

## No Longer Taking At Face Value

Exploring the MY Value Up rollout for potential beneficiaries

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BURSA Malaysia and Securities Commission jointly launched the MY Value Up programme last week. This follows a playbook seen over the past three years, riding on the coattails of the success of Japan and South Korea that had embarked on respective stock market reforms to illuminate value of stocks via better communication of strategies and roadmap to shareholders. We are positive on the MY Value Up, as Malaysia stocks are ripe for improvement given relatively high pool of stocks trading below book value or hold excess cash. Executed right, a goal of improving Malaysia's presence in the MSCI, especially passive funds, would be in sight.

Beyond face value, the key now is to better articulate how specific drivers support value creation over the mid-to-long term. Locally, a voluntary approach has been chosen for My Value Up, with mandatory adoption being considered by 2028 or later, depending on progress. We concur with this approach as a mandatory roll-out may create another box-ticking exercise. It is crucial to have the right blend of incentives therefore for company voluntary adoption. Even so, we expect company boards would endeavour to adopt the MY Value Up given pressure to keep up with the Joneses to earn praise, supposing information about which firms are in compliance are made known.

Company value creation journey should be judged over a period of time. For now, firms with weaker valuation such as in depressed price-to-book will be the low-hanging fruits. We await details that would be made known by 1H CY26. From our preliminary screens for firms that trade at not more than 1x price-to-book within the fold of the 88 companies under MY Value UP, we watch for potential beneficiaries such as SPSETIA, SIMEPROP, GENM, PPB, YINSON, and IJM after applying our screens (see exhibits 6 to 9).

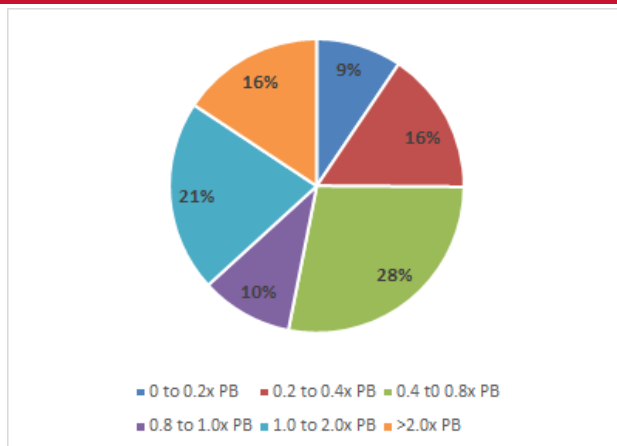
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**SC-BURSA dual push for long-term valuation creation and meaningful foreign interest capture.** On 20 April, the Securities Commission (SC) launched the MY Value Up Programme ([link](#)). Key drivers, according to SC are to foster a more dynamic corporate landscape under a shared commitment between BURSA Malaysia and the SC. The focus will be communication of the growth story of public listed companies, with regards to mid to long-term strategies. Part of this requires investment in helping companies appreciate global investment trends, especially passive funds ([link](#)). Executed right, Malaysia's presence in the MSCI is envisaged to improve. SC sees that there is possibility to gain 0.3-0.4 ppt on the MSCI share, from a current base of a meagre 1.2% representation on the MSCI index (with a total of 27 companies). This would be significant given that in total USD21 trillion in AUM are benchmarked to MSCI Equities Indices.

**Regionally many reforms are ongoing; MY Value UP focuses on improving the investment pitch.** Across the causeway, neighbour Singapore through its Equity Market Development Programme (EQDP) has invigorated its small and mid cap space by injecting funds into the market. In contrast, MY Value Up is seen as taking a leaf out of Japan and South Korea's playbook, centered on crafting and better articulating a mid-to-long term strategy. Japan started the ball rolling in March 2023, where the Tokyo Stock Exchange (TSE) embarked on its "Action to implement Management that is Conscious of Cost of Capital and Stock Price". Less than a year later in January 2024, South Korea embarked on a comparable version of its own to remove a "Korean Discount" on valuation, but its version had few other accompanying reforms as well.

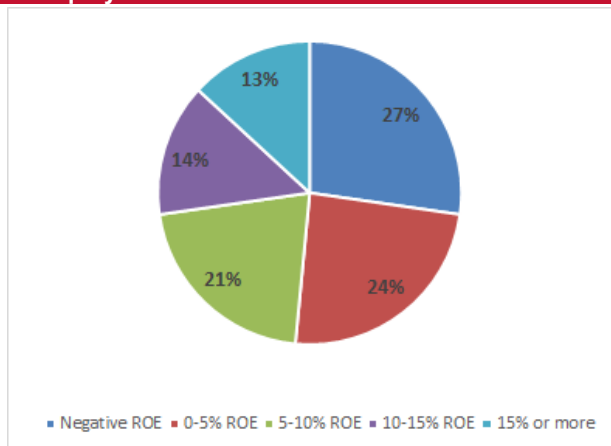
The urgency for action by the TSE stemmed from its realization that half of the listed companies on the Prime Market (comprising large companies) and 60% in the Standard Market (mid sized companies) have ROE below 8% and P/B ratios below 1 times. Malaysia is not much better off in comparison, from our observation – of the total close to 1,100 securities listed on BURSA Malaysia, about 65% of stocks have return on equity of less than 8% and about similar figure with price to book value of below 1x. We note that just above a quarter of stocks exhibited negative returns (exhibits 1 and 2).

**Exhibit 1: BURSA Companies Breakdown by Price-to-Book**



Source: Kenanga, Bloomberg

**Exhibit 2: BURSA Companies Breakdown by Return on Equity**



Source: Kenanga, Bloomberg

**Burden placed on the 88 firms initially, but more importantly for the company boards to act.** SC has conducted initial meeting with companies. The details of a meeting with 88 companies, which represented 80% of market capitalization, each no less than RM4b in market capitalization, were not made known. Overarchingly, it is about being best in class of not just being a domestic company. In terms of number of companies, this would draw comparison inevitably with the 100 stock index that form the Korea Value-Up Index, which tracked stocks not based purely on just market cap, but earnings track record as well. More importantly, should the Korean rollout be a reference point, we anticipate that the MY Value UP should require board level commitment, as was the case in the South Korea rollout (see Exhibit 3).

**Exhibit 3: Respective Countries Value Up Plan in Brief**

Countries	Background	Methods	Departments in charge
Japan	Half of the listed firm on the Prime Market and 60% in the Standard Market have ROE below 8% and P/B ratios below 1 which spurred the need for management to be more conscious of cost of capital and stock prices.	<p>Based on basic management policy by the Board, management team is expected to lead in appropriately allocating resources with consideration towards cost of capital</p> <p>To consider cost of capital (WACC and COE), balance sheet profitability (ROIC and ROE), and market valuation (PBV and PER).</p> <p>Not expecting a one-off response, including share buybacks, with a goal to achieve profitability in excess of cost of capital.</p>	Council of Experts Concerning the Follow-up of Market Restructuring under the Tokyo Stock Exchange.
South Korea	To achieve higher valuation and improve the overall Korean stock market valuation in an effort to overcome undervaluation of Korean listed companies.	<p>Listed companies, led by their board of directors, will draw up mid-to-long term corporate value-up plans. Also required to evaluate the implementations and communicating with investors every year and publish the plans on their websites as well as the KRX's website.</p> <p>Publication of financial indicators such as PBRs, PERs, ROE.</p> <p>Tax incentives are provided for participation, including evaluation of eligibility for R&amp;D credits, etc.</p> <p>Development of a Korea Value up index, as a benchmark for pension funds and institutional investors, and listing of such ETF.</p>	FSC and Korea Exchange. Dedicated department and formation of an advisory board.
Singapore	Equity Market Development Programme targeting firms of SGD500m- SGD5b, funded from MAS Investment portfolio and Financial Sector Development Fund.	Monetary Authority of Singapore (MAS) will invest with selected fund managers with capabilities to implement investment mandates with a strong focus in Singapore stocks.	Equities Market Review Group (established 2024).

Source: Various news

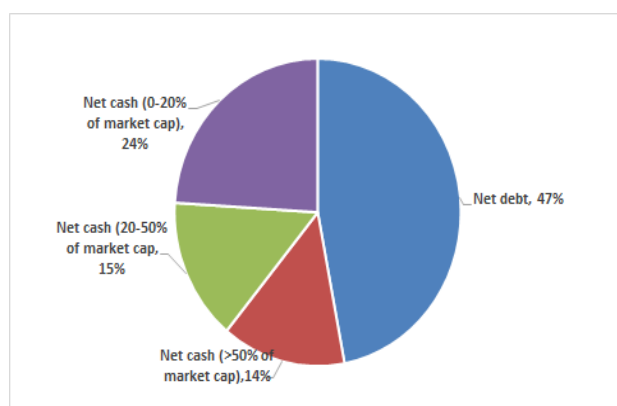
27 April 2026

### Possibly taking a leaf from the South Korean and Japanese experience

**A template given for reference in terms of metrics.** We note that the genesis for the Japan programme stemmed from half of its listed companies on the prime market and 60% in the standard market have ROE of below 8% and PB of below 1x ([link](#)). In Korea, the focus was on companies that were undervalued on the basis of Price to Book, ROE and PER, arranged by market segment and business focus. We have also observed that in the Korean rollout that the disclosure plan generally contains a 3-year detail, and we anticipate that our local guidelines to be revealed later could also mirror use of ROE, PER and PB principles.

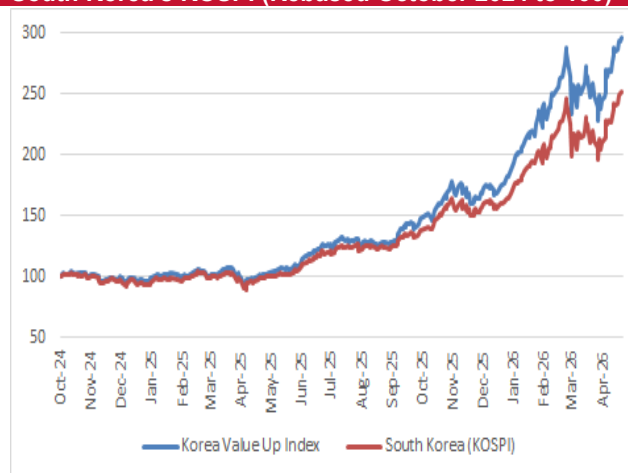
**No one size fits all as companies need to understand its drivers.** For both KOREA and Japan, having a focus on both PER and also PBV valuations disclosures signals using a holistic valuation yardstick especially for companies that need to balance incubating businesses with less near-term earnings, but with promise of future reward. Companies better understanding the drivers of shareholder value, and having a more informed grasp of cost of capital, will be more proactive in seizing opportunities to create value. In a nutshell, we think MY Value Up will usher a move away from a pure earnings and revenue focus towards profitability in capital, as we have seen in the Korea and Japan examples.

**Exhibit 4: BURSA Companies Breakdown by Debt and Net Cash**



Source: Kenanga, Bloomberg

**Exhibit 5: Performance of Korea Value Up Index vs. South Korea's KOSPI (Rebased October 2024 to 100)**



Source: Kenanga, Bloomberg

**Mindset shift towards capital allocation; this reduces value traps, in our view.** We note that for now the percentage of stocks in the Malaysian stock market that are in net cash currently is at 53%. Moreover, a sizeable 29% of total stocks in the market have net cash equivalent to 20% of its market cap or more. This should indirectly lead to improved dividends in our view, if adhering to principles of enhancing cost of capital. Beside, company executives would also be more in the mindset to explore inorganic opportunities or dispose of non-core assets, in our view. In turn, this should also reduce value trap incidences. We note that borrowing the experience of the Korea Value Up Index, the index since its inception in September 2024 has proven capable of outperforming benchmark South Korean index (exhibit 5).

**But some broader reforms in buy back, and dividends, were idiosyncratic reasons for the success seen in Korea.** In Korea, we saw broader reforms; case in point, there was amendments in its Commercial Act that required listed companies to cancel treasury shares, after acquisition. To an extent this was enforced to reduce entrenched control by major shareholders (given the impact to free float and voting rights of treasury shares). Elsewhere, Korea also implemented a separate taxation scheme for dividends for high payout companies, which is aimed to boost shareholder value. To qualify as a high dividends company, the criteria that needs to be met are dividend payout ratio of 40%, or dividend payout ratio of 25% and on-year increase of 10% of higher. Under this revision in tax, the highest tier (for categories exceeding 5 billion Won or USD3.4m) will be taxed at maximum tax rate of 30 percent; comprehensive financial income (interest and dividend income) would have been taxed at up to 49.5% otherwise, which would be more punitive. In Korea, high dividend companies are initially allowed an abridged submission of plans, but scrutiny level of a full submission will be required in 2027 and beyond.

### Name and shame/praise could be a strong factor for adoption speed up

**Voluntary and phased approach.** Presently, SC is seeking input by corporates before finalizing rules. Work will start from May including workshops to brainstorm the rules to adopt, and thereafter it was revealed that the rules will be made available in end-May and June; a guidebook outlining the expectations will only be set by first half of the year. Initially, companies will be required to submit private reports first, before commencing with the voluntary approach in 2027. SC said may make compliance with the guidelines under its newly launched My Value Up programme mandatory by 2028 or 2029, if listed companies fail to show any improvements in performance and governance ([link](#)). This is do-able. In Korea, it was reported that a significant number of 590 (or equivalent to c72% of South Korean counters for the entire market) have disclosed new corporate enhancement plans ([link](#)), after about close to two years (guidelines took effect May 2024).



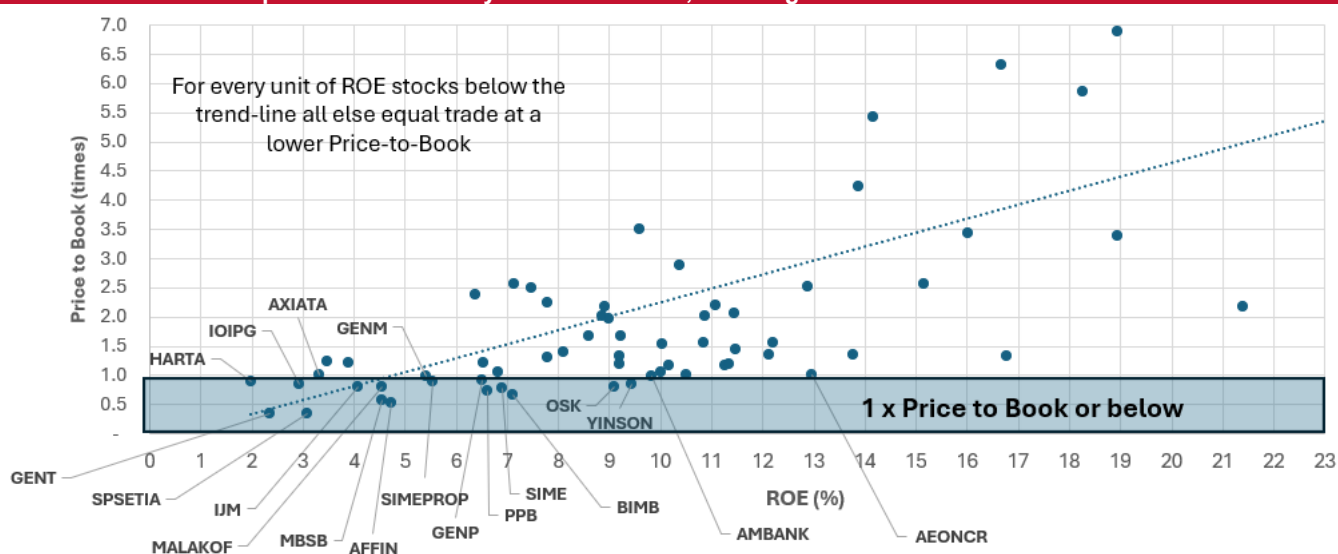
27 April 2026

**Balancing the stick and the carrot seen crucial.** For Japan, on 15 January 2024, TSE has begun sharing a list of firms that have disclosed information on the Primary and Standard markets with regards to “action to implement management that is conscious of cost of capital and stock prices”. In Korea, list of low PBR companies will effectively be exposed if they remain in the bottom 20% for two consecutive half periods (expected by 2H26), unless it takes the initiative to disclose plans to increase its corporate value; this effectively applies pressure for adoption. Nevertheless, the reverse is also true – excellent disclosures are also rewarded by Korea. Under the Excellent Disclosure Corporation list, the incentives that follow include evaluation of eligibility for R&D tax credits, exemption from annual training requirements for disclosure officers, a one-year waiver of annual charges and additional or amended listing fees, etc.

### Screening for potential beneficiaries of MY Value Up from a low-hanging fruit perspective

We think it would be useful to monitor potential stocks that could benefit. As there are no details at the moment, these are based on Kenanga’s assumption for potential value discovery for stocks worth monitoring. Our starting point for our universe are just mainly stocks that currently trade at 1x price to book or below, as seen in exhibit 6. We then apply few screens as below for companies that have yet to earn their cost of capital, having mean-reversion potential from long-term PER averages, and potential to optimize ROE from enhancing payout.

**Exhibit 6: PB ROE of Top 88 Stocks In Malaysia Stock Market, Showing Those With Price-to-Book Of 1 or Lower**



Source: Kenanga Research., Bloomberg

I) **Firstly, screening for companies that will have to work harder to return above its capital cost.** A key consideration for re-rating potential is the low hanging fruit of company currently generating returns lower than capital cost. We screen for ROE versus its cost of equity (COE), and identify companies that are in the negative, which implies that company should struggle to trade above book, all things equal. We expect that these companies will be more incentivized to improve in its actual delivery of results to unlock value, and these could include corporate exercises. Case in point will be IJM (exhibit 7), where post the lapse of the Sunway offer, the former has created a board level committee to monitor progress of asset unlocking exercises.

II) **Secondly, screening for PER versus historical averages, i.e mean-reversion potential.** We screen for price earnings ratio of companies versus their respective 10-year averages, and highlight stocks that are at least at 10% discount. This filter is to ensure that the stock has mean-reversion capabilities once the right execution and investor communication is in place.

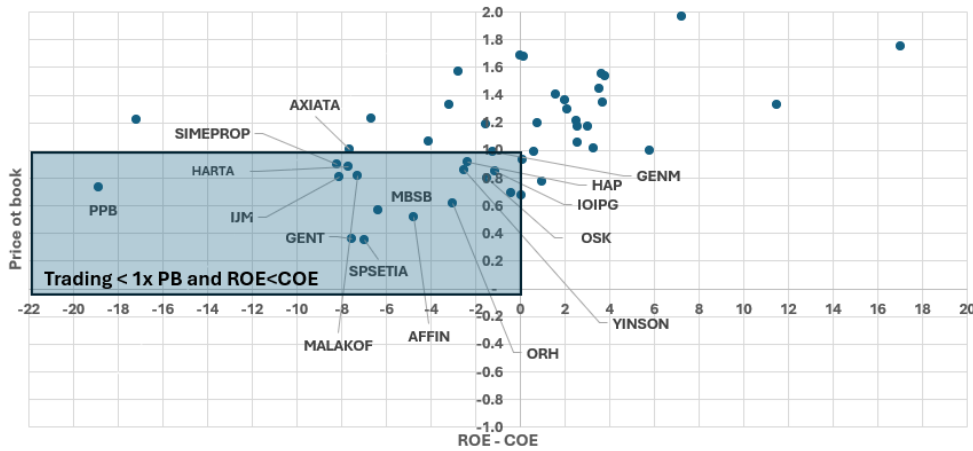
III) **Thirdly, we screen for companies that can optimize balance sheets via payout.** We screen for companies that have very strong balance sheets (gearing of not more than 0.4x) and still low dividend payout ratio of not more than 50%). These are candidates that could potentially improve its balance sheet by optimizing its dividends.

**Screening results.** From the above, those stocks that are under our coverage and best fit the criteria (see exhibit 10) include **SPSETIA** (OP; TP: RM1.43), **SIMEPROP** (OP; TP: RM1.97), **GENM** (OP; TP: RM3.00), **PPB** (OP; TP: RM14.85), and **YINSON** (OP; TP: RM2.84). We also add **IJM** (OP; TP: RM3.40) given its current asset unlocking endeavours.

**Limitations of our screens.** We have not proceeded to compare companies with foreign ones, which would be the intention for SC that Malaysian listed companies are best in class and competing beyond local shores. Examples of these will probably be in the domain of mega cap entities already such as banks and utilities. Moreover, screening for stocks below 1.0x price to book as a starting point ignores companies in sectors with higher valuation such as consumer.

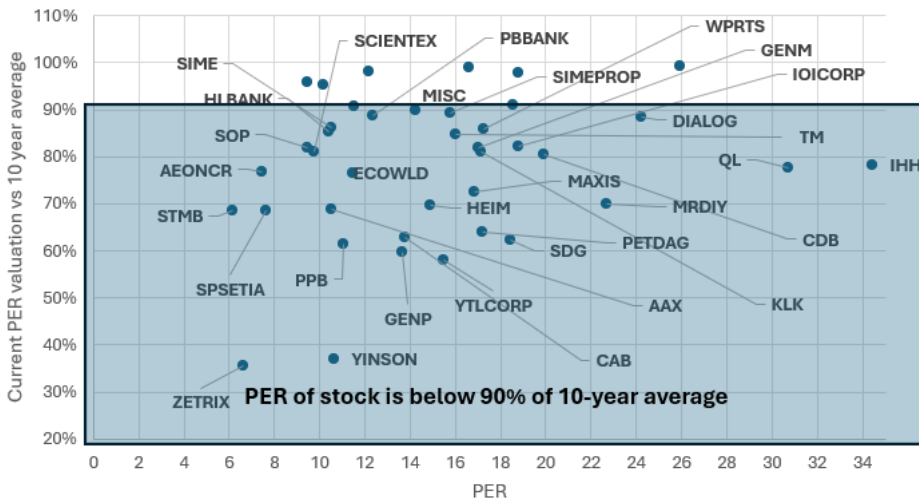
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Exhibit 7: Screen for ROE Minus COE (based on the 88 stocks)



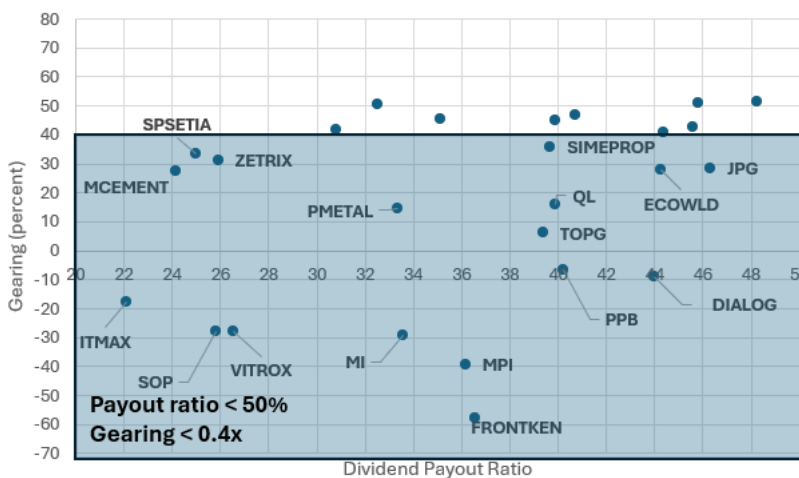
Source: Kenanga Research., Bloomberg

Exhibit 8: PER of the 88 Stocks (Current versus 10-year Average)



Source: Kenanga Research., Bloomberg

Exhibit 9: Dividend Payout Ratio of the 88 stocks (for those below 50%) Plotted against Gearing Ratio



Source: Kenanga Research., Bloomberg

27 April 2026

<b>Exhibit 10: Screening Results at a Glance</b>				
Company	Price to book (x)	Screen 1	Screen 2	Screen 3
SPSETIA	0.4	Y	Y	Y
PPB	0.7	Y	Y	Y
SIMEPROP	0.9	Y	Y	Y
YINSON	0.9	Y	Y	-
GENM	1.0	Y	Y	-
GENT	0.4	Y	-	-
AFFIN	0.5	Y	-	-
MBSB	0.6	Y	-	-
ORH	0.6	Y	-	-
SIME	0.8	-	Y	-
OSK	0.8	Y	-	-
IJM	0.8	Y	-	-
IOIPG	0.8	Y	-	-
HARTALEGA	0.9	Y	-	-
HAP	0.9	Y	-	-
GENP	0.9	-	Y	-
AEONCR	1.0	-	Y	-
AXIATA	1.0	Y	-	-
SOP	1.0	-	-	-
BIMB	0.7	-	-	-
KSL	0.7	-	-	-
MALAKOFF	0.8	-	-	-
AM BANK	1.0	-	-	-

Source: Kenanga Research

27 April 2026

**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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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