



AmInvestment Bank

Market report

3 Mar 2020

STRATEGY

Malaysia: Navigating Covid-19 and political uncertainty

1,480

End-2020 FBM KLCI Target (pts)

(Downgraded)

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Rationale for report: Market update/Results Round-up

Investment Highlights

We downgrade our end-2020 FBM KLCI target to 1,480pts

- We downgrade our end-2020 FBM KLCI target to 1,480pts based on 16.5x our revised 2020F earnings projection, from 1,670pts based on 17.5x our previous 2020F earnings projection.
- The just-concluded 4Q2019 quarterly results showed a slight improvement over the previous quarter (but this is literally history given the highly challenging quarter or quarters ahead on the back of the Covid-19 outbreak and political uncertainty locally). Two FBM KLCI component stocks under our coverage actually beat our projections (vs. none in the previous quarter), and those that missed our forecasts declined to six (from seven previously) (Exhibit 1).
- Having reflected the weaker earnings outlook due to the Covid-19 outbreak (including imputing a second 25bps overnight policy rate cut for 2020), we reduce our 2020 FBM KLCI earnings by 5.5% which brings our 2020 FBM KLCI earnings growth projection to only 5.1% from 7.6% previously. While looking decent, the 5.1% earnings growth comes from a low base in 2019 where earnings actually contracted by 8.3%.
- In summary, the downgrade in our end-2020 FBM KLCI target is to factor in:
 1. The 5.5% downgrade in our 2020 FBM KLCI earnings forecast as mentioned; and
 2. A 1x multiple cut to 16.5x from 17.5x to reflect the repricing of market risk premium by investors on the back of the prolonged/spreading Covid-19 outbreak and the less-than-stable political situation in Malaysia.
- The Covid-19 outbreak has dented both the supply and demand sides of the global economy. On the supply side, factory closures, travel restrictions and disruptions to logistics services have wreaked havoc along the global manufacturing supply chains. On the demand side, the fears of the virus alone, not to mention the lock-down of infected cities, have sent retail sales and consumer spending plunging.
- An abrupt switch to the risk-off mode by investors over the last 1–2 weeks on the back of the spreading Covid-19 outbreak has sent the 10-year US Treasury yield to as low as 1.03% (from 1.50–1.60% prior to the outbreak) while the Fed funds futures is now pointing to as many as three 25bps cuts in the Fed funds target rate in 2020 (vs. no cuts at all prior to the outbreak). During the same period, major global indices have slipped into the 10% correction territory from their recent record highs.
- Meanwhile, while Tan Sri Muhyiddin Yassin, the president of Parti Pribumi Bersatu Malaysia (Bersatu), was sworn in as the 8th Prime Minister of Malaysia over the weekend, investors are watching with interest if he could strike a deal with regards to his cabinet line-up with his rather diverse coalition partners comprising United Malays National Organisation (Umno), Parti Islam Se Malaysia (PAS) and Gabungan Parti Sarawak (GPS). Also, rival Pakatan Harapan coalition has made known its intention to bring up a no-confidence vote against the new PM in the parliament. The ousted coalition led by Tun Dr Mahathir Mohamad claims that it has the support from the majority (112 parliamentarians) of the 222-seat lower house.
- In a brighter scenario where the Covid-19 outbreak finally comes to an end and investors are to turn risk-on again, we expect increased appetite for emerging market (EM) equities including Malaysian equities, conditional upon: (1) the US Fed is to maintain its narrative of not tightening monetary policy (which shall keep the dollar's strength in check); (2) the recovery in equity valuations in developed markets (DM), prompting investors to look elsewhere for opportunities, including EM equities; and (3) the US-China trade tensions are to continue to ease.

Some pockets of surprises in 4Q2019 results

- FBM KLCI component stocks delivered a set of slightly better 4Q2019 results, with 9%, 65% and 26% beating, meeting and missing our projections respectively. This compares with 0%, 70% and 30% for "above", "within" and "below" respectively in 3Q2019.
- As against the market consensus, the numbers looked equally decent, with "above", "within" and "below" at 7%, 62% and 31% respectively, vs. 3%, 69% and 28% in 3Q2019 (Exhibit 1).
- Two FBM KLCI component stocks under our coverage beat our projections, namely, **IHH Healthcare** (stronger topline growth) and **Dialog Group** (higher margins realised from technical services and plant maintenance operations).
- On the other hand, six FBM KLCI component stocks missed our projections, namely, **Nestle (Malaysia)** (weaker export sales and higher marketing cost), **Petronas Chemicals** (weak product prices), **IOI Corp** (weak downstream margins), **Sime Darby Plantation** (hedging losses), **Tenaga** (plant outages) and **MISC** (weaker tanker rates).
- All the FBM KLCI weighted banks under our coverage actually met our expectations.

Our top buys

- As we are navigating the Covid-19 outbreak and political uncertainty, we pick defensive names such as **Tenaga Nasional**, **Dialog**, **YTL Hospitality REIT**, **Kossan Rubber** and **Guan Chong**. To position ourselves beyond these air pockets, we pick **Maybank**, **RHB Bank**, **Serba Dinamik**, **DRB-Hicom** and **MBM Resources** (Exhibit 2).

Exhibit 1: Quarterly Performance of FBM KLCI Component Stocks

Sector	Stock	4Q 2019						3Q 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	
AMMM MK	AMMB Holdings		0			1			0			1	
HAP MK	Hap Seng Consolidated		0			0			0			0	
NESZ MK	Nestle				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				1		1	
DIGI MK	DiGi		1			1			1			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	
TOTAL	Total	2	15	6	2	18	9	0	16	7	1	20	8
	Total (%)	9	65	26	7	62	31	0	70	30	3	69	28

"0" denotes no coverage or coverage suspension

Source: AmInvestment Bank

Exhibit 2: Top Buys

	Recomm.	Price	FV	Upside	Mkt Cap	FYE	EPS (sen)	EPS growth (%)	P/E (x)	P/B*	ROE*	NDPS*	DY*			
		(RM)	(RM)	(%)	(RMmil)		FY20F	FY21F	FY20F	FY21F	(%)	(sen)	(%)			
Malayan Banking	BUY	8.42	9.50	12.8	93,975.6	Dec	74.2	76.7	1.0	3.4	11.4	11.0	1.1	10.0	57.1	6.8
Tenaga Nasional	BUY	12.10	15.80	30.6	68,287.6	Aug	88.8	94.3	13.8	6.2	13.6	12.8	1.1	8.5	44.4	3.7
RHB Bank	BUY	5.55	6.30	13.5	22,255.5	Dec	62.9	67.3	1.6	7.0	8.8	8.2	0.8	9.4	31.4	5.7
Dialog Group	BUY	3.34	4.28	28.1	18,831.9	Jun	11.0	12.2	18.8	10.7	30.3	27.4	4.5	16.2	4.0	1.2
Serba Dinamik	BUY	2.20	3.00	36.4	6,784.5	Dec	17.6	20.6	9.4	17.2	12.5	10.7	2.5	21.1	8.2	3.7
Kossan Rubber	BUY	4.80	5.61	16.8	6,138.9	Dec	23.5	22.4	32.1	-4.5	20.4	21.4	3.7	19.8	9.4	2.0
DRB-Hicom#	BUY	2.22	3.18	43.3	4,291.8	Mar	13.7	15.2	23.3	11.4	16.3	14.6	0.6	3.1	3.0	1.4
Guan Chong	BUY	2.51	3.51	39.8	2,529.8	Dec	22.4	27.0	8.1	20.4	11.2	9.3	2.3	22.2	5.0	2.0
YTL Hospitality REIT	BUY	1.34	1.63	21.3	2,283.9	Dec	7.8	8.4	-0.4	6.9	17.1	16.0	0.8	4.9	7.8	5.8
MBM Resources	BUY	3.55	5.54	56.0	1,387.0	Dec	50.3	51.4	4.2	2.0	7.1	6.9	0.8	11.2	20.1	5.7

FY20F Refers to FY21F, FY21F refers to FY22F

Source: AmInvestment Bank

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