Malaysia Morning Cuppa

Top Story

Malaysia Strategy
Budget 2023: Supporting Keluarga Malaysia
Strategy
Something for all. Budget 2023 was an expansive and electorate-friendly budget containing a record MYR372.3m allocation, featuring generous measures to support the economically challenged segments of society. The absence of new taxes on the private sector was a positive surprise. As expected, the consumer sector is the main beneficiary. The absence of any proposal to kick-start subsidy reform is also within expectations. However, the dissolution of Parliament to hold the 15th general election would require a re-tabling of the budget, and may render this proposal moot.
Analyst: Alexander Chia +603 9280 8889
Today's Report: Budget 2023 : Supporting Keluarga Malaysia (8 Oct 2022)
Previous Report: Budget 2022 : A Glass Half Full (30 Oct 2021)

Other Stories

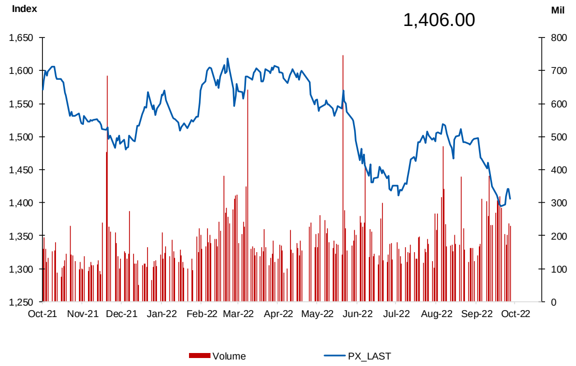
Telecommunications (NEUTRAL)
Sector Update
Ready. Set. 5G!
Sector picks: Telekom Malaysia, Time dotCom, and OCK Group. With the equity stake sale in Digital Nasional executed, the telcos will now move on to ink commercial wholesale agreements – a condition precedent. We maintain our NEUTRAL sector call, as we see 5G monetisation challenges – even with wholesale rates being more accommodative – leading to medium-term earnings dilution.
Analyst: Jeffrey Tan +603 9280 8863
Today's Report: Telecommunications : Ready. Set. 5G! (11 Oct 2022)
Previous Report: Telecommunications : JENDELA: 2Q22 Progress Report (20 Sep 2022)

Real Estate (NEUTRAL)
Outlook Post Election Remains Uncertain
Sector Update
Maintain NEUTRAL. There was no major positive surprise from the Government's Budget 2023 announced last week. Near-term performance of the property sector will hinge on the outcome of the national poll, while a sustainable recovery can only be seen when the interest rate upcycle comes near to an end. For now, we continue to like affordable landed township player Matrix Concepts and asset owner IOI Properties. Sunway is also our Top Pick now given its exposure to various business divisions that should benefit from the reopening of economy.
Analyst: Loong Kok Wen CFA +603 9280 8861
Today's Report: Real Estate : Outlook Post Election Remains Uncertain (11 Oct 2022)
Previous Report: Real Estate : Re-Introduction Of Stamp Duty Waiver (18 Jul 2022)

Regional Research

Regional Oil & Gas (OVERWEIGHT)
2mbpd Cut From OPEC+; Still OVERWEIGHT
Sector Update
Maintain OVERWEIGHT; Top Picks: Bumi Armada, Coastal Contracts, Yinson, PTT Exploration & Production (PTTEP) and PTT Oil and Retail Business (PTTOR). The OPEC+ production cut will tighten supply, but investors should be wary that any potential "strong response" from the US could raise tensions. The theoretical deficit is estimated at 0.9mbpd for 4Q22, and average at 0.5mbpd for 2023. Despite revising our numbers, we still maintain relatively lower YoY projections for 2023-2024, due to the uncertain economic outlook.
Analysts: Sean Lim +603 9280 8867, Athipu Visavaveja +66 2088 9827
Today's Report: Regional Oil & Gas : 2mbpd Cut From OPEC+; Still OVERWEIGHT (10 Oct 2022)
Previous Report: Regional Oil & Gas : Tight Supply To Stay; Keep OVERWEIGHT (4 Jul 2022)

Chart 1: FBM KLCI chart



		Chg
KLCI Futures Oct 2022	1,400.50^	-
KLCI Futures Nov 2022	1,402.00^	-
Brent Crude Oil (USD/bbl)	96.19	(1.7)
CPO Spot Price (MYR/Tonne)	3,645.50*	+49.0
USD/EUR	0.97	(0.0)
JPY/USD	145.72	+0.5
USD/MYR	4.65	0.0
JPY/MYR	3.19	(0.0)
EUR/MYR	4.51	(0.0)

*Note: *As at 6 Oct 2022 closing*
Note 2: ^As at 7 Oct 2022 closing

Table 1: Regional markets (10 Oct 2022)

		Bloomberg Code	Index		Chg	YTD (%)
FTSE KLCI	:	FBMKLCI	1,406.00^	-	-	(10.3)
FTSE Emas	:	FBMEMAS	10,050.79^	-	-	(11.1)
FTSE 70	:	FBM70	12,251.87^	-	-	(13.8)
FTSE 100	:	FBM100	9,798.54	-	-	(11.0)
Singapore	:	FSSTI	3,107.47	↓	(38.34)	(0.5)
Thailand	:	SET	1,570.57	↓	(9.09)	(5.3)
Philippines	:	PCOMP	5,832.58	↓	(99.61)	(18.1)
Indonesia	:	JCI	6,994.40	↓	(32.39)	+6.3
Hong Kong	:	HSI	17,216.66	↓	(523.39)	(26.4)
China, Shanghai	:	SHCOMP	2,974.15	↓	(50.24)	(18.3)
China, Shenzhen	:	SZCOMP	1,870.50	↓	(41.49)	(26.1)
Korea	:	KOSPI	2,232.84^	-	-	(25.0)
Taiwan	:	TWSE	13,702.28^	-	-	(24.8)
Japan	:	NKY	27,116.11^	-	-	(5.8)
Dow Jones	:	INDU	29,202.88	↓	(93.91)	(19.6)
S&P 500	:	SPX	3,612.39	↓	(27.27)	(24.2)
Nasdaq	:	CCMP	10,542.10	↓	(110.30)	(32.6)

Note: ^As at 7 Oct 2022 closing

Bulletin

STOCK/SECTOR	NEWS	COMMENT	RATING
Market Strategy	The 14th Parliament was dissolved on Monday to make way for the 15th General Election (GE15). Prime Minister Datuk Seri Ismail Sabri Yaakob announced the dissolution of Parliament in a special announcement at Perdana Putra at 3pm on Monday. This puts an end to the rumours and speculations that have grown stronger since the end of September. Datuk Seri Ismail Sabri said he obtained the consent of Yang di-Pertuan Agong Al-Sultan Abdullah Ri'ayatuddin Al-Mustafa Billah Shah to dissolve the Parliament during an audience at Istana Negara on Sunday. *(The Edge, various media)*	According to constitutional provisions, polls need to be held within 60 days. We expect the Electoral Comission to announce a polling date some time in 1H November. As feared, the 2023 Budget will need to be re-tabled by the new government. Political commentators seem to be unanimous of a favourable election outcome for the Barisan Nasional coalition. We think outcomes are far from certain and much will depend on voter turnout. A hung parliament would be the worst-case scenario for markets, given the leadership and power vacuum that ensues. While the anti-hopping bill has been enacted, side deals and horse trading between the various political groupings will have highly unpredictable outcomes. If a weak political leadership emerges, this would result in a government that will likely be unable to bring about the sorely needed long-term reforms, while questions over the government's longevity would be negative for markets. Conversely, a government with a strong majority post GE15 would be the preferred outcome for investors. Nonetheless, markets will want to see adherence to good governance principles and the rule of law. We expect the positive political outcomes from GE15 would only have a short-term influence on markets whose fundamental outlook remains dependent on the evolution of the global macroeconomic environment. Monetary conditions remain on a tightening path, and we cannot rule out the terminal US Federal Funds Rate creeping higher if inflation remains stickier for longer. We reiterate our cautious view on equity markets. The latest political developments will add to short-term volatility as investor sentiment remains risk-off. Market Strategy should remain centered on a defensive posture and maintaining sufficient liquidity to take advantage of market weakness. Investors need to look for opportunities to build positions for the medium term. We are OVERWEIGHT on banks, non-bank financial institutions, healthcare, oil & gas, basic materials, gaming, and technology. We are UNDERWEIGHT on rubber products.	N/A

Top BUYs

	TP (MYR)	Upside (%)	*Shariah*	Catalysts
AMMB (AMM MK)	4.60	15.6	N	• Targeting ROE of 10% (FY22: 5%) on above-industry average loan growth of 7%, stable to higher NIM, and lower credit cost of 35-40bps (FY22: 64bps) • With LLC for oil & gas exposures raised to >80%, there is no further need of future overlays • Dividend payout to normalise to 35-40% from FY23 (FY22: 11%) with good progress on capital rebuild
CIMB (CIMB MK)	6.50	23.8	N	• Growing traction in ROE recovery, with FY22F target at 8-9% (FY21: 8.1%) • Asset quality issues mostly addressed, credit cost to decline to 50-60bps (FY21: 73bps) • Loan portfolio reshaping and cost take-outs bearing fruit
CTOS Digital (CTOS MK)	2.22	65.7	Y	• Unique leading position and growth proposition (3-year CAGR of 34%) in secular digitalisation trends such as e-KYC and credit rating-related solutions • Synergy from new acquisitions to accelerate growth avenue via its various digital solutions, analytical insights, and exposure to fintechs on the back of the growing digital economy
Guan Chong (GUAN MK)	4.15	96.7	Y	• Undemanding valuation of c.10x FY23F P/E vs its consumer peers and international peers for Asia's largest cocoa grinder with a consistent earnings base secured by its forward-selling mechanism and unique exposure to growing global demand for chocolate • Various expansions-driven growth and via its venture into Ivory Coast and Europe, which is likely to contribute significantly from FY23 onwards • Inflection point for cocoa butter ratio amid strong demand, lower inventory levels, and normalised freight costs
Heineken Malaysia (HEIM MK)	29.20	23.2	N	• Proxy for consumption recovery thanks to its established brand equity and products portfolio • The reopening of international borders and more entertainment outlets (nightclubs) should further boost consumption • Earnings growth should also be aided by the ASP increases to mitigate cost inflation
Kerjaya Prospek (KPG MK)	1.42	22.4	Y	• KPG's construction orderbook stands at MYR4.3bn, which translates to an orderbook/revenue cover ratio of c.3.8x • Further opportunities in infrastructure contracts under Seri Tanjung Pinang Phase 2 or STP2, which amount to c.MYR2bn in the next 5-7 years • More job wins are achievable, given KPG's net cash pile of MYR214.6m as at 30 Jun 2022

Mr DIY (MRDIY MK)	2.90	45.7	Y	• Gravity-defying growth underpinned by strong brand equity and efficient business model • Robust outlet expansion plans across brands to support longer-term growth • Valuation should play catch-up to consumer large-cap peers
Malaysian Pacific Industries (MPI MK)	44.40	56.4	Y	• Resilient pipeline and earnings visibility with additional capacity coming on-stream and China's localisation efforts • Sustained growth in the automotive and industrial segment, which will better insulate from any prolonged slowdown • Structural growth trend in the advance packaging technology that involves silicon carbide or SiC and gallium nitride or GaN
Matrix Concepts (MCH MK)	2.75	91.0	Y	• Resilient sales from existing township developments should ensure sustainable earnings growth and dividend payouts • The 1,382 acres of new land in Seremban will underpin the long-term growth of the company • The upcoming completion and potential en-bloc sale of Menara Shariah twin towers in Jakarta may suggest possible upside to FY23 dividend
SKP Resources (SKP MK)	2.22	31.4	Y	• Earnings should pick up strongly in upcoming quarters considering the peak seasonality – driven by the year-end festive season and arrival of new labour supply • Largely insulated from the rising costs environment given its cost-plus model • Putting behind the labour-related ESG issues with the positive audit results – supportive of the share price and valuation recoveries
TASCO (TASCO MK)	2.03	147.6	N	• TASCO has a pandemic-resistant business. It is also leveraged to post-COVID-19-recovery tailwinds, which translate into a 3-year core earnings CAGR of c.26%, subsequent to FY21's 400% YoY growth • Multi-pronged expansion plan backed by the integrated logistics services tax incentive scheme that should also take place in subsequent quarters – this could potentially lead to better profitability going forward • The stock's current below peers' valuation provides investors with good opportunities to ride on a renowned logistics player with strong earnings growth momentum
Telekom Malaysia (T MK)	7.40	42.9	Y	• Structural growth in fibre broadband demand (sill modest fibre broadband penetration), enterprise digitalisation, and wholesale services • Wholesale business to benefit from 5G backhaul fibrerisation contract with Digital Nasional or DNB and the high-speed broadband access or HSBA • Strong 1H22 EBIT growth suggests that management's guidance remains conservative, supported by good cost rationalisation
Yinson (YNS MK)	2.91	35.3	N	• Yinson currently interested in four projects, including three in Angola and one in Suriname. It highlighted that ENI's Agogo project, with an estimated capex of >USD1bn, could be awarded in 2022 with the rest in 2023 • We also expect strong earnings growth of 45-83% in FY24-25 once it achieves final acceptance of the three new projects • Yinson has been aggressive in expanding its renewables and green technologies division – it has a target to secure a 3GW pipeline by end 2022 – and expand the operating portfolio of 5-10GW by 2028 in 5-7 markets

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Kuala Lumpur	Singapore
RHB Investment Bank Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	**RHB Bank Berhad (Singapore branch)** 90 Cecil Street #04-00 RHB Bank Building Singapore 069531 Fax: +65 6509 0470
Jakarta	**Bangkok**
PT RHB Sekuritas Indonesia Revenue Tower, 11th Floor, District 8 - SCBD Jl. Jendral Sudirman Kav 52-53 Jakarta 12190 Indonesia Tel : +6221 509 39 888 Fax : +6221 509 39 777	**RHB Securities (Thailand) PCL** 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799