2QCY24 Investment Strategy

The Trend is Your Friend

By Joshua Ng & Team / joshuang@kenanga.com.my

FBM KLCI (pts)	
Current	Target
1,541.41	1,605

Executive Summary

- **We maintain our end-CY24 FBM KLCI target of 1,605 pts based on 15x CY24F earnings (+16.0%), which is consistent with its historical PER range of between 14x and 16x post the economy reopening. We project FBM KLCI's earnings growth to moderate to 6.2% in CY25F.**
- **We continue to believe the key driver for global markets in CY24 is policy easing by central banks in advanced economies, particularly the Fed, which firstly, will 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 this month, the Fed kept the target range of its funds rate at 5.25%-5.50% and end-CY24 Fed Funds rate forecast of 4.6% (unchanged from three months ago), effectively signalling three rate cuts in CY24.**
- **While we expect global stock markets including the Malaysian bourse to continue to do well during the remainder of CY24, we identify as follows the risk factors that could derail the rally in the local market, but take comfort that they are rather manageable:- (i) policy rates to stay higher for longer in advanced economies led by the US, (ii) potential threats to political stability locally, (iii) the health of China's economy, and (iv) freight cost inflation and supply-chain disruptions arising from the Red Sea conflict.**
- **PM Anwar's position as Malaysia's 10th Prime Minister has been solidified by the inaugural address to the Parliament by Yang di-Pertuan Agong Sultan Ibrahim in Feb 2024 in which His Majesty said that he "will not entertain any request from any party that may compromise the political stability of the country".**
- **While experts generally agree that there will not be a "Lehman moment" for China, all eyes are on how the Chinese authorities are going to handle the property and local government debt crises. Meanwhile, a stronger-than-expected recovery in advanced economies during 2HCY24 could lift "the factory of the world" out of the doldrums.**
- **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.**
- **In the oil & gas sector, we like offshore supply vessel (OSV) owners due to supply crunch on a surge in demand leading to strong charter rates, FPSO players given the current upcycle in the FPSO sector and the storage segment that has shown signs of recovery.**
- **In the renewable energy space, we like PV System EPCC contractors given the strong job flow underpinned by Corporate Green Power Programme (CGPP), Large-Scale Solar 5 (LSS5) and an additional quota of 400MW under the net energy metering (NEM) scheme.**
- **For the tech sector, we believe it takes time for the recovery in global semiconductor sales to be fully transmitted to local players that are mostly at the back end of the supply chain. For now, we nibble on a large-cap and liquid name, i.e. INARI.**
- **Our top conventional picks are PBBANK, RHBBANK, TM, GAMUDA, DIALOG, INARI, IJM, ABMB, SUNCON and MBMR.**
- **Our top Shariah picks are IHH, CDB, TM, GAMUDA, DIALOG, INARI, F&N, IJM, SUNCON and MBMR.**
- **Our top small-cap picks are PIE, KAREX, MKH, TGUAN, ENGTEX and ICON.**

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End-CY24 FBM KLCI Target of 1,605 pts Maintained

We maintain our end-CY24 FBM KLCI target of 1,605 pts based on 15x CY24F earnings (+16.0%), which is consistent with its historical PER range of between 14x and 16x post the economy reopening. We project FBM KLCI's earnings growth to moderate to 6.2% in CY25F.

Encouraging YTD Market Performance

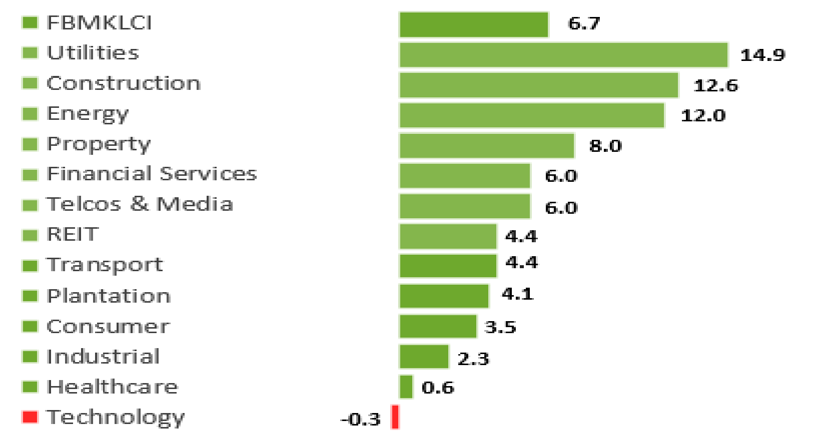
As at the market close on 15 Mar 2024, FBM KLCI had gained 6.7% YTD, with all sectors (except for technology) in positive territories (see Exhibit 1). We attribute the strong market performance to:

- the return of foreign investors (with YTD net inflows peaking at RM2.3b as at 23 Feb 2024, which was equivalent to the entire 2023 net outflows, but reversed to a RM126.3m net outflow as at 15 Mar 2024, following a RM2.4b net outflow within the three weeks from 26 Feb 2024 to 15 Mar 2024);
- the improved political stability locally; and
- the generative AI-theme play globally that spilled over to distantly related names locally, particularly, **YTLPOWR** which is developing a large-scale data centre in Johor potentially with servers with generative AI capabilities.

These seemed to have negated headwinds such as:

- the weak MYR (which, on a more positive note, could augur well for exporters and entice foreign investors who hold the view that the MYR is undervalued);
- a more measured pace in the implementation of policy reforms (with the more noticeable new policy initiatives being the increase in the Sales and Services Tax (SST) to 8% (from 6%) and the expansion of its scope, the removal of subsidies and price controls for chicken and rice while those for Grade A, B and C chicken eggs remain, and the hikes in water and airport tariffs, but a decision on fuel subsidy rationalisation is still pending);
- a seemingly longer wait for the roll-out of mega public infrastructure projects; and
- the gloomy economic outlook of China (Malaysia's largest trading partner) and a prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating.

Exhibit 1: YTD CY24 Performance of Malaysian Stock Market (% chg)



**as at closing on 15 Mar 2024*
Source: Bursa Malaysia, Kenanga Research

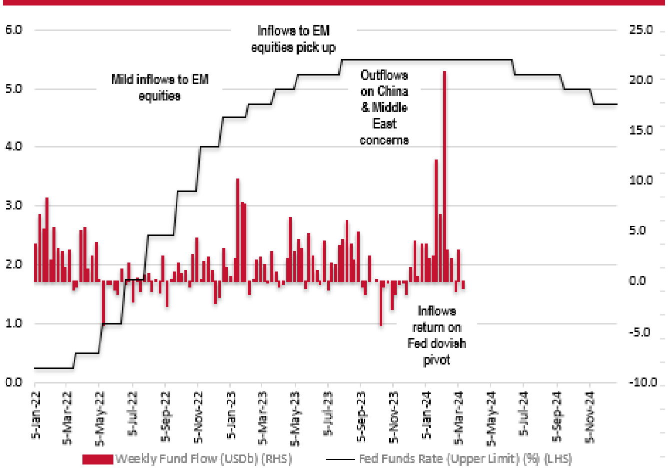
Policy Easing Remains the Key Investment Theme in CY24

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

- 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.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.; and
- 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 recovery of the global semiconductor sector.

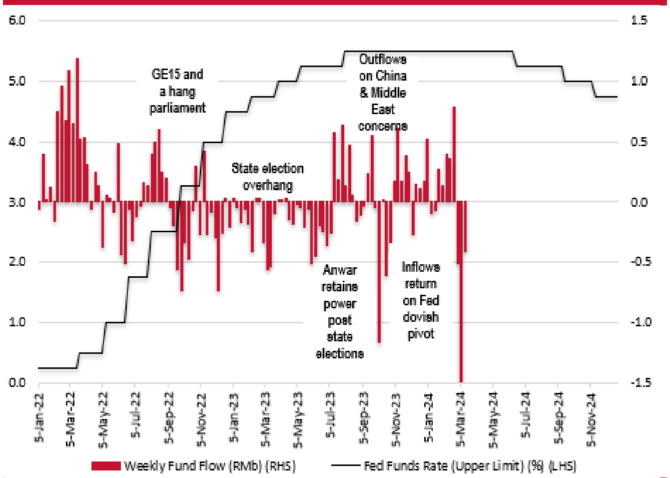
Already, upon a dovish pivot by the Fed during its Dec 2023 FOMC meeting, investors have braved the Israel-Hamas conflict and pockets of crises in China, piling back into EM equities including Malaysian equities (see Exhibits 2 & 3).

Exhibit 2: Fund Flows into EM Equities vs. Fed Funds Rate



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

Exhibit 3: Foreign Fund Flows into Malaysian Equities vs. Fed Funds Rate



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

What Could Derail the Market Rally in Malaysia

While we expect global stock markets including the Malaysian bourse to continue to do well during the remainder of CY24, we identify as follows the risk factors that could derail the rally in the local market but take comfort that they are rather manageable:

- Policy rates to stay higher for longer in advanced economies led by the US;
- Potential threats to political stability locally;
- The health of China's economy; and
- Freight cost inflation and supply-chain disruptions arising from the Red Sea conflict.

Policy Rates in Advanced Economies to Stay Higher for Longer Led by the US

While there are concerns over interest rates in advanced economies, led by the US, to stay higher for longer, we take comfort in the following:

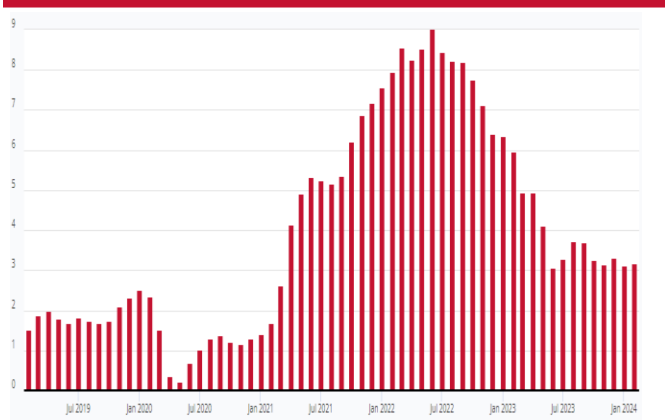
- During the FOMC meeting this month, the Fed kept the target range of its funds rate at 5.25%-5.50% and end-CY24 Fed Funds rate forecast of 4.6% (unchanged from three months ago), effectively signalling three rate cuts in CY24. The market is aligned with the Fed's view based on the latest Fed Funds futures (see Exhibit 4).
- Headline CPI in the US has significantly eased from its peak of 9.1% YoY in Jun 2022 to 3.2% in Feb 2024 (see Exhibit 5), while core CPI (i.e. excluding the more volatile food and energy prices) has eased from its peak of 6.6% YoY to 3.8% during the same period (see Exhibit 6) (although arguably, they are still not at the Fed's inflation target of 2%).
- On the labour market front, while the Feb 2024 non-farm payrolls beat expectations, wage growth came in milder. This suggests the tightness in the labour market has not translated to wage inflation, giving the Fed ammunition to cut rates if need be.
- Retail sales missed expectations in Jan and Feb 2024, after having consistently beaten since Jul 2023, suggesting that the 525-bps hike in the Fed Funds rate since Mar 2022 has finally caught up with consumer spending.

Exhibit 4: 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
1-May-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.7	92.3
19-Jun-24	0.0	0.0	0.0	0.0	0.0	0.0	5.8	70.8	23.4
31-Jul-24	0.0	0.0	0.0	0.0	0.0	2.9	38.7	46.8	11.6
18-Sep-24	0.0	0.0	0.0	0.0	2.3	31.2	45.1	19.0	2.4
7-Nov-24	0.0	0.0	0.0	1.1	16.5	38.0	32.3	10.9	1.2
18-Dec-24	0.0	0.0	0.8	11.3	30.8	34.2	18.1	4.5	0.4

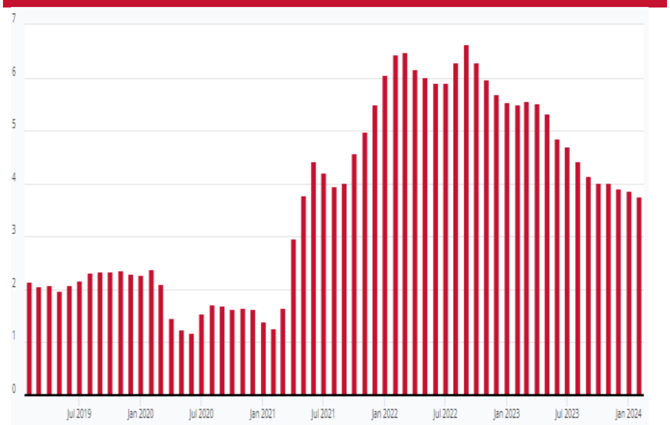
 # as at the closing on 20 Mar 2024
Source: CME Group, Kenanga Research

Exhibit 5: US CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Exhibit 6: US Core CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Exhibit 7: Selected Recent US Economic Data

	Month	Actual*	Estimate	Signal
Retail sales (mom)	Feb	0.6%	0.8%	
PPI (mom)	Feb	0.6%	0.3%	
CPI (yoy)	Feb	3.2%	3.1%	
Non-farm payrolls	Feb	275k	198k	
Hourly wage growth (mom)	Feb	0.1%	0.2%	
PCE price index (mom)	Jan	0.3%	0.3%	
Retail sales (mom)	Jan	-0.8%	-0.2%	
CPI (yoy)	Jan	3.1%	2.9%	
Non-farm payrolls	Jan	353k	187k	
Hourly wage growth (mom)	Jan	0.6%	0.3%	
PCE price index (mom)	Dec	0.2%	0.2%	
Retail sales (mom)	Dec	0.6%	0.4%	
CPI (yoy)	Dec	3.4%	3.2%	
Non-farm payrolls	Dec	216k	170k	
Hourly wage growth (mom)	Dec	0.4%	0.3%	

: Hawkish (beating expectations)

: Dovish (meeting or below expectations)

**Before subsequent revisions*

Source: Kenanga Research, investing.com

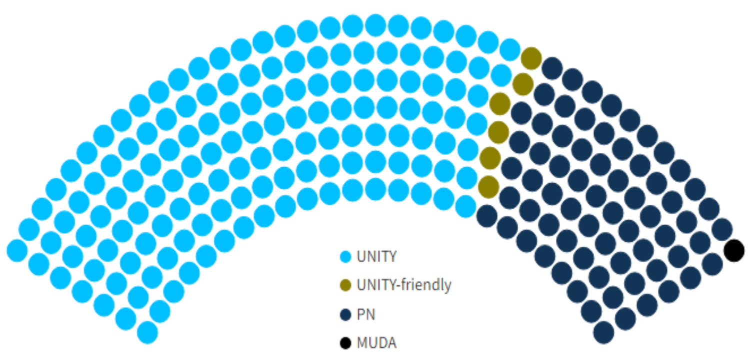
Potential Threats to Political Stability Locally

Clocking 16 months into the job, PM Anwar appears to have consolidated his grip on his position as Malaysia's 10th Prime Minister. This is solidified by the inaugural address to the Parliament by Yang di-Pertuan Agong Sultan Ibrahim in Feb 2024 in which His Majesty said that he "will not entertain any request from any party that may compromise the political stability of the country" and "anyone seeking to play politics should wait for the next general election (widely expected in 2027)".

The unity government led by PM Anwar did temporarily lose its critical two-third majority in the Parliament in Sep 2023 when minor partner MUDA with only one seat decided to pull out, leaving coalition one seat short of the two-third threshold of 148 seat. However, since Nov 2023, six lawmakers from opposition Bersatu have thrown their support behind PM Anwar, raising the unity government's majority in the parliament to more than two-thirds again (see Exhibit 8). This allows the unity government to breeze through the passing of important bills.

While local political stability is a risk the market cannot totally ignore, it is not a key concern to investors at this juncture.

Exhibit 8: Lower House of Parliament



Source: Kenanga Research, media

The Health of China's Economy

The health of China's economy will have a significant bearing on Malaysia and the MYR given that China is Malaysia's largest trading partner. China's economy has experienced a noticeable slowdown on a back of an export slump, weak domestic consumption, losses in household wealth due to the crash in both the stock and property markets, high unemployment particularly among the youth including fresh college graduates and even lurking deflation.While experts differ on the extent of the malaise, they generally agree that this is unlikely to turn out be a "Lehman moment" for China, while not ruling out the possibility of "Japanese-style lost decades" (i.e. banks being saddled with bad loans and hence businesses being deprived of debt capital for growth).

On a more hopeful note, a stronger-than-expected recovery in advanced economies especially during 2HCY24 could lift "the factory of the world" out of the doldrums. So are more cordial US-China relations, if the trade and tech tensions between the two world superpowers ease. For now, all eyes are on how China is going to handle the property and local government debt crises.

- **Property Debt Crisis**

There is yet to be any sign of the Chinese authorities stepping in following a liquidation order issued by a court in Hong Kong in Jan 2024 against China's property giant Evergrande. Similarly, a liquidation petition filed against an even larger property company Country Garden in a court in Hong Kong as well this month drew no response from the Chinese authorities.

A point to note is that liquidation (vs. debt restructuring) may not necessarily serve the best interest of the creditors in this kind of situation. Moreover, there is serious doubt as to the enforceability of liquidation orders issued by a court out of Hong Kong against assets in mainland China. Liquidation or winding-up petitions or orders are often used as a tactic by the creditors to bring the companies to the negotiating table for a debt restructuring deal.

We hold the view that, on one hand, the Chinese authorities refrains from taking over these troubled property behemoths to avoid the moral hazard of bailouts. On the other hand, they know for sure that it is not in the best social, economic and political interest to see these companies going into liquidation. We suspect that the Chinese authorities are still hopeful that these troubled property companies will reach some sort of debt restructuring agreements with their creditors to keep them afloat so that they could complete the property units or return the downpayments to their home buyers, millions of them.

Under a liquidation scenario, apart from throwing home buyers into a limbo, banks that have extended loans to these property companies (and potentially also hold their bonds) as well as institutional and individual investors that hold their bonds will have to take heavy losses. Arguably, all these parties will also not escape some form of haircut in a debt restructuring scenario but a debt restructuring is a lot more manageable than liquidation given the challenges in enforcing liquidation orders issued by a court out of Hong Kong against assets in mainland China as mentioned.

The real estate sector is a key driver of China's economic growth (30% of GDP, about double that of the US) and real estate constitutes about three-quarters of household wealth. On a more comforting note, it is estimated that loans to property developers as a percentage of the banking system's total loans is only in the mid-single digit.

In conclusion, we believe the Chinese authorities are weighing options to deal with this property debt crisis, naturally having an inclination to go for the least painful and costly ones, However, they will not hesitate to switch to the strong medicine if the crisis spins out of control. This could be seen in how swiftly the Chinese authorities moved in to contain the shadow banking or trust industry crisis centered on Zhongrong after it had missed payments on a number of its investment products in late-Jul 2023. In less than two months, financial giants Citic Group and China Construction Bank had reviewed Zhongrong's books and entered into a "partnership" with it. China's trust industry pools money from wealthy individuals and corporations (including public listed companies) and on-lends it to borrowers that are unable to secure funding from the conventional banking system. It is an important alternative lender to property developers as the conventional banking system has made a conscious decision to reduce its exposure to the property sector in China.

- **Local Government Debt Crisis**

As the saying goes: bad things come in pairs. China has another debt crisis—centered on the local governments. It is estimated that direct debts of Chinese local governments or municipalities and their indirect debts raised via their special-purpose vehicles called local government financing vehicles (LGFVs) could add up to >70% of China's GDP and loans to local governments as a percentage of the banking system's total loans could be in the teens to the mid-twenties. The crisis comes about because some of these local governments are now struggling to service these debts or have defaulted on them outright.

While these debts have been around since the 1990s, they grew exponentially in the aftermath of the Global Financial Crisis in 2008 as local governments aligned themselves with the central government's RMB4t stimulus plan to shield China from the external slowdown by pump priming the economy via investment in public infrastructure projects.

The local governments are generally asset-rich, mostly in the form of land within the municipality. The investment in roads, highways, bridges, rail projects and other infrastructure pursuant to the RMB4t stimulus plan has also enhanced accessibility and connectivity and hence development potential and value of their land. Prior to the downturn in the real estate sector in China, these local governments were flushed with cash from land sales and hence they had no issue servicing their debts. The cracks started to show when the real estate sector went south at the time when local governments racked up public healthcare spending during the pandemic.

There have been on-going initiatives to convert some of these LGFV debts to direct debts of the respective local governments (which posses slightly better credit rating), reduce interest rates and extend repayment periods for these debts. While this may appear to be nothing more than just kicking the can down the road, it could potentially work out if the real estate sector recovers along the way and the local governments are able to cash in on land sales again.

As in the case for troubled property companies, the Chinese authorities have thus far refrained from direct bailouts despite having pledged to "comprehensively resolve the issue". We believe they are also weighing options here with a tendency to go for the least painful and costly ones, but may be prepared to move the ownership of the assets (and their debts) to the central government's balance sheet, if need be. There is plenty of room for the central government to expand its balance sheet given a highly manageable China's central government debt to GDP estimated in the low twenties.

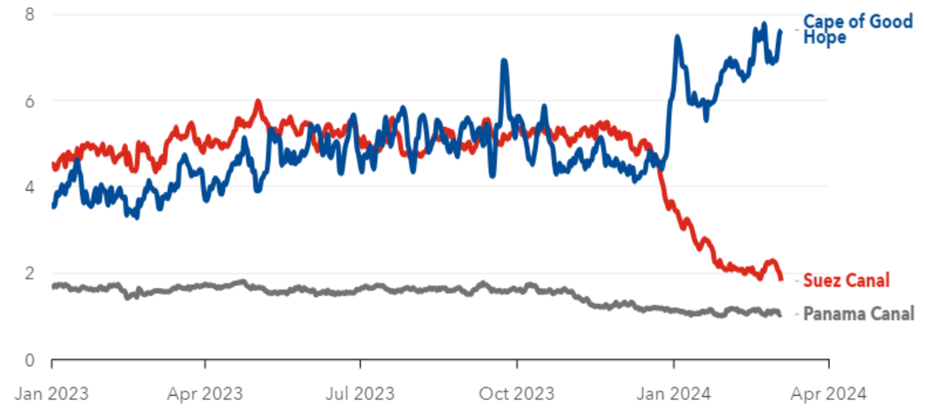
Freight cost inflation and supply-chain disruptions from the Red Sea conflict

There is no sign of the Houthis backing off from attacking commercial ships passing through the Red Sea, despite the multiple US and Britain's strikes against their targets in Yemen. As such, shipping lines plying the Asia-Europe route will have to continue to steer clear of Suez Canal and detour around the Cape of Good Hope (see Exhibit 9). This adds about ten additional days to the voyage that normally take 30 to 45 days. Catching exporters, multi-national manufacturers and trading houses off guard initially, the longer transit time is nonetheless highly manageable via proper planning to minimise any supply-chain disruptions.

In terms of cost, depending on the voyage speed, a detour around the Cape of Good Hope will cost about 20% more after offsetting the Suez Canal toll fee of USD400k to USD700k. This is highly inflationary. In fact, spot freight rates have surged many times more in a knee-jerk reaction and reverberated beyond the Asia-Europe route. At the peaks, the widely followed Drewry World Container Index (WCI) that tracks spot container freight rates for major global trade routes leapt 1.7x from under USD1,500/40-footer in Nov 2023 to USD4,000/40-footer in Jan 2024 (see Exhibit 10), while spot freight rates for the Shanghai-Rotterdam route rocketed 4x from about USD1,000/40-footer to USD5,000/ 40-footer (see Exhibit 11).

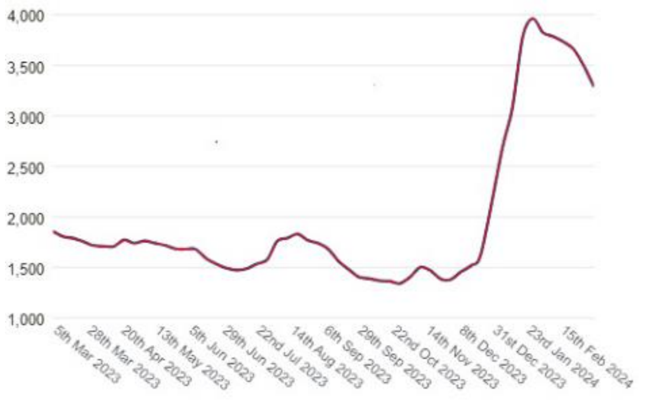
The good news is the rates have since fallen significantly from the peaks, by about 18% for Drewry WCI to USD3,300/40-footerand 26% for the Shanghai-Rotterdam route to USD3,700/40-footer. The rates are poised to ease even further throughout CY24 as more newly commissioned containerships (from new builds contracted during the boom years in the shipping industry during the pandemic) enter the market. Prominent shipping expert Clarksons projects global containership capacity to grow by 8.8% in CY24 and 6.4% in CY25 on the heels of a 7% expansion in CY23, while the diversion from Suez Canal to the Cape of Good Hope is projected to only add about 9% to the average haul length.

Exhibit 9: Daily Transit Trade Volume*



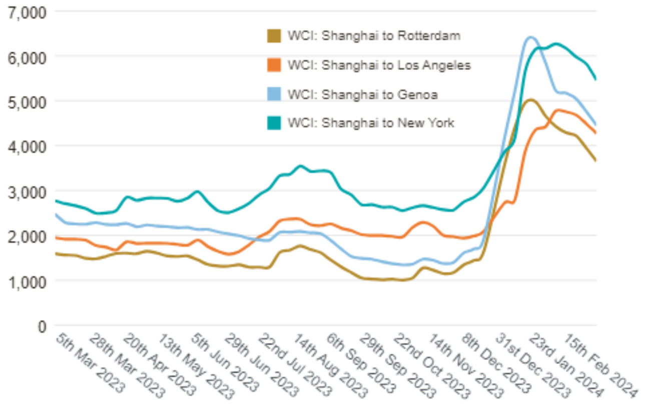
**m tonnes, 7-day moving average*
Source: International Monetary Fund, United Nations

Exhibit 10: Drewry WCI*



**USD/40 footer*
Source: drewry.co.uk, Kenanga Research

Exhibit 11: Shanghai-Outbound Freight Rates*



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Source: drewry.co.uk, Kenanga Research

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For the **tech** sector, we believe it takes time for the recovery in global semiconductor sales to be fully transmitted to local players that are mostly at the back end of the supply chain. For now, we nibble on a large-cap and liquid name, i.e. **INARI**.

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	Proxy to return of foreign investors given their heavy weighting in various indices.	ABMB, RHBBANK, PBBANK
	Healthcare	Growing demand for private healthcare on rising affluence and ageing population, strong pricing power,	KPJ, IHH
	Oil & Gas	Upstream service providers buoyed by spending in brownfield projects. Tank terminal (midstream) rates are bottoming out. Subdued demand and hence weak product prices for petrochemicals (downstream).	DIALOG, ICON, YINSON
	Plastic Packaging	Restocking by users ahead of price hikes, innovative sustainable products.	BPPLAS, TGUAN
	Renewable Energy	New PV system EPCC jobs under CGPP, LSS5 and new quote under NEM, and falling solar panel prices.	SAMAIDEN, SLVEST
	Tele-communications	Earnings resilience, lower 5G access charges, higher demand for data.	CDB, TM
NEUTRAL	Automobile	Resilient demand in the affordable vehicle segment; proxy to gig economy boom via motorcycles demand.	HLIND, MBMR
	Aviation	Recovery in air travel and airport tariff hikes priced in, regularisation plan of an airline still pending.	None
	Building Material	Weak demand on China's slowdown, supply constraints to limit downside to commodity prices, revival of water projects positive to water pipe makers.	ENGTEX, OMH
	Consumer	Inelastic demand for consumer staples, consumer discretionary weighed down by high inflation, increase in SST and impending fuel subsidy rationalisation.	F&N, MRDY
	Plantation	Stable CPO prices on easing fertilizer cost for upstream operation, weak product prices and margins hurt downstream operation.	TSH, PPB
	Property	Overhang, high household debt and elevated mortgage rates weigh, but a bright spot in affordable homes priced at RM500k and below.	MKH, MAHSING
	REIT	Unattractive spread over risk-free rate.	KLCC, PAVREIT, SUNREIT
	Seaport & Logistics	Reduced port calls in the aftermath of the Red Sea conflict.	none
	Technology/EMS	Recovery in global semiconductor sales takes time to be fully transmitted to local players that are mostly at the back end of the supply chain. More meaningful recovery expected in the 2H.	INARI, KGB, PIE
	Utilities	Earnings defensiveness backed by regulated assets or long-term offtake agreements.	YTLPOWR
UNDERWEIGHT	Glove	Overcapacity, predatory pricing by certain overseas players, weak demand and high cost of inputs.	none
	Media	Weak adex, challenging transition from traditional to digital media.	none

Source: Kenanga Research

Exhibit 13: 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	FY24F	FY24F	FY24F	FY24F
PBBANK	OP	4.28	5.10	19.2	83,077.8	Dec	37.8	39.6	10.3	4.8	11.3	10.8	1.4	13.0	21.0	4.9
RHBBANK	OP	5.67	7.25	27.9	24,303.6	Dec	72.8	76.4	11.5	4.8	7.8	7.4	0.8	9.9	44.0	7.8
TM	OP	6.02	7.22	19.9	23,102.5	Dec	45.5	46.1	-13.4	1.4	13.2	13.1	2.3	17.9	23.0	3.8
GAMUDA	OP	5.14	5.45	6.0	14,226.4	Jul	4.1	4.9	29.5	19.2	124.4	104.4	1.2	9.8	12.0	2.3
DIALOG	OP	2.21	3.10	40.3	12,470.1	Jun	9.3	10.3	4.0	11.0	23.8	21.4	2.1	9.1	4.2	1.9
INARI	OP	3.11	4.05	30.2	11,675.9	Jun	9.9	12.1	14.0	22.1	31.5	25.8	4.4	14.1	9.3	3.0
IJM*	OP	2.35	2.54	8.1	8,239.5	Mar	12.4	13.2	7.1	6.2	20.3	18.9	0.8	4.7	8.0	3.4
ABMB*	OP	3.56	4.30	20.8	5,511.3	Mar	50.9	52.7	11.8	3.5	7.8	7.0	0.8	10.2	24.5	6.9
SUNCON	OP	2.76	3.00	8.7	3,558.6	Dec	11.9	15.8	-9.4	32.8	23.1	17.4	3.7	16.6	6.0	2.2
MBMR	OP	4.45	5.80	30.3	1,739.5	Dec	72.5	73.3	-7.2	1.1	6.1	6.1	0.8	12.9	40.0	9.0

**FY24F and FY25F refers to FY25F and FY26F*
Source: Kenanga Research

Exhibit 14: 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	FY24F	FY24F	FY24F	FY24F
IHH	OP	6.04	7.00	15.9	53,194.2	Dec	20.6	21.6	41.6	4.8	29.3	27.9	1.8	6.1	7.0	1.2
CDB	OP	4.25	5.83	37.2	49,858.9	Dec	17.2	18.9	6.1	10.1	24.7	22.4	3.0	12.3	13.8	3.2
TM	OP	6.02	7.22	19.9	23,102.5	Dec	45.5	46.1	-13.4	1.4	13.2	13.1	2.3	17.9	23.0	3.8
GAMUDA	OP	5.14	5.45	6.0	14,226.4	Jul	4.1	4.9	29.5	19.2	124.4	104.4	1.2	9.8	12.0	2.3
DIALOG	OP	2.21	3.10	40.3	12,470.1	Jun	9.3	10.3	4.0	11.0	23.8	21.4	2.1	9.1	4.2	1.9
INARI	OP	3.11	4.05	30.2	11,675.9	Jun	9.9	12.1	14.0	22.1	31.5	25.8	4.4	14.1	9.3	3.0
F&N	OP	29.64	33.80	14.0	10,871.3	Sep	150.2	155.7	13.8	3.6	19.7	19.0	3.0	16.0	77.0	2.6
IJM*	OP	2.35	2.54	8.1	8,239.5	Mar	12.4	13.2	7.1	6.2	20.3	18.9	0.8	4.7	8.0	3.4
SUNCON	OP	2.76	3.00	8.7	3,558.6	Dec	11.9	15.8	-9.4	32.8	23.1	17.4	3.7	16.6	6.0	2.2
MBMR	OP	4.45	5.80	30.3	1,739.5	Dec	72.5	73.3	-7.2	1.1	6.1	6.1	0.8	12.9	40.0	9.0

**FY24F and FY25F refers to FY25F and FY26F*
Source: Kenanga Research

Exhibit 15: Rationales for Top Conventional and Shariah Picks

Top Pick	Rationales
ABMB (OP; TP: RM4.30)	We like ABMB as it offers solid fundamentals 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 in its books which could drive its near-term growth. Leading in terms of CASA as well, it offers ABMB greater flexibility when it comes to margin retention.
CDB (OP; TP: RM5.83)	We like CDB due to: (i) merger synergies are expected to amount to NPV of RM8b over 5 years from FY23 onwards – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust average FCF yield of 7.9% in FY24-25 implies capacity to pay steady dividends, (iii) leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively, translating to pricing power and economies of scale, and (iv) potential 5G monetization via extraction of higher ARPUs from affluent retail customers.
DIALOG (OP; TP: RM3.10)	We like DIALOG due to: (i) a recovery in demand for independent tank terminal storage, (ii) its diversification into upstream production assets (recent endeavor involves potential development of small field assets in Baram Junior cluster) which enables the group to capitalise on the strong oil prices, and (iii) the development potential of its remaining land in Pengerang (500 acres) and Tanjung Langsat.
F&N (OP; TP: RM33.80)	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, 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 Bayan Lepas LRT and the tunneling job for MRT3, (ii) its ability to secure new jobs in overseas markets 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 strong earnings visibility underpinned by a record 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: RM2.54)	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 RM6.6b and new property sales of RM1.4b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth.
INARI (OP; TP: RM4.05)	We like 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 ambition of semiconductor self-sufficiency. It's 54.5%-owned YSIC-JV expansion, featuring a 500k sq ft plant in Yiwu will be operational by mid-CY24.
MBMR (OP; TP: RM5.80)	We like MBMR for: (i) being a proxy to the still vibrant affordable segment (via its dealership for mass-market Perodua brand and a 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles) as its target customers, i.e. the B40 group, will continue to enjoy subsidised fuel post the fuel subsidy rationalisation, (ii) its strong earnings visibility backed by an order backlog of Perodua vehicles of 120k units (almost half of its CY24 sales target of 340k units), and (iii) its attractive dividend yield of about 9%.
PBBANK (OP; TP: RM5.10)	It is the most resilient amongst its peers given its high mortgage portfolio supported by its leading GIL records. The group may also benefit from an upcoming writeback of its pandemic-related overlays that could translate to surprise special payouts to shareholders. PBBANK had previously experimented to pay beyond its biannual window and we believe this could serve as a means.
RHBBANK (OP; TP: RM7.25)	RHBBANK offers the highest dividend potential, stretching close to c.8% in spite of modest growth expectations. Its sizeable CET-1 chest of >16% may further keep pay-outs sustainable, with a likely lower emphasis on provision management as pandemic concerns have alleviated. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term.
SUNCON (OP; TP: RM3.00)	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 RM6.05b, (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.
TM (OP; TP: RM7.22)	We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), AI integration etc, (ii) it benefitting from upcoming JENDELA phase 2 projects via roll-out opportunities, (iii) earnings accretion from potential development of a new hyperscale data center, (iv) potential monetization of new 5G offerings for its enterprise and public sector customers, and (v) the possibility that TM may secure a fiber leasing service contract for the upcoming second 5G network.

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 (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F
PIE	OP	3.38	4.00	18.3	1,298.1	Dec	22.2	26.1	15.7	17.4	15.2	13.0	1.9	13.4	7.0	2.1
KAREX	OP	0.81	1.06	31.7	848.0	Jun	2.3	4.2	125.7	87.8	35.8	19.0	1.7	4.9	0.5	0.6
MKH	OP	1.35	2.11	56.3	779.5	Sep	18.0	20.1	41.8	11.2	7.5	6.7	0.4	5.3	6.0	4.4
TGUAN	OP	1.86	2.86	53.8	742.9	Dec	25.8	30.0	21.7	16.6	7.2	6.2	0.7	10.3	5.5	3.0
ENGTEX	OP	1.07	1.41	31.8	472.3	Dec	9.2	12.5	300.0	35.0	11.6	8.6	0.5	4.7	0.8	0.7
ICON	OP	0.62	0.80	29.0	335.8	Dec	5.3	8.1	nm	52.9	11.6	7.6	0.9	8.0	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.
ENGTEX **(OP; TP: RM1.41)**	We like ENGTEX given: (i) the high demand for water pipes on the revival of water projects and following water tariff hikes translating to strengthened cash flows of water operators, allowing them to kick start their capex programmes including NRW reduction initiatives, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.
PIE **(OP; TP: RM3.28)**	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 has identified a customer that will fully occupy its newly renovated Plant 5. This is in addition to four newly onboarded customers in drone, medical, smart home, and industrial sectors.
TGUAN **(OP; TP: RM2.86)**	We like TGUAN for: (i) the strong 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 fetch better margins.
KAREX **(OP; TP: RM1.06)**	We like KAREX for: (i) its leading market position and global reach in the rapidly growing condom industry, (ii) its strong R&D and product innovation, (iii) its adherence to international standards and certifications, (iv) its strategic shift in moving up higher the value chain, and (v) post-pandemic market recovery and changing consumer preferences, especially in markets like China, and growing preference for high quality innovative condom products.
ICON **(OP; TP: RM0.80)**	We like ICON as: (i) an average Brent crude oil price of USD84/bbl in CY24 based on our forecast is highly supportive of upstream investment locally, resulting in robust demand for upstream services, (ii) it is a beneficiary of the incoming upcycle of the local OSV market as the supply deficit of vessels persists, (iii) its improving balance sheet which leaves room for future asset expansion, and (vi) its stable cost base which entails significant margin expansion on higher charter rates.

Source: Kenanga Research

Automotive

A Two-Speed Market

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

We maintain NEUTRAL on the sector. We project industry-wide sales volume, also known as total industry volume (TIV), to contract by 11% to 710k units in CY24, which is a tad more conservative than 740k units projected by Malaysia Automotive Association (MAA). We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation will likely hurt the demand for mid-market models, giving rise to a two-speed automotive market locally in CY24. In general, the industry's earnings visibility is still good, backed by a booking backlog of 200k units. Our sector top pick is MBMR (OP; TP: RM5.80), which is a good proxy to the affordable and fuel-efficient Perodua brand. It also offers an attractive dividend yield of about 9%.

Business as usual for the affordable segment. For CY24, we project a TIV of 710k units (-11%) which is a tad more conservative than 740k units projected by Malaysia Automotive Association (MAA). We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation is likely to hurt the demand for mid-market models, giving rise to a two-speed automotive market locally in CY24.

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.

We believe it will be business as usual for the affordable segment as its target customers, i.e. the B40 group, will be spared the impact of the impending fuel subsidy rationalisation and also could potentially benefit from the introduction of the progressive wage model. However, the same cannot be said for the mid-market segment as its target customers, i.e. the M40 group may hold back from buying a new car (or even down trade to a smaller car to cut their fuel bills) upon the introduction of fuel subsidy rationalisation.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 200k units as at end-Feb 2024. More than half of the backlog is made up of new models, alluding to how appealing new models are to car buyers. This trend is likely to persist throughout CY24 given a strong line-up of new launches. Meanwhile, excitement is building in the electric vehicle (EV) segment with the new launches of BYD Seal and Tesla Model 3 Highland with expected introduction of locally-made first national EV (i.e. Perodua and Proton) in CY25.

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 120k units, which is equivalent to almost half its CY24 sales target of 340k units. As such, based on our estimates, Perodua is poised to expand its market share to 48% (from 41% in CY23).

Attractive new models. Perodua and Proton models have been well received by the market. Apart from cheaper pricing 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).

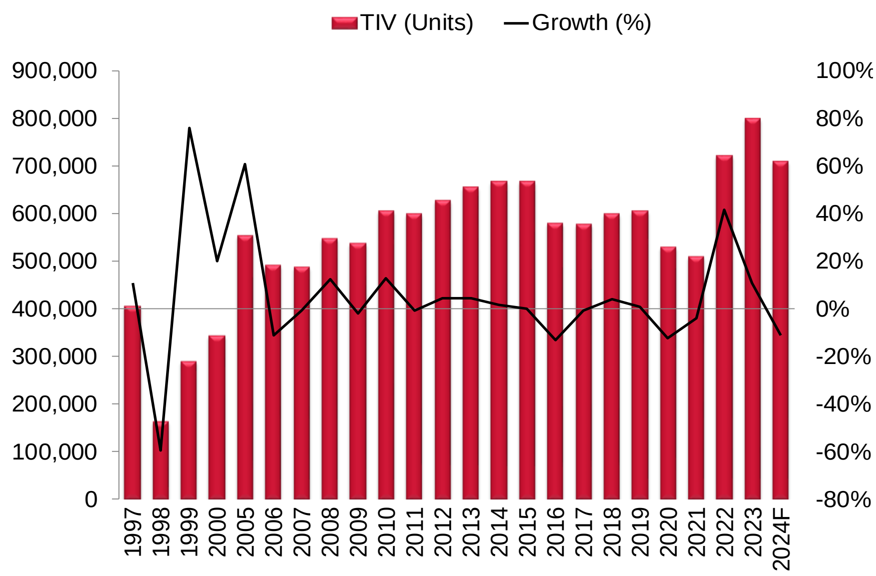
In terms of new model, Perodua is putting onto the market Perodua D66b (with a tentative launch date in Apr 2024) which is built on the latest Daihatsu New Global Architecture (DNGA) platform. It will give the B-segment offerings of its competitors a run for their money including Proton X-50, Honda City Hatchback and Toyota Yaris Cross (with a tentative launch date also in Apr 2024). On the other hand, Proton are looking to launch Proton X70 facelift MC2, Proton X50 facelift MC1, Proton Saga, Persona, Iriz 2024 MC version, and tentatively Smart #3 all within CY24. Most of the Proton upcoming launches will be face-lifted variants of existing models, following the introduction of new models Proton X90 (its first MHEV model) and Proton S70 (C-segment sedan at the price of non-nationals B-segment) in 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.

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. BEV new registrations have leapt from 274 units in CY21 to over 3,400 units in CY22 and 10,159 units in CY23 and are on track to meet national target for EVs and hybrid vehicles of 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 provides comfort as currently only 2,020 EV charging stations have been built to-date.

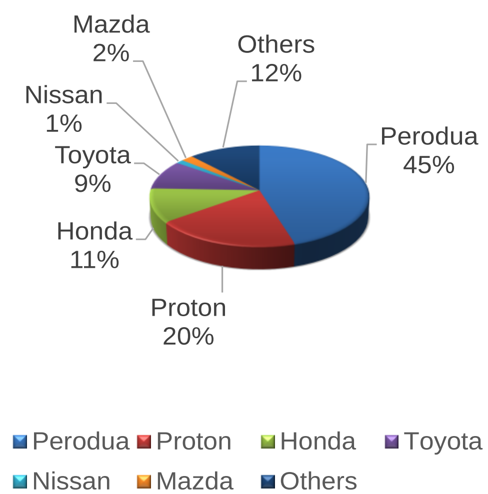
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 120k units (almost half of its CY24 target sales of 340k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 9%.

TIV Volume 1997-2024F



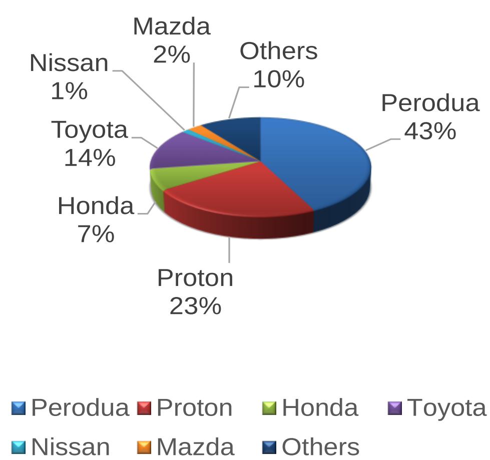
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) 1MCY24



Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) 1MCY23



Source: MAA, Kenanga Research

Exciting New Launches


All-New Perodua D66B (April 2024)


All-new Toyota Yaris Cross (April 2024)


All-new BYD Seal EV


Proton X70 facelift MC2 (2024)


All-new SMART #3 (2024)


Proton X50 facelift MC1 (2024)

Proton Saga, Persona, Iriz 2024 MC

Honda Civic (2024)


Honda City Hatchback (2024)


Honda HR-V facelift Modulo (2024)


All-new Mazda CX-60 (4QCY24)


All-new Volvo EX30 (2024)

Source: Paultan.org, @Theottle, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price as at 8th March 2024 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.44	2.30	-5.7%	2,848.9	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.4	10.8	3.4	37.9%	20.1	8.2%
DRB-HICOM BHD	MP	1.35	1.40	3.7%	2,609.9	Y	12/2024	15.9	18.6	14.2%	17.0%	8.5	7.3	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	0.940	0.940	0.0%	312.0	Y	12/2024	13.6	14.3	11.9%	4.6%	6.9	6.6	0.6	9.7%	2.0	2.1%
HONG LEONG INDUSTRIES BHD	OP	10.28	11.70	13.8%	3,284.2	Y	06/2024	92.7	97.4	4.6%	5.0%	11.1	10.6	1.7	15.2%	110.0	10.7%
MBM RESOURCES BHD	OP	4.44	5.80	30.6%	1,735.5	Y	12/2024	72.5	73.3	-7.2%	1.1%	6.1	6.1	0.8	12.9%	40.0	9.0%
SIME DARBY BHD	OP	2.66	2.80	5.3%	18,129.5	Y	06/2024	17.7	19.3	4.4%	9.1%	15.0	13.8	1.1	7.4%	12.0	4.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.935	0.720	-23.0%	609.4	Y	12/2024	(16.8)	(16.2)	-187.2%	-196.8%	N.A.	N.A.	0.2	-4.2%	1.0	1.1%
SECTOR AGGREGATE					**29,529.5**					**4.5%**	**6.3%**	**12.6**	**11.9**	**0.8**	**6.6%**		**5.3%**

Source: Kenanga Research

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Aviation

NEUTRAL
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Air Travel Recovery Continues, but Priced In

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

We maintain our NEUTRAL view on the sector. We project tourist arrivals of 27m in CY24, up 35% from 20m in CY23 and surpassing 26.1m in CY19 before the pandemic, backed by higher demand for both business and leisure air travel. The number is consistent with with Tourism Malaysia's target of 27.3m. This will translate to a sustained recovery in passenger throughput at AIRPORT (MP; TP: RM9.00) and passengers carried at CAPITALA (MP; TP: RM0.78). For AIRPORT, the recently announced tariff revision is positive to earnings but may not be sufficient for it to fund more aggressive capex plans. 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 project tourist arrivals of 27m in CY24, up 35% from 20m in CY23 and surpassing 26.1m in CY19 before the pandemic, backed by higher demand for both business and leisure air travel. The number is consistent with with Tourism Malaysia's target of 27.3m. (see Exhibit 1). A key driver is Chinese tourists that historically contributed to about 12% of total tourist arrivals in Malaysia. Also helping, is a 30-day visa-free arrangement for Chinese and Indian visitors to Malaysia starting from Dec 2023 (while China grants inbound visitors from Malaysia 15 visa-free days between 1 Dec 2023 and 30 Nov 2024. These should drive growth in **AIRPORT'S** passenger throughput and **CAPITALA's** passenger demand in CY24.

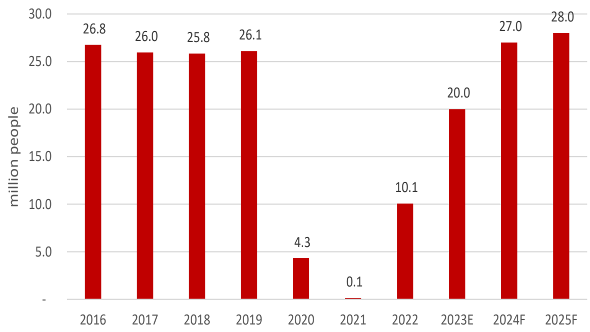
Further volume improvement for AIRPORT and CAPITALA in CY24. We project **AIRPORT's** system-wide passenger throughput to rise by 7% to 131m in CY24. The group is optimistic that resurgence in passenger numbers and connectivity, expected to be driven by the introduction of new airlines and services at key airports, including Kuala Lumpur International Airport, Penang, Kota Kinabalu and Langkawi. Amplifying the positive outlook is the latest airlines' seat capacity for 2024 showing an anticipated 13% increase over 2023, underpinned by the visa-free entry for Chinese and Indian passengers expected to boost for traffic recovery, particularly in the Northeast Asia Region. All in, it expect >90% international recovery expected in the 1HCY24, with local carriers expected to increase capacity further in 2024 via reinstating remaining grounded fleet and upgrade to 737-8 and 321 NEOs.

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 re-activate 202 aircraft by end CY24 (presently 187 aircraft) available for operation and capacity to reach 83% of pre-COVID level. In addition to fleet re-activation, it expects further upside from the current high yield environment underpinned by the robust demand with forward bookings in February and March standing at 91% and 49%, respectively. It plans to launch more than 60 new routes across the group, expanding in China and India and start AirAsia Cambodia operations by the mid 2024.

PSC tariff revision, transfer PSC introduced. The Malaysian Aviation Commission (MAVCOM) recently announced the revisions to the Passenger Service Charges (PSC) for the First Regulatory Period (RP1), with effect from 1 June 2024 to 31 December 2026 (see Exhibit 3). Specifically, the PSC rates are for international travel i.e. ASEAN and beyond ASEAN. PSC have been standardised into a single international departure of RM73 per pax for KL International Airport (KLIA) Terminal 1, and RM50 per pax for KLIA Terminal 2 and other airports. MAVCOM is also introducing a transfer PSC for passengers transiting through a Malaysian airport. We are positive on this latest development which is expected to be earnings positive to **AIRPORT** but may not be sufficient for it to fund more aggressive capex plans.

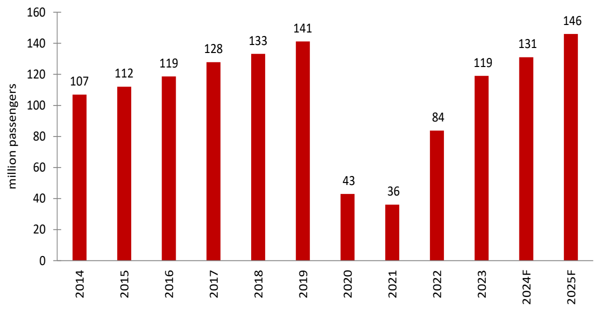
CAPITALA's regularisation plans to exit PN17 in the works. The group is in the final stages and on track to complete the regularisation plan by 4QCY24. It is on track to sign the sale and purchase agreement with AirAsia X by end-1QCY24. To recap, part of its regularisation plan to lift it out of the PN17 status involves two major corporate exercise namely: (i) divesting its aviation group to AirAsia X in exchange of shares, and (ii) a proposed listing of a unit, which is the licensee of the AirAsia brand on NASDAQ via entering a letter of intent with Atherium Acquisition Corp (GMFI), a special purpose acquisition company. 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, Tourism Malaysia

Exhibit 2: AIRPORT's Passenger Throughput*



**million passengers*
Source: Kenanga Research, Company

Exhibit 3: Passenger Service Charge Rates (RM/pax)

	PSC			Transfer PSC		
	After	**Before**	**Chg (%)**	**After**	**Before**	**Chg (%)**
International (Non-Asean)						
KLIA Terminal 1	73	73	-	42	0	nm
KLIA Terminal 2	50	73	-32	29	0	nm
Other airports	50	73	-32	29	0	nm
International (Asean)						
KLIA Terminal 1	73	35	109	42	0	nm
KLIA Terminal 2	50	35	43	29	0	nm
Other airports	50	35	43	29	0	nm
Domestic	11	11	-	7	0	nm

Source: MAVCOM, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CAPITAL A BHD	MP	0.71	0.780	9.9%	2,957	Y	12/2024	5.5	7.2	-49.1%	30.5%	12.6	9.7	(0.3)	-2.2%	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	8.65	9.00	4.0%	14,433	N	12/2024	35.7	40.8	33.7%	14.3%	24.2	21.2	1.7	7.3%	18.0	2.1%

Source: Kenanga Research

Banking

Still Room for Value

OVERWEIGHT

↔

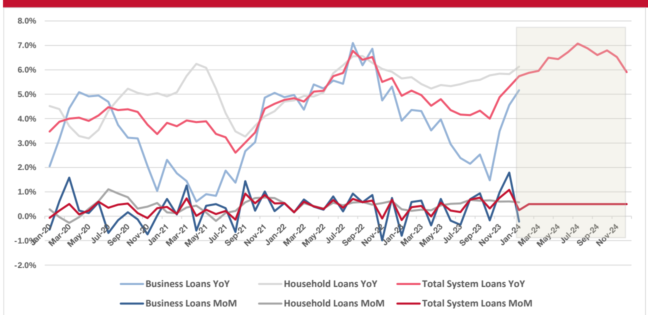
By Clement Chua l clement.chua@kenanga.com.my

We maintain our OVERWEIGHT call on the banking sector. We project a loans growth range of 5.5%-6.0% in CY24, surpassing our in-house GDP forecast of 4.5%-5.0% as household loans could stay buoyant. OPR is expected to be steady-state at 3.00% throughout CY24 with looming macros possibly inclining to downside adjustments, if any. With loans growth intact (albeit with moderating guidances), NIM pressures are expected to ease and with credit costs not to be a large concern, investors may further flock into the sector, particularly into large caps with sustainable yields. For 2QCY24, our Top Picks are: (i) PBBANK (OP; TP: RM5.10) with a highest perceived resilience against headwinds with brighter expectations for write-backs, (ii) RHBBANK (OP; TP: RM7.25) as the new dividend leader while supported by a sizeable CET-1 balance, 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.

Expected industry loans growth of 5.5%-6.0% to outpace GDP. Leading out from CY23's strong momentum, we project CY24's loans growth to range between 5.5%-6.0% (CY23: 5.3%). This is above our in-house GDP expectation of 4.5%-5.0%. So far, Jan 2024's 5.7% increment is viewed to be encouraging albeit could be frontloaded in lieu of Feb 2024's Chinese New Year festivities.

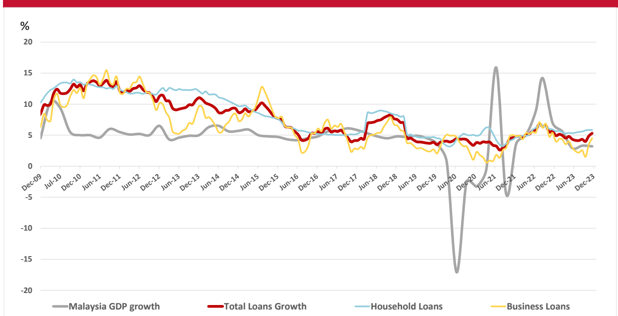
Our in-house GDP expectation for CY24 stands at 4.7% which seems to fall behind our projected system loans growth target. The widening disparity is attributed by sustained mortgages stacked up from prior building of loans books, though we expect a stronger emphasis on business loans in the near-term. Housing transactions are possibly skewing towards affordable homes as opposed to higher value sub-sale transactions. Meanwhile, a persistently soft MYR will likely leave a mixed impact on net importing or net exporting businesses. That said, we suspect the largest support would come from construction and infrastructure projects progressing well.

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

GDP and Loans Growth Trajectory



Source: Kenanga Research

Finding a sweet spot from stable OPR. We continue to expect OPR to be steady-state at 3.00% throughout CY24 with a greater downside-bias directionally should BNM opt for an adjustment. This is owing to the abovementioned weak MYR possibly being a strain to the domestic supply chain. In addition, tighter monetary controls may be unwarranted with the recent 2ppt increase in SST for selected categories, an upcoming implementation of luxury taxes as well as targeted fuel subsidies likely to pose inflationary pressures to the country. Triggers for an earlier-than-expected rate cut could stem from US Fed movements.

Having been hurt by past rate hikes which inflated cost of funds, the banks look to revitalise interest margins by down-pricing deposits and to prioritise on higher-yielding loan books going forward (partially attributing to lower financing growth guidance). That said, the market will likely remain competitive throughout as market share maintenance may not be fully sidelined in the name of higher margin. Hence, certain corporates are anticipating continued compression in NIMs before we can see NIMs rise to more sustainable levels.

With regards to our calls, we take this opportunity to downgrade **BIMB (TP: RM2.25)** to **Underperform** from **Market Perform.** While the bank is expected to experience sustainable NIMs and well-contained asset quality, its misalignments on its financing growth expectations may leave some concerns. Additionally, its below-industry average ROE (8% vs 10%) are keeping valuation prospects more modest.

Maintain OVERWEIGHT on the banking sector. Market tailwinds (i.e. persistent loans growth and GDP, better margin retention) are expected to continue outweighing industry headwinds (i.e. inflationary pressures, weaker MYR), which we believe may lead to fewer tests to the sector's resiliency. The sector should be of interest with dividend yields still appearing attractive (6%-7%) on most names on top of lower embedded sector volatility as compared to other industries. We had seen meaningful moves in share prices with the inflow of foreign investors looking to accumulate sector heavyweights.

On that note, we note that there are opportunities presented in the form of a few laggards, likely awaiting encouraging earnings reports to affirm the translation of share price. With that, we seek to align our Top Picks to **PBBANK, RHBBANK** and **ABMB:**

(i) **PBBANK** – Thanks to its heavy retail mortgage mix, we view the group to be the most resilient amongst the names paired by its leading GIL records. The group may also benefit from an upcoming write back of its pandemic-related overlays which could translate to surprise special payouts to shareholders. PBBANK had previously experimented to pay beyond its biannual window and we believe this could serve as a means.

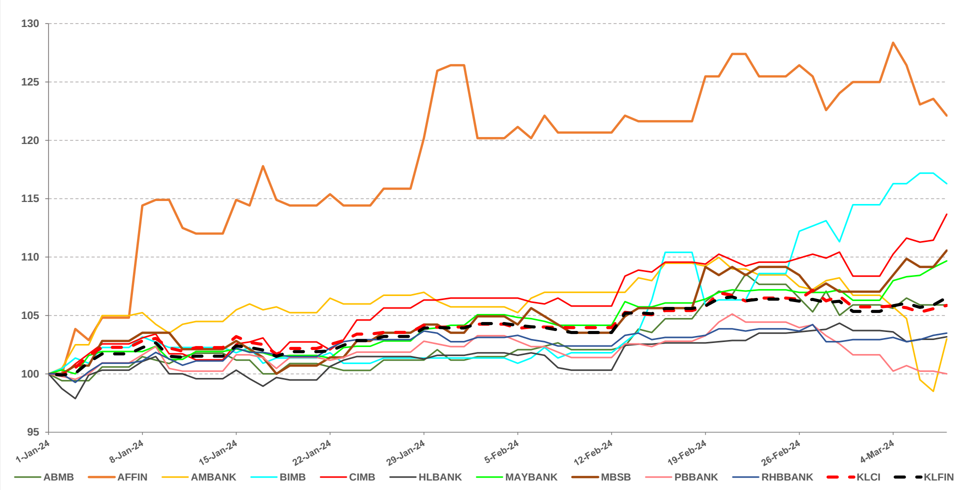
(ii) **RHBBANK** – RHBBANK now stands as the bank with the highest dividend potential, stretching close to c.8% in spite of modest growth expectations. Its sizeable CET-1 chest of >16% may further keep payouts sustainable, with a likely lower emphasis on provision management as pandemic concerns have alleviated. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term.

(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 drive its near-term growth. Leading in terms of CASA as well, it offers ABMB greater flexibility when it comes to margin retention.

Appendix

Smaller caps show highest appreciation. As of our cut-off date of 8 Mar 2024, most banks registered higher share prices since the commencement of CY24. We noted that **AFFIN (UP; TP: RM1.80)** and **BIMB** were the strongest outperformers against the FBM KLCI whereby **AFFIN's** sentiment was fuelled by a tightening relationship with the Sarawak State Government while **BIMB** benefited from its better-than-expected results. **CIMB (MP; TP: RM6.60)** followed thanks to the encouraging performance of its regional units alongside growing dividend prospects. On the flipside, **PBBANK** appeared to stay flattish, likely as investors may be recalibrating their positions to banks with higher loans growth prospects.

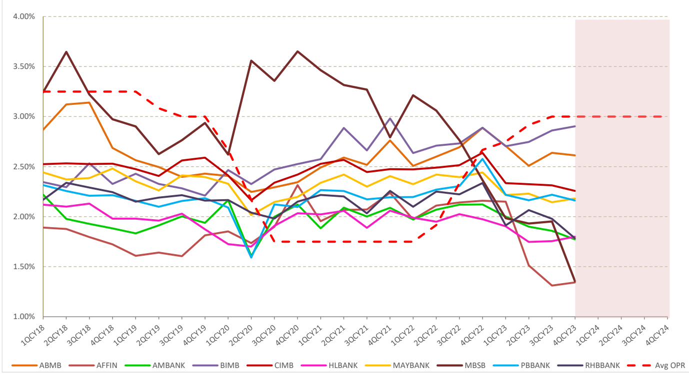
YTD CY24 Performance of Banking Stocks against the FBM KLCI and Bursa Finance Index (KLFIN)



Source: Bloomberg

Another run down. From 4QCY23's reporting, the banks were strained by seasonal deposit price pressures with year-end campaigns seeking to lock in cheap funds. While some banks appear to suffer from continued compression, there were a few notable names such as **BIMB** and **HLBANK (OP; TP: RM24.20)** which were notable outliers in retaining YTD NIMs on the back of sharper portfolio management to uplift asset yields. **MBSB (UP; TP: RM0.59)** starkly suffered the worst drop to margins due to their portfolio of unfavourable fixed rate products.

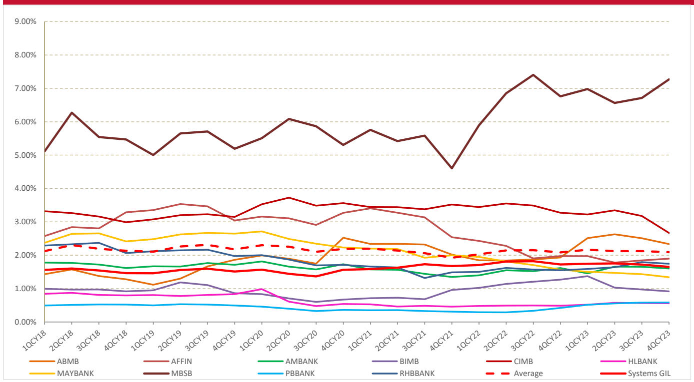
Est. Annualised NIMs



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

Peachy GIL. Industry GIL stayed relieved, albeit with some hiccups attributed by top ups to cover remaining repayment assistance. That said, **MBSB** persists to be the most stressed partly due to the undertaking of EPF's i-ihsan programs which allowed for the utilisation of Account 2 as collateral. **PBBANK** and **HLBANK** continued to be the benchmark with regards to asset quality, only coming in at 0.6% each. CY24 could possibly see further tapering as remaining provisions are utilised.

Est. GIL Trends



Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price as of 8 Mar 2024 (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.54	1.80	-29.1%	5,960.1	N	12/2024	21.2	27.8	21.4%	31.6%	12.0	9.1	0.5	4.3%	8.0	3.1%
ALLIANCE BANK MALAYSIA BHD	OP	3.59	4.30	19.8%	5,557.7	N	03/2024	45.5	50.9	4.0%	11.8%	7.9	7.1	0.8	10.2%	24.5	6.8%
AMMB HOLDINGS BHD	OP	4.13	4.80	16.2%	13,662.2	N	03/2024	43.6	51.1	-16.9%	17.3%	9.5	8.1	0.7	9.4%	19.0	4.6%
BANK ISLAM MALAYSIA BHD	UP	2.57	2.25	-12.5%	5,824.8	Y	12/2024	25.6	29.3	5.1%	14.1%	10.0	8.8	0.8	7.8%	17.0	6.6%
CIMB GROUP HOLDINGS BHD	MP	6.65	6.60	-0.8%	70,922.9	N	12/2024	67.1	69.8	2.6%	3.9%	9.9	9.5	1.0	10.3%	44.0	6.6%
HONG LEONG BANK BHD	OP	19.50	24.20	24.1%	42,270.5	N	06/2024	196.0	213.1	5.2%	8.7%	9.9	9.2	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.75	11.00	12.8%	117,652.8	N	12/2024	80.7	82.9	4.1%	2.8%	12.1	11.8	1.2	10.2%	62.0	6.4%
MALAYSIA BUILDING SOCIETY BHD	UP	0.785	0.590	-24.8%	6,454.5	Y	12/2024	3.4	6.3	79.3%	82.1%	22.9	12.6	0.6	2.5%	2.0	2.5%
PUBLIC BANK BHD	OP	4.29	5.10	18.9%	83,271.9	N	12/2024	37.8	39.6	10.3%	4.8%	11.4	10.8	1.4	13.0%	21.0	4.9%
RHB BANK BHD	OP	5.64	7.25	28.5%	24,175.0	N	12/2024	72.8	76.4	11.5%	4.8%	7.7	7.4	0.8	9.9%	44.0	7.8%
Sector Aggregate					**375,752**					**5.2%**	**6.2%**	**10.8**	**10.2**	**1.1**	**10.0%**		**5.2%**

Source: Kenanga Research

Gordon Growth 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	1.80	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	2.25	**UP (from MP)**	
CIMB GROUP HOLDINGS BHD	3.5	10.5	11.2	0.92	6.60	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	11.00	OP	
MALAYSIA BUILDING SOCIETY BHD	2.0	5.0	9.2	0.42	0.59	UP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	5.10	OP	+5% ESG Premium
RHB BANK BHD	3.0	10.0	10.5	0.93	7.25	OP	

Source: Kenanga Research

Building Material

A Bright Spot in Water Pipes

NEUTRAL
↔

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

We reiterate our NEUTRAL rating on the sector. We believe prices for both ferrous and non-ferrous metals will remain stable despite the economic challenges in China given supply constraints arising from stricter environmental regulations coupled with Western sanctions against Russian producers. Water pipe makers stand to gain from the revival of water projects locally following water tariff hikes that strengthen cash flows of water operators. Our sector top picks are low-carbon ferrosilicon (FeSi) and silicomanganese (SiMn) producer OMH (OP; TP: RM1.80) and water pipe maker ENGTEX (OP; TP: RM1.41).

Commodity prices have bottomed out. We project a slightly higher average aluminium price of USD2,350/MT in CY24 vs. USD2,255/MT in CY23, while slightly lower average FeSi and SiMn prices of USD1,300/MT and USD920/MT in CY24 vs. USD1,437/MT and USD962/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, though partially cushioned by supply constraints due to the decommissioning of fossil fuel-powered smelters (especially by coal) on stricter environmental regulations coupled with Western sanctions against Russian producers. Overall, we expect FY24 earnings growth for aluminium smelter **PMETAL (MP; TP: RM4.90)** to be driven by better aluminium prices, while FeSi and SiMn alloy producer **OMH** by higher production volumes.

We expect a slow recovery in China's steel sector amidst a deepening property debt crisis, partially cushioned by a robust automotive sector driven by the adoption of EV backed by extended tax breaks and investment in RE infrastructure. Nonetheless, we believe steel prices have bottomed out and hence there will be no significant inventory write-downs in CY24.

Pipe makers in a bright spot. We like **ENGTEX** on expectations of high demand for water pipes following water tariff hikes translating to strengthened cash flows of water operators, allowing them to kick start their capex programmes including non-revenue water (NRW) reduction initiatives. This will be in addition to a significant allocation for pipe replacement programmes under the Twelfth Malaysia Plan (12MP). The demand for water pipes will also be driven by the development of Sungai Rasau Water Supply Scheme Phase 2 in Selangor. We also see better margins as pipe makers will not be weighed down by high-cost steel inventory (which happens when steel prices are in a persistent downtrend) given that steel prices have bottomed out. For instance, in Mar 2024, local long steel price eased slightly to c.RM2,766/tonne (-2% MoM) while local flat steel price inched up to RM3,164/tonne (+1% MoM).

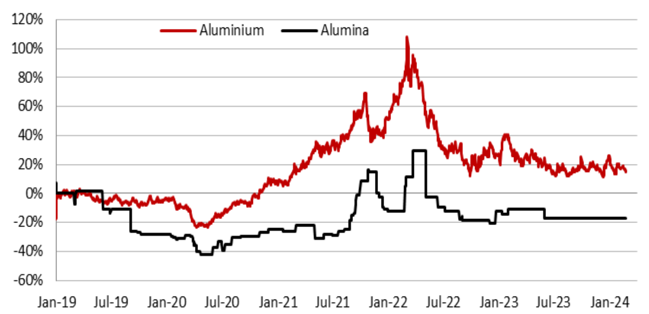
Our sector top picks are:

1. **OMH** given: (i) its structural cost advantage over international peers due to 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. **ENGTEX** given: (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.

Aluminium Prices

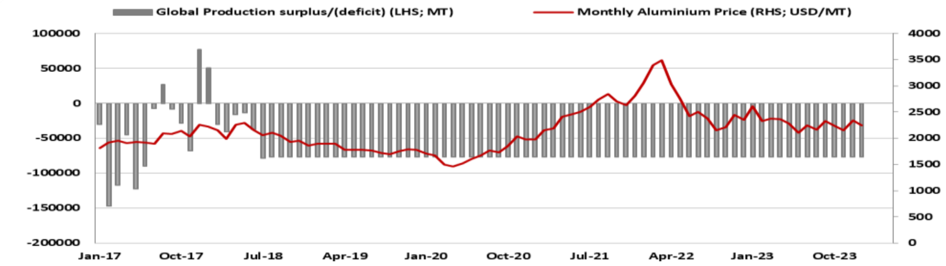
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement



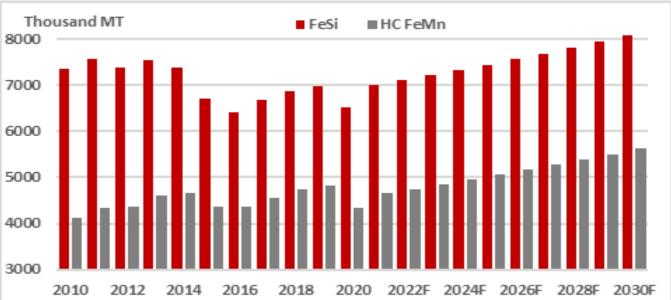
Source: Bloomberg, Kenanga Research

Global Production Surplus/Deficit vs. Monthly Aluminium Price



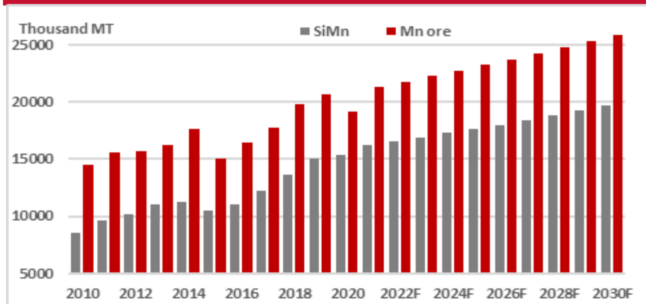
Source: Bloomberg, Kenanga Research

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



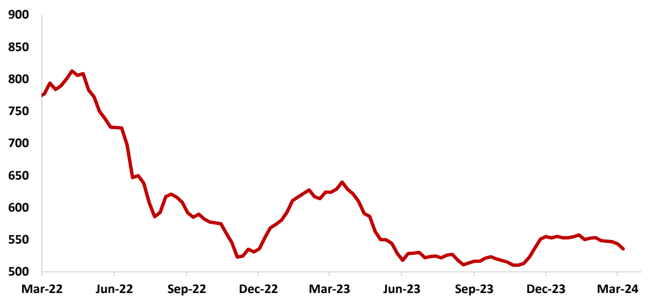
Source: AlloyConsult / World Steel Association

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



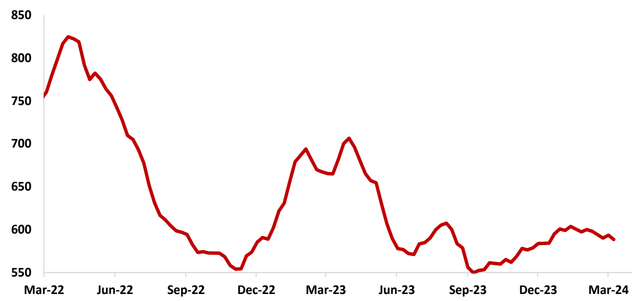
Source: AlloyConsult / World Steel Association

China Rebar Steel Prices



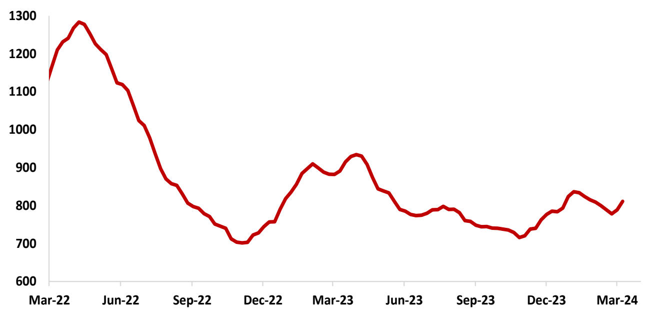
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



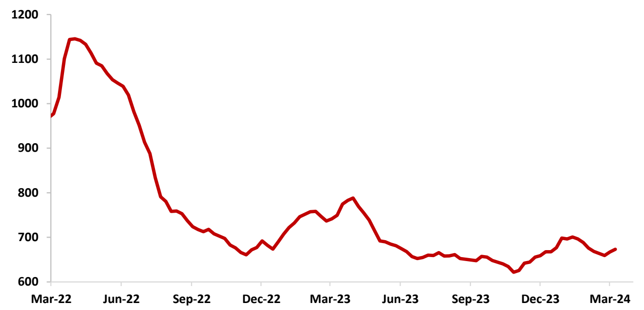
Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @8/3/24 (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.
<u>Stocks Under Coverage</u>																	
ENGTEX GROUP BHD	OP	1.08	1.41	30.6%	476.7	Y	12/2024	9.2	12.5	300.0%	35.0%	11.7	8.7	0.5	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.33	1.80	35.3%	1,019.1	Y	12/2024	17.7	29.8	63.6%	68.6%	7.5	4.5	0.5	7.0%	6.6	5.0%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.55	4.90	7.7%	37,490.3	Y	12/2024	17.3	19.9	13.8%	14.9%	26.3	22.9	4.8	18.8%	6.9	1.5%
UNITED U-LI CORPORATION BHD	OP	1.38	1.91	38.4%	300.6	Y	12/2024	23.9	29.8	29.7%	24.6%	5.8	4.6	0.7	13.2%	6.0	4.3%
Sector Aggregate					**39,286.6**					**19.2%**	**19.9%**	**23.8**	**19.9**	**3.6**	**15.0%**		**2.9%**

Source: Kenanga Research

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Construction

On Your Marks

OVERWEIGHT

↔

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

We remain OVERWEIGHT on the construction sector ahead of the roll-out of various mega public infrastructure projects such as MRT3, Bayan Lepas LRT, large-scale flood mitigation projects as well as new Pan Borneo Highway packages. Meanwhile, the private-sector construction market will stay vibrant underpinned by massive investment in new semiconductor foundries and data centres. Not surprisingly, builders are guiding for higher new job wins this year. Our top sector picks are GAMUDA (OP; TP: RM5.45), IJM (OP; TP: RM2.54) and SUNCON (OP; TP: RM3.00).

We maintain our **OVERWEIGHT** rating on the construction sector ahead of the roll-out of various mega public infrastructure projects such as the RM45b MRT3 or MRT Circle Line which will provide connectivity to the existing MRT, LRT, monorail and train lines in Klang Valley 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) and new Pan Borneo Highway packages, we believe there will be enough jobs to go around for all players. We are unperturbed by a lower gross development expenditure of RM90b in Budget 2024, vs. RM97b estimated in Budget 2023 as the government can tap into DanaInfra Nasional Bhd to fund these large-scale public projects on an off-balance sheet basis.

In terms of timing, Bayan Lepas LRT could be rolled out as soon as the middle of the year as we understand "chariot driver" **GAMUDA** is already in "advanced" discussions with the government to finalise the implementation model, pending government's approval while the Department of Environment published the Environmental Impact Assessment (EIA) report for a segment of the LRT on 5 Mar 2024. This federal-funded project comprises land acquisition cost of about RM1.5b and construction cost of RM7b-RM8b. Meanwhile, we understand that MRT Corp recently asked bidders for MRT3 work packages to extend the validity of their tenders for a fourth time to end-Mar 2024 and it appears that MRT Corp is likely to ask for another extension soon. We believe realistically, the project may only get off the ground in 2HCY24 the soonest.

For the KL-Singapore high-speed rail (HSR), so far only **BLAND (Not Rated)** announced that its 70%-owned unit Berjaya Rail had formed a consortium with **IJM, MRCB (Not Rated)** and national railway firm KTMB to submit a bid for the HSR when the request for information (RFI) exercise closed on 15 Jan 2024. It was reported that a total of seven consortia submitted their bids for the HSR project. In our opinion, it is still early days for the project.

On the other hand, the government has committed to expedite 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 was 92% completed while the Phase 1A in Sabah was 74% completed in 2023. Given its involvement in the Sarawak-Sabah Link Road project, **KIMLUN (MP; TP: RM0.89)** 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 Highway 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 (MP; TP: RM11.50)** having signed Electricity Supply Agreements with nine data centres requiring a potential energy demand of 2,300MW. So far, nine data centres have been completed with a total energy demand of 635MW. The national utility company guided for potential additional demand for 7,000MW of electricity from data centres by CY34. 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 they fetch better margins. **SUNCON** and **KERJAYA (OP; TP: RM1.90)** have already bagged such contracts.

Positive forward guidance. Generally, builders have guided for higher new job wins this year. **GAMUDA** guided for RM25b new job wins within 24 months, while **SUNCON** recently raised its guidance for new job wins in FY24 to RM3b from RM2.5b. While **WCT** has not secured any new key jobs in FY23, it also guided for bullish new job wins of RM3b (vs. our more prudent assumption of RM1b). Meanwhile, **IJM's** YTD FY24 (FYE: Mar 2024) new job wins of RM3.62b have already surpassed its full-year target of RM3.0b and we assume it will secure RM4.6b contracts in FY25 (FYE: Mar 2025). On the other hand, YTD, **KERJAYA** has secured RM377.9m worth of new jobs against our full-year assumption of RM1.5b. **KIMLUN's** YTD new jobs have hit RM133.6m against our full-year assumption of RM750m.

Meanwhile, the industry is poised for margin recovery as newly-secured contracts 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 normalised and higher margins start to contribute.

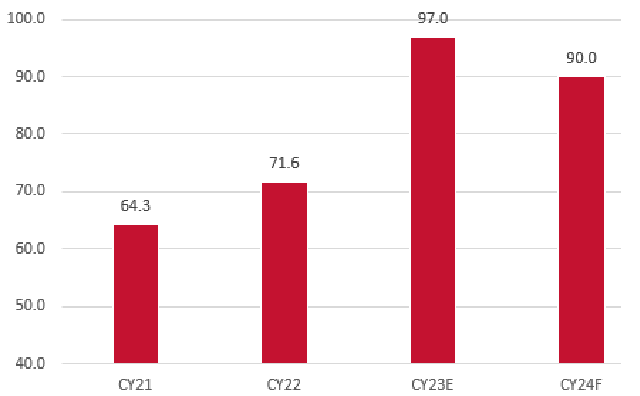
Our sector top picks are:

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 RM6.6b and new property sales of RM1.4b, 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 RM6.05b, (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)



Source: Budget 2024, Kenanga Research

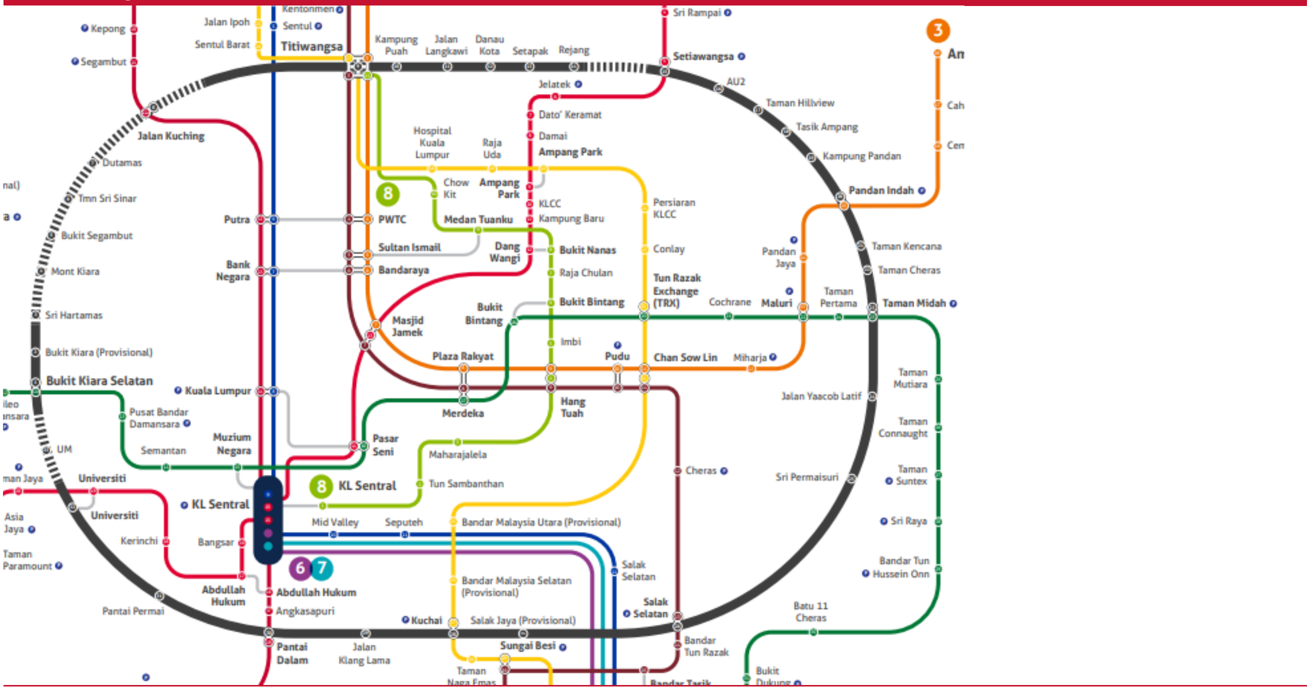
KL-Singapore HRS

Source: MyHSR Corp

Penang Bayan Lepas LRT

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 @ 8/3/24 (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	5.07	5.45	7.5%	14,025.4	Y	07/2024	4.1	4.9	29.5%	19.2%	13.9	11.2	11.6	9.8%	12.0	2.4%
IJM	OP	2.17	2.54	17.1%	7,608.4	Y	03/2024	11.6	12.4	62.5%	7.0%	23.8	25.4	0.8	4.7%	8.0	3.7%
KERJAYA	OP	1.75	1.90	8.6%	2,206.8	Y	12/2024	14.2	15.8	33.3%	11.3%	14.4	12.5	1.5	13.0%	10.0	5.7%
KIMLUN	MP	0.830	0.890	7.2%	293.3	Y	12/2024	8.3	8.9	311.3%	7.9%	8.4	7.1	0.4	3.9%	1.0	1.2%
SUNCON	OP	2.59	3.00	15.8%	3,339.4	Y	12/2024	11.9	15.8	-9.4%	32.8%	20.4	19.5	3.5	16.6%	6.0	2.3%
WCT	OP	0.485	0.660	36.1%	687.4	Y	12/2024	2.5	3.0	-85.9%	18.4%	19.2	13.2	0.2	1.2%	0.5	1.0%
Sector Aggregate					**28,160.7**					**64.3%**	**16.7%**	**14.6**	**12.5**	**1.0**	**7.0%**		**2.7%**

Source: Kenanga Research

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Consumer

NEUTRAL

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Back to Basics

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

We maintain NEUTRAL on the sector. Over the immediate term, consumer spending will be weighed down by elevated inflation, a higher Sales & Service Tax (SST), increased utility bills and impending fuel subsidy rationalisation. On a brighter note, softening food commodity prices will ease margin pressure on consumer staples players. However, higher freight cost in the aftermath of the Red Sea conflict has reverberated throughout the sector. As consumers prioritise spending on essential items particularly food over apparel, appliances, furniture, etc., we expect more resilient earnings from consumer staples players as compared with consumer discretionary names. Our top sector picks are F&N (OP: TP: RM33.80) and MRDIY (OP; TP: RM1.75).

Cautious consumer spending. We project private consumption to grow at 5.8% in CY24 vs. 4.7% in CY23. This is in the same vein with the retail sales growth projection by Retail Group Malaysia (RGM) of 4% in CY24, vs. 2.2% in CY23. We are mindful that the higher growth could be driven by higher prices rather than sales volumes.

We believe cautious consumer spending will persist throughout CY24 and may even extend into the early months of CY25 on the back of escalating cost of living due to sustained high inflation, subsidy cuts for essential items such as chicken and rice, along with hikes in water and electricity tariffs, not to mention the increase in the Sales and Service Tax (SST) from 6% to 8%, which now encompasses a broader range of services including maintenance, and repair work. These changes are likely to elevate manufacturing costs for businesses, potentially leading to a reassessment of product pricing across various industries. We believe the biggest blow has yet to come, i.e. fuel subsidy rationalisation.

While the impact on high-income earners might be minimal, the middle-income group is expected to experience the most significant financial strain as at least some of them will no longer enjoy subsidised fuel. Ironically, the lower-income group might find themselves somewhat shielded from these economic pressures, thanks to ongoing government cash handouts and the continuation of subsidies, especial fuel subsidies.

A balancing act for consumer staples margins. Consumer staples companies are poised to benefit from the recent decline in prices for certain soft commodities, which is expected to facilitate a recovery in margins. Notably, prices for key commodities such as wheat, corn, soybean, and aluminium have been decreasing in recent months, with wheat, corn and soybean prices dropping over 7% YTD. Conversely, the prices for cocoa and cotton have been on an upward trajectory, with cocoa prices soaring by 91% YTD due to reduced supplies from West Africa, exacerbated by adverse weather conditions and strong demand. Cotton prices, meanwhile, have also risen by 18% YTD, attributed to decreased planting areas and low stock levels in major production countries. Furthermore, the Shanghai shipping index has witnessed a nearly 41% increase YTD, primarily due to ongoing conflicts in the Red Sea region. Given these dynamics, companies like **NESTLE (UP, TP: RM115.00)** and **PADINI (UP, TP: RM3.20)** may face margin pressures in the upcoming quarters due to the rising costs of cocoa and cotton. Additionally, the increase in the Shanghai Shipping Index suggests that shipping costs for **PADINI** and **MRDIY** are likely to escalate, especially since a large portion of their products are sourced from China.

As consumers prioritise spending on essential items particularly food over apparel, appliances, furniture, etc., we expect more resilient earnings from consumer staples players as compared with consumer discretionary names. Our top picks for the sector are:

1. **F&N** for: (i) the robust demand recovery in beverages and ready-to-drink products post pandemic, (ii) strong export sales from competitive pricing, (iii) the steady demand for essential food items, and (iv) improved outlook in the Thailand market, driven by a revival in domestic consumption and tourism.
2. **MRDIY** for: (i) its dominant position in Malaysia's home improvement market, (ii) its size that translates to strong bargaining position vs. its suppliers and economies of scale, (iii) its ample headroom for growth in terms of store count, and (iv) its continued efforts to improve operational efficiency such as the introduction of an automated inventory system.

Exhibit 1: Raw Material / Commodities Price Trend

	Last Price @	*Price Change*										
	17/3/2024	1M	QTD	4QCY23	3QCY23	2QCY23	2QCY23-4QCY23 (9-mth)	YTD	vs. 2023 average price	vs. 2022 average price	vs. 2021 average price	Future Price Trend*
Sugar (USD/lb)	22.1	-3.1	7.5	-21.7	14.8	2.9	-7.5	7.5	-8.1	17.5	23.8	↑
Coffee (USD/lb)	183.0	-1.2	-1.7	43.4	-7.6	-5.5	25.3	-1.7	7.9	-8.2	-8.4	↑
Cocoa (USD/MT)	8,018.0	34.5	91.1	22.8	3.0	13.1	43.1	91.1	143.1	225.5	222.1	↑
Milk (USD/MT)	3,286.0	-2.0	2.5	14.6	-11.8	-1.7	-0.7	2.5	6.7	-15.5	-14.5	↓
Wheat (USD/MT)	358.6	-5.5	-15.8	16.0	-16.8	-6.0	-9.3	-15.8	-19.0	-41.7	-25.0	↓
Corn (USD/Bushel)	360.6	1.7	-7.3	-1.2	-2.4	-26.0	-28.7	-7.3	-21.5	-36.2	-23.3	↓
Soybean (USD/Bushel)	1,203.0	2.6	-7.0	1.5	-18.1	3.4	-14.1	-7.0	-14.7	-21.7	-12.2	↓
CPO (RM/MT)	4,342.0	10.6	18.6	-0.7	-1.7	-7.6	-9.8	18.6	13.9	-14.5	-1.3	↓
Cotton (USD/lb)	95.3	1.5	17.7	-6.7	4.9	0.1	-2.2	17.7	14.8	-15.1	2.0	↑
Aluminium (USD/MT)	2,245.4	2.0	-4.5	0.5	10.3	-11.0	-1.3	-4.5	-0.9	-17.0	-9.4	↓
Baltic Dry Index	2,374.0	47.5	13.4	23.1	55.9	-21.5	50.8	13.4	72.2	22.8	-19.3	↑
WTI Crude Oil (USD/Bar	81.4	2.7	13.5	-21.1	28.5	-6.6	-5.3	13.5	4.8	-13.8	19.5	↑
Volatility Index	14.4	1.2	15.7	-28.9	28.9	-27.3	-33.4	15.7	-14.5	-43.8	-26.7	
Dollar Index	1,235.8	-0.7	1.9	-4.2	2.7	0.2	-1.4	1.9	-0.3	-1.3	7.9	↔
USDMYR	4.72	1.5	-2.6	-2.2	0.6	5.7	4.0	2.7	3.3	7.1	13.8	↔
Shanghai Shipping Inde	1,278.28	-12.2	40.6	6.7	-4.9	-6.5	-5.1	40.6	36.4	-53.7	-51.5	

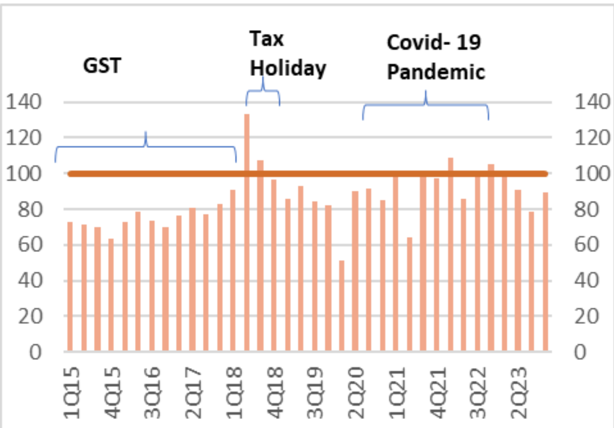
Source: Kenanga Research, Bloomberg, Trading Economics

Exhibit 2: Valuation Basis, TPs and Recommendations

Company	FYE	Valuation			TP (RM)	Recommendation
		Basis	Base Year	Targeted Valuation		
AEON	DEC	PER (x)	FY24	12	1.00	UP
DLADY	DEC	PER (x)	FY24	22	26.90	OP
MRDIY	DEC	PER (x)	FY24	25	1.75	OP
NESTLE	DEC	WACC (%)		5.2	115.00	UP
F&N	SEP	PER (x)	FY25	22	33.80	OP
PADINI	JUN	PER (x)	FY25	12	3.20	UP
PWROOT	MAR	PER (x)	FY25	13	1.55	UP
QL	MAR	WACC (%)		5.8	6.25	MP
KAREX	JUN	PER (x)	FY25	25	1.06	OP

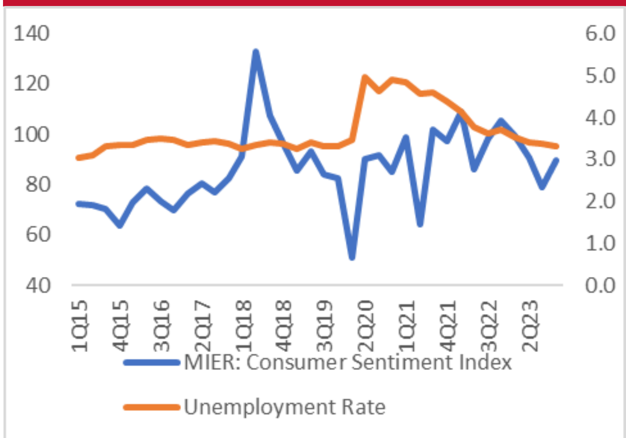
Source: Kenanga Research, Bloomberg, Trading Economics

Exhibit 3: MIER Consumer Sentiment Index



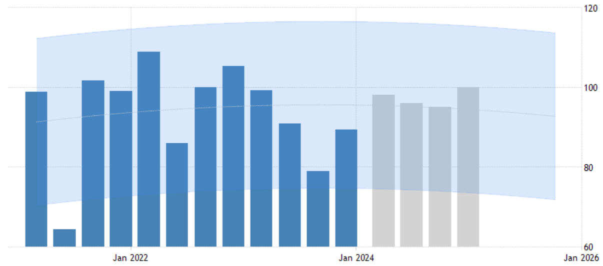
Source: MIER, Kenanga Research

Exhibit 4: Jobless Rate & Consumer Sentiment



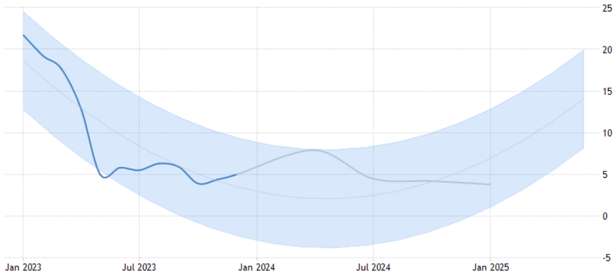
Source: Dept. of Statistics, CEIC, Kenanga Research

Exhibit 5: Malaysia Consumer Confidence



Source: Trading Economics, Kenanga Research

Exhibit 6: Malaysia Retail Sales YoY Growth



Source: Trading Economics, Kenanga Research

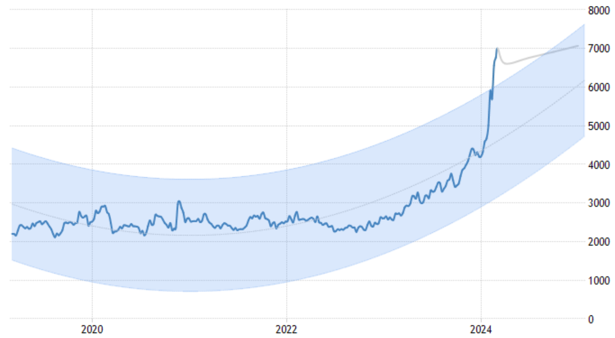
Exhibit 7: Sugar Prices (USD/lb)

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

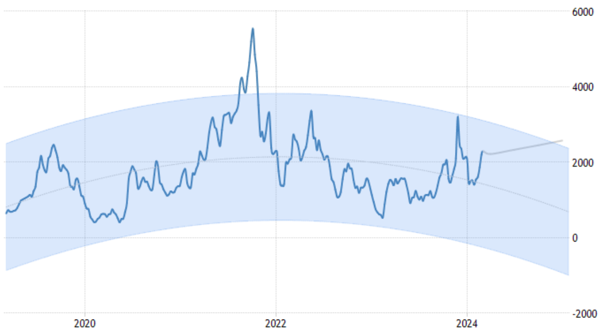
Exhibit 15: Cotton Prices (USD/lb)

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 at 8-Mar (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	1.11	1.00	-9.9%	1,558.4	Y	12/2024	8.3	8.4	1.2%	2.1%	13.4	13.1	0.8	6.2%	4.0	3.6%
DUTCH LADY MILK INDUSTRIES BHD	OP	24.00	26.90	12.1%	1,536.0	Y	12/2024	123.1	126.3	9.4%	2.5%	19.5	19.0	3.2	17.1%	50.0	2.1%
FRASER & NEAVE HOLDINGS BHD	OP	29.02	33.80	16.5%	10,643.9	Y	09/2024	150.2	155.7	13.8%	3.6%	19.3	18.6	2.9	16.0%	77.0	2.7%
MRDIY GROUP BHD	OP	1.50	1.75	16.7%	14,169.9	Y	12/2024	7.0	7.8	17.6%	12.2%	21.6	19.2	7.0	34.8%	4.0	2.7%
NESTLE (MALAYSIA) BHD	UP	122.00	115.00	-5.7%	28,609.0	Y	12/2024	290.8	305.0	3.3%	4.9%	42.0	40.0	43.8	102.7%	300.0	2.5%
PADINI HOLDINGS BHD	UP	3.38	3.20	-5.3%	2,223.7	Y	06/2024	23.0	26.7	-31.9%	15.7%	14.7	12.7	2.0	14.0%	10.0	3.0%
POWER ROOT BHD	UP	1.62	1.55	-4.3%	748.3	Y	03/2024	10.2	11.6	-25.0%	13.4%	15.8	14.0	2.3	15.0%	8.0	4.9%
QL RESOURCES BHD	MP	5.96	6.25	4.9%	14,504.6	Y	03/2024	17.8	19.5	25.2%	9.2%	33.4	30.6	5.0	17.0%	9.0	1.5%
KAREX BHD	OP	0.780	1.06	35.9%	821.7	Y	06/2024	2.3	4.2	125.7%	87.8%	34.7	18.5	1.7	4.9%	0.5	0.6%
Sector Aggregate					**74,815.6**					**8.3%**	**8.3%**	**27.3**	**25.2**	**5.5**	**20.2%**		**2.6%**

Source: Bloomberg, Kenanga Research

Glove

UNDERWEIGHT

↔

Valuations Not Supported by Tepid Profitability

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

We reiterate our UNDERWEIGHT rating on the sector. We expect the sector's operating environment to remain challenging, plagued by overcapacity, predatory pricing by certain overseas players, weak demand and the high cost of inputs. On a slightly brighter note, further decommissioning of older production facilities locally should help to ease supply pressure, at least bringing about more rational competition amongst local players. We avoid all names under our coverage, namely HARTA (UP; TP: RM2.33), KOSSAN (UP; TP: RM1.48), TOPGLOV (UP; TP: RM0.75) and SUPERMX (MP; TP: RM0.84), as tepid profitability does not support the current lofty valuations.

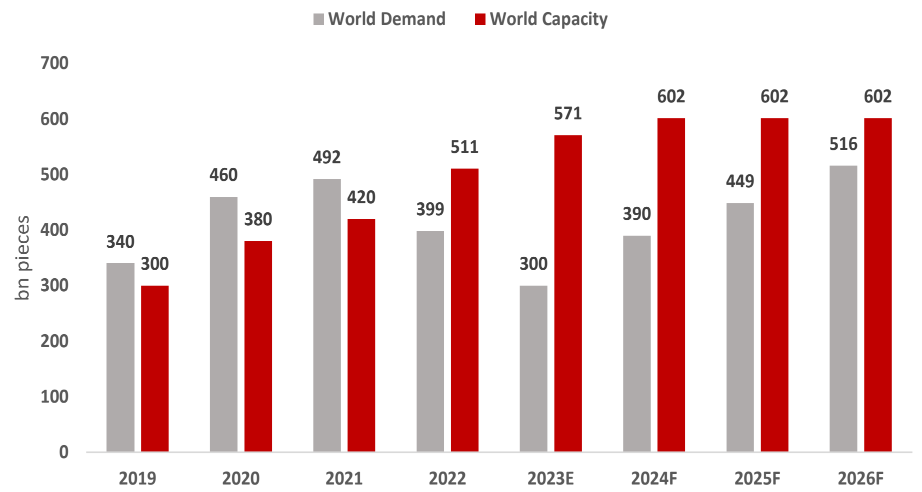
Still challenging operationally, lofty valuations. We reiterate our view that the challenging and competitive business landscape currently faced by the sector will persist throughout 2024. While some players have returned to the black, the tepid profitability does not support the lofty valuations. The industry will continue to face massive over-supply, predatory pricing by certain overseas players (i.e. selling below cost over an extended period of time to eliminate competitors), weak demand and the high cost of inputs such as nitrile butadiene rubber and latex.The industry expect volatile quarterly sales as distributors and buyers sees no urgency to place sizeable orders or hold substantial stocks as supply is plentiful and readily available. Overall, the industry is cautious about raising prices (to fully pass on the higher input cost) given the still competitive landscape in the industry. This falls in line with our view that raising ASP over the immediate term will be challenging. With a low industry utilisation of about 40%, this is without a doubt still a buyers' market.On a slightly brighter note, further decommissioning of older production facilities locally should help to ease supply pressure, at least bringing about more rational competition amongst local players.

High input cost in 2QCY24. Moving into 2QCY24, 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 4QCY23 (YTD CY24: +8%). 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 market share losses.

Oversupply to persist throughout CY24. 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 assuming the global demand for gloves is to rise by 15% underpinned by rising hygiene awareness. MARGMA projects global demand for gloves to grow by 12% to 15% annually from CY24, 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 on restocking before moderating to its organic growth of 15% annually. This will still 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.

We raise our call for **SUPERMX** to **MARKET PERFORM** from **UNDERPERFORM** following the recent weakness in its share price while maintaining **UNDERPERFORM** for **TOPGLOV, KOSSAN** and **HARTA**. We do not have any top pick for the sector.

Exhibit 1: Estimated Global Demand/Supply - Excess Supply over CY22-CY25



Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	2.55	2.33	-8.6%	8,704	Y	03/2024	1.2	1.5	-81%	19%	205	173	1.9	0.9%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	1.86	1.48	-20.4%	4,746	Y	12/2024	4.7	4.9	140%	5%	40	38	1.2	3.1%	2.0	1.1%
SUPERMAX CORP BHD	MP	0.825	0.840	1.8%	2,125	N	06/2024	(0.2)	0.7	-103%	265%	NM	118	0.5	-0.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	0.830	0.750	-9.6%	6,647	Y	08/2024	0.5	0.8	-96%	62%	168	104	1.4	0.9%	0.0	0.0%

Source: Kenanga Research

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Healthcare

Health is Wealth, Literally

OVERWEIGHT

↔

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

We reiterate our OVERWEIGHT call for the healthcare sector. Global healthcare expenditure is projected to grow at a CAGR of 3.5% to reach USD10t by CY26, underpinned by rising affluence and an aging population. The demand for healthcare, a basic necessity, is inelastic despite high inflation. We expect both domestic and international patient throughput to continue to grow while revenue intensity to improve, driven by 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. Our sector top picks are KPJ (OP; TP: RM1.95) and IHH (OP; TP: RM7.00).

1. Private Hospitals

Global healthcare expenditure is projected to grow at a CAGR of 3.5% to reach USD10t by CY26, underpinned by rising affluence and an aging population (see chart on next page). The demand for healthcare, a basic necessity, is inelastic despite high inflation. Another key driver is rising chronic diseases across the globe. According to WHO, 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 FY24 earnings, propelled by more acute cases including elective surgeries.

In FY24, we project **IHH**'s revenue per inpatient growth of 12%−16% (vs. an estimated +19% in FY23 due to low base effect in FY22), inpatient throughput growth of 9%−12% (vs. an estimated +7% in FY23) and bed occupancy rate (BOR) of 65%−73% (vs. an estimated averaging 65% in FY23) for its hospitals in Malaysia, Singapore, India and Türkiye.

IHH plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. It expects patient throughput to gradually recover in Singapore with the addition of new beds (previously constrained by staff shortages which are gradually easing). Meanwhile, Acibadem's operating environment in FY24 will be more favourable as compared to FY23 and expects earnings drag to gradually ease in Türkiye (with the return of foreign patients). In 4QFY23, Acibadem's European operation has already recovered. We expect sustained performance in Malaysia. In Hong Kong, it is optimistic and targeting Gleneagles Hong Kong to be bottom-line positive in FY24 due to better operational efficiencies and overhead absorption rate as a result of strong ramp-up in its operations including opening new beds. 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 FY24, we expect **KPJ's** patient throughput to grow at 9% (vs. an estimated 7% in FY23) with BOR at 72% (vs. 67% in FY23), driven by revenue intensity emanating from the recovery in demand for elective surgeries. **KPJ** is optimistic that its five hospitals under gestation with losses totalling RM137m in FY23 will be halved in FY24, which will work out to RM69m or 25% of our FY24F net profit. It expects earnings to gain momentum moving into FY24 on better operational efficiencies from its cost optimisation effort and overhead absorption by adding new beds (+10%), which we have factored into our forecasts. With incremental revenues from higher patient throughput, the group's three hospitals, namely, KPJ Perlis, KPJ Bandar Dato Onn and KPJ Batu Pahat which were under gestation turned EBITDA-positive in FY23. The group expects these three hospitals to be profitable by end-FY24. Meanwhile, the other two new hospitals namely Miri and DSH2 will still be EBITDA-negative. The group expects Miri and DSH2 to be EBITDA-breakeven by end-FY24 as their revenues rise.

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

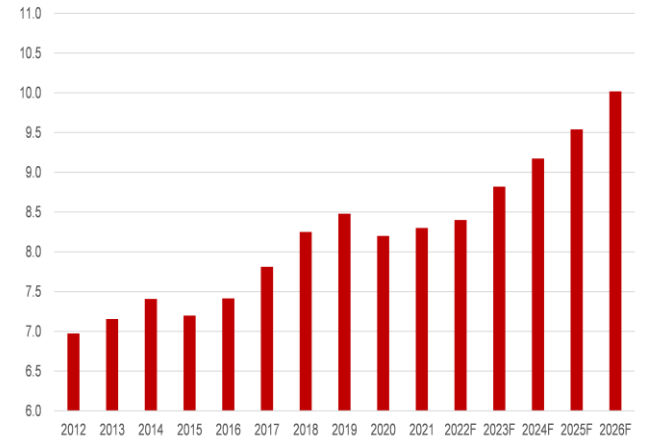
Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly),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

The trend augurs well for **KOTRA (OP; TP: RM5.90)** 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 FY24 sales volume of **NOVA (OP; TP: RM0.74)** to rise by 8%, 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.

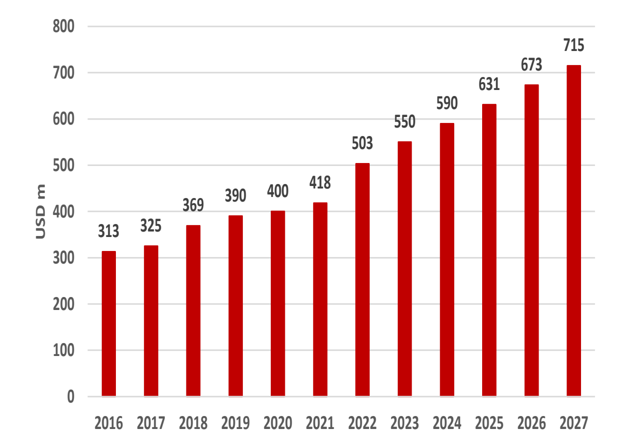
However, the same cannot be said for **PHARMA (UP; TP: RM0.31)** which is still under the PN17 status. The group is currently awaiting approval of its regularisation plan to lift it out of the Practice Note 17 (PN17) status. We project pedestrian earnings growth in FY24 at level similar to pre-Covid era, averaging RM40m–RM60m driven by regular orders for medical supplies from the MoH concession. We remain cautious on PHARMA due to the negative shareholders' equity of RM296m as at 31 Dec 2023 impeding its ability to give out dividends. Looking ahead, it is building four new warehouses, being part of its RM220m capex plan to be funded with proceeds from a rights issue and a private placement of new shares. This is to meet the requirement in relation to the government concession to provide timely delivery of drugs and non-drugs products to government facilities throughout the country. In the biopharmaceutical space, it is establishing manufacturing facilities for vaccines and insulin to cope with the increasing needs in these therapeutic areas. The project is on track for commercialisation for vaccines in 2025 and insulin in 2026. It will produce Recombinant Human Insulin and Analogue Insulin.

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 (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	6.03	7.00	16.1%	53,106	Y	12/2024	20.6	21.6	41.6%	4.8%	29.2	27.9	1.7	6.1%	7.0	1.2%
KOTRA INDUSTRIES BHD	OP	4.89	5.90	20.7%	725	Y	06/2024	33.9	39.3	-23.2%	16.0%	14.4	12.5	2.3	16.9%	26.0	5.3%
KPJ HEALTHCARE BHD	OP	1.72	1.95	13.4%	7,507	Y	12/2024	6.2	6.9	7.4%	12.0%	27.9	24.9	3.0	11.2%	3.4	2.0%
NOVA WELLNESS GROUP BHD	OP	0.550	0.740	34.5%	175	Y	06/2024	4.9	5.5	9.1%	11.5%	11.2	10.0	1.5	14.0%	3.3	6.0%
PHARMANIAGA BHD	UP	0.360	0.310	-13.9%	519	Y	12/2024	3.1	3.2	-41.9%	2.7%	11.5	11.2	(2.1)	-16.4%	0.0	0.0%

Source: Bloomberg, Kenanga Research

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Media

UNDERWEIGHT

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Unrelenting Assault by Digital Media

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

We maintain our UNDERWEIGHT recommendation on the media sector due to: (i) sustained adex market share erosion for traditional media, (ii) prevailing cord cutting trends, and (iii) generative AI will likely widen digital media's competitive edge. Furthermore, we are concerned that consumer sentiment and discretionary spending will be weighed by the looming luxury taxes and higher sales and service tax rate of 8% (from 6%). We do not have any stock picks for the sector.

Sluggish adex after a solid CY23. We maintain our CY24 adex forecast of 0.3% contraction (CY23: 1.7% growth), which reflects subdued adex given the absence of key catalyst events vis-à-vis CY23.This is because except for the biennial Thomas Cup tournament and Winter Olympics, there are no major upcoming local elections or global sports events (e.g. Summer Olympics, World Cup) in CY24. In comparison, FY23 was uplifted by state elections, SEA Games and Asian Games. Furthermore, implementation of new taxes in CY24 will weigh on consumer discretionary spending. They consist of: (i) luxury taxes (5%-10% on certain goods valued above RM10k), and (ii) higher sales and service tax (SST) rate of 8% (from 6%) on qualified transactions. However, in line with digital media's dominance and growth traction, we expect CY24 total adex (ex digital) to contract by a greater 1.8% YoY and digital adex to grow by 5% YoY.

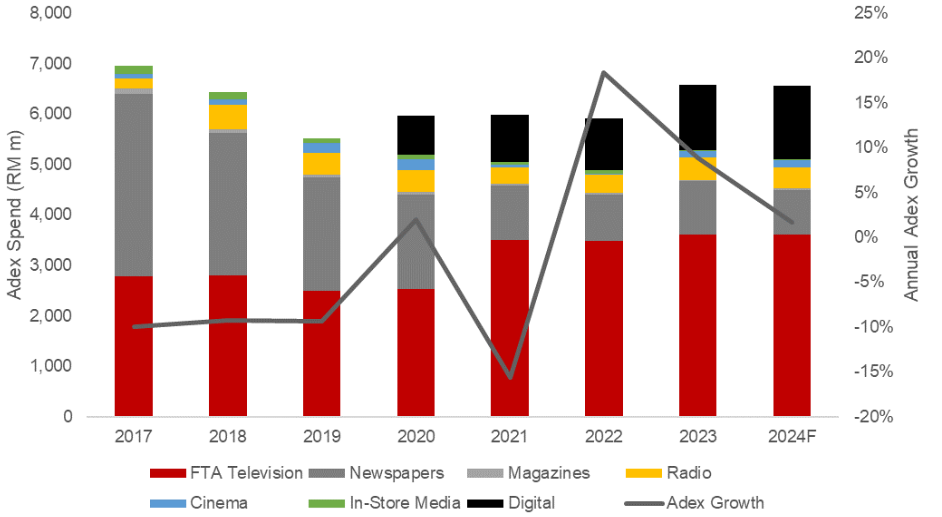
Sentiment remains stubbornly weak. On the bright side, there are emerging signs that signal the potential recovery of sentiment in the medium term. This is evident from the recovery in the Malaysian Institute of Economic Research's (MIER) Business Conditions Index (BCI) to 89 points in 4QCY23. This translates to a sequential rebound of 9.3 points, after its descent to 79.7 points in 3QCY23, which signified its lowest level since 2QCY20, during the pandemic's onset. Although the BCI remains below the 100-point optimism threshold, there is a possibility that it may have reached its inflexion point in 4QCY23. According to MIER, in 4QCY23, companies expressed confidence in their outlook for the next three months, particularly in the beverage and textile sectors. Meanwhile, according to the Department of Statistics Malaysia (DoSM), Malaysia's inflation rate remained stable at 1.5% in December 2023 (CY23: 2.5%). Hence, this corroborates with the possibility that consumer sentiment may potentially be on the cusp of recovery, especially if there is muted impact from higher SST and luxury taxes.

Digital media's market gains will likely prevail. We believe it is unlikely that traditional media (i.e. TV, radio and newspapers) will be able to recover adex share lost to digital media. This is due to the structural trend where interest is shifting into: (i) streaming apps or websites (eg.Youtube, Spotify, Apple Music), (ii) mobile apps (e.g. Waze, Grab, CamScanner), and (iii) social media platforms (e.g. celebrity influencers, Instagram, TikTok, Facebook, X). Evidently, over the past three years, digital media's adex share has progressively inched up from 15.7% in 4QCY20 to 23.5% in 4QCY23. Whilst this had led to topline weakness for traditional media players, the corresponding reduction to their fixed cost base has been relatively lower. As such, the lag in cost adjustment has resulted in a steeper decline to bottomline.

Generative AI revolution is on digital media's side. Moreover, digital media continues to improve and evolve rapidly given the current revolution in generative artificial intelligence (AI) technology. As such, the economic moat between digital and traditional media continues to widen due to: (i) proliferation of digital content creators given low barriers of entry, (ii) structural shift in interest to short video formats and livestream sales on digital platforms, and (iii) application of AI in digital media that curates personalized content and commercials. Therefore, for local media companies, their market niche will likely be limited to audiences that seek high quality local vernacular content.

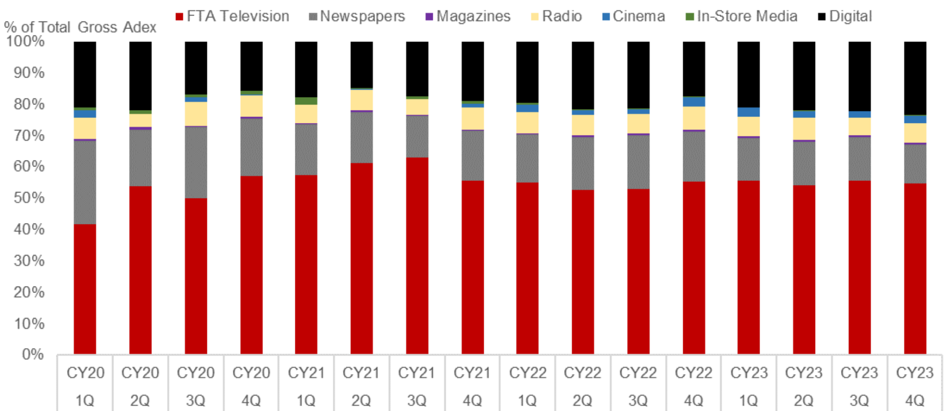
Underweight as digital continues to dominate. We maintain our **UNDERWEIGHT** recommendation on the sector as we believe that the outlook for traditional media appears dire, unless they are able to swiftly reinvent themselves or slash costs to the point that they are comfortably profitable in spite of a revenue contraction. We do not have any stock picks for the sector.

Annual Adex



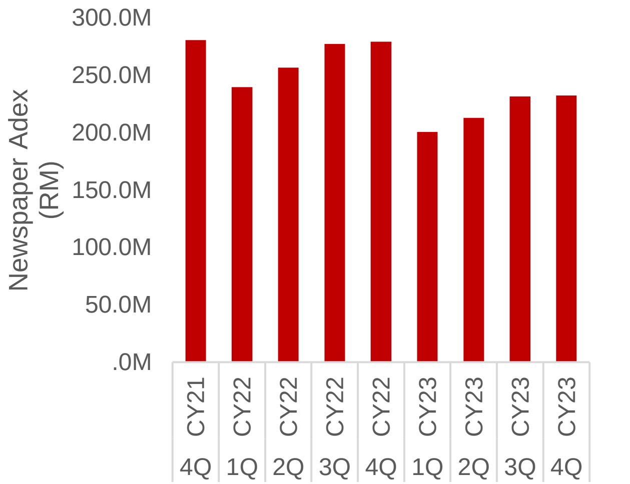
Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



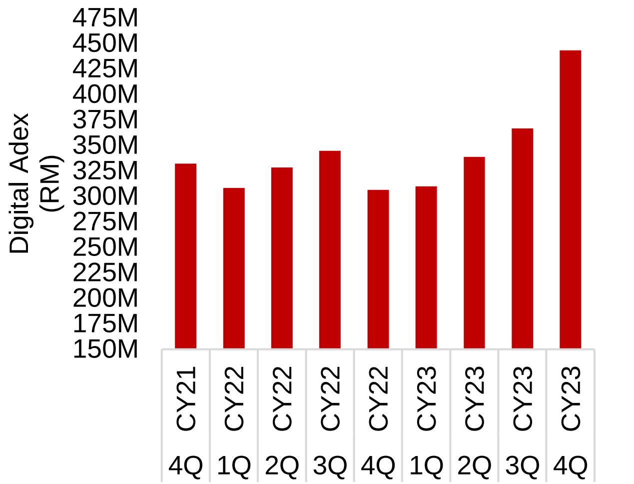
Source: Nielsen, Kenanga Research

Newspaper Adex



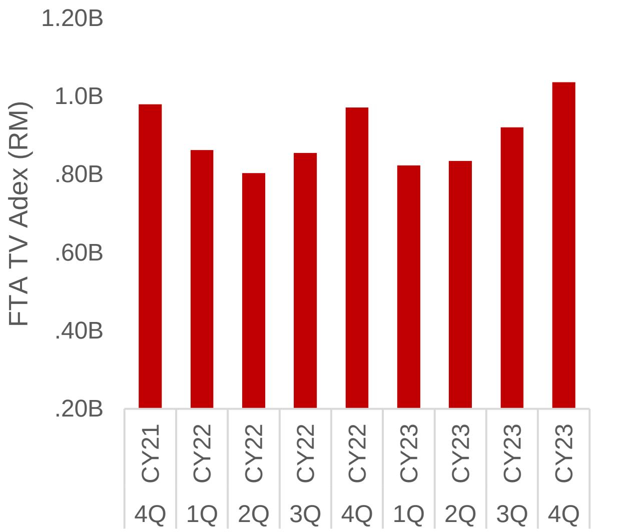
Source: Nielsen, Kenanga Research

Digital Adex



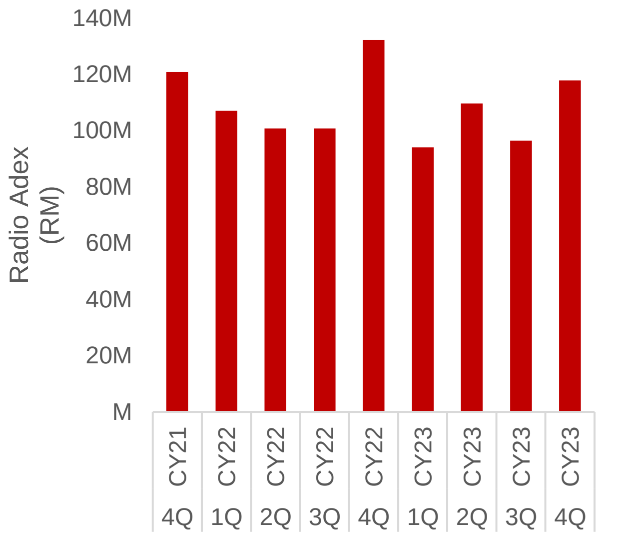
Source: Nielsen, Kenanga Research

FTA TV Adex



Source: Nielsen, Kenanga Research

Radio Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price as of 01/12/23 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.295	0.330	11.9%	1,539.6	N	01/2025	3.9	3.9	-41.5%	1.0%	7.6	7.5	1.2	5.6%	0.0	0.0%
MEDIA CHINESE INTERNATIONAL	UP	0.125	0.100	-20.0%	210.9	Y	03/2024	(2.0)	(2.3)	-1625.0%	-11.6%	N.A.	N.A.	0.3	-5.1%	0.0	0.0%
MEDIA PRIMA BHD	UP	0.435	0.340	-21.8%	482.5	N	06/2024	2.7	3.4	-51.4%	27.0%	16.1	12.7	0.7	6.3%	1.5	3.4%
STAR MEDIA GROUP BHD	UP	0.405	0.314	-22.5%	293.5	Y	12/2024	(0.0)	0.5	94.4%	1750.0%	N.A.	89.0	0.5	0.0%	0.0	0.0%
SECTOR AGGREGATE					**2,526.5**					**-50.9%**	**4.9%**	**12.8**	**12.2**	**0.8**	**6.0%**		**0.9%**

Source: Bloomberg, Kenanga Research

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Oil & Gas

Mid-stream, Upstream Ring the Cash Register

OVERWEIGHT

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

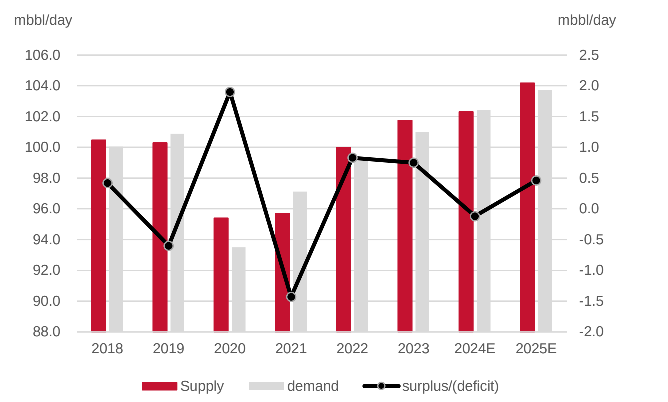
We maintain OVERWEIGHT on the sector. We maintain our Brent crude oil price assumption of USD84/bbl for CY24F and introduce CY25F assumption of USD79/bbl, assuming OPEC+ is to discontinue with production cuts by end-CY24. These oil price levels are supportive of upstream investment locally, especially considering the under-investment by producers in the early 2020s. We like: (i) offshore supply vessel (OSV) owners due to supply crunch on a surge in demand leading to strong charter rates, (ii) FPSO players given the current upcycle in the FPSO sector, and (iii) the storage segment that has shown recovery signs. Our sector top picks are DIALOG (OP; TP: RM3.10), YINSON (OP; TP: RM3.47) and ICON (OP; TP: RM0.80).

1. Upstream

Crude oil prices are seen largely stable in CY24. We reaffirm our CY24 Brent crude price forecast at USD84/bbl and introduce a CY25 average price assumption of USD79/bbl. These projections align closely with the US Energy Information Administration (EIA)'s forecast of USD87.0/84.8 per bbl for CY24/25. Our analysis for CY24 anticipates a deceleration in global crude production growth to +0.5m bbls per day, a contrast to the 1.8m bbls per day increase in 2023, attributing this slowdown to OPEC+ extending its production cuts through 2024 and a normalization in production growth from non-OPEC countries compared to the previous year. For CY25, our expectation of a slightly lower YoY Brent price is based on the anticipated conclusion of OPEC+ production cuts, leading to a 0.7m bbls per day increase, alongside continued production growth from non-OPEC sources.

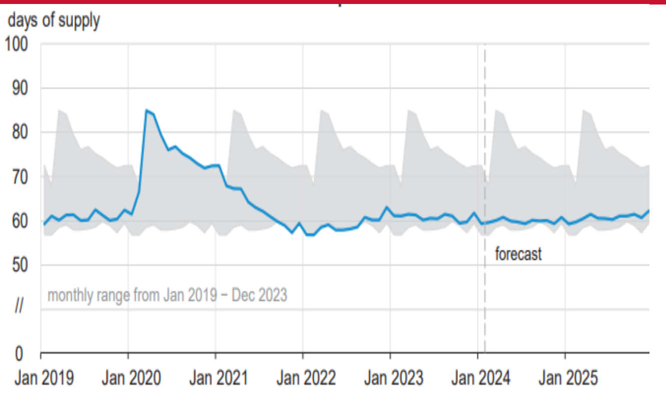
Demand assumptions. Consistent with EIA, we assume a lower demand growth of +1.4m bbls per day in 2024 compared to +1.8m bbls per day in 2023 with the growth led by non-OECD Asia countries (India and China). Meanwhile, we believe that the OECD countries will generally post flattish growth in YoY demand for crude due to global economic headwinds. Therefore, this will result in a slightly higher Brent crude price as a mild supply deficit of 0.1m bbls per day is expected for 2024. As we look towards 2025, we expect a slight softening in Brent crude prices, with an average forecast of USD80/bbl. This anticipated decline is based on projections that the crude market will experience a surplus of 0.5m bbls per day, influencing the downward adjustment in prices.

Global Crude Supply-Demand



Source: EIA, Kenanga Research

OECD Commercial Crude Oil Inventories



Source: EIA, Kenanga Research

Petronas likely to adhere to the RM60b capex target in 2024. We expect Petronas' upstream capital expenditure (capex) to continue its upward trend in CY24, with its cost structure capable of supporting Brent crude prices as low as USD75/bbl. Projecting a capex budget of around RM60b for CY24, with a significant share dedicated to upstream activities, Petronas is likely to focus on modernizing the ageing oil production platforms across Malaysia. This anticipated commitment to reaching its annual capex target marks a departure from the 2021-2023 period, during which Petronas' expenditure fell short of the RM60b mark.

Exhibit 4: Recent OSV Jobs Awarded

Date	Contract	Company	Implied DCR (RM/day)	Value (RM m)
4/3/2024	Provision of one (1) unit Platform Supply Vessel (PSV) for the Petroleum Arrangement Contractor (PAC) drilling campaign. The provision of service will commence on 31 March 2024. The contract primary period is for 100 days from the commencement date.	ICON	100,000	10.00
8/2/2024	Work order award from ROC Oil (Sarawak) Sdn Bhd (ROC) on 14 December 2023 for the provision of one (1) unit of Anchor Handling Tug & Supply (AHTS) vessel.	PERDANA	70,000	8.4
8/2/2024	Provision of one unit of Accommodation Work Barge (AWB) by T7.	PERDANA	118000	5.9
14/2/2024	The provision of one unit of Accommodation Work Barge (AWB) (Contract) for Saujana Marine Sdn Bhd. The Contract, which commenced on 15 January 2024 is for a duration of up to 240 days with one extension option of up to thirty 30 days from the Commencement Date.	PERDANA	81,852	22.1
15/2/2024	Work order extension from Saujana Marine Sdn Bhd for one unit of Accommodation Work Barge (AWB). The Contract Extension is for 220 days commencing from 24 December 2023.	PERDANA	73,636	16.2
6/3/2024	Provision of one (1) unit of Anchor Handling Tug & Supply (AHTS) vessel ("Contract") for 238 days for Petronas Carigali.	PERDANA	71,849	17.1
6/3/2024	Work order amendment and extension No. 1 from PETRONAS Carigali Sdn Bhd (PCSB) for one unit of Accommodation Work Barge. The Contract Extension involves the amendment to the extension period from the original 229 days option to a period of up to 271 days.	PERDANA	73,063	19.8
6/3/2024	Work order amendment and extension No. 1 from PETRONAS Carigali Sdn Bhd (PCSB) for one (1) unit of Anchor Handling Tug & Supply (AHTS) vessel. The Contract Extension involves the amendment to the extension period from the original 223 days option to a period of up to 140 days, commencing from 24 January 2024	PERDANA	65,000	9.1
6/3/2024	Work order amendment and extension No. 1 from PETRONAS Carigali Sdn Bhd (PCSB) for one (1) unit of Anchor Handling Tug & Supply (AHTS) vessel. The Contract Extension involves the amendment to the extension period from the original 203 days option to a period of up to 244 days	PERDANA	56,148	13.7
6/3/2024	Work order amendment and extension No. 1 from PETRONAS Carigali Sdn Bhd (PCSB) for one (1) unit of Anchor Handling Tug & Supply (AHTS) vessel. The Contract Extension involves the amendment to the extension period from the original 60 days option to a period up to 254 days commencing from 21 November 2023	PERDANA	32,677	8.3

Source: Company

Petronas developing multiple projects upstream. Petronas' Activity Outlook for 2024-2026 outlines several significant projects across Malaysia, with major developments planned in Sarawak (including Kasawari, Jerun, Rosmari-Marjoram, Lang Lebah), Sabah (Gemusut Kakap redevelopment, Belud clusters), and Peninsular Malaysia (Bekok oil redevelopment, Seligi redevelopment). Over the next three years, Petronas aims to drill more than 25 wells annually, concentrating on shallow waters in Peninsular Malaysia and Sarawak, as well as deepwater wells in Sabah. Additionally, more than 45 upstream projects are slated for execution during this period, with plans to fabricate four central processing platforms (CPP). This ambitious agenda signals an escalating demand for local upstream service providers, covering a wide range of services from Offshore Supply Vessels (OSV) and drilling to well services, underscoring a period of heightened activity and opportunities in the sector.

OSV boom on the horizon. The local OSV market appears poised for an up-cycle in daily charter rates (DCR) as Petronas escalates its demand for OSVs to support production and drilling activities in 2024. Recent announcements by multiple OSV operators highlight charter wins at highly favourable DCRs. Specifically, rates for Accommodation Work Barges (AWB) and Platform Supply Vessels (PSV), which are crucial for brownfield maintenance, are approaching RM100,000/day in the spot market, nearing the all-time highs of 2013-14. Furthermore, mid-sized Anchor Handling Tug Supply (AHTS) vessels have seen spot rates reach RM33,000/day, a significant increase from the RM20,000/day observed between 2020 and 2022. With demand on the rise and a lack of new vessel construction limiting supply, we expect continued upward pressure on OSV DCRs.

Supply crunch to persist in the OSV market. The local OSV market is expected to remain constrained in 2024-2025, with no current plans among operators to enhance vessel capacities despite recent strong daily charter rates (DCR). Several factors restrict OSV players' fleet expansion, including banks' reluctance to provide loan financing, increased costs for new builds, and limited global and local yard capacities due to the high demand for FPSO and LNG projects. Additionally, the typical lead time for constructing a new OSV ranges from one to one and a half years, suggesting that any orders placed now would not materialize into new capacities until late 2025 at the earliest. This scenario is anticipated to sustain favourable conditions for existing OSV owners, enhancing market dynamics in their favour.

Upstream services market to continue its momentum into 2024. The upstream services market, particularly maintenance and production-related services, experienced a significant increase in activities in 2023. This trend is expected to continue into 2024, with Petronas likely to escalate services for its existing fields. **UZMA (OP; TP: RM1.45) and WASCO (OP; TP: RM1.48)** have already benefited from this uptick in activities, and their order book replenishment prospects for 2024 appear strong. Specifically, services such as well services, chemical treatments, and production enhancement initiatives are projected to maintain their momentum in 2024, supported by still favourable crude oil prices and a potentially more aggressive increase in spending by Petronas.

OSV vessels to gradually transition to higher rates in 2024. The OSV subsegment, in our view, remains underappreciated, with much of its potential upside from DCR not yet fully realized, as OSV operators are currently fulfilling existing charters at rates below the market average. In 2024, we anticipate a gradual shift by OSV players towards charters with higher rates, albeit unevenly across their fleets, as current contracts conclude. The full positive effects of these higher DCRs are expected to materialize from 2025 onwards when a larger portion of the fleet will operate at rates more aligned with global market standards. We recommend ICON as our preferred exposure to the OSV subsegment, expecting it to benefit significantly from this upward adjustment in charter rates.

FPSO outlook remains robust. According to Energy Maritime Associates, the global capex on FPSO could potentially reach USD123b for 2024-2028 (compared to USD100b in 2020-2023). Within the FPSO space, Brazil will still lead the space in terms of capex at USD38b to be spent followed by Africa. Due to high barriers of entry for new entrants, the top five FPSO players in the world will continue to dominate the industry due to their project execution track record and ability to tap into multiple routes of financing for FPSO projects particularly in the high interest rate environment. YINSON, which is one of the top five globally, remains in a favourable position when bidding for new FPSO jobs in the coming years as demand for reliable FPSO players will still exceed supply for the foreseeable future.

2. Midstream

Early signs of optimism for tank terminal market. Following a period of subdued activity in 2022, the global storage market experienced resurgence in utilisation and storage day rates in 2023. DIALOG has indicated a storage rate of SGD 6.5/cbm/day, marking a considerable rise from the 2022 low of SGD 5.5/cbm/day. Similarly, VOPAK, a leading global storage terminal operator, noted an occupancy rate increase to 91% in 2023, up from 88% the previous year. VOPAK's investor relations literatures highlight an ongoing robust demand for crude oil storage, driven by the global rebalancing of trade flows and heightened supply security concerns.

DIALOG is poised for a steady enhancement in earnings from its independent tank terminals. Specifically, the Pengerang area in Johor is expected to attract additional downstream projects in 2024, encouraged by the availability of affordable land and improved governmental stability. Over the longer term, this is likely to boost demand for various types of storage (including crude oil, downstream products, and possibly renewable products), potentially increasing demand for storage capacity in DIALOG's Pengerang Phase 3 project.

3. Downstream

Still awaiting better economic recovery in Asia. Downstream product prices, which reached their bottom in 2023, are projected to maintain a benign outlook into 2024, primarily due to a sluggish global economic climate, notably in China, where growth continues to decelerate. Concurrently, a structural trend towards achieving full petrochemical self-sufficiency in China by 2030 is underway, marked by a multi-year increase in cracker and petrochemical capacities. This expansion is expected to cap any significant upside in downstream product prices. According to insights from ICIS, the ripple effect of this trend will likely compel other regions, including Europe, Singapore, South Korea, and Taiwan, to gradually phase out older facilities lacking economies of scale, aiming to maintain market equilibrium.

Urea prices to remain flattish. We do not expect major changes in price trends in urea prices which is our base case for 2024 at USD375/mt. This is not a large deviation from the 2023 average prices of RM350/mt. China's urea exports remain restricted, but this could ease in the future as its urea output has increased in 2023. One of the largest buyers, Brazil, is having a potential downside to demand for urea as the replanting of crops might be lower in scale compared to 2023 due to the dry season, resulting in lower demand for urea. Demand growth from India is expected to slow as well as it looks to expand its local urea production capacity to reduce its reliance on imports. Additionally, natural gas prices are currently low, at USD 1.8/mmbtu, compared to the USD 2-3/mmbtu range observed in 2023. Therefore, feedstock cost will decrease as well for urea products, which partially limits the potential upside for urea in 2024.

Petrochemical Prices Slightly Off the Bottom

Source: ICIS, Kenanga Research

Urea Prices Still Flattish

Source: Bloomberg, Kenanga Research

We advocate focusing on the upstream services subsegment within the local oil & gas sector, especially in the OSV segment on the anticipation of the pick-up in demand for vessels coupled with tightening vessel supply. 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. The downstream segment does not appear promising in the short to medium term due to global demand concerns.

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. **ICON** due to: (i) it being a beneficiary of the incoming upcycle of the local OSV market as the supply deficit of vessels persists. With Petronas and other local oil & gas producers expected to increase their demand for OSV vessels, the company is well-placed to capitalize on this trend. (ii) its improved balance sheet following restructuring and the disposal of a jack-up rig in 2022, providing considerable flexibility for future asset expansion and (iii) its high operating leverage which could lead to significant benefits during the DCR upcycle, especially as the company's cost base stabilizes following significant inflation in FY23.

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.545	0.580	6.4%	3,227.9	N	12/2024	13.8	12.6	144%	-9%	3.9	4.3	0.5	13.4%	0.0	0.00%
DIALOG GROUP BHD	OP	2.11	3.10	46.9%	11,905.8	Y	06/2024	9.3	10.3	4%	11%	22.7	20.4	2.0	9.1%	OP	2.11
ICON OFFSHORE	OP	0.620	0.800	29.0%	335.8	Y	12/2024	5.3	8.1	285%	53%	11.6	7.6	0.9	8.0%	OP	0.620
MISC BHD	MP	7.50	7.51	0.1%	33,478.1	Y	12/2024	51.9	53.9	7%	4%	14.5	13.9	0.8	5.8%	MP	7.50
PETRONAS CHEMICALS GROUP BHD	MP	6.94	6.88	-0.9%	55,520.0	Y	12/2024	44.9	45.9	111%	2%	15.5	15.1	1.3	8.7%	MP	6.94
PETRONAS DAGANGAN BHD	MP	22.22	23.70	6.7%	22,074.5	Y	12/2024	99.7	109.8	1%	10%	22.3	20.2	3.7	16.9%	MP	22.22
PETRON MALAYSIA REFINING	MP	4.59	4.74	3.3%	1,239.3	Y	12/2024	99.6	89.6	-1%	-10%	4.6	5.1	0.5	10.6%	MP	4.59
UZMA BHD	OP	1.21	1.45	19.8%	468.5	Y	06/2024	13.4	14.1	33%	6%	9.0	8.6	0.9	9.9%	OP	1.21
VELESTO ENERGY BHD	OP	0.280	0.310	10.7%	2,300.4	Y	12/2024	1.8	2.1	47%	17%	15.8	13.4	0.9	5.7%	OP	0.280
WASCO BHD	OP	1.18	1.48	25.4%	913.7	Y	12/2024	12.1	14.8	20%	23%	9.8	8.0	1.1	12.5%	OP	1.18
YINSON HOLDINGS BHD	OP	2.41	3.47	40.7%	7,006.0	N	01/2024	12.9	18.4	25%	43%	18.7	13.1	1.7	9.4%	OP	2.41
Sector Aggregate					**141,051.9**					**42%**	**5%**	**15.1**	**14.4**	**1.3**	**9.9%**		

Source: Bloomberg, Kenanga Research

Plantation

Downstream A Drag

NEUTRAL

↔

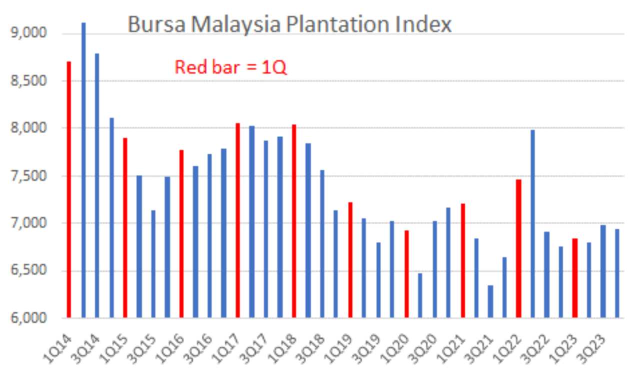
By Teh Kian Yeong l tehky@kenanga.com.my

We maintain our average CPO price assumption of RM3,800/MT in CY24. YTD equity performance of the plantation sector is divided—flat for the large integrated players while smaller, more upstream-centric players nudged up the Bursa Malaysia Plantation Index (BMPI) by 3%. Poor downstream margins are likely to continue to drag down earnings of large integrated players for another quarter or two. Nevertheless, the sector remains defensive given the inelastic demand for palm oil. Many have rich asset-backed balance sheets and the sector is Shariah compliant. Valuations are not demanding (1.2x PBV, 16x PER) but there is no substantial upside catalyst either. Stay NEUTRAL.

Bursa Malaysia Plantation Index (BMPI) has risen 3% QoQ, largely mirroring past intra-year pattern. YTD, the BMPI has inched up 3% above 4QCY23. This is quite in line with past trends where BMPI ticks up in 1Q then turns softer come 3Q. On a 10-year basis, the BMPI is 4% higher QoQ on the average during 1Q. The current YTD 3% increase is thus very much within the historical range. Underpinning such BMPI intra-year trading pattern is, to a large degree, due to the price movement of edible oil, including palm oil.

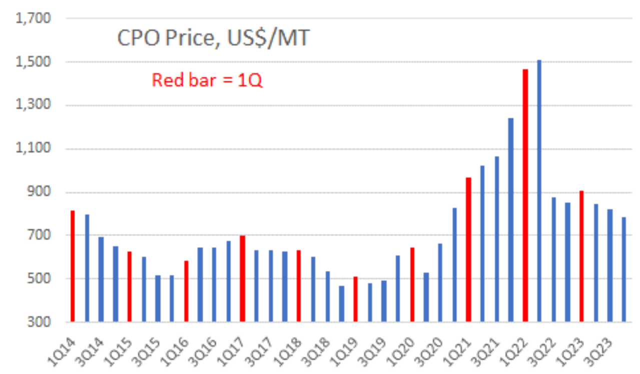
Globally, edible oil prices tend to be firmer in the 1H compared to 2H. We maintain our average CPO price assumption of RM3,800/MT in CY24. Prices are also usually firmer in 1Q and weakest in 3Q due mainly to the 3Q harvests of four major oil crops which make up 70%-80% of the world's edible oil production - palm, soya, rapeseed and sunflower. Of these crops, prices of soya bean oil tend to have lower volatility - probably due to the crop having two substantial harvests each year - 2Q in the southern hemisphere (mainly in Brazil) and 3Q in the north (mainly in US). On the other hand, palm oil prices tend to face more pronounced swings. Partly, its production peaks only once a year (in 3Q) but also it is the most widely traded edible oil in the world, subjecting the prices to various external factors, from geopolitical tension to supply chain disruption or weather uncertainties which affect other oil crops.

Bursa Plantation Index Often Fare Better in 1Q



Source: Bloomberg, Kenanga Research

1Q CPO Prices Also Tend To Be Good



Source: MPOB, Kenanga Research

Smaller players in BMPI are faring better YTD. Recent earnings of the "Big 3" large, integrated players – **IOI (MP; TP: RM3.80), KLK (MP; TP: RM23.00)** and **SIMEPLT (MP; TP: RM4.00)** – suffered as poor downstream margins dragged down otherwise decent upstream performance. Not surprisingly, the sector's smaller to mid-sized plantation players, which are more upstream centric, are outpacing their larger peers.

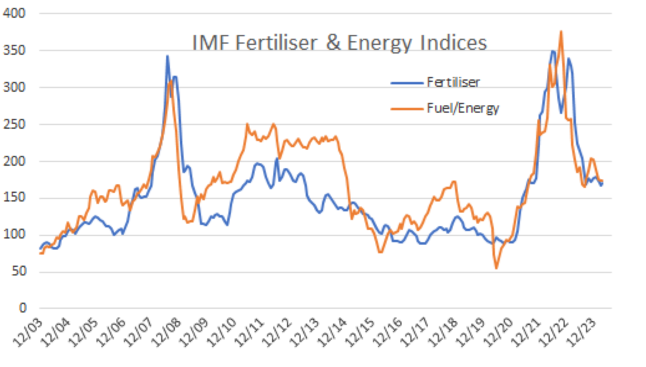
Upstream earnings look set to stay key. We expect upstream margins to improve, albeit slight, over CY24-25 on the back of firm but flattish CPO prices amidst easier operating cost environment:

a. **Firm but flattish CPO prices.** Global balance of edible oil is expected to stay tight in CY24, potentially up to mid-CY25. Supply is expected to just about meet demand in CY24 with risk of even coming short. Therefore, CY25 is expected to start the year with lower YoY inventory levels or flattish at best. While tighter inventory is supportive of even higher prices, it is a tightening from above-trend level in CY23 towards the longer-term average; hence, our assumptions of firm but flattish CPO price of RM3,800/MT over CY24-25.

b. **Production cost should ease** as global fertiliser and fuel costs have been trending down since mid-CY23. Nevertheless, Jan-Feb CY24 prices are still 5-10% lower compare to 4QCY23 (15-35% lower YoY). However, minimum wages in Malaysia may be raised by 5-10% given the cumulative official inflation of 6% over CY22-23.

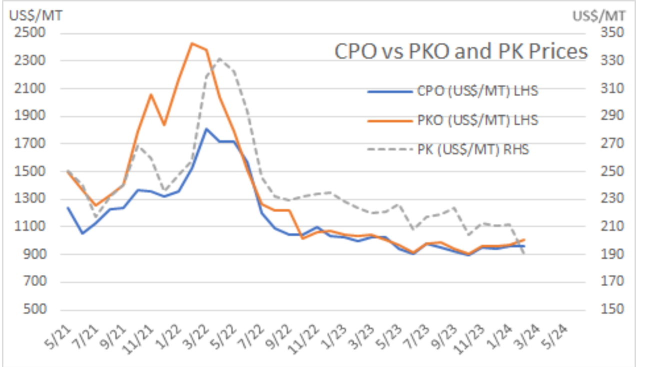
c. **Palm kernel (PK) prices may be approaching the bottom**. Although Feb 2024 PK prices weakened, palm kernel oil (PKO) prices picked up. While it is still too early to conclude this uptick is a trend, it is encouraging as we are expecting some restocking to nudge up oleochemicals demand as 2HCY24 approaches. If PKO demand picks up, the buying for PK would eventually tick up as well.

Fertiliser & Energy Prices Are Still Easing



Source: MPOB, Kenanga Research

PK & PKO Prices Could Be Near The Bottom



Source: IMF, Kenanga Research

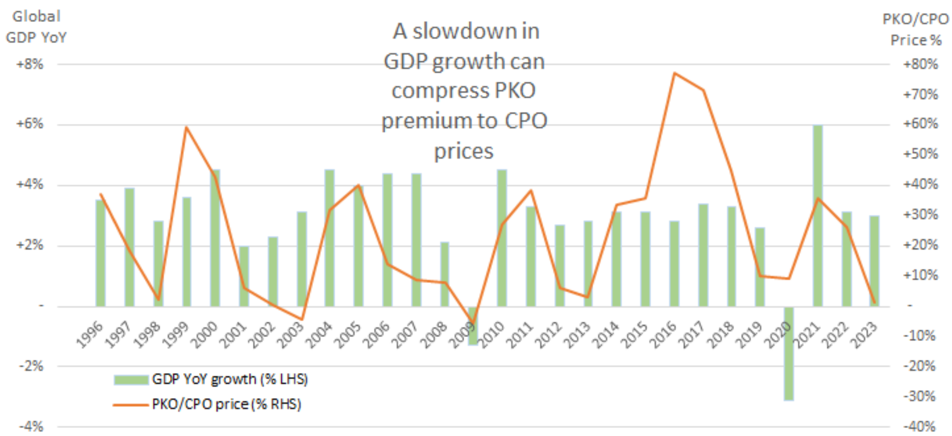
Downstream margins likely to stay weak for another quarter or two. We expect a mixed outlook for downstream, poor for basic, more commoditised oils and fats (e.g. basic refining) as well as basic oleochemicals (such as fatty acids and fatty alcohols). Specialty or performance specific oils and fats such as cocoa butter equivalent or customised oleochemicals to meet specific pharmaceutical for example should continue to enjoy better margins even if the broader market is soft as volume for specialty products can be small.

Palm kernel oil prices may be bottoming but sustainable recovery may still need time. The earliest beneficiary is the upstream sector then only the downstream oleochemical segment as and when the world economic outlook brightens.

A byproduct of milling FFB to extract CPO, PK is sold and the proceeds applied to reduce CPO production cost. Consequently, the first to benefit from higher PK prices is upstream. Meanwhile, PKO is an important oleochemical input so higher PKO prices means higher cost to oleochemical producers until their end-product selling prices can be raised.

Our current expected scenario, is for the oleochemical sector to undergo some restocking; thus, raising the demand for PKO and hence eventually the requirement for PK as well. However, the underlying oleochemical market may need a brighter global economic outlook before any meaningful demand and hence selling price hikes can be sustained. Such recovery may have to wait till CY25 or beyond.

Current PKO Price Parity to CPO Suggests PKO Prices May Be Bottoming



Source: World Bank, Oilworld, Kenanga Research

Defensive, undemanding ratings but upside catalyst remains elusive. Although the plantation sector's quarterly earnings can be volatile, the sector is defensive as palm oil is essential in the global food and biofuel chain. Sector gearing is also manageable to very strong, upstream operations are cashflow generative and many planters operate on very valuable landbanks. Trading at just 1.2x PBV, and Shariah compliant, the sector's downside looks limited but a substantial upside catalyst is still elusive. Maintain **NEUTRAL.**

Within the sector, we prefer growth over yields, hence PPB (OP; TP: RM18.50) is attractive given its own and associate's Wilmar agribusiness in SE Asia, China and India. After aggressive asset divestments over FY22-FY23 to cut debts, **TSH (OP; TP: RM1.30)** is now preparing to develop and plant up 8k-10k Ha (or an expansion of 25-30%) of oil palm on land it already owns.

Peer Table Comparison

Name	Rating	Last Price @ 15 Sept (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																	
GENTING PLANTATIONS BHD	MP	6.13	6.00	-2.1%	5,499.6	Y	12/2024	33.9	36.1	21.0%	6.4%	18.1	17.0	1.0	5.6%	21.0	3.4%
HAP SENG PLANTATIONS HOLDINGS	MP	1.92	2.00	4.2%	1,535.4	Y	12/2024	12.8	13.1	13.0%	2.9%	15.0	14.6	0.8	5.1%	7.0	3.6%
IOI CORP BHD	MP	3.98	3.80	-4.5%	24,690.7	Y	06/2024	20.0	23.0	-17.9%	14.9%	19.9	17.3	2.2	12.1%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	22.02	23.00	4.5%	24,142.8	Y	09/2024	113.3	138.8	50.6%	22.5%	19.4	15.9	1.6	8.2%	50.0	2.3%
PPB GROUP BHD	OP	15.50	18.50	19.4%	22,050.3	Y	12/2024	115.9	137.1	44.0%	18.3%	13.4	11.3	0.8	5.8%	45.0	2.9%
SIME DARBY PLANTATION BHD	MP	4.34	4.00	-7.8%	30,014.2	Y	12/2024	16.6	18.8	30.1%	13.5%	26.2	23.0	1.7	6.6%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.97	4.00	0.8%	1,748.6	Y	12/2024	40.9	43.5	3.5%	6.2%	9.7	9.1	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.13	1.30	15.0%	1,559.6	Y	12/2024	7.2	7.4	29.2%	3.7%	15.7	15.2	0.8	10.3%	3.0	2.7%
UNITED MALACCA BHD	MP	5.01	5.00	-0.2%	1,050.9	Y	04/2024	21.7	29.0	-34.2%	33.3%	23.1	17.3	0.7	2.7%	12.0	2.4%
Sector Aggregate					**112,292.2**					**19.5%**	**16.2%**	**18.7**	**16.1**	**1.2**	**7.4%**		**3.3%**

Source: Bloomberg, Kenanga Research

Plastic Packaging

Restocking, Product Innovation Drive Sales

OVERWEIGHT
↑

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

We upgrade our sector call to OVERWEIGHT from NEUTRAL. Players have guided for stronger flow of orders over the immediate term, driven by customers restocking activities ahead of price hikes stemming from rising resin prices, and overwhelming response to their sustainable packaging materials. Also, local players have gained market share from their overseas peers, capitalising on lower energy cost and innovative products such as nano stretch film and mono film that tick the sustainability box. Our sector top picks are TGUAN (OP; TP: RM2.86) and BPPLAS (OP; TP: RM1.42).

We upgrade the plastic packaging sector to OVERWEIGHT from NEUTRAL. According to KPMG, the global plastic packaging market is projected to grow at a 5% CAGR from CY21 to CY26. Local producers will grow at a faster rate as they gain market shares from their overseas peers, capitalising on lower energy cost and innovative products such as nano stretch film and mono film that tick the sustainability box.

Local players have guided for a stronger flow of orders over the immediate term driven by customers restocking activities ahead of price hikes stemming from rising resin prices (see Exhibit 1) and overwhelming response to their sustainable packaging materials. The upward momentum in sales should sustain into 2HCY24 on the recovery of manufacturing activities and consumer spending globally.

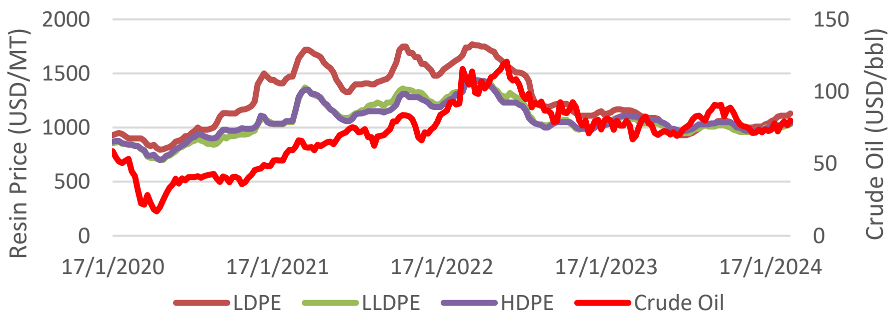
Nano stretch film and mono film are gaining traction, buoyed by the attention to sustainability in every step of the value chain. Nano stretch film is known for its thinner yet stronger properties which enable customers to reduce film consumption without compromising on load stability; while mono film is a fully recyclable film made up of a single type of plastic resin. **SLP (OP; TP: RM1.06)** has been drawing in new customers for its mono film, particularly in the ASEAN region, fuelled by the growing preference towards sustainable packaging and the stricter packaging waste regulations in Europe and Vietnam.

Local players are actively seeking out new customers both domestically and internationally by offering these innovative products and actively participating in international trade fairs (such as Interpack, Pack Expo and China Plas) to establish strategic partnerships and strengthen their market presence. Some companies have strategically expanded their capacity in high-margin premium stretch film and blown film products in recent years. **TGUAN**, for instance, commissioned its 9th nano stretch film line in FY23, whereas **BPPLAS** also introduced its 9th and 10th cast stretch film machines in Dec 2021 and Dec 2022, respectively. Note that these two machines mark BPPLAS's initial foray into nano stretch film production. Such long-term capacity expansion should reposition the players favourably to further capitalise on the ongoing post-pandemic economic recovery, as their increased production flexibility and capabilities should translate into more orders.

On a more cautious note, we acknowledge that there could be downside risk to margins due to: (i) increasing operating costs, including labour and electricity, as well as (ii) rising freight costs amidst the escalating Red Sea conflict. Despite this, a shift towards a greater proportion of premium products could potentially cushion the impact of the rising cost pressures. Furthermore, companies under our coverage have been focusing on optimising cost management through initiatives such as: (i) enhanced automation in production processes, and (ii) installing additional solar panels to mitigate higher electricity costs.

Our sector top picks are **TGUAN** for its aggressive push into the European and US markets with its environmentally-friendly, high-performing products, and expansion driven by premium products, such as nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags), and **BPPLAS** for its strong foothold in the fast-growing Southeast Asia market, and expansion driven by premium stretch film and blown film.

Exhibit 1: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 8/3/24 (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	OP	1.29	1.42	10.1%	363.1	Y	12/2024	14.2	16.4	19.7%	15.5%	9.1	7.8	1.3	14.6%	6.5	5.0%
SCIENTEX BHD	MP	3.85	3.75	-2.6%	5,972.4	Y	07/2024	35.2	36.5	31.7%	3.6%	10.9	10.6	1.5	14.4%	11.0	2.9%
SLP RESOURCES BHD	OP	0.950	1.06	11.6%	301.1	Y	12/2024	5.2	6.3	50.5%	21.3%	18.4	15.1	1.6	8.6%	6.0	6.3%
THONG GUAN INDUSTRIES BHD	OP	1.83	2.86	56.3%	727.1	Y	12/2024	25.8	30.0	22.2%	16.6%	7.1	6.1	0.7	10.3%	5.5	3.0%
Sector Aggregate					**7,363.7**					**29.9%**	**6.6%**	**10.4**	**9.8**	**1.3**	**12.9%**		**4.3%**

Source: Kenanga Research

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Property

The Spotlight Remains at Affordable Housing

NEUTRAL

↔

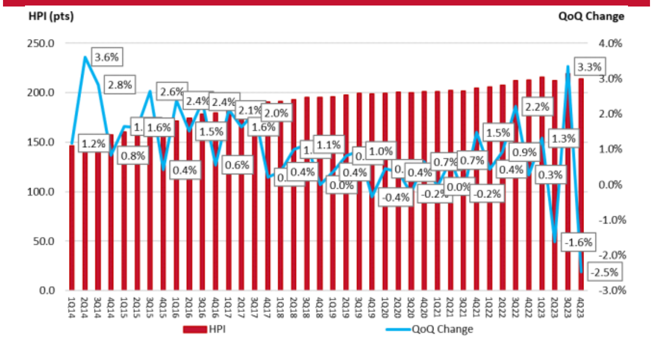
By Clement Chua I clement.chua@kenanga.com.my

We maintain our NEUTRAL stance. We remain cautious on the property sector due to oversupply, high household debt, elevated interest rates and weakened consumer sentiment, which could further be dampened by escalating living costs. There is optimism in the Johor property market fuelled by the Special Economic Zone initiative and seamless public transport connectivity upon the completion of the Johor Bahru-Singapore Rapid Transit System in 2026. Although developers continue to tread cautiously, we see a bright spot in the affordable housing segment. We upgrade SIMEPROP (OP; TP; RM0.84) for those seeking exposure to well-established townships while our sector top picks are MAHSING (OP; TP: RM1.11) and MKH (OP; TP: RM2.11) given their focus on affordable units priced below RM500k.

Multiple challenges. We continue to hold a neutral stance on the sector's outlook, despite the ongoing challenges posed by oversupply, high household debt, elevated interest rates, and diminished consumer sentiment resulting from high inflation and escalating cost of living. Amidst these challenges, there are notable shifts and improvements within the sector, particularly in the reduction of overhang units and the focus on affordability in residential developments.

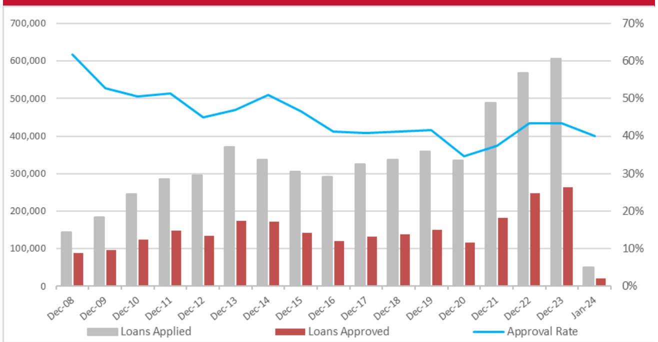
According to BNM's latest data as of Jan 2024, industry approval rates appear to have eroded notably to 40.0% (Dec 2023: 43.4%; Dec 2022: 43.5%). That said, we gathered the January readings are typically lower as banks may be more selective with their early-year admissions. There has also been a gradual rise in overall applications possibly fuelled by the influx of affordable home products which are more assessable to the wider market. We opine that subsequent approval readings may only range bound between 40%-45% (being the recent years' average) as the abovementioned inflationary pressures could invite delinquencies should loan approvals become more lenient. On the other hand, household debt-to-GDP readings of 84.2% in 2HCY23 (81.0% in 2HCY22) is lower than pre-pandemic levels of c.88%. While the rise could be attributed to higher average interest rates, the rising inflow of mortgage books may also contribute to the increase.

Housing Price Index



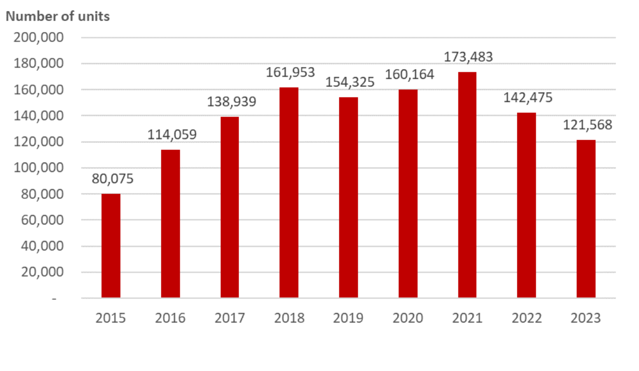
Source: NAPIC, Kenanga Research

Loans Approval Rate



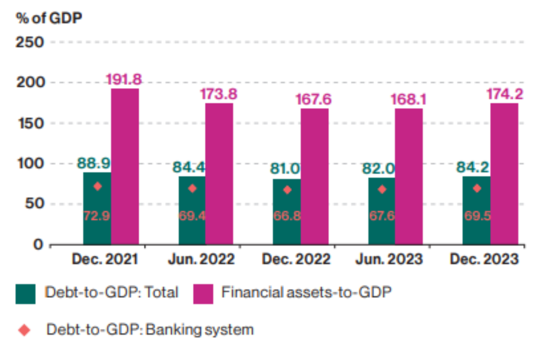
Source: BNM, Kenanga Research

Overhang and Unsold Under Construction



Source: NAPIC, Kenanga Research

Household Debt-to-GDP



Source: BNM

A reduction in overhang units, with a trend towards affordable housing. NAPIC's latest data for CY23 reveals a reduction in total overhang units, with the number standing at 121,568 (CY22: 142,475 units) and concentrated in Kuala Lumpur, Johor, and Selangor. Notably, 61% of newly launched residential properties are priced below RM500k, signaling a growing preference for affordable housing options. Meanwhile, developers are adapting to market dynamics, offering a mix of products with a heightened emphasis on affordability to cater to first-time house buyers and align with shifting consumer preferences which are partially inclined by ongoing economic uncertainties.

4QCY23 Property Market Overhang (Units)

Region	Overhang			Unsold Under Construction			Total Overhang & Unsold Under Construction
	Residential	Service Apartment	Total	Residential	Service Apartment	Total	
Johor	4,228	11,710	15,938	4,817	4,722	9,539	25,477
Kuala Lumpur	3,535	4,806	8,341	6,128	8,974	15,102	23,443
Selangor	3,405	2,065	5,470	6,068	6,774	12,842	18,312
Perak	4,598	0	4,598	6,841	234	7,075	11,673
Penang	3,001	311	3,312	5,093	453	5,546	8,858
Sabah	2,068	0	2,068	3,928	0	3,928	5,996
Negeri Sembilan	1,177	1,348	2,525	1,978	546	2,524	5,049
Sarawak	1,728	80	1,808	3,583	304	3,887	5,695
Pahang	492	80	572	1,845	1,448	3,293	3,865
Melaka	532	24	556	3,123	340	3,463	4,019
Kelantan	360	225	585	3,342	0	3,342	3,927
Kedah	199	0	199	3,090	0	3,090	3,289
Terengganu	308	92	400	445	0	445	845
Putrajaya	137	84	221	424	0	424	645
Perlis	6	0	6	338	0	338	344
Labuan	42	0	42	89	0	89	131
Total	**25,816**	**20,825**	**46,641**	**51,132**	**23,795**	**79,927**	**121,568**

Source: NAPIC, Kenanga Research

Over the last two years, there has been a gradual but consistent increase in sales, indicating a market that is growing moderately rather than aggressively. The expanding demographic of young people also suggests a rise in first-time house buyers, injecting momentum into the housing sector. Government initiatives specifically tailored to support house buyers offer prospects for a more balanced market, fostering accessibility and stability, which provides confidence to buyers, sellers, and investors, reducing uncertainty and the risk of significant financial losses associated with volatile price movements. Nonetheless, amidst these positive trends, challenges persist as the cost of living continues its upward trajectory while incomes remain stagnant.

Outlook. Looking ahead the sector is expected to maintain its focus on affordability, driven by factors such as population growth, urbanization, and increasing demand for reasonably priced units. Transit-oriented developments are likely to gain traction, particularly in the Klang Valley, as buyers seek convenient commuting options. Despite facing ongoing challenges, like economic shifts and regulatory changes, the sector is showing resilience and adaptability.

Johor property market: Caution. There is optimism in the Johor property market fuelled by the Special Economic Zone initiative and seamless public transport connectivity upon the completion of the Johor Bahru-Singapore Rapid Transit System in 2026. We believe it will take a lot more than these to transform Johor Bahru into a thriving world-class metropolis that could draw in large population both from other parts of Malaysia and across the Causeway. Our field checks show that developers there continue to tread cautiously as it takes time for these developments to translate into actual sales for the developers.

We upgrade **SIMEPROP** to **OUTPERFORM from MARKET PERFORM** as its recent share price correction presents opportunities for investors to capitalize on its diversified portfolio in both landed residential and industrial products which reduce its dependency on residential high-rise products and strong foothold in matured townships.

Top Picks. Our favorites within the sector are **MAHSING** and **MKH** as we maintain a favorable perspective because of their emphasis on providing affordable homes priced below RM500k. For **MAHSING,** its focus on lifestyle-oriented offerings is geared towards offering convenience to first-time house buyers. This is expected to experience substantial growth, fueled by the strong demand from first-time buyers. Moreover, efficient management of land management and a strategic turnaround are anticipated to reduce carrying expenses. As for **MKH,** their distinctive transit-oriented developments are expected to continue drawing interest from potential buyers. Additionally, the group's nearly net-cash position offers robust flexibility regarding its financing options, especially in the event of potential expansion in their primary business segments.

Peer Table Comparison

Name	Rating	Last Price as at 8/3/2024	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	UP	1.29	1.00	-22.5%	3,798.2	Y	10/2024	9.7	10.0	5.1%	3.4%	13.3	12.9	0.7	5.7%	6.0	4.7%
IOI PROPERTIES GROUP BHD	UP	2.16	1.75	-19.0%	11,893.3	N	06/2024	14.1	14.4	23.5%	2.0%	15.3	15.0	0.5	3.4%	4.5	2.1%
MAH SING GROUP BHD	OP	1.03	1.11	7.8%	2,500.5	Y	12/2024	9.4	10.1	5.7%	8.0%	11.0	10.2	0.7	6.0%	4.0	3.9%
MKH BHD	OP	1.34	2.11	57.5%	773.7	Y	09/2024	18.0	20.1	41.8%	11.2%	7.4	6.7	0.4	5.3%	6.0	4.5%
S P SETIA BHD	MP	0.930	0.800	-14.0%	4,139.7	Y	12/2024	5.9	6.1	16.0%	2.7%	15.8	15.4	0.2	1.9%	5.5	5.9%
SIME DARBY PROPERTY BHD	OP	0.780	0.840	7.7%	5,304.7	Y	12/2024	6.0	6.4	1.7%	7.5%	13.1	12.2	0.5	3.9%	3.0	3.8%
SUNWAY BHD	UP	2.90	2.51	-13.4%	15,964.0	Y	12/2024	14.6	14.7	26.0%	1.2%	19.9	19.7	1.1	6.0%	6.0	2.1%
UOA DEVELOPMENT BHD	MP	1.80	1.79	-0.6%	4,482.8	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.0	17.3	0.8	4.5%	6.5	3.6%
SECTOR AGGREGATE					**48,856.8**					**17.2%**	**3.1%**	**15.4**	**15.0**	**0.6**	**4.6%**		**3.8%**

Source: Kenanga Research

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REITs

Onslaught of Supply, Retail to Hold Up Better

NEUTRAL

↔

By Clement Chua lclement.chua@kenanga.com.my

We reiterate our NEUTRAL sector call on REITs. We expect the implied target yields for Malaysia REITs to remain stable throughout CY24 on our assumption that the overnight policy rate (OPR) of Bank Negara Malaysia (BNM) to stay at 3.00%. We prefer retail REITs with malls in strategic locations while being mindful of the excess supply in the office segment. That said, we exercise caution on the medium-term prospects, considering potential drags on consumer spending due to elevated inflation, a higher Sales and Service Tax (SST) and the impending fuel subsidies rationalisation. Our top picks are KLCC (OP; TP: RM8.00) and SUNREIT (OP; TP: RM1.72).

Stable OPR. We expect the implied target yields for Malaysia REITs to remain stable throughout CY24 on our assumption that BNM's OPR to stay at 3.00% and the next move by BNM (beyond CY24) is more likely to be a rate cut rather than a rate hike. This should augur well for REIT valuations. Meanwhile, the 10-year Malaysian Government Securities (MGS) yield – the risk-free rate benchmark we use in REIT valuation has consistently stayed below 4.00% since coming off its peak of 4.57% in Oct 2022. We assume a 4% risk-free in our REIT valuation.

1. Retail

Two more gigantic malls to open this year. While we are positive on REITs with malls in strategic locations, we are mindful of competition for footfall posed by new sizeable high-profile malls in an already highly saturated market. Two new malls within Kuala Lumpur with a collective retail space of c.1.5m sq. ft, are scheduled for openings this year, i.e. 118 Mall and Pavilion Damansara Heights (Phase 2). These will be on the heels of the onslaught of the Exchange TRX and Pavilion Damansara Heights (Phase 1) malls in 2HCY23. Situated in the heart of the city and home to over 500 experiential stores, we believe the potential impacts of The Exchange TRX to the retail market could not be avoided especially to malls in close proximity such as Pavilion KL and Suria KLCC. The crowded market could be partially cushioned by the relaxation on visas application for several neighbouring countries, coupled with a cheaper MYR, we believe tourism will be on the rise in coming quarters, benefiting the retail segment.

Mall occupancy rates improved slightly in 2HCY23. Based on National Property Information Centre's (NAPIC) 2HCY23 Property Market Report, occupancy rates of retail space in shopping complexes came in at 77.4% (Jun 2023: 76.6%) from an occupied space of 13.7m sqm on a total retail space of 17.7m sqm. This supported higher rental income from improved tenant sales amid rising footfall and sustained occupancy levels especially in prime shopping centres in Klang Valley.

Potential dent on consumer spending. We are mindful that the performance of retail malls could be weighed down by weakened consumer spending on elevated inflation, the increase in the SST to 8% (from 6%), and the introduction of a luxury tax ranging from 5% to 10% and the impending fuel subsidy rationalisation. On the flip side, tourist arrivals and their spending may be boosted by a weak MYR.

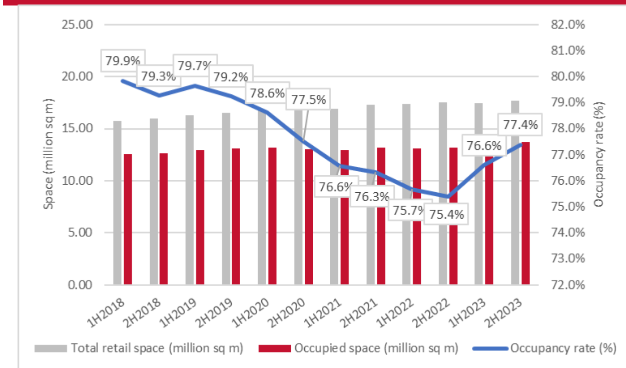
2. Office

More office space to hit the market. Five new office buildings are pending completion in 1HCY24 which will contribute another c.1.4m sq ft to Klang Valley's existing cumulative office stock, two of which are located in KL City, namely Felcra Tower, and The Exchange TRX Office by Lendlease. These will be on the heels of the recent completion of four new office developments, namely Merdeka 118 tower, PNB 1194 office building, Aspire Tower, and Pavilion Damansara Heights Corporate Tower, which contributed to a drop in overall purpose-built office occupancy rate to 78.6% (Jun 2023: 79.0%) from an occupied space of 19.6m sqm against a total office space of 24.9m sqm.

Despite increased supply, Grade A buildings in decentralized locations with strong connectivity and green certifications are expected to remain relatively resilient for its strong and growing demand. Also, there is demand for office spaces from high-growth sectors such as technology, finance, and professional services.

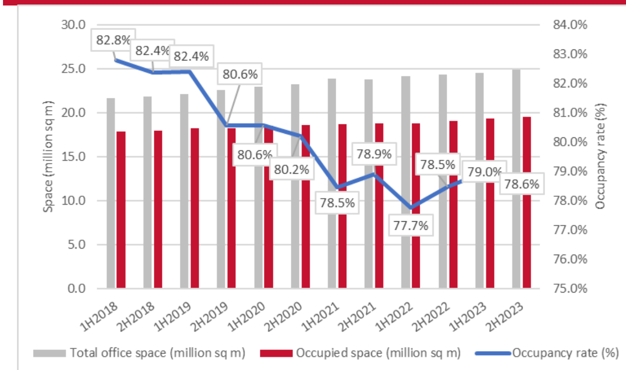
Sector top picks. They are: (i) **KLCC** for its stronger perceived appeal to foreign shoppers and the advantage of having a higher income customer group who may only be minimally affected by the proposed tax hike, and (ii) **SUNREIT** on the view that it will experience milder impact from the entry of TRX mall given its landmark assets' distance to the mall, coupled with being the landlord for numerous Grade A office buildings in prime locations.

Occupancy Rate Trend For Retail Space



Source: NAPIC, Kenanga Research

Occupancy Rate Trend For Office Space



Source: NAPIC, Kenanga Research

10-Year MGS Yield Movement (since March 2023)

Source: Bloomberg

Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.62	5.5
CLMT	MP	0.580	7.5
IGBREIT	MP	1.68	6.5
KLCC	OP	8.00	5.5
PAVREIT	OP	1.51	6.0
SUNREIT	OP	1.72	6.5

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

Peer Table Comparison

Name	Rating	Last Price as at 8 Mar 2024(RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Gross Div. (sen) 1-Yr. Fwd.	Gross Div Yld 1-Yr. Fwd.
REITS																	
Axis REIT	MP	1.78	1.62	-9.0%	3,110.5	Y	12/2024	9.3	10.2	16.6%	0.6%	18.3	18.2	1.1	6.0%	8.7	4.9%
Capitaland Malaysia Mall Trust	MP	0.645	0.580	-10.1%	1,767.6	N	12/2024	3.9	4.0	-284.4%	-19.5%	N.A.	10.7	0.7	5.0%	4.3	6.7%
IGB REIT	MP	1.73	1.68	-2.9%	6,237.3	N	12/2024	10.1	10.4	-2.5%	2.3%	16.5	16.2	1.6	9.8%	9.7	5.6%
KLCCP Stapled Group	OP	7.28	8.00	9.9%	13,142.8	Y	12/2024	40.2	41.6	13.6%	3.7%	16.3	15.7	1.0	5.2%	42.5	5.8%
Pavilion REIT	OP	1.28	1.51	18.0%	4,680.8	N	12/2024	8.0	8.5	20.6%	4.3%	13.2	12.7	1.0	7.2%	8.7	6.8%
SUNWAY REIT	OP	1.54	1.72	11.7%	5,274.2	N	12/2024	10.2	10.9	13.9%	6.3%	14.6	13.7	1.0	6.9%	10.6	6.9%
SECTOR AGGREGATE					**34,213.3**					**-5.1%**	**24.0%**	**18.4**	**14.8**	**1.1**	**6.7%**		**6.1%**

Source: Bloomberg, Kenanga Research

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Renewable Energy

Abundance of PV System EPCC Jobs

OVERWEIGHT

↔

By Nigel Ng I nigel@kenanga.com.my

We are OVERWEIGHT on the renewable energy sector. Our key focus is on PV System EPCC contractors. The outlook for solar EPCC jobs is strong, underpinned by new contracts under the Corporate Green Power Programme (CGPP) estimated to be worth RM2.4b and the 2GW Large-Scale Solar 5 (LSS5) worth another RM5b. There is also an additional quota of 400MW under the net energy metering (NEM) scheme. Meanwhile, declining panel prices due to oversupply will boost margins of PV system EPCC contractors and stimulate investment in PV systems, resulting in more jobs for PV system EPCC players. We like both PV system EPCC players under our coverage, i.e. SLVEST (OP; TP: RM1.88) and SAMAIDEN (OP; TP: RM1.51).

A laundry list of initiatives. Under the National Energy Transition Roadmap (NETR), the government has set an ambitious target of RE making up of 70% of total generation capacity by 2050 (vs. 25% currently) with an aspiration to achieve net zero GHG by 2050. These targets entail at least 20GW of new RE from now until 2050, of which >90% is expected to come from solar. The government has introduced a laundry list of initiatives to promote investment in solar power generation comprising the Feed-in Tariff (FiT) programme, NEM mechanism, Large-Scale Solar (LSS) and CGPP projects.

Over the immediate term, the flow of PV system EPCC jobs will come from the CGPP with a completion deadline by end-2025, following the completion of Large-Scale Solar 4 (LSS4) in end-2023. Based on our estimates, the 800MWp capacity under the CGPP will translate to RM2.4b in PV system EPCC jobs.

Subsequently, the Energy Commission will embark on LSS5 with a capacity quota of 2GW, which allows developers to bid for up to 500MW (vs. only 50MW previously). We estimate that LSS5 will generate RM5b worth of PV system EPCC jobs, which can keep PV system EPCC contractors busy until 2028.

In addition, there is a new 400MW quota under the NEM scheme from Feb to Dec 2024 to further encourage investment in solar energy assets. Businesses in general, driven by commercial reasons (i.e. to save cost) and ESG considerations, have voluntarily invested in solar energy generation assets following the recent hikes in electricity tariffs.

Falling panel price trend. We project a lower average module price of USD10 cent/W in CY24 vs USD 18 cent/W in CY23, as Tier-1 solar panel manufacturers such as Tongwei, JA, Longi and Jinko flood the market with solar panels. This trend follows a multi-year decline in solar panel prices, plummeting ~92% from USD1.33/W in 2010 (see Exhibit 1).

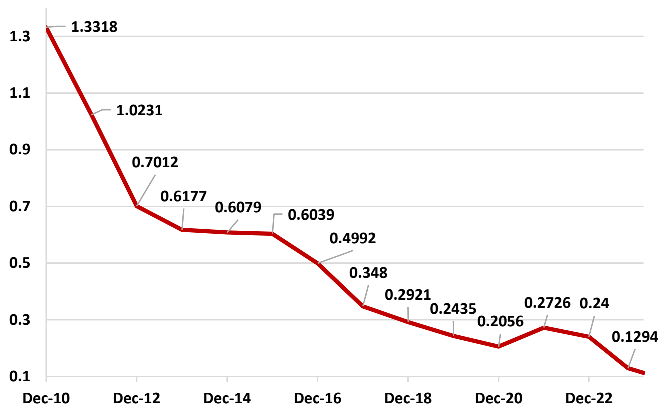
BloombergNEF, a leading energy researcher, projects a 29% jump in global solar panel installation to 574GW in 2024 from 445GW in 2023. However, we anticipate slower demand growth thereafter, at 9% and 7% in 2025 and 2026, respectively, primarily due to constraints such as accessibility to grid, land and labour. China is expected to maintain its position as the largest solar panel consuming country in the world, commanding a 55% share of the total 574GW of new solar panel installation in 2024, followed by the US (7%) and India (3%).

While the demand for solar panels globally is rising on a rapid pace on the transition to green energy, it is outstripped by the supply growth of solar panels (see Exhibit 2). BloombergNEF describes the current state of the solar panel industry as "a game of chicken" amongst the players to see "who will succumb to the pressure and exit the market first". The players are far from stopping at where they are at present. All in all, prices of solar panels are at historically low levels and supply of components is abundant. Consequently, while solar panel makers struggle to make a profit, PV system EPCC contractors enjoy good margins and are poised for more jobs as cheap solar panel prices stimulate investment in PV systems.

For projects subsequently to LSS4, the capex for PV systems is likely to come in lower than about RM2-2.5m/MW for the LSS4 roll-out given the lower solar panel prices. This should raise IRR to the low to mid-teens, vs.8% under LSS4.

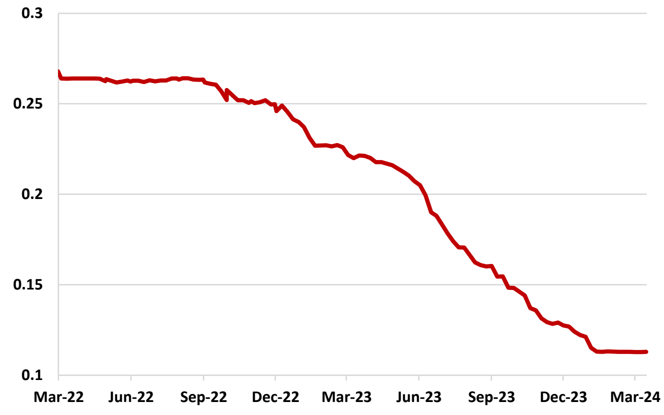
Sector top picks. We like **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets. We like **SAMAIDEN** given its focus on residential and commercial projects that typically fetch higher margins, and similarly, its ability to provide end-to-end solutions, including financing to its customers and strong earnings visibility backed by sizeable outstanding order and tender books.

Exhibit 1: Yearly Solar Module Per Watt (USD)



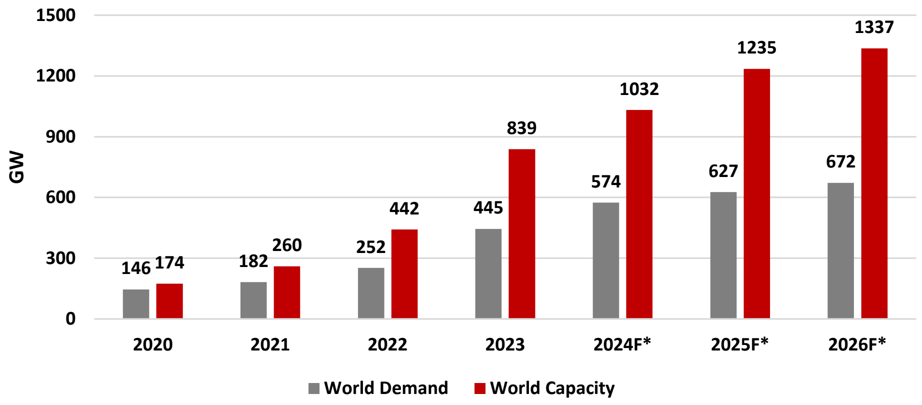
Source: Bloomberg, Kenanga Research

Exhibit 2: Solar Module Per Watt (USD)



Source: Bloomberg, Kenanga Research

Exhibit 3: Global Supply/Demand for Solar Panels (GW)



**Kenanga Research's estimates*
Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @8/3/24 (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																	
PEKAT GROUP BHD*	NR	0.44	NR	N.A.	280.6	Y	03/2024	2.7	3.3	26.8%	21.8%	15.9	13.0	N.A.	N.A.	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.26	1.51	19.8%	520.8	Y	06/2024	3.7	5.3	33.6%	43.7%	34.3	23.8	5.0	15.7%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.50	1.88	25.3%	1,003.6	Y	03/2024	4.1	6.9	52.8%	67.4%	36.2	21.6	4.6	13.8%	0.0	0.0%
SUNVIEW GROUP BHD*	NR	0.68	NR	N.A.	344.6	Y	03/2024	2.1	4.0	-16.9%	90.7%	22.2	14.8	N.A.	N.A.	0.0	0.0%
Sector Aggregate					**2,149.5**					**24.1%**	**55.9%**	**27.1**	**18.3**	**4.8**	**14.8%**		**0.0%**

Source: Kenanga Research

**Note that Pekat& Sunview numbers based on Bloomberg consensus*

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Seaport & Logistics

Red Sea Conflict Disrupts Asia-Europe Trade

NEUTRAL

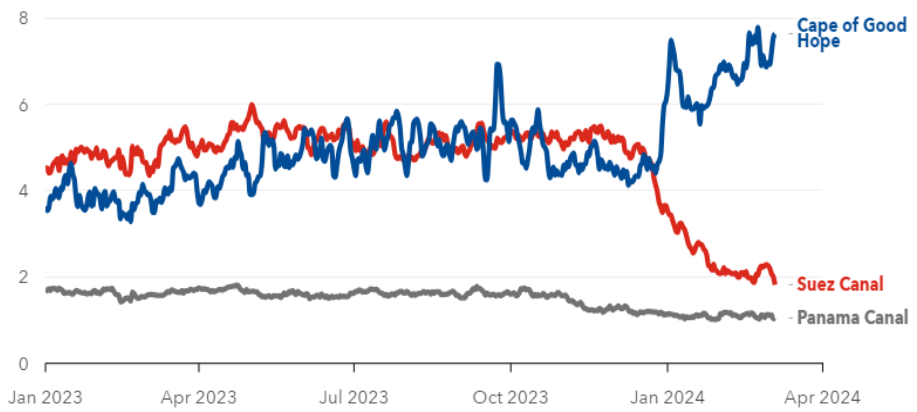
↔

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

We maintain NEUTRAL on the sector. The prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating is weighing down on the Asia-Europe trade. The World Trade Organisation (WTO) said in end-Feb 2024 that it is cutting its current projection of 3.3% growth in global merchandise trade volume in CY24, also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. However, we continue to see a bright spot in the domestic logistics sector, which is a beneficiary of the booming e-commerce. We do not have any top pick for the sector.

Prolonged Red Sea conflict weighs. The prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating is weighing down on the Asia-Europe trade. The diversion from Suez Canal to the Cape of Good Hope (see Exhibit 1) has resulted in a longer voyage for the Asia-Europe route (which contributes to 30% of global container volume), reducing the frequency of calls the shipping service could make at **WPRTS** (and all other ports in the region). The WTO said in end-Feb 2024 that it is cutting its current projection of 3.3% growth in global merchandise trade volume in CY24, also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners (also see Exhibit 1).

Exhibit 1: Daily Transit Trade Volume*



**million tonnes, 7-day moving average*
Source: International Monetary Fund, United Nations

We also 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. On a more positive note, 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.

We maintain **NEUTRAL** on the sector and do not have any top pick for the sector.

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Peer Table Comparison

Name	Rating	Last Price as at 8th March 2024 (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	5.65	5.55	-1.8%	2,599.0	Y	12/2024	25.8	26.6	1.2%	3.0%	21.9	21.3	1.4	6.4%	13.0	2.3%
POS MALAYSIA BHD	UP	0.505	0.330	-34.7%	395.3	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.9	-19.0%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.540	0.550	1.9%	475.6	Y	12/2024	5.5	5.8	-3.6%	6.8%	9.9	9.2	0.7	6.8%	1.7	3.1%
WESTPORTS HOLDINGS BHD	MP	3.83	3.80	-0.8%	13,060.3	Y	12/2024	23.4	24.5	2.5%	4.6%	16.4	15.6	3.5	22.1%	17.6	4.6%
SECTOR AGGREGATE					**4,132.6**					**-40.4%**	**-36.0%**	**16.0**	**15.4**	**1.6**	**4.1%**		**2.5%**

Source: Kenanga Research

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Technology

NEUTRAL
↔

Finding the Lead Mares

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 by 13.1% in CY24 (from a 8.2% decline in CY23), driven by increased demand for memory and logic ICs. Although global semiconductor sales have picked up in recent months, it takes time to be fully transmitted to local players that are mostly at the back end of the supply chain. Local players guided for a seasonally soft 1Q, followed by a mild uptick in 2Q, before a more meaningful recovery in 2H. We pick the lead mares of the herd in term of earnings recovery, namely: (i) INARI (OP; TP: RM4.05) for the robust orders from Customer B, (ii) KGB (OP; TP: RM3.40) for its robust order book of RM1.3b, and (iii) PIE (OP; TP: RM4.00) for its adeptness in attracting new customers, with at least four starting to contribute in CY24.

Bottomed out but recovery momentum lags. 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.

Global semiconductor sales bottomed out YoY in Oct 2023 (-0.5%) and turned positive in Nov (+5.3%) and Dec (+11.6%). This moderated contraction in 2023 sales to -8.2% (vs. WSTS forecast of -9.4%). The upward momentum sustained into Jan 2024 with a 15.2% YoY increase (from a low base), but a 2.1% QoQ dip attributed to the seasonal lull in 1QCY23.

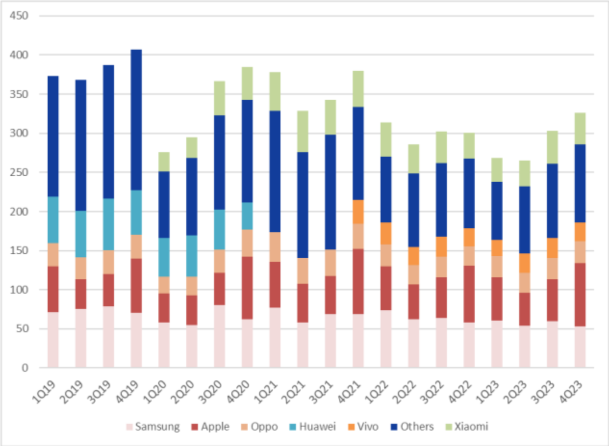
We expect a slow start to CY24 due to the seasonally slow 1QCY24 on the heels of the year-end peak demand period for consumer electronics and automotives in 4QCY23 (which has been slightly underwhelming given the weak global economy). We are also mindful of the scheduled plant shutdowns during the long Chinese New Year break, especially in China. Local plyers guided for a more meaningful recovery in 2HCY24. Meanwhile, we continue to stick with proven names while being on the lookout for the earnings inflection point of stocks that we currently have a **MARKET PERFORM** rating.

In the OSAT space, our preference remains with **INARI** due to its proactive strategy towards AI-related products. **INARI** has initiated low-volume production through a single line for its memory customer, with plans to expand to four lines by June 2024. The company has indicated that this venture into memory products will eventually position it to capitalise on the growing demand for AI applications, as memory plays a crucial role alongside graphical processing power. Furthermore, its foray into optical transceivers is gaining momentum, driven by the transition to 800G by customers seeking faster data transfer rates within data centres to accommodate growing AI adoption.

Meanwhile, for its radio frequency (RF) business (c.63% of group revenue), **INARI** anticipates the upcoming low cycle in 1QCY23 to be manageable, cushioned by the absence of power interruptions that occurred in the prior quarter. This coupled with the fact that the US smartphone brand commanded the leading market share of 24.7% for 4QFY24 smartphone global shipment (according to IDC) further underscores **INARI**'s relevance in the smartphone supply chain. Understanding that the smartphone market has bottomed out (see Exhibit 1), **INARI** is casting a net wider with its strategy of "China for China; Penang for the West" to capture the next smartphone upcycle in both regions via its 54.5%-owned YSIC-JV expansion, featuring a 500k sq ft plant in Yiwu that is set to be operational by mid-2024. We believe this is a timely move as news of China's smartphone market breakthrough with a home-grown 7nm processor has reportedly regained buying interest amongst China consumers.

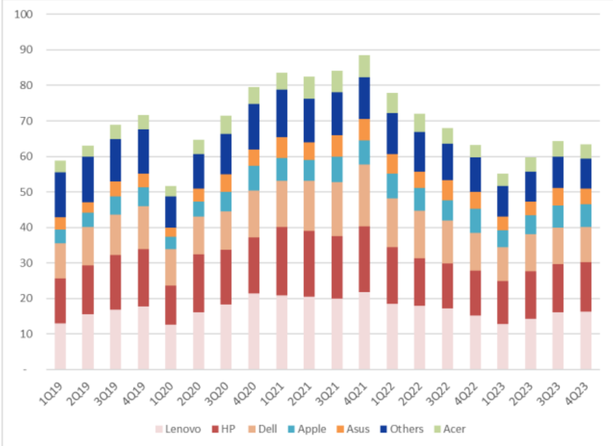
Meanwhile, the other OSAT peers such as **MPI (MP; TP: RM24.30)** and **UNISEM (UP; TP: RM2.95)** remain on our watch list for the time being as both are still in the midst of searching for a clear recovery catalyst. **MPI** has achieved breakeven level for its plant in Suzhou, China with 64% utilisation rate on brief uptick in orders for communication and smartphone-related packages which had shown signs of bottoming. To prevent further losses going forward, the group also initiated the closure of its loss-making lead frame operations at Dynacraft Industries in Penang, which incurred RM10m in losses each quarter in the past. However, this is expected to result in one-off severance payment in the upcoming quarter. Meanwhile, **UNISEM** guided that its China operation in Chengdu remains the main contributor to the group given that its Ipoh operation continues to run below optimal utilisation rate at 50%, weighing down on the group. The group expects a flattish performance in the next quarter. That said, we have observed improvements from both companies and encourage investors to consider building positions on weakness in anticipation of improved clarity on their recovery momentum in 2HCY23.

Exhibit 1: Worldwide Smartphone Sales (m units)



Source: IDC

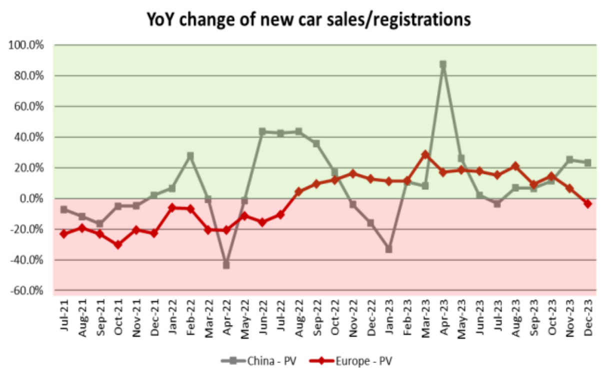
Exhibit 2: Worldwide PC Sales (m units)



Source: Gartner

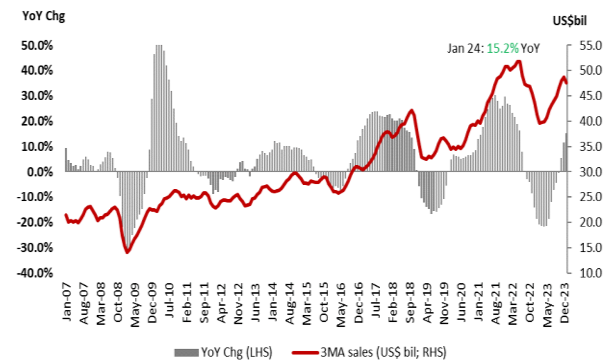
Automotive semiconductor at a divergence. The automotive semiconductor supply chain has been benefiting from the electric vehicle (EV) boom in recent years. However, the EV landscape now faces challenges as production has outpaced ecosystem readiness which led to car rental giant Hertz dumping 20,000 EVs in favour of gas-powered vehicles. Another dilemma amongst semiconductor players is whether to continue relying on China's dominance in the EV sector or to diversify into Europe's automotive market. With China already achieving the status of number one EV producer globally, the potential for further incremental capex may moderate. Not helping either is Europe's plan to impose tariffs on Chinese EVs to safeguard its own EV industry, which has lagged behind. From what we gather on the ground, semiconductor players are closely monitoring whether European governments will offer incentives to encourage supply chain relocation. Until clear policies emerge, expansion plans are likely to proceed cautiously. 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 (MP; TP: RM3.60)**, **JHM (MP; TP: RM0.70) and MPI.**

Exhibit 3: Sales of Passenger Vehicles (% YoY)



Source: CAAM, ACEA

Exhibit 4: Global Semiconductor Sales (% YoY)



Source: SIA

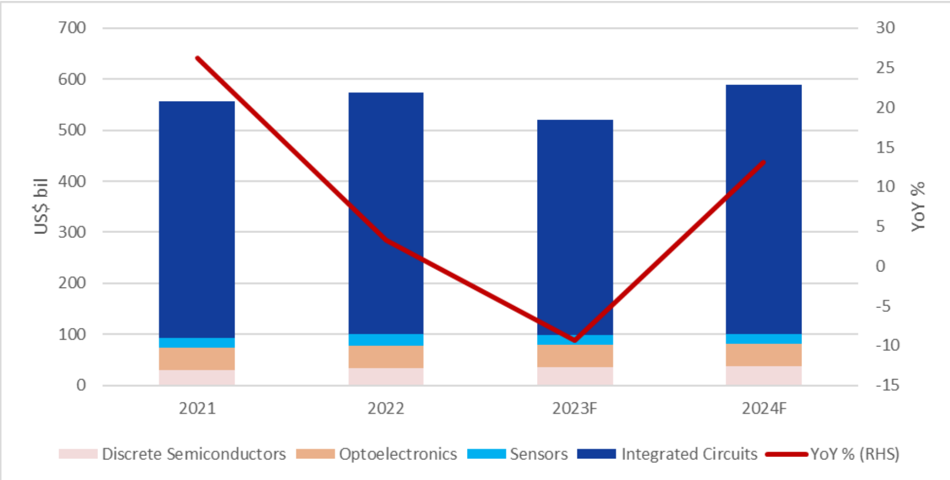
We prefer EMS with diversified product and customer base. Companies with diversified portfolios and substantial exposure to industrial products are poised to outperform peers that are heavily reliant on consumer electronics as their primary revenue driver. Among them, we maintain a positive outlook on **PIE**, which has onboarded four new customers spanning sectors such as servers, medical devices, smart home technology, and drone equipment. These new customers are at the sampling phase and expect to gradually move into mass production, contributing c.8%-12% to the group's CY24 revenue. Additionally, PIE has identified a prominent customer which will fully occupy its recently renovated Plant 5 (c.100k sq ft) and is currently building up its Plant 6 (c.280k sq ft) which is expected to be operational by 4QCY24.

While we remain positive on **NATGATE (OP; TP: RM1.58)** for its longer-term prospects, its immediate-term earnings may still be dampened by the delayed ramp-up of optical transceiver products as its key customer is busy with relocating their offices and plant out from China to Malaysia.

In summary, our medium-term outlook on the technology sector remains **NEUTRAL** as we expect the recovery momentum to take place gradually. There will likely be QoQ dips in subsequent quarterly earnings due to the seasonal lull in 1QCY24, presenting potential opportunities for longer-term investors to establish positions. For those who prioritise immediate certainty, we maintain a positive outlook 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 RM1.3b and tender book of >RM1.9b, 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 (RM) @ 08/03/24	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	MP	3.12	3.60	15.4%	3,863.5	Y	12/2024	8.5	12.0	133.7%	41.6%	36.9	26.0	3.9	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	0.620	0.880	41.9%	702.0	Y	12/2024	2.4	2.8	-3.5%	15.8%	25.9	22.5	1.3	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.11	4.05	30.2%	11,675.9	Y	06/2024	9.9	12.1	14.0%	22.1%	31.5	25.8	4.4	14.1%	9.3	3.0%
JHM CONSOLIDATION BHD	MP	0.590	0.700	18.6%	354.5	Y	12/2024	4.7	5.2	94.5%	11.0%	12.7	11.4	1.0	8.5%	0.5	0.8%
KELINGTON GROUP BHD	OP	2.47	3.40	37.7%	1,626.3	Y	12/2024	16.1	19.4	1.0%	20.5%	15.3	12.7	3.9	27.7%	4.5	1.8%
KESM INDUSTRIES BHD	MP	6.40	7.06	10.3%	275.3	Y	07/2024	6.2	10.3	-46.2%	67.2%	103.5	61.9	0.8	0.7%	0.0	0.0%
LGMS BHD	OP	1.01	1.16	14.9%	460.6	Y	12/2024	4.6	5.6	88.4%	21.8%	21.8	17.9	4.5	22.2%	0.9	0.9%
M'SIAN PACIFIC INDUSTRIES	MP	29.50	24.30	-17.6%	5,868.4	Y	06/2024	59.6	118.3	93.5%	98.3%	49.5	24.9	2.8	5.8%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.34	1.58	17.9%	2,779.1	Y	12/2024	6.3	6.9	114.8%	9.6%	21.2	19.4	5.2	27.4%	1.0	0.7%
OPPSTAR BHD	OP	1.18	1.72	45.8%	755.1	Y	12/2024	3.4	5.7	3.3%	66.7%	34.3	20.6	4.9	15.1%	0.9	0.8%
PIE INDUSTRIAL BHD	OP	3.28	4.00	22.0%	1,259.7	Y	12/2024	22.2	26.1	15.7%	17.4%	14.8	12.6	1.9	13.4%	7.0	2.1%
SKP RESOURCES BHD	MP	0.800	0.850	6.3%	1,249.9	Y	03/2024	5.7	6.4	-38.4%	13.1%	14.0	12.5	1.5	10.3%	2.8	3.5%
UNISEM (M) BHD	MP	3.45	2.95	-14.5%	5,565.1	Y	12/2024	10.2	12.7	100.1%	24.9%	33.9	27.2	2.3	6.8%	6.0	1.7%
Simple Average										**31.4%**	**29.3%**	**28.8**	**22.3**	**3.0**	**12.9%**		**1.3%**

Source: Kenanga Research

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Telecommunications

OVERWEIGHT

Coming Alive with Multiple Prospective News Flow

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

We maintain OVERWEIGHT on the sector as we are optimistic that earnings and dividends will remain largely intact given a more accommodative regulatory environment. Potential major developments or news flow to watch out for in 2QCY24 include: (i) mobile: announcement of the official 5G Dual Network policy directive, (ii) fixed line: stake sale in PT Link Net to new investors, and (iii) infrastructure: sale of Edotco's towers in Myanmar. Our sector top picks comprise TM (OP; TP: RM7.22) and CDB (OP; TP: RM5.83).

1. Mobile

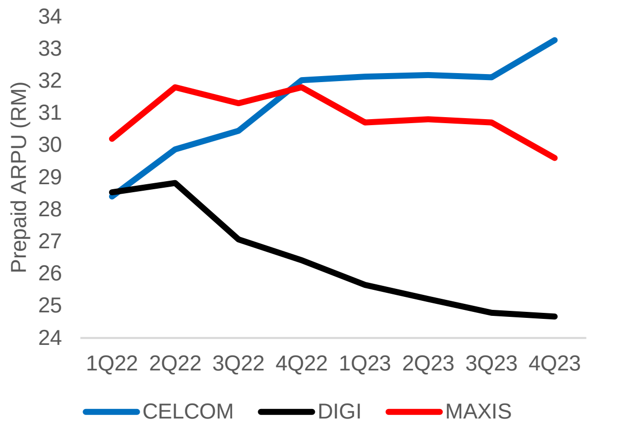
5G dual network policy may be unveiled. For mobile players, news flow that may possibly emerge in 2QCY24 include announcement of the official 5G Dual Network policy directive. This is expected to shed light on the final equity stake for each telco in either entity A or B. To recap, the said entities will be established as part of Malaysia's transition from the 5G Single Wholesale Network model to DN. Entity A will take over the existing first 5G network owned by Digital Nasional Berhad (DNB), whilst B will develop the new second 5G network. Back in Dec 2023, the major telco players (i.e. **CDB, MAXIS (OP; TP: RM5.30), TM, YTLPOWR (OP; TP: RM4.10**) and U Mobile Sdn Bhd) have each entered into conditional share subscription agreements (SSA) with the Ministry of Finance and DNB. The SSAs are targeted for completion in by April 2024, which will result in the telcos collectively owning 70% stake in DNB.

5G monetization may provide support to weak ARPU trends. Moving forward, given that mobile players are now required to pay 5G access charges, we believe they are exploring ways to monetize 5G. To recap, 5G access seekers are required to pay target capacity payment of RM288m p.a., and RM360m p.a. (in MAXIS' case) to DNB. On the flipside, regulatory requirements inhibit telcos from imposing additional access charges for 5G services. Hence, mobile players have tweaked their 5G plans to derive higher APRUs from high net worth retail customers with strong spending capacity. Evidently, new or revamped plans incorporate: (i) tiered speeds and caps, (ii) 5G data quotas, and (iii) fair usage policies that throttle speeds after limits are exceeded. Therefore, this may compel customers to upgrade to expensive plans that correspond to faster speeds, as well as higher thresholds for FUP caps and 5G quota. On the back of this, we are sanguine of ARPU recovery or at least stable ARPUs in 2024 after a weak showing in 2023. We believe this would be the case, particularly for the postpaid segment given that affluent customers that can afford higher ARPUs fall within this demographic.

Enterprise remains the larger prize. On the bright side, whilst there are limited opportunities to monetize 5G in the retail segment, we believe that longer term opportunities lie in the enterprise segment. On the back of this, telcos are augmenting efforts to encourage enterprises to implement systems that leverage on 5G. For example, CDB recently announced a strategic partnership with Japan-based SoftBank Corp and SC-NEX (part of Japan's Sumitomo Group). This is to formulate IR 4.0 solutions that apply artificial intelligence (AI) in robotics and analytics. As a start, it will focus on solutions such as: (i) agritech: usage of drones in plantations for operations and security, and (ii) smart city: deployment of integrated building management software and internet of things (IoT) sensors to control building access and security.

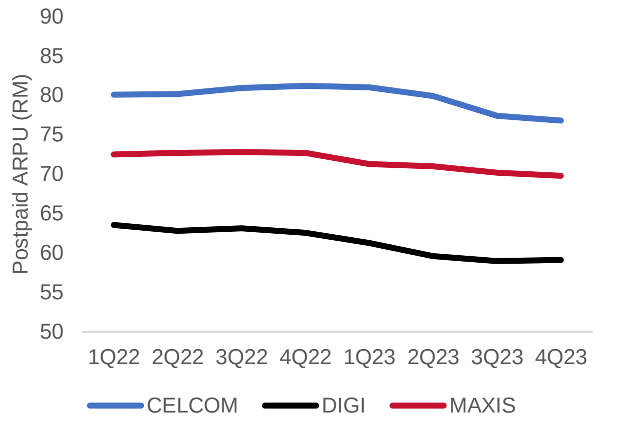
In addition, MAXIS and Amazon Web Services (AWS) have recently inked a collaboration to push generative AI and 5G. This is via AWS' integrated solutions for MAXIS' customers in the retail, manufacturing, logistics and financial services segments. In particular, Direct Connect cloud service enables dependable and low-latency performance by linking customer networks directly to the AWS cloud. In addition, one of the key focus of this collaboration includes training of a large language model in Bahasa Melayu. Against this backdrop, we believe that enterprise sales may potentially receive an uplift in 2024 as telcos expand their 5G offerings and solutions.

Prepaid ARPU



Source: Companies Kenanga Research

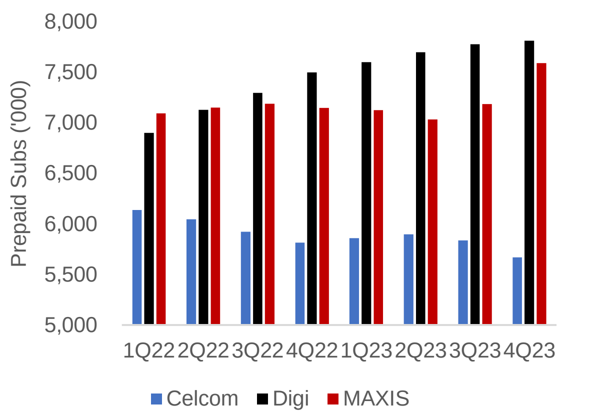
Postpaid ARPU



Source: Companies, Kenanga Research

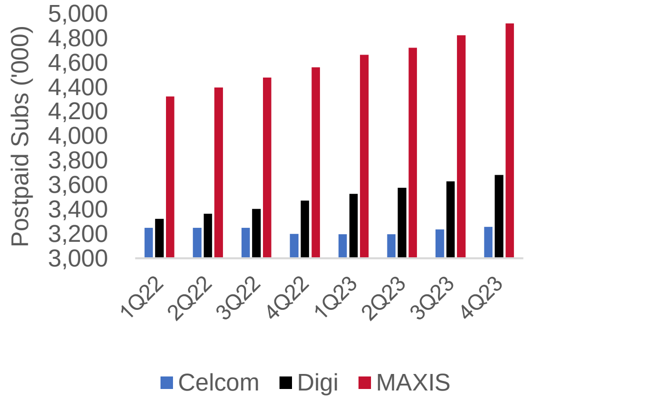
Unifi Mobile may emerge as a market disruptor. Moving forward, we believe that subscriber growth traction for the top 3 players may likely remain steady, despite the entry of TM's Unifi Mobile. This is because monthly fees for Unifi Mobile's postpaid packages range lower at RM39-RM99 in comparison to CDB, MAXIS' and Digi's postpaid plans which range at RM60-RM139. On the other hand, we believe that Unifi Mobile may snag some market share from Umobile given matching price points and TM's superior network quality. Evidently, based on OpenSignal's Sept 2023 ranking of true wireless experience in Malaysia (excluding MAXIS), Unifi Mobile won awards for Consistent Quality and Live Video experience. Additionally, Unifi Mobile secured five other joint wins in the video, voice app, 5G live video, 5G download speed and 5G coverage experiences. Hence, this translates to a tie with Digi in terms of the highest total number of wins in the various categories. Against this setting, and given rational competition, we expect market share for the big 3 players will remain stable in 2024. On the other hand, as outlined above, we believe that Umobile's share may potentially be eroded by TM.

Prepaid Subscribers



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, Kenanga Research

2. Fixed

Linking investors to Link Net. For fixed line companies, news flow on a stake sale in PT Link Net may potentially surface in 2QCY24. Recall that in Jan 2024, Bloomberg reported that AXIATA's FiberCo in Indonesia, namely Link Net, is seeking an advisor for a potential stake sale for USD400m-ISD500m. To recap, in Dec 2023, XL and Link Net underwent a structural transformation which entailed: (i) transfer of Link Net's 750k residential subscribers, and (ii) roll-out of an additional 2m new home passes by Link Net for XL. This is aligned with the group's delayering strategy where XL becomes a ServeCo and Link Net transforms to a FiberCo. As ServeCo, XL will offer fixed-mobile converged offerings, whilst Link Net as FiberCo will focus on delivering 8m home passes to XL by 2026 (2023: 3.4m). On the back of this, Link Net requires peak funding of USD500m-USD600m in 2026 to deploy 4m home passes.

New funding is key to Link Net's growth. In the event that Link Net is unable to secure new equity funding in a timely manner, it may tweak the scale and timeline of its expansion plan. Under this circumstance, its expansion plans will be funded via internal cash flows or bank borrowings. This outcome is less desirable as it will translate to a drag on AXIATA's balance sheet and derail its plans to deleverage. To recap, AXIATA has committed to slash its net debt/EBITDA gearing to 2.5x (3QFY23: 3.36x). Furthermore, this would prolong Link Net's turn-around and limit growth opportunities for it and XL. To recap, Indonesia's low fixed broadband penetration of 15% (Malaysia: 48%) is attributed to significant supply deficit. Evidently, the largest fixed player there, Telkom, merely has 37m home passes as at end-2022, whereas Link Net as the second largest player, trails behind with 3.4m. In contrast, internet penetration (mainly via mobile) at Indonesia is substantially higher at 78% in 2022-23. These market gaps translate to promising growth and expansion prospects. On the back of this, we believe that investors are eagerly awaiting the entry of new equity investors to Link Net.

Retail broadband pricing will likely remain rational. Recall, in 4QCY23, fixed player Unifi concluded the year with healthy YoY net adds of 137k in 4QCY23. Notably, in spite of Unifi's repricing exercise in Oct 2023, sequential net adds were steady at 19k in 4QCY23 (3QFY23: 19k, 2QFY23: 38k). Therefore, this implies that competition between the fixed players remain rational despite the blanket repricing exercise for retail broadband in 4QCY23. To recap, this was to correspond with lower wholesale broadband prices after the implementation of the Mandatory Standard on Access Pricing in 1QCY23. Following this, in 4QCY23, all three major fixed home players adjusted prices for their entry level 100Mbps and 300Mbps plans. They are now on par or largely comparable with each other at monthly prices of RM99 (100Mbps), and RM129-RM139 (300Mbps). In light of this, as we forge ahead for the remainder of 2024, we expect ARPUs for fixed offerings to remain stable at current levels. This is barring the intervention of regulatory forces that may impose further price cuts.

3. Infrastructure

Edotco on the dot for disposal. For infrastructure companies, there may be news flow in 2QCY24 surrounding the sale of Edotco's towers in Myanmar. To recap, AXIATA's tower unit, namely Edotco, owns circa 2,000 towers and manages 1,000 sites at Myanmar. This translates to 3%-4% of AXIATA group's assets. In 4QFY23, Edotco's Myanmar operations were reclassified under asset held for sale given that negotiations with a potential buyer are ongoing. This is aligned with AXIATA's plans to enhance Edotco's appeal to potential new shareholders on the back of ESG concerns. To recap, following a coup in 2021 that overthrew Myanmar's democratically elected government, the country is now ruled by a military regime. Moving forward, AXIATA believes that a more efficient route for Edotco's withdrawal would be the disposal of its towers in Myanmar to local buyers. Hence, this would hasten the process of securing regulatory approvals and accelerate Edocto's departure (target: 2024).

Maintain overweight. In essence, we believe that investors are less wary on 5G as monetization opportunities from enterprise and high net worth clients loom on the horizon. Moreover, investors are optimistic that earnings and dividends for telco players will remain intact given a milder and more accommodative regulatory environment. We maintain our **OVERWEIGHT** recommendation on the sector with our top picks being **TM** and **CDB.**

We like **TM** on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), AI integration etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, and (iii) earnings accretion from potential development of new hyperscale data center.

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 average FCF yield of 7.9% in FY24-25 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.

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	OP	2.81	3.10	10.3%	25,801.2	Y	12/2024	7.3	7.3	23.3%	0.6%	38.6	38.3	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	4.34	5.83	34.3%	50,914.7	Y	12/2024	17.2	18.9	6.1%	10.1%	25.2	22.9	3.0	12.3%	13.8	3.2%
MAXIS BHD	OP	3.51	5.30	51.0%	27,490.6	Y	12/2024	16.7	17.9	6.2%	7.2%	21.1	19.6	4.8	22.7%	20.0	5.7%
OCK GROUP BHD	OP	0.605	0.795	31.4%	637.9	Y	12/2024	5.1	5.2	26.8%	3.1%	12.0	11.6	0.9	8.0%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.01	7.22	20.1%	23,064.1	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.2	13.0	2.3	17.9%	23.0	3.8%
SECTOR AGGREGATE					**127,908.6**					**1.1%**	**5.6%**	**22.2**	**21.0**	**2.5**	**12.8%**		**3.7%**

Source: Bloomberg, Kenanga Research

Utilities

Upside Exhausted, Hold for Yields

NEUTRAL

↔

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

We remain NEUTRAL on the sector. The sector offers earnings defensiveness backed by regulated assets, offering dividend yields of 3% to 6%. However, most key stocks are fully valued after the recent run-up in their share prices. TENAGA (MP; TP: RM11.50) guided for electricity demand growth of 2.5% to 3.0% in CY24, driven by additional demand from new data centres. Meanwhile, stabilising coal prices mean that negative fuel margin, which blew a big hole in power producers' earnings in CY23, is unlikely to recur in CY24, while normalising gas prices will have a mixed impact on gas utilities. Our top sector pick is YTLPOWR (OP; TP: RM4.20) for its PowerSeraya's earnings bonanza and long-term growth driven by its data centre and digital banking ventures.

A data centre play. TENAGA guided for electricity demand growth of 2.5% to 3.0% in Peninsular Malaysia in CY24, vs. 3.6% achieved in CY23 (which was partly driven by the economy reopening). The key driver for CY24 electricity demand growth is the onboarding of data centres completed in CY23 with a combined capacity of c.635MW. In addition, nine more data centre projects with a combined capacity of c.700MW are expected to be completed this year. **TENAGA** projects a total potential demand of >5,000MW of electricity annually from data centres by CY35.

In terms of energy sources, **TENAGA** is transitioning to green energy with a pipeline of green energy project with a combined capacity of c.7,700MW comprising hydro plants, hybrid hydro-floating solar PV, hydrogen-ready combined cycle power plant, corporate green power program and large-scale solar parks. In FY24, the energy transition capex is budgeted at RM3.33b. 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 of 7.3% under the Regulatory Period 3 (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.

Stable fuel prices. Fuel prices for coal and gas have been fairly benign in the past six months as opposed to sharp surge in 2HCY22 and sudden collapse in 1HCY23. As a result, **TENAGA's** receivables, including Imbalance Cost Pass-through (ICPT) receivables were reduced substantially by 56% to RM9.7b in 4QFY23 from the peak of RM22.0b in 4QFY22. The shrinking ICPT receivables will result in lower working capital requirements and hence lower interest expenses and better earnings going forward for **TENAGA.** On the other hand, stabilising coal prices mean that negative fuel margin which blew a hole in power producers' earnings in CY23 is unlikely to recur in CY24. To recap, the total negative fuel margin cost for **TENAGA** and **MALAKOF (MP; TP: RM0.68)** in FY23 were RM618.7m and RM828.2m, respectively.

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: RM18.87)** 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 industrial 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 days during the pandemic) while it expects a maiden earnings contribution from data centre in 4QFY24 (FYE: Jun).

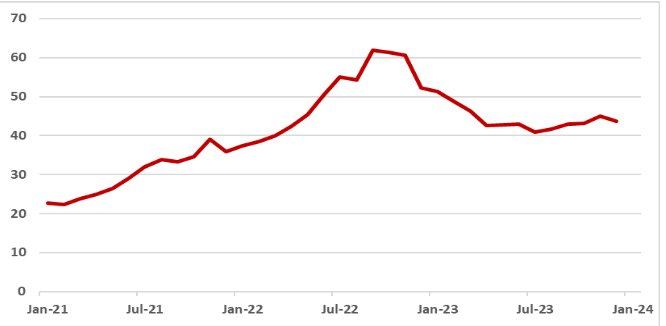
We raise our FY24-25F net profit forecasts for **TENAGA** by 1% each to bring ourselves more in line with its guidance for electricity demand growth. We now assume electricity demand growth of assumption of 2.5% in FY24-25 (vs. 1.8% previously) and lift our TP to RM11.50 (from RM11.40).

We remain **NEUTRAL** on the sector. The sector offers earnings defensiveness backed by regulated assets, offering dividend yields of 3% to 6%. However, most key stocks are fully valued after the recent run-up in their share prices. Our sector top pick is **YTLPOWR** for: (i) its earnings stability backed by various regulated assets globally, (ii) the strong near-term earnings prospects of PowerSeraya backed by gas inventory locked in at low prices, and (iii) its longer-term growth potential from its data centre and digital banking ventures.

Indonesia Coal Benchmark Price (USD)

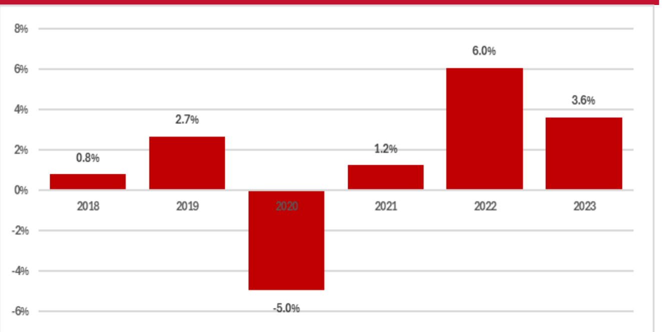
Source: Bloomberg

Malaysia Reference Price (RM)



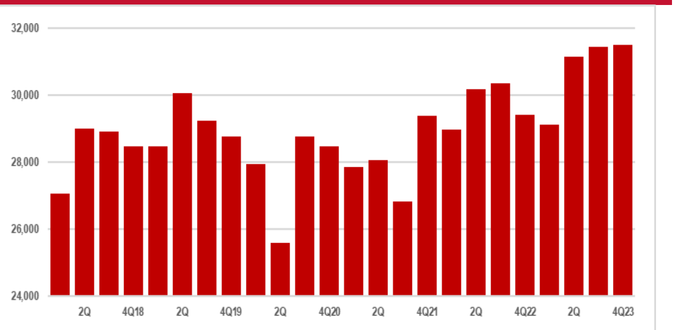
Source: DOSM

TENAGA: Annual Electricity Demand Growth



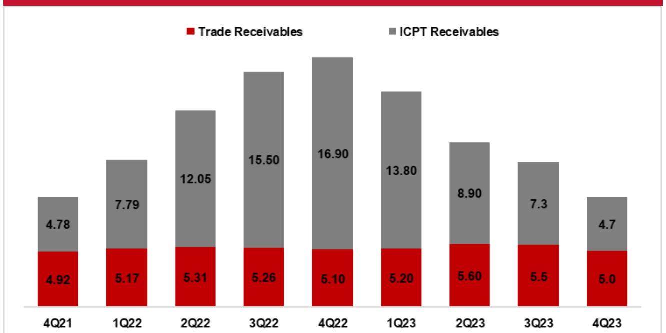
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



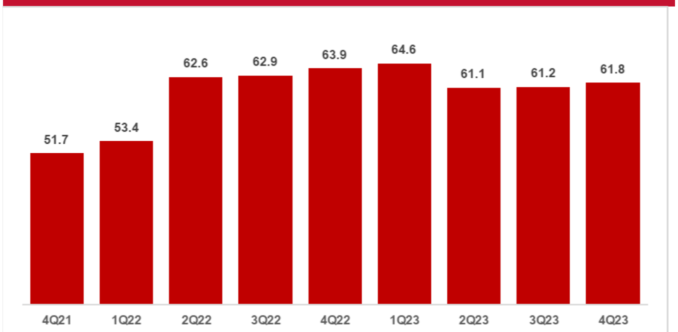
Source: Tenaga

TENAGA: Trade & Other Receivables (RM b)



Source: Tenaga

TENAGA: Borrowings (RM b)



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	3.36	3.33	-0.9%	4,314.2	Y	12/2024	25.7	24.4	-13.8%	-5.2%	13.1	13.8	3.0	23.4%	20.6	6.1%
MALAKOFF CORP BHD	MP	0.615	0.680	10.6%	3,005.5	Y	12/2024	4.7	5.8	-71.9%	24.1%	13.1	10.5	0.7	5.2%	3.8	6.1%
PETRONAS GAS BHD	MP	17.94	18.87	-0.8%	35,498.5	Y	12/2024	98.4	100.7	5.2%	2.4%	18.2	17.8	2.5	14.2%	72.0	4.0%
SAMAIDEN GROUP BHD	OP	1.26	1.51	19.8%	520.8	Y	06/2024	3.7	5.3	33.6%	43.7%	34.3	23.8	5.0	15.7%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.50	1.88	25.3%	1,003.6	Y	03/2024	4.1	6.9	52.8%	67.4%	36.2	21.6	4.6	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	11.28	11.50	1.9%	65,281.1	Y	12/2024	73.7	79.5	37.4%	7.9%	15.4	14.3	1.0	7.0%	36.1	3.2%
YTL POWER INTERNATIONAL BHD	OP	3.67	4.10	11.7%	29,738.6	N	06/2024	35.3	28.1	45.9%	-20.5%	10.4	13.1	1.6	16.5%	6.0	1.6%
Sector Aggregate					**139,362.2**					**48.6%**	**-1.6%**	**14.5**	**14.7**	**2.6**	**13.7%**		**3.0%**

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.

Published by:

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