Market Chat

Wednesday, 04 Jan, 2023

M+Online
Malacca Securities Sdn Bhd
mplusonline.com/research-reports

1Q23 Outlook & Strategy

Strategy

Loui Low Ley Yee
louilow@msec.com.my
(603) 2201 2100 (ext 215)

Winter always turns into spring

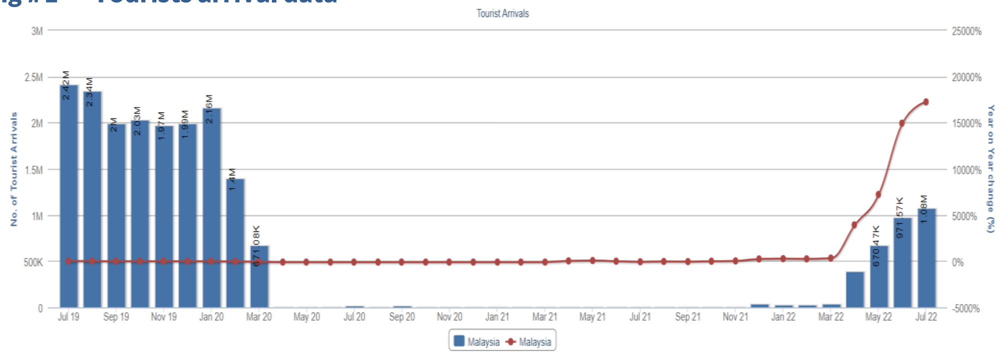
- **The long-awaited recovery is likely to emerge with the reopening of China's travel borders. We believe this will be able to offset the recession risk under the (i) elevated interest rate environment, (ii) ongoing tension between the Ukraine and Russia and (iii) overheated inflationary pressure at least for 1H2023.**
- **We are feeling cautiously optimistic on the local front after (i) a solid GDP growth in 2022, (ii) stable political environment and (iii) the reopening of China's borders.**
- **Hence, we have a few themes under our 1Q23 outlook and strategy, namely the (i) Recovery, (ii) Renewables, (iii) Commodities and (iv) Resilient.**

China reopening borders & Covid-19 situation

- **Spiking cases in China...** At our end, we have seen stabilising Covid-19 conditions and indicators are pointing that we are able to live with the virus going forward. However, with the reopening of borders, it might affect the situation outside of China. Reasons being (i) it might be a new Covid-19 variant and (ii) the efficacy of vaccines is diminishing hence protection against the virus might be fading.

- **...but borders are reopened!** Since Malaysia has reopened the travel borders in Apr-2022, tourists are growing exponentially. With the tourists from China entering our country, it should provide a "wow" factor for the growth in the economic activities.

Fig #1 Tourists arrival data



Source: http://mytourismdata.tourism.gov.my/

- **Business activities should return to normalcy.** Based on the recent GDP numbers, Malaysia economy grew at 14.1% YoY in 3Q22. We believe the 4Q22 GDP will stay in the positive zone. Given the return of travellers in Malaysia, we are likely to expect decent growth into 2023. Nevertheless, business operators will remain cautious in view of the high interest rate environment.

Economic review and outlook

- **Elevated interest rate environment...** Although the market is expecting a pivot from the Fed by March 2023, we believe the interest rate will stay elevated around 4.4-5.0% throughout 2023 as persisting inflationary pressure as shown in the US CPI is still far away from the 2% YoY inflation target by the Federal Reserve.

FBMKLCI	1473.99
Support	1450-1380
Resistance	1500-1510

Indices	4Q22 (%)
KLCI	7.2%
FBMSCAP	8.8%
FBMACE	14.0%
Healthcare	17.9%
Energy	15.8%
Transport	10.8%
Plantation	9.4%
Ind Products	7.0%
Consumer	6.4%
Telco & Media	6.3%
Utilities	5.7%
Property	4.6%
Technology	4.2%
Financial Services	3.6%
REITs	0.8%
Construction	-0.1%

1Q23 Stock picks	S1	S2	R1	R2
BIMB	2.58	2.50	2.78	2.94
BJFOOD	0.975	0.935	1.11	1.20
CMSB	1.00	0.915	1.13	1.25
D&O	4.10	3.94	4.45	4.77
DIALOG	2.32	2.23	2.55	2.72
GENTING	4.29	4.18	4.75	4.85
HEKTAR	0.665	0.645	0.75	0.795
JTIASA	0.615	0.585	0.71	0.755
MAGNI	1.80	1.75	1.94	2.00
MISC	7.00	6.80	7.68	8.19
MYEG	0.825	0.77	1.00	1.08
SLVEST	0.795	0.705	0.915	0.995
UMW	3.22	3.10	3.64	3.95

Fig #2 Federal Reserve rate forecast

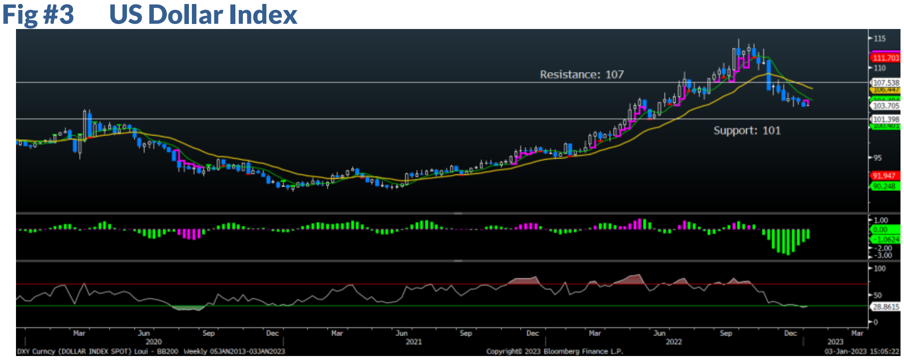
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
02/01/2023	+1.310	+131.0%	+0.328	4.659	0.250
03/22/2023	+2.055	+74.5%	+0.514	4.845	0.250
05/03/2023	+2.465	+41.0%	+0.616	4.947	0.250
06/14/2023	+2.494	+2.9%	+0.623	4.955	0.250
07/26/2023	+2.265	-22.9%	+0.566	4.898	0.250
09/20/2023	+1.935	-33.0%	+0.484	4.815	0.250
11/01/2023	+1.449	-48.6%	+0.362	4.693	0.250
12/13/2023	+0.878	-57.1%	+0.220	4.551	0.250
01/31/2024	+0.235	-64.3%	+0.059	4.390	0.250

Source: Bloomberg

- **…and unwinding of balance sheet.** The US central bank has been tapering USD47.5bn (USD30bn in Treasuries and USD17.5bn in MBS) per month starting from Jun-22 and has stepped up the unwinding of balance sheet to USD95bn (USD60bn in Treasuries and USD35bn in MBS) from Sep-22 onwards.

- **USD index has peaked around 114-115 zone.** Following the gradual decline in the US CPI data, the pace of the interest rate hike may cut back. Thus, translating to softening of the USD strength in the recent months. Given that decline, we expect funds may flow into regions such as the emerging markets at least in 1H2023.

Fig #3 US Dollar Index



Source: Bloomberg

- **Bloomberg commodity index (BCI)** continued to be supported along 110. Also, we expect a spike going forward to 120 on the back (i) unresolved Ukraine-Russia war, (ii) softer USD movements and rising demand from China reopening activities. However, should the economy fall into a recession mode, the commodity index may decline significantly.

Fig #4 Bloomberg Commodity Index

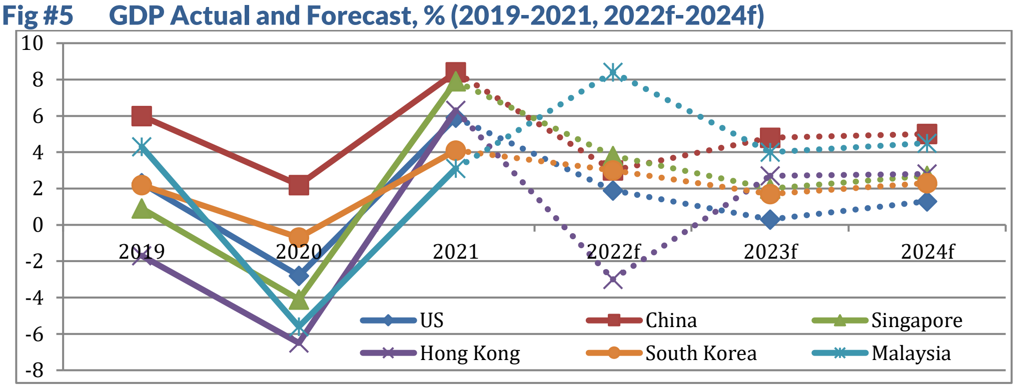
Source: Bloomberg

- **Is the market pricing in a hard landing?** Given the elevated interest rate environment as well as persisting inflationary pressure, disposable income will be hit, and that could be the possible scenario where the market is pricing in.

- **Bank of Japan surprised move** in the expanding of the trade band for long term Japanese government bond yields was taken as a hawkish or monetary tightening move by the BOJ, hence the yen has jumped against the USD following this event.

- **Recovering Malaysia economy.** Meanwhile, the Malaysia's economy will remain on track to chart a positive growth for 4Q22 and 2023 following the (i) reopening of borders, (ii) full resumption of business activities since Apr-22 and (iii) China relaxing most of the Covid-19 measures should contribute to tourists returning and providing a "wow" factor to our business growth going forward. We believe Malaysia still has the edge in providing products and services in the global arena with the fairly weak ringgit position. Based on the consensus, Malaysia's GDP could grow by a rate of 8.4%, 4.0% and 4.5% in 2022-2024, respectively.

Fig #5 GDP Actual and Forecast, % (2019-2021, 2022f-2024f)



Source: Bloomberg

Market review

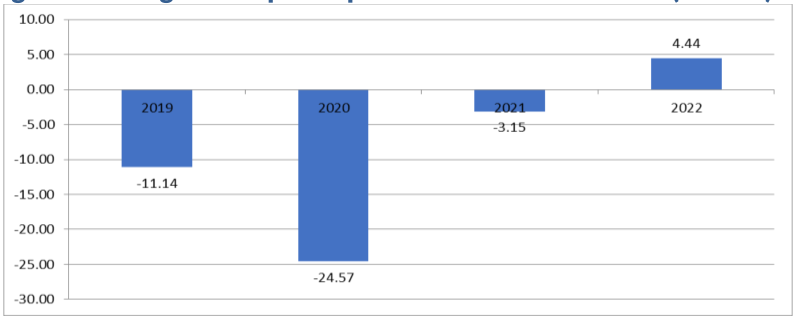
- **MSCI World and S&P500 are at discount,** trading at the PE multiples of 16.5x and 18.3x vs. 10Y avg PE of 20.2x and 20.4x, respectively. Meanwhile, the FBM KLCI is trading at 15.5x PE vs. the 10Y avg PE of 17.7x. Although they are at a discount mode, we believe the market might be pricing in a slowdown of earnings in 2023.

Fig #6 FBMKLCI P/E Band

Source: Bloomberg

- **QoQ, trading activities are gaining traction.** Although we noticed that the YTD ADTV declined to RM2.02bn vs. RM3.54bn in 2021. QoQ, we observed the improvement of ADTV from RM1.62bn in 3Q22 to RM1.94bn in 4Q22. Foreign funds are net buyer valued at RM4.44bn for 2022.

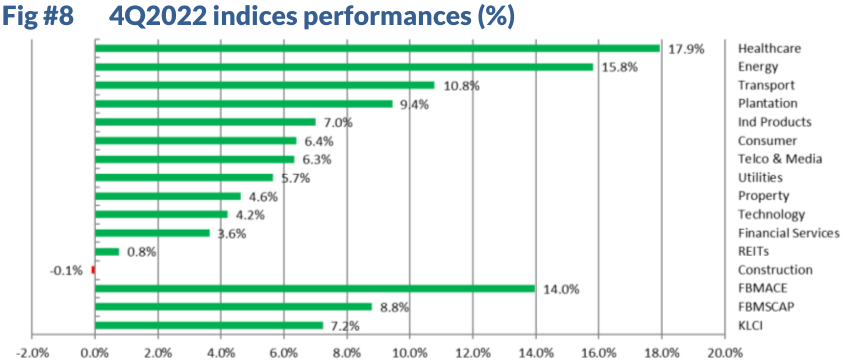
Fig #7 Foreign funds participation net inflow/ outflow (RM' bn)



Source: Bursa Market Place

- **Broader market rebounded in 4Q22.** In 4Q22, the FBMKLCI, FBM Small Cap and FBM ACE advanced 7.2%, 8.8% and 14.0%, respectively. All the sectors gained momentum except for the construction sector, which was marginally lower by 0.1%. The top 3 sectors include the healthcare (+17.9%), energy (+15.8%) and transportation (+10.8%).

Fig #8 4Q2022 indices performances (%)



Source: Bloomberg, M+ Online

1Q23 Outlook & Strategy

- **An anticipated "wow" factor to the recovery theme**. In Apr-22, we have fully reopened the business activities and travel borders and the economy has regained momentum in 9M22 for the economy. With China's border reopening, that should provide another round of pent-up demand as people rush to book overseas trips. **We favour the tourism, aviation, airports, gaming, REITs and consumer segments.**

- **Unity government formed…** As the GE15 has concluded, we are fortunate to have a government formed with Datuk Seri Anwar Ibrahim being appointed as the 10th PM. Cabinet line-up came from different parties with the exception of Perikatan Nasional. In view of the stable political environment as compared to a hung parliament scenario, we should be expecting foreign investments return to Malaysia.

- **…and expecting a prudent Budget 2023 by Feb-2023**. Certainly, there will be a need to re-table the Budget 2023 with extra care to craft policies in order to reduce the cost of living and minimising unnecessary expenditures. Having said that, expanding the economy going forward is as important. We are anticipating **that the solar and EV sectors** will be part of the Budget 2023 focus. Meanwhile, technology related incentive that caters for the **automation and digital technology** will be included. Higher allocation to the **medical segment and construction sector** will be expected.

- **Building material segment.** With the return of construction related activities such as infrastructure works, continuation of previous mega projects and ongoing resolution on labour shortages issue, we opine that the building material – a proxy towards the construction sector, will be ready to play a catch up soon. Thanks to the reopening of economic activities in China, we expect metal related selling price will be rising and the spillover effect to our local companies will be seen. **The steel, iron, aluminum and cement industries are likely to be on traders' radar.**

- **Cash is king under high interest rate environment.** Moving forward, high interest rate may stay as a norm. With that, we think investors should opt for companies with high net cash, low gearing or stable dividend track record to weather through the challenging environment.

- **Brent oil remains elevated.** As the Ukraine and Russia tension persisted, we noticed that most of the commodities have marked higher trading range as compared to 2019, despite falling from the peak in 2022. With the Brent crude oil price hovering above USD80, coupled with the Petronas capex estimated to be at RM45-50bn, it should generate positive interest within **the energy sector**.

- **Growing automotive segment with introduction of EV models**. Backlog orders will remain as the key contribution to the automotive earnings going forward. Moreover, MAA forecast TIV to grow to 636k in 2023 vs. 630k in 2022. Although the increase is less than 5%, we expect the EV offerings will be exciting to spice up the automotive segment in 2023. Thus, **we like automakers, automotive-related companies such as leather upholstery or car accessories.**

Factors/ Elements/ Theme for 1Q23 sectors and stock picks

Companies	Sector	Recovery	Renewables	Commodities	Resilient
BIMB	Financial Services	✔			
BJFOOD	Consumer	✔			
CMSB	Building material	✔			
D&O	Technology		✔		✔
DIALOG	O&G			✔	
GENTING	Gaming	✔			
HEKTAR	REIT	✔			
JTIASA	Plantation			✔	
MAGNI	Manufacturing				✔
MISC	Shipping			✔	
MYEG	E-Services				✔
SLVEST	Solar		✔		
UMW	Automotive				✔

Source: M+ Online

BIMB – One of the laggards in the banking sector

- **BIMB is a leading and pioneering Islamic bank** in Malaysia which provides end-to-end financial solutions that fulfil the diverse needs of its customers.
- **Earnings growth momentum intact.** We believe the earnings have bottomed out in 4Q21 at RM79.6m and have grown since then to RM143m in 3Q22. Without the Cukai Makmur in 2023, we are optimistic in its growth prospects.
- **Decent dividend yield.** Based on Bloomberg forecast, the prospective dividend stood at 3.8%.

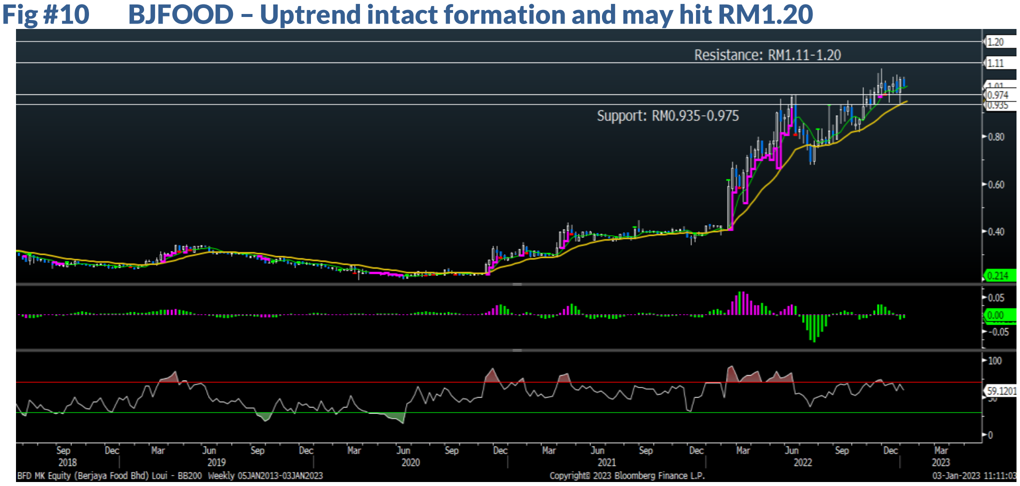
Fig #9 BIMB – Rebounding above RM2.58

Source: Bloomberg, M+ Online

BJFOOD – Tagging the ongoing recovery theme

- **BJFOOD primarily engaged** in developing and operating the "Starbucks Coffee" brand in Malaysia and Brunei, developing and operating the "Kenny Rogers Roasters" chain in Malaysia as well as Jollibean and various brands in Singapore.
- **Factors that could improve the earnings include** (i) festive seasons, (ii) tourism and eating out culture, which have improved after the reopening of borders in Malaysia**.**
- **"Wow" factor should be the China's border reopening.** This month, we will be anticipating China's tourist returning to Malaysia and that may boost the transactions in most of the brands under BJFOOD.

Fig #10 BJFOOD – Uptrend intact formation and may hit RM1.20



Source: Bloomberg, M+ Online

CMSB – Direct beneficiary of Sarawak's growth

- **CMSB has evolved from a single product manufacturer of cement in** 1974 to a portfolio of different segments include construction materials, trading, construction, road maintenance, property development, financial services, smelting, telco infrastructure, education and other services.
- **CMSB ventures into the energy sector,** acquiring SCOMIES's oilfield operations for RM21m. It has completed in Sep-22 and should be bearing fruits going forward.
- **New era of growth - Sarawak Corridor of Renewable Energy (SCORE).** CMSB will be able to take advantage of SCORE's growth to help Sarawak achieving developed State status by 2030 through its experience in the past infrastructure works.

Fig #11 CMSB –Forming a flag pattern and poise for a breakout

Source: Bloomberg, M+ Online

D&O – Riding along higher content of LED in EVs

- **D&O through its operating subsidiary**, Dominant Opto Technologies Sdn Bhd is amongst the world's leading automotive Surface Mount Technology LED manufacturers for the global automotive industry.
- **Improving car sales and higher LED content in EVs.** According to Bloomberg Hyperdrive, car sales are projected to grow gradually and recover to pre-pandemic level by 2024. Meanwhile, we expect the growth will be driven primarily by the higher LED content growth in EV and the broadening of automotive LED applications.

Fig #12 D&O – Could be at the tail end of the consolidation

Source: Bloomberg, M+ Online

DIALOG – Firm crude oil environment to boost demand for its services

- **DIALOG provides comprehensive O&G services** include (i) upstream assets and services, (ii) midstream assets and services - tank terminals and supply base, and (iii) downstream integrated technical services – EPCC & Fabrication, plant maintenance & catalyst handling services, specialist products & services, petrochemicals, and digital technology & solutions.
- **Benefitting from Pengerang Deepwater Terminals (PDT).** With the reopening of travel borders in 2023, we believe PDT will be able to welcome foreign clients and investors, in turn boosting DIALOG's downstream and midstream businesses.
- **Uptick in recent earnings.** We believe the cost on the EPCC side will be normalised as the net profit margin grew from 17.5% in 4Q22 to 17.7% in 1Q23.

Fig #13 DIALOG – Downward trendline breakout

Source: Bloomberg, M+ Online

GENTING – China's tourist to lift demand in the tourism sector

- **GENTING is involved in leisure and hospitality, oil palm plantations, power generation, O&G, property development, life sciences and biotechnology activities.** Also, the group has tie ups with established names such as Universal Studios, Premium Outlets, Zouk, Hard Rock Hotel, Hilton and other brand partners.
- **Reopening of business activities and international borders.** After the business have been affected during the global lockdown, business outlook is likely to turn positive with the reopening of China's travel borders.
- **Recent uptick in earnings could be suggesting** that the demand is building up after the slowdown during 2020-2021.

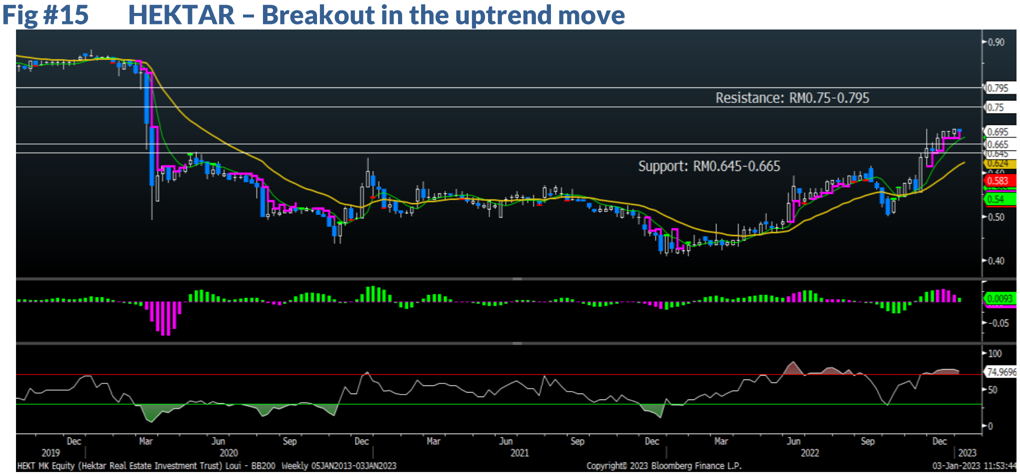
Fig #14 GENTING – Poised for a breakout after sideways consolidation

Source: Bloomberg, M+ Online

HEKTAR – Highly lucrative yield in the REIT sector

- **Hektar has a property portfolio of 6 shopping centres** spanned across Subang Jaya, Melaka, Muar, Sungai Petani, Kulim, and Segamat.
- **Driven by economic recovery.** We believe HEKTAR will be able to improve its occupancy rate and capturing higher footfalls under the economic recovery period.
- **Energy efficiency initiative**. HEKTAR strives to use energy in the most efficient and cost-effective manner. Hence, the group is examining the feasibility of installing solar panels on the rooftops to reduce its energy consumption.
- **High dividend yield**. Throughout the years, HEKTAR has been rewarding handsomely to its shareholders. Prospective dividend yield may range around 7-9%.

Fig #15 HEKTAR – Breakout in the uptrend move

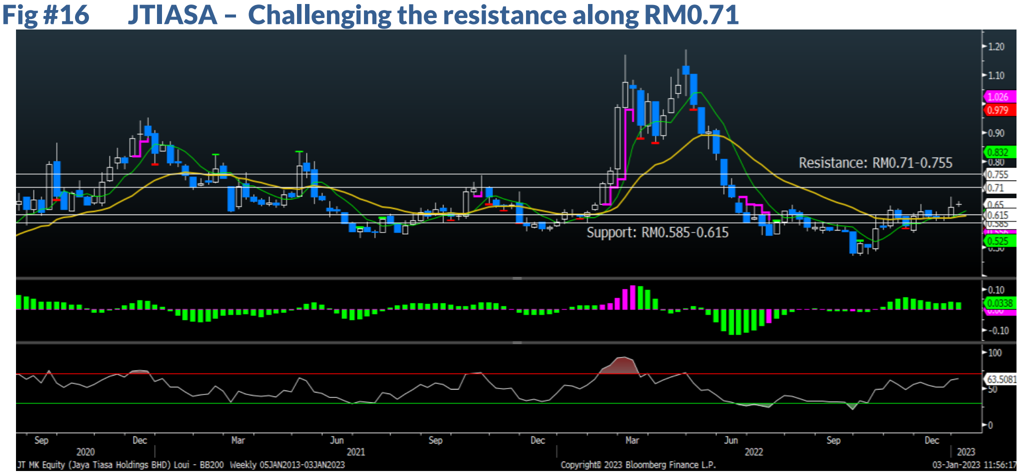


Source: Bloomberg, M+ Online

JTIASA – Taking a lift in the rebound in FCPO

- **JTIASA involves in** oil palm plantation & CPO milling, distribution of round timber logs and reforestation activities. JTIASA has a landbank of over 83k hectares.
- **Volatile CPO price…** Following the Ukraine and Russia tension, CPO has a volatile move, rallying to RM7,268 and pulled back to RM3,220.
- **…but trading above RM3,800.** With the reopening of China's economy, we expect commodity prices to remain firm and this is healthy for plantation companies and should expect higher dividends going forward.

Fig #16 JTIASA – Challenging the resistance along RM0.71



Source: Bloomberg, M+ Online

MAGNI – Fully resumption of business activities in Vietnam

- **MAGNI engaged in 2 business segments,** namely the manufacturing and sale of (i) garments, and (ii) flexible plastic packaging goods and corrugated cartons.
- **Vietnam's operation returns to normal.** Given the business has fully resumed in Vietnam, we expect earnings to regain momentum in 2023.
- **Packaging segment.** Meanwhile, we expect the resumption of business activities in the global scene will provide support to the packaging segment.

Fig #17 MAGNI – Rebound move intact and may hit the range around RM2.00

Source: Bloomberg, M+ Online

MISC – Benefiting from the firmer tanker rates

- **MISC is a world leading provider of international energy related maritime solutions and services such as** energy shipping, owning and operating offshore floating solutions, marine repair and conversion, engineering and construction works, integrated marine services, port management and maritime services and others.
- **Firm crude oil price as geopolitical tension persists.** MISC should benefit from higher tanker rates led by the global diversion in crude supplies flow with the unresolved Ukraine and Russia tension.

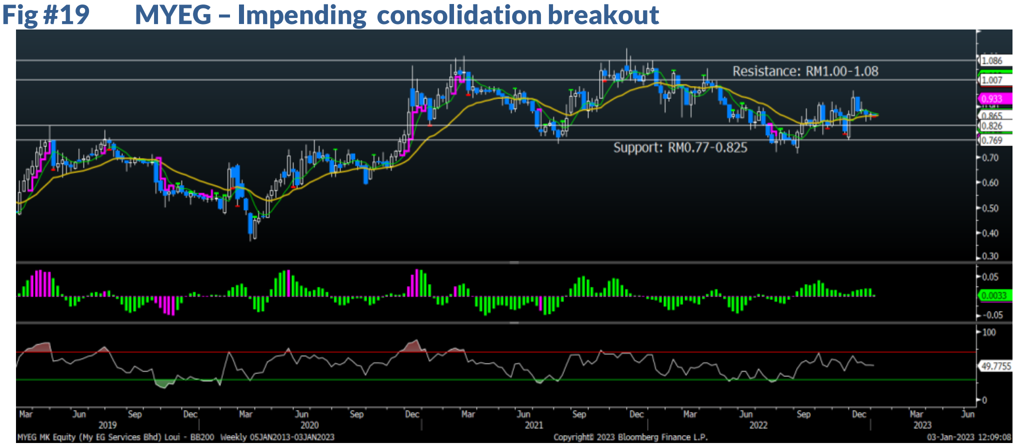
Fig #18 MISC – Trading with upside biased within the symmetrical triangle

Source: Bloomberg, M+ Online

MYEG – Sticky e-government services

- **MYEG provides a complete range of major government services** in the areas of immigration, automotive and others. Services include (i) check and pay road tax, (ii) renew driving license, (iii) renew maid & foreign worker permit permits and etc.
- **Reopening of business activities and international borders**. Business outlook turning positive with the full operation of MYEG's E-services Centers, while the foreign worker segment should gain momentum as government has allowed the applications for foreign workers into various industries since Feb 2022 onwards.
- **Wild card is the GST.** Should the government re-instate the GST, MYEG may benefit for its GST monitoring system given their role as the system provider earlier.

Fig #19 MYEG – Impending consolidation breakout



Source: Bloomberg, M+ Online

SLVEST – Firm orderbook and venturing into EV related infraworks

- **SLVEST in providing solar EOCC solutions** for projects covering domestic houses, commercial and industrial properties and LSS PV plant. It also provides O&M services of solar PV systems. The group has presence in Taiwan and Phillippines.
- **Firm orderbook in hand of RM662m** should last SLVEST for another 1.5 years.
- **Corporate Green Power Agreement.** SLVEST is aiming to capitalize on the 600MW of solar PV assets quota release under the CGPA and will be based on virtual power purchase agreements.
- **Eyeing a piece in the EV infrastructure.** SLVEST is venturing into the EV charging port market, with the launch of EV charging and mobility solutions called PowerBee.

Fig #20 SLVEST – Monitor for a flag formation breakout

Source: Bloomberg, M+ Online

UMW – Still clearing the order backlogs in the automotive segment

- **UMW involves in 4 different business divisions** include (i) automotive, (ii) equipment, (iii) manufacturing & engineering and (iv) aerospace.
- **Automotive to drive the growth.** More than 80% of the revenue is generated from the automotive segment, and we should be anticipating higher growth momentum into 2023 with the rising demand for EVs and higher car sales.
- **Recovery theme on the cards.** The heavy equipment, M&E and the aerospace segments will rely on the ongoing recovery business activities following the reopening of China's borders.

Fig #21 UMW – Long term sideways consolidation breakout

Source: Bloomberg, M+ Online