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26 June 2023

MALAYSIA EQUITY



Delayed pause is coming
2HCY23 OUTLOOK

TABLE OF CONTENTS

Executive summary	1
A. Market	
i. Market performance	2
ii. Macro economic outlook.....	6
iii. Market outlook	16
iv. Stock selection	22
B. Sectors Outlook	
i. Automotive (<i>Cautiously optimistic</i>)	25
ii. Banking (<i>Better non-interest income and credit cost outlook bring cheer</i>)	27
iii. Construction (<i>Expectations of improving job flows</i>)	29
iv. Consumer (<i>Promising prospect, diminishing costs</i>)	30
v. Healthcare (<i>Hospitals to remain robust amid continuous adaptation of media neo-tech</i>)	33
vi. Oil & Gas (<i>Stable prices to be favourable for upstream and midstream</i>)	34
vii. REITs (<i>Outlook remains positive</i>)	36
viii. Media (<i>Gloomy outlook for adex growth</i>)	37
ix. Plantation (<i>Gloomy outlook remains</i>)	38
x. Power (<i>Pockets of opportunities</i>).....	39
xi. Property (<i>Mixed outlook</i>)	42
xii. Technology (<i>Demand slowdown to persist</i>)	43
xiii. Telecommunication (<i>Lacking 5G excitement</i>).....	47
xiv. Transportation (<i>Recovering against odds</i>).....	49
xv. Gloves (<i>No light at the end of the tunnel</i>)	51
Appendix	
Table i: MIDF Research stock universe	55
Table ii: Performance of various markets in local currency (% change).....	59
Table iii: Performance of various markets in US dollar (% change).....	59
Table iv: Performance by sectors (% change).....	60
Table v: Regional earnings and valuations	60
Table vi: Performance of MIDFR's stocks under coverage.....	61

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EXECUTIVE SUMMARY


1HCY23 IN BRIEF

- A lot of the optimism and disappointment in the market this year still revolves around the US Fed and its interest rate decisions.
- While the US Fed decided to 'skip' instead of a 'pause', markets did not show its disappointment as US, European and North Asian (except Hong Kong) continued to gain ground.
- FBM KLCI and other ASEAN peers continued to be a laggard.
- Foreign fund flows also mirroring indices' performance, with funds converging in North Asian markets at the expense of ASEAN markets (except Indonesia).
- We have observed continuing two-tiered market in Malaysia in 1HCY23. While FBM KLCI underperformed (-6.7%ytd), FBM 70 rose +3.3%.

DELAYED PAUSE IS COMING

- Global growth is projected to be moderate at +2.8% (2022: +3.4%). Nevertheless, strong labour markets registered thus far and increased income helped to sustain spending growth.
- Inflation remained elevated in many countries where it is increasingly driven by surging demand. In response, major central banks continued to raise its policy interest rates higher.
- We expect the recent weakness in most currencies against the US dollars will be reversed when the US Fed finally decides to end its policy tightening. We forecast at least another hike at the next meeting, as priced in by market.
- All said and done, we maintain our expectation of Malaysia's GDP growth to moderate to +4.2% in 2023.
- There is no change to our earlier expectation that the domestic economy to be fuelled by continuous upbeat consumer spending, busier tourism-related activities and revival of infrastructure projects.
- We opine that BNM will consider another 25bps rate hike in 2HCY23 following the stronger-than-expected domestic economy.

FBM KLCI 2023 TARGET AT 1,540

- Despite the prevalent fears of a forthcoming recession, we posit the risk asset markets (and equity in particular) are tilting toward the upside in the short to medium term.
- The intervening period between the end of US Fed rate hikes and the start of recession could prove (paradoxically) attractive for equity pricing.
- Going forward, we reckon the upward momentum would resume especially post-Fed pause, with international funds rotating into emerging ASEAN on weaker US Dollar and attractive valuation.
- Also, can expect to see recovery in both the valuation and earnings expectation of banking stocks.
- However, due to our revised expectation of USD/MYR, the timing and intensity of international funds rotating into our equity market may likewise be adversely impacted.
- We revise our FBM KLCI end-2023 target (from 1,590 points) to 1,540 points or PER23 of 14.7x.
- We revise our FBM70 end-2023 target (from 15,000 points) to 14,500 points or PER23 of 17.5x. 

26 June 2023

KLCI (23/6/2023) : 1,390.89
2023 TARGET : 1,540.00

SECTOR VIEW

POSITIVE	
Automotive	Banking
Construction	Consumer
Healthcare	Oil & Gas
REITs	
NEUTRAL	
Media	Plantation
Power	Property
Technology	Telecommunication
Transportation	
NEGATIVE	
Gloves	

TOP BUYS

STOCK	Target Price (RM)	Total Return (%)
Bermaz Auto	3.30	57.6%
RHB Bank	7.58	47.7%
Pavilion REIT	1.63	37.7%
Fraser & Neave	33.50	35.3%
Hong Leong Bank	24.91	34.3%
QL Resources	6.75	27.1%
CIMB	5.92	18.9%
Petronas Gas	18.43	16.2%
Sunway REIT	1.73	15.3%
Malayan Banking	9.28	13.1%

A. MARKET PERFORMANCE

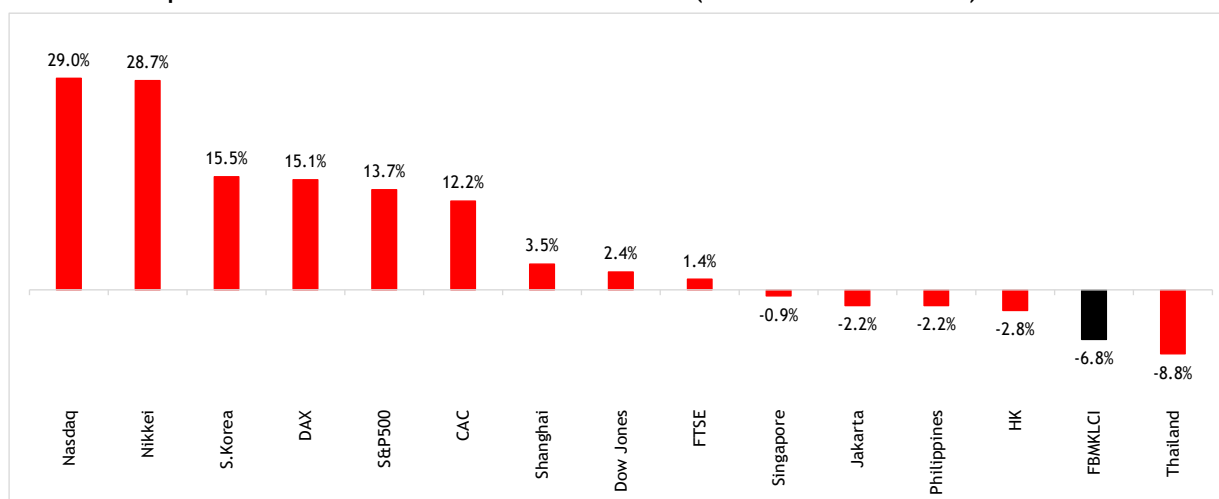
I. MARKET PERFORMANCE

The pause that never came. A lot of the optimism and disappointment in the market this year still revolves around the US Fed and its interest rate decisions. Although there were other events such as banking turmoil in the US and Europe, and US government debt ceiling, it was mostly short termed. The main interest has been in US Fed action where earlier optimism of a pause faded as inflation remained stubborn. However, we believe that the question is ‘when’ rather than ‘if’ the US Fed pauses its rate hikes. Keeping consistent with our investment thesis for this year, we opine that the pause should cause some boost to markets.

But the markets got a ‘skip’ instead. While the US Fed did decide to maintain the fed fund rate in the latest FOMC meeting in June-23, the market termed it as a ‘skip’ instead of a ‘pause’. This is because the FOMC members expect another 50bps hike, either two 25bps hike or one 50bps hike, according to the dot-plot. Meanwhile, the [interest rate futures](#) market is expecting just one more 25bps hike in July-23 and pause thereafter.

Markets are taking it in stride. Despite the ‘skip’, markets did not show its disappointment as US, European and North Asian (except Hong Kong) continued to gain ground. The fact that the policy rate sensitive US Nasdaq is the best performing market this year leads us to believe that the investors are looking beyond the ‘skip’ and anticipating the eventual ‘pause’. We opine it is a case of investors “looking at the glass half full”, rather than “half empty”. The surprise for 1HCY23 is Japan’s Nikkei which seemed to have woken up from its multi decade slumber.

Chart 1: Comparison of Performance of FBM KLCI and Peers (YTD as of 23 June 2023)

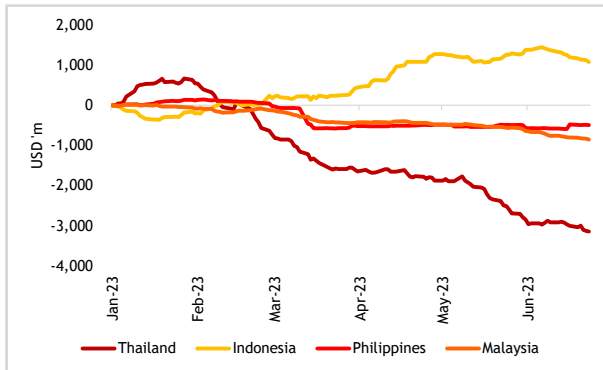


Source: Bloomberg, MIDFR

However, ASEAN benchmarks underperformed; possibility of catch up. The market gains have not been uniformed though. ASEAN markets have underperformed thus far with Thailand and Malaysia’s main benchmark performing the worse. For Thailand, it is possible that the hung parliament after the general elections played a part while the finance sector heavy FBM KLCI was weighed down by the cautiousness surrounding banking stocks following the banking turmoil in the US and Europe. However, with SEA benchmarks (including Malaysia) underperforming vs. advanced markets, we believe that there is a possibility that these markets will play catch up after the US rate pause.

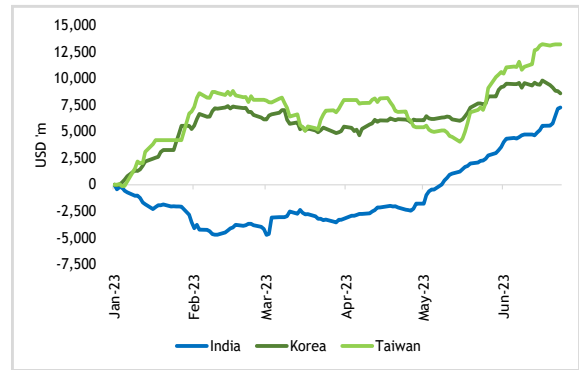
Foreign fund flows - cause or result? Either way, mirrors performance. Foreign fund outflows have been persistent in the ASEAN markets with the exception of Indonesia. Meanwhile, for Taiwan, South Korea and India, foreigners have been net buying at a very strong pace with Taiwan seeing the most this year. It is difficult to determine whether this is the cause or the effect of the underperformance of ASEAN markets. Nevertheless, it mirrors the performance of the indices. On the flip side, we believe that it may present an opportunity for investors as there is the likelihood that foreign investors may switch to laggard markets once the US Fed confirms its 'pause'.

Chart 2: Cumulative Foreign Fund Flows (as of 23 June 2023)



Source: Bloomberg, Bursa Malaysia, MIDFR

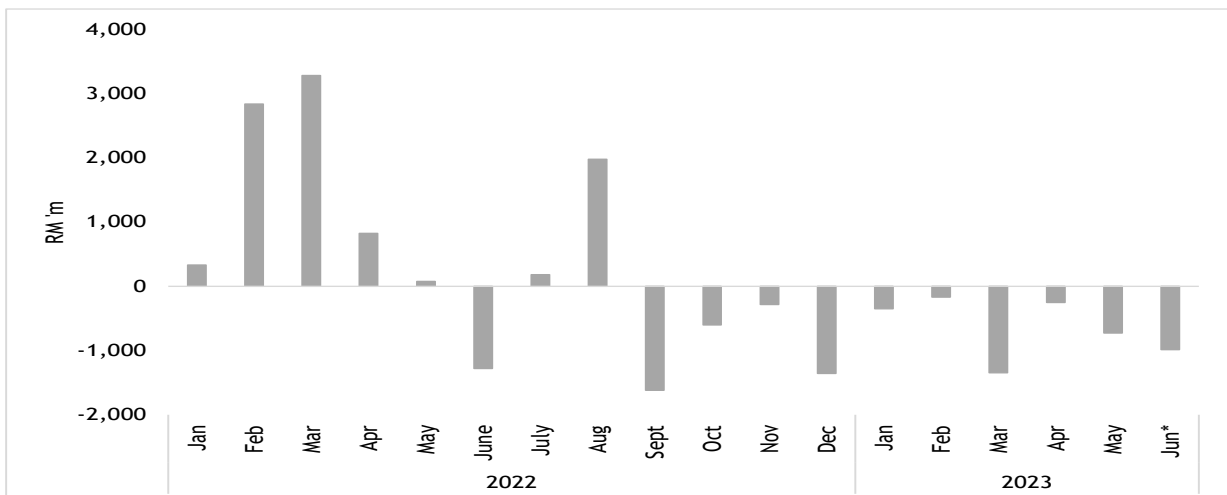
Chart 3: Cumulative Foreign Fund Flows (cont.) (as of 23 June 2023)



Source: Bloomberg, MIDFR

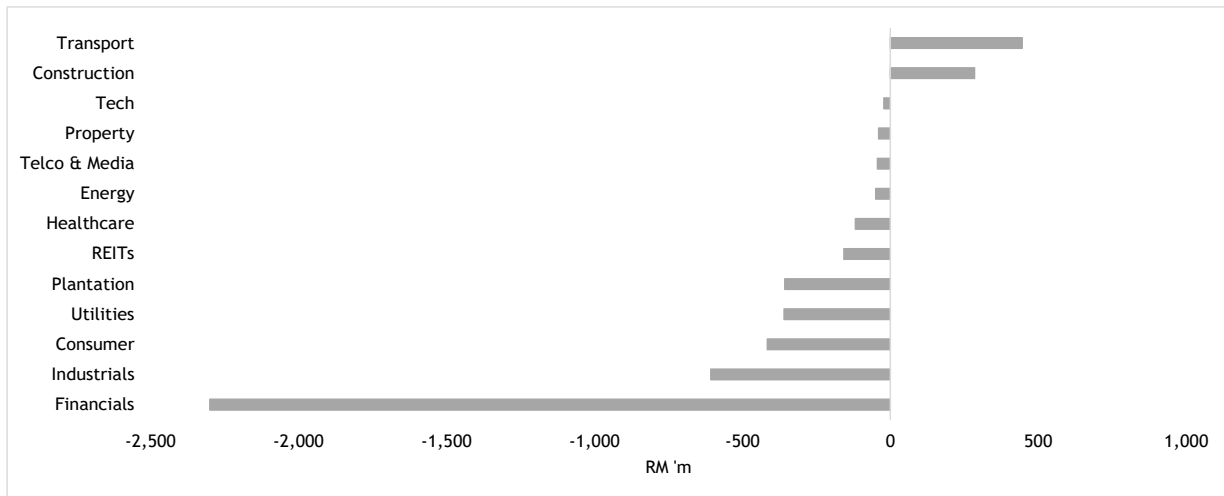
For Malaysia, finance sector has seen the most foreign funds outflows. The foreign funds net outflows of the finance sector amounted to RM2.20b as of 23 June 2023. This is understandable given the banking sector turmoil in the US and Europe in 1QCY23. In addition, the finance sector saw the most inflows in CY22 and given that the net inflows in Taiwan, South Korea, and India, we can speculate that there have been a market and sector rotation by the foreign investors. We should note though, the net outflows from the finance sector have lessened in 2QCY23.

Chart 4: Malaysia's Monthly Foreign Fund Flows (as of 23 June 2023)



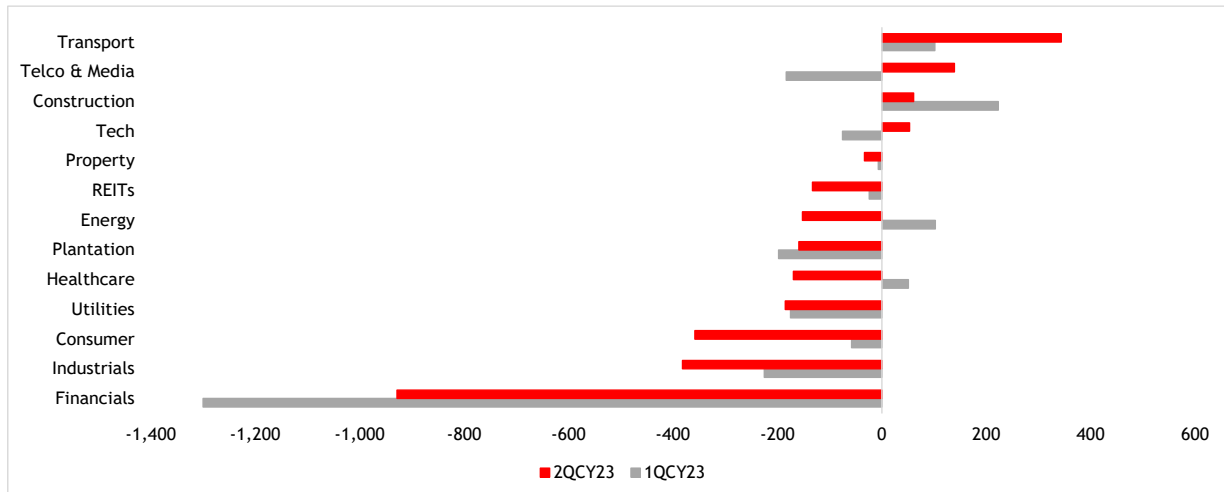
Source: Bursa Malaysia, MIDFR

Chart 5: YTD Foreign Fund Flows by Sector (as of 23 June 2023)



Source: Bursa Malaysia, MIDFR

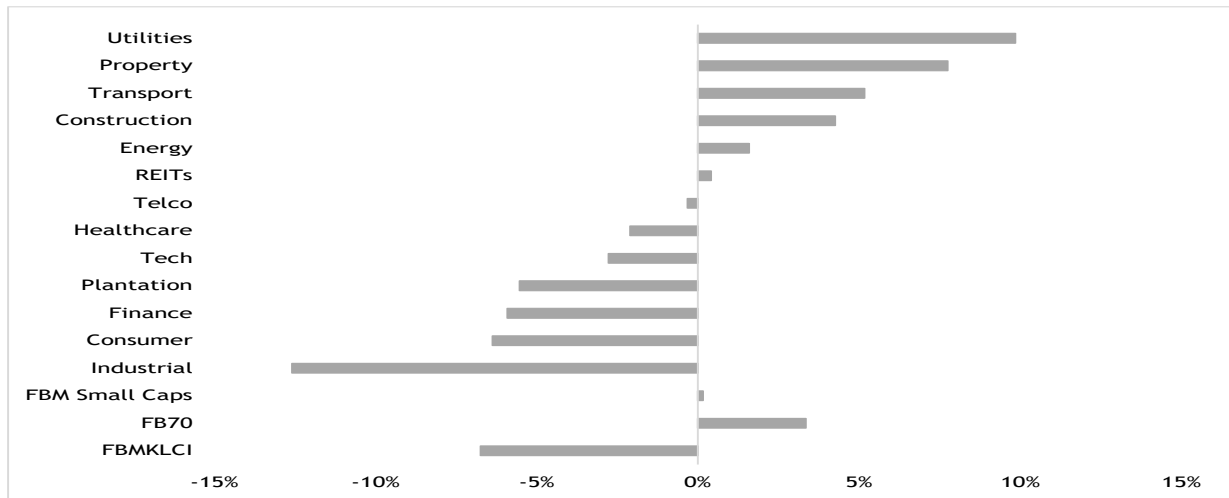
Chart 6: Quarterly Foreign Fund Flows by Sector (as of 23 June 2023)



Source: Bursa Malaysia, MIDFR

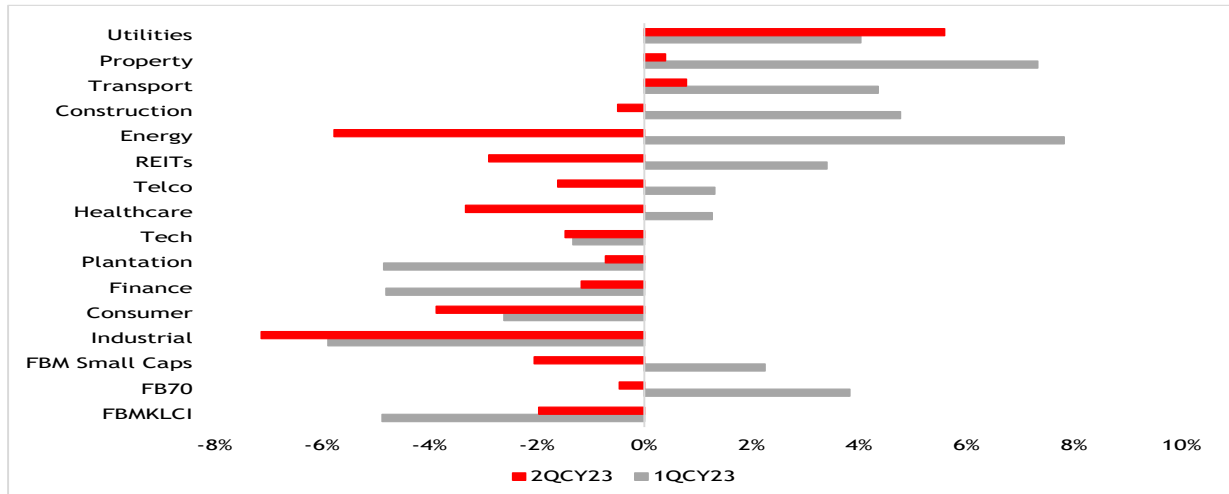
Two tier market domestically. While Malaysia’s main benchmark, FBM KLCI, registered a -6.7%ytd decline as of 23 June 2023, it was stark contrast with the mid-cap index. It seems that FBM70 index moved in tandem with most other markets (except ASEAN) as it posted +3.3%ytd gains over the same period. The heavyweights were bogged down mainly by price underperformance of Financial Services as well as commodity-related Industrial P&S (namely Petronas Chemicals and Press Metal) and Plantation stocks. The former sector was impacted by banking turmoil in the US and Europe while the latter by lower commodity product prices. In addition, foreign funds flow data also suggested that foreigners were buying the mid-cap stocks. Net outflow from foreign funds for FBM KLCI and FBM100 amounted to -RM3.9b and -RM3.4b respectively. This suggests FBM70 saw a net inflow of RM0.5b.

Chart 7: Comparison of Performance of Bursa Malaysia Sectoral Indices (YTD as of 23 June 2023)



Source: Bloomberg, MIDFR

Chart 8: Comparison of Quarterly Performance of Bursa Malaysia Sectoral Indices (YTD as of 23 June 2023)



Source: Bloomberg, MIDFR

Delayed pause is coming - an opportunity for a laggard play. With all said and done, we opine that the US Fed still holds a significant sway in the market. The ‘skip’ may have put a dampener to Malaysian markets (particularly the FBM KLCI) but it seems that investors in other markets are looking past that. Therefore, we expect it is only time before ASEAN markets, including the FBM KLCI, will follow the trends of US, European and North Asian markets. We believe that this will come once the US Fed confirms its ‘pause’ to its series of rate hikes. Given the laggardness of ASEAN markets, we believe that this presents an opportunity for investors to accumulate on cheap valuation before the eventual rotational play.

II. MACRO ECONOMIC OUTLOOK

GLOBAL ECONOMY: A YEAR OF SLOWDOWN AS COUNTRIES BALANCING BETWEEN FIGHTING INFLATION AND SUSTAINING GROWTH

Global growth to end 2023 slower. The world economy is projected to see full year grow more moderately at +2.8% (2022: +3.4%), slower than the past two years of post-pandemic recovery. It will be a year of slowdown as the global economy normally grow on average higher than 3%. Weaker growth in the advanced economies will be the major source of global slowdown as countries proceed with policy tightening, after removing pandemic-related restrictions and stimulus, to contain high inflation. Nevertheless, strong labour markets registered thus far and increased income helped to sustain spending growth. Companies, on the other hand, already adjusted by reducing production and inventories in response to softer demand outlook. Sustained growth in developing and emerging economies are crucial to support world economic growth, although the projected growth this year is expected to stabilize to more normal levels. This takes into account the recovery in China, which thus far has been led by growing consumer spending, although the recovery has not been as robust as anticipated when the country reopened its economy from the lockdown and strict zero-Covid policy late last year. In 2HCY23, we foresee that the subdued growth on the supply side could persist as businesses maintain cautious view on future sales. Moreover, we expect delayed effect of policy tightening will translate into weaker growth momentum especially when households start to hold back their purchases and demand for credit.

Challenges from stubbornly elevated inflation. Inflation remained elevated in many countries even though supply condition has improved. Price pressures are increasingly driven by surging demand in contrast to early period of post-pandemic recovery where inflation was triggered by supply shocks from supply disruptions, temporarily worsened because of the war in Ukraine. The correction in commodity prices since late last year has at least resulted in reduced cost and input price pressures for producers. However, the sticky downtrend in inflation even after the aggressive rate hikes means it will take longer for inflation to ease lower and closer to national targets. Pricing in the effect of rate hikes and expected softening of demand, we believe inflation will continue to ease in 2HCY23 for many economies.

Policymakers will keep focus on managing inflation. In response to elevated inflation, major central banks continued to raise its policy interest rates higher. The additional rate hikes were also facilitated by the resilience in demand conditions as well as tight and robust labour markets, even though credit costs have reached multi-year highs. In fact, to ensure that price pressures will be contained requires growth to slow and aggregate demand to be constrained. Nevertheless, we predict the need for further tightening will lessen as inflation is generally projected to ease further in 2HCY23. As such, we expect central banks will approach the end of policy tightening in the latter part of the year as inflation shows more progress trending lower. In contrast, there can be more policy easing, such as in China, to boost and sustain the recovery.

Support for EM currencies when US Fed switches its policy direction. We expect the recent weakness in most currencies against the US dollars will be reversed when the US Fed finally decides to end its policy tightening (as mentioned in our earlier [report](#)). In the past few months, US dollars strengthened supported by continued expectations for more hikes by the us Fed and increased safe-haven demand triggered by concerns over the US debt crisis (prior to the debt ceiling suspension), banking turmoil in US and Europe, and the less exciting consumption-led China's economic recovery. As we anticipate funds to flow back into EM markets when the US Fed no longer requires raising rates, we maintain our expectations that EM

currencies will appreciate in the latter part of the year.

Risks tilted to the downside. Several uncertainties may cause the global economy to experience even sharper slowdown. Among the key concerns are geopolitical tensions (e.g. between US and China) which could destabilize global supply chain and international trade outlook. Moreover, consumers may be hit by persistently elevated inflation which could affect their purchasing power. On another note, over-tightening of monetary policy can result in a more severe slowdown as all economic units will be hit by higher borrowing costs. Another round of banking turmoil could result in deteriorating confidence, and consequently tighter credit conditions that will adversely affect economic activities. On the potential effect of renewed rise in Covid-19 infections on the economy, we perceive the risk is low given the reduced likelihood for tighter restrictions to be reintroduced.

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Malaysia	2.50	2.75	2.75	2.75	2.75	2.75	2.75	3.00	3.00
Indonesia	4.75	5.25	5.50	5.75	5.75	5.75	5.75	5.75	5.75
Philippines	4.25	5.00	5.50	5.50	6.00	6.25	6.25	6.25	6.25
Thailand	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00	2.00
Vietnam	6.00	6.00	6.00	6.00	6.00	6.00	5.50	5.00	4.50
South Korea	3.00	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50
India	5.90	5.90	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
UK	2.25	3.00	3.50	3.50	4.00	4.25	4.25	4.50	5.00
Euro area	2.00	2.00	2.50	2.50	3.00	3.50	3.50	3.75	4.00
US	3.00- 3.25	3.75- 4.00	4.25- 4.50	4.25- 4.50	4.50- 4.75	4.75- 5.00	4.75- 5.00	5.00- 5.25	5.00- 5.25

Source: Bloomberg, MIDFR

US: GROWTH TO SLOW TO BELOW TREND AS FED PUSHES ITS POLICY RATE HIGHER

Growth to be below trend this year. The US economy is projected to experience below-trend growth, with GDP to expand at around +1% this year (2022: +2.1%). While Fed already cumulatively raised fed funds rate by +500bps to 5.00-5.25% the rise in consumer spending was the key reason for GDP growth in 1QCY23 accelerating to annualised +1.6%qoq (4QCY22: +0.9%qoq), while companies reduced investment and reduced its inventories. Despite the strength in consumer spending on the back of tight labour market, we expect rising borrowing costs and tighter credit conditions will lead to slower consumer spending. Apart from weaker consumer spending, homebuying also slowed affected by the rise in mortgage rates. With growth to remain in positive and given the resilience in labour market and therefore consumer spending, the US economy is likely to be able to avert a sharp contraction and possibly experience a soft landing.

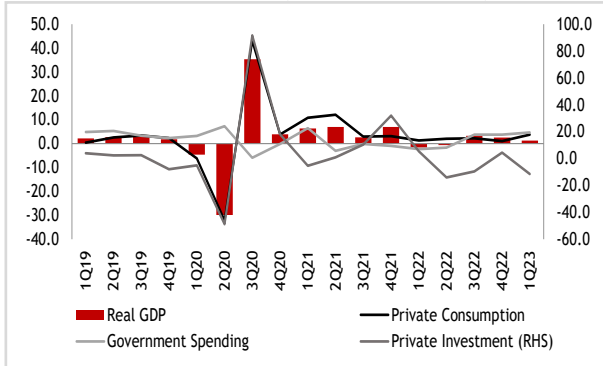
Labour market is key factor behind economic resilience. One key factor which has been supporting US economic growth was the persistent tight labour market conditions. The strong demand for labour continued to translate into positive job creation even until recent month, with nonfarm payrolls rising stronger at +339K in May-23 (Apr-23: +294K) and unemployment rate remaining at low levels despite rising slightly to 3.7% (Apr-23: 3.4%). Although the US Fed wishes to see some rebalancing (and cooling) in the labour market as part of the intended economic changes to push inflation lower, the strength in the US

job market as well as the rising wages have been supporting American consumer spending. It also serves as one of the key reasons why the economy was more resilient than expected even after the aggressive rate hikes since last year.

Pivoted but delayed end to policy tightening. Market expectations on the ultimate pause by the Fed have shifted from Mar-23 to Jul-23 (for now), given the sticky downtrend in the US inflation. Even after the ‘skip’ at the Jun-23 FOMC meeting, Fed indicated the US economy will require 1 or 2 more rate hikes to cause a more significant easing in inflation. We forecast at least another hike at the next meeting, as priced in by market, if inflation continues to slow further and the core PCE prices already hovering below the fed funds rate, despite rising slightly to +4.4% in Apr-23 (Mar-23: +4.2%yoy). However, given the level of inflation remained above the Fed’s 2% longer-term inflation target, this can still serve as a reason for the Fed to push for another hike so the disinflation progress will be steeper. Given the resilience of the economy and job market, we believe it is a feasible option. In other words, it may take longer for the Fed to end its policy tightening cycle if inflation remains high.

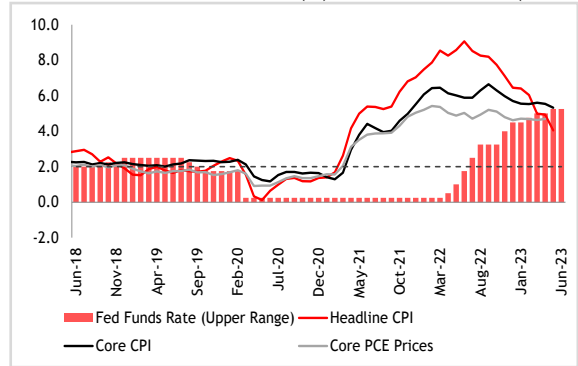
Concerns on the banking sector? Following the collapse of several US banks, Fed mentioned the tightening of credit conditions triggered by the banking sector turmoil. Although the risk from the banking sector instability has subsided, this can still be downside risk which could affect sentiment and cause increased volatility in the financial markets as Fed proceeds with more rate hikes. The simulation by the Fed staff also suggested the possibility of the US economy falling into a mild recession from the banking crisis as economic activities could decline if households and businesses face difficulty to obtain credits from the banks.

Chart 9: US GDP Growth (Annualised QoQ%)



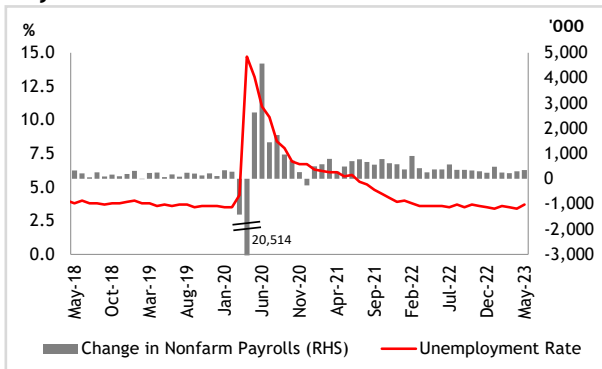
Source: Macrobond, MIDFR

Chart 10: Fed Funds Rate (%) vs. US Inflation (YoY%)



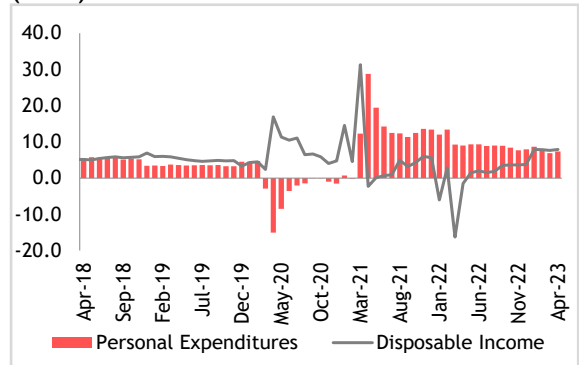
Source: Macrobond, MIDFR

Chart 11: Unemployment (%) vs. Change in US Nonfarm Payrolls



Source: Macrobond, MIDFR

Chart 12: US Personal Outlays vs. Disposable Income (YoY%)



Source: Macrobond, MIDFR

CHINA: RECOVERY NOT THAT IMPRESSIVE, POLICY SUPPORT NEEDED

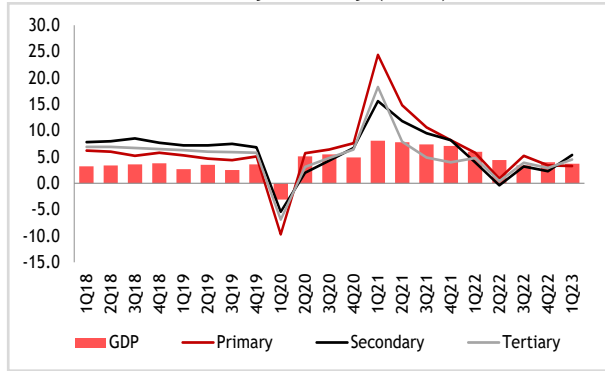
Not too positive about the recovery thus far. Growth is expected to pick up this year following the economic reopening from the lockdowns of last year, but the pace of recovery was not as strong as anticipated. Although its GDP growth already strengthened to +4.5%yoy in 1QCY23 (4QCY22: +2.9%yoy), the recovery was mainly driven by increased consumer spending, with retail sales registering robust growth of +18.4%yoy in Apr-23 accelerating and rebounding from -5.9%yoy in Nov-22. By comparison, the performance in China's business activities, however, was slower as industrial production only picked up to +5.6%yoy in Apr-23 from the recent low of +1.3%yoy in Dec-22. Although official manufacturing PMI rebounded back to expansion in 1QCY23, the latest reading returned to below 50 in April and May pointing to activities in the sector falling again as manufacturers reported reduced output and new orders. The official services sector PMI, in contrast, remained in expansionary territory in the first 5 months this year in line with the growing consumer spending. Despite the less impressive consumption-led recovery, we expect China's recovery will continue in 2HCY23. For the whole year 2023, China's GDP is projected to grow at +5.2% (2022: +2.3%), only slightly higher than official target of around +5%.

Property market remains one of key challenges to overall growth. Weakness in the property market continued to pose a drag on China's economic growth. The slowing investment in fixed assets continued particularly dragged by reduced real estate investment. Despite measures by the authorities to support and ensure financing is extended to quality developers, the decreased investment signalled the prospect of growth remained subdued. Nevertheless on the bright side, the average prices of newly built houses started to bottom out as prices finally rebounded back to +0.1%yoy in May-23 after 12 straight months of annual declines.

Recent policy easing to stimulate stronger growth. As the growth and recovery seem to have slowed in May-23, the latest policy easing underlined the concerns that the recovery could shift to slower gear. In mid-Jun-23, People's Bank of China (PBOC) slashed several interest rates by 10bps to provide more liquidity and policy support to ensure continued pick-up in China's economic activities. While other countries are dealing with high inflation, China's policy direction will focus more on providing support to sustain its economic recovery. If the pace of growth weakens again, we expect there will be more policy support (and easing) later this year.

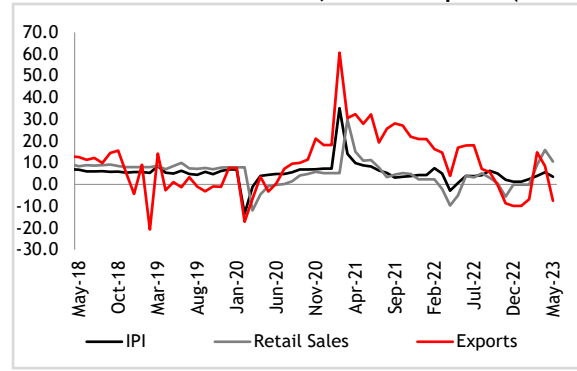
Limited positive impacts on regional trade outlook so far. China's recovery unfortunately did not provide the expected boost to regional trade. Exports for certain countries have contracted since late last year, mainly linked to the adjustment and weakness in global manufacturing activity. With China's imports continuing to fall in recent months, the limited spillover effects to other countries even added to the weak external trade performance. Although recovering demand from China may not be able to fully counter the weaker demand from other countries, we anticipated the recovery will at least help to cushion the external trade slowdown. Going into the latter part of the year, we still expect improved demand from China will be a positive boost to regional trade outlook, especially for commodities.

Chart 13: China GDP by Industry (YoY%)



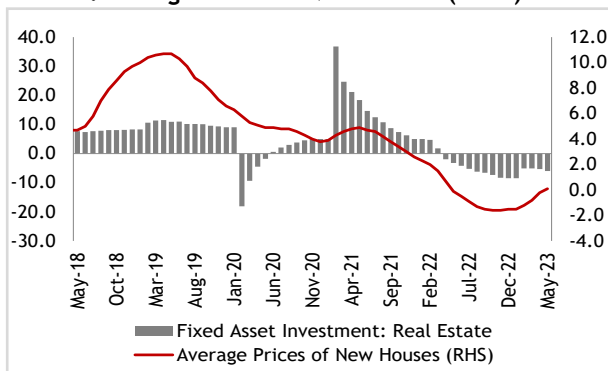
Source: Macrobond, MIDFR

Chart 14: China Retail Sales, IPI and Exports (YoY%)



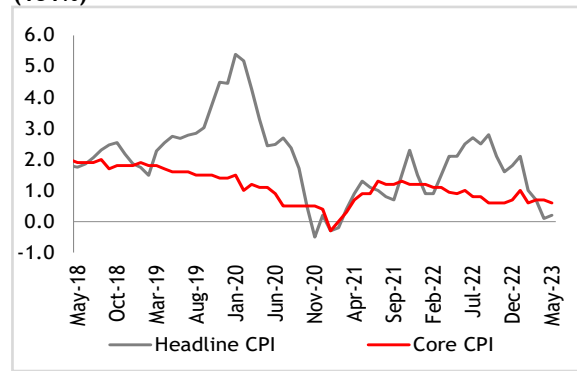
Source: Macrobond, MIDFR

Chart 15: China Fixed Asset Investment in Real Estate YTD vs. Average Prices of New Houses (YoY%)



Source: Macrobond, MIDFR

Chart 16: China Headline vs. Core CPI Inflation (YoY%)



Source: Macrobond, MIDFR

MALAYSIA ECONOMY: VIGILANT & RESILIENT DOMESTIC DEMAND WHILE EXTERNAL FRONT SAILING ON CHALLENGING PATH

Glimmer of hope on external demand. Considering the external headwinds, global financial market uncertainties and further tightening monetary policy in many economies, we maintain our expectation of Malaysia’s GDP growth to moderate to +4.2% in 2023. The softening growth is mainly due to contraction of external trade performances as global demand is anticipated to be slower than the previous year. The global economy is expected to slow down rather than go into recession in 2023. On the back of higher interest rates, banking turmoil and elevated inflationary pressure, domestic demand in the US and EU will likely dampen in 2023. Consequently, Malaysia’s real exports projected to grow at +1.5% (2022: +14.5%), which mainly supported by improving services exports via recovering tourism activity. China’s reopening effects remain below expectation at least for the 1HCY23, dampening goods trade globally. However, Malaysia’s external trade will continue to benefit from increased global demand for commodities especially palm oil, crude petroleum and LNG as the prices of CPO and Brent crude oil are projected to stay elevated at RM3,500 per tonne and USD79pb for 2023. Malaysia’s agriculture and mining sectors are projected to grow by +0.8% and +2.6% respectively for 2023. With a glimmer of hope, manufacturing sector growth to register a modest pace of +1.4% for 2023.

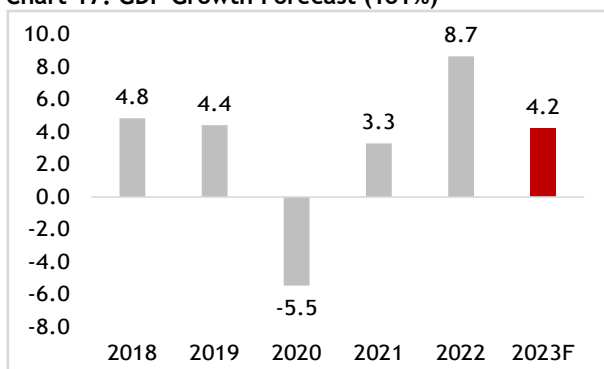
Sturdy domestic demand. There is no change to our earlier expectation that the domestic economy to be fuelled by continuous upbeat consumer spending, busier tourism-related activities and revival of infrastructure projects. Job market remains in good shape as reflected in continuous positive growth in employment, the decline in unemployment and lower jobless rate. Thanks to easing of global tight supply

chain and normalised commodity prices, overall inflationary pressure is set to trend slightly lower than previous year. Non-food inflation is anticipated to moderate the inflation pressure especially with the government keep retail fuel prices status quo. Private consumption and services are expected to grow by +6.1% and +5.8% respectively in 2023.

Budget 2023 a domestic catalyst. The RM388.1b expansionary budget tabled by the government in Feb-23 is larger than RM372.3b budget document tabled in Oct-22. The government even allocated a larger budget of RM99b for development expenditure (DE), more than a quarter of government spending. Excluding the RM2b in contingency savings, the higher DE allocation will be directed mostly to Economic Sector (share: 56.7% of total DE), with additional RM1b or total allocation of RM17.6b for the transport industry. While the government look at ways to save and further reduce the cost for MRT3 development, there will be new infrastructure developments such as Sanglang Port in Perlis and Pulau Carey Port in Klang. The large DE spending will also cover existing infrastructure projects such as KVDT Phase 2, ECRL, LRT3 and 5G rollout.

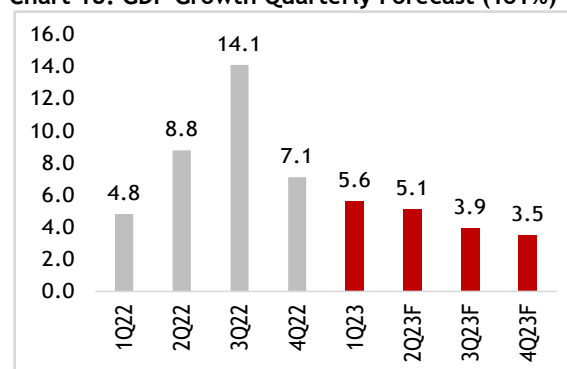
With record-high development expenditure, construction sector to get busier. Public investment is projected to continue growing above +7% (1st edition Budget 2023: +2.1%), among others attributable to the public infrastructure projects such as KVDT Phase 2, Pan-Borneo Highway, ECRL, LRT3 and RTS Link. In addition, increase of residential, non-residential buildings and facilities will further boost investment spending as well as construction sector. Meanwhile, the 5G roll-out will boost growth in the civil engineering sub-sector. Based on our forecast model, total investments to increase by +5.3% with public and private outlays by +4.8% and +5.4% respectively for this year. Also, we foresee construction sector to benefit expanding by +6.5%, better than +5% recorded in 2022.

Chart 17: GDP Growth Forecast (YoY%)



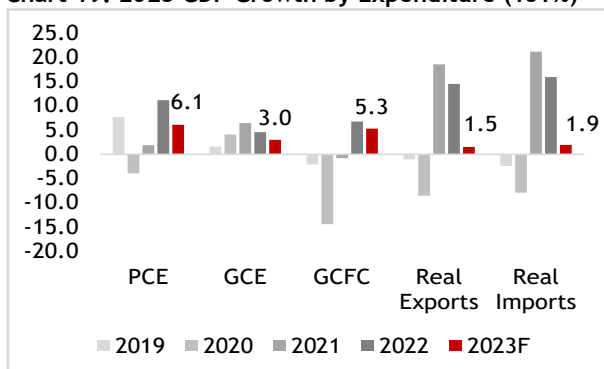
Source: Macrobond, MIDFR

Chart 18: GDP Growth Quarterly Forecast (YoY%)



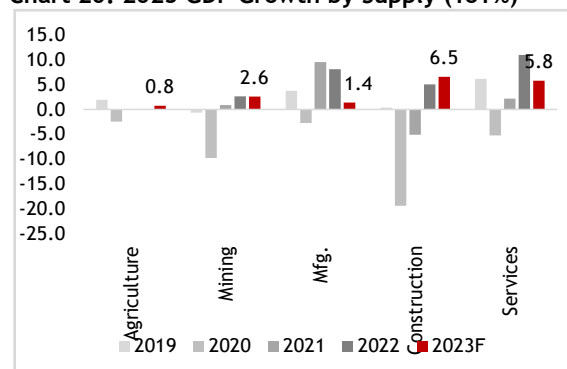
Source: Macrobond, MIDFR

Chart 19: 2023 GDP Growth by Expenditure (YoY%)



Source: Macrobond, MIDFR

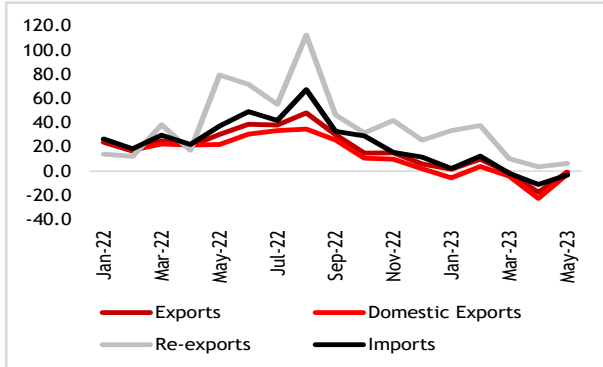
Chart 20: 2023 GDP Growth by Supply (YoY%)



Source: Macrobond, MIDFR

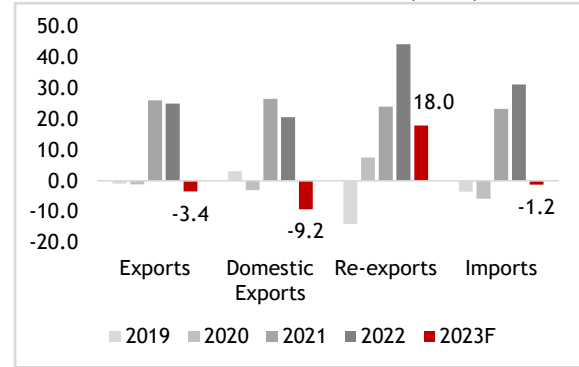
Goods exports forecast revised to contraction of -3.4% for 2023. Considering the recent weaknesses in trade numbers so far, we slashed our initial forecast from positive rates to contraction, exports and imports to fall by -3.4% (+6.2%) and -1.9% (+6.4%) respectively for this year. While China’s recovery can be a boost to international trade activity, weak global demand (particularly for manufactured goods) in addition to limited upward pressures on prices and thus the high base would translate into frailer external trade performance this year. In fact, we expect lower commodity prices will continue to affect resource-based exports in the next few months. Trade outlook could weaken further if global inflation remains elevated, central banks continue to tighten monetary policy and if geopolitical risk deteriorates.

Chart 21: External Trade Performances (YoY%)



Source: Macrobond, MIDFR

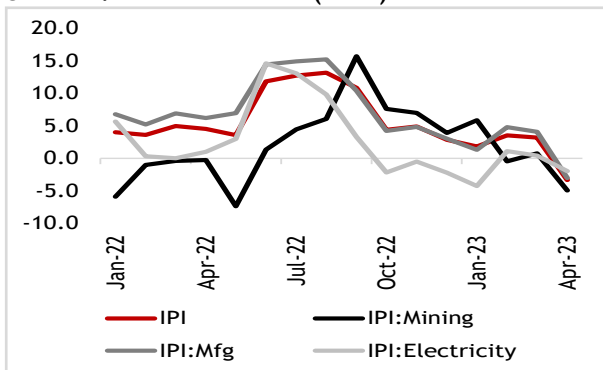
Chart 22: External Trade Forecasts (YoY%)



Source: Macrobond, MIDFR

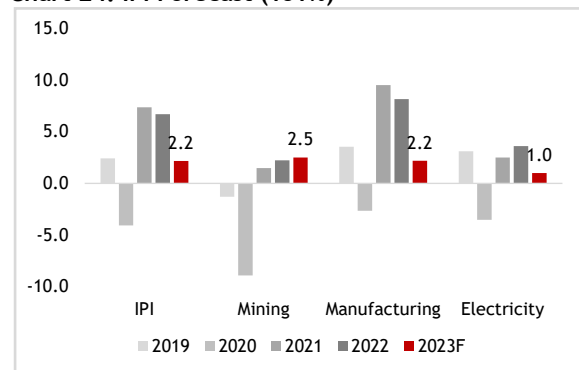
Projecting higher output from mining. Mining output is set to continue recovering albeit elevated global energy prices. The completion of new pipeline projects in Sarawak and resumption of Sabah’s oilfields operation are seen to benefit and able to uplift mining output in 2023. Mining output is projected to improve further by 0.3% points to +2.5% in 2023. In line with external slowdown, factory output growth is forecasted lower at +2.2%. Electricity output, which is closely associated with factory performance, to record marginal gain of +1% for 2023. Overall IPI is predicted to expand by +2.2% in 2023, much lower than initial projection of +3.5%.

Chart 23: IPI Performances (YoY%)



Source: Macrobond, MIDFR

Chart 24: IPI Forecast (YoY%)

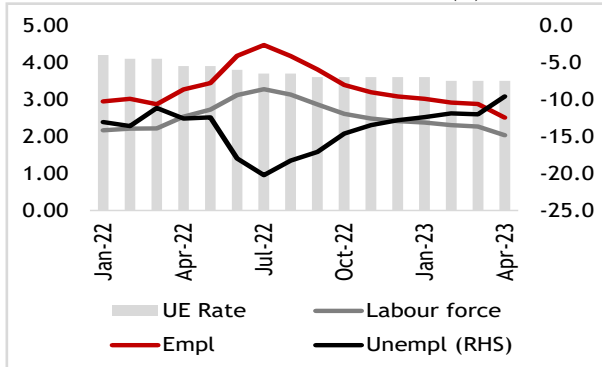


Source: Macrobond, MIDFR

Tight labour market. The labour market in Malaysia is expected to strengthen further in 2023 and 2024, backed by encouraging momentum in the domestic economy. Malaysia’s unemployment rate is expected to decline further to 3.5% in 2023 and return to pre-pandemic levels at 3.3% in 2024. The return of non-citizens workers is expected to boost overall employment and reduce the jobless rate. As of 1QCY23, non-citizens' employment is almost -4.4% lower than pre-pandemic levels. As of 4MCY23, employment

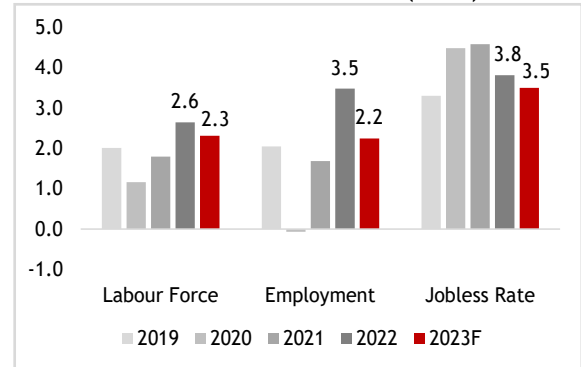
while unemployment reduced by -11.5%yoy (2022: -14.8%) and jobless rate averaged at 3.5%. Continued improvement in the labour market will support consumer spending as the wage recipients to employment ratio has reached a new peak at 64.5% in 2021, among others thanks to the minimum wage salary policy.

Chart 25: Labour Market Performances (%)



Source: Macrobond, MIDFR

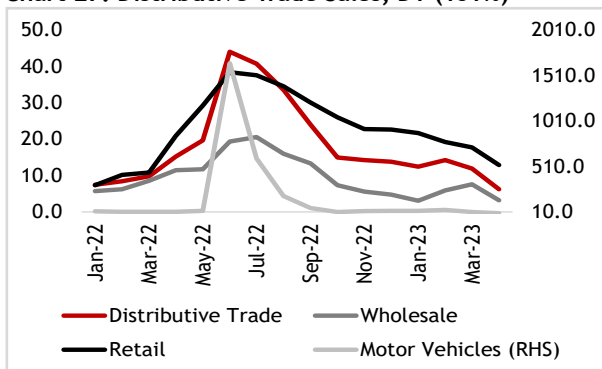
Chart 26: Labour Market Forecasts (YoY%)



Source: Macrobond, MIDFR

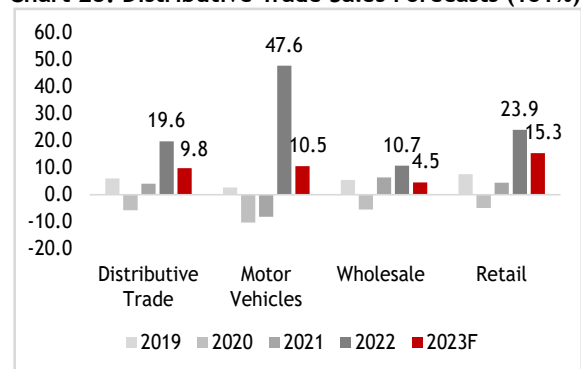
Robust consumer demand & reviving tourism sector. Malaysia’s distributive trade sales increased by double-digit rate +11.1%yoy in 4MCY23. All components particularly sales of motor vehicles and retail trade improved by +12.8%yoy and +17.7%yoy while wholesale trade inched up by +4.9%yoy. Despite inflation concerns, consumer demand remained robust as retail trade growth still on double-digit rate for the past 15-month since Feb-22. Excluding price effects, seasonally adjusted volume of distributive trade growth touched +8.2%yoy (2022: +15.3%), mainly supported by motor vehicles, wholesale trade and retail trade by +5.7%yoy, +3.5%yoy and +11.3%yoy (2022: +21.9%) respectively in 4MCY23. Looking ahead, the upbeat momentum of domestic demand to continue in 2023 underpin by resilient labour market, easing inflationary pressure, pick-up in tourism activities and supportive economic policies. During the pre-pandemic, 50.7% of Malaysia’s airports passenger traffic was contributed by international travels, 25.0% by ASEAN and 25.7% by non-ASEAN destinations. As of Apr-23, travellers for domestic destinations accounted for 55.4% (2022: 71.7%) vis-à-vis international destinations at 44.6% (2022: 28.1%), whereby 19.6% were non-ASEAN and 25% ASEAN.

Chart 27: Distributive Trade Sales, DT (YoY%)



Source: Macrobond, MIDFR

Chart 28: Distributive Trade Sales Forecasts (YoY%)

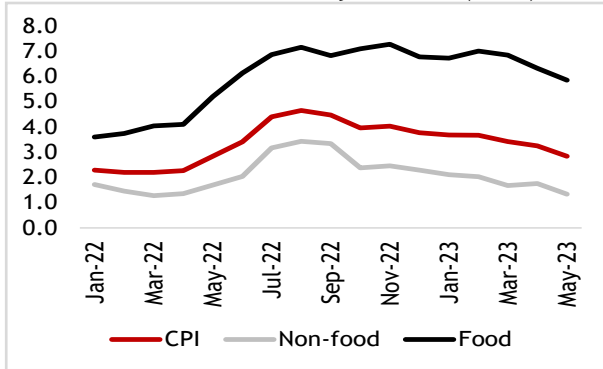


Source: Macrobond, MIDFR

Stubborn food prices to push headline inflation rate at +3.0%. As of 4MCY23, average food inflation registered at +6.7%yoy, much higher than previous year’s +5.7%. In our initial estimation, we expect food inflation to trend lower at +5% for this year, banking on easing global supply chain pressure, normalised commodity prices and appreciation of USDMYR. However, recent market developments especially the further tightening of monetary policy by major economies have indirectly delay the appreciation of MYR.

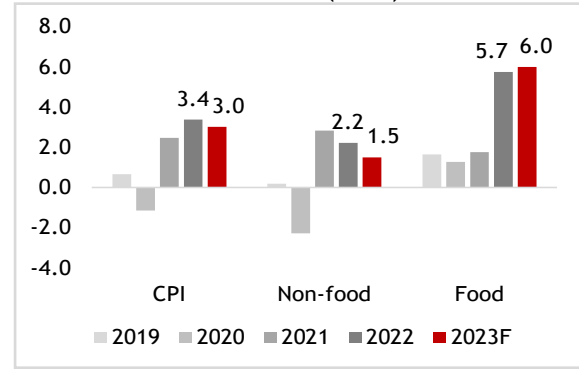
Henceforth, prolonged depreciated MYR among others will lead to higher imported inflation particularly via food prices as Malaysia is a net importer for most food products. As for non-food inflation, we are confident the government will keep retail fuel prices status quo at least until the end of this year. Non-food inflation is expected to average at +1.5% (4MAY23: +1.9%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to touch +3% for 2023, higher than our initial forecast +2.5%.

Chart 29: Food-led Inflationary Pressure (YoY%)



Source: Macrobond, MIDFR

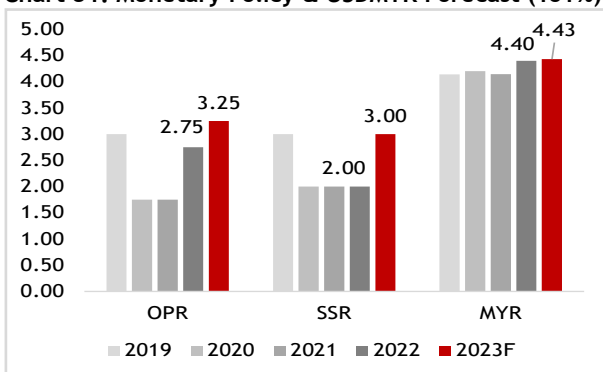
Chart 30: Inflation Forecast (YoY%)



Source: Macrobond, MIDFR

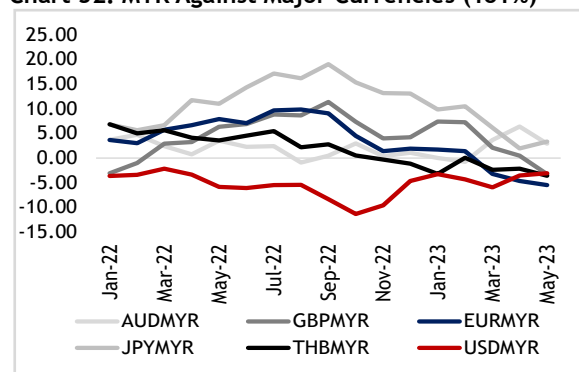
OPR to reach 3.25% following strong domestic demand. The current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Malaysia's domestic economy continues to surprise market expectations especially the distributive trade sales performances, tight job market and sticky core inflation (4MAY23: +3.8% vs. 2022: +3%). We opine that BNM will consider another 25bps rate hike in 2HCY23 following the stronger-than-expected domestic economy. In addition, BNM may optimise its monetary arms through normalizing its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year. The SRR rate was reduced to and stayed at 2.00% since Mar-20. However, the decision will be subjected to the stability of economic growth, the pace of price increases and further improvement in macroeconomic conditions, particularly a continued recovery in the labour market and growing domestic demand. From a medium-term perspective, the policy rate normalization is needed to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness.

Chart 31: Monetary Policy & USDMYR Forecast (YoY%)



Source: Macrobond, MIDFR

Chart 32: MYR Against Major Currencies (YoY%)



Source: Macrobond, MIDFR

Delay in Fed's pause, MYR to average lower than 2022. Aggressive interest rate hikes by the Fed since early 2022 have been the main factor of the strong US dollar. We expect that MYR to stay on a depreciation path as the Fed keep on delaying its interest rate pause. Also, weaker-than-expected China's performances indirectly affected MYR given that exports to China (13.2% of total exports) fell by -8.8%yoy in 5MAY23

(2022: +9.4%). For 2023, we revise lower our MYR average expectation to RM4.43 per USD1 and year-end at RM4.20. Fundamentally, ringgit is in a good position to strengthen as the domestic economy stays on upbeat momentum and as a net commodity exporter (of crude petroleum, LNG and palm oil), Ringgit stands to gain from the elevated global commodity prices and sustained trade surplus. However, we believe the strengthening of MYR will return and regain once the fed hit the pause button and earliest is 4QCY23.

Table 2: MIDF Research Macroeconomic Forecast Figures for 2023 (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023f
Real GDP	-5.5	3.3	8.7	4.2
Govt. Consumption	4.1	6.4	4.5	3.0
Private Consumption	-3.9	1.9	11.2	6.1
Gross Fixed Capital Formation	-14.4	-0.8	6.8	5.3
Govt. Investment	-21.2	-11.1	5.3	4.8
Private Investment	-11.9	2.7	7.2	5.4
Exports of goods & services;	-8.6	18.5	14.5	1.5
Goods Exports	-0.7	21.4	11.1	-2.8
Services Exports	-47.8	-8.2	56.8	39.5
Imports of goods & services;	-7.9	21.2	15.9	1.9
Goods Imports	-3.6	23.8	14.6	-0.6
Services Imports	-25.3	7.7	23.9	15.7
Net Exports	-13.7	-4.0	-1.0	-3.6
Agriculture etc.	-2.4	-0.1	0.1	0.8
Mining & Quarrying	-9.7	0.9	2.6	2.6
Manufacturing	-2.7	9.5	8.1	1.4
Construction	-19.3	-5.1	5.0	6.5
Services	-5.2	2.2	10.9	5.8
Exports of Goods (f.o.b)	-1.1	26.1	25.0	-3.4
Imports of Goods (c.i.f)	-5.8	23.3	31.3	-1.2
	2020	2021	2022e	2023f
Unemployment Rate (%)	4.5	4.6	3.8	3.5
Headline CPI Inflation (%)	-1.1	2.5	3.4	3.0
Non-Food Inflation (%)	-2.3	2.8	2.2	1.5
Food Inflation (%)	1.3	1.8	5.7	6.0
Brent Crude Oil (Avg, USD per barrel)	41.6	71.5	102.0	80.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,500
USD/MYR (Avg)	4.20	4.14	4.40	4.43
USD/MYR (End-period)	4.02	4.17	4.35	4.20
Overnight Policy Rate (%)	1.75	1.75	2.75	3.25

Source: Macrobond, Bloomberg, MIDFR

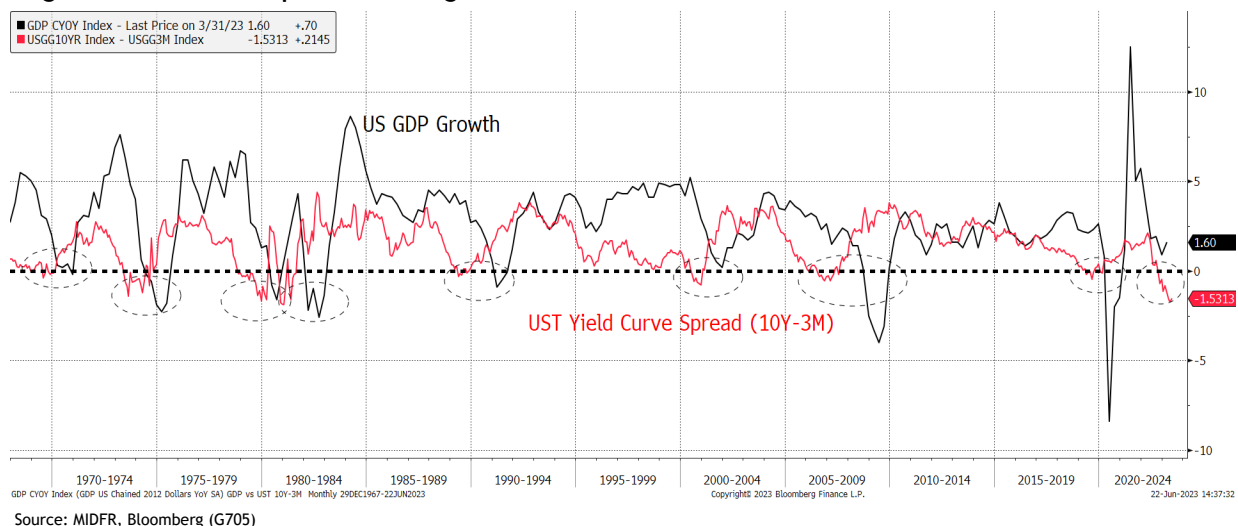
III. MARKET OUTLOOK

Final rate hike now expected in upcoming July meetings. Presently, the main cues coming out of Wall Street are (1) inflation pressures are quite persistent yet ebbing hence the US Fed is skipping a rate hike (vis-à-vis earlier expectation of an outright pause) during the recent June meeting, and (2) the US Fed is expected to resume its rate hike for the final time in upcoming July meeting. The [interest rate futures](#) market is implying circa 72% (as of writing) probability of a final 25bps hike in July or terminal rate of 5.50%. Domestically, the BNM is also now expected to raise the OPR for the final time by 25bps to 3.25% in July.

Expect economic growth to decelerate while remain positive this year... Moreover, despite the slew of rate hikes since March last year, the prevailing consensus expectation is for the US economy to continue growing albeit at a below average rate of 1.2% in 2023. Domestically, the Malaysian GDP growth is expected to normalize to 4.2% this year vis-à-vis 8.7% in 2022.

...but the bond market is signaling trouble ahead. The aggressiveness of the US Fed in raising the short-term policy rate has invariably resulted in a complete inversion of bond yield curve. Looking at various long versus short maturity spreads of the US Treasury (UST), the last to invert was the 10-year against 3-month (10Y-3M) in late October 2022.

Figure 1: UST 10Y-3M Spread - Harbinger of Recession



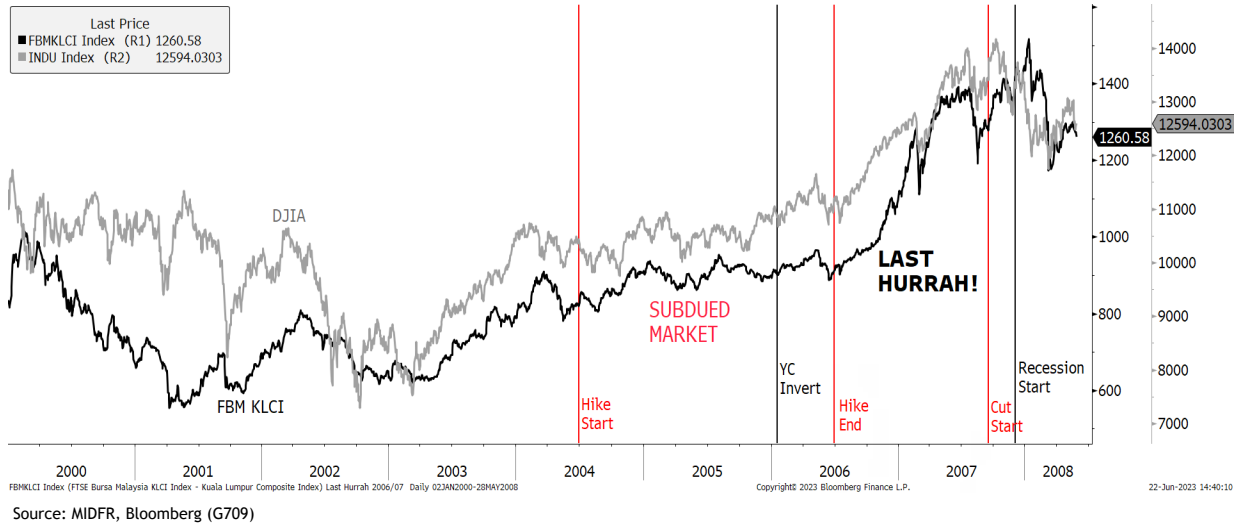
US recession forthcoming by end 2024? It should be highlighted that the inversion of 10Y-3M spread serves as a potent signal of an impending economic recession, empirically within the ensuing 1 to 2 years. Most notably, it correctly predicted all US recessions since at least the early 1970s. Presently, the bond market is tacitly predicting the US economy to fall into recession possibly in the final quarter of 2023 or by the final quarter of 2024.

Bullish window on equity. Nonetheless, despite the prevalent fears of a forthcoming recession, we posit the risk asset markets (and equity in particular) are tilting toward the upside in the short to medium term. In fact, empirically, the intervening period between the final US Fed rate hikes and the onset of recession could prove attractive for equity market.

Period between end of hikes and start of recession attractive for equity market... The intervening period between the end of US Fed rate hikes and the start of recession could prove (paradoxically) attractive

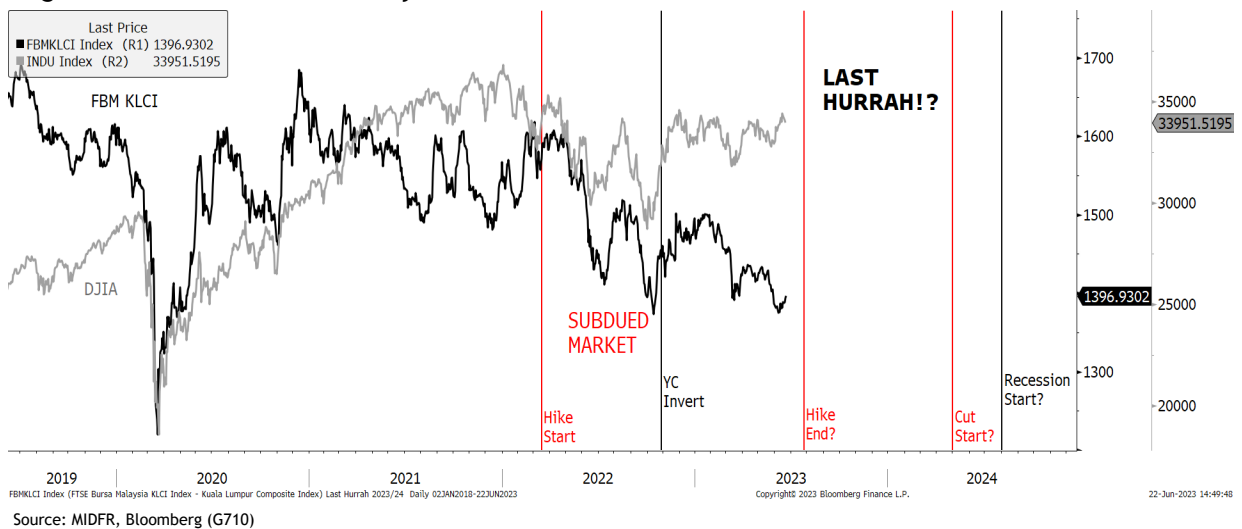
for equity pricing principally due to the unwinding or subsiding pressure on equity required return (as the upside risk diminishes) with the end of rate tightening cycle. Moreover, during the intervening period, macro performance and equity earnings remain somewhat resilient as the anticipated recession has yet to manifest.

Figure 2: DJIA and FBM KLCI - Big Rally Post Rate Pause in 2006



...such after mid-2006. The potent bond market signal of a looming recession emerged in January 2006 with the inversion of 10Y-3M UST yield curve spread. The yield curve inversion (YC Invert) occurred as a consequence of an aggressive series of rate hikes totaling 425 basis points (1.00% to 5.25%) from June 2004 to June 2006. However, the equity market began to rally with the DJIA climbing from the 10,700 points level in July 2006 to 13,500 points level a year later. Thenceforth, it rose further to pre-GFC (Global Financial Crisis) record of 14,100 points level in October 2007. Domestically, the FBM KLCI was also advancing from 900 points level in July 2006 to 1,300 points level a year later. Subsequently, it climbed further to the pre-GFC record of 1,500 points level in January 2008.

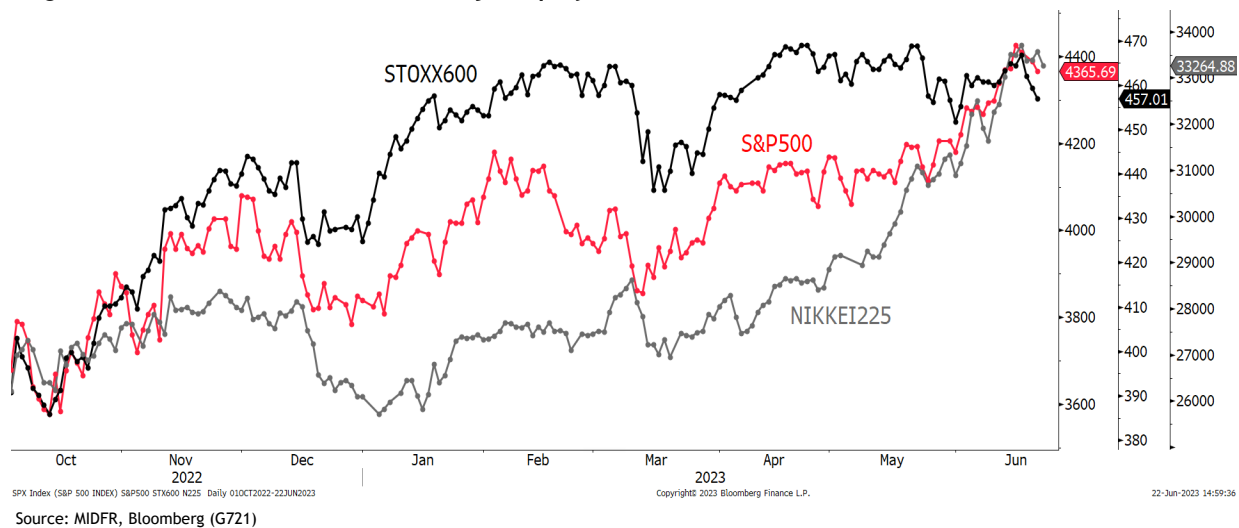
Figure 3: DJIA and FBM KLCI - Rally Post Rate Pause in 2023?



Expect a repeat in 2023... As earlier stated, the UST bond market is again signaling an imminent recession with the inversion of 10Y-3M yield curve spread in October 2022. The YC Invert occurred as a consequence of an aggressive series of rate hikes hitherto totaling 500 basis points (0.25% to 5.25%) from March 2022 to May 2023. Meanwhile, major equity markets (namely the US, Europe, and advanced East Asia) have been progressively rebounding off their 52-week lows in the final quarter of last year arguably in reaction to the Fed pivot late last year and in anticipation of a Fed pause this year. Going forward, we reckon the upward momentum of major equity markets would endure especially post-Fed pause potentially after the upcoming July meeting.

...with emerging ASEAN region playing catchup. In contrast, the equity markets of emerging ASEAN region duly rebounded late last year but subsequently lagged particularly since the onset of US and Europe banking turmoil in March this year. Nonetheless, going forward, we reckon the upward momentum would resume especially post-Fed pause, with international funds rotating into emerging ASEAN on weaker US Dollar and attractive valuation.

Figure 4: Performance of the World's Major Equity Indices Since 4QCY22



S&P500 (US Benchmark)

- Upward trend beginning October last year.
- Maintained upward trend despite the onset of US and Europe banking turmoil in March.
- Registered year-high level in June and entered a bull market after it climbed by more than 20% from a low in October last year.

STOXX600 (European Benchmark)

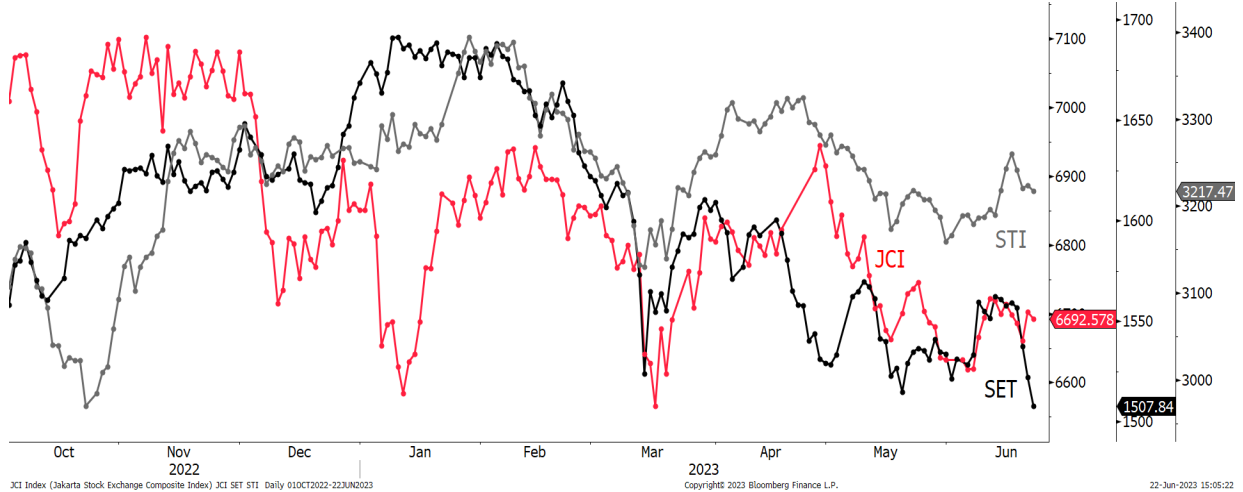
- Upward trend beginning October last year.
- Maintained upward trend despite the onset of US and Europe banking turmoil in March.
- Registered year-high level in May despite economic challenges in some major European countries.
- It seems that investors are looking ahead and seeing the economic glass as half full.
- Notably, the German economy is in a technical recession while its DAX equity index climbed to a new

all-time high level in June.

NIKKEI (Japan Benchmark)

- Maintained upward trend despite the onset of US and Europe banking turmoil in March.
- Registered year-high level in June (which equates to 33-year high).

Figure 5: Performance of ASEAN Equity Indices 4QCY22



JCI/SET/STI (ASEAN Benchmarks)

- ASEAN benchmarks namely Jakarta’s JCI, Bangkok’s SET and Singapore’s STI lagged other regions (namely the US, Europe, and advanced North Asia) from March onwards since the onset of US and Europe banking turmoil.
- Expect these markets to play catch up especially post-Fed pause (with funds rotating into emerging ASEAN region on weaker US Dollar and attractive valuation).

Figure 6: Performance of Bursa Malaysia Equity Indices Since 4QCY22



FBM KLCI (Malaysia/ASEAN Benchmark)

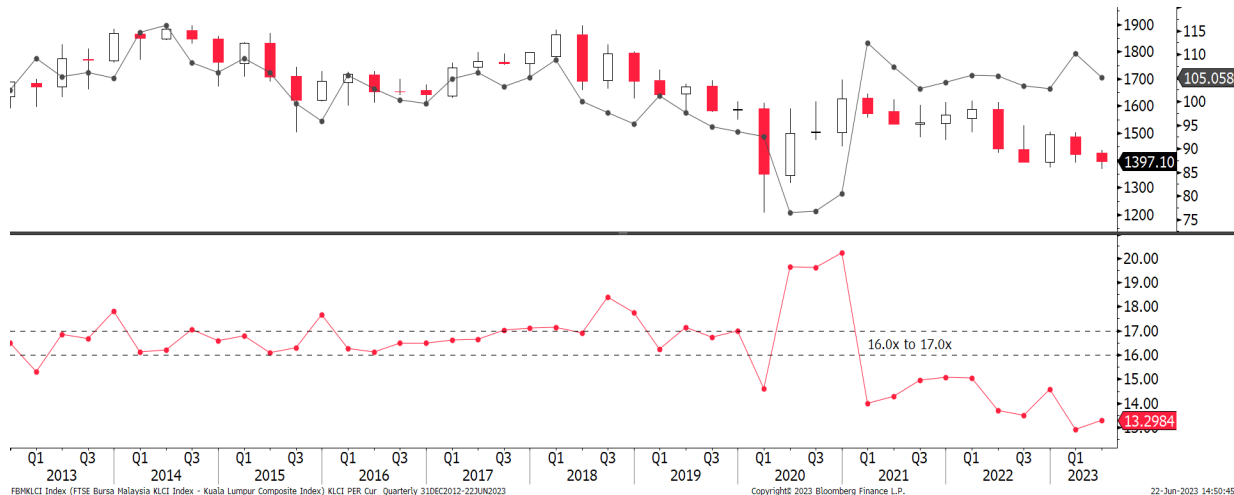
- Upward trend beginning October last year.
- Its trend turned south from March onwards since the onset of US and Europe banking turmoil.
- It is notable the FBM KLCI is too heavily weighted in banking stocks (more than 40%).
- Expect banking stocks to play catch up especially post-Fed pause (with subsiding concerns over valuation of bank assets).
- Expect FBM KLCI to play catch up with more broad-based buying especially post-Fed pause (with international funds rotating into emerging ASEAN region on weaker US Dollar and attractive valuation).

FBM70 (Malaysia Mid-cap)

- Upward trend beginning October last year.
- Mid-cap FBM70 maintained its upward trend (in contrast to main benchmark FBM KLCI) despite the onset of US and Europe banking turmoil in March.
- Registered year-high level in April and expect upward momentum to sustain post-Fed pause.

FBM70 is leading thus far this year. As of end-May 2023, the year-to-date price return of FBM KLCI stood at -7.2%. In contrast, the mid-cap FBM70 index registered a year-to-date return of +4.9%. The heavyweights were bogged down mainly by price underperformance of Financial Services as well as commodity-related Industrial P&S (namely Petronas Chemicals and Press Metal) and Plantation stocks. The former sector was impacted by banking turmoil in the US and Europe while the latter by lower commodity product prices.

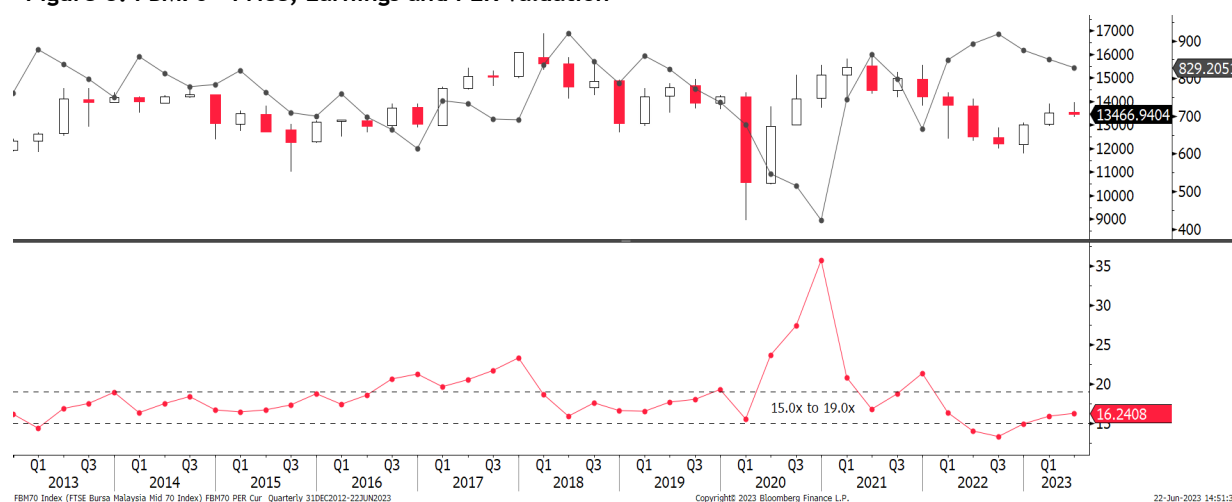
Expect FBM KLCI to regain vigor post-Fed pause. Nonetheless, going forward, we do not expect the underperformance of these heavyweight stocks to persist. Firstly, the banking turmoil in the US and Europe is arguably a consequence of the rapid rise in interest rates during the past year. As the US Fed is anticipated to pause after the upcoming July meeting, we can expect to see recovery in both the valuation and earnings expectation of banking stocks. Secondly, we reckon the softening commodity price trend is presaging a slowdown in economic activities which is also arguably a consequence of the rapid rise in interest rates during the past year. Likewise, we can expect to see improvement in both the valuation and earnings expectation of commodity-related stocks post-Fed pause.

Figure 7: FBM KLCI - Price, Earnings and PER Valuation


Source: MIDFR, Bloomberg (G658)

Cut FBM KLCI end-2023 target to 1,540 points. At PER23 of 13.3x, the FBM KLCI is currently trading at depressed valuation (vis-à-vis its historical range of 16.0x to 17.0x). However, we expect its valuation to revert higher during the latter part of this year predicated on the reasons stated above (in preceding paragraph) and buttressed by the continuing general macro growth. Moreover, we expect international funds to rotate more earnestly into emerging ASEAN region including Malaysia post-Fed pause on weaker US Dollar and attractive valuation. Having said that, due to our revised expectation of USD/MYR performance during the remainder of this year (with its year-end target being revised upward from 4.05 to 4.20 consequent to the delayed Fed pause), the timing and intensity of international funds rotating into our equity market may likewise be adversely impacted. Hence, we cut our **FBM KLCI end-2023 target** (from 1,590 points) to **1,540 points** or PER23 of 14.7x.

Figure 8: FBM70 - Price, Earnings and PER Valuation



Cut FBM70 end-2023 target to 14,500 points. At PER23 of 16.2x, the FBM70 index (which represents mid-cap stocks) is currently trading within its historical valuation range (of 15.0x to 19.0x), albeit in the lower half. Nonetheless, when compared to the big-caps, the mid-cap stocks performed better thus far this year both in terms of valuation and year-to-date price return. Going forward, we expect the market valuation of FBM70 to improve further supported by macro and corporate earnings growth as well as the end of interest rate tightening cycle. However, in the same vein, its forward price trajectory may be tapered by the revised expectations of (USD/MYR performance and in turn) the timing and intensity of international funds rotating into our equity market. We therefore cut our **FBM70 end-2023 target** (from 15,000 points) to **14,500 points** or PER23 of 17.5x.

IV. STOCK SELECTION

Cautiously optimistic. We are still cautiously optimistic despite the delay in the ‘pause’ by the US Fed. We expect valuation of our equity market will recover once the US Fed confirms its pause in rate hikes, which we opine presents an opportunity for investors. Meanwhile, we remain sanguine on the continued recovery of the economy, albeit at a normalised level.

Robust domestic demand to continue supporting the economy. We make no changes to our expectation that Malaysia’s domestic demand will provide support to the economy. It will be fuelled by continuous upbeat consumer spending, moderation in price pressures, further improvement in tourism-related activities and possible revival of infra projects. Hence, we continue to like consumer related companies, whether it is consumer staples, shopping related REITs or automotive will be a beneficiary of the consumer spending.

Banking may be a potential. Another sector that we opine investors could consider tactically is the banking sector given the recent price pullback. Furthermore, we expect that the banking turmoil in the US and Europe will be contained, and Malaysian banks remain robust. Besides, banks’ dividends will provide a limit to the downside risk during this volatile period.

No changes to sector calls. We make a few changes to our sector calls, namely Technology and Media. The summary of our sector calls are as follows;

POSITIVE: Automotive, Banking, Construction, Consumer, Healthcare, Oil & Gas, REITs

NEUTRAL: Plantations, Power, Property, Media, Technology, Telecommunication, Transportation

NEGATIVE: Gloves

Underperformance of FBM KLCI can be observed in MIDF Research stock universe. The underperformance of FBM KLCI and the performance of FBM 70 can be observed in MIDF Research stock universe. Highlights as follows:

- From MIDF Research stock universe, there are 68 **BUY** calls. Out of these 68 stocks, 33 (48.5%) have registered gains this year (as of 22 June 2023).
- Out of the 68 **BUY** calls, 17 are FBM KLCI component stocks, and out of this 17 FBM KLCI stocks, only 4 have showed gains (23.5%) thus far this year.
- Out of the 68 **BUY** calls, 51 are non-FBM KLCI component stocks. Out of this 51 non-FBM KLCI stocks, 29 have showed gains (56.9%) on a year-to-date basis.

	No. of BUY Calls	No. with YTD Gains	%
Total no. of stocks	67	34	50.7
FBM KLCI stocks	18	5	27.7
Non-FBM KLCI stocks	49	29	59.2

Source: Bloomberg, MIDFR

Underperformance provides trading opportunities. We believe the underperformance of the FBM KLCI comparative to more advanced markets provide investors with trading opportunities. This is premised on the expected rate hike pause by the US Fed which will boost risk asset valuation. In fact, as we have discussed, advanced markets are already manifesting this in our opinion.

Top ten picks reflect our view. We make adjustments to our top ten stock picks. However, it reflects our

expectation that consumer related stocks will benefit from robust consumer demand in CY23. In addition, we favour banking stocks as well for 2HCY23 as we believe the underperformance it faced in 1HCY23 provides opportunity to outperform when there is a rebound in interest. Hence, our top ten stock picks are as follows:

Table 3: Top Stock Picks (Rank by Total Return)

	Rec.	Price (RM) @ 23/6	Target Price	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Bermaz Auto	BUY	2.20	3.30	50.0%	9.7%	59.7%	4	Y
RHB Bank	BUY	5.40	7.58	40.4%	7.6%	48.0%	4	Y
Pavilion REIT	BUY	1.21	1.63	34.7%	6.4%	41.1%	-	N
Fraser & Neave	BUY	25.12	33.50	33.4%	2.6%	35.9%	4	Y
Hong Leong Bank	BUY	18.80	24.91	32.5%	3.5%	36.0%	4	Y
QL Resources	BUY	5.35	6.75	26.2%	0.7%	26.8%	3	N
CIMB	BUY	5.21	5.92	13.6%	6.0%	19.6%	4	Y
Petronas Gas	BUY	16.74	18.43	10.1%	6.8%	16.9%	4	Y
Sunway REIT	BUY	1.57	1.73	10.2%	5.8%	16.0%	3	Y
Malayan Banking	BUY	8.74	9.28	6.2%	7.0%	13.2%	4	Y

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

Top ten picks amongst FBM 70 stocks. In our opinion, it is worthwhile for investors to look at FBM 70 more closely. Below are our top ten picks amongst FBM70 stocks:

Table 4: Top FBM 70 Stock Picks (Rank by Total Return)

	Rec.	Price (RM) @ 23/6	Target Price	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Bermaz Auto	BUY	2.19	3.30	50.7%	10.1%	60.8%	4	Y
Fraser & Neave	BUY	25.12	33.50	33.4%	2.8%	36.1%	4	Y
IJM Corp	BUY	1.50	1.93	28.7%	4.0%	32.7%	3	N
Alliance Bank	BUY	3.36	4.00	19.0%	7.6%	26.7%	3	Y
Gamuda	BUY	4.44	5.04	13.5%	2.7%	16.2%	3	N
AEON Co.	BUY	1.29	1.50	16.3%	4.2%	20.5%	3	Y
YTL Corp	BUY	0.93	1.05	12.9%	4.7%	17.6%	3	Y
Bursa Malaysia	BUY	6.39	7.30	14.2%	4.9%	19.1%	4	Y
Axis REIT	BUY	1.83	2.06	12.6%	4.5%	17.0%	3	Y
Sunway REIT	BUY	1.57	1.73	10.2%	6.0%	16.2%	3	Y

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

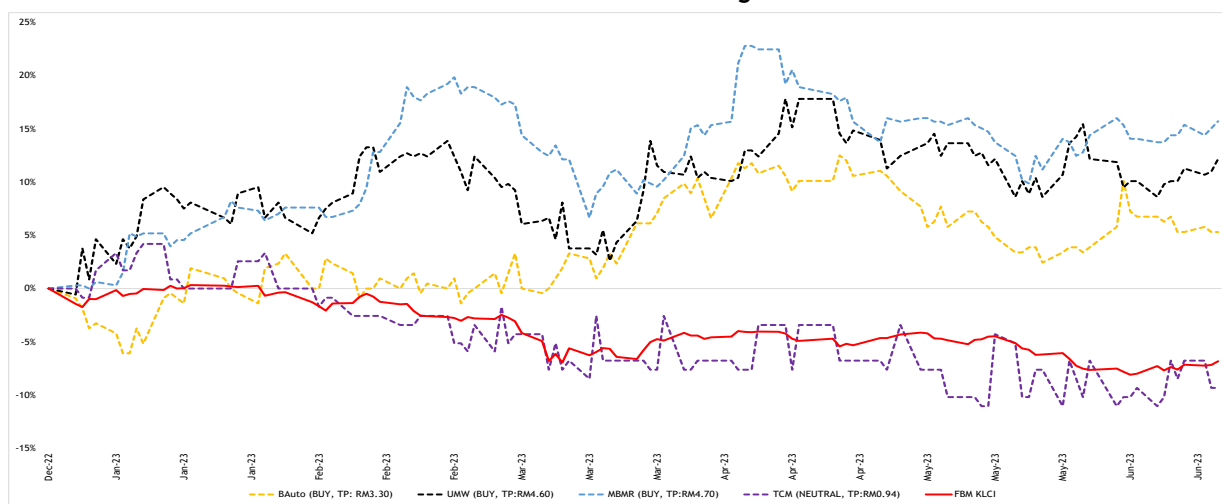
B. SECTORS OUTLOOK

I. AUTOMOTIVE

Cautiously optimistic.....Maintain **POSITIVE**

TIV momentum sustaining. Total industry volume (TIV) remained strong up till 5MCY23, registering a +12%YTD growth at 300,978 units. This was driven mainly by the rush to deliver Penjana tax holiday bookings ahead of the 31st March deadline. Backed by still strong sales momentum post-tax holiday, a large order backlog of 5-7 months (for key players under our coverage) and continued improvement in macro conditions, we keep our 2023F TIV at 713K, which is close to last year’s record TIV of 721K units. Reflecting the sustained momentum in the sector, share price performance of key auto stocks under our coverage continued to outperform the broader index year-to-date.

Chart 33: Share Price Performance of Auto Stocks Under Coverage vs. the FBM KLCI



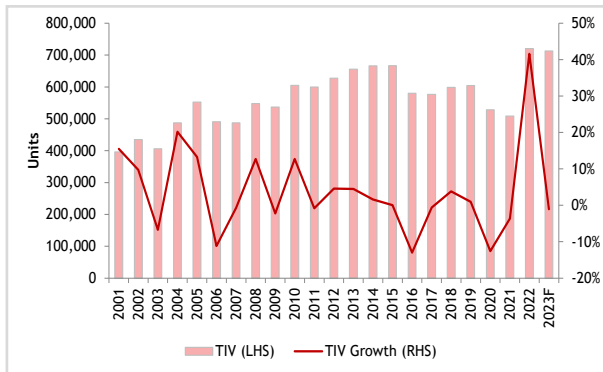
Source: Bloomberg, MIDFR

Potential spillover into CY24. Almost a year after expiry of the Penjana tax holiday in June 2022, industry backlog remains elevated: (1) Perodua is still sitting on close to 200K outstanding bookings, an estimated 6-7 months waiting list, (2) Toyota has 49K units of backlog bookings, an estimated 6 months waiting list, (3) Mazda has 6K outstanding bookings, an estimated 4-5 months waiting list. Given order backlog replenishment from sustained strength in new bookings up until June 2023, we see possibilities of the large backlog orders eventually spilling over into CY24. While we acknowledge a higher OPR (which had risen 125bps since May 2022), we believe demand remains supported by sustained improvement in unemployment rate and income conditions. A moderating inflation trend also lends support, while the sector’s large order backlog provides strong revenue visibility.

New launches underpin momentum further. The re-acceleration of new launches is another catalyst for the sector. This follows deferment of new launches throughout 2022 given large order backlog (with limited Penjana-tax holiday delivery timeframe) and component shortages. Among the key brands: (1) Perodua launched the new Axia in February 2023 - one of Perodua’s key volume drivers making up 20%-25% of Perodua TIV (2) Toyota launched the new Vios in March 2023 - this is UMW Toyota’s largest volume driver, estimated to make up a third of Toyota TIV (3) The CKD CX30 was also launched in March 2023 - expected to become Mazda’s 2nd largest volume driver after the CX5. Beyond these, we note ageing base models in the market like the Kia Sportage, Honda CRV, Perodua Bezza and Proton Preve, which could see replacements being launched within the next 2 years.

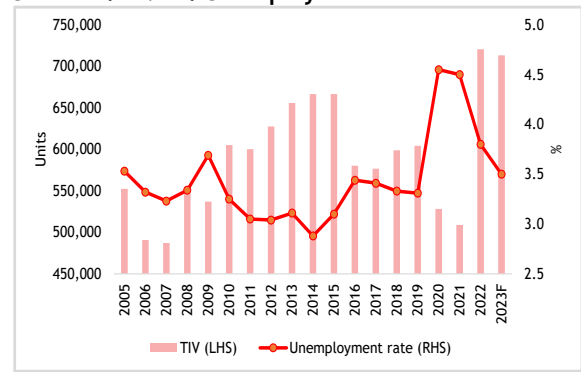
Favourable macro backdrop. From a broader macro standpoint, we believe domestic consumption will gain further traction. Our economists are sticking to our +4.2%yoy GDP growth expectation this year with private consumption growth projected to hit +6.1%yoy. Unemployment rate is expected to improve to 3.5% from 3.8% in 2022 while headline inflation is expected to ease. The confluence of sustained GDP growth, improving unemployment and easing inflation suggests potential improvement in consumer spending power, which should eventually trickle down to auto purchases, in our opinion. Importantly, auto purchases are long-term commitments where we believe employment conditions would have a larger bearing on decisions, beyond short-term movements in OPR.

Chart 34: Annual TIV Trend



Source: MAA, BNM, MIDFR

Chart 35: TIV vs. Unemployment Rate Trends



Source: MAA, BNM, MIDFR

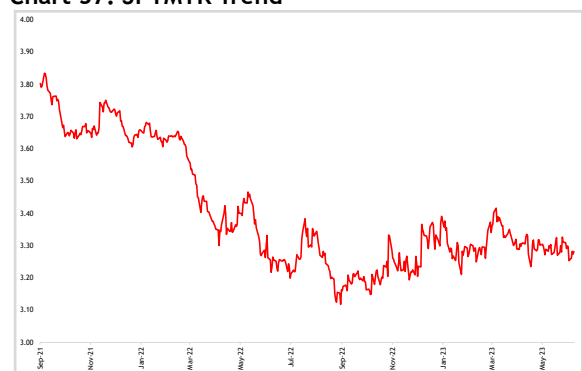
Some headwinds from a weak Ringgit. Despite the bullish demand trend, the Ringgit (vs. USD) has remained persistently weak in the past 6 months (negative for UMW and TCM given USD-denominated cost exposure) and this has prompted us to factor in more conservative USD:RM assumptions of USD:RM4.4 (from USD:RM4.3) into our projections in our latest monthly sector update. The impact however, is to a large extent offset by price revisions by players (mostly at the start of the year). Nevertheless, we are projecting the Ringgit to end the year at USD:RM4.20 (from a year-to-date average of USD:RM4.46), suggesting an upward trajectory for the Ringgit in the second half of the year. In contrast to the USD, the JPY remains weak and this is beneficial to BAUTO which is exposed to JPY-denominated CBU imports.

Chart 36: USDMYR Trend



Source: Bloomberg, MIDFR

Chart 37: JPYMYR Trend



Source: Bloomberg, MIDFR

Relieve from easing cost. We expect easing commodity prices, particularly steel and aluminium, to gradually reduce the cost pressure for the national cars from 2QCY23 onwards. Margins for non-nationals on the other hand, are more resilient, as they mainly source CKD kits from principals rather than outright raw materials, whereby the principal typically absorbs part of the cost volatility. Additionally, easing global supply chain tightness is expected to progressively lower logistics costs going forward, as seen by

the easing in global freight rates and shipping costs.

Sitting on large net cash pile. Auto players have built significantly large net cash reserves in the past 2 years - most auto players under our coverage (with the exception of Tan Chong Motor) are now sitting on net cash piles equivalent to 20%-30% of their market cap. This positions the sector well for: (1) Higher dividend payout, (2) Potential M&A-driven growth, particularly to tap on the early cycle adoption of new generation vehicles e.g., electric vehicles and autonomous vehicles.

Valuations remain depressed notwithstanding outperformance this year. We believe at current share price levels the market is still pricing in high risk for the auto sector - players under our coverage are still trading at 20%-30% discount to historical mean. Additionally, share prices of auto stocks under our coverage are currently still below pre-pandemic levels despite having seen significant earnings recovery (to well above pre-pandemic levels). The bulk of share price upside in the past 18 months was driven by upward revision in consensus earnings rather than a valuation reversion to historical mean, which has yet to materialise, potentially due to concerns on underlying demand momentum (beyond the tax-holiday driven demand), a strong USD and supply issues as well as high commodity & logistics cost previously. We believe valuations will eventually catch up with the sustained earnings and balance sheet improvement going forward.

We remain cautiously optimistic on the the auto sector premised on: (1) Strong revenue visibility underpinned by a large order backlog, (2) Re-acceleration of new launches, (3) Improving consumer spending power from sustained improvement in the labor market and easing inflation, (4) Gradual recovery in chip and component supply, (5) Easing underlying cost pressures from easing commodity prices and logistics costs, (6) Depressed sector valuation at 20%-30% below mean, (7) Large net cash piles driving higher dividends and M&A growth potential.

BAuto (BUY, TP: RM3.30) is our tactical favorite given its exposure to the weak JPY while having minimal exposure to the strong USD. BAuto is also riding on CKD model expansion via Mazda/Kia/Peugeot, while dividend yield of 9.7% is attractive. We also like **MBMR (BUY, TP: RM4.70)** as a cheap proxy to Perodua which has: (1) High model localization rate with minimal forex risk, (2) Strongest backlog bookings among the major players stretching up to 6-7 months. Dividend yield is attractive at 7.1% backed by a strong balance sheet (net cash accounts for 14% of market cap). Despite some headwinds from the strong USD, **UMW** is still a **BUY (TP: RM4.60)** as it is a prime beneficiary of the recovery in auto demand given its dominant ~52% market share via 51%-owned UMW Toyota and 38%-owned Perodua. UMW's equipment division is a proxy to recovering business momentum, rising infrastructure projects and commodity demand, whereas aerospace is an indirect reopening play on the back of a recovery in global air travel.

II. BANKING

Better non-interest income and credit cost outlook bring cheer.....Maintain POSITIVE

Improving deposit competition, NIM optimisation measures on the cards. Banks have indicated improvements in FD rates, even though certain Islamic deposit tenure bracket rates remain more erratic than Conventional counterparts. We expect weaker deposit competition to persist in certain brackets, though this should already be reflected in share prices.

Banks' NIM outlook is less positive in the near term, with some believing that the 2QCY23 could see further NIM

compression (or at least remain flattish). We opine the real inflexion point should be in 3QCY23 when the brunt of higher costing 1-6-month deposits should start to wear out - though banks with the higher average deposit duration (BIMB and Affin) could see some lag effects in 3QCY23. The full quarter effects of the May-23 OPR hike should fully kick in by then too.

Asset quality is largely manageable, net credit cost outlook is skewed towards positive. In 1QCY23, GIL formation was manageable, largely coming within expectations. There was slight irritation in the SME end, which affected ABMB's SME-saturated loan book a bit harsher than others. ABMB and BIMB did see slightly uncomfortable upticks on the retail end, attributable to its mortgage refinancing portfolio and unpackaged personal financing loans respectively. These banks may see potential negative surprises in asset quality should there be a hike in OPR to 3.25%, given that its loan portfolio asset quality is much more susceptible to rate hikes.

CY2023's NCC should see some uplift from overlay writeback in the coming quarters. Asset quality has been largely stable and less frequent OPR hikes are expected moving forward. 1QCY23 can be viewed as a positive indicator for things to come, being a relatively benign quarter, with provisions reported as within-to-better than guided (despite being pretty writeback-light).

CIMB has voiced its intention to maintain its overlays (to keep its LLC at a healthier level than in pre-pandemic times). We believe that certain banks, such as AMMB and Maybank, will similarly perform a more gradual release in overlays to maintain LLC at healthier levels for now. We are slightly cautious about BIMB's NCC outlook - while guidance is conservative, we feel that the unsecured nature of its personal loan delinquencies could drain provisions faster than expected, especially if its impaired loans continue to increase rapidly.

Recovery in NOII (specifically in non-fee income) is a core driver. Banks have largely guided that recovery in NOII as being one of the core drivers in CY2023. Indeed, 1QCY23 performance was very solid - easing government securities yields and ringgit volatility have done well for forex and investment incomes, and most banks have increased their trading book holdings to take advantage of such volatility. In contrast, fee income remains relatively muted for now.

More moderate loan growth is expected. Given the higher funding costs, banks are guiding for more moderate loan growth compared to last year's elevated figures. We are especially wary of softening hire purchase and mortgages loan figures. However, we opine that the SME and personal financing categories could see a huge uptick as banks scramble to secure higher-yielding loans as part of their NIM optimisation strategy. Banks will likely be cautious in preserving short-term liquidity for now, and we don't expect LCR (and to an extent, LDR) to deviate too much from 1QCY23 values.

Banks with exposure to Singapore (Maybank and CIMB, most notably) could see some lacklustre growth in the geographical region, given the higher funding costs within the country.

Maintain POSITIVE call. Things continue to be looking up for the banking sector. Attractive valuations aside, NIM erosion should be offset by NOII recovery and a solid NCC outlook. Dividend yields remain as strong as ever.

With investor sentiment having improved in the past few weeks, investors may consider moving from more defensive picks. **CIMB (BUY, TP: RM5.92)** is our top pick, especially following its recent negative share price movements. We like it for its exposure to the attractive Indonesian market, convincing NOII build, and intention to minimise overlay release for more moderate, sustained NCC in coming quarters (especially given its volatile impairments history). Additionally, there should be positive benefits to capital and lower loan compression pressure following the end of its restructuring of overseas commercial/corporate loan books.

We also favour **RHB (BUY, TP: RM7.58)** for its attractive valuations, high dividend payout (coupled with a high CET

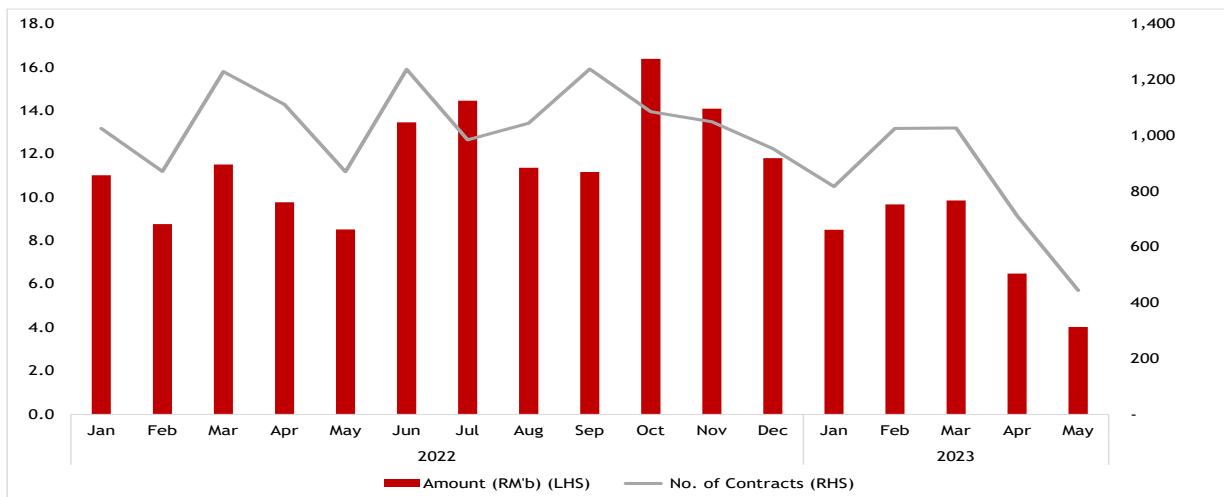
1 ratio, which offers headroom for upside) and the possibility of sizable overlay writebacks, given that its asset quality has largely stabilised. **AMMB (BUY, TP: RM4.03)** remains a good pick for its high loan growth, resumption of dividend payments and propensity for further RWA optimisation.

III. CONSTRUCTION

Expectations of improving job flows.....Maintain POSITIVE

Rising value of work done. Better productivity levels and expectations of stronger construction job flows led the basis of our economic team to forecast a stronger +6.5% growth in 2023 for the sector, an increase over our previous forecast of +4.7%. In 2022, the sector recorded a +5.5% growth. For the period of Jan-23 to May-23, 4,025 contracts were awarded, with a total value of RM38.57b, according to data from the Construction Industry Development Board (CIDB). These were notably lower by -22.3%yoy and -21.2%yoy respectively which could be due the slower pace of residential and building project rollouts as developers adopt a wait and see approach. Despite that, the value of construction work done has actually been increasing over the past six quarters as recorded by the Department of Statistics Malaysia (DoSM) on the back of normalisation of activities and as productivity improves post-pandemic. We do not discount the factor that the acceleration of some projects that were delayed due to the pandemic led to the value of work done, which has been increasing since 4QCY21. The first quarter of 2023 saw RM32.2b of work done, a +9.4%yoy increase. The civil engineering subsector contributed 37.6% of this amount while the non-residential buildings portion was 30.5%. Moving forward, we expect the number and value of contracts to pick up in the 2H23, as guided by the record high development expenditure in Budget 2023, which contained a slew of infrastructure and public utilities jobs which is set to improve job flows.

Chart 38: Value and Volume of Contracts Awarded



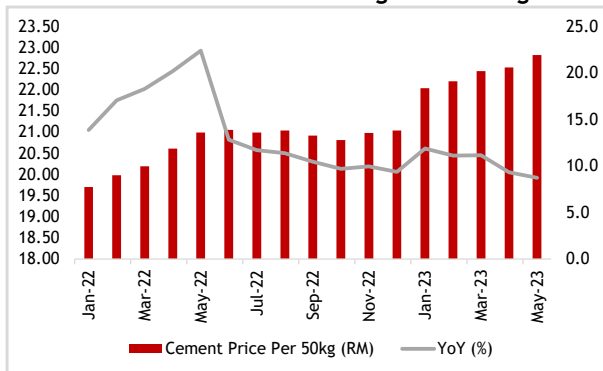
Source: CIDB, MIDFR

FY24, the year of mega projects? We do not expect any mega scale projects to be rolled out this year, save for the MRT3, which may see the tenders being awarded by 3QCY23, in an optimistic timeline. Recall that the tender awards for the three main packages of MRT3 has been delayed since Dec-22 following the general election and the subsequent review by the government in an attempt to slash the cost by 10% to RM45b. The MRT3 tender evaluation was extended to Jun-23. We reiterate our view that the MRT3 mega rail project remains a crucial development to give the construction sector a jolt. As for the proposed Penang LRT project, we gather that the progress is still at infancy stage and opine that any significant progress would only take place next year. MRT

Corp is the lead agency for the project and it has suggested that the line should be extended by another 6km to Tanjung Bungah from the state government’s initial plan of a Komtar endpoint from Bayan Lepas. We can expect more clarity on these two rail projects and other mega projects when the government tables the Budget 2024.

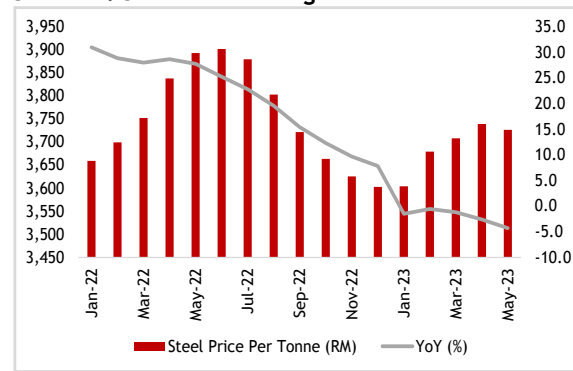
Possible easing in margins. We can expect building material prices to come off slightly in 2HCY23, amidst normalising input prices. The average price of steel bars in Malaysia eased for the first time this year in May-23 by -0.34%mom to RM3,726.58 per tonne after four consecutive months on increase. Iron ore, being the main raw material for steel, has seen its prices easing slightly of late. China’s Dalian Commodity Exchange (DCE) Iron Ore Future saw a +55.24% surge from CNY563 per 100 tonne on 31 October 32022 to CNY874 per 100 tonne on 15 March 2023. It has eased to CNY800.50 as of 21 June 2023. Meanwhile, cement prices continued inching upwards, rising for the seventh consecutive month by +1.29%mom in May-23 to RM22.82 per 50kg bag. While coal prices have normalised, this has yet to be reflected in cement prices, possibly due to hedged coal prices or higher energy and logistic costs. The benchmark Newcastle coal price index started declining since Dec-22, which was then at a high of about USD400 per metric tonne. As at time of writing, the price was at USD133.65 per metric tonne.

Chart 39: Portland Cement Average Price/50kg



Source: DOSM, MIDFR

Chart 40: Steel Bars Average Price/Tonne



Source: DOSM, MIDFR

Maintain POSITIVE. We reiterate our **POSITIVE** view on the construction sector, on the back of the expected improvement in job flows, driven by the initiatives in Budget 2023. We also like the Sarawak development story, as the state receives further commitment by the federal government in terms of development of basic infrastructure such as roads, to improve the connectivity in the state. This is particularly important moving forward, when Indonesia moves its capital to Kalimantan, making Sarawak one of the main gateways to Nusantara. Our top picks for the sector this year remains the larger players and those with stellar balance sheets and order books, namely **Gamuda (BUY, TP RM5.04)**, **Sunway Construction (BUY, TP: RM2.09)** and **IJM Corp (BUY, TP: RM1.93)**. For the cement play, being the direct beneficiary of the improving construction sector, we recommend **Malayan Cement (BUY, TP: RM3.74)**.

IV. CONSUMER

Promising prospect, diminishing costs.....Maintain POSITIVE

Solid consumer spending ahead. The Department of Statistics Malaysia (“DOSM”) reported robust growth in the retail trade for April 2023, marking the 13th consecutive month of expansion on a yearly basis. Despite the interest rate returning to pre-pandemic levels, retail trade, particularly for non-specialized stores, as well as specialized stores for F&B and tobacco, maintained solid double-digit growth. Looking ahead, Malaysia Retailers

Association (“MRA”) and the Malaysia Retail Chain Association (“MRCA”) anticipate normalized growth rates of +2%yoy for 3QCY23 and +3%yoy for 4QCY23. However, we believe that the normalized growth will primarily apply to discretionary products, while retail trade for non-specialized stores and specialized stores for F&B and tobacco will continue to thrive due to resilient demand for essential items and strong growth in out-of-home consumption post-reopening, given MIDF’s economists’ positive expectations for retail trade in CY23. Therefore, retailers such as **Aeon Co (BUY, TP: RM1.50)** and **Padini (BUY, TP: RM4.40)** are expected to benefit from this upward trend. Additionally, an increase in the movement of local and international tourists could boost sales for convenience stores like Family Mart under **QL Resources (BUY, TP: RM6.75)**.

Decreasing raw material prices for F&B and Poultry players, while sugar-related commodities remain elevated.

As of 21 Jun 2023, most global raw material prices for F&B and poultry players have been on a downward trend. This includes Wheat (-35.8%yoy), CPO (-37%yoy), Pet Resin (-28%yoy), Arabica (-24.7%yoy), Corn (-19.8%yoy) as well as Soybean meal (-3.5%yoy). However, sugar-related commodities such as raw sugar (+28.2%yoy) and white sugar (+5.5%yoy) remained elevated partly due to lower global production caused by unfavorable weather conditions in major exporting countries and increased demand following the reopening of various countries. Additionally, Robusta (+25.3%yoy) has seen an upward trend in prices due to lower global production caused by off-cycle periods, extreme weather, high production costs, and higher global demand. Nonetheless, we view that the higher prices for sugar-related commodities are expected to have a marginal impact on F&B manufacturers due to previous price modifications and the declining prices of other raw commodities, which may have offset the impact. Meanwhile, beverage producers can also reformulate the ratio of Robusta to Arabica given the recent hike in Robusta prices. Overall, the falling raw material prices have the potential to lower the raw material cost for F&B, supporting margins. The decrease in raw material prices for animal feed will also reduce production costs for poultry players, combined with the Malaysian government’s subsidies for chicken and eggs could provide support for Malaysian operation profit margins despite ongoing price control.

Continuous sluggish demand for custom-made wooden furniture. Given the anticipated slowdown in global economic growth and the US being the largest importer of custom-made wooden furniture, the demand is expected to continue to lag in the 2HCY23. We gather that US importers have accumulated excessive inventory in their warehouses due to reduced demand during the pandemic and the fact that wooden furniture typically lasts for many years, reducing the need for new purchases. Nevertheless, consumers now prioritize spending on necessities and travel rather than purchasing wooden furniture after reopening. The rising inflationary pressure and interest rate in the US has compelled households with various mortgage loans to convert their preference to furniture that is more reasonably priced. Note that custom-made wooden furniture is pricey and mostly targeting for individuals with upper middle-class incomes and above. Overall, we anticipate weak demand for custom-made furniture in the United States in 2HCY23, which will impact the sales of furniture companies such as **Rhong Khen International (NEUTRAL, TP:RM1.30)**.

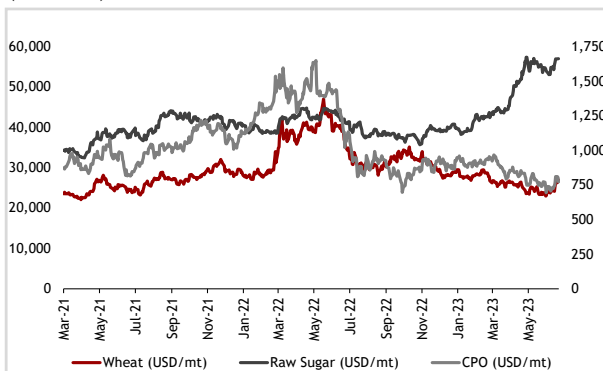
Muted demand for office supplies product. We observed a continuous weaker demand for office supplies products such as plastic folders, filing boxes, storage boxes, level arch files, clipboards, and office accessories since 2HFY22. This decline can be attributed to higher inflationary pressures and tightening monetary policies worldwide, which have led businesses to reduce their spending on non-essential products like office supplies. Additionally, the growing trend of going paperless to reduce carbon footprint has further weakened the demand. As such, we anticipate that the soft demand for office supplies will persist in 2023, putting upward pressure on office supplies producers like **Asia File (NEUTRAL, TP: RM1.55)**.

Weaker ringgit impact consumer staples. The US dollar continued to strengthen, primarily due to the Federal Reserve’s faster-than-expected and aggressive interest rate hikes. Looking ahead, our economists anticipate the MYR to average higher at RM4.43/USD for CY23. The stronger USD will benefit export-oriented companies such

as Asia File (NEUTRAL, TP:RM1.55) and Rhong Khen International (NEUTRAL, TP:RM1.30), given that their revenue is largely denominated in USD. This could provide some relief given the ongoing sluggish demand for office supplies and wooden furniture. On the flip side, the stronger USD will have a negative impact the consumer-staple companies, including F&B and poultry producers, as they source commodities in USD, potentially increasing production costs. However, we think that the impact is manageable considering the recent drop in commodity prices, which can more than offset the stronger USD.

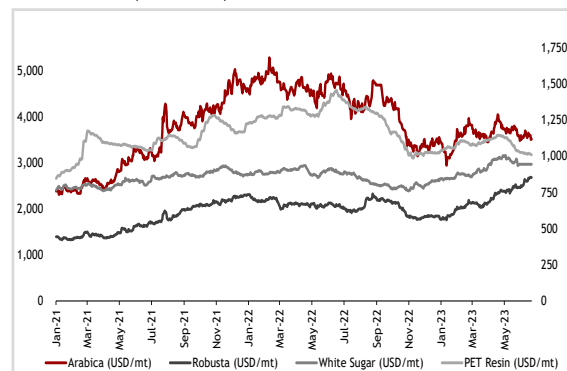
Maintain POSITIVE on consumer sector. Overall, we are positive about the outlook for consumer sector underpinned by: (1) a defensive play due to the resilient demand for staple-related products (2) solid domestic consumption ahead, supported by a stable labour market, robust retail trade, and increased tourism activities, (3) solid profit margins for F&B producers driven by falling raw material prices and previous price hikes, offsetting other cost pressures and (4) normalized commodity prices for livestock feed are likely to alleviate margin compression for poultry players. Moreover, the strong net cash position of the two discretionary companies we cover can protect them against various challenges. Therefore, we maintain **POSITIVE** on consumer sector. Our top picks continue to be consumer staple-related companies that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.75)** and **F&N (BUY, TP: RM33.50)**. We favour QL Resources, which is supported by consistent demand for marine and livestock products. We also like F&N because the company is likely to benefit from the rising demand for ready-to-drink beverages, which is being fueled by an increase in tourist traffic. We favor Hup Seng due to the solid demand for its products and consider it to be undervalued at current juncture.

Chart 41: Raw Material Price Trend for Food Producers (USD/mt)



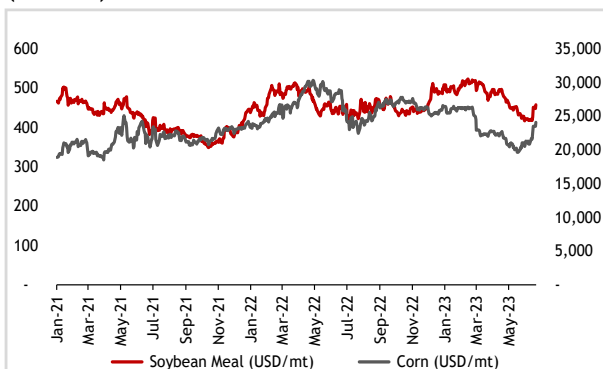
Source: Bloomberg, MIDFR

Chart 42: Raw Material Price Trend for Beverage Producers (USD/mt)



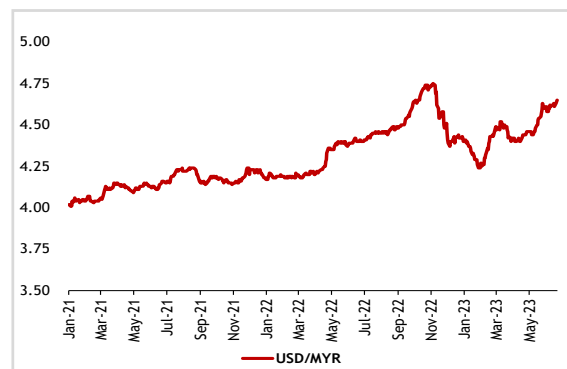
Source: Bloomberg, MIDFR

Chart 43: Raw Material Price Trend for Poultry Producers (USD/mt)



Source: Bloomberg, MIDFR

Chart 44: USDMYR Trend



Source: Bloomberg, MIDFR

V. HEALTHCARE

Hospitals to remain robust amid continuous adaptation of media neo-tech.....Maintain POSITIVE

Digital Healthcare remains to be the key trend until the end of CY23. The increase in reliance of AI, IoT and Machine Learning had shown improvements in the delivery of medical care, equipment, and medication, while also focusing on sustainability and cybersecurity. Nevertheless, the healthcare sector globally continues to see challenges in workforce availability and supply chain disruptions for equipment and drugs. In our local front, we are expecting a growth in the labour market, with unemployment expected to decline to 3.5% in the remaining CY23.

Local private hospitals to maintain a robust performance. Moving into 2HCY23, we are expecting hospitals and healthcare service providers locally to continue be supported by the recovery from the pandemic-related infections and the slightly higher allocation of funds in the revised Budget 2023 for the Ministry of Health. Coming summer season, Malaysia is anticipated to receive tourists, which will continue to be the main catalyst for medical tourism. The 2HCY23 outlook for the healthcare service providers remains sanguine. Nevertheless, long-term risks including: (i) medical equipment shortages, (ii) inflationary pressures leading to higher operational costs, and (iii) sudden policy changes and currency translations affecting healthcare providers due to political or geographical factors.

Competitive pharmaceuticals more prominent in 2HCY23. The government continues to oversee the pharmaceuticals subsector in ensuring the integrity of the manufacturing and distribution of drugs to both government and private hospitals. As such, we continue to believe that pharmaceutical companies may face regulations on their operations and products. We are generally neutral in this subsector, in consideration of: (i) the reduced dependency on the sales of Covid-19 vaccines, (ii) the slow development of halal pharmaceutical products, and (iii) underdeveloped drugs to treat rare illnesses. Additionally, there are near-term risks which include higher drug pricing and availability of active pharmaceutical ingredients. While the threat of Covid-19 persists due to low vaccination rates globally and especially in the African continent, the demand for Covid-19 drugs and national revenue generated from them is projected to be obsolete by the end of CY23.

Maintain POSITIVE. In summary, we maintain our positive outlook on the healthcare providers subsector. The demand for inpatient treatments related to non-communicable diseases (NCDs) and rare illnesses is expected to increase as the severity of Covid-19 infections decreases and the aging population increases. This growth will be supported by the government's policies for the healthcare industry nationwide, as well as the rise in medical tourism. In line with Budget 2023 and the global healthcare industry trends, the focus in 2HCY23 will be on: (i) the adoption and adaptation of digital healthcare and virtual healthcare services, (ii) the improvement in service access and value-based care, and (iii) precision treatments via AI and Machine Learning. Meanwhile, the pharmaceutical sector is anticipated to experience higher demand for drugs used in the treatment of NCDs, chronic diseases, and rare illnesses, excluding Covid-19 vaccines. Companies are expected to reduce their Covid-19 vaccine production and stocks until the end of CY23. The near-term downside risk to the pharmaceutical subsector remains to be: (i) patents and manufacturing regulatory issues, (ii) inflationary pressures on the pricing of products and services, and (iii) the increase of manufacturing and distribution cost for drugs and medical equipment.

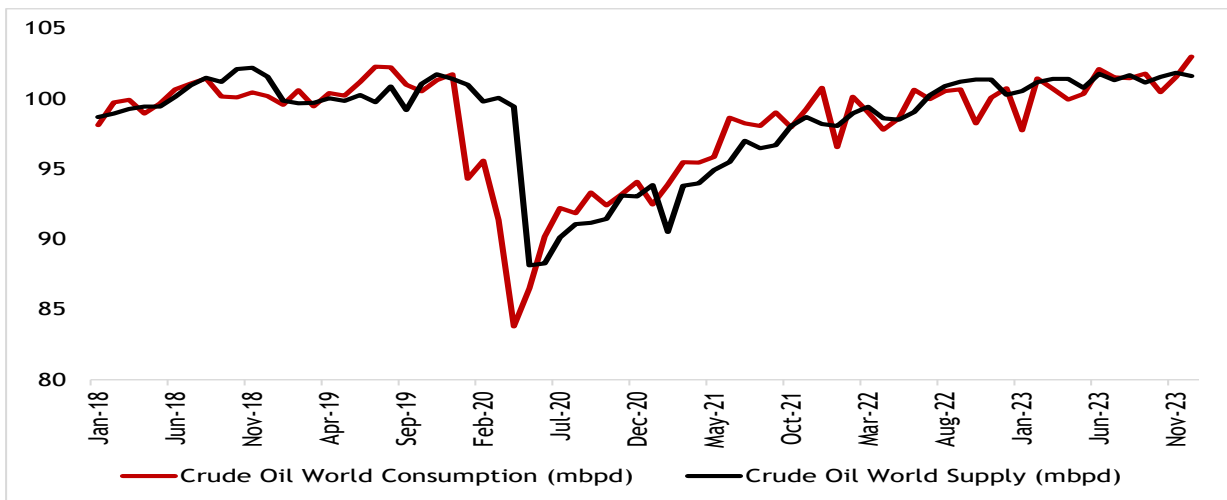
Our **TOP PICK** for 2HCY23 is **KPJ Healthcare (BUY, RM1.48)** for the sector. We like KPJ for its ability to maintain its operations in tandem with demand growth for medical services in private hospitals. Additionally, the favorable political climate continues to play a role in improving the labor market for the sector, as well as medical tourism, of which KPJ will be one of the main beneficiaries in consideration of its strong standing in the local operations.

VI. OIL & GAS

Stable prices to be favourable for upstream and midstream.....Maintain POSITIVE

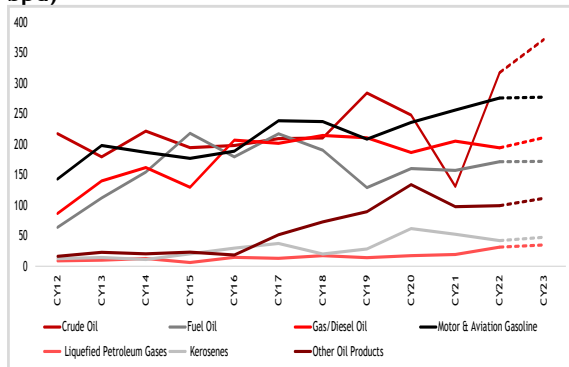
Tight supply amid slower demand growth. Following OPEC+’s announcement to extend crude oil production cuts up through CY24, we expect supply will remain tight in 2HCY23. However, global oil consumption is expected to expand slightly towards the end of CY23, on the back of winter and the holiday season. Oil consumption is expected to increase to 101mbpd in 2HCY23 globally, with non-OECD countries anticipated to be the main consumers due to the return of the industrials and commercial sectors post-pandemic. Locally, Petroleum Products trading is expected to show more positive movements in 2HCY23, as demand increases in tandem with the seasons and stabilized crude oil and natural gas prices. Imports of crude oil into Malaysia is expected to increase +15% as the midstream continues its operations in 2HCY23. Meanwhile, other products which includes petrochemicals is expected to be exported lesser by -10% in the near term, in line with the slowdown in demand for petrochemical products from the downstream customers.

Chart 45: Global Crude Oil Supply vs. Consumption (mbpd)



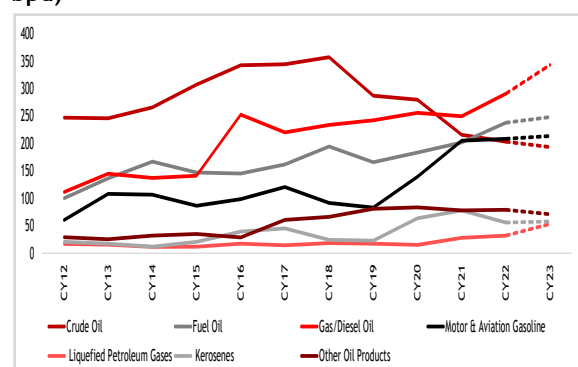
Source: Macrobond, MIDFR

Chart 46: Malaysia’s Petroleum Product Import (‘000 bpd)



Source: Macrobond, MIDFR

Chart 47: Malaysia’s Petroleum Product Export (‘000 bpd)



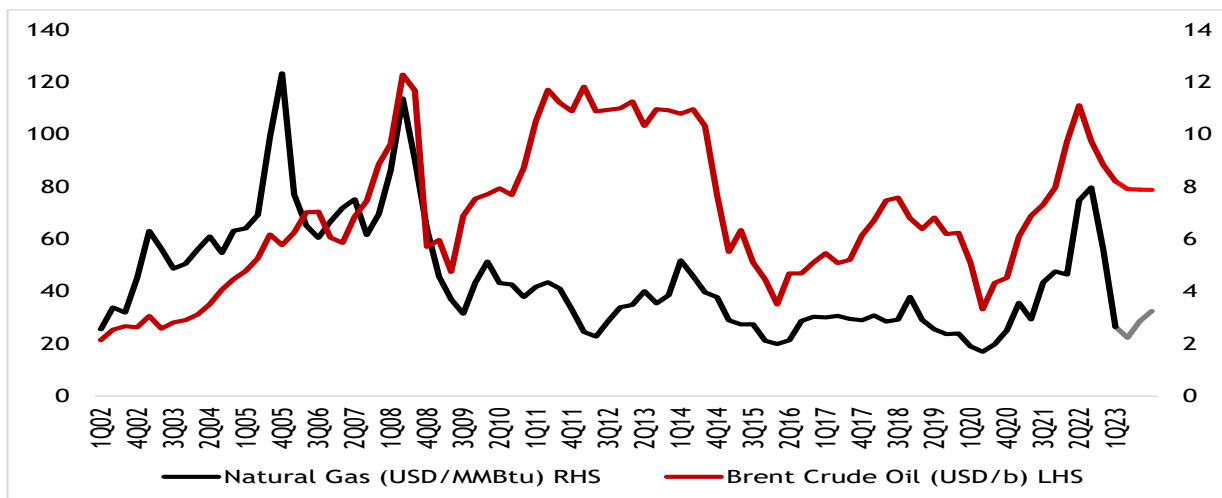
Source: Macrobond, MIDFR

Brent likely to continue stabilising in 2HCY23. We are still bullish on the crude oil prices in the long term, as globally, crude oil will still grow in demand amid the energy transition movement and inflationary pressures, as well as under the fundamentals of a tight crude oil supply and slower growth in inventory replenishment. In

the near term, crude oil prices are likely to hover between USD75-82pb, and the stabilization is expected until the end of the year. As such, we revise our average Brent crude price to USD80pb by the end of CY23, with an average of USD79pb in 2HCY23.

Natural gas increase in demand for summer and winter. We expect natural gas prices to increase throughout the summer as production declines slightly to make way for shutdown season and the demand for air conditioning increases the use of natural gas for power generation. Our forecast for natural gas averages to USD2.75pMMBtu for CY23, with an average of USD3.05pMMBtu for 2HCY23. The lower average for CY23 is due to the drop in natural gas prices in 1HCY23 due to reduced natural gas production in the West in parallel with lesser demand. We are expecting our local gas producers could leverage on the increasing demand.

Chart 48: Brent Crude Oil vs. Natural Gas



Source: Macrobond, MIDFR

Upstream

Despite the declining Brent crude oil price of below USD80pb in the 1HCY23, many major oil players still consider a range of above USD60-70pb on average to still be a breakeven level which would bring in comfortable cashflows. Most upstream companies would be looking at a stable oil price to signal a capex growth for exploration and production (E&P) activities. As such, our remain positive on Malaysia's upstream activities - which includes Floating Production and Storage (FPS) and drilling rigs - in 2HCY23 to remain robust and to continue benefitting on the strength of continuous upstream activities and a stable spot crude price.

Midstream

Energy demand had been slower than expected in 1HCY23. Nevertheless, shipping operations had seen a higher demand in LNG operations, during summer and winter. In 2HCY23, we are expecting the growth in demand to be facilitated through China's economic recovery, although we are expecting the growth to be gradual. Additionally, the upcoming summer would be shutdown season, hence tankers rates are expected to increase during this time. Dry-docking activities are expected to rise in the early 2HCY23. In Malaysia, existing facilities are expected to continue operating as usual. We are expecting lower fuel gas prices in 2HCY23, in consideration of the laggard effect. Storage farms are recovering their stockpiles, aided by lower crude oil and natural gas prices. Overall, we maintain a positive outlook for the midstream sector, but factors such as pricing volatility, inflation, foreign exchange rates, and increased competition among maintenance-related OGSE companies remain.

Downstream

The increased manufacturing activities and the reopening of international borders are expected to drive retail and industrial fuel product sales. However, the petrochemical subsegment faces challenges such as higher operating costs and volatile feedstock prices. While demand for olefins and derivatives is anticipated to remain robust, fertilizers, urea, methanol, and specialty chemicals may experience weaker downstream demand due to inflationary pressures and the El Nino climate expecting to arrive in full force in 2HCY23, affecting the demand for fertilisers in the agriculture industry as crops dry out. Challenges in the downstream sector include high feedstock prices, infrastructure constraints, and inflationary pressures on operating costs. Despite these challenges, we maintain our positive outlook for fuel oil and gas sales but acknowledge uncertainties in petrochemical products moving into 2HCY23.

Maintain POSITIVE. Overall, we maintain a positive outlook for the oil and gas sector. The upstream operations are expected to remain strong until the end of CY23, supported by a stable crude oil and natural gas prices and the growing demand for petroleum products. In our local front, we are expecting the petroleum product trade would remain resilient, as the sector continues to recover in its upstream and downstream segments. OGSE companies will likely be beneficiaries to the upstream projects. The midstream sector will also experience a surge in performance, driven by increasing tanker rates and the recovery of the upstream. However, we remain cautious on the downstream due to lower demand for certain petrochemicals caused by higher costs, volatile feedstock prices and the El Nino climate.

Our **TOP PICKS** are: **MISC (BUY, TP: RM8.16)** for Upstream, **Petronas Gas (BUY, TP: RM18.43)** for Midstream and **Petronas Dagangan (BUY, TP: RM24.52)** for Downstream.

VII. REITS

Outlook remains positive.....Maintain POSITIVE

Low MGS yield is favorable to REIT. The 10-year Malaysian Government Securities (MGS) yields went below 4% in March 2023 following Bank Negara Malaysia (BNM) paused rate hike in January and March 2023. Note that 10-year MSG yield spiked to above 4.5% in October 2022 due to rate hike by Federal Reserves and OPR hikes in Malaysia. Meanwhile, 10-year MSG yield is hovering at ~3.8%. We think that the low MSG yield is favorable to REIT as spread between 10-year MSG yield and yield of REIT remains wide. In other words, REIT remains attractive for yield seeking investors as MGS yield hovers below 4%.

Retail REIT stays resilient. Most of the retail REIT reports encouraging earnings in 1QCY23 as earnings were supported by recovery in shopper footfall and tenant sales. Besides, earnings of retail REIT with retail assets in prime location such as IGB REIT, Pavilion REIT and Sunway REIT posted higher rental income due to positive rental reversion. Looking ahead, we expect earnings of retail REIT to stay exciting in 2HCY23 as earnings will continue support by positive rental reversion. Besides, shopper footfall is expected to increase further due to higher tourist arrival in 2023.

Further recovery in hotel industry. Hotel industry in Malaysia is staging recovery since the reopening of economy and country border last year. Average room rate and occupancy rates of hotel has been on uptrend due to growth in domestic tourism and reopening of economy. Looking ahead, we expect recovery momentum to stay strong in 2HCY23 as we think that domestic tourism and higher tourist arrival particularly from China would further propel the recovery of hotel industry. In this context, we expect REIT with exposure to hotel industry namely Sunway

REIT and KLCCP Stapled Group to see better earnings contribution from hotel division.

Potential OPR hike a slight negative to REIT. BNM hiked OPR by 25bps in May 2023 to 3%. Looking forward, our in-house economist forecasts that OPR to hike by another 25bps by end of this year. The potential OPR hike is slight negative to REIT as it will increase borrowing cost of REIT. In this context, we expect REIT with high floating rate financing namely Al-`Aqar Healthcare REIT to see greater impact from higher financing cost. On the flip side, IGB REIT is expected to see minimal impact from higher borrowing cost as its debt is on fixed rate. In a nutshell, we see that potential OPR hike could raise borrowing cost of REIT. However, we think that earnings recovery from positive rental reversion should be more than enough to offset the impact of higher borrowing cost.

Maintain POSITIVE on REIT. Overall, we remain positive on earnings outlook for REIT with exposure to retail and hotel industry in 2HCY23 as consumer spending at malls remains robust while higher tourist arrivals would further support recovery of retail and hotel industries. On the other hand, we see earnings of industrial REIT namely Axis REIT to remain stable going forward as rental income from industrial assets remains stable with positive rental reversion outlook. Meanwhile, average yield of REIT is attractive at 5%. Hence, we maintain **POSITIVE** on REIT with top picks are **IGB REIT (BUY, TP: RM1.86)** and **Sunway REIT (BUY, TP: RM1.73)**.

VIII. MEDIA

Gloomy outlook for adex growth.....Downgrade to NEUTRAL (from POSITIVE)

Overall year-on-year slowdown in 1HCY23. We are downgrading our outlook on the sector to **NEUTRAL** from **POSITIVE** previously. This is in line with the slowdown in earnings posted by media players under our coverage. The slowdown in earnings is mainly attributed to the adex market conditions, which is largely impacted by current macro headwinds, inflationary pressures, and shift in consumer sentiment. We opine that adex spending will pick up in 2HCY23 but are doubtful that it will register any significant year-on-year growth. By process of elimination, we would favour **Astro Malaysia Holdings Berhad (NEUTRAL, TP: RM0.62)** over **Media Prima Berhad (SELL, TP: RM0.30)**. We expect less volatile earnings for Astro as the group's earnings, to a certain extent, is supported by its subscription business model. Moreover, their 75% dividend payout policy is forecasted to result in an attractive dividend yield of more than 7% in FYE24.

Slow adex market conditions. Astro and Media Prima registered adex sales of RM99mn and RM163mn respectively for 1QCY23. On a year-on-year basis, these figures translate into a decline of -11.4%yoy and -6.8%yoy respectively. We believe this is attributable to the economic and inflationary conditions surrounding the adex market which hinders companies from splurging on adex. In addition, the current shift towards digitalisation also poses a challenge to the sector as media players take on this paradigm shift. We see efforts from Media Prima in investing into its digital segment overlapping with out of home segment under its subsidiaries Big Tree Outdoor and REV Media Group respectively. Astro also registered a 1QFY24 growth of 8% in their digital adex segment. However, we opine that it would take some time before significant growth can be observed for these segments.

Table 5: Adex Revenue (RM'm unless stated otherwise)

Media Player	1QCY23	QoQ	YoY	4QCY23	1QCY22
Astro	99.0	-21.3%	-11.4%	125.8	111.7
Media Prima	162.6	-19.9%	-6.8%	203.0	174.4

Source: Companies, MIDFR

Home shopping outlook continue to deteriorate post pandemic. Both Astro and Media Prima operate its own home shopping arm, Astro Go Shop and WOWSHOP respectively. These home shopping segments have registered losses in recent months which we believe is attributed to the change in consumer behaviour in the endemic phase. Consumers have started shopping at brick-and-mortar shops given the re-opening of the economy after the lifting of pandemic restrictions. In addition, it is worth acknowledging the fierce e-commerce competition within the players. This has further weighed on the losses posted by the companies under our coverage. Moving forward to 2HCY23, we opine that these losses would continue, unless a change in operations is decided and implemented.

Table 6: Profit Figures (RM'm unless stated otherwise)

Media Player	1QCY23	QoQ	YoY	4QCY23	1QCY22
Astro Profit Before Tax	-7.3	-36.0%	-25.5%	-11.4	-9.8
Media Prima Profit After Tax	-5.4	-8.6%	-15.9%	-4.9	-4.6

Source: Companies, MIDFR

Astro TV subscription segment. For Astro, its TV subscriptions segment is the group's major revenue contributor for the group. Astro registered RM693mn in 1QCY23 subscription revenue, which represents 78% of total revenue. That being said, the group's major topline contributor contracted by -5.2%yoy in 1QCY23. We attribute this to the shift in consumer appetite towards other international streaming platforms. Moreover, the Pay-TV market has been battling piracy cases with Astro recording ongoing cases of piracy in 2023. These factors would represent the headwinds that the TV subscription market is facing in the present time. Nonetheless, Astro's Average Revenue Per User (ARPU) recorded a +RM1.30 year-over-year increase to RM98.70 in 1QCY23. This was driven by good take up of Astro Fiber as customers can seamlessly stream on demand entertainment and enjoy greater value. Moving forward, we opine the TV subscription figures to hover at its current levels due to lack of catalysts throughout 2HCY23.

IX. PLANTATION

Gloomy outlook remains.....Maintain NEUTRAL

A short gain momentum. We saw the price of major commodity such as soybean oil (SBO) reached a multi-month high of USD1,469.44/Mt (+15.8%mt) in June due to concerns over the weather as dry conditions hit key regions of the US Midwest and Argentina. As a result, rival edible oils like crude palm oil (CPO) and rapeseed oil (RPO) saw an upward reversal in price to USD900.0/Mt (+3.2%mt) and USD1,030.0/Mt (+22.5%mt), respectively. However, considering that commodity prices are now actually on a downward trend (on a year-to-date basis), primarily due to weak demand in important importing countries, we feel the reason for this brief rise is still uncertain. Cross-checking our data, it seems demand from India, China, Pakistan, and even Bangladesh is anticipated to be lower in 2HCY23, mostly as a result of earlier restocking efforts from late 2022 to early 2023, which led to larger closing stock reported in key importing nations. To-date particularly, closing stocks for India has shot up to 4.3m Mt (+57%Ytd), while China rose to c. 8.7m Mt (+25%Ytd), Pakistan about 1.8m Mt (+50%Ytd) and Bangladesh c. 1.0m Mt (+165%Ytd).

Palm Oil. Based on our ground check, most planters currently agree that 2HCY23 FFB output may be greater and not solely due to seasonality effect (2Q-3Q is normally productive cycle), but also (mostly) due to the fact that 80% of the foreign labour issues been resolved. In-line with the industry overview, we also anticipate that the

expansion in production and closing stocks in the remaining months will be fuelled by the high FFB yield backed by greater fertiliser application on improved window application in the 1HCY23 amidst quicker FFB evacuation process ahead of drier months. Having said that, CPO production level has now reached 6m tonnes in May which is relatively stable, while closing stock jumped double digit c. +11.0%ytd to 1.7m Mt, in which closing stocks began recording 2m tonne level in Jan. In fact, May figures came in above Bloomberg's survey of 1.6m Mt indicating that there will be no supply shock ahead, prompting CPO prices to slide for the rest of the year.

Nonetheless, the key risk to the optimism remains; (1) longer than anticipated harvesting activities carried days since so many recently employed foreign workers are still not competent enough for the job; (2) unexpected wetter weather pattern in 2HCY23, which would be resulting lower OER rate, and (3) accelerated replanting activities that carried in the 1HCY23 (the planted area last year fell to 5.67m (-1.1%) from 5.74m Ha).

Effects of rate hikes. While CPO prices volatility can be occasionally dictated by dry spell conditions eg. El-Nino event, nonetheless, we reiterate that the quantum of rate hike would carry more weightage on its outlook. Based on past evidence, a vigorous rate hike from US Fed, followed by a worldwide unison rate hike reaction, affectively tamed a surge increase in commodities prices during financial crisis. History has shown that during the AFC (1997-98), the GFC (2008), the Commodities SuperCycle (2016), and the Coronavirus crash (2020), were all caused by US Fed rate hikes c. +1.75bp, +4.25bp, +1.75bp, and +3.0bp, leading to CPO prices to be hammered by -60%/-51%/-44% and -46%, respectively, to a normal levels in consequence of tightened spending brought on by higher borrowing costs.

On top of that, other key factors that will influenced the volatility of CPO prices in 2HCY23 are; (1) magnitude of ongoing Russia-Ukraine War, (2) easing policy on by the government of Indonesia (GOI) for its Domestic market obligation (DMO) to local players, (3) Reduced spread between SBO and CPO prices which recently down to only USD54.3/Mt and (4) the weakening ringgit (will boost price competitiveness against other commodities).

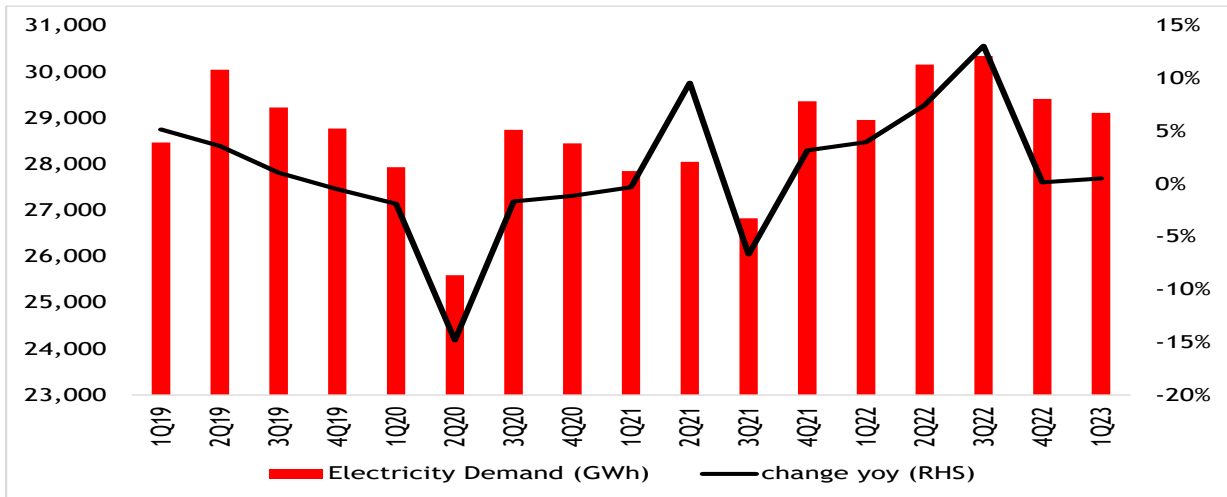
Recommendation. We maintain our **NEUTRAL** call on the sector as we weigh in fragile demand for the CPO on the back of sticky inflationary rate compounded by high cost of production incurred by local players. We expect CPO price to trade sideways in remaining month c. RM3,000/mt-RM4,000/Mt discouraged by the low-price disparity between CPO against SBO. As such, we maintain our average CY23-CY24 CPO price forecast of RM3,500/Mt and RM3,000/Mt respectively. Our top picks are **KLK (BUY, TP: RM26.00)** and **IOI (BUY, TP: RM4.89)**. Our selection stocks possess 1) high FFB yield/mature, which ranks among the top tiers, 2) fairly prime of palm trees age profile of 12.0-13.5 years, and 3) well integrated operation, where the manufacturing segment, which accounts for roughly 20-30% of group profit, that will assist withstand and decline in average selling price for CPO - thus, lowering the volatility of earnings.

X. POWER

Pockets of opportunities.....Maintain NEUTRAL

Electricity demand posting tepid growth. Electricity demand for Peninsular Malaysia continued to recover albeit at a slowing pace, with just a +0.5%yoy growth in 1QCY23. Despite the growth rate performing below RP3's projected demand growth of +1.7% per annum, the majority of Tenaga's revenue is regulated, which means Tenaga is compensated for any demand shortfall via the revenue adjustment mechanism under the IBR.

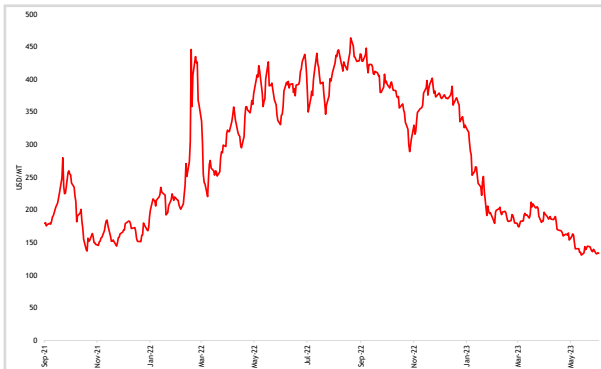
Chart 49: Electricity Demand Trend



Source: Tenaga, MIDFR

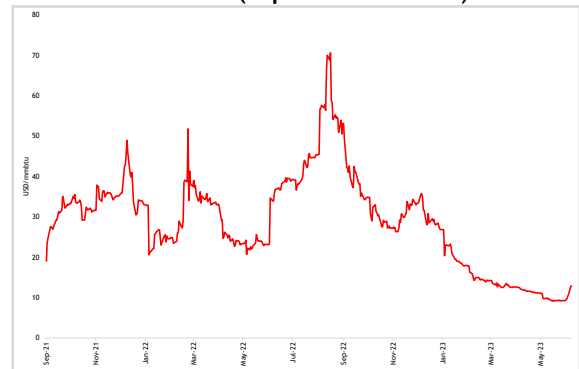
Energy commodities have eased off their peaks. Coal price is now hovering around USD133/MT, less than half of peak levels of USD464/MT seen in 3QCY22, albeit still well higher than RP3 projected coal price of USD79/MT - coal makes up 56% of Malaysia’s generation mix. The lower coal price is positive for Tenaga, as it should reduce the group’s fuel cost under-recovery, which had been an overhang as the previously elevated fuel prices drove significant under-recovery leading to starkly higher working capital requirement and interest cost. Additionally, the ICPT decision in December 2022 was positive, with the Government allowing an ICPT pass-through of almost the entire ICPT receivables at Tenaga via a mix of Government subsidy and a sharp increase in ICPT surcharge for medium-to-high voltage non-domestic consumers. In line with the higher ICPT collection and easing fuel prices, we expect both Tenaga’s ICPT receivables and underlying fuel cost under-recovery in the 1HFY23 period to ease, reducing the strain on cash flows and allowing retirement of some short-term debt undertaken previously to fund the elevated fuel cost.

Chart 50: Newcastle Coal Price



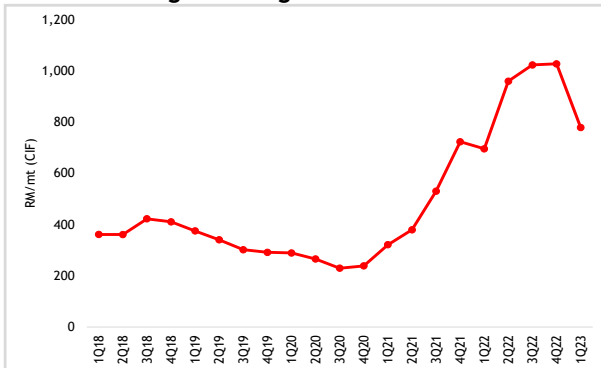
Source: Bloomberg, MIDFR

Chart 51: LNG Price (Japan Korea Maker)



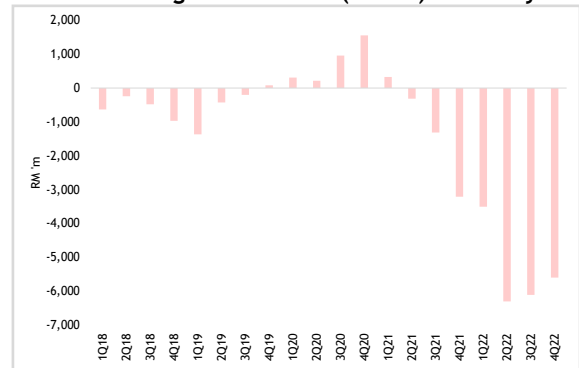
Source: Bloomberg, MIDFR

Chart 52: Tenaga's Average Coal Price Delivered



Source: Tenaga, MIDFR

Chart 53: Tenaga's ICPT Over/(Under) Recovery



Source: Tenaga, MIDFR

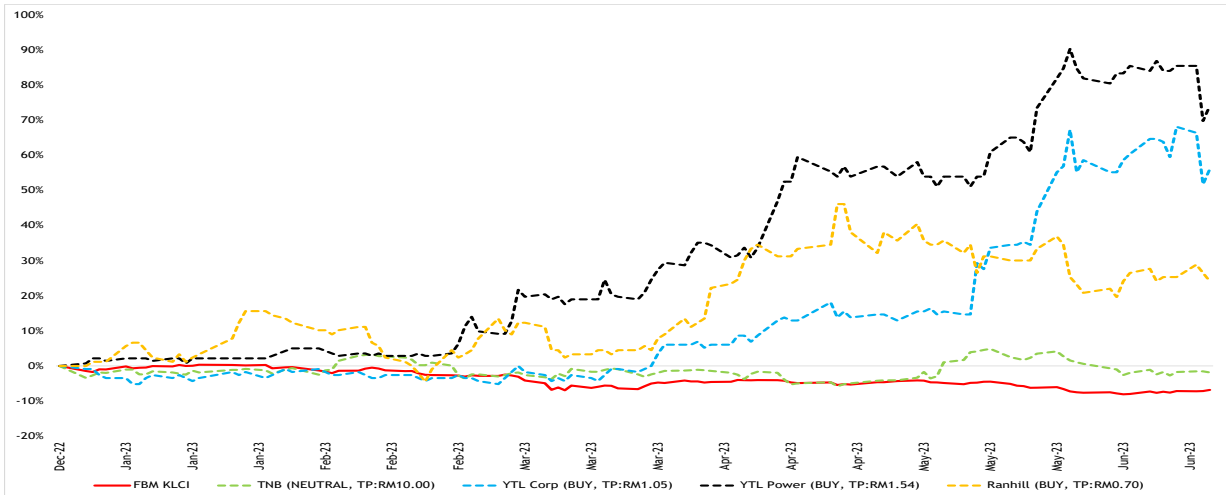
Possible subsidy rollbacks. The upcoming ICPT review for 2HCY23 is expected to reflect the easing coal price throughout the 1HCY23 period, which could result in lower ICPT surcharge levels. Nevertheless, we note that the Government is looking to further rollback electricity subsidies after doing so for mid-to-high voltage non-domestic consumers in the December 2022 ICPT review - this time, possibly for T20 households based on PM Anwar's recent statements in the media and parliament. While this could be an unpopular move, we reckon it would alleviate some of the Government's finances to channel the subsidies to the lower income group. Importantly, we also believe this could drive higher rooftop solar adoption among the affected households which is positive for the RE sector.

We prefer players with exposure to liberalised markets. Notwithstanding the recent positive regulatory outcome, we stick to our view that players operating in liberalized electricity markets are better able to pass through higher costs given the free-market nature of such electricity markets i.e., YTL Power (BUY, TP: RM1.54), which operates in the Singapore power sector - Singapore wholesale electricity prices has seen sustained strength given tighter demand-supply. While we note the recent announcement by the Energy Market Authority of the temporary switch to a dynamic price cap, we believe this would have limited impact on YTL Power as the majority of YTL Power's capacity has been locked into long-term contracts. Additionally, it is one of the more efficient generators - capping price spikes is likely to affect generators with the least efficient capacity as they are the last to get on the grid, we believe. What it means is the absence of 'supernormal' rates rather than a move to suppress prices in a free market, in our opinion.

Policy updates. The 4-year PPA extension (to 25 years) granted to winners of the LSS4 bidding cycle has helped to drive a resumption in project progress, which saw hiccups due to rising material costs previously. This is a near-term positive for solar EPCC players and project owners. The Government has also approved: (1) An additional 200MW quota for the Corporate Green Power Program, bringing the total quota to 800MW (2) An additional 200MW quota for the commercial & industrial segment of the Net Energy Metering program, which also brings the total quota to 800MW. These again, should be positive for the RE EPCC players and asset owners pursuing the CGPP and NEM programs - the former is likely to attract players from various sectors, but within the utilities space, includes players such as Ranhill Utilities, which intends to reduce electricity cost via adoption of CGPP for its water treatment plants. Meanwhile, the latest RE policy update to lift the RE export ban and to develop an electricity exchange for cross border RE trading is a potential mid-to-long term positive for the RE sector as it allows players to tap on regional RE demand, particularly from Singapore which entails attractive rates. While broadly, policies driving RE growth has seen continuity and improvisations, an important policy that was put on hold in the past was liberalization of the power sector under MESI2.0, which essentially entails a move to spot market-based power generation supply, third party access to Tenaga's transmission & distribution network and the opening up of the retail space in the sector. In the water utilities sector, a decision on an average 25sen/m³ nationwide tariff hike for the non-domestic sector was already approved by the previous Federal Government back in August 2022. However, another tariff review is now being undertaken for the domestic sector, which is a potential catalyst for water operators.

We remain NEUTRAL on the power sector; earnings are defensive in nature, but in a macro upcycle, upside potential is capped by regulatory revenue-caps, while growth catalyst is lacking given an already large excess capacity in the system (Peninsular Malaysia). Coupled with the still high input cost, we think players operating in liberalised markets are better bets as free market rates reflect both higher input cost and improved demand-supply conditions. Additionally, we like players in the water utilities space as a play into the recent non-domestic sector tariff hike and the upcoming domestic sector tariff review. Our sector picks are **YTL Power (BUY, TP: RM1.54)**, **YTL Corp (BUY, TP: RM1.05)** and **Ranhill Utilities (BUY, TP: RM0.73)**. Potential risks are: (1) Aggressive carbon pricing rate introduction and the inability of players to pass this down to end-consumers, (2) A sharp fall in demand which would impact rates in the liberalised electricity markets.

Chart 54: Share Price Performance of Utilities Stocks Under Our Coverage vs. the FBM KLCI



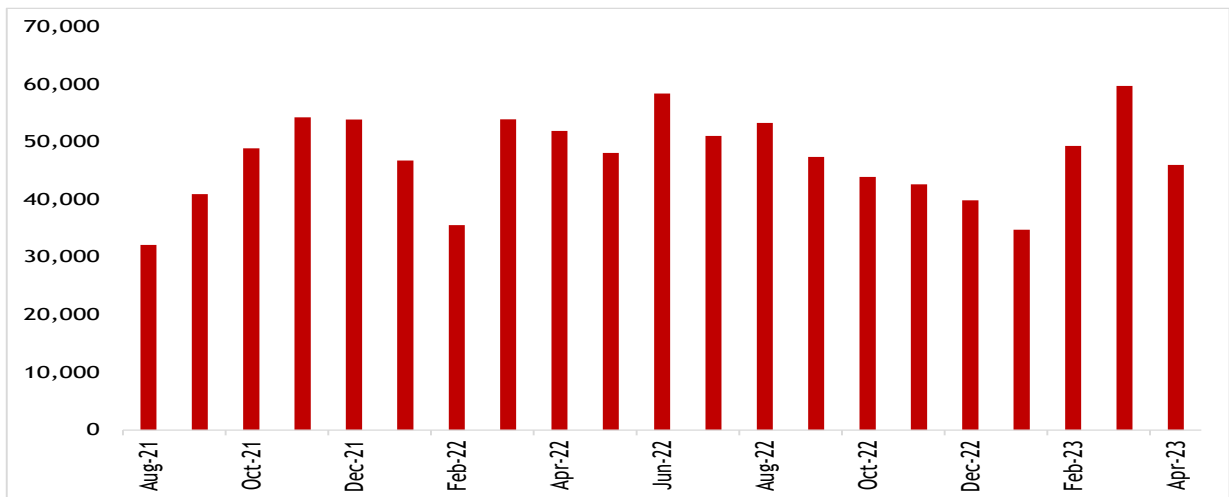
Source: Bloomberg, MIDFR

XI. PROPERTY

Mixed outlook.....Maintain **NEUTRAL**

Weaker loan application outlook. According to data released by Bank Negara Malaysia (BNM), loan application for purchase of property took a breather in April 2023, easing by -23%mom after two consecutive increases in February and March 2023. Note that loan application jumped to the highest in more than two years in March 2023 due to recovery in buying interest following pause in OPR hike in January and March. Looking ahead, we expect that loan application may stay weaker as Bank Negara Malaysia increased OPR by 25bps to 3% on 3rd May 2023 which may dampen buying interest on property.

Chart 55: Monthly Total Applied Loan (RM'm)



Source: BNM, MIDFR

Potential OPR hike may dampen buying interest. Bank Negara Malaysia increased OPR by 25bps to 3% on 3rd May 2023 and our economist anticipates that OPR may be hiked by another 25bps by end of this year. The potential OPR hike is slight negative to property sector as higher interest rate is expected to lower buying interest on properties as a result of higher housing loan instalment. We estimate that every 25bps increase in interest rate to increase monthly instalment slight by RM60-RM70 for house loan of RM500k. Hence, we expect two hikes in

OPR to hurt buying interest for property slightly.

Transaction volume normalized in 1Q2023. According to data released by the National Property Information Centre (NAPIC), transaction volume of property declined to 89,179 units in 1QCY23 from 95,992 units in 4QCY22. Note that transaction volume of property surged beyond 100k units in 3QCY22 due to strong buying interest following reopening of economy and country border in 2QCY22. That led total transaction volume of properties jumped by +29.5%yoy to 389k units in 2022. Meanwhile, residential transaction is the biggest contributor to transaction volume in 1QCY23 at 60.5%, followed by agriculture transaction at 21.2% and commercial transaction at 9.5%. Looking ahead, we opine that transaction volume may continue to normalize partly due to potential OPR hike which may dampen buying interest on property.

Lower residential overhang in 1Q2023. According to data released by NAPIC, residential overhang of Malaysia remained on declining trend in 1QCY23. Residential overhang continued to decline to 26,872 units in 1QCY23 after falling to 27,746 units in 2022 from 36,863 units in 2021. Selangor has the highest residential overhang units of 4,995 units, followed by Johor (4,759 units) and Kuala Lumpur (3,423 units). The continued decline in residential overhang could be attributed to higher buying interest on property following reopening of economy and country borders. We see that the improving residential overhang in 1Q2023 to be positive to property sector as that signals easing concern of oversupply situation of residential properties in Malaysia.

Maintain NEUTRAL on property sector. We think that the outlook for the property sector is mixed in 2HCY23 as the potential OPR hikes may hurt buying interest on property going forward. Besides, the lower transaction volume in 1QCY23 may normalise buying interest post pent-up demand in 2HCY22. Nevertheless, the lower residential overhang in 1QCY23 is positive to property sector as it eases concern of residential properties oversupply in Malaysia. In a nutshell, we maintain **NEUTRAL** but with a positive bias on property sector. Our top picks for the sector are **Mah Sing Group (BUY, TP: RM0.78)** and **Glomac Berhad (BUY, TP: RM0.43)** as we remain positive on developers that focus on building projects in the mid-market and affordable segment. We continue to see resilient demand for affordable homes due to demand from first-time home buyers.

XII. TECHNOLOGY

Demand slowdown to persist.....Downgrade to NEUTRAL (from POSITIVE)

A more subdued outlook. We are downgrading the sector recommendation to **NEUTRAL** from **POSITIVE** previously. This is in-tandem with a more toned-down forecast in terms of global semiconductor sales which emanates from slower end demand although there are some bright spots. We are also cognisant that the continuous trade war between US and China will bring out positive spillover effect for Malaysia. However, we view that the effect will be felt progressively. Taking all these into consideration, **Inari Amertron Berhad (BUY, TP:RM3.06)** is our top pick for the sector. We favour the group's unrelentless focus on the premium smartphone segment which has led to more resilient business activities. Not resting on its laurels, the group is also actively diversifying further its offerings and customer base. Last but not least, we view that the group's dividend yield is among the better one among its peers.

Looking at double digit decline in sales. Recently, the Worldwide Semiconductor Trade Statistics (WSTS) further cut the 2023 worldwide semiconductor sales forecast to USD515.1b from USD556.6b previously. This translates into a double-digit decline of -10.3%yoy from -4.1%yoy. The downward revision reflects the increasing inflation and weakening demand in end markets, especially the consumers segment.

Regionally, the Americas and Asia Pacific markets are expected to shrink by -9.1%yoy and -15.1%yoy respectively. Meanwhile, contraction is seen almost across all product segment except for discrete and optoelectronic segments.

Figure 9: Worldwide Semiconductor Sales Forecast Summary

Spring 2023	Amounts in US\$M			Year on Year Growth in %		
	2022	2023	2024	2022	2023	2024
Americas	141,136	128,236	150,989	16.2	-9.1	17.7
Europe	53,853	57,253	61,637	12.8	6.3	7.7
Japan	48,158	48,724	52,534	10.2	1.2	7.8
Asia Pacific	330,937	280,881	310,838	-3.5	-15.1	10.7
Total World - \$M	574,084	515,095	575,997	3.3	-10.3	11.8
Discrete Semiconductors	33,993	35,904	38,192	12.0	5.6	6.4
Optoelectronics	43,908	45,949	45,881	1.2	4.6	-0.1
Sensors	21,782	20,410	21,575	13.7	-6.3	5.7
Integrated Circuits	474,402	412,832	470,349	2.5	-13.0	13.9
Analog	88,983	83,907	88,902	20.1	-5.7	6.0
Micro	79,073	71,470	75,855	-1.4	-9.6	6.1
Logic	176,578	173,413	185,266	14.0	-1.8	6.8
Memory	129,767	84,041	120,326	-15.6	-35.2	43.2
Total Products - \$M	574,084	515,095	575,997	3.3	-10.3	11.8

Source: WSTS

Demand for smartphone to remain weak. In recent months, the International Data Corporation (IDC) revised further downwards 2023 global smartphone shipment to 1.17b which represents a decline of -3.2%yoy from -1.1%yoy previously. The revision was mainly premised on a weaker economic outlook as well as ongoing inflation which is similar to that of WSTS. Consumer demand in China, which is the world's largest smartphone market, is recovering at a much slower-than-anticipated pace.

Figure 10: 1Q23 Global Shipment of Smartphones

Company	1Q23 Shipments	1Q23 Market Share	1Q22 Shipments	1Q22 Market Share	Year-Over-Year Change
1. Samsung	60.5	22.5%	74.6	23.7%	-18.9%
2. Apple	55.2	20.5%	56.5	18.0%	-2.3%
3. Xiaomi	30.5	11.4%	39.9	12.7%	-23.5%
4. OPPO	27.4	10.2%	29.3	9.3%	-6.7%
5. vivo	20.5	7.6%	25.3	8.0%	-18.8%
Others	74.5	27.7%	88.9	28.3%	-16.2%
Total	268.6	100.0%	314.5	100.0%	-14.6%

Source: IDC

Apple seems to be the only bright spot. Nonetheless, premised on the 1QCY23 shipment, demand for Apple's iPhone seems to be rather resilient. According to IDC, shipment for iPhone only drop marginally by -2.3%yoy (refer to Figure 10: 1Q23 Global Shipment of Smartphones). While some of its peers recorded double digit decline on a year-over-year basis. Moving forward, we could potentially see a more heightened pace of production activities in-line with Apple's new smartphone launches which historically takes place in September.

High dependency on the smartphone market. Semiconductor companies under our universe are entrenched in the supply chain of various market segments such as communications, consumer, PC, industrial and automotive. Having said that, we believe that their well-being is still largely tied to the smartphone market in view of the volume and value that it presents.

Challenges in the automotive segment. In recent years, there has been a shift in focus by semiconductor companies to be align with the automotive value chain. This was mainly supported by the various policies to promote deployment of electric vehicle (EV) as opposed to conventional one. To put into perspective, an EV car has at least twice as much as compared to conventional car. This will create the volume and the value which were similar seen in the smartphone segment.

China is the largest EV car market due to its push for clean energy technology. Apart from Tesla, there are five major Chinese EV brands namely BYD, Nio, Wuling, Geely and Xpeng. This would translate into various supply chain opportunities for the semiconductor companies to fall into. Moving forward, we are of the view that there could potentially be softening of demand for automotive peripheral chips depending on the level of inventory.

Progressive spillover effect from US-China trade war. The ongoing tension between US and China has forced global manufacturers to seek alternative production bases in Asia which is commonly known as ‘China Plus One strategy’. ‘The Economist’ identified 14 Asian countries which are collectively known as “Altaisia”. Malaysia is one of the 14 countries mentioned given its resources and infrastructure. Based on our channel check, there has numerous enquiries by global manufacturers toward locally based semiconductor companies. We opine that those which has manufacturing presence both locally and in China would stand to benefit more as it would be easier to rechannelled towards the local factories.

Interestingly, on a more recent note, we also gather that “Taiwan plus one” strategy has also emerged in order to mitigate the risk of over-dependence on one geographic location. Nonetheless, we view that the benefits to be derive from these developments to be gradual.

1QCY23 provided a glimpse of full year performance. We observed that all semiconductor companies under our coverage posted double digit decline in their respective year-over-year performance. This was owing to the decline in revenue. Moreover, we believe that the fixed cost was relatively much higher subsequent to the aggressive expansion seen during the Covid-19 pandemic.

In tandem, with the negative outlook by WSTS as well as weakening of demand for the smartphone and automotive segments, generally we believe that subsequent quarters would remain challenging for semiconductor companies under our coverage. However, we view that there could be slight optimism in the quarter-over-quarter basis as the trough could have been observed in 1QCY23. The improvement, nonetheless, could not be meaningful as demand would remain tepid in the near to medium term.

More conservative earnings estimates. In view of the above-mentioned occurrences, we are making some changes to earnings of semiconductors companies under our coverage. This generally emanates from lower revenue assumption across all segments. Referring to Table 7, we made minimal earnings adjustment of less than -20% to Inari mainly in view of the supply chain the group is in. Meanwhile, we are inputting a much more conservative earnings estimates for its peers.

Table 7: Earnings Summary

Company	Earnings (RM'm)				Adjustments (%)	
	Before		After		FY23	FY24
	FY23	FY24	FY23	FY24		
Inari	393.0	419.4	325.3	390.4	-17.2	-6.9
Unisem	285.8	317	149.9	197.5	-47.6	-37.7
Globetronics	47.9	54.7	27.7	34.2	-42.2	-37.5
D&O Green Technologies	164.3	203.1	69.0	113.4	-58.0	-44.2

Source: MIDFR

BUY recommendation only resides with Inari. The revised earnings estimates supported our view that Inari would be able to weather the slowdown in the industry as compared to its peers. This is mainly attributable to the group's strategic position within the premium smartphone segment. We also applaud the group's aggressive strategy to diversify its product and customer base. Last but not least, we opine that Inari's dividend yield of approximately 4% would stand out comparatively.

On the other hand, we are downgrading our recommendation for Unisem and D&O to **NEUTRAL** and Globetronics to **SELL** respectively. The recently concluded 1QFY23 shown the earnings vulnerability of these companies. In the case of Unisem, contribution from the communication and consumer segments was impacted by the slowdown in demand. Also, we view that the group's profit margin could be depressed further post the completion of Phase 3 at Unisem Chengdu and the upcoming Gopeng plant. Nonetheless, once China market has shown improvement, we view that the group would be one of the main beneficiaries.

Meanwhile, D&O's wellbeing which solely rely on the automotive market has shown drastic drop in profitability in 1QFY23. The latter was mainly caused by the slowdown in China automotive market. However, the China government could potentially extend its EV subsidies to 2023 to stimulate the market. If this development materialised, it could bode well for D&O.

On the contrary, we are turning bearish on Globetronics. Taking cue from 1QFY23, the profit margin has decreased considerably due to waning effect of economic of scales. We expect production volume to remain depress in the term. Moreover, we do not much expansion in terms of product and customer base. These will in-turn affect the group's ability to payout dividends.

Table 8: Recommendation Summary

Company	Target PER (x)		Target Price (RM)		Recommendation	
	Before	After	Before	After	Before	After
Inari	24.4	27.2	3.00	3.06	Buy	Buy
Unisem	21.0	25.0	3.72	3.08	Buy	Neutral
Globetronics	18.3	19.4	1.31	0.99	Buy	Sell
D&O Green Technologies	35.4	39.5	5.10	3.91	Buy	Neutral

Source: MIDFR

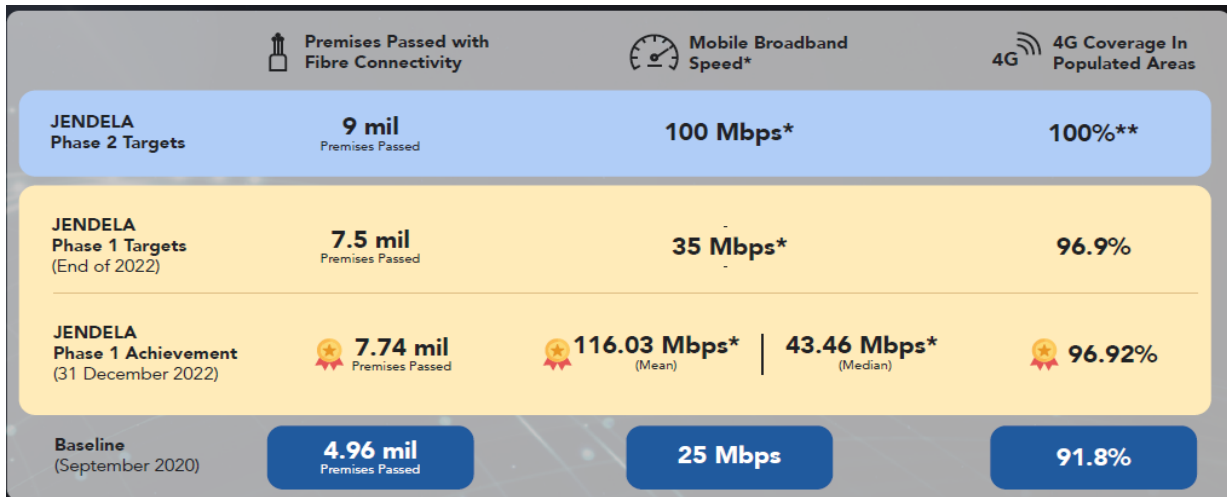
XIII. TELECOMMUNICATION

Lacking 5G Excitement.....Maintain NEUTRAL

Awaiting the big wave of 5G. The outcome achieved with the end of Jendela Phase 1 will provide a good base for the commencement of Jendela Phase 2. However, due to the change in direction regarding 5G infrastructure from Single Wholesale Network (SWN) to Dual Wholesale Network (DWN), the commencement of Jendela phase 2 has been pushed back to later part of this year, from 1QCY23 initially. Nonetheless, we see no notable impact to earnings of telcos under our coverage.

Jendela Phase 1 end on a high note. Jendela Phase 1 which started in 2020 came to an end in December 2022. Generally, the Jendela initiative aims at enabling enhanced coverage and provide good quality of experience to the people nationwide. In this regard, there are three key target to achieve in terms of fiberisation of premises, upgrade of base stations and number of new mobile towers built. As at end of 2022, most of these targets are overachieved given the successful collaboration between the regulators and the industry players. As a form of validation, the Jendela initiative has won the World Summit on the Information Society (WSIS) pried 2023 award in category C2 - Information and communication infrastructure. Earnings wise, we view that Telekom Malaysia has been the main beneficiaries as can be seen from the rapid take up rate for unifi. Nonetheless, towards the end of Phase 1, we note that the growth rate of unifi’s customer has been declining.

Figure 11: Jendela's Target and Progress



Source: MCMC

Phase 2 commencement pushed to 3QCY23. We view that the outcome achieved in Jendela Phase 1 serve as a good base for Phase 2. In summary, Phase 2 represents a continuation of Phase 1 which revolves around the same three key targets. The differentiation factor lies on the need of speedy deployment of 5G network services to boost digital connectivity. Of the three key target, Malaysia Communication and Multimedia Commission (MCMC) opined that achieving 100% population coverage is the most challenging area as it involves inland and remote areas including the Orang Asli settlement.

In view of the Government’s decision to transition from a single wholesale network (SWN) model to dual wholesale network (DWN), the commencement of Jendela Phase 2 has been pushed to third quarter of this year from first quarter. We view that the delay would not have notable impact to the telco earnings as high yielding areas have been covered in Jendela Phase 1.

All eyes on DWN. As of April 2023, MCMC shared that 5G population coverage stood at 59.5%, up from 47.1% as at end 2022. This is expected to reach 80% at the end of 2023, expedited from original timeline of end 2024. Despite this, 5G adoption rate is still low at 3.1% or approximately 1.2m users. We view this could be attributable to several factors: i) existing 5G use cases suggest that it would be more relevant to business users than consumers as 4G is sufficient for the latter, ii) lack of consumers who upgrade to 5G smartphone, iii) absence of Maxis who usually carry the premium subscriber, and iv) limited in-building coverage.

End of network supremacy. Upon reaching the coveted 80% coverage, a second 5G entity will be introduced. CelcomDigi, Maxis, TM and U Mobile have expressed support for DWN arrangement as it will promote competition which could lead to better network infrastructure performance and raise customer service levels. That being said, we do not discount the fact that the telcos may need to rely heavily on DNB while the second 5G entity rolls out its network.

CelcomDigi Bhd in a more advantageous position. Be it SWN or DWN, the telcos would fall back on the same 5G network. Thus, this would mean that no individual telcos could claim that it has network supremacy over its peers. We view that the differentiating factors would lie on the pricing strategy and the level of services provided. On this front, we view that CelcomDigi Bhd would have the advantage over its peers due to its size and access to resources. Also, its closest peers i.e. Maxis is losing a first-mover advantage as it has yet sign access agreement with DNB. Nonetheless, we view that we could see minimal 5G monetisation effort this year. Excluding this, we foresee little avenue for the telcos to meaningfully grow their revenue base. Emphasis would be on the managing the cost especially the capital spending.

Moderate earnings estimates. Given the prevailing landscape, we are assuming a more moderate earnings assumptions for telecommunication under our coverage especially for Axiata and Telekom Malaysia. This generally reflects lower revenue assumptions across all segments. Meanwhile, taking cue from the recent 1QFY23 results, we revise upwards our earnings assumptions for Celcomdigi to better reflect the outcome of the merger.

Table 9: Earnings Summary

Company	Earnings (RM'm)				Adjustments (%)	
	Before		After		FY23	FY24
	FY23	FY24	FY23	FY24		
CelcomDigi	1,310.2	1,411.7	1,680.9	1,888.9	28.3	33.8
Maxis	1,300.1	1,434.4	1,240.7	1,299.0	-4.6	-9.4
Axiata	2,098.6	2,239.2	1,600.0	1,775.6	-23.8	-20.7
Telekom Malaysia	1,506.8	1,591.7	1,244.4	1,319.0	-17.4	-17.1

Source: MIDFR

CelcomDigi is the sole preferred pick for the sector. We favour CelcomDigi as compared to its peers. The group's active participation on the local 5G landscape will bring about first mover advantage as compared to its peers. Following the concluded merger with Celcom, there is potential cost synergies of RM8b to be reaped. It also provides the group with a bigger and stronger balance sheet to pursue a more aggressive growth strategy.

In contrast to CelcomDigi, we view that Maxis' exclusion in the 5G sphere could potentially be detrimental to the group's earnings. This is on top of mounting challenge from Celcomdigi. We are also concerned on the group's operating free cash flow which contracted considerably in 1QFY23 which we believe led to dividend payout of 4sen per share. Note that the previous four quarters was maintained at 5sen per share.

Meanwhile, Axiata’s cash generative capability may be under threat post the disposal of Celcom. Note that Celcom has been the group’s crown jewel. Meanwhile, its strategy of making XL the next crown jewel may be challenging given the competitive landscape in Indonesia as it competes the two top telcos in the country. On an overall perspective, we view that the group’s strategy of having multiple presence in Asia exposes the group to various regulatory and forex risk.

We also turn more bearish on Telekom Malaysia. The growth rate of unifi subscriber continues to weaken which we think is in-tandem with the ending of Jendela Phase 1. Besides, given that current of 5G, the income derived from the leasing of its telco infrastructure would not be significant in the near term. On the other hand, we foresee challenging outlook for TM One which can be seen for the group’s latest 1QFY23 quarterly performance. Last but not least, the new MSAP may also create further earnings pressure for the group.

Table 10: Recommendation Summary

Company	Target Price (RM)		Recommendation	
	Before	After	Before	After
CelcomDigi	4.11	4.87	Neutral	Buy
Maxis	3.60	4.08	Neutral	Neutral
Axiata	4.54	2.62	Buy	Neutral
Telekom Malaysia	6.60	5.17	Buy	Neutral

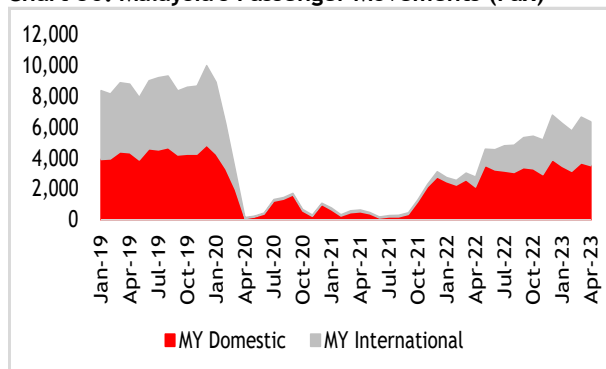
Source: MIDFR

XIV. TRANSPORTATION

Recovering against odds.....Maintain NEUTRAL

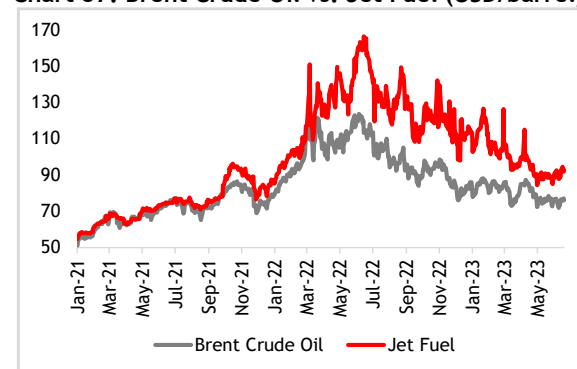
Aviation

Chart 56: Malaysia's Passenger Movements (Pax)



Source: MAHB, MIDFR

Chart 57: Brent Crude Oil vs. Jet Fuel (USD/barrel)



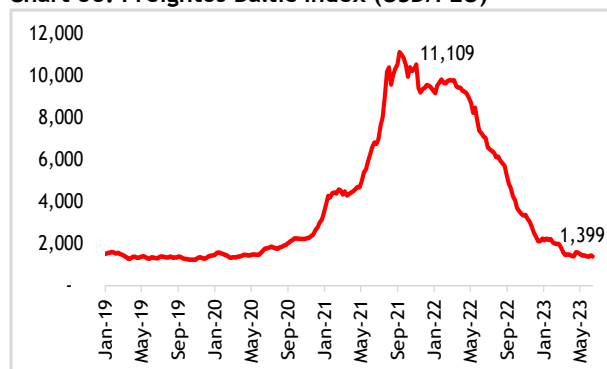
Source: Bloomberg, MIDFR

Passenger recovery takes flight. Malaysia’s collective passenger count has been steadily recovering and reached 73% of its pre-pandemic level in 4MCY23 (domestic: 83%, international: 64%). It is worth noting that the monthly recovery of the domestic sector has remained consistently above 80% since Dec-22. Meanwhile, the international sector’s recovery has been trending positively, thanks to the revitalisation of key Asia Pacific markets from 4QCY22 onwards. The return of Chinese tourists is still in its early stages as flight operations have not yet been fully restored. Passenger movements for the China sector amounted to 0.31m in 1QCY23, which is merely 13% of its

2019 level (1QCY19: 2.29m pax). However, this should improve in the coming months as the sector's seat capacity is projected to reach at least 60% by end-CY23 from the 14% capacity filed in 1QCY23. China has recently made a positive change by eliminating the need for a negative PCR test for inbound travelers and replacing it with a negative antigen test taken within 48 hours before boarding since early May-23.

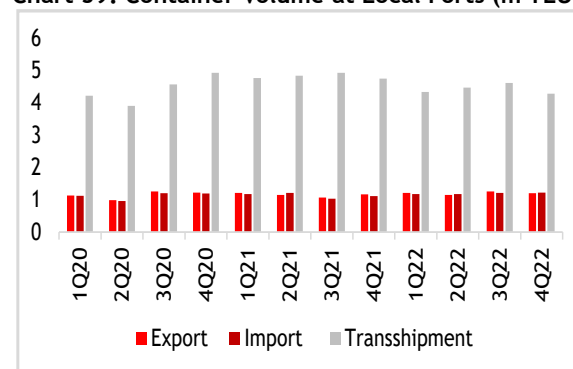
Profitable skies ahead. Malaysia's passenger traffic is anticipated to gather pace in 2HCY23. A key driver of this recovery is the full reactivation of Malaysia AirAsia's (MAA) aircraft, which is targeted to materialise in Aug-23. MAA, with a significant market share (40%) in terms of passengers carried before the pandemic, currently has approximately 68% of its aircraft operational. The entry of new airlines into the market, coupled with their gradual fleet expansion and network growth, is expected to play a crucial role in filling the capacity gap caused by the limited availability of aircraft, which has hindered a full recovery. In the near-term, a stronger USD might pose challenges for local carriers as they incur substantial USD-denominated expenses including jet fuel purchases and aircraft leases. However, our economists expect the MYR to potentially strengthen against the USD in 4QCY23 at the earliest, reaching an exchange rate of USDMYR4.20 by year-end. Furthermore, the continued implementation of fuel surcharges should assist local airlines in managing any fluctuations in crude oil prices. A couple of key events to look forward to in 2HCY23 include: (i) the announcement of Capital A's PN17 regularisation plan tentatively in Jul-23 and the finalisation and execution of the new operating agreement (OA 2023) between MAHB and the government.

Chart 58: Freightos Baltic Index (USD/FEU)



Source: Bloomberg, MIDFR

Chart 59: Container Volume at Local Ports (m TEUs)



Source: Ministry of Transport, MIDFR

Port & Logistics

Port sails through trade challenges. The World Trade Organisation (WTO) predicts a decline of -1.7%yoy in global merchandise trade volume for CY23 (CY22: +2.7%yoy) citing the ongoing war in Ukraine, persistent high inflation, the implementation of tighter monetary policies, and prevailing financial uncertainty. As a result, there is a decrease in goods consumption, particularly in the Western region, leading to reduced interregional container movements. This adversely affects port operators that primarily focus on transshipment business. Industry players have warned that the reopening of China will likely not have a substantial impact on the port throughput recovery as the issue lies with demand rather than production. On a positive note, the growth of gateway port throughput has been fueled by robust local exports and foreign direct investments (FDIs), with Port Klang being the biggest beneficiary. FDIs, such as the establishment of paper mill manufacturers and regional distribution hubs like IKEA, have contributed to Westports' notable increase in gateway container throughput by +9.0%yoy in FY22 and +6.0%yoy in 1QCY23. This growth is expected to continue and help offset the weakness in transshipment activities. An important development to anticipate in the port sector is the finalisation of Westports 2 concession agreement, which is expected to make progress in 2HCY23.

Logistics players to remain resilient. Market freight rates have largely returned to normal levels due to the

resolution of supply chain issues. This normalisation has a direct impact on the profitability of freight forwarders, but industry players have reportedly seen an increase in business volume due to the now more affordable ocean freight rates. Furthermore, the logistics companies under our coverage have been concentrating on expanding its other logistics businesses, benefiting from its integrated nature. This is evident from its steady expansion in warehouse capacity. The demand for warehouse space is expected to continue growing, particularly in strategic locations such as Penang, Shah Alam and Port Klang. Smaller warehouse operators may face greater challenges as multinational corporations (MNCs) prefer logistics providers that can cater to consolidation needs and offer customised warehouses. However, the logistics players under our coverage have observed a rise in operating costs due to inflationary pressures. In this regard, we prefer larger players such as Swift Haulage and Tasco due to their stronger negotiation power and ability to absorb some of the increased costs or pass them on to its customers.

Maintain NEUTRAL. Currently, we favour the logistics players within our coverage due to their limited exposure to the potential impact of slower global trade. One of our top picks is **Swift Haulage Berhad (BUY, TP: RM0.90)** as (i) it holds a dominant position in the container haulage space (9% market share), (ii) it consistently achieves superior profit margins relative to its peers due to its extensive in-house assets, and (iii) its performance is insulated from the volatility of international freight rates. We also like **Tasco Berhad (BUY, TP: RM1.87)** as (i) its customers have significant exposure to the electronics & electrical (E&E) and semiconductor markets, which have been driving local exports, (ii) it is expected to benefit from substantial claimable tax credits resulting from the construction of its two new warehouses and (iii) it has the advantage of locking in freight rates for the next six months for its customers.

XV. GLOVES

No light at the end of the tunnel.....Maintain NEGATIVE

Falling global raw material and natural gas prices. In 1HCY23, we noticed a downward trend in all three (3) key raw materials, such as NR Latex Concentrate Price, Acrylonitrile price, and Butadiene. Note that NR Latex Concentrate is the core raw material for natural rubber gloves, while acrylonitrile and butadiene are essential for nitrile gloves. Moving forward, we expect raw materials prices to continue falling in the near term due to the end of the wintering season, which could increase NR Latex production and lower prices. Additionally, lower feedstock prices may contribute to the decline in acrylonitrile and butadiene prices. Meanwhile, natural gas tariff is also expected to decrease on the back of the global natural gas prices demonstrated a declining trend in 1HCY23 which will lower the fuel costs. Overall, we anticipate the declining prices to cut production costs and partially mitigate the impact of low utilization rates given that raw materials (35%-40%) and natural gas (20-25%) make up a significant portion of operational costs. However, we view that margin compression is expected to persist due to ongoing low utilization rates and low ASP in 2HCY23.

Normalizing global glove demand in CY23. The buyers continued to place smaller orders, particularly for healthcare gloves, due to short delivery times and possible excess stock in 1HCY23. Moving forward, we anticipate this trend to persist, with customers still placing smaller orders despite the depletion or expiration of some old inventory. Additionally, the normalization of glove demand in CY23, as countries transition into the endemic phase post-border reopening, is expected to limit the demand further. The Malaysian Rubber Glove Manufacturers Association (MARGMA) expects the global glove demand in CY23 at 300b pieces, which is lower than during the pandemic period of 367b in CY20 and 384b in CY21 but slightly higher than the 284b in CY19. Overall, we believe that the demand for gloves to remain volatile in 2HCY23 due to the ongoing oversupply and the normalization of

demand, resulting in customers lacking urgency to place orders.

Ongoing industry consolidation. In 1HCY23, we observed some new entrants with lower production capacity exited the business due to persistent losses. Also, some Malaysian glovemakers have shut down ineffective production plants to enhance cost-effectiveness and competitiveness against Chinese glovemakers. However, we believe that these consolidation efforts are insufficient to address the oversupply issue, given the aggressive capacity expansion during the pandemic and the normalization of demand. This is in combination with the significant influx of new entrants during the pandemic. Recall that number of glovemakers registered as MARGMA associate members have grown from below 60 (pre-pandemic) to 90 members (including subsidiaries) post-pandemic, equivalent to 30 new entrants in Malaysia. Therefore, we remain cautious that the supply-demand dynamic will take at least 1 years to return to normal.

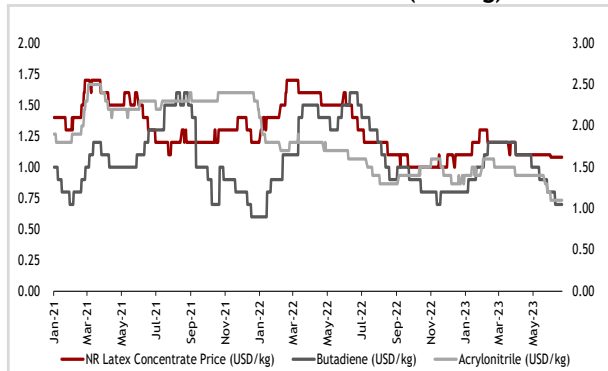
Continuous low utilisation rate backed by oversupply situation. The industry's utilization rate remained unattractive at 25-40% in 2QCY23 compared to 80-85% in CY19. However, Chinese glovemakers recorded a utilization rate of at least 90% in the recent quarter, indicating that buyers have shifted their orders to them. Looking ahead, we anticipate the industry utilization rate at 25-35% in CY23.

Cautiously optimistic about the ASP. We cautiously view the ASP adjustment in the industry. While there has been a beginning of ASP correction as a cost-passing effort, most players have encountered unsuccessful moves, resulting in a substantial drop in sales volume. This is evident from the utilization rate, with Chinese glovemakers having a rate of more than 90%, while the industry average is below 40%. Although, the recent ASP hike has narrowed the gap between Chinese and Malaysian glovemakers, we caution that Chinese glovemakers will continue to offer competitive ASP due to their focus on securing market share and cost competitiveness. This might incur upward pressure on local Malaysian glovemakers to not aggressively increase their prices. Overall, we are concerned that Malaysian glovemakers have a limited room to raise the ASP as an aggressive price hike could lead customers to choose cheaper alternatives, impacting sales.

Benefiting from stronger MYR. The recent appreciation of USD/MYR exchange rate indicates the stronger USD. Moving forward, our economists are now expecting the average USD/MYR of RM4.43 for CY23. This stronger USD is expected to benefit all glovemakers under our coverage since their products are sold in USD. As such, this will partially offset the impact of low sales volume and high production costs, helping sustain profit margins.

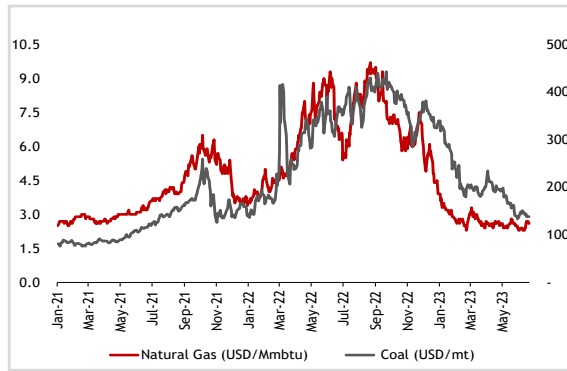
Maintain NEGATIVE on the sector. We remain cautious about the outlook due to ongoing intense competition and normalizing glove demand, leading to a continuous surplus despite industry consolidation. As such, we believe that the demand-supply dynamic is unlikely to return to normal at least in the next 1 year. While the industry has started hiking ASP, we are still cautious as customers could easily shift to other glovemakers offering more competitive prices, resulting in a substantial drop in sales volume. Therefore, we do not anticipate significant price hikes ahead, and we expect glovemakers to bear partial costs, leading to margin compression. Also, Malaysian glovemakers are expected to continue experiencing losses in CY23 due to the ongoing oversupply and high production cost per unit. Thus, we maintain NEGATIVE stance on gloves sector.

Chart 60: Raw Material Price Trend (USD/kg)



Source: Bloomberg, MIDFR

Chart 61: Natural Gas Price Trend



Source: Bloomberg, MIDFR

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R BF	DPS				Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22						High (RM)	Low (RM)	
	5.4	2.0	3.0	3.0	2.0	3.1	3.1	0.33	3.01	17.16	3.53	4.93	1,074.2	1,052.7	1.36	0.80
	5.2	0.0	1.0	1.0	0.0	3.8	3.8	0.29	0.93	7.02	1.74	4.73	542.8	143.8	0.35	0.25
6	14.2	12.0	50.0	12.0	2.7	11.2	2.7	1.07	4.18	16.60	4.02	7.94	2,661.4	11,869.9	4.46	3.03
4	16.3	6.0	6.0	6.0	4.0	4.0	4.0	0.56	2.70	3.46	0.77	1.44	3,509.5	5,264.2	1.83	1.47
6	14.6	6.0	6.0	6.0	4.4	4.4	4.4	0.98	1.39	6.51	4.57	5.69	288.7	392.7	1.51	1.28
7	19.0	1.0	1.0	1.0	3.3	3.3	3.3	0.30	1.02	2.12	0.74	1.50	4,467.5	1,340.3	0.37	0.28
7	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.36	1.76	3.06	0.82	1.56	727.0	458.0	0.81	0.40
9	8.4	10.0	6.0	6.0	5.8	3.5	3.5	0.71	2.42	1.15	0.86	1.27	165.9	285.3	2.36	1.62
5	12.7	5.5	6.0	6.0	3.5	3.8	3.8	2.65	0.60	6.53	6.30	17.15	1,289.4	2,037.2	1.79	1.41
3	7.7	0.5	0.5	0.5	1.2	1.2	1.2	0.18	2.21	2.95	0.74	1.58	1,417.2	574.0	0.49	0.34
0	12.2	2.5	3.8	4.4	2.7	4.1	4.8	0.77	1.20	3.00	1.00	4.14	10,964.1	10,141.8	1.00	0.53
6	10.9	14.0	14.0	14.0	5.3	5.3	5.3	1.02	2.61	9.69	2.57	6.84	9,179.0	24,324.2	3.24	2.32
1	35.3	13.0	16.8	14.7	3.1	3.9	3.5	3.08	1.38	19.34	3.49	8.03	11,731.5	49,858.9	4.60	3.17
9	22.5	20.0	20.0	20.0	4.8	4.8	4.8	5.13	0.80	13.28	5.64	20.41	7,830.1	32,338.5	4.59	3.17
7	12.0	16.5	19.8	20.9	3.3	4.0	4.2	2.39	2.09	12.43	6.51	18.63	3,822.0	19,071.7	6.10	4.74
8	9.2	6.8	3.0	5.0	11.4	5.1	8.5	2.77	0.21	6.82	4.54	23.59	5,214.5	3,076.6	0.93	0.58
9	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.71	0.58	1.85	1.28	2.80	1,109.2	460.3	0.50	0.38
9	23.4	130.0	3.5	3.5	33.9	0.9	0.9	7.57	0.51	16.71	10.28	18.72	1,237.9	4,753.4	4.94	3.49
8	15.6	0.4	1.3	1.6	0.8	2.8	3.6	3.54	0.13	22.15	16.41	21.19	2,830.0	1,273.5	0.54	0.41
6	15.4	3.0	9.5	10.5	2.4	7.5	8.3	2.91	0.43	26.60	14.66	15.94	669.5	843.6	1.32	0.99
9	24.3	10.0	11.5	12.3	3.7	4.2	4.5	3.99	0.68	25.39	13.58	15.65	3,732.9	10,190.9	2.96	2.15
5	15.0	2.0	1.6	1.7	2.3	1.9	2.0	3.21	0.26	61.37	15.73	21.34	7,405.5	6,183.6	0.96	0.57
0	15.4	6.0	6.0	6.0	2.0	2.0	2.0	2.02	1.49	16.04	9.47	11.83	1,613.1	4,871.5	3.30	2.07
9	9.1	11.0	5.0	3.0	8.1	3.7	2.2	0.85	1.60	2.46	3.47	7.96	3,648.2	4,961.5	1.63	1.30
5	17.4	34.0	27.0	25.0	5.7	4.5	4.2	1.03	5.74	13.32	4.83	8.00	897.2	5,329.4	6.68	5.37
6	23.0	14.0	12.0	10.5	3.7	3.2	2.8	2.09	1.79	8.97	7.29	12.38	6,204.7	23,205.6	4.27	3.59
4	26.7	100.0	70.0	50.0	4.6	3.2	2.3	1.66	13.13	5.60	5.03	9.48	1,078.4	23,488.3	23.14	19.42
9	13.9	28.0	40.0	40.0	1.8	2.5	2.5	0.86	18.53	31.06	6.58	7.17	1,422.6	22,704.7	18.00	14.90
5	8.5	15.0	0.2	0.1	7.4	0.1	0.0	0.78	2.59	10.68	7.98	10.75	279.0	566.4	2.32	1.91
5	26.3	16.0	7.5	10.0	3.7	1.7	2.3	1.83	2.35	4.49	3.03	4.97	6,915.7	29,737.6	4.77	3.82
0	11.6	8.0	2.0	2.0	8.6	2.2	2.2	0.64	1.44	9.75	4.31	5.98	1,380.2	1,276.7	1.20	0.90
.	n.a.	53.5	0.0	1.6	27.0	0.0	0.8	1.45	1.36	-9.06	-4.09	-4.66	3,417.5	6,766.6	3.08	1.41
.	39.2	14.5	-0.8	1.4	10.9	n.a.	1.1	0.89	1.49	-2.30	-1.25	-1.39	2,551.6	3,393.7	1.62	0.92
.	101.0	1.2	0.0	0.3	1.4	0.0	0.3	1.09	0.79	-9.33	-6.41	-7.66	8,008.2	6,887.0	1.25	0.57
8	30.9	7.0	6.0	7.0	1.2	1.0	1.2	1.86	3.16	9.01	3.35	5.56	8,807.0	51,609.0	6.47	5.35
3	18.2	0.6	3.0	4.0	0.5	2.7	3.6	2.11	0.52	8.50	3.55	10.55	4,364.3	4,800.7	1.19	0.79
5	5.1	6.9	5.0	6.7	19.4	14.1	18.9	-3.26	-0.11	2.03	3.92	-31.37	1,310.2	465.1	0.71	0.22
7	11.9	4.0	5.1	5.4	3.1	4.0	4.2	0.98	1.31	3.44	2.63	7.89	1,404.0	1,811.2	1.49	1.21
8	10.7	2.0	0.0	3.5	1.1	0.0	2.0	0.46	3.84	9.96	3.95	4.23	194.1	341.6	1.98	1.68
2	17.1	60.0	65.0	70.0	2.4	2.6	2.8	2.88	8.73	9.72	10.37	14.56	366.8	9,213.5	27.90	19.70
0	10.5	2.0	2.8	3.9	3.1	4.4	6.1	3.56	0.18	11.44	17.10	25.80	800.0	508.0	0.81	0.60
3	8.2	0.0	1.5	1.8	0.0	3.1	3.7	0.87	0.56	2.03	2.78	7.08	3,650.0	1,788.5	0.61	0.44
6	10.4	0.0	1.0	1.0	0.0	1.0	1.0	0.48	2.10	1.03	0.94	1.74	703.0	703.0	1.10	0.73
1	36.5	262.0	314.6	355.0	2.0	2.4	2.7	57.07	2.29	11.20	20.99	119.13	234.5	30,696.1	140.60	127.20
1	11.1	10.0	10.7	10.2	2.6	2.8	2.7	2.48	1.53	15.64	13.81	23.15	657.9	2,500.1	4.16	2.90
5	37.5	3.5	3.5	5.1	0.7	0.7	1.0	4.90	1.09	5.54	6.54	12.01	2,433.7	13,020.1	6.09	4.96
3	17.9	10.0	0.5	2.2	7.7	0.4	1.7	0.38	3.40	0.45	0.36	0.52	194.3	252.5	1.56	1.29
7	9.6	8.3	6.7	8.2	5.4	4.4	5.4	0.99	1.54	9.62	6.94	8.45	319.3	488.5	1.79	1.24
3	7.1	0.0	7.4	8.0	0.0	4.0	4.3	0.39	4.76	17.77	0.60	5.12	2,273.9	4,229.4	2.33	1.71
7	7.0	1,850.0	22.0	23.8	550.6	6.5	7.1	0.77	4.36	24.47	1.02	10.05	1,548.1	5,201.6	3.93	3.11
9	6.6	5.0	6.0	19.1	1.4	1.7	5.3	0.66	5.48	24.02	0.88	9.57	3,306.5	11,969.7	4.25	3.42
4	7.6	10.4	13.7	14.4	5.4	7.1	7.5	0.64	3.03	15.40	0.58	7.67	2,266.5	4,374.3	2.74	1.70
5	7.9	26.0	31.2	33.8	5.0	6.0	6.5	0.85	6.13	24.19	0.97	10.18	10,665.1	55,565.2	5.90	4.80
6	9.6	55.0	66.0	72.5	2.9	3.5	3.9	1.17	16.07	51.04	1.52	12.46	2,167.7	40,753.1	21.60	18.46
2	6.7	46.0	48.8	52.9	2.6	2.8	3.0	0.75	23.22	33.21	0.97	7.69	1,145.2	19,973.1	19.96	17.00
4	10.7	58.0	61.5	65.7	6.6	7.0	7.5	1.23	7.12	26.52	0.97	10.36	12,054.1	105,353.1	9.03	8.26
6	10.4	17.0	18.3	18.6	4.4	4.7	4.8	1.47	2.64	35.33	1.44	13.82	19,410.7	75,313.5	4.72	3.78
3	6.9	40.0	41.0	43.3	7.4	7.6	8.0	0.77	6.97	27.36	1.01	10.95	4,286.3	23,146.3	5.98	5.29

Table i: MIDF RESEARCH STOCK UNIVERSE as at 23 June 2023 (cont'd)

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PER	
					FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F
FINANCE															
AEON Credit	Feb	BUY	11.18	15.00	355.3	407.5	420.4	139.2	159.6	164.7	58.7	14.7	3.2	8.0	7.0
Bursa Malaysia	Dec	BUY	6.39	7.30	226.6	246.9	266.3	28.0	30.5	32.9	-36.2	9.0	7.9	22.8	20.0
OIL & GAS															
Bumi Armada	Dec	BUY	0.47	0.83	732.4	812.0	895.0	12.4	13.7	15.1	27.1	10.7	10.2	3.8	3.4
Deleum	Dec	BUY	0.90	1.26	42.1	50.7	65.2	10.5	12.6	16.2	146.8	20.4	28.6	8.6	7.1
Dialog Group	Jun	BUY	2.09	3.28	508.0	605.9	615.5	9.0	10.7	10.9	-6.5	19.3	1.6	23.2	19.9
Gas Malaysia	Dec	BUY	2.99	4.00	389.5	443.2	517.6	30.0	34.5	40.3	57.9	15.1	16.8	10.0	8.7
MMHE	Dec	BUY	0.53	0.81	67.8	96.8	179.2	4.2	6.1	11.2	-125.1	42.7	85.1	12.4	8.7
Petronas Chemicals	Dec	NEUTRAL	6.17	7.04	6,322.0	4,759.0	4,834.0	79.0	59.5	60.4	-13.9	-24.7	1.6	7.8	10.0
Petronas Dagangan	Dec	BUY	21.40	24.52	776.6	850.4	931.4	78.2	85.6	93.8	46.7	9.5	9.5	27.4	25.0
Petronas Gas	Dec	BUY	16.74	18.43	1,645.4	2,041.8	2,135.9	83.2	103.2	107.9	-17.2	24.0	4.6	20.1	16.0
PROPERTY & REITS															
Al 'Aqar Healthcare REIT	Dec	BUY	1.26	1.38	60.1	77.0	76.0	8.2	9.2	9.1	-18.2	12.3	-1.3	15.4	13.0
Axis REIT	Dec	BUY	1.83	2.06	190.4	158.0	163.0	11.6	9.1	9.4	-15.8	-21.9	3.2	15.7	20.0
Eco World	Oct	BUY	0.81	0.87	157.2	284.0	282.0	5.3	9.6	9.6	-14.0	80.6	-0.7	15.2	8.4
Glomac	Apr	BUY	0.32	0.43	37.9	31.3	40.0	4.9	4.1	5.2	35.4	-17.2	27.7	6.5	7.8
IGB REIT	Dec	BUY	1.63	1.86	396.2	357.0	373.0	11.1	9.9	10.4	97.0	-10.1	4.5	14.8	16.0
IOI Prop	Jun	BUY	1.07	1.29	686.7	736.0	751.0	12.5	13.4	13.6	4.0	7.2	2.0	8.6	8.0
KLCCP Stapled	Dec	NEUTRAL	6.88	7.15	279.4	761.0	778.0	15.5	42.2	43.1	121.0	172.5	2.2	44.5	16.0
Mah Sing	Dec	BUY	0.62	0.78	180.1	207.0	235.0	6.5	8.5	9.7	48.1	31.2	13.5	9.5	7.2
Pavilion REIT	Dec	BUY	1.21	1.63	397.8	332.8	340.5	13.0	9.1	9.3	217.0	-30.0	2.3	9.3	13.0
S P Setia	Dec	BUY	0.52	0.71	308.1	273.0	316.0	7.6	6.7	7.7	8.1	-11.6	15.8	6.8	7.7
Sunway REIT	Dec	BUY	1.57	1.73	323.6	349.0	358.0	8.9	10.2	10.5	188.6	15.0	2.6	17.7	15.0
Sunway	Dec	NEUTRAL	1.61	1.66	676.8	599.0	616.0	10.7	12.1	12.4	-76.5	13.4	2.8	15.1	13.0
UOA Development	Dec	NEUTRAL	1.56	1.65	219.9	208.0	212.0	0.1	8.6	8.8	-99.1	9,499.8	1.9	1,733.3	18.0
TRANSPORT															
<i>- Aviation</i>															
Capital A	Dec	BUY	0.78	1.00	-2,626.4	123.8	545.1	-64.8	3.0	13.1	-18.0	-104.6	340.3	n.a.	26.0
Malaysia Airports	Dec	NEUTRAL	6.82	7.45	129.7	359.9	569.7	7.8	21.6	34.1	-115.7	175.8	58.3	87.2	31.0
<i>-Logistics</i>															
CJ Century Logistics	Dec	BUY	0.45	0.95	28.2	31.5	36.5	4.8	5.4	6.3	320.0	12.1	15.9	9.3	8.3
Swift Haulage	Dec	BUY	0.47	0.90	48.5	49.3	54.3	5.5	5.6	6.2	-26.4	2.3	10.1	8.5	8.3
Tasco	Mar	BUY	0.84	1.87	65.2	90.8	93.4	8.2	11.4	11.7	58.1	39.1	2.9	10.3	7.4
<i>- Ports</i>															
Westports	Dec	BUY	3.60	3.90	699.6	704.8	768.7	20.5	20.7	22.5	-13.4	0.7	9.1	17.5	17.0
Suria Capital	Dec	NEUTRAL	1.21	1.30	59.1	52.6	54.3	17.1	15.2	15.7	49.6	-11.1	3.2	7.1	8.0
<i>- Shipping</i>															
MISC	Dec	BUY	7.19	8.16	1,822.9	2,258.5	2,632.4	40.8	50.6	59.0	-0.5	24.0	16.6	17.6	14.0
UTILITIES															
Ranhill Utilities	Dec	BUY	0.52	0.73	95.3	46.5	45.9	7.4	3.6	3.6	183.1	-51.2	-1.3	7.0	14.0
Tenaga Nasional	Dec	NEUTRAL	9.20	10.00	3,463.3	4,693.7	4,829.7	60.4	81.1	83.5	-5.8	34.4	2.9	15.2	11.0
YTL Power	Jun	BUY	1.25	1.54	1,207.4	1,110.4	1,243.5	14.9	13.7	15.3	-909.8	-8.0	12.0	8.4	9.1
AUTO															
Bermaz Auto	Apr	BUY	2.20	3.30	155.1	303.7	310.9	13.4	26.1	26.6	15.9	95.6	2.0	16.5	8.4
MBM	Dec	BUY	3.52	4.70	280.4	244.0	244.8	71.7	62.4	62.6	63.7	-12.9	0.3	4.9	5.6
Tan Chong	Dec	NEUTRAL	1.10	0.94	-51.1	-7.1	-11.5	-7.8	-1.1	-1.8	232.2	-86.1	62.0	n.a.	n.a.
UMW Holdings	Dec	BUY	3.66	4.60	484.9	447.5	443.8	41.5	38.3	38.0	43.4	-7.7	-0.8	8.8	9.6
BUILDING MATERIAL															
<i>- Cement</i>															
Malayan Cement	Jun	BUY	2.93	3.74	83.5	131.3	126.4	6.8	10.0	9.6	702.4	46.9	-3.8	43.0	29.0
<i>- Timber</i>															
Ta Ann	Dec	NEUTRAL	3.06	3.27	314.9	160.1	127.9	71.5	36.3	29.0	-0.8	-49.2	-20.1	4.3	8.4

Source: Company, MIDFR

R BF	FY24F	DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
		FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22							High (RM)	Low (RM)
	6.8	48.5	43.5	55.8	4.3	3.9	5.0	1.23	9.11	22.18	3.67	16.14	255.3	2,854.3	14.50	10.88
	19.4	23.0	29.0	31.3	3.6	4.5	4.9	6.91	0.92	42.18	5.82	31.38	809.3	5,171.4	7.10	6.00
	3.1	0.0	0.8	1.0	0.0	1.7	2.1	0.52	0.90	33.76	6.92	15.94	5,922.7	2,783.7	0.73	0.32
	5.5	2.0	3.4	4.8	2.2	3.8	5.3	0.94	0.96	7.26	7.10	12.23	401.6	361.4	1.04	0.55
5	19.2	3.4	3.8	3.8	1.6	1.8	1.8	2.17	0.96	26.13	6.85	10.72	5,642.6	11,793.0	2.73	1.71
7	7.4	22.8	24.4	29.0	7.6	8.2	9.7	3.32	0.90	5.79	14.08	34.67	1,284.0	3,839.2	3.65	2.87
	4.7	0.0	1.6	1.8	0.0	3.0	3.4	0.48	1.09	5.86	2.88	5.47	1,600.0	840.0	0.77	0.36
4	10.2	48.0	40.0	41.0	7.8	6.5	6.6	1.28	4.80	16.44	8.59	11.98	8,000.0	49,360.0	9.37	6.07
0	22.8	62.0	75.6	84.0	2.9	3.5	3.9	3.76	5.68	2.31	7.55	14.69	993.5	21,259.9	23.62	19.55
2	15.5	72.0	113.5	124.1	4.3	6.8	7.4	2.52	6.64	33.15	10.37	15.23	1,978.7	33,124.0	17.78	15.92
7	13.9	8.1	7.2	7.2	6.4	5.7	5.7	0.98	1.28	69.22	4.12	7.93	839.6	1,057.9	1.35	1.18
2	19.5	9.8	8.0	8.2	5.3	4.4	4.5	1.16	1.57	55.39	3.71	6.14	1,741.1	3,186.1	1.98	1.78
	8.5	3.0	5.0	5.0	3.7	6.2	6.2	0.50	1.63	13.90	3.02	5.99	2,944.4	2,384.9	0.84	0.55
	6.1	1.0	1.5	1.5	3.1	4.7	4.7	0.20	1.60	9.19	1.54	2.52	767.5	245.6	0.34	0.27
4	15.7	9.9	9.1	9.5	6.0	5.6	5.9	1.51	1.08	64.16	6.71	9.22	3,594.3	5,858.6	1.78	1.54
	7.8	4.0	4.0	4.0	3.7	3.7	3.7	0.27	3.95	28.41	1.86	3.57	5,506.1	5,891.6	1.21	0.92
3	16.0	38.0	39.0	39.0	5.5	5.7	5.7	2.46	2.79	52.15	4.20	5.02	1,805.3	12,420.7	7.18	6.46
	6.4	5.7	3.4	3.9	9.2	5.5	6.3	0.41	1.49	8.93	3.24	5.77	2,427.7	1,493.0	0.66	0.49
3	13.0	8.4	7.7	7.8	6.9	6.4	6.5	0.92	1.31	58.42	5.13	8.20	3,648.9	4,415.2	1.45	1.18
	6.6	1.5	1.6	1.7	2.9	3.1	3.2	0.17	2.96	6.13	0.92	1.78	4,080.3	2,101.3	0.83	0.41
4	15.0	9.2	9.2	9.4	5.9	5.8	6.0	0.99	1.59	53.57	3.71	6.31	3,424.8	5,376.9	1.66	1.38
3	12.9	3.5	5.5	5.5	2.2	3.4	3.4	0.81	2.00	11.53	2.30	4.41	4,954.6	7,977.0	1.75	1.45
1	17.7	10.0	10.0	10.0	6.4	6.4	6.4	0.65	2.40	46.05	3.22	3.52	2,407.4	3,755.6	1.77	1.52
1	5.9	0.0	0.0	0.0	0.0	0.0	0.0	-0.58	-1.33	1.92	0.62	-1.30	4,168.5	3,230.6	0.88	0.56
5	20.0	3.9	10.0	15.0	0.6	1.5	2.2	1.74	3.92	11.51	1.85	4.85	1,668.6	11,379.5	7.54	5.40
	7.2	1.5	1.6	2.0	3.3	3.6	4.4	0.59	0.76	3.39	4.10	7.08	581.9	261.8	0.58	0.42
	7.5	2.0	1.7	1.8	4.3	3.7	3.9	0.63	0.74	7.66	3.17	7.51	880.9	409.6	0.61	0.43
	7.2	1.0	3.5	4.0	1.2	4.2	4.8	1.13	0.74	5.65	5.91	13.68	800.0	672.0	1.04	0.77
4	16.0	14.4	0.2	0.2	4.0	0.0	0.0	3.83	0.94	34.06	13.34	21.52	3,410.0	12,276.0	3.88	3.04
	7.7	1.5	4.6	4.7	1.2	3.8	3.9	0.35	3.44	17.42	3.56	4.47	345.8	418.4	1.29	0.99
2	12.2	33.0	0.4	0.4	4.6	0.1	0.1	0.86	8.37	16.29	3.60	5.90	4,463.7	32,094.3	7.61	6.53
4	14.6	0.8	3.0	3.0	1.5	5.8	5.8	0.86	0.61	2.69	1.43	4.87	1,288.6	670.1	0.66	0.35
3	11.0	46.0	41.6	42.8	5.0	4.5	4.7	0.91	10.06	9.23	2.28	7.70	5,787.2	53,242.3	10.00	7.89
	8.1	4.5	5.4	7.6	3.6	4.3	6.1	0.68	1.84	6.24	2.18	7.90	8,102.2	10,127.7	1.36	0.66
	8.3	6.3	14.5	21.4	2.8	6.6	9.7	3.37	0.65	8.56	17.09	36.19	1,167.6	2,568.7	2.39	1.67
	5.6	37.0	25.0	25.1	10.5	7.1	7.1	0.67	5.25	10.57	9.65	10.42	390.9	1,375.9	3.88	2.89
	n.a.	3.0	3.0	3.0	2.7	2.7	2.7	0.25	4.41	-0.23	-0.14	-0.25	651.9	717.1	1.25	1.02
	9.6	14.2	15.3	15.2	3.9	4.2	4.2	0.98	3.73	2.83	3.60	6.27	1,168.3	4,276.0	4.04	2.77
2	30.4	0.0	0.0	0.0	0.0	0.0	0.0	0.65	4.48	4.85	1.26	2.27	1,310.2	3,838.9	3.10	1.84
	10.5	10.0	25.0	15.0	3.3	8.2	4.9	0.76	4.02	7.32	5.73	8.22	440.5	1,347.8	6.75	3.03

Table ii: Performance of various markets in Local Currency (% change)

In Local Currency	Index point	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23*
Nikkei 225	32,781.54	-3.4%	-5.1%	-1.7%	0.6%	-9.4%	7.5%	16.9%
Taiwan Weighted	17,202.40	-2.9%	-16.2%	-9.5%	5.3%	-22.4%	12.2%	8.4%
Mumbai Sensex 30	62,979.37	0.5%	-9.5%	8.3%	5.9%	4.4%	-3.0%	6.8%
KOSPI	2,570.10	-7.4%	-15.4%	-7.6%	3.8%	-24.9%	10.8%	3.8%
Dow Jones	33,778.75	-4.6%	-11.3%	-6.7%	15.4%	-8.8%	0.4%	1.5%
Philippines Composite	6,393.55	1.1%	-14.5%	-6.7%	14.4%	-7.8%	-1.0%	-1.6%
Straits Times	3,191.60	9.1%	-9.0%	0.9%	3.9%	4.1%	0.2%	-2.1%
FBM KLCI	1,390.89	1.3%	-9.0%	-3.4%	7.2%	-4.6%	-4.9%	-2.2%
Shanghai Composite	3,197.90	-10.6%	4.5%	-11.0%	2.1%	-15.1%	5.9%	-2.3%
Jakarta Composite	6,639.73	7.4%	-2.3%	1.9%	-2.7%	4.1%	-0.7%	-2.4%
SET Index	1,505.52	2.3%	-7.5%	1.4%	5.0%	0.7%	-3.6%	-6.4%
Hang Seng	18,889.97	-6.0%	-0.6%	-21.2%	14.9%	-15.5%	3.1%	-7.4%

Source: Bloomberg
*as at 23rd June 2023

Table iii: Performance of various markets in US dollar (% change)

In US Dollar	Index point	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23*
Nikkei 225	32,781.54	-8.4%	-15.0%	-7.9%	11.1%	-20.3%	6.0%	8.4%
Mumbai Sensex 30	62,979.37	-1.3%	-12.9%	5.1%	4.3%	-5.9%	-2.4%	6.9%
Taiwan Weighted	17,202.40	-6.1%	-19.3%	-15.2%	8.8%	-30.1%	13.1%	6.8%
KOSPI	2,570.10	-9.1%	-20.3%	-17.2%	18.1%	-29.2%	7.3%	3.5%
Dow Jones	33,778.75	-4.6%	-11.3%	-6.7%	15.4%	-8.8%	0.4%	1.5%
Jakarta Composite	6,639.73	6.8%	-6.0%	-0.3%	-4.3%	-4.2%	2.9%	-2.7%
Straits Times	3,191.60	8.6%	-11.3%	-2.4%	11.4%	4.8%	0.9%	-3.7%
Philippines Composite	6,393.55	-0.3%	-19.4%	-12.8%	20.6%	-15.5%	1.5%	-4.3%
Shanghai Composite	3,197.90	-10.4%	-1.1%	-16.2%	5.4%	-21.8%	6.4%	-6.5%
Hang Seng	18,889.97	-6.4%	-0.8%	-21.2%	15.6%	-15.5%	2.5%	-7.1%
FBM KLCI	1,390.89	0.0%	-13.0%	-8.3%	12.9%	-9.9%	-5.0%	-7.8%
SET Index	1,505.52	2.5%	-12.8%	-5.4%	14.6%	-3.2%	-2.0%	-9.1%

Source: Bloomberg
*as at 23rd June 2023

APPENDIX

Table iv: Performance by sectors (% change)

	Index point	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23*
Utilities	959.10	-1.7%	-3.1%	-0.1%	5.7%	0.6%	4.0%	5.8%
Construction	162.21	4.8%	-3.7%	-1.6%	-0.1%	-0.8%	4.8%	1.5%
Transport & Logistics	907.87	-0.9%	-5.3%	-3.7%	10.8%	0.2%	4.4%	0.8%
Property	688.55	1.8%	-11.1%	-3.8%	4.6%	-8.9%	7.3%	0.1%
Plantation	6,718.44	21.4%	-13.2%	-6.2%	9.4%	8.1%	-4.8%	-0.3%
Financial Services	15,444.85	7.8%	-4.7%	-0.4%	3.6%	6.0%	-4.8%	-1.7%
Technology	61.57	-19.9%	-19.2%	-2.6%	4.2%	-34.3%	-1.3%	-1.7%
Telecommunications & Media	584.77	0.8%	-14.1%	-0.4%	6.3%	-8.3%	1.3%	-2.1%
Reits	773.71	-0.5%	1.6%	-4.2%	0.8%	-2.4%	3.4%	-3.2%
Healthcare	1,691.45	-9.3%	-20.9%	-11.9%	17.9%	-25.5%	1.3%	-4.1%
Consumer Products & Services	547.41	0.5%	-4.0%	-1.2%	6.4%	1.5%	-2.6%	-4.2%
Energy	785.08	1.9%	-3.3%	-3.4%	15.8%	10.3%	7.8%	-6.2%
Industrial Products & Services	158.87	1.3%	-11.6%	-6.5%	7.0%	-10.3%	-5.9%	-7.1%
FBM 100	9,933.72	0.5%	-9.2%	-3.2%	7.1%	-5.4%	-2.9%	-1.8%
FBM Emas	10,232.18	0.7%	-9.5%	-3.2%	7.3%	-5.4%	-2.6%	-1.8%
FBM Small Cap	14,945.18	3.4%	-12.6%	-3.6%	8.8%	-5.3%	2.2%	-2.1%
FBM KLCI	1,390.89	1.3%	-9.0%	-3.4%	7.2%	-4.6%	-4.9%	-2.2%

Source: Bloomberg
*as at 23rd June 2023

Table v: Regional earnings and valuations

	EPS Growth (% change)					PER				
	2022	2023 (est as of)		2024 (f'cast as of)		2022	2023 (est as of)		2024 (f'cast as of)	
		Mar-23	Jun-23	Mar-23	Jun-23		Mar-23	Jun-23	Mar-23	Jun-23
Nikkei 225	-16.0%	14.1%	16.4%	5.1%	10.7%	22.2	16.6	19.1	15.8	17.2
Taiwan Weighted	-8.4%	-15.9%	-23.6%	20.3%	24.4%	14.2	15.6	18.6	13.0	15.0
Hang Seng	5.3%	-24.7%	-27.7%	9.9%	10.1%	6.9	9.8	9.5	8.9	8.6
FBM KLCI	12.3%	-6.8%	-10.0%	5.5%	7.2%	11.9	13.0	13.2	12.3	12.3
Jakarta Comp.	70.4%	498.5%	467.4%	29.5%	33.5%	12.9	2.2	2.3	1.7	1.7
SET Index	6.7%	1.5%	-7.0%	10.5%	13.1%	14.8	15.6	15.9	14.1	14.1
Philippines Comp.	27.0%	16.6%	19.4%	12.3%	12.3%	14.8	12.9	12.4	11.5	11.1
Shanghai Comp.	-1.7%	33.1%	28.3%	14.2%	14.3%	14.2	10.9	11.1	9.6	9.7
Straits Times	22.7%	9.9%	17.2%	2.2%	-5.4%	11.5	10.6	9.8	10.4	10.3
Mumbai Sensex 30	14.2%	1.5%	18.9%	20.5%	17.0%	23.8	21.8	20.0	18.1	17.1
DJIA	-5.8%	8.8%	8.9%	13.5%	13.7%	19.6	17.6	18.0	15.5	15.8

Source: Bloomberg
*as at 23rd June 2023

Table vi: Performance of MIDFR's stocks under coverage

OUT-PERFORMERS	Share Price (RM)		% Change	TP
	23/6/2023	31/3/2023		
YTL Corp	0.93	0.62	50.4%	1.05
YTL Power	1.25	0.91	37.8%	1.54
Pharmaniaga	0.36	0.29	24.6%	0.48
MSM	1.00	0.82	22.7%	0.90
Malayan Cement	2.93	2.45	19.6%	3.74
Ranhill Utilities	0.52	0.46	12.8%	0.73
Inari Amertron	2.73	2.45	11.5%	3.06
Eco World	0.81	0.74	10.2%	0.87
Globetronics	1.26	1.15	9.6%	0.99
Gamuda	4.46	4.08	9.3%	5.04
My E.G.	0.84	0.77	9.2%	1.00
Datasonic	0.45	0.41	9.0%	0.57
Ta Ann	3.22	3.07	5.1%	3.27
KL Kepong	21.78	20.78	4.8%	26.00
MBM	3.52	3.36	4.7%	4.70
Mah Sing	0.62	0.59	4.2%	0.78
Hartalega	1.98	1.90	4.2%	1.75
IHH Healthcare	5.86	5.66	3.6%	6.57
Sunway	1.61	1.56	3.5%	1.66
Tasco	0.84	0.81	3.4%	1.87
Glomac	0.32	0.31	3.2%	0.43
KKB Engineering	1.36	1.32	2.8%	1.58
Petronas Gas	16.74	16.32	2.6%	18.43
Media Prima	0.42	0.41	2.5%	0.30
AEON Co.	1.29	1.26	2.3%	1.50
Sime Darby Plantation	4.30	4.21	2.1%	4.10
Malayan Banking	8.74	8.57	2.0%	9.28
Telekom Malaysia	4.99	4.90	1.8%	5.17
Alliance Bank	3.36	3.30	1.8%	4.00
KLCCP Stapled	6.88	6.77	1.7%	7.15
Kossan	1.33	1.31	1.5%	0.90
RHB Bank	5.40	5.34	1.2%	7.58
Malaysia Airports	6.82	6.75	1.0%	7.45
Petronas Dagangan	21.40	21.19	1.0%	24.52
Maxis	4.13	4.09	1.0%	4.08
Capital A	0.78	0.77	0.6%	1.00
Asia File	1.76	1.75	0.6%	1.55
MISC	7.19	7.15	0.6%	8.16
Genting Plantations	5.94	5.91	0.5%	6.16
Bursa Malaysia	6.39	6.39	0.0%	7.30
Deleum	0.90	0.90	0.0%	1.26
Swift Haulage	0.47	0.47	0.0%	0.90
Westports	3.60	3.60	0.0%	3.90
AMMB	3.62	3.62	-0.1%	4.03
UOA Development	1.56	1.56	-0.1%	1.65
Tenaga Nasional	9.20	9.23	-0.3%	10.00
Suria Capital	1.21	1.22	-0.8%	1.30
Spritzer	1.53	1.55	-1.0%	2.70
CelcomDigi	4.25	4.31	-1.3%	4.87
Axis REIT	1.83	1.86	-1.6%	2.06
IOI Corp	3.74	3.81	-1.8%	4.89
Sunway REIT	1.57	1.60	-1.9%	1.73
CIMB	5.21	5.31	-1.9%	5.92
Unisem	3.02	3.08	-1.9%	3.08
PPB Group	15.96	16.27	-1.9%	19.00
AEON Credit	11.18	11.42	-2.1%	15.00
UMW Holdings	3.66	3.74	-2.1%	4.60
KPJ	1.10	1.12	-2.1%	1.48

Source : MIDF, Bloomberg (as at 23rd June 2023)

Table vi: Performance of MIDFR's stocks under coverage (Cont'd)

UNDER-PERFORMERS	Share Price (RM)		% Change	TP
	26/6/2023	31/3/2023		
Bumi Armada	47.0%	0.63	-25.4%	0.83
Gabungan AQRS	26.5%	0.32	-15.9%	0.37
MMHE	52.5%	0.62	-15.3%	0.81
Astro	59.0%	0.70	-15.1%	0.62
S P Setia	51.5%	0.60	-13.4%	0.71
Petronas Chemicals	617.0%	7.07	-12.7%	7.04
Axiata	265.0%	3.01	-12.0%	2.62
Muhibbah	63.0%	0.72	-11.9%	0.61
Cahaya Mata Sarawak	98.0%	1.11	-11.6%	1.50
D & O Green Tech	384.0%	4.32	-11.1%	3.91
Dialog Group	2.09	2.35	-10.9%	3.28
MRCB	0.30	0.33	-10.2%	0.42
Hup Seng	0.64	0.70	-9.2%	0.88
Bank Islam	1.93	2.12	-8.8%	1.46
Top Glove	0.86	0.94	-8.5%	0.50
Pintaras Jaya	1.72	1.88	-8.4%	1.88
FGV	1.36	1.48	-8.1%	1.38
QL Resources	5.35	5.81	-7.9%	6.75
Pavilion REIT	1.21	1.30	-7.1%	1.63
Hong Leong Bank	18.80	20.22	-7.0%	24.91
TSH Resources	0.93	0.99	-6.8%	1.01
IJM Corp	1.50	1.60	-6.3%	1.93
CJ Century Logistics	0.45	0.48	-5.3%	0.95
Sunway Construction	1.58	1.66	-4.8%	2.09
IGB REIT	1.63	1.71	-4.8%	1.86
WCT	0.41	0.43	-4.7%	0.52
Sarawak Plantation	2.03	2.12	-4.2%	2.20
Al-Aqar Healthcare	1.26	1.31	-3.8%	1.38
Padini	3.80	3.95	-3.8%	4.40
Nestlé	130.90	135.88	-3.7%	139.50
Leong Hup	0.49	0.51	-3.5%	0.50
Affin Bank	1.86	1.93	-3.5%	1.82
Tan Chong	1.10	1.14	-3.4%	0.94
Rhong Khen International	1.30	1.34	-3.1%	1.30
Hong Leong Financial	17.44	17.98	-3.0%	22.79
Public Bank	3.88	4.00	-3.0%	4.76
Bermaz Auto	2.20	2.27	-2.9%	3.30
Gas Malaysia	2.99	3.07	-2.7%	4.00
IOI Prop	1.07	1.10	-2.7%	1.29
Fraser & Neave	25.12	25.74	-2.4%	33.50
FBM KLCI	1,396.60	1,495.49	-6.6%	1,540.00

Source : MIDF, Bloomberg (as at 23rd June 2023)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.



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