

Malaysia Morning Cuppa

Top Story

Telecommunications (NEUTRAL)

The Tough Gets Going
Sector Update

Stay NEUTRAL; Top Picks: Telekom Malaysia, Time dotCom and OCK. We expect the tight market competition and extended pressure on industry revenues to persist. Overall, the sector trades at an average 8.5x FY21F EV/EBITDA, near -2SD from the historical mean with decent dividend yield of 3-4%. We prefer fixed line (wireline) operators and infrastructure type companies, as they are less vulnerable to the renewed market aggression with higher contracted revenues. Key risks: Weaker-than-expected earnings and increased competition.

Analyst: Jeffrey Tan +603 9280 8863

Today's Report: [Telecommunications : The Tough Gets Going \(6 Oct 2020\)](#)

Previous Report: [Telecommunications : The Going Gets Tough \(5 Aug 2020\)](#)

Regional Economic Research

A New Cycle After a Black Swan Event

ASEAN Economics Outlook

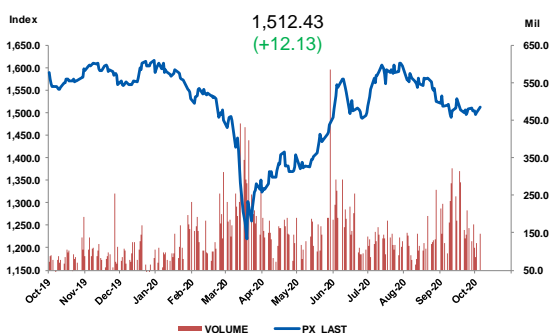
- We are of the view that the global economy will enter a new growth cycle next year, and ASEAN-5's real GDP should bounce back to record a growth of 6.3% in 2021 from an estimated -4.1% in 2020.
- The recovery is likely to be lifted by a turnaround in global demand for ASEAN-5's exports, aided by local stimulus, as vaccines for COVID-19 are more broadly deployed in 2H21.
- Most ASEAN-5 countries are likely to normalise their monetary policy easing in 2021. Their current account positions should improve somewhat, and currencies are projected to appreciate slightly.

Economist: Peck Boon Soon +603 9280 2163

Today's Report: [A New Cycle After a Black Swan Event \(6 Oct 2020\)](#)

Previous Report: [Improvement In Outlook Likely In 2H \(7 Jul 2020\)](#)

Chart 1: FBM KLCI chart



Chg

KLCI Futures Oct 2020	1,514.50	+17.0
KLCI Futures Nov 2020	1,512.00	+17.5
Brent Crude Oil (USD/bbl)	41.29	+2.02
CPO Spot Price (MYR/Tonne)	2,841.00*	(73.0)
USD/EUR	1.18	0.01
JPY/USD	105.75	+0.45
USD/MYR	4.15	(0.01)
JPY/MYR	3.93	(0.03)
EUR/MYR	4.89	+0.02

Note: *As at 2 Oct 2020 closing

Table 1: Regional markets (5 Oct 2020)

	Bloomberg Code	Index	Chg	YTD (%)
FBM KLCI	: FBMKLCI	1,512.43	↑ +12.13	(4.8)
FTSE M'sia Emas	: FBMEMAS	10,925.85	↑ +104.15	(3.5)
FTSE M'sia 70	: FBM70	14,380.84	↑ +181.86	+1.2
FTSE M'sia 100	: FBM100	10,749.14	↑ +98.94	(3.3)
Singapore	: FSSTI	2,517.23	↑ +21.12	(21.9)
Thailand	: SET	1,242.99	↑ +5.45	(21.3)
Philippines	: PCOMP	5,938.95	↓ (60.45)	(24.0)
Indonesia	: JCI	4,958.77	↑ +32.03	(21.3)
Hong Kong	: HSI	23,767.78	↑ +308.73	(15.7)
China, Shanghai	: SHCOMP	3,218.05^	-	+5.5
China, Shenzhen	: SZCOMP	2,149.54^	-	+24.8
Korea	: KOSPI	2,358.00	↑ +30.11	+7.3
Taiwan	: TWSE	12,548.28	↑ +32.67	+4.6
Japan	: NKY	23,312.14	↑ +282.24	(1.5)
Dow Jones	: INDU	28,148.64	↑ +465.83	(1.4)
S&P 500	: SPX	3,408.63	↑ +60.19	+5.5
Nasdaq	: CCMP	11,332.49	↑ +257.47	+26.3

Note: ^As at 30 Sep 2020 closing

Bulletins

STOCK/SECTOR	NEWS	COMMENT	RATING
7-Eleven Malaysia (SEM MK)	<p>7-Eleven Malaysia's 75%-owned subsidiary Caring Pharmacy Retail Management (Caring) has – on 5 Oct – is looking to acquire the equity interests in retail pharmacies and certain business assets for a total cash consideration of MYR48.9m.</p> <p>The assets to be acquired include 22 outlets of Georgetown Pharmacy in Penang, Kedah, and Perlis, as well as four outlets of Wellings Pharmacy in Penang. The acquisition is expected to be completed by end 2020. (<i>The Star</i>)</p>	<p>We are nominally positive on the acquisition, which should extend the presence of the group's pharmacy business to the northern region. Currently, Caring is only present in the Klang Valley, Melaka, and Johor. The enlarged network should also create synergistic cost savings.</p> <p>The acquisitions will be funded by internally generated funds and translate into historical and annualised P/Es of 10.4x and 7.2x for Georgetown Pharmacy and Wellings Pharmacy. Hence, they should be value accretive to 7-Eleven.</p> <p>We made no changes to our forecast, call, and TP pending the deal completion.</p>	BUY, TP: MYR1.67
Westports (WPRTS MK)	<p>According to Westports' recent announcement on Bursa Malaysia, the company has been served with a notice of additional assessment for additional tax liabilities – inclusive of penalties for the years of assessment from 2013 to 2018 – by the Inland Revenue Board (IRB). Note that IRB has raised an additional tax assessment of MYR120.6m.</p> <p>The reason given by IRB: It has now assessed that the annual lease payments made by Westports to the Port Klang Authority as not allowable for deduction in Westports' wholly owned unit Westports Malaysia's tax computation. (<i>Bursa Malaysia</i>)</p>	<p>We gather that Westports will appeal and contest against this notice. Pending the final outcome on the matter, we maintain our TP and earnings estimates, as well as our call.</p> <p>For illustration purposes, the MYR120.6m in additional tax is at 21.8% of our FY20F earnings of MYR556m.</p>	NEUTRAL, TP: MYR3.85

Top BUYs

	TP (MYR)	Upside (%)	Shariah	Catalysts
AME Elite Consortium (AME MK)	2.34	20.6	Y	<ul style="list-style-type: none"> Encouraging deal flows despite temporary hiccups during the lockdown Strong earnings momentum given healthy property sales growth and construction & engineering orderbook replenishment New landbank acquisition and expansion in workers' dormitory business to be the earnings kicker. Listing of industrial property assets as a REIT will be the share price catalyst over the medium term
Dialog (DLG MK)	4.25	11.8	Y	<ul style="list-style-type: none"> Storage rates should remain high, which should benefit Pengerang Independent Terminals and Langsat 3 terminals Upstream earnings should recover QoQ in 2H20 on higher oil prices Phase 3 capacity expansion with good-quality clientele, ie national oil companies and oil majors, remains a key catalyst in the longer run – this should strengthen Dialog's recurring business
DRB-HICOM (DRB MK)	2.40	18.2	Y	<ul style="list-style-type: none"> We continue to like the stock, given strong prospects for Proton to continue regaining market share. Proton expanding into regional markets could be a medium-term positive. Geely partnership offers access to its product suite, research & development resources, and component sourcing economies of scale Various physical assets are embedded with DRB-HICOM have significant value-accretion potential in the medium term
IJM Plantations (IJMP MK)	2.20	41.9	N	<ul style="list-style-type: none"> We remain upbeat on IJM Plantations for its pure upstream operations which will benefit from higher CPO prices IJMP's estates are transitioning to a prime age profile and the company's operation in Indonesia is on the verge of a turnaround, as yields improve and costs moderate
JHM Consolidation (JHMC MK)	1.95	13.4	Y	<ul style="list-style-type: none"> Worst is over and a strong 2H20 recovery in automotive segment can be expected, on top of the imminent Main Market transfer Benefit from order ramp-ups of 5G-related equipment and growth prospect in the industrial segment, which is related to the semiconductor industry Multi-year growth story in the aerospace venture remains intact
Kumpulan Powernet (KPB MK)	4.04	29.1	Y	<ul style="list-style-type: none"> Kumpulan Powernet is poised to transform into an energy and utilities services player, following the entry of new shareholders and management team since Jun 2019 We are upbeat on this stock, as it offers an exponential earnings growth, a potential doubling of its orderbook by end FY2, superior ROEs, and has an undemanding valuation
Malayan Banking (MAY MK)	9.40	32.0	N	<ul style="list-style-type: none"> Its NIM sensitivity to OPR cuts is low, loan growth will likely be ahead of industry average, has sizeable unrealised MTM bond gains, and headroom for cost cuts Aggressive loan provisioning in 2020 increases possibility of writeback Dividend yield remains attractive
Press Metal (PMAH MK)	6.05	19.3	Y	<ul style="list-style-type: none"> Robust FY19-22F earnings CAGR of 30% on the back of improving London Metal Exchange aluminium prices alongside capacity expansion coming online in 1Q21 Low-carbon footprint relative to its peers could offer long-term upside potential amid global decarbonisation efforts
Serba Dinamik (SDH MK)	2.55	58.4	Y	<ul style="list-style-type: none"> Serba Dinamik remains one of our sector Top Picks, with its consistent earnings growth – backed by a robust orderbook and contract flows Valuations remain undemanding below 10x FY21 P/E
Solarvest (SOLAR MK)	1.79	44.4	Y	<ul style="list-style-type: none"> Prime beneficiary of the Government's programmes that promote higher adoption of solar energy Expect a FY19-23 earnings CAGR of 34%, driven by higher engineering, procurement, construction & commissioning (EPCC) job wins from both commercial and industrial, and utility size projects Further upsides from overseas solar EPCC contracts and solar farm investment which we have yet to factor these into our assumptions
Sunway Construction (SCGB MK)	2.09	11.2	Y	<ul style="list-style-type: none"> Potentially emerging as an early winner, should a more bullish scenario unfolds within the sector Optimistic on earnings recovery, supported by strengths in work execution, aggressive tendering, and steady jobs from the parent company Entry point appears more favourable following a price retracement ahead of its results
VS Industry (VSI MK)	2.58	9.8	Y	<ul style="list-style-type: none"> VS Industry's FY20 (Jul) results exceeded expectations on higher-than-expected margin arising from favourable sales mix. Looking ahead, the strong momentum is expected to sustain, driven by elevated job orders from existing key customers – on increased global demand for consumer electronics products from an extended work-from-home practice. The US-China trade war should help the company in securing more customers and it is looking at expanding capacity to capture the opportunities.

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