STRATEGY

Maintain FBM KLCI Target: 1,800

Trump's Executive Orders – A Relief for Now

DEVELOPMENT

- **A slew of executive orders.** Donald Trump was inaugurated as the 47th US President on Monday (US EST). He will serve as President for the second time. As expected, he signed a slew of executive orders to forward his administration's agenda, including rescinding some of President Biden's previous executive orders. These are (non-exhaustive):

Subject		Summary of executive order
Trade & Economy	TikTok	• Temporarily halted a ban on TikTok in the US, granting the company and its Chinese parent ByteDance Ltd more time. • It gives the video-sharing platform a 75-day reprieve.
	Tariffs	• Federal agencies to study tariff policies and the US trade relationship with China, Canada and Mexico. • Trump plans to enact tariffs of as much as 25% on Mexico and Canada by Feb 1. Latest development is that Trump will also plan to enact tariffs of 10% on China.
	'External Revenue Service'	• Establish an External Revenue Service to collect tariffs.
	Inflation emergency	• Directed departments and agencies "to deliver emergency price relief." This includes the cost and supply of housing, lowering health care expenses and eliminate climate policies that drive up energy prices.
Pardons		• Full pardon of about 1,500 people for the January 6th protestors. It also commuted the sentences of 14 people.
Immigration	Border emergency	• Declared a national emergency at the southern border. This means deployment of armed forces, including the National Guard, to "engage in border security." • Completion of a wall on the US-Mexico border.
	Deportations	• Offer new authorities to Immigration and Customs Enforcement and Customs and Border Protection officers to carry out deportations.
	Birthright citizenship	• Seeking to end automatic birthright citizenship for children of people not in the country legally.
	Asylum, refugees	• Suspend refugee resettlement for six months and will end "catch and release" policy. • Proclamation to end the asylum process. • Reinstate the "Remain in Mexico" policy.
	Death penalty	• Department of Justice will seek the death penalty for "illegal immigrants who maim and murder Americans."

Subject		Summary of executive order
	Cartel	• Designate the gangs MS-13 and Tren de Aragua as foreign terrorist organisations, as well as Mexican cartels responsible for smuggling drugs across the border.
Energy and climate	Offshore drilling, SPR	• Plans to open up more areas to oil and gas exploration, including offshore and in Alaska. • Plans to refill the US Strategic Petroleum Reserve and export American energy.
	Efficiency efforts	• Plans to unwind several rules intended to boost efficiency.
	Wind farms	• End leasing areas for "massive" wind farms.
	Electric vehicle mandate	• Order to eliminate EV mandate in part by terminating subsidies for the vehicles and terminating state emissions waivers.
	Paris Agreement	• Will again withdraw the US from the 2015 Paris Agreement.
Gender and culture		• "The official policy" of the US that there are only sexes, male and female, • To stop diversity, equity and inclusion efforts in the federal government.
National security		• Reinstating vaccine objectors. • Withdrawing from the World Health Organization.
Federal workforce		• Return to office. • Hiring freeze. • Regulatory freeze.

OUR VIEW

- **Not a surprise – a clue to Trump's administration priority agenda.** The executive orders signed by President Trump did not provide us much of a surprise except one (on tariffs). As expected, he signed several executive orders to tackle the immigration issues as promised during his campaign trails. While it is still early days, we do believe that the executive orders provide a clue to what may be President Trump's priority agenda for the next 100 days.
- **A temporary relief.** One surprise for us was there no high tariffs signed in the executive orders. We view this as providing a temporary relief. In fact, markets seem to cheer on this, as it may assess that tariffs could be gradual or lesser than first feared. The FBM KLCI closed +0.52% higher yesterday to 1,580.46, and US Dow Jones overnight gained +1.24% to 44,025.81. Recall, that President Trump stated that he will enact a 60% tariff on China and 10% for all other imports. We opine that this may an opening gambit for any negotiations especially with China. We understand that President Trump is looking to holding a summit with President Xi of China.
- **Deal with China?** It is possible that there will be another agreement in terms of trade between the US and China, akin to President Trump's first term. However, we opine that it may not be at same scale given that much have changed geopolitically. For one, BRICS have emerged as an alternative trade bloc and closer ties have been forged between China and Russia, in response to the Ukraine-Russia conflict and the subsequent trade sanctions on Russia.
- **Malaysia potentially to benefit from a possible Trade War 2.0.** As mentioned in our previous report, "Return of Trump", based on the previous experience, Malaysia stands to benefit from the intensification of US-China trade war. In terms of trade, we expect export outlook will remain positive because re-direction of trade flows could encourage greater re-exports through Malaysia. In terms of investment, multinational companies may increase their

investment into Malaysia as one of the destinations to relocate their operations i.e. as part of the China+1 strategy. In the longer run, we expect the US move to tighten its trade rules will promote greater integration with the Global South, both in terms of trade, investment and financial flows. In other words, Malaysia's trade outlook will benefit from growing final demand from the regional countries and other emerging economies.

- **Re-exports have grown to one-fifth of Malaysia's exports.** Following the first trade war, Malaysia's re-exports rebounded and grew by +7.6% in 2019 (2018: -13.9%). This means the -1.1% contraction in overall exports in 2019 was mainly due to reduction in domestic exports, which fell by -2.9% (2018: +2.4%). Before the trade war started in 2018, we already noticed a stronger trend in re-exports which expanded by +25.3% in 2016 and then accelerated further to +39.5% in 2017. Prior to the global pandemic, the ratio of re-exports to Malaysia's total exports already reached 18.6% in the 2-year period to 2019 (2015: 13.3%). The ratio has increased further to 22.1% of total exports in 2023, indicating that the trend continues even in the post-pandemic period.

- **But downside risks remain.** However, we are cognizant of the downside risks should tariffs are enacted as intended. A possible downside risk to international trade outlook could come from higher import costs. Firms may pass some of the cost increase (due to higher tariffs) to end-consumers. At the same time, possible retaliation by other countries by imposing higher tariffs on imports from the US, and therefore further escalate the upward price pressures on goods external from abroad. In other words, the price increases will constrain demand from both the US and other countries. A reduced demand from the US will hurt the global trade and manufacturing outlook at least in the short run. If this were to be the case, the world economy could experience another round of global reflation.

- **Increased volatility is expected in the near term, US Fed decision more significant for now.** While there is a relief for now, we expect that there will be increased volatility stemming from US policies (but not the only factor). However, we believe that US Fed decisions on rates will have more bearing on the market.

- **Maintain our 2025 targets.** Given the strong likelihood of the US Fed continuing its easing path (being the more significant factor at the moment), we maintain our **FBM KLCI, FBM Hijrah,** and **FBM70** targets for 2025 **at 1,800 points** or PER25 of 15.4x, **14,500 points** or PER25 of 21.1x, **and 20,400 points** or PER25 of 17.4x, respectively.

- **Time to go on a more defensive stance.** Amid our expectation of bouts of increased volatility and uncertainty, we opine that a more defensive is more appropriate. At least until clearer picture emerges from new U.S. policies and geopolitical situations. Defensive stocks, such as those in banking, REITs, utilities, healthcare, and consumer staples, tend to provide consistent dividends and stable earnings regardless of the overall market conditions. This stability and attractive dividend yields should moderate the downside risks, while not discounting the potential for price appreciation due to undervaluation. As such, we maintain our top picks for 2025:

Overall top picks

	Rec.	Price (RM) @ 21/1/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Leong Hup	BUY	0.60	0.90	51.3%	6.2%	57.5%	2	No
Fraser & Neave	BUY	25.62	36.77	43.5%	3.0%	46.5%	4	Yes
Malayan Cement	BUY	4.80	6.81	41.9%	2.1%	44.0%	3	No
Pet. Dagangan	BUY	19.50	24.63	26.3%	5.1%	31.4%	3	Yes
Axis REIT	BUY	1.73	2.14	23.7%	5.1%	28.8%	3	Yes
Malayan Banking	BUY	10.28	12.11	17.8%	6.7%	24.5%	4	Yes
Public Bank	BUY	4.37	5.16	18.1%	4.5%	22.5%	3	Yes
CIMB	BUY	7.94	9.11	14.7%	2.2%	16.9%	4	Yes
Hong Leong Bank	BUY	20.18	22.76	12.8%	4.1%	16.9%	4	Yes
Pavilion REIT	BUY	1.52	1.69	11.2%	5.4%	16.6%	3	No

Source: Bloomberg, MIDFR

Shariah top picks

	Rec.	Price (RM) @ 21/1/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Fraser & Neave	BUY	25.62	36.77	43.5%	3.0%	46.5%	4	Yes
Malayan Cement	BUY	4.80	6.81	41.9%	2.1%	44.0%	3	No
IJM Corp	BUY	2.77	3.89	40.4%	2.9%	43.3%	3	No
Dialog Group	BUY	1.96	2.72	38.8%	2.7%	41.5%	3	Yes
Mah Sing	BUY	1.49	2.04	36.9%	3.7%	40.6%	4	Yes
Pet. Dagangan	BUY	19.50	24.63	26.3%	5.1%	31.4%	3	Yes
Bank Islam	BUY	2.45	3.06	24.9%	6.3%	31.2%	3	Yes
Samaiden	BUY	1.33	1.69	27.1%	0.8%	27.8%	3	No
IOI Corp	BUY	3.72	4.42	18.8%	2.2%	21.0%	3	Yes
Spritzer	BUY	3.02	3.54	17.2%	2.5%	19.7%	2	No

Source: Bloomberg, MIDFR

Small-mid caps top picks

	Rec.	Price (RM) @ 21/1/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Leong Hup	BUY	0.60	0.90	51.3%	6.2%	57.5%	2	No
Fraser & Neave	BUY	25.62	36.77	43.5%	3.0%	46.5%	4	Yes
Malayan Cement	BUY	4.80	6.81	41.9%	2.1%	44.0%	3	No
IJM Corp	BUY	2.77	3.89	40.4%	2.9%	43.3%	3	No
Dialog Group	BUY	1.96	2.72	38.8%	2.7%	41.5%	3	Yes
Mah Sing	BUY	1.49	2.04	36.9%	3.7%	40.6%	4	Yes
Bank Islam	BUY	2.45	3.06	24.9%	6.3%	31.2%	3	Yes
Axis REIT	BUY	1.73	2.14	23.7%	5.1%	28.8%	3	Yes
Samaiden	BUY	1.33	1.69	27.1%	0.8%	27.8%	3	No
Pavilion REIT	BUY	1.52	1.69	11.2%	2.2%	13.4%	3	No

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

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