

Market Strategy

Poised For a Higher High?

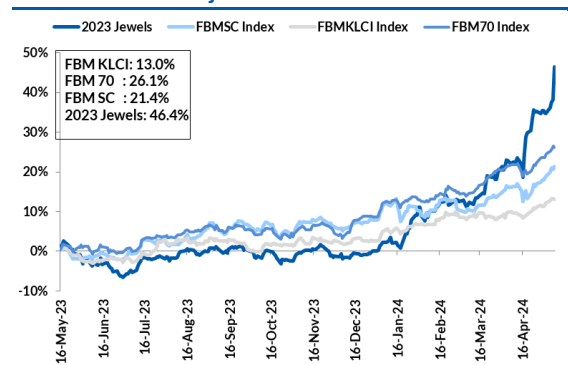
- Market remains steadfast.** Despite the robust performance, market valuation remains near the historical mean. We believe the small-mid cap arena is renowned for its agility and exposure to various thematic trends, offering potential for alpha generation although the big-cap space is equally vibrant. Once again, the [RHB Top 20 Malaysia Small Cap Companies Jewels 2023](#) demonstrated positive trends, outperforming the broader market with a remarkable 46.4% return. A strategy focusing on profit taking from winners commanding rich valuation and an emphasis on laggard plays in bottoming-out stocks, may prove prudent. We continue to like names from the property, construction, consumer, logistics, oil & gas, and technology sectors.
- The 20 Jewels did it again!** A remarkable value-weighted holding period return was achieved since our book launch on 16 May 2023, compared to the FBM 70 (+26.1%) and FBM SC (+21.4%) (see page 6 for detailed information on the performances). This performance is noteworthy given the prevailing market volatility stemming from a prolonged high interest rate environment and geopolitical tensions at the time of our book launch. During the comparative period, the FBM SC and FBM 70 also experienced significant gains, buoyed by optimism surrounding better economic prospects, in addition to the various thematic plays.
- The momentum continues.** The FBM 70 (+16.0%) maintained its robust momentum, outpacing the FBM KLCI (10.1%). This surge was driven by vigorous trading activities and the impressive performances of the property, construction, and technology-related stocks. Similarly, the FBM SC (+12.6%) marginally outpaced the FBM KLCI, supported by the strength of property, construction, EMS, and commodity stocks. Overall, sentiment received a significant boost amidst a slowing inflation and resilient domestic economy. Encouraging inflows from local institutions and foreign funds further bolstered the market rally. Corporate exercises, value-unlocking strategies, and thematic plays also contributed to the dynamic market movement.
- Elevated market volume.** The strong trading interest seen in 2H23 sustained into 2024 for the YTD trading value of FBM 70 (+40%) and FBM SC (+55%) – on the back of investors' revived interest in our local bourse, spurred by accommodative government initiatives, as well as thematic plays such as Johor, Sarawak, water, infrastructure, data centre, and better corporate earnings prospects. This is further boosted by signs of increased foreign investor participation stemming from more fund flows into the emerging market (EM).
- Valuation spread has narrowed.** Despite the strong run-ups in the small-mid-cap space YTD, forward P/E for both the FBM SC (11-12x) and FBM 70 (15-16x) are now at the near historical mean as shown in Figures 12 and 13, based on Bloomberg data. This suggests that there are still various opportunities for investors to continue look at winning stocks within these spaces. Nonetheless, small- to mid-cap stocks are presently trading at a slight premium to the FBM KLCI, based on our stock coverage universe as indicated in Figure 11, vis-a-vis higher growth expectations of 12.8% compared to 9.4% for the FBM KLCI.
- Strategy.** We advocate for investors to prioritise fundamentally strong companies capable of delivering above-industry growth, alongside identifying turnaround candidates. Various investment avenues remain pertinent, including the burgeoning demand for data centre infrastructure, regional growth themes in Sarawak, Johor, and Penang, robust trends in commodities, and the recovery in the semiconductor space. Additionally, laggard plays on bottoming-out stocks are expected to persist in current market conditions. Economic recession, persistent high interest rate environment, earnings disappointment, liquidity issues, political instability, and ESG-related risks are among the potential risks.

Analyst

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2023 Jewels vs major indices



Source: Bloomberg, RHB

Small-mid caps – Top Picks	TP/FV (MYR)
Malaysian Pacific Industries	35.90
Unisem (M)	4.40
UEM Sunrise	1.60
Guan Chong	3.30
Dayang Enterprise	2.95
Kerjaya Prospek	2.15
Easter & Oriental	1.38
TASCO	1.15
Samaiden	1.76
Focus Point	1.02
AWC	1.06
Inta Bina	0.54

Source: RHB

Performance of 2023 Jewels	Return
Value-weighted return	46.4%
Equal-weighted return	38.4%
FBM KLCI	13.0%
FBM70	26.1%
FBMSC	21.4%

Note: HPR is from 15 May 2023 to 9 May 2024

Source: RHB, Bloomberg

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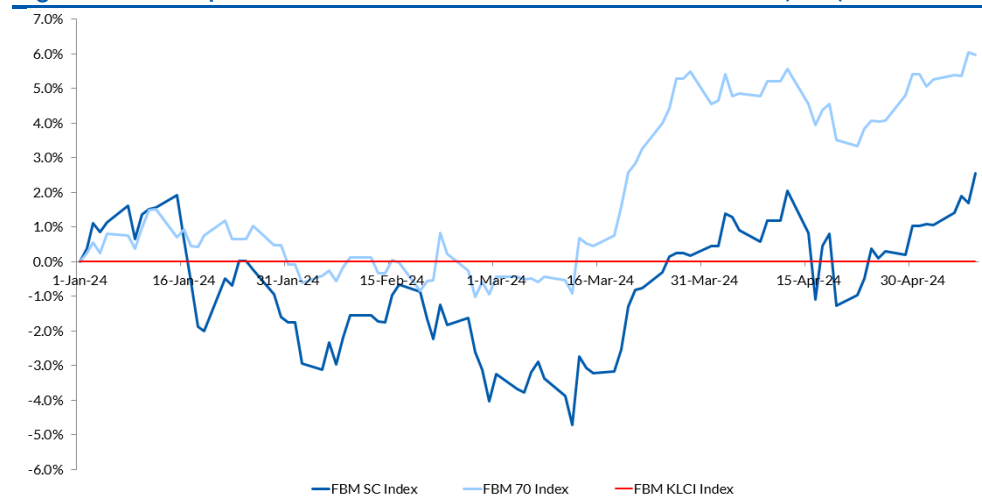
Small-Mid Cap Outlook

A turbo-charged 1Q24

FBM 70 (+16.0%) maintain its robust momentum, surpassing the FBM KLCI (10.1%). This was fuelled by vigorous trading activities (value traded: +32%) and the impressive performances of property, construction, and technology-related stocks. Concurrently, the FBM SC (+12.6%) outpaced the FBM KLCI marginally, supported by the property, construction EMS and commodity stocks, while the latter index has benefited from strong interest returns in banks and power-related counters.

Overall, sentiment experienced a significant boost amidst a slowing inflation and resilient domestic economy, despite the weakening USD. Encouraging flows from local institutions and foreign funds further supported the market rally, while certain corporate exercises, value-unlocking strategies, and thematic plays also contributed to market movement.

Figure 1: Relative performance of the FBM SC and FBM 70 vs FBM KLCI (YTD)



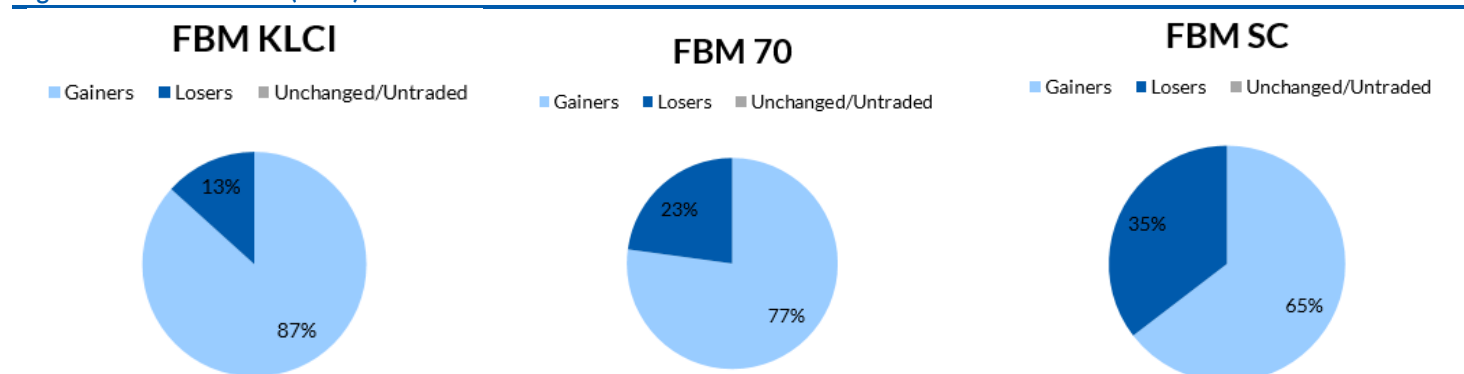
Source: Bloomberg, RHB

Figure 2: Yearly returns of major indexes

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (YTD)
FBM KLCI	10.3%	10.5%	-5.7%	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	-4.6%	-2.7%	10.1%
FBM 70	6.6%	15.0%	-7.9%	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-6.2%	-8.4%	12.3%	16.0%
FBM SC	-1.6%	36.7%	-4.2%	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	1.3%	-5.3%	9.6%	12.6%

Source: Bloomberg, RHB

Figure 3: Market breadth (2024)

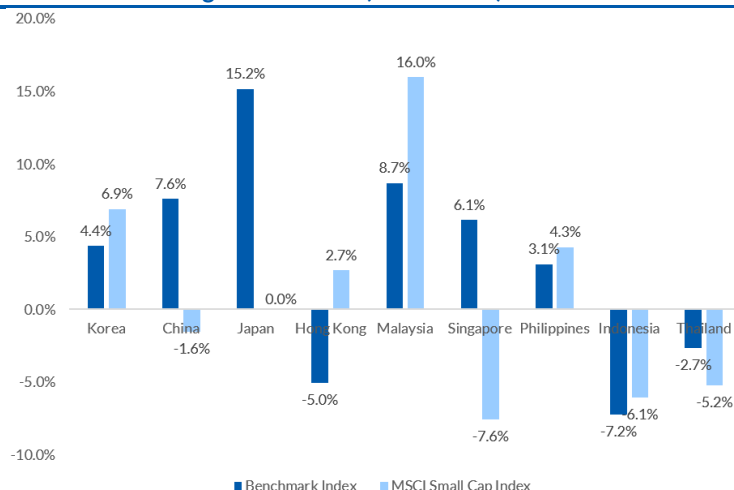


Source: Bloomberg, RHB

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Figure 4: Performance of regional markets (MSCI Index)

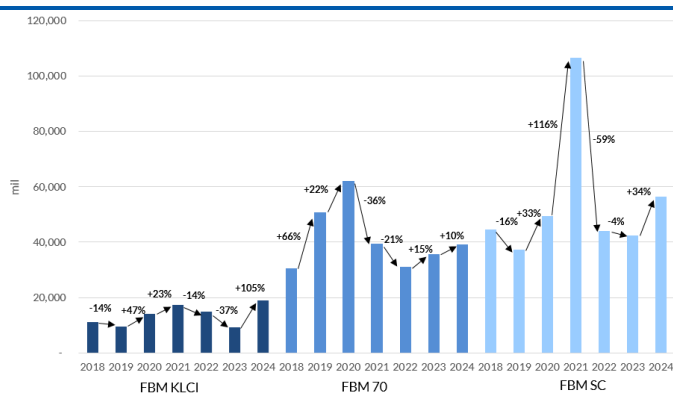


Source: Bloomberg, RHB

Robust trading activities

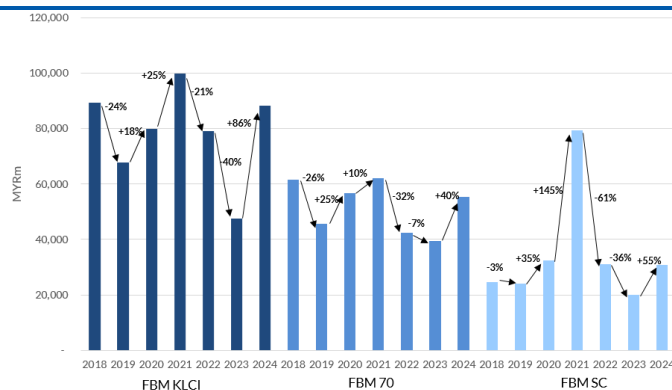
The strong trading interest seen in 2H23 sustained into 2024 for the FBM 70 (+10%) and FBM SC (+34%). Trading volume and value expanded YoY on the back of investors' revived interest in the local bourse, spurred by accommodative government initiatives/policies, as well as thematic plays such as Johor, water, infrastructure, data centre, and expectation of a stronger corporate earnings YoY. In fact, the FBM KLCI also staged a strong comeback following a lacklustre 2023, as institutional investors position into the various pockets of growth in FY24 as well as intensified rotational play. Signs of increased foreign investor participation stemming from more fund flows into EM from the developed market.

Figure 5: Trading volume



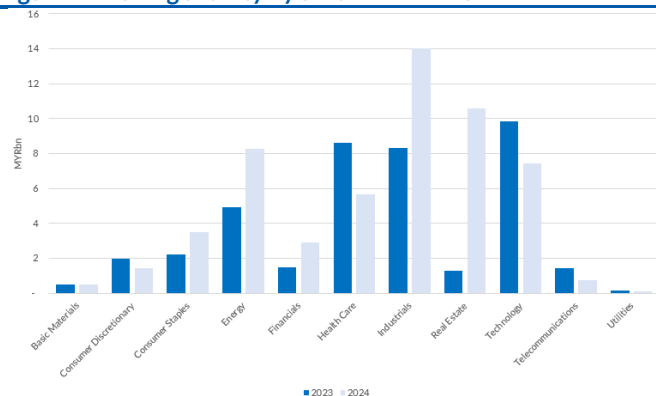
Source: Bloomberg, RHB

Figure 6: Total turnover (MYRm)



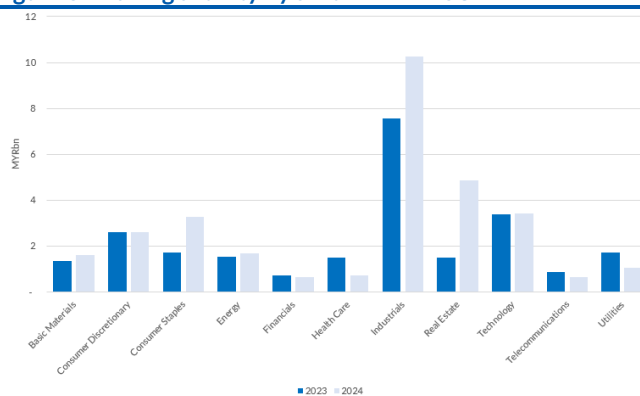
Source: Bloomberg, RHB

Figure 7: Trading activity by sector – FBM 70



Source: Bloomberg, RHB

Figure 8: Trading activity by sector – FBM SC

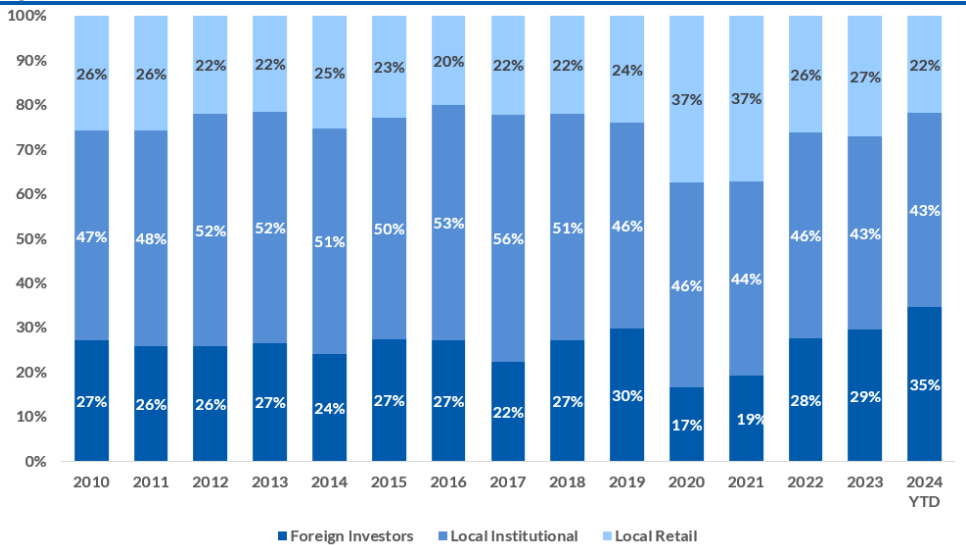


Source: Bloomberg, RHB

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Figure 9: Bursa Malaysia's trade statistics



Source: Bloomberg, RHB

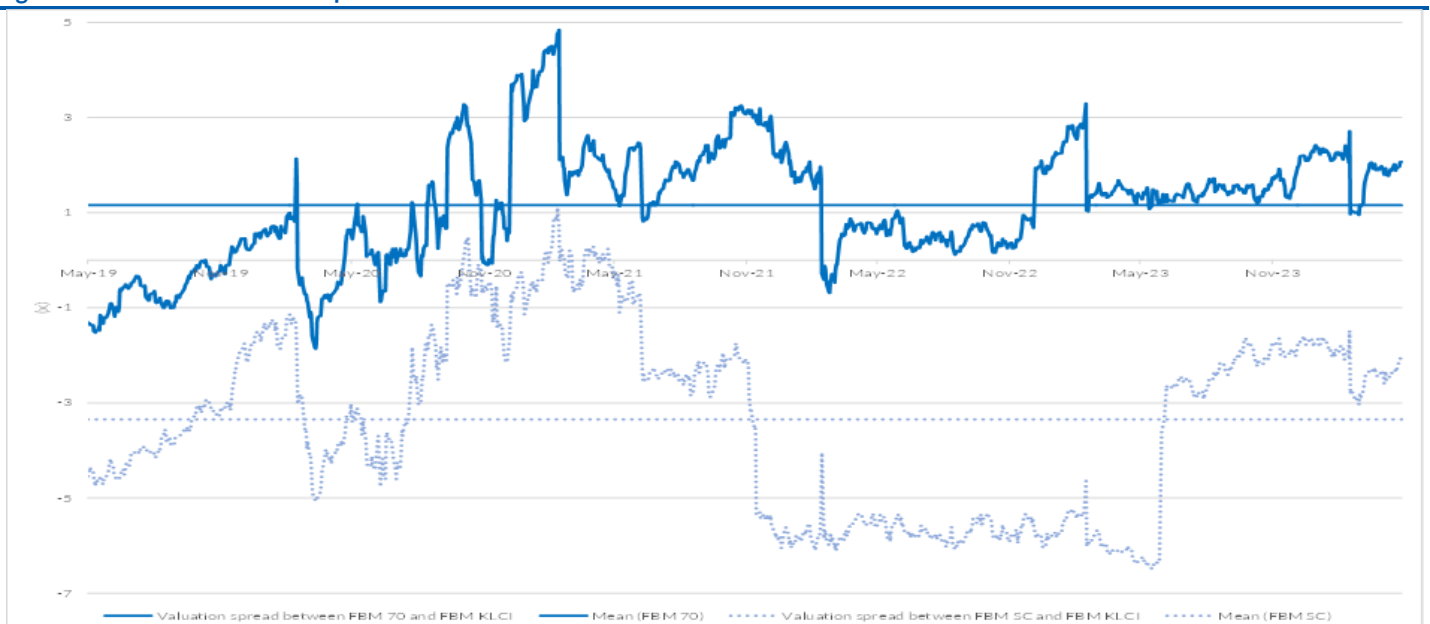
Narrower valuation spread

Thanks and no thanks to the strong run-ups in the small-mid-cap space over the past six months, small- to mid-cap stocks are presently trading on par with the FBM KLCI, albeit at higher growth expectations of 12.7% vis-à-vis 9.1% for FBM KLCI – this is based on our stock coverage universe (as indicated in the earnings table Figure 11). Hence, further upside to the small-mid caps will be more of a bottom-up stock-specific catalyst instead of a continued rally across the board.

Nonetheless, despite the strong rally, forward P/E for both the FBM SC (11-12x) and FBM 70 (15-16x) are now at the near historical mean as shown in Figure 12 and Figure 13 suggests that there are still various opportunities for investors to continue look at winning stocks within these spaces.

Based on data compilation from Bloomberg, FBM SC is currently trading at a discount (-2x) to the FBM KLCI's FY25F P/E of ~13-14x, remain below its 5-year historical mean valuation spread, further emphasising the potential for alpha returns in this sector. Conversely, the FBM 70 trades at a premium (+2x) to the FBM KLCI, reflecting its strong performance over the past year and remaining above historical mean levels.

Figure 10: Historical valuation spread



Source: Bloomberg, RHB

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Figure 11: Earnings outlook and valuation

COMPOSITE INDEX @ 1,601.22 9 May 2024	FBM KLCI			RHB BASKET			RHB BASKET (EX-FBM KLCI)		
	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
Revenue growth (%)	1.6	4.6	4.1	3.5	6.6	5.7	9.3	9.0	6.8
EBITDA growth (%)	(7.0)	13.9	1.6	(6.7)	13.8	1.9	0.5	12.0	8.1
Normalised earnings growth (%)	1.1	11.7	5.5	0.9	12.0	5.7	(3.2)	17.5	10.4
Total PATAMI (MYRm)	56,707	64,269	68,153	75,265	87,630	94,155	18,558	23,361	26,001
Normalised EPS (sen)	57.2	62.6	66.0	47.6	52.3	55.5	23.4	26.4	29.2
Normalised EPS growth (%)	0.1	9.4	5.4	(0.5)	9.9	6.2	(4.0)	12.8	10.9
Prospective P/E (x)	17.8	15.7	14.8	18.8	16.1	15.0	21.6	17.2	15.4
Normalised EPS (sen) ex-plantation	57.4	63.0	66.7	47.5	52.5	55.8	23.9	27.6	30.0
Normalised EPS growth (%) ex-plantation	4.3	9.7	5.9	3.8	10.6	6.4	1.3	15.5	8.8
Prospective P/E (x) ex-plantation	16.4	14.7	13.7	17.5	15.0	14.1	20.8	16.1	15.0
P/BV (x)	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.2
Dividend yield (%)	3.7	3.8	3.9	3.7	3.5	3.7	3.5	3.0	3.3
ROE (%)	13.2	14.2	14.1	13.0	13.9	14.0	12.5	13.0	13.7

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie HLF, YTL, RHB Bank, and PPB

Source: Bloomberg, RHB

Numerous selective opportunities persist

Building on a strong year and 1Q24, the FBM 70 and FBM SC are poised to capitalise on the positive momentum entering 2Q24 – bolstered by a promising economic outlook and corporate earnings growth. However, volatility may ensue as we approach 2Q, typical of a less-robust global market season, compounded by the unveiling of 1Q24 results and the "sell in May and go away" phenomenon.

Despite the rally, small-mid-cap valuations remain attractive for their growth potential, particularly in thematic trends and trading at near historical mean valuation only. While the small-mid cap space is often preferred for its higher growth prospects and for stocks that are in the right thematic trend, balancing exposure between value and growth stocks is paramount in the current dynamic landscape.

In 2Q24, various investment avenues remain relevant, including i) data centres; ii) the property sector revival; iii) regional growth themes in Sarawak, Johor, and Penang; iv) strong commodities trends; and v) semiconductor space recovery. Additionally, optimism surrounding a stronger corporate earnings outlook from a low base in 2023 continues to persist, alongside potential opportunities in M&A and bottoming-out stocks for cyclical recovery. Favourable industries include property, construction, consumer, logistics, oil & gas, and technology.

Major infrastructure projects and increasing property sales, coupled with improved sentiment, will sustain the robust performance of the property and construction sectors, in our view. The logistics sector, particularly in 3PL, may witness higher throughput volume due to trade activity rebounding and contributions from new warehouses, supported by government incentives.

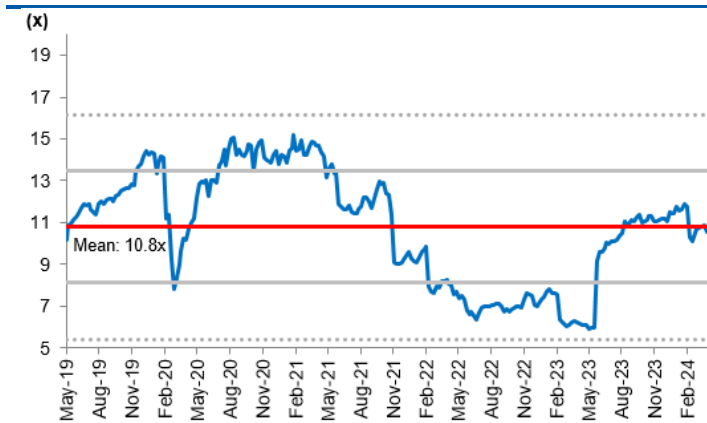
After a lacklustre year for consumers, there could be opportunities for recovery in companies poised to benefit from the normalisation of input costs. Besides, the introduction of the Employees Provident Fund (EPF) Account 3 and salary increase of civil servants could be the boon to support discretionary spending. However, this could be offset by the impending subsidy rationalisation, depending on the scale of price rationalisation. Oil & gas activities are anticipated to remain high, driven by better FPSO rates and demand, while solar energy continues to be in trend due to favourable policies and downward-trending panel prices.

A technology sector recovery is expected in 2H24, prompting investor positioning in 2Q24, especially with enhanced guidance and visibility shared during the results briefings in May. Additionally, the non-semiconductor space, particularly players in the IT infrastructure segment, should continue benefiting from public spending and the technology refresh cycle.

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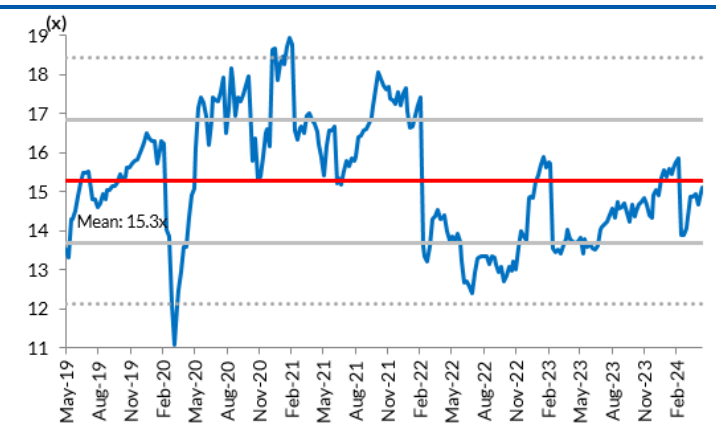
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Figure 12: P/E band for FBM SC



Source: Bloomberg, RHB

Figure 13: P/E band for FBM 70



Source: Bloomberg, RHB

Risks:

- i. Persistent high interest rate environment;
- ii. Susceptible to higher input costs;
- iii. Slump in consumer demand;
- iv. Earnings disappointment;
- v. Liquidity issues, which may compound fund outflows;
- vi. Unfavourable forex movement;
- vii. Higher ESG-related risks for smaller-cap companies.

Figure 14: Small-mid caps – Top Picks

	FYE	Price	TP	Shariah	Mkt cap	EPS (sen)		EPS growth (%)		P/E (x)		P/BV (x)	P/CF (x)	DY (%)	Recom
		(MYR)		compliant	(MYRm)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY25F	FY25F	FY25F	
9/5/2024															
Malaysian Pacific Industries	Jun	31.00	35.90	YES	6,167	65.4	130	70.3	99.4	47.4	23.8	2.9	10.7	1.5	Buy
Unisem (M)	Dec	3.69	4.40	YES	5,952	10.7	14.4	114.0	34.6	34.6	25.7	2.3	13.5	1.9	Buy
UEM Sunrise	Dec	1.17	1.60	YES	5,918	1.7	1.8	23.1	4.6	67.6	64.7	0.8	39.6	0.0	Buy
Guan Chong	Dec	2.96	3.30	YES	3,477	21.9	29.0	137.3	32.4	13.5	10.2	1.6	(9.3)	2.5	Buy
Dayang Enterprise	Dec	2.69	2.95	YES	3,114	19.6	21.4	21.0	9.0	13.7	12.6	1.5	9.2	1.7	Buy
Kerjaya Prospek	Dec	1.85	2.15	YES	2,333	12.9	14.0	24.6	8.6	14.4	13.3	1.9	17.3	4.3	Buy
Eastern & Oriental ^	Mar	1.10	1.38	YES	2,225	6.3	8.2	23.2	30.4	17.4	13.4	0.7	9.4	1.6	Buy
TASCO ^	Mar	0.87	1.15	YES	696	9.8	10.8	28.5	10.1	8.9	8.1	0.9	4.9	2.6	Buy
Samaiden	Jun	1.37	1.76	YES	572	4.7	7.9	88.3	68.3	29.2	17.4	3.4	11.6	0.0	Buy
Focus Point	Dec	0.77	1.02	YES	353	7.7	8.7	17.4	14.1	10.0	8.8	2.3	4.0	5.7	Buy
AWC	Jun	1.00	1.06	YES	332	9.3	10.9	57.8	16.9	9.9	8.5	8.5	6.9	2.2	NR
Inta Bina	Dec	0.42	0.54	YES	230	5.5	6.0	28.0	9.9	7.0	6.4	6.4	11.4	3.9	NR

Note: ^FY24F-25F are referring to FY25F and FY26F; NR: Not Rated

Source: Bloomberg, Company data, RHB

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2023 Small-Cap Jewels: Performance Review

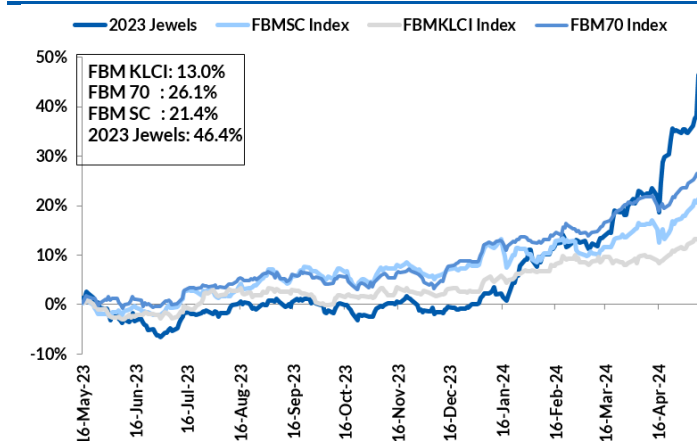
The 20 Jewels did it again!

[RHB Top 20 Malaysia Small Cap Companies Jewels 2023](#) has once again surpassed the broader market, achieving a remarkable value-weighted holding period return of 46.4% since our book launch on 16 May 2023. This outperformance is evident when compared to the benchmark indexes – FBM 70 (+26.1%) and FBM SC (+21.4%). This commendable achievement is credited to our equity research team for its unwavering dedication, meticulous stock-picking skills, and stringent corporate governance screening. Despite the prevailing market volatility stemming from a prolonged high interest rate environment and geopolitical tensions, our team persevered, delivering exceptional results.

Overall, the portfolio comprised 14 gainers (70%) and six losers. The winners hailed from various sectors such as electronics manufacturing services, oil & gas, consumer, and industrial, benefiting from individual bottom-up catalysts. Conversely, some laggards grappled with economic challenges, fluctuating commodity prices, and subdued sentiment. However, we maintain our optimism that these setbacks may be temporary. Given their robust fundamentals and reasonable valuations, these laggards present an attractive opportunity for re-evaluation and value hunting, should the businesses rebound, particularly as the market continues its momentum.

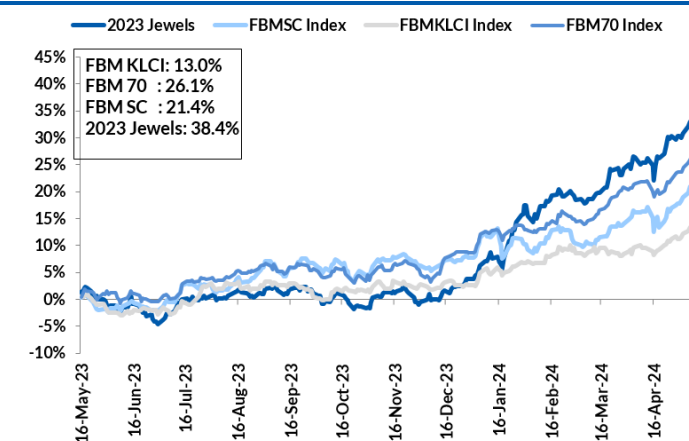


Figure 15: Value-weighted returns



Source: Bloomberg, RHB

Figure 16: Equal-weighted returns



Source: Bloomberg, RHB

Figure 17: Share price performance of RHB Top 20 Malaysia Small Cap Companies Jewels 2023 stocks

Company	Mkt Cap (MYRm)	Last Price (MYR)			HPR (%)	Company	Mkt Cap (MYRm)	Last Price (MYR)			HPR (%)
		15-May-23	30-Apr-24	Peak				15-May-23	30-Apr-24	Peak	
Aemulus Holdings	231.2	0.310	0.345	0.395	11.3	PIE Industrial	2285.0	3.27	5.95	6.030	82.0
Apex Healthcare	2446.8	2.55	3.40	3.40	33.5	Scicom	383.9	1.081	1.08	1.139	1.8
Bonia Corporation	344.7	1.996	1.720	1.991	-12.8	SDS Group	362.5	0.691	0.885	0.885	28.6
Hiap Teck Venture	723.0	0.33	0.42	0.48	25.4	Supercomnet Technologies	1279.9	1.289	1.550	1.600	20.2
Kumpulan Kitacon	340.0	0.580	0.68	0.70	19.1	Thong Guan Industries	808.1	2.23	2.02	2.19	-7.8
Kronologi Asia	365.1	0.45	0.41	0.49	-2.2	Tune Protect Group	263.8	0.43	0.35	0.47	-17.6
Lee Swee Kiat Group	165.3	0.730	0.985	1.106	45.1	Uzma	468.5	0.605	1.21	1.340	100.0
MCE Holdings	211.3	0.93	1.71	1.78	203.4	Vestland	343.0	0.40	0.345	0.40	-12.7
Malayan Flour Mills	879.8	0.71	0.71	0.73	2.6	VSTECs	1276.5	1.295	3.58	3.58	181.0
OM Holdings	1195.4	1.93	1.56	1.93	-19.2	Wasco*	1122.8	0.775	1.45	1.510	87.1

Note: Data as at 9 May 2024

Note 2: *Wah Seong Corp was renamed Wasco on 12 Jun 2023

Source: Company data, RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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