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ESG STRATEGY

ESG has direct impact on revenue, cost and risks

1,600

End-2022 FBM KLCI target (pts)
(Maintained)

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Rationale for report: ESG update

Highlights

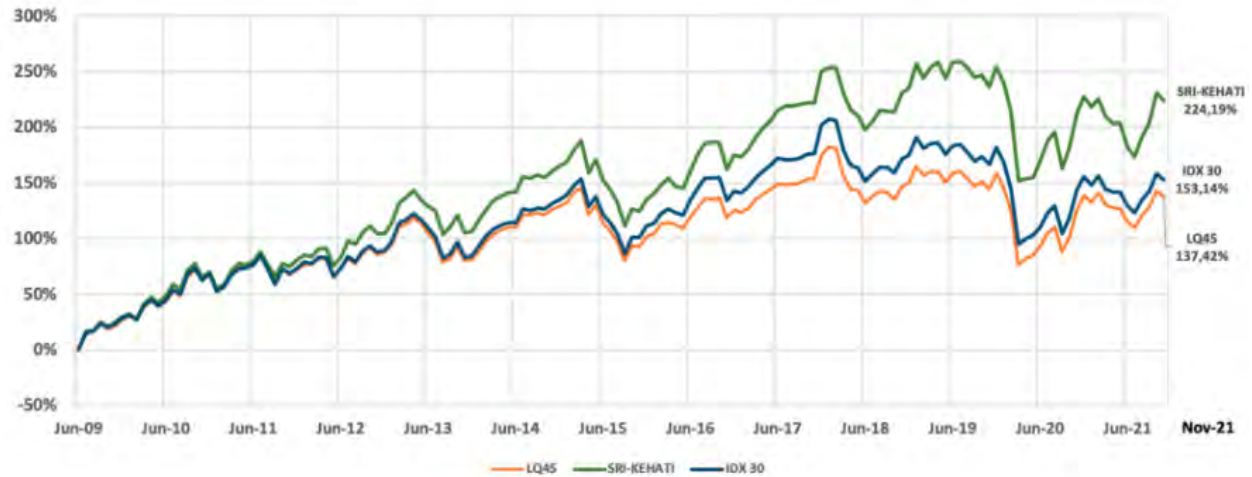
- We recently organized a webinar titled “ESG & Financial Market Performance – How Will It Affect Malaysia?”. During the event, Professor Geoffrey Williams of Malaysia University of Science and Technology (MUST) shared his insights on ESG and the financial market performance. MUST University was established in collaboration with the Massachusetts Institute of Technology (MIT).
- A graduate of the University of Cambridge and an economist, Williams created a green index called the Sustainable and Responsible Investment (SRI)-Kehati Stock Index. The index was launched on 8 June 2009 and published in collaboration with the Indonesia Stock Exchange (IDX). See Exhibit 2 for SRI-Kehati Sustainability Index’s performance against its benchmarks.
- Here are the key takeaways from the webinar:
 - Sustainable and Responsible Investing (SRI) asset under management (AUM) has grown from US\$22.9 trillion in 2016 to approximately US\$35.3 trillion as of 2020, according to *Global Sustainable Investment Review 2020*. More than half of it are in the US, followed by Europe, Canada and Japan.
 - Meanwhile, Bloomberg Intelligence reported that ESG assets may hit US\$53 trillion by 2025, making up a third of global AUM.
 - Islamic financial assets form part of ESG investing and the total value is estimated to be around US\$2.5bil.
 - Williams believes that the drivers behind the growth in SRI AUM are investor sentiment, mandates from major pension funds in many countries globally, government policies as well as regulations.
 - ESG can affect financial performance in three ways – increasing revenues, decreasing costs and reducing risks. In terms of revenue enhancement, environmentally friendly products and socially friendly brands will attract more consumers hence improve sales volume. Costs can also be contained or lowered as good ESG practices will potentially lead to lower staff turnover while strengthening the procurement and auditing processes. Lastly, the risks of boycotting, legal exposure and suspension will be reduced by having good ESG practices (see Exhibit 3).
 - One way Malaysia can improve the global perspective on the country’s ESG is by having more data and analyses on ESG. According to Williams, many companies are still neglecting data such as carbon footprint. He also thinks that equity analysts’ specialization and development in the ESG field is vital to improve the ESG perception of Malaysian corporates.
 - With regards to inconsistencies among different ESG rating agencies, Williams said that this could be due to the different methodologies used while the weightage assigned could vary amongst the agencies. Also, different countries have different data and that could add to the different standards among the agencies.
- **Our view.** We share Williams’ views. In our strategy report published on 3 Jan 2022, we highlighted three risks to the equity market in which two are ESG risks. The social or ESG “S” risk was highlighted in the webinar as well. In 2022, we see one of the risks to Malaysia’s equity market is the possibility of bans from the US Customs and Border Protection (CBP) on products manufactured by our public listed companies. Another risk is the environment of ESG “E” risk in the form of climate change. A recurrence of the recent bad weather-induced floods will weaken earnings.
- **We maintain our end-2022 FBM KLCI of 1,600 points.** Our FBM KLCI target is based on 15.6x forward PE to 2022 earnings forecasts. The 15.6x forward PE is pegged at a valuation of -0.5 standard deviation (SD). The discount is to reflect the negative earnings growth projected for total FBM KLCI component earnings in 2022 and a higher stamp duty for share trading transactions which will affect trading volume. For 2022, we expect FBM KLCI earnings to decline by 3.5% due to a lower earnings projection for the glove and plantation sectors.

EXHIBIT 1: TOP 10 BUYS

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		P/E (x)	
							FY21F	FY22F	FY21F	FY22F
Malayan Banking	BUY	8.34	9.90	18.7	95,581.0	Dec	68.3	74.4	12.2	11.2
Tenaga Nasional	BUY	9.08	12.00	32.2	51,243.9	Aug	82.3	80.9	11.0	11.2
Mr DIY Group (M)	BUY	3.77	4.17	10.6	23,662.8	Dec	6.5	9.4	58.2	40.0
RHB Bank	BUY	5.46	6.90	26.4	21,894.8	Dec	67.8	75.8	8.0	7.2
Telekom Malaysia	BUY	5.28	7.08	34.1	19,842.2	Dec	29.5	29.9	17.9	17.7
Dialog Group	BUY	2.70	3.75	38.9	15,223.4	Jun	9.2	10.7	29.3	25.3
Inari Amertron	BUY	3.75	4.78	27.5	12,507.8	Jun	9.9	11.4	37.8	32.8
MPI	BUY	47.90	59.50	24.2	9,527.1	Jun	110.6	185.9	43.3	25.8
Bermaz Auto	BUY	1.69	2.00	18.3	1,971.3	Apr	11.5	11.7	14.7	14.5
Apex Healthcare	BUY	2.59	3.33	28.7	1,215.2	Dec	10.5	14.5	24.6	17.9

Source: AmInvestment Bank

EXHIBIT 2: SRI-KEHATI INDEX PERFORMANCE



Source: kehati.or.id

EXHIBIT 3: HOW DOES ESG AFFECT FINANCIAL PERFORMANCE?



Source: Williams Business Consultancy Sdn. Bhd.

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