



AmInvestment Bank

Market report
1 June 2020

STRATEGY

Malaysia: Domestic liquidity rises to the occasion

1,530

End-2020 FBM KLCI Target (pts)

(Upgraded)

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Rationale for report: Market update/Results round-up

Investment Highlights

We upgrade our end-2020 FBM KLCI target to 1,530 pts

- We upgrade our end-2020 FBM KLCI target to 1,530 pts based on 18x our revised 2021F earnings projection, from 1,300 pts based on 15x our previous 2020F earnings projection. At 18x, our basis is consistent with the 5-year historical average.
- The just-concluded 1Q2020 quarterly results showed significant deterioration over the preceding quarter which was not surprising given the impact of the movement control order (MCO) on businesses. Only two FBM KLCI component stocks under our coverage actually beat our projections (vs. two in the previous quarter), and those that missed our forecasts rose to eight (from six previously) (Exhibit 1).
- Having reflected the weaker earnings outlook due to the pandemic, we now project FBM KLCI earnings to contract by 13.7% in 2020F (vs. an 1.8% growth we previously forecast) but we expect a stronger rebound of 16.3% in 2021F (from +7.9% previously) due to the low base effect.
- The upgrade in our end-2020 FBM KLCI target is to reflect a 3x higher multiple of 18x (from 15x previously) on the following considerations:
 1. The robust domestic liquidity (from both institutional and retail investors) that has effectively neutralised the persistent selling by foreign investors (net foreign outflow stood at RM13.3bil in the first five months of 2020, already surpassing RM11.1bil and RM11.7bil recorded during the whole of 2019 and 2018 respectively).

We believe the ferocity of the domestic liquidity has been driven by: (i) the risk-on sentiment globally triggered by the massive monetary and fiscal stimulus packages put in place by central banks and governments around the globe (and in the case of the US Fed, the monetary stimulus promised is an “unlimited” one), optimism on the economy reopening and the news flow on vaccine development; and (ii) the reality that risk-free assets, i.e. cash and Malaysian Government Securities (MGS), are hardly generating any positive inflation-adjusted yield, following a series of cuts in the overnight policy rate (OPR) by Bank Negara Malaysia to 2.00%, a level last seen during the global financial crisis in 2008/2009;

2. The recent massive re-rating of the already high P/E glove sector (now with a 9% weighting in the FBM KLCI) due to the strong demand for personal protective equipment amidst the Covid-19 pandemic, and it will probably go beyond the pandemic as a result of stronger hygiene awareness and practices of the entire world population;
3. The political situation that does not seem to be weighing on the market risk premium as the dominant players in the market, i.e. local investors, are calm in the face of it (while the view and action of foreign investors are less relevant given their low participation in the market); and
4. The local economy that is on the verge of being reopened in a more extensive way, thanks to the relatively successful containment of the spread of the Covid-19 virus via the MCO and conditional MCO over the last 2–3 months.

1Q2020 a washout, but significantly priced in by the market

- FBM KLCI component stocks delivered a set of weak 1Q2020 results, with 10%, 50% and 40% beating, meeting and missing our projections respectively. This compares with 9%, 65% and 26% for "above", "within" and "below" respectively in 4Q2019.
- As against the market consensus, the numbers were equally unimpressive, with "above", "within" and "below" at 8%, 40% and 52% respectively, vs. 7%, 62% and 31% in 4Q2019 (Exhibit 1).
- Two FBM KLCI component stocks under our coverage beat our projections, namely, **Petronas Gas** (milder-than-expected hit on gas transportation and regassification rates under the new incentive-based regulation) and **Petronas Chemicals** (better-than-expected sale volumes and product prices).
- On the other hand, eight FBM KLCI component stocks under our coverage missed our projections, namely, **CIMB Group** (higher-than-expected loan loss provision and weak non-interest incomes), **Nestle (Malaysia)** (hefty Covid-19-related expenses), **Sime Darby Plantation** (weak CPO prices realised, weak downstream earnings but high taxes), **IOI Corp** (low FFB production and weak downstream earnings), **KL Kepong** (high upstream production cost), **Axiata Group** (higher depreciation under IFRS 16 Lease Accounting Standards and weak performance from Nepalese unit Ncell), **Digi.Com** and **Maxis** (higher operating cost).
- Three FBM KLCI component stocks under our coverage have postponed the announcement of their 1Q2020 results to June 2020, namely, **Tenaga Nasional**, **IHH Healthcare** and **Press Metal**.

Our top buys

- Our top picks reflect names that are likely to benefit from the reopening of the domestic economy as well the gradual recovery in the export sector, i.e. **Tenaga Nasional**, **Maybank**, **RHB Bank**, **Kossan Rubber**, **Axiata Group**, **Guan Chong**, **Serba Dinamik**, **Sunway**, **MPI** and **MMC Corp** (Exhibit 2).

Exhibit 1: Quarterly Performance of FBM KLCI Component Stocks

COMPANY	1Q 2020						4Q 2019					
	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	
AMMB Holdings Bhd		0			0			0			1	
HAP Seng Consolidated Bhd		0			0			0			0	
Nestle Malaysia Bhd			1			1			1			1
PPB Group Bhd		0				1		0		1		
IHH Healthcare Bhd		0			0		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
Malaysia Airports Holdings Bhd		0				1		0				1
Tenaga Nasional Bhd		0			0				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			0			1			1	
Genting Malaysia Bhd		0				1		0				1
Genting Bhd		0				1		0			1	
Total (no.)	2	10	8	2	10	13	2	15	6	2	18	9
Total (%)	10	50	40	8	40	52	9	65	26	7	62	31

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

Source: AmInvestment Bank

Exhibit 2: Top Buys

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS* (sen)	DY* (%)
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				
Malayan Banking	BUY	7.50	8.30	10.7	84,310.2	Dec	60.6	66.2	-17.5	9.2	12.4	11.3	1.0	8.2	46.7	6.2
Tenaga Nasional	BUY	11.26	14.60	29.7	63,546.9	Aug	88.8	94.3	4.3	6.2	12.7	11.9	1.1	8.5	44.4	3.9
Axiata Group	BUY	3.80	4.50	18.4	34,821.6	Dec	7.8	9.0	-29.7	15.0	48.5	42.2	2.2	4.5	9.5	2.5
RHB Bank	BUY	4.77	5.80	21.6	19,127.7	Dec	57.1	59.4	-7.7	4.1	8.4	8.0	0.7	8.6	31.0	6.5
Kossan Rubber	BUY	8.70	9.72	11.8	11,126.7	Dec	39.0	36.0	122.5	-7.6	22.3	24.2	6.3	31.7	15.6	1.8
Sunway	BUY	1.34	1.78	32.6	6,571.0	Dec	10.2	12.9	-27.5	26.4	13.1	10.4	0.8	6.6	5.1	3.8
Serba Dinamik	BUY	1.61	2.20	36.9	4,965.0	Dec	17.0	19.3	5.7	13.4	9.5	8.3	1.7	20.5	7.9	4.9
Guan Chong	BUY	2.94	3.20	8.8	2,963.2	Dec	22.9	24.6	10.1	7.4	12.8	11.9	2.7	22.6	5.0	1.7
MMC Corp	BUY	0.87	1.13	30.4	2,649.2	Dec	6.8	8.0	-16.1	17.0	12.7	10.9	0.3	2.1	3.8	4.3
MPI	BUY	11.00	12.06	9.6	2,187.9	Jun	71.4	80.4	-6.6	12.7	15.4	13.7	1.5	10.3	27.0	2.5

Source: AmInvestment Bank

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