



AmInvestment Bank

Market report

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# STRATEGY

Malaysia: A cautious end to a roller-coaster year

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 16.5x our 2021F earnings projection, which is at a discount to its 5-year historical average of 18x. The discount is to reflect the risk premium to the corporate earnings recovery forecast in 2021F. This risk premium shall reduce gradually as 2021F progresses, underpinning our tentative end-2021 FBM KLCI target of 1,700 pts based on 18x our 2021F earnings projection.
- Having reflected 3Q2020 results, we now project FBM KLCI earnings to only contract by 17.2% in 2020F (vs. a 19.1% contraction we forecast three months ago) and we also expect a stronger rebound of 34.2% in 2021F (from +26.0% previously), led by a broad-based recovery across sectors (Exhibit 1).
- Our end-2020 FBM KLCI target of 1,530 pts implies market consolidation during the final month of 2020. We believe this is likely to stem from further weakness in glove stocks as investors continue to lighten their positions in “pandemic plays”, i.e. glove makers and selected excessively priced technology names, and switch to “recovery plays”, i.e. selected fundamentally strong names in the banking, power, oil & gas, consumer and transport sectors. The share price direction of the two FBM KLCI weighted glove stocks, i.e. Top Glove and Hartalega, still has significant bearing on the FBM KLCI with a combined weighting of 10.2% at present (it peaked at 14.6% in Oct 2020, almost tripling from 4.9% in May 2020 prior to the massive rally driven by the surge in glove selling prices).
- As mentioned, sectors that are poised to benefit from the recovery in demand are power (particularly, from the commercial and industrial segments), oil & gas (higher crude oil prices), seaport (higher throughput on the recovery in global trade), airport (the eventual reopening of borders) and consumer (cash handouts and recovery in the job market to sustain spending).
- 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, while the availability of effective vaccines has greatly brightened the recovery prospects of the air travel sector, we remain mindful of the need of airlines to recapitalise its balance sheet after months of massive losses during the pandemic.

### 3Q2020 results more upbeat vs. the previous quarter

- FBM KLCI component stocks delivered a set of 3Q2020 results that was more upbeat as compared with the previous quarter, as Corporate Malaysia seemed to have weathered the pandemic better than expectations. The 3Q2020 results were generally resilient with 33%, 54% and 13% beating, meeting and missing our projections respectively. This compares with 21%, 54% and 25% for “above”, “within” and “below” respectively in 2Q2020.
- As against the market consensus, similarly, the numbers were also more encouraging as compared with the previous quarter with “above”, “within” and “below” at 45%, 31% and 24% respectively, vs. 24%, 38% and 38% in 2Q2020 (Exhibit 2).

- Eight FBM KLCI component stocks under our coverage beat our projections, namely, **Public Bank** (higher non-interest income), **RHB Bank** (stronger loan growth), **Sime Darby Plantation** (higher CPO selling prices), **Axiata Group** (higher subscriber growth and better cost control), **MISC** (operating conditions for petroleum tanker and heavy engineering segments not as bad as feared), **Press Metal** (higher aluminium selling prices), **Top Glove** and **Hartalega** (higher glove selling prices).
- On the other hand, three FBM KLCI component stocks under our coverage missed our projections, namely, **CIMB Group** (higher provisions), **Nestle (Malaysia)** (sales via hotel, restaurant and café channels were hit) and **KL Kepong** (operating and impairment losses at the manufacturing division).

#### Our top buys

- Our top picks reflect names that are likely to benefit from the recovery of the domestic and global economies, i.e. **Maybank**, **Tenaga Nasional**, **Axiata Group**, **RHB Bank**, **Dialog Group**, **MR D.I.Y.**, **Westports**, **Malaysia Airports**, **MMC Corp** and **Kumpulan Powernet** (Exhibit 3).

Exhibit 1: Market Earnings Projection							
	Weighting (%)	EPS growth (%)			PE (x)		
		2019A	2020F	2021F	2019A	2020F	2021F
<b>Stock Universe</b>		(6.7)	(0.1)	37.8	19.3	22.0	16.2
<b>FBM KLCI</b>		(8.1)	(17.2)	36.6	18.6	22.5	16.5
Automobile	2.3	(14.7)	(6.4)	21.8	16.1	17.2	14.1
Building Material	2.7	(44.2)	2.0	>100.0	95.8	93.9	22.1
Construction	1.6	(12.7)	(37.8)	46.2	13.4	21.6	14.8
Consumer	5.9	(8.0)	(3.4)	27.7	27.9	28.8	22.6
Financial Services	24.5	1.8	(21.0)	16.8	10.3	13.0	11.1
Glove	10.5	(6.2)	>100.0	>100.0	120.5	27.2	13.4
Healthcare	4.5	(8.6)	(36.3)	63.7	47.2	74.1	45.2
Manufacturing	1.2	14.0	(6.5)	40.3	20.6	22.0	15.7
Media	0.4	14.5	(18.3)	3.2	8.2	10.0	9.7
Oil & Gas	10.5	(20.1)	1.2	24.1	22.8	22.5	18.1
Plantation	8.7	65.5	>100.0	33.8	90.6	38.9	29.1
Power	5.6	(12.1)	(20.4)	29.7	12.2	15.3	11.8
Property	2.8	14.0	(35.9)	39.3	11.9	18.5	13.3
REITs	0.6	0.4	(14.5)	(3.6)	15.3	17.9	18.5
Stock Exchange	0.6	(17.0)	>100.0	(25.2)	35.6	17.8	23.7
Technology	2.2	(4.1)	(2.3)	40.1	48.0	49.1	35.0
Telecommunication	10.3	(3.4)	(8.9)	8.6	24.4	26.8	24.7
Transportation & Logistic:	5.1	(16.2)	nm	nm	22.0	(168.4)	23.4

Source: AmInvestment Bank

## Exhibit 2: Quarterly Performance of FBM KLCI Component Stocks

COMPANY	3Q 2020						2Q 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			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		1			1			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
Telekom Malaysia Bhd		1		1			1			1		
Tenaga Nasional Bhd		1				1		1				1
Axiata Group Bhd	1			1				1				1
DiGi.Com Bhd		1				1		1				1
Maxis Bhd		1			1			1			1	
MSC 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			1			1		
Genting Malaysia Bhd		0				1		0				1
Genting Bhd		0		1				0				1
<b>Total (no.)</b>	<b>8</b>	<b>13</b>	<b>3</b>	<b>13</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>13</b>	<b>6</b>	<b>7</b>	<b>11</b>	<b>11</b>
<b>Total (%)</b>	<b>33</b>	<b>54</b>	<b>13</b>	<b>45</b>	<b>31</b>	<b>24</b>	<b>21</b>	<b>54</b>	<b>25</b>	<b>24</b>	<b>38</b>	<b>38</b>

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

Source: AmlInvestment Bank

## Exhibit 3: Top Buys

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		PE (x)		PB*	ROE*	NDPS* (sen)	DY*
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				
Malayan Banking	BUY	7.90	9.50	20.3	88,806.8	Dec	59.6	65.5	(18.9)	9.8	13.3	12.1	1.0	8.4	50.4	6.4
Tenaga Nasional	BUY	10.08	13.95	38.4	56,887.5	Aug	69.1	89.8	(18.8)	29.8	14.6	11.2	0.9	8.3	44.9	4.5
Axiata Group	BUY	3.55	4.50	26.8	32,530.7	Dec	8.5	10.5	(24.0)	23.8	41.9	33.8	2.1	6.1	9.5	2.7
RHB Bank	BUY	5.15	6.15	19.4	20,651.5	Dec	55.5	60.0	(10.3)	8.0	9.3	8.6	0.7	8.4	24.0	4.7
Dialog Group	BUY	3.60	4.80	33.3	20,297.9	Jun	10.7	11.1	12.3	3.8	33.7	32.5	4.5	14.5	4.4	1.2
Mr DIY Group (M)	BUY	2.63	2.94	11.9	16,507.5	Dec	4.6	7.2	(9.9)	58.9	57.7	36.3	15.3	48.3	2.9	1.1
Westports Holdings	BUY	4.30	4.83	12.2	14,663.0	Dec	20.2	20.1	6.7	(0.3)	21.3	21.4	2.5	13.1	15.1	3.5
Malaysia Airports	BUY	5.21	6.64	27.5	8,644.4	Dec	(42.5)	(28.7)	nm	nm	nm	nm	0.9	nm	0.0	0.0
MMC Corporation	BUY	0.92	1.52	65.1	2,801.5	Dec	8.6	9.1	5.0	6.6	10.8	10.1	0.3	2.8	5.0	5.4
Kumpulan Powernet	BUY	4.84	5.97	23.3	547.3	Jun	11.3	27.7	>100	>100	42.8	17.5	3.5	26.5	2.3	0.5

\* FY21F

Source: AmlInvestment Bank

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