Market Strategy

Brighter Skies Ahead

- **ASEAN: Primed to do better.** The US Federal Reserve's (US Fed) aggressive monetary policy pivot reflects the shift in focus to be more supportive of the employment agenda as inflation eases that will be supportive of a soft-landing scenario. Prospects for lower rates and weaker USD bode well for regional equities. Indonesia and Singapore are notable for undemanding valuations even as the former undergoes a leadership change while the latter offers defensive qualities in a volatile environment. Malaysia will benefit from advances in its reform agenda. Concerns on Thailand's domestic risks have begun to recede.
- **Indonesia.** Despite the recent pull back, the JCI's long-term outlook remains positive on stable political conditions and favourable demographic trends. 2024F-2025F GDP growth is estimated at 5% and 5.2%. Short-term trading calls include oil & gas and metal mining, with a "buy on dips" for banks, which are expected to gain from potential further Bank Indonesia (BI) rate cuts. Auto & autoparts, consumer, and pharmaceutical sectors are also set to benefit from a stronger IDR. Keep the 7,800 pts year-end JCI target, implying 12.3x FY25F P/E.
- **Malaysia.** Anticipated market volatility in 4Q24 will likely compel investors to consider a 2-pronged strategy to protect realised gains made YTD, while identifying opportunities to position for 2025. Bursa Malaysia's relative outperformance indicates that we are not likely to see aggressive window dressing activity towards the year-end. Key investment themes include near-term defensive posturing, staying nimble to build positions on broad-based market weakness, a tactical focus on laggards, concentration on stocks with a Johor angle, coupled with a bottom-fishing strategy on small-mid caps. Our end-2024 target for the FBM KLCI is 1,720 pts based on a target 16x P/E on 2025 earnings.
- **Singapore.** Unlike the global economic growth, which is expected to moderate, Singapore's GDP growth should remain strong in 2025. This optimism is being reflected in the positive revisions to market earnings. While investors continue to build positions in the REITs sector, we also see opportunities to own sustainable, high-yield non-REITs firms (including banks). Opportunities also exist to own restructuring or laggard plays and companies that may benefit from China's stimulus-supported economic growth. In 4Q24, we expect elevated market volatility and foresee downside risks from geopolitical tensions and the US election. This necessitates investors balancing their portfolios with some defensive names.
- **Thailand.** We maintain our net profit growth forecasts for the SET at 7.3% YoY for 2024 and 7.0% YoY for 2025, with corresponding EPS growth estimates of 6.5% and 7.0%. Many market risks have largely subsided. Consequently, we raise the end-2024F P/E target to 19x, which is broadly in line with the SET's 15-year average of 18x. This adjustment sets our year-end 2024 target at 1,547pts (vs 1,463pts previously). We believe the potential rewards now outweigh the risks.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Airports of Thailand	Buy	THB75.00	17.6	33.8	5.9	18.4	1.8
Astra Otoparts	Buy	IDR2,800	13.8	7.1	0.8	11.6	4.4
Bank Rakyat Indonesia	Buy	IDR5,900	19.2	10.5	2.0	19.9	6.6
CapitaLand Ascendas REIT	Buy	SGD3.20	15.2	19.4	1.2	5.9	5.7
CP ALL	Buy	THB85.00	28.8	22.2	4.2	20.2	2.3
Gamuda	Buy	MYR9.79	19.7	18.0	1.9	10.7	2.4
IHH Healthcare	Buy	MYR8.80	22.2	37.0	2.0	5.5	0.8
Kasikornbank	Buy	THB177.00	17.2	7.3	0.6	8.6	5.5
Merdeka Copper Gold	Buy	IDR3,100	22.5	41.0	3.6	9.2	-
Singtel	Buy	SGD3.50	10.4	18.6	2.1	11.4	6.0
ST Engineering	Buy	SGD5.32	15.0	17.1	4.8	29.5	3.4
Tenaga Nasional	Buy	MYR16.70	15.5	17.2	1.3	7.9	3.8

Source: Company data, RHB

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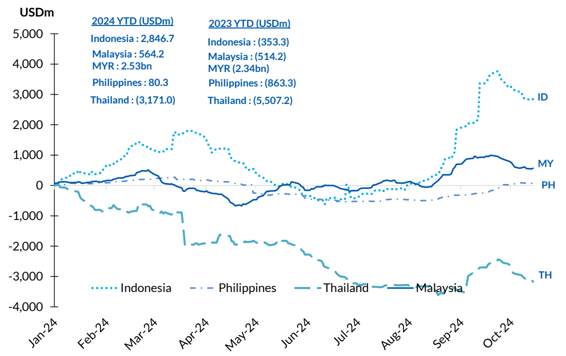
ASEAN 2024 YTD – Foreign net equity flows



Source: Bloomberg

Indonesia: Hopeful Despite Volatility

The JCI year-end target is maintained at 7,800 pts, with a potential rise to 8,000 pts under an optimistic scenario – driven by strong foreign inflows back to Indonesia's equity market. Despite recent declines, the long-term outlook for the JCI remains positive due to stable political conditions – given the smooth transition from President Jokowi Widodo (Jokowi) to the incoming Prabowo Subianto – and favourable demographic trends.

Indonesia's GDP is forecasted to grow by 5% and 5.2% in 2024 and 2025, supported by stronger private consumption and increased exports. Sectors recommended for short-term trading include O&G and metal mining – which should benefit from China's economic stimulus initiatives and Middle East tensions – along with banks, which are expected to gain from further BI rate cuts. Additionally, the auto & autoparts, consumer, and pharmaceutical sectors are expected to benefit from a stronger IDR.

Key investment thesis

We believe concerns about a global recession are overstated, with a soft landing remaining the likely scenario for investors. This outlook is supported by aggressive shifts in monetary policy and stronger-than-expected US economic data. Our economics team predicts above-consensus GDP growth in 2025 at 2% for the US and 4.8% for China. The US Fed's focus on employment suggests a continued easing of the US Federal Funds Rate (FFR), strengthening the IDR as interest rate differentials narrow, and encouraging investors to revisit emerging markets. However, rising inflation risks due to Middle East conflicts pose a key challenge to this outlook.

Prabowo's economic agenda – balancing continuity with strategic shifts in food security, welfare, and tax reforms. Prabowo's economic policies show both continuity and divergence from Jokowi's vision. While both emphasise infrastructure and industrial development, Prabowo's focus is more selective, prioritising food and energy security, social welfare, and tax reforms. He seeks to enhance self-sufficiency in agriculture and energy, proposing biofuel expansions and new agricultural lands. Prabowo also aims to reform social welfare, introducing a free lunch programme. Meanwhile, his tax policies focus on enhancing tax digitalisation to improve efficiency. His stance on foreign investment supports autonomy, particularly in defence and natural resources.

President-elect Prabowo is set to introduce key economic policies aimed at accelerating growth during his first term. His plan includes increasing government spending by 6% with a 2025 budget of IDR3,613trn to fund programmes like free school meals, healthcare, and food security initiatives. Prabowo aims to boost food and energy production, enhance palm oil-based biofuel output, and reform energy subsidies for efficiency. Despite higher spending, he plans to maintain fiscal discipline, targeting a 2.53% budget deficit.

We maintain our forecast for Indonesia's GDP growth at 5% for 2024, with an acceleration to 5.20% in 2025, anticipating a modest recovery in 4Q24 – driven by regional elections, pro-growth policies, and easing global interest rates. External factors like a stable global economy and demand for commodities support this outlook. Inflation is projected at 2.5% YoY, with falling food prices and manageable pressures. We expect rate cuts from BI in line with global trends, maintaining fiscal discipline with a projected 2024 deficit of 2.80%.

BI rate cut cycle underway. RHB Economics has updated its outlook on the FFR, now predicting that the US Fed will reduce the rate by 100bps in 2024 and an additional 100bps in 2025. On a regional level, RHB Economics expects the BI to lower its policy rate by 75bps in 2024 and by 100bps in 2025. These anticipated rate cuts will positively impact economic activity in Indonesia.

Indonesian banks could benefit from the central bank's rate cuts. In 1H24, all banks under our coverage, except for Bank Central Asia (BBCA IJ, BUY, TP: IDR12,060), experienced a NIM compression of 30-90bps YoY due to higher liquidity costs and a mismatch in the timing of repricing between deposits and loans. This trend is expected to reverse when BI's rate cuts take effect, helping banks by easing funding cost pressures. Lower funding costs could also pave the way for improved lending volumes. Banks with tighter liquidity are expected to benefit more from NIM expansion during the central bank's rate downtrend. Our pecking order: Bank Rakyat Indonesia (BBRI)>Bank Negara Indonesia (BBNI, BUY, TP: IDR6,220)>Bank Mandiri (BMRI IJ, BUY, TP: IDR8,100)>Bank Tabungan Negara (BBTN, BUY, TP:IDR1,990).

Government to accelerate affordable housing development: BBTN positioned as key beneficiary. The Government is set to accelerate the development of affordable housing, with a new programme targeting the construction of 3m public housing units over the next five years – 3x the current programme's output. To support this, the Government plans to establish an endowment fund to fast-track affordable housing projects. Given its dominant market share in subsidised mortgage loans, we believe BBTN is poised to be a key beneficiary if this initiative is executed.

China's economic stimulus and Middle East tensions drive demand for commodities; key sectors to watch include O&G and metal mining. China's additional stimulus is projected to increase demand for commodities like copper, gold, nickel, and coal. Meanwhile, escalating tensions in the Middle East, especially between Iran and Israel, could lead to higher crude oil prices. As China's economic conditions improve, demand for commodities is expected to rise, boosting sectors like oil & gas (Top Picks: Medco Energi Internasional (MEDC IJ, BUY, TP: IDR1,900) and Elnusa (ELSA IJ, BUY, TP: IDR650)) and copper & gold (Merdeka Copper Gold (MDKA IJ, BUY, TP: IDR3,100)). Meanwhile, coal (United Tractors (UNTR IJ, BUY, TP: IDR32,000)) remains attractive for its ability to provide low-cost energy.

Stronger IDR outlook despite past volatility: Key beneficiaries in auto & autoparts, consumer, and pharmaceutical. The IDR weakened to over IDR16,000/USD in mid-2024 but rebounded to around IDR15,300/USD by end September. RHB Economics forecasts the IDR will strengthen further to IDR14,750/USD in 4Q24 and reach IDR14,500/USD in 2025. While consumer spending may remain soft, sectors reliant on imported raw materials could benefit from reduced input costs. Key sectors expected to gain from a stronger IDR include auto & autoparts (Top Picks: Astra International (ASII IJ, BUY, TP: IDR6,000) and Astra Otoparts (AUTO IJ, BUY, TP: IDR2,800)), consumer (Top Picks: Indofood CBP (ICBP IJ, BUY, TP: IDR13,800) and Sumber Alfaria Trijaya (AMRT IJ, BUY, TP: IDR3,400)), and pharmaceuticals (Kalbe Farma (KLBF IJ, BUY, TP: IDR1,970)).

Upstream O&G expansion to boost contractors: ELSA set to gain from increased well service demand. An increased budget for upstream O&G expansion is expected to benefit oil contractors. While US O&G companies are prioritising debt reduction and shareholder returns over output expansion, Indonesian companies are adopting an opposite approach, particularly in the upstream sector. For instance, Pertamina Hulu Energi (PHE) is targeting a 3% production increase for 2024-2025. This focus on upstream growth is likely to benefit ELSA, as it will drive higher demand for well service activities in this segment.

Budget 2025 boost for Ministry of Public Works & Public Housing (PUPR) and Nusantara Capital City Authority (OIKN); Pembangunan Perumahan (PTPP IJ, TRADING BUY, TP: IDR700) and Adhi Karya (ADHI IJ, TRADING BUY, TP: IDR540) positioned to benefit from new capital city (IKN) or Nusantara projects. The additional 2025 budget for PUPR and OIKN totalling IDR116.2trn should benefit contractors, particularly PTPP and ADHI due to their healthier financial positions. Key allocations are for the revitalisation of schools, water and dam systems, and IKN projects. Despite the reduced overall budget, a shift in focus towards other programmes is evident. PTPP and ADHI, which have secured significant Nusantara contracts, are well positioned to benefit from the remaining IDR37trn budget available for IKN projects in 2025. Risks include lower contract achievements, rising material costs, and regulatory changes.

On the other hand, the key challenges include…

…Indonesia's middle class facing economic strain amid policy gaps and potential un-populist measures. Despite the substantial growth of Indonesia's middle class, many continue to experience economic insecurity due to inflation-driven income erosion and prevalence of low-quality jobs, resulting in a prolonged decline in the sales of durable goods. Government policies have faced criticism for insufficiently addressing such issues, as the IDR489trn allocated for social protection in 2024 mainly targets lower-income groups, overlooking the middle class' specific needs. Additionally, potential un-populist policies, such as increased VAT, the introduction of a sugar tax, and the mandatory Housing Savings Fund (Tapera) could put further strain on middle-class consumer spending.

We anticipate an improvement in consumer spending, but it is still moderate in 4Q24, driven by seasonal factors and increased regional political campaign expenditure. In 1H24, low-end consumer spending was dampened by three key factors: i) Limited growth in the national minimum wage, ii) negative impact of online gambling, and iii) high interest payments on online loans. However, we expect the upcoming New Year festivities and regional election campaigns to serve as catalysts for a rebound in consumer spending towards the end of 2024.

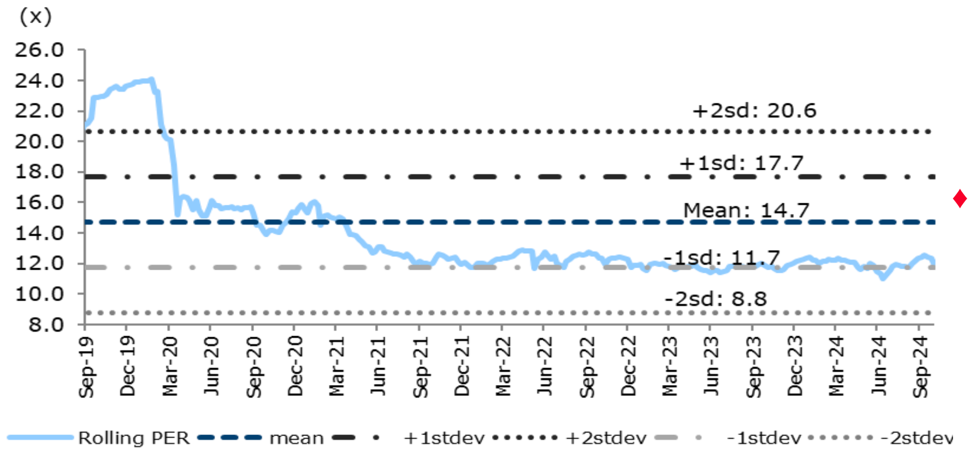
Market strategy

The JCI year-end target remains at 7,800pts, with potential for 8,000pts in an optimistic scenario driven by foreign inflows back to the JCI and stable political conditions during the transition to Prabowo's administration. Indonesia's GDP is projected to grow by 5% in 2024 and 5.2% in 2025, supported by stronger consumption and exports. Key sectors like O&G, metal mining, banks, and auto & autoparts are poised for growth due to global economic factors and BI's expected rate cuts.

Sectoral outlooks for 4Q24 suggest the banking sector will likely perform well after recent sell-offs. O&G and metal mining may encounter volatility due to geopolitical tensions. A stronger IDR is anticipated, benefiting the auto & autoparts, consumer, and pharmaceutical sectors. Additionally, contractors like PTPP and ADHI are set to gain from increased budgets for IKN projects. However, challenges remain for Indonesia's middle class, with economic insecurity and potential un-populist policies that could impact consumer spending.

In 3Q24, the JCI experienced a strong performance, reaching new highs due to foreign inflows and the IDR's appreciation against the USD. However, profit-taking in late September led to a 5% WoW drop, closing at 7,528pts. Despite this correction, foreign investor confidence remained strong, driven by improved macroeconomic conditions and a stronger IDR. Sectors like energy, property, and healthcare led market performance with significant growth in 9M24, while sectors like technology and infrastructure faced challenges. The IDR is expected to further strengthen, supporting positive market sentiment into 2025.

Figure 1: The JCI's 12-month forward-rolling P/E band



Note: Based on cut of price 4 Oct 2024
Source: Bloomberg, RHB

♦ In our calculations, the JCI is trading at -1SD from the 12-month forward-rolling P/E

Figure 2: The JCI's key statistics

Market data	FY23	FY24F	FY25F
Revenue growth (%)	1.3	5.1	4.5
Operating profit growth (%)	(3.4)	5.3	7.2
Net profit growth (%)	2.8	2.9	7.7
Current P/E (x)	12.8	12.4	11.5
EPS (IDR)	573	590	635
PEG (x)	4.5	4.3	1.5
EV/EBITDA (x)	10.3	9.2	8.2
P/BV (x)	2.0	1.8	1.7
Dividend yield (%)	8.4	5.7	5.4
ROE (%)	15.8	14.9	15.0

Note: Based on cut of price 4 Oct 2024
Source: Company data, RHB

♦ The JCI is trading at 1.8-1.7x FY24F-25F P/BV, with attractive 14.9-15% ROEs in FY24F and FY25F. FY24F-25F dividend yields are appealing, at 5.7-5.4%

♦ Earnings growth should be at a moderate 2.9% YoY in FY24F, partly driven by slower economic activities during the election year, before it picks up to 7.7% YoY in FY25F

Sector highlights and outlook

Figure 3: Sector highlights and outlook

Sector	Rating	Highlight/outlook	Top Picks
Banks	OVERWEIGHT	Banks with tighter liquidity are expected to benefit more from NIM expansion during the BI rate downtrend. 9M24 earnings are expected to meet or slightly exceed expectations, supported by strong 8M24 results, particularly for BMRI, BBRI, and BBCA, which were above historical trends. 8M24 earnings grew 6.7% YoY, with BBCA and BBRI leading the growth. PPOP growth also accelerated to 7.8% YoY, driven by higher non-II. Loan growth slowed to 12.9% YoY, while NIM remained stable at 5.18%. Credit costs slightly declined, with BBRI targeting further reductions.	BBRI, BBNI, BMRI, BBTN
Cement	OVERWEIGHT	We are more optimistic on domestic bag cement demand, which we expect to grow slightly in 2H24 vs 1H24 following more activities in the housing sector and expectations of relatively healthier pricing in the retail market. Domestic sales volume is expected to grow 2.5% YoY, with bulk cement remaining the growth driver. We expect bulk cement sales volumes to grow to 19.8m tonnes (+7% YoY) in FY24F from more construction projects, which are expected to be sped up in 1H24 (IKN and other national projects to be completed before new regulations).	INTP
Healthcare	OVERWEIGHT	We prefer pharmaceutical companies over hospitals in 4Q24 amidst seasonal factors. Note: 4Q24's traffic should be lower QoQ given the higher number of public holidays. Pharmaceutical companies should book a stronger performance on top of benefitting from decreasing raw material prices and the IDR's appreciation against the USD.	KLBF
Oil & gas	OVERWEIGHT	Brent crude prices have reacted positively to a high of USD75 per bbl after Iran launched more than 180 ballistic missiles at Israel. This is the second Iranian aerial attack on Israel in less than six months. Iran's Islamic Revolutionary Guard Corps said the attack was a reprisal for Hassan Nasrallah's death and the assassination of Hamas political leader Ismail Haniyeh. The world is currently waiting for Israel's response to the attack. RHB sees oil prices possibly hitting USD100 per bbl should the situation persist or even escalate further. The new gross split scheme should improve the prospects of Indonesian upstream companies such as ELSA and MEDC.	MEDC, ELSA
Property – industrial estates	OVERWEIGHT	After the full reopening of the economy in 2023, enquiries have continued to increase. As such, improved revenue recognition is anticipated to persist through 2024. We expect demand to increase; the long-term and strategic traits of industrial estates make them less susceptible to interest rate fluctuations. Demand is likely to be driven by the food, manufacturing, data centre, auto & autoparts, and energy-related sectors. Despite 2024 being an election year, foreign direct investments or FDIs have not been significantly impacted.	DMAS
Property – residential developer	OVERWEIGHT	We like the residential property sector, as we expect its stellar performance to be recognised from FY24F following robust pre-sales in 1H20-FY23. Another tax incentive is also expected to support FY24F pre-sales. We believe that SMRA, CTRA, and PWON have decent inventory levels to benefit from the current property tax incentives. Sector valuation at -1SD to RNAV is attractive.	PWON, BSDE
Telco	OVERWEIGHT	Aggressive network expansion by telecommunications operators should boost network quality, resulting in higher data consumption. Tier-2 cities with limited access to fixed broadband internet will be heavily reliant on cellular data consumption, and hence, there should be ample growth opportunities in such cities.	N/A
Auto	NEUTRAL	Currently, the domestic automotive market is still challenging, in light of weaker-than-expected consumer purchasing power. Issues related to demand in the sector could be structural, while incentives given are only for the segment that contributes less than 5% of the total market to push direct investment in the related sector. Our new 4-wheeler (4W) domestic sales volume target is 920k units (-13% YoY) – far below the industry guidance (flat YoY). Consumer behaviour is shifting towards cheaper options, including the secondary and replacement markets.	AUTO
Coal	NEUTRAL	While prices are unlikely to reach the highs seen in the past two years, most coal companies continue to have strong fundamentals with net cash balance sheets, and still reward investors with decent dividends.	UNTR
Consumer	NEUTRAL	We expect a better QoQ performance amidst seasonality along with the potential spillover from regional elections. Nonetheless, we stay vigilant on the potential upcoming regulation post the inauguration of the new government.	AMRT, ICBP
Metal mining	NEUTRAL	Uncertainties related to external factors have dampened demand for commodities (ie order delays, or China's stimulus measures to revamp its domestic economy being less effective than anticipated). Demand from heightened manufacturing activities still has not been able to uplift the outlook on the sector, which continues to be weighed down by high inventory levels, especially that of nickel.	MDKA, INCO
Plantation	NEUTRAL	CPO prices are rangebound between MYR3,800 and MYR4,000 per tonne, with the potential for a slight weakening in the coming months. Uncompetitive CPO prices, coupled with a supply boost from the seasonal peak period, may pare down demand and restocking activities. Indonesia's revised palm oil export tax structure increases its competitiveness over Malaysia, though. Weather conditions, particularly a potential *La Niña*, could disrupt supply and support prices. Rising biofuel mandates in Indonesia, Brazil and the US offer long-term demand growth.	LSIP

Poultry	NEUTRAL	We expect poultry prices to improve QoQ, primarily driven by the festive season, which typically increases demand. This seasonal boost is likely to result in stronger broiler and day-old chick (DOC) prices, as consumption usually rises during key holiday periods, providing upward momentum for the market.	JPFA
Pulp & paper	NEUTRAL	Both stagnant paper and packaging prices, and an additional 2.6m tonnes of pulp capacity from Suzano's Cerrado mill and China's pulp expansion are putting downward pressure on prices. We expect the price of bleached hardwood kraft (BHK) pulp to stay at USD520-540/tonne from 4Q24 onwards. However, Indah Kiat Pulp & Paper should start its journey towards solid growth from its expansion in new capacity at the Karawang facility, which produces industrial white paper (mostly at stronger GPMs), supported by its internal pulp supply.	INKP
Tobacco	NEUTRAL	Despite a potential zero excise tax rate in 2025, we expect the sector to remain under pressure as below-Tier-2 tobacco players have been aggressively expanding to cater to the increase in downtrading. Based on our ground checks, 4Q24 demand for cigarettes has been decreasing sharply for Tier-1 players as consumers switch to cheaper alternatives and illegal cigarettes.	HMSP

Source: Company data, RHB

Our Top 10 Picks

Figure 4: Top 10 picks

Name	Ticker	Rating	Price	TP	Upside/ downside	Market cap	2025F EPS growth	P/E	P/ BV	PEG	ROAE	Yield
			(IDR)	(IDR)	(%)	(USDbn)	(%)	(x)	(x)	(x)	(%)	(%)
Bank Rakyat Indonesia	BBRI IJ	BUY	4,930	5,900	19.7	47.8	15.7	10.4	2.0	0.7	19.9	6.6
Astra International	ASII IJ	BUY	5,075	6,000	18.2	13.2	0.5	6.7	1.1	13.8	16.7	4.5
Indofood CBP	ICBP IJ	BUY	12,075	13,800	14.3	9.0	7.0	12.9	2.6	1.8	21.6	3.5
Sumber Alfaria Trijaya	AMRT IJ	BUY	3,140	3,800	21.0	8.3	16.4	28.5	6.6	1.7	25.0	1.4
United Tractors	UNTR IJ	BUY	26,600	32,000	20.3	6.4	(0.2)	5.7	1.1	na	19.5	7.1
Kalbe Farma	KLBF IJ	BUY	1,670	1,970	18.0	5.0	10.3	22.1	3.1	2.2	14.5	2.3
Merdeka Copper Gold	MDKA IJ	BUY	2,550	3,100	21.6	4.0	501.9	41.1	3.6	0.1	9.2	0.0
Medco Energy	MEDC IJ	BUY	1,365	1,900	39.2	2.2	1.7	5.5	0.9	3.2	18.2	5.1
Astra Otoparts	AUTO IJ	BUY	2,360	2,800	18.6	0.7	5.4	6.8	0.7	1.3	11.6	4.6
Elnusa	ELSA IJ	BUY	482	650	34.9	0.2	7.5	4.2	0.6	0.6	15.9	8.9

Note: As per 9 Oct 2024 closing price
Source: Company data, RHB

Malaysia: New Growth Cycle Brings Fresh Opportunities

Expect near-term volatility but the outlook remains positive

While the near-term outlook for the market looks to be volatile due to a host of uncertainties, our base case expectation on events to pan out through 4Q24 and into 2025 continues to be constructive and encouraging for equities.

Near term sources of volatility could stem from:

i. Geopolitics – the Middle East situation is a powder keg, and it could worsen quickly unless all sides show restraint. If this happens, there will be implications for oil prices, freight costs, shipping access to the Suez Canal, and have an impact on global trade;

ii. US presidential election – new political leadership;

iii. US economic data releases and recession concerns – this will help to confirm RHB Economics' view that the US economy is merely normalising from the tightening of the monetary policy, as expected. The US Fed will remain data-dependent, and this will influence its monetary policy decisions in the remaining two FOMC meetings this year and going into 2025;

iv. Bracing for RON95 subsidy rationalisation. The mechanics and process of implementation needs to be carefully managed to avoid undue impact on consumer sentiment and potential implications on the outlook for inflation.

Base case assumptions

i. Benign global growth outlook. The US Fed's dovish pivot would support a soft landing scenario. The US Fed has ample room to continue easing its monetary policy, if economic conditions require it.

ii. RHB Economics still has a constructive outlook on China's recovery.

iii. Malaysia's economy is expected to continue expanding at a healthy clip, due to external and internal growth drivers – this could lead to an acceleration in trade and manufacturing activities, new investments made in productive capacity, resilience in domestic demand from increased consumer and investment spending, conclusion of the Johor-Singapore Special Economic Zone (JS-SEZ) to create new growth opportunities in Johor, and positive news flow on foreign and domestic direct investments.

iv. Stable domestic political environment – its strong majority in Parliament will allow the unity government to see out its term through to GE16.

v. Steady progress on the reform agenda.

vi. Swelling domestic liquidity environment – net foreign funds inflow, a more domestic-centric investment strategy by local institutions.

vii. Narrowing interest rate differentials suggest that the USD/MYR will have a weakening bias.

On this basis – notwithstanding an unpredictable geopolitical black swan event – we think the outlook for equities beyond a volatile 4Q24 looks constructive, with a host of positive drivers in line to help push the markets forward.

Impact of a stronger MYR

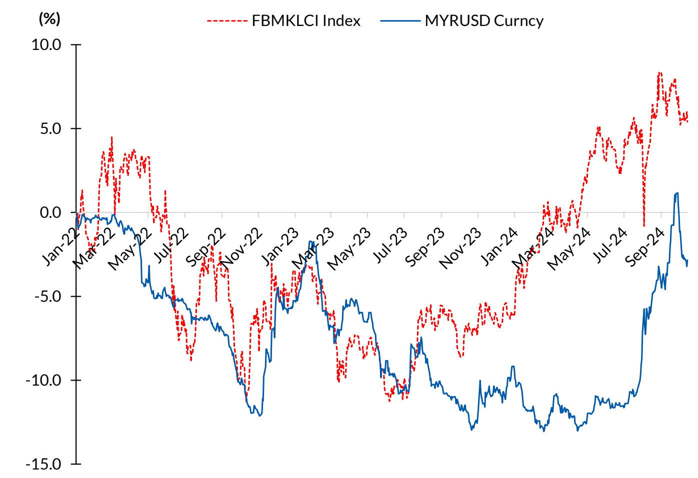
A stronger MYR will be a net positive for corporate earnings and exhibits a positive correlation to the FBM KLCI.

Figure 5: FBM KLCI FX sensitivity according to sector

	Market Cap	Weight	Change Net Profit MYRm		Net Profit % change	
	MYRbn	%	FY24F	FY25F	FY24F	FY25F
Auto	16.70	1.60	0.0	173.0	0%	11.26%
Banking	354.70	33.90	0.0	0.0	0%	0%
Basic Material	40.20	3.84	(112.0)	(315.0)	-6.57%	-16.16%
Consumer	61.80	5.91	0	221.0	0%	11.44%
Gaming	29.30	2.80	126.0	474.0	4.97%	15.55%
Healthcare	63.00	6.02	(4.0)	(13.0)	-0.21%	-0.72%
Property	24.30	2.32	0	0	0%	0%
Oil & Gas	99.80	9.54	0	(382.0)	0%	-5.98%
Plantation	79.10	7.56	(15.0)	(45.0)	-0.44%	-1.19%
Telecommunication	123.60	11.81	149.0	168.0	2.76%	2.67%
Utilities	153.80	14.70	0	(117.0)	0%	-1.22%
FBM KLCI	**1046.3**	**100**	**143.9**	**163.6**	**0.23%**	**0.24%**

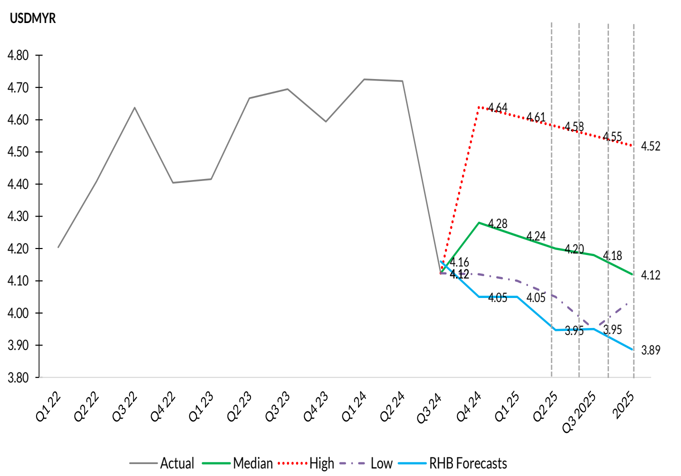
Source: RHB

Figure 6: FBM KLCI has a positive correlation to the MYR/USD



Source: Bloomberg

Figure 7: USD/MYR has an expected weakening bias



Source: Bloomberg, RHB

Tactical dilemma for local funds

The strong performance of domestic equities during the first seven months of the year and the subsequent onset of volatility from August has presented a tactical dilemma for domestic institutional funds. It not only forced the start of tactical profit-taking to lock in realised gains for 2024, but also presented fund managers with a choice of:

i. Continuing to try to maximise gains but taking associated risks of diluting cumulative returns already achieved, given the uncertain near-term market trends; or

ii. Take the safe route, prioritise preserving returns for 2024 and look to position for 2025.

As the market and investors are not homogenous, we believe opportunities will manifest for investors to trade the market and build positions for 2025.

Investment themes

Our positive outlook for equities going forward is tempered by three key initiatives:

i. How to navigate an uncertain 4Q24;

ii. Protect realised gains achieved YTD;

iii. Positioning for 2025.

Given the relative outperformance of Bursa Malaysia this year, we believe that there is not likely to be a high propensity for an aggressive close for equity markets at the year-end. Nonetheless, domestic liquidity and improving domestic fundamentals will remain supportive of equity markets.

Near-term defensive posturing – Expect 4Q market volatility, protect YTD gains. An emphasis on a more defensive investment profile will suit risk-averse investors.

Figure 8: Defensive stocks with domestic-centric characteristics

	Rec	Price (MYR/s) 16 Oct 2024	TP (MYR/s)	Mkt cap (MYRm)	EPS (sen) 24F	EPS (sen) 25F	EPS Growth (%) 24F	EPS Growth (%) 25F	3-yr EPS CAGR (%) FY22-25F	P/E (x) 24F	P/E (x) 25F	P/BV (x) 25F	P/CF (x) 25F	DY (%) 25F
Tenaga Nasional	Buy	14.46	16.70	84,055	73.1	84.0	31.4	14.9	6.7	19.8	16.3	1.3	4.9	3.8
Nestle	Neutral	106.00	119.00	24,857	283.8	313.4	(11.3)	10.4	5.8	37.4	32.1	36.1	23.8	2.9
QL Resources^	Neutral	4.70	6.36	17,156	17.5	18.1	22.5	3.8	26.6	26.9	25.1	3.3	14.9	1.6
Time DotCom	Neutral	5.05	5.10	9,337	24.6	27.0	10.7	9.5	4.9	20.5	17.9	1.2	14.2	4.3
KPJ Health	Buy	2.06	2.13	8,990	6.5	7.5	0.1	14.6	23.3	31.7	24.7	3.4	12.2	1.9
IGB REIT	Neutral	2.17	2.12	7,839	10.7	11.3	6.6	5.7	6.4	20.3	18.4	1.9	16.4	5.4
CTOS Digital	Buy	1.20	1.73	2,772	4.8	6.4	7.4	31.7	20.0	24.8	15.4	4.0	23.0	3.3
Taliworks Corporation	Buy	0.78	0.98	1,572	3.3	4.5	59.0	36.5	19.3	23.6	16.6	2.1	10.2	5.1
Focus Point	Buy	0.83	1.20	383	8.0	9.2	13.5	14.2	5.5	10.3	8.3	2.4	4.2	5.5

Note: ^FY24F-25F valuations refer to that of FY25F-26F
Source: RHB

Buy on weakness. Focus on attractive entry points into fundamentally robust stocks, to position for 2025. Hesitant investor sentiment during the quarter will present opportunities to accumulate. We recommend that investors adopt a stronger bottom-fishing response if the market drifts lower.

Figure 9 : Top BUYs

	FYE	Price (MYR/s) 16 Oct 2024	TP (MYR/s)	*Shariah* compliant	Market cap (MYRm)	EPS (sen) FY24F	EPS (sen) FY25F	EPS Growth (%) FY24F	EPS Growth (%) FY25F	3 yrs EPS CAGR (%) FY22-FY25	P/E (x) FY24F	P/E (x) FY25F	P/BV (x) FY25F	P/CF (x) FY25	DY (%) FY25F
Tenaga Nasional	Dec	14.46	16.70	YES	84,055	73.1	84.0	31.4	14.9	6.7	19.8	17.2	1.3	4.9	3.8
Gamuda	Jul	8.18	9.79	YES	23,073	32.9	42.9	4.8	30.4	11.3	24.9	19.1	1.9	(228.3)	2.4
IHH Healthcare	Dec	7.20	8.80	YES	63,429	19.3	19.4	30.3	0.8	6.8	37.3	37.0	2.0	15.0	0.8
TM	Dec	6.47	8.40	YES	24,830	42.3	47.9	(13.3)	13.3	8.4	15.3	13.5	2.4	5.8	4.2
AMMB^	Mar	5.15	5.90	NO	17,049	55.2	58.2	5.4	5.3	3.5	9.3	8.9	0.8	n.a.	5.1
Malayan Cement	Jun	5.05	7.18	YES	6,751	41.7	42.9	196.5	2.9	76.8	12.1	11.8	0.9	11.8	2.6
Guan Chong	Dec	2.82	5.10	YES	3,312	33.9	41.7	266.8	23.0	41.4	8.3	6.8	1.4	3.5	3.7
Dayang Enterprise	Dec	2.20	3.90	YES	2,547	26.0	27.7	60.4	6.5	42.1	8.5	7.9	1.2	6.2	2.7
Mr DIY Group	Dec	2.18	2.59	YES	20,612	6.9	8.6	14.3	23.7	18.2	31.5	25.4	9.3	17.9	2.8
Kerjaya Prospek	Dec	1.96	2.57	YES	2,472	12.9	14.5	24.6	13.2	16.9	15.3	13.5	2.1	20.0	5.1
Mah Sing Group	Dec	1.73	2.26	YES	4,429	10.0	11.0	12.4	10.6	14.1	17.4	15.7	1.1	27.4	2.9
Sime Darby Property	Dec	1.50	2.00	YES	10,201	7.5	8.4	27.1	11.0	27.5	19.9	17.9	1.0	17.9	2.3
Focus Point	Dec	0.83	1.20	YES	383	8.0	9.2	13.5	14.2	5.5	10.3	9.0	2.4	4.2	5.5

Note: ^FY24F-25F valuations refer to that of FY25F-26F
Source: RHB

Focus on laggards. Our core positive view on equities and the outperformance of the broader market and selected sectors suggest a natural rotation into laggard names that we have conviction in.

Figure 10: Laggards

	FYE	Price (MYR/s) 16 Oct 2024	TP (MYR/s	*Shariah* compliant	Market cap (MYRm)	EPS (sen) FY24F	FY25F	EPS Growth (%) FY24F	FY25F	3 yrs EPS CAGR (%) FY22-FY25F	P/E (x) FY24F	FY25F	P/BV (x) FY25F	P/CF (x) FY25	DY (%) FY25F
MPI	Jun	26.02	38.50	YES	4,915	86.7	126.0	45.7	45.3	(8.9)	30.0	20.7	2.4	17.3	1.8
Hong Leong Bank^	Jun	21.20	26.60	NO	45,956	204.7	214.0	9.9	4.5	10.0	10.4	9.9	1.1	n.a.	3.5
IOI Corp	Jun	3.76	4.50	YES	23,326	18.0	20.8	(25.5)	15.6	(13.3)	20.9	18.1	1.9	19.2	2.7
Bermaz Auto	Apr	2.36	3.05	YES	2,758	26.7	30.7	(12.2)	15.2	5.5	8.8	7.7	3.0	8.9	11.0
Dialog	Jun	2.14	3.09	YES	12,075	9.8	10.0	20.5	1.4	7.1	21.7	21.4	2.1	25.3	2.1
Sime Darby Property	Dec	1.50	2.00	YES	10,201	7.5	8.4	27.1	11.0	27.5	19.9	17.9	1.0	17.9	2.3
CTOS Digital	Dec	1.20	1.73	YES	2,772	4.8	6.4	7.4	31.7	20.0	24.8	18.8	4.0	23.0	3.3
Wasco	Dec	1.09	1.86	YES	844	16.4	16.9	67.3	3.6	29.1	6.7	6.4	0.9	3.8	4.1
OCK Group	Dec	0.47	0.78	YES	497	4.4	5.5	27.9	24.6	24.2	10.6	8.5	0.9	2.1	2.0

Note: ^FY24F-25F valuations refer to that of FY25F-26F
Source: RHB

The Johor story is still compelling. News flow on the JS-SEZ will continue to spur foreign and domestic direct investments in the industrial park space eg the Sedenak Technology Park, which houses large-scale data centres (DCs). Additionally, the Johor Bahru-Singapore Rapid Transit System (RTS) that is on schedule for commercial operations by early 2027 will help to catalyse the southern state's property market and facilitate cross-border movements, while keeping contractors well-occupied with jobs.

Figure 11: Johor theme – top BUYS

	FYE	Price (MYR/s) 16 Oct 24	TP (MYR/s)	*Shariah* Compliant	Market cap (MYRm)	EPS (sen) FY24F	FY25F	EPS Growth (%) FY24F	FY25F	3 yrs EPS CAGR (%) FY22-FY25F	P/E (x) FY24F	FY25F	P/BV (x) FY25F	P/CF (x) FY25F	DY (%) FY25F	Rec
YTL Power	Jun	3.55	5.68	NO	29,141	40.8	34.7	61.8	(14.8)	95.4	8.7	10.2	1.3	8.2	2.0	Buy
Sunway	Dec	4.39	5.00	YES	24,975	13.9	14.3	1.1	3.2	7.5	31.6	30.6	1.8	35.2	1.4	Buy
IJM Corporation	Mar	2.88	4.39	YES	10,098	14.4	15.0	0.8	4.1	24.3	20.0	19.2	0.9	14.0	2.8	Buy
SunCon	Dec	4.55	5.50	YES	5,867	12.6	19.2	(4.8)	52.9	19.8	36.2	23.7	6.0	45.3	2.5	Buy
UEM Sunrise	Dec	1.06	1.60	YES	5,362	1.7	1.8	23.1	4.6	7.3	61.3	58.6	0.8	35.8	0.0	Buy
IOI Properties	Jun	2.42	2.15	NO	13,325	11.3	11.8	(25.1)	4.1	6.1	21.4	20.6	0.5	10.0	2.5	Neutral
Eco World	Oct	1.83	1.88*	YES	5,400	6.7	7.7	4.6	14.6	6.2	22.2	19.3	19.3	65.8	4.2	Not Rated
Kimlun Corp	Dec	1.43	1.05*	YES	505	10.5	12.2	231.7	17.1	8.8	9.4	8.0	8.0	8.3	2.7	Not Rated

Note: ^FY24F-25F valuations refer to those of FY25F-26F
*Note 2: *Based on fair value*
Source: RHB

Our view on small-mid caps. Outlook for small-mid cap counters is still optimistic. 3Q24 has been disappointing for the small-cap space, as investors took a back seat and adopted a more defensive strategy following the constructive 1H24 performance. While we did expect a sideways performance in 3Q24 – due to the strong run-up earlier and the lack of fresh catalysts to further excite the market in 3Q24 itself – the extent of the market's correction and change in risk appetite surprised us.

A rangebound market. The market should remain rangebound leading to the Budget 2025 announcement and the anticipation of the November earnings season, coupled with the impact of FX. However, we hope to see a stronger performance towards the end of 2024 for the small-mid cap space, as investors start to position for FY25. As there is no further incentive to further lift the FBM KLCI – given its superb performance YTD (the best in a decade) – some nimble buying activities could arise in the small-mid caps space as investors look for alpha returns, specially to position for FY25. Hence, investors can bottom-fish for laggard names with potential turnarounds and low expectations.

Favourable industries include property, construction, consumer, logistics, oil & gas, and technology. The rollout of major infrastructure projects and improving property sales, coupled with booming industrial project- and DC-related jobs, will continue to support the property and construction sectors. The logistics sector – including ports and third-party logistics (3PL) – should record higher throughput volumes due to a rebound in trade activities and higher freight rates as a result of port congestion.

Consumer companies are expected to see better profitability from a low base in 2023, boosted by higher disposable income and the normalisation of input costs. Oil & gas activities should remain at a high level, driven by better FPSO rates and demand, while solar energy continues to be in trend due to favourable policies and downward-trending panel prices.

We expect the recovery in the technology sector to continue into 2H24 and beyond, with the headwind of the USD depreciation set to be a temporary hindrance. Additionally, the non-semiconductor space – particularly players in IT infrastructure – should still benefit from public spending, the DC segment's growth, and the technology refresh cycle.

Figure 12: Small-mid cap Top Picks

	Price (MYR/s) 16 Oct 2024	TP (MYR/s)	*Shariah* compliant	Mkt cap (MYRm)	EPS (sen) FY24F	FY25F	EPS Growth (%) FY24F	FY25F	P/E (x) FY24F	FY25F	P/BV (x) FY25F	P/CF (x) FY25F	DY (%) FY25F	Rec
UEM Sunrise	1.06	1.60	YES	5,362	1.7	1.8	23.1	4.6	61.3	58.6	0.8	35.8	0.0	Buy
MPI	26.02	38.50	YES	4,915	86.7	126.0	45.7	45.3	30.0	20.7	2.4	17.3	1.8	Buy
Guan Chong	2.82	5.10	YES	3,312	33.9	41.7	266.8	23.0	8.3	6.8	1.4	3.5	3.7	Buy
CTOS Digital	1.20	1.73	YES	2,772	4.8	6.4	7.4	31.7	24.8	18.8	4.0	23.0	3.3	Buy
Leong Hup International^	0.74	0.84	NO	2,701	8.3	7.9	(6.2)	(4.9)	8.9	9.3	1.0	4.9	3.2	Buy
Dayang Enterprise	2.20	3.90	YES	2,547	26.0	27.7	60.4	6.5	8.5	7.9	1.2	6.2	2.7	Buy
Kerjaya Prospek Group^	1.96	2.57	YES	2,472	12.9	14.5	24.6	13.2	15.3	13.5	2.1	20.0	5.1	Buy
TASCO Bhd^	0.71	1.15	YES	564	8.8	10.2	14.5	16.3	8.0	6.9	0.8	4.1	3.3	Buy
Samaiden Group	1.03	1.33	YES	431	3.9	5.6	55.3	44.5	26.5	18.3	2.8	64.1	1.3	Buy
Focus Point^	0.83	1.20	YES	383	8.0	9.2	13.5	14.2	10.3	9.0	2.4	4.2	5.5	Buy

Note: ^FY24F-25F valuations refer to those of FY25F-26F
Source: RHB

Singapore: Improving Optimism Creates Opportunities

Singapore: Market outlook summary

No recession, but moderating global growth. While we remain positive on 2024's economic growth, in 4Q24 we expect normalisation of global growth, dissipating inflation pressures, and lower interest rates. This will set the stage for growth moderation in 2025. We have revised lower US (2% from 2.7%) and China (4.8% from 5%) GDP growth forecasts for 2025. We estimate the US FFR will be cut by 25bps each in November and December, and a 25bps rate cut for each quarter in 2025.

Singapore's growth to remain robust. Singapore's 2024 GDP growth will likely average 3% in 2024 and in 2025. We anticipate the country's manufacturing- and trade-related sectors will contribute to overall growth in 2H24. Singapore's inflation should remain steady in 4Q24. The Monetary Authority of Singapore (MAS) will likely keep its current policy parameters unchanged at least into 1H25.

Positive earnings momentum. The timing and size of the FFR cuts, and prospects for global economic growth will have a strong influence on Singapore's markets. While lower interest rates will pressure banks' NIMs, strong loan and fee income prospects are expected as economic activities pick-up. Street has upgraded net profit estimates for Singapore banks – both for 2024 and 2025 – despite expectations of a sharper and faster cut to interest rates. In addition, for 2024 net profit estimates, in the last six months, we have seen positive net profit estimate changes for the transportation and utilities sectors. For 2025 net profit estimates, in the last six months, in addition to transportation and utilities sectors, we have also seen positive net profit estimate changes for the telecommunications sector.

Figure 13: Sector SGD net profit growth for Singapore market

Sector net growth	CY25 (%)	CY26 (%)
Consumer	7.4	(28.7)
Financials	0.4	2.5
Food Products	14.7	4.6
Industrials	16.4	12.4
Mfg. & Tech.	9.4	5.1
Real estate	21.7	15.0
REIT	14.4	5.5
Telecom	19.9	10.9
Transport	(19.4)	(4.2)
Utilities	0.5	3.9
Total	**5.1**	**2.5**

Note: Data as of 16 Oct 2024
Source: Bloomberg, RHB

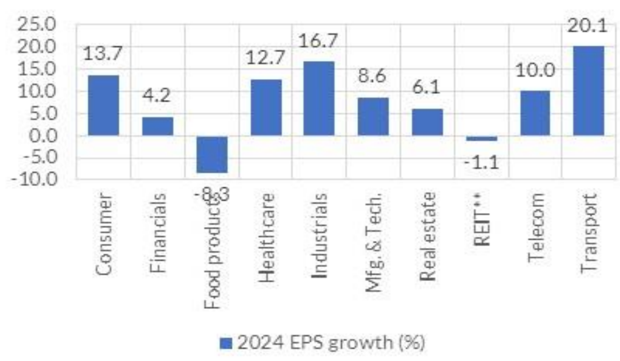
Figure 14: Sector SGD net profit contribution for Singapore market

Sector contribution	CY24 (%)	CY25 (%)	CY26 (%)
Consumer	7.5	7.7	5.3
Financials	54.4	52.0	52.0
Food Products	4.2	4.6	4.7
Industrials	10.4	11.6	12.7
Mfg. & Tech.	0.6	0.6	0.7
Real estate	4.2	4.8	5.4
REIT	5.9	6.5	6.7
Telecom	5.5	6.3	6.8
Transport	5.0	3.8	3.6
Utilities	2.2	2.1	2.1
Total	**100.0**	**100.0**	**100.0**

Note: Data as of 16 Oct 2024
Source: Bloomberg, RHB

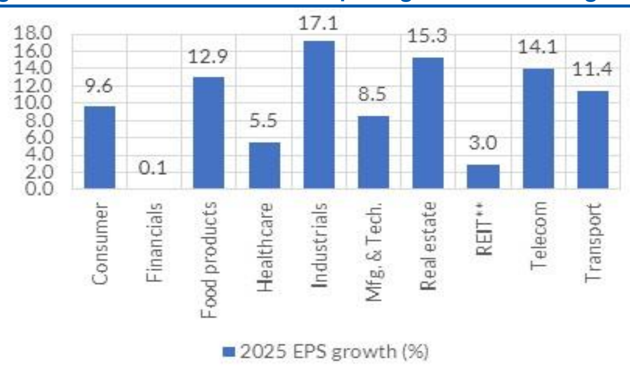
For our coverage universe, excluding the REIT sector, we forecast a 4.9% market cap-weighted YoY EPS growth in 2024. Market cap-weighted YoY EPS growth for 2025 – excluding the REIT sector – stands at 4.3%. With the exception of the food products sector (CPO), we expect all sectors to deliver EPS growth in 2024 and 2025. We expect the REIT sector's DPU growth to turn positive in 2025.

Figure 15: RHB's 2024F market cap-weighted sector EPS growth



*Note: Data as of 16 Oct 2024. **The data for the REITs sector represents DPS growth and excludes the data for US REITs*
Source: RHB

Figure 16: RHB's 2025F market cap-weighted sector EPS growth



*Note: Data as of 16 Oct 2024. **The data for the REITs sector represents DPS growth and excludes the data for US REITs*
Source: RHB

Singapore: Investment themes

Continue building exposure to the REITs sector. Our property analyst's latest report noted that, in past cycles, S-REITs have witnessed sharp rallies during turning points in interest rates. Such REITs' performances have a high inverse correlation to risk-free rates, ie long-term treasury yields, with particularly high sensitivity at turning points of the cycle. This was clearly seen in 2012, 2016, and 4Q23 when the market saw interest rates easing, resulting in a 15-40% rebound in the sector.

While the REITs under our coverage have seen a market cap-weighted decline of 0.3% YTD, they have delivered a market cap-weighted return of 12.5% during 3Q24. We see room for the recent rally to continue well into 4Q24 and 2025. Valuation-wise, the sector is trading below mean, with a decent yield spread to Singapore's 10-year bond yield.

We recommend investors adopt a slightly more aggressive stance, with a balanced mix of high-quality industrial (for stable yields), and office (which we believe are undervalued) and selective overseas REITs to ride on the rebound from the turn in the interest rate cycle. We remain selective on retail REITs amid softening signs in retail sales and valuation grounds, and have turned neutral on the hospitality sector. S-REITs with slightly lower hedges of below 60% and higher gearing (slightly above 40%) will also likely see a pop in the near term, as these will be the immediate beneficiaries of rate cuts, given that the impact will flow to bottom lines immediately.

Subsector ratings: Industrial REITs (OVERWEIGHT), office REITs (OVERWEIGHT), retail REITs (NEUTRAL), hospitality REITs (NEUTRAL), and overseas REITs (OVERWEIGHT)

Top Picks: CapitaLand Ascendas REIT, Keppel REIT, Suntec REIT, and AIMS APAC REIT.

Figure 17: Singapore – valuation comparison (i) for preferred REITs across sub-sectors

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
AIMS APAC REIT	799	Buy	1.46	12.9	Mar-25	9.4	9.1	1.0	1.0	7.4	7.4	5.0	8.9	10.5	11.0
CapitaLand Ascendas	9,338	Buy	3.20	15.2	Dec-24	26.9	19.4	1.2	1.2	5.5	5.7	8.4	7.7	4.2	5.9
CICT	11,634	Buy	2.30	10.1	Dec-24	17.5	17.1	1.0	1.0	5.2	5.3	9.2	7.8	5.5	5.7
Cromwell REIT	981	Buy	1.90	18.6	Dec-24	12.1	10.0	0.8	0.8	8.8	8.6	1.6	7.4	6.3	7.6
Elite UK REIT	222	Buy	0.31	6.9	Dec-24	8.8	6.1	0.7	0.7	9.3	9.9	12.7	17.4	8.2	11.2
Keppel Pacific Oak	729	Buy	0.29	5.9	Dec-24	58.2	17.1	1.1	1.0	na	na	2.8	3.8	1.9	6.3
Keppel REIT	2,737	Buy	1.05	12.4	Dec-24	7.7	16.9	0.7	0.7	6.3	6.2	2.9	20.8	9.0	4.1
Prime US REIT	893	Buy	0.23	24.2	Dec-24	93.6	27.2	1.6	1.5	0.4	1.8	2.5	4.2	1.7	5.7
Starhill Global REIT	908	Buy	0.57	8.8	Jun-25	11.7	10.5	0.7	0.7	7.1	7.2	10.1	8.9	6.2	6.9
Suntec REIT	2,831	Buy	1.35	6.5	Dec-24	19.2	18.4	0.6	0.6	5.0	5.2	7.0	6.2	3.2	3.3

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 18: Singapore – valuation comparison (ii) and returns for preferred REITs across sub-sectors

	M Cap			Upside/ downside	1FY	EPS growth (%)		DPS growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
AIMS APAC REIT	799	Buy	1.46	12.9	Mar-25	72.7	3.6	2.9	1.2	61.8	63.0	0.7	0.7	-3.0	-0.8
CapitaLand Ascendas	9,338	Buy	3.20	15.2	Dec-24	91.6	38.6	0.8	3.1	29.8	41.3	0.7	0.7	-5.4	-8.3
CICT	11,634	Buy	2.30	10.1	Dec-24	-9.0	2.4	0.6	3.0	51.4	51.7	0.7	0.7	-3.7	1.5
Cromwell REIT	981	Buy	1.90	18.6	Dec-24	na	21.1	-9.9	-2.9	35.2	41.6	0.8	0.8	1.3	12.7
Elite UK REIT	222	Buy	0.31	6.9	Dec-24	na	43.6	-11.9	6.4	49.4	71.5	0.8	0.7	-6.5	3.6
Keppel Pacific Oak	729	Buy	0.29	5.9	Dec-24	na	241.4	-100.0	na	9.7	31.9	0.8	0.7	5.9	-28.0
Keppel REIT	2,737	Buy	1.05	12.4	Dec-24	57.7	-54.4	2.9	-2.2	205.4	89.3	0.5	0.4	-2.1	0.5
Prime US REIT	893	Buy	0.23	24.2	Dec-24	na	244.7	-87.7	369.3	8.4	28.3	0.8	0.8	-5.2	-16.1
Starhill Global REIT	908	Buy	0.57	8.8	Jun-25	44.7	11.7	2.7	1.5	52.2	56.6	0.6	0.6	0.0	0.0
Suntec REIT	2,831	Buy	1.35	6.5	Dec-24	-2.0	4.0	-12.2	4.4	41.3	42.7	0.6	0.6	-3.1	3.3

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Non-REIT high dividend yield exposure. The Singapore market continues to provide the region's highest forward dividend yield of 5.4% (as of 16 Oct), coupled with a relatively stable currency. As the market cap weighted sector yield for REITs under our coverage is 5.6%, we screened our coverage universe to hunt for high-yield options outside of REITs based on the following criteria: i) The stock has a dividend yield of at least 5%, ii) RHB's stock rating is a BUY or – at worst – NEUTRAL, and iii) the company is expected to see a rise in earnings and/or dividends. Despite concerns about the falling interest rate negatively impacting financial institutions' earnings, we believe the impact of the easing cycle should be manageable for Singapore's banks. Banks continue to be an attractive dividend yield play, with forward dividend yields ranging between 5.6% and 6.3%. There is potential for further dividend upsides for Singapore banks that hold excess capital.

Figure 19: Singapore – valuation comparison (i) for non-REIT yield plays

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div yield (%)		FCF yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
APAC Realty	106	Buy	0.42	8.5	Dec-24	15.9	10.7	0.9	0.8	4.7	7.0	8.6	12.3	5.4	7.8
Bumitama Agri	994	Neutral	0.70	-6.7	Dec-24	9.1	8.7	1.1	1.0	6.1	6.1	7.0	9.0	12.3	12.3
ComfortDelGro	2,399	Buy	1.65	13.8	Dec-24	14.5	13.0	1.2	1.2	5.2	5.8	12.4	7.8	8.3	9.0
DBS Group	84,739	Buy	41.40	6.2	Dec-24	10.3	10.4	1.7	1.6	5.7	6.3	na	na	16.6	15.5
OCBC	51,906	Neutral	15.70	4.0	Dec-24	9.0	9.0	1.2	1.1	5.9	5.9	na	na	13.5	12.6
Riverstone	1,008	Buy	1.02	14.8	Dec-24	14.8	14.7	2.5	2.4	5.4	5.5	6.0	5.9	17.1	16.7
SingTel	39,990	Buy	3.50	10.4	Mar-25	20.7	18.0	2.1	2.1	5.7	6.2	7.5	9.1	10.5	11.7
StarHub	1,575	Neutral	1.18	-1.7	Dec-24	13.0	10.7	3.4	3.2	5.8	7.5	35.9	38.0	27.1	31.0
UOB	41,308	Neutral	32.00	-1.1	Dec-24	8.9	8.9	1.1	1.0	5.5	5.6	na	na	12.3	12.0
Venture Corp	3,042	Buy	16.46	19.7	Dec-24	14.1	13.1	1.4	1.3	5.5	5.5	5.7	5.4	9.9	10.4

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 20: Singapore – valuation comparison (ii) and returns for non-REIT yield plays

	M Cap			Upside/ downside	1FY	EPS growth (%)		DPS growth (%)		Net margin (%)		Net debt/equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
APAC Realty	106	Buy	0.42	8.5	Dec-24	-26.9	48.0	-27.3	48.0	1.5	2.1	0.0	0.0	2.7	-23.8
Bumitama Agri	994	Neutral	0.70	-6.7	Dec-24	-30.3	5.7	-30.8	1.5	11.9	11.8	0.2	0.1	6.4	24.0
ComfortDelGro	2,399	Buy	1.65	13.8	Dec-24	20.1	11.4	12.6	11.4	5.5	6.0	-0.3	-0.3	-2.7	3.6
DBS Group	84,739	Buy	41.40	6.2	Dec-24	3.9	-0.6	27.7	10.8	na	na	na	na	2.6	28.4
OCBC	51,906	Neutral	15.70	4.0	Dec-24	7.4	-0.5	8.5	0.0	na	na	na	na	-0.9	16.2
Riverstone	1,008	Buy	1.02	14.8	Dec-24	33.3	0.8	-43.5	0.8	25.6	24.5	-0.5	-0.5	-2.7	26.2
Singtel	39,990	Buy	3.50	10.4	Mar-25	10.1	15.1	20.0	8.3	17.1	19.0	0.4	0.4	-3.6	28.3
StarHub	1,575	Neutral	1.18	-1.7	Dec-24	6.5	21.7	4.5	28.6	6.5	7.5	1.0	0.8	-2.4	8.1
UOB	41,308	Neutral	32.00	-1.1	Dec-24	-0.1	0.7	3.3	2.9	na	na	na	na	0.2	13.7
Venture Corp	3,042	Buy	16.46	19.7	Dec-24	5.1	7.7	-0.2	0.0	8.9	8.9	-0.4	-0.4	-1.0	1.0

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Restructuring/laggard plays with improving earnings outlook

a) Re-rating/restructuring plays:

i. **ComfortDelGro (CD).** While there are competitive pressures in the Singapore taxi business and driver shortages in the Australian public transport segment, we expect a better 2H24. This is amidst seasonality, contributions from the recently completed A2B and CMAC Group acquisitions, and improving margins for CD's UK public transport business. We maintain the view that the market has yet to appreciate the company's strong YoY improvement in quarterly earnings;

ii. **Singtel.** We estimate Singtel's earnings to grow at a CAGR of 12.5% from FY24-27, supported by potentially higher dividends from mid-term capital recycling initiatives. We believe this will be from a further sell-down/dilution of its associate stake in Airtel (now 28.7%) and/or other non-strategic holdings – eg Singapore Post (SPOST SP, NR) and Net Link Trust. The SGD200m pa cost savings into FY26F will likely catalyse earnings and contribute to higher ROICs. We are also expecting an improvement in market dynamics across Australia, India, and Thailand with the hardening of tariffs.

Outside of our coverage universe, we see similar opportunities in SATS (SATS SP, NR), and Singapore Post (SPOST SP, NR).

b) Undervalued or laggard plays:

i. **City Developments (CIT).** CIT remains the largest residential developer in Singapore, with a strong track record and brand premium. We expect a stronger 2H24 from development projects' earnings recognition. Due to its relatively high gearing and low debt hedge position among developers, CIT stands to benefit from the larger-than-expected interest rate cuts. With the pace of global real estate transactions expected to pick up in early 2025, CIT is in a good position to divest sizeable assets by 4Q and possibly achieve its SGD1bn divestment target set earlier this year. The hospitality segment, which accounts for c.30% of its portfolio, is poised for a continued recovery. Fund management and the living sector particularly are key areas of growth. CIT is trading at a deep more than 60% discount to RNAV;

ii. **Thai Beverage (THBEV).** The company will offload its entire stake in Singapore-based Frasers Property to TCC Assets, an asset holding company controlled by Charoen Sirivadhanabhakdi. As part of a proposed share swap with TCC Assets, THBEV will increase its stake in Singapore-based F&B company Fraser & Neave. The proposed transaction will cement THBEV's pure-play F&B player status. We believe the move is positive, as it will help THBEV become one of South-East Asia's largest F&B companies. The company recently stated that the IPO of its BeerCo beer unit is possible as early as 3Q25 – if it can decide on the share sale by December. We see this as a short-term catalyst. Investment thesis: i) Maintains a strong market leadership in Thailand and Vietnam; ii) a beneficiary of Thailand's economic recovery, improving consumer confidence, and return of tourists to Vietnam; iii) we believe growth – driven by better sales volumes – will be aided by more marketing and promotional spending as consumption recovers; and iv) THBEV's valuation is undemanding at -2SD from its historical forward mean P/E.

Figure 21: Singapore – valuation comparison (i) for restructuring/laggard plays

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
City Developments	3,563	Buy	7.30	39.9	Dec-24	14.3	12.6	0.5	0.5	2.3	2.9	2.8	7.9	3.6	4.0
ComfortDelGro	2,399	Buy	1.65	13.8	Dec-24	14.5	13.0	1.2	1.2	5.2	5.8	12.4	7.8	8.3	9.0
Singtel	39,990	Buy	3.50	10.4	Mar-25	20.7	18.0	2.1	2.1	5.7	6.2	7.5	9.1	10.5	11.7
Thai Beverage	10,174	Buy	0.71	33.4	Sep-24	11.9	11.3	1.6	1.5	4.4	4.6	8.5	9.1	13.7	13.4

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 22: Singapore – valuation comparison (ii) and returns for restructuring/laggard plays

	M Cap			Upside/ downside	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
City Developments	3,563	Buy	7.30	39.9	Dec-24	4.8	13.6	0.0	25.0	7.9	8.8	1.0	1.0	-4.2	-21.5
ComfortDelGro	2,399	Buy	1.65	13.8	Dec-24	20.1	11.4	12.6	11.4	5.5	6.0	-0.3	-0.3	-2.7	3.6
Singtel	39,990	Buy	3.50	10.4	Mar-25	10.1	15.1	20.0	8.3	17.1	19.0	0.4	0.4	-3.6	28.3
Thai Beverage	10,174	Buy	0.71	33.4	Sep-24	3.7	4.7	-1.9	4.7	9.9	10.1	0.7	0.6	1.0	1.0

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

China stimulus beneficiaries. In an effort to reverse an economic slowdown, China announced its most aggressive monetary stimulus plan since the COVID-19 pandemic – as well as massive property market support – ahead of the week-long Golden Week holiday. The People's Bank of China (PBoC) slashed its RRR by 50bps, lowered its standing lending facilities or SLF and 7-day reverse repurchase rates by 20bps, and reduced its medium-term lending facility or MLF by 30bps.

To strengthen the property market, China's central bank will direct commercial banks to decrease interest rates on current mortgages by 50bps on average, providing some respite to families. It will also reduce the minimum down-payment percentage for second home purchasers countrywide to 15%, down from 25% currently. PBoC will also allow commercial banks to use 100% of the CNY300bn relending loan facilities to finance loans to state-owned businesses for the acquisition of unsold flats for affordable housing, up from 60% currently.

To assist the stock market, the China Securities Regulatory Commission or CSRC will provide guidelines for medium- and long-term funds entering the market, as well as measures to encourage mergers, acquisitions, and reorganisations. It will also assist China's state fund Central Huijin Investment in stock acquisitions and expanding investment scope, as well as optimise the registration of equity-focused fund products and encourage the development of broad-based exchange-traded funds or ETFs and other index products. PBoC has also implemented two new mechanisms to stimulate the capital market. The first – a CNYbn swap programme – provides funds, insurers, and brokers with easier access to cash for stock purchases. The second offers commercial banks up to CNY300bn in first-time inexpensive central bank loans to assist them fund listed companies' share purchases and buybacks.

Our economics team assess that the stimulus package should boost Chinese consumer spending, credit growth, and property sales.

While the Chinese equity markets have reduced their gains from September following a below market expectation announcements from the highly anticipated Finance Ministry briefing, our economics team holds the view that China's announced stimulus as a testament to its dedication to achieving its 5% GDP growth target for 2024. The team also does not discount the Chinese Government to further reduce its RRR and loan prime rates in 4Q24 to support its housing market and spur economic activities.

Within our coverage universe, we see CIT, DBS Group, DFI Retail Group, Golden Agri-Resources, HRnetgroup, OCBC Bank, ST Engineering, and Wilmar International as some of the key beneficiaries of China's latest stimulus measures.

Figure 23: Singapore – valuation comparison (i) for stocks with China exposure

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
City Developments	3,563	Buy	7.30	39.9	Dec-24	14.3	12.6	0.5	0.5	2.3	2.9	2.8	7.9	3.6	4.0
DBS Group	84,739	Buy	41.40	6.2	Dec-24	10.3	10.4	1.7	1.6	5.7	6.3	na	na	16.6	15.5
DFI Retail Group	7,724	Buy	2.61	19.6	Dec-24	14.5	12.4	3.0	2.7	4.6	4.8	23.5	25.8	11.4	23.1
Golden Agri	2,761	Neutral	0.25	-12.3	Dec-24	11.8	9.8	0.5	0.5	1.3	1.6	13.9	11.1	19.2	19.3
HRnetgroup	513	Buy	0.84	21.9	Dec-24	11.6	11.0	1.7	1.6	5.9	5.2	8.0	9.3	15.1	15.0
OCBC	51,906	Neutral	15.70	4.0	Dec-24	9.0	9.0	1.2	1.1	5.9	5.9	na	na	13.5	12.6
ST Engineering	11,002	Buy	5.32	15.0	Dec-24	20.2	17.1	5.4	4.8	3.4	3.4	4.5	7.1	27.8	29.5
Wilmar	15,547	Neutral	3.10	-4.9	Dec-24	12.5	11.0	0.8	0.7	3.2	3.8	2.9	2.7	5.9	6.6

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 24: Singapore – valuation comparison (ii) and returns for stocks with China exposure

	M Cap			Upside/ downside	1FY	EPS growth (%)		DPS growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
City Developments	3,563	Buy	7.30	39.9	Dec-24	4.8	13.6	0.0	25.0	7.9	8.8	1.0	1.0	-4.2	-21.5
DBS Group	84,739	Buy	41.40	6.2	Dec-24	3.9	-0.6	27.7	10.8	na	na	na	na	2.6	28.4
DFI Retail Group	7,724	Buy	2.61	19.6	Dec-24	30.7	17.4	25.0	5.0	2.3	2.7	0.0	-0.1	20.4	-9.2
Golden Agri	2,761	Neutral	0.25	-12.3	Dec-24	-17.8	20.6	-18.6	20.6	2.6	3.0	0.2	0.2	3.6	9.6
HRnetgroup	513	Buy	0.84	21.9	Dec-24	4.8	5.4	7.0	-11.4	9.9	9.9	-0.7	-0.7	2.2	-4.2
OCBC	51,906	Neutral	15.70	4.0	Dec-24	7.4	-0.5	8.5	0.0	na	na	na	na	-0.9	16.2
ST Engineering	11,002	Buy	5.32	15.0	Dec-24	16.5	17.7	-0.8	0.0	6.6	7.2	2.1	1.8	0.0	18.8
Wilmar	15,547	Neutral	3.10	-4.9	Dec-24	-6.9	13.3	-17.6	21.4	1.9	2.1	1.1	1.1	3.8	-8.7

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Beyond our coverage universe, the following SGX-listed mid- to large-cap companies with significant revenue exposure to China could also see benefits. These companies are CapitaLand Investment, Hongkong Land Holdings, Yangzijiang Shipbuilding, Mapletree Logistics Trust, iFAST Corp, Hutchison Port Holdings Trust, Yangzijiang Financial, CapitaLand China Trust, Yanlord Land Group, Sasseur REIT, China Aviation Oil Singapore, and Hong Leong Asia.

Uncertainty about the US election outcome: Go defensive. We believe the timing and size of the US Fed's interest rate decreases, as well as the prospects for global economic growth, will have a stronger influence on Singapore equities markets. Nonetheless, market participants are closely following the US presidential elections. The odds of Trump winning the election have decreased since Joe Biden handed over the Democratic Party's nomination to Kamala Harris. While it is too early to decide how to invest depending on the US election results, we anticipate the uncertainty surrounding its result – ie who wins the election – may cause increased volatility in Singapore's equity market in the run-up to said elections. Investors are only now becoming aware of Harris' viewpoint on the economy, its problems, and her proposed policy solutions, whereas Trump's policy proposals are widely recognised. The latter has suggested imposing a 10% global tariff and 60% tariff on all imports from China; Harris is anticipated to align with the Biden Administration's stance on trade tariffs. US tariffs are still, in our opinion, a major cause of concern. In addition, there is a chance that a worldwide trade war could result from in-kind reprisals, which would be a lose-lose scenario.

We advocate investors to not lean too much in either direction. To mitigate the increased volatility risk, investors can consider including some defensive companies with strong domestic exposure in their portfolio. Our top choices in this circumstance are Raffles Medical, Sheng Siong, ST Engineering, and United Overseas Bank (UOB).

Figure 25: Singapore – valuation comparison (i) for preferred exposure amidst uncertainty about US election outcome

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Raffles Medical	1,276	Neutral	1.00	10.6	Dec-24	23.7	21.7	1.6	1.6	2.6	2.1	na	5.1	7.0	7.4
Sheng Siong	1,826	Buy	1.88	18.5	Dec-24	17.7	16.9	4.5	4.1	4.0	4.1	3.5	6.3	26.3	25.4
ST Engineering	11,002	Buy	5.32	15.0	Dec-24	20.2	17.1	5.4	4.8	3.4	3.4	4.5	7.1	27.8	29.5
UOB	41,308	Neutral	32.00	-1.1	Dec-24	8.9	8.9	1.1	1.0	5.5	5.6	na	na	12.3	12.0

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 26: Singapore – valuation comparison (ii) and returns for preferred exposure amidst uncertainty about US election outcome

	M Cap			Upside/ downside	1FY	EPS growth (%)		DPS growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
Raffles Medical	1,276	Neutral	1.00	10.6	Dec-24	-3.6	9.2	-37.0	-16.3	9.9	10.1	-0.2	-0.2	0.0	-16.7
Sheng Siong	1,826	Buy	1.88	18.5	Dec-24	0.3	4.8	0.8	3.2	9.5	9.7	-0.6	-0.6	5.3	-0.6
ST Engineering	11,002	Buy	5.32	15.0	Dec-24	16.5	17.7	-0.8	0.0	6.6	7.2	2.1	1.8	0.0	18.8
UOB	41,308	Neutral	32.00	-1.1	Dec-24	-0.1	0.7	3.3	2.9	na	na	na	na	0.2	13.7

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Bottom-up opportunities in the small-cap space. Within our coverage universe, in the sub-USD1bn to almost-USD1bn market cap range, we prefer exposure to APAC Realty (APAC), Centurion Corp (CENT), Frencken Group (FRKN), and Riverstone. All four stocks have earnings tailwinds either this year or next year.

APAC Realty: Investment thesis: APAC's share price has severely underperformed YTD amid a significant slowdown in primary transaction volume, which is a key earnings driver. Singapore's property market has been gradually cooling off, with weakness starting to emerge in the form of lacklustre land bids, delayed new launches, and sliding transaction volumes. Prices, on the other hand, have remained largely resilient due to a strong household balance sheet and growing household income. We expect this trend to continue for the rest of the year, with some recovery in buying sentiment anticipated in early 2025 based on potential rate cuts and a stronger economic recovery. This should drive APAC's earnings turnaround.

CENT: Investment thesis: i) Near-term bed rates are positive for Centurion as Singapore's worker dormitory beds supply remains tight, ii) it is expecting growth ahead (driven by better capacity, occupancy, and rental rates), iii) it expects more dormitory project wins (with at least seven new purpose-built dormitories (totalling 47,000 beds) planned to be completed over the next five years), and iv) it currently trades at -0.5SD from its historical P/E mean of 8x.

FRKN: Investment thesis: i) Customers continue to build up their inventory buffers for production equipment, ii) key semiconductor customers are picking up their activities (particularly at the front-end side), iii) near-term growth should stem from customers' Europe and Asia capacity expansions (in programmes and new products), and iv) potential to re-rate on the start of a new semiconductor cycle.

Riverstone: Investment thesis: i) Prime beneficiary of the recovery in global semiconductor sales that – in turn – should drive its cleanroom glove sales in 2024, ii) Malaysia's glove exports continue to show encouraging signs of recovery (August export volume: +66% MoM), iii) shift towards high specialty higher-margin healthcare gloves alongside industry inventory de-stocking approaching its tail-end (which should propel the healthcare gloves division), and iv) being the sole rubber glove manufacturer to still post double-digit core profit margins while continuing its consistent dividend payout (FY25 yield: 4%).

Figure 27: Singapore – valuation comparison (i) for preferred small cap exposure

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Div Yield (%) 1FY	Div Yield (%) 2FY	FCF Yield (%) 1FY	FCF Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
APAC Realty	106	Buy	0.42	8.5	Dec-24	15.9	10.7	0.9	0.8	4.7	7.0	8.6	12.3	5.4	7.8
Centurion Corp	549	Buy	1.06	24.2	Dec-24	8.5	7.1	0.8	0.7	3.5	3.5	0.9	16.9	16.8	10.2
Frencken Group	401	Buy	1.71	39.3	Dec-24	12.1	10.5	1.2	1.1	1.9	2.5	12.4	7.2	10.4	11.0
Riverstone	1,008	Buy	1.02	14.8	Dec-24	14.8	14.7	2.5	2.4	5.4	5.5	6.0	5.9	17.1	16.7

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Figure 28: Singapore – valuation comparison (ii) and returns for preferred small cap exposure

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/equity (x) 1FY	Net debt/equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
APAC Realty	106	Buy	0.42	8.5	Dec-24	-26.9	48.0	-27.3	48.0	1.5	2.1	0.0	0.0	2.7	-23.8
Centurion Corp	549	Buy	1.06	24.2	Dec-24	21.8	20.0	100.0	0.0	33.9	36.4	0.5	0.4	15.5	111.1
Frencken Group	401	Buy	1.71	39.3	Dec-24	34.2	14.3	-37.4	34.3	5.7	5.8	-0.2	-0.3	-3.1	-8.9
Riverstone	1,008	Buy	1.02	14.8	Dec-24	33.3	0.8	-43.5	0.8	25.6	24.5	-0.5	-0.5	-2.7	26.2

Note: Prices are as at 16 Oct 2024
Source: Bloomberg, RHB

Singapore: Sector rating, and preferred picks

Figure 29: Summary of our sector weightings

OVERWEIGHT	NEUTRAL
Consumer	Financials
Industrials	Food products (CPO)
Mfg. & Tech.	Healthcare
REITs (Industrials)	Real estate
REITs (Office)	REITs (Hospitality)
REITs (Overseas)	REITs (Retail)
Transport	Telecom

Source: RHB

Figure 30: Summary of preferred stocks across sectors

Sector	Most preferred
Consumer	DFI, FEH, SSG, THBEV
Financials	DBS
Food products	-
Healthcare	-
Industrials	STE
Mfg. & Tech.	FRKN, VMS
Real estate	CIT
REITs (Hospitality)	-
REITs (Industrial)	AAREIT, CLAR
REITs (Office)	KREIT, SUN
REITs (Overseas)	CERT, ELITE, KORE, PRIME
REITs (Retail)	CICT, SGREIT
SMID Cap	APAC, FRKN, CENT, RSTON
Telecom	ST
Transport	CD

Source: RHB

Thailand: Rewards Now Outweigh Risks

End-2024 SET index target is now 1,547pts

We maintain our net profit growth forecasts for the SET at 7.3% YoY for 2024 and 7.0% YoY for 2025, with corresponding EPS growth estimates of 6.5% and 7.0%. Many market risks that we were concerned over have largely subsided. Consequently, we raise the end-2024F P/E of the Thai equities market to 19x, which is in line with the SET's 15-year average, from 18x. This adjustment sets our year-end 2024 target at 1,547pts (vs 1,463pts previously). We believe the potential rewards now outweigh the risks.

Fund flows driven by domestic segment

The SET bottomed out at 1,281pts in June and rebounded to 1,470pts in September, reflecting a 13% surge over three months. This positive performance can be partly attributed to a smooth transition of power to Thailand's new Prime Minister Paetongtarn Shinawatra, along with a clearer economic policy direction, which was marked by the official launch of the THB150bn Vayupak Fund on 1 Oct. In 4Q24, the Vayupak Fund, along with Thai ESG funds totaling c.THB30-40bn, is expected to further spur the growth momentum of the market. Additional positive factors such as stimulus measures for consumers, an acceleration in state budget disbursements, and anticipated interest rate cuts both in the US and Thailand, will likely attract fund flows and enhance the SET's liquidity for the remainder of the year.

Risk associated with short-selling has watered down

In early July, regulators implemented tighter controls on short-selling and programme trading to enhance supervision and increase investor confidence. That month, average daily turnover fell by 15% MoM to THB37bn (6M24 average value: THB44bn). However, the amount rebounded to THB45bn in August, and rose even higher to THB61bn in September, reaching the 8-year average. Our analysis revealed that from Nov 2023 to May 2024, the SET lost over THB578bn (USD16bn) – this translated to a loss of 3.1% or 47pts, solely due to short-selling activities. However, as of 1 Oct, the cover short has recovered chiefly, leaving a market capitalisation balance of THB44 bn or 0.24% of the total, translating to 3.6pts to par.

The US presidential election presents both an opportunity and a threat

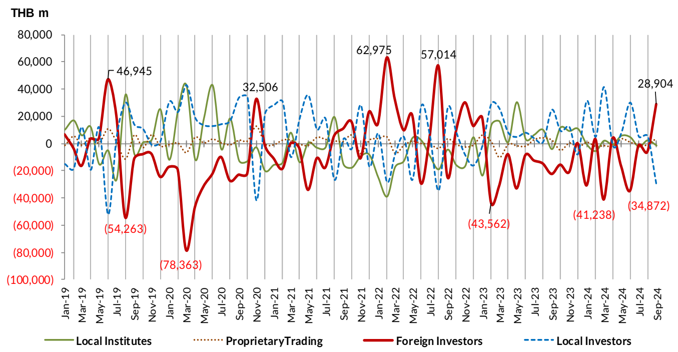
Assuming that geopolitical risks do not worsen and that interest rate cuts are on an uptrend, the US election on 5 Nov is a key global event that could significantly influence the way the Thai equities market will behave in the near-to-medium term. The choice between a potential return of Donald Trump and the current US Vice President Kamala Harris, may have repercussions for Thailand in areas such as trade agreements, diplomatic relations, and regional stability. For the capital markets, this election could influence global fund flows and asset allocations. That said, we do anticipate that foreign direct investment (FDI) into Thailand will improve further, post US election.

Figure 31: Our end-2024 SET index target is at 1,547 pts

Key Inputs	2021	2022	2023	2024E	2025E
Return on Equity	9.7%	8.4%	8.2%	8.4%	8.6%
EPS (THB)	88.41	79.44	76.30	81.25	86.97
EPS growth	144.2%	-10.1%	-4.0%	6.5%	7.0%
BV (THB)	910.9	939.6	943.9	977.4	1,020.9
Dividend yield	3.4%	3.0%	3.3%	3.3%	3.5%
P/E (x)	18.75	21.00	18.56	18.07	16.88
P/BV (x)	1.82	1.78	1.50	1.50	1.44
SET index closed (pts)	1,658	1,669	1,416	**1,547**	1,656
Market return	14.4%	0.7%	-14.6%	9.3%	17.0%
Dividend yield	3.4%	3.0%	3.3%	3.3%	3.6%
Total return	17.7%	3.7%	-11.3%	12.6%	20.5%

Source: RHB

Figure 32: Funds returned into the Thai bourse in September



Source: SET Smart, RHB

Domestic risks have receded

Fiscal spending is gaining upward momentum. The new Cabinet under Prime Minister Paetongtarn Shinawatra is still a Pheu Thai-led government. It will seamlessly continue ongoing programmes started by former prime minister Srettha Thavisin, including the THB450bn handout initiative, which includes the THB10K handout under the digital wallet scheme that would kick off in September, prioritising 14.5m (c.total spending: THB145bn (USD4.14bn)) people in vulnerable segments of society. The FY25 budget will be tapped for the handouts from October. As Budget 2024 has been de-bottlenecked, and Budget 2025 is to kick off in October, we anticipate that from 4Q24 onwards, the economic growth momentum will appear to be meaningful in both YoY and QoQ terms, in 2025.

Short-selling risk: Market liquidity bounced back to par levels. Over the past year and up to 1H24, short-selling events have dramatically influenced the SET index and market capitalisation, with high volatility leading to a significant decrease in trading activity. In early July, the SET and Securities Exchange Commissions (SEC) regulated short-selling and programme trading to enhance supervision and increase confidence for all types of investors. The key measures included:

i. Non-SET 100 stocks will be eligible for short-selling if they meet the market capitalisation and turnover rules;

ii. Revising the trading rules of the SET to limit the volatility of securities prices;

iii. Impose the uptick rule when the closing price of any security has dropped by 10% or more from its closing price the previous day;

iv. Impose a daily short-selling limit on each eligible security;

v. Disclose the daily short selling outstanding.

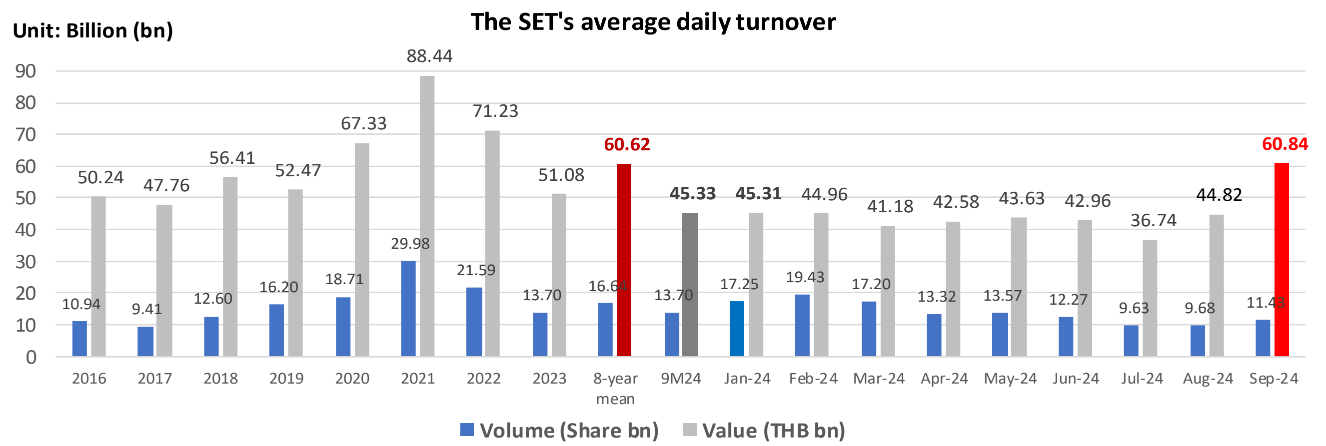
In the month of implementation, the average daily turnover in July dropped significantly by 15% MoM to THB37bn compared to the 6M24 average of THB44bn. However, the amount recovered strongly in August (THB45bn) and became even more robust in September (THB61bn), reaching the 8-year average. Our study reveals that from Nov 2023 to May 2024, the SET lost over THB578bn (USD16bn), translating to a loss of 3.1% or 47pts solely due to short-selling events. However, as of 1 Oct, the cover short has recovered chiefly, leaving a market capitalisation balance of THB44 bn or 0.24% of the total, translating to 3.6pts to par.

Figure 33: The risk associated with short-selling has receded

Short-selling in the studied period	7M Nov 23 to May 24	1Q24 Jan-Mar	2Q24 Apr-Jun	1H24 Jan-Jun	3Q24 Jul-Sep	Remaining balance as of 1 Oct 2024
Short-selling stocks (incl. NVDR)	501	483	467	490	220	209
Market Cap (THBm)	578,161	313,327	319,147	632,473	129,578	44,451
Market Cap (USDm)	16,060	8,704	8,865	18,071	3,927	1,347
Impacted to SET index (pts)	46.66	25.28	25.75	51.04	10.46	3.59
Impacted to SET index	3.08%	1.69%	1.72%	3.36%	0.71%	0.24%

Source: SET Smart, RHB

Figure 34: Average daily turnover bounced back to the 8-year mean level in September



Source: SET Smart, RHB

Corporate bond rollover risk should subside

Based on the Thai Bond Market Association (TBMA), the value of bonds with defaulted and deferred problems was at THB19.9bn (USD569m) in 1H24.

i. The defaulted bonds, worth THB1.1bn or 5.5% of the total value, involved three issuers (non-listed): Tourism company PP Holiday (PPH), a small real estate firm Cissa Group (CISSA), and property developer IRIS Group;

ii. The deferred bonds stood at THB18.8bn in 1H24, which was higher than last year's THB12.4 bn.

Corporate bonds worth over THB25bn (USD714m) have postponed payments this year. TBMA believes that fewer defaults are expected for the remainder of 2024 as economic conditions improve, with interest rates on a downward trend. In September, two listed companies — Nawarat Patanakarn (NWR TB, NR) and Eastern Power Group (EP TB, NR) — postponed bond repayments worth about THB100m each. Earlier this year, Italian-Thai Development (ITD TB, NR) postponed payments on its bonds worth THB15bn. In July, Energy Absolute (EA TB, NR) announced a similar action involving THB6.2bn (THB177m) worth of bond principal and interest. With more minor defaults, more than THB25bn worth of bond principal and interest payments have been postponed this year.

The SEC has updated the qualification criteria for bond representatives. Bond representatives must now have a registered capital of at least THB25m. Crowdfunding firms and other financial institutions can now act as bond representatives. Only securities firms licensed to conduct business in securities brokerage, trading, and distribution and provide services related to debt instruments and *sukuk* (*shariah*-compliant) bonds are eligible to act as bondholder representatives.

Investment Themes

Theme 1: Stronger acceleration in economic growth from 4Q24 onwards

Fiscal policies are back on track. The new Cabinet under Prime Minister Paetongtarn Shinawatra is still a Pheu Thai-led government. It will seamlessly continue ongoing programmes started by former premier Srettha Thavisin, including the THB450bn handout initiative, which includes the THB10K handout under the digital wallet scheme that would kick off in September, prioritising 14.5m people (c.total spending THB145bn (USD4.14bn)) in vulnerable sections of society. The FY25 budget will be tapped for handouts from October. As Budget 2024 has been de-bottlenecked, and the THB3.75trn (USD108bn or c.18% of GDP) Budget bill for 2025 has finally sailed through its second and third readings and kick-off from October 2024.

From 4Q24 onwards, the economic growth momentum should be meaningful. We hope there will be more economic stimulus schemes, as the THB10k cash handout takes effect in late 4Q24. This would lead to a spike in consumption (stable and discretionary), domestic travel (hotel and leisure, domestic airlines), and personal income taxes (retail or shopping).

Top Picks under this theme:

i. Central Retail Corporation (CRC TB, BUY, TP: THB44.00);

ii. Central Pattana (CPN TB, BUY, TP: THB85.00);

iii. CP All (CPALL TB, BUY, TP: THB85.00);

iv. Minor International (MINOR TB, BUY, TP: THB42.50).

Theme 2: Driven by domestic fund flows

Vayupak Fund 1. The state-run Vayupak Fund (VAYU1 TB, NR) made its debut on the SET on 7 Oct, with the index at 1,441pts. This entry point may provide a cushion against potential market downturns. The initial purchases ahead of the fund's expansion appear modest when compared to the anticipated scale of investment. In September, net foreign buys totalled only THB25bn vs local institutions' net buys of THB785m. The fund, in the meantime, is expected to acquire up to THB150bn in equities.

VAYU1 premiered its Type A investment units on the SET at an opening price of THB10.10, reflecting a THB0.10 increase from the initial offering price. The fund is projected to deliver its first dividend payment in Feb 2025, with a guaranteed return of at least 3.0% pa and a cap of 9.0% pa. Since its inception, VAYU1 has generated robust interest from the investment community, mobilising THB130bn from institutional investors and THB 20bn from retail participants. The fund strategically focuses on equities characterised by solid fundamentals, strong corporate governance, and a long-term value proposition.

As 100% of the fund's portfolio is focused on SET50 stocks, we expect its stock purchases to increase the value of the SET index by 4.7% from the current level.

The Thailand ESG (TESG) funds. The TESG funds could provide tax incentives of a maximum of THB300,000 and shorten the holding period to five years from eight years. These are aimed at making these funds more attractive to investors. This adjustment is expected to entice more savers to invest in TESG funds, leading to an inflow of around THB40bn (USD1.11bn) into the capital market.

Drawing on the success and similarities with the Long Term Equity Fund (LTF), it is estimated that TESG alone could attract around THB40bn in new investments and potentially boost the SET index by a minimum of 2.2%. This suggests that the revisions to the TESG funds could not only incentivise sustainable and responsible investment practices but also have a ripple effect on the broader capital market, contributing to its growth and stability.

Top Picks under this theme:

i. Advanced Info Service (ADVANC TB, BUY, TP: THB272.00);

ii. Airports of Thailand (AOT TB, BUY, TP: THB75.00);

iii. Bangkok Dusit Medical Services (BDMS TB, BUY, TP: THB37.00);

iv. CP ALL (CPALL TB, BUY, TP: THB75.50);

v. Osotspa (OSP TB, BUY, TP: THB30.50);

vi. Minor International (MINT TB, BUY, TP: THB42.50);

vii. Kasikornbank (KBANK TB, BUY, TP: THB177.00);

viii. TMBThanachart Bank (TTB TB, BUY, TP: THB2.10).

Theme 3: FDI upcycle continues – so far, so good

Thailand aims to be a financial hub. The Government will provide a range of financial and non-financial incentives to attract new investments in eight target industries: Tourism, medical and health, food, aviation, transportation, future automotive, digital, and finance. As part of its vision to become a financial hub, Thailand will focus on attracting FDI by offering incentives such as tax benefits (income and corporate tax) as well as non-tax benefits like streamlined entry processes, visa options, benefits for incoming labour, and advantages for operating in different areas. Both aspects will be coordinated to develop the country's financial ecosystem and attract foreign investment.

Industrial land sales continue to grow and reach record highs. The Industrial Estate Authority of Thailand (IEAT) has reported a new high in industrial land sales, exceeding 6,000 *rai* (2,375 acres) for the second consecutive year. This growth is partly attributed to the government's policy to promote investment, particularly in the EV sector. In 9M24, the authority sold 6,174 rai (2,440 acres), setting a new record compared to 6,096 rai (2,409 acres) in 2023. The continuous growth can be attributed to various factors, including the Government's efforts to attract foreign investors to expand their businesses in Thailand and the promotion of targeted S-curve industries.

Industrial land prices in the Eastern Economic Corridor (EEC) surge. Chinese investors' demand for industrial land has propelled Rayong's vacant land price index to the highest growth rate among the EEC provinces in 2Q24. Major China manufacturers such as BYD and Changan have invested in Rayong's industrial estates, particularly in the Nikhom Pattana and Pluak Daeng areas, causing land prices to surge 2.3 times compared with the base year of 2015. In 2Q24, the price index of vacant land in Rayong reached 230.8 pts, marking a 22.9% YoY increase and a 31.6% QoQ uptick. Rayong dominated the top five districts in the EEC with the most significant YoY land price increases. Ban Chang led with a 52.5% growth, followed by Klang at 34.5% and Nikhom Pattana at 17.3%, ranking first, second and fifth.

DCs and cloud services are the next S-Curve. According to the Board of Investment (BoI), 46 projects concerning DCs and cloud services worth nearly THB168bn (USD5bn) have applied for investment privileges. Other companies seeking BoI investment privileges include Amazon Web Services (AWS), a unit of the US multinational tech firm, Australia's NextDC for a THB13.7bn project, India's CtrlS for an investment valued at THB5bn, as well as Singapore's STT GDC and Evolution Data, with outlays of THB4.5bn and THB4bn. AWS projects capital expenditure of THB200bn (USD5. bn) through 2037 and has already invested THB25bn in the first phase to construct three data centres in Thailand.

Google announced plans to set up a regional data centre and develop ethical artificial intelligence (AI), cloud and other digital infrastructure in Thailand. The plan also covers training to enhance the digital skills of Thailand's workforce. The plan is expected to generate over USD4.1bn (THB150bn) for the Thai economy by 2030 and create 50,300 jobs. A positive development for industrial developers is also related to businesses such as green energy sources (renewable energy (RE) includes water and power), construction of DCs, office and accommodation services.

Infrastructure investment: High-speed train project is back on track. The Eastern Economic Corridor Policy Committee (EECP) has approved a series of principles to amend the contract for the high-speed rail project connecting the Don Mueang, Suvarnabhumi, and U-Tapao airports for a total project value worth THB225bn (USD6.6 bn). The EECP will present these principles to the Cabinet for consideration and approval. Previously, the high-speed rail project, signed in 2019 between the State Railway of Thailand (SRT) and Asiaera One Co, (under JV group – CP Holding, CH Karnchang, Bangkok Expressway & Metro, Italian-Thai Development, and China Railways Construction) has faced challenges due to the COVID-19 pandemic. The amendment to the contract aims to address these challenges and ensure the project's successful completion.

Top Picks according to this theme:

i. WHA Corp (WHA TB, BUY, TP: THB6.00);

ii. Bangkok Expressway & Metro (BEM TB, BUY, TP: THB12.00);

iii. CH Karnchang (CK TB, BUY, TP: THB25.00).

Theme 4: Hedge against possible headwinds of the US election

The US presidential election presents both an opportunity and a threat. Assuming that geopolitical risks do not worsen and that interest rate cuts are on an uptrend, the election on 5 Nov is a key global event that could significantly impact Thailand. The choice between the potential return of former president Donald Trump and the current US Vice President Kamala Harris, may have repercussions for Thailand in areas such as trade agreements, diplomatic relations, and regional stability. In the capital markets, this election could influence global fund flows and asset allocations. We anticipate that FDI flows will benefit Thailand, post US polls.

Thai exports to the US surge strongly and FDIs reach a new high. Thailand has seen significant growth in its exports to the US. Despite the US-China trade tensions during both the Donald Trump- and Joe Biden-led administrations, Thailand's exports to the US increased by over 100%. Key sectors such as cars and car parts, electronics, car tires, and steel experienced substantial growth. Thailand's ability to replace China-made goods in the US market contributed to this export growth, making the US Thailand's primary export market, accounting for 18% of exports in 5M24.

However, challenges lie ahead, particularly with the US-China trade war expected to escalate further. The EV sector in Thailand faces uncertainties as the US has raised tariffs on EVs produced in China. This could affect Thai-made EVs destined for the US market, leading to potential repercussions on other Thai goods and industries.

The US trade war is primarily with China, but Thailand could be indirectly affected as China has relocated its production bases to the kingdom to export goods to the US. However, low-priced exports from Thailand could face stricter scrutiny, impacting domestic industries and posing a risk of US trade retaliation.

The SET index plummeted but recovered three months later. After reaching a historic high of 1,852 pts in Feb 2018, the SET index faced a correction due to the US-China trade war. It dropped to 1,595 pts in Jun 2018, representing a decrease of 257 pts or 16%. However, the index recovered over the next three months, reaching 1,765 pts in Sep 2018, reflecting an increase of 170 pts or 10.7%. This implied a net impact to the SET of c.87 pts (1x P/E in 2018), with the most foreign fund outflows from the SET valued at THB288bn (USD8.0bn), and the SET earnings contracting by 1.2% in 2018. The index then remained relatively stable until the onset of the COVID-19 pandemic.

Outperforming sectors and stocks. Post-recovery, sectors that did well during the trade war have continued to outperform, including ICT, electronics, transportation, logistics, automotive, utility, healthcare, and industrial estate sectors and stocks. These sectors and stocks have shown resilience and competitiveness, outperforming the SET benchmark and reflecting the market's response to external economic conditions and trade dynamics. These include:

i. ICT stocks like ADVANC, Intouch Holdings (INTUCH TB, NR), and True Corp (TRUE TB, NR);

ii. Healthcare stocks like Bangkok Dusit Medical Services, Bangkok Chain Hospital (BCH TB, BUY, TP: THB25.00);

iii. Oil & gas stock like PTT over PTTEP at this juncture;

iv. Charoen Pokphand Foods (CPF TB, UNDER REVIEW);

v. Indorama Ventures (IVL TB, NR);

vi. Electronics stocks like Delta Electronics (DELTA TB, NR) and Hana Microelectronics (HANA TB, NR);

vii. Transportation stocks like BTS Group Holdings (BTS TB, NR), BEM, and AOT;

viii. Logistics stocks like Regional Container Lines (RCL TB, NR), and Precious Shipping (PSL TB, NR);

ix. Utility stocks like Gulf Energy Development (GULF TB, NR), B.Grimm Power (BGRIM TB, NR), Electricity Generating (EGCO TB, NR), and Ratch Group (RATCH TB, NR);

x. Industrial estate stocks like WHA.

We take the view that if Trump's idea of keeping US interest rates low is carried out, it should favour the Thai bourse as investments would return to risky assets through stocks like Muangthai Capital (MTC TB, NR), and Srisawad Corporation (SAWAD TB, NR) as well as property developers such as Supali (SPALI TB, BUY, TP: THB24.70, dividend yield 8-9%).

Top Picks according to this theme:

i. Advance Info Services;

ii. PTT (PTT TB, BUY, TP: THB42.50; dividend yield: 6%);

iii. Bangkok Dusit Medical Services;

iv. Bangkok Chain Hospital;

v. WHA.

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