6	10.2	1.4	13.5	18.0	4.7
CDB	OP	4.47	5.15	15.2	52,440	12/2023	10.6	8.7	63.7	-18.2	42.0	51.4	3.2	7.6	9.0	2.0
MAXIS	OP	4.11	5.30	29.0	32,182	12/2023	16.6	16.7	-29.5	56.8	24.8	24.6	5.0	20.3	16.0	3.9
RHBBANK	OP	5.35	7.10	32.7	22,932	12/2023	77.5	77.7	15.9	0.3	7.3	7.3	0.8	10.7	43.0	8.0
KLK	OP	20.88	24.50	17.3	22,518	09/2023	106.0	155.7	-47.3	46.9	19.7	13.4	1.5	7.8	50.0	2.4
GAMUDA	OP	4.44	5.15	16.0	11,814	07/2023	35.0	43.6	10.8	24.7	13.2	10.6	1.3	10.4	50.0	11.3
KPJ	OP	1.18	1.50	27.1	5,150	12/2023	4.9	5.3	27.7	7.7	23.5	21.8	2.2	9.7	3.0	2.5
BAUTO	OP	2.17	2.90	33.6	2,534	04/2023	21.6	22.8	61.1	5.6	10.1	9.6	3.6	37.2	15.1	7.0
SUNCON	OP	1.68	2.13	26.8	2,166	12/2023	12.6	13.2	19.4	4.8	13.2	12.6	3.2	24.9	5.0	3.0
AEON	OP	1.32	1.80	36.4	1,853	12/2023	9.1	10.0	15.2	9.4	14.5	13.2	1.0	7.3	4.0	3.0

Source: Kenanga Research

## Exhibit 3: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd	1Y Fwd	2Y Fwd				
CDB	OP	4.47	5.15	15.2	52,440	12/2023	10.6	8.7	63.7	-18.2	42.0	51.4	3.2	7.6	9.0	2.0
MAXIS	OP	4.11	5.30	29.0	32,182	12/2023	16.6	16.7	-29.5	56.8	24.8	24.6	5.0	20.3	16.0	3.9
KLK	OP	20.88	24.50	17.3	22,518	09/2023	106.0	155.7	-47.3	46.9	19.7	13.4	1.5	7.8	50.0	2.4
GAMUDA	OP	4.44	5.15	16.0	11,814	07/2023	35.0	43.6	10.8	24.7	13.2	10.6	1.3	10.4	50.0	11.3
KPJ	OP	1.18	1.50	27.1	5,150	12/2023	4.9	5.3	27.7	7.7	23.5	21.8	2.2	9.7	3.0	2.5
BAUTO	OP	2.17	2.90	33.6	2,534	04/2023	21.6	22.8	61.1	5.6	10.1	9.6	3.6	37.2	15.1	7.0
SUNCON	OP	1.68	2.13	26.8	2,166	12/2023	12.6	13.2	19.4	4.8	13.2	12.6	3.2	24.9	5.0	3.0
AEON	OP	1.32	1.80	36.4	1,853	12/2023	9.1	10.0	15.2	9.4	14.5	13.2	1.0	7.3	4.0	3.0
PADINI	OP	3.72	5.80	55.9	2,447	06/2023	34.2	38.6	46.0	12.8	10.9	9.6	2.5	24.1	10.0	2.7
MBMR	OP	3.49	4.70	34.7	1,364	12/2023	65.6	67.7	-4.6	3.2	5.3	5.2	0.6	12.0	26.0	7.4

Source: Kenanga Research

**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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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