

2 June 2022

Market Outlook | Market Strategy

## Market Strategy

### Mar 2022 Quarter Earnings Review

Stocks Covered 141  
 Rating (Buy/Neutral/Sell): 77 / 58 / 6  
 Last 12m Earnings Revision Trend: Positive

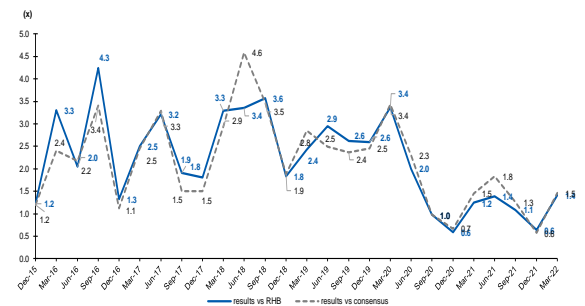
- Cost pressures dampen margins.** The Mar 2022 quarter results were somewhat dampened by the escalating cost environment and other operational impediments. While the reporting season was less stellar than the preceding Dec 2021 quarter, there were still positive takeaways for corporate earnings prospects. Management guidance remained cautiously optimistic as the economic re-opening continues apace. However, macroeconomic, regulatory, and political risks, coupled with unconvincing valuations could limit the market's fundamental upside.
- A softer quarter.** The Mar 2022 quarter saw six sectors (construction, gaming, property, basic materials, utilities and auto) miss expectations (up from two in the Dec 2021 quarter) and offset by four sectors (plantation, consumer, healthcare and REITs) that beat expectations (down from five in the Dec 2021 quarter). Notably, the heavyweight banks, oil & gas, and telecommunications sector results were in line. Sectors that disappointed also experienced challenges in passing through higher operating costs or suffered from supply chain constraints. However, the misses-to-beats ratio spiked higher to 1.4 from 0.6 in the preceding quarter after 25% of results beat expectations with 35.3% disappointing. For the RHB coverage universe, we nominally raised FY22F and FY23F revenue and net profit by 4.0% and 2.7% as well as 0.9% and 1.0%. Excluding earnings changes for the plantation stocks after factoring in higher CPO price assumptions, revenue and net profit for FY22F and FY23F were revised 3% and 2.4% as well as 0% and 0.5%, with stronger topline expansion helping to offset margin pressures seen in certain sectors. Management guidance from the bellwether banks remained cautious although it continued to see little signs of deterioration in asset quality as credit costs remained subdued.
- KLCI large caps.** KLCI component stocks reported six beats and eight misses. FY22F and FY23F earnings were lifted 0.5% and 0.7%, with positive revisions from plantation helping to offset cuts from gaming, telecommunications and gloves. Ex-plantation, the remaining large caps collectively saw earnings trimmed by 1.1% and 0.5%.
- Strategy.** We acknowledge the swirling macroeconomic headwinds that will continue to buffet equity markets. The potential for volatility suggests that domestic investors are not inclined to look too far forward given limited visibility, especially considering the paucity of earnings growth in 2022. Market positioning remains trading oriented with outperformance requiring astute bottom-up stock-picking. Investors should remain focused on value and cyclical names that can leverage on the recovery and seek attractive entry points, while maintaining core holdings in defensive, high-yield stocks and companies with a strong ESG profile. We retain OVERWEIGHT calls on the bank, non-bank financial institutions (NBFIs), oil & gas, utilities, healthcare, basic materials, gaming and technology sectors.

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#### Misses-to-beats ratio trend



Source: Company data, RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-22F	P/B (x) Dec-22F	ROAE (%) Dec-22F	Yield (%) Dec-22F
AMMB	Buy	4.40	18.3	7.6	0.7	9.5	3.7
CTOS Digital	Buy	2.36	66.1	42.6	6.4	18.8	1.4
Dialog	Buy	2.96	22.3	27.8	3.0	11.0	1.6
Genting	Buy	6.37	21.5	21.3	0.6	3.0	3.8
Heineken Malaysia	Buy	28.50	14.9	23.4	18.8	80.6	4.2
Hong Leong Bank	Buy	23.70	12.3	13.1	1.3	10.6	2.7
Malaysian Pacific Industries	Buy	43.30	35.3	19.6	3.2	17.5	1.0
Mr DIY Group	Buy	4.50	39.6	35.8	14.1	43.7	1.4
Petronas Chemicals	Buy	12.21	21.3	11.8	2.1	18.5	4.2
Press Metal	Buy	7.90	45.0	19.4	8.6	50.5	2.3
Sarawak Oil Palms	Buy	7.25	31.2	4.7	0.9	21.7	2.7
TASCO	Buy	2.03	101.0	9.8	1.4	14.6	2.9
Telekom Malaysia	Buy	7.80	46.3	16.9	2.2	14.1	3.0

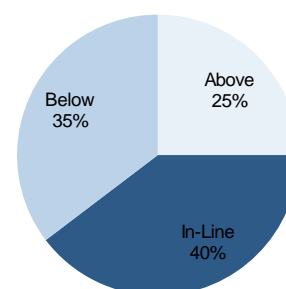
Source: Company data, RHB

2 June 2022

Market Outlook | Market Strategy

Figure 1: Comparison of Mar 2022 quarterly earnings vs RHB estimates

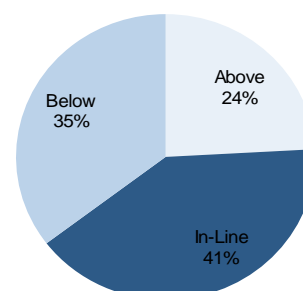
Sector	Total	Above	In line	Below
Auto	5	1	1	3
REITs	7	4	3	0
Plantations	8	5	1	2
Technology	6	0	5	1
Oil & Gas	7	1	4	2
Banks	8	2	5	1
Non-Bank Financials	6	1	4	1
Media	2	0	1	1
Transport	6	2	2	2
Construction	10	1	2	7
Gaming	4	1	0	3
Healthcare	1	1	0	0
Utilities	6	0	3	3
Rubber products	4	0	2	2
Telecoms	6	1	5	0
Property	10	2	3	5
Basic Materials	3	0	1	2
Consumer	17	7	4	6
<b>Total</b>	<b>116</b>	<b>29</b>	<b>46</b>	<b>41</b>
% of Total		25.0	39.7	35.3



Source: RHB

Figure 2: Comparison of Mar 2022 quarter earnings against consensus estimates

Sector	Total	Above	In-Line	Below
Auto	5	1	2	2
REITs	7	4	3	0
Plantations	8	6	1	1
Technology	6	0	4	2
Oil & Gas	7	1	3	3
Banks	8	2	5	1
Non-Bank Financials	6	0	4	2
Media	2	0	1	1
Transport	6	2	3	1
Construction	10	1	2	7
Gaming	4	1	0	3
Healthcare	1	1	0	0
Utilities	6	0	3	3
Rubber products	4	0	2	2
Telecoms	6	0	6	0
Property	10	2	3	5
Basic Materials	3	0	1	2
Consumer	17	7	4	6
<b>Total</b>	<b>116</b>	<b>28</b>	<b>47</b>	<b>41</b>
% of Total		24.1	40.5	35.3



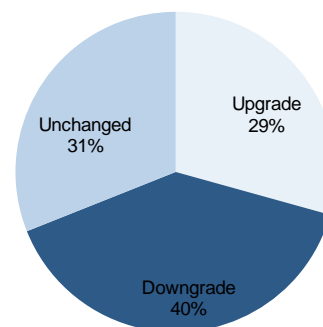
Source: RHB

2 June 2022

Market Outlook | Market Strategy

Figure 3: Changes to TPs

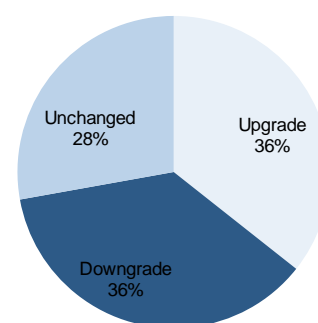
Sector	Total	Upgrade	Downgrade	Unchanged
Auto	5	4	1	0
REITs	7	3	1	3
Plantations	8	3	5	0
Technology	6	0	0	6
Oil & Gas	7	1	3	3
Banks	8	4	0	4
Non-Bank Financials	6	2	2	2
Media	2	1	1	0
Transport	6	1	2	3
Construction	10	2	6	2
Gaming	4	0	4	0
Healthcare	1	1	0	0
Utilities	6	1	4	1
Rubber products	4	0	2	2
Telecoms	6	1	3	2
Property	10	2	2	6
Basic Materials	3	0	3	0
Consumer	17	8	7	2
<b>Total</b>	<b>116</b>	<b>34</b>	<b>46</b>	<b>36</b>
% of Total		29.3	39.7	31.0



Source: RHB

Figure 4: Changes to earnings estimates

Sector	Total	Upgrade	Downgrade	Unchanged
Auto	5	3	2	0
REITs	7	4	1	2
Plantations	8	7	1	0
Technology	6	0	0	6
Oil & Gas	7	1	3	3
Banks	8	2	0	6
Non-Bank Financials	6	3	2	1
Media	2	0	2	0
Transport	6	3	2	1
Construction	10	2	6	2
Gaming	4	1	3	0
Healthcare	1	1	0	0
Utilities	6	0	4	2
Rubber products	4	0	2	2
Telecoms	6	2	1	3
Property	10	4	3	3
Basic Materials	3	0	3	0
Consumer	17	8	7	2
<b>Total</b>	<b>116</b>	<b>41</b>	<b>42</b>	<b>33</b>
% of Total		35.3	36.2	28.4



Source: RHB

2 June 2022

Market Outlook | Market Strategy

Figure 5: Changes to revenue estimates

Sector	Total	Upgrade	Downgrade	Unchanged
Auto	5	4	1	0
REITs	7	4	1	2
Plantations	8	5	3	0
Technology	6	1	0	5
Oil & Gas	7	1	0	6
Banks	8	1	1	6
Non-Bank Financials	6	3	1	2
Media	2	0	2	0
Transport	6	3	2	1
Construction	10	3	4	3
Gaming	4	1	3	0
Healthcare	1	0	1	0
Utilities	6	2	2	2
Rubber products	4	0	0	4
Telecoms	6	1	1	4
Property	10	1	3	6
Basic Materials	3	0	2	1
Consumer	17	6	8	3
<b>Total</b>	<b>116</b>	<b>36</b>	<b>35</b>	<b>45</b>
% of Total		31.0	30.2	38.8

Source: RHB

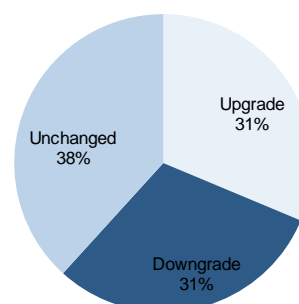


Figure 6: Changes to recommendations

Sector	Total	Upgrade	Downgrade	Unchanged
Auto	5	1	1	3
REITs	7	1	1	5
Plantations	8	0	2	6
Technology	6	0	2	4
Oil & Gas	7	0	1	6
Banks	8	0	0	8
Non-Bank Financials	6	0	1	5
Media	2	0	0	2
Transport	6	0	0	6
Construction	10	1	0	9
Gaming	4	0	1	3
Healthcare	1	0	0	1
Utilities	6	0	0	6
Rubber products	4	0	0	4
Telecoms	6	0	0	6
Property	10	1	2	7
Basic Materials	3	0	0	3
Consumer	17	2	1	14
<b>Total</b>	<b>116</b>	<b>6</b>	<b>12</b>	<b>98</b>
% of Total		5.2	10.3	84.5

Source: RHB

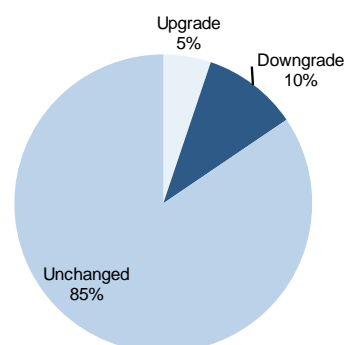
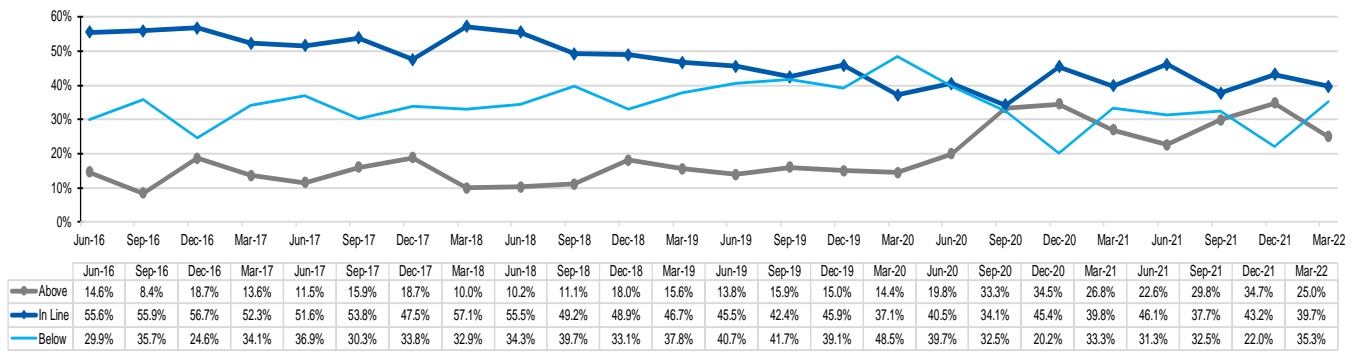
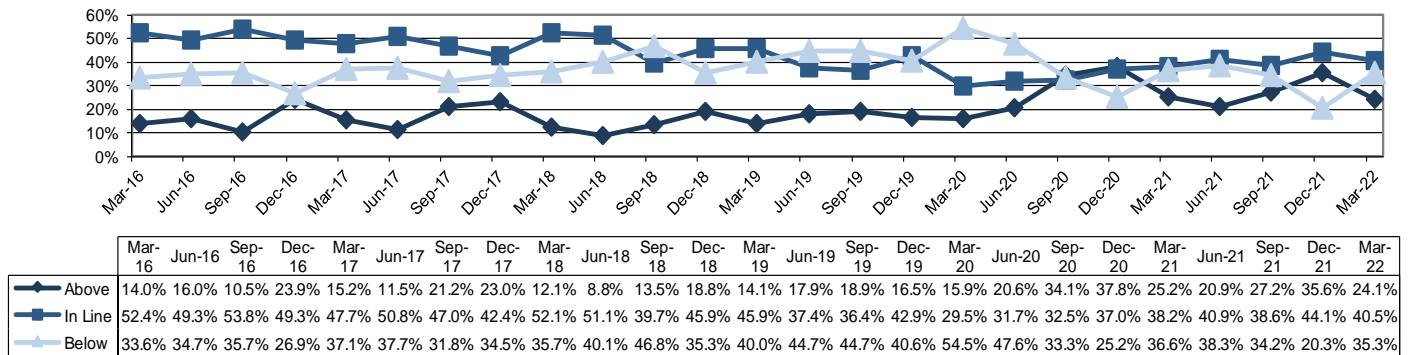


Figure 7: Tracker – results vs RHB estimates



Source: RHB, Company data

Figure 8: Tracker – results vs Street projections



Source: RHB, Company data

2 June 2022

Market Outlook | Market Strategy

Figure 9: Sector performance tracker – actual vs RHB

Sector	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Auto	Above	Above	In line	Below	Below	Below	Below	Mixed	Above	In line	Below	Below	Above	Below
Banks	In line	In line	In line	In line	In line	Mixed	Mixed	Above	In line	Above	In line	Above	Above	In line
Basic Materials	In line	Below	Below	Below	In line	In line	Above	In line	Mixed	In line	Below	Below	In line	Below
Construction	Below	In line	In line	Below	In line	Below	Below	Below	In line	Below	Below	Below	In line	Below
Consumer	In line	In line	In line	In line	In line	Below	Below	Below	In line	Mixed	Below	Below	Below	Above
Gaming	Above	In line	In line	Above	In line	Below	Below	Mixed	In line	Below	In line	In line	In line	Below
Healthcare	In line	Below	In line	In line	In line	In line	Below	In line	In line	Above	Above	In line	In line	Above
Media	Below	In line	In line	In line	Above	In line	Below	Above	Above	In line	In line	In line	In line	In line
NBFI	In line	In line	In line	In line	In line	Mixed	Mixed	In line	Above	In line	In line	Below	Above	In line
Oil & Gas	In line	In line	n.a	Above	Below	Below	In line	Above	In line	Below	Below	In line	In line	In line
Plantations	Below	Below	Below	Above	Below	Below	In line	Above	Above	In line	Above	Above	Above	Above
Property	Below	In line	Below	In line	In line	Below	Below	Below	In line	Below	Below	Below	Above	Below
REITs	In line	In line	In line	In line	In line	Below	Below	Mixed	Mixed	Below	Below	In line	In line	Above
Rubber	In line	In line	Below	Below	In line	In line	Above	Above	Above	In line	In line	Above	Below	In line
Technology	In line	Below	In line	Below	Below	Below	In line	Above	Above	Mixed	In line	In line	In line	In line
Telecoms	In line	In line	In line	In line	In line	In line	In line	In line	In line	In line	In line	In line	In line	In line
Transport	Below	Below	In line	In line	Below	Below	In line	Mixed	In line	In line	Below	In line	In line	In line
Utilities	Below	In line	n.a	In line	Below	In line	Above	In line	In line	In line	In line	In line	In line	Below

Source: RHB, Company data

Figure 10: Upgraded recommendation changes

Company	New rating	Old rating	New TP (MYR)	Old TP (MYR)
CLMT	Neutral	Sell	0.58	0.50
E&O	Neutral	Sell	0.50	0.48
Malaysian Resources Corp	Buy	Neutral	0.44	0.38
Padini Hldg	Buy	Neutral	3.95	3.15
Scientex	Buy	Neutral	4.68	4.90
Sime Darby	Buy	Neutral	2.60	2.40

Source: RHB

Figure 11: Downgraded recommendation changes

Company	New rating	Old rating	New TP (MYR)	Old TP (MYR)
AEON Credit Service	Neutral	Buy	16.10	16.10
Bermaz Auto	Neutral	Buy	1.74	1.71
Datasonic	Neutral	Buy	0.57	0.57
Genting Plantations	Sell	Neutral	7.35	8.90
GHL System	Neutral	Buy	1.65	1.65
Magnum	Neutral	Buy	1.95	2.51
MISC	Neutral	Buy	7.79	7.79
Mynews Holdings	Neutral	Buy	0.70	1.22
Sentral REIT	Neutral	Buy	1.00	1.02
Sime Darby Property	Neutral	Buy	0.60	0.75
Ta Ann	Neutral	Buy	5.70	6.4
Tambun Indah	Neutral	Buy	0.90	0.87

Source: RHB

Figure 12: Companies with results that were above expectations

Company	New rating	Old rating	New TP (MYR)	Old TP (MYR)
AMMB	Buy	Buy	4.40	4.00
Berjaya Food	Buy	Buy	4.80	4.20
Bumi Armada	Buy	Buy	0.58	0.65
Bursa Malaysia	Neutral	Neutral	6.80	6.10
Carlsberg Brewery	Neutral	Neutral	23.80	23.80
CBIP	Neutral	Neutral	1.45	1.40
CIMB Group	Buy	Buy	6.40	6.40
CLMT	Neutral	Sell	0.58	0.50
Digi.Com	Neutral	Neutral	4.10	4.18
FGV Holdings	Neutral	Neutral	1.80	2.05
FM Global Logistics	Buy	Buy	1.20	1.20
Heineken Malaysia	Buy	Buy	28.50	25.80
IGB REIT	Buy	Buy	1.92	1.92
IHH Healthcare	Buy	Buy	7.60	7.50
Kuala Lumpur Kepong	Buy	Buy	34.15	31.45
LBS Bina Group	Buy	Buy	0.63	0.63
Malaysian Resources Corp	Buy	Neutral	0.44	0.38
Nestle (M)	Neutral	Neutral	141.00	138.00
Padini	Buy	Neutral	3.95	3.15
Pavilion REIT	Buy	Buy	1.55	1.48
Power Root	Buy	Buy	2.00	1.88
QL Resources	Neutral	Neutral	4.92	4.67
Sarawak Oil Palms	Buy	Buy	7.25	7.05
Sime Darby Plantations	Neutral	Neutral	5.05	5.30
Sports Toto	Buy	Buy	2.20	2.39
Sunway	Buy	Buy	2.06	2.06
Sunway REIT	Neutral	Neutral	1.46	1.45
Tasco	Buy	Buy	2.03	1.90
UMW	Neutral	Neutral	3.64	3.29

Source: RHB

2 June 2022

Market Outlook | Market Strategy

Figure 13: Companies that reported lower-than-estimated results

Company	New rating	Old rating	New TP (MYR)	Old TP (MYR)
Advancecon	Buy	Buy	0.34	0.38
AEON Credit Service	Neutral	Buy	16.10	16.10
Bermaz Auto	Neutral	Buy	1.74	1.71
BIMB Holdings	Neutral	Neutral	3.30	3.30
Datasonic	Neutral	Buy	0.57	0.57
Dialog	Buy	Buy	2.96	3.40
E&O	Neutral	Sell	0.50	0.48
Econpile	Neutral	Neutral	0.22	0.28
Gabungan AQRS	Buy	Buy	0.54	0.60
GD Express Carrier	Neutral	Neutral	0.20	0.29
Genting	Buy	Buy	6.37	6.39
Genting Malaysia	Buy	Buy	3.45	3.58
Genting Plantations	Sell	Neutral	7.35	8.90
IJM Corp	Neutral	Neutral	1.81	1.66
IOI Prop	Buy	Buy	1.38	1.38
Kerjaya Prospek	Buy	Buy	1.45	1.56
Leong Hup International	Buy	Buy	0.61	0.83
Magnum	Neutral	Buy	1.95	2.51
Mah Sing	Neutral	Neutral	0.71	0.78
Malayan Cement	Buy	Buy	3.30	3.65
Matrix Concepts	Buy	Buy	2.66	2.66
Media Prima	Buy	Buy	0.87	0.90
MGB	Buy	Buy	0.83	0.99
Mr. DIY	Buy	Buy	4.50	4.59
Mynews Holdings	Neutral	Buy	0.70	1.22
NTPM	Neutral	Neutral	0.48	0.53
Petronas Dagangan	Neutral	Neutral	20.05	19.90
Pintaras Jaya	Buy	Buy	2.95	3.24
Pos Malaysia	Neutral	Neutral	0.67	0.75
Press Metal	Buy	Buy	7.90	8.25
Ranhill Utilities	Buy	Buy	0.66	0.76
Scientex	Buy	Neutral	4.68	4.90
Sime Darby	Buy	Neutral	2.60	2.40
Supermax Corp	Sell	Sell	0.75	0.92
Ta Ann	Neutral	Buy	5.70	6.4
Taliworks Corporation	Buy	Buy	1.12	1.03
Tan Chong Motor	Sell	Sell	0.94	0.97
UOA Development	Neutral	Neutral	1.78	1.78
VS Industry	Buy	Buy	1.26	1.85
YTL Power	Buy	Buy	0.95	0.68

Source: RHB

## Sector Review

### Banks – Staying Watchful Despite Stable Business Momentum **OVERWEIGHT**

**1Q22 earnings within expectations.** Of the eight banks under our coverage, five posted results that were in line, two above our expectations. AMMB Holdings (AMM MK, BUY, TP: MYR4.40) and CIMB Group (CIMB MK, BUY, TP: MYR6.40) reported earnings that beat expectations. The profit variance was mainly due to lower-than-expected impairment charges (AMMB and CIMB) and recognition of tax credit at AMMB. Bank Islam Malaysia (BIMB MK, NEUTRAL, TP: MYR3.30) missed expectations for the second consecutive quarter, attributed to weaker-than-expected non-financing income.

**Underlying operations held up despite volatility in financial markets.** Banks' PIOP grew a stronger 3.7% QoQ (4Q21: flat QoQ) on a 2% QoQ decline in operating expenses, coupled with a moderate 1% QoQ rise in operating income. Main driver of topline growth was the 6% QoQ rise in non-interest income, where volatilities in financial markets led to increased trading and FX income that offset declines in gains from investment securities and wealth management income. NII was flattish QoQ on a slight slippage in NIM, while loans expanded by a healthy 1.6% QoQ (annualised: 6.4%) on the pick-up in economic activities. NIM narrowed on a modest uptick in funding cost, as CASA growth slowed, while some banks stepped up fixed deposit campaigns. In 4Q21, NIM was also propped by the unwinding of modification losses. The QoQ reduction in opex was partly due to normalisation of spending after the seasonal year-end expenses. Although CIR declined to 44.7% vs 46.1% in 4Q21, it remains higher than the 42.6% seen in 1Q21, as banks are investing for business growth. A sharp 47% QoQ drop in total impairment allowances provided a further uplift to sector net profit, which was up a stronger 9.4% QoQ. Sector credit cost was a lower 21bps vs 35bps in 4Q21.

**Asset quality improved.** Banks' asset quality was resilient in 1Q22. Sector gross impaired loans (GIL) was little changed from 4Q21, with the expansion in loan base nudging GIL ratio slightly lower to 1.72% (4Q21: 1.75%). LLC is estimated to have dipped to 119.4% from 121.7% in 4Q21 as several banks utilised management overlays built up over the past two years to offset higher provisions, namely for oil & gas exposures. All banks reported meaningful reduction in loans under repayment assistance (LURA) between Dec 2021 and Apr-May 2022. The progressive expiry of relief assistances under the PEMULIH moratorium from 31 Dec 2021 saw LURA decline to 6-8% of Malaysia loans vs between high-20% to low-30% in Nov 2021. Most banks reported healthy repayment behaviour for loans exiting assistance.

**Outlook.** Banks are seeing healthy business momentum with the gradual recovery in Malaysia and the opening of international borders. Broadly, they expect loans to expand by 5-6% in 2022, led by demand from businesses and consumers. NIMs are expected to be stable to slightly higher – revised up due to the earlier-than-expected 25bps hike in the overnight policy rate (OPR) and expectations of a further 25bps increase in 2H22. Non-IL would, however, see some growth risks with financial volatilities impacting income from investment securities and capital market activities. Banks expect asset quality to hold up, with borrowers able to absorb the expected rise in interest rates. Overall, banks did not change their FY22 financial targets, as they are cognisant of the challenges stemming from the protracted geopolitical tensions and external economic headwinds. They also expressed the need to remain vigilant on asset quality and would prefer to retain pre-emptive provisions for the rest of 2022.

Maintain **OVERWEIGHT** for banks. Pecking order of our preferred picks – Hong Leong Bank (HLBK MY, BUY, TP: MYR23.70), AMMB, Malayan Banking (MAY MK, BUY, TP: MYR10.40) and CIMB.

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### Basic Materials – Earnings Miss From Higher Costs **OVERWEIGHT**

**Maintain OVERWEIGHT.** 1Q22 results for the sector were below expectations, as Press Metal's (PMAH MK, BUY, TP: MYR7.90) results were slightly softer against our forecasts – this was primarily due to lower utilisation rates for the Phases 1 (P1) and 2 (P2) smelters, as well as higher-than-expected raw material prices. Also, Malayan Cement's (LMC MK, BUY, TP: MYR3.30) earnings were well below our forecasts as we had initially assumed the company's coal inventory would be enough to maintain margins for its financial year.

**Aluminium.** Press Metal's 1Q22 core earnings surged 106% YoY to MYR422.8m, which reflected the significant rally in aluminium ASPs (+56% YoY) on top of higher volume

2 June 2022

Market Outlook | Market Strategy

contributions from its new Samalaju Phase 3 (P3) smelter, which is currently operating at full capacity. However, the results were below our expectations, due to lower utilisation rates for the P1 and P2 smelters – as a result of delayed maintenance works due to lockdowns and the shortage of workers, which had been anticipated by management. Higher-than-expected raw material prices also contributed to the earnings miss – there was a 51% YoY jump in carbon anode prices, while alumina prices rose 38% YoY.

More focus will be put on value-added products (VAP) as Press Metal benefited from higher upcharges during the quarter – these ranged between USD180.00/tonne and USD190.00/tonne, from USD120.00/tonne. Although the VAP mix has decreased to 36%, volume has risen QoQ thanks to the elevated demand for billets, especially in Europe. As a new billet casting line is expected to be commissioned in June, this would add extra 80,000 tonnes to its current production capacity, allowing Press Metal to garner more contribution from this market – since the VAP upcharge currently hovers around USD200.00/tonne.

Press Metal has hedged 60% of its FY22F sales volume, while only 25-35% of FY23F-24F sales volumes are hedged currently. As management has decided to maintain its FY23F hedging position at a lower level, this may indicate its bullish outlook on aluminium prices.

Looking ahead, we expect the utilisation rates for the P1 and P2 smelters to recover some time in 2H22, as the delayed maintenance was completed in late April and the maintenance programme has since normalised. With the full commissioning of its P3 smelter, higher VAP production capacity and upcharge as well as elevated LME spot prices, we anticipate better prospects ahead for Press Metal.

**Cement.** Malayan Cement's results disappointed, with net profit of MYR18.3m (-67% QoQ) on the back of the sharp coal price increase in the quarter. The 9M22 earnings came in at just 31% of our full-year estimate, as we did not account for a sharp increase in coal prices, and we had assumed Malayan Cement's existing coal inventory could maintain margins for the rest of the financial year. Revenue only declined 3% QoQ, with lower sales volumes following the festive holidays. In the meantime, ASPs continued to grow, rising 10% QoQ from MYR259.00/tonne to MYR285.00/tonne. Management believes that Malayan Cement will be able to continue increasing its ASPs to pass on the cost increase to customers.

Post-results, we slash FY22F earnings by 56% but keep FY23-24 net profit projections unchanged, as we had already accounted for margin compression risks from increased raw material prices for the latter years. We continue to be optimistic on Malayan Cement's prospects as the company should benefit from the sustained rollout of infrastructure projects. The stock's valuation remains attractive – it is trading at 0.7x FY22F P/BV (-1SD from the mean). The full consolidation of YTL Cement's domestic assets should also bring improved efficiency for the group.

**OVERWEIGHT.** Our sector Top Pick is Press Metal, as an attractive aluminium proxy to play the reflation trade as well as its favourable market positioning in the era of decarbonisation. Key downside risks are higher-than-expected raw material costs and a sharp deterioration in global economic conditions.

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## Gaming – Continued Recovery

## OVERWEIGHT

Maintain OVERWEIGHT, with Genting (GENT MK, BUY, TP: MYR6.37) as our sector Top Pick. While the casino's earnings generally disappointed on slower-than-expected recovery, the company continued to make progress as countries transition towards living with COVID-19. On the other hand, the number forecast operators' (NFO) ticket sales recovery to pre-pandemic levels seems to be slower than expected. However, this should be boosted by the increase in the number of special draw days to 22 in 2022. Between the two NFOs, we prefer Sport Toto (SPTOTO MK, BUY, TP: MYR2.23), as aside from its continued ticket sales recovery, we also like the growth exposure provided by its other segments, such as its UK motor dealership and hotel & gaming businesses in Berjaya Philippines.

Genting Malaysia (GENM MK, BUY, TP MYR3.45) missed expectations mainly due to lower-than-expected 1Q22 revenue and hold percentage from Malaysia. However, its results show encouraging recovery. GENM's 1Q22 gaming revenue of MYR1.8bn stood at c.68% of pre-pandemic levels, and is on track to fully recover by next year, at the latest. Its non-gaming revenue is also at its highest since 1Q20, currently at 58% of the 2019 quarterly average. Genting SkyWorlds had c.3,000 daily visitors (maximum: 20,000 daily) in April/May. Currently, 15 out of 19 rides are open, with the rest to be opened progressively over 2022, as GENM continues to ramp up the theme park. Resorts World Genting's hotel has opened 5,000 of its 10,500 available rooms, and is running at an 88% occupancy rate. GENM's associate, Empire Resort's (ER) mobile sports betting app has yet to contribute in 1Q22 after

its Mar 2022 launch, but is complementing the existing suite of offerings at Resorts World Catskills. Post results, we trimmed GENM's FY22F-24F by 10-3% on lower Malaysia footfall, and higher interest expenses in the future. The lower earnings brought our SOP-derived TP to MYR3.45.

GENT also disappointed, mainly weighed by the underperformance of GENM, and the power and property segments. We note that Genting Plantations (GENP MK, SELL, TP: MYR7.35) and GENT's oil & gas segments outperformed, driven by high CPO and oil prices. In Resorts World Las Vegas (RWLV), activity is meaningfully picking up, as management continues to ramp up the business. In 1Q22, RWLV's hotel occupancy started with 54% in Jan 2022, and ended at 85% in Mar 2022, which we think is sustainable as footfall continues to recover. In Mar 2022, visitor volume rose 50% YoY, and convention attendants jumped >100% YoY, likely on the gradual resumption of MICE events. Post results, we trimmed GENT's FY22F-24F by 13-2% after lowering GENM, power, and property earnings, while raising GENP and oil & gas earnings on higher CPO and crude oil price assumptions. The net effect is a marginally lower MYR6.37 TP.

Magnum (MAG MK, BUY, TP: MYR2.01) disappointed as its revenue fell short at 20% of our full-year forecast. The disappointing earnings were mainly due to: i) Softer-than-expected ticket sales, and ii) a higher-than-expected prize payout. 1Q22 DPS of 1 sen also fell short of our FY22 estimate of 13 sen. Currently, Magnum's ticket sales are still at 70-80% of pre-pandemic levels, likely as punters are financially worse-off post lockdowns, and/or have increasingly turned to illegal NFOs. Post results, we slashed FY22F-F24F earnings by 30-15% mainly on lower ticket sales and higher prize payout assumptions. We also lowered our FY22F-24F DPS to 9-13 sen from 13-16 sen. While we lowered our DCF-derived TP to MYR1.95 and downgraded the stock to NEUTRAL on 20 May, we upgraded the stock to a BUY, with a higher TP of MYR2.01, on 1 Jun following [China Press' report](#) that there will be 22 special draws this year.

Sports Toto's 9MFY22 core profit exceeded our estimates on stronger-than-expected contribution from the UK motor dealership segment, owing to the better-than-expected profit margins from the used car segment. Interim DPS of 2 sen brought 9MFY22 DPS to 4 sen – below our FY22F of 8 sen – as the stronger motor segment does not directly lead to dividend payouts. While Toto ticket sales should continue to gradually recover, we believe the aforesaid the China Press news report on the increase in special draws to 22 days should also bode well for SPTOTO. Post results, we raised our FY22F core earnings by 3% to account for the stronger-than-expected motor sales and margins, but lowered our TP to MYR2.20 on a higher risk-free rate in the DCF calculation. After the changes to our special draws assumption, we raised earnings by an additional 1-2% and raised the TP to MYR2.23.

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## Healthcare – Recovery Remains Intact

## OVERWEIGHT

Maintain OVERWEIGHT. IHH Healthcare's (IHH MK, BUY, TP: MYR7.60) earnings beat estimates on the resilient performance of its operations across segments, while Duopharma Biotech's (DBB MK, BUY, TP: MYR1.92) earnings came within our forecasts.

**Pharmaceuticals.** Duopharma's 1Q22 results featured a core net profit of MYR20m, representing 13% YoY growth. Its 1Q22 revenue and net profit were in line with our full-year expectations, at 25% and 26% of our FY22 forecasts. Topline grew 12% YoY, mainly contributed by its local sales (+14% YoY), due to higher demand in the consumer healthcare and private ethical sectors. The Malaysian Government has accepted the tender offer from Duopharma for the supply of insulin. This MYR375m contract kicked off on 29 Apr, and will be in effect for three years. Moving forward, we believe its performance will remain resilient, supported by additional contributions from the insulin supply contract, which is positive. This would be offset by the impending expiry of the current Ministry of Health's supply agreement at the end of 2022. Hence, we are optimistic that Duopharma is on track to achieve our forecasted 18% FY22 core earnings growth.

**Healthcare service providers.** IHH's 1Q22 core net profit of MYR432m made up 27% of both our and Street FY22 estimates. The positive results were mainly backed by a stronger performance from its Malaysia operations, offset by the temporary closure of clinics in China due to lockdowns, as well as a weakening Turkish lira (TRY). Its Malaysian unit recorded a stronger EBITDA (+28% YoY), on the back of higher inpatient admissions post-MCO while the EBITDA of its Singapore segment dropped 4% YoY due to lower inpatient admissions (-6% YoY). We expect inpatient admission levels in these two markets to normalise in the coming quarters, contributed by strong incoming numbers of domestic and foreign patients, as a result of the reopening of both countries' borders. We however, anticipate slight EBITDA margin erosion for the Malaysia and Singapore operations in the short term, given the

2 June 2022

Market Outlook | Market Strategy

tapering of COVID-19 related measures. EBITDA for operations in India went up 16% YoY, due to higher revenue intensity (10% YoY) and the consolidation of contributions from its acquired DDRC SRL Diagnostics. Acibadem (in Turkey) recorded an 11% growth in its inpatient admissions but its EBITDA dropped 4% YoY, likely due to the weakening TRY. However, this was mitigated by IHH's continuous efforts to expand its non-TRY contributions, which was at 45% in 1Q22 (vs 41% FY21). Price adjustments have also been made across all segments in the beginning of the year, to account for rising inflationary pressure.

Post results, we tweaked our forecasts on IHH after revising patient admissions and revenue intensity assumptions across segments to better reflect its 1Q22 performance. As many countries are now moving to the endemic phase, we may see COVID-19 related revenues tapering down even further, as countries such as Singapore have now eased COVID-19 related border measures – where no quarantine, testing, and entry approvals are required for fully vaccinated travellers. This, however, would be offset by a pick-up in business-as-usual services in the coming quarters as countries like Malaysia have reopened their international borders, allowing medical tourism to make a comeback. Management is optimistic that medical tourism may reach pre-pandemic levels by the end of this year. For Duopharma, we make no changes to our earnings and TP post-results.

**Top Pick: IHH.** While we expect COVID-19 related service contributions to diminish in the short term, IHH's recovery remains on track. This is in view of the resiliency of its operations, which will be supported further by the anticipated recovery of elective treatments post-pandemic, and complemented by the company's appetite for growth via strategic acquisitions.

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## NBFIs – Solid Start To The Year

## OVERWEIGHT

**Non-bank lenders.** RCE Capital's (RCE MK, BUY, TP: MYR2.00) FY22 (Mar) results were in line with expectations. The decent set of results continued to demonstrate the sector's business resilience – collection and asset quality showed no signs of weakness, with receivables growing at a faster pace QoQ despite the recent festive period. The stock remains attractive, trading at 1.5x FY23F P/BV vs FY23F-25F average ROE of 17%. We continue to like RCE for its resilient asset quality, consistent earnings, and dividend deliveries.

On the other hand, we downgraded AEON Credit Services (ACSM MK, NEUTRAL, TP: MYR16.20) to NEUTRAL from Buy, given the negative surprises in the quarter ended Feb 2022. Despite that, we are assured of ACSM's recovery prospects after the temporary blip in 4QFY22, where we understand business operations have since normalised, and reversals of management overlays are possible. On another note, we are positive on ACSM's foray into the Islamic digital banking space as a way to expand its product offerings and earnings base. However, near- to mid-term losses are expected from its 45% JV stake in the consortium. Valuation is fair at 1.7x P/BV against a ROE of 17.3%, with recovery prospects well priced in, in our view. We advocate investors to nibble on share price weakness. Note that ACSM will release its 1QFY23 (Feb) results in July.

**Insurance.** Both Allianz Malaysia (ALLZ MK, BUY, TP: MYR17.90) and Syarikat Takaful Malaysia Keluarga (STMB MK, BUY, TP: MYR4.40) reported results that were in line. General insurance was off to a strong start in 2022, while life insurance remained soft in 1Q22. Overall, our view remains unchanged: We expect robust topline growth for both insurers, while earnings growth should moderate on normalisation in claim ratios. We understand that both insurers are focusing on sales workforce expansion to solidify their respective agency channels in order to drive growth. We think both insurers' valuation remains attractive despite market concerns over Day-1 impact of MFRS 17.

**Exchange.** Bursa Malaysia (BURSA MK, NEUTRAL, TP: MYR6.80) 1Q22 results came in ahead of our expectations, with key deviation from higher-than-expected 1Q22 securities average daily value (SADV), due to induced volatility on the back of progressive developments of the geopolitical crisis. Despite that, we continue to believe that the adverse impact on trading activities stemming from the higher stamp duty will outweigh the benefits of the reintroduction of the MYR1,000 cap – barring unforeseen events which could induce volatility into the market. YTD (May) SADV is at MYR2.56bn is ahead of our FY22F of MYR2.43bn as we expect the SADV to normalise in the remaining part of the year.

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**Integrated Oil & Gas – Domestic Activities Continue To Recover OVERWEIGHT**

**Maintain OVERWEIGHT; Top Picks: Petronas Chemicals (PCHEM MK, BUY, TP: MYR12.21), and Bumi Armada (BAB MK, BUY, TP: MYR0.58).** Our 2022F-2023F crude oil prices are still at USD104.00-85.00 per bbl but we see upside to our forecasts, as the EU ban on Russian oil is not within our base case. Downside risks to our sector call: Weaker oil prices and demand, as well as lower spending by clients.

**A mixed quarter, again.** Six companies under our coverage released their 1Q22 results last month. It was, again, a mixed set of results – with one above forecasts, two below, and three in line. The disappointments were Dialog (DLG MK, BUY, TP: MYR2.96) and Petronas Dagangan (PETD MK, NEUTRAL, TP: MYR20.05). Dialog's 9MFY22 core earnings of MYR387m (+3% YoY) came in below expectations, on softer-than-expected margins. This mainly resulted from stringent COVID-19 standard operating procedures, supply chain disruptions, and higher raw material prices and logistics costs that have affected project schedules. Petronas Dagangan's 1Q22 results missed expectations due to higher product prices, despite a higher sales volume (+20% YoY).

**MISC is now a NEUTRAL stock.** Although MISC's 1Q22 results were within our expectations, our downgrade was premised on our caution over the potential cost overrun on the Mero 3 project, which is now 40%-completed with a 3-month delay in its progress. MISC is still in discussions with Petrobras over the new deadline, as opposed to the original final acceptance scheduled for 1H24.

**BAB, the one and only positive surprise.** BAB's 1Q22 results outperformed our expectations, with core profit surging 21% YoY on lower depreciation and finance costs. Apart from bidding for new FPSO projects, it is also exploring new opportunities such as floating LNG (FLNG) and carbon capture projects in the longer run. BAB remains our sector Top Pick, due to its undemanding valuation (3.8x FY23F P/E) and strengthening balance sheet, led by stable FPSO operations and continuous asset monetisation.

**Capex returning to pre-pandemic levels?** Capex spending picked up 12% YoY in 1Q22 to MYR7.4bn, of which the upstream segment was the largest contributor (58%), followed by downstream (17%), and gas (14%). Overall capex spent in this quarter represented 15-19% of the estimated total capex of MYR40-50bn in 2022, and is also rather reflective of 2019 levels. We expect capex spending to ramp up in the next few quarters, especially in 2H22. Domestic capex has increased by 30% YoY in order to strengthen the oil & gas services and equipment (OGSE) system, and activities are likely to escalate in the coming quarters. We believe that upstream service providers (drillers, maintenance related) should benefit from a ramp-up in activities and increased domestic capex allocations, coupled with better service rates ahead.

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**Technology – Prolonged Growth Cycle With Sensible Valuations OVERWEIGHT**

Majority of the outsourced semiconductor assembly and test (OSAT) companies continued on their growth path in 1Q22, except for Globetronics Technology (GTB MK, BUY, TP: MYR1.46), which is on course to achieve its third consecutive year of remarkable growth. Inari Amertron (INRI MK, BUY, TP: MYR3.59) and Malaysian Pacific Industries (MPI MK, BUY, TP: MYR43.30) continued their double-digit growth YoY, helped by higher loadings, better ASPs, and operating leverage amid robust demand for semiconductor ICs. Globetronics, on the other hand, reported a weaker YoY (-21%) performance due to lower demand for sensor products and loss of economies of scale, which saw its EBITDA margin drop to 35.4% from 37.5% in 1Q21. All results were within expectations.

1Q22 was an overall mixed quarter for non-OSAT companies, with GHLS Systems (GHLS MK, NEUTRAL, TP: MYR1.65) reporting weaker YoY numbers (-8.8% YoY) due to margin compression – owing to changes in merchant and product mix – despite the uptrend in transaction payment value processed. On the other hand, Datasonic (DSON MK, NEUTRAL, TP: MYR0.57) recorded significantly better YoY numbers, supported by higher orders for higher margin passport-related items and *MyKad*, despite a slight miss to our forecasts – due to the variation in the actual delivery of passport related solutions.

The sector's 1Q22 aggregate core PATAMI grew 20% YoY, thanks to yet another solid performance from the OSAT players, while DSON also reported stronger numbers amid the reopening of borders – which contributed to a surge in passport orders. Post results review, we downgraded both GHLS and DSON to NEUTRAL, as we believe the optimism has been

built into the share price strength. All in, our FY22F sector earnings are unchanged, as the majority of the results were in line.

Following the steep share price correction, we believe investors should take the opportunity to BUY into quality technology names with a competitive edge and strong track record. We maintain our OVERWEIGHT rating, given the expectation of sustained earnings growth going into 1H22, with mid-term structural catalysts in motion, albeit, at a moderated growth level. With the expectations of aggressive interest rate hikes built into the price – on the back of persistently high inflation, as evidenced by the 10-year bond yield retreating from its recent high of 3.15% – we believe market sentiment is better on the sector now, as it has been a casualty of value de-rating, due to its high growth nature. Sector valuation has also de-rated to reasonable levels – at the 5-year mean – which makes it a more compelling investment, given the better risk-reward ratio. Domestically, an export-oriented and apolitical sector such as technology will be in favour, amid political uncertainties and a strong USD.

While the chip shortage is no longer a pressing issue for the sector, capacity bottlenecks remain for many of the companies, with the proliferation of new technologies in Internet of Things (IoT), electric vehicle (EV), 5G etc, especially for the high-tech front-end semiconductor processes. The sustained strong demand for semiconductors should continue to positively impact the entire supply chain, benefiting the back-end players like OSATs. For the automatic test equipment (ATE) sub-sector, we should see slower demand in the next 1-2 quarters, as most of the customers may employ a wait-and-see stance, in view of uncertainties in demand stemming from the lockdown in China, as well as wafer shortages. Margin pressures will also continue in the near-term, especially for those with a high orderbook. We continue to favour investment themes on 5G, the front-ended semiconductor exposure, and the China semiconductor boom.

Sector Top Picks: MPI for its resilient pipeline and earnings visibility – with the additional capacity coming on-stream, in addition to the automotive sector's recovery, China's localisation efforts, and the company's adoption of new packaging technology involving silicon carbide (SiC). We also like INRI as it will continue to ride on the 5G theme, on top of new business/customers and the receiver optoelectronic segment.

Downside risks to our sector weighting: i) Softening smartphone sales; ii) the MYR strengthening against the USD; iii) inventory adjustments; iv) weak demand for electronic products and gadgets due to subdued consumer sentiment; and v) an intensified US-China trade dispute.

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## Utilities – Strong Demand For Electricity

## OVERWEIGHT

**Keep OVERWEIGHT; Top Pick: Tenaga Nasional (TNB MK, BUY, TP: MYR11.50).** The demand for electricity in West Malaysia continued to recover in 1Q22 (+4% YoY), led by better commercial and domestic consumption while its ambitious renewable energy (RE) targets could fuel medium- to long-term growth. Within the solar segment, despite demand staying strong, we remain cautious of potential delays in certain projects amid the volatility of raw material prices and unfavourable FX movements, which in turn stem from high inflation and ongoing supply chain disruptions.

**Equal split of results coming in between within and below estimates.** In the recently concluded reporting period, six companies under our coverage released their 1Q22 results. Half booked numbers that were within expectations. The three disappointments were Ranhill Utilities (RAHH MK, BUY, TP: MYR0.64), YTL Power (YTLP MK, BUY, TP: MYR0.95) and Taliworks (TWK MK, BUY, TP: MYR1.12). TWK's performance missed expectations, mainly due to higher tax expenses amid the expiry of the tax waiver period for the Grand Saga Highway on 31 Dec 2021. For YTLP, the negative surprise was led by higher-than-expected losses from the telecommunications arm. Despite their disappointing results, we continue to have BUY recommendations on both counters, with higher TPs. Lastly, Ranhill also disappointed on higher-than-expected opex and administrative expenses (+28% YoY during the quarter).

**Outlook.** The demand for electricity in West Malaysia continued to recover in 1Q22 (+4%; led by better commercial and domestic consumption). Overall demand is projected grow 1.7% YoY in 2022. Note that the generation cost doubled YoY in 1Q22 due to higher gas and coal prices, but the impact on TNB should be neutral as the volatility in fuel costs is covered under the imbalance cost pass-through framework. We also saw a spike in the gas generation mix, which increased to 54% in 1Q22 from 36% in 4Q21, with a lower coal generation mix of 39%. The current RE capacity stands at 3.6GW (15% of total capacity),

2 June 2022

Market Outlook | Market Strategy

including the recent acquisition of a 97.3MW onshore wind portfolio in the UK. This is still lagging behind its target of 8.3GW by 2025, which suggests there could be more aggressive M&As within this segment going forward. Within the solar segment, despite demand remaining strong, we remain cautious of potential delays in certain projects amid the volatility of raw material prices and unfavourable FX movements. These two factors would stem from high inflation and ongoing supply chain disruptions. While some of the escalating costs can be passed on, some customers have opted to delay the implementation of projects due to the increase.

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### Auto & Auto Parts – Continued Chip And Component Shortages **NEUTRAL**

**Maintain NEUTRAL;** Top Pick: Sime Darby (SIME MK, BUY, TP: MYR2.60). This quarter saw mixed results in the sector: UMW (UMWH MK, NEUTRAL, TP: MYR3.64) beat, while MBM Resources (MBM MK, NEUTRAL, TP: MYR3.40) came in line. Meanwhile, SIME, Tan Chong Motor (TCM MK, SELL, TP: MYR0.94), and Bermaz Auto (BAUTO MK, NEUTRAL, TP: MYR1.74) disappointed. Overall, 1Q22 TIV rose 13% YoY but softened 16% QoQ against a seasonally strong 4Q.

Car orders remained robust despite new orders not qualifying for the sales & service tax (SST) holiday. Supply issues lingered, as chip and component shortages continued to cause long wait times across the marques. Costlier car parts and a strengthening USD/MYR could pose downside risks to margins in the coming quarters. SIME is our Top Pick for China's imminent post-lockdowns economic recovery and in anticipation of a potential special dividend from the sale of its healthcare unit.

UMWH beat our expectations on stronger-than-expected UMW Toyota (UMWT) and Perodua contributions – both lifted by stronger-than-expected car sales during 1Q22. Vehicle orders across both marques remained strong, with a combined backlog order of c.100,000 units or four months. Inventory levels across both UMWT and Perodua remain low, as supply continues to catch up with demand. Post UMWH's results, we lift FY22F earnings by 10% by raising Toyota/Lexus volumes for 2022. The higher earnings lifted our TP to MYR3.64. We maintain our NEUTRAL rating on the stock despite the higher vehicle sales volume assumptions, as we are cautious about the possible impact of costlier car parts on UMWH's auto margins, given Toyota and Perodua's limited ability to pass on higher costs.

MBM's 1Q21 came within expectations. But we still raised our Perodua FY22 volumes assumption to account for the strong YTD sales volume. The higher earnings lifted our TP to MYR3.40. We maintain our NEUTRAL call on the stock, as it is fairly priced and lacks catalysts.

TCM missed expectations, as 1Q22 swung back into a core net loss of MYR3m, weighed down by low vehicle sales and cost overheads. The low vehicle sales were likely due to the lack of investments in new models and intense competition. As we forecast a core net loss in FY22, we switched our valuation method to P/BV from P/E. We ascribe a P/BV of 0.26x (2-year mean) on FY22F BV per share to arrive at a TP of MYR0.94.

SIME missed expectations, mainly weighed down by China and Australasia's industrial units. Industrial margin in the former further weakened due to continued stiff competition. Meanwhile, industrial margin in Australia fell on one-off COVID-19 expenses. The weak industrial segment was offset by a strong motor division, which in turn was lifted by higher motor margin – likely due to supply tightness. We expect Chinese motor sales and margin to be weak in 4QFY22 (Jun) due to lockdowns and lack of demand. However, we believe car sales will strongly rebound after the lockdowns are lifted. We trim the earnings but incorporate IHH Healthcare's (IHH MK, BUY, TP: MYR7.60) valuation of Sime Darby Ramsay Healthcare. Hence, TP was lifted to MYR2.60. We upgraded the stock to a BUY in anticipation of China's auto segment recovery and potential special dividend from the sale of the healthcare unit.

BAUTO's nine months ending Jan 2022 missed expectations on lower-than-expected Mazda sales. However, in view of the strong YTD sales of this marque, we believe the company's FY22 (Apr) results – to be released on 13 Jun – will not disappoint.

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**Construction – The Dust Has Not Settled Yet****NEUTRAL**

Maintain NEUTRAL. Overall, 1Q22 showed a weaker-than-expected set of results for construction stocks under our coverage. Out of the nine stocks that reported results, one came in line, one exceeded expectations, and seven fell below expectations. Companies that missed: i) IJM Corp (IJM MK, NEUTRAL TP: MYR1.81), ii) Econpile (ECON MK, NEUTRAL, TP: MYR0.22), iii) Advancecon (ADVC MK, BUY, TP: MYR0.34), iv) Kerjaya Prospek (KPG MK, BUY, TP: MYR1.45), v) Gabungan AQRS (AQRS MK, BUY, TP: MYR0.54), vi) Pintaras Jaya (PINT MK, BUY TP: MYR2.95), and vii) MGB (MLG MK, BUY, TP: MYR0.83). Sunway Construction (SCGB MK, BUY, TP: MYR1.93) was the one that met expectations while Malaysian Resources Corp (MRC MK, BUY; TP: MYR0.44) exceeded estimates. It is also notable that seven companies saw downward revisions in their respective TPs amid lower revised margins – this reflects the headwinds in the sector, particularly higher costs for building materials.

Overall, we observed that contractors' activity levels have gradually improved, seen from the higher progress billings – this is in light of the country's transition into endemicity. For example, the total value of construction work done in 1Q22 exhibited a narrower contraction of 6% YoY to reach MYR29.5bn vs a 13% YoY drop during the preceding quarter. On a QoQ basis, the total value of construction works done expanded, albeit, at a measurable pace of 2.4% in 1Q22. Certain companies have also managed to replenish their orderbook in FY21 – a period that saw a series of MCOs being implemented, which generally impacted the industry negatively. On further scrutiny, the new job wins mostly came from non-infrastructure-related projects. For instance, around 16% or MYR718m of KPG's total orderbook of MYR4.4bn only relates to infrastructure projects. Furthermore, the infrastructure projects awarded were from private parties such as Eastern & Oriental (EAST MK, NEUTRAL, TP: MYR0.50) for the latter's Seri Tanjung Pinang Phase 2 development in Penang. Meanwhile, MRCB did not manage to win any new jobs during 1Q22.

Concerns regarding elevated cost of materials continue to linger in the sector and have not shown any signs of softening. On an aggregated basis, steel bar prices increased 16% YoY, while the bulk cement prices were 40% higher YoY in 1Q22. The latest data also continues to show the rise in the cost of materials, with monthly average prices for steel bars hitting another record high of MYR3,466 per tonne in April, representing a 21% YoY growth. As for the monthly average price of bulk cement, it grew by a staggering 60% YoY to reach MYR340.20 per tonne in April. Therefore, contractors with government-related projects – which have variations in price clauses – are the ones that could see limited impact from the fluctuations in the prices of materials. Conversely, contractors involved in non-government projects can manage price headwinds by providing pricing under the current materials prices situation – they can then quote new prices to cover unexpected costs, including unforeseen increases in the prices of materials needed. Nevertheless, there could be imminently higher working capital needs that may weigh heavily on balance sheets, leading to higher financing requirements.

Local infrastructure job replenishment prospects have been brightened by the recent tenders issued for Mass Rapid Transit 3 works. Nevertheless, the Government's limited fiscal headroom could limit future replenishment prospects in the infrastructure business. As such, we continue to advocate selective buying opportunities in companies possessing strong orderbook and balance sheets, with diversified exposures across private and public construction works. Re-rating catalysts for the sector could arise after the general election, which could be held in 2H22. Assuming the incumbent remains power, we believe this will lead to better political stability and a continuation of policies – especially for project implementations. Top Picks: KPG and MLG.

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**Consumer – More Exciting Earnings Recovery Ahead****NEUTRAL**

**1Q22 above expectations.** Out of 12 companies under our coverage that reported 1Q22 results, seven surprised on the upside, with most of the F&B manufacturers seeing a good quarter thanks to consumption recovery and the effect of cost pass through which drove margin expansion. On the flipside, two companies – Mr DIY (MRDIY MK, BUY, TP: MYR4.50) and Leong Hup International (LHIB MK, BUY, TP: MYR0.61) – reported disappointing earnings as they were unable to pass on the higher costs due to the price lock marketing campaign and ceiling price enforcement. Lastly, British American Tobacco (ROTH MK, NEUTRAL, TP: MYR13.50), Guan Chong (GUAN MK, BUY, TP: MYR4.15) and AEON Co M

2 June 2022

Market Outlook | Market Strategy

(AEON MK, NEUTRAL, TP: MYR1.51) were the only three companies that met our expectations.

**Based on our computation, 4Q21 sector revenue surged 13% YoY but was flattish QoQ.** Most companies were able to register healthy sales growth YoY following the broader reopening of the economies vs 1Q21, which was affected by lockdown restrictions. However, most of the retail-based players saw sales moderating from the high 4Q21 base as the emergence of the more contagious Omicron variant hampered sentiment and footfall. During the quarter, we upgraded Padini (PAD MK, BUY, TP: MYR3.95) to a BUY (from Neutral) following the positive earnings revision and we anticipate a strong quarter ahead driven by the *Aidil Fitri* festivities and spending boost from the EPF withdrawal.

**Outlook.** We foresee a stronger 3Q21 ahead following the further relaxation of restrictions and the reopening of international borders on the back of better containment of the pandemic. Essentially, the *Aidil Fitri* festivities will be a major factor considering the muted celebration in the previous two years due to the lockdown whilst the effects of the disbursement of EPF withdrawal should also set in. On top of that, elevated commodity prices, particularly CPO and the higher minimum wages, should also lift spending generally. On the other hand, we expect more cost pass through to occur going forward to reflect the higher raw material and operating costs after the implementation of minimum wage in 1 May. Meanwhile, the progressive arrival of new foreign labour should gradually ease workforce constraints currently affecting manufacturers.

**Maintain NEUTRAL on the sector.** Our base case assumes a broad base recovery in consumer spending in FY22F, underpinned by the sustainable and effective containment of the pandemic supported by high vaccination rates and better knowledge to live under the pandemic environment. That said, with large-caps continuing to trade at rich valuations, investors may not have too many options or levers to capitalise on the recovery prospects. On the other end, we see more opportunities in the small-to-mid cap space, particularly those with promising expansion plans to drive earnings growth beyond the earnings recovery to pre-pandemic base.

**For sector picks,** we continue to favour Mr DIY for its gravity-defying growth, driven by outlet expansions and an effective business model of a comprehensive and competitively-priced range of product offerings in widely accessible locations. Its valuation should play catch-up to the other large-cap consumer peers, premised on the exciting growth on offer and ample trading liquidity. We also like Heineken Malaysia (HEIM MK, BUY, TP: MYR28.50) for its robust earnings growth, market leadership in Malaysia as well as cheaper valuation against its peer. We view Guan Chong as a proxy for economic recovery in play and stronger earnings trajectory at below sector average valuation. New ventures into the Ivory Coast and Europe should be future earnings drivers for the world's fourth largest cocoa grinder.

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## Media – Recovery Clouded By Inflationary Woes And Geo-Politics NEUTRAL

**A mixed bag within a seasonal quarter.** It was another mixed bag showing for media stocks in the recently concluded 1Q22 reporting season, with Astro (ASTRO MK, BUY, TP: MYR1.37) fielding earnings (FYE Jan) that were in line while its free-to-air contemporary, Media Prima (MPR) (MPR MK, BUY, TP: MYR0.87) saw a slight miss.

**Some winners (and losers).** Astro's 4QFY22 core earnings jumped 38.5% QoQ (-15.1% YoY), halting three consecutive quarters of decline. This was largely on the back of a strong rebound in adex (+56% QoQ) and lower content cost. MPR's numbers were a slight miss, with adex down 26% QoQ (weak seasonality). Both the publishing and home-shopping arms were also back in the red. Losses from the latter widened to MYR4.2m in 1Q22 from MYR2.2m in 4Q21 as shoppers returned to physical retail outlets.

**Maintain NEUTRAL sector rating.** The route to endemicity is clouded by the heightened inflationary environment caused by the Russian-Ukraine conflict, the weaker MYR and rising interest rates – all of which will continue to sap consumer and business confidence and, hence, adex prospects. The flip side here is a fresh general election (GE15) which is to be held by mid-2023, and could act as mid-term share price catalyst. We continue to like Astro for its digital pivot and its entrenched pay-TV market share (74% of pay-TV households).

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**Plantation – More Forward Selling Activities For The Rest Of 2022 NEUTRAL**

The 1Q22 reporting season saw most planters beating expectations, on the leveraged impact of higher CPO prices. We recently revised up our CPO price assumptions, which are now MYR5,300, MYR4,300 and MYR3,500 per tonne for 2022, 2023 and 2024.

In Malaysia, output rose 3.9% YoY, but fell 21% QoQ in 1Q22, with most states seeing an increase YoY. Labour shortages continued to hamper harvesting activities, and this is expected to remain prevalent in 2Q22 as well. Despite borders being open already, only a trickle of workers have come in so far, with more expected by June/July.

In Indonesia, we saw a mix of output trends from the companies we cover, with some posting double-digit YoY declines, while others posted flattish FFB growth or double-digit YoY FFB output growth in 1Q22, mainly due to different weather patterns in different areas. The Association of Indonesian Palm Oil Producers' (GAPKI) official 1Q22 CPO output figure, however, saw a 9.5% YoY rise in output, while production dropped 7% QoQ.

Most planters in Malaysia are expecting production to recover more strongly in 2H22, by a mid- to high-single digit growth. Conversely, in Indonesia, most planters are expecting mid-single-digit growth instead of the usual double-digit growth, due to the high-base effect in 2021.

Average spot CPO prices rose by around 19.6% QoQ and 57.5% YoY to MYR6,183 per tonne in 1Q22. We note that most planters were, however, unable to realise the high spot prices in 1Q22, due to their exposure to Indonesia and some forward-selling activities. While we saw a less aggressive forward-selling stance in 4Q21, we now see a pick-up in forward selling activities for the rest of 2022, as planters are nervous about the high prices and the impact Indonesian trade policies will have on prices.

For those with downstream operations, we saw a mix of QoQ margin trends in 1Q22. While some players saw lower margins on higher-priced feedstock inventory, some saw improved margins on trading profits, given the volatility of CPO prices. Going forward, Indonesian downstream players may see weaker contributions in 2Q22, due to the export ban's impact, while the Malaysian counterparts should see the benefit of this ban. Those with biodiesel operations saw flattish to slightly higher utilisation rates in 1Q22 (vs that of 4Q21), as travel bans were lifted and inter-state travel was allowed in the COVID-19 endemic stage. Discretionary blending should remain low, given the high palm oil-gasoil or POGO spread.

We maintain our NEUTRAL sector call. While we expect CPO prices to remain robust in 1H22, this could moderate in 2H22 as global supply improves seasonally. We now have two BUYs, five NEUTRALs, and one SELL after our recent changes to recommendations. Top Picks: Kuala Lumpur Kepong (KLK MK, BUY, TP: MYR34.15) and Sarawak Oil Palms (SOP MK, BUY, TP: MYR7.25).

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**Property – Softer Property Sales After The End Of The HOC NEUTRAL**

Developers' earnings for 1Q22 were generally weaker, in line with the historical trend. Of the 10 developers that have reported results, four were below expectations, two were above, and four came in line. Companies that missed estimates: IOI Properties (IOIPG MK, BUY, TP: MYR1.38), Matrix Concepts (MCH MK, BUY, TP: MYR2.66), Eastern & Oriental (EAST MK, NEUTRAL, TP: MYR0.50) and UOA Development (UOAD MK, NEUTRAL, TP: MYR1.78). Most developers were affected by slower construction activities – as a result of labour shortage across the sector – and supply chain disruptions, partly due to the lockdowns in China. As a result, developers have had to source certain components and parts from other suppliers, causing construction work delays.

Companies that beat estimates: LBS Bina (LBS MK, BUY, TP: MYR0.63) and Sunway (SWB MK, BUY, TP: MYR2.06). Generally, most developers benefited from the re-opening of the economy, as business operations are now smoother. While LBS is less affected by labour shortages, the recovery in Sunway's various business divisions has helped mitigate the weakness in its property development segment.

As expected, property sales generally eased in 1Q22 after the expiry of the Home Ownership Campaign (HOC) in Dec 2021, as most buyers brought forward their purchases to enjoy the benefits. On an aggregate basis, 1Q22 property sales fell 28% QoQ and 34% YoY. Although all developers under our coverage still maintained their sales targets for the year, we foresee some downside risks, given the heightening concerns on inflationary pressures and weakening of the MYR, which will dampen property buyer sentiments, in our view. Therefore,

some developers – eg Sime Darby Property (SDPR MK, NEUTRAL, TP: MYR0.60), which has MYR1.5bn in bookings – may not be able to convert all into contractual sales.

Apart from the macroeconomic issues mentioned above, we believe the upcoming general election may also potentially cause some overhang in property stocks, possibly due to the uncertainties in post-election regulatory policies. As such, we maintain our sector rating at NEUTRAL. Our Top Pick remains Matrix Concepts, given the company's solid balance sheet, as well as consistent earnings and dividend delivery.

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## REITs – Faster-Than-Expected Recovery

NEUTRAL

**Earnings beat in the quarter.** MREITs started the year on a strong note, benefitting from the reopening of the economy during the quarter with lower or cancelled rental assistance. Of the seven MREITs under our coverage, four posted results that were above our expectations. CLMT (CMMT MK, NEUTRAL, TP: MYR0.58), IGB REIT (IGBREIT MK, BUY, TP: MYR1.92), Pavilion REIT (PREIT MK, BUY, TP: MYR1.55), Sunway REIT (SREIT MK, NEUTRAL, TP: MYR1.46) all reported results that beat expectations, whereas Axis REIT (AXRB MK, BUY, TP: MYR2.32), Sentral REIT (SENTRAL MK, NEUTRAL, TP: MYR1.00), and KLCCP Stapled (KLCCSS MK, NEUTRAL, TP: MYR6.90) reported results that were in line with expectations.

**Retail recovery well underway.** Most retail REITs reported stronger earnings in QoQ and YoY terms given the resumption of business activities was fully realised in the quarter compared to previous lockdown impacted periods. The amount of rental rebates given to tenants continued to decrease in the quarter, while CLMT and PREIT guided that they do not expect to give out rental rebates for the financial year. Despite the encouraging performance in the quarter, we do not think rental reversion will return to pre-pandemic levels as some tenants will take time to recover completely. REITs will look to prioritise their occupancy rates, with CLMT (1Q22: 79.5% vs 4Q21: 82.5%) and Pavilion KL (1Q22: 90% vs 4Q20: 96.5%) both seeing a drop in occupancy rates. The rising inflationary pressure is also a risk to the positive retail outlook, as weaker consumer purchasing power may delay tenant recovery.

**Office under pressure.** While the office segment has been stable throughout the pandemic, the risk of work-from-home (WFH) trends impacting the sector seems to be stronger as tenants re-evaluate their working arrangements after mostly working from home throughout the pandemic, as well as the intensifying competition in the market due to the incoming supply of office space. SENTRAL saw its blended occupancy rate drop from 90% in 4Q21 to 86% in 1Q22 following the lease expiries of key tenants. Investors should focus on quality office assets that will remain competitive. In this segment, we prefer KLCCP Stapled for its grade A office buildings and long-term lease structures.

**Maintain NEUTRAL on the sector.** Although we expect a FY22 to be a recovery year for REITs with the improved retail outlook and opening of international borders being a boost to the hotel segment and tourist dependent malls such as Suria KLCC (foot traffic in 1Q22 only up to 50% of pre-pandemic levels), we maintain our NEUTRAL call on the sector, with reversions likely to remain flat.

**Sector picks.** We continue to like AXRB for its stable earnings growth outlook, driven by stable acquisitions and the e-commerce boom. It is also in a segment that is relatively free of a supply glut. Our preferred pick in the retail segment is IGBREIT for its prime assets, domestic shopper profile, and relatively high turnover rent portion that will benefit from an increase in retail sales.

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## Rubber Products – ASPs Bottoming Out In 2H22

NEUTRAL

**Maintain NEUTRAL.** The gloves sector's earnings were generally in line with expectations. Kossan Rubber Industries (KRI MK, BUY, TP: MYR2.05) and Hartalega (HART MK, NEUTRAL, TP: MYR4.98) reported earnings that came in line with expectations, while Supermax (SUCB MK, SELL, TP: MYR0.75) recorded numbers that fell below estimates. Supermax continues to struggle from the US Customs and Border Patrol ban, as well as the cancellation of orders from the Canadian government.

**Headwinds remain.** Operating costs increased as nitrile latex prices picked back up, in line with the crude oil price spike in the quarter from end-February. Global logistics disruptions continue to affect gloves shipments, especially with the two-month lockdown in Shanghai,

2 June 2022

Market Outlook | Market Strategy

China, which was finally lifted on 1 Jun. There is some respite in terms of the labour shortage, as gloves producers are expecting to hire more foreign workers this year after the reopening of international borders.

**Industry ASPs to bottom in 2H22.** While ASPs have been normalising as the industry transitions back to pre-pandemic levels, we believe industry ASPs will begin bottom out in 2H22 as rubber gloves producers begin to pass on the aforementioned raw material price increase to customers. However, it is unlikely that they will be able to fully pass on the increased costs in a timely manner – given the elevated competition from existing manufacturers, new entrants to the market, and soft ASP trends.

**Maintain sector NEUTRAL call.** Post-results, we largely maintained our earnings forecasts as we have factored in the elevated costs and normalising ASPs. We maintain our NEUTRAL sector rating, premised on concerns over competition, which leads to low utilisation rates. Rubber gloves producers stand to benefit from the stronger USD, with close to 100% of their revenue denominated in USD. In the long term, we expect global gloves demand to grow c.10% YoY, from higher healthcare standards and hygiene awareness.

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## Telecommunications – Revenue Seasonality And FX Effects NEUTRAL

**Tracking within.** The recent 1Q22 reporting season saw most telcos posting earnings that were in line with expectations, while Digi (DIGI MK, NEUTRAL, TP: MYR4.10) posted a mild earnings beat. The quarter was characterised by seasonality with aggregate industry revenue down 4% QoQ (+2.1% YoY). On a relative basis, fixed line players continued to outdo their mobile peers with core earnings crimped by 5% QoQ (+5.3% YoY) vs the -10% QoQ for aggregate industry mobile earnings (-18% YoY excluding Celcom).

**Industry mobile service revenue (MSR) ticked up 0.9% YoY in 1Q22.** Overall industry MSR (Big-3 telcos) fell 1.1% QoQ due to revenue seasonality. After four consecutive quarters of growth, Celcom' MSR narrowed 3.5% QoQ as prepaid subs base contracted (-0.3% QoQ) following the 4Q21 high base and elevated competition while DIGI's MSR dipped 1% QoQ. Maxis (MAXIS MK, NEUTRAL, TP: MYR3.98) was the only telco that posted sequential MSR growth (+0.8%), albeit, this was against a 2.4% contraction in the preceding quarter from the sun-setting of 3G services. Consequently, its revenue market share (RMS) inched higher to 38.5% in 4Q21 from 37.8% in 4Q21, mainly at the expense of Celcom whose RMS eased to 31.7% (4Q21: 32.5%) while Digi's RMS was stable at 29.8%.

**Axiata's earnings pummelled by SLR depreciation.** Axiata (AXIATA MK, BUY, TP: MYR4.08) posted a headline loss of MYR43m for the quarter due to significant FX losses incurred from the steep depreciation of the SLR that impacted its 83%-owned subsidiary in Sri Lanka (Dialog). Stripping-out the FX effect and one-offs, core earnings of MYR370m was 10% lower QoQ, largely on seasonality. More importantly, group EBITDA and core earnings improved 7% YoY and 69% YoY, reflecting strong operational improvements across most operating companies (including Dialog), saved for Ncell (Nepal). Management sees the risk of impairment for Dialog as low, based on internal stress tests conducted on its cash flow. The carrying value of Dialog in its books is approximately MYR1.5bn.

**Fixed line players still executing well.** Telekom Malaysia's (T MK, BUY, TP: MYR7.80) core earnings grew 3% YoY (including a MYR105m voluntary separation scheme (VSS) cost booked for the quarter) while Time dotCom's (TDC MK, BUY, TP: MYR5.00) core earnings gained 16.1% YoY. Aggregate fixed line core EBITDA was steady (+1% YoY) reflecting good cost discipline and opex restraint.

**Maintain NEUTRAL on the sector, with preference still on fixed line plays.** Post results, we lower Axiata's FY23F-24F earnings to factor in weaker contributions from Sri Lanka and the SLR depreciation. This reduces our SOP-based TP on the stock to MYR4.08 (from MYR4.76). There were no changes to our core earnings forecasts and recommendations for the other telcos. Our TP on TM has been lifted after moving our ESG score up a notch to 3.0 from 2.90 (at parity with the country median) to factor in better disclosure requirements. Overall, we continue to see the 5G uncertainties as a key sector overhang. TM, TDC and OCK (OCK MK, BUY, TP: MYR0.56) are our preferred sector picks.

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**Transport – Staying Cautious Of Lockdown-Induced Headwinds** **NEUTRAL**

The transportation sector reported a mixed bag but, considering the fact that earnings misses were by the stocks within the underperforming last-mile delivery/courier space – GDEX (GDXX MK, NEUTRAL, TP: MYR0.20) and POS Malaysia (POSM MK, NEUTRAL, TP: MYR0.67) – that were plagued by a stiff price war, we deem the 1Q22 results to be largely in line. Freight forwarders and 3PL players TASCOS (TASCOS MK, BUY, TP: MYR2.03) and FM Global Logistics (FM MK, BUY, TP: MYR1.20) surprised on the upside in 1Q22, benefitting from elevated freight rates and high volume resulting from the China lockdowns-induced supply chain tightness. Westports (WPRTS MK, NEUTRAL, TP: MYR4.32) and Malaysia Airports (MAHB MK, NEUTRAL, TP: MYR7.20) both met expectations, though both saw impacts on container and passenger throughput due to the lockdowns in China.

FM's 9MFY22 (Jun) core profit of MYR34m came in above expectations. YoY, 3QFY22 core profit increased by 95.6%, attributable to the robust growth demonstrated by the freight forwarding segment – particularly for sea and air freight, which more than offset the slight drop in contributions from the 3PL, warehousing, and distribution segments. The freight forwarding operations saw higher GP contribution on elevated throughput volumes (+2.4% YoY) and sell-on rates amid the surge in global freight rates. QoQ, 3QFY22 core profit increased by 19.1% – this was also driven by strong volume growth in freight forwarding operations, which offset the higher opex for the quarter.

TASCOS's FY22 (Mar) core profit of MYR77.4m exceeded expectations, thanks to the strong international business or IBS segment, which led to FY22 core profit increasing by 87.4% YoY. Full-year PBT for air and ocean freight forwarding shot up 110.7% and 381.3% YoY amid the pick-up in business activities following the broader economic reopening. This was coupled with supply chain bottlenecks, which saw clients resorting to air modes of transport, and elevated freight rates. The domestic business also grew 25.7% YoY to close the financial year on a record – thanks to increased business volumes from both existing and newly secured customers.

POSM's 1Q22 revenue declined by 18.6% YoY, attributed to the lower revenue contribution from the postal segment (-25% YoY). This was from a shift in purchasing trends from online to brick-and mortar – which led to lower mail and parcel volumes handled – and logistics (-25% YoY), where revenue last year included the demurrage and detention charges of MYR19.1m. Still, the reopening of economies saw a gain in revenue for aviation (+31% YoY). 1Q22 core losses narrowed by 39.2% YoY on successful cost optimisation efforts on the transportation and labour fronts, with 1Q22 EBITDA margin standing at 6.2% (1Q21: 3.8%).

GDEX turned loss-making in 1Q22, reporting a MYR1.2m core loss vs a core profit of MYR5.5m in 3QFY21 and MYR8m in 6QFY21. Note: The FYE was changed to 31 Dec from 30 Jun last year. Generally, the negative deviation was on a weaker-than-expected performance of the courier services segment, which turned loss-making due to the competitive landscape. On a YoY basis, 1Q22 revenue declined by 13.2%, primarily due to the stiff competitive pricing within the courier services segment – attributable to new market entrants – which also likely led to subdued volume of parcels handled. A 1Q22 core loss was reported on higher operating costs and effective tax rate. Similarly, in QoQ terms, 1Q22 revenue was down 12.2% due to the aforementioned reasons.

MAHB's 1Q22 net loss of MYR104.8m met our, but was below Street estimates. On a YoY basis, 1Q22 revenue grew by 69.4% on the recovery in passenger throughput from a low base within the aeronautical segment, with passenger volume at 14.7m for the quarter (1Q21: 5.9m). The non-aeronautical segment saw a 44.3% YoY growth from higher commercial revenue from MAHB's Malaysia and Turkey operations. Correspondingly, a 1Q22 loss after tax & zakat (LBT) narrowed to MYR150.4m (1Q21: MYR280m loss). On a QoQ basis, 1Q22 revenue increased by 3.5%, dampened by the Omicron wave that led to a contraction in passenger volumes in Turkey. LBT did narrow 30% QoQ, supported in part by lower opex.

Lastly, WPRTS recorded 1Q22 earnings of MYR152m. Standing at 22% of both our and consensus FY22 estimates, the results are deemed to have fallen broadly within expectations. YoY, 1Q21 revenue saw muted growth of 4%, underpinned by the 5% YoY growth in container revenue, thanks to contribution from value-added services (reefer, storage needs, etc). In the midst of the current supply chain challenges, TEU growth for the quarter declined to 2.39m TEUs. 1Q22 earnings fell by 27% YoY on the back of higher operational costs (namely fuel costs, +52% YoY) and electricity costs (+17% YoY), as well as higher tax expenses, partly driven by Cukai Makmur.

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2 June 2022

Market Outlook | Market Strategy

Figure 14: RHB Basket sector weightings &amp; valuations

Sectors	Mkt Cap MYRbn	Weight %	EPS Growth (%)			P/E (x)			Recommendation
			FY21	FY22F	FY23F	FY21	FY22F	FY23F	
Banking	329.0	25.4	40.6	2.9	19.6	13.3	12.9	10.9	Overweight
Gaming	40.4	3.1	(14.3)	247.6	54.7	n.m.	17.2	11.1	Overweight
Basic Materials	50.7	3.9	273.8	107.9	4.2	39.3	18.5	17.5	Overweight
Non-Bank Financials	18.9	1.5	(8.0)	(3.5)	10.6	12.5	13.0	11.7	Overweight
Oil & Gas	160.6	12.4	92.0	1.4	0.3	15.2	15.0	14.9	Overweight
Utilities	98.8	7.6	14.5	(0.6)	9.0	13.8	13.8	12.7	Overweight
Technology	26.3	2.0	57.8	24.8	13.1	29.5	23.6	20.9	Overweight
Healthcare	61.6	4.8	102.7	3.4	14.3	36.2	35.0	30.6	Overweight
Rubber Products	32.6	2.5	335.1	(72.1)	(65.6)	1.9	6.7	19.5	Neutral
Construction	22.7	1.8	27.8	23.3	19.2	19.9	16.1	13.5	Neutral
Auto	22.9	1.8	11.0	(2.1)	20.2	12.3	12.6	10.5	Neutral
Property-REITs	33.3	2.6	0.1	19.4	8.7	22.6	18.8	17.3	Neutral
Telecommunications	115.2	8.9	11.7	(8.8)	16.1	20.7	22.7	19.6	Neutral
Plantation	110.0	8.5	124.1	49.2	(20.0)	15.6	10.5	13.1	Neutral
Consumer	107.5	8.3	12.6	22.5	20.4	32.8	26.7	22.2	Neutral
Transport	25.3	2.0	86.6	692.7	199.5	n.m.	52.8	17.6	Neutral
Property	32.4	2.5	148.1	26.7	9.4	17.1	13.6	12.4	Neutral
Media	5.6	0.4	3.1	16.7	11.4	10.3	8.9	8.0	Neutral
<b>RHB BASKET</b>	<b>1293.7</b>	<b>100.0</b>	<b>69.5</b>	<b>(0.9)</b>	<b>7.2</b>	<b>15.0</b>	<b>15.1</b>	<b>14.1</b>	

Source: RHB

Figure 15: Earnings outlook and valuations

COMPOSITE INDEX @ 1,570.1 31 May 2022	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
	2020	2021	2022F	2023F	2020	2021	2022F	2023F	2020	2021	2022F	2023F
Revenue Growth (%)	(10.4)	23.7	7.6	3.5	(9.0)	19.9	9.3	2.9	(6.4)	13.4	12.4	1.7
EBITDA Growth (%)	(5.6)	30.0	5.4	1.1	(6.3)	30.7	3.8	2.1	(8.1)	33.1	(0.3)	5.2
Normalised Earnings Growth (%)	(24.9)	70.2	1.1	6.6	(24.9)	70.7	(0.4)	7.6	(24.9)	72.4	(4.1)	10.2
Normalised EPS (sen)	21.5	36.5	36.8	39.1	14.7	24.9	24.7	26.4	8.0	13.6	13.0	14.2
<b>Normalised EPS Growth (%)</b>	<b>(25.1)</b>	<b>69.3</b>	<b>1.0</b>	<b>6.3</b>	<b>(25.3)</b>	<b>69.5</b>	<b>(0.9)</b>	<b>7.2</b>	<b>(25.5)</b>	<b>71.0</b>	<b>(4.9)</b>	<b>9.8</b>
<b>Prospective PER (x)</b>	<b>26.7</b>	<b>15.8</b>	<b>15.7</b>	<b>14.8</b>	<b>25.4</b>	<b>15.0</b>	<b>15.1</b>	<b>14.1</b>	<b>22.5</b>	<b>13.1</b>	<b>13.8</b>	<b>12.6</b>
Normalised EPS (sen) ex-Rubber glove	21.6	32.3	37.1	41.2	14.2	20.8	24.4	27.2	7.3	10.2	12.7	14.4
Normalised EPS Growth (%) ex-Rubber glove	(28.8)	49.8	14.7	11.1	(30.1)	46.7	17.2	11.6	(32.8)	39.6	25.2	13.0
Prospective PER (x) ex-Rubber glove	27.9	18.6	16.2	14.6	26.9	18.3	15.6	14.0	24.9	17.8	14.2	12.5
Price/BV (x)	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.1	1.0	1.0	1.0
Dividend Yield (%)	3.2	4.3	3.9	4.1	3.0	4.1	3.8	4.0	2.5	3.4	3.5	3.8
ROE (%)	6.9	11.3	10.9	11.0	6.3	10.3	9.7	9.9	4.8	7.8	7.1	7.7

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, i.e.,HLFG, RHB Bank, and PPB

Source: Bloomberg, RHB

Figure 16: Top BUYs

	FYE	Price (MYR/s)	TP (MYR)	Shariah compliant	Market Cap (MYRm)	EPS (sen)		EPS Growth (%)		3-Yr EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)
						FY22F	FY23F	FY22F	FY23F		FY22F	FY23F			
31 May 2022															
Maybank	Dec	9.10	10.40	NO	108,927	68.5	81.9	0.5	19.5	12.4	13.3	11.1	1.2	n.a.	7.2
PetChem	Dec	10.26	12.21	YES	82,080	85.1	75.9	(6.8)	(10.7)	46.8	12.1	13.5	2.0	10.4	3.7
Hong Leong Bank	Jun	21.10	23.70	NO	45,739	149.6	173.2	7.0	15.8	12.4	14.1	12.2	1.3	n.a.	2.8
Press Metal	Dec	5.54	7.90	YES	45,647	28.1	30.0	126.8	6.6	73.2	19.7	18.5	6.9	16.9	2.4
KLK	Sep	25.56	34.15	YES	27,558	218.3	180.1	26.2	(17.5)	40.9	11.7	14.2	2.0	13.4	3.9
Mr DIY Group	Dec	3.25	4.50	YES	20,423	9.0	10.8	30.7	20.4	24.8	36.1	30.0	11.5	22.8	1.7
Genting	Dec	4.75	6.37	NO	18,290	28.2	45.9	234.0	62.9	(292.2)	16.9	10.4	0.6	2.1	4.2
AMMB^	Mar	3.64	4.40	NO	12,063	50.4	57.1	10.6	13.3	21.3	7.2	6.4	0.6	n.a.	5.5
Inari Amertron	Jun	2.81	3.59	YES	10,416	10.7	12.0	21.1	12.6	42.8	26.3	23.4	4.0	21.2	3.6
Heineken	Dec	24.84	28.50	NO	7,504	106.0	122.5	30.3	15.6	28.3	23.4	20.3	18.6	16.8	4.9
CTOS Digital	Dec	1.43	2.36	YES	3,303	3.3	4.4	74.7	30.5	34.1	42.9	32.8	6.0	33.7	1.8
Bumi Armada	Dec	0.45	0.58	NO	2,634	10.5	10.9	(9.2)	4.6	10.5	4.3	4.1	0.5	3.2	0.0
Matrix^	Mar	2.41	2.66	YES	2,010	28.4	29.7	15.5	4.6	(1.9)	8.5	8.1	1.0	8.4	6.2
Berjaya Food	Jun	4.48	4.80	YES	1,615	27.9	26.6	191.7	(4.8)	(267.5)	16.0	16.8	3.6	9.0	3.0
Tasco^	Mar	1.00	2.03	YES	800	10.5	11.2	8.4	7.2	29.6	9.5	8.9	1.3	5.1	3.4
MGB	Dec	0.63	0.83	YES	373	7.5	12.3	40.6	63.7	76.9	8.4	5.1	0.5	2.7	3.9

Note: ^FY22-23 valuations refer to those of FY23-24

Source: RHB

2 June 2022

Market Outlook | Market Strategy

Figure 17: FBM KLCI – weightings &amp; valuations

	Market Cap MYRbn	Weight (%)	EPS Growth (%)			P/E (x)		
			FY21	FY22F	FY23F	FY21	FY22F	FY23F
Sime Darby <b>Auto</b>	14.9 <b>14.9</b>	1.53 <b>1.53</b>	20.0 <b>20.0</b>	(12.1) <b>(12.1)</b>	21.5 <b>21.5</b>	12.0 <b>12.0</b>	13.6 <b>13.6</b>	11.2 <b>11.2</b>
CIMB	53.9	5.53	286.7	2.2	25.7	11.1	10.9	8.6
HL Bank	45.7	4.69	14.7	7.0	15.8	15.1	14.1	12.2
Maybank	108.9	11.16	18.3	0.5	19.5	13.3	13.3	11.1
Public bank <b>Banking</b>	91.8 <b>300.4</b>	9.41 <b>30.78</b>	16.7 <b>38.9</b>	1.5 <b>2.2</b>	16.7 <b>20.1</b>	16.6 <b>13.9</b>	16.3 <b>13.6</b>	14.0 <b>11.4</b>
Press Metal <b>Basic Material</b>	45.6 <b>45.6</b>	4.68 <b>4.68</b>	115.0 <b>115.0</b>	126.8 <b>126.8</b>	6.6 <b>6.6</b>	44.7 <b>44.7</b>	19.7 <b>19.7</b>	18.5 <b>18.5</b>
Nestle	31.6	3.24	2.3	12.3	14.1	55.3	49.3	43.2
Mr DIY	20.4	2.09	23.4	30.7	20.4	47.2	36.1	30.0
<b>Consumer</b>	<b>52.0</b>	<b>5.33</b>	<b>10.4</b>	<b>20.2</b>	<b>17.0</b>	<b>51.9</b>	<b>43.1</b>	<b>36.9</b>
Genting	18.3	1.87	(225.2)	234.0	62.9	n.m.	16.9	10.4
Genting Malaysia	17.0	1.74	28.7	201.4	44.9	n.m.	17.6	12.1
<b>Gaming</b>	<b>35.3</b>	<b>3.62</b>	<b>(9.8)</b>	<b>216.0</b>	<b>54.2</b>	<b>(20.0)</b>	<b>17.2</b>	<b>11.2</b>
IHH Healthcare <b>Healthcare</b>	59.0 <b>59.0</b>	6.04 <b>6.04</b>	117.1 <b>117.1</b>	1.9 <b>1.9</b>	14.8 <b>14.8</b>	37.9 <b>37.9</b>	37.1 <b>37.1</b>	32.4 <b>32.4</b>
Inari Amertron <b>Technology</b>	10.4 <b>10.4</b>	1.07 <b>1.07</b>	113.6 <b>113.6</b>	21.1 <b>21.1</b>	12.6 <b>12.6</b>	31.9 <b>31.9</b>	26.3 <b>26.3</b>	23.4 <b>23.4</b>
Dialog	13.7	1.40	(16.2)	2.5	7.9	29.8	29.1	27.0
MISC	32.0	3.28	(28.8)	21.7	28.6	25.2	20.7	16.1
Petronas Chemicals	82.1	8.41	280.1	(6.8)	(10.7)	11.2	12.1	13.5
Petronas Dagangan	22.4	2.30	71.7	27.0	13.0	40.8	32.2	28.5
<b>Oil &amp; Gas</b>	<b>150.2</b>	<b>15.39</b>	<b>107.9</b>	<b>(0.6)</b>	<b>(1.6)</b>	<b>15.7</b>	<b>15.8</b>	<b>16.1</b>
IOI Corp	26.7	2.74	39.1	83.9	(3.3)	24.5	13.3	13.8
Kuala Lumpur Kepong	27.6	2.82	168.3	26.2	(17.5)	14.8	11.7	14.2
Sime Darby Plantations	34.8	3.56	134.8	36.5	(21.4)	16.2	11.9	15.1
<b>Plantation</b>	<b>89.1</b>	<b>9.13</b>	<b>113.1</b>	<b>43.0</b>	<b>(15.1)</b>	<b>17.5</b>	<b>12.2</b>	<b>14.4</b>
Hartalega <b>Rubber Products</b>	14.4 <b>25.6</b>	1.47 <b>2.62</b>	9.7 <b>347.0</b>	(81.3) <b>(64.8)</b>	21.1 <b>(68.9)</b>	4.9 <b>2.4</b>	4.4 <b>6.8</b>	23.7 <b>22.0</b>
Axiata	29.5	3.02	53.2	(17.7)	22.3	21.9	26.6	21.8
DiGi.Com	27.4	2.81	(5.6)	(13.6)	13.7	22.6	26.2	23.0
Maxis	29.7	3.04	(6.6)	(5.8)	11.8	22.0	23.4	20.9
Telekom Malaysia	20.2	2.07	25.1	(4.7)	15.0	16.2	17.0	14.8
<b>Telecommunication</b>	<b>106.8</b>	<b>10.94</b>	<b>12.0</b>	<b>(10.5)</b>	<b>15.6</b>	<b>20.7</b>	<b>23.2</b>	<b>20.0</b>
Petronas Gas	34.2	3.50	4.3	(5.1)	(3.1)	16.5	17.4	17.9
Tenaga	52.4	5.37	22.0	3.3	12.7	11.9	11.6	10.3
<b>Utilities</b>	<b>86.6</b>	<b>8.87</b>	<b>15.6</b>	<b>0.6</b>	<b>7.9</b>	<b>13.4</b>	<b>13.3</b>	<b>12.4</b>
<b>FBM KLCI</b>	<b>975.9</b>	<b>100.00</b>	<b>69.3</b>	<b>1.0</b>	<b>6.3</b>	<b>15.8</b>	<b>15.7</b>	<b>14.8</b>

Source: Bloomberg, RHB

2 June 2022

Market Outlook | Market Strategy

Figure 18: High-dividend yield stocks

	Price (MYR/s) 31 May 2022	DY (%)		EPS Growth (%)		P/E (x)	P/BV (x)	ROE (x)
		FY22F	FY23F	FY22F	FY23F	FY22F	FY22F	FY22F
Hartalega^	4.20	13.5	2.5	(81.3)	21.1	4.4	2.5	11.6
Astro^	0.98	8.3	9.2	17.4	10.1	9.2	4.1	47.2
Sentral REIT	0.97	7.8	8.1	0.4	4.1	12.8	0.8	6.1
Ta Ann	4.98	7.6	5.4	45.9	(22.9)	5.4	1.2	23.4
BAT	12.64	7.6	8.3	(5.3)	9.6	13.0	9.3	72.3
MBM	3.22	7.3	7.9	17.4	8.0	6.4	0.6	10.0
Taliworks Corporation	0.94	7.0	7.0	15.0	8.4	23.4	2.2	9.2
Pintaras	2.32	6.5	6.5	(41.9)	36.2	11.3	1.0	9.0
Tambun Indah	0.90	6.4	6.7	(3.2)	0.9	6.7	0.5	8.2
FM Global Logistics	0.55	6.4	6.4	34.6	3.5	7.7	0.9	11.6
AQRS	0.32	6.3	6.3	70.6	4.7	3.7	0.3	8.6
Maybank	9.10	6.3	7.2	0.5	19.5	13.3	1.2	9.4
Matrix Concepts^	2.41	5.8	6.2	15.5	4.6	8.5	1.0	12.1
Affin	2.19	5.8	7.5	0.5	28.6	8.6	0.5	5.4
Supermax	1.05	5.7	1.3	(79.6)	(78.1)	3.5	0.5	15.5
Alliance Bank^	3.60	5.7	6.2	10.2	10.1	8.8	0.8	9.6
Pavilion REIT	1.35	5.5	6.4	73.9	15.8	18.7	1.1	5.7
Sunway REIT	1.56	5.4	5.7	22.1	5.4	18.6	1.0	5.4
UOA Development	1.90	5.3	5.3	(4.5)	15.8	20.8	0.8	3.8
SKP Resources^	1.51	5.2	5.7	23.7	8.5	11.5	2.6	23.9
Power Root	1.53	5.2	5.9	69.9	11.3	16.5	2.7	16.5

Note: ^FY20-21 valuations refer to those of FY21-22

Source: RHB

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