RINGGIT GETTING SOME APPRECIATION

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Impact of recent Ringgit appreciation

KEY HIGHLIGHTS

- **Ringgit has appreciated recently moving closer to RM4.60 ahead of the FOMC meeting at end-Jul-24 as the US dollar is expected to weaken as Fed is moving closer to cutting the fed funds rate.**
- **We opine the positive growth fundamentals will also support for the Ringgit to continue appreciating. Sustained current account surplus is another factor.**
- **The appreciation of Ringgit will help to ease concerns of higher import costs adding to inflationary and cost pressures to both consumers and the businesses.**
- **Our MIDF Trade Weighted Ringgit Index (TWRI) stood at 87.76 as at end Jul-24, marking the highest level since Aug-23. We believe the recent appreciation is driven not only by expectations of a Fed rate cut but also by strong economic fundamentals.**
- **We expect the recent appreciation of Ringgit to continue on the back of strong expectations for Fed to begin embarking on rate cuts from the final quarter of 2024. We are sanguine that the Ringgit will appreciate towards our year-end target of RM4.43.**
- **Maintain FBM KLCI 2024 baseline target of 1,750 points.**
- **Sectors to see positive impacts are: Automotive, Consumer (Staples), Healthcare, Oil & Gas (Downstream), Power and Transportation.**

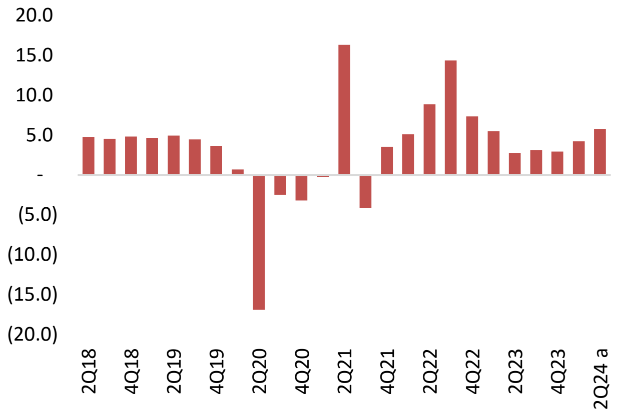
ECONOMIC COMMENTARY AND ANALYSIS

Recent appreciation of Ringgit influenced by Fed's rate cut expectations. Ringgit has appreciated recently moving closer to RM4.60 ahead of the FOMC meeting at end-Jul-24. The recent appreciation made Ringgit one of the best performing regional currencies as the US dollar is expected to weaken as Fed is moving closer to cutting the fed funds rate. We foresee the Ringgit to continue gaining from the narrowing interest differential as BNM is expected to keep OPR unchanged (as inflation remains under control in Malaysia).

Growth fundamentals are also supportive of Ringgit. We opine the growth fundamentals will also support the Ringgit to continue appreciating. The advance estimate shows the growth momentum continued to accelerate in 2QCY24, as Malaysia's GDP grew faster at +5.8%yoy (1QCY24: +4.2%yoy) with stronger growth recorded in almost all major economic sectors. The pace of growth was +1%-point faster than ours and market expectations. There is a possibility that the growth momentum will continue into 2HCY24 as shown by the continued expansion in the Leading Index, which increased by +3.8%yoy in May-24 (Apr-24: +4.5%yoy; 1QCY24: +2.6%yoy). On that note, we foresee a sustained rise in domestic demand, in addition to the recovery in external trade, will support Malaysia's economy to grow stronger in 2024. As we will be reviewing our 2024 growth projection when the full-quarter data for 2QCY24 is published, we do not rule out a more resilient growth in the domestic economic activities could push Malaysia's GDP growth to more than +5.0%, higher than our existing forecast of +4.7%.

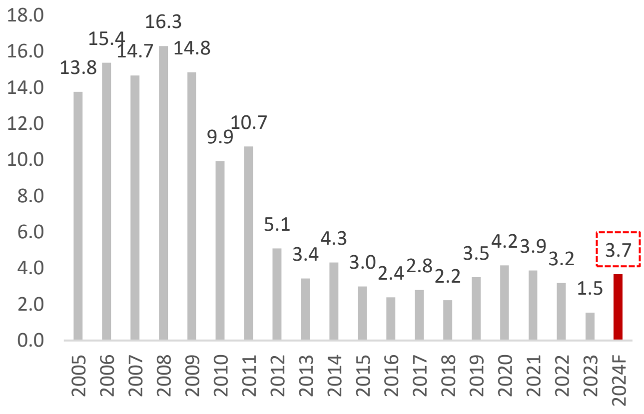
The current account surplus will also support Ringgit. A sustained current account surplus is another factor that will support the Ringgit to appreciate. This is because Malaysia remains an exporting nation, as demand for Ringgit will continue to increase as the size of exports continue to exceed imports. In 2QCY24, the balance of goods trade remained in surplus at +RM32b (1QCY24: +RM34.1b), although the size of surplus was -42.7%yoy lower than +RM55.8b in 2QCY23. As exports is expected to continue improving in 2HCY24 on the back of growing external demand and improving E&E shipments, we expect Malaysia's current account balance will remain in surplus. Moreover, following further improvement in tourism sector activities, we believe further services exports recovery will also underpin the sustained surplus in current account.

Chart 1: Malaysia's Quarterly Real GDP Growth (YoY%)



Source: DOSM, MIDFR

Chart 2: Current Account Balance (% of GDP)



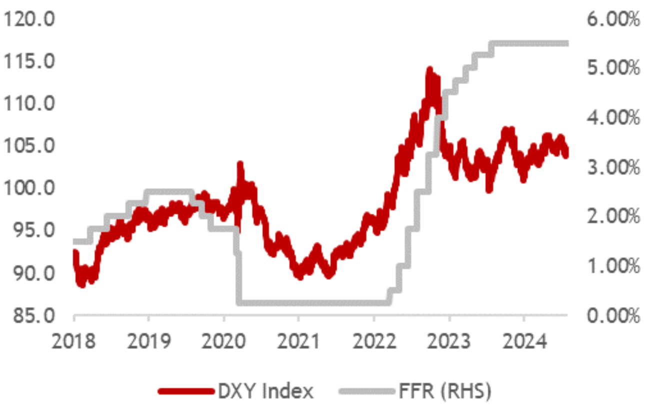
Source: DOSM, MIDFR

Positive impact of Ringgit appreciation on the economy. The appreciation of the Ringgit, on one hand, reflects the more positive view on the broader economy on the back of planned policy changes by the government for its commitment to improve fiscal position. Rating agencies also have reaffirmed of Malaysia's sovereign ratings, with stable outlook suggests limited concern on the stability of existing credit ratings in view of more resilient economic growth, policy stability and sustained current account surplus. On the other hand, the appreciation of the Ringgit will help to ease concerns of higher import costs adding to inflationary and cost pressures to both consumers and the businesses. Although prices may not decline from the recent highs, at least the stronger Ringgit will contain price pressures for the food and agriculture sectors due to the reliance on imported food sources and fertilizers.

RINGGIT ON TRACK TO APPRECIATE FURTHER

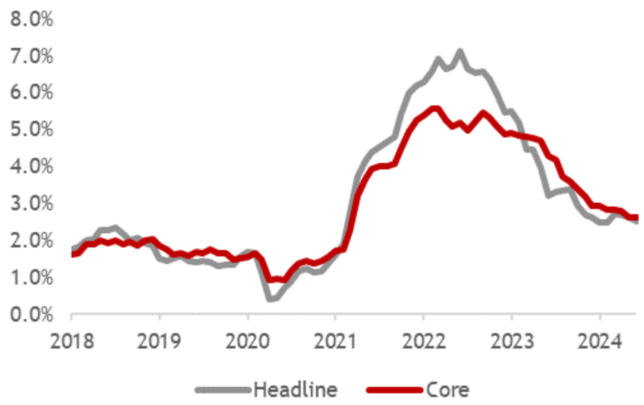
The USD strength persists, though signs of subsiding are evident. The steadily high fed funds rate (FFR) continues to underpin the dollar's strength, with the DXY Dollar Index rising by +2.7%ytd to 104.10 (as of end-Jul-24). However, this remains significantly lower than the year high of 106.26 recorded in mid-Apr-24 as a result in market pushing back expectations for Fed rate cuts to latter period. The broad moderation of US inflation, cooling labor market, and overall softer economic outlook, however, signal a compelling case for the Fed to begin easing interest rates in 2024. As of Jun-24, the core PCE inflation, the Fed's preferred inflation gauge, stood at +2.6%yoy, the lowest since Mar-21. In addition, the labor market softened as the jobless rate increased to +4.1%, the highest level since Nov-21. The ratio of unemployment to job openings soared to 0.8, higher than its all-time low of 0.4 in Apr-22. Despite faster-than-expected GDP growth in 2QCY24 at annualized +2.8%qoq (1QCY24: +1.4%qoq), the Conference Board (CB) Leading Index contracted by -0.2%mom in Jun-24, declining in 5 out of the first 6 months this year. Looking at the market view, there is overwhelming expectation for the Fed to start easing its policy rate at the Sep-24 FOMC meeting. We foresee the dollar strength will begin to turn around as demand for the dollar fall as Fed cuts its interest rate.

Chart 3: FFR (upper bound) vs DXY Dollar Index



Source: Bloomberg, MIDFR

Chart 4: PCE and Core PCE Inflation (%)

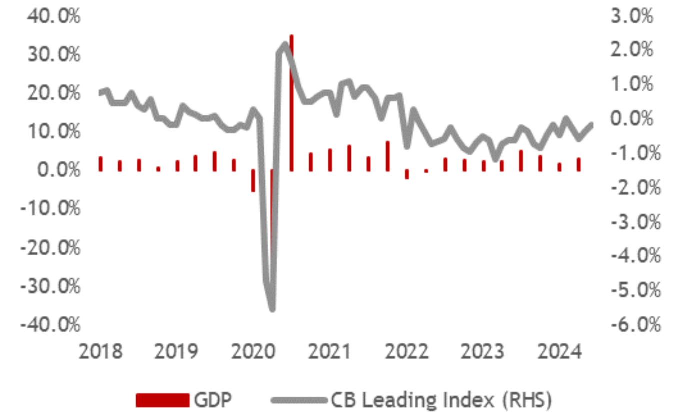


Source: Macrobond, MIDFR

Chart 5: Unemployment Rate vs Unemployed/Job Openings Ratio

Source: Macrobond, MIDFR

Chart 6: US GDP Growth (Annualized QoQ) vs CB Leading Index (MoM)



Source: Macrobond, MIDFR

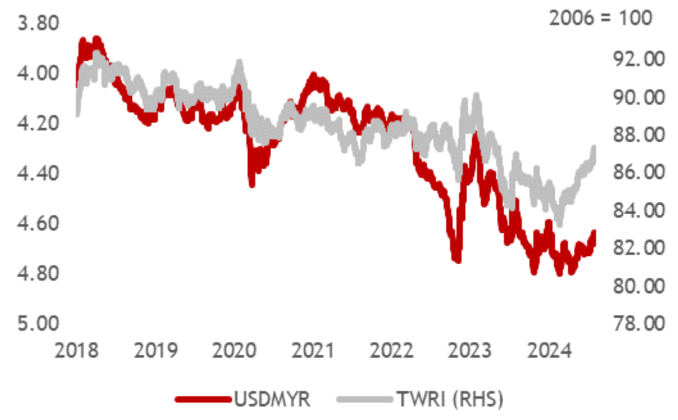
The Ringgit and several regional currencies are poised for correction. The Ringgit erased its losses and appreciated slightly by +0.1%ytd (as of end-Jul-24) and remains the best-performing regional currency that we monitor. This marks a significant rebound from being one of the worst performers in 2023, indicating an encouraging recovery from its oversold position last year. In contrast, the Indonesian Rupiah has been among the worst performers this year, plunging -5.3%ytd (as of end-Jul-24) after being the best-performing regional currency last year. The YTD movements of the Ringgit and other regional currencies suggest corrections from oversold or overbought positions. The broad strength of the USD (because of the delayed rate cut expectations) has led to the depreciation of almost all major currencies of advanced economies against the greenback. Only the Pound (+1.0%ytd) has gained against the USD, while the Euro (-1.9%ytd) has reversed last year's gains. Taiwan new dollar (-6.8%ytd) overtook Japanese Yen (-6.0%ytd) as the worst-performing currency we track following BOJ surprise move to hike its interest rate.

Table 1: End Period of USD Against Selected Currencies, YTD Change and 2023/2022 Change

	2020	2021	2022	2023	Jul-24	YTD Change	2023/2022
DXY	89.94	95.67	103.52	101.33	104.10	+2.7%	-2.1%
USDJPY	1.367	1.353	1.208	1.273	1.286	+1.0%	+5.4%
USDCAD	1.322	1.349	1.340	1.320	1.336	-1.2%	+1.5%
USDAUD	1.222	1.137	1.071	1.104	1.083	-1.9%	+3.1%
EURUSD	29.96	33.21	34.61	34.26	35.54	-3.6%	+1.0%
GBPUSD	1.300	1.377	1.468	1.468	1.529	-4.0%	-0.0%
USDINR	1.273	1.264	1.355	1.324	1.381	-4.1%	+2.3%
USDMYR	4.020	4.167	4.405	4.594	4.591	+0.1%	-4.1%
USDSGD	73.07	74.34	82.74	83.21	83.73	-0.6%	-0.6%
USDCNY	6.527	6.356	6.899	7.100	7.227	-1.8%	-2.8%
USDVND	23,098	22,826	23,633	24,269	25,264	-3.9%	-2.6%
USDTHB	48.03	50.99	55.74	55.39	58.38	-5.1%	+0.6%
USDPHP	14,050	14,263	15,573	15,399	16,260	-5.3%	+1.1%
USDIDR	1,086.5	1,189.9	1,260.3	1,291.1	1,371.2	-5.8%	-2.4%
USDKRW	103.25	115.08	131.12	141.04	149.98	-6.0%	-7.0%
USDTWD	28.09	27.67	30.73	30.58	32.83	-6.8%	+0.5%

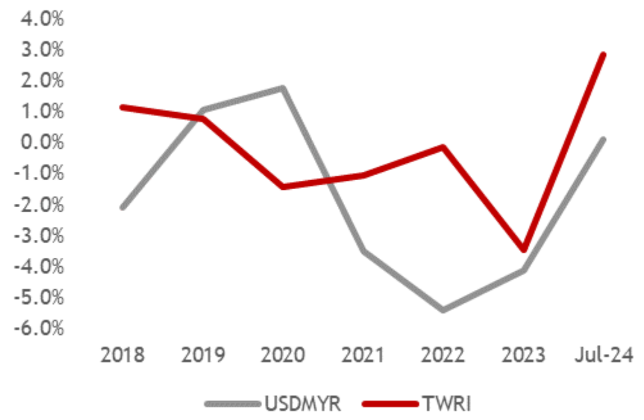
The Ringgit has demonstrated significant strength against the currencies of our major trading partners. Our MIDF Trade Weighted Ringgit Index (TWRI) stood at 87.76 as of end-Jul-24, marking the highest level since Aug-23. Against the USD, the ringgit has depreciated against only 5 out of 16 currencies in the index, showing notable appreciation against the Japanese yen (+6.1%ytd), South Korean won (+6.3%ytd), and Taiwan new dollar (+6.8%ytd). The reduced reliance on the USD in assessing the ringgit's performance via TWRI indicates that the recent appreciation is driven not only by expectations of a Fed rate cut but also by strong economic fundamentals.

Chart 7: TWRI vs USDMYR



Source: Bloomberg, MIDFR

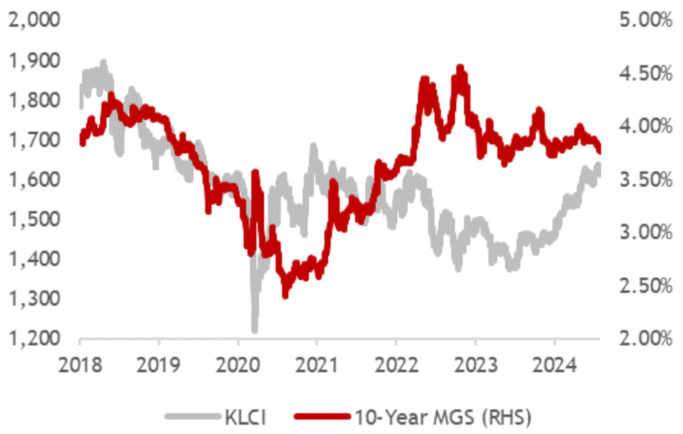
Chart 8: MIDF TWRI vs USDMYR (% Annual Change)



Source: Bloomberg, MIDFR

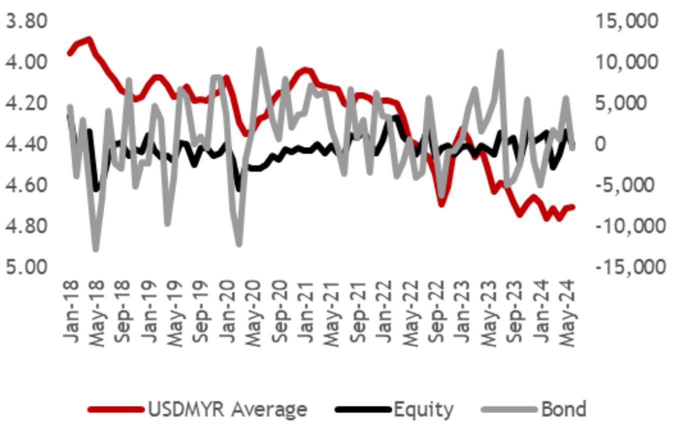
Ringgit is expected to appreciate on returning foreign fund flow. As of 1HCY24, foreign inflow into both domestic equity and bond markets totaled RM50.9m, with recent indications pointing to further inflows, particularly into the bond market. The domestic bond market experienced an inflow of RM874.6m in the first six months of 2024, offset by an -RM823.6m outflow from the equity market. Recent data suggests a potential reversal of fund flow into the equity market in 2HCY24, with the equity market registering a net foreign inflow of RM1.3b in Jul-24 (as of end-Jul-24). Similarly, the steep decline in the 10-year MGS yield in Jul-24 indicated further inflow into the domestic bond market. We anticipate a more aggressive inflow into Malaysia's equity and bond markets due to rising appetite for riskier assets, once the Fed starts easing its interest rates, increasing the demand for ringgit.

Chart 9: USDMYR Vs Foreign Fund Flow



Source: Bloomberg, MIDFR

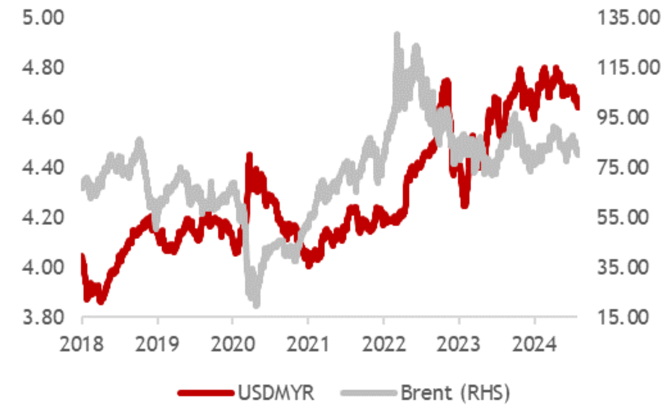
Chart 10: KLCI vs 10-Year MGS Yield



Source: Bloomberg, MIDFR

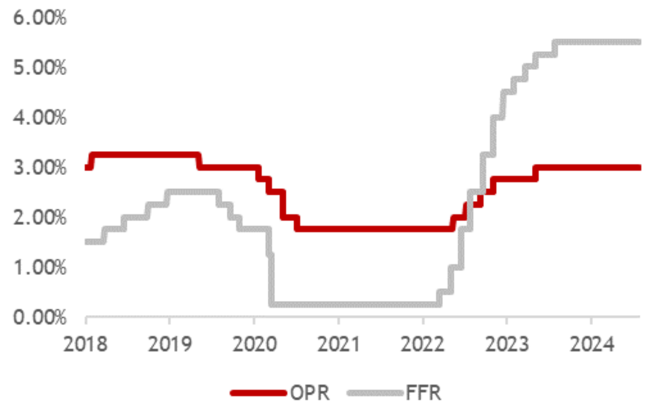
Commodity prices are expected to have minimal impact on the Ringgit's performance. From Jul-05 to 2019, the correlation between Brent crude oil prices and the USDMYR trajectory stood at -0.80, indicating a strong positive relationship between the Ringgit's performance and oil prices. However, in the post-pandemic period (specifically between Jan-22 to Jul-24), the correlation dropped to -0.44, indicating a diminished significance of Brent crude oil price movement on the Ringgit. On the other hand, this signals the Ringgit's performance is currently more influenced by financial market forces, particularly changes in the US interest rates, rather than Malaysia's economic fundamentals. On that note, once the Fed starts easing its policy rate, we foresee the narrowing FFR-OPR differential will be a key factor that will support Ringgit to appreciate, given its relatively higher correlation of 0.77 with Ringgit movement.

Chart 11: USDMYR Vs Brent Crude Oil Prices



Source: Bloomberg, MIDFR

Chart 12: OPR vs FFR



Source: Bloomberg, MIDFR

The Ringgit is on track to end the year stronger at RM4.43, driving TWRI towards our 91.50 target. We expect the recent appreciation of the Ringgit to continue on the back of strong expectations for Fed to begin embarking on rate cuts from the final quarter of 2024. The more dovish tone by the Fed after its Jul-24 FOMC meeting has bolstered expectations that the Fed is approaching closer to its first rate cut. The smaller FFR-OPR differential is expected to promote greater foreign demand for Malaysia's equities and bonds, which will support for further strengthening of Ringgit. Hence, we are sanguine that the Ringgit will appreciate towards our **year-end target of RM4.43** (end-2023: RM4.59). However, due to the prolonged strength of the USD, the Ringgit is expected to average relatively weaker in 2024 at RM4.64 (2023: RM4.56). The weakness against the dollar has been the most significant drag on TWRI in 2024. With a rebound against the USD in sight, we foresee the Ringgit's strengthening against the dollar as the last piece needed for our TWRI to rise further towards our year-end target of 91.50.

TECHNICAL POINT OF VIEW

Ringgit made a Golden Cross. On USD/MYR, the 50-day SMA crossed below the 200-day SMA on 5 July this year. On that score, the Ringgit turned bullish as it attained a Golden Cross. From that point on, the USD/MYR fell circa 1,000 pips from 4.71 to 4.61 currently.

Chart 13: Ringgit attained a Golden Cross recently

Source: TradingView, MIDFR

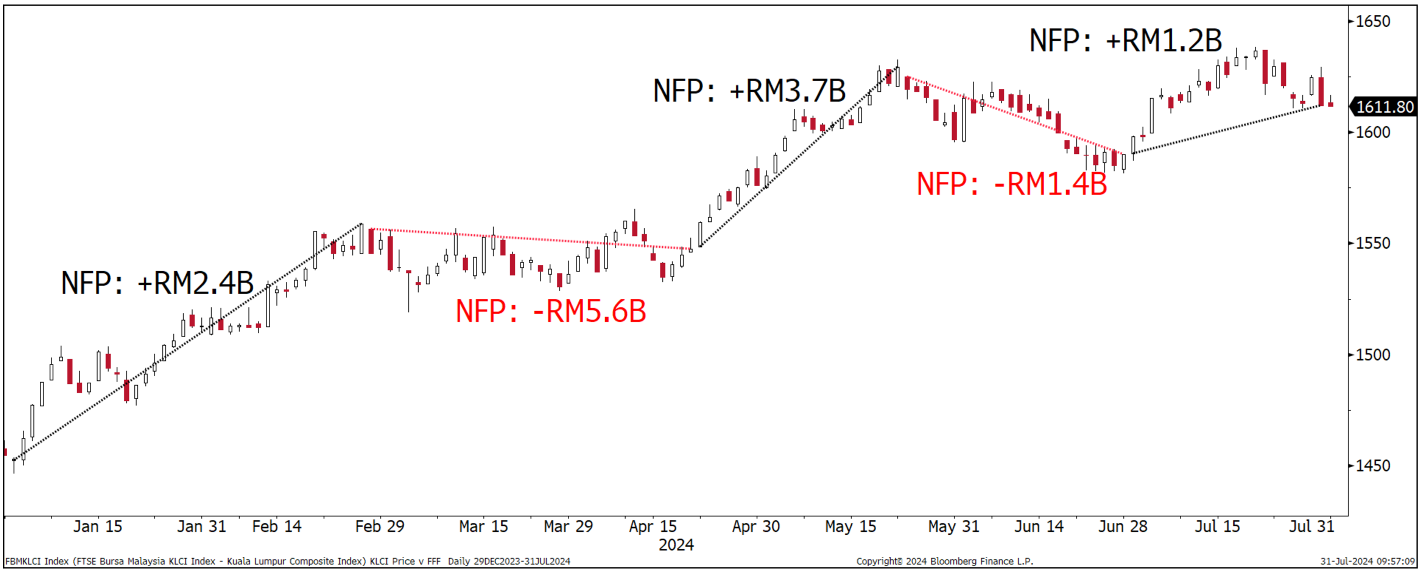
Expect USD/MYR to trend lower in 2H24. The Golden Cross on Ringgit marks a trend reversal of the USD/MYR. Going forward, we expect the USD/MYR to trend lower in the second half of this year with a target range of between 4.45 and 4.40. Moreover, any intermittent rebound in USD/MYR should be seen as a selling opportunity (i.e. short USD, long MYR).

IMPACT OF A RINGGIT APPRECIATION

STRATEGY

Positive market momentum driven by foreign funds. The foreign funds arguably played a major role in generating positive momentum which drove up the local equity market thus far this year. From early January to 27 February, the local equity market recorded net foreign purchases of +RM2.4b while the FBM KLCI rose 104 points. Moreover, from 22 April to 23 May, the local equity market recorded net foreign purchases of +RM3.7b and the FBM KLCI rose 82 points. Additionally, thus far in the month of July, the local equity market recorded net foreign purchases of +RM1.2b and the FBM KLCI rose 22 points.

Chart 14: FBM KLCI & Net Foreign Purchases (NFP) of local equities



Source: Bursa Malaysia, MIDFR

Lower Fed rate in 2H24… Recent economic data pointed to tapering price pressure in the US economy. At its recent meeting, the FOMC alluded to an imminent rate cut. Meanwhile, the interest rate futures market is anticipating 3 rate cuts this year, commencing as early as September.

…shall favour Ringgit… As the BNM is expected to keep the OPR unchanged in 2024, the interest rate differential between Ringgit and US Dollar is anticipated to decline later this year. A narrower interest rate differential is among the reasons why we have been anticipating the Ringgit to strengthen vis-à-vis US Dollar in 2024 with USD/MYR forecasted to close the year at 4.43 level.

…and attract a more sustained inflow of foreign funds. We foresee a stronger Ringgit while the US Dollar progressively loses its upward momentum in anticipation of and in reaction to Fed rate cut(s). Empirically, a stronger Ringgit would attract inflow of foreign funds into our equity market, and vice versa. Hence, we can expect to see a more sustained net inflow of foreign funds into our equity market in the second half of this year attracted to strengthening Ringgit and underpinned by Malaysia's favourable macro and corporate earnings prospects.

Maintain FBM KLCI 2024 baseline target of 1,750 points. Going forward, we see a further upside to FBM KLCI premised on the aforesaid factors as well as its undemanding valuation. At the current juncture, the FBM KLCI is trading at

PER24 of 14.8x, which is below its historical range of between 16x and 17x. We maintain our **FBM KLCI 2024 baseline target of 1,750 points or PER24 of 16.0x.**

EQUITIES

Different sectors, different impacts. As with any factors, different sectors will face different impacts to an appreciation of the Ringgit. However, we should note that this impact to earnings are the impact coming from currencies only. There could be other factors that are stronger which may neutralize the impact of a MYR/USD appreciation. We divided the sectors based on whether a stronger Ringgit will have a positive, neutral or negative impact; as below:

POSITIVE IMPACT

Sector	Comments
Automotive	A stronger MYR generally benefits the auto sector by reducing the cost of imported components. Non-national car manufacturers are particularly advantaged, as they depend heavily on imported CKD kits and CBUs. In contrast, national car makers are less impacted by currency fluctuations due to their high localisation rate, which ranges from 80% to 95% for their models. Among the companies we cover, **Tan Chong Motor (NEUTRAL, TP: RM0.91)** is the primary beneficiary of a stronger MYR against the USD. A 5% shift in our USDMYR assumption affects FY24F earnings by approximately 23%, a significant impact given that Tan Chong is near break-even profit levels. Meanwhile, **Bermaz Auto (BUY, RM3.50)** benefits from a stronger MYR against the JPY, as it deals with JPY-denominated CBU imports. A 5% change in our JPYMYR assumption influences Bermaz Auto's FY25F (FYE April) earnings by 0.6%.
Consumer (Staples)	Local sales in MYR are expected to remain stable, but export revenue in USD will translate to lower MYR revenue. The primary positive factor for the companies in this sector is the reduction in costs for imported raw materials, ingredients, packaging, and equipment, which can improve profitability. While there may be some revenue pressures for companies with significant export operations or USD-denominated revenue, these are generally outweighed by the cost savings from a stronger MYR. Most companies under our coverage – namely **Hup Seng (BUY, TP:RM0.99), Spritzer (NEUTRAL, TP:RM2.55)** and **Leong Hup (BUY, TP:RM0.70)** – will benefit from better local sales and cheaper imports of raw materials, packaging and machinery. Consequently, reduced input costs could lead to improved profit margins. Similarly, for **Nestle Malaysia (NEUTRAL, TP:RM126.00)**, despite its parent company operating in USD-denominated products, the group imports most of its raw materials in USD but sell in MYR (approximately 80% are domestic sales). Nestle's earnings are estimated to increase +1% for every -5% USD depreciating. However, Nestle is susceptible towards buyer sentiments following changes in the global geopolitical environment. Conversely, **QL Resources (BUY, TP:RM7.25)** and **Fraser & Neave (BUY, TP:RM37.00)** may see its exports impacted by the weakened USD. Note that for every -5% USD depreciating, profitability for QL and F&N would slip -3% and -1% respectively.
Healthcare	Local healthcare service providers operate in MYR; thus, we expect the sector to remain neutral in terms of revenue. Export revenue in USD will result in lower MYR revenue. Additionally, medical supplies, equipment, and pharmaceuticals are mostly imported and paid for in USD, hence a stronger MYR would make these imports cheaper. In the expectation of higher demand for AI-based technology and robotics, we believe a MYR appreciation could assist providers in attaining such equipment for the improvement of its operation. Consequently, this would

Sector	Comments
	translate to higher patient visits and improved surgery and treatments. With a strong focus on Malaysia's healthcare sector, **KPJ Healthcare (BUY, RM2.54)** has the advantage on a stable revenue from locals, although medical tourists may be paying in USD, which means fewer MYR in exchange. Nevertheless, this is mitigated by lower cost on imported drugs and equipment. Meanwhile, **IHH Healthcare's (BUY, TP: RM7.35)** revenue is expected to be impacted by weaker USD for its international operations (notably Singapore, Turkey, India and China). However, like KPJ, the cost savings on imports can significantly improve overall profitability.
Oil & Gas (Downstream)	The **Downstream (Refining and Marketing)** division will see a more positive impact. This is in consideration that refined products (Mogas, Diesel, Jet A1 and petrochemicals) sold domestically are priced in MYR, which is expected to remain stable. Imported crude oil, natural gas and other feedstocks would be cheaper, subsequently reduce the cost of goods sold and potentially increase margins. The lower input costs eventually translate to lower prices for consumers, hence potentially increasing demand for downstream oil and gas products across the board. In this division, we opine that **Petronas Dagangan (BUY, TP:RM24.91)** has the advantage due to lower import costs for crude oil which could add to higher volume and thus higher sales. Similarly, **Gas Malaysia's (BUY, TP:RM3.96)** focus on local operations of gas sale and distribution would be stable under its MYR-denominated sales, in addition to lower equipment cost. However, we noted that exports priced in USD will yield lower revenue. **Petronas Chemicals (NEUTRAL, TP:RM7.18)** would likely see lesser volume sold, on top of the continuous supply-demand imbalance amid tough competition with China petrochemical manufacturers. Nevertheless, the significant cost reduction from imports of USD-denominated feedstock could significantly outweigh the revenue pressure and subsequently improve margins.
Power	A strengthening Ringgit against the greenback is a boon for **Tenaga (NEUTRAL, TP: RM11.52)** as it is exposed to USD-denominated coal imports. Generation cost currently makes up 53.3% of total cost, whereby coal accounts for 56.0% of total generation cost. A stronger Ringgit should therefore help to lower effective coal cost, which is now hovering around USD130-145/MT, down from peak levels of above USD400/MT in 2022. Solar EPCC companies will also stand to benefit to a certain extent in terms of solar module imports, though this is not expected to be significant as most imports are from China. Maintain NEUTRAL on sector but prefer the solar EPCC players namely **Samaiden (BUY, TP: RM1.57)** and **Sunview (BUY, TP: RM0.88)**.
Transportation	**<u>Aviation</u>** Local airlines stand to gain if the MYR strengthens against the USD. For **Capital A (BUY, TP: RM1.06)**, nearly half of its aviation operating costs are in USD, predominantly due to jet fuel expenses. In terms of its currency profile for borrowings, approximately 50% are in USD. A 5% change in our USDMYR assumption affects its FY24F earnings by 10%. **<u>Ports</u>** For the ports, a stronger MYR relative to the USD translates into reduced fuel costs, as they use unsubsidised diesel priced based on the Mean of Platts Singapore (MOPS), which is quoted in USD. However, an appreciating MYR against other currencies might make exported goods less competitive, which could slightly affect the port throughput. For **Westports (NEUTRAL, RM4.30)**, fuel costs account for approximately 15% of its cost of sales. A 5% variation in our USDMYR assumption impacts its FY24F earnings by 1.1%.

NEUTRAL IMPACT

Sector	Comments
Construction	Impact of a strengthening Ringgit is minimal, as Malaysian contractors' cost and earnings are predominantly domestic based. For contractors with a presence overseas, contracts and transactions are denominated in the country's functional currency, including borrowings for project financing as this provides a natural hedge to its foreign currency exposure. Meanwhile, building materials such as steel, cement and bricks are almost purely domestic based. We view the impact of a stronger Ringgit to be negligible for the sector. Reiterate **POSITIVE** on the construction sector. Among the preferred names is **IJM Corp (BUY, TP: RM3.89)**.
Oil and Gas (Upstream & Midstream)	An appreciation of MYR provides a generally mixed material impact for both **Upstream (Exploration and Production)** and **Midstream (Transportation and Storage)** divisions**.** Typically, revenue from upstream activities is denominated in USD, due to crude oil and natural gas are traded globally in USD per barrel. Hence, a stronger MYR could potentially lower the revenue. Moreover, most upstream contracts are denominated in USD. However, this can be mitigated by lower operational costs (such as labour and local services) as these are often denominated in MYR, coupled with cheaper imported technology paid in USD and long-term contracts. We opine that the subdivision most susceptible to a strengthening MYR would be the OGSEs. Under our coverage, these companies include **Bumi Armada (BUY, TP:RM0.62), MMHE (BUY, TP:RM0.65)** and **Deleum (BUY, TP:RM1.62).** As for the midstream, depending on the contracts, revenue may be denominated in both USD and MYR. Hence, the impact of a strengthening MYR could reduce revenue on international contracts, such as in marine and shipping, as well as exports of refined products. This, however, is mitigated by the timeline of said contracts, as most transportation contracts are long-term (approximately 5-30 years); giving little impact from the exchange rate. **MISC's (BUY, TP:RM9.75)** operations expanded beyond regional waters, making it susceptible to a stronger MYR. However, the long-term contracts, as well as lower costs for imported equipment, raw material and fuel, have the potential to mitigate this risk. Likewise, **Petronas Gas (BUY, TP:RM19.37)** is also vulnerable in its USD-denominated contracts, offset by its Malaysian operations. For storage, we expect a more positive impact due to the terminal infrastructure is maintained and operated locally, with collaborators being local-sourced companies. **Dialog Group's (BUY, TP:RM2.72)** domestic MYR-denominated contracts would outweigh the negative impact from a weaker USD in exchange of the petroleum products and fuel within its storage farms. We believe that for storage farms and tankers, investments in the infrastructure and technology will be more attractive due to lower raw material import costs, potentially enhancing service capacity and quality.
Plantation	Since most of the Upstream business use a selling strategy about 90/10 Spot/Future contract, an appreciation in local currency would not benefit upstream planters top-line because of 10% was only used for future contracts. Hence forex gain would be limited in this segment. In contrast, we could see a few downstream producers' borrowings and fertilizer costs which mostly dominated in USD, benefited from strengthening Ringgit, could improve their EBITDA margin in general, due to cost related (particularly toward its input cost in refinery) as well as improve in their net gearing. For example, appreciation of USD against RM by +2.7% resulting an adverse impact of RM62m for SD Guthrie. Our top picks for this thematic theme are **SD Guthrie (NEUTRAL, TP: RM4.18) and KLK (BUY, TP: RM22.00).**
Property	We expect a neutral impact from Ringgit appreciation on property companies as revenue and cost are mostly Ringgit-denominated except for companies with exposure to overseas markets.

Sector	Comments
	Note that **IOI Properties Group (NEUTRAL, TP: RM2.25)** has exposure in China and Singapore. **S P Setia (BUY, TP: RM1.68)** has exposure in Australia, UK and Vietnam, and **Sunway Berhad (NEUTRAL, TP: RM3.98)** has exposure in Singapore and China. Based on sensitivity analysis of earnings to forex changes, the impact of every 1% strengthening of Ringgit is expected to have minimal earnings impact of less than 3% to FY24 earnings of the property companies. Overall, earnings contribution of the property companies is largely from local projects hence we do not expect significant earnings impact from the appreciation of Ringgit.
REITS	No impact on REITs as REITs' asset exposure is in Malaysia and rental income is in Ringgit.
Telecommunication	In general, telecommunication companies have limited exposure to USD, except for **Axiata Group Bhd (NEUTRAL, TP: RM2.56).** Due to the latter's business strategy of having regional presence, Axiata has a considerable number of borrowings in USD. Thus, a stronger Ringgit would bode well for the group. We also understand that most of them have entered forward foreign exchange contracts to hedge against the exchange rate fluctuations.

NEGATIVE IMPACT

Sector	Comments
Glove	Due to the global business glove companies are in, revenue is normally denominated in USD. This is partially negated by the raw materials which are priced in USD as well. Nonetheless, the portion of USD-denominated cost is much less. Generally, forward foreign currency contracts are used by the Group to reduce exposure to fluctuations in foreign currency risk. In addition, the Group holds cash and cash equivalents denominated in USD to pay for its foreign purchases as a natural hedge against fluctuations in foreign currency risk. All being said, a stronger Ringgit would translate into lower earnings for glove players.
Technology	Revenue of OSAT companies is mainly denominated in USD given the pool of foreign customers. On the flip side, some of the operating costs incurred by these companies are also denominated in USD such as raw materials and equipment. This led to the creation of natural hedges. Strengthening of Ringgit would have negative impact on the bottomline.

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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 *rise* 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	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology