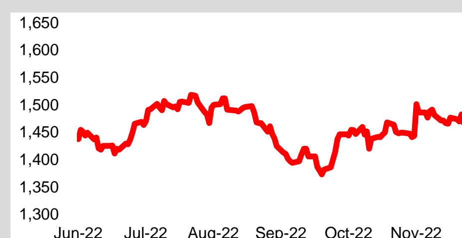
Malaysia 1H 2023

FBM KLCI CHART



FBM KLCI (current)	1,467.13
FBM KLCI (year-end 2023)	1,650.00
Upside / (Downside)	+12.5%

52 Week Range (RM)	1,372.57 – 1,620.44
3-Month Average Vol ('000)	251,354
YTD returns (%)	-6.4%

FBM KLCI PERFORMANCE

	1M	3M	6M
Absolute Returns	1.6	2.4	4.3

Sector	Call
Airline	Neutral
Auto	Neutral
Banking	Neutral
Construction	Overweight
Consumer	Overweight
Furniture	Neutral
Gaming	Overweight
Gloves	Neutral
Healthcare	Neutral
Manufacturing	Neutral
Media	Neutral
Oil and Gas	Neutral
Plantation	Neutral
Property	Neutral
Power	Neutral
REITS	Neutral
Technology	Overweight
Telecommunication	Neutral
Timber	Neutral

(p) – positive bias, (n) – negative bias

ECONOMIC FORECASTS (2023)

GDP growth	+3.8%
Unemployment rate	3.5%
CPI	3.0% - 3.5%
OPR	3.00%
IPI	+3.9%
Brent Crude	USD90/bbl
CPO	RM3,800/MT
USD/MYR	RM4.30 – RM4.35

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Navigating A Tougher Year

We are cautious, but we are not pessimistic. The same issues that had weighed in 2022 will continue to be prevalent in 2023, though to varying (and perhaps lessening) extents. While we are not as pessimistic of 2023, we do expect challenges to persist in 1H 2023 and as such see market conditions to be volatile and moderately weak as various factors play out, though certain others could jump-start optimism in the local bourse (page 13).

Economic Outlook: The global economy is experiencing a broad-based and sharper-than-expected growth slowdown and persistent inflation, as uncertainties continue to obstruct outlook for 1H 2023. With excessive post-COVID consumer demand, bloated retail inventories and inflation being higher than it has been in several decades continuing to weigh on global growth in 2023, we believe global GDP growth will slow further below 3%, in line with International Monetary Fund's (IMF) latest forecast of 2.7% (2022E: 3.2%). China's economic growth to improve, but remain bumpy in 2023. Malaysia's economy is expected to remain resilient however, with domestic demand continuing to drive growth amid softening global environment, critical to mitigate the slower exports in 2023 (pages 2 – 12).

Market outlook. Malaysia (by extension, the FBM KLCI) continues to struggle to break out of its range-bound trading band, though there are sufficient reasons to warrant continued exposure in the market even as uncertainties and resultant volatilities remain an ongoing feature. While headline economic growth numbers exhibit moderation going into 2023, output in absolute terms (average per quarter) in 2023 will be similar to that of 3Q2022 and/or 4Q2022. In short, if one did not feel pronounced *economic pain* in recent times, 2023 should be no different despite the moderating numbers. All said, outperformance from *navigating a tougher year* will still have to come from a longer-term bottom-up approach. (page 17)

The market is attractive from the long-term standpoint and compelling from the shorter-term perspective. The last time markets went to "distress' levels like 3 SD below long-term average and 2 SD below long-term average were financially catastrophic events. Most other shocks to the system saw markets falling to 1 SD below long-term average before subsequently rebounding. We see the current market lull as temporal in nature. (page 18)

1H 2023 will remain uncertain as global economies work through the full effects of aggressive rate hikes over the last 6 months, with some tipped to fall into recession. Sentiment is weak, understandably, but the market is also relatively undervalued (now more so) with the earnings picture not having been altered dramatically post the 3QCY22 result reporting despite cautions for heightened risks. We wouldn't be in a hurry to get into the market at this juncture, but retain sufficient optimism to suggest *buying into market weakness* to ride on the upside going into 2H 2023. (page 20)

Market interest appears to have seen a clear shift toward smaller-capitalized stocks in investors' attempts to uncover undervalued gems. Larger-capitalized stocks (reflected by higher average stock value traded) will always retain interest, though more pronounced activity will only be likely when there is sustained foreign investor activity. Early signs indicate possible interest going into 2023. Our year-end 2023 closing for the FBM KLCI is 1,650pts based on a 15x (-1SD to the FBM KLCI's short-term average) multiple to CY23 earnings. (page 22)

In step with our ongoing preference for stocks likely to see multi-year growth stories and earnings stability, **Able Global, D&O Green Technologies, Inari Amertron,** and **SKP Resources** are retained amongst the smaller-capitalized stocks as suggested picks for 2023. **Gamuda** and **Maybank** are retained as suggested picks for 2023 amongst the larger-capitalized stocks. **CCK Consolidated, Genting** and **IJM Corporation** are included for their respective investment merits, also in line with our OVERWEIGHT stance on the Consumer, Construction, Gaming (and Technology) sectors. (page 23)

1H 2023 Economic Outlook

Broad-based and sharper-than-expected growth slowdown

Balance of risks in global economy remains firmly tilted on the downside. The global economy is experiencing a broad-based and sharper-than-expected growth slowdown and persistent inflation, as uncertainties continue to obstruct outlook for 1H 2023. With excessive post-COVID consumer demand, bloated retail inventories and inflation being higher than it has been in several decades continuing to weigh on global growth in 2023, we believe global GDP growth will slow further below 3%, in line with International Monetary Fund's (IMF) latest forecast of 2.7% (2022E: 3.2%), narrowly defying recession risk as anticipated in some advanced economies.

Prognosis for the global economy is far below the average of 3.6% from 2000 to 2021

The prognosis for the global economy is far below the average of 3.6% from 2000 to 2021, the weakest growth profile since 2001 with the exception of the Global Financial Crisis (GFC) and the acute period of the COVID-19 pandemic. The cost-of-living crisis, tightening monetary policy in most regions, particularly in major advanced economies like the US, EU, and UK, prolonged geopolitical tension brought on by the Russia and Ukraine war leading to higher global commodity prices as well as elevated supply chain disruptions, and the lingering effects of the COVID-19 pandemic, particularly the Zero-Covid Policy in China (despite recent relaxation of some key aspects of its strict policy), all have negative impacts on the outlook.

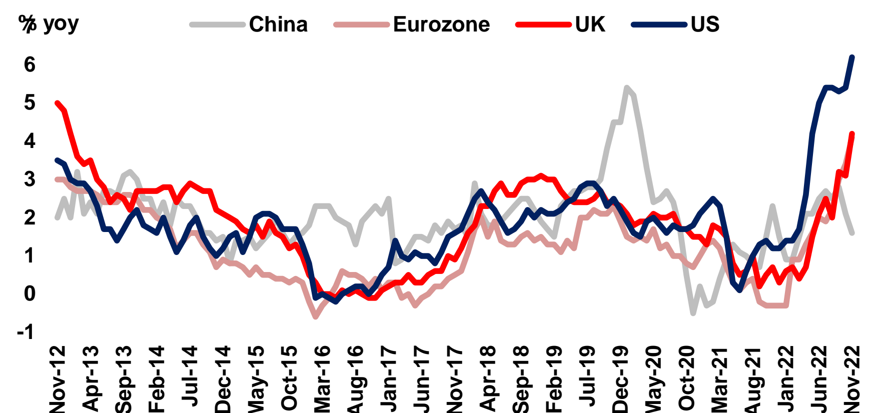
IMF's October WEO estimates that there is a 25% probability that one year from now, global growth will be below 2%

Similarly, other downside risk such as a worsening of the crisis in China's real estate market could spill over to their domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects. An expected further fall in household saving rates in several major advanced economies, but not in the US, where the saving rate has already fallen below pre-pandemic levels, could further exacerbate the slowdown. We believe this could also result in a slower growth rate than initially projected, given that the risks are still firmly skewed to the downside. In the 10th percentile of global growth outturns since 1970, the IMF's October WEO estimates that there is a 25% probability that one year from now, global growth will be below 2%.

Interplay of inflation and central bank interventions will ultimately shape the story of economic growth for 2023

Global inflation to remain elevated going into next year. The interplay of inflation and central bank interventions will ultimately shape the story of economic growth for 2023. We expect global inflation to peak in 4Q 2022 but to remain elevated longer than expected, in tandem with IMF's expectation of a decline to 6.5% in 2023, from 8.8% this year (4.7% in 2021). Upside inflation risks have been most widespread among advanced economies, with greater variability in emerging market and developing economies. The US headline inflation reached a 40-year high of 9.1% YoY in June, and began to ease in recent months and is currently hovering around 7.1% in November. This indicates that the persistent inflation that has tormented the US economy may be beginning to cool off. The US Federal Reserve's (US Fed) inflation target is 2%, yet the headline inflation rate remained significantly higher. Many other nations have also seen an acceleration in inflation this year, including the UK, the EU, and Japan, which has seen above-average inflation after maintaining its inflation rate well below 1% for several years.

Figure 1: Global inflation (Nov 2012 – Nov 2022)



Source: Bloomberg, PublicInvest Research

In the 18 months since the year 2021 started, the average cost of living globally has risen more than it did in the five years before put together

The key factor driving global inflation was the significant rise in food and energy prices. Food costs have gone up worldwide when COVID-19 first started in March 2020. Implementation of COVID-19 containment measures globally was put into place between 2020 and 2021 to curb the spread of the virus. This was mostly brought on by the implementation of travel restrictions, which boosted prices by causing a supply and demand mismatch. Even when containment measures were loosened globally and vaccination rates increased, the economic scars left by the COVID-19 pandemic continued to widen and delay the rate of supply and demand balance. In the 18 months since the year 2021 started, the average cost of living globally has risen more than it did in the five years before put together.

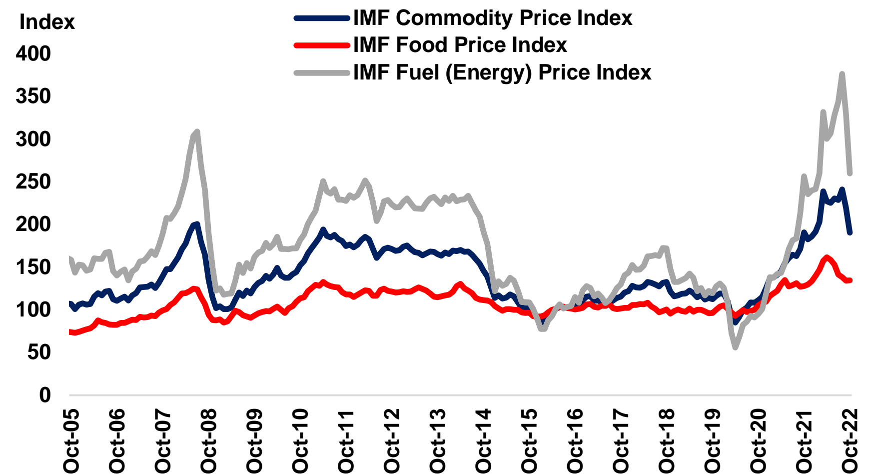
Negative oil supply shock that raises oil price by 10% leads food prices (ie. cereal) to rise by about 2% after three to four quarters

Food and energy prices outlook remain fraught with risks. Food and energy prices have often moved in tandem, magnifying their macroeconomic effects. According to an econometric study done by IMF, a negative oil supply shock that raises oil price by 10% leads food prices ie. cereal, to rise by about 2% after three to four quarters. Besides geopolitical tensions exacerbating the disruption of food supply chain, especially from Russian blockade of wheat exports from Ukraine, the adverse weather from the 2020 to 2022 La Nina episode, food restrictions, cereal-specific demand, and strong US dollar also partly caused soaring global food prices, which was reflected by the decades high of monthly IMF food price index in 1H 2022, where it reached its peak of 161.73 in April 2022.

Decision to extend the UN-supported grain export route from has allayed concerns about how the ongoing conflict will affect the massive Black Sea trade

The food price index has moderated slightly in recent months, but the October reading of 134.8 was still high compared to the pre-pandemic average level of roughly 100 in 2019. We think that the decision to extend the UN-supported grain export route from Ukraine for an additional 120 days has allayed concerns about how the ongoing conflict will affect the massive Black Sea trade, as evidenced by the FOA's food price index, which fell from 135.9 in October to 135.7 in November. According to empirical evidence, the average country's food price inflation is predicted to have increased by around 5ppts in 2021 and forecasted to add 6ppts in 2022, and 2ppts in 2023 as a result of rising global food costs.

Figure 2: IMF Commodity Price Index (Oct 2005 – Oct 2022)

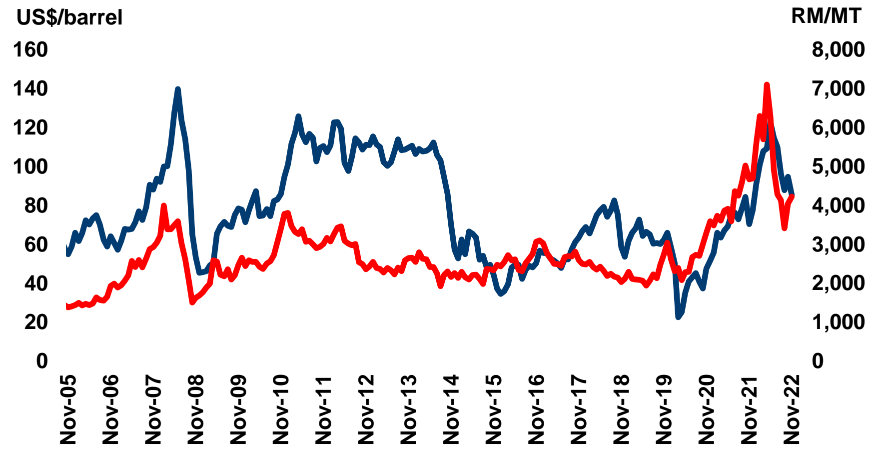


Source: Bloomberg, PublicInvest Research

The energy crisis, especially in Europe, is not a passing adversity

Going forward, the continuation of war between Russia and Ukraine may also have a significant role in raising inflation in 2023 due to rising energy prices, which may destabilize the global energy market, if the war escalates into a wider confrontation. As experienced in 2022 and earlier decades, Europe has come to rely more and more on Russia as its main natural gas supply. The energy crisis, especially in Europe, is not a passing adversity. The geopolitical re-alignment of energy supplies in the wake of Russia's war against Ukraine is broad and permanent. We believe that winter 2022 will certainly be difficult for Europe, but winter 2023 is probably going to be worse.

Figure 3: Brent Crude Oil vs Crude Palm Oil (Nov 2005 – Nov 2022)



Source: Bloomberg, PublicInvest Research

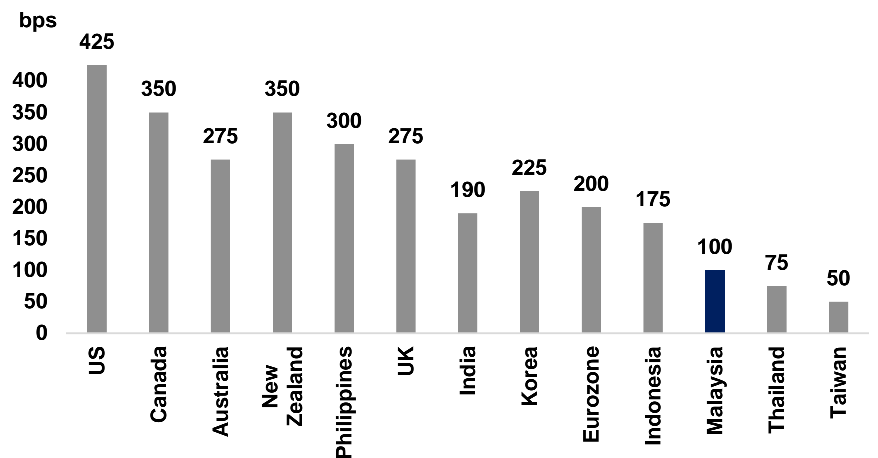
We anticipate lower commodity prices in the coming year due to an improvement in supply and a comparatively weaker demand outlook

On the other hand, crude oil prices also rose sharply, approaching USD120/bbl at the beginning of March 2022 and stayed high in the months that followed, primarily due to concerns about a shortage of crude oil as a result of the conflict between Russia and Ukraine. YTD, the Brent crude oil price was averaging around USD101.98/bbl in 2022, a considerable increase from the average of USD70.91/bbl during the same period in 2021. Prices indicated concerns of disruptions to oil exports at a time of tight supply-demand balances as well as a subdued response from Organization of the Petroleum Exporting Countries (OPEC) and other producers in the wake of past divestments in the fossil fuel sector. Currently, the Brent crude oil price averages around USD80/bbl. We anticipate lower commodity prices in the coming year due to an improvement in supply and a comparatively weaker demand outlook. According to our in-house views, Brent crude oil is expected to average lower at USD90/bbl in 2023, from USD100/bbl in 2022 and average CPO prices to be around RM5000/mt in 2022 and RM3800/mt.

Majority of central banks worldwide will continue to use their tools for monetary policy

Central banks' 2% inflation target vs aggressive rate hikes. A rapid and coordinated tightening of monetary conditions, coupled with significant strengthening of the US dollar against the majority of other currencies, have been brought on by persistent and expanding inflationary pressures. As a result, we believe that the majority of central banks worldwide will continue to use their tools for monetary policy, particularly by aggressively raising interest rates, in an effort to restore price stability and support the major central banks' 2% inflation target.

Figure 4: Global Monetary Policy Rate Hikes (YTD 2022)

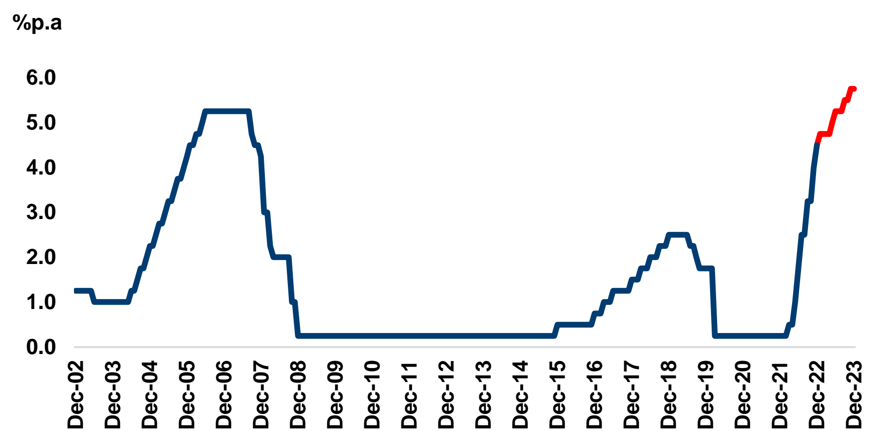


Source: Bloomberg, PublicInvest Research

US Fed has revised dot plot and is expected to continue to raise rates another three to four more times in 2023 to reach about 5.1%

Since early 2022, the US Fed has increased the Federal funds rate (FFR) by a total of 425bps, including an increase of 50bps at the most recent Federal Open Market Committee (FOMC) meeting, with the goal of slowing inflation so that it can eventually reach its target of 2%. According to the US Fed dot plot, following the December rate hike, the US Fed has revised dot plot and is expected to continue to raise rates another three to four more times in 2023 to reach about 5.1%. We believe the US Fed may still need to tighten monetary policies in order to manage inflation, notwithstanding the potential for a substantial downturn in US economic activity in 2023, particularly in the private consumption sector. Additionally, since May, this has caused the US dollar to strengthen even more against the currencies of the other advanced economies, substantially worsening the outlook for growth in the Eurozone and the UK. Almost all of the currencies of emerging-market nations have fallen in value relative to the US dollar. We predict that the US Fed will likely increase the FFR in 2023 at a slower rate, perhaps between 5.5% and 5.75%. As a result, we anticipate a situation in which valuation pressure will lessen and the equities market will become more positive than it has been this year.

Figure 5: Simulation of US Fed Funds Rate (Dec 2002 – Dec 2023)



Source: US Fed, Bloomberg, PublicInvest Research simulation

Financing conditions have become more restrictive for businesses and families

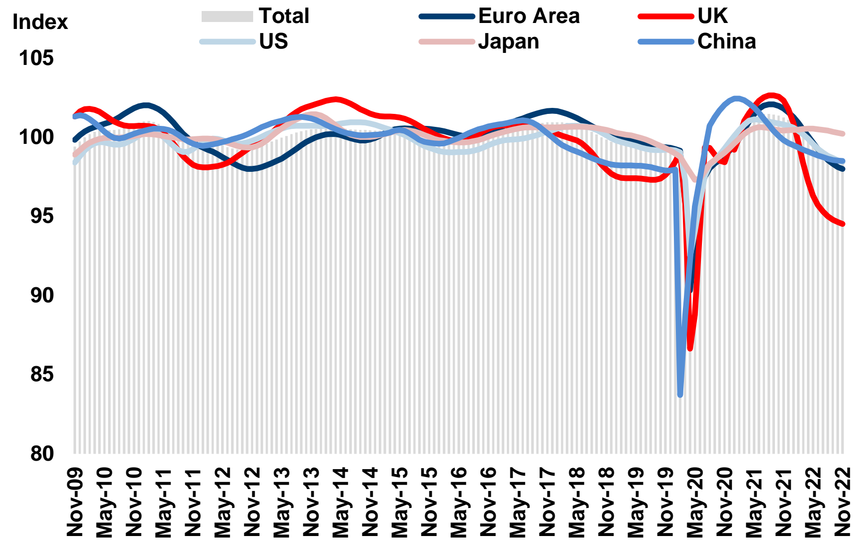
The European Central Bank (ECB) similarly set its inflation goal at 2%. As a result, the ECB has increased its policy rate three times in a row, adding 200bps to it overall this year while reducing its assistance for European banks. We anticipate further details about the timing of the ECB's EUR8.8trn balance sheet reduction as we expect further quantitative tightening moving forward. The Bank of England (BOE) also made the decision to raise its policy rate by 75bps in November 2022, which will bring the UK's rate increase since the beginning of the decade to 275bps. These occurrences demonstrated how financing conditions have become more restrictive for businesses and families.

Global growth outlook continues to dim amid divergent progress. The Organization for Economic Co-operation and Development (OECD) noted that its composite leading indicator (CLI) for member countries (an index designed to provide early signs of turning points in economic activity relative to long-term trend), has remained below the 100-expansionary level for seven consecutive months to 98.3 in November from 98.4 in October, indicating a weakening outlook momentum in the OECD area and in most major economies.

Global Manufacturing Purchasing Managers' Index (PMI), which fell to a 29-month low of 48.8 in November, indicates that output is continuing to slow down, notably in advanced economies

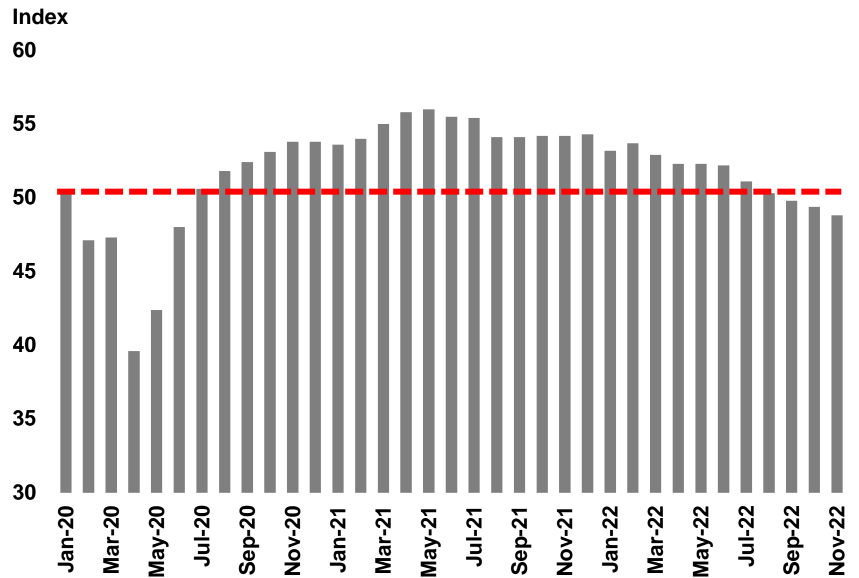
Cost/benefit analysis of the ZCS started to turn negative in 2022

Figure 6: OECD's Composite Leading Indicator (Nov 2009 – Nov 2022)



Source: Bloomberg, PublicInvest Research

Figure 7: Global Manufacturing PMI (Jan 2020 – Nov 2022)



Source: Bloomberg, PublicInvest Research

With fewer restrictive COVID-19 measures in China and a resulting uptick in activity, including car sales, some indicators of global economic activity, including retail sales, industrial production, and international trade, have stabilized in recent months as opposed to the particularly weak trend in 2Q 2022. The global Manufacturing Purchasing Managers' Index (PMI), which fell to a 29-month low of 48.8 in November, indicates that output is continuing to slow down, notably in advanced economies. The global manufacturing activity has continued to decrease in 2022.

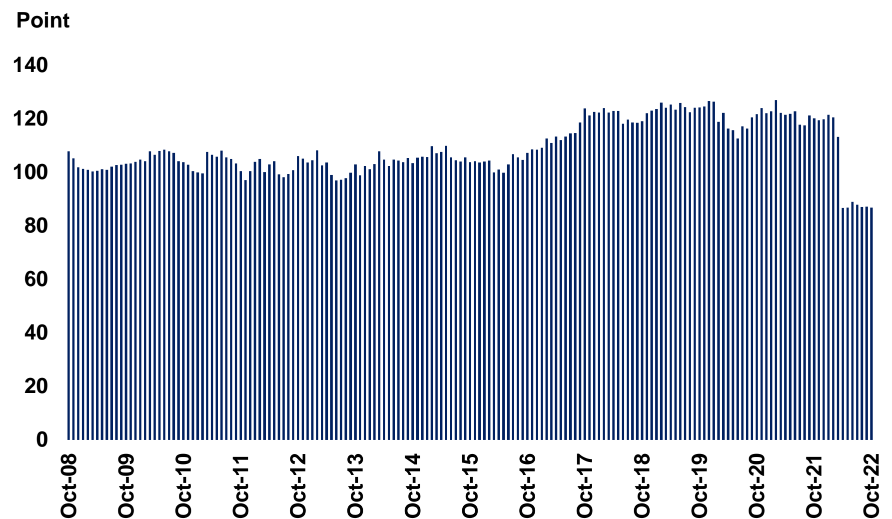
China's economic growth to improve, but remain bumpy in 2023. China is the second-largest economy in the world, and its economic development is crucial to trade and investment since it accounts for roughly 18% of the world's GDP. China has been tight in enforcing its Zero-Covid Strategy (ZCS) policy containment measures, in contrast to the majority of the world's major nations that have begun to lift mobility restrictions. ZCS was successful in 2020 and 2021, resulting in a steady economy and a low rate of infections. However, a cost/benefit analysis of the ZCS started to turn negative in 2022, particularly in light of the severe

Shanghai lockdown, which has since resulted in stifled consumer demand, high unemployment, and poor business investment.

Journey could be disruptive and chaotic

Nonetheless, China's recent announcement of "20 measures" on November 1 implies a shift in China's COVID-19 strategy, mirroring a moderate relaxation in its Zero-Covid Strategy (ZCS). Even though the journey could be disruptive and chaotic, we still believe this will likely result in a gradual reopening of its economy going forward, which will have an influence on the global economy. Due to China's ZCS policy's restrictions on citizen movement in several large cities, China's industrial activities have been disrupted, which has increased the length of the global supply chain disruption. China accounts for 30% of the world's manufacturing output. The Caixin General Manufacturing PMI for China increased 0.2 points to 49.4 in November from 49.2 the previous month, indicating a decline in the manufacturing sector's health, albeit at the slowest rate in four months due to tighter containment measures as a result of the COVID-19 outbreak that is worsening supply chain delays in China.

Figure 8: China's Consumer Confidence (Oct 2008 – Oct 2022)

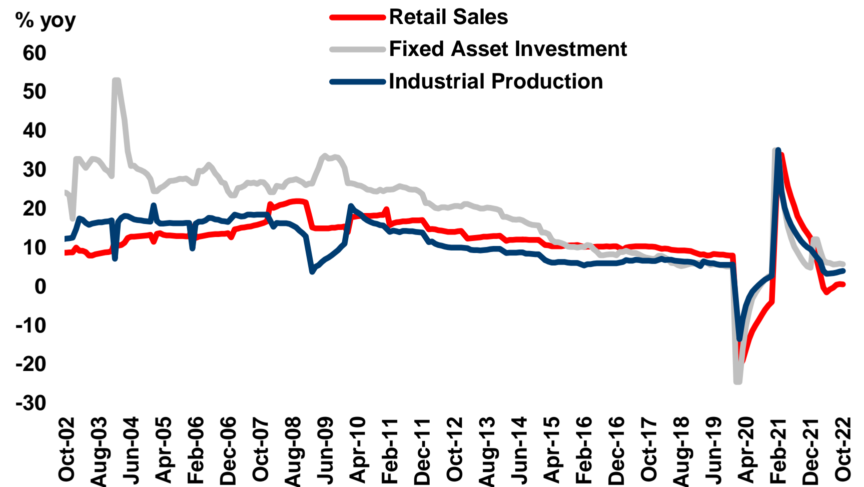


Source: CEIC, PublicInvest Research

Reflects the dramatic slowdown in global growth and the shift in global demand back toward services

Furthermore, the momentum of China's exports weakened further as exports plunged by 9% YoY in November (-0.6% in October), which was also the largest decline since February 2020, when China was hit by the first COVID-19 lockdown. This was in contrast to double-digit growth during the middle of 2022. This also reflects the dramatic slowdown in global growth and the shift in global demand back toward services. The China Consumer Confidence Index, which has been below the 100-point threshold level since April 2022, reached 86.8 in October, demonstrating the consumer's pessimism over the state of the economy. Before the economy clearly demonstrates signs of economic recovery, the significant disruption of recent months' economic activity is expected to have an influence in the near future. However, we believe that China's recent announcement of a moderate easing in its Zero-Covid Strategy (ZCS), would improve their high-frequency data and resuscitate their slowing economy going into 2023, in turn benefitting our domestic economy.

Figure 9: China's FAI vs Retail Sales vs IPI (Oct 2002 – Oct 2022)



Source: CEIC, PublicInvest Research

Performance of the Chinese economy in 2023 will mostly depend on how the COVID-19 pandemic plays out in the country

Despite a few indications of the ZCS being relaxed by the Chinese government, we think performance of the Chinese economy in 2023 will mostly depend on how the COVID-19 pandemic plays out in the country. We anticipate that the push from Zero-Covid exit and more support for the real estate industry will manifest over the course of the following year, spurring a recovery in private investment and consumption. While it is possible that China's government will further relax its zero-COVID policy by the end of 1H 2023, including exempting vaccinated inbound travelers from hotel quarantines, lifting lockdowns, and restricting travel, we think the economy will not fully reopen until all Covid-related restrictions are lifted in 2024.

Economic development in China would unavoidably be slower than it was prior to the pandemic due to the downturn in residential property

On the other hand, the property industry continues to be vital to China's economy, contributing 10% of its GDP directly and 25% if we take into account supply chains associated to the sector. Over the following few years, economic development in China would unavoidably be slower than it was prior to the pandemic due to the downturn in residential property. However, support measures have been stepped up over time, and a more direct support package was announced in November. It included a PBOC relending programme, more room for banks to lend money for real estate, easier restrictions on equity and shadow bank financing, government bond guarantees, and the extension of payment deadlines. Together with Zero-Covid, these steps should help break the vicious cycle, but it could take some time to rebuild homebuyers' confidence and resurrect real estate sales, particularly if the withdrawal from Zero-Covid is disorderly.

Downside risks to global economy will mostly come from China's economic prospects

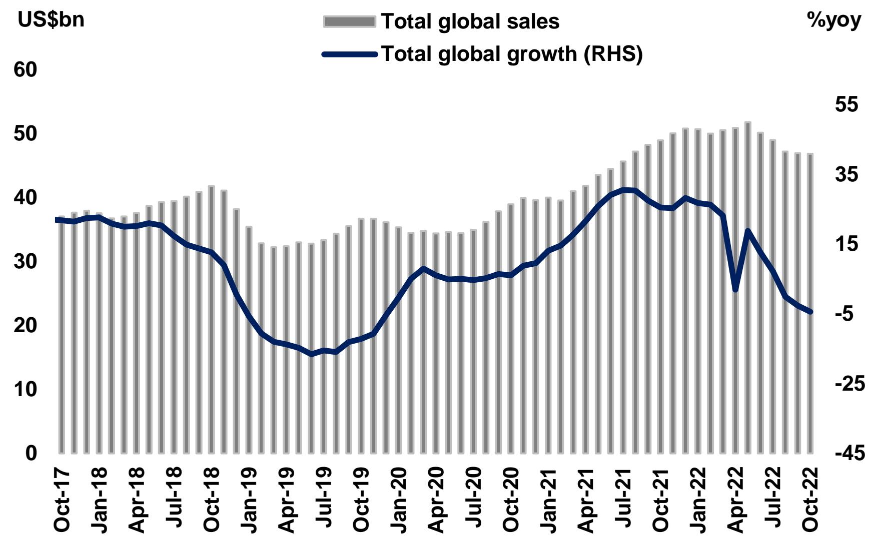
We anticipate China's economy will rise from 3.0% in 2022 to 4.8% in 2023 and then further to 5.2% in 2024, following years of unstable quarterly growth figures caused by frequent lockdowns. Moving forward, some downside risks to global economy, in our opinion, will mostly come from China's economic prospects. If China slows down, there is a chance that the global economy may lose momentum even further, which might lead the IMF to lower its forecast for global GDP growth for 2023 from its current figure of 2.7%. Given the numerous challenges across the region, the risks to the forecast for the global economy are still mostly skewed on the downside. Additionally, the zero-Covid policy loosening in China continues to drag on international trade and business activity. As a result, despite ongoing headwinds, we continue to be cautious about the global economic outlook for 2023. Another external risk will come from the potential for geopolitical tensions between the US and Taiwan to re-emerge, which will have an effect on the outlook for trade and production in 2023.

Anticipated slower growth in global economic development and semiconductor demand will probably drag Malaysia's exports in 2023

Volatile external environment to impact domestic growth prospects in 2023. Given Malaysia's high total trade value as a percentage of GDP and high export propensity (ratio of exports to GDP), the anticipated slower growth in the global economic development and semiconductor demand will probably drag Malaysia's exports in 2023. This is because Malaysia is a highly open and trade-dependent economy that is significantly exposed to both global growth and electronics demand (i.e., the semiconductor industry). Future economic contraction in

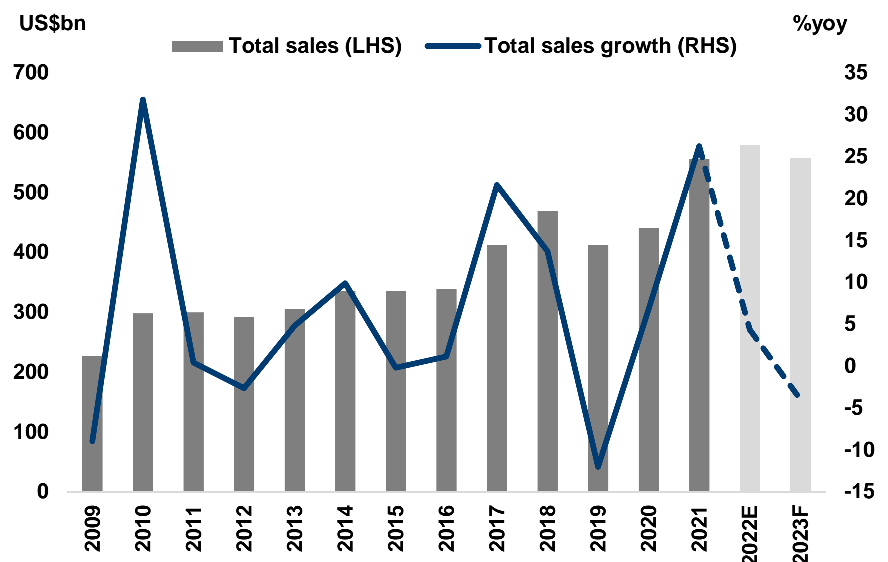
developed nations, particularly in the US, China, and EU, will be detrimental to intra-ASEAN trade. As a result, we anticipate a decline in Malaysia's exports of goods and services from the predicted 11.4% for 2022 to roughly 3.3% in 2023 (15.4% in 2021).

Figure 10: SIA's monthly semiconductor sales (Oct 2017 – Oct 2022)



Source: SIA, Bloomberg, PublicInvest Research

Figure 11: WSTS' Semiconductor Sales Projection (2009 – 2023F)



Source: WSTS, PublicInvest Research

Performance of the country's manufacturing sector will trend in tandem with the monthly global semiconductor sales, which has recently shown further weakness

In view of the global economic slowdown, we believe the performance of the country's manufacturing sector will trend in tandem with the monthly global semiconductor sales, which has recently shown further weakness, with a negative growth of 4.6% YoY in October as compared to -3.0% in September, a robust decline from the strong double-digit growth recorded in 1H 2022, as semiconductor companies continued to ramp up production to meet soaring demand amid the global chip shortage. World Semiconductor Trade Statistics (WSTS) has projected global semiconductor sales to weaken to 4.4% or USD580bn in 2022, followed by a decline of 4.1% or USD557bn in 2023, mainly dragged by the expected shrinking sales in Asia Pacific, which accounted for more than half of the total global semiconductor sales by regions. The forecasts were also dramatically revised downwards as inflation continues to rise and end-markets seeing weaker demand, especially those exposed to consumer spending. We expect that going into 1H 2023, the direction of Malaysia's manufacturing PMI

to follow closely the global manufacturing PMI trend, which is likely to continue softening below the 50pt expansion level in 1H 2023.

Table 1: Malaysia GDP Numbers (2021 – 2023F) Growth YoY

	2021	2022E	2023F
Consumption	2.5	11.8	4.9
Private consumption	1.9	13.4	5.8
Public consumption	5.3	4.8	0.7
Investment	-0.9	6.3	4.8
Private Investment	2.6	7.3	5.6
Public Investment	-11.3	3.1	1.7
Domestic demand	1.7	10.6	4.9
Exports of goods and services	15.4	11.4	3.3
Imports of goods and services	17.7	15.5	4.8
Agriculture	-0.2	0.6	1.7
Mining and Quarrying	0.3	1.0	2.1
Manufacturing	9.5	8.3	4.4
Construction	-5.2	4.3	4.0
Services	1.9	9.9	4.0
Real GDP	**3.1**	**8.0**	**3.8**

Source: Department of Statistics Malaysia (DOSM), PublicInvest Research

We are projecting Malaysia's real GDP growth to be slower at 3.8%, supported by domestic demand coupled with robust FDI inflows going into 2023

With an average real GDP growth of 9.3% YoY in the first three quarters of 2022, we are expecting a slower growth for Malaysia's 4Q22 at 3.9% YoY and 8% for 2022 as a whole, as compared to 3.1% in 2021. As for full-year 2023, with expectations that some local manufacturers may scale back on production in anticipation of slower demand for manufactured goods amid heightened external downside risks, particularly concerns of weaker than-expected global growth amid clouded uncertainties, we are projecting Malaysia's real GDP growth to be slower at 3.8%, supported by domestic demand coupled with robust FDI inflows going into 2023.

Malaysia's economy is expected to remain resilient with domestic demand continuing to drive growth amid softening global environment, critical to mitigate the slower exports in 2023

Resilient domestic demand likely to be driven by private consumption. Malaysia's economy is expected to remain resilient with domestic demand continuing to drive growth amid softening global environment, critical to mitigate the slower exports in 2023. We believe growth in private consumption, which accounts for about 60% of GDP, will remain the main engine of growth, supported by the improving labour market, healthy income growth, stable expansion of wholesale and retail trade, as well as increased tourist arrivals since the country transitioned to endemicity and reopened the international borders since 2Q 2022, which lifted tourism-related activities. Even though the Overnight Policy Rate (OPR) is on the upward trajectory, we believe it would have minimal impact on domestic spending outlook. We believe consumer spending in Malaysia to stay steady, underpinned by stable inflation and declining jobless rate (2022E: 3.7% and 2023F: 3.5%) and expect growth in private consumption to expand by 5.8% YoY projected for 2023 (11.8% estimated for 2022).

We also believe that the country's economic activities, which were severely impacted by the COVID-19 pandemic, such as the tourism sector and industry-related activities, will be revitalised further since the country transitioned to COVID-19 endemicity. The favourable prognosis is in line with the revised projection of 9.2m tourist arrivals and 15m in 2023 by the Ministry of Tourism, Arts and Culture. In our opinion, the favourable increase in tourist arrivals and the resurgence of the tourism industry would likely lead to additional job openings and stimulate demand for the sector's goods and services, supporting the domestic demand of the country. Furthermore, considering that Malaysia is the second-most popular vacation destination for Chinese visitors after Thailand, the pace at which China reopens will be vital to the prognosis for the country's consumption.

Government will attempt to find a balance between fiscal consolidation and encouraging economic growth in the forthcoming (re-tabled) 2023 Malaysian Budget

New 2023 Budget measures to balance between fiscal consolidation and economic growth support. In view of the uncertainties in the global macroeconomic environment next year, we believe the Government will attempt to find a balance between fiscal consolidation and encouraging economic growth in the forthcoming (re-tabled) 2023 Malaysian Budget, which we believe will likely be presented to Parliament somewhere in late January or early February 2023. We do not foresee substantial changes in terms of government strategy that will affect

the economy's outlook in the near future. The unity Government would most likely alter some of the key takeaways from the tabled Budget 2023 previously.

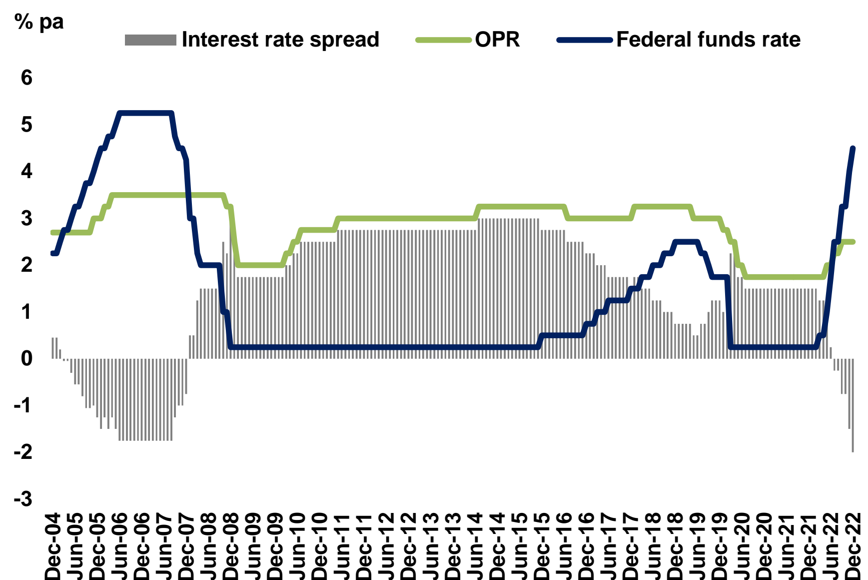
Budget proposals will be on tackling rising cost of living, food security, improvement in Malaysia's disposable income

Our expectations are that the Budget proposals will be on tackling rising cost of living, food security, improvement in Malaysia's disposable income by progressively maneuvering minimum wage policy, measures to steer the economy onto a sustainable growth path as well as promoting the government's medium and long-term fiscal strategy. The immediate focus of 2023 Budget measures will also be on the new government's strategies and policies to revive the country's business and consumer sentiment as well as trends in private investment growth, especially in continuously attracting foreign direct investment (FDI) into the country. We also anticipate comprehensive clarification of the timeline and strategies for targeted subsidies to support the B40 and M40 income groups and small businesses that were severely impacted. We also expect that the re-tabling of Budget 2023 may take into consideration feedback based on current economic conditions and introduce new measures, especially those related to boosting tax revenues as well as operating expenditure exercises.

Inflationary pressure will remain elevated in the near term but growth rate may trend lower in 4Q 2022 due to a more stable inflation of non-food items

Inflationary pressure to remain, but gradual and manageable amid easy monetary policy conditions. We believe the country's inflationary pressure will remain elevated in the near term but growth rate may trend lower in 4Q 2022 due to a more stable inflation of non-food items, except for transport-related items, in tandem with guidance given by BNM in their November MPC meeting. On the production side, producer price index (PPI), a measure of inflation at the producer/manufacturer level, continued to improve further to a growth rate of 4.0% YoY in October from 4.9% in September. The PPI has been registering a declining trend for a fourth consecutive month on a month-on-month basis, indicating possible relief on inflationary pressure from the pass-through producers to consumers. We are expecting the country's headline inflation to average 3.5% this year (2.5% in 2021) and remain within the range of 3.0% - 3.5% in 2023, subject to changes in domestic policy measures. The additional upside risks continue to be partially contained by the existing price controls and subsidies, notwithstanding the global commodity price developments caused mostly by the ongoing geopolitical tensions and prolonged supply-related disruptions.

Figure 12: Differential between US FFR & OPR (Dec 2004 – Dec 2022)



Source: Bloomberg, PublicInvest Research

Anticipate another hike in 1H 2023 to 3.00%, likely in the January meeting

With BNM cautioning on the heightened downside risks surrounding the outlook on economic growth, both external and internal, we maintain our view that BNM will likely continue its monetary policy normalisation cycle though in a much more gradual manner. We believe BNM is unlikely to follow the US and other Asian central banks in raising its policy rate significantly in 2023 and only anticipate another hike in 1H 2023 to 3.00%, likely in the January meeting, with the expectation that the balance of monetary policy between growth and inflation remains tilted toward the latter, despite coupled with persistent weakening of USD/MYR. However, our latest assessment is

subject to any signs of improvements in price pressures. We also believe that the country's current account surplus position, a well-capitalized banking system, and a healthy external foreign currency (FCY) assets position (outweighing FCY external liabilities) will all help to prevent and reduce the risks of an excessively volatile Ringgit movement against the US dollar.

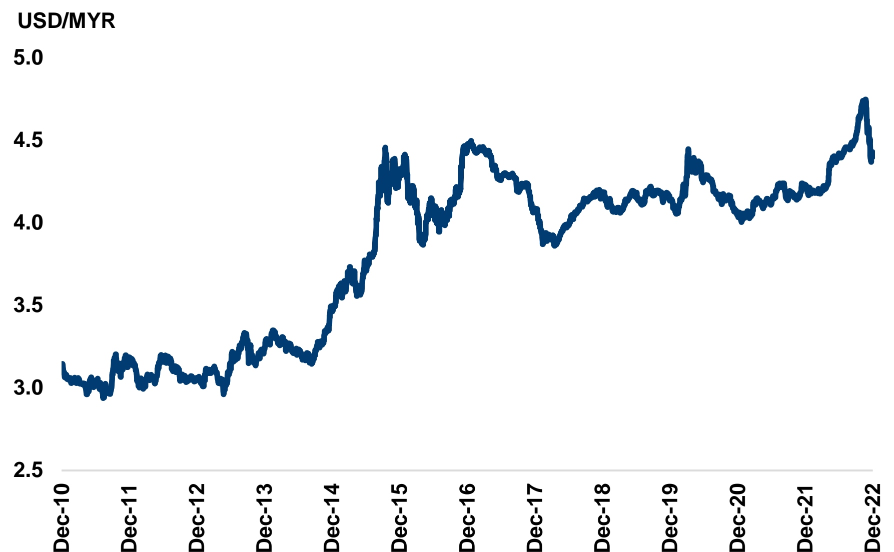
Country's current account surplus position to remain healthy in 2023 at 4% of GNI in line with continuous improvement in economic activities

Ringgit will be supported by wider current account surplus. We expect the country's current account surplus position to remain healthy in 2023 at 4% of GNI in line with continuous improvement in economic activities, from a narrower surplus of 2.9% of GNI (3.9% of GNI in 2021), in line with expansion in domestic industrial and investment activities, especially from private investment. In order to balance out the net outflows in the income and current transfer accounts, we anticipate that the surplus in the goods and services account will be sizable enough. Tourist arrivals have increased, resulting in a reduced deficit in the travel account as a result of the opening of international borders and shift into the endemic phase. We believe that the current account balance will continue to be in a sizable surplus, backed by strong economic fundamentals, the variety of Malaysia's exports, which are a result of rising global commodity prices, strong regional demand, and ongoing growth in the tourist sector.

Considerably higher US policy rates will cause portfolio movements from the emerging countries back to the advanced economies

If the US Fed fails to combat inflation, we believe there are certain uncertainties and ramifications for global capital flows, where considerably higher US policy rates will cause portfolio movements from the emerging countries back to the advanced economies. In light of this, BNM, like other ASEAN central banks, may experience difficulties due to the impact of capital flow reversals, which might result in volatility and a weakening of the currency. Additionally, this occurs at a time when the country is experiencing increased geopolitical risk and volatility, coupled with a flight to safe haven currencies like the US dollar in the foreign currency markets.

Figure 13: USD/MYR (Dec 2010 – Dec 2022)



Source: Bloomberg, PublicInvest Research

We forecast the Ringgit to average RM4.40-4.45/USD by the end of 2022 and RM4.30-4.35/USD by the end of 2023

However, countries like Malaysia that have a current account surplus in their balance of payments and ample foreign exchange reserves would have some support for their currencies. We forecast the Ringgit to average RM4.40-4.45/USD by the end of 2022 and RM4.30-4.35/USD by the end of 2023, as the Fed is expected to taper down its hawkish stance in 2023, unless there are significant disruptions to the global economy that cause investors to reverse their funds back to the USD as a potential safe haven.

1H 2023 Malaysian Market Outlook

Cautious, but not pessimistic

We are cautious, but we are not pessimistic.

Same issues that had weighed in 2022 will continue to be prevalent in 2023, though to varying (and perhaps lessening) extents

From an economic standpoint, the same issues that had weighed in 2022 (global monetary tightening and effects on economic growth, Russia – Ukraine war and effects on inflation, China's intermittent lockdowns and effects on global supply chains) will continue to be prevalent in 2023, though to varying (and perhaps lessening) extents.

Only the Russia-Ukraine war which appears to have no end in sight can be disruptive

The US appears to be slowing on its recently-aggressive rate hike path, with expectations that any forthcoming economic slowdown or recession may not be as deep as initially anticipated. China appears to be relaxing more of its previously-restrictive containment measures, with expectations that economic activity will now return full-swing, uninterrupted by any further lockdowns. Only the Russia-Ukraine war which appears to have no end in sight can be disruptive, particularly if President Putin ratchets up his threats against the rest of the world.

We should have seen the worst in 2022

From a market standpoint, we should have seen the worst in 2022, with regard to the above. When the US monetary tightening started, there were concerns on how aggressive the US Federal Reserve was going to be, and whether it would tip the economy into a recession. While that may still happen, we can be somewhat comforted by the likelihood that it will likely not be as severe as initially anticipated, provided the US FED does turn less aggressive as expected, albeit still hiking rates gradually.

China may be the surprise package in 2023, more so with its recent moves to relax COVID-related restrictions

China may be the surprise package in 2023, more so with its recent moves to relax COVID-related restrictions. Not hobbled by inflationary pressures, weakness in its economic system (from real estate-related issues) being addressed and armed with sufficient financial firepower, the government has ample headroom to stimulate growth to sustain demand destruction as a result of the Western world's expected weakness, thereby keeping global economies on an even keel, albeit weaker.

While we are not as pessimistic of 2023, we do expect challenges to persist in 1H 2023

What then for Malaysia? We concede that 2023 will be a weaker year from an economic growth standpoint, though part of this is due to base effects (from a stronger-than-anticipated 2022), and part of it owing to external-driven moderations. While we are not as pessimistic of 2023, we do expect challenges to persist in 1H 2023 and as such see market conditions to be volatile and moderately weak as the above-mentioned factors play out.

Certain factors could jump-start optimism in the local bourse

Certain factors could jump-start optimism in the local bourse however – further strengthening of the Prime Minister's position and that of the incumbent unity government to herald a much-needed period of political stability, robust inflow of foreign direct investment into the country to signal Malaysia's re-emergence as a preferred destination of choice for investments, and/or growth-based policies (near and medium term) rolled out from the re-worked Budget 2023 announcement, amongst others.

A step back for a bird's-eye (and retrospective) view on how markets performed in instances when strong economic growth was followed by noticeably weaker numbers

Premised on the expectation of a full-year GDP growth of 8.0% for 2022 and 3.8% for 2033, we take a step back for a bird's-eye (and retrospective) view on how markets performed (since the mid-90s) in instances when strong economic growth was followed by noticeably weaker numbers (recessions, in some instances), all else being equal, in attempts to draw parallels. We would suggest however this is purely observational on market psychology and "investor-pricing", with underlying economic conditions very different in each period, and is by no means predictive.

We are presented with 6 instances – 3 of which were the recession years of 1998, 2009 and 2020 and the following 3 being notably weaker growth years.

Table 2 : GDP and Underlying Monetary Conditions

#	Year	GDP	Note
1	1997	+7.3%	Asian Financial Crisis
	1998	-7.4%	1 rate hike (+100bps), 6 rate cuts (-400bps)
2	2000	+8.9%	Dot.Com Bubble Burst (US)
	2001	+0.5%	1 rate cut (-50bps)
3	***2004***	***+6.8%***	
	2005	***+5.3%***	***1 rate hike (+30bps)***
4	2008	+4.8%	Global Financial Crisis
	2009	-1.5%	2 rate cuts (-125bps)
5	***2010***	***+7.4%***	
	2011	***+5.3%***	***1 rate hike (+25bps)***
6	2019	+4.3%	COVID-19 global pandemic
	2020	-5.6%	4 rate cuts (-125bps)
7	***2022e***	***+8.0%***	
	2023f	***+3.8%***	***2 rate hikes? (+50bps)***

Source: Department of Statistics Malaysia, Bank Negara Malaysia, PublicInvest Research

The periods of 2004/05 and 2010/11 may throw some light on how markets (main and sub-indices) could perform

Malaysia is not expected to experience a recession in 2023 and is not anticipated to see rate cuts, barring a global meltdown. On that note, the periods of 2004/05 and 2010/11 may throw some light on how markets (main and sub-indices) could perform during periods of expectedly weaker economic growth and allow us to draw some parallels, though we are also believers of the adage "past is no predictor of the future".

Table 3 : Benchmark and Sub-Index Index Performance

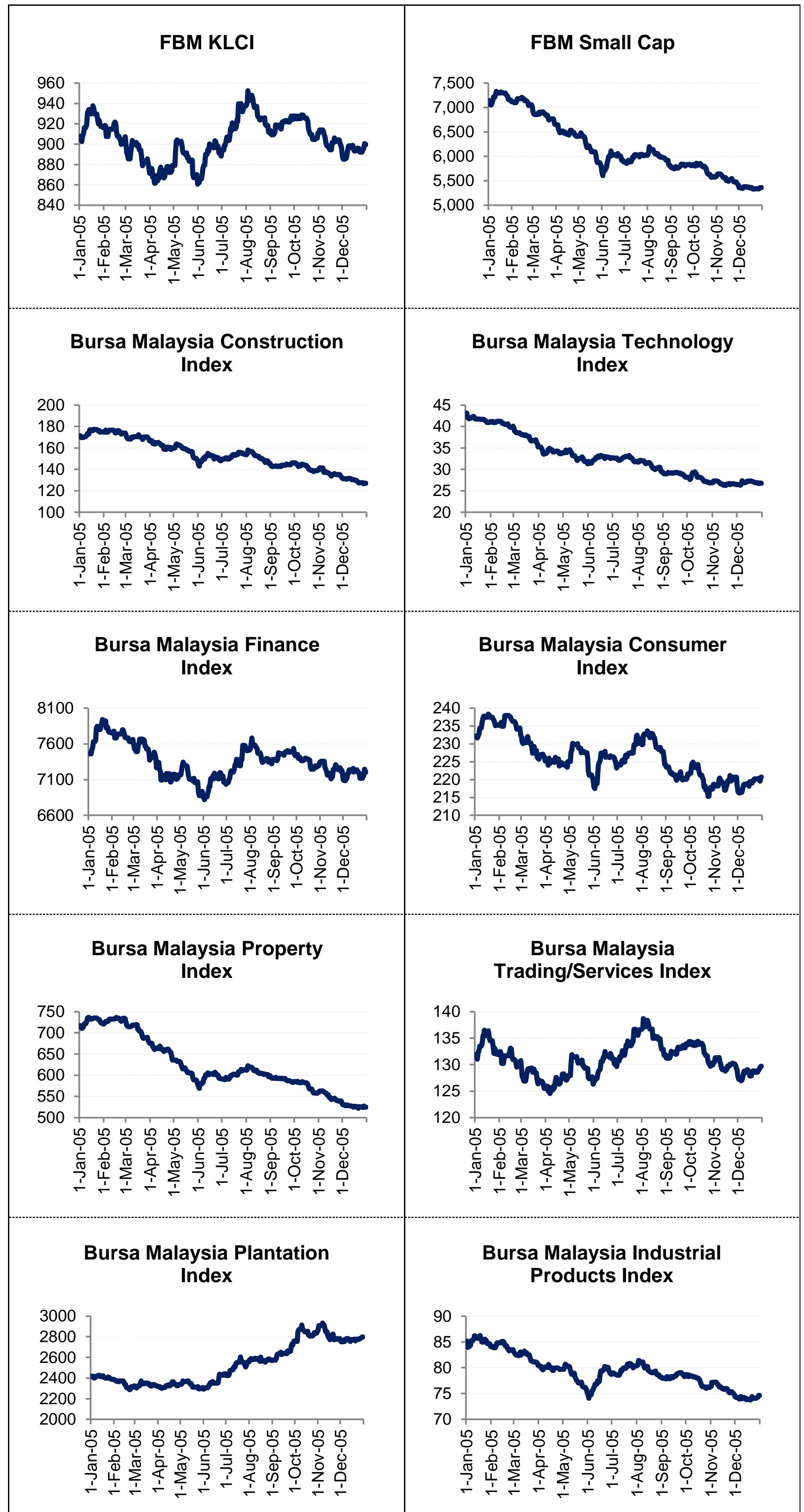
Index/Sub-Index	2005	2011
FBM KLCI	-0.8%	+0.8%
FBM Small Cap	-25.0%	-7.6%
Construction Index	-25.9%	-13.5%
Technology Index	-37.8%	-17.7%
Finance Index	-3.5%	-1.1%
Consumer Index	-5.0%	+7.6%
Property Index	-26.8%	-2.1%
Trading/Services Index	-1.7%	+0.8%
Plantation Index	+15.8%	+1.6%
Industrial Products Index	-12.3%	0.4%
GDP (Main/Sub-Sectors)	**2005**	**2011**
Services	+7.2% (2004: +6.4%)	+7.0% (2010: +7.4%)
Manufacturing	+5.2% (2004: +9.6%)	+5.4% (2010: +11.9%)
Construction	-1.5% (2004: -0.9%)	+4.6% (2010: +11.4%)
Agriculture	+2.6% (2004: +4.7%)	+6.8% (2010: +2.4%)
Mining	-0.4% (2004: +4.1%)	-4.9% (2010: -0.3%)
Overall	***+5.3% (2004: +6.8%)***	***+5.3% (2010: +7.4%)***
Underlying economic factors	· Higher oil prices (new normal: USD60)	· Even higher oil prices (new normal: USD100)
	· Escalating living cost and business input cost	· Escalating living cost and business input cost
	· Rate hike	· Rate hike

Source: Department of Statistics Malaysia, Bank Negara Malaysia, PublicInvest Research

Downward slide for the sector sub-indices

While the FBM KLCI provided trading opportunities throughout the year (2005), it was a downward slide for the sector sub-indices, with the exception of the Trading/Services and Plantation indices.

Table 4 : Benchmark (+Sub-Index) Performance – 2005

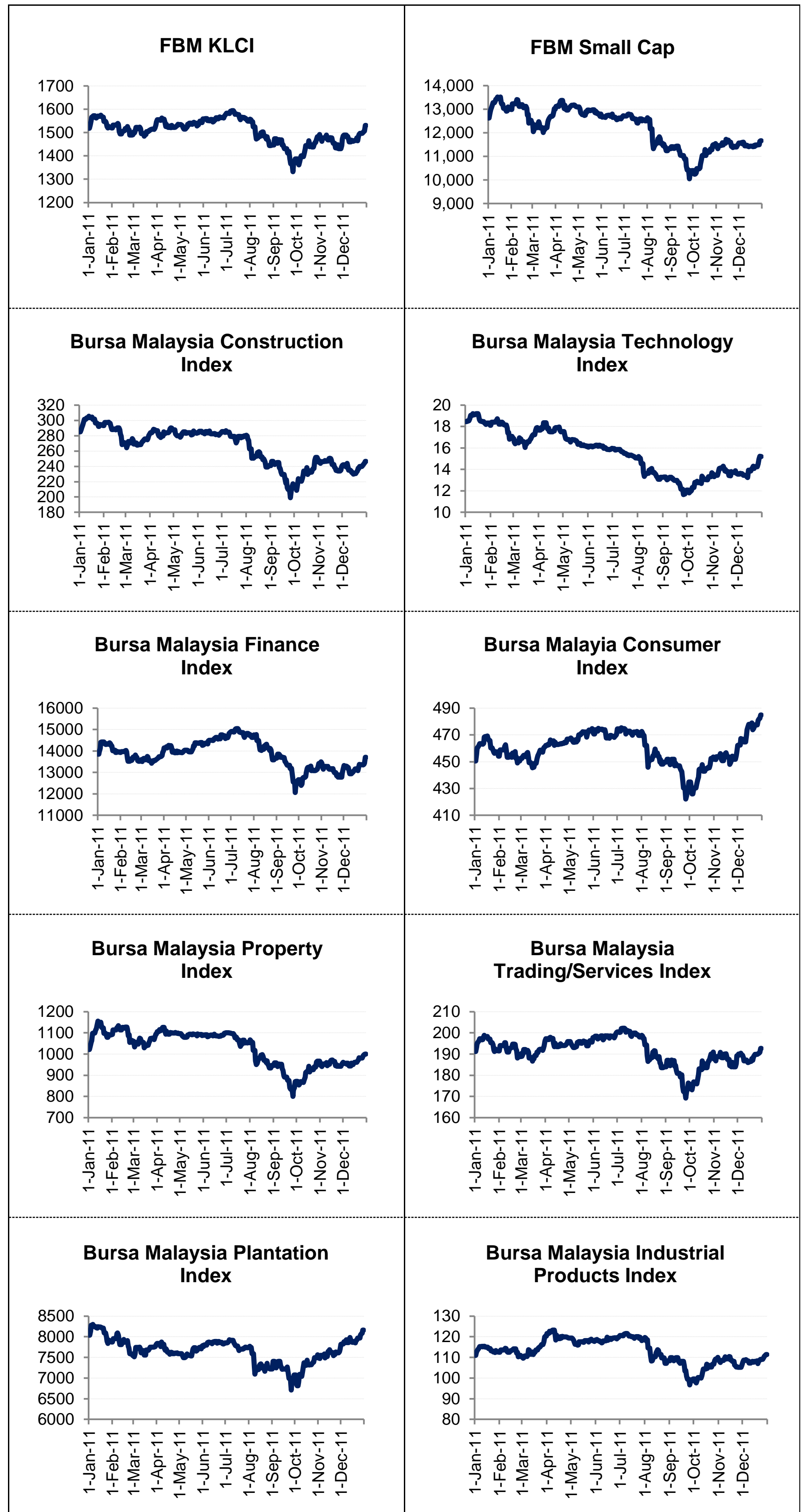


Source: Bursa Malaysia, Bloomberg, PublicInvest Research

The narrative appears to be the same for 2011, though the declines are not as steep

The narrative appears to be the same for 2011, though the declines are not as steep. Trading opportunities on the FBM KLCI are also less apparent. The Consumer sector is the only notable outperformer for the year.

Table 5 : Benchmark (+Sub-Index) Performance – 2011



Source: Bursa Malaysia, Bloomberg, PublicInvest Research

Will 2023 be a bad year for the market? If based on the above, possibly so. We would suggest however that it may not necessarily be.

Sufficient reasons warrant continued exposure in the market though uncertainties and resultant volatilities will be an ongoing feature

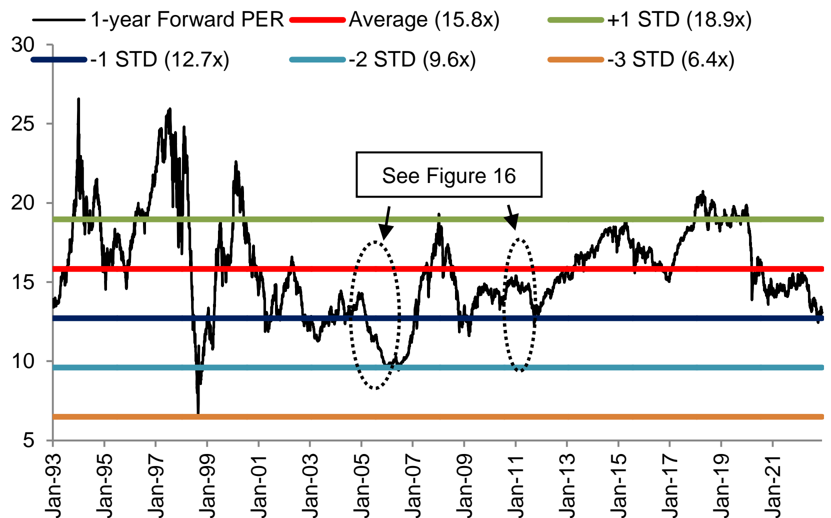
While Malaysia (by extension, the FBM KLCI) continues to struggle to break out of its range-bound trading band, sufficient reasons warrant continued exposure in the market though uncertainties and resultant volatilities will be an ongoing feature. Macro conditions in 2023 are not too dissimilar to that of 2022. While headline economic growth numbers exhibit moderation going into 2023, output in absolute terms (average per quarter) in 2023 will be similar to that of 3Q2022 and/or 4Q2022. In short, if one did not feel pronounced *economic pain* in recent times, 2023 should be no different despite the moderating numbers. All said, outperformance from ***navigating a tougher year*** will still have to come from a longer-term bottom-up approach.

*Outperformance from **navigating a tougher year** will still have to come from a longer-term bottom-up approach*

Downside is appearing to be increasingly limited

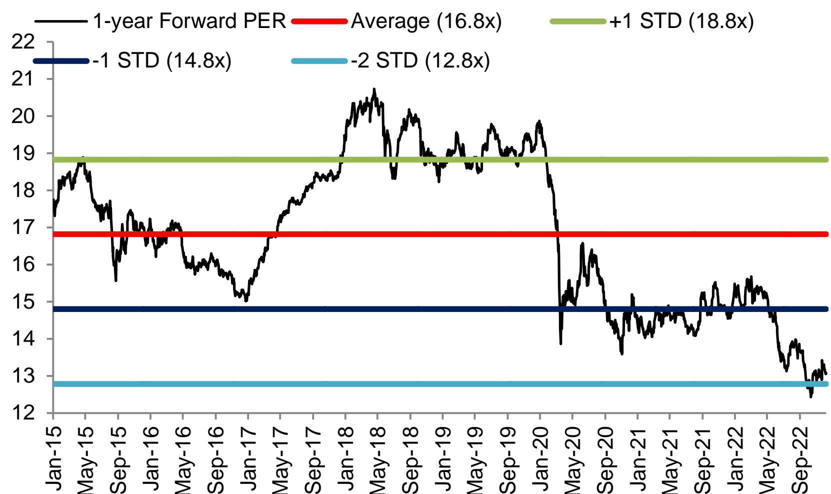
Valuations. The market is currently trading at 1 SD (standard deviation) below its very long-term average (since 1993). From a shorter-term perspective (since 2015), the market is currently trading near 2 SD below its average. While the coming year is expected to be another challenging one for Malaysian equities, downside is appearing to be increasingly limited unless there is a global meltdown of epic proportions. We would suggest buying into significant market weakness.

Figure 14: 1-year Forward Price-Earnings Band (Long Term)



Source: Bloomberg, PublicInvest Research

Figure 15 1-Year Forward Price-Earnings Band (Short Term)



Source: Bloomberg, PublicInvest Research

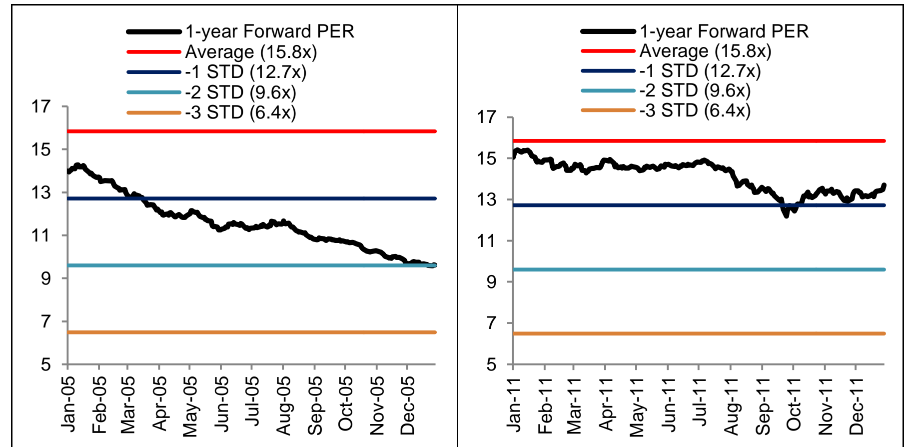
All other instances negative, the market has only weakened to -1 SD (before subsequently rebounding).

The market, in the last 30 years has only ever dipped once to -3 SD during the Asian Financial Crisis (one which affected us directly) and once to -2 SD pre-Global Financial Crisis (which affected us a bit more remotely) – both of which were financial crises. All other instances negative, the market has only weakened to -1 SD (before subsequently rebounding).

2023 is a post-crisis year, in which economic cycles are different

Equally important to note, in reference to the two "comparative" years of 2005 and 2011 (as highlighted earlier), those were two instances of pre-crisis years (2007/08 Global Financial Crisis and 2012/13 European Sovereign Debt Crisis), whilst 2023 is a post-crisis year, in which economic cycles are different. Average market price-earnings multiple for 2005 was 11.5x whilst that of 2011 was 14.1x.

Figure 16: 1-Year Forward Price-Earnings Band (2005 –lhs, 2011 -rhs)



Source: Bloomberg, PublicInvest Research

Average price-earnings multiple for 2022 is 14.1x, with the market currently trading at 13.2x.

The market is attractive from the long-term standpoint and compelling from the shorter-term perspective

The market is attractive from the long-term standpoint and compelling from the shorter-term perspective. The last time markets went to "distress' levels like 3 SD below long-term average and 2 SD below long-term average were financially catastrophic events. Most other shocks to the system saw markets falling to 1 SD below long-term average before subsequently bouncing back. We see the current market lull as temporal in nature, with no financial Armageddon expected.

The market will continue to be very much a trading-oriented one for now

The market will continue to be very much a ***trading-oriented*** one for now. What remains an encouragement is that foreign investors have been nibbling on the local bourse, and have been net buyers 7 out of the 11 months this year. Regional investor flow may pick up with greater verve should the new government roll-out its growth-based policies sooner rather than later, or when there are concrete signs of the incumbent unity government's stability, amongst others

Still too early days to signal a conclusive turnaround in the earnings picture, the signs are encouraging nonetheless

Earnings. The recently-completed 3Q CY22 result reporting cycle followed through from (and bettered) the immediate preceding one with the number of earnings surprises trumping (quite resoundingly) the number of disappointments again. Was it a case of markets being overly-pessimistic with earnings expectations? Or are companies turning the corner even amid external headwinds? Of continued encouragement is the fact that a good number of the surprises were the result of better sales performances, though the same can be said of the disappointments, conversely. Further improvements in margins continue to reflect dissipating supply chain disruptions (and heightened operating costs as a result). Still too early days to signal a conclusive turnaround in the earnings picture, the signs are encouraging nonetheless.

The current reporting cycle did not see major revisions to earnings of index-component stocks, with the exception of CIMB Group (ours), PPB Group (consensus) and minor tweaks on the banking and gaming components. Our assessment of the 2022 earnings basket is expected to contract 1.9%, though this also takes into account the effects of Cukai Makmur (CM). Excluding CM, the 2022 basket would have expanded by 4.5%. The 2023 earnings basket will expand by +5.4% meanwhile.

The market has almost always moved in-step with the earnings growth picture

Consensus expectations are robust, with significant swings in 2022 and 2023, though the outcome is similar. For the two "comparative" years of 2005 and 2011, earnings growth was +3.0% and +14.3% respectively, whilst the FBM KLCI was correspondingly at -0.8% and +0.8%, appearing to misprice the market.

Table 6 : FBM KLCI – GDP + Earnings Growth and Market Direction

Year	EPS (sen)	Growth (%)		Year	EPS (sen)	Growth (%)
2000	44.56	-		2012	111.79	+9.8%
2001	46.41	+4.2%		2013	106.14	-5.1%
2002	47.13	+1.6%		2014	108.19	+1.9%
2003	52.09	+10.5%		2015	98.76	-8.7%
2004	62.52	+20.0%		2016	98.28	-0.5%
2005	*64.38*	*+3.0%*		2017	107.9	9.8%
2006	93.63	+45.4%		2018	92.16	-14.6%
2007	94.85	+1.3%		2019	89.66	-2.7%
2008	78.82	-16.9%		2020	81.19	-9.4%
2009	68.16	-13.5%		2021	112.57	+38.7%
2010	89.09	+30.7%		2022e	101.24	-10.1%
2011	*101.83*	*+14.3%*		2023f	113.08	+11.7%

Note: Consensus estimates
Source: Bloomberg, PublicInvest Research

All said, the market has almost always moved in-step with the earnings growth picture, more obvious in recent times except for:

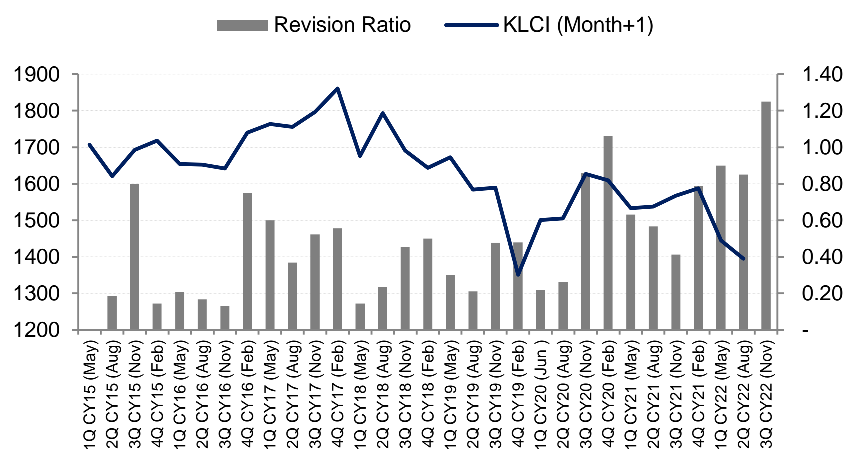
- 2020, which was a freakish pandemic-wrecked (global) year which saw many countries the world over (Malaysia included) skidding into recessions, though markets performed otherwise on vaccine-driven optimism.
- 2021, also wrecked by the pandemic (domestic surge) yet again amid political uncertainties, leading to compressions in earnings multiple and YoY decline in index performance though the earnings basket recovered admirably, underpinned by banking and plantation companies

Table 7 : FBM KLCI – GDP + Earnings Growth and Market Direction

	2017 (RM'm)	2018 (RM'm)	2019 (RM'm)	2020 (RM'm)	2021 (RM'm)	2022e (RM'm)	2023f (RM'm)
Index earnings	60,069	56,071	52,512	41,936	67,362	66,077	69,643
Growth	+6.4%	-6.7%	-6.3%	-20.1%	+60.6%	-1.9%	+5.4%
KLCI year-end	1,796.8	1,690.6	1,588.8	1,627.2	1,567.5	1,510	1,650
YoY chg %	+9.4%	-5.9%	-6.0%	+2.4%	-3.7%	-3.7%	+9.3%

Note: 1) Estimates are PIVB and consensus forecast
Source: Bloomberg, PublicInvest Research

Figure 17 : Earnings Revision Ratio vs FBM KLCI



Source: PublicInvest Research
Note: 1) Larger number signifies more upgrades than downgrades, vice versa, hence market supposedly reacting positively to perceived improvements in the earnings cycle. FBM KLCI reading is the calendar quarter-end close (ie. 1 month after the particular reporting period).

There are expected overall improvements in the near to medium term, which appear to be sustainable

While the earnings picture is less conclusive in terms of extrapolating trends and expectations, the reality is certain – there are expected overall improvements (Table 7) in the near to medium term, which appear to be sustainable. Even as 2022 has been impacted by Cukai Makmur, the overall earnings basket still remains robust for the 3-year period (2021 – 2023). In essence, corporate Malaysia remains strong, market vagaries aside. On this note, any expected upward movement in the market is fundamentally supported.

Should be higher, at 1,654 points by end-2023

Expectations. Based on consensus' 1-year forward price targets on individual components of the benchmark index versus the current price, the benchmark FBM KLCI should track movements accordingly as stock prices inch closer toward their price targets. In this case, it should be higher, at 1,654 points by end-2023. The following table does not constitute recommendations to buy either, as we do not have coverage on some of these stocks. It merely serves as an illustration. Please refer to Table 17 on page 56 for our full stock coverage list.

Table 8 : FBM KLCI Consensus Monitor

Stock	Index Wgt	Current *	Target **	Upside
Public Bank	14.4%	4.38	4.83	10.2%
Malayan Banking	11.1%	8.70	9.30	6.9%
Tenaga Nasional	7.7%	9.21	9.73	5.6%
CIMB Group Holdings	8.5%	5.75	6.32	9.9%
Petronas Chemicals Group	5.1%	8.46	10.03	18.5%
Axiata Group	2.9%	2.95	3.82	29.7%
Press Metal Aluminium Holdings	4.0%	4.93	5.89	19.4%
IHH Healthcare	3.7%	5.90	7.22	22.5%
Sime Darby Plantation	3.3%	4.35	4.48	3.0%
DiGi.Com	2.9%	3.70	4.02	8.7%
Dialog Group	2.3%	2.32	3.02	30.2%
Hong Leong Bank	2.9%	20.70	23.37	12.9%
PPB Group	2.5%	17.50	20.20	15.4%
MISC	2.6%	7.19	7.75	7.7%
IOI Corporation	2.5%	3.69	4.21	14.0%
Maxis	2.2%	3.75	3.85	2.8%
Telekom Malaysia	2.1%	5.10	7.00	37.3%
Genting	2.2%	4.42	5.90	33.4%
Kuala Lumpur Kepong	2.1%	21.02	24.71	17.6%
Petronas Gas	2.0%	16.86	18.09	7.3%
RHB Bank	1.9%	5.74	6.69	16.6%
Genting Malaysia	1.6%	2.63	3.28	24.8%
Nestle Malaysia	1.8%	138.30	132.55	-4.2%
Sime Darby	1.7%	2.21	2.53	14.5%
MR DIY Group (M)	0.8%	2.00	2.37	18.5%
Petronas Dagangan	1.6%	21.92	21.68	-1.1%
Inari Amertron	1.4%	2.66	3.11	16.9%
Hong Leong Financial Group	0.9%	18.46	23.06	24.9%

Source: Bloomberg, PublicInvest Research
Note: * as at 15 Dec, 2022 ** based on Bloomberg consensus *** excludes Top Glove and Hartalega

1H 2023 will remain uncertain as global economies work through the full effects of aggressive rate hikes over the last 6 months, with some tipped to fall into recession

What's the call? 1H 2023 will remain uncertain as global economies work through the full effects of aggressive rate hikes over the last 6 months, with some tipped to fall into recession. While there are growing expectations that the global economic slowdown may not be as severe, especially if the US Federal Reserve follows through with its less-aggressive path as recently guided, conditions may still take a quick turn for the worse given the fluidity in geopolitical relations and its ramifications on the global economy. We are however encouraged by the quicker-than-expected softening of stance in China's zero-COVID policy which is timely in potentially mitigating the anticipated demand destruction emanating from the United States' and Europe's weakness.

Sentiment is weak, understandably, but the market is also relatively undervalued

We wouldn't be in a hurry to get into the market, but retain sufficient optimism to suggest buying into market weakness to ride on the upside going into 2H 2023

Sentiment is weak, understandably, but the market is also relatively undervalued (now more so) with the earnings picture not having been altered dramatically post the 3QCY22 result reporting despite cautions for heightened risks. We wouldn't be in a hurry to get into the market at this juncture, but retain sufficient optimism to suggest *buying into market weakness* to ride on the upside going into 2H 2023. Malaysia's economic growth direction (and earnings picture) going into 2024 depends on the severity or wear-off of the downside risks which, at this point, is not expected to be severe.

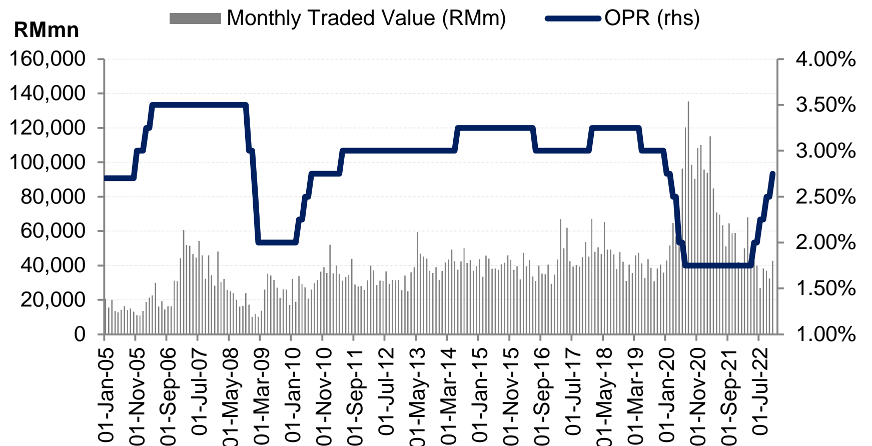
Since 1997, movements on the local bourse have been colored by various developments every few years which make it difficult to have a period of "lull" with which to draw parallels from in periods of relative calm that are only affected by economic-related developments domestically (except for 2002-2006, perhaps).

- 1997 – Asian Financial Crisis
- 2000 – "Tech Craze" and Dot.Com Bubble burst
- 2001 – 9/11 Terrorist Attack (US)
- 2007 – Global Financial Crisis
- 2011 – European Sovereign Debt crisis
- 2015 – US Taper Tantrum
- 2020 – COVID-19 pandemic

Monthly traded value on the local bourse has not shown any significant declines

Nevertheless, monthly traded value on the local bourse has not shown any significant declines despite the above-mentioned events, even amid periods of rate hikes (2005-2007, 2010-2012).

Figure 18 : Monthly Traded Value vs Overnight Policy Rate (OPR)

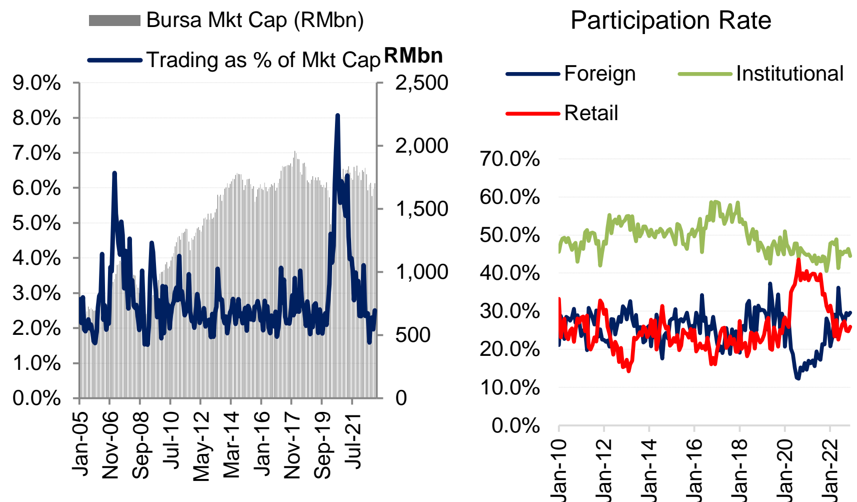


Source: Bank Negara Malaysia, Bursa Malaysia, PublicInvest Research

Market activity has been consistent at ~2.5% of total market capitalization

Market activity has been consistent at ~2.5% of total market capitalization of the local bourse, with exception of the 2007/08 and 2020/21 periods, though we can only say with certainty (due to unavailability of data) that 2020/21 was retail-driven.

Figure 19 : Bursa Malaysia Trading Activity and Participation Rate



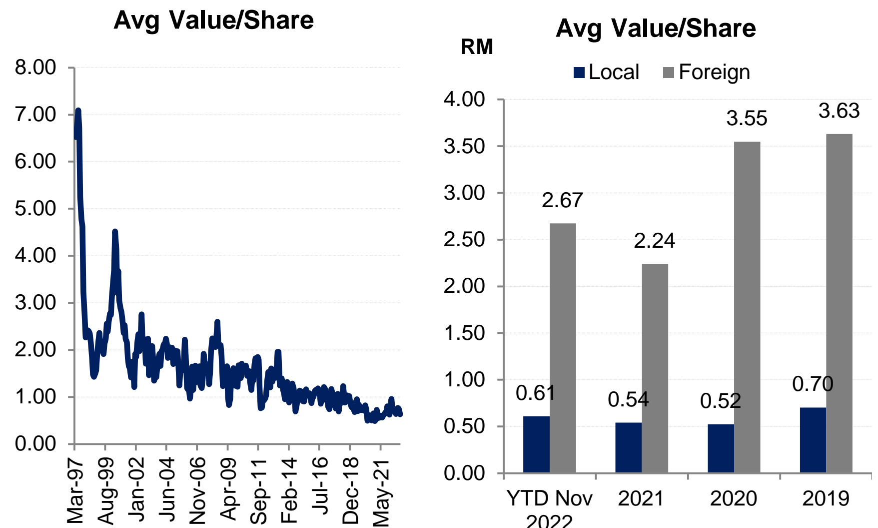
Source: Bank Negara Malaysia, Bursa Malaysia, PublicInvest Research

May be signaling a clear shift of investor focus, even amongst domestic institutional funds…

…though there's an obvious dichotomy between stocks bought by domestic and foreign investors

Be that as it may, average traded value per share on the local bourse has fallen from a high of RM6.60 in March 1997 to 63sen as at November 2022. This may be signaling a clear shift of investor focus, even amongst domestic institutional funds though there's an obvious dichotomy between stocks bought by domestic and foreign investors (the latter we loosely infer from foreign-based stockbrokers' transaction values on the local bourse).

Figure 20 : Bursa Malaysia Average Value Traded per Share



Source: Bank Negara Malaysia, Bursa Malaysia, PublicInvest Research

Market interest appears to have seen a clear shift toward smaller-capitalized stocks

In short, market interest appears to have seen a clear shift toward smaller-capitalized stocks in investors' attempts to uncover undervalued gems. Larger-capitalized stocks (reflected by higher average stock value traded) will always retain interest, though more pronounced activity will only be likely when there is sustained foreign investor activity. Early signs indicate possible interest going into 2023, though overall portfolio outperformance will still come from a bottom-up approach and a mixture of market capitalizations for liquidity and value.

Our year-end 2023 closing for the FBM KLCI is 1,650pts

Our year-end 2023 closing for the FBM KLCI is 1,650pts based on a 15x (-1SD to the FBM KLCI's short-term average) multiple to CY23 earnings, the lower multiple to account for prevailing (weaker) market sentiment. The longer-term historical (~16x) and shorter-term historical averages (~17x) are not likely to be attainable for now.

On sectors…

On sectors:

- Sustained 5G-related spending will keep interest in the Technology sector retained, with valuations having recently compressed notably due to rising rates. We continue to see short to medium term value, and suggest remaining focused on fundamentals, less on concepts. The sector may also benefit from trade diversions and investments from the US and China. We retain our **OVERWEIGHT** call on the ***technology*** sector

- While we expect the consumer sector to record slower earnings growth with consumer spending normalizing post 'binge spending', we continue to favor consumer staples over discretionary where consumer spending will be prioritized towards amid increasingly challenging growth prospects. We retain our **OVERWEIGHT** call on the ***consumer*** sector

- We should see recovery in business volume for the integrated resort operators, though the rate remains slow as consumer spending on tourism and hospitality services are likely to be somewhat affected by inflationary pressures. Nonetheless, gaming stocks will continue to chalk higher earnings in 1H23, driven by improvement in business volumes. We retain our **OVERWEIGHT** call on the **gaming** sector

- Out of the total projects awarded this year, as of Dec 9, amounting to RM62.8bn, 70% were awarded in 2H2022. Momentum for government projects picked up in the second-half of 2022, from RM2.6bn rollouts in the first-half to RM8.6bn rollouts (+228.5%). We also notice a spike in construction-related loan approvals, especially in the 2H2022 – loan approvals climbed 105% from 1H2022. Not entirely domestic alone, overseas and private projects awarded were also up by 115.6% from RM16.4bn in 1H2022 to RM35.3bn in 2H2022. With tides appearing to turn, we are now **OVERWEIGHT** on the ***construction*** sector.

- We lower our calls on the ***manufacturing*** and ***oil and gas*** sectors meanwhile, given limited attractiveness on a risk-reward basis.

Full commentaries on sectors are from pages 26 onwards.

Table 9 : PIVB Sector Summary (Stocks Under Coverage)

	PE(x)		Earnings Growth #	Note
	2022	2023	%	
OVERWEIGHT				
Construction	14.7	14.3	-1.4%	To recover in 2023?
Consumer	48.5	33.0	+28.8%	Demand growth still strong
Technology	33.4	28.2	+15.4%	Strong demand growth
Gaming	38.1	15.6	+119.1%	Stronger recovery in 202
NEUTRAL				
Banking	11.1	9.6	+16.5%	Valuations appealing
Plantations	11.3	13.9	-23.0%	CPO prices to ease off YoY
Oil and Gas	18.5	16.9	-5.1%	Higher prices, more activity
Telecomm.	24.3	22.3	+8.4%	Valuations unappealing
Manufacturing	18.3	14.4	+15.3%	Strong demand growth
Gloves	16.4	30.0	-87.4%	Acute oversupply situation
Property	12.0	10.2	+20.6%	Risk-reward unattractive
REITs	17.4	16.2	+7.2%	Fully-valued vis-à-vis OPR hikes
Healthcare	32.3	28.5	+13.1%	Risk-reward less attractive
Power	12.3	11.4	+8.8%	Stable, but lacking catalysts
Auto	12.8	12.7	+0.7%	Aided by tax breaks
Media	8.6	9.0	-5.9%	Shift in industry dynamics a bane
Bldg Materials	53.4	72.0	-24.7%	Distorted by one-off items
Chemicals	43.7	41.3	+5.8%	Positives priced-in
Packaging	14.3	13.0	+8.6%	Risk-reward unattractive
Timber	4.6	6.7	-32.2%	Plantation-driven moderation
Airlines	-	18.4	-	Weighed by high fuel costs

Source: PublicInvest Research
Note: # market-cap weighted growth (2022/23)

On stocks…

In step with our ongoing preference for stocks likely to see multi-year growth stories and earnings stability, **Able Global, D&O Green Technologies, Inari Amertron,** and **SKP Resources** are retained amongst the smaller-capitalized stocks as suggested picks for 2023. **Gamuda** and **Maybank** are retained as suggested picks for 2023 amongst the larger-capitalized stocks.

CCK Consolidated is now included for the attractiveness of its defensive nature of business, in addition to seeing robust demand from its Indonesian operations and new store openings. **Genting** is also included as we see its business operations improving more noticeably in 2023 on further relaxation of COVID-19 related regulations which should encourage the stronger return of international travellers over time. **IJM Corporation** is a potential beneficiary of expected increase in targeted domestic infrastructure spending, amongst which may include flood mitigation works and rail-related works.

Table 10: Performance of 2022 Suggested Picks

Stock	Price (RM)	Yr-High (RM)	% chg		Current (RM)	% chg
Able Global	1.61	1.67	+3.7%		1.33	-17.4%
D&O Green Technologies	5.90	6.01	+1.9%		4.27	-27.6%
Dialog Group	2.26	2.92	+29.2		2.32	+2.7%
Gamuda	2.90	4.06	+40.0		3.61	+24.5%
Hibiscus Petroleum	0.815	1.51	+81.3		-	-
Inari Amertron	4.00	4.06	+1.5%		2.66	-33.5%
Kawan Food	1.64	2.41	+47.0		2.14	+30.5%
Malayan Banking	8.30	9.18	+10.6		8.70	+4.8%
SKP Resources	1.74	1.83	+5.2%		1.68	-3.4%
Telekom Malaysia	5.50	6.10	+10.9		5.10	-7.3%

Note: Current price as at 15 Dec, 2022, Hibiscus recommendation downgraded in May 2022
Source: PublicInvest Research

Table 11: 1H 2023 Suggested Picks

Stock	Rationale
Able Global	· Strong earnings growth driven by contribution from its Mexico operations (exports to US currently delayed, though resolution expected soon)
CCK Consolidated	· Attractiveness of its defensive nature of business, in addition to seeing robust demand from its Indonesian operations and new store openings
D&O Green Technologies	· Multi-year growth, underpinned by its increasing market share in the global automotive LED market
Gamuda	· Potential beneficiary of expected increase in targeted domestic infrastructure spending, amongst which may include flood mitigation works and rail-related works, in addition to its growing overseas exposures
Genting	· Business operations improving more noticeably in 2023 on further relaxation of Covid-9 related regulations which should encourage the stronger return of international travellers
IJM Corporation	· Potential beneficiary of expected increase in targeted domestic infrastructure spending, amongst which may include flood mitigation works and rail-related works
Inari Amertron	· Higher earnings contributions from new product offerings in the assembly of next-generation phone cycles. Management is particularly upbeat on the radio frequency (RF) component outlook with strong double-digit growth
Maybank	· Continues to make headway in its transformation and growth, underpinned by its previous M25 and now-refreshed M25+ initiatives
SKP Resources	· Strong growth expected from the production of new models of its key customer

Source: PublicInvest Research

The following are our Outperform/Trading Buy calls, sorted by market capitalization.

Table 12: PIVB Large-Cap Outperform / Trading Buy Calls

Stock	Mkt Cap (RMm)	Current Price	Target Price	Upside (%)
Malayan Banking	104,870.9	8.70	9.70	11.5%
CIMB Group	61,324.3	5.75	6.70	16.5%
IHH Healthcare	51,955.7	5.90	7.60	28.8%
Tenaga Nasional	52,985.8	9.21	12.42	34.9%
Telekom Malaysia	19,487.2	5.10	6.63	30.0%
Genting	17,019.5	4.42	5.80	31.2%
Genting Malaysia	14,899.5	2.63	3.50	33.1%
Dialog Group	13,090.8	2.32	3.42	47.4%

Source: Bursa Malaysia, PublicInvest Research

Table 13: PIVB Mid-Cap Outperform / Trading Buy Calls

Stock	Mkt Cap (RMm)	Current Price	Target Price	Upside (%)
Inari Amertron	9,929.3	2.66	3.74	40.6%
Gamuda	9,436.2	3.61	4.30	19.1%
Genting Plantations	5,302.4	5.91	7.94	34.3%
D&O Green Technologies	5,283.1	4.27	5.16	20.8%
KPJ Healthcare	4,104.3	0.945	1.05	11.1%
VS Industry	3,588.2	0.935	1.23	31.6%
Malakoff Corporation	3,249.8	0.67	1.02	53.4%
Mega First Corporation	3,204.6	3.39	4.74	39.8%
Sime Darby Property	3,162.4	0.465	0.70	50.5%
DRB-Hicom	2,977.2	1.54	1.95	26.6%
Bumi Armada	2,870.3	0.485	0.70	44.3%
SP Setia	2,669.4	0.66	0.95	45.0%
SKP Resources	2,624.8	1.68	2.01	19.6%
Sports Toto	2,226.5	1.65	2.20	33.3%
Hibiscus Petroleum	2,213.7	1.10	1.18	7.3%
IGB Corporation	2,054.7	2.28	2.70	18.4%

Source: Bursa Malaysia, PublicInvest Research

Table 14: PIVB Small-Cap Outperform / Trading Buy Calls

Stock	Mkt Cap (RMm)	Current Price	Target Price	Upside (%)
Ta Ann Holdings	1,717.8	3.90	5.16	32.3%
Dayang Enterprise	1,574.6	1.36	1.58	16.2%
TSH Resources	1,421.6	1.03	1.48	43.7%
MI Technovation	1,272.4	1.42	1.65	16.2%
Magni-Tech Industries	814.9	1.88	2.35	25.0%
Kawan Food	774.0	2.14	2.50	16.8%
DKSH Holdings	693.7	4.40	5.25	19.3%
LBS Bina Group	675.8	0.44	0.67	54.0%
Sarawak Plantations	630.6	2.26	3.32	46.9%
Wah Seong Corporation	534.3	0.69	0.70	1.4%
Chin Well Holdings	478.4	1.67	1.80	7.8%
ECA Integrated	473.6	0.82	0.32	-61.0%
Spritzer	447.3	2.14	2.50	16.8%
Innature	430.6	0.61	0.66	8.2%
CCK Consolidated	410.1	0.66	0.90	36.4%
Able Global	409.1	1.33	1.55	16.5%
Cypark Resources	244.4	0.42	0.85	104.8%
Air Asia X	207.4	0.50	1.04	108.0%
Uzma	197.1	0.56	0.71	26.8%
Rhone Ma Holdings	148.2	0.67	0.88	31.3%

Notes: Prices (Tables 12-14) as at 15 Dec, 2022
Source: Bursa Malaysia, PublicInvest Research

Sector Outlook

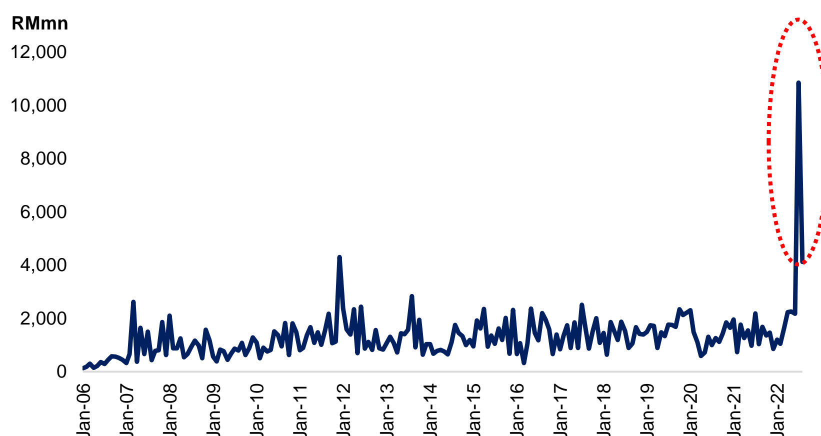
Construction – Tides to Turn

Recommendation: OVERWEIGHT (Upgrade)

Projects awarded up two-fold in 2H2022

Projects awarded up two-fold in 2H2022. Out of the total projects awarded this year, as of Dec 9, amounting to RM62.8bn, 70% were awarded in 2H2022. Momentum for government projects picked up in the second-half of 2022, from RM2.6bn rollouts in the first-half to RM8.6bn rollouts (+228.5%). That said, we also noticed a spike in construction-related loan approvals, especially in the 2H2022 – loan approvals climbed 105% from 1H2022. Though we may think the spike was driven by the then-GE15, overseas and private projects awarded were also up by 115.6% from RM16.4bn in 1H2022 to RM35.3bn in 2H2022.

Figure 21: Construction-Related Loan Approvals



Source: Bloomberg, PublicInvest Research

Developments in East Malaysia will be ramped up

East Malaysia tops PH's spending priority. For the past few weeks under the Pakatan Harapan (PH) administration, Prime Minister Dato' Seri Anwar Ibrahim (DSAI) has promptly addressed economic gap and inequalities between Peninsular and East Malaysia. We opine that developments in East Malaysia will be ramped up following the appointment of DSAI's Cabinet which saw 7 out of 28 ministerial posts filled up by representatives from Gabungan Rakyat Sabah (GRS), Gabungan Parti Sarawak (GPS) and United Progressive Kinabalu Organisation (Upko). This move represents the Prime Minister's conviction in realising his promises to create an inclusive government. Further to that, the PH coalition (as the then-opposition), in its Alternative Budget 2023 had proposed to allocate 30% of the total development budget to Sabah and Sarawak.

Table 15: East Malaysia Ongoing, Upcoming and Potential Projects

Project Name	Details
Pan Borneo Sabah	60% complete, target completion by 2024
Pan Borneo Sarawak	86% complete, target completion by 2022
Sarawak Metro	Phase 1 and 2 awarded, pending commencement
Sarawak Sabah Link Road Phase 2	As announced in Perikatan Nasional's Budget 2023
Sabo Dam Project	As announced in Perikatan Nasional's Budget 2023
Upgrading Lahad Datu & Sepanggar Port	As announced in Pakatan Harapan's GE15 manifesto
Building Kudat Port	As announced in Pakatan Harapan's GE15 manifesto
Building 2 new Public Higher Education Institutes (IPTA)	As announced in Pakatan Harapan's GE15 manifesto

Source: Various, PublicInvest Research

Open tenders only. Prime Minister DSAI has prohibited procurements of projects without proper tenders. Backing this statement, the new Government has halted the execution and ordered a review of RM7bn worth of approvals under the RM15bn flood mitigation projects. The projects to be reviewed were awarded through direct negotiation instead of a tender process prior to GE15. Taking cue from the previous short-lived PH Government administration in 2018-2020, only RM352m worth of projects were approved via direct negotiations. While this may have cast uncertainties on the flow of projects, we are less concerned as the sector's immediate catalyst, MRT3 project is done through open tender under private finance initiatives (PFI). To recap, the initial funding for MRT3 in the first two years, which sums up to 20-30% of total construction cost will be endowed by the winning contractor of respective packages.

Listed contractors (mostly G7) will stand to win a fair share of projects, regardless of size

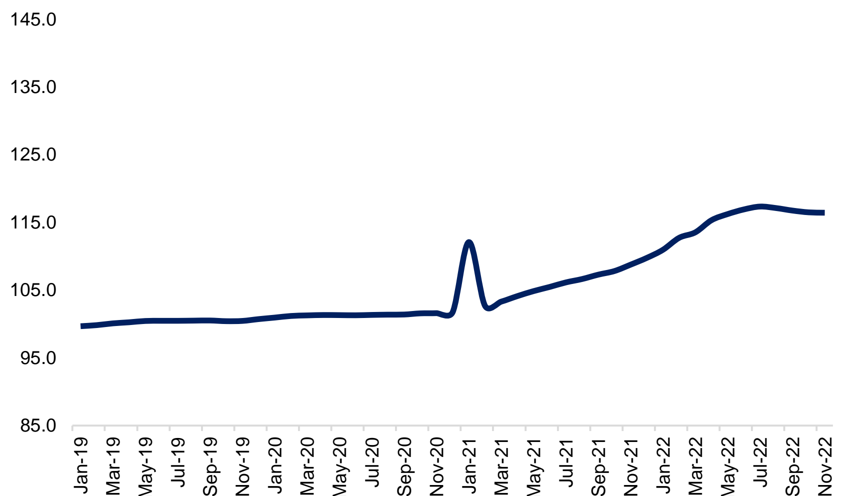
Listed contractors to get bigger slice of cake. Previously we have also highlighted that sector activity would be of limited benefit to G7 contractors as priority would likely be given to the underserved, with small contractors benefitting from the rollout of small-scale public projects and value-for-money infrastructure projects whilst G7 contractors will be awarded projects with higher complexity and scale. However, we think, with transparency remaining in the limelight, listed contractors (mostly G7) will stand to win a fair share of projects, regardless of size, since listed contractors appear to have higher levels of transparency in terms of disclosures. Moreover, as we foresee future public infrastructure projects to involve more private participation via public-private partnerships (PPP) or private finance initiatives (PFI), listed contractors will have an advantage in terms of ability to raise capital.

Availability of variation-of-price (VOP) clauses in contracts have been protecting construction margins

Margins flat but slowly catching up. Sector headwinds such as high building materials prices and manpower shortage tapered off due to the reopening of major economies (except China) post COVID-19. Building Material Cost Index (BCI) came off 0.9ppts whereas the average prices of key building materials such as cement and steel recorded 0.3% and 10.4% declines from June 2022 when prices were at its peak. However, on YoY basis, BCI remains elevated at 7.7ppts whereas cement and steel climbed higher by 9.9% and 7.9% respectively. While high building material prices remain a concern, the availability of variation-of-price (VOP) clauses in contracts have been protecting construction margins especially for Government projects.

On the other hand, construction costs for private projects are adequately compensated through re-negotiations, combined with proper cost management. Hence, we gather construction margins will settle in between 6%-8% (previously 5%-7%) on average at the pretax profit (PBT) level. On manpower issue, the Construction Industry Development Board (CIDB) reported an +11.8% improvement as-to-date on the headcount of general construction workers from 1H2022. Despite the improvement, the sector is still experiencing an estimated shortage of 400,000 workers.

Figure 22: Building Material Cost Index 2019-2022

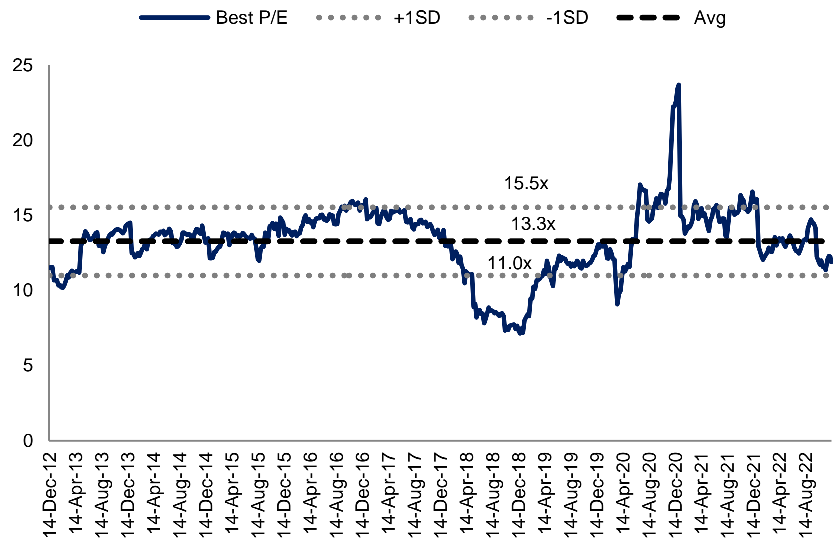


Source: Department of Statistics Malaysia, PublicInvest Research

Major infrastructure job flow momentum will pick up next year, coupled with favourable domestic policies

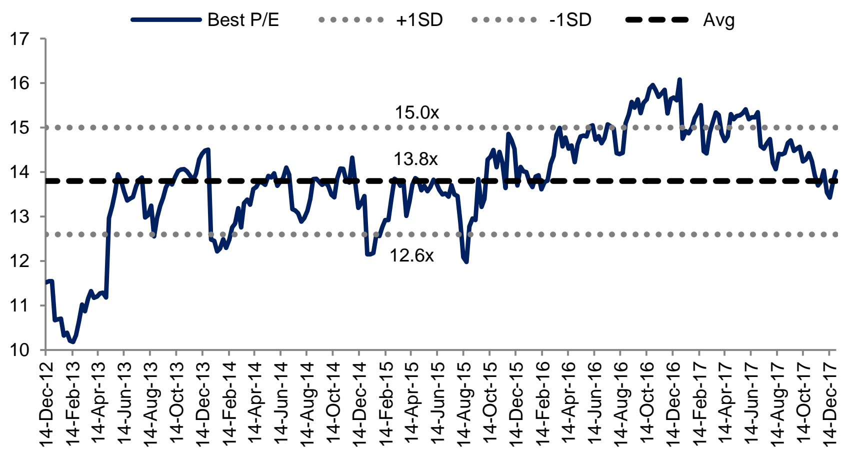
Upgrade to Overweight. All said, the KL Construction (KLCON) Index is currently trading at 12.1x 5-year forward earnings, within the average forward PE of 11.7x. While major infrastructure job flow momentum will pick up next year, coupled with favourable domestic policies, we expect KLCON to trade at 1SD going into 1H2023. We take reference of the 5-year PE from 2012-2017, excluding the years in between 2018-2022 as the anomalies were due to political uncertainties in 2018 followed by the COVID-19 pandemic. Recall, based on average sector valuation prior to GE14, construction stocks were trading at an average of 14x 5-year forward earnings, as the sector was revived with big ticket projects worth RM200bn such as Bandar Malaysia, ECRL, Gemas-JB & Serendah-Port Klang double tracking, LRT3 and Pan Borneo highway, representing an era of prime pumping for the sector. We do not think it unreasonable for the KLCON to trade at 1SD moving forward given the abovementioned reasons.

Figure 23: KLCON 10-year Forward Price-Earnings (2012-2022)



Source: Bloomberg, PublicInvest Research

Figure 24: KLCON 5-year Forward Price-Earnings (2012-2017)



Source: Bloomberg, PublicInvest Research

Outstanding construction orderbook for all stocks in our universe remain optimal at 3-4 years

Key beneficiaries, in our view, especially from the MRT3 project is Gamuda, due to its strong track record in rail tunneling, and IJM Corporation. Both companies are also lowly-geared, with Gamuda at 0.21x and IJM at 0.23x as at October 2022 and September 2022 respectively. Outstanding construction orderbook for all stocks in our universe remain optimal at 3-4 years, with Gamuda having a record-breaking orderbook of RM15.3bn.

Technology – Holding Firm

Recommendation: OVERWEIGHT

Weaker sales outlook. After soaring 25% to USD614.7bn in 2021, worldwide semiconductor sales are expected to grow by a more moderate 3% to a new record sales level of USD636bn this year. The optoelectronics, sensors and actuators and discretes (OSD) market is expected to grow by +8.1% YoY led by Analog at +21% growth, sensors at +16.3% and Logic at +14.5% growth. Only the highly-cyclical Memory segment is forecast to post a sharp decline of 17% that will weigh on overall IC (integrated circuit) and semiconductor market growth this year.

Adverse conditions that stunted semiconductor sales in 2H 2022 are expected to persist through the first half of next year

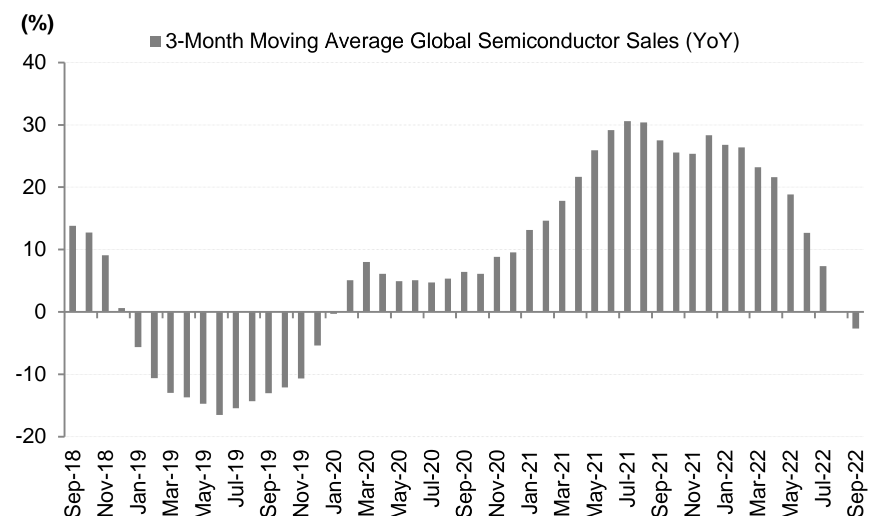
Adverse conditions that stunted semiconductor sales in 2H 2022 are expected to persist through the first half of next year. A global economy that is struggling through recession, soft demand for new enterprise and personal computers smart phones, elevated chip inventory levels and continued weakness in the memory IC market are expected to reduce total semiconductor sales by 5% next year. According to the Worldwide Semiconductor Market, the global semiconductor sales are poised to shrink 4% in 2023 to USD557bn for the first annual contraction since 2019 as the memory market, which makes up more than 1/5 of the total, is seen falling 17%. While chipmakers have expanded output in response to a supply crunch, customer demand for devices like smartphones and computers appears to be softening.

Automotive and industrial semiconductors remain in high demand

Adding to the downward pressure, tech giants like Microsoft and Amazon.com are scaling back investments in data centres. Meanwhile, TrendForce reported that the growth in global shipments is expected to slow to 2.8% in 2023 from 5.1% this year. Servers are one of the biggest users of memory chips. Automotive and industrial semiconductors remain in high demand. Japan, Europe and the US are expected to see growth in 2023 but China, which is the world's largest semiconductor market and which accounts for over 30% of the total, is likely to fall by 7.5% as the US is pursuing tougher curbs on chip technology exports to China.

Following the cyclical down-year in 2023, IC Insights forecasts that semiconductor sales will rebound with three straight years of much stronger growth. By 2026, semiconductor sales are forecast to climb to USD843.6bn, representing a CAGR of 6.5%.

Figure 25: Monthly Global Semiconductor Sales (YoY)



Source: Bloomberg, PublicInvest Research

2023 semiconductor capex projected to fall 19%. IC Insights projects that capital spending by semiconductor companies is likely to show a 19% increase in 2022 to a new record spending of USD181.7bn as semiconductor suppliers enjoyed a strong influx of orders in the 1H due to robust post-COVID-19 economic activity. It also marks the first three-year period of double-digit capital expenditure (capex) increases in the semiconductor industry since 1993-1995. Booming demand pushed most wafer fabrication utilization rates well above 90%. However,

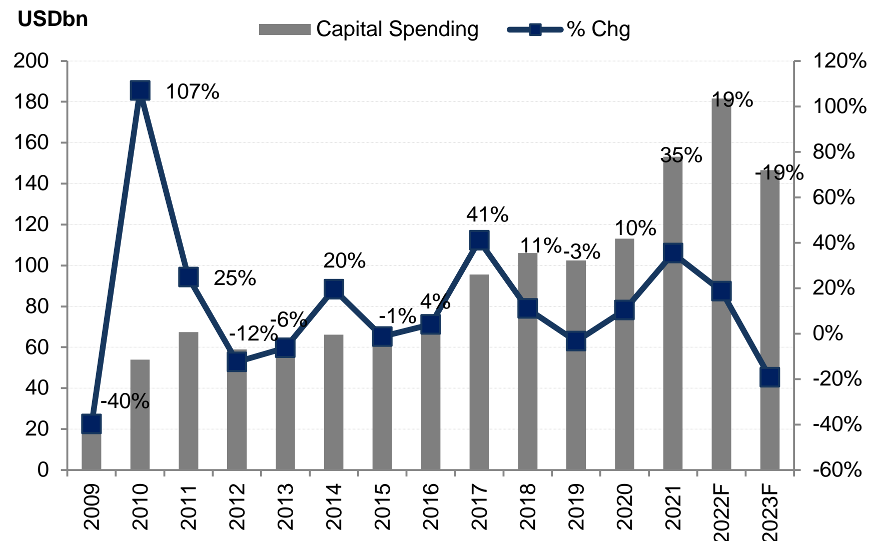
2023 is going to be a down-year for spending as chipmakers make adjustments in line with the weaker demand and the inventory build-up turns from a tailwind in 2022 into a headwind in 2023.

the outlook abruptly changed in 2H 2022 as soaring inflation rapidly slowed the global economy, forcing many semiconductor manufacturers to cut down their aggressive expansion plans.

With the memory market collapsing in 2H 2022 and weakness expected to continue through to 1H 2023, capital spending for memory is forecast to decline at least 25% next year. Moreover, the newly enacted US sanctions on Chinese semiconductor producers is expected to hit hard on semiconductor equipment players in US as China's semiconductor industry capital outlays are projected to be lower by 30% or more in 2023. These two factors are the main driving force behind the forecasted 19% drop in total worldwide semiconductor industry spending in 2023 and will be the steepest decline since the global financial meltdown in 2008-2009. In-short, 2023 is going to be a down-year for spending as chipmakers make adjustments in line with the weaker demand and the inventory build-up turns from a tailwind in 2022 into a headwind in 2023.

We do not expect positive impacts on the semiconductor capital spending from the USD52bn in grants that will be given to US semiconductor suppliers meanwhile, as part of the US CHIPS and Science Act that was passed earlier this year. This is because it is not additional funding to planned semiconductor industry spending, but instead a replacement of semiconductor producers' budgeted capex had the CHIPS and Science Act funding not been available.

Figure 26: Worldwide Semiconductor Capital Spending Trends



Source: IC Insights, PublicInvest Research

Malaysia has the makings of being a strategic location for companies that are looking for destinations as part of their "dual-source supply" or relocation strategies

Malaysia stands out in the region. Malaysia is poised to become the preferred location for foreign semiconductor companies looking to diversify their semiconductor businesses, especially in the wafer fabrication industry. It has the makings of being a strategic location for companies that are looking for destinations as part of their "dual-source supply" or relocation strategies. Currently, there are only two fabricators with leading-edge technology in the country. We believe there will be positive spillover effects in terms of the relocation of industries from China and the US to this region in order to minimize futures risks arising from increased US-China tensions.

Malaysia is among the leading countries in terms of investments for the semiconductor, telecommunications and technology industries as it has a favourable eco-system, including i) a pool of highly skilled manpower, ii) well-developed infrastructure, iii) a business-friendly environment, iv) Ringgit weakness and v) an established back-end semiconductor value chain. Taiwan's Foxconn's subsidiary has recently inked a Memorandum of Understanding (MoU) with Dagang NeXchange to set up a joint venture (JV) company for setting up Malaysia first 12-inch chips manufacturing plant to produce 40,000 wafers of chips per month in 28nm and 40nm technology. German semiconductor producer, Infineon Technologies, has committed RM8bn for the construction of third wafer fabrication module in Kulim that is expected to be completed by 3Q 2024.

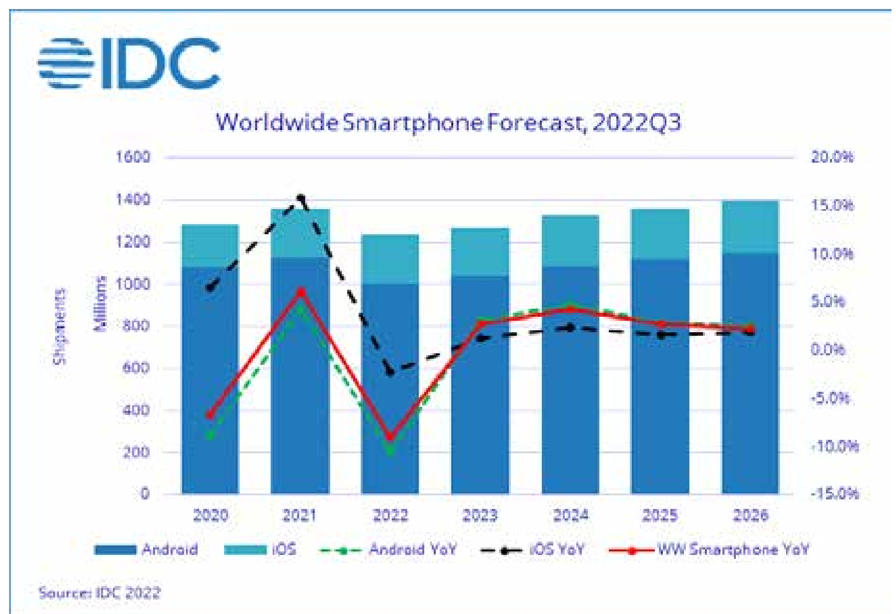
Micro LED diversifies into more applications. Total shipments of Mini LED backlight display are expected to soar 74% YoY to 16.8m in 2022 as mini LED technology is the best solution for improving contrast. Apart from TV application, vehicle display is another hotbed for Mini LED backlight applications as automotive displays have higher requirements for brightness, contrast and reliability. Stimulated by a dynamic pursuit of more powerful display effects in new energy vehicles (NEV) and a trend towards digital instrumentation, Mini LED backlights will be prioritized for expanded use in NEVs.

In order to allow drivers to immerse themselves in a highly intelligent cabin built for interaction with a man-machine interface, the development of in-vehicle displays covers large-scale, curved and transparent displays, high dynamic contracts or even a combination of more sensing components to achieve intelligent functions. Micro LED is very suitable for application in a high-end automotive environment. In terms of Heads-Up Display applications (HUD), a HUD integrates and projects dashboard and navigation system information onto the front windshield, reducing the chances of drivers looking down, for the purpose of driving safety. Micro LEDs with active driving solutions can also be directly displayed on the transparent glass backplane to achieve a HUD function. 2023 is a key period for automotive LED makers to kick start product design and verification, establishing a long-term development foundation for Micro LED automotive smart cockpits and transparent displays. TrendForce estimated that 300,000 Mini LED automotive displays to be shipped, a staggering growth of 50%.

Global smartphone shipments projected to recover in 2H 2023

Global smartphone shipments projected to recover in 2H 2023. International Data Corporation (IDC) sees a more prolonged recovery for the worldwide smartphone market. Shipments of smartphones are now projected to decline 9.1% to 1.24bn units in 2022, a reduction of 2.6% from the previous forecast. Apple iPhones will make up 18.7% of all smartphone shipments in 2022, the highest share of any year. While a recovery of 2.8% to 1.27bn units is still anticipated in 2023, IDC did reduce its 2023 smartphone forecast by about 70m units, given the slowed demand and disruption from the Covid shutdowns in China. It thinks that the global smartphone market will remain challenged through the first half of 2023, with hopes that recovery will improve around latter part of next year and growth across most regions in the 2H. Nevertheless, IDC also believes that most of this reduced demand will be pushed forward and will support global growth in late 2023 and beyond. IDC's long-term optimism for smartphones is mainly based on continue deployment of 5G wireless networks as growth in 5G infrastructure will be robust in India, Indonesia and the Middle East for the next 5 years and in Africa and South America in 5 to 10 years.

Figure 27: Worldwide Semiconductor Capital Spending Trends



Source International Data Corporation (IDC)

Given the less-aggressive rate hike guidance from the FED, selling pressure on technology stocks is overdone, with valuations looking fairly attractive at current levels

Easing fears on slower global interest rate hike pace. Technology shares have been battered this year as the US Federal Reserve (FED) aggressively hiked interest rates to contain inflation. YTD, Bursa Malaysia's Technology Index has registered a loss of 32%. Given the less-aggressive rate hike guidance from the FED, selling pressure on technology stocks is overdone, with valuations looking fairly attractive at current levels.

We remain upbeat on the technology sector in Malaysia

OVERWEIGHT. Despite the cloudy near-term backdrop of higher inflation, weaker growth, tighter spending, we remain upbeat on the technology sector in Malaysia as we see it standing out in the region given more trade diversion and investments from the US and China. Our top picks for the sector are *D&O Green Technologies* and *Inari Amertron.*

Consumer- Staples To Remain Defensive

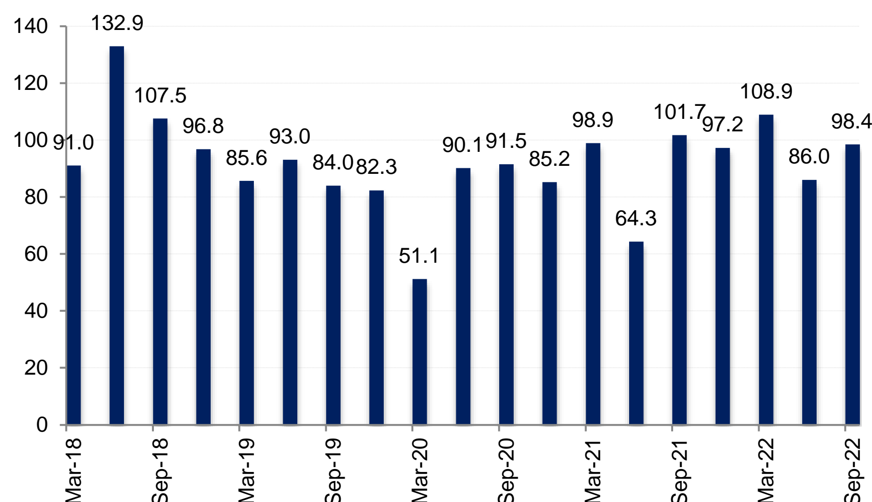
Recommendation: OVERWEIGHT

We are still positive on the consumer staples sub-sector given its defensive nature

Domestic consumption to remain resilient. While the rising interest rate environment should lead to lower consumer disposable income, we are still positive on the consumer staples sub-sector given its defensive nature. We think that topline growth will be supported by higher average selling prices (ASPs), healthy labour market and the recovery in tourism with China loosening on its restrictive COVID-19 measures which should lead to potentially higher tourist arrivals next year.

Consumer Sentiment Index below optimism threshold, though to improve. The MIER Consumer Sentiment Index (CSI) increased by 12.4 points QoQ to 98.4 points in 3QCY22, mainly driven by positive private consumption and business prospects, following the reopening of the economy. Local labour market continues to improve with the unemployment rate declining to 3.6% in October 22. We expect consumer sentiment to hover around the optimism threshold in 1H 2023, supported by recovery in the labour market, and tourism-related activities.

Figure 28: MIER Consumer Sentiment Index

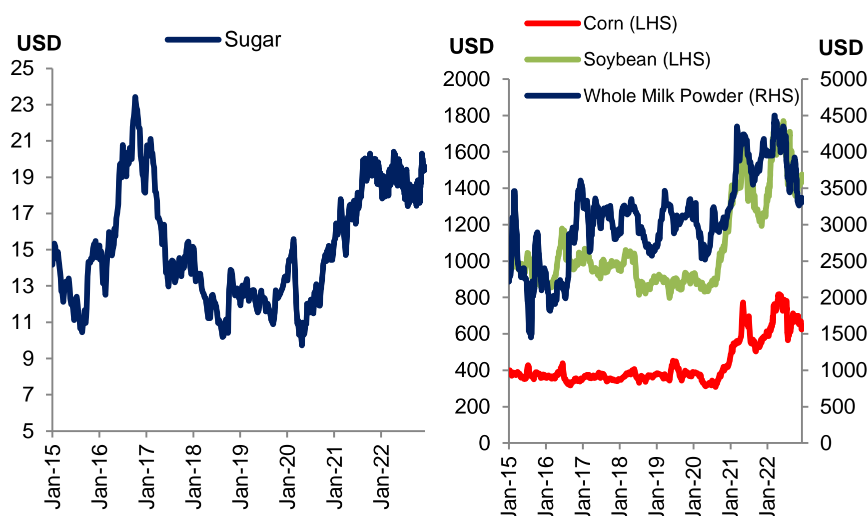


Source: CEIC, Publicinvest Research

Margins to normalize with commodity prices easing off from its peak in 1H 2022

Expecting margins to normalize. We foresee margins to normalize with commodity prices easing off from its peak in 1H 2022. In addition, we think that the ASP adjustments across F&B and retail sectors will provide an uptick for profit margins, further supported by effective cost control measures implemented to mitigate the rising cost environment. We gather that sales volume from consumer companies under coverage have not experienced any adverse impacts from price adjustments.

Figure 29: Raw Materials Prices



Source: Bloomberg, PublicInvest Research

We continue to favour consumer staple companies over discretionary where spending will be prioritized towards

Maintain Overweight. We think that consumer sector will record slower earnings growth with consumer spending normalizing post-COVID 'binge spending'. We continue to favour consumer staple companies over discretionary where spending will be prioritized towards. For sector exposure, we like CCK Consolidated and Able Global given their defensive business natures and robust demand for staple goods.

Gaming – Slower Recovery Rate

Recommendation: OVERWEIGHT

Cautious spending on tourism. With the removal of travel restrictions and reopening of international borders, we have seen a pick-up in tourist arrivals and business volume. This is also aided by the opening of outdoor theme parks, which should continue to drive both gaming and non-gaming revenue. However, the rate of recovery may be slower as consumer confidence remains weak due to inflationary pressures with a rising interest rate environment.

Number forecasting business should see a quicker recovery

Illegal operations are the key challenge to NFOs. Compared to casino operators, we generally believe that number forecasting business should see a quicker recovery as number forecasting bets are considered small-ticket items, hence being less susceptible to inflationary impacts. However, the key factor that is holding back a full recovery is competition from illegal operators, which we believe have garnered greater market share during the pandemic period. In the recent quarterly results, Sports Toto was allocated four additional draws to make up for the loss during the lockdown period. Going into 2023, the possibility of being awarded additional draw would be low in view of the change in government. Although the cut in number of special draws from 22 to 8 is negative to the NFOs, earnings impact is expected to be minimal, the move only reducing our full-year earnings forecast by <3%. We do not expect the new government to further reduce the number of draws as this could potentially drive punters to illegal betting.

Recovery may be slow but still on track. Number forecasting operations are often seen as recession-proof due to its relatively small betting size. Hence, we reckon that Sports Toto's gaming business will be more resilient and less impacted by weaker consumer spending. However, it may not revert to pre-pandemic level in FY23F mainly because of competition from the illegal operators.

Recovery in business volume for the integrated resort operators, though the recovery rate remains slow

Meanwhile, we should see a recovery in business volume for the integrated resort operators, though the recovery rate remains slow as consumer spending on tourism and hospitality services should be affected by inflationary pressures.

Nonetheless, we believe that gaming stocks will continue to chalk higher earnings in 1H 2023, driven by improvement in business volume. Genting remains our top pick. It should see stronger contribution from its subsidiary in Singapore, Genting Singapore, due to a gradual relaxation of COVID-19 measures in China that should lead to higher visitation of Chinese tourists.

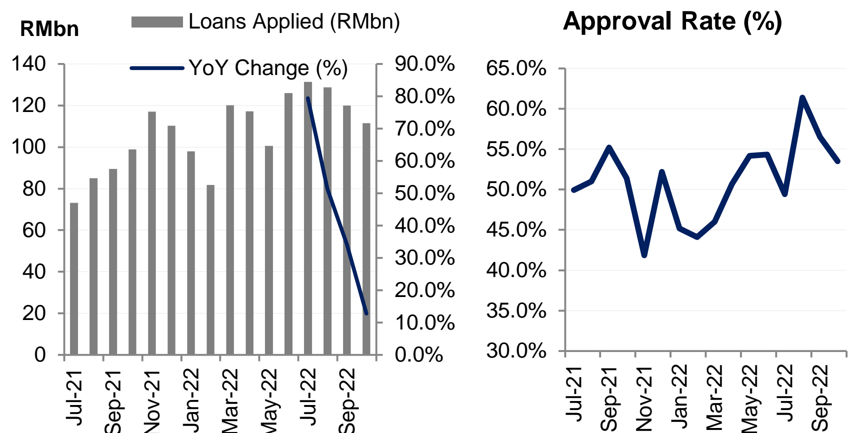
Banking – Steady Course

Recommendation: NEUTRAL

Encouraged by the relatively robust (and sustainable) quantum in applications

Loan/financing applications. As per BNM's broadened scope, loan/financing applications (by quantum) have averaged an encouraging ~RM106.8bn since July 2021 (start of new data set), with applications consistently higher since Malaysia transitioned to the endemic phase of COVID-19 management, coinciding with most segments of the economy fully re-opening. While falling on a YoY basis, post-July 2022, we remain encouraged by the relatively robust (and sustainable) quantum in applications, signaling continued appetite for expansions (business) and consumption (retail) amid an increasingly challenging external environment. Approval rates, encouragingly, have been on an uptrend since the early part of this year, though we think this is likely due to pent-up demand post-transition to endemicity. We expect to see some moderation in the months ahead as financial institutions may start to place renewed emphasis on protecting asset quality.

Figure 30: Loan Applications (lhs) and Approval Rates (rhs)



Source: Bank Negara Malaysia, PublicInvest Research

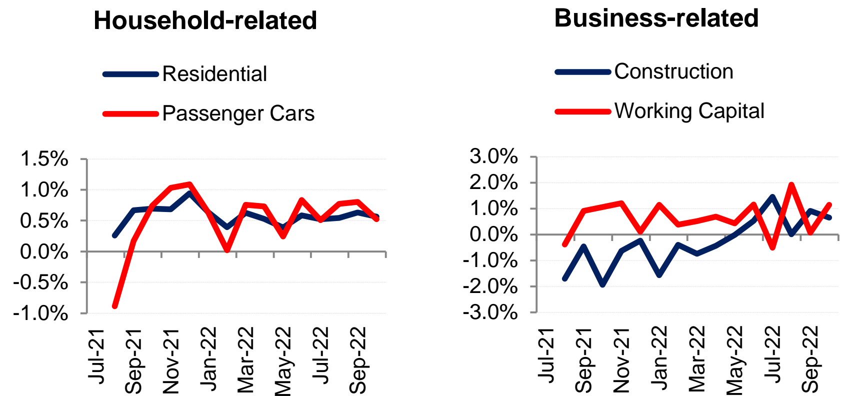
Credit demand continues to see sustained momentum, with the recent three months' growth averaging ~+6%.

Loan/financing growth. Credit demand continues to see sustained momentum, with the recent three months' growth averaging ~+6%. Given the lack of comparative data due to BNM's change in data disclosure, further assessment cannot be made on trends, though it should be noted that relatively stronger growth (seen in previous data-set) coincided with the post-economic reopening period of April 2022.

Steadier numbers can still be expected ahead as economic recovery regains further momentum, albeit on a moderating scale

Current strength still appears to be sustained by household-related borrowings, in particular loans/financing for residential properties, though there are also signs of improvements in working capital-related loans, with consistent expansion in total credit outstanding on a MoM basis. Steadier numbers can still be expected ahead as economic recovery regains further momentum, albeit on a moderating scale, though we are also wary over possible margin compressions owing to competitive pressures as most banks appear to be targeting the similar consumer and SME space. Any upturn in sentiment and/or activity may likely see banks with respective (albeit historical) focus on non-household loans.

Figure 31: Loans Growth, Household and Business (Selective)



Source: Bank Negara Malaysia, PublicInvest Research

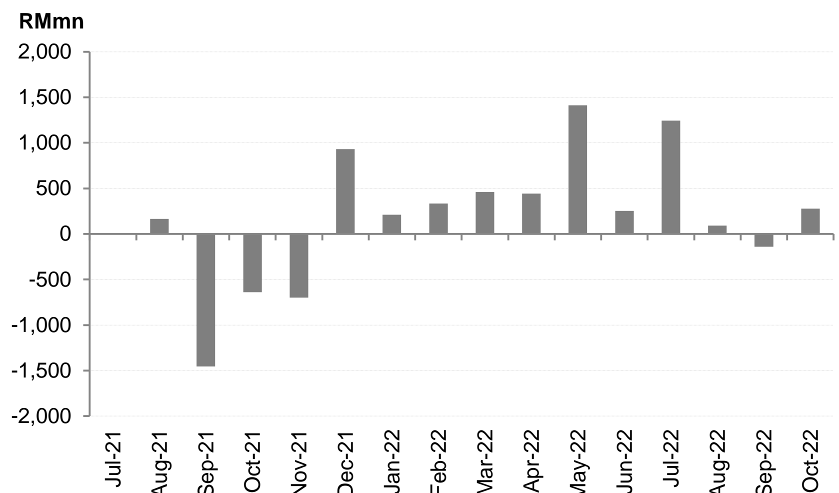
We do expect loans/financing growth to remain at the +6% range in 2023

The last time the country saw rapid rate hikes was in the 2010/2011 period (from 2.0% to 3.0%), which did not seem to put a dent on demand for credit. Loans outstanding grew an average of +11.3% in 2010 and a further +13.2% in 2011, a year after the OPR hit 3.0%. This was very much the result of improved economic conditions (then) however, post-recovery from the Global Financial Crisis. The current operating environment is different, with inflationary pressures and rapid monetary tightening, supply chain disruptions and the prolonged Russia-Ukraine war still posing a threat to growth prospects (globally, and domestically), though we do expect loans/financing growth to remain at the +6% range in 2023.

Asset qualities of most banks appear to still be very much under control

Asset quality issues are a matter of keen interest currently, reflected in the recent earnings reporting cycle. While the narrative for most banks at the top line was largely similar – i) margin expansions due to benefits of the recent rate hikes, coupled with better funding mixes, and ii) weaker non-interest income contributions owing to challenging capital market conditions, moves differed at the provisioning levels for banks under our coverage, however. Maybank and CIMB Group undertook additional provisions (macro-overlays) in June 2022 in what it deemed as precautionary, though Alliance Bank wrote-back ~10% of its overlays. For now, however, asset qualities of most banks appear to still be very much under control amid the prevailing macroeconomic (global) challenges, sporadic one-off cases notwithstanding, with cumulative provision overlays likely sufficient to help mitigate any untoward developments.

Figure 32: Non-Performing / Impaired Loan Balance, MoM change



Source: Bank Negara Malaysia, PublicInvest Research

Selective exposure. Share prices have been volatile, though to no surprise, considering conditions in capital markets. Recent uptrends as a result of "benefitting" from a rate-hike environment has given way to weakness as a consequence of gradually increasing external (and eventually, domestic) uncertainties. While there may well be some near-term concerns, particularly on the asset quality front, they do not appear likely to derail longer-term prospects of the industry, a global economic meltdown notwithstanding. All said, continued policy rate normalization (margin expansion), steady economic performance (improved loans growth and asset quality) are mixtures for a relatively steady 2023. For sector exposure, we like Maybank and CIMB Group.

Does not appear likely to derail longer-term prospects of the industry,

Telecommunications – 5G In Limbo?

Recommendation: NEUTRAL

5G wholesale access agreement. Five major mobile network operators – Celcom, Digi, Telekom, U Mobile and YTL – have commenced offering 5G services to end-users following the signing of their respective access agreements with Digital Nasional Bhd (DNB) on 31 October, 2022. This comes at a cost of RM30,000 per Gbps for monthly 5G usage capacity of up to 1,200 Gbps. The base rate works out to be RM288m a year for each telecommunication company (telco), translating to RM2.88bn over a 10-year period allocated for the rollout of 5G services nationwide. Based on our preliminary estimates, this could potentially reduce annual earnings by 20%-25% for the telcos, as the wholesale fees may be expensed out while revenue should not expand as quickly given a slow take-up rate for 5G services, in our opinion. Thus far, only Maxis has yet to sign any agreement with DNB, pending its shareholders' approval.

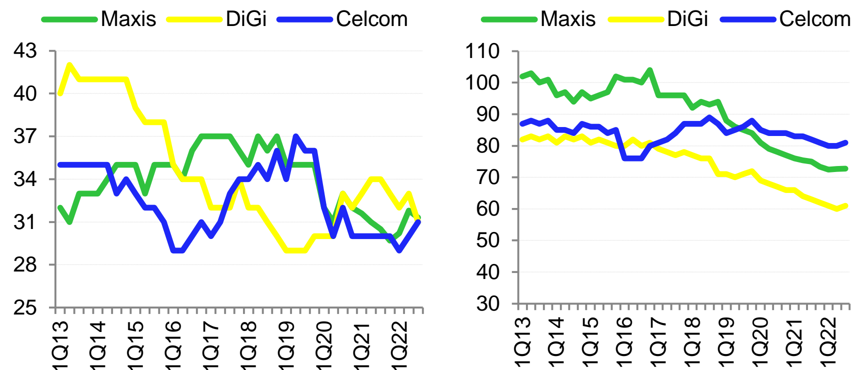
Could potentially reduce annual earnings by 20%-25% for the telcos

Review on 5G rollout. Although the 5G network access agreement between DNB and the telcos are settled after much delay, the new government recently announced that it will relook at the 5G project as it was not "formulated transparently". We believe this could again disrupt 5G deployment. It remains to be seen if further revision will be made to the Reference Access Offer or Single Wholesale Network model adopted by DNB. This would again create uncertainties that could hurt sentiment on the sector.

Could disrupt 5G deployment

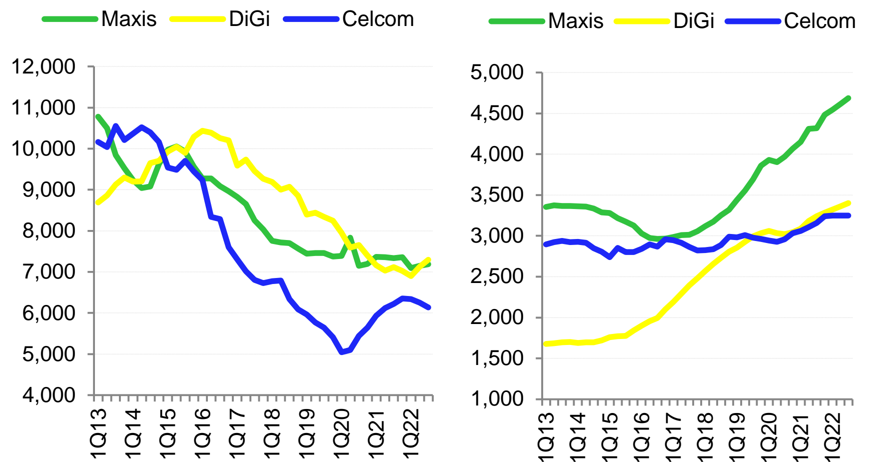
Upgrade of public sector data centre. The introduction of MyGovCloud, a newly-established public cloud service, will enable the migration of 80% of government's data to the "cloud" by 2022. Telekom Malaysia (TM) is one of the four cloud service providers (CSP) selected for the implementation and rollout of public cloud service in Malaysia. The other CSPs involved in the building and management of hyper-scale data centres for the Malaysian government are Amazon Web Services Malaysia, Google Cloud Malaysia and Microsoft Malaysia. Investments from these CSPs are expected to total RM12-RM15bn by 2025. Being the country's largest telco service provider, we believe TM should benefit from the growing demand for fiber leasing and data centre solutions in Malaysia. This should help to provide offsetting effects to a possible reduction in fixed broadband rates under the Mandatory Standard on Access (MSAP) come February 2023.

Figure 33: Prepaid (lhs) and Postpaid (rhs) ARPU – RM/month



Source: Companies, PublicInvest Research

Figure 34: Prepaid (lhs) and Postpaid (rhs) Subscribers – '000



Source: Companies, PublicInvest Research

Potential downside risk to earnings due to wholesale network access cost and uncertainties over the 5G review

Maintain Neutral. In view of the potential downside risk to earnings due to wholesale network access cost and uncertainties over the 5G review, we maintain our ***Neutral*** call on the telecommunications sector. TM is our preferred pick as we expect its wholesale business to remain resilient on higher demand for fibre leasing and internet services while unifi will continue to be the leading home broadband provider, leveraging on its extensive high-speed broadband network in the country

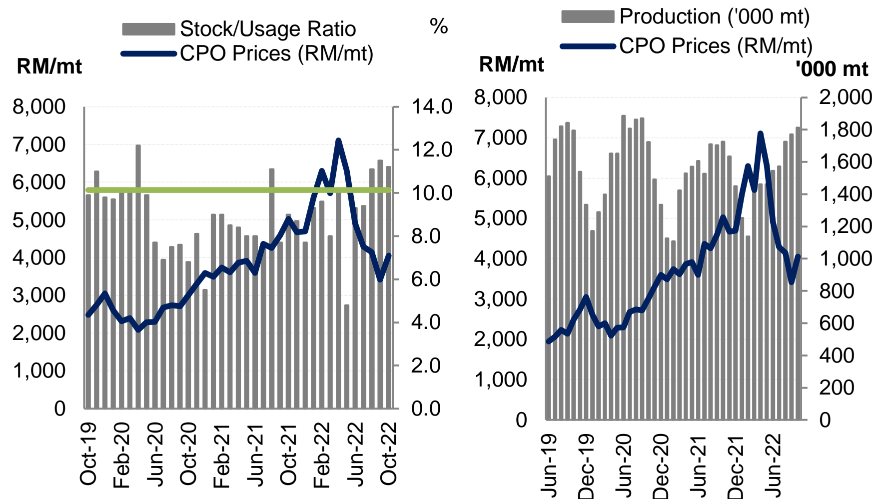
Plantations – Steady Outlook

Recommendation: NEUTRAL

Suffering from acute harvester shortages over the last two years

Easing harvester shortage concerns albeit slow process. Most plantation companies have been suffering from acute harvester shortages over the last two years due to the closure of international borders during the pandemic. Consequently, this has caused significant fresh fruit bunch (FFB) production loss and lower oil extraction rate in the last three quarters. Nearly 50% of plantation companies under our coverage saw a dip in FFB production on a yearly basis since 3Q 2021. As of end-November, 14,159 foreign workers who have been recruited into Malaysia came from Indonesia (48.3%), India (46.1%), Nepal (5.2%) and Bangladesh (0.4%). However, it is still far from an earlier estimate of over 200,000 workers (including 45k for Sarawak and 20k for Sabah) required to address the present shortage of workers in the oil palm sector. This represents only 19% of the success rate based on the 74,664 recruitment applications that had been approved for the plantation sector. Bottleneck issues still persist at the various source countries and also at the points of arrival. It is worth noting that large plantation groups have a higher recruitment rate, attributed to its members having operations and in-house recruitment services in the source country to facilitate the recruitment processes.

Figure 35: Stock Usage Ratio (lhs) and Production (rhs) vs CPO



Source: Malaysian Palm Oil Board (MPOB), Bloomberg, PublicInvest Research

Set to reduce the amount of palm oil supply for export from the world's biggest producer

Targeting higher biodiesel mandate. Indonesia is currently looking at the prospects of higher biodiesel mandate of B35, which is a fuel containing a 35% mix of palm oil-based fuel. This would be an increase from Indonesia's current mandatory 30% mix and is set to reduce the amount of palm oil supply for export from the world's biggest producer.

Steep discount will attract strong buying interests

Wider palm oil-soybean oil prices provide support for demand. CPO price is currently trading at a discount of USD454/mt to soybean oil price, which is also significantly steeper compared to the 5-year average of USD148/mt. We believe the steep discount will attract strong buying interests in the coming months as price-sensitive consuming countries like China, India and Pakistan are likely to stock up more palm oil given the current attractive prices.

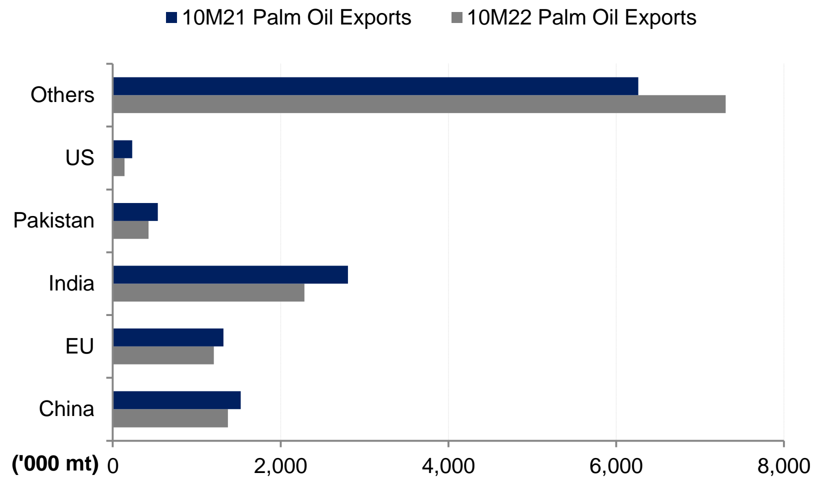
Stronger global oilseed supply

Seeing stronger global oilseed supply. According to United States Department of Agriculture, global oilseed is expected to increase by 7% for 2022/2023. The key growth driver is from soybean which makes up 61% of global oilseed supply, and is projected to rise by 10% on the back of bumper supply from Brazil and Argentina thanks to decent planting and favourable weather. In contrast, soybean production in US is expected to decline by 16%.

Law requires companies to produce a due diligence statement

Increasing ESG concerns. The European Union (EU) had recently passed a new law to prevent companies from selling, into its market, commodities linked to deforestation. The scope encompasses palm oil, cattle, soy, coffee, cocoa and coffee, wood and rubber as well as derived products such as beef, furniture and chocolate. The EU is the second biggest market for consumption of the targeted products after China. The law requires companies to produce a due diligence statement showing that their supply chains are not contributing to the destruction of forests before they sell goods into the EU region. Failure to comply could result in fines of up to 4% of a company's turnover in an EU member state. We believe the tightening measure on the source of import by EU will place stronger recognition on sustainable palm oil. Plantation players, which have direct exposure to EU, must ensure their palm oil products are RSPO and MSPO certified.

Figure 36: Pam Oil Exports, By Destination



Source: Malaysian Palm Oil Board (MPOB), PublicInvest Research

Higher palm oil production in Malaysia for 2023, on the back of easing worker shortage

NEUTRAL. We maintain our Neutral call on the sector as we expect higher palm oil production in Malaysia for 2023, on the back of easing worker shortage while demand is expected to see stronger growth given the wide palm oil-soybean oil price gap. Indonesian inventory levels have also normalized to 4m MT after flushing out the excessive inventory since May 2022. We expect Malaysian palm oil inventory to stay around 2m-2.4m MT for 2023. We have a CPO price assumption of RM3,800/mt for 2023. Our top picks are *Sarawak Plantation* and *Ta Ann Holdings.*

Figure 37: CPO Price Futures

Source: Bloomberg, PublicInvest Research

Oil and Gas – Positives Priced-In

Recommendation: NEUTRAL (Downgrade)

2022 has seen Brent and West Texas Intermediate (WTI) crude oil prices surge to above USD120/bbl in March, in response to Russia's invasion of Ukraine on 24 February 2022. China's zero COVID-19 policy and lockdowns as well as expectations that OPEC+ will pump more oil. The strong possibility of a global recession has threatened demand however, providing some breathing room for oil prices. In December, oil prices plunged to below USD80/bbl for the first time since

January on persistent fears of a recession amid interest rate hikes by central banks worldwide. YTD, price of Brent crude has gained 1.4% while the WTI price has declined 1.7% to an average of USD99.77/bbl and USD95.08/bbl respectively.

In 2023, crude oil prices will continue to be dictated by geopolitical conflicts

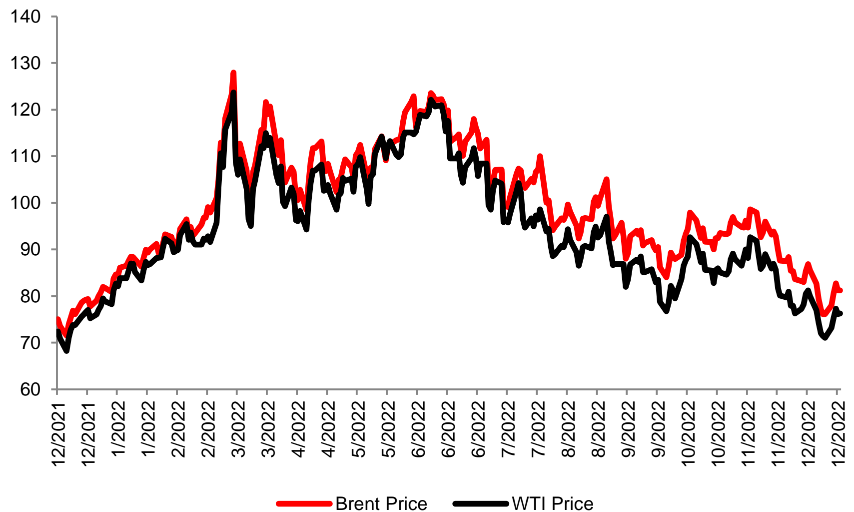
In 2023, crude oil prices will continue to be dictated by geopolitical conflicts. The EU's ban on seaborne imports of petroleum products from Russia will exacerbate supply and price uncertainties for oil markets in 2023. To compound the challenges, the Group of Seven (G7), EU and Australia have set a price limit on Russian oil at USD60/bbl effective from 5 December 2022, injecting fresh uncertainty into global energy markets and oil price direction in 2023.

The spotlight is now on China and India as the major importers of Russian oil

We expect oil prices will lack direction in 2023, though averaging a lower USD90/bbl

The spotlight is now on China and India as the major importers of Russian oil currently, on whether it is able to absorb the additional displaced barrels from Europe amid the uncertainty over global growth particularly in China, US, and Europe. All said, we expect oil prices will lack direction in 2023, though averaging a lower USD90/bbl due to concerns over global oil demand and some disruption on supply due to global geopolitics. Thus far, policies dictated by the OPEC+ coalition have been fairly successful in keeping prices elevated. The OPEC+ group possesses unprecedented influence over the world economy, controlling more than 50% of global oil supplies.

Figure 38: Brent And WTI Crude Oil Prices (USD/bbl)



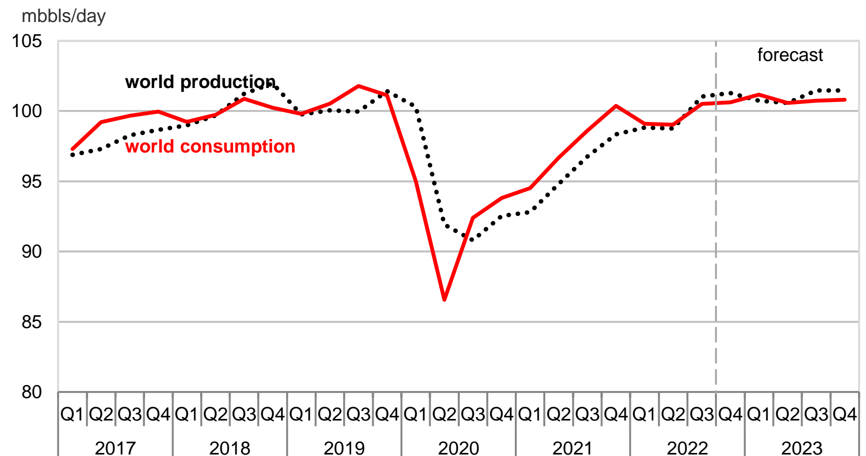
Source: Bloomberg, PublicInvest Research

Global oil demand threatened by recession fears. Areas of concern are China and the US in particular, the world's top two energy consumers. Oil consumption in China represents 16.4% of global oil supply while consumption in US is about 19.9%. China's pandemic-induced disruptions related to its zero-COVID policy and weakening economy means that its total oil consumption will be lower than the previous year. Meanwhile, the fallout from Russia's invasion of Ukraine and energy war in Europe have led to monetary tightening by central banks globally including US Federal Reserve, to rein in inflation.

Oil demand is currently forecasted to expand by 2.1 mbbls/day in 2022 before slowing to 1.6 mbbls/day next year

The IMF in October cut its global growth forecast for 2023 to 2.7%, compared to a 2.9% forecast in July and an earlier forecast of 3.8% in January 2022. The world's three largest economies China, the euro area, and the US will slow significantly in 2023, seeing multiple downgrades from the predictions made previously. The IMF warned that the colliding pressures could deteriorate, with conditions worsening next year. Overall, oil demand is currently forecasted to expand by 2.1 mbbls/day in 2022 before slowing to 1.6 mbbls/day next year, to be around 101.2 mbbls/day, according to International Energy Agency (IEA).

Figure 39: World Liquid Fuels Production and Consumption Balance



Source: Energy Information Administration (EIA), PublicInvest Research

The global oil supply conundrum. Global oil supply, meanwhile, will be challenged through an outright ban by the EU on Russian seaborne oil. To compound matters, the G7, EU and Australia have set a limit on Russian oil prices at USD60/bbl effective from 5 December 2022, injecting fresh uncertainty into global energy markets in 2023. IEA data shows that the EU imported 2.2 mbbls/day of crude in 2021, including 700,000 bbls/day via pipeline, as well as 1.2 mbbls/day of refined oil products. This represents ~34% of Russian's total oil export in 2021 on average.

Russian oil has already been trading at steep discounts to Brent

So, what's the impact? The price cap of USD60/bbl for Russian oil is sighted as not meaningful as Russian oil has already been trading at steep discounts to Brent, i.e., just under USD60/bbl since March this year on its attempt to attract and divert more shipments to Asia. Hence, impact of the oil price cap to its oil importers is insignificant. Nevertheless, the EU's ban on seaborne imports of petroleum products from Russia will create uncertainties for oil markets in 2023 as Russia will need to find buyers for its 1 mbbls/day of crude and 1.2 mbbls/day of oil products. However, we think that the impact is manageable as the "excess" can easily be covered by China and India.

To note, oil purchases from Russia by these two countries have soared this year. India's oil imports from Russia have increased 25-fold since the start of war, reaching ~1 mbbls/day, in contrast to its highest volume of 35,000 bbls/day on average in 2021. Meanwhile, China was already the largest single buyer of Russian oil, buying as much as ~2 mbbls/day this year in May, from an average of 1.6 mbbls/day in 2021. All in, oil exports to China and India account for close to 40% of Russia oil export volumes. We estimate total oil imports by China and India currently accounts for about 68% of Russia's seaborne oil export volume.

Oil prices of above USD100/bbl could be short-lived

India has been firm in its stand that it will buy from wherever cheap oil is available

What to expect? While main effects of any oil embargo are a rise in oil prices, we see the current upside limited. Oil prices of above USD100/bbl could be short-lived and unsettled by fears of supply disruptions and/or geopolitical issues. Russia could easily divert the remaining barrels to other buyers especially with discounted prices. India has been firm in its stand that it will buy from wherever cheap oil is available. If India continues to buy at a discount, which it currently gets from Russia, it will likely take more barrels. We expect that China may also jump on this opportunity since it plans to strengthen ties with Russia regarding energy. In November alone, China was importing 1.05 mbbls/day of seaborne Russian crude with a further 850,000 bpd coming via pipelines. As for India, its imports came in at 909,403 bbls/day, second highest on record. December will be very much in line with this past month. We gather that Indian refiners could possibly take another 500,000 to 600,000 bbls/day from Russia.

Impact to Russian oil production. Russian production has fluctuated this year amid waves of energy sanctions. In April, two months into the war, Russia was pumping an average of around 10.05 mbbls/day, down from 11.08 mbbls/day in

Russia may need to find new markets to replace its oil exports to EU

February. Output then started to recover, reaching an eight-month high of 11.2 mbbls/day in November. Nevertheless, Russia is estimated to be around 1 mbbls/day below its OPEC+ oil production quota. As Russia may need to find new markets to replace its oil exports to EU, the country's production will continue to fluctuate though the impact is likely to be temporal. The IEA projects that Russian oil output is expected to fall 1.4 mbbls/day next year after the EU's ban on seaborne exports of Russian crude comes into effect.

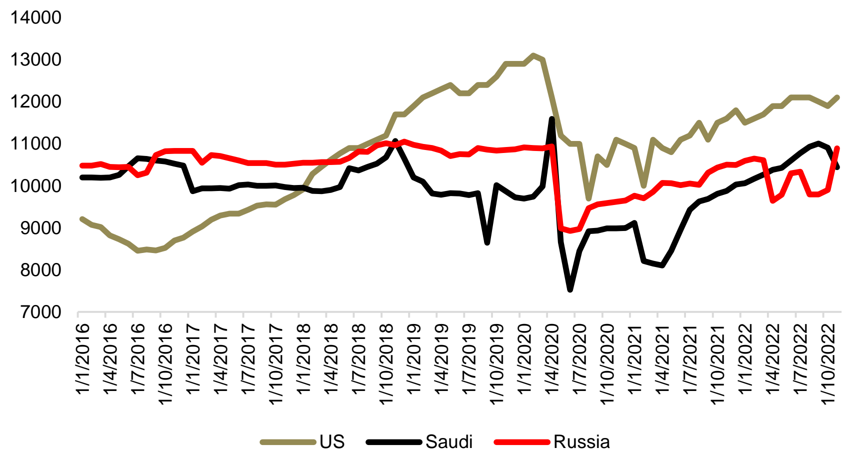
OPEC+ ready to take immediate additional measures to support the balance of the oil market if need be

OPEC+ takes "wait and see" approach. OPEC+ has cleverly managed the supply side so far, ensuring that prices remain relatively elevated. The group may stand pat while adopting a wait-and-see approach. A recent meeting in early December ended with the cartels rolling over their previously agreed production cut, as expected. It agreed to continue reducing oil production by 2 mbbls/day, or about 2% of world demand, until the end of 2023. That said, the Group highlighted that they were ready to take immediate additional measures to support the balance of the oil market if need be. The impact has been muted as the allies' oil production is already falling short of its existing quotas by over 2 mbbls/day due to lack of capacity as a result of under-investments in the past.

No supply shock in the US, so far

No supply shock in the US, so far. Meanwhile in the US, oil production is hovering at around 11,000 – 11,500 bbls/day this year, still below peak of 13,000 bbls/day pre-COVID as they have been suffering from supply chain disruptions and cost inflation. The US has yet to announce big investments into production, with investments still weak since the pandemic. Overall, EIA is forecasting annual production will average 11.7 mbbls/day and 12.4 mbbls/day in 2022 and 2023 respectively given the lower investment.

Figure 40: Top 3 Oil Producers' Production



Source: Bloomberg, PublicInvest Research

The O&G industry will enter 2023 with improved balance sheets and with continued capital discipline

Investment expected to further improve in 2023. The O&G industry will enter 2023 with improved balance sheets and with continued capital discipline after earning record profits in 2022. Our observation is that most of O&G contractors are positive about the industry and capital spending by the oil majors in the coming year. In addition, the current oil price level as well as its outlook for 2023 denotes that spending on the upstream oil and gas segment is set to further improve in 2023. We posit that a sustained oil price level will evoke greater budgeting confidence. This momentum, in our view, could help oil majors overcome the energy underinvestment of recent years. Recall, the tightness in oil market was due to underinvestment in upstream oil and gas since the 2015 crash. This was just after the peak of investment in 2014 which saw USD779bn spent before falling significantly to USD583bn in 2015 and USD434bn in 2016. Investments saw another drastic cut in 2020 to RM328bn, the lowest level in 15 years due to the COVID-19 pandemic with shale producers taking the biggest hit.

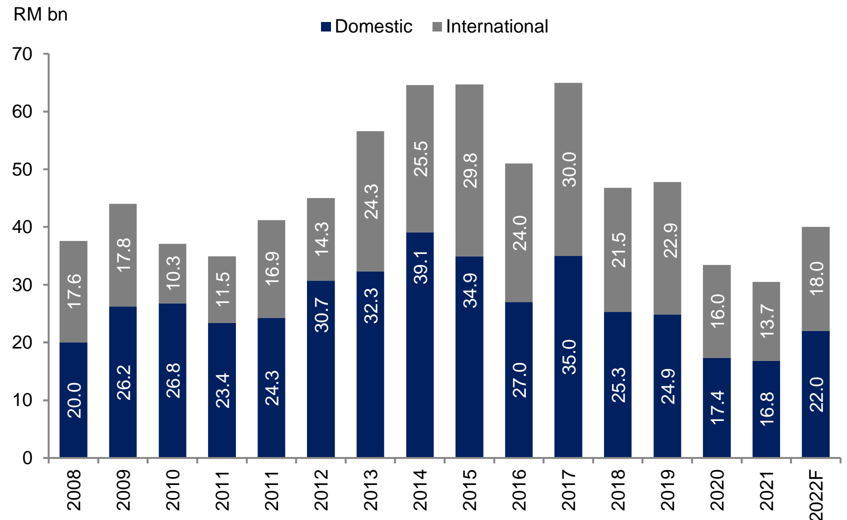
…could help oil majors overcome the energy underinvestment of recent years

Likewise in Malaysia, Petronas' recent financial results were in line with global peers' trend, i.e., improved earnings. Cumulatively, Petronas booked a net profit of RM77.2bn for 9MFY22, more than double 9MFY21's net profit of RM35.1bn on the back of favourable price impact. It also revealed that capital investments for

We foresee Petronas maintaining a similar expenditure range i.e., RM50bn - RM60bn

9MFY22 amounted to RM27.4bn, an increase from 9MFY21 expenditure of RM20.4bn. With oil prices likely to remain favorable in 2023, coupled with concerns towards the undersupply situation, we foresee Petronas maintaining a similar expenditure range i.e., RM50bn - RM60bn, with the upstream segment still a major contributor. Work orders involving production enhancement, wells, and plant maintenance as well as hook-up & commissioning is expected to be on the rise. Asset utilisation rates have begun to improve hence charter rates are also expected to have bottomed out.

Figure 41: Petronas Capital Expenditure



Source: Petronas, PublicInvest Research

Typically slower due to the monsoon season

Further earnings improvement in 2023. Earnings improvement was seen in the recent 3QCY22 results, both on YoY and QoQ basis, on the back of further improvement in sector activities supported by stable crude oil price. This was also helped by the absence of restrictive COVID-19 SOPs. Activities are coming back, with most companies' (under coverage) revenues such as Dayang, Wah Seong, and Uzma, considerably stronger and returning to pre-pandemic levels. That said, profitability was still affected by the post-effects of COVID-19, supply chain disruptions due to the Ukraine - Russia war and China's zero-Covid policy and its intermittent lockdowns. Upcoming 4QFY22 results will see lower turnover as offshore oil and gas activities are typically slower due to the monsoon season. Nevertheless, we foresee pick-ups in O&G sector activities continuing into 2023 as oil companies look to increase output amid the current crude oil price remaining constant at around USD80/bbl.

Current climate is unique as many unanticipated factors have led to fluctuating oil prices

Downgrade to Neutral. The current climate is unique as many unanticipated factors have led to fluctuating oil prices. A confluence of economic, i.e., policy and trade, geopolitical, and financial factors have exacerbated the issue of underinvestment and triggered a readjustment in the broader energy market. While the EU price cap is unlikely to have a notable effect to the Russian oil supply, focus in 2023 will be more on keeping Russia's crude oil flowing and preventing a plunge in global oil supply and another price spike. In this case, all eyes will be on China and India to drive demand. The market also appears to be responding to indications in China that the country was easing some of its strict COVID curbs, which would spur economic activity and therefore demand for oil.

Do not see much upside at the current levels

EU's oil embargo towards Russian oil could raise oil prices should there be any supply disruptions. However, we do not see much upside at the current levels. We think oil prices staying above USD100/bbl would be rather short-lived and would be unsettled by fears of some supply disruption or geopolitical issues as Russia could easily phase out the remaining barrels to other buyers at a discounted price. All in all, we downgrade our sector to ***Neutral*** with average oil price is expected to be around USD90/bbl. Within our sector universe, we like Dayang Enterprise and Uzma as a brownfield specialist which will benefit directly from the rise in brownfield activities (maintenance and production enhancement), as well as increased spending by the oil majors going forward.

Upside risk. While Russia will continue to sell its oil through back channels and openly to China and India, another issue to monitor is the oil exports to Europe after EU's embargoes to the Russian oil, where it is most needed.

Downside risk. Slower economic growth in China due to pandemic-induced disruptions related to the zero-COVID policy. Recession risks may add volatility, but lack of oil-supply overhang on the global market and a clear deficit of some oil products, for example diesel, are supporting prices

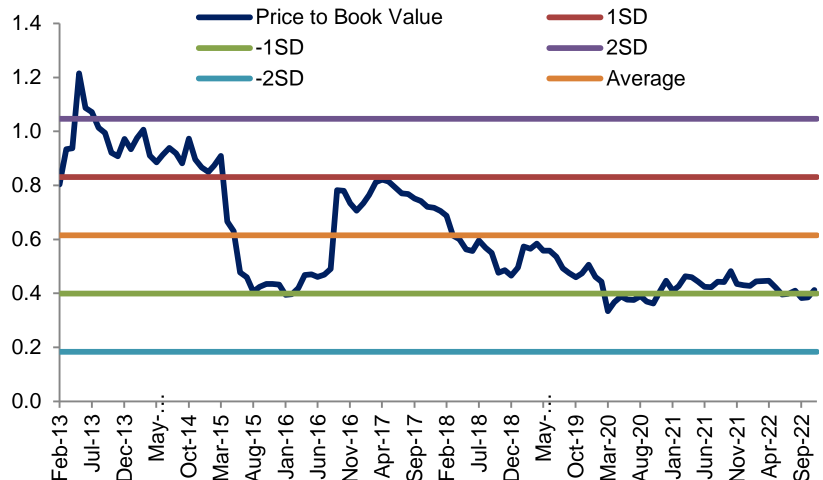
Property – Stuck In Low Gear

Recommendation: NEUTRAL

Land values should remain intact over the longer term

Staying on the sidelines. Property players in our coverage universe delivered better pre-sales, with some developers such as Sime Darby Property and LBS Bina Group already surpassing respective FY22 sales target in 3QCY22. The encouraging performance is underpinned by pent-up demand from post-Covid normalization of economic activity, and also various government incentives. That said, we believe the property sector outlook will be challenging moving forward due to elevated building material costs, labour shortages, interest rate up-cycle and inflationary pressures. We remain selective and still believe that exposure in larger developers with well-located landbank could still offer index-beating upside as we ride out of the current challenges. Land values should remain intact over the longer term. After the peak of the 2012 up-cycle, the property sector has been down-trending since, with brief recovery seen in 2016. The KL Property Index is now at trading -1SD, or at c.0.4x book value which is fair in our view, given the headwinds.

Figure 42: Property Index Price-To-Book Value



Source: Bloomberg, PublicInvest Research

Labor-intensive property sector could see slower construction progress until shortages are eased

Labour shortages. It was reported a few months ago that Malaysia was lacking at least 1.2m workers across the manufacturing, plantation and construction sectors, a shortage worsening daily as demand grows with easing of the pandemic. We understand that the economy is short of 600,000 workers in manufacturing, construction needs 550,000, the palm oil industry reports a shortage of 120,000 workers, chipmakers lack 15,000 and cannot meet demand despite a global chip shortage. Medical glove makers say they require 12,000 workers. Hence, the labour-intensive property sector could see slower construction progress until these shortages are eased.

Rising raw material prices. According to Department of Statistics Malaysia (DOSM), the building materials cost index (BCI) (without steel bars and with steel bars) for all building categories in Peninsular Malaysia, Sabah and Sarawak increased between 0.2% and 22.0% in August 2022 as compared to a year ago. Meanwhile, average unit price of steel bar consisting of mild steel round bars and Mycon 60 high tensile deformed bars increased 9.8% to record an average price of steel bar RM3,778.71 per metric tonne as compared to the

previous year. Meanwhile, cement recorded an increase of 11.2%, RM20.95/50 kg (August 2022) as compared to RM18.85/50 kg (August 2021). We believe these higher materials cost will etch into higher building costs, which will be passed on to purchasers, worsening property affordability.

Good sales momentum year-to-date (YTD) could see speed bumps in the near term

Normalizing interest rates. The good sales momentum year-to-date (YTD) could see speed bumps in the near term as Bank Negara Malaysia (BNM) normalizes interest rates to rein in inflationary pressure. Sales momentum is expected to start easing gradually, with BNM having hiked the Overnight Policy Rate (OPR) 4 times in 2022. We expect the OPR to be normalized further to 3.25% next year, implying another 50 basis points (bps) increase from now. We estimate that for every 25 bps hike in OPR, monthly mortgage financing will increase by 3%-3.5%. This could deter demand in the short term.

Improvements post re-opening

Improvements post re-opening. In 2022, Malaysia property market saw improvement both in terms of transactions and value YoY, supported mainly by the resumption of economic activities across the board and the reopening of the country's international borders. The National Property Information Centre (NAPIC) revealed that over 188,000 transactions worth RM84.4bn were recorded in 1H 2022, or up by 30% YoY. The residential property sector recorded 116,178 transactions worth RM45.62bn or an increase of 26.3% in volume and 32.2% in value, YoY. The commercial property segment recorded 15,169 transactions valued at RM14.0bn, up by 45.4% in volume and 28.3% in value YoY. Despite the improved performance, Real Estate and Housing Developers' Association Malaysia (REHDA) remains cautious and its Property Industry Survey for 1H 2022 and Market Outlook for 2H 2022 and 1H 2023 revealed that fewer residential units were launched in 1H 2022, recording a 26% decline compared with 2H 2021.

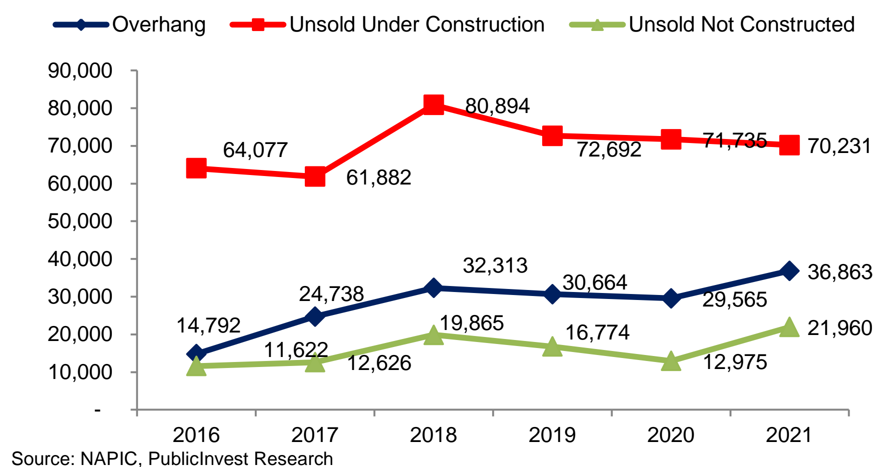
New residential launches softened

Residential launches softened. NAPIC data also showed that new residential launches softened with ~10,000 units recorded, down by 66.7% YoY or 13.3% QoQ. Sales performance of new launches only recorded growth of +20.3%, slightly lower compared to 1H 2021 and 2H 2021 (28.1%). Johor recorded the highest number of new launches in the country, capturing nearly 23.8% (2,509 units) of the national total with sales performance at +31.8%. Single storey (2,047 units) and 2-3 storey (5,150 units) together contributed 68.2% of the total units with sales performance at 22.0%, followed by condominium/apartment units at 19.0% share (2,009 units) with sales performance at 12.4%.

Overhang situation improved slightly

Overhang situation improved slightly. NAPIC data suggested that a total of 34,092 overhang units worth RM21.73bn was recorded, down by 7.5% YoY and 4.6% YoY in volume and value. Most of the overhang is in Johor with 6,040 units worth RM4.73bn. Likewise, the unsold under construction residential units saw a decrease of 11.1% QoQ while serviced apartment sub-sector recorded 22,674 overhang units with a value of RM19.32bn, indicating a decrease of 6.7% YoY and 5.6% YoY in volume and value. Johor recorded the highest overhang in the country with 768.0% (15,423 units), followed by WP Kuala Lumpur and Selangor, with 18.9% (4,279 units) and 9.9% (2,248 units) share respectively.

Figure 43: Property Overhang and Unsold Stock



Source: NAPIC, PublicInvest Research

Budget 2023 is still lacking incentives to spur demand

Budget 2023 still light on incentives. Budget 2023 is again focusing to target home ownership by increasing the stamp duty exemption for houses priced between RM500k and RM1m. To recap, houses prices below RM500k is still enjoying 100% stamp duty exemption for the memorandum of transfer until end of 2025. The transfers of properties between families are also expected to ease burden of transaction cost. Currently, only transfers between husband and wife are given a full 100% exemption, while transfers between parent and child are given an exemption of 50%. All told, we believe that Budget 2023 is still lacking incentives to spur demand and current challenges of rising material costs and labor shortages.

Every 25 bps hike in the OPR will lead to a 3.2% - 3.5% rise in monthly mortgage repayment

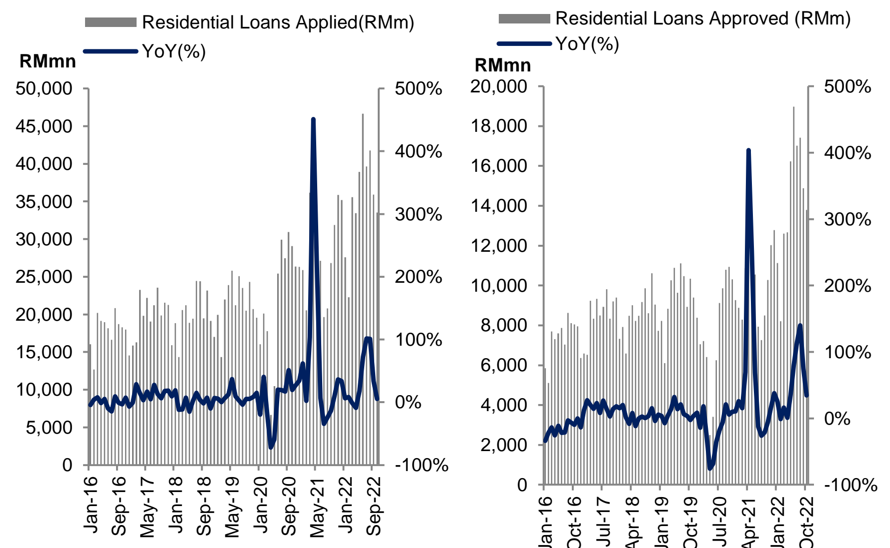
Loans approval at around 40%. Bank lending is still stringent and currently, the percentage of total approved loans over the total loans applied for the purchase of residential property is hovering stubbornly around the 40% mark, YTD. Bank Negara Malaysia (BNM) has so far raised the overnight policy rate (OPR) by 100bps this year. Mortgage rates have increased correspondingly to 3.6% - 3.9% from the low of 2.95% - 3.0%. Therefore, we expect demand could ease in 2H 2022 as the first rate hike this year took place in May. We estimate that every 25 bps hike in the OPR will lead to a 3.2% - 3.5% rise in monthly mortgage repayment.

. Table 16: Residential Mortage Loan Applications and Approvals

Year	Applied (RMm)	YoY Chg	Approved (RMm)	YoY Chg	Approval Rate
2007	79,143.43	48%	48,153.08	47%	61%
2008	98,308.25	24%	57,954.30	20%	59%
2009	130,389.42	33%	70,480.59	22%	54%
2010	166,431.50	28%	84,227.92	20%	51%
2011	186,790.70	12%	95,161.82	13%	51%
2012	196,467.27	5%	92,841.19	-2%	47%
2013	251,913.42	28%	120,946.95	30%	48%
2014	233,519.02	-7%	122,895.74	2%	53%
2015	213,767.73	-8%	103,547.08	-16%	48%
2016	212,091.82	-1%	87,564.83	-15%	41%
2018	240,854.85	0%	103,700.50	2%	43%
2019	260,767.17	8%	112,570.97	9%	43%
2020	266,444.99	2%	93,123.96	-17%	35%
2021	349,586.73	31%	121,967.26	31%	35%
YTD Oct	386,560.55	-	155,505.87	-	40%

Source: Bank Negara Malaysia, PublicInvest Research

Figure 44: Residential Loans Applied and Approved



Source: Bank Negara Malaysia, PublicInvest Research

Lack of rerating catalysts

Maintain NEUTRAL. Due to lack of rerating catalysts, we maintain our ***Neutral*** stance on the sector. Albeit any potential easing in raw material costs and labor shortages, we believe that headwinds from supply gluts, lack of supportive measures and deteriorating affordability could weigh on sentiment in the near term. Among the sector picks, we still favour property developers that have well-located land bank and strong balance sheets to withstand near-term uncertainties. We continue to like SP Setia, Sime Darby Property and LBS Bina.

Power – No Surprises Expected

Recommendation: NEUTRAL

Stable electricity demand

Stable electricity demand. Electricity demand in Peninsula Malaysia rose 8.1% YoY in 9M 2022, primarily driven by stronger demand across the board following border and economic reopening. YTD, the commercial segment rose +19.2% YoY, mainly contributed by retail, accommodation/business services while the industrial segment registered growth of +5.8% YoY. Domestic business contribution is flat with a marginal +0.1% growth YoY. Electricity demand is expected to grow by +1.7% YoY in 2022 (versus 2021's +1.2% YoY growth).

Government likely to approve the tariff surcharge for 1H 2023 in accordance with the cost pass through mechanism

ICPT mechanism intact. We understand that Tenaga Nasional (TNB) is confident that the government will approve the tariff surcharge for 1H 2023 in accordance with the cost pass through mechanism. The ICPT (Imbalance Cost Pass Through) charges are estimated to be RM16.4bn for 1H 2023. There is a tariff surcharge in 1H 2023 as coal and gas costs have exceeded the reference rates of USD79/tonne and RM26/mmbtu stipulated under RP3. Thus far, TNB sees no risk to the ICPT mechanism as it has always been honored in the past. Recently, management clarified that its ICPT receivables are high due to the timing mismatches between the upfront payment made by TNB and recovery of the surcharges via the ICPT framework. The government has paid RM4.8bn out of the approved RM5.8bn ICPT as of November 2022, and provided a guarantee of RM6bn to support TNB's working capital. TNB guided for the ICPT amount to be significantly higher at ~RM16.4bn for the implementation period of Jan-Jun 2023 vs. RM7bn for the implementation period of Jul-Dec 2022. TNB has submitted the proposal to Energy Commission in Sep 2022, with on-going discussions with the regulator, including options proposed for the pass-through implementation.

Net Zero by 2050. To recap, TNB aims to reduce 35% of its greenhouse gas emission intensity and reduce 50% of its coal capacity by 2035. The ultimate goal is to become coal-free by as early as 2050. All in, TNB aspires to grow its earnings before interest and tax (EBIT) by c.140% to RM19bn while bringing its carbon emissions intensity to zero by 2050 underpinned by future generation sources, new green business and grid of the future. Estimated annual expenditure is estimated to be around RM10bn-20bn over the next 30 years.

Attractiveness of longer-term fundamentals reflected in stock calls

We maintain our **NEUTRAL** call on the sector given the lack of near-term re-rating catalysts, though the attractiveness of longer-term fundamentals is still reflected in our Outperform calls on Tenaga Nasional, Malakoff Corporation and Mega First Corporation.

Furniture - Anticipating Weaker Demand

Recommendation: NEUTRAL

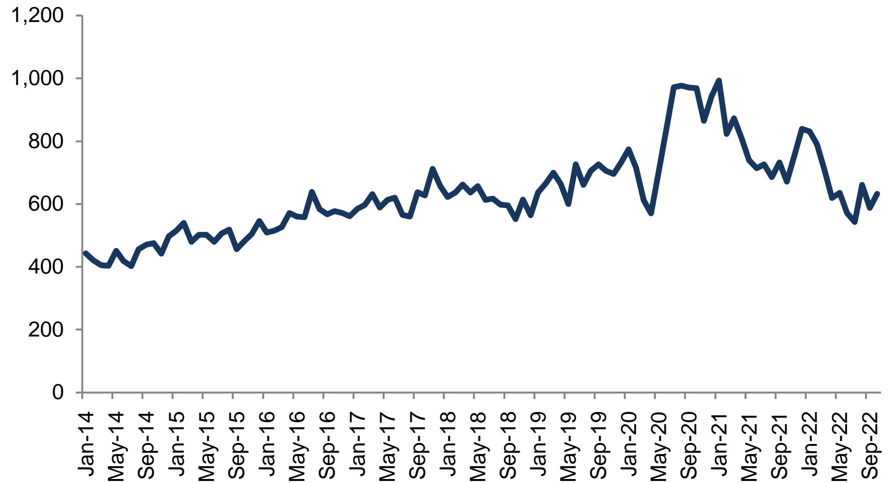
Furniture demand will likely taper off going forward

Demand likely to be affected by rising interest costs. Malaysian wooden furniture exports increased by 21.3% YoY to RM8.7bn for 9M 2022 as furniture manufacturers ramped up production to clear order backlogs that was deferred during the MCO 3.0 period last year in which manufacturing activities were suspended temporarily. US Furniture and Home Furnishing stores' retail sales grew +1.8% YoY to USD108.7bn in the same period, likely attributable to 'pent-up spending' post reopening of global economies.

The US housing market has been affected by the aggressive US Federal Reserve interest rate hikes however, with cumulative 10-month new home sales declining

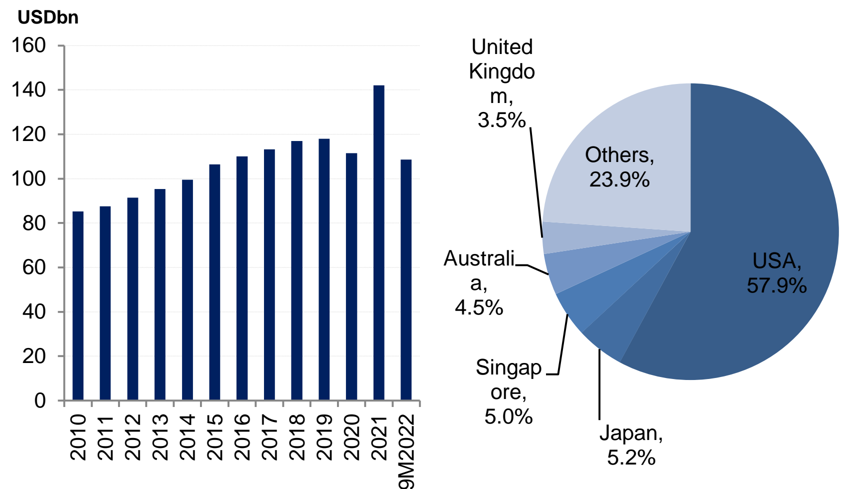
by 15.3% YoY to 6.6m units. Against this backdrop, we think that furniture demand will likely taper off going forward.

Figure 45: US New Home Sales ('000 units)



Source: US Census Bureau, PublicInvest Research

Figure 46: Wooden Furniture Export and Destination (YTD Sep 22)



Source: Malaysian Timber Industry Board, Malaysian Timber Council, PublicInvest Research

Favorable foreign exchange might not be able to cushion the impact of the slowing demand

Maintain Neutral. While the strengthening of the USD should benefit furniture exporters, we think that the favorable foreign exchange might not be able to cushion the impact of the slowing demand. As the US remains as one of the major export destinations for Malaysian furniture manufacturers, we foresee near-term earnings weakness, mainly dragged by softer demand on lower consumer disposable income, already reflected in new home sales numbers.

Media – Profitability Unexciting

Recommendation: NEUTRAL

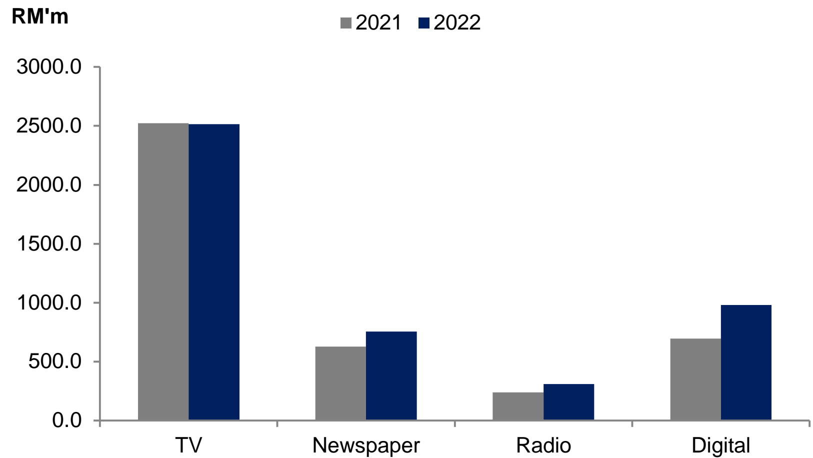
Digital advertising expenditure (adex) continues to grow

Digital adex continues to grow but earnings contribution remains low. Based on latest Nielsen data, digital advertising expenditure (adex) continues to grow and we expect this segment to remain the second-largest advertising platform after TV. The lockdown period has accelerated the adoption of digital advertising and it is likely to remain the preferred platform for businesses going forward. Meanwhile, adex has recovered strongly since late 2021 mainly due to resumption of business

Yet to see margins reverting to pre-pandemic levels

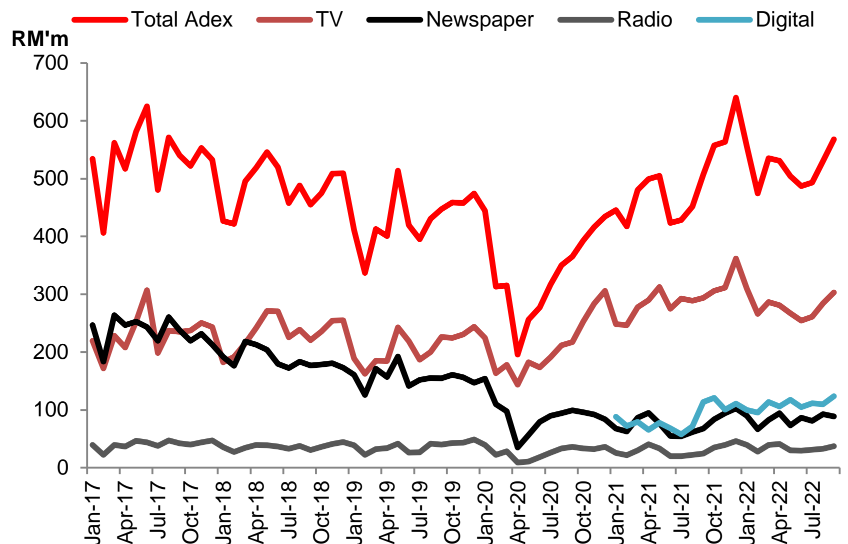
activities following the gradual reopening of the economy and the transition from pandemic to endemic phase of COVID-19 management. Despite this, we have yet to see margins reverting to pre-pandemic levels. Going into 2023, given the rising interest rate environment and weaker consumer spending, we believe businesses may hold back expenditure on marketing and promotional activities. This could weigh on media companies' performance in 1H 2023.

Figure 47: Gross ADEX Breakdown (Digital > Radio, Newspaper)



Source: Nielsen Media Research, PublicInvest Research

Figure 48: Gross ADEX By Segment



Source: Nielsen Media Research, PublicInvest Research

Key objectives of digital platforms are to gain greater adoption and market share

Maintain Neutral. While we have seen a strong pick-up in gross adex, profit margins remain low as the key objectives of digital platforms are to gain greater adoption and market share. Although we believe selected traditional platforms like TV and radio will remain relevant, advertisers are more likely to switch to digital avenues due to its competitive pricing.

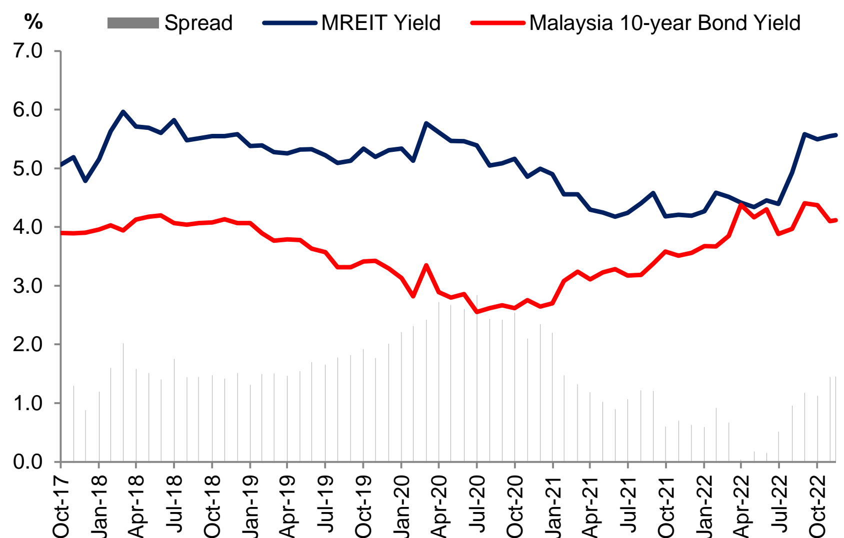
REIT – Limited Upside

Recommendation: NEUTRAL

Sector is fairly valued for now

Retail recovery in 2022. The Malaysia retail industry jumped 96% YoY in retail sales in 3QCY22 as reported by Retail Group Malaysia (RGM) which beat expectations. Going forward, RGM said members of the two retailers' associations project an average growth rate of 13.9% for 4Q 2022 and are now expecting higher growth rate of 6% from 1% previously as the sector is likely to recover further at end of this year due to two upcoming major festivals — Christmas and Chinese New Year at end January 2023. While conditions appear to have normalized, we believe that the sector is fairly valued for now with the interest rates expected to rise further on inflationary concerns. The average yield spread is now at c.145bps from the Malaysian 10-year Government Bond (MAGY10YR), which is close to the 5-year average yield spread of 150 bps. As such, we believe that the sector is fairly valued for now. All told, we maintain our ***Neutral*** stance.

Figure 49: REIT and Government Bond Yield Spreads



Source: Nielsen Media Research, PublicInvest Research

Recovery momentum might be upended by economic challenges in 2023

Recovery momentum might be upended by economic challenges in 2023. Concerns over high inflation and increasing interest rates could deter retail demand next year, with key risk on recessionary pressures globally continuing to weigh on consumer sentiment. According to Knight Frank, the cumulative supply of retail space in Klang Valley is expected to increase from 68.4msf in 2022 to 71.9msf in 2023, and 73.7msf in 2024. Among the key new malls slated for completion in 2023 include The Exchange TRX (1.3msf), and 118 Mall (850ksf). Hence, we believe that coupled with the risk of an economic slowdown and incoming retail space supply, rental reversion and occupancy rates for most malls could continue to see downward pressure.

Rental reversions for malls in prime locations are likely to remain flattish in the near term

Flattish rental reversion. While the outlook on retail sales is improving, rental reversions for malls in prime locations are likely to remain flattish in the near term, in our view. Recent data reveals that tenants' sales in the majority of malls have rebounded to 90% - 110% of pre-COVID levels in 9MCY22 with the improvement in footfall traffic. Hence, rental reversion could be marginally higher in 2023 though we believe key focus is still on retaining tenants who were adversely impacted during the pandemic. That said, higher cost of living will affect purchasing power of households and possible rate hikes in the near term will also have a negative impact on buying power of Malaysian consumers.

Raise public healthcare spending to 5% of GDP in 5 years, more than double the current 2% in 2022

All eyes will be on whether pledges are fulfilled

Increasing percentage of allocation to the private sector compared to public sector

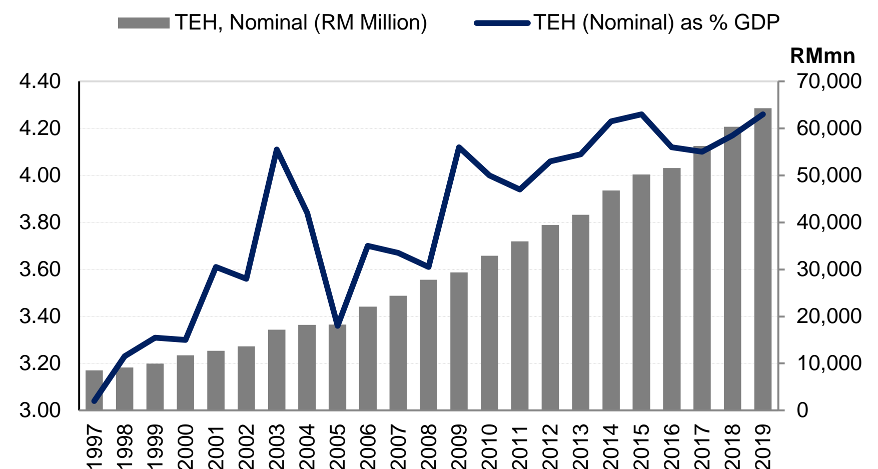
Healthcare – Recovery In Medical Tourism

Recommendation: NEUTRAL

Health budget targeted to rise from 2% to 5% of GDP. The Pakatan Harapan (PH) coalition pledged to raise public healthcare spending to 5% of GDP in 5 years, more than double the current 2% in 2022, in its election manifesto for the recently-concluded 15th General Election. Now that the collation is leading a unity government, all eyes will be on whether it fulfills this pledge. Before the Parliament was dissolved, the total allocation granted to the Ministry of Health (MoH) has been raised 11.5% from RM32.41bn under Budget 2022 to RM36.14bn in Budget 2023 (equivalent to ~2% of the GDP, the same share as in 2022). Even though Budget 2023 has not been passed, we expect the current incumbent government will still strengthen the capacity of public health services and facilitate the country's endemic-based management of COVID-19.

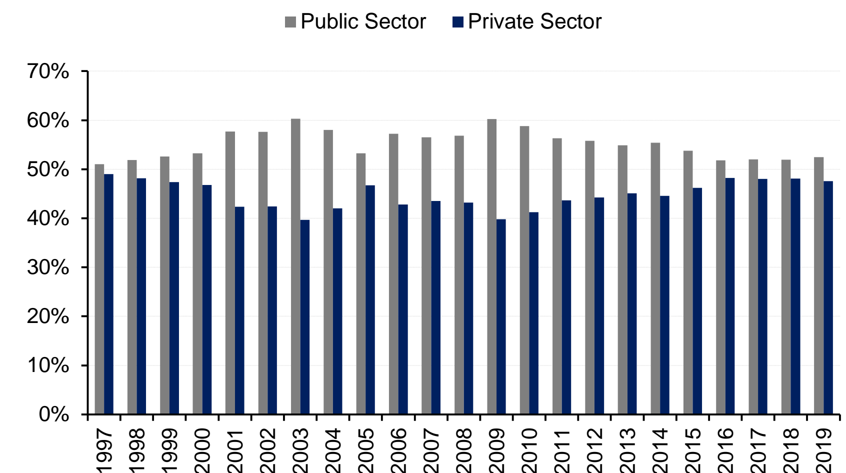
Based on the previous 10 years' budget allocation, total expenditure on health (TEH) allocated to the public and private sectors were 54.85% and 45.15% on average, respectively. According to MoH, there is however an increasing percentage of allocation to the private sector compared to public sector. The allocation for MoH is expected to be in line with the government's objective in keeping up with the national population growth, increase in lifespan, and current needs.

Figure 50: Total Expenditure on Health (TEH) (1997-2019)



Source: Ministry of Health Malaysia, PublicInvest Research

Figure 51: Public and Private Sector Expenditure (1997-2019)

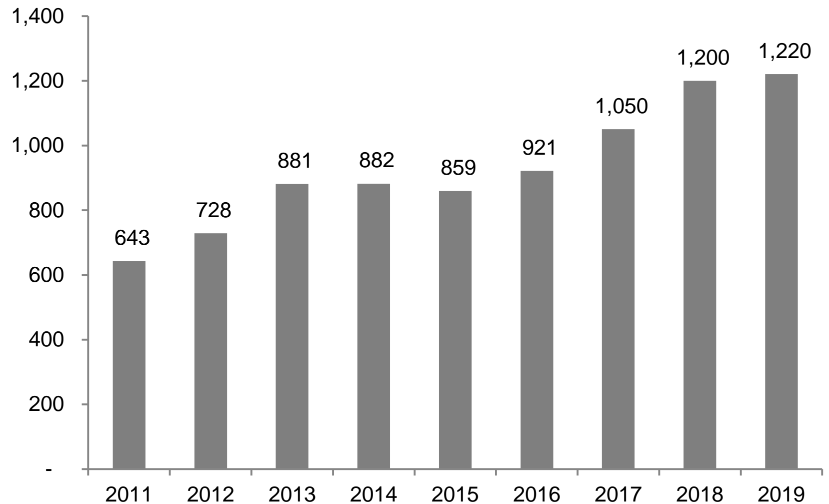


Source: Ministry of Health Malaysia, PublicInvest Research

Increase in foreign patient footfall

Recovery in medical tourism. With the easing of COVID-19 restrictions, a higher number of returning patients are expected to contribute to the revenue of both private healthcare providers namely IHH Healthcare (IHH) and KPJ Healthcare (KPJ). The increase in foreign patient footfall will lead to higher revenue intensity. This has been reflected in the recent quarter with increasing number of both inpatients and outpatients, with improving number of bed occupancy rate (BOR) near pre-pandemic levels. Prior to the pandemic, Malaysia's medical tourism industry grew at a CAGR of 7%-8% per annum from 2015-2019 due to its affordable rates and availability of world-class quality healthcare services and facilities. Based on the Malaysia Healthcare Travel Industry Blueprint 2021-2025, healthcare traveller revenue is expected to grow at 24%-67% YoY from FY23-25, with more than 50% contributed by medical tourists.

Figure 52: Number of Medical Tourists in Malaysia ('000)

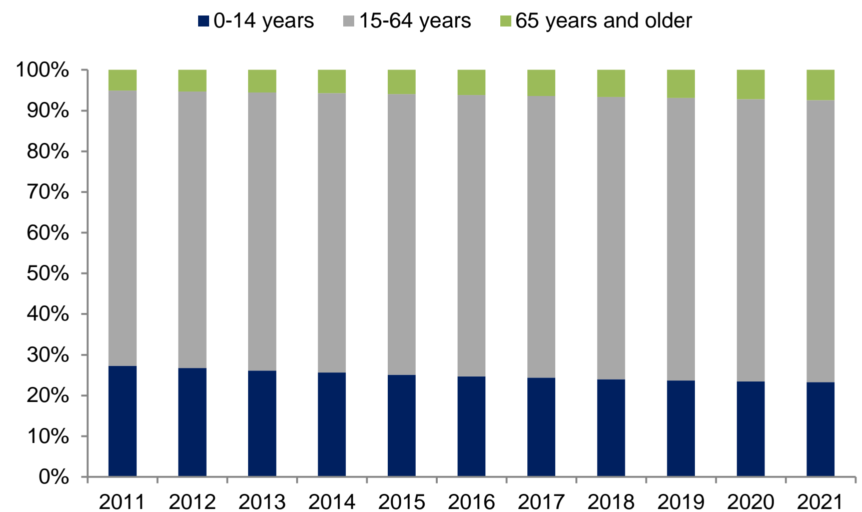


Source: Malaysian Healthcare Travel Council, PublicInvest Research

Moving into 2023, we expect demand for healthcare to remain healthy

Growth supported by ageing population. Moving into 2023, we expect demand for healthcare to remain healthy, driven by an increasing ageing population. Based on the Department of Statistics in Malaysia, the percentage of population aged 65 and above has increased from 7% in 2021 to 7.3% in 2022, with median age rising from 30.1 years in 2021 to 30.4 years in 2022. With the PH coalition promising to place special attention towards the ageing nation agenda under Humane Economy policies and SiagaJaga Plan, we believe healthcare demand will be supported in the near to medium term. Old age is often equated to higher instances of age-related disease and increased needs for regular wellness care.

Figure 53: Malaysian Population, By Age



Source: Department of Statistics Malaysia, PublicInvest Research

No major re-rating catalysts in sight for the near term.

We maintain our ***Neutral*** stance on the overall healthcare sector. While we are expecting to see improvement in patient footfall in 1H 2023 given border reopening and longer-term prospects for the sector remaining intact, there are no major re-rating catalysts in sight for the near term. Growth for the sector should be underpinned by favorable demographics, recovery in medical tourism and steady demand in healthcare however.

Gloves – Outlook Still Challenging

Recommendation: NEUTRAL

Imbalances in demand and supply will still persist

Oversupply in gloves. We believe imbalances in demand and supply will still persist, depressing average selling prices (ASPs) of gloves in the near term. ASPs are only expected to normalize and recover toward the end of 2023 however due to lingering stockpiles from customers and intense competition from peers. We gather that Top Glove had started passing on some costs to customers in 4QFY22, though Hartalega intends to maintain their price competitiveness by absorbing costs. Top Glove has implemented cost controls through the reduction of its capacity expansion by about 22% or 45bn pieces to 156bn (from 201bn pieces previously). Hartalega will continue to take a strategic approach to align its NGC 1.5 expansion plan with prevailing market conditions.

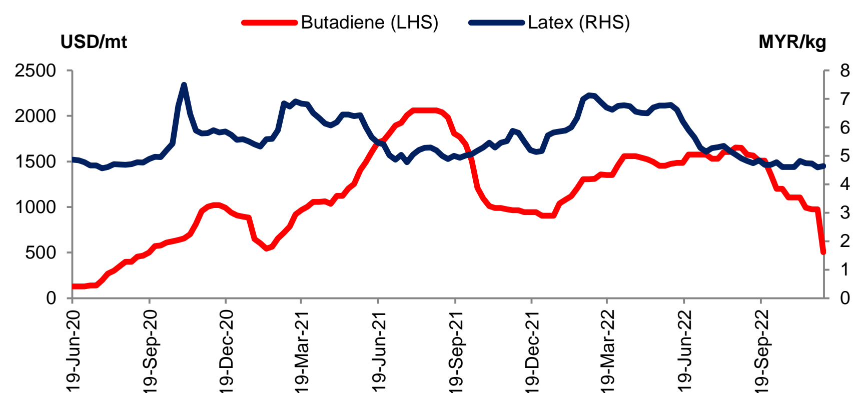
Long-term growth prospects of the sector are still encouraging

Long term demand remains intact. Even though COVID-19 appears to be under control globally, pockets of global flare-ups notwithstanding, gloves remain an essential item in the medical sector. We believe long-term growth prospects of the sector are still encouraging. With consumption driven by demand from developing markets amid heightened appreciation for hygiene, we think rubber glove consumption should remain elevated above pre-COVID levels. Reopening of economies should further spur the demand of gloves from non-medical sectors. Demand is expected to grow at between 10% and 15% per annum as compared to 8%-10% pre-pandemic.

Taking cue from foreign exchange movements. Recent strengthening of the MYR against USD is not favorable to the sector as sales in gloves are mostly denominated in USD. However, as butadiene (main raw material for nitrile gloves) is also quoted in USD, this would partially offset the negative impact arising from a weakening USD.

Raw material prices. Both butadiene and latex prices have declined from the peak in the past 3 months. Moving into 1H 2023, we expect glove players will still be affected by inflationary pressures, though finding some relief from lower crude oil prices and lower butadiene demand due to deferments in expansion plans. Raw material prices contribute the biggest portion of glove makers' cost. Given the current competitive environment and oversupply conditions, glove makers are unable to fully pass on the cost to customers and might have to sacrifice margins in absorbing part of the higher raw material costs in order to stay competitive

Figure 54: Raw Materials Prices



Source: Bloomberg, PublicInvest Research

ASPs for rubber gloves to remain low in the face of oversupply and intense competition

We retain our ***NEUTRAL*** call on the glove sector though with a negative bias as we are expecting ASPs for rubber gloves to remain low in the face of oversupply and intense competition, also taking into consideration higher labour, energy and social compliance costs. Margins are expected to remain under pressure in the near term. Additional costs incurred will not be able to be passed on to customers due to stiff competition from Chinese manufacturers who are undercutting prices to gain market share. However, we remain optimistic on the longer-term prospects of the industry, underpinned by growing demand for gloves which have proven to be a critical medical device for disease control.

Automotive – Mixed Outlook

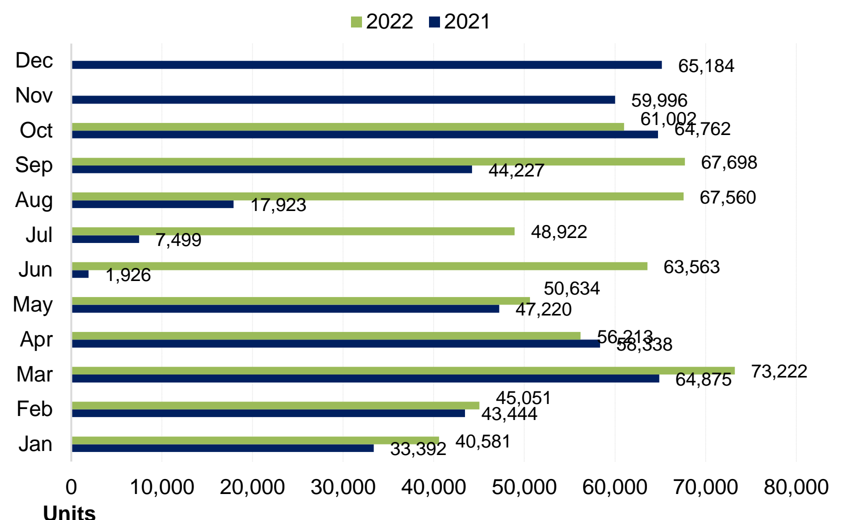
Recommendation: NEUTRAL

Malaysia Automotive Association's (MAA) total industry volume (TIV) forecast for the country is 630,000 and 636,000 units for 2022 and 2023, respectively. Most of the key marques reported sequentially stronger sales volume, bringing year-to-date (YTD) October 2022 TIV to 577,902 units (+50% YoY). Car sales are poised to remain strong through to 1Q 2023 on the back of high order backlogs and the Ministry of Finance's (MOF) decision to extend the vehicle registration deadline to 31 March 2023 to still enjoy the sales tax (SST) exemption.

TIV is likely to taper off once SST-exempted bookings are exhausted by March 2023

Outlook. The longer-term outlook for Malaysia's auto sector appears to be mixed however. TIV is likely to taper off once SST-exempted bookings are exhausted by March 2023. Additionally, production for some makes continue to be affected by on-going shortage of semiconductors chips and components, albeit on a much lower scale. October 2022 TIV slowed to 61,002 units (-9.9% YoY, -5.8% QoQ). Other headwinds such as rising car prices, potentially tighter financing and the weak Malaysian Ringgit may erode consumer confidence and dampen demand.

Figure 55: Monthly TIV



Source: Malaysian Automotive Association (MAA), PublicInvest Research

Result roundup. Sime Darby's 1QFY23 net profit fell by 5.5% YoY to RM223m despite an increase in revenue, mainly due to the Group's operations in China which continued to be affected by subdued consumer sentiment and ongoing COVID-19 restrictions. Bermaz Auto's 1QFY23 net profit jumped almost four-fold YoY to RM50.2m, mainly attributable to the increase in overall sales volume from the Group's Mazda, Peugeot and Kia operations in Malaysia. DRB-Hicom's turnaround gained momentum, with a headline net profit of RM144.0m reported for 3QFY22 compared with a net loss of RM179m in 3QFY21, attributed to better performance across the Group's operating segments especially the Automotive, Banking and Aerospace and Defence segment.

We maintain our ***Neutral*** call on the sector, with DRB-Hicom preferred.

Airlines – Headwinds Hinder Recovery

Recommendation: NEUTRAL

Positive trend in load factors for long haul air travel also suggests recovery is underway

Recovery of passenger traffic underway. International Air Transport Association (IATA) reported that global air travel in September 2022 has recovered to about 74% of pre-pandemic levels. Strong forward air ticket bookings are pointing to resilient travel demand for both domestic and international traffic globally, except for China which is still adhering to its zero-Covid policy. The positive trend in load factors for long haul air travel also suggests recovery is underway.

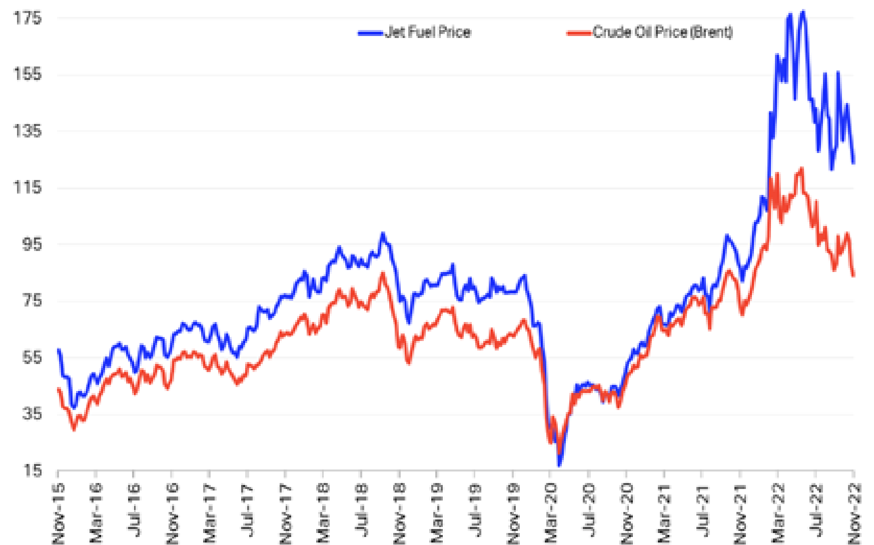
Air cargo continues to be affected by headwinds

Air cargo continues to be affected by headwinds. IATA data for October 2022 global air cargo markets showing headwinds continuing to affect air cargo demand. Global demand, measured in cargo tonne-kilometers (CTK), fell 13.6% YoY while capacity fell 0.6% YoY. This was the first YoY contraction since April 2022. Air cargo is finding some year-end relief with a 3.5% MoM increase in October, boosted by the traditional peak holiday season.

Outlook. The Malaysia Aviation Commission (MAVCOM) maintains its 2022 air travel forecast, expecting passenger traffic to grow between 316% and 525% YoY, or between 32.6m and 49.0m passengers. Year to date, passenger traffic signals a clear trajectory towards traffic recovery and is tracking forecast. Apart from North Asia, air travel demand has recovered rapidly across all regions though air cargo demand is being dampened somewhat by slowing international trade flows and continuing supply chain constraints.

Air travel recovery is expected to continue, and to accelerate further when China and Hong Kong fully re-open their borders. Persistently high jet fuel price coupled with economic weakness may dent demand and dampen air travel recovery however. Airlines' margin and cash flow are also likely to be weaker as a result.

Figure 56: Jet Fuel and Crude Oil Price (USD/Barrel)



Source: S&P Global, Refinitiv Eikon

All said, we maintain our ***Neutral*** call on the sector.

Table 17: PublicInvest Research Stock Coverage (prices as at 15 December, 2022)

	Call	Current Price	Target Price	Upside	EPS 2022 (sen)	EPS 2023 (sen)	EPS 2024 (sen)	P/E 2022 (x)	P/E 2023 (x)	P/E 2024 (x)
Airlines										
Air Asia X	Outperform	0.500	1.04	108.0%	(68.2)	31.2	69.0	-	1.6	0.7
Air Asia	Neutral	0.61	0.69	14.0%	-	3.0	10.9	-	20.2	5.6
Auto										
DRB-Hicom	Outperform	1.54	1.95	26.6%	11.4	14.1	17.0	13.5	10.9	9.1
Sime Darby	Neutral	2.21	2.37	7.2%	17.2	17.0	18.4	12.8	13.0	12.0
Bermaz Auto	Neutral	2.18	2.20	0.9%	13.4	16.5	16.7	16.3	13.2	13.1
Building Materials										
Chin Well Holdings	Outperform	1.67	1.80	7.8%	33.3	26.0	25.6	5.0	6.4	6.5
Chin Hin Group	Neutral	3.18	2.37	-25.5%	5.8	4.3	4.9	54.8	74.0	64.9
Chemicals										
Hextar Global	Neutral	2.40	2.21	-7.9%	5.2	5.5	5.6	46.2	43.6	42.9
Construction										
Gamuda	Outperform	3.61	4.30	19.1%	28.2	26.8	28.3	12.8	13.5	12.8
IJM Corporation	Outperform	1.56	1.97	26.3%	10.1	11.6	13.2	15.4	13.4	11.8
WCT Holdings	Neutral	0.42	0.50	19.0%	2.9	4.5	5.7	14.5	9.3	7.4
Consumer										
Magni-Tech Industries	Outperform	1.88	2.35	25.0%	16.3	23.8	26.0	11.5	7.9	7.2
Kawan Food	Outperform	2.14	2.50	16.8%	10.4	12.6	14.2	20.6	17.0	15.1
DKSH Holdings	Outperform	4.40	5.25	19.3%	66.3	58.4	64.7	6.6	7.5	6.8
Spritzer	Outperform	2.14	2.50	16.8%	17.2	19.1	20.8	12.4	11.2	10.3
Innature	Outperform	0.61	0.66	8.2%	3.1	3.6	4.1	19.7	16.9	14.9
CCK Consolidated	Outperform	0.66	0.90	36.4%	8.2	9.0	9.8	8.0	7.3	6.7
Able Global	Outperform	1.33	1.55	16.5%	11.5	13.9	16.1	11.6	9.6	8.3
QL Resources	Neutral	5.63	6.05	7.5%	8.9	13.4	14.0	63.3	42.0	40.2
Fiamma Holdings	Neutral	1.22	1.30	6.6%	8.1	8.5	9.3	15.1	14.4	13.1
Furniture										
Poh Huat Resources	Neutral	1.38	1.50	8.7%	28.1	21.3	23.2	4.9	6.5	5.9
Homeritz Corporation	Neutral	0.52	0.53	2.9%	8.8	5.7	6.2	5.9	9.0	8.3
Wegmans Holdings	Neutral	0.20	0.22	10.0%	3.3	2.8	3.0	6.1	7.1	6.7
Financials										
Malayan Banking	Outperform	8.70	9.70	11.5%	72.9	85.7	91.1	11.9	10.2	9.5
CIMB Group Holdings	Outperform	5.75	6.70	16.5%	56.5	66.1	71.9	10.2	8.7	8.0
AMMB Holdings	Neutral	4.21	4.20	-0.2%	45.3	45.8	47.9	9.3	9.2	8.8
Alliance Bank	Neutral	3.70	4.00	8.1%	37.0	43.1	44.7	10.0	8.6	8.3
Apex Equity Holdings	Neutral	1.27	1.03	-18.9%	2.8	3.1	3.4	45.4	41.0	37.4
Gaming										
Genting	Outperform	4.42	3.80	-14.0%	13.8	26.6	32.7	32.0	16.6	13.5
Genting Malaysia	Outperform	2.63	3.50	33.1%	5.5	17.6	20.4	47.8	14.9	12.9
Berjaya Toto	Outperform	1.65	2.20	33.3%	12.0	16.5	20.0	13.8	10.0	8.3
Gloves										
Hartalega Holdings	Neutral	1.53	1.87	22.2%	94.4	6.6	8.6	1.6	23.2	17.8
Kossan Rubber	Neutral	1.06	1.23	16.0%	8.4	7.7	9.3	12.6	13.8	11.4
Top Glove Corporation	Underperform	0.74	0.53	-27.9%	2.9	(2.4)	1.6	25.3	(30.6)	45.9
Healthcare										
IHH Healthcare	Outperform	5.90	7.60	28.8%	17.6	19.9	22.8	33.5	29.6	25.9
KPJ Healthcare	Outperform	0.95	1.05	11.1%	3.2	3.8	4.1	29.5	24.9	23.0
Rhone Ma Holdings	Outperform	0.67	0.88	31.3%	6.3	7.1	7.7	10.6	9.4	8.7
Apex Healthcare	Neutral	3.41	3.31	-2.9%	15.3	16.9	19.2	22.3	20.2	17.8
Manufacturing										
VS Industry	Outperform	0.94	1.23	31.6%	4.4	6.2	6.1	21.3	15.1	15.3
SKP Resources	Outperform	1.68	2.01	19.6%	10.9	10.8	14.3	15.4	15.6	11.7
Kumpulan Perangsang	Neutral	0.71	0.78	10.6%	5.1	7.8	9.3	13.8	9.0	7.6
Media										
Astro Malaysia	Neutral	0.710	0.82	15.5%	8.8	7.3	8.6	8.1	9.7	8.3
Media Prima	Neutral	0.44	0.51	17.2%	4.2	4.6	5.3	10.4	9.5	8.2
Oil and Gas										
Dialog Group	Outperform	2.32	3.42	47.4%	9.0	10.1	10.3	25.8	23.0	22.5
Bumi Armada	Outperform	0.49	0.70	44.3%	13.1	13.4	13.9	3.7	3.6	3.5
Dayang Enterprise	Outperform	1.360	1.58	16.2%	10.0	11.3	12.0	13.6	12.0	11.3
Wah Seong Corporation	Outperform	0.69	0.70	1.4%	5.3	5.8	6.3	13.0	11.9	11.0
Uzma	Outperform	0.560	0.71	26.8%	6.6	7.7	8.0	8.5	7.3	7.0
Hibiscus Petroleum	Trading Buy	1.10	1.18	7.3%	30.5	17.2	15.3	3.6	6.4	7.2
Sapura Energy	Neutral	0.05	0.05	11.1%	(56.7)	(4.5)	(3.5)	(0.1)	(1.0)	(1.3)
Reservoir Link Energy	Neutral	0.41	0.31	-23.5%	-	2.8	3.6	-	14.5	11.3
Packaging										
BP Plastics Packaging	Neutral	1.29	1.40	8.5%	10.1	10.7	14.6	12.8	12.1	8.8
SLP Resources	Neutral	0.98	0.90	-8.2%	6.0	6.9	7.4	16.3	14.2	13.2

Power										
Tenaga Nasional	Outperform	9.21	12.42	34.9%	73.0	79.7	79.8	12.6	11.6	11.5
Mega First Corporation	Outperform	3.39	4.74	39.8%	40.8	43.5	44.3	8.3	7.8	7.7
Malakoff Corporation	Outperform	0.67	1.02	53.4%	10.4	6.6	5.8	6.4	10.1	11.5
Cypark Resources	Outperform	0.415	0.85	104.8%	10.9	17.5	18.6	3.8	2.4	2.2
Property										
Sime Darby Property	Outperform	0.465	0.70	50.5%	3.9	5.0	5.1	11.9	9.3	9.1
SP Setia	Outperform	0.66	0.95	45.0%	8.7	9.6	9.9	7.5	6.8	6.6
IGB Berhad	Outperform	2.28	2.70	18.4%	19.4	26.0	26.7	11.8	8.8	8.5
LBS Bina	Outperform	0.44	0.67	54.0%	8.3	7.8	7.9	5.2	5.6	5.5
EcoWorld Development	Neutral	0.65	0.75	15.4%	7.2	8.6	9.2	9.0	7.6	7.1
UEM Sunrise	Neutral	0.255	0.33	29.4%	1.5	1.6	1.7	17.0	15.9	15.0
Eastern & Oriental	Neutral	0.42	0.51	22.9%	4.5	2.4	2.7	9.2	17.3	15.4
I-Berhad	Neutral	0.275	0.26	-5.5%	0.5	0.9	0.9	55.0	30.6	30.6
Plantations										
Genting Plantations	Outperform	5.91	7.94	34.3%	62.6	47.4	49.8	9.4	12.5	11.9
TSH Resources	Outperform	1.03	1.48	43.7%	16.6	9.9	9.8	6.2	10.4	10.5
Sarawak Plantations	Outperform	2.26	3.32	46.9%	42.2	25.5	26.0	5.4	8.9	8.7
Sime Darby Plant.	Neutral	4.35	4.60	5.7%	32.0	25.5	25.3	13.6	17.1	17.2
KL Kepong	Neutral	21.02	23.17	10.2%	217.7	162.9	163.8	9.7	12.9	12.8
IOI Corporation	Neutral	3.69	4.24	14.9%	30.4	29.2	26.3	12.1	12.6	14.0
FGV Holdings	Neutral	1.32	1.61	22.0%	29.4	16.6	15.2	4.5	8.0	8.7
Chin Teck Plantations	Neutral	8.59	7.83	-8.8%	113.6	71.2	72.6	7.6	12.1	11.8
REITs										
IGB REIT	Neutral	1.64	1.72	4.9%	9.6	10.2	10.5	17.1	16.1	15.6
Sunway REIT	Neutral	1.45	1.55	6.9%	9.0	9.5	9.7	16.1	15.3	14.9
Axis REIT	Neutral	1.79	1.96	9.5%	9.6	10.7	11.6	18.6	16.7	15.4
Technology										
Inari Amertron	Outperform	2.66	3.74	40.6%	10.6	10.0	10.5	25.1	26.6	25.3
D&O Green Techn.	Outperform	4.27	5.16	20.8%	12.0	14.7	17.6	35.6	29.0	24.3
ECA Integrated	Outperform	0.820	0.32	-61.0%	1.6	2.0	2.5	51.3	41.0	32.8
Greatech Technology	Neutral	5.00	4.10	-18.0%	9.3	13.7	15.2	53.8	36.5	32.9
MI Technovation	Neutral	1.42	1.65	16.2%	5.1	6.6	6.8	27.8	21.5	20.9
Telecommunications										
Telekom Malaysia	Outperform	5.10	6.63	30.0%	35.0	37.8	38.7	14.6	13.5	13.2
Digi	Neutral	3.70	3.83	3.5%	12.5	14.2	14.5	29.6	26.1	25.5
Maxis	Neutral	3.75	4.00	6.7%	16.2	18.3	18.9	23.1	20.5	19.8
Axiata Group	Neutral	2.95	3.60	22.0%	14.2	14.1	16.0	20.8	20.9	18.4
Timber										
Ta Ann Holdings	Outperform	3.90	5.16	32.3%	86.3	58.5	60.5	4.5	6.7	6.4

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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