

1QCY24 Report Card

More Positive Earnings Surprises Sequentially

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

FBM KLCI (pts)	
Current	Target
1,615.40	1,700↑

FBM KLCI component stocks reported more positive earnings surprises in 1QCY24 sequentially. There were rare earnings beats from three financial groups. Strong freight rates, charter rates and metal commodity prices buoyed earnings of selected oil & gas names, and an aluminium smelter. The picture in the export manufacturing sector was mixed with improved orders for some players from restocking by customers but was not experienced by the others. Meanwhile, soft global demand continued to weigh on prices of oleochemicals and petrochemicals, hurting earnings of integrated plantation players and petrochemical producers. While keeping our FBM KLCI earnings growth projection of 16.0% in CY24F, we lift our CY25F forecast to 8.0% (from 6.2%). We raise our end-CY24 FBM KLCI target to 1,700 pts (from 1,605 pts).

More Positive Earnings Surprises

The earnings delivery (as against our expectations) of FBM KLCI component stocks improved sequentially in 1QCY24, with 16%, 64% and 20% beating, meeting and missing our projections, compared with 12%, 60% and 28%, respectively, three months ago (Exhibit 1).

Similarly, as against market expectations, there was also sequential improvement with "above", "within" and "below" performances at 24%, 48% and 28% vs. 14%, 52% and 34%, respectively, three months ago (also see Exhibit 1).

Winners and Losers

Four FBM KLCI component stocks under our coverage beat our projections, namely, **AMBANK** (lower provisions), **CIMB** (higher loans growth and non-interest incomes), **MISC** (strong petroleum tanker freight rates) and **PMETAL** (stronger aluminium prices).

On the other hand, five FBM KLCI component stocks under our coverage universe missed our projections, namely, **IOICORP** and **KLK** (weak downstream earnings), **PCHEM** (low production and product prices), **PPB** (weak earnings of associate Wilmar) and **SIMEPLT** (production cost fell less).

Notable Trends in Earnings Reports

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

- There were rare earnings beats in the financial services sector (**AMBANK**, **CIMB** and **MBSB**).
- Earnings boosts from strong freight rates and charter rates (**MISC**, **KEYFIELD** and **VELESTO**).
- Better earnings on an uptrend in metal commodity prices (**BIPORT** and **PMETAL**).
- Strong *Perodua* vehicle sales benefitted selective players (**HIL**, **MBMR** and **SIME**).
- A mixed picture in the export manufacturing sector with improved orders for some players from restocking by customers (**D&O**, **NATGATE**, **SKPRES** and **TGUAN**) but not for the others (**INARI**, **JHM**, **KESM**, **KPS** and **SCIENTEX**).
- The still poor demand for petrochemicals and oleochemicals due to soft global economy, especially in China, weighed down on earnings of players (although resilience was seen in specialty fats being food items) (**IOICORP**, **KLK** and **PCHEM**).
- Margin squeeze as players chose to grow their top lines at the expense of margins (**BPPLAS**, **HARTA**, **PADINI** and **TOPGLOV**).
- Negative earnings impact from global shipping disruptions and prolonged geo-political tensions in the Middle East (**PWROOT**, **SWIFT** and **WPRTS**).

We Raise Our End-CY24 FBM KLCI Target to 1,700 pts from 1,605 pts

While keeping our FBM KLCI earnings growth projection of 16.0% in CY24F, we lift our CY25F forecast to 8.0% (from 6.2%).

We raise our end-CY24F FBM KLCI target to 1,700 pts based on 16x CY24F PER (from 1,605 pts based on 15x CY24F PER previously). At 16x, our target PER is at the higher end of FBM KLCI's historical PER range of 14x-16x post the economy reopening in 2021-2023. This is to reflect the positive sentiment towards the market, both from the local and foreign investors. Nonetheless, following the strong YTD run-up in the market, we are shifting our focus to mostly laggards.

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

05 June 2024

Exhibit 1: Quarterly Results of FBM KLCI Component Stocks												
	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AM BANK	1			1					1			1
AXIATA		1			1		1			1		
CIMB	1			1				1			1	
CDB		1			1		1			1		
GENM		0				1		0				1
GENTING		0		1				0				1
HLBANK		1			1			1			1	
HLFG		0		1				0			1	
IHH		1			1				1			1
IOICORP			1			1			1		1	
KLK			1			1			1			1
MAXIS		1			1				1			1
MAYBANK		1			1			1			1	
MISC	1			1				1			1	
MRDIY		1			1			1			1	
NESTLE		1				1		1				1
PBBANK		1			1			1			1	
PCHEM			1			1		1				1
PPB			1			1		1			1	
PETDAG		1			1			1			1	
PMETAL	1			1				1			1	
PETGAS		1			1			1			1	
QL		1			1			1		1		
RHBBANK		1			1			1			1	
SIMEPLT			1			1			1			1
SIME		1				1		1			1	
TM		1			1		1			1		
TENAGA		1			1				1			1
YTL		0			0			0			0	
YTLP		0		1				0			1	
Total	4	16	5	7	14	8	3	15	7	4	15	10
Total (%)	16	64	20	24	48	28	12	60	28	14	52	34

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

Source: Kenanga Research, Bloomberg

05 June 2024

Exhibit 2: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
CIMB	OP	6.84	7.60	11.1	73,074.3	Dec	68.5	72.5	4.7	5.8	10.0	9.4	1.0	10.5	44.0	6.4
IHH	OP	6.19	7.00	13.1	54,515.3	Dec	20.6	21.6	41.6	4.8	30.0	28.6	1.8	6.1	7.0	1.1
CDB	OP	3.81	5.97	56.7	44,697.0	Dec	17.2	18.8	6.4	9.0	22.1	20.3	2.7	11.4	14.0	3.7
RHBBANK	OP	5.49	7.25	32.1	23,933.6	Dec	70.8	73.5	8.3	3.9	7.8	7.5	0.7	9.7	43.0	7.8
TM	OP	6.21	7.22	16.3	23,832.1	Dec	45.6	46.2	-13.2	1.5	13.6	13.4	2.4	18.0	23.5	3.8
GAMUDA	OP	6.07	6.70	10.4	16,815.1	Jul	40.2	50.6	29.7	25.8	15.1	12.0	1.5	10.0	12.0	2.0
DIALOG	OP	2.39	3.18	33.1	13,485.8	Jun	10.2	10.6	13.9	4.1	23.5	22.6	2.3	10.0	4.3	1.8
INARI	OP	3.25	4.00	23.1	12,232.2	Jun	9.4	11.8	8.6	25.8	34.5	27.5	4.7	13.4	8.9	2.7
ABMB*	OP	3.87	4.60	18.9	5,991.2	Mar	50.2	52.7	12.5	5.2	7.7	7.3	0.8	10.5	25.0	6.5
SKPRES*	OP	1.09	1.35	23.9	1,703.0	Mar	6.2	7.3	-33.0	18.6	17.6	14.8	1.9	12.4	3.7	3.4

*FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

Exhibit 3: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
IHH	OP	6.19	7.00	13.1	54,515.3	Dec	20.6	21.6	41.6	4.8	30.0	28.6	1.8	6.1	7.0	1.1
CDB	OP	3.81	5.97	56.7	44,697.0	Dec	17.2	18.8	6.4	9.0	22.1	20.3	2.7	11.4	14.0	3.7
MAXIS	OP	3.63	5.30	46.0	28,430.4	Dec	16.7	17.9	6.2	7.2	21.8	20.3	5.0	22.7	20.0	5.5
TM	OP	6.21	7.22	16.3	23,832.1	Dec	45.6	46.2	-13.2	1.5	13.6	13.4	2.4	18.0	23.5	3.8
GAMUDA	OP	6.07	6.70	10.4	16,815.1	Jul	40.2	50.6	29.7	25.8	15.1	12.0	1.5	10.0	12.0	2.0
DIALOG	OP	2.39	3.18	33.1	13,485.8	Jun	10.2	10.6	13.9	4.1	23.5	22.6	2.3	10.0	4.3	1.8
INARI	OP	3.25	4.00	23.1	12,232.2	Jun	9.4	11.8	8.6	25.8	34.5	27.5	4.7	13.4	8.9	2.7
F&N	OP	32.62	38.25	17.3	11,964.3	Sep	167.6	176.4	26.9	5.3	19.5	18.5	3.3	17.7	85.0	2.6
MBMR	OP	5.04	5.80	15.1	1,970.1	Dec	72.5	73.3	-7.2	1.1	7.0	6.9	0.9	12.9	40.0	7.9
SKPRES*	OP	1.09	1.35	23.9	1,703.0	Mar	7.3	8.5	18.5	15.3	14.9	12.9	1.8	12.4	3.7	3.4

*FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

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

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
OPPSTAR*	OP	1.40	1.70	21.4	896.4	Mar	5.7	6.5	165.0	15.4	24.7	21.4	5.1	22.4	1.4	1.0
KAREX	OP	0.83	1.10	32.5	874.4	Jun	2.4	4.4	137.1	85.1	35.1	19.0	1.8	5.1	1.0	1.2
TGUAN	OP	2.09	2.86	36.8	838.0	Dec	25.5	29.8	20.5	16.6	8.2	7.0	0.8	10.3	5.5	2.6
MKH	OP	1.30	2.11	62.3	750.6	Sep	18.0	20.1	41.8	11.2	7.2	6.5	0.4	5.3	6.0	4.6
LGMS	OP	1.41	1.90	34.8	643.0	Dec	4.6	6.3	88.4	37.0	30.5	22.2	6.2	22.2	0.9	0.6
ENGTEX	OP	1.08	1.41	30.6	476.7	Dec	9.2	12.5	300.0	35.0	11.7	8.7	0.5	4.7	0.8	0.7

FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

05 June 2024

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my