



AmInvestment Bank

Market report

1 June 2021

STRATEGY

Malaysia: Recovery delayed, not derailed

1,695

End-2021 FBM KLCI target (pts)
(Maintained)

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Rationale for report: Market update/Report card

Investment Highlights

We maintain our end-2021 FBM KLCI target of 1,695 pts

- We maintain our end-2021 FBM KLCI target of 1,695 pts based on 16x our 2021F earnings projection (+53.4%) (Exhibit 3). This is at a discount to its 5-year historical average of 18x to: (1) mitigate the distortion arising from the earnings spikes from glove makers, i.e. Top Glove, Hartalega and Supermax in 2021F due to the abnormally high glove selling prices that are not recurring; and (2) factor in a higher perceived risk premium to reflect the dynamic political landscape including a potential 15th general election (GE15) during 2H2021.
- We continue to believe that the recovery-focused investment theme from end-2020 will extend well into 2021F. Investors will continue to accumulate recovery plays, i.e. fundamentally strong names in the banking, power, oil & gas, consumer, REIT and transport sectors, while lightening their positions in pandemic plays, i.e. glove makers and selected excessively priced technology names.
- We are not overly perturbed by the reintroduction of a nationwide lockdown from 1 to 14 June 2021 (and potentially beyond) as we believe:
 1. A lockdown is the right thing to do to stamp out Covid-19, enabling the economy to emerge from the pandemic in a more sustainable manner;
 2. The world at large is in a much better position in its fight against Covid-19 today as compared with a year ago, thanks to the availability of effective vaccines; and
 3. A significant number of economic sectors will remain in full swing (or close to full swing) during the lockdown, including financial services, utilities, telecommunications, healthcare, plantation and production, processing and distribution of food items, or operate at 60% capacity such as manufacturing of electrical, electronic, petrochemical and pharmaceutical products and gloves.
- We believe investors should assess the impact of the lockdown beyond the lockdown period itself. If the lockdown is effective in breaking the chain of the Covid-19 infections, the economy can reopen on a clean slate thereafter. From the standpoint of businesses, the loss of incomes during the lockdown will be temporary and it could be recouped if the lockdown is successful in containing the virus spread, enabling businesses to return to normalcy or close to normalcy.
- On a grimmer scenario where a lockdown is resisted despite surging Covid-19 infections, the economy may languish due to declining productivity (the workforce is kept out of production due to Covid-19 quarantine/illness or worksite closure due to Covid-19 infections), dented consumer spending (as anxiety drives consumers into a self-lockdown or a "hermit" living) and excessive diversion of resources towards the quarantine/treatment of Covid-19 patients.
- Also, thanks to the availability of effective vaccines, as of today, we live in a much better world as compared with a year ago when the pandemic first started. We are no longer grappling in the dark and in fact, are already seeing the light at the end of the tunnel. The world as a whole, ourselves included, has a strategy, i.e. vaccination of the population towards herd immunity. Already, the strategy has borne fruit in a handful of developed nations.
- For Malaysia, the herd immunity target by the end of 2021 (which is seven months from now) has not changed, although the consensus view is that there is much room for the vaccination programme to improve, particularly, in terms of its speediness.

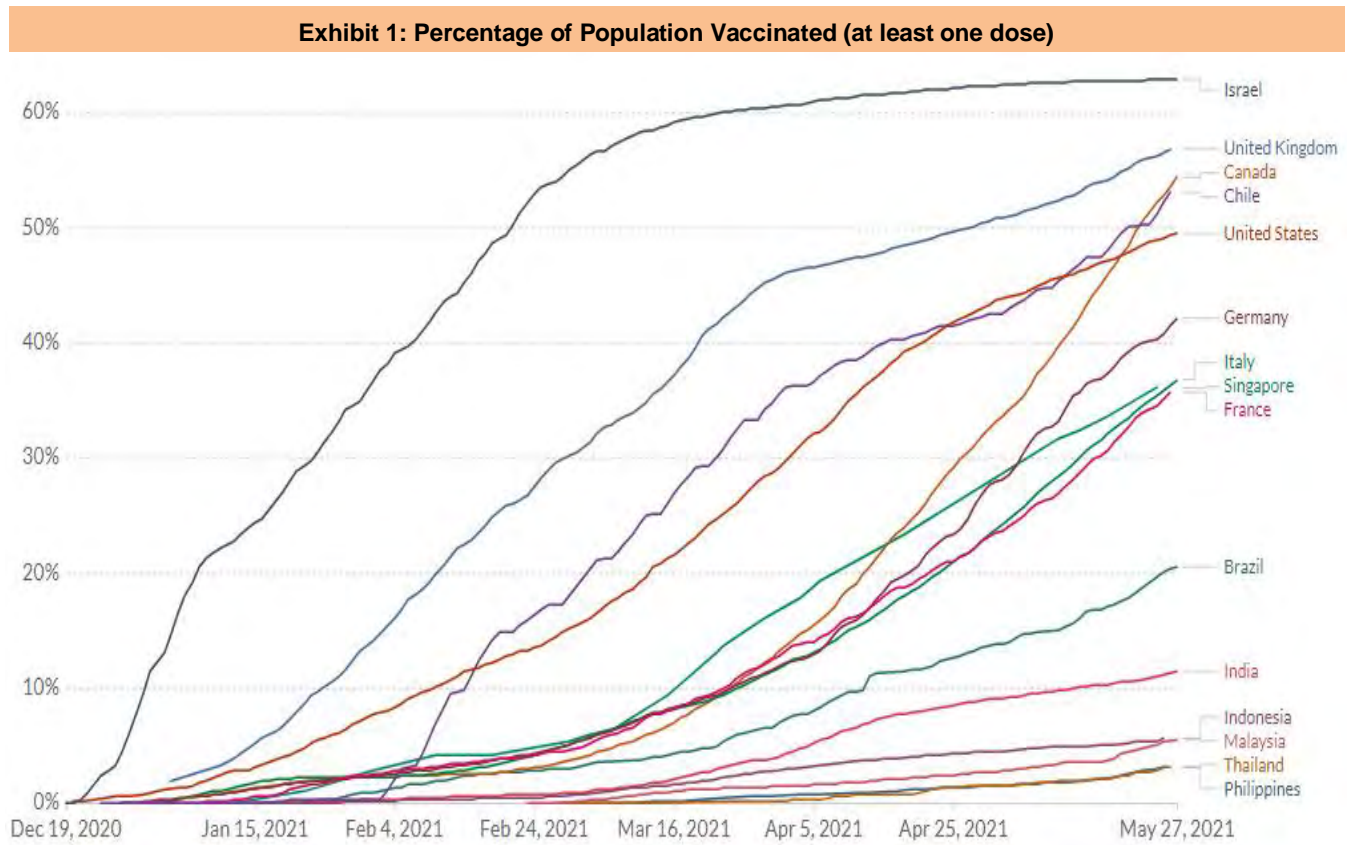
- Based on the information compiled by crowd-sourced database *Our World in Data*, as at 26/27 May 2021, the percentage of population having received at least one dose of Covid-19 vaccine in Malaysia stood at only 5.6%. While it is understandable that wealthier developed nations are way ahead of us at 35–60%, we have to acknowledge that there is much room for us to play catch-up to our way more populous peers in the emerging markets, i.e. Brazil (20.6%), India (11.3%) and Indonesia (5.7%) (Exhibit 1).
- As the pandemic gradually comes under control with a larger percentage of the Malaysian population being vaccinated, the fundamentals of banking stocks should improve. While 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, we take comfort that banks have started to make pre-emptive provisions in the form of management overlays, in addition to provisions based on changes to macroeconomic factors.
- Other key sectors that are poised to benefit from the recovery are power (increased demand for electricity, particularly, from the commercial and industrial segments), oil & gas (higher crude oil prices), seaport (higher throughput on further recovery in global trade), airport (the eventual reopening of borders), consumer (cash handouts and recovery in the job market to sustain consumption) and REIT (reduced rental rebates, recovery in footfall and occupancy). Meanwhile, while the availability of effective vaccines has greatly brightened the recovery prospects of the air travel sector, we remain mindful of the need for airlines to recapitalise their balance sheet after massive losses during the pandemic.
- We acknowledge that our market has been flying under the radar of foreign investors due to Malaysia's insignificant and shrinking weighting in the MSCI Emerging Markets Index, the market's inherently high valuations, coupled with a lack of tech start-up listing. We expect domestic liquidity (from both institutional and retail investors) to remain robust during the remainder of 2021F and shall continue to neutralise foreign selling if any, as it did in 2020.

Corporate Malaysia lost a bit of steam in 1Q2021 vs. 4Q2020

- FBM KLCI component stocks delivered a set of 1Q2021 results that lost a bit of steam sequentially, as corporate earnings recovery hit a speed bump with the resurgence in Covid-19 infections locally and regionally. The 1Q2021 results were generally more subdued with 27%, 50% and 23% beating, meeting and missing our projections respectively, compared with 33%, 58% and 8% for "above", "within" and "below" respectively in 4Q2020 (Exhibit 2).
- Against the market consensus, the numbers also showed slight deterioration sequentially with "above", "within" and "below" at 21%, 48% and 31% respectively, vs. 34%, 38% and 28% in 4Q2020 (also see Exhibit 2).
- Six FBM KLCI component stocks under our coverage beat our projections, namely, **CIMB Group** (better net interest margin), **Hong Leong Financial Group** (strong performance from investment banking and stock broking), **IHH Healthcare** (Covid-19-related patients), **Petronas Chemicals** (higher petrochemical prices), **Sime Darby Plantation** (improved cost structure) and **Top Glove** (higher glove selling prices).
- On the other hand, five FBM KLCI component stocks under our coverage missed our projections, namely, **Tenaga Nasional** (weak electricity demand), **Maxis** (weak showing from enterprise fixed services), **Dialog Group** (lower specialist and plant maintenance billings due to movement restrictions), **MISC** (weak charter rates for very large crude carriers) and **Nestle (Malaysia)** (lower out-of-home sales).

Our top buys

- Sector-wise, we are **OVERWEIGHT** on **automobile, cement, consumer, financial, healthcare, media, oil & gas, power, REIT, telco and transport & logistics** (Exhibit 5). Our top picks reflect names that are likely to benefit from the recovery of the domestic and global economies, i.e. **Maybank, Tenaga Nasional, CIMB Group, Telekom Malaysia, RHB Bank, Westports, Malaysia Airports, Astro, Hibiscus Petroleum and Perak Transit** (Exhibit 4).



As at 26/27 May 2021

Source: ourworldindata.org

Exhibit 2: Quarterly Performance of FBM KLCI Component Stocks

COMPANY	1Q 2021						4Q 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	
Supermax		0				1		0		1		
HAP Seng Consolidated Bhd		0			0			0			0	
Nestle Malaysia Bhd			1			1			1			1
PPB Group Bhd		1			1			1			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		0			1		1			1		
DiGi.Com Bhd		0			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			1			0		1		
Genting Malaysia Bhd		0				1		0				1
Genting Bhd		0				1		0				1
Total (no.)	6	11	5	6	14	9	8	14	2	10	11	8
Total (%)	27	50	23	21	48	31	33	58	8	34	38	28

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

Source: AmInvestment Bank

Exhibit 3: Market Earnings Projection

	Weighting (%)	EPS Growth (%)			PE (x)		
		2020 A	2021 F	2022 F	2020 A	2021 F	2022 F
Stock Universe		7.4	60.0	(7.6)	21.3	14.5	14.5
FBM KLCI		(17.3)	53.4	(2.0)	22.8	14.9	15.2
Automobile	2.3	(2.4)	18.6	6.7	16.8	14.2	13.3
Building Material	0.3	(17.8)	nm	39.6	nm	67.7	48.5
Construction	1.6	(31.5)	36.0	(0.0)	19.1	14.1	14.1
Consumer	8.0	2.5	22.8	22.7	37.3	30.4	24.7
Financial Services	27.2	(19.7)	30.8	9.0	14.0	10.7	9.9
Glove	7.0	>100	>100	(69.9)	14.2	5.2	17.1
Healthcare	4.4	(25.5)	87.1	7.4	59.2	31.6	29.5
Manufacturing	1.0	(4.0)	40.4	17.6	19.0	13.5	11.5
Media	0.6	(36.5)	8.0	9.7	12.9	11.9	10.9
Oil & Gas	10.8	5.4	54.5	9.2	20.9	13.5	12.4
Plantation	8.1	>100	30.8	2.1	31.5	24.0	23.5
Power	5.6	(24.3)	18.2	2.9	15.5	13.1	12.7
Property	3.1	(50.3)	96.1	21.7	27.3	13.9	11.4
REITs	1.0	(13.8)	(10.0)	18.4	18.9	21.0	17.8
Stock Exchange	0.6	>100	(3.1)	(11.4)	17.5	18.0	20.4
Technology	2.6	(1.8)	63.4	16.5	56.0	34.3	29.4
Telecommunication	10.7	(10.1)	4.3	9.7	28.4	27.2	24.8
Transportation & Logistics	5.2	nm	41.6	>100	nm	nm	16.4

Source: AmlInvestment Bank

Exhibit 4: Top Buys

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		PE (x)		PB*	ROE*	NDPS* (sen)	DY*
							FY21F	FY22F	FY21F	FY22F	FY21F	FY22F				
Malayan Banking	BUY	8.18	10.40	27.1	91,954.3	Dec	73.1	80.6	23.4	10.3	11.2	10.1	1.0	10.4	62.9	7.7
Tenaga Nasional	BUY	9.95	12.00	20.6	56,153.8	Aug	76.3	78.7	11.6	3.1	13.0	12.7	0.9	7.5	39.3	4.0
CIMB Group	BUY	4.28	5.60	30.8	42,470.3	Dec	46.0	56.3	257.4	22.4	9.3	7.6	0.7	9.3	28.1	6.6
Telekom Malaysia	BUY	6.15	7.10	15.4	23,111.7	Dec	28.2	29.7	7.6	5.1	21.8	20.7	2.4	12.1	15.0	2.4
RHB Bank	BUY	5.30	6.90	30.2	21,253.2	Dec	68.7	75.5	26.0	9.9	7.7	7.0	0.7	10.2	37.8	7.1
Westports Holdings	BUY	4.31	5.07	17.7	14,697.1	Dec	21.4	21.4	9.2	0.2	20.2	20.1	5.2	25.8	16.1	3.7
Malaysia Airports	BUY	5.59	6.57	17.6	9,274.9	Dec	(41.4)	15.7	29.7	(138.0)	nm	35.5	1.3	4.1	7.0	1.3
Astro Malaysia	BUY	1.06	1.83	72.4	5,527.4	Jan	11.0	10.9	7.2	(0.9)	9.7	9.8	4.1	43.4	9.0	8.5
Hibiscus Petroleum	BUY	0.62	0.85	37.1	1,072.3	Jun	4.5	5.7	0.1	26.5	13.8	10.9	0.8	8.5	1.0	1.6
Perak Transit	BUY	0.68	1.21	79.8	435.5	Dec	7.6	8.4	17.3	9.8	8.8	8.1	0.9	11.3	2.9	4.3

* FY22F

Source: AmlInvestment Bank

Exhibit 5: Sector Weighting

	Sector	Rationale	Top Pick(s)
OVERWEIGHT	Automobile & Consumer	Consumption underpinned by cash handouts and recovery in the job market	MBM Resources, MR D.I.Y.
	Cement	Sector consolidation to bring about more rational competition	Malayan Cement
	Financial	A proxy to economic recovery, pre-emptive pandemic-related provisions	Maybank, RHB Bank, CIMB, Hong Leong Bank
	Healthcare	Aging population, rising affluence and longer life expectancy	IHH Healthcare
	Oil & Gas	A proxy to economic recovery, firm oil prices	Dialog, Yinson, Hibiscus
	Media	Recovery in advertising spending, reinvention to stay relevant	Astro, Media Prima
	Power	Recovery in electricity demand, especially commercial and industrial	Tenaga Nasional
	REIT	Reduced rental rebates, recovering footfall and occupancy post pandemic	IGB REIT, Sunway REIT
	Telco	Sector consolidation to alleviate price war	Telekom Malaysia
	Transportation & Logistics	Recovery in global trade and eventually traveling propensity	Westport, Malaysia Airports, Perak Transit
NEUTRAL	Construction	Infrastructure spending constrained by high national debt, but news flow lifts sentiment	none
	Glove	New capacity comes online when demand starts to ease as Covid-19 infections taper off	none
	Plantation	Elevated CPO prices may be weighed down by recovery in production	KL Kepong
	Property	Oversupply, high household debt, tight bank credit, but share price downside capped by depressed valuations	Sunway
	Technology	Digitalisation of economy, 5G rollout, but valuations stretched	none

Source: AmInvestment Bank

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