AmInvestment Bank

3 Jan 2023

STRATEGY

Stronger currency and relative economic growth

1,630

End-2023 FBM KLCI target (pts)

(Maintained)

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Rationale for report: Market update

Investment Highlights

- **Ending 2022 on a negative note**. The FBMKLCI closed off 2022 on a negative note, sliding 5% YoY to 1,495, 3% below our year-end target of 1,540 as local institutional net sales of RM6.5bil overwhelmed foreign equity purchases of RM4.4bil. Towards the end of the year, foreign institutions reverted to net selling positions, reversing from a peak YTD net purchases of RM8.2bil in August 2022. Foreign equity selling accelerated to RM1.4bil in December 2022 from just a slight RM282mil in the previous month. This was mostly cushioned by net local institutional purchases of RM1.7bil last month.

- **Recent selling mostly in financial services**. The Dec selling activities mostly focused on financial services (62%) with the balance almost equally in industrial products/services and plantation sectors. This could offset the increase in foreign equity shareholdings from 20.5% in October to November to 20.7%, which remains substantively below the 22.4% in January 2020 before the Covid 19 global outbreak (Exhibit 9).

- **Still decent recovery from 2-year lows**. Amid the backdrop of a US interest rate tightening cycle and Malaysia's GE15 as the Russia-Ukraine conflict and China's zero-Covid policy disrupted global supply chains, FBMKLCI's year-end closing still represents a decent recovery of 9% from a 2-year low of 1,373 on 13 October 2022, a level not seen since May 2020 during the initial outbreak of the Covid-19 pandemic.

- **Among ASEAN countries with 2022 net foreign inflows**. The foreign net selling in Malaysia over the past 4 months cut YTD 2022 foreign net buying position by 43% from RM8.2bil as at 31 August 2022 to RM4.7bil (Exhibit 10) in Dec 2022. Even so, ASEAN countries (comprising Indonesia, Thailand, Malaysia and Vietnam), attracted YTD net foreign equity inflows with Malaysia accounting for 10% of the region's net purchases (Exhibits 10-11).

- **Malaysian equities at bargain Southeast Asian valuations**. India, Singapore and Indonesia bucked the regional YTD downtrend with gains of 4% while Thailand was flat. The worst performers were Vietnam (-33%), Korea (-25%), Taiwan (-22%), Hong Kong (-16%) and China (-15%) vs Malaysia's -5% (Exhibit 4). Hence, the FBMKLCI still trades at a Southeast Asian bargain at 0.9 SDB5YM of 16.2x, at parity to Indonesia with Philippines at 0.7 SDB5YM and Thailand 0.3 SDB5YM (Exhibit 15).

- **Tapering interest rate hike expectations next year**. Our economist expects Bank Negara to raise the overnight policy rate (OPR) by 25 basis points (bps) this month that will bring the OPR to 3.00% for the whole of this year. Given the aggressive stance of the US Federal Reserve, consensus' expectations of additional rate hikes this year could elevate the Federal funds rate from 4.25%-4.50% currently but our economist expects a weakening economy to trigger a policy reversal by 2H2023, which will lead to a tapering to 3.50%-3.75% (vs consensus' 4.70%) next year.

- **Expect changes with a new unity government.** Under a new unity government, we expect the tabling of 2023 Budget, which was announced in October last year, to be largely retained. However, changes in administrative processes and approvals may defer government-driven construction projects, which will have to be secured via open tenders. As the new government aims to address inflationary pressures and higher costs of living, we do not discount potential approval delays and revisions to Tenaga's electricity surcharge for 1H2023 and gas transportation tariffs under the second regulatory period. For consumer sector, new measures could be introduced under the current subsidies provided to essential items such as poultry and livestock. For telecommunication sector, the 5G deployment structure may be reviewed to prevent leakages (Exhibit 1).

- **Easing China's zero-Covid policy**. China's easing of Covid 19 movement restrictions engender improving prospects for regional economic and consumption growth with the alleviation of supply chain disruptions that have disrupted global trade over the past year. This will positively impact most sectors involved in technology, EMS, transportation, plantation, oil & gas, construction, ports, REITS, consumer, local pharmaceuticals and selected property companies with China exposure (Exhibit 2).

- **Winners and losers from stronger MYR outlook**. The MYR has strengthened by 8% to RM4.40/US$ currently from RM4.75/US$ on 4 Nov following the formation of a unity government, with our economist projecting our currency to improve further to RM3.95-RM4.00/US$ by end-2023. We expect the beneficiaries to be automakers (UMW and Tan Chong), consumer stocks (Leong Hup International and Spritzer) and transport companies (Capital A which will pay lower fuel and interest costs). However, the revenue impact will be negative for glove makers (Top Glove, Hartalega and Kossan) and exporters such as Ancom Nylex, as well as for shipping and oil & gas companies (MISC, Hibiscus Petroleum, Yinson and Bumi Armada) (Exhibit 3).

- **Expect net foreign equity outflow to reverse**. Underpinned by Malaysia's stronger currency outlook, we expect a return of foreign equity buyers amid attractive Malaysian equity valuations and our inhouse 2023 GDP growth projection of a robust 4.5% vs the global average of 2.1% and US' meager 0.3%.

- **We maintain base-case end-2023 FBMKLCI target of 1,630**, pegged to 0.5 standard deviation below its 5-year median (SDB5YM), which is supported by Malaysia's relatively stronger economic outlook and our economist' strengthening MYR expectation to RM3.95-RM4.00 next year. Although Malaysia's 2023 GDP growth is expected to taper to 4.5% (vs. consensus: 4.0%) from 8.5%-9.00% in 2022, this remains better than recessionary prospects in US and Europe with expectations for a reset in US interest rate hike trajectory in 2H2023.

  Best-case scenario from an abrupt US Federal Reserve policy reversal, complete removal of Covid restrictions in China and better-than-expected global economic growth, would be a 2023 FBMKLCI target of 1,740 at parity to its 5-year median PE of 16.2x.

  The worst-case scenario from a full-blown global recession, new pandemics and worsening geopolitical conflicts translates to 1,380, pegged at 2 SDB5YM. We do not discount global equity volatility from more US rate hike surprises, US-China trade tensions and additional global sanctions on Russia.

- **OVERWEIGHT on banks, oil & gas, autos, ports, property, REIT, healthcare and media** with top picks being **Maybank, RHB Bank, CIMB, Yinson, Telekom Malaysia, Dialog Group, Inari Amertron, Sunway REIT** and **DuoPharma BioTech** (Exhibit 22). We also like small cap stocks with strong brand names which can safely navigate inflationary pressures such as **Spritzer** and niche agrichemical producer **Ancom Nylex**, as well as grossly undervalued companies such as **Deleum** (Exhibit 23). 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 21).

EXHIBIT 1: POTENTIAL MEASURES BY NEW UNITY GOVERNMENT

Sector	Potential new government measures	Impact on sector	Companies impacted
Plantation	None	None	None
Power	New government is expected to approve the tariff surcharge for 1H2023 in accordance with the ICPT framework.	None as this is expected	Tenaga Nasional
Oil & Gas	Potential delay in Petronas Gas' finalisation of RP2 tariffs and project sanction for the third LNG storage tank in Pengerang.	Negative	Petronas Gas, Dialog Group
Banking	None	None	None
Insurance	None	None	None
Construction	Potential revision of government projects. Adoption of open tenders may lead to fiercer competition. More clarity after retabling of Budget 2023.		All contractors
Media	None	None	None
Port	None	None	None
REITs	None	None	None
Property	None	None	None
Consumer	Potential revision of subsidies given to essential items such as poultry/livestock sector.	More clarity needed	Leong Hup International
Automobile	None	None	None
Manufacturing	None	None	None
Gloves	None	None	None
Healthcare	None	None	None
Telecommunications	Potential revision of Digital Nasional's 5G network deployment contract. Savings from reduction in leakages, if any, might trickle down to the mobile network operators.	Potentially positive	Maxis, Celcom Digi, TM, Axiata
Technology	None	None	None
Transport	Potentially delay in the finalisation of the RAB framework in setting airport tariffs. However, it was already well-established that the RAB will only kick off in 2026 onwards when passenger traffic stabilises.	None	Malaysia Airports
EMS	None	None	None

Source: AmInvestment Bank

EXHIBIT 2: IMPACT FROM RELAXATION IN CHINA'S COVID POLICY

Sector	Impact from relaxation in Covid policies	Companies impacted
Plantation	China's palm demand would improve as HORECA activities increase, supporting CPO prices.	All plantation companies
Power	None	None
Oil & Gas	Uplift the country's economic outlook and spur stronger demand for crude oil and petroleum products. This should cushion already weakening oil prices amid economic slowdowns in major economies.	All oil and gas companies
Banking	Hong Leong Bank has an associate, Bank of Chengdu, in China. Chengdu was in lockdown in Sept 2022 for 2 weeks. Since then, full lockdown in the city has been uplifted. It is now business as usual (BAU) for the associate. The recent relaxation should not have any material impact on the associate's operations in China as the lockdowns in Chengdu have already been eased in Sept 2022.	Hong Leong Bank
Insurance	None. All insurance companies' underwriting are based on local risk with no operations in China.	None
Construction	Easing restrictions on travel and production could lift demand sentiments and exert upward pressures on steel prices. However, with riots and recession fears, prices could be volatile in the near term.	All contractors
Media	None	None
Port	Increase in manufacturing activities could mean higher exports and transhipment for Malaysian ports. However, the relaxation may be a little too late for manufacturers to ride on the higher demand ahead of 2022 Christmas. HORECA activity recovery will boost exports of palm oil.	All ports
REITs	Benefit Malaysian REITs with exposure to retail and hotel segments, particularly those situated near tourist attractions.	Pavilion REIT, IGBREIT, Sunway REIT, YTLREIT
Property	Directly benefit IOI Properties which has direct exposure to property development and property investment businesses in China. This will help IOI Properties in accelerating construction progress, scaling up new launches and pushing for property sales.	IOI Properties
Consumer	Demand for consumer staples would improve as spending is likely to catch up from return of Chinese tourists.	Berjaya Food, Padini
Automobile	Ease further chip and component shortages, which will smoothen the supply chain and expedite deliveries to customers, accelerating sales recognition.	All automotive companies
Manufacturing	None	None
Gloves	No impact as glove factories in China are already allowed to operate at full capacity. The low utilisation rate was mainly due to low demand from end-customers amid high inventories.	None
Healthcare	No significant impact on hospitals as IHH's major sources of foreign patients do not include China. For local phamarceuticals, this could bring down active pharmaceutical ingredient costs and improve margins.	Duopharma Apex Healthcare
Telecommunications	None	None
Technology	Easing of supply chain disruptions together with the gradual pick up in China's economic activities also bolster demand for consumer electronic products.	All
Transport	Gradual reopening of international borders in the coming months, thus boosting air travel demand substantially. This would directly benefit aviation sector given that Chinese passengers formed a large demographic of Malaysia Airports' passenger traffic (11% of 2019 passenger traffic).	Malaysia Airports & Capital A
EMS	Recovery in electronic demand and increased plant utilisation rates. VS Industry is currently facing capacity underutilisation in China.	VS Industry

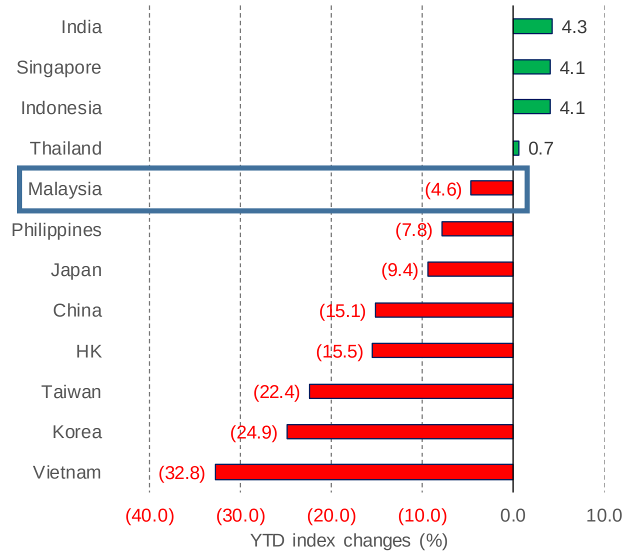
Source: AmInvestment Bank

EXHIBIT 3: IMPACT OF STRONGER MYR (ASSUMING 10% APPRECIATION)

Company	Sector	Impact to FY23F net profit from 10% strengthening of MYR vs US$	Total debt (in RM)	US$ debt (in RM)	% of US$ debt	FY23F core net profit
Ancom Nylex	Manufacturing	Negative with 9-11% as most of the revenue is denominated in US$ as compared to the cost structure.	384	77	20.0	78.5
Apex Healthcare	Healthcare	Very minimal impact to core earnings with <1%	12	-	-	81.0
Astro	Media	Most USD Debts are hedged. Unhedged portion is USD333.1mil. Beneficiary if MYR appreciates.	3,550	1,918	54.0	457.5
Berjaya Food	Consumer	Mostly neutral as the group sourced its raw materials mostly locally	173	-	-	128.8
Bermaz Auto	Auto	No impact as no borrowings are USD-denominated whereas costs of sales are exposed to mainly Japanese Yen	200	-	-	201.0
Bintulu Port	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	1,218	-	-	125.2
Bumi Armada	Oil & Gas	Negative impact of 6-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	6,372	4,842	76.0	729.7
Capital A	Transportation	Positive impact of 30-50% largely from its low earnings base together significantly lower fuel costs and interest expenses	2,773	1,564	56.4	(242.0)
CIMB	Banking	Largely Neutral as Assets are well hedged by the Liabilities	67,186	5,115	7.6	6,596
Dialog	Oil & Gas	Marginally negative as lower contribution from oversea operations will be offset by lower finance costs	1,864	15	0.8	695.3
DRB-HICOM	Auto	Presumably negative at < 17% due to Aerospace and Aviation businesses	8,850	655	7.4	190.7
Econpile	Construction	Neutral as minimal direct exposure to USD	113	-	-	19.2
Gamuda	Construction	Minimal exposure as hedging instrument is in place.	4,790	190	4.0	751.8
Gent Plant	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	2,519	1,276	50.7	325.9
Globetronics	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 6-8%	-	-	-	47.0
Glomac	Property	No impact as no borrowings are USD-denominated	499	-	-	38.2
Guan Chong	Consumer	Largely neutral as the group used foreign currency forward or option contracts to hedge the currency risk	1,170	656	56.1	247.0
Hartalega	Gloves	Negative but minimal at 0.5-1.0% as Harta has entred forward foreign currency contracts on top of the natural hedge between exports and raw mat procurement.	210	210	100.0	134.6
Hektar	REIT	No impact as no borrowings are USD-denominated	581	-	-	27.6
IGBREIT	REIT	No impact as no borrowings are USD-denominated	1,215	-	-	369.9
IHH Healthcare	Healthcare	negative 1-2%	7,889	-	-	1,441.3
IJM Corp	Construction	Minimal exposure as hedging instrument is in place.	5,401	1,355	25.1	395.9
Inari Amertron	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	-	-	-	492.2
IOI Corp	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	4,982	3,871	77.7	1,230.6
IOI Properties Group	Property	A slight negative of <1% of impact to core earnings as it holds a small portion of net monetary assets denominated in USD	11,010	277	2.5	811.8
Kimlun Corp	Construction	Neutral as minimal direct exposure to USD	348	-	-	29.6
KL Kepong	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	10,572	894	8.5	1,301.7
Kossan	Gloves	Negative but minimal at 1.3-1.5% as Kossan has entred forward foreign currency contracts on top of the natural hedge between export and raw mat procurements.	129	-	-	203.8
Lagenda Properties	Property	No impact as no borrowings are USD-denominated	205	-	-	269.0
Lee Swee Kiat	Manufacturing	Very minimal impact to core earnings with <1%	11	-	-	12.4
Leong Hup International	Consumer	Positive at <2% as payables and receivables in USD are minimal	3,341	59	1.8	172.8
Mah Sing Group	Property	<1% of impact to core earnings as it has a small portion of net monetary liability denominated in USD	1,505	-	-	173.2
Hibiscus Petroleum	Oil & Gas	Negative impact of 7-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	194	-	-	531.6
Malaysian Pacific Industries	Technology	Relatively worse affected compared to peers as most of its sales are USD denominated, with estimated impact of 9-11%	193	-	-	403.9
Malakoff	Power	Neutral as most loans are in MYR	9,566	242	2.5	312.9
Perak Trasit	Transportation	Neutral due to minimal exposure to foreign currency	323	-	-	61.2
Malaysia Airports	Transportation	Marginally positive due to significant oversea operations coupled with lower finance costs	5,997	-	-	497.7
MBM Resources	Auto	Marginally positive as exposure to USD is at associate level	22	-	-	229.9
Media Prima	Media	Neutral as minimal direct exposure to USD	387	-	-	69.7
MISC	Oil & Gas	Negative impact of 4-6% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	19,363	18,926	97.7	2,134.3
MR. D.I.Y	Consumer	No impact as exposure to USD is less than 1%	231	-	-	572.5
MyNews Holdings	Consumer	No impact as no borrowings are USD-denominated	84	-	-	11.7
Nestle (Malaysia)	Consumer	Mildly positive from lower costs at <3% while export sales are not dominant	431	-	-	807.8
Padini	Consumer	No impact as the group is exposed to local currency	379	-	-	152.1
Paramount	Property	No impact as no borrowings are USD-denominated	963	-	-	39.5
PAVREIT	REIT	No impact as no borrowings are USD-denominated	2,173	-	-	258.3
Pentamaster	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	2	-	-	124.8
Petronas Chemicals	Oil & Gas	Negative impacts of 3-5% as lower earnings from oversea operations would be offset by lower finance costs	2,654	2,361	89.0	7,124.0
Petronas Gas	Oil & Gas	Negative impacts of 3-5% as some of lease liabilities are denominated in USD, offset by lower finance costs	3,735	1,462	39.2	1,824.3
Pos Malaysia	Transportation	Neutral due to minimal exposure to foreign currency	724	63	8.7	(9.9)
Power Root	Consumer	Negative as in export sales but minimal at <4%	36	-	-	47.4
Public Bank	Banking	Largely Neutral as Assets are well hedged by the Liabilities	15,046	2,392	15.9	7,151
RHB Bank	Banking	Largely Neutral as Assets are well hedged by the Liabilities	11,778	1,266	10.7	3,393
S P Setia	Property	No impact as no borrowings are USD-denominated	12,556	140	1.1	327.4
Sime Darby	Auto	Largely neutral as sales are mainly denominated in local currencies of operating countries	2,983	14	0.5	1,239.4
Sime Darby Property	Property	No impact as no borrowings are USD-denominated	3,832	-	-	260.5
Sime Plant	Plantation	Neutral as there is a natural hedge between exports and fertiliser costs	9,086	4,459	49.1	1,680.1
Spritzer	Consumer	Positive at <30% as 70% fo raw materials are resin which is paid in USD	20	-	-	34.6
Sunway	Property	Negative 1% as a portion of its cash and receivable are denominated in USD.	8,115	953	11.7	612.5
Sunway Construction	Construction	Neutral as minimal direct exposure to USD	351	-	-	151.3
SunwayREIT	REIT	Neutral as its USD-denominated borrowing is hedged with cross currency swap contract	3,405	396	11.6	316.1
Suria Capital	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	22	-	-	45.6
Tan Chong Motor Holdings	Auto	Positive at <10% as the group is coming from a low base and is sourcing its CKD and CBU models in USD but impact is partially offset by hedging	1,433	-	-	29.6
Telekom	Telco	Marginally positive with <1% impact as stronger MYR would translate into lower international out-payments for mobile traffic	5,720	1,255	21.9	1,662.3
Tenaga Nasional	Power	Neutral as most loans are in MYR	53,400	8,010	15.0	5,073
Top Glove	Gloves	Negative with 11-13% as Top Glove does not have much forward foreign currency contracts but rely on natural hedge.	399	91	22.9	(48.6)
UEM Sunrise	Property	Negative but minimal at 1%-1.5% as it holds a small portion of net monetary assets denominated in USD	4,214	-	-	102.8
UMW Holdings	Auto	Positive at <5% as the group source its CKD and CBU models in USD but impact is partially offset by hedging	1,882	-	-	390.5
UOAREIT	REIT	No impact as no borrowings are USD-denominated	683	-	-	65.2
Vitrox	Technology	Generally negative due to USD denominated sales expsoure, with estimated impact of 7-9%	-	-	-	202.5
WCT Holdings	Construction	Neutral as minimal direct exposure to USD	2,836	-	-	72.1
Westports	Port	Marginally positive from lower fuel cost. Estimated impact is <5%	1,081	-	-	632.6
Yinson	Oil & Gas	Negative impact of 7-8% as the lower revenue (mostly USD-denominated) more than mitigates the lower finance costs	10,021	8,662	86.4	725.2
YTL Power	Power	Neutral as exposure to USD is small	27,714	1,428	5.2	287.3
YTLREIT	REIT	No impact as no borrowings are USD-denominated	2,085	-	-	158.3

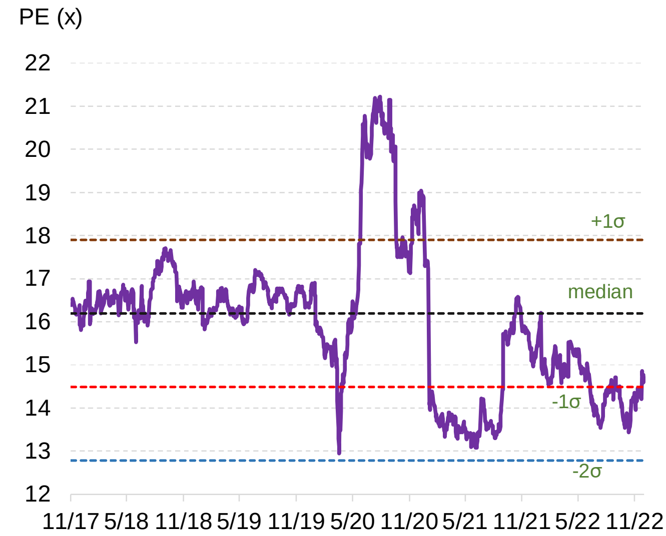
Source: AmInvestment Bank

EXHIBIT 4: 2022 YTD REGIONAL INDEX PERFORMANCES



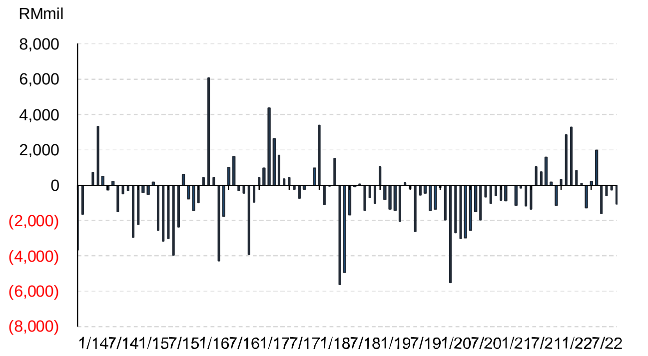
Source: AmInvestment Bank/Bloomberg

EXHIBIT 5: FBMKLCI'S 1-YEAR FORWARD PE



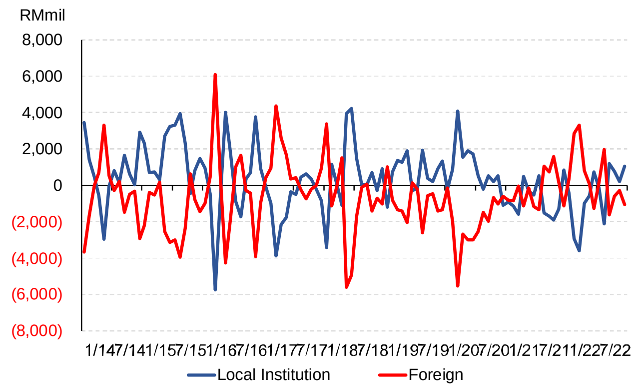
Source: AmInvestment Bank/Bloomberg

EXHIBIT 6: MONTHLY NET FOREIGN EQUITY FLOWS TO MALAYSIA



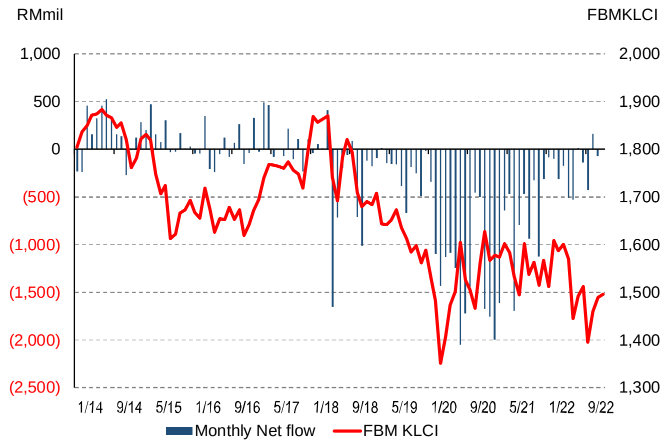
Source: Bursa Malaysia/AmInvestment Bank

EXHIBIT 7: MONTHLY NET FOREIGN EQUITY VS. LOCAL INSTITUTIONAL FLOWS TO MALAYSIA



Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 8: COMBINED LOCAL INSTITUTIONAL & FOREIGN EQUITY NET FLOWS VS. FBMKLCI

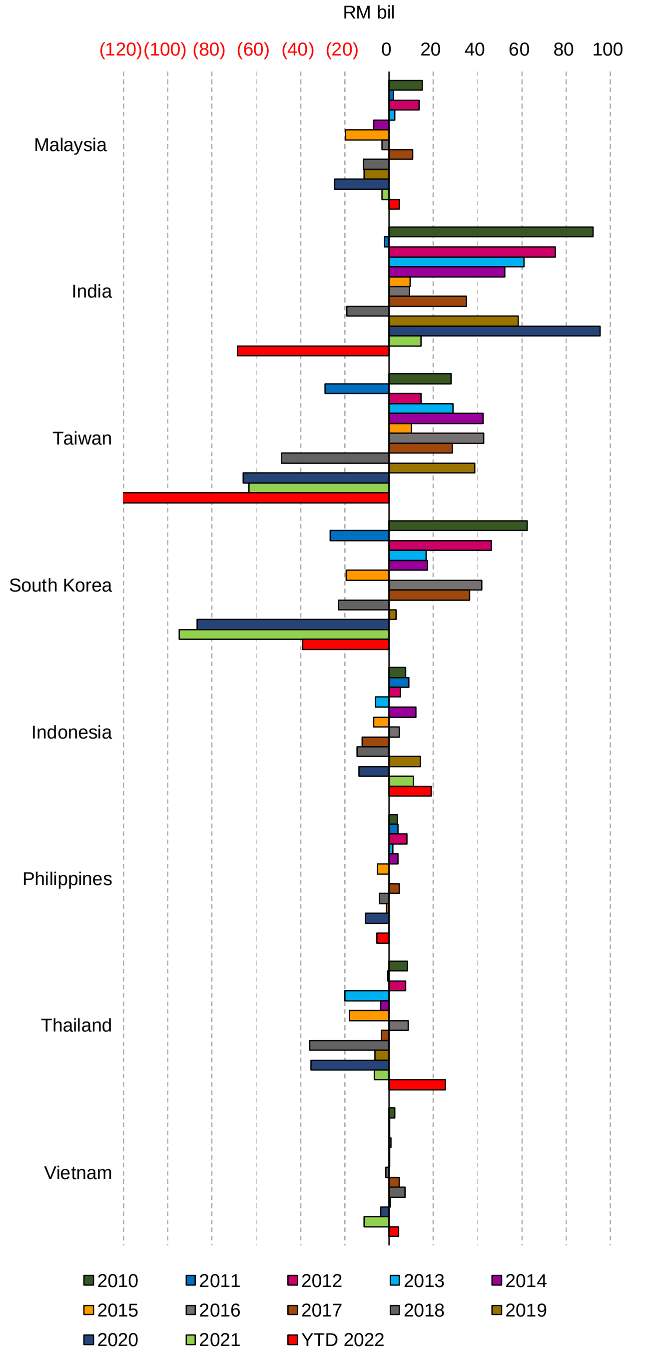


Source: AmInvestment Bank/Bursa Malaysia/Bloomberg

EXHIBIT 9: FOREIGN SHAREHOLDING IN MALAYSIAN EQUITIES

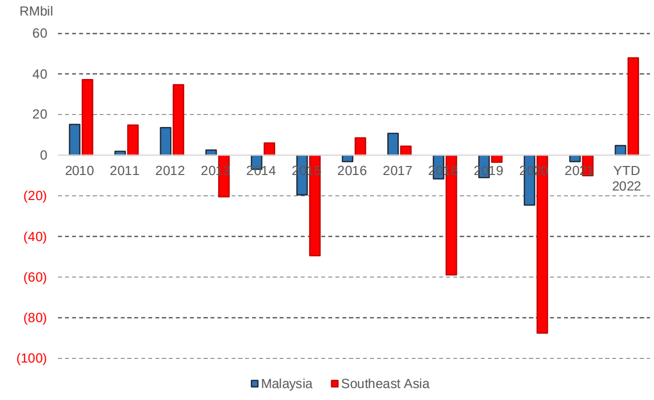
Source: AmInvestment Bank/Bursa Malaysia

EXHIBIT 10: REGIONAL MONTHLY NET FOREIGN EQUITY FLOWS



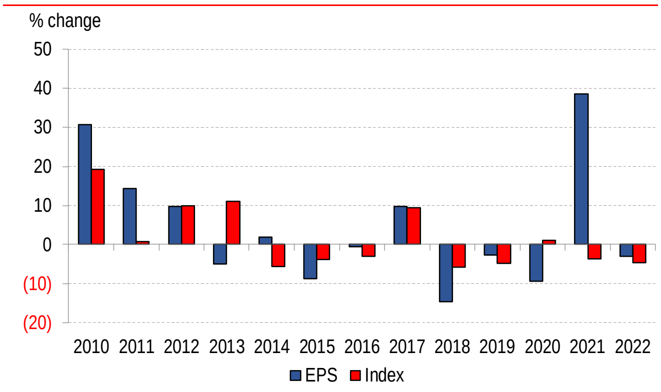
Source: Bloomberg/AmInvestment Bank

EXHIBIT 11: NET FOREIGN MONTHLY EQUITY FLOWS – MALAYSIA VS. SOUTHEAST ASIA



Source: AmInvestment Bank/Bloomberg

EXHIBIT 12: FBMKLCI VS. EPS CHANGES



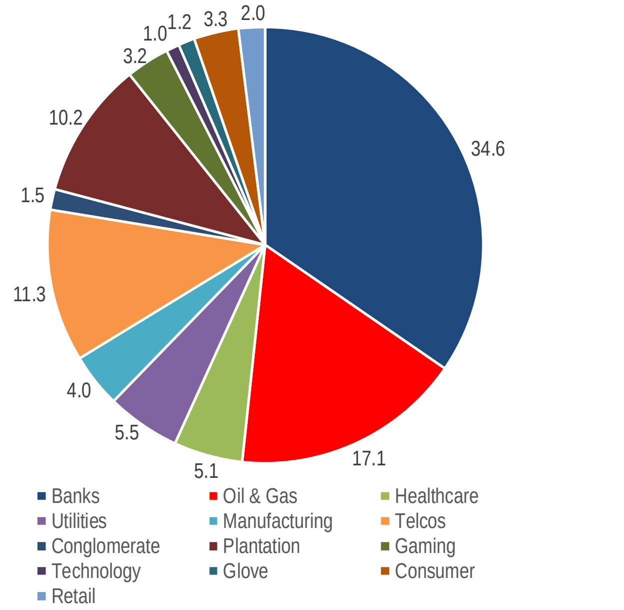
Source: AmInvestment Bank/Bloomberg

EXHIBIT 13: SECTORAL EPS GROWTH AND PE

	SECTORAL WEIGHTING	NET PROFIT GROWTH (%)			P/E (X)		
	(%)	2022F	2023F	2024F	2022F	2023F	2024F
ALL SECTORS		(3.6)	7.0	5.9	14.2	13.2	12.5
FBM KLCI @		(0.4)	5.0	5.0	14.6	13.9	13.2
Automobile	2.4	13.8	7.8	(4.8)	12.4	11.5	12.1
Construction	1.7	>100.0	19.9	9.4	15.9	13.2	12.1
Consumer	7.8	26.5	3.6	10.5	21.6	20.9	18.9
Financial Services	32.2	13.6	6.5	5.4	10.6	10.0	9.5
Glove	1.4	(94.9)	(41.3)	>100.0	22.3	38.1	14.9
Healthcare	5.6	(2.8)	46.6	2.4	33.7	23.0	22.4
Manufacturing	0.4	(22.9)	29.2	17.3	17.5	13.6	11.6
Media	0.3	(10.4)	13.6	6.2	8.4	7.4	7.0
Oil & Gas	11.5	6.4	0.8	(5.7)	11.1	11.0	11.7
Plantation	8.7	16.7	(35.0)	1.7	12.0	18.4	18.1
Power	5.6	(0.5)	19.7	2.9	13.1	10.9	10.6
Property	2.4	24.5	10.5	13.2	10.9	9.9	8.7
REITs	1.2	51.4	12.3	4.6	17.7	15.8	15.1
Stock Exchange	0.5	(32.8)	5.8	13.3	22.5	21.3	18.8
Technology	2.7	16.5	8.4	17.2	27.3	25.2	21.5
Telecommunication	9.8	6.3	7.1	8.4	22.1	20.6	19.0
Transportation & Logistics	5.7	>-100.0	>100.0	33.2	222.0	19.1	14.4

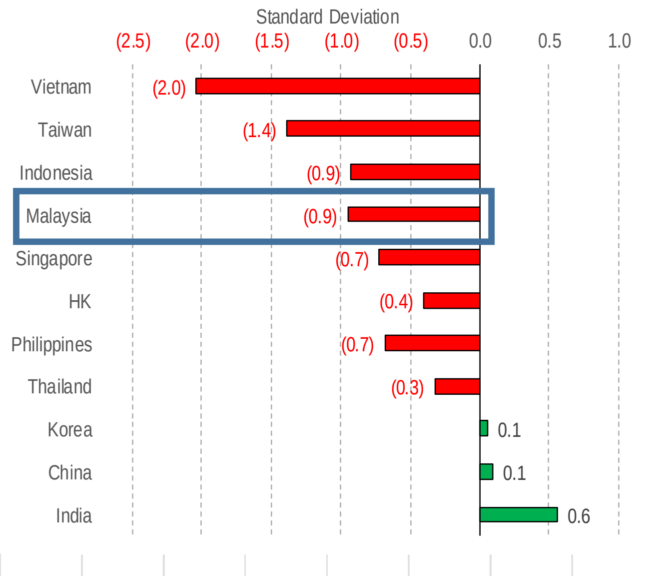
Source: AmInvestment Bank

EXHIBIT 14: FBMKLCI SECTOR WEIGHTINGS



Source: AmInvestment Bank/Bloomberg

EXHIBIT 15: STANDARD DEVIATION OF CY22F PE TO 5-YEAR MEDIAN



Source: AmInvestment Bank/Bloomberg

EXHIBIT 16: FBMKLCI SECTOR MATRIX

	YTD chg (%)	PE (x) 2022F	PE (x) 2023F	Div yld (%)	PBV (x)	Net debt/ EBITDA (x)
KLCI	(5.9)	14.6	13.0	4.1	1.4	2.2
Finance	11.2	11.3	9.8	5.2	1.1	n/a
Plantation	8.1	10.6	14.4	4.6	1.3	0.8
Energy	12.7	10.5	9.3	53.1	0.9	3.1
Utilities	3.0	13.0	12.1	5.1	1.0	3.9
Telco & Media	(4.5)	21.9	18.9	4.0	3.6	2.0
Consumer Prod	3.3	19.5	16.1	3.0	1.4	1.6
Tech	(31.1)	26.7	22.6	1.4	3.4	(1.2)
Ind Prod	(7.3)	13.3	12.9	3.6	1.3	0.9
Property	(4.5)	10.9	10.1	2.5	0.4	6.1
Transport & Logistics	4.7	22.2	16.7	3.3	1.1	1.9
Construction	6.8	12.1	12.1	6.6	0.6	7.3
Healthcare	(27.5)	30.5	25.3	1.3	1.5	0.7
REIT	2.6	16.0	15.0	5.9	1.1	5.9

Source: AmInvestment Bank/Bloomberg

EXHIBIT 17: REGIONAL VALUATIONS

	EPS growth (%) 2022F	EPS growth (%) 2023F	P/E (x) 2022F	P/E (x) 2023F	Div yield %	PBV x	Net debt/ EBITDA x
Malaysia	(8.8)	20.0	15.7	14.5	4.0	1.4	2.2
Indonesia	68.4	(4.3)	13.4	14.0	4.0	2.0	0.3
Philippines	26.9	15.9	15.3	15.0	2.1	1.6	2.7
Thailand	20.7	(7.2)	14.5	16.1	2.7	1.7	2.5
Taiwan	3.2	(16.2)	10.7	12.8	4.7	1.9	1.0
HK	5.2	(25.7)	7.2	10.9	3.4	1.1	(1.1)
Japan	(15.9)	25.2	17.7	14.2	2.3	1.5	0.8
China	(2.9)	39.1	13.9	11.5	2.9	1.3	3.9
Korea	(11.3)	(4.1)	10.6	11.0	2.5	0.8	3.7
India	6.7	6.4	22.7	21.5	1.4	3.3	2.2
Singapore	22.8	8.0	12.0	10.7	4.5	1.1	1.4
Vietnam	11.3	11.0	10.5	10.6	1.9	1.7	2.4

Source: AmInvestment Bank/Bloomberg

EXHIBIT 18: OVERWEIGHT SECTORS

Sector	Rationale	BUYs
Automobile	Industry sales expected to rebound in 2022 as the supply chain normalises and consumers' confidence gradually recovers. The government' 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 9-month 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 benefits 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). With improved earnings visibility, dividend payouts by banks are normalising.	MayBank, CIMB, RHB
Healthcare	We expect IHH to ride on its organic growth engine in 2023 and beyond, which includes the expansion of the group's bed capacity in key regions – Malaysia, India and Turkiye. Furthermore, IHH is poised to benefit from continued recovery of domestic and foreign inpatient admissions amid continuous relaxation of lockdown measures and travel restrictions, especially in Malaysia and Singapore. For pharmaceuticals, Apex and Duopharma in the near term are poised to benefit from recent strengthening of MYR against US$ since early Nov 2022, as well as initial moderation signs of active pharmaceutical ingredient costs beginning in 3QCY22. Furthermore, Duopharma hold a better position to ride on higher government allocation to Ministry of Health (MoH) in 2023 (+11% YoY) and the addition of 5 public and 19 private hospitals scheduled to be operational within next 3 years.	IHH Healthcare Apex Healthcare Duopharma Biotech
Media	Expect adex recovery as Malaysia transitions to endemic phase and borders reopen.	Astro, Media Prima
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.	Yinson, Dialog Group, Petronas Gas
Ports	While throughput volume could be soft in 2HFY22F, we are confident of the long term outlook for ports. The resilient outlook 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.	Bintulu Port, Westports
Property	In 2023, we expect a gradual recovery in property transaction volumes with improved post-lockdown market sentiments and stronger demand after the reopening of international borders. This is proven by still resilient sales in 1HCY22 despite HOC's expiry. Notwithstanding various negative headwinds in the property sector (increased building material costs, labour shortages and rising interest rates), we think current depressed valuations have already priced in the downtrend commencing early April 2022. With the gradual easing of building material costs and labour shortages, we believe the current Kuala Lumpur Property Index's price-to-book value (PBV) of 0.4x is appealing vs. the 10-year average/median of 0.7x and pre-pandemic (2018–2019) average PBV of 0.5x	Sunway
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 19: NEUTRAL SECTORS

Sector	Rationale	BUYs
Construction	Although the sector is expected to enjoy a higher development expenditure, we are cautious over funding concerns, higher labour costs arising from the multi-tiered levy for foreign workers as well as potential delays/cost revisions of mega projects under the new unity government.	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.	Mr DIY
EMS	Labour shortages continue to be bottleneck for growing capacity.	VS Industry
Glove	Continued intense competition among regional glove makers stemming from overcapacity has led to a downward ASP spiral from its peak in 2Q2021. Furthermore, rising operating costs (energy and labour costs) has slashed EBITDA margins of the Malaysian Big 4 glove makers, where most of them registered lower margins than in CY2019.	N/A
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
REITs	Declining DPU yield spread against 10-year Malaysian Government Securities (MGS) with interest rates on the uptrend resuting in softer sentiments for yield players. Under stagflationary pressures, we expect lower discretionary spending by consumers.	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
Plantation	CPO prices have peaked at RM8,000/tonne in 1Q2022. CPO prices are expected to be soft going forward on higher palm production.	N/A

Source: AmInvestment Bank

EXHIBIT 20: TOP DIVIDEND PICKS

Company	Sector	Current share price	FY22F DPS (sen)	FY22F Yield (%)
Hektar REIT	REIT	0.66	7.6	11.5
Astro Malaysia	Media	0.74	6.8	9.2
YTL Hospitality REIT	REIT	0.88	8.0	9.1
UOA REIT	REIT	1.14	9.1	8.0
Malakoff	Power	0.64	5.0	7.8
Pavilion REIT	REIT	1.20	8.3	6.9
Malayan Banking	Financial Services	8.63	56.0	6.5
Sunway REIT	REIT	1.45	9.1	6.3
RHB Bank	Financial Services	5.62	34.8	6.2
IGB REIT	REIT	1.66	9.8	5.9
Power Root	Consumer	1.84	10.6	5.8
Mah Sing Group	Property	0.53	3.0	5.7
Globetronics	Tech	1.20	6.7	5.6

Source: AmInvestment Bank

EXHIBIT 21: ESG CHAMPIONS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Maybank	Banking	102,511	8.63	9.50	10.1	Low exposure to ESG vulnerable sectors, received a rating of 'AA' in the MSCI ESG Ratings assessment. Consistently included in FSTE4Good indices for 8 straight years which reflects recognition of its sustainability efforts and practices.
Petronas Chemicals Group	Oil & Gas	67,360	8.42	9.94	18.1	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 and circular economy. One of the top 10 companies in the FTSE4Good Index and a member of the Dow Jones Sustainability World Index.
Petronas Gas	Oil & Gas	32,728	16.54	20.05	21.2	Already part of the energy transition with natural gas having a low carbon footprint in the power generation process. 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	51,075	5.80	6.89	18.8	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 polution, and noise pollution, minimise long term effect of biodiversity loss (mangarove 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 Networtk 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	3.89	44.1	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	Property	4,966	1.45	1.79	23.4	Targeting zero carbon emmission 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 Malaysai Index since 2016 and ranked by FTSE Russell EGS Ratings in FBM Emas.
Yinson Holdings	Oil & Gas	7,204	2.36	3.89	64.8	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	12,703	2.25	3.38	50.2	Targeting zero carbon emmission 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 Malaysai 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 22: TOP BUY CALLS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Maybank	Banking	102,511	8.63	9.50	10.1	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	60,127	5.80	6.70	15.5	Undemanding valuation trading at 0.8x FY23F 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	11.80	48.2	Undemanding FY23F PE of 10x while rate of return of 7.3% is protected under RP3 guidelines.
RHB Bank	Banking	23,283	5.62	7.40	31.7	Strong capital position with a CET1 ratio of 16.6% as well as attractive FY23F P/BV valuation at 0.8x.
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.
Dialog Group	Oil & Gas	12,703	2.25	3.38	50.2	Improving sector recovery on bullish crude oil prices poised to spur recurring services growth with the group's strategic Pengerang development likely to bring in new investors.
Sunway	Property	8,289	1.68	2.29	36.3	Strong brand recognition established by its highly successful landmark developments and expanding healthcare business, supported by substantive unbilled sales and outstanding order book.
Yinson Holdings	Oil & Gas	7,204	2.36	3.89	64.8	Prominent FPSO player poised for record-high earnings growth banking on strong pipeline of projects in hand. Near-term order book expansion will come from the award of the Agogo project as well as other active tenders.
Sunway REIT	REIT	4,966	1.45	1.79	23.4	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 services and industrial segments.
Duopharma Biotech	Healthcare	1,428	1.50	1.89	26.0	Largest local pharmaceutical manufacturer with strong prospects driven by: (a) the rising take-up of generic drugs in Malaysia, (b) upcoming industry's patent cliff in 2022-2026 and booming biosimilars with the company's strength in R&D and state-of-art manufacturing facilities; and (c) ever growing Vitamin C market with its popular brands, Champs and Flavettes.

Source: AmInvestment Bank

EXHIBIT 23: SMALL CAP IDEAS

Company	Sector	Market Cap RMmil	Share price RM/share	Fair value RM/share	Upside %	Rationale
Apex Healthcare	Healthcare	1,598	3.35	3.73	11	Well-positioned to benefit from an ageing population, public health education advancement and steady healthcare expenditure increase.
MBM Resources	Auto	1,293	3.32	5.10	54	Set to benefit from Perodua's robust sales and continuous effort to widen its product offerings . The newly launched Perodua Alza is one of the key catalyst for the group.
Mah Sing Group	Property	1,287	0.53	0.86	62	Focus on affordable housing developments at strategic locations as well as savvy execution and quick turnaround business model.
Lagenda Properties	Property	988	1.18	1.64	39	Focus on underserved landed affordable housing development in second-tier states with large populations of B40 and M40 income groups.
Ancom Nylex	Manufacturing	889	0.95	1.30	37	Benefit from the ban of paraquat in Malaysia, Thailand and Brazil in FY23F. Over the medium-to-longer term, the introduction of new active herbicidal ingredients will further boost FY24F-25F earnings.
UOAREIT	REIT	770	1.14	1.42	25	Strategically located properties which are well-connected in neighbourhoods, coupled with diverse tenant mix which could mitigate potential rental collection risk during economic downturns.
Perak Transit	Transportation & Logistics	823	1.16	1.36	17	Robust recurring earnings from integrated public transport terminals, while anticipating further growth by riding on the tailwinds of post-pandemic recovery as well as expansions in Bidor and Tronoh.
Spritzer	Consumer	439	2.09	2.70	29	Continues to strengthen its domestic market share, supported by strong cash flow position and sustainable demand for natural mineral/drinking water. FY23F earnings growth also will be helped by softening crude oil prices.
Deleum	Oil & Gas	321	0.80	1.02	28	Resilient earnings growth on stronger orderbook with additional upside from the potential lifting of Petronas' tender suspension on its anti-corrosion operations. 3QFY22 net cash already represents 58% of the current market cap.
Lee Swee Kiat	Manufacturing	105	0.630	0.90	43	Near-term earnings growth will be driven by Cuckoo collaboration and expanding domestic market share. Also, a proxy to long-term positive structural trends: (a) increasing consumer preference for latex mattresses; (b) post-pandemic health awareness; (c) increasing affluence; and (d) ageing Malaysian population.

Source: AmInvestment Bank

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