AmInvestment Bank

2 Feb 2023

STRATEGY

Trailing the region as valuation gap widens

1,630

End-2023 FBM KLCI target (pts)

(Maintained)

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Rationale for report: Market update

Investment Highlights

- **Mild MoM decline**. The FBMKLCI started off the year with a 0.7% MoM decline in January to 1,485 points, continuing with the 2022 decrease of 5% YoY. Local institutional and foreign investors were net sellers of RM754mil shares last month, with locals accounting for 54% of net sales amid growing concerns of global recessionary pressures as the US Federal Reserve raised its benchmark federal-funds rate by 25 basis points to 4.5%-4.75% last night.

- **Mixed foreign flows to ASEAN region.** While Malaysia experienced mild foreign selling of RM348mil in January, foreigners bought into Taiwan, South Korea, Thailand, Philippines and Vietnam. Taiwan accounted for 55% of January foreign buying, followed by South Korea at 39% and Thailand 4% (Exhibits 10-11). Foreign selling were largely focused on India, which accounted for 93% of net sales with the balance in Indonesia and Malaysia. All in, foreign flows were mildly positive to ASEAN region.

- **Malaysian equity valuation gap widens**. The foreign selling contributed to India's Nifty index sliding by 2% MoM and Indonesia's flattish performance. The best MoM performers were Hong Kong/Vietnam (+10%), Korea/Taiwan (+8%), China/Japan (+5%) and Singapore/Philippines (+4%) vs Malaysia's -0.7% (Exhibit 4). Hence, the FBMKLCI decline has led to a widening valuation gap, trading at 1-year forward PE of 13.1x currently. This translates to 1.7 standard deviation below its 5-year median (SDB5YM) of 16.1x, at parity to Indonesia with Philippines at 0.7 SDB5YM and Thailand 0.3 SDB5YM (Exhibit 15).

- **Tapering interest rate hike expectations**. Notwithstanding Bank Negara's surprising decision to keep the overnight policy rate (OPR) unchanged on 19 January, our economist still expects Bank Negara to raise the overnight policy rate (OPR) by 25 basis points (bps) in 1H2023 that will bring the OPR to 3.00% for the whole of this year. The benchmark US federal funds rate was raised by 25 basis points last night, in line with market expectations of a tapering rate hike cycle. Consensus' expectations of additional rate hikes this year could elevate the Federal funds rate from 4.25%-4.50% currently while our economist expects a weakening economy to trigger a policy reversal by 2H2023, which will lead to a tapering to 3.50%-3.75% (vs consensus' 4.70%) next year.

- **Potential changes from unity government.** For the 2023 Budget, which will be re-tabled on 24 February, we expect some possible changes from the version announced in October last year, with a focus on relieving cost of living concerns of the B20 and M40 population segment. Even so, we believe changes in administrative processes and approvals may defer government-driven construction projects, which will have to be secured via open tenders. As the new government aims to address inflationary pressures and higher costs of living, we do not discount potential approval delays and revisions to Tenaga's electricity surcharge for 1H2023 and gas transportation tariffs under the second regulatory period. For consumer sector, new measures could be introduced under the current subsidies provided to essential items such as poultry and livestock. For telecommunication sector, the 5G deployment structure may be reviewed to prevent leakages (Exhibit 1).

- **Reopening of China's economy**. China's relaxation of Covid 19 movement restrictions engender improving prospects for regional economic growth against the backdrop of pent-up consumer spending in a country with high savings rates. This will relieve supply chain disruptions that have disrupted global trade over the past year, potentially mitigating recessionary prospects in gas-constrained Europe. All in, we expect this to positively impact most sectors involved in technology, EMS, transportation, plantation, oil & gas, construction, ports, REITS, consumer, local pharmaceuticals and selected property companies with China exposure (Exhibit 2).

- **Net beneficiary from firmer MYR outlook**. The MYR has strengthened by 12% to RM4.23/US$ currently from RM4.75/US$ on 4 Nov following the formation of a unity government, with our economist projecting our currency to stabilise at the current levels of RM4.20-RM4.30/US$ by end-2023. Overall, this will be a net positive to Malaysian equities, with beneficiaries being automakers (UMW and Tan Chong), consumer stocks (Leong Hup International and Spritzer) and transport companies (Capital A which will pay lower fuel and interest costs). However, the revenue impact will be negative for glove makers (Top Glove, Hartalega and Kossan) and exporters such as Ancom Nylex, as well as for shipping and oil & gas companies (MISC, Hibiscus Petroleum, Yinson and Bumi Armada) (Exhibit 3).

- **Expect net foreign equity outflow to reverse in 2H2023**. We acknowledge the US Fed rate hike cyle, while tapering at this juncture, will continue to spur volatility in the global markets over the next few months. However, underpinned by Malaysia's firm currency outlook, we expect a return of foreign equity buyers in 2H2023 amid attractive Malaysian equity valuations and our inhouse 2023 GDP growth projection of a relatively robust domestic consumption-driven 4.5% vs consensus' 2.1% for global average and meager 0.5% for US.

- **We maintain base-case end-2023 FBMKLCI target of 1,630**, pegged to 0.5 standard deviation below its 5-year median (SDB5YM), which is supported by Malaysia's relatively stronger economic outlook and our economist' stabilising MYR expectation at RM4.20-RM4.30 by December this year. Although Malaysia's 2023 GDP growth is expected to taper to 4.5% (vs. consensus: 4.0%) from 8.5%-9.00% in 2022, this remains better than recessionary prospects in US and Europe with expectations for a reset in US interest rate hike trajectory in 2H2023.

  Best-case scenario from an abrupt US Federal Reserve policy reversal and better-than-expected global economic growth would underpin a 2023 FBMKLCI target of 1,740 at parity to its 5-year median PE of 16.2x.

  The worst-case scenario from a full-blown global recession, new pandemics and worsening geopolitical conflicts translates to 1,380, pegged at 2 SDB5YM. We do not discount global equity volatility from more US rate hike surprises, US-China trade tensions and additional global sanctions on Russia.

- **OVERWEIGHT on banks, oil & gas, autos, ports, property, REIT, healthcare and media** with top picks being **RHB Bank, CIMB, Bank Islam, Tenaga Nasional, Yinson, Telekom Malaysia, Dialog Group, Inari Amertron, Sunway REIT** and **DuoPharma BioTech** (Exhibit 22). We also like small cap stocks with strong brand names which can safely navigate inflationary pressures such as **Spritzer** and niche agrichemical producer **Ancom Nylex**, as well as grossly undervalued companies such as **Deleum** (Exhibit 23). Our **ESG champions** are **MayBank, Petronas Chemicals Group, Petronas Gas, IHH Healthcare, Telekom Malaysia, Westports Holdings, Inari Amertron, Sunway Holdings, Yinson Holdings, Sunway REIT** and **Astro** (Exhibit 21).

EXHIBIT 1: POTENTIAL MEASURES BY NEW UNITY GOVERNMENT

Sector	Potential new government measures	Impact on sector	Companies impacted
Plantation	None	None	None
Power	New government is expected to approve the tariff surcharge for 1H2023 in accordance with the ICPT framework.	None as this is expected	Tenaga Nasional
Oil & Gas	Potential delay in Petronas Gas' finalisation of RP2 tariffs and project sanction for the third LNG storage tank in Pengerang.	Negative	Petronas Gas, Dialog Group
Banking	None	None	None
Insurance	None	None	None
Construction	Potential revision of government projects. Adoption of open tenders may lead to fiercer competition. More clarity after retabling of Budget 2023.		All contractors
Media	None	None	None
Port	None	None	None
REITs	None	None	None
Property	None	None	None
Consumer	Potential revision of subsidies given to essential items such as poultry/livestock sector.	More clarity needed	Leong Hup International
Automobile	None	None	None
Manufacturing	None	None	None
Gloves	None	None	None
Healthcare	None	None	None
Telecommunications	Potential revision of Digital Nasional's 5G network deployment contract. Savings from reduction in leakages, if any, might trickle down to the mobile network operators.	Potentially positive	Maxis, Celcom Digi, TM, Axiata
Technology	None	None	None
Transport	Potentially delay in the finalisation of the RAB framework in setting airport tariffs. However, it was already well-established that the RAB will only kick off in 2026 onwards when passenger traffic stabilises.	None	Malaysia Airports
EMS	None	None	None

Source: AmInvestment Bank

EXHIBIT 2: IMPACT FROM RELAXATION IN CHINA'S COVID POLICY

Sector	Impact from relaxation in Covid policies	Companies impacted
Plantation	China's palm demand would improve as HORECA activities increase, supporting CPO prices.	All plantation companies
Power	None	None
Oil & Gas	Uplift the country's economic outlook and spur stronger demand for crude oil and petroleum products. This should cushion already weakening oil prices amid economic slowdowns in major economies.	All oil and gas companies
Banking	Hong Leong Bank has an associate, Bank of Chengdu, in China. Chengdu was in lockdown in Sept 2022 for 2 weeks. Since then, full lockdown in the city has been uplifted. It is now business as usual (BAU) for the associate. The recent relaxation should not have any material impact on the associate's operations in China as the lockdowns in Chengdu have already been eased in Sept 2022.	Hong Leong Bank
Insurance	None. All insurance companies' underwriting are based on local risk with no operations in China.	None
Construction	Easing restrictions on travel and production could lift demand sentiments and exert upward pressures on steel prices. However, with riots and recession fears, prices could be volatile in the near term.	All contractors
Media	None	None
Port	Increase in manufacturing activities could mean higher exports and transhipment for Malaysian ports. However, the relaxation may be a little too late for manufacturers to ride on the higher demand ahead of 2022 Christmas. HORECA activity recovery will boost exports of palm oil.	All ports
REITs	Benefit Malaysian REITs with exposure to retail and hotel segments, particularly those situated near tourist attractions.	Pavilion REIT, IGBREIT, Sunway REIT, YTLREIT
Property	Directly benefit IOI Properties which has direct exposure to property development and property investment businesses in China. This will help IOI Properties in accelerating construction progress, scaling up new launches and pushing for property sales.	IOI Properties
Consumer	Demand for consumer staples would improve as spending is likely to catch up from return of Chinese tourists.	Berjaya Food, Padini
Automobile	Ease further chip and component shortages, which will smoothen the supply chain and expedite deliveries to customers, accelerating sales recognition.	All automotive companies
Manufacturing	None	None
Gloves	No impact as glove factories in China are already allowed to operate at full capacity. The low utilisation rate was mainly due to low demand from end-customers amid high inventories.	None
Healthcare	No significant impact on hospitals as IHH's major sources of foreign patients do not include China. For local phamarceuticals, this could bring down active pharmaceutical ingredient costs and improve margins.	Duopharma Apex Healthcare
Telecommunications	None	None
Technology	Easing of supply chain disruptions together with the gradual pick up in China's economic activities also bolster demand for consumer electronic products.	All
Transport	Gradual reopening of international borders in the coming months, thus boosting air travel demand substantially. This would directly benefit aviation sector given that Chinese passengers formed a large demographic of Malaysia Airports' passenger traffic (11% of 2019 passenger traffic).	Malaysia Airports & Capital A
EMS	Recovery in electronic demand and increased plant utilisation rates. VS Industry is currently facing capacity underutilisation in China.	VS Industry

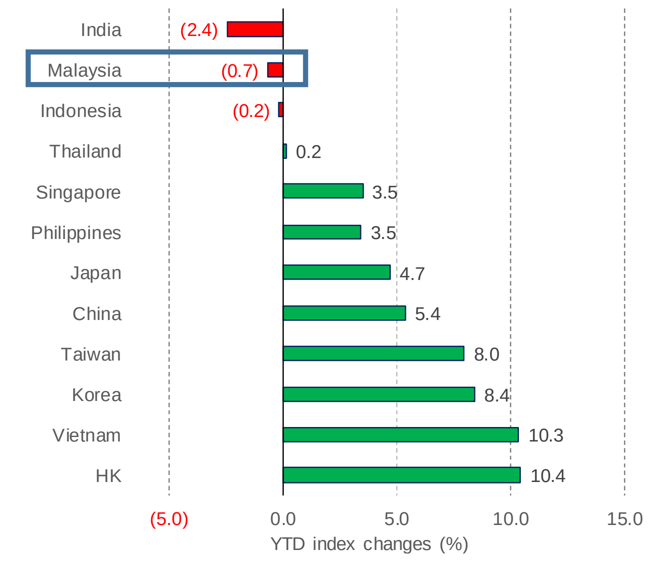
Source: AmInvestment Bank

EXHIBIT 3: IMPACT OF STRONGER MYR (ASSUMING 10% APPRECIATION)

Company	Sector	Impact to FY23F net profit from 10% strengthening of MYR vs US$	Total debt (in RM)	US$ debt (in RM)	% of US$ debt	FY23F core net profit
Ancom Nylex	Manufacturing	Negative with 9-11% as most of the revenue is denominated in US$ as compared to the cost structure.	384	77	20.0	78.5
Apex Healthcare	Healthcare	Very minimal impact to core earnings with <1%	12	-	-	81.0
Astro	Media	Most USD Debts are hedged. Unhedged portion is USD333.1mil. Beneficiary if MYR appreciates.	3,550	1,918	54.0	457.5
Berjaya Food	Consumer	Mostly neutral as the group sourced its raw materials mostly locally	173	-	-	128.8
Bermaz Auto	Auto	No impact as no borrowings are USD-denominated whereas costs of sales are exposed to mainly Japanese Yen	200	-	-	201.0
Bintulu Port	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	1,218	-	-	125.2
Bumi Armada	Oil & Gas	Negative impact of 6-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	6,372	4,842	76.0	729.7
Capital A	Transportation	Positive impact of 30-50% largely from its low earnings base together significantly lower fuel costs and interest expenses	2,773	1,564	56.4	(242.0)
CIMB	Banking	Largely Neutral as Assets are well hedged by the Liabilities	67,186	5,115	7.6	6,596
Dialog	Oil & Gas	Marginally negative as lower contribution from oversea operations will be offset by lower finance costs	1,864	15	0.8	695.3
DRB-HICOM	Auto	Presumably negative at < 17% due to Aerospace and Aviation businesses	8,850	655	7.4	190.7
Econpile	Construction	Neutral as minimal direct exposure to USD	113	-	-	19.2
Gamuda	Construction	Minimal exposure as hedging instrument is in place.	4,790	190	4.0	751.8
Gent Plant	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	2,519	1,276	50.7	325.9
Globetronics	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 6-8%	-	-	-	47.0
Glomac	Property	No impact as no borrowings are USD-denominated	499	-	-	38.2
Guan Chong	Consumer	Largely neutral as the group used foreign currency forward or option contracts to hedge the currency risk	1,170	656	56.1	247.0
Hartalega	Gloves	Negative but minimal at 0.5-1.0% as Harta has entred forward foreign currency contracts on top of the natural hedge between exports and raw mat procurement.	210	210	100.0	134.6
Hektar	REIT	No impact as no borrowings are USD-denominated	581	-	-	27.6
IGBREIT	REIT	No impact as no borrowings are USD-denominated	1,215	-	-	369.9
IHH Healthcare	Healthcare	negative 1-2%	7,889	-	-	1,441.3
IJM Corp	Construction	Minimal exposure as hedging instrument is in place.	5,401	1,355	25.1	395.9
Inari Amertron	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	-	-	-	492.2
IOI Corp	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	4,982	3,871	77.7	1,230.6
IOI Properties Group	Property	A slight negative of <1% of impact to core earnings as it holds a small portion of net monetary assets denominated in USD	11,010	277	2.5	811.8
Kimlun Corp	Construction	Neutral as minimal direct exposure to USD	348	-	-	29.6
KL Kepong	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	10,572	894	8.5	1,301.7
Kossan	Gloves	Negative but minimal at 1.3-1.5% as Kossan has entred forward foreign currency contracts on top of the natural hedge between export and raw mat procurements.	129	-	-	203.8
Lagenda Properties	Property	No impact as no borrowings are USD-denominated	205	-	-	269.0
Lee Swee Kiat	Manufacturing	Very minimal impact to core earnings with <1%	11	-	-	12.4
Leong Hup International	Consumer	Positive at <2% as payables and receivables in USD are minimal	3,341	59	1.8	172.8
Mah Sing Group	Property	<1% of impact to core earnings as it has a small portion of net monetary liability denominated in USD	1,505	-	-	173.2
Hibiscus Petroleum	Oil & Gas	Negative impact of 7-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	194	-	-	531.6
Malaysian Pacific Industries	Technology	Relatively worse affected compared to peers as most of its sales are USD denominated, with estimated impact of 9-11%	193	-	-	403.9
Malakoff	Power	Neutral as most loans are in MYR	9,566	242	2.5	312.9
Perak Trasit	Transportation	Neutral due to minimal exposure to foreign currency	323	-	-	61.2
Malaysia Airports	Transportation	Marginally positive due to significant oversea operations coupled with lower finance costs	5,997	-	-	497.7
MBM Resources	Auto	Marginally positive as exposure to USD is at associate level	22	-	-	229.9
Media Prima	Media	Neutral as minimal direct exposure to USD	387	-	-	69.7
MISC	Oil & Gas	Negative impact of 4-6% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	19,363	18,926	97.7	2,134.3
MR. D.I.Y	Consumer	No impact as exposure to USD is less than 1%	231	-	-	572.5
MyNews Holdings	Consumer	No impact as no borrowings are USD-denominated	84	-	-	11.7
Nestle (Malaysia)	Consumer	Mildly positive from lower costs at <3% while export sales are not dominant	431	-	-	807.8
Padini	Consumer	No impact as the group is exposed to local currency	379	-	-	152.1
Paramount	Property	No impact as no borrowings are USD-denominated	963	-	-	39.5
PAVREIT	REIT	No impact as no borrowings are USD-denominated	2,173	-	-	258.3
Pentamaster	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	2	-	-	124.8
Petronas Chemicals	Oil & Gas	Negative impacts of 3-5% as lower earnings from oversea operations would be offset by lower finance costs	2,654	2,361	89.0	7,124.0
Petronas Gas	Oil & Gas	Negative impacts of 3-5% as some of lease liabilities are denominated in USD, offset by lower finance costs	3,735	1,462	39.2	1,824.3
Pos Malaysia	Transportation	Neutral due to minimal exposure to foreign currency	724	63	8.7	(9.9)
Power Root	Consumer	Negative as in export sales but minimal at <4%	36	-	-	47.4
Public Bank	Banking	Largely Neutral as Assets are well hedged by the Liabilities	15,046	2,392	15.9	7,151
RHB Bank	Banking	Largely Neutral as Assets are well hedged by the Liabilities	11,778	1,266	10.7	3,393
S P Setia	Property	No impact as no borrowings are USD-denominated	12,556	140	1.1	327.4
Sime Darby	Auto	Largely neutral as sales are mainly denominated in local currencies of operating countries	2,983	14	0.5	1,239.4
Sime Darby Property	Property	No impact as no borrowings are USD-denominated	3,832	-	-	260.5
Sime Plant	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	9,086	4,459	49.1	1,680.1
Spritzer	Consumer	Positive at <30% as 70% fo raw materials are resin which is paid in USD	20	-	-	34.6
Sunway	Property	Negative 1% as a portion of its cash and receivable are denominated in USD.	8,115	953	11.7	612.5
Sunway Construction	Construction	Neutral as minimal direct exposure to USD	351	-	-	151.3
SunwayREIT	REIT	Neutral as its USD-denominated borrowing is hedged with cross currency swap contract.	3,405	396	11.6	316.1
Suria Capital	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	22	-	-	45.6
Tan Chong Motor Holdings	Auto	Positive at <10% as the group is coming from a low base and is sourcing its CKD and CBU models in USD but impact is partially offset by hedging	1,433	-	-	29.6
Telekom	Telco	Marginally positive with <1% impact as stronger MYR would translate into lower international out-payments for mobile traffic	5,720	1,255	21.9	1,662.3
Tenaga Nasional	Power	Neutral as most loans are in MYR	53,400	8,010	15.0	5,073
Top Glove	Gloves	Negative with 11-13% as Top Glove does not have much forward foreign currency contracts but rely on natural hedge.	399	91	22.9	(48.6)
UEM Sunrise	Property	Negative but minimal at 1%-1.5% as it holds a small portion of net monetary assets denominated in USD	4,214	-	-	102.8
UMW Holdings	Auto	Positive at <5% as the group source its CKD and CBU models in USD but impact is partially offset by hedging	1,882	-	-	390.5
UOAREIT	REIT	No impact as no borrowings are USD-denominated	683	-	-	65.2
Vitrox	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	-	-	-	202.5
WCT Holdings	Construction	Neutral as minimal direct exposure to USD	2,836	-	-	72.1
Westports	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	1,081	-	-	632.6
Yinson	Oil & Gas	Negative impact of 7-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	10,021	8,662	86.4	725.2
YTL Power	Power	Neutral as exposure to USD is small	27,714	1,428	5.2	287.3
YTLREIT	REIT	No impact as no borrowings are USD-denominated	2,085	-	-	158.3

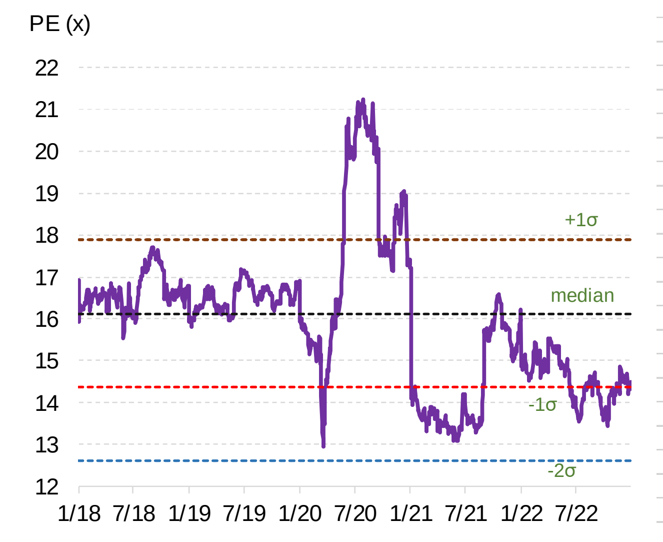
Source: AmInvestment Bank

EXHIBIT 4: 2023 YTD REGIONAL INDEX PERFORMANCES



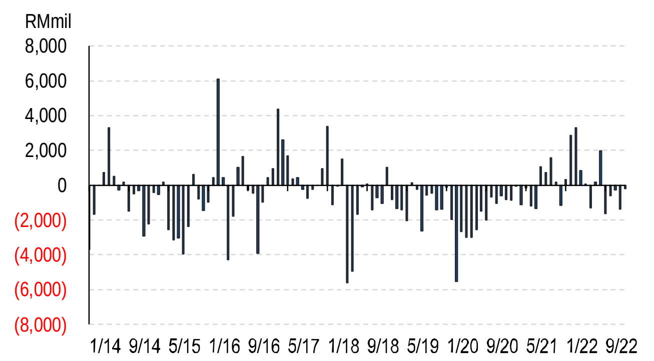
Source: AmInvestment Bank/Bloomberg

EXHIBIT 5: FBMKLCI'S 1-YEAR FORWARD PE



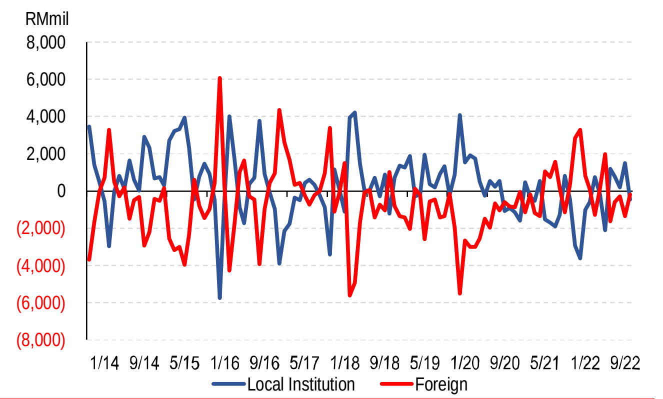
Source: AmInvestment Bank/Bloomberg

EXHIBIT 6: MONTHLY NET FOREIGN EQUITY FLOWS TO MALAYSIA



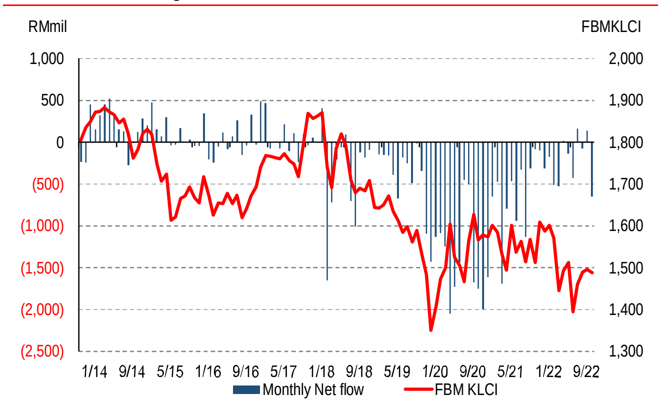
Source: Bursa Malaysia/AmInvestment Bank

EXHIBIT 7: MONTHLY NET FOREIGN EQUITY VS. LOCAL INSTITUTIONAL FLOWS TO MALAYSIA



Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 8: COMBINED LOCAL INSTITUTIONAL & FOREIGN EQUITY NET FLOWS VS. FBMKLCI

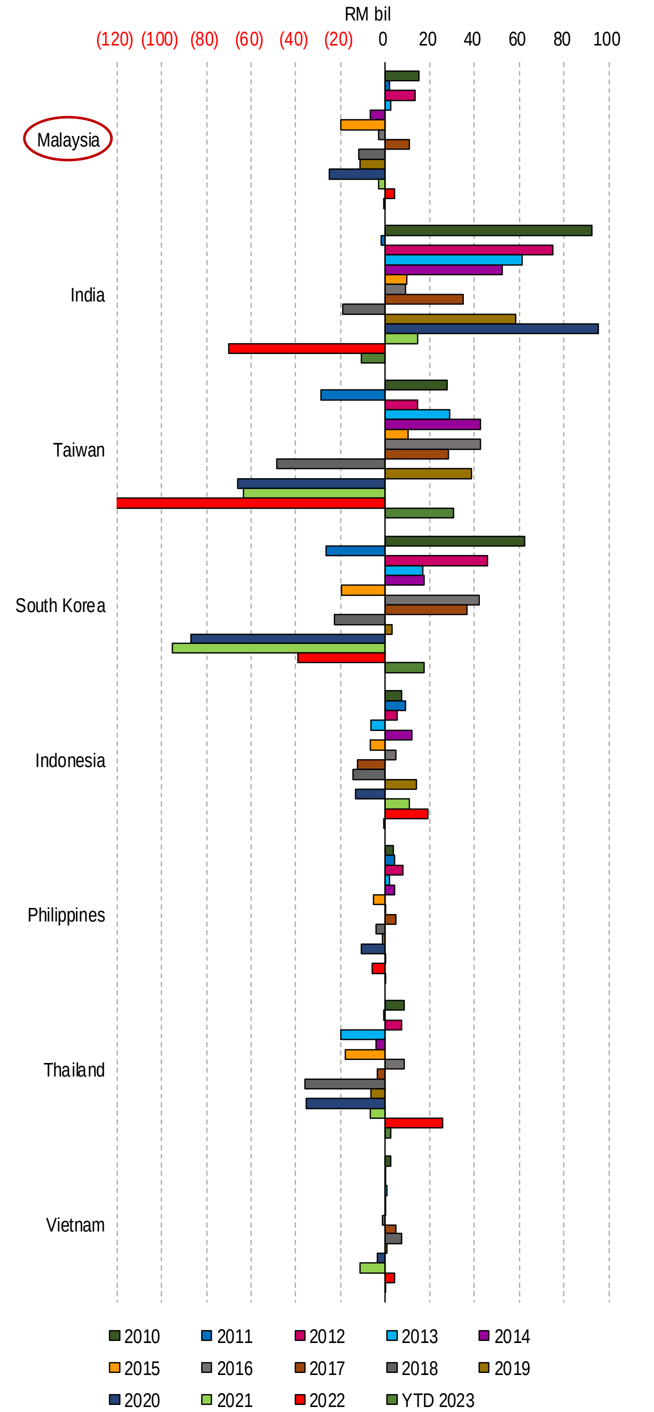


Source: AmInvestment Bank/Bursa Malaysia/Bloomberg

EXHIBIT 9: FOREIGN SHAREHOLDING IN MALAYSIAN EQUITIES

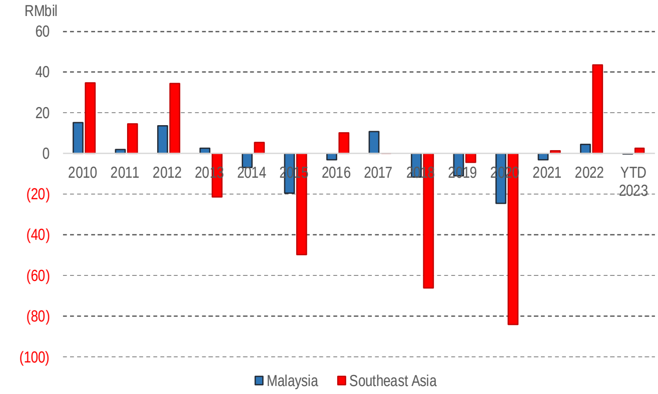
Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 10: REGIONAL MONTHLY NET FOREIGN EQUITY FLOWS



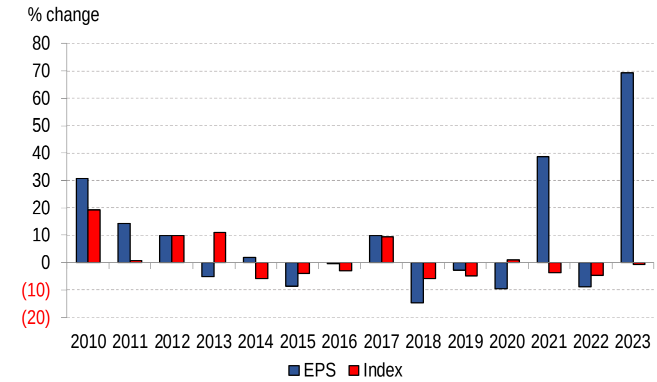
Source: Bloomberg/AmInvestment Bank

EXHIBIT 11: NET FOREIGN MONTHLY EQUITY FLOWS – MALAYSIA VS. SOUTHEAST ASIA



Source: AmInvestment Bank/Bloomberg

EXHIBIT 12: FBMKLCI VS. EPS CHANGES



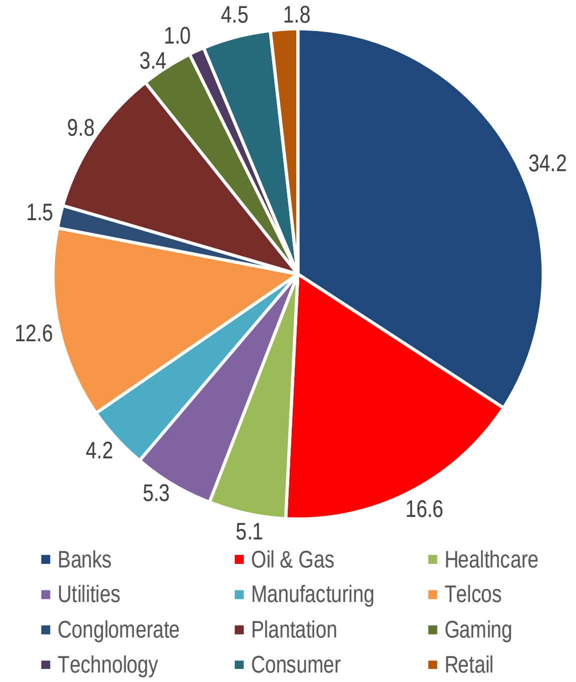
Source: AmInvestment Bank/Bloomberg

EXHIBIT 13: SECTORAL EPS GROWTH AND PE

	SECTORAL WEIGHTING (%)	NET PROFIT GROWTH (%) 2022F	2023F	2024F	P/E (X) 2022F	2023F	2024F
ALL SECTORS		(3.5)	6.7	6.4	14.1	13.2	12.4
FBM KLCI @		19.3	5.8	4.7	14.5	13.7	13.1
Automobile	2.5	17.9	3.5	(4.1)	12.3	11.9	12.4
Construction	1.7	>100.0	22.6	8.5	16.3	13.3	12.3
Consumer	7.8	26.6	3.9	10.6	21.7	20.9	18.9
Financial Services	32.1	13.6	6.5	5.4	10.6	9.9	9.4
Glove	1.3	(94.9)	(72.0)	>100.0	20.9	74.5	13.9
Healthcare	5.3	(2.8)	46.6	2.4	32.3	22.0	21.5
Manufacturing	0.5	(22.9)	29.2	17.3	19.2	14.9	12.7
Media	0.3	(10.4)	13.6	6.2	8.1	7.1	6.7
Oil & Gas	11.6	6.4	0.8	(5.7)	11.1	11.0	11.7
Plantation	8.3	16.6	(34.4)	4.5	11.4	17.3	16.6
Power	5.6	(0.5)	19.7	2.9	12.9	10.8	10.5
Property	2.6	24.5	10.5	13.3	11.5	10.4	9.2
REITs	1.3	51.4	12.3	4.6	18.9	16.9	16.1
Stock Exchange	0.5	(36.2)	8.9	11.9	23.9	22.0	19.6
Technology	2.8	16.5	8.4	17.2	28.7	26.5	22.6
Telecommunication	10.0	6.3	7.1	8.4	22.4	20.9	19.3
Transportation & Logistics	5.8	>-100	>100	32.9	>100	19.2	14.5

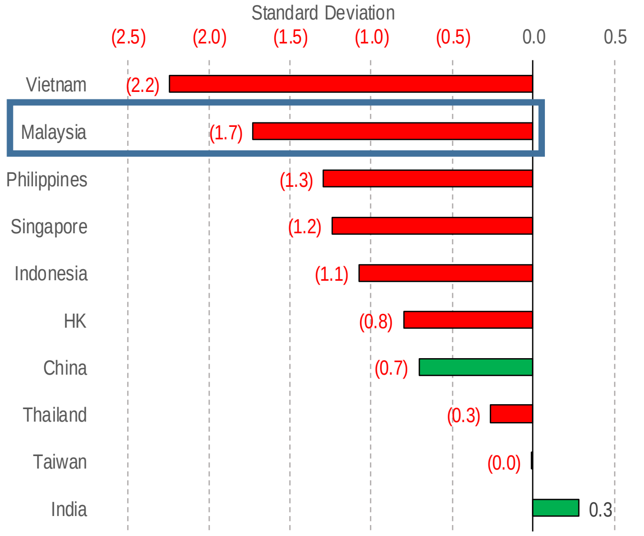
Source: AmInvestment Bank

EXHIBIT 14: FBMKLCI SECTOR WEIGHTINGS



Source: AmInvestment Bank/Bloomberg

EXHIBIT 15: STANDARD DEVIATION OF CY23F PE TO 5-YEAR MEDIAN



Source: AmInvestment Bank/Bloomberg

EXHIBIT 16: FBMKLCI SECTOR MATRIX

	YTD chg (%)	PE (x) 2023F	PE (x) 2024F	Div yld (%)	PBV (x)	Net debt/ EBITDA (x)
KLCI	(0.7)	13.2	12.6	4.3	1.4	2.4
Finance	(0.2)	9.9	9.4	5.7	1.1	n/a
Plantation	(3.5)	13.4	15.7	3.8	1.3	0.9
Energy	14.4	12.0	11.6	1.0	1.2	2.6
Utilities	2.6	12.9	12.4	5.1	1.0	4.0
Telco & Media	2.3	19.9	18.5	4.0	3.7	2.0
Consumer Prod	2.5	17.1	15.4	3.1	1.5	1.6
Tech	7.0	25.3	21.4	1.4	1.0	2.5
Ind Prod	4.4	13.8	12.4	2.9	1.3	0.9
Property	6.0	9.9	9.2	2.7	0.4	6.1
Transport & Logistics	11.8	18.1	16.3	3.2	1.2	1.9
Construction	6.0	13.3	11.7	5.8	0.6	7.1
Healthcare	(3.3)	32.7	24.3	1.3	1.5	0.7
REIT	6.2	16.0	15.5	5.9	1.1	5.8

Source: AmInvestment Bank/Bloomberg

EXHIBIT 17: REGIONAL VALUATIONS

	EPS growth (%) 2022F	EPS growth (%) 2023F	EPS growth (%) 2024F	P/E (x) 2022F	P/E (x) 2023F	P/E (x) 2024F	Div yield %	PBV x	Net debt/ EBITDA x
Malaysia	(8.8)	19.2	4.9	15.7	13.2	12.6	4.3	1.4	2.4
Indonesia	69.3	(6.8)	11.0	13.3	14.4	12.9	3.2	2.0	0.3
Philippines	26.9	16.5	10.1	15.3	13.9	12.6	2.0	1.7	2.4
Thailand	9.2	2.4	9.1	16.0	15.8	14.5	2.8	1.8	2.4
Taiwan	5.2	(22.3)	16.7	10.2	14.4	12.3	3.8	1.8	1.0
HK	5.4	(23.7)	9.6	7.2	10.5	9.5	3.4	0.8	(1.0)
Japan	(15.0)	22.6	(1.4)	17.5	15.0	15.2	2.2	1.5	0.8
China	(2.7)	37.4	13.6	13.9	10.7	9.4	2.9	1.4	3.6
Korea	(12.2)	(8.9)	32.8	10.6	12.8	9.7	2.3	0.8	3.7
India	9.4	2.3	18.7	22.2	21.1	17.8	1.5	3.3	2.0
Singapore	22.7	7.9	5.1	11.6	11.2	10.7	4.7	1.1	0.9
Vietnam	3.9	16.9	14.9	11.3	10.5	9.2	2.0	1.7	2.3

Source: AmInvestment Bank/Bloomberg

EXHIBIT 18: OVERWEIGHT SECTORS

Sector	Rationale	BUYs
Automobile	Automobile firms continue to see healthy daily orders, signifying that underlying demand for cars remain robust. Therefore, we do not expect a sharp decline in sales after the tax-free delivery period ends in March 2023. Distributors/automakers' decision to delay new launches also bodes well,providing an additional boost to sales next year. Our 2023 forecast of 600,000 units assumes total industry volume to normalise back to pre-pandemic levels.	Bermaz Auto, MBM Resources, UMW
Banking	Interest rate uptrend enhance the interest income of banks, lower provisions and expected improvement in investment and trading income of banks benefitting from thetapering of MGS yields. Inexpensive valuation with the sector trading at 0.9x FY23F P/BV.	CIMB, RHB, Bank Islam
Manufacturing	LSK's near-term earnings growth will be driven by margin expansion in view of declines in natural latex prices, Cuckoo collaboration and expanding market share in the domestic market. Separately, Ancom will continue to benefit from the geo-political tension between China and Australia and ban of paraquat in Malaysia, Thailand and Brazil in FY23F. Over the medium-to-longer term, the introduction of new active herbicidal ingredients (with higher average selling prices) will further boost FY24F-25F earnings.	Lee Swee Kiat, Ancom Nylex
Media	Recovering business and consumer sentiment. According to MIER, BCI improved by 4% QoQ to 99.8 wheras CSI grew 14% QoQ to 98.4 in 3Q2022. Although below the 100-point optimism threshold, a recovery is underway as economic activities normalise. We also believe ADEX are returning to pre-pandemic levels on the back of stronger travel and event ad spend.	Astro
Oil & Gas	Robust earnings growth from softer but still elevated oil prices against the backdrop of prolonged supply disruptions and past under-investment. Companies with direct exposure to the upstream production and FPSO subsector will be in pole position to ride on the tailwind of bouyant oil prices.	Dialog Group, Yinson, Petronas Gas
Ports	Resilient outlook for the port sector in the region, underpinned by global trade and investment in the manufacturing sector that spur inbound and outbound throughput. Westports has charted a mega port expansion project to capitise on this. Meanwhile, we believe there may be potential hike in tariff for both BiPort and Sabah Ports.	BiPort
Power	Tenaga's rate of return is protected by the government's incentive-based regulatory framework, with higher coal and gas prices passed to consumers.	Tenaga Nasional
Property	In 2023, we expect a gradual recovery in property transaction volumes with improved post-lockdown market sentiments and stronger demand after the reopening of international borders. This is proven by still-resilient sales in 9MCY22 despite HOC's expiry. Notwithstanding various negative headwinds in the property sector (increased building material costs, labour shortages and rising interest rates), we think current depressed valuations have already priced in the downtrend commencing early April 2022. With the gradual easing of building material costs and labour shortages, the current Kuala Lumpur Property Index's price-to-book value (PBV) of 0.4x looks appealing vs. the 10-year average/median of 0.7x and pre-pandemic (2018–2019) average PBV of 0.5x	Sunway, Lagenda, Mah Sing
REITs	We believe FY22F/FY23F will mark the turnaround year for REIT counters after 2 years of hardship, supported by the recovery in retail and hotel segments. With the gradual recovery of retail footfalls and hotel occupancy rates, coupled with potential easing of aggressive rate hikes by Federal Reserve, we are seeing a widening yield spread for REITs against 10-year MGS yield and appeal to yield-seeking investors with high distribution yields of 6%-11%.	Sunway REIT, YTLREIT

Source: AmInvestment Bank

EXHIBIT 19: NEUTRAL SECTORS

Sector	Rationale	BUYs
Construction	Expect slower job flows in the near term and potential downscale in government projects. Nevertheless, we expect recovery in job flows especially smaller projects in East Malaysia and West Peninsular Malaysia. Operating margins may face compressions due to volatile building material costs.	Kimlun, SunCon
Consumer	Expect stronger 4Q results due to seasonal holiday and festive spending, cushioning softer results in the previous quarters. Nonetheless, persistently high commodity prices (high input costs) and rising cost of living (low purchasing power) due to inflation pose downside risks to sector earnings.	Berjaya Food, Mr DIY, Spritzer
Glove	Persistent downwards pressure on average selling price (ASP), worsened by higher operating costs (opex), particularly, energy and labour costs. Furthermore, the strengthening of MYR against US$ dampens near-term investment sentiments. Nevertheless, we believe some price improvements could be seen starting 2QCY23F, driven by customer replenishment cycle.	N/A
Healthcare	IHH will continue its organic growth via bed capacity expansion in 2023, further boosted by continued recovery of foreign and domestic patients, especially in Malaysian and Singaporean markets. Apex and Duopharma are well-positioned to benefit from rising take-up of generic drugs in Malaysia, an ageing population, public health education advancement and steady healthcare expenditure increase. Furthermore, the strengthening of MYR against US$ provides a boost to near-term investment sentiments.	Apex Healthcare IHH Healthcare Duopharma Biotech
Insurance	Slower demand for general and life insurance products in line with the slowdown in global growth rate. Lingering uncertainties surrounding the day 1 impact of FRS 17 implemented on 1 Jan 2023. Potentially higher medical claims on life/family takaful businesses in 2023. Medical expenses to rise due to inflation pressures. Expectation of pricing pressure on fire and motor insurance to progressively shift towards a fully market-based pricing mechanism amid the gradual liberalisation of fire and motor tariffs. Gradual increase in intensity of competition with the potential award of 5 digital insurance licenses in 2023.	Allianz
Plantation	CPO prices are expected to be constrained by higher palm oil supply in Malaysia and Indonesia	N/A
Technology	Moderating semiconductor demand from global recessionary prospects.	Pentamaster
Telecommunications	Higher opex from Digital Nasional's fixed 5G annual wholesale capacity charge on celcos could more than offset escalating data demand and easing competition from the consolidation of Celcom and Digi amid a stagflationary outlook which could depress subscriber affordability.	Telekom Malaysia

Source: AmInvestment Bank

EXHIBIT 20: TOP DIVIDEND PICKS

Company	Sector	Current Share price	CY23F DPS (sen)	Dividend Yield 2023 (%)
Astro Malaysia	Media	0.63	6.5	10.4
YTL Hospitality REIT	REIT	0.97	9.3	9.6
Hektar REIT	REIT	0.77	6.2	8.1
Malakoff	Power	0.69	5.5	8.0
UOAREIT	REIT	1.18	9.3	7.9
RHB Bank	Financial Services	5.72	41.0	7.2
Malayan Banking	Financial Services	8.77	62.1	7.1
Globetronics	Tech	1.04	6.7	6.4
Sunway REIT	REIT	1.60	9.5	5.9
Bermaz Auto	Auto	2.06	12.0	5.8
Pavilion REIT	REIT	1.37	7.7	5.6
IGB REIT	REIT	1.77	10.0	5.5

Source: AmInvestment Bank

EXHIBIT 21: ESG CHAMPIONS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Maybank	Banking	104,174	8.77	9.50	8.3	Low exposure to ESG vulnerable sectors, received a rating of 'AA' in the MSCI ESG Ratings assessment. Consistently included in FSTE4Good indices for 8 straight years which reflects recognition of its sustainability efforts and practices.
Petronas Chemicals Group	Oil & Gas	67,200	8.40	9.94	18.3	Established Net Zero Carbon Emissions 2050 Roadmap which targets to achieve net-zero carbon emissions by 2050. Also committed to transitioning to a new plastic and circular economy. One of the top 10 companies in the FTSE4Good Index and a member of the Dow Jones Sustainability World Index.
Petronas Gas	Oil & Gas	33,638	17.00	19.13	12.5	Already part of the energy transition with natural gas having a low carbon footprint in the power generation process. Adheres to GHG emissions limit of 5 million tonnes of Co2 equivalent together with continuous emissions reduction efforts that include flare reduction and improvement of energy efficiency and plant reliability. Included in FTSE4Good Index and ranked top 26-50% by ESG Ratings in FBM EMAS.
IHH Healthcare	Healthcare	51,075	5.80	6.89	18.8	Reducing water and electricity consumption throughout all operations such as standardising use of lighting & air-conditioning with optimal ranges, sensor faucets and high-efficiency toilets. Operates Malaysia's first green hospital – Pantai Hospital Laguna Merbok, which achieved GBI Silver certification in In 2014, becoming the first purpose-built hospital to incorporate green technologies and design into its construction and operations in Malaysia. Its innovations include green vehicle charging stations, condensate water harvesting, solar hot water for showers and LED façade lighting. All plastic cutlery has been replaced with wooden cutlery at the hospital cafeteria.
Telekom Malaysia	Telco	20,790	5.51	7.08	28.5	Spearheads the National Fiberisation & Connectivity Plan to rural and unreached communities, implementation of energy efficiency and sustainable systems and significant corporate/social contributions.
Westports Holdings	Port	13,026	3.82	3.90	2.1	Adopts initiatives to disclose greenhouse gas (GHG) emissions each year and introduced carbon pricing mechanism in 2020, reduce air pollution, water polution, and noise pollution, minimise long term effect of biodiversity loss (mangarove forests) and ensure that major supply chain partners adhere to all social standards stipulated by Malaysian labour law and the International Labour Organisation. Recognised by APEC Port Services Networtk Green Port 2020 as one of 8 global green ports; secured ISO 45001:2018 and MSOSH OSH Gold Class 2 Award Winner for 2021.
Inari Amertron	Technology	10,010	2.70	3.89	44.1	Highly committed in employee wellbeing and supply chain management. In addition, the group has ongoing investment in environmental technologies such as solar panels to lower carbon intensity. Inari was included into FTSE4GOOD Bursa Malaysia Index since Jun 2020 and is a corporate member of Climate Governance Malaysia to promote sustainability performance.
Sunway	Property	7,895	1.60	2.29	43.1	Targeting zero carbon emmission by 2050 and has incorporated sustainable financing consideration into capital management strategies via the issuance of sustainability-linked bond. Also, been recognised both locally and internationally for sustainability efforts. Listed in FTSE5Good Bursa Malaysai Index since 2016 and ranked by FTSE Russell EGS Ratings in FBM Emas.
Yinson Holdings	Oil & Gas	7,510	2.46	3.89	58.1	Aiming to invest in up to 3GW of renewable energy by 2023 and already has stakes in 330MW solar projects and multiple green technology start-ups. A constituent of the FTSE4Good Index and ranked top 26-50% by ESG Ratings in FBM EMAS.
Sunway REIT	REIT	5,069	1.48	1.73	16.9	Targeting zero carbon emmission by 2050 and has incorporated sustainable financing consideration into capital management strategies via the issuance of sustainability-linked bond. Also, been recognised both locally and internationally for sustainability efforts. Listed in FTSE5Good Bursa Malaysai Index since 2016 and ranked by FTSE Russell EGS Ratings in FBM Emas.
Astro	Media	3,259	0.63	1.02	63.2	Generated 1.6mil kWh of solar energy, reduced GHG emissions by 6% to 23,955 tCO2e and electricity consumption by 7% to 31mil kW while airing over 11,600 hours of public service announcements to amplify community messages in 2021.Included in the top 10% of media companies in 2021 for FTSE4Good Index and top 10% of all companies globally by Sustainalytics.

Source: AmInvestment Bank

EXHIBIT 22: TOP BUY CALLS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
CIMB	Banking	58,780	5.67	6.70	18.2	Attractive valuation at 0.9x FY23F PB/V. Asset quality has improved with lower provisions while cost optimisation and recalibration of its commercial banking business in Indonesia and Thailand are showing results with improved performance.
Tenaga Nasional	Power	54,398	9.50	11.80	24.2	Undemanding FY23F PE of 11x while rate of return of 7.3% is protected under RP3 guidelines.
RHB Bank	Banking	23,573	5.69	7.40	30.1	Valuation remains undemanding, trading at an attractive FY23 PB/V of 0.8x and strong capital position among peers with a CET1 ratio of 16.8%.
Telekom Malaysia	Telco	18,830	5.13	7.08	38.0	Strong earnings growth underpinned by rapid fibre subscriber growth on a nationwide network, rising wholesale revenue from 5G deployment and levelisation of playing field against established players together with improving cost management.
Dialog Group	Oil & Gas	13,663	2.42	3.38	39.7	Improving sector recovery on bullish crude oil prices poised to spur recurring services growth with the group's strategic Pengerang development likely to bring in new investors.
Sunway	Property	7,895	1.60	2.29	43.1	Strong brand recognition established by its highly successful landmark developments and expanding healthcare business, supported by substantive unbilled sales and outstanding order book.
Yinson Holdings	Oil & Gas	7,510	2.46	3.89	58.1	Prominent FPSO player poised for record-high earnings growth banking on strong pipeline of projects in hand. Near-term order book expansion will come from the award of the Agogo project as well as other active tenders.
Bank Islam	Banking	5,610	2.61	3.20	22.6	Attractive valuation of FY23F P/BV of 0.8x with a decent dividend yield of 6%. It remains one of the pure full-fledged financial services providers listed on the exchange.
Sunway REIT	REIT	5,069	1.48	1.73	16.9	Diversified investment portfolio which encompasses retail malls, hotels, offices, a university and hospitals in Malaysia. Strong occupancy rates which have exceeded 90% in retail assets with stable rental income from services and industrial segments.
Duopharma Biotech	Healthcare	1,428	1.50	1.89	26.0	Largest local pharmaceutical manufacturer with strong prospects driven by: (a) rising take-up of generic drugs in Malaysia, (b) upcoming industry's patent cliff in 2022-2026 and booming biosimilars with the company's strength in R&D and state-of-art manufacturing facilities; and (c) ever growing Vitamin C market with its popular brands, Champs and Flavettes.

Source: AmInvestment Bank

EXHIBIT 23: SMALL CAP IDEAS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Apex Healthcare	Healthcare	1,598	3.35	3.73	11	Well-positioned to benefit from an ageing population, public health education advancement and steady healthcare expenditure increase.
MBM Resources	Auto	1,293	3.32	5.10	54	Set to benefit from Perodua's robust sales and continuous effort to widen its product offerings . The newly launched Perodua Alza is one of the key catalyst for the group.
Mah Sing Group	Property	1,420	0.59	0.86	47	Focus on affordable housing developments at strategic locations as well as savvy execution and quick turnaround business model.
Lagenda Properties	Property	1,005	1.20	1.64	37	Focus on underserved landed affordable housing development in second-tier states with large populations of B40 and M40 income groups.
Ancom Nylex	Manufacturing	889	0.95	1.30	37	Benefit from the ban of paraquat in Malaysia, Thailand and Brazil in FY23F. Over the medium-to-longer term, the introduction of new active herbicidal ingredients will further boost FY24F-25F earnings.
UOAREIT	REIT	790	1.17	1.42	21	Strategically located properties which are well-connected in neighbourhoods, coupled with diverse tenant mix which could mitigate potential rental collection risk during economic downturns.
Perak Transit	Transportation & Logistics	892	1.25	1.62	30	Robust recurring earnings from integrated public transport terminals, while anticipating further growth by riding on the tailwinds of post-pandemic recovery as well as expansions in Bidor and Tronoh.
Spritzer	Consumer	439	2.09	2.70	29	Continues to strengthen its domestic market share, supported by strong cash flow position and sustainable demand for natural mineral/drinking water. FY23F earnings growth also will be helped by softening crude oil prices.
Deleum	Oil & Gas	359	0.90	1.15	28	Resilient earnings growth on stronger orderbook with additional upside from the lifting of Petronas' tender suspension on its anti-corrosion operations. 3QFY22 net cash already represents 58% of the current market cap.
Lee Swee Kiat	Manufacturing	105	0.630	0.90	43	Near-term earnings growth will be driven by Cuckoo collaboration and expanding domestic market share. Also, a proxy to long-term positive structural trends: (a) increasing consumer preference for latex mattresses; (b) post-pandemic health awareness; (c) increasing affluence; and (d) ageing Malaysian population.

Source: AmInvestment Bank

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