

STRATEGY

Foreign buying rebound amid mixed 2Q2022 report card

1,630

End-2022 FBM KLCI target (pts)

(Maintained)

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Rationale for report: Market update

Investment Highlights

- **Mixed 2Q2022 report card.** The results of the 2Q2022 season were mixed as underperformers accounted for 29% of the stocks under our coverage vs. 26% outperformers with 44% in line. In comparison, 1Q2022 underperformers constituted 27%, outperformers 25% and in line 48% (Exhibit 1). The REIT, consumer and plantation sectors outperformed with each segment registering 4 stocks with above-expected results. Meanwhile, the construction sector led the underperformers with 4 out of 5 stocks under our coverage followed by 3 oil and gas stocks.
- **Stronger QoQ core earnings from the power, automobile, plantation and consumer sectors.** QoQ, the best performing sector was power (+83%) in the absence of forced outages at Malakoff's Tanjung Bin plant and YTL Power's lower asset impairments (Exhibit 2). This was followed by automobile (+59% QoQ) which enjoyed higher sales volumes amid the sales and service tax exemption which expired in June this year. Plantation earnings rose 15% QoQ on higher crude palm oil prices and downstream contributions while the consumer sector also climbed by a similar quantum sequentially due to buoyant post-Covid consumption recovery.
- **The worst QoQ sector earnings decline was glove** (-56%) from declining selling prices, followed by electronic manufacturing services (-37%) due to high labour and raw material costs. Healthcare slid 19% QoQ, construction 17% and REITS 16%.
- **Slightly lower 2023F FBMKLCI EPS growth to 7.4%.** While 2022F FBMKLCI EPS largely remained flattish, our corporate forecast revisions have slightly reduced the index's 2023F core earnings growth to 7.4% from 8% previously. This is mainly due to lowered CY23F earnings for Petronas Chemicals Group (-9%), Hartalega (-46%), MISC (-5%) and Press Metal Aluminium Holdings (-10% based on consensus). We note that our 2023 EPS growth is more conservative than Bloomberg consensus' 11.5%.
- **Rebound in August net foreign equity buying.** Foreign investors rebounded to net equity buying position of RM2bil in August after a tepid RM175mil in July, and a substantive reversal from net selling of RM1.3bil in June (Exhibit 7). This supported a 7% FBMKLCI rebound to 1,512 currently from a 2-year low of 1,411 on 13 July 2022, which was a level not seen since May 2020 during the initial outbreak of the Covid-19 pandemic. This is likely to increase foreign equity shareholdings in August after falling to 20.2% in July 2022 from 20.6% in February this year. However, this remains substantively below the 22.4% in January 2020 before the Covid-19 global outbreak (Exhibit 10).
- **Only 1 of 3 net foreign buys in the region.** YTD 2022 foreign net buying position surged to RM8.2bil in August, surpassing the previous peak of RM7.4bil in May 2022, which subsequently slid to RM6.2bil on 31 July 2022. Since the beginning of the year, 57% of net foreign purchases was in the financial sector, plantation 24% and industrial products/services 20%, partially offset by net sale of technology stocks. Within the region, only Indonesia, Thailand and Malaysia enjoyed YTD net foreign equity inflows with Malaysia accounting for 16% of ASEAN's net purchases (Exhibits 11–12).
- **Mostly offset by local institutional sales.** The mild recovery on Malaysian equities was stifled by net equity sales by local institutions in August reaching RM2.4bil, offsetting foreign investors' net purchases and partly suppressing the FBMKLCI uplift. Amid counter-cyclical transactions with foreign investors, local institutions were YTD net sellers of RM10.2bil (Exhibits 5–6). This was 24% more than cumulative foreign net purchases in 2022 so far, which continues to dampen investor sentiments amid rising concerns of overly aggressive US interest rate hikes and looming recessionary headwinds.
- **Malaysian equities still at bargain valuations.** Regionally, most stock exchanges declined YTD except the Jakarta Composite Index, which rose 9%, Singapore 3% and India 2%. Taiwan and Korea fell the most YTD by 17%, Hong Kong 15%, China 12% and Philippines 8%. Comparatively, Malaysia weathered the recent sell-down well with a decline of only 3.5%.

Even so, the FBMKLCI still trades at a bargain 1.0 standard deviation (SD) below to its 5-year median of 16.3x, comparable to Hong Kong's. Only Taiwan still trades at a much lower 2 SD below its 5-year median (SD5YM). We highlight that the only other 2 Southeast Asian countries, Thailand and Indonesia, which enjoyed strong foreign equity inflows, currently trades at SD5YM of 0.4 (Exhibit 16). While an improvement from the FBMKLCI's YTD low of -1.7 SD when the index was at 1,411 on 13 July this year, we believe current levels offer good opportunities to accumulate given that the index did not seriously breach 2 SD threshold below the 5-year median even during the 2020–2021 unprecedented Covid-19 pandemic watershed (Exhibit 6) that caused a 2020 GDP recession of 5.5% in Malaysia.

- **Expect the return of foreign equity buyers to persist in 2H2022** from the August rebound in foreign equity inflows amid compelling valuations and prospects of our recently-raised inhouse 2022 GDP growth projection of 6.4% vs. the global rate of 2.7%. This will be further underpinned by expectations of a stronger 2H2022 ringgit with our economist projecting the USD/MYR to strengthen from RM4.49 currently to RM4.40 (consensus: RM4.42) by 4Q2022, subsequently improving further to RM4.20 (consensus: RM4.30) by the end of 2023.
- **Maintain base-case end-2022 FBMKLCI target of 1,630** as our 2022F aggregated EPS was mostly unchanged. This target is pegged to 15.7x, 0.5 SD below to its 5-year median at 16.3x as both foreign and local investors are likely to switch back into buying positions towards the end of the year amid clearer visibility to 2023F EPS growth expectations of 7.4%.

Near term, the fund flow volatility could continue to drive the index within a range-band of 1,400 to 1,600 as the recent reopening of international borders and stronger economy may be curtailed by overly-aggressive US rate hikes, stagflationary worries, earnings volatility amid commodity price swings, further supply chain shocks from Russia being shunned by the global economy, GST reintroduction and political noises running up to the 15th general election (GE15).

- **Our worst-case 2022 year-end outlook remains on an FBMKLCI drop to 1,415**, pegged to 2022 PE of 14.8x, 2 SD below its 5-year median, driven by substantive earnings disappointments, intensified global recessionary momentum, fresh outbreaks of new Covid-19 variants, further geopolitical shocks and a reversal of foreign net flows.
- **Reiterate OVERWEIGHT on the automobile, banking, media, oil & gas, ports, power and technology sectors with top BUYs being Maybank, Tenaga Nasional, CIMB Group, RHB Bank, Berjaya Food, Telekom Malaysia, Inari Amertron, Malaysian Pacific Industries, Bermaz Auto and Dialog Group** (Exhibits 19 & 23). For **dividend stocks**, our top 5 picks with yields of over 6% are **Malakoff, Astro, Globetronics, Maybank and YTL REIT** (Exhibit 21).

Our **ESG champions** are **Maybank, Petronas Chemicals Group, Petronas Gas, IHH Healthcare, Telekom Malaysia, Westports Holdings, Inari Amertron, Sunway Holdings, Yinson Holdings, Sunway REIT and Astro** (Exhibit 22).

EXHIBIT 1: 2Q2022 REPORT CARD – RESULTS VS. EXPECTATIONS

Sector	Below	Within	Above	Total
Automobile	-	3	2	5
Banking	2	5	1	8
Construction	4	1	-	5
Consumer	2	2	4	8
EMS	-	1	-	1
Glove	2	1	-	3
Healthcare	1	-	1	2
Insurance	2	1	-	3
Media	1	1	-	2
Oil & Gas	3	3	2	8
Plantation	1	2	4	7
Port	1	1	-	2
Power	1	2	-	3
Property	1	5	2	8
REITs	-	2	4	6
Technology	1	4	-	5
Telecommunications	1	2	1	4
Total	23	36	21	80
Share of total (%)	28.8	45.0	26.3	100.0

Source: AmInvestment Bank

EXHIBIT 2: 2Q2022 SECTOR QOQ PERFORMANCE

Sector	Core net profit change QoQ (%)	Comments
Automobile	59%	Mainly attributed to higher sales volume as automobile firms were rushing to deliver as many vehicles, anticipating that the SST exemption will end in June.
Banking	3.6%	The improved earnings were contributed by stronger net interest income from higher loan volume and NIM as well as lower provisions.
Construction	-17%	Weaker contribution from construction revenue as most projects are still in the early stages of construction.
Consumer	15%	Predominantly driven by buoyant consumer confidence as broader economic activities are picking up.
EMS	-37%	Sub-optimal production levels for key customers, coupled with higher labour and raw material costs.
Glove	-56%	Declining ASP amid rising costs.
Healthcare	-19%	Dissipating high-margin Covid-related services and inflationary pressure especially in IHH's operations in Turkiye & Europe.
Insurance	-15%	Higher net claims and fair value losses on investment portfolio from interest rate changes.
Media	-6%	Lower earnings from Astro in Feb-Apr 2022 due to lower advertising and subscription revenue in the absence of festive campaigns. Sector earnings were partially cushioned by higher earnings from Media Prima in Apr-Jun 2022 due to improved advertising revenue from festive campaigns and narrowing losses in Out-of-Home & home shopping segments.
Oil & Gas	-3%	Lower plant utilisation rate from statutory turnarounds for Petronas Chemicals Group and higher offshore construction costs for MISC.
Plantation	15%	Increased CPO prices and downstream profits.
Port	-15%	Higher fuel cost and impact from prosperity tax.
Power	83%	Absence of forced outage at Tanjung Bin power plant in Malakoff and turnaround in YTL Power due to lower asset impairments in 2Q2022.
Property	23%	Faster development site progress works which translate into higher progress billings.
REITs	-16%	Higher operating costs due to the imposition of electricity tariff surcharge of 3.7 sen per kilowatt hour to the non-domestic sector starting from 1 February 2022 and increased property maintenance cost.
Technology	0.3%	Slowdown in smartphones and PC market offset by robust growth in automotive and data centre segments.
Telecommunications	7.8%	TM's well optimised cost-control, coupled with stronger revenue contribution for fibre and wholesale boosted overall sector earnings.

Source: AmInvestment Bank

EXHIBIT 3: 2Q2022 ABOVE-EXPECTED RESULTS

Company	Sector	Share price RM/share	Previous FV RM/share	Revised FV RM/share	Previous rating	Revised rating	Rationale
KL Kepong	Plantation	22.3	19.40	21.75	Sell	Sell	Stronger than expected manufacturing revenue.
IOI Corporation	Plantation	4.17	3.30	3.55	Hold	Hold	Strong rebound in manufacturing EBIT.
Genting Plantations	Plantation	6.60	6.55	6.55	Sell	Hold	Strong recovery in downstream EBIT.
TSH Resources	Plantation	1.07	0.85	0.85	Sell	Sell	Lower than expected effective tax rate.
Bumi Armada	Oil & Gas	0.42	0.83	0.83	BUY	BUY	Lower-than-expected depreciation expenses and finance costs.
Hibiscus Petroleum	Oil & Gas	1.06	1.42	1.42	BUY	BUY	Robust earnings from Repsol assets coupled with stronger performance from the North Sabah PSC and Anasuria.
UEM Sunrise	Property	0.30	0.37	0.35	HOLD	HOLD	Higher-than-expected land sales.
Sunway	Property	1.64	2.27	2.29	BUY	BUY	Stronger-than-expected contribution from investment property.
Sunway REIT	REIT	1.49	1.76	1.79	BUY	BUY	Better-than-expected rental revenue coupled with lower rental rebates offered to tenants.
IGBREIT	REIT	1.62	1.74	1.85	HOLD	BUY	Higher-than-expected base rent upon renewal of tenancies.
PAVREIT	REIT	1.28	1.43	1.56	HOLD	BUY	Better than-expected rental revenue and income from advertising coupled with lower rental rebates offered to tenants.
Hektar	REIT	0.615	0.60	0.73	HOLD	BUY	Lower-than-expected rental support to tenant.
Bermaz Auto	Auto	1.82	2.25	2.25	BUY	BUY	Higher-than-expected sales volume of Mazda, Peugeot, and Kia marques.
UMW Holdings	Auto	3.07	4.60	4.65	BUY	BUY	Higher than expected sales volume and margins.
Berjaya Food	Consumer	4.12	5.05	5.15	BUY	BUY	Starbucks Malaysia recorded stronger-than-expected sales at 21% QoQ growth.
Nestle (Malaysia)	Consumer	135.1	114.00	122.00	UNDERWEIGHT	HOLD	Strong demand recovery following the reopening of the economy.
Padini Holdings	Consumer	3.33	3.45	3.70	HOLD	HOLD	Stronger-than-expected sales during the Hari Raya festivity.
Power Root	Consumer	1.84	1.45	1.90	HOLD	HOLD	Stronger-than-expected sales from domestic and export markets.
Apex Healthcare	Healthcare	3.24	3.45	3.73	BUY	BUY	Stronger-than-expected demand for flu medications.
Hong Leong Bank	Banking	20.9	23.60	23.20	BUY	BUY	Lower-than-expected operating expenses and stronger contribution from associate, Bank of Chengdu.
Telekom Malaysia	Telco	5.97	7.08	7.24	BUY	BUY	Lower than expected operating costs.

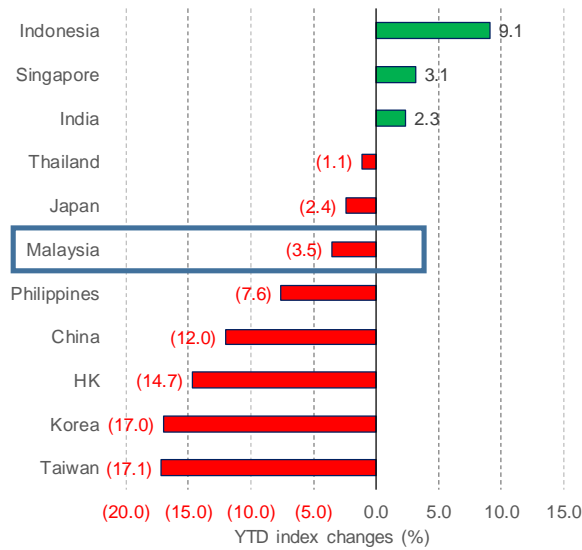
Source: AmInvestment Bank

EXHIBIT 4: 2Q2022 BELOW-EXPECTED RESULTS

Company	Sector	RM/share	RM/share	RM/share	Previous rating	Revised rating	Rationale
LPI Capital	Insurance	13.3	14.4	12.8	HOLD	HOLD	Higher-than-expected claims (surge in motor claims).
Syarikat Takaful Malaysia	Insurance	3.36	4.15	3.8	BUY	BUY	Higher-than-expected net claims.
MBSB Bank	Banking	0.59	0.93	0.78	BUY	BUY	Higher-than-expected provisions for loan losses.
Bank Islam	Banking	2.61	3.30	3.10	BUY	BUY	Lower-than-expected net fund-based income.
YTL Power	Power		0.83	0.75	HOLD	HOLD	Lower earnings from Wessex Water.
Kim Loong	Plantation	1.70	1.65	2.05	HOLD	HOLD	Lower-than-expected gross profit margin.
Dialog	Oil & Gas	2.38	3.66	3.55	BUY	BUY	Decline in upstream operation's earnings offset better performance from midstream and downstream operations.
MISC	Oil & Gas	7.07	8.21	7.95	HOLD	BUY	Lower earnings from gas assets & solutions and offshore business operations.
Petronas Chemicals	Oil & Gas	8.89	11.30	10.13	BUY	BUY	Margin erosions due to lower sales volume despite surged product prices.
Astro Malaysia Holdings	Media	0.835	1.33	1.2	BUY	BUY	Lower TV and Home Shopping earnings.
Suria Capital Holdings	Port	1.06	1.05	1	HOLD	HOLD	Higher-than-expected fuel and labour cost.
IJM Corporation	Construction	1.71	1.87	1.83	HOLD	HOLD	Weaker contribution from construction segment as most projects are still in the early stages of construction.
Econpile Holdings	Construction	0.165	0.14	0.12	SELL	SELL	Lower-than-expected orderbook wins and operating margins due to labour shortages and high raw material cost.
Kimlun Corporation	Construction	0.7	0.75	0.69	HOLD	HOLD	Lower recognition of construction progress and higher-than-expected costs.
WCT Holdings	Construction	0.43	0.59	0.46	BUY	HOLD	Weaker-than-expected contribution from engineering and construction segment.
Sime Darby Properties	Property	0.48	0.59	0.62	HOLD	BUY	Lower on-site development activities due to labour shortage issue.
Mynews	Consumer	0.43	0.77	0.5	HOLD	HOLD	Increased in operating expenses as the company ramped up CU brand's operations.
IHH Healthcare	Healthcare	6.2	7.00	6.89	HOLD	HOLD	Fading high-margin Covid-services, inflationary pressure and rising interest rates
Top Glove	Gloves	0.805	1.9	0.88	HOLD	HOLD	Increased operating expenses with ramp up of CU brand's operations
Hartalega	Gloves	1.66	4.55	2.46	HOLD	HOLD	Falling ASPs amid rising operating costs
Globetronics	Techonology	1.26	1.53	1.12	HOLD	HOLD	Key customers continue to be caught in supply chain bottlenecks, leading to lower volume loadings.

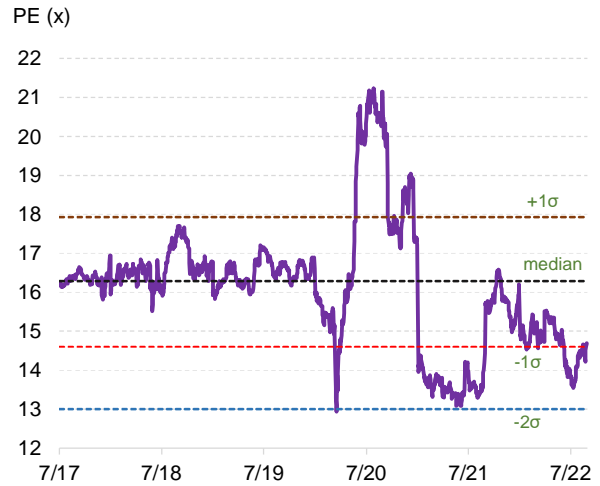
Source: AmInvestment Bank

EXHIBIT 5: 2022 YTD REGIONAL INDEX PERFORMANCES



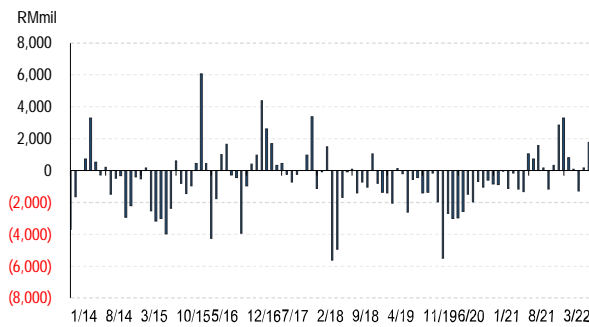
Source: AmInvestment Bank/Bloomberg

EXHIBIT 6: FBMKLCI'S 1-YEAR FORWARD PE



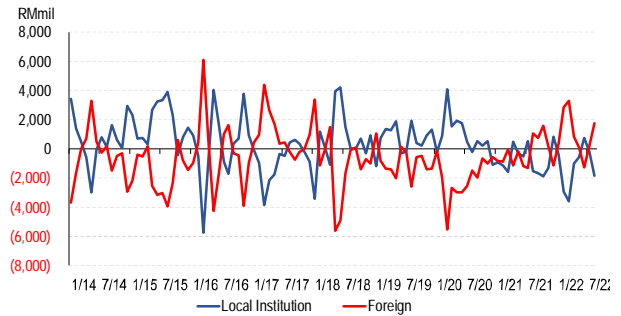
Source: AmInvestment Bank/Bloomberg

EXHIBIT 7: MONTHLY NET FOREIGN EQUITY FLOWS TO MALAYSIA



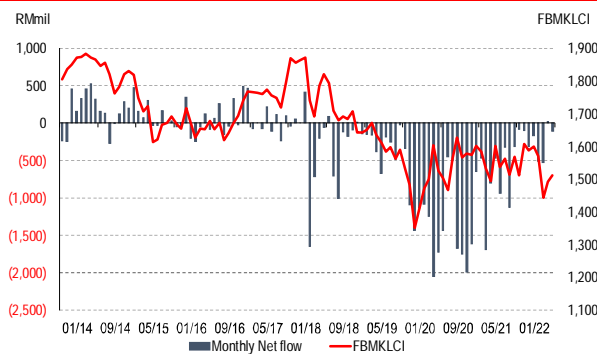
Source: Bursa Malaysia/AmInvestment Bank

EXHIBIT 8: MONTHLY NET FOREIGN EQUITY VS. LOCAL INSTITUTIONAL FLOWS TO MALAYSIA



Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 9: COMBINED LOCAL INSTITUTIONAL & FOREIGN EQUITY NET FLOWS VS. FBMKLCI



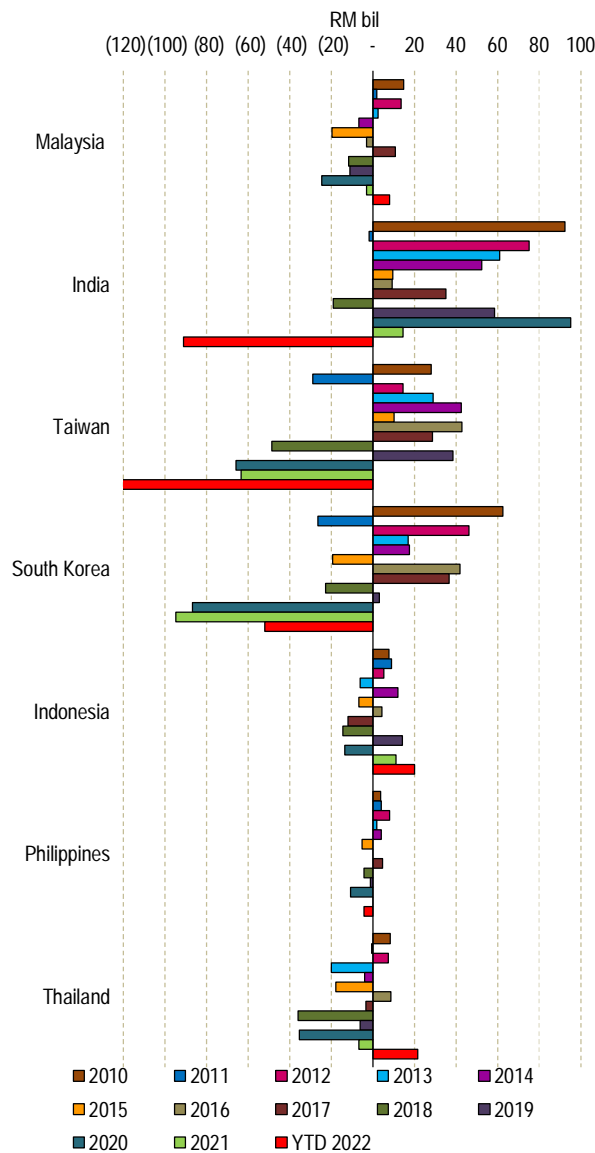
Source: AmInvestment Bank/Bursa Malaysia/Bloomberg

EXHIBIT 10: FOREIGN SHAREHOLDING IN MALAYSIAN EQUITIES



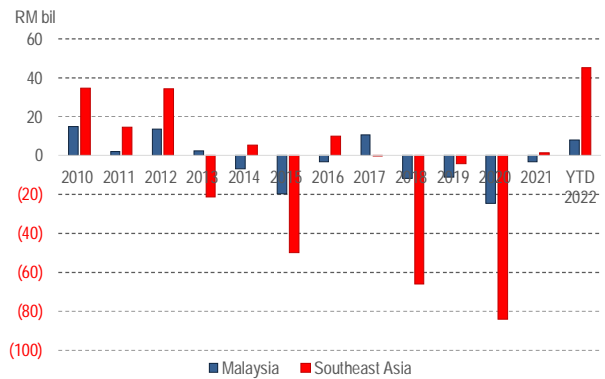
Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 11: REGIONAL MONTHLY NET FOREIGN EQUITY FLOWS



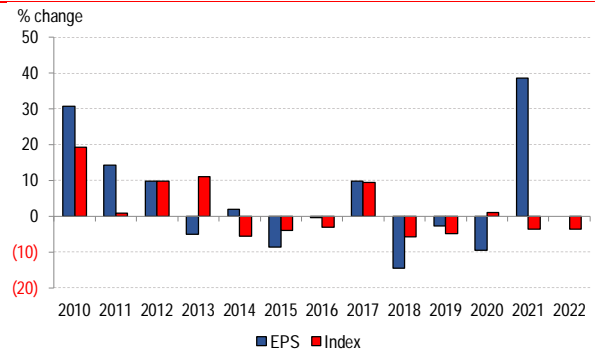
Source: Bloomberg/AmlInvestment Bank

EXHIBIT 12: NET FOREIGN MONTHLY EQUITY FLOWS – MALAYSIA VS. SOUTHEAST ASIA



Source: AmlInvestment Bank/Bloomberg

EXHIBIT 13: FBMKLCI VS. EPS CHANGES



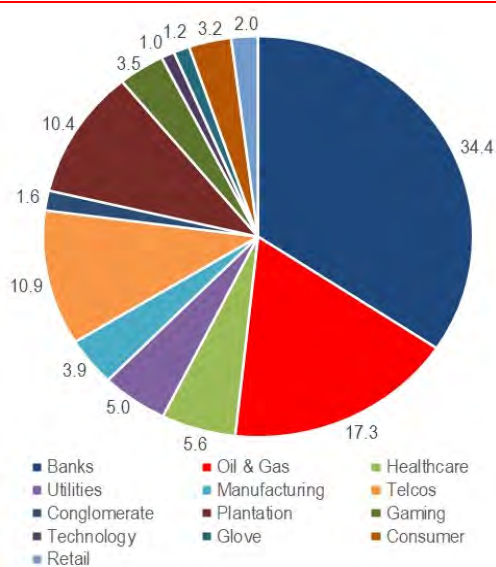
Source: AmlInvestment Bank/Bloomberg

EXHIBIT 14: SECTORAL EPS GROWTH AND PE

	SECTORAL WEIGHTING (%)	EPS GROWTH (%)			PE (x)	
		2021A	2022F	2023F	2022F	2023F
ALL SECTORS	88.8	(18.3)	13.1	18.7	17.0	
FBM KLCI @	34.5	0.0	7.4	14.6	13.6	
Automobile	1.0	58.9	12.5	6.0	4.9	4.6
Building Material	0.2	>100.0	>100.0	84.8	>100	>100
Construction	1.7	2.2	84.6	21.7	14.7	12.1
Consumer	7.9	19.9	19.0	14.7	24.2	21.1
Financial Services	33.0	56.2	17.8	9.5	25.8	23.6
Glove	1.3	>100.0	(95.0)	18.2	20.8	17.6
Healthcare	5.4	>100.0	(4.9)	49.9	34.5	23.0
Manufacturing	1.0	12.9	(25.0)	31.0	16.6	12.7
Media	0.4	(7.5)	(3.5)	6.3	9.9	9.3
Oil & Gas	11.7	90.4	5.0	0.5	11.3	11.3
Plantation	8.7	>100.0	25.3	(39.5)	11.4	18.8
Power	5.4	15.4	(5.3)	23.5	13.1	10.6
Property	2.9	45.1	27.0	9.1	11.3	10.3
REITs	1.2	(13.2)	50.9	17.4	17.8	15.1
Services	0.0	(19.6)	(13.5)	42.6	38.8	27.2
Stock Exchange	0.5	(5.9)	(28.6)	2.5	20.4	19.9
Technology	2.5	47.3	24.8	18.7	25.6	21.6
Telecommunication	9.9	0.9	8.2	14.7	22.6	19.7
Transportation & Logistics	5.4	(75.5)	>100.0	>100.0	>100	16.5

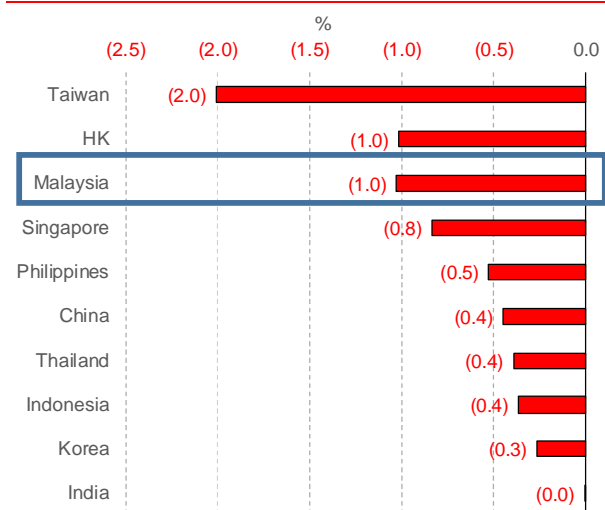
Source: AmlInvestment Bank

EXHIBIT 15: FBMKLCI SECTOR WEIGHTINGS



Source: AmInvestment Bank/Bloomberg

EXHIBIT 16: STANDARD DEVIATION OF CY22F PE TO 5-YEAR MEDIAN



Source: AmInvestment Bank/Bloomberg

EXHIBIT 17: FBMKLCI SECTOR MATRIX

	YTD chg (%)	PE (x)		Div yld (%)	PBV (x)	Net debt/ EBITDA (x)
		2022	2023			
KLCI	(3.5)	14.8	13.3	4.1	1.5	1.9
Finance	10.5	8.3	7.7	5.1	1.2	n/a
Plantation	13.0	7.3	9.7	4.7	1.5	1.0
Energy	(4.7)	9.9	8.7	1.2	1.0	3.3
Utilities	2.5	13.5	12.6	5.0	1.0	4.0
Telco & Media	(6.7)	21.3	18.3	3.9	3.1	1.7
Consumer Prod	1.3	19.9	16.3	2.8	1.4	1.3
Tech	(29.9)	24.7	21.2	1.9	3.5	(1.5)
Ind Prod	(7.7)	12.2	12.1	3.7	1.4	1.0
Property	(7.2)	11.3	10.0	2.3	0.4	8.3
Transport & Logis	(3.9)	4.5	3.5	10.9	1.2	2.2
Construction	6.0	13.4	11.7	2.9	0.5	7.8
Healthcare	(31.3)	26.0	22.5	1.6	1.7	0.3
REIT	5.1	17.0	15.8	5.6	1.1	6.6

Source: AmInvestment Bank/Bloomberg

EXHIBIT 18: REGIONAL VALUATIONS

	EPS growth (%)		PE (x)		Div yield %	PBV x	Net debt/ EBITDA x
	2022	2023	2022	2023			
Malaysia	(2.0)	11.5	14.8	13.3	4.1	1.5	1.8
Indonesia	44.4	5.7	16.1	15.3	2.4	2.1	0.0
Philippines	23.9	18.0	16.1	13.6	2.0	1.6	2.2
Thailand	9.4	5.8	15.6	14.8	2.7	1.6	4.0
Taiwan	8.9	(4.2)	10.4	10.8	4.8	1.9	0.7
HK	(27.0)	13.7	10.4	9.2	3.5	1.1	(1.1)
Japan	2.0	5.8	15.6	14.7	2.2	1.6	0.8
China	25.9	13.8	11.3	9.9	2.8	1.3	2.6
Korea	(0.6)	7.1	10.2	9.5	2.2	1.0	2.7
India	14.9	16.0	20.2	17.4	1.5	3.0	2.2
Singapore	13.0	14.2	12.4	10.9	4.4	1.1	0.3

Source: AmInvestment Bank/Bloomberg

EXHIBIT 19: OVERWEIGHT SECTORS

<u>Sector</u>	<u>Rationale</u>	<u>BUYs</u>
Automobile	Industry sales expected to rebound in 2022 as the supply chain normalises and consumers' confidence gradually recovers. The government's decision to allow prospective buyers who have placed orders before 30 June 2022 and register their vehicles before 31 March 2023 to enjoy the sales tax exemption bodes well for the sector. This will provide a 6 to 7 months of sales visibility for the sector while preventing a hard industry sales landing as automakers will have time to replenish their order book.	Bermaz Auto, MBM Resources, UMW
Banking	Interest rate uptrend benefitting the interest income of banks with lower provisions ahead supported by potential reversals of management overlays from an improving trend of loans under repayment assistance (RA). Also, with improved earnings visibility, we are seeing normalising dividend payouts by banks.	MayBank, CIMB, RHB
Media	Attractive FY24F PE of 10x for Astro and FY23F PE of 7x for MPR. We expect adex recovery as Malaysia transitions to endemic phase and borders reopen.	Astro
Oil & Gas	Robust earnings growth from elevated oil prices supported by prolonged supply disruptions and past under-investment. Companies with direct exposure to the upstream production and the FPSO subsector would be the biggest beneficiaries.	Dialog Group, Petronas Gas, Yinson
Ports	While we expect throughput volume to be soft in 2HFY22F, we are confident long term outlook for ports. The resilient outlook for the port sector in the region is underpinned by global trade and investments in the manufacturing sector that generate inbound and outbound throughput. There have been significant relocations of the manufacturing base by MNCs out of China to the region due to rising labour and land costs, exacerbated by the US-China trade war.	Westports
Power	Tenaga's rate of return is protected by the government's incentive-based regulatory framework, with higher coal and gas prices passed to consumers.	Tenaga Nasional
Technology	Robust structural semiconductor demand growth, coupled with attractive valuations.	Inari Amertron & MPI

Source: AmInvestment Bank

EXHIBIT 20: NEUTRAL SECTORS

Sector	Rationale	BUYs
Construction	Greater earnings visibility as we expect job flows to recover in 2HFY22. We also expect operating margins to stabilise as labour shortage and raw material cost eases.	N/A
Consumer	While the demand and supply recovery remains intact as wider economic activities pick up, rising commodity and energy prices pose downside risk to the sector's earnings. Rising cost of living due to inflation eroding consumer's purchasing power is another key risk.	Berjaya Food & Mr DIY
EMS	Labour shortages continue to be bottleneck for growing capacity.	VS Industry
Glove	Negative stagflationary impact on margins as cost increases are unlikely to be fully passed on to consumers amid declining average selling prices.	N/A
Healthcare	IHH trades at fair PB valuations and dividend yields even though the impact of stagflation could be muted given demographic concentration on the mid-to-high income group.	Apex Healthcare
Insurance	Higher interest rates moving forward is likely to result in fair value losses on insurance companies' securities portfolio. Also, there remain uncertainties surrounding the day 1 impact of FRS 17 while claims are expected to trend higher in 2022 from the normalisation of motor and medical claims. The impending phase 2 detariffication is expected to exert pressure on the pricing of fire/general insurers.	Allianz
Property	We expect softer property sales amid the expiry of Home Ownership Campaign and heightened building material costs as a result of prolonged supply chain disruptions. The developers could scale back new launches should construction costs continue to rise. We also concern on industry-wide labour shortage issue which will impact the construction progress and subsequently result in a slower progress billing.	Sunway
REITs	We expect an improvement in rental income with the positive rental reversion, coupled with minimal rental support from FY22 onwards. Nevertheless, we expect lower discretionary spending by consumers under stagflationary pressures.	Sunway REIT
Telecommunications	Higher opex from Digital Nasional's fixed 5G annual wholesale capacity charge on celcos could more than offset escalated data demand and easing competition from the consolidation of 2 major cellular operators amid a stagflationary outlook which could depress subscriber affordability.	Telekom Malaysia

Source: AmInvestment Bank

EXHIBIT 21: TOP DIVIDEND PICKS

Company	Sector	Current Share price	DPS (sen)	Yield 2022 (%)
YTL Hospitality REIT	REIT	0.95	8.0	8.5
Astro Malaysia	Media	0.90	6.8	7.5
Globetronics	Tech	1.26	9.0	7.1
Malayan Banking	Financial Services	8.84	55.9	6.6
Malakoff	Power	0.79	5.0	6.3
Pavilion REIT	REIT	1.28	7.7	6.0
RHB Bank	Financial Services	5.88	34.9	5.9
Lagenda Properties	Property	1.23	7.2	5.9
Power Root	Consumer	1.84	10.6	5.8
Mah Sing Group	Property	0.61	3.5	5.7
Bermaz	Auto	1.82	10.0	5.5

Source: AmInvestment Bank

EXHIBIT 22: ESG CHAMPIONS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Maybank	Banking	106,550	8.97	10.30	14.8	Low exposure to ESG vulnerable sectors, received a rating of 'AA' in the MSCI ESG Ratings assessment. Consistently been included in the FSTE4Good indices for 8 straight years which reflects recognition of its sustainability efforts and practices.
Petronas Chemicals Group	Oil & Gas	71,120	8.89	10.13	13.9	Established Net Zero Carbon Emissions 2050 Roadmap which targets to achieve net-zero carbon emissions by 2050. Also committed to transitioning to a New Plastic Economy and circular economy to ensure sustainable consumption and production of plastic. One of the top 10 companies in the FTSE4Good Index and a member of the Dow Jones Sustainability World Index.
Petronas Gas	Oil & Gas	33,678	17.02	20.05	17.8	Already part of the energy transition with natural gas having a low carbon footprint in the power generation process. Petronas Gas also adheres to GHG emissions limit of 5 million tonnes of Co2 equivalent together with continuous emissions reduction efforts that include flare reduction and improvement of energy efficiency and plant reliability. Included in FTSE4Good Index and ranked top 26-50% by ESG Ratings in FBM EMAS.
IHH Healthcare	Healthcare	54,598	6.20	6.89	11.1	Reducing water and electricity consumption throughout all operations such as standardising use of lighting & air-conditioning with optimal ranges, sensor faucets and high-efficiency toilets. Operates Malaysia's First Green Hospital – Pantai Hospital Laguna Merbok, which achieved GBI Silver certification in In 2014, becoming the first purpose-built hospital to incorporate green technologies and design into its construction and operations in Malaysia. Its innovations include green vehicle charging stations, condensate water harvesting, solar hot water for showers and LED façade lighting. All plastic cutlery has been replaced with wooden cutlery at the hospital cafeteria.
Telekom Malaysia	Telco	20,790	5.51	7.08	28.5	Spearheads the National Fiberisation & Connectivity Plan to rural and unreached communities, implementation of energy efficiency and sustainable systems and significant corporate/social contributions.
Westports Holdings	Port	12,380	3.48	4.76	36.8	Adopts initiatives to disclose greenhouse gas (GHG) emissions each year and introduced carbon pricing mechanism in 2020, reduce air pollution, water pollution, and noise pollution, minimise long term effect of biodiversity loss (Mangrove Forests) and ensure that major supply chain partners adhere to all social standards stipulated by Malaysian Labour Law and the International Labour Organisation. Recognised by APEC Port Services Network Green Port 2020 as one of 8 global green ports; secured ISO 45001:2018 and MSOSH OSH Gold Class 2 Award Winner for 2021.
Inari Amertron	Technology	10,010	2.70	3.72	37.8	Highly committed in employee wellbeing and supply chain management. In addition, the group has ongoing investment in environmental technologies such as solar panels to lower carbon intensity. Inari was included into FTSE4GOOD Bursa Malaysia Index since Jun 2020 and is a corporate member of Climate Governance Malaysia to promote sustainability performance.
Sunway Holdings	Property	8,191	1.64	2.29	39.6	Targeting zero carbon emission by 2050 and has incorporated sustainable financing consideration into capital management strategies via the issuance of sustainability-linked bond. Also, been recognised both locally and internationally for sustainability efforts. Listed in FTSE5Good Bursa Malaysia Index since 2016 and ranked by FTSE Russell EGS Ratings in FBM Emas.
Yinson Holdings	Oil & Gas	6,441	2.11	3.61	71.1	Aiming to invest in up to 3GW of renewable energy by 2023 and already has stakes in 330MW solar projects and multiple green technology start-ups. A constituent of the FTSE4Good Index and ranked top 26-50% by ESG Ratings in FBM EMAS.
Sunway REIT	REIT	5,240	1.49	1.79	20.1	Targeting zero carbon emission by 2050 and has incorporated sustainable financing consideration into capital management strategies via the issuance of sustainability-linked bond. Also, been recognised both locally and internationally for sustainability efforts. Listed in FTSE5Good Bursa Malaysia Index since 2016 and ranked by FTSE Russell EGS Ratings in FBM Emas.
Astro	Media	4,354	0.84	1.16	38.9	Generated 1.6mil kWh of solar energy, reduced GHG emissions by 6% to 23,955 tCO2e and electricity consumption by 7% to 31mil kW while airing over 11,600 hours of Public Service Announcements to amplify community messages in 2021. Included in the top 10% of media companies in 2021 for FTSE4Good Index and top 10% of all companies globally by Sustainalytics.

Source: AmInvestment Bank

EXHIBIT 23: TOP BUY CALLS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Maybank	Banking	106,550	8.97	10.30	14.8	Expected improvement in core operating income with the interest rate uptrend benefitting underlying NIMs and lower provisions for loan losses with the tapering of new applications for RA in Malaysia and overseas operation.
CIMB	Banking	54,889	5.37	6.70	24.8	Undemanding valuation trading at 0.8x FY23 P/BV, potential ROE uplift from impairment of goodwill and intangible assets coupled with the group's initiatives on cost take-out to trim opex.
Tenaga Nasional	Power	51,760	7.96	12.00	50.8	Undemanding FY23F PE of 9x while rate of return of 7.3% is protected under RP3 guidelines.
RHB Bank	Banking	23,780	5.74	7.40	28.9	Strong capital position with a CET1 ratio of 16.6% as well as attractive FY23F P/BV valuation at 0.8x.
Berjaya Food	Consumer	1,620	4.16	5.15	23.8	Leveraging on Starbuck's strong brand equity, the company is relatively in a better position to compete in retaining consumer's share of wallet under the current inflationary environment compared to its peers.
Telekom Malaysia	Telco	18,830	5.13	7.08	38.0	Strong earnings growth underpinned by rapid fibre subscriber growth on a nationwide network, rising wholesale revenue from 5G deployment and levelisation of playing field against established players together with improving cost management.
Inari Amertron	Technology	10,060	2.71	3.72	37.3	Proxy to the rapid growth of 5G telecommunication technology through its radio frequency business, which is set to benefit from the expected increase in demand for 5G smartphones.
Sunway	Property	8,191	1.64	2.29	39.6	Strong brand recognition established by its highly successful landmark developments and expanding healthcare business, supported by substantive unbilled sales and outstanding order book.
Malaysian Pacific Industries	Technology	6,460	30.76	45.16	46.8	Core strength in investing in the right technology at the opportune time, and is set to benefit from early investment to produce silicon carbide and gallium nitride power products.
Astro	Media	5,136	0.84	1.16	38.9	Strength in vernacular content & high household penetration rate of 71%, attractive dividend yield of 6%-7%, impressive aggregation of streaming services, and offering of internet services.
Sunway REIT	REIT	5,240	1.49	1.79	20.1	Diversified investment portfolio which encompasses retail malls, hotels, offices, a university, and hospitals that spread across Malaysia. Strong occupancy rates which have exceeded 90% in retail assets. Stable rental income generated from the services and industrial segments.
Bermaz Auto	Auto	2,118	1.82	2.25	23.6	The group's constant product updates bode well as it would translate to a more consistent and predictable sales flow. Meanwhile, the ventures in Kia and Peugeot distributorships help to extend the company's future
Dialog Group	Oil & Gas	13,437	2.38	3.55	49.2	Improving sector recovery on bullish crude oil prices poised to spur recurring services growth and the group's strategic Pengerang developments.

Source: AmInvestment Bank

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