1QCY24 Investment Strategy

A Rising Tide Lifts All Boats

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FBM KLCI (pts)	
Current	Target
1,456.26	1,605

Executive Summary

- We project an end-CY24 FBM KLCI target of 1,605 pts based on 15x CY24F earnings (+14.4%), which is consistent with its historical PER range of between 14x and 16x post the economy reopening.
- We believe the key driver for global markets in CY24 is policy easing by central banks in advanced economies, particularly the Fed which will firstly make EM assets attractive again given a lower risk-free return of DM assets, and secondly set in motion a synchronised recovery in advanced economies, fuelling an export boom in the largely still export-dependent EM economies.
- During the Federal Open Market Committee (FOMC) meeting in Dec 2023, the Fed kept the target range of its funds rate at 5.25%-5.50% and forecast the Fed funds rate to end CY24 at 4.6% (vs. 5.1% estimated three months ago), effectively signaling three rate cuts in CY24. The market takes an even more dovish view, predicting six rate cuts in CY24 based on the latest Fed Funds futures.
- With the Fed poised to start cutting rates from as early as Mar 2024 based on the latest Fed Funds futures again, we see a strong case for investors to return to EM equities in a more decisive manner, assuming China's economy and the conflict in the Middle East would gradually stabilise.
- We expect the local market to lift off in a way likened to a rocket propelled by three booster engines in succession. We will tactically first position ourselves in beneficiariesof public spending, gradually also gravitating towards the tech and EMS sectors. We expect consumer spending to get softer before it gets stronger as it takes time for consumers to "internalise" subsidy rationalisation.
- We pick **banks** for a proxy to a healthier economy over the long term with stronger fiscal sustainability backed by subsidy rationalisation. We are upbeat on **contractors** given the imminent roll-out of MRT3 (RM45b), Bayan Lepas LRT (RM9.5b) and six flood mitigation projects reportedly to be worth RM13b.
- We like **consumer staples players** and **automotive makers/distributors focusing on the affordable segment**, given spending power of their target customers, i.e. the B40 group, will remain intact as the group will still fully enjoy various subsidies and cash handouts.
- The lingering lack of clarity over subsidy rationalisation, especially in relation to RON95, will cast a cloud over consumer sentiment and spending. However, we believe once it is finally put in place, consumers will gradually "come to terms" with it, which could happen in 2HCY24 when the local economy and job market start to pick up in-line with the recovery in the global economy.
- We are keeping a close eye on the earnings inflection point of **tech** and **EMS players**. For now, we nibble on a large-cap and liquid names, i.e. **INARI**.
- Our **top conventional picks** are **CIMB, AMBANK, GAMUDA, INARI, F&N, IJM, KPJ, ABMB, SUNCON** and **MBMR**.
- Our **top Shariah picks** are **IHH, CDB, MRDIY, GAMUDA, INARI, F&N, IJM, KPJ, SUNCON** and **MBMR**.
- Our top small-cap picks are **PIE, MKH, TGUAN, OCK, ULICORP** and **UZMA.**

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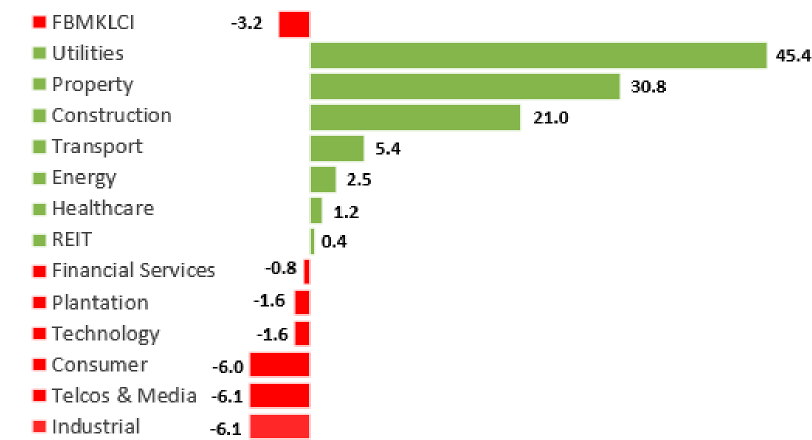
End-CY24 FBM KLCI Target of 1,605 pts

We project an end-CY24 FBM KLCI target of 1,605 pts based on 15x CY24F earnings (+14.4%), which is consistent with its historical PER range of between 14x and 16x post the economy reopening in CY21 and CY22.This implies a 10.9% upside to the market, vs. a 3.2% decline in CY23 (as at closing on 12 Dec 2023) (see Exhibit 1).

Exhibit 1: Performance of Malaysian Stock Market in CY23 (% chg)



**as at closing on 12Dec 2023*
Source: Bursa Malaysia, Kenanga Research

Policy Easing the Key Investment Theme in CY24

We believe the key driver for global markets in CY24 is policy easing by central banks in advanced economies, particularly the Fed, which augurs well for EM, Malaysia included, in two major ways:

1. It makes EM assets attractive again, given a lower risk-free return of DM assets, while EM assets also offer a strong potential in terms of translation gains (or at the least, a reduced risk of translation losses).The lower borrowing cost of hard currencies will also be supportive of the EM carry trade, i.e. borrowing in low-interest hard currencies to invest in high-yielding EM assets such as equities, bonds, commodities, real estate, etc. Such trade actually paid off handsomely in CY23, though it pared gains when certain EM central banks started to cut rates from May 2023. All these will usher in a return of investors to the EM, and Malaysia as a rising tide lifts all boats; and

2. A synchronised recovery in advanced economies underpinned by policy easing will fuel an export boom in the largely still export-dependent EM economies, providing a lift to their domestic labour markets and wage growth, and hence consumer spending. In addition, the export sector in the EM may also be buoyed by the end of the inventory adjustment cycle in the global semiconductor sector at some point in CY24.

Rate Cuts in the US

During the FOMC meeting in Dec 2023, the Fed kept the target range of its funds rate at 5.25%-5.50% and forecast the Fed Funds rate to end CY24 at 4.6% (vs. 5.1% estimated three months ago), effectively signaling three rate cuts in CY24. The market takes an even more dovish view, predicting six rate cuts in CY24 based on the latest Fed Funds futures (see Exhibit 2).

The dovish view is well supported by the headline CPI having significantly eased from its peak of 9.1% YoY in Jun 2022 to 3.1% in Nov 2023 (see Exhibit 3). Similarly, the core CPI (i.e. excluding the more volatile food and energy prices) has eased from its peak of 6.6% YoY to 4.0% during the same period (see Exhibit 4).

On the labour market front, while the number of job openings as at end-Oct 2023 according to the Job Openings and Labour Turnover Survey (JOLTS) came in weaker than expectations, this was subsequently neutralised by Nov 2023 non-farm payrolls and hourly wage growth that both surprised to the upside. Interestingly, the market took the strong Nov 2023 job numbers in stride, interpreting them as indications that the US may skirt a recession.

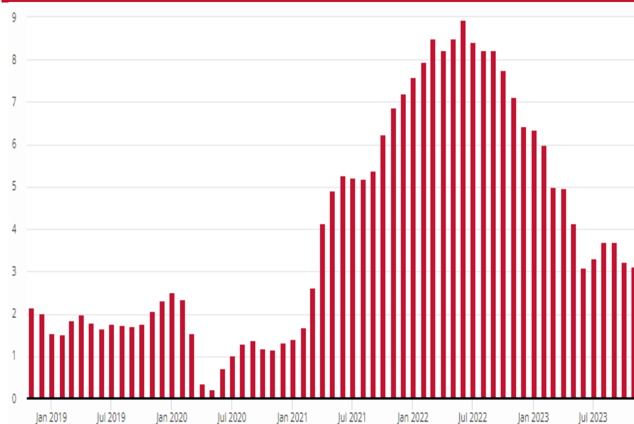
In terms of consumer demand as reflected in retail sales, the number has consistently beaten expectations since Jul 2023 as US consumers are adjusting well to a high interest rate environment thanks to a strong labour market (which means they are employed, hence with an income and the ability to spend), enabling them to continue to splurge on goods and services (which in turn stimulates new job creation).

Exhibit 2: Fed Funds Target Rate Probabilities (%)#

(%)	3.25-3.50	3.50-3.75	3.75-4.00	4.00-4.25	4.25-4.50	4.50-4.75	4.75-5.00	5.00-5.25	5.25-5.50
31-Jan-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	10.3	89.7
20-Mar-24	0.0	0.0	0.0	0.0	0.0	0.0	7.2	65.9	26.9
1-May-24	0.0	0.0	0.0	0.0	0.0	5.9	54.7	34.3	5.1
19-Jun-24	0.0	0.0	0.0	0.0	5.6	52.9	35.1	6.2	0.2
31-Jul-24	0.0	0.0	0.0	4.7	44.7	38.2	11.2	1.2	0.0
18-Sep-24	0.0	0.	4.0	39.1	39.1	15.0	2.6	0.2	0.0
7-Nov-24	0.0	1.6	17.8	39.1	29.6	10.1	1.7	0.1	0.0
18-Dec-24	5.8	23.3	36.7	24.6	7.9	1.3%	0.1	0.0	0.0

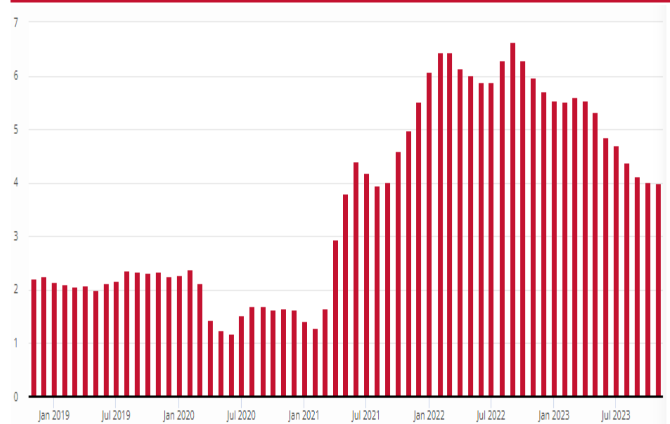
 # as at the closing on 13 Dec 2023
Source: CME Group, Kenanga Research

Exhibit 3: US CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Exhibit 4: US Core CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

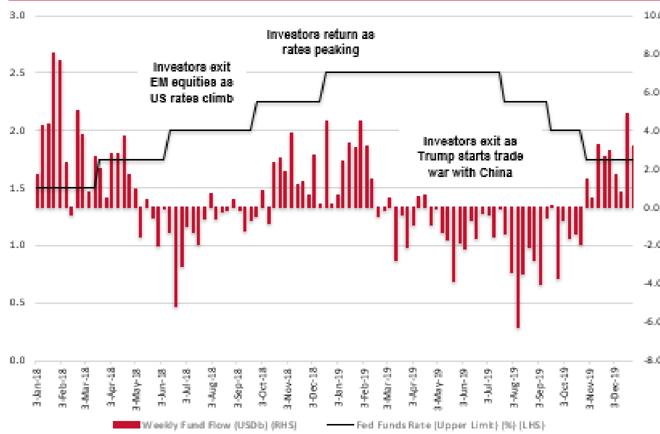
Exhibit 5: Selected Recent US Economic Data

	Month	Actual*	Estimate	Signal
CPI (yoy)	Nov	3.1%	3.1%	Dovish
Non-farm payrolls	Nov	199k	180k	Hawkish
Hourly wage growth (mom)	Nov	0.4%	0.3%	Hawkish
JOLTS job openings	Oct	8.7m	9.3m	Dovish
PCE price index (yoy)	Oct	3.0%	3.0%	Dovish
Retail sales (mom)	Oct	-0.1%	-0.3%	Hawkish
CPI (yoy)	Oct	3.2%	3.3%	Dovish
Non-farm payrolls	Oct	150k	180k	Dovish
Hourly wage growth (mom)	Oct	0.2%	0.3%	Dovish
JOLTS job openings	Sep	9.6m	9.3m	Hawkish
Retail sales (mom)	Sep	0.7%	0.2%	Hawkish
CPI (yoy)	Sep	3.7%	3.6%	Hawkish
Non-farm payrolls	Sep	336k	170k	Hawkish
Hourly wage growth (mom)	Sep	0.2%	0.3%	Dovish
JOLTS job openings	Aug	9.6m	8.8m	Hawkish

: Hawkish (beating expectations)
: Dovish (meeting or below expectations)

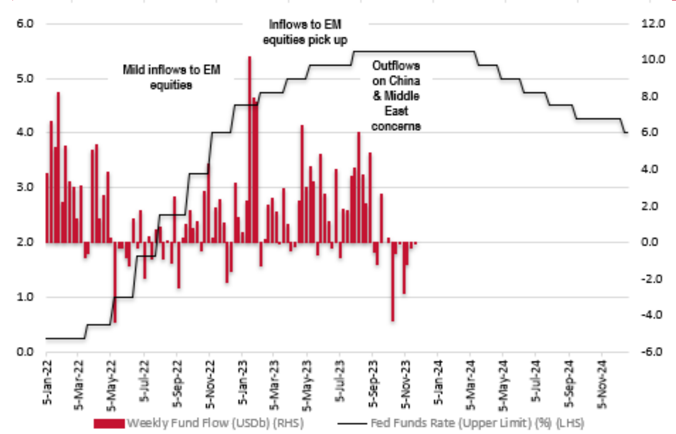
**Before subsequent revisions*
Source: Kenanga Research, investing.com

Exhibit 6: US Rate Hike Cycle (2018) vs. EM Equities



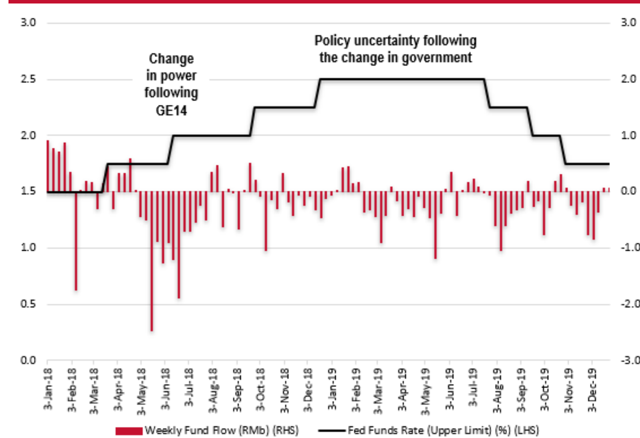
Source: EPFR, fred.stlouisfed.org, Kenanga Research

Exhibit 7: US Rate Hike Cycle (2022) vs. EM Equities



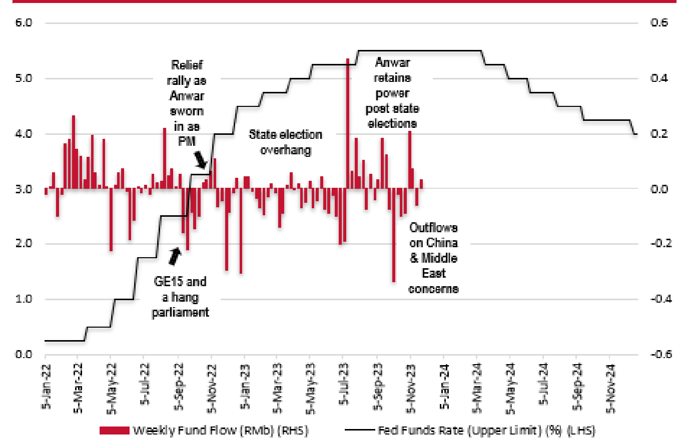
Source: EPFR, fred.stlouisfed.org, Kenanga Research

Exhibit 8: US Rate Hike Cycle (2018) vs. MY Equities



Source: Bloomberg, fred.stlouisfed.org, Kenanga Research

Exhibit 9: US Rate Hike Cycle (2022) vs. MY Equities



Source: Bloomberg, fred.stlouisfed.org, Kenanga Research

During the US rate hike cycle in 2018, investors dumped EM equities for a good five months from May to Sep 2018 at the beginning of the cycle (see Exhibit 6). They turned buyers in Oct 2018 when it became increasingly clear that the rates were to peak at 2.25%-2.50%. They continued to pile into EM equities until Feb 2019 when the punch bowl was pulled away after President Trump waged a trade war against China. Despite the Fed embarking on rate cuts, investors stayed clear of EM equities from Mar to Oct 2019 as the US-Sino trade war escalated. They only returned in Nov 2019 as the trade tensions gradually eased.

The current US rate hike cycle which started in 2022 has thus far played out in a fairly similar fashion. Investors dumped EM equities also for a good five months from May to Sep 2022 at the beginning of the cycle (see Exhibit 7). They started to nibble in Oct 2022 and turned more decisive in their buying in Jan 2023 on China's reopening. They continued to pile into EM equities until Sep 2022 before pulling back from Oct 2023 onwards on concerns over China's economic outlook and the Israel-Hamas conflict. With the Fed poised to start cutting rates from Mar 2024, we see a strong case for investors to return to EM equities assuming China's economy and the conflict in the Middle East would gradually stabilise.

Meanwhile, the Malaysian stock market registered persistent outflows of foreign funds throughout the 2018 US rate hike cycle (see Exhibit 8). The 14th General Election (GE14) of Malaysia took place in May 2018 when the Fed had just started to embark on hiking rates. The election saw the end of the 60-year reign of the Barisan Nasional coalition since the independence from the British rule in 1957. Foreign investors, spooked by policy uncertainly following the unexpected change in power, continued to avoid Malaysia despite the rates in the US eventually peaking and trending down.

Similarly, investors largely bypassed Malaysia during their initial return to EM in Oct 2022 as Malaysia was just a month away from the 15th General Election (GE15) (see Exhibit 9), of which observers had been unanimous in their view that it was too close to call. Investors continued to show subdued interest in Malaysia in Jan 2023 (despite China's reopening) on concern over the stability of the ruling unity government formed by strange bedfellows (as no coalition had control over the majority of the Parliament after the GE15), coupled with the outstanding state elections in Kedah, Kelantan, Negeri Sembilan, Penang, Selangor and Terengganu.

The Malaysian stock market only ushered in a return of foreign inflows right before the state elections in Aug 2023 as it became increasingly clear that the ruling unity government would retain control of the critical states of Negeri Sembilan, Penang and Selangor. However, it has not been spared the sell-off from Oct 2023 onwards on concerns over China's economic slowdown and the Israel-Hamas conflict. As in the case of EM in general, with the Fed poised to start cutting rates from Mar 2024, we see a resumption of foreign inflows to Malaysia assuming China's economy and the conflict in the Middle East would gradually stabilise.

Exhibit 10: Indicative Weigthing in MSCI EM Index by Country

	Jul 2021	Jun 2022	Dec 2022	Dec 2023	Chg
China	37.52	33.18	30.23	27.14	-3.09
India	9.87	12.44	14.94	16.85	+1.91
Taiwan	13.78	15.42	14.52	15.78	+1.26
South Korea	13.10	11.82	11.93	12.55	+0.62
Brazil	5.28	5.18	5.30	5.70	+0.40
Saudi Arabia	2.87	4.34	4.10	4.07	-0.03
South Africa	3.52	3.59	3.52	2.96	-0.56
Mexico	1.75	2.04	2.43	2.67	+0.24
Indonesia	1.09	1.86	1.95	1.92	-0.03
Thailand	1.59	1.86	2.13	1.72	-0.41
Malaysia	**1.24**	**1.47**	**1.52**	**1.36**	**-0.16**

Source: ishares.com, Kenanga Research

Malaysian Market to Lift Off in a 3-Stage Rocket

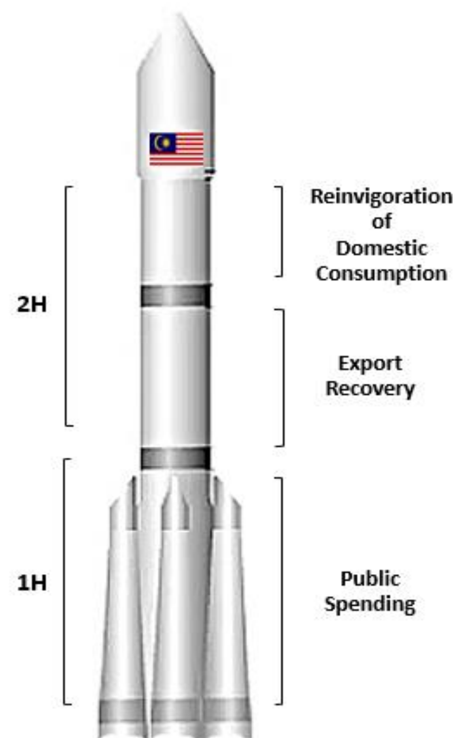
We expect the local market to lift off in a way likened to a rocket propelled by three booster engines in succession (see Exhibit 11). We will tactically first position ourselves in beneficiaries of public spending during the early part of the year, gradually also gravitating towards the tech and EMS sectors as the global economy picks up. We expect consumer spending to get softer before it gets stronger as it takes time for consumers to "internalise" subsidy rationalisation.

We pick **banks** for a proxy to a healthier economy over the long term with stronger fiscal sustainability backed by subsidy rationalisation, and to a certain extent, as a proxy to the multiplier effect throughout the economy with the roll-out of large-scale public infrastructure projects.

We are upbeat on **contractors**. While the gross development expenditure of RM90b in Budget 2024 is lower than the RM97b in Budget 2023, the government can tap into DanaInfra Nasional Bhd to fund large-scale public projects on an off-balance basis.

High on the priority list are the RM45bMRT3 or MRT Circle Line which will provide connectivity to the existing MRT, LRT, monorail and train lines through interchange stations, and the RM9.5b Bayan Lepas LRT, which will help to ease the chronic traffic congestion in Penang Island. Coupled with the roll-out of six flood mitigation projects reportedly to be worth RM13b including flood mitigation works at Sungai Johor (Johor), the construction of the Sungai Klang-Sungai Rasau dual-function reservoir (Selangor) and the Sungai Golok Integrated River Basin Development Phase 3 (Kelantan), we believe there will be enough jobs to go around for all players.

Exhibit 11: Lift-off in a 3-Stage Rocket



Source: Kenanga Research

We are keeping a close eye on the earnings inflection point of **tech** and **EMS players.** For now, we nibble on a large-cap and liquid names, i.e. **INARI**.

The lingering lack of clarity over subsidy rationalisation, especially in relation to RON95, will cast a cloud over consumer sentiment and spending (for instance, prompting consumers to cut back or defer the purchases of discretionary goods such as a new phone, or services such as outings and holidays). Rubbing salt in the wound is the already dented consumer spending power on the heels of sustained high inflation in recent years.

However, we believe once subsidy rationalisation is finally put in place, consumers will gradually “come to terms” with it (by making necessary adjustments to their lifestyle). This could happen in 2HCY24, which could coincide with a stronger local economy and job market in-line with the recovery in the global economy.

For now, we favour **consumer staples players** and **automotive makers/distributors focusing on the affordable segment**, given their target customers in the B40 group will be shielded from the brunt of subsidy rationalisation and could potentially also benefit from the introduction of progressive wage model.

Our **sector recommendations**, **top conventional picks, top Shariah picks** and **top small-cap picks** and their rationales and key investment statistics are reflected in Exhibits 12 to 17.

Exhibit 12: Sector Recommendations, Rationales and Top Picks

	Sector	Rationales	Top Picks
OVERWEIGHT	Construction	The roll-out of public infrastructure jobs led by flood mitigation projects, MRT3 and Bayan Lepas LRT.	IJM, GAMUDA, SUNCON
	Financial Services	Sustained loans growth, potential write-back of provisions and M&As.	AMBANK, ABMB, CIMB
	Healthcare	Growing demand for private healthcare on rising affluence, aging population, and strong pricing power,	KPJ, IHH
	Seaport & Logistics	Recovery in global trade and demand for warehousing and logistics services from e-commerce.	WPRTS, SWIFT
	Tele-communications	Earnings resilience, market-driven Dual Network model for 5G roll-out likely to result in lower access charges.	CDB, TM
	Utilities	Earnings defensiveness backed by regulated assets or long-term offtake agreements.	TENAGA, YTLPOWR
NEUTRAL	Automobile	Resilient demand in the affordable vehicle segment; proxy to gig economy boom via motorcycles demand.	HLIND, MBMR
	Aviation	Robust demand for air travel, offset by absence of airport tariff hikes and pending regularisation plan of an airline.	None
	Building Material	Weak demand on China's slowdown, supply constraints to limit downside to commodity prices	OMH, ULICORP
	Consumer	Steady demand for consumer staples, consumer discretionary hurt by subsidy rationalisation.	F&N, MRDIY, QL
	Oil & Gas	Upstream service providers buoyed by spending in brownfield projects, tank terminal (midstream) rates bottoming out, subdued demand and hence weak product prices for petrochemicals (downstream).	DIALOG, YINSON, UZMA
	Plantation	Stable CPO prices on easing fertilizer cost, share price supported by asset value but limited foreign interest.	KLK
	Plastic Packaging	Demand hurt by global economic slowdown, but growth potential in sustainable packaging based on downgauging (i.e. making thinner film).	TGUAN
	Property	Weighed down by overhang, high household debt and elevated mortgage rates, but a bright spot in affordable homes priced at RM500k and below.	MKH, MAHSING
	REIT	Unattractive spread over risk-free rate.	PAVREIT
	Technology/EMS	Semiconductor inventory adjustment cycle would have run its course at some point during the year. More meaningful recovery in 2H given seasonally low 1Q.	INARI, PIE
UNDERWEIGHT	Glove	Valuations not supported by tepid profitability driven by plant decommissioning and low input costs which may be short-lived.	none
	Media	Weak adex, challenging transition from traditional to digital media.	STAR

Source: Kenanga Research

Exhibit 13: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMm)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY23F	FY23F	FY23F
CIMB	OP	5.79	6.30	8.8	61,750.94	Dec	64.2	66.6	23.0	3.7	9.0	8.7	0.9	10.5	35.0	6.0
AMBANK*	OP	4.02	4.80	19.4	13,301.03	Mar	47.7	54.2	-9.0	13.7	8.4	7.4	0.7	8.5	19.0	4.7
GAMUDA	OP	4.44	5.45	22.7	12,080.17	Jul	31.9	41.3	6.7	29.5	13.9	10.8	1.0	9.8	12.0	2.7
INARI	OP	2.96	4.17	40.9	11,088.49	Jun	8.7	10.4	-17.2	20.5	34.0	28.3	4.2	14.9	9.9	3.3
F&N	OP	27.32	30.70	12.4	10,020.39	Sep	132.1	135.5	21.0	3.0	20.7	20.2	3.0	14.4	70.0	2.6
IJM*	OP	1.89	2.31	22.2	6,626.65	Mar	10.4	10.7	12.7	2.6	18.1	17.6	0.6	3.9	8.0	4.2
KPJ	OP	1.34	1.56	16.4	5,848.16	Dec	5.1	5.5	32.8	7.7	26.1	24.2	2.5	10.1	3.5	2.6
ABMB*	OP	3.48	4.30	23.6	5,387.41	Mar	47.1	51.0	7.6	8.4	7.4	6.8	0.8	10.5	24.5	7.0
SUNCON	OP	1.90	2.26	18.9	2,449.78	Dec	10.5	11.9	-5.5	13.3	18.0	15.9	2.9	17.0	5.0	2.6
MBMR	OP	4.30	5.50	27.9	1,680.82	Dec	67.7	69.2	18.2	2.3	6.4	6.2	0.8	12.6	48.0	11.2

**FY23F and FY24F refers to FY24F and FY25F*
Source: Kenanga Research

Exhibit 14: 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 (%)
							FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY23F	FY23F	FY23F
IHH	OP	5.90	7.00	18.6	51,961.25	Dec	16.7	20.6	5.9	23.9	35.4	28.6	1.9	5.5	15.5	2.7
CDB	OP	4.10	5.34	30.2	48,099.18	Dec	12.0	12.8	-16.8	7.2	34.2	31.9	3.1	9.2	18.0	4.2
MRDIY	OP	1.53	1.78	16.3	14,446.26	Dec	6.1	7.1	19.9	16.4	25.0	21.5	8.5	36.9	3.0	2.0
GAMUDA	OP	4.44	5.45	22.7	12,080.17	Jul	31.9	41.3	6.7	29.5	13.9	10.8	1.0	9.8	12.0	5.3
INARI	OP	2.96	4.17	40.9	11,088.49	Jun	8.7	10.4	-17.2	20.5	34.0	28.3	4.2	14.9	9.9	2.7
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SUNCON	OP	1.90	2.26	18.9	2,449.78	Dec	10.5	11.9	-5.5	13.3	18.0	15.9	2.9	17.0	5.0	2.7
MBMR	OP	4.30	5.50	27.9	1,680.82	Dec	67.7	69.2	18.2	2.3	6.4	6.2	0.8	12.6	48.0	10.7

**FY23F and FY24F refers to FY24F and FY25F*
Source: Kenanga Research

Exhibit 15: Rationales for Top Conventional and Shariah Picks

Top Pick	Rationales
ABMB (OP; TP: RM4.30)	ABMB appears to be in the position to deliver high loans growth (+8%) thanks to more concentrated efforts in its high SME mix (c.30% of portfolio). Also thanks to its large CASA (c.40%), the group enjoys the widest NIM as compared to its peers. It leads in dividend yield (c.7% vs. 5% industry average) and ROE of close to 11% (vs. 10% sector average). ABMB also poses opportunity as a potential laggard in the banking space given returning interest favouring the large caps in recent months.
AMBANK (OP; TP: RM4.80)	AMBANK is poised to deliver new grounds with regards to its ROE expansion (above pre-Covid's 10%). The group is also a notable player in the SME space (c.20% of total portfolio) which could be one of the leading growth segments on a revitalised economic environment. In the near-term, a pending tax credit of RM537m may lead to a positive knee-jerk on its stock. It would be accretive towards the group's capital building efforts which may lead to the revisiting of M&A talks.
CDB (OP; TP: RM5.34)	We like CDB due to: (i) merger synergies expected to amount to NPV of RM8b over 5 years – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) its robust FCF yield of more than 7% in FY23-24 implies capacity to pay steady dividends with potential upside risk, and (iii) its leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively – which translates to pricing power, economies of scale, and cross selling opportunities.
CIMB (OP; TP: RM6.30)	While CIMB's sequential earnings growth may not be as impressive in FY24, the group's regionally diversified operations (CIMB Niaga, Thailand) have continued to report sustainable returns with several units (CIMB Philippines, TNGD) breaking even soon. Further efforts to trim operating expenses will be reviewed after the completion of its Forward23+ initiatives. Dividend yields of >6% may be due to expand as the group also seeks pay-out closer to 60% (from 40%-50%).
F&N (OP; TP: RM30.70)	We like F&N for: (i) its earnings defensiveness underpinned by the steady demand for staple food items, (ii) its margin recovery driven by softening food commodity prices, (iii) its strong brand recognition, (iv) the recovery in its export sales to Thailand driven by a revival in domestic consumption and a resurgence in tourism there, and (v) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan.
GAMUDA (OP; TP: RM5.45)	We like GAMUDA for (i) it being the front-runner for the tunneling job for MRT3, (ii) its competitiveness in the international space as showcased by the multiple job wins in Australia, Singapore and Taiwan, (iii) its strong war chest after the disposal of its toll highways, (iv) its robust earnings visibility underpinned by a high outstanding order book of RM27.8b, and (v) its efforts to expedite growth in the renewable energy space in line with global sustainability goals.
IHH (OP; TP: RM7.00)	We like IHH for: (i) the bright prospects of the private healthcare sector in the region underpinned by rising affluence and ageing population, (ii) its presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China, which are in different private healthcare growth cycles, (iii) its aggressive growth strategy via expansion of existing hospitals as well as M&As; and (iv) its ability to pass on higher cost in an inflationary environment.
IJM (OP; TP: RM2.31)	We like IJM for: (i) it is poised to garner a slice of action in the imminent mega rail projects, i.e. MTR3 and Bayan Lepas LRT given its involvement in the previous MRT and LRT projects, (ii) its strong earnings visibility underpinned by an outstanding construction orderbook of RM6.4b and unbilled property sales of RM2.5b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth.
INARI (OP; TP: RM4.17)	We favor INARI for: (i) it being a good proxy to the 5G adoption, (ii) its high responsiveness to market demand as evidenced by its adoption of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) the bright prospects of its operations in China underpinned by China's survival fight towards semiconductor self-sufficiency. INARI has bounced back more quickly than its peers, as evidenced by an impressive net margin of >20% realiased, vs. single-digit net margins of its OSAT peers.
KPJ (OP; TP: RM1.56)	We like KPJ for: (i) the bright prospects of the private healthcare sector in Malaysia underpinned by rising affluence and ageing population, (ii) its strong market position locally with the largest network of 29 private hospitals (vs. only 16 of IHH in the second place), and (iii) it is poised for an earnings up-cycle (having emerged from an investing up-cycle) with two of its new hospitals having turned EBITDA-positive while another two only recorded small operating losses.
MBMR (OP; TP: RM5.50)	We like MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 140k units, which is equivalent to almost half its CY24 sales target of 330k 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 11%.
MRDIY (OP; TP: RM1.78)	We like MRDIY for: (i) its dominant position in Malaysia's home improvement market, (ii) its impressive gross margins exceeding 40%, significantly outpacing its peers of 32%, a testament to its advantageous negotiation position with suppliers and benefits derived from economies of scale, (iii) a vigorous store expansion strategy aimed at broadening its national footprint, and (iv) the impending initiation of an automated inventory system in 1QFY24, which could further enhance its operational efficiency.
SUNCON (OP; TP: RM2.26)	We like SUNCON for: (i) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, (ii) its strong earnings visibility underpinned by a record outstanding order book of RM5.79b, (iii) its strong balance sheet that enables it to carry out projects for local and overseas clients based on a deferred payment model, and (iv) recurring jobs from parent and sister companies

Source: Kenanga Research

Exhibit 16: Top Small-Cap 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 (%)
							FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY23F	FY23F	FY23F
PIE	OP	3.30	3.80	15.2	1,267.34	Dec	17.7	21.1	-4.2	19.5	18.7	15.6	2.1	11.7	7.0	2.1
MKH	OP	1.42	2.11	48.6	819.93	Sep	12.9	18.3	-33.6	41.8	11.0	7.8	0.4	5.3	6.0	4.2
TGUAN	OP	1.87	2.86	52.9	738.98	Dec	21.9	26.0	-22.4	18.4	8.5	7.2	0.8	9.7	2.3	1.2
OCK	OP	0.43	0.74	72.8	452.89	Dec	3.7	5.0	15.4	33.8	11.6	8.7	0.7	6.4	0.0	0.0
ULICORP	OP	1.45	2.18	50.3	315.81	Dec	21.2	27.3	25.2	28.6	6.8	5.3	0.8	12.6	6.0	4.1
UZMA	OP	0.76	1.22	61.6	292.36	Jun	10.1	11.8	166.4	17.0	7.5	6.4	0.5	8.7	0.0	0.0

Source: Kenanga Research

Exhibit 17: Rationales for Top Small-Cap Picks

Top Pick	Rationales
MKH **(OP; TP: RM2.11)**	We like MKH for its focus on transit-oriented development and affordable properties. While being relatively small in terms of planted area, its plantation business stands out by virtue of FFB yield that is significantly higher than the industry average given a heavy concentration of high quality, matured trees. The group's near net cash gearing translates to a strong war chest. The pending spin-off listing of its plantation division may offer some arbitrage opportunities.
OCK **(OP; TP: RM0.74)**	We like OCK for: (i) being an early beneficiary of 5G network infrastructure roll-out across Malaysia and regional markets, (ii) strong earnings visibility as 55% of its top line is anchored by recurring income derived mainly from telco tower maintenance and leasing contracts, (iii) earnings growth from Jendela Phase 2 fiberization projects and new EPCC contracts to supply power back-up systems for data centers at Iskandar, and (iv) potential expansion to new regional markets (e.g. Indochina, Kalimantan and the Philippines).
PIE **(OP; TP: RM3.80)**	We like PIE for its: (i) comprehensive skill set, positioning it as a preferred EMS provider for MNCs, (ii) various competitive advantages stemming from its association with Foxconn, and (iii) diversified and expanding client base, spanning communication devices, power tools, and emerging DeFi equipment. PIE's order forecasts have turned positive, indicating a seasonally stronger 4QFY23. Additionally, it has onboarded four new customers in drone, medical, smart home, and industrial sectors, contributing positively in FY24.
TGUAN **(OP; TP: RM2.86)**	We like TGUAN for: (i) the medium-term growth prospects of the packaging sector in Malaysia, underpinned by growing global demand and market share gains against high-cost overseas rivals, (ii) its steady export push into European and North American markets with environmentally-friendly products, (iii) its earnings stability underpinned by a diverse product portfolio and client base, and (iv) its shift of focus to premium products such as nano stretch film that fetches better margins.
ULICORP **(OP; TP: RM2.18)**	We like ULICORP for: (i) its dominant market position in the local cable support systems space with a market share of over 50%, (ii) the strong pick-up in orders for its cable support systems widely used in buildings, manufacturing facilities and infrastructure projects as the economy normalises, (iii) the industry consolidation during the pandemic era (i.e. weak players shutting down permanently) which has reduced competition and boosted margins, and (iv) its net cash position translating to a strong war chest or allows it to pay attractive dividends.
UZMA **(OP; TP: RM1.22)**	We favor UZMA for: (i) being a beneficiary of the current up-cycle in brownfield upstream activities, as evidenced by an increased contract flow and improved margins at its upstream oil & gas division, (ii) its new and growing business in oilfield chemicals used in deepwater projects, which have been given the stamp of approval by its clients in terms of performance and quality, and (iii) its diversification into solar energy, both solar EPCC and asset ownership.

Source: Kenanga Research

Automotive

NEUTRAL

Shifting to a Lower Gear

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

We downgrade our call to NEUTRAL from OVERWEIGHT. We project industry-wide sales volume, also known as total industry volume (TIV), to contract by 8% to 710k units in CY24 as fuel subsidy rationalisation is likely to hurt the demand for mid-market models. However, we remain optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group, will be spared the impact of subsidy rationalisation, and also could potentially benefit from the introduction of the progressive wage model. Our sector top pick is MBMR (OP; TP: RM5.50), which is a good proxy to the affordable and fuel-efficient *Perodua* vehicle brand. It also offers an attractive dividend yield of about 11%.

We downgrade the automotive sector to NEUTRAL from OVERWEIGHT. We project a TIV of 710k units in CY24 (down 7.8% from an estimated 770k units in CY23). The industry's earnings visibility is still strong, backed by a booking backlog of 220k units as at end-Nov 2023. More than half of the backlog is made up of new models, alluding to how appealing new models are to car buyers. We expect a similar trend in CY24, given an equally strong line-up of new launches during the year. Meanwhile, excitement is building in the electric vehicle (EV) segment with the recent new launches of BYD Seal and Tesla Model 3 with expected introduction of locally-made first national EV (i.e. Perodua and Proton) in CY25.

We believe a new car is still an affordable luxury for most Malaysian households despite the high inflation and a slowing global economy underpinned by: (i) strong consumer confidence supported by a stable economy and a healthy job market, (ii) the affordability of motor vehicle underpinned by 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 potentially cheaper hire purchase cost with the introduction of the reducing balance method in the calculation of interest charges, and (iii) attractive new models.

However, we acknowledge that the impending fuel subsidy rationalisation is likely to hurt the demand for mid-market models, while remaining optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group which is its main target market, will be spared the impact of subsidy rationalisation, and also could potentially benefit from the introduction of the progressive wage model.

Perusahaan Otomobil Kedua Sdn Bhd, the maker of the affordable and fuel-efficient Perodua vehicles, will be running at full capacity in CY24 to fulfil in a huge booking backlog of 140k units, which is equivalent to almost half its CY24 sales target of 330k units. As such, based on our estimates, Perodua is poised to expand its market share to 47% (from an estimated 42% in CY23).

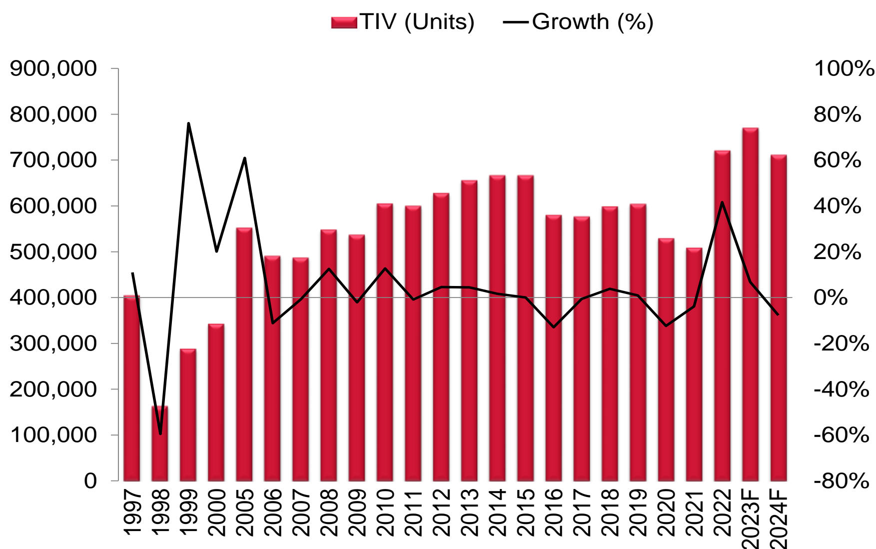
Attractive new models. In the space of local brands, both Perodua and Proton models have been selling well, being competitively priced against the non-national brands. They also offer improved technological features (i.e. digital speedometer, fuel-efficient engine and a highly-responsive gearbox) and safety features (i.e. advanced driver assistance systems (ADAS) and 4-to-6 airbags). Perodua is ahead in the new model race (in term of volume) 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 (Perodua D66B, B-segment). On the other hand, Proton recently launched the first mild-hybrid electric vehicle (MHEV) for the local brand, its all-new Proton X90, and its first sedan under Geely partnership, all-new Proton S70 (C-segment sedan at the price of non-nationals B-segment), Proton-SMART (BEV), 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 (MP; TP: RM2.30)**. Honda, for instance, replaced its 7-seater variant of Honda BR-V with WR-V (small 5-seater SUV) which is the brand's current best-selling car. Generally, car buyers are spoilt for choice with new launches including Perodua D66B (1QCY24, B-segment), Proton S70, SMART EV, Toyota Innova Zenix, 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 that enjoy SST exemption and other EV facilities incentives up to CY25 for CBU and CY27 for CKD. BEVs' new registration had leapt significantly for the past two years (from 274 units in CY21 to over 3,400 units in CY22 and 7,500 units by Sept 2023) 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. Meanwhile, the government's pledge to enable charge point operators (CPOs) to secure faster approvals for installation provide comfort as currently only 1,434 EV charging stations have been built to-date.

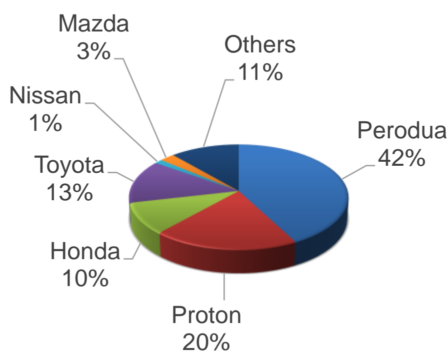
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 140k units, which is equivalent to almost half its CY24 sales target of 330k units, (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of 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 11%. We raise our TP for **MBMR** by 13% to RM5.50 (from RM4.85) as we now value it at 8x FY24F PER (from 7x previously). We narrow its forward PER discount to the sector's average of 11x to reflect its strengthening market position in the automotive industry.

TIV Volume 1997-2024F



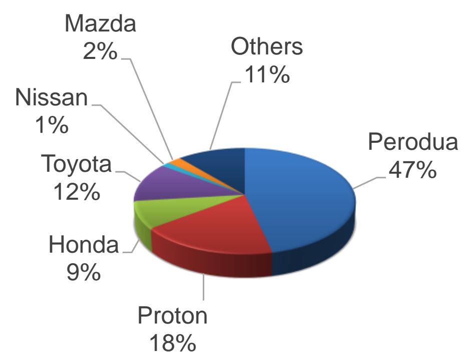
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) CY23F



Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) CY24F



Source: MAA, Kenanga Research

Exciting New Launches

All-New Perodua D66B (1QCY24)

All-new Perodua Alza

All-new Toyota Veloz

All-new Toyota Vios

All-new Perodua Axia

All-new Honda City facelift

Proton x90 7-seater

Proton SMART#1 EV

Mazda CX-30

2022 Honda City Hatchback

All-new Toyota Innova Zenix

All-new Honda WR-V 2023

Source: Paultan.org

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
BERMAZ AUTO BHD	MP	2.32	2.30	-0.9%	2,708.8	Y	04/2024	26.1	22.7	-0.3%	-13.0%	8.9	10.2	3.2	37.9%	20.1	8.7%
DRB-HICOM BHD	MP	1.41	1.45	2.8%	2,725.9	Y	12/2023	16.5	17.7	4.9%	7.5%	8.6	8.0	0.3	3.6%	2.0	1.4%
HIL INDUSTRIES BHD	MP	0.935	0.910	-2.7%	310.4	Y	12/2023	10.7	13.3	49.0%	24.2%	8.7	7.0	0.7	8.1%	2.0	2.1%
HONG LEONG INDUSTRIES BHD	OP	9.28	10.50	13.1%	2,964.7	Y	06/2024	87.8	92.3	-1.0%	5.2%	10.6	10.1	1.4	13.9%	60.0	6.5%
MBM RESOURCES BHD	OP	4.47	5.50	23.0%	1,747.3	Y	12/2023	67.7	69.2	18.2%	2.3%	6.6	6.5	0.8	12.6%	48.0	10.7%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.980	0.750	-23.5%	638.8	Y	12/2023	(18.3)	(9.0)	-426.9%	-149.3%	N.A.	N.A.	0.2	-4.3%	2.0	2.0%
SECTOR AGGREGATE					**33,257.7**					**1.9%**	**4.3%**	**12.3**	**11.8**	**0.8**	**6.9%**		**5.0%**

Source: Kenanga Research

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Aviation

NEUTRAL

A Few Obstacles on the Runway

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

We maintain our NEUTRAL view on the sector. We expect the demand for business and leisure air travel to continue to recover throughout CY24, which is consistent with Tourism Malaysia's projection of tourist arrivals to return to pre-pandemic levels of 27m in Malaysia, up 35% from 20m in CY23. We see a sustained recovery in passenger throughput at AIRPORT (MP; TP: RM7.00) and passengers carried at CAPITALA (MP; TP: RM0.84). 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 underpin passenger throughput growth in CY24. We expect business and leisure air travel to continue to recover throughout CY24. According to our in-house projection, tourist arrivals in Malaysia is expected to jump 35% to 27m (consistent with Tourism Malaysia's projection to return to pre-pandemic levels) in CY24 from an estimated 20m a year ago (see Exhibit 1). A key driver is Chinese tourists that had historically contributed to an estimated 12% of total tourist arrivals in Malaysia. Furthermore, tourist arrivals is expected to be boosted by the 30-day visa-free regime for Chinese and Indian visitors to Malaysia starting from Dec 2023 and China allowing Malaysian inbound visitors 15 visa-free days between 1 Dec CY23 and 30 Nov CY24. This should underpin growth in **AIRPORT'S** passenger throughput and **CAPITALA's** passenger demand in CY24.

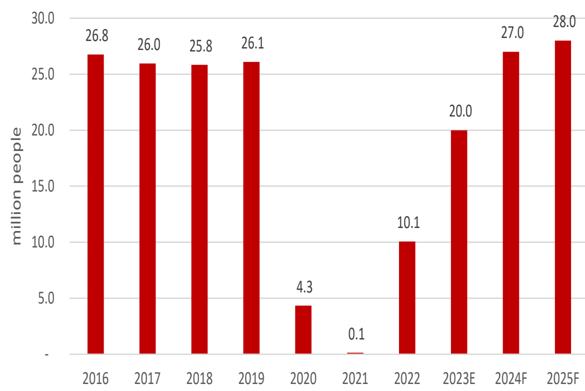
Further volume improvement for AIRPORT and CAPITALA in CY24. We project **AIRPORT's** system-wide passenger throughput to rise by 7% to 131m in CY24. Amplifying traffic growth trajectory is aircraft movements that are pointing towards increased medium and long-haul flights to Perth, Sydney and Auckland, Southeast Asia and South Asia destinations. 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, after temporarily ceasing operations due to the COVID-19 pandemic. In addition, Malaysia Airlines has increased its flight frequency to Tokyo. AirAsia Group meanwhile is focusing on its medium-haul operations by increasing its Malaysia AirAsia X flights to 44 weekly across 10 routes from November 2022.

We see a similar trend for **CAPITALA's** passenger demand in CY24, paving the way for its system-wide revenue seat km (RPK) to grow 20% to an estimated 70b in CY24, after recovering by an estimated 24b to 58b in FY23 based on our forecasts. The group reiterated that the passenger throughput recovery is gaining traction. It is targeting to reactivate 187 aircrafts by 4QFY23 with 161 aircrafts available for operation, and its operating capacity to reach 74% of pre-COVID level, leveraging the high travel season and the newly established visa-free travel between China and Malaysia starting 1 Dec 2023.

Pegging airport tariffs to CPI may not be sufficient to raise enough funds 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.

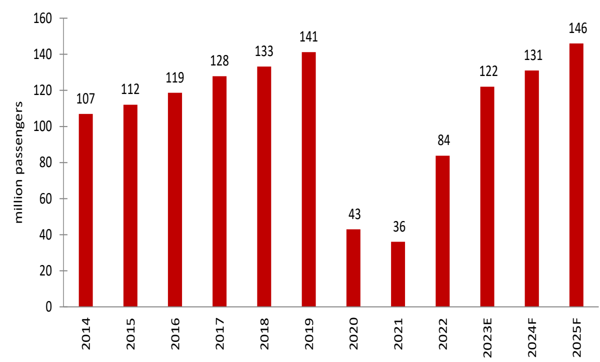
CAPITALA's regularisation plans to exit PN17 in the works. The group plans to divest its aviation group to AirAsia X in exchange for shares which will subsequently be distributed back to its shareholders. The details of the regularisation plan are expected to be announced by end-Dec 2023 with completion by 2QCY24. 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. We do not have any pick for the sector.

Exhibit 1: Tourist Arrivals in Malaysia



Source: Kenanga Research

Exhibit 2: AIRPORT's Passenger Throughput*



*million passengers
Source: Kenanga Research, Company

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
CAPITAL A BHD	MP	0.865	0.840	-2.9%	3,645.2	Y	12/2023	(0.8)	5.5	-101.1%	602.1%	N.A.	15.7	(0.6)	0.6%	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	7.11	7.00	-1.5%	11,863.4	N	12/2023	25.9	32.0	19.7%	23.4%	27.5	22.2	1.5	5.7%	11.0	1.5%

Source: Kenanga Research

Banking

Stable Climate for Catch-Up in Valuations

OVERWEIGHT

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

We maintain our OVERWEIGHT call on the banking sector. We project a loans growth range of 4.5%-5.0% in CY24, which is a tad higher than our CY23 assumption of 4.0%-4.5% premised upon a greener economic landscape. OPR could remain stable at 3.00% throughout CY24 which may lead to more optimised product rates for consumers, but also as a measure to keep inflation in check. With its Apr 2024 deadline looming, most digital banks are expected to be launched soon with GX Bank being the first to enter the market. For now, we do not anticipate meaningful pressures from here to traditional banks albeit they will likely capture the attention of consumers with its high-yielding deposits structure. For 1QCY24, our Top Picks are: (i) CIMB (OP; TP: RM6.30) for its strengthening regional portfolio which could include profit contributions from certain assets, (ii) AMBANK (OP; TP: RM4.80) for its strengthening books and possible positive near-term reaction from upcoming tax credits, and (iii) ABMB (OP; TP: RM4.30) for its leading yet sustainable fundamentals which outpace certain larger-cap names, despite being the smallest listed bank.

Stronger CY24 loans growth. We project a loans growth range of 4.5%-5.0% in CY24, which is a tad higher than our CY23 assumption of 4.0%-4.5% (CY22: 5.7%). This also ties in with our in-house GDP growth of 4.9% for CY24.

The system loans growth in Oct 2023 came in at 4.0%. Household loans remained the key driver of overall loans performance as business loans had stayed limped with the year's operating landscape yet to paint favourable conditions for businesses to aggressively expand. This could also be attributed to uncertainties of Aug 2023's state election outcome.

We expect CY24 loans growth to continue to be supported by affordable homes which also appear to be the preference for developers within their new launch pipelines. That said, we opine secondary market transactions could also see some pick-up as banks may now be more competitive with the margin spread for newly onboarded mortgages. On the business front, fewer uncertainties with regards to domestic economic policies and interest rates may spur business to once again focus on expanding. Meanwhile, a weaker domestic currency may be a booster for exporters and could drive spending from foreign tourists, possibly stimulating growth in these areas.

Steady-state OPR outlook may offer mixed outcomes. We anticipate OPR to remain stagnant at 3.00% throughout CY24. This is premised on prolonged containment of inflationary pressures with a weak ringgit exaggerating imports. This may be further stirred by the pending subsidy rationalisation and to a lesser extent, the implementation of luxury taxes. On the flipside, the likelihood for OPR cuts could stem from the materialisation of a recession in foreign markets (namely, US markets).

A stable OPR can lead to several outcomes: (i) as banks' product margins become more apparent, it may ignite competition in the financing products with banks shifting away from deposit-focused competition, (ii) for prospective borrowers, expectations of stable interest rates may boost their willingness to borrow as perceived opportunities for interest savings become less evident, and (iii) as fixed income investments may experience reduced volatility, diminishing trading opportunities and thereby limiting trading gains, prompting banks to focus more on enhancing net interest income to sustain profits.

Digibanks ready to prowl. Closing in on BNM's deadline of Apr 2024, GX Bank was the first to launch its digital banking platform with only deposit-based functionality for the time being. We opine borrowing facilities would be introduced over time when its user database establishes a certain maturity where they may more effectively access credit risks. The platform features a tie-in with the Grab superapp which aid in its user acquisition. While they do appear to offer highly attractive deposit rates at daily rest, we believe it may not be a significant competitor to traditional players as digital banks are still restrained by an asset cap of RM3b during their 3 years-minimum foundational phase. Still, further observation is required to identify differentiating strengths that digital banks may have in its lending products.

Maintain OVERWEIGHT on the banking sector. We believe the banking sector's resilience will continue to be relevant to investors, especially with more prominent recessionary concerns seen in key regional markets. Domestically, we see asset quality controls to remain tight, governed by BNM's strict requirements and prudent management by the banks which most still maintain some level of management overlays. Meanwhile, liquidity is expected to be sufficient as the focus on building their respective loans book and deposits book appear to be equal. At current price points, banking dividend yields still lead with 6%-7% possibly being offered.

For top picks, we opted to focus on high growth merit names which could see both near-term and long-term interest for investors, being **CIMB, AMBANK** and **ABMB.**

(i) **CIMB** – Although the group may not be a leader in terms of earnings growth in CY24, we believe the group's regionally diversified operations demand attention has they had provided shelter against adverse local conditions, particularly during recent pandemic years. The group is also due to ride on a leaner operating environment being at the tail-end of its cost savings efforts, with further plans likely in the works. With several business units expected to break even soon, this may further accelerate earnings growth should it materialise sooner than expected.

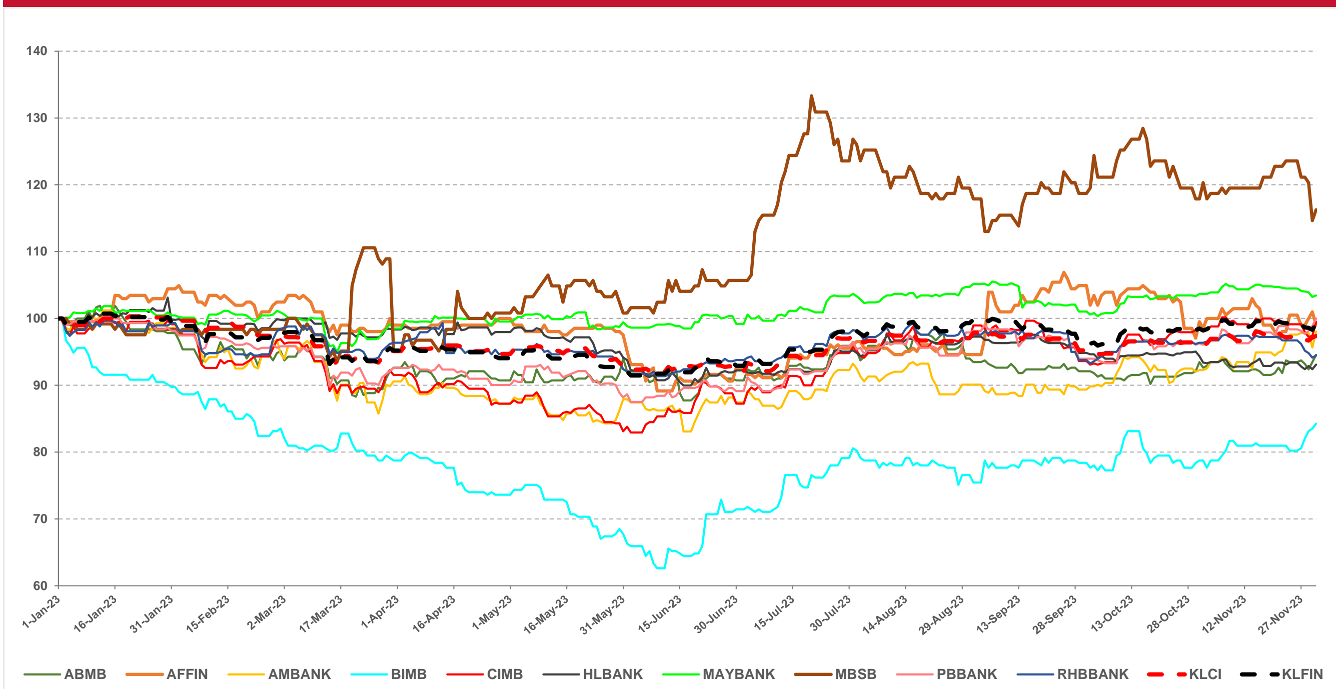
(ii) **AMBANK** – AMBANK is poised to deliver new grounds with regards to its ROE expansion. The group is also a notable player in the SME space which could be one of the leading growth segments on a revitalised economic environment. In the near-term, a pending tax credit of RM537m may lead to a positive knee-jerk on its stock. It would be accretive towards the group's capital building efforts.

(iii) **ABMB –** Between the smaller cap banks, we continue to like ABMB as it offers solid fundamentals which are comparable to its larger cap peers, with dividend yields of c.7% (sector average: 5%) and ROEs of c.11% (sector average: 10%). The group also possesses the largest proportion of SMEs to its books which could be drive its near-term growth. Leading in terms of CASA as well, it offers ABMB greater flexibility when it comes to margin retention.

Appendix

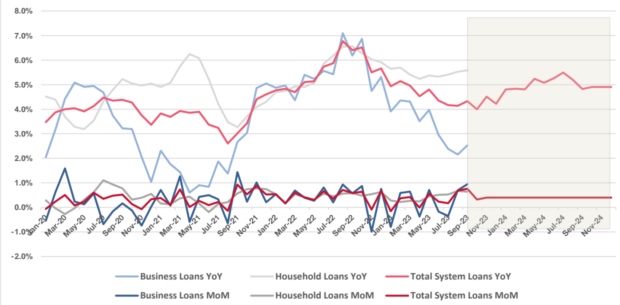
Back to lead. Nearing the end of CY23, most banks (6 out of 10) have reverted to once again outperforming the FBM KLCI, having seen the largest diminished sentiment during the months between March and June from the global banking crisis as well as seasonal softness. **MBSB (UP; TP: RM0.63)** was the best performer, still riding on sustained retail interest following its successful acquisition of MIDF. **MAYBANK (OP; TP: RM9.95)** was second to lead as it remained a favourite for its stable performance and consistent dividend support. On the flipside, **BIMB (MP; TP: RM2.15)** posted the poorest performance relative to the FBM KLCI as it had not recovered from prior cost concerns and has lower expectations for its loans growth. **HLBANK (OP; TP: RM24.20)** also fell short likely due to concerns that its associate, Bank of Chengdu may experience suppressed performance amidst unfavourable developments in China's real estate market. That said, we reckon these concerns may be overdone due to Chengdu's more vibrant operating environment.

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



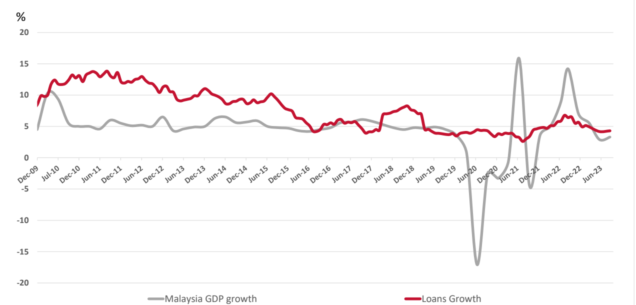
Source: Bloomberg

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

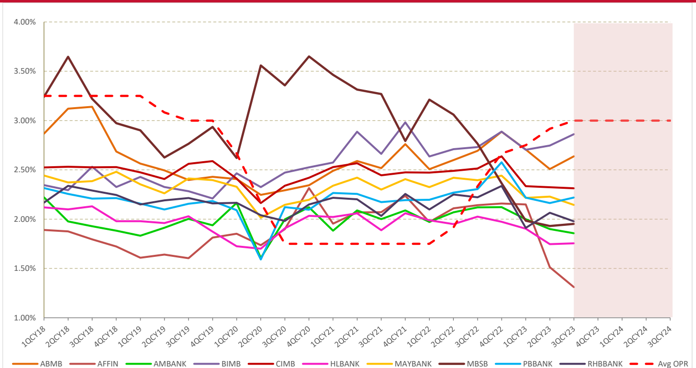
GDP and Loans Growth Trajectory



Source: Kenanga Research

Margin recovery on track. From 3QCY23's reporting, most banks have presented stable NIMs performance, indicating that the industry may finally be able to recover from Dec 2022's intense deposits competition and mistimed rates, no thanks to the undelivered Jan 2023 OPR hike (which only came in May 2023). However, it was noted that **AFFIN** still saw severe compression as it experienced a delayed pick-up in its funding cost. That said, the upcoming 4QCY23 period may still pose some challenges given year-end seasonal pressures as banks compete to accumulate deposits more aggressively. All this would lean towards meaningful recovery to only kick in from 1QCY24.

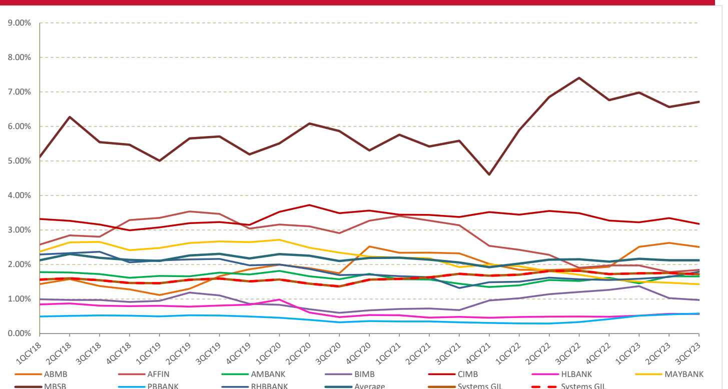
Est. Annualised NIMs



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

Few concerns on asset quality. We observed that industry GIL had remained mostly stable with upside attributed by delinquencies from accounts which had depended on repayment assistance programs. That said, certain banks had become more liberal with the writeback of provisions and management overlays, which could be taken as a sign that previous repayment stresses have subsided as cashflow and income conditions remain supportive. With macros expected to mostly be intact, we do not expect any worsening of GIL in the near term. Between the banks, **MBSB (UP; TP: RM0.63)** remains to possess the highest GIL of 6.7%, no thanks to the drag of certain legacy accounts and an unfavourable commercial mix. Meanwhile, **PBBANK (OP; TP: RM4.75)** and **HLBANK (OP; TP: RM24.20)** remain as the leading benchmark in asset quality, with GILs of 0.58% and 0.57%, respectively, in 3QCY23 for their highly retail-centric mix.

Est. GIL Trends



Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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																	
AFFIN BANK BHD	MP	2.01	1.90	-5.5%	4,716	N	12/2023	22.1	25.3	-60.5%	14.7%	9.1	7.9	0.4	4.3%	11.0	5.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.47	4.30	23.9%	5,372	N	03/2024	47.1	51.0	7.6%	8.4%	7.4	6.8	0.8	10.5%	24.5	7.1%
AMMB HOLDINGS BHD	OP	4.06	4.80	18.2%	13,434	N	03/2024	47.7	54.2	-9.0%	13.7%	8.5	7.5	0.7	8.5%	19.0	4.7%
BANK ISLAM MALAYSIA BHD	MP	2.30	2.15	-6.5%	5,213	Y	12/2023	23.4	24.3	2.5%	3.9%	9.8	9.5	0.7	7.3%	14.5	6.3%
CIMB GROUP HOLDINGS BHD	OP	5.77	6.30	9.2%	61,538	N	12/2023	64.2	66.6	23.0%	3.7%	9.0	8.7	0.9	10.5%	35.0	6.1%
HONG LEONG BANK BHD	OP	19.14	24.20	26.4%	41,490	N	06/2024	197.9	210.9	6.1%	6.6%	9.7	9.1	1.1	11.4%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.00	9.95	10.6%	108,542	N	12/2023	77.4	79.6	12.4%	2.9%	11.6	11.3	1.2	10.7%	65.0	7.2%
MALAYSIA BUILDING SOCIETY BHD	UP	0.715	0.630	-11.9%	5,879	Y	12/2023	3.2	4.6	-43.0%	42.7%	22.4	15.7	0.6	2.9%	1.5	2.1%
PUBLIC BANK BHD	OP	4.32	4.75	10.0%	83,854	N	12/2023	34.6	38.2	9.7%	10.4%	12.5	11.3	1.6	13.0%	18.0	4.2%
RHB BANK BHD	OP	5.47	7.15	30.7%	23,446	N	12/2023	70.7	78.3	5.7%	10.8%	7.7	7.0	0.7	9.8%	41.0	7.5%
Sector Aggregate					**353,485**					**7.3%**	**6.8%**	**10.7**	**10.0**	**1.1**	**10.2%**		**5.4%**

Source: Kenanga Research

GordonGrowth Model Inputs

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
AFFIN BANK BHD	3.0	6.0	11.5	0.35	1.90	MP	
ALLIANCE BANK MALAYSIA BHD	3.0	10.0	11.2	0.86	4.30	OP	+5% ESG Premium
AMMB HOLDINGS BHD	4.25	9.0	10.2	0.80	4.80	OP	
BANK ISLAM MALAYSIA BHD	3.5	8.0	10.5	0.64	2.15	MP	
CIMB GROUP HOLDINGS BHD	3.5	10.5	11.2	0.92	6.30	OP	+5% ESG Premium
HONG LEONG BANK BHD	2.5	12.0	9.9	1.29	24.20	OP	
MALAYAN BANKING BHD	3.5	12.0	9.9	1.34	9.95	OP	
MALAYSIA BUILDING SOCIETY BHD	2.0	6.0	9.2	0.56	0.63	UP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	4.75	OP	+5% ESG Premium
RHB BANK BHD	3.0	10.0	10.5	0.93	7.15	OP	

Source: Kenanga Research

Building Material

Awaiting Awakening of Slumbering Giant

NEUTRAL

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

We maintain our NEUTRAL rating on the sector. We expect stable prices with an upside bias for aluminium, ferrosilicon (FeSi) and silicon manganese (SiMn). The demand outlook for these commodities is unfavourable due to economic challenges in China, partially cushioned by supply constraints and softening input costs. Nonetheless, we sift out OMH (OP; TP: RM2.07) as our top sector pick as we believe the selloff on the stock has overshot its fundamentals, particularly, it being a low-carbon producer fuelled by hydropower. We also see a bright spot in cable support system maker ULICORP (OP; TP: RM2.18) on the back of a construction boom driven by both private-sector building jobs and the impending roll-out of mega public infrastructure projects.

Stable price outlook with an upside bias. We project a slightly higher average aluminium price of USD2,450/MT in CY24 vs. an estimated USD2,262/MT in CY23, while slightly lower average FeSi and SiMn prices of USD1,350/MT and USD950/MT in CY24 vs. an estimated USD1,450/MT and USD968/MT in CY23, respectively. We see slightly better aluminium prices after a 2-year lull, but remain cautious on FeSi and SiMn prices given the protracted downturn in China's steel sector. Generally, the demand outlook for these commodities is unfavourable due to economic challenges in China, partially cushioned by supply constraints due to the decommissioning of fossil fuel-powered smelters (especially by coal) due to stricter environmental requirements coupled with Western sanctions against Russian aluminium. Overall, we expect FY24 earnings growth for aluminium smelter **PMETAL (MP; TP: RM5.00)** to be driven by better aluminium prices while FeSi and SiMn alloy producer **OMH** by a higher production volume.

We prefer steel product players to steel players. Meanwhile, we do not expect a significant recovery in steel prices in CY24, given the economic challenges in China, which is the largest steel producer and consumer in the world. However, we see a bright spot in local steel product makers including **ULICORP** and **ENGTEX (OP; TP: RM0.77)** which prospects are buoyed by: (i) a revitalisation of the local construction sector backed by both private-sector building jobs and the impending roll-out of mega public infrastructure projects (including water projects), and (ii) the reduced volatility in the cost of steel input which brings about better margin and hence earnings stability. For instance, in Nov 2023, steel prices barely moved when the local long steel price inched up to c.RM2,673/tonne (+2% MoM) while local flat steel price increased to RM3,237/tonne (+1% MoM).

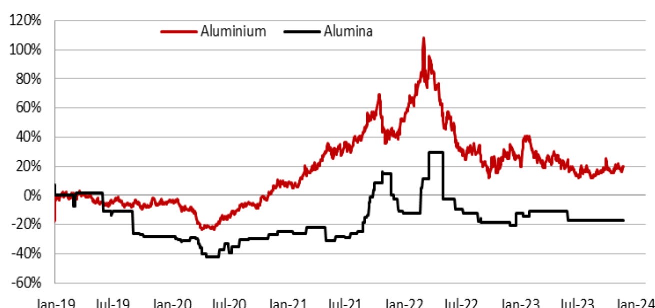
Our sector top picks are:

1. **OMH** given: (i) its structural cost advantage over international peers given its access to low-cost hydropower 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 given its clean energy source.
2. **ULICORP** given: (i) the strong demand for its cable support system products on the back of a construction boom in both private space (data centres, warehouses, hospital projects, etc) and impending public mega projects (i.e. MRT3, RTS, ECRL, etc), (ii) improved pricing power of players following the industry consolidation during the pandemic, i.e. weak players shutting down permanently, and (iii) its growth driven by two new plants that will boost its capacity by 40%.

Aluminium Prices

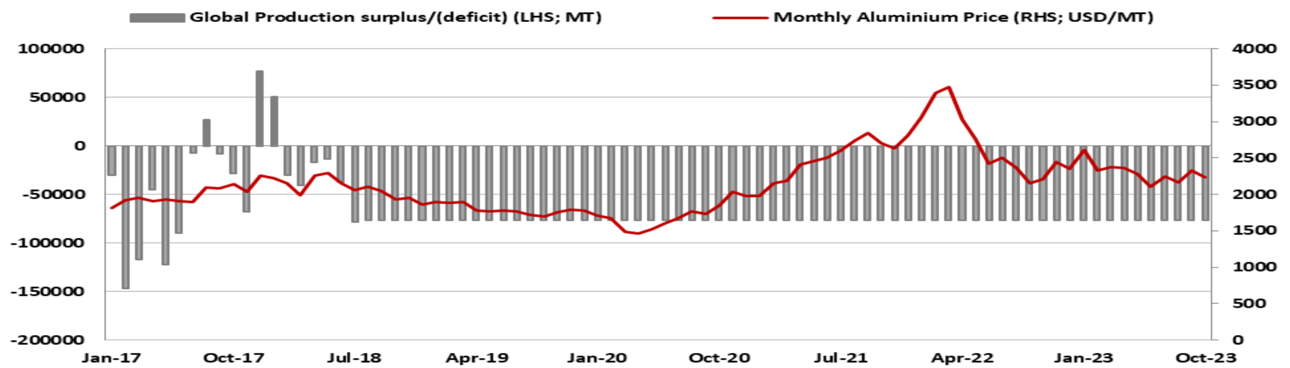
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement



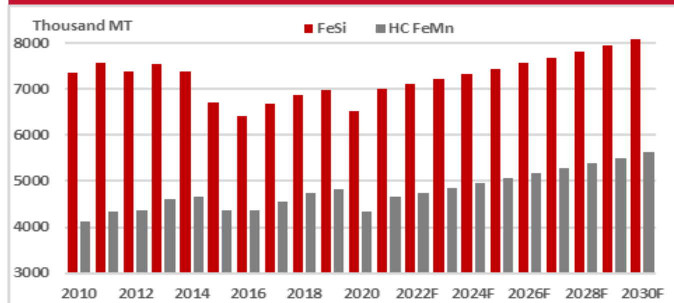
Source: Bloomberg, Kenanga Research

Global Production Surplus/Deficit vs. Monthly Aluminium Price



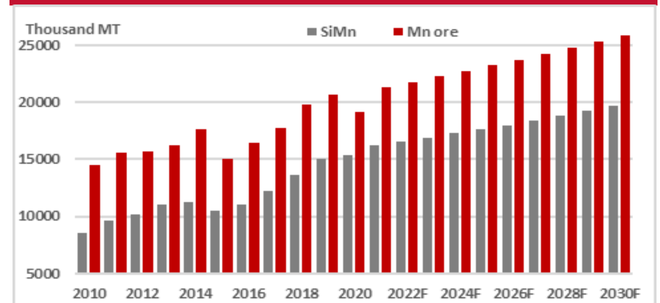
Source: Bloomberg, Kenanga Research

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



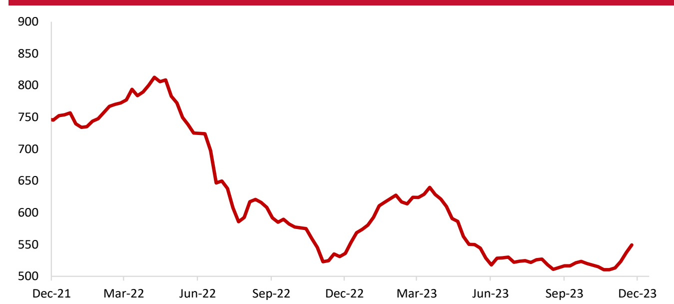
Source: AlloyConsult / World Steel Association

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



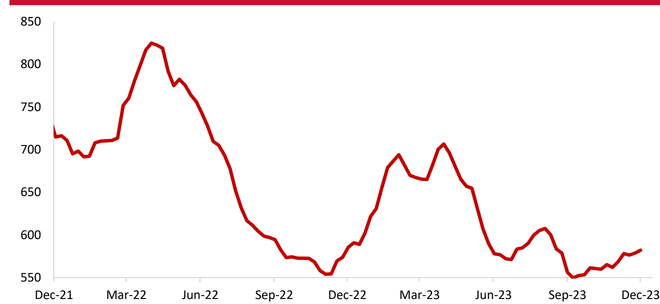
Source: AlloyConsult / World Steel Association

China Rebar Steel Prices



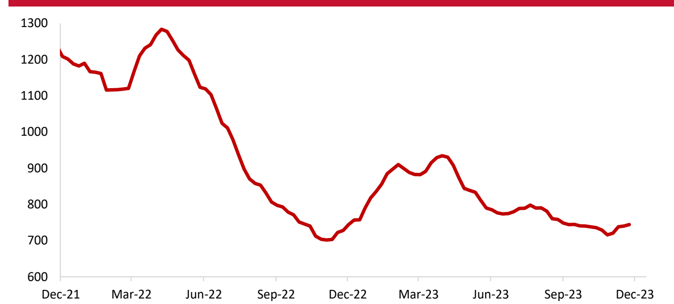
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



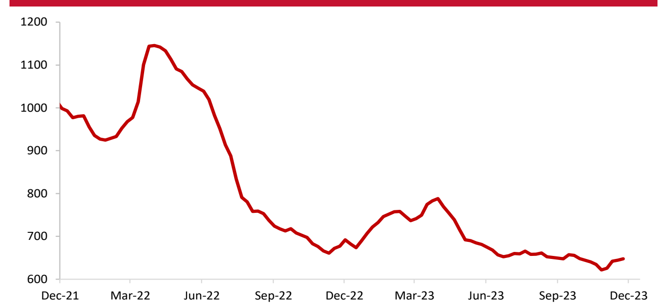
Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
ENGTEX GROUP BHD	OP	0.685	0.770	12.4%	302.3	Y	12/2023	5.0	5.5	-33.8%	10.2%	13.8	12.5	0.4	1.4%	0.8	1.1%
OM HOLDINGS LTD	OP	1.47	2.07	40.8%	1,085.8	Y	12/2023	20.6	32.8	-49.2%	59.1%	7.1	4.5	0.6	8.6%	6.6	4.5%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.83	5.00	3.5%	39,797.4	Y	12/2023	15.2	18.6	-12.5%	22.6%	31.8	25.9	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.43	2.18	52.4%	311.5	Y	12/2023	21.2	27.3	25.2%	28.6%	6.7	5.2	0.8	12.6%	6.0	4.2%
Sector Aggregate					**41,496.9**					**-18.2%**	**26.4%**	**28.2**	**22.3**	**4.0**	**14.2%**		**2.8%**

Source: Kenanga Research

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Construction

Ready to Rock

OVERWEIGHT

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

We remain OVERWEIGHT on the construction sector. After the lull in CY23, we expect a fresh wave of public infrastructure projects to finally hit the market in CY24. While the gross development expenditure of RM90b in Budget 2024 is lower than RM97b in Budget 2023, the government can tap into DanaInfra Nasional Bhd to fund large-scale public projects on an off-balance sheet basis. Meanwhile, the private sector construction market will stay vibrant, underpinned by massive investment in new semiconductor foundries and data centres. Our top sector picks are GAMUDA (OP; TP: RM5.45), IJM (OP; TP: RM2.31), and SUNCON (OP; TP: RM2.26).

We remain **OVERWEIGHT** on the construction sector. After the lull in CY23, we expect a fresh wave of public infrastructure projects to finally hit the market in CY24. While the gross development expenditure of RM90b in Budget 2024 is lower than RM97b in Budget 2023, the government can tap into DanaInfra Nasional Bhd to fund large-scale public projects on an off-balance sheet basis.

High on the priority list are the RM45b MRT3 or MRT Circle Line which will provide connectivity to the existing MRT, LRT, monorail and train lines through interchange stations, and the RM9.5b Bayan Lepas LRT, which will help to ease the chronic traffic congestion in Penang Island. Coupled with the roll-out of six flood mitigation projects reportedly to be worth RM13b including flood mitigation works at Sungai Johor (Johor), the construction of the Sungai Klang-Sungai Rasau dual-function reservoir (Selangor) and the Sungai Golok Integrated River Basin Development Phase 3 (Kelantan), we believe there will be enough jobs to go around for all players.

In terms of timing, Bayan Lepas LRT could be rolled out in the next 3-4 months, as the lead contractor **GAMUDA** is already in "advanced" discussions with the government to finalise the implementation model. This federal-funded project comprises land acquisition cost of about RM1.5b and construction cost of RM7b-RM8b. However, the same cannot be said for MRT3 of which status is still unclear while the validity of tenders for its work packages has been extended for a fourth time to end-Mar 2024 from end-Dec 2023. We believe, realistically speaking, MRT3 is more likely to get off the ground in 2HCY24.

The government has committed to expedite the on-going projects in East Malaysia such as Pan Borneo Highway and Sabah-Sarawak Link Road. According to the Mid-term Review of the 12MP, Pan Borneo Highway Sarawak Phase 1 is 92% completed while the Phase 1A in Sabah is 74% completed. Given its involvement in the Sarawak-Sabah Link Road project, **KIMLUN (MP; TP: RM0.83)** is keen to bid for work packages from Pan Borneo Highway Sarawak Phase 2, while **IJM** has also shown interest. Meanwhile, the Sabah state government said that the entire 19 work packages of Phase 1B of the Pan Borneo High Sabah worth a total of RM15.7b will be awarded by Mar 2024.

Meanwhile, the private sector construction market will stay vibrant, underpinned by massive investment in new semiconductor foundries and data centres. Malaysia is gaining traction in terms of destination for data centre investment, as evidenced by **TENAGA (OP; TP: RM11.45)** having signed Electricity Supply Agreements with eight data centres boasting a total capacity of 2,000MW, out of which six (292MW) are already up-and-running. The national utility company guided for a potential additional demand for 7,000MW of electricity from data centres by 2034. These semiconductor foundry and data centre projects are sizeable, ranging between RM1b to RM1.5b each, and are typically on a fast-track basis, which means better margins. **SUNCON** and **KERJAYA (OP; TP: RM1.67)** have already bagged such contracts.

The industry is poised for margin recovery as newly-secured contracts have reflected cost inflation. In addition, post the pandemic, it has become increasingly common for contracts to carry price escalation clauses to safeguard the margins of contactors. As such, we expect industry margins to improve in CY24 as older contracts with low margins tail off and new contracts with more normalised margins start to contribute.

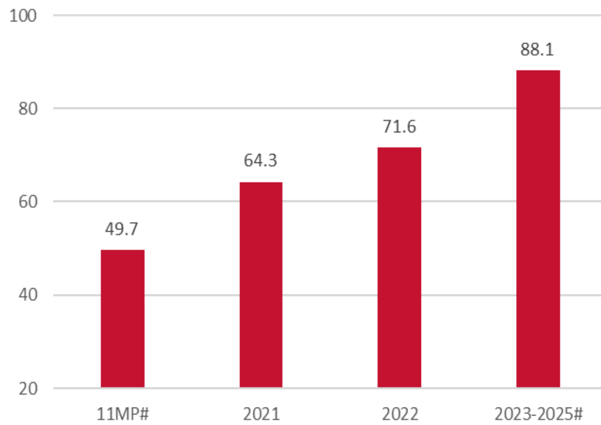
Our sector top picks are:

1. **GAMUDA** for: (i) being the front-runner for the tunnelling job for MRT3, and Bayan Lepas LRT, (ii) its ability to secure new jobs in overseas markets, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record outstanding order book of RM27.8b, and (v) its inroads into the renewable energy space.

2. **IJM** for: (i) it is poised to garner a slice of action in the imminent mega rail projects, i.e. MTR3 and Bayan Lepas LRT given its involvement in the previous MRT and LRT projects, (ii) its strong earnings visibility underpinned by an outstanding construction orderbook of RM6.4b and unbilled property sales of RM2.5b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth.

3. **SUNCON** for: (i) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, (ii) its strong earnings visibility underpinned by a record outstanding order book of RM5.79b, (iii) its strong balance sheet that enables it to carry out projects for local and overseas clients based on a deferred payment model, and (iv) recurring jobs from parent and sister companies.

Gross Development Expenditure* (RM b)



*Annual #Average
Source: Mid-term Review of 12MP, Kenanga Research

KL-Singapore HRS

Source: MyHSR Corp

Penang Bayan Lepas LRT

Station	Nearby Landmark
1	Komtar
2	Macallum
3	Bandar Sri Pinang
4	Sky Cab
5	East Jelutong
6	The Light
7	Gelugor
8	USM
9	Batu Uban
10	Pesta
11	Sungai Nibong
12	Bukit Jambul
13	SPICE
14	Jalan Tengah
15	FIZ North
16	FIZ South
17	Sungai Tiram
18	Penang Airport
19	Permatang Damar Laut
20	Stn A1
21	Stn A2
22	Stn A3
23	Stn A4

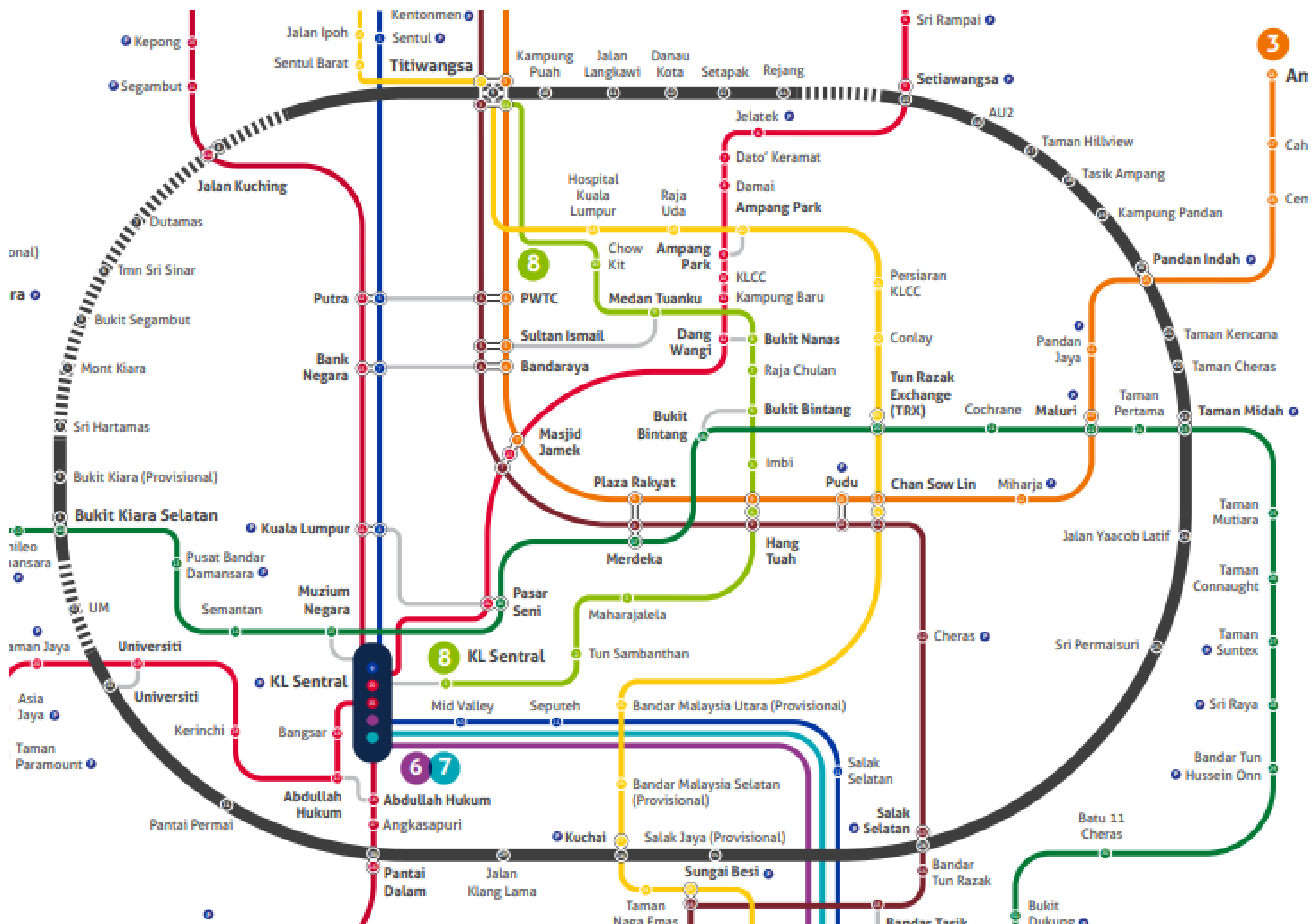
Petunjuk / Legend

- Stesen / Station
- Stesen Pertukaran / Interchange Station
- Depot / Depot
- Kemudahan Park & Ride / Park & Ride Facility

Jarak (km) / Length (km)	26.8
Bilangan Stesen / Number of Stations	23

Source: Penang Infrastructure Corporation

MRT3 Alignment



Source: MRT Corp

Key Infrastructure Projects

Projects	Value (RM b)	Status	
		Ongoing	Pending
Penang Transport Masterplan	46.0		√
MRT3	45.0		√
Penang LRT	9.5		√
KL-SG HSR	N/A		√
Johor Bahru-Singapore RTS	4.3	√	
Central Spine Road	10.7	√	
Pan Borneo Sarawak Phase 1	16.0	√	
Pan Borneo Sarawak Phase 2	4.6		√
Pan Borneo Sabah Phase 1	15.3	√	
Pan Borneo Sabah Phase 1B	15.7		√
Sabah Sarawak Link Road Phase 1	5.2	√	
Sabah Sarawak Link Road Phase 2	7.2b		√
Large-scale flood mitigation projects	13.0		√
Rasau Water Treatment Plant	4.5	√	
Iskandar BRT	2.56	√	
Kuching Autonomous Rail Transit	6.0	√	
Large-scale flood mitigation projects	13.0		√
Bangi Putrajaya Highway (PBE)	N/A		√
Kuala Lumpur Northern Dispersal Expressway (KL NODE)	N/A		√

Source: Kenanga Research, Media reports

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
GAMUDA	OP	4.48	5.45	21.7%	12,092.4	Y	07/2024	4.1	4.9	29.5%	19.2%	12.3	9.9	10.3	9.8%	12.0	2.7%
IJM	OP	1.88	2.31	22.9%	6,591.6	Y	03/2024	10.4	10.7	12.7%	2.6%	20.6	22.0	0.6	3.9%	8.0	4.3%
KERJAYA	OP	1.43	1.67	16.8%	1,803.3	Y	12/2023	11.0	14.2	18.5%	29.0%	11.8	10.3	1.4	10.9%	8.0	5.6%
KIMLUN	MP	0.78	0.83	6.4%	275.6	Y	12/2023	1.9	8.3	-81.8%	335.8%	7.8	6.7	0.4	0.9%	1.0	1.3%
SUNCON	OP	1.83	2.26	23.5%	2,359.5	Y	12/2023	10.5	11.9	-5.5%	13.3%	14.4	13.8	2.8	17.0%	5.0	2.7%
WCT	OP	0.475	0.70	47.4%	673.2	Y	12/2023	0.6	3.3	-89.9%	409.8%	18.8	12.9	0.2	1.9%	0.5	1.1%
Sector Aggregate					**23,795.7**					**12.5%**	**19.1%**	**13.3**	**11.2**	**0.8**	**6.1%**		**2.9%**

Source: Kenanga Research

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Consumer

NEUTRAL

Back to Basics

By Cheow Ming Liang I cheowml@kenanga.com.my

We maintain our NEUTRAL call, expecting subdued consumer spending in CY24 due to sustained high inflation, higher and more taxes, hikes in utility tariffs, and the impending subsidy rationalisation. We believe middle-income earners could bear the full brunt while the lower-income group may be less affected thanks to recurring cash handouts and various subsidies (from the government) which they will continue to enjoy. On a brighter note, the stabilisation of selected commodity prices, MYR and freight cost could alleviate cost pressures, paving the way for margin recovery for certain players. We favour consumer staples players. Our sector top picks are F&N (OP; TP: RM30.70), MRDIY (OP; TP: RM1.78), and QL (OP; TP: RM5.95).

Subdued consumer spending in CY24. We project a 6.2% growth in private consumption in CY24, vs. an estimated 4.8% in CY23. This is fairly consistent in terms of trend with the CY24 retail sales growth projection by Retail Group Malaysia (RGM) of 3.5% in CY24, vs. an estimated 2.8% in CY23. However, we are not ready to interpret these numbers as suggesting that CY24 will be a strong year in terms of consumer consumption.

The CY23 private consumption number is not a good comparison as consumers were still cautiously adjusting to the economy reopening during early-CY23. At 6.2%, our projected CY24 private consumption growth rate still pale in comparison to the 7.7% recorded in CY19 prior to the pandemic. Meanwhile, we believe the higher CY24 retail sales number will be driven by higher prices rather than stronger sales volumes.

We believe cautious consumer spending during the later part of CY23 (after the “compulsive” consumption phase) will extend into CY24 on the rising cost of living due to sustained high inflation, higher and more taxes, hikes in utility tariffs, and the impending subsidy rationalisation. Thus far, consumers have already been hit by rationalisation in subsidies for eggs, rice, and electricity. They are bracing for the imminent water tariff revision, an increase in the SST from 6% to 8%, and the removal of subsidy for RON95 petrol. While we believe the high-income group may not quite feel the pinch, middle-income earners could bear the full brunt. Ironically, the lower-income group may be less affected thanks to recurring cash handouts from the government while they also continue to enjoy various subsidies.

Commodity price shifts to bring margin recovery in CY24. Our commodities prices tracking indicates that most commodities, including milk, wheat, corn, soybean, CPO, cotton, and aluminium, prices are projected to trend lower in CY24, according to Trading Economics (exhibit 1), which should provide support to the consumer staples companies, such as F&N and DLADY, amidst market challenges.

Diverse GP margin trends expected for 4QCY23. Based on our recent correlation study on the commodities prices against the industry players’ gross profit margins, gross profit margins for **NESTLE, DLADY, F&N** and **PWROOT** are expected to show mixed trends in their upcoming 4QCY23 results. Over the nine months from 1QCY23 to 3QCY23, key commodities such as coffee, milk, wheat, corn, soybean, and palm oil have seen a price decline of over 10%. This suggests a potential uplift in GP margins for companies like **NESTLE** and **DLADY** in 4QCY23. Conversely, **F&N** and **PWROOT** might encounter challenges due to rising prices of their critical commodities during the study period.

Having said that, the recent boycott activities against several international F&B franchises with alleged ties to Israel, prompting consumers to shift to Malaysian and other Asian F&B brands. If these boycott activities intensify, the affected international franchises might be compelled to ramp up their advertising and promotion (A&P) efforts to counteract the sales decline. Such increased spending on A&P activities might lead to a decline in their margins, as the added costs could outweigh the gains in revenue.

Targeted petrol subsidy to be rolled out in 2HCY24. The government has updated the timeline for implementing the targeted petrol and diesel subsidy program, now slated for the 2HCY24. The execution of this subsidy, involving a subsidy card system, is aligned with the introduction of the Padu central database system in January 2024. The subsidy distribution will be based on individual net disposable income, household income via social protection schemes, or a combination of individual and household earnings. This targeted subsidy approach might lead to a portion of the middle-income M40 group losing access to these subsidies, which could reduce their spending power and affect mid-market retailers. In contrast, the outlook for consumer staples players remains positive, as their primary customer base, the lower-income B40 group, will continue to receive full fuel subsidies, thereby preserving their spending power.

Valuation update: We have kept our earnings forecasts, valuation basis, target prices, and ratings consistent for all consumer stocks in our portfolio, except for **F&N**. For **F&N**, which we have rolled over our valuation base year to FY25 with an unchanged targeted PER of 22x. This adjustment in the valuation timeframe has resulted in an increase in our fair value for **F&N** to RM30.70, up from RM29.40 previously. Note that, our valuation basis of 22x for consumer staples companies aligns with the sector's average historical forward PER. Meanwhile, our valuation for department store and apparel companies remains at 12x, reflecting a 20% discount from the sector's average historical forward PER of 15x to reflect the eroded spending power of their target customers, i.e. the M40 group. For **PWROOT**, on the other hand, its valuation basis continues stayed at 15x, at a discount to the average historical forward PER of 22x for the food and beverage to reflect the company less extensive product range vs. its peers.

Our valuation basis, TP and recommendation for consumer stocks are summarised in Exhibit 2.

Our top picks for the sector are:

1. **F&N** for: (i) robust demand rebound for its products, notably in the beverage and ready-to-drink categories, as economies have restarted and border restrictions lifted, (ii) resurgent export sales driven by competitively priced products, (iii) the steady demand for essential food items, and (iv) the expected recovery in the Thailand market, driven by a revival in domestic consumption and a resurgence in tourism.
2. **MRDIY** for: (i) its dominant position in Malaysia's home improvement market, (ii) its impressive gross margins exceeding 40%, significantly outpacing its peers of 32%, a testament to its advantageous negotiation position with suppliers and benefits derived from economies of scale, (iii) a vigorous store expansion strategy aimed at broadening its national footprint, and (iv) the impending initiation of an automated inventory system in 1QFY24, which could further enhance its operational efficiency.
3. **QL** for: (i) the consistent high export demand for its marine products, supported by robust fish landings and decreasing input costs, (ii) the high growth potential of its Family Mart convenience store franchise, highlighted by its popular Japanese-themed products and continued expansion, including the new *Family Mart Mini* outlets targeting petrol stations and highways, and (iii) it growing poultry business in Indonesia and Vietnam, driven by increasing protein consumption as their standard of living rises.

Exhibit 1: Raw Material/Commodities Price Trend

	Last Price @	*Price Change*									
	1/12/2023	1M	QTD	3QCY23	2QCY23	1QCY23	1QCY23-3QCY23 (9-mth)	YTD	vs. 2022 average price	vs. 2021 average price	Future Price Trend*
Sugar (USD/lb)	25.0	-10.1	-5.0	14.8	2.9	11.0	31.1	25.2	32.6	39.7	↑
Coffee (USD/lb)	193.9	13.4	32.6	-7.6	-5.5	0.8	-11.9	16.9	-4.1	8.8	↑
Cocoa (USD/MT)	4,106.0	5.3	20.1	3.0	13.1	12.8	31.5	61.6	66.7	64.9	↑
Milk (USD/MT)	3,104.0	1.5	10.9	-11.8	-1.7	-0.6	-13.8	-6.7	-20.2	-19.2	↓
Wheat (USD/MT)	428.3	9.6	16.6	-16.8	-6.0	-12.6	-31.6	-23.9	-30.4	-10.4	↓
Corn (USD/Bushel)	405.0	2.8	2.9	-2.4	-26.0	-2.7	-29.7	-28.6	-28.3	-13.8	↓
Soybean (USD/Bushel)	1,306.8	-4.2	2.5	-18.1	3.4	-0.9	-16.1	-12.8	-14.9	-4.6	↓
CPO (RM/MT)	3,706.0	0.2	0.5	-1.7	-7.6	-2.7	-11.6	-8.3	-27.0	-15.7	↓
Cotton (USD/lb)	79.9	2.5	-8.0	4.9	0.1	-0.7	4.2	-4.7	-28.8	-14.5	↓
Aluminium (USD/MT)	2,145.5	-4.2	-8.3	10.3	-11.0	1.4	-0.4	-6.5	-20.7	-13.5	↓
Baltic Dry Index	3,143.0	106.4	84.8	55.9	-21.5	-8.3	12.3	110.7	62.5	6.8	↑
WTI Crude Oil (USD/Bar	72.5	-10.3	-20.2	28.5	-6.6	-5.7	13.1	-7.7	-23.2	6.5	↑
Volatility Index	12.9	-13.7	-26.7	28.9	-27.3	-13.7	-19.2	-41.7	-49.9	-34.6	
Dollar Index	1,242.4	-1.2	-1.9	2.7	0.2	-1.3	1.6	-1.0	-0.8	8.5	↑
USDMYR	4.67	-0.8	0.5	0.6	5.7	0.2	6.6	6.1	6.1	12.7	↑

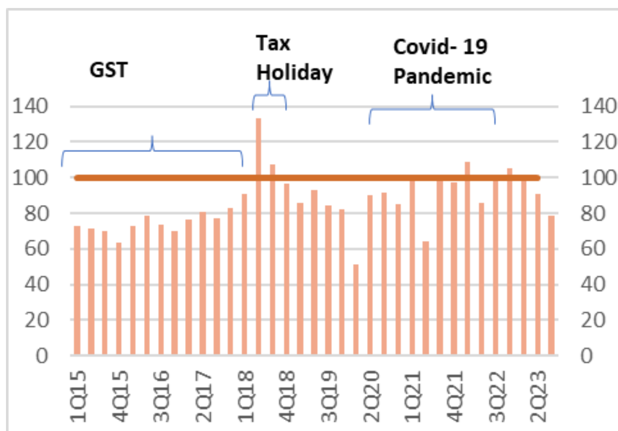
Source: Kenanga Research, Bloomberg, Trading Economics

Exhibit 2: Changes to Valuation Basis, TPs and Recommendations

Company	FYE	Valuation					TP (RM)			Recommendation		
		Basis	Base Year	After	Before	Chg	After	Before	Chg (%)	After	Before	Chg
AEON	DEC	PER (x)	FY24	12	12	↔	0.92	0.92	0	UP	UP	↔
DLADY	DEC	PER (x)	FY24	22	22	↔	26	26	0	OP	OP	↔
MRDIY	DEC	PER (x)	FY24	25	25	↔	1.78	1.78	0	OP	OP	↔
NESTLE	DEC	WACC (%)		5.2	5.2	↔	115	115	0	UP	UP	↔
F&N	SEP	PER (x)	FY25	22	22	↔	30.7	29.4	4%	OP	OP	↔
PADINI	JUN	PER (x)	FY25	12	12	↔	3.2	3.2	0	UP	UP	↔
PWROOT	MAR	PER (x)	FY25	15	15	↔	1.95	1.95	0	MP	MP	↔
QL	MAR	WACC (%)		5.8	5.8	↔	5.95	5.95	0	OP	OP	↔

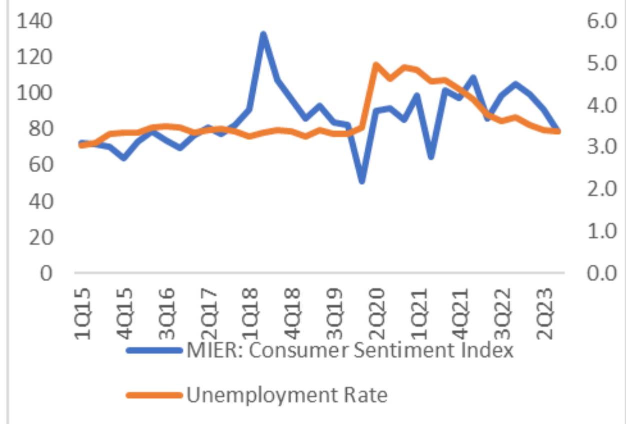
Source: Kenanga Research

Exhibit 3: MIER Consumer Sentiment Index



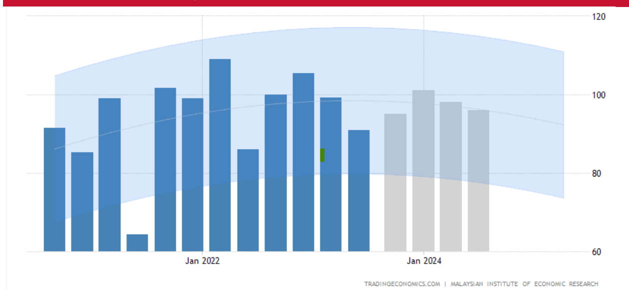
Source: MIER, Kenanga Research

Exhibit 4: Jobless Rate & Consumer Sentiment



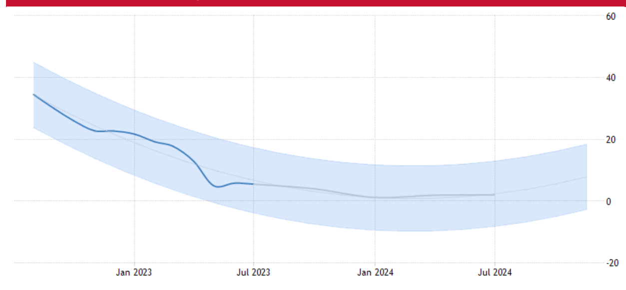
Source: Dept. of Statistics, CEIC, Kenanga Research

Exhibit 5: Malaysia Consumer Confidence



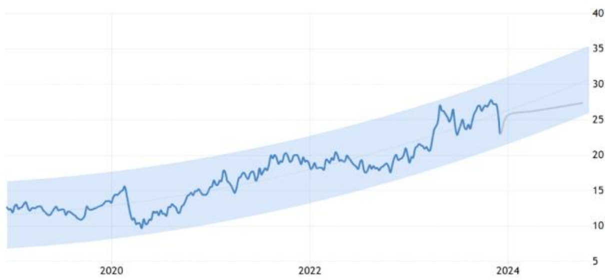
Source: Trading Economics, Kenanga Research

Exhibit 6: Malaysia Retail Sales YoY Growth



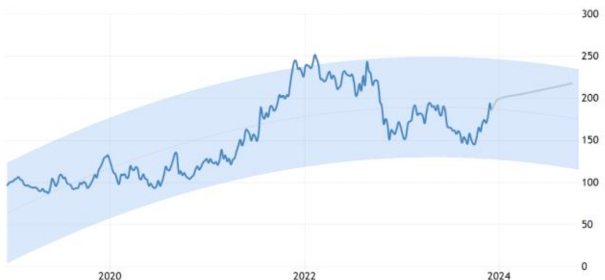
Source: Trading Economics, Kenanga Research

Exhibit 7: Sugar Prices (USD/lb)



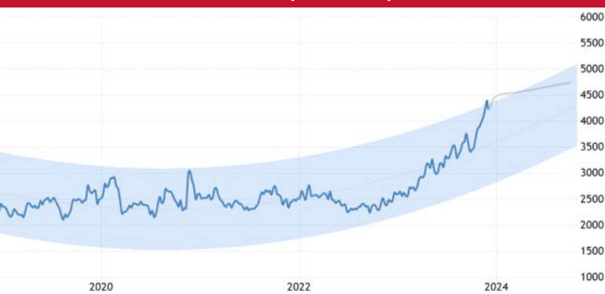
Source: Trading Economics, Kenanga Research

Exhibit 8: Coffee Prices (USD/lb)



Source: Trading Economics, DOSM, Kenanga Research

Exhibit 9: Cocoa Prices (USD/MT)



Source: Trading Economics, Kenanga Research

Exhibit 10: Milk Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 11: Wheat Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 12: Corn Prices (USD/Bushel)

Source: Trading Economics, Kenanga Research

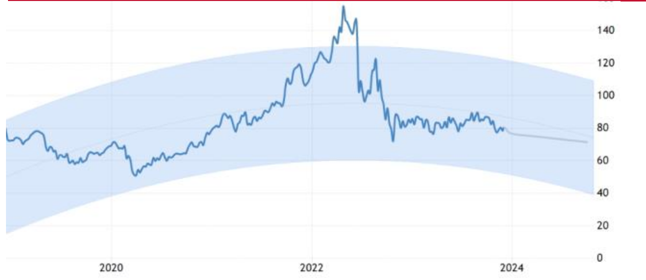
Exhibit 13: Soybean Prices (USD/Bushel)

Source: Trading Economics, Kenanga Research

Exhibit 14: CPO Prices (RM/MT)

Source: Trading Economics, Kenanga Research

Exhibit 15: Cotton Prices (USD/lb)

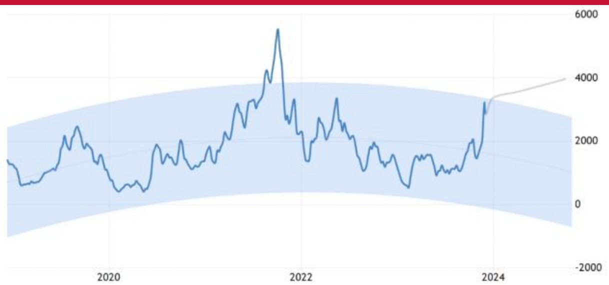


Source: Trading Economics, Kenanga Research

Exhibit 16: Aluminium Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 17: Baltic Dry Index



Source: Trading Economics, Kenanga Research

Exhibit 18: WTI Crude Oil Prices (USD/Barrel)

Source: Trading Economics, Kenanga Research

Peer Comparison

Name	Rating	Last Price @ 1/12/23 (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.
CONSUMER																	
AEON CO. (M) BHD	UP	1.09	0.920	-15.6%	1,530.4	Y	12/2023	7.5	7.6	-4.5%	0.9%	14.4	14.3	0.8	5.8%	4.0	3.7%
DUTCH LADY MILK INDUSTRIES BHD	OP	22.24	26.00	16.9%	1,423.4	Y	12/2023	104.7	118.8	-14.1%	13.4%	21.2	18.7	3.4	16.5%	75.0	3.4%
FRASER & NEAVE HOLDINGS BHD	OP	29.40	30.70	10.8%	10,167.1	Y	09/2024	135.5	141.5	2.7%	4.4%	20.5	19.6	2.8	14.4%	70.0	2.5%
MRDIY.	OP	1.56	1.78	14.1%	14,729.4	Y	12/2023	6.1	7.1	19.9%	16.4%	25.5	21.9	8.7	36.9%	3.0	1.9%
NESTLE (MALAYSIA) BHD	UP	120.00	115.00	-4.2%	28,140.0	Y	12/2023	296.8	305.8	12.3%	3.0%	40.4	39.2	43.8	109.8%	290.0	2.4%
PADINI HOLDINGS BHD	UP	3.64	3.20	-12.1%	2,394.8	Y	06/2024	23.1	26.6	-31.8%	15.1%	15.8	13.7	2.1	14.0%	10.0	2.7%
POWER ROOT BHD	MP	1.95	1.95	0.0%	901.9	Y	03/2024	11.8	12.8	-13.6%	7.8%	16.5	15.3	2.8	17.2%	9.0	4.6%
QL RESOURCES BHD	OP	5.64	5.95	5.5%	13,725.8	Y	03/2024	17.6	19.2	24.0%	8.6%	32.0	29.4	4.7	16.8%	9.0	1.6%
Sector Aggregate					**73,012.8**					**7.2%**	**8.2%**	**28.3**	**26.2**	**5.8**	**20.6%**		**2.9%**

Source: Bloomberg, Kenanga Research

Glove

UNDERWEIGHT

Valuations Not Supported by Tepid Profitability

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

We downgrade our sector rating to UNDERWEIGHT from NEUTRAL. While players have returned to the black, their tepid profitability will not support the current valuations. In addition, earnings quality is lacking as well, with their profits driven largely by decommissioning of older plants and lower input costs while demand and hence plant utilisation have remained depressed. This is unlikely to significantly change in CY24. We avoid TOPGLOV (UP; TP: RM0.75) (cut from MARKET PERFORM), KOSSAN (UP; TP: RM1.34), and SUPERMX (UP; TP: RM0.85), but maintain our neutral view on HARTA (MP; TP: RM2.33). We do not have any top pick for the sector.

Still challenging, no V-shaped recovery with lofty valuations moving into CY24. While some players have returned to the black since 3QCY23, albeit small profit, we believe the sector will continue to face volatile earnings ahead. We expect the challenging and competitive business landscape currently to extend into CY24, plagued by subdued ASP and massive oversupply amidst intense competition, especially from Chinese producers. Despite mild sequential improvement in utilisation rate in 3QCY23 by 3-5 ppts to 35%-40%, the industry's earnings visibility remains weak as distributors or buyers see no urgency to stock up as supply is plentiful and prices are stable. In addition, given the low capacity utilisation, economies of scale are out of reach for the industry. Despite glove players returning to profitability in the recently announced 3QCY23 earnings season, this was largely underpinned by easing cost pressures and savings emanating from decommissioning of older plants. Moving into CY24, we believe low utilization and weak demand amidst persistent oversupply will continue to prevail, which will not support players' lofty valuations of >80x forward PER.

Expect higher input raw material price in 1HCY24 but natural gas price tapering off. Moving into 1HCY24, we expect input latex price to rise because of low production during the wintering months (between Dec till May), while nitrile butadiene rubber prices have moved up since 4QCY24. On a brighter note, natural gas (3QCY23: -17% QoQ) which accounts for 15%-20% of total cost has eased. Overall, all players are mindful that the prospect of raising ASP further in subsequent quarters is challenging due to the current massive overcapacity situation, with only a handful of customers agreeing thus far. Due to the current competitive pressure emanating from massive oversupply and low industry utilisation averaging 40%, customers can walk away and choose to buy from other players whenever there is an attempt to raise prices. We gathered that Chinese manufacturers are still selling at below USD20 per 1,000 pieces, at USD16−18 per 1,000 pieces, which means any attempt by Malaysian producers to raise ASP are likely to result in a reduction in their sales volumes.

Oversupply to persist moving into CY24. We expect the operating environment to remain challenging in subsequent quarters, plagued by massive oversupply. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. MARGMA projects 12%−15% growth in the global demand for rubber gloves annually from CY23, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces (due to a low base effect in CY23) and resume its organic growth of 15% thereafter. On the supply side, we are now factoring in a reduction of 20b pieces of gloves in the system by endCY24 as we gathered from channel checks that new or existing smaller players have exited. This will result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.

Our CY24 forecasts assume: (i) an ASP per 1,000 pieces of USD20 similar to CY23, and (ii) an average plant utilisation of 45% vs. an estimated 40% in CY23. In the meantime, we do not have any top pick for the sector.

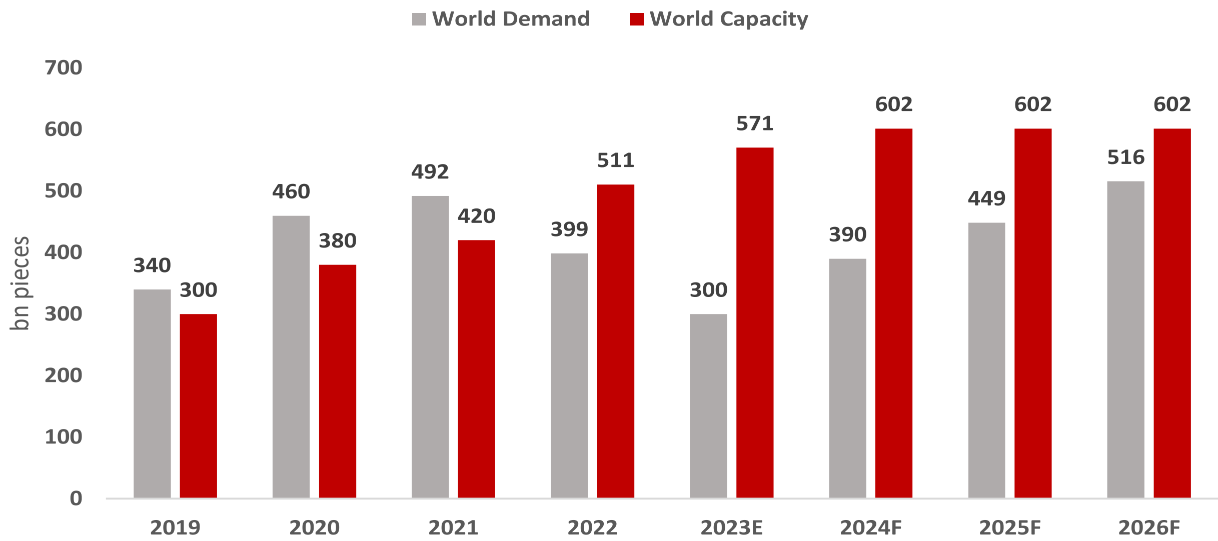
Downgrade the sector to **UNDERWEIGHT** from **NEUTRAL**.

Exhibit 1: Changes to Valuation Basis, TP and Recommendation

Company	Valuation Basis: PBV* (x)			TP (RM)			Recommendation		
	After	Before	Chg	After	Before	Chg (%)	After	Before	Chg
HARTA	1.7	1.7	↔	2.33	2.33	0.0	MP	MP	↔
TOPGLOV	1.2	1.2	↔	0.75	0.75	0.0	UP	MP	↓
KOSSAN	0.9	0.9	↔	1.34	1.34	0.0	UP	UP	↔
SUPERMX	0.5	0.5	↔	0.85	0.85	0.0	UP	UP	↔

*FY24F
Source: Kenanga Research

Exhibit 2: Estimated Global Demand/Supply - Excess Supply over CY22-CY25



Source: Kenanga Research

Peer Table Comparison

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								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	MP	2.46	2.33	-5.3%	8,396.6	Y	03/2024	1.2	1.5	-80.6%	19.0%	198.2	166.6	1.8	0.9%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	1.69	1.34	-20.7%	4,312.2	Y	12/2023	1.7	3.5	-98.5%	104.8%	99.1	48.4	1.1	1.1%	0.0	0.0%
SUPERMAX CORP BHD	UP	0.935	0.850	-9.1%	2,408.7	N	06/2024	0.9	0.7	-82.9%	-25.8%	99.4	133.9	0.6	0.6%	0.0	0.0%
TOP GLOVE CORP BHD	UP	0.830	0.750	-9.6%	6,646.8	Y	08/2024	0.5	0.8	-95.6%	61.9%	168.5	104.1	1.4	0.9%	0.0	0.0%

Source: Kenanga Research

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Healthcare

In The Pink of Health

OVERWEIGHT

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

We reiterate our OVERWEIGHT call for the healthcare sector. The demand for private healthcare will continue to gain traction in CY24, underpinned by growing patient throughput and higher yields from a case-mix with more acute cases. Also helping will be better operational efficiency, cost optimisation and overhead absorption thanks to a gradual ramp-up of new beds. Similarly, we see robust sales of pharmaceuticals and over-the-counter (OTC) drugs backed by increased health awareness. Over the longer term, the prospects of private healthcare will continue to be underpinned by rising affluence and an aging population. Our sector top picks are KPJ (OP; TP: RM1.56) and IHH (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 had reported that almost half of the global healthcare expenditures (USD4t) will be spent on three leading causes of death, namely: (i) cardiovascular diseases, (ii) cancer, and (iii) respiratory diseases.

We project **IHH's** patient throughput growth and revenue intensity to drive 2024 earnings, propelled by more acute cases including elective surgeries.

In 2024, we project **IHH's** revenue per inpatient growth of 12%−16% (vs. an estimated +19% in 2023 due to low base effect in 2022), inpatient throughput growth of 9%−12% (vs. an estimated +7% in 2023) and bed occupancy rate (BOR) of 65%−73% (vs. an estimated averaging 65% in 2023) for its hospitals in Malaysia, Singapore, India and Türkiye. We believe the key growth factor for its inpatient throughput and BOR would be revenue intensity from a case-mix with more acute cases and medical tourists, the addition of new beds (previously constrained by staff shortages which are gradually easing). We expect sustained performance in Malaysia, while staff shortages in Singapore have been resolved. There is also a return of Middle Eastern and Central Asian medical tourists to its hospitals in Türkiye and India.

We also like **IHH** for its: (i) 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 (ii) presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China.

Similarly, in 2024, we expect **KPJ's** patient throughput to grow at 8% (vs. an estimated 6% in FY23) with BOR at 71% (vs. an estimated 68% in 2023) driven by revenue intensity emanating from the recovery in demand for elective surgeries. Thanks to high patient throughput, two of its new hospitals have turned EBITDA-positive while the other two only recorded small operating losses. We expect **KPJ's** earnings to gain momentum moving into FY24 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+9%) which we have factored into our forecast.

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**). Thanks to high patient throughput, two of its new hospitals have turned EBITDA-positive while the other two only recorded small operating losses.

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.

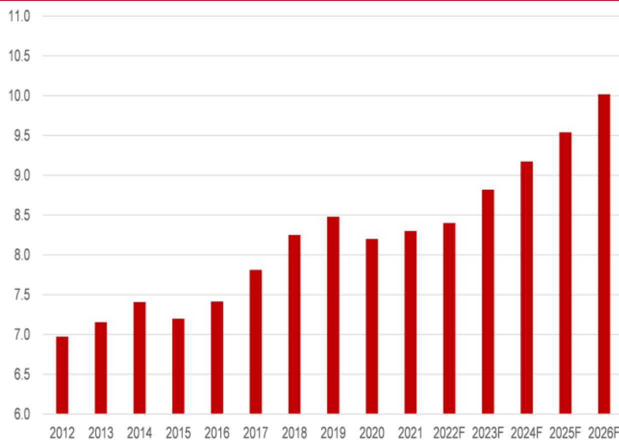
The trend augurs well for **KOTRA (OP; TP: RM6.03)** which manufactures and sells OTC supplements and nutritional and pharmaceutical products under key flagship household brands such as *Appeton, Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire 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 the FY24F sales volume of **NOVA (OP; TP: RM0.84)** to rise by 15%, fuelled by gradual ramp-up of its new plant and the full-year impact from 35 new SKUs introduced in FY22. We also like **NOVA** for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

However, the same cannot be said for **PHARMA (UP; TP: RM0.31)** which is still under the PN17 status. **PHARMA** guided for no further provisions going forward. However, it still holds some unsold vaccines (which have already been fully provided for) and has managed to sell some of them. To exit the PN17 status, it has proposed: (i) a capital reduction of RM180m issued share capital, (ii) a 4-for-5 rights issue of 1.18b new PHARMA shares with 1.18b free warrants (a shareholder who owns 5,000 **PHARMA** shares is entitled to subscribe for 4,000 new shares and get 4,000 free warrants), and (iii) a private placement of 714m new **PHARMA** shares or 26.9% of the enlarged issued share capital after the proposed rights issue. The exercise will result in massive EPS dilution due to the tripling of its share base.

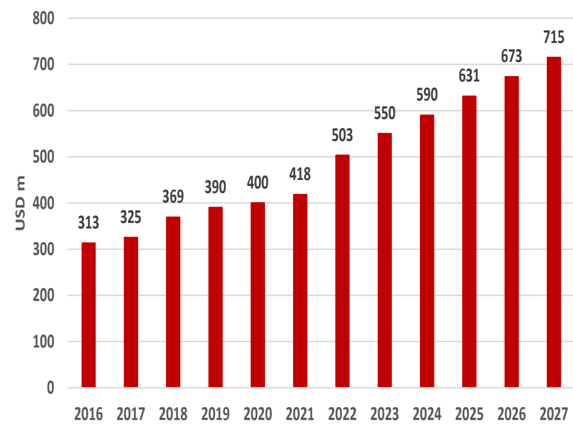
We project pedestrian earnings in FY24 at level similar to pre-COVID, averaging RM40m-RM60m, driven by regular orders for medical supplies from the Ministry of Health concession. We remain cautious on **PHARMA** due to: (i) the negative shareholders' equity of RM264m as at 30 Sep 2023 impeding its ability to give out dividends, and (ii) the government seeking better value-for-money contracts and **PHARMA** might have to offer new rates that are more competitive (which we have reflected in our forecasts).

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals market in Malaysia



Source: Kenanga Research, various

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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.
HEALTHCARE																	
IHH HEALTHCARE BHD	OP	5.84	7.00	19.9%	51,432.8	Y	12/2023	16.7	20.6	5.9%	23.9%	35.1	28.3	1.9	5.5%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	4.70	6.03	28.3%	697.1	Y	06/2024	40.2	43.0	-8.7%	6.9%	11.7	10.9	2.1	19.8%	26.0	5.5%
KPJ HEALTHCARE BHD	OP	1.34	1.56	16.4%	5,848.2	Y	12/2023	5.1	5.5	32.8%	7.7%	26.1	24.2	2.6	10.1%	3.5	2.6%
NOVA WELLNESS GROUP BHD	OP	0.610	0.840	37.7%	194.4	Y	06/2024	5.6	6.4	24.5%	13.5%	10.9	9.6	1.6	15.9%	3.5	5.7%
PHARMANIAGA BHD	UP	0.330	0.310	-6.1%	475.6	Y	12/2023	(2.9)	3.1	-106.8%	9.5%	N.A.	10.6	(1.6)	15.3%	0.0	0.0%

Source: Bloomberg, Kenanga Research

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Media

Sentiment Remains Lethargic

UNDERWEIGHT

By Kylie Chan Sze Zan I kyliechan@kenanga.com.my

We downgrade our sector recommendation to UNDERWEIGHT (from NEUTRAL) on the media sector due to: (i) continued slump in adex market share for traditional media, (ii) sustained cord cutting trends, and (iii) advertisers maintaining their tight grip on marketing budgets awaiting sentiment rebound. We also introduce our CY24 adex projection of a 0.4% contraction on the back of pessimistic outlook from Malaysian consumers and businesses due to inflationary pressures, reduction in export orders, and rising operating costs. Our sole OP recommendation for the sector is STAR (OP; TP: RM0.52).

Anaemic outlook for adex. We introduce our CY24 adex forecast of 0.4% contraction (CY23F: 0.5% contraction), underpinned by expectation that advertisers will remain prudent on marketing activities. This is attributed to sustained weak sentiment for both consumers and enterprises. Our views are corroborated by recent studies conducted by the Malaysian Institute of Economic Research (MIER) that were revealed last month. Based on the studies, Malaysian consumers and businesses have turned more pessimistic in 3QCY23. This is due to the following reasons; (i) inflationary pressures eroding spending power, and (ii) reduction in export orders amidst rising operating costs.

Sentiment remains stubbornly weak. Evidently, MIER's Business Conditions Index fell by 2.7 points to 79.7 in 3QCY23 (2QCY23: 82.4, 3QCY22: 99.8) – which translates to its lowest level since 2QCY20 during the onset of the pandemic. On the same note, MIER's Consumer Sentiment Index sustained its downtrend in 3QCY23, via a sequential decline of 11.9 points to 78.9. This implies its lowest level since 2QCY21, back when Malaysia entered a new pandemic lockdown phase. On the other hand, inflation eased to 1.8% in October, which equates to its lowest level since April 2021. In spite of this, respondents surveyed by MIER remain downbeat - with 91% expecting a hike in inflation, whilst merely 20% anticipating incomes to rise. On the back of this, we believe that advertisers will continue to tighten their grip on marketing budgets until sentiment rebounds.

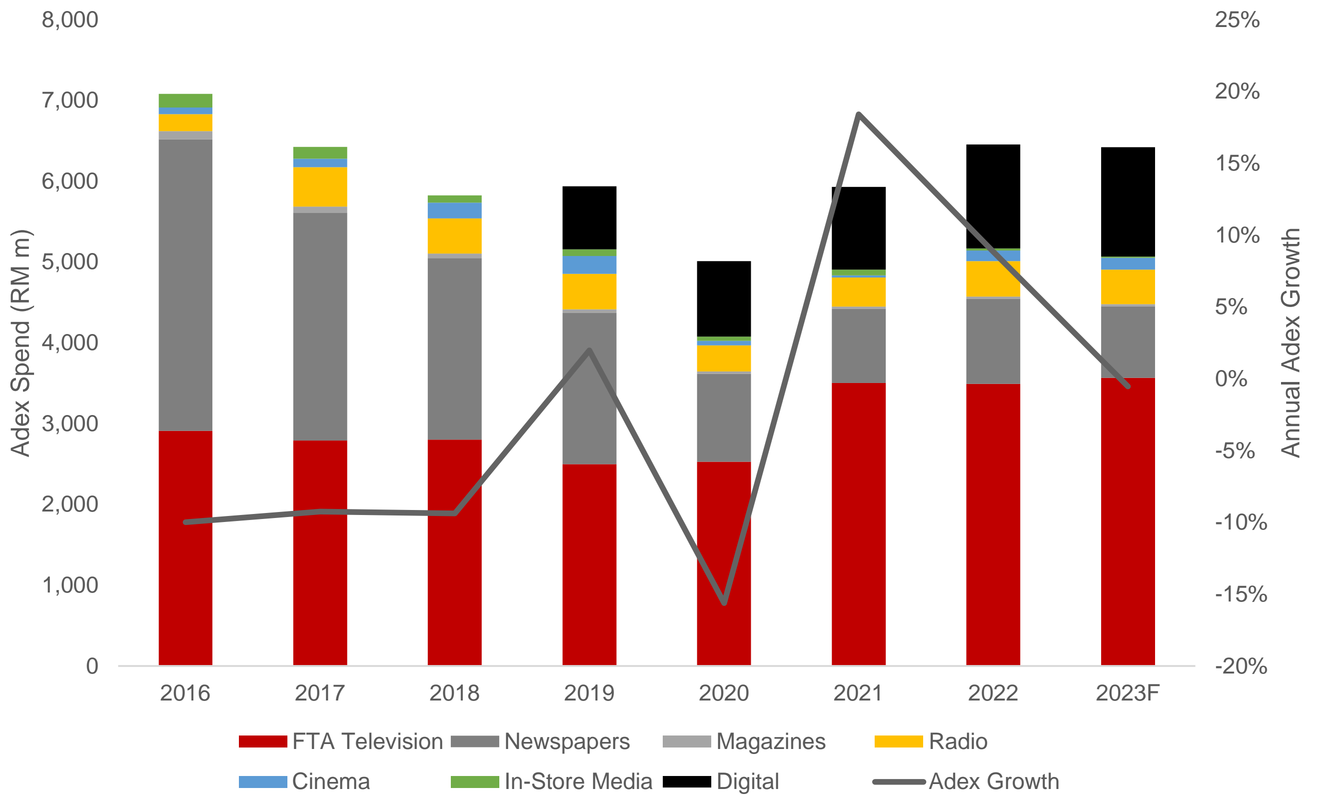
9MCY23 adex softer in spite of state elections boost. Against the above backdrop, 9MCY23 adex contracted by 2.4% YoY to RM3.1b as marketing spend plunged for newspapers (-17% YoY), television (-0.5% YoY), and radio (-2% YoY). Furthermore, whilst 3QCY23 adex was uplifted by state elections, we do not expect it to recur in the medium term given that state polls are held every five years. Moving forward, for CY24, we expect adex to be relatively subdued given the lack of major catalyst events. For 2024, except for the Thomas Cup tournament and Winter Olympics, there are no major upcoming elections or global sports events (such as the likes of Summer Olympics, World Cup). In comparison, FY23 was boosted by state elections (as mentioned earlier) as well as SEA Games and Asian Games.

Media landscape is dominated by digital platforms. The outlook for traditional publishers remains gloomy given the structural trend where eyeballs are shifting to new digital platforms such as social media, mobile apps and websites. Unfortunately, newspaper and magazine websites are unable to capture their lost market share - as illustrated by youtube.com's significant share (88%) of digital adex in 3QCY23. Ironically, traditional media websites in Malaysia partially rely on social media for: (i) adex revenues and (ii) digital traffic.This was evident in the case of **MCIL (UP; TP: RM0.10)**, where 1HFY24 adex declined by 10%, mainly due to changes in Facebook's news feed algorithm and termination of its instant articles service since April 2023. This had led to: (i) fewer readers being directed to **MCIL**'s sites, and (ii) reduction in direct programmatic advertising revenue from Facebook.

Intensified threat from the rise of AI. Moving forward, we believe that continued advancement in artificial intelligence (AI) may widen the competitive lead held by international media platforms and social media. For instance, the application of AI in streaming platforms (i.e. Youtube, Spotify, Netflix and Disney Plus) results in personalized curated content that corresponds to the preferences of each individual. Hence, this leads to audience loyalty on the back of enhanced experiences, engagement, and satisfaction. On the same note, commercials are also personalized for audiences via AI – which compels advertisers to prioritize mediums that have AI-powered features. On the other hand, this does not apply to traditional media (i.e. newspapers, magazines, FTA TV, radio), with the exception of Pay TV.

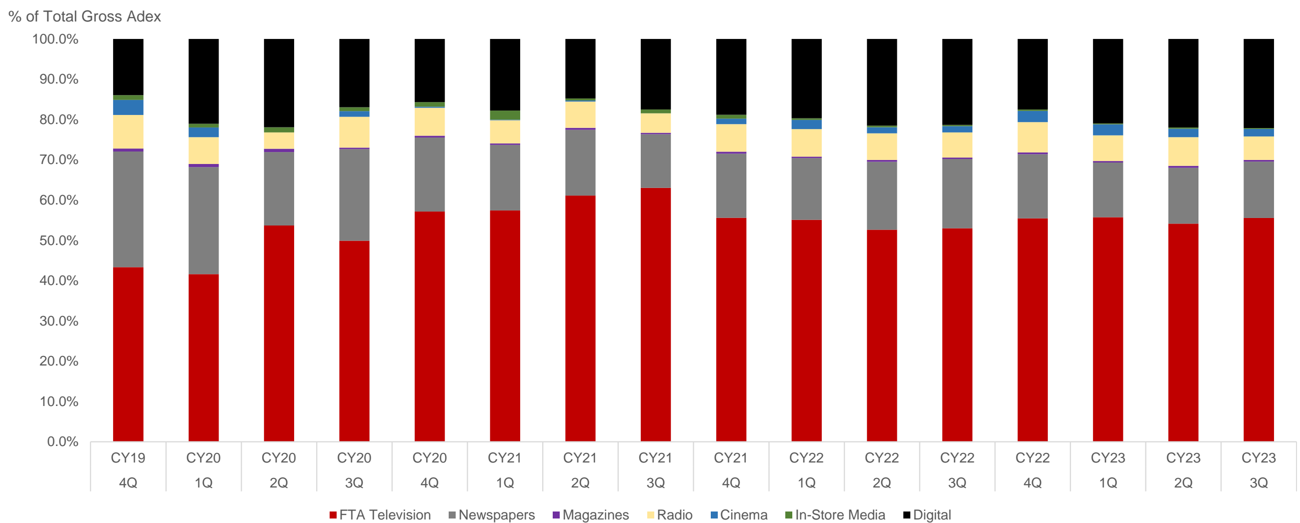
Downgrade due to murky earnings outlook. We downgrade our sector recommendation to **UNDERWEIGHT** (from **NEUTRAL**) as we believe that the writing is on the wall for traditional media, unless they are able to radically reinvent themselves. In the meanwhile, whilst the latter takes place, we believe their market share for adex will continue to slump.Our sole **OUTPERFORM** recommendation for the sector is **STAR** given its: (i) proactive plans to future proof its earnings via a 5-year transformation journey, (ii) strong balance sheet with sizeable war chest, and (iii) traction in efforts to transition to digital media.

Annual Adex



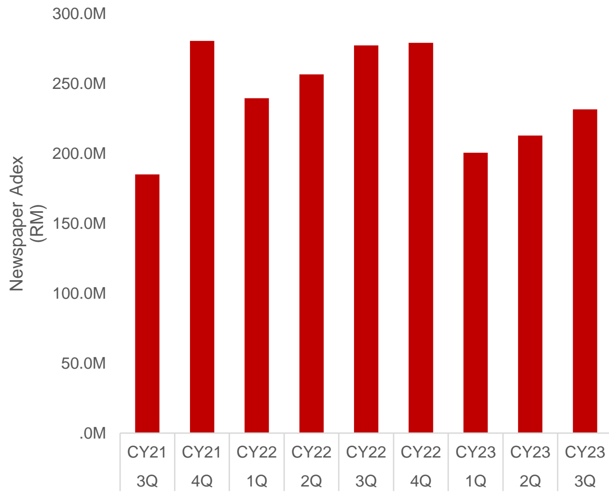
Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



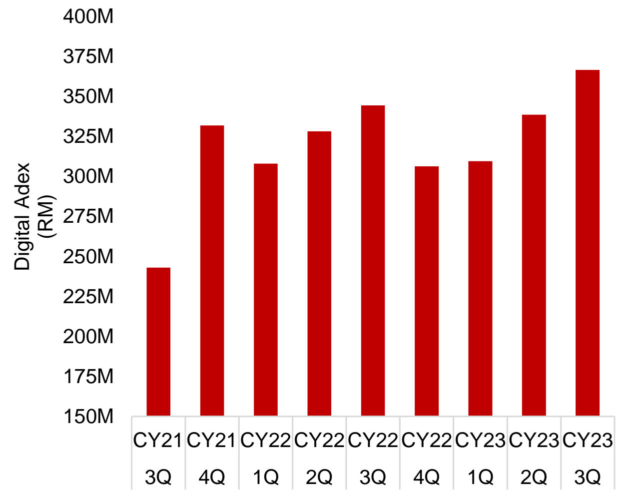
Source: Nielsen, Kenanga Research

Newspaper Adex



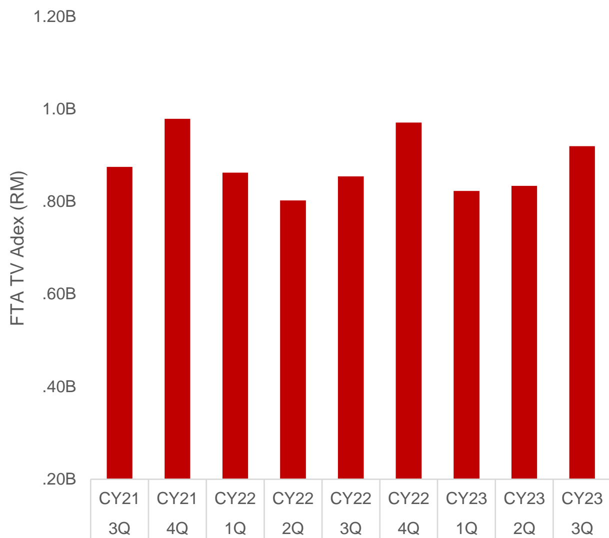
Source: Nielsen, Kenanga Research

Digital Adex



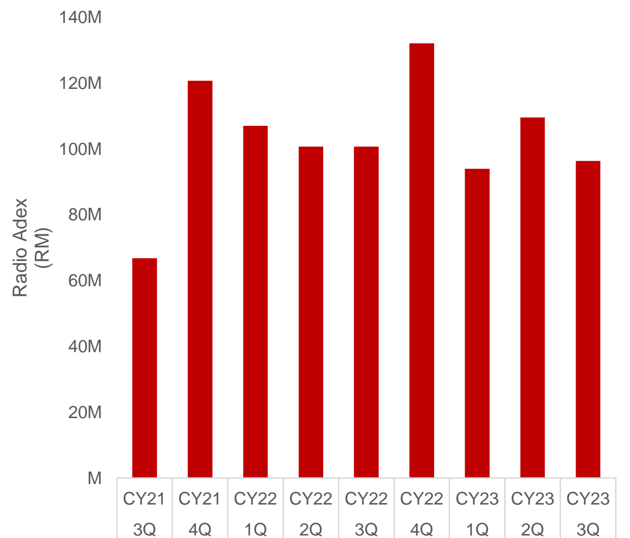
Source: Nielsen, Kenanga Research

FTA TVAdex



Source: Nielsen, Kenanga Research

Radio Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price @ 1/12/23 (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.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.375	0.330	-12.0%	1,957.1	N	01/2024	5.2	4.5	-21.3%	-14.6%	7.2	8.4	1.5	29.5%	2.7	7.2%
MEDIA CHINESE INTERNATIONAL	UP	0.140	0.100	-28.6%	236.2	Y	03/2024	(2.7)	(3.7)	-2175.0%	-37.1%	N.A.	N.A.	0.4	-6.8%	0.0	0.0%
MEDIA PRIMA BHD	UP	0.415	0.370	-10.8%	460.3	N	06/2024	2.9	3.7	-47.6%	27.2%	14.3	11.2	0.7	6.5%	1.5	3.6%
STAR MEDIA GROUP BHD	OP	0.420	0.540	28.6%	304.4	Y	12/2023	0.4	0.6	-55.4%	37.9%	105.0	76.1	0.5	0.4%	0.0	0.0%
Sector Aggregate					**2,958.1**					**-36.4%**	**-17.8%**	**11.3**	**13.7**	**0.9**	**7.9%**		**2.7%**

Source: Bloomberg, Kenanga Research

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Oil & Gas

NEUTRAL

Upstream Services Segment to the Fore

By Lim Sin Kiat, CFA / limsk@kenanga.com.my

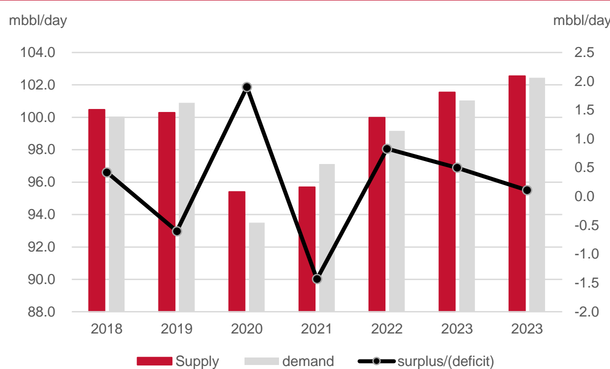
We remain NEUTRAL on the sector, with a continued preference for upstream service providers, especially those in brownfield projects. We trim our CY24 Brent crude price assumption to USD84/bbl (from USD86/bbl) to reflect a slightly weaker demand outlook. Nevertheless, we anticipate the upstream capex of Petronas, centred on brownfield projects, to sustain its upward trajectory in CY24 as its cost structure could easily accommodate slightly lower Brent crude prices. On a less encouraging note, the prospects of the downstream segment will remain subdued on weak global demand, while the midstream segment (in terms of tank terminal spot rates) may have bottomed out. Our sector top picks are DIALOG (OP; TP: RM3.10), YINSON (OP; TP: RM3.39) and UZMA (OP; TP: RM1.22).

1. Upstream

Crude oil price to hold up in CY24. We trim our CY24 Brent crude price assumption to USD84/bbl (from USD86/bbl) to reflect a slightly weaker demand outlook for crude oil, particularly, from China. At USD84/bbl, the oil price will be comparable to the estimated average of USD83/bbl in CY23, underpinned by an expected narrowing in the crude market's surplus YoY in CY24 to 0.3m bbl/day, compared to 0.5m bbl/day in CY23. Also, our base case assumes oil demand to grow by 1.2m bbl per day in CY24, with production increasing at a slower rate of 1.0m bbls per day.

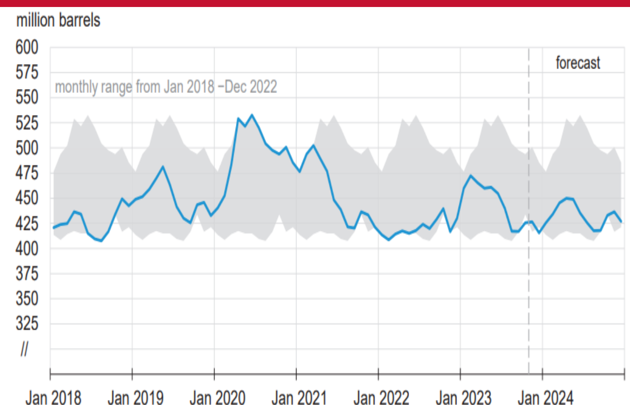
Our CY24 crude oil price assumption is considerably more conservative than the EIA's forecast of USD93/bbl (in its Nov CY24 outlook publication). This is due to our slightly more conservative assumption on global crude demand, with the EIA assuming a growth of +1.4m bbls per day YoY in CY24. In our view, demand for crude oil will remain the major concern for the oil market in CY24, primarily due to uncertainty in demand from China and the US, rather than supply. Hence, the upside to crude oil prices remains capped. Nevertheless, we believe the downside to Brent crude prices from the current level is also limited, as OPEC+ has shown resolve in cutting production to support prices.

Global Crude Supply-Demand



Source: EIA, Kenanga Research

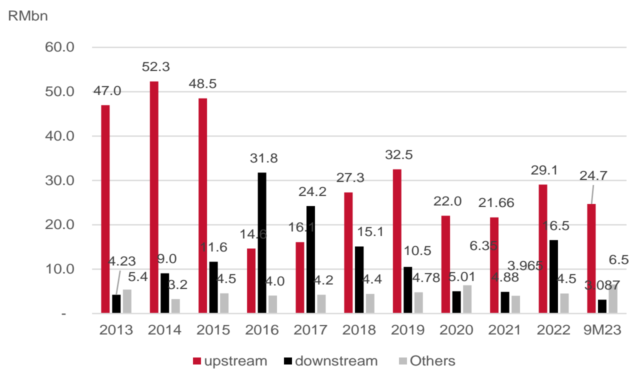
US Commercial Crude Oil Inventories



Source: EIA, Kenanga Research

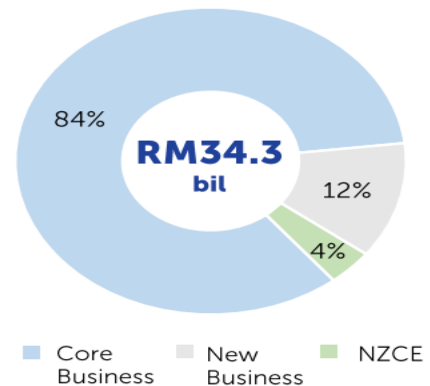
Upstream capex target is still intact. Meanwhile, we anticipate the upstream capex of Petronas to sustain its upward trajectory in CY24 as its cost structure could accommodate Brent crude prices of as low as USD75/bbl. Anticipating a CY24 capex expenditure of around RM60b, with a larger proportion allocated to upstream activities, we expect Petronas to address the aging infrastructure of oil production platforms in Malaysia. This strategic move is anticipated to benefit upstream service providers under our coverage, particularly amidst the reduced supply of upstream contractors due to underspending by Petronas and other oil producers since the onset of COVID-19.

Petronas Annual Capex Breakdown



Source: *EIA, Kenanga Research*

Petronas 9MFY23 Capex Breakdown



Source: *EIA, Kenanga Research*

Spending would be focused on brownfields. We anticipate that the majority of Petronas' upstream capex will continue to be directed toward brownfield projects (existing fields or extensions to producing oil fields) due to their lower risk profile and capex requirements. While greenfield projects are expected to emerge in CY24, their scale is not likely to match the levels seen in CY13-CY14, as oil producers show less willingness to commit to major greenfield projects with long development cycles amid global energy transition trends. Consequently, maintenance players like **UZMA** are poised to benefit more than offshore supply vessel (OSV) and drilling rig players, at least in CY24.

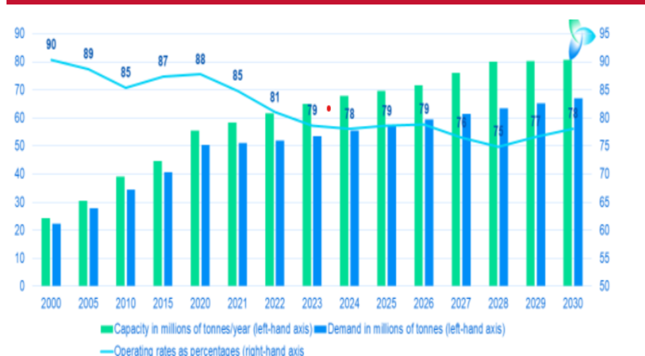
Balancing new energy investment with a focus on upstream capex. We observe that in 9MFY23, there was no apparent crowding out of upstream capex by new energy investments, with only 16% allocated for new energy-related spending. It suggests that Petronas is likely to continue prioritizing the majority of its capex budget on its core business, predominantly upstream activities, while also making new energy investments to align with the energy transition agenda. Looking ahead to CY24, we anticipate a similar capex breakdown, with no significant shift compared to the observed pattern in 9MFY23.

OSV and drilling rig players are set to benefit from a supply squeeze. Unlike the historical correlation between OSV and rig daily charter rates (DCRs) and greenfield capex by oil producers, we expect DCRs to remain robust in CY24 due to supply tightness, both locally and globally. Underspending by OSV and rig owners due to ESG initiatives have constrained new builds for OSV and drilling, resulting in a significantly reduced supply of vessels and rigs in the market. This bodes well for existing OSV and drilling rig owners with working assets due to the lack of alternatives.

Labour costs may limit the upside from DCR. With no new build orders for new assets since CY19 due to uncertainties, the majority of rig and OSV players in Malaysia are experiencing a rise in DCRs for their existing fleet in CY23. Anticipating similar capacity levels in CY24, as no major players have announced fleet expansion plans, the DCR market is expected to strengthen with an uptick in upstream spending, driven by demand from brownfield projects. However, the sharp increase in labour costs may limit earnings improvement for OSV and drilling rig owners. Therefore, we believe this subsector deserves closer monitoring in the coming months to determine the upside potential in earnings in CY24.

2. Midstream and Downstream

HDPE Excess Capacity to Widen



Source: *ICIS, Kenanga Research*

TAPIS Crack Spread

Source: *Bloomberg, Kenanga Research*

Downstream outlook is largely benign. The downstream outlook remains largely unexciting with the polyolefin market exhibiting tepid conditions attributed to global demand concerns, especially from China amid a growth slowdown. We anticipate this trend to persist into CY24, restraining the recovery of polyethylene and polypropylene prices, which are not expected to significantly exceed USD1,000/MT. On the supply side, Wood Mackenzie estimates a 25% increase in ethylene and propylene capacities from CY23 to CY30, with China contributing half of the growth. Potential upside risks to our expectations include delays in major petrochemical plant startups and higher-than-expected global plant downtime which will cause occasional spike in chemical prices.

Urea prices to be flattish. We anticipate urea prices to experience a flattish trend in CY24, remaining at USD350/MT, in line with the average prices reported in CY23. The decline in Russian exports, resulting from imposed export quotas until the end of CY24, will be countered by weakened global demand, particularly from Brazil and India. The global downturn in corn prices, a major consumer of urea as fertilizer, has further contributed to reduced demand from Brazil. Concurrently, India has revitalised its older plants, boosting domestic urea production. Urea producers are likely to ramp up their production, facilitated by the substantial decrease in natural gas prices (the feedstock for urea manufacturing) from USD7.8/mmbtu to USD2.8/mmbtu in CY23.

Early signs of optimism for tank terminal markets. While global demand for crude petroleum storage has been in a subdued trend due to OPEC+ production cuts, the tank terminal market presents opportunities with rising demand for storage of new energy and sustainable feedstocks. **DIALOG** is well-positioned for long-term growth in low-carbon product storage capacity, particularly in Pengerang, Johor. We believe that spot storage rates have reached their low point in CY23, and we anticipate a gradual recovery in CY24 as demand for storage improves.

Tight refining capacity to ease in CY24. In CY24, we anticipate a decline in refining margins as the tight global refining capacity is expected to ease with the commissioning of new refining capacities. The period of CY22-CY23 witnessed a lag in refining capacities catching up with the recovery in demand for diesel and gasoline (refined products) due to the substantial refining capacity being shut down during the COVID-19 crisis. Subsequently, more capacities have been restarted due to the surge in refining margins, and additional capacities are expected to come online in CY24. Consequently, we expect refining margins to trend lower in CY24 due to growing concerns about the demand for gasoline and diesel amid a weak macro outlook.

3. Conclusion

We advocate focus on the upstream services subsegment within the local oil & gas sector, especially in brownfield projects, to capitalise on the sustained increase in Petronas' upstream capex. The downstream segment does not appear promising in the short to medium term due to global demand concerns. Additionally, we favour the midstream segment, particularly tank terminals, as the market indicates signs of bottoming out, and the surge in projects related to low-carbon storage offers growth opportunities for tank terminal operators.

Our top picks for the sector are:

1. **DIALOG** underpinned by: (i) recovery in demand for independent tank terminal storage from a weak FY23 market with utilisation generally above 90% for existing terminals, (ii) active diversification into upstream production assets (recent endeavour involves potential development of small field assets in Baram Junior cluster) which enables the group to capitalize on oil price rallies, and (iii) still significant expansion potential in Tanjung Langsat (200,000 cbm incremental capacity) and Pengerang with 500 acres of land to be developed on which coincides with a gradual ramp up in activity observed in the Johor market.
2. **YINSON** due to: (i) a strong FPSO order book pipeline with multiple major FPSO jobs under the conversion stage which provides significant earnings growth in coming years, (ii) a strong project execution track record which positions the company to benefit from strong structural demand for FPSO contractors anticipated in the coming years, and (iii) being one of the first local oil & gas company investing in green technology (solar, e-mobility, etc) which in our view would help with the company's long-term energy transition agenda
3. **UZMA** due to: (i) it benefiting from the ongoing upcycle in upstream activities, resulting in increased oil & gas contract flows, (ii) actively engaging in sustainable businesses, as exemplified by the Sungai Petani Power Purchase Agreement (PPA), enhancing **UZMA's** ESG appeal and securing future earnings, and (iii) anticipated margin improvements in its upstream oil & gas division due to more favorable current contract terms for its upstream oil & gas division.

Peer Comparison

Name	Rating	Last Price @ 1/12/23 (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	MP	0.51	0.580	13.7%	2,902.1	N	12/2023	10.3	13.6	-25.9%	31.9%	4.9	3.8	0.5	11.1%	0.0	0.0%
DIALOG GROUP BHD	OP	2.07	3.10	49.8%	11,228.7	Y	06/2024	9.9	10.3	10.7%	4.2%	20.9	20.1	1.9	9.7%	4.2	2.0%
MISC BHD	MP	7.25	7.00	-3.4%	31,692.6	Y	12/2023	46.8	49.6	-11.8%	6.0%	15.5	14.6	0.8	5.5%	30.0	4.1%
PETRONAS CHEMICALS GROUP BHD	MP	7.20	6.74	-6.4%	55,680.0	Y	12/2023	21.3	45.0	-73.1%	111.1%	33.8	16.0	1.4	4.3%	14.9	2.1%
PETRONAS DAGANGAN BHD	MP	22.30	22.40	0.4%	21,875.9	Y	12/2023	94.8	94.4	25.2%	-0.4%	23.5	23.6	3.7	16.1%	75.8	3.4%
PETRON MALAYSIA REFINING	MP	4.57	4.74	3.7%	1,223.1	Y	12/2023	109.3	99.6	-2.0%	-8.8%	4.2	4.6	0.5	12.6%	21.0	4.6%
UZMA BHD	OP	0.78	1.22	56.4%	294.3	Y	06/2024	11.8	12.2	16.9%	3.5%	6.6	6.4	0.5	8.7%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.23	0.170	-26.1%	1,684.2	Y	12/2023	0.6	1.2	-51.1%	105.8%	40.5	19.7	0.7	2.0%	0.0	0.0%
WASCO BHD	MP	0.98	0.940	-4.1%	739.5	Y	12/2023	8.8	10.4	-17.9%	18.1%	11.1	9.4	0.9	9.1%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.44	3.39	38.9%	7,208.8	N	01/2024	12.9	18.4	13.7%	3.0%	19.4	13.6	1.4	18.4%	3.9	1.2%
Sector Aggregate					**136,207.9**					**-38.8%**	**31.5%**	**16.9**	**12.6**	**1.2**	**9.7%**		**1.7%**

Source: Bloomberg, Kenanga Research

Plantation

Flattish CPO Prices, but Softer Costs

NEUTRAL

We maintain our NEUTRAL call for the sector. We project flattish CPO prices of RM3,800/MT in CY24 with demand growth normalising at 3%-4% YoY and supply looking to stay tight. Meanwhile, production cost has been easing since mid-CY23 and should stay soft into CY24. El Nino has been mild so far but ageing trees are now expected to dampen palm oil yields instead. Given firm CPO prices with softer costs outlook, the sector's CY24 profit should recover while the valuation of 1.1x sector PBV is not demanding either. Gearing is moderate to good and the sector is Shariah compliant. For stock picks, we prefer growth over income, hence KLK (OP; TP: RM24.50) given its flexibility to expand upstream and downstream internationally, PPB (OP; TP: RM19.30) on FY24F earnings recovery while TSH (OP; TP: RM1.30) is set to plant up 30%-40% additional area.

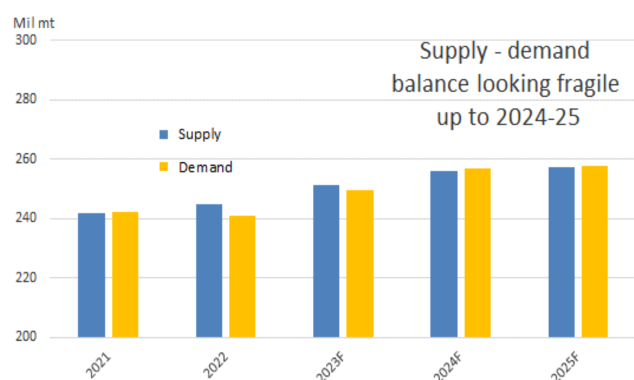
Healthy edible oil demand should keep palm oil prices firm. We project flattish CPO prices of RM3,800/MT in CY24 as demand recovers to either keep pace or even outrun the growth in supply. CY24 is looking to start the season with flattish inventory levels whilst supply may tighten on poor weather and oil palm yields as demand continue to inch up by another 3%-4% YoY. Specifically, demand for palm oil is expected to remain healthy on the back of:

1. **Huge and growing regional edible oil market**. Rising demographic and affluence are driving Asia Pacific as the world's largest edible oil consumer. China's market alone is 1.3x larger than EU which is the second largest market whilst India and Indonesia should surpass the US in a decade or so. With India and Indonesia set to hold elections in CY24, both governments are likely to ensure food supply to be as widely available as possible, thus demand for palm oil can be expected to stay buoyant in CY24.
2. **Affordable and flexible.** About half of all the edible oils traded internationally are palm oil. This dominance is supported by competitive prices, year-round availability and multiple uses for the oil, from solid vanaspati to liquid frying oil and even biodiesel.
3. **Biofuel demand.** Indonesia has adopted a biofuel policy, akin to the EU, to improve energy security and the environment whilst concurrently supporting its rural economy. Today, Indonesia is the 3rd biggest biofuel market after the EU and US. More importantly, Indonesia is the single largest palm-based biodiesel market in the world.

This follows an estimated 3%-4% YoY increase in demand in CY23, which is consistent with the long-term trendline growth, after stagnating for three years as Covid-19 affected travel, airlines, horeca (hotels-restaurants-cafés) as well as supply chain, and an estimated 2%-3% growth in global edible oil supply, which is the highest for the past three years.

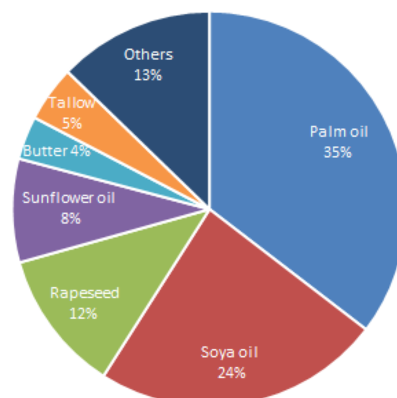
Better margins ahead. We expect firmer upstream plantation margins in CY24 on easier input costs and higher yields, but a mixed outlook for downstream (oleochemicals) performance as personal care, cosmetics and industrial oil/grease segments can be more sensitive to economic slowdown while food-related products hold better (e.g. refined cooking oils or specialty oils and fats). This is consistent with observations in the recently announced 3QCY23 results.

Supply Is Under Pressure from Recovering Demand



Source: Oil World, FAO, Kenanga Research

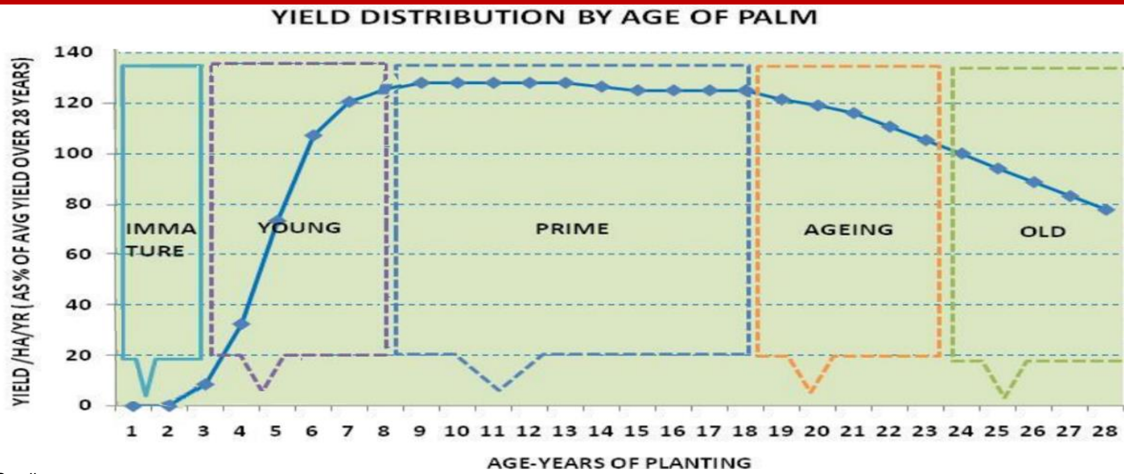
Palm Oil Dominates the Global Edible Oil Demand



Source: Oil World, Kenanga Research

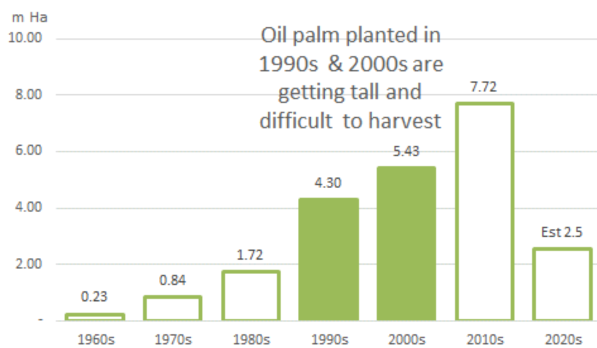
Oil palm output is also facing long-term structural headwinds. Unlike the three other major edible oil crops (soya, rapeseed and sunflower) which are sown and harvested annually, palm oil is a fruit-bearing tree which can live for many years. However, as it ages, it grows taller making harvesting more difficult, slower and costlier; hence, the practice is to re-plant every 25 years. For large, well-capitalised plantation groups, such replanting is part of the planting cycle but not so for small holders who find replanting costly (RM20,000-30,000 per Ha) with no income thereafter for two to three years if not longer. As small holding constitutes around half of oil palm planting in the world (approximately 30m Ha), ageing trees in smaller plots are probably one factor behind the decline in palm oil yields since CY18. The timing of this decline in yields can be traced to the sizeable new oil palm area developed during the 1990s (4.3m Ha) and 2000s (5.43m Ha). This challenge is also set to become larger in the coming decades as plantings during the 2010s (7.72m Ha) ages.

Oil Palm Yield Declines From About 18 Years of Age Onwards



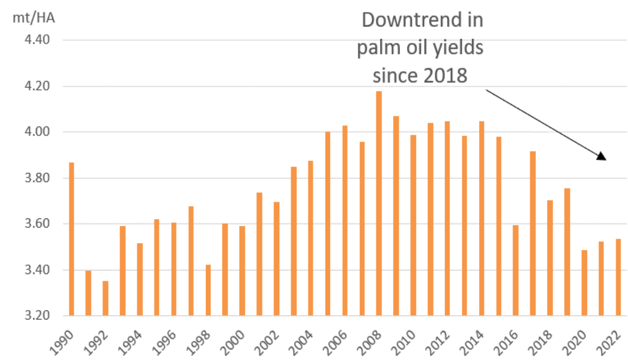
Source: Ganling

Sizeable Replanting Ahead



Source: FAO, Oilworld, Kenanga Research

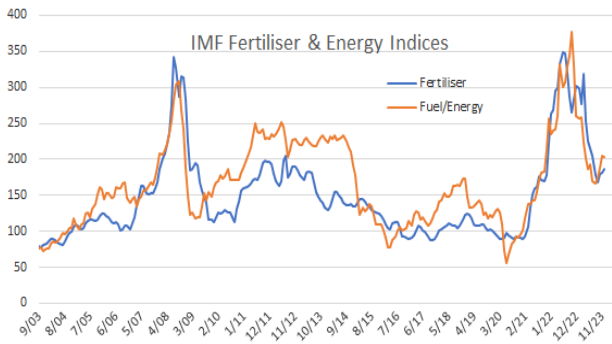
Downtrend in Palm Oil Yields



Source: Oilworld, Kenanga Research

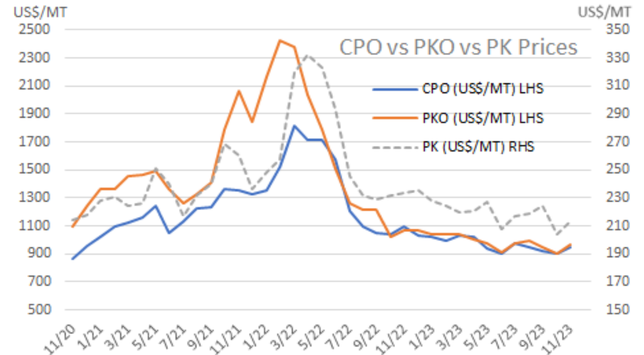
Costs of agriculture input are lower YoY. After having peaked in 2Q of last year, input costs such as fertiliser have been trending down. YTD, CY23 fertiliser prices are lower by 30% YoY (nearly 40% below peak 2QCY22 prices). Likewise, despite recent uptick in crude oil prices, overall energy cost has also trended down compared to a year ago. At the same time, FFB yields have improved in Malaysia, thanks to the arrival of guest workers after borders were reopened last year and recruitment procedures were improved.

Softer Fertiliser & Energy Costs After 2Q22



Source: MPOB, Kenanga Research

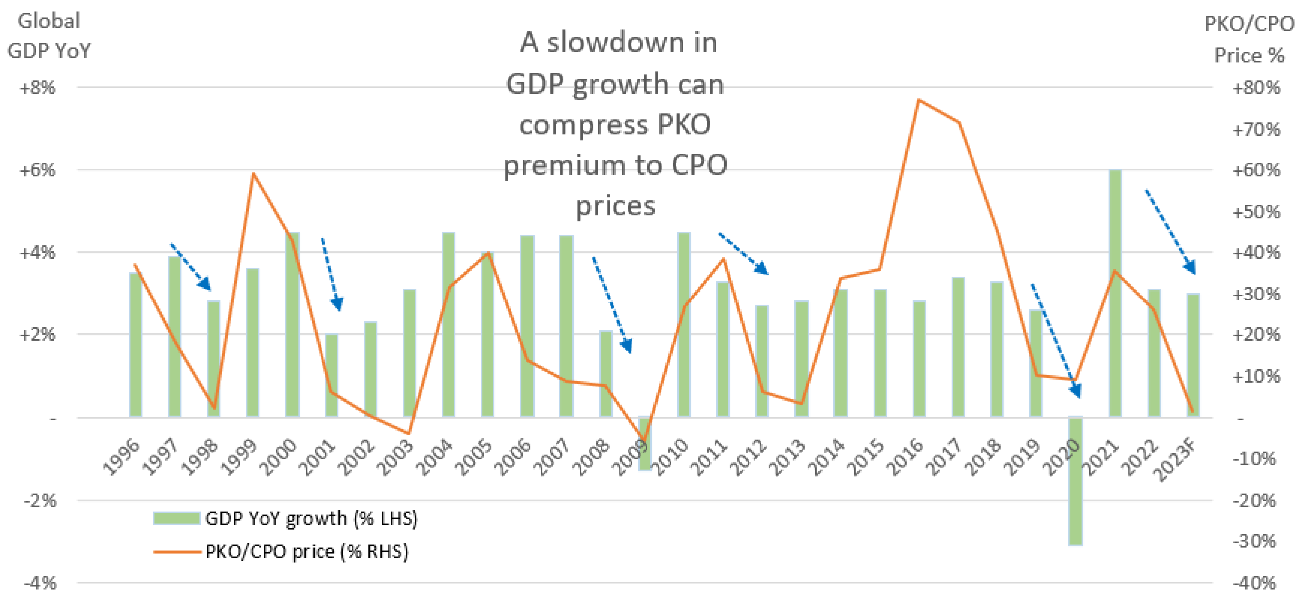
Weak PK & PKO Prices Since Mid-2022



Source: IMF, Kenanga Research

Palm kernel oil (PKO) prices may recover in CY24 or CY25. A byproduct when milling of FFB to extract CPO, palm kernel (PK) is sold to reduce the overall cost of producing CPO by 6-10%. While 70% of CPO demand is food-based and hence less elastic, PKO market can be more sensitive to economic slowdown as it is used in less essential personal care, cosmetic or industrial products. Such sensitivity is often reflected in PKO prices, notably its premium relative to CPO prices. Historically, PKO's price premium (please refer to the chart below) tend to suffer when global GDP growth rate eases YoY while negative GDP growth (as in CY09) can cause PKO to trade below CPO prices. However, such discounts are not common, small (c.5%), and reverse out after a year. On the other hand, the price premium tends to widen when global GDP growth is accelerating YoY. Overall, it is more common for PKO to have a 20%-30% premium above CPO prices, hence **current PKO price parity with CPO suggests PKO prices could be at or near the bottom.**

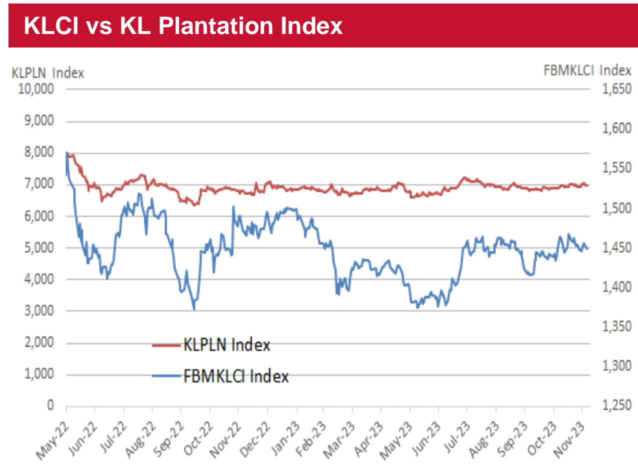
Current PKO Price Parity to CPO Suggests PKO Prices May Be Near the Bottom



Source: World Bank, Oilworld, Kenanga Research

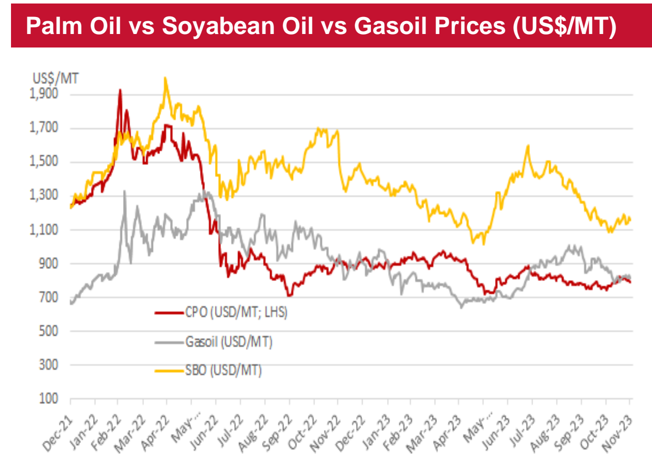
Current CPO price softness probably reflects the mild El Nino in SE Asia so far. Naturally recurring, El Nino brings rain to the eastern Pacific but dryness to the western fronts, including SE Asia. Often classed as weak, moderate, strong, or very strong, oil palm yields in Indonesia and Malaysia historically only suffer when El Nino is "very strong," which was the case in 2015-16 when east Borneo and northwest Peninsular Malaysia saw prolonged dryness causing palm oil output to dip by 5% YoY then. Thus far, impact of the current El Nino has been mild. Parts of Sumatera and Kalimantan did see dryness for a month or two but not serious to trigger a major yields downgrade while Sabah and Peninsular Malaysia barely felt any impact. We suspect the softness in CPO prices over the past month or two is a reflection of this. However, with a tight CY24 supply-demand outlook, we are keeping our average CY24-25F CPO price of RM3,800 per MT. We suspect the commodity market will gradually factor in the structural downtrend in SE Asian oil palm yields from ageing trees along with shrinking Malaysian oil palm area while new Indonesian planting has slowed considerably.

KLCI vs KL Plantation Index



Source: Bloomberg, Kenanga Research

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



Source: Bloomberg, Kenanga Research

Undemanding ratings, defensive balance sheet and supportive price environment. Weaker edible oil demand due to an economic slowdown is possible but palm oil markets are likely to stay robust thanks to competitive prices and strong Asian presence, though biofuel demand may suffer slightly. Compressed 1HCY23 margins have started to recover, a trend which is expected to help lift up CY24 earnings. Many in the sector also own estates with market value far higher than their carrying book value due to real estate potentials yet the sector is trading at just 1.1x PBV. Gearing is moderate to good and the sector has Shariah compliance appeal but a strong upside catalyst is absence. **Maintain NEUTRAL for the sector.**

Within the sector, we prefer growth over income, hence KLK given its strong track record and flexibility to expand upstream regionally along with readiness to expand selectively downstream. **PPB** is also attractive given its exposure to Wilmar's agribusiness exposure in China and India while its own SE Asian consumer businesses are also recovering. After aggressive divestments of less strategic assets over FY22-23 to pare down debts, **TSH** is preparing to start plant up 30-40% of land which it already owns.

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	AO	1.55	1.55	0.0%	3,472.0	Y	12/2023	1.3	2.6	-78.8%	100.0%	119.7	59.9	1.3	1.0%	2.0	1.3%
GENTING PLANTATIONS BHD	MP	5.45	5.70	4.6%	4,889.5	Y	12/2023	29.0	33.3	-44.6%	14.8%	18.8	16.4	0.9	4.8%	15.0	2.8%
HAP SENG PLANTATIONS HOLDINGS	MP	1.79	1.80	0.6%	1,431.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	16.8	15.2	0.7	4.4%	7.0	3.9%
IOI CORP BHD	MP	3.98	3.80	-4.5%	24,690.7	Y	06/2024	22.9	23.9	-5.8%	4.3%	17.3	16.6	2.2	13.4%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	21.30	24.50	15.0%	22,970.7	Y	09/2024	147.0	165.1	40.9%	12.3%	14.5	12.9	1.4	10.4%	50.0	2.3%
PPB GROUP BHD	OP	13.90	19.30	38.8%	19,774.1	Y	12/2023	76.6	115.1	-49.8%	50.2%	18.1	12.1	0.7	4.8%	45.0	3.2%
SIME DARBY PLANTATION BHD	MP	4.52	4.00	-11.5%	31,259.0	Y	12/2023	13.8	16.6	-53.4%	20.3%	32.8	27.3	1.8	11.4%	18.0	4.0%
TA ANN HOLDINGS BHD	MP	3.57	3.80	6.4%	1,572.4	Y	12/2023	36.0	36.2	-62.2%	0.6%	9.9	9.9	0.9	9.9%	25.0	7.0%
TSH RESOURCES BHD	OP	0.985	1.30	32.0%	1,359.5	Y	12/2023	5.6	7.2	-72.7%	28.3%	17.6	13.7	0.7	7.5%	1.0	1.0%
UNITED MALACCA BHD	MP	4.95	5.00	1.0%	1,038.4	Y	04/2024	33.0	25.3	-40.3%	-23.4%	15.0	19.6	0.7	4.4%	12.0	2.4%
Sector Aggregate					**117,382.8**					**-38.3%**	**19.2%**	**19.2**	**16.1**	**1.1**	**7.6%**		**3.5%**

Source: Bloomberg, Kenanga Research

Plastic Packaging

Carving a Niche in Sustainable Packaging

NEUTRAL

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

We maintain our NEUTRAL view on the sector. Players are unable to capitalise on the easing resin cost due to the slow demand for plastic packaging materials amidst a soft global economy. In other words, they have to cut their selling prices in tandem with the lower resin cost to defend their market shares. Not helping either, are elevated labour and energy costs. On a brighter note, local producers are reinventing themselves by focusing on premium niche products (such as nano stretch film) which also fit the bill of sustainable packaging, while fetching better margins. Our sector top pick is TGUAN (OP; TP: RM2.86).

KPMG projects the global plastic packaging market to grow at a 5% CAGR from CY21 to CY26. We believe local plastic packaging players could grow at a faster pace as they gain market share from their high-cost overseas competitors. The cost advantages of local players stem from: (i) their growing economies of scale (as they scale up their operations), (ii) lower labour cost, and (iii) strengthening bargaining power vs. their raw material suppliers given the rising order volume.

Resin prices have come off by c.8% YTD to about USD960/MT (despite a brief uptick from Jul to Oct) (see Exhibit 1). Indications are pointing towards a downward trend driven by: (i) the increase in global resin production capacity, and (ii) a subdued global demand, especially from China, the world's largest producer and consumer of plastics products, and (iii) the lack of urgency for end-users to stock up on falling product prices.

However, plastic packaging players have not been unable to capitalise on the easing resin cost due to the slow demand for plastic packaging materials amidst a soft global economy, as evidenced by the overall plastic packaging industry capacity utilisation of about 50%-60% currently (vs. 75%-80% prior to the pandemic). In other words, they have to cut their selling prices in tandem with the lower resin cost to defend their market shares.

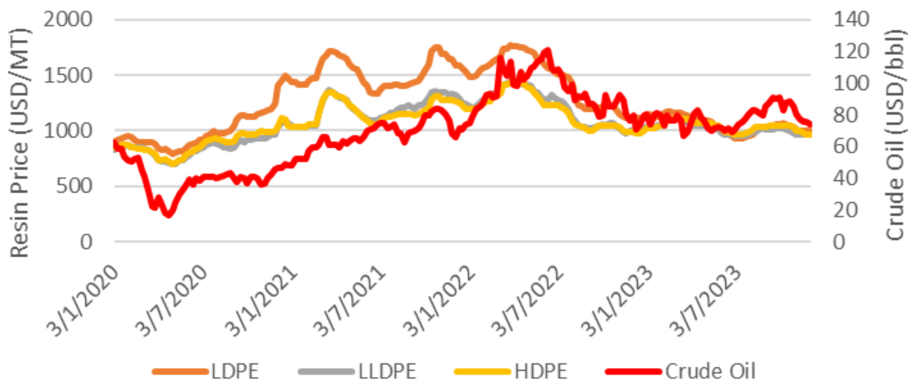
Not helping either, companies are struggling to fully pass on the higher input costs coming from: (i) increased labour expenses resulting from a 25% minimum wage hike since May 2022, and (ii) electricity tariff hikes for the industrial and commercial segments. The full impact of the electricity tariff hikes at the beginning of the year became apparent after companies like **BPPLAS (MP; TP: RM1.23)**, **SCIENTX (MP; TP: RM3.75)** and **TGUAN** opted out from the Green Electricity Tariff (GET) program in Aug 2023, following the upward revision of the GET rate to 21.8 sen/kWh (from 3.7 sen/kWh).They are now subject to the common Imbalance Cost Pass-Through (ICPT) surcharge of 17.0 sen/kWh. These factors collectively weigh on their profit margins.

On a brighter note, local producers are reinventing themselves by focusing on high-value and hence high-margin products such as nano stretch film, mono film, shrink film, stretch hood. Some of these products also fit the bill of sustainable packaging. Innovation centred around downgauging (i.e. to make the film thinner) without compromising on strength (or even enhancing it), enabling the local players to gain traction in the international market given the environmentally-friendly attributes of the products. For instance, **BPPLAS** and **TGUAN** are drawing attention for their innovative nano stretch film technology, while **SLP (MP; TP: RM0.85)** is seeing an uptick in customer inquiries for its mono film, particularly, the fully recyclable MDO-PE film.

Our sector top pick is **TGUAN** due to: (i) its earnings stability underpinned by a more diversified product portfolio and steadily growing clientele base, (ii) its aggressive push into the European and US markets with its environmentally-friendly products, and (iii) its expansion plans for premium products, such as nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags).

We continue to favour **SLP** due to its focus on high-margin, non-commoditized products and strong financial position, enabling consistent and generous dividends. We like **BPPLAS** for its resilience in the Southeast Asia market, robust cash flows, and capacity expansion in premium stretch film and blown film. Additionally, we also like **SCIENTX** for its leading position as the largest flexible plastic packaging manufacturer in the region, as well as the strong demand for its affordable housing projects.

Exhibit 1: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
BP PLASTICS HOLDINGS BHD	MP	1.21	1.23	1.7%	340.6	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.8	1.3	13.1%	5.5	4.5%
SCIENTEX BHD	MP	3.60	3.75	4.2%	5,583.8	Y	07/2024	35.2	36.5	18.3%	3.6%	10.2	9.9	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.855	0.850	-0.6%	271.0	Y	12/2023	3.8	4.9	-27.3%	30.0%	22.6	17.4	1.4	6.3%	5.0	5.8%
THONG GUAN INDUSTRIES BHD	OP	1.87	2.86	52.9%	739.0	Y	12/2023	21.9	26.0	-21.9%	18.4%	8.5	7.2	0.8	9.7%	2.3	1.2%
Sector Aggregate					**6,934.4**					**9.4%**	**6.6%**	**10.2**	**9.6**	**1.3**	**13.1%**		**3.6%**

Source: Kenanga Research

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Property

Affordable Housing Takes Centre Stage

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

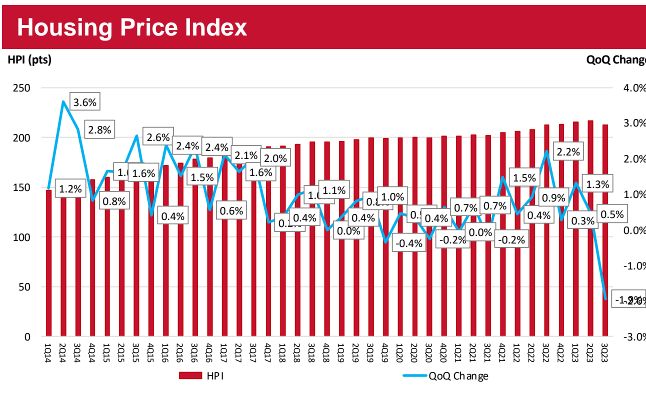
NEUTRAL

We maintain our NEUTRAL stance, remaining cautious on the property sector due to oversupply, high household debt, elevated interest rates and weakened consumer sentiment, which could be further dampened by subsidy rationalisation. While there has been significant interest from equity investors (and not property investors) in the property market in Johor due to the proposed Special Economic Zone (SEZ) in Forest City and improved connectivity with Singapore via the Johor Bahru-Singapore Rapid Transit System (RTS), they will only be operational in CY25 and CY26, respectively, under a blue-sky scenario. Nonetheless, we see a bright spot in the affordable housing segment. Our sector top picks are MAHSING (OP; TP: RM1.00) and MKH (OP; TP: RM2.11) given their focus on affordable homes priced at RM500k and below.

Various headwinds. We remain neutral on the sector's outlook which continued to be weighed down by oversupply, high household debt, elevated interest rates and weakened consumer sentiment due to high inflation and rising cost of living. Not helping either, is the targeted fuel subsidies which may deny subsidised fuel access to part of the M40 group, eroding their spending power, particularly on big-ticket items such as properties.

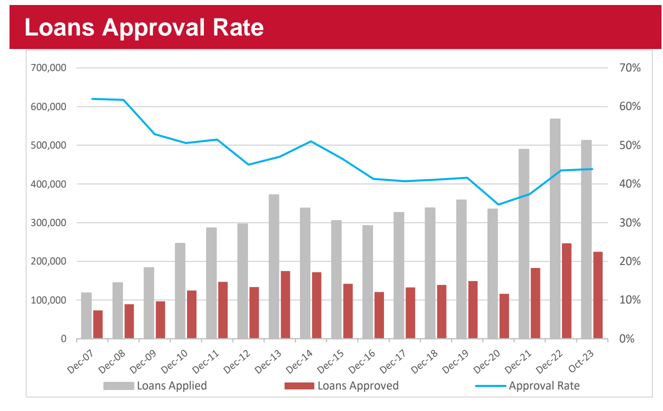
Meanwhile, the banking industry loans approval rate for property based on BNM's recent Oct 2023 data came in at 43.9%, marginally improving from Dec 2022's 43.5%. We opine that the mid-40% approval rates may persist into the near term as banks may continue to exercise prudence in its credit assessment policies. That said, it is possible that a higher uptick could be spurred by a rising proportion of affordable homes in the market as the barrier of entry may be lower. For now, we do not anticipate readings to breach c.50% which was last seen during the industry's up-cycle between 2011 and 2014 as broader economic concerns may still arise (i.e. recession). On the other hand, household debt-to-GDP readings of 81.9% in 1HCY23 (81.0% in 2HCY22) remains lower than pre-pandemic levels of c.88%. This may reflect continued hesitation in consumers to borrow, particularly for larger commitments, supporting our abovementioned stance.

Housing Price Index



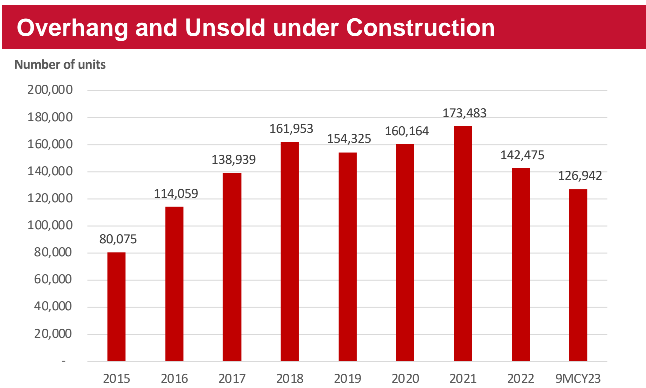
Source: NAPIC, Kenanga Research

Loans Approval Rate



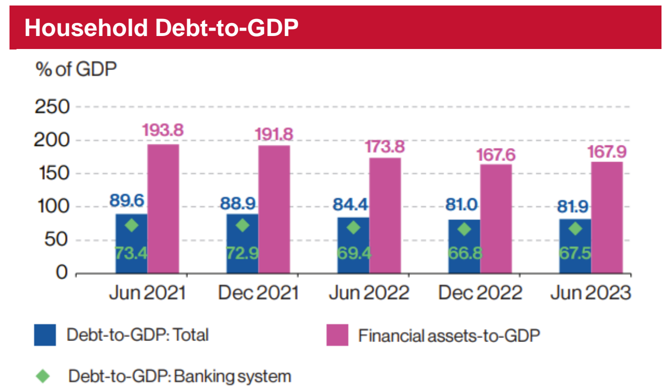
Source: BNM, Kenanga Research

Overhang and Unsold under Construction



Source: NAPIC, Kenanga Research

Household Debt-to-GDP



Source: BNM

Reduced overhang, new units focus on affordability. Per NAPIC's 3QCY23 report, total overhang units (including unsold units under construction) have decreased from 142,475 in CY22 to 126,942, though still more prominent within Kuala Lumpur, Johor and Selangor. While this shows an encouraging consumption of previously unsold units, we highlight that the number of residential launches had also reduced with 3QCY23's 6,881 units (vs 3QCY22's 8,226 units) as developers are likely being more selective with their launches. We also note that 57% of the newly launched residential properties are priced below RM500K, with a 31% YoY reduction in units between RM500K to RM1.0m. This signals a growing favor towards affordable homes with aspirationally priced products (>RM500k) possibly being sidelined by the mass market.

Developers may continue to react accordingly. Adapting to market conditions, developers will continue to offer a mixed bag of products but with a larger emphasis on affordable homes to cater to first-time house buyers, driven by population growth and urbanization. Increasingly, with the widening of public infrastructure networks in the Klang Valley, transit-oriented developments could be a preferred choice to prospective buyers to lower the burden of commuting. Between our coverage, **MAHSING** and **MKH** are likely candidates as key beneficiaries to the present landscape as their well-established presence in these areas adds to their strategic advantage in navigating market conditions.

3QCY23 Property Market Overhang

Region	Overhang units			Unsold under construction units			Total overhang & unsold under construction units
	Residential	Service apartment	Total	Residential	Service apartment	Total	
Johor	4,500	12,646	17,146	4,021	4,892	8,913	26,059
Kuala Lumpur	3,111	4,792	7,903	8,097	9,808	17,905	25,808
Selangor	3,296	2,407	5,703	6,796	7,618	14,414	20,117
Perak	3,625	-	3,625	7,487	234	7,721	11,346
Penang	2,947	354	3,301	4,879	482	5,361	8,662
Sabah	2,298	-	2,298	4,258	-	4,258	6,556
Negeri Sembilan	1,246	1,348	2,594	2,201	566	2,767	5,361
Sarawak	1,682	88	1,770	3,479	255	3,734	5,504
Pahang	543	82	625	1,815	1,332	3,147	3,772
Melaka	551	24	575	2,980	341	3,321	3,896
Kelantan	268	225	493	3,486	-	3,486	3,979
Kedah	605	-	605	3,243	-	3,243	3,848
Terengganu	386	99	485	514	-	514	999
Putrajaya	203	87	290	432	-	432	722
Perlis	6	-	6	208	-	208	214
Labuan	44	-	44	55	-	55	99
Total	**25,311**	**22,152**	**47,463**	**53,951**	**25,528**	**79,479**	**126,942**

Source: NAPIC, Kenanga Research

A patience game for Johor property market. While there has been significant interest from equity investors (but not property investors) in the property market in Johor due to the proposed SEZ in Forest City and improved connectivity with Singapore via the Johor Bahru-Singapore RTS, the developments will only be operational in CY25 and CY26, respectively, in a blue-sky scenario.

The RTS should ease cross-border movements (able to support 40k passenger daily ridership) and encourage immigration, and hence demand for real estate (i.e. accommodation). That said, our recent channel checks continue to indicate that Johor property buyers remain highly skewed to locals or Malaysians working in Singapore. We opine that prospective Singaporean buyers may be more inclined on real estate in more developed cities (i.e. Kuala Lumpur) which are more attainable thanks to their forex advantage. While we note that Johor's overhang situation did improve in 3QCY23 to 26.1k units (-2.3k QoQ), it was still higher than Kuala Lumpur's stock (25.8k, -3.7k QoQ).

Our sector top picks are **MAHSING** and **MKH**, for which we hold a positive outlook due to their focus on affordable offerings priced below RM500k. In the case of **MAHSING**, its emphasis on lifestyle-focused products aims to provide ease for first-time house buyers. This is anticipated to grow significantly given the high demand from first-time buyers. Additionally, effective land bank management and a strategic turnaround are expecting to minimize carrying costs. As for **MKH,** their unique transit-oriented developments are likely to remain attractive to potential buyers. Moreover, the group's near net-cash book provides strong flexibility with regards to its financing options, particularly if the group decides to expand their key business segments. We also anticipate possible knee-jerk reactions from the proposed listing of the group's plantation unit.

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	MP	1.01	1.00	-1.0%	2,973.8	Y	10/2023	8.3	8.4	2.1%	1.5%	12.2	12.0	0.6	5.0%	5.0	5.0%
IOI PROPERTIES GROUP BHD	MP	1.70	1.75	2.9%	9,360.4	N	06/2024	14.1	14.4	23.5%	2.0%	12.0	11.8	0.4	3.4%	4.5	2.6%
MAH SING GROUP BHD	OP	0.780	1.00	28.2%	1,893.6	Y	12/2023	8.0	8.2	13.2%	3.6%	9.8	9.5	0.5	5.3%	4.0	5.1%
MKH BHD	OP	1.41	2.11	49.6%	814.2	Y	09/2024	18.0	20.1	41.8%	11.2%	7.8	7.0	0.4	5.3%	6.0	4.3%
S P SETIA BHD	UP	0.730	0.680	-6.8%	3,032.8	Y	12/2023	3.3	5.7	29.8%	73.9%	22.2	12.8	0.2	1.8%	2.0	2.7%
SIME DARBY PROPERTY BHD	OP	0.605	0.690	14.0%	4,114.5	Y	12/2023	5.5	5.5	12.1%	-1.2%	10.9	11.1	0.4	4.0%	2.2	3.6%
SUNWAY BHD	OP	1.90	2.27	19.5%	9,435.2	Y	12/2023	10.3	14.3	22.9%	38.0%	18.4	13.3	0.9	5.3%	5.0	2.6%
UOA DEVELOPMENT BHD	MP	1.74	1.77	1.7%	4,333.3	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.5	17.0	0.7	3.8%	10.0	5.7%
SECTOR AGGREGATE					**35,957.8**					**17.0%**	**14.9%**	**13.5**	**11.8**	**0.5**	**4.3%**		**4.0%**

Source: Kenanga Research

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REIT

Mall Galore in Klang Valley

NEUTRAL

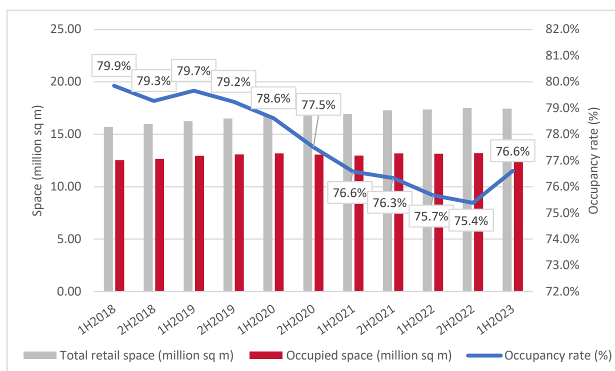
By Clement Chua l clement.chua@kenanga.com.my

We reaffirm our NEUTRAL sector call on REITs. Despite the persistent supply-demand imbalance impacting the office and industrial sectors, specific REITs with niche exposure in the retail segment in prime locations will continue to derive consistent rental income streams against the challenging industry landscape. That said, we remain cautious of the medium-term prospects, considering potential drags on consumer sentiment due to inflation and cautious spending, coupled with an oversupply of office and industrial spaces. Our top picks are PAVREIT (OP; TP: RM1.47) and SUNREIT (OP; TP: RM1.63).

A potential for a sustained occupancy rate. Based on National Property Information Centre's (NAPIC) 1HCY23 Property Market Report, occupancy rates are gradually rising with the retail space in shopping complexes coming in at 76.6% (Dec 2022: 75.4%) from an occupied space of 13.2m sqm on a total retail space of 17.5m sqm. Meanwhile, purpose-built office spaces stood at 79.0% (Dec 2022: 78.5%) from an occupied space of 19.1m sqm against a total office space of 24.3m sqm with the progressive reversion to working-in-office arrangements. We anticipate a sustained healthy occupancy rate in the upcoming quarters as the economy regains vitality and stabilizes.

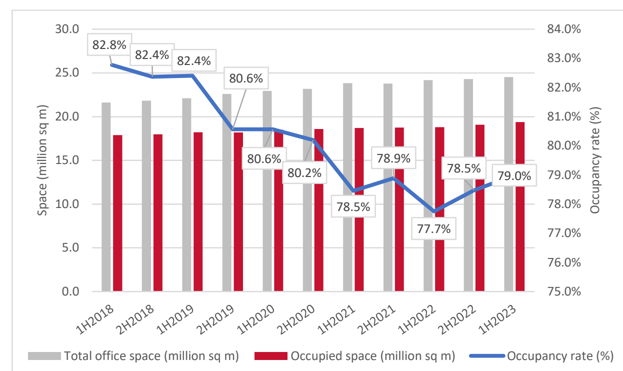
Growth amid challenges. Against a broadly subdued economic climate, we believe that the growing interest in in-person retail transactions, particularly in prime locations, could benefit commercial REITs. With increased footfall from both locals and international tourists, an associated rise in spending is anticipated. Simultaneously, the gradual return to in-office work arrangements will offer some support to office demand, which may lead to a rise in overall occupancy for office assets that may have been depressed from remote working arrangements. Similar to the industrial space, we foresee growth as it becomes a prevailing trend in certain regions thanks to the influx of foreign manufacturing demand paired with an anticipated rise of general exports.

Occupancy Rate Trend For Retail Space



Source: NAPIC, Kenanga Research

Occupancy Rate Trend For Office Space



Source: NAPIC, Kenanga Research

Uncertainty still looms. On the flipside, we believe that the sector's prospects could face sustained challenges. In the near term, expectations for retail spending appear subdued due to cautious consumer habits and economic concerns. We opine that the implementation of luxury taxes (5%-10% on yet to be detailed goods valued above RM10k) and higher SST rates (8% from 6% on qualified transactions) to be imposed in CY24 may further widen the gap for aspirational spending. Additionally, although the importance of office spaces is on the rise, overall occupancy rates may remain modest, as the influx of new office spaces might outpace the relatively moderate growth in demand and leave older vacant spaces perpetually untenanted. A similar trend is observed in industrial properties, as many developers are venturing into this segment which could spur excess demand.

MGS yield due to normalise. 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 come off from its peak of 4.57% in Oct 2022. Given that inflationary readings appear to be mostly well-contained, we subscribe to a flattish interest rate outlook at least in the near-term and for MGS to sustain closely at 4.00%, which would also be fairly in line with historical averages pre-pandemic.

10-Year MGS Yield Movement (since January 2022)

Source: Bloomberg

Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	UP	1.58	5.5
CLMT	MP	0.53	7.5
IGBREIT	MP	1.66	6.5
KLCC	MP	7.18	5.5
PAVREIT	OP	1.47	6.0
SUNREIT	OP	1.63	6.5

^ Derived from yield spread above our 10-year MGS yield assumption of 4.0%.
Source: Kenanga Research

Given that most of our coverage focuses on the retail segment in the Klang Valley, it's noteworthy to highlight the opening of The Exchange TRX on 29 Nov 2023. This mall is anticipated to intensify competition for retail space within the local REIT sector, potentially impacting malls in the Klang Valley. While we reckon near-term consumer attention may be cornered by its opening, our perspective is that in the longer term, the like of KLCC is likely to remain unaffected due to its iconic status as part of the Twin Towers. Similarly, **SUNREIT** and **IGBREIT** are expected to remain unimpacted, considering its malls' locations which are more than 10 kilometres away from The Exchange TRX. They also cater to a wider mix of consumers which may be inclined to a more modest shopping experience. Meanwhile, the odds of **PAVREIT** experiencing short-term impact are modest, given **PAVREIT**'s main mall, Pavilion KL is at the closest proximity to TRX among the high-end malls within our coverage and the overlapping target market. Despite TRX's advantageous position in garnering attention upon its launch, benefiting from its novelty, especially since the last major mall in Kuala Lumpur, Pavilion KL, was opened in 2007, we hold a positive outlook that Pavilion KL's foot traffic is likely to be sustained by a growing young population, making **PAVREIT** sustainable in the long run.

NEUTRAL sector view. Backed by the still challenging industry dynamics, we are keeping our NEUTRAL stance. Within the sector, we still like REITs with the following attributes; (i) niche in the right business segments particularly in retail and office, and/or (ii) own property assets in prime and strategic locations, which will continue to provide resilient rental income streams.
From a valuation perspective, **PAVREIT** and **SUNREIT** emerge as our top retail-centric picks, as we believe their risk-to-reward is favourable. We expect **PAVREIT** to remain resilient attributed by its prime locations catering to a diverse range of target markets, not solely concentrated on the high-end segment. On the other hand, **SUNREIT** may have a balance buffer against sector risk exposures thanks to its diversified assets (hospitality and office) and strong brand equity. We maintain a cautious stance on AXREIT, our sole industrial REIT, as its occupancy rates have declined to 92% at end-Sep 2023 (in comparison to 95% by Sep-end 2022). The increased supply of industrial properties may intensify competition, providing potential tenants with a broader range of choices.

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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 (%)	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.
REITS																	
AXIS REIT	MP	1.80	1.58	-12.2%	3,133.9	Y	12/2023	9.3	10.2	-3.1%	9.7%	19.4	17.6	1.2	5.4%	7.8	4.3%
CAPITALAND MALAYSIA MALL TRUST	MP	0.555	0.530	-4.5%	1,517.1	N	12/2023	3.9	4.0	-4.9%	2.6%	14.2	13.9	0.5	4.5%	3.9	7.0%
IGB REIT	MP	1.71	1.66	-2.9%	6,158.8	N	12/2023	10.1	10.4	7.4%	3.0%	16.9	16.4	1.2	9.5%	10.5	6.1%
KLCCP STAPLED GROUP	MP	7.02	7.18	2.3%	12,673.4	Y	12/2023	40.2	41.6	5.0%	3.5%	17.5	16.9	0.8	5.2%	36.3	5.2%
PAVILION REIT	OP	1.21	1.47	21.5%	4,419.3	N	12/2023	8.0	8.5	1.2%	6.0%	15.1	14.2	1.0	7.3%	8.2	6.8%
SUNWAY REIT	OP	1.54	1.63	5.8%	5,274.2	N	12/2023	10.2	10.9	6.5%	6.9%	15.1	14.1	0.9	5.4%	8.8	5.7%
SECTOR AGGREGATE					**33,176.7**					**0.4%**	**9.5%**	**17.2**	**15.7**	**0.9**	**6.2%**		**5.9%**

Source: Bloomberg, Kenanga Research

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Seaport & Logistics

Out of Rough Seas

OVERWEIGHT

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

We upgrade our call to OVERWEIGHT from NEUTRAL. The World Trade Organisation (WTO) projects global merchandise trade volume to grow by 3.3% in CY24, more than quadrupling a 0.8% growth estimated for CY23. Already, there have been green shoots of recovery in the intra-Asia trade, and a more synchronised recovery in the global economy could happen in 2HCY24 on policy easing by central banks in advanced economies. We acknowledge that global trade will have to navigate stricter regulations on carbon emissions.We continue to see a bright spot in the domestic logistics sector as it is: (i) driven internally and less directly exposed to external headwinds, and (ii) a beneficiary of the booming e-commerce. Our sector top picks are WPRTS (OP; TP: RM3.80) and SWIFT (OP; TP: RM0.63).

Modest growth for global trade amid stricter regulations. The WTO projects global merchandise trade volume to grow by 3.3% in CY24, more than quadrupling a 0.8% growth estimated for CY23. We believe that there is a good chance for a more synchronised recovery in the global economy towards 2HCY24 underpinned by policy easing by central banks in advanced economies. This augurs well for port operators.

Already, there have been green shoots of recoveryin the intra-Asiatrade (which mostly driven by China) as evidenced by the recent 3QCY23 results of **WPRTS** and **BIPORT (MP; TP: RM5.55).** Having beaten analysts' forecasts, **WPRTS** raised its guidance for CY23F container volume growth to 5%-10% (vs. 0%-5% previously) on brisk solar panel and waste paper recycling trade. Similarly, **BIPORT** reported a pick-up in LNG exports to China as well as inbound and outbound cargoes from Samalaju-based smelters **PMETAL (MP; TP: RM5.00)** and **OMH (OP; TP: RM2.07).**

We acknowledge that stricter regulations on carbon emissions may pose 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 sectors 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 on a quarterly basis, as well as any carbon price paid to 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. Meanwhile, we see a bright spot in the domestically-driven third-party logistics (3PL) sector which is less vulnerable to external headwinds being buoyed by the booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, with size reaching RM1.9t by 2027 from RM1.4t in 2023.

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 picksare :-

1. **WPRTS** for: (i) its resilient earnings underpinned by long-term contracts with key clients such as Ocean Alliance, (ii) its long-term growth prospect driven by the Westports 2 expansion project, and (iii) its price competitiveness, i.e. lower transhipment tariffs vs. peers such as Port of Tanjung Pelepas and Port of Singapore.

2. **SWIFT** for: (i) its leading position in the Malaysian haulage business commanding close to 10% market share, (ii) its value-added 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 @ 1/12/23 (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																	
BINTULU PORT HOLDINGS BHD	MP	5.21	5.55	6.5%	2,369.0	Y	12/2023	25.3	25.8	-1.6%	2.0%	20.6	20.2	1.3	6.5%	13.0	2.5%
POS MALAYSIA BHD	UP	0.480	0.390	-18.8%	375.7	Y	12/2023	(11.0)	(5.7)	-184.9%	-152.2%	N.A.	N.A.	0.5	-10.9%	-	-
SWIFT HAULAGE BHD	OP	0.540	0.630	16.7%	475.5	Y	12/2023	5.6	6.2	-12.5%	11.4%	9.6	8.6	0.7	7.4%	1.7	3.1%
WESTPORTS HOLDINGS BHD	OP	3.54	3.80	7.3%	12,071.4	Y	12/2023	21.8	23.2	15.7%	6.3%	16.2	15.3	3.5	22.1%	16.3	4.6%
SECTOR AGGREGATE					**3,822.9**					**-45.8%**	**-33.1%**	**15.5**	**14.7**	**1.5**	**6.3%**		**2.6%**

Source: Kenanga Research

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Technology

Bottoming Out

NEUTRAL

By Samuel Tan l samueltan@kenanga.com.my

We maintain our NEUTRAL stance on the technology sector. World Semiconductor Trade Statistics (WSTS) projects global semiconductor sales to rise 13.1% in CY24 (from a 9.4% contraction estimated for CY23), driven by increased demand for memory and logic ICs. While there have been green shoots of recovery with the YoY decline in monthly semiconductor sales gradually narrowing from high teens to low single digits, we only expect a meaningful recovery in 2HCY24 given a seasonally soft 1Q. We selectively favour stocks with more promising earnings outlook, namely: (i) INARI (OP; TP: RM4.17) for the robust orders from Customer B, (ii) KGB (OP; TP: RM3.28) for its sizeable order book of RM1.5b, and (iii) PIE (OP; TP: RM3.80) for its ability to bring new customers into its fold with at least four of them starting to contribute in CY24.

Bottoming out, 2HCY24 should look better. We maintain our **NEUTRAL** stance on the technology sector. Global semiconductor industry data aggregator and forecaster WSTS projects global semiconductor sales to rise 13.1% in CY24, driven by a rebound in memory chips (+44.8%) and logic ICs (9.6%). Geographically, the Americas (+22.3%) and Asia Pacific (+12%) are expected to lead the recovery in 2024, particularly Asia Pacific, which commands c.53% of global sales.

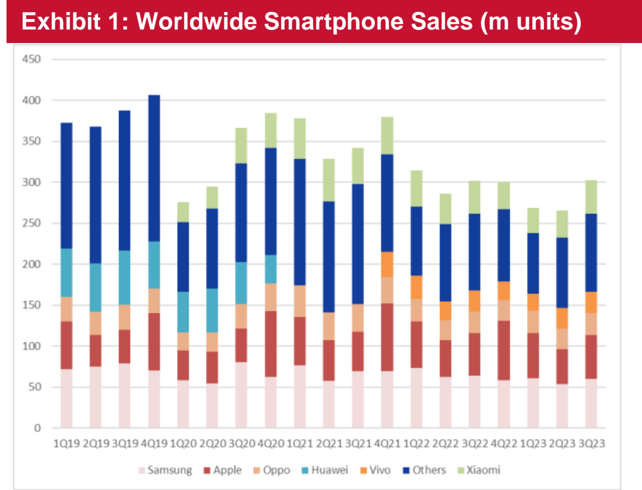
We notice that the YoY decline in semiconductor sales has been gradually shrinking from high teens two quarters ago to low single digits in recent months. Similarly, WSTS moderated its contraction forecast of global semiconductor sales in CY23 to 9.4% in Nov 2023, from 10.3% in Jun 2023. Meanwhile, Semiconductor Industry Association's (SIA) data showed month-over-month improvements in sales in Jul (2.3%), Aug (1.9%), and Sep 2023 (1.9%), culminating to a 6.3% QoQ rise in 3QCY23 sales, although the number still eased 4.5% YoY. All these point to a bottoming in the industry cycle.

However, we do not expect the industry to start the year with a bang given an expected seasonally slow 1QCY24, after the year-end peak demand period for consumer electronics and automotives in 4QCY23 (which has been slightly underwhelming given the weak global economy). We are also mindful of the scheduled plant shutdowns during the long Chinese New Year break, especially in China. As such, we believe a meaningful recovery will more likely take place in 2HCY24.

Within our coverage universe, **MPI (MP; TP: RM27.20),** as one of the more resilient OSATs during challenging times, indicates a gradual earnings recovery from the bottom. However, the pace remains slow as customers hesitate to commit to large order replenishment, partly due to the industry's shift to "just-in-time" inventory management from the previous "just-in-case" approach during the pandemic. Anticipating this, MPI foresees a delayed breakeven timeline for its China operation in Suzhou, now expected in April 2024 instead of November 2023. Similarly, **UNISEM (UP; TP: RM2.00)** fell short of its guidance twice in a row and anticipates meaningful momentum in the 2HCY24. Consequently, companies that recently expanded capacity and workforce are facing increased operating costs and reduced margins due to sub-optimal plant utilisation. Elevated electricity costs further contribute to these challenges, although the installation of a photovoltaic system is expected to partially cushion this impact over time.

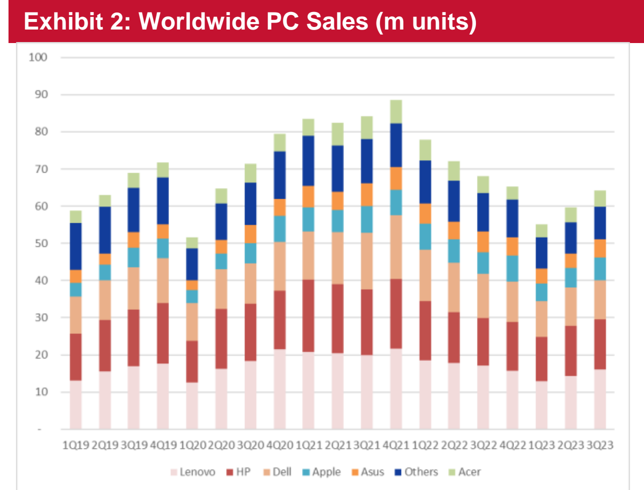
Currently, we favour stocks like **INARI** which has demonstrated a faster turnaround compared to its peers. This is evident in its sequential QoQ growth and the recovery of net margin to >20%, contrasting with low single-digit figures seen among peers. INARI's positive outlook is supported by solid order visibility from Customer B, and it anticipates a 5%-8% surge in radio frequency (RF) content per device. The increased RF utilisation rate, surpassing 90% from the recent 80%, indicates a robust performance in the upcoming quarter. Fascinatingly, the present condition of the smartphone supply chain is expected to be constrained, given eight consecutive quarters of YoY shipment decline globally. Vendors are cautious in capacity planning, considering inventory rationalisation and a conservative sentiment surrounding the latest US smartphone. Despite this, the scenario indicates limited downside risk. In fact, the supply chain might need to respond promptly and increase production if the US smartphone market outperforms expectations even slightly. Hence, we anticipate favourable growth prospects for INARI in the current supply-demand dynamics.

Exhibit 1: Worldwide Smartphone Sales (m units)



Source: IDC

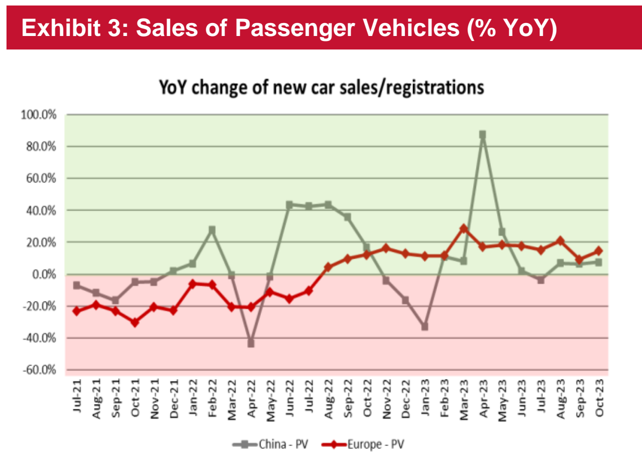
Exhibit 2: Worldwide PC Sales (m units)



Source: Gartner

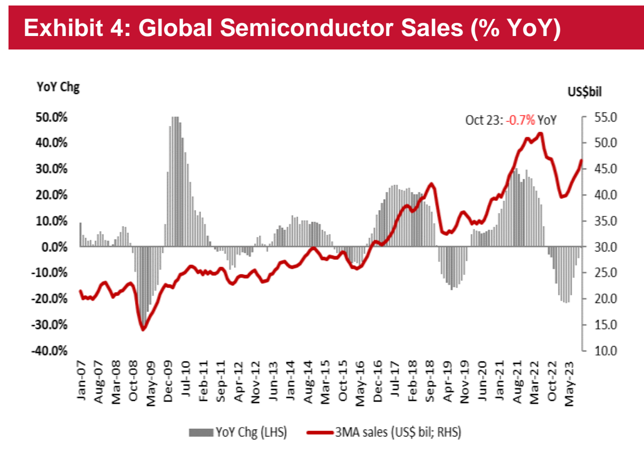
The automotive semiconductor sector continues to display mixed signals. On one hand, there's a structural shift to electrification, demanding increased semiconductor content per vehicle. On the other hand, the immediate customer cautious spending on large-ticket items persists amid the prevailing high inflation and interest rate environment. The *China Association of Automobile Manufacturers (CAAM)* reported consistent car sales stability in Aug (+6.9%), Sep (+6.6%), and Oct (7.6%), indicating signs of recovery from a low base. Similarly, the *European Automobile Manufacturers' Association (ACEA)* observed robust car sales growth of 21.0%, 9.2%, and 14.6% during the same months. However, we have learned that forecasts for automotive demand among Western customers are signalling an early slowdown, leading to more frequent revisions and reduced visibility. Consequently, we anticipate that the recovery in China, starting from a low base, may face dampening effects due to the early slowdown among Western automotive customers. This mixed outlook influences our cautious stance on automotive semiconductor companies like **D&O (UP; TP: RM2.30)** and **JHM (MP; TP: RM0.70).**

Exhibit 3: Sales of Passenger Vehicles (% YoY)



Source: CAAM, ACEA

Exhibit 4: Global Semiconductor Sales (% YoY)



Source: SIA

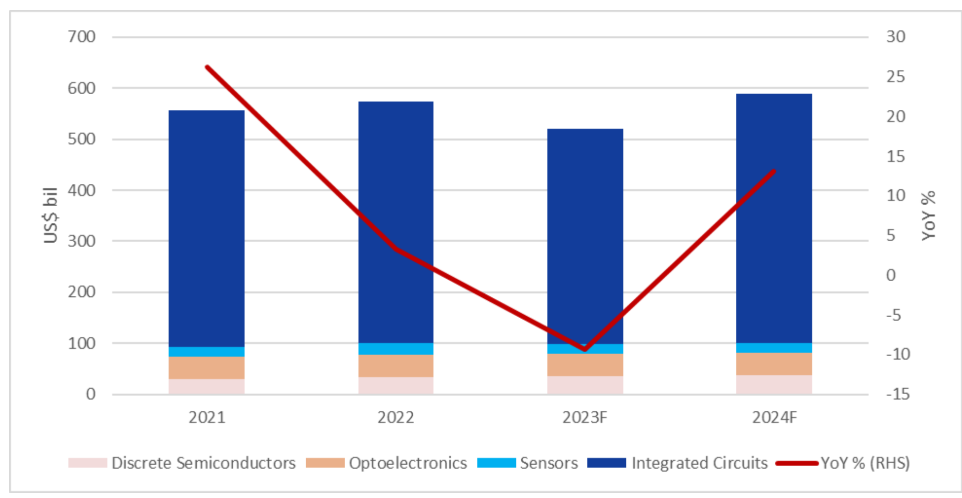
EMS players require diversity to sustain growth. Companies with diversified portfolios and significant exposure to industrial products are expected to outperform EMS peers heavily reliant on consumer electronics as their primary revenue driver. In particular, we maintain a positive outlook on **PIE.** The group anticipates an increase in orders as it approaches its seasonally stronger year-end quarter. PIE has onboarded four new customers in sectors such as servers, medical, smart home, and drone equipment, and is going through the qualification and sampling stages. Upon commencement of mass production in CY24, these four projects are expected to contribute meaningfully (c.8%−12% of group revenue). PIE has completed the renovation of Plant 5 (c.100k sq ft) and will get Plant 6 (c.280k sq ft) fully ready in 1QCY24, marking its largest plant.

While we remain positive on **NATGATE (OP; TP: RM1.70)** for its longer-term prospects, its immediate-term earnings will likely be unexciting owing to delayed ramp-up of optical transceiver products as its key customer is busy with relocating their offices and plant out from China to Malaysia.

Overall, our medium-term outlook on the technology sector remains **NEUTRAL** as we anticipate a very gradual recovery in demand. There may be QoQ improvement in subsequent quarterly earnings due to low base effect but we deem it premature to warrant a sector-wide upgrade. However, we are selectively positive on:

1. **INARI** for: (i) being the closest proxy to 5G adoption, (ii) being highly responsive to the market demand with the roll-out of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) its significant expansion in China, capitalising on the superpower's aggressive push for semiconductor self-sufficiency.
2. **KGB** for: (i) being a direct proxy to the front-end wafer fab expansion, (ii) its solid earnings visibility underpinned by both robust order book of RM1.5b and tender book of >RM2b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China.
3. **PIE** for: (i) its comprehensive skillset, making it 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*



**Fall 2023*
Source: WSTS

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 01/12/23 (RM)	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	3.48	2.30	-33.9%	4,309.3	Y	12/2023	3.7	7.0	-52.9%	89.7%	94.1	49.6	4.9	5.2%	0.6	0.2%
GHL SYSTEMS BHD	OP	0.740	0.880	18.9%	844.7	Y	12/2023	2.4	2.8	-3.5%	15.8%	31.0	26.8	1.6	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	2.89	4.17	44.3%	10,826.3	Y	06/2024	10.4	12.4	20.5%	18.8%	27.7	23.3	4.1	14.9%	9.9	3.4%
JHM CONSOLIDATION BHD	MP	0.720	0.700	-2.8%	436.3	Y	12/2023	2.1	4.6	-43.5%	116.2%	33.6	15.5	1.3	4.1%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.91	3.28	71.7%	1,231.5	Y	12/2023	14.1	15.6	63.2%	11.0%	13.6	12.2	4.0	32.8%	3.9	2.0%
KESM INDUSTRIES BHD	MP	7.00	7.06	0.9%	293.4	Y	07/2024	6.3	10.2	-44.9%	63.0%	113.2	67.7	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	0.940	1.16	23.4%	426.4	Y	12/2023	2.2	4.6	-19.0%	106.9%	42.2	20.3	4.6	11.5%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES	MP	26.74	27.20	1.7%	5,318.5	Y	06/2024	80.9	118.2	162.5%	46.1%	33.0	22.6	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.36	1.70	25.0%	2,820.5	Y	12/2023	3.4	6.8	-16.6%	97.5%	39.5	20.0	9.6	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.30	1.82	40.0%	827.1	Y	12/2023	4.0	6.1	20.8%	50.8%	32.3	21.4	5.3	17.5%	1.0	0.8%
PIE INDUSTRIAL BHD	OP	3.21	3.80	18.4%	1,232.8	Y	12/2023	17.7	21.1	-4.2%	19.5%	18.1	15.2	2.0	11.7%	7.0	2.2%
SKP RESOURCES BHD	MP	0.770	0.850	10.4%	1,203.0	Y	03/2024	5.7	6.4	-38.4%	13.1%	13.5	12.0	1.4	10.3%	2.8	3.6%
UNISEM (M) BHD	UP	3.37	2.00	-40.7%	5,436.1	Y	12/2023	4.7	10.0	-68.6%	111.6%	71.2	33.6	2.3	3.2%	6.0	1.8%
Simple Average										-7.9%	39.5%	32.9	23.6	3.4	11.7%		1.2%

Source: Kenanga Research

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Telecommunication

OVERWEIGHT

New DN Model Heralds a New Era and Landscape

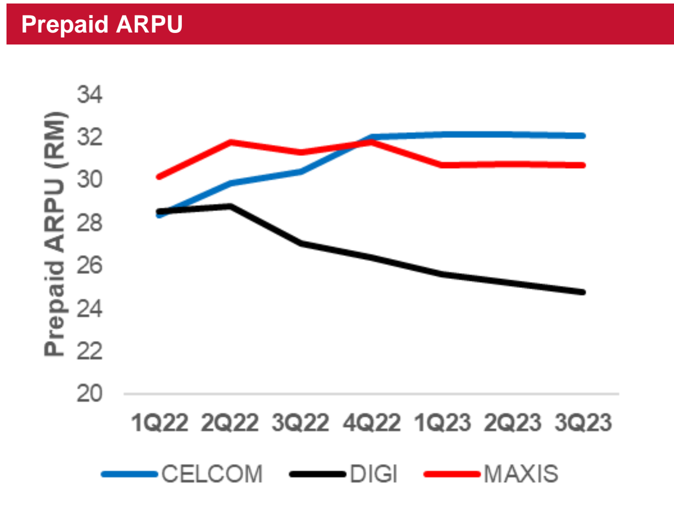
By Kylie Chan Sze Zan l kyliechan@kenanga.com.my

We maintain OVERWEIGHT on the sector. For the mobile segment, we are cautiously optimistic on the implementation of the new 5G dual network (DN) model. This is underpinned by: (i) a more accommodative regulatory environment following the withdrawal of government intervention, (ii) removal of unfair pricing as DNB's monopoly is dismantled, and (iii) enhanced network roll-out efficiencies for the second 5G network. Therefore, we are hopeful that earnings and dividends for mobile players remain intact after DN takes effect. Meanwhile, in the case of fixed players, we believe that sentiment has improved after revised tariffs for wholesale and retail services were unveiled. Hence, this removes earnings uncertainty and quells earlier concerns of irrational retail competition. Our sector top picks comprise CDB (OP; TP: RM5.34) and TM (OP; TP: RM6.76).

1. Mobile

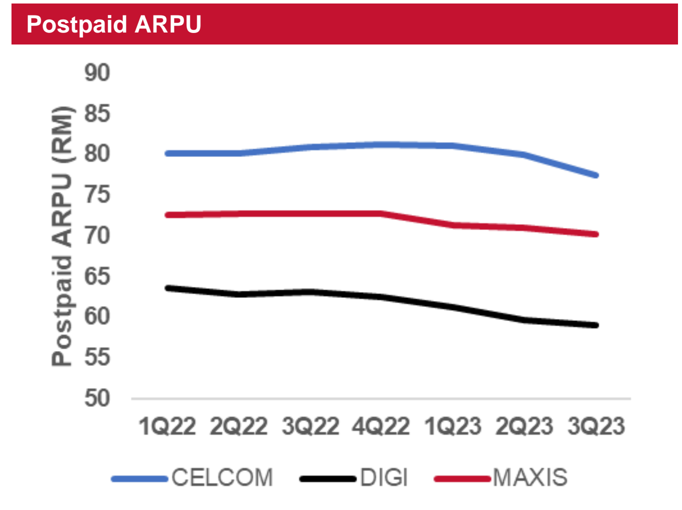
Generally weak ARPU trends… Except for Celcom's prepaid segment, YoY ARPU was weaker across the board for all segments in 3QCY23, particularly for Digi. For the latter, blended ARPU declined by 8% YoY, which was attributed to weakness at the postpaid segment. This emanates from: (i) dip in interconnect rates (effective: Mar 2023), and (ii) slower traction for on-demand offerings. Hence, this had further exacerbated the decline in **CDB**'s postpaid ARPU, which was as high as RM71 in 1QFY22 before the start of its sequential rout. Meanwhile, in the case of **MAXIS (OP; TP: RM5.30),** we believe that weaker postpaid ARPU (-7% YoY) was due to drag from new users on its affordable entry level Hotlink Postpaid plans. This was in-line with its strategy to upsell products and upgrades its low margin prepaid subscriber base. On the bright side, sequential prepaid ARPUs for **MAXIS** remained resilient in spite of the introduction of affordable MADANI prepaid packages in 3QCY23. This was attributed to effective ARPU management via personalised promotions on Hotlink MU app.

Prepaid ARPU



Source: Companies Kenanga Research

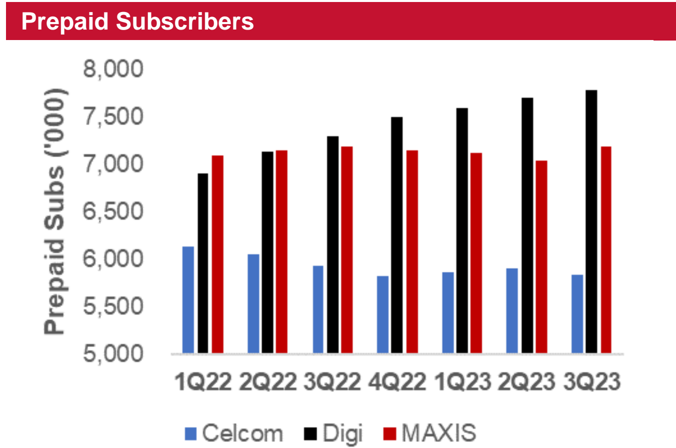
Postpaid ARPU



Source: Companies, Kenanga Research

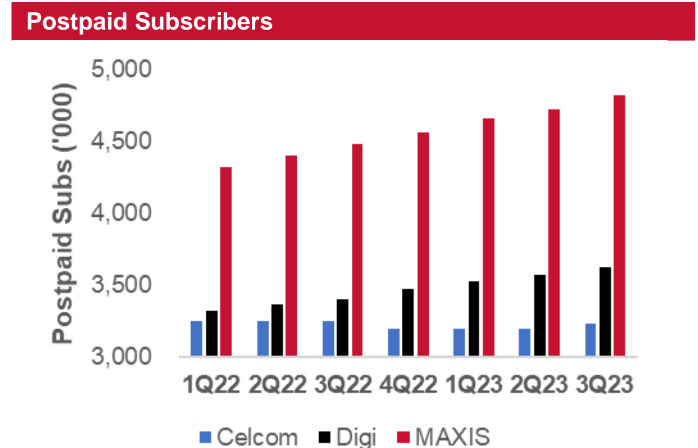
…but strong YoY subscriber net adds. On a rosier note, there was a 3% YoY subscriber base expansion for the top three mobile players in 3QCY23. For **CDB**, this emanates from total subscriber net adds of 636k on the back of sustained traction across the board. However, QoQ net adds for the prepaid segment slowed down to 22k in 3QFY23 after averaging an impressive 140k in 1HCY23. Whereas for **MAXIS**, as mentioned above, the YoY expansion in subscribers (+257K) was underpinned by sustained momentum in its strategy to upsell and offer fixed-mobile convergence. On the back of this, net adds for postpaid (+262k) and home connectivity (+90k) more than surpassed net churn for prepaid (-146k) and wireless broadband (-12k).

Prepaid Subscribers



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, Kenanga Research

5G monetization remains sluggish. In terms of 5G adoption, take-up remains sluggish given that it is still early days, and availability appears lacking. According to OpenSignal, 5G availability in Malaysia was just 21% during the May-July period. As such, the current 5G infrastructure seems inadequate to accommodate more users and traffic. Hence, this further supports the case for deployment of a second new network to boost 5G service quality. Evidently, the small 5G subscriber base of 1.4m in Malaysia dwarfs in comparison with 43m 4G subscribers. Moreover, out of the 74% **CDB** subscribers that have provisioned (activated) their 5G devices, merely 11% are active users. However, we acknowledge that 5G monetization may materialize in future to provide a boost to ARPUs and earnings. In the meanwhile, we wait for awareness, capacity and usage to ramp up.

Lack of awareness on 5G's advantage and benefits. We believe that Malaysian users are generally not cognizant of 5G's potential and benefits. In particular, there are abundant and diverse applications of 5G technology for industries and enterprises. These include: precise automation, long distance remote surveillance, real time high-definition broadcasting, analysis of vast amounts of data on cloud AI, and so forth. Such applications result in the transformation of business processes that enable organizations to scale up, enhance efficiency and achieve breakthrough innovations.

Hesitation in embracing new 5G technology. Unfortunately, for enterprises that recognize 5G's advantages, some are averse to transformation. This is underpinned by their inclination for systems and processes to remain status quo. This is understandable given the requirement to uproot current systems and fork out hefty technology investments in order to harness 5G. Moreover, they also need to be prepared to trim their workforce to enable AI automation to take over via robots and advanced machinery. A recent use case for 5G in the corporate context is implementation of an AI autonomous inventory system at DHL's Integrated Logistics Centre in Shah Alam. This is a system that combines robots and drones equipped with high-resolution cameras. According to DHL, efficiency is boosted by 20-fold and precision is enhanced following installation of this system

Telcos are also trying to figure out 5G marketing strategies. On top of that, a major 5G technology provider revealed that some telco carriers are reluctant to realign their marketing strategies. This is because telco carriers now need to aim for corporations instead of the traditional consumer when selling 5G services. Therefore, they need to educate their sales staff to shift their focus and target large multinational corporations instead. On the bright side, in 3QCY23, we observed positive traction in these efforts from telco players. For instance, **CDB** achieved enterprise revenue growth of 1.5% YTD emanating from the SME segment, ICT and connectivity solutions.

Individuals are no longer the target market when it comes to 5G. Whereas for consumers, applications that require 5G at this juncture include: (i) virtual reality experiences or interactions within the metaverse, (ii) ultra high-speed streaming services for gaming in real time, and (iii), autonomous driving for passenger vehicles etc. Moreover, we believe that consumer applications continue to progressively expand as hardware, software and content developers harness 5G's capabilities. However, at this juncture, these applications are still at the nascent or prototype developmental stage. On top of that, the pricing of high-tech 5G consumer devices are inhibitive for an average consumer to afford. Therefore, the typical individual does not feel compelled to upgrade to 5G unless consumer applications are refined and become widely accessible.

Details on 5G dual network may be finalized soon. In terms of material developments for the sector in 1QCY24, we believe that the the Ministry of Communications and Digital (KKD) will finally issue the highly anticipated official 5G dual network (DN) policy directive. To recap, in May 2023, the Government announced the implementation of the 5G network in 2 phases. Under Phase 1, Digital Nasional Berhad (DNB) will continue its rollout of 5G to meet 80% Coverage of Populated Area (CoPA) by end 2023 (end-Oct: 73%). Meanwhile, under Phase 2, the Single Wholesale Network (SWN) will transition to a DN.

Hopeful of crystal clear disclosures. As part of this transition, two entities will be established, namely entities A and B which will each own DNB and the upcoming second 5G network (NW2), respectively. Both entities will be entirely owned by private telcos - but their equity stakes are unknown at this juncture. Therefore, in 1QFY24, we are hopeful to receive enhanced clarity on details such as: (i) the final equity stake for each telco in entity A or B, (ii) key financial information on DNB (e.g. profitability, debt holdings, annual cash flow generation), (iii) entity B's acquisition price (if any) and mode of payment (e.g. cash, securities), and (iv) revised (if any) access rates charged by DNB to each telco.

First step in transition was initiated recently. Recall that in 1 Dec, five telco players, namely **CDB, MAXIS, TM, YTLPOWR (OP; TP: RM2.82)** and U Mobile Sdn Bhd each entered into conditional share subscription agreements (SSA) with the Ministry of Finance (MoF) and DNB. This entails: (i) acquisition of a 14% stake in DNB for RM100k, and (ii) cash payment of RM233m to DNB as prepayment for delivery of 5G access services. Post completion of this SSA, all five players will collectively own 70% stake in DNB. Meanwhile, MoF will retain a reduced stake of 30% (from 100%) and hold a special share that has certain rights that includes national interest. The SSAs are targeted for completion in February-April 2024. Hence, this clears the first step in enabling the transition to 5G DN from SWN.

DNB gets pumped with upfront cash. The prepayment amount of RM233m is regarded as shareholder advances to DNB subject to fulfillment of conditions precedent. This includes satisfactory results on the ongoing due diligence findings on DNB. However, it may revert to being deemed as a prepayment subject to circumstances set out in the upcoming shareholders' agreement to be executed between the telcos, MoF and DNB. In this case, the prepayment amount offsets against future access payments to DNB. Therefore, this implies that in future, the cash outlay for shareholder advances are earnings neutral for entity B shareholders.

DNB will soon be fully private. Following completion of the SSAs, and upon DNB having achieved 80% CoPA, the telcos are required to acquire MoF's remaining 30% stake in DNB for at least RM190m. Based on our understanding, post completion of this exercise, each telco will end up with a 20% stake in DNB after having forked out a total consideration of RM420m. The latter is the cumulative total of: (i) RM233m in shareholder advances for an initial 14% stake, and (ii) RM190m for an additional 6% stake to enable the full exit of MoF from DNB.

It's anyone's guess on the outcome. Whilst details remain fluid, we arrive at several assumptions on the potential mechanics of the DN implementation. Recall that it is KKD's aspiration for healthy wholesale competition to drive enhanced 5G coverage and service quality. Therefore, we postulate that entities A and B will each be spearheaded by a single major telco leading a consortium of other smaller players. Therefore, in future, following entity B's formation, we do not rule out the possibility that DNB's shareholding structure may be recalibrated. Moreover, this will result in comparable total subscriber base between both entities. Hence, one does not have an unfair advantage over the other. Additionally, we believe that operating conditions need to be level – which implies equal ownership of 5G spectrum blocks between A & B. On the same note of achieving fairness, we believe that KKD may structure a financially reasonable exit mechanism from DNB for entity B members.

What will happen to DNB's access agreement? Recall that KKD had earlier revealed that entity B has two years to progressively reach 80% CoPA. If this term prevails, we believe that Entity B will continue to purchase wholesale capacity from Entity A during its first few years of operations. As such, it is able to offer 5G services to its customers while building its new network. To recap, DNB imposed target capacity payment of RM360m p.a. on **MAXIS**, and RM288m p.a. for other access seekers under a long term 10-year agreement. However, when NW2 is finally launched, this agreement will likely be revised or prematurely terminated. Therefore, this gives rise to the possibility that entity A may not be able to recoup its earlier investments used to roll out the first network (NW1). Given these circumstances, we do not discount the possibility that Entity B may need to provide some form of compensation to A.

Ultimately, we just want to know the impact to dividends. In our view, for entity A, the best-case scenario is that its associate contribution more than offsets cost from: (i) wholesale network access payments, and (ii) opportunity and/or interest costs on the required outlay for stake acquisition. Hence, this will result in: (i) a leaner balance sheet given that entity A's debt is not consolidated, (ii) boost to earnings from entity A's contribution, and (iii) absence of profit drag from amortization of 5G spectrum fees, network depreciation and entity A's interest costs. Correspondingly, this implies enhanced capacity to leverage and potentially afford higher dividends. These same benefits could also apply to Entity B post completion of NW2.

Worst case is if dividends evaporate. Conversely, the worst-case scenario for entity A may manifest as: (i) significant associate losses from DNB, (ii) chunky 5G access payments drag on EBITDA margins, and (iii) substantial cash outlay required to secure a stake in DNB. In turn, this would lead to: (i) contraction in profit and cash flows, and (ii) lowered dividend payout as leverage (net debt/EBITDA) spikes.

Double edged sword for both entities. In our view, assuming no major outlay for stake acquisition, there are pros and cons to ownership in either entity A or B. For entity B, we believe its advantage lies in better control over costs and timing of network roll-out. This is given autonomy over selection of its key technology provider, suppliers, and vendors. In turn, this results in a better cost structure that enables it to derive higher asset returns. In addition, NW2's roll-out may also be optimized via: (i) integration with entity B's existing core network, and (ii) co-location with B's existing towers. Therefore, this corresponds to greater cost synergies and higher service quality. However, on the flipside, B needs to allocate substantial resources, especially manpower and fundraising efforts, to roll out a new network.

Entity B's legacy may be a burden. In contrast, ownership in entity A implies immediate cash flow accretion from access payments on the existing NW1. However, its legacy cost structure and fixed design may turn out to be a setback. Hence, this may diminish its competitive edge in securing offtake from price sensitive access seekers. Recall that regulated tariffs offered by entity B cannot exceed that of NW1. Hence, if given a more efficient cost structure, B may potentially offer lower rates and snag wholesale market share from A.

2. Fixed

Likely benign impact from re-pricing of wholesale tariffs. Moving forward, we understand that **TM** is close to finalizing negotiations with access seekers on its new reference access offer (RAO). Following this, the repricing of its wholesale broadband tariffs will take effect retrospectively from March 2023. Hence, the impact of this exercise will likely be reflected on **TM**'s FY23 earnings. In comparison to rates under **TM**'s previous 2018 RAO, we estimate that new wholesale tariffs are now lower by 9%-60%. However, moving forward, we reckon there is limited impact to **TM**'s wholesale revenues given the tiered pricing structure of its RAO. Due to the latter, we believe that the 60% maximum savings on tariffs will likely not benefit smaller broadband players that make up the bulk of **TM**'s wholesale customers. Recall that **TM**'s Unifi service is almost a quasi-monopoly in the fixed home market with 3.1m subscribers, whilst **MAXIS** is at a distant second with 658k. Therefore, we believe that **TM**'s wholesale customers do not require such high bandwidths of at least 9 Tbps for their smallish home and enterprise subscriber base. Moreover, our belief that actual wholesale price cuts are mild is reinforced by corresponding muted cuts in retail prices.

Estimated Monthly wholesale charges for HSBB network service (RM per 100Mbps) based on subscribed bandwidth

Bandwidth	2018	2023	Difference
100 Gbps	1,320	800	-39%
200 Gbps	1,260	800	-37%
400 Gbps	1,200	800	-33%
800 Gbps	1,088	695	-36%
1 Tbps	1,088	695	-36%
2 Tbps	865	585	-32%
3 Tbps	641	585	-9%
4 Tbps	641	475	-26%
5 Tbps	641	475	-26%
6 Tbps	641	475	-26%
7 Tbps	641	365	-43%
8 Tbps	641	365	-43%
9 Tbps	641	255	-60%

Source: Company, Kenanga Research

Increased clarity following the repricing of retail broadband prices. To recap, all the major fixed home players, with the exception of **TIMECOM (Not Rated)**, have introduced new prices for their retail broadband packages. In essence, the price cuts have turned out milder than expected, and hence assuaged earlier concerns of ARPU and earnings erosion. For instance, in the case of market leader, **TM**, retail prices were cut by 7% to 24% for its home segment. At the same time, **TM** announced the following: (i) free upgrades for existing subscribers to the next higher speed plan, and (ii) discontinuation of its entry level 30Mbps plan. For instance, this means that customers on the 30Mbps package will automatically be upgraded to 100Mbps speeds whilst continuing to enjoy the same monthly fees. Hence, existing subscribers continue to pay similar monthly fees, but receive higher speeds. However, **TM's** incremental cost to upgrade speeds for its customers is negligible. Hence, all this implies that **TM**'s existing revenues and earnings from Unifi home plans remain intact. Moreover, note that the bulk (circa 80%) of **TM**'s subscribers are on the bottom two speed plans (i.e. entry level 30 Mbps and 100 Mbps plans). Therefore, post-repricing, we anticipate that new customers will now pay increased monthly ARPUs of RM99 and RM139 for higher speeds of 100Mbps and 300Mbps instead. In contrast, recall that previous entry level plans were priced lower at RM89 and RM129. Therefore, in this scenario, the revised pricing may potentially uplift ARPUs for **TM**.

New Pricing for Unifi Plans

Speed (bps)	Monthly Price (RM)		Price Reduction (%)
	Previous	Revised	
Unifi Home			
30M	89	-	Discontinued
100M	129	99	-23
300M	149	139	-7
500M	209	159	-24
800M	-	-	Discontinued
1G	-	-	New
2G	-	-	New
Unifi Business Fibre			
100M	139	129	-7
300M	249	199	-20
500M	299	239	-20
1G	349	319	-9
2G	399	369	-8

Source: Source: Various, Company, Kenanga Research

New Fixed Broadband Pricing for MAXIS and CDB

Speed (bps)	Monthly Price (RM)		Price Reduction (%)
	Previous	Revised	
MAXIS			
30M	89	-	Discontinued
100M	129	99	-23
300M	149	129	-13
500M	219	149	-32
800M	299	-	Discontinued
1G	-	249	New
2G	-	319	New
CDB			
50M	90	85	-6
100M	130	99	-24
300M	150	139	-7
500M	219	159	-27
800M	299	249	-17
1G	319	289	-9

Source: EIA, Kenanga Research

Downtrading risks are hedged too. On the flipside, some people might argue that there is a risk of Unifi customers down trading to lower speeds. For example, this applies to an existing subscriber who was previously paying RM129 per month for 100Mbps. After this repricing, he is now automatically upgraded to 300Mbps. However, moving forward, as his contract expires, he may potentially opt to downgrade and revert to 100Mbps. As a result, he pays lower charges of RM99 instead of RM129 per month. However, in our view, we believe there is low possibility of this customer downtrading, given that he would have enjoyed 3x faster speeds before his contract expired. Hence, he may be reluctant to downgrade as this would diminish his internet experience. Furthermore, this customer could afford to pay RM129 in the first place. The case is largely similar for **MAXIS**, which has applied a similar pricing strategy as **TM** by: (i) discontinuing its lowest 30Mbps speed entry plan, and (ii) upgrading speeds for existing subscribers. On the other hand, in **CDB**'s case, it was the only player that effected price cuts without free speed upgrades. However, this will likely have an insignificant impact to **CDB**'s earnings given its comparatively smaller base of 121k subscribers.

Dispelled concerns of a war in retail broadband prices. Post-repricing, prices for entry level 100Mbps plans for all three major fixed home players are now on par with each other at RM99 per month. Meanwhile, for the next most popular plan of 300Mbps, prices are largely comparable as well, at RM129-RM139 per month. Hence, this quells concerns of telco players engaging in irrational competition via a price war. On the back of this, we believe that sentiment on fixed players have now improved – particularly given that wholesale earnings erosion appear benign as well.

Maintain Overweight. In essence, we believe that investors are generally upbeat on 5G DW as it reflects a relatively milder regulatory environment. Recall that the previous administration implemented SWN that was dogged by concerns of: (i) unfair pricing given its monopoly, (ii) network roll-out inefficiencies, and (iii) regulatory intervention that is negative to commercial sustainability. Evidently, the introduction of DN reflects the current government's more accommodative and liberal approach. Therefore, we are cautiously optimistic that earnings and dividends for telco players will remain intact. Against this backdrop, we maintain our **OVERWEIGHT** recommendation on the sector. Our sector top picks comprise **CDB** and **TM.**

We like **CDB** for the following reasons; (i) merger synergies are expected to amount to NPV of RM8b over 5 years – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust FCF yield of more than 7% in FY23-34 which implies capacity to pay steady dividends, and (iii) leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively, translating to pricing power and economies of scale.

We like **TM** on account of: (i) it being leveraged towards secular data growth by global carriers and hyperscalers on the back of current trends such as digital transformation, proliferation of internet of things (IoT), cloud AI computing etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, and (iii) sustained traction in its cost optimization initiatives.

Peer Comparison

Name	Rating	Last Price @ 1/12/23 (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																	
AXIATA GROUP BHD	OP	2.33	3.10	33.0%	21,387.3	Y	12/2023	4.4	7.3	-63.7%	66.6%	53.3	32.0	1.2	-0.3%	9.5	4.1%
CELCOMDIGI BHD	OP	4.24	5.34	25.9%	49,741.6	Y	12/2023	12.0	12.8	-16.8%	7.2%	35.4	33.0	3.2	9.2%	18.0	4.2%
MAXIS BHD	OP	3.96	5.30	33.8%	31,015.0	Y	12/2023	17.0	16.7	11.0%	-1.6%	23.3	23.7	5.1	21.4%	21.0	5.3%
OCK GROUP BHD	OP	0.410	0.743	81.2%	432.4	Y	12/2023	3.7	5.0	15.4%	33.8%	11.1	8.3	0.7	6.4%	0.0	0.0%
TELEKOM MALAYSIA BHD	OP	5.30	6.76	27.5%	20,334.8	Y	12/2023	49.4	41.2	49.1%	-16.7%	10.7	12.9	2.2	20.5%	25.0	4.7%
Sector Aggregate					**122,911.2**					**-4.5%**	**1.0%**	**24.4**	**24.1**	**2.5**	**11.4%**		**3.7%**

Source: Bloomberg, Kenanga Research

Utilities

OVERWEIGHT

The Power of Earnings Defensiveness

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

We maintain our OVERWEIGHT rating on the utilities sector for its resilient earnings backed by regulated assets or long-term offtake agreements and decent dividend yields of 3%-6%. We project an electricity demand growth rate in Peninsular Malaysia of 1.8% in CY24, accelerating from CY25 driven by additional demand from new data centres. Meanwhile, stabilising coal prices mean that negative fuel margin which blew a hole in power producers' earnings in CY23 will not recur in CY24, while normalising gas prices will have a mixed impact on gas utilities. Our top sector picks are: (i) TENAGA (OP; TP: RM11.45) given its dominance in power generation, transmission and distribution in Malaysia, and (ii) YTLPOWR (OP; TP: RM3.06) for its PowerSeraya's earnings bonanza and the new excitement in its data centre and digital banking ventures.

Data centres drive electricity demand. We project an annual electricity demand growth rate of 1.8% in Peninsular Malaysia in CY24, which is slightly higher than a stipulated growth rate of 1.7% under the Regulatory Period 3 (RP3) parameter. This is largely driven by the recovery in the industrial sector. On the other hand, the demand growth could accelerate under the upcoming Regulatory Period 4 (RP4) over CY25-CY27 driven by new data centres. So far, six new data centres have come online, which will consume about 292MW of electricity. **TENAGA** has signed Electricity Supply Agreements (ESA) with eight data centres for the supply of 2,000MW of electricity (which is not insignificant as compared with **TENAGA**'s current domestic installed capacity of 18,183MW). **TENAGA** has ample of room to capitalise on this given its reserved margin of 40%. **TENAGA** projects a total potential demand for 7,000MW of electricity annually from data centres by CY35.

Meanwhile, it also needs to upgrade the transmission and distribution (T&D) system including power grid to meet the demand from the growing renewable energy (RE) assets. It also means that a higher T&D capex will increase **TENAGA**'s regulated asset base (RAB), resulting in higher absolute earnings based on a return pegged to WACC (7.3% WACC for RP3). **TENAGA** has set aside RM7b capex in FY24 for its regulated business and RM5b-RM6b for non-regulated power generation business such as solar farms and hydropower plants.

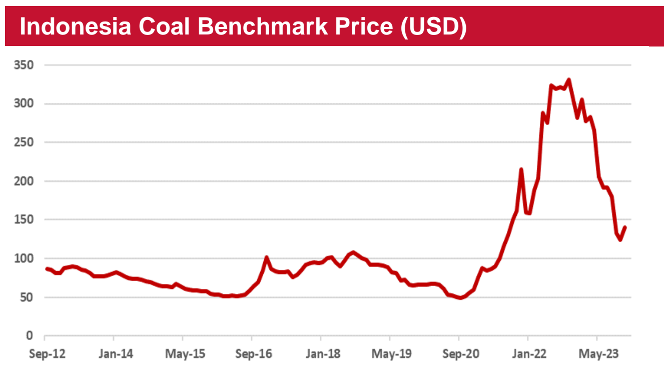
Benign fuel prices. TENAGA's Imbalance Cost Pass-through (ICPT) receivables fell sharply by 57% to RM7.3b as at Sep 2023, from a record of RM16.9b as at Dec 2022. Given the persistent downtrend in the fuel price, **TENAGA** guided for its ICPT receivable to fall to RM4b in 1HFY24. The shrinking ICPT receivables will result in lower working capital requirements and hence lower interest expenses and better earnings going forward. On the other hand, stabilising coal prices mean that negative fuel margin which blew a hole in power producers' earnings in CY23 will not recur in CY24. To recap, negative fuel margin cost **TENAGA** and **MALAKOF (MP; TP: RM0.60)** RM767.9m and RM858.2m, respectively, in 9MFY23.

Mixed impact on gas utilities. While the movement of gas prices has neutral impact in the longer run given the regulated framework, the current declining gas price trend has a positive impact on **PETGAS (MP; TP: RM17.45)** in the immediate term as low gas price leads to lower internal gas consumption (input cost) for its regulated business as well as non-regulated utilities segment. The utilities segment uses gas as fuel to generate and supply power, stream and industries gasses to industries. However, weaker gas prices work against **GASMSIA's (MP; TP: RM3.33)** non-regulated retail margins, which are calculated based on a fixed percentage on the gas selling price. On the other hand, **YTLPOWR's** solid earnings from PowerSeraya is expected to sustain at least in the next two years underpinned by favourable retail prices against gas input cost locked in at low cost (during the early part of the pandemic).

We maintain **OVERWEIGHT** on the utilities sector. We continue to like the sector for its earnings defensiveness, particularly due to their regulated asset base model, and hence recurring decent dividend yield of 3%-6% for yield seekers. Our sector top picks are:

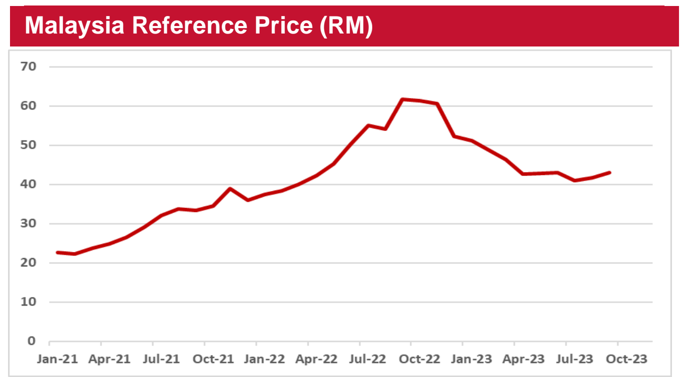
- **TENAGA** for: (i) its dominance in power generation, transmission and distribution in Malaysia, (ii) its defensive earnings backed a resilient domestic economy and assets that are largely regulated, and (iii) its heavyweight index-linked stock status.
- **YTLPOWR** for: (i) its earnings stability backed by various regulated assets globally, (ii) the robust earnings prospects of PowerSeraya, and (iii) longer-term growth potential from its data centre and digital banking ventures.

Indonesia Coal Benchmark Price (USD)



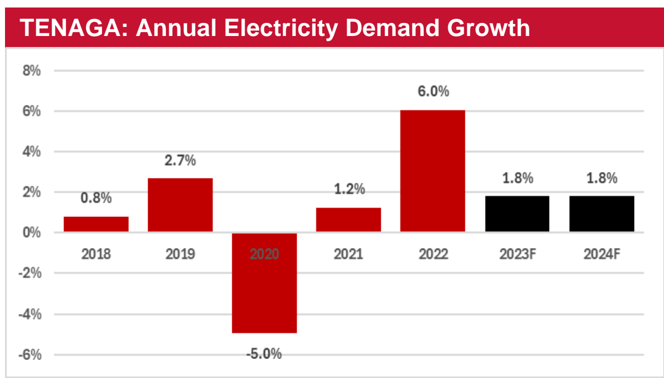
Source: Bloomberg

Malaysia Reference Price (RM)



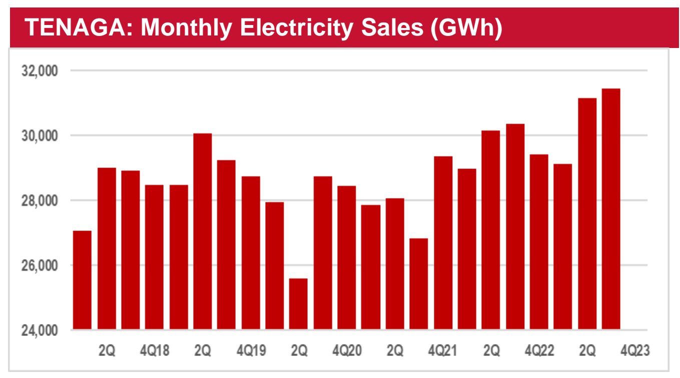
Source: DOSM

TENAGA: Annual Electricity Demand Growth



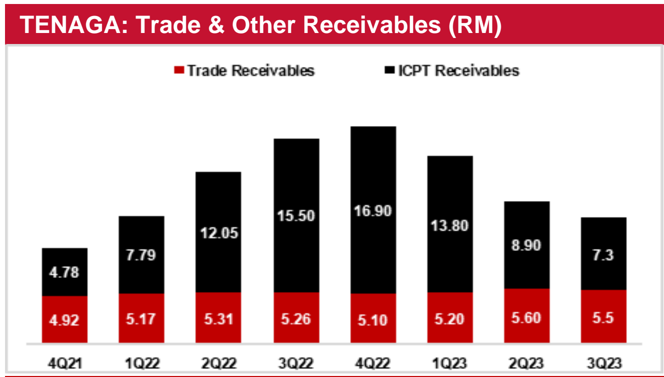
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



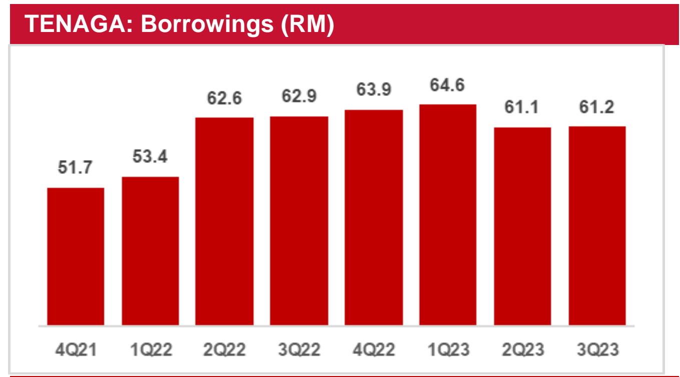
Source: Tenaga

TENAGA: Trade & Other Receivables (RM)



Source: Tenaga

TENAGA: Borrowings (RM)



Source: Tenaga

Peer Table Comparison

Name	Rating	Last Price @ 1/12/23 (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	3.10	3.33	7.4%	3,980.4	Y	12/2023	28.6	25.7	-6.6%	-10.0%	10.8	12.1	2.9	27.5%	20.0	6.5%
MALAKOFF CORP BHD	MP	0.605	0.600	-0.8%	2,956.6	Y	12/2023	(10.9)	4.0	-226.8%	-63.6%	N.A.	15.2	0.6	-10.5%	3.0	5.0%
PETRONAS GAS BHD	MP	16.86	17.45	3.5%	33,361.4	Y	12/2023	95.8	97.2	9.8%	1.4%	17.6	17.3	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	1.13	1.44	27.4%	464.4	Y	06/2024	3.4	5.2	24.8%	50.5%	32.9	21.9	4.5	14.8%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.22	1.47	20.5%	815.6	Y	03/2024	4.1	6.9	52.8%	67.4%	29.4	17.6	3.7	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	OP	10.02	11.45	14.3%	57,989.1	Y	12/2023	63.3	78.7	-5.6%	24.2%	15.8	12.7	1.0	6.1%	31.7	3.2%
YTL POWER INTERNATIONAL BHD	OP	2.28	3.06	34.2%	18,472.9	N	06/2024	35.3	28.1	45.9%	-20.5%	6.5	8.1	1.0	16.5%	6.0	2.6%
Sector Aggregate					**118,040.4**					**-1.5%**	**12.8%**	**14.3**	**12.7**	**2.3**	**11.8%**		**3.1%**

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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