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3Q22 Outlook & Strategy

Strategy

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A messy fight between the bulls and bears

- **Heightened volatility was experienced due to (i) rising inflationary pressure, (ii) tension between Ukraine-Russia, (iii) hawkish Fed's tone and (iv) recession fears.**
- **Given Malaysia has transitioned into endemic phase, it might benefit consumer & services sector with the reopening of business activities and upliftment of borders. We expect firm demand for the transportation & logistic sector moving forward.**
- **We like energy sector with the elevated Brent oil price, while the tech sector could see upward potential after a near-to-40% drop in the sub-index from the peak.**
- **We favour the banking industry under the interest rate upcycle environment.**

FBMKLCI	1451.48
Support	1400
Resistance	1480

Endemic phase - Living with Covid-19

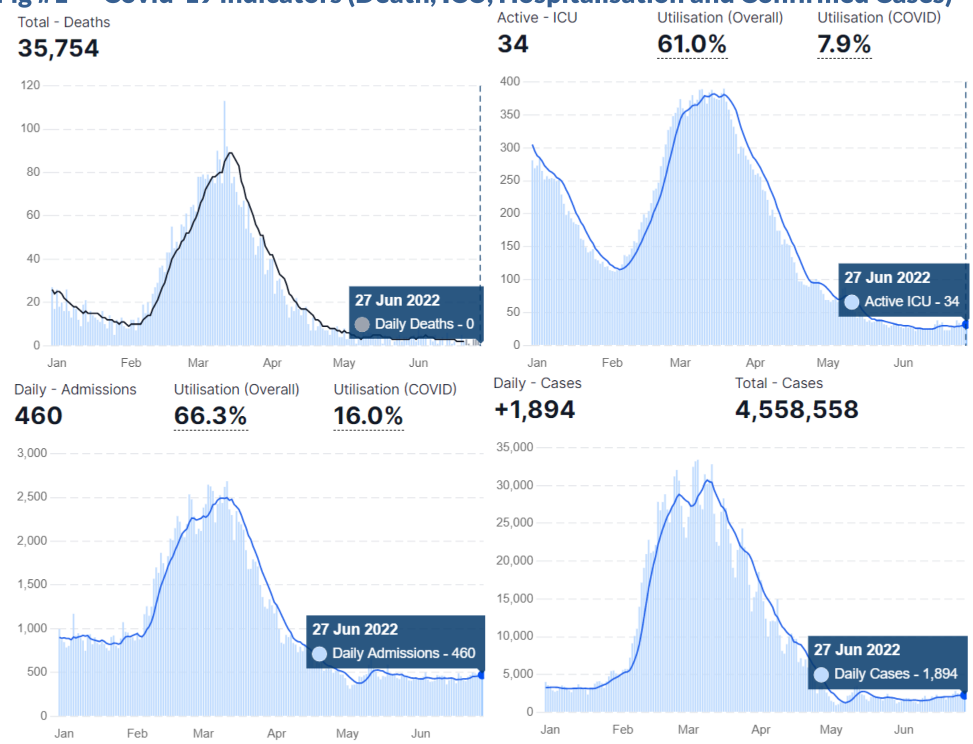
- **The return of international travellers.** Since April, Malaysia has uplift most of the Covid-19 SOPs and that will allow the return of international travellers that are fully vaccinated against Covid-19, entering the country without quarantine.

- **Covid-19 indicators are stabilising** as our vaccination rate has achieved above the 80% mark with booster shots hitting about 50% of the total population in Malaysia. Meanwhile, the hospitalisation, ICU and death rate are at a manageable level, suggesting that the Covid-19 will be treated like a normal flu moving forward.

Indices	2Q22 (%)
FBM KLCI	-8.6%
FBM Small Cap	-12.2%
FBM ACE	-13.9%
Plantation	1.3%
Financial Services	-2.2%
Construction	-2.8%
Energy	-3.6%
Property	-4.3%
Ind Products	-4.8%
Telco & Media	-4.9%
Consumer	-10.9%
REITs	-11.8%
Transport	-12.4%
Utilities	-13.8%
Healthcare	-19.0%
Technology	-20.1%

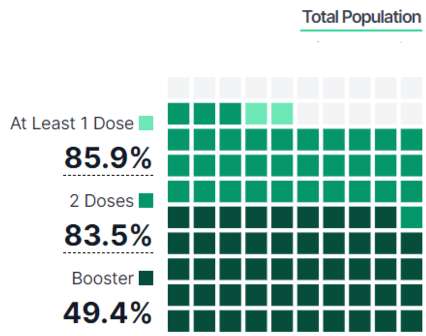
3Q22 Stock picks	S1	S2	R1	R2
UWC	3.230	2.900	3.890	4.180
DUFU	2.750	2.620	3.100	3.280
DAYANG	0.940	0.900	1.100	1.140
GASMSIA	2.970	2.870	3.220	3.300
PTRANS	0.725	0.700	0.860	0.905
SYSCORP	0.375	0.355	0.445	0.470
PWROOT	1.630	1.570	1.830	1.920
GCB	2.460	2.400	2.710	2.800
QL	5.230	5.080	5.710	5.920
AMBANK	3.620	3.470	3.980	4.110

Fig #1 Covid-19 indicators (Death, ICU, Hospitalisation and Confirmed Cases)



Source: https://covidnow.moh.gov.my/ (as of 28th June 2022)

Fig #2 Malaysia vaccination status



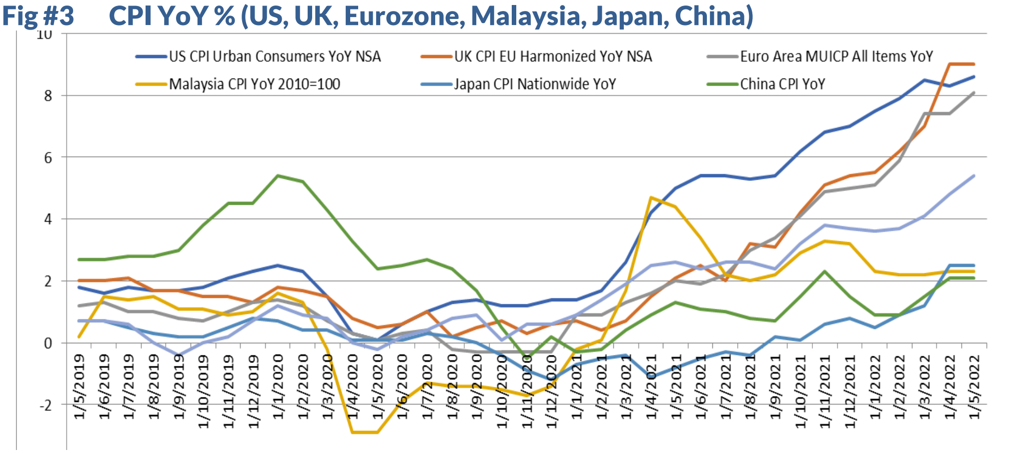
Source: https://covidnow.moh.gov.my/ (28th June 2022)

- **Full force in business activities.** Under the National Recovery plan, all the states are currently under Phase 4. Hence, we expect consumer spending to pick up under this environment with the relaxation of Covid-19 restriction measures.

Economic review and outlook

- **Inflationary pressure is the main focus.** With the US CPI numbers remains elevated over the past few months, the US Federal Reserve is having concerns that the inflationary pressure could hit the economy and cause a slowdown in business activities.

Fig #3 CPI YoY % (US, UK, Eurozone, Malaysia, Japan, China)



Source: Bloomberg

- **Supply-demand imbalance since the Covid-19 pandemic.** Many have commented that the Covid-19 pandemic and shipping backlogs in China following several rounds of lockdowns have caused the supply chain disruptions, while the demand was pushed higher with an easing monetary policy environment where most of the central bankers are lowering their rates to stimulate the economy over the past two years.

- **Ukraine-Russia conflicts.** Adding to the situation, the incident of the Ukraine and Russia tension has contributed to the rising crude oil price, translating to higher shipping costs and lifting food prices. Meanwhile, this event has caused the surge in prices for edible oil like sunflower oil, fertiliser and agricultural chemical products.

- **US Fed's actions – interest rate hike...** To combat the inflationary environment, the US Fed's has to continuously increase the policy target interest rate and unwinding its balance sheet to tame the heightened inflation. Currently, the Fed's fund rate is ranging around 1.50-1.75%. While it has been increasing over the past 3 FOMC meetings, market is anticipating that the interest rate may hit 3.00-3.50% by end-2022 and above 3.50% in 2023.

Fig #4 Federal Reserve rate forecast

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	1.75	Pricing Date	06/28/2022
Effective Rate	1.58	Cur. Imp. O/N Rate	1.589

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
07/27/2022	+2.853	+285.3%	+0.713	2.302	0.250
09/21/2022	+5.168	+231.5%	+1.292	2.881	0.250
11/02/2022	+6.737	+156.9%	+1.684	3.274	0.250
12/14/2022	+7.513	+77.6%	+1.878	3.467	0.250
02/01/2023	+7.861	+34.7%	+1.965	3.554	0.250
03/22/2023	+8.063	+20.3%	+2.016	3.605	0.250
05/03/2023	+7.952	-11.1%	+1.988	3.577	0.250
06/14/2023	+7.670	-28.2%	+1.918	3.507	0.250
07/26/2023	+7.353	-31.7%	+1.838	3.427	0.250

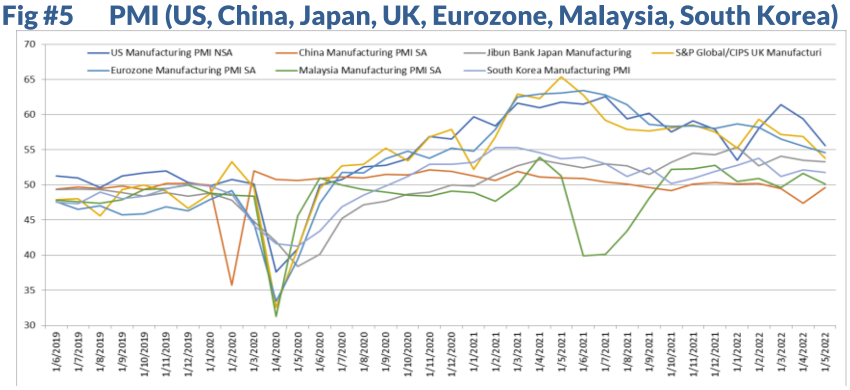
Source: Bloomberg

- **...and unwinding of balance sheet.** The US central bank will be tapering USD47.5bn (USD30bn in Treasuries and USD17.5bn in MBS) per month starting in June and will step up the unwinding to USD95bn (USD60bn in Treasuries and USD35bn in MBS) in September onwards.

- **Recession concerns.** Recently, we have been noticing that the inflationary pressure has contributed to higher input costs and dampening corporates' margins. There are market talks that the hawkish tone and quantitative tightening from the Feds may also reduce the public and private spending moving forward. Will this be setting up a stage for the recession?

- **Manufacturing PMI.** However, we will continue to monitor on the manufacturing data to indicate us on whether the manufacturing sector is in an expansionary or contracting environment. This is crucial and might affect investors' exposure in the markets. Based on Bloomberg, it is suggesting that the world economies beside China are still in an expansionary mode.

Fig #5 PMI (US, China, Japan, UK, Eurozone, Malaysia, South Korea)



Source: Bloomberg

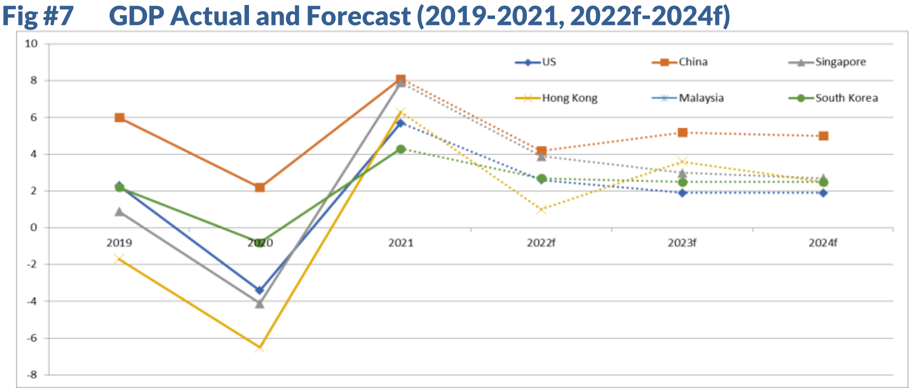
- **Bloomberg commodity index (BCI)** has been hitting resistances along 130-140 and it has declined after the recent interest rate hike of the 0.75%, suggesting the market might have started to adjust accordingly to the Fed's hawkish tone. We believe if the BCI could consolidate below the trendline of 125, the inflation could be slowing down and world economy may head for a milder growth instead of the hard landing. However, should the US Feds remain its hawkish tone with the inflation target of 2%, market is likely to price in the recession scenario.

Fig #6 Bloomberg Commodity Index

Source: Bloomberg

- Back to our local front, we opine that the **reopening of borders and full resumption in business activities** may support the economic growth moving forward, albeit rising input costs from elevated commodity prices as Malaysia government still provide subsidies to the population. Moreover, with the return of international travellers, we believe the economy should stabilise into 2H2022. Based on consensus, Malaysia's GDP could grow by a rate of 6.2% and 4.8% in 2022-2023. Do note that BNM projects the growth at 5.3-6.3%.

Fig #7 GDP Actual and Forecast (2019-2021, 2022f-2024f)



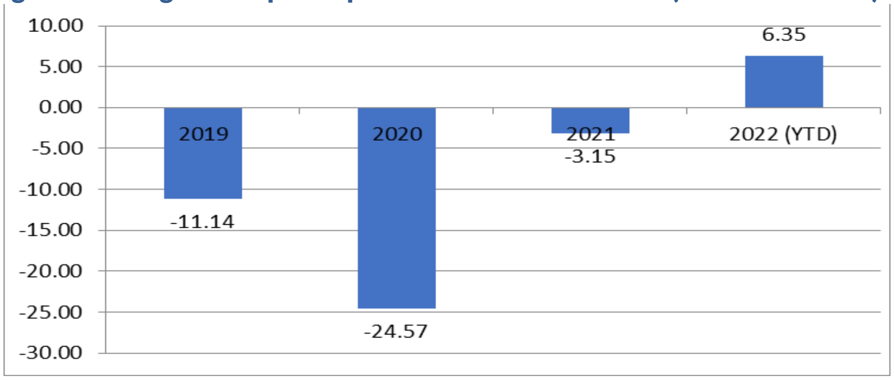
Source: Bloomberg

Market review

- **MSCI World Index and S&P500 are trading at a discount** after the recent selloffs, their PE multiple stood at 16.9x and 19.1x as compared to their 10Y avg PE of 20.2x and 20.2x, respectively. Similarly, the **FBM KLCI is trading at a discount of** 15.8x PE vs. the 10Y avg PE of 17.7x.

- **Trading activities were softer** as compared to the past year with the YTD ADTV declined 32.5% to RM2.39bn vs. RM3.54bn in 2021. Meanwhile, foreign investors remained net buying position on the YTD basis with RM6.35bn of inflows.

Fig #8 Foreign funds participation net inflow/ outflow (2019-2022 YTD)



Source: Bursa Market Place (28th June 2022)

- **Overall negative 2Q22 performances.** In 2Q22, the FBMKLCI, FBM Small Cap and FBM ACE were down 8%, 12% and 14%, respectively. Out of the 13 sectors, the REITs was the sole performer advancing 1.3%, while healthcare (-20.1%), technology (-19.0%) and the telco and media (-13.8%) were the biggest losers for the quarter.

3Q22 Outlook & Strategy

- **Living in the endemic phase with the reopening of business activities and travel borders**. As most of the population has gotten the Covid-19 vaccination, we have transitioned to endemic phase and will treat Covid—19 as normal flu going forward. Since April, fully vaccinated international travellers are able to enter Malaysia without quarantining. This should rekindle the activities within the consumer and services sectors such as the aviation, airports, tourism and consumer segments.

- **Elevated inflationary pressure.** Overall input costs are higher for corporates and the nation under this environment. We expect investors to favour defensive picks like companies with high net cash, low gearing and stable dividend paymaster as they might be able to weather through this tough environment.

- **Commodity prices should remain elevated** with the unresolved tension between Ukraine and Russia. Despite the hawkish tone from the Feds, some commodities have corrected, but remain elevated; thus investors could maintain positive bias tone within the energy and plantation sectors.

- **Technology sector may see upward potential.** The recent selldown on the technology index, falling near to 40% could be a zone for cherry picking on technology stocks. Over the past 15 years, we have seen the more severe correction was during 2010-2011, where the technology index has plunged more than 50%. However, the current fundamentals of the technology stocks could still be boosted by the rising adoption in 5G and IoT devices, ever-evolving electronic gadgets and the EV trend, which will remain as the main catalysts for the sector at least over the near- to mid-term.

- **Some bright spots from China might spillover to Malaysia.** Shanghai has declared victory against Covid-19 pandemic and it is slashing the quarantining period for international travellers getting into China. Besides, without further lockdowns in China, we should expect travelling activities to increase globally. Meanwhile, with the recovering of business activities, it is likely that we as the close trading partner should benefit from this scenario and may bode well for industry such as consumer & services, metal-related and sentiment in commodity sector may turn positive.

- **Nevertheless, narrative may change overnight.** Since the recent sentiment has been affected by (i) heightened inflation, (ii) the US Fed's tone, which is currently still hawkish and (iii) the recession worries, we believe any shift of the abovementioned statements will provide a huge volatility to the markets. We expect some rebound in the near term until the next US CPI data (13th July) and FOMC meeting (26-27th July).

Sector and stock picks for 3Q22

- **Technology: DUFU, UWC**
- **Transportation & Logistics: PTRANS**, **SYSCORP**
- **Consumer: GCB**, **PWROOT,** SDS, **QL**
- **Finance: AMBANK**, PPJACK
- **O&G: DAYANG, GASMSIA**

UWC – Tapping the 5G, semiconductor and automotive growth

- **An integrated engineering support services provider** that engages in the provision of precision sheet metal fabrication, assembly services and the fabrication of precision machined components.
- **To develop newly-acquired 48.0-ha leasehold land** into a production base over the next 3 years in bid to free up capacity constraints at its existing Batu Kawan facility.
- **Leveraging onto transitioning towards 5G** as the new system tester manufacturing facility is expected to commence production by 3QCY22.

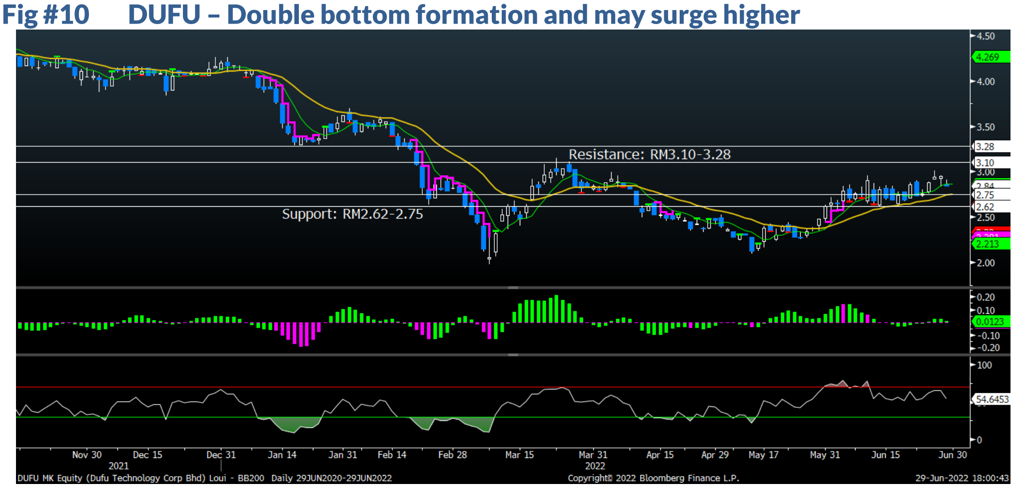
Fig #9 UWC – Rebound move emerging after rounding bottom pattern

Source: Bloomberg, M+ Online

DUFU – Ever growing HDD segment

- **One of the leading precision machining parts and components manufacturers** which products are used across various industries like HDD, medical and office equipment, consumer electronics and into telecommunications.
- **Growth in the HDD and non-HDD segment** will be supported by rising cloud storage demand and stronger capital expenditures spending from the semiconductor and tech hardware players.

Fig #10 DUFU – Double bottom formation and may surge higher



Source: Bloomberg, M+ Online

DAYANG – Gaining traction with the elevated Brent oil

- **An integrated services provider in the O&G industry**; services include provision of maintenance services, fabrication operations, hook-up and commissioning and chartering of marine vessels.
- **Solid outstanding orderbook of approximately RM1.80bn,** translating to a healthy cover ratio of 2.7x of FY21 revenue of RM667.7m that will provide earnings visibility over the next 3 years.
- **Improving vessel utilisation rate at 25.0% in 1Q22** (up from 20.0% registered in the previous corresponding quarter), implying that the oil & gas activities is on the recovery path as crude oil prices hovered above USD 100/bbl.

Fig #11 DAYANG – Sitting around support zone after triangle breakout

Source: Bloomberg, M+ Online

GASMSIA – Sustainable result with dividends

- **Strongest net profit in 10 years.** GASMSIA recorded net profit of RM91.3m (+32% QoQ, +64% YoY) in line with higher average natural gas (NG) selling price following the global market price. We could expect NG's volume to grow in tandem with the reopening of business activities.
- **Steady dividend paymaster.** Average dividend payout ratio stood at about 70% for the past 5 years, translating to an average dividend yield of 4%.
- **NG price remains elevated.** We believe the earnings may continue to grow at least for the near term given the elevated NG price under the unresolved tension between Ukraine and Russia and heightened inflationary environment.

Fig #12 GASMSIA – Uptrend consolidation move, awating breakout

Source: Bloomberg, M+ Online

PTRANS – Boosted by the upliftment of travel borders

- **One of the leading operators of integrated transportation terminal** that also involved in the operations of public transportation services, petrol stations, and mining management (30% JV with Gemas Perunding in silica mining).
- **Positive earnings growth underpinned** by (i) maturity of the Kampar Putra Sentral, (ii) development of Bidor Sentral and Terminal Tronoh, Perak, and (iii) ongoing expansion into third party terminal management services**.**
- **Higher passenger movement for integrated public transportation terminals and bus operations and higher demand for domestic fuel** following the upliftment of interstate and international borders is expected to drive earnings growth.

Fig #13 PTRANS – Solid uptrend move after downward channel breakout

Source: Bloomberg, M+ Online

SYSCORP – Shipping demand to persist

- **Involved in the provision of domestic and international shipping services (a fleet of 295 vessels) and operates 4 shipbuilding and repair shipyards in Malaysia.**
- **Distribution of liquefied petroleum gas (LPG) throughout Sarawak.** SYSCORP is venturing into this field via the acquisition of Piasau Gas.
- **Stronger quarters ahead.** SYSCORP registered RM30.0m in net income (+99% QoQ, +655% YoY) for 3Q22 due to improvement in freight rates, utilisation rates, higher margin and shipment volume for the shipping segment. We expect the outlook for the shipping industry to remain elevated and may bode well for the earnings.

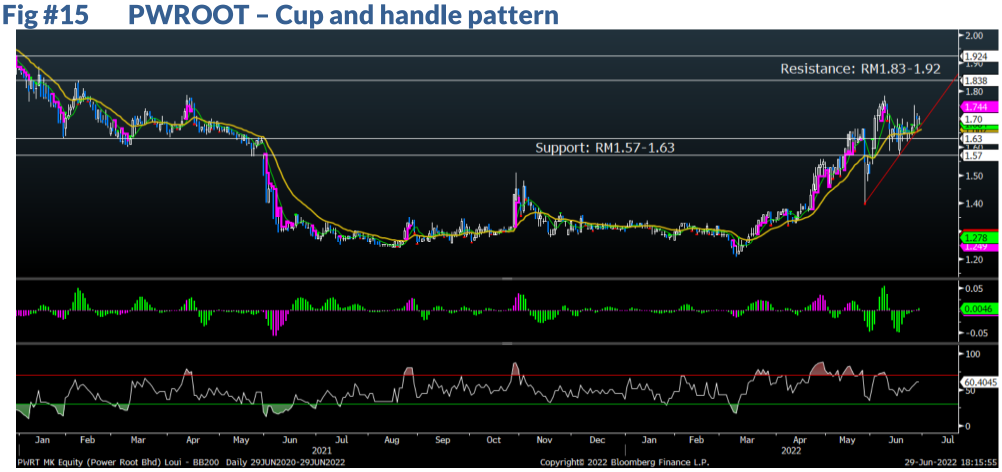
Fig #14 SYSCORP – Challenging its recent high for long term surge

Source: Bloomberg, M+ Online

PWROOT – Ready-to-drink market on the rise

- **PWROOT develops and promotes herbal energy drinks** which include ready-to-drink coffee, tea, and energy drinks.
- **Remained committed in expanding its factory space** and venturing into the manufacturing of flavouring and the roasting business, while leveraging on technology to drive process improvements.
- **Commissioning of various machines to go online;** including a fully-automated roasting machine, an automated hopper system, and a high-speed 10-lane stick filling machine in FY22 which are expected to improve efficiency.

Fig #15 PWROOT – Cup and handle pattern



Source: Bloomberg, M+ Online

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GCB – Gaining momentum in the recovery theme

- **Fourth largest cocoa grinding company in the world that manufactures cocoa-derived food ingredients**, including cocoa mass, cocoa butter, cocoa powder, and cocoa cake to serve customers worldwide.
- **Production capacity expansion in progress** following (i) the acquisition of SCHOKINAG and upgrading of its existing chocolate production lines in Germany, and (ii) the set-up of a new chocolate producing facility in the UK enables the group to expand market presence in Europe.
- **Capitalise on the growing demand for cocoa ingredients** on the back of improved chocolate consumption amid reopening of international borders.

Fig #16 GCB – Rebound move in the making

Source: Bloomberg, M+ Online

QL – Essential food products

- **Engaged in** (i) integrated livestock farming, (ii) marine products manufacturing (MPM), (iii) palm oil and clean energy, and (iv) convenience store chain (CVS).
- **Recovery in economic activities is expected to drive demand** for QL's products across all business segments. New ceiling price for chicken, capping at RM9.40/kg should be providing positive catalyst for QL.
- **Key expansion plans** include (i) MPM - to complete the production capacity expansion for surimi-based products in Indonesia by FY23, (ii) Poultry - ongoing expansion of layer farming capacity in Indonesia, and (iii) CVS - targeting 300 FamilyMart stores by FY22.

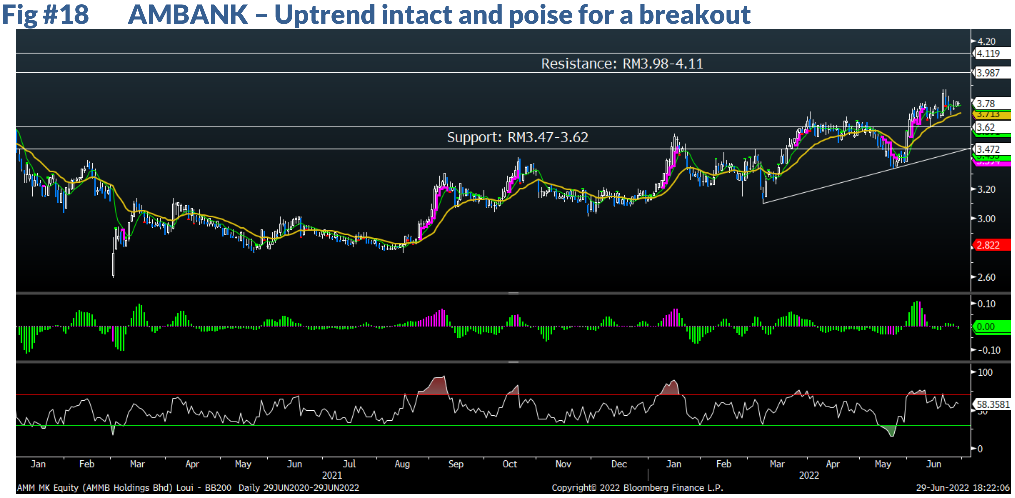
Fig #17 QL – Ascending triangle breakout

Source: Bloomberg, M+ Online

AMBANK – Bode well under the OPR hike environment

- **Better profits expected under the interest rate upcycle.** We believe there should be upward re-rating catalyst for the banks under this environment as better profits should be anticipated with the expansion of their net interest margin.
- **Reinstating the dividends.** As they have stopped the dividends in FYE21, AMBANK is proposing a 5.0 sen dividend for FYE22.
- **Corporate actions angle on AMBANK as it trades below BVPS.** Although the Group has denied on the news where Grab is said to be looking to acquire a stake in AMBANK, we believe investors may noticed that currently AMBANK is trading below its book value per share of RM5.06.

Fig #18 AMBANK – Uptrend intact and poise for a breakout



Source: Bloomberg, M+ Online