



AmInvestment Bank

Market report

10 Nov 2020

# STRATEGY

*The beginning of the end of Covid-19 pandemic*

**1,530**

End-2020 FBM KLCI Target (pts)

(Maintained)

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*Rationale for report: Market update*

## 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 16.5x our 2021F earnings projection (+34.2%, after a 17.9% contraction in 2020F) (Exhibit 2). This is at a discount to the 5-year historical average of 18x largely to take the one-off spike in earnings of component stock Top Glove in 2021F into consideration.
- Overnight, Pfizer and its partner and German partner BioNTech said that their experimental Covid-19 vaccine PFE.N is >90% effective with no serious safety concerns based on initial trial results. The companies estimate that they can roll out up to 50mil doses this year (for 25mil people) and then produce up to 1.3bil doses in 2021.
- We believe the latest development has turned the tide in the humanity's fight against the virus and the much longed for normalcy in everyday life may be making a slow but sure comeback.
- We reiterate our view that the final months of 2020 shall mark the market's continued shift from a predominantly pandemic-themed, to a recovery-focused one. We have been advocating investors to lighten their positions in the "pandemic play", i.e. glove stocks and replace them with the "recovery play". With the latest positive news coming in a rather abrupt manner, we expect volatility as investors in glove stocks rush to the exit at the same time. The two FBM KLCI weighted glove stocks, i.e. Top Glove and Hartalega, command a combined weighting of 13–14%.
- **We expect the gains in the recovery play to be significantly offset by losses in the pandemic play. This explains the rationale for us to maintain our FBM KLCI target despite this overwhelmingly good news.**
- **We already downgraded the glove sector to NEUTRAL from OVERWEIGHT on 25 Aug 2020** on the back of positive news on vaccine development. We are putting the fair values for glove stocks under our coverage under review with a negative bias. We believe investors will have to rethink the lofty valuations they ascribe to the global technology sector, a key beneficiary of new norms amidst the pandemic. However, we are still positive on the sector over the longer term given the continued digitalisation of the economy, the rollout of 5G and the ushering in of the Industry Revolution 4.0.
- Meanwhile, sectors that are poised to benefit from the recovery in demand/pent-up demand post-pandemic are power (an increase in electricity demand from the commercial and industrial segments), airport (the eventual reopening of borders), healthcare (an increase in semi-elective and elective procedures) and seaport (higher throughput on a recovery in the global trade),
- While the fundamentals of banking stocks should improve in line with the economic recovery, 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. Meanwhile, we have upgraded **AirAsia (Trading Buy, FV = RM0.68)** as the recovery in air travel and hence AirAsia's earnings recovery has become more certain. However, we remain mindful of its need to recapitalise its balance sheet after months of massive losses amidst a collapse in air travel.

### **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, Malaysia Airports, Allianz Malaysia, MMC Corp and Kumpulan Powernet** (Exhibit 2).

## Exhibit 1: Sector Weighting

	Sector	Rationale	Top Pick(s)
OVERWEIGHT	Automobile	Recovery underpinned by tax holiday in 2H2020	MBM Resources
	Consumer	Consumer spending supported by cash handouts and the wage subsidy programme	Power Root
	Oil & Gas	Oil prices stabilise with pick-up in demand from China while OPEC+ continues to exercise production restraint	Dialog, Serba Dinamik
	EMS	Beneficiary of trade diversion and economic recovery	VS Industry, ATA IMS
	Healthcare	Aging population, rising affluence and longer life expectancy	IHH Healthcare
	Power	Recovery in electricity demand in 2H2020	Tenaga
	REIT	Prolonged low interest rate environment, rebate to rental to be gradually removed as the economy reopens	Pavilion REIT, YTL Hospitality REIT
	Telecommunication	Value has emerged after sell-down, M&A opportunities.	Axiata
NEUTRAL	Technology	Digitalisation of economy, 5G rollout	Inari
	Financial Services	A recovery play, partially offset by potential upticks in loan impairments after the moratorium	Maybank, RHB Bank
	Building Material	Cement has turned the corner, inventory build-up in aluminium, exports ease local steel supply pressure	Malayan Cement
	Media	Digital disruption, cushioned by M&A opportunities including privatisation	N/A
	Glove	Average selling prices to ease post the pandemic	NA
	Plantation	YoY improvement in CPO prices	KL Kepong
	Transportation & Logistics	Recovery in global trade and air travel	MMC Corp, AirAsia, MAHB
UNDERWEIGHT	Property	Oversupply, high household debt, tight bank credit, but share price downside capped by depressed valuations	IOI Properties
	Construction	Infrastructure spending constrained by high national debt and reduced petroleum revenues	N/A

Source: AmlInvestment Bank

## Exhibit 2: Market Earnings Projection

	Weighting (%)	Earnings growth (%)			PE (x)		
		2019 A	2020 F	2021 F	2019 A	2020 F	2021 F
<b>Srock Universe</b>		(9.1)	10.5	33.6	25.3	26.5	19.6
<b>FBM KLCI</b>		(7.7)	(17.9)	34.2	17.9	21.7	16.2
Automobile	2.4	(13.4)	(6.4)	27.7	15.6	16.7	13.0
Building Material	2.4	(70.3)	(23.4)	>100.0	119.9	156.6	27.7
Construction	1.7	(12.7)	(37.5)	45.2	12.8	20.5	14.2
Consumer	4.0	(23.7)	5.7	33.6	40.4	38.2	28.6
Financial Services	22.9	2.2	(23.6)	15.1	22.5	29.5	25.6
Glove	12.6	(6.3)	>100.0	>100.0	135.6	31.8	15.3
Healthcare	4.6	(8.6)	(39.6)	70.5	44.2	73.1	42.9
Manufacturing	1.3	14.5	(6.3)	38.8	20.5	21.9	15.8
Media	0.4	14.5	(29.2)	5.2	7.7	10.9	10.4
Oil & Gas	10.8	(20.1)	1.2	24.8	22.0	21.7	17.4
Plantation	9.0	57.6	>100.0	44.2	91.2	40.8	28.3
Power	6.0	(12.1)	(20.4)	29.4	12.1	15.2	11.8
Property	2.8	11.7	(26.6)	26.4	10.4	14.1	11.2
REITs	0.6	0.4	(14.5)	(3.6)	13.8	16.1	16.7
Stock Exchange	0.6	(17.0)	>100.0	(25.2)	36.6	18.3	24.4
Technology	2.4	(6.3)	(3.1)	38.2	46.9	48.4	35.0
Telecommunication	10.4	(3.4)	(13.3)	12.2	23.0	26.5	23.6
Transportation & Logistics	5.1	(3.5)	(9.3)	32.7	17.0	18.7	14.1

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*	D (%)
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				
Malayan Banking	BUY	7.00	8.40	20.0	78,689.5	Dec	58.6	65.2	(20.2)	11.3	11.9	10.7	0.9	8.5	50.2	7
Tenaga Nasional	BUY	9.64	13.95	44.7	54,404.3	Aug	69.1	89.8	(18.8)	29.8	13.9	10.7	0.9	8.3	44.9	4
Axiata Group	BUY	2.96	4.50	52.0	27,124.2	Dec	5.7	9.5	(48.6)	64.8	51.6	31.3	1.8	5.6	9.5	3
Dialog Group	BUY	3.65	4.85	32.9	20,579.8	Jun	10.7	11.7	12.3	9.9	34.2	31.1	4.5	15.2	4.4	1
RHB Bank	BUY	4.25	5.70	34.1	17,042.5	Dec	52.7	58.0	(14.9)	10.1	8.1	7.3	0.6	8.2	23.2	5
Westports Holdings	BUY	3.90	4.45	14.2	13,299.0	Dec	18.2	19.4	(3.9)	6.5	21.5	20.1	2.3	12.9	14.5	3
Malaysia Airports	BUY	4.31	6.64	54.1	7,151.2	Dec	(12.3)	23.2	nm	nm	-35.2	18.6	0.8	6.5	0.0	0
Allianz Malaysia	BUY	13.14	17.40	32.4	2,323.0	Dec	286.5	309.8	2.8	8.1	4.6	4.2	0.6	13.4	69.0	5
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
Kumpulan Powernet	BUY	3.48	4.16	19.4	393.5	Jun	11.3	27.7	nm	145.1	30.8	12.6	2.5	26.5	2.3	0

FY21F

Source: AmInvestment Bank

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