



AmInvestment Bank

Market report  
2 Dec 2019

# STRATEGY

Malaysia: Slim chance for a December pop

1,570

End-2019 FBM KLCI Target (pts)

(Downgraded)

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

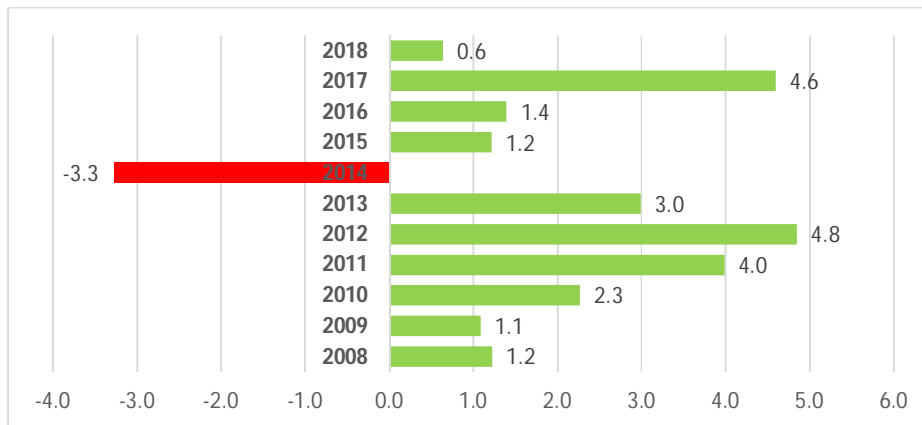
Rationale for report: Results round-up

## Investment Highlights

### We downgrade our end-2019 FBM KLCI target to 1,570pts

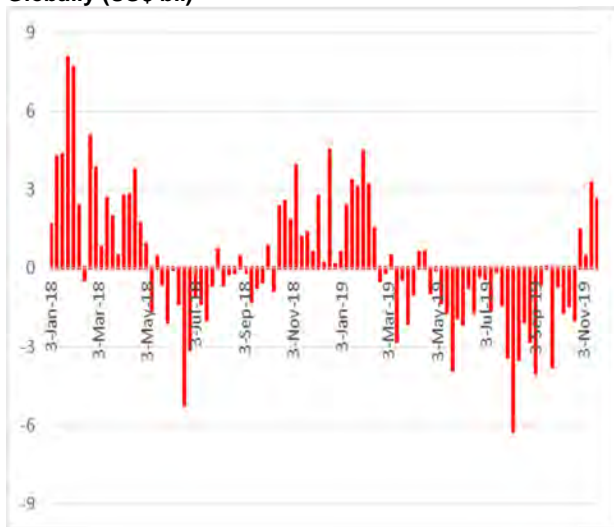
- We downgrade our end-2019 FBM KLCI target to 1,570pts based on 16.5x our revised 2020F earnings projection, from 1,680pts based on 17x our 2020F earnings projection previously.
- The just-concluded 3Q2019 quarterly results showed marginal improvement over the previous quarter. While none of the FBM KLCI component stocks under our coverage actually beat our projections (as in the previous quarter), those that missed our forecasts were actually reduced to seven (from eight previously) (Exhibit 4). Having reflected earnings changes, we revise down our projected FBM KLCI growth rate in 2019F to -5.5% (from -4.9% prior to the results) and in 2020F to 7.5% (from 7.9% previously).
- Having said that, we acknowledge that, historically, December has been a good month for the local stock market with the FBM KLCI rising during nine occasions over the last 10 years with gains ranging from 0.6% to 4.8% (Exhibit 1). However, this time around, we believe year-end window dressing activities, if any at all, are likely to be weighed down by the subdued sentiment towards the local stock market, which has been made worse by the recent de-rating of the national utility company Tenaga (that carries close of a 10% weighting in FBM KLCI) on the heels of an additional RM4bil tax assessments received from the Inland Revenue Board. At 16.5x, the FBM KLCI's valuation is at a 1.5x multiple discount to its 5-year historical average of about 18x.
- We believe the market will do better in 2020 amidst low expectations. **We are projecting an end-2020 FBM KLCI target of 1,670pts based on 17.5x our revised 2020F earnings projection** (which is still at a 0.5x multiple discount to its 5-year historical average of about 18x). The catalysts for a market rerating in 2020 could potentially come from:
  - Increased appetite for risk assets, particularly, emerging market (EM) equities including Malaysian equities (EM equities have already attracted net inflows over the last four weeks, although this has yet to spill over to Malaysian equities, see Exhibits 2 & 3), conditional upon:
    - the US Fed is to maintain its narrative of not tightening monetary policy anytime soon (which shall keep the dollar's strength in check);
    - the sustained high equity valuations in developed markets (DM) (as manifested in repeat record closing for major indices such as the Dow Jones, S&P 500 and Nasdaq), prompting investors to look elsewhere for opportunities, including EM equities;
    - the US-China trade tensions are to ease, or de-escalate at the least; and
    - the global recession risk is to continue to moderate;
  - A change in Malaysia's perceived country risk premium following significant political events;
  - A play on the ringgit, driven by events such as:
    - FTSE Russell is to retain Malaysia in the World Government Bond Index during its next half-yearly review in March 2020;
    - a steep rise in crude oil prices (Malaysia is a net exporter of oil & gas); and
    - an end to the easing cycle with only another 25bps cut in the overnight policy rate by Bank Negara in 2020.

Exhibit 1: FBM KLCI Performance in the Month of December (%)



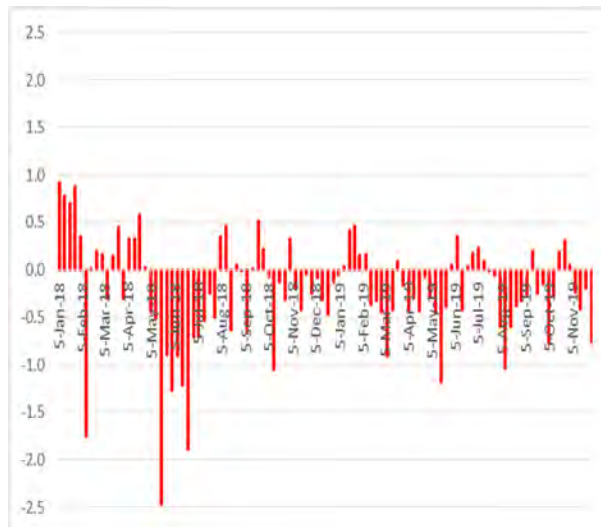
Source: AmInvestment Bank, Bloomberg

Exhibit 2: Weekly Fund Flows — EM Equity Funds Globally (US\$ bil)



Source: EPFR Global, AmInvestment Bank

Exhibit 3: Foreign Flows — Equity, Malaysia (RM bil)



Source: EPFR Global, AmInvestment Bank

**No excitement in 3Q2019 results**

- FBM KLCI component stocks delivered a set of unexciting 3Q2019 results, with 0%, 70% and 30% beating, meeting and missing our projections respectively. This compares with 0%, 62% and 38% for "above", "within" and "below" respectively in 2Q2019.
- As against the market consensus, the numbers looked similarly subdued, with "above", "within" and "below" at 3%, 69% and 28% respectively, vs. 10%, 52% and 38% in 2Q2019 (Exhibit 4).
- None of the FBM KLCI component stocks under our coverage actually beat our projections. If there was any bright spot at all, it was that all the FBM KLCI weighted banks actually met expectations.
- On the other hand, margin compression resulted in earnings disappointments from: (1) planters, i.e. Sime Darby Plantation and KL Kepong (weak CPO prices but rising production cost); (2) glove producers, i.e. Top Glove and Hartalega (heightened competition on the heels of increased capacity in the industry); and (3) aluminium smelter, i.e. Press Metal (weak aluminium selling price but high cost of input alumina).
- Meanwhile, regional telco Axiata missed forecasts due to heavier subscriber loss and higher operation cost, while IHH disappointed due to higher depreciation and finance cost, largely arising from the adoption of the MFRS 16.

## Exhibit 4: Quarterly Performance of FBM KLCI Component Stocks

Sector	Stock	3Q 2019						2Q 2019					
		Versus AmBank Research			Versus Consensus			Versus AmBank Research			Versus Consensus		
		Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
SIME MK	Sime Darby Bhd		1			1			1			1	
CIMB MK	CIMB		1			1			1			1	
HLBK MK	Hong Leong Bank		1			1			1			1	
HLFG MK	HL Financial Group		1			1			1			1	
MAY MK	Maybank		1			1			1			1	
PBK MK	Public Bank		1			1			1			1	
RHBBANK MK	RHB Bank		1			1			1			1	
AMM MK	AMMB Holdings		0			1			0			1	
HAP MK	Hap Seng Consolidated		0			0			0			0	
NESZ MK	Nestle		1			1				1		1	
PEP MK	PPB Group Bhd		0			1			0			1	
IHH MK	IHH Healthcare			1			1			1		1	
DLG MK	Dialog		1			1			1	1			
PCHEM MK	Petronas Chemical		1			1			1		1		
PTG MK	Petronas Gas		1			1			1		1		
PETD MK	Petronas Dagangan		0				1		0			1	
IOI MK	IOI Corp		1			1				1		1	
KLK MK	KL Kepong			1		1			1			1	
SDPL MK	Sime Darby Plantation			1			1			1		1	
MAHB MK	Malaysia Airports Holdings		0		1				0	1			
TNB MK	Tenaga Nasional		1			1				1		1	
AXIATA MK	AXIATA			1			1		0			1	
DIGI MK	DiGi		1				1		0			1	
MAXIS MK	MAXIS		1			1			1			1	
MISC MK	MISC		1			1			1			1	
HART MK	Hartalega Holdings			1			1			1		1	
TOPG MK	Top Glove Corp			1			1			1		1	
PMAH MK	Press Metal			1			1			1		1	
GENM MK	Genting Malaysia		0			1			0		1		
GENT MK	Genting Bhd		0			1			0			1	
<b>TOTAL</b>	<b>Total</b>	<b>0</b>	<b>16</b>	<b>7</b>	<b>1</b>	<b>20</b>	<b>8</b>	<b>0</b>	<b>13</b>	<b>8</b>	<b>3</b>	<b>15</b>	<b>11</b>
	<b>Total (%)</b>	<b>0</b>	<b>70</b>	<b>30</b>	<b>3</b>	<b>69</b>	<b>28</b>	<b>0</b>	<b>62</b>	<b>38</b>	<b>10</b>	<b>52</b>	<b>38</b>

"0" denotes no coverage or coverage suspension

Source: AmInvestment Bank

## Exhibit 5: Sector Weighting

OVERWEIGHT	
<b>Banks</b>	Bargain valuations, sustained loan growth, stable NPL
<b>Consumer</b>	Rising consumerism, spending on consumer discretionary goods
<b>Oil &amp; Gas</b>	Geopolitical tensions to buoy crude oil prices
<b>Utilities</b>	Defensive play in low interest rate environment, Tenaga's demerger
NEUTRAL	
<b>Automotive</b>	Proton's turnaround and Perodua's dominance, offset by weaker sales of non-national cars
<b>Glove</b>	Competition on increased industry capacity, but potential trade war beneficiary given tariff advantage over Chinese exporters in the US market
<b>Media</b>	Disruption by digital/social media, but depressed share prices may attract M&As, including privatization
<b>Electronic Manufacturing Services</b>	Strong growth prospects for high-tech household appliances, but in the price
<b>Private Healthcare</b>	Strong growth prospects driven by aging population and rising affluence, but in the price
<b>Plantation</b>	Marginal increase in CPO prices
<b>Property</b>	Muted prospects, but depressed valuations cap downside
<b>REITS</b>	Defensive play in low interest rate environment, offset by e-commerce's encroachment
<b>Technology</b>	US-China trade/tech war, delay in the 5G rollout
<b>Transport</b>	Slowing global growth, intense competition in the express delivery and low-cost air travel segments, but ports benefit from trade diversion
<b>Telecommunications</b>	Sector consolidation falls through, competition remains
UNDERWEIGHT	
<b>Building Materials</b>	Weak local construction and property sectors, slowing global growth, elevated input costs on supply disruptions
<b>Construction</b>	Cutbacks in public infrastructure spending, high valuations

### Our Top Buys

- Amidst the lingering US-China trade tensions and a softening global economic outlook, we anchor our stock selection on:
  - Value stocks – Malayan Banking** (discount to historical P/B ratio, dividend yield of 6–7% p.a.), **RHB Bank** (0.8–0.9x P/B ratio) and **Serba Dinamik** (steep discount P/E valuation to peer Dialog Group);
  - Defensive plays in a low interest rate environment – Tenaga Nasional** (also potential rerating via a demerger exercise);
  - Beneficiaries of the US-China trade war/trade diversion – Kossan** (tariff advantage over Chinese exporters in the US market) and **Westports** and **MMC Corp** (trade diversion from the US-China trade war, as reflected in the increased throughput at the ports recently); and
  - Domestic consumption proxies – DRB-Hicom** (also Proton's turnaround), **MBM Resources** (also Perodua's dominance in the local auto sector) and **Berjaya Food** (consumer lifestyle and experience) (Exhibit 6).

### Exhibit 6: Top Buys

	Recomm.	Price	FV	Upside	Mkt Cap	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS*	DY*
		(RM)	(RM)	(%)	(RMmil)		FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	(x)	(%)	(sen)	(%)
Malayan Banking	BUY	8.53	9.80	14.9	94,980.5	Dec	71.6	75.5	-4.2	5.5	11.9	11.3	1.2	10.4	55.1	6.5
Tenaga Nasional	BUY	13.16	15.80	20.1	74,269.8	Aug	97.5	98.6	1.4	1.1	13.5	13.4	1.2	9.3	48.8	3.7
RHB Bank	BUY	5.66	6.50	14.8	22,696.6	Dec	59.3	62.7	3.1	5.7	9.5	9.0	0.9	9.9	23.7	4.2
Westports Holdings	BUY	4.17	4.81	15.3	14,219.7	Dec	19.7	20.9	24.8	6.3	21.2	19.9	4.0	22.1	14.6	3.5
Kossan Rubber	BUY	4.18	4.65	11.1	5,346.0	Dec	17.4	21.1	11.6	21.1	24.0	19.8	3.6	16.0	5.5	1.3
Serba Dinamik	BUY	4.36	6.50	49.1	6,402.7	Dec	32.4	37.0	22.6	14.3	13.5	11.8	2.6	21.0	9.8	2.2
DRB-Hicom#	BUY	2.31	3.18	37.7	4,465.8	Mar	6.9	11.1	-16.2	59.8	33.3	20.9	0.7	2.0	3.0	1.3
MMC Corporation	BUY	1.00	1.58	58.6	3,029.8	Dec	8.3	9.1	61.2	8.7	11.9	11.0	0.3	2.6	4.6	4.6
MBM Resources	BUY	3.82	5.54	45.0	1,492.5	Dec	49.9	50.3	11.8	0.8	7.6	7.6	0.9	11.9	20.0	5.2
Berjaya Food	BUY	1.42	1.57	10.6	509.2	Jun	6.3	5.6	13.7	-11.1	22.5	25.3	1.5	6.5	4.0	2.8

\* FY19F

#FY19F Refers to FY20F, FY20F refers to FY21F

**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.