4QCY24 OUTLOOK

Tailwind Conditions but Volatility Remain

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EXECUTIVE SUMMARY

- **Leaving behind a weak market in 2QCY24, markets made a strong push in 3QCY24, with ASEAN markets amongst the best performers. This came as conviction grew stronger that the US Fed will finally make its first rate cut. However, the markets' rise has not been all smooth as investors have become more sensitive to economic data than before.**
- **The US economy continued to show resilience despite the high interest rates as the GDP grew stronger, backed by a sustained rise in consumer spending on the back of rising wages and easing inflation. Meanwhile, the US Fed has finally cut its fed funds rate with a -50bps reduction to 4.75-5.00% after the Sep-24 FOMC meeting, to support the economy as the labour market shows more signs of cooling.**
- **In China, recent economic releases led to renewed concerns that the weak growth momentum will make it challenging for the economy to reach its ambitious +5.0% official growth target for 2024. As such, we have been anticipating more policy supports will be rolled out.**
- **With inflation under control, BNM is expected to maintain OPR at 3.00% in 2024 and 2025.**
- **The reversal of ringgit performance, erasing the earlier weakness in 1HCY24. With OPR to be kept unchanged, the narrowing interest differentials will also be supportive of the ringgit, gaining from the weakening of the US dollar. Accordingly, we revise our projection for the ringgit to close 2024 stronger at RM4.03 (end-2023: RM4.59) and average the year around RM4.56 (2023: RM4.56).**
- **For the equity market, we expect positive market momentum to continue in 4QCY24; 1) driven by the inflow of foreign funds, 2) underpinned by a healthy economy as well as corporate earnings outlook, and 3) supported by undemanding valuations.**
- **However, we would advise to be mindful of potential externally driven downside risk to the outlook based on time-tested signals, namely (i) the US Leading Economic Index (US LEI), and (ii) the US Treasury (UST) yield curve.**
- **In view of the still positive monetary (liquidity) and fundamental prospects, we maintain our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 at 1,750 points or PER25 of 14.8x, 14,100 points or PER25 of 20.2x, and 18,900 points or PER25 of 16.0x, respectively.**
- **Going into next year, we expect Malaysia's economy to remain healthy with our preliminary GDP growth forecast at 4.7% in 2025. Market consensus is forecasting the FBM KLCI to register a healthy +8.6%yoy earnings growth in 2025. Furthermore, the FBM Hijrah and FBM70 are projected to register quite robust +13.2%yoy and +10.0%yoy earnings growth next year, respectively.**
- **Our preliminary 2025 targets: FBM KLCI at 1,850 points or PER25 of 15.6x, FBM Hijrah at 14,900 points or PER25 of 21.4x and FBM70 at 19,900 points or PER25 of 16.8x.**

A. 3QCY24 PERFORMANCE – CONVICTION OF THE START OF US RATE CUT CYCLE

Strong push by the market. Leaving behind a weak market in 2QCY24, markets made a strong push in 3QCY24. This came as conviction grew stronger that the US Fed will finally make its first rate cut. We observed that ASEAN markets saw its best quarterly performance this year in 3QCY24 with benchmarks in Singapore, Indonesia, Thailand and Philippines registering double or near double digit gains, outstripping its peers. We believe that this was due to rotational play into laggard markets following conviction of an impending rate cut.

The FBM KLCI continued its steady climb. Meanwhile, the FBM KLCI had a more of a steady climb in comparison to its ASEAN peers. We opine that this is due to the early start that the FBM KLCI has had whereby it did not suffer the period of malaise in 2QCY24. Nevertheless, the FBM KLCI also did benefit from a turn in sentiment towards positivity. It saw a respectable +5.2%qoq gains (as of 25 September 2024) in 3QCY24, resulting in the index registering a double digit gain thus far this year.

Table 1: Performance of Indices (as at 25 September 2024)

Indices	YTD performance as at end 25/9/2024	Quarter-on-quarter performance		
		1QCY24	2QCY24	3QCY24
Nasdaq	20.5%	9.1%	8.3%	2.0%
S&P500	20.0%	10.2%	3.9%	4.8%
FBMKLCI	**15.0%**	**5.6%**	**3.5%**	**5.2%**
Philippines	14.1%	7.0%	-7.1%	14.8%
Nikkei	13.2%	20.6%	-1.9%	-4.3%
DAX	12.9%	10.4%	-1.4%	3.7%
Han Seng	12.2%	-3.0%	7.1%	8.0%
Dow Jones	11.2%	5.6%	-1.7%	7.1%
Singapore STI	10.6%	-0.5%	3.4%	7.5%
FTSE	6.9%	2.8%	2.7%	1.3%
Jakarta	6.4%	0.2%	-3.1%	9.6%
Thailand	3.2%	-2.7%	-5.6%	12.3%
CAC	0.3%	8.8%	-8.9%	1.2%
S. Korea	-2.2%	3.4%	1.9%	-7.2%
Shanghai	-2.6%	2.2%	-2.4%	-2.4%

Source: Bloomberg, MIDFR

Switching to laggard sectors. Sectoral-wise, we observed that the gains in 3QCY24 have not been broad based, where it has concentrated in the blue chips and select sector. It is also possible that there was a rotation into laggard sectors such as finance. In fact, mid and small caps have not yet recovered from a drawdown in early Aug'24.

Table 2: Performance of Bursa Malaysia Sectoral Indices (as of 25 September 2024)

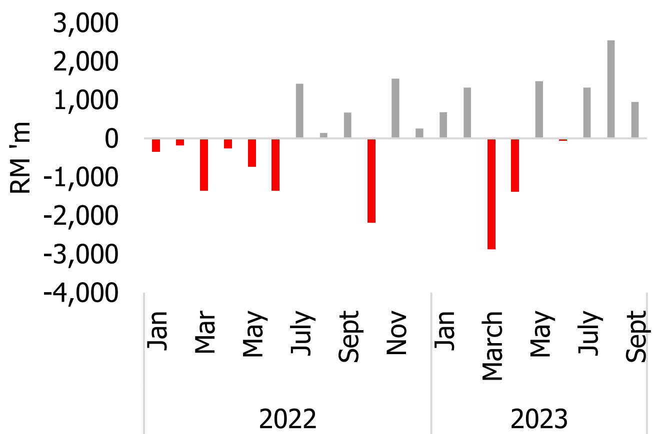
Indices	YTD performance as at end of 25/9/2024	Quarter-on-quarter performance		
		1QCY24	2QCY24	3QCY24
FBM KLCI	**15.0%**	**5.6%**	**3.5%**	**5.2%**
FBM70	20.3%	11.1%	9.9%	-1.5%
FBM Small Caps	7.1%	5.8%	11.5%	-9.2%
Construction	49.5%	16.3%	18.2%	8.8%
Utilities	35.0%	16.9%	15.3%	0.1%
Property	25.3%	16.9%	7.3%	0.0%
Finance	20.5%	6.0%	1.1%	12.5%
Transportation	15.4%	7.1%	11.1%	-3.1%
REITs	8.7%	3.5%	2.0%	2.9%
Energy	6.5%	16.5%	0.3%	-8.9%
Healthcare	6.4%	2.1%	10.0%	-5.2%
Plantation	3.5%	4.0%	-4.2%	3.9%
Industrial	2.7%	3.8%	9.0%	-9.3%
Consumer	2.3%	3.1%	2.4%	-3.2%
Telco. & Media	-0.1%	4.5%	0.1%	-4.4%
Technology	-6.8%	2.0%	18.1%	-22.7%

Source: Bloomberg, MIDFR

US Fed finally delivers. The US Fed finally decided to cut the fed funds rate (FFR) at the FOMC meeting on 18 September 2024. It was a jumbo cut of -50bps bringing the range to 4.75-5.00%. This comes in the heel of slower gains in the jobs market and further progress in inflation. Market is now expecting that the US Fed has finally shifted its monetary policy with more cuts coming. The "dot plot" indicated that 19 FOMC members, both voters and non-voters, see the benchmark FFR at 4.4% by the end of this year, equivalent to a target range of 4.25% to 4.50%. This suggests another -50bps by the end of the year. Meanwhile, further cuts can be expected in 2025 and 2026. The fed forecasts interest rates landing at 3.4%, indicating another -100bps in cuts. Through 2026, rates are expected to fall to 2.9% with another -50bps reduction. As expected, market reaction has been positive, thus far.

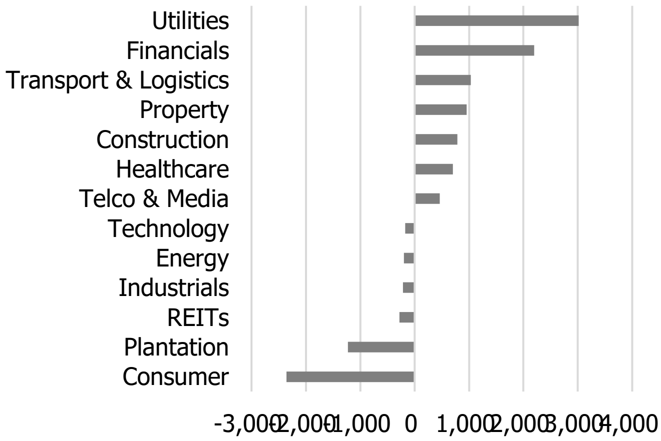
Foreign funds came in a big wave. With the conviction of an eventual FFR cut, we saw the US dollar weaken, where USDMYR level went from RM4.174 at the start of the quarter to RM4.205 a day prior to the FOMC decision (18 Sept'24). This has engendered a wave of foreign funds flows into Malaysian market. As of September 25, 2024, there was net inflows amounting to RM4.82b. Comparatively it was RM52m in 2QCY24 and net outflow of -RM875.1m in 1QCY24. The sector that saw the largest net inflow in 3QCY24 was financial services, amounting to RM5.38b vs. net outflows of -RM3.13b in 1HCY24. Going forward, we expect that the Ringgit will continue to appreciate against the US dollar given the series of expected FFR cuts. This will lead to further foreign funds net inflows which will provide support for the market. We based this on our observations of a strong correlation between USDMYR level and foreign fund flows.

Chart 1: Monthly Foreign Fund Flows - Malaysia (as of 25 September 2024)



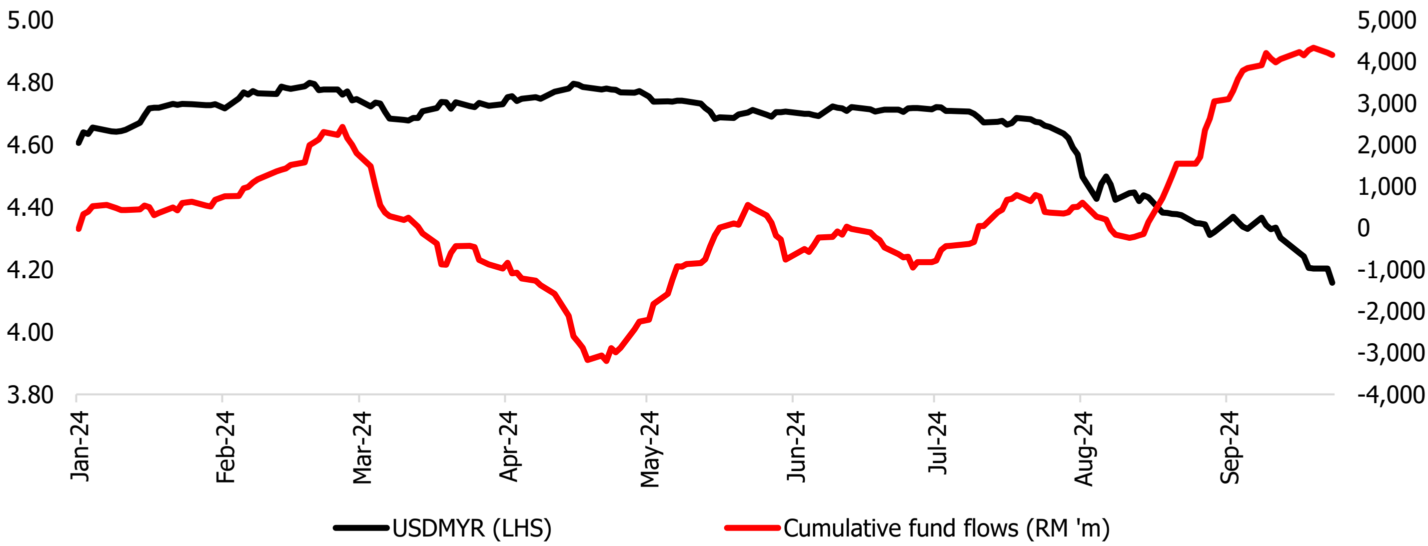
Source: Bursa Malaysia, MIDFR

Chart 2: YTD Sectoral Foreign Fund Flows - Malaysia (as of 25 September 2024)



Source: Bursa Malaysia, MIDFR

Chart 3: Comparison of USDMYR and Cumulative Fund Flows into Malaysian Equities (YTD as at 25 Sept'24)



Source: Bursa Malaysia, MIDFR

It has not been all smooth sailing. Having said all that, the markets' rise has not been all smooth. We saw bouts of volatility during the quarter. For example, US Dow Jones and FBM KLCI fell by -2.6% and -4.6% respectively, within a day between 2 Aug'24 (Friday) and 5 Aug'24 (Monday). This was caused by the US non-farm payroll (NFP) for July that came in weaker than expected which led to breaching the Sahm rule (an indicator for a possible recession) and resurfacing of recession fears in the US. The markets subsequently recovered as other economic data released points towards a US economy that is still resilient. What this highlight to us is that investors have become more sensitive to economic data than before. As such, we expect that markets will experience bouts of volatility going forward, which is as we anticipated in our 2HCY24 outlook report, "Navigating the Changing Currents."

More uncertainties can be expected. We expect uncertainties to continue in 4QCY24 and into 2025. Beside increased sensitivity of investors to US economic data, the downside risk from geopolitical conflicts remains. Any escalation in geopolitical conflict will likely result in limited upside but huge downside to the economy and markets. Below are some of areas we concern about:

1. **Ukraine-Russia conflict**: The current situation seems to suggest that Russia is gaining grounds in the conflict. This is highlighted by the recent territorial gains, Ukraine lack of manpower and material, and Russia's expansion of its military personnel and military industrial capacity. There are discussions of possible further escalations as the US may want to avoid a reversal in policy given the US Presidential election; a precarious proposition, given both are nuclear superpowers.

2. **Middle East conflict**: The conflict in the Middle East is in danger of escalating with Israel seems determine to take on Hezbollah, despite its ongoing conflict with Hamas. It is said that Hezbollah is better equipped and would be a more formidable opponent to Israel. The danger is that the conflict may bring in other participants such as the US and Iran.

3. **US-China conflict:** The rhetoric on the US-China tension have ratchet up this year. One of the results of the increased tension have been imposition of tariffs on certain Chinese products such as EVs. Both US Presidential candidates (former President Trump and Kamala Harris) have showed their hawkishness towards China. The danger is that both will try to outdo each other in order to appear strong against China.

4. **Alliance building:** Russia signed a defensive pact agreement with North Korea in 1HCY24. Meanwhile, Iran leads a so called "Axis of Resistance" which is a political and military coalition in West Asia and North Africa. The question remains whether all these alliances can act as a peaceful counterbalance to their opposing forces (i.e. leading to de-escalation) or otherwise.

US Presidential Elections - winner will have tremendous influence on 2025 outlook. Another factor that will influence 2025 is who will be the next US President. From a foreign policy point of view, we do not believe there is a difference between both candidates in regard to China. The outlook is anticipated to be more or less the same as the US-China tension is expected to stay (or could escalate), influencing global trade flows. However, after Trump's Trade War 1.0, we understand that companies have adapted such as the "China +1" strategy. Meanwhile, there may be difference in policy concerning trade relations with other countries where former President Trump is more tariff "trigger-happy". From geopolitical conflict concern, we expect a possible cessation of conflict in Ukraine should Trump wins, but the conflict in Middle East would likely continue with either candidate. We see where the candidates differ is in their domestic policies. An example, Vice President Harris propose to increase taxes on wealthy individuals and corporations, but former President Trump propose to extend the tax cuts that is set to expire. Below is a possible scenario should either win the US Presidential race:

Table 3: Possible scenario should either Trump or Harris win.

	Trump	Harris
China	• Enter into a high-stakes trade war with China, with higher tariff of up to 100%. • Ban Chinese companies from owning US infrastructure in sectors such as energy, technology and farmland.	• Keeping the existing tariff on China. • Continue to contain China regarding technological developments.

	Trump	Harris
	• Possibly continue on containing China regarding technological developments.	
Foreign trade	• Tariffs on nearly all imported foreign goods, between 10% to 20%	• Boost trade with allies in Europe, Asia and North America, while using tariffs and other tools to go after rivals such as China.
Geopolitics	• End aid for Ukraine that may lead to cessation of hostilities there. • Possible stronger support for Israel and an escalation of the conflict in Middle East. • A question will be Taiwan.	• Continue aid to Ukraine with possible escalation. • Continue supporting Israel but will manage the conflict so that it does not escalate or spiral further. • Continue support to Taiwan, escalating the tensions with China.
Taxes	• Wish to extend 2017 tax cuts which will expire in 2025 and critics the policy of raising taxes. • Potentially increasing the budget deficit.	• Raise the top corporate income tax rate to 28% from 21%. • Tax cuts for more than 100 million working- and middle-class households.
Other domestic policy agenda	• "DRILL, BABY, DRILL": increase oil drilling on public lands, offer tax breaks to oil, gas and coal producers, and speed the approval of natural gas pipelines. • Open dozens of new power plants, including nuclear facilities. • Roll back the aggressive efforts to get people to switch to electric cars, • Rollback on climate change spendings.	• Continue with President Biden's climate change plans.

US Presidential Elections – who will win? Vice President Kamala Harris currently leads the poll especially with a strong showing during the recent presidential debate. However, what is important in the US Presidential election is the electoral colleges. There were 7 key battleground or swing states in the last US Presidential election. In this round, based on latest polling (source: projects.fivethirtyeight.com), we identified three key states which are Nevada (6 electoral college votes), North Carolina (16 electoral college votes) and Pennsylvania (19 electoral college votes). Based on our calculations, Trump will need to overturn a deficit of 24 electoral college votes, and with this we deduce that Pennsylvania will be key where Harris is leading in the polls. The momentum is certainly with Vice President Kamala Harris, but as they say, "a week is a long time in politics."

B. ECONOMIC OUTLOOK FOR 4QCY24 – POLICY EASING CYCLE BEGINS

GLOBAL: POLICY EASING AS INFLATION EASED

Global growth below trend. The global economic growth is expected to remain below trend, with the IMF projecting the world economy to grow at +3.2% in 2024 and 2025. Growth in the advanced economies is expected to be more modest, constrained by the policy tightening conducted in the past years which was intended to contain the high inflation. Meanwhile, growth in the emerging markets will be more normalised with the low base effect and policy supports previously introduced to support the post-pandemic recovery. In general, the positive labour market conditions will support increased consumer spending and investment activities. In addition, the pick-up in global trade also supported the improvement in global production activity and regional trade flows.

Global inflation moderated… The trend in global inflation has broadly moderated from the post-pandemic peaks experienced in the previous years. While the high inflation has led central banks to aggressively raise interest rates in the past years, correction in commodity prices was one of the reasons contributing to moderating inflation. Previously, prices were raised due to supply concerns, triggered by post-pandemic supply disruptions and the conflicts in Europe and the Middle East. However, recent price corrections were more influenced by the change in demand. For example, expectations of weaker demand from China pushed Brent crude oil prices to below USD80pb. CPO prices, on the other hand, trended higher after the recent rate cut by the Fed. While our in-house projection anticipates additional correction towards USD77pb (2024f: USD82pb) for Brent crude and RM3,600/tonne (2024f: RM3,800/tonne) for CPO prices going into next year, we expect the price level to remain elevated vis-à-vis pre-pandemic period.

Table 4: GDP Growth Forecast for Selected Economies

	2020	2021	2022	2023	2024f	2025f
World	(2.7)	6.5	3.5	3.2	3.2	3.2
Advanced Economies	(3.9)	5.7	2.6	1.6	1.7	1.8
USA	(2.2)	5.8	1.9	2.5	2.7	1.9
Euro Area	(6.1)	5.9	3.4	0.4	0.8	1.5
Japan	(4.1)	2.6	1.0	1.9	0.9	1.0
UK	(10.4)	8.7	4.3	0.1	0.5	1.5
Singapore	(3.9)	9.7	3.8	1.1	2.1	2.3
Developing Economies	(1.8)	7.0	4.1	4.3	4.2	4.2
China	2.2	8.5	3.0	5.2	5.0	4.5
India	(5.8)	9.7	7.0	7.8	6.8	6.5
Indonesia	(2.1)	3.7	5.3	5.0	5.0	5.1
Thailand	(6.1)	1.5	2.5	1.9	2.7	2.9
Philippines	(9.5)	5.7	7.6	5.6	6.2	6.2
Vietnam	2.9	2.6	8.1	5.0	5.8	6.5

Source: IMF, National Sources, MIDFR

…and major central banks shift to easing mode. In response to the moderating global inflation, central banks are expected to pursue policy easing, marking a shift from the aggressive policy tightening in the past years. The US Fed is expected to continue slashing its policy interest rate after the large -50bps reduction announced after the recent FOMC meeting. Other major central banks like the European Central Bank and Bank of England will also reduce interest rates as inflation rates have moderated from the multi-year highs recorded last year. Bank of Japan remains the exception, the central bank may continue hiking interest rates if inflation remains elevated. On the other hand, the People's Bank of China could be injecting more liquidity instead of slashing interest rates further because recent signs of weaker growth momentum in China would require more policy intervention by the national authorities.

A few factors affect the world economy. As we indicated previously, changes in world politics will be one of the factors that will influence the future economic direction. In particular, the US economic policy may be adjusted depending on the candidate who will win the upcoming US presidential election. If Donald Trump were to return, the risk of Trade War 2.0 could hurt the global trade outlook as tariffs on goods entering the US will be hiked. However, we foresee a limited shock as international businesses already adjusted in response to the previous trade war episode. Apart from the

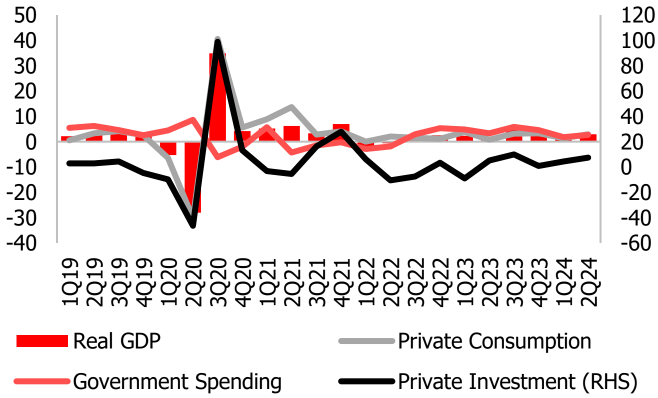
US election, we opine the economic outlook will also be influenced by the risk of a wider geopolitical conflict involving other countries in the Middle East. Other developments which could present a downside risk to the growth outlook include weaker final demand from major countries such as China and the US. The weak demand outlook has previously led to a correction in commodity prices, while the prolonged restrictive credit condition could hit aggregate demand in the US given signs of a cooling labour market.

US: ANTICIPATION OF SOFT LANDING AS FED SHIFTED TO POLICY EASING

From resilient growth to soft landing. The US economy continued to show resilience despite the high interest rates as the GDP grew stronger at +3.0%qoq on an annualised basis in 2QCY24 (1QCY24+ 1.4%qoq). This was backed by a sustained rise in consumer spending on the back of rising wages and easing inflation. Despite concerns that job growth has slowed in recent months, overall labour market conditions have rebalanced from the strong labour demand previously. The cooling labour market has resulted in a gradual increase in the unemployment rate which touched 4.2% as of Aug-24 (Jan-23: 3.4%). With growth momentum expected to adjust further and feeling the constraint from tight credit conditions, the IMF projects the US economy will grow at a more moderate pace of +1.9% next year, a soft landing from the robust growth of around +2.7% this year.

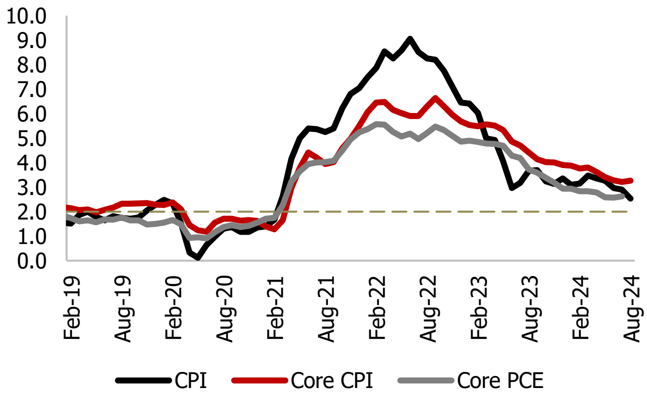
Policy easing to continue as inflation eases closer to the Fed's target. The US Fed has finally cut its fed funds rate with a -50bps reduction to 4.75-5.00% after the Sep-24 FOMC meeting. The decision was widely expected as inflation has been trending lower and moving closer to the Fed's longer-term +2% target. We foresee the Fed will proceed with policy easing as signalled by the updated FOMC projection, where the Fed funds rate may be reduced towards a median of 3.4% by next year, or a total reduction of more than -100bps from the existing level. Apart from moderating inflation, the focus of policy change will be to support the economy as the labour market shows more signs of cooling. Firms also indicated slower hirings in response to a weaker demand outlook. The reduced labour demand was demonstrated by the fall in job openings, which dropped to 7.67m in Jul-24 from the peak of 12.18m in Mar-22. At the same time, the increases in nonfarm payrolls also slowed to an average of +116.3K a month in the 3-month period to Aug-24 from +225.2K in 5MCY24 (2023 average: +251.1K/month).

Chart 4: US: Real GDP Growth (YoY%)



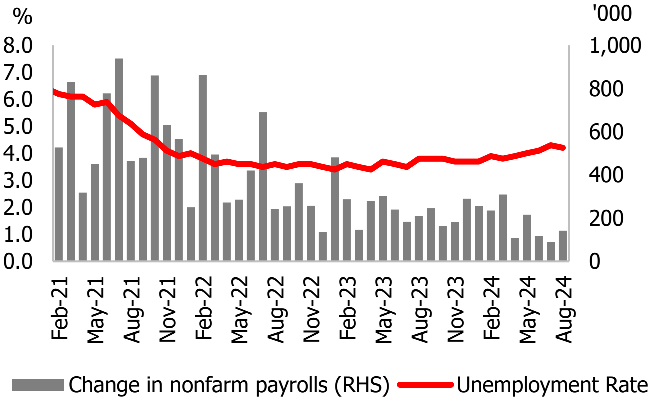
Source: Macrobond, MIDFR

Chart 5: US: CPI and Core PCE Inflation (YoY%)



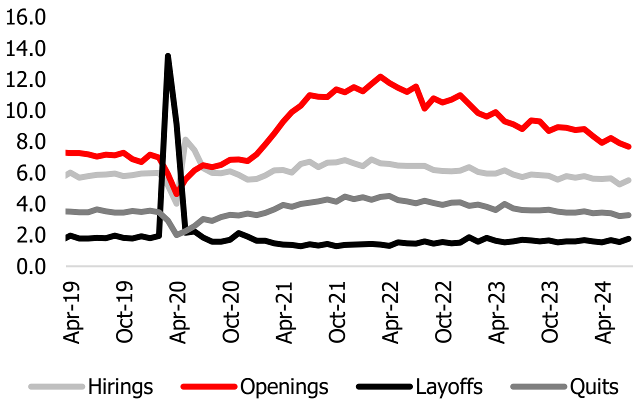
Source: Macrobond, MIDFR

Chart 6: US: Unemployment Rate (%) vs. Nonfarm Payrolls (in thousands)



Source: Macrobond, MIDFR

Chart 7: US: Labour Turnover (in millions)



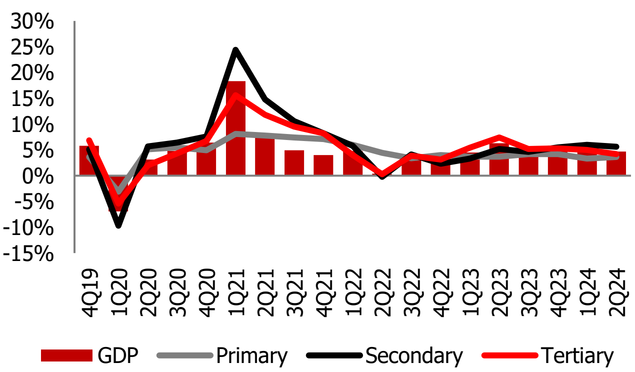
Source: Macrobond, MIDFR

CHINA: ADDITIONAL POLICY MEASURES TO COUNTER WEAKNESS IN THE ECONOMY

Concerns over weaker growth momentum. Recent economic releases led to renewed concerns that the weak growth momentum will make it challenging for the economy to reach its ambitious +5.0% official growth target for 2024. As of 2QCY24, China's GDP growth was weaker-than-expected at +4.7%yoy (1QCY24: +5.2%yoy). Although business activity and trade have shown improvements in 8MCY24, with IPI growing faster at +5.5%yoy (2023: 4.3%) and exports rebounding to +4.4%yoy (2023: -3.9%), the growth in China's retail spending slowed further to +2.3%yoy in Jul-Aug 2024 (1HCY24: +3.2%yoy; 2023: +5.5%). This also explains the low inflation reading which remained below +1.0%, where the headline CPI increased at a 6-month high of +0.6%yoy in Aug-24. The unemployment rate also rose to 5.3% in Aug-24, the highest since Feb-24. At the same time, China's property market remained a key challenge to the country's economic growth as home prices fell sharper at -5.3%yoy in Aug-24, marking the 14th straight month of contraction and the steepest decline since May-15. Going into next year, the IMF forecasted that China's economy will grow at +4.5%, moderating from projected +5.0% this year.

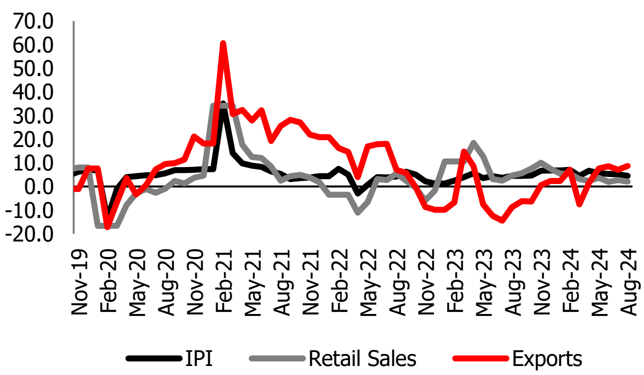
Authorities stepped in with more policy measures. Following the weaker economic data releases, we have been anticipating more policy supports will be rolled out. The recent actions announced by the People's Bank of China (PBOC) to inject more liquidity into the market by reducing the required reserve ratio (RRR) by -50bps. At the same time, there are measures to support the ailing property market by lowering the mortgage rates by average -0.5ppt and slashing the down payment for second home purchases from 25% to 15%. It will not be a surprise that more actions will be taken because the PBOC also suggested that the loan prime rates may be cut in future policy meetings as part of measures to counter slowing growth momentum.

Chart 8: China: Real GDP Growth (YoY%)



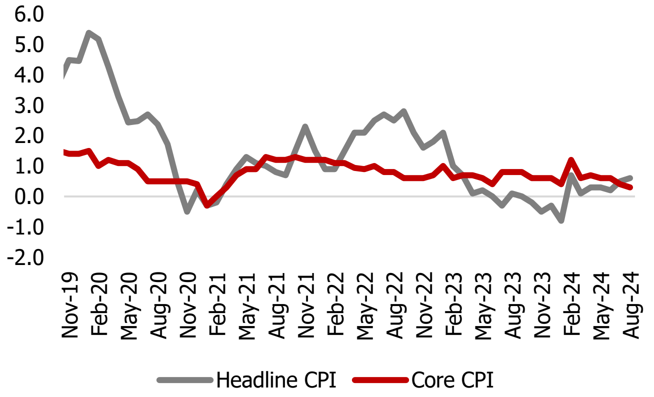
Source: Macrobond, MIDFR

Chart 9: China: Selected Economic Indicators (YoY%)



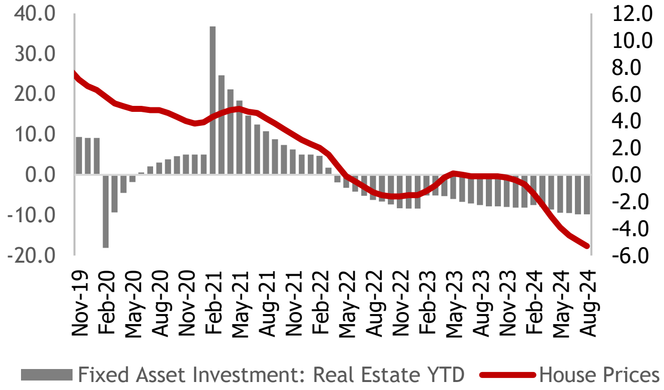
Source: Macrobond, MIDFR

Chart 10: China: CPI Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 11: China: House Price vs. Fixed Asset Investment in Real Estate (YoY%)

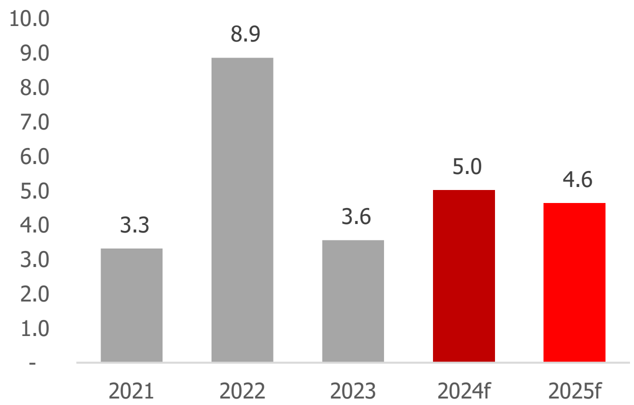


Source: Macrobond, MIDFR

MALAYSIA ECONOMY: POSITIVE MOMENTUM TO CONTINUE

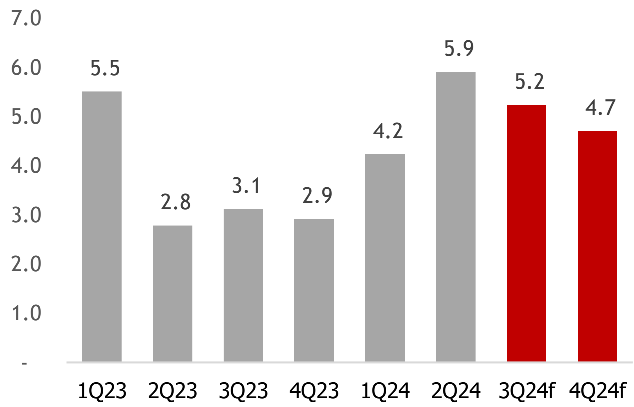
GDP to grow stronger at +5.0% this year. We forecast that Malaysia's economy will grow stronger at +5.0% this year (2023: +3.6%). The main driver will be the sustained growth in domestic demand as consumers and businesses increase their spending. Healthy labour market conditions, growing income and increased foreign tourist arrivals (and spending) will also contribute toward higher growth in consumption expenditures. At the same time, the ability to tap flexible EPF Account 3 is another factor supporting domestic consumption growth this year. In addition, the economy will be running back on two engines supported by the recovery in external trade activity.

Chart 12: GDP Growth Forecast (YoY%)



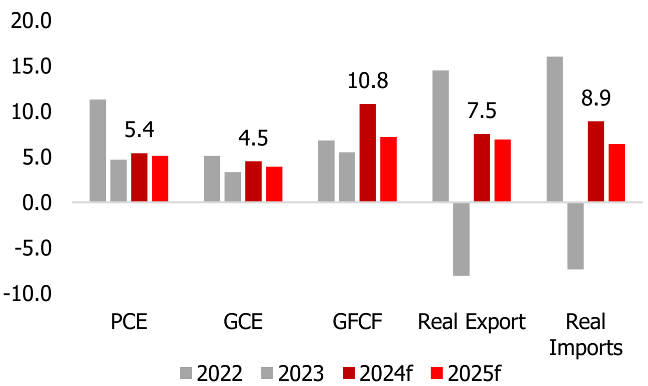
Source: Macrobond, MIDFR

Chart 13: GDP Growth Quarterly Forecast (YoY%)



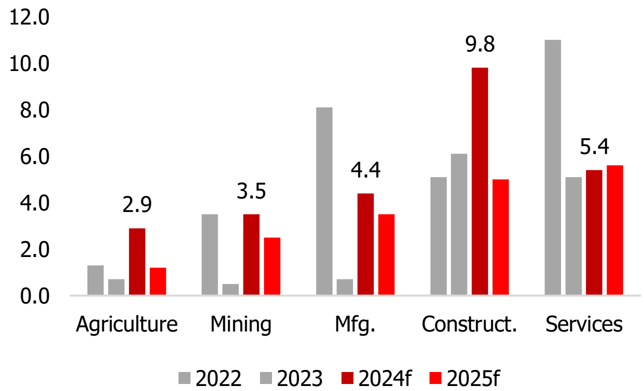
Source: Macrobond, MIDFR

Chart 14: GDP Growth by Expenditure (YoY%)



Source: Macrobond, MIDFR

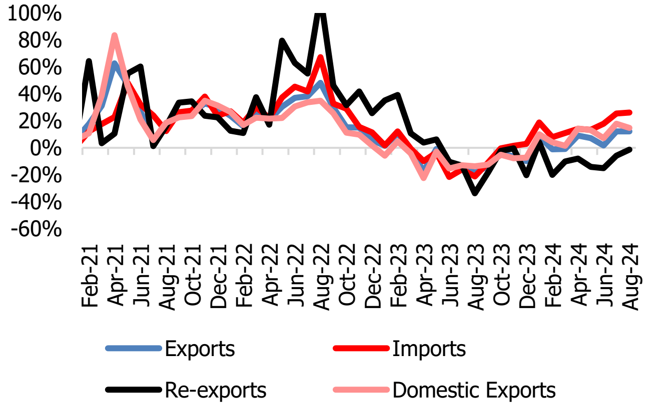
Chart 15: GDP Growth by Supply (YoY%)



Source: Macrobond, MIDFR

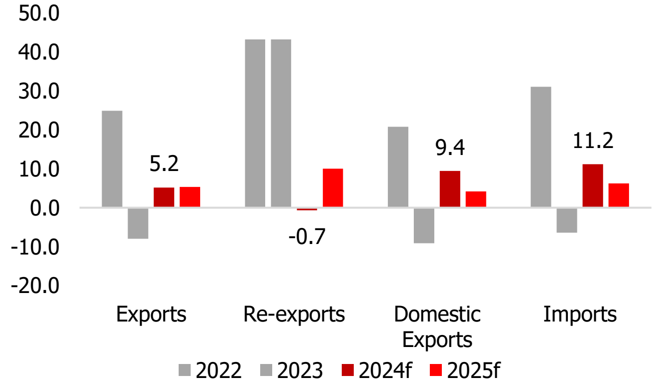
Recovery in exports to continue. In 8MCY24, Malaysia's exports have picked up and growing by +6.0%yoy (2023: -8.0%). This was driven by increased exports of agricultural goods (8MCY24: +9.3%yoy) and manufacturing goods (8MCY24: +6.0%yoy). Robust growth in palm oil exports, which grew by +9.9%yoy, contributed to the encouraging agriculture exports. Manufactured goods exports were supported by higher shipments of machinery, equipment & parts (+24.1%yoy) and manufacture of metal (+10.7%yoy). The recent surge in E&E exports to +14.5%yoy in Aug-24 also contributed to the turnaround in the sector's export performance, which rebounded to +0.8%yoy in the first 8 months this year (2023: -3.0%). We also see that the growth in exports this year was driven more by the increase in domestic exports (8MCY24: +10.2%yoy) which more than offset the decline in re-exports (-9.0%yoy). For the whole year, we forecast exports would rebound and grow by +5.2% as Malaysia benefits from the pick-up in external demand, including the improvement in the global E&E trade.

Chart 16: External Trade Performances (YoY%)



Source: Macrobond, MIDFR

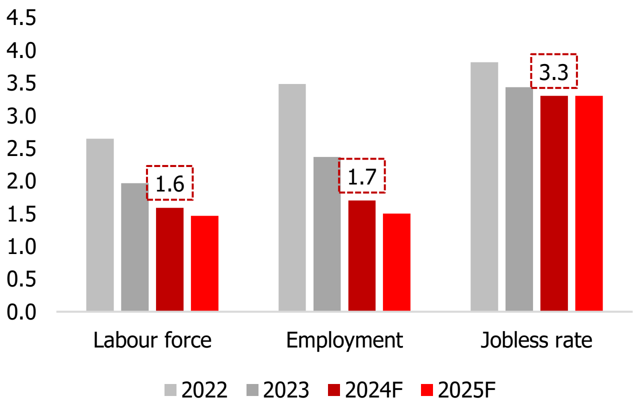
Chart 17: External Trade Forecasts (YoY%)



Source: Macrobond, MIDFR

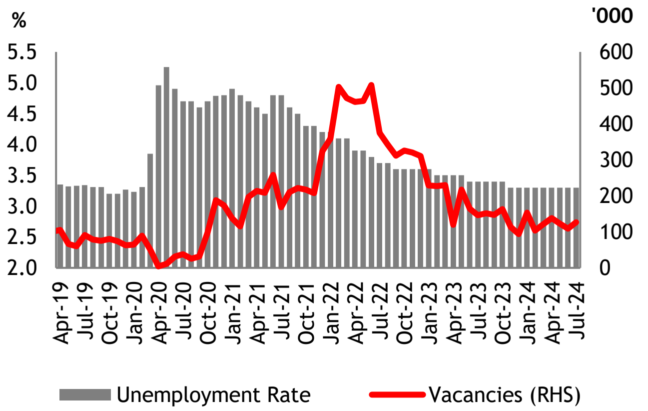
Positive job market conditions. Labour market conditions remained healthy with the jobless rate remaining at a low level, averaging at 3.3% in 7MCY24 (2023: 3.4%). The reduced number of unemployment was supported by the sustained increase in employment +1.9%yoy (2023: +2.4%), although more people entered the job market as reflected by a larger labour force which grew by +1.7%yoy (2023: +2.0%). Increased vacancies also reflected healthy labour demand, where higher openings were in the services and construction sectors which recorded stronger growth in recent quarters. We expect the upbeat momentum in the economy and the healthy labour market to continue into next year, with the jobless rate to remain low at 3.3%.

Chart 17: Labour Market Forecasts (%)



Source: Macrobond, MIDFR

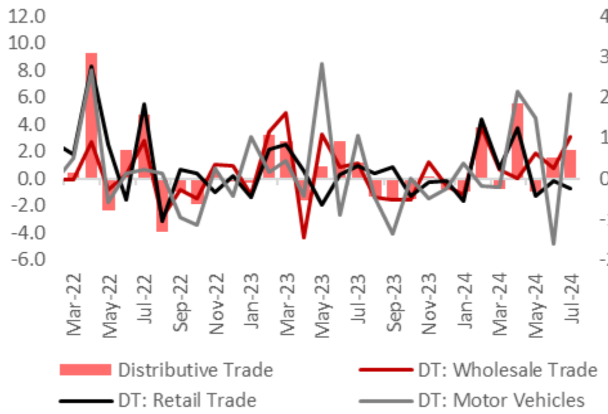
Chart 18: Employment Rate (%) vs. Vacancies (in thousands)



Source: Macrobond, MIDFR

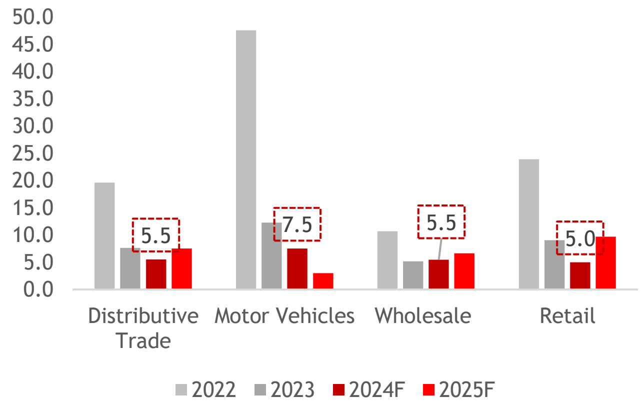
Sustained growth in domestic spending. Domestic spending continued to grow sustainably with Malaysia's distributive trade sales growing further by +6.0%yoy in 7MCY24 (2023: +7.7%). The continued growth was underpinned by higher sales of motor vehicles (7MCY24: +9.3%yoy; 2023: +12.3%), retail trade (7MCY24: +6.3%yoy; 2023: +9.0%) and wholesale trade (7MCY24: +4.8%yoy; 2023: +5.2%). In particular, increased retail spending was supported by a healthy labour market, increased labour demand and employment and a recovery in tourist arrivals. Although we indicated concerns that rising price pressures could adversely affect consumer confidence and their spending plans, thus far the effect of policy changes on prices has been rather mild. In other words, stable and low inflation also help to support consumer spending, although Malaysian consumers continued to express concerns over the rising cost of living and the risk of higher inflation. Given the continued expansion thus far, we still forecast that retail trade will be sustained at around +5.0% this year.

Chart 19: Distributive Trade Sales, DT (YoY%)



Source: Macrobond, MIDFR

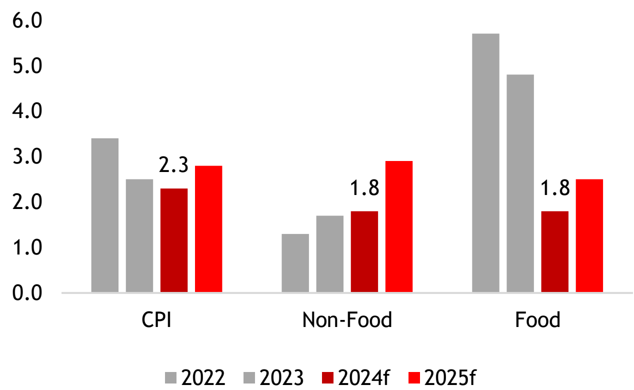
Chart 20: Distributive Trade Sales Forecasts (YoY%)



Source: Macrobond, MIDFR

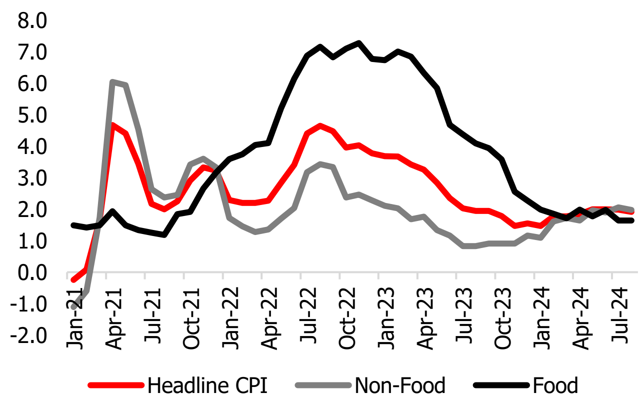
CPI inflation to ease to +2.3% with limited upside from policy changes thus far. We predict Malaysia's headline CPI inflation to ease to +2.3% this year, factoring in higher non-food inflation to be the main source of inflationary pressures as a result of policy changes. While we still anticipate the roll-out of the targetted RON95 subsidy would be in 4QCY24, we see a potential downside to our estimate if the policy change were to be delayed further. The effect from other policy changes such as the one-off hike in diesel price, higher utility tariffs and SST rate hike has been limited i.e. not leading to a significant spike in general prices. As a result, the headline CPI inflation rate averaged relatively lower at +1.8%yoy in 8MCY24 (2023: +2.3%), with higher inflation in the non-food segment at +1.9%yoy (2023: +1.3%) vis-à-vis a more moderate food inflation at +1.8%yoy (2023: +4.8%). Underlying demand pressures also remained under control as average core CPI inflation moderated to +1.8%yoy in the same period (2023: +3.0%).

Chart 21: Inflation Forecast (YoY%)



Source: Macrobond, MIDFR

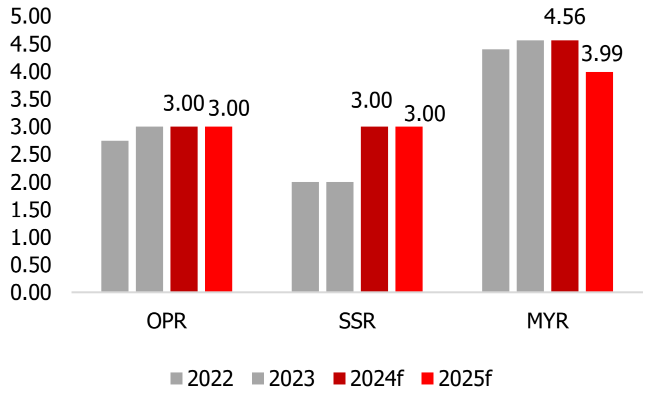
Chart 22: Inflation by Major Components (YoY%)



Source: Macrobond, MIDFR

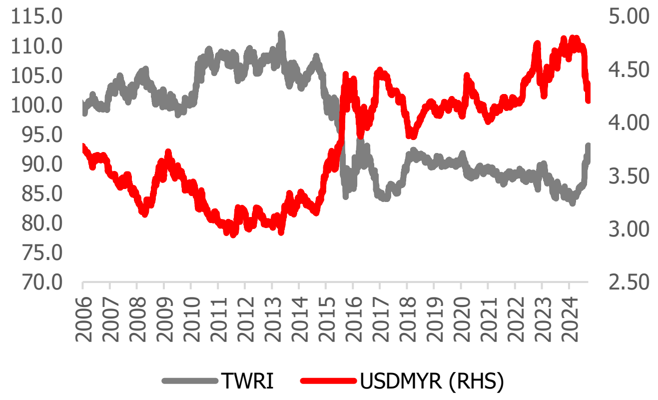
BNM will keep OPR at 3.00%. With inflation under control, BNM is expected to maintain OPR at 3.00% in 2024. We do not expect strong demand pressures on prices as we see no sharp upward trend in core inflation. While the major cause of inflation will be policy changes, any further hike in OPR will hit the household even more (from higher inflation and loan repayments). As a prudent policy choice, we believe BNM will keep OPR at the current level, deemed to be supportive of the growth sustainability of the broader economy. In the longer run, we believe BNM will also keep its focus not to unnecessarily encourage higher reliance on debts among Malaysian households. Nevertheless, there is room for BNM to react (e.g. to cut rates) if the economic conditions were to weaken. At the same time, we do not expect BNM to plainly follow the Fed's decision and also cut rates. We believe any change to OPR will be guided mainly by the economic and price developments in Malaysia.

Chart 23: Monetary Policy & USDMYR Forecast (%)



Source: Macrobond, MIDFR

Chart 24: USDMYR vs MIDF Trade-Weighted Ringgit Index

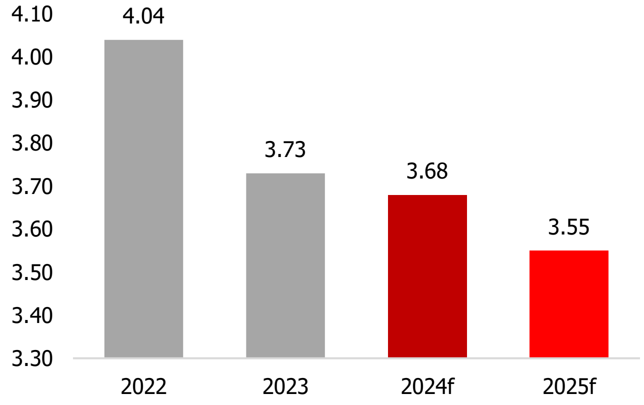


Source: Macrobond, MIDFR

Ringgit to appreciate further in 4QCY24. The reversal of ringgit performance, erasing the earlier weakness in 1HCY24 has seen the local currency becoming the top-performing currency in the region. Year-to-date, the ringgit has appreciated by more than +9%ytd from end-2023, with the local currency recently exchanging at lower than RM4.20 to the dollar. On balance, we foresee more funds will flow into the emerging markets, including Malaysia, as the Fed continues with its policy easing. With OPR to be kept unchanged, the narrowing interest differentials will also be supportive of the ringgit, gaining from the weakening of the US dollar. Accordingly, we revise our projection for the ringgit to close 2024 stronger at RM4.03 (end-2023: RM4.59) and average the year around RM4.56 (2023: RM4.56). Despite the ringgit being top performing currency gaining from the Fed rate cuts as well as the recent optimism from China's new stimulus, the relatively weaker average rate was influenced by the persistent strength in the US dollar in the earlier part of the year as the Fed was not in the rush to shift towards policy easing. On the other hand, any events which lead to heightened concerns over the growth outlook would be downside risks to the ringgit outlook as the US dollar will gain from a shift to risk-off mode. Among others, the downside risks include renewed escalation in geopolitical and trade tensions, and a weaker outlook in major economies (particularly China and the US). Moreover, the Fed may take time to ease further if the price outlook turns out to be stickier and remains elevated, and as a result, slowing the decline in the US dollar.

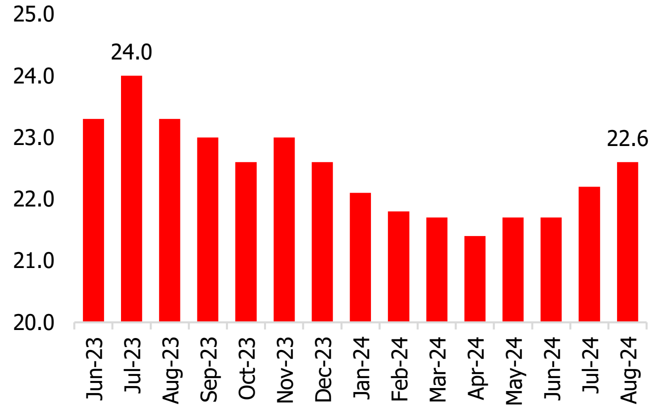
MGS yield to go lower tracking the decline in US treasury yields. We anticipate that foreign interest in the domestic bond market will improve as the Fed's policy easing and the narrowing interest differentials will lead to more fund inflows into emerging markets, including Malaysia. Although the yield for 10y MGS has reverted to the same level as of end-2023, the recent reading at 3.73% was -27bps lower than the high of 4.00% in Apr-24. The 10y US treasury yield, on the other hand, has also decreased to 3.73%, which is lower than 3.88% at end-2023 and a decline of -97bps from the peak in Apr-24. We believe there is still room for the rate to go lower with the Fed adopting more policy easing. We maintain our projection that the average yield for 10y MGS will be at 3.84% in 2024 (2023: 3.86%), moving towards 3.68% by year-end (end-2023: 3.73%). As we anticipate the MGS rally to extend into 2025, in view of more rate reductions by the Fed vis-à-vis no change in the OPR setting by BNM, the yield could head lower to 3.55% by the end of next year.

Chart 25: 10-Year MGS Yield Forecast (%)



Source: Bloomberg, MIDFR

Chart 26: Share of Foreign Holdings of Total Outstanding Government Bonds (%)



Source: Macrobond, Bondstream, MIDFR

GDP to grow at +4.6% in 2025, a more normal level. Although the growth fundamentals will continue into next year, based on our preliminary calculation we forecast Malaysia's GDP growth will be at a more normal level of +4.6% next year as we expect continued expansion in both domestic and external demand. Healthy labour market conditions and the expected hike in civil servants' salaries will be positive factors that will support spending activities in 2025. Nevertheless, the rising cost of living and potentially higher inflation due to the effect of subsidy rationalisation will continue to affect consumer sentiment. Investment spending will continue to grow as firms benefit from growing domestic and external demand. Further expansion in external trade will continue to support economic growth. We anticipate the trade balance will improve as import growth will normalize as we expect the waning effect from increased imports of capital goods for the installation of data centres.

Table 5: MIDF Research Macroeconomic Forecast Figures

(YoY%) Unless Stated Otherwise	2022	2023	2024f	2025f
Real GDP	8.9	3.6	5.0	4.6
Govt. Consumption	5.1	3.3	4.5	4.5
Private Consumption	11.3	4.7	5.4	5.1
Gross Fixed Capital Formation	6.8	5.5	10.8	7.2
Govt. Investment	5.3	8.6	9.5	5.4
Private Investment	7.2	4.6	11.2	7.7
Exports of goods & services;	14.5	(8.1)	7.5	6.9
Goods Exports	11.0	(12.7)	4.5	7.2
Services Exports	58.3	33.0	24.6	5.7
Imports of goods & services;	16.0	(7.4)	8.9	6.3
Goods Imports	14.4	(11.7)	9.0	6.4
Services Imports	25.7	15.8	8.3	6.3
Net Exports	(1.5)	(16.2)	(12.0)	16.6
Agriculture etc.	1.3	0.7	2.9	1.2
Mining & Quarrying	3.5	0.5	3.5	2.5
Manufacturing	8.1	0.7	4.4	3.5
Construction	5.1	6.1	9.8	5.0
Services	11.0	5.1	5.4	5.6
Exports of Goods (f.o.b)	24.9	(8.0)	5.2	5.3
Imports of Goods (c.i.f)	31.0	(6.4)	11.2	6.2
Current Account, % of GDP	3.0	1.5	2.3	2.7
Fiscal Balance, % of GDP	(5.6)	(5.0)	(4.3)	(3.6)
Federal Government Debt, % of GDP	60.2	64.3	62.5	60.4
	2022	**2023**	**2024f**	**2025f**
Unemployment Rate (%)	3.82	3.43	3.30	3.30
Headline CPI Inflation (%)	3.4	2.5	2.3	2.8
Non-Food Inflation (%)	2.2	1.3	2.5	2.9
Food Inflation (%)	5.7	4.8	1.8	2.5
Brent Crude Oil (Avg, USD per barrel	99.0	82.2	82.0	77.0
Crude Palm Oil (Avg), MYR per tonne	5,262	3,813	3,800	3,800
USD/MYR (Avg)	4.40	4.56	4.56	3.99
USD/MYR (End-period)	4.35	4.59	4.03	3.95
MGS 10-Yr Yield (Avg)	4.07	3.86	3.80	3.60
MGS 10-Yr Yield (End-period)	4.04	3.73	3.68	3.55
Overnight Policy Rate (%)	2.75	3.00	3.00	3.00

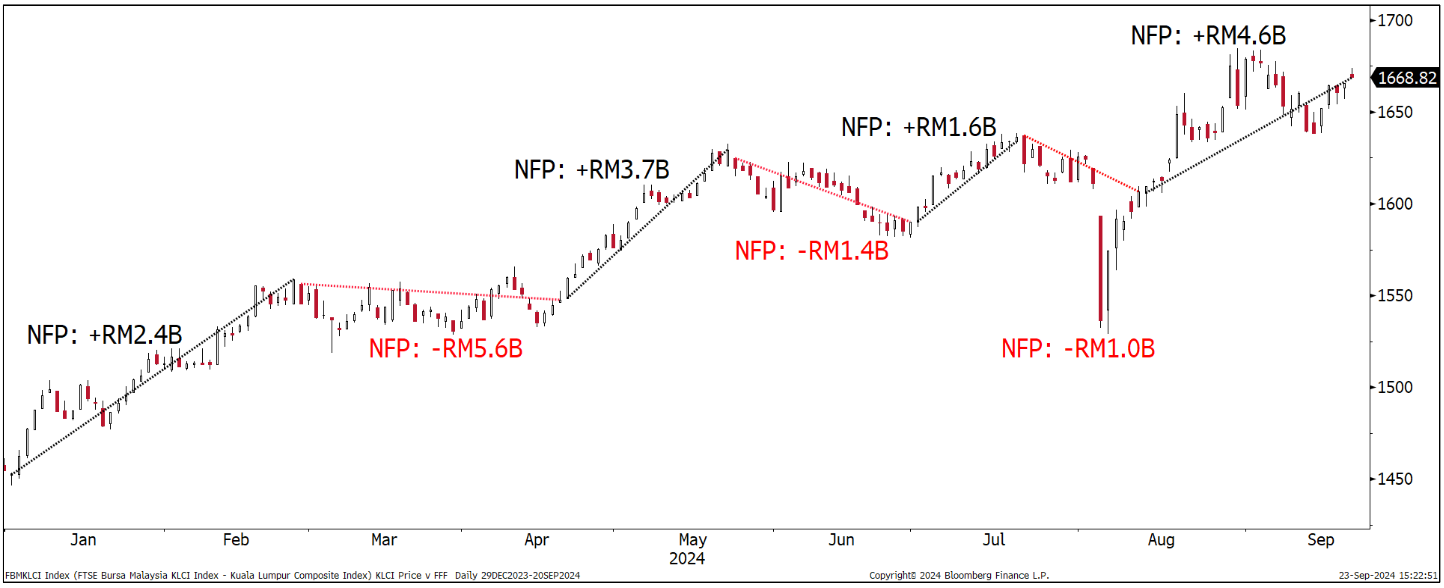
C. MARKET OUTLOOK FOR 4QCY24 – POSITIVE MARKET MOMENTUM TO CONTINUE

In 4QCY24, expect positive market momentum to continue. The local equity market has performed relatively well thus far this year with its main benchmark FBM KLCI recording a gain of +15.0%ytd (until 25 September). Going forward, we expect the local equity market to gain further ground:

1) driven by the inflow of foreign funds,
2) underpinned by a healthy economy as well as corporate earnings outlook, and
3) supported by undemanding valuations.

Positive market momentum driven by foreign funds. Foreign funds arguably played a major role in generating positive momentum which drove up the local equity market thus far this year. In this regard, all upswings in the local market were empirically driven by positive net foreign purchases (NFP). On the other hand, negative NFP resulted in either negative or subdued market performance.

Figure 1: FBM KLCI & Net Foreign Purchases (NFP) of local equities



Source: MIDFR, Bloomberg (G734)

More Fed rate cuts in 4Q24… At its recent meeting, the FOMC alluded to more interest rate cuts later this year after its initial -50 basis points in September. Meanwhile, the interest rate futures market is anticipating 2 more rate cuts this year totalling additional -75 basis points as well as multiple rate cuts in 2025.

…shall continue to favour Ringgit… As the BNM is expected to keep the OPR unchanged in 2024 and 2025, the interest rate differential between the Ringgit and the US Dollar is anticipated to decline further until next year. A narrowing interest rate differential is among the reasons why we believe the Ringgit shall strengthen further vis-à-vis US Dollar with USD/MYR forecasted to drop below the 4.00 level in 2025.

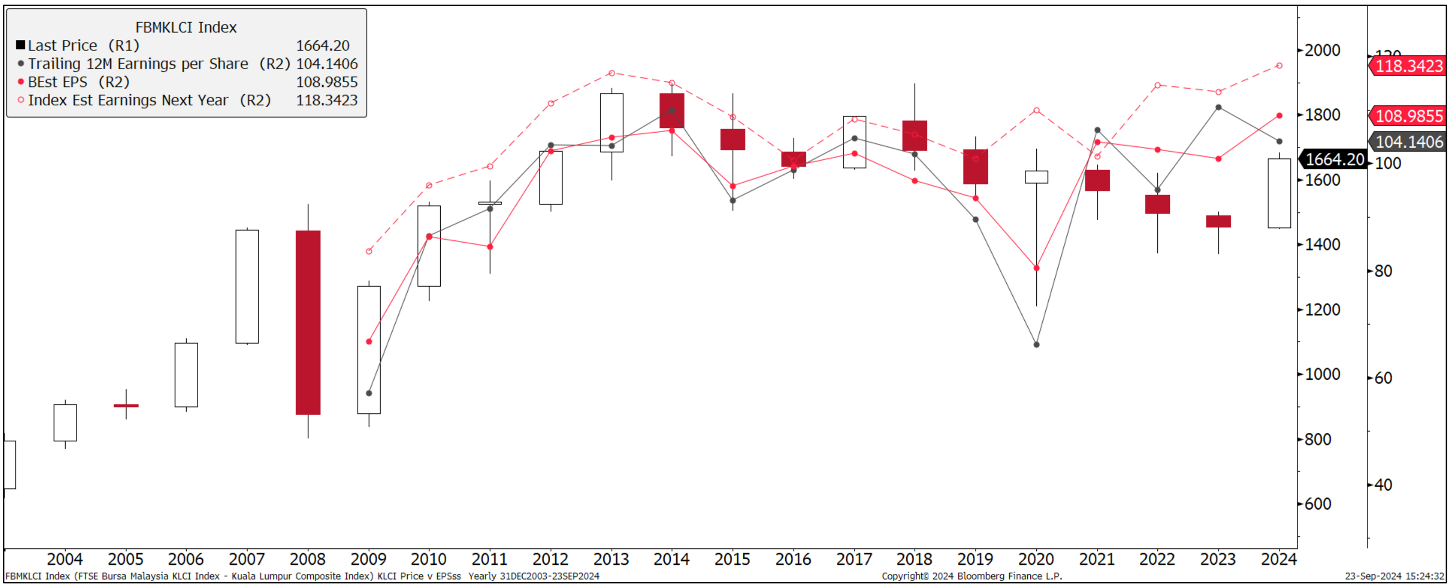
…and attract further inflow of foreign funds. Empirically, a stronger Ringgit would attract a net inflow of foreign funds into our equity market, and vice versa. In 2HCY23, the Ringgit rebounded 1.7% against the US Dollar and the local equity market registered RM1.8b net buying by foreign funds. Conversely, in 1HCY24, the Ringgit depreciated 2.7% against the US Dollar and the local equity market recorded RM0.8b net selling by foreign funds. Meanwhile, thus far in 2H24, the Ringgit jumped 12.2% against the US Dollar and the local equity market registered RM5.2b net buying by foreign funds. Going forward, we expect the Ringgit to strengthen further hence more foreign fund inflows into our equity market underpinned by Malaysia's favourable economy and corporate earnings prospects.

Positive market momentum underpinned by healthy fundamentals. The positive momentum driving up the local equity market thus far this year was arguably underpinned by a healthy economy and corporate earnings performance.

Malaysia's economic growth accelerated to +2.9%qoq in 2QCY24 vis-à-vis +1.5%qoq in 1QCY24 and -1.0%qoq in 4QCY23. Meanwhile, corporate earnings expanded in 2QCY24 with the aggregate normalized earnings of FBM KLCI growing both quarter-on-quarter and year-on-year at +5.0%qoq and +9.5%yoy respectively.

Macro and earnings growth is expected to continue. Going forward, we expect Malaysia's economy to see continued expansion in domestic demand as well as benefit from an ongoing recovery in external trade. We estimate that Malaysia's GDP growth this year to be higher at +5.0% and tapered slightly to +4.6% in 2025. Likewise, we expect local corporate earnings to remain healthy going forward against the backdrop of broader (both domestic and external demands) rise in economic activities amidst declining price pressure and an easing interest rate environment. In this regard, the consensus earnings of FBM KLCI are expected to grow by +4.6% (to 109.0 points) this year and +8.6% (to 118.3 points) in 2025.

Figure 2: FBM KLCI: Price & Earnings

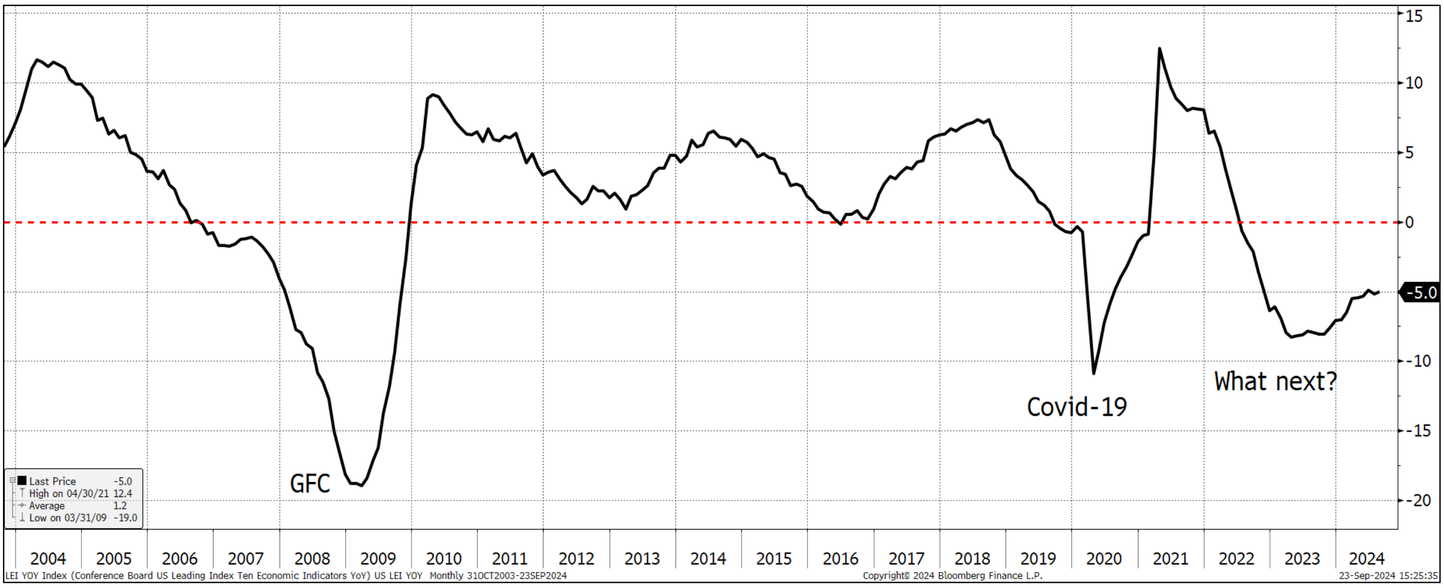


Source: MIDFR, Bloomberg (G655)

But caution ahead... Domestically and externally, the prevailing growth projections for this year and next remain positive both at the macro economy and corporate earnings levels. However, we would advise to be mindful of potential externally driven downside risk to the outlook based on time-tested signals, namely (i) the US Leading Economic Index (US LEI), and (ii) the US Treasury (UST) yield curve. In this regard, the recent deceleration in US jobs data is a cause for concern.

...as US LEI is in negative territory... The baseline consensus expectations point toward continued expansion in US economic activities this year and next. However, downside risk to the anticipated economic growth is both credible and material. Notably, the US LEI has turned negative since the second half of 2022 and remains at well below zero level thenceforth. It must be highlighted that the leading index has correctly forewarned past US economic recessions such as the global financial crisis (GFC) in 2008.

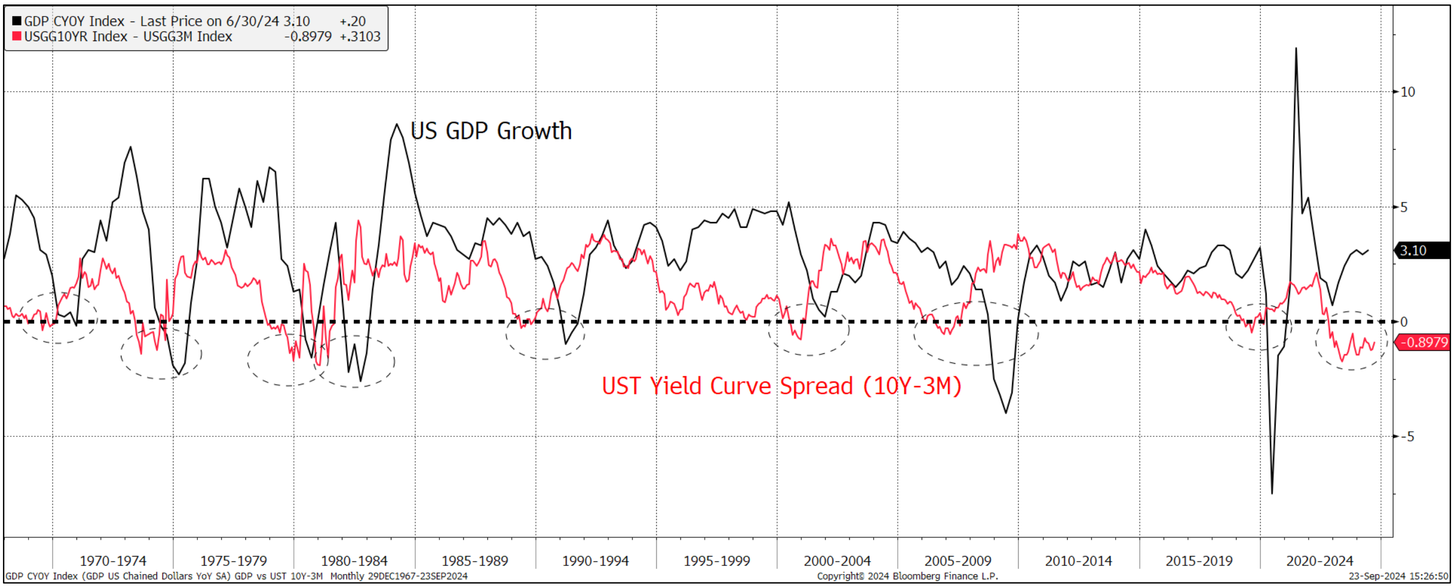
Figure 3: US LEI: A potent Leading signal



Source: MIDFR, Bloomberg (G728)

...and inversion of the UST yield curve... The aggressiveness of the US Fed in raising the short-term policy rate in 2022/3 has invariably resulted in a complete inversion of the bond yield curve. Looking at various long versus short maturity spreads of the UST, the last to invert was the 10-year against 3-month (10Y-3M) in late October 2022. The inversion of the 10Y-3M spread serves as a potent signal of an impending economic recession. 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 a recession in the not-too-distant future.

Figure 4: UST 10Y-3M Spread: Harbinger of Recession



Source: MIDFR, Bloomberg (G705)

...and slowing job gains. The recent underperformance of US Non-Farm Payrolls (NFP) data perturbed investors which led to the early August selloff in the world's equity market. However, in our report titled "The Sky Is Not Falling" dated 5 August 2024, we deemed the selloff unwarranted as the NFP figure, while below market expectation, was empirically healthy at above 100K level. Nonetheless, going forward, the NFP data should be closely monitored as it could generate "early symptoms" in regard to the outlook of the US economy. Looking at previous US economic recessions in 2001 and 2008, the NFP began to emit an early symptom, i.e. intermittently fell well below 100K and into negative territory, several (5 to 9) months prior to the start of the recession.

Meanwhile, geopolitical conflicts present limited upside but big downside risks. The ongoing Russia-Ukraine war is not foreseen to spread to other countries in the region. Meanwhile, the ongoing Israel-Hamas war is spreading into southern Lebanon (as happened in 2006). Nonetheless, we expect other larger countries in the Middle East to refrain from being directly involved in the armed conflict. Both conflicts have so far engendered a limited impact on Malaysia's economy and corporate earnings performance, thus exerting limited bearing on the equity market. However, while not foreseen, any major escalation that significantly broadens the theatre of war would substantially magnify the potential economic fallout onto the wider world.

Hence, we are sanguine… Going forward, we foresee a situation whereby the world's equity market would remain generally sanguine premised on baseline expectations of (1) further monetary (liquidity) easing with more interest rate cuts by the US Fed as well as other central banks, and (2) continued resilient macro economy and corporate earnings performance. Moreover, the prospect of Ringgit trending higher vis-à-vis the US Dollar would attract a further inflow of foreign funds, a necessary fillip to the local equity market.

…albeit wary. On the flip side, as amply signalled by several empirically potent indicators, we advise investors to tread cautiously and be wary of the evolving risk of the US recession in view of the recent deceleration in labour market growth. Moreover, we should also be mindful of the unsettling situation in Ukraine and Palestine which could escalate rather unexpectedly.

Maintain our 2024 targets. In view of the still positive monetary (liquidity) and fundamental prospects, we maintain our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 at **1,750 points** or PER25 of 14.8x, **14,100 points** or PER25 of 20.2x, and **18,900 points** or PER25 of 16.0x, respectively.

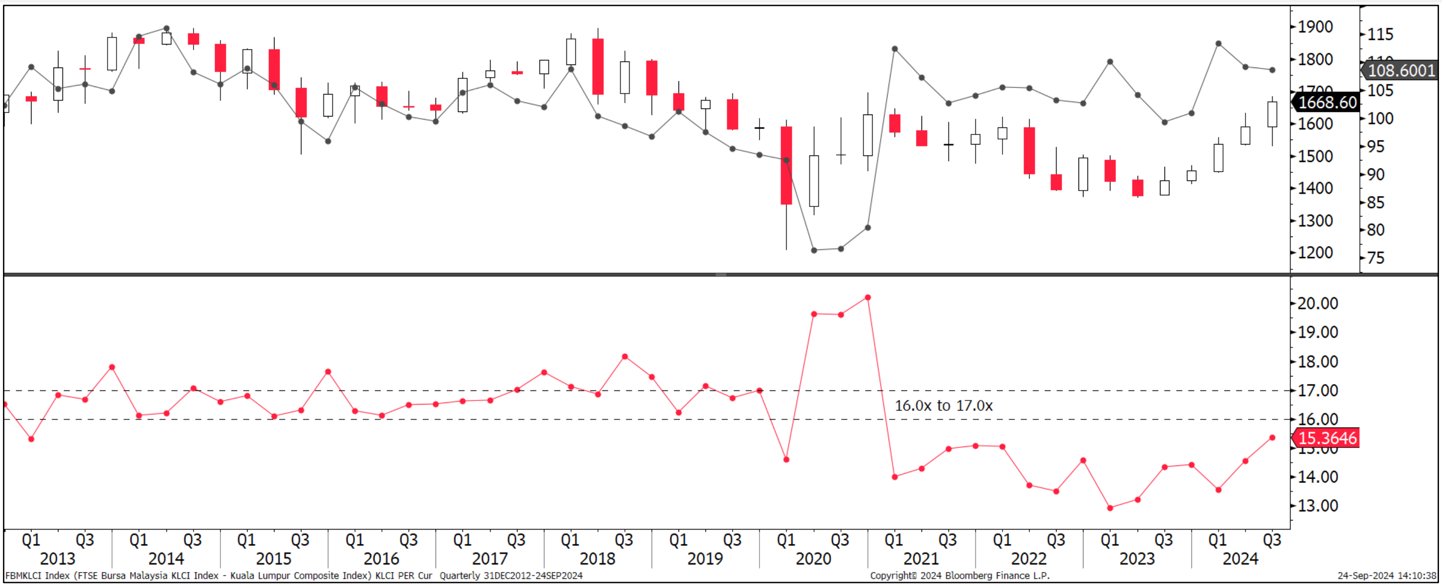
PRELIMINARY 2025 TARGETS

Continued macro and earnings growth next year… Going into next year, we expect Malaysia's economy to remain healthy with our preliminary GDP growth forecast at 4.6% in 2025. Along with the baseline expectation of rather resilient macro performance, market consensus is forecasting the FBM KLCI to register a healthy +8.6%yoy earnings growth in 2025. Furthermore, the FBM Hijrah and FBM70 are projected to register quite robust +13.2%yoy and +10.0%yoy earnings growth next year, respectively.

…but expect a rather stagnant valuation due to recurring external fears. Despite our baseline expectations of resilient macro performance along with healthy earnings growth next year, we expect equity valuation to remain relatively stagnant. That is so as we believe the equity market next year would be beset by recurring fears of a US economic slowdown.

FBM KLCI

Calendar Year	Earnings (Points)	YoY (%change)
CY2025 (F)	118.3	8.6

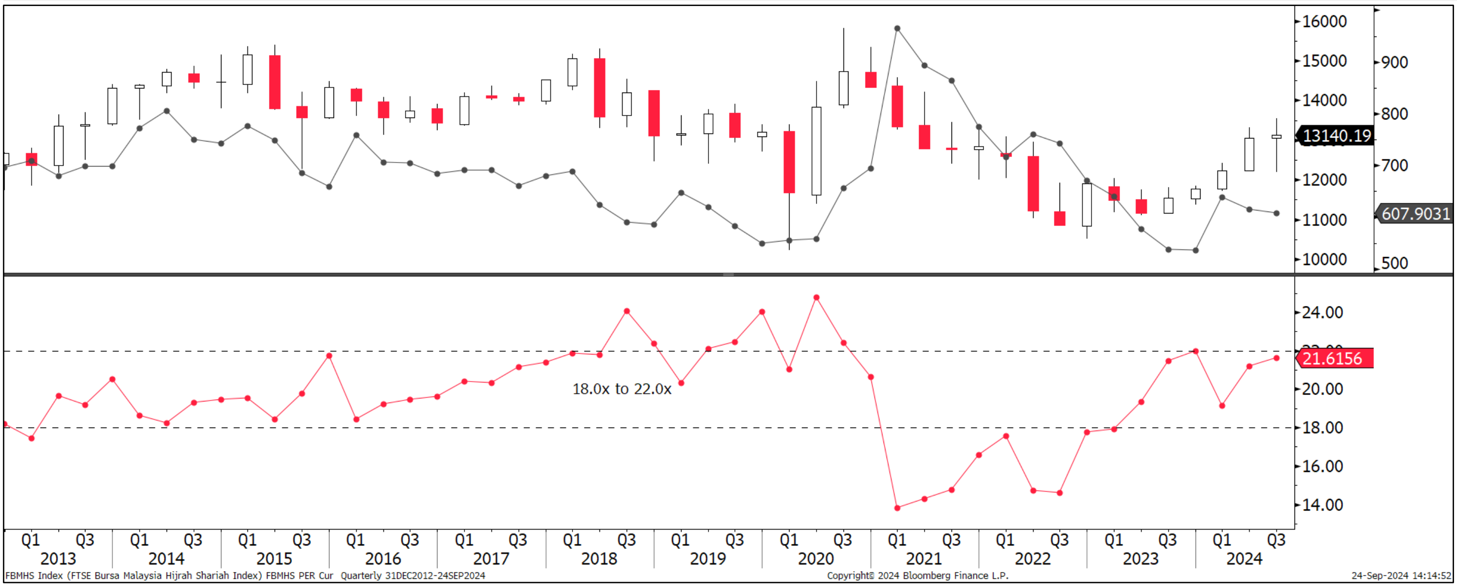


Source: MIDFR, Bloomberg (G658)

Preliminary FBM KLCI 2025 target at 1,850 points or PER25 of 15.6x. At the current juncture, the FBM KLCI is trading at PER24 of 15.4x. Based on the prevailing 2025 earnings forecast of 118.3 points, we introduce our preliminary FBM KLCI 2025 target at 1,850 points or PER25 of 15.6x.

FBM Hijrah

Calendar Year	Earnings (Points)	YoY (%change)
CY2025 (F)	696.2	13.2

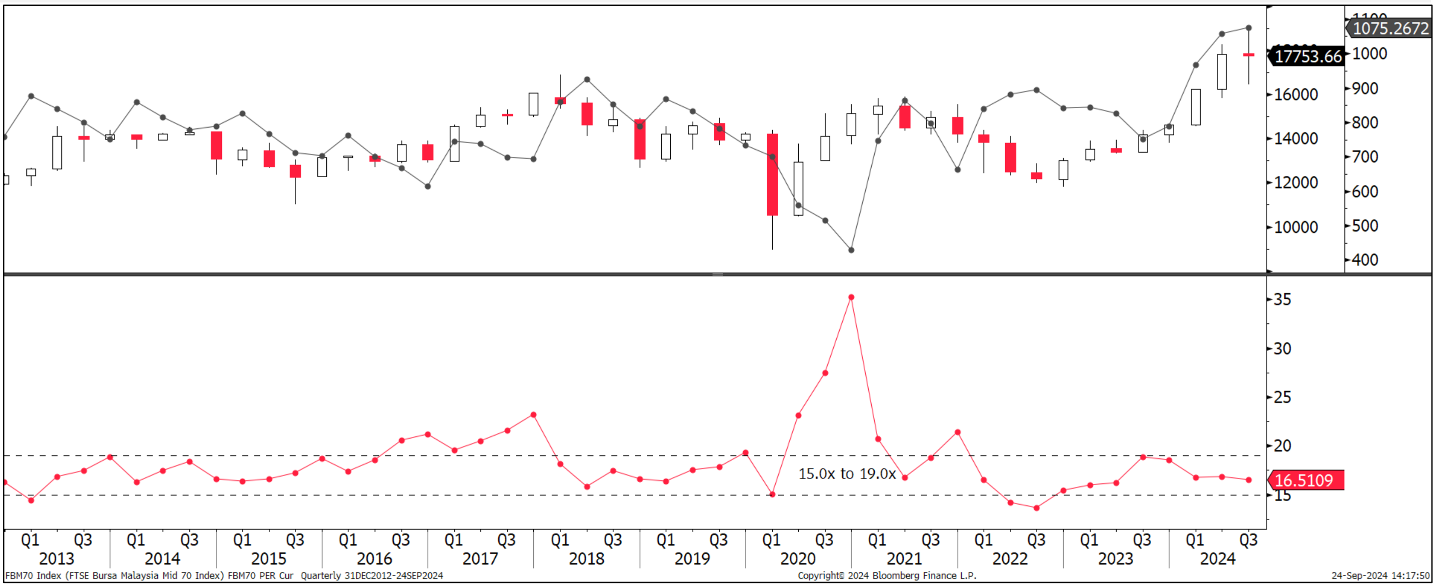


Source: MIDFR, Bloomberg (G725)

Preliminary FBM Hijrah 2025 target at 14,900 points or PER25 of 21.4x. At the current juncture, the FBM Hijrah is trading at PER24 of 21.6x. Based on the prevailing 2025 earnings forecast of 696.2 points, we introduce our preliminary FBM Hijrah 2025 target at 14,900 points or PER25 of 21.4x.

FBM70

Calendar Year	Earnings (Points)	YoY (%change)
CY2025 (F)	1,182.3	10.0



Source: MIDFR, Bloomberg (G715)

Preliminary FBM70 2025 target at 19,900 points or PER25 of 16.8x. At the current juncture, the FBM70 is trading at PER24 of 16.5x. Based on the prevailing 2025 earnings forecast of 1,182.3 points, we introduce our preliminary FBM70 2025 target at 19,900 points or PER25 of 16.8x.

D. STOCK SELECTION – STILL SELECTING BASED ON VOLATILITY

Start of a US monetary easing cycle but volatility remains. We continue to be cautiously optimistic about the economic and equities market growth prospect for the remainder of 2024. The first US rate cuts have buoyed the financial markets thus far. Going forward, we believe that the expectation of further rate cuts will support the trajectory of the market. However, we expect that volatility in the market will remain due to downside risk from geopolitics and investors' sensitivity towards US economic data.

Screening based on volatility (with fundamental overlays) to lower risk. In 2HCY24 outlook, we changed our stock selection considering our expectation of increased volatility in the market. We opine that this still holds for 4QCY24, whereby we maintain our recommendation of a selection strategy based on the share price volatility of a given stock, in this case low to mid volatility. Of course, this stock selection will also be supported by fundamental view of the stock. Stocks with low volatility tends to not have wild swings in price, suggests stability and reduced risk.

Banking, REITs and Consumer are sectors that we like. For 4QCY24, we are favouring sectors that provide good dividend yields and potential laggards. As rates soften, we expect investors may be looking for assets that will provide them with similar or higher yields. Banks tend to give quite good dividends, and we have seen a re-rating of regional banks lately (including ours – hence, the share price performance in 3QCY24). Similarly with REITs, its dividend yield-MGS spread has widen recently which may increase the attractiveness of REITs. Lastly, we like Consumer sector as a potential laggard play.

One recent change to sector calls. We make no change to our sector calls in this report. However, we recently upgraded the Consumer sector to POSITIVE from NEUTRAL. The summary of our sector calls is as follows.

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

NEUTRAL: Automotive, Gloves, Plantations, Power, Technology, Telecommunication, Transportation

NEGATIVE: None

Overall top picks have fared well again in 3QCY24, but small caps have yet to recover. Our top picks as stated in our 2HCY24 outlook have performed well in quarter. However, our mid-to-small caps top picks have yet to recover from the knee-jerk market reaction to the US labour market data release in August.

Table 6: Performance of Top Stock Picks (Rank by price return since 2HCY24 outlook report)

	Price (RM) @ 25/9/24	Price (RM) @ 28/6/24	Share Price Return
Public Bank	4.63	4.02	15.2%
IHH Healthcare	7.14	6.30	13.3%
Matrix Concepts	2.00	1.78	12.4%
Hong Leong Bank	21.50	19.20	12.0%
KPJ	2.11	1.93	9.3%
QL Resources	4.61	4.35	6.0%
UOA Development	1.84	1.83	0.5%
IJM Corp	3.04	3.05	-0.3%
Fraser & Neave	30.48	31.78	-4.1%
MISC	8.14	8.52	-4.5%

Source: Bloomberg, MIDFR

Table 7: Performance of Shariah Stock Picks (Rank by price return since 2HCY24 outlook report)

	Price (RM) @ 25/9/24	Price (RM) @ 28/6/24	Share Price Return
IHH Healthcare	7.14	6.30	13.3%
Matrix Concepts	2.00	1.78	12.4%
KPJ	2.11	1.93	9.3%
QL Resources	4.61	4.35	6.0%
IOI Corp	3.85	3.70	4.1%
UOA Development	1.84	1.83	0.5%
IJM Corp	3.04	3.05	-0.3%
Fraser & Neave	30.48	31.78	-4.1%
MISC	8.14	8.52	-4.5%
Tasco	0.79	0.93	-15.1%

Source: Bloomberg, MIDFR

Table 8: Performance of FBM 70 & small-caps Stock Picks (Rank by price return since 2HCY24 outlook report)

	Price (RM) @ 25/9/24	Price (RM) @ 28/6/24	Share Price Return
Matrix Concepts	2.00	1.78	12.4%
KPJ	2.11	1.93	9.3%
Axis REIT	1.84	1.83	0.5%
UOA Development	1.84	1.83	0.5%
IJM Corp	3.04	3.05	-0.3%
Fraser & Neave	30.48	31.78	-4.1%
Allianz	20.50	22.30	-8.1%
Tasco	0.79	0.93	-15.1%
Samaiden	1.04	1.29	-19.4%
Sunview	0.48	0.75	-35.6%

Source: Bloomberg, MIDFR

Tweak to our top ten picks while using volatility as a factor. We tweak our overall top picks for 4QCY24. We continue to select stocks that have low to mid volatility amongst our BUY calls (which is between 12% to 48%. However, certain stocks do still fall into our broader sectoral themes. Our overall top picks for 4QCY24 onwards are as follows:

Table 9: Overall Top Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 25/9	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Fraser & Neave	BUY	30.48	37.00	21.4%	2.5%	23.9%	15.6	4	Yes
KPJ	BUY	2.11	2.54	20.4%	2.2%	22.6%	21.3	3	Yes
CelcomDigi	BUY	3.75	4.43	18.1%	3.4%	21.5%	29.3	4	Yes
Malayan Banking	BUY	10.70	12.11	13.2%	6.5%	19.7%	12.4	4	Yes
Maxis	BUY	3.92	4.47	14.0%	4.1%	18.1%	24.4	2	Yes
Pavilion REIT	BUY	1.44	1.60	11.1%	5.7%	16.8%	22.2	3	No
Matrix Concepts	BUY	2.00	2.22	11.0%	5.8%	16.8%	20.9	3	Yes
Public Bank	BUY	4.63	5.16	11.4%	4.2%	15.7%	20.0	3	Yes
Sunway REIT	BUY	1.65	1.81	9.7%	5.6%	15.3%	15.1	3	No
CIMB	BUY	8.28	9.11	10.0%	4.8%	14.8%	23.8	4	Yes

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

Top ten picks amongst Shariah stocks. We also have top picks for investors looking at Shariah stocks. Below are our top ten picks among Shariah-listed stocks:

Table 10: Top Shariah Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 25/9	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
IJM Corp	BUY	3.04	3.89	28.0%	2.6%	30.6%	46.8	3	No
Malayan Cement	BUY	5.21	6.60	26.7%	1.9%	28.6%	38.4	3	No
Fraser & Neave	BUY	30.48	37.00	21.4%	2.5%	23.9%	15.6	4	Yes
KPJ	BUY	2.11	2.54	20.4%	1.9%	22.3%	21.3	3	Yes
CelcomDigi	BUY	3.75	4.43	18.1%	3.4%	21.5%	29.3	4	Yes
IOI Corp	BUY	3.85	4.50	16.9%	1.7%	18.6%	17.4	3	Yes
Maxis	BUY	3.92	4.47	14.0%	4.1%	18.1%	24.4	2	Yes
UOA Development	BUY	1.84	2.06	12.0%	5.4%	17.4%	18.5	3	No
Bank Islam	BUY	2.76	3.06	10.9%	5.6%	16.4%	23.2	3	Yes
Matrix Concepts	BUY	2.00	2.22	11.0%	2.2%	13.2%	20.9	3	Yes

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

Top ten picks amongst FBM 70 and small-cap stocks. Finally, in our opinion, it is still worthwhile for investors to look at FBM 70 and Small Caps. Below are our top ten picks among FBM70 and small-caps stocks:

Table 11: Top FBM 70 Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 25/9	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Sunview	BUY	0.48	0.75	56.3%	2.2%	58.5%	42.0	-	-
Samaiden	BUY	1.04	1.57	51.0%	0.0%	51.0%	38.1	3	No
IJM Corp	BUY	3.04	3.89	28.0%	2.6%	30.6%	46.8	3	No
Fraser & Neave	BUY	30.48	37.00	21.4%	2.5%	23.9%	15.6	4	Yes
KPJ	BUY	2.11	2.54	20.4%	2.2%	22.6%	21.3	3	Yes
Axis REIT	BUY	1.84	2.14	16.3%	4.8%	21.1%	15.1	3	Yes
UOA Development	BUY	1.84	2.06	12.0%	5.4%	17.4%	18.5	3	No
Pavilion REIT	BUY	1.44	1.60	11.1%	5.7%	16.8%	22.2	3	No
Matrix Concepts	BUY	2.00	2.22	11.0%	5.8%	16.8%	20.9	3	Yes
Sunway REIT	BUY	1.65	1.81	9.7%	5.6%	15.3%	15.1	3	No

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

E. SECTOR OUTLOOK

BANKING *(Analyst: Imran Yusof)*

Carrying on into the next quarter...Maintain POSITIVE

We remain optimistic on the Banking sector's prospects. We are optimistic on; (1) Stronger loan growth, with large-scale infrastructure projects expected to drive business loans while retail loan pipeline remains resilient – loan growth has been robust and surpassed expectations previously, as business loans ramp up faster than expected, (2) Better liquidity environment outlook due initiatives by the government and BNM which will help to ease COF pressure, providing some upside to NIMs –loan yield compression is expected to be more of CY25's problem, (3) NOII outlook is attractive as better investor demand and market performance, as well as strong loan growth will help bolster fee and non-fee income balances, (4) The transition to Basel III implementation will be gradual and unlikely to be a major threat to dividend certainty.

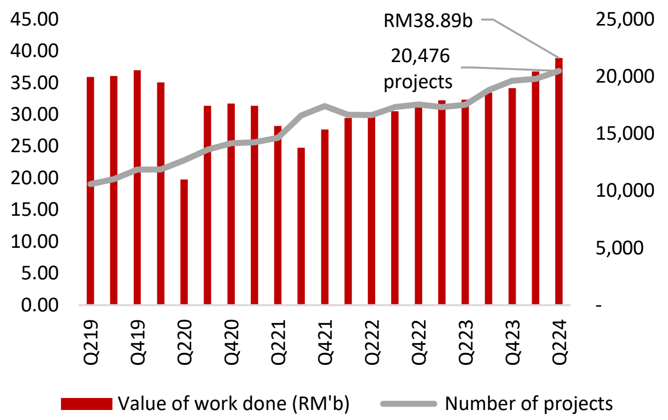
Some concerns but manageable. However, do note that there are some concerns: (1) Valuations have expanded recently, but buying opportunities exist, (2) Some banks may still encounter asset quality issues (namely RHB and Affin Bank), as SME, residential mortgage and overseas impairments continue to pile up - regardless, provisions are expected to remain in a normalised range with some banks still vying for overlay writebacks, (3) It is shaping to be an OPEX heavy year.

Our top calls are Maybank (BUY, TP: RM12.11) and BIMB (BUY, TP: RM3.06). We like Maybank due to its excellent dividend yields and strong loan growth target of 7-8%. As for BIMB, we believe it to be a core beneficiary of civil servant rate hike (given large customer base exposure) and Gear uP initiative by MOF. Meanwhile, the large chunk of clientele based outside central region, goes with recent economic corridor developments.

CONSTRUCTION *(Analyst: Royce Tan Seng Hooi)*

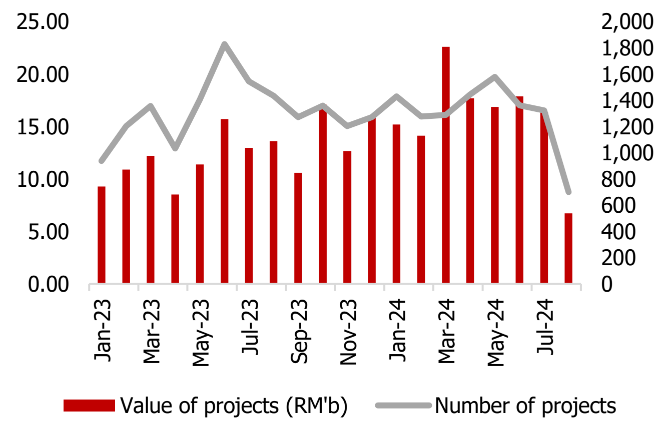
Awaiting the flow of infra projects...Maintain POSITIVE

Chart 27: Value of construction work done and no. of projects



Source: DOSM, MIDFR

Chart 28: Value and volume of contracts awarded



Source: CIDB, MIDFR

Operations at full capacity. Being among the best-performing sectors this year, we continue to expect stellar results in the final quarter of 2024 on the back of stronger progress billings as contractors advance further in terms of their ongoing projects. Our economics team forecasted a +9.8% growth for the construction sector in 2024, an improvement over our +6.1% growth in 2023. In 2025, we expect the sector to grow by another +5.0%, which will be driven by both industrial building jobs and infrastructure projects. According to the latest data compiled by DOSM as of 2QCY24, both the number of projects and the value of work done are now at record-high levels. The quarter saw RM38.89b in terms of value of work done for the 11th sequential quarter of increase, involving a total of 20,476 projects. As the construction of LRT3 wraps up, we expect the ongoing infrastructure projects such as the Pan Borneo Highway, East Coast Rail Link (ECRL), and the RTS Link, on top of the slew of data centre projects to contribute to the strong construction numbers in 4QCY24.

Time for infra jobs to come in. We reiterate our view that 2HCY24 will be driven by stronger job flows, flows with the expected implementation of government projects in line with the allocation under Budget 2024, which had set aside RM90b for development expenditure (DEVEX). As per the guidance by Deputy Works Minister YB Datuk Seri Ahmad Maslan during our luncheon talk in May-24, he estimated that about 40% or RM36b of the DEVEX is expected to be rolled out from mid-2024 which will mainly comprise schools, hospitals, clinics and roads. Among notable projects announced recently came from East Malaysia, about RM616m for Pan Borneo Sabah Phase 1B and RM1.80b for the Sabah Sarawak Link Road Phase 2. We can expect more announcements in the coming quarter, as the government has allocated RM15.70b and RM7.40b respectively for both projects under Budget 2024. We also gathered that contractors are also actively tendering for industrial building projects, especially data centres, which are strongly in demand. Industry players foresee strong job flows from data centres for at least another three to five years. Based on CIDB's statistics, a total of 10,400 projects have been rolled out year-to-date as of Aug-24, valued at RM127.38b. The same period last year saw a total of 10,742 projects awarded but at a lower value of RM94.59b.

Ending the year on a high. The final quarter of 2024 will most likely end on a strong note, with the award of the Mutiara LRT Line (Penang LRT) contract. We expect the negotiations between SRS Consortium Sdn Bhd (60% Gamuda subsidiary) and MRT Corp to be in the final stages. Recall that Gamuda was offered Segment 1 of the rail project (Silicon Island to Komtar) via a single source request for proposal (RFP), and we expect the package to come up to a tune of about RM8.0b. A portion of this could then be subcontracted to other players, generating more jobs for the sector. For 2025, we may potentially see a re-tender exercise for the MRT3 Circle Line, as the construction is expected to begin in 2026 and is anticipated to be fully operational by 2032. MRT Corp is currently holding the public inspection exercise for three months until December 2, 2024.

Maintain POSITIVE. We remain POSITIVE on the construction sector for 4QFY24 and as we head towards 2025. Industrial building projects, especially data centres, have been filling up the order book of the construction companies and we expect this trend to continue over the medium term. The impending rollout of infrastructure projects cements brighter prospects for the sector. We expect upcoming announcements on the Penang LRT, Sabah Sarawak Link Road Phase 2, Pan Borneo Sabah Phase 1B contract awards and further clarity on the MRT3 and KL-Singapore High-Speed Rail (HSR) to fan a new wave of optimism for the sector. Our top picks for the sector are **IJM Corp (BUY, TP: RM3.89)** and **Malayan Cement (BUY, TP: RM6.60)**.

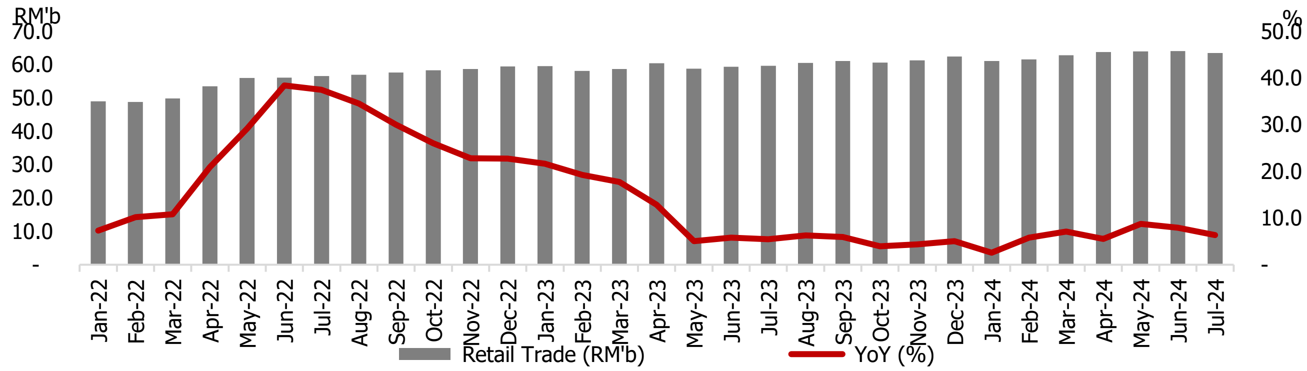
CONSUMER

(Analyst: MIDF Research Team)

Buoyed by resilient domestic spending and falling commodity prices...............................Maintain POSITIVE

Retail spending remained robust. Retail trade in Malaysia grew by +6%yoy in July 2024, reaching RM63.5b, with cumulative retail consumption hitting RM440.8b in 7MCY24, up from RM414.8b in 7MCY23 and RM369.9b in 7MCY22, primarily driven by strong growth in food & beverage (F&B), tobacco, and non-specialized stores. This surge indicates that retail sales have surpassed pre-pandemic levels, highlighting Malaysians' renewed preference for in-person shopping following the reopening of borders and economic recovery. Moving forward, we believe that domestic consumption spending can be sustainable, bolstered by a stable macroeconomic environment, steady employment rates, salary hikes for civil servants and gradual improvement in the tourism sector, which will continue to fuel retail spending. As a result, we expect local consumer staples and general merchandise stores like **Aeon (BUY, TP: RM1.67)** will continue to see strong top-line growth in CY25 supported by the upward momentum of domestic consumption.

Chart 29: Malaysia's Monthly Retail Trade (RM'm)



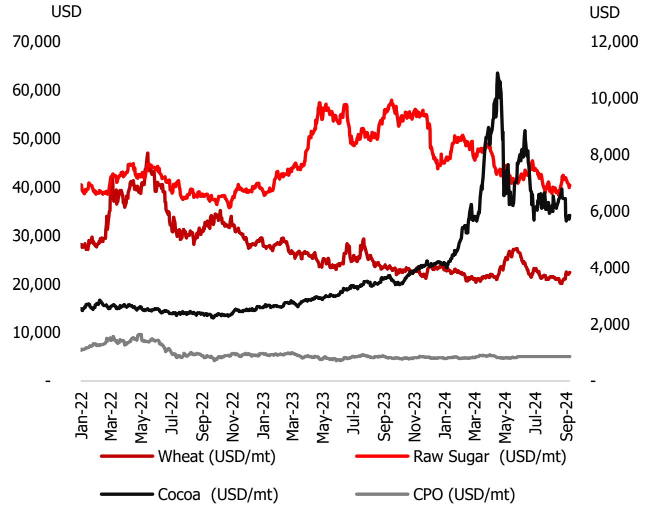
Sources: DOSM, MIDF Research

Rising disposable incomes to drive consumer spending surge. The introduction of EPF's Akaun Fleksibel (Account 3) and the upcoming civil servant pay rise in December 2024 are set to significantly boost consumer spending. Account 3 offers members flexible withdrawals, increasing liquidity and driving higher expenditure on both discretionary and essential items, particularly benefiting fast-moving consumer goods (FMCG) and retail sectors. This added financial relief, combined with the civil servant pay hike, is expected to further amplify disposable incomes, with more funds likely to be directed toward non-essential or discretionary spending. This could lead to a structural shift toward higher consumption levels, benefiting mid-to-high-end food and beverage (F&B) outlets and non-essential retailers. We remain bullish on **Aeon (BUY, TP: RM1.67)** and **Padini (BUY, TP: RM4.30)**, both of which are well-positioned to capitalise on the anticipated increase in consumer spending, with their top-line sales likely to benefit from this broader surge in liquidity and demand.

Tourism surge fuels consumer sector growth. Tourism continues to provide a strong boost to Malaysia's consumer sector, with international tourist arrivals surging in 2024. Notably, 537,000 tourists from India visited Malaysia between January and June 2024, a 51.6% increase from the same period in 2019, driven by visa-free entry policies. Total tourism receipts reached RM45.4b in the first half of 2024, surpassing pre-pandemic levels of RM41.7b in 2019. The tourism sector's strong performance is expected to further fuel retail and consumer spending, benefiting companies in the F&B, hospitality, and retail segments. Under our coverage, we see **Spritzer (NEUTRAL, TP: RM2.78)** as a key beneficiary, given the increased demand for bottled water from the rising influx of international tourists.

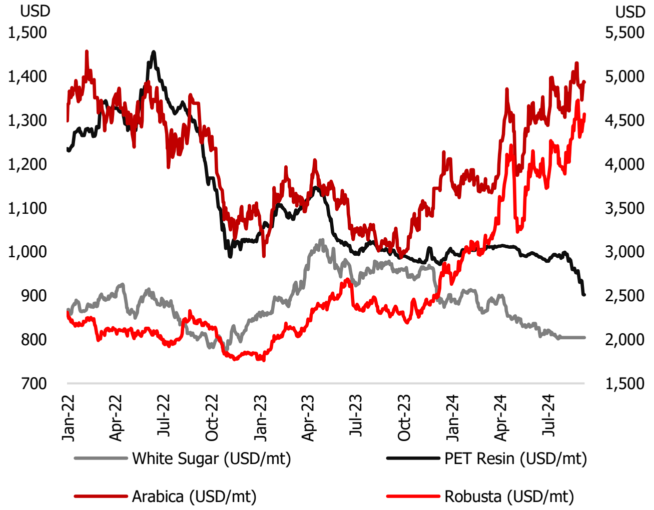
Declining commodities indicate better margins ahead part. The recent decline in commodity prices signals the potential for improved margins ahead for food producers. While key commodities such as cocoa, arabica, and robusta continue to see upward price trends as of September 2024, other crucial commodities like wheat, sugar, and PET resin have experienced price declines of approximately 5%yoy, 24%yoy and 9%yoy respectively. This normalisation in global commodity prices is expected to gradually reduce raw material costs, thereby supporting profit margins for producers. Companies like **Hup Seng Industries (NEUTRAL, TP: RM1.04)** and **Nestle Malaysia (NEUTRAL, TP: RM126.00)** are well-positioned to benefit from this trend. Moreover, despite higher cocoa prices, food producers with strong brand equity such as Nestle are better equipped to manage cost pressures. The continued demand for cocoa-related products, coupled with their pricing power, enables them to pass on these higher input costs to consumers without significantly affecting demand. Therefore, while raw material costs may fluctuate, these companies are expected to maintain profitability through strategic pricing and brand resilience.

Chart 30: Price Trend of Raw Materials for Food Producers (USD/mt)



Sources: Bloomberg, MIDF Research

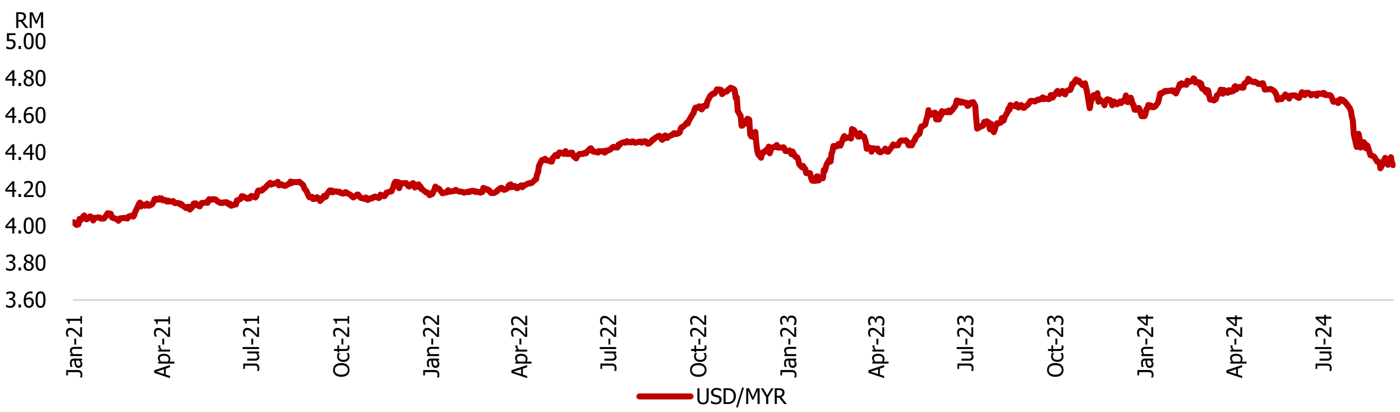
Chart 31: Price Trend of Raw Materials for Beverage Producers (USD/mt)



Sources: Bloomberg, MIDF Research

Strengthening ringgit. As of 20 September 2024, the ringgit has strengthened to RM4.20/USD from RM4.69/USD a year prior, marking a 10%yoy appreciation driven by improved foreign capital inflows, higher crude oil prices, and favourable interest rate differentials. Our in-house economists forecast the ringgit to average RM4.15/USD in 2025, providing a buffer against elevated commodity prices, particularly benefiting food and beverage (F&B) and poultry players who source inputs in USD, as the stronger currency helps reduce costs. Companies such as **Hup Seng (NEUTRAL, TP: RM1.04), Spritzer (NEUTRAL, TP: RM2.78),** and **Leong Hup (BUY, TP: RM0.80)** are expected to benefit from stronger local sales and cheaper imports of raw materials, packaging, and machinery, potentially improving profit margins. **Nestle Malaysia (NEUTRAL, TP: RM126.00)** is also well-positioned, given that 80% of its sales are domestic despite importing most of its raw materials in USD. Every 5% depreciation of the USD is estimated to boost Nestle's earnings by 1%. However, the appreciation poses challenges for export-oriented companies like **Asia File (NEUTRAL, TP: RM2.05)** and **Rhong Khen (BUY, TP: RM1.60),** which are likely to see lower sales as their USD-denominated revenues shrink when converted to ringgit. Despite this, the overall outlook remains balanced, with the stronger ringgit expected to alleviate cost pressures in commodity-dependent sectors while stabilising market conditions.

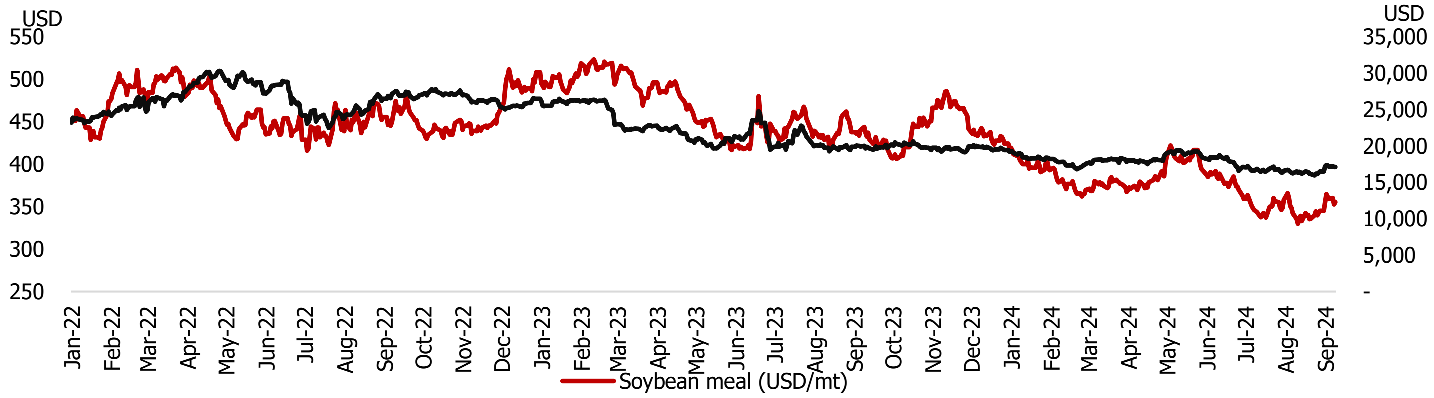
Chart 32: Price Trend of USD/MYR



Sources: Bloomberg, MIDF Research

Lower feed costs benefit poultry. Since the beginning of 2024, feed costs have been on a steady decline, driven by stabilised prices for corn and soybean meal. Year-to-date, soybean prices have fallen by 17% to USD353/mt, while corn prices have dropped by 13% to USD16,968/mt. This downward trend is promising for poultry producers, as feed costs typically account for 65-75% of total production expenses, with corn contributing 55-69% and soybean meal making up 19-32% of chicken feed costs. Lower feed prices are expected to improve profit margins for poultry players. Looking ahead, we are optimistic that global corn and soybean meal prices will remain low in 2025 due to abundant supply from key exporting countries, further benefiting poultry producers by reducing costs and enhancing margins. However, the decline in feed prices may negatively impact feed mill businesses and animal feed traders, which operate on a cost-plus margin basis. At the same time, ongoing government subsidies for egg producers will help offset cost pressures, sustaining profit margins. Overall, poultry companies like **QL Resources (BUY, TP: RM7.25)** and **Leong Hup (BUY, TP: RM0.80)** are well-positioned to benefit from these trends, with lower feed costs and continued government support providing a favourable outlook for the sector.

Chart 33: Price Trend of Raw Materials for Poultry Players (USD/mt)



Sources: Bloomberg, MIDF Research

Maintain POSITIVE. We maintain positive about the sector's outlook for CY25, supported by several key factors: (1) a stable labour market that continues to support domestic consumption, (2) ongoing growth in consumer spending driven by favourable private consumption and GDP growth, (3) the introduction of EPF's Akaun Fleksibel (Account 3), offering consumers greater access to funds, which is expected to significantly boost consumer spending, (4) higher tourist arrivals, further supporting retail sales, and (5) improved margins for food & beverage producers, benefiting from declining global commodity prices and a stronger ringgit.

Our top picks for the consumer sector are **QL Resources (BUY, TP: RM7.25), F&N (BUY, TP: RM37.00),** and **Aeon (BUY, TP: RM1.67).** We favour QL Resources due to its strong positioning to benefit from rising demand for marine products, coupled with the global chicken egg shortage, which should further support earnings growth. F&N stands out as it is well-placed to capitalize on the increasing out-of-home consumption, with its strategic foray into integrated dairy farming set to enhance its revenue streams. Meanwhile, Aeon is expected to perform well as robust domestic demand, especially for essential goods, continues to drive sales in its general merchandise stores and supermarkets.

OIL & GAS

(Analyst: MIDF Research Team)

Geopolitical tensions, supply-demand boxing prices at an uncertainty............................Maintain POSITIVE

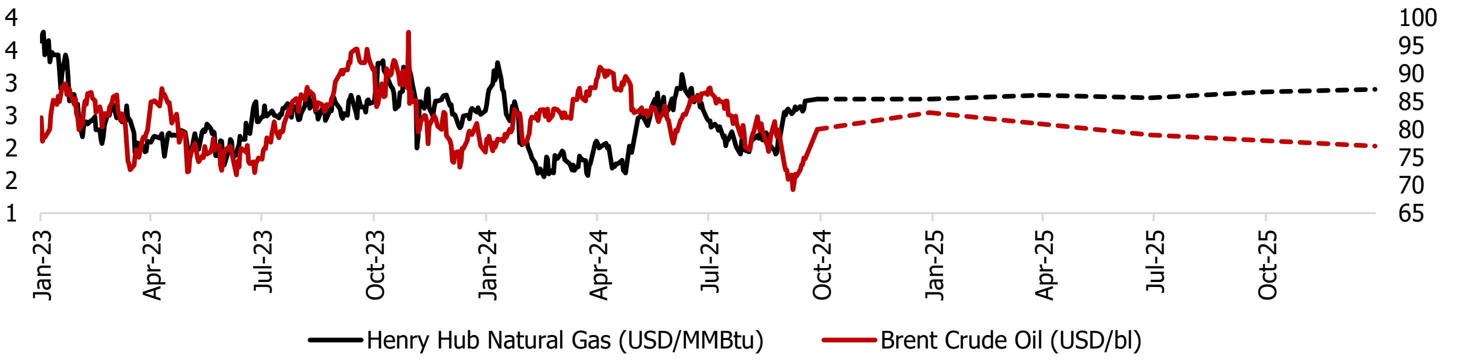
Demand slowdown amid relatively high crude prices. Oil prices are expected to remain relatively elevated and stable for the remainder of the year, driven by several factors: (i) continuous OPEC+ production cuts, (ii) ongoing geopolitical tensions, and (iii) a slowdown in US crude production amid weather concerns. However, the anticipated slower global oil demand and oversupply from the North and South American region - barring the results of the upcoming US election – could drag crude oil prices towards the end of the year. We also noted that the sector is transitioning and adapting its focus on carbon capture and storage (CCS), hydrogen fuel, biofuel and other carbon-efficient technologies. We expect that the transition will continue to be developed well into CY25-26. Overall, we expect the sector to maintain its strong financial health in both conventional and low-carbon energy projects. We maintain our CY24 average Brent crude oil price at USD83pb (YTD24 average: USD82pb) based on the: (i) ongoing impact of geopolitical tensions on energy security and freight rates, (ii) continuous OPEC+ production cut by Saudi Arabia and Russia, and (iii) weakening USD supporting demand for cheaper oil amid slowdowns in China and Japan.

For our local front, we break down our views into the following:

UPSTREAM

Upstream activities are expected to remain robust in 4QCY24, supported by the elevated oil prices and the contractual basis of the upstream projects. As such, we foresee our local OGSE companies continuing their resiliency in this division, especially in the new build and niche machinery production. We also noted that 4QCY24 may be a maintenance season for most upstream players, and while OGSE companies specialising in MRM operations will benefit from this demand, operators of upstream assets may see a slight downtime in upstream activities. This slowdown is also added by the expectations of the onset of La Nina and a longer-than-expected cold winter. The general challenges continue to be labour shortages and project divestments amid the energy transition boom, as well as supply chain disruption caused by increased raw material prices. Nevertheless, we expect that business will be as usual up until the end year.

Chart 34: Brent Crude Oil v Henry Hub Natural Gas (Forecast)

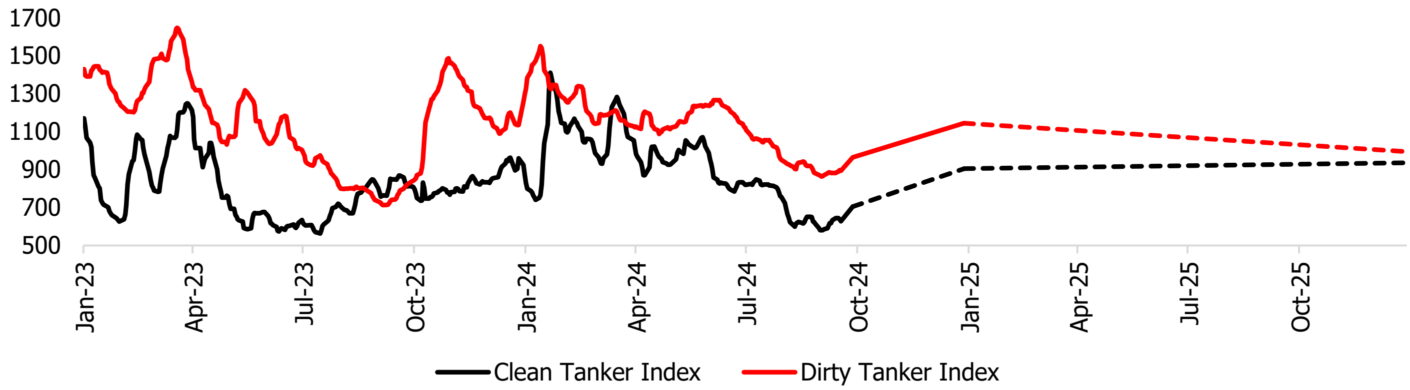


Source: Bloomberg, MIDFR

MIDSTREAM

We anticipate LNG to be at the forefront of demand despite the lower production supply of natural gas. This is in line with Malaysia's aspirations to be a top exporter of LNG, following the many discoveries of gas fields in offshore Sarawak since CY23, as well as to fulfil NETR and NIMP 2030 for an energy fuel alternative moving forward. As such, we reiterate our positive view that the demand for LNG carriers (LNGC) will remain robust in the remainder of CY24 following an expected stabilising tanker rate for petroleum products (clean tanker). Meanwhile, the continuous geopolitical tension in Eastern Europe and the Middle East is also expected to reduce demand for most tankers amid security concerns. We believe this to be the leverage for the storage farms to increase utilisation in the near term. The downside risks for this division continue to be the higher raw material prices and unexpected higher tanker rates, influenced by the volatile crude oil prices and uncertainties in the geopolitical field.

Chart 35 Baltic Tanker Rates Index (Forecast)



Source: Bloomberg, MIDFR

DOWNSTREAM

Malaysia's production of refined petroleum is expected to remain strong amid higher demand for fuel oil, attributable to higher travelling amid festivities and winter holidays. A notable change that we anticipate in 4QCY24 is the return of demand for petrochemicals, as product prices and feedstock supply are expected to be lowered while demand ceases its slowdown. The petrochemical subindustry is anticipated to pick up traction by the end year, with full plant utilisation forecasted between 96-100% capacity, although external challenges may persist. Additionally, we anticipate higher demand for speciality chemicals nationwide, as industrials are expected to procure cleaner petrochemical products as part of their ESG adherence. However, the risks for petrochemicals remain to be: (i) increased competition with China, (ii) feedstock supply overload amid a slowdown in global demand, (iii) slowdown in plantation season amid weather changes and (iv) changes in local regulations regarding the production and sales of petrochemical products.

CY25 PRELIMINARY OUTLOOK

UPSTREAM

Moving forward into CY25, we are expecting the geopolitical tensions in Eastern Europe and the Middle East to remain, if not slightly from CY24, barring any substantial impact from the Presidential election in the US in CY24. This scenario could impact the import and export of crude oil and natural gas from this region, causing uncertainties on the supply side as well as demand from other regions, notably East Asia. As such, we are expecting Brent crude oil price would hover below USD80pb and above USD76pb – lower than the CY24 forecasted average but a comfortable range for most oil and gas players in all divisions. Meanwhile, we expect Henry Hub to be higher in CY25 than the CY24 forecast of USD2.22pMMBtu but remain below USD3pMMBtu. This is backed by the anticipation of a growing demand for natural gas and LNG, in tandem with growing investments in energy transition. Nevertheless, our local upstream is expected to continue its business as usual, in line with the contractual basis of its respective projects. In CY25, we are expecting more rig counts in the region, considering the 19 discoveries of oil and gas reserves in CY23, and 7 discoveries in CY24 (to date); contributed by PETRONAS's Production Sharing Contracts with local and regional OGSE companies.

MIDSTREAM

By CY25, we are expecting a higher push into the gas market, in consideration of Malaysia's initiatives in energy transition. NETR had highlighted projects for carbon capture and storage (CCS), namely Kasawari, Lang Lebah and BIGST. While the full success of CCS in this region has yet to be achieved as of writing, case studies have supported that CCS not only reduces carbon emissions for oil and gas production fields but also increases the ESG value of the upstream oil and gas via offshore operations, development and transportation. Additionally, LCO2 and H2C are opportunities that can be tapped by the marine transportation segment in part of the CCS and hydrogen fuel projects. Meanwhile, we are expecting the demand for LNG to remain stronger, subsequently elevating charter rates for carrier fleets. However, the risks remain to be the higher raw material prices required for retrofits, construction and maintenance. Pipelines and storage farms are expected to continue their resiliency, more so with the expectation that the geopolitical tensions in the Middle East – notably the Red Sea Blockade – would divert marine tankers to utilise onshore facilities.

DOWNSTREAM

While NETR and NIMP 2030 had emphasised the commercial usage of natural gas and hydrogen for various industrial, commercial and residential applications for the sake of energy security within the nation, we still believe that petroleum products will remain in demand in the market. With a lower forecasted average for crude oil prices, we expect that refined petroleum products and petrochemical products could give better profit margins for the downstream retailers. CY25 will continue to see a robust operation for the downstream division, although we opine that natural gas might take centre stage in CY25 instead of crude oil. We are expecting LNG prices to be boosted in parallel with the expected slowdown in crude oil prices, on the back of the clean fuel movement and the recovery of the petrochemical subsector.

Maintain POSITIVE. All in all, we remain positive for the oil and gas sector. We believe the upstream division has the leverage on its long-term contractual operations with perceived cyclical risks in shutdown and maintenance, despite volatility in crude oil and natural gas prices. We also expect the midstream to see an increase in demand for storage farms and pipelines, as marine tankers still face the risk of supply chain disruptions and volatile charter rates in dependence on crude oil and geopolitical tensions. As for the downstream, continuous demand for industrial, commercial and residential fuel is expected to rise amid stronger MYR currency against USD, and higher travelling prevalence coming into the winter season. We also anticipate that demand for petrochemical products has started to increase amid feedstock prices falling off from the volatile crude oil prices, although full recovery may only be visible coming into CY25.

Our forecasts remain to be challenged by external drivers, including: (i) shifting demand for crude petroleum and petroleum products regionally and locally, (ii) inflation pressures affecting raw material prices and charter rates, (iii) ongoing geopolitical issues in Eastern Europe, Middle East and East Asia threatening volatility in crude oil and natural gas prices, and (iv) ongoing crude oil supply cuts by OPEC+. We are also anticipating the trajectory of the overall sector and the responses to any changes following the escalations in the geopolitical field and the upcoming US election, which could impact the supply-demand of crude oil and natural gas in the mid-to long-term.

Our top picks for the sector are **Bumi Armada (BUY, TP: RM0.67)** for Upstream, **Petronas Gas (BUY, TP: RM18.75)** for Midstream and **Petronas Dagangan (BUY, TP: RM24.91)** for Downstream. We like these companies for their: (i) robust order book and balance sheet, (ii) resilient operations amid high crude oil price volatility and other uncertainties, (iii) strong business model, and (iv) expectations of leveraging on-demand recovery for crude petroleum and petroleum products.

HEALTHCARE

(Analyst: MIDF Research Team)

Healthcare providers to catch up on future patient demand……………………………………….Maintain POSITIVE

The ageing population and higher NCD prevalence accelerates demand for services. The growing ageing population remain an upside trend for the sector, as bed occupancy rate (BOR) and inpatient visits are expected to rise along with the demand for pharmaceutical products in treating non-communicable diseases (NCDs) and rare illnesses. Additionally, unhealthy lifestyles and lower healthcare awareness have started to cause a rise in NCD prevalence among the adult populace between 25-55 years of age on a global scale, subsequently increasing the demand for hospitals and clinics specialising in the prevention and treatment of NCDs in the long run. Thus, we expect healthcare providers to leverage this trend through efficient asset management and expansion while ensuring strong operational activities toward the end of the year. We are also positive about the continuous interest in advanced medical technology among the providers to increase its operational efficiency amid shortages of medical specialists. We believe this will continue to be a positive leverage for the subsector moving forward. All in all, we opine that the healthcare providers subsector to remain robust in 4QCY25, despite the challenges of (i) medical personnel and nursing shortages, (ii) changes in governmental policies and regulations, (iii) upskilling for AI technology and digitalisation, and (iv) inflationary pressures on operational costs.

CY25 PRELIMINARY OUTLOOK

Stronger policies and regulations for ancillaries and MedTech. Moving forward into CY25, we anticipate that BOR and inpatient visits to both public and private hospitals and medical institutions to remain strong on the back of increased medical tourism demand, rising ageing population and higher prevalence of NCDs. Additionally, we expect the healthcare services to continue investing in new and advanced medical technology, including AI-based technology to increase the quality of healthcare services, reduce diagnosis and screening time, and reduce the doctor-to-patient ratio. We anticipate that, in CY25, public health remained a priority with governmental funding expected to be directed towards the advancement of technology and infrastructure of healthcare providers.

Maintain POSITIVE. All in all, we maintain our positive stance on the healthcare sector. However, we still keep an eye on disruptions to our forecast that may occur due to: (i) an unfavourable global economic environment causing lower demand for services, (ii) increasing labour costs consequent to shortage of medical personnel, (iii) higher manufacturing costs for medical ancillaries amid volatile raw material prices, and (iv) geopolitical tensions and natural disasters that could affect private institutions operating in the affected regions. We believe these risks, however, will be offset by the increasing demand for hospital treatments in line with the increasing ageing population and medical tourism, as well as the higher NCD prevalence globally. Additionally, we continue to be optimistic about the government's support for the healthcare sector, in line with the Malaysia MADANI policies moving forward.

Our top picks remain **IHH Healthcare (BUY, TP: RM7.35)** and **KPJ Healthcare (BUY, TP: RM2.54).** We expect that healthcare providers will continue to maintain their resiliency, amid the advancement of medical technology and improvement of regulations. We are positive on both companies, on the strength of (i) increasing demand for inpatient treatments, surgeries and deliveries following the rising ageing population, increase in NCD prevalence and rising medical tourism demand, (ii) financial resiliency in its local and foreign businesses, mitigating higher operational expenses, (iii) continuous lookout for opportunities to expand footprints locally and regionally, subsequently catering to the growing demand, and (iv) increasing the governmental budget for the sector that covers partnerships between private and public healthcare providers, as well as financial access to patients.

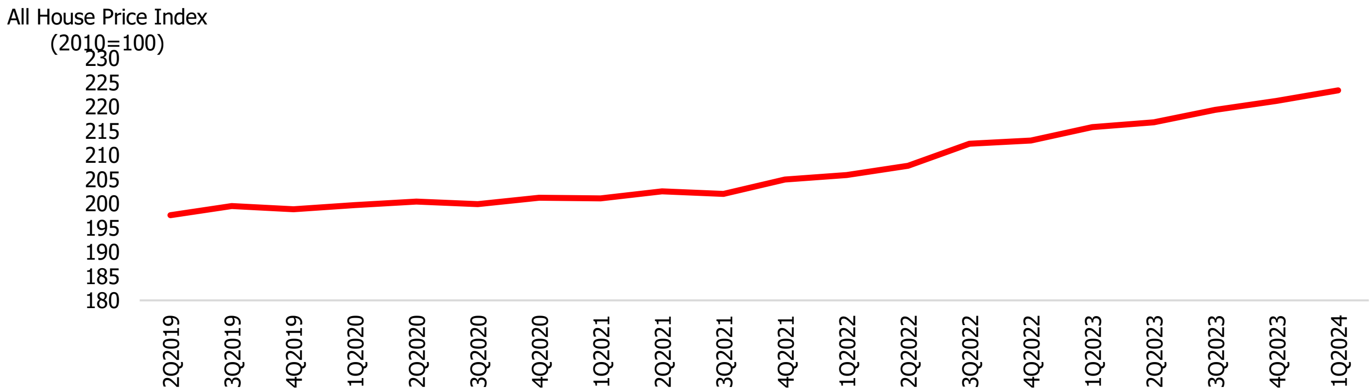
PROPERTY

(Analyst: Jessica Low Jze Tieng)

Positive prospect intact ……………………………………………………………………………Maintain POSITIVE

Stable outlook for house prices in Malaysia. Property prices in Malaysia have been growing steadily and remain on an uptrend. Data from the National Property Information Centre (NAPIC) shows that the House Price Index (HPI) rose marginally to 223.4 in 2QCY24 from 221.2 in 1QCY24. HPI was subdued in 2020 and 2021 due to the Covid-19 pandemic but subsequently staged a recovery in 2022 after the reopening of the economy. The uptrend of HPI shows the resiliency of the property market in Malaysia despite the pandemic. Hence, we think the resilient HPI will improve the confidence of property buyers in Malaysia. Looking ahead, we think that house prices in Malaysia should grow steadily due to the stronger buying interest on property and rising inflationary pressure.

Figure 36: Malaysia House Price Index



Source: NAPIC, MIDF Research

Property overhang declined in 2QCY24. According to data released by NAPIC, the residential overhang improved to 22,642 units in 2QCY24 from 24,208 units in 1QCY24 and 26,286 units in 2QCY23. The residential overhang is at the lowest level since 2018. Perak has the highest number of residential overhangs in 2QCY24 at 4,161 units (1QCY24: 4,588 units) followed by Johor with 3,219 units (1QCY24: 3,629 units) and KL with 3,051 units (1QCY24: 3,194 units). Meanwhile, serviced apartment overhang in Malaysia declined to 21,158 units in 2QCY24 from 21,913 units in 1QCY24, led by a decrease in serviced apartment overhang in Johor to 12,618 units in 2QCY24 from 13,027 units in 1QCY24. Overall, the declining overhang in residential and serviced apartments is positive for the property sector as it alleviates concern about the oversupply of properties in Malaysia and keeps buying interest on property supported.

Demand for property stays strong. Buying interest on the property is stronger in 7MCY24 as data from Bank Negara Malaysia shows that loan application for the purchase of the property was higher at RM370.1b (+6.1%yoy). We opine that the stronger buying interest in property was due to the improving outlook for the property sector post-reopening of the economy. Looking ahead, we think that buying interest to remain encouraging in 4QCY24 and CY25 on the back of improving the fundamentals of the property sector with a stable house price outlook and lower property overhang. Besides, OPR is maintained at 3% which should keep buying interest on property supported.

Johor-Singapore SEZ and RTS catalysts beyond 2025. Moving into CY25, The Johor-Singapore Special Economic Zone (SEZ) and The Johor Bahru–Singapore Rapid Transit System (RTS) Link will remain as the medium-term catalysts for the property sector. The Johor-Singapore SEZ is aimed to boost trade and strengthen economic connectivity between Malaysia and Singapore. Hence, that will spur buying interest from locals and foreigners on properties in Johor. On the other hand, RTS Link has reached 83% completion as of July 2024 and is on track to start operations in January 2027. The RTS will improve connectivity between Johor Bahru and Singapore significantly and boost demand for property in Johor. On another note, property developers in Malaysia are expected to continue benefitting from the strong demand for data centres in Malaysia which will allow developers to unlock the value of their landbank through land sales or enhance the development value of their landbank by participating in the data centre ventures.

Maintain POSITIVE. We maintain our **POSITIVE** stance on the property sector as we see that buying interest on property remains encouraging in CY25 and that will support new property sales growth and earnings growth of property companies. **Our top picks for the sector are Mah Sing Group (BUY, TP: RM1.97) and Matrix Concepts (BUY, TP: RM2.22)**. We remain positive on Mah Sing as new sales prospects of the company will be supported by strong buying interest in affordable residential projects. Besides, its diversification into data centres will provide recurring income in the long term. We also like Matrix Concepts as its landbank acquisition in MVV 2.0 will strongly propel earnings growth beyond FY27 as Matrix Concepts targets having the first property launch on MVV 2.0 land in 2HFY26. Meanwhile, the dividend yield of Matrix Concepts is attractive, estimated at 5.2%.

REITs

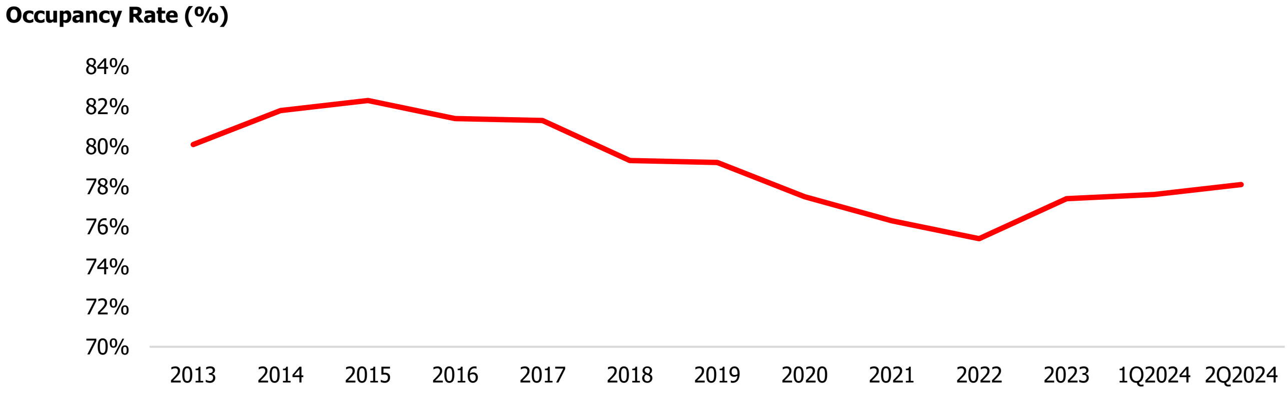
(Analyst: Jessica Low Jze Tieng)

Promising outlook ……………………………………………………………………………………………Maintain POSITIVE

Positive earnings outlook for CY25. REIT reported decent earnings growth in 1HCY24 with most of the retail REIT reported earnings growth. The earnings increase was underpinned by the recovery of the retail sector post-pandemic as shopper footfall at malls returned to pre-pandemic level. That led rental reversion of shopping malls to return to positive territory in 1HCY24. Meanwhile, industrial REIT, namely Axis REIT recorded strong earnings growth in 1HCY24 due to contributions from Bukit Raja Distribution Centre 2 and newly acquired assets. Moving ahead, the earnings outlook for REIT in CY25 is expected to remain stable with organic growth stemming from positive rental reversion.

Bright outlook for the retail sector. Outlook for the retail industry is expected to remain bright in CY25 as consumer spending at shopping malls remains resilient. Shopper footfall at shopping malls is expected to remain strong, which will underpin tenant sales. Meanwhile, data from the National Property Information Centre (NAPIC) shows that the occupancy rate of shopping complexes in Malaysia continues to recover post-pandemic. The occupancy rate of the shopping complex dipped to 75.3% in 2022 due to the impact of the lockdown and subsequently recovered to 77.4% in 2023. Meanwhile, the occupancy rate of the shopping complex increased further to 78.1% in 2QCY24 from 77.6% in 1QCY24 as the retail sector in Malaysia remains resilient. Hence, we think that the bright outlook for the retail industry will underpin the rental growth of retail REITs namely IGB REIT, Pavilion REIT, and Sunway REIT.

Figure 37: Occupancy rate of shopping complex in Malaysia

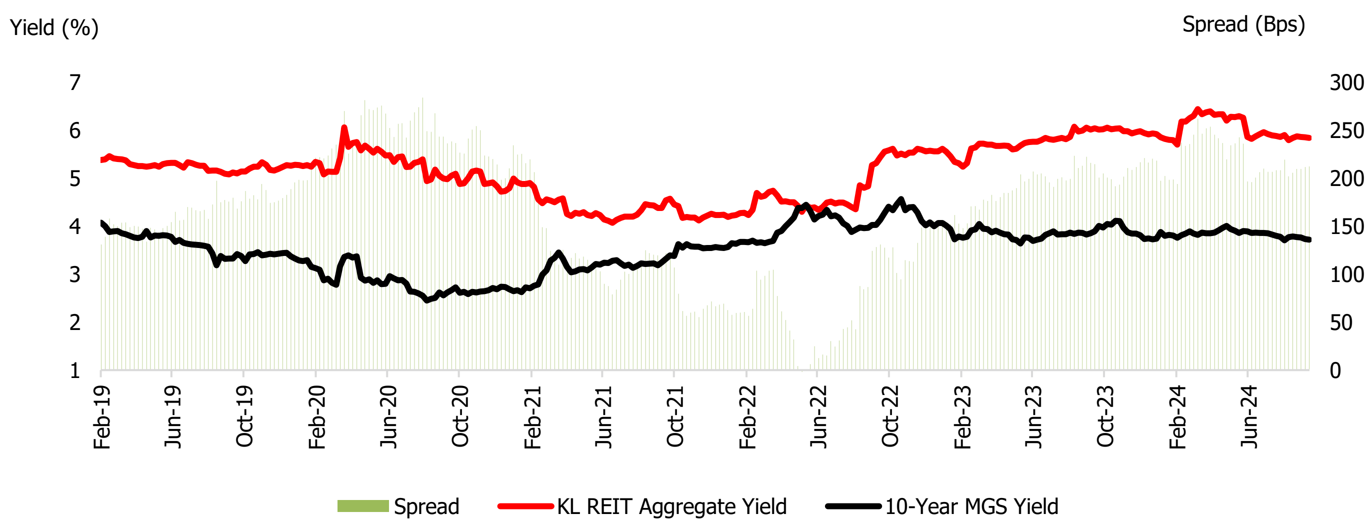


Source: NAPIC, MIDF Research

REIT is in the pipeline. REITs are expected to attract more attention from investors in CY25 as there are few REITs estimated to list on Bursa Malaysia. Firstly, WCT Holdings Berhad is establishing a new REIT named Paradigm REIT which will be listed on the Main Market of Bursa Malaysia. Paradigm REIT is a retail REIT which will have three assets under management namely Bukit Tinggi Shopping Centre, Paradigm Mall Petaling Jaya and Paradigm Mall Johor Bahru. Meanwhile, S P Setia is also looking to list its investment assets as it started pre-IPO works for REIT. The REIT may include retail complexes, office buildings, schools and a convention centre. In a nutshell, the listing of a new REIT on Bursa Malaysia is expected to improve investors' interest in REITs as there are more REITs available for investors.

Attractive yield. The U.S. Federal Reserve is easing its monetary policy as it cut interest rates for the first time in four years in mid-September. The easing of monetary policy is expected to result in higher funds inflow to Asia which may compress the yield of fixed-income assets such as 10-year MGS yield. The compression of the yield of fixed income assets is expected to increase the attractiveness of REIT as the spread between the 10-year MGS yield and aggregate yield of REIT widened. Note that the current spread between KL REIT aggregate yield and 10-year MGS yield is 210bps which is above its 5-year average spread of 160bps. Hence, the yield of REIT is attractive to investors, and we expect investors' interest in REIT to be sustained by the easing monetary policy of the U.S. Federal Reserve.

Figure 38: Spread between KL REIT aggregate yield and 10-year MGS yield



Source: Bloomberg, MIDF Research

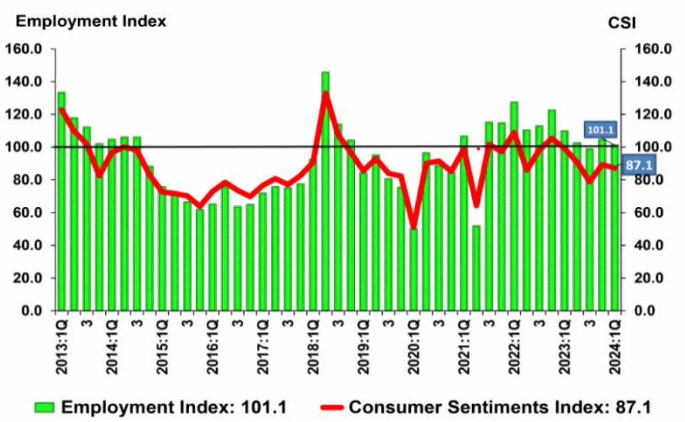
Maintain POSITIVE. Overall, we remain positive on REIT as the outlook for 4QCY24 and CY25 remains bright. We expect earnings of retail REIT to be supported by organic growth of positive rental reversion as shopper footfall recovers to the pre-pandemic level. Besides, the higher tourist arrival could further boost the retail industry in Malaysia. Meanwhile, the performance of industrial-focused REITs should remain stable as demand for industrial assets in Malaysia remains strong. All in all, we are maintaining our **POSITIVE** stance on REIT. Our top picks for the sector are **Sunway REIT (BUY; TP: RM1.81)** and **Pavilion REIT (BUY; TP: RM1.60)**. We remain positive on Sunway REIT as we see a better earnings outlook for Sunway REIT beyond FY25 due to stronger earnings contributions from the retail division after the reconfiguration of Sunway Pyramid Mall was completed. Besides, its hotel division will benefit from the higher tourist arrival. Similarly, we also see stronger earnings prospects for Pavilion REIT as the rental reversion outlook for Pavilion Mall KL remains positive while earnings contribution from Pavilion Bukit Jalil Mall will further support earnings growth.

AUTOMOTIVE

(Analyst: MIDF Research Team)

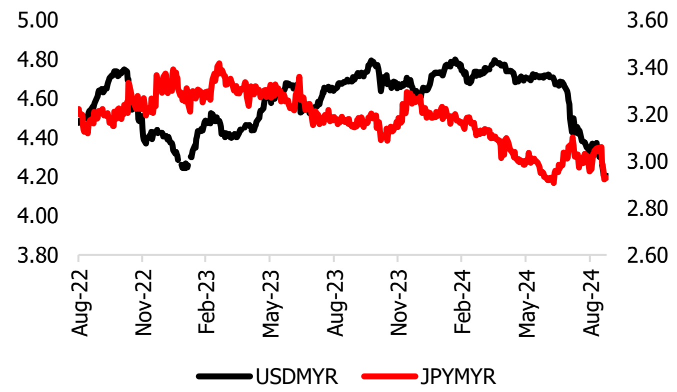
Declining order backlogs...Maintain NEUTRAL

Chart 39: MIER Consumer Sentiment Index



Source: MAA, BNM, MIDFR

Chart 40: USDMYR and JPYMYR



Source: Bloomberg, MIDFR

TIV is expected to contract this year. The total industry volume (TIV) for Aug-24 reached 71,162 units (Jul-24: 72,844), down -2.3%yoy. This brought the TIV for 8MCY24 to 533,301 units (8MCY23: 503,783 units), reflecting a +5.9%yoy increase. Most of the major marques recorded a decline in unit sales, with Proton (-10%), Toyota (-17%), and Honda (-5%) seeing year-on-year decreases. In contrast, Perodua set a new record for monthly sales, hitting 34,722 units, which reflects an +11.6%yoy growth. To recap, the Malaysian Automotive Association (MAA) raised its TIV forecast for CY24 to 765,000 units in Jul-24, up from the initial estimate of 740,000 units. The revised forecast remains about -4.0% lower than the record sales of 799,731 units achieved in CY23.

Major marques have faced declines in their order backlogs. Perodua's backlog has decreased to 100k units, down from 155k units in mid-CY23 and over 200k units at the beginning of last year. Other key players are experiencing a similar trend, with Toyota's backlog declining to 20k units and Mazda's dropping to 1.6k units from 49k units and 4.5k units, respectively, around the same period last year. Perodua has set a vehicle sales target of 330k units for this year, matching last year's figures, but believes that this target could be exceeded due to the strong current demand for affordably priced vehicles.

Tailwinds from a stronger local currency. Year-to-date, the Ringgit has appreciated by over +9.0% since end-CY23, with the local currency trading below RM4.20 against the Dollar. Our economics team has updated its projection for the Ringgit, expecting it to close CY24 stronger at RM4.03 (end-CY23: 4.59) and to average around RM4.56 for the year, the same as in CY23. The sector generally benefits from a stronger MYR, as it reduces the costs of imported components. Non-national car manufacturers particularly gain from this, given their heavy reliance on imported CKD kits and CBUs. In contrast, national car makers experience less impact from currency fluctuations, thanks to their high localisation rates, which range from 80% to 95% for their models. **Tan Chong (NEUTRAL, TP: RM0.77)** stands to benefit the most as over 90% of its purchases are denominated in USD. Meanwhile, MYR is still relatively stronger against the JPY, with the JPYMYR appreciating by +11% year-to-date, benefiting JPY-exposed companies like **BAuto (BUY, TP: RM3.03)**.

Maintain NEUTRAL. Given the expected cyclical downturn, we are reiterating our NEUTRAL outlook on the auto sector. Year-to-date TIV numbers now represent 78% of our full-year forecast and 70% of MAA's estimates. We see potential for an upside, driven by strong sales volume from Perodua. We are keeping our CY24F TIV forecast at 688,000 units (-14.0%yoy), which remains under review. TIV performance in Sep-24 could be weaker on a month-on-month basis due to Perodua's scheduled maintenance shutdown. Our only top pick is **BAuto (BUY, TP: RM3.03)**, a laggard in the sector, trading at -0.5SD below its historical mean while offering an appealing dividend yield of 10%. Upcoming launches include the Mazda CX-60 and the Kia Sportage (CBU) in 4QCY24, with the latter anticipated to boost volume in FY25F.

GLOVES

(Analyst: Martin Foo Chuan Loong)

A better supply-demand equilibrium……………………………………………………………………..Maintain NEUTRAL

Steady growth. We are keeping our NEUTRAL recommendation on the glove sector. Demand continues to stabilise during the pandemic period. In light of this, there has been industry consolidation, capacity streamlining as well as the exit of newer entrants. We view that these developments should create some breather for the incumbents. Moving forward, we expect demand for gloves to improve at a steady rate, owing to greater hygiene awareness. The latter could also limit any potential uptick in demand should there be any outbreak resurfacing. This is seen in the ongoing Monkeypox outbreak which has yet to translate into any surge in demand for gloves. At this juncture, we see little room for glove manufacturers to increase the ASP significantly to remain competitive as well as achieve a favourable utilisation rate. Nonetheless, we expect this to be an increasingly difficult ordeal as production cost seems to be on the uptrend. On another note, the ongoing trade war between China and the US appears to benefit other glove manufacturers in the region. With the higher tariff, Chinese glove manufacturer would lose their competitiveness in the U.S. This will pave the way for other glove manufacturers to fill the void. Nonetheless, we do not discount the possibility that the U.S. may extend such tariffs to other countries to protect their local manufacturers. On the other hand, in the absence of access to the U.S. market, the Chinese glove manufacturer may turn its focus elsewhere to make up for the declining U.S. market. To recall, similar instances were seen in 2019 before the U.S. reversed its decision, following the onset of the Covid-19 pandemic.

Heightened tariff. The United States Trade Representative (USTR) announced a plan to raise tariffs on Chinese medical and surgical gloves from 7.5% currently to 50% in January 2025, with a further increase to 100% by January 2026. This is expected to ease competition between China and other Southeast Asian manufacturers, including Malaysia. While we expect the move will translate into higher demand for gloves as well as potentially higher average selling price, it remains to be seen the extent of such a positive spillover effect. Also, we do not discount the possibility that the U.S. could extend the tariff hike to other countries in order to protect their local manufacturers. Given the higher barrier of entry, China could potentially turn its focus away from the U.S. to other countries, thus intensifying competition outside of the U.S.

More upside for ASP? Competition has always led to little room in attaching favourable ASPs to the glove manufacturer, especially in the case of rising production costs. There is a need to strike a balance between competitive pricing and a healthy plant utilisation rate. Thus, internally, a lot of effort has been made to make operations much more efficient via the adoption of new technologies to offset the rising production cost. Fortunately, the ongoing trade war between China and the US is in favour of the glove manufacturer outside of China. While we may see some ASP hikes to partially absorb the higher production cost, this may be limited in view of ongoing competition.

However, we may not see significant repricing in glove prices in view of the competition. In addition, glove manufacturers may prioritise having a healthy utilisation plant rate to obtain a sustainable profit margin.

Not expecting an uptick in demand. Demand for gloves has been normalising since the end of the Covid-19 pandemic. Nonetheless, the pandemic has led to heightened hygiene awareness which will support the long-term demand for gloves. Occasionally, there could be an outbreak such as the recent concern on Monkeypox (MPOX). However, any uptick in demand would depend on the extent of such outbreak. Taking a cue from the Covid-19 pandemic, we expect healthcare practitioners would be more prepared to contain such an outbreak. Thus, we anticipate overall improvement in glove demand will be gradual.

Production cost remains a concern. Since July 2024, we observed that the price of natural gas has been on the uptrend. To recall, natural gas constitutes around 10 to 15% of production cost. This would translate into higher production costs for glove manufacturers. Meanwhile, rubber latex price and nitrile price (i.e. Butadiene and Acrylonitrile) are also showing similar uptrends over the same period. As such, we view that glove manufacturers will be pressured to pass some of these costs to the customer.

PLANTATION *(Analyst: MIDF Research Team)*

Minimal upside potential...Maintain NEUTRAL

CPO price to be sideways in the remainder of the month. Jumping into 4QCY24, we anticipate that Indonesia's supply distortion (due to prolonged dry weather environments) would contain the CPO price movement, providing a premium risk to Malaysia's CPO price, making the volatility behind CPO price to persist, ranging from RM3,800 to 4,000/Mt level. The CPO prices might as well, caught in the confluence of a rebound in local output, higher closing stocks, weaker demand from major importing countries due to strengthening ringgit – lower spread discount against other veg oils, bringing the CPO price to an average of RM3,938 (+0.3%qoq), in our view.

Production recovery continues. Based on MPOB data, we have seen Malaysia's production recovery is on track, as August data showed that production improved to 1.89m tonnes (+2.9%mom; +8.0%yoy; +10.2%Ytd) versus the prior year. The FFB received by mills on the other hand, grew to 9.83m tonne (+9.9%yoy) on a combination of the robust average yield of 1.65 tonne/ha (+10.0%yoy) and supportive average OER in mills of 19.44%, although the FFB evacuation process was slightly affected by the few wet weather days. We anticipate production to be volatile for the 4QCY24 on combination end of high peak crop months coupled with La Niña situations. The latest report from Met Malaysia indicates that the La Niña (noticeably delayed for about 2 months) to develop this Sept'24 – Nov'24 with a probability of 66% and is expected to continue until early next year. This will provide a favourable environment and reverse the El-Niño effect in the early part of the year.

Subdued imports from major importing countries. The major importing countries such as China and India placed higher orders in Aug shipments, due to the healthy refining margin they have made in the past June and July months, where the correction of PO price – made PO cheaper than the rival oils. Note that, June and July's spread discount between the PO and SBO were approximately around USD137/Mt and USD182/Mt, 60.2% below 3y-average of USD247/Mt. Towards the end of the year, we expect to see subdued demand from India following New Delhi's sharp increase in import duties to 27.5% (up from 5.5%) for CPO and over 20% for refined products. Meanwhile, slower demand from Europe is anticipated to begin once the EUDR is implemented in December 2024.

Maintain NEUTRAL. Looking ahead, we maintain a NEUTRAL call on the sector with an average CPO price of RM3,800/Mt. Our top pick remains **IOI Corp (BUY, TP: RM4.50)** and **Ta Ann (BUY, TP: RM4.16)**. IOI Corp's outlook remains steadfast and is well supported by both upstream and downstream profitability. Its refinery and oleo plant are well insulated from high input costs due to the strategic locations they operated in, unlike its peers that were operating in Europe, which mostly are impacted by high production costs - high natural gas. Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to the prolonged wet weather situation in 3-4Q24) would provide trading opportunity in the stock.

Downside risks. The sector's downside risks remain the continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which will reduce the price of CPO's competitiveness to compete with other vegetable oils); (iii) the high cost of production c. RM2,500-2,800/Mt (1Q24:RM2,700-2,900Mt; 4QCY23: RM2,700-3,100Mt); and (vi) EUDR implementation which will slow down the CPO and PPO trade due rigid compliance policy.

TECHNOLOGY

(Analyst: Martin Foo Chuan Loong)

A new era of smartphone wars?..Maintain NEUTRAL

Still awaiting a signal of a strong rebound. We are keeping our **NEUTRAL** recommendation on the semiconductor sector unchanged at this juncture. Taking a cue from the recent 2QCY24 earnings season, the earnings performance of semiconductor companies under our coverage remains lacklustre. This supported our view that the recovery for the industry remains tepid. That being said, the recent earnings performance also suggests that the industry has bottomed out. We also see mixed outlook from some of the global tech companies with Nvidia being the clear winner due to its AI proposition. In the near term, we view that one of the main indicators to keep an eye on is the take-up rate of recent smartphone launches, notably Apple's AI-enabled iPhone 16 as well as Huawei's tri-fold phone Mate XT. Note that Apple's peers have been integrating AI abilities into their devices. On another note, the recent tariff hike by the U.S. on Chinese hi-tech goods including EVs, solar cells and semiconductors created more unrest in the global supply chain.

Some excitement in the smartphone segment? Apple recently introduced its new offerings of iPhone 16 and iPhone 16 Pro which is purpose-built for Apple Intelligence. The phones include higher specifications, a new and physical user interface around the camera and the transformative power of AI. Nonetheless, the AI feature could only be available in three stages over the next six months i.e. in October 2024, December 2024 and March 2025. We view that this could potentially dampen the demand for the new iPhone. Moreover, Google and Samsung had unveiled AI-enabled smartphones earlier.

In a surprise move, Huawei also unveiled the world's first commercial tri-fold smartphone, the Mate XT targeting the mainland market as it went head-to-head against Apple and its iPhone 16 launch. Based on the newswire, we understand that there is an encouraging pre-order for the former of around five million. This could potentially serve as a threat to the demand for the iPhone 16. In China, some e-commerce platforms have offered discounts for the iPhone 16, signalling a potential weak demand. To recall, there is an earlier indication that Apple is set to produce 90m iPhone 16 devices, an increase of around 10% over last year's iPhone 15 series production.

While an initial glimpse indicates that demand for Apple's iPhone 16 could be weak, it remains to be seen what the eventual uptake on the smartphone is. This will dictate the resilience of Apple's supply chain.

The mixed outlook from global tech companies. Generally, strong demand for AI-related chips has benefited companies such as Nvidia, Oracle and Broadcom. This should persist the major hyperscaler increase their capex plans in order to increase the cloud computing and data processing prowess. TSMC also remain optimistic as it expects demand for high-end AI chips to remain high. On the flip side, ASML's outlook is at risk as the Dutch Government reportedly plans to stop ASML from maintaining the deep ultraviolet lithography machines it has sold to China so far. This will also include the sales of spare parts for the machines to China. Should the cut-off occur, ASML may lose access to the Chinese market permanently. Meanwhile, Intel has paused its projects in Poland and Germany for approximately two years based on anticipated market demand. In Malaysia, Intel will also delay the operations of a new plant in Penang. This follows Osram who shelved its new plant after losing a contract from a key customer. We view that that these mixed outlooks would eventually cascade into the demand for back-end semiconductor manufacturing.

Another tariff hike by the U.S. The Office of the U.S. Trade Representative finalised its plan to raise tariffs on a slew of goods made in China. The heightened tariffs go after strategic product categories including electric vehicles, batteries, critical minerals, semiconductors and solar cells. The final tariff structure includes 14 product categories that cover thousands of items. This new tariff is set to go into effect on 27th September 2024, with the next increase dates at the start of 2025 and 2026. Nonetheless, this year's hikes include a 100% tariff on electric vehicles, a 25% tariff on lithium-ion EV batteries and a 50% tariff on photovoltaic solar cells. A 50% tariff on semiconductors made in China will go into effect in 2025. We are of the view that this could create further ripples in the global supply chain. As it is, we understand that there has been a broader trend of companies relocating their production activities out of China. Notably, Apple also starts iPhone 16 production in India, diversifying its supply chain away from China amid geopolitical challenges. This would lead to potential changes in the global supply chain.

TELECOMMUNICATION *(Analyst: Martin Foo Chuan Loong)*

The second 5G network launch is imminent……………………………………………………………Maintain NEUTRAL

Making some progress. We are keeping our Neutral stance on the telecommunication sector. There has been notable progress in the sector with the conclusion of share subscription agreements (SSA) between Digital Nasional Bhd (DNB) and four telcos namely CelcomDigi, Maxis, U Mobile and YTL. This paved the way for the establishment of the second 5G network. The announcement of the telco leading the second 5G network should be made known in 4QCY24. We anticipate Maxis to stand a bigger chance of winning as compared to its peers. As there is more certainty in the second 5G network rollout, we could potentially see the resumption of Jendela Phase 2 which has been paused for some time now. Meanwhile, we expect the traditional telco business to remain lively as subscribers are being enticed with new offerings from time to time. On the enterprise side, we continue to see various efforts in place to further drive the enterprise services and solutions. This should gradually translate into higher earnings growth for the enterprise segment.

Completion of SSA. The SSA between DNB and the four telcos has been completed, which left MOF with the remainder 35% stake. Only Telekom Malaysia Bhd failed to complete the deal by 21st August 2024. The completion of SSA paved the way for the establishment of the second 5G network. Communications Minister Fahmi Fadzil commented that the pricing and quality of the second network should be comparable to that of DNB. We view that both requirements should not be difficult to meet.

Maxis stands a good chance to lead the second 5G network. Maxis has been steadfast in its aspiration to lead the second 5G network ever since the government decided to transition to a 5G dual network. Premised on this, we view that the group has been preparing itself to build the second 5G network. Referring to the 2QFY24 results announcement, the group has been increasing its cash reserve to RM727m (+41.2%yoy) and at the same time reducing its total borrowings to RM9.2b (-8.0%yoy). This translates into a lower net gearing level of 1.46x (vs 2QFY23: 1.58x), which will provide more headroom for the group to gear up as and when needed. On the technological front, Maxis has done a trial run on 5G advanced with Huawei being the technological partner. Coupled with existing infrastructure, which comprises the above-mentioned fibre footprint and more than 11k network sites, we view that the group would be able to roll out the second 5G network quickly. Premised on these reasons, we view that Maxis stands a better chance as compared to its peers. To recall, apart from Maxis, the three telcos who are competing for the second 5G network include Celcomdigi, Telekom Malaysia and U Mobile.

Anticipating timeline update on Jendela Phase 2. The Jendela action plan was announced as part of the 12th Malaysia Plan which runs from 2021 to 2025. While Phase 1 of the plan has been concluded according to the timeline i.e. end of 2022, the starting date for Phase 2 has yet been announced. This could, potentially, be due to the delay surrounding 5G. To recall, the target for phase 2 would include nine million premises passed, 100% internet coverage and 100 Mpbs mobile speed. Nevertheless, the focus area for phase 2 would be on expanding the 5G coverage. With the encouraging progress on 5G especially on DNB's SSA as well as the upcoming second 5G network, this would pave the way for the Jendela Phase 2.

Competition remains lively. We see the telecommunication landscape remains competitive as telcos continue to revamp their offerings. Revision in offerings was made for both the mobile and/or fixed broadband offerings to be more attractive. This is in the form of higher speed and/or data quota at a competitive price. Moving forward, we expect such adjustments to persist for the telcos to be in tune with the demand of the market.

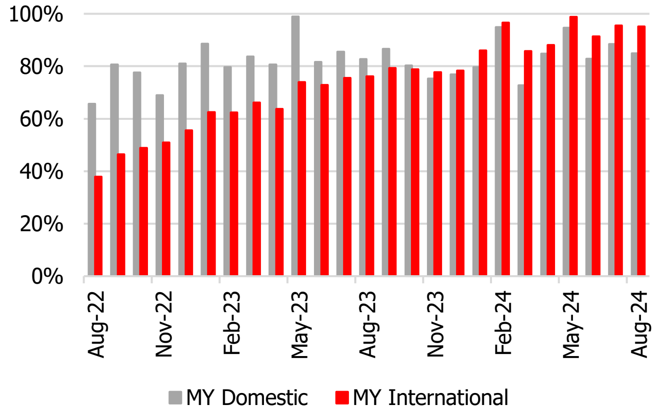
Growing enterprise business remains a key agenda. We continue to see various efforts carried out by telcos to boost their respective enterprise business. Notably, CelcomDigi launched its 5G and AI-powered experience centre to inspire a range of 5G and AI-powered technologies and robotics across 8 verticals. Meanwhile, its peers are having a trial run for 5G Advanced via a partnership with the telecommunication equipment providers. This should set a good base for the telcos to further drive earnings growth for the enterprise business.

TRANSPORTATION *(Analyst: MIDF Research Team)*

Striding forward amidst challenges...Maintain NEUTRAL

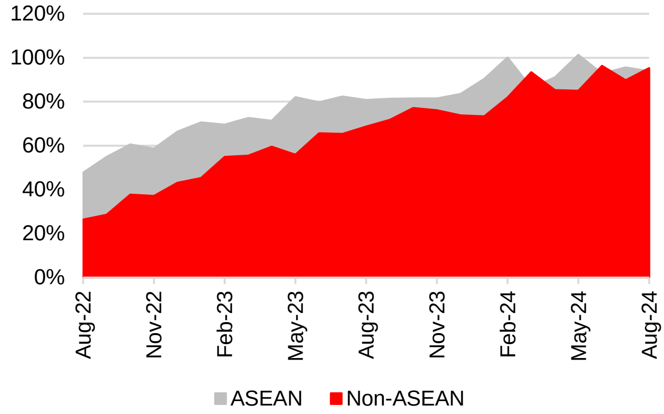
Aviation

Chart 41: Recovery of Passenger Traffic (%)



Source: MAHB, MIDFR

Chart 42: Recovery of ASEAN & Non-ASEAN (%)



Source: MAHB, MIDFR

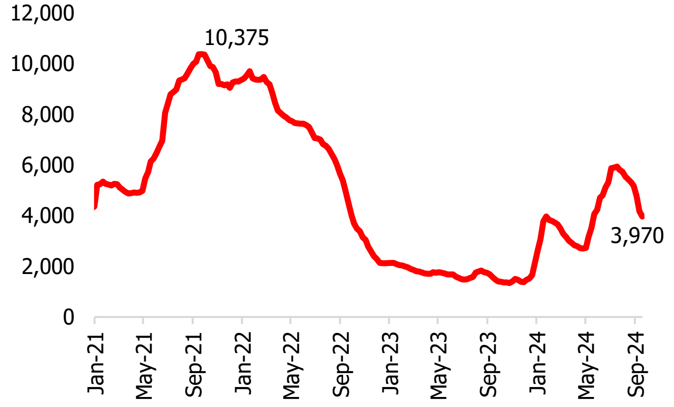
The international sector supports overall recovery. Malaysia's airports sustained a passenger volume exceeding 8.0m for the second straight month in Aug-24, pushing the recovery rate to 90% (domestic: 85%, international: 95%) for the 8MCY24. Higher flight frequencies and the arrival of new airlines were the main drivers of the recovery, with the international sector consistently outperforming the domestic sector since Nov-23. Passenger growth was driven by key markets like Indonesia, China, and India, with trends for China and India expected to continue due to the 30-day reciprocal visa-free policy, which China has extended for Malaysians until Dec-25. The domestic sector has been trailing, with recovery rates in the 80% range, likely due to limited aircraft availability, which restricts seat capacity allocation. As a result, airlines may have strategically shifted their focus to international routes, where demand is higher.

Delayed full passenger traffic recovery. A key issue recently in the spotlight is Malaysia Aviation Group's (MAG) decision to temporarily cut its flight capacity by -20% due to challenges in the industry including delays in aircraft deliveries as well as shortages of parts and labour. Recall that we estimate local airlines have cumulatively reduced their fleet size by about -17% (equivalent to 51 aircraft) due to the pandemic. It is also worth noting that MAG represented roughly 20% of the market share in passenger traffic, trailing behind Malaysia AirAsia (MAA), which dominated with approximately 40%. Therefore, seat capacity constraints may temporarily intensify at least for the remainder of the year, but MAA is well positioned to fill the gap. Partially offsetting this is the arrival of new airlines, bringing the total number serving Malaysia as of end-2QCY24 to 71, which is higher than the pre-pandemic level of 69 airlines in CY19. Notably, four new airlines began operations last month, and British Airways is expected to return in Nov-24. All things considered; we have recently revised Malaysia's passenger traffic assumptions downward. We now expect full-year passenger traffic to recover to 94% this year (down from our initial estimate of a +2.0% growth). We anticipate a preliminary full recovery next year, with an expected growth of +4.0% over 2019 levels.

Navigating challenges with growing tailwinds. Aside from the challenges facing the industry, the operating environment has become more favourable for the local airlines, thanks to the MYR appreciation against the USD and easing jet fuel prices. Notably, nearly 50% of the operating expenses in the aviation business are USD-denominated, largely contributed by jet fuel purchases. Recent data shows that the spot price of jet fuel has declined by about -12% year-to-date (as of September 20, 2024) with the crack spread already returning to pre-COVID levels at USD11 per barrel. Our projections suggest that a +5.0% appreciation in our USDMYR assumption would boost Capital A's earnings by +7.0% to +10.0%, while a USD1 decline in jet fuel prices could increase earnings by +5.0% to +7.0%. On the other hand, the load factor is expected to remain strong as demand continues to outpace capacity recovery. The overall load factor reached 79% in 1HCY24, which is 3.4 percentage points higher than in 1HCY19. This trend is reflected in MAA as well with its load factor consistently exceeding 85% since 2QCY22. Moreover, as a result of capacity constraints, average airfares are expected to stay elevated compared to pre-COVID levels and could potentially rise even further due to MAG's recent capacity cuts. Notably, Capital A has seen its average airfares increase to RM239 in 1HFY24, which is +34% higher than pre-COVID levels. An upward adjustment of RM1 in our average airfare assumption would lead to a +3.0% to +4.0% increase in Capital A's earnings.

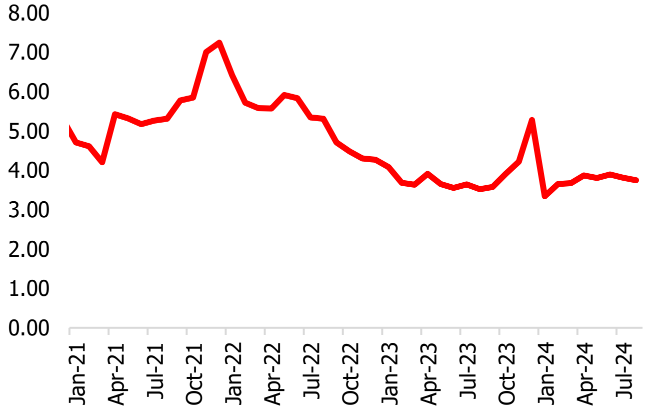
Port & Logistics

Chart 43: Ocean Freight Rates (USD/TEU)



Source: Bloomberg, MIDFR

Chart 44: Air Freight Rates (USD/kg)



Source: Bloomberg, MIDFR

Improving consumption patterns with easing monetary policies. According to the latest World Trade Organisation (WTO) Goods Trade Barometer report, global goods trade continued to recover in 3QCY24, with growth averaging +0.7%qoq over the past two quarters. This translates to an annualised growth rate of +2.7%, aligning closely with WTO's earlier forecast of a +2.6% increase in trade volume for the year. However, the report highlighted uneven trade growth, with Europe underperforming expectations while other regions exceeded forecasts. This could be the result of the Red Sea crisis, which may continue to pose challenges. However, we believe this situation could be somewhat alleviated by the easing of monetary policies in major economies. This shift may lead to improved consumption patterns, potentially boosting interregional container movement.

Varying impacts of the Red Sea crisis. The ongoing Red Sea crisis has created several challenges for port and logistics players. Port operators have reported fluctuations in terminal utilisation in the past few months due to disruptions in shipping schedules and vessel bunching as ships are being rerouted. This has resulted in their yard occupancy being highly utilised, and while it may generate extra storage fees, it also limits the number of containers that can be handled, leading to congestion. This situation has a spillover effect on logistics operators, as container hauliers have faced inefficiencies due to port congestion, resulting in lower goods volume. This prompted some of them to start charging trailer detention fees, ranging from RM50 to RM80 per day, to help offset these losses. Another ripple effect of the Red Sea crisis is that it has become expensive for companies producing and shipping goods for export. The latest data from Drewry's weekly World Container Index indicates that the average cost of a 40-foot container has increased by +58% since Dec-23, when ocean freight rates had largely stabilised. Air freight forwarders may see an increase in volume as customers switch from ocean to air freight forwarding to speed up shipments in response to port congestion. To note, freight forwarders are unlikely to see the same bumper earnings as during the pandemic when the industry thrived on spot rates due to lockdown uncertainties, leading to higher margins. Currently, customers still prefer short-term contracts of 3 to 6 months, so most businesses remain tender-based.

The warehousing segment will continue to thrive. Due to these ongoing challenges, logistics companies within our coverage have seen declines in shipment volume, a trend that was already influenced by the normalisation of goods consumption after COVID. However, most players remain optimistic for the upcoming quarters, expecting further improvements in handling volumes as trade activities recover more broadly. We believe the warehousing segment is set to become a major earnings driver for the sector. Under our coverage, capacity expansions from Tasco (+870,000 sq ft) and Swift Haulage (+378,000 sq ft) are noteworthy developments. These new facilities are expected to achieve better rates, with most of them already being fully rented out. Demand for warehouse space in strategic locations near ports and industrial parks remains strong, with the potential to rise further as customers seek to protect themselves against supply chain disruptions. Rental rates appear to be stable despite the continued increase in capacity. As utilisation rates for these new warehouses increase toward optimal levels, we believe this presents an opportunity for integrated logistics players to cross-sell their transportation services.

Maintain NEUTRAL. Tasco (BUY, TP: RM1.20) is our top pick for the sector. We understand that Tasco has raised tender prices from Jul-24 onward to guard against elevated freight rates. This includes a clause allowing for revisions if market rates increase by more than +10% above the tendered prices, which should help cushion them against any fluctuations. Notably, ocean freight rates have been on a downtrend trend of normalisation since mid-Jul. Moreover, the preference of customers for short-term contracts at this time offers some earnings visibility. Tasco is also poised to benefit from substantial tax credits that can be claimed from its expansion projects.

UTILITIES (POWER)

(Analyst: Royce Tan Seng Hooi)

Solar EPCC is the immediate winner..Maintain NEUTRAL

Moderating growth in demand. Electricity demand continued to improve in 2QCY24, registering a +6.3%yoy increase to 33,121GWh, driven mainly by the industrial and commercial sectors, which were up by +2.6% and +8.8% respectively. The growth in demand, however, moderated slightly from +9.6%yoy in 1QCY24 and +7.1%yoy in 4QFY23. While still encouraging, we note that Tenaga Nasional operates on a revenue-cap basis based on RP3 (2022-2024) projected demand growth of +1.7% per annum. For CY24F, demand growth is expected to moderate to between +2% and +3% off a high base last year. The expected influx of data centres over the next decade is expected to be a big demand driver, but similarly, how much Tenaga gets to keep from this incremental revenue and earnings will be heavily dependent on its regulated asset base (RAB) and allowable returns in RP4.

Negotiations of RP4 to take centre stage. The spotlight will be on the outcome of negotiations on the Regulatory Period 4 (RP4) that will run from 2025-2027, which is expected to be finalised by the end of 2024. We believe Tenaga Nasional's regulated capex could see significant expansion from accelerated grid investments to accommodate the aggressive renewable energy (RE) projections under National Energy Transition Roadmap (NETR). Tenaga Nasional had preliminarily indicated a potential doubling in capex to RM90b between 2025-2030 from RM45b (2018-2024), which is a positive catalyst as this is expected to expand its RAB meaningfully going forward.

Results of LSS5 bids. The outcome of the bidding for the fifth cycle of the Large-Scale Solar programme (LSS5) may potentially be announced by the year end. We believe this would give successful bidders sufficient time for financial close and plant construction in CY25, before COD (commercial operation date) deadline in 2026 as set by the Energy Commission. A total of 2GW quota is allocated for LSS5 which is by far the largest for the LSS program compared to <1GW auctions in prior cycles. This could generate some RM6b to RM8b of potential EPCC jobs.

Immediate term catalyst from CGPP. We note that EPCC jobs from the Corporate Green Power Programme (CGPP) have started to flow in, which will keep solar EPCC players busy from 4QCY24 until 2025. Unless approved by the Energy Commission, CGPP power plants have to be completed no later than 2025. The CGPP allocated a quota of 800MW to 32 applicants or consortiums. These should be able to generate about RM2.4b worth of EPCC contracts. Based on recent announcements, we estimate that less than 200MW have had their EPCC contracts awarded, and we expect these to be gradually awarded in 4QCY24, making solar EPCC companies the immediate term winners.

Prefer solar EPCC players. Despite our NEUTRAL recommendation on the Utilities sector given the stretched valuations, our preference lies in the solar EPCC subsector as the main immediate-term beneficiaries of RE initiatives. Prior to COD of LSS5 plants in 2026, industry players will be kept busy with development of CGPP solar plants which are expected to come on-stream in 20Y25 based on the EC deadline. We have BUY recommendations on all the solar EPCC stocks under our coverage, namely – **Samaiden (TP: RM1.57), Pekat (TP: RM1.32)** and **Sunview (TP: RM0.75)**. In the asset owner space, we like **YTL Power (BUY, TP: RM6.20)** for its earnings recovery at Wessex Water, stable margins from Power Seraya, expansion into data centres and as a potential beneficiary of LSS5 and RE exports.

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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 news flow.
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 news flow.
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