2Q19 Investment Strategy

Thinking the Impossible?

FBMKLCI	1,628.66
Target	1,750.00 ↑

By Chan Ken Yew / kychan@kenanga.com.my

While the market currently lacks re-rating catalysts, we are not giving up on it yet. On the contrary, based on our Market Cycle Study's findings; we are actually getting excited. Based on this latest study, we believe the local equity market could be in the midst of forming a bottom over the next six months. Here's the kicker; after the bottoming, we could potentially see the comeback of a bull cycle that would probably lead the market to chart new highs in the next 1-2 years. Long-term story aside, we believe any market weaknesses could offer good buying opportunities, based on favourable reward-to-risk consideration, as per our Simulation Study. And, our timing model also suggests that ideal buying levels are below 1,622 (the -1SD-level or 7.6% discount to consensus index target of 1,755). Based on our investment Strategy, we have selected BAUTO (OP, TP: RM2.85), BJTOTO (OP, TP: RM2.65), BURSA (MP, TP: RM7.60), CMMT (OP, TP: RM1.25), MAYBANK (OP, TP: RM10.20), MBMR (OP, TP: RM3.45), MBSB (OP, TP: RM1.15), PADINI (OP, TP: RM4.25), PWROOT (OP, TP: RM1.65) and SAPNRG (OP, TP: RM0.430) as our 2Q19 Top Picks.

Fundamentally speaking, there is nothing much to talk about. Our **FY19E/FY20E earnings growth rates for FBMKLCI have been fine-tuned to 17.6%/2.4%** from 14.2%/3.4% *(recall that the growth in FY19E is due to low base number in FY18A)*. In line with our minor earnings and target price upgrades post recent corporate results, we have further **fine-tuned our end-2019 index target higher to 1,750** (from 1,735 previously), representing FY19E/FY20E PERs of 18.5x/17.5x.

2Q19 Remains Lacklustre? The absence of re-rating catalysts is capping the market upside and has also clamped the investment sentiment. Based on market data, there are more "cons" than "pros". For instance, the FBMKLCI is still relatively richer in valuation vis-à-vis its regional peers, especially the North-Eastern region. As such, we do not rule out continuous foreign outflows, especially after MSCI recently increased the weighting of China A shares. Moreover, buying momentum remains uninspiring in general as per our Volume-Price study.

However, we turn contrarian after our long-term Market Cycle study. The FBMKLCI is expected to chart a potential turning point (or a bottom in this case) between Dec-18 and Sep-19 before seeing a potential upswing that could lead to new highs between Oct-20 and Aug-21. The FBMKLCI Cycle Study is also reinforced by the long-term Cycle Study of S&P 500. The U.S. equity market could still be far from its best and worst days as the projected major peak and trough are only expected in 4Q21 and 3Q23, respectively. As such, the U.S. equity market is believed to be still in its secular bull run and there is still a long way to go before meaningful corrections start to set in. Therefore, in the absence of any major external shocks, we have a higher chance of seeing the local equity market unfolding its potential upcycle.

2Q19 Sector Outlook. We only have one OVERWEIGHT call on Gaming sector, as we have downgraded Aviation and Utilities sectors to NEUTRAL from OVERWEIGHT post the recent results season. At the same time, as we have also ungraded Gloves and Plastic Packaging sectors from UNDERWEIGHT to NEUTRAL, leaving only two (2) sectors labelled as UNDERWEIGHT at the moment. The others are rated NEUTRAL.

Overweight	Gaming.
Neutral	Aviation ↓, Automotive, Banks & Non-Bank Financials, Construction, Consumer, Gloves ↑, Media, MREITs, Oil & Gas, Plantation, Plastic Packaging ↑, Ports & Logistics, Property, Technology/Semicon, Telco as well as Utilities ↓.
Underweight	Building Materials and Healthcare.

2Q19 Investment Strategy. In this quarter, we will focus on: (i) laggards, (ii) defensive and high-yield counters, and (iii) potential beneficiaries of interest rate cut. Other than that, we also emphasis on Auto sector as we have seen more upgrades thus far due to expectations of better numbers as well as attractive valuations. In view of the stronger Brent crude oil prices, we have also been searching for laggards within the sector. Last but not least, with the bullish cycle study, we also believe BURSA is well positioned to capitalise on this potential bull run.

1Q19 Review

Recall that in the previous quarter, we had advised investors to focus on heavily-beaten down stocks, especially mid-and-small-cap stocks, as we believed values had emerged back then. We even listed down 20 stocks that we believe investors should watch out for due to their potential upside. Thus far, the investment strategy has been proven right. The FBMKLCI had bounced off its low of 1,626.93 (as of 18 Dec 2018) to the recent high of 1,732.27 (as of 22 Feb 2019) before dipping back below 1,700-pshychological level on 1 Mar 2019.

Still; as of end-Mar 2019, those stocks in the earlier mentioned list rebounded 24% on average (see Figure 1 for details). We also noticed that our Top 10 Stock Picks had also recorded an average YTD price gain of 15%.

We believe the volatility of the local equity market could probably be due to a lack of meaningful re-rating catalyst. For instance, despite minor signs of improvement in the recently concluded 4Q18 results season, we saw more and more sectors, such as (i) Aviation, (ii) Construction, (iii) Plantation, (iv) Property, (v) Telco, (vi) Technology, (vii) Ports & Logistics as well as (viii) Utilities, delivering mix-to-negative numbers.

On the economy front, Bank Negara Malaysia (BNM) did not deny a potential slowdown in domestic economic due to hostile externalities. In fact, it is widely believed that the Federal Reserve (Fed) may even slow its pace in hiking interest rate due to economic growth concern as well. The same expectation may also be applied to the local economic situation. Coupled with the two (2) consecutive months of low inflation/deflation, it was also reported lately that BNM may consider lowering domestic interest rate, the Overnight Policy Rate (OPR), should the economic data turn weak. This expectation had caused local banking stocks plunging due to potential further squeeze in net interest margin (NIM), apart from the miscommunication of “windfall tax” issue.

2Q19 Market Outlook

- To be frank, there is nothing much we can talk about at this juncture.
- Our view remains unchanged. The absence of re-rating catalysts has capped the market upside and also clamped the investment sentiment.
- **Our FY19E/FY20E earnings growth rates for FBMKLCI have been fine-tuned to 17.6%/2.4%** from 14.2%/3.4%. *Recall that the growth in FY19E is due to low base in FY18A, which was a negative number.* As for the consensus numbers, they remained steady. The market is expecting FY19E/FY20E earnings to grow by 26.7%/6.3% (vs. 27.0%/6.3% earlier).
- **In line with our minor earnings and target price upgrades post recent corporate results,** we have further fine-tuned **our end-2019 index target higher to 1,750** (from 1,735 previously), representing **FY19E/FY20E PERs of 18.5/17.5**. Our Index Target is derived via the average of the followings: -
  - o **Top-Down:** Deriving an index target of 1,780 (from 1,760) as we roll over our valuation yardstick based on our FY20E earnings estimates, and
  - o **Bottom-Up:** Revising up our index target slightly from 1,710 to 1,720 based on analysts’ latest target price inputs.
- Thus far, we are seeing more “cons” than “pros”.

The Cons

- **Still relatively richer valuations.** Despite the recent market correction, the Forward PER of FBMKLCI traded at ~15% premium over its regional peers (Figure 2). While this premium has declined from its peak of ~22% in end-Dec18, there is still some downside towards its long-term average of ~10.5%.
- **Still seeing foreign outflows?** Our Modern Portfolio Theory (MPT) study has somewhat reinforced the abovementioned observation. Based on the latest end-March closing levels, the MPT suggests that portfolio manager should have allocated higher short-sell weighting to FBMKLCI as compared to end-Dec18 and end-Feb19 (see Figure 3). As such, this explained the continuous net foreign outflows of RM1,426m in 1Q19 (vis-à-vis outflow of RM3,156m in 4Q18) despite the fact that the Malaysian Ringgit had appreciated from an average of RM4.17 in 4Q18 to RM4.08 in 1Q19.

- Unlike Dow Jones Industrial Average (Dow) and S&P 500, **the Accumulated Volume-Price Indicators (AVPI) of FBMKLCI, FBMEMAS and FBMSC have yet to show any signs of reversal, indicating that the overall market sentiment remains weak** (Figure 4-6). However, the only exception is the FBM70 Index, which ASPI has turned positive – the momentum indicator has crossed above the 30-day SMA from the negative territory (Figure 7).

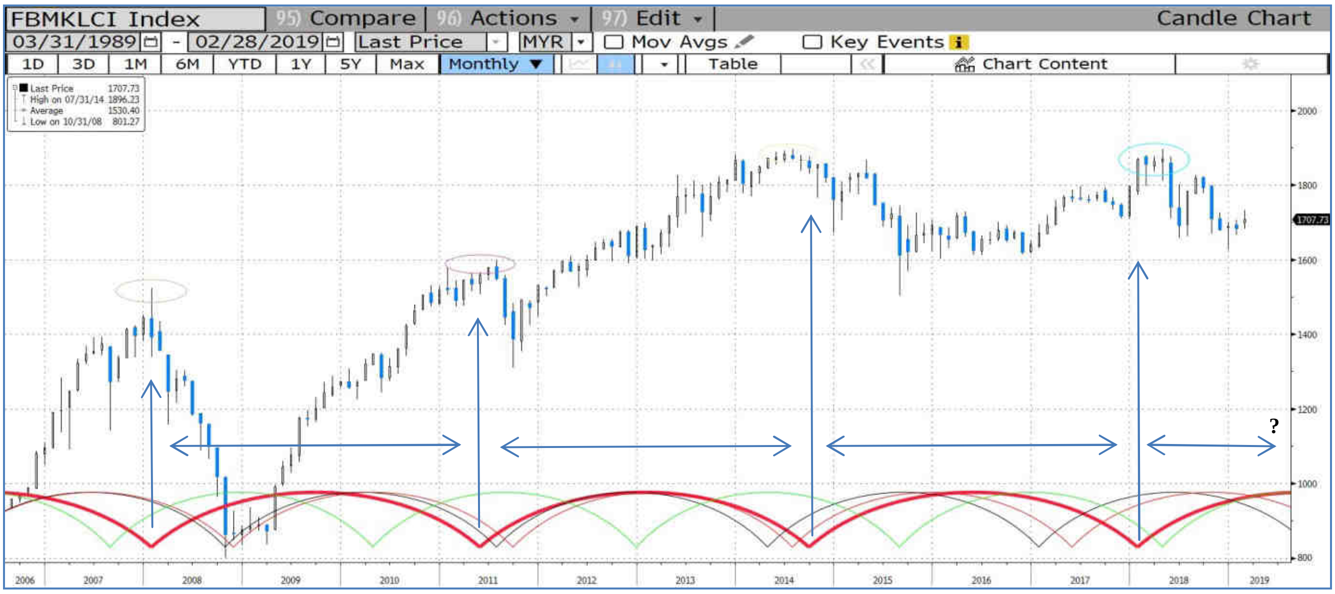
The Pros

- Despite the said negative points, surprisingly, our Monte Carlo Simulation Study is still showing a fairly positive reward-to-risk profile. From Figure 8, it is clear that the study suggests substantial higher upside probability (>1,750 @ ~31%) as opposed to the downside (<1,600 @ ~24%).
- **Sustainable stronger oil price (>USD65/barrel for Brent Crude) could be a plus-point.** From a charting perspective, CO1 has been trending up after testing the 61.8% Fibonacci Retracement (of its up-move from USD27.10/barrel to USD86.74/barrel) Target Level of USD49.88. While this underlying upswing could be a counter-trend rally, it is still likely that this swing could test its upper down-channel resistance of ~USD72.50/barrel. As such, the trading sentiment of Oil & Gas stocks could be sustainable until the USD64-support is violated (see Figure 9).
- Despite the short-term range-bound or even negatively biased technical outlook, it is not a major concern. In fact, **we are eager to see a swift sell-down in this and next quarter for the local equity market to complete its bottoming process. Our bullish view is driven by our Cycle Study** (see following section).

Markey Cycle Study

Based on the monthly charting of FBMKLCI, we notice the following observations.

- **Peak-to-Peak Cycle** seems to take ~40 months to complete. Assuming this is right; we may see FBMKLCI to register its **next peak in May-2021**.



Source: Bloomberg

- **Bottom-to-Peak Cycles** have been ranging from 32-34 months but with signs of decline in the last 3 cycles. As such, **a significant bottom should have been registered in end-2018**, if we believe the next peak will be registered on May-2021. Again, if this hypothesis is true, the last low of 1,626.93 should mark the end of the sell-down.

However, should we adopt a yearly charting; findings will be slightly different as follows.

- **Best-to-Best (B2B) Year Cycle** (i.e. '93 to '07) took 14 years, and

Source: Bloomberg

- **Worst-to-Worst (W2W) Year Cycle** (i.e. '97 to '08) took 11 years.

  Based on the B2B cycle, the next best-performing year is likely to be seen in 2021, which is in line with our monthly findings. Nonetheless, based on the W2W cycle, we have yet to see the worst. The trough of the cycle should be seen in year 2019.

Further studies were carried to fine-tune our earlier Cycle Analysis with the help of a momentum indicator, i.e. Stochastic Oscillator. We have also applied this Cycle Study on U.S. equity market, i.e. S&P 500, as well. And, the findings are exciting, in our view.

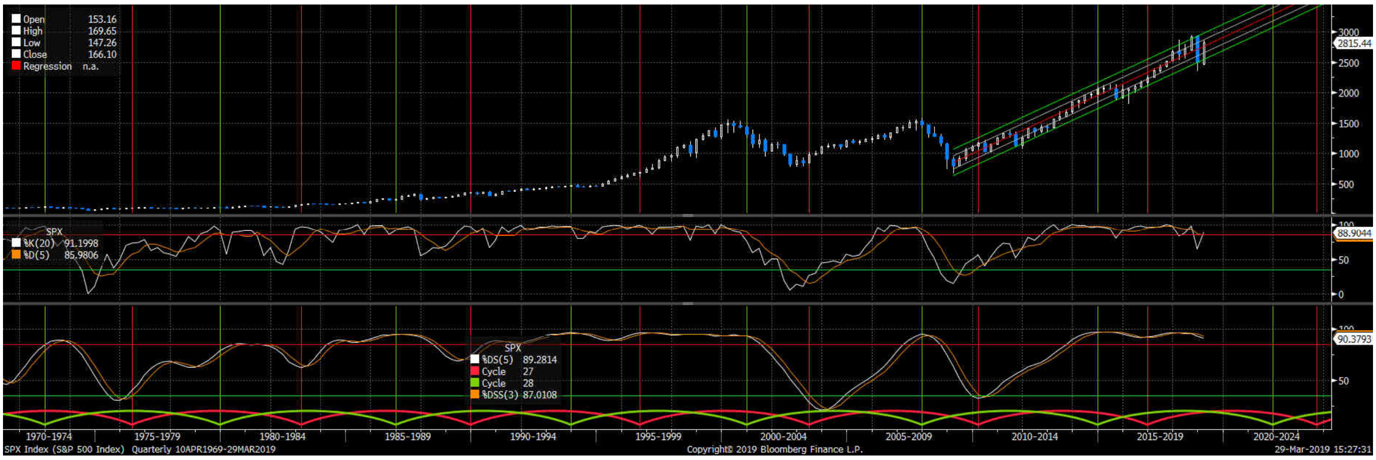
Cycle Study of FBMKLCI (Monthly): Thinking the Impossible?

Source: Bloomberg

- At a glance, there are two (2) dominant cycles influence the FBMKLCI. Both cycles are having the same 23-month cycle but with a gap of 10 months.
- From this study, it is suffice to conclude that the **FBMKLCI tends to record inflection points at the end of either one of these two (2) cycles**.
- In other words, the **FBMKLCI is expected to register a potential turning point (or a bottom in this case) between Dec-18 and Sep-19**.

- Therefore, should the benchmark index prove able to hold above the long-term uptrend support line, or to stage a quick rebound above this support in the event of violation of this support, the underlying uptrend is deemed to be intact.
- **If investors/readers share this view, they should expect to see a potential upswing that leads market charting new highs between Oct-20 and Aug-21, echoing our earlier findings.**

Cycle Study of S&P 500 (Quarterly): Far from the Best?



Source: Bloomberg

- The aforementioned cycle study could also be reinforced by the U.S. equity market as well. Our rationale is simple, in the absence of any major external shock, we have a higher chance of seeing the local equity market unfolding its potential upcycle.
- For the U.S. market, quarterly data is chosen as this set of data shows clear findings.
- The Peak-to-Peak (P2P) Cycle (in green) has been taking 28 quarters to complete while the Bottom-to-Bottom (B2B) Cycle (in red) is 1 month shorter, or 27 quarters.
- From the chart, it is very obvious that both cycles are only less than half way through. That means the U.S. equity market could still be a long way from a projected major trough, which is only expected by 3Q23. On the upside, the peak of S&P 500 is expected to be registered in 4Q21.
- All in all, we believe the U.S. equity market, as per the S&P 500, is still in its secular bull run and there is still a long way to go before meaningful corrections start to set in. In fact, the long-term uptrend of S&P 500 remains intact until its regression channel is broken.

2Q19 Sector Outlook & Investment Strategy

Our Sector Ratings

Of late, as we have downgraded Aviation and Utilities sectors to NEUTRAL from OVERWEIGHT. Currently, we have only one OVERWEIGHT call, which is on Gaming sector. At the same time, as we have upgraded Gloves and Plastic Packaging sectors from UNDERWEIGHT TO NEUTRAL, there are only 2 sectors labelled as UNDERWEIGHT at the moment. The others are rated NEUTRAL (please refer to Figure 11-13 for details).

Overweight	Gaming.
Neutral	Aviation ↓, Automotive, Banks & Non-Bank Financials, Construction, Consumer, Gloves ↑, Media, MREITs, Oil & Gas, Plantation, Plastic Packaging ↑, , Ports & Logistics, Property, Technology/Semicon, Telco as well as Utilities ↓.
Underweight	Building Materials and Healthcare.

Source: Kenanga Research

Upgrades

We have upgraded our Plastic packaging sector call to NEUTRAL (from UNDERWEIGHT) as we upgraded our call for SLP to OUTPERFORM as its share price has declined, hence resulting in potential better upside. In the meantime, we also upgraded TOMYPAK to MARKET PERFORM as its share price has come closer to our target price of RM0.495. Nonetheless, post such upgrades, **we can only rate the sector a NEUTRAL, at best, as we believe the sector's upside is capped by the lack of re-rating catalyst and margin-crimping high-cost environment.** However, we may look to increase earnings estimates should resin prices maintain a consistently lower trend, and upon more stable earnings deliveries in upcoming quarters.

As for Gloves sector, we believe all the negatives could have been priced in their share prices, and the incumbents are now trading at more palatable PER valuations of between mean and +1.0SD five-year forward average, which appears undemanding. If not for the concern of it lacking positive catalysts over the short-to-medium term, we would have upgraded our sector call to OVERWEIGHT instead of NEUTRAL currently.

Downgrades

On another extreme end, **in view of the lacklustre prospects for the Utilities players in the near-to-mid term, we cut the sector to NEUTRAL** from OVERWEIGHT. The less optimistic prospect is owing to potential lower earnings base for TENAGA asset return is lowered to 7.3% in Regulatory Period 2 (RP2) from 7.5% in Regulatory Period 1 (RP1). Besides, the Kumpulan Wang Industri Elektrik (KWIE) Fund will also likely be fully utilised by 2020, which is also a critical concern. GASMSIA also faces similar problem whereby it will likely be seeing lower margin spread in RP2 after the expiry of its PR1 phase in 2019. Moreover, PETGAS is also poised to face a tariff decline as it will experience two step-downs in earnings in RP1 and RP2 as base-tariff is expected to be reduced sharply by 60%. The other Independent Power Producers (IPPs) – YTLPOWR & MALAKOFF – are also seeing the need to fill their earnings gaps, as their PPA Extension Contracts are expiring soon beside the already weakened earnings.

The downgrade of Aviation was due mainly to the recent disappointing sets of results in AIRPORT and AIRASIA, which were mainly driven by higher-than-expected maintenance cost.

Stock Picks: Mix-and-Match

So far so good. While we are heartened for our previous successful investment/trading strategy – "focusing on stocks that were sold down heavily" – for the previous quarter, we are now facing another round of challenge as most of the heavily beaten down stocks had bounced off their 52-week lows in mid-1Q19.

What's next? In this quarter, while we still can reconsider stocks that are still lagging in terms of performance (laggards) or stocks that have recently retraced and in the midst of retesting their respective lows, we also examine stocks under our coverage for their sustainability in price rebounds (i.e. TAKAFUL). After re-examining the stock watch list that we mentioned in 1Q19 (please refer to Investment Strategy Report dated 02/01/19 for details), we reckon that AEON (OP, TP: RM2.00), BIMB (OP, TP: RM5.05), MBSB (OP, TP: RM1.15), MPI (OP, TP: RM13.00), PADINI (OP, TP: RM4.25), PESTECH (OP, TP: RM1.40), PWROOT (OP, TP: RM1.65) fit into this strategy.

Be defensive, again? On the other hand, as we do expect a choppy bottoming process in the next 6 months, it may be time for us to temporarily look at resilient sectors/stocks. In this strategy, we believe Consumer F&B and MREIT counters are worth a second look despite their "boring" nature. Among these sectors, we have OUTPERFORM call on CMMT (OP, TP: RM1.25), DLADY (OP, TP: RM68.30) and PWROOT (OP, TP: RM1.65).

Capitalising on potential cut in interest rate. In view of the recent change in tone by most monetary policy makers, including Fed and BNM, we reassessed dividend-generous stocks and interest rate sensitive companies such as banks and MREITs. In general, apart from MREITs, we believe Gaming and Banking sectors pay quite decent dividend yields 2.1-6.6%. Coupled with the active enforcement of curbing illegal operators, we have now more reasons to reconsider BJTOTO (OP, TP: RM2.65) and MAGNUM (OP, TP: RM2.50), apart from their decent dividend yields of >5%, as analysts are seeing better ticket sales going forward. As for the banking stocks, we are less concerned over the impact over their NIMs. This is because top-line growth rates for most local banks have been lacklustre at only mid-single-digit. Besides, we also notice that their bottom-lines are more sensitive to provisions (or credit costs). Therefore, with brighter prospect of asset quality due to lower interest rate, banks could be net beneficiaries. This is especially true for banks that have higher fixed-rate loans in their portfolios. As such, we prefer banks that have higher exposure to fixed-rate loans and may potentially benefit from lower credit cost such as MBSB (OP, TP: RM1.15) and MAYBANK (OP, TP: RM10.20).

Other potential thematic plays include Automotive as well as Oil & Gas sectors. The rationale behind looking at Auto sector is because we are expecting better numbers and turnaround in some of the loss-making players. While this may not be an outright OVERWEIGHT sector, we are, nonetheless, seeing more upgrades and auto players trading at attractive valuations, i.e. BAUTO (OP, TP: RM2.85) and MBMR (OP, TP: RM3.45). Besides, BAUTO offers a good dividend yield of >7%. To capitalise on the underlying favourable crude oil outlook, Oil & Gas counters are naturally the prime targets. However, as most Oil & Gas have rebounded substantially from their respective lows, we prefer to go for laggards such as SAPNRG (OP, TP: RM0.430).

2Q19 Top 10 Stock Picks (Closing as at 22 March 2019)

Stocks	Last Price (RM)	FY18/19 Core NP Growth	FY19/20 Core NP Growth	FY18 /19 Core PER	FY19/20 Core PER	FY18/19 Net Div Yield	FY18/19 ROE	Target (RM)	Upside	Rating
BAUTO	2.33	78.5%	3.2%	10.7	10.3	7.3%	42.5%	2.85	22.3%	OP
BJTOTO	2.34	17.8%	3.0%	12.1	11.7	6.9%	34.3%	2.65	13.2%	OP
BURSA	6.90	8.9%	2.7%	22.8	22.2	4.2%	27.7%	7.60	10.1%	MP*
CMMT	1.12	16.9%	0.4%	14.2	14.1	6.3%	6.0%	1.25	11.6%	OP
MAYBANK	9.29	1.6%	1.2%	12.4	12.2	6.3%	10.1%	10.20	9.8%	OP
MBMR	2.75	1.8%	2.0%	6.4	6.3	2.2%	8.9%	3.45	25.5%	OP
MBSB	0.950	13.8%	16.8%	11.8	10.1	2.1%	7.0%	1.15	21.1%	OP
PADINI	3.62	1.2%	10.8%	13.1	11.9	3.2%	25.6%	4.25	17.4%	OP
PWROOT	1.35	229.2%	26.2%	15.3	11.8	5.6%	15.1%	1.65	22.2%	OP
SAPNRG	0.345	-76.0%	258.5%	108.6	30.3	0.0%	0.4%	0.430	24.6%	OP

Source: Kenanga Research
Note: Please refer to Figure 14 for brief comments on Top picks.
** stock rating is pending review*

Timing: Ideal Buying Levels

Again, there is no concrete trading signal emerging as per our (Monthly) Algo-Trading Model. From PER perspective, it is still a Sell On Strength (S.O.S.) as the valuation of FBMKLCI is still relatively high by historical standard. The RSI Model's Buy On Weakness (B.O.W.) signal was stopped out. The FBMKLCI is now trading at 6.4% discount (against Consensus Index Target of 1,755). Based on our trading rule, ideal B.O.W. levels should be below the -1SD-level (or <1,622 or 7.6% discount) (see Figure 10). In other words, we reckon that investors should start accumulating stocks when the benchmark index retests its recent low of ~1,626.

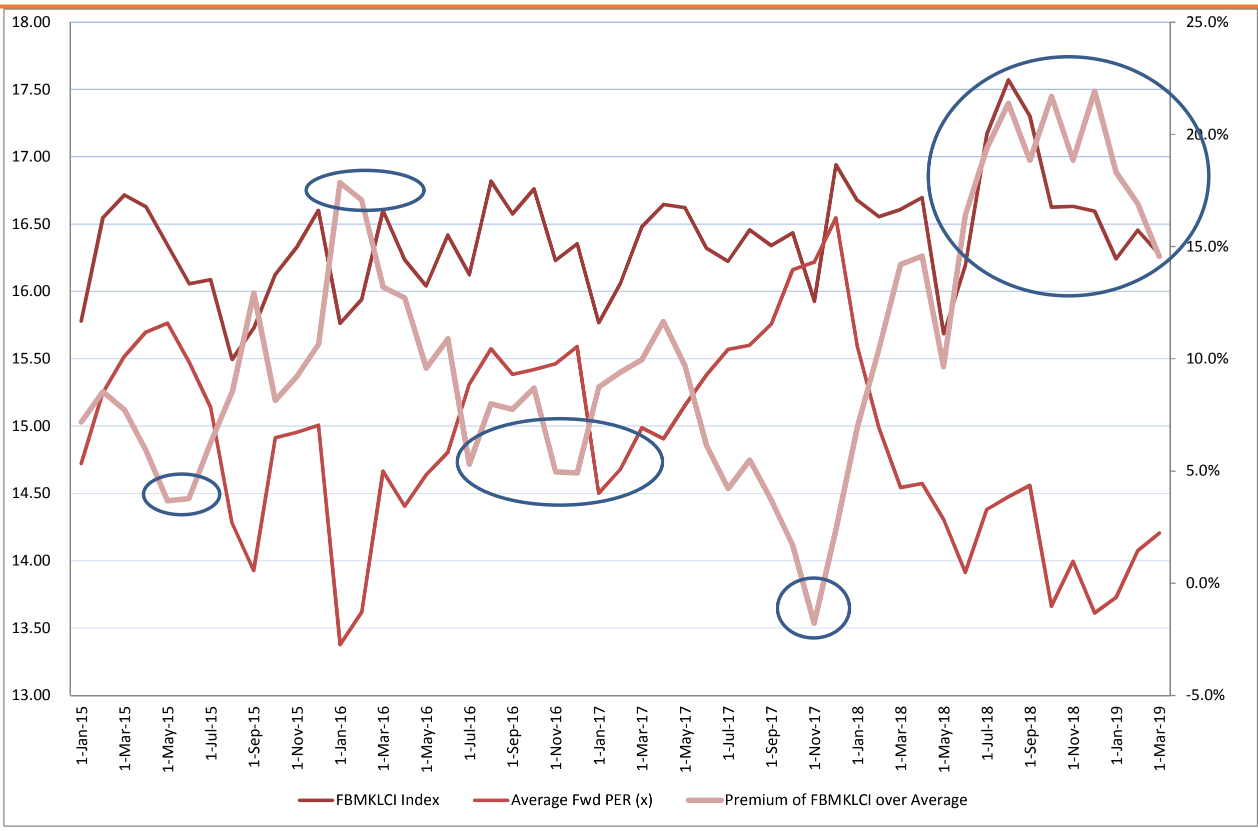
Appendix

Figure 1: YTD Price Performance of Kenanga Research's Stock Watch List in 1Q19

Stocks	Closing Prices as of (RM)		Capital Gain		Period High (RM)
	31-Dec-18	22-Mar-19	RM	%	
AEON	1.47	1.53	0.060	4.1%	1.65
BIMB	3.56	4.19	0.630	17.7%	4.33
DAYANG	0.54	1.33	0.790	146.3%	1.71
GAMUDA	2.34	2.89	0.550	23.5%	3.11
KERJAYA	1.15	1.24	0.090	7.8%	1.35
MBMR	2.20	2.75	0.550	25.0%	2.85
MBSB	0.920	0.950	0.030	3.3%	1.07
MPI	9.95	9.90	(0.050)	-0.5%	10.40
MUHIBAH	2.79	2.95	0.160	5.7%	3.01
OCK	0.425	0.580	0.155	36.5%	0.620
PADINI	3.51	3.62	0.110	3.1%	3.88
PANTECH	0.431	0.535	0.104	24.1%	0.600
PESTECH	0.990	1.11	0.120	12.1%	1.270
PIE	1.49	1.59	0.100	6.7%	1.68
PWROOT	1.38	1.35	(0.030)	-2.2%	1.48
SKPRES	1.05	1.34	0.290	27.6%	1.37
TCHONG	1.35	1.55	0.200	14.8%	1.70
UEMS	0.665	0.865	0.200	30.1%	0.875
UZMA	0.575	0.985	0.410	71.3%	1.070
WCT	0.675	0.820	0.145	21.5%	0.905

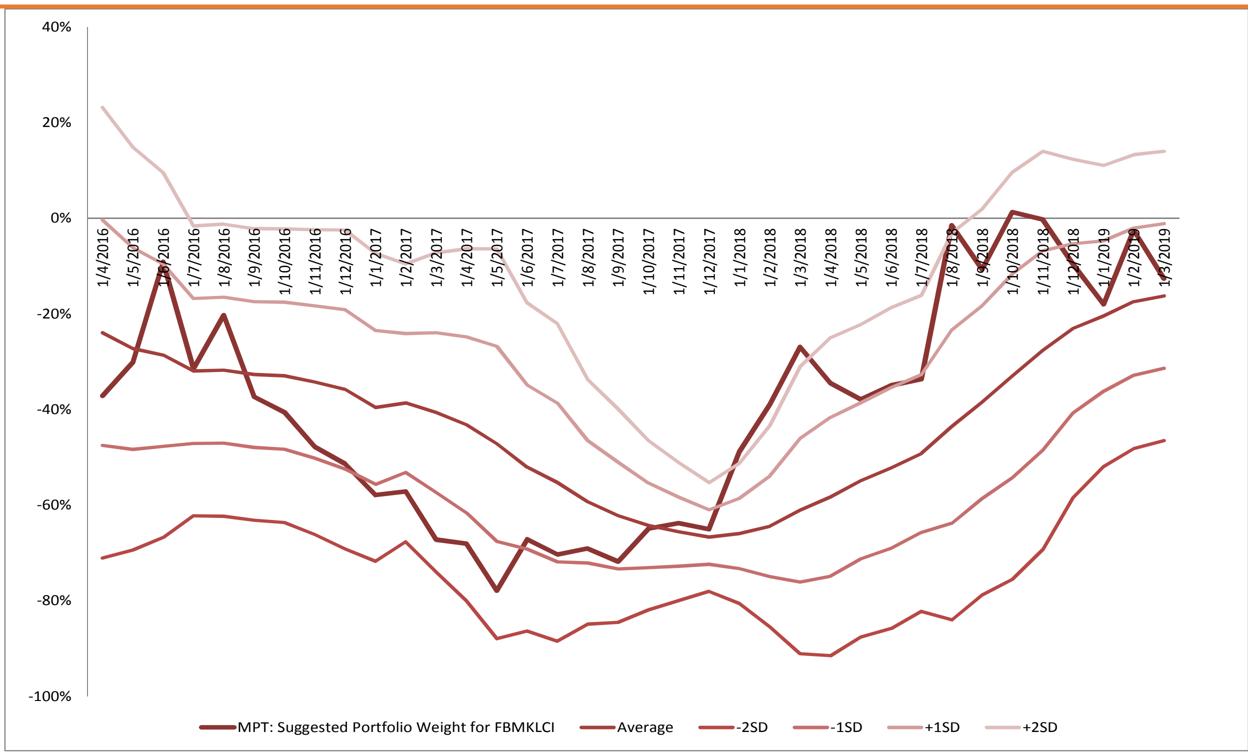
Source: Bloomberg, Kenanga Research

Figure 2: Forward PER Valuation Premium of FBMKLCI over Selected Regional Peers (as at end-Mar19)



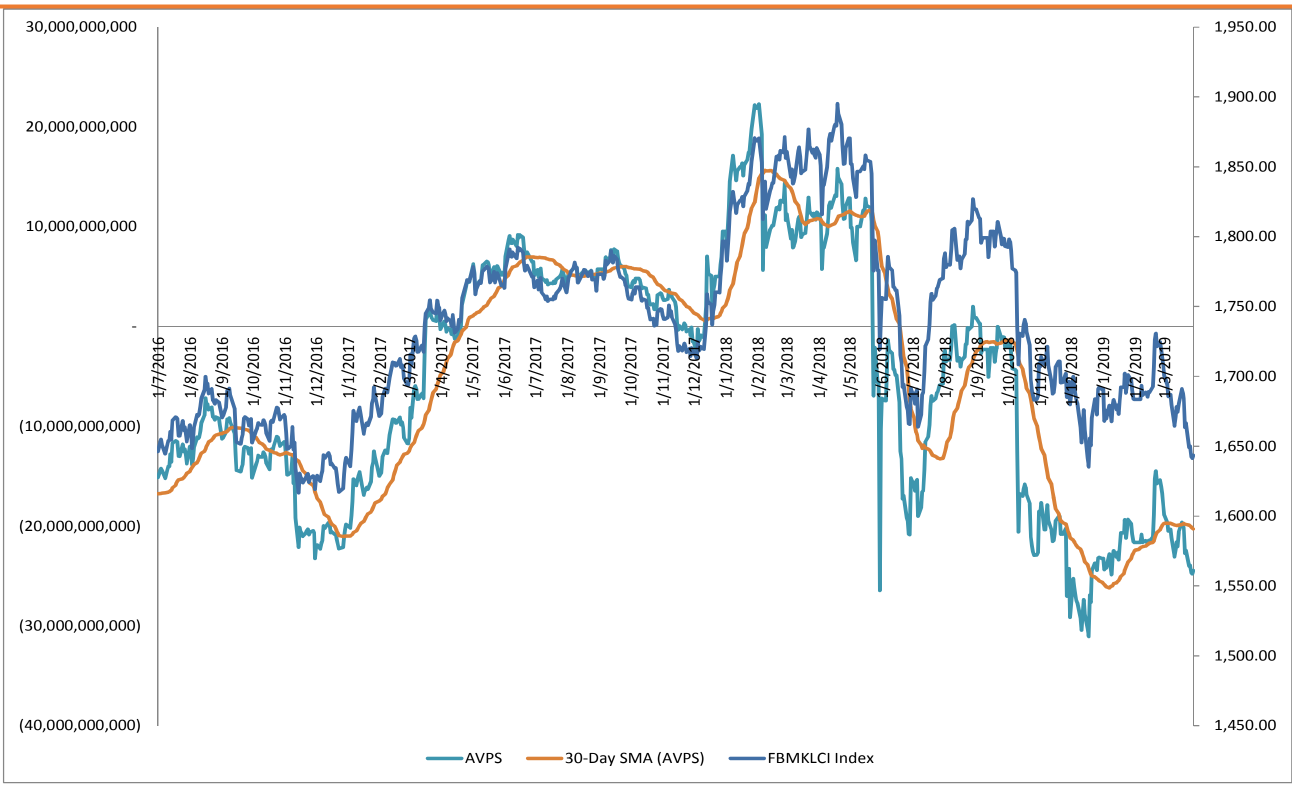
Source: Bloomberg

Figure 3: Modern Portfolio Theory (MPT): Allocation for Malaysian Equity Market Weakens (or Going Nowhere)



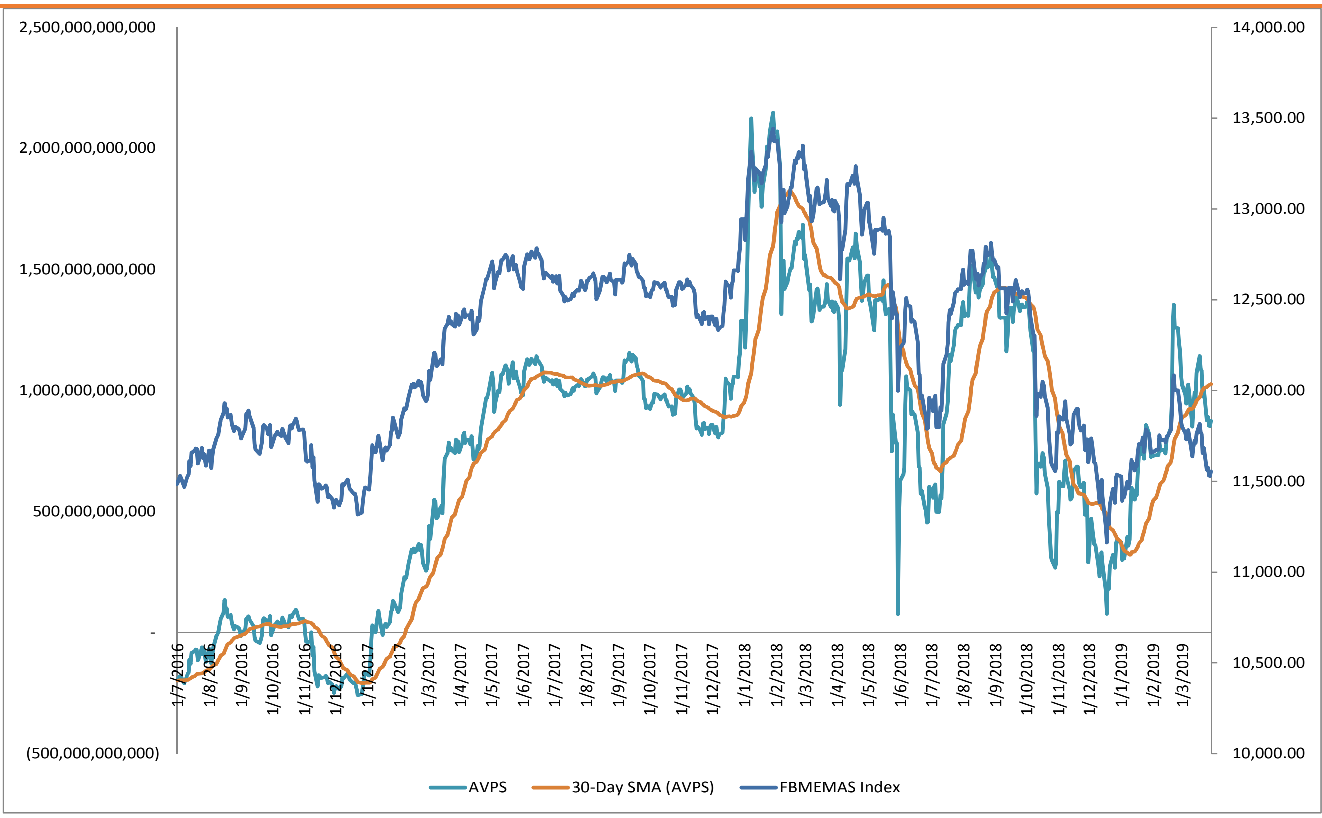
Source: Bloomberg

Figure 4: Accumulated Volume-Price Indicator for FBMKLCI – Still Negatively Biased



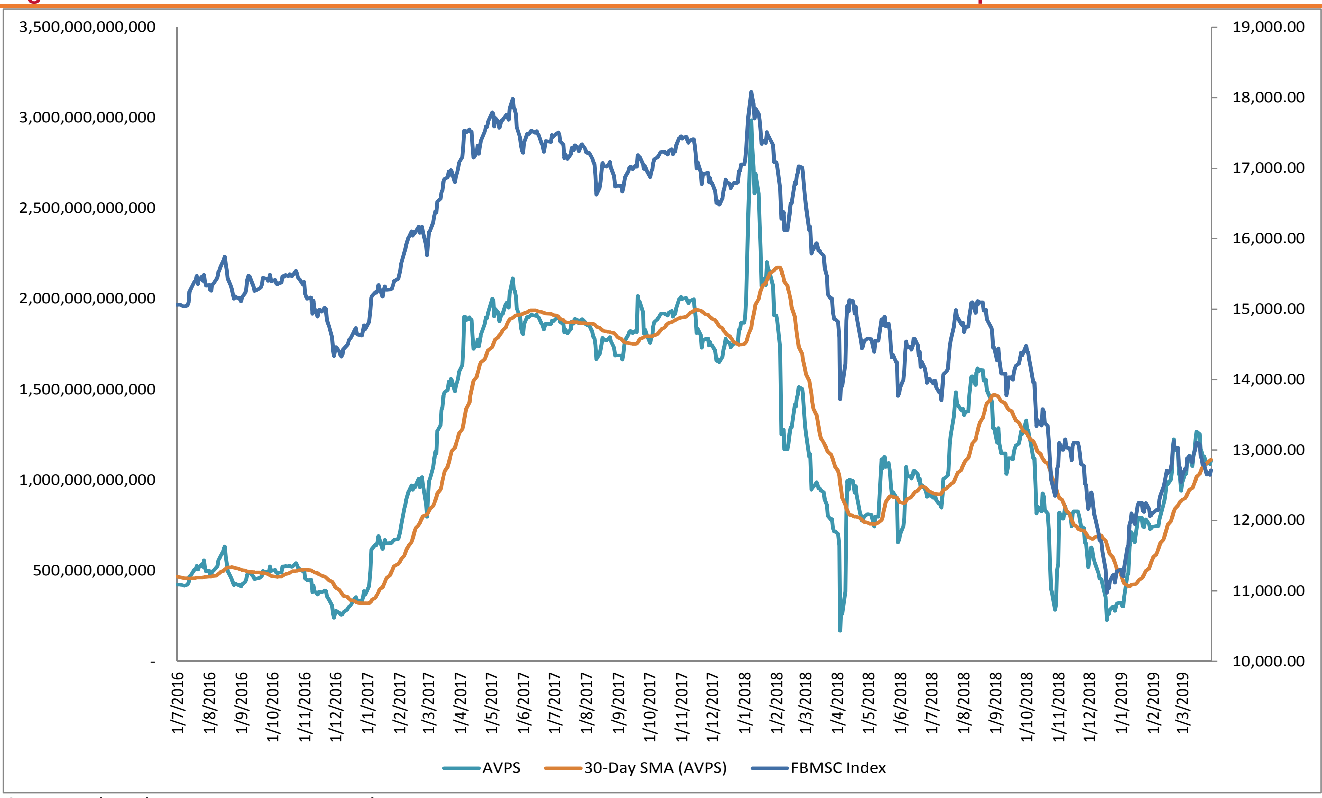
Source: Bloomberg

Figure 5: Accumulated Volume-Price Indicator for FBMEMAS – No Clear-Cut Signal



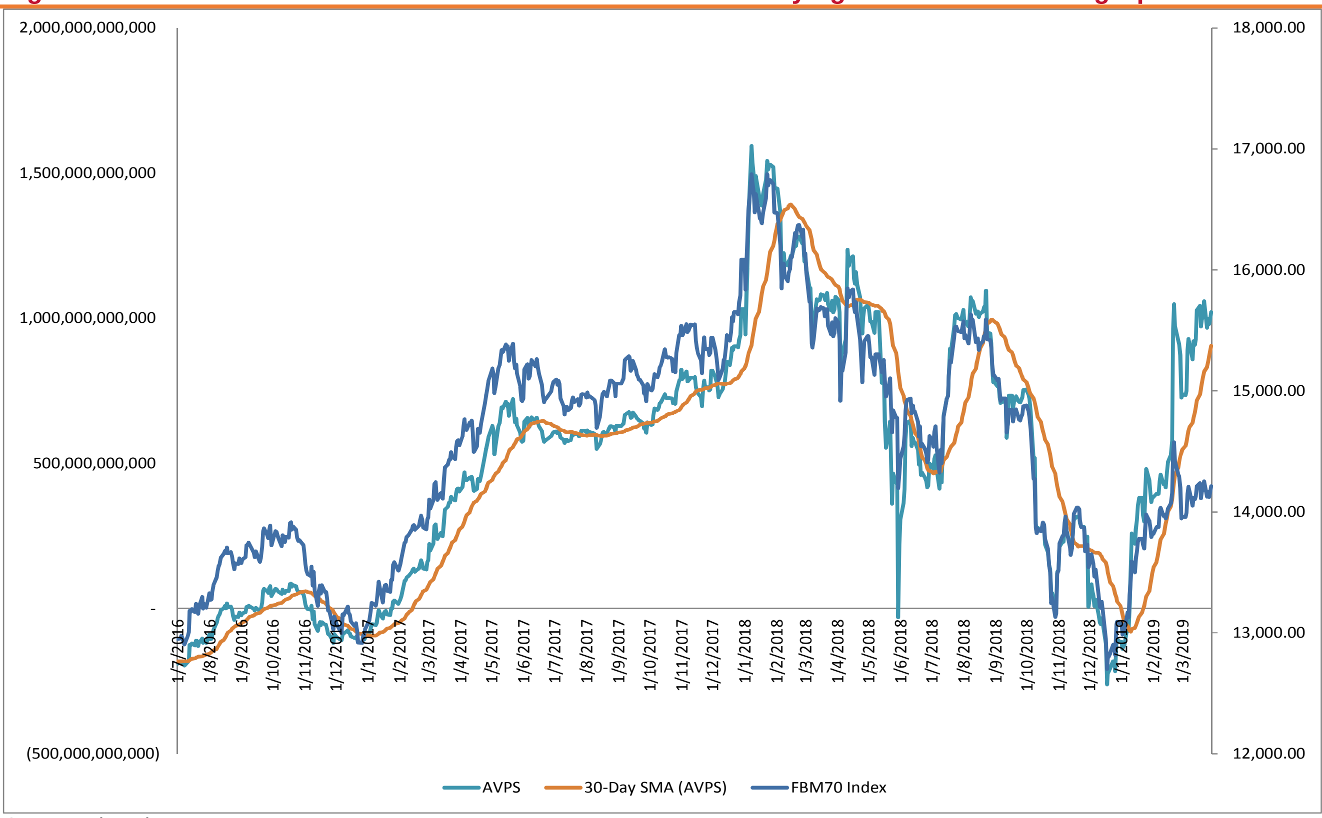
Source: Bloomberg, Kenanga Research

Figure 6: Accumulated Volume-Price Indicator for FBMSC – Near-Term Hiccup?



Source: Bloomberg, Kenanga Research

Figure 7: Accumulated Volume-Price Indicator for FBM70 – Buying Momentum Building Up!



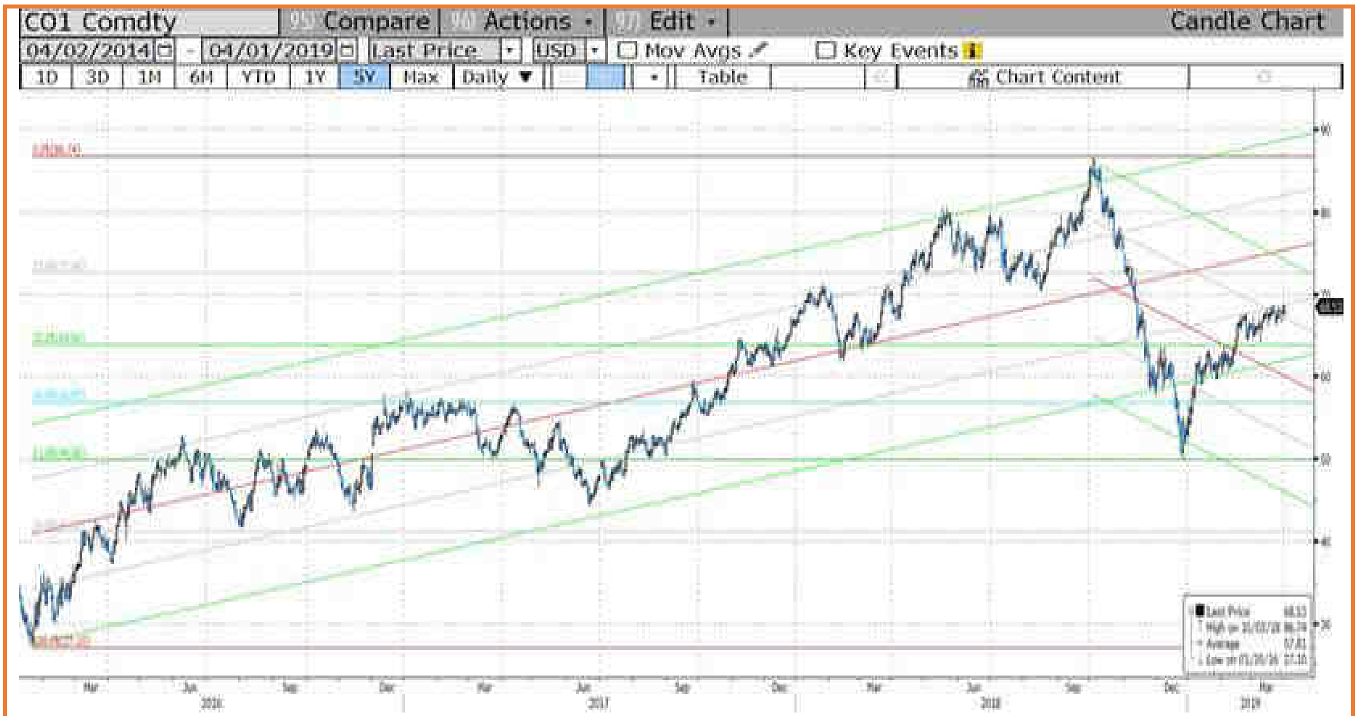
Source: Bloomberg

Figure 8: Monte Carlo Simulation Study: Risk-Reward Favours the Upside for Now!

Distribution of Simulated FBMKLCI Till End-2019	1	2	3	4	5	6	7	8	9	10	Average
Mean	1,655.4	1,645.8	1,696.1	1,725.1	1,677.3	1,730.1	1,682.8	1,649.0	1,711.2	1,701.7	**1,687.4**
Standard Deviation	106.1	102.2	118.0	102.8	148.3	133.7	100.3	153.3	122.6	165.0	**125.2**
Kurtosis	4.5	0.8	0.3	0.5	0.0	1.4	0.1	(0.4)	(0.1)	0.3	**0.7**
Skewness	(1.7)	0.7	0.2	0.8	0.4	0.9	0.1	0.3	0.5	0.8	**0.3**
Range	672.8	577.8	671.9	544.7	758.7	724.5	611.5	705.6	636.8	876.1	**678.1**
Minimum	1,234.3	1,414.9	1,411.1	1,537.5	1,318.8	1,444.9	1,390.9	1,337.4	1,420.6	1,382.5	**1,389.3**
Maximum	1,907.1	1,992.7	2,083.0	2,082.2	2,077.5	2,169.4	2,002.5	2,043.1	2,057.5	2,258.6	**2,067.3**
Count	1,971	1,971	1,971	1,971	1,971	1,971	1,971	1,971	1,971	1,971	**1,971**
At 68% Confidence Level,											
FBMKLCI is expected to oscilate between	1,549.4	1,543.6	1,578.1	1,622.3	1,529.0	1,596.4	1,582.5	1,495.7	1,588.6	1,536.7	**1,562.2**
and	1,761.5	1,748.0	1,814.0	1,827.9	1,825.6	1,863.8	1,783.0	1,802.3	1,833.9	1,866.6	**1,812.7**
Probability of KLCI <=	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	**1,500.0**
=	7.1%	7.7%	4.8%	1.4%	11.6%	4.3%	3.4%	16.6%	4.2%	11.1%	**7.2%**
Probability of KLCI <=	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	**1,550.0**
=	16.0%	17.4%	10.8%	4.4%	19.5%	8.9%	9.3%	25.9%	9.4%	17.9%	**14.0%**
Probability of KLCI <=	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	**1,600.0**
=	30.1%	32.7%	20.8%	11.2%	30.1%	16.5%	20.5%	37.5%	18.2%	26.9%	**24.4%**
Probability of KLCI >=	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	**1,650.0**
=	52.0%	48.4%	65.2%	76.8%	57.3%	72.5%	62.8%	49.7%	69.1%	62.3%	**61.6%**
Probability of KLCI >=	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	**1,700.0**
=	33.7%	29.8%	48.7%	59.6%	43.9%	58.9%	43.2%	37.0%	53.7%	50.4%	**45.9%**
Probability of KLCI >=	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	**1,750.0**
=	18.6%	15.4%	32.4%	40.4%	31.2%	44.1%	25.1%	25.5%	37.6%	38.5%	**30.9%**

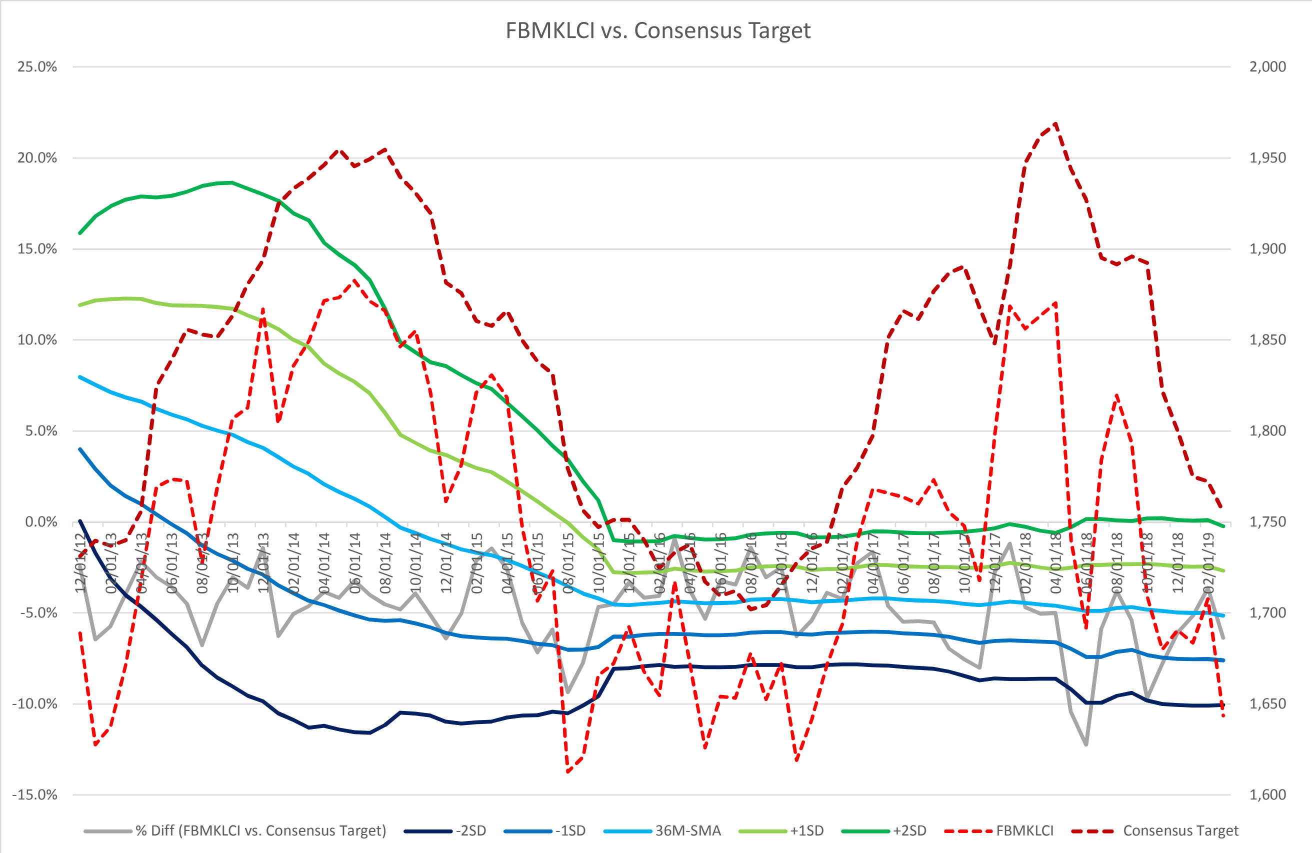
Source: Bloomberg, Kenanga Research

Figure 9: Brent Crude Oil: Going strong with high probability to test USD72.50 if and when USD64.00-support remains intact



Source: Bloomberg

Figure 10: Discount between FBMKLCI and Its Consensus Target (as of end-Mar19)



Source: Bloomberg

Figure 11: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Gaming	**Maintain**	• **Casino: 1Q19 results the key focus,** to assess the actual impact from the 10% casino duty hike on GENM. Overall, business volumes have improved across all geographical countries especially GENS. GENTING is only trading at half its SoP while positive sentiment may arise from the legalising of casino in Japan. • **NFO: seeing daylight in ticket sales.** Meaningful improvement in ticket sales seen in the latest quarterly results as enforcement been clapping down on illegal operators. Overall ticket sales are expected to come off in the near term given the reduction in special draws. But minimal impact as these special draws come with 10% additional tax which crimp profitability. • **1Q19 result is seasonally a strong quarter operationally,** given the CNY effect which helps business volume. However, casino stocks are expected to be impacted by the additional 10% casino duties hike while less special draw days will lead to lower overall ticket sales. • **Value and yield in store; Keep OW.** GENTING is a good value buy although the current issues with GENM will continue to suppress GENTING's share price. Abating downtrend in ticket sales leads to a sustainable yield of 6-7% for NFO players.	**OP:** BJTOTO (TP: RM2.65) – ***Top Pick*** GENTING (TP: RM7.95) MAGNUM (TP: RM2.50) **MP:** GENM (TP: RM3.60)

Source: Kenanga Research

Figure 12: Underweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Building Materials	**Maintain**	• UNDERWEIGHT outlook on Building Materials maintained. • **Infrastructure projects to spur existing demand? Not quite enough yet.** Construction activities may pick up on the back of more construction projects roll-out with local demand for building materials to benefit supporting steel and cement players. However, we view that the increase in demand might not be enough to boost cement and steel sub-sectors due to stiff competition and looming margins compression as a result of higher-than-expected raw material costs. • **Cautious outlook on ANNJOO.** Currently, China steel rebar prices are trading at c.USD489. After incorporating import duties, shipping fees and safeguard measure, total effective cost for importing Chinese rebar of c.RM2,500 is relatively higher vs. current local rebar prices of RM2,100-2,300. Hence, local steel prices are still relatively cheaper to deter imports of China Steel onto our shores. **Maintain UNDERPERFORM on ANNJOO with unchanged TP of RM1.25 based on unchanged Fwd. PBV of 0.5x** pegged to FY19E BV/share of RM2.54, (implies 5-year -0.5SD levels) • **Upgrade to MARKET PERFORM from (UNDERPERFORM) on ULICORP with unchanged TP of RM0.450** based on Fwd. PBV of 0.34x applied to FY19E BV/share of RM1.31, which is at its 5-year trough level, -1.5SD levels in line with sector negative sentiments and	**MP:** PMETAL (TP: RM4.50) ULICORP (TP: RM0.450) WTHORSE (TP: RM1.15) **UP:** ANNJOO (TP: RM1.25) LAFMSIA (TP: RM1.85)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		challenging operating environment. ULICORP's share price has corrected sharply recently which prompted us to upgrade our call to MARKET PERFORM. • **Lacklustre outlook.** We maintain our lacklustre 2019 outlook on the group due to weak domestic demand woes and continuous overcapacity in the market leading to stiff competition and cement rebates wars. **Maintain UNDERPERFORM on LAFMSIA with unchanged TP of RM1.85** following YTD rally in share price by 40%. Our Fwd. PBV is based on an unchanged Fwd. PBV valuation of 0.70x on FY19E BV/share of RM2.66. Our 0.70x PBV valuation is pegged below 1999-2005's Fwd. PBV range of 0.90-1.5x when earnings were relatively volatile ranging from a loss position of RM8.8m to profit of RM118m. • **Upgrade to MARKET PERFORM (from UNDERPERFORM) on WTHORSE with unchanged TP of RM1.15** following a share price correction recently. Our TP is based on unchanged 0.40x Fwd. PBV pegged to lower FY19E BV/share of RM2.87 below the current trough level of 0.5x. WTHORSE's outlook remains subdued due to the slowing down of property and construction jobs in the market affecting its sales volume, coupled with rising cost pressure although we note that these negatives have mostly been priced-in. • **Maintain MARKET PERFORM on PMETAL with a higher TP of RM4.50 (from RM4.00)** based on an increased PER of 21.8x (from 19.4x) applied to an unchanged FY19E EPS of 20.6 sen, implying -0.5 SD basis. We estimate 2019 aluminium price of USD2,000/MT, a 5% drop from 2018's average of USD2,108/MT but a recovery from current price of c.USD1,877 (as of 22 March 2019), supported by the current global supply deficit.	
Healthcare	Maintain	• We maintain our UNDERWEIGHT rating on the sector which is expected to be dull in terms of earnings growth and further capped by expensive valuations. • The 4QCY18 results season saw a mixed bag of performance. IHH's 4Q18 earnings came in above expectations due to higher-than-expected revenue per inpatient. KPJ came in within expectations due to improvement in newly opened hospitals. Pharmaniaga came in below expectations, hit by lower-than-expected volumes sales. KPJ is confident that start-up costs from new hospital openings will be absorbed by: (i) incremental ramp-ups from earlier openings, and (ii) steady contributions from matured hospitals. • **KPJ's valuation appears to be attractive again, Reiterate OP.** Earnings growth is expected to come from narrowing losses and emerging profitability for hospitals built 2-3 years ago including KPJ Klang, Rawang, Maharani, Pasir Gudang and Pahang. KPJ Perlis (greenfield, 90 beds) has commenced operations in 2Q18. The stock is currently trading at 15% and 40% discount compared to its historical average of 28x and regional peers of 35x, respectively. The 40% discount to regional peers is wider compared to the historical average of 30%.	**OP:** KPJ (TP: RM1.35) **MP:** PHARMA (TP: RM2.50) **UP:** IHH (TP: RM5.15)

Source: Kenanga Research

Figure 13: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	Maintain	• **The MIER consumer sentiment index scored 96.8 pts (-10.7pts QoQ, +14.2pts YoY)** in 4Q18 which is below the optimistic threshold (>100pts). • Nevertheless, we believe that consumers are changing their preference toward **value-for-money (volume buy) national marques to satisfy their needs**, while non-national marques are focusing on higher-margin low-volume models (catering to higher-purchasing power consumers). • We increase our 2019 TIV target to 600,000 units from 590,000 units matching MAA's target factoring the extra boost from national marques (Proton and Perodua). • **As expected, tepid demand seen post zero-rated holiday in 4QCY18** except for Perodua-linked companies, UMW and MBMR which recorded stronger performances mainly from the higher associates' contribution. • **Looking forward to 1QCY19 and 2QCY19.** Overall, car sales volumes for 1Q19 and 2Q19 are expected to be stronger than 4Q18 buoyed by the pent-up demand for new model launches, • Our sector top-picks are MBMR (OP; TP: RM3.45) for its strong Perodua contribution and BAUTO (OP; TP: RM2.85) for its high dividend yield of 7.4%.	**OP:** BAUTO (TP: RM2.85) ***– Top Pick*** MBMR (TP: RM3.45) ***– Top Pick*** TCHONG (TP: RM2.15) **MP:** DRBHCOM (TP: RM1.90) SIME (TP:RM2.35) UMW (TP: RM5.80)
Aviation	**Maintain**	• **Disappointing quarter,** for 4QCY18, two stocks under our aviation sector coverage namely AIRASIA and AIRPORT registered disappointing performance compared to 3QCY18 which results are broadly in-line and above expectations. The disappointment in earnings is mainly driven by higher than expected maintenance cost for both companies. • **Operating agreement extension a re-rating catalyst for AIRPORT.** As for the extension of their operating agreement from 2034 to 2069, AIRPORT will be tabulating their proposed Regulated Asset Base (RAB) framework the government and MAVCOM by 3QCY19 for validation as the first cycle of RAB is scheduled to be enforce by next year 1st January 2020. • **Maintain NEUTRAL.** To recap, we downgraded the sector from OVERWEIGHT to NEUTRAL post the Feb-19 reporting season due to the heighten operating challenges in the sector whereby AIRASIA is facing more yield compression while AIRPORT is bucking up operations team in order to meet the Quality of Service requirement set by MAVCOM. However, considering the recent share price weakness for AIRPORT which came down by 7.7%, YTD, we believe that investors can take this opportunity to accumulate on weakness premised on the prospects of the extension of its operating agreement. Hence, we are upgrading AIRPORT from MARKET PERFORM to OUTPERFORM with an unchanged Target Price of RM8.55 based on unchanged 1.72x PBV to its FY19E BVPS (+0.5SD to its 2-year average) . As for AIRASIA, we reiterate our UNDERPERFORM call on the stock based on an unchanged Target Price of RM1.95 pegged to FY19E PER of 9.0x (4-year average) after our recent downgrade during its 4Q18 results.	**OP:** AIRPORT (TP: RM8.55) **UP:** AIRASIA (TP: RM1.95)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Banks and Non-Bank Financial Institutions	**Maintain**	• Our view on the sector remains Neutral. We still view loans growth to be moderate at 4.5-4.8% (with a downside bias) due external uncertainties. • With employment expected to stable, external headwinds are raising concerns on credit demand and asset quality. Hence, our view on selective asset growth by the banks still holds; we do not expect any changes in such strategy in light of the concerns on external risks ahead. Although credit costs looks to be normalised in 2019 we do not discount volatility if the economic outlook shifts downwards. At present, positive/stable economic outlook (on the home front) coupled with low unemployment is backing resilient household spending, supporting loans growth. With loans looking subdued the spectre of an interest rate cut is surfacing likely to bolster credit demand and lower credit charge. • Due to volatilities due prevailing external uncertainties most of the stocks in our banking universe have undemanding valuations hence at **OUTPERFROM** with only CIMB, HLBANK, PBBANK and RHBBANK at **MARKET PERFORM.** While HLBANK, PBBANK and RHBBANK valuations are demanding, CIMB we rate at **MARKET PERFORM** due to external concerns of its foreign exposure. • **Our Top Pick for the sector is MAYBANK and MBSB.** We like **MAYBANK** given its low variable rate 72% and CASA of 34% which will cushion the potential impact of a rate cut. For **MBSB**, its variable rate loans of 40% is the lowest among our banking universe.	**OP:** AFFIN (TP: RM2.60) ABMB (TP: RM4.45) AMBANK (TP: RM4.95) BIMB (TP: RM5.05) MAYBANK (RM10.20) ***– Top Pick*** MBSB (TP: RM1.15) ***– Top Pick*** TAKAFUL (TP: RM5.25) **MP:** AEONCR (TP: RM15.80) BURSA (TP: RM7.60) ***– Top Pick*** CIMB (TP: RM6.10) HLBANK (TP: RM20.60) LPI (TP: RM16.30) PBBANK (TP: RM24.10) RHBBANK (TP: RM5.80)
Construction	**Maintain**	• **Revival on contract flows?** Year-to-date, we saw RM4.5b worth of jobs awarded to listed companies apart from contractors. This includes SUNCON's contract award from TENAGA for the redevelopment of their Headquarter campus amounting to RM781.3m. During GAMUDA's recent result briefing, they sounded more hopeful compared to last year due to the potential revival/re-tendering of projects like ECRL and KVDT could possibly take place in 2019 - we believe a more realistic timeline would be 2HCY19. That aside, we also do not rule out the possibility of "re-awarding" of LRT3 contracts given that recently SUNCON managed to bag some piling works from MRCB-GKENT's subcontractor (i.e. S.N. Akmida Holdings Sdn Bhd), which means there is potential for SUNCON or other contractors to take over the entire GS10 or more contracts like above from LRT3 should MRCB-GKENT decide to change their sub-contractor based on their performances. • **Opportunities from the East?** While the prospects and opportunities in West Malaysia might sound tepid at the moment, East Malaysia could be a brighter spot due to the Sarawak state government's strong will and mandate in improving the Sarawakian's life through the development of infrastructure like road and water related projects. To recap, players like CMS recently bagged a coastal road bridge contract for RM466.7m, while KKB bagged a water supply contract amounting to RM110.8m from Jabatan Bekalan Air Luar Bandar Sarawak. Hence, we believe that there could be more contracts with sizes between RM200.0-1,000.0m from Sarawak that would benefit local players (HSL, KKB, NAIM, and TRC) should the state government speed up their contract award process for its coastal road project	**MP:** GAMUDA (TP: RM2.85) GKENT (TP: RM1.15) KERJAYA (TP: RM1.20) KIMLUN (TP: RM1.30) MUHIBAH (TP: RM3.20) WCT (TP: RM0.850) **UP:** HSL (TP: RM1.25) IJM (TP: RM1.80) MITRA (TP: RM0.260) SENDAI (TP: RM0.490) SUNCON (TP: RM1.40)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		(c.RM5.0b). However, we have an UNDERPERFORM call on HSL largely due to its valuation which is currently trading at 11.6x, close to KLCON's current trading multiple of 11.7x. • **Maintain NEUTRAL.** Following the strong rebound (12-46%, QoQ) over 14-Dec-18, we believe upsides are limited at this juncture given the lack of catalyst. As such, we no longer have any OUTPERFORM recommendation for the stocks under our coverage, and we strongly believe that the sector's re-rating catalyst is premised on the government's firm direction on the future development plans like the potential continuation of MRT3 and High-Speed Rail. To recap, the uncertainties in the local construction scene have prompted contractors with strong execution capabilities to look at overseas for more jobs in order to sustain their overheads. Under current circumstances, we opine that investors should take the opportunity to do some top slicing.	
Consumer	**Maintain**	• **We reiterate our NEUTRAL rating on the consumer sector.** • 1-2QCY19 results looks to be seasonally stronger, supported by CNY and Hari Raya festivities. • While the market continues to adjust to post-SST pricing, improvements in national minimum wages (i.e. to RM1,100) could aid spending, particularly on the lower income bracket. • On commodities, inventory surpluses and poor forex rates by producers have further dwindled coffee price, while dairies are seeing recovery from normalising demand. • **We upgrade the Sin-sub sector to NEUTRAL.** This is following BAT's rerating to MP after the share price correction on the back of softer outlook. For brewers, we believe there could have been an overreaction by the market over CARLSBG's solid 4Q18 results which led to an expansion in valuations for both brewers. However, we also believe that current levels do not reflect the challenges ahead for CARLSBG, with HEIM still being the market leader in Malaysia. • **For our 2Q19 top pick, we highlight PADINI (OP; TP: RM4.25).** We like the stock for: (i) its resilient business model, focusing on the value-for-money segment in Brands Outlet, and (ii) expected improvement in SSSG and cost allocation. For FY19, the group will not be opening more than 10 outlets for the local market to streamline cost allocation, while maintaining the status quo for its Cambodia operation. We understand that the new, slower expansion plan is to streamline the operational cost towards strategic locations, while expanding regionally by taking over franchisee to strategically control the stores value. • **In the F&B space,** we pick **DLADY (OP; TP: RM68.30)** for being a defensive large cap player with decent yields (c.4%) and **PWROOT (OP; TP: RM1.65)** for the anticipated delivery of strong full-year growth numbers and solid dividend returns (c.6%).	**OP:** AEON (TP: RM2.00) AMWAY (TP: RM6.80) DLADY (TP: RM68.30) PADINI (TP: RM4.25) – ***Top Pick*** PWROOT (TP: RM1.65) – ***Top Pick*** **MP:** BAT (TP: RM32.65) F&N (TP: RM33.85) HEIM (TP: RM21.90) NESTLE (TP: RM138.50) PARKSON (TP: RM0.250) **UP:** CARLSBG (TP: RM21.80) HAIO (TP: RM2.10) MYNEWS (TP: RM1.25) QL (TP: RM5.70) SEM (TP: RM1.30) SPRITZER (TP: RM1.90)
Media	**Maintain**	• **NEUTRAL view unchanged.** Persistently challenging prospect amid soft adex outlook coupled with disruptive new technologies will continue to reshape the media industry. • The recent M&A transaction in Utusan Melayu (@ about 0.4x P/NTA) could set a new floor price to the incumbents. • Any active enforcement on the anti-piracy issue will be	**OP:** ASTRO (TP: RM2.00) **MP:** MEDIAC (TP: RM0.230) **UP:**

<table>
<tr><th>Sector</th><th>Sector Call Changes</th><th>Brief Comments</th><th>Stock Calls/Ratings</th></tr>
<tr><td></td><td></td><td>positive to the sector, especially to the Pay TV service provider.
• We do not discount potential delay in the digital terrestrial television (DTT) rollout in view of the recent contract dispute among MYTV and Green Packet Bhd.
• ASTRO (OP, TP: RM2.00) is our preferred pick for the sector due to its relatively resilient earnings (underpinned by its growing digital adex coupled with rising home shopping segment contribution) and attractive dividend yield (>7%).
• Reiterate UNDERPERFORM rating on MEDIA (TP: RM0.300) and STAR (TP: RM0.600) but upgrade MEDIAC rating to MARKET PERFORM with unchanged target price of RM0.230 as the share price is trading closed to our TP.</td><td>MEDIA (TP: RM0.300)
STAR (TP: RM0.600)</td></tr>
<tr><td>MREITs</td><td>Maintain</td><td>• Results within. MREITs' recent results were mostly within expectations, save for AXREIT which came in above, while MQREIT came in below. YoY-Ytd, bottom-line was a mixed bag with four REITs showing growth (1% to 25%) on positive reversions and improved occupancy, save for CMMT (-4%), SUNREIT (-6%) and MQREIT (-6%) on higher operating and financing costs.
• Unexciting outlook for fundamentals. Reversions outlook remains sluggish with most MREITs expecting single-digit reversions at best as the oversupply of retail, office and even hotels favour tenants instead of asset owners. FY19 will see c. 21-53% leases up for expiry, with the largest being PAVREIT at 53% of NLA. All in, we do not expect strong earnings growth, targeting menial FY19-20E DPU growth of 3-1%.
• 10-year MGS yield on the decline, down 7% YTD to 3.80% (from 4.20%) due to flights to safety in light of global market uncertainty coupled with the US Fed's dovishness. We believe current low MGS levels will be maintained and lower our 10-year MGS target to 3.90% (from 4.20%).
• Interest rates have low correlation with MGS yields. Our in-house economist views that domestic interest rates is likely to remain unchanged in 2019 but acknowledges the increasing possibility of an interest rate cut in 2H19 based on recent macroeconomic events.
• Maintain NEUTRAL. We made no changes to our earnings forecasts, but increase our TPs by 3-13%, post lowering our 10-year MGS target to 3.90%, and lowering most MREITs spreads closer to its historical average levels on potential positive share price sentiment from perceptions of interest rate cuts which is perceived to lower MGS yields and is a positive for MREITs share prices. Even so, MREITs still warrant a NEUTRAL call due to the uninspiring outlook for earnings and fundamentals, whilst commanding decent yields of 5.8% on average.
• CMMT is our Top Pick on above average yields of 7.0% (vs. MREITs' average of 5.8%). We believe there is still value in CMMT as its share price is currently trading at PBV of 0.86x (vs. big retail MREIT peers' average of 1.08x) while most earnings risk have already been priced in as earnings deliveries continued to meet expectations for all 4 quarters in FY18 on 7.9 sen dividend (7.0% gross yield) while we expect FY19-20E gross yields of 7% each.</td><td><u>OP:</u>
CMMT (TP: RM1.25)
<u>MP:</u>
AXREIT (TP: RM1.70)
IGBREIT (TP: RM1.70)
KLCC (TP: RM7.35)
MQREIT (TP: RM1.10)
PAVREIT (RM1.70)
SUNREIT (TP: RM1.85)</td></tr>
</table>

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Oil & Gas	**Maintain**	• **YTD oil price recovery.** Brent crude prices saw an impressive 26% rebound YTD after reaching a low of USD50/barrel in late Dec-2018. This is largely driven by involuntary production cuts in Venezuela and Iran, coupled with OPEC's production cuts compliance, mitigating slowing demand growth concerns. Overall, we feel a stabilised Brent crude price range of USD60-70/barrel to be "sensible", with oil majors comfortable with production and capex spending within this price range, although OPEC's commitments towards continued production cuts beyond its current agreed-upon June-2019 cut-off may still be key. Our assumptions project a 2019 Brent price average of USD65/barrel (revised from USD60/barrel last quarter). • **Increased upstream investments.** On the back of under-investments in the previous few years given the oil price weakness, global project FIDs is expected to see an uptick in 2019 (~+10% number of projects, but ~+160% in terms of bboe volumes), largely driven by massive newfields in the Middle-East (e.g. Marjan, Zuluf and Berri). On the local front, Petronas is also expected to increase its upstream capex to ~RM30b in 2019, after depriving upstream capex for the past several years as it focused its capex efforts downstream. • **Key value-chains to watch.** We believe fabrication players would be the likeliest beneficiaries from an increase in upstream capex (e.g. MHB, SAPNRG), especially ones with global exposures, while FPSO players (e.g. MISC, YINSON) should also see an increase in tenders. Local upstream maintenance providers (e.g. DAYANG) is also expected to see an increase in work-orders given deferments in the past few years, while E&P players (e.g. HIBISCS, SAPNRG) could also capitalise on stabilising oil prices. • **Maintain NEUTRAL,** given limited upsides to big-cap Petronas-link counters. With balance sheet resilience and earnings delivery still a key selection criteria, we continue to favour stable names backed by visible earnings growth, such as SERBADK and YINSON. However, we also highlight SAPNRG as a prime beneficiary of increased upstream activities both locally and globally. We have selected it as our top pick for the quarter given its anticipated turnaround coupled with limited downside risks.	**OP:** DIALOG (TP: RM3.80) SAPNRG (TP: RM0.430) - ***Top Pick*** SERBADK (TP: RM4.80) YINSON (TP: RM5.50) **MP:** MHB (TP: RM0.710) MISC (TP:RM6.65) PANTECH (TP: RM0.460) PCHEM (TP: RM9.30) UZMA (TP: RM0.970) **UP:** ARMADA (TP: RM0.090) DAYANG (TP: RM1.20) PETDAG (TP: RM24.40) WASEONG (TP: RM0.620)
Plantation	**Maintain**	• **Palm oil ban to be a wet blanket.** While some positive factors are developing in the plantation sector, negative news flows have diffused negative sentiments and weighed on CPO prices, dampening near-term prospects of planters under our coverage. In addition, stockpiles have not eased as quickly as we had hoped in the January-February 2019 period, no thanks to shorter working month during CNY. However, as the negative news flows subside in coming months, we believe CPO price will return to the recovery trajectory. Currently, planters under our coverage are on average trading at -1.0SD (range: -2.0 to +0.5SD) from their respective mean PER, which is consistent with the uncertain environment but lacks comfortable margin of error for us to turn positive on the sector at this juncture. • Over the next three months, **key positive factors that we are monitoring closely** are as follows: (i) easing stockpiles	**OP:** TSH (TP: RM1.30) **MP:** FGV (TP: RM1.15) IOICORP (TP: RM4.45) KLK (TP: RM25.70) SIMEPLT (TP: RM5.00) TAANN (TP: RM2.50) HSPLANT (TP: RM1.95) **UP:** CBIP (TP: RM0.850) GENP (TP: RM9.80) IJMPLNT (TP: RM1.50)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		in both Malaysia and Indonesia, (ii) higher exports to China given its pledge to buy 50% more palm oil from Malaysia and (iii) further clarity on new biodiesel initiatives (B30 in Indonesia and B20 in Malaysia). Nevertheless, we believe these positive factors have been largely priced in with the KLPLN index staging a handsome 11% recovery from the low in December 2018. • **Upcoming results to see rebound.** We expect the upcoming results season in May to see a sequential recovery in most planters' earnings as improvements in CPO prices likely outweighed a seasonal drop in FFB output in 1QCY19. This has also been verified by several planters under our coverage. Furthermore, from our observation of the movement of daily futures curves in the past two quarters, we believe the average CPO price realised by planters could have improved by 5-6% or more in 1QCY19. • **Maintain NEUTRAL and 2019 CPO price at RM2,400/MT.** However, should the biodiesel initiatives and palm oil offtake from the Chinese pan out better than expected, we would relook our valuation basis with an upward bias. On the other hand, if the EU and the Philippines' palm oil biodiesel ban escalates further, we are likely to downgrade our CPO price assumption. • **TSH remains our top pick.** For investors who would like to gain exposure to the plantation sector, we recommend TSH (OP; TP: RM1.30), our only Outperform call, given (i) its above-average production outlook of +12% (vs. industry average of +5%); (ii) diversification benefits and stable income streams from its cocoa business (>30% of net profit); and (iii) it is the only pure upstream planter under our coverage that is still profitable.	PPB (TP: RM16.60) SAB (TP: RM2.60) UMCCA (TP: RM5.00)
Plastics and Packaging	Upgrade	• **Mix 4QCY18 results.** Plastic packagers' results were mixed with 1 below, 1 above and 3 within. This quarter saw less surprises vs 3QCY18 when only 1 came within. TOMYPAK came below due to weaker top-line and higher-than-expected raw material costs, while TGUAN outperformed on improved product sales mix. SCIENTX is deemed broadly within due to lumpy progress billings in its property segment. SLP and SCGM came within our expectation. • **Expansion plans on track with some focusing on ramping up utilisation.** We expect capacity expansion across the sector to drive top-line growth, assisted by continuous demand for niche plastic products, and increased use of stretch film driven by Industry 4.0. SLP is increasing annual capacity by 58% in FY21, SCGM by 65% in 4Q19, and TGUAN by c.6% in FY19-20. Both SCIENTX and TOMYPAK's focus are now on ramping up utilisation of its capacity. • **Volatile raw material prices.** We are less concerned about the revenue growth but are cautious over the volatile raw material prices and the variability of a favourable product mix that saw margin compressions in previous quarters. Resin prices are currently range bound between USD1,000-1,300/MT, but we are slightly more conservative estimating resin cost at USD1,200-1,400/MT as resin price have been volatile and appear to be on the uptrend again. Even if resin price stabilise at current levels, we believe effect may not reflect immediately due to existing inventory of resin held at	**OP:** SLP (TP: RM1.35) **MP:** SCIENTX (TP: RM8.50) TGUAN (TP: RM2.40) TOMYPAK (TP: RM0.495) **UP:** SCGM (TP: RM0.850)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		higher cost, while most packagers are still grappling with weaker product margins and additional cost incurred during the fit-out stages from on-going capacity expansion. • **Upgrade to NEUTRAL (from UNDERWEIGHT).** We upgrade our call for SLP to OUTPERFORM as share price has declined since our last report. We also upgrade TOMYPAK to MARKET PERFORM (from UNDERPERFORM) as share price has come closer to our target price of RM0.495. All in, we upgrade our sector call to NEUTRAL (from UNDERWEIGHT) post the said stock upgrades. Upside will be capped by the lack of re-rating catalyst and margin crimping high cost environment. However, we may look to increase earnings estimates should resin prices maintain a consistently lower trend, and upon more stable earnings deliveries in upcoming quarters. Among our coverage, SLP is our preferred pick as it is currently trading at an attractive valuation while its earnings and margins record is superior compared to its peers.	
Property Developers	**Maintain**	• Over 1QCY19, property stocks rebounded stronger than the broad market with the KLPRP charting +5.9% YTD vs. the FBMKLCI (-0.1% YTD), following a severe bashing down of property stocks over 4QCY18. • The odds of a potential of a 25bps OPR rate cut in 2H19 appears to be increasing, but still affordability ratio will only improve slightly (<3%). • Meanwhile we note that banks which are already facing NIM compressions may be reluctant to narrow lending spreads further; note that our analysis indicates that property transactions have a high correlation to lending spreads as opposed to the actual interest rate level itself. So an OPR cut may offer some reprieve for the sector but is unlikely to drive demand to new heights. • Currently, banks are under pressure to be more flexible with lending although we note that household debt remains relatively high at 83% of GDP at end 2018 (down from 83.8% in 2017). A meaningful measure to alleviate the tight liquidity to the sector must ultimately results in improved effective margin of financing. Another impactful measure is bridging the gap of the initial property down-payment, which is the main hurdle of first-time home buyers. • We are also awaiting for the finalized property crowdfunding framework by SC post its public consultation exercise; depending on the scale and parameters, this could be a game changer as well as a re-rating catalyst for developers. • Our universe's total sales/earnings trajectory are largely unexciting at -3%/+9% YoY in FY19E/FY20E and +2%/+12% YoY in FY20E/FY21E. Our universe's average RNAV/SoP discount has narrowed to 64.6% from last quarter's 67.7% but still remains steeper than it was a year ago (61.7%). • Expect valuations to remain range bound until there are significant catalysts (e.g. easing of lending liquidity to the sector) or improvements in ROEs which are now at a record lows. Most of our universe's RNAV/SoP discounts are pegged at -1.0SD to historical trough levels, in-line with ROE trends. • **Reiterate NEUTRAL on Developers.** Investors should look at rotational laggards with OUTPERFORM recommendations like ECOWLD, IOIPG, MAHSING and	**OP:** ECOWLD (TP: RM1.15) IOIPG (TP: RM1.65) MAHSING (TP: RM1.05) SPSETIA (TP: RM2.45) SUNSURIA (TP: RM0.835) **MP:** HUAYANG (TP: RM0.410) LBS (TP: RM0.675) SIMEPROP (TP: RM1.10) SUNWAY (TP: RM1.55) UOADEV (TP: RM2.15) UEMS (TP:RM0.850) **UP:** AMVERTON (TP: RM1.00) MAGNA (TP: RM0.785) MRCB (TP: RM0.750)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		SPSETIA; **our preference is IOIPG (OP; TP: RM1.65)** as the stock has been the most bashed-down while we are comfortable with its current valuation.	
Ports & Logistics	**Maintain**	• **Margin compression continues to hurt logistics players.** Moving forward, the already crowded last-mile delivery space is anticipated to remain saturated as logistics players continue to suffer margin compression, leading to stagnated earnings growth. As such, we opt to stay side-lined from this sub-sector while awaiting meaningful earnings recovery, most likely from: (i) companies maturing out of their gestation phases, and (ii) an eventual industry consolidation. • **Moderate throughput growth for Port Klang.** Port Klang saw FY18 container throughput rising 2.7% YoY as we believe container throughput has already bottomed out from the previous tail-end residual effects of M&A and alliances reshuffling activities among global shipping liners. Moving forward, we maintain our view of c.5% container throughput growth for FY19, driven by organic economic growth and low-base effect. Furthermore, as previously mentioned, we see minimal near-term impact to Port Klang from US-China trade war as it should mostly only affect trans-pacific shipment routes. • **Maintain NEUTRAL** on the sector, given the lack of any major rerating catalyst. Within our coverage, most of the calls are MARKET PERFORM as we do not see any major positive catalyst while we have already priced in most of the downside risk. Meanwhile, logistics players such as POS and CJCEN are given UNDERPERFORM calls owing to their bleak outlook clouded by persisting margin compression, which is unlikely to recover in the near-term.	**MP:** MMCCORP (TP: RM1.10) WPRTS (TP: RM3.75) **UP:** CJCEN (TP: RM0.400) POS (TP: RM1.50)
Rubber Gloves	**Upgrade**	• **Upgrade from UNDERWEIGHT to NEUTRAL.** • In line with the cloudy outlook, share prices of rubber glove stocks under our coverage have fallen between 18-25% YTD led by HARTA (-25%), TOPGLOV (-20%), KOSSAN (-19%) and SUPERMX (-18%). • We believe all the negatives could have been priced in with valuations trading at a more palatable PER of between mean and +1.0SD five-year forward average which appears undemanding. However, the sector lacks positive catalysts over the short-to-medium term. • We have MARKET PERFORM calls on HARTA (MP; TP: RM4.85); TOPGLOV (MP; TP: RM4.20); and SUPERMX (UP; TP: RM1.30). Our Top Pick in the sector is KOSSAN. We like KOSSAN because it is expecting strong high-teens net profit growth in upcoming quarters underpinned by new capacity expansion. TP is RM4.95 based on 25.5x FY19E EPS (+1.0 SD above 5-year historical forward mean).	**OP:** KOSSAN (TP: RM4.95) **MP:** HARTA (TP: RM4.85) TOPGLOV (TP: RM4.20) **UP:** SUPERMX (TP: RM1.30)
Technology / Semiconductor	**Maintain**	• **Lacklustre outlook for smartphone and automotive for 2Q19.** The general semiconductor sector is besieged by several challenges in 2Q19, particularly: (i) lacklustre smartphone sales given minimal feature upgrades in recent models and high price point of recent Korean flagship smartphone models, (ii) muted vehicle sales in China amid the US-China trade war and in the EU due to the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP). Recent profit warnings issued by Samsung and OSRAM serve as a good precursor to worse-	**OP:** MPI (TP: RM13.00) PIE (TP: RM1.90) SKPRES (TP: RM1.45) **MP:** D&O (TP: RM0.700) **UP:**

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		than-expected slowdown in both the sub-industries. • **5G? Not so fast.** During our recent visit to Penang, the technology companies we visited generally were excited about 5G as it will not only drive offtake of existing products (especially those relating to data infrastructure, radio frequency and sensors) but also lead to the creation of new products. However, a slight killjoy was that more clarity and meaningful positive impact could only be seen in 4QCY19-1QCY20. • **In the EMS space,** prospects remain promising as SKPRES continues to see contracts driven by new products from its key customer, while PIE recently saw an influx of enquiries from companies looking to shift their supply chains out of China due to the US-China trade war. • **Maintain NEUTRAL** on the sector with preference for: (i) MPI (OP, TP: RM13.00) as its profit margins are expected to improve after weak-margin products are weeded out and replaced with higher-growth/margin sensor packages, while the company also trades at an attractive FY19E ex-cash PER of 8.2x, and (ii) SKP (OP; RM1.45) due to potential margins enhancement upon in-house PCBA commencement and several new contracts in the pipeline, while the company only trades at FY20E PER of 12.7x.	KESM (TP: RM7.60) UNISEM (TP: RM2.50)
Telecom-munications	**Maintain**	• **Maintain NEUTRAL call for the sector.** Competition in the home broadband segment is expected to escalate following increasing interest shown by various media and telecommunication incumbents. • We do not discount potential hiccup in the 700MHz spectrum in view of the recent contract dispute among MYTV and Green Packet Bhd. Without a successful analogue switch-off (ASO), the current 700MHz broadcasting frequency spectrum would not be freed up for telecommunication purpose. • The latest internet users survey has shown some shifts in users' behaviour and trends, which could prompt the industry incumbents to revise their respective strategies. Notable trends include: (i) users' own home (88.6% vs. 85.6% in 2016) remained the most frequent place to go online while mobility or on-the-go (68.1% vs. 84.0% in 2016) as well as free Wi-Fi anywhere (i.e. cyber café, 36.3% vs. 55.9%) have loss traction since 2016, which we believe was partially due to the better network coverage and services thus giving users easier access to internet in the comfort of their home; and (ii) participation in online banking and financial activities has increased with more than half (54.2%) of internet users used the service (vs. 41.7% in 2016), which could provide more opportunity in the flourishing digital economy and development of a cashless society. • While we do not have any OUTPERFORM call in the big cap names, we prefer DIGI (MP, TP: RM4.65) among others in view of its relatively stable earnings prospect coupled with above-industry dividend yield. OCK (OP, TP: RM0.650) retained as our preferred choice under the mid-cap telecom space in view of its: (i) healthy cash flow on the back of escalating recurring income trend, (ii) ability to ride the passive infrastructure sharing trend, and (iii) expanding EBITDA margin trend.	**OP:** OCK (TP : RM0.650) **MP:** AXIATA (TP: RM4.63) DIGI (TP: RM4.65) TM (TP: RM3.10) **UP:** MAXIS (TP: RM4.90)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Utility	Downgrade	• **A lower earnings base for TENAGA.** A lower asset return of 7.3% in RP2 from 7.5% in RP1 led to a lower normalised earnings of RM5.4b in FY18 which was RM600-700m lower than RP1. Government's commitment towards ICPT mechanism is key. But the continuation of surcharge after the KWIE fund will be fully utilised, likely in 2020, a key critical factor. • **PETGAS to face tariff decline; lower margin spread for GASMSIA in RP2?** PETGAS to face two step-downs in earnings in RP1 and RP2 as base-tariff is expected to reduce sharply by 60% to RM0.502/GJ in 2026 from RM1.248/GJ in 2018. GASMSIA is in final year of RP1. Potential reduction in asset return rate for RP2. If return rate drops to 7.3% from 7.5%; earnings could drop 5% as margin spread fall to RM1.50-1.70/mmbtu from RM1.80-RM2.00/mmbtu. • **IPPs need to fill up earnings gap,** as PPA Extension Contracts for YTLPOWR's Paka and MALAKOF's PD Power are expiring soon beside the already weakened earnings. Two new offshore greenfield projects for YTLPOWR will only be ready in 3-4 years while MALAKOF is still looking for new projects. Thus, near-term earnings' prospects are weak. • **Powering down forward, Cut to NEUTRAL.** In view of lacklustre prospects for the Utilities players in the near to mid-term, we cut the sector to NEUTRAL from OW. But we reckon the sector offers decent yields of >3%. Despite the dulling prospects for the sector, PESTECH is still an alternative small cap play.	**OP:** MALAKOF (TP: RM1.00) PESTECH (TP: RM1.40) **MP:** GASMSIA (TP: RM3.05) PETGAS (TP: RM16.45) TENAGA (TP: RM13.30) YTLPOWR (TP: RM0.900)

Source: Kenanga Research

This section is intentionally left blank

Figure 14: 2Q19 Top Picks List

Top Picks	Comments
BAUTO (OP; TP: RM2.85)	We like the stock for its: (i) steady dividend yield at 7.4%, with minimum targeted 80% pay-out of PATAMI, (ii) solid earnings recovery buoyed by the all-new Mazda CX-5, and (iii) superior margins above industry peers (average profit margin of c.8% vs. peers at c.2%). Our TP is based on 13x CY19E EPS (-0.5SD of its 3-year mean Fwd. PER).
BJTOTO (OP; TP: RM2.65)	Ticket sales' downtrend bottomed out with meaningful improvement in the latest quarterly results as enforcement clamped down on illegal operators. This leads to a sustainable yield of 7% and it trades at attractive PER of 11x which is unwarranted at -1SD of 2-year mean.
BURSA (MP; TP: RM7.60)	In the long-term, the domestic equity scene could provide attractive investment opportunities for local and foreign investors, mainly thanks to its low beta nature. Possibly, anxiety from previous unfavourable global developments could diminish and attract investors back to the market. Aside from that, decent yield prospects of c.4% could be provide a fair support to our anticipation for limited downside to trading activities from here. Our valuation is based on an unchanged 25.0x FY19E PER, which is close to the stock's +0.5SD over its 3-year mean.
CMMT (OP; TP:1.25)	**CMMT is our Top Pick on above average yields of 7.0% (vs. MREITs' average of 5.8%).** Sell-downs (-22% YoY) are overdone vs. MREIT peers during the same period (-11% to +22%) given that results continued to meet expectations for all 4 quarters, while FY18 dividend of 7.9 sen implied 7.0% gross yield. Despite weakness in some assets, we believe there is still deep value in CMMT as its share price is currently trading at price-to-book value (PBV) level of 0.86x (vs. big retail MREIT peers' average of 1.08x) and despite the group recording fair value gains in FY17-18 on flattish net asset per share of RM1.30. Going forward, we expect mildly negative to low single-digit reversions on leases expiring in FY19-20 implying marginally declining DPU in FY19 (-1% YoY) and flattish DPU in FY20, translating to FY19-20 gross yields of 7-7% (net yields of 6.3-6.3%).
MAYBANK (OP; TP: RM10.20)	MAYBANK's variable loan portion (72%) is the lowest among the top four banks (CIMB, PBBANK and RHBANK). Its CASA ratio (34%) is the second highest among banks in our banking universe. Lower variable rate loans and high CASA ratio we believe will alleviate NIM pressure in the event of a rate cut. Prudent asset management saw GIL falling ~2.4% (FY18) coupled with falling credit costs by 9bps to 0.31% and with an OPR cut we expect improved credit charge and better credit demand. Our TP is at RM10.20 on a target PBV of 1.35x (previously 1.27x) implying a 0.5SD below mean (from 1.0SD below) to reflect better asset quality and lower impairment allowances ahead. Valuations are undemanding at current share price, while dividend yield is still the most attractive in our banking universe at >6.0%, implying a potential total return of >16%. **OUTPERFORM.**
MBMR (OP; TP: RM3.45)	We like the stock for its: (i) its deep value stake in 22.58%-owned Perodua, and (ii) dual-income streams as the largest Perodua dealer and from its manufacturing division as a parts supplier for Perodua as well as other popular marques. Our TP is based on 8x FY19E EPS (-0.5SD of its 5-year mean Fwd. PER) and the stock is currently trading at an undemanding 6.5x FY19E PER.
MBSB (OP; TP: RM1.15)	MBSB's variable rate loans portion is at 40% (the lowest in our banking universe) as >59% of its outstanding loans/financing are skewed towards personal financing and the least impacted in the event of a rate cut. However, the rate cut will likely push up personal financing demand and we do not expect uptick in impaired assets from this space given that its personal financing is by salary deduction and selective towards the middle-to-higher salary scale from civil servants and corporates. Our TP is at RM1.15 as we ascribed a target PBV of 0.90x (implying a 1SD below mean) to reflect our reservation on its loan growth (4-6% target vs our assumptions of ~4%) ahead due to prevailing uncertainties. However, the stock valuation is still undemanding; (with a potential total return of >23%); hence, we rate it **OUTPERFORM.**
PADINI (OP; TP: RM4.25)	We like the stock for (i) its resilient business models, focusing on the value-for-money segment in Brands Outlet, and (ii) expected improvement in SSSG and cost allocation. For FY19 the group will not be opening more than 10 outlets for the local market to streamline cost allocation, while maintaining the status quo for its Cambodia operation. We understand that the new, slower expansion plan is to streamline the operational cost towards strategic locations, while expanding regionally by taking over franchisee of Vincci stores in Thailand (7 stores) to strategically control the stores value. Our TP is based on 14x FY20E EPS (+0.5SD of its 5-year mean Fwd. PER).
PWROOT (OP; TP: RM1.65)	We anticipate PWROOT to deliver a strong set of results in their 4Q19 release, backed by: (i) recovery in exports with the change in distributions, (ii) continued streamlining of local operations, and (iii) lower comparative production cost from better commodity hedges. At the meantime, the stock looks to continue offering solid dividend returns for yields of c.6-7% from their consistent dividend payment track record (5-year average payout ratio: c.90%). Our TP of RM1.65 is premised by a 17.0x FY20E PER, in-line with the stock's -1SD over 3 years mean. The valuation is at a discount of OLDTOWN's implied privatisation valuation of 19.0x Fwd. Per, which we think is not excessive given the return in confidence in earnings delivery by the new management of PWROOT.

Top Picks	Comments
SAPNRG (OP; TP: RM0.430)	A prime beneficiary of increased upstream oil and gas activities both locally and globally. Having recently completed its corporate exercises, it should see an improved outlook this year, especially in the 2H, underpinned by: (i) finance costs savings from borrowings repayments, (ii) depreciation savings from earlier impairments, and (iii) profit recognition from 2-year's high order-book of RM17.2b, with projects load-out mostly occurring in the 2Q-3QCY19.

Source: Kenanga Research

This section is intentionally left blank

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

Chan Ken Yew
Head of Research