



AmInvestment Bank

Market report

1 Sep 2021

STRATEGY

Malaysia: Turning the corner

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

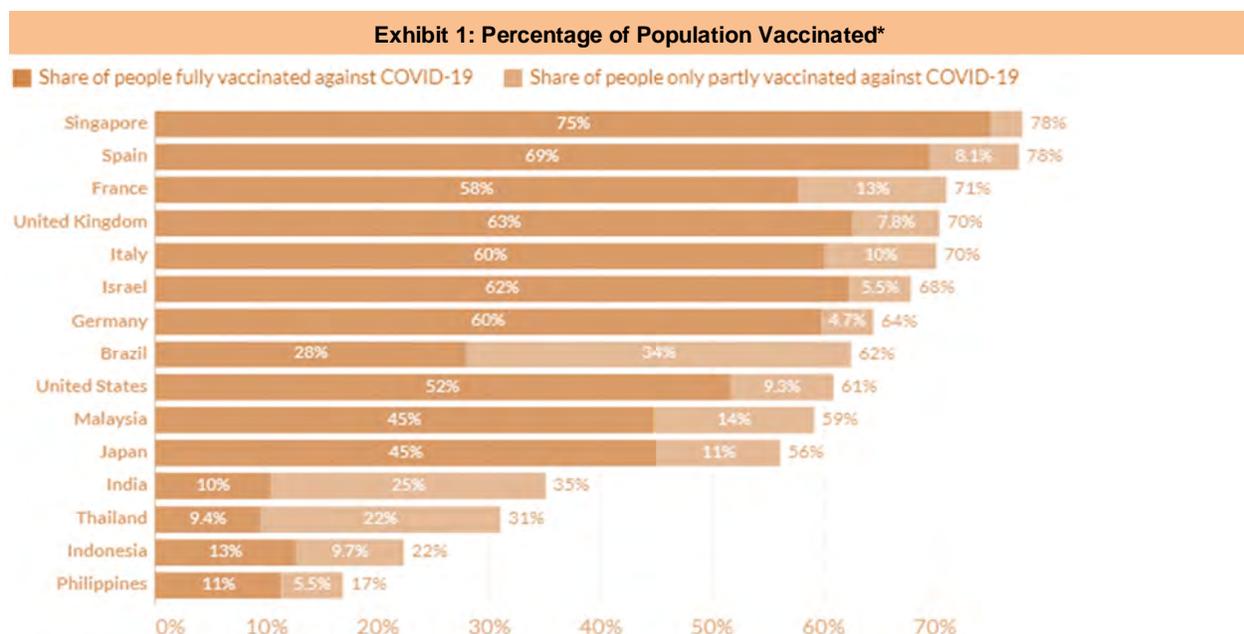
- We maintain our end-2021 FBM KLCI target of 1,695 pts based on 16x our 2021F earnings projection (+55.5%) (Exhibit 5). This is at a discount to its 5-year historical average of 18x to: (1) mitigate the distortion arising from earnings spikes from glove makers, i.e. Top Glove and Hartalega in 2021F due to the abnormally high glove selling prices that are not recurring; and (2) factor in a higher perceived market risk premium arising from a dynamic political landscape.
- We are optimistic that the world at large will enter into the late stage of the pandemic in the coming months, with more countries attaining herd immunity against Covid-19. A synchronised global recovery is almost a foregone conclusion underpinned by the reopening of economies and international borders. While the highly contagious Delta variant has brought about new waves of infections around the globe, the hospitalisation rate has been kept under control as vaccinated Covid-19 patients typically develop mild Covid-19 symptoms. This alleviates the risk of a collapse of the healthcare system.
- We maintain our base-case assumption that Malaysia will reach herd immunity against Covid-19 before the year is out. Based on the information compiled by crowd-sourced database *Our World in Data*, as at 29 Aug 2021, the percentage of population having received at least one dose of Covid-19 vaccine in Malaysia stood at 59%. This was just a whisker away from 61% to 78% of wealthier developed nations (Exhibit 1).
- We take comfort of a relatively calmer political landscape following the swearing in of the new prime minister Datuk Seri Ismail Sabri Yaakob last month. However, we believe it will be challenging for the new leadership to roll out long-term policy initiatives as its priority is to significantly bring down new Covid-19 infections to enable a more lasting reopening of the economy. Once that is achieved, parliament is poised for a dissolution to pave the way for the 15th general election.
- Despite the sharp rally in recent weeks, the local market is still underperforming most of its regional and global peers on a YTD basis (Exhibit 2). All is not lost as we believe this could be seen in a positive light whereby it makes the local market an even more compelling recovery play for the remainder of 2021.
- Sector-wise, 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).

Corporate Malaysia's downbeat performance extends into 2Q2021 from 1Q2021

- FBM KLCI component stocks delivered a set of 2Q2021 results that had yet to show meaningful improvement sequentially, as the reintroduction of various pandemic restrictions against a backdrop of surging Covid-19 infections weighed down the corporate financial performance. The 2Q2021 results remained subdued with 27%, 55% and 18% beating, meeting and missing our projections respectively, compared with 27%, 50% and 23% for "above", "within" and "below" respectively in 1Q2021 (Exhibit 4).
- Against the market consensus, the numbers also showed a relatively flattish performance sequentially with "above", "within" and "below" at 24%, 45% and 31% respectively, vs. 21%, 48% and 31% in 1Q2021 (also see Exhibit 4).
- Six FBM KLCI component stocks under our coverage beat our projections, namely, **CIMB Group** (lower operating expenditure), **Sime Darby** (stronger vehicle and heavy equipment sales), **Sime Darby Plantation** (higher CPO prices), **IHH Healthcare** (Covid-19-related patients and effective cost-saving initiatives), **Petronas Chemicals** (higher product prices), and **Tenaga Nasional** (lower repair and maintenance cost).
- On the other hand, four FBM KLCI component stocks under our coverage missed our projections, namely, **MR DIY** (pandemic restrictions and delays in expansion plans), **PPB Group** (weak performance from grains & agribusiness and Wilmar International), **Dialog Group** (pandemic restrictions weighed down project execution), and **Petronas Gas** (higher operating cost stemming from pandemic restrictions).

Our top buys

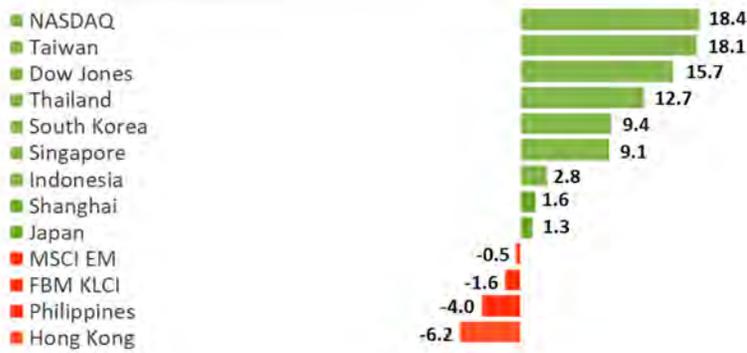
- Our top picks reflect names that are likely to benefit from the recovery of the domestic and global economies, i.e. **Maybank**, **Tenaga Nasional**, **CIMB Group**, **Telekom Malaysia**, **RHB Bank**, **Westports**, **Astro Malaysia**, **ATA IMS**, **Hibiscus Petroleum** and **Perak Transit** (Exhibit 6). Sector-wise, we are **OVERWEIGHT** on **automobile**, **cement**, **consumer**, **EMS**, **financial services**, **media**, **oil & gas**, **power**, **REIT**, **telco** and **transportation & logistics** (Exhibit 7).



* As at 29 Aug 2021

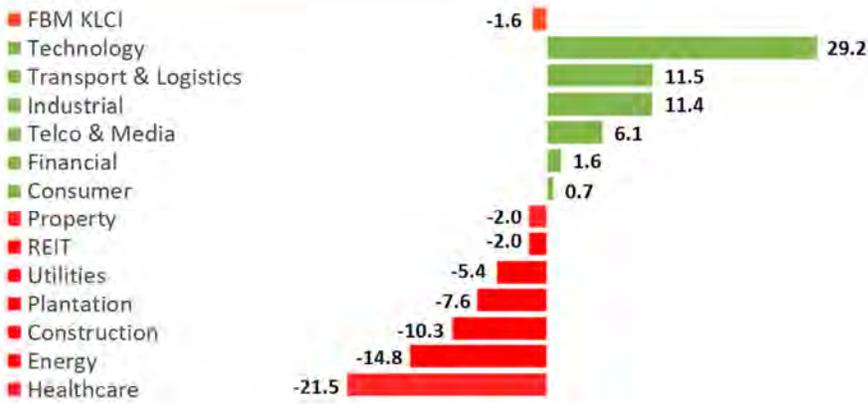
Source: ourworldindata.org

Exhibit 2: Performance of Key Markets (YTD*)



* As at 30 Aug 2021
 Source: Bloomberg, AmInvestment Bank

Exhibit 3: Performance of FBM KLCI by Sector (YTD*)



* As at 30 Aug 2021
 Source: Bloomberg, AmInvestment Bank

Exhibit 4: Quarterly Performance of FBM KLCI Component Stocks

COMPANY	2Q 2021						1Q 2021					
	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			1	
CIMB Group Holdings Bhd	1			1			1			1		
Hong Leong Bank Bhd		1			1			1			1	
Hong Leong Finandal 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	
MR. DIY*			1			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		0		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			0			1	
Digi.Com Bhd		0				1		0			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	12	4	7	13	9	6	11	5	6	14	9
Total (%)	27	55	18	24	45	31	27	50	23	21	48	31

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

* Supermax Corp in 1Q 2021

Source: AmInvestment Bank

Exhibit 5: Market Earnings Projection

	Weighting	EPS Growth (%)			PE (x)		
		2020A	2021F	2022F	2020A	2021F	2022F
Stock Universe		10.6	57.5	(13.1)	20.4	13.9	14.7
FBM KLCI		(18.0)	55.5	0.7	23.6	15.2	15.1
Automobile	2.3	(2.4)	21.4	4.3	17.1	14.1	13.5
Building Material	0.2	(17.8)	nm	39.6	(12.4)	64.2	46.0
Construction	1.6	(31.5)	26.6	7.2	19.1	15.1	14.1
Consumer	7.6	2.5	10.8	31.3	36.3	32.8	25.0
Financial Services	27.8	(19.7)	27.8	9.9	14.7	11.5	10.4
Glove	5.4	>100	>100	(69.0)	11.2	4.0	13.0
Healthcare	5.1	(25.5)	97.9	20.2	70.2	35.5	29.5
Manufacturing	1.4	(4.0)	40.4	17.6	25.2	18.0	15.3
Media	0.6	(41.5)	17.4	9.2	14.1	12.0	11.0
Oil & Gas	10.6	5.4	70.7	1.5	20.9	12.2	12.0
Plantation	7.7	>100	66.9	(10.7)	30.5	18.3	20.4
Power	5.7	(24.3)	26.3	2.7	16.2	12.9	12.5
Property	3.1	(48.6)	78.9	23.8	26.7	14.9	12.1
REITs	1.0	(10.6)	(19.0)	22.3	19.7	24.4	19.9
Stock Exchange	0.5	>100	(6.4)	(13.9)	16.1	17.2	20.0
Technology	2.8	(1.8)	63.4	16.5	63.1	38.6	33.1
Telecommunication	10.9	(10.1)	4.3	9.7	29.6	28.4	25.8
Transportation & Logistics	5.6	(43.2)	(20.5)	52.9	25.6	32.3	21.1

Source: AmlInvestment Bank

Exhibit 6: Top Buys

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen) FY21F	EPS (sen) FY22F	EPS growth (%) FY21F	EPS growth (%) FY22F	PE (x) FY21F	PE (x) FY22F	PB* (x)	ROE* (%)	NDPS* (sen)	DY* (%)
Malayan Banking	BUY	8.40	9.90	17.9	96,268.6	Dec	68.3	74.4	15.4	8.9	12.3	11.3	1.1	9.8	58.0	6.9
Tenaga Nasional	BUY	10.46	12.10	15.7	59,032.1	Aug	82.3	84.7	20.4	2.9	12.7	12.4	1.1	8.6	85.6	8.2
CIMB Group	BUY	4.91	5.80	18.1	48,721.8	Dec	48.1	57.5	274.1	19.5	10.2	8.5	0.8	9.5	28.8	5.9
Telekom Malaysia	BUY	6.11	7.10	16.2	22,961.4	Dec	28.2	29.7	7.6	5.1	21.6	20.6	2.4	12.1	15.0	2.5
RHB Bank	BUY	5.59	6.80	21.6	22,416.2	Dec	63.9	73.8	17.3	15.4	8.7	7.6	0.7	10.0	36.9	6.6
Westports Holdings	BUY	4.40	5.07	15.3	15,004.0	Dec	21.4	21.4	8.9	0.2	20.6	20.5	5.3	25.8	16.1	3.7
Astro Malaysia#	BUY	1.08	1.83	69.4	5,631.7	Jan	11.0	10.9	7.2	(0.9)	9.8	9.9	4.5	47.1	8.0	7.4
ATA IMS	BUY	2.70	3.34	23.7	3,248.7	Dec	12.5	15.4	79.6	23.5	21.6	17.5	3.5	21.7	4.9	1.8
Hibiscus Petroleum	BUY	0.67	1.16	74.4	1,150.1	Jun	5.7	10.9	26.3	91.5	11.7	6.1	0.7	13.9	1.0	1.5
Perak Transt.	BUY	0.61	1.08	78.5	384.0	Dec	8.3	9.0	28.0	7.6	7.3	6.7	0.8	12.1	2.5	4.2

* FY22F

#FY21F and FY22F refer to FY22F and FY23F

Source: AmlInvestment Bank

Exhibit 7: Sector Weighting

	Sector	Rationale	Top Pick(s)
OVERWEIGHT	Automobile & Consumer	Consumption underpinned by cash handouts and recovery in the job market	MBM Resources, Guan Chong, Berjaya Food
	Cement	Sector consolidation brings about more rational competition	Malayan Cement
	EMS	Strong global demand for consumer electronics, supply chain diversion from China to Southeast Asia	ATA IMS
	Financial Services	A proxy to economic recovery, pre-emptive pandemic-related provisions	Maybank, RHB Bank, CIMB
	Media	Recovery in advertising spending, reinvention of business model	Astro, Media Prima
	Oil & Gas	A proxy to economic recovery, firm oil prices	Dialog, Yinson, Hibiscus
	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, 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 offset by weighting cuts on ESG concerns	Sime Darby Plantation
	Private Healthcare	Aging population, rising affluence and longer life expectancy, offset by rich valuations and high risk of overseas operations (of certain player)	Apex Healthcare
	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	Globetronics

Source: AmInvestment Bank

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