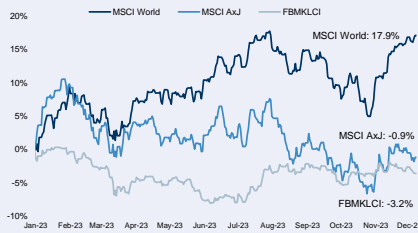


"We expect the market to remain volatile in 1H24 and rebound in 2H24"

KLCI vs MSCI World, MSCI AxJ



Source: Bloomberg, Affin Hwang

Key market statistics

	2023E	2024E
GDP growth (%)	3.7	4.5
KLCI EPS growth (%)	(0.7)	10.5

Source: Affin Hwang forecasts

Top BUYs for 2024

Stock	Rating	Price (RM)	TP (RM)
Top buys:			
NATIONGATE	BUY	1.38	1.80
CIMB*	BUY	5.79	6.40
TENAGA	BUY	9.93	10.90
KUALA LUMPUR KEPONG	BUY	21.48	25.20
GAMUDA	BUY	4.44	5.22
KPJ	BUY	1.34	1.60
HONG LEONG BANK*	BUY	19.26	24.00
QL RESOURCES	BUY	5.53	6.30
KELINGTON*	BUY	1.85	2.40
MAHB*	BUY	7.20	8.30

*new additions, replacing YTLREIT, Bumi Armada, Public Bank, PPB

Source: Affin Hwang, share prices as of 12 December 2023

Malaysia Strategy

OVERWEIGHT (upgrade)

Up/Downside: +10.5%

2024 KLCI Target: 1,600

Previous Target: NA

Outlook 2024: market to rebound

- We upgrade our call on the market to **OVERWEIGHT** from **Neutral** with KLCI target of 1,600 by end-2024. There could be external headwinds in 1H24 leading to market volatility but we expect a rebound in 2H24
- Our positive view is on expectations of an accelerating real GDP growth, stronger Ringgit, rising FDI inflows on the back of improving foreign investors' confidence and a rebound in corporate earnings growth in 2024E
- Upgrade Banking, Plantation and Property to **OVERWEIGHT** and Rubber Products to **NEUTRAL**. Downgrade Building Materials to **UNDERWEIGHT**. We add CIMB, KGRB, HLBK (replacing PBK) and MAHB as top market BUYs

Stronger economic growth and political stability

We expect real GDP growth to accelerate to 4.5% in 2024E from 3.7% in 2023E. This is supported by expectations of a recovery in global trade and rising business investment activities from mid-2024 onwards, and robust private consumption growth (5.5% in 2024E vs 5.0% in 2023E). Political stability in Malaysia with the unity government remaining in power after its first anniversary will support key themes that will drive market and stock performance in 2024: (1) structural reform of the economy; (2) accelerate infrastructure spending; (3) advancing energy transition plan; and (4) reindustrialisation and data centre expansion.

Ringgit to strengthen in 2H24

We expect advanced economies to start cutting interest rates in 2H24. The US Federal Reserve could start easing in 4Q24, leading to dollar weakness. Coupled with high FDI inflows and potential portfolio net inflows, we expect a stronger Ringgit in 2H24. We expect RM:US\$ rate of RM4.45-4.55 at end-2024E, strengthening from RM4.70 at end-2023E. We believe this will be a key catalyst to improve sentiment in the Malaysian equity market and support a KLCI rebound in 2H24.

Strong earnings rebound in 2024E

We expect KLCI core earnings to rebound to a growth of 10.5% yoy in 2024E from a contraction of 0.7% yoy in 2023E. The broader market is expected to see stronger earnings rebound (based on the 102 stocks under our coverage) to a growth of 13.2% yoy in 2024E from a decline of 5.1% yoy in 2023E, mainly due to the surge in plantation (+24% yoy), oil & gas (+23% yoy) and utilities (+25% yoy) earnings.

Turn positive on Banking, Plantation and Property sectors

We upgrade the Banking, Plantation and Property sectors to **OVERWEIGHT** from **Neutral** previously. The Banking sector will benefit from organic loan growth, more advanced digital capabilities and expansion of non-interest income in 2024. We expect higher average CPO price (RM4,200-4,400/MT in 2024E vs RM3,800/MT in 2023E) and sustained production to drive a strong plantation earnings rebound. **OVERWEIGHT** sectors, ie, Banking, Construction, EMS, Healthcare, Plantation, Property and Utilities, contribute about 52% of Bursa Malaysia's total market capitalisation, which will likely see buying interest from foreign portfolio funds in 2024.

2024 KLCI target of 1,600

The KLCI trades at low valuations, near -1SD of its historical mean PER. We believe this is due to market concern over a global economic slowdown in 1H24. We expect foreign investors to shift their attention on emerging markets like Malaysia with relatively strong corporate earnings and real GDP growth, and attractive valuations in 2H24. On a 12-month view, we upgrade the market to an **OVERWEIGHT** and introduce our 2024 KLCI target of 1,600, based on PER of 15.6x (-0.5 SD of the 5-year historical mean PER).

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Table of Contents

Outlook 2024: Market to rebound	1
Affin Hwang Capital's Equity Research Team	3
2024 Market Outlook	4
i) More optimistic on market performance	
ii) Hinges on stronger Ringgit	
iii) Stronger GDP growth supports corporate earnings growth	
Thematic drivers for the market	7
i) Structural reform of the economy	
ii) Accelerate infrastructure spending	
iii) Advancing energy transition plan	
iv) Reindustrialisation and data centre expansion	
Sector positioning in 2024	14
Valuation	16
Stock Selection	17
Top Buys Rationale	19
ESG	25
2024 Sector Outlook	29
- Auto & Autoparts	30
- Banking	32
- Building Materials	34
- Construction	36
- Consumer	38
- EMS	40
- Gaming	42
- Healthcare	44
- Insurance	46
- Media	48
- MREIT	50
- Oil & Gas	52
- Plantation	54
- Property	56
- Rubber Product	58
- Telecoms	60
- Technology	62
- Transport & Logistics	64
- Utilities	66
Disclaimer	68



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2024 Market Outlook

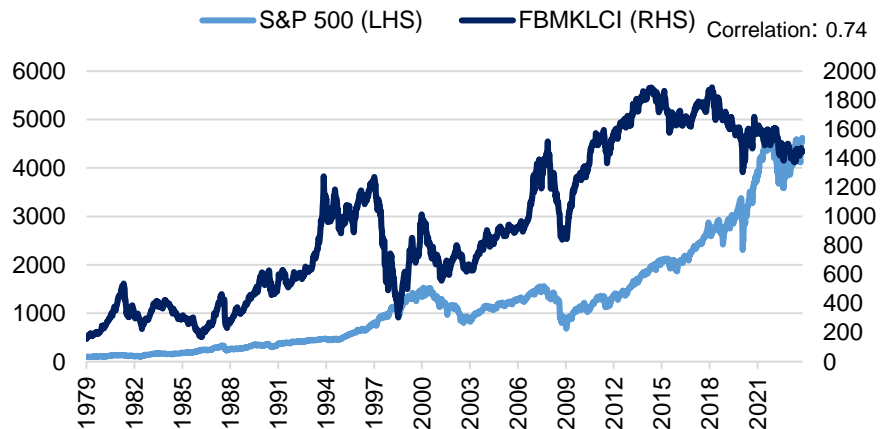
More optimistic on market performance

Shallow KLCI correction in 1H24 with some downside protection

We are in the camp expecting the US market to see a shallow correction in 1H24 due to a soft landing for the economy. We believe the easing inflation in the US and high Federal Funds Rate (FFR), provides the dry powder to engineer a soft landing. We expect the Malaysian market to follow suit as the FBM KLCI has tracked the performance of the S&P 500 with a correlation coefficient of 0.74 over the past 5 years. There are risks of a sharper correction in the S&P 500 from political uncertainties in a Presidential election year, which could lead to a hard landing for the US economy. But Malaysia as a low beta market (KLCI adjusted beta of 0.49 vs the S&P 500) could still see a relatively shallow correction.

Downward pressure for KLCI in 1H24 if S&P 500 sees a correction

Fig 1: High correlation between S&P 500 and KLCI



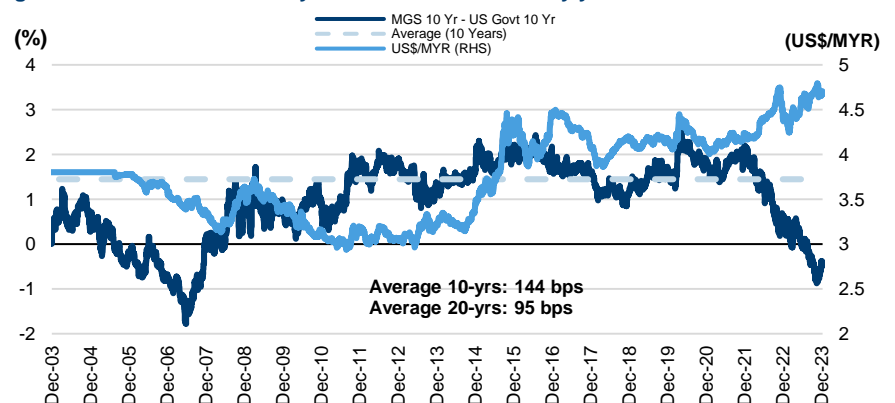
Source: Bloomberg, Affin Hwang estimate

Expect a switch in yield differential to parity for MGS vs Treasury in 2H24

We expect the US Federal Reserve to start cutting the Federal Funds Rate (FFR) in 4Q24 to support the economy as inflation continues to ease, possibly a total of 75bps in 2024. This is supported by a more dovish dot plot matrix from the latest Federal Open Market Committee (FOMC) minutes disclosed in the September meeting. The cut in FFR could spark the easing of benchmark 10-year US Treasury yield, switching from a premium to parity to 10-year Malaysian Government Securities (MGS) yield. Our economist's forecast for the benchmark Overnight Policy Rate (OPR) is to remain at 3% in 2024 to support economic growth and the Ringgit.

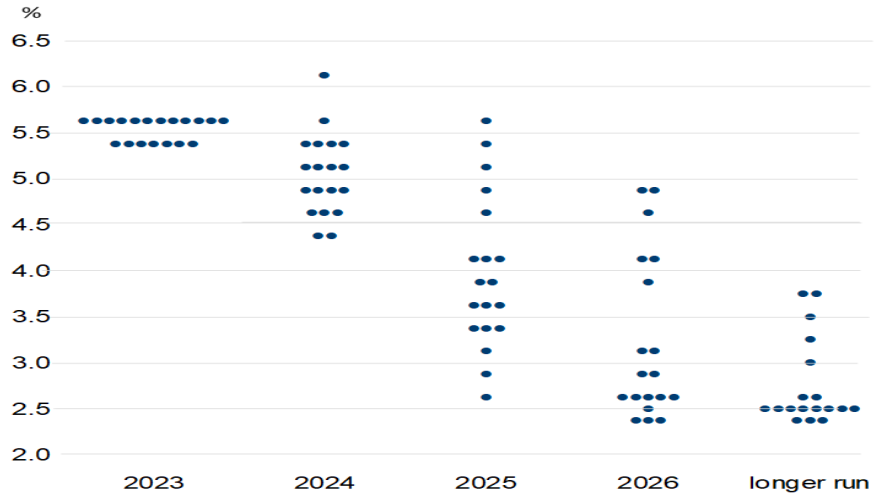
Expect stronger Ringgit if MGS narrows yield discount to US Treasury

Fig 2: Differential between 10-year MGS and US Treasury yields



Source: Bloomberg, Affin Hwang estimate

Fig 3: US Federal Reserve dot plot matrix



Source: Federal Reserve System of US

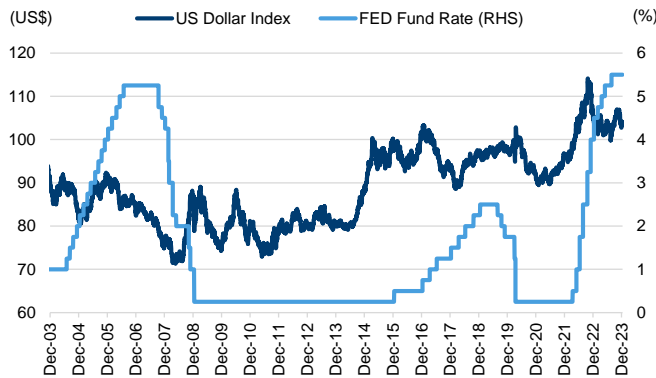
Hinges on stronger Ringgit

Market to rebound in 2024 with a stronger Ringgit

We expect potential portfolio investment inflows in search of better bond returns as the 10Y MGS yield reverts to a premium over 10Y Treasury yield, which will likely lead to a stronger Ringgit. The Ringgit should also strengthen due to dollar weakness as the FFR is cut. Portfolio investors with a higher risk appetite are likely to invest in Malaysian equities for better long-term returns since we expect positive corporate earnings growth in 2024. The KLCI typically has risen as the Ringgit strengthened in the past as potential equity returns are boosted by forex returns in US\$ terms.

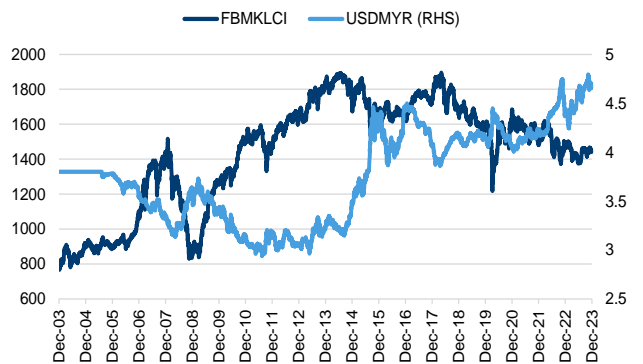
Stronger Ringgit will improve sentiment in equities market

Fig 1: DXY vs Federal Funds Rate



Source: Bloomberg

Fig 2: KLCI vs RM/US\$ rate



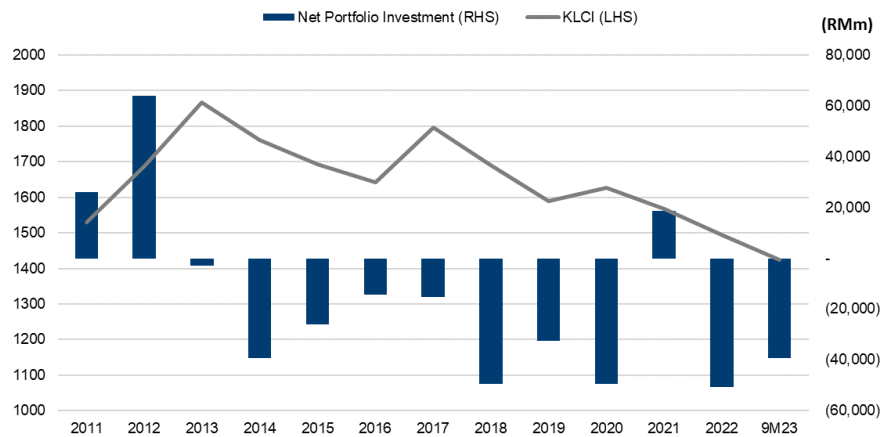
Source: Bloomberg

KLCI could follow S&P 500 to trend up as early as 2Q24

KLCI could rebound as early as 2Q24

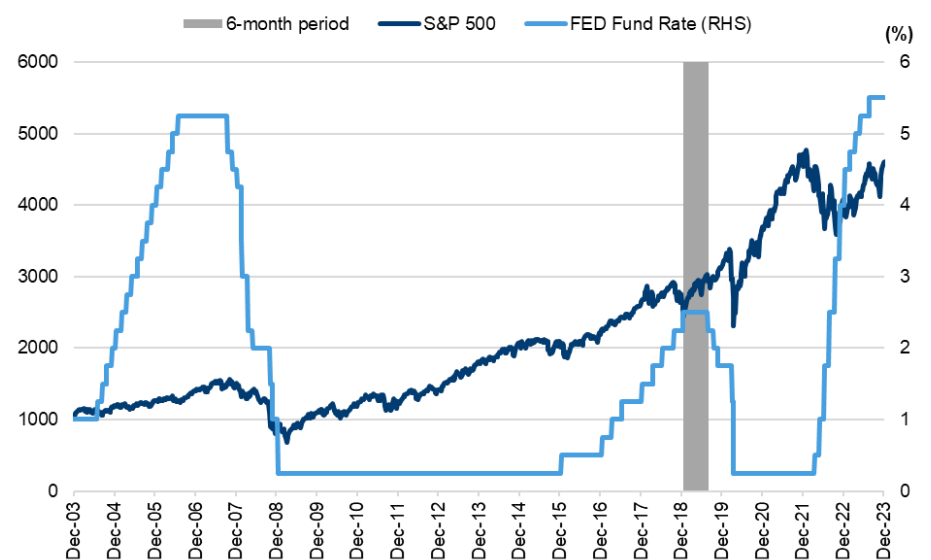
A stronger Ringgit is expected to buoy foreign investor sentiment in Bursa Malaysia as reflected by the rise in the KLCI during the years we saw net portfolio inflows in 2011-2012. On this assumption, we expect the KLCI to rebound as early as 2Q24, tracking the S&P 500 as the US market typically reacts about 7 months ahead of the FFR pivot. This is based on the S&P 500 rebounding from the lowest point at end-2018 before the first FFR cut on 31 July 2019 (Fig 5). A shift in foreign investor sentiment towards a positive stance is expected to be a strong catalyst for the re-rating of the Malaysian equity market, given the current foreign shareholding level at 19.6%, which is close to the historical low level.

Fig 4: Malaysia annual net portfolio investment flows and year-end KLCI



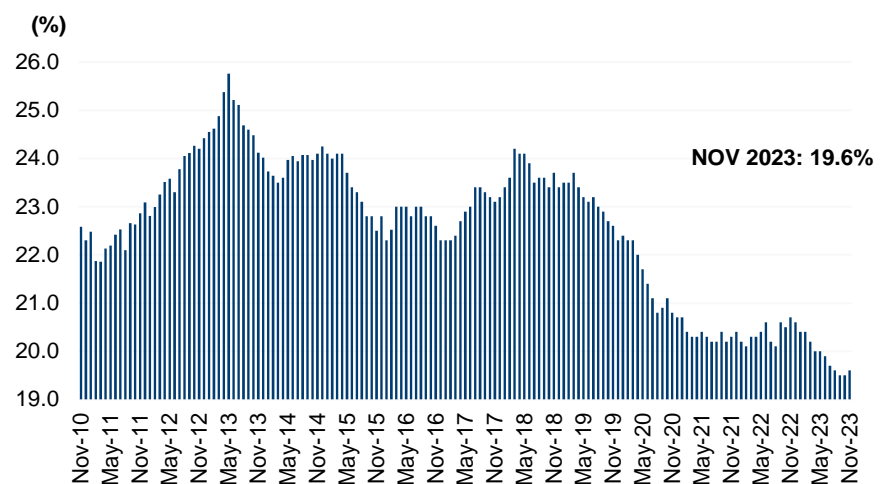
Source: CEIC, BNM

Fig 5: S&P 500 performance prior to FFR pivot in the past



Source: Bloomberg, Affin Hwang estimate

Fig 6: Malaysian equity market foreign shareholding historical low



Source: Bloomberg

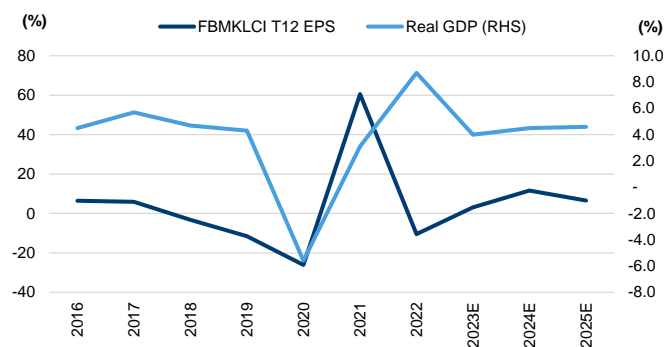
Stronger GDP growth supports corporate earnings growth

We expect Malaysian corporate earnings to rebound 10-11% yoy for 2024E in line with market expectations

Consensus KLCI earnings growth expectation aligns with ours

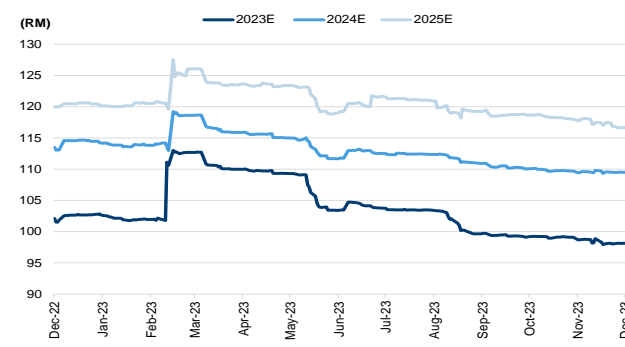
Consensus KLCI earnings growth forecast of 10.6% in 2024 is close to our estimate of 10.5%. This is supported by consensus and our real GDP growth forecast of 4.5%. Our KLCI earnings growth is supported by sustained loan growth for the banks, higher CPO prices for the plantation companies, lower fuel cost for the utilities sector, and positive merger and acquisition impact for the telcos. However, we acknowledge that there are earnings forecast risks and consensus KLCI earnings revision trend is still negative.

Fig 7: Consensus KLCI earnings growth vs real GDP growth



Source: Bloomberg

Fig 8: Consensus KLCI earnings revision trend



Source: Bloomberg

Thematic drivers for the market

Focus on thematic investment 1H24 as market performance may remain volatile

Market to focus on thematic investment in 1H24

We believe market conditions will remain challenging in 1H24 due to concerns on the extent of the global economic slowdown as the current high interest rate environment persists. In this scenario, we expect the market to focus on long-term themes that lead to structural growth stories for certain sectors and companies to invest for better returns. We identify 4 key themes that will drive the Malaysian market in 2024: (1) structural reform of the economy; (2) accelerate infrastructure spending; (3) advancing the energy transition plan; and (4) re-industrialisation and data centre expansion.

Structural reform of the economy

Improved government fiscal position with subsidy rationalisation

Fuel subsidy rationalisation to improve investor confidence

In the Budget 2024, the government will prioritise fuel subsidy rationalisation and the implementation of targeted subsidies for petrol and diesel in 2H24. These measures are expected to cut the projected subsidies and social assistance spending to RM52.8bn in 2024 from RM64.2bn in 2023. We believe the measures will be critical to the government's target to cut the federal government deficit from 5.0% in 2024 to 3.2% in 2025. We believe the structural reforms of the economy will appease the international debt rating agencies and improve Malaysia's sovereign risk rating downgrades in the long run. This will also improve foreign portfolio investors' confidence in Malaysian market with the improved government fiscal position to support economic growth.

Adverse impact to consumer spending from new taxes

The resulting increase in fuel cost will eat into peoples' disposable income. The implementation of the high-value goods tax of 5-10% from 1 May 2024 and service tax increase by 2ppt to 8% from 1 March 2024 could also discourage consumer

The Consumer Conundrum could adversely impact discretionary spending

Government cash handouts to support B40 if subsidies are reduced

Less affected high-income earners may still spend and buy properties

Rising tourist spending is expected to support private consumption

discretionary spending. We believe the consumer staples segment will be relative less impacted as highlighted in our report dated 6 December 2023 (Link: [Thematic Report – The Consumer Conundrum](#)). We prefer **QL Resources**, (BUY, TP: RM6.30), **PPB** (BUY, TP: RM17.00) and **NTPM** (BUY, TP: RM0.54) that are more resilient in the Consumer sector.

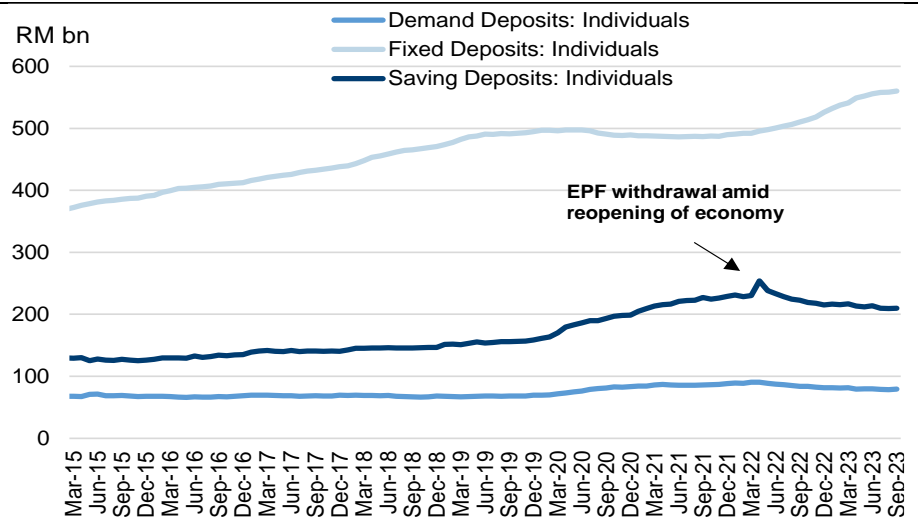
Low-income earners will be affected more by cut in subsidies

Growth in private consumption is expected to be supported by improving income prospects given the government’s initiatives, healthy labour market, as well as the recovery of tourism-related activities. Domestic demand grew steadily at 4.8% yoy in 3Q23, higher than 4.5% in 2Q23, with stable employment conditions and sustained wage growth supporting consumer spending during the quarter. Domestic consumers could see rising cost of living pressures from rising inflation with the proposed reduction in fuel subsidies. We believe the cut in subsidies will affect the B40 and lower-income M40 more noticeably. But potential increase in government cash handouts as targeted subsidies could mitigate the impact to this group.

High-income earners could spend less but invest more in properties

But we expect the higher-income M40 and T20 to be less impacted and support private consumption growth and residential property purchases. The purchase of property is also traditionally seen as a long-term hedge against inflation among the Asian community and remains the largest contributor to retail loan books of the banks (mortgages contribute 37% of total banking system loans). Data on individual deposits nevertheless show that combined savings and fixed deposit levels remain healthy and are even higher than pre-pandemic levels, which supports the notion that the higher-income individuals could remain relatively resilient in 2024.

Fig 9: Deposits have grown

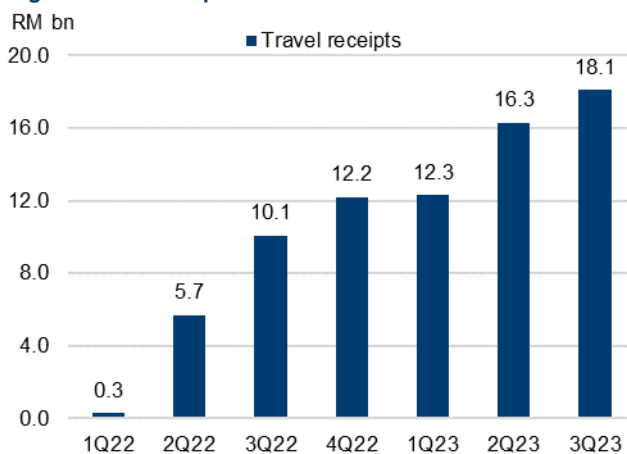


Source: CEIC

Tourism revival with selective visa-free entry

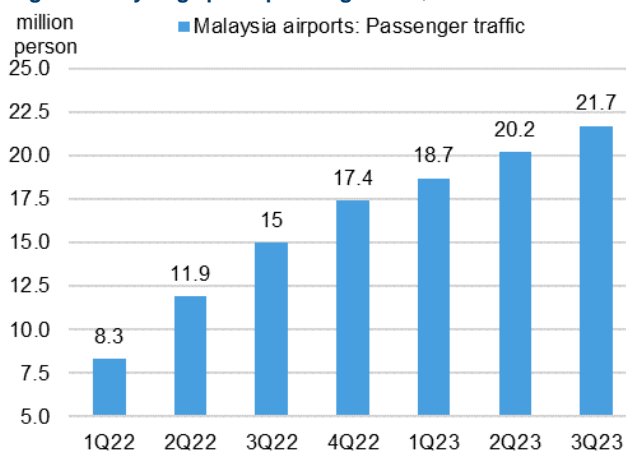
The expected pick up in tourism-related activities is expected to support private consumption growth. The 30-day visa-free entry for visitors from China and India starting from 1 December 2023 is expected to drive a recovery in tourist arrivals and spending. Prior to the Covid-19 pandemic, tourists from China (including Hong Kong) accounted for 12% of the total tourist arrivals in Malaysia, with India contributing about 3%. China was the largest contributor to tourist receipts, contributing approximately RM15bn or 18% of Malaysia’s total tourist receipts in 2019. India’s contribution of around 4% in 2019 also played a significant role in Malaysia’s tourism sector compared to many other countries. We believe **Malaysia Airports Holdings** (BUY, TP: RM8.30) is a potential beneficiary of this development and we add the stock as a top market BUY.

Fig 10: Travel receipts



Source: CEIC

Fig 11: Malaysia airports passenger traffic



Source: CEIC

NIMP 2030 to promote high technology and RE industries

Rising FDI inflows due to improved investor confidence in unity government

Reindustrialisation and data centre expansion

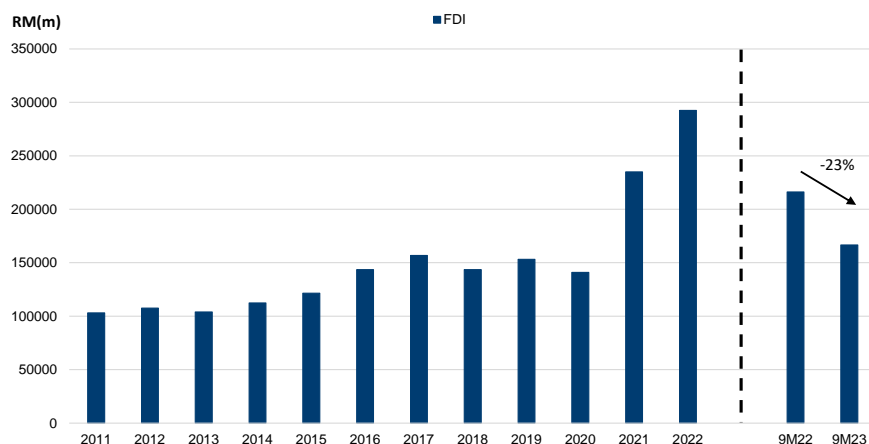
Long-term roadmap in place to expand industrial development

In tandem with the rapid advancement of technology and global embrace of ESG in business practice, the Government in its National Industrial Masterplan 2030 (NIMP 2030) is strategically positioning the country's manufacturing sector as a catalyst for economic growth. The primary aim of this national master plan is to elevate Malaysia's manufacturing sector up the value chain, emphasizing high value-added activities. A focal point is the electric and electronics (E&E) industry as the rising demand for electric vehicles (EV), renewable energy (RE), and artificial intelligence (AI) presents promising prospects for the local E&E sector. The Government's vision includes deepening involvement in Integrated Circuit (IC) design and wafer fabrication activities, aiming for higher profit margins and enhanced specialisation in the global semiconductor value chain. The plan also highlights other significant industries such as machinery & equipment, medical devices, chemicals, advanced materials, and pharmaceuticals. By fostering integration across these value chains, for example, in the production of electric vehicle components involving both E&E and automotive sectors, there is potential for better resource efficiency, greater innovation, and the creation of higher value-added products, thereby promoting the development of the manufacturing sector.

FDI of RM135bn in 9M23 especially from E&E sector

We have seen a surge of FDI in new industrial, especially semiconductor and electrical vehicle (EV) component production facilities, and data centre investments by MNCs in 2022-23. We see this trend continuing due to trade diversion with the ongoing US-China trade tensions and the China+1 and Taiwan+1 strategies adopted by MNCs to reduce their over-dependence on production in China/Taiwan and China-based companies. Total approved investments approved was RM225bn in 9M23, exceeding the government's target of RM220bn in 2023. FDI contributed 60% of approved investments or RM135bn in 9M23. We believe the contributing factors to the FDI inflows are improved foreigner confidence in Malaysia's political stability, conducive investment climate and sustainable long-term economic growth prospects.

Fig 12: Malaysia approved FDI flows



Source: CEIC

Less affected high-income earners may still spend and buy properties

High investment commitments for new data centres in Malaysia

New data centres drive FDI inflows but need to develop IT and AI industries to benefit

MNCs are diverting orders to local suppliers and even investing in them

Malaysia has an established electrical and electronics (E&E) industry, especially in Penang, and some of the local listed companies have secured supply agreements or strategic investments by MNCs. US-based advanced silicon battery firm Enovix Corp is making total investment of RM5.8bn over 15 years to establish a high-volume manufacturing facility in Malaysia. The first manufacturing line, amounting to RM315m, is set to be developed in collaboration with **YBS International** (YBS MK, Not Rated). We gather that other local listed companies benefiting as part of the supply chain for MNCs include **Nationgate** (BUY, TP: RM1.80) and **PIE Industrial** (BUY, TP: RM3.90), an affiliated company to Foxconn.

New data centres in Malaysia

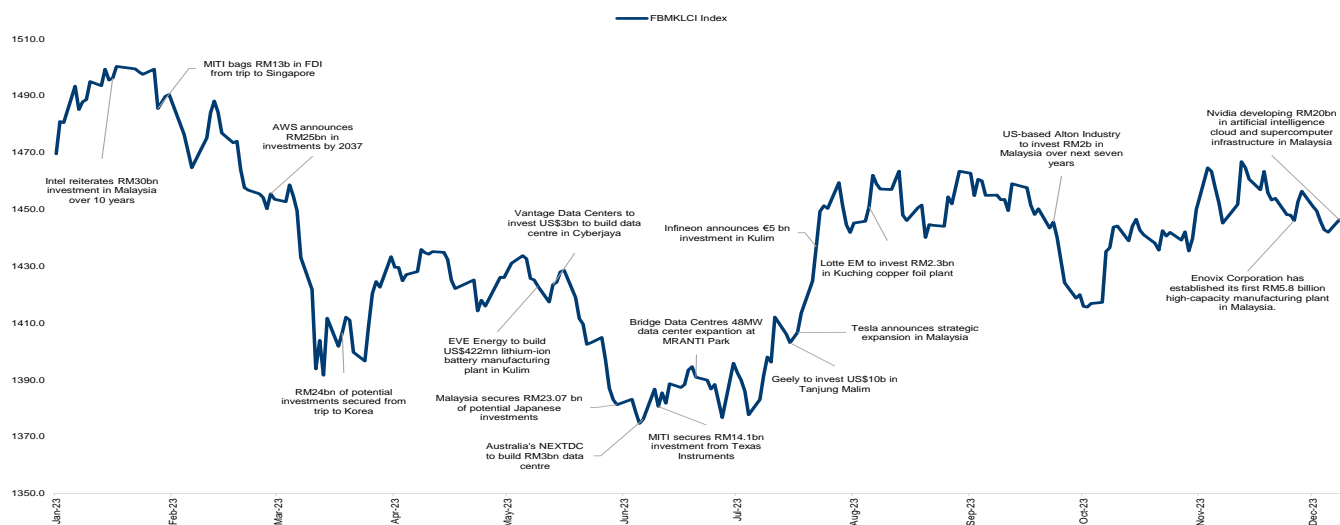
New data centres are setting up in Malaysia with committed investments by Amazon (US\$6bn up to 2037), Microsoft, Bridge DC, Yondr Group, GDS Holdings, K2, AirTrunk and Equinix. **YTL Power** (BUY, TP: RM2.70) is also investing to develop a data centre complex of up to 500MW and has announced a collaboration with NVIDIA to build AI infrastructure that will bring the fastest supercomputers to Malaysia by mid-2024. Currently, we have seen mostly land purchase, renewable energy (RE) supply and construction contracts being signed that are benefiting construction, property and RE developers.

Need to develop AI and IT industry to benefit from data centres

Data centres, especially hyperscale ones, consume a substantial amount of resources such as land, electricity and water but do not create jobs. Hence, there needs to be government policies and initiatives, and incentives for the private sector, to encourage the development of new knowledge industries such AI and IT solution providers that create jobs for local knowledge workers and stimulate the public and private education/training providers to train the workers to meet demand. We believe the positive announcement of FDI inflows or committed investments have limited impact on the equity market and KLCI as the beneficiaries are mainly small and mid-cap companies.



Fig 13: FDI investment announcement and KLCI performance



Source: Bloomberg, Affin Hwang forecasts

HSS, IJM, Suncon, Kelington, Critical Holdings are beneficiaries

Local contractors are benefiting from construction contracts

Malaysian construction companies, such as **IJM Corporation** (BUY, TP: 2.14) and **Sunway Construction** (SunCon, BUY, TP: RM2.26), and specialist contractors such as **Kelington** (BUY, TP: RM2.40) and **Critical Holdings** (Not Rated) are benefiting from the influx of construction contracts to build new semiconductor facilities. SunCon and **HSS Engineers** (BUY, TP: RM1.20) are also involved in the construction of new data centres that are setting up in Malaysia.

OVERWEIGHT on Construction and Property sectors

Acceleration in infrastructure spending

Government infrastructure spending focus will stimulate property sector

We believe the unity government will re-focus on infrastructure spending after reviewing projects for a year to reduce cost and re-prioritising projects to implement. We expect the roll out of Pan Borneo Highway Phase 1B, RM11.8bn worth of flood mitigation projects, Penang LRT and Klang Valley MRT Line 3 in 2024. There are also plans to revive the Kuala Lumpur-Singapore High Speed Rail (HSR) project to be implemented by the private sector. We believe the news flow on mega infrastructure projects will also stimulate demand for properties especially for new transport-oriented developments. This supports our **OVERWEIGHT** call on the **Property** (upgraded from Neutral) and **Construction** sectors.



Fig 14: Potential mega infrastructure projects to be implemented in 2024 and onwards

Project	Cost (RMbn)	Potential beneficiaries
Klang Valley MRT Line 3 - Circle Line (MRT3)	31	Gamuda, MMC, HSS, IJM, SunCon, MRCB
Westports 2.0 expansion	13	Westports, HSS
33 flood mitigation projects	12	Gamuda, HSS, IJM, MRCB
Sarawak Metro	11	CMS, HSS
Pan Borneo Highway (PBH) Sabah Phase 1B	16	HSS, AQRS-Suria Capital, WCT
Penang LRT	10	Gamuda, IJM, HSS, SunCon
East Coast Rail Link subcontracts	8	AQRS, Gadang, Ho Hup, Advancecon, IJM, MRCB, WCT, HSS, Lafarge
Sarawak Water Grid Phase 1	8	KKB, HSL, PPB (Chemquest), Taliworks
Sabah-Sarawak Link Road Phase 2	7	CMS, HSL, Naim, Gamuda, WCT, TRC, Advancecon
Labuan Bridge	4	WCT
Iskandar BRT	3	HSS, Kimlun, SunCon
PJD Link	3	PJD Link (M) Sdn Bhd (proposed injection into Scomi Group), HSS
Trans Borneo Highway	3	CMS, HSL, Naim, Gamuda, WCT, TRC, Advancecon
Papar Dam, Sabah	2	Vizione-Pembinaan Maju Cemerlang JV
Langat 2 Phase 2	2	HSS, Taliworks, Gamuda
NSE (Yong Peng Utara-Senai Utara) upgrade	1	IJM, SunCon, WCT
Total	132	

Source: Bloomberg, Affin Hwang forecasts

New data centres drive FDI inflows but need to develop IT and AI industries to benefit

2023 was a watershed year for Malaysia's energy transition journey

We expect major policies to be put in place in 2024 to facilitate cross-border RE trade

New Finance Minister II to assist in infrastructure project funding

We believe the appointment of a technocrat, EPF CEO Amir Hamzah, as Finance Minister II following the Cabinet reshuffling announced on 12 December 2023 is positive for the infrastructure sector. He has the financial experience to assist in managing the government's finances to fund these projects. He can also advise the Prime Minister in subsidy rationalisation, implement targeted subsidy and restructure infrastructure concessions to reduce government compensations to concessionaires. His experience as CEO of EPF will be invaluable in his new role as the institutional investor holds a 49% in PLUS Expressways, the largest toll highway concession in Malaysia, and manages the private sector pension fund.

Advancing the national energy transition plan

Malaysia to seize the opportunity to transform our economy by opening-up profitable ventures, in RE, hydrogen and CCUS industries

2023 was a watershed year for Malaysia's energy transition journey – the announcement of National Energy Transition Roadmap (NETR) in July 2023 unveiled the government's ambition to accelerate our national energy transition plan, to achieve higher renewable energy (RE) installed capacity target, and to seize the opportunity to transform Malaysia's economy by opening up profitable ventures in RE, hydrogen, carbon capture, utilisation and storage (CCUS) industries.

Major policies to be put in place in 2024, TNB may see higher capex under RP4

Moving into 2024, we expect the government to put the important pieces in place to facilitate cross-border RE trade; these should include the establishment of an energy exchange, the creation of an independent single market aggregator, and the amendment of relevant Act (ie, Electric Supply Act 1990). While the government works on the policies, we expect the industry players (ie, TNB and Singapore Power) to conduct pilot tests / trials on the current interconnector and to explore the technical feasibility of a second interconnector. Elsewhere, the discussion between TNB and the regulator on Regulatory Period 4 (2025-2027) has already begun and we expect to hear more details in 2024. A significant increase in TNB's grid investment under RP4 to cater for the higher RE mix, if it materialises, should lift TNB's long-term profitability.

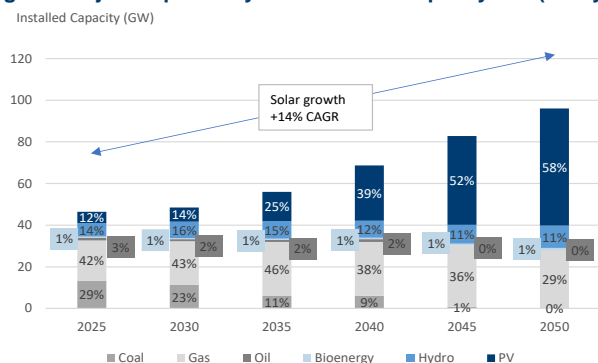


In view of the strong domestic demand for RE and to capitalize on the attractive prevailing PV panel prices, we expect the government to offer more RE quotas in 2024

Work on solar projects to commence, more quotas may be awarded

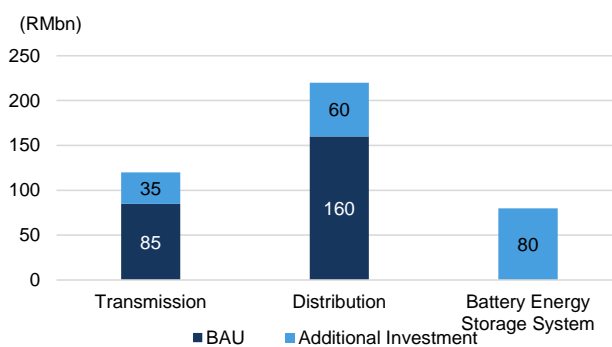
The Energy Commission has fully awarded all the 800MW allocation under the Corporate Green Power Programme (CGPP). We expect the CGPP winners to start constructing their respective solar farms in 2024. This, coupled with the construction of outstanding Large-Scale Solar 4 (LSS4) projects and TNB’s plan to establish 5 solar parks with 100MW of capacity each, should provide ample business opportunities for the construction and engineering companies. In view of the strong domestic demand for RE and to capitalise on the attractive prevailing photovoltaic (PV) panel prices, we expect the government to offer more RE quotas in 2024.

Fig 15: Projected power system installed capacity mix (Malaysia)



Source: Ministry of Economy, NETR, Affin Hwang

Fig 16: Projected grid cumulative investments, 2023-2050



Source: Ministry of Economy, NETR, Affin Hwang

TNB (BUY) is a key beneficiary of Malaysia’s energy transition plan and contractor, such as Samaiden (BUY)

Stock picks: TNB (BUY – TP: RM10.90), Samaiden (BUY – TP: RM1.52)

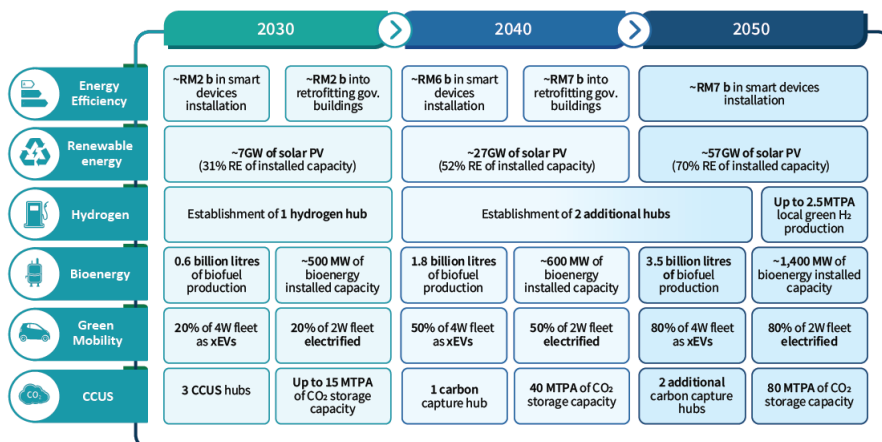
For exposure, our top pick is **TNB** (BUY, TP: RM10.90), a key beneficiary of Malaysia’s energy transition plan. We like TNB for its net zero / RE aspiration, earnings recovery in 2024 due to normalisation in fuel margin, improving ESG rating, and the ample business opportunities under the NETR where TNB plays a key role in the RE generation, transmission, and distribution business. Elsewhere, higher future investments in the grid infrastructure could also potentially benefit the engineering companies and parts/equipment suppliers such as **MN Holdings** (MNHLDG MK, Not Rated), **Southern Cable** (SCGBHD MK, Not Rated), **SMRT Holdings** (SMRT MK, Not Rated), **PESTECH International** (PEST MK, Not Rated). The potential increase in RE quota for CGPP in 2024 and rising demand for engineering, procurement, construction and commissioning (EPCC) contractor services will also likely benefit the RE companies such as **Samaiden**, **Solarvest** (SOLAR MK, Not Rated) and **Sunview** (SUNVIEW MK – Not Rated).

Gamuda, IJM and Sunway Construction are expanding into RE businesses

Traditional construction companies are expanding in RE businesses

Traditional construction companies are also expanding into RE investment and EPCC services such as **Gamuda** (BUY, TP: 5.22) – owns 30% of ERS Energy and 45% stake in a joint venture to develop the 187.5MW Upper Padas hydroelectric power plant in Sabah; **IJM Corporation** – acquiring 44.8% of PESTECH; and **Sunway Construction** – EPCC for 2 LSS4 plants and secured a 11.8MW CGPP solar farm investment project.

Fig 17: Potential investment opportunities and impact of NETR's Responsible Target



Source: Ministry of Economy, NETR

Sector positioning in 2024

We see high soft commodity prices, loan growth and sustained property demand

OVERWEIGHT Banking, Construction, EMS, Healthcare, Plantation, Property and Utilities

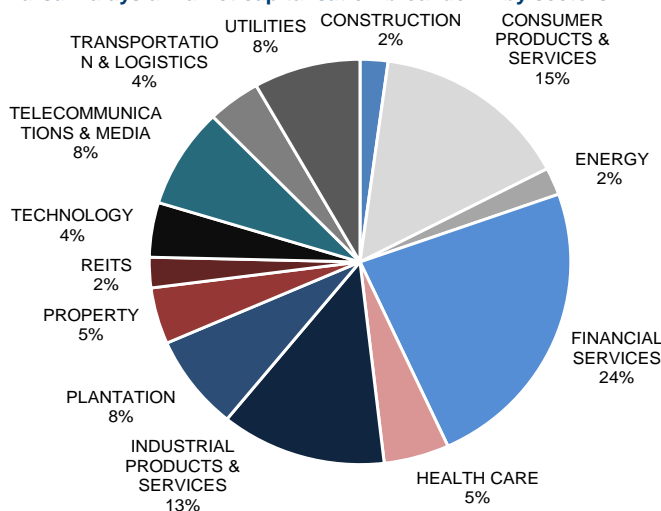
Upgrade Banking, Plantation and Property sectors to OVERWEIGHT ...

We upgrade the Banking, Plantation and Property sectors to OVERWEIGHT from Neutral previously. Plantation benefits from the high soft commodity prices due to supply constraints due to conflicts (Israel-Hamas and Russia-Ukraine wars) and the El Nino weather phenomenon. The Banking sector will benefit from organic loan growth, more advanced digital capabilities and expansion of non-interest income in 2024. Meanwhile, we believe the Property sector will see sustained residential property demand and likely improving profit margins with reduced discounts/rebates given.

... with 7 OVERWEIGHT sectors now comprising 52% of total market cap

We believe the 7 OVERWEIGHT sectors, ie, Banking, Construction, EMS, Healthcare, Plantation, Property and Utilities, contribute about 52% of Bursa Malaysia's total market capitalisation, which will likely see buying interest from foreign portfolio funds in 2024. This supports our OVERWEIGHT call for the Malaysia market as the expected outperformance of these sectors will lift sentiment and performance on the overall market.

Fig 18: Bursa Malaysia market capitalisation breakdown by sectors



Source: Bursa Malaysia
Note: Market capitalisation as at 31 October 2023

NEUTRAL on Rubber Products and UNDERWEIGHT on Building Materials

We upgrade the Rubber Products sector to NEUTRAL from Underweight as we believe the slow recovery in demand, ASPs and earnings are reflected in current glove companies' share prices. We downgrade the Building Material sector to UNDERWEIGHT from Neutral as we expect global economic slowdown fears will weigh down aluminium prices for **Press Metal** (SELL, TP: RM4.20) and tin prices for **MSC** (SELL, TP: RM1.80).

Fig 19: Summary of sector positioning

Overweight		Neutral	Underweight
Banks & Financial Service ↑	EMS	MREIT	Insurance
Healthcare		Rubber Products ↑	Oil & Gas
Plantation ↑		Gaming	Transport
Property ↑		Consumer	Telecoms
Utilities		Technology	
Construction		Utilities	Media
			Automotive
			Building Material ↓

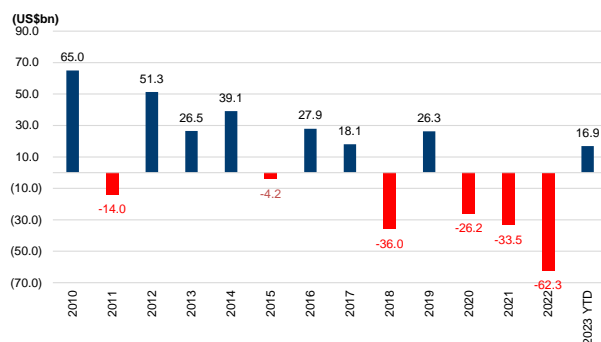
Source: Affin Hwang

Fig 20: Summary of sector valuation

Sector	Rating	Market Cap (RMm)	Core EPS Growth (%)		Core PE (x)		P/BV (x)		ROE (%)	
			2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Auto & Autoparts	UW	26,302	6.4	(16.8)	11.5	13.9	1.5	1.4	9.8	7.4
Exchanges & Non-bank Financi:	N	8,388	0.6	3.2	13.3	12.9	3.8	3.7	19.4	17.8
Banks & Financial Services	OW ↑	337,646	11.2	3.8	10.4	10.0	1.0	0.9	10.9	10.7
Building Materials	UW ↓	46,027	(4.8)	19.0	28.8	24.2	2.6	3.1	9.9	10.7
Construction & Infrastructure	OW	25,077	13.3	14.7	15.0	13.0	1.8	1.6	5.5	6.5
Consumer	N	95,802	(20.2)	15.7	23.2	20.1	8.0	7.5	10.9	11.6
EMS	OW	7,327	(4.5)	26.0	21.4	16.9	3.5	3.1	10.4	12.3
Gaming	N	34,978	377.2	61.9	16.3	10.1	1.2	1.1	3.2	4.9
Healthcare & Pharma.	OW	59,811	11.8	10.4	32.8	29.7	2.6	2.3	8.9	6.2
Insurance	N	11,129	28.5	4.9	8.2	7.8	1.8	1.8	16.0	16.1
Media	UW	2,714	(36.6)	3.9	11.0	10.7	1.0	0.9	7.8	10.0
MREIT	N	33,788	1.8	3.5	16.3	15.6	1.0	1.0	5.9	6.2
Oil & Gas	N	126,653	(37.7)	23.2	19.8	16.1	1.9	1.8	6.7	7.8
Plantation	OW ↑	92,465	(47.1)	24.3	20.2	16.2	1.2	1.1	8.5	8.9
Property	OW ↑	31,389	(1.9)	19.3	15.0	12.6	0.5	0.5	3.9	3.9
Rubber Products	N ↑	18,316	(127.0)	(191.2)	(68.4)	75.0	1.3	1.3	(4.4)	1.8
Technology	N	29,007	(30.9)	42.5	39.5	27.7	3.9	3.7	8.8	11.9
Telecoms	N	119,596	1.2	8.9	23.3	21.4	2.7	2.6	6.5	10.2
Transports & Logistics	N	24,221	339.2	27.8	21.4	16.8	2.6	2.4	9.7	12.5
Utilities	OW	117,545	(0.7)	25.3	15.6	12.5	1.6	1.5	7.3	9.2
Coverage		1,253,643	(5.1)	13.2	15.9	14.1	2.7	2.6	8.1	8.8

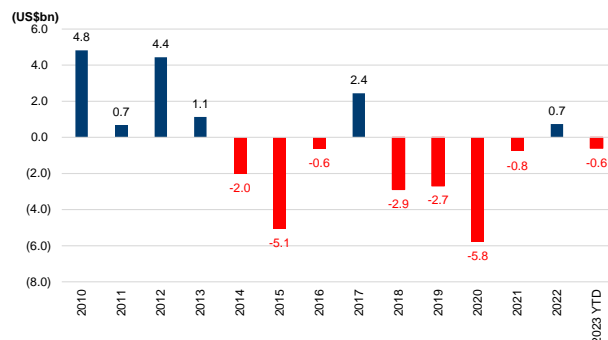
Source: Bloomberg, Affin Hwang forecasts [add up arrow for Rubber Products]

Fig 21: Asia-6 investment flows



Source: Bloomberg

Fig 22: Malaysia investment flows



Source: Bloomberg

Valuation and earnings

+1.9% EPS growth for 2023E from our earlier -0.4% due to change in KLCI constituents

Projecting a 1.9% KLCI EPS growth for 2023E

Our KLCI EPS-growth forecasts are -0.7% yoy in 2023E and +10.5% yoy in 2024E. The KLCI EPS is flattish in 2023E despite the boost from normalisation of tax rate after the imposition of the one-off prosperity tax rate of 33% (compared to corporate tax rate of 24%) in 2022. We believe the strong rebound in KLCI earnings will support the better performance of the index in 2024 after a lackluster year in 2023.

Fig 23: Market valuation summary

	2022	2023E	2024E
Affin coverage			
Current market cap (RMbn)		1,253.64	
Aggregate EPS (RM)	0.25	0.24	0.27
Market PE (x)	15.5	15.9	14.1
Market EPS growth (%)	(2.1)	(5.1)	13.2
PBV (x)	3.0	2.7	2.6
ROE (%)	9.4	8.1	8.8
Dividend yield (%)	4.7	4.4	4.6
GDP growth (%)	8.7	3.7	4.5
FBM KLCI*			
Current market cap (RMbn)		990.1	
FBM KLCI EPS (RM)	94.45	93.83	103.71
ROE (%)	10.1	8.7	9.6
FBM KLCI PE (x)	14.6	15.4	14.0
FBM KLCI EPS growth (%)	3.3	(0.7)	10.5

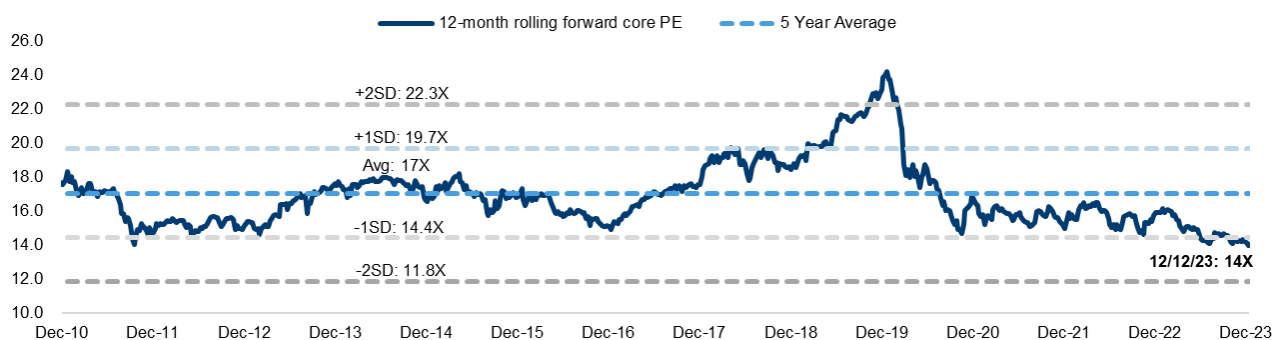
*based on Affin coverage of 29 stocks which account for around 97% of FBMKLCI
Source: Bloomberg, Affin Hwang forecasts

Introducing our 2024E KLCI year-end target of 1,600

2024E year-end KLCI target of 1,600

Based on a target PER of 15.6x or -0.5SD of the KLCI's 5-year mean PER, we derive our year-end-2024E KLCI target of 1,600 based on end-2024E EPS. Based on this target, the potential upside in 2024 is 10.5% compared to our end-2023E KLCI target of 1,458. The justification for our PER discount to historical mean is to take into account the risk of capital outflows, global economic slowdown and a PER multiple de-rating if the market revises down EPS estimates. Based on a bottom-up valuation (using our TP for 29 KLCI companies and consensus TP for Hong Leong Financial Group), we estimate the 2024E year-end estimate for the KLCI is lower at 1,540 as we only have 11 out of 30 KLCI stocks in our BUY list.

Fig 24: Forward 12-month KLCI PER



Source: Bloomberg, Affin Hwang forecasts

Stock selection

Adding CIMB, HLBK, MAHB and KGRB to our 2024 high conviction BUY list

4 changes to our Top 10 BUY list for 2024

We add CIMB, Hong Leong Bank, Malaysia Airports Holdings and Kelington to our Top 10 BUY list. We removed Bumi Armada, YTL REIT, PPB and Public Bank. Subsequent to our upgrade of the Banking sector to OVERWEIGHT, we have included 2 banks instead of 1 among our top BUYs and prefer banks with high loan-loss cover, sound asset quality, strong digital capabilities, robust capital ratios, potential to raise dividend payout ratio and regional exposure for faster growth. MAHB will benefit from the influx of tourists following the 1-month visa-free travel for visitors from India and China and potential signing of a new Operation Agreement in 2024. Kelington is a potential beneficiary of regional expansion of semiconductor production facilities and currently has a burgeoning order book providing good earnings visibility.

Fig 25: Stock selection

Stock	Rating	Price (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)		Core EPS Growth (%)		PBV		Div. Yield (%)		ROE (%)	
					CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Top buys:														
NATIONGATE	BUY	1.38	1.80	2,862.0	41.4	26.6	(20.4)	55.4	7.0	5.9	0.7	1.1	16.8	22.1
CIMB*	BUY	5.79	6.40	61,750.9	8.3	7.9	19.4	5.3	0.9	0.8	6.0	6.3	10.7	10.7
TENAGA	BUY	9.93	10.90	57,468.2	16.7	13.1	(10.5)	27.1	1.0	0.9	3.6	4.6	5.7	7.0
KUALA LUMPUR KEPONG	BUY	21.48	25.20	23,164.8	18.4	14.7	(39.1)	25.4	1.6	1.5	1.6	3.5	8.6	10.1
GAMUDA	BUY	4.44	5.22	12,080.2	12.5	10.6	9.6	18.0	1.4	1.4	7.7	2.7	7.7	8.6
KPJ	BUY	1.34	1.60	5,848.2	27.3	21.9	39.4	24.7	2.4	2.3	1.7	2.1	9.0	10.5
HONG LEONG BANK*	BUY	19.26	24.00	41,750.2	0.1	0.1	12.9	9.4	1.6	1.5	3.2	3.6	11.3	11.4
QL RESOURCES	BUY	5.53	6.30	13,458.1	33.4	30.2	28.0	10.6	4.8	4.4	1.4	1.5	14.2	14.5
KELINGTON*	BUY	1.85	2.40	1,192.8	14.5	13.7	48.5	5.2	4.3	3.7	1.9	2.2	30.0	27.0
MAHB*	BUY	7.20	8.30	12,013.6	31.6	17.4	(194.7)	82.2	1.6	1.5	1.4	2.9	5.0	8.7
Top sells:														
PRESS METAL*	SELL	4.83	4.20	39,797.4	31.2	26.8	(13.1)	n.m	4.4	3.8	1.2	1.4	14.0	14.4
SIME DARBY	SELL	2.37	2.23	16,153.0	13.7	15.6	(8.6)	n.m	1.0	0.9	5.5	5.0	6.9	6.0
MPI	SELL	27.08	17.20	5,386.1	51.6	31.4	(44.5)	64.3	2.8	2.7	1.3	1.3	5.4	8.6
UNISEM	SELL	3.28	1.77	5,290.9	66.6	31.5	(67.9)	>100	2.2	2.2	2.1	2.1	3.3	6.9
PCHEM*	SELL	7.09	5.00	56,720.0	28.0	19.9	(67.9)	41.0	1.4	1.4	1.8	2.5	5.1	6.9

*new additions, replacing YTLREIT, Bumi Armada, Public Bank, PPB, Media Prima and Bursa
Source: Bloomberg, Affin Hwang forecasts, closing price as at 12 December 2023

Fig 26: Recent EPS/rating changes (including in this report)

Bloomberg Ticker	Company Name	Current Rating	Prior Rating	Current TP RM	Prior TP RM	EPS change (%)			Comment				
						Curr Yr	Pros. +1	Pros. +2					
ABMB MK EQUITY	ALLIANCE BANK	HOLD	HOLD	3.78	3.70	1.6	1.5	5.0	Higher contribution in non-interest income, through bancassurance and wealth products.				
AMM MK EQUITY	AMMB	BUY	BUY	4.70	4.50	-	0.1	4.5	9.2	Higher fee income generation through structured products.			
ASTRO MK EQUITY	ASTRO	SELL	SELL	0.30	0.44	-	26.7	-	23.8	-	18.5	Trimmed earnings to account for lower pay-TV subscription revenue amid pessimistic outlook for the segment.	
BURSA MK EQUITY	BURSA MALAYSIA	HOLD	SELL	7.30	6.08	-	5.8	14.1	-	-	-	Raised equity market ADV assumption for 2024E/25E from RM2.2bn to RM2.34bn/RM2.55bn respectively, in-line with a more optimistic market outlook and improved trading sentiment.	
GENT MK EQUITY	GENTING	BUY	BUY	5.30	5.10	-	-	-	-	-	-	TP increased to RM5.30 from RM5.10 after updating our holding company discount to reflect improved recovery momentum from its Singapore operations.	
HART MK EQUITY	HARTALEGA	HOLD	HOLD	2.40	2.25	-	-	-	-	-	-	TP increased to RM2.40 from RM2.25 after raising our P/Bv multiple to 1.7x (from 1.6x) which is over 1SD above its mean to reflect the better-than-expected sector recovery momentum.	
HLBK MK EQUITY	HONG LEONG BANK	BUY	BUY	24.00	21.50	14.8	21.3	28.8	-	-	-	Aggressive expansion plan - beefing up wealth management services in Singapore, hyper-personalization of services, focus on CASA acquisition.	
KRI MK EQUITY	KOSSAN	BUY	BUY	2.00	1.75	-	-	-	-	-	-	TP increased to RM2.00 from RM1.75 after raising our P/Bv multiple to 1.25x (from 1.1x) which is 2SD above its mean to reflect the better-than-expected sector recovery momentum coupled with its strong net cash pile which forms almost half of its market capitalisation.	
MAY MK EQUITY	MAYBANK	HOLD	HOLD	9.15	8.70	2.4	3.2	5.1	-	-	-	Higher fee income through higher investment income and wealth management.	
NESZ MK	Nestle	HOLD	HOLD	120.40	128.94	-	5.20	-	5.20	-	6.10	-	We cut our earning estimates to reflect reduced sales due to the ongoing boycott event, stemming from the Israel-Gaza conflict. Maintain HOLD but lowering our DCF-derived TP to 120.40 after trimming Nestle earnings
PBK MK EQUITY	PUBLIC BANK	BUY	BUY	5.10	5.00	2.4	2.5	2.3	-	-	-	Higher fee income through increased mutual funds sale.	
RHBBANK MK EQUITY	RHB BANK	HOLD	SELL	6.00	5.25	-	14.2	19.0	-	-	-	Higher Islamic Banking income and increased treasury income, bancassurance fee.	
TOPG MK EQUITY	TOP GLOVE	SELL	SELL	0.65	0.55	-	54.60	18.60	2.10	-	-	-	Earnings change to reflect a quicker recovery in sales volume after taking cue from the recent results reporting of its peers. TP increased to RM0.65 from RM0.55 after raising our P/Bv multiple to 1.1x (from 0.9x) which is 1SD below its mean to reflect the better-than-expected sector recovery momentum.

Source: Affin Hwang forecastss

Risks

Key downside risks for the market:

- 1) Escalation of Ukraine-Russian war.
- 2) Rapid rise in global inflation.
- 3) A sharp downturn in China's economy due to the bursting of the property bubble impacting consumption spending.
- 4) US economy remains strong and inflation remains above the US Federal Reserve's 2% target leading to high interest rate for longer.
- 5) Stronger than expected US\$ against RM.
- 6) Delays in addressing Malaysia's fiscal position sparking angst of sovereign rating agencies.
- 7) Unfavourable policy changes that deters foreign investments and accelerates capital outflows.
- 8) Escalation of trade tensions between the US and China, leading to severe disruption in global economic growth.
- 9) Corporate earnings disappointments. New taxes that could curb consumption spending.
- 10) Geopolitical tensions arising from Europe, North Korea or the Middle East disrupting financial markets; and
- 11) The government delaying reforms that significantly results in its fiscal position deteriorating, reducing its investment attractiveness and thus discouraging foreign equity inflows.



TOP PICKS



Top Picks

Kellington (KGRB MK, TP: RM2.40) (new addition)

We like Kelington, being a prime beneficiary of increased regional wafer fab equipment spending going into 2024-2025 - benefitting its UHP segment, which contributed 64% of its revenue in FY2022. SEMI is expecting global wafer fab equipment spending to reach US\$93bn in 2024 and a record-high of US\$110bn in 2025 (up from US\$91bn in 2023), and we see Kelington to be a beneficiary of this, especially from fab capex spending in Malaysia, Singapore and China. Additionally, the start-up of its new second LCO2 plant will be another catalyst for earnings growth.

Earnings and Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RM m)	517.7	1,269.5	1,490.0	1,535.5	1,674.1
EBITDA (RM m)	48.7	83.6	124.3	129.8	146.4
Pretax profit (RM m)	38.5	73.6	105.8	111.3	127.9
Net profit (RM m)	31.8	55.4	82.5	86.8	99.8
EPS (sen)	4.9	8.6	12.8	13.5	15.5
PER (x)	37.3	21.4	14.4	13.7	11.9
Core net profit (RM m)	31.8	55.4	82.5	86.8	99.8
Core EPS (sen)	4.9	8.6	12.8	13.5	15.5
Core EPS chg (%)	41.1	74.1	49.0	5.2	14.9
Core PER (x)	37.3	21.4	14.4	13.7	11.9
DPS (sen)	2.0	2.5	3.5	4.0	4.5
Dividend Yield (%)	1.1	1.4	1.9	2.2	2.4
EV/EBITDA (x)	23.2	13.9	8.7	8.2	7.0
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.3	1.2	1.3

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM1.84; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	22.5	23.3	25.9
Rel to KLCI	22.4	23.9	27.9

Stock Data

Issued shares (m)	644.8
Net cash / (debt) (RMm)	(4.11)
ROE % (CY24E)	32.10
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating	28.1 (+5.4 yoy)

Source: Bloomberg

Malaysia Airport Holdings (MAHB MK, TP: RM8.30) (new addition)

We like MAHB for its positive earnings trajectory, driven by strong recovery in international passenger movements, and the good progress in the negotiation of Operating Agreement (OA). Moving into 2024, we anticipate MAHB's international passenger traffic to recover further, supported by the government's visa free policy for selected visitors. Elsewhere, we expect the government to finalize the OA in 2024, which should be slightly positive to MAHB. Meanwhile, we are also expecting MAVCOM to raise the PSC. In 2024, thereby supporting MAHB's revenue growth.

Earnings and Valuation Summary

FYE 31 Dec (RMm)	2021A	2022A	2023E	2024E	2025E
Revenue	1,673.0	3,127.0	4,902.7	5,677.4	6,102.3
EBITDA	188.2	1,108.9	2,172.8	2,567.3	2,694.7
Pretax profit	-1,040.9	184.6	441.9	881.0	1,043.5
Net profit	-823.9	129.7	323.0	688.5	823.9
EPS (sen)	-49.7	7.8	19.5	41.5	49.7
PER	-14.3	90.8	36.5	17.1	14.3
Core net profit	-787.1	-399.2	377.9	688.5	823.9
Core EPS (sen)	-47.4	-24.1	22.8	41.5	49.7
Core EPS growth (%)	21.8	-49.3	-194.7	82.2	19.7
Core PER	-15.0	-29.5	31.2	17.1	14.3
Net DPS (sen)	0.0	3.9	9.7	20.7	24.8
Dividend Yield (%)	0.0	0.6	1.4	2.9	3.5
EV/EBITDA	78.6	13.3	6.9	5.4	4.8
Chg in Core EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM7.10; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	-1.8	0.0	12.7
Rel to KLCI	-1.9	0.4	14.5

Stock Data

Issued shares (m)	1,668.6
Net cash / (debt) (RMm)	(2,788.69)
ROE % (CY24E)	5.00
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating	21.3 (-0.2 yoy)

Source: Bloomberg

Top Picks

Nationgate Holdings (NATGATE MK, TP: 1.80)

We like NationGate for two main angles: (i) it is a prime beneficiary of supply chain diversion arising from the ongoing US-China tensions, as its key clients are shifting manufacturing volumes away from China and into Penang, and (ii) its exposure to high growth industries - with the structural demand growth for higher bandwidth in the coming years to drive volumes for optical transceivers, as well as the increased adoption of GPU servers for AI-use.

Earnings and Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	760.9	945.7	709.3	1,028.5	1,234.2
EBITDA (RMm)	96.2	154.0	134.4	182.3	213.1
Pretax profit (RMm)	62.7	104.6	86.4	134.3	165.1
Net profit (RMm)	57.3	85.3	69.1	107.4	132.1
EPS (sen)	2.8	4.1	3.3	5.2	6.4
PER (x)	51.7	34.8	42.9	27.6	22.4
Core net profit (RMm)	57.3	86.9	69.1	107.4	132.1
Core EPS (sen)	2.8	4.2	3.3	5.2	6.4
Core EPS growth (%)	87.3	51.5	-20.4	55.4	23.0
Core PER (x)	51.7	34.1	42.9	27.6	22.4
Net DPS (sen)	0.0	0.0	1.0	1.6	1.9
Dividend Yield (%)	0.0	0.0	0.7	1.1	1.3
EV/EBITDA (x)	32.8	21.0	22.3	16.6	14.1
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.0	0.8	0.8

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM1.43; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	14.0	2.2	NA
Rel to KLCI	13.9	2.7	NA

Stock Data

Issued shares (m)	2,073.9
Mkt cap (RMm)/(US\$m)	2862/611.2
Net cash / (debt)(RMm)	(118.36)
ROE % (FY24E)	18.30
FTSE4Good Constituent	NA
FBM EMAS (Top 200) ESG Rank	NA
ESG Risk Rating	NA

Source: Bloomberg

Tenaga Nasional Bhd (TNB MK, TP: RM10.90)

We like TNB for its RE aspiration, expected ESG rating improvement and the ample business opportunities under NETR where TNB plays a key role in the RE generation, transmission and distributions segments. The government's push on the NETR provides TNB an opportunity to invest heavily in domestic RE / green projects vis-a-vis overseas projects, thereby reducing the stock's risk premium. Also, we expect the group to report stronger earnings in 2024 driven by the normalization of fuel margin.

Earnings and Valuation Summary

FY 31 Dec	2021	2022	2023E	2024E	2025E
Revenue	52,629.5	50,867.7	51,294.7	51,878.1	52,470.4
EBITDA	20,253.2	20,913.4	19,336.1	20,523.2	20,642.7
Pretax Profit	4,738.3	5,348.6	3,851.9	5,804.3	6,048.9
Net Profit	3,661.8	3,463.3	2,997.4	4,309.5	4,491.3
EPS (sen)	64.3	60.8	52.6	75.7	78.9
PER (x)	15.4	16.3	18.8	13.1	12.6
Core Net Profit	5,107.2	3,788.2	3,390.4	4,309.5	4,491.3
Core EPS	89.7	66.5	59.5	75.7	78.9
Core EPS growth (%)	15.8	(25.8)	(10.5)	27.1	4.2
Core PER (x)	11.1	14.9	16.6	13.1	12.6
Net DPS (sen)	40.0	46.0	35.7	45.4	47.3
Net Dividend Yield (%)	4.0	4.6	3.6	4.6	4.8
EV/EBITDA (x)	5.0	5.5	5.6	5.2	5.1
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			0.8	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM9.91; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	0.1	0.9	7.9
Rel to KLCI	0.0	1.4	9.7

Stock Data

Issued shares (m)	5,787.3
Mkt cap (RMm)/(US\$m)	57468.2/12271.7
Net cash / (debt)(RMm)	(73,892.50)
ROE % (CY23E)	5.70
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating	32.4 (-5.7 yoy)

Source: Bloomberg



Top Picks

Kuala Lumpur Kepong (KLK MK, TP: RM25.20)

We like Kuala Lumpur Kepong given its good track record, decent valuation and expansionary efforts. We maintain our BUY rating on the Group with TP of RM25.20. We expect CPO prices to trend higher in 2024 attributable to the El Nino phenomenon that is expected to have an impact on the global supply of edible oils and their prices.

Earnings and Valuation Summary

FYE 30 Sep	2022	2023	2024E	2025E	2026E
Revenue (RMm)	27,149.5	23,647.6	25,325.2	21,664.7	21,953.9
EBITDA (RMm)	4,477.8	2,933.3	3,627.3	3,185.0	3,290.2
Pretax profit (RMm)	3,219.5	1,152.2	2,405.7	1,982.0	2,085.9
Net profit (RMm)	2,166.3	834.3	1,653.3	1,356.3	1,435.3
EPS (sen)	200.9	77.4	153.3	125.8	133.1
PER (x)	10.7	27.7	14.0	17.0	16.1
Core net profit (RMm)	2,380.7	1,127.4	1,653.3	1,356.3	1,435.3
Core EPS (sen)	220.7	104.5	153.3	125.8	133.1
Core EPS growth (%)	39.5	(52.6)	46.7	(18.0)	5.8
Core PER (x)	9.7	20.5	14.0	17.0	16.1
Net DPS (sen)	100.0	20.0	80.0	60.0	50.0
Dividend Yield (%)	4.7	0.9	3.7	2.8	2.3
EV/EBITDA (x)	6.6	10.4	8.3	8.9	8.4
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.20	0.98	1.00

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM21.40; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	-0.9	-0.1	2.1
Rel to KLCI	-1.1	0.4	3.7

Stock Data

Issued shares (m)	1,078.4
Mkt cap (RMm)/(US\$m)	23164.8/4946.6
Net cash / (debt)(RMm)	(7,575.18)
ROE % (CY24E)	11.10
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating	36.1 (-2.5 yoy)

Source: Bloomberg

Gamuda Bhd (GAM MK, TP: RM5.22)

Gamuda's aggressive expansion into the Asia-Pacific infrastructure market has increased its order book by 5-fold to RM24bn in 2 years, equivalent to 3.9x FY23 revenue. Its expansion of property development operations in UK and Asia-Pacific markets have also grown total gross development value by 11% to RM62.4bn in 2 years, comprising mostly quick-turnaround projects. Good prospects for further expansion to drive sustainable growth. BUY with TP of RM5.22, based on 10% discount to RNAV.

Earnings and Valuation Summary

FYE 31 Jul	2022	2023	2024E	2025E	2026E
Revenue (RMm)	6,453.3	9,088.9	12,795.0	13,551.9	14,848.5
EBITDA (RMm)	1,336.6	1,227.0	1,579.9	1,762.3	1,818.1
Pretax profit (RMm)	1,122.2	1,203.1	1,498.3	1,641.1	1,715.4
Net profit (RMm)	806.2	860.1	1,074.1	1,178.3	1,232.4
EPS (sen)	32.0	32.7	40.3	44.3	46.3
PER (x)	13.8	13.5	10.9	10.0	9.5
Core net profit (RMm)	823.8	844.9	1,074.1	1,178.3	1,231.4
Core EPS (sen)	32.7	32.1	40.3	44.3	46.2
Core EPS growth (%)	28.9	(1.2)	24.3	9.3	4.3
Core PER (x)	13.5	13.7	10.9	10.0	9.5
Net DPS (sen)	12.0	50.0	12.0	12.0	13.0
Dividend Yield (%)	2.7	11.3	2.7	2.7	2.9
EV/EBITDA (x)	9.3	11.7	8.1	7.2	7.5
Chg in core EPS (%)			0.0	0.0	0.0
Affin/Consensus core EPS (x)			1.1	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM4.41; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	-3.3	2.1	28.0
Rel to KLCI	-3.4	2.5	30.0

Stock Data

Issued shares (m)	2,720.8
Mkt cap (RMm)/(US\$m)	12080.2/2579.6
Net cash / (debt)(RMm)	(2,794.77)
ROE % (CY20E)	8.80
FTSE4Good Constituent	NA
FBM EMAS (Top 200) ESG Rank	Top 51%- 75%
ESG Risk Rating	31.0 (-4.3 yoy)

Source: Bloomberg

Top Picks

KPJ Healthcare (KPJ MK, TP: RM1.60)

We like KPJ for its successful cost management efforts, which allows it to register stronger earnings momentum. Further earnings growth will be further supported by the progress in Damansara Specialist Hospital 2's gestation period coupled with divestment of the loss-making foreign ventures.

Earnings and Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2024E
Revenue (RMm)	2,626.8	2,920.7	3,138.9	3,399.8	3,616.3
EBITDA (RMm)	485.3	663.5	714.3	804.1	851.7
Pretax profit (RMm)	115.6	239.4	311.0	391.7	430.9
Net profit (RMm)	53.1	167.0	209.9	261.8	287.2
EPS (sen)	1.2	3.9	4.9	6.1	6.7
PER (x)	107.8	34.3	27.3	21.9	19.9
Core net profit (RMm)	51.0	150.5	209.9	261.8	287.2
Core EPS (sen)	1.2	3.5	4.9	6.1	6.7
Core EPS chg (%)	-61.2	194.9	39.4	24.7	9.7
Core PER (x)	112.2	38.0	27.3	21.9	19.9
DPS (sen)	0.6	0.6	2.3	2.8	3.1
Dividend Yield (%)	0.4	0.4	1.7	2.1	2.3
EV/EBITDA (x)	10.9	7.9	7.3	6.5	6.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	1.1	1.0

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM1.34; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	7.2	13.6	41.8
Rel to KLCI	7.1	14.1	44.1

Stock Data

Issued shares (m)	4,364.3
Net cash / (debt)(RMm)	(2,925.82)
ROE % (CY24E)	10.9
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating	27.5 (+4.5 yoy)

Source: Bloomberg

QL Resources (QLG MK, TP: RM6.30)

We continue to like QL Resources for its stable earnings outlook, supported by (i) Marine Product Manufacturing (MPM) from the increase in fish landings in the event of El-Nino as well as both solid demand from local and overseas, (ii) Steady demand on eggs and taking advantage of lower feed cost as well as subsidy while the supply still remains tight for Integrated Livestock Farming (ILF) segment, (iii) store expansion in underpenetrated areas - northern regions and east coast of Peninsular Malaysia from Convenience Stores (CVS) segment and (iv) continued turnaround in its Palm Oil and Clean Energy (POCE) operations

Earnings and Valuation Summary

FYE 31 Mar (RM m)	2022	2023	2024E	2025E	2026E
Revenue	5,236.0	6,242.6	6,212.3	6,890.6	7,374.1
EBITDA	587.0	781.5	961.3	1,006.5	1,077.3
Pretax profit	321.2	480.8	611.0	641.6	695.0
Net profit	217.3	346.8	421.0	453.2	491.3
EPS (sen)	8.9	14.3	17.3	18.6	20.2
PER	61.4	38.5	31.7	29.4	27.1
Core net profit	217.3	346.8	421.0	453.2	491.3
Core EPS (sen)	8.9	14.3	17.3	18.6	20.2
Core EPS growth (%)	(6.7)	59.6	21.4	7.6	8.4
Core PER	61.4	38.5	31.7	29.4	27.1
Net DPS (sen)	3.5	7.0	7.8	8.3	8.8
Dividend Yield (%)	0.6	1.3	1.4	1.5	1.6
EV/EBITDA	24.2	18.2	14.4	13.4	12.2
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.1	1.1	1.1

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM5.48; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	-1.2	0.4	0.9
Rel to KLCI	-1.4	0.8	2.5

Stock Data

Issued shares (m)	2,433.7
Mkt cap (RMm)/(US\$m)	13458.1/2873.8
Net cash / (debt)(RMm)	(1,109.05)
ROE % (CY24E)	12.00
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 25%
ESG Risk Rating	40.8 (-0.4 yoy)

Source: Bloomberg

Top Picks

CIMB Bank (CIMB MK, TP: RM6.40) (new addition)

The group's risk/reward profile is improving, trading at P/E multiple of 8x (against sector at 9.6x) and P/BV of 0.8x (against sector at 1.0x) CY24E. We view upside coming from: i) the robust-growing ASEAN markets and stable domestic contribution; ii) pick-up in loan growth momentum in Malaysia, Singapore and Indonesia, driven by strong domestic economic activities; and iii) stabilizing NIM driven by recovery in loan volumes and more rational pricing of deposits. For 2024, we foresee stable NIM at 2.25%, higher non-interest income (from client fee income, forex gains) and lower net credit charges (ample overlays outstanding of RM1.7bn). The Forward 23+ strategic initiatives will continue to steer portfolio reshaping, cost optimization, digitalization and focused investments on its franchise and in the wealth/affluent segment.

Earnings and Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Total income	19,609.7	19,837.3	20,528.3	21,226.0	21,884.0
Profit before ECLs	10,094.0	10,491.7	10,888.3	11,389.6	11,850.2
Pretax profit	5,789.5	8,370.7	9,323.9	9,803.7	10,020.5
Net profit	4,295.3	5,439.9	6,994.4	7,363.8	7,530.8
EPS (sen)	43.1	52.1	69.8	73.5	75.1
PER (x)	13.4	11.1	8.3	7.9	7.7
Core net profit (RMm)	4,648.0	5,856.9	6,994.4	7,363.8	7,530.8
Core EPS (sen)	46.4	56.1	69.8	73.5	75.1
Core EPS growth (%)	285.3	20.9	24.4	5.3	2.3
Core PER (x)	12.5	10.3	8.3	7.9	7.7
Core ROE (%)	8.1	9.0	11.0	11.0	10.7
BV / share	5.87	5.86	6.49	6.86	7.24
P/BV	0.98	0.99	0.89	0.84	0.80
Net DPS (sen)	23.0	26.0	34.9	36.7	32.0
Dividend Yield (%)	4.0	4.5	6.0	6.4	5.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.1	1.0

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM5.78; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	0.7	1.6	0.9
Rel to KLCI	0.6	2.0	2.5

Stock Data

Issued shares (m)	10,665.1
Mkt cap (RMm)/(US\$m)	61750.9/13186.2
Net cash / (debt)(RMm)	(63,242.89)
ROE % (CY24E)	11.00
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 25%
ESG Risk Rating	18.0 (-1.6 yoy)

Source: Bloomberg

Hong Leong Bank (HLBK MK, TP: RM24.00) (new addition)

We believe that the group's risk/reward profile is improving, trading at P/E multiple of 8.9x (against sector at 9.6x) while P/BV of 1.0x (in-line with sector) for CY24E. We view upside coming from: i) improved digital capabilities and efficient services; ii) expansion of wealth management business in Singapore and Malaysia; and iii) stabilizing NIM driven by above-industry loan growth and aggressive CASA acquisition. The group continues to stand out in the industry in terms of ROEs (aiming to achieve >12.5% in 3-5 years' time), loan growth, asset quality and cost-to-income ratio. Management is willing to relax its loan-to-deposit ratio from 85% to 87% (vis-a-vis industry standards of 87%) and as such, can be a boost to stronger NIM. Associate Bank of Chengdu's contribution (c. 28% of PBT) remains robust with an annual growth of 20-30% p.a.

Earnings and Valuation Summary

FYE 30 June	2022	2023	2024E	2025E	2026E
Total income	5,597.4	5,685.5	5,992.2	6,458.6	6,834.0
Pre-provisioning profit	3,499.0	3,452.2	3,736.6	4,045.1	4,251.5
Pretax profit	4,366.8	4,626.6	5,068.1	5,505.4	5,896.4
Net profit	3,289.3	3,818.2	4,206.5	4,569.5	4,894.0
EPS (sen)	160.6	186.2	205.2	222.9	238.7
Core net profit (RMm)	3,289.3	3,818.2	4,206.5	4,569.5	4,894.0
Core EPS (sen)	160.5	186.2	205.2	222.9	238.7
Core EPS growth (%)	14.9	16.0	10.2	8.6	7.1
Core PER (x)	12.0	10.3	9.4	8.6	8.1
ROE (%)	10.9	11.8	11.8	11.8	11.7
BV / share	15.13	16.58	18.07	19.64	21.31
P/BV	1.3	1.2	1.1	1.0	0.9
DPS (sen)	55.0	59.0	65.7	71.3	76.4
Dividend Yield (%)	2.9	3.1	3.4	3.7	4.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.05	1.06	1.07

Source: Company, Bloomberg, Affin Hwang forecasts; closing price as at 12 December 2023

Current Price: RM19.24; Rating: BUY



Price Performance

	1M	3M	12M
Absolute	0.9	-2.8	-6.4
Rel to KLCI	0.8	-2.4	-4.9

Stock Data

Issued shares (m)	2,167.7
Mkt cap (RMm)/(US\$m)	41750.2/8915.3
Net cash / (debt)(RMm)	(14,025.62)
ROE % (CY24E)	10.40
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 25%
ESG Risk Rating	27.1 (-0.3 yoy)

Source: Bloomberg

Outthink. Outperform.

ESG



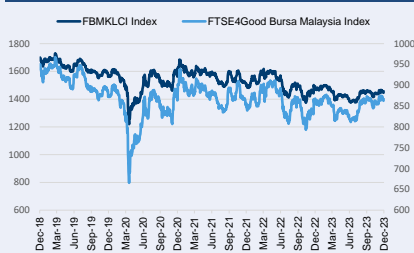
ESG

“Moving towards increased specificity and sophistication”

Absolute performance (%)

	1M	3M	12M
F4GBM Index	0.1	0.1	0.7

FBMKLCI vs F4GBM Index



Source: Bloomberg

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ESG

Navigating complexity to clarity

- While the global sustainable fund market showed relatively stickier investor demand compared to the broader market, having registered net inflows of US\$13.7bn in 3Q23 (vs. outflows for the global fund universe), it still showed a notable qoq and yoy decline
- On the domestic front, we expect increased focus on mandatory sustainability-related disclosure, scrutiny into added granularity and comparability as well as enhanced investor and corporate consideration of a broader range of ESG issues
- While navigating macro challenges will likely hoard the spotlight, physical climate risks and sustainability gaps may become more apparent, spurring sustainable investments amidst rising temperatures in 2024

Although dampened, 3Q23 sustainable funds displayed relative stickiness

3Q23 global sustainable fund flows were close to 40% weaker qoq and yoy (Fig 2), against global macroeconomic pressures and reflecting the volatility in the broader fund universe. There was also the impact from more caution being taken in the development of new sustainable strategies due to greenwashing accusations and the uncertainties in the regulatory environment. Nevertheless, according to Morningstar, flows into sustainable funds had continued to hold up better than the broader market. Global sustainable funds attracted c. US\$13.7bn inflows compared to the broader fund universe which suffered outflows in 3Q23. This suggests relatively stickier investor demand for sustainable funds, boding well for the long run.

2024 is expected to see increased focus on sustainability related disclosure, its granularity and comparability as well as investor and corporate consideration of a broader range of ESG issues and holistic risk management

2024 brings with it some notable dates for which additional local ESG disclosure related provisions come into effect. For example, by end-2024, financial institutions regulated by BNM are expected to have implemented all basic TCFD recommendations and to be working towards adopting the stretch recommendations with BNM expecting to conduct climate risk stress tests for the financial sector in 2024. Meanwhile, Bursa Malaysia is implementing the enhanced sustainability reporting requirements for Main Market and ACE Market listed issuers in a phased approach, beginning with the mandatory disclosure of the common sustainability matters for FYE on or after 31 December 2023. This added transparency may allow more scrutiny of the robustness and credibility of sustainability performance targets and potentially better pricing-in of ESG in investment decision-making moving forward. Another key theme we expect is the broadening of issues and the consideration of a wider range of co-benefits for sustainability outcomes, for example between climate change mitigation and food security or health outcomes – which we see has become more important to asset owners in the local market. Discussion has been spread wider, eg, transition and mitigation to adaptation and resilience as well as across sectors as every sector is asked to accelerate decarbonisation and transition efforts. We expect even more focused engagement on corporate’s ability to take a broader view of risk management and implement widespread adoption of disaster risk reduction practices in its value and supply chain.

While political and macro factors remain pertinent for climate actions in 2024, climate change may spur continued momentum of sustainability priorities

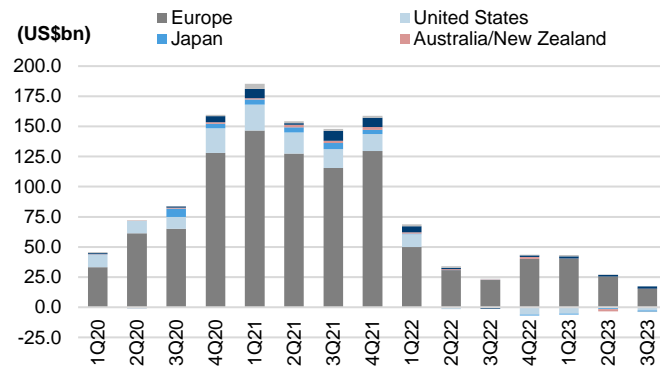
While 2024 may continue to see both the added carefulness in navigating the fast-evolving regulatory landscape and the broader backdrop of uncertainty and shifting economic conditions underpinning the sustainable fund market’s dynamics, climate change may help spur potential acceleration in supply and demand for sustainable investments. This is amidst what is expected to be the hottest 5 years to come with La Nina no longer aiding in buffering the adverse effects of temperature rises coupled with the El Nino event. Higher awareness and continued momentum to address local sustainability priorities may also follow behind renewed fervour post-COP28.

Fig 27: FBMKLCI vs FTSE4Good Bursa Malaysia (“F4GBM”) financial summary

	KLCI				FTSE4Good Bursa Malaysia Index			
	2021A	2022A	2023E	2024E	2021A	2022A	2023E	2024E
P/E (x)	14.8	15.9	14.4	13.1	17.8	14.8	14.3	12.9
P/B (x)	1.6	1.4	1.3	1.2	1.4	1.4	1.3	1.3
Div Yield (%)	4.5%	4.2%	4.3%	4.5%	4.4%	4.3%	4.2%	4.4%
ROE (%)	10.4%	8.9%	8.9%	9.4%	7.1%	9.6%	9.0%	9.7%
EPS Growth (%)	61.3%	-11.0%	-4.7%	11.7%	13.5%	35.3%	35.5%	12.8%

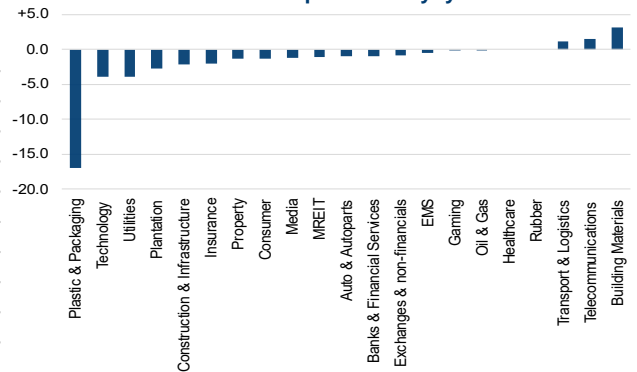
Source: Bloomberg, Affin Hwang

Fig 1: Global sustainable fund flows



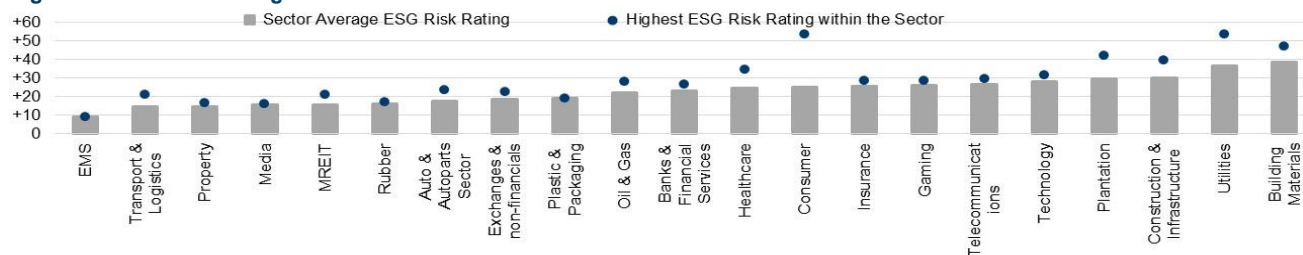
Source: Morningstar

Fig 2: Affin’s sector yoy ESG Risk Scores momentum (median) of sectors showed improvement yoy in ESG risks



Source: Affin Hwang, Powered by Sustainalytics

Fig 3: Affin’s sector average ESG Risk Scores



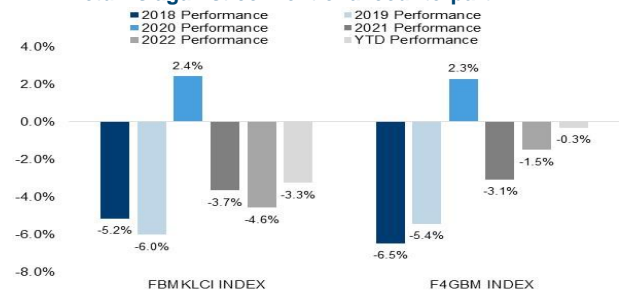
Source: Affin Hwang, Powered by Sustainalytics

Fig 4: FBMKLCI vs F4GBM PE Spread



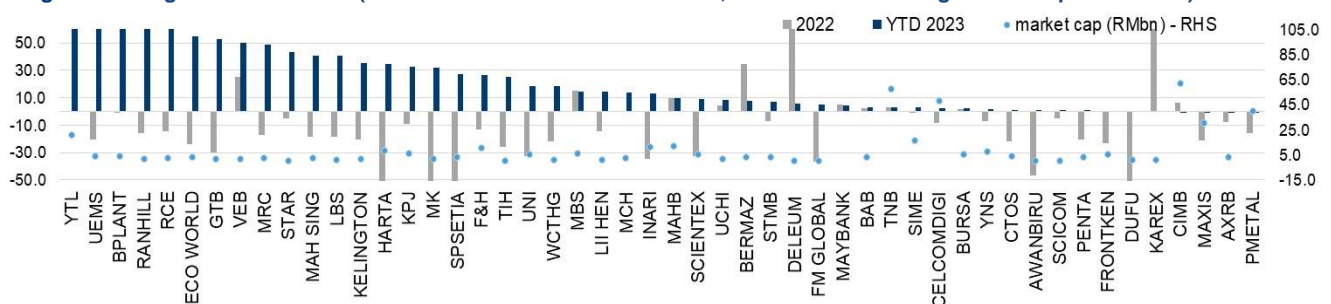
Source: Bloomberg (data as of 12 December 2023), Affin Hwang

Fig 5: F4GBM index performance – potentially better ESG risk returns against conventional counterpart



Source: Bloomberg (data as of 12 December 2023), Affin Hwang

Fig 6: F4GBM gainers and losers (50 out of its 98 constituents shown, based on descending YTD 2023 performance)



Source: Bloomberg (data as of 12 December 2023), Affin Hwang

Key near-term ESG catalysts going into 2024

BUY Samaiden as it benefits from renewable energy capacity expansion

As the CGPP advances, Samaiden is poised to reap the benefits

With the government's unveiling of an extensive energy transition strategy through the National Energy Transition Roadmap (NETR), specifically targeting the development of new renewable energy (RE) resources to meet the 2025 and 2035 goals, entities such as EPCC project contractors, solar farm owners/operators, and transmission and distribution asset owners find themselves strategically positioned. This is also in line with local regulatory emphasis surrounding the importance of TCFD recommendations and their underlying metrics. In the construction sector, **Samaiden Group** (BUY, TP: RM1.52) is attractive where it is poised to reap the benefits of the government's commitment to enhancing green power generation in Malaysia and participate in bids for RE projects under the Corporate Green Power Programme (CGPP). The construction sector in Malaysia is on the brink of a sustainable evolution, placing a significant emphasis on integrating renewable energy. We anticipate the introduction of additional government initiatives under the NETR to stimulate the growth of RE resource development, particularly in the solar power sector. Companies embracing eco-friendly construction practices are expected to excel, driven by the rising demand for energy-efficient solutions throughout 2024. We remain OVERWEIGHT on the Construction Sector, given the improved prospects to expand order books as the government infrastructure spending and domestic industrial property development to accelerate in 2024.

Tenaga is a top market BUY benefiting from energy transition

"TNB Sustainability Pathway 2050" to drive the transformation of the group

Tenaga (BUY, TP: RM10.90) has adopted a comprehensive top-down strategy to oversee the group's transition towards long-term ESG objectives, aligning management performance with the goal of enhancing the group's ESG profile. Its explicit targets, including a 50% reduction in coal capacity by 2035 and achieving net zero emissions by 2050, constitute the primary objectives for 2024. As Tenaga assumes a pivotal role in driving the NETR and in supporting government initiatives to expedite Malaysia's energy transition plan especially when it comes to the electricity grid, Tenaga is recommended as a Top Buy heading into 2024. This is as ample favourable opportunities are present due to its strategic position for substantial investment in domestic RE and green projects, as well as overseas initiatives, to contribute to an expanded renewable portfolio and an improvement in its ESG rating.

KLK is a top market BUY for sustainable palm oil exposure

Strengthening El Nino conditions heating things up for the Plantation sector

The El Niño Southern Oscillation (ENSO) cycle can exert a significant influence on global weather conditions, leading to potential disruptions in worldwide agricultural production and supply. Any degradation in crop conditions due to extreme wet or dry weather may have repercussions on edible oil production in 2023-24. Hence, the Plantation sector is facing heightened pressure to strive for sustainable cultivation practices, especially as global stakeholders and policymakers, such as the EU, intensify scrutiny of the sector. We believe a continuation of, or escalation in, the Ukraine-Russia war is a disruption risk to the global exports of vegetable oils, and will keep prices volatile and high, in addition to the warming global temperatures that are likely to disrupt crop production yields. For sector exposure, we like **KLK** (BUY, TP: RM25.20) as we expect higher earnings going into FY24E. Given its good track record, decent valuation and expansionary mode, KLK remains a top market and sector BUY among the large caps. For a small-cap exposure, our preference is **Jaya Tiasa** (BUY, TP: RM1.18) for its undemanding valuation.

Affin Buy recommendations by ESG Risk Scores

SDPR, KRI, IOIPG, CIMB and HLBK are on our BUY list with lowest ESG Risk Ratings

Our BUY calls with the lowest ESG Risk Scores

Based on Sustainalytics, stocks under our coverage with BUY ratings and the top 5 overall ESG risk ratings are **Sime Darby Property** (at 13.7), **Kossan Rubber Industries** (at 14.6), **IOI Properties** (at 16.8), **CIMB Group Holdings** (at 18.0) and **Hong Leong Bank** (at 18.6). Powered by Sustainalytics, the ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors. Following this, a lower ESG risk score indicates lesser exposure to unmanaged ESG risks.

Fig 7: Affin Hwang BUY Calls by Sustainalytics ESG Risk Scores, from lowest to highest ESG risk

Company	Bloomberg Ticker	ESG Risk Score	ESG Risk Score yoy Momentum	Overall Management Score	Overall Exposure Score	Affin Rating	Affin TP (RM)	Share price as at 12 Dec 2023 (RM)
1 Sime Darby Property Bhd	SDPR MK	13.7	-0.5	58.8	32.3	BUY	0.80	0.58
2 Kossan Rubber Industries	KRI MK	14.6	-	48.3	26.7	BUY	2.00	1.62
3 IOI Properties Group Bhd	IOIPG MK	16.8	-	47.2	31.0	BUY	2.05	1.64
4 CIMB Group Holdings Bhd	CIMB MK	18.0	-1.6	64.0	45.7	BUY	6.40	5.79
5 Hong Leong Bank Bhd	HLBK MK	18.6	-0.1	55.4	39.3	BUY	24.00	19.26
6 AME Elite Consortium Bhd	AME MK	19.1	-2.5	31.6	27.7	BUY	1.96	1.63
7 Bumi Armada Bhd	BAB MK	20.4	-	58.0	42.6	BUY	0.75	0.49
8 Scicom (MSC) Bhd	SCIC MK	21.1	-1.1	40.5	33.7	BUY	1.32	1.09
9 Malaysia Airports	MAHB MK	21.3	-0.2	38.5	33.5	BUY	8.30	7.20
10 YTL Hospitality REIT	YTLREIT MK	21.3	-1.2	22.0	27.3	BUY	1.11	1.02
11 Ta Ann Holdings Bhd	TAH MK	22.0	-5.5	37.7	33.3	BUY	4.00	3.51
12 Jaya Tiasa Holdings Bhd	JT MK	23.0	-2.9	41.4	36.6	BUY	1.18	0.91
13 Dialog Group Bhd	DLG MK	24.2	-2.2	49.1	43.3	BUY	2.90	1.92
14 AMMB Holdings Bhd	AMM MK	25.0	-2.5	40.2	40.5	BUY	4.70	4.02
15 UMedic Group Bhd	UMC MK	25.6	-	49.1	47.0	BUY	1.00	0.70
16 Public Bank Bhd	PBK MK	26.7	-0.1	41.4	44.0	BUY	5.10	4.25
17 Genting Bhd	GENT MK	26.8	-0.2	35.8	39.4	BUY	5.3	4.66
18 KPJ Healthcare Bhd	KPJ MK	27.5	+4.5	40.6	44.5	BUY	1.60	1.34
19 Telekom Malaysia Bhd	T MK	27.5	+1.7	38.2	41.9	BUY	6.00	5.29
20 Inari Amertron Bhd	INRI MK	27.7	-0.4	40.5	44.6	BUY	3.33	2.96
21 Sunway Construction	SCGB MK	27.9	+1.5	52.8	54.7	BUY	2.26	1.90
22 Kelington Group Bhd	KGRB MK	28.1	+5.4	57.0	59.9	BUY	2.40	1.85
23 IJM Corp Bhd	IJM MK	30.3	-	49.2	55.9	BUY	2.14	1.89
24 Gamuda Bhd	GAM MK	31.0	-4.3	50.7	58.2	BUY	5.22	4.44
25 NTPM Holdings Bhd	NTPM MK	31.0	-2.5	42.3	49.7	BUY	0.54	0.39
26 D&O Green Technologies	DOGT MK	31.5	-3.9	42.8	52.0	BUY	3.97	3.57
27 Tenaga Nasional Bhd	TNB MK	32.4	-5.7	48.5	59.4	BUY	10.90	9.93
28 HSS Engineering Bhd	HSS MK	33.4	+1.0	42.5	55.3	BUY	1.20	0.94
29 IHH Healthcare Bhd	IHH MK	34.8	+4.2	28.2	47.4	BUY	6.70	5.90
30 Kuala Lumpur Kepong Bhd	KLK MK	36.1	-2.5	41.5	57.7	BUY	25.20	21.48
31 PPB Group Bhd	PEP MK	38.2	-1.6	32.1	53.5	BUY	17.00	14.60
32 Samaiden Group Bhd	SAMAIDEN MK	39.8	-2.2	30.1	55.3	BUY	1.52	1.08
34 QL Resources Bhd	QLG MK	40.8	-0.4	33.2	59.2	BUY	6.30	5.53
35 Genting Plantations Bhd	GENP MK	42.4	-0.2	33.9	61.5	BUY	6.25	5.49
36 YTL Power International	YTLP MK	53.5	-	30.8	75.0	BUY	2.70	2.46

Source: Affin Hwang, Powered by Sustainalytics, Bloomberg data as of 12 December 2023

*Note: ESG Risk Scores for 5 of Affin Hwang's BUY calls are temporarily unavailable. They are NationGate Holdings (NATGATE MK EC RM1.80, Share price: RM1.43), Veleso Energy Berhad (VEB MK EQUITY, TP: RM0.29, Share price: RM0.21), Sunway Bhd (SWB MK EC RM2.30, Share Price: RM1.96), Uchi Technologies Bhd (UCHI MK EQUITY, TP: RM4.20, Share Price: RM3.62), and PIE Industrial Bhd (PIE MK EQUITY, TP: RM3.90, Share Price: RM3.30).

Source: Bloomberg, Affin Hwang

SECTOR



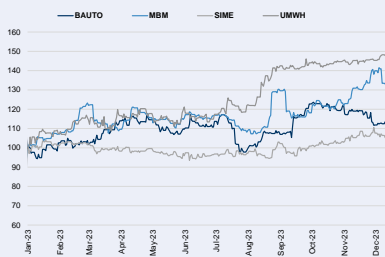
Sector Outlook

“Expecting a demand slowdown in car purchases as the 5-year replacement cycle has come to an end”

Absolute performance (%)

	1M	3M	12M
BAUTO	(6.1)	5.5	11.3
MBM	5.3	18.7	42.7
SIME	1.3	9.2	8.2
UMWH	1.6	3.3	49.5

Relative performance (%)



Source: Bloomberg

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Auto & Autoparts

UNDERWEIGHT (maintain)

Vehicle sales on a strong decline in 2024E

- We project a sharp 2024 earnings decline of 16% yoy due to a slowdown in car purchases with 2024E TIV at 650k units (-13% yoy)
- While there may be a short-term surge in demand for premium cars in 1H24 before the luxury tax takes effect, we anticipate a limited boost in TIV for these players due to the low market share of the premium car marques and small buyer base comprising mainly T20 individuals
- Maintain UNDERWEIGHT rating on the sector as we see TIV normalizing in 2024 until the next replacement cycle takes place 5 years later. We prefer MBM, given its exposure to the national compact car segment

Likely key focus for 2024

Key focus for 2024 include: (i) normalization of sales for the auto market; (ii) arrival of new EV and non-EV entrants; (iii) decline in consumers' disposable income; and (iv) impact of the luxury tax on premium-car purchases.

Earnings outlook – visibility, momentum and risk

We expect a sharp decline in the automotive sector's 2024E earnings by 16% yoy due to a slowdown in car purchases as the 5-year replacement cycle ends, suggesting that a substantial portion of sales in 2023 was attributed to consumers entering this replacement cycle despite absence of the SST exemption and EPF withdrawal scheme. In addition, declining car loan approval rates (Oct-23: -8.2ppts yoy) indicate that banks are hesitating to lend due to: (i) consumers' insufficient income and high debt level, and (ii) limited savings for the B40 and low income M40. Despite our projection of declining sales for top brands under our coverage (Perodua: -27% yoy, -Toyota: -24% yoy, Mazda: -7% yoy), the national car market share remains large as budget-conscious consumers downgrade to more pocket-friendly options amid declining disposable income, alongside strong demand in the national compact car segment due to the growth of e-hailing services.

Our view and strategy for 2024

The recently introduced High-Value Goods Tax (HVGT), ranging from 5% to 10%, is set to impact luxury cars priced above RM200k, affecting premium offerings from SIME, BAUTO, and MBM (Volvo and Volkswagen). While there may be a short-term surge in demand in 1H24 before the tax takes effect, we anticipate a limited boost in TIV for these players as premium brands collectively hold <10% market share, and this is further compounded by the small buyer base comprising mainly T20 individuals. However, our expectation for sustained sales growth in the 'Others' brand category (2024E TIV: 109k units, +20% yoy) stems from the entrance of non-EV and EV brands (BYD, Tesla, and Chery) into Malaysia as these brands have gained strong demand due to competitive pricing and appealing after-sales packages.

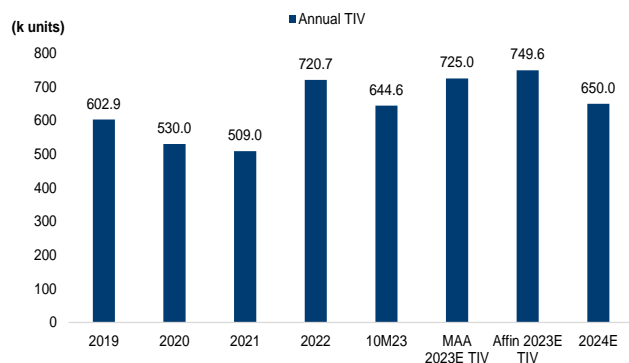
Possible surprises – upside and downside, and catalysts

Key upside risks to our call include: (i) higher-than-expected car sales volume; (ii) looser bank lending policies; (iii) tightening of EV-related policies; (iv) friendly consumption tax policy across the auto industry; and (v) lower-than-expected contributions from the EV segment.

Valuation and recommendation, key stock ideas

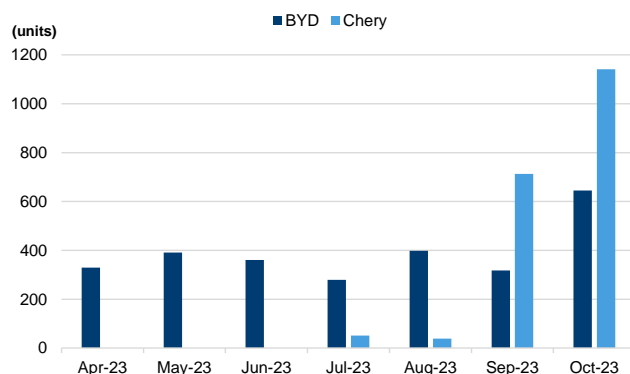
We maintain our **UNDERWEIGHT** rating on the automotive sector with a 2024E TIV of 650k units (-13% yoy) as we see car sales normalizing in 2024 until the next replacement cycle takes place 5 years later. Our top pick for sector exposure is **MBM** (HOLD – TP: RM4.14) on defensive sales volumes from its associate, Perodua, amid the slowdown in car purchases.

Fig 3: Annual TIV likely to peak in 2023



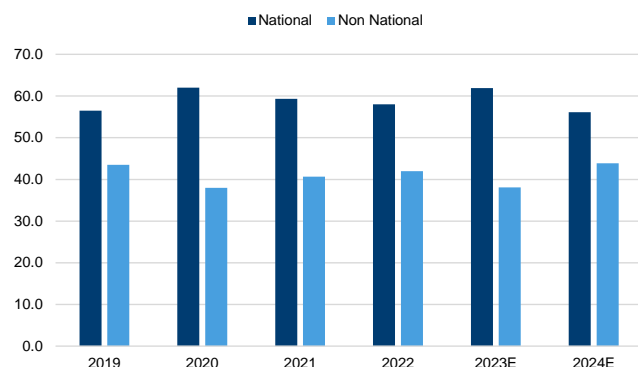
Source: MAA, Affin Hwang forecasts

Fig 4: Surge in sales for new auto brands (6% of non-national car market share)



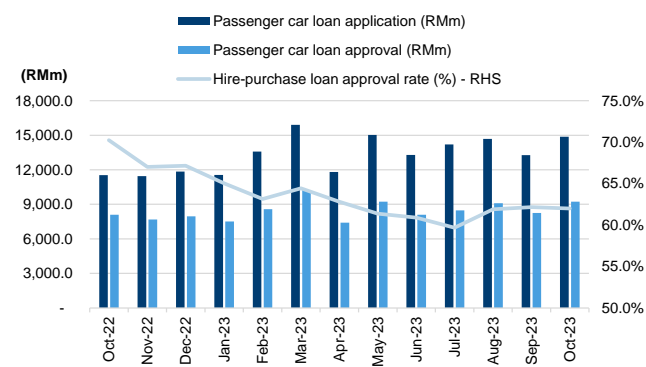
Source: Company, Affin Hwang

Fig 5: Project 56.1% market share for national players



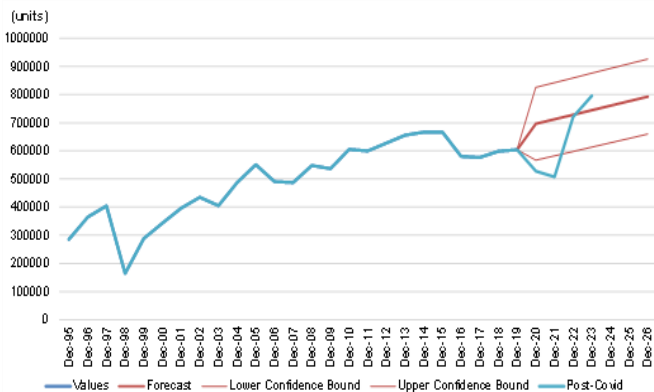
Source: Bloomberg

Fig 6: Oct-23 car loan approval rate declined by 8.2ppts yoy



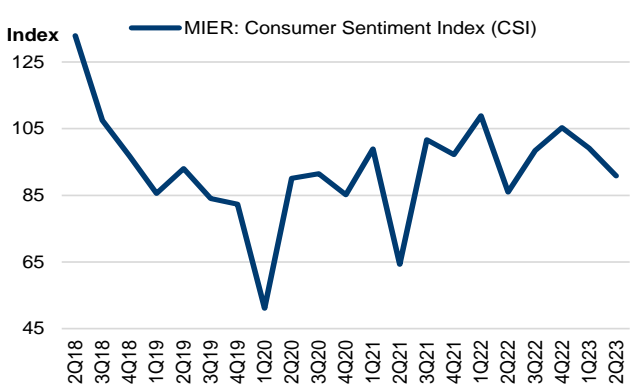
Source: BNM, Bloomberg

Fig 7: A peak trend seen every 5 years in annual TIV



Source: Bloomberg

Fig 8: Consumer sentiment index declined to 91pts



Source: MIER, Affin Hwang

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	
						CY23E	CY24E	CY23E	CY24E				CY23E	CY24E
BERMAZ AUTO	BAUTO MK	HOLD	2.30	2.31	2,685.5	8.5	10.9	21.5	(22.3)	5.3	3.2	37.8	9.7	7.5
MBMR	MBM MK	HOLD	4.30	4.14	1,680.8	6.0	7.3	24.2	(16.9)	10.8	0.8	12.8	11.6	7.0
SIME DARBY	SIME MK	SELL	2.37	2.23	16,153.0	13.7	15.6	(8.6)	(12.0)	5.8	1.0	6.9	5.5	5.0
UMW	UMWH MK	HOLD	4.95	5.00	5,783.1	11.4	15.1	37.1	(24.4)	2.7	1.2	6.8	1.0	1.1
Average					26,302.3	11.5	13.9	6.4	(16.8)	5.1	1.5	8.3	7.0	5.1

Source: Bloomberg, Affin Hwang forecasts Note: Closing price as of 12 December 2023

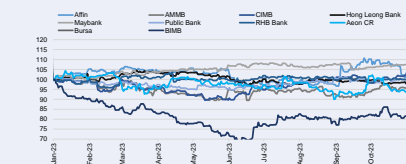
Sector Outlook

“We turn more positive in 2024 given the resilient domestic economy and expansion of banks’ services”

Absolute performance (%)

	1M	3M	12M
Alliance	+2.5	+3.3	+29.8
AMMB	+6.6	+4.2	+33.7
CIMB	+3.7	+2.0	+6.3
HLBB	(0.5)	(1.8)	+14.8
Maybank	+1.9	(3.3)	+7.8
PBB	+2.1	(4.5)	+14.7
RHB	+2.8	(2.4)	+6.7
AEONCS	-	(8.0)	(3.5)
Affin (non-rated)	(0.2)	+5.0	+36.7
BIMB (non-rated)	+4.9	-	(11.0)

Relative performance (%)



Source: Bloomberg

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Banking

OVERWEIGHT (upgrade)

Value proposition in domestic and ASEAN markets

- We see the positive momentum in 2023 carrying through to 2024 – we foresee key drivers from organic loan growth, more advanced digital capabilities, and expansion of non-interest income
- Two years after the pandemic, Malaysian banks have proven their resilience in withstanding shocks with adequate capital on the balance sheet as well as having exercised prudence in maintaining asset quality
- Upgrade to OVERWEIGHT. We believe that CIMB, Hong Leong Bank and AMMB will stand out with strong differentiation in strategy and leadership

Likely key focus for 2024

In 2024, Malaysian banks are expected to deliver a higher level of profitability buoyed by expansion of fund-based income and non-interest income. We expect steady NIM in 2024 (at 2.28%), as pressure from deposit competition and deposit-repricing dissipate. Favourable economic conditions (2024E GDP target of 4.5%, FDIs, domestic project rollouts, stable unemployment rate, resilient consumption spending) will continue to support industry loan growth of circa 5%, from households to SMEs and corporates. Meanwhile, asset quality in the banking system continues to hold up and we have not seen a sharp deterioration in the GIL ratio (Oct23: 1.72%) while the use of management overlays (outstanding circa RM7.2bn in the sector) remain prevalent among banks to account for the emergence of borrowers classified as ‘high-risk’. More advanced digital capabilities and the delivery of better customer service have helped banks acquire new customers and boost loan and CASA growth. We also like banks with a higher exposure to regional markets, namely CIMB (59% domestic; 41% in ASEAN), Maybank (69% domestic; 31% ASEAN and global), Hong Leong Bank (74% domestic; 26% regional), Public Bank (92% domestic; 8% Asia) and RHB Bank (94.5% domestic; 4.5% regional). Across the ASEAN markets, there is a race to beef up wealth management services, which would be a new source of fee income.

Earnings outlook – visibility, momentum, and risk

We project core net profit expansion of +12%/+5.3%/+4.0% for 2023E/24E/25E, driven by some expansion in fund-based income, -3.9%/+4.1%/+3.8% yoy, and expansion of non-interest income +8.6%/+7.1%/+4.6%. In this piece, we have raised our earnings forecasts (and hence lifting our TPs higher) as we factor in higher non-interest income and lower net credit costs in our banking universe. Downside risks: i) rising delinquencies; and ii) high stock of unsold residential/non-residential units.

Our view and strategy for 2024

We look for banks with high loan-loss cover, sound asset quality, strong digital capabilities, robust capital ratios and the potential to raise the dividend payout ratio.

Possible surprises – upside and downside, and catalysts

Positive catalysts: Increased capital-market activities, implementation of government stimulus initiatives; home-ownership campaigns. **Negative catalysts:** heightened global tensions and geopolitical risks, prolonged interest rate hikes.

Valuation and recommendation, key stock ideas

We upgrade the sector from **NEUTRAL** to **OVERWEIGHT**. The sector is currently trading in-line with the 5-year P/BV multiple average of 1.07x, and we see re-rating catalysts driven by selective banks, namely CIMB, Hong Leong Bank, Public Bank and AMMB. Our choice of the top pick, **CIMB (BUY; TP: RM6.40)**, is underpinned by its more attractive ASEAN exposure, reshaping of portfolio and cost optimization.

Fig 9: Malaysia banking sector: Earnings forecast assumptions 2023-25E

Growth forecast assumptions	2020	2021	2022	2023E	2024E	2025E
Fund-based income (%)	(2.4)	14.2	9.5	(3.9)	4.1	3.8
Non-interest income (%)	6.8	(8.8)	(6.2)	8.6	7.1	4.6
Net operating income (%)	0.3	7.4	5.5	(1.1)	4.8	4.0
Operating expenses (%)	(4.2)	2.7	5.2	2.1	2.9	3.6
Impairment allowances (%)	194.7	(34.1)	(40.8)	(18.7)	14.1	7.6
Core net profit (%)	(27.9)	38.6	12.1	12.0	5.3	4.0

Assumptions:	2020	2021	2022	2023E	2024E	2025E
Loan growth (%)	3.5	4.5	5.5	4.0	5.0	5.0
NIM (%)	2.08	2.26	2.41	2.17	2.15	2.15
Cost-to-income ratio (%)	45.8	43.7	43.7	45.0	44.2	44.0
Net credit cost (bps)	84.1	52.7	30.2	23.6	25.7	26.3
ROE (%)	6.9	9.3	10.1	10.9	10.9	10.7

Source: Companies, Affin Hwang forecasts

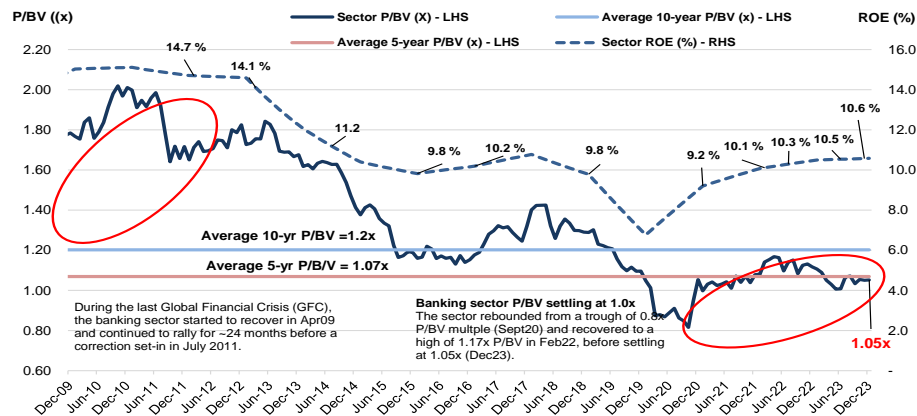
Fig 10: Malaysia banking sector: New valuation assumptions and revised target prices (post-earnings upgrades)

Banks	Price (RM) 12-Dec	New Rating	New TP (CY24E) (RM)	% Upside/ (Downside)	Assumptions				Revised as at 30 Nov 2023	
					ROE	Ke	G	P/BV (x)	Rating	TP (RM)
Public Bank	4.25	BUY	5.10	20.0	12.7%	8.8%	3.0%	1.67	BUY	5.00
Alliance	3.48	HOLD	3.78	8.6	9.9%	11.6%	3.0%	0.80	HOLD	3.70
CIMB	5.79	BUY	6.40	10.5	11.0%	11.6%	3.0%	0.93	BUY	6.40
Hong Leong Bank	19.26	BUY	24.00	24.6	11.8%	9.9%	3.0%	1.27	BUY	21.50
Maybank	9.07	HOLD	9.15	0.9	10.7%	9.3%	3.0%	1.21	HOLD	8.70
AMMB	4.02	BUY	4.70	16.9	9.7%	11.6%	3.0%	0.78	BUY	4.50
RHB Bank	5.50	HOLD	6.00	9.1	9.4%	11.4%	3.0%	0.76	SELL	5.25
Non-Banks:										
AEONCS ^	5.65	HOLD	6.00	6.2	P/E target of 7.5x on CY24E EPS 80 sen (adjusted for 1-for-1 bonus issue)				HOLD	6.00
Bursa Msia	6.80	HOLD	7.30	7.4	P/E target of 25x (at +1SD) on CY24 revised EPS of 29.2 sen				SELL	6.08

^ Aeon Credit's Target Price has been adjusted to reflect a 1-for-1 bonus issue which went Ex on 17 Nov 2023.

Source: Companies, Affin Hwang forecasts Note: TP for Public Bank raised to RM5.10 (from RM5.00) in this report

Fig 11: Malaysia Banking sector P/BV multiples (on a forward basis)



Source: Bloomberg, Affin Hwang forecasts

Peer Comparison

Stock	Rating	Price 12-Dec	PT (RM)	Bloomberg Code	Mkt Cap (RMm)	FYE	P/BV (x)		Core P/E (x)		Core EPS growth (%)		ROE (%)		Net DPS (sen)		Net Yield (%)	
							CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	FY23E	FY24E	FY23E	FY24E
Alliance	HOLD	3.48	3.78	ABMB MK	5,387	Mar	0.77	0.73	8.5	7.6	(3.0)	12.1	9.3	9.9	22.0	24.0	6.3	6.9
AMMB	BUY	4.02	4.70	AMM MK	13,314	Mar	0.70	0.67	7.3	7.1	4.3	3.3	10.0	9.7	18.3	33.0	4.6	8.2
CIMB	BUY	5.79	6.40	CIMB MK	60,646	Dec	0.96	0.91	8.8	8.4	16.3	5.3	11.0	11.1	31.8	32.8	5.5	5.7
H Leong Bank	BUY	19.26	24.00	HLBK MK	41,794	June	1.11	1.02	10.2	9.0	4.3	13.2	11.5	11.8	59.0	65.7	3.1	3.4
Maybank	HOLD	9.07	9.15	MAY MK	101,956	Dec	1.24	1.22	12.0	11.5	10.3	3.6	10.5	10.7	60.0	64.0	6.6	7.1
Public	BUY	4.25	5.10	PBK MK	82,495	Dec	1.53	1.39	11.9	11.5	13.7	3.2	13.4	12.7	18.6	19.2	4.4	4.5
RHB Bank	HOLD	5.50	6.00	RHBBANK MK	22,055	Dec	0.76	0.72	8.2	7.9	3.8	4.1	9.5	9.4	42.0	42.0	7.6	7.6
Affin	NR	2.02	-	ABANK MK	3,925	Dec	0.40	0.39	8.0	7.2	128.1	10.9	5.0	5.4	12.0	13.2	5.9	6.5
Aeon Credit	HOLD	5.65	12.00	ACSM MK	2,885	Feb	0.53	0.48	4.2	4.1	(11.3)	2.3	13.2	12.3	49.5	46.4	8.8	8.2
Banks (Weighted Average; excludes Aeon Credit)							1.07	1.02	10.1	9.6	12.0	5.3	10.9	10.9	40.4	43.4	5.4	5.8
Banks ex-PBB (Weighted Average)							0.98	0.93	9.66	9.12	6.3	8.9	10.3	10.5	47.6	51.4	5.7	6.2

Source: Bloomberg, Affin Hwang forecasts - closing prices as of 12 Dec 2023

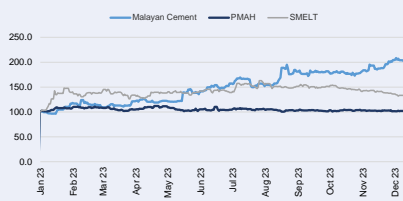
Sector Outlook

“1H24 building material prices will likely remain impacted by weak demand”

Absolute performance (%)

	1M	3M	12M
MCEMENT	4.0	16.1	89.0
PMETAL	(0.2)	(1.4)	(0.6)
MSC	(6.6)	(12.4)	21.5

Relative performance (%)



Source: Bloomberg

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Building Materials UNDERWEIGHT (Downgrade)

Cautiously moving into 1H24

- We downgrade our call on the sector to UNDERWEIGHT, given our previous downgrade in Malayan Cement’s rating to a HOLD. We have SELL ratings on Press Metal and Malaysia Smelting Corp (MSC)
- 1H24 will likely see commodity prices trending sideways at best, from current levels, as we expect global economic conditions to only improve from 2H24
- The only company under coverage likely to see a meaningful improvement in earnings is Press Metal given lower input costs and aluminium prices likely improving in 2H24. Malayan Cement and MSC are expected to see marginal improvements, as cement prices have more or less peaked and tin prices are expected to be lower yoy albeit offset by MSC’s new efficiency

Likely key focus for 2024

Moving into 2024, key things to look out for in the aluminium, tin and cement subsectors include: (i) commodity price movements; (ii) potential changes in demand and supply dynamics; (iii) level of economic activity; (iv) potential disruption in the global supply chain due to logistical challenges; and v) potential government interference on cement price discounts given to support the construction industry.

Earnings outlook - visibility, momentum and risk

For 2024, we are pricing in earnings growth for Press Metal from lower input costs (e.g. carbon anodes) coupled with improved aluminium prices expected in 2H24. Meanwhile, we expect only marginal growth for Malayan Cement and MSC as we expect Malayan Cement’s ASPs (i.e. cement prices) to remain capped at the current level of RM380/mt. MSC would likely face lower tin prices yoy though this would be offset by cost efficiencies from its new Pulau Indah furnace. Key risks to our assumptions primarily revolve around commodity supply shocks which would result in margin compression/expansion depending on their exposure. In terms of forex exposure, Press Metal and MSC are expected to be negatively impacted by a stronger RM (as their products are priced in US\$) whilst the opposite would be the case for Malayan Cement (as its input costs are priced in US\$). Nonetheless, sector profitability is determined more by global raw material price movements.

Our view and strategy for 2024

We remain cautious on the near-term prospects of the companies under coverage. Within the sector, we prefer exposure to Malayan Cement, due to the strong margin recognised from cement price hikes that are likely to remain sticky at the current highs, coupled with subdued coal prices. On the other hand, we expect aluminium and tin players (which are more reliant on global supply-demand dynamics) to remain subdued by concerns about a lacklustre global economy in 1H24. Our 2024 ASP assumptions are as follow: i) Press Metal’s realised aluminium price at US\$2.4k/mt; ii) Malayan Cement’s cement price at RM380/mt; and iii) MSC’s tin price at US\$23k/mt.

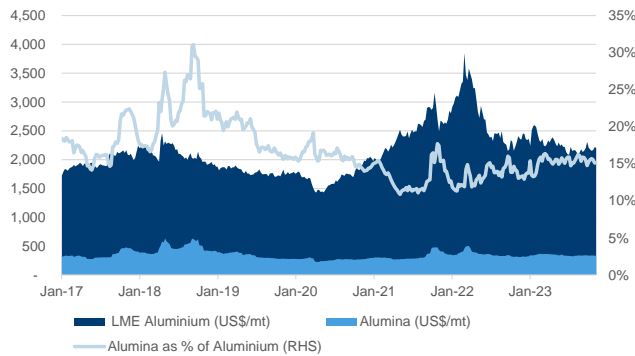
Possible surprises – upside and downside, and catalysts

The upside to the sector revolve around improvement in ASPs, declining raw material prices, and faster-than-expected growth in economic activities such as construction, among others. On the other hand, escalating raw material costs, electricity, and fuel costs remain downside risks to the sector.

Valuation and recommendation, key stock ideas

We downgrade our call on the sector to UNDERWEIGHT (from Neutral), following the previous downgrade in recommendation of Malayan Cement (HOLD, TP: RM4.20). Meanwhile, we have SELL calls on Press Metal (TP: RM4.20, based on 2024E PER of 23x) and MSC (TP: RM1.80 based on 2024E PER of 8x).

Fig 12: LME Aluminium and alumina price trend



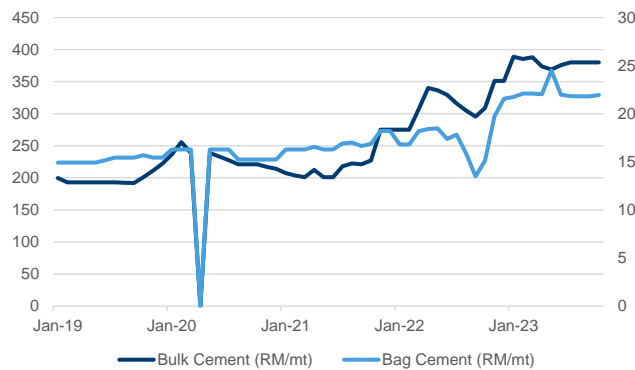
Source: Bloomberg

Fig 14: LME Tin price trend



Source: Bloomberg

Fig 16: Monthly average transacted cement prices



Source: Company data, Affin Hwang estimates

Fig 13: Aluminium prices tend to crash during economic downturns

	Month	Year	Aluminium Price (US\$/mt)
Peak before crash	Sep	1990	2,200
Low after crash	Nov	1993	1,035
12-month after crash	Nov	1994	1,968
Peak before crash	Jan	2000	1,739
Low after crash	Nov	2001	1,254
12-month after crash	Nov	2002	1,378
Peak before crash	Jul	2008	3,292
Low after crash	Jan	2009	1,265
12-month after crash	Jan	2010	2,282

Source: Bloomberg

Fig 15: Tin prices tend to crash during economic downturns

	Month	Year	Tin Price (US\$/mt)
Peak before crash	May	1974	9,305
Low after crash	Dec	1975	6,175
12-month after crash	Dec	1976	8,400
Peak before crash	Sep	1980	17,295
Low after crash	Jun	1982	11,098
12-month after crash	Jun	1983	13,351
Peak before crash	May	1989	10,434
Low after crash	Sep	1993	4,337
12-month after crash	Sep	1994	5,375
Peak before crash	Jan	2000	6,075
Low after crash	Sep	2001	3,625
12-month after crash	Sep	2002	4,055
Peak before crash	Jun	2008	23,345
Low after crash	Mar	2009	10,210
12-month after crash	Mar	2010	17,675

Source: Bloomberg

Fig 17: Coal price trend



Source: Bloomberg

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RM.m)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY24E	CY23E	CY24E			
MALAYAN CEMENT	LMC MK	HOLD	4.12	4.20	5,398.0	22.7	16.3	>100	39.2	11.7	2.3	4.0	1.9	2.5
PRESS METAL	PMAH MK	SELL	4.83	4.20	39,797.4	31.2	26.8	(13.1)	16.5	20.0	4.4	14.0	1.2	1.4
MSC SMELT	SMELT MK	SELL	1.98	1.80	831.6	9.0	8.9	(9.6)	1.3	8.2	1.0	11.6	2.2	2.2
Average					46,027.0	28.8	24.2	(4.8)	19.0	17.5	2.6	11.0	1.8	2.1

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

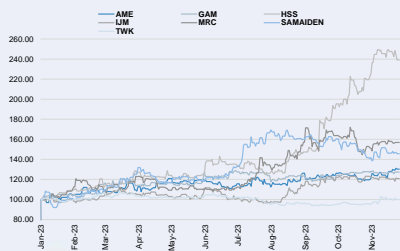
Sector Outlook

“Good prospects for special-purpose building and overseas projects”

Absolute performance (%)

	1M	3M	12M
AME	9.4	8.7	22.6
GAMUDA	(3.3)	2.1	28.0
HSS	(7.4)	50.0	101.1
IJM	-	8.0	20.5
MRC	(2.2)	1.1	39.7
SUNCON	0.5	3.8	25.0
SAMAIDEN	(8.5)	(11.5)	39.4
TALIWORK	(4.1)	3.2	(6.3)

Relative performance (%)



Source: Bloomberg

Construction

OVERWEIGHT (maintain)

Building and overseas project focus

- Implementation of the Penang LRT and Klang Valley MRT Line 3 (MRT3) are expected to be delayed to 1H24
- Good prospects for domestic data centre and semiconductor plant projects, and overseas infrastructure projects for large contractors and engineering consultants
- We remain **OVERWEIGHT** the Construction Sector given sustained good prospects to expand order books. Top BUYs are Gamuda, Sunway Construction (SunCon) and HSS

Likely key focus for 2024

In 2024, potential developments are: (1) data centre and semiconductor plant contract awards; (2) major government project awards such as flood mitigation and Pan Borneo Highway; (3) launch of Penang LRT and MRT3 (bidders' extended tender validity to 31 March 2024); (4) launch of new renewable energy (RE) projects; and (4) overseas infrastructure project awards.

Earnings outlook – visibility, momentum and risk

We expect sustained construction sector aggregate core EPS growth of 15% yoy in 2024E (+15% yoy in 2023E) as progress billings accelerate for ongoing projects and new contracts are secured. High construction order books are enough to cover at least 2x the historical construction revenue for our universe of construction companies, providing good earnings visibility. Key risks are lower-than-expected new contract wins and delays in the roll out of mega infrastructure projects, which will lead to earnings forecast risks.

Our view and strategy for 2024

We are bullish on the sector outlook in 2024 as strong FDI inflows to build new E&E manufacturing facilities and data centres will generate construction work for large contractors such as IJM and SunCon. The government is expected to launch the new Corporate Green Power Programme (CGPP) quota in 2024, providing potential RE projects for solar EPCC contractors. The launch of Penang LRT and MRT3 will improve prospects to expand order books for the construction companies under our coverage. The sector's 2024E core PER of 13x is undemanding considering the sustained strong core EPS growth in 2024E. We prefer construction companies with strong balance sheets and that are competitive for large special-purpose building and mega infrastructure projects.

Possible surprises – upside and downside, and catalysts

Potential downside for the sector would be negative changes to government policies on infrastructure concessions. A potential catalyst for a positive re-rating of the sector is an acceleration in the implementation of the Penang LRT and MRT3 projects.

Valuation and recommendation, key stock ideas

We remain **OVERWEIGHT** on the Construction Sector, given the improved prospects to expand order books as the government infrastructure spending and domestic industrial property development accelerate in 2024. Our top BUYs are **Gamuda**, **SunCon** and **HSS**. Other BUYs are **AME** and **IJM**, which benefit from rising demand for industrial properties, and **Samaiden**, which benefits from the development of new RE resources. We maintain our HOLD call on **MRC** given its depleting order book and uncertainties in securing new infrastructure (eg, MRT3) and transport-oriented development projects.

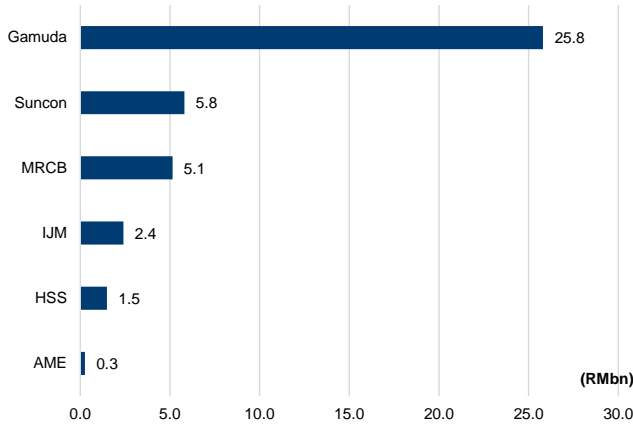
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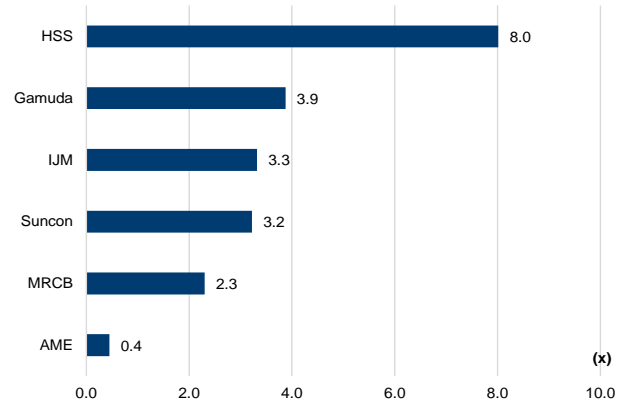


Fig 18: Construction order book as at 31 September 2023



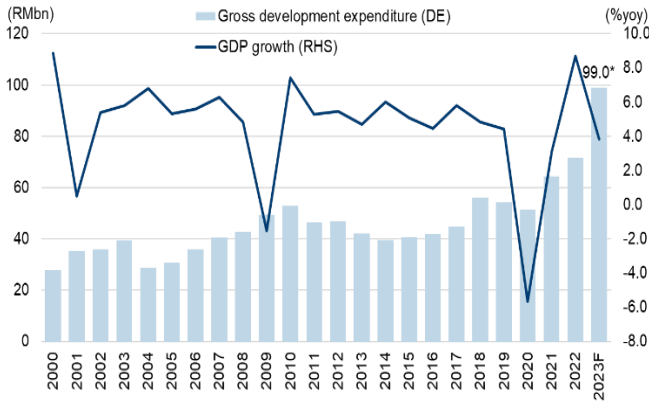
Source: Company, Affin Hwang

Fig 19: Order book/revenue as at 31 September 2023



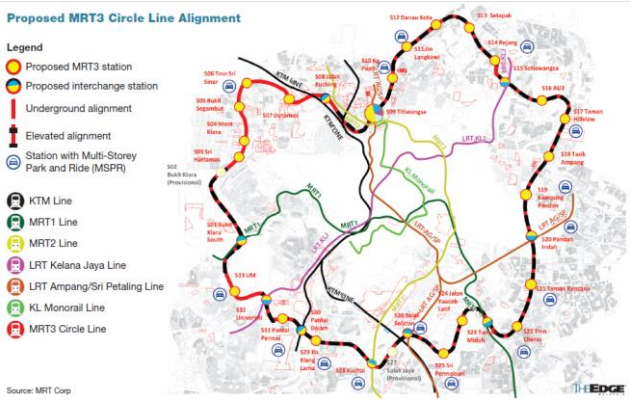
Source: Companies, Affin Hwang

Fig 20: Government development expenditure vs GDP growth



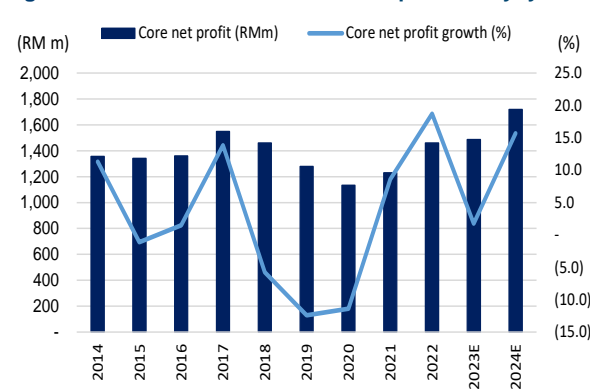
Source: CEIC

Fig 21: Proposed MRT3 Circle Line alignment



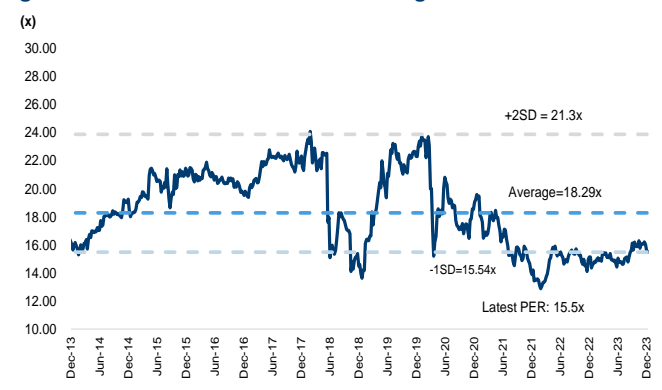
Source: Affin Hwang estimates, various media eg The Star and theedgemarkets.com

Fig 22: Construction sector core net profit and yoy change



Source: Companies, Affin Hwang estimates

Fig 23: Our construction sector coverage 12-month forward PER



Source: Bloomberg, Affin Hwang estimates

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMb)	Core PE (x)	Core EPS growth (%)	Upside (%)	P/BV (x)	ROE (%)	Div Yield (%)	Div Yield (%)	RNAV/share (RM)	Sh Pr disc to RNAV (%)		
						CY23E	CY24E	CY23E	CY24E	CY23E	CY23E	CY24E				
AME ELITE	AME MK	BUY	1.63	1.96	1.0	13.2	13.1	6.4	0.4	20.2	1.2	9.3	2.5	2.7	2.28	30
GAMUDA	GAM MK	BUY	4.44	5.22	12.1	12.5	10.6	9.6	18.0	17.6	1.4	7.7	7.7	2.7	5.77	24
HSS ENGINEERING	HSS MK	BUY	0.95	1.20	0.5	18.4	14.2	17.1	29.9	27.0	1.8	9.6	0.8	1.0	NA	NA
IJM CORP	IJM MK	BUY	1.89	2.14	6.6	16.9	14.2	29.8	19.1	13.2	0.7	3.7	3.4	3.2	3.24	42
MRCB	MRC MK	HOLD	0.44	0.44	2.0	24.8	31.3	22.2	(20.8)	0.0	0.4	1.7	2.3	2.3	0.82	46
SAMAIDEN GROUP	SAMAIDEN MK	BUY	1.08	1.52	0.4	21.9	15.6	41.7	39.9	40.7	3.7	16.9	0.8	1.3	NA	NA
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.90	2.26	2.4	17.6	17.2	(3.4)	2.3	18.9	3.1	18.0	2.9	2.9	2.22	15
Average						25.1	15.0	15.1	15.2	9.2	1.8	4.6	2.9	2.3		31

Source: Bloomberg, Affin Hwang forecasts. Note: Closing prices as at 12 December 2023

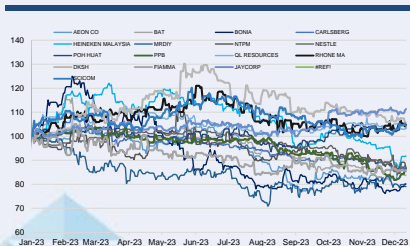
Sector Outlook

“Expecting tepid consumer sentiment to afflict 2024”

Absolute performance (%)

	1M	3M	12M
Aeon	1.8	8.7	-18.7
BAT	-0.5	-7.6	-19.8
Bonia CORP	-1.7	-1.1	-23.7
Carlsberg	-3.2	-4.6	-16.1
DKSH	-4.8	-6.6	-11.9
Fiamma	-1.9	0.7	-25.4
Heineken	-3.7	-9.3	-11.4
Jaycorp	-3.3	-9.7	-14.3
MRDIY	-0.7	5.4	0.0
Nestle	1.1	-7.6	-18.2
PPB	-1.2	0.4	0.9
QL	1.5	2.2	1.5
NTPM	-4.2	-4.4	7.0
Rhone Ma	0.0	-3.2	-28.0
Scicom	1.3	8.5	3.4

Relative performance (%)



Source: Bloomberg

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Consumer

NEUTRAL (maintain)

Positioning in the staples

- Expecting sector earnings to increase 15.6% yoy in 2024E albeit from a low base, primarily driven by consumer staple companies
- Expecting consumer discretionary counters to face margin pressure
- Maintain our NEUTRAL stance on the sector. We have BUY calls on PPB, QL Resources, and NTPM

Likely key focus for 2024

Key factors to watch out for in 2024 include: 1) sustained private consumption and retail spending growth amidst an economic recovery; 2) disposable income expected to be affected by subsidy rationalisation potentially starting in 2Q24; 3) ongoing global supply chain uncertainties (eg, periodic suspension and restoration of the Black Sea grain deal); 4) higher import costs due to a weak Ringgit relative to the US\$ in 1H24 before easing in 2H24; 5) operating margin compression following regulatory developments, affecting labour, borrowing and electricity costs; but 6) partially supported by a correction in raw material and commodity prices.

Earnings outlook – visibility, momentum and risk

We are projecting sector EPS to grow 16% yoy in 2024E albeit coming from a low base (-19.4% in 2023E). Key drivers of sector earnings are the consumer staple counters, particularly PPB and QL Resources, as consumers will continue to prioritize essential spending as the proposed increase in service tax rate (from 6% to 8%) and removal of subsidies and ceiling prices on poultry are expected to further elevate living costs in 2024. We believe that the strength of consumer spending in 2024 hinges on payroll growth. However, challenges for payroll growth acceleration loom as companies face higher cost pressure from rising utilities, labour (raised minimum wages) and input costs.

Our view and strategy for 2024

Given the above reasons, we continue to favor consumer staple companies in 2024 as consumers pivot towards budget-friendly and value-for-money items amid rising living costs and higher borrowing cost pressure. We believe that consumer staple companies are well-positioned to offer better visibility in a landscape of reduced consumer affordability, given their inelastic product portfolios. Conversely, in the face of flattish or declining sales, consumer discretionary companies may find it difficult to offset rising operating costs by passing them on to consumers through higher prices, thus leading to margin compression, especially for those with high operating leverage.

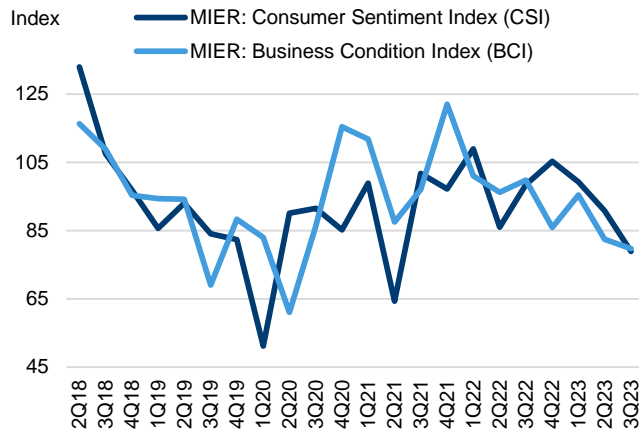
Possible surprises – upside and downside, and catalysts

Potential positive catalysts/negative risks include: 1) stronger/weaker-than-expected private consumption and tourism activities, 2) softening/rising inflationary pressures on input costs, and 3) policy measures affecting taxes, subsidies and operating costs.

Valuation and recommendation, key stock ideas

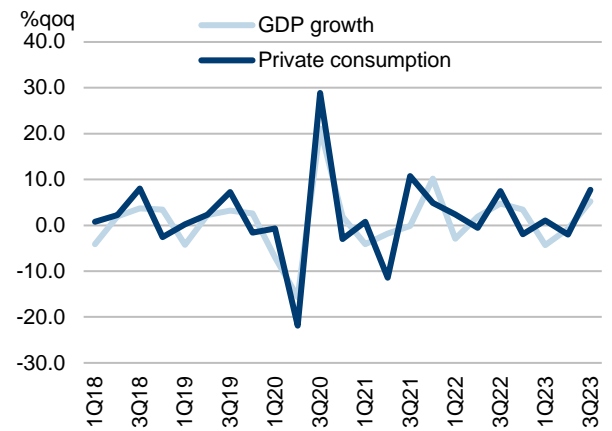
We reiterate our NEUTRAL stance on the sector. Our preferred sector picks are: (i) **PPB** for its strong position in consumer essentials and agri-processing business while benefiting from exposure to the growing Chinese and Indian consumer markets; (ii) **QL Resources** on the back of steady earnings across all segments especially the marine product segment with more fish landings in the event of El Nino and livestock farming with steady egg demand while supply remains tight; (iii) **NTPM** on the easing pulp price, steady demand for tissue paper and hygiene products, and synergistic benefits with its new shareholder.

Fig 24: Consumer sentiment index



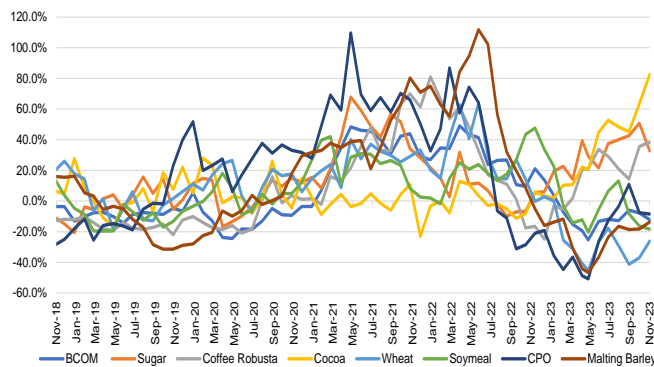
Source: MIER, Affin Hwang

Fig 25: Private consumption trend



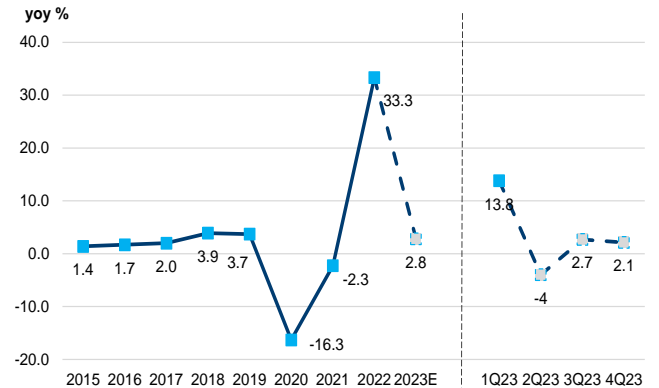
Source: CEIC, Affin Hwang

Fig 26: Key raw material prices



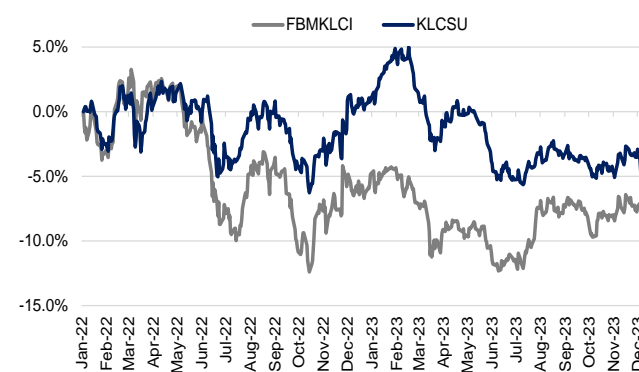
Source: Bloomberg, Affin Hwang

Fig 27: Retail sales growth



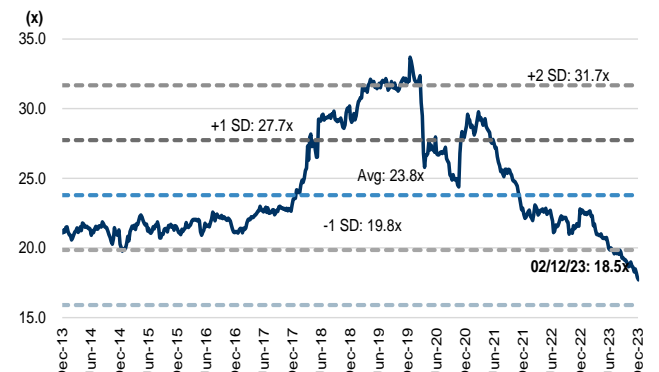
Source: Retail Group Malaysia, Affin Hwang

Fig 28: Relative performance of KLCSU and KLCI index



Source: Bloomberg, Affin Hwang

Fig 29: Sector coverage PER



Source: Bloomberg, Affin Hwang forecasts

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RM.m)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY24E	CY23E	CY24E			
AEON CO	AEON MK	HOLD	1.13	1.14	1,586.5	16.2	14.5	(26.2)	12.2	2.7	0.9	5.3	2.7	3.2
BAT	ROTH MK	SELL	9.10	7.90	2,598.3	11.7	11.4	(23.9)	3.2	9.5	6.6	56.4	7.6	7.8
BONIA	BON MK	HOLD	1.76	1.68	352.7	7.6	8.6	5.7	(10.9)	3.0	0.8	10.5	5.3	4.4
CARLSBERG	CAB MK	HOLD	19.20	20.96	5,870.4	17.7	17.8	4.3	(0.6)	12.5	28.3	159.4	4.9	4.9
DKSH	DKSH MK	HOLD	4.55	5.00	717.3	6.7	6.1	3.2	9.9	4.2	0.8	11.6	2.5	2.9
HEINEKEN MALAYSIA	HEIM MK	HOLD	22.38	23.11	6,761.0	17.4	16.2	(5.9)	7.5	11.7	13.8	79.5	5.7	6.2
MR D.LY	MRDIY MK	HOLD	1.53	1.53	14,446.5	25.8	23.4	18.6	10.0	12.6	8.4	32.7	1.9	2.1
NESTLE	NESZ MK	HOLD	117.70	120.40	27,600.6	40.3	38.8	1.6	3.8	24.1	48.3	108.1	2.5	2.5
NTPM	NTPM MK	BUY	0.39	0.54	438.0	128.6	28.2	68.1	>100	10.9	0.9	0.7	2.1	2.1
FPB	PEP MK	BUY	14.58	17.00	20,741.5	17.5	12.6	(48.5)	39.1	44.1	0.7	4.3	1.7	2.4
QL RESOURCES	QLG MK	BUY	5.53	6.30	13,458.1	33.4	30.2	28.0	10.6	15.4	4.8	14.2	1.4	1.5
SCICOM	SCIC MK	BUY	1.09	1.32	387.4	12.5	11.6	0.6	8.1	6.3	3.2	26.0	7.3	7.3
RHONE MA	RHM MK	HOLD	0.69	0.68	152.6	13.3	12.6	1.8	5.3	8.0	0.9	7.1	2.2	2.9
FIAMMA	FHB MK	SELL	0.92	0.59	485.2	12.2	15.0	3.2	(18.3)	8.4	0.7	6.0	2.5	2.0
JAYCORP	JAYC MK	SELL	0.77	0.52	205.6	12.2	12.3	(14.4)	(1.1)	4.8	1.0	8.4	6.8	5.2
Average					95,801.8	23.2	20.1	(20.2)	15.7	15.4	8.0	13.7	3.8	3.8

Source: Bloomberg, Affin Hwang forecasts
Note: Pricing as of close on 12th December

Sector Outlook

“We see the local EMS sector as a prime beneficiary of the ongoing US-China tensions”

Absolute performance (%)

	1M	3M	12M
VSI	-7.7	-15.2	-10.2
MTAG	3.4	5.8	-16.5
NATGATE	14.0	3.8	-
PIE	4.1	12.2	23.9

Relative performance (%)



Source: Bloomberg

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Electronic Manufacturing Services (EMS)

OVERWEIGHT (maintain)

Benefitting from US-China geopolitical tensions

- We see the EMS sector as a prime beneficiary of the ongoing US-China geopolitical tensions, leading to a rising trend of companies diversifying their supply chains away from China
- Together with increased FDI into Malaysia’s E&E industry, we expect the local EMS sector to undergo structural growth in the coming years
- We reiterate an OVERWEIGHT stance on the sector, with NATGATE and PIE as top sector BUYs

Likely key focus for 2024

We see the EMS sector as a prime beneficiary of trade diversions and the “China plus one” policy arising from the US-China geopolitical tensions. As tariffs and embargoes from the trade war have made it more expensive to export China-made goods to the US, and increasingly difficult for Chinese firms to obtain critical components, a rising number of MNCs as well as homegrown Chinese firms are gradually diversifying its supply chains outside of China – thus, Malaysia, given its geopolitical neutrality as well as mature ecosystem, has been one of the key beneficiaries of the changes.

Earnings outlook – visibility, momentum and risk

While earnings growth is promising over the long term (in tandem with the boom in the domestic EMS sector), a few companies under coverage may still see some weakness in earnings in 1H24 in tandem with the slowdown in the global semiconductor industry. Nonetheless, we believe an earnings recovery will kick in from 2H24 once the semiconductor cycle turns and supply chain diversification efforts come into fruition.

Our view and strategy for 2024

Strategically, we recommend positioning into the sector in 1H24 in anticipation of the upturn in 2H24. We favour the industrial EMS names (e.g. Natgate, PIE) as we see this space as the prime beneficiary of trade diversions, as opposed to consumer EMS names (e.g. VS, SKP) where we feel there is a lack of an immediate re-rating catalyst. From our channel checks, we find that most of the industrial EMS names are currently undergoing expansion (eg, new land acquisitions or plant expansions) in one form or the other, in anticipation of greater orders to come once the cycle turns favourable.

Possible surprises – upside and downside, and catalysts

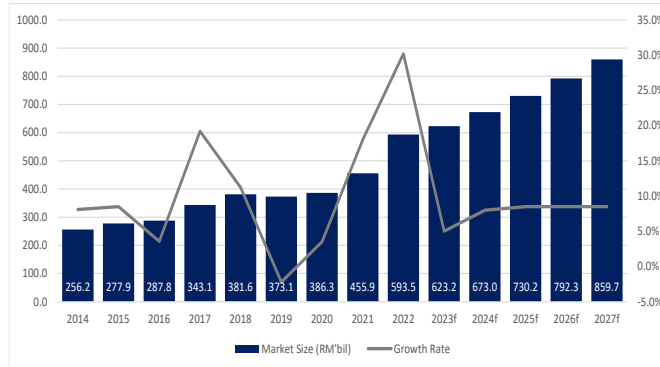
Any further delay in the recovery of the semiconductor sales cycle, coupled with slower sell-through demand for industrial end products, still pose as main key downside risks for our recommendation on the sector. Nonetheless, we expect the EMS space (specifically the industrial EMS space) to undergo a structural boom over the next couple of years, with ongoing efforts by MNCs in supply chain diversification as one of its main catalysts.

Valuation and recommendation, key stock ideas

We remain **OVERWEIGHT** on the EMS sector, favouring the industrial EMS names. Our sector top picks are **NATGATE** (BUY – TP: RM1.80) and **PIE** (BUY – TP: RM3.90). Meanwhile, we are neutral towards consumer EMS names – e.g. **VS** (HOLD – TP: RM1.05).

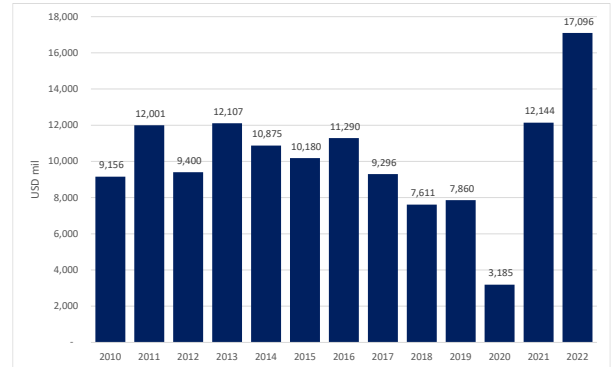


Fig 30: Size of EMS market in Malaysia



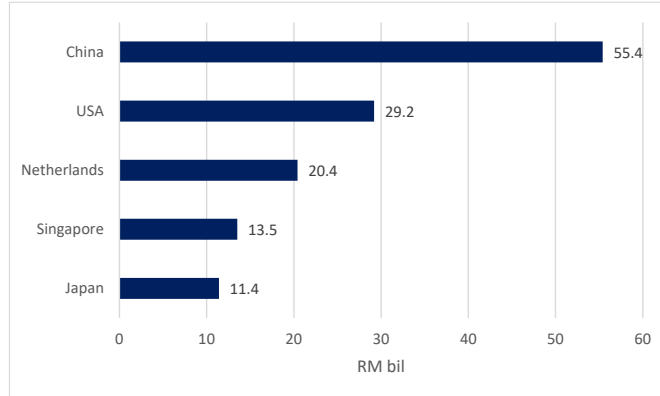
Source: Statista, DOSM, Protégé Associates, Affin Hwang

Fig 29: FDI into Malaysia



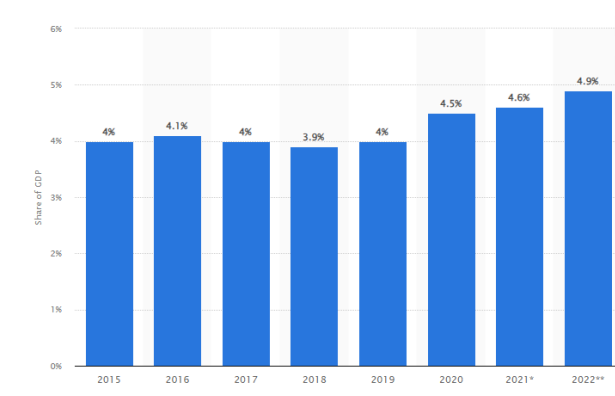
Source: ASEANstats, Affin Hwang

Fig 32: Top FDI countries into Malaysia



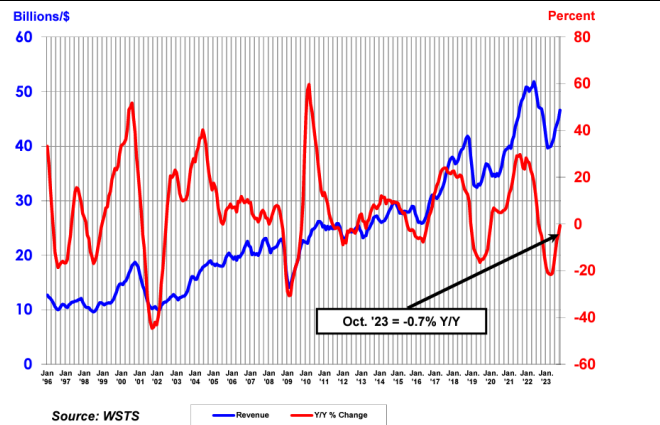
Source: MIDA, Affin Hwang

Fig 33: Malaysia E&E manufacturing as a share of GDP



Source: Statista

Fig 34: Worldwide semiconductor revenue



Source: WSTS

Fig 35: World semiconductor market – forecast summary

	Fall 2023			Year on Year Growth in %		
	2022	2023	2024	2022	2023	2024
Americas	141,136	132,536	162,154	16.2	-6.1	22.3
Europe	53,853	57,048	59,480	12.8	5.9	4.3
Japan	48,158	47,209	49,275	10.2	-2.0	4.4
Asia Pacific	330,937	283,333	317,455	-3.5	-14.4	12.0
Total World - \$M	574,084	520,126	588,364	3.3	-9.4	13.1
Discrete Semiconductors	33,993	35,951	37,459	12.0	5.8	4.2
Optoelectronics	43,908	42,583	43,324	1.2	-3.0	1.7
Sensors	21,782	19,417	20,127	13.7	-10.9	3.7
Integrated Circuits	474,402	422,174	487,454	2.5	-11.0	15.5
Analog	88,983	81,051	84,056	20.1	-8.9	3.7
Micro	79,073	76,579	81,937	-1.4	-3.2	7.0
Logic	176,578	174,944	191,693	14.0	-0.9	9.6
Memory	129,767	89,601	129,768	-15.6	-31.0	44.8
Total Products - \$M	574,084	520,126	588,364	3.3	-9.4	13.1

Note: Numbers in the table are rounded to whole millions of dollars, which may cause totals by region and totals by product group to differ slightly.

Source: WSTS

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY24E	CY23E	CY24E			
VS INDUSTRY	VSI MK	HOLD	0.83	1.05	3,197.9	15.0	13.0	5.7	15.5	8.0	1.4	9.6	2.8	3.1
NATIONGATE	NATGATE MK	BUY	1.38	1.80	2,862.0	41.4	26.6	(20.4)	55.4	21.5	7.0	16.8	0.7	1.1
PIE INDUSTRIAL	PIE MK	BUY	3.30	3.90	1,267.3	20.8	16.1	(14.0)	29.1	12.5	2.1	10.1	0.9	0.8
Average					6,059.9	17.7	14.0	(4.5)	26.0	11.3	3.5	11.0	1.5	1.7

Source: Bloomberg, Affin Hwang forecasts
Note: Pricing as of close on 12 December 2023

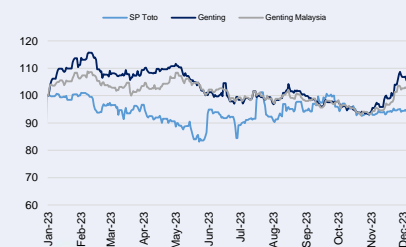
Sector Outlook

“We prefer companies that register meaningful recoveries in earnings”

Absolute performance (%)

	1M	3M	12M
GENTING	0.7	-2.6	-9.8
GENM	12.3	9.4	6.9
SPTOTO	8.1	4.7	2.3

Relative performance (%)



Source: Bloomberg

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Gaming

NEUTRAL (maintain)

Selective exposure

- We maintain our NEUTRAL call on the sector and prefer stocks that offer a more meaningful earnings recovery. The top pick within the sector is Genting Bhd (TP: RM5.30)
- Key focus in 2024 will revolve around the earnings momentum of gaming companies which have yet to reach pre-pandemic levels
- Upside risks to the sector include an increase in discretionary spending powered by consumers and improvements in tourist footfall. A key downside risk to the sector would be a higher-than-expected inflationary environment

Likely key focus for 2024

We believe the investor focus for 2024 remains upon the earnings recovery momentum of gaming companies, given that earnings have yet to reach pre-pandemic levels (each company faces its own set of challenges). For Sports Toto, the Number Forecasts Operators industry faces a loss of market share to the illicit market coupled with uncertainties in potential policies surrounding the industry. To recap, the company had been impacted by a reduction in special draws and the closure of outlets in the state of Kedah. Meanwhile, Genting Malaysia (GenM) is hit by losses in its associate (Empire Resorts) as it faces a higher operating cost environment (eg the opening of the outdoor theme park and higher group interest expenses) despite EBITDA already achieving pre-pandemic levels. Genting Berhad’s (GenT) focus revolves around the sustainability of the strength of its Singapore operations which had recently exceeded pre-pandemic levels.

Earnings outlook – visibility, momentum and risk

The casino operators are expected to register strong growth in 2024E earnings (coming off from a low base), with GenT/GenM expected to register 75%/55% growth. This implies GenT reaching pre-pandemic earnings in 2024E and GenM only in 2025E, as GenT’s performance has been supported by strong Singapore contributions coupled with higher associate contributions from its power plant. On Sports Toto, we believe sales momentum will only see a gradual growth from the current levels (or 15% below pre-pandemic) due to a loss of market share to the illicit market, among others. Earnings risk will stem from a higher-than-expected payout as seen in the recent results.

Our view and strategy for 2024

We prefer exposure to companies with meaningful recoveries in earnings, i.e. GenT. As such, we remain selective within the sector, relative to our peers, as we do not see meaningful recoveries coming from GenM and Sports Toto.

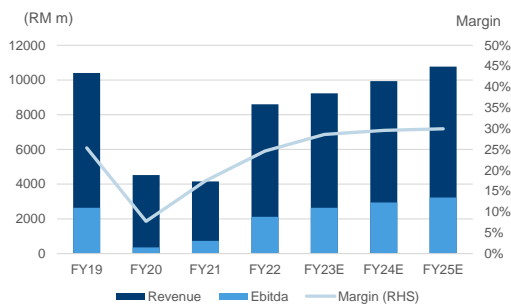
Possible surprises – upside and downside, and catalysts

Upside risks to the sector include: i) stronger discretionary spending power by consumers; ii) a sharp increase in casino footfall; and iii) stronger China visitations particularly in Resorts World Singapore. Meanwhile, a key downside risk would be worsening economic conditions resulting in lower footfall and gaming volume.

Valuation and recommendation, key stock ideas

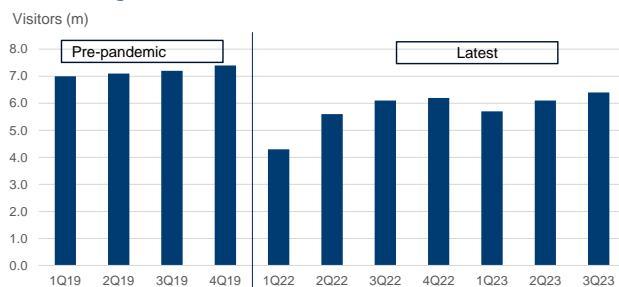
We remain NEUTRAL on the sector as most of the stocks under coverage have share price levels which are reflective of the lukewarm recovery rate of companies under our coverage. We take this opportunity to reduce our holding company discount for Genting Bhd given the recent improvement in earnings momentum. Our top sector BUY is Genting Bhd (TP: RM5.30, from RM5.10 previously). The stock currently trades at 1SD below its 5-year EV/EBITDA multiple and should sustain share price outperformance amid a stronger earnings recovery. We have HOLD calls on GenM (TP: RM2.75), and Sports Toto (TP: RM1.45).

Fig 34: GENM's EBITDA growth will be primarily driven by the Malaysian operations



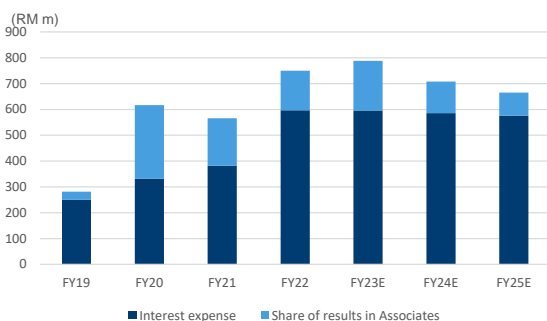
Source: Company data, Affin Hwang estimates

Fig 35: GENM's mid-hill visitation yet to return to pre-pandemic average



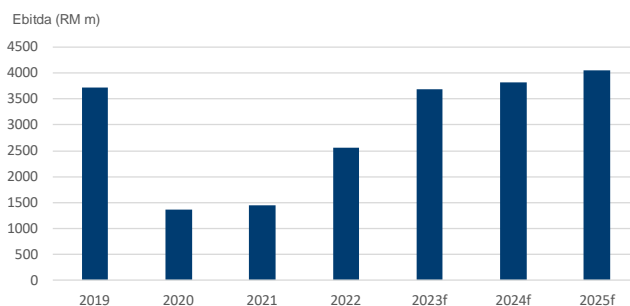
Source: Company data, Affin Hwang estimates

Fig 36: GENM's bottomline now hit by losses from its associate and higher interest expenses



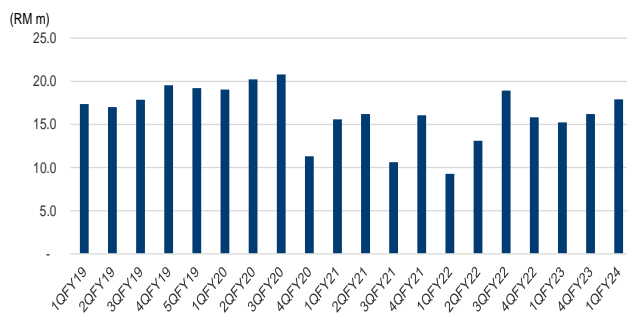
Source: Company data, Affin Hwang estimates

Fig 37: GENS' 2024E EBITDA to exceed pre-pandemic levels



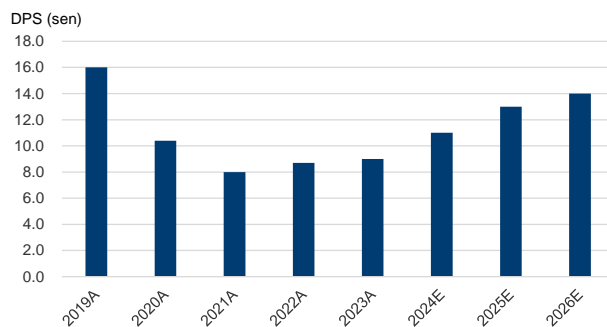
Source: Company data, Affin Hwang estimates

Fig 38: Sports Toto's revenue per draw day currently averages below pre-pandemic levels



Source: Company data, Affin Hwang estimates

Fig 39: We expect Sport Toto to see a meaningful rise in dividend declarations, albeit still below pre-pandemic levels



Source: Company data, Affin Hwang estimates

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY24E	CY23E	CY24E			
SPORTS TOTO	SPTOTO MK	HOLD	1.48	1.45	1,957.9	9.7	9.4	11.8	3.8	6.0	2.0	20.8	6.8	8.1
GENTING	GENT MK	BUY	4.66	5.30	17,943.7	13.8	7.9	>100	74.6	3.8	0.3	2.4	4.1	4.1
GENTING MALAYSIA	GENM MK	HOLD	2.66	2.75	15,076.2	23.2	15.0	>100	54.7	9.2	1.2	5.2	5.3	6.0
Average					34,977.7	16.3	10.1	>100	61.9	5.1	1.2	(0.9)	5.4	6.1

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023



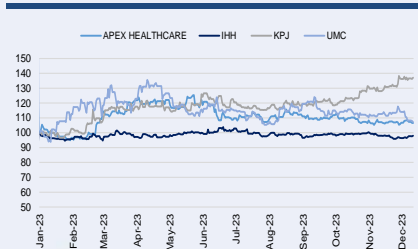
Sector Outlook

"2024 earnings growth will be driven by ongoing demand growth"

Absolute performance (%)

	1M	3M	12M
AHEALTH	-0.4	-3.2	7.9
IHH	0.2	-1.0	1.3
KPJ	7.2	13.6	41.8
UMC	-4.7	-14.0	-7.2

Relative performance (%)



Source: Bloomberg

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Healthcare

OVERWEIGHT (maintain)

Ongoing growth driven by sustained demand

- We remain OVERWEIGHT on the sector given its consistent earnings delivery amidst the rising demand for healthcare products and services
- Our top sector BUYs are unchanged: i) KPJ (TP: RM1.60) from the realisation of its cost optimisation efforts coupled with ongoing inpatient volume growth; and UMC (TP: RM1.00) for its earnings growth trajectory from its recent expansion
- Downside risks to our thesis include stronger-than-expected inflationary pressure, sizeable nursing shortages amongst hospital operators, and impacted production and expansion plans for manufacturers

Likely key focus for 2024

2024 key focus in the sector will largely revolve around the resiliency of its earnings delivery and how the companies navigate around inflationary pressures faced. Earnings delivery will be dependent upon: i) occupancy of hospital operators; ii) revenue intensity per patient of hospital operators; iii) the magnitude of inflationary pressures; iv) demand for products of manufacturers; and v) expansion pipeline.

Earnings outlook – visibility, momentum and risk

Earnings growth is expected to be seen across our coverage (except for Apex Healthcare) for 2024E, on the back of higher inpatient volume in hospitals coupled with stronger manufacturing contributions for contract manufacturers. The largest yoy growth in earnings comes from UMC, given its recent expansion and strong demand for its pre-filled humidifiers (FY24E-26E earnings growth in the range of 13-27% per annum). For hospital operators (i.e. KPJ and IHH), ongoing improvements in inpatient volumes are expected to continue driving earnings growth, with KPJ further benefitting from cost optimisation efforts previously carried out, coupled with the ongoing divestment initiatives of its loss-making foreign ventures. On the other hand, we have pencilled in an earnings decline for Apex Healthcare as we expect demand for its consumer healthcare products to slow down coming off from a high base of the post-pandemic demand. We do not foresee earnings delivery risks within the sector, as we believe our estimates are on the conservative end.

Our view and strategy for 2024

We continue to like the healthcare sector given its ability to deliver sustained earnings in times of high inflation and economic slowdown, given the rising demand. The relatively consistent earnings delivery vis-à-vis other sectors should garner investor interest.

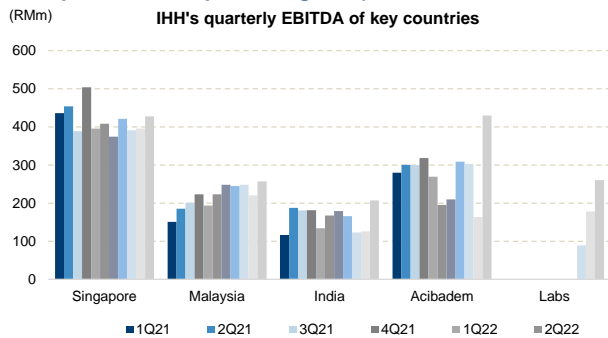
Possible surprises – upside and downside, and catalysts

Our positive view on the sector is premised upon the sector's earnings growth trajectory. Key downside risks for our investment thesis include stronger-than-expected inflationary pressure, sizeable nursing shortages amongst hospital operators, and impacted production and expansion plans for manufacturers.

Valuation and recommendation, key stock ideas

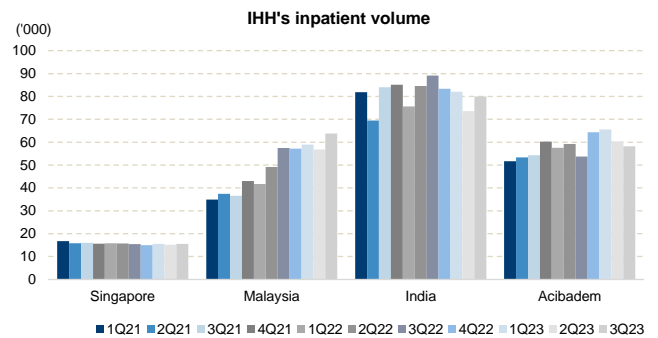
We remain OVERWEIGHT on the sector, as we are optimistic on the demand for healthcare products and services to be on the rise amidst increased health awareness post-pandemic. New competition within the space should be limited in the near term due to the highly regulated nature of the sector. Our top BUYs for the sector are KPJ (TP: RM1.60) and UMC (TP: RM1.00). We also have a BUY call on IHH (TP: RM6.70) and a HOLD call on Apex Healthcare (TP: RM2.40).

Fig 36: IHH quarterly EBITDA trend (Laboratory business now reported as a separate segment)



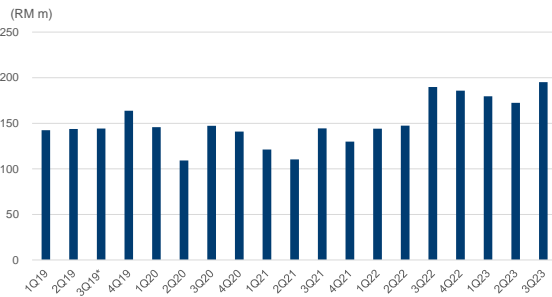
Source: Bloomberg. Note: Volatility in Acibadem operations due to hyperinflationary accounting treatment which will be adjust as an exceptional item

Fig 37: IHH inpatient volume trend



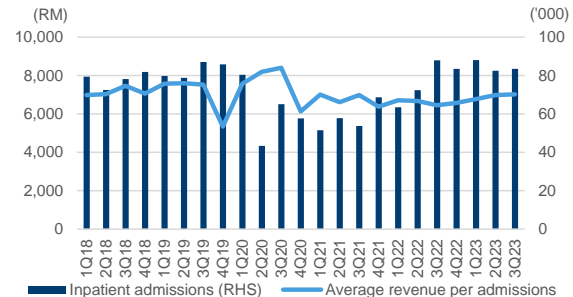
Source: Bloomberg. Note: India's 2Q-3Q 2022-2023 have been restated to reflect the removal of divested hospitals

Fig 38: KPJ's quarterly EBITDA trend



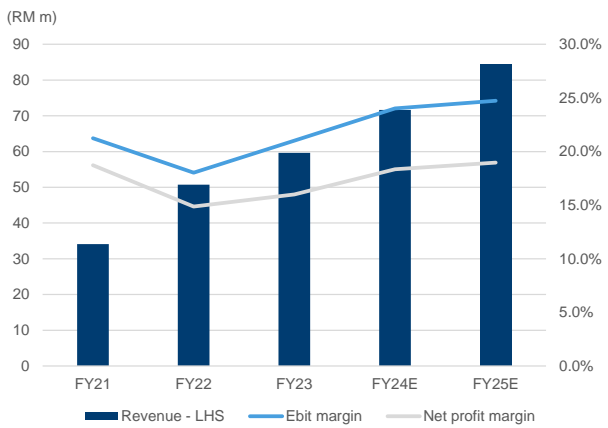
Source: Bloomberg

Fig 39: KPJ's inpatient volume trend improving (Malaysia)



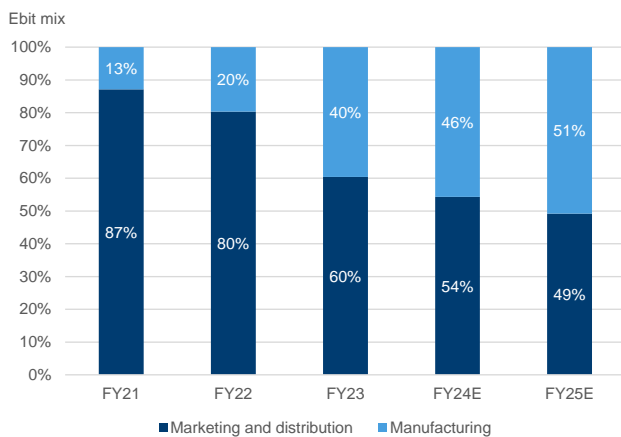
Source: Bloomberg

Fig 40: UMC's earnings growth trajectory supported by stronger margins



Source: Company data, Affin Hwang estimates

Fig 41: UMC's margin expansion supported by growing manufacturing contributions



Source: Bloomberg

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
APEX HEALTHCARE	APEX MK	HOLD	2.42	2.40	1,738.5	18.1	19.1	(5.3)	3.4	11.7	3.1	11.5	3.4	3.2
IHH	IHH MK	BUY	5.90	6.70	51,961.3	34.5	31.5	9.3	7.3	13.0	2.0	5.4	1.0	1.1
KPJ	KPJ MK	BUY	1.34	1.60	5,848.2	27.3	21.9	24.7	9.7	10.4	2.6	9.0	1.7	2.1
UMEDIC	UMC MK	BUY	0.71	1.00	263.6	24.0	18.4	30.3	(34.9)	14.5	4.7	16.3	0.0	0.0
Average					59,811.5	32.8	29.7	10.4	7.1	12.6	3.1	6.2	1.5	1.6

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

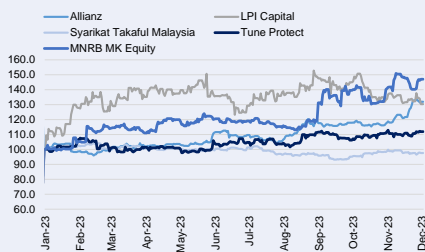
Sector Outlook

“The industry is seeing a recovery in demand, though facing challenges in loss ratios”

Absolute performance (%)

	1M	3M	12M
Allianz Malaysia	9.1	15.0	33.5
LPI Capital	-1.3	3.6	-6.4
Sykt Takaful	0.5	0.0	6.1
MNRB (non-rated)	-4.8	-6.0	41.1
Tune (non-rated)	-2.3	7.8	40.4

Relative performance (%)



Source: Bloomberg

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Insurance

NEUTRAL (maintain)

Drivers from resilient domestic demand

- The positive industry growth momentum seen in 2023 is expected to carry through to 2024 driven by resilient domestic demand, a recovery in business activities and the need for a higher level of life/medical coverage
- Nonetheless, insurers continue to face competition, cope with high claims ratios and strict ESG compliance pressure (including mitigating climate risks and avoiding exposure to high project risks)
- Reiterate NEUTRAL rating. Our pick is Allianz Malaysia for accelerated profit recognition on improved dividend yields. Upside/downside risks: lower/higher claims costs; ability/inability to re-price medical policies

Likely key focus for 2024

The general insurance industry surprised us with a 1H23 growth of 9.9% yoy underpinned by robust growth in the motor, fire, liability, MAT (marine, aviation, transit) and miscellaneous segments. The life insurance industry saw a 6.4% yoy growth in new business premium in 1H23, underpinned by both life (+8% yoy) and investment-linked products (+4.3% yoy). The Takaful industry saw growth of 20% yoy in the general segment though the Family segment saw a decline of 3.9% yoy. Industry data was not favourable for general insurance underwriting profit, down a significant 37.8% yoy in 1H23 (due to underwriting loss in motor while fire also saw a decline in underwriting profit) – largely from the elevated claims cost. Hence, in 2024, we see the scope for risks to be priced effectively under a liberalized pricing environment (in Phase 2B) while efforts to reduce fraudulent claims and safe driving could help to lower the motor claims ratio. Demand for investment-linked products (under Life) may recover amid a resilient economy, stable unemployment rate and higher income level (for T20 and upper middle class), but we do not expect overall profitability of the insurance companies under coverage to see a significant expansion. Our forecasts for 2023E/24E/25E: General insurance industry to grow at +10%/+7%/ +7% yoy (based on GWP) and the Life insurance industry at +4%/+4%/+3.5% yoy (based on new business growth).

Earnings outlook – visibility, momentum and risk

MFRS17 forecasts, based on an incurred-based approach of revenue and claims, and a more uniformed allocation of contractual service margin will result in more predictable future earnings and higher dividend payouts. Key risks for 2024: i) deceleration in big ticket item sales (i.e. vehicle and property); ii) higher claims and frauds.

Our view and strategy for 2024

Our preference is for insurance players which have strong competitive advantages, a high level of contractual service margin, and more guaranteed product offerings.

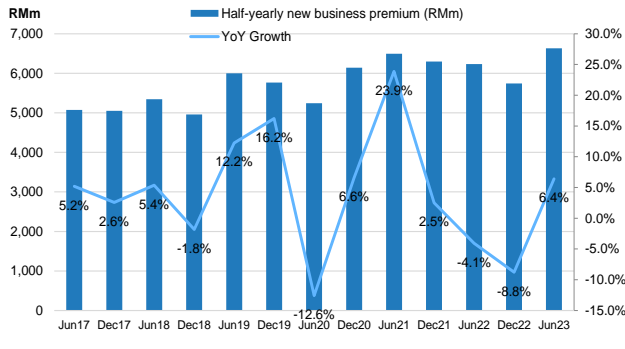
Possible surprises – upside and downside, and catalysts

Positive catalysts: Robust vehicle and property sales, higher dividend payout under MFRS17, more rationality in pricing amid competition. **Negative catalysts:** Weak auto/housing markets, higher surrender and death rates, inability to reprice policies and lower returns from the equity/bond markets.

Valuation and recommendation, key stock ideas

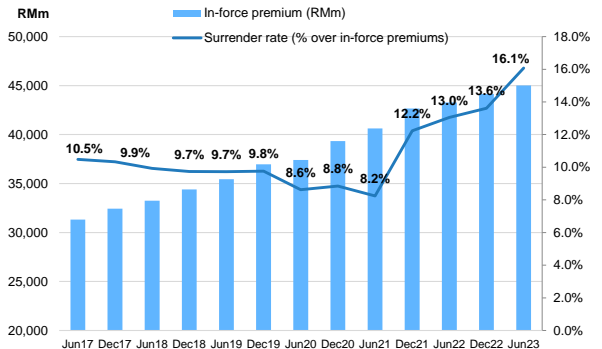
Maintain **NEUTRAL** sector rating. Our preferred pick is **Allianz Malaysia’s (HOLD, TP: RM19.60 based on SOTP)**, as it leverages its extensive distribution network (agency force and banca-partnerships) for Life and General products. **Sykt Takaful (HOLD, TP: RM3.70)** is driven by new demand/refinancing of consumer credit, supported by banca-partnerships and the government housing market. **LPI Capital (HOLD, TP: RM12.50)** continues to leverage its strong industry expertise and leadership and maintained its position as the No. 1 player in the higher-margin fire insurance segment.

Fig 40: Life insurance industry growth



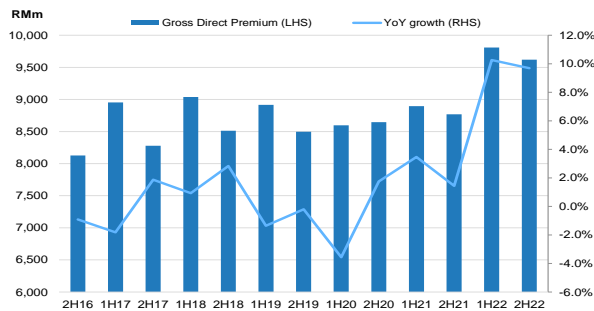
Source: BNM, Affin Hwang

Fig 41: Life insurance in-force premium and surrender rate



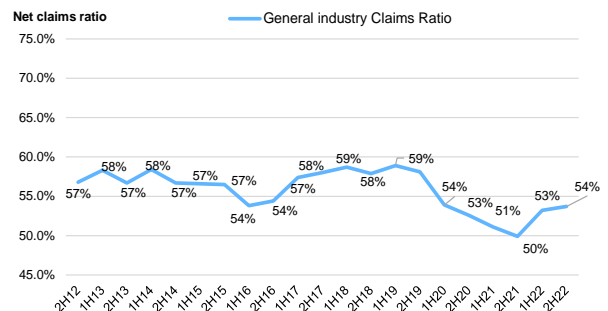
Source: BNM, Affin Hwang

Fig 42: General insurance industry growth



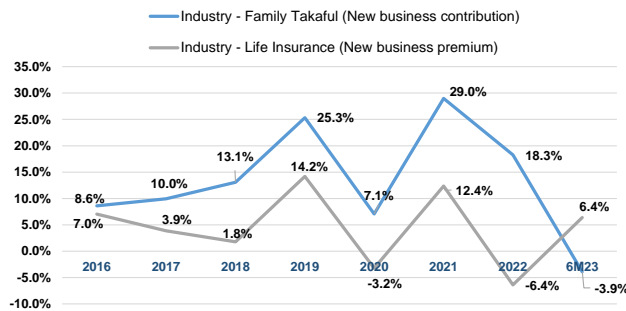
Source: BNM, Affin Hwang

Fig 43: General insurance net claims ratio



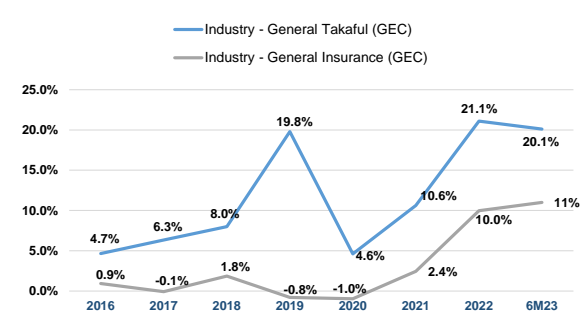
Source: BNM, Affin Hwang

Fig 44: Conventional life vs. Family Takaful growth rate



Source: Bloomberg, Affin Hwang

Fig 45: General insurance vs. general Takaful growth rate



Source: Bloomberg, Affin Hwang

Peer Comparison

Company Name	Bloomberg Ticker	Rating	Price (8 Dec) (RM)	TP (RM)	Mkt Cap (RMm)	Core PE(x)		Core EPS growth (%)		P/BV (x)		ROE (%)		DPS (sen)		Div Yield (%)	
						CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
ALLIANZ MSIA*	ALLZ MK	HOLD	18.40	19.60	6,329.7*	9.1	8.8	40.5	4.0	1.4	1.4	15.3	14.8	100.0	105.0	5.4	5.7
LPI CAPITAL	LPI MK	HOLD	11.98	12.50	4,772.6	16.8	16.2	11.2	3.8	2.3	2.2	13.5	13.9	60.7	63.0	5.1	5.3
SYKT TAKAFUL MSIA	STMB MK	HOLD	3.68	3.70	3,081.3	8.1	7.5	20.9	7.5	1.8	1.5	24.3	21.9	15.0	15.5	4.1	4.2
Average						10.4	10.0	27.6	4.9	1.7	1.6	12.5	16.0			4.9	5.1

* Includes market cap for preference shares

Source: Bloomberg, Affin Hwang forecasts - closing prices as of 12 Dec 2023

Sector Outlook

“Generational disruption to the media industry”

Absolute performance (%)

	1M	3M	12M
Astro	-10.8	-27.5	-48.3
Star	0.0	3.6	45.8
MPR	0.0	0.0	-2.3

Relative performance (%)



Source: Bloomberg

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Media

UNDERWEIGHT (maintain)

Evolving and adapting is the name of the game

- Headwinds remain for the media industry mainly due to stiff competition amid a shift towards digital media coupled with market uncertainties due to geopolitical tensions
- We expect Media Prima and Star Media’s earnings to improve from a low base with a recovery in adex, potentially in 2H24, and Astro to post an earnings contraction due to a challenging pay-TV business environment
- Maintain our UNDERWEIGHT call on the Media sector, with Astro as our top SELL

Likely key focus for 2024

To quote CEO of Warner Bros. Discovery David Zaslav, the media industry is going through a “generational disruption”. Investment, consumers’ eyeballs and advertising expenditure (adex) have increasingly migrated to the digital landscape. Competition is now rife for the traditional media companies under our coverage as they not only face off against each other, but also global media titans, social media and piracy. As such, we believe that segments like Astro’s pay-TV will be the hardest hit simply due to the wealth of substitutes available. Names with exposure to adex may fare better, alongside our expectations of a recovery in adex in 2H24. On the cost side, the RM:US\$ rate is expected to peak in 2023 and start to ease in 2024 based on our in-house view, which will benefit newsprint and content costs. Initiatives to adapt to the digital trend such as WOWSHOP setting up shop in TikTok and Astro’s continual investment in Sooka are welcomed and much needed to remain competitive.

Earnings outlook – visibility, momentum and risk

We expect the sector’s earnings to increase by a slight 3.9% yoy in 2024E, underpinned by a rebound in Media Prima and Star Media’s earnings. The earnings growth in 2024E for both names are mainly driven by a low base in 2023E, coupled with our expectations of a recovery in advertising spend in 2H24 with the expected improvement in global economic conditions. Conversely, we are forecasting a slight dip in Astro’s earnings as we remain bearish on its bread and butter, pay-TV division. Adex contribution to Astro’s revenue is in the single digits, much lower compared to that of Media Prima or Star Media at c. >80% in the most recent quarter.

Our view and strategy for 2024

The media industry is likely to remain in the doldrums for 1H24, as we expect soft consumer and business sentiment to spill over from 2023. In our view, continual investment in content, streaming services and technology infrastructure are vital to attract customers, and consequently give advertisers a reason to spend on their respective platforms. Media companies will have to evolve together with media consumption habits to recapture lost eyeballs. For 2H24, we are cautiously optimistic on a recovery in adex, hinging on a rebound in the overall macroeconomic environment. We reiterate our UNDERWEIGHT stance on the sector.

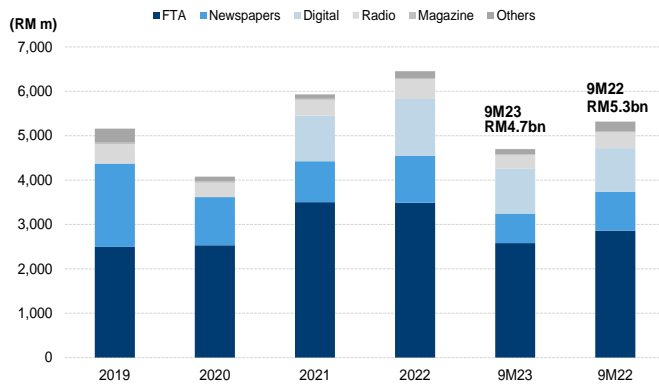
Possible surprises – upside and downside, and catalysts

Possible upside risks to our UNDERWEIGHT rating include: 1) stronger/earlier-than-expected recovery in advertising spend; 2) improvement in the pay-TV business, and 3) stronger-than-expected contribution from the digital, home-shopping and other non-core segments.

Valuation and recommendation, key stock ideas

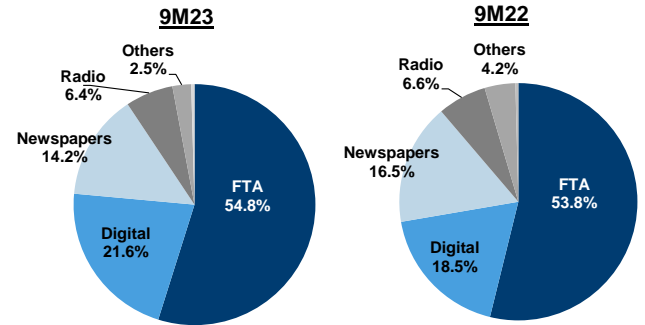
We take the opportunity to trim Astro’s earnings to take into account lower pay-TV subscribers, maintaining our SELL rating with a lower TP of RM0.30 (RM0.33 previously). Other SELLS include Media Prima (TP: RM0.35, 2024E PBR of 0.53x) and Star Media (TP: RM0.29, 2024E PBR of 0.33x). The top SELL for the sector is Astro, due to the poor outlook on the traditional pay-TV business.

Fig 46: Total industry adex



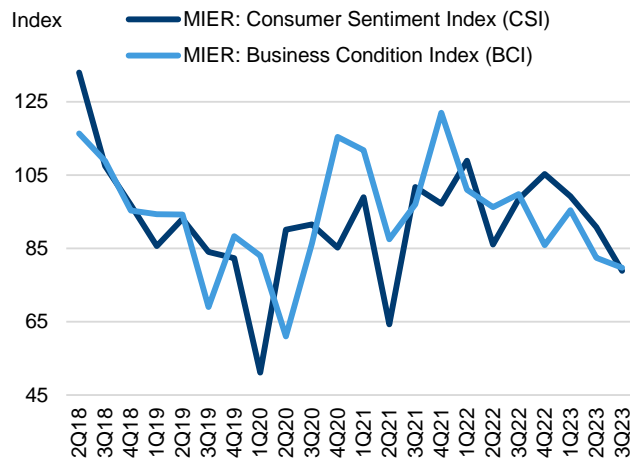
Source: Nielsen, Affin Hwang

Fig 47: Market share of adex 9M23 vs 9M22



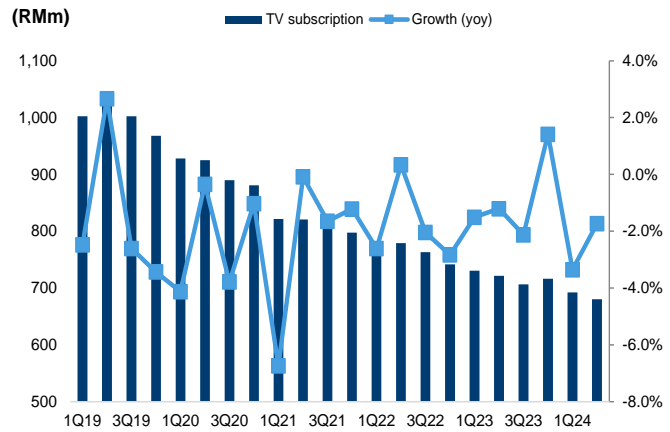
Source: Nielsen, Affin Hwang

Fig 48: Malaysia consumer and business sentiment



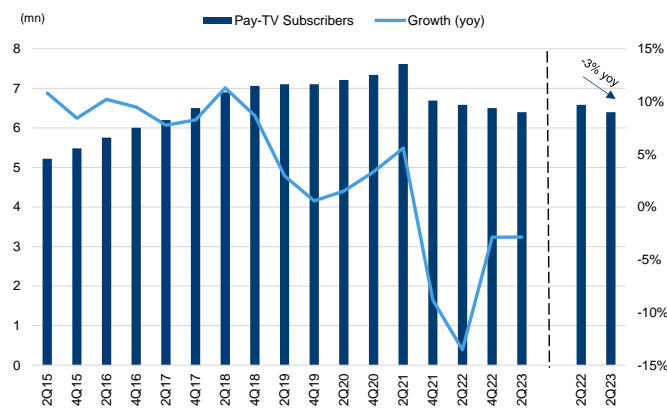
Source: CEIC

Fig 49: Astro's quarterly TV subscription revenue



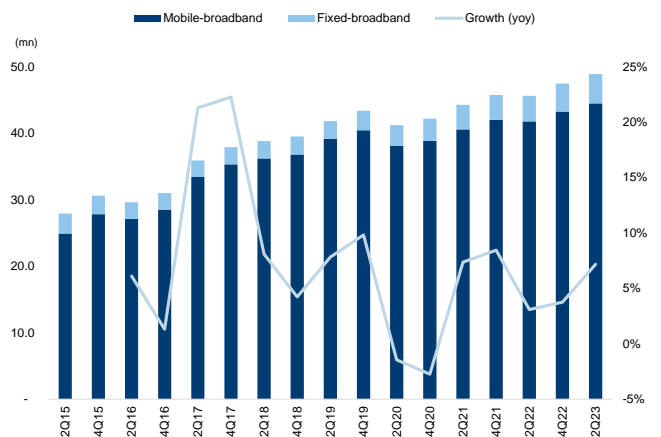
Source: Astro, Affin Hwang

Fig 50: Household Pay-TV Subscribers



Source: MCMC, Affin Hwang

Fig 51: Number of Broadband Subscribers



Source: MCMC, Affin Hwang

Peer Comparison

Company Name	Stock Code	Rating	Share Pr	TP	Mkt Cap	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
			(RM)	(RM)	(RMm)	CY23E	CY24E	CY24E	CY25E	CY23E	CY23E	CY23E	CY23E	CY24E
ASTRO	ASTR MK	SELL	0.37	0.30	1,931.0	8.3	8.4	(1.5)	(5.2)	5.0	1.6	19.3	5.5	5.4
MEDIA PRIMA	MPR MK	SELL	0.43	0.35	471.4	28.3	16.9	67.8	6.5	1.4	0.9	2.5	3.0	1.2
STAR	STAR MK	SELL	0.43	0.29	311.6	99.7	38.0	>100	10.4	(5.4)	0.5	0.5	0.0	1.2
Average					2,714.1	11.0	10.7	3.9	(3.9)	4.5	1.0	7.8	2.8	2.6

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 Dec 2023

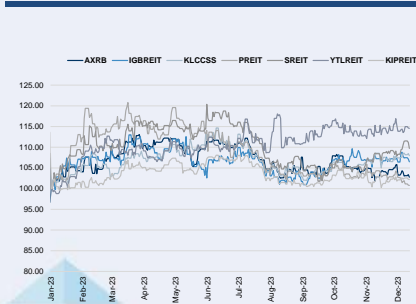
Sector Outlook

“For exposure, we prefer hospitality REITs in anticipation of further recovery in the hotel segment”

Absolute performance (%)

	1M	3M	12M
AXRB mk	0.0	-1.7	-1.1
IGBREIT	-0.6	3.0	2.4
KLCCSS	-0.4	3.1	5.4
PREIT mk	-3.3	-3.3	-4.1
SREIT mk	1.3	3.3	6.2
YTLREIT	1.0	0.0	15.3
KIP mk	-0.6	0.6	-1.1

Relative performance (%)



Source: Bloomberg

MREIT
NEUTRAL (maintain)

Hospitality REITs stand out as our preferred choice

- We expect the 7 MREITs under our coverage to deliver 2024E EPU growth of 1-18% yoy, backed by higher rental income, improved occupancy and further recovery in the tourism sector
- Uncertainties in bond yields may cap their price performance, while grade-A shopping malls’ near-term outlook looks challenging due to heightened competition from the opening of The Exchange TRX. For exposure, we prefer the hospitality REITs in anticipation of further recovery driven by an improved travel sentiment and weak RM relative to the long-term average
- Maintain our NEUTRAL call. We reaffirm our HOLD ratings on six REITs, while reiterating our BUY call on YTLREIT (TP: RM1.11) as a pure play for recovery in the hospitality space

Likely key focus for 2024

Key focus for 2024 include: (i) the global bond and MGS yield trends; (ii) tourist arrival trends; (iii) heightened competition in premium retail malls; (iv) weak RM:US\$ rate in 1H24 and likely strengthening in 2H24; and (v) recovery in consumer and business sentiment.

Earnings outlook – visibility, momentum and risk

We forecast the 7 MREITs under our coverage to record decent EPU growth of between 0.7% yoy and 18.1% yoy, primarily led by AXREIT which is anticipated to recover from a weak performance last year, on improved occupancy rates from the replacement of new tenants. Meanwhile, YTLREIT’s 2024E EPU growth of 10.1% yoy is driven by an improved RevPAR, consistent with our view of a further recovery in the tourism sector. All in all, sustained earnings growth in 2024E for MREIT are backed by positive rental reversion for refurbished assets (SREIT, AXREIT), additional contribution from newly acquired assets (AXREIT, PREIT, KIPREIT, SREIT, YTLREIT) and improved occupancy rates across all asset portfolios.

Our view and strategy for 2024

We maintain our **NEUTRAL** call. The uncertainties in global bond and MGS yields, may cap the MREITs’ price performance. We also exercise caution on the near-term outlook for retail assets due to heightened competition from the recent opening of The Exchange TRX which could divert significant foot traffic from existing premium malls (PREIT, KLCCSS, IGBREIT, SREIT). For exposure, we recommend that investors focus on MREITs with hospitality assets (YTLREIT, SREIT, KLCCSS) for further recovery in the tourism sector, driven by (i) pent-up demand for travelling and improved traveling sentiment; and (ii) weak RM:US\$ rate relative to the historical average, potentially enhancing Malaysia’s allure as an international travel and shopping destination. We foresee office assets (KLCCSS, SREIT, PREIT) remaining stable, backed by long-term leasing agreements and increased demand for onsite employment, which could support the weekday footfall at retail malls.

Possible surprises – upside and downside, and catalysts

Upside/downside risks: (i) cut/hike in OPR; (ii) declining/rising domestic bond yields, (iii) weaker/stronger traveling sentiment; (iv) weaker/stronger RM and (iv) lower/higher customer footfall in shopping malls.

Valuation and recommendation, key stock ideas

With an average 2024E distribution yield of 6.4%, MREITs’ valuation looks fair to us. We reaffirm our HOLD ratings on six REITs while we reiterate our BUY call on YTLREIT (TP: RM1.11) as a pure play for a further recovery in the hospitality space, backed by an attractive 2024E dividend yield of 6.8%.

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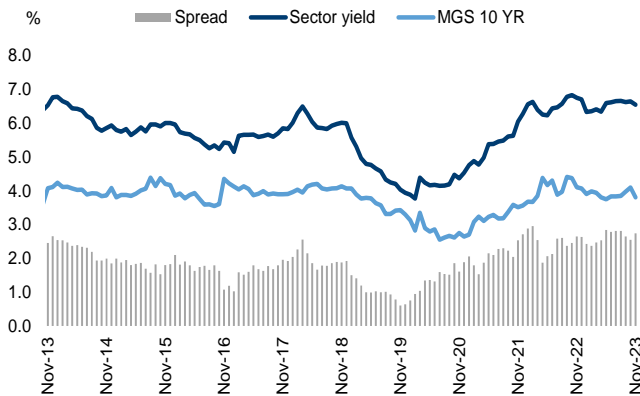
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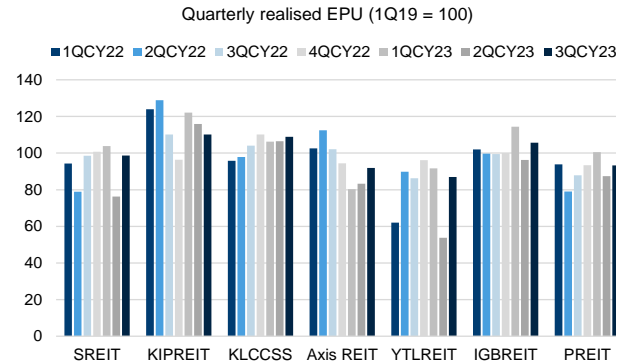
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Fig 52: Yield spread: MREITs versus 10-year MGS yields



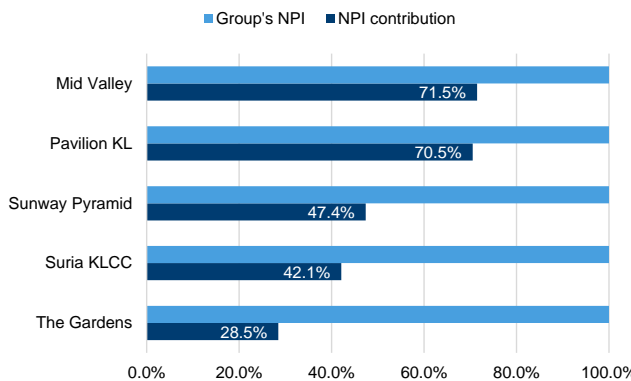
Source: Bloomberg, Affin Hwang

Fig 53: MREITs' quarterly realised EPU



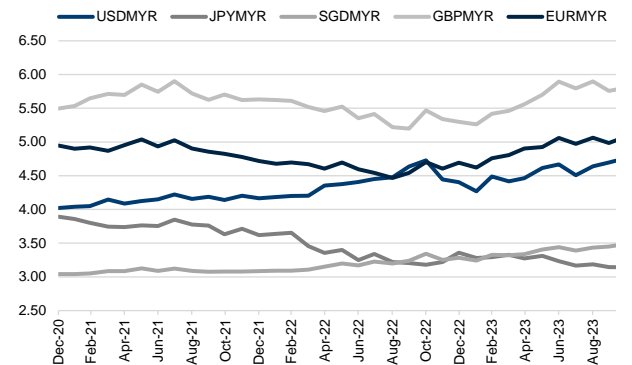
Source: Company, Affin Hwang

Fig 54: Retail malls' NPI contribution to the group



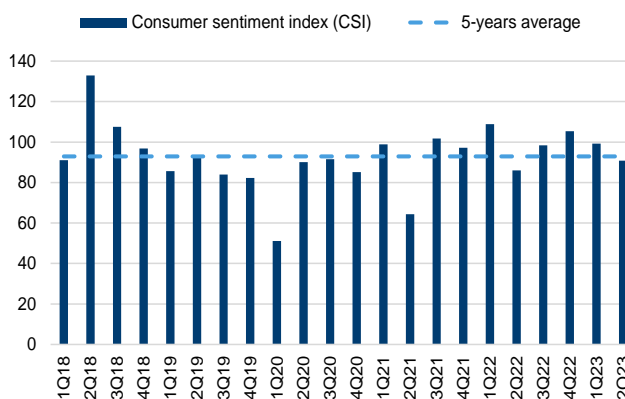
Source: BNM, Bloomberg, Affin Hwang

Fig 55: A weak RM against foreign currencies



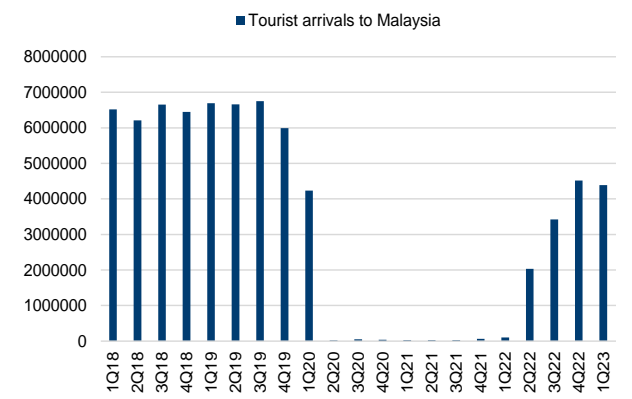
Source: Company, Affin Hwang

Fig 56: Consumer sentiment index close to its 5-year average



Source: MIER

Fig 57: Strong rebound in tourist arrivals to Malaysia



Source: Tourism Malaysia with the cooperation of Immigration Department

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	
						CY23E	CY24E	CY24E	CY25E				CY23E	CY24E
AXIS REIT	AXRB MK	HOLD	1.78	1.94	3,099.1	21.5	18.1	18.9	5.4	18.9	1.1	5.3	4.7	5.5
IGB REIT	IGBREIT MK	HOLD	1.70	1.81	6,122.8	17.4	17.1	1.9	2.3	17.8	1.6	9.0	5.9	6.0
KIP REIT	KIP MK	HOLD	0.90	0.90	553.7	13.6	13.0	5.3	(47.8)	15.3	1.0	6.0	7.0	7.3
KLCC	KLCCSS MK	HOLD	7.01	7.60	12,655.4	16.0	15.9	0.7	8.3	15.2	1.0	6.0	5.8	5.9
PAVILION REIT	PREIT MK	HOLD	1.18	1.30	4,309.8	14.2	13.7	3.4	1.6	18.7	1.1	7.1	7.3	7.6
SUNWAY RET	SREIT MK	HOLD	1.55	1.60	5,308.5	16.7	16.4	2.0	3.8	17.4	1.0	5.8	6.0	6.1
YTL REIT	YTLREIT MK	BUY	1.02	1.11	1,738.5	12.4	11.2	10.1	3.5	15.2	0.6	4.9	9.1	9.5
Average					33,787.6	16.3	15.6	3.5	4.0	16.7	1.0	6.9	6.5	6.8

Source: Bloomberg, Affin Hwang forecasts

Note: Pricing as of close on 12 December 2023

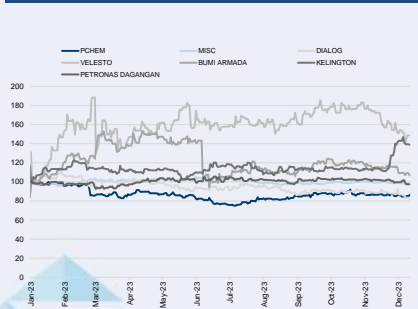
Sector Outlook

“Despite uncertainty in oil prices, we believe the global capex upcycle is unlikely to be derailed”

Absolute performance (%)

	1M	3M	12M
PCCHEM	-1.4	1.3	-16.4
MISC	-1.5	-0.1	-1.3
PETD	-4.8	-4.8	-0.8
DLG	-8.6	-9.4	-17.9
VEB	-10.0	-8.2	45.2
BAB	-7.5	-4.8	2.1
KGRB	22.5	23.3	25.9

Relative performance (%)



Source: Bloomberg

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Oil and Gas

NEUTRAL (maintain)

Positioning for the capex upcycle

- While oil prices continue to fluctuate and remain uncertain, we believe the current global capex upcycle is unlikely to be derailed given severe under-investment in prior years and intensified focus on energy security
- We see a need to be more selective in our stock selection and prefer contractor names given their higher earnings certainty from an improved activity outlook
- Maintain our NEUTRAL call on the sector, with Bumi Armada as our O&G top sector pick. We also see Velesto and potentially Dayang as beneficiaries of increased Petronas capex. Meanwhile, we also like Kelington as a beneficiary of rising wafer fab equipment spending

Likely key focus for 2024

Oil prices continue to fluctuate and remain uncertain amid sluggish energy demand outlook from China and the US, coupled with the US output nearing record highs – all while OPEC+ remains committed to its output cuts (2.2m bpd in 1Q24). Nonetheless, the industry capex upcycle continues to remain intact, in the aftermath of severe under-investment in prior years, coupled with an intensified focus on energy security globally.

Earnings outlook – visibility, momentum and risk

2023 has been a challenging year earnings-wise, especially for big-caps (eg, PCCHEM, MISC), as well as selected contractors (eg, Bumi Armada). Going forward, 2024 should see some reprieve for selected big caps should market conditions improve – ie, rebound in petrochemical product prices benefitting PCCHEM, and improvement in spot petroleum tanker charter rates benefitting MISC. For contractors and service providers, earnings recovery seems more certain, driven by continued industry spending and the improved activity outlook/asset utilisation – eg, Velesto is expected to post strong growth amid the improved rig utilisation and surge in charter rates, while Bumi Armada should see a strong earnings recovery from the resumption of its Kraken FPSO.

Our view and strategy for 2024

We opt to be more selective going into 2024, favouring the contractors and service provider names given their higher certainty on earnings, underpinned by continued industry spending, coupled with their lesser reliance on oil prices and market conditions. Capex spending from major oil producers is expected to remain elevated in 2024, with Petronas also guiding for an average of ~RM60bn capex per year for the next five years.

Possible surprises – upside and downside, and catalysts

Further fluctuations in underlying oil prices remain one of the major risks (both upside and downside) within the sector. Should oil prices decline rapidly (i.e. Brent falling below US\$50/barrel), especially in an event of a major recession, economic feasibility of sanctioned projects may need to be re-looked – and thus activity outlook and industry spending may be hampered as well.

Valuation and recommendation, key stock ideas

We remain **NEUTRAL** on the sector, with an average Brent crude assumption of US\$88/barrel for 2024. The top pick remains **Bumi Armada** (BUY – TP: RM0.75), given its compelling valuation (trading at 4-5x forward PER) with its Kraken FPSO resuming full operations. We also highlight **Velesto** (BUY – TP: RM0.29) and potentially **Dayang** (DEHB MK – Not Rated) as beneficiaries of Petronas activity outlook and capex spending. **Kelington** (BUY – TP: RM2.40) is also one of our favourite picks, benefitting from the rise in regional wafer fab equipment spending.

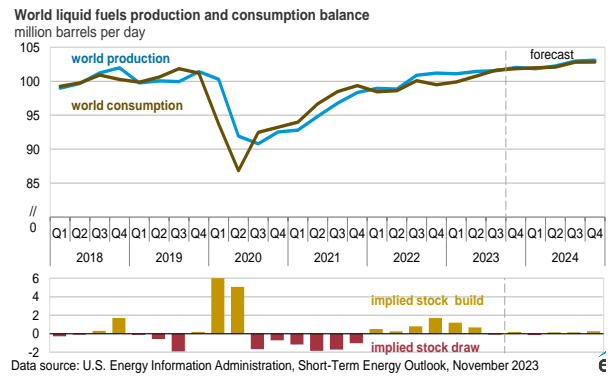


Fig 58: Brent Crude Oil Price



Source: Bloomberg

Fig 59: World production vs consumption



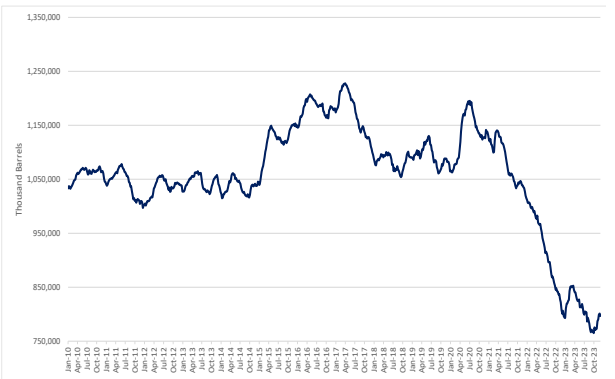
Source: EIA

Fig 60: OECD commercial inventory



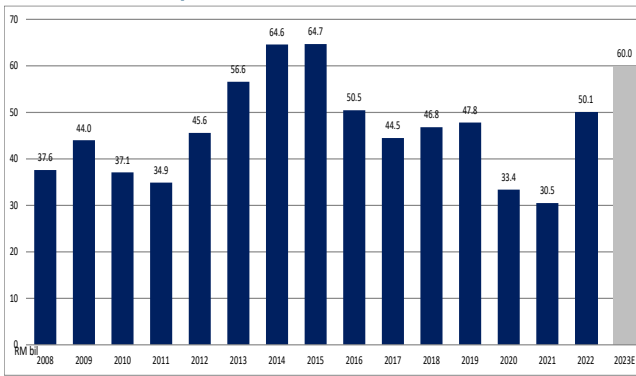
Source: EIA, Affin Hwang

Fig 61: US stocks of crude oil



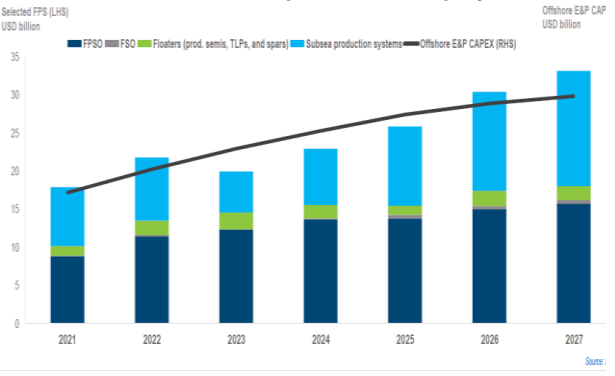
Source: EIA, Affin Hwang

Fig 62: Petronas capex



Source: Petronas, Affin Hwang

Fig 63: Global offshore E&P capex and floater projects



Source: MISC, S&P Global

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY23E	CY23E	CY24E			
PICHEM	PICHEM MK	SELL	7.09	5.00	56,720.0	28.0	19.9	(67.9)	41.0	12.6	1.4	5.1	1.8	2.5
PETRONAS DAGANGAN	PETD MK	HOLD	21.62	22.25	21,478.5	21.3	21.0	35.4	1.4	10.3	3.7	17.6	4.7	4.8
KELINGTON	KGRB MK	BUY	1.85	2.40	1,192.8	14.5	13.7	48.5	5.2	8.8	4.3	30.0	1.9	2.2
MISC	MISC MK	HOLD	7.09	7.10	31,648.0	14.7	13.0	10.5	12.9	8.8	0.8	5.7	5.1	5.1
DIALOG	DLG MK	BUY	1.92	2.90	10,833.7	20.1	17.7	6.4	13.4	21.0	1.9	9.4	2.0	2.3
BUMI ARMADA	BAB MK	BUY	0.50	0.75	2,931.7	5.5	3.8	(30.3)	44.7	6.1	0.5	9.4	0.0	0.0
VELESTO ENERGY	VEB MK	BUY	0.23	0.29	1,848.5	34.1	18.6	n.m	83.4	8.0	0.8	2.3	0.0	0.0
Average					126,653.3	19.8	16.1	(37.7)	23.2	10.4	1.9	10.6	2.2	2.4
Weighted Average							17.7	(24.0)	25.3	0.0	1.7	8.0	3.1	3.4

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

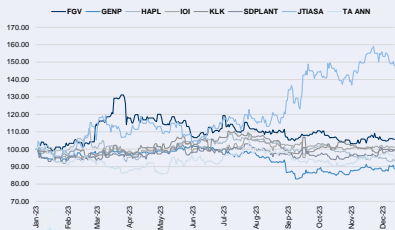
Sector Outlook

“Global CPO production likely to decline in 2024, led by Indonesia”

Absolute performance (%)

	1M	3M	12M
FGV	0.0	-1.5	1.5
GENP	-0.7	5.6	-5.9
HAPL	-2.2	-5.4	-12.1
IOI	0.5	-2.0	4.2
KLK	-0.9	-0.1	2.1
SDPL	3.7	4.2	3.0
JT	-1.1	19.6	48.8
TAH	1.7	3.2	-13.5

Relative performance (%)



Source: Bloomberg

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Plantation

OVERWEIGHT (upgrade)

EI Nino to have an impact on global CPO production

- We take the view that weather development, which is likely to have an impact on global crop production, consumption and movement in stock levels of vegetable oils are factors to watch out for in 2024, since they will have an impact on the CPO price
- We forecast plantation companies' earnings to rebound by 24% in 2024, mainly due to better profit margins, given higher palm product prices yoy
- Maintaining CPO ASP assumption at RM4,200-4,400/MT in 2024E (vs RM3,800/MT in 2023E). We upgrade the Plantation sector to OVERWEIGHT rating from Neutral. Top sector BUYs are KLK and Jaya Tiasa

Likely key focus for 2024

Per the latest US National Oceanic and Atmospheric and Administration (NOAA) report, there is a >55% chance that the current strong EI Nino condition will continue until 1Q24 before it eases towards mid-2024. The delayed impact of EI Nino on palm trees is expected to be seen in 1H24 after it started its course in the mid-2023, and a more severe impact on production is likely to be seen in Indonesia due to several months of minimal rain at certain areas or estates. Malaysia has been blessed with decent weather in 2023, as only certain areas had little rainfall for a short period of time, and thus the overall impact on 2024 production could be minimal. The global inventory of vegetable oils is expected to decline in the 2024 season on total consumption outweighing production. We expect CPO prices to strengthen going into 2024 as we believe that demand, especially from the Indonesian biodiesel industry, will remain strong and coupled with the EI Nino sentiment, would lend support to prices. On the cost side, we believe that declining fertiliser prices is good news for the planters as it would reduce their cost pressure (fertilisers account for 15-20% of production costs). Other key focus points for 2024: 1) strength of the global economy that could impact demand for vegetable oils; 2) progress in the implementation of biodiesel mandates worldwide; and 3) changes in policies, especially in Indonesia.

Earnings outlook – visibility, momentum and risk

We expect the plantation sector earnings to jump 24% yoy in 2024E from a low base in 2023E (-47% yoy) due mainly to higher CPO price expectations while Malaysia production could be flattish yoy. Our CPO price assumption for 2024E is RM4,200-4,400/MT (11M23 CPO ASP: RM3,821/MT; 2022 CPO ASP: RM5,087.50/MT).

Our view and strategy for 1H24

Overall, we expect CPO prices to trend higher in 2024, attributable to the EI Nino phenomenon that is expected to have an impact on the global supply of edible oils and their prices. We upgrade the plantation sector to **OVERWEIGHT** rating from Neutral with four BUY calls (KLK, Ta Ann, Genting Plantations and Jaya Tiasa) within the sector, where we think these companies' valuations look attractive vis-à-vis their peers, coupled with our more positive outlook for the economy in 2024.

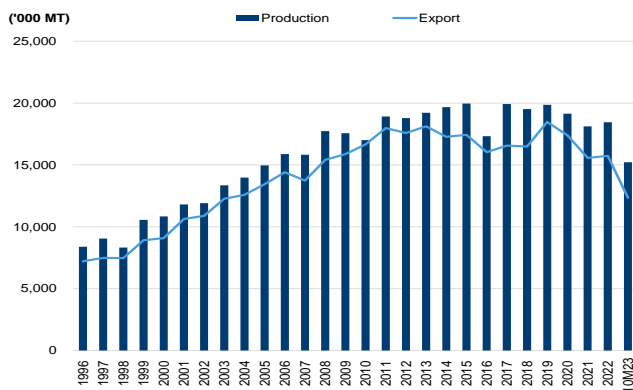
Possible surprises – upside and downside, and catalysts

Key risks to our OVERWEIGHT rating on the sector include: (i) weaker-than-expected demand and higher-than-expected production affecting the prices of vegetable oils; (ii) weaker-than-expected exports of palm-oil products; (iii) weaker-than-expected biodiesel production especially in Indonesia and Malaysia; and (iv) changes in policies and taxes. Key catalysts for the sector in our view are improving market sentiment and a sharp increase in CPO prices due to a severe EI Nino impact.

Valuation and recommendation, key stock ideas

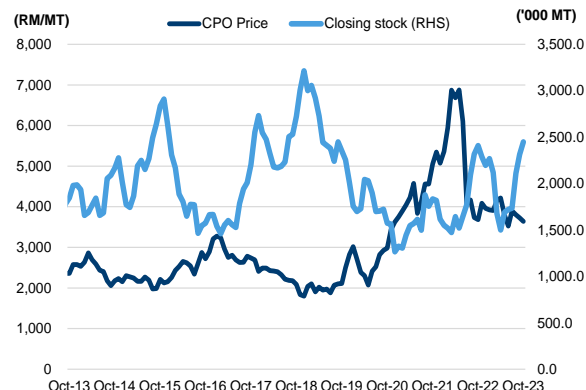
Across our coverage, we have **BUY** ratings on **KLK, Ta Ann, Genting Plantations** and **Jaya Tiasa**, and **HOLD** ratings on Hap Seng Plantations, IOI Corp, SD Plantation and FGV. Given its good track record, decent valuation and expansionary mode, KLK remains our top sector pick among large caps. For a small cap exposure, our preference is Jaya Tiasa for its undemanding valuation.

Fig 64: Malaysia palm-oil production and exports



Source: MPOB, Affin Hwang

Fig 65: CPO prices vs Malaysia inventory level



Source: Bloomberg, MPOB, Affin Hwang

Fig 66: 8 major global vegetable oils balance

(m MT)	22/23 Oct/Sep	21/22 Oct/Sep	20/21 Oct/Sep	19/20 Oct/Sep	2023E Jan/Dec	2022 Jan/Dec
Opening stocks	30.0	27.4	27.6	29.20	31.6	28.6
Production	212.5	204.1	201.2	199.6	212.3	206.2
Imports	91.3	82.8	88.5	89.2	90.1	84.7
Exports	91.4	83.5	88.5	89.5	88.9	86.4
Consumption	209.6	200.8	201.5	200.8	211.6	201.4
Ending stocks	32.7	30.0	27.4	27.62	33.5	31.6
Stock/usage ratio	15.6%	14.9%	13.6%	13.8%	15.8%	15.7%

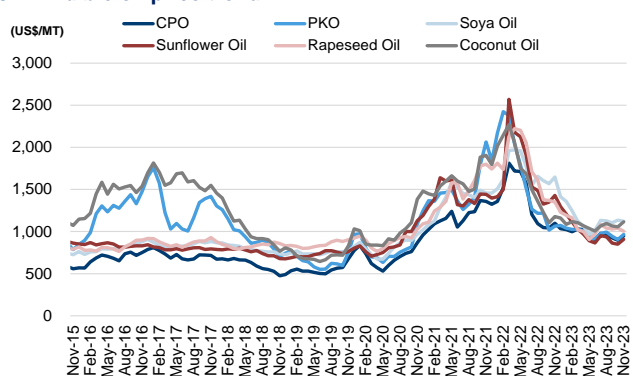
Source: Oil World

Fig 67: Global palm-oil balance

(m MT)	22/23 Oct/Sep	21/22 Oct/Sep	20/21 Oct/Sep	19/20 Oct/Sep	2023E Jan/Dec	2022 Jan/Dec
Opening stocks	14.7	12.5	12.8	15.0	15.1	12.7
Production	81.4	77.3	76.3	74.7	81.3	79.2
Imports	53.1	47.4	51.6	50.7	51.4	49.5
Exports	53.5	47.9	51.6	51.0	51.2	50.6
Consumption	80.7	74.7	76.7	76.6	81.2	75.6
Ending stocks	15.1	14.7	12.5	12.8	15.6	15.1
Stock/usage ratio	18.7%	19.7%	16.2%	16.7%	19.2%	20.0%

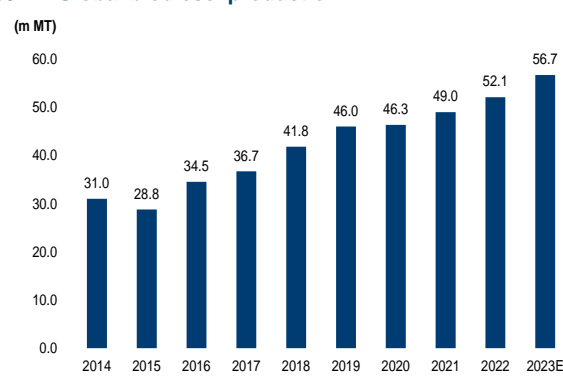
Source: Oil World

Fig 68: Edible oil price trend



Source: Oil World

Fig 69: Global biodiesel production



Source: Oil World

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA	P/BV (x)	ROE (%)	Div Yield (%)			
						CY23E	CY24E	CY23E	CY23E	CY23E	CY23E			
SIME DARBY PLANTATION	SDPL MK	HOLD	4.49	4.65	31,051.6	29.4	21.2	(51.7)	38.3	10.1	2.1	6.1	3.3	2.4
IOI CORP	IOIMK	HOLD	3.96	4.15	24,566.6	17.7	18.4	(20.1)	(3.9)	12.9	2.1	12.0	2.7	2.7
KUALA LUMPUR KEPONG	KLK MK	BUY	21.48	25.20	23,164.8	18.4	14.7	(39.1)	25.4	10.4	1.6	8.6	1.6	3.5
GENTING PLANT	GENP MK	BUY	5.49	6.25	4,925.4	15.4	12.2	(42.1)	26.5	9.4	0.8	5.4	4.6	5.5
FGV	FGV MK	HOLD	1.35	1.41	4,925.0	37.6	11.5	(91.0)	>100	4.9	0.8	2.1	1.5	4.4
HAP SENG PLANT	HAPL MK	HOLD	1.75	1.98	1,399.4	16.2	11.0	(60.9)	47.8	4.1	0.7	4.3	2.9	4.6
TA ANN	TAHMK	BUY	3.51	4.00	1,546.0	8.3	6.5	(46.1)	26.2	3.3	0.8	9.5	8.5	10.0
JAYA TIASA	JT MK	BUY	0.92	1.18	885.7	4.9	5.5	19.3	(11.2)	2.3	0.6	12.4	4.4	4.5
Average					92,464.6	20.2	16.2	(47.1)	24.3	9.4	1.2	14.1	3.7	4.7

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

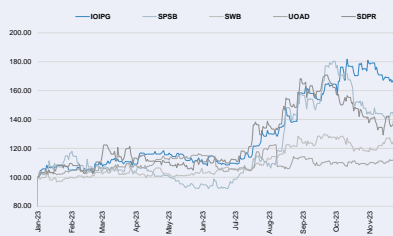
Sector Outlook

“We believe a recovery is in play with a TOD theme to drive property demand”

Absolute performance (%)

	1M	3M	12M
IOIPG	-6.3	2.5	50.5
SPSB	-8.4	-11.6	15.0
SWB	2.6	2.1	18.1
UOAD	1.7	2.9	8.6
SDPR	0.0	-15.2	25.8

Relative performance (%)



Source: Bloomberg

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Property

OVERWEIGHT (upgrade)

Room for upside

- Property sales in 2023 have sustained its high base in 2022 as sector sentiment has recovered, and sales forecasts have improved, indicating that the weak earnings momentum is likely over
- New government initiatives spark interest in Johor's rejuvenation and Penang's enhanced connectivity to drive a transport-oriented development (TOD) theme to attract property buyers in the long run
- We upgrade the sector to OVERWEIGHT from Neutral. Our top sector BUYs are IOI Properties, Sime Darby Property and Sunway

Likely key focus for 2024

The national property transaction volume and value rose 2% yoy to 295,531 units and 9% yoy to RM142.4bn in 9M23 respectively despite a high base in 2022. Property loan applications achieved a new high in March 2023, while approval rates have recovered to pre-pandemic levels, as applicants' creditworthiness recovered in-line with improved economic conditions and the lower unemployment rate. Although banks remain strict in lending, we expect higher loan approvals on the back of a better economic outlook and wage growth in 2024. Political stability post-election and stabilised interest rates signal an optimistic property market sentiment in 2024.

Earnings outlook – visibility, momentum and risk

YTD sales for property developers under coverage are on track to surpass their sales target for FY23. Eco World (ECW MK), UEM Sunrise (UEMS MK) and Mah Sing (MSGB MK), all not rated, may also breach their sales target. Backed by strong unbilled sales and a better product mix to cater to market appetite, we believe developers' revenues will remain robust. Sector valuations remain undemanding at a price/book of 0.5x and average share price discount to RNAV of 51%. Sector sentiment is positively impacted by favourable developments on the KL-SG High Speed Rail (HSR) and Penang LRT. Mega infrastructure projects are staging a comeback, fostering property demand along the TOD theme among the buyers.

Our view and strategy for 2024

For 2024, we expect developers to sustain the strong sales momentum registered in 2023, propelled by more aggressive launches especially with the strong demand for landed residential properties in mature areas as well as industrial properties. The potential Johor-Singapore Special Economic Zone, HSR and completion of RTS Link by end-2026 will spur long-term demand for Johor properties especially in Johor Bahru and Iskandar Puteri. Potential beneficiaries with land bank in Johor include **Sunway** (BUY), **AME** (BUY) and **UEMS**. Up north, **E&O** (EAST MK; not rated), **IJM** (BUY), and **Mah Sing** could see long-term gains with improved road and public transport connectivity under the Penang Transport Master Plan (PTMP)

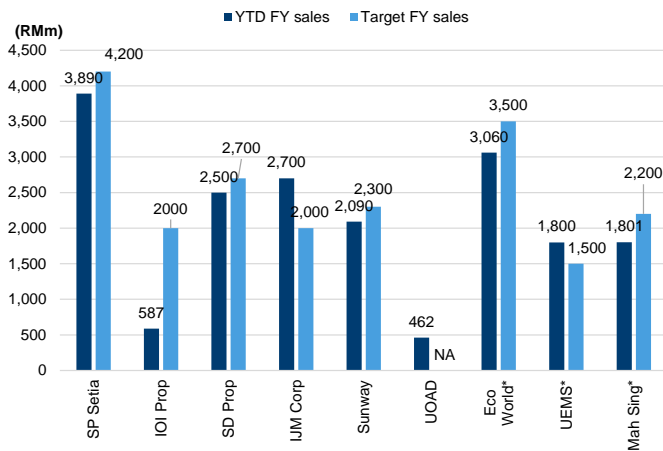
Possible surprises – upside and downside, and catalysts

Our positive view is premised upon the sector's earning growth trajectory. Key downside risks are a high property overhang, labour shortage, rising building material costs, and affordability issues from cost-push property price hikes.

Valuation and recommendation, key stock ideas

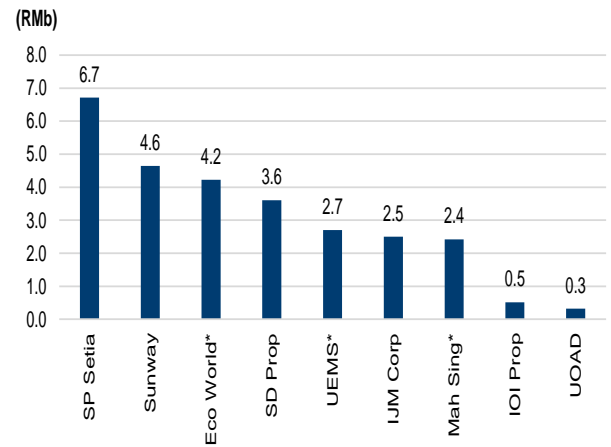
We turn **OVERWEIGHT** on the sector with stock picks that have attractive valuations and/or benefit from rejuvenation of certain areas like Johor and Penang. The positive trajectory is boosted by government initiatives on improving connectivity and bilateral relations between Malaysia and Singapore. Top BUYs are **IOI Properties** (IOIPG), **Sime Darby Property** (SDPR) and **Sunway** (SWB). We prefer IOIPG as its 2024E PER valuation is the most attractive at 10x. Completion of IOI Central Boulevard Tower by end-2023 will expand its investment property portfolio to RM20.2bn (2x its current market cap). **Sunway** follows with its service-related earnings and several new hospitals coming on stream in 4Q24 and 1Q25 for future earnings growth.

Fig 70: 9M23 sales and target FY23/24 sales



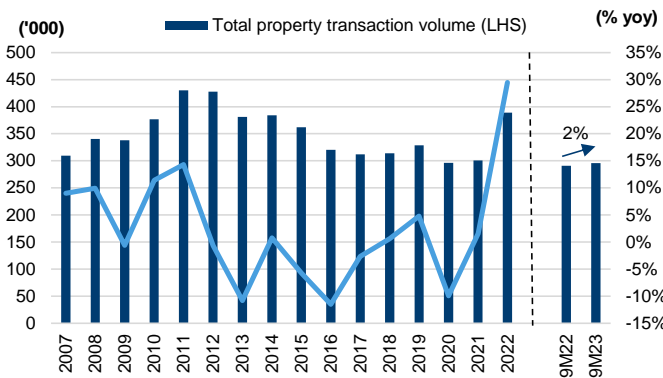
Source: Companies, Affin Hwang
Note: (*) Non-Rated (NR)

Fig 71: Unbilled property sales



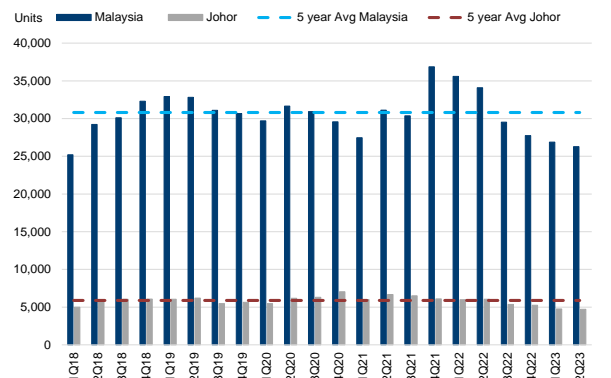
Source: Companies, Affin Hwang
Note: (*) Non-Rated (NR)

Fig 72: Property transaction value and growth in Malaysia



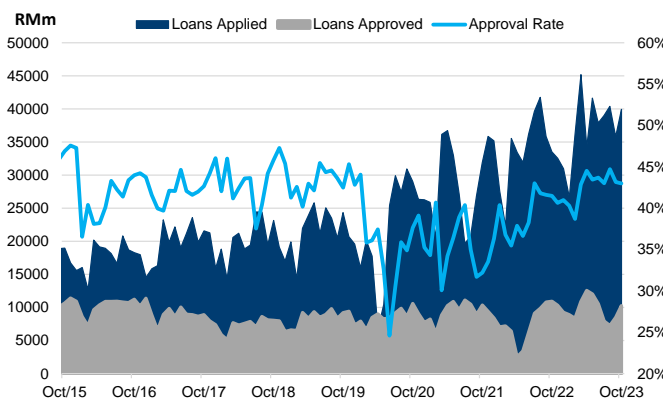
Source: CEIC, NAPIC

Fig 73: Residential property overhang in Malaysia



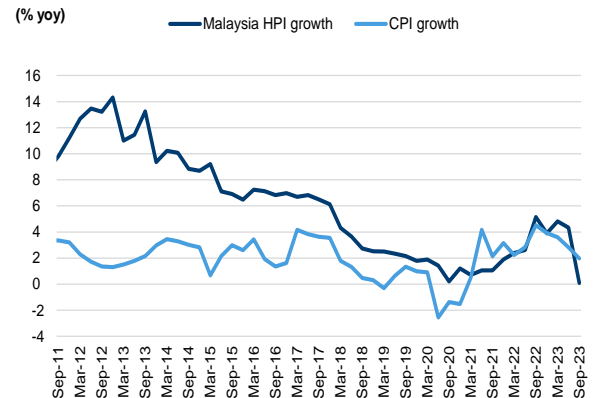
Source: CEIC, NAPIC

Fig 74: Residential property loan approvals long term trend



Source: BNM, Affin Hwang

Fig 75: Quarterly Housing Price Index vs CPI growth



Source: NAPIC, BNM

Peer comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMb)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	BV/sh (RM)	P/BV (x)	Div Yield (%)	RNAV/share (RM)	Sh Pr disc to RNAV (%)			
						CY23E	CY24E	CY23E	CY23E	CY23E	CY23E	CY24E				
IOI Prop	IOIPG MK	BUY	1.64	2.05	9.0	12.1	10.0	3.5	21.5	24.0	4.1	0.4	3.0	3.9	3.35	51
SD Prop	SDPR MK	BUY	0.59	0.80	4.0	11.4	10.9	2.5	4.4	12.4	1.4	0.4	3.4	3.7	2.01	71
SP Setia	SFSB MK	HOLD	0.77	0.83	3.3	23.9	10.8	1.9	>100	14.7	3.0	0.3	1.9	2.0	1.92	60
Sunway	SWB MK	BUY	1.96	2.30	10.7	14.7	13.7	(8.9)	6.9	21.8	2.4	0.8	2.8	6.3	3.62	46
UOA Dev	UOAD MK	HOLD	1.76	1.80	4.4	20.7	18.5	(5.3)	12.0	9.8	2.4	0.7	11.4	4.2	2.65	34
Average					31.4	15.0	12.6	n.m	19.3	18.3	0.0	0.5	4.5	4.0		52

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2022

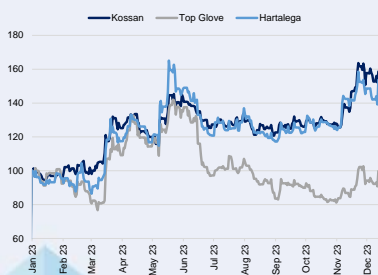
Sector Outlook

“Sales volume should see improvements in 2024”

Absolute performance (%)

	1M	3M	12M
HARTA	8.1	24.6	61.1
KOSSAN	15.8	24.3	57.9
TOPG	15.1	8.7	11.5

Relative performance (%)



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Rubber Product NEUTRAL (upgrade)

Slowly but surely

- We upgrade our stance on the sector to **NEUTRAL** (from Underweight) premised upon the stronger-than-anticipated earnings growth seen in the recent results reported by Kossan and Hartalega
- Our top pick for the sector is **Kossan (BUY, TP: RM2.00)** as a fundamentally sound exposure for investors who are comfortable holding on through market challenges brought about by China
- **Upside risks** to our thesis revolve around Chinese manufacturers raising prices and a meaningful recovery in demand while the key downside risk continues to be a potential expansion by Chinese manufacturers

Likely key focus for 2024

Moving into 2024, the key focus in the sector will revolve around: i) the magnitude of earnings recovery registered by glovemakers; ii) the possibility of ASP hikes; and iii) sales volume levels. Our channel checks reveal that ASPs should stabilise in the coming quarters (at best), after seeing a 5-10% decline in the months of Oct-Nov.

Earnings outlook – visibility, momentum and risk

The sector has now turned profitable, as seen in the recent results reported by Kossan and Hartalega. Both companies registered a recovery much stronger than we anticipated (primarily from stronger volumes), as we had pencilled them in to only turn profitable in 2H24. We gather from Hartalega that the upcoming quarters are expected to register further improvements in sales volume albeit with slightly lower ASPs. Separately, Top Glove's upcoming results (for the quarter ending November) is slated to be announced on 20 December 2023. We expect Top Glove to register slower improvement in its profitability due to higher overheads (from higher operating capacity compared to its peers) alongside a weaker net cash balance. Key risks to our earnings estimates would stem from declining sales volume if China decides to expand capacity aggressively once again. Taking cue from the recent results reporting, we lower our FY24E losses for Top Glove and raise its FY25-26E earnings to reflect a quicker recovery.

Our view and strategy for 2024

We upgrade our sector rating to **NEUTRAL** (from Underweight) given the recent strength in earnings recovery registered by Kossan and Hartalega. Whilst we turn less pessimistic on the sector, we remain selective and prefer exposure to companies with stronger fundamentals to weather through potential risks of further competition brought about by China, including a strong net cash and relatively lower overheads.

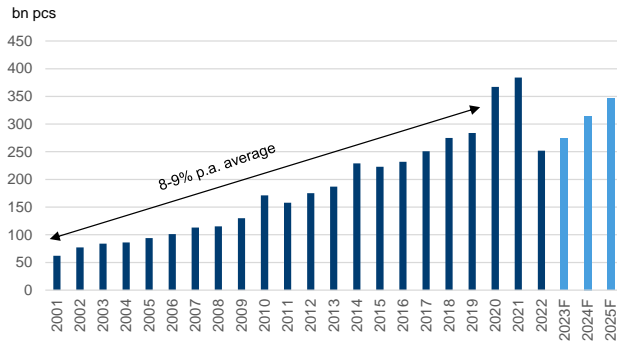
Possible surprises – upside and downside, and catalysts

We do not foresee any significant re-rating catalysts in the near-term, as the sector will likely see growth from the natural improvement in glove demand. Upside risks include: i) Chinese manufacturers raising prices; and ii) stronger-than-expected demand growth. A key downside risk would be Chinese manufacturers aggressively expanding capacity once again.

Valuation and recommendation, key stock ideas

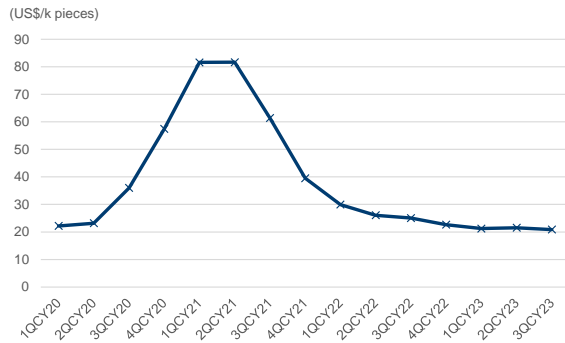
We take this opportunity to raise our P/Bv multiples to reflect a better recovery. Kossan (BUY, TP: RM2.00, from RM1.75 previously) is our top pick as a fundamentally sound exposure to the sector, for investors who are comfortable with holding on through the market challenges brought about by China. We have a HOLD call on Hartalega (TP: RM2.40, from RM2.25 previously) and a SELL call on Top Glove (TP: RM0.65, from RM0.55 previously).

Fig 42: Global glove demand trend



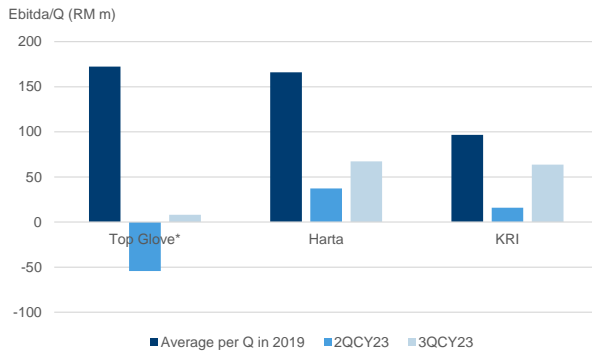
Source: Company Data, Affin Hwang estimates

Fig 44: Estimated blended glove ASPs of selected companies



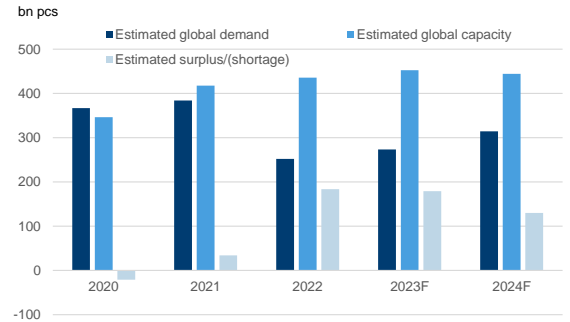
Source: Company Data, Affin Hwang. Note: Our sample size includes Top Glove, Hartalega, and Kossan. Blended ASPs not limited to nitrile gloves.

Fig 46: EBITDA for the glove makers under coverage expected to continue declining in coming quarters



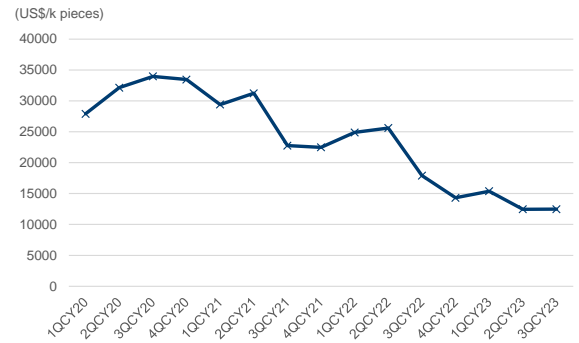
Source: Company data, Affin Hwang estimates

Fig 43: Estimated global glove surplus/(shortage)



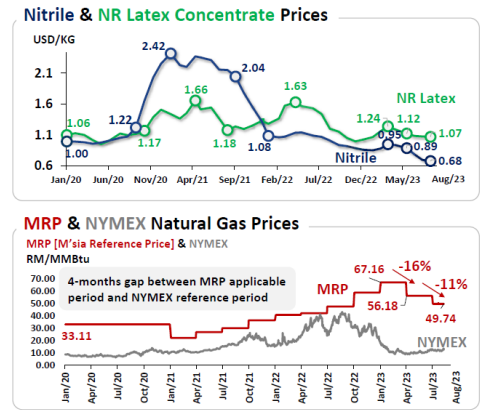
Source: Company Data, Affin Hwang estimates

Fig 45: Estimated blended sales volume of selected companies



Source: Company Data, Affin Hwang. Note: Our sample size includes Top Glove, Hartalega, and Kossan. Not limited to nitrile gloves.

Fig 47: Raw material and energy price trend



Source: Company data

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)
HARTALEGA	HART MK	HOLD	2.29	2.40	7,816.4	96.4	50.2	(90.5)	92.2	26.3	1.7
KOSSAN	KRIMK	BUY	1.62	2.00	4,133.6	83.5	34.4	(68.4)	>100	14.7	1.1
TOP GLOVE	TOPG MK	SELL	0.80	0.65	6,366.5	n.m	n.m	>100	91.9	n.m	1.3
Average					18,316.5	n.m	75.0	(127.0)	(191.2)	42.8	1.3

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

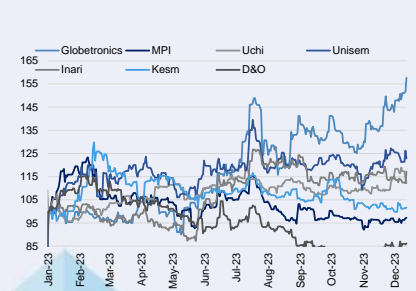
Sector Outlook

“Buy on dips for long term positioning in the 5G and automotive space”

Absolute performance (%)

	1M	3M	12M
GTB	16.4	15.7	50.1
MPI	1.0	-4.0	-9.1
UCHI	2.0	2.9	8.2
UNI	1.9	3.5	14.3
INRI	1.4	2.8	10.0
DOGT	5.3	-1.7	-16.0

Relative performance (%)



Source: Bloomberg

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Technology

NEUTRAL (maintain)

Positive earnings surprise to be next catalyst

- AI driving sector excitement, but earnings will need to be commensurate
- Stock price have rebounded in 2H23, meaning that earnings delivery and positive surprises needed for further upside
- Maintain NEUTRAL, preferred sector picks are Inari, D&O and Uchi

Likely key focus for 2024

The surge in Nvidia’s stock price had reinvigorated interest in the server space and particularly those surrounding the AI theme, after gamechanger ChatGPT illustrated the vast potential of high-performance computing. This also sparked a rally across the entire supply chain including the local OSATs and equipment manufacturers, which have seen valuations re-rate from recent lows. Understandably, the focus would turn to whether there is any substance for this excitement and if this demand for AI would really catalyse into immediate earnings growth for the Malaysian tech names. The WSTS is expecting a cyclical recovery in 2024, projecting global semiconductor sales growth of 13% yoy, after the 9% yoy contraction in 2023. As the inventory imbalance is worn off, the recovery is thus premised on restocking activities and also underlying demand. The latter remains in contention considering the weak global growth engines including the economies of the US, Europe and China.

Earnings outlook – visibility, momentum and risk

We project a 42.5% rebound in 2024E sector earnings, albeit from a low base due to wafer shortages and the weaker-than-expected recovery in China. Nevertheless, we do not expect earnings to recover to their recent highs in 2023 amidst the weak macroeconomic environment and thus poor visibility. The anticipated strength of the RM vis-à-vis the US\$ will also be a drag on earnings.

Our view and strategy for 2024

The global chip inventory should bottom out by 1Q24, and followed by a new chip cyclical upturn. That said, stock prices had already recovered in 2H23 in anticipation of this and the next catalyst would possibly need to be positive earnings surprises. Demand needs to remain firm in 2024 with little risk of a global recession, to power demand across consumer (smartphone, consumer electronics and PC), automotive, datacentres and industrials. We remain NEUTRAL on the sector although we like to be positioned in long-term secular trends in datacentres, automotive and smartphone/5G.

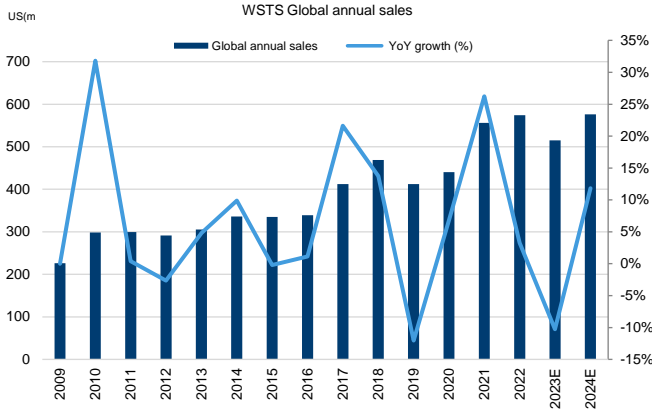
Possible surprises – upside and downside, and catalysts

The excitement over AI should continue to provide growth to the sector as edge AI comes into fruition. This could provide an edge to those with capabilities in high bandwidth optical transceivers although intensifying competition could lead to fast ASP erosion. The semiconductor sector recovery has been pushed back as inventory digestion was slower than expected throughout 2023, amidst weak demand as global economies slowed, sparked by rising inflationary pressures and a weak China economic recovery post-pandemic. Intensifying trade tensions are a risk.

Valuation and recommendation, key stock ideas

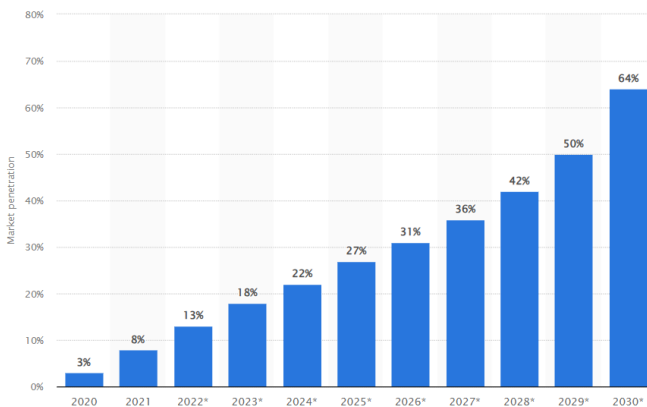
For sector exposure, our preference is **Inari** given its dominant RF position. The next major re-rating catalysts for the stock will be the progressive commencement of its new China JV as well as new customers at its factories in the Philippines and China. This would eventually reduce its single customer risk. We also like **D&O**, a top 4 global LED player in the automotive space, for the secular automotive LED lighting demand and growth in EV vehicles. **Uchi** is a niche coffee module manufacturer that offers both growth and attractive yields.

Fig 76: WSTS revised upwards 2023E global semiconductor sales to -9% yoy (-10% yoy previously) and +13% yoy in 2024E



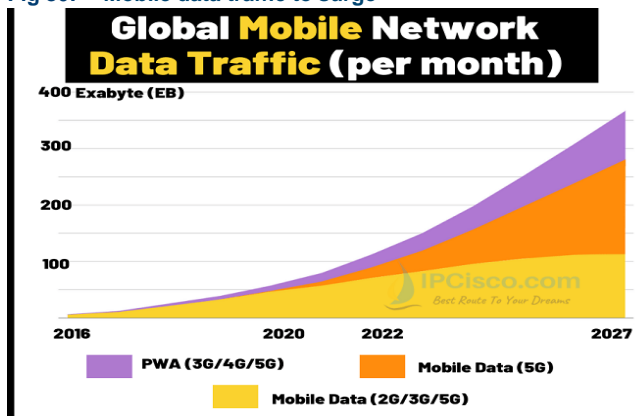
Source: Affin, WSTS

Fig 78: 5G market penetration globally



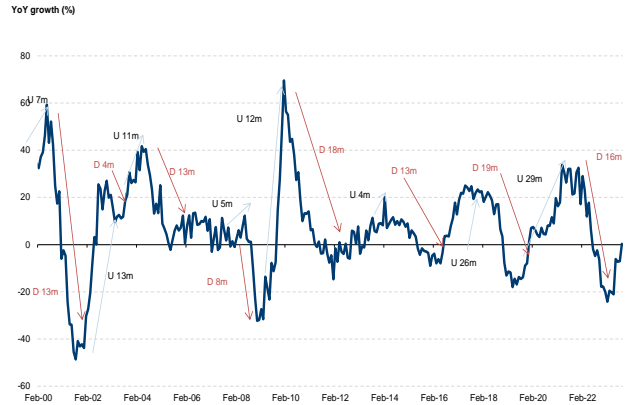
Source: Statista

Fig 80: Mobile data traffic to surge



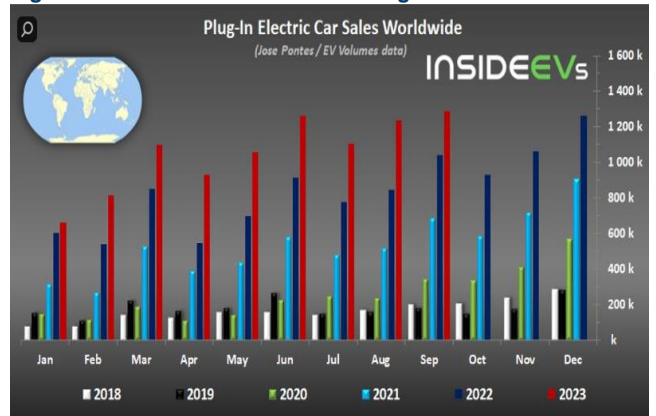
Source: IPCisco

Fig 77: Down cycle bottomed out in mid-2023



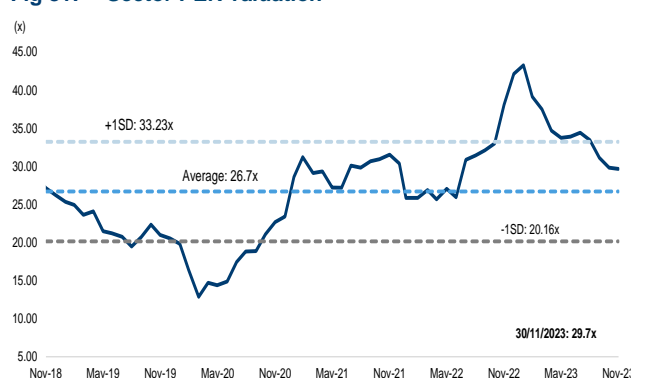
Source: Affin, WSTS

Fig 79: EV sales account for 16% of global car sales



Source: InsideEVs

Fig 81: Sector PER valuation



Source: Bloomberg

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
GLOBETRONICS	GTB MK	SELL	1.77	1.19	1,190.1	54.1	34.2	(48.3)	58.3	21.5	3.6	7.1	1.6	2.6
INARI	INRI MK	BUY	2.96	3.33	11,088.5	30.3	25.3	7.8	20.2	20.1	3.7	13.9	3.1	3.6
MPI	MPI MK	SELL	27.08	17.20	5,386.1	51.6	31.4	(44.5)	64.3	10.1	2.8	5.4	1.3	1.3
UCHI TECH	UCHI MK	BUY	3.55	4.20	1,630.8	14.0	12.7	(5.3)	10.3	10.3	6.2	44.3	7.0	7.6
UNISEM	UNI MK	SELL	3.28	1.77	5,290.9	66.6	31.5	(67.9)	>100	15.8	2.2	3.3	2.1	2.1
D&O	DOGT MK	BUY	3.57	3.97	4,420.7	1.0	0.4	(61.7)	>100	33.2	5.0	5.2	31.2	69.5
Average					29,007.0	39.5	27.7	(30.9)	42.5	18.5	3.9	13.2	7.7	14.4

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

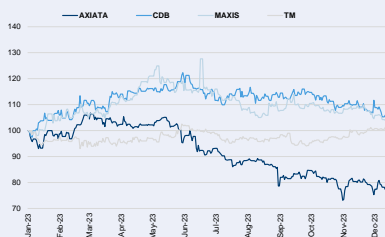
Sector Outlook

“Regulatory risks on fixed broadband have eased but 5G uncertainties may continue to drag on sentiment”

Absolute performance (%)

	1M	3M	12M
AXIATA	-3.8	-6.5	-21.7
CDB	-3.5	-7.4	7.9
MAXIS	-5.0	-7.5	-1.3
TM	1.3	6.0	-1.5

Relative performance (%)



Source: Bloomberg

Telecoms

NEUTRAL (maintain)

5G uncertainties may continue to drag on sentiment

- The recent signing of the SSA by five telcos for a 14% stake each in DNB was a step in the right direction but most of the uncertainties surrounding Malaysia's 5G deployment plans remain and likely to drag on sentiment
- Financially, we forecast Axiata, CelcomDigi and Maxis to report stronger earnings in 2024E, driven by higher overseas earnings, lower opex (merger synergies) and lower D&A expenses. However, TM may see a 2% yoy earnings slip due to higher opex
- **TM (BUY – TP: RM6.00)** is our top pick for the telco sector. We prefer the fixed broadband provider over mobile operators, given the former's lower regulatory risks, better business clarity and relatively low competition

Likely key focus for 2024

The recent signing of share subscription agreements by five telcos for a 14% stake each in DNB was a step in the right direction, as per the government's plan. However, most of the uncertainties surrounding Malaysia's 5G deployment plan, especially Entity B, remains unanswered. These uncertainties (ie. ownership/control, capex requirements, financing plans, and product pricing) may continue to weigh on investors' sentiment and cap the telcos' share prices.

Earnings outlook – visibility, momentum and risk

We expect Axiata, CelcomDigi and Maxis to report stronger earnings in 2024E, driven by higher overseas earnings (Axiata), lower operating expenditure (opex) attributable to merger synergies (CelcomDigi), and easing depreciation & amortisation expenses (Maxis, CelcomDigi). On the other hand, TM may see a 2% yoy earnings slide on higher opex. The key risk factor to our earnings forecasts would be the 5G wholesale expenses. The telcos have booked in minimal 5G wholesale fees in 2023 but may see a notable jump in 2024 as 5G coverage and usage increase. A significant deviation from our 5G wholesale fee forecasts of RM130-150m would affect our earnings projections for Maxis and CelcomDigi.

Our view and strategy for 2024

We continue to prefer the fixed broadband operator (ie. TM) over the mobile broadband companies, given the former's relatively lower regulatory risks and better government policy visibility and industry structure. For the fixed broadband segment, the finalisation of MSAP and introduction of new prices by TM and its peers have eased the regulatory risks. On the other hand, the uncertainties surrounding the 5G and mobile segment remain and are likely to weigh on investors' sentiment for the mobile operators. For exposure to the mobile segment, we have a relative preference for CelcomDigi (HOLD – TP: RM4.65) over Maxis and Axiata, expecting the business integration and streamlining to yield merger synergies and lift future earnings.

Possible surprises – upside and downside, and catalysts

Key upside risks are stronger ARPU due to 5G adoption, better-than-expected earnings, and positive updates on 5G rollout. Downside risks are low consumer/business spending, stronger competition, sharper-than-expected increase in operating costs, and high 5G investment/rollout costs.

Valuation and recommendation, key stock ideas

TM (BUY – TP: RM6.00) is our top pick for the telecom sector. We like TM for its extensive fibre infrastructure, robust demand for fixed broadband, proactive cost optimisation initiatives and attractive valuation. We believe the regulatory risks for the fixed broadband segment have eased after the introduction of new price plans in Oct23. The price cuts by TM and its competitors look modest and hence, the impact on TM's 2024-25E earnings should be manageable.

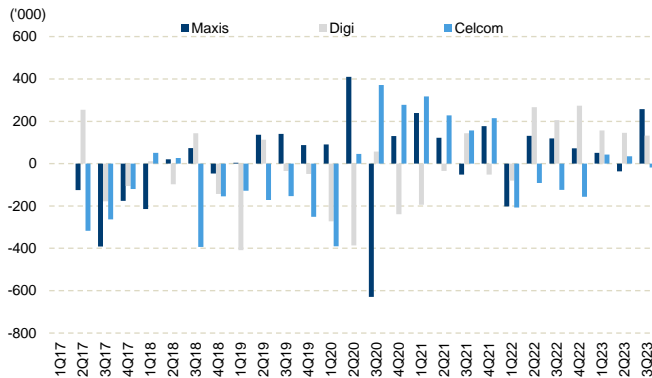
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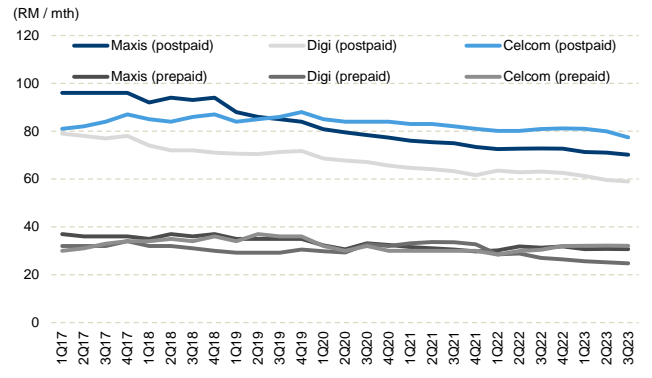


Fig 82: Cellcos' mobile subscriber net adds



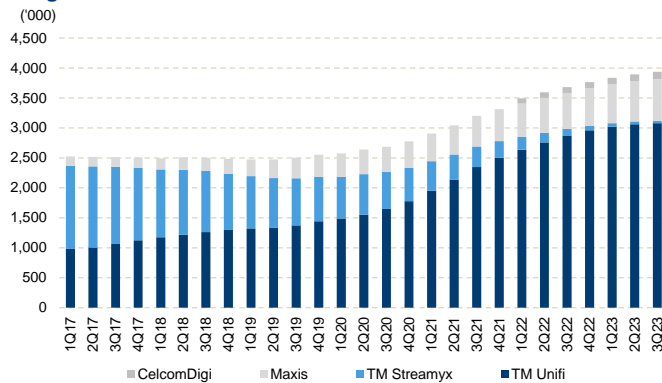
Source: Company, Affin Hwang

Fig 83: Cellcos' prepaid and postpaid ARPUs



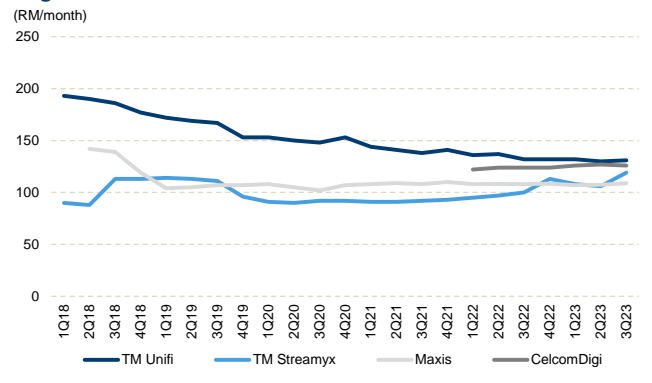
Source: Company, Affin Hwang

Fig 84: Numbers of fixed broadband subscribers



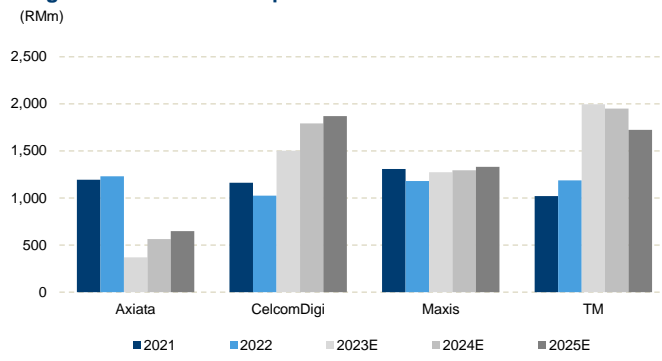
Source: Company, Affin Hwang

Fig 85: Fixed broadband ARPUs



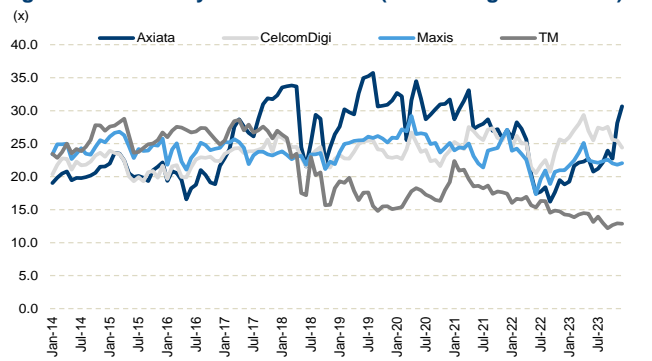
Source: Company, Affin Hwang

Fig 86: Telco's core net profit forecasts



Source: Company, Affin Hwang forecasts

Fig 87: Telco's 1-year forward PER (Bloomberg consensus)



Source: Company, Bloomberg, Affin Hwang estimates

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)			
AXIATA	AXIATA MK	HOLD	2.31	2.35	21,203.7	57.2	37.6	(69.9)	52.2	6.0	1.0	1.7	2.6	2.5
CELCOMDIGI	CDB MK	HOLD	4.10	4.65	48,099.2	32.0	26.8	1.4	19.3	9.6	3.0	9.3	3.1	3.7
MAXIS	MAXIS MK	HOLD	3.83	4.25	29,996.9	23.5	23.1	7.9	1.6	10.1	4.7	19.9	4.2	4.3
TELEKOM	T MK	BUY	5.29	6.00	20,296.5	10.0	10.2	68.2	(2.3)	4.7	2.2	22.4	4.6	4.6
Average					119,596.2	23.3	21.4	1.2	8.9	7.3	2.7	23.6	3.6	3.8

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

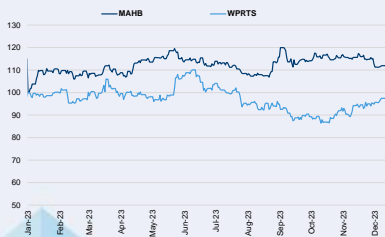
Sector Outlook

“We like MAHB for its positive earnings trajectory, good progress in negotiation of OA and possible PSC hike in 2024”

Absolute performance (%)

	1M	3M	12M
MAHB	-1.8	0.0	12.7
Westports	3.5	8.5	-0.8

Relative performance (%)



Source: Bloomberg

Transport & Logistics

NEUTRAL (maintain)

- A strong recovery in international passenger traffic, supported by increasing seat capacity and the government’s visa-free policies for selected visitors, should lift MAHB’s 2024E revenue and earnings
- We recently upgraded MAHB to BUY (TP: RM8.30). We like the group for its positive earnings trajectory, good progress in the OA discussion and a likely hike in passenger service charges in 2024
- Westports’ uninspiring 2024E earnings outlook, medium-term earnings dilution from the Westports 2 project, competition risk from the proposed Carey Port and Thailand’s land bridge project may cap its price recovery

Likely key focus for 2024

Key events to watch: (i) signing of MAHB’s operating agreement (OA) / MAVCOM’s announcement on new Passenger Service Charges (PSC); (ii) recovery in international air passenger traffic and tourist spending trend; (iii) ports’ container volume growth; and (iv) updates on Carey Port / Thailand land bridge.

Earnings outlook – visibility, momentum and risk

We forecast MAHB’s 2024 core net profit to grow by 82% yoy to RM689m on higher international passenger traffic and an increase in the average ticket size at its airports. The airlines are increasing their international seat capacity; this, coupled with the government’s visa free policy for selected visitors should help to lift international passenger movements. Elsewhere, we expect Westports to report flattish revenue but its earnings may decline by 2% yoy to RM737m due to higher lease expenses and rising operating costs.

Our view and strategy for 2024

We recently upgraded MAHB to BUY (from Hold) in anticipation of a stronger recovery in international passenger traffic supported by the government’s visa free policy for selected visitors. Also, we expect the government to finalise the Operating Agreement (OA) in 2024 – we anticipate MAHB’s new OA to be slightly positive for the group. We are also expecting the Malaysian Aviation Commission (MAVCOM) to raise the PSC in 2024, thereby supporting MAHB’s revenue growth. For Westports, we are slightly positive on the recently signed Third Supplemental Privatization Agreement, given its long-concession tenure and modest capex of RM12.6bn. The agreement would allow Westports to finally kick-start its expansion, giving it a better head-start over potential competitors.

Possible surprises – upside and downside, and catalysts

Upside risks: strong recovery in air passenger movements / container throughput, and favourable terms under the new OA. Downside risks: weaker economic growth, higher operating costs, and positive development at Carey Port or Thailand’s land bridge projects.

Valuation and recommendation, key stock ideas

MAHB (BUY, TP: RM8.30) is our top sector pick for its positive earnings trajectory supported by strong recovery in international passenger movements, and the good progress in the negotiation of the OA. We maintain our HOLD rating on Westports (TP: RM3.68). We like its strategically located assets and well-conceived expansion plan but its uninspiring 2024-25E earnings outlook, medium-term earnings dilution from the Westports 2 project and potential long-term competition from the proposed Carey Port and Thailand land bridge projects may cap its share price recovery

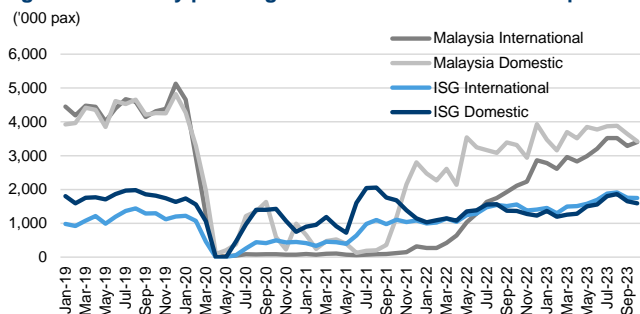
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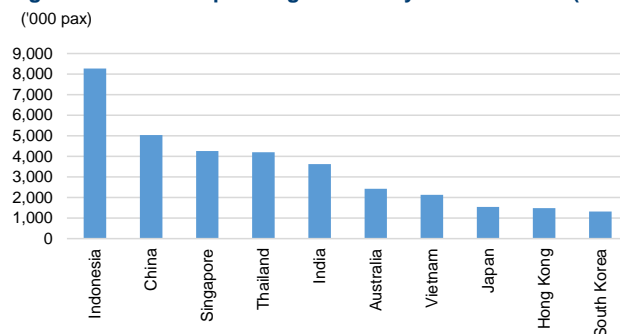


Fig 88: Monthly passenger movements at MAHB's airports



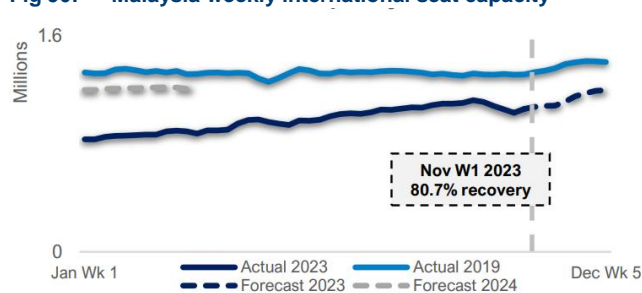
Source: Company, Affin Hwang

Fig 89: International passenger traffic by sector at KLIA (2019)



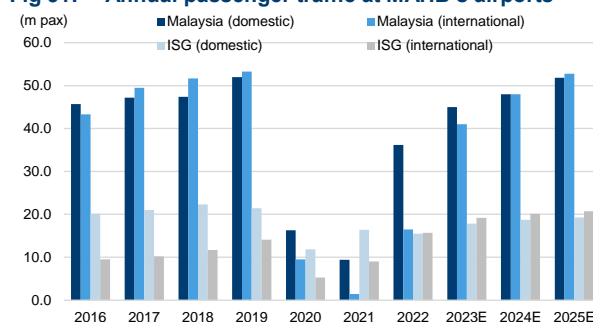
Source: Company, Affin Hwang

Fig 90: Malaysia weekly international seat capacity



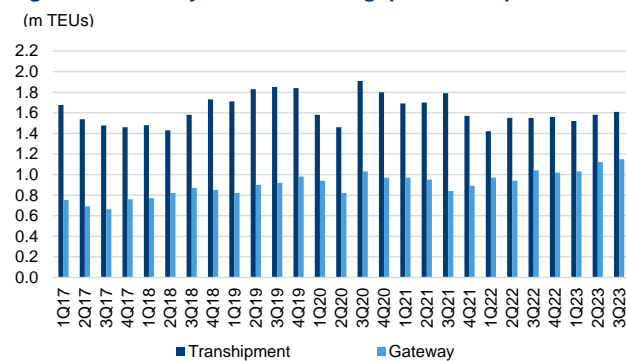
Source: MAHB, CAPA and OAG

Fig 91: Annual passenger traffic at MAHB's airports



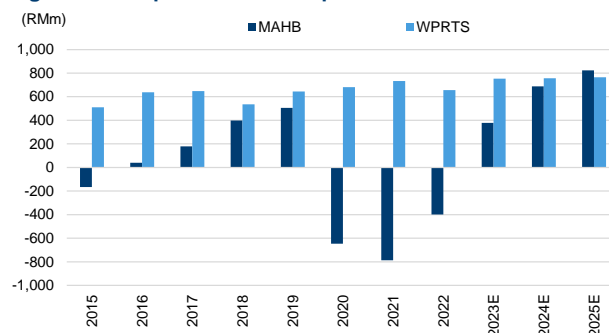
Source: Company, Affin Hwang estimates

Fig 92: Quarterly container throughput at Westports



Source: Company, Affin Hwang

Fig 93: Companies' core net profit



Source: Company, Affin Hwang estimates

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	
						CY23E	CY24E	CY23E	CY24E				CY23E	CY24E
MAHB	MAHB MK	BUY	7.20	8.30	12,013.6	31.6	17.4	n.m.	82.2	7.0	1.6	5.0	1.4	2.9
WESTPORTS	WPRTS MK	HOLD	3.58	3.68	12,207.8	16.2	16.1	14.6	0.5	10.0	3.5	21.7	4.6	4.6
Average					24,221.4	21.4	16.8	n.m.	27.8	8.1	2.6	7.7	3.0	3.8

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 Decemb

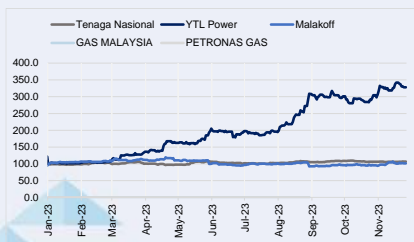
Sector Outlook

“Top picks are TNB for the ample business opportunities under the NETR and YTLP for its positive earnings trajectory”

Absolute performance (%)

	1M	3M	12M
MLK	-4.6	5.9	-4.6
TNB	0.1	0.9	7.9
YTLP	11.8	18.3	237.0
GMB	-7.8	2.3	-5.8
PTG	-1.1	-2.4	-0.1

Relative performance (%)



Source: Bloomberg

Utilities

OVERWEIGHT (maintain)

Positive momentum continues

- We expect the government to continue promoting the RE sector and introduce the Energy Exchange, RE export mechanism by mid-2024, and/or new programmes to spur further investment in the RE sector
- The utilities sector should see higher aggregated core net profit in 2024E (+25% yoy), attributable to normalization in fuel margins for TNB / Malakoff, and higher earnings from YTLP, attributable to earnings from Attarat Power
- For exposure, we like TNB (BUY – TP: RM10.90) for its improving ESG rating and ample business opportunities under the NETR, and YTLP (BUY – TP: RM2.70) for its positive earnings trajectory

Likely key focus for 2024

Investors keenly await details of Malaysia’s Energy Exchange and renewable energy (RE) export mechanism, as well as potential announcements of new programmes that will spur further investment in the country’s RE industry. We are also keeping an eye on global fuel prices (coal, natural gas) to brace for potential earnings volatility arising from the swing in fuel margins. Elsewhere, we will watch Gas Malaysia’s sales momentum to gauge the long-term impact of gas market liberalisation on its profitability and dividend payout.

Earnings outlook – visibility, momentum and risk

We forecast the utilities sector to see higher aggregated core net profit in 2024 (+25% yoy), attributable to normalisation in fuel margins for TNB and Malakoff, lower finance cost at Petronas Gas, and higher profit from YTLP, driven by robust earnings from PowerSeraya, full-year earnings contribution from Attarat Power Company and a profit turnaround at Wessex Water. However, Gas Malaysia (HOLD – TP: RM3.10) may see a 10% yoy earnings decline due to a lower market reference price (MRP), weaker profit margin and stiffer competition.

Our view and strategy for 2024

We maintain our **OVERWEIGHT** call. Malaysia targets to achieve 40% RE capacity by 2035 and 70% by 2050, from 23% currently. Further announcements on the details of Energy Exchange, RE export or new projects under Malaysia’s National Energy Transition Roadmap (NETR) should spur investors’ interest in the utilities sector, particularly the EPCC project contractors, solar farm owners/operators, and transmission and distribution asset owners such as TNB. We also like YTLP for its positive earnings trajectory and attractive valuation. Lastly, we maintain our HOLD ratings on Malakoff, Petronas Gas and Gas Malaysia due to their uninspiring earnings outlook (Petronas Gas, Gas Malaysia), competitive market environment (Gas Malaysia) and tepid investor interest in power producers with large coal exposure (Malakoff).

Possible surprises – upside and downside, and catalysts

Rising fuel prices may lift the utility companies’ quarterly results due to better fuel margins/inventory gains, and vice versa. The swing in forex will affect the utilities companies’ earnings given their large foreign exposure (YTLP) and/or holdings of foreign-currency denominated borrowings (Tenaga, YTLP).

Valuation and recommendation, key stock ideas

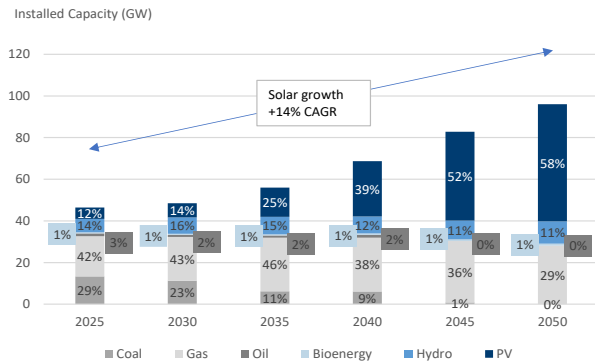
We like **TNB** (BUY – TP: RM10.90) for its RE aspiration, expected ESG rating improvement and ample business opportunities under the NETR where TNB plays a key role in the RE generation, transmission and distribution segments. We also like **YTLP** (BUY – TP: RM2.70) for its positive earnings trajectory, supported by the favourable supply-demand dynamic in Singapore’s electricity market, full-year earnings contribution from Attarat Power Co and profit turnaround at Wessex Water.

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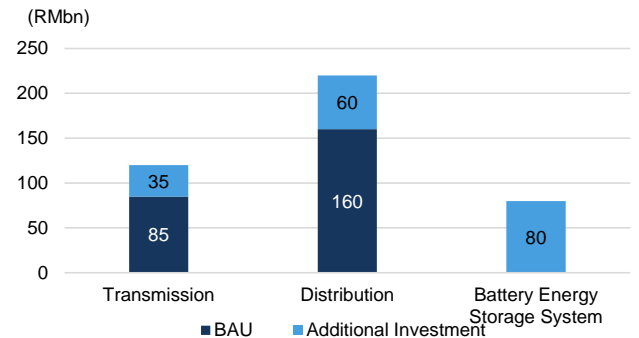
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Fig 94: Projected power system installed capacity mix (Malaysia)



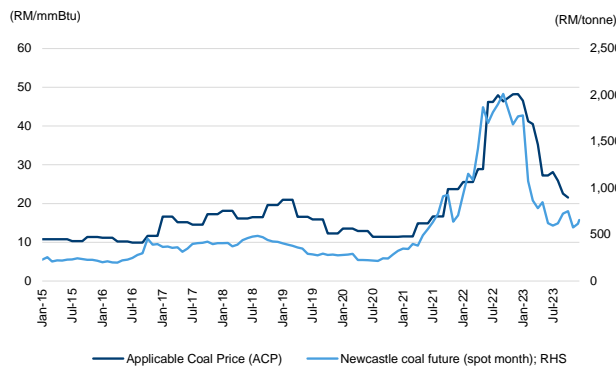
Source: Ministry of Economy, NETR, Affin Hwang

Fig 95: Projected grid cumulative investments, 2023-2050



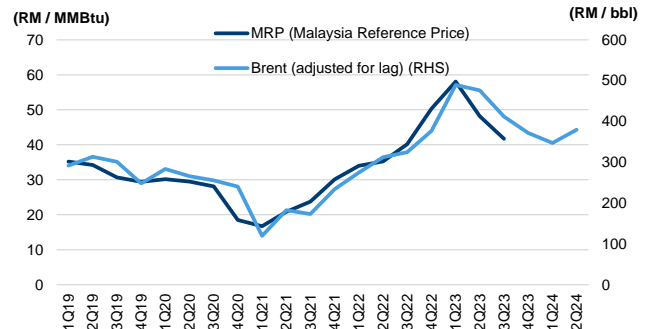
Source: Ministry of Economy, NETR, Affin Hwang

Fig 96: Applicable coal price and Newcastle coal futures



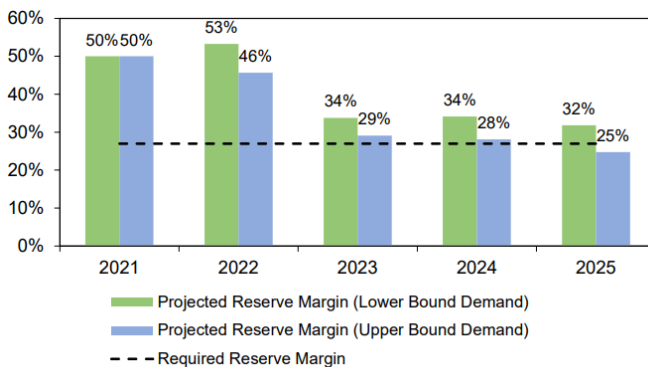
Source: Energy Commission of Malaysia, Bloomberg, Affin Hwang

Fig 97: Correlation between MRP and Brent crude future prices



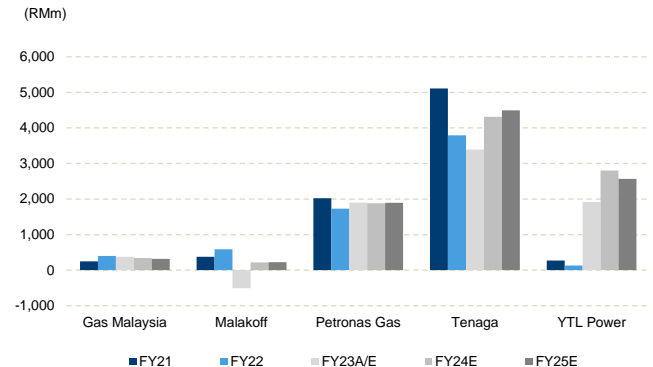
Source: Petronas, Bloomberg, Affin Hwang

Fig 98: Singapore's projected reserve margin (2021-2025)



Source: Singapore Energy Market Authority (SEMA 2021)

Fig 99: Utilities sector's core net profit forecasts



Source: Company, Affin Hwang estimates

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	
						CY23E	CY24E	CY23E	CY24E				CY23E	CY24E
GAS MALAYSIA	GMB MK	HOLD	3.09	3.10	3,967.6	10.6	11.7	(6.5)	(9.6)	6.1	2.9	27.5	7.4	7.4
MALAKOFF	MLK MK	HOLD	0.63	0.59	3,054.4	n.m	14.2	n.m	n.m	13.8	0.6	(10.4)	5.6	6.5
PETRONAS GAS	PTG MK	HOLD	16.74	17.00	33,124.0	17.4	17.6	9.9	(0.9)	10.1	2.4	13.7	4.4	4.4
TENAGA	TNB MK	BUY	9.93	10.90	57,468.2	16.7	13.1	(10.5)	27.1	5.8	1.0	5.7	3.6	4.6
YTL POWER	YTLP MK	BUY	2.46	2.70	19,931.3	8.4	7.4	>100	13.7	8.1	1.1	13.1	2.4	2.5
Average					117,545.4	15.6	12.5	(0.7)	25.3	6.9	1.6	8.0	4.7	5.1

Source: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on 12 December 2023

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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