



AmInvestment Bank

Market report

1 Mar 2021

STRATEGY

Malaysia: Rising bond yields to hurt equity valuations

1,695

End-2021 FBM KLCI Target (pts)

(Downgraded)

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

Rationale for report: Market update/Results round-up

Investment Highlights

We downgrade our end-2021 FBM KLCI target to 1,695 pts

- We downgrade our end-2021 FBM KLCI target to 1,695 pts based on 16x our 2021F earnings projection (+27.1%), which is at a discount to its 5-year historical average of 18x (vs. 1,770 pts based on 17.5x our 2021F earnings projection previously).
- The discount is to: (1) mitigate the distortion arising from earnings spikes from glove makers, i.e. Top Glove, Hartalega and Supermax in 2021F due to the abnormally high glove selling prices that are not recurring; and (2) reflect the rapid rise in bond yields globally, led by US Treasuries in recent weeks (while it is debatable if it is a tell-tale sign of economic reflation or runaway inflation, or both). Bond yields typically have an inverse correlation with equity valuations.
- We continue to believe that the recovery-focused investment theme from end-2020 will extend well into 2021F. Investors will continue to accumulate recovery plays, i.e. fundamentally strong names in the banking, power, oil & gas, consumer, REIT and transport sectors, while lightening their positions in pandemic plays, i.e. glove makers and selected excessively priced technology names.
- The fundamentals of banking stocks should improve in line with the economic recovery. While clarity is still lacking with regards to the extent of the irreversible damage the pandemic has inflicted on businesses, and hence asset quality of banks, we take comfort that banks have started to make pre-emptive provisions in the form of management overlays, in addition to provisions based on changes to macroeconomic factors.
- Other key sectors that are poised to benefit from the recovery are power (increased demand for electricity, particularly, from the commercial and industrial segments), oil & gas (higher crude oil prices), seaport (higher throughput on the recovery in global trade), airport (the eventual reopening of borders), consumer (cash handouts and recovery in the job market to sustain consumption) and REIT (reduced rental rebates, recovery in footfall and occupancy). Meanwhile, while the availability of effective vaccines has greatly brightened the recovery prospects of the air travel sector, we remain mindful of the need for airlines to recapitalise its balance sheet after months of massive losses during the pandemic.
- We acknowledge that our market has been flying under the radar of foreign investors due to Malaysia's insignificant and shrinking weighting in MSCI Emerging Markets Index, the market's inherently high valuations, coupled with the lack of tech start-up listing. We expect domestic liquidity (from both institutional and retail investors) to remain robust in 2021F and shall continue to neutralise foreign selling if any, as it did in 2020.

Corporate Malaysia delivered in 4Q2020, as per the previous quarter

- FBM KLCI component stocks delivered a set of 4Q2020 results that was fairly consistent with the previous quarter, as the market seemed to have come to grips with the impact of the pandemic on corporate earnings. The 4Q2020 results were generally resilient with 33%, 58% and 8% beating, meeting and missing our projections respectively. This was comparable with 33%, 54% and 13% for "above", "within" and "below" respectively in 3Q2020 (Exhibit 2).
- As against the market consensus, the numbers came in more in line (less surprises to the upside) as compared with the previous quarter with "above", "within" and "below" at 34%, 38% and 28% respectively, vs. 45%, 31% and 24% in 3Q2020 (Exhibit 2).

- Eight FBM KLCI component stocks under our coverage beat our projections, namely, **Public Bank** (higher net interest income and non-interest income), **IHH Healthcare** (recovery across geographical segments), **Axiata Group** (lower operating expenditure), **Sime Darby Plantation** (stronger downstream profits), **KL Kepong** and **IOI Corp** (higher CPO selling prices realised), and **Top Glove** and **Hartalega** (higher glove selling prices).
- On the other hand, two FBM KLCI component stocks under our coverage missed our projections, namely, **CIMB Group** (higher provisions) and **Nestle (Malaysia)** (lower out-of-home sales, higher Covid-19 SOP-related costs).

Our top buys

- Sector-wise, we are **OVERWEIGHT** on **automobile, consumer, financial, healthcare, oil & gas, power, REIT, telco and transport & logistics** (Exhibit 4). Our top picks reflect names that are likely to benefit from the recovery of the domestic and global economies, i.e. **Maybank, Tenaga Nasional, CIMB Group, Axiata Group, RHB Bank, Westports, Malaysia Airports, IGB REIT, Hibiscus Petroleum** and **Perak Transit** (Exhibit 3).

Exhibit 1: Market Earnings Projection

| | Weighting (%) | EPS Growth (%) | | | PE (x) | | |
|----------------------------|------------------|----------------|--------|--------|--------|--------|--------|
| | | 2020 A | 2021 F | 2022 F | 2020 A | 2021 F | 2022 F |
| Stock Universe | | 7.2 | 44.8 | (5.8) | 21.4 | 15.4 | 15.3 |
| FBM KLCI | | (4.3) | 27.1 | 3.6 | 19.6 | 14.9 | 15.2 |
| Automobile | 2.2 | 4.8 | 12.0 | 9.0 | 15.3 | 13.7 | 12.5 |
| Building Material | 0.4 | 6.2 | nm | 17.0 | nm | 16.8 | 14.4 |
| Construction | 1.6 | (31.8) | 41.1 | (7.0) | 19.7 | 14.0 | 15.0 |
| Consumer | 7.9 | (0.1) | 30.4 | 16.7 | 37.4 | 28.7 | 24.6 |
| Financial Services | 26.5 | (20.2) | 27.2 | 10.3 | 14.1 | 11.1 | 10.0 |
| Glove | 7.2 | >100.0 | >100.0 | (64.4) | 15.0 | 7.0 | 19.7 |
| Healthcare | 4.2 | (25.5) | 48.7 | 18.1 | 57.2 | 38.5 | 32.6 |
| Manufacturing | 1.3 | (4.0) | 38.3 | 18.0 | 24.6 | 17.8 | 15.0 |
| Media | 0.5 | (11.5) | (6.7) | (1.8) | 10.9 | 11.7 | 11.9 |
| Oil & Gas | 10.9 | 2.9 | 14.7 | 12.5 | 21.8 | 19.0 | 16.9 |
| Plantation | 8.6 | >100.0 | 27.5 | 4.7 | 34.6 | 27.1 | 25.9 |
| Power | 5.6 | (21.7) | 22.0 | 3.5 | 15.6 | 12.8 | 12.4 |
| Property | 3.0 | (45.1) | 59.9 | 24.3 | 23.8 | 14.9 | 12.0 |
| REITs | 1.1 | (13.4) | (2.3) | 15.2 | 19.6 | 20.0 | 17.4 |
| Stock Exchange | 0.6 | >100.0 | (15.8) | (12.0) | 19.5 | 23.1 | 26.2 |
| Technology | 2.8 | (2.1) | 46.2 | 20.3 | 62.4 | 42.7 | 35.5 |
| Telecommunication | 10.2 | (10.1) | 6.6 | 9.8 | 27.3 | 25.6 | 23.3 |
| Transportation & Logistics | 5.1 | nm | nm | >100.0 | nm | 29.2 | 14.2 |

Source: AmInvestment Bank

Exhibit 2: Quarterly Performance of FBM KLCI Component Stocks

| COMPANY | 4Q 2020 | | | | | | 3Q 2020 | | | | | |
|--------------------------------|------------------------|-----------|----------|------------------|-----------|-----------|------------------------|-----------|-----------|------------------|-----------|-----------|
| | Versus AmBank Research | | | Versus Consensus | | | Versus AmBank Research | | | Versus Consensus | | |
| | Above | Within | Below | Above | Within | Below | Above | Within | Below | Above | Within | Below |
| Sime Darby Bhd | | 1 | | 1 | | | | 1 | | | 1 | |
| CIMB Group Holdings Bhd | | | 1 | | | 1 | | | 1 | | | 1 |
| Hong Leong Bank Bhd | | 1 | | | 1 | | | 1 | | | 1 | |
| Hong Leong Financial Group Bhd | | 1 | | | 1 | | | 1 | | | 1 | |
| Malayan Banking Bhd | | 1 | | | 1 | | | 1 | | 1 | | |
| Public Bank Bhd | 1 | | | 1 | | | 1 | | | 1 | | |
| RHB Bank Bhd | | 1 | | | 1 | | 1 | | | 1 | | |
| Supermax Corp Bhd# | | 0 | | 1 | | | | 0 | | | | 1 |
| HAP Seng Consolidated Bhd | | 0 | | | 0 | | | 0 | | | 0 | |
| Nestle Malaysia Bhd | | | 1 | | 1 | | | | 1 | | | 1 |
| PPB Group Bhd | | 1 | | | 1 | | | 0 | | 1 | | |
| IHH Healthcare Bhd | 1 | | | 1 | | | | 1 | | | 1 | |
| Dialog Group Bhd | | 1 | | | 1 | | | 1 | | | 1 | |
| Petronas Chemicals Group Bhd | | 1 | | | 1 | | | 1 | | | 1 | |
| Petronas Gas Bhd | | 1 | | | 1 | | | 1 | | 1 | | |
| Petronas Dagangan Bhd | | 0 | | | | 1 | | 0 | | | 1 | |
| IOI Corp Bhd | 1 | | | | 1 | | | 1 | | 1 | | |
| Kuala Lumpur Kepong Bhd | 1 | | | 1 | | | | | 1 | | | 1 |
| Sime Darby Plantation Bhd | 1 | | | | | 1 | 1 | | | 1 | | |
| Telekom Malaysia Bhd | | 1 | | | 1 | | | 1 | | 1 | | |
| Tenaga Nasional Bhd | | 1 | | | | 1 | | 1 | | | | 1 |
| Axiata Group Bhd | 1 | | | 1 | | | 1 | | | 1 | | |
| DiGi.Com Bhd | | 1 | | | | 1 | | 1 | | | | 1 |
| Maxis Bhd | | 1 | | | | 1 | | 1 | | | 1 | |
| MISC Bhd | | 1 | | 1 | | | 1 | | | 1 | | |
| Hartalega Holdings Bhd | 1 | | | 1 | | | 1 | | | | 1 | |
| Top Glove Corp Bhd | 1 | | | 1 | | | 1 | | | 1 | | |
| Press Metal Aluminium | | 0 | | 1 | | | 1 | | | 1 | | |
| Genting Malaysia Bhd | | 0 | | | | 1 | | 0 | | | | 1 |
| Genting Bhd | | 0 | | | | 1 | | 0 | | 1 | | |
| Total (no.) | 8 | 14 | 2 | 10 | 11 | 8 | 8 | 13 | 3 | 13 | 9 | 7 |
| Total (%) | 33 | 58 | 8 | 34 | 38 | 28 | 33 | 54 | 13 | 45 | 31 | 24 |

"0" denotes no coverage or coverage suspension, or results announcement postponed

3Q 2020 data of KLCCP Stapled Group

Source: AmInvestment Bank

Exhibit 3: Top Buys

| | Recomm. | Price (RM) | FV (RM) | Upside (%) | Mkt Cap (RMmil) | FYE | EPS (sen) | | EPS growth (%) | | P/E (x) | | P/B* | ROE* | NDPS* | DY* |
|----------------------------|---------|---------------|------------|---------------|--------------------|-----|-----------|-------|----------------|-------|---------|-------|------|------|-------|-----|
| | | | | | | | FY21F | FY22F | FY21F | FY22F | FY21F | FY22F | | | | |
| Malayan Banking | BUY | 8.03 | 9.80 | 22.0 | 90,268.1 | Dec | 69.9 | 77.4 | 18.1 | 10.8 | 11.5 | 10.4 | 1.0 | 10.0 | 60.4 | 7.5 |
| Tenaga Nasional | BUY | 10.10 | 12.60 | 24.8 | 57,000.4 | Aug | 81.1 | 84.1 | 18.6 | 3.8 | 12.5 | 12.0 | 0.9 | 8.0 | 42.1 | 4.2 |
| CIMB Group | BUY | 4.33 | 5.50 | 27.0 | 42,966.4 | Dec | 43.8 | 54.1 | 240.2 | 23.5 | 9.9 | 8.0 | 0.7 | 9.0 | 27.0 | 6.2 |
| Axiata Group | BUY | 3.55 | 4.50 | 26.8 | 32,551.8 | Dec | 10.8 | 13.8 | 14.6 | 27.5 | 32.8 | 25.8 | 1.9 | 7.3 | 9.5 | 2.7 |
| RHB Bank | BUY | 5.42 | 6.80 | 25.5 | 21,734.4 | Dec | 65.1 | 73.5 | 19.4 | 13.0 | 8.3 | 7.4 | 0.7 | 10.0 | 36.8 | 6.8 |
| Westports Holdings | BUY | 4.08 | 4.92 | 20.6 | 13,912.8 | Dec | 20.2 | 21.4 | 3.2 | 6.1 | 20.2 | 19.1 | 2.0 | 11.5 | 16.1 | 3.9 |
| Malaysia Airports Holdings | BUY | 5.99 | 6.65 | 11.0 | 9,938.6 | Dec | (19.2) | 30.2 | nm | nm | nm | 19.8 | 1.1 | 6.2 | 0.0 | 0.0 |
| IGB REIT | BUY | 1.69 | 2.03 | 20.1 | 6,017.3 | Dec | 8.3 | 9.1 | 13.1 | 10.0 | 20.3 | 18.5 | 1.5 | 6.2 | 9.1 | 5.4 |
| Hibiscus Petroleum | BUY | 0.69 | 0.79 | 15.3 | 1,184.7 | Jun | 2.8 | 3.1 | (38.8) | 13.8 | 24.9 | 21.9 | 0.9 | 4.9 | 1.0 | 1.5 |
| Perak Transit | BUY | 0.83 | 1.25 | 50.6 | 535.5 | Dec | 7.6 | 8.4 | 17.3 | 9.8 | 10.9 | 9.9 | 1.1 | 10.9 | 2.9 | 3.5 |

* FY22F

Source: AmInvestment Bank

Exhibit 4: Sector Weighting

| | Sector | Rationale | Top Pick(s) |
|-------------|----------------------------|---|--|
| VERWEIGHT | Automobile & Consumer | Consumption underpinned by cash handouts and recovery in the job market | MBM Resources, Mr D.I.Y. |
| | Financial | A proxy to economic recovery, pre-emptive pandemic-related provisions | Maybank, RHB Bank, CIMB, Hong Leong Bank |
| | Healthcare | Aging population, rising affluence and longer life expectancy | IHH Healthcare |
| | Oil & Gas | Recovery in demand while OPEC+ continues to exercise production restraint | Dialog, Yinson, Hibiscus |
| | Power | Recovery in electricity demand, especially commercial and industrial | Tenaga |
| | REIT | Reduced rental rebates, recovering footfall and occupancy | IGB REIT, Sunway REIT |
| | Telco | M&A opportunities | Axiata, TM |
| | Transportation & Logistics | Recovery in mobility and global trade | Westport, Malaysia Airports, MMC Corp, Perak Transit |
| NEUTRAL | Building Material | Firmer commodity prices, rational competition in local cement market | Malayan Cement |
| | Glove | New capacity comes online when demand starts to ease as Covid-19 infections taper off | N/A |
| | Media | Digital disruption, cushioned by M&A opportunities including privatisation | N/A |
| | Plantation | Downside to CPO prices as production picks up | KL Kepong |
| | Property | Oversupply, high household debt, tight bank credit, but share price downside capped by depressed valuations | Sunway, Mah Sing |
| | Technology | Digitalisation of economy, 5G rollout, but valuations stretched | N/A |
| UNDERWEIGHT | Construction | Infrastructure spending constrained by high national debt | N/A |

Source: AmInvestment Bank

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.