

4QCY23 Report Card

Less Positive Earnings Surprises Sequentially

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FBM KLCI	
Current	Target
1,538.02	1,605↔

FBM KLCI component stocks reported less positive earnings surprises in 4QCY23 as compared with three months ago. The slowdown in consumer demand both locally and globally, coupled with the prolonged geo-political tensions in the Middle East, particularly the escalating conflict in the Red Sea, were headwinds to earnings. On a brighter note, the easing in operating cost, particularly personnel cost, and improved pricing power buoyed earnings of oil & gas support services providers, while tech players guided for an upbeat outlook for 1QCY24. We now project FBM KLCI earnings to grow slightly higher, at 16.3% in CY24F (from 14.4% previously) before moderating to 6.2% in CY25F.

Less Positive Earnings Surprises

The earnings delivery (as against our expectations) of FBM KLCI component stocks moderated sequentially in 4QCY23, with 12%, 62% and 27% beating, meeting and missing our projections compared with 29%, 43% and 29% in 3QCY23 (Exhibit 1), respectively.

Similarly, as against market expectations, there was also sequential moderation with "above", "within" and "below" at 14%, 52% and 34% vs. 17%, 43% and 40% in 3QCY23 (also see Exhibit 1), respectively.

Winners and Losers

Three FBM KLCI component stocks under our coverage beat our projections, namely **AXIATA** (strong showing from Indonesian units), **CDB** (write-back of provisions) and **TM** (tax credits).

On the other hand, seven FBM KLCI component stocks under our coverage universe missed our projections, namely, **AMBANK** (overlays on repayment assistance book), **IHH** (weak showing from operations in Singapore and Türkiye), **IOICORP**, **KLK** and **SIMEPLT** (weak downstream performance), **MAXIS** (accelerated depreciation) and **TENAGA** (high fuel cost).

Noticeable Trends in Earnings Reports

Noticeable trends in earnings reports of stocks under our coverage including non-FBM KLCI component stocks are as follows:

- The slowdown in consumer demand globally that inflicted pain on the palm oil downstream industry (**IOICORP**, **KLK** and **SIMEPLT**) as well as consumer electronics EMS players (**KPS**, **SKPRES**, with the exception of **PIE**).
- The slowdown in consumer spending locally that weighed down on performance of consumer discretionary players and health supplement makers (**AEON**, **KOTRA**, **NOVA** and **PADINI**).
- The prolonged geo-political tensions in the Middle East, particularly the escalating conflict in the Red Sea that hurt sales in the Middle East market (**PWROOT**) and delayed shipments to Europe (**HARTA**).
- The easing in operating cost, particularly personnel cost and improved pricing power that buoyed earnings of oil & gas support services providers (**ARMADA**, **UZMA**, **VELESTO** and **WASCO**).
- Tech players guided for an upbeat outlook for 1QCY24 (**D&O**, **INARI**, **MPI**, **NATGATE** and **UNISEM**).

End-CY24 FBM KLCI Target Maintained

We now project FBM KLCI earnings to grow at 16.3% in CY24F (vs. 14.4% previously largely due to low-base effect as FY23 actual earnings came in slightly lower than our forecast), followed by a 6.2% growth in CY25F.

We maintain our end-CY24F FBM KLCI target of 1,605 pts based on an unchanged 15x CY24F PER, which is in line with its historical PER range of 14x-16x post the economy reopening in 2021-2022.

With central banks in advanced economies poised to cut rates this year—from Jun 2024 for the Fed based on the latest Fed Funds futures—EM assets will become attractive again given a lower risk-free return of DM assets. Policy easing in advanced economies will also set in motion a more synchronized global economic recovery, fuelling an export boom in the largely still export-dependent EM economies.

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 beneficiaries of 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.

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We pick banks for a proxy to the return of foreign investors given the heavy weighting banking stocks command in various indices. 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 still 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 name, i.e. **INARI**.

Our **top conventional picks**, **top Shariah picks** and **top small-cap picks** are reflected in Exhibits 2-4.

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Exhibit 1: Quarterly Results of FBM KLCI Component Stocks												
	4QCY23						3QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AMBANK			1			1		1			1	
AXIATA	1			1			1					1
CIMB		1			1			1		1		
CDB	1			1			1					1
DIALOG		0			0			1			1	
GENM		0				1			1			1
GENTING		0				1	1			1		
HLBANK		1			1			1			1	
HLFG		0			1			0			1	
IHH			1			1			1			1
IOICORP			1		1				1			1
KLK			1			1			1		1	
MAXIS			1			1		1				1
MAYBANK		1			1			1			1	
MISC		1			1				1			1
MRDIY		1			1			1			1	
NESTLE		1				1		1			1	
PBBANK		1			1			1			1	
PCHEM		1				1			1			1
PPB		1			1			1				1
PETDAG		1			1				1			1
PMETAL		1			1			1				1
PETGAS		1			1			1			1	
QL		1		1			1			1		
RHBBANK		1			1		1				1	
SIMEPLT			1			1	1				1	
SIME		1			1			0			1	
TM	1			1			1			1		
TENAGA			1			1			1			1
WPRTS		0			0		1			1		
YTL		0			0			0			0	
YTLPOWR		1			1			0			0	
Total	3	16	7	4	15	10	8	12	8	5	13	12
Total (%)	12	62	27	14	52	34	29	43	29	17	43	40

"0" denotes stock not covered, under research blackout or not in FBM KLCI during the quarter

Source: Kenanga Research, Bloomberg

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Exhibit 2: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
RHBBANK	OP	5.61	7.25	29.2	24,046.41	Dec	72.8	76.4	11.5	4.8	7.7	7.3	0.7	9.9	44.0	7.8
AMBANK*	OP	4.28	4.80	12.1	14,158.41	Mar	51.1	56.4	17.3	10.4	8.4	7.6	0.7	9.4	19.0	4.4
GAMUDA	OP	4.98	5.45	9.4	13,776.43	Jul	4.1	4.9	29.5	19.2	120.5	101.1	1.2	9.8	12.0	2.4
INARI	OP	3.11	4.05	30.2	11,675.87	Jun	9.9	12.1	14.0	22.1	31.5	25.8	4.4	14.1	9.3	3.0
F&N	OP	29.52	33.80	14.5	10,827.30	Sep	150.2	155.7	13.8	3.6	19.6	19.0	3.0	16.0	77.0	2.6
IJM*	OP	2.15	2.54	18.1	7,538.26	Mar	12.4	13.2	6.9	6.5	17.3	16.3	0.8	4.7	8.0	3.7
KPJ	OP	1.67	1.95	16.8	7,288.38	Dec	6.2	6.9	7.4	12.0	27.1	24.2	2.9	11.2	3.4	2.0
ABMB*	OP	3.59	4.30	19.8	5,557.70	Mar	50.9	52.7	11.8	3.5	7.9	7.1	0.8	10.2	24.5	6.8
SUNCON	OP	2.49	3.00	20.5	3,210.50	Dec	11.9	15.8	-9.4	32.8	20.9	15.7	3.3	16.6	6.0	2.4
MBMR	OP	4.47	5.80	29.8	1,747.27	Dec	72.5	73.3	-7.2	1.1	6.2	6.1	0.8	12.9	40.0	8.9

*FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

Exhibit 3: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
IHH	OP	6.14	7.00	14.0	54,074.93	Dec	20.6	21.6	41.6	4.8	29.7	28.4	1.8	6.1	7.0	1.1
CDB	OP	4.30	5.83	35.6	50,445.49	Dec	17.2	18.9	6.1	10.1	25.0	22.7	3.0	12.3	13.8	3.2
GAMUDA	OP	4.98	5.45	9.4	13,776.43	Jul	4.1	4.9	29.5	19.2	120.5	101.1	1.2	9.8	12.0	2.4
INARI	OP	3.11	4.05	30.2	11,675.87	Jun	9.9	12.1	14.0	22.1	31.5	25.8	4.4	14.1	9.3	3.0
F&N	OP	29.52	33.80	14.5	10,827.30	Sep	150.2	155.7	13.8	3.6	19.6	19.0	3.0	16.0	77.0	2.6
IJM*	OP	2.15	2.54	18.1	7,538.26	Mar	12.4	13.2	6.9	6.5	17.3	16.3	0.8	4.7	8.0	3.7
KPJ	OP	1.67	1.95	16.8	7,288.38	Dec	6.2	6.9	7.4	12.0	27.1	24.2	2.9	11.2	3.4	2.0
SUNCON	OP	2.49	3.00	20.5	3,210.50	Dec	11.9	15.8	-9.4	32.8	20.9	15.7	3.3	16.6	6.0	2.4
MBMR	OP	4.47	5.80	29.8	1,747.27	Dec	72.5	73.3	-7.2	1.1	6.2	6.1	0.8	12.9	40.0	8.9
DLADY	OP	23.94	26.90	12.4	1,532.16	Dec	123.1	126.3	9.4	2.5	19.4	19.0	3.2	17.1	50.0	2.1

*FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

Exhibit 4: Top Small-Cap Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
PIE	OP	3.36	4.00	19.0	1,290.38	Dec	22.2	26.1	15.7	17.4	15.1	12.9	1.9	13.4	7.0	2.1
KAREX	OP	0.83	1.06	27.7	874.37	Jun	2.3	4.2	125.7	87.8	36.9	19.6	1.8	4.9	0.5	0.6
MKH	OP	1.33	2.11	58.6	767.94	Sep	18.0	20.1	41.8	11.2	7.4	6.6	0.4	5.3	6.0	4.5
TGUAN	OP	1.88	2.86	52.1	746.69	Dec	25.8	30.0	21.7	16.6	7.3	6.3	0.7	10.3	5.5	2.9
OCK	OP	0.58	0.80	37.1	610.79	Dec	5.1	5.2	26.8	3.1	11.5	11.1	0.8	8.0	1.5	2.6
UZMA	OP	1.22	1.45	18.9	472.42	Jun	13.4	14.1	32.8	5.6	9.1	8.6	0.9	9.9	0.0	0.0

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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