



AmInvestment Bank

Market report

21 Sep 2021

# STRATEGY

Assessing impact from Evergrande's debt crisis

1,643

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

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Rationale for report: Market update

## Investment Highlights

### News

- China's Evergrande Group share price declined 10% on Monday to HK\$2.28. This is the lowest level in more than 11 years. YTD, the stock has tumbled 85% from HK\$14.90 at the start of 2021. We understand that the weak share price performance is caused by concerns that the company may not have sufficient cash to address its near-term payment obligation to lenders. As of 30 June 2021, Evergrande has short-term debt of RMB240bil and long-term debt of RMB332bil. With RMB87bil cash (excluding the restricted cash), the company was in net debt position of RMB485bil.
- According to Evergrande's announcement to the Stock Exchange of Hong Kong, "the month of September is typically when real estate companies in China record higher contract sales of properties. However, the ongoing negative media reports concerning the group have dampened the confidence of potential property purchasers in the group. The company expects significant continuing decline in contract sales in September, thereby resulting in the continuous deterioration of cash collection by the group which would in turn place tremendous pressure on the group's cash flow and liquidity".
- Concerns on whether the company will default on its payment together with the contagion risk have affected the overall sentiment of Asian equity markets. For example, the Hang Seng Index plunged 821.62 points or 0.64% to 24,099.14 on 20 Sep. Regionally, Asean stock markets' performance on 20 Sep was as below:
 

i)	FBMKLCI	Dropped 20.62 points or 1.33% to 1,527.89 points
ii)	FTSE Straits Times STI Index	Dropped 29.50 points or 0.96% to 3,041.73 points
iii)	SE Thai Index	Dropped 22.59 points or 1.39% to 1,603.06 points
iv)	Jakarta Composite Index	Dropped 56.93 points or 0.93% to 6,076.32 points
v)	Philippine SE Index	Dropped 54.95 points or 0.79% to 6,857.90 points

### Our view

- We believe that the impact to Malaysia's stock market will be limited. In terms of direct exposure to China's property market for stocks under our coverage, only two property companies have exposure to China property market. They are IOI Properties Group (developments in Xiamen) and Sunway (development in Tianjin). Based on our channel checks, none of the ongoing developments involved Evergrande. The remaining GDV of IOI Properties Group and Sunway in China is also insignificant at only 3% and 1% respectively of their total group portfolio. Net gearing wise, all six companies under our coverage are still manageable at below 60%. However in the short term, property sales in China may slow down on dampened buyer sentiment.
- We do not expect any impact on banks. Malaysian banks' focus in Asia are mainly in Singapore, Indonesia and Thailand. China is not a large or key market for regional banks. Hence, we do not see a risk for Malaysian banks from the default of Evergrande's bonds.
- On the potential contagion risk to Asian equity markets, we believe it is limited at this juncture unless the China government allows Evergrande Group to default and does nothing to control the situation. This is an unlikely scenario as we believe that Beijing will try its best to resolve the issue due to the need to provide stability for the people.
- Our in-house projection for Malaysia 2021 GDP forecast is maintained at 3.0%–3.5%.

- Separately, we have downgraded our end-2021 FBMKLCI target slightly to 1,643 points (from 1,695 points). Our target PE has been reduced to 15.6x which is at -0.5SD. The discount in our valuation reflects the recovery towards normalization though not fully to the pre-pandemic level in the near term. Our 2021 earnings growth has also been lowered to 54.6% from 55.5% previously. The weaker earnings growth is due to the reduction in earnings growth from Top Glove, which is one of the FBMKLCI components.
- We maintain **Maybank, Tenaga Nasional, CIMB Group, Telekom Malaysia, RHB Bank and Westports** as our top picks. We have also added **Sime Plantation, Dialog, Sunway and Media Prima** to the list.

### EXHIBIT 1: IMPACT TO EACH SECTOR UNDER COVERAGE

Sector	Impact
Banking	We do not expect any impact on banks. Malaysian banks' focus in Asia are mainly in Singapore, Indonesia and Thailand. China is not a large or key market for regional banks. Hence, we do not see a risk for Malaysian banks from the default of Evergrande's borrowings or bonds. Furthermore, Evergrande is in the real estate sector which Malaysian banks have limited exposure.
Construction	No Impact
Gloves	No impact. Separately, the average selling price (ASP) decline in gloves remains a concern in the near term.
Healthcare	No impact. Although IHH has exposure to China, it is in the healthcare industry which has little to no relationship with the property/banking industry.
Insurance	Insurance companies' investments are largely in Malaysian government securities, bonds and equities. Hence, we do not see the impact of a default of Evergrande bonds on Malaysia-based insurance companies' earnings.
Oil and Gas	No impact as no Malaysian O&G companies operate in China currently.
Plantation	No Impact
Power	No Impact
Property	There are only 2 developers under our coverage that have exposure in China, namely IOI Properties Group (developments in Xiamen) and Sunway (development in Tianjin). Based on our channel checks, none of the ongoing developments involve Evergrande China. The remaining GDV of IOI Properties Group and Sunway in China is also insignificant at only 3% and 1% respectively of their total group portfolio. Net gearing wise, all six companies under our coverage are still manageable at below 60%. However, the Evergrande crisis may lead to some contagion effects, weighing on the buying sentiment of local property stocks. Year to date as of 20 Sep, Bursa's Property Index has fallen 2.5% (vs. 15.5% in the HSI Property Index and 7.8% in Shanghai Property Index). Maintain NEUTRAL on the property sector while Sunway remains as our top pick for the sector.
Telco	No impact as no telco companies have any China exposure.
Transport	No impact. Sea-borne-related companies may be affected if export volume from China decreases drastically. However, we don't see any major impact from the Evergrande crisis at the moment as export volume is largely dependent on foreign countries' consumption, which should not be affected by China's domestic issues. Air travel companies under our coverage mainly focus on the Asean region, while Chinese tourist arrivals will not have any material impact amidst the pandemic (while international borders are still closed). Other land transport-related companies are mostly dependent on domestic economic activities, thus will not be affected.

Source: AmlInvestment Bank

### EXHIBIT 2: TOP BUYS

Companies	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS* (sen)	DY*
							FY21F	FY22F	FY21F	FY22F	FY21F	FY22F				
Malayan Banking	BUY	8.30	9.90	19.3	95,122.6	Dec	68.3	74.4	15.4	8.9	12.2	11.2	1.1	9.8	58.0	7.0
Tenaga Nasional	BUY	9.80	12.10	23.5	55,307.3	Aug	82.3	84.7	20.4	2.9	11.9	11.6	1.0	8.6	85.6	8.7
CIMB Group	BUY	4.80	5.80	20.8	47,630.2	Dec	48.1	57.5	274.1	19.5	10.0	8.3	0.8	9.5	28.8	6.0
Sime Darby Plantation	BUY	3.45	4.88	41.4	23,751.8	Dec	27.7	22.2	111.4	(20.0)	12.4	15.5	1.6	10.4	15.0	4.3
Telekom Malaysia	BUY	5.85	7.10	21.4	21,984.3	Dec	28.2	29.7	7.6	5.1	20.7	19.7	2.3	12.1	15.0	2.6
RHB Bank	BUY	5.30	6.80	28.3	21,253.2	Dec	63.9	73.8	17.3	15.4	8.3	7.2	0.7	10.0	36.9	7.0
Westports Holdings	BUY	4.35	5.07	16.6	14,833.5	Dec	21.4	21.4	8.9	0.2	20.4	20.3	5.2	25.8	16.1	3.7
Dialog Group	BUY	2.31	3.75	62.3	13,024.5	Jun	9.2	10.7	(13.5)	15.8	25.0	21.6	2.6	12.5	3.1	1.3
Sunway	BUY	1.73	2.20	27.4	8,537.1	Dec	7.8	10.7	13.4	37.8	22.2	16.1	0.8	5.3	2.9	1.7
Media Prima	BUY	0.50	0.75	49.4	554.6	Dec	3.7	5.2	496.0	41.0	13.6	9.7	0.8	8.9	0.0	0.0

\*FY22

Source: AmlInvestment Bank

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