



AmInvestment Bank

Market report

1 Sep 2020

# STRATEGY

*Malaysia: Transitioning from pandemic-themed to recovery-focused*

**1,530**

End-2020 FBM KLCI Target (pts)

(Maintained)

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*Rationale for report: Market update/Results round-up*

## Investment Highlights

### We maintain our end-2020 FBM KLCI target of 1,530 pts

- We maintain our end-2020 FBM KLCI target of 1,530 pts based on 18x our 2021F earnings projection, which is in line with its 5-year historical average.
- Having reflected 2Q2020 results, we now project FBM KLCI earnings to contract by 19.1% in 2020F (vs. a 13.6% contraction we forecast two months before) but we expect a stronger rebound of 26.0% in 2021F (from +19.7% previously), led by a broad-based recovery across the sectors (Exhibit 1).
- We believe Sep-Dec 2020 shall mark the market's shift from predominantly pandemic-themed, to a recovery-focused one. While we expect the transition to be bumpy, we believe the market shall hold up based on the following reasons:
  1. We expect the financial system globally to remain awash with liquidity over the short term, underpinned by continuous bond-buying programmes by key central banks in the world (and in the case of the US Fed, the promise is an "unlimited" one) and policy rates being anchored at near zero.

In Malaysia's context, the consensus is pointing to Bank Negara Malaysia cutting the overnight policy rate by another 25bps from 1.75% currently to 1.50% before the year is out. The unprecedented low interest rate environment has set in motion risk-taking by yield-starved investors locally, as evidenced in domestic liquidity (from both institutional and retail investors) neutralising YTD (as at 28 Aug 2020) with a net foreign outflow of RM20.3bil (which has already way surpassed the RM11.1bil and RM11.7bil recorded for the whole of 2019 and 2018 respectively).

2. We believe investors will have to start lightening their positions in glove stocks on the back of the significant progress made in the development of Covid-19 vaccines as well as treatment methodology in recent months. If the process is effected in an orderly manner, it could bring about increased volatility to the market given the significant weighting of 13–14% commanded by the two FBM KLCI-weighted glove stocks (i.e. Top Glove and Hartalega). With both institutional and retail investors having had to stay invested in the market (given the low return from risk-free assets), they are likely to substitute the "pandemic play" with the "recovery play" which shall comprise FBM KLCI component stocks such as major banks, national utility company Tenaga Nasional and even telcos.

We acknowledge that the switching to banking stocks, particularly, may not be a straight-forward exercise given the uncertainty surrounding the extent of the jump in credit cost after the expiry of the 6-month blanket loan moratorium on 30 Sept 2020, and the end of the post-moratorium 3-month case-by-case repayment assistance programme on 31 Dec 2020. Already, sentiment towards banks has been hurt by the deferment of the interim dividend by most banks during the announcement of the Apr–June quarterly results. Having said that, in a market awash with liquidity, we believe bargain hunting will surface as and when the risk-and-reward balance tilts in favour of the latter in the event of another sell-down in banking stocks. This happened between early June and mid-July 2020.

3. The revived interest on emerging market (EM) equities driven by: (i) the return of appetite for risk assets on expectations that the Covid-19 pandemic is to gradually come under control with the discovery of effective vaccines and treatment methodology; (ii) strong economic rebound due to the successful containment of the pandemic in certain emerging economies; and (3) improving fundamentals and finances of certain commodity export-dependent emerging economies against a backdrop of rising commodity prices (to a certain extent, due to the USD's weakness). Already, EM equities have chalked up a few positive readings in terms of net weekly inflow in recent weeks (Exhibit 2), which could eventually spill over to Malaysia given Malaysia's 1.7% weighting in the MSCI EM Index.

4. Talks of a snap national election have not weighed on the market risk premium as the dominant players in the market, i.e. local investors, seem to have come to terms with a more dynamic political landscape in Malaysia post-14<sup>th</sup> general election (while the view and action of foreign investors are less relevant given their low participation in the market).
- Sectors poised to benefit from the recovery in demand/pent-up demand post-pandemic are technology (as the rollout of 5G resumes), healthcare (an increase in semi-elective and elective procedures), power (an increase in electricity demand from the commercial and industrial segments), seaport (higher throughput on a recovery in the global trade), airport (reopening of borders) and auto (tax holiday and recovery in discretionary spending).
  - The recovery in airlines is bumpier given the urgent need to recapitalise their balance sheets after months of massive losses amidst a collapse in air travel. Similarly, for the oil and gas industry, while China's demand for oil is recovering as its economy reopens, the fact remains that the world is chronically over-supplied with oil.

#### 2Q2020 results more in line vs. the previous quarter

- FBM KLCI component stocks delivered a set of 2Q2020 results that was more in line with expectations, as compared with the previous quarter, as the market began to have a better idea on the impact of the pandemic on corporate earnings. Nonetheless, 2Q2020 results were generally mixed with 21%, 54% and 25% beating, meeting and missing our projections respectively. This compares with 10%, 50% and 40% for "above", "within" and "below" respectively in 1Q2020.
- As against the market consensus, similarly, the numbers were also more in line with expectations as compared with the previous quarter, but unremarkable with "above", "within" and "below" at 24%, 38% and 38% respectively, vs. 8%, 40% and 52% in 1Q2020 (Exhibit 3).
- Five FBM KLCI component stocks under our coverage beat our projections, namely, **Sime Darby** (better deliveries of heavy equipment to the mining sector, particularly, in Australia), **Telekom Malaysia** (better cost savings and lower depreciation), **KL Kepong** (higher downstream profits), **Hong Leong Financial Group** (stronger non-interest income and insurance profits) and **Press Metal** (better aluminium selling prices realised).
- On the other hand, six FBM KLCI component stocks under our coverage missed our projections, namely, **CIMB Group** (weaker non-interest incomes), **Axiata Group** (higher effective tax rate), **Digi.Com** (lower subscribers and average revenue per user), **IHH Healthcare** (fewer elective procedures and foreign patients), **Sime Darby Plantation** (weaker downstream earnings and FFB production) and **Petronas Chemicals Group** (lower product prices).

#### Our top buys

- Our top picks reflect names that are likely to benefit from the recovery of the domestic economy, export sector as well as global trade, i.e. **Maybank**, **Tenaga Nasional**, **Axiata Group**, **Dialog Group**, **RHB Bank**, **Westports**, **Inari Amertron**, **Malaysia Airports**, **MMC Corp** and **MBM Resources** (Exhibit 5).

**Exhibit 1: Market Earnings Projection**

	Weighting (%)	EPS growth (%)			P/E (x)		
		2019A	2020F	2021F	2019A	2020F	2021F
<b>Stock Universe</b>		(6.8)	7.1	23.3	18.3	20.1	16.6
<b>FBM KLCI</b>		(7.7)	(19.1)	26.0	17.9	22.1	17.5
Automobile	2.4	(13.4)	(6.4)	28.6	15.0	16.1	12.5
Building Material	2.2	(70.3)	(23.4)	>100.0	111.8	146.0	25.8
Construction	1.6	(12.4)	(39.3)	46.0	12.2	20.1	13.8
Consumer	4.0	(24.0)	5.8	30.5	41.1	38.9	29.8
Financial Services	23.5	1.4	(20.8)	12.6	9.4	11.8	10.5
Glove	13.0	(6.0)	>100.0	35.2	140.5	42.3	31.3
Healthcare	4.6	(8.6)	(39.6)	70.5	44.7	73.9	43.4
Manufacturing	1.0	13.2	(14.1)	40.6	15.7	18.3	13.0
Media	0.4	14.5	(30.5)	4.2	8.2	11.8	11.3
Oil & Gas	10.4	(19.4)	(0.1)	24.4	20.9	20.9	16.8
Plantation	8.9	57.6	>100.0	44.2	90.9	40.6	28.2
Power	6.5	(12.1)	(20.4)	29.4	13.1	16.5	12.7
Property	3.0	12.8	(28.9)	26.2	11.0	15.4	12.2
REITs	0.7	0.4	(14.5)	(3.6)	15.7	18.4	19.1
Stock Exchange	0.7	(17.0)	69.1	(15.7)	42.0	24.8	29.5
Technology	1.3	3.2	(11.7)	30.9	32.4	36.7	28.0
Telecommunication	10.3	(3.4)	(13.3)	12.2	22.8	26.3	23.4
Transportation & Logistics	5.5	7.4	16.2	5.1	16.3	14.0	13.3

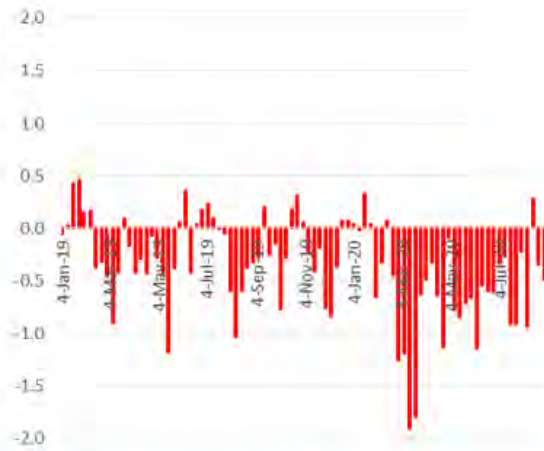
Source: AmlInvestment Bank

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



Source: EPFR Global, AmlInvestment Bank

**Exhibit 3: Weekly Foreign Flows — Malaysian Equities (RM bil)**



Source: Bloomberg, AmlInvestment Bank

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

COMPANY	2Q 2020						1Q 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		
KLCCP Stapled Group		0			1			0			0		
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			1			1		0			0		
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				0					1
Tenaga Nasional Bhd		1				1		0			0		
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	1			1				0			0		
Genting Malaysia Bhd		0				1		0					1
Genting Bhd		0				1		0					1
<b>Total (no.)</b>	<b>5</b>	<b>13</b>	<b>6</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>2</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>10</b>	<b>13</b>	<b>52</b>
<b>Total (%)</b>	<b>21</b>	<b>54</b>	<b>25</b>	<b>24</b>	<b>38</b>	<b>38</b>	<b>10</b>	<b>50</b>	<b>40</b>	<b>8</b>	<b>40</b>	<b>52</b>	

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

Source: AmInvestment Bank

## Exhibit 5: 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	7.33	8.40	14.6	82,399.2	Dec	58.6	65.2	-20.2	11.3	12.5	11.2	0.9	8.5	50.2	6.8
Tenaga Nasional	BUY	10.86	13.95	28.5	61,289.5	Aug	69.1	89.8	-18.8	29.8	15.7	12.1	1.0	8.3	44.9	4.1
Axiata Group	BUY	3.01	4.50	49.5	27,582.4	Dec	5.7	9.5	-48.6	64.8	52.5	31.8	1.8	5.6	9.5	3.2
Dialog Group	BUY	3.59	4.85	35.1	20,241.5	Jun	10.7	11.7	12.3	9.9	33.6	30.6	4.5	15.2	4.4	1.2
RHB Bank	BUY	4.58	5.70	24.5	18,365.8	Dec	51.8	58.0	-16.3	12.0	8.8	7.9	0.6	8.3	29.0	6.3
Westports Holdings	BUY	3.65	4.45	22.0	12,446.5	Dec	18.2	19.4	-3.9	6.5	20.1	18.8	2.2	12.9	14.5	4.0
Malaysia Airports	BUY	5.10	6.64	30.2	8,461.9	Dec	(12.3)	23.2	nm	nm	nm	22.0	0.9	4.2	11.6	2.3
Inari Amertron	BUY	2.25	2.45	8.7	7,279.4	Jun	4.5	7.1	-35.2	58.9	50.0	31.5	6.1	19.4	8.7	3.9
MMC Corporation	BUY	0.75	1.56	107.4	2,283.8	Dec	10.0	11.2	22.2	12.5	7.5	6.7	0.2	3.5	6.2	8.2
MBM Resources	BUY	3.26	4.32	32.4	1,273.7	Dec	36.8	48.0	-25.0	30.4	8.9	6.8	0.7	10.2	19.2	5.9

\* FY21F

Source: AmInvestment Bank

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