No Need to Be "Tariff"-ied

Silver linings for Malaysia versus region

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Weakness in the Indonesia stock market on Tuesday may trigger concerns on funds flows and risk in ASEAN. Malaysia has not been spared from outflows YTD, but we don't see material "contagion risk" from this more Indonesia-specific episode, in our view. In fact, on a fundamental basis, we see silver linings for Malaysia due to: (i) resilient economic growth with stable interest rate, (ii) the US implying on Tuesday that countries are allowed to negotiate once reciprocal tariff number are dished out - Malaysia, which has lesser average-effective tariffs, may be under lesser pressure in arriving at a deal, and (iii) China's consumption stimulus push to reverse some negative equities sentiment thanks to Malaysia's high relative trade ties.

While we argue based on the above points that sentiment for Malaysia would be supported, broad-based buying interest, especially for exporters, would be difficult to sustain pending trade and tariff policy clarity by next month. Quality counters and KLCI names will thus likely see more bottom-fishing for now, in our view. In this note we highlight counters that may benefit from China domestic improvement, whereby amid a broader picture that is less firm, those more beaten down in terms of share price and expectation include PCHEM, PPB and SIME.

Amid foreign outflows, we don't expect material contagion from seemingly Indonesia-centric concerns

Pressure on Jakarta stock market on Tuesday exacerbated by rumours that has since been refuted. Amid the Malaysian market closed for holiday, Indonesia stock market was battered on Tuesday. The stock exchange saw its circuit breaker triggered after it plunged 5% in the morning session, and was at a point down 7% before ending the day with a narrower loss. Apart from concerns on the economy amid job losses, fuelling the decline was also rumours of their finance minister resigning which was later refuted later in the day (link).

Viewed as more Indonesia specific, and thus we don't see material contagion to FBM KLCI. Recent news flow that may have triggered sell-down of the Indonesian stock market on Tuesday include two global investment banks downgrading stock market rating, reportedly attributed to fiscal risk, alongside slowdown in domestic cylical sector (link). This comes amid Indonesia's policies and initiatives being assessed for impact by investors. These include free nutritious meal programme, efficacy of the investment management agency BP Danantara as a planned superholding agency, and social housing programme (with central bank support via bond purchase), etc

Thus it appears to us it is more Indonesia-specific risk which renders material contagion to FBM KLCI unlikely, although on a YTD basis according to Bloomberg data (USD terms), foreign equities net outflow for Malaysia YTD of c.USD1.7b is only slightly behind that of Indonesia. Names more exposed to the domestic Indonesian economy that may bear watching for knee-jerk reactions may include **CIMB** (25% of PBT; 15% of loans), and to a lesser extent **Maybank** (3% of PBT; 5% of loans) among banks, and also **AXIATA** (where XL forms c.19% of Entreprise Value). Other firms that had been looking to venture into Indonesian market include the likes of **IJM**. Separately, **KPJ** had some hospital operations in Indonesia but has since exited.

Fundamentally, our forecast is for Malaysia's overnight policy rate (OPR) to be kept stable in support of economic growth, despite other central banks leaning towards easing. MYR has so far been steady (almost flat against USD on YTD basis), versus c.2% decline in the Rupiah against the USD. Anecdotally, confidence can also be gauged from improved foreign holdings of corporate bond (February).

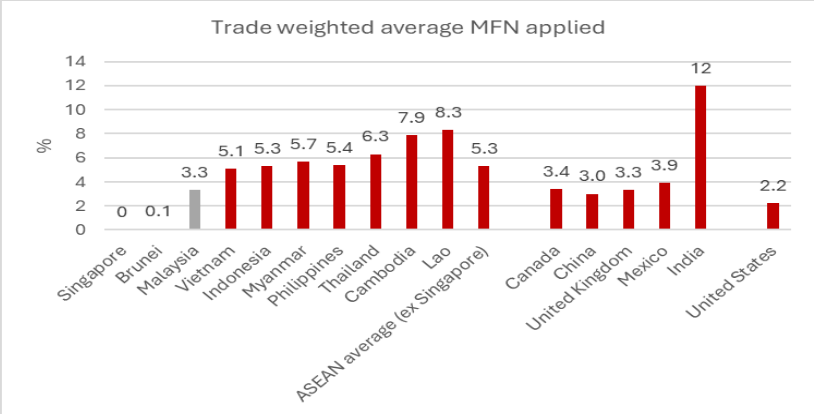
Individualized reciprocal tariffs with room for negotiation; Malaysia seen under less relative pressure to get a deal

Individualized tariffs, instead of tiering, seems the way forward. The latest news from the US President Trump administration is that by 2nd April, countries will receive a number which the US government believes best represents their tariffs. This is more specific from an earlier version where there was discussion about stratifying into few categories its trade partners, ie by tiering, but this appears to have been ruled out. (link).

If solely from an effective tariff standpoint, Malaysia is not worse off. The shift to a more individualized tariff depending on each countries may make Malaysia relative less worse off. Reiterating from our previous note, the Most Favored Nation (MFN) tariff rate applied to World Trade Organisation members gives us indication of average effective tariff. This rate, measured from customs/import duties, prescribes that once a lower import tariff is imposed by one country on another country, that tariff must also apply to other member nations. Measured on a trade-weighted average basis to better account for actual trade flow, MFN stood at 3.3% for Malaysia. That this is lower than the ASEAN average of 5.3, sans Singapore (exhibit 1), means Malaysian exporters would stand at a relative advantage if this is used as yardstick for tariffs to be imposed by the US. Even so, we caveat that observing this metric alone isn't holistic. When applying reciprocal tariffs, US will also consider non-tariff trade barriers, labour suppression etc, and where US deems there is unfairness, and thus it is challenging to accurately assess in our view. In addition, the US is also looking to administer sector-specific tariffs.

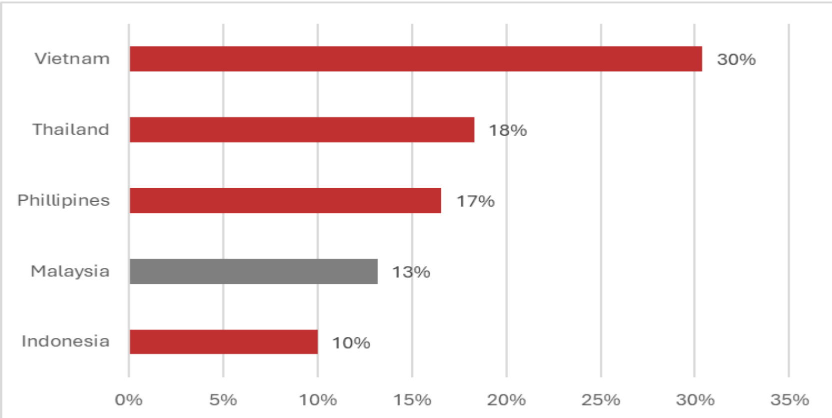
US will give room to negotiate. Malaysia less pressured in deal-making gauging from exposure to US exports. US Treasury Secretary Scott Bessent has said countries can negotiate, and to lower the "tariff wall" (link). This suggests as well that there may be buffer with regards timeline, and confirms that the bigger picture is to bring countries to the discussion table. Indeed, within ASEAN countries the pressure to negotiate for a good deal might also be lesser for Malaysia if we go by the grounds of how much individual country is dependent on the US as an export desitination. Using goods exports to US as a percentage of total exports for 2024, Indonesia is most insulated at 10%, while Vietnam is more dependent at c.30%. Malaysia is closer to the former at 13% (exhibit 2).

Exhibit 1: Trade weighted average MFN applied (2023)



Source: World Trade Organisation, Kenanga Research

Exhibit 2: Goods exports to US by ASEAN countries and expressed as a percentage of trade (2024)



Source: Individual countries statistics bureau, Kenanga Research

Amid tariffs, China domestic consumption stimulus news should help to lift sentiment including that for Malaysia

Consumption priority. Over the weekend China unveiled a 30-point action plan that focused on consumption. This includes attaining reasonable wage growth and boosting employment, with pledges of government support, alongside measures to support stock market. This was hot on the heels of expansion of consumer trade-in programmes of old products (300b yuan) for goods purchases. At risk of cherry-picking data, but to highlight recent data on consumption, Monday data that followed on retail sales of consumer goods (+4.0% YoY for January and February) was better than consensus forecast. The broader picture is still more uncertain, however. Some silver lining as well for China industrial output which was ahead of estimates at 5.9% for the same period.

Trade linkage high for Malaysia. Malaysia has relatively significant exposure to trade partner China and thus should gain from sentiment; per China customs data (link), Malaysia was in pole position in terms of value and percentage of exports (28%) from ASEAN countries in 2024.

Highlighting beaten down names as broader picture not yet firm. Part of our 1QCY25 strategy of not neglecting names that will respond well to stimulus is playing out, particularly with China now indicating that it will ramp up budget deficit to 4% of GDP. This is high for recent times, as it aims for 5% GDP growth target i.e. the same level that it met last year per target. In light of the above developments, the stronger demand but amid less certainty of a broader economy uplift means those beaten down names YTD in the KLCI will likely benefit most. These will include the likes of **PCHEM** (OP: TP**:** RM4.70) which would benefit if industrial output indicators continue to perform**, PPB** (OP: TP: RM16.00) for exposure to Chinese edible oil market**,** and **SIME** (OP; TP: RM2.90) for its motor and industrials in China, although SIME's recent share price decline may be a function of competition in the domestic non-national cars market which we are monitoring. For a fuller list of China exposed names, we have reproduced a table behind which was initially in our October 2024 report *Shelter amid Stimulus.*

Exhibit 3: Potential beneficiaries from China economic stimulus (reproduced from October 2024 report)

Name	Potential benefit
Commodities/metals	
PMETAL	Its extrusion products are exported to China in which extrusion as a whole is 12% of revenues, though an improve aluminium price could still benefit PMETAL overall
OMH	China is one of its largest destination markets
TGUAN/ENGTEX	Assuming ability to pass on costs, could benefit from higher ASPs from mark-up to input costs
PPB	Operates its own flour mills in China (via associates). For cooking oils, PPB owns 19% of Wilmar which has big market presence in the Chinese edilble oil market
Economic activity	
PCHEM	Benefit from China demand of petrochemicals on improved economic activity
WPRTS	From more robust manufacturing activity since 60% of its trade routes are intra-Asia
Consumption/Wealth effect	
HLBANK	Through Bank of Chengdu
INARI	54.5% owned YSIC-JV is focused on China's smartpone market.
SIME	Motor and industrials business in China including one of the biggest BMW dealerships comprise 25% revenues
IHH	Shanghai Hospital and Gleneagles Hong Kong. Contributes roughly 6% to top line
CAPITALA	Outbound tourism

Source: PBOC, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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