3QCY24 Investment Strategy

Dawn of the Laggard

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FBM KLCI (pts)	
Current	Target
1,584.94	1,700↔

Executive Summary

- **We maintain our end-CY24 FBM KLCI target of 1,700 pts based on 16x CY24F earnings (+16.2%). We project FBM KLCI's earnings growth to moderate to 8.1% in CY25F.**
- **On one hand, we acknowledge that the key catalyst for global markets, i.e. policy easing by central banks in advanced economies, has somewhat been watered down. During the Federal Open Market Committee (FOMC) meeting this month, the Fed raised its end-CY24 Fed Funds rate forecast to 5.1% (from 4.6% three months ago), effectively signalling only a 25-bps cut in CY24.**
- **On the other hand, we also acknowledge that there could be overriding revolutionary investment themes, particularly, generative AI; and/or investors may be willing to "roll forward" their rate cut expectations, say, for another six months (instead of cutting their positions as they expect the rates to stay higher for longer).**
- **Locally, we take comfort that despite a buoyant stock market, the government has remained steadfast in pursuing fiscal policy reforms. It has taken a big step forward with the removal of diesel subsidy effective 10 Jun 2024.**
- **We also see local investors turning more decisive and taking the lead in buying (vs. them taking the lead from foreign investors in the past). They soak up the occasional foreign selling and as and when foreign investors return, the market's vibrancy could only be amplified.**
- **We sense exuberance in investment themes surrounding AI, data centre and Johor economic transformation. We advocate investors who are taking an immediate to short-term view on the related utilities and property names to lock in profits. While we believe these investment themes may still have legs over the long term, investors will have to be prepared for much lower returns as the easy money has already been made upfront.**
- **We see value in laggard sectors particularly telecommunications on improving clarity on the 5G Dual Network policy and the growing demand for fiber optics backhaul, network hubs, submarine cables and landings from new data centres (which we believe have not been fully priced in by the market), and financial services of which stock prices are poised for better performance when foreign investors flock back to the local stock market.**
- **Despite the YTD strong outperformance, we still like: (i) the construction sector as it will be buoyed by the roll-out of mega public infrastructure projects led by the MRT3 (RM45b), on the heels of the award of the RM10b Mutiara Line of the Penang LRT and a slew of data centre building jobs, (ii) the oil & gas sector, particularly, the thriving offshore support vessel (OSV), floating production storage and offloading (FPSO) and land storage segments, and (iii) the tech sector underpinned by the recovery in the semiconductor and EMS space and ample of growth opportunities in integrated circuit (IC) design and cybersecurity.**
- **Our top conventional picks are CIMB, IHH, CDB, TM, RHBBANK, GAMUDA, INARI, DIALOG, ABMB and SKPRES.**
- **Our top Shariah picks are IHH, CDB, MAXIS, TM, GAMUDA, INARI, DIALOG, F&N, MBMR and SKPRES.**
- **Our top small-cap picks are OPPSTAR, KAREX, TGUAN, MKH, LGMS and ENGTEX.**

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End-CY24 FBM KLCI Target of 1,700 pts Maintained

We maintain our end-CY24 FBM KLCI target of 1,700 pts based on 16x CY24F earnings (+16.2%), which is at the higher-end of its historical PER range of between 14x and 16x post the economy reopening to reflect the strong market sentiment. We project FBM KLCI's earnings growth to moderate to 8.1% in CY25F.

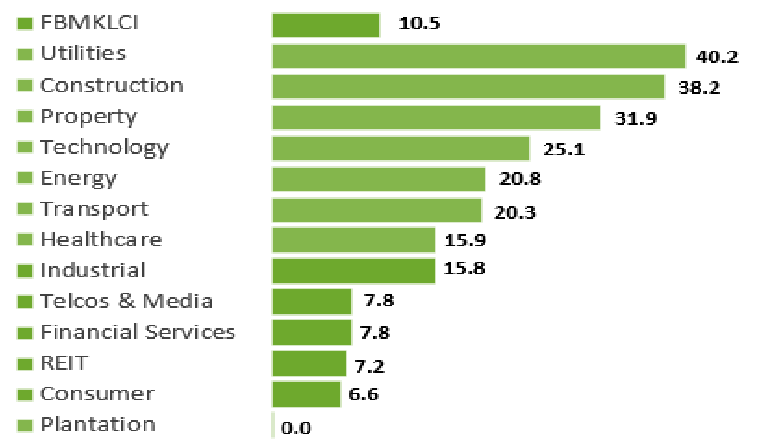
Focus on the Laggard

We acknowledge that the key catalyst for global markets, i.e. policy easing by central banks in advanced economies, has somewhat been watered down, which culminated in the Fed's latest guidance for only one rate cut in 2024. On the other hand, we also acknowledge that:

- investors may believe there are overriding revolutionary investment themes, particularly, generative AI; and/or
- Investors may be willing to "roll forward" their rate cut expectations, say, for another six months (instead of cutting their positions as they expect the rates to stay higher for longer).

These also largely explain the strong performance in the local market with FBM KLCI rising by 10.5% YTD (as at 14 Jun 2024)(see Exhibit 1). We also see local investors turning more decisive and taking the lead in buying (vs. them taking the lead from foreign investors in the past). They soak up the occasional foreign selling and as and when foreign investors return, the market's vibrancy could only be amplified. As such, the movement of funds in and out of EM and Malaysia equities is still an important factor to watch. YTD, while the weekly inflows to EM equities have been relatively consistent, the same cannot be said for Malaysia equities, which are now not unaccustomed to wild swings on index rebalancing (see Exhibits 2 & 3).

Exhibit 1: YTD Performance of Malaysian Stock Market (% chg)

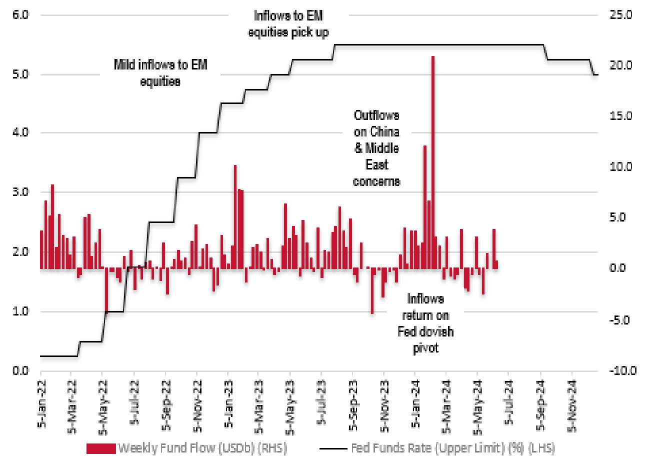


**as at closing on 14 Jun 2024*
Source: Bursa Malaysia, Kenanga Research

We take comfort that despite a buoyant stock market (although the MYR has yet to see better days), the government has remained steadfast in pursuing fiscal policy reforms. It has taken a big step forward with the removal of diesel fuel subsidy effective 10 Jun 2024, following the hike in the Sales and Services Tax (SST) to 8% (from 6%) and the expansion of its scope, the removal of subsidies and price controls for chicken and rice (while keeping those for Grade A, B and C chicken eggs) and the hikes in water and airport tariffs recently.

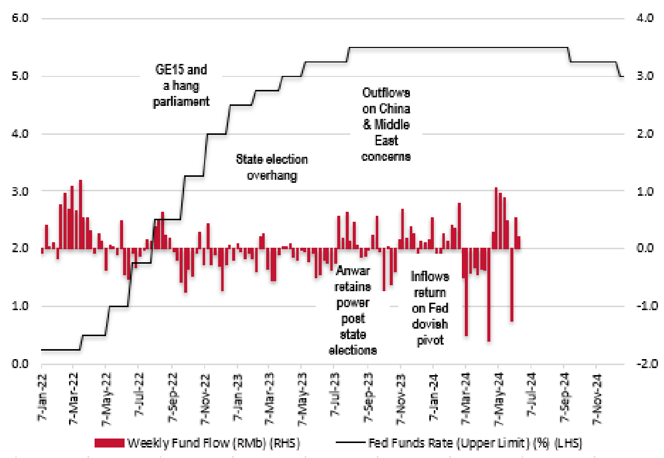
We sense exuberance in investment themes surrounding AI, data centre and Johor economic transformation, but we see value in selected laggard sectors and stocks with undemanding valuations.

Exhibit 2: Fund Flows into EM Equities vs. Fed Funds Rate



Source: EPFR, fred.stlouisfed.org, Kenanga Research

Exhibit 3: Foreign Fund Flows into Malaysian Equities vs. Fed Funds Rate



Source: EPFR, fred.stlouisfed.org, Kenanga Research

US Inflation and Retail Sales Are Cooling, but Labour Market Remains Strong

During the FOMC meeting this month, while the Fed kept the target range of its funds rate at 5.25%-5.50%, it raised its end-CY24 Fed Funds rate forecast to 5.1% (from 4.6% three months ago), effectively signalling only a 25-bps cut in CY24 (vs. three 25-bps cuts three months ago). Based on the latest Fed Funds futures, the market does not see eye to eye with the Fed, betting on two 25-bps cuts in CY24 instead, followed by another three 25-bps cuts by Jul 2025 (see Exhibit 4).

The market's dovishness is premised upon US headline May 2024 CPI that came in a tad cooler at 3.3% (vs. expectations of 3.4%) and core CPI (i.e. excluding the more volatile food and energy prices) at 3.4% (vs. expectations of 3.5%). Although arguably, the numbers are still not quite near the Fed's inflation target of 2% (see Exhibits 5 & 6).

On the labour market front, the May 2024 jobs report surprised to the upside with non-farm payrolls of 272k (vs. expectations of 182k) and average hourly earnings of 0.4% mom (vs. expectations of 0.3%).

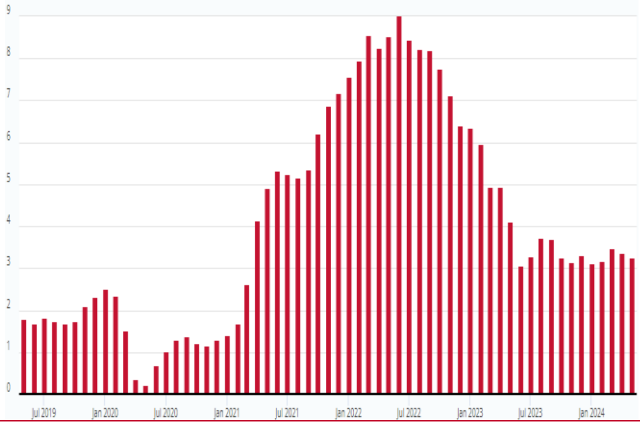
Meanwhile, since the beginning of the year, retail sales have been missing expectations with the exception of Mar 2024, suggesting that the 525-bps hike in the Fed Funds rate since Mar 2022 has finally caught up with consumer spending.

Exhibit 4: Fed Funds Target Rate Probabilities (%)#

(%)	3.25-3.50	3.50-3.75	3.75-4.00	4.00-4.25	4.25-4.50	4.50-4.75	4.75-5.00	5.00-5.25	5.25-5.50
31-Jul-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3	89.7
18-Sep-24	0.0	0.0	0.0	0.0	0.0	0.0	6.6	61.1	32.3
7-Nov-24	0.0	0.0	0.0	0.0	0.0	2.6	28.2	49.7	19.5
18-Dec-24	0.0	0.0	0.0	0.0	2.1	23.2	45.5	25.4	3.8
29-Jan-25	0.0	0.0	0.0	1.3	14.7	36.6	33.5	12.5	1.5
19-Mar-25	0.0	0.0	0.9	10.5	29.7	34.4	19.1	5.0	0.5
30-Apr-25	0.0	0.4	5.4	19.6	31.9	27.1	12.4	2.8	0.3
18-Jun-25	0.3	3.6	14.4	27.4	28.9	17.8	6.3	1.2	0.1
30-Jul-25	1.6	8.0	19.7	28.0	24.4	13.1	4.2	0.7	0.1

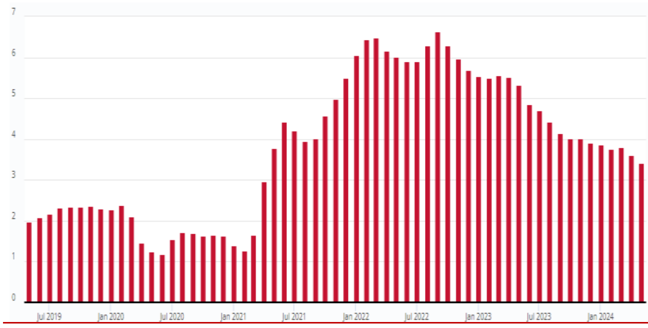
 # as at the closing on 14 Jun 2024
Source: CME Group, Kenanga Research

Exhibit 5: US CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Exhibit 6: US Core CPI (YoY chg)



Source: fred.stlouisfed.org, Kenanga Research

Exhibit 7: Selected Recent US Economic Data

	Month	Actual*	Estimate	Signal
Retail sales (mom)	May	0.1%	0.3%	
CPI (yoy)	May	3.3%	3.4%	
Non-farm payrolls	May	272k	182k	
Hourly wage growth (mom)	May	0.4%	0.3%	
PCE price index (yoy)	Apr	2.7%	2.7%	
Retail sales (mom)	Apr	0.0%	0.4%	
CPI (yoy)	Apr	3.4%	3.4%	
PPI (mom)	Apr	0.5%	0.3%	
ISM services PMI	Apr	49.4	52.0	
Non-farm payrolls	Apr	175k	238k	
Hourly wage growth (mom)	Apr	0.2%	0.3%	

 : Hawkish (beating expectations)

 : Dovish (meeting or below expectations)

**Before subsequent revisions*

Source: Kenanga Research, investing.com

The Tortoise

Among the laggard sectors (see Exhibit 8), we single out **telecommunications** and **financial services** as the ones that are most likely to beat the hare to the 3QCY24 finish line.

The **telecommunications** sector is not lacking re-rating catalysts. These include: (i) improving clarity on the 5G Dual Network policy and final shareholding structure of both 5G networks; and (ii) growing demand for fiber optics backhaul, network hubs, submarine cables and landings from new data centres (which we believe have not been fully priced in by the market).

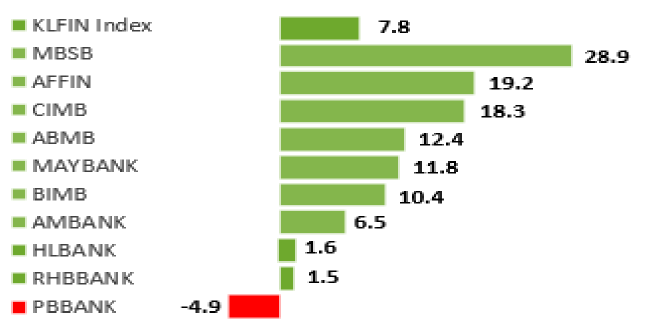
On the other hand, while the **financial services** sector as a whole has been a laggard, some banks have done better than the others in terms of YTD share price appreciation as well as total return (see Exhibits 9 and 10). We believe banking stocks are: (i) a good proxy to a more promising long-term outlook for the economy as the government finally gets cracking on policy reforms with the removal of diesel subsidy from 10 Jun 2024, and (ii) poised for better performance when foreign investors flock back to the local stock market given the significant weighting banking stocks command in indices tracked by foreign investors.

Despite the significant YTD underperformance, we remain unexcited over the **plantation** sector in the absence of any near-term price catalyst for CPO. Similarly, weak consumer spending amidst sustained high inflation—that is unlikely to ease over the immediate term due to fuel subsidy rationalization — will continue to weigh down on the **consumer** and retail asset-centric **REIT** sectors, partially cushioned by the return of international tourists and the 13% pay rise for most civil servants in Dec 2024 that may partially restore their spending power.

Exhibit 8: Laggard Sectors YTD

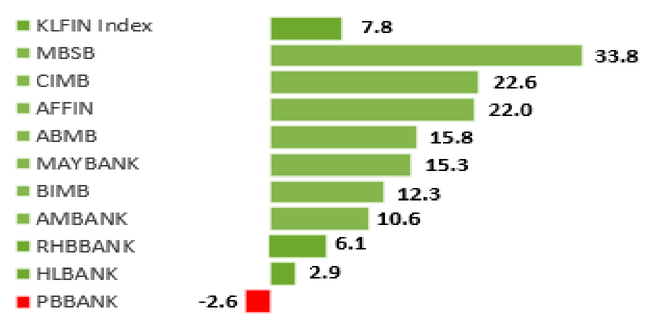
**as at closing on 14 Jun 2024*
Source: Bursa Malaysia, Kenanga Research

Exhibit 9: YTD Performance of Banking Stocks (% chg)



Source: Bloomberg, Kenanga Research

Exhibit 10: YTD Total Return of Banking Stocks (% chg)



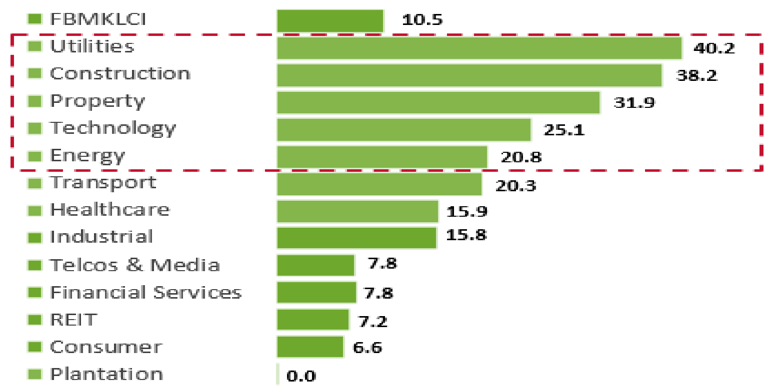
Source: Bloomberg, Kenanga Research

The Hare

The YTD top three performing sectors, i.e. **utilities, construction** and **property**, have a common theme, namely data centre. The utilities **sector** has been buoyed by the expectations of: (i) high returns from the investment in a sizeable data centre in Johor by a utilities conglomerate, and (ii) national power company **Tenaga** enjoying stronger electricity demand growth on sprouting data centres in Peninsular Malaysia. On the other hand, the **construction** sector has been boosted by fast-track and hence high-margin data centre building jobs while **property** players by land sales to data centre developers.

Investors have also piled into **property** players with significant presence in Johor on expectations of improved property sales with the commissioning of the Johor Bahru-Singapore Rapid Transit System (RTS) in 2026 that will drive more Malaysians to work in Singapore, boosting housing demand in Johor Bahru and affordability underpinned by their SGD-denominated incomes. Meanwhile, Johor economic transformation backed by the Special Economic Zone (SEZ) status to be granted to selected areas, and Special Financial Zone (SFZ) status to Forest City, will benefit land owners and developers of luxury condominiums targeting foreign buyers in Johor Bahru.

Exhibit 11: Leading Sectors YTD



**as at closing on 14 Jun 2024*
Source: Bursa Malaysia, Kenanga Research

We hold the view that the market has adequately priced in the immediate to short-term impact of these developments to most property names. A case in point is, when **ECOWLD** announced the sale of 123 acres of land in Kulai for RM402.3m and **UEMS** announced the sale of 28.9 acres of land in Iskandar Puteri for RM144.9m, both in Jun 2024 to overseas-based data centre developers at premium pricing, the reaction to their share prices had been muted.

We advocate investors who are taking an immediate to short-term view on the data centre and Johor economic transformation themes to lock in profits. While we believe these investment themes may still have legs over the long term, investors will have to be prepared for much lower returns as the easy money has already been made upfront.

Also for investors who are prepared to take a long-term view, we see opportunities in owners of large plantation land in Johor such as **IOI, KLK, GENP, SDG** and **UMCCA** that may benefit from: (i) the demand for new landbank for property development as the population moves up-north from Johor Bahru, and (ii) potential gains from compulsory land acquisition and appreciation in land value on the revival of the KL-Singapore high-speed rail (HSR) project.

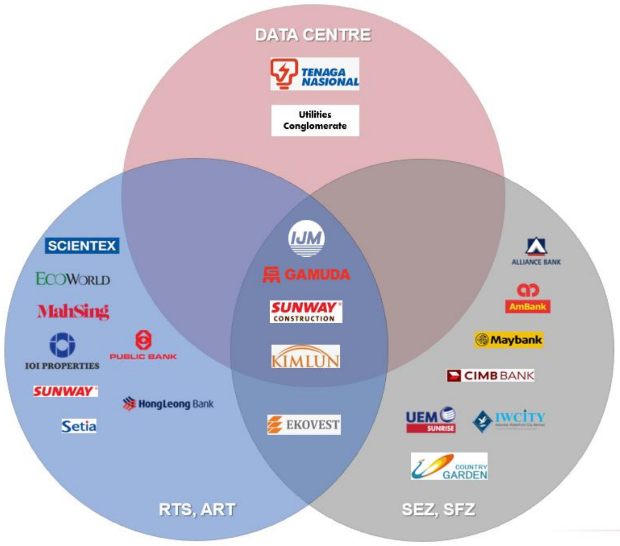
In the **utilities** sector, while the national power company **TENAGA** is a good proxy to the energy-intensive new data centres, we believe justice has been done with a 40% appreciation in its share price YTD, adding RM23b to its market capitalisation.

For the **construction** sector, despite the YTD outperformance (driven largely by the award of the RM10b Mutiara Line of the Penang LRT and various data centre building jobs), we remain upbeat as we believe the best is yet to come, i.e. the roll-out of mega public infrastructure projects led by the MRT3 (RM45b). We believe the government now has more fiscal space to do so, having got the ball rolling on fuel subsidy rationalisation with the removal of diesel subsidy from 10 Jun 2024.

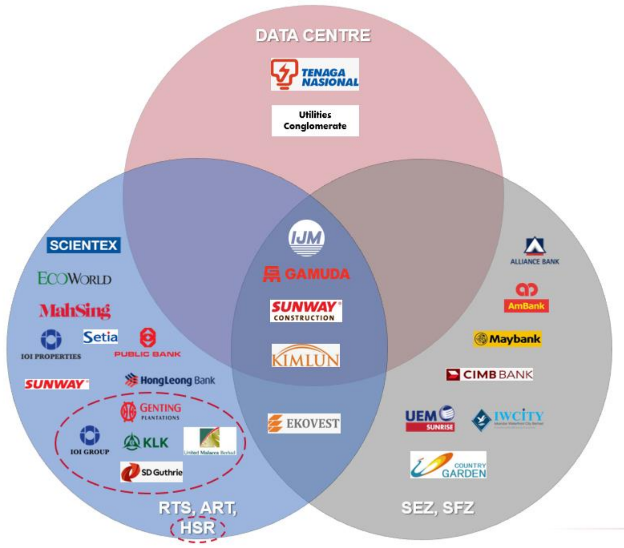
Similarly, we see the **oil & gas** and **tech** sectors as the hare that is not about to take a nap under the tree. In the **oil & gas** space, we like: (i) OSV owners due to supply crunch on a surge in demand leading to strong charter rates, (ii) FPSO players given the current upcycle in the sub-sector; and (iii) the land storage segment that has shown signs of recovery. Meanwhile the **tech** sector, the recovery is shaping up in the semiconductor space and players may step up their expansion plans, while EMS providers are experiencing a pick-up in orders due to restocking by customers and there are ample growth opportunities in IC design and cybersecurity.

Exhibit 12: Beneficiaries of Johor Economic Transformation

Immediate to Short-Term



Medium to Long-Term

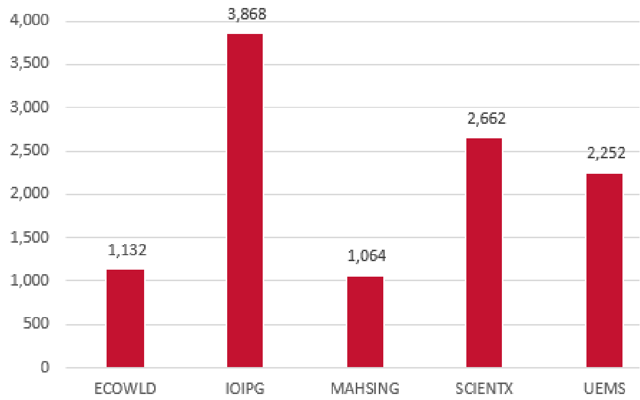


- A **utilities conglomerate** will benefit fromits data centre project in Johor
- The commissioning of RTS in 2026 will drive more Malaysians to work in Singapore, boosting housing demand and affordability underpinned by their SGD-denominated incomes, which will benefit developers with strong presence in Johor such as **SCIENTX, ECOWLD, MAHSING, IOIPG**and **SPSETIA** (see Exhibit 13)
- Home mortgage-centric **HLBANK** and **PBBANK** will benefit from home loans, while SME-centric **ABMB** and **AMBANK** will benefit from increased SME activities, and large banks **MAYBANK** and **CIMB** from the demand for corporate loans in the SEZ and SFZ.
- Construction players such as **GAMUDA, IJM, SUNCON** and **EKOVEST** will benefit from the Johor Bahru Automated Rapid Transit (ART) project (that connects to and disperses traffic from RTS).
- **KIMLUN** will benefit from building jobs from property developers as well as the demand for pre-cast concrete segments from the ART project.
- **UEMS** and **IWCITY** will benefit from land sales and the sale of luxury condominiums to foreigners given the proximity of their landbank to the SEZ and SFZ.

- Construction players may benefit from the revival of the KL-Singapore HSR project.
- Large plantation landowners such as **IOI, KLK, GENP, SDG** and **UMCCA** (see Exhibit 14) may benefit from the demand for new landbank for property development as the population moves up-north from Johor Bahru and gains from compulsory land acquisition and appreciation in land value on the revival of the KL-Singapore HSR project.

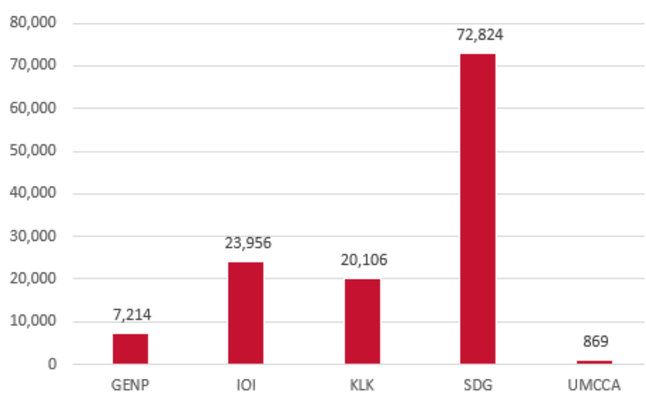
Source: Kenanga Research

Exhibit 13: Development Landbank in Johor (acres)



Source: Bloomberg, Kenanga Research

Exhibit 14: Plantation Land in Johor (acres)



Source: Bloomberg, Kenanga Research

Our **sector recommendations**, **top conventional picks, top Shariah picks** and **top small-cap picks** and their rationales and key investment statistics are reflected in Exhibits 15 to 20.

Exhibit 15: Sector Recommendations, Rationales and Top Picks

	Sector	Rationales	Top Picks
OVERWEIGHT	Building Material	Aluminium prices supported by supply constraints, demand for water pipes on revival of water projects including pipe replacement.	PMETAL, ENGTEX
	Construction	Data centre building jobs, Mutiara Line of Penang LRT and other mega public infrastructure projects led by MRT3.	GAMUDA
	Financial Services	Laggard play, proxy to more promising long-term economic outlook on the government's fiscal policy reforms and return of foreign investors.	ABMB, CIMB, RHBBANK
	Healthcare	Growing demand for private healthcare on rising affluence and ageing population, ability to pass on higher cost.	IHH
	Oil & Gas	Upstream service providers buoyed by spending in brownfield projects. Tank terminal (midstream) rates are bottoming out. Subdued demand and hence weak product prices for petrochemicals (downstream).	DIALOG, KEYFIELD
	Plastic Packaging	Orders underpinned by restocking by users, introduction of sustainable packagingmaterials.	BPPLAS, TGUAN
	Renewable Energy	New PV system EPCC jobs under CGPP, LSS5 and new quote under NEM, and falling solar panel prices.	SAMAIDEN, SLVEST
	Technology/EMS	Recovery inthe global semiconductor sector, a pickup in orders in the EMS space due to restocking by customers, growth potential in IC design and cybersecurity.	INARI, KGB, LGMS, OPPSTAR
	Tele-communications	Clarity on the 5G Dual Network policy, growing demand for fiber optics backhaul, network hubs, submarine cables and landings from new data centres.	CDB, MAXIS, TM
NEUTRAL	Automobile	Resilient demand in the affordable vehicle segment, proxy to gig economy boom via motorcycles demand.	HLIND, MBMR
	Aviation	If minority shareholders accept AIRPORT'sprivatisation at RM11.00/share, CAPITALA's ability to take advantage of strong air travel market to boost yields.	none
	Consumer	Resilient demand for consumer staples, while consumer discretionary is weighed down by high inflation and fuel subsidy rationalisation.	F&N
	Plantation	Stable CPO prices on easing fertilizer cost for upstream operation, weak product prices and margins hurt downstream operation.	PPB, TSH, UMCCA
	REIT	Unattractive spread over risk-free rate.	KLCC, PAVREIT
	Seaport & Logistics	Reduced port calls due to thedisruption from the shipping diversion from the Red Sea.	none
	Utilities	Electricity demand from new data centres.	none
UNDERWEIGHT	Glove	Overcapacity, predatory pricing by certain overseas players, weak demand and high cost of inputs.	none
	Media	Weak adex, challenging transition from traditional to digital media.	none
	Property	Exuberance in data centre and Johor investment themes. Overhang, high household debt and elevated mortgage rates weigh, but a bright spot in affordable homes priced at RM500k and below.	MKH

Source: Kenanga Research

Exhibit 16: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F
CIMB	OP	6.92	7.60	9.8	73,929.3	Dec	68.5	72.5	4.7	5.8	10.1	9.5	1.0	10.5	44.0	6.4
IHH	OP	6.25	7.00	12.0	55,043.8	Dec	20.6	21.6	41.6	4.8	30.3	28.9	1.8	6.1	7.0	1.1
CDB	OP	3.72	5.97	60.5	43,641.2	Dec	17.2	18.8	6.4	9.0	21.6	19.8	2.6	11.4	14.0	3.8
TM	OP	6.52	7.53	15.5	25,021.8	Dec	45.6	46.2	-13.2	1.5	14.3	14.1	2.5	18.0	23.5	3.6
RHBBANK	OP	5.53	7.25	31.1	24,108.0	Dec	70.8	73.5	8.3	3.9	7.8	7.5	0.8	9.7	43.0	7.8
GAMUDA	OP	6.54	7.29	11.5	18,120.3	Jul	40.2	50.6	29.7	25.8	16.2	12.9	1.6	10.0	12.0	1.8
INARI	OP	3.83	4.60	20.1	14,426.4	Jun	9.4	11.8	8.6	25.8	40.7	32.4	5.5	13.4	8.9	2.3
DIALOG	OP	2.50	3.18	27.2	14,106.5	Jun	10.2	10.6	13.9	4.1	24.6	23.6	2.4	10.0	4.3	1.7
ABMB*	OP	3.81	4.60	20.7	5,898.3	Mar	50.2	52.7	12.5	5.2	7.6	7.2	0.8	10.5	25.0	6.6
SKPRES*	OP	1.22	1.35	10.7	1,906.1	Mar	7.3	8.5	18.5	15.3	16.6	14.4	2.0	12.4	3.7	3.0

**FY24F and FY25F refers to FY25F and FY26F*
Source: Kenanga Research

Exhibit 17: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F
IHH	OP	6.25	7.00	12.0	55,043.8	Dec	20.6	21.6	41.6	4.8	30.3	28.9	1.8	6.1	7.0	1.1
CDB	OP	3.72	5.97	60.5	43,641.2	Dec	17.2	18.8	6.4	9.0	21.6	19.8	2.6	11.4	14.0	3.8
MAXIS	OP	3.63	5.30	46.0	28,430.4	Dec	16.7	17.9	6.2	7.2	21.8	20.3	5.0	22.7	20.0	5.5
TM	OP	6.52	7.53	15.5	25,021.8	Dec	45.6	46.2	-13.2	1.5	14.3	14.1	2.5	18.0	23.5	3.6
GAMUDA	OP	6.54	7.29	11.5	18,120.3	Jul	40.2	50.6	29.7	25.8	16.2	12.9	1.6	10.0	12.0	1.8
INARI	OP	3.83	4.60	20.1	14,426.4	Jun	9.4	11.8	8.6	25.8	40.7	32.4	5.5	13.4	8.9	2.3
DIALOG	OP	2.50	3.18	27.2	14,106.5	Jun	10.2	10.6	13.9	4.1	24.6	23.6	2.4	10.0	4.3	1.7
F&N	OP	31.78	38.25	20.4	11,656.2	Sep	167.6	176.4	26.9	5.3	19.0	18.0	3.2	17.7	85.0	2.7
MBMR	OP	5.16	5.80	12.4	2,017.0	Dec	72.5	73.3	-7.2	1.1	7.1	7.0	0.9	12.9	40.0	7.8
SKPRES*	OP	1.22	1.35	10.7	1,906.1	Mar	7.3	8.5	18.5	15.3	16.6	14.4	2.0	12.4	3.7	3.0

**FY24F and FY25F refers to FY25F and FY26F*
Source: Kenanga Research

Exhibit 18: Rationales for Top Conventional and Shariah Picks

Top Pick	Rationales
ABMB (OP; TP: RM4.60)	ABMB continues to look attractive as it delivers fundamentals comparable to its larger-cap peers, with dividend yields of c.7% (sector average: 5%) and ROEs of c.11% (sector average: 10%). The group also possesses the largest proportion of SMEs in its books which could drive its near-term growth. Leading in terms of CASA as well, it offers ABMB greater flexibility when it comes to margin retention.
CDB (OP; TP: RM5.97)	We like CDB due to: (i) merger synergies are expected to amount to NPV of RM8b over 5 years from FY23 onwards – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust average FCF yield of 7.9% in FY24-25 implies robust capacity to pay dividends, (iii) leading subscriber base share of 47% and 38% in the postpaid and prepaid segments, respectively, translating to economies of scale, and (iv) potential 5G monetization via provision of solutions to enterprises (e.g. private network, IoT smart technologies).
CIMB (OP; TP: RM7.60)	CIMB is breaking new ground with its ROE trajectory to 11% and is vying to achieve c.12% in the near-term. The group's strong-performing regional portfolio also provides buffers against potential headwinds seen in local markets. Meanwhile, thanks to its encouraging earnings projections, CIMB could be poised to offer yields approaching c.7% in the medium-term.
DIALOG (OP; TP: RM3.18)	We like DIALOG due to: (i) recovery in demand for independent tank terminal storage from a weak FY23 market with utilisation generally above 90% for existing terminals, (ii) active diversification into upstream production assets (its recent endeavour involves potential development of small field assets in Baram Junior cluster) which enables the group to capitalise on oil price rallies, and (iii) still significant expansion potential in Tanjung Langsat (200,000 cbm incremental capacity) and Pengerang with 500 acres of land to be developed.
F&N (OP; TP: RM38.25)	We like F&N for: (i) its earnings defensiveness underpinned by the steady demand for staple food items, (ii) its margin recovery driven by softening food commodity prices, (iii) its strong brand recognition, (iv) the recovery in its export sales to Thailand driven by a revival in domestic consumption and a resurgence in tourism, and (v) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan.
GAMUDA (OP; TP: RM7.29)	We like GAMUDA for (i) being on the driver's seat for the Mutiara Line for the Penang LRT and front-runner for the tunnelling job for the MRT3, (ii) its ability to secure new jobs in overseas markets, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record outstanding order book of RM24.2b, and (v) its inroads into the renewable energy space.
IHH (OP; TP: RM7.00)	We like IHH for: (i) the bright prospects of the private healthcare sector in the region underpinned by rising affluence and ageing population, (ii) its presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China, which are in different private healthcare growth cycles, (iii) its aggressive growth strategy via expansion of existing hospitals as well as M&As, and (iv) its ability to pass on higher cost in an inflationary environment.
INARI (OP; TP: RM4.60)	We like INARI for: (i) it being a good proxy to the upcoming US AI-smartphone, (ii) its high responsiveness to market demand as evidenced by its adoption of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) its growing presence in a revitalised China's smartphone market following Huawei's 7nm processor break-through, via its 54.5%-owned China-based Yiwu Semiconductor International Corporation, which is building a 500ksq ft plant in Yiwu.
MAXIS (OP; TP: RM5.30)	We like MAXIS due to: i) its sustained subscriber net adds traction in the postpaid segment on the back of its convergence strategy and popular Hotlink postpaid entry level plans, (ii) its collaboration with Huawei to drive 5.5G commercialization which alludes the potential of developing the most advanced and superior network at this juncture, and (iii) expectation of a ramp-up in enterprise segment earnings as SME customers accelerate take-up of managed services and cloud offerings.
MBMR (OP; TP: RM5.80)	We like MBMR for: (i) being a proxy to the still vibrant affordable segment (via its dealership for mass-market Perodua brand and a 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles) as its target customers, i.e. the B40 group, will continue to enjoy subsidised fuel post the fuel subsidy rationalisation, (ii) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 100k units, and (iii) its attractive dividend yield of about 7%.
RHBBANK (OP; TP: RM7.25)	RHBBANK now offers the highest dividend potential at c.8% in spite of modest growth expectations. Its sizeable CET-1 chest of >16% may further keep pay-outs sustainable, with likely a lower emphasis on provision management as pandemic concerns have alleviated. We also note that between the newly launched digital bank contemporaries, Boost Bank appears to lead in cost efficiency which may better tide its break-even prospects.
SKPRES (OP; TP: RM1.35)	We like SKPRES for: (i) being a good proxy to an innovative premium consumer electronics brand in the household and beauty care products, (ii) its edge over its peers given its vertical integration with sustainability management capabilities which allows to group to take on higher value jobs with better margins, (iii) its ability to achieve higher win rate in job tenders compared to peers, and (iv) its cost pass-through model that helps the group to minimise impact from volatile forex fluctuations.
TM (OP; TP: RM7.53)	We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, as well as proliferation of internet of things (IoT) and cloud-based applications powered by generative AI, etc, (ii) earnings accretion from new joint venture data centre business with Singtel, and (iii) surge in demand fuelled by new AI data centres in Malaysia for data transmission via TM's network of digital infrastructure that includes submarine cables and landings as well as fiber optics backhaul.

Source: Kenanga Research

Exhibit 19: Top Small-Cap Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F
OPPSTAR*	OP	1.49	1.70	14.1	954.0	Mar	5.7	6.5	165.0	15.4	26.3	22.8	5.4	22.4	1.4	0.9
KAREX	OP	0.85	1.10	29.4	895.4	Jun	2.4	4.4	137.1	85.1	35.9	19.4	1.8	5.1	1.0	1.2
TGUAN	OP	2.04	2.86	40.2	818.3	Dec	25.5	29.8	20.5	16.6	8.0	6.9	0.8	10.3	5.5	2.7
MKH	OP	1.33	1.83	37.6	767.9	Sep	18.0	20.1	41.8	11.2	7.4	6.6	0.4	5.3	6.0	4.5
LGMS	OP	1.55	1.90	22.6	706.8	Dec	4.6	6.3	88.4	37.0	33.5	24.5	6.8	22.2	0.9	0.6
ENGTEX	OP	1.08	1.41	30.6	478.8	Dec	9.2	12.5	300.0	35.0	11.7	8.7	0.5	4.7	0.8	0.7

FY24F and FY25F refers to FY25F and FY26F
Source: Kenanga Research

Exhibit 20: Rationales for Top Small-Cap Picks

Top Pick	Rationales
ENGTEX (OP; TP: RM1.41)	We like ENGTEX given: (i) the high demand for water pipes on the revival of water projects and following water tariff hikes translating to strengthened cash flows of water operators, allowing them to kick start their capex programmes including NRW reduction initiatives, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.
KAREX (OP; TP: RM1.10)	We like KAREX for: (i) its leading market position and global reach in the rapidly growing condom industry, (ii) its strong R&D and product innovation, (iii) its adherence to international standards and certifications, (iv) its strategic shift in moving up higher the value chain, and (v) post-pandemic market recovery and changing consumer preferences, especially in markets like China, and growing preference for high quality innovative condom products.
LGMS (OP; TP: RM1.90)	We like LGMS for: (i) the high growth prospects of its core cybersecurity business in the under-penetrated local and regional cybersecurity markets, and specifically, higher demand for cybersecurity services from corporations locally on the heels of the enactment of Cybersecurity Bill 2024, (ii) the deep moat around its business given the high barrier to entry created by the tough qualification process as a vendor, and (iii) its highly promising new plug-and-play "StarSentry" product that offers cybersecurity solutions to SMEs and larger corporations.
MKH (OP; TP: RM1.83)	We like MKH given: (i) its focus on affordable homes priced below RM500k with strong demand from first-time house buyers, (ii) its transit-oriented development projects that will benefit from the switching to public transport from private vehicles following fuel subsidy rationalisation, and (iii) its expanding plantation business in Kalimantan and its proximity to the new capital city of Indonesia that opens itself up to various opportunities.
OPPSTAR (OP; TP: RM1.70)	We like OPPSTAR for: (i) its foothold and growing presence in the front-end semiconductor design space with high entry barriers, specifically, stringent qualification requirements, (ii) its strong design capabilities in leading-edge process nodes, (iii) its diverse customer base, i.e. both from the East and the West given its strong working relationships with various foundries and (iv) its recent collaboration with Samsung foundry to offer 14nm tape out process which will bring about a recurring revenue stream alongside the life-cycle of the customer's product.
TGUAN (OP; TP: RM2.86)	We like TGUAN for: (i) the strong growth prospects of the plastic packaging sector in Malaysia, underpinned by recovering demand and market share gains against higher-cost overseas rivals, (ii) its steady export push into Europe and North America with high-performing products, (iii) its strategic shift towards premium products such as nano stretch film that fetch better margins, and (iv) its commitment to product innovation via R&D and collaboration with the likes of ExxonMobil to develop more environmentally-friendly products.

Source: Kenanga Research

Automotive

NEUTRAL ↔

No-Frills Vehicles in Pole Position

By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my

We remain NEUTRAL on the sector. We also maintain our projection for industry-wide sales volume, also known as total industry volume (TIV), of 740k units (-8%) in CY24, in line with the forecast of Malaysia Automotive Association (MAA). We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation will likely hurt the demand for mid-market models, giving rise to a two-speed automotive market locally in CY24. In general, the industry's earnings visibility is still good, backed by a booking backlog of 200k units. Our sector top pick is MBMR (OP; TP: RM6.30), a good proxy to the affordable and fuel-efficient Perodua brand. It also offers an attractive dividend yield of about 7%.

TIV peaked in CY23. We maintain our TIV projection of 740k units (-8%) in CY24, in-line with the forecast of Malaysia Automotive Association (MAA). We believe there will be to a two-speed automotive market locally in CY24.

It will be business as usual for the affordable segment as its target customers, i.e. the B40 group, will be spared the impact of the impending fuel subsidy rationalisation and also could potentially benefit from the introduction of the progressive wage model. The 13% pay rise for most civil servants in Dec 2024 will also partially restore their spending power eroded by high inflation. However, the same cannot be said for the mid-market segment as its target customers, i.e. the M40 group may hold back from buying a new car, or they may down trade to a smaller car or switch to an EV to cut their fuel bills) upon the introduction of fuel subsidy rationalisation.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 200k units as at end-May 2024. More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers. This trend is likely to persist throughout CY24 given a strong line-up of new launches.

Vehicle sales will also be supported by new battery electric vehicles (BEVs) that enjoy SST exemption and other EV facilities incentives up until CY25 for CBU and CY27 for CKD. The new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 10,159 units in CY23, and 6,234 units for YTD April 2024 (quarterly reporting). We expect more favourable incentive from the government that has set a national target for EVs and hybrid vehicles of 15% of TIV by CY30 and 38% by CY40. Meanwhile, the government will speed up the approval for charging stations. The number of charging stations in operation currently of 3,951 should almost triple to 10,000 by end-CY25.

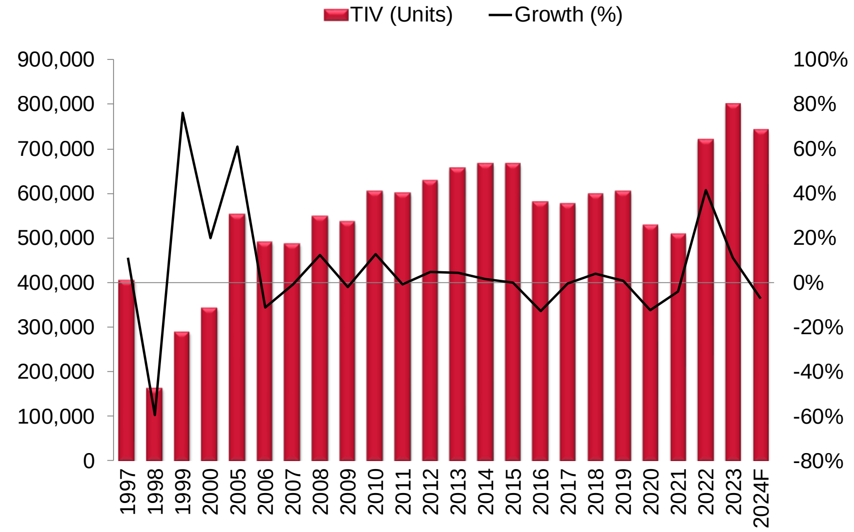
Transition to energy-efficient vehicles. Apart from affordability, Perodua and Proton models have outsold non-national brands as they have also caught up in terms of specifications and features such as digital speedometer, fuel-efficient engine, highly-responsive gearbox, advanced driver assistance system, the number of airbags (4 to 6) and anti-theft auto-locking system.

Perodua is putting onto the market two new models priced <RM100k, namely: (i) Perodua D66b built on the latest Daihatsu New Global Architecture platform (tentatively in early-2025); and (ii) the first Perodua EV model (tentatively in end-2025). These should give the B-segment offerings of its competitors a run for their money including Proton e.MAS EV (CBU, also priced at <RM100k, due for launching in end-2024) and Toyota Yaris Cross (due for launching early-2025). On the other hand, Proton is riding on parent Zhejiang Geely group's technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023-2027 (EV Pioneering), (ii) Phase 2 in 2025-2030 (EV growth), and (iii) Phase 3 in 2027-2030 (EV right-hand development hub). Having recently launched X50 RC, Proton will also put onto the market the X70-facelift model soon.

In the space of non-national brands, we have seen the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, Tiggo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV models (see Exhibit 4), which could be in direct competition with **BAUTO (MP; TP: RM2.45)**.

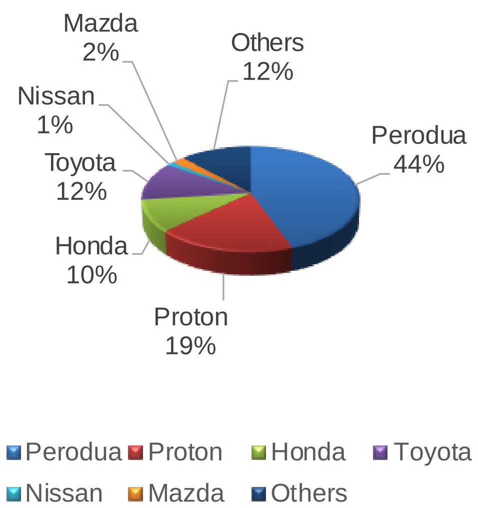
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 100k units (almost half of its CY24 target sales of 340k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 7%.

Exhibit 1: TIV Volume 1997-2024F



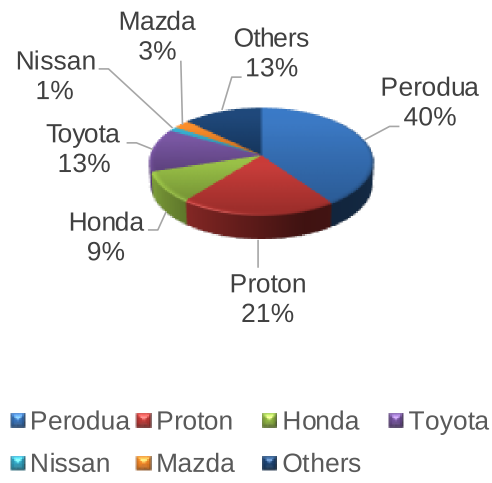
Source: MAA, Kenanga Research

Exhibit 2: Market Share (Passenger and Commercial) 5MCY24



Source: MAA, Kenanga Research

Exhibit 3: Market Share (Passenger and Commercial) 5MCY23



Source: MAA, Kenanga Research

Exhibit 4: Various New EV Models

Perodua emo-1 EV concept

BYD BAO 5

Jetour Dashing

Tesla Cybertruck (SUV)

All-new SMART #3 (2024)

Nissan's e-Power hybrid system

MINI Countryman U25 SE EV

Jaecoo J6 EV

Neta X EV SUV

GAC Aion Y Plus

GAC Aion Hyper HT

Chery Tiggo 8 Pro e+ PHEV

Source: Paultan.org, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price as at 14th June 2024 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.52	2.45	-2.8%	2,942.6	Y	04/2025	24.0	24.9	-20.6%	3.7%	10.5	10.1	3.4	32.8%	20.2	8.0%
DRB-HICOM BHD	MP	1.39	1.40	0.7%	2,687.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.8	7.5	0.2	3.1%	2.0	1.4%
HIL INDUSTRIES BHD	MP	1.17	1.10	-6.0%	388.4	Y	12/2024	13.7	15.6	12.4%	14.1%	8.6	7.5	0.8	9.8%	3.0	2.6%
HONG LEONG INDUSTRIES BHD	OP	11.44	12.60	10.1%	3,654.8	Y	06/2024	98.3	105.3	10.9%	7.2%	11.6	10.9	1.9	16.0%	107.0	9.4%
MBM RESOURCES BHD	OP	5.16	6.30	22.1%	2,017.0	Y	12/2024	75.9	78.7	-2.8%	3.7%	6.8	6.6	0.9	13.5%	40.0	7.8%
SIME DARBY BHD	OP	2.53	2.90	14.6%	17,243.5	Y	06/2024	18.4	20.2	8.1%	10.0%	13.8	12.5	1.0	7.7%	12.0	4.7%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.875	0.740	-15.4%	570.2	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.1%
SECTOR AGGREGATE					**29,503.6**					**6.1%**	**10.0%**	**12.2**	**11.1**	**0.8**	**6.8%**		**5.0%**

Source: Kenanga Research

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Aviation

NEUTRAL ↔

Corporate Exercises Upstage Air Travel Recovery

By Raymond Choo Ping Khoon l pkchoo@kenanga.com.my

We maintain our NEUTRAL view on the sector. We project tourist arrivals of 27m in CY24, up 35% from 20m in CY23 and surpassing 26.1m in CY19 before the pandemic, backed by higher demand for both business and leisure air travel. The number is consistent with Tourism Malaysia's target of 27.3m. This will translate to a sustained recovery in passenger throughput at AIRPORT (ACCEPT OFFER; TP: RM11.00) and passengers carried at CAPITALA (UP; TP: RM0.78). For AIRPORT, the poser is if the proposed privatisation by a consortium at RM11.00/share will be accepted by its minority shareholders. Meanwhile, while CAPITALA has been able to fill up seats in its planes, there is room to boost yields to ensure profitability after accounting for depreciation, aircraft leasing charges and finance cost. We do not have any pick for the sector.

Tourist arrivals underpin passenger throughput growth in CY24. We project tourist arrivals of 27m in CY24, up 35% from 20m in CY23 and surpassing 26.1m in CY19 before the pandemic, backed by higher demand for both business and leisure air travel. The number is consistent with Tourism Malaysia's target of 27.3m (see Exhibit 1). A key driver is Chinese tourists that historically contributed to about 12% of total tourist arrivals in Malaysia. Also helping is China agreeing to extend its visa exemption facility for Malaysian citizens until the end of 2025 while Malaysia will extend the visa exemption for Chinese citizens until the end of 2026. Recall, the 30-day visa-free arrangement for Chinese and Indian visitors to Malaysia starting from Dec 2023 (while China grants inbound visitors from Malaysia 15 visa-free days between 1 Dec 2023 and 30 Nov 2024. These should drive growth in **AIRPORT'S** passenger throughput and **CAPITALA's** passenger demand in CY24.

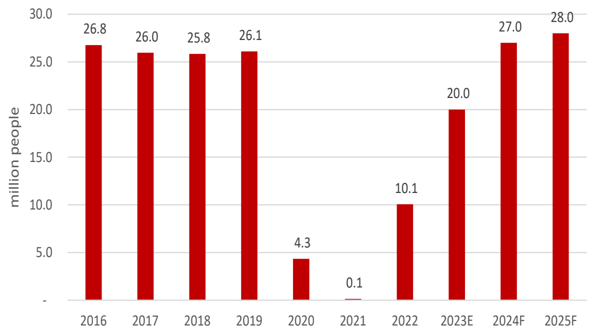
Further volume improvement for AIRPORT and CAPITALA in CY24. We project **AIRPORT's** system-wide passenger throughput to rise by 7% to 131m in CY24. The group is optimistic of a resurgence in passenger numbers and connectivity, expected to be driven by the introduction of new airlines and services at key airports, including Kuala Lumpur International Airport, Penang, Kota Kinabalu and Langkawi. Amplifying the positive outlook is the latest airlines' seat capacity for 2024 showing an anticipated 13% increase over 2023, underpinned by the visa-free entry for Chinese and Indian passengers expected to boost for traffic recovery, particularly in the Northeast Asia Region. All in, it expect >90% international recovery expected in the 1HCY24, with local carriers expected to increase capacity further in 2024 via reinstating remaining grounded fleet, and upgrade their fleet to 737-8 and 321 NEOs.

We see a similar trend for **CAPITALA's** passenger demand in CY24, paving the way for its system-wide revenue seat km (RPK) to grow 20% to an estimated 70b in CY24, after recovering by an estimated 24b to 58b in FY23 based on our forecasts. The group reiterated that the passenger throughput recovery is gaining traction. It is targeting to re-activate 202 aircraft by end CY24 (presently 187 aircraft) available for operation and capacity to reach 83% of pre-COVID level. In addition to fleet re-activation, it expects further upside from the current high yield environment underpinned by the robust demand with forward bookings in Feb and Mar 2024 standing at 91% and 49%, respectively. It plans to launch more than 60 new routes across the group, expanding in China and India and start AirAsia Cambodia operations by mid-2024. While **CAPITALA** has been able to fill up seats in its planes, there is room to boost yields to ensure profitability after accounting for depreciation, aircraft leasing charges and finance cost.

AIRPORT's privatisation at RM11/share. A consortium comprising Khazanah, EPF, New York-based GIP, and Abu Dhabi Investment Authority (ADIA) is buying out **AIRPORT** shares it has not already owned, translating to a 67.01% stake, for RM12.3b or RM11.00/share cash. The consortium does not intend to maintain the listing status of **AIRPORT**. We believe the offer price is reasonable at 26x and 20x our FY25F EPS and FY25 consensus EPS, respectively. We believe discounts of 26% and 42% to closest listed peer Airport of Thailand's 35x consensus FY25F EPS are justifiable as Thailand's tourism revenue is 3x larger than that of Malaysia. Assuming a full acceptance by minority shareholders, Khazanah's stake will rise to 40% (from 33.2%) while EPF's to 30% (from 7.9%) with the balance 30% to be owned by ADIA and GIP.

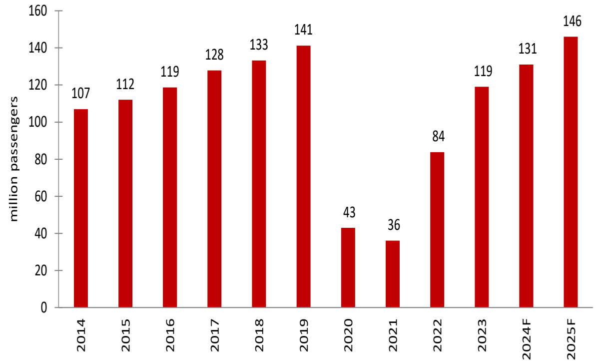
CAPITALA's regularisation plans to exit PN17 in the works. The group is in the final stages and on track to complete the regularisation plan by 4QCY24. To recap, part of its regularisation plan to lift it out of the PN17 status involves two major corporate exercise namely: (i) divesting its aviation group to AirAsia X in exchange of shares, and (ii) a proposed listing of a unit, which is the licensee of the AirAsia brand on NASDAQ via entering a letter of intent with Atherium Acquisition Corp (GMFI), a special purpose acquisition company. We do not have any pick for the sector.

Exhibit 1: Tourist Arrivals in Malaysia



Source: Kenanga Research, Tourism Malaysia

Exhibit 2: AIRPORT's Passenger Throughput*



**million passengers*
Source: Kenanga Research, Company

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CAPITAL A	UP	0.840	0.780	-7%	3,575	Y	12/2024	5.5	7.2	-49%	30%	15.2	11.7	(0.3)	-2.2%	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS	ACCEPT OFFER	9.92	11.00	11%	16,552	N	12/2024	35.7	40.8	34%	14%	27.8	24.3	2.0	7.3%	18.0	1.8%

Source: Kenanga Research

Banking

Seeking Guarded Positions

OVERWEIGHT
↔

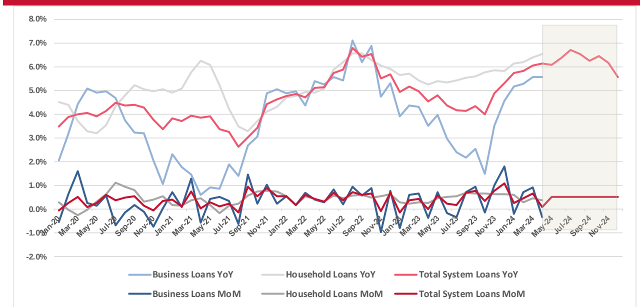
By Clement Chua l clement.chua@kenanga.com.my

We maintain our OVERWEIGHT call on the banking sector. Loans growth is projected to be solid at 5.5%-6.0% in CY24 and could outweigh our in-house GDP forecast of 4.5%-5.0%. Amidst mixed expectations on US Fed rates, we retain our stance of a 3% OPR throughout CY24 as uncertainties towards inflation may be more pronounced in 2HCY24. Corporate guidances lean towards similar sentiment with banks seeming looking to uphold conservative targets in spite of strong deliveries in 1QCY24's report card with NIMs recovering and loans growth still appearing encouraging. For 3QCY24, our Top Picks are: (i) CIMB (OP; TP: RM7.60) for its stronger ROE trajectory and more attractive dividend proposition in the larger-cap space, (ii) RHBBANK (OP; TP: RM7.25) as the new dividend leader while supported by a sizeable CET-1 balance, and (iii) ABMB (OP; TP: RM4.60) for its notable SME exposure with fundamentals outpacing certain larger-cap peers.

CY24 loans growth to still hold (5.5%-6.0%) amidst rising concerns. Headlines caution higher inflation numbers and possibly dents to overall productivity stemming from recent diesel subsidy rationalisation where input and transportation costs may rise excessively. We believe that stresses from here may likely materialises in the medium-term and could still be subject to revisions in implementation. At the meantime, the progressive loading up of household loans from sustained mortgage demand could persist thanks to more affordably-priced units launched.

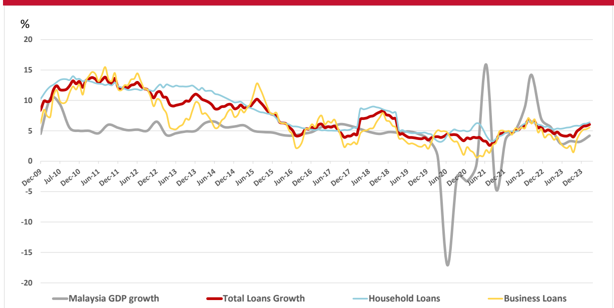
On the flipside, our in-house GDP expectation of 4.5%-5.0% for CY24 will be supported by rising construction and infrastructure projects. We also anticipate export-oriented businesses to do well by capitalising on the weak MYR, though this may be offset by a strained operating environment for those with a higher net-import exposure.

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

GDP and Loans Growth Trajectory



Source: Kenanga Research

More sense to keep OPR flat. We maintain our expectations for OPR to be unchanged at 3% throughout CY24. We believe BNM may approach monetary policies with greater scrutiny as the gravity of spillovers from the abovementioned diesel subsidy rationalisation remain unclear. On the other hand, the recent 2ppts increase in selected SST categories is also muddled into upcoming inflation reports. That said, BNM is required to balance interest rates as keeping them lofty could be essential in supporting the already soft MYR as lowering it may spur institutions to adopt outflow positions from the country.

On the corporate side of things, we reckon the banks could do better in a stable OPR environment as past mistiming had greatly pinned down their management of funding costs which have mostly showed recoveries in the past quarters. In addition, the banks are due to benefit from heightened investment market activities where jeopardising it could translate to softer non-interest income performances in 2HCY24.

Maintain OVERWEIGHT on the banking sector. Amidst mix prospects in the broader macro climate, we anticipate the banking sector's resilience to be mostly unchallenged following extensive efforts in fortifying its risk exposures post-pandemic and better perspectives in targeting strong quality assets while maintaining profits.

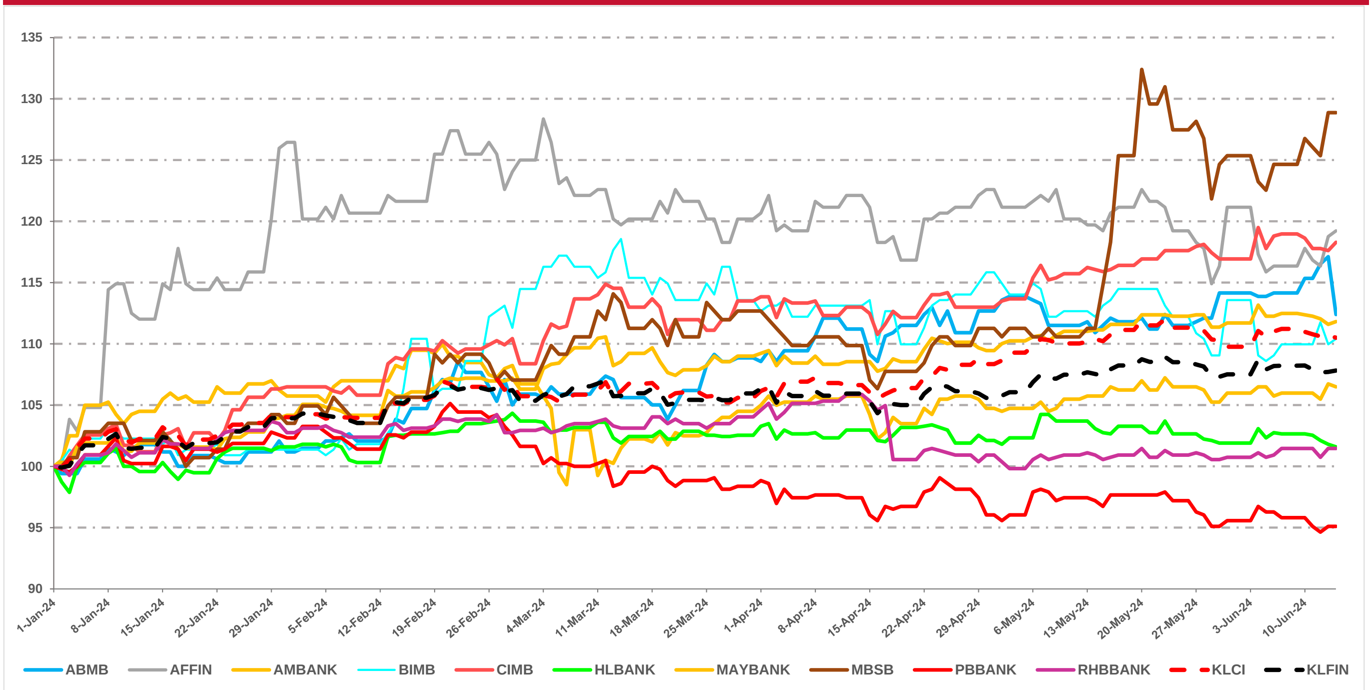
Our sector top picks for 3QCY24 include **CIMB** which has been able to reach new grounds in its ROE at c.11% which the group looks to sustain into the long term thanks to strengthening presence in both home and regional markets. Additionally, its dividend yield is creeping well into the mid-6% levels at current price points, which is the highest amongst the top three banks. **RHBBANK** is also favoured for its dividends which we project to be the leader (7%-8%) amongst its peers. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term. As for small cap banks, **ABMB** remains our favourite for its solid fundamentals which are comparable to its large cap peers. Additionally, its leading CASA level may provide the group nimbleness to balance its interest margins with market share acquisition strategies.

Appendix

Laggards remain challenged. As of our cut-off date of 16 Jun 2024, we note that only **PBBANK (OP; TP: RM5.20)** is performing below its CY24 start. In spite of its sound earnings delivery and high ROE prospects, we opine that investors may be more interested in positioning with banks with a higher corporate exposure to fuel potential profit growth on the bank of several macro themes (i.e. data centre, infrastructure projects) which left the stocks falling behind. **RHBBANK** and **HLBANK (OP; TP: RM26.20)** were mostly flattish from fully anticipated results.

On the flipside, **MBSB (UP; TP: RM0.59)** saw the greatest capital appreciation thanks to its better-than-expected earnings report in spite of its ROE remaining lacking. Between the larger cap names, **CIMB** led with its continuous ROE expansion and rising dividend prospects as hinted by the group. Meanwhile, the other heavyweight **MAYBANK (OP; TP: RM11.00)** saw only slight support in its share price on lowered expectations for dividend payouts.

YTD CY24 Performance of Banking Stocks against the FBM KLCI and Bursa Finance Index (KLFIN)

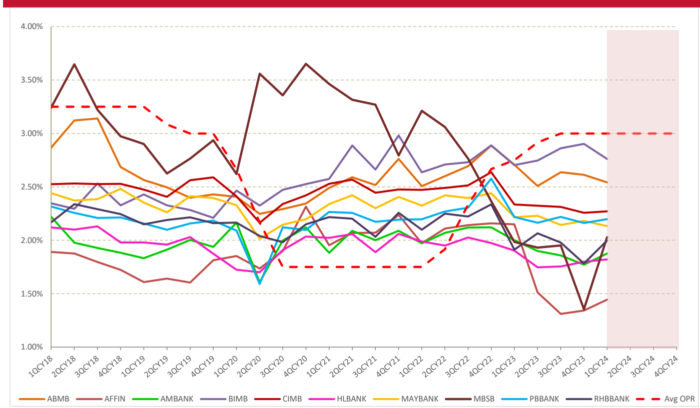


Source: Bloomberg

More ups in margin. From 1QCY24 reporting, most banks are back to regaining NIMs following heavy funding cost pressures in CY23. That said, certain banks are cautioning that cost of funds are likely to continue weighing down on profitability with higher asset yields being chief in keeping NIMs stable with few room for upside.

We note that **MAYBANK** and **ABMB** demonstrated some headwinds during the quarter on stickier higher rate deposits.

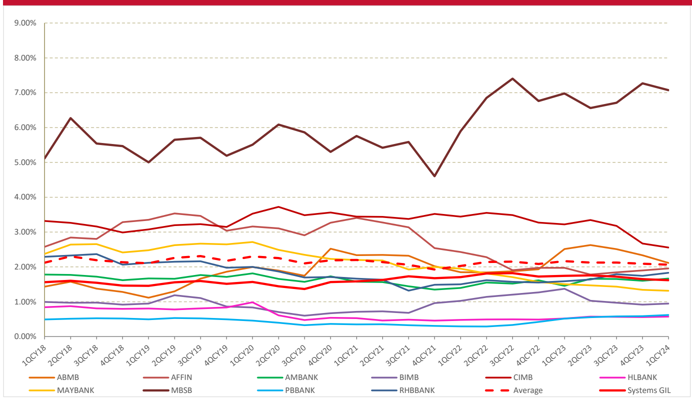
Est. Annualised NIMs



Note:
- Orange bar indicates our in-house OPR expectations in the coming periods
Source: Kenanga Research

Unshaken GIL. Overall industry GIL remained smooth with banks reporting gradual improvements to respective readings. While we anticipate some slight uptick in 2QCY24 in lieu of frontloaded festive spending, we opine that it would still remain confined as the banks had mostly ironed out their books with pre-emptive provisions being allocated to troubled accounts. Both **PBBANK** and **HLBANK** remain uncontested with regards to asset quality at 0.6% each.

Est. GIL Trends



Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price as of 14 Jun 2024 (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
Affin Bank Bhd	UP	2.48	1.80	-27.4%	5,953	N	12/2024	21.0	27.7	20.4%	31.9%	11.8	9.0	0.5	4.3%	8.0	3.2%
Alliance Bank Malaysia Bhd	OP	3.81	4.60	20.7%	5,898	N	03/2025	50.2	52.7	12.5%	5.2%	7.6	7.2	0.8	10.5%	25.0	6.6%
AMMB Holdings Bhd	OP	4.27	5.20	21.8%	14,115	N	03/2025	55.3	56.3	17.5%	1.8%	7.7	7.6	0.7	9.1%	22.0	5.2%
Bank Islam Malaysia Bhd	MP	2.44	2.25	-7.8%	5,530	Y	12/2024	25.2	29.0	3.3%	14.9%	9.7	8.4	0.7	7.6%	17.0	7.0%
CIMB Group Holdings Bhd	OP	6.92	7.60	9.8%	73,929	N	12/2024	68.5	72.5	4.7%	5.8%	10.1	9.5	1.0	10.5%	44.0	6.4%
Hong Leong Bank Bhd	OP	19.20	26.20	36.5%	41,620	N	06/2024	199.6	215.2	7.1%	7.8%	9.6	8.9	1.1	11.5%	60.0	3.1%
Malayan Banking Bhd	OP	9.94	11.00	10.7%	119,946	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.9	1.2	10.1%	62.0	6.2%
Malaysia Building Society Bhd	UP	0.920	0.590	-35.9%	7,523	N	12/2024	3.9	6.6	104.4%	68.2%	23.5	14.0	0.7	2.8%	2.0	2.2%
Public Bank Bhd	OP	4.08	5.10	25.0%	79,196	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.4	1.4	12.9%	21.0	5.1%
RHB Bank Bhd	OP	5.53	7.25	31.1%	24,108	N	12/2024	70.8	73.5	8.3%	3.9%	7.8	7.5	0.7	9.7%	43.0	7.8%
Sector Aggregate					**370,295**					**7.1%**	**6.2%**	**10.5**	**9.9**	**1.1**	**10.0%**		**5.3%**

Source: Kenanga Research

GordonGrowth Model Inputs

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.0	6.0	11.5	0.35	1.80	UP	
Alliance Bank Malaysia Bhd	3.0	10.0	11.2	0.86	4.60	OP	+5% ESG Premium
AMMB Holdings Bhd	4.25	9.0	10.2	0.80	5.20	OP	
Bank Islam Malaysia Bhd	3.5	8.0	10.5	0.64	2.25	MP	
CIMB Group Holdings Bhd	3.5	11.5	11.2	1.05	7.60	OP	+5% ESG Premium
Hong Leong Bank Bhd	2.5	12.0	9.9	1.29	26.20	OP	
Malayan Banking Bhd	3.5	12.0	9.9	1.34	11.00	OP	
Malaysia Building Society Bhd	2.0	5.0	9.2	0.42	0.59	UP	
Public Bank Bhd	4.0	13.0	9.9	1.54	5.10	OP	+5% ESG Premium
RHB Bank Bhd	3.0	10.0	10.5	0.93	7.25	OP	

Source: Kenanga Research

Building Material

Strong Prospects for Aluminium and Water Pipes

OVERWEIGHT
↔

By Teh Kian Yeong I tehky@kenanga.com.my; Nigel Ng I nigel@kenanga.com.my

We maintain our OVERWEIGHT rating on the sector, anticipating stable prices for both ferrous and non-ferrous metals due to supply constraints from stricter environmental regulations and Western sanctions against Russian producers. The demand for non-ferrous metals will be driven by investment in renewable energy (RE) projects and electric vehicle (EV) production globally, while locally, the demand for ferrous metals and their value-added products are well supported by the roll-out of major local infrastructure projects. We also see a bright spot in water pipes on the back of a revival of local water projects. Our sector top picks are PMETAL (OP; TP: RM6.35) and ENGTEX (OP; TP: RM1.41).

Higher aluminium prices. We project a higher average aluminium price of USD2,550/MT in CY24 vs. USD2,255/MT in CY23, while slightly lower average FeSi and SiMn prices of USD1,300/MT and USD920/MT in CY24 vs. USD1,437/MT and USD962/MT in CY23, respectively.

Aluminium prices have been on an uptrend since the beginning of the year on surprise strong consumption in China during the early part of the year, while globally, the demand for aluminium has been spurred by RE projects and rising EV production. We are concerned over the sustainability of demand in China in the absence of a strong revival of infrastructure and property projects. Meanwhile, the closure of fossil fuel-powered smelters (especially coal) on rising environmental awareness coupled with Western sanctions against Russian aluminium producers will continue to cap the supply.

However, we remain cautious on prices of steel and its inputs FeSi and SiMn due to the weak steel sector in China, similarly, in the absence of a strong revival of infrastructure and property projects. Nonetheless, the earnings growth for FeSi and SiMn alloy producer **OMH (OP; TP: RM1.80)** in FY24 will be driven by higher production volumes. Meanwhile, the local demand for steel and its value-added products such as cable support systems should improve along with the roll-out of mega public infrastructure projects such as the Mutiara Line of Penang LRT, Kuching ART and MRT3. **ULICORP (OP; TP: RM2.38)** is the dominant local producer of cable support systems widely used in new data centres, warehouses, hospitals and infrastructure projects.

Water pipe makers are poised for an exciting time ahead as water operators kick start their long-overdue water projects backed by stronger finances following the recent water tariff hikes including: (i) non-revenue water (NRW) reduction initiatives or pipe replacement and (ii) the construction or upgrading of water treatment plants (including the consolidation of old and small plants to optimize cost). Selangor state water operator Air Selangor, for instance, has set a target to reduce NRW from 36% in 2021 to 15% by 2049. We understand that water operators are currently identifying old pipes to be replaced and working out the cost to be submitted to the Ministry of Finance (MOF) for approval. According to Malaysian Water Association, water operators have thus far submitted proposals to the MOF for water projects worth ~RM4b. In addition, there are plans to raise water tariffs again within the next two years.

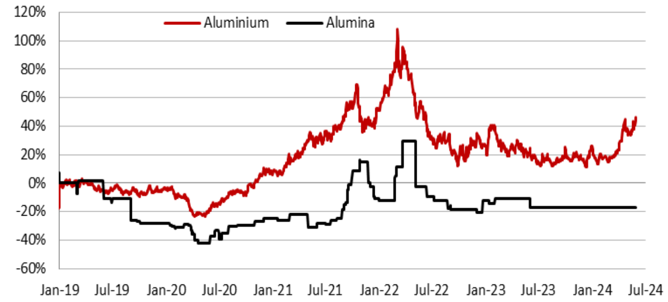
Our sector top picks are:

1. **PMETAL** given: (i) its structural cost advantage over international peers given its access to low-cost hydro-power secured under four long-term PPA contracts ending between 2034 and 2040, (ii) its strong secured alumina supply with stakes in two alumina miners, i.e., Japan Alumina Associate (40%) and PT Bintan (25%) which supply 80% of its requirements, and (iii) its green investment appeal as a clean energy source producer.
2. **ENGTEX** given: (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.

Aluminium Prices

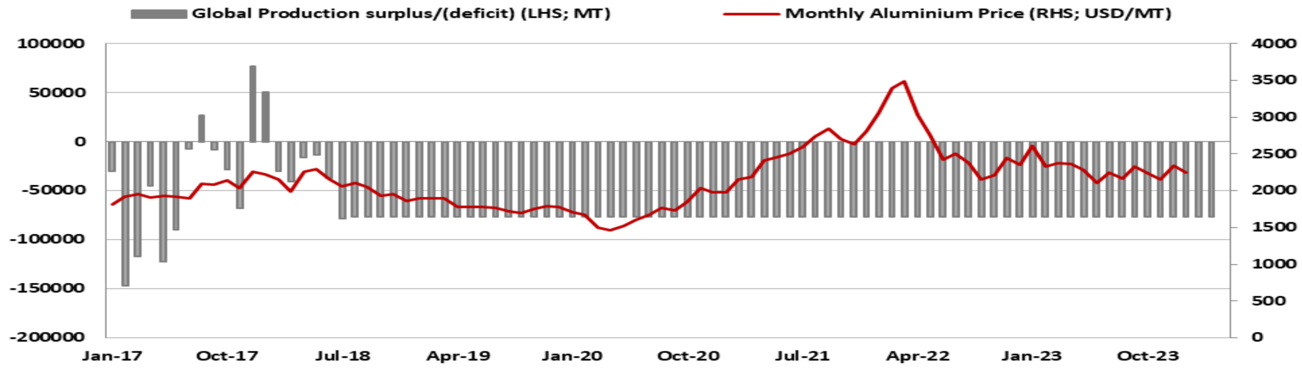
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement



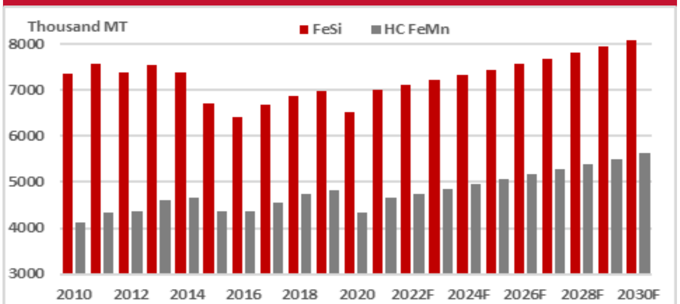
Source: Bloomberg, Kenanga Research

Global Production Surplus/Deficit vs. Monthly Aluminium Price



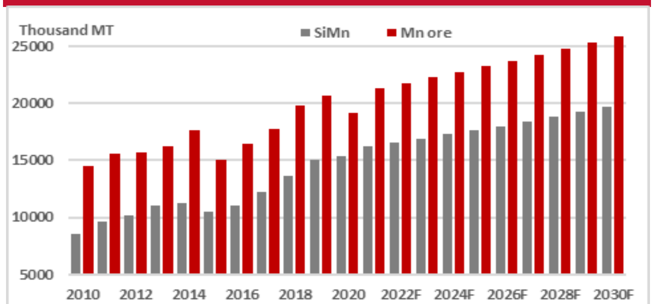
Source: Bloomberg, Kenanga Research

Global Consumption of FeSi and HC FeMn (2010-2030)



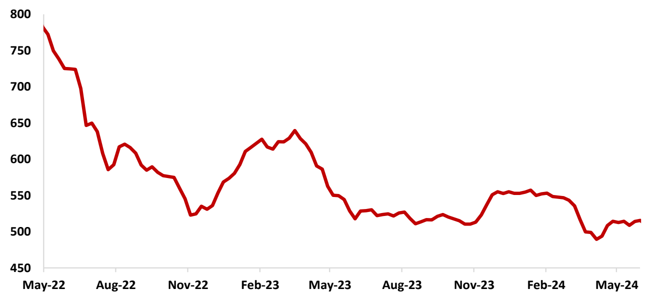
Source: AlloyConsult / World Steel Association

Global Consumption of SiMn and Mn Ore (2010-2030)



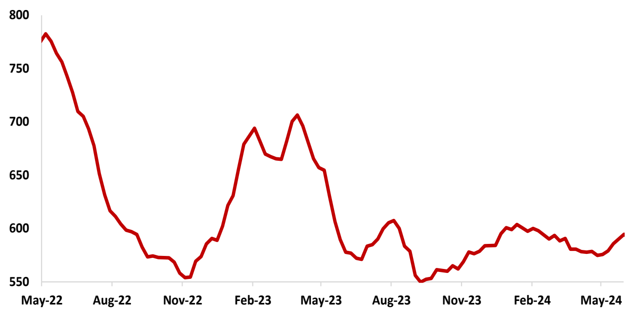
Source: AlloyConsult / World Steel Association

China Rebar Steel Prices



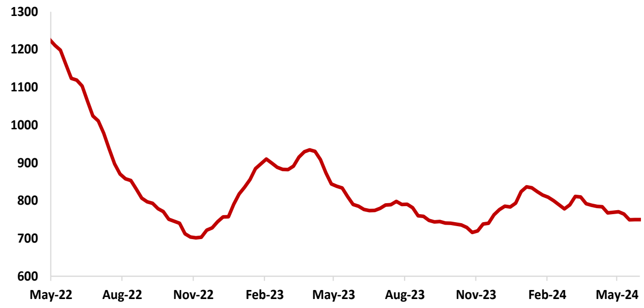
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



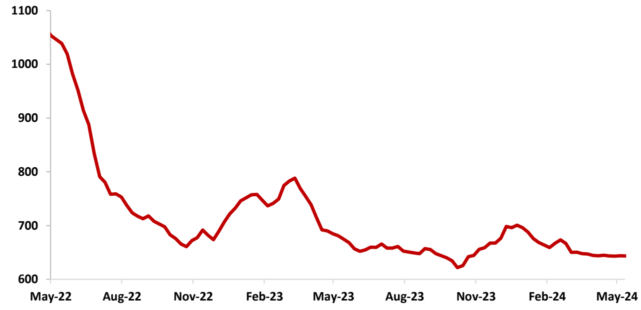
Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 14/6/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ENGTEX GROUP BHD	OP	1.08	1.41	30.6%	478.8	Y	12/2024	9.2	12.5	300.0%	35.0%	11.7	8.7	0.5	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.47	1.80	22.4%	1,126.4	Y	12/2024	17.7	29.8	63.6%	68.6%	8.3	4.9	0.6	7.0%	6.6	4.5%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.80	6.35	9.5%	47,789.8	Y	12/2024	23.2	27.0	52.5%	16.3%	25.0	21.5	5.9	24.8%	9.3	1.2%
UNITED U-LI CORPORATION BHD	OP	1.97	2.38	20.8%	429.1	Y	12/2024	23.9	29.8	29.7%	24.6%	8.3	6.6	1.0	13.2%	6.0	3.0%
Sector Aggregate					**49,824.0**					**54.3%**	**20.0%**	**23.3**	**19.4**	**4.4**	**19.0%**		**2.4%**

Source: Kenanga Research

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Construction

The Best is Yet to Come

OVERWEIGHT

↔

By Teh Kian Yeong / tehky@kenanga.com.my

We maintain our OVERWEIGHT rating on the construction sector on the back of the roll-out of mega public infrastructure projects led by the MRT3. We believe the government now has more fiscal space to do so, having got the ball rolling on fuel subsidy rationalisation with the removal of diesel fuel subsidy from 10 Jun 2024. Meanwhile, the private-sector construction market will stay vibrant underpinned by massive investment in new data centres and semiconductor foundries. Our top sector pick is GAMUDA (OP; TP: RM7.29).

More public projects to get off the ground following fuel subsidy rationalisation. Despite the YTD outperformance (driven largely by the award of the RM10b Mutiara Line of the Penang LRT and various data centre building jobs), we remain upbeat as we believe the best is yet to come, i.e. the roll-out of mega public infrastructure projects led by the MRT3 (RM45b). We believe the government now has more fiscal space to do so, having got the ball rolling on fuel subsidy rationalisation with the removal of diesel fuel subsidy from 10 Jun 2024.

A galore of data centre building jobs. The sector has enjoyed a strong flow of private-sector jobs, especially data centre building jobs. **GAMUDA** secured RM1.74b data centre job in Elmina Business Park, Selangor in May 2024, while **SUNCON (OP; TP: RM4.28)** clinched a RM748m data centre job in Cyberjaya in Mar 2024 and an extra RM1.5b data centre job for Yellowwood in Johor in Jun 2024. We believe there will be more with Microsoft embarking on its data centre project in Johor, having committed to USD2.2b (RM10.3b) investment in cloud computing & AI services in Malaysia. Similarly, Google has committed to invest USD2b in developing its first data centre and could region in Malaysia. Meanwhile, **TM (OP; TP: RM7.53)** has teamed up with SingTel to build a 64MW data centre in Johor with the first phase expected to be operational by CY26. On the other hand, **TENAGA (MP; TP: RM14.50)** has inked Electricity Supply Agreements (ESA) with ten data centre developers with a total electricity requirement of 2,000MW. Two of them with a total electricity demand of 535MW were completed in 1QFY24. Over the longer term, the national utility company guided for a total electricity demand of 5,000MW from new data centres by CY35.

Plenty of road jobs in East Malaysia. Meanwhile, in East Malaysia, Pan Borneo Highway Sarawak Phase 2 and the Phase 1B of the Pan Borneo Highway Sabah are ready to get off the ground while Sabah-Sarawak Link Road is under construction. **KIMLUN (OP; TP: RM1.76)** has expressed interest to bid for work packages from Pan Borneo Highway Sarawak Phase 2 given that it is already in the market with its involvement in Sarawak-Sabah Link Road. We understand **IJM (MP; TP: RM3.00)** has also shown interest in the market.

Margin recovery. Meanwhile, the industry is poised for margin recovery as newly-secured contracts reflected cost inflation. In addition, post the pandemic, it has become increasingly common for contracts to carry price escalation clauses to safeguard the margins of contactors. As such, we expect industry margins to improve further from here as older contracts with low margins tail off and new contracts with normalised and higher margins start to contribute.

We now value large-cap builders at 20x forward PER. The expansion in our benchmark multiple is premised upon the improved prospects for the roll-out of mega public infrastructure projects following the fuel subsidy rationalisation. We now value large-cap contractors, i.e. **GAMUDA, IJM** and **SUNCON** at 20x (from 18x) forward PER, and mid-cap and small-cap players **KERJAYA (OP; TP: RM2.16)** at 16x (from 14x), **WCT (OP; TP: RM0.88)** and **KIMLUN** at 12x (from 10x). Hence, we raise our TP for **GAMUDA** to RM7.29 from RM6.70; **IJM** to RM3.00 from RM2.77; **SUNCON** to RM4.28 from RM3.85; **KERJAYA** to RM2.16 from RM1.90; and **KIMLUN** to RM1.76 from RM1.47. We have already upgraded **WCT's** TP to RM0.88 on 21 Jun 2024. Consequently, we upgrade **KERJAYA** and **KIMLUN** to **OUTPERFORM** from MARKET PERFORM and downgrade **IJM** to **MARKET PERFORM** and OUTPERFORM, while maintaining our **OUTPERFORM** calls for **GAMUDA, SUNCON** and **WCT**.

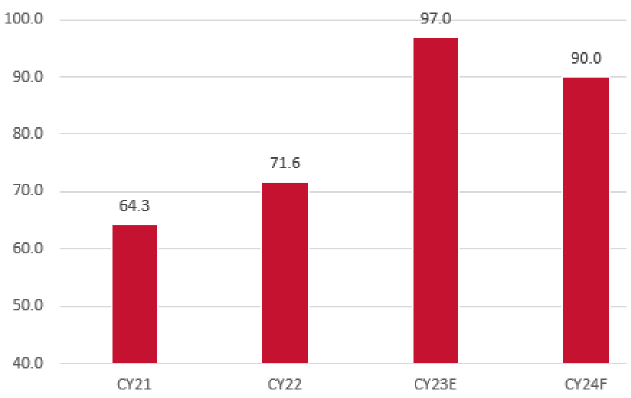
We maintain our sector rating at **OVERWEIGHT** and our sector top pick is **GAMUDA** for: (i) being in the driver's seat for the Mutiara Line of the Penang LRT and front-runner for the tunnelling job for the MRT3, (ii) its ability to secure new jobs in overseas markets, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record outstanding order book of RM25.8b, and (v) its inroads into the renewable energy space.

Changes to Valuation Basis, TPs and Ratings

	PER* (x)			TP (RM)			Rating		
	Before	After	Chg	Old	New	Chg	Old	New	Chg
GAMUDA	18	20	↑	6.70	7.29	↑	OP	OP	↔
IJM	18	20	↑	2.77	3.00	↑	OP	MP	↓
KERJAYA	14	16	↑	1.90	2.16	↑	MP	OP	↑
KIMLUN	10	12	↑	1.47	1.76	↑	MP	OP	↑
SUNCON	18	20	↑	3.85	4.28	↑	OP	OP	↔
WCT	10	12	↑	0.66	0.88	↑	OP	OP	↔

** for construction business*
Source: Kenanga Research

Gross Development Expenditure (RM b)

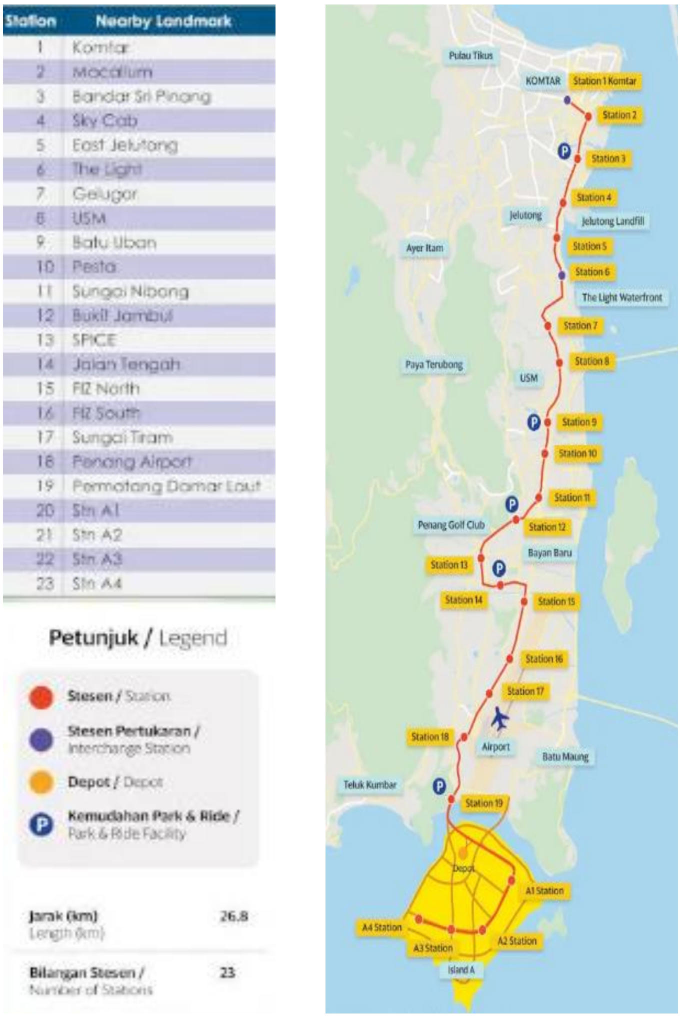


Source: Budget 2024, Kenanga Research

KL-Singapore HRS

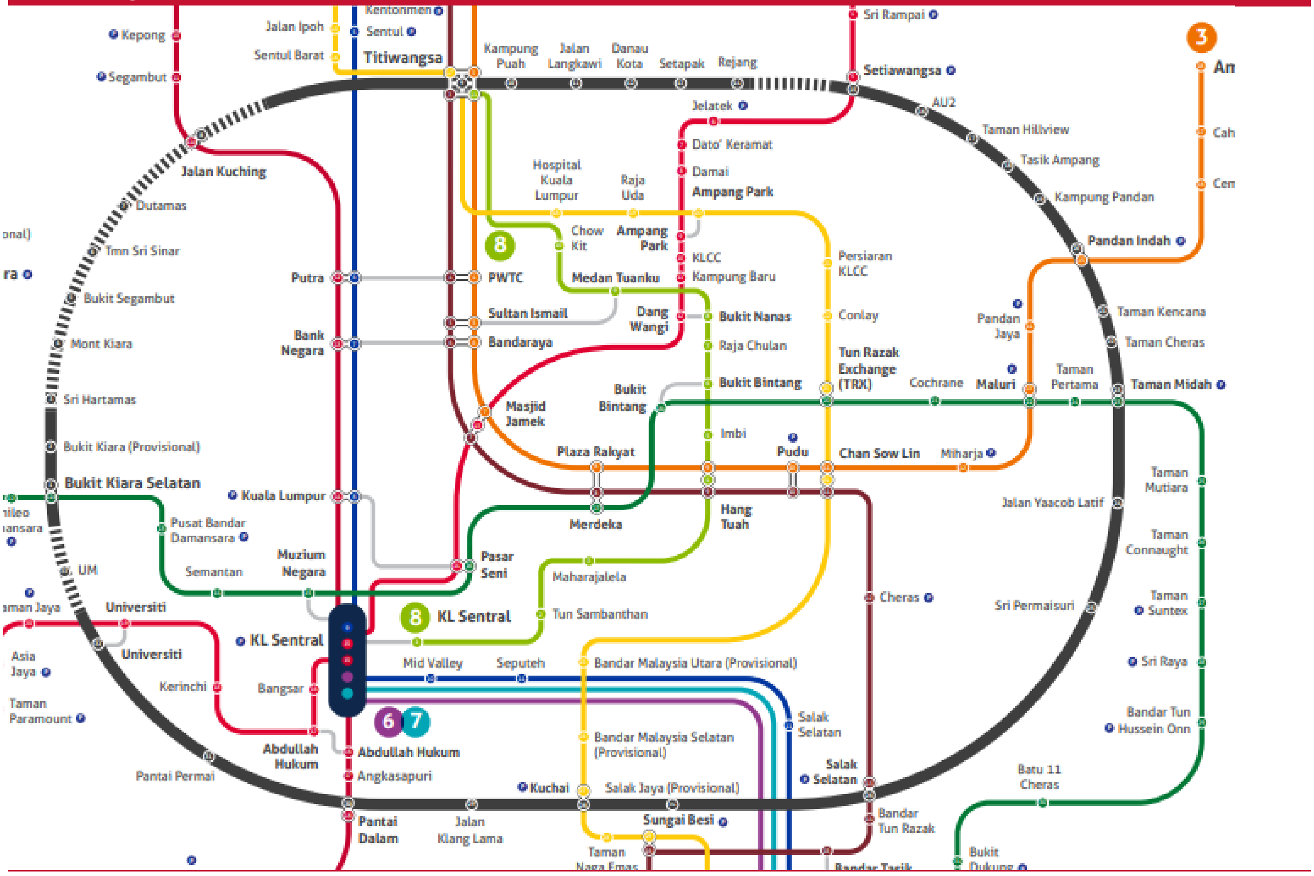
Source: MyHSR Corp

Penang Bayan Lepas LRT



Source: Penang Infrastructure Corporation

MRT3 Alignment



Source: MRT Corp

Key Infrastructure Projects

Projects	Value (RM b)	Status	
		Ongoing	Pending
Penang Transport Masterplan	46.0		√
MRT3	45.0		√
Mutiara Line, Penang LRT	10.0		√
Penang Airport Expansion	1.5		√
Subang Airport Redevelopment Plan	3.7		√
KL-SG HSR	N/A		√
Johor Bahru-Singapore RTS	4.3	√	
Central Spine Road	10.7	√	
Pan Borneo Sarawak Phase 1	16.0	√	
Pan Borneo Sarawak Phase 2	4.6		√
Pan Borneo Sabah Phase 1	15.3	√	
Pan Borneo Sabah Phase 1B	15.7		√
Sabah Sarawak Link Road Phase 1	5.2	√	
Sabah Sarawak Link Road Phase 2	7.2		√
Large-scale flood mitigation projects	13.0		√
Rasau Water Treatment Plant	4.5	√	
Johor Bahru ART	NA		√
Kuching Autonomous Rail Transit	6.0	√	
Large-scale Flood Mitigation Projects	13.0		√

Source: Kenanga Research, Media reports

Peer Table Comparison

Name	Rating	Last Price @ 14/6/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	6.54	7.29	11.5%	18,120.3	Y	07/2024	40.2	50.6	29.7%	25.8%	18.0	14.4	1.6	10.0%	12.0	1.8%
IJM	MP	2.96	3.00	1.4%	10,378.3	Y	03/2025	13.0	14.4	-8.3%	11.2%	32.5	34.7	1.1	4.8%	8.0	2.7%
KERJAYA	OP	1.87	2.16	15.5%	2,358.2	Y	12/2024	14.2	15.8	33.3%	11.3%	15.4	13.4	1.6	13.0%	10.0	5.3%
KIMLUN	OP	1.39	1.76	26.6%	491.2	Y	12/2024	11.9	14.7	493.0%	23.0%	14.0	11.9	0.6	5.5%	1.0	0.7%
SUNCON	OP	3.93	4.28	8.9%	5,067.2	Y	12/2024	14.0	20.4	19.4%	45.7%	30.9	29.5	5.1	19.1%	6.0	1.5%
WCT	OP	0.770	0.880	14.3%	1,091.3	Y	12/2024	2.9	4.4	-83.8%	50.0%	30.6	20.9	0.4	1.4%	0.5	0.6%
Sector Aggregate					**37,506.3**					**43.6%**	**23.3%**	**18.5**	**15.0**	**1.4**	**7.3%**		**2.1%**

Source: Kenanga Research

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Consumer

NEUTRAL

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Bracing for Impact from Subsidy Rationalisation

By Cheow Ming Liang l cheowml@kenanga.com.my

We maintain NEUTRAL on the sector. After strong festive sales in 1QCY24, the retail sector, especially the discretionary sub-segment, is bracing for tougher times ahead as consumers tighten their belts on sustained elevated inflation that is unikely to ease over the immediate term on the back of subsidy rationalisation, particularly RON95 fuel subsidy rationalisation. On a brighter note, the 13% salary increase for most civil servants from Dec 2024 should at least partially restore their spending power. Our sector top pick is consumer staples player F&N (OP, TP: RM38.25).

Cautious spending outlook. We project stronger private consumption growth of 5.6% in CY24 (vs. 4.7% in CY23). Similarly, despite cutting its forecast retail sales growth in CY24 to 3.6% (from 4.0% it projected back in Mar 2024), Retail Group Malaysia (RGM) also forecasts stronger retail sales in CY24 (vs. 2.2% in CY23). However, we are mindful that the growth may be driven more by higher prices rather than increased sales volumes.

According to RGM, retail sales in Malaysia started the year with a bang with a 7.8% YoY growth in 1QCY24, turning around from a 0.2% YoYcontraction in 4QCY23. This surge was fueled by strong festive spending and a month-long school holiday, boosting apparel sales.Looking ahead, the association cited the primary challenge for Malaysia's retail sectors remains the escalating cost of living affecting consumers across all income brackets. Addtionally, the weak MYR also continues to impact import-dependent businesses, leading to higher prices for consumers. RGM expects more moderate growth at 1.7% and 2.5% in 2Q and 3Q, respectively, but year ending on a high note with a 3.2% increase in 4Q from a low base a year ago.

Seperately, despite strong retail growth in 1QCY24, consumer sentiment – as measured by the Malaysian Institute of Economic Research (MIER) Consumer Sentiment Index – dipped to 87.1 from points from 89.4 points in 4QCY23. This decline suggests that rising living costs have made consumers more cautious with their spending, even during festivities.

All in, we concur with RGM's view and believe current cautious consumer spending will persist throughout the remainder of CY24and potentially into early-CY25 amidst sustained elevated inflation that is unikely to ease over the immediate term on the back of subsidy rationalisation, particularly RON95 fuel subsidy rationalisation.

Seasonal weakness expected. Looking forward, we expect seasonally weak 2Q and 3Q, particularly in the apparel segment in the absence of major festivities. Consumer discretionary players like **PADINI (MP, TP: RM3.63)** and **AEON (MP, TP: 1.21)**may need to sacrifice margins to maintain sales. On a brighter note, the 13% salary increase for most civil servants effective Dec 2024 should partially restore their spending power.

Commodity price fluctuations. Prices of key commodities like sugar, cotton, and soybean, which have declined more than 8% YTD, are likely to stay soft due to strong global supply as a result of bumper crops in the key production areas, such as Brazil, India and Argentina. In contrast, prices of coffee and cocoa have surged 20% and 137%, respectively, on poor crop yields amidst exteme weather conditions in their production areas in Southeast Asia and West Africa. Additionally, the higher shipping cost as reflected in a 91% YTD increase in the Shanghai Shipping index will weigh on **PADINI** and **MRDIY (MP; TP: RM1.97)** that source a large portion of their products from China.

Our top picks for the sector are:

- **F&N** for: (i) its earnings defensiveness given the stable demand for essential food items despite high inflation and an uncertain global economic outlook, (ii) the rising popularity of ready-to-drink products where F&N has a strong presence, (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand and (iv) its long-term growth prospects driven by its investment in a sizeable diary farm in Gemas, Negeri Sembilan.

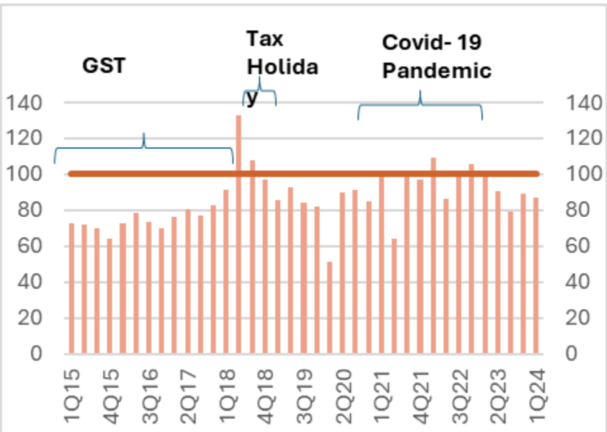
- **KAREX (OP, TP: RM1.10)** for: (i) its leading market position and global reach in the rapidly growing condom industry, projected by industry experts at a CAGR of 8% to 9% over the immediate term, (ii) its strong R&D and product innovation, (iii) its adherence to international standards and certifications, (iv) its strategic shift in moving up higher the value chain, and (v) growing preference for high quality innovative condom products.

Exhibit 1: Raw Material / Commodities Price Trend

	Last Price @	*Price Change*							
	19/6/2024	1M	QTD	1QCY24	YTD	vs. 2023 average price	vs. 2022 average price	vs. 2021 average price	Future Price Trend*
Sugar (USD/lb)	18.9	4.4	-16.0	9.4	-8.1	-21.4	0.5	5.9	↓
Coffee (USD/lb)	226.3	9.5	19.8	1.4	20.2	33.6	5.7	33.8	↑
Cocoa (USD/MT)	9,938.0	35.2	1.8	132.7	136.8	201.3	303.4	299.2	↑
Milk (USD/MT)	3,394.0	1.3	8.0	-2.0	5.8	10.2	-12.7	-11.7	↓
Wheat (USD/MT)	406.5	-8.0	6.9	-10.8	-4.6	-8.2	-33.9	-15.0	↓
Corn (USD/Bushel)	376.3	0.7	3.1	-6.2	-3.3	-18.1	-33.4	-20.0	↓
Soybean (USD/Bushel)	1,174.0	-4.4	-1.5	-7.9	-9.2	-16.7	-23.5	-14.3	↓
CPO (RM/MT)	3,966.0	1.6	-8.3	18.1	8.3	4.0	-21.9	-9.8	↑
Cotton (USD/lb)	71.0	-6.4	-22.3	12.8	-12.3	-14.4	-36.7	-24.0	↑
Aluminium (USD/MT)	2,462.8	-4.7	6.8	-1.9	4.7	8.7	-9.0	-0.7	↑
Baltic Dry Index	1,961.0	6.2	7.7	-13.0	-6.4	42.3	1.4	-33.4	↑
WTI Crude Oil (USD/Bar	81.3	1.9	-2.2	16.1	13.5	4.8	-13.8	19.4	↓
Volatility Index	12.5	4.1	-4.1	4.5	0.2	-25.9	-51.3	-36.5	
Dollar Index	1,264.4	1.6	1.5	2.7	4.2	2.0	1.0	10.4	↔
USDMYR	4.71	-0.4	0.4	2.9	2.4	3.1	6.9	13.5	↔
Shanghai Shipping Index	1,733.47	40.0	43.5	32.9	90.7	84.9	-37.2	-34.2	

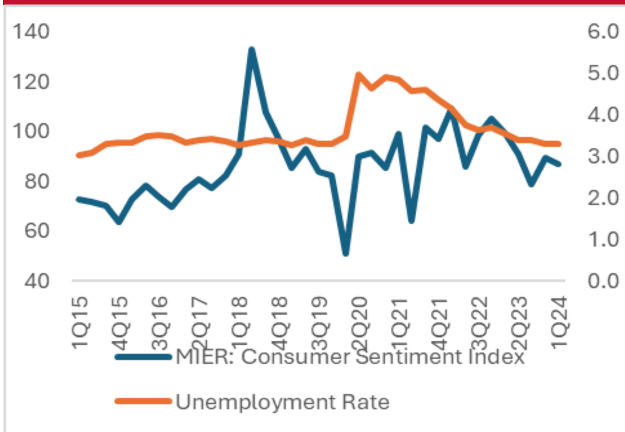
*Source: *Trading Economics, Bloomberg, Kenanga Research*

Exhibit 2: MIER Consumer Sentiment Index



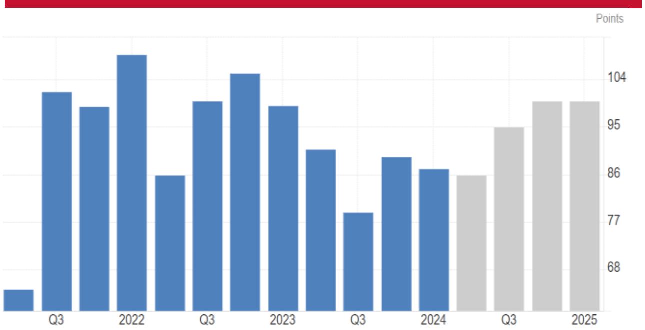
Source: MIER, Kenanga Research

Exhibit 3: Jobless Rate & Consumer Sentiment



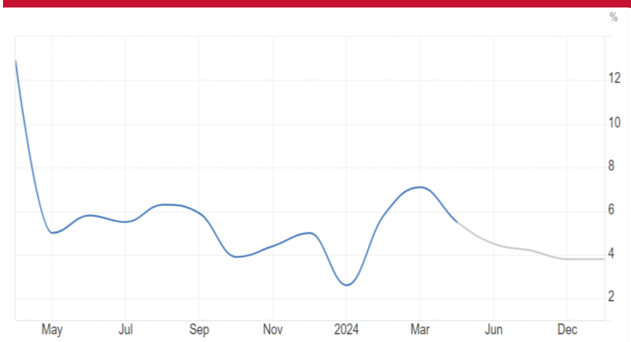
Source: Dept. of Statistics, CEIC, Kenanga Research

Exhibit 4: Malaysia Consumer Confidence



Source: Trading Economics, Kenanga Research

Exhibit 5: Malaysia Retail Sales YoY Growth



Source: Trading Economics, Kenanga Research

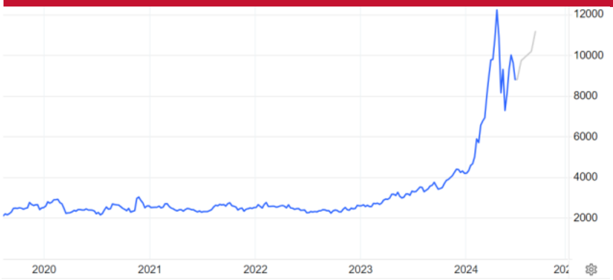
Exhibit 6: Sugar Prices (USD/lb)

Source: Trading Economics, Kenanga Research

Exhibit 7: Coffee Prices (USD/lb)

Source: Trading Economics, DOSM, Kenanga Research

Exhibit 8: Cocoa Prices (USD/MT)



Source: Trading Economics, Kenanga Research

Exhibit 9: Milk Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 10: Wheat Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 11: Corn Prices (USD/Bushel)

Source: Trading Economics, Kenanga Research

Exhibit 12: Soybean Prices (USD/Bushel)

Source: Trading Economics, Kenanga Research

Exhibit 13: CPO Prices (RM/MT)

Source: Trading Economics, Kenanga Research

Exhibit 14: Cotton Prices (USD/lb)

Source: Trading Economics, Kenanga Research

Exhibit 15: Aluminium Prices (USD/MT)

Source: Trading Economics, Kenanga Research

Exhibit 16: Baltic Dry Index

Source: Trading Economics, Kenanga Research

Exhibit 17: WTI Crude Oil Prices (USD/Barrel)

Source: Trading Economics, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 14 Jun (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	MP	1.42	1.21	-14.8%	1,993.7	Y	12/2024	8.7	8.9	6.9%	2.1%	16.2	15.9	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	31.78	38.25	20.4%	11,656.2	Y	09/2024	167.6	176.4	26.9%	5.3%	19.0	18.0	3.2	17.7%	85.0	2.7%
MR D.I.Y.	MP	1.95	1.97	1.0%	18,430.1	Y	12/2024	7.0	7.9	18.2%	12.6%	27.8	24.7	9.2	35.4%	4.0	2.1%
NESTLE (MALAYSIA) BHD	UP	124.20	115.00	-7.4%	29,124.9	Y	12/2024	292.3	306.0	3.8%	4.7%	42.5	40.6	44.3	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	MP	3.74	3.63	-2.9%	2,460.6	Y	06/2024	23.5	26.9	-30.4%	14.2%	15.9	13.9	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.65	1.40	-15.2%	758.6	Y	03/2025	9.1	9.8	2.6%	7.3%	18.1	16.9	2.2	12.2%	7.0	4.2%
QL RESOURCES BHD	MP	6.30	6.25	-0.8%	15,332.0	Y	03/2025	19.5	20.8	8.7%	6.2%	32.2	30.4	4.7	16.4%	9.0	1.4%
KAREX BHD	OP	0.850	1.10	29.4%	895.4	Y	06/2024	2.4	4.4	137.1%	85.1%	35.9	19.4	1.8	5.1%	1.0	1.2%
Sector Aggregate					**80,651.6**					**9.9%**	**8.1%**	**29.0**	**26.8**	**6.0**	**20.7%**		**2.5%**

Source: Kenanga Research

Glove

UNDERWEIGHT

↔

A Love Not About to be Rekindled

By Raymond Choo Ping Khoon l pkchoo@kenanga.com.my

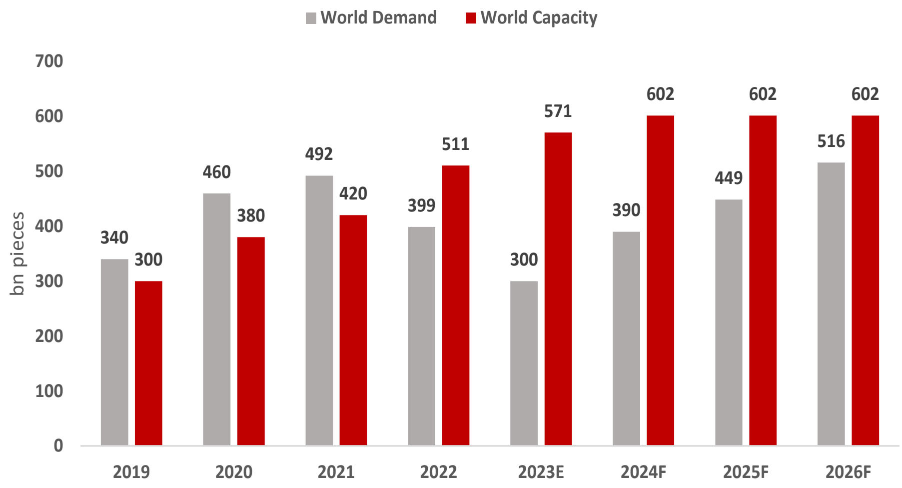
We reiterate our UNDERWEIGHT rating on the sector. We expect the sector's tough operating environment to persist over the immediate term, judging from the still weak earnings undertone in 1QCY24, plagued by overcapacity, predatory pricing by certain overseas players, weak demand and the high cost of inputs.The situation is further aggravated by sustained high operating cost and poor economies of scale from less-than-optimum sales volume despite some recovery in orders. On a slightly brighter note, further decommissioning of older production facilities locally should help to ease supply pressure, at least bringing about more rational competition amongst local players. We avoid all names under our coverage, namely HARTA (UP; TP: RM2.33), KOSSAN (UP; TP: RM1.48), TOPGLOV (UP; TP: RM0.75) and SUPERMX (UP; TP: RM0.83), as tepid profitability does not support the current lofty valuations.

Challenging operating environment to persist in 2HCY24. We reiterate our view that the challenging and competitive business landscape currently faced by the sector will persist in 2HCY24.The weak earnings undertone in 1QCY24 suggests the operating environment remains challenging, plagued by overcapacity, predatory pricing by certain overseas players, weak demand, and the high cost of inputs. While some players have returned to the black, the tepid profitability does not support the lofty valuations. The industry will continue to face massive over-supply, predatory pricing by certain overseas players (i.e. selling below cost over an extended period of time to eliminate competitors), weak demand and the high cost of inputs such as nitrile butadiene rubber and latex. Generally, players continue to grapple with the high operating cost and sustained poor economies of scale from less than optimum sales volume despite seeing incremental orders.The industry expect volatile quarterly sales as distributors and buyers sees no urgency to place sizeable orders or hold substantial stocks as supply is plentiful and readily available. Overall, the industry is cautious about raising prices significantly (to fully pass on the higher input cost) given the still competitive landscape in the industry. With a low industry utilisation of about 45%, this is without a doubt still a buyers' market.

Mixed signals in input raw material price trend, savings from decommissioning old plants in 2HCY24. Moving into 2HCY24, we expect input latex price to ease or taper off as the wintering months (low production during the wintering months between Dec till May) come to an end. However, nitrile butadiene rubber price is expected to continue to remain stubbornly high (YTD CY24: +10%). On the other hand, we understand that natural gas which accounts for 15% of total cost is expected to be higher H-o-H. Elsewhere, we expect cost savings initiatives arising from decommissioning of old plants to cushion losses as well. Overall, all players are mindful that the prospect of raising ASP further in subsequent quarters is challenging due to the current massive overcapacity situation, with only a handful of customers agreeing thus far. Due to the current competitive pressure emanating from massive oversupply and low industry utilisation averaging 40%, customers can walk away and choose to buy from other players whenever there is an attempt to raise prices. Case in point, buyers can turn to Chinese manufacturers which are still selling below USD20 per 1,000 pieces at USD16−18 per 1,000 pieces.

Oversupply to persist throughout CY24. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 when there is virtually no more new capacity coming onstream while assuming the global demand for gloves is to rise by 15% underpinned by rising hygiene awareness. MARGMA projects global demand for gloves to grow by 12% to 15% annually from CY24, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces on restocking before moderating to its organic growth of 15% annually. This will still result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.Our CY24 forecasts assume: (i) an ASP per 1,000 pieces of USD20, similar toCY23, and (ii) an average plant utilisation of 45% vs. an estimated 40% in CY23. In the meantime, we do not have any top pick for the sector.

Exhibit 1: Estimated Global Demand/Supply - Excess Supply over CY22-CY25



Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	3.59	2.33	-35%	12,254	Y	03/2024	1.5	1.5	297%	4%	242	233	2.6	1.1%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	2.50	1.48	-41%	6,379	Y	12/2024	4.7	4.9	140%	5%	54	51	1.6	3.1%	2.0	0.8%
SUPERMAX CORP BHD	UP	0.945	0.830	-12%	2,422	N	06/2024	(1.9)	0.7	-134%	-62%	NM	135	0.6	-1.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	1.17	0.750	-36%	9,371	Y	08/2024	(1.6)	0.8	-114%	-49%	NM	147	2.1	-2.7%	0.0	0.0%

Source: Kenanga Research

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Healthcare

Riding on Population's Quest for Longevity

OVERWEIGHT

↔

By Raymond Choo Ping Khoon l pkchoo@kenanga.com.my

We reiterate our OVERWEIGHT call for the healthcare sector underpinned by rising affluence and an aging population. Global healthcare expenditure is projected to to grow at a CAGR of 3.5% to reach USD10t by 2026. We expect both domestic and international patient throughput to continue to grow while revenue intensity to improve, driven by a high-yield case-mix with more acute cases. The ramp-up of new beds will boost operational efficiency, cost optimisation and overhead absorption. Similarly, we see robust sales of pharmaceuticals and over-the-counter (OTC) drugs backed by increased health awareness. Our sector top pick is IHH (OP; TP: RM7.00).

1. Private Hospitals

Global healthcare expenditure is projected to grow at a CAGR of 3.5% to reach USD10t by CY26, underpinned by rising affluence and aging populations (see chart on next page). The demand for healthcare, a basic necessity, is inelastic despite high inflation. Another key driver is rising chronic diseases across the globe. According to WHO, almost half of the global healthcare expenditures (USD4t) will be spent on three leading causes of death, namely: (i) cardiovascular diseases, (ii) cancer, and (iii) respiratory diseases.

We project **IHH's** patient throughput growth and revenue intensity to drive FY24 earnings, propelled by more acute cases including elective surgeries. IHH expects its earnings momentum to accelerate, underpinned by revenue intensity and rising demand in 2HFY24. It has pegged its charges to patients to consumer price index (CPI) across all its key markets. It expects strong patient throughput in Turkey, Singapore and Malaysia after the festive season in 1QFY24.

In FY24, we project **IHH**'s revenue per inpatient growth of 12% to 16% (vs. an estimated +19% in FY23 due to low base effect in FY22), inpatient throughput growth of 9% to12% (vs. an estimated +7% in FY23) and bed occupancy rate (BOR) of 65% to 73% (vs. an estimated averaging 65% in FY23) for its hospitals in Malaysia, Singapore, India and Türkiye.

IHH plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. It expects patient throughput to gradually recover in Singapore with the addition of new beds (previously constrained by staff shortages which are gradually easing). Meanwhile, Acibadem's operating environment in FY24 will be more favourable as compared to FY23 and it expects earnings drag to gradually ease in Türkiye (with the return of foreign patients). In 4QFY23, Acibadem's European operation has already recovered. We expect sustained performance in Malaysia. In Hong Kong, it is optimistic and targeting Gleneagles Hong Kong to be bottom-line positive in FY24 due to better operational efficiencies and overhead absorption rate as a result of strong ramp-up in its operations including opening new beds.

We also like **IHH** for its: (i) pricing power as the inelastic demand for private healthcare service allows providers such as **IHH** to pass on the higher cost amidst rising inflation, and (ii) presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China. **IHH** is our top sector pick.

Similarly, in 2024, we expect **KPJ (MP; TP: RM1.95)**'s patient throughput to grow at 9% (vs. an estimated 7% in FY23) with BOR at 72% (vs. 67% in FY23), driven by revenue intensity emanating from the recovery in demand for elective surgeries.

Losses from **KPJ**'s five new hospitals narrowed 30% YoY in 1QFY24. It is optimistic that its five hospitals under gestation with losses totalling RM137m in FY23 will be halved in FY24, which will work out to RM69m or 25% of our FY24F net profit driven by incremental revenues from higher patient throughput. KPJ's earnings will also be driven by new beds and improving operational efficiency. It expects earnings to gain momentum moving into FY24 on better operational efficiencies from its cost optimisation effort and overhead absorption by adding new beds (+10%), which we have factored into our forecasts.

We also like **KPJ** for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 28 private hospitals (vs. 16 of the next largest player **IHH**). However, the fundamentals have been priced-in by the recent run-up in its share price.

2. Health Supplements and OTC Drugs

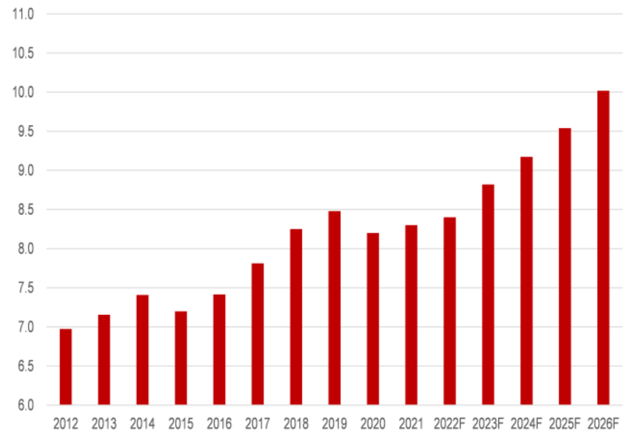
Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

The trend augurs well for **KOTRA (OP; TP: RM5.35)** which manufactures and sells OTC supplements and nutritional and pharmaceutical products under key flagship household brands such as *Appeton*, *Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

Meanwhile, backed by a new plant, widening distribution network and penetration into local public hospitals, we expect the FY24 sales volume of **NOVA (OP; TP: RM0.70)** to rise by 5%, fuelled by gradual ramp-up of its new plant and the full-year impact from introduction of 15-20 new SKUs in FY23 (in addition to 35 in FY22) including skincare products, health supplements, and Activmax and Sustinex range of functional food products such as plant-based protein including specialty Activmax for hospitals. We also like **NOVA** for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

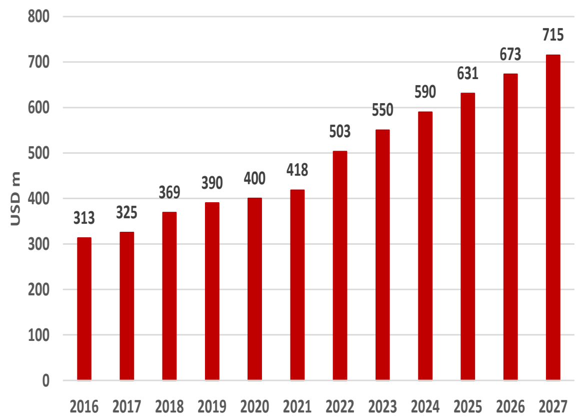
However, the same cannot be said for **PHARMA (UP; TP: RM0.34)** which is still under PN17 status. **PHARMA**'s 1QFY24 results beat our forecast. Its 1QFY24 core net profit jumped almost 10-fold on improved sales, efficiency gains and cessation of non-core units. **PHARMA** guided for sustained profitability (after an earnings spike in 1QFY24) with moderate orders for medical supplies under the concession, impact from a price hike in 1QFY24 and better inventory management. Its near-term profitability will be driven by: (i) closure of non-core and non-performing businesses involved in producing supplements and nutraceuticals products, and (ii) efficiency gain through on-going inventory optimisation efforts and aggressive payment collection. Looking ahead, it is building four new warehouses, being part of its RM220m capex plan to be funded with proceeds from a rights issue and a private placement of new shares. This is to meet the requirement in relation to the government concession to provide timely delivery of drugs and non-drugs products to government facilities throughout the country. In the biopharmaceutical space, it is establishing manufacturing facilities for vaccines and insulin to cope with the increasing needs in these therapeutic areas. The project is on track for commercialisation for vaccines in 2025 and insulin in 2026 namely Recombinant Human Insulin and Analogue Insulin.

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	6.25	7.00	12.0%	55,044	Y	12/2024	20.6	21.6	42%	5%	30.3	28.9	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.28	5.35	25.0%	635	Y	06/2024	29.5	35.6	-33%	21%	14.5	12.0	2.0	14.9%	26.0	6.1%
KPJ HEALTHCARE BHD	MP	1.96	1.95	-0.5%	8,554	Y	12/2024	6.2	6.9	7%	12%	31.8	28.4	3.5	11.2%	3.4	1.7%
NOVA WELLNESS GROUP BHD	OP	0.530	0.700	32.1%	169	Y	06/2024	4.1	4.7	-8%	13%	12.9	11.4	1.5	11.9%	3.3	6.2%
PHARMANIAGA	UP	0.370	0.340	-8.1%	533	Y	12/2024	3.5	3.4	-35%	-4%	10.5	10.9	(2.2)	-18.7%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

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Media

Digital Media's Tight Grip on Adex

UNDERWEIGHT

↔

By Kylie Chan Sze Zan l kyliechan@kenanga.com.my

We maintain our UNDERWEIGHT recommendation on the media sector due to: (i) traditional media's lack of innovation vis-à-vis digital media, (ii) declining PayTV subscription trends, (iii) generative AI will likely widen digital media's competitive moat, and (iv) traditional media's bloated legacy cost base weighing on bottom line. Additionally, we believe that Malaysian adex is not out of the woods yet, as both consumer and business sentiment indices remain below the 100-point optimism threshold. We do not have any stock picks for the sector.

Expect some recovery in adex after a sluggish CY23. We maintain our FY24 adex growth estimate of 10.8% YoY as we assume a modest recovery following a sluggish FY23 (+1.7% YoY). The growth is largely driven by digital media and free-to-air TV (FTA TV) on the back of improving consumer and business sentiment. However, for 2QCY24, we believe that YoY adex growth will moderate as advertisers hold back in anticipation of the upcoming Paris Summer Olympics that will be held from 26 July to 11 August.

On the flipside, we believe that traditional media is unable to fully leverage from improved adex given stiff competition from new media that includes: (i) streaming apps or websites (e.g. Youtube, Spotify, Apple Music), (ii) mobile apps (e.g. Waze, Grab, KLSE Screener), and (iii) social media platforms (e.g. Instagram, TikTok, Facebook, X). Their popularity stems from: (i) structural shift in interest to short video formats and live-stream sales, (ii) application of artificial intelligence (AI) to curate personalized content and commercials, (iii) relatively lower cost per impression, (iv) interactive digital platforms enable two-way communication and user engagement. As a result, consumers are increasingly fixated on digital devices, where they dedicate a significant portion of their time. Therefore, we expect brands and retailers to continue spending on digital advertising to direct traffic to their respective online shopping sites.

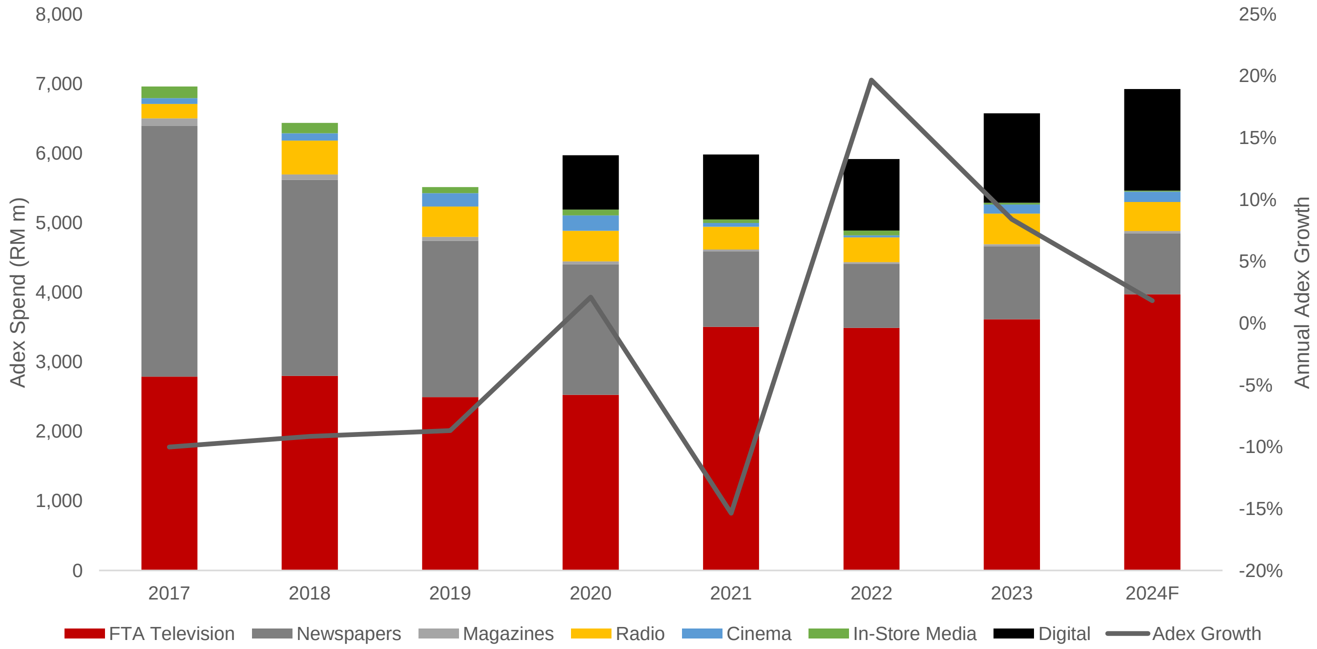
Mixed leading indicators. According to the Malaysian Institute of Economic Research (MIER), the Consumer Sentiment Index (CSI) slipped by 2.3 points sequentially to 87.1 in 1QCY24. The QoQ decline was attributed to amongst others, persistent concerns on inflation, employment prospects and personal finances. On a more encouraging note, the Business Conditions Index (BCI) sustained its upwards trajectory by expanding 5.3 points QoQ to reach 94.3 points in 1QCY24. This was underpinned by higher sales, particularly domestic orders, which more than offset a drop in capital investments. Given the mixed indicators above, and as both indices remain below the 100-point optimism threshold, we believe that Malaysian adex is not out of the woods yet. Furthermore, there was merely average and selective spending by consumers during recent festivities (ie. Hari Raya and Chinese New Year), according to the Malaysian Retailers Association.

On a brighter note, implementation of the High-Value Goods Tax has been put on hold from its initial targeted date of 1st May. Furthermore, over the longer term, starting from December, civil servants will enjoy a salary hike of more than 13%. Additionally, Rahmah Cash Aid targeted subsidies may be raised following the successful rollout of Central Database System (PADU). As such, these may play a part in propping consumer and business sentiment to cushion the impact of higher Sales and Services Tax (SST).

Potential relief in PayTV subscriber rout. Moving forward, in 3QCY24 and beyond, we expect cord-cutting trends to moderate following the introduction of **ASTRO (UP; TP: RM0.25)** cheaper entry level packages with prices starting from RM40 per month. We believe this would partially ease its continuous loss of market share to over-the-top (OTT) streaming services. Furthermore, traction on **ASTRO**'s broadband bundling strategy may also enhance customer retention and alleviate customer churn. To recap, in 1QCY24, Pay TV subscriptions in Malaysia declined by 3.7% YoY, continuing its steady sequential decline based on the latest data on our records that stretch from 4QCY20.

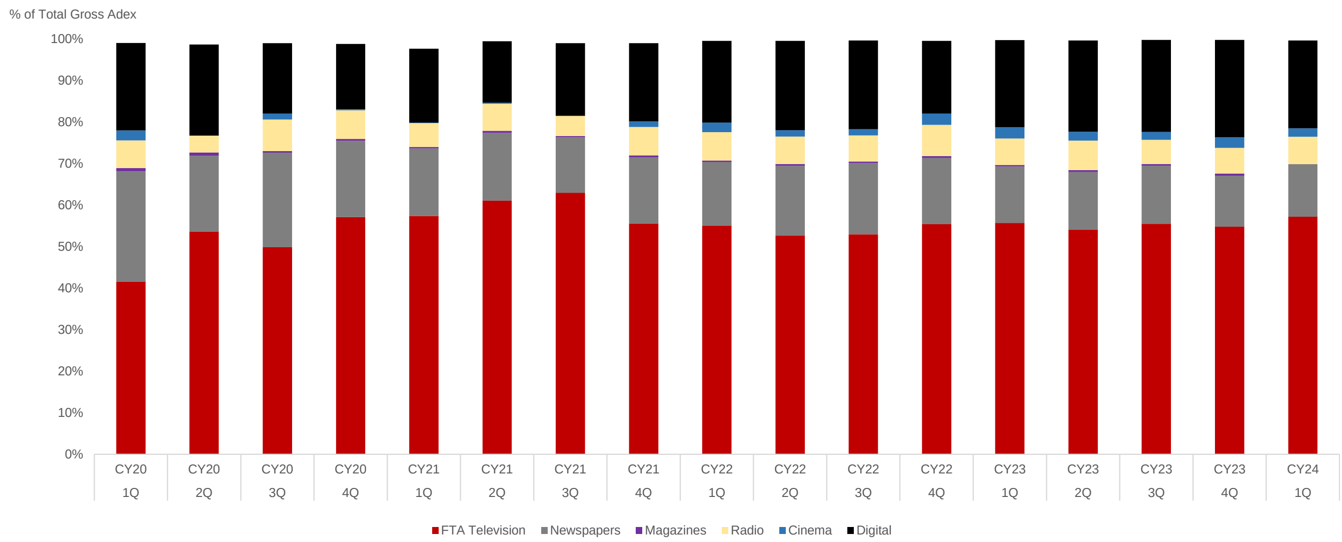
Underweight on gloomy earnings outlook. We maintain our **UNDERWEIGHT** recommendation on the sector as we believe that the outlook for traditional media remains murky, unless they are able to swiftly reinvent themselves or diversify into profitable adjacent businesses. In the meanwhile, we are concerned that smaller media players will struggle to break even whilst larger ones will grapple with softer top lines amidst a structurally high-cost base (vis-à-vis digital media). In terms of fixed expenses, digital content creators are essentially start-ups with a lean staff force and limited investments in production equipment (i.e. studios, cameras, lighting equipment, audio recording devices). In contrast, traditional media companies have legacy assets comprising expansive corporate headquarters, costly advanced production equipment and a bloated staff force. The low-cost structure for digital content creators enables them to be morenimble in responding to rapid changes in market trends. We do not have any stock picks for the sector.

Annual Adex



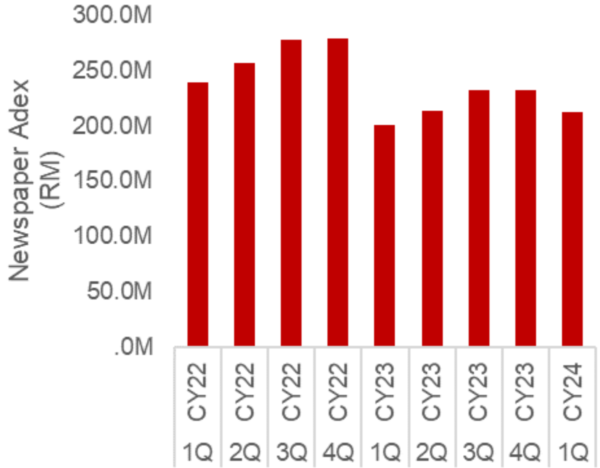
Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



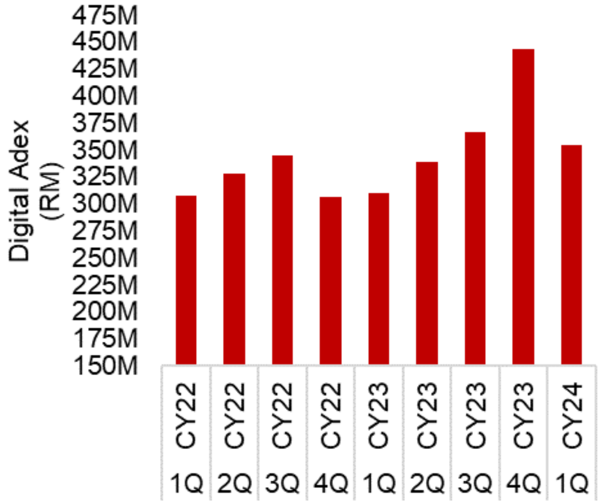
Source: Nielsen, Kenanga Research

Newspaper Adex



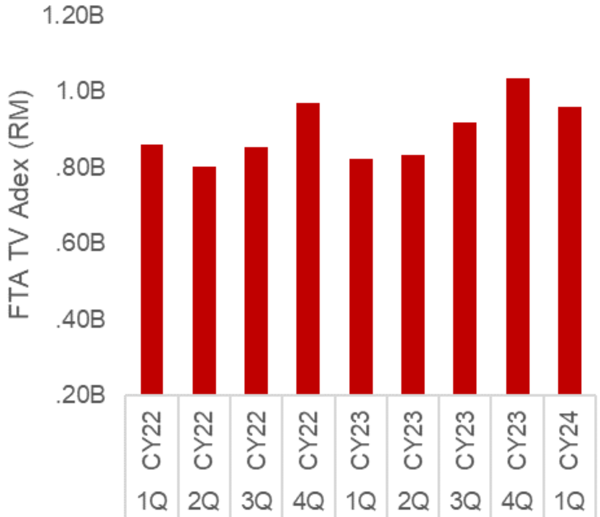
Source: Nielsen, Kenanga Research

Digital Adex



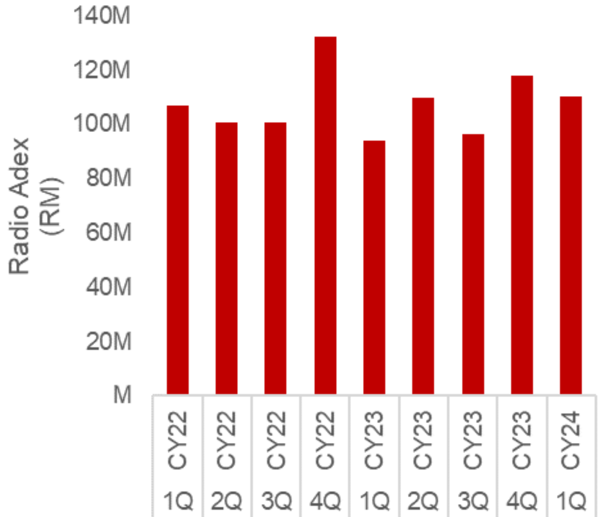
Source: Nielsen, Kenanga Research

FTA TVAdex



Source: Nielsen, Kenanga Research

Radio Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price (14/06/24) (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.360	0.250	-30.6%	1,878.8	N	01/2025	2.3	2.9	-43.4%	25.4%	15.4	12.3	1.6	9.9%	1.0	2.8%
MEDIA CHINESE INTERNATIONAL	UP	0.135	0.110	-18.5%	227.8	Y	03/2025	(2.3)	(2.1)	-26.2%	6.8%	N.A.	N.A.	0.4	-6.7%	0.7	5.2%
MEDIA PRIMA BHD	UP	0.465	0.320	-31.2%	515.8	N	06/2024	2.0	3.2	-63.5%	56.0%	22.9	14.7	0.8	5.4%	1.5	3.2%
STAR MEDIA GROUP BHD	UP	0.390	0.314	-19.5%	282.7	Y	12/2024	(0.3)	(0.3)	33.3%	16.7%	N.A.	N.A.	0.4	-0.4%	0.0	0.0%
SECTOR AGGREGATE					**2,905.1**					**-57.4%**	**45.0%**	**28.1**	**19.4**	**0.9**	**3.4%**		**2.8%**

Source: Bloomberg, Kenanga Research **** (as of 14/06/2024)***

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Oil & Gas

Opportunities in Mid-stream and Upstream

OVERWEIGHT

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By Lim Sin Kiat, CFA / limsk@kenanga.com.my

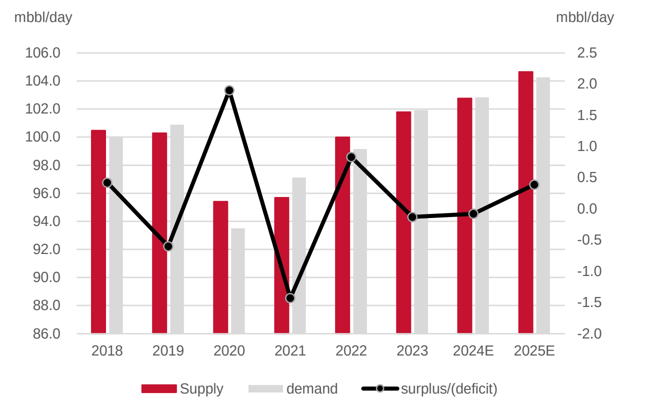
We maintain OVERWEIGHT on the sector. We keep our Brent crude oil price forecasts at USD84/bbl and USD79/bbl for CY24 and CY25 based on the assumption that OPEC+ will discontinue production cuts by the end of CY24 and gradually ramp up production in CY25. These oil price levels are supportive of local upstream investment, especially considering the under-investment by producers in the early 2020s. We favor owners of offshore supply vessel (OSV) and jack-up rigs on favourable rates on the back of a supply crunch and the midstream storage segment due to arbitrage opportunities arising from a contango in the oil market and oil traders having to structurally hold higher inventories as part of supply-chain risk management amidst heightened geo-political tensions. Our sector top picks are DIALOG (OP; TP: RM3.18), PETDAG (OP; TP: RM23.70) and VELESTO (OP; TP: RM0.34).

1. Upstream

Brent crude price forecast maintained. We keep our CY24 and CY25 Brent crude price forecasts at **USD84/bbl** and **USD79/bbl**, largely in line with the median forecast reported by Bloomberg of USD84/bbl and USD80/bbl, respectively. Year-to-date, Brent crude prices have averaged USD84.2/bbl. Seasonally, we expect Brent prices to weaken slightly in 3QCY24 and strengthen in 4QCY24 as winter impacts the Western economies. An interesting observation is that the forward Brent price implied is at USD80/bbl, which is a discount to the median forecast by analysts as compiled by Bloomberg, reflecting weaker crude market sentiment among oil traders for 2024.

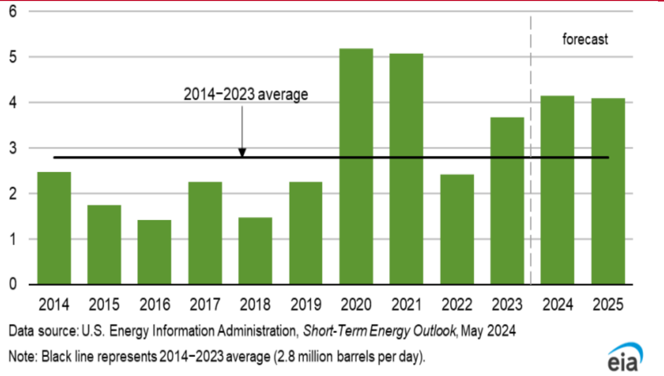
Base case assumptions. We expect that the voluntary OPEC+ production cuts will continue throughout 2024 before increasing production in 2025, leading to a better supplied oil market in 2025. In our view, OPEC+ will gradually unwind its production cuts in late-2024, increasing production by 1m barrels per day, thereby reducing the production cut from 2.2m barrels per day to 1.2m barrels per day. In 2024, production growth will primarily be driven by non-OPEC+ countries, including the US, Canada, Brazil, and Guyana. We also note that OPEC's spare production capacity is above the 2014-2023 average, giving it the ability to ramp up production quickly if needed. We expect demand growth for crude oil to increase by 0.8m barrels per day in 2024, slightly lower than the EIA's expectations, bringing the global crude market to a balanced state overall for 2024.

Global Crude Supply-Demand



Source: EIA, Kenanga Research

OPEC Surplus Oil Production Capacity



Source: EIA, Kenanga Research

Petronas to refocus its capex on domestic upstream. Petronas largely maintains its guidance of RM60b capex for 2024. However, we notice that the share of domestic capex rose by 20% YoY in 1QCY24, compared to the group's total capex increase of 2% YoY. Additionally, 10% of the capex was allocated to cleaner energy solutions and decarbonization projects (i.e., renewables and carbon capture & storage). We believe that this trend will continue throughout 2024, benefiting upstream service providers listed in Malaysia. For context, 1QCY24 domestic capex was RM5.5b, representing 52% of total capex. Assuming the total capex reaches RM60b, domestic capex will hit RM31.2b in 2024, a 19% increase compared to 2023. Therefore, we believe this bodes well for local upstream service providers, particularly those who own offshore assets like jack-up rigs and OSV.

Local upstream services industry already booming. The domestic upstream service players are already observing a strong pick-up in demand from Petronas and other oil producers. The short-term daily charter rate (DCR) for accommodation work boats (AWB) was quoted at RM150,000 for shorter-duration charters (three months or less), exceeding the levels seen during the previous bull market in 2013-2014. Mid-sized anchor handling tug supply (AHTS) vessels, with approximately 5000 bhp, are seeing recent transacted DCRs of RM40,000/day or below, still lower than their previous peak of RM47,000. This implies that the majority of demand is still directed towards brownfield maintenance jobs rather than greenfield projects. Therefore, if the ramp-up in activity continues in the coming months, we believe there will be more upside to AHTS DCRs.

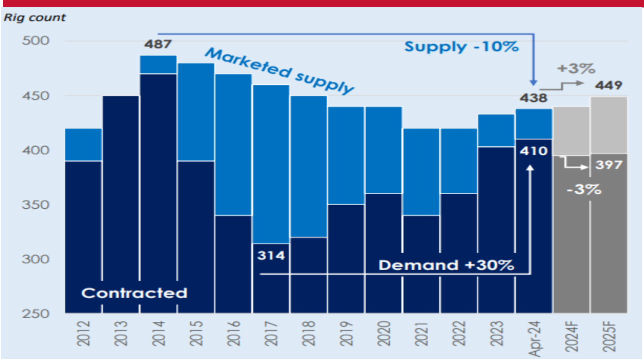
The OSV market still not topping yet. In our view, the OSV market, both domestically and globally, has not yet reached its peak despite some subsegments of vessels achieving all-time high DCRs. One major reason for this view is that the domestic OSV supply is not expected to grow significantly in 2024 and 2025, as we have yet to see large order flows for OSV new builds. **KEYFIELD** has plans for one new build, while **PERDANA (NOT RATED)** has yet to announce any expansion plans as of this writing. Aside from vessel sale announcements, **NAM CHEONG** (previously an OSV shipbuilder) has not secured any major shipbuilding jobs for new build OSVs. **COASTAL (NOT RATED)** has secured shipbuilding contracts for three vessels: a subsea support maintenance vessel and two support and utility vessels. Overall, we believe that the supply increase in the local OSV market is still far from catching up with the incoming demand from Petronas and other oil producers.

Global orders for OSV in China yards surging, but still not sufficient to cater for the supply gap. According to Seatrade Maritime News, the Chinese shipyards are currently experiencing high utilisation rates, due to the strong global demand for container ships, LNG carriers and other specialised ships. Therefore, this makes the China shipyards less incentivised to allocate more yard space for the construction of new OSV vessels. Therefore, we do not foresee a significant expansion of the OSV supply market both domestically and globally in 2024 and even 2025. According to S&P Global, approximately 89 new OSVs will be delivered globally by the end of 2024, which is insignificant compared to 3,200 working OSVs globally.

Upstream topside maintenance and HUC market booming. The upstream services market, particularly maintenance and hook-up and commissioning (HUC) services, experienced a significant increase in activities in 1HCY24. This trend is expected to continue throughout the rest of 2024 as Petronas ramps up its brownfield activities to boost production on its existing fields. **DAYANG (NOT RATED)** and **CARIMIN (NOT RATED**) posted strong revenue growth and EBIT margin expansion in 1QFY24, and we expect this momentum to be sustained in the coming quarters. Consequently, this will drive the demand for AWB vessels, as they are typically utilised for offshore maintenance works.

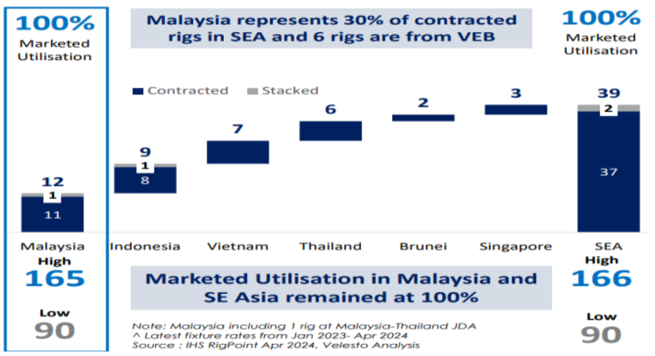
Demand for energy infrastructure will drive the demand for pipelines. According to GlobalData, 196,130 km of new trunk oil and gas pipelines will be laid from the time of writing until 2023. This is almost double the 102,000 km of new pipelines built over the past seven years. In our view, the global oil and gas infrastructure has been underinvested since 2014 due to the weakness in crude prices and the rising focus on ESG initiatives by major oil producers. In the coming years, we believe there will be a shift back to infrastructure spending in the oil and gas sector, as the industry realises the need for oil and gas to bridge the gap to a zero-carbon future. Consequently, we believe that the pipe coating industry will benefit from this structural trend, particularly incumbent players with strong track records, such as **WASCO (OP; TP: RM1.70)**.

Jack-up Rig Supply & Demand



Source: EIA, Kenanga Research

ASEAN Jack-up Rig Count



Source: EIA, Kenanga Research

The jack-up rig market to remain tight in supply. We are not overly concerned about Saudi Aramco's decision to suspend 17 rigs to date, as the demand from other high-demand regions, such as Southeast Asia and West Africa, will likely absorb the additional supply. According to Westwood, the global supply of jack-up rigs will see only modest growth through the delivery of new rigs and multiple reactivations. Westwood expects rig utilisation to reach 96% in 2024, indicating a very tight rig market supply. In Southeast Asia, the utilisation rate of jack-up rigs was at 90% as of early June 2024, according to Baker Hughes. Therefore, we maintain our view that jack-up rig DCR will remain on a bullish trend in 2024, with premium rigs expected to command DCRs of USD120,000-170,000, while standard jack-up rigs are expected to command DCRs of USD80,000-115,000.

2. Midstream

Optimism remains for the tank terminal market. The demand for tank terminal storage has been buoyed by: (i) the oil futures curve having recently switched to contango (the futures price of a commodity being higher than the spot price) from backwardation, which incentivises oil traders to stock up crude oil inventories to be sold at higher prices down the road, and (ii) oil traders having to structurally hold more inventories as part of supply-chain risk management amidst heightened geo-political tensions.

In the Straits region, the supply of tank terminals appears tight due to generally high utilisation rates, according to Insight Global. The Jurong Port tank terminals in Singapore are experiencing high utilisation rates and have recently completed their phase 2 expansion, adding storage capacity of 330,000 cbm. According to Advario (Jurong Port's JV partner for the storage operations), all of the tank farms are already fully occupied by clients. Additionally, the diversion of vessels from traditional routes, such as the Red Sea, has resulted in increased maritime traffic, further driving demand for storage services in Singapore. Therefore, we believe that demand for storage capacities in this region will remain robust. **DIALOG** is poised to benefit from this high activity in Singapore, as more additional activities will likely be directed to Pengerang, Johor.

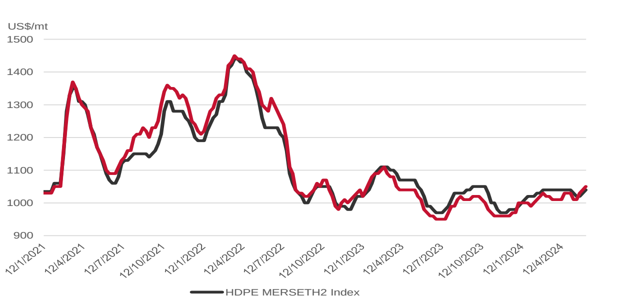
DIALOG is poised for a steady enhancement in earnings from its independent tank terminals, with spot tank rates currently at SGD6.0-6.5/cbm/day, close to the recent 5-year high of SGD7/cbm/day. Specifically, the Pengerang area in Johor is expected to attract additional downstream projects in 2024 and 2025, driven by the availability of affordable land and improved governmental stability. Over the longer term, this is likely to boost demand for various types of storage, including crude oil, downstream products, and possibly renewable products, potentially increasing demand for storage capacity in DIALOG's Pengerang Phase 3 project and the independent tank terminals it currently owns.

3. Downstream

Still awaiting better economic recovery in Asia. Downstream product prices, which bottomed out in 2023, are projected to maintain a benign outlook into 2024, primarily due to a sluggish global economic climate, notably in China, where growth continues to decelerate. Concurrently, China is pursuing a structural trend towards achieving full petrochemical self-sufficiency by 2030, marked by a multi-year increase in cracker and petrochemical capacities. This expansion is expected to cap any significant upside in downstream product prices. There are some early signs of recovery in the specialty market, with the European market showing initial growth, but we have yet to gather evidence of a sustained uptrend for the chemicals market.

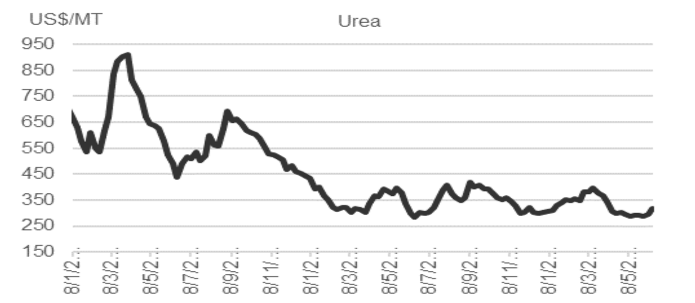
Urea prices back to historical averages. Urea prices are expected to range between USD250-300/mt in 2024, which is close to the average seen in the years before 2020 (pre-COVID). We do not anticipate a repeat of situations where China limits its exports of fertilisers, as occurred in 2022. Additionally, the feedstock cost pressure from natural gas is much lower, with Henry Hub natural gas prices recently recorded at USD2-2.50/MMBTU. The lower cost incentivises urea producers to ramp up production, thereby expanding the global supply of urea.

Petrochemical Prices Slightly Off the Bottom



Source: ICIS, Kenanga Research

Urea Prices Back to Historicla Average



Source: Bloomberg, Kenanga Research

We advocate focusing on the upstream services subsegment within the local oil and gas sector, particularly in the OSV segment, due to the anticipated pick-up in vessel demand coupled with tightening vessel supply, as well as the jack-up drilling segment. Additionally, we favour the midstream segment, particularly tank terminals, as the market shows signs of bottoming out, and the surge in projects related to low-carbon storage offers growth opportunities for tank terminal operators. The downstream segment is showing early signs of recovery, but we believe it is still too premature to take a long-term positive view on this sector due to persisting global economic uncertainties.

Our top picks for the sector are:

1. **DIALOG** underpinned by: (i) recovery in demand for independent tank terminal storage from a weak FY23 market with utilisation generally above 90% for existing terminals, (ii) active diversification into upstream production assets (recent endeavour involves potential development of small field assets in Baram Junior cluster) which enables the group to capitalise on oil price rallies, and (iii) still significant expansion potential in Tanjung Langsat (200,000 cbm incremental capacity) and Pengerang with 500 acres of land to be developed on which coincides with a gradual ramp up in activity observed in the Johor market.
2. **PETDAG** as we believe the market's selldown on the stock on concerns over lower demand for diesel and petrol following fuel subsidy rationalisation is overdone as the demand for fuel is inelastic. We also like its growing Mesra convenience store chain, leveraging on its extensive petrol station network.
3. **VELESTO** as a proxy to the still bullish jack-up rig market both regionally and globally. We believe that the rig orders suspended by Saudi Aramco will be more than sufficiently absorbed by clients from other regions as a result of the expected ramp-up in drilling activities by other oil producers, and new rig supply will not increase significantly in 2024 due to the high costs of new build rigs.

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.555	0.580	4.5%	3,290.0	N	12/2024	13.8	12.6	144.4%	-8.8%	4.0	4.4	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.50	3.18	27.2%	14,106.5	Y	06/2024	10.2	10.6	13.9%	4.1%	24.6	23.6	2.4	10.0%	4.3	1.7%
KEYFIELD INTERNATIONAL	OP	2.35	2.69	14.5%	1,880.0	Y	12/2024	17.8	25.4	35.1%	42.3%	13.2	9.3	2.8	29.7%	3.4	1.5%
MISC BHD	MP	8.35	8.09	-3.1%	37,272.3	Y	12/2024	52.9	52.3	9.7%	-1.2%	15.8	16.0	0.9	5.9%	30.0	3.6%
PETRONAS CHEMICALS GROUP BHD	MP	6.56	6.28	-4.3%	52,480.0	Y	12/2024	34.8	41.9	71.3%	20.3%	18.8	15.7	1.3	6.8%	17.4	2.7%
PETRONAS DAGANGAN BHD	OP	17.92	23.70	32.3%	17,802.7	Y	12/2024	99.7	109.8	1.1%	10.1%	18.0	16.3	3.0	16.9%	79.8	4.5%
PETRON MALAYSIA REFINING	MP	4.86	4.74	-2.5%	1,312.2	Y	12/2024	99.6	89.6	-1.1%	-10.0%	4.9	5.4	0.5	10.6%	20.0	4.1%
VELESTO ENERGY BHD	OP	0.265	0.340	28.3%	2,177.1	Y	12/2024	1.8	2.3	46.6%	28.8%	14.9	11.6	0.8	5.7%	0.0	0.0%
WASCO BHD	OP	1.48	1.48	0.0%	1,146.0	Y	12/2024	12.1	14.8	20.0%	22.6%	12.3	10.0	1.4	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.33	3.41	46.4%	7,022.2	N	01/2025	17.4	19.4	45.2%	11.0%	13.4	12.0	1.4	10.2%	5.0	2.1%
SECTOR AGGREGATE					**142,920.6**					**33.6%**	**8.8%**	**16.0**	**14.7**	**1.5**	**11.1%**		**1.6%**

Source: Bloomberg, Kenanga Research

Plantation

Mixed Fortunes Among Upstream, Downstream

NEUTRAL

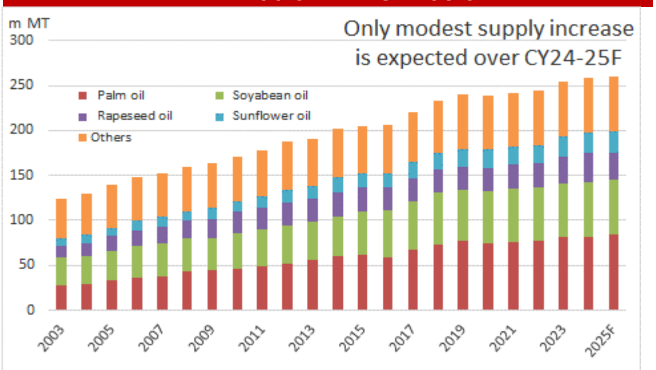
↔

By Teh Kian Yeong l tehky@kenanga.com.my

We expect CPO prices to stay firm, averaging at RM3,800 per MT in CY24 as supply increment trails demand growth. We expect better upstream profits on firm CPO prices and easier cost but weak downstream profits to persist on competition arising from excess refining capacity in the region and subdued demand for oleochemicals on a soft global economy (with the exception of the edible specialty fats). The sector's valuations are not excessive at 1.1x PBV and 16x PER. We maintain NEUTRAL for the sector with preference for smaller, high-growth and upstream-centric planters.

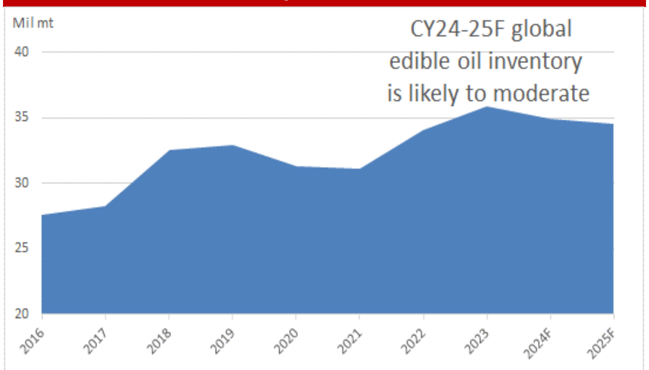
CPO prices should continue to stay firm. We expect CPO prices to stay firm, averaging at RM3,800 per MT in CY24 as supply increment trails demand growth. Globally, edible oil prices often inch up or soften by 1-2% QoQ between 1Q and 2Q. However, price trend for different oil type varies due to different buying and harvesting cycles. Palm oil prices, for example, normally firm up in 1Q then ease QoQ till 3Q which is often the weakest quarter for prices but the best for palm oil production. For 2Q of CY24, instead of softening slightly, CPO price inched up 1% QoQ on tighter though still manageable inventory outlook. Nevertheless, 3Q CPO prices should dip as South American soyabean harvest comes to an end. Likewise, we continue to expect inventory easing further in CY25. The latest USDA as well as Oilworld's crop forecasts for CY25 also suggests edible oil production to match or continue to trail demand growth yet again. All in all, CY24-25 inventories look adequate but the tightening trend is supportive of CPO prices.

2024-25 Edible Oil Supply Facing Supply Headwinds



Source: FAO, Oilworld, Kenanga Research

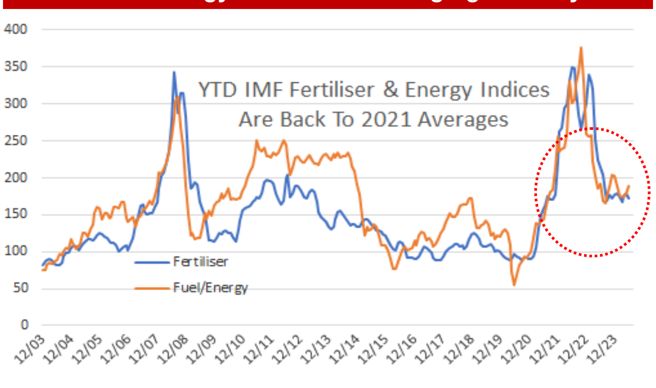
2024-25 Inventories Expected To Fall



Source: FAO, Oilworld, Kenanga Research

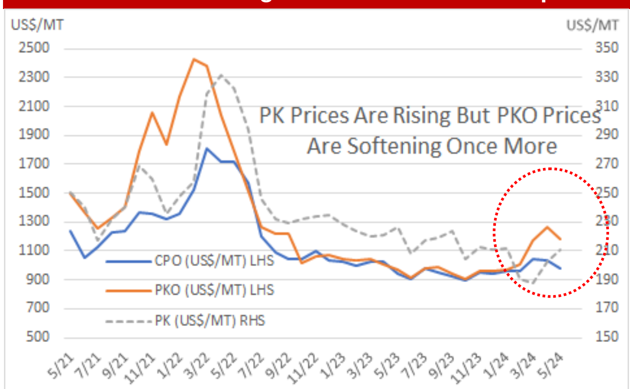
Upstream margin is improving as energy and fertiliser prices have softened by 15%-35% YoY. Many planters are also enjoying higher palm kernel (PK) prices further helping to contain CPO cost as PK is obtained when milling FFB to extract CPO. However, pressure for higher wages is high but should stay manageable over CY24-25. Given flattish CPO price outlook and easier production cost, upstream margins should inch up 1%-3% over CY24-25.

Fertiliser & Energy Prices Are Averaging Sideways



Source: IMF, Kenanga Research

PK Prices Are Starting To Follow PKO Price Uptrend



Source: Oilworld, Kenanga Research

Downstream margins likely to stay weak. Some oleo-chemical re-stocking is probably ongoing but demand remains soft, reflecting muted global economic growth as US is expected to slow down while Europe recovers and China staying flattish. Refining margins are not expected to recover soon due to excess capacity in the region as Indonesia is promoting the integration of the country oil palm sector with its own downstream capability.

New businesses are emerging but no meaningful contributions as yet. The sector has evolved in the last century from rubber to oil palm along with various adjacent trading, logistics and downstream activities. By the 1980s, property grew to become a major contributor until some spin off to operate entirely independently. Over the past year, larger players have started venturing into new businesses again.

- **IOI (MP; TP: RM3.80)**. In July 2023, IOI Palm Wood started marketing its panels made from oil palm trunk and in April this year IOI partnered with Nextgreen Global Bhd (Not Rated) and China's Xiamen C&D Corp to scale up pulp and paper made using Empty Fruit Bunches with the 100,000MT plant to start in CY26/27.
- **KLK (MP; TP: RM21.00).** In mid-June, the group bought the remaining 40% it does not own in a 2,500-acre plot located in southern Johor from partner, UEM Sunrise. With full control over the land today, KLK now have greater flexible over the future use of the land, be it for industrial, solar or mix development.
- **SDG (MP; TP: RM4.00).** Already planned by the group is the co-development of a 1,000-acre green industrial park in Kerian, north Perak supported by a solar farm. SDG is also hopeful to participate in some solar projects under LSS 5. Altogether, the group is eager to grow its renewable footprint, from capturing palm oil mill biogas to solar.

Maintain NEUTRAL on inelastic palm oil demand, asset-rich sector with undemanding rating but upside is limited for now. Although the plantation sector's earnings can be volatile due to CPO prices, palm oil demand is actually essential in the global food and biofuel chains. Upstream operations is generally very cash generative, gearing is manageable with many operating out of valuable landbank. The sector's valuations are not excessive at 1.1x PBV and 16x PER. The sector is also Shariah compliant but CPO prices are likely to stay flat hence there is no compelling upside catalyst for the next quarter or two.

Within the sector, we prefer growth over yields and upstream centric players facing easing margin pressures, hence, we pick PPB (OP; TP: RM17.50) for earnings recovery over FY24-25F and exposure into China, India and SE Asia consumer essential food sector, **TSH (OP; TP: RM1.30)** is busy preparing to expand 25-30% of new planting over the coming 2-3 years, and **UMCCA (OP; TP: RM6.00)** for its maturing Indonesian estates.

Peer Table Comparison

Name	Rating	Last Price @ 15 Sept (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
GENTING PLANTATIONS BHD	MP	5.99	6.00	0.2%	5,374.0	Y	12/2024	33.9	36.1	21.0%	6.4%	17.6	16.6	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HOLDINGS	MP	1.78	2.00	12.4%	1,423.4	Y	12/2024	12.8	13.1	13.0%	2.8%	13.9	13.5	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.81	3.80	-0.3%	23,636.1	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.1	18.0	2.2	11.6%	11.0	2.9%
KUALA LUMPUR KEPONG BHD	MP	20.22	21.00	3.9%	22,169.3	Y	09/2024	90.0	125.7	8.7%	39.7%	22.5	16.1	1.5	6.7%	50.0	2.5%
PPB GROUP BHD	OP	14.50	17.50	20.7%	20,627.7	Y	12/2024	111.1	132.5	38.1%	19.3%	13.1	10.9	0.7	5.6%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.30	4.00	-7.0%	29,737.6	Y	12/2024	16.1	18.9	25.9%	17.7%	26.8	22.8	1.7	6.2%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.95	4.00	1.3%	1,739.8	Y	12/2024	40.9	43.5	3.5%	6.2%	9.7	9.1	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.14	1.30	14.0%	1,573.4	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.5	15.5	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.03	6.00	19.3%	1,055.1	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.4	15.3	0.7	3.2%	12.0	2.4%
Sector Aggregate					**107,336.5**					**8.9%**	**19.5%**	**19.3**	**16.1**	**1.1**	**7.0%**		**3.4%**

Source: Bloomberg, Kenanga Research

Plastic Packaging

Sustained Orders

OVERWEIGHT

↔

By Thin Yun Jing l thinyj@kenanga.com.my

We maintain OVERWEIGHT for the sector. Plastic packaging players guided for sustained orders for their products during the remainder of CY24 backed by the recovery in manufacturing activities and consumer spending globally, following restocking by their customers during the early part of the year. Over the long term, local players are poised to gain market shares from overseas producers given local player's low cost structure, better economies of scale and product innovation especially sustainable plastic packaging materials. Our sector top pick is TGUAN (OP; TP: RM2.86).

The OECD Environmental Directorate projects plastic packaging usage to triple from current level by 2060. Similarly, KPMG forecasts plastic packaging consumption to record a CAGR of 5% over the next 3 to 5 years. We believe local players could grow at a faster pace through gaining market share from overseas producers due to: (i) local players' lower input, land, labour and energy costs, (ii) their better economies of scale (given that Malaysian plastic packaging players have significantly grown in size over the past decade), and (iii) product innovation such as the more environmentally friendly nano stretch film and mono film.

Having experienced a pick-up in orders since the beginning of the year on restocking by stockists and end-users, local players guided for the uptrend to sustain during the remainder of CY24 backed by the recovery in manufacturing activities and consumer spending globally. Plastic packaging is widely used across sectors from F&B to trading and logistics, and hence its demand hinges on the health of the global economy. Nonetheless, we expect a seasonal dip in production during 2Q due to the Hari Raya break.

In addition, sales growth is expected to be driven by local players stepping up their marketing efforts, particularly, active participation in international trade fairs (such as Interpack, China Plas and Pack Expo East) to introduce their innovative products like nano stretch film and mono film. Nano stretch film is known for its thinner yet stronger properties which enable customers to reduce film consumption without compromising on load stability; while mono film is a fully recyclable film made up of a single type of plastic resin. The products have strong appeal especially in developed markets as sustainability regulations become more stringent.

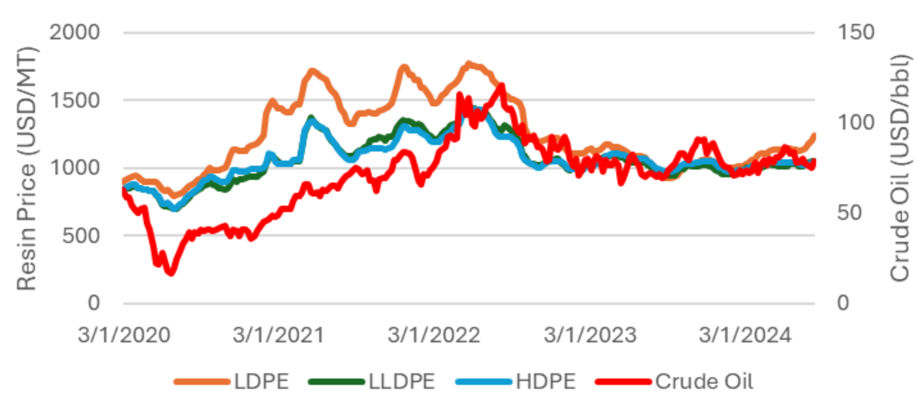
Players also see tremendous opportunities in their backyard in South-East Asia. The demand for plastic packaging in the region is rising amidst a "manufacturing renaissance" as multi-national companies diversify away from China for various reasons such as rising costs and supply-chain de-risking. **SLP (OP; TP: RM1.16),** for instance, is going all out to garner a slice of action in ASEAN countries with its fully recyclable mono film. It recently promoted its sustainable packaging solutions such as its mono film, also known as machine direction-oriented (MDO) PE film, in a regional circular packaging seminar.

To enhance their profitability, some players have ventured into higher-margin niche products. **BPPLAS (MP; TP: RM1.42)**, for instance, is putting onto the market a new blown film packaging product used in the F&B sector, backed by state-of-the-art printing and cutting machines. Meanwhile, **TGUAN** is collaborating with ExxonMobil to produce a new thinner, lighter stretch hood film that enhances logistics efficiency without compromising on stability. These stretch hoods are commonly used to secure palletised items like cement and resins for outdoor use.

We acknowledge potential downside risks to margins due to: (i) increasing operating costs, including labour and electricity, and (ii) rising freight costs on shipping diversion from the Red Sea. However, a shift towards high-margin premium products, increased automation and investment in solar energy installation could partially mitigate these cost pressures.

Our sector top pick is **TGUAN**. We like the company for: (i) its earnings growth prospects underpinned by expansion plans for premium products, such as nano stretch films, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags), (ii) its aggressive push into the European and US markets with high-performing products, and (iii) its product innovation via R&D and collaboration with the likes of ExxonMobil to produce more environmentally-friendly products.

Exhibit 1: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 14/6/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	MP	1.42	1.42	0.0%	399.7	Y	12/2024	12.1	14.1	1.5%	16.8%	11.8	10.1	1.4	12.5%	6.5	4.6%
SCIENTEX BHD	UP	4.33	4.00	-7.6%	6,717.0	Y	07/2024	35.3	36.6	32.2%	3.6%	12.3	11.8	1.7	14.5%	12.0	2.8%
SLP RESOURCES BHD	OP	0.950	1.16	22.1%	301.1	Y	12/2024	5.8	7.0	68.8%	20.7%	16.4	13.6	1.6	9.6%	6.0	6.3%
THONG GUAN INDUSTRIES BHD	OP	2.04	2.86	40.2%	818.3	Y	12/2024	25.5	29.8	22.1%	16.6%	8.0	6.9	0.8	10.3%	5.5	2.7%
Sector Aggregate					**8,236.1**					**29.5%**	**6.6%**	**11.7**	**11.0**	**1.5**	**12.9%**		**4.1%**

Source: Kenanga Research

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Property

Data Centre and Johor Exuberance

UNDERWEIGHT

↔

By Clement Chua l clement.chua@kenanga.com.my

We maintain UNDERWEIGHT on the sector. We hold the view that the market has adequately priced in the immediate to short-term impact of data centre investment and Johor economic transformation to the sector. Meanwhile, the sector's headwinds remain aplenty including oversupply, high household debt, elevated interest rates and weakened consumer sentiment. Nonetheless, we see a bright spot in the affordable housing segment. We downgrade our calls for MAHSING (TP: RM1.87) to MARKET PERFORM (from OUTPERFORM), and SIMEPROP (TP: RM1.08) and UOADEV (TP: RM1.79) to UNDERPERFORM (from MARKET PERFORM) as their valuations have become rich after the recent run-up in their share prices. Our sector top pick is MKH (OP; TP: RM1.83).

Exuberance driven by data centre and Johor. Investors have piled into property players driven mainly by two common themes:

1. Their investment in data centres or land sales to data centre developers; and
2. Johor economic transformation with the commissioning of the Johor Bahru-Singapore Rapid Transit System (RTS) in 2026 that will drive more Malaysians to work in Singapore, boosting housing demand in Johor Bahru and affordability, underpinned by their SGD-denominated incomes, and the Special Economic Zone (SEZ) status to be granted to selected areas, and Special Financial Zone (SFZ) status to Forest City, that will benefit landowners and developers of luxury condominiums targeting foreign buyers in Johor Bahru.

We hold the view that the market has adequately priced in the immediate to short-term impact of these developments to most property names. A case in point is, when **ECOWLD (UP; TP: RM1.41)** announced the sale of 123 acres of land in Kulai for RM402.3m and **UEMS (Not Rated)** announced the sale of 28.9 acres of land in Iskandar Puteri for RM144.9m, both in Jun 2024 to overseas-based data centre developers at premium pricing, the reaction to their share prices had been muted.

We advocate investors who are taking an immediate to short-term view on the data centre and Johor economic transformation themes to lock in profits. While we believe these investment themes may still have legs over the long term, investors will have to be prepared for a much lower return as the easy money has already been made upfront. We maintain **UNDERWEIGHT** on the sector.

Multiple challenges. The sector's headwinds remain aplenty including oversupply, high household debt, elevated interest rates, and weakened consumer sentiment resulting from high inflation and rising living costs.

According to BNM's latest data as of Apr 2024, industry approval rates appear to remain flattish at 43.1% (Dec 2023: 43.4%; Dec 2022: 43.5%). There has also been a gradual rise in overall applications possibly fuelled by the influx of affordable home products which are more assessable to the wider market. We opine that subsequent approval readings may only range bound between 40%-45% (being the recent years' average) as the abovementioned inflationary pressures could invite delinquencies should loan approvals become more lenient. On the other hand, household debt-to-GDP readings of 84.2% in 2HCY23 (81.0% in 2HCY22) is still lower than pre-pandemic levels of c.88%. While the rise could be attributed to higher average interest rates, the rising inflow of mortgage books may also contribute to the increase.
Rising property stock prices may be uplifted by better market sentiments arising from government incentives, infrastructure developments, and significant activities in Johor, such as large-scale projects and cross-border economic activities with Singapore. However, we are wary that these may only serve as a temporary catalyst should excessive overdevelopment lead to further excess in supply without meaningful demand to support.

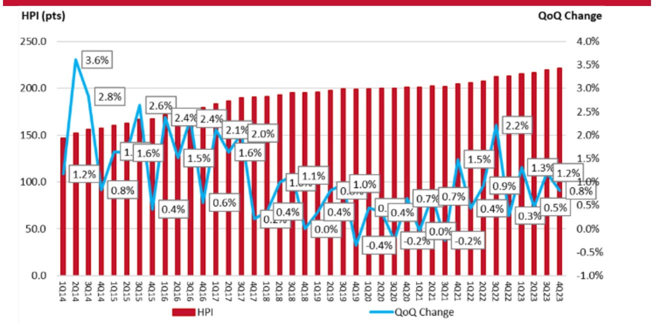
An increase in overhang units, continuing the trend towards affordable housing. Affordability remains a major issue, with the median house price at RM335k and average monthly salaries around RM3k to RM3.5k. This gap challenges many Malaysians, particularly first-time home buyers under 35 years of age. NAPIC's 1QCY24 data shows a 3% increase in overhang units, now at 125,362, concentrated in Kuala Lumpur, Johor, and Selangor (vs. 121,568 in 4QCY23). While 58% of new properties are priced below RM500K, a significant portion of overhang units—58% of serviced apartments and 29% of residential properties—are priced between RM500K and RM1m. This suggests a persistent mismatch between supply and demand, as it appears that many buyers may not be able to afford properties priced above RM500k. Government schemes aimed at first-time buyers are crucial, yet they may not fully resolve affordability issues.

The property market's performance in 2023, outperforming 2022, is likely driven by a surge in buying due to pent-up demand post-pandemic. However, the sustainability of this surge beyond 2024 is uncertain, as once the pent-up demand is satisfied, the market may slow down unless supported by robust economic growth and improved affordability. This uncertainty is compounded by the rising prices of houses while salaries remain stagnant, further straining affordability. Notwithstanding, the recent rationalisation of diesel subsidy may further aggravate inflation. Developers are adapting to these market dynamics by offering a mix of products with a heightened emphasis on affordability to cater to first-time house buyers and align with shifting consumer preferences influenced by ongoing economic uncertainties.
Meanwhile, the industrial property sector shows potential due to e-commerce growth and increased demand for logistics and warehouse facilities, along with government efforts to attract FDI. We reckon developers are increasing exposure on industrial properties as a means to reduce its dependency on residential markets from rising risks related to affordability and oversupply.

Outlook. Looking ahead, the Malaysian property sector will continue prioritizing affordability driven by population growth and urbanization. Transit-oriented developments, particularly in the Klang Valley, are expected to gain traction as buyers seek convenient commuting options. Despite economic shifts and regulatory challenges, the sector has shown resilience. Developers are focusing on affordable housing to meet evolving consumer demands and economic uncertainties, while the industrial segment anticipates growth fuelled by e-commerce and manufacturing expansions. This strategic adaptation positions the sector for sustained development amidst changing market dynamics.
We downgrade our calls for **MAHSING** to **MARKET PERFORM** (from **OUTPERFORM)**, and **SIMEPROP** and **UOADEV** to **UNDERPERFORM** (from **MARKET PERFORM)** as their valuations have become rich after the recent run-up in their share prices. Meanwhile, we reduce our TP for **MKH** by 13% to **RM1.83** (from RM2.11) to reflect the dilution of its stake in the plantation unit to 59.6% (from 95.0%) following the recent IPO of the unit and distribution of the unit's shares to MKH's shareholders.

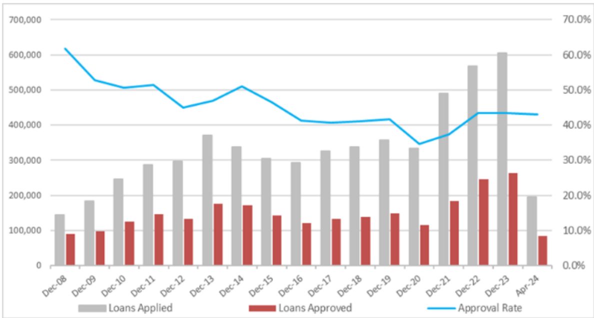
Our top sector pick is **MKH** given: (i) its focus on affordable homes priced below RM500k with strong demand from first-time house buyers; (ii) its transit-oriented development projects that will benefit from the switching to public transport from private vehicles following fuel subsidy rationalisation, and (iii) its expanding plantation business in Kalimantan and its proximity to the new capital city of Indonesia that opens itself up to various opportunities.

Housing Price Index



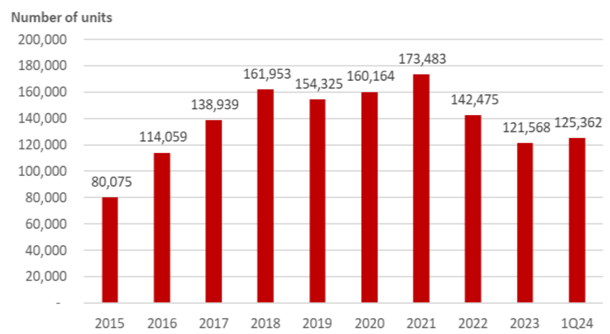
Source: NAPIC, Kenanga Research

Loans Approval Rate



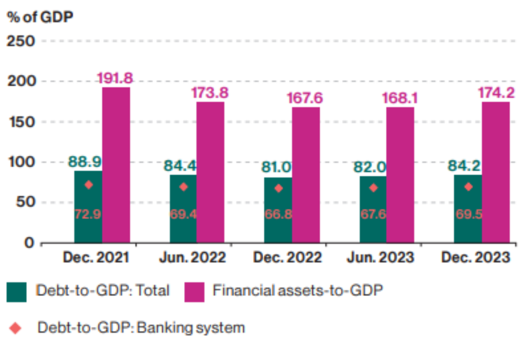
Source: BNM, Kenanga Research

Overhang and Unsold Under Construction



Source: NAPIC, Kenanga Research

Household Debt-to-GDP



Source: BNM

1QCY24 Property Market Overhang (Units)							
Region	Overhang			Unsold Under Construction			Total Overhang & Unsold Under Construction
	Residential	Service Apartment	Total	Residential	Service Apartment	Total	
Johor	3,629	13,027	16,656	5,400	2,709	8,109	24,765
Kuala Lumpur	3,194	4,501	7,695	6,397	9,413	15,810	23,505
Selangor	3,011	2,510	5,521	7,605	9,706	17,311	22,832
Perak	4,588	125	4,713	8,409	-	8,409	13,122
Penang	2,722	295	3,017	4,934	248	5,182	8,199
Sabah	1,933	-	1,933	3,582	-	3,582	5,515
Negeri Sembilan	1,357	887	2,244	2,305	608	2,913	5,157
Sarawak	1,646	65	1,711	3,537	263	3,800	5,511
Pahang	478	78	556	2,037	1,657	3,694	4,250
Melaka	532	24	556	2,765	317	3,082	3,638
Kelantan	359	225	584	3,354	-	3,354	3,938
Kedah	177	-	177	2,804	-	2,804	2,981
Terengganu	232	92	324	341	-	341	665
Putrajaya	302	84	386	411	-	411	797
Perlis	6	-	6	343	-	343	349
Labuan	42	-	42	96	-	96	138
Total	**24,208**	**21,913**	**46,121**	**54,320**	**24,921**	**79,241**	**125,362**

Source: NAPIC, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (as of June 14)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	UP	1.64	1.41	-14.0%	4,830.3	Y	10/2024	9.7	10.0	5.2%	3.6%	16.9	16.3	1.0	5.9%	6.0	3.7%
IOI PROPERTIES GROUP BHD	UP	2.40	1.75	-27.1%	13,214.7	N	06/2024	14.1	14.4	23.5%	2.0%	17.0	16.6	0.6	3.4%	4.5	1.9%
MAH SING GROUP BHD	OP	1.79	1.87	4.5%	4,582.6	Y	12/2024	10.2	11.0	14.6%	8.5%	17.6	16.2	1.1	6.5%	4.0	2.2%
MKH BHD	OP	1.33	1.83	37.6%	767.9	Y	09/2024	18.0	20.1	41.8%	11.2%	7.4	6.6	0.4	5.3%	6.0	4.5%
S P SETIA BHD	UP	1.47	0.850	-42.2%	6,993.5	Y	12/2024	5.9	6.1	17.0%	2.5%	24.7	24.1	0.4	1.9%	4.5	3.1%
SIME DARBY PROPERTY BHD	MP	1.40	1.08	-22.9%	9,521.2	Y	12/2024	6.3	6.5	7.1%	3.8%	22.3	21.5	0.9	4.1%	3.0	2.1%
SUNWAY BHD	UP	3.80	2.47	-35.0%	21,412.2	Y	12/2024	14.6	14.7	26.0%	1.2%	26.1	25.8	1.5	6.0%	6.0	1.6%
UOA DEVELOPMENT BHD	MP	2.06	1.79	-13.1%	5,130.3	Y	12/2024	10.6	10.4	19.3%	-2.1%	19.4	19.8	0.9	4.5%	6.5	3.2%
SECTOR AGGREGATE					**66,452.9**					**18.8%**	**2.7%**	**20.7**	**20.2**	**0.8**	**4.7%**		**2.8%**

Source: Kenanga Research

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REIT

No Great Alternative to Holding Cash

NEUTRAL

↔

By Clement Chua / clement.chua@kenanga.com.my

We reiterate our NEUTRAL sector call on REITs. We do not expect Bank Negara Malaysia (BNM) to cut its current overnight policy rate (OPR) of 3% during the year; hence, we do not foresee yield seekers flocking back to REITs in a major way. Meanwhile, the retail REIT sector is navigating the recent increase in the Sales and Service tax (SST), weak consumer spending on sustained elevated inflation and subsidy rationalisation, partially cushioned by the impending pay rise for civil servants, the deferment of luxury-goods tax and the return of international tourists. We prefer retail REITs with malls in strategic locations while being cautious on the office segment. Our top sector picks are KLCC (OP; TP: RM8.00) and PAVREIT (OP; TP: RM1.59).

1. Retail

Weak consumer spending. The retail REIT sector is navigating the recent increase in the SST to 8% (from 6%) and weak consumer spending on sustained elevated inflation that is unlikely to ease over the immediate term due to the implementation of fuel subsidy rationalisation. These are partly cushioned by the 13% pay rise for most civil servants in Dec 2024 that may partially restore their spending power, the deferment of luxury-goods tax and the return of international tourists.

Two more gigantic malls to open this year. While we are positive on REITs with malls in strategic locations, we are mindful of competition for footfall posed by new sizeable high-profile malls in an already highly saturated market. Two new malls within Kuala Lumpur with a collective retail space of c.1.5m sq.ft, i.e. Pavilion Damansara Heights (Phase 2) and 118 Mall are scheduled for opening this year and 2HCY25, respectively. These will be on the heels of the entry of the Exchange TRX and Pavilion Damansara Heights (Phase 1) malls in 2HCY23.

Mall occupancy rates maintained while rental rates improved marginally. 1QCY24 retail occupancy rates in shopping complexes came in at 77.6% (4QCY23: 76.4%) from a total retail space of 17.7m sqm. There was a marginal increase in rental rates of about 3% YoY among retail REITs under our coverage.

2. Office

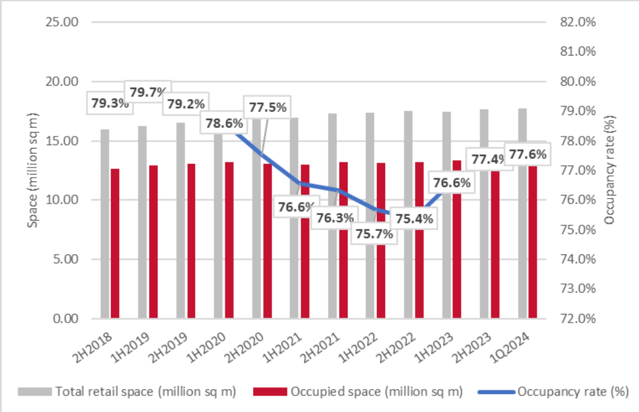
More office spaces to hit the market. Five new office buildings are pending completion in 1HCY24 which will contribute another c.1.4m sq ft to Klang Valley's existing cumulative office stock, two of which are located in KL City, namely Felcra Tower, and The Exchange TRX Office by Lendlease. These will be on the heels of the recent completion of four new office developments, namely Merdeka 118 tower, PNB 1194 office building, Aspire Tower, and Pavilion Damansara Heights Corporate Tower.

Office occupancy & rental rates fairly maintained. 1QCY24 occupancy rates stood at 72.0% (from 71.9% in the preceding quarter) from a total private office space of 18.7m sqm. We note on the growing demand for office spaces from high-growth sectors such as technology and finance. However, we believe that the market for office segment will continue to be under pressure from the sustained imbalance between supply and demand.

We reiterate our NEUTRAL sector call on REITs. We do not expect BNM to cut its current overnight OPR of 3% during the year and hence we do not foresee yield seekers flocking back to REITs in a major way. We downgrade our calls for **CLMT** to **UNDERPERFORM** (from **MARKET PERFORM)** and **SUNREIT** to **MARKET PERFORM (**from **OUTPERFORM)** as valuations have become rich after the run-up in their share prices.

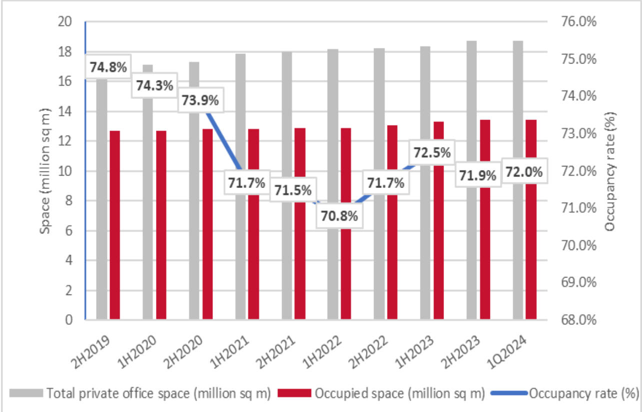
Our top sector picks are: (i) **KLCC** given its vibrant Suria KLCC mall backed by the iconic Petronas Twin Towers that is a "must-see" spot for domestic and international tourists; and (ii) **PAVREIT** given the strong tenant portfolio of its malls, especially international luxury brands and franchises of its upmarket Pavilion KL mall.

Occupancy Rate Trend For Retail Space



Source: NAPIC, Kenanga Research

Occupancy Rate Trend For Office Space



Source: NAPIC, Kenanga Research

10-Year MGS Yield Movement (since June 2023)

Source: Bloomberg

Target Yield at a Glance (Updates)

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.74	5.5
CLMT	UP (from MP)	0.58	7.5
IGBREIT	MP	1.68	6.5
KLCC	OP	8.00	5.5
PAVREIT	OP	1.59	6.0
SUNREIT	MP (from OP)	1.65	6.5

^ Derived from yield spread above our 10-year MGS yield assumption of 4.0%.
Source: Kenanga Research

Peer Table Comparison *(as of 14/06/2024)

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Gross Div. (sen)	Gross Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
REITS																	
AXIS REIT	MP	1.83	1.74	-4.9%	3,197.9	Y	12/2024	9.4	10.4	10.1%	10.7%	19.5	17.6	1.1	5.8%	8.7	4.8%
CAPITALAND MALAYSIA TRUST	UP	0.675	0.58	-14.1%	1,913.1	N	12/2024	4.4	4.7	8.7%	5.5%	15.3	14.5	0.8	5.0%	4.3	6.4%
IGB REIT	MP	1.83	1.68	-8.2%	6,604.9	N	12/2024	10.5	10.7	-2.5%	2.3%	17.5	17.1	1.7	9.8%	9.7	5.3%
KLCCP STAPLED GROUP	OP	7.52	8.00	6.4%	13,576.1	Y	12/2024	44.7	46.3	13.6%	3.7%	16.8	16.2	1.0	5.2%	42.5	5.7%
PAVILION REIT	OP	1.44	1.59	10.4%	5,265.9	N	12/2024	9.7	10.4	23.7%	7.4%	14.9	13.9	1.1	7.2%	9.0	6.3%
SUNWAY REIT	MP	1.59	1.65	3.8%	5,445.4	N	12/2024	10.5	11.2	2.7%	6.6%	15.2	14.3	1.1	6.5%	8.8	5.5%
SECTOR AGGREGATE					**36,003.3**					**9.5%**	**5.2%**	**16.5**	**15.7**	**1.1**	**6.6%**		**5.6%**

Source: Bloomberg, Kenanga Research ***(as of 14/06/2024)***

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Renewable Energy

Eternal Sunshine of the Spotless RE Sector

OVERWEIGHT

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By Nigel Ng I nigel@kenanga.com.my

We are OVERWEIGHT on the renewable energy (RE) sector. Our key focus is on PV system EPCC contractors. The outlook for solar EPCC jobs is strong, underpinned by new contracts under the Corporate Green Power Programme (CGPP) estimated to be worth RM2.4b, and the 2GW Large-Scale Solar 5 (LSS5) worth another RM5b. There is also an additional quota of 500MW under the net energy metering (NEM) scheme. Meanwhile, declining panel prices due to oversupply will boost margins of PV system EPCC contractors and stimulate investment in PV systems, resulting in more jobs for PV system EPCC players. We like both PV system EPCC players under our coverage, i.e. SLVEST (OP; TP: RM1.91) and SAMAIDEN (OP; TP: RM1.51).

Under the National Energy Transition Roadmap (NETR), the government has set an ambitious target of RE making up of 70% of total generation capacity by 2050 (vs. 25% currently) with an aspiration to achieve net zero GHG by 2050. These targets entail at least 20GW of new RE from now until 2050, of which >90% is expected to come from solar. The government has introduced a laundry list of initiatives to promote investment in solar power generation comprising the Feed-in Tariff (FiT) programme, NEM mechanism, Large-Scale Solar (LSS) and CGPP projects.

Over the immediate term, the flow of PV system EPCC jobs will come from the CGPP with a completion deadline by end-2025. Based on our estimates, the 800MWp capacity under the CGPP will translate to RM2.4b PV system EPCC jobs. Thereafter, the Energy Commission will embark on the 2GW LSS5, the largest LSS programme thus far, in four packages (see Exhibit 1). Under LSS5, developers could bid up to 500MW (vs. only 50MW previously) with operations scheduled to commence in 2026. We expect bidders to submit rates that are comparable to LSS4 (i.e. at a project IRR of 8%). We estimate that there will be at least RM5b worth of PV system EPCC jobs coming from the LSS5.

In addition, there is a new additional quota of 500MW (residential: 200MW; commercial: 300MW) under the NEM initiative which will continue to facilitate investment by businesses in solar energy generation assets. Also, under the Solar For Rakyat Incentive Scheme (solaRIS) (using 100MW NEM quota for the residential segment), participants will be offered rebates ranging from RM1,000/kWac up to RM4,000/kWac. The residential segment is still significantly untapped. Based on our estimates, **TENAGA (MP; TP: RM14.50)** has approximately 9.6m domestic customers but only ~30k have installed the rooftop solar thus far. Meanwhile, businesses in general, driven by commercial reasons (i.e. to save cost) and ESG considerations, have voluntarily invested in solar energy generation assets following the recent hikes in electricity tariffs.

There could be some near-term volatility in solar panel prices following the production halt by Chinese players in their plants in Southeast Asia, on the heels of a weak export sales outlook on the doubling in the tariff imposed by the US on solar panels imported from China to 50% (from 25%) effective 1 Aug 2024. Longi has halted all five production lines at its plant in Vietnam and is winding down its operations in Malaysia, Trina is shutting down its plants in Thailand and Vietnam. Nonetheless, barring widespread plant shutdowns by Chinese players, the world as a whole is still massively oversupplied with solar panels (see Exhibit 2). We keep our projection for average solar module price in CY24F relatively unchanged at 10.7 US cents/W vs.18 US cents/W in CY23, an extension to its multi-year decline (see Exhibit 3 & 4).

Meanwhile, there is a growing market for renewable energy certificates (RECs) backed by demand from corporations as they commit themselves to the RE100 initiative (i.e. the goal of using renewable resources for one's all energy needs) as well as data centres (to achieve the "green" status). Already, >100 companies in Malaysia, predominantly local units of multinational companies with a combined electricity consumption of 4,334 GWh annually, have committed themselves to RE100. At present, RE only makes up about 36% of their total energy consumption, pointing to rising demand for RE and RECs. **SLVEST** offers RECs at a competitive price of USD5-6/MW, vs. USD10/MW of Green Electricity Tariff (GET) of **TENAGA**.

Our sector top picks are:

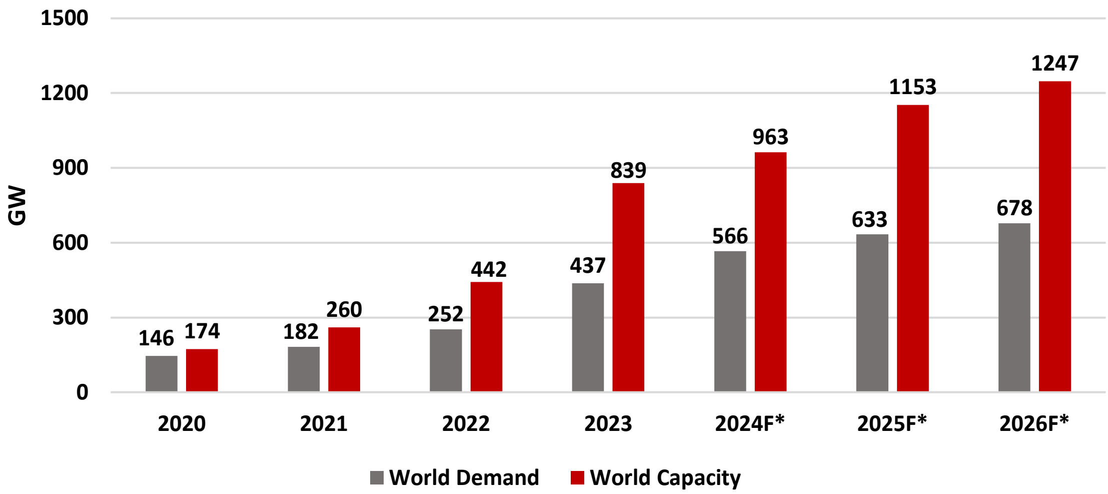
- **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets; and
- **SAMAIDEN** given its focus on residential and commercial projects that typically fetch higher margins, and similarly, its ability to provide end-to-end solutions, including financing to its customers and strong earnings visibility backed by sizeable outstanding order and tender books.

Exhibit 1: Packages Under LSS5

Package	Key Features	Key Bidder Criteria
Package 1	Solar projects: rooftop or ground-mounted Quota: 250MW Generation capacity: 1-10MW	Company or consortium: local SME 100% Bumiputera entity (MOF)
Package 2	Solar projects: rooftop or ground-mounted Quota: 250MW Generation capacity: 10-30MW	Company or consortium: local 51% Bumiputera entity (MOF)
Package 3	Solar projects: rooftop or ground-mounted Quota: 1,000MW Generation capacity: 30-500MW	Company: 51% Malaysian equity Consortium: at least one local company with minimum 51% Malaysian equity
Package 4	Solar projects: floating Quota: 500MW Generation capacity: 10-500MW	Company: 51% Malaysian equity Consortium: at least one local company with minimum 51% Malaysian equity

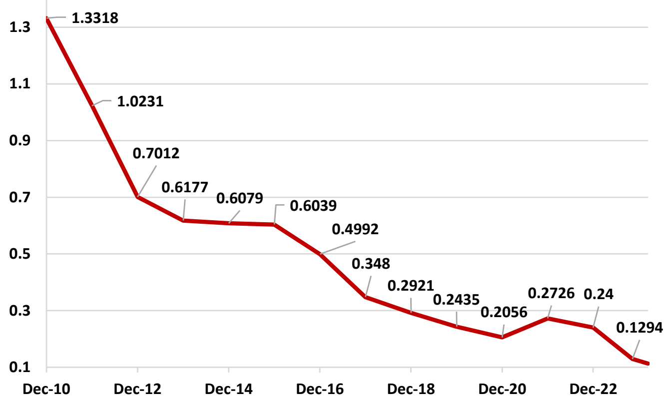
Source: Energy Commission, Kenanga Research

Exhibit 2: Global Supply/Demand for Solar Panels (GW)



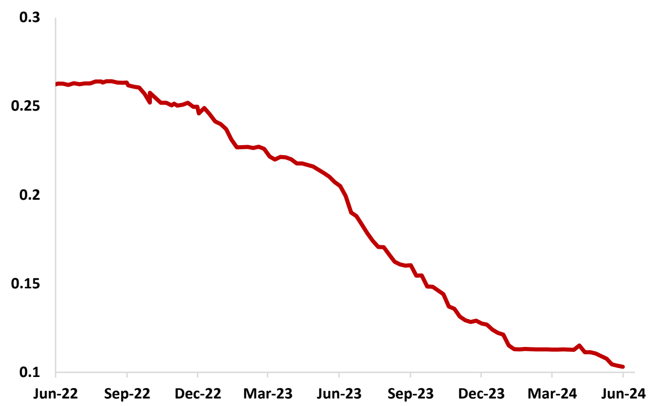
+Kenanga Research's estimates
Source: Bloomberg, Kenanga Research

Exhibit 3: Solar Module Price (USD/W) (2010-2024)



Source: Bloomberg, Kenanga Research

Exhibit 4: Solar Module Price (USD/W) (2022-2024)



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 14/6/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
PEKAT GROUP BHD*	NR	0.96	NR	N.A.	619.2	Y	03/2024	2.7	3.5	26.8%	31.4%	32.6	24.4	N.A.	N.A.	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.34	1.51	12.7%	560.8	Y	06/2024	3.5	5.3	26.4%	51.9%	38.5	25.4	5.4	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.72	1.91	11.0%	1,195.1	Y	03/2025	6.8	8.5	62.5%	24.2%	25.1	20.2	4.4	19.5%	0.0	0.0%
SUNVIEW GROUP BHD*	NR	0.78	NR	N.A.	399.0	Y	03/2024	3.6	4.7	41.1%	32.7%	22.1	16.7	N.A.	N.A.	0.0	0.0%
Sector Aggregate					**2,774.1**					**39.2%**	**35.1%**	**29.8**	**21.9**	**4.9**	**17.2%**		**0.0%**

Source: Kenanga Research

**Note that Pekat & Sunview numbers based on Bloomberg consensus*

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Seaport& Logistics

Shipping Diversion Weighs

NEUTRAL

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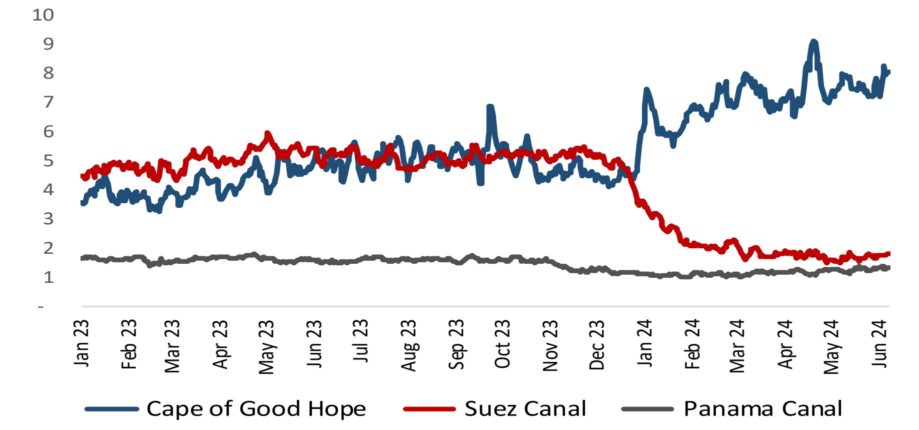
By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my

We maintain NEUTRAL rating on the sector. The shipping diversion from the Red Sea continues to weigh down on global trade, especially in the Asia-Europe sector. The World Trade Organisation (WTO) in Apr 2024, cut its projection for global merchandise trade volume growth in CY24 to 2.6% (from 3.3%), also quoting lower water levels in Panama Canal due to an extreme drought that is disrupting the movement of shipping liners. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. However, we continue to see a bright spot in the domestic logistics sector, which is a beneficiary of the booming e-commerce. We do not have any top pick for the sector.

Prolonged shipping diversion weighs. The shipping diversion from the Red Sea (see Exhibit 1) continues to weigh down on global trade, especially in the Asia-Europe sector. The diversion from Suez Canal to the Cape of Good Hope has resulted in a longer voyage for the Asia-Europe route (which contributes to 30% of global container volume), reducing the frequency of calls shipping lines could make at **WPRTS (MP;TP:RM3.80)**'s ports (and all other ports in the region). The WTO in Apr 2024 cut its projection for global merchandise trade volume growth in CY24 to 2.6% (from 3.3%), also quoting lower water levels in Panama Canal due to an extreme drought that is disrupting the movement of shipping liners. (see Exhibit 1).

Exhibit 1: Daily Transit Trade Volume*



**million tonnes, 7-day moving average*

Source: International Monetary Fund, United Nations, Port Watch

We also acknowledge that stricter regulations on carbon emissions may pose new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulation of IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sectors remain unclear (especially for CBAM which is still pending finalisation), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade), especially those originating from China, which is a major exporter of iron, steel and aluminium to the EU.

- Under the new IMO rules, effective January 2023, all ships must report their carbon intensity and will be rated accordingly. The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.
- Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported on a quarterly basis, as well as any carbon price paid to a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

Logistics to ride on e-commerce boom. On a more positive note, we see a bright spot in the domestically-driven third-party logistics (3PL) sector which is less vulnerable to external headwinds being buoyed by the booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, with size reaching RM1.9t by 2027 from RM1.4t in 2023.

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

We maintain **NEUTRAL** on the sector and do not have any top pick for the sector.

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Peer Table Comparison

Name	Rating	Last Price as at 14th June 2024 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	6.34	6.30	-0.6%	2,916.4	Y	12/2024	31.0	32.4	21.7%	4.4%	20.4	19.6	1.5	7.7%	15.7	2.5%
POS MALAYSIA BHD	UP	0.480	0.330	-31.3%	375.7	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.8	-19.0%	-	-
SWIFT HAULAGE BHD	MP	0.555	0.510	-8.1%	490.1	Y	12/2024	5.1	5.5	-10.3%	7.1%	10.9	10.2	0.7	6.3%	1.7	3.1%
WESTPORTS HOLDINGS BHD	MP	4.10	3.80	-7.3%	13,981.0	Y	12/2024	23.4	24.5	2.5%	4.6%	17.5	16.7	3.8	22.1%	17.6	4.3%
SECTOR AGGREGATE					**4,440.8**					**-36.9%**	**-35.6%**	**16.3**	**15.5**	**1.7**	**4.3%**		**2.5%**

Source: Kenanga Research

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Technology

OVERWEIGHT

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Dawn of a New Upcycle

By Samuel Tan l samueltan@kenanga.com.my

We maintain OVERWEIGHT on the technology sector. World Semiconductor Trade Statistics (WSTS) recently raised its projection for global semiconductor sales in CY24 to +16% (from +13.1%) driven by strong demand for memory and logic ICs. Following six consecutive months of YoY growth in semiconductor sales (Nov 2023 to Apr 2024), Malaysian players—which are mostly at the back end—are beginning to feel the positive impact. They guided for improving order visibility in coming quarters, which is consistent with our view of a recovery in 2HCY24. Our top picks are: (i) INARI (OP; TP: RM4.60) for its growing presence in China's smartphone market and the AI space, (ii) KGB (OP; TP: RM4.10) for its strong earnings visibility backed by a RM1.3b order book, and (iii) LGMS (OP; TP: RM1.90) on higher demand for cybersecurity services from corporations locally on the heels of the enactment of Cybersecurity Bill 2024.

Recovery gaining momentum. We reiterate **OVERWEIGHT** on the technology sector. Global semiconductor industry data aggregator and forecaster WSTS in Jun 2024 raised its projection for CY24 global semiconductor sales to 16% (from 13.1% it projected in Nov 2023) driven by expectations for stronger YoY recovery from the memory segment (+77% from +45%) and logic ICs (+10.7% from +9.6%). Geographically, WSTS upgraded their sales forecasts for the Americas (+25% from +22%) and Asia Pacific (+18% from +12%). These two regions will lead the recovery in CY24, accounting for c.27% and c.56% of total global sales, respectively.

Global semiconductor sales bottomed out and rebounded in Nov (+5.3%) and Dec (+11.6%) CY23 and had since stayed on a recovery trajectory into 1QCY24 (+15.2% YoY). The YoY growth from Jan to Mar 2024 was consistent in the mid-teens.

We believe the seasonally weak 1QCY24 is behind the sector with its earnings momentum poised to pick up strongly in 2HCY24. We sense optimism among Malaysian players—which are mostly at the back-end—from their tone during their recent post-1QCY24 result briefings as the recovery in the semiconductor sector that started early this year trickles down the value chain.

In the OSAT space, we continue to favour **INARI** as a laggard play. Over the immediate term, it will be buoyed by the upcoming new US smartphone launch featuring AI functionality. We also expect strong sales amidst a new replacement cycle for smartphones (most users last bought a new phone 2-3 years ago during the pandemic). We raise our TP by 15% to RM4.60 (from RM4.00) as we roll forward our valuation base year to CY25F (from FY25F) and upgrade our forward multiple to 35x (from 30x), which is at a 10% premium to the updated peer valuations. The premium is to factor in **INARI**'s strong pricing power as reflected in its net margin being consistently in excess of 20% (vs. in single-digit of its peers).

Meanwhile, its strategy of "China for China; Penang for the West" will reduce its customer concentration risk. Selling predominantly to the West at present, INARI will sell to China more significantly via its 54.5%-owned China-based Yiwu Semiconductor International Corporation, which is building a 500k sq ft plant in Yiwu, to be operational by mid-2024. We see tremendous potential in China's smartphone market following Huawei's 7nm processor breakthrough that has re-ignited the interest in China-brand smartphones among consumers in China.

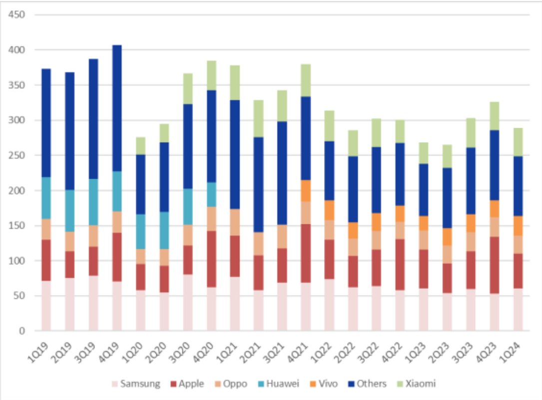
Over the medium to long term, it has plans to supply more significantly to AI-related products. At present, it is producing memory products in small volumes via a single line for a customer, with plans to expand to four lines by June 2024. Given that memory goes hand in hand with graphical processing power, memory products will ride on the growing adoption of AI applications. Similarly, its optical transceivers are also riding on the AI adoption driven by the transition to 800G by customers seeking faster data transfer rates within AI-enabled data centres.

We have also turned positive on **MPI (OP; TP: RM46.84)** on the back of improving utilisation rate at its plant in Suzhou on the recovery in China's smartphone market driven by Huawei's 7nm processor breakthrough and premiumisation by Xiaomi and Honor. Meanwhile, the loading volume at its plant in Ipoh is stable.

We continue to like **KGB** as a key proxy to the front-end wafer fab expansion which is likely to pick up more aggressively in the 2HCY24. The group continues to see a higher proportion of high purity (UHP) gas solution jobs in its pipeline, making up c.78% (vs. 60% in FY23) of its RM1.25b outstanding order book. Meanwhile, its tender book remains elevated at RM1.6b, predominantly for potential jobs from China and Singapore.

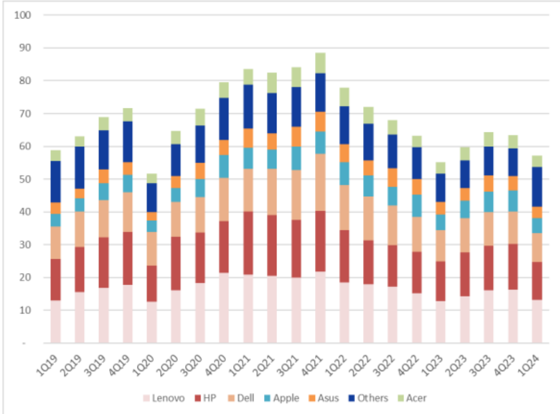
We understand that the demand from China stems from the country's ambitious goal to increase its semiconductor capacity by 60% in the next three years to cater for local consumption while Singapore's demand comes from existing MNCs in the area looking to expand their capacity. The group has also set up offices and begun tendering in new regions (i.e. Hong Kong and Germany) at the request of existing semiconductor customers. All in, **KGB** is optimistic to secure at least RM1b order replenishment in 2024 with current job secured standing at RM235m as at 1QCY24.

Exhibit 1: Worldwide Smartphone Sales (m units)



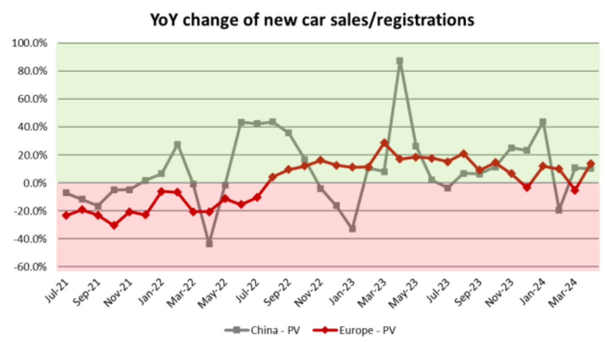
Source: IDC

Exhibit 2: Worldwide PC Sales (m units)



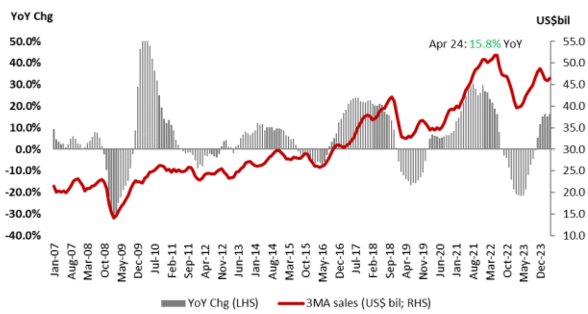
Source: Gartner

Exhibit 3: Sales of Passenger Vehicles (% YoY)



Source: CAAM, ACEA

Exhibit 4: Global Semiconductor Sales (% YoY)



Source: SIA

The worst is over for automotive semiconductor inventory correction. We understand that while the worst is over, automotive semiconductor makers are still navigating the inventory correction that started a few quarters ago. Among the challenges is a soft EV market globally as potential EV buyers are now mostly made up of single-car owners who put a lot of consideration on the range the car can travel on a full charge, vs. mostly multiple-car owners previously. No helping either, is the investment in charging infrastructure that is significantly lagging the growth in EV population, prompting leading EV manufacturer BYD to reconsider plug-in hybrids.

Automotive semiconductor players will have to reassess their customer concentration risk in the EV sector in China and step up their diversification to the European automotive market. More so, the European Commission has imposed an additional tariff of between 17.4% and 38.1% on Chinese EVs, on top of the existing EU duty of 10%. This follows President Biden's move a month ago to increase tariffs on Chinese EVs from 25% to 100%. We anticipate more supply chain shifts, which could potentially benefit Malaysia, given its neutral stance in the US-China trade conflict. However, unlike consumer devices, the automotive supply chain is rather sticky due to lengthy qualification durations. Hence, this mixed outlook influences our cautious stance on automotive semiconductor companies like **D&O (MP; TP: RM3.60)**, whose valuation remains high, while **JHM (MP; TP: RM0.61)** has yet to see significant progress from its various projects still in the incubation stage. Meanwhile, we continue to monitor a long-forgotten name — **KESM (MP; TP RM7.04)** — an automotive semiconductor burn-in and test service provider which has missed out entirely on the previous tech run (2020-2022) but has strategically invested RM143m (which is c.63% of its FY23's revenue) to revamp all its equipment in anticipation to capture next-gen automotive chips in the coming upcycle.

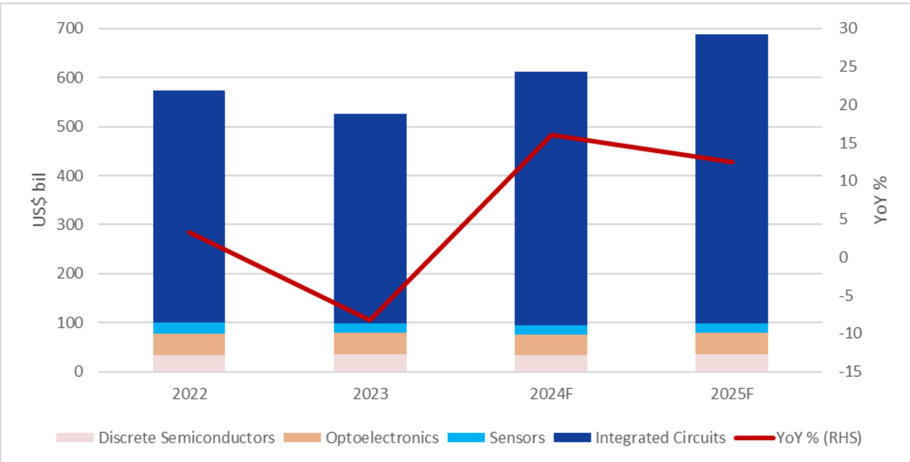
EMS segment gets a shot in the arm from AI-related products. Companies with diversified portfolios and substantial exposure to industrial products have proven to outperform peers that are heavily reliant on consumer electronics as their primary revenue driver. This is true for both **PIE (OP; TP: RM6.75)** and **NATGATE (OP; TP: RM2.06)** which saw share price rallied >100% and >30% YTD, respectively, on the back of securing new customers related to AI data centres. **PIE** secured a Chinese customer (known for server switches) which has committed to occupy PIE's entire new plant 6 (c. 280k sq ft) with mass production to begin by 2025. Meanwhile **NATGATE's** venture into own-brand AI servers (20 units delivered in 1QCY24, another 980 units to go for 2024) continues to remain in the spotlight, riding on the data centre boom in Malaysia. However, we believe that current share prices have well reflected the respective outlook for both these companies, and further upside will likely depend on valuation re-rating rather than earnings upgrades. Meanwhile, we have turned positive on **SKP (OP; TP: RM1.35)** as its value has emerged with improved recovery visibility from an existing customer related to household products. The group is in the process of securing two new potential customers, aiming to begin production towards the end-2024. Note that SKP remains focused on consumer household products and does not benefit from the AI/data centre valuation premium enjoyed by the other EMS companies mentioned above.

Opportunities in cybersecurity in the software segment. LGMS is a good proxy to the growing cybersecurity awareness in Malaysia on the heels of the enactments of Cybersecurity Bill 2024. This bill affects both individuals and businesses, particularly those within the Critical National Information Infrastructure (CNII), by mandating compliance with cybersecurity standards. Many cybersecurity incidents in Malaysia have gone unreported due to the lack of disclosure requirements, an issue the bill aims to address. Once the bill is enforced (pending royal assent), company directors may face personal liability for offenses if found negligent in their cybersecurity preparedness. **LGMS** has timely launched its Star Sentry product in anticipation of the upcoming demand wave. This innovative plug-and-play device seamlessly connects to users' networks, autonomously analysing all connected devices for vulnerabilities.

In summary, we reiterate our **OVERWEIGHT** call on the technology sector with the following top picks:

1. **INARI** for: (i) being the closest proxy to 5G adoption, (ii) being highly responsive to the market demand with the roll-out of new technologies such as double-sided moulding (DSM) and system-on-module (SOM), and (iii) its significant expansion in China, capitalising on the superpower's aggressive push for semiconductor self-sufficiency.
2. **KGB** for: (i) being a direct proxy to the front-end wafer fab expansion, (ii) its solid earnings visibility underpinned by both robust order book of RM1.3b and tender book of >RM1.9b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China.
3. **LGMS** for: (i) the high growth prospects of its core cybersecurity business in the under-penetrated local and regional cybersecurity markets, and specifically, higher demand for cybersecurity services from corporations locally on the heels of the enactment of Cybersecurity Bill 2024, (ii) the deep moat around its business given the high barrier to entry created by the tough qualification process as a vendor, and (iii) its new proprietary Star Sentry product as a new growth driver.

Exhibit 5: WSTS Semiconductor Sales Forecasts*



Spring 2024; Source: WSTS

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM) @ 14.06.2024	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net. Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	3.94	3.60	-8.6%	4,881.5	Y	12/2024	8.5	12.0	133.7%	41.6%	46.6	32.9	4.9	10.8%	1.4	0.4%
GHL SYSTEMS BHD	AO	1.07	1.08	0.9%	1,221.4	Y	12/2024	2.4	2.8	-3.5%	15.8%	44.8	38.8	2.3	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.83	4.60	20.1%	14,426.4	Y	06/2024	9.4	11.8	8.6%	25.8%	40.7	32.3	5.4	13.4%	8.9	2.3%
JHM CONSOLIDATION BHD	MP	0.680	0.610	-10.3%	409.1	Y	12/2024	3.3	4.1	40.0%	21.7%	20.4	16.7	1.2	6.2%	0.5	0.7%
KELINGTON GROUP BHD	OP	3.62	4.10	13.3%	2,430.2	Y	12/2024	16.1	19.4	1.0%	20.5%	22.4	18.6	5.7	27.7%	4.5	1.2%
KESM INDUSTRIES BHD	MP	7.41	7.04	-5.0%	318.7	Y	07/2024	4.0	8.1	-65.1%	102.8%	184.8	91.2	0.9	0.5%	0.0	0.0%
LGMS BHD	OP	1.55	1.90	22.6%	706.8	Y	12/2024	4.6	6.3	88.4%	37.0%	33.5	24.5	6.8	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES	OP	40.00	46.84	17.1%	7,957.2	Y	06/2024	74.5	138.0	141.8%	85.2%	53.7	29.0	3.8	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.99	2.06	3.5%	4,127.1	Y	12/2024	6.3	8.3	114.8%	30.8%	31.5	24.1	7.8	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.49	1.70	14.1%	954.0	Y	12/2024	5.7	6.5	165.0%	15.4%	26.3	22.7	5.4	22.4%	1.4	0.9%
PIE INDUSTRIAL BHD	OP	7.08	6.75	-4.7%	2,719.0	Y	12/2024	22.2	28.7	15.7%	29.3%	31.9	24.7	4.1	13.4%	7.0	1.0%
SKP RESOURCES BHD	OP	1.22	1.35	10.7%	1,906.1	Y	03/2024	7.3	8.5	18.5%	15.3%	16.7	14.4	2.0	12.4%	3.7	3.0%
UNISEM (M) BHD	MP	4.37	3.70	-15.3%	7,049.2	Y	12/2024	10.2	12.7	100.1%	24.9%	43.0	34.4	2.9	6.8%	6.0	1.4%
Simple Average										44.1%	32.8%	37.5	28.2	4.1	13.5%		1.0%

Source: Kenanga Research

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Telecommunications

OVERWEIGHT

Emerging Growth in Data Transmission

↔

By Kylie Chan Sze Zan I kyliechan@kenanga.com.my

We maintain OVERWEIGHT on the sector. For the mobile segment, monetization opportunities have emerged from providing 5G and generative artificial intelligence (Gen AI)-powered cloud solutions to enterprise clients. On top of that, looming announcement of the 5G Dual Network policy directive would finally resolve uncertainty that has dragged sentiment. Whereas for fixed players, they will benefit from the recent influx of data center (DC) investments via strong demand for fiber optics backhaul and submarine cables. Lastly, infrastructure players are expected to participate in the rollout of 5G towers in regional markets (i.e. Laos, Vietnam and Indonesia), including Malaysia. Our sector top picks comprise CDB (OP; TP: RM5.97) and TM (OP; TP: RM7.53).

1. Mobile

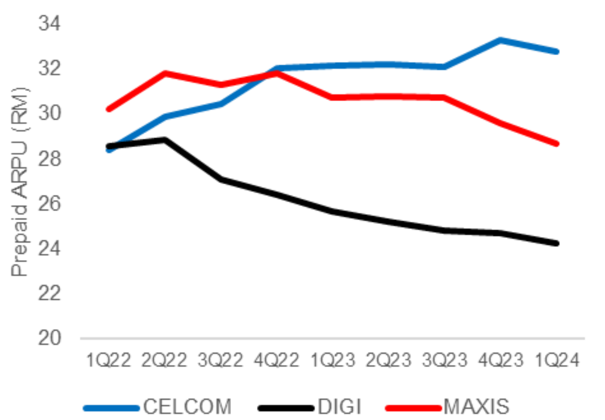
5G dual network may finally crystalize. For mobile players, developments that may materialize in 3QCY24 include unveiling of the official 5G Dual Network (DN) policy directive. Hence, this may finally reveal the final equity stake for each telco player in either entity A or B. Recall that the said entities are being set up to facilitate the Malaysia's transition from the 5G Single Wholesale Network model to DN. Entity A will assume control of the existing first 5G network owned by Digital Nasional Berhad (DNB), whilst B will develop the new second 5G network from the ground up. This follows after the major telco players (i.e. **CDB, MAXIS (OP; TP: RM5.30)**, **TM**, **YTLPOWR (MP; TP: RM5.22)** and U Mobile Sdn Bhd) finalized their respective share subscription agreements (SSA) signed with the Ministry of Finance and DNB, resulting in the telcos collectively owning 70% stake in DNB.

Not to be left out from Gen AI revolution. Mobile players are capitalizing on Gen AI by expanding their integrated cloud solutions to include cloud-based Gen AI tools and applications. For instance, **MAXIS** and Amazon Web Services (AWS) are collaborating to push Gen AI and 5G for **MAXIS'** customers in the retail, manufacturing, logistics and financial services segments. One of the key focuses of this collaboration includes training of a large language model in Bahasa Melayu. Similarly, **CDB** and AWS also aim to offer Malaysian businesses with personalized Gen AI applications spanning various industries. Against this backdrop, we believe that enterprise sales may receive an uplift in 2HCY24 and beyond as industries and enterprises adopt Gen AI-powered cloud offerings. Our beliefs are reinforced by Credence, **TM**'s cloud and digital services subsidiary which believes that the market for cloud services in Malaysia is finally poised for growth. This is mainly catalyzed by the government's recent adoption of these services.

For ARPUs, lower is the new normal. Moving forward, we believe there is upside risk for **MAXIS**' postpaid ARPU as it intensifies its focus to target affluent postpaid customers and families. Meanwhile, **CDB** also expects an uplift in postpaid ARPU on the back of: (i) introduction of converged offerings, and (ii) opening of new channels to serve "corporate individuals". On the back of this, we envisage some relief to postpaid ARPUs after a prolonged period of sequential decline.

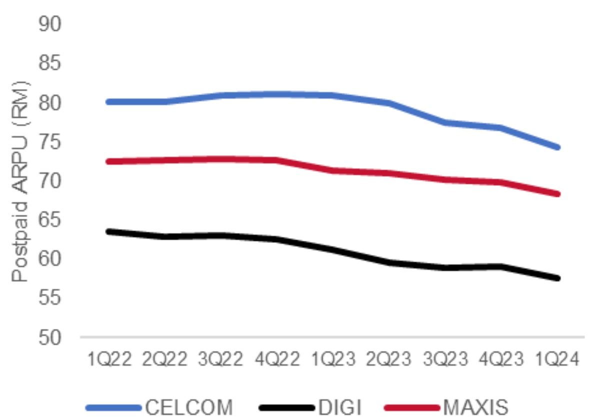
Meanwhile, for the prepaid segment, we expect sustained ARPU weakness as competitive headwinds prevail and pre-to-postpaid migration trends continue. To recap, higher-end prepaid users will likely feel compelled to upgrade to cheaper entry level postpaid plans, priced as low as RM30-RM40 per month. Hence, we expect the remaining prepaid user base and new incoming subscribers to have lower ARPU.

Prepaid ARPU



Source: Companies Kenanga Research

Postpaid ARPU

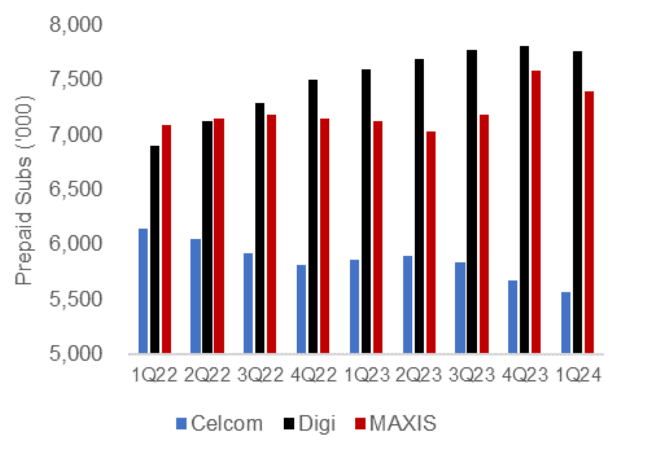


Source: Companies, Kenanga Research

Prepaid churn due to evolved strategy. We believe that prepaid subscriber churn will stretch into 3QCY24 as mobile players continue with their new postpaid subscriber acquisition strategies. To recap, this strategy involves reducing entry-level prices for postpaid plans to target high-end prepaid customers. Hence, this likely resulted in the migration of prepaid customers to postpaid, as reflected in quarterly trends. To recap, in 1QFY24, all operators incurred QoQ subscriber net losses in the prepaid segment, ranging from 55k (Digi) to 192k (**MAXIS**) in 1QCY24. In particular, this translates to the third consecutive quarter of prepaid churn at Celcom, averaging at 110k since 3QCY23.

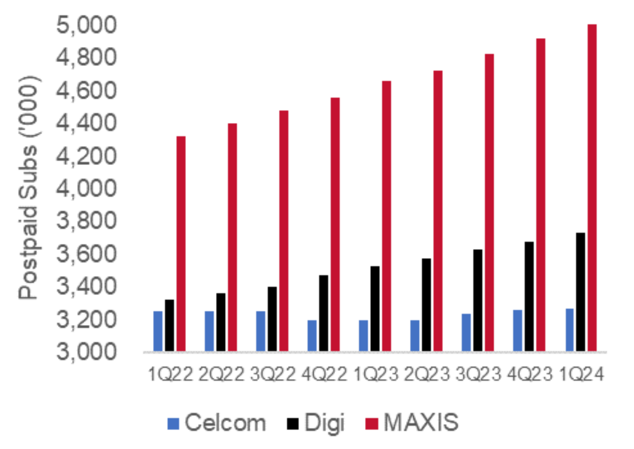
Postpaid subscribers set to continue growth. Premised on the same strategy above, we expect that postpaid net adds momentum will expand in 3QCY24 and beyond. As mentioned, we believe the growth will be driven by **CDB**, as it is now eyeing to mirror **MAXIS** in targeting converged customers and 'corporate individuals', that have higher retention rates. To recap, in 1QFY24, all three major operators achieved quarterly postpaid net adds ranging from 13k (Celcom) to 111k (**MAXIS**). In particular, **MAXIS**' postpaid net adds momentum averaged at an impressive 89k since 1QCY22 due to sustained popularity of its convergence offerings and new Hotlink plans. Meanwhile, Celcom and Digi also achieved commendable net adds since the past three quarters, averaging at 38k per quarter.

Prepaid Subscribers



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, Kenanga Research

2. Fixed

Retail broadband market maturing. For fixed broadband, we believe that the market will continue to grow steadily moving forward, albeit at a normalized rate after having plateaued in recent quarters. Evidently, in 1QCY24, sequential net adds for **TM**'s Unifi Home subscribers narrowed to 9k (4QFY23: RM19k), implying a sustained downtrend after its peak of 208k back in 3QCY21. Meanwhile, **MAXIS'** home fiber net adds tapered off QoQ to 14k (4QFY23: 20k) in comparison to 25k a year ago. Nevertheless, we expect the market to remain rational on pricing, after a round of regulatory-driven adjustments back in 4QCY23. This was reflected in mixed sequential trends in 1QCY24, where **MAXIS'** ARPU expanded to RM110 (4QFY23: RM108), while Unifi contracted slightly to RM130 (4QFY23: RM131).

Expect strong demand growth for wavelength services. Moving forward, we believe that fixed players will benefit from the recent influx of investments in DC, cloud and AI infrastructure in Malaysia. To recap, over the past month, US-based tech giants, namely AWS, Microsoft, and Google announced investments in Malaysia totaling USD6b, USD2.2b, and USD2b, respectively, for these assets. Nevertheless, even before the onset of generative AI, the proliferation of DCs in Malaysia to host private or public clouds has been ongoing since before 2020. Evidently, according to Structure Research, there is a substantial pipeline of new DC capacity in Johor and Cyberjaya in 2023-28, amounting to 331MW and 255MW, respectively. This translates to a multi-fold expansion from total current live capacity of 141MW for both regions. Moving forward, we expect sustained traction in DC investments as hyperscalers and content providers require higher storage and compute capacity for GenAI cloud offerings.

Against this backdrop, we anticipate sustained strong demand for fiber optics backhaul, network hubs, as well as submarine cables and landings that connect DCs to global networks. On the back of this, TM revealed last month that it has successfully set up managed wavelength services for data transmission between global hyperscale DCs. Additionally, the upcoming completion of the SEA-ME-WE 6 submarine cable system will accommodate increased demand from new DCs in Malaysia. To recap, TM is part of a consortium for the 21,700 km Southeast Asia - Middle East - Western Europe 6 (SEA-ME-WE 6) submarine cable system. It has a capacity of 100 Tbps and connects France and Singapore, with 17 landing points in 15 countries.

3. Infrastructure

5G roll-outs at home and regionally. For infrastructure players, there may be new tower contract awards in 3QCY24 on the back of the roll-out of 5G in regional markets, including Malaysia. In particular, **OCK (OP; TP: RM0.86)** will participate in the nationwide roll-out of 5G towers in Laos by starting off at several site clusters located within the metropolitan area of Vientiane and a few major cities. Additionally, there are also opportunities at Vietnam, where the telco regulator recently awarded two 5G spectrum licenses in March for Viettel and VNPT. Meanwhile, at Indonesia, 5G roll-out is looming on the horizon as the auction for 5G spectrum (700MHz and 26GHz bands) will likely open in 2HCY24, according to XL Axiata. Whereas in Malaysia, following the anticipated completion of DNB's SSAs, we expect sustained deployment of the first 5G network in Malaysia via the roll-out of an additional 2,500 (estimate) sites in 2024 (2023: c. 5,000 sites). In addition, moving forward, as the upcoming second 5G network in Malaysia takes shape, tower operators may participate in its development via: (i) co-location at existing tower sites, and (ii) construction of new build-to-suit (BTS) towers, rooftop structures, in-building solutions etc.

4. Summary

Service revenue expansion opportunities. Moving forward, we believe it is imperative for telco players to diversify and increase their service revenue streams to include recurring subscription revenues from other sources, particularly enterprises. This is in-lieu of recent market trends that allude the risk of service revenue erosion of telcos' bread-and-butter retail business. As illustrated earlier, this is underpinned by: (i) mobile postpaid and blended ARPU compression, (ii) competitive pressure from MVNOs in the mobile prepaid space, and (iii) maturing retail broadband market. On the back of this, telco players are ramping up their businesses in: (i) managed services, (ii) integrated cloud services, (iii) 5G solutions (including internet-of-things (IoT) and private networks,), (iv) enterprise solutions, (v) cybersecurity services, and (vi) wholesale business (bandwidth and infrastructure). We believe that traction in these services will ramp up in the near-to-medium term, on the back of recent trends and developments such as: (i) digitalization of enterprises (including education institutes and government agencies), (ii) deployment of 5G technology, (iii) emergence of Gen AI and smart technologies that leverage on IoT, and (iv) proliferation of data centre investments in Malaysia. We believe there is significant room for growth for: (i) **MAXIS** which enterprise and fixed solutions expanded by 10% YoY in FY23 and merely accounted for 7%/9% of FY22/FY23 total service revenue, and (ii) **TM** which non-Unifi revenues comprise 44%/52% of FY22/FY23 total revenue. Furthermore, traction has been encouraging for **CDB**'s business-to-business segment as revenue from enterprise solutions expanded 7% YoY.

Maintain overweight. We believe investors are more upbeat as monetization opportunities emerge from providing 5G solutions to enterprise clients. On top of that, the looming announcement of the official 5G DN policy directive would finally resolve uncertainty that has dragged sentiment on mobile players. Furthermore, as adoption of Gen AI gains momentum, it could emerge as a future revenue driver via the provision of Gen AI powered cloud solutions to enterprises. Moving forward, we believe that fixed players will benefit from the recent influx of DC investments in Malaysia. This is via strong demand for fiber optics backhaul and global submarine cables that connect DCs to global networks. Lastly, infrastructure players are expected to receive tower contracts from the roll-out of 5G in regional markets (i.e. Laos, Vietnam and Indonesia), including Malaysia. We maintain our **OVERWEIGHT** recommendation on the sector with our top picks being **TM** and **CDB**.

We like **TM** on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), generative AI cloud-based applications, etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, and (iii) earnings accretion from potential development of new hyperscale data centre and higher data transmission volumes for its network of submarine cables.

We like **CDB** for the following reasons: (i) merger synergies are expected to amount to NPV of RM8b over 5 years – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust average FCF yield of 7.9% in FY24-25 implies capacity to pay steady dividends, and (iii) leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively, translating to pricing power and economies of scale.

Peer Comparison

Name	Rating	Last Price (14/06/24) (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	OP	2.79	3.00	7.5%	25,617.6	Y	12/2024	7.1	7.2	19.6%	1.7%	39.5	38.8	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.72	5.97	60.5%	43,641.2	Y	12/2024	17.2	18.8	6.4%	9.0%	21.6	19.8	2.6	11.4%	14.0	3.8%
MAXIS BHD	OP	3.63	5.30	46.0%	28,430.4	Y	12/2024	16.7	17.9	6.2%	7.2%	21.8	20.3	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.595	0.860	44.5%	634.7	Y	12/2024	4.8	5.2	21.4%	8.1%	12.3	11.4	0.9	7.7%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.52	7.53	15.5%	25,021.8	Y	12/2024	45.6	46.2	-13.2%	1.5%	14.3	14.1	2.5	18.0%	23.5	3.6%
SECTOR AGGREGATE					**123,345.7**					**0.9%**	**5.5%**	**21.4**	**20.3**	**2.5**	**12.6%**		**3.8%**

Source: Bloomberg, Kenanga Research **** (as of 14/06/2024)***

Utilities

NEUTRAL

↔

Life After Data Centre Exuberance

By Teh Kian Yeong I tehky@kenanga.com.my

We remain NEUTRAL on the sector. We believe justice has been done, for instance, to TENAGA (MP; TP: RM14.50) with a 40% appreciation in its share price YTD which has added RM23b to its market capitalisation on the back of the frenzy on data centre-related stocks. Nonetheless, we will still hold utilities stocks for their earnings defensiveness backed by regulated assets and a decent dividend yield of 3% to 6%. TENAGA guided for electricity demand growth of 2.5% to 3.0% in FY24, driven by electricity demand from new data centres. Meanwhile, stabilising coal prices meant that negative fuel margin, which blew a big hole in power producers' earnings in CY23, is unlikely to recur in CY24, while normalising gas prices will have a mixed impact on gas utilities.

New data centres drive electricity demand growth. TENAGA guided for a decent electricity demand growth of 2.5% to 3.0% in Peninsular Malaysia in FY24 (from a high base of 3.6% in FY23 on economy reopening) underpinned by data centres completed in FY23 (c.635MW) and nine more (c.700MW) to be completed this year, with two of them (535W) already completed in 1QFY24. Over a longer time horizon, **TENAGA** projects a total potential demand of >5,000MW of electricity annually from new data centres by CY35. While **TENAGA** is a good proxy to the energy-intensive new data centres, we believe justice has been done with a 40% appreciation in its share price YTD, adding RM23b to its market capitalisation.

TENAGA in significant capex programs. TENAGA is also embarking on the transition to green energy with a pipeline of green energy projects with a combined capacity of c.7,300MW comprising hydro plants, hybrid hydro-floating solar PV projects, a hydrogen-ready combined cycle power plant, corporate green power program (CGPP) and large-scale solar parks. In FY24, its energy transition capex is budgeted at RM3.2b. Meanwhile, it also needs to upgrade the transmission and distribution (T&D) system including power grid to meet the demand from the growing renewable energy (RE) assets. A higher T&D capex will increase **TENAGA**'s regulated asset base (RAB), resulting in higher absolute earnings based on a return pegged to WACC of 7.3% under the Regulatory Period 3 (RP3). **TENAGA** has set aside RM7b capex in FY24 for its regulated business and RM5b to RM6b for non-regulated power generation business such as solar farms and hydropower plants.

Stable fuel prices. Meanwhile, prices for coal and gas have been fairly benign in the past six months as opposed to a surge in 2HCY22, followed by a collapse in 1HCY23. As a result, **TENAGA's** receivables, including Imbalance Cost Pass-through (ICPT) receivables declined by a sharp 54% to RM10.2b in 1QFY24 from a peak of RM22.0b in 4QFY22. The shrinking ICPT receivables will result in lower working capital requirements and hence lower interest expenses and better earnings going forward for **TENAGA.** On the other hand, stabilising coal prices mean that negative fuel margin that blew a hole in power producers' earnings in CY23 is unlikely to recur in CY24. **TENAGA** reported a smaller negative fuel margin of RM25.8m in 1QFY24 against a whopping RM618.7m in FY23 while **MALAKOF (MP; TP: RM0.68)** posted negative fuel margin of RM37.2m in 1QFY24 as opposed to a massive RM828.2m registered in FY23.

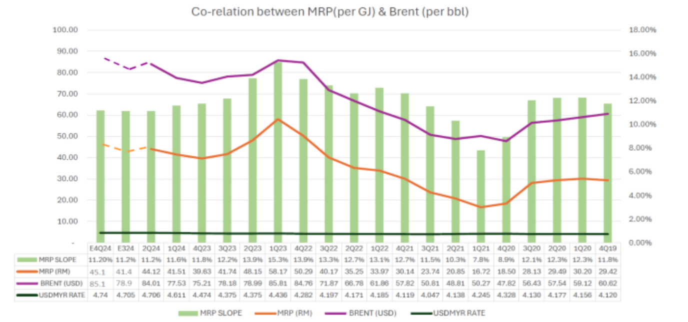
Mixed impact on gas utilities. While the movement of gas prices has neutral earnings impact in the long run under the regulated framework, soft gas price is positive on **PETGAS (MP; TP: RM17.87)** over the short term as it translates to lower internal gas consumption (input cost) for its regulated business as well as non-regulated utilities segment. The utilities segment uses gas as fuel to generate and supply power, stream and industrial gasses to industries. However, weak gas price works against **GASMSIA's (MP; TP: RM3.59)** non-regulated retail margins, which are calculated based on a fixed percentage on the gas selling price. Nonetheless, this will be cushioned by gas sales volume growth of 4% to 5% in FY24, driven largely by strong demand from the rubber glove, consumer product and F&B sectors.

We remain NEUTRAL on the sector. The sector offers earnings defensiveness backed by regulated assets. We downgrade **TENAGA** to **MARKET PERFORM** from **OUTPERFORM** following its recent run-up in its share price. Other utilities stocks are fully valued as well. Nonetheless, utilities stocks still offer dividend yields of 3% to 6%. We have no top pick for the sector.

Indonesia Coal Benchmark Price (USD)

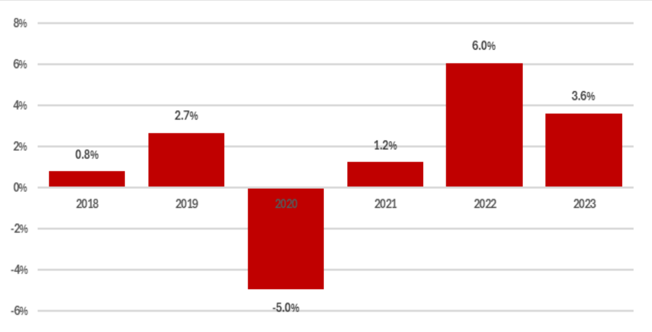
Source: Bloomberg

Natural Gas Price Movement



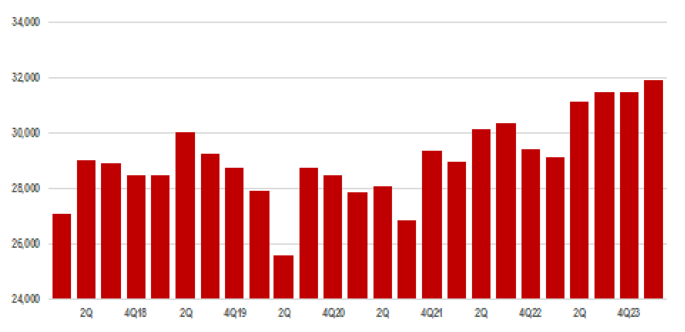
Source: GASMSIA

TENAGA: Annual Electricity Demand Growth



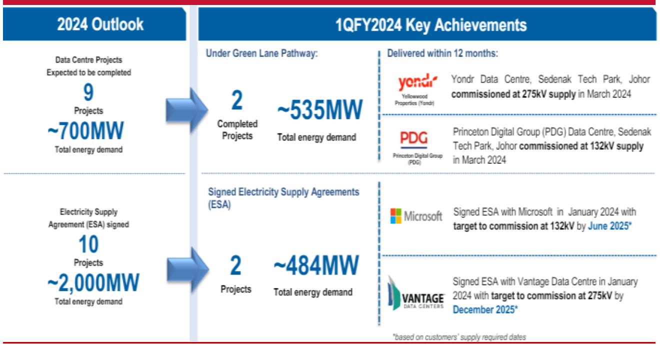
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



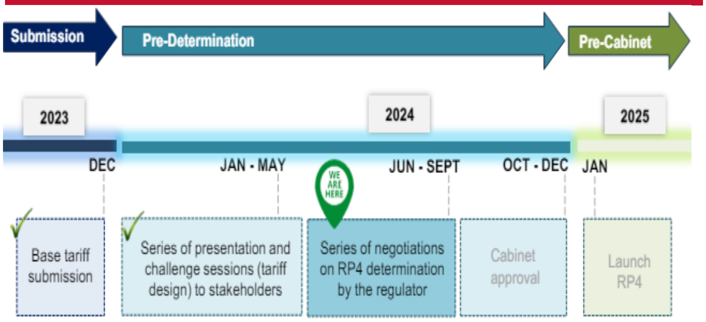
Source: Tenaga

Data Centre Prospects



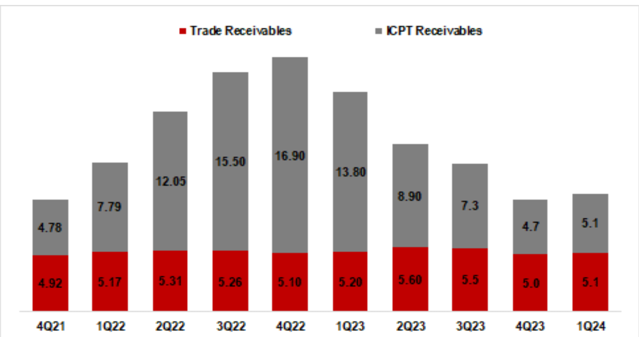
Source: Tenaga

TENAGA: RP4 Milestone



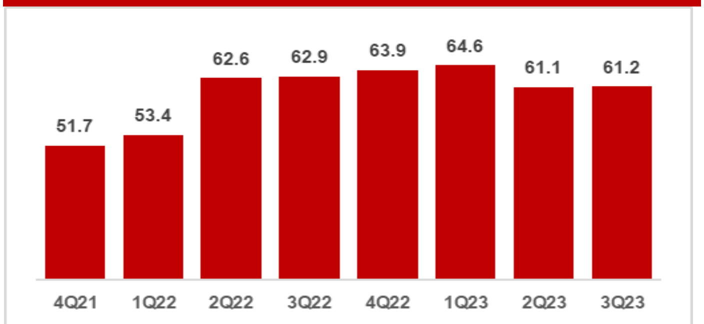
Source: Tenaga

TENAGA: Trade & Other Receivables (RM b)



Source: Tenaga

TENAGA: Borrowings (RM b)



Source: Tenaga

Peer Table Comparison

Name	Rating	Last Price @ 14/6/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.65	3.59	-1.6%	4,686.6	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.9	13.3	3.2	25.8%	22.7	6.2%
MALAKOFF CORP BHD	MP	0.775	0.680	-12.3%	3,787.4	Y	12/2024	4.7	5.8	-71.9%	24.1%	16.5	13.3	0.9	5.2%	3.8	4.9%
PETRONAS GAS BHD	MP	17.66	17.87	1.2%	34,944.4	Y	12/2024	98.4	100.7	5.2%	2.4%	18.0	17.5	2.5	14.2%	72.0	4.1%
SAMAIDEN GROUP BHD	OP	1.34	1.51	12.7%	560.8	Y	06/2024	3.5	5.3	26.4%	51.9%	38.5	25.4	5.4	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.72	1.91	11.0%	1,195.1	Y	03/2025	6.8	8.5	62.5%	24.2%	25.1	20.2	4.4	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	14.08	14.50	3.0%	81,485.6	Y	12/2024	75.2	81.9	40.1%	8.9%	18.7	17.2	1.3	7.1%	37.2	2.6%
Sector Aggregate					**169,927.4**					**55.8%**	**3.8%**	**16.8**	**16.2**	**2.8**	**15.0%**		**2.7%**

Source: Kenanga Research

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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.***

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