

Malaysia 2H23 Outlook and Lookouts

Navigating the cross-current of headwinds and tailwinds

We broadly maintained our macro forecasts and views. Keep 2023 real GDP growth forecast at +4.5% (1Q 2023: +5.6% YoY; 2022: +8.7%), reflecting base effect after last year's growth surge on full economic opening; deceleration in domestic demand growth on lingering and lagged effect of the high inflation and interest rates; and impact of global growth downturn (2023E: +2.7%; 2022: +3.4%) on external demand, thus trade.

Following BNM's OPR pause at 3.00% after the 5-6 July 2023 MPC, "neutral" Monetary Policy Statement, receding inflation rate (2023E: +3.0%; 2022: +3.3%), and measures to stabilise Ringgit (end-2023: 4.50; end 2022: 4.40), we see OPR staying at 3.00% for the rest of this year.

Major macro risks include whether US economy will soft-land or slump given Fed's signal of additional Fed funds rate hikes; upside risk to domestic inflation given the Government's fluid policies on subsidies and consumption-based tax; plus keeping an eye on the upcoming state elections.

Re Malaysian equities, we are cautiously optimistic on improved market traction over 2H23 despite still-challenging earnings guidance. Besides peaking interest rates, upcoming state elections (Aug) and Budget 2024 (Oct) could surprise positively re political / policy follow-through vs. current depressed expectations. Our FX team also expects positive Ringgit reversal into 4Q23 as China's growth (and currency) outlook stabilizes and Fed's narrative turns more dovish. KLCI heavyweights like Banks (NIMs bottoming in 1Q23) and Plantations (CPO price lift from firmer soy pricing, El Nino) have room to reverse YTD underperformance (Fig 162) even as low-teens 2024E market earnings growth forecast comes into view. Re thematics, tangible GLC Reform traction (Figs 122-125) and trade/supply chain relocation (Figs 152-159) would be supportive of economic and market impetus. Further, ramped-up Sustainability initiatives and targets (Figs 140-144) bode well for sectors such as Auto (EV take-up, infra) as well as Renewables/Utilities (accelerated RE plant-ups, exports).

Following forecast adjustments post-1Q23 results, 2023E coverage universe earnings growth has moderated to +6.5% (from +13.6%) but is expected to strengthen to +13.3% in 2024E (Fig 90), as ASP-driven sectors (Plantations, Gloves, Petrochem) improve while laggards like Telcos, Gaming (Casino) and Aviation extend earnings recovery. Revised end-2023 KLCI target is 1,520 (13x fwd. PER, -1.5 SD vs. mean), from 1,660 (14x/-1SD) previously. Re sector positioning (Fig 167) and top picks, we favour Financials ([HLBK](#), [RHB](#), [ABMB](#)), Tech (Software) ([CTOS](#), [ITMAX](#)), [EMS](#) ([ATech](#)), Auto ([Bermaz](#)), Gaming ([GENT\(M\)](#)), Construction ([Gamuda](#)), Hospitals ([IHH](#)), O&G ([Yinson](#)). Selective on Plantations (KLK), Telcos ([Telekom](#)), REITs ([YTL](#), [Axis](#)), Consumer ([Mr.DIY](#), [Padini](#)), Tech (Hardware) ([Greotech](#)), Aviation ([Capital A](#)). Key SELLs are Gloves ([Top Glove](#), [Hartalega](#), [Kossan](#)) and NFOs ([Magnum](#), [SPToto](#)). Top BUYs (Fig 168) and Top SELLs (Fig 169) are on pages 104-106, ESG stock picks are per Fig 147, while conviction dividend picks (5-10% cash yields) are in Fig 132. Sector-specific updates are detailed on pages 111-151.

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Table of Contents

Malaysia Macro 2H2023: Cross-current of headwinds and tailwinds	3
1. Dissipating growth momentum amid external and internal headwinds	4
2. But there are mitigations to domestic growth downside risk	10
3. Malaysia's key macro forecasts.....	15
4. Lookouts range from US recession to domestic state election.....	18
 Malaysia 2H2023 Market Outlook: Clearer Skies Ahead	24
1H23 recap: extended macro-market disconnect	25
2H23 outlook: dissipating overhangs to narrow discount	47
 Thematic 1: GLC Restructuring	61
Thematic 2: Inflation and Interest Rates	66
Thematic 3: Interest rates vs. dividend yields	68
Thematic 4: Sustainability / ESG investing	71
Thematic 5: Capex revival, supply chain relocation	83
 Balanced positioning, with ESG and yield overlays	90
 <u>SECTORS</u>	
AUTOMOTIVE: Sustaining strong performances.....	111
AVIATION: Recovery taking flight	114
BANKING: Buffering against NIM compression	117
CONSTRUCTION: More action only in 4Q?.....	119
CONSUMER: Declining purchasing power	123
EMS: Navigating the ups and downs.....	125
GAMING: A tale of two subsectors	127
GLOVES: Turbulence remains.....	129
PORTS AND SHIPPING: Signs of impending change?	131
MEDIA: Sentiment Taking A Beating	133
PETROCHEMICALS: Struggling to find a bottom.....	135
PLANTATION: Expect a volatile 2H23 outlook.....	137
PROPERTY DEVELOPERS: Lacklustre Outlook	140
REITs: Momentum to pick up.....	142
RENEWABLE ENERGY: Awaiting for cgpp to be awarded	144
TECHNOLOGY: Contrasting fortunes	146
TELECOM: Uncertainty continues	149
UTILITY: Mixed dynamics	151
 APPENDIX 1: Dividend yielders.....	153
APPENDIX 2: Foreign shareholding trend.....	154

Malaysia Macro 2H2023

Cross-current of headwinds and tailwinds

Growth buffeted by headwinds

We maintained our full-year 2023 real GDP growth forecast of +4.5% (1Q 2023: +5.6% YoY) i.e. moderation from the +8.7% surge last year that was boosted by full economic opening. This reflects high base effect on 2Q-3Q 2023 GDP following growth surges in 2Q-3Q 2022, plus the lagged impact of the cumulative +125bps Overnight Policy Rate (OPR) hikes by Bank Negara Malaysia (BNM) between May 2022 and May 2023 on domestic demand - especially consumer spending, as well as headwinds from global economic downturn denting external trade growth after 2021-2022 double-digit pace.

But there are tailwinds to provide some buffers

However, there are also mitigations to the above drags on growth. These include on-going drawdown of excess savings built during the pandemic years (2020-2021) and the rising momentum in tourism recovery providing some buffers to consumer spending.

There is also the positive trend in approved investments - lead indicator of actual/realised private sector investments - since 2021, especially in foreign direct investment (FDI) and technology. This also shows the upside from the US-China geopolitical risk i.e. "de-risking" via "China+" strategy, hence trade diversion and FDI and relocations that benefit Malaysia and its ASEAN peers.

In addition, we expect BNM's OPR to remain at current "slightly accommodative" level of 3.00% for the rest of the year given key takeaways from BNM's latest Monetary Policy Statement (MPS) i.e. slowing - with downside risk - in global economy; resilient internal demand driving domestic economy; downtrend in inflation; and reduced risk of financial imbalances i.e. Ringgit stabilising albeit at weak level.

Lookouts range from US recession to inflation dynamics to domestic election

We expect global economic growth to drift lower to +2.7% this year (1Q 2023: +2.5% YoY; 2022: +3.4%). Key concern on global economic outlook is US recession risk given warning from the usual suspect i.e. inverted US Treasury yield curve, and as Fed signals additional rate hikes in 2H 2023. A key mitigation is the recent US banking crisis is "contained & idiosyncratic" rather than "contagious & systemic". We expect US GDP growth to ease to +1.3% this year (1Q 2023: +2.0% YoY; 2022: +2.1%).

Meanwhile, we remain vigilant of inflation in general, with Malaysia in particular having the most upside risk among ASEAN-6 economies due to its "fluid" policy on subsidies and consumption-related taxes. These are on top of the additional cost pressures due to the full implementation of minimum wage effective 1 July 2023 plus weaker Ringgit.

There are also six state elections due on 12 Aug 2023. They do not have any direct bearing on the stability of the Federal Government, and we expect results to mirror the outcomes of the Parliament seats contested in these states back in Nov 2022. More - and most - importantly is that after the conclusion of state elections, PM Anwar Ibrahim and his Cabinet i.e. the Federal Government should focus on policy making and reforms given that there is over four years to go before the next general election. Key policy events to watch in 2H 2023 include the mid-term review of the 12th Malaysia Plan (12MP, 2021-2025) expected in Sep 2023 and the tabling of Federal Government's Budget 2024 on 13 Oct 2023 as well as Fiscal Responsibility and Government Procurement Acts.

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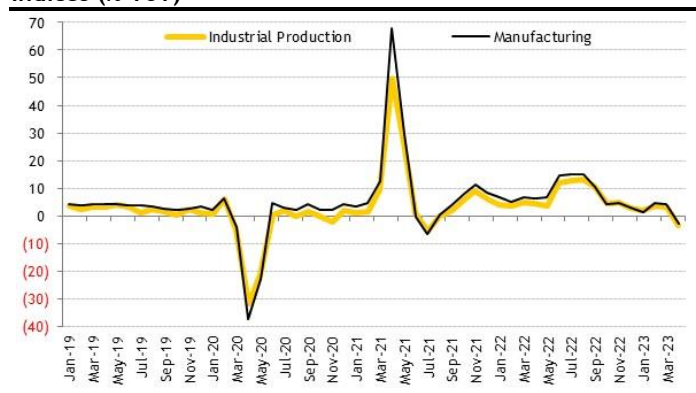
1. Dissipating growth momentum amid external and internal headwinds

1.1 Real GDP growth drifting lower

Apr 2023 saw declines in Industrial Production Index (IPI - Apr 2023: -3.3% YoY; Mar 2023: +3.2% YoY) and Crude Palm Oil (CPO) production (Apr 2023: -18.1% YoY; Mar 2023: -8.7% YoY) as well as moderation in the Distributive Trade Index (DTI - Apr 2023: +4.8% YoY; Mar 2023: +9.4% YoY).

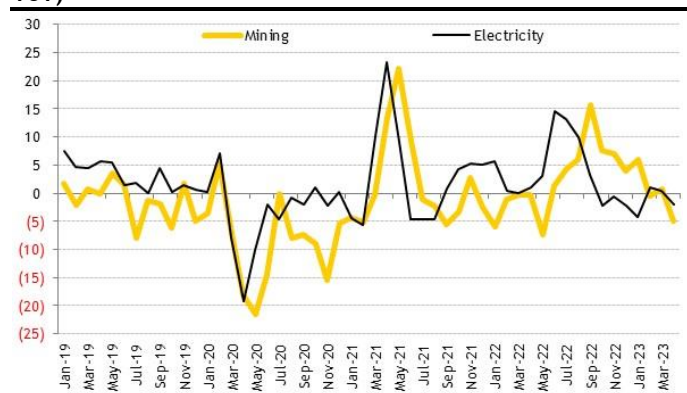
IPI growth fell (Apr 2023: -3.3% YoY; Mar 2023: +3.2% YoY) on across-the-board contractions in its Manufacturing (Apr 2023: -3.0% YoY; Mar 2023: +4.1% YoY), Mining (Apr 2023: -4.9% YoY; Mar 2023: +0.8% YoY) and Electricity (Apr 2023: -2.0% YoY; Mar 2023: +0.4% YoY) components (Fig 1-2).

Fig 1: Malaysia - Industrial & Manufacturing Production Indices (% YoY)



Source: Dept. of Statistics

Fig 2: Malaysia - Mining & Electricity Production Indices (% YoY)

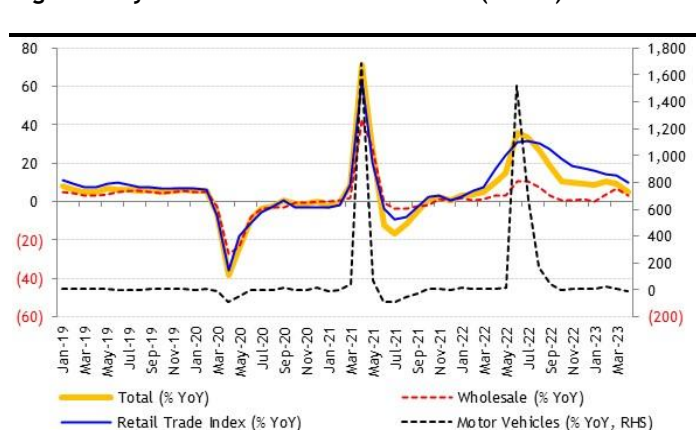


Source: Dept. of Statistics

Growth in DTI eased (Apr 2023: +4.8% YoY; Mar 2023: +9.4% YoY) amid the decline in the sub-index for motor vehicles trade (Apr 2023: -9.0% YoY; Mar 2023: +5.6% YoY) as well as slower growth in wholesale trade (Apr 2023: +3.4% YoY; Mar 2023: +6.8% YoY) and retail trade (Apr 2023: +10.0% YoY; Mar 2023: +13.8% YoY) indices (Fig 3).

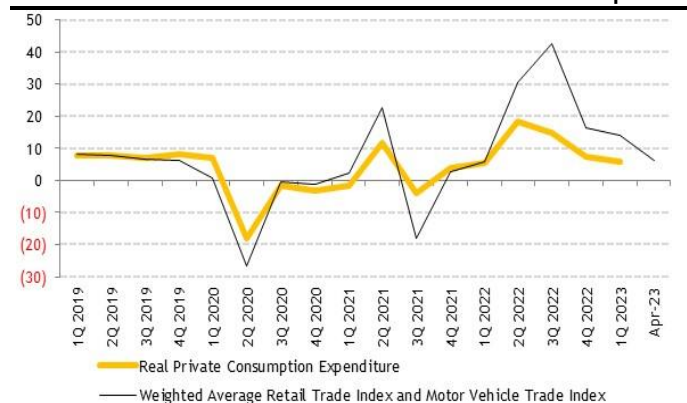
Meanwhile, the weighted average of retail and motor vehicle trade volume growth - our proxy for real private consumption growth - slowed to +6.0% YoY in Apr 2023 (Mar 2023: +11.9% YoY; 1Q 2023: +14.0% YoY), signaling further easing in the consumer spending component of GDP last quarter from the +5.9 YoY growth in 1Q 2023, which eased from +7.3% YoY in 4Q 2022 and compared with full-year 2022 increase of +11.2% (Fig 4).

Fig 3: Malaysia - Distributive Trade Index (% YoY)



Source: Dept. of Statistics

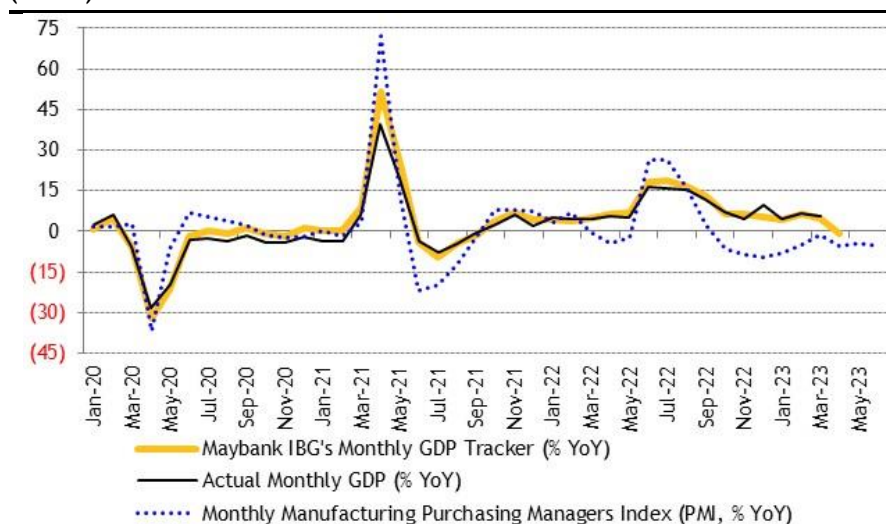
Fig 4: Malaysia - Weighted Average of Retail and Motor Vehicle Trade Volume Indices vs Real Private Consumption



Sources: Dept. of Statistics, CEIC, Maybank IBG Research

Based on the above IPI, DTI and CPO numbers, our monthly GDP tracker estimated that the economy shrank -1.0% YoY in Apr 2023 vs +5.6% in Mar 2023 (1Q 2023: +5.6% YoY; 2022: +8.7%).

Fig 5: Malaysia - Maybank IBG GDP Tracker, Actual GDP and Manufacturing PMI (% YoY)



Sources: Dept. of Statistics, CEIC, Maybank IBG Research

The extended Eid public holidays (21-24 Apr 2023) was a factor for our estimated contraction in Apr 2023's GDP. This was reflected by the MoM declines in IPI (Apr 2023: -10.4% MoM; Mar 2023: +8.4% MoM), DTI (Apr 2023: -1.6% MoM; Mar 2023: +3.0% MoM) and CPO (Apr 2023: -7.1% MoM; Mar 2023: +2.8% MoM). Therefore, monthly GDP should have expanded in May 2023, and this is implied by the CPO output which rebounded +3.9% YoY and +26.8% MoM in May 2023.

However, CPO output dipped again in June 2023 by -6.3% YoY and -4.6% MoM. This also means CPO output fell -6.8% YoY in 2Q 2023 vs +3.2% YoY increase in 1Q 2023, signaling weaker agriculture GDP last quarter (1Q 2023: +0.9% YoY). At the same time, Malaysia's manufacturing purchasing managers index (PMI) averaged 48.1 in 2Q 2023 vs 47.9 in 1Q 2023 and 50.7 in 2Q 2022, indicating the continuation of the manufacturing sector GDP's soft patch last quarter (1Q 2023: +3.2% YoY; 2Q 2022: +9.2% YoY).

At the same time, it important to add that our monthly GDP tracker captures sectors/industries that account for 52.5% of GDP. The best high-frequency guidance or preview on Malaysia's economic growth performance remains our quarterly GDP estimates (that we published prior to official quarterly GDP releases) which is based on a more complete set of information as we have quarterly Index of Services and value of construction works alongside quarterly IPI, DTI and CPO to work on. Our next quarterly real GDP preview will be for 2Q 2023, ahead of the actual data release scheduled on 18 Aug 2023.

1.2 Amid moderating global economic growth

Global economic growth is trending lower. We estimated 1Q 2023 world real GDP eased to +2.5% YoY vs +2.8% in 4Q 2022 and compared with +3.9% YoY in back in 1Q 2022 (2022: +3.4%). Global economy is still growing - albeit slowing - amid the non-synchronized performance among major and regional economies (Fig 5).

Fig 6: Real GDP (% YoY)

	1Q 2022	2Q 2022	3Q 2022	4Q 2022	1Q 2023	2Q 2023
WORLD	3.9	3.5	3.3	2.8	2.5	
US	3.5	1.9	2.1	0.9	2.0	
Eurozone	5.5	4.3	2.5	1.8	1.0	
Japan	0.5	1.8	1.5	0.4	1.9	
UK	10.6	3.8	2.0	0.6	0.2	
China	4.8	0.4	3.9	2.9	4.5	
ASEAN-6	4.8	5.8	7.4	4.7	4.1	
Singapore	4.0	4.5	4.0	2.1	0.4	
Indonesia	5.0	5.5	5.7	5.0	5.0	
Thailand	2.2	2.5	4.6	1.4	2.7	
Malaysia	4.8	8.8	14.1	7.1	5.6	
Philippines	8.0	7.5	7.7	7.1	6.4	
Vietnam	5.0	7.8	13.7	5.9	3.3	4.1

Sources: Bloomberg, CEIC

The US economy is still grinding out quarterly real GDP growth amid resilient job market despite US Fed's most aggressive interest rate hikes since late-70s and early-80s. In contrast, aggressive interest rate hikes due to surge in inflation - especially in energy costs - as a result of Russia-Ukraine war is seeing Eurozone quarterly real GDP growth limping lower and the UK virtually stagnated since 4Q 2022. China's economic opening following its zero COVID-19 policy exit is "underwhelming" so far, while the Japanese economy is eking out growth as inflation stirs back into life amid continued ultra-easy monetary policy.

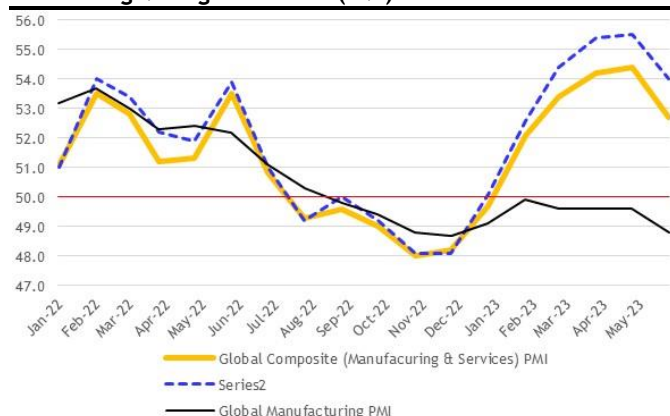
Export-oriented regional economies like South Korea, Taiwan, Singapore and Vietnam are buffeted by the global growth headwinds. Meanwhile, the ASEAN ex-Singapore economies are a "mixed bag" of steady growth momentum in Indonesia, moderating growth in Malaysia and Philippines, and pick up in Thailand, amid the confluence of base effect from - and dissipating influence of - last year's surge in growth from economic openings, resilient domestic demand, and tourism rebounds.

In addition, based on the global purchasing managers index (PMI, Fig 7), we have expansion in services economy but recession in the manufacturing economy. This is reflected by the above-50 reading in the global services PMI since Feb 2023, and the sub-50 print in the global manufacturing PMI since Sep 2022 up to June 2023.

The services growth vs manufacturing recession indicates continued tailwinds to services demand and activities from the end of pandemic and economic re-opening especially tourism, travel, leisure and hospitality, which also reverse the benefit to manufacturing during lockdowns e.g. spending on goods like technology/electronic hardware due to remote/online working, learning and entertainment.

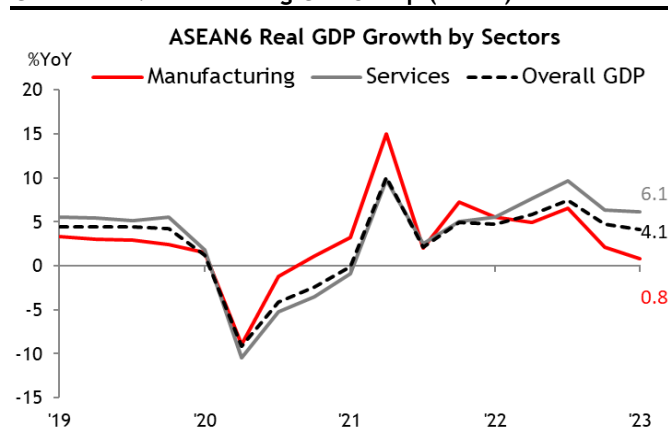
Our ASEAN X Macro note - "[2H 2023: A Post-Pandemic Reality Check, 7 July 2023](#)" - also highlighted this services-manufacturing divergence as per the services and manufacturing GDP and export performances in ASEAN-6 economies (Fig 8-10).

Fig 7: Global Composite, Services and Manufacturing Purchasing Managers Indices (PMI)



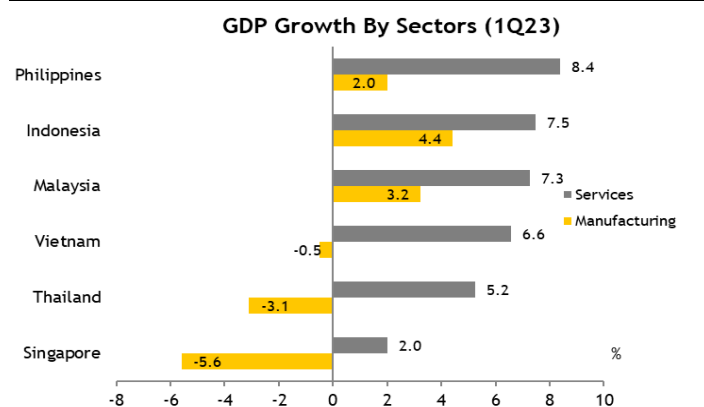
Source: CEIC

Fig 8: Overall ASEAN-6's 1Q 2023 GDP Growth - Services GDP Growth vs Manufacturing GDP Slump (% YoY)



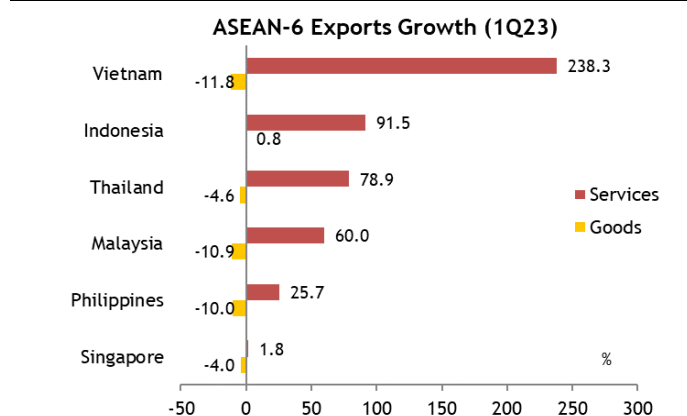
Source: CEIC

Fig 9: ASEAN-6 Countries' 1Q 2023 GDP Growth - Services GDP Outperformed Manufacturing GDP (% YoY)



Source: CEIC

Fig 10: ASEAN-6 Countries' Exports of Goods and Services (% YoY)



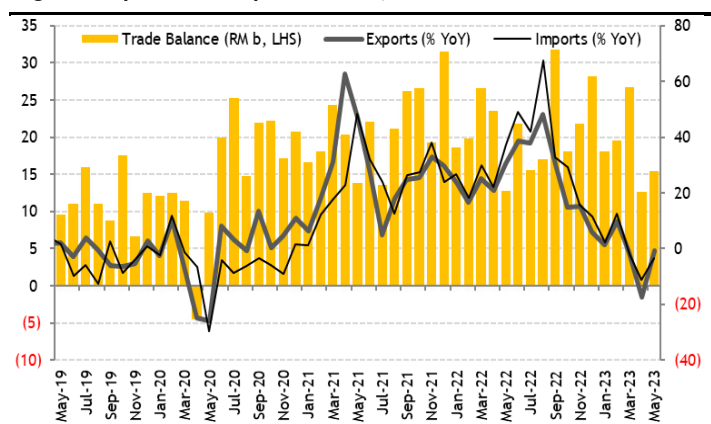
Note: The above based on Current Account of the Balance of Payments statistics
Source: CEIC

For Malaysia, the subdued global economic growth condition is reflected primarily by the external trade performance (Fig 11-12). Five months into this year, exports and imports dropped by -2.3% YoY (2022: +25.0%) and -1.0% YoY (2022: +31.3%) respectively, pointing to headwinds from the economic downturns in US and Europe, as per the slowdown in exports to US (5M2023: +2.5% YoY; 2022: +17.8% YoY) and drop in shipments to EU (5M2023: -9.4% YoY; 2022: +21.8% YoY), while the expected positive impact from China's zero COVID-19 policy exit and full economic opening has yet to materialise amid slump in exports to China (5M2023: -8.9% YoY; 2022: +9.5% YoY).

In addition, commodity export prices have softened this year (Fig 13-14), amplifying the kicking in of base effect after last year's surge in commodity prices in the wake of Russia-Ukraine war. Currently, we expect full-year gross exports and gross imports to decline by -2.0% and -0.5% respectively.

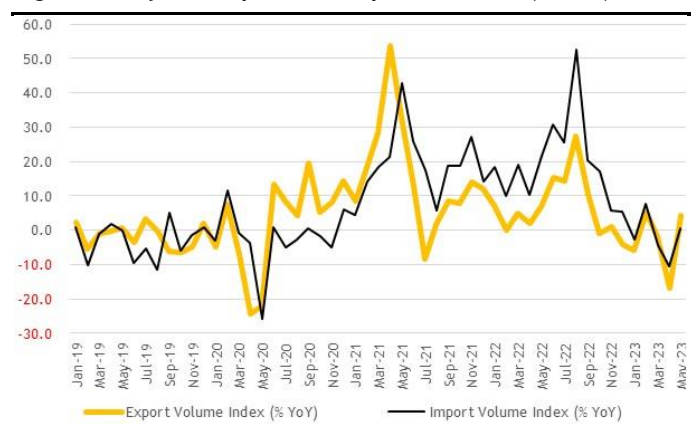
From GDP perspectives, what matters is the net exports (or trade balance). 5M2023 trade surplus shrank -8.7% YoY to +MYR92.4b vs +MYR101.1b in the same period last year, and we expect a smaller full-year trade surplus of +MYR231b in 2023 (2022: +MYR255.5b), implying decline in the net export contribution to GDP this year.

Fig 11: Export and Import Values, and Trade Balance



Source: Dept. of Statistics

Fig 12: Malaysia - Export and Import Volumes (% YoY)



Source: Dept. of Statistics

Fig 13: Global - IMF's Commodity Price Index (% YoY)

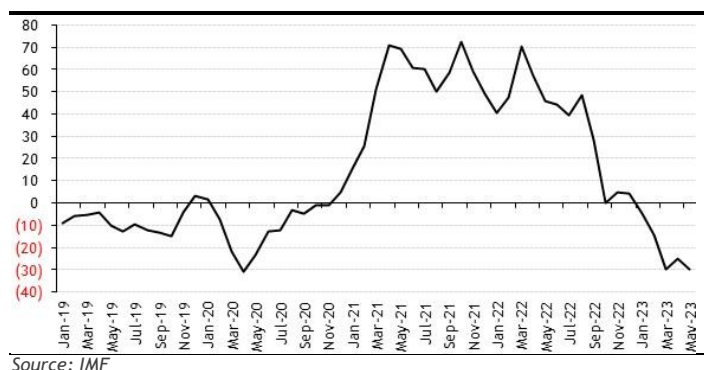
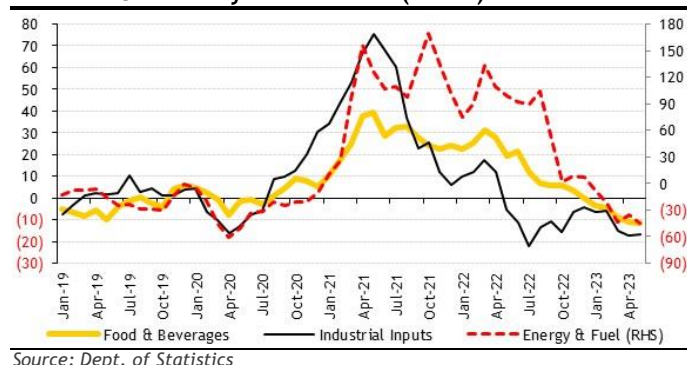


Fig 14: Global - IMF's Food & Beverages, Industrial, Energy and Fuel Commodity Price Indices (% YoY)



1.3 Alongside the lingering and lagged impact of “high inflation - high interest rate

“High inflation and high interest rate” environment affect the global economy - as mentioned above. From the domestic viewpoint, the main impact channels include the erosion of consumers’ purchasing power, as per the decline in real wages and salaries per worker (Fig 15-16) - and the general cost of living effect from higher inflation, following monetary policy response to higher inflation i.e. Bank Negara Malaysia’s (BNM) Overnight Policy Rate (OPR) hikes as landlords pass the higher cost of mortgage debt repayments to tenants, thus the knock-on impact on housing rent component of the Consumer Price Index or CPI (Fig 17).

To recap, in our ASEAN X Macro thematic research note *“Musings on “influencers” and growth impact of ASEAN-6 monetary policy recent actions, 4 June 2022”*, we estimated that the real GDP growth impact of a +25bps OPR hike - averaged over a 12-month period given that the impact of monetary policy changes on real GDP growth work with time lags - is *at least* -0.2ppt, thus implying the GDP growth impact of the cumulative +125bps OPR hikes between May 2022 and May 2023 will be equivalent to a *minimum* of -1ppt. We also estimated that the lagged impact of OPR hikes on real GDP growth will start to manifest three quarters - or up to 9 months - after the start of OPR hikes, which was back in May 2022.

Fig 15: Malaysia - Wages and Salaries (Manufacturing and Services, Quarterly)

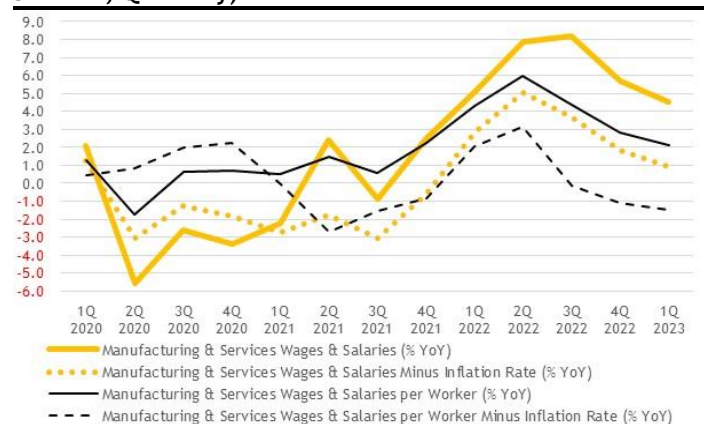
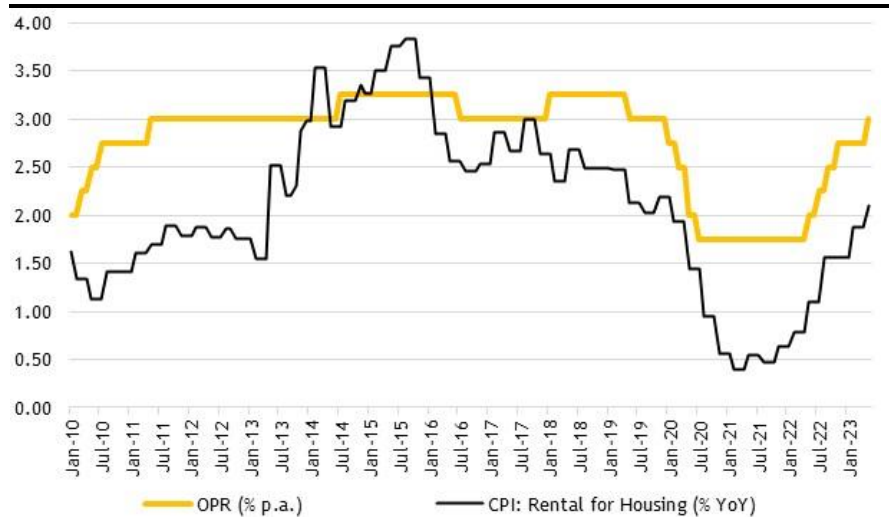


Fig 16: Malaysia - Wages and Salaries (Manufacturing, Monthly)



Fig 17: Malaysia - OPR vs Housing Rent Component of CPI



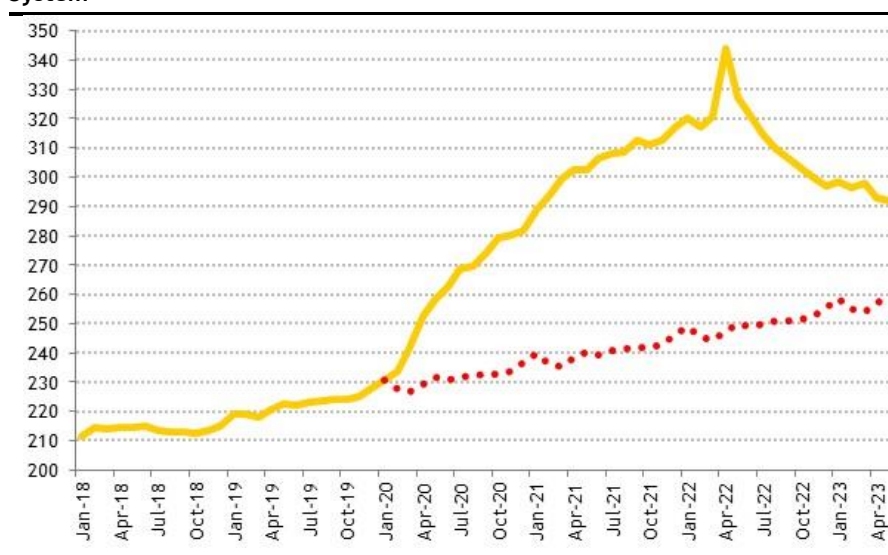
Sources: BNM, CEIC

2. But there are mitigations to domestic growth downside risk

2.1 Drawdown of excess savings...

We are seeing the excess savings (Fig 18) accumulated during the pandemic years of 2020-2021 amid curbed spending due to lockdowns and movement controls, as well as economic stimulus measures - notably the four rounds of pre-retirement withdrawals from the Employees Provident Funds (EPF) totaling MYR145b - being drawn down since May 2022, which interestingly and coincidentally the month when 1) inflation picked up pace to +2.8% YoY (vs the 2.2%-2.3% YoY range in Jan-Apr 2022), 2) BNM started raising OPR, and 3) after the full opening of the economy effective 1 Apr 2022.

Fig 18: Malaysia - Individual Savings and Demand Deposits in the Banking System



Note: Dotted red line refers to estimate under a "No Pandemic" scenario

Source: BNM, Maybank IBG Research

Granted that not all the drawdown in excess savings goes into consumer spending given the resumptions of loan repayments following the end of loan moratoriums and borrowers' exit from the targeted loan repayment assistance, plus higher loan repayments following OPR hikes. There is also the flows into fixed deposits (FDs) as banks compete for FDs amid rising interest rate with attractive rate of returns.

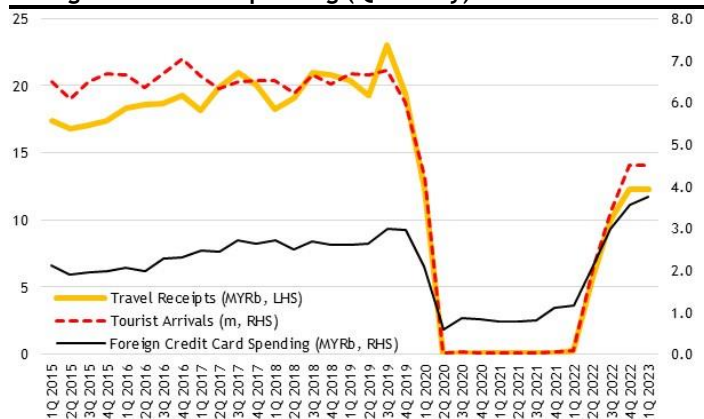
2.2 ... and tourism recovery cushioning private consumption

Indicators like tourist arrivals, travel receipts (based on balance of payments data), foreign credit card spending in Malaysia as well as the numbers of international air passenger traffic and flights are pointing to the buildup in tourism recovery momentum (Fig 19-21).

Tourist arrivals was 4.5m in 1Q 2023 compared with just 0.1m in 1Q 2022, and higher than 4.2m in 1Q 2020 i.e. around the time when COVID-19 emerged as a global pandemic. While the 1Q 2023 tourist arrivals is still below the 6.7m recorded in 1Q 2019 and the pre-pandemic quarterly (1Q 2015 - 4Q 2019) average of 6.5m, the number suggests the Government's target of 16.1m tourist arrivals this year is arithmetically achievable (2022: 10.07m - which surpassed the official target of 9.2m).

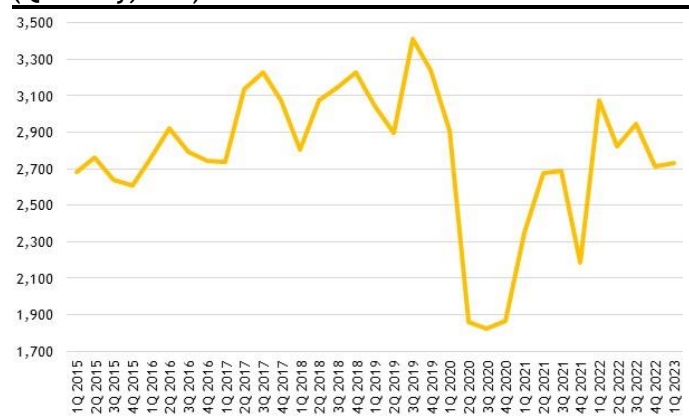
Travel receipts of MYR12.3b in the first three months of the year also augurs well for the MYR49.2b tourism revenue target in 2023 (2022: MYR28.2b). Further underscoring the upward momentum in tourism recovery, the international air passenger traffic jumped to 10.7m in 4M 2023 vs 1.6m in 4M 2022 and above the 8.9m recorded in 4M 2020, although it is well short of 4M 2019 total of 17.6m.

Fig 19: Malaysia - Tourist Arrivals, Travel Receipts and Foreign Credit Card Spending (Quarterly)



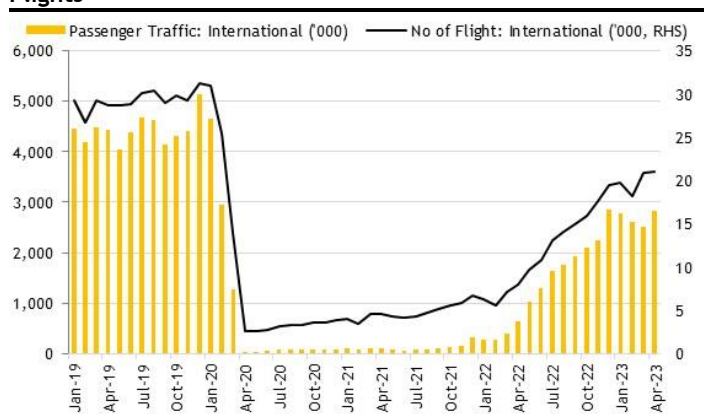
Sources: CEIC, Media Reports (for 1Q 2023 tourist arrivals)

Fig 20: Malaysia - Travel Receipts per Capita Tourist Arrivals (Quarterly, MYR)



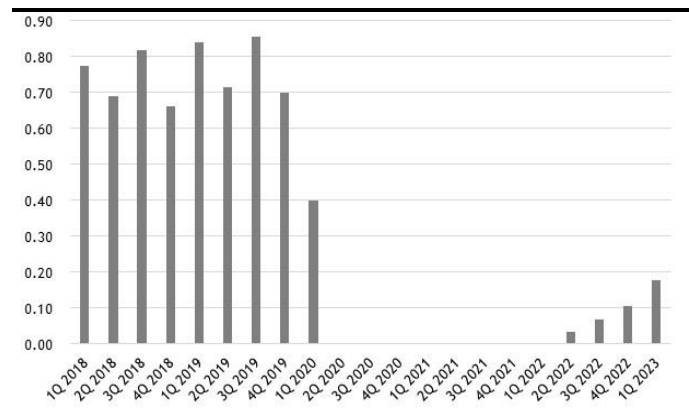
Sources: CEIC, Maybank IBG Research (for 1Q 2023)

Fig 21: Malaysia - International Air Passenger Traffic and Flights



Source: CEIC

Fig 22: Malaysia - Tourist Arrivals from China (m)

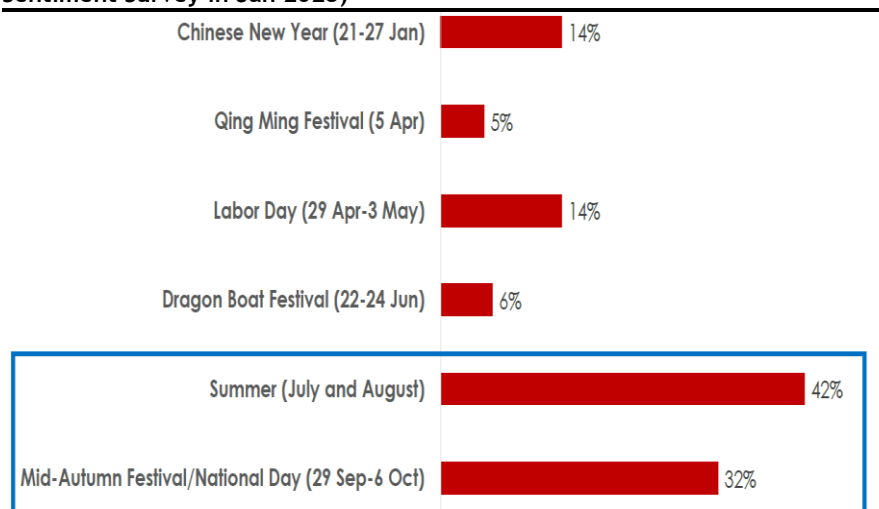


Sources: CEIC, Media Report (for 1Q 2023)

Eyes will be on tourist arrivals from China, which is picking up, although the number is still small and from an extremely low base i.e. 178,150 in 1Q 2023 vs 104,400 in 4Q 2022 and 1,857 in 1Q 2022 (Fig 22). To note, the Ministry of Tourism set an ambitious target of 5m tourist arrivals from China this year (31% of total tourist arrivals of 16.1m this year), above the pre-pandemic total of 3.1m in 2019 (12% of total tourist arrivals of 26.1m in 2019).

This target hinges on the expected surge in arrivals of tourists from China in 2H 2023 as per the survey on China's tourists travel plan (Fig 23) and on the easing or ending of "constraints" due to factors and issues like passport renewals and flight capacity issues. It must also be highlighted that unlike in 2019, Malaysia is not in the Top-10 destinations for tourists from China this year.

Fig 23: China - Outbound Travel Plan for 2023 (Based on Chinese Travelers Sentiment Survey in Jan 2023)



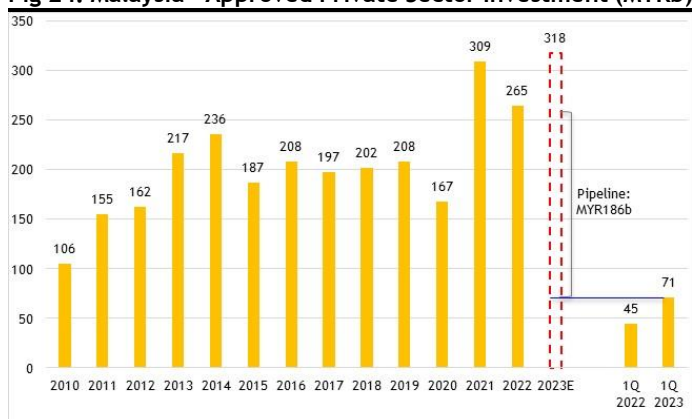
Source: Dragon Trail International (Maybank IBG Webinar "China Re-Opening with Dragon Trail & ForwardKey", 4 Apr 2023)

2.3 Plus positive momentum in investment

Investment growth outlook remain favourable, taking cue from the trend in approved private sector investment and the impact on realized or actual private sector investment (Fig 24-25). To recap, since 2021, total approved private sector investment has been running over the 2010-2019 average of MYR188b p.a. i.e. MYR309b in 2021 and MYR265b in 2022. The robust momentum continued in 1Q 2023 as total approved private sector investment jumped +59.7% YoY to MYR71b vs MYR45b in 1Q 2022.

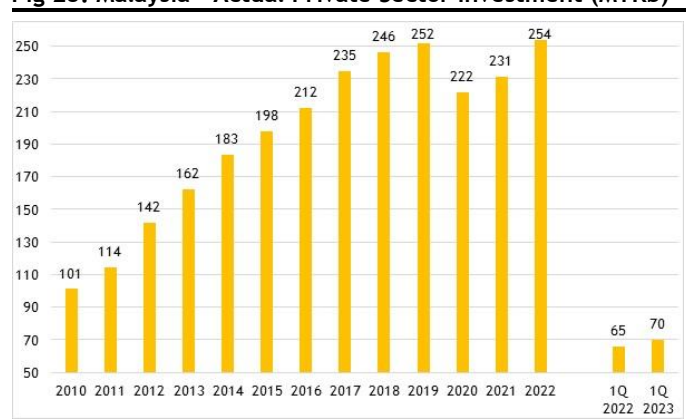
The Ministry of International Trade and Industry (MITI) / Malaysian Investment Development Authority (MIDA) set the target of 20% increase in this year's approved private sector investment i.e. MYR318b. After the MYR71b recorded in 1Q 2023, we understand that there is currently MYR186b in the pipeline pending approvals.

Fig 24: Malaysia - Approved Private Sector Investment (MYRb)



Sources: MIDA, CEIC

Fig 25: Malaysia - Actual Private Sector Investment (MYRb)

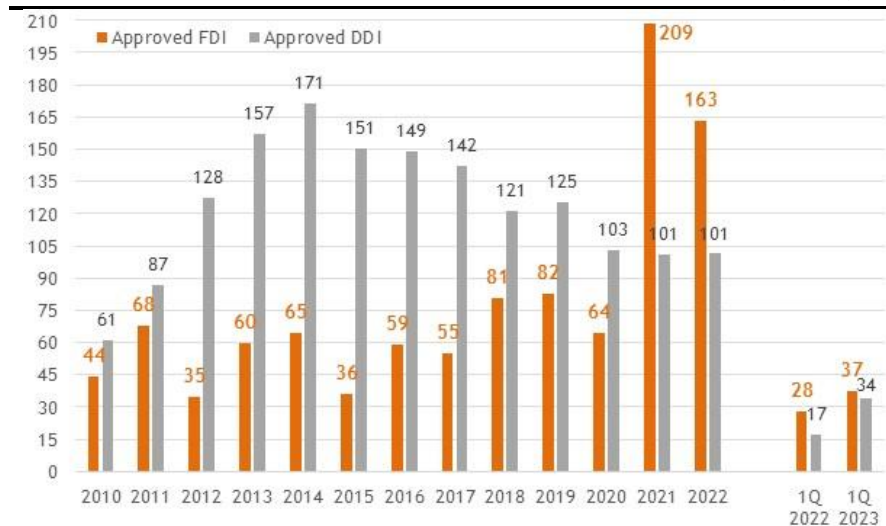


Sources: MIDA, CEIC

Key driver of the healthy trend in approved private sector investment is the robust approved *foreign direct investment (FDI)* since 2021 which was a record high of RM209b and remain high at RM163b in 2022 i.e. well over the average of RM58b p.a. during 2010-2019. The momentum continued in 1Q 2023 as approved FDI rose by +35.7% YoY to RM37b (1Q 2022: RM28b).

Equally encouraging, approved private sector *domestic direct investment (DDI)* which has been on a discernible downtrend in 2014-2020 has stabilised in 2021-2022, and the MYR34b approved private sector DDI in 1Q 2023 was doubled that in 1Q 2022 (MYR17b), suggesting the onset of a more balanced contribution between FDI and DDI to private sector investment in the economy (Fig 26).

Fig 26: Malaysia - Approved Private Sector Investment - FDI and DDI (MYRb)



Sources: MIDA, CEIC

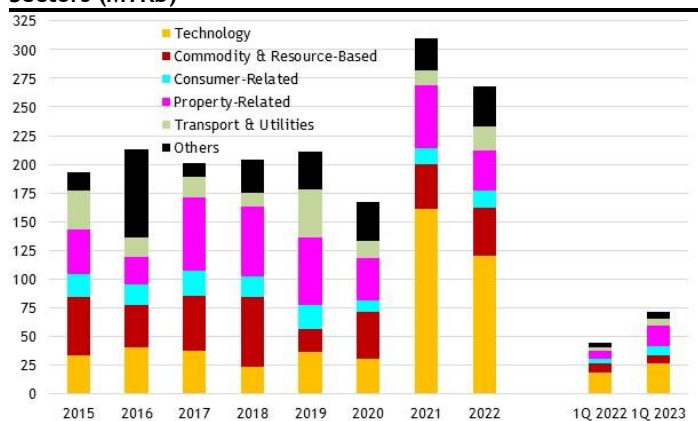
Analysis of approved private sector investment (Fig 27-29) by sectors shows the key driver of approved total investment since 2021 is “Technology”, underpinned by electronics and telecommunications - including datacentres, cloud services and 5G/digital infrastructure - underpinned by approved FDI in these segments.

Notes on Fig 24-26

- 1) *Technology = E&E, Telecommunications, Scientific & Measuring Equipment, Multimedia Super Corridor (MSC Status), BioNexus Status & Software*
- 2) *Commodity & Resource-Based = Primary, Petroleum Refinery & Products, Natural Gas, Non-Metallic Minerals, Basic & Fabricated Metals*
- 3) *Consumer-Related = Food, Distributive Trade, Hotel & Tourism, Health & Education*
- 4) *Property-Related = Real Estate, Global Establishments, Support Services*

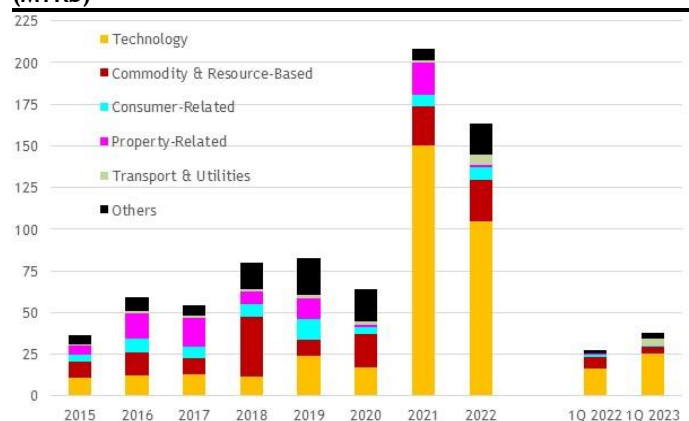
Meanwhile, the rise in approved FDI point to the “upside” from the current US-China geopolitical rivalry, as indicated by the US-China-ASEAN trade and FDI diversion (Fig 30-32), pointing to “de-risking” (rather than “de-coupling”) moves and “China+” strategy by businesses to mitigate losses and disruptions due to geopolitical risk as witnessed and experienced in the wake of the Russia-Ukraine war.

Fig 27: Approved Private Sector Investments - Total by Sectors (MYRb)



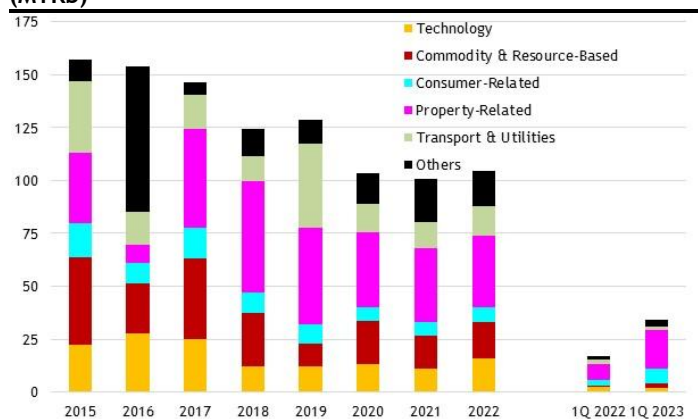
Sources: MIDA, CEIC

Fig 28: Approved Private Sector Investments - FDI by Sectors (MYRb)



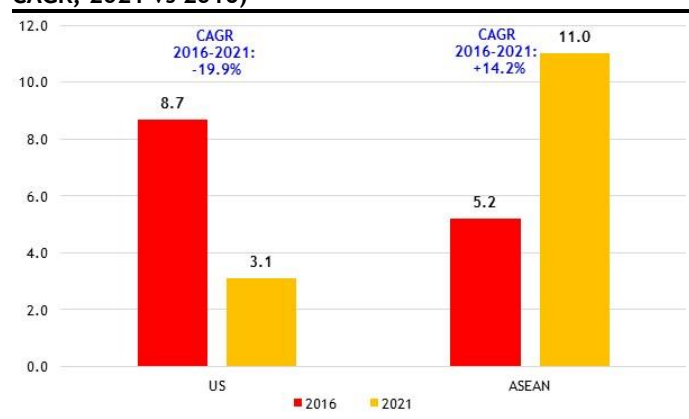
Sources: MIDA, CEIC

Fig 29: Approved Private Sector Investments - DDI by Sectors (MYRb)



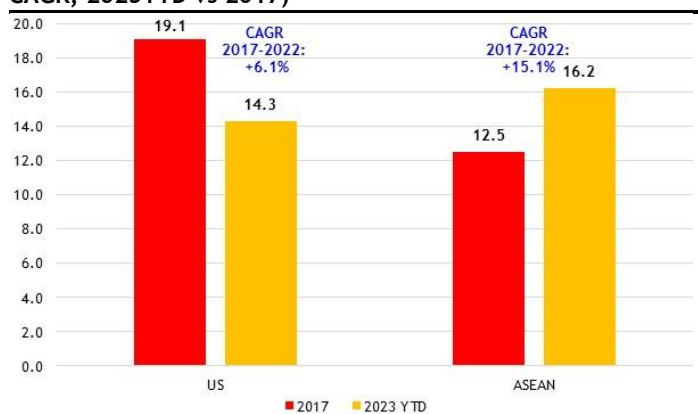
Sources: MIDA, CEIC

Fig 30: China's FDI to US and ASEAN (% Share of Total & CAGR, 2021 vs 2016)



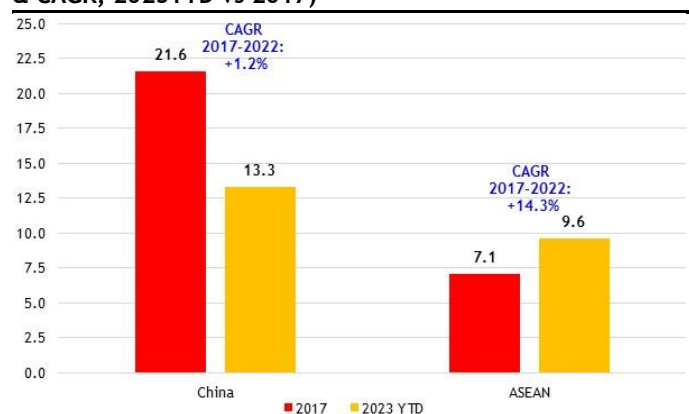
Source: CEIC

Fig 31: China's Exports to US and ASEAN (% Share of Total & CAGR, 2023YTD vs 2017)



Source: CEIC

Fig 32: US' Imports from China and ASEAN (% Share of Total & CAGR, 2023YTD vs 2017)



Source: CEIC

3. Malaysia's key macro forecasts

3.1 Growth moderating in 2023 after the surge in 2022

Maintain our full-year 2023 forecast of +4.5% (1Q 2023: +5.6% YoY) i.e. moderation from the +8.7% surge last year that was boosted by full economic opening. The outlook reflects high base effect on 2Q 2023 and 3Q 2023 growth following real GDP growth surges to +8.8% YoY in 2Q 2022 and +14.1% YoY in 3Q 2022, plus the impact of the aforementioned high inflation-interest rate environment on domestic demand growth (2023E: +5.6%; 2022: +9.2%) - notably in terms of slower growth of private consumption (2023E: +6.1%; 2022: +11.2%) and some denting of private investment expansion (2023E: +5.0%; 2022: +7.2%). At the same time, public consumption growth is projected to ease (2023E: +3.2%; 2022: +4.5%) amid slightly lower Federal Government's operating expenditure (2023E: MYR289.1b, -1.2%; 2022: +MYR292.7b, +26.4%).

Public investment is expected to buck the trend (2023E: +7.3%; 2022: +5.3%), partly reflecting higher Federal Government's gross development expenditure (2023E: MYR97b, +35.5%; 2022: MYR71.6b, +11.4%), on top of the progress in the on-going major infrastructure projects.

Meanwhile, after two years of double-digit growth, we are forecasting low single-digit growth in goods and services exports (2023E: +2.5%; 2022: +14.5%) and imports (2023E: +2.0%; 2022: +15.9%), reflecting base effect as well as global economy, electronics industry and commodity price downturns, impacting commodity and manufacturing segments - notwithstanding the positive effect of tourism and travel rebounds on services part - of the external trade.

Consequently, the above dynamics in the demand side of the economy result in especially the deceleration in the growth of services (2023: +5.5%; 2022: +10.9%) and manufacturing (2023: +3.5%; 2022: +8.1%) and the pickup in construction (2023: +7.0%; 2022: +5.0%), alongside relatively faster agriculture (2023: +1.2%; 2022: +0.1%) and slower mining (2023: +1.5%; 2022: +2.6%).

Fig 33: Malaysia: Real GDP (% Chg / % YoY)

	2020	2021	2022	ACTUAL					MAYBANK IBG		OFFICIAL
				1Q 2022	2Q 2022	3Q 2022	4Q 2022	1Q 2023	2023E	2024E	2023E
Real GDP	(5.5)	3.3	8.7	4.8	8.8	14.1	7.1	5.6	4.5	4.3	4.0 - 5.0
Services	(5.2)	2.2	10.9	6.4	11.9	16.7	9.1	7.3	5.5	5.4	5.0
Manufacturing	(2.7)	9.5	8.1	6.7	9.2	13.1	3.9	3.2	3.5	3.5	4.0
Agriculture	(2.4)	(0.1)	0.1	0.1	(2.3)	1.2	1.1	0.9	1.2	0.5	2.0
Mining	(9.7)	0.9	2.6	(2.2)	(1.7)	9.1	6.3	2.4	1.5	1.0	0.7
Construction	(19.3)	(5.1)	5.0	(6.1)	2.5	15.3	10.1	7.4	7.0	4.8	6.3
Domestic Demand	(5.5)	1.9	9.2	4.4	13.0	13.2	6.8	4.6	5.6	5.7	5.4
Private Consumption	(3.9)	1.9	11.2	5.3	18.3	14.8	7.3	5.9	6.1	6.0	6.1
Public Consumption	4.1	6.4	4.5	6.9	2.3	6.5	3.0	(2.2)	3.2	6.0	1.3
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	0.1	5.8	13.1	8.8	4.9	5.5	4.8	6.0
Private Investment	(11.9)	2.7	7.2	0.4	6.3	13.2	10.3	4.7	5.0	5.0	5.8
Public Investment	(21.2)	(11.1)	5.3	(1.0)	3.2	13.1	6.0	5.7	7.3	4.3	7.0
Net External Demand	(13.7)	(4.0)	(1.0)	(28.9)	(29.0)	26.2	23.0	54.4	10.0	0.1	9.7
Exports of Goods & Services	(8.6)	18.5	14.5	12.3	15.9	21.5	8.6	(3.3)	2.5	3.5	2.7
Imports of Goods & Services	(7.9)	21.2	15.9	16.1	20.1	21.1	7.2	(6.5)	2.0	3.8	2.1
Inventory (chg in MYRb)	(4.5)	19.1	21.5	5.5	12.3	3.2	0.4	2.7	2.0	(15.3)	3.4

Sources: Dept. of Statistics, BNM (Mar 2023), Maybank IBG Research

Fig 34: Malaysia - Other Key Economic Indicators

	ACTUAL				MAYBANK IBG		OFFICIAL 2023E
	2020	2021	2022	2023 YTD	2023E	2024E	
Current Account Balance (% of GDP)	4.2	3.8	2.6	1.0 (1Q)	2.4	2.3	2.5-3.5
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.6)	(3.7) (1Q)	(5.0)	(4.3)	(5.0)
Inflation Rate (CPI, %)	(1.2)	2.5	3.3	3.6 (1Q)	3.0	2.5	2.8-3.8
Overnight Policy Rate (% p.a., end-period)	1.75	1.75	2.75	3.00 (end-June)	3.00	3.00	-
Exchange Rate (MYR/USD, end-period)	4.02	4.17	4.40	4.67 (end-June)	4.50	4.15	-
Exchange Rate (MYR/USD, average)	4.20	4.14	4.40	4.46 (1H)	4.50	4.30	-
Unemployment Rate (%)	4.5	4.6	3.9	3.5 (5M)	3.5	3.4	3.5
Crude Oil (USD/bbl, Brent average)	42.3	70.5	99.0	79.7 (1H)	78-83	75-80	80-90
Crude Palm Oil (MYR/tonne, average)	2,781	4,426	5,115	3,929 (1H)	3,400	3,100	3,800-4,200

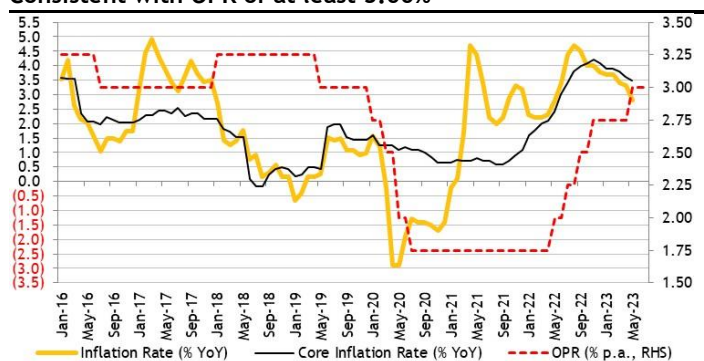
Sources: Bloomberg, CEIC, Dept. of Statistics, BNM (Mar 2023), Maybank IBG Research

3.2 OPR staying at 3.00% for the rest of the year

Following the decision by the BNM's Monetary Policy Committee (MPC) meeting on 5-6 July 2023 to keep the Overnight Policy Rate (OPR) at 3.00%, we expect OPR to stay at this "slightly accommodative" level - as per BNM's description - for the rest of the year. This is based on four takeaways from BNM's latest Monetary Policy Statement (MPS) issued after the above-mentioned MPC i.e.

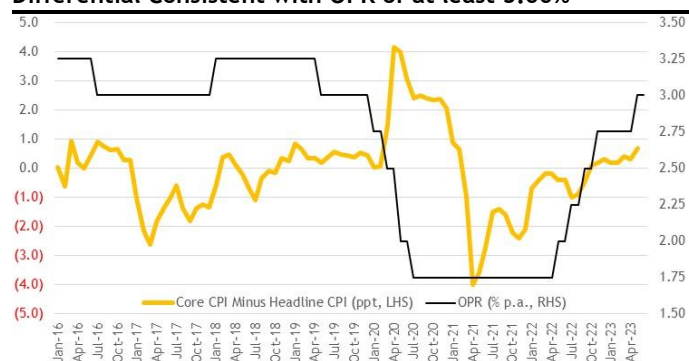
- Cautious global economic outlook as BNM changed its view on China, acknowledging "slowing recovery post-economic re-opening in recent months" vs "stronger-than-expected rebound" in the previous MPS in May 2023, while the MPS line on the downside risks to global economic outlook now adds "slower major economies".
- Constructive domestic economic outlook. Domestic economic growth slowed in recent months as exports are dragged by slower external demand. But for the remainder of this year, the economy will be driven by resilient domestic demand, as favourable labour market conditions - especially in the domestic-oriented sectors - underpinned consumer spending, plus rebounds in tourist arrivals, thus tourism-related activities, on top of progress in multi-year infrastructure projects supporting investment activity.
- Expectations of continued moderation in inflation in 2H 2023 after the downtrend so far this year. In particular, BNM removed the assessment that "inflation risk is tilted to the upside", as well as its full-year inflation rate forecast range of 2.8%-3.8% that suggest forecast review is underway with the likelihood of the number now coming in at the lower end/half of that forecast range.

Fig 35: Levels & Trends in Headline & Core Inflation Rates Consistent with OPR of at least 3.00%



Sources: Dept. of Statistics, CEIC

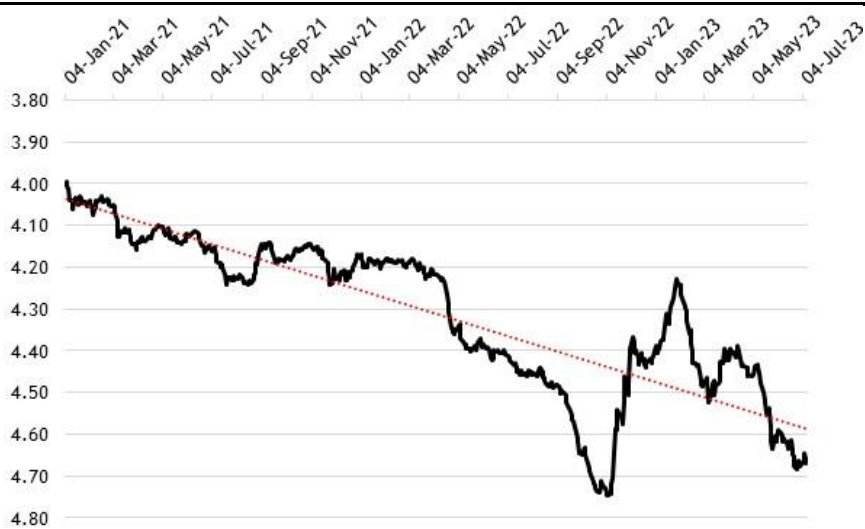
Fig 36: Levels & Trends in Headline-Core Inflation Rate Differential Consistent with OPR of at least 3.00%



Sources: Dept. of Statistics, CEIC, MIBG Research

- MPS also added that BNM's MPC sees limited risk of future financial imbalances, compared with previous statement about the need to ensure monetary policy stance is appropriate to prevent the risk of future financial imbalances. Assuming the "financial imbalances risk" refers to the Ringgit situation and amid the outlook of further US Fed's interest rate hikes, we view that BNM feels its recent statement (by the Financial Market Committee or FMC on 27 June 2023) on Ringgit and FX market intervention is sufficient and effective in stabilising Ringgit i.e. not reaching and breaching 4.70 vs USD (Fig 37).

Fig 37: USDMYR (Daily, 2021-2023)



Source: CEIC

4. Lookouts range from US recession to domestic state election

4.1 Global economic outlook amid risk of US recession

Currently, we expect annual global real GDP growth to continue drifting lower to +2.7% this year after it slowed to +3.4% last year from +6.2% in 2021. The “un-synchronized” sectors (i.e. services-manufacturing dichotomy) and economies mentioned earlier crucially underpinned this outlook.

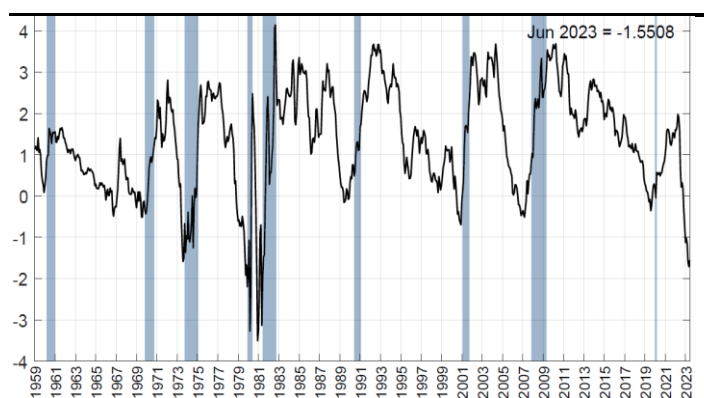
Fig 38: Global - Real GDP (% chg)

	2020	2021	2022	2023E	2024E
WORLD	(3.0)	6.2	3.4	2.7	2.7
US	(2.8)	5.9	2.1	1.3	0.5
Eurozone	(6.1)	5.3	3.5	0.5	1.0
Japan	(4.6)	2.1	1.1	1.0	1.0
UK	(9.3)	7.6	4.1	(0.5)	1.0
China	2.2	8.4	3.0	5.0	5.2
ASEAN-6	(3.8)	3.8	5.6	4.2	4.7
Singapore	(4.1)	7.6	3.6	0.8	2.2
Indonesia	(2.1)	3.7	5.3	5.0	5.2
Thailand	(6.2)	1.5	2.6	4.0	3.6
Malaysia	(5.5)	3.1	8.7	4.5	4.3
Philippines	(9.5)	5.7	7.6	5.5	6.2
Vietnam	2.9	2.6	8.0	4.0	6.0

Source: Bloomberg & CEIC (2020-2022); MIBG Research (2023-2024 for World and ASEAN-6); Consensus (2023-2024 for others)

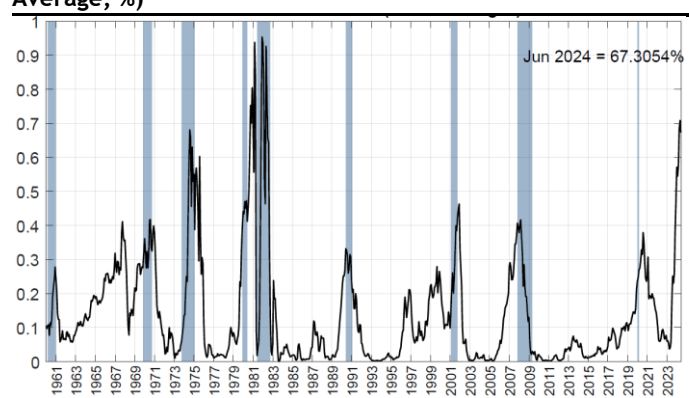
The key concern on the global economic outlook is the US economy given the recession signals/warnings from the usual suspects. As of June 2023, the inversion of the US Treasury yield curve (Fig 39) pointing to 67% probability of US recession in the next 12 months (Fig 40 - although we noted the probability has eased from the high of 71% in May 2023). In addition, US banks' credit/lending standards have tightened after the US regional banking turmoil back in Mar 2023 (Fig 41). Fed also signals two more fed funds rate hikes before the year is over, pushing the benchmark interest rate deeper into the so-called “restrictive” zone.

Fig 39: US Treasury Yield Spread i.e. 10 Year Minus 3 Month (Monthly Average, % p.a.)



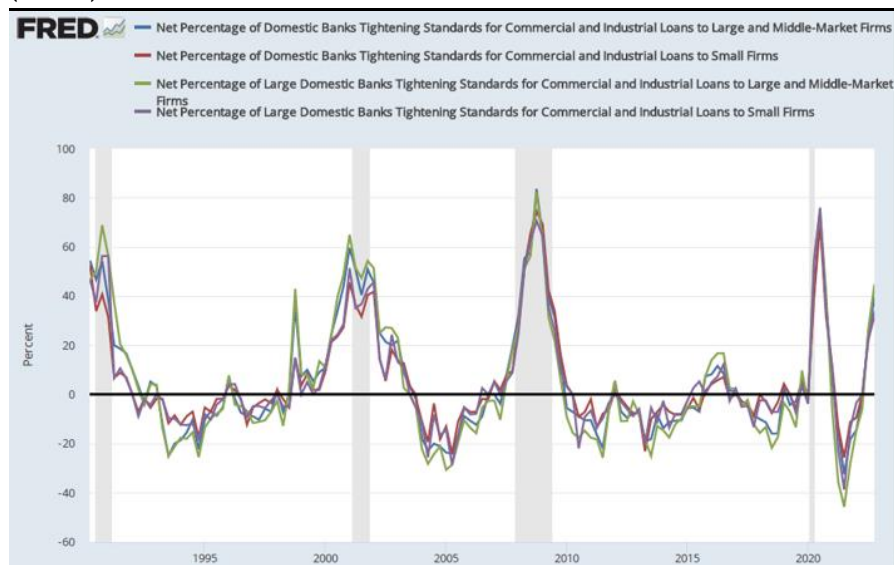
Source: Federal Reserve of New York

Fig 40: Probability of US Recession 12 Months Ahead Based on US Treasury Yield Spread, as of June 2023 (Monthly Average, %)



Source: Federal Reserve of New York

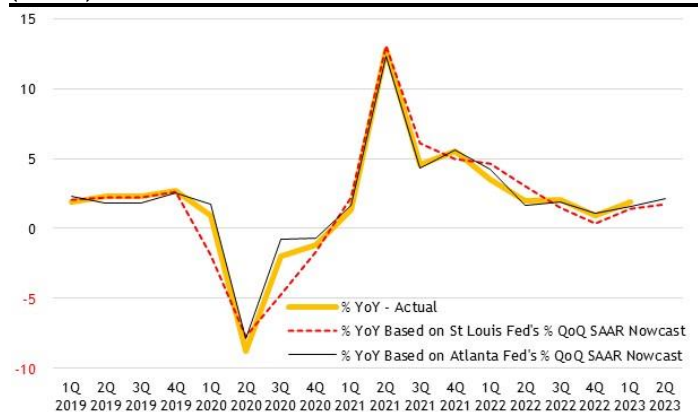
Fig 41: US Federal Reserve's Quarterly Senior Loan Officers Opinion Survey (SLOOS)



Source: Federal Reserve of St. Louis

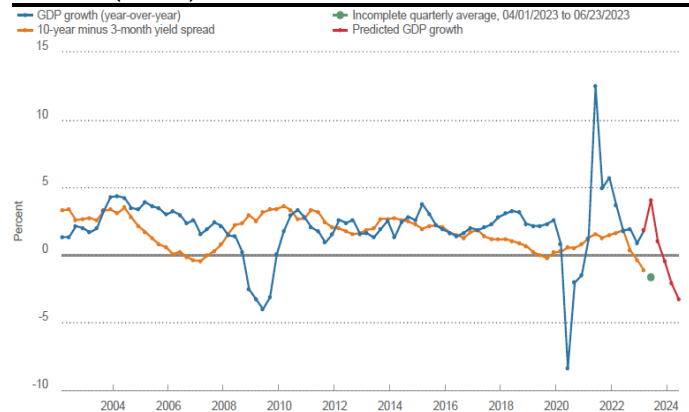
Our tracking of regional Fed's *nowcasts* on US quarterly real GDP growth shows that the US economy was still expanding % YoY (derived from % QoQ seasonally-adjusted annualized rate (SAAR) nowcasts) in 1H 2023 according to St. Louis and Atlanta Fed's nowcasts (Fig 42). However, the Cleveland Fed's nowcast based on the above US Treasury yield spread point to % YoY contractions in US GDP starting 4Q 2023 to 1H 2024 (Fig 43). At the same time, the latest FOMC's forecasts (June 2023) saw Fed predicting US economy will rebound +1.1% YoY by 4Q 2024.

Fig 42: St. Louis & Atlanta Fed's Quarterly US GDP Nowcast (% YoY)



Sources: Federal Reserves of St. Louis and Atlanta

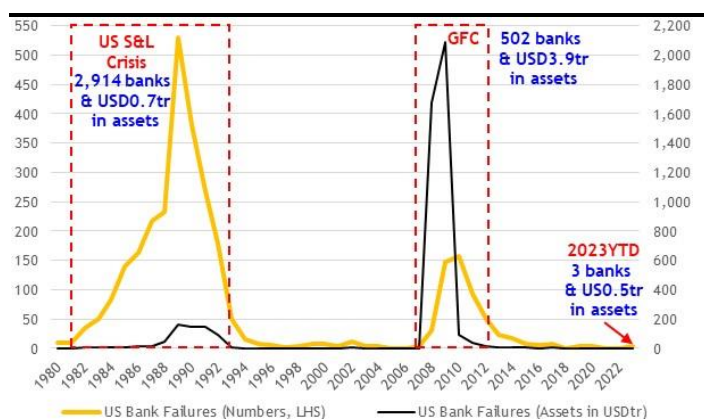
Fig 43: Cleveland Fed's Yield-Curve Based Quarterly US GDP Nowcast (% YoY)



Source: Federal Reserve of Cleveland

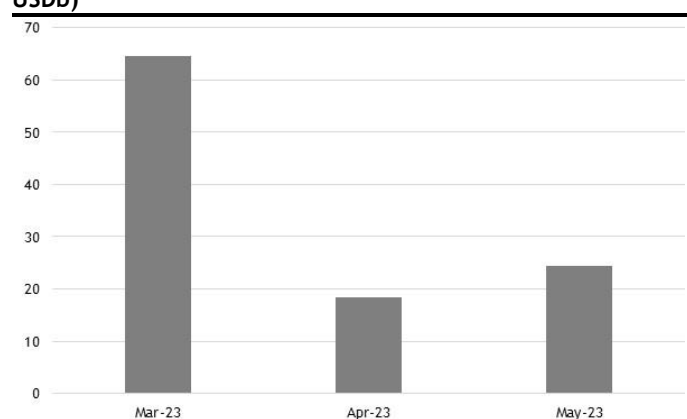
At this juncture, we expect the US economy to expand by +1.3% this year (2022: +2.1%), but given the above recession signals/warning as well as Fed's nowcasts/forecasts, the economy is expected to register a small growth of +0.5% next year. This relatively sanguine outlook is partly based on the observation so far that the recent US regional banking turmoil (Mar 2023) is a "contained and idiosyncratic" event rather than a "contagious and systemic" event (Fig 44-45).

Fig 44: US Bank Failures



Source: US Federal Deposit Insurance Corporation (FDIC)

Fig 45: US Fed's Bank Term Funding Programme (BTFP, USDb)



Source: US Federal Reserve

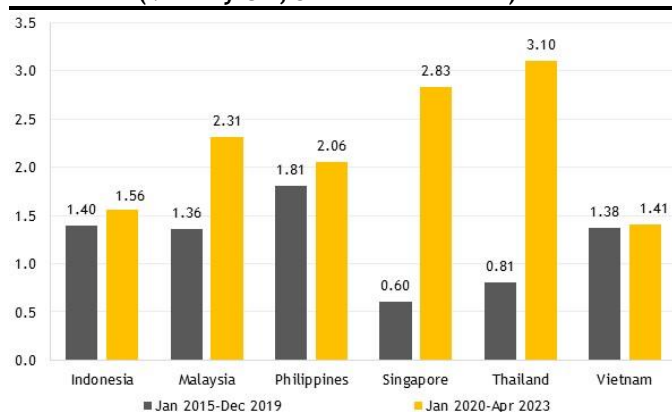
Note on Fig 44: BTFP was launched in Mar 2023 in the wake of the Silicon Valley Bank (SVB) collapse. It provides additional funding available to eligible depository institutions to help assure banks are able to meet the needs of all their depositors. BTFP offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase by the Federal Reserve Banks in open market operations such as US Treasuries, agency securities and agency mortgage-backed securities. These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress.

4.2 Inflation dynamics

While domestic inflation is expected to moderate further in 2H 2023 following the downtrend in % YoY monthly headline inflation rate since Aug 2022 and core inflation rate since Nov 2022, there is still the lingering and latent risks of inflation surprising on the upside. This is as core inflation rate is currently running above - and "stickier" than - the headline inflation rate (re: Fig 35-36), underscoring the underlying demand and cost pressures. Speaking of cost pressures, starting 1 July 2023, all employers in Malaysia must comply with the MYR1,500 per month minimum wage. Previously, employers less than 5 workers - accounting for around three-quarter of employers in the country by our estimate - were given exemption from the 1 May 2022 effective date of the new minimum wage. And Ringgit weakness is not helpful either as far as inflation is concerned.

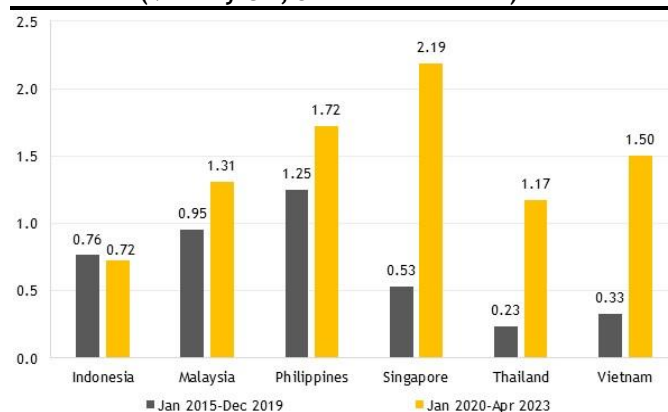
Furthermore, we noted that headline and core inflations - for Malaysia and its ASEAN peers - are more volatile (measured as standard deviation from mean) since the pandemic (2020 onwards) vs pre-pandemic period of 2015-2019 (Fig 46-49).

Fig 46: ASEAN-6 Headline Inflation Volatility, 2015-2019 vs 2020-2023 (Monthly CPI, Standard Deviation)



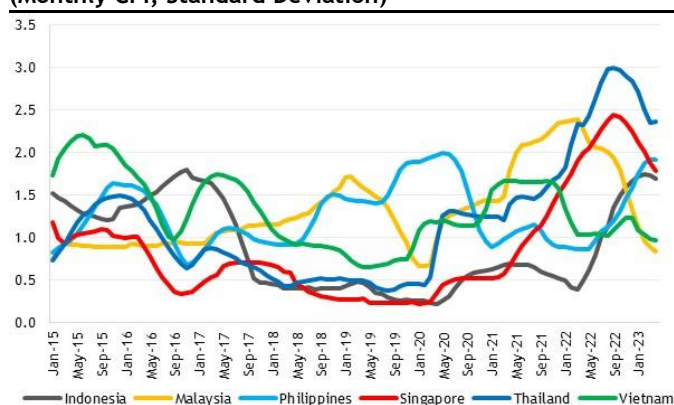
Source: CEIC, Maybank IBG Research

Fig 47: ASEAN-6 Core Inflation Volatility, 2015-2019 vs 2020-2023 (Monthly CPI, Standard Deviation)



Source: CEIC, Maybank IBG Research

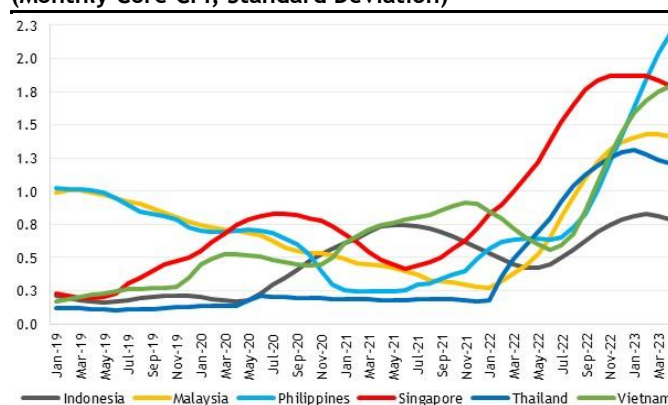
Fig 48: ASEAN-6 Headline Inflation Volatility, 2019-2023 (Monthly CPI, Standard Deviation)



Note: Rolling 2-year volatility

Source: CEIC, Maybank IBG Research

Fig 49: ASEAN-6 Core Inflation Volatility, 2019-2023 (Monthly Core CPI, Standard Deviation)



Note: Rolling 2-year volatility

Source: CEIC, Maybank IBG Research

Higher inflation volatility since the pandemic implies higher uncertainty on inflation outlook and underscores the risk of prolonged or longer-lasting inflation (i.e. “inflation scarring”) following major inflationary shocks that unprecedented in modern times like global COVID-19 pandemic, supply chain disruptions and adjustments, as well as geopolitically-induced global economy fragmentations. These are on top of the lingering tailwinds from economic re-opening, especially the pent-up demand and discretionary spending on - and hence prices of - services such as tourism, travel, dining and recreations that were curtailed during the pandemic and lockdown years, as well as long-term structural issue of ageing demography and declining population - with the “peak” working age cohort - that pose challenge to the wage-productivity dynamics. Added to these is the risk of inflationary shocks from the impact of natural disasters and extreme weather phenomenon - with the onset of El-Nino in mind - as part of the broader issues of disaster recovery/resilience and climate change.

As highlighted in our ASEAN X Macro note *“ASEAN Inflation and Interest Rates: Quo Vadis...?, 11 June 2023”*, we see Malaysia as having the biggest upside risk to inflation among the ASEAN-6 economies, coming primarily from the overhangs and fluid situations with regards to the Government policy on price subsidies and controls, as well as on consumption-related taxes.

So far this year, a key factor helping to keep Malaysia’s headline inflation rate somewhat in check is the continuation of the blanket fuel subsidy as RON95 and diesel prices remain at MYR2.05 per litre and MYR2.15 per litre (since end-Feb 2021). As of June 2023, we estimated that the current unsubsidized RON95 and

diesel prices to be almost MYR1.00 per litre higher and every 10 sen per litre hike in these fuel prices will raise headline inflation by 0.3 percentage point.

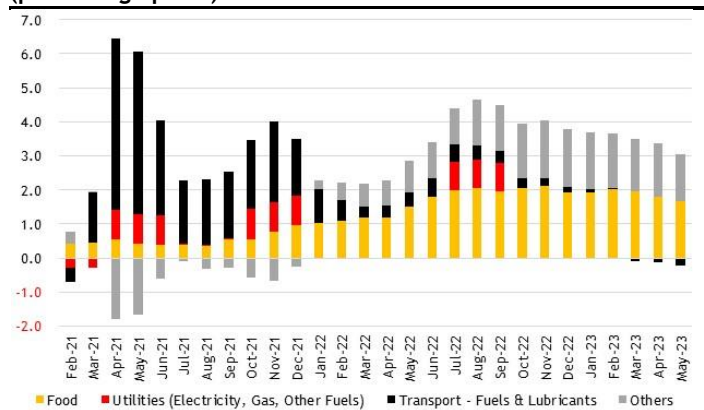
Meanwhile, several consumption-related taxes announced under Budget 2022 - the year inflation surged - that were supposed to be implemented during 2022-2023 have been suspended or postponed indefinitely, presumably to mitigate their inflationary impact and address cost of living issues facing consumers. These “overhangs” include:

- Expansion of excise duty on sugar-sweetened beverages (so called “sugar tax”) to include pre-mixed preparation products in addition to listed categories of ready-to-drink products. This was announced in Budget 2022 for implementation on 1 Apr 2022, but postponed to 1 Nov 2022 and again to 1 Jan 2023, only to be put on hold now.
- 6% service tax on good delivery services provided by delivery service providers, including e-commerce platforms (F&B deliveries and logistic services exempted). This was also Budget 2022 measure that was supposed to be implemented on 1 July 2022, then delayed to 1 Jan 2023, but now suspended.
- 10% sales tax on low-value goods (not exceeding MYR500 from abroad sold online by sellers and delivered to consumers in Malaysia). This was another Budget 2022 measures that was supposed to be effective on 1 Jan 2023 but deferred to 1 Apr 2023, and is currently postponed indefinitely.

But the Government has also started to ball rolling on implementing targeted subsidies, beginning with electricity at the start of this year where subsidy is now given only to domestic (household) and low-voltage users vs non-domestic (industrial, commercial) and medium/high voltage users, which affect business costs. This was followed by the exclusion of very high-income households from electricity bills at the start of 2H 2023 i.e. those with monthly electricity consumption excess of 1,500kWh. The Government is now looking at implementing targeted fuel subsidy next, potentially next year that will also end the “benefits” to the high-income households.

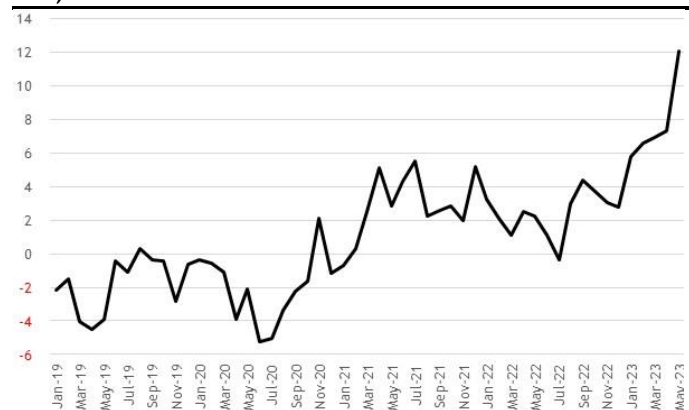
We are also keeping an eye on - food inflation risk as food remains the largest contributor to year-to-date headline inflation rate (5M2022: 55.5% share; 2022: 49.2% share), and in view of the rising producer costs of crude consumer foods category (Fig 50-51).

Fig 50: Contributions to % YoY inflation rate, 2021-2023 (percentage point)



Sources: CEIC, Maybank IBG Research

Fig 51: Producer Price Index - Crude Consumer Foods (% YoY)



Source: CEIC

Thus, we are mindful of future eventual adjustments in controlled and subsidised prices of essential food items, including chicken and eggs (supposedly no more subsidies after June 2023 but was recently announced to be continued) as well as white sugar (rumoured to be as early as Aug 2023, but is uncertain now given the “U-turn” on chicken and egg price subsidies) and general-purpose flour.

4.3 Domestic state elections

Malaysia will hold elections in six states on 12 Aug 2023, with a total of 245 assembly seats contested in Kedah, Kelantan, Terengganu, Penang, Selangor and Negeri Sembilan. 9.8m people (out of a population of 32mn) will be eligible to vote in the polls. The state elections do not have any direct implications on the stability of the current Federal Government, but are seen as a barometer or referendum of sorts on the support to - and the performance of - Prime Minister Anwar Ibrahim and his coalition or “Unity” Government and Cabinet, especially among the majority Malay population/voters.

Our baseline scenario or assumption is that the outcome of these state elections will broadly mirror the results of the Parliament seats contested in these states at the 15th General Election back in Nov 2022 i.e. PH/BN will keep the multi-racial states Selangor, Penang and Negri Sembilan while PN/PAS will retain the Malay heartland/belt states of Kedah, Kelantan and Terengganu.

What is more - and most - important is that after the conclusion of the state elections, the PM, his Cabinet and the Federal Government should focus on policy making and implementation of economic and institutional reforms given that there is over four years to go before the next general election. Key policy events to watch include:

- MADANI Economic Narrative, to be launched in Aug 2023.
- New Industrial Masterplan 2030, slated to be unveiled in Aug 2023.
- Mid-term review of the 12th Malaysia Plan (2021-2025), expected in Sep 2023.
- Federal Government’s Budget 2024 - scheduled to be tabled at the Parliament on 13 Oct 2023.
- National Energy Transition Roadmap (NETR) and Hydrogen Economy and Technology Roadmap (HETR), targeted to be unveiled in 2H 2023.
- Fiscal Responsibility Act and Government Procurement Act by end-2023.

Malaysia 2H2023 Market Outlook

Clearer Skies Ahead

Anticipating market traction despite earnings stresses

Contrary to relatively optimistic expectations at the start of the year, as detailed in 2023 Malaysia Equities Outlook report “A New Hope”, dated Dec 14, macro, corporate earnings and political concerns have persisted in 1H23, with long-apparent disconnect between resilient GDP growth (1Q: +5.6% YoY; 2023E: +4.5%) and an underperforming KLCI particularly stark. Key pressure points sapping investor confidence include a re-tabled Budget 2023 that was silent on urgent fiscal concerns re subsidies (too high) and tax base (too narrow), relentless net foreign selling (for a 10th consecutive month in June), “barometer” state elections slated for Aug, an exceptionally weak Ringgit and underwhelming corporate earnings, with 1Q23 reporting representing a 2nd consecutive quarter of QoQ and YoY earnings decline. Nonetheless, with KLCI forward PER (c.12x) now at post-millennium lows, and both domestic and foreign risk factors looking to have peaked, market valuations have room to expand over 2H23 notwithstanding still-volatile earnings outlook. We have moderated our end-2023 KLCI target to 1,520 (+10%) and retain a balanced positioning via a mix of value and growth stock, with continuing yield focus. Top BUYs (Fig 168) and Top SELLs (Fig 169) are on pages 104-106, ESG stock picks are per Fig 147, while conviction dividend picks (5-10% cash yields) are in Fig 132. Sector-specific updates are detailed on pages 111-151.

1H23 recap: extended macro-market disconnect

The KLCI was the second-worst performing benchmark in the region over 1H23, declining 7% and 13% in Ringgit and USD terms, respectively (Fig 76). Negative contrast vis-a-vis resilient GDP momentum - 2023E expansion forecast at +4.5%, after 2022's +8.7% reopening-boosted rebound - has been accentuated by uncertain policy timeline and execution re likely-disruptive subsidy and tax base changes, an exceptionally weak Ringgit poorly explained by interest rate differentials and /or foreign portfolio flows (net positive for 5M23 on heavy inflows into Ringgit debt; Fig 81) and pending state elections in Aug (Fig 96) which, should PM Anwar's unity government perform poorly, could potentially derail essential fiscal and governance reforms, and rekindle speculation on the staying power of the federal government. Further, risks re weak corporate earnings delivery are to the downside given a combination of weakening demand, pressured ASPs and extended margin pressures (Fig 86).

2H23 outlook: dissipating overhangs to narrow discount

We are cautiously optimistic on improved market traction over 2H23 despite mixed earnings guidance. Besides peaking interest rates, upcoming state elections and Budget 2024 (Oct) could surprise positively re political / policy follow-through vs. current depressed expectations. Our FX team also expects a positive Ringgit reversal into 4Q23 as China's growth (and hence currency) outlook stabilizes and Fed's narrative turns more dovish. KLCI heavyweight sectors like Banks (NIMs bottoming in 1Q23) and Plantations (CPO price lift from firmer soy pricing, El Nino) have room to reverse YTD underperformance (Fig 162) even as low-teens 2024E market earnings growth forecast comes into view. Re thematics, evidence of rising traction re GLC Reform (Figs 122-125) and trade/supply chain relocation (Figs 152-159) would be supportive of economic and market impetus. Further, ramped-up Sustainability initiatives and targets (Figs 140-144) bode well for sectors such as Auto (EV take-up, infra) as well as Renewables/Utilities (accelerated RE plant-ups, exports).

Balanced positioning, with ESG and yield overlays

Following forecast adjustments post-1Q23 results, 2023E coverage universe earnings growth has moderated to +6.5% (from +13.6%) but is expected to strengthen to +13.3% in 2024E (Fig 90), as ASP-driven sectors (Plantations, Gloves, Petrochem) improve while laggards like Telcos, Gaming (Casino) and Aviation extend earnings recovery. Revised end-2023 KLCI target is 1,520 (13x fwd. PER, -1.5 SD vs. mean), from 1,660 (14x/-1SD) previously. Re sector positioning (Fig 167) and top picks, we favour Financials (HLBK, RHB, ABMB), Tech (Software) (CTOS, ITMAX), EMS (ATech), Auto (Bermaz), Gaming (GENT(M)), Construction (Gamuda), Hospitals (IHH), O&G (Yinson). Selective on Plantations (KLK), Telcos (Telekom), REITs (YTL, Axis), Consumer (Mr.DIY, Padini), Tech (Hardware) (Greatech), Aviation (Capital A). Key SELLs are Gloves (Top Glove, Hartalega, Kossan) and NFOs (Magnum, SPToto).

Analysts

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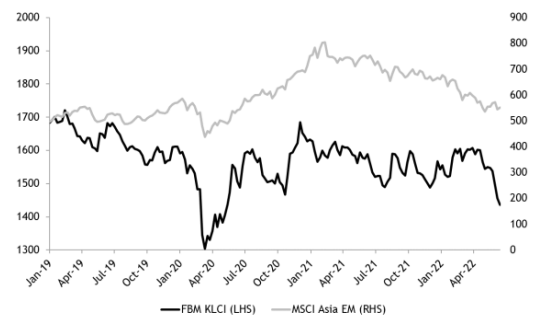
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KLCI vs. MSCI Asia EM Index



Current KLCI:	1,378 (7 July 2023)
YE KLCI target:	1,520 (13x forward PER)

Malaysia equities growth & valuation

		2021A	2022E	2023E
KLCI @ 1,387	PE (x)	14.1	13.3	12.0
Earnings Growth	(%)	(6.0%)	6.2%	12.4%
Research Universe	PE (x)	15.7	14.7	13.0
Earnings Growth	(%)	(2.2%)	6.5%	13.3%

Top BUY picks

Stock	BGB Ticker	Price	TP	Upside (%)
Large Caps				
IHH	IHH MK	5.79	7.13	23.1%
HL Bank	HLBK MK	18.86	22.70	20.4%
Press Metal	PMAH MK	4.79	5.40	12.7%
Axiata	AXIATA MK	2.57	3.50	36.1%
KL Kepong	KLK MK	22.54	23.90	6.0%
RHB	RHBBANK MK	5.40	6.40	18.5%
Telekom	T MK	4.79	6.50	35.7%
Genting Bhd	GENT MK	4.09	5.61	37.1%
MR D.I.Y	MRDIY MK	1.52	2.40	57.9%
Dialog	DLG MK	2.11	4.90	132.2%
Gamuda	GAM MK	4.38	4.80	9.6%
Yinson	YNS MK	2.54	5.05	98.8%
Greatech	GREATEC MK	4.30	6.05	40.7%
Alliance Bank	ABMB MK	3.35	4.00	19.4%

Mid-small Caps

Capital A	CAPITALA MK	0.83	0.90	8.5%
CTOS	CTOS MK	1.36	1.97	44.9%
Axis REIT	AXRB MK	1.85	2.16	16.8%
Mega First	MFCB MK	3.07	4.30	40.2%
Bermaz	BAUTO MK	2.30	3.53	53.6%
Allianz	ALLZ MK	14.22	16.75	17.8%
Padini	PAD MK	3.90	5.20	33.3%
AEON Co.	AEON MK	1.27	2.00	57.5%
Hibiscus	HIBI MK	0.87	1.90	119.7%
ITMAX	ITMAX MK	1.42	1.71	20.4%
Aurelius	ATECH MK	2.35	2.61	11.0%
InNature	INNATURE MK	0.54	0.61	13.0%

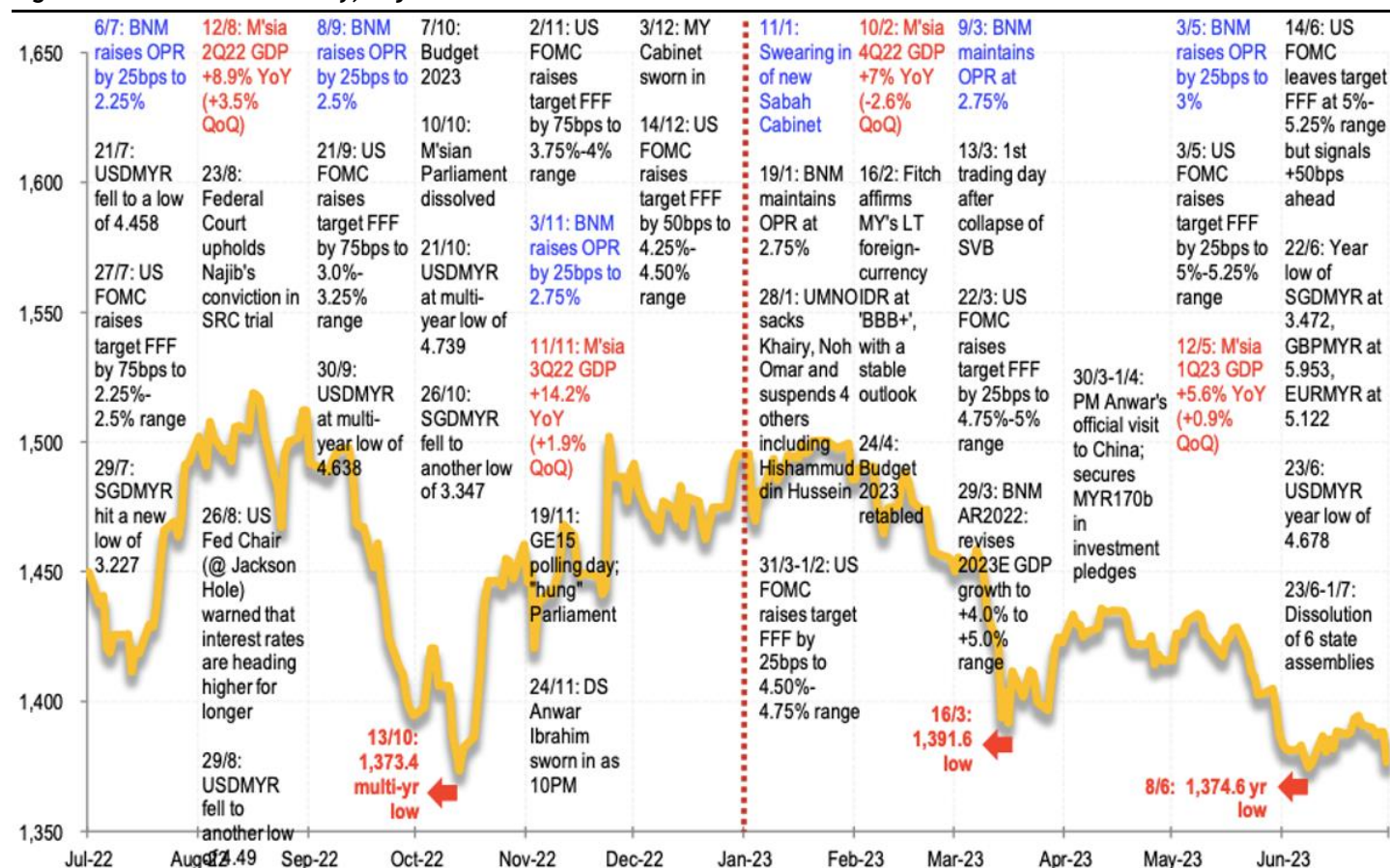
Source: Maybank IBG Research, Factset (as of 07 Jul)

1H23 recap: extended macro-market disconnect

The KLCI was mostly on a declining trend over the course of 1H23, and closed the period near its' YTD low (Fig 52). The improved political sentiment following the formation of the unity government in November 2022 did not last into the new year, with concerns about PM Anwar's as-yet unclear policy agenda and staying power an extended market overhang. While the re-tabled Budget 2023 in Feb sensibly delivered more aggressive fiscal deficit reduction targets and stimulative tax cuts for low-middle income (largely funded by tax hikes for T20 income earners and broadening of indirect tax base), important structural fiscal restructurings relating to the potential reintroduction of GST and rollback of subsidies, especially petrol, remain question marks. Investors also had to contend with a decelerating economy as persistent inflationary / cost of living pressures and higher interest rates (BNM raised the OPR by +100bps over 2022, to 2.75%) weighed even as external demand weakened in the face of relentless interest rate hikes by the Fed and other Central Banks as they struggled to bring inflation down to target levels.

Compounding bearish sentiment has been continuous foreign selling of Malaysian equities per June 2023 data showing a 10th straight month of net sell, as well as broadly underwhelming corporate reporting, with 1Q23 results representing a 2nd consecutive quarter of both QoQ and YoY earnings decline re our research universe core net profit. Given the aforementioned combination of negative factors and with impending (and potentially pivotal) state elections in August 2023 further encouraging investors to remain on the sidelines despite prima facie attractive market valuations, the KLCI closed at 1,377 on 30th June, which is 7% below its' end-2022 closing of 1,480 and very far from the 1,600 end-2023 KLCI target we had articulated in our 2023 Market Outlook report '*A New Hope*', dated Dec 14.

Fig 52: FBMKLCI's 12M Journey, Major Events



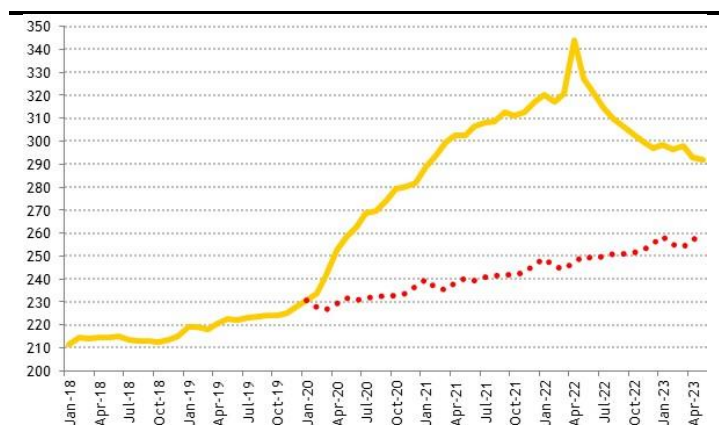
Note: KLCI at 1,495 (31 Dec 2022), 1,568 (31 Dec 2021), 1,627 (31 Dec 2020), 1,531 (31 Dec 2019), 1,691 (31 Dec 2018), 1,797 (29 Dec 2017), 1,642 (30 Dec 2016)

Source: Bloomberg, Maybank IBG Research (compilation)

The KLCI's weak performance and corporate Malaysia's underwhelming earnings delivery is in sharp contrast to underlying GDP growth which, while decelerating, remains relatively robust. As detailed in economics update report 'GDP growth moderated further in 1Q 2023' dated May 13, 1Q23 real GDP growth moderated to an above-consensus +5.6% YoY (4Q 2022: +7.1% YoY), being supported by a combination of continued drawdown of household and individual "excess savings" built up over the pandemic (helped by four rounds of pre-retirement withdrawals from the Employees Provident Funds (EPF) totaling MYR145b; Fig 53), an accelerating tourism recovery despite still-sluggish China inbounds (Fig 54) and positive investment growth momentum as surge in 2021-2022 approved private sector investment (Figs 55 & 56) is translating into rising actual/realised private investment. While we still anticipate a sharp slowdown as compared to 2022's reopening-boosted GDP growth of +8.7% YoY, we have nonetheless bumped up 2023 GDP growth forecast to +4.5% (from +4.0%).

Malaysia's macro-market disconnect is not a new phenomenon. The past decade has seen an increasingly weak correlation between GDP growth on one hand, and equity market / listed corporates earnings performance on the other. The headline stats paint a grim picture: where Malaysia's nominal GDP expanded from around MYR1.0t in 2012, to c.MYR1.8tr in 2022, an 80% increase, Bursa Malaysia's total capitalization (valuation) over the same period grew just 20%, to c.MYR1.8t (2012: c.MYR1.5t) while total number of listed companies has been stagnant around the 950 mark. The benchmark KLCI, dominated by "old economy" stalwarts (banks, utilities, telcos, plantations), has been especially feeble, now hovering around the 1,400 level, which is almost 20% below where it was a decade ago, with market trading liquidity similarly hobbled. Reasons for the disconnect include increasingly competitive revenue and margin dynamics typical of a sclerotic middle-income trap country, fading foreign portfolio investor interest being exacerbated by eroding benchmark weightings, and shifting of growth impetus to mostly-unlisted export-oriented companies/FDI which have thrived on subsidized inputs, a continuously depreciating currency and detachment from local politics.

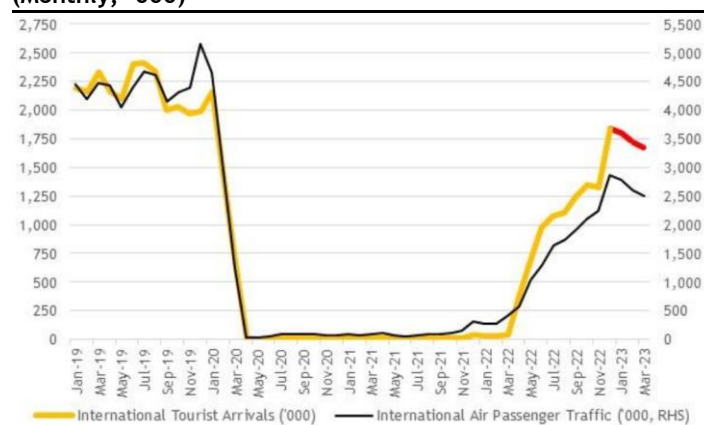
Fig 53: CASA deposits in the banking system (MYRb)



Note: Red dotted line refers to Maybank IBG's estimated "No COVID-19" trend, hence the gap refers to "excess savings"

Source: BNM

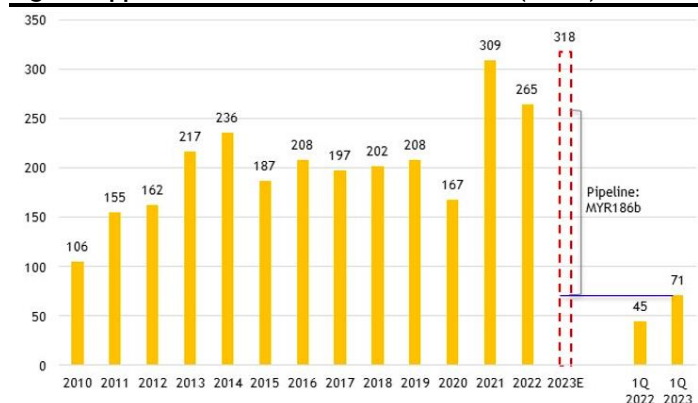
Fig 54: International Air Passenger Traffic and Tourist Arrivals (Monthly, '000)



Note: Red line refers to MIBG Research estimates on tourist arrivals in Jan-Mar 2023 based on actual international air passenger traffic

Source: CEIC

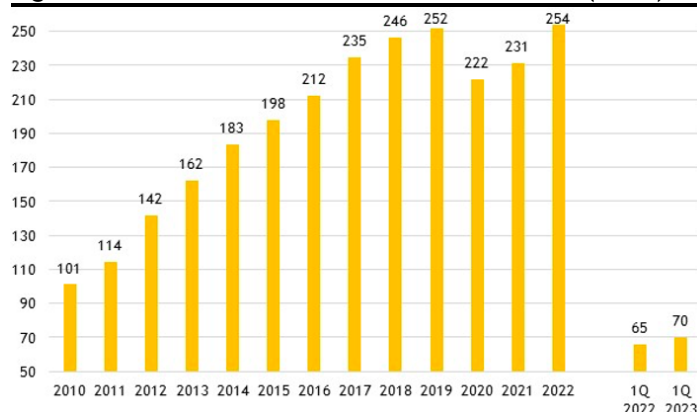
Fig 55: Approved Private Sector Investments (MYRb)



Note: Dotted red bar refers to MITI/MIDA target for approved private sector investments in 2023

Sources: CEIC, MIDA

Fig 56: Actual/Realised Private Sector Investments (MYRb)



Sources: CEIC, Department of Statistics

Resilient GDP growth is providing the new government with the breathing space required to structure the necessary policy changes to ensure Malaysia's fiscal sustainability. Per our re-tabled Budget 2023 report '*A "Peter-to-Paul" Budget*', dated Feb 25 (the original Budget 2023 was announced by the previous government in Oct 2022, just before the 15th General Elections in Nov), commitment to fiscal consolidation was strengthened, with the budget deficit to GDP ratio targeted to reduce to 5% in 2023 (previously 5.5%; 2022: 5.6%; 2020-2021 average: 6.3%). The medium-term deficit target trend, as detailed in the rolling 3-year Medium Term Fiscal Framework (MTFF; Fig 57), shows average budget deficit to GDP ratio of 4.1% for the period 2023-2025, which implies budget deficit ratio declining from 5.0% in 2023 to around 4.2% in 2024 and to reach 3.2% (revised from 3.5% previously) in 2025; achieving the 12th Malaysia Plan's (12MP, 2021-2025) target of 3.5% (Fig 58).

While total government debt is projected to be at 65% of GDP by end-2023 from 60.4% at end-2022, government domestic debt (Malaysian Government Securities + Malaysia Government Investment Issues + Malaysian Islamic Treasury Bills) - which is subjected to the statutory debt ceiling of 65% of GDP - is expected to reach a less-pressuring 63% of GDP by end-2023 from 57.7% as at end-2022 (Fig 59). The statutory debt ceiling is expected to remain at 65% of GDP as we forecast government domestic debt to be just under 64% in 2024 and around 63.5% in 2025 based on the MTFF's assumptions on 2023-2025 deficit ratios and average annual nominal GDP growth. Consequently, government debt service charge to revenue ratio will rise to 15.8% in 2023 from 14.0% in 2022, highest since 16.3% in 2021, and above the 15% threshold (based on international best practice).

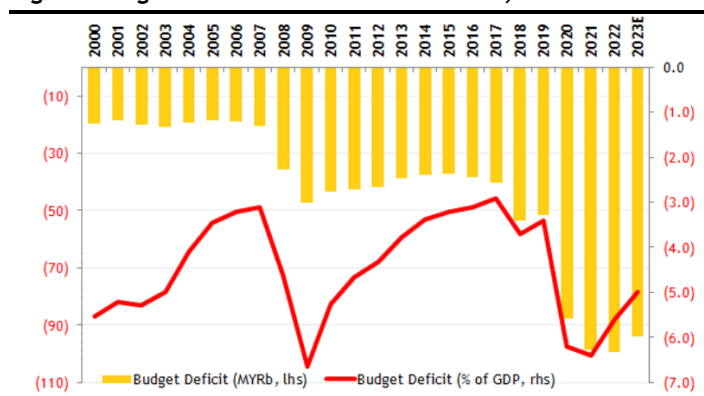
The corporate sector would have been breathing sighs of relief in that **i)** despite the government's pressured finances, there were no direct levies on corporates akin to 2022's Cukai Makmur; further, the proposed combination of more disciplined spending, indirect tax base broadening and more aggressive fiscal deficit targeting further reduce the chances of a return of such ad-hoc levies going forward; **and ii)** GST and subsidies restructuring are not on the cards in 2023, either of which could be disruptive re demand/consumption and operating costs against the backdrop of an already-slowing economy and margin pressures. Still, the medium-term picture is less sanguine - firstly, it is highly-unlikely that the government will be able to meet its aggressive fiscal deficit reduction targets without cutting subsidies and broadening the tax base via GST i.e. these demand and margin-impacting measures are merely delayed, not off the table. Secondly, with the commitment to bring down the deficit and noting the added pressure of higher interest rates on the government's already-elevated debt servicing costs, there is now much less capacity for fiscal stimulus spending to support growth.

Fig 57: Medium Term Fiscal Framework - Key Targets and Assumptions

	2022-2024 (Budget 2022)	2023-2025 (Budget 2023 @ 7 Oct 2022)	2023-2025 (Budget 2023 @ 24 Feb 2023)
Average Budget Deficit/GDP Ratio	5.0%	4.4%	4.1%
Real GDP Growth	5.5% p.a.	4.5% p.a.	4.7% p.a.
Nominal GDP Growth	7.7% p.a.	6.4% p.a.	5.9% p.a.
Average Crude Oil Price (Brent, USD/bbl)	67	90	80
Crude Oil Production	580k bpd	530k bpd	530k bpd

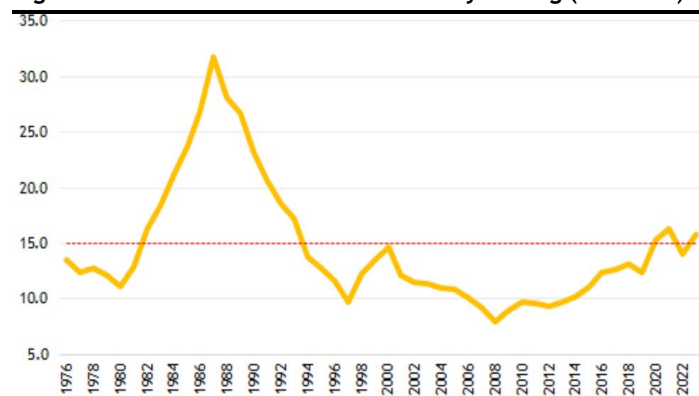
Sources: Ministry of Finance (Fiscal Outlook 2022 & 2023), Dept. of Statistics, Bloomberg

Fig 58: Budget Deficit in MYRb and % of GDP, 2000-2023



Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 59: Govt. Domestic Debt vs. Statutory Ceiling (% of GDP)



Source: Ministry of Finance, Bank Negara Malaysia, Maybank IBG Research

The drag on economic growth stemming from the aforementioned aggressive fiscal deficit reduction pathway may be compounded by a similar braking effect on consumption due to high household debt levels, especially following the rise in interest rates / debt servicing costs. Per Bank Negara's Financial Stability Report 2H22 released in March 2023, household (HH) debt grew at a faster pace of 5.5% in 2H22 from 5.3% in June 2022 and 4.1% in Dec 2021. However, given faster GDP growth, the HH debt-to-GDP ratio declined to 81.2% in Dec 2022 from 84.5% in June 2022 and 89.1% in Dec 2021. While the 2H22 HH debt ratio decline is welcome, the positive trajectory could stall in the face of slowing economic growth, higher interest rates and the anticipated adjustments to tax and subsidy policies for which the net effect will be a transfer of wealth from households to the government.

Fig 60: Household debt ratios (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	1H22p	2H22p
HH debt (MYR'b)	877.4	952.7	1,023.2	1,080.5	1,133.8	1,186.7	1,251.8	1,320.6	1,376.4	1,409.1	1,451.4
Chg in HH debt	12.2%	8.6%	7.4%	5.6%	4.9%	4.7%	5.5%	5.5%	4.2%	5.3%	5.5%
HH fin assets (MYR'b)	1,905	2,015	2,119	2,232	2,421	2,544	2,709	2,901	2,971	2,902	3,002
HH debt/GDP	86.1	86.1	88.4	87.8	83.8	82.0	82.9	93.1	89.1	84.5	81.2
HH fin assets/HH debt	217.1	211.5	207.1	206.6	213.5	214.3	216.4	219.7	215.9	205.9	206.9
HH liquid fin assets/HH debt	155.7	148.7	143.4	141.4	145.7	143.4	143.2	145.2	144.0	137.5	135.4
Impaired loans ratio	2.2	1.7	1.5	1.5	1.4	1.2	1.2	1.2	1.1	1.3	1.2

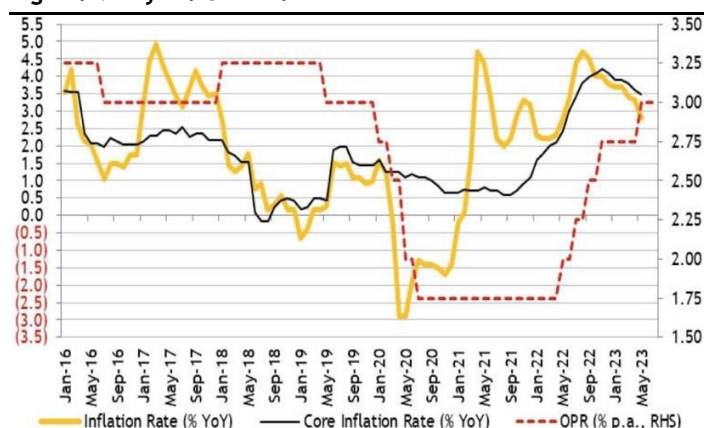
Sources: BNM Financial Stability Report 2H22

Given aforementioned high levels of gearing for both government and household balance sheets, the trajectory of domestic interest rates is a key consideration given the cost of high levels of debt are exacerbated by rising interest rates. While monetary policy has turned more restrictive - BNM raised the benchmark Overnight Policy Rate (OPR) by 100bps over 2022, to 2.75% (this compares to the much larger +300bps increase in the federal funds rate over the same period) - the latest +25bps hike in May, to 3.0% (no hike in July), is to a level still judged by the Central Bank to be slightly accommodative and supportive of the economy. Gradually easing inflation has allowed BNM to pursue a "slow-and-steady" approach with regards raising interest rates - the latest May CPI data, as detailed in report 'Headline

inflation goes sub-3% amid “sticky” core inflation, dated June 23, showed headline inflation eased further to +2.8% YoY in May 2023 (Apr 2023: +3.3% YoY; 5M2023: +3.4% YoY; 2022: +3.3%), per Fig 61. However, core inflation was down only slightly to +3.5% YoY (Apr 2023: +3.6% YoY; 5M2023: +3.8% YoY; 2022: +3.0%).

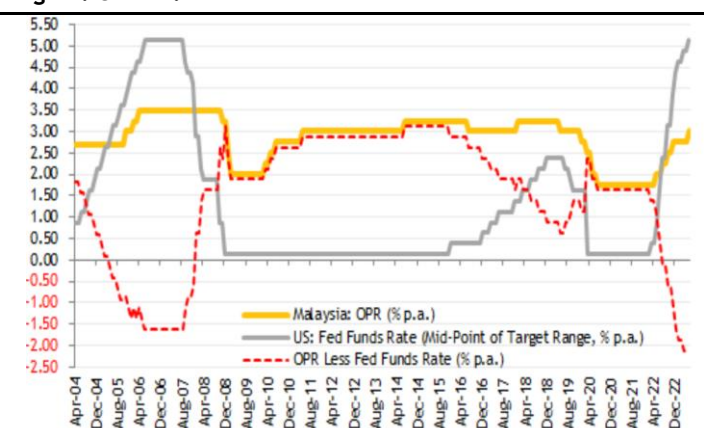
We maintain our 2023 inflation forecasts at +3.0% for now, as we expect monthly inflation rate to go sub-3% YoY in 2H 2023 mainly on base effect, and as Budget 2023 re-tabling indicates fuel subsidy stays for the time being. However, inflation risk remains biased to the upside amid the fluid policy on price subsidies and controls, as per the implementation of targeted electricity subsidy starting this year that excludes non-domestic, non-MSME as well as medium and high voltage electricity users, with plans to exclude the T20 high-income group from electricity and fuel subsidies next year. Further, core inflation - which BNM describes as the “proxy” for demand-pull inflation - remains sticky. Thus, we are not ruling out another +25bps hike in BNM’s OPR to 3.25% though this is no longer our base case following BNM’s pause in July which is indicative of BNM being comfortable with the Ringgit stabilizing at current levels. BNM’s Monetary Policy Statement (MPS) mentioned the need to ensure monetary policy stance is appropriate to prevent the risk of future “financial imbalances”. While BNM did not specify what these “financial imbalances” risks are, current weak state of the Ringgit and wide interest rate differentials vs. major currencies and benchmark interest rates (Fig 62)- especially given Fed’s hawkish pause with guidance of additional +50bps hikes - may well be the relevant factors despite not being explicitly flagged by BNM.

Fig 61: Malaysia: OPR vs. Inflation Rate



Source: Department of Statistics, Maybank IBG Research

Fig 62: OPR vs. Fed Funds Rate



Source: BNM, CEIC

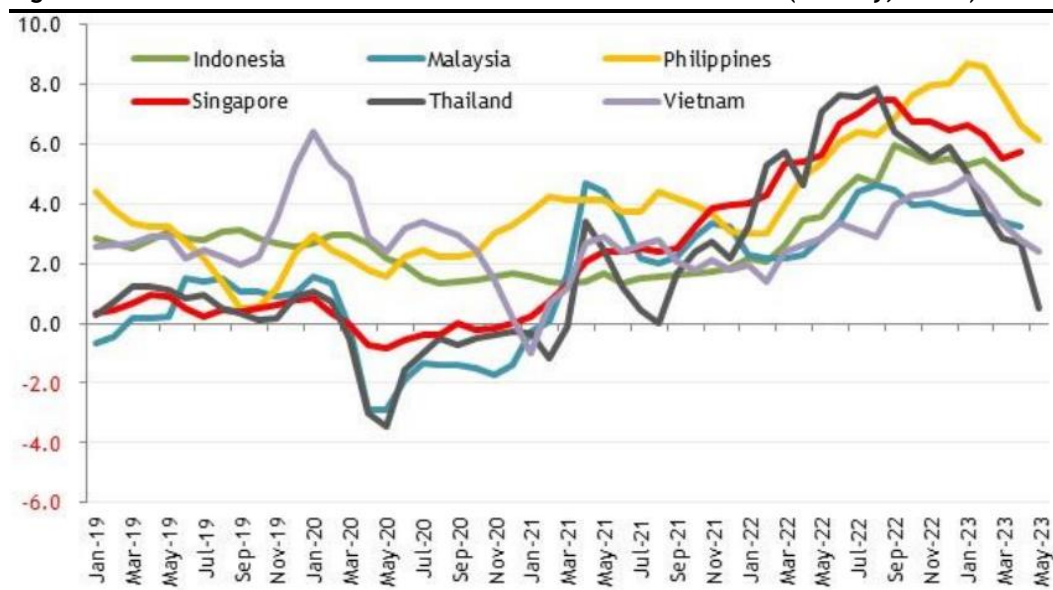
BNM’s relatively measured approach to interest rate increases is not unusual vis-à-vis the region i.e. ASEAN central banks are not as aggressive as the Fed in tightening monetary policy and raising interest rates, with the exception of the Philippines and Singapore. Policy rates have climbed to around pre-Covid levels in Thailand, Malaysia and Indonesia while inflation has been climbing across ASEAN but not to the extent seen in the US and Europe. Nearly halfway into the year, headline inflation (CPI) rates in ASEAN-6 economies are showing encouraging trends of peaking and moderating (Fig 63). For Indonesia, Thailand and Vietnam, % YoY monthly inflation rates have returned to the target ranges of the respective countries’ central banks, while we expect Philippines’ monthly inflation rate to be back into central bank’s target range in 4Q 2023. Our current forecasts maintain the general trajectory of slower headline inflation rates in 2023-2024 after the spikes in 2022, which also imply further progress in moderating monthly inflation rates for Singapore and Malaysia for the rest of this year.

However, read through of the latest monetary policy actions and statements by ASEAN central banks indicates they remain “cautious” in relation to inflation risk, underscoring the need to continue focusing on ensuring and securing their price stability mandates as well as to anchor inflation expectations. Furthermore,

inflation risks for many ASEAN economies are still biased to the upside, being highest in Malaysia due to the subsidy and consumption tax policy factors and overhangs. This is followed by Singapore amid the persistent wage pressures from the tight labour market and expansion of the Progressive Wage Model to more sectors, including food services, plus the upside risk to inflation from another round of GST hike next year. In Philippines, there is pending legislation on proposed steep minimum wage hike and imposition of VAT on digital transactions. The upside risk to inflation in Thailand revolves around potential pro-consumption measures by the prospective new government such as the +27.5% minimum wage hikes and cash handouts, adding to firmer growth outlook amid tourism rebound. Indonesia and Vietnam have the minimal upside risk to inflation, as Indonesia “bit the bullet” earlier on fuel subsidy and as Vietnam cuts VAT by 2ppts in 2H23.

Consequently, our findings on inflation dynamics, volatility and persistence, plus the lingering upside risk to inflation, support and justify our current outlook of ASEAN-6 (ex-Vietnam) central banks’ policy interest rates being on “pause mode” in 2H23, with potential upside surprise of additional hikes mainly in Malaysia and Thailand by virtue of the respective central banks being seen or perceived as being the “least aggressive” among peers in this round of monetary policy tightening cycle. In 2024, the biggest interest rate cuts are seen in Philippines and Singapore, both of which track the Fed the closest, followed by Indonesia - we do not expect cuts from relative-laggards Malaysia and Thailand (Fig 64).

Fig 63: ASEAN-6 Headline Inflation Rates i.e. Consumer Price Indices (Monthly, % YoY)



Sources: CEIC

Fig 64: ASEAN-6: Inflation and Policy Rate Forecasts

	Headline Inflation (% average)					Policy Rate (% year-end)				
	2020	2021	2022	2023E	2024E	2020	2021	2022	2023E	2024E
Indonesia	2.0	1.6	4.2	3.7	3.0	3.75	3.50	5.50	5.75	5.00
Malaysia	(1.2)	2.5	3.3	3.0	2.5	1.75	1.75	2.75	3.00	3.00
Philippines	2.4	3.9	5.8	5.5	3.0	2.00	2.00	5.50	6.25	4.25
Singapore	(0.2)	2.3	6.2	5.6	2.8	0.41	0.44	4.25	4.10	3.20
Thailand	(0.8)	1.2	6.1	1.7	2.0	0.50	0.50	1.25	2.00	2.00
Vietnam	3.2	1.8	3.2	3.4	3.9	4.00	4.00	6.00	4.50	4.50
Cambodia	2.9	2.9	5.3	3.7	3.0	2.00	2.00	2.00	2.00	2.00
Myanmar	5.7	3.6	14.0	9.0	8.0	7.00	7.00	7.00	7.00	7.00
Laos	5.1	3.8	23.0	27.0	9.0	3.00	3.00	3.10	3.20	3.20

Source: CEIC, Maybank IBG Research estimates

Like the rest of ASEAN in varying degrees, and as also noted by BNM, the upward pressure on inflation is partly contained by price controls, subsidies and the remaining spare capacity in the economy. Re Malaysia, “blanket” fuel price subsidies in particular (Fig 65) are playing a key role in capping broader price pressures in the economy. As of June 2023, we estimated that the current unsubsidized RON95 and diesel prices to be almost MYR1.00 per litre higher and every 10 sen per litre hike in these fuel prices will raise headline inflation by 0.3 percentage point. With the new government now appearing unlikely to move quickly to rollback subsidies (PETRONAS is helping provide breathing room - see next section), we maintain our 2023 inflation forecast at a lower +3.0% (2022: +3.3%) previously), pending clarity on the national policy on subsidy rationalization.

Our previous 2023 inflation forecast of a higher +4% factored in the assumption of gradual adjustments in fuel prices and electricity tariffs on subsidy reviews in 2023 - only electricity tariffs have seen some adjustment thus far, where the subsidy is now given only to domestic (household) and low-voltage users vs non-domestic (industrial, commercial) and medium/high voltage users, which affect business costs. This was followed by the exclusion of very high-income households from electricity bills at the start of 2H 2023 i.e. those with monthly electricity consumption excess of 1,500kWh.

Fig 65: Malaysia - Summary of recent government measures to address food, fuel and energy inflation

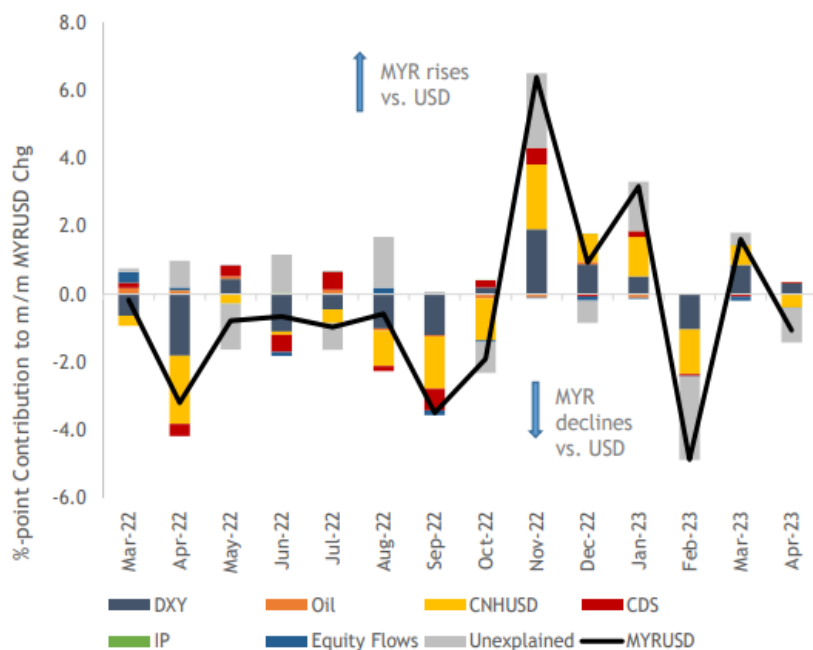
Item/measures	Objective	Duration/Expiry
“Blanket” fuel price subsidies	Prices of RON95 and diesel capped at MYR2.05/litre and MYR2.15/litre respectively	From 10 Feb 2021
Importation of frozen whole chicken	Allow short term importation of frozen whole chicken	Dec 2021-Feb 2022
Freeze electricity tariffs	Freeze on base electricity tariffs for all electricity users in Peninsular Malaysia	1 Feb 2022 until end-2024
Keluarga Malaysia Maximum Price Control Scheme	Ceiling price of RM8.90/kg for standard chickens and eggs (MYR0.43 for Grade A, MYR0.41 for Grade B and MYR0.39 for Grade C)	5 Feb-5 Jun 2022 (extended to 30 Jun 2022)
	Ceiling price of RM9.40/kg for standard chickens and eggs (MYR0.45 for Grade A, MYR0.43 for Grade B and MYR0.41 for Grade C)	1 Jul-31 Aug 2022
	Subsidy to poultry farmers for chicken (MYR0.60/kg) and egg (MYR0.05/kg) production	5 Feb-5 Jun 2022 (extended to 30 Jun 2022)
	Expedite and simplify the procedures for direct subsidy payments to poultry breeders	Immediate effect
Cooking oil ceiling price	Remove ceiling price for pure palm cooking oil in bottled packaging	From 1 Jul 2022
No highway toll rate	No highway toll rate hike for 4 key Klang Valley highways, following proposed acquisitions of the highway concessions by Amanat Lebuhraya Rakyat (ALR) from Gamuda)	until up to mid-2032
Abolish approved permit (AP) for food imports	For whole and cut chicken, round cabbage, old coconuts and evaporated milk	From 18 May 2022
Halt of chicken exports	Temporary halt of chicken exports	From 1 Jun 2022
Chicken buffer stock	Create a buffer stock of chicken and optimise existing cold storage facilities under the ownership of the country’s Ministry of Agriculture and Food Industries (MAFI) and agencies.	Immediate effect

Source: Ministry of Agriculture and Food Industries (MAFI), media

While BNM’s stated focus when deciding on monetary policy changes is economic growth and inflation dynamics, the state of the Ringgit cannot be wholly ignored given Malaysia is one of the most open economies in the world, with total trade value (exports + imports) equal to around 130% of GDP. The USDMYR has been climbing quite substantially into 2Q23, breaching several key resistance levels as the global macro situation has turned unfavourable. Weakness in the prices of key Malaysian commodity exports (crude palm oil, crude oil, natural gas), disappointment with regards China’s lackluster economic recovery and broad USD strength/rising UST 10 y yields (amid more hawkish Fed speak) has weighed heavily on the local currency. In the near term, we do not rule out the possibility that the USDMYR could still be move further upwards given that global sentiment could be

subdued for a while still. In decomposing the drivers of the Ringgit (MYR) over the last few months, Maybank's FX strategy team found that DXY (US Dollar Index) and the CHNUSD can have a substantial impact on the MYR in either direction (Fig 66).

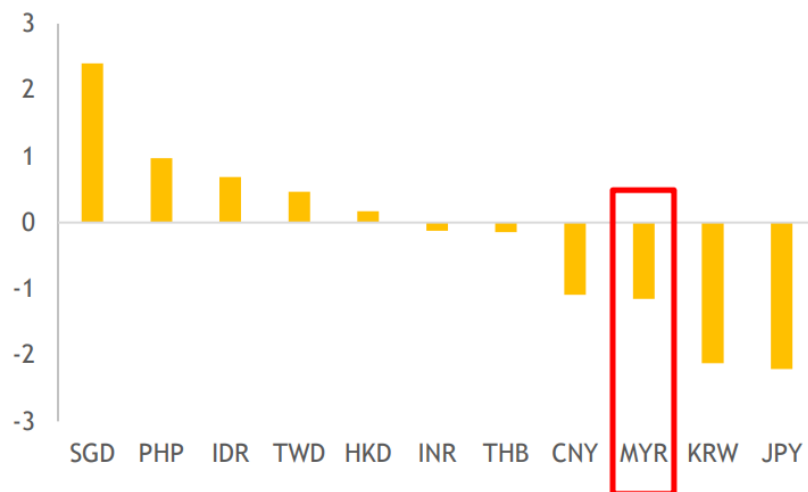
Fig 66: Drivers of USDMYR in Recent Periods prior to May 2023



Source: Bloomberg, Maybank FX Research

However, we continue to see a positive medium term outlook for the MYR. With the Fed's rate upcycle approaching its peak and with US inflation expected to continue to trend lower into 2H23, there could be some USD unwinding. Also, China's economy could show a more discernible recovery by 4Q23, which should boost appetite for regional EM assets. Additionally, looking at the MYR REER (real effective exchange rate), we see a negative Z-Score and the currency appears to be the third most undervalued in the region, after the KRW and JPY (Fig 67). This supports the MYR seeing relatively heavier gains vs. other EM currencies once the global situation changes. Consequently, we continue to expect the USDMYR to trend downwards (strengthen) to hit MYR4.50 by year-end (vs. MYR4.67 currently).

Fig 67: REER Z-Score



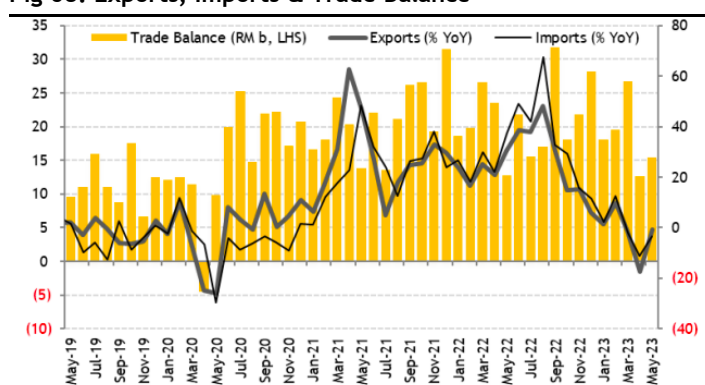
Source: Bloomberg, Maybank FX Research

Compounding concerns around the weak Ringgit has been the sharp slowdown in external demand over 1H23 as the global economy has decelerated, pressuring both export volumes and prices even as import costs are rising. Part of the deceleration is also due to the high base set in 2022, when the global post-pandemic GDP recovery boosted Malaysia's large export-oriented manufacturing sector and external trade, both of which have significant positive externalities for the broader economy re income and employment generation.

Re Malaysia's recent external trade performance, as highlighted in macro update report "*External trade decline softened*", dated June 21, five months into the year to May, exports and imports dropped by -2.3% YoY (2022: +25.0%) and -1.0% YoY (2022: +31.3%) respectively (Figs 68 & 69), pointing to headwinds from economic downturns in US and Europe given the slowdown in exports to US (5M2023: +2.5% YoY; 2022: +17.8% YoY) and drop in shipments to EU (5M2023: -9.4% YoY; 2022: +21.8% YoY), while the expected positive impact from China's zero COVID-19 policy exit and full economic opening has yet to materialise amid slump in exports to China (5M2023: -8.9% YoY; 2022: +9.5% YoY). In addition, commodity export prices have softened year-to-date (Figs 70 & 71), amplifying the kicking in of base effect, after last year's surge in commodity prices in the wake of Russia-Ukraine war.

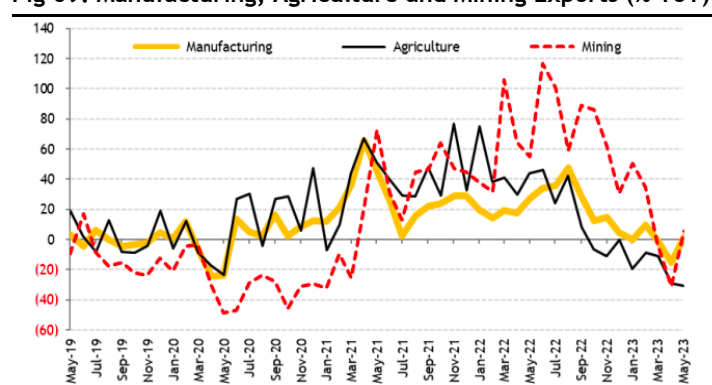
Currently, we expect full-year exports and imports to decline by -2.0% (5M2023: -2.3% YoY; 2022: +25.0%) and -0.5% (5M2023: -1.0% YoY; 2022: +31.3%) respectively and trade surplus to narrow to +MYR231b (5M2023: +MYR92.4b; 2022: +MYR255.5b).

Fig 68: Exports, Imports & Trade Balance



Source: Department of Statistics

Fig 69: Manufacturing, Agriculture and Mining Exports (% YoY)



Source: Department of Statistics

Fig 70: Brent oil price trend: spot (USD/bbl)



Source: Bloomberg (as of 16 Jun)

Fig 71: Crude Palm Oil (CPO): price trend, spot (MYR/t)



Source: Bloomberg (as of 16 Jun)

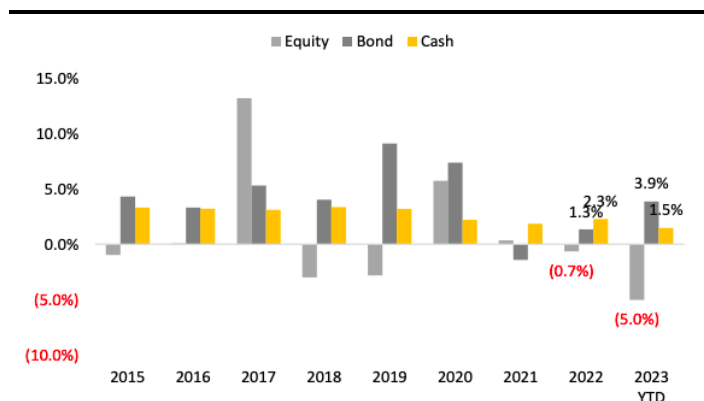
As compared to the struggling equities market, Ringgit fixed income has generated a far better performance over 1H23. As articulated in Head of Fixed Income Winson Phoon's Malaysia Fixed Income Outlook 2H23 report "*Cautiously Optimistic*", dated June 25, Ringgit bond total return (+3.9%) outperformed equity (-5%) and cash (+1.5%) YTD 1H23 (Fig 72). While this came in line with our expectations, bond price performance is susceptible to changing growth and inflation outlooks. The MGS curve flattened in 2Q23, with higher front-end due to the BNM rate hike in July 12, 2023

May, while the longer-end flattened. We are cautiously optimistic on 2H23 performance and maintain 6-8% total return forecast in 2023 (2022: +1.3%).

We expect domestic demand for government bonds (MGS) to remain resilient. Pension funds net bought MYR13.9b in 1Q23 (Fig 73), the highest in a quarter since 2018 coinciding with higher total contributions received by EPF, while the demand from local banks slowed as foreign buying increased. Foreign flows into MYR debts was surprisingly strong at MYR15.9b in 5M23 (Fig 74) despite weaker MYR as USD-hedged MGS yields remain attractive. The weaker Ringgit, which was down against all EM Asia FX and lost 5.8% vs. USD YTD, has not deterred foreign demand as favourable hedging with negative USDMYR forward points provide attractive USD-hedged returns. USD-hedged 3yr MGS yields give close to 6% annualized return currently using 3-month rolling forward, based on our estimates - this compares favourably with 2yr UST yields of 4.7%. FX hedging is not only return-enhancing, but critical to foreign funds with Ringgit bond positions given the wide gap between hedged and unhedged USD returns (Fig 75).

Near term foreign demand outlook is expected to be neutral to slightly positive, but we caution against flow reversal risk as offshore bank holdings, which tend to be less sticky, contributed to >MYR11b/ 78% of the inflows in 1Q23. Aside from potentially volatile US rates and more OPR hikes, domestic politics also require monitoring given potentially policy-impacting upcoming state elections in August. Nonetheless, we are maintaining our Mildly Bullish view on MGS, with aforementioned risk factors insufficient to change our view that cyclical factors will be a more dominant driver. We expect still healthy GDP growth of 4.5% for Malaysia in 2023 (2022: +8.7%), but a slowing trajectory in coming quarters. Growing external macro headwinds from major DM and China are expected to be bigger drivers on MGS pricing. Our baseline assumption for bond outlook is that US jobs and inflation will fall pronouncedly in the next 3-6 months, while China's reopening optimism will not last as long as expected given pre-existing structural weakness in that economy - additional stimulus can revive sentiment briefly but does not guarantee a sustainable rebound. As such, we forecast 10yr MGS yield to trend lower, to 3.6% by end-3Q23 and 3.5% by end-4Q23 (vs. current 3.92%).

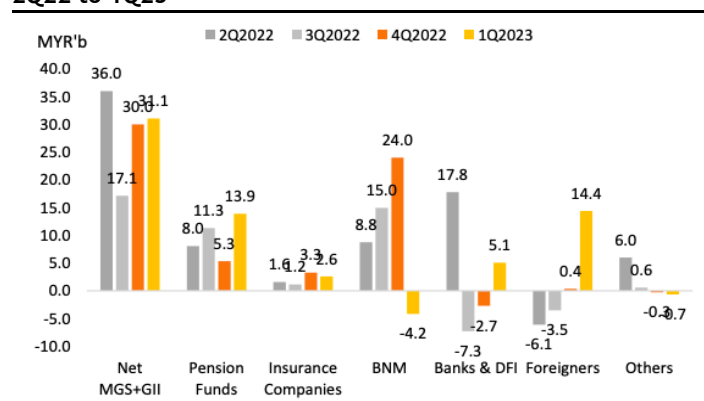
Fig 72: MYR Govt Bond Total Return: 2015-2023 YTD



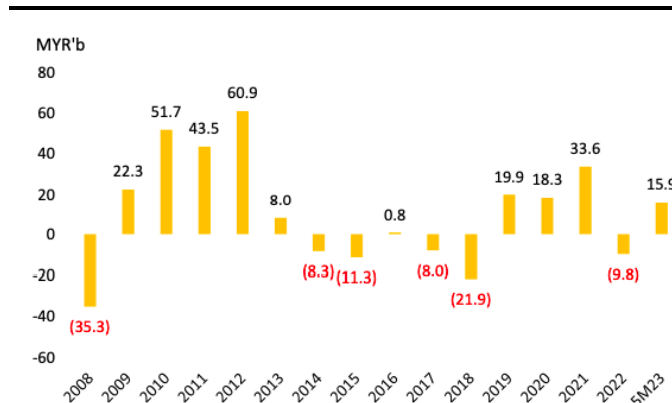
Sources: Bloomberg, Maybank IBG Research

*Total return measurement: Bond = Ringgit government bonds, Equity = KLCI, Cash = Monthly weighted 12-month fixed deposit rates

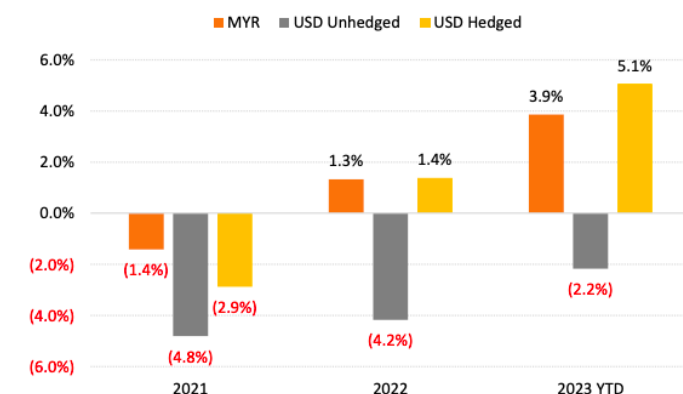
Fig 73: MGS+GII: Net Change in Holdings by Type of Holder, 2Q22 to 1Q23



Sources: CEIC, Maybank IBG Research

Fig 74: Ringgit Debt: Yearly Foreign Flows, 2008-2M2023


Sources: CEIC, BNM, Maybank IBG Research

Fig 75: MYR Govt Bond Total Return: FX Hedging Not Only Return-Enhancing, But Crucial to Foreign Investors Amid Weaker Ringgit


Sources: Bloomberg, Maybank IBG Research

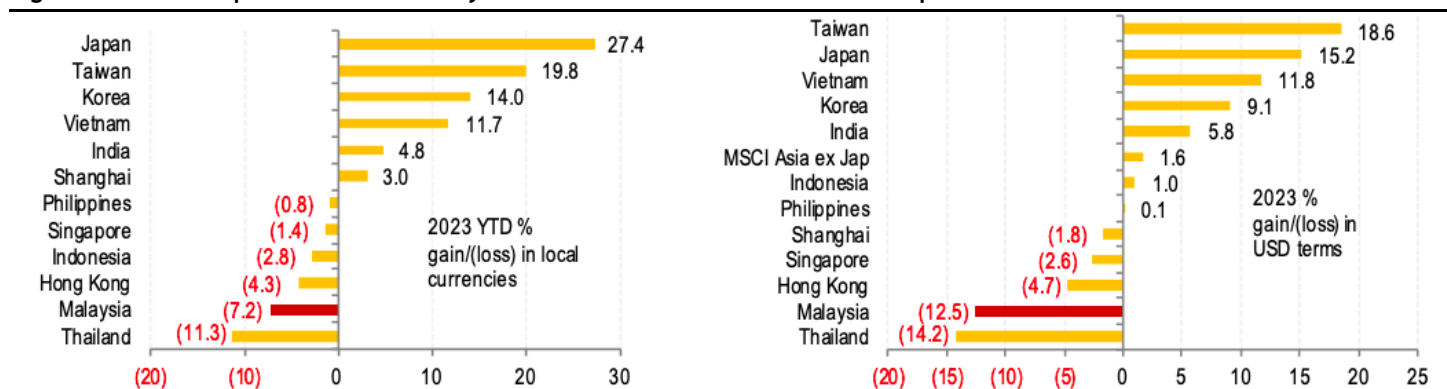
From an ASEAN perspective, not only are most of the regional equity benchmark indices in negative territory YTD (Vietnam's VN Index is a positive exception, bouncing back from being the worst performing ASEAN benchmark in 2022, when it declined by 30%) but they are also trailing strong performances by North Asian markets by a wide margin (Fig 76). China's accelerated reopening, while positive for ASEAN economies from the related upsides to regional trade, tourism and investment/FDI, has had the more immediate negative effect of diverting equity portfolio flows from ASEAN (which benefitted from safe haven demand last year) to the North Asian region. The latter is also benefitting from rebounding investor interest in technology stocks, underpinned by peaking interest rate upcycle as well as bullish sentiment towards developments in the AI (Artificial Intelligence) space.

Closer to home, political factors / uncertainties have also weighed on the two laggard ASEAN equity markets. In Thailand, the general elections held in May 2023 saw parties aligned with the incumbent military government perform poorly, with the two opposition parties (Move Forward and Pheu Thai) winning the largest numbers of seats (151 and 141, respectively) in the 500-seat House of Representatives. While the Election Commission (EC) has certified the results of the election and the two aforementioned opposition parties appear to have formed an alliance, the leader of Move Forward (Pita) is not guaranteed to be the next prime minister given the military-appointed Senate account for a third of votes to choose the prime minister and new legal cases threaten his chances of taking office - related political uncertainties are expected to extend well into 3Q23. In Malaysia, six states are set for state elections in Aug, with results to be seen as a barometer of voter approval of PM Anwar Ibrahim's unity government, which came into power in Nov 2022's general elections. While control of the Federal Government itself is not at stake, a skittish market is clearly concerned a poor showing by unity government parties could setback or derail urgently-needed fiscal and governance reforms as well as renew speculation on the staying power of the government.

As was the case in 2022, the Indonesia and Singapore benchmarks remain relatively positive outliers within ASEAN after having been able to hold on to absolute gains through 2022. Indonesia is benefitting from a combination of steady economic recovery (+5%), a rebounding consumption story and increasing FDI, especially into the upstream EV supply chain which leverages on Indonesia's high reserves of nickel and copper. Upcoming presidential elections in Feb 2024 will be a stimulus for the economy while also promising, based on the candidates in the running, to be relatively seamless in terms of governance and policy continuity. Singapore, helped by its safe haven status and strong capital inflows from investors looking for an alternative financial centre to Hong Kong, has shown resilience in the face of the Pandemic and global volatility surrounding Russia-Ukraine, US-China and supply chain disruptions. Value-generative thematic that are driving investor

interest in Singapore stocks include GLC restructuring, supply chain relocation and overseas M&A, while the overall market's value-heavy business mix, strong dividend visibility and upstretched balance sheets should provide defensive shelter from slowing global growth and geopolitical uncertainty.

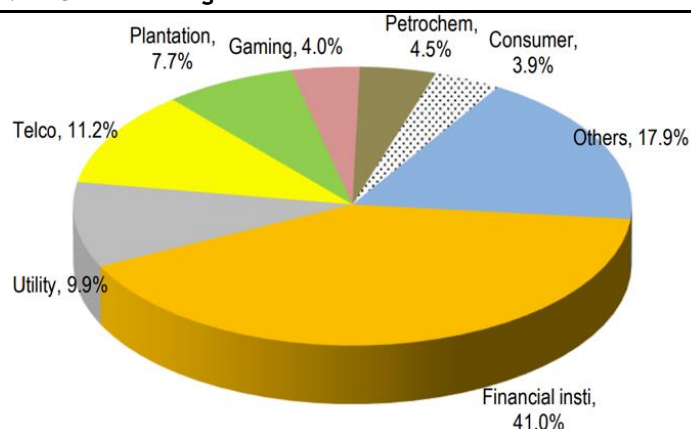
Fig 76: Asia market performance: country benchmark indices vs. MSCI Asia ex-Japan



Source: Bloomberg (as of 29 Jun 2023), Maybank IBG Research (chart)

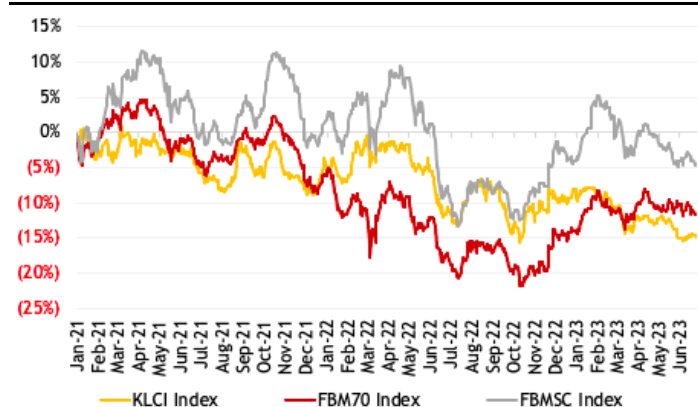
Refocusing on Malaysia, the heavily value-centric “old economy” weightings within the KLCI (Fig 77) per dominance of banks, telcos and utilities, coupled with sizeable commodities-related exposures (oil & gas, petrochem, plantations and materials via aluminium smelter **Press Metal**) have been broadly and negatively impacted by YTD combination of weakening demand, pressured average selling prices (notably plantations, petrochem and materials) and persistent margin pressures due to higher labour and material input costs. Banks in particular have seen net interest margins (NIM) trend lower on a combination of heightened deposit competition and declining CASA ratios. Smaller sectors such as auto, aviation/transport, property and construction have done comparatively better in terms of earnings traction and share price performance but are not significantly weighted in the KLCI. Note that **Inari**, the only technology sector stock in the KLCI previously, was removed in the latest half-yearly KLCI constituents review, being replaced by **Westports** in June 2023.

Fig 77: FBM KLCI sector weights



Source: Maybank IBG Research (chart)

Hence, as shown in Fig 78, the mid-cap space as represented by the FBM70 is where the relative outperformance has been most evident YTD. While previous market ‘darlings’ such as glove stocks (**Top Glove**, **Hartalega** and **Kossan** remain on our SELL list as ASPs continue to struggle to find a convincing bottom) and technology (demand softness looking to extend to end-2023, exacerbated by US-China tensions) face challenges, mid-caps in other sectors such as utilities, telcos, oil & gas, property, construction and transport & logistics have mitigated. This relative outperformance, however, is against the backdrop of a general decline in Bursa Malaysia’s average daily value traded (ADVT) which has remained sluggish, staying near the bottom of its downtrend since mid-2021 peaks (Fig 79).

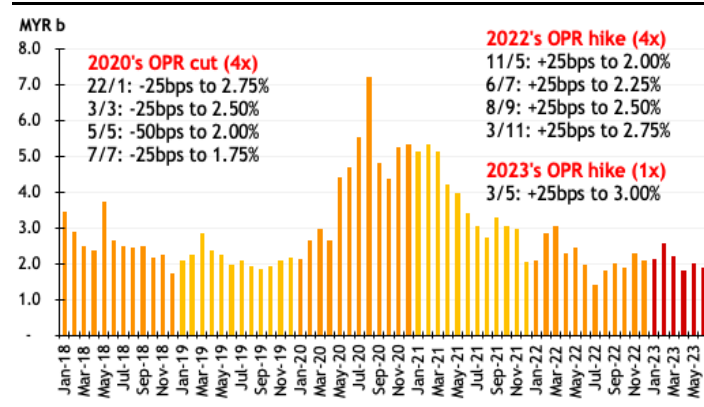
Fig 78: Malaysia key indices; since Jan 2021 (% gain/loss)


Source: Bloomberg (as of 30 Jun), Maybank IBG Research (chart)

Foreign ownership in ASEAN equity markets have generally trended down to near historical lows over recent years. However, per Fig 80, the most consistent net foreign buying since 2021 has been in Indonesia, driven by the aforementioned positive fundamental and political factors at play in the region's largest economy relative to its neighbours. Thailand has seen consistent foreign selling in the months running-up to its' general elections in May - however, this drag comes after the strongest net foreign buying in 2022 on reopening / tourism recovery drivers. While Vietnam enjoyed net foreign buying in 2022, this was insufficient to stem the sharp decline in the mostly retail-driven market as sentiment soured in the wake of a broad regulatory crackdown on manipulative market activities and an anti-corruption drive that caused significant disruption in the broader economy

Focusing on Malaysia's foreign flows, foreign selling of MY equities continued for a 10th consecutive month in June 2023, at MYR1.35b (May: -MYR0.73b; Fig 81), bringing their cumulative net sell for 6M 2023 to MYR4.19b (2022: +MYR4.4b). As a result of the consistent selling, market foreign holding was 19.9% as at 30 Jun (-0.7ppts YTD), a new low since GFC (Fig 82). On the debt side, foreign flows into Ringgit debts surged to +MYR5.2b in June (May: +MYR3b) despite continued FX weakness and hawkish repricing in US rates. This marked the six straight month of net gain, the longest streak since May 2021 when continuous inflows lasted for slightly over a year, being probably driven by attractive USD-hedged yields and index rebalancing flows. Cumulative inflows reached MYR21.2b in 1H23, bringing total foreign holdings to a new high of MYR267.9b, while foreign share of MGS+GII rose to 23.4% (May 23.2%; Fig 83).

In general, ASEAN local bonds have held up better against the hawkish US rates repricing. Global risk sentiment was conducive in June with higher DM equity prices and tighter credit spreads as the Fed paused rate hike for the first time in 11 meetings - besides Malaysia, Indonesia in particular was also a major beneficiary, receiving a larger inflow of +USD1.2b in the month. On total portfolio flows, which includes both bonds and equities, it was a 6th straight month of net gain with +MYR3.9b in June (May: +MYR2.2b), primarily driven by debt inflows as foreign selling of domestic equities continued for a 10th straight month with total net outflow of -MYR1.3b (May: -MYR0.7b). To recap, cumulative total portfolio flows in 2022 amounted to -MYR5.4b net loss vs +MYR30.4b net gain in 2021.

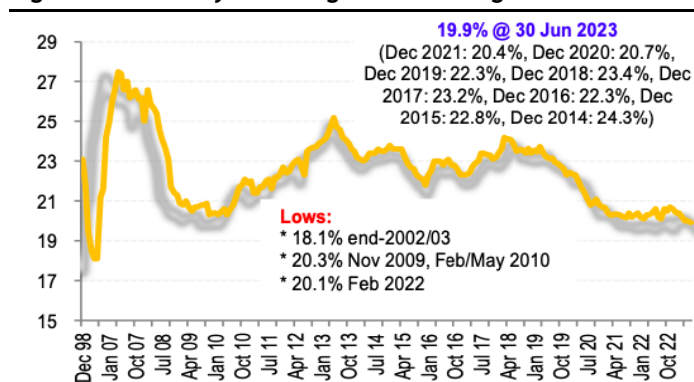
Fig 79: Bursa: Monthly Average Daily Value Traded (ADTV) trend


Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 80: ASEAN: foreign net buy / sell (annual, monthly)

Monthly (USD mil)	Indonesia	Philippines	Thailand	Vietnam	Malaysia
Jun-22	(293)	97	(263)	(16)	(291)
May-23	109	(81)	(967)	(131)	(161)
Apr-23	828	34	(231)	(118)	(57)
Mar-23	272	(498)	(917)	117	(302)
Feb-23	377	(142)	(1,273)	(26)	(39)
Jan-23	(204)	122	545	162	(80)
Dec-22	(1,344)	(109)	369	535	(308)
Nov-22	45	99	847	645	(61)
Oct-22	730	(12)	227	(60)	(126)
Sep-22	209	(216)	(655)	(130)	(358)
Aug-22	508	(153)	1603	47	460
Jul-22	(150)	(80)	128	(18)	28
2022	4,267	(1,245)	5,960	1,094	1,095
2021	2,688	(5)	(1,632)	(2,537)	(772)
2020	(3,220)	(2,513)	(8,287)	(674)	(5,811)

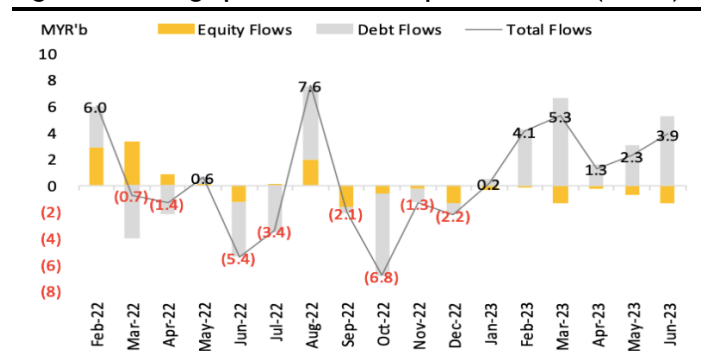
Source: Bloomberg, Bursa Malaysia, Maybank IBG Research (compilation)

Fig 82: Bursa Malaysia: foreign shareholding


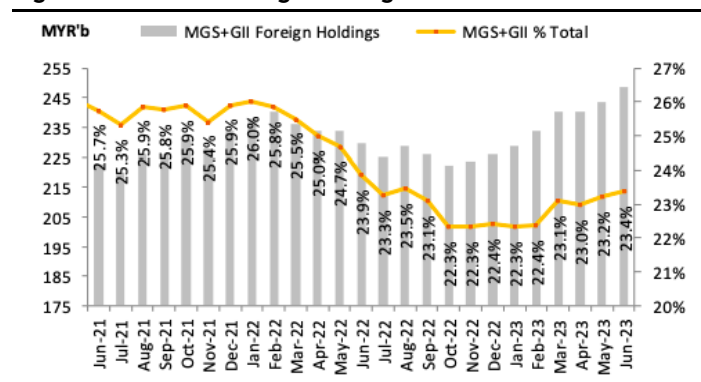
Source: Bursa Malaysia, Maybank IBG Research (chart)

The generally lukewarm foreign interest in ASEAN (ex-Indonesia) equities underscores the unfortunate reality that evidence of a positive structural shift in foreign investor perceptions of ASEAN's attraction as a long-term investment remains weak. The increased buying interest in 2022 appeared to be primarily tactical in nature i.e. funds seeking a relatively low-beta safe haven from global market turmoil and/or a trade on the commodities price surge. As market risk factors - geopolitics, China lockdowns, interest rates/inflation - have stabilised, there appears little in the way of systemic reforms regionally, be it less-populist politics or progressive economic policies, to keep foreign funds interested. Hence, the improving sentiment towards developed markets and North Asia, as has been the case over 1H23, has prompted capital outflows from the region, resulting in renewed relative underperformance, as was the case for ASEAN in the years leading up to the pandemic. As such, domestic retail and institutional flows are likely to continue to steadily grow in importance in setting ASEAN market tone and direction going forward.

For Bursa Malaysia, per our coverage of the stock exchange (see latest update note "1Q23: In-line", dated May 3), even as broad market ADVT has retreated per Fig 79, trading participation has also returned to pre-pandemic composition (Fig 84), with retail participation, which had driven trading activities in the last two years, down to 26% in 5M 2023, from 37.2% in 2021 and 37.4% in 2020 (vs. 2019's 24.2%). At the same time, domestic institutions (DIs) reversed from net sellers in 2022 (-MYR8b) to net buy for 5M 2023 of a total MYR2.7b, effectively counterbalancing foreign selling per Fig 85 (net retail buying has been marginal YTD) as attractive valuations and a weaker Ringgit redirected DI focus to domestic opportunities as compared to 2022's clear preference to invest offshore in search of better returns and diversification benefits. Of note, MYR1.04tr private sector pension fund EPF's share of overall investment assets invested outside Malaysia has steadily increased over the last few years, from 27% in 2018, to 37% as at end-1Q23.

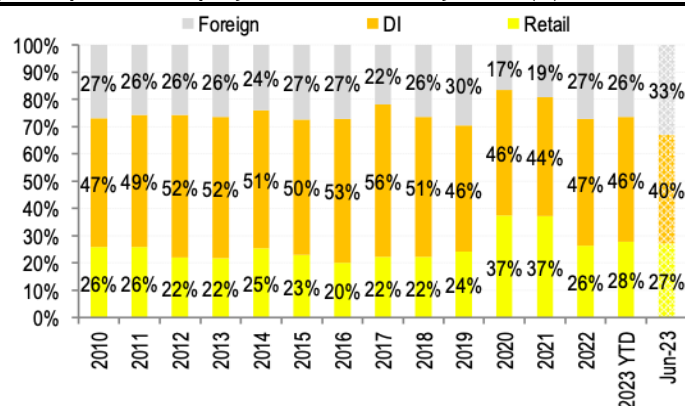
Fig 81: MY foreign portfolio flows: equities + bonds (MYR b)


Source: BNM, CEIC

Fig 83: MGS + GII - foreign holdings level


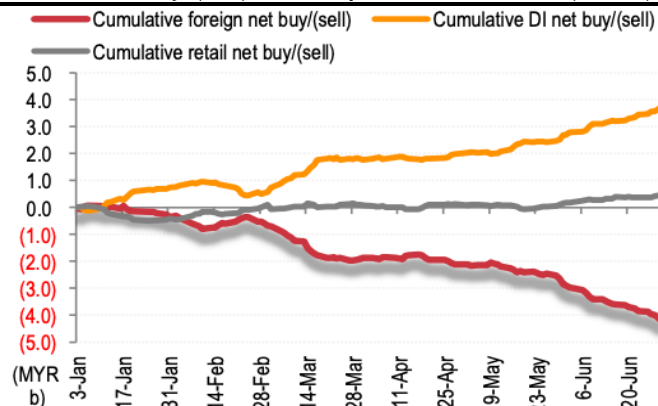
Source: BNM, CEIC

Fig 84: Foreign vs. domestic institution vs. domestic retail participation in equity trades since early-2010 (%)



Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 85: Cumulative foreign, domestic institutions and retail investors' net buy/(sell) of MY equities in 2022 YTD (MYR b)



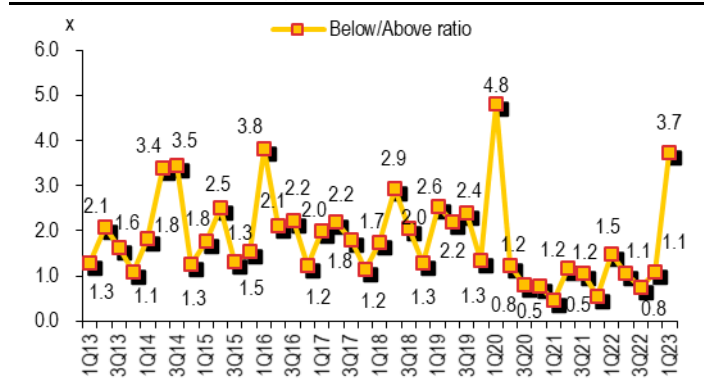
Source: Bursa Malaysia, Maybank IBG Research (chart)

Adding to the generally risk-averse investor sentiment over 1H23 has been underwhelming corporate earnings delivery. As articulated in our most recent 1Q23 Results Roundup report (*'Broadly Disappointing'*, dated June 5), notwithstanding 1Q23's resilient GDP performance (+5.6% YoY), research universe core net profit (quarters ended Feb/Mar 2023) was broadly underwhelming, at -4.5% QoQ (-4.7% ex-Gloves) and -0.8% YoY (flat ex-Gloves), representing a 2nd consecutive quarter of both QoQ and YoY decline (Fig 86). Key drags were Plantations (-59% QoQ, -67% YoY) and Petrochems (-34% QoQ, -82% YoY), with Technology also stumbling (-25% QoQ), with positive offset mostly from Banks (+2% QoQ, +17% YoY) and Utilities (+35% QoQ, +42% YoY), along with some smaller sectors. Ratio of misses-to-beats jumped to 3.7x (4Q22: 1.1x; Fig 87), mostly due to Plantations, Consumer and Technology, while earnings downgrades-to-upgrades was a similarly bearish 7.3x (4Q22: 1.7x). Re rating changes, 6 stocks were upgraded (4Q22: 2), 5 of which to BUY - **Carlsberg**, **MyEG**, **RCE**, **SP Setia**, **YTL Power** - while 8 were downgraded (4Q22: 18), of which 3 are now SELLS - **Berjaya Food**, **Leong Hup**, **Bumi Armada**

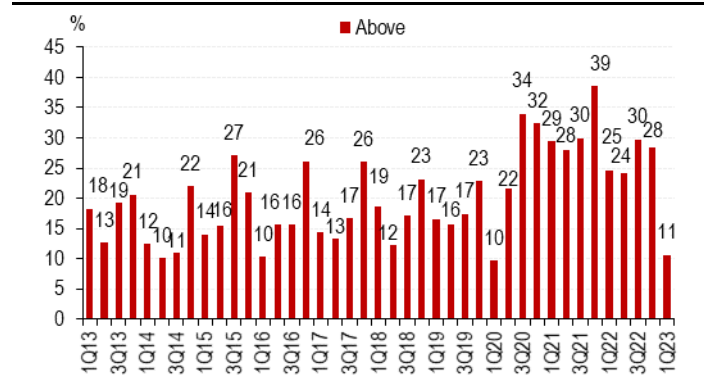
Fig 86: Quarterly core net profit of research universe, by sectors (PLCs with quarters ended Feb/Mar 2023)

MYR m	CY 2Q20	CY 3Q20	CY 4Q20	CY 1Q21	CY 2Q21	CY 3Q21	CY 4Q21	CY 1Q22	CY 2Q22	CY 3Q22	CY 4Q22	CY 1Q23	QoQ (%)	YoY (%)
Banks	5,814	5,881	5,110	7,564	7,314	7,309	6,821	7,461	7,525	8,297	8,565	8,705	2%	17%
Utilities	1,763	2,019	1,809	2,353	2,047	2,280	1,521	1,563	2,229	2,427	1,644	2,224	35%	42%
Telco	1,022	1,434	1,217	1,232	1,286	1,431	1,240	1,357	1,425	1,396	1,021	1,158	13%	(15%)
Plantation	639	742	1,106	1,411	1,851	2,068	2,412	2,161	2,393	1,531	1,757	721	(59%)	(67%)
Transport	(542)	(743)	(750)	(1,863)	(147)	(287)	1,339	(476)	(454)	(14)	668	643	(4%)	NM
Petrochem	383	664	849	1,791	2,261	1,988	2,228	2,146	1,509	1,446	586	384	(34%)	(82%)
Gaming	(1,439)	(294)	(50)	(624)	(552)	(660)	(168)	(189)	257	371	344	227	(34%)	NM
Consumer	196	507	566	629	397	333	749	744	835	739	788	733	(7%)	(1%)
Property	(98)	239	274	237	171	29	317	256	352	296	431	272	(37%)	6%
REITs	244	378	367	318	304	294	464	479	459	491	506	515	2%	7%
Const & Infra	(27)	174	184	164	108	63	185	235	148	148	76	183	140%	(22%)
Gloves	699	2,071	3,852	5,170	5,361	1,890	664	(21)	150	(1)	(198)	(158)	(20%)	667%
Healthcare	(72)	272	381	349	471	366	456	430	345	370	404	381	(6%)	(11%)
Materials	73	126	130	221	248	285	285	422	414	322	260	275	6%	(35%)
Non-Bank	277	284	284	390	316	265	232	301	175	209	322	312	(3%)	3%
Financials														
Technology	176	259	298	284	340	334	348	313	319	346	364	273	(25%)	(13%)
Oil & Gas	180	233	407	220	320	269	408	315	549	676	548	462	(16%)	47%
Auto	229	397	563	405	344	153	586	393	456	372	505	439	(13%)	12%
Total	9,518	14,644	16,598	20,250	22,439	18,409	20,087	17,891	19,086	19,424	18,587	17,748	(4.5%)	(0.8%)
QoQ Chg (%)	(29.7%)	53.8%	13.3%	22.0%	10.8%	(18.0%)	9.1%	(10.9%)	6.7%	1.8%	(4.3%)	(4.5%)		
YoY Chg (%)	(42.5%)	(10.7%)	7.0%	49.6%	135.7%	25.7%	21.0%	(11.6%)	(14.9%)	5.5%	(7.5%)	(0.8%)		

Note: Exclude stocks with FYE Jan, Apr, Jul, Oct, Source: Company results data, Maybank IBG Research

Fig 87: Quarterly reporting: below-to-above expectations Ratio (research universe)


Source: Company results data, Maybank IBG Research

Fig 88: Quarterly reporting: above expectations (% of research universe)


Source: Company results data, Maybank IBG Research

Having incorporated earnings revisions for the stocks that reported:

- Core earnings estimates of our research universe have been cut by -4.5% for 2023E, and a smaller -0.9% for 2024E (this compares to our universe earnings estimates 3 months ago, ie. in early-Mar 2023, post 4Q22 results reporting). The sizeable earnings cut in 2023E are for the Telco, Petrochem, Banks, Healthcare and Plantation sectors.
- Growth estimates (Fig. 89):
 - 2023E.** We now estimate a slower +6.5% core profit expansion for our universe and +6.2% for the KLCI (vs. +13.6% and +12.1% in early-Mar 2023).
 - 2024E.** We estimate +13.3% core earnings growth for our universe and +10.6% for the KLCI (vs. +9.2% and +6.8% estimates previously).

- Excluding the Glove stocks, our research universe's core earnings growth estimates are +8.5% for 2023E (previously +15.3%) and +12.8% for 2024E (previously +8.5%).

Fig 89: KLCI & research universe core earnings growth & valuations

		2022A	2023E	2024E
KLCI @ 1,387.1 on 31 May 2023	PE (x)	14.1	13.3	12.0
Earnings Growth (%) - new		(6.0%)	6.2%	10.6%
Earnings Growth (%) - early-Mar '23		(5.6%)	12.1%	6.8%
Earnings Growth (%) - early-Dec '22		(5.0%)	15.1%	-
Maybank KE's Research Universe	PE (x)	15.7	14.7	13.0
Earnings Growth (%) - new		(2.2%)	6.5%	13.3%
Earnings Growth (%) - early-Mar '23		(2.9%)	13.6%	9.2%
Earnings Growth (%) - early-Dec '22		(1.7%)	16.0%	-
Maybank KE's Research Universe (ex-Glove stocks)	PE (x)	15.6	14.4	12.8
Earnings Growth (%) - new		12.9%	8.5%	12.8%
Earnings Growth (%) - early-Mar '23		12.2%	15.3%	8.5%
Earnings Growth (%) - early-Dec '22		13.4%	17.3%	-

Source: Maybank IBG Research

As detailed in Fig 90 below, for 2022E, most sectors are expected to post higher earnings in 2023E compared to 2022, except for Petrochem (-45% YoY; broadly pressured ASPs) and Plantation (-34% YoY; on lower CPO ASPs). In addition, we expect losses for the Gloves sector in 2023E and continuing into 2024E, albeit narrowing YoY. Among the large-cap sectors, core earnings at the Banks (+10.2% YoY; mostly due to contained credit costs and trading income recovery more than mitigating for weaker NIM) and Utilities (+12.5%; rebounding from the low base in 2022 that was due to *Cukai Makmur*) are expected to be higher. In terms of the greatest earnings swings, Gaming (casino) earnings are to jump 6x on visitorship / room capacity normalization while Aviation will approach breakeven.

Fig 90: Research universe core earnings, growth, PER, P/B and ROE (31 May 2023)

Sector	Core earnings (MYR m)				Core earnings growth (% YoY)				CAGR (%)
	CY21A	CY22A	CY23E	CY24E	CY21A	CY22A	CY23E	CY24E	CY22-24E
Banks	29,150	31,395	34,608	36,839	28.6	7.7	10.2	6.4	8.3
Non-bank Financials	1,143	955	984	1,061	(4.3)	(16.4)	3.0	7.8	5.4
Consumer	2,161	2,977	3,158	3,554	15.6	37.8	6.1	12.5	9.3
Healthcare	1,654	1,562	1,794	2,022	93.3	(5.5)	14.8	12.7	13.8
Automotive	1,545	1,977	2,179	2,343	(1.6)	28.0	10.2	7.5	8.9
Construction, Infra	1,318	1,385	1,375	1,378	10.3	5.1	(0.7)	0.2	(0.3)
Gaming - NFO	174	282	343	339	(32.3)	62.6	21.4	(1.0)	9.6
Gaming - Casino	(2,108)	323	2,132	3,134	14.1	NA	560.0	47.0	211.5
Gloves	11,416	1,050	(408)	(35)	57.4	(90.8)	NA	(91.3)	NA
Materials	1,009	1,418	1,466	1,691	119.5	40.5	3.3	15.4	9.2
Media	521	299	319	288	(4.2)	(42.6)	6.7	(9.9)	(2.0)
Oil & Gas	(1,443)	1,597	2,818	3,218	NA	NA	76.5	14.2	42.0
Petrochemical	8,179	5,699	3,108	4,834	309.6	(30.3)	(45.5)	55.5	(7.9)
Plantation	7,471	7,564	4,980	5,202	105.1	1.2	(34.2)	4.4	(17.1)
Property - Developer	1,040	1,492	1,890	1,885	18.1	43.4	26.7	(0.2)	12.4
Property - REIT	1,496	2,074	2,291	2,461	(7.4)	38.7	10.5	7.4	8.9
Renewable Energy	71	75	89	97	(15.7)	4.8	19.3	9.1	14.1
Technology	1,535	1,592	1,793	2,099	35.2	3.7	12.6	17.1	14.8
Telco	5,189	5,199	5,207	6,584	8.1	0.2	0.1	26.4	12.5
Transport - Aviation	(3,583)	(3,123)	(513)	871	(15.8)	(12.8)	(83.6)	NA	NA
Transport - Shipping	1,889	2,374	2,415	2,410	(12.5)	25.7	1.7	(0.2)	0.7
Transport - Port & Logistic	783	719	855	899	18.7	(8.2)	18.9	5.1	11.8
Utilities	8,192	8,211	9,240	9,850	8.0	0.2	12.5	6.6	9.5
Stocks under cvrg	78,801	77,099	82,124	93,024	36.7	(2.2)	6.5	13.3	9.8

Source: Bloomberg pricing, Maybank IBG Research

Fig 91: Research universe core earnings, growth, PER, P/B and ROE (31 May 2023) (cont'd)

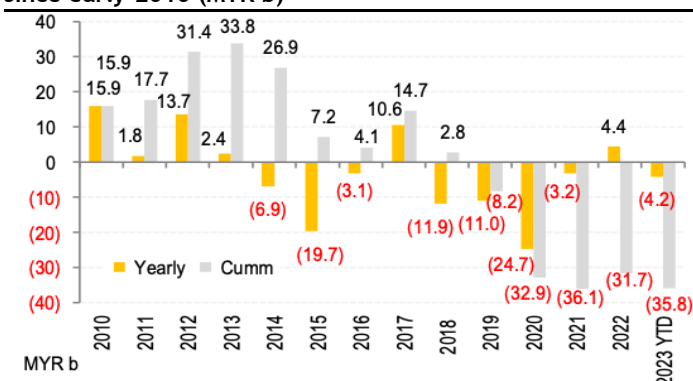
Sector	PER (x)			P/B (x)			ROE (%)		
	CY22A	CY23E	CY24E	CY22A	CY23E	CY24E	CY22A	CY23E	CY24E
Banks	10.7	9.7	9.1	1.1	1.0	1.0	9.9	10.4	10.5
Non-bank Financials	10.4	10.1	9.3	1.2	1.1	1.0	11.4	11.1	11.2
Consumer	29.2	27.5	24.5	7.4	6.8	6.2	25.4	24.8	25.3
Healthcare	36.1	31.4	27.9	2.0	2.0	1.9	5.5	6.3	6.8
Automotive	11.7	10.7	9.9	0.9	0.9	0.8	7.5	8.0	8.4
Construction, Infra	15.3	15.4	15.4	0.9	0.8	0.8	5.7	5.5	5.3
Gaming - NFO	11.3	9.4	9.4	1.0	0.9	0.9	8.5	10.1	9.8
Gaming - Casino	94.1	14.3	9.7	0.7	0.7	0.7	0.7	4.8	6.8
Gloves	19.8	NA	NA	1.5	1.6	1.6	7.5	NM	NM
Materials	26.8	25.9	22.5	5.7	5.0	4.4	21.3	19.4	19.7
Media	13.2	12.3	13.7	2.3	2.2	2.1	17.2	17.5	15.0
Oil & Gas	18.7	10.6	9.3	1.4	1.2	1.0	7.6	11.0	11.2
Petrochemical	9.7	17.8	11.4	1.1	1.1	1.0	11.2	6.0	8.9
Plantation	11.5	17.4	16.7	1.5	1.4	1.4	13.1	8.3	8.3
Property - Developer	12.4	9.8	9.8	0.4	0.4	0.4	2.9	3.7	3.6
Property - REIT	16.9	15.3	14.2	1.0	0.9	0.9	5.8	5.9	6.3
Renewable Energy	15.9	13.3	12.2	0.9	0.9	0.8	6.0	6.6	6.8
Technology	26.4	23.4	20.0	4.0	3.7	3.3	15.3	15.7	16.7
Telco	26.8	26.8	21.2	2.4	2.4	2.3	9.0	8.9	11.0
Transport - Aviation	NA	NA	17.0	22.6	144.5	20.4	NM	NM	120.5
Transport - Shipping	13.7	13.5	13.5	0.9	0.9	0.8	6.3	6.3	6.2
Transport - Port & Logistic	18.5	15.5	14.8	3.4	3.2	3.0	18.3	20.5	20.4
Utilities	13.3	11.9	11.1	1.1	1.1	1.0	8.4	9.1	9.3
Stocks under cvrg	15.7	14.7	13.0	1.3	1.3	1.2	8.5	8.7	9.4

Source: Bloomberg pricing, Maybank IBG Research

Malaysia's net foreign sell trend for the equity market has no quick fixes, having long pre-dated the pandemic (Fig 91), with only some modest, temporary reversals. Foreign net selling of Malaysian equities has been unabated since 2013, and the cumulative net sell since 2010 stands at MYR35.8b as at end-June 2023. Reasons for this continuous downtrend are multiple, and include: **i)** Malaysia's sharply reduced weightings in global equity indices as faster-growing, large new emerging markets like China and India muscle in - for example, Malaysia's weightage in the MSCI Emerging Markets Index has plummeted from a high of almost 20% in 1994, to around 1.3% currently; **ii)** trapped domestic liquidity, especially re government-linked investment companies (GLICs) like EPF and PNB, which perpetuates comparatively high market valuations and has the negative knock-on of weakening corporate governance discipline; **iii)** dominance of poorly-managed government-linked companies (GLCs) with peers-lagging profitability that accentuate Malaysia's 'middle income trap' issues i.e. being 'old economy'-dependent, with correspondingly weak long-term earnings growth prospects; **iv)** accelerated erosion of Malaysia's historical political stability premium since the 1MDB scandal in 2015, and subsequent frequent changes in government and policy; **and v)** negative sustainability/ESG-related developments across major market sectors such as plantations, oil & gas, power generation and manufacturing. As flagged earlier and underscored by Fig 81, Ringgit fixed income has proven far more palatable to foreign investors, being generally unaffected by the aforementioned growth issues, and given fiscal debt ratings have remained stable (Fig 119).

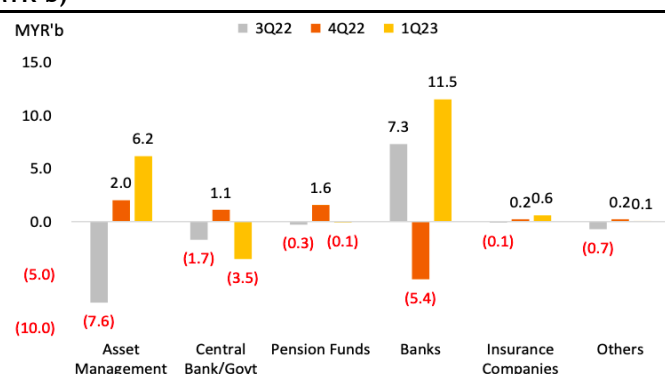
In looking to catalyse a reversal of the negative foreign shareholding trend, the biggest boost, in our view, would come from sharply reducing the dominance of GLCs and GLICs which, by reversing the crowding out of the far more efficient private sector, would improve the market's profitability and governance metrics, as well as valuations, liquidity and free-float. Incentivising the IPO of 'new economy' stocks, not just tech-related but also sustainability-linked industries like renewable energy and recycling, would also help. Concerted regulatory action to draw a line under Malaysia's current negative ESG headlines and implement best-practice sustainability reporting and processes would be a key draw for the rapidly-growing pool of sustainability-themed AUM globally - see our maiden Malaysia ESG Compendium report ("Sustainability: No longer optional", dated April 8, 2021), and the subsequent 2022 Malaysia ESG Compendium refresh ("Shifting into higher gear", dated Nov 29, 2022) for an uninterrupted timeline relating to continuing updates and assessments on Malaysia's sustainability positioning at both the country and individual company levels.

Fig 92: Yearly & Cumulative monthly foreign net buy/(sell) since early-2010 (MYR b)



Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 93: Ringgit Debt Foreign Composition (Quarterly Change, MYR'b)



Sources: BNM, CEIC, Maybank IBG Research

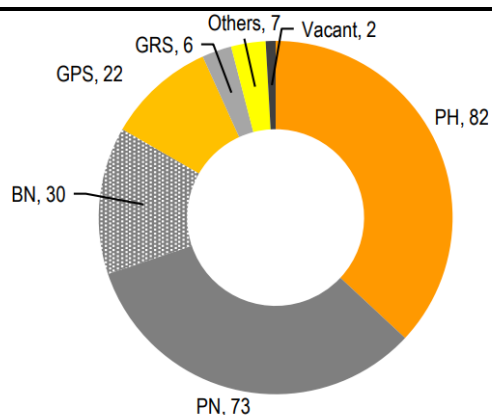
How the political winds blow will remain a key driver of investor sentiment towards the Malaysian equities market. A seamlessly-executed 15th General Elections (GE15) held on Nov 19th had helped moderate the elevated political risk premium Malaysia has been labouring under since GE14, following which there was a dramatic rise in the country's governance uncertainty and volatility. GE15 ended with a historic

outcome with no political coalition securing a simple majority of 112 Parliament seats (out of total 222) to form a Federal Government. Pakatan Harapan (PH) clinched the highest number of seats at 82 (or 37% of total), followed by Perikatan Nasional (PN) at 73 (33%), Barisan Nasional (BN) at 30 (14%), and state-based Gabungan Parti Sarawak (GPS) at 22 (10%). Of note:

- Biggest “winner” was PN (led by Islamic party PAS, together with Tan Sri Muhyiddin Yasin’s BERSATU) with a sizeable increase in the number of seats won at 73 vs. 48 pre-GE15.
- Clear “loser” was BN (led by UMNO) which saw a sizeable fall in the number of seats won at 30 vs. 42 pre-GE15.
- Similarly, PH (comprising Anwar Ibrahim’s PKR, together with DAP, AMANAH and UPKO, alongside “friendly party” MUDA) lost 8 seats, landing at 82 vs. 90 pre-GE15.
- By popular vote, PH won 37.6%, PN obtained 30.2%, and BN 22.2%.
- In the State Assemblies - where just 3 State Assemblies were dissolved - there was also no clear winner in Perak (PN: 26, PH: 24, BN: 9; total 59 seats) and Pahang (PN: 17, BN: 16, PH: 8; total 42 with one yet to be contested due to death of a candidate). At Perlis, BN was toppled after 5 decades, as PN takes over (PN: 14, PH: 1, BN: 0; total 15).

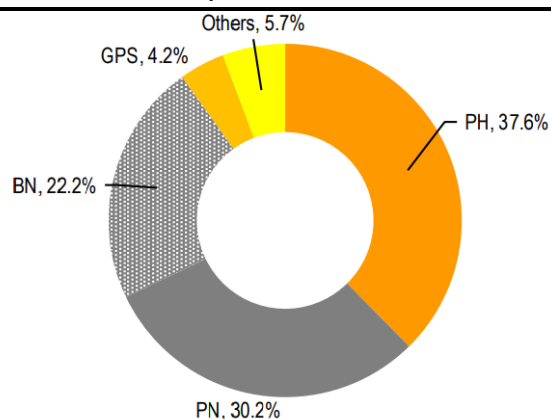
Since GE14, the number of registered voters had risen by 6.23m (+42%) to 21.17m. Of the 21.17m registered voters, 72.9% (15.4m) turned out to cast their votes, as compared with 82.3% (12.3m) of the 14.94m registered voters in GE14.

Fig 94: GE15: Share of Parliament Seats



Source: Election Commission, Maybank IBG Research (chart)

Fig 95: GE15: Share of Popular Vote



Source: Election Commission, Maybank IBG Research (chart)

Fig 96: GE15: Parliament Seats by Coalition

		----- Pre-GE15 -----		----- GE15 Outcome -----	
		No. of seats	Sub-total	No. of seats	Sub-total
BN (Barisan Nasional)	UMNO	38		26	
	MCA	2		2	
	MIC	1		1	
	PBRs	1	42	1	30
GPS (Gabungan Parti Sarawak)	PBB	14		14	
	PRS	2		5	
	PDP	2		2	
	SUPP	1	19	2	23
PN (Perikatan Nasional)	BERSATU	30		31	
	PAS	17		43	
	STAR (Sabah) *	1		-	
	SAPP *	-		-	
PH (Pakatan Harapan)	GERAKAN	-	48	-	74
	DAP	42		40	
	PKR	36		31	
	AMANAH	11		8	
Others	UPKO	1		2	
	MUDA (friendly)	NA	90	1	82
	Warisan	7		3	
	Independent	4		1	
	PEJUANG (Tun M)	4		-	
	PBM (Zuraida)	3		1	
	PSB (Baru Bian)	1		-	
	PBS (Sabah) *	1		1	
	MUDA	1		NA	
	Sabah Bersatu *	-		4	
	KDM	-		2	
	STAR (Sabah) *	NA		1	
	Vacant	2	23	-	13
TOTAL			222		222

* Component of GRS (Gabungan Rakyat Sabah); Source: Parliament, EC, Maybank IBG (compilation)

While the now-settled unity government (a coalition anchored by PH, BN and GPS) under Prime Minister Anwar Ibrahim, the leader of liberal-leaning Pakatan Harapan (PH), does not include the Islamist party PAS (which has the greatest number of seats within the opposition PN coalition), the latter's huge gains (per Fig 96 above) mean it is now the single biggest party in Parliament. PAS' "Green Wave" can be attributed to a combination of a stark repudiation of the infighting and corruption-tainted BN, as well as an increasingly religiously conservative Malay-Muslim electorate for which its' aim of incorporating Islam into all aspects of society, including politics, law and administration, resonates positively.

Whether PAS and the broader PN opposition coalition can make significant gains in the upcoming state elections to be held in August will be keenly monitored by investors. Of the six states holding elections, three (Selangor, Penang and Negri Sembilan) are controlled by PH and three (Kelantan, Terengganu and Kedah) are controlled by PN (Fig 97). The results will invariably be seen as a barometer of voter approval of PM Anwar Ibrahim's unity government. While control of the Federal Government is not directly at stake, a poor showing by unity government coalition parties (our base case is for PH and its unity government allies to continue to control its three states albeit with reduced majorities) could setback or entirely derail urgently-needed fiscal and governance reforms as well as renew speculation on the staying power of the unity government itself. Certainly, the loss of one or more states currently under the control of the unity government to the opposition PN coalition would be taken very negatively by the market.

Fig 97: Selected State Assembly Seats - composition (pre-dissolution)

	Total	Coalition			Others	Vacant
		PH	BN	PN		
Selangor ¹	56	40	5	5	6	-
Kelantan ²	45	-	7	37	-	1
Pahang	42	9	25	8	-	-
Penang ³	40	33	2	1	-	4
Negeri Sembilan	36	20	16	-	-	-
Terengganu	34	-	10	24	-	-

Source: Maybank IBG Research (chart)

Notes:

¹ Six "Others" breakdown: 3 PEJUANG, 2 PBM, 1 WARISAN

² Vacant seat (N23 - Melor) was previously occupied by PAS (PN); he passed away in Apr 21

³ Occupants of four vacant seats are now with Bersatu (PN) and formerly with PKR (PH)

Our baseline scenario or assumption is that the outcome of these state elections will broadly mirror the results of the Parliament seats contested in these states at the 15th General Election back in Nov 2022 i.e. PH/BN will keep the multi-racial states Selangor, Penang and Negeri Sembilan while PN/PAS will retain the Malay heartland/belt states of Kedah, Kelantan and Terengganu.

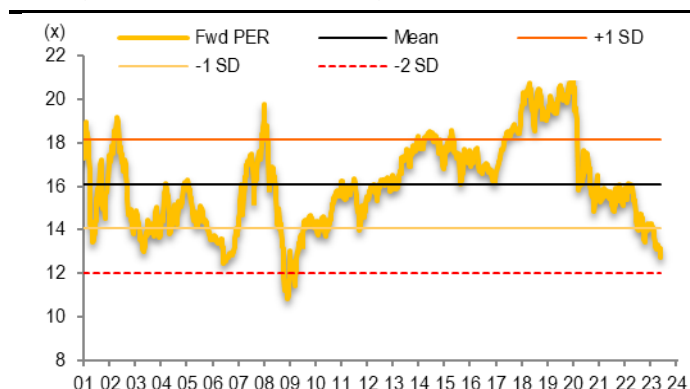
What is more - and most - important is that after the conclusion of the state elections, the PM, his Cabinet and the Federal Government should focus on policy making and implementation of economic and institutional reforms given that there is over four years to go before the next general election. Key policy events to watch include:

- MADANI Economic Narrative, to be launched in Aug 2023.
- New Industrial Masterplan 2030, slated to be unveiled in Aug 2023.
- Mid-term review of the 12th Malaysia Plan (2021-2025), expected in Sep 2023.
- Federal Government's Budget 2024 - scheduled to be tabled at the Parliament on 13 Oct 2023.
- National Energy Transition Roadmap (NETR) and Hydrogen Economy and Technology Roadmap (HETR), targeted to be unveiled in 2H 2023.
- Fiscal Responsibility Act and Government Procurement Act by end-2023.

2H23 outlook: dissipating overhangs to narrow discount

While we have significantly reduced our KLCI earnings growth projections in the wake of underwhelming 1Q23 reporting and management guidance (Fig 87), forecast market earnings growth remains positive over 2023E and 2024E - coupled with the KLCI's weak YTD performance, forward valuations are now attractive. At 12x forward PER, the KLCI is now trading -2 standard deviations below its mean (since 2000; Fig 98), what has historically been a short-lived market bottom. The market's trailing P/B ratio is also at a new historical low (Fig 99), contributed in part by the significant build-up in capital in the banks sector over the pandemic years. From a regional perspective, Malaysia is not alone in being deeply discounted, though even among its ASEAN peer basket, it is a negative outlier. As flagged earlier, after 2022's strong performance, most ASEAN markets are underperforming YTD as investors rotate into tech-driven markets in North Asia. As a result, all ASEAN markets are now trading at attractive valuations - Malaysia, Singapore, Indonesia and Philippines are trading at no more than the 5th percentile of their 5-year forward PE ranges (Fig 100).

Fig 98: KLCI's 12M forward PER at 12.7x, or -1.7SD of LT mean (mean = 16.1x, 1SD = 2.0x)



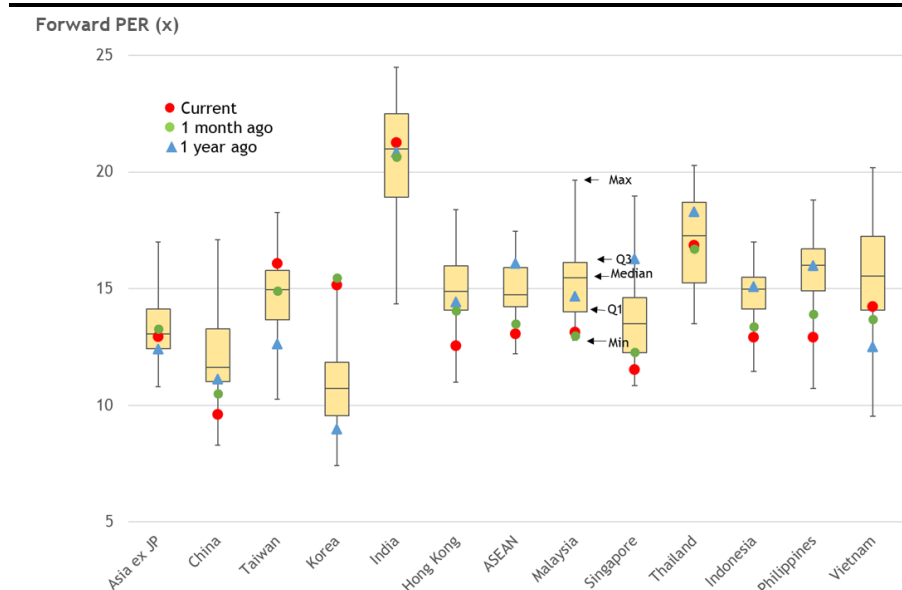
Source: Bloomberg, Maybank IBG Research (chart)

Fig 99: KLCI's trailing P/B at 1.31x, or -1.4SD of LT mean (mean = 1.74x, 1SD = 0.31x)



Source: Bloomberg, Maybank IBG Research (chart)

Fig 100: Quants: ASEAN and China's Valuations are Attractive



Source: Maybank IBG Research, Factset; Data as of 30 June 2023

Note: A box plot displays the five-number summary of a dataset, namely minimum, 1st quartile, median, 3rd quartile and maximum (Min, Q1, Median, Q3, Max).

Unfortunately for Malaysia, investors would argue that the KLCI's historical valuation range is of declining relevance given the country's economic and political dynamics have changed significantly since the turn of the millennium, and not for the better i.e. from spirited tiger economy supported by stable, pro-market politics, to what is now an over-gear, middle-income trap economy stifled by lumbering GLCs and political instability that encourages short-termism and populism over structural reforms. The false sense of valuation security that trapped domestic liquidity has long provided local asset prices appears to be crumbling, while the Ringgit is in long-term decline as it bears the adjustment (depreciation) needed to mitigate for sub-optimal policy responses to declining economic competitiveness and fiscal deterioration. Further, while 20% foreign ownership is low (Fig 83), c.4ppts of that is relatively footloose non-strategic active shareholders that could easily bolt. Soberingly, the KLCI at 12x PER is now merely in-line with ASEAN peer average (Fig 164) despite higher debt, weaker earnings growth and now-indistinguishable political capriciousness.

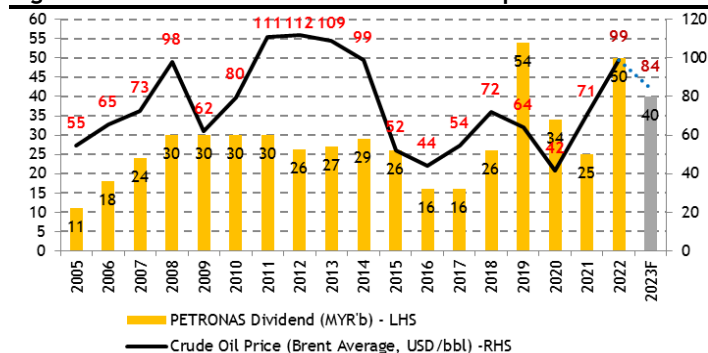
Still, it is not all gloom. When everyone is thinking one way (broadly bearish), it usually pays off handsomely to take the other side of the trade i.e. go contrarian. While corporate earnings trends, expected to remain soft into 2H23, are an important market driver, they are not the only one i.e. valuations can still expand if overhanging market risk factors moderate. While the +25bps Fed rate hike last week (to 5.0%-5.25%) comes with a median forecast or "dot plot" that suggests another +50bps upside by end-2023, rallying global asset markets are viewing this as a worst-case possibility i.e. flat or at most a final +25bps is most likely. Besides peaking rates, aforementioned upcoming state elections (Aug) and Budget 2024 (Oct), rather than being seen as "glass half-empty" events, could in fact resolve investor-sidelining uncertainties relating to political / policy follow through. These factors, coupled with aforementioned expectations of positive Ringgit reversal later into 2023 as China growth / demand improves and Fed narrative turn dovish, should in turn make Malaysian equities attractive to foreign investors again.

Underscoring the above positive narrative is already-apparent improvements in the country's fiscal trajectory and underpinnings. Government revenue rose 20% YoY to MYR98.6b in 4M23, while expenditure showed a relatively disciplined 5% increase YoY. As a result, 4M23 fiscal deficit improved to MYR24.1b (4M22: MYR34.4b, 4M21: MYR42.1b, 4M20: MYR43.2b), lowest in the first four months of the year since 2019. This means that the 4M23 budget deficit has outperformed the run-rate by about MYR7b based on full-year deficit target of MYR94b (2022: MYR99.5b). At the same time, a key pillar of Malaysia's fiscal integrity namely national oil company (NOC) PETRONAS has seen its' fundamentals strengthening significantly over the last 18 months. Petronas is by far the most valuable GLC (government-linked company) and a cornerstone of Malaysia's economy - not only is it a Fortune 500 company but it also enjoys a higher debt rating (A2) from Moody's as compared to the country (sovereign) (A3). The pandemic years were tough on the company, as low energy prices resulted in a headline loss of MYR21b in FY20 (Dec YE; core net profit ex-impairments was MYR10.5b), which was followed by a rebound (in line with recovering oil and gas prices) in FY21, to a MYR40b core net profit. At the same time, PETRONAS' balance sheet was strained by both a reduction in cashflows as well as the need to increase its dividend payout to the government given the latter's fiscal challenges. For the past three years in a row, actual dividend payout by PETRONAS has far exceeded targeted dividend (Fig 101) i.e. 2020: actual dividend payout was MYR34bn v. initially targeted MYR24b; 2021: actual dividend payout was MYR25b vs. initially targeted MYR18b; 2022: doubled actual dividend payout to MYR50b vs. initially targeted MYR25b.

Fortunately for both the company and government fiscal planners, PETRONAS has seen a sharp recovery in fundamental strength over 2022, when it posted its best-ever performance i.e. FY22 net profit came in at MYR101.6b, double FY21 headline earnings of MYR50.9b, supported by higher energy prices and production / entitlement. At the same time, net cash has recovered to MYR103b; this is double

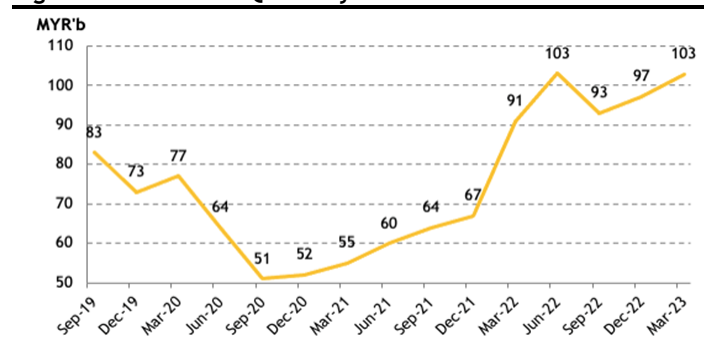
the Sept 2020 low of MYR51b (Fig 102) while FY22 free cashflow (FCF) improved per the wide gap between operating cash flow (MYR135b, +72% YoY) and capex (MYR50.1b, +65%). Positively, while energy prices have eased from last year's peaks, all indications are energy prices will remain firm given the combination of prolonged structural under-investment in the energy sector since 2015, the reopening of China's economy and imposition by the G7/EU of a price cap on Russian oil that poses risk to supply.

Fig 101: PETRONAS: Dividends vs. crude oil price



Note: *Special dividends: 2019: MYR30b/ 2020: MYR18b/ 2021: MYR7b
Source: PETRONAS, Maybank IBG Research (chart)

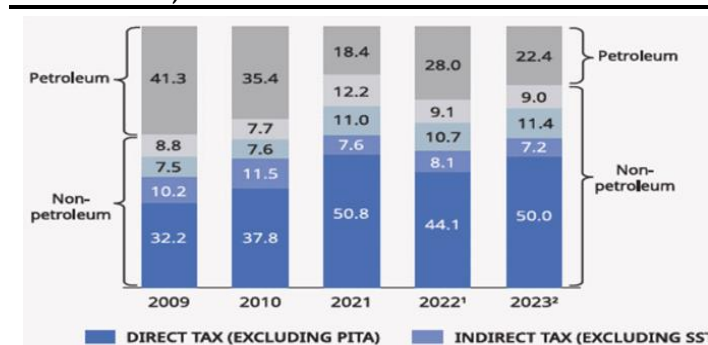
Fig 102: PETRONAS: Quarterly net cash



Source: PETRONAS, Maybank IBG Research (chart)

Given that energy-related fiscal revenues, which includes PETRONAS dividend, are projected to remain at above 20% of the government's total fiscal income (Fig 103), the NOC's rebounding financial prowess is good news for the new coalition government which would prefer to focus on cost-of-living issues first, before taking on the more challenging and socially sensitive task of fiscal consolidation, which will cover both rationalization of the country's subsidy framework (already seeing more targeted electricity subsidies being introduced) and broadening the tax base (most likely via re-introduction of GST, albeit at a low rate to start with). Hence, a rejuvenated PETRONAS (Fig 104), and positive indications re the Prime Minister's focus on addressing leakages, wastages and mismanagement in fiscal spending (e.g. requiring open tenders as a rule), is able to provide breathing room for the government on the subsidy and tax issues until the coalition is on a more stable footing, and economic uncertainties have moderated. Recognising that inflation-inducing subsidy rationalization is now likely to be deferred into 2024 at the earliest, we forecast headline inflation to ease in 2023, to +3.0% (2022: +3.3%).

Fig 103: Petroleum-Related and Non-Petroleum Revenue (% of Total Revenue)

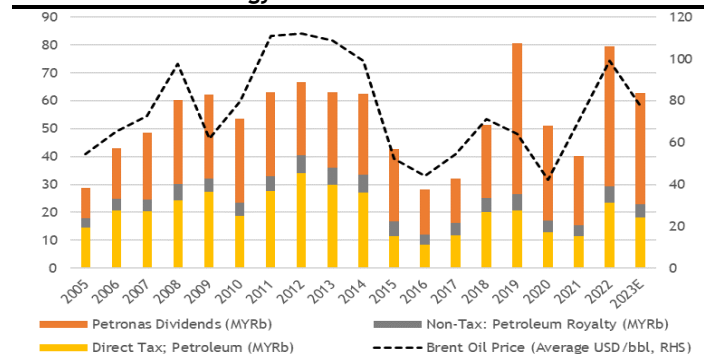


1/ Revised estimates of Budget 2022 projections

2/ Budget 2023 projections

Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 104: Malaysia: PETRONAS and Oil-Related Revenue Highly Correlated with Energy Prices



Source: CEIC, Ministry of Finance

It should also be remembered that PETRONAS continues to have the option to liquidate non-core assets to raise funding. In early Dec 2019, Petronas raised around MYR6b by disposing the following stakes to domestic GLICs: **i)** 228m shares representing a 5.1% stake in MISC for MYR1.8b; **ii)** 59m shares representing a 5.9% stake in Petronas Dagangan for MYR1.3b; **and iii)** 191m shares representing a 9.7% stake in Petronas Gas for MYR2.9b. In Dec 2020, Petronas disposed a further 266m MISC shares, equivalent to a 5.96% stake, for an estimated MYR1.77b, as well as 140m stapled securities, or 7.75% of KLCCP, comprising KLCC Property Holdings Bhd and KLCC Real Estate Investment Trust (REIT), for an estimated MYR997mn. As articulated in strategy update “*A KLCI + fiscal stimulus combo, please (and hold the deficit)*”, dated 2nd Oct 2019, we had proposed Petronas should reduce its stakes in its listed subsidiaries to 51%, so allowing continued Petronas management control and earnings / cashflow consolidation, whilst also supporting multiple fiscal (dividend upside) and capital market (higher free float) objectives. At current prices, we estimate divestments to 51% would generate c.MYR11b (Fig 105).

Fig 105: PETRONAS: potential monetization of stakes in listed subsidiaries

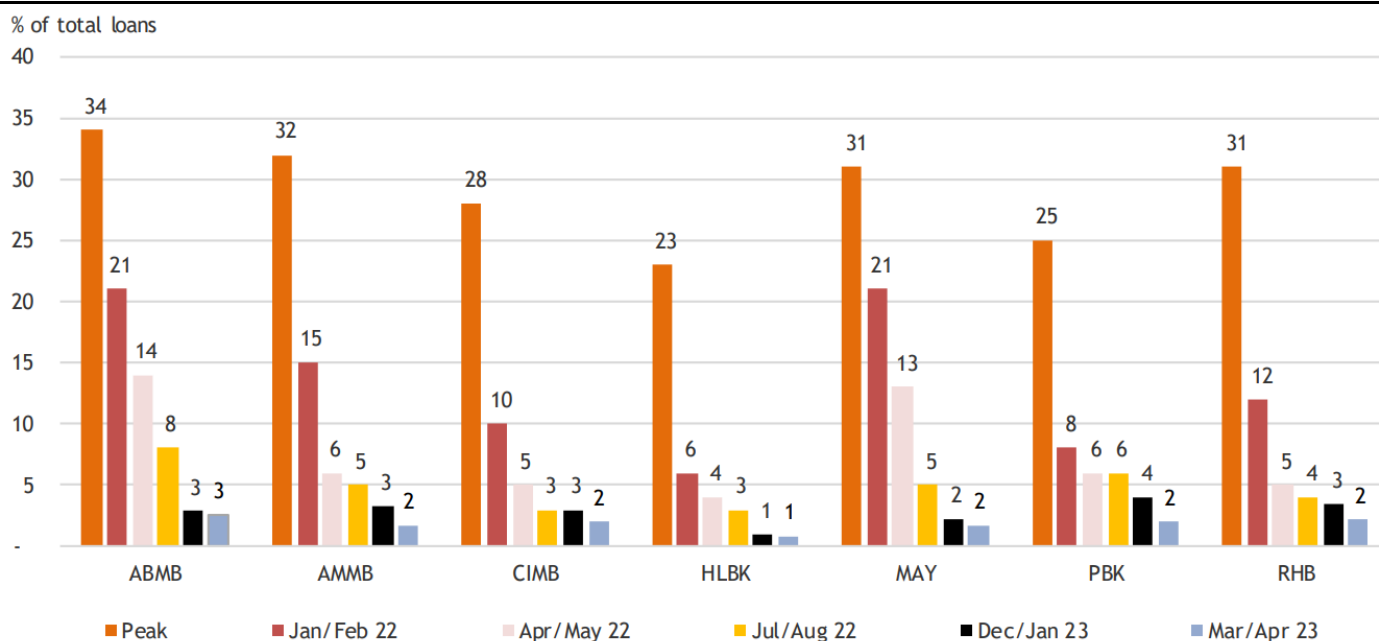
Listed subsidiaries	Stock code	Price (MYR)	Market Cap (MYRb)	Petronas' Stake (%)	Petronas' Value (MYRb)	Value if 51% stake	Implied Sale Sum (MYRb)
<i>Downstream</i>							
Petronas Chemicals	PCHEM MK	6.00	48.00	64.4	30.9	24.5	6.4
Petronas Gas	PTG MK	16.70	33.04	51.0	16.8	16.8	-
MISC	MISC MK	7.16	31.96	51.0	16.3	16.3	-
Petronas Dagangan	PETD MK	22.20	22.05	63.9	14.1	11.2	2.8
<i>Others</i>							
KLCCP Stapled Group	KLCCSS MK	6.99	12.62	64.7	8.2	6.4	1.7
TOTAL:					86.3	75.3	11.0

Source: Bloomberg, Maybank IBG Research (compilation as of 30 Jun)

Further reinforcing macro and corporate sector resilience is the support of a strong banking sector, which has emerged from the pandemic years relatively unscathed and been unaffected by recent turmoil in the US regional banks sector following the demise of Silicon Valley Bank in March. As articulated in the banking sector 1Q23 results round-up report (“1Q23 *results round-up*”, dated June 6), in terms of asset quality concerns, total loans under repayment assistance (RA) for the sector have dropped from a peak of MYR440b in Oct/Nov 2021 (25% of total loans) to MYR35b (1.8% of total) in April 2023 (Fig 106), and are continuing to see further improvement broad economic and employment recovery. To recap, in June 2021, the Government announced a second (PEMULIH) blanket loan moratorium for six months starting 7th July. The difference between this moratorium and the first one from Apr-Sep 2020 was that **1)** it was on an opt-in basis, **and 2)** interested borrowers were required to sign revised terms to their loan agreements. The application deadline for this PEMULIH programme was end-Dec 2021 and a sizeable number of borrowers have normalized loan repayments since then.

Application for the URUS (3rd, but targeted loan moratorium) programme closed end-Mar 2022, but take-up rates have been very low, given the more stringent requirements of having to prove unemployment/salary cuts, tagging on the Central Credit Reference Information System (CCRIS) for affected borrowers as well as the need to undergo financial counselling with the Credit Counselling and Debt Management Agency (AKPK).

Fig 106: MY Banks: Percentage of loans under Repayment Assistance (RA)



Source: Banks

Even though loans under repayment assistance have declined significantly, banks have generally maintained the bulk of the pre-emptive provisions that they have built over the past three years. Fig 107 below strips out pre-emptive provisions from current provision levels to determine what the current loan loss coverage (LLC) would look like without these pre-emptive provisions. We find that the LLC for most banks would still be above 100% except for ABMB, AMMB and CIMB, where the LLC would be 99%, 91% and 81% respectively. Banks are expected to write-back their COVID-related overlays by the end of this year. However, it is our view that they should look to reassign as much of their COVID-related overlays to cover macroeconomic variability, in light of possibly slower economic growth into 2024 - more so for banks with LLCs that are below 100%. Write-backs, if any, should be on a more gradual basis and would act to buffer for potential earnings volatility.

Fig 107: loan loss coverage ex pre-emptive provisions

(MYR'm)	ABMB	AMMB	CIMB	HLBK	MAY	PBK	RHB
Total provisions	1,267	1,984	12,536	1,776	11,874	4,287	3,706
Regulatory reserves	257	212	636	873	1,174	429	604
Provisions incl reg reserves	1,525	2,196	13,172	2,649	13,049	4,716	4,310
GILS	1,233	1,896	13,309	904	8,895	1,968	3,389
LLC incl reg reserves	124%	116%	99%	293%	147%	240%	127%
Pre-emptive provisions	304	461	2,400 #	614	1,700	1,750	411
Provisions ex pre-emptive	1,221	1,735	10,772	2,035	11,349	2,966	3,899
LLC ex pre-emptive	99%	91%	81%	225%	128%	151%	115%

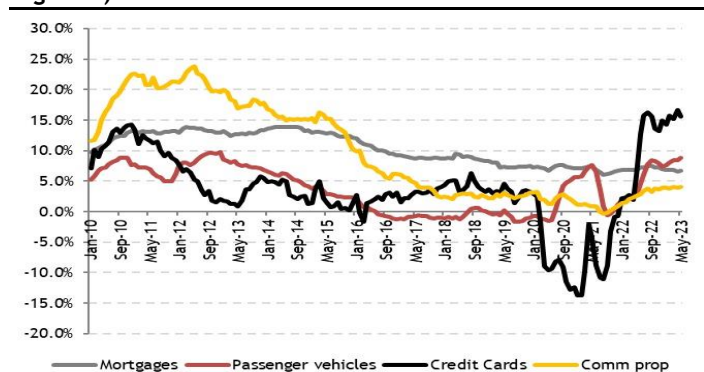
Source: Maybank IBG Research

Underlying banking system earnings drivers are also favourable going into 2023. Re loan growth, in light of the strong loan growth momentum to-date (Fig 108), we have raised our post-1Q23 reporting projected 2023 domestic banking industry's loan growth forecast to average 5.0% in 2023, incrementally higher vs. previous estimate of 4.8%. Related to this stronger asset expansion, competition is heating up for cheaper funds even as CASA growth continues to taper off (Fig 109). Industry

CASA contracted at a pronounced rate of 7.4% YoY in 1Q23, this being the second consecutive quarter of contraction (-3.7% YoY end-Dec 2022). The industry's CASA ratio moderated further to 28.9% as at end-May 2023, from 29.0% as at end-Apr 2023, and compares against a pre-COVID CASA ratio of 26.5% end-Dec 2019 as well as a peak CASA ratio of 32.9% in Apr 2022.

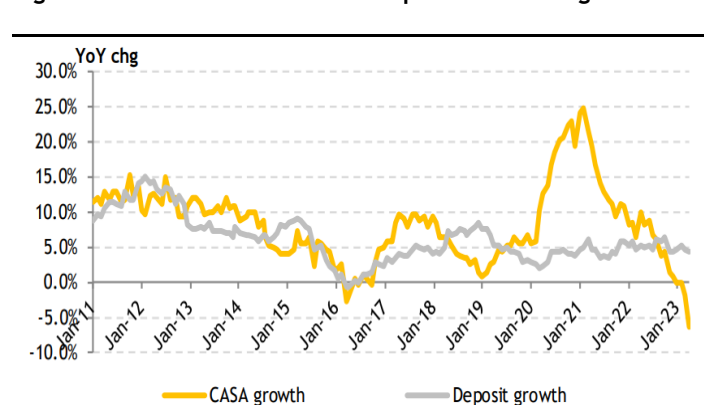
The CASA contractions over the past two quarters may be attributed to various reasons, not least of which being the rapid rise in interest rates (+100bps over 2022), which prompted a switch back to fixed deposits. Other reasons include **a)** the end of Government handouts to individuals and SMEs; **b)** the end of EPF withdrawals; **and c)** reduced liquidity as banks placed excess funds back with the Central Bank to fulfill the now-normalised 2% Statutory Reserve Requirement (SRR) regulation. On the latter, system liquidity had previously been buttressed by BNM's cuts to the SRR in March 2020, by 100bps to 2.0%, and easing of related parameters i.e allowing MGS and MGII to be part of SRR compliance - this effective 0% SRR ratio continued until end-2022. We estimate a liquidity net drain of about MYR30-32b from the banking system on the full reversal of such flexibility for banks.

Fig 108: MY Banks sector: Consumer loan growth (YoY, by segment)



Source: BNM

Fig 109: MY Banks Sector: Total deposits vs. CASA growth

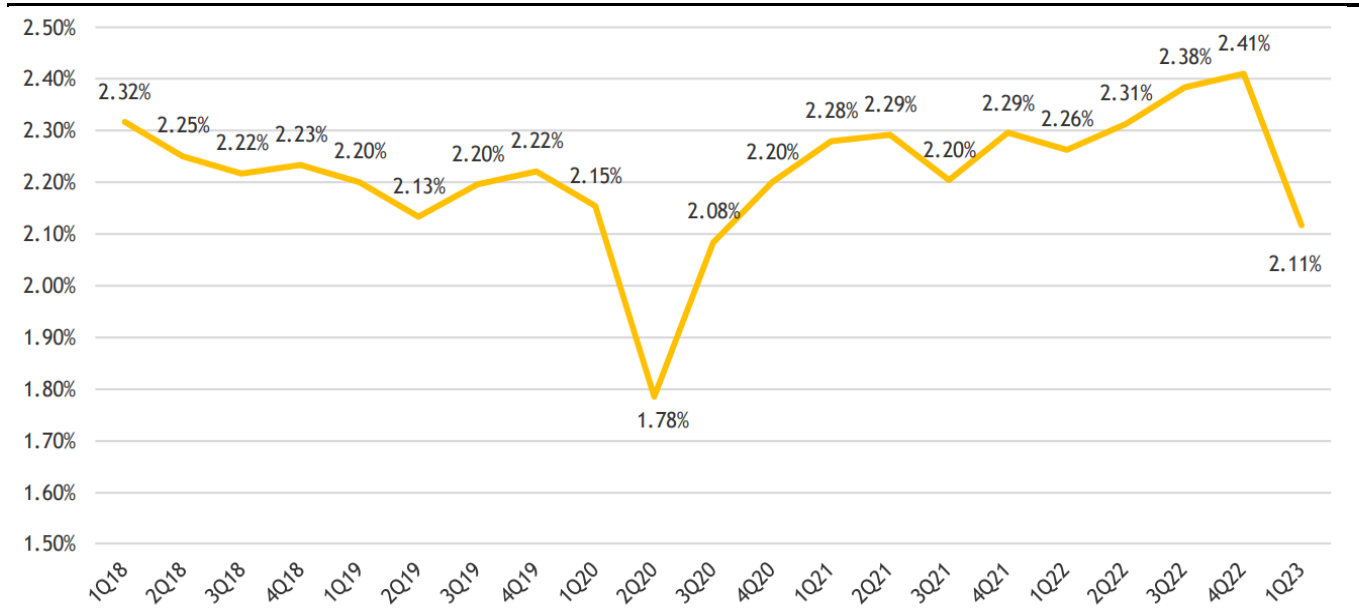


Source: BNM

The intensifying deposit competition resulted in hefty NIM contractions of 15bps YoY and 30bps QoQ, to an average of 2.11% in 1Q23, for banks in our coverage (Fig 110). Contributory factors to this NIM pressure include: **a)** the above-flagged sizeable drop-off in cheaper cost CASA; **b)** the restoration of the SRR which has lowered investment yields; **c)** aggressive deposit gathering in attempts at locking in longer-term fixed deposits ahead of future rate rises; **and d)** increased competition from the likes of financial institutions such Malaysia Building Society that has been more aggressive in its deposit campaigns now that it is a commercial bank (as opposed to its building society status before, with limited deposit-taking abilities). Fig 111 below sets out the estimated impact to banks' NIMs from a 25bps OPR hike, with an average 1-4bps improvement in NIMs, which in turn translates to roughly a 2-3% enhancement in earnings for every 25bps increase.

Our NIM assumptions for 2023 are generally more conservative than bank management's guidance and on an aggregate basis, we have imputed a 14bps NIM compression in 2023E, to 2.18%, which would take NIMs back to pre-pandemic levels. Note sector NIM rose from 2.25% in 2021, to an 8-year peak of 2.32% in 2022, lifted by the 100bps total increase in OPR over 2022. Rate hikes generally have a positive impact on bank NIMs through higher loan yields on variable rate loans and higher bond yields. Funding costs take an average of 3-6 months to normalize, this being the common duration of fixed deposit in the banking system.

Fig 110: MY Banks: Quarterly NIM (1Q18 - 1Q23)



Source: Banks, Maybank IBG Research

Fig 111: Estimated positive impact to NIM from a 25bps OPR hike (bps chg)

bps		bps	
ABMB	4	HL Bank	4
AMMB	2-3	Maybank	1-2
BIMB	2-3	Public Bank	4
CIMB	2	RHB	3

Source: Banks

Banking system asset quality remains strong despite some modest uptrend over recent months. Impaired loans have risen 5.7% YTD in absolute terms, as at May 2023, while the industry's gross impaired loans ratio was higher at 1.8% end-May 2023 compared to 1.78% end-April 2023 (Fig 112); this compares against a pre-COVID average of 1.51% end-Dec 2019. On a MoM basis, the impaired loans ratio rose across almost all consumer segments. Positively, loan loss coverage (LLC) averaged a high 117% in 1Q23 (134% if including regulatory reserves) - further, as at end-1Q23, pre-emptive provisions totaled a high MYR7.6b for the banks in our coverage.

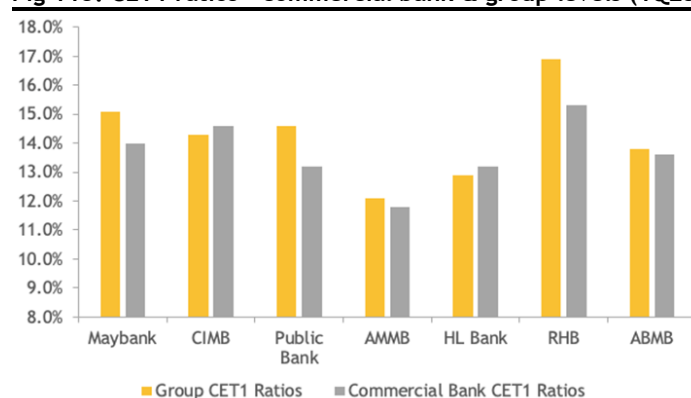
Capital backing is similarly ample, with April 2023 system CET1 ratio, core capital ratio and risk-weighted capital ratios at 14.8%, 15.4% and 18.5%, respectively. For the banks in general, group CET1 ratios are generally comfortable, with group CET1 ratios of 13% or more across most banks (Fig 113). Of note, AMMB has steadily rebuilt its CET1 to above 12%, from a low of 10.4% in FY20 after the MYR2.83b 1MDB Global Settlement (this was replenished in part through a MYR800m private placement in April 2022). BNM indicated in its 2H22 Financial Stability Review (FSR) that the banking sector had excess capital buffers totaling MYR134.8b as at end-Dec 2022. Marked-to-market losses from a 200bps increase in yields scenario would, according to BNM calculations, reduce the banks' aggregate capital base by 6.2% or total capital ratio by a fairly modest 1.1ppts.

Fig 112: MY Banks: GIL ratios by segment

Month	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Securities	0.36%	0.35%	0.31%	0.31%	0.32%	0.32%	0.41%	0.37%
Passenger cars	0.43%	0.45%	0.45%	0.46%	0.46%	0.46%	0.47%	0.51%
Other vehicles	3.96%	3.97%	3.95%	3.94%	3.86%	3.80%	3.73%	3.75%
Other fixed assets	1.61%	1.61%	1.43%	1.47%	1.43%	1.45%	1.45%	1.51%
Residential property	1.35%	1.38%	1.38%	1.37%	1.42%	1.39%	1.45%	1.48%
<= 250k	1.37%	1.42%	1.44%	1.46%	1.51%	1.50%	1.61%	1.65%
>250k, < 500k	0.87%	0.90%	0.91%	0.93%	0.98%	0.96%	1.03%	1.06%
>100k, < 1m	1.15%	1.17%	1.18%	1.17%	1.22%	1.19%	1.25%	1.26%
>1m	2.26%	2.31%	2.29%	2.20%	2.25%	2.21%	2.24%	2.28%
Non-residential prop	1.83%	1.85%	1.83%	1.84%	1.78%	1.75%	1.77%	1.79%
Ind builds & factories	1.20%	1.15%	1.08%	1.08%	1.07%	1.07%	1.08%	1.11%
Land only	2.58%	2.54%	2.41%	2.44%	2.44%	2.28%	2.26%	2.18%
Comm complexes	2.48%	2.58%	2.53%	2.49%	2.49%	2.38%	2.41%	2.42%
Shophouses	1.52%	1.55%	1.47%	1.49%	1.50%	1.52%	1.56%	1.63%
Personal use	2.79%	2.55%	2.55%	2.58%	2.75%	2.64%	2.72%	2.73%
Credit card	0.96%	1.00%	0.98%	1.01%	1.02%	1.01%	1.01%	1.01%
Construction	7.74%	7.66%	4.39%	4.40%	4.39%	4.58%	4.48%	4.49%
Working capital	2.44%	2.47%	2.46%	2.49%	2.52%	2.52%	2.56%	2.56%
Other purposes	1.91%	2.00%	1.98%	2.11%	2.14%	2.10%	2.07%	2.05%
Total loans	1.82%	1.83%	1.72%	1.73%	1.76%	1.75%	1.78%	1.80%

Source: BNM, Maybank IBG Research

Fig 113: CET1 ratios - commercial bank & group levels (1Q23)

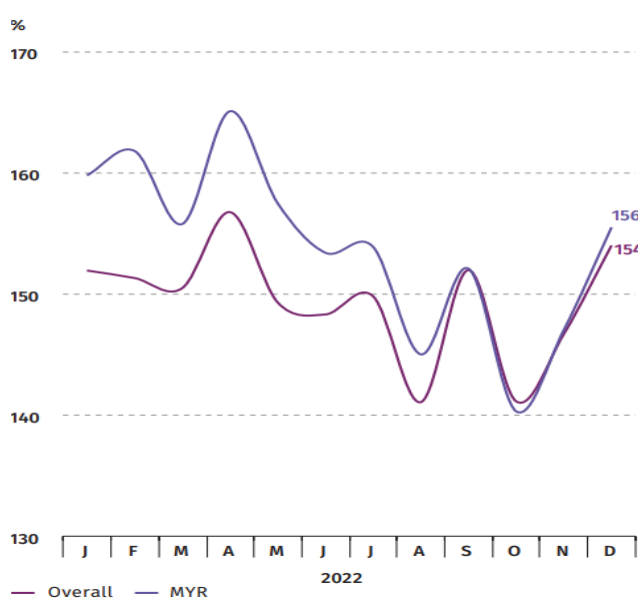


Source: Banks

As important as aforementioned projected earnings recovery and capital levels is the banking sectors' liquidity position. BNM stated in its 2H22 Financial Stability Review (FSR) that the expiry of the aforementioned SRR flexibility at the end of 2022 had a limited impact on banking system liquidity. All banks had sufficient excess liquidity placed with the Bank to replace the MGS and MGII holdings that were used to comply with the SRR. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained healthy, at 154.0% (Fig 114; May 2023 update is a barely-changed 151.2%) and 118.2% (Fig 115) as at December 2022, respectively, while system loan-to-fund ratio has remained stable, at 81.8% in May 2023.

More than 80% of banks' high quality liquid assets are in the form of placements with the Central Bank and government bonds, which banks can access and pledge in the interbank market or with the Central Bank for additional liquidity. All banks also have access to the standing facilities and Restricted Committed Liquidity Facility with the Central Bank. On the related issue of Foreign currency (FCY) external debt-at-risk (DAR), this was manageable at MYR80.4b or 20.3% of total banking system external debt. Banks maintain sizeable FCY liquid assets, sufficient to cover up to 2.6x of FCY DAR.

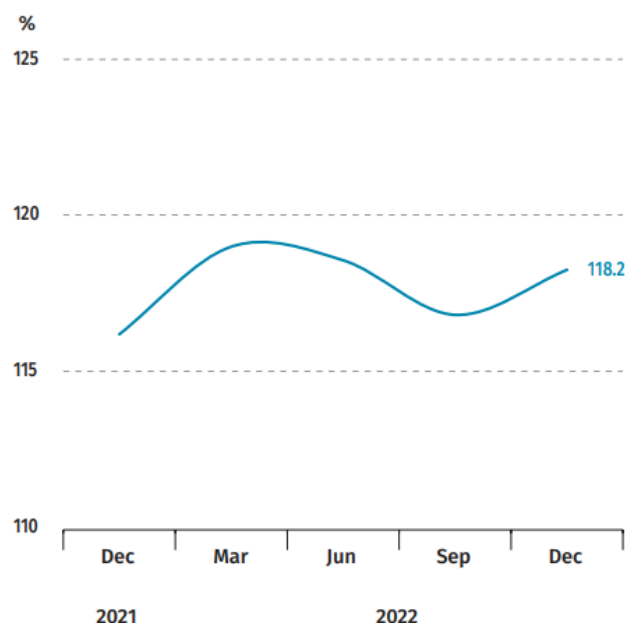
Fig 114: Banking system: Liquidity Coverage Ratio (LCR)



Note 1) MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit. 2) Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Source: BNM

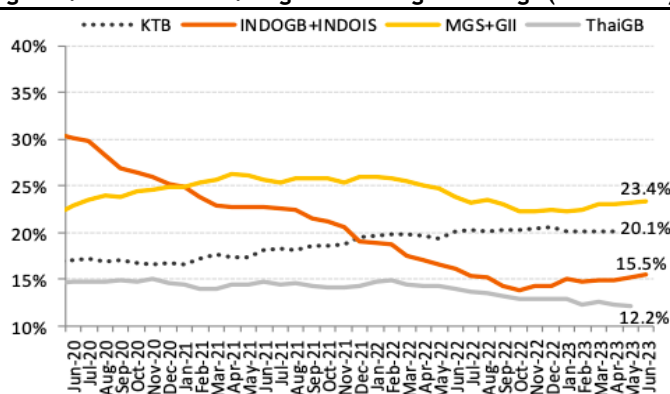
Fig 115: Banking system: Net Stable Funding Ratio (NSFR)



Source: BNM

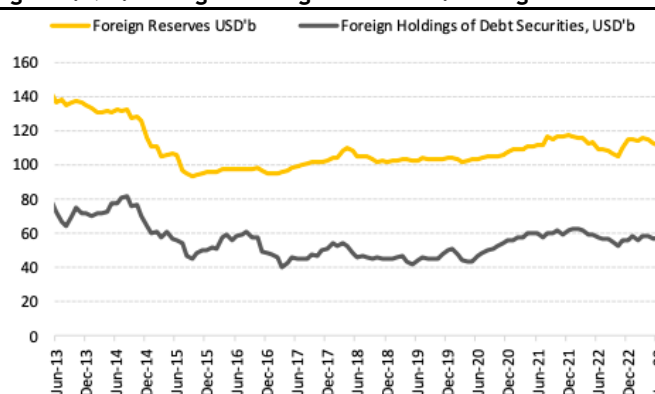
The fixed income market, as flagged earlier, is also holding up well, contributing to overall financial sector stability. After a modest downtrend over 2H22, foreign holdings in Malaysian Government Securities (MGS) and Government Investment Issues (GII) has been trending higher over 1H23 (Fig 116). Total foreign holdings in Ringgit bonds reached a new record of MYR267.9b at end-June (May: MYR262.7b) versus the previous high of MYR263.2b in Feb 2022. Cumulative inflows have now totaled MYR21.2b in 1H23. By debt instrument, GII and MGS were the primary drivers with inflows of +MYR3.6b and +MYR1.6b respectively. The foreign share of MGS dipped to 35.9% (May: 36%) on an enlarged outstanding base, while that of MGS+GII was up slightly at 23.4% (May: 23.2%).

Nonetheless, the fast buildup of foreign positions may require some caution against flow reversal risk given high external macro uncertainties and still elevated BNM FX forward net short. Malaysia's foreign reserves dropped -USD1.3b MoM to USD111.4b at end-June, the third straight month of decline. BNM's FX forward position, released at a one-month lag, widened slightly to -USD23.4b net short at end-May (April: -USD23.0b net short) - this is the first increase in net short since January and might have widened further in June if a step-up in FX market interventions necessitated a larger draw on USD usage. Even after taking into account the net short position, however, there is still an encouragingly substantial buffer between net foreign reserves (Fig 119) and total foreign holdings of Ringgit debt securities (Fig 117), especially when considering that the bulk of government debt holders are relatively "sticky", being foreign Central Banks as well as domestic banks and pension funds (Fig 118).

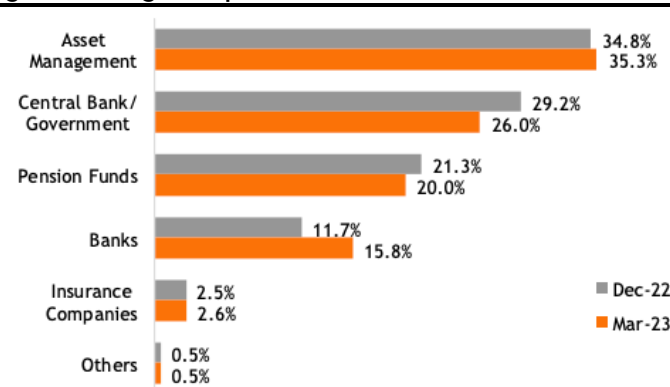
Fig 116: Fixed Income: Regional Foreign Holdings (% of Total)


Source: Central Bank, CEIC, Maybank IBG Research

*Official data pending for ThaiGB in the latest month

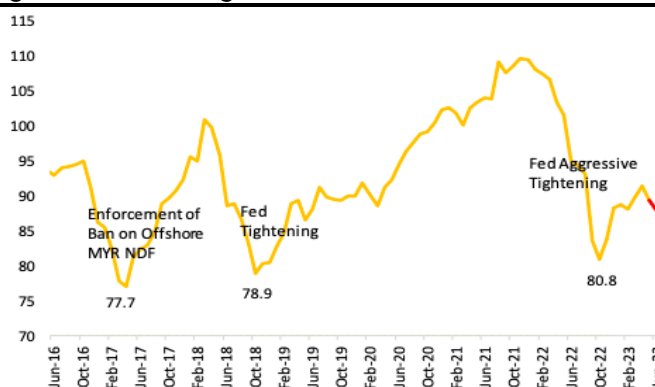
Fig 117: MY: Foreign holdings of Debt vs. Foreign Reserves


Source: BNM, CEIC

Fig 118: Foreign Composition of Government Bonds


Source: BNM, CEIC

*Official data pending for ThaiGB in the latest month

Fig 119: BNM's Foreign Reserves after FX Forward Net Short


Source: BNM, Maybank IBG Research

* Jun-23 based on Jun's foreign reserves and May's FX forward net short position which is at a one month lag

Re sovereign ratings, as detailed in Fig 120 below, it was welcome news in June 2022 when S&P revised Malaysia's rating outlook back to stable from negative while reaffirming the rating at A-. This came after two years of negative outlook that had been in place since Jun 2020 at the height of the pandemic. The key rationales of outlook increase cited by S&P include strong economic recovery from the Covid-19 downturn, expectation of medium-term growth prospects that are better than other sovereigns at similar income levels, and a continuation of strong external position and monetary policy flexibility. These strengths offset the weakness on higher indebtedness and weak fiscal performance. S&P thinks that the political commitment to resume fiscal consolidation is strong with certainty on policymaking as the government reached a compromise with the opposition while recognising that the political landscape remains fluid. Note Fitch (BBB+/stable; most recently affirmed in Feb 2023) and Moody's (A3/stable; most recently affirmed in April 2023) have maintained both their rating of and outlook for Malaysia - hence, all three rating agencies have a stable sovereign rating outlook, with S&P most recently affirming its' A- sovereign rating in June 2023.

While not explicitly highlighted, S&P's outlook increase is likely driven by an upgrade of their assessment on Malaysia's economic profile to a score that is higher than pre-Covid. Previously, S&P assessed an economic score of '4' for Malaysia based on the initial assessment using GDP per capita, but now it assigns a higher economic score of '3' citing "real GDP per capita trend growth above the median of sovereigns in the same rating category". We believe the higher economic score has lifted the overall institutional and economic profile of Malaysia in the rating matrix, allowing a greater debt headroom for the same A- rating. This is expected to reduce Malaysia's rating sensitivity to government indebtedness and fiscal performance going forward (an important point to note given we expect fiscal consolidation to be further delayed following the change in government post-GE15), and probably explains why both "net indebtedness" and "change in net general government debt" no longer feature as key downside triggers. Instead, a net debt ratio of <60% (including committed government guarantees) or interest payment-revenue ratio <10% are now the positive triggers under the upgraded institutional and economic profile. Going forward, Malaysia's rating downward sensitivity will be more affected by S&P assessment of growth prospects and effectiveness of policymaking, both can be subjective, in our view.

Fig 120: Sovereign Ratings: Current Ratings and Triggers

	Fitch	Moody's	S&P
Rating/Outlook	BBB+/Stable	A3/Stable	A-/Stable
Last Review	Feb 2023	Apr 2023	Jun 2023
Last Action	Reaffirmed	Reaffirmed	Reaffirmed
Positive Triggers	• A downward trend in general government debt/GDP, to closer to peer medians, for instance due to implementation of a strong fiscal consolidation strategy. • An improvement in governance standards relative to peers, for instance through greater transparency and control of corruption.		
Negative Triggers	• If prospects for fiscal consolidation improve significantly, particularly through broader revenue base and a sustained decline in the government debt burden and improvement in debt affordability. • Enhancements to governance standards that result in increased policy credibility and effectiveness on public finance management and economic growth potential.		
	• If fiscal outcomes outperform our forecasts. This would be shown from net debt stock falling below 60% of GDP or interest payments less than 10% of general government revenues.		
	• A further increase in the government debt ratio over the medium term, for instance due to an insufficient fiscal consolidation or crystallisation of contingent liabilities. • Deterioration in governance standards, for example indicated by a significantly lower score for the World Bank governance indicators.		
	• Weakening in government's debt and debt affordability metrics, a sharp rise in contingent liabilities, and/or a softening of the commitment to medium-term fiscal consolidation • Volatile politics that undermined the credibility and effectiveness of institutions and threatened the stability of capital flows. • Weaker medium-term growth prospects, including through structurally lower investment.		
	• If economic growth suffers a prolonged downturn that lowers the trend growth in real GDP per capita to levels in line with that of peers. • If political stability in Malaysia deteriorates such that policymaking becomes materially less predictable.		

Source: Rating Agencies, Maybank IBG Research

Besides macroeconomics and corporate earnings, there is no doubt that politics and government policy will also be a key market driver in 2023. 75-year old Prime Minister (PM) Anwar Ibrahim leads a unity government comprising the main coalitions of Pakatan Harapan (PH, of which Anwar is the chairman), Barisan Nasional (BN) and Gabungan Parti Sarawak (GPS). PH has by far the most seats in Parliament, at 82, followed by BN's 30 seats and GPS' 23 seats - together, the coalition has 135 seats in the 222-seat Parliament, a 61% share. Upcoming state elections, as flagged earlier in this report, will not impact parliamentary control.

Both BN and GPS have pledged to fully support PM Anwar, with the cabinet appointments announced on Dec 2 reflecting their importance re maintaining a stable government - among the 28-member Cabinet (reduced from 32 pre-GE15), 15 ministers hail from PH, 6 from BN, 5 from GPS and 1 each for GPS and an independent MP. One of the two deputy prime ministers' (Fadillah Yusof) is from GPS, while the other is from BN (UMNO President Zahid Hamidi) - this is the first time in history Malaysia has had two DPMs. Anwar has also taken on the role of Finance Minister though this is not expected to be a permanent state of affairs.

PM Anwar has made clear that addressing cost of living issues will be the top economic agenda of his government, with the newly-formed National Action Council on the Cost of Living being tasked to come up with related proposals. Initiatives to combat corruption and reduce fiscal leakages are also likely to be a priority, which will help both the popularity of the government as well as the fiscal sums. Less urgent, especially with the economy starting to decelerate and given the aforementioned fiscal breathing room provided by a recovering PETRONAS, will be the tackling of thornier issues such as cutting back on subsidies and broadening the tax base, both of which are structural fiscal drags but also likely to stoke public dissatisfaction and crimp growth when revised. Over the medium-term, some sectors that may be impacted by the priorities of the new government include:

- Construction:** as announced by the PM, all public sector projects will be put on tender. For public sector construction jobs, margins (during the tender process) will be closely scrutinized (likely high single-digits at most, depending on cost escalation clauses). That said, high-value engineering during the construction period would enable double-digit margins, benefitting players with strong engineering experience. In the re-tabled Budget 2023 in Feb, sector measures included **i)** a review of the KVMRT3 project cost to further bring it down to below MYR45b, from 2022's estimate of MYR50b; **and ii)** slightly higher development allocation to Sabah (of MYR6.5b) and Sarawak (of MYR5.6b), compared to the original Budget 2023's MYR6.3b/MYR5.4b respectively. Nonetheless, compared to Budget 2022's allocation of MYR5.2b/MYR4.6b, this represents a sizeable 25%/22% upsize. For East Malaysia, the Government reiterated its commitment to speed up the construction of the Pan Borneo (Sabah) Highway and SarawakSabah Link Road, and the development of border towns like Kalabakan and Ba'kelalan (with a MYR1b cost), to best leverage the relocation of Indonesia's capital to Kalimantan.
- Auto sector/Electric Vehicles (EVs):** the new government reinforced the push to rapidly raise EV adoption and related infrastructure investment via the following measures announced in the re-tabled Budget 2023: **i)** tax exemptions (zero excise & zero import duties) on CBU EVs to be extended for another two years, until 31 Dec 2025 (from 31 Dec 2023; under the original Budget 2023, the extension was only for one year); **ii)** tax exemptions (zero excise duty & zero sales tax) on CKD EVs to be extended for another two years, until 31 Dec 2027 (from 31 Dec 2025; under the original Budget, no extension was mentioned); **iii)** tax exemptions (zero import duty) on components for locally assembled EV to be extended for another two years, until 31 Dec 2027 (from 31 Dec 2025; no extension mentioned previously); **iv)** companies renting non-commercial EVs are given tax deduction up to MYR300k (on rental amount; avg: MYR100k p.a.) for 2023-25; **v)** manufacturers of EV charging equipment are given income tax exemption of 100% on statutory income from YA2023 until YA2032 (10 years), or Investment Tax Allowance (ITA) of 100% for a period of 5 years can be set-off against up to 100% of the statutory income for each year of assessment; **and vi)** the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) will be extended until 31 Dec 2025, by improving the incentive period from 3 years to 5 years. We are particularly positive on the greater emphasis on CKD EVs as compared to CBU EVs per the longer tax breaks afforded the former - this measure addresses some key issues namely **i)** attracting new CKD EV investments into Malaysia; and **ii)** offering a greater push for the building of the domestic EV ecosystem to future-proof Malaysia's automotive segment.
- Renewables:** as underscored by the lifting of the ban on exports of renewable energy (RE) in May and noting underlying aggressive plant-up targets for renewables in general (recall the Malaysia Renewable Energy Roadmap launched in Dec 2021 is targeting to increase the share of RE in total installed generating capacity to 31% and 40% by 2025 and 2035, respectively, vs. 23% currently - refer to our Malaysia ESG Compendium 2022 report 'Shifting into higher gear', dated Nov 29 for details), the new government is stepping up efforts to generate more revenues while at the same time enhancing Malaysia's green economy transition momentum. In the re-tabled Budget 2023, some related supportive measures included **i)** BNM will provide financing of up to MYR2b to support green technology start-ups and help SMEs implement low-carbon practices; **ii)** the Green Technology Financing Scheme (GTFS) will be implemented with an increased allocation of MYR3b until 2025 - this will encourage and promote more investments in RE; **and iii)** the government plans to extend the green incentive period for Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) schemes until Dec 31, 2025 for eligible green activities - these measures will help reduce cost of doing business and encourage investments for consumers of green technology.

- **Plantations:** under PH's alternative (shadow) Budget 2023 as shared before GE15, one proposal was to revert the windfall profit levy for Sabah and Sarawak to the original rate of 1.5% (on FFB) vs. the current rate of 3.0%. Further, with the industry seeing a sharp increase in costs over 2022, a windfall profit levy threshold revision should be considered i.e. a RM500/t increase such that the thresholds for Peninsula Malaysia and East Malaysia would rise to MYR3,500/t and MYR4,000/t, respectively (from MYR3,000/t and MYR3,500/t currently). If these adjustments come to pass, it would provide a tangible upside to the earnings of planters - however, the re-tabled Budget 2023 was silent on these potential adjustments, with the most consequential measure being the proposed introduction of a multi-tiered levy for foreign workers, with the collection of these additional levies to be channeled to incentivize and support automation initiatives (details pending).
- **Tolled highways:** we believe the new administration will fast-forward the restructuring of tolled highways, especially urban highways like the NPE and BESRAYA which straddle densely populated areas, as well as high-volume intra-urban highways like the NSE (North-South Expressway) and ECE (East Coast Expressway). This dovetails with the government's overarching focus on assisting with cost of living. Note the restructuring of BESRAYA and LEKAS are already underway; we believe the restructuring of the NSE must be concurrent with that of the WCE (West Coast Expressway), with toll rates needing to be "synchronized" to avoid a negative impact on the latter (in terms of traffic volumes).
- **Aviation / Tourism.** Apart from greater attention being accorded to a badly-aging, poorly maintained KLIA (Kuala Lumpur International Airport), the new government is also looking to simultaneously deal with capacity issues in other high-potential airports to quickly uplift passengers handled and tourism potential. This was evident in re-tabled Budget 2023 when it was announced that **i)** Penang International Airport (PIA) and Subang Airport would be expanded and upgraded by MAHB (no budget disclosed as yet); **and ii)** 2025 has been designated as a Visit Malaysia Year. In our view, the PIA expansion will almost certainly be financially viable - in 2019, it throughput 8.3m passengers or nearly 30% above its designated capacity. Similarly, Subang's expansion will also almost certainly be financially viable - in 2019, it throughput 2.3m passengers or >50% above its designated capacity. Developments are pending, a key holdup being that the allowed return on capital invested for these projects as dictated by the new Operating Agreement with MAHB has not been set yet.
- **Consumer:** in looking to assist the B40 and M40 segments in dealing with cost of living issues as well as uplift the quality of government services and enforcement, re-tabled Budget 2023 proposed the following: **i)** resident income tax rate to be reduced by 2% for each chargeable income band between MYR35,001 to MYR100,000; **(ii)** regulation on electronic cigarettes and vapour products with the imposition of excise duties on liquid product and/or gels containing nicotine; **(iii)** Generational Endgame (GEG) will proceed with half of the proceeds collected from excise duties re-allocated to the Ministry of Health to improve the quality of the nation's health services; **and (iv)** enforcement efforts to curb illicit/contraband cigarettes and alcohol will continue to be intensified.

A now more stable government should also allow for greater focus and expedited execution on pending policy guidance / finality for a slew of large economic sectors, as detailed in Fig 121 below. Such policy clarity would, hence, be a significant economic stimulus and re-rating catalyst for broad swathes of the equity market, especially as many of these pending investments (e.g. airport expansions, fiber broadband coverage/quality improvement) are high-multiplier in nature, utilizing predominantly domestic labour and capital inputs.

Fig 121: Malaysia sector-specific regulatory lookouts

Sector	Lookouts	Comments
Aviation	New Operating Agreement	MAHB's current Operating Agreement (OA) prescribes set Passenger Service Charges (PSC) regardless of the amount it invests/re-invests in airports. MAHB has been touting a new OA. The new OA may be anchored on a Regulated Assets Base (RAB) model that will set PSC depending on the amount it invests/re-invests in airports. This will essentially guarantee MAHB a set ROI. Its' implementation has been delayed since 2019. That said, Malaysian Aviation Commission (MAVCOM) has released 2 consultation papers regarding the new OA. It is expected to release the third consultation paper regarding the new OA in 2H23. Hopefully, the new OA can be finalised soon after that.
Banking/ Insurance	Phase 2B of insurance detariffication	Under Phase 1 of insurance detariffication back in 2017, comprehensive and "3rd party fire & theft" motor tariffs were liberalized and allowed to float within a +/- 10% band. Phase 2a came into effect in October 2022 and the aforementioned motor tariffs were allowed to float within a +/- 15% band. Phase 2b, which comes into effect this month, will see the motor tariff band widened to +/- 20%.
Consumer	Poultry industry price controls and subsidies	The price ceiling/controls on poultry prices along with the current rate of poultry subsidies have been extended beyond the 1 Jul 2023 deadline, where prices were set to be floated. The government has not explicitly shared as to how long this extension will last, but we believe there is a possibility for poultry price controls and subsidies to remain until end-2023 in light of its potential consumer affordability implications.
Plantations	Reviewing windfall and State taxes?	As the sector faces rising cost pressures, the government is prepared to review the windfall profit threshold. In the past, it was proposed that the threshold be raised by another RM500/t. If materialise, CPO price threshold for windfall profit levy could be raised to MYR3,500/t (from MYR3,000/t) for Peninsular Malaysia planters, and MYR4,000/t (from MYR3,500/t) for Sabah and Sarawak planters.
Property	Higher stamp duty exemption of 75% (from 50%) for properties priced between MYR500k/unit to MYR1m/unit (Budget 2023)	The Government has raised the stamp duty exemption by +25ppts, to 75% (from 50%) for properties priced between MYR500k/unit to MYR1m/unit during the Budget 2023 announcement. Other policy easing measures announced before Budget 2023 include: i) the removal of Real Property Gains Tax (RPGT) for the disposal of real estate in the 6th year onwards (from 5% for Malaysian individuals and 10% for foreigners) and ii) stamp duty exemption on instruments of transfer and loan agreement for first time home buyers for residential properties up to MYR500k/unit until Dec 2025. The government is now reviewing the requirements for Malaysia My Second Home (MM2H) and it will be known within 2 months.
Telco	Execution clarity	The overhang pertaining to the HSBB access price cuts remains in play, with TM's commercial agreements with access seekers still unrevised pending finalization of its commercial reference access offer possibly in 2H23. Separately, details pertaining to the rollout of Malaysia's second 5G network would likely only be released in 2024 at the earliest after the current incumbent DNB achieves 80% population coverage.
Infrastructure	Highway concession restructuring	ALR's successful take-over of Gamuda's 4 highway concessions in Oct 2022 - which resulted in no cash outflow nor financial obligation or guaranteed debts by the Government - will be the model for future restructuring of highway concessions in the country. IJM's BESRAYA, NPE, LEKAS and WCE restructuring are underway. The restructuring of the other tolled highways remains an agenda in addressing the "cost of living" issue, although we notice the pace has somewhat slowed of late.
	Ports capacity expansion delay	Westports 2 expansion plan, which will double the port's container handling capacity to 28m TEUs, has been delayed by more than two years pending the finalisation of its concession agreement with the government. This has held back the fundraising timeline for the project which may cause Westports to miss the window for securing lower cost funds/strategic partners as shipping liners are actively looking to invest in strategic assets amidst the industry's pandemic profit bonanza.
Utilities	Details of RE exports	The government has announced that the export of renewable energy is now permissible, but details of the export mechanism remains undisclosed. The upcoming launch of the Malaysia Energy Transition Roadmap in 2H23 could potentially shed some light on the mechanism.

Source: Maybank IBG Research

Following on from the above, we flag 5 market thematic ideas that bear watching, and the leveraging of which could potentially deliver significant relative outperformance for appropriately-positioned investors:

Thematic 1: GLC Restructuring

One of the expectations of the new government is that it will, given its overarching ambitions of improving the country's distribution of income and overall corporate efficiency, adopt a tougher stance towards monopolistic and cartel-like industries. One of PM Anwar's first action after coming to power namely a request to Bernas - the company that has a rice import concession monopoly from the government that was extended for another 10 years (to 2031) by the previous government in 2020 - to assist smallholder rice farmers via a profit-sharing scheme, even as Bernas renegotiates its existing rice import concession with the government, appears to signal that other similarly "privileged" companies, especially long-coddled Government-linked companies (GLCs), should be prepared for changes in how they are managed and what advantages they enjoy. The YTD newsflow relating to the GLC Reform thematic continues to ramp up the pressure for action aimed at improving returns from this crucial segment of the economy and financial market:

- Permodalan Nasional Bhd. (PNB), one of the largest fund management companies in Malaysia with assets under management (AUM) of RM343.1 billion as at Nov 2022), saw its flagship ASB (Amanah Saham Bumiputera; this fund is only open to the majority ethnic Malay or Bumiputera investors) unit trust fund declare the second lowest income distribution in its history (4.6 sen; 2021: 5.0 sen; the lowest was 4.25 sen in 2020) for 2022 in Dec 2022. PNB's assets are primarily strategic stakes in Malaysian GLCs (see below) - ASB's returns have been trending lower over the past decade, with the current return now barely sufficient to cover the financing cost of the loans taken up by some of its investors to purchase its units.
- PM Anwar called on the Employees Provident Fund (EPF; MYR1.04tr private sector pension fund whose overall share of investment assets invested outside Malaysia has steadily increased over the last few years, from 27% in 2018, to 37% as at end-1Q23) to increase its domestic investment to 70% in 2023, compared to 64% the previous year. EPF has responded by stating it would allocate more than 70% of its new investment allocation to the domestic market going forward - however, this asset allocation "adjustment" is likely to have a detrimental impact on returns given that EPF's ability to maintain relatively high dividends for its contributors over the past decade (5.2% to 6.9% range) has been primarily due to its well-structured, progressive offshore diversification.
- Khazanah Nasional, Malaysia's sovereign wealth fund, announced in June that it sold Singaporean asset KidZania, a children's theme park that was launched in 2016, for a mere MYR380,000 - this compares to the purchase price of around MYR165.5m. The sale has attracted significant criticism for its pricing and scale of wealth destruction, and the fact that it comes hot on the heel of the sale, in April, and also to a Singapore-based company, of its 100% stake in Iskandar Malaysia Studios for MYR32 million, as compared to media reports of total investments exceeding USD120m (MYR550m). The studio venture was announced in 2009 in collaboration with Britain's studio group Pinewood and began operations five years later with facilities that included 100,000 sq ft of film studio space, television studios and production facilities. Pinewood exited the venture in 2019.

Notwithstanding their relative underperformance over the past decade, GLCs continue to dominate the KLCI, contributing 30-35% of KLCI market capitalisation (Fig 122) - this is ex-IHH, which we no longer consider a GLC following Khazanah's sale of a 16% stake in Nov 2018 to Mitsui (which is now the largest shareholder). Note there were no GLC-related constituent changes in the most recent semi-annual review of the 30-stock KLCI in June 2023 (when Inari was removed, being

replaced by Westports). Government-linked investment companies (GLICs) such as EPF, PNB, Khazanah and KWAP dominate the shareholder lists of these GLCs, while state oil & gas corporation Petronas, which is wholly-owned by the government, holds majority stakes in its listed downstream operations. The GLCs are asset-rich and dominant in key economic sectors such as banking, telcos, power, property and plantations, but have broadly underperformed their non-GLC, privately-controlled sector peers based on efficiency and profitability metrics for decades.

While Malaysia, under the oversight of Khazanah, launched a GLC Transformation (GLCT) Programme in 2004, introducing initiatives such as key performance indicators and board-composition reform in a bid to improve accountability and performance, the more tangible result over the programme's 10-year course was greater scale, not improved efficiency or shareholder returns. Such GLC dominance effectively crowds out private capital, which is *ceteris paribus*, accepted as being more efficient, competitive and value-generative for the broad economy. In parallel, GLICs are a reliable share price support, displacing more hardnosed private sector investors and distorting capital-market signaling that is essential to optimizing capital allocation and value-creation discipline.

Bearing in mind the lessons learned from GLCT1, we would advocate a second and more aggressive transformation programme (i.e. GLCT 2.0), that focuses on the matching of capable, performance-linked and empowered management teams with these asset-rich but efficiency-lacking entities. Given their outsized weightage in not only the equity market but also the broader economy, such GLC reforms, if properly executed, represent the most tangible and internally-driven opportunity to reinvigorate Malaysia's broad economic dynamism.

Fig 122: KLCI's constituent ownership by controlling shareholders/GLCs/GLICs + the 5 stocks in reserve list

Company	Stock code	Non-GLC/GLIC		EPF (%)	Khazanah (%)	PNB (%)	KWAP (%)	Petronas (%)	% total	Total (RMbn)
		Market Cap (RM bn)	major sh. (%)							
1 Maybank	MAY MK	104.5		12.9		45.3	4.4		62.6	65.5
2 Public Bank	PBK MK	74.7	21.6	14.6		2.4	4.1		42.7	31.9
3 CIMB	CIMB MK	55.0		13.0	24.1	14.1	6.5		57.6	31.7
4 Tenaga Nasional	TNB MK	52.4		15.7	23.7	17.8	7.3		64.5	33.8
5 IHH Healthcare	IHH MK	51.0	32.8	10.1	25.9	1.5	3.4		73.7	37.6
6 Petronas Chemicals	PCHEM MK	48.2		8.6		6.1	2.7	64.4	81.8	39.4
7 CelcomDigi	CDB MK	47.5	66.2	9.8		6.7	2.4		85.1	40.4
8 Hong Leong Bank	HLBK MK	40.9	61.8	9.5		3.0	1.5		75.8	31.0
9 Press Metal	PMAM MK	39.5	33.4				0.9		34.3	13.5
10 Petronas Gas	PTG MK	33.4		14.5		9.4	10.0	51.0	84.9	28.3
11 MISC	MISC MK	31.2		12.6		7.3	5.4	51.0	76.4	23.8
12 Maxis	MAXIS MK	30.9	62.3	11.9		10.4	1.5		85.9	26.6
13 Nestle (M)	NESZ MK	30.6	72.6	8.7			1.1		82.5	25.3
14 Sime Plantations	SDPL MK	29.6		13.8		55.5	6.6		75.9	22.5
15 Kuala Lumpur Kepong	KLK MK	24.3	47.7	10.2		7.8	ts		65.7	16.0
16 Axiata Group	AXIATA MK	23.6		16.7	36.7	18.0	2.9		74.4	17.6
17 IOI Corp	IOI MK	23.3	50.4	10.1		7.6	3.3		71.4	16.6
18 RHB Bank	RHBBANK MK	23.1	10.1	41.2		7.4	5.3		64.1	14.8
19 PPB Group	PEP MK	22.6	50.5	9.9			0.9		61.4	13.9
20 Petronas Dagangan	PETD MK	21.7		12.1		9.4		63.9	85.5	18.6
21 Hong Leong FG	HLFG MK	19.7	77.5	3.1			2.3		82.8	16.3
22 Telekom Malaysia	T MK	18.3		15.3	20.2	16.9	10.3		62.7	11.5
23 Genting Bhd	GENT MK	15.7	42.8						42.8	6.7
24 MR. D.I.Y.	MRDIY MK	14.3	63.7	1.8		2.3			67.7	9.7
25 Sime Darby	SIME MK	14.0		10.8		48.6	7.9		67.2	9.4
26 Genting (M)	GENM MK	13.9	49.4						49.4	6.9
27 QL Resources	QLG MK	12.9	63.8	5.1		1.3	2.3		72.4	9.4
28 Westports	WPRTS MK	12.1	66.0	9.1		3.9	6.7		83.8	5.8
29 Dialog	DLG MK	11.9	19.1	14.4		3.1	9.3		46.0	5.5
30 AMMB Holdings	AMM MK	11.9	33.5	9.6		8.2	1.4		52.7	6.3
TOTAL		952.9								636.0
31 Gamuda	GAM MK	11.7		15.3		16.0	5.7		37.0	4.3
32 Msia Airports	MAHB MK	11.4		15.7	33.2	6.4	6.2		61.5	7.0
33 Time Dotcom	TDC MK	9.8		5.6	19.4	2.5	5.8		33.3	3.3
34 Fraser & Neave	FNH MK	9.2		13.2		9.3	2.3		24.8	2.3
35 Top Glove	TOPG MK	6.8	42.4	4.9			1.5		48.8	3.3

Note: GLCs in blue highlights; inclusion for Jun 2023 KLCI revision in green highlights

Source: Bloomberg, Maybank IBG Research (compilation as of 07 Jul)

Post-GE14 changes in leaderships at key GLICs, such as Khazanah and PNB, in tandem with regulatory changes in sectors like telcos and power, this was seen as an opportunity for flow-through comprehensive restructuring of GLC management teams and corporate structures (i.e. streamlining, asset disposals). The matching of capable, performance-linked management with the asset-rich but efficiency-lacking GLCs is the biggest opportunity to reinvigorate Malaysia's broad economic dynamism, as well as equity market performance given aforementioned pervasive GLC influence re the market and the broader economy as a whole.

However, despite these leadership changes (note there have been no GLC leadership changes thus far post-GE15), anticipated reforms of these sprawling, underperforming GLCs that these funds control have been extremely slow in coming. Given GLCs collectively account for more than a third of KLCI market capitalisation, their poor operating performance has been a key drag on overall equity market performance. With the previous change in government in March 2020, the new PN governing coalition made their own appointments to the GLC and GLIC management teams, further delaying reforms. Over 2020, we saw CEO changes at PNB and Petronas - early 2021 saw a new CEO at EPF, while a new CEO was appointed for Khazanah in 3Q21. The executive chairman of the SC resigned in April 2022, being replaced by a UMNO politician and former finance minister. Changes have also been made in the past at other GLCs/GLICs, and among regulators such as Bursa Malaysia (note appointment of respected technocrat Tan Sri Abdul Wahid Omar as new chairman in April 2020) and Bank Negara (BNM) as well, the latter seeing a new governor appointed in June - Datuk Shaik Abdul Rasheed, who has been with BNM since 1988 and was previously Deputy Governor, replaces Tan Sri Nor Samsiah, who completed her 5-year term in June 2023.

Sovereign wealth fund Khazanah, which has controlling stakes in key Malaysian GLCs (Fig 123), had seen two changes in leadership post-2018's GE14. In Aug 2018, ex-EPF CEO Shahril Ridza took over from Tan Sri Azman Mokhtar, Khazanah's CEO since 2004. Following the expiry of his contract, Shahril decided to pursue personal interests, and has since been replaced by Amirul Feisal, Maybank's ex-Group CFO. Khazanah is a key barometer for the pace and efficacy of GLC reform. As underscored by the 2018 MYR8.4b IHH stake disposal to Mitsui, and subsequent placing out of shares in investee companies like CIMB, Khazanah has split its investment portfolio into two categories, i.e. 'strategic' for companies where it will want to maintain control (i.e. Tenaga, Telekom, MAHB as well as unlisted PLUS and MAS) and 'investment' where there is no need to maintain dominant shareholding (i.e. IHH, CIMB and Astro).

Unfortunately, the announced return thresholds for the two classifications are underwhelming and prima facie hardly a spur to management to raise their game i.e. for holdings classified as commercial, targeted return is equivalent to the Malaysian CPI + 3% (i.e. 5-6% in total) on a five-year rolling basis, while holdings classified as strategic are required to return the equivalent of the 10-year MGS (currently 4.3%) on a similar five-year rolling basis.

At the same time, Khazanah's portfolio restructuring efforts have had mixed success. A planned merger between UEM Sunrise and privately-controlled Eco World Development announced in Oct 2020 was subsequently called off in early 2021. Further, no new plans have been announced re ending the perennial cash burn at beleaguered national airline MAS, notwithstanding improved operations of late as air travel has bounced back despite higher fares. More positively, a proposed merger between Khazanah-controlled mobile telco Axiata and its local Telenor-controlled competitor DiGi was, notwithstanding pushback from various quarters, completed on 30 Nov 2022. Axiata and Telenor will each hold equal stakes of 33.1% respectively in MergeCo, which will continue to be listed and will have a combined pre-synergy equity value of close to MYR50b. There are also market expectations that Mitsui, as part of a potential privatization effort, may bid to acquire Khazanah's remaining stake in IHH, providing a clean, all-cash exit along with significant investment gains that would be a positive offset to the negative YTD newsflow relating to the losses crystallised from the aforementioned sales of Iskandar Malaysia Studios and KidZania Singapore.

How Khazanah proceeds to execute on the above restructurings, as well as the ESG / sustainability thematic that is now a major investment consideration for all stakeholders (note Khazanah published its' "*Shareholder Expectations and Investment Stewardship*" document in 2022, aimed at guiding its investee

companies on its expectations with regards to issues around shareholder value creation and governance), will set the tone for broader GLC reform appetite, including how aggressively peer GLICs like PNB, EPF and KWAP are willing to evolve from being historically passive, politically-affected investors, into ROI-centric “activist” shareholders with a hands-on approach to concurrently advancing their ESG / Sustainability agendas. Note EPF, KWAP and Khazanah are signatories to the UN Principles for Responsible Investment, with EPF taking the ostensible lead on implementation of these principles - see Thematic 4 below for more details.

Fig 123: Khazanah: key holdings in Malaysian corporates

Stocks	Ticker	Portfolio	Market Cap. (MYRb)	Khazanah stake (%)	Market valuation of stake (MYRb)	Comment
CIMB	CIMB MK	Commercial	54.0	24.1	13.0	Placed out 105mn shares in April 2022
Tenaga	TNB MK	Strategic	52.4	23.7	12.4	Has seen stake rationalisation / placements YTD
IHH	IHH MK	Commercial	51.9	25.9	13.5	Sold 16% stake to Mitsui in Nov 2018
Axiata	AXIATA MK	Commercial	24.3	36.7	8.9	Has signed agreement to merge with DiGi.com
Telekom	T MK	Strategic	18.8	20.1	3.8	Has seen stake rationalisation in the past
MAHB	MAHB MK	Strategic	11.5	33.2	3.8	Has seen stake rationalisation in the past
Time dotCom	TDC MK	Commercial	9.6	19.4	1.9	Attempted sale in the past
Astro	ASTRO MK	Commercial	3.1	20.7	0.6	Thought to be looking for a buyer for its stake
Farm Fresh	FFB MK	Commercial	2.4	11.8	0.3	IPO'd on 22nd March, 2022 + raised RM1b
UEM Sunrise	UEMS MK	Commercial	1.4	69.6	1.0	Proposed merger with EcoWorld called off in Jan 2021
UEM Edgenta	UEME MK	Commercial	0.8	69.1	0.6	Held via wholly-owned UEM Group
MAS	-	Strategic	-	100.0	-	Unlisted; held under wholly-owned UEM Group
PLUS	-	Strategic	-	51.0	-	Unlisted; held under wholly-owned UEM Group
TOTAL					59.7	Compared with Khazanah's end-2022 Realisable Asset Value (overall portfolio) of MYR123b (2021: MYR120b)

Source: Bloomberg, Company Website, Maybank IBG Research (compilation as of 30 Jun)

National Equity Corporation PNB, with an estimated MYR350b assets under management (AUM), also has controlling stakes in some of Malaysia's largest and most important companies, including the largest banking group Maybank and the de-merged Sime Darby group of companies (Fig 124). Following GE14, former Bank Negara governor Tan Sri Dr Zeti was appointed group chairman of PNB in June 2018, replacing Tan Sri Abdul Wahid Omar. In October 2019, Jalil Rasheed, formerly the CEO of Invesco (Singapore), replaced Abdul Rahman as CEO of PNB, the latter moving on to become the chairman of Sime Darby. Jalil subsequently resigned from PNB in June 2020, with his replacement being Ahmad Zulqarnain, previously deputy managing director with Khazanah.

Similar to Malaysia-centric Khazanah's growth strategy going forward, PNB is also looking to increase the share of overseas assets in its investment portfolio i.e. to diversify and reduce country and currency concentration risk, while boosting returns - this has been the case for EPF, which has been able to maintain stable dividend payouts over the past few years, despite weaker Ringgit asset returns, directly attributable to the stronger ROI generated by its non-Ringgit, multi-asset investments offshore. While PNB has executed some strategic divestments - most recently, it sold its 56.3% stake in listed Chemical Company of Malaysia (CCM) in Nov 2020 to privately-controlled plantation and industrial chemicals group Batu Kawan for MYR293mn - these have been for its more peripheral investments and not its anchor holdings per Fig 124 below. More recently, PNB is indicated to be looking to dispose some commercial buildings in the prime area of Damansara Heights in Kuala Lumpur, which is expected to raise around MYR800m in total.

Fig 124: PNB: key holdings in Malaysian corporates

Stocks	Ticker	Market Cap. (MYRb)	PNB stake (%)	Market value of stake (MYRb)	Comment
Maybank	MAY MK	104.0	45.3	47.1	Malaysia's largest banking group by assets and profits
Sime Plantations	SDPL MK	28.7	55.5	15.9	World's largest palm oil plantation company by planted area
Sime Darby	SIME MK	14.0	48.6	6.8	Auto-centric conglomerate; also trading/industrial/logistics
UMW	UMWH MK	4.4	60.5	2.6	Auto-centric conglomerate; also equipment and M&E
Sime Property	SDPR MK	3.2	57.3	1.8	Malaysia's largest property developer in terms of land bank
SP Setia	SPSB MK	2.2	60.9	1.4	Launched the takeover offer for SP Setia in 2011
CCM Duopharma	DBB MK	1.3	52.2	0.7	Manufacturer and distributor of pharmaceuticals/medicines
Velesto	VEB MK	1.8	53.8	1.0	Largest jack-up drilling rig player in the country
MNRB	MNRB MK	0.8	54.7	0.4	National reinsurance company; also Takaful operations
TOTAL				77.7	Compared with PNB's end-2022 Assets Under Management of MYR343b (2021: MYR337b)

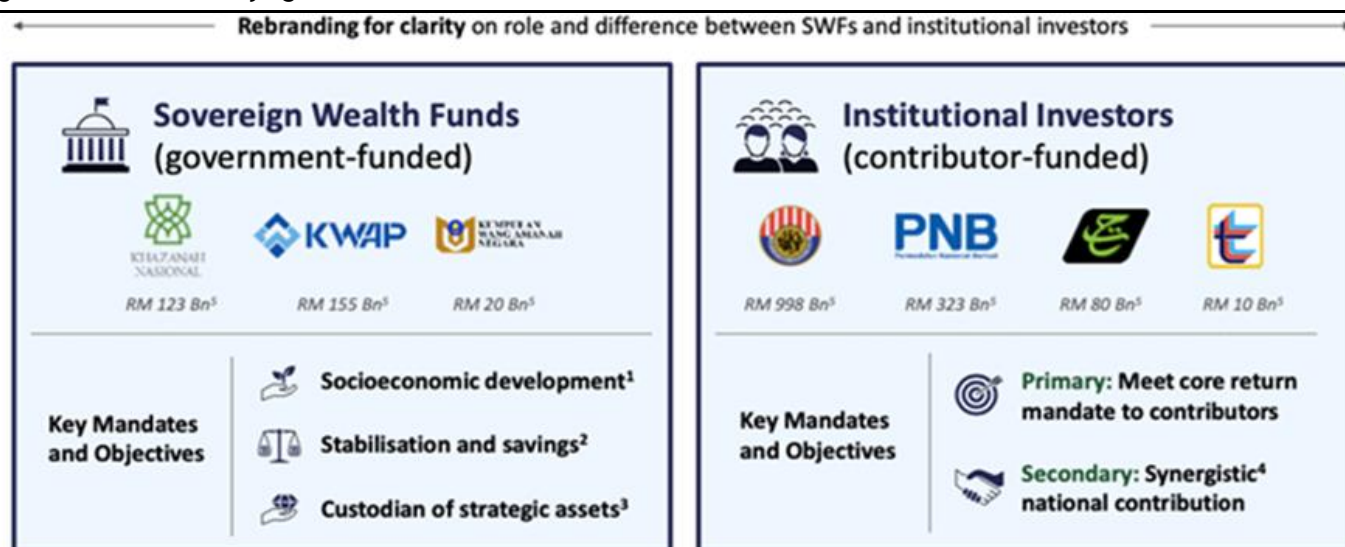
Source: Bloomberg, Company Website, Maybank IBG Research (compilation as of 30 Jun)

Should the aforementioned relatively new management teams at Khazanah and PNB begin to restructure their mostly-listed domestic investments in earnest, this would be a major catalyst for the KLCI, especially if peer funds like EPF and KWAP also follow suit and become more “activist” with regards stewardship of their investee companies. There would be significant value-creation potential from disposal of assets, many of which currently incur a ‘GLC discount’ that weigh on GLIC returns, especially if these assets come under new, private sector management. At the same time, the decline in GLIC influence on the equity market (as they steadily reallocate more of their AUM offshore, as EPF has already done) would improve market free-float and allow for more optimal price discovery.

In nudging the GLICs towards a more aggressive management style that should drive improved return on investment on their GLC investments (while also generating significant positive economic externalities), the government launched the PERKUKUH programme in Aug 2021, a strategic fundamental review to optimise the GLIC setup, including defining the role of government in business and economic development, the purpose, role, mandate, and objectives of the overall GLIC program and individual GLICs, as well as governance and coordination mechanisms across GLICs to drive priorities linked to the national agenda. The five key target outcomes for PERKUKUH are: **i)** sharpened focus and clarity on the distinct mandates of SWFs and institutional investors (see Fig 66 below); **ii)** enhanced development focus and catalytic investing to spur new growth; **iii)** crowding-in of private sector and streamlined role of government in business; **iv)** future-proof GLICs with best-in-class governance, capabilities, and strategies; and **v)** strengthened social safeguards for the people and fiscal resilience for the country.

Of particular note among some of the 20 initiatives to be realized are generating scale benefits from pooled asset management, establishing sustainable investing standards and EPF’s establishment of a green investing opt-in fund. PERKUKUH initiatives will be rolled out in phases and are targeted for completion by 2024. Initiative leads and working team members from both the government and GLICs have been identified to drive the implementation of each initiative. LAKSANA (a unit of the MOF) has been appointed as the overall Program Management Office and implementation coordinator, with implementation overseen by a Steering Committee chaired by the MOF.

Fig 125: PEMULIH: clarifying distinct mandates of SWFs and institutional investors



1. Includes spurring of new growth area 2. Fiscal income stabilisation from commodity price shocks and business cycles, savings for pension liabilities and future generations 3. Assets which are key to national security where shareholding is critical to ensure control and safeguarding of national interest 4. Does not conflict primary mandate; 5. Data as of Dec 2020
 Note: MOF Inc reform will also be part of PERKUKUH, though not formally classified as a SWF

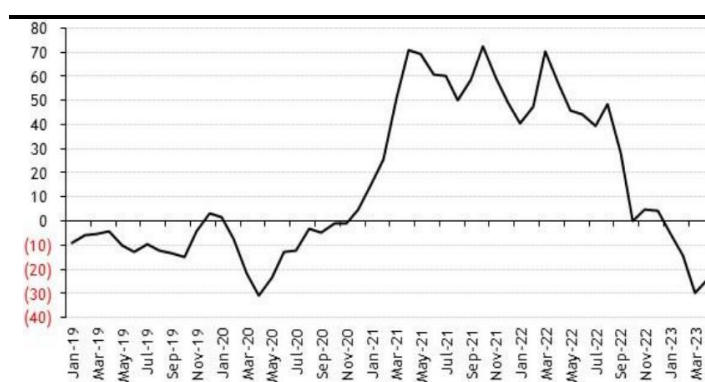
Source: GLICs, PERKUKUH team analysis

Thematic 2: Inflation and Interest Rates

As articulated earlier in this report, there are encouraging signs that headline rates across ASEAN are showing signs of peaking and moderating (Fig 63). Putting aside the base effect factor, ASEAN-6's moderating headline inflation rates are consistent with - and reflective of - the easing in the main causes and major drivers of the earlier acceleration in their headline CPIs, namely commodity prices (Fig 126) and supply chain disruptions (Fig 127). These reversals in global commodity prices and dissipating supply chain disruptions have also helped to ease the inflationary pressures at producers' level, as per the downtrends in the region's producer price indices (PPIs; Fig 128).

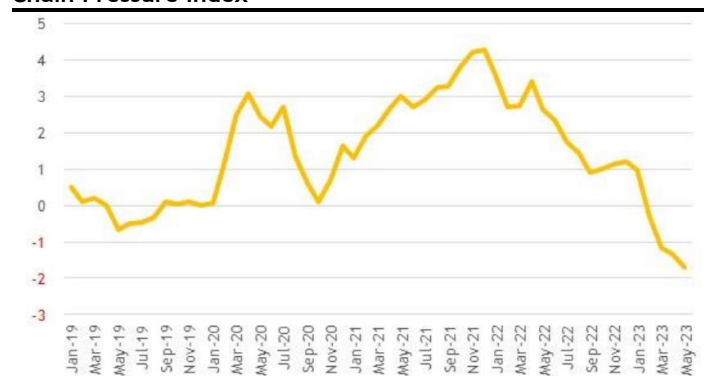
Nonetheless, a key concern for central banks is the situation where core inflation rates being "higher and stickier" than headline inflation rates, which is again a notable key feature in the dynamics of inflation (CPI) in Singapore, Malaysia and Philippines. The concern is further amplified by consumer prices in Singapore, Malaysia and Philippines remaining elevated vis-à-vis central banks' inflation targets or long-term historical inflation average, which further underline and emphasize the risk of inflation being persistent.

Fig 126: IMF Commodity Price Index (% YoY)



Source: IMF

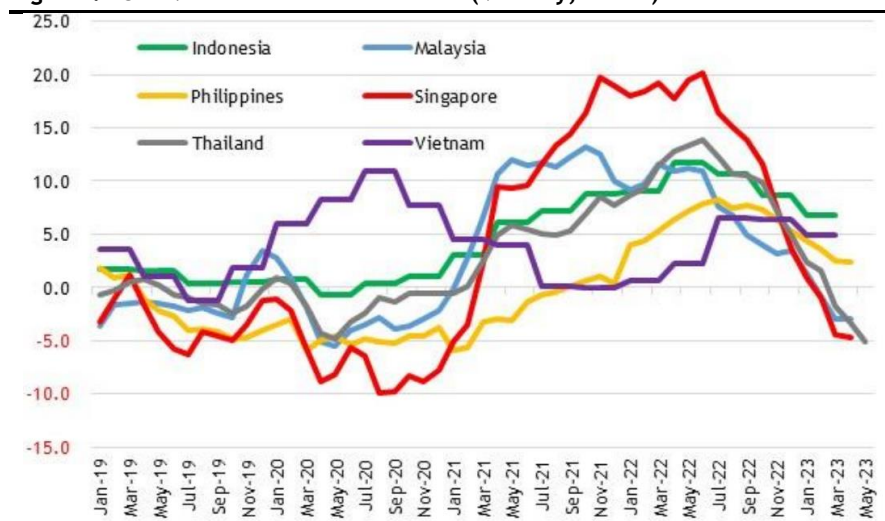
Fig 127: Federal Reserve Bank of New York, Global Supply Chain Pressure Index



Note: Lower/Higher index means easing/rising supply chain pressures or disruptions

Source: New York Fed

Fig 128: ASEAN-5 Producer Price Indices (Monthly, % YoY)



Notes: Quarterly data for Indonesia

Source: CEIC

We see Malaysia as having the biggest upside risk to inflation coming primarily from the overhangs and fluid situations with regards to the Government policy on price subsidies and controls, as well as on consumption-related taxes. So far this year, a key factor helping to keep Malaysia's headline inflation rate somewhat in check is the continuation of the blanket fuel subsidy as RON95 and diesel prices remain

at MYR2.05 per litre and MYR2.15 per litre (since end-Feb 2021). We estimated that the current unsubsidized RON95 and diesel prices will be around MYR1.00 per litre higher and every 10 sen per litre hike in these fuel prices will lift headline inflation by 0.3 percentage point, *ceteris paribus*. Meanwhile, several consumption-related taxes announced under Budget 2022 - the year inflation surged - that were supposed to be implemented during 2022-2023 have been suspended or postponed indefinitely, presumably to mitigate their inflationary impact and address cost of living issues facing consumers. These include:

- Expansion of excise duty on sugar-sweetened beverages (so called “sugar tax”) to include pre-mixed preparation products in addition to listed categories of ready-to-drink products. This was announced in Budget 2022 for implementation on 1 Apr 2022, but postponed to 1 Nov 2022 and again to 1 Jan 2023, only to be put on hold now;
- 6% service tax on good delivery services provided by delivery service providers, including e-commerce platforms (F&B deliveries and logistic services exempted). This was also Budget 2022 measure that was supposed to be implemented on 1 July 2022, then delayed to 1 Jan 2023, but now suspended; and
- 10% sales tax on low-value goods (not exceeding MYR500 from abroad sold online by sellers and delivered to consumers in Malaysia). This was another Budget 2022 measure that was supposed to be effective on 1 Jan 2023 but deferred to 1 Apr 2023, and is currently postponed indefinitely.

However, the Government has also started to ball rolling on implementing targeted subsidies, beginning with electricity at the start of this year where subsidy is now given only to domestic (household) and low-voltage users vs non-domestic (industrial, commercial) and medium/high voltage users. This helped the Government to save MYR5.4b by incurring MYR10.8b in electricity subsidy cost in 1H23 instead of MYR16.2b under “business as usual” (2H22: MYR5.8b). The Government is now talking about implementing targeted electricity and fuel subsidy potentially next year that will essentially end the benefit to the high-income group/households i.e. the top-20% or T20.

Hence, while we are currently forecasting headline inflation to moderate in 2023 to 3.0% (2022: +3.3%) and anticipating only one more interest rate hike (+25bps, to 3.25% over 2H23), there are inflation / interest rate upside risks stemming not just from external factors / risks but also domestic policy changes, principally relating to the potential scaling-back of petrol and electricity subsidies. Re market positioning for these thematic, we would recommend as follows:

- **Inflation:** while rising cost pressures is resulting in margin pressures across multiple sectors, winners in an inflationary environment with sustained growth would include commodities exposures such as oil & gas (**DLG MK, YNS MK, HIBI MK**), aluminium smelting (**PMAH MK**) and palm oil (**KLK MK**), consumer staples where demand is relatively inelastic and pricing power is strong (**FFB MK, LHIB MK**), consumer brands and financiers that benefit from down trading as real disposable incomes / affordability is eroded (**MRDIY MK, PAD MK, RCE MK**), banks from the perspective of higher inflation leading to higher interest rates, which are good for net interest margins (**HLBK MK, RHBBANK MK, ABMB MK**) and green energy stocks as transition plans accelerate in the face of surging energy prices (**SOLAR MK, CYP MK**). A key loser from eroding real incomes is consumer discretionary stocks where demand is elastic and pricing power weak. In a bear case, stagflation scenario, a more defensive approach via utilities (**GMB MK, T MK, MLK MK, MFCB MK**) and healthcare (**IHH MK, OPTIMAX MK**) would be warranted.
- **Interest Rates:** with ASEAN rate hikes, including Malaysia, continuing to lag the Fed, and commodity prices remaining soft on global growth concerns, weaker Ringgit bias is a boon for local-cost exporters, especially the tech and manufacturing sectors, but equates to a margin squeeze for importers of USD inputs (e.g. coal imports for **Tenaga**, auto parts imports for USD-priced components, media content imports for **Astro**). While most sectors will see earnings drag from higher finance costs, especially property/REITs-centric leveraged operating models, the impact is relatively modest given broadly subdued corporate net gearing. However, sectors enjoying both an interest income uplift stemming from net cash balance sheets and FX tailwind given USD-exports are petrochemicals (**PChem**) and technology (**INRI MK, VITRO MK, FRCB MK, GREATEC MK**).

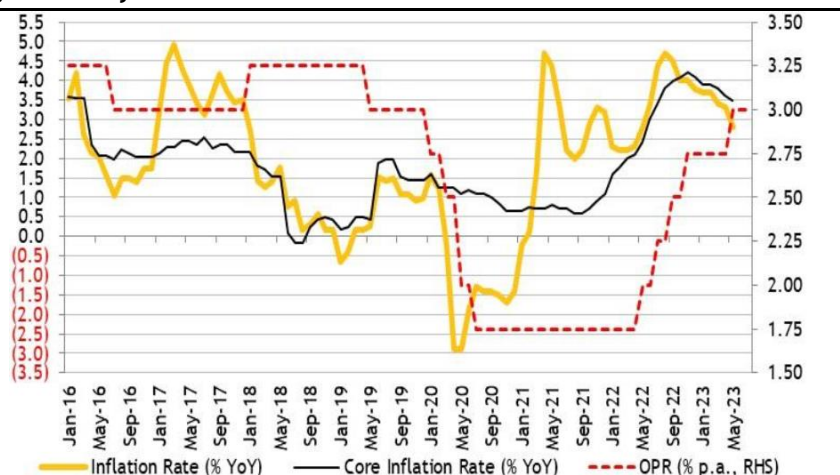
Thematic 3: Interest rates vs. dividend yields

Kicking off with BNM's hiking of the OPR by +25bps to 2.0% at the 10-11 May 2022 Monetary Policy Committee meeting, this was then followed by +25bps hikes in July, Sept and Nov (Fig 130); however, Jan 2023 saw a "pause" as BNM opted to keep the OPR flat at 2.75%, with the Central Bank citing the need to assess the impact of the cumulative +100bps increase over May-Nov 2022 before deciding on further potential policy rate adjustments. BNM then surprised the market by raising the OPR again in May, by +25bps, to 3.0%, stating that it sees it timely to normalise the degree of monetary accommodation given underlying economic resilience. At the current level, the monetary policy stance is deemed by BNM to be slightly accommodative and remaining supportive of the economy.

However, while the US FOMC meeting on 13-14 June saw the Fed maintain the target fed funds rate (FFR) at 5.0% to 5.25%, as widely expected, the Fed's hawkish pause with guidance of additional hikes - rather than "pause-to-pivot" signal - is a game changer on our BNM's OPR view. As articulated in report "*Hawkish pause as Fed's 'dot plot' flags a couple more hikes*", dated June 15, the updated FOMC's FFR median forecast or the "dot plot" signals FFR reaching 5.625% by end of this year i.e. implying additional +50bps hikes in FFR target range to 5.50%-5.75%, versus the position in Mar 2023 when FFR was seen as peaking at 5.125%. As such, while our base case is for the OPR to remain flat at 3.0% through to end-2023 post-BNM's July MPC guidance, risk is to the upside re potentially another +25bps hike.

While the OPR is now back to pre-Covid levels, it is still barely keeping up with inflation, which is forecast to be +3.0% in 2023, with upside risk stemming from potential policy changes (as already detailed above). This indicates there is still some "passive easing" remaining in place via marginally negative monthly real OPR (Fig 129) through to end-2023, and potentially beyond that if inflation overshoots, as would be the case if there is some dismantling of energy and food subsidies due to fiscal pressures. Note the latter is not our base case for 2023 - we expect such disruptive subsidy roll-backs (as well as potential tax measures) by the government to only occur in 2024 at the earliest given current elevated cost-of-living pressures.

Fig 129: Malaysia: OPR vs. Inflation Rates



Source: Dept. of Statistics, Maybank IBG Research (chart)

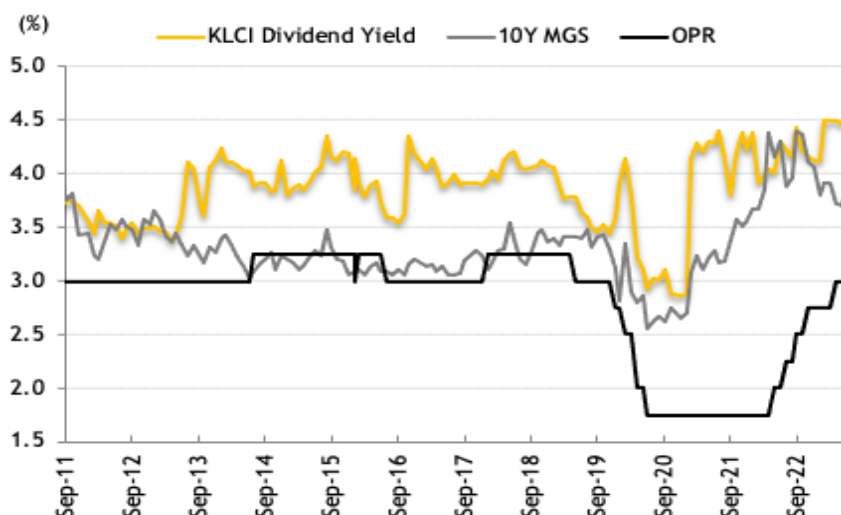
Fig 130: BNM's MPC Meetings, 2020-2023

Date	Outcome
21-22 January 2020	OPR cut by 25bps to 2.75%
2-3 March 2020	OPR cut by 25bps to 2.50%
4-5 May 2020	OPR cut by 50bps to 2.00%
6-7 July 2020	OPR cut by 25bps to 1.75%
9-10 September 2020	OPR maintained at 1.75%
2-3 November 2020	OPR maintained at 1.75%
19-20 January 2021	OPR maintained at 1.75%
3-4 March 2021	OPR maintained at 1.75%
5-6 May 2021	OPR maintained at 1.75%
7-8 July 2021	OPR maintained at 1.75%
8-9 September 2021	OPR maintained at 1.75%
2-3 November 2021	OPR maintained at 1.75%
19-20 January 2022	OPR maintained at 1.75%
2-3 March 2022	OPR maintained at 1.75%
10-11 May 2022	OPR raised by 25bps to 2.00%
5-6 July 2022	OPR raised by 25bps to 2.25%
7-8 September 2022	OPR raised by 25bps to 2.50%
2-3 November 2022	OPR raised by 25bps to 2.75%
18-19 January 2023	OPR maintained at 2.75%
8-9 March 2023	OPR maintained at 2.75%
2-3 May 2023	OPR raised by 25bps to 3.00%
5-6 July 2023	OPR maintained at 3.00%
6-7 September 2023	TBA
1-2 November 2023	TBA

Source: BNM

While interest rates have been rising, they have increased in a paced manner and remain at relatively low levels vs. historical - hence, the dividend thematic for the equity market will remain a powerful one, especially as yields have been elevated by the market's decline and the pace of earnings recovery has disappointed, per our aforementioned details on 1Q23 reporting. Average KLCI forward dividend yield (c.4.5%; Fig 131) is now once again significantly above that of the benchmark 10-year MGS yield (c.4%), which has trended lower after the sharp increase over 2022, the latter due to a combination of tapering concerns, moderating net foreign buying interest, rising government debt issuance per stubbornly high fiscal deficits and heightened fiscal stress points. Hence, the relative attractiveness (i.e. implied undervaluation) of equity market high-dividend stocks vis-a-vis yield alternatives of bonds and cash remains intact.

Fig 131: KLCI dividend yield vs. OPR, 10-year MGS yield



Source: Bloomberg (as of 30 Jun)

As detailed in our maiden yield strategy report (*'Yield Dynamics and top picks'*, dated 23rd Aug 2019) and reiterated since, we screen for stocks under our coverage that are forecast to have a cash yield of over 4% and, for these stocks, assess the following dividend-relevant parameters:

- **Dividend frequency:** higher payout frequency is indicative of confidence in cashflow generation/resilience, and management focus on maximising ROE via continual returning of excess cash (capital) to shareholders;
- **Payout ratio:** while prima facie a primary indicator of potential headroom to raise total dividend paid, note corporates can also opt for share buybacks (for example, power utility stocks such as Malakoff have active programmes) as another means, albeit indirect, to return cash to shareholders;
- **Free cash flow yield:** this is calculated as operating cash flow after deducting capex, with the positive gap to dividend yield being the available cushion to absorb potential cash-flow shortfalls without necessitating dividend cuts (note total net debt is assumed to be constant);
- **Net gearing:** an indicator of how much balance sheet slack is available to support dividend payout, though note geared companies can further boost cash flow support by refinancing their debt as interest rates decline; and
- **Net debt to EBITDA:** to be read in conjunction with the net gearing ratio, i.e. where the latter is a snapshot of the balance sheet and would be biased higher by aggressive capital management policies that suppress balance sheet equity growth (MNCs-owned companies like DiGi, Nestle and BAT are good examples of this), this ratio provides colour on actual cash flow coverage for debt at any given gearing level.

Re dividend portfolio (Fig 132), we have made the following adjustments:

- i) adding consumer financier **RCE Capital (RCE MK)** to our picks - as detailed in results report "*A gift that keeps on giving*", dated May 24, while 4QFY23 (March YE) earnings were within our expectations, RCE positively surprised by raising its DPR policy to 60-80% from 20-40% i.e. the FY23 recurring DPS of 12sen translated into 63% DPR or 9ppts more than we expected. While cost of funds has been on an uptrend, RCE has managed to pass this funding pressure on to new customers via higher profit rates - thus, we expect earnings to be stable going forward, supporting underlying dividend yields of $\geq 6.3\%$ p.a.;
- ii) adding **Bermaz Auto (BAUTO MK)** to our picks - as detailed in FY23 results update "*Strong set of FY23 results*", dated June 13, full-year earnings (April YE) were 15% ahead of consensus expectations, with FY23 witnessing a remarkable surge in performance as sales/core net profit (CNP) soared by 53%/96% YoY, driven by recovery from pandemic-related disruptions and continued fulfillment of backlog orders received prior to the end of SST-tax holidays. FY23 EBIT margin expanded 2.5-ppts to 11.9% due to better economies of scale and product sales mix, while a 4th interim dividend of 3.5 sen and special dividend of 7.5 sen brought FY23 DPS to 22.0 sen, a high 84% DPR. We continue to like BAUTO for its solid fundamentals, net cash position and strong FCFs (asset light business model). Growth is underpinned by its robust pipeline of new launches and increasing CKD mix, providing good earnings visibility. Even on our conservative estimate of 75% DPR (vs. hist. DPR of 78%-114%), yield is a high 9%-10%; and
- iii) removing **Astro (ASTRO MK)** from the list following its rating being cut to SELL; as detailed in downgrade report "*Not much post-FIFA World Cup relief*", dated June 20, traditionally, earnings in the years following those with FIFA World Cups tend to recover strongly due to non-recurrence of FIFA World Cup content cost. Yet, it may not be the case this year as weak consumer sentiment has caused revenues to decline further. In a similar vein, the first interim DPS of 0.25sen also disappointed at only 6% of our FY estimate, being attributed to the incurring of unrealized forex losses relating to USD content costs. As such, we have cut our FY24E/FY25E/FY26E earnings by 16%/20%/22%

(FY24E/FY25E/FY26E EBITDA by 7%/8%/8%; Jan YE) as we assume lower TV adex, radio adex and home shopping revenue going forward, with revised yield now barely reaching 4.0%.

Re existing constituents, 1Q23 reporting has largely reinforced or strengthened our dividend convictions - in particular, we note **i) Allianz (ALLZ)** per results update report “1Q23 results above expectations”, dated May 29, delivered 1Q23 results above expectations, at 35% of full-year forecast, driven primarily by higher investment returns; surprising positively as well was a 1Q interim DPS of 31.5 sen (which is already 37% of our full-year DPS forecast) which appears to indicate the start of quarterly dividend payments; **ii) RHB Bank (RHBBANK MK)** reported within expectations 1Q23 results (see “1Q23 results within expectations”, dated May 28), with NIM weakness being mitigated by undershooting credit costs; importantly, capital ratios remain strong, with group CET1 ratio of 16.9% being the highest in the sector, and supportive of upside risk to dividend payouts, with current forecast base case yields already >7%; **and iii) auto distributor MBM Resources** reported 1Q23 core earnings grew +61% YoY, making up 32% of our FY estimate - our DPS forecast of 35 sen-36 sen for FY23-24E reflects a DPR forecast of 55% (with upside bias; note FY22's DPR was 65%), which takes forecast net dividend yield >10%. See 1Q23 results review report “1Q23 results in line”, dated May 25, for details.

Fig 132: Malaysia: Top-yield stocks

Stock	Ticker	Div. Yield (%)			FCF Yield (%)			Net Gearing (%)
		2022A	2023E	2024E	2022A	2023E	2024E	
RCE Capital	RCE MK	5.8%	16.5%	6.0%	nm	nm	nm	nm
MBM Resources	MBM MK	11.3%	9.8%	10.1%	0.2%	3.4%	3.4%	net cash
Bermaz Auto	BAUTO MK	4.9%	9.5%	8.9%	13.6%	3.8%	10.0%	net cash
Gas Malaysia	GMB MK	7.0%	7.5%	7.5%	11.3%	6.9%	2.9%	net cash
RHB Bank	RHBBANK MK	6.9%	7.4%	7.9%	nm	nm	nm	nm
Sentral REIT	SENTRAL MK	6.9%	6.9%	7.0%	9.9%	12.0%	12.1%	56.1%
Sime Darby	SIME MK	5.7%	6.8%	7.1%	17.0%	15.4%	15.5%	net cash
Malakoff Corp	MLK MK	8.1%	6.1%	9.2%	nm	68.8%	50.1%	97.6%
Allianz	ALLZ MK	6.0%	6.0%	6.0%	nm	nm	nm	nm
Tenaga Nasional	TNB MK	4.8%	5.3%	5.6%	1.7%	22.7%	15.2%	83.4%
MISC	MISC MK	4.4%	4.7%	4.7%	2.1%	7.7%	8.0%	28.0%
Axis REIT	AXRB MK	4.9%	4.5%	5.7%	7.8%	6.9%	8.2%	58.4%

Source: Maybank IBG Research, FactSet (as of 7 July)

Thematic 4: Sustainability / ESG investing

Compared to the relatively downbeat assessment of Malaysia's broad ESG positioning as articulated in our maiden Compendium (“Sustainability: No longer optional”, dated April 8), the last 18 months has seen a sharp acceleration in Sustainability initiatives by government, regulators and corporates alike. Crucially, as we make clear in our recently-published Malaysia ESG Compendium 2022 (“Shifting into higher gear”, dated Nov 29), these stepped-up measures, disclosures and targets demonstrate rising cohesion and integration across stakeholders, significantly increasing the chances of successful execution as well as the creation of a positive feedback loop. Interestingly, Malaysia's positive momentum on Sustainability issues contrasts favourably with apparent backsliding in the EU (relating to natural gas and nuclear energy being included in its taxonomy of sustainable sources of energy i.e. allowing their labelling as green investments) and the US (political pushback against large fund managers like Blackrock based on accusations that they are selling their customers short by pursuing environmental and social justice goals at the expense of shareholder profits).

Positively, notwithstanding these controversies, there has not been a significant impact on the continuing rapid pace of growth in sustainable funds, a trend which has been primarily driven by the EU and US over the past decade. In 2021, the number of such funds globally reached 5,932 (+61% YoY) while related total assets under management (AUM) reached a record USD2.7t (+53% YoY) (Fig 133).

Fig 133: Sustainable AUM was Down Year-Over-Year in 2022, but Continued to Grow as a Proportion of Overall AUM



Source: Morgan Stanley Institute, Morningstar

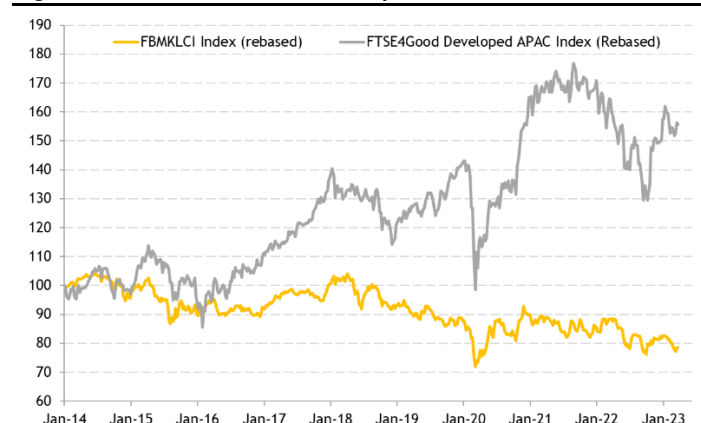
The fact that ESG assets under management across the investment world have seen sharply accelerated growth over the last decade is, most importantly, inextricably linked to the growing weight of evidence that ESG matters when it comes to investment performance, as is underscored by Figs 134 and 135. One of the main reasons for ESG integration is recognizing that ESG investing can reduce risk and enhance returns (i.e. financial materiality) as it forces the consideration of additional risks and injects new and forward-looking insights into the investment process. It would be expected that companies scoring well on ESG metrics have performed a much more rigorous assessment of the overall business model to also account for non-financial risk, especially ‘E’ and ‘S’ risks. Financial returns would be anticipated from reduced cost and increased efficiencies (e.g. better resource and human capital management), reduced risk of regulatory penalties, understanding the risk posed by ‘externalized’ environmental and social costs and recognizing the risks and opportunities within sustainability megatrends like climate change, urbanization and demographic changes. Such companies would therefore be expected to be more naturally disposed to longer-term strategic thinking and planning, all of which should deliver better operational performance and hence, valuation premiums that are also reflective of the broader shift to sustainable investments.

Fig 134: MSCI ESG Leaders vs. Asia ex-Japan Index



Source: Bloomberg (as of 22 Jun), Maybank IBG Research

Fig 135: KLCI vs. FTSE Asia Ex-Japan ESG Index

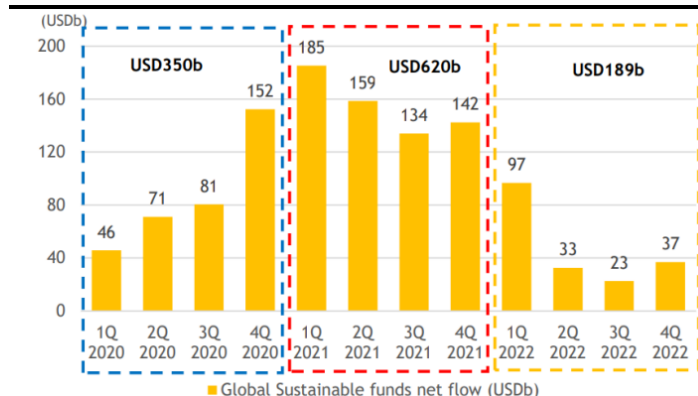


Source: Bloomberg (as of 22 Jun), Maybank IBG Research

Nonetheless, 2022 proved to be at least momentarily more challenging for global sustainability funds momentum, as detailed in our maiden Malaysia ESG Quarterly (1Q23) report “*Headway despite headwinds*”, dated April 17. Global sustainable funds net inflow declined by 70% YoY to USD189b in 2022 and close to halved as compared to 2020, as per data released by Morningstar (Fig 136). Sustainable Assets under management declined to USD2.5t as of Dec 2022 after hitting a high

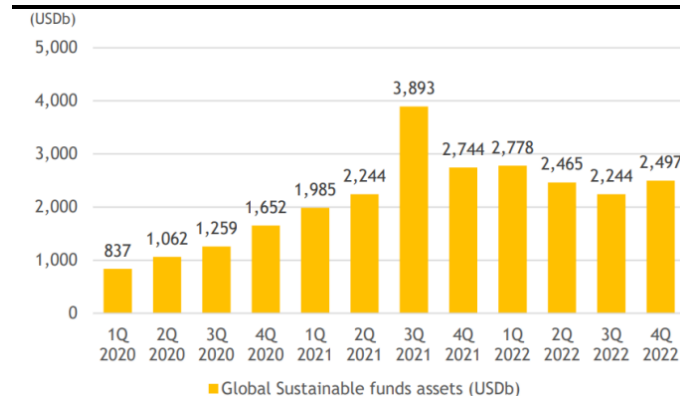
of USD3.9t in Sep 2021 (Fig 137). We believe the geopolitical uncertainty since March 2022 stemming from the start of the Ukraine-Russia conflict coupled with anti-ESG campaigns / backlash in the US (political) and EU (greenwashing) led to this decline. A similar trend is visible in the Bloomberg New Energy Finance (BNEF) data, which shows a 66% decline YoY in net inflows for ESG ETFs. Global sustainable debt raising was at USD1.5t in 2022 vs USD1.8t in 2021 - nonetheless, we believe ESG AUMs and sustainable debt raising will increase from 2023 onwards as countries and corporates focus on new technologies to reduce environmental stress and gain self-sufficiency in energy requirements.

Fig 136: Global sustainable net fund flows at USD189b in 2022, -70% YoY and -46% vs. 2020



Source: Morningstar, Maybank IBG Research

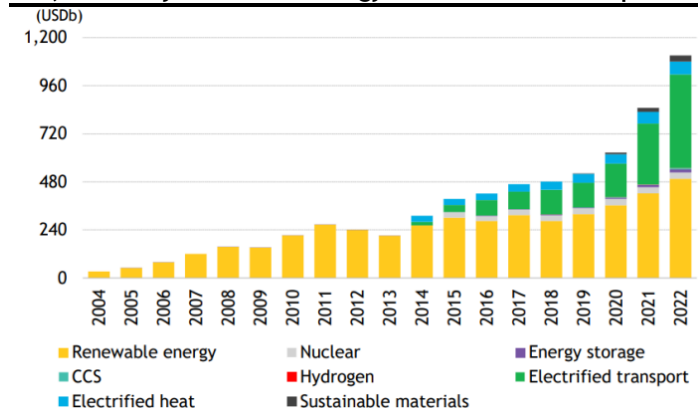
Fig 137: Global sustainable fund assets under management showed decline in 2022



Source: Morningstar, Maybank IBG Research

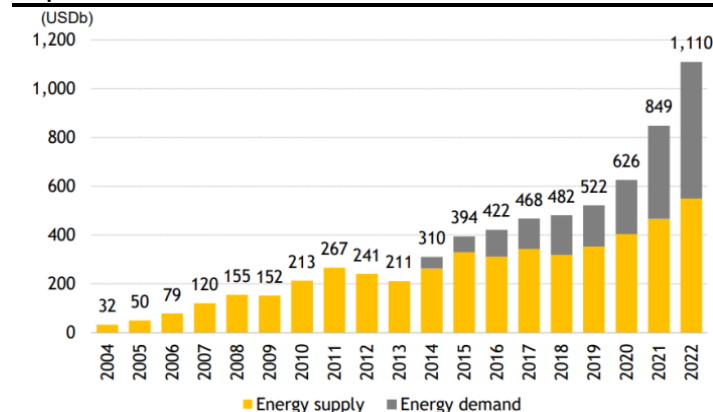
Although sustainability-driven fund flows and returns from ESG benchmarked indices were lower in 2022, investment flows toward energy transition remained on an uptrend. As per BNEF, the global energy transition investment in 2022 was USD1.1t, an increase of 31% YoY (Fig 138), with renewable energy and electrified transport accounting for 87% of the investments. The other important trend in 2022 was that investments towards fulfilling energy demand for the first time breached 50% i.e. it formed 50.5% of total investments vs. 45% in 2021 and nil until 2013 (Fig 139). Energy demand includes electrified transport, electrified heat and sustainable materials. Investments towards energy storage was USD15.8b (+47% YoY), carbon capture & storage was USD6.4b (+171% YoY) and hydrogen was USD1.1b (+227% YoY). In terms of geographies, Asia Pacific, driven by China, accounted for 59% of global investments; Europe, Middle East and Africa (EMEA) was 24% and Americas was 17%. China, at USD546b, formed 49% of the 2022 global energy transition investments.

Fig 138: Global energy transition investments expanded +31% YoY, driven by renewable energy and electrified transport



Source: BNEF, Maybank IBG Research

Fig 139: Investments towards fulfilling energy demand surpass the 50% mark in 2022 for the first time



Source: BNEF, Maybank IBG Research

Fortunately, the Malaysian government has, after a worryingly lengthy period of relative nonchalance, hit the accelerator on sustainability-related policies and initiatives. A key signalling of the country's intent to advance broad national decarbonisation was the updating of its Nationally Determined Contribution (NDC) in August 2021, ahead of COP26 which was held in Glasgow from 31 October to 13 November 2021. In the update, it stated its intention to unconditionally reduce economy-wide carbon intensity (against GDP) of 45% by 2030 compared to 2005 levels. Recall that in the previous version, submitted in 2015, Malaysia committed to reduce, vs. 2005 baseline, its greenhouse gas (GHG) emissions intensity of GDP by 35% unconditionally and a further 10% conditional upon receipt of climate finance, technology transfer and capacity building from developed countries. Per Fig 140 below, Malaysia now has one of the most aggressive and unconditional NDC targets among the ASEAN-6, as well as being one of the leaders in developing a Voluntary Carbon Market (VCM) / Exchange.

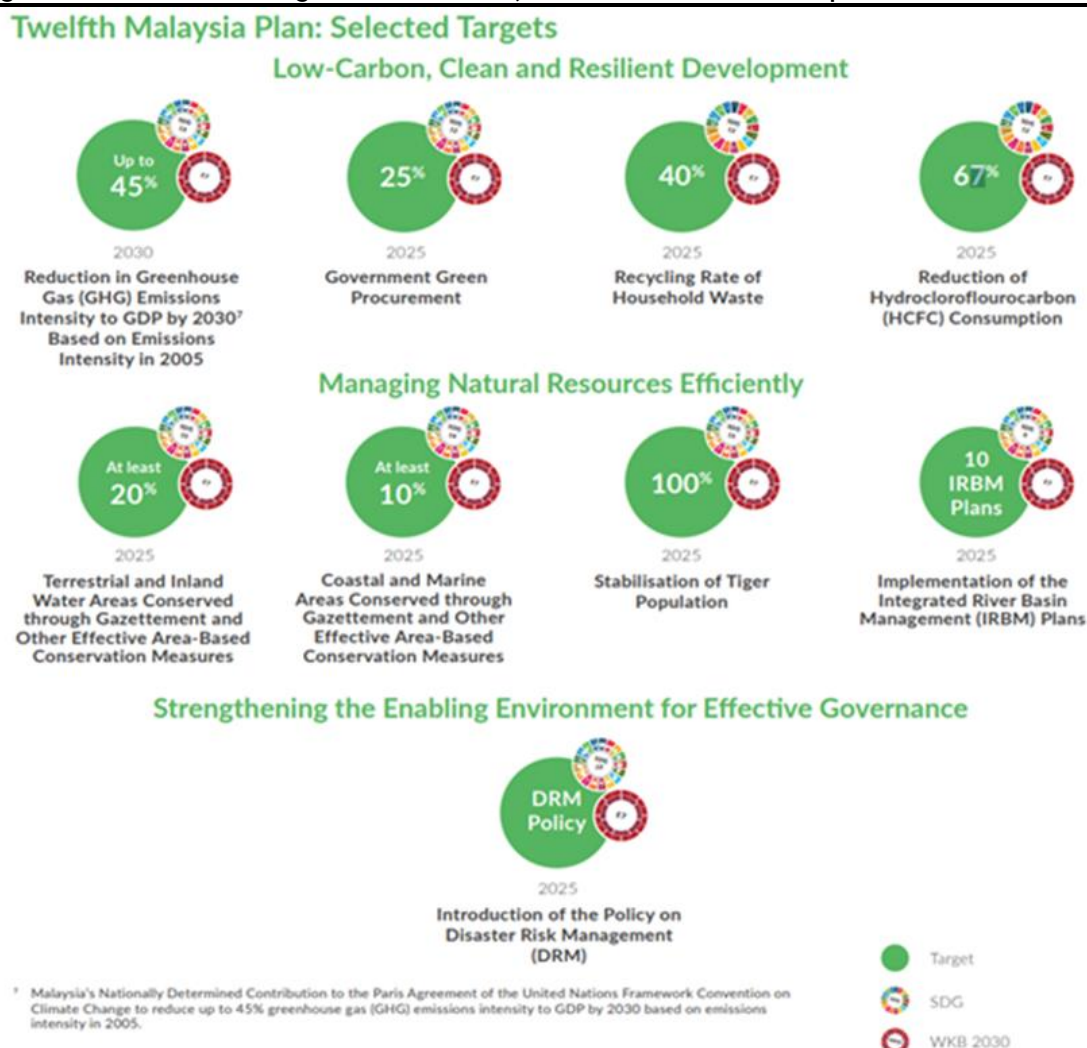
Fig 140: ASEAN countries' commitments and status on carbon pricing/markets

Countries	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Net Zero	2060	2050	NA	2050	2065	2050
NDC Date of Submission	Jul-21	Jul-21	Apr-21	Mar-20	Oct-20	Sep-20
Emission Reductions						
Unconditional	29%	45%	3%	36%	20%	9%
Conditional	41%		75%		25%	27%
Carbon pricing (in USD)	Carbon tax (USD2/tCO ₂ e) for coal power, full market by 2025	NA	Carbon tax and ETS under Consideration	Carbon tax (USD4/tCO ₂ e) implemented, to increase to USD40-60 by 2030	ETS under Consideration	ETS legalised - Pilot Carbon Exchange from 2025
Voluntary Carbon Exchange	IDX and ICDX to compete to set up voluntary carbon exchange	Bursa Malaysia launched voluntary carbon exchange at end-2022/1Q23	NA	Global voluntary carbon exchange 'Climate Impact X' launched in March 2022	Thailand's 11 biggest companies set up a voluntary ETS	Planning phase
Renewables Capacity	48% by 2030	40% by 2035	35% by 2030	15% by 2030	30% by 2030	32% by 2030
	Regional Target of 35% by 2035 (from 24% in 2018)					
Nature	Protect 5.8m ha of forests and 1.9m ha of peatlands by 2030	Protect >20% of terrestrial and 10% of coastal areas by 2025	Eliminate net loss in natural forests, mangrove, seagrass, coral cover by 2028	Plant 1m more trees and add 130ha of new parks by 2030	Increase forest cover to 42% of total area by 2029	Increase forest cover to 42% of total area by 2030

Source: Southeast Asia's Green Economy 2022 Report, Maybank IBG Research

Related development blueprints such as the 12th Malaysia Plan (12MP; targets per Fig 141), Renewable Energy Roadmap (national renewable energy target, as a share of total installed generating capacity, has been revised higher to 31% (from 20% previously) and 40% by 2025 and 2035, respectively) and Low Carbon Nation Aspiration (LCNA; targets per Fig 142) are also gratifyingly clear on Sustainability policy urgency and direction/targets. Of particular note, the Ministry of Environment and Water (KASA) is in the midst of developing the Long-Term National Low Carbon Development Strategy, in line with the government's aspiration to achieve net zero carbon emissions by 2050. In Sept 2021, the government agreed to a proposal by KASA in developing a Voluntary Carbon Markets (VCM; this has since been launched by Bursa Malaysia, with the inaugural auction of carbon credits held in March 2023) as a reference for international carbon credit transactions. The government will also develop a Domestic Emissions Trading Scheme (DETS) to catalyze the carbon trading sector - DETS will be implemented in phases, following development of a single transactions platform via Bursa Malaysia.

Fig 141: 12MP: Selected Targets re Low-Carbon, Clean and Resilient Development



Source: Twelfth Malaysia Plan

Fig 142: LCNA 2040: selected targets vs. 2018

Selected Targets	2018	Low Carbon Nation Aspiration 2040
1. Percentage of urban public transport modal share	20%	50%
2. Percentage of electric vehicle (EV) share	<1%	38%
3. Alternative fuel standard for heavy transport	B5	B30
4. Percentage of Liquefied Natural Gas (LNG) as alternative fuel for marine transport	0%	25%
5. Percentage of industrial and commercial energy efficiency savings	<1%	11%
6. Percentage of residential energy efficiency savings	<1%	10%
7. Total installed capacity of RE	7,597 MW	18,431 MW
8. Percentage of coal in installed capacity	31.4%	18.6%
9. Percentage of RE in TPES	7.2%	17%

Legend: ● Energy security ● Energy affordability ● Environmental sustainability

Source: National Energy Policy, 2022 - 2040

Even as Malaysia's top-down sustainability policies and targets are seeing a significant step-up in terms of speed and coordination, domestic financial market regulators continue to lead the way from a bottom-up perspective, spurred by a rapidly evolving global sustainability framework and its increasingly assertive directives on integrating the consideration of ESG risks and opportunities into the processes of all financial stakeholders, from corporates to asset owners, down to the individual investor. Malaysian regulators are increasingly coordinating on key issues such as climate risk, disclosures and financing e.g. the Joint Committee on Climate Change (JC3) that is co-chaired by Bank Negara (BNM) and the Securities Commission (SC) to pursue collaborative actions for building climate resilience within the Malaysian financial sector. Of note, in June 2022, the JC3 published the Task Force on Climate-related Financial Disclosures (TCFD) application guide for Malaysian financial institutions, the primary underlying aim being to support financial institutions who are stepping up efforts to implement the TCFD Recommendations in phases beginning 2022.

Bursa Malaysia, having launched its Sustainability Roadmap 2021-2023 last year, has now embarked on two major undertakings to dramatically accelerate and broaden Corporate Malaysia's ESG reporting/disclosures and decarbonisation momentum as follows:

- **Enhanced Sustainability Reporting Requirements (ESRR):** to recap, Bursa had been undertaking annual sustainability disclosure reviews (SDR) of sustainability statements and reports of public listed companies (PLCs) on a sampling basis since 2017. In 2021, the Exchange was for the first time able to extend the scope of the SDR to the entire capital market in respect of Main Market (>740) and ACE Market (>130) PLCs. In a significant step-up, in Sept 2022, Bursa announced the Enhanced Sustainability Reporting Requirements (ESRR) in the Main Market Listing Requirements and the ACE Market Listing Requirements, with the aim of elevating the sustainability practices and disclosures of listed issuers to be in line with international best practices while at the same time improving their overall resilience and competitiveness.

Main Market listed issuers will now be required to include the following disclosures in their Sustainability Statements (i.e. the narrative statement by the listed issuers of their material economic, environmental and social risks and opportunities in the annual reports): (i) a common set of prescribed sustainability matters and indicators that are deemed material for all listed issuers (Fig 143); (ii) climate change-related disclosures that are aligned with Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations; (iii) at least three financial years' data for each reported indicator, corresponding targets (if any) as well as a summary of such data and corresponding performance target(s) in a prescribed format; and (iv) a statement on whether the Sustainability Statement has been reviewed internally by internal auditors or independently assured. The expectation is that by 2025, all Main Market listed issuers will be reporting TCFD-aligned disclosures where they will be internalising climate change considerations in their business strategies as well as in responding to the needs of their key stakeholders.

Fig 143: ESRR: Common Sustainability Matters

No.	Common Sustainability Matters	Common Indicators
1.	Anti-corruption	a) Percentage of employees who have received training on anti-corruption by employee category
		b) Percentage of operations assessed for corruption-related risks
		c) Confirmed incidents of corruption and action taken
2.	Community / Society	a) Total amount invested in the community where the target beneficiaries are external to the listed issuer
		b) Total number of beneficiaries of the investment in communities
3.	Diversity	a) Percentage of employees by gender and age group, for each employee category
		b) Percentage of directors by gender and age group
4.	Energy management	a) Total energy consumption
5.	Health and safety	a) Number of work-related fatalities
		b) Lost time incident rate
		c) Number of employees trained on health and safety standards
6.	Labour practices and standards	a) Total hours of training by employee category
		b) Percentage of employees that are contractors or temporary staff
		c) Total number of employee turnover by employee category
		d) Number of substantiated complaints concerning human rights violations
7.	Supply chain management	a) Proportion of spending on local suppliers
8.	Data privacy and security	a) Number of substantiated complaints concerning breaches of customer privacy and losses of customer data
9.	Water	a) Total volume of water used
10.	Waste management	a) Total waste generated, and a breakdown of the following: (i) total waste diverted from disposal (ii) total waste directed to disposal
		a) Scope 1 emissions in tonnes of CO ₂ e
		b) Scope 2 emissions in tonnes of CO ₂ e
11.	Emissions management	c) Scope 3 emissions in tonnes of CO ₂ e (at least for the categories of business travel and employee commuting)

Source: Bursa Malaysia

- **Voluntary Carbon Market (VCM):** in line with the prevailing thinking that putting a price on carbon is the most effective way for an economy to decarbonize, a key “first step” development was Bursa’s launching, at end-2022, of a Voluntary Carbon Market (VCM) for trading of carbon credits between green asset owners and companies looking to fulfil either voluntary emissions reduction targets (via utilization of carbon offsets/credits) or to create a “carbon neutral” product for their customers. The VCM will also lay the groundwork for the subsequent introduction of other carbon pricing mechanisms currently being studied by the government namely:
 - **Emissions Trading System (ETS)** where the regulator sets a fixed limit for the amount of CO₂ (sometimes called a “cap”) and then issues the respective amount of emission allowances (or permits) to firms either directly or through auctions; organizations that exceed these limits can purchase excess allowances to fill the gap or pay a fine - one allowance typically grants the right to emit one ton of CO₂; and
 - **Carbon Tax** where the regulator sets a fixed limit for the amount of CO₂ to be emitted and then taxes every ton of CO₂ emitted in excess of the defined limit at a fixed rate - depending on design, carbon credits may be acceptable, up to a limit, in offsetting an organisation’s exposure to carbon tax.

Re how the VCM works, per the graphic in Fig 144 below, a developer of a green project - these can be technology-based (e.g. biogas utilisation, methane capture, green mobility) or nature-based (e.g. forest conservation, mangrove protection, reforestation) - must seek validation / registration with a carbon registry (initially, Bursa will be only recognizing Verra verified carbon standard (VCS) credits, which have c.70% global market share) before those carbon credits can be sold on the Bursa platform. Buyers can then use the Bursa spot market to buy these credits to meet their voluntary emissions reduction targets.

Fig 144: VCM: How Carbon Credits are Created and Traded



Source: Bursa Malaysia

Bursa started with an auction of foreign carbon credits in March 2023 to facilitate price discovery/reference as well as provide a tangible price signal for potential issuers to embark on domestic carbon credit projects. Bursa via its subsidiary Bursa Carbon Exchange (BCX) carried out the nation's inaugural carbon credit auction on March 16th, with 15 buyers from various industries purchasing a total of 150,000 Verified Carbon Standard (Verra)-registered carbon credits. The auction facilitated the price-discovery of carbon credits from two new products offered by the BCX – the Global Technology-Based Carbon Contract (GTC; carbon credits from the Linshu Biogas Recovery and Power Generation Project in China) and the Global Nature-Based Plus Carbon Contract (GNC+; carbon credits from the Southern Cardamom Project, which is a REDD+ project from Cambodia). Successful bidders including a wide range of local banks and corporates, and the price discovery is expected to incentivise local project owners to develop carbon credit projects, helped by a government MYR10m seed funding incentive. BCX is currently designing the electronic trading platform which will cater for both OTC / bilateral transaction and spot trading, to be operational by 3Q2023. There is no plan for another round of auction for now, unless there is strong demand.

Less positively, outside observers have noted that all credits were sold at or very near the minimum reserve price set by Bursa (with Bursa itself being among the purchasers), underscoring the fact that Malaysia has, as yet, no large pool of domestic carbon buyers and sellers, and also no supporting regulatory framework such as a carbon tax. The current modest carbon market ecosystem consists of carbon credit project developers, local certifiers and sellers, including projects supported by state governments. These projects are often transacted through direct negotiations between buyers and sellers, given the longer time frames involved and the various tiers of value add / pricing generated depending on the inclusion of other sustainable development goals (SDGs) – hence, not amenable to trading on a standardised spot carbon market like BCX which, if not supported by appropriate government policy (i.e. carbon tax, termination of carbon fuel subsidies) and regulatory infrastructure, appears destined to conduct only a modest share of the country's carbon credit trading.

Such localised concerns notwithstanding, as a whole, the aforementioned increasingly cohesive and consequential sustainability initiatives from both the government and regulators are pushing Corporate Malaysia to expedite adoption of "sustainability first" strategies in their own business operations and planning. However, as the below examples and case studies show, while the sustainability-related headlines relating to Corporate Malaysia have definitely improved from a year ago, supported by heightened commitments and disclosures from leading government-linked companies (GLCs) such as PETRONAS and Tenaga (which interplay with the government's own demonstrated urgency), their focus remains predominantly on environmental (E) issues. As underscored by continued negative foreign labour-related newsflow elsewhere (Sime Plantations, ATA), as pressing to address is the "S" issue of foreign labour regulation and usage in sectors like palm oil and manufacturing.

A negative overlay is the fact that in July 2022, the US Department of State downgraded Malaysia to Tier 3 – which is the worst ranking – in its annual Trafficking in Persons (TIP) Report, from the Tier 2 Watch List designation in the previous report, with violations spanning from sex trafficking to debt bondage. Countries listed as Tier 3 are at risk of aid restrictions, economic sanctions and curtailment of trade benefits with the US. Hence, a more cohesive top-down

approach is needed to address these labour-related issues - suggested solutions for the authorities and corporates to jointly-execute include making external auditors and regular government inspections mandatory, and removing the middle-man from labour sourcing so that companies are directly responsible for their workforces (i.e. clear accountability and vested interest to ensure all regulations are adhered to). Positively, as of the latest review in mid-2023, Malaysia is back on the Tier 2 Watch List in the latest Human Trafficking Report 2023 issued by the US State Department, indicating that the country has made efforts to combat human trafficking despite not meeting the US minimum standards.

As articulated in our maiden 123-page Malaysia ESG Compendium entitled *“Sustainability: No longer optional”*, dated April 8, 2021, the MIBG equity research team across ASEAN (40+ analysts covering over 300 stocks) has been publishing one-page ESG tear sheets for companies under coverage since mid-2020. As at end-2021, all of Maybank Investment Bank (MIB)’s ASEAN equity research coverage, spanning across all sectors, now comes with a qualitative-centric ESG tear sheet insert (ESG 1.0; Fig 145) that outlines key E, S and G considerations for the company, and how these feed into the company’s core business model in terms of recognition of material ESG issues and strategies on addressing related risks and opportunities.

Since 2021, these qualitative tear sheets have included a quantitative scoring element for a more complete consideration of the company’s ESG issues and dynamics, hence providing both a backward looking/current quantitative view and a forward-looking, MIBG analyst-driven qualitative outlook. The quantitative ESG inputs are sourced from Sustainalytics which, as mentioned, is a leading external ESG research and data provider that the MIBG has partnered with for ESG services that range from company-focused ESG ratings reports, through to portfolio ESG and carbon analytics. Sustainalytics also acts as the data source for other service providers such as Morningstar (ESG fund ratings and indices) and FTSE Russell (ESG ratings and customized indices, including FTSE4Good indices).

Most recently, in parallel with the publication of the maiden Regional Utilities report (*“Geopolitics accelerating transition to renewables”*, dated April 24) by the newly-established MIBG Sustainability Research Team based in India, we have launched our own proprietary ESG scoring model per the addition of a quantitative-focused tear sheet (ESG 2.0, example per Fig 146 below), with the target being to roll out ESG 2.0 to all ASEAN big-caps coverage (>USD1b market cap) by end-2022. Re methodology, we evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - ‘0’ for data not available, ‘+1’ for improving trajectory, positive change, ‘Yes’, better than peers or a positive number if historical is not available and ‘-1’ for declining trajectory, negative change, ‘No’, lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters. The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

Fig 145: PChem Tear Sheet: Qualitative (Original ESG 1.0)

ESG@MAYBANK IBG	
anand.pathmakathan@maybank-ibg.com	
Business Model & Industry Issues	
- As an integrated chemicals producer, PCHEM's biggest ESG challenge lies in the negative sentiment surrounding single-use plastics. However, we note that its single-use plastic capacity is only <5% of its total capacity and PCHEM is actively expanding its bio-friendly product portfolio. Meanwhile, much of the world's recyclable plastics end up in landfills/oceans due to low recycling rates. Hence, via its New Plastic Economy (NPE) initiatives, PCHEM hopes to raise awareness amongst the local communities whilst simultaneously investing in infrastructure to enable recycling initiatives in the future. - PCHEM primarily uses natural gas as its fuel, which is the cleaner option. Its key 2024 targets include: (i) capping GHG emissions at 6.98 million tonnes (2021: 7.0 million tonnes) and (ii) increasing its waste recycling (3R) rate to 82% (2021: 75%). - We are positive on the sector's long-term growth as we believe the demand for plastics will remain robust given that there is no real alternative. - PCHEM also scores above-average in our proprietary scoring methodology (see Pg. 3) with an overall score of 69/100.	
Material E issues	
- Energy intensity was 15.76 GJ/IT in 2021 (2020: 15.73 GJ/IT), representing a 11% reduction against the baseline in 2014. It had achieved its 10% reduction target in 2020. - GHG emission intensity increased to 0.67 tonne CO₂e/tonne (+23% YoY). Its target is to cap its Scope 1 & 2 emissions at 6.92 million tonnes by 2024 (FY21: 7.0 million tonnes). - In 2021, its freshwater withdrawal intensity was up to 3.69m³/tonne (+5% YoY), while its wastewater discharge was lower at 171.4 tonnes (-4% YoY) due to lower discharge from plant turnarounds and ongoing improvements. PCHEM is currently in the midst of setting water reduction targets. - PCHEM's hazardous waste recycling (3R) rate was 75% in 2021 (2020: 85%). It has a formal target of increasing and maintaining the 3R rate to 82% by 2024. - Its SO_x emissions were markedly lower in 2021, with a YoY reduction of 21%. Overall emissions intensity (inc. NO_x) was however up 10% YoY in 2021 from higher flaring activities. - PCHEM aims to recover plastic waste that is the equivalent of 100% of its domestic polymer sales volume by 2030.	
Material S issues	
- Recorded a third straight year of zero fatalities across its scope of operations in 2021. - Last time injury frequency (LTIF) halved YoY to 0.07 incidents per million man-hours in 2021 (2020: 0.14). - Women made up only c.17% of its workforce in 2021 as its manufacturing ops workers are mostly male. Encouragingly, 1/4 hires were female in FY21 while female representation at Senior Mgmt/Mgmt Committee level was 25%/36% respectively. - Its CSR initiatives' (e.g. ecoCare, Be Green, Back To School) reach was 295,000 people in 2021 (2020: 70,000). It has set itself a new target to reach 1 million people by 2024.	
Key G metrics and issues	
- As of 31 Dec 2021, the Board had a total of 8 Directors, out of which, 4 (or 50%) were Independent Non-Executive Directors (INEDs). - The Board has 2 female Directors, representing 25% of the Board's composition (lower than the minimum of 30%). PCHEM is considering hiring another female Director within a year in order to achieve the minimum target of 30%. - PCHEM's major shareholder is PETRONAS, which holds a 64.4% equity stake. PETRONAS has 4 Directors on the Board (or 50% of the Board's composition). - Datuk Md Arif Mahmood was the Non-Independent Non-Executive Chairman and also represents PETRONAS. His remuneration package was MYR326,500 in 2021. However, as a PETRONAS appointee, the remuneration was paid to PETRONAS instead. - The Top 5 Senior Management (MD/COE, CFO, Chief Manufacturing Officer, Chief Commercial Officer and Head of Strategic Planning and Ventures) are seconded from PETRONAS. Their remuneration packages are benchmarked against the industry but PCHEM does not disclose the remuneration amounts as it is subject to the Personal Data Protection Act (PDPA) 2010. - KPMG PLT is the external auditor and has served PCHEM for more than 10 years. - PCHEM has numerous related party transactions (RPTs) with PETRONAS as the businesses are inter-related. PETRONAS explores and produces gas while PCHEM uses the gas as feedstock and fuel to produce a wide range of chemical products. In FY21, the largest RPT was for the purchase of processed gas and natural gas from PETRONAS, which amounted to MYR3.8b (or 36% of its COGS in FY21). Transactions with Government related entities are also considered RPTs as the ultimate holding company of PCHEM and PETRONAS is the Government of Malaysia. Examples of these RPTs include the purchase of electricity from Tenaga Nasional (TNB MK, HOLD, TP: MYR9.30) and sale of petrochemical products to Pertubuhan Peladang Kebangsaan.	

Risk Rating & Score - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. **Score Momentum** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. **Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incidents, with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Source: Company, Maybank IBG Research (Tear Sheet)

Fig 146: PChem Tear Sheet: Quantitative (Expanded ESG 2.0)

Petronas Chemicals

ESG@MAYBANK IBC

		Quantitative parameters (Score: 39)			
Particulars		Unit	2019	2020	2021
S	Scope 1 GHG emissions	m tCO ₂ e	5.73	5.77	5.67
	Scope 2 GHG emissions	m tCO ₂ e	1.29	1.33	1.33
	Total	m tCO ₂ e	7.02	7.10	7.00
	Scope 3 GHG emissions	m tCO ₂ e	N/A	3.06	3.27
	Total	m tCO ₂ e	7.02	10.16	10.27
E	GHG Intensity (Scope 1 and 2)	tCO ₂ e/t	0.68	0.66	0.67
	Energy intensity	GJ/ton	15.37	15.73	15.76
	Share of renewable energy use in operations	%	N/A	N/A	N/A
	Wastewater discharge (chemical O ₂ demand)	tonnes	153.7	177.8	171.4
	Hazardous waste 3R rate	%	70%	85%	75%
S	Air emissions intensity	ton/kT	2.83	2.21	2.42
	NPE (New Plastic Economy) investments	MYR m	8	3	3
	Cases of environmental non-compliance	number	0	0	0
	% of women in workforce	%	17.4%	17.2%	17.3%
	% of women in management roles	%	30.8%	30.2%	21.9%
G	Last time injury frequency (LTIF) rate	number	0.08	0.14	0.07
	Lives impacted by CSR outreach ('000)	number	20	70	295
	MD/CEO salary as % of reported net profit	%	N/A	0.10%	0.02%
	Board salary as % of reported net profit	%	0.06%	0.21%	0.04%
	Independent directors on the Board	%	50%	50%	50%
G	Female directors on the Board	%	25%	25%	25%

Qualitative Parameters (Score: 100)

a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes - as of FY21, it has an established framework and a working sustainability committee that reports quarterly to the Board.

b) Is the senior management salary linked to fulfilling ESG targets?

Yes - in FY21, sustainability KPIs were introduced in top management performance appraisals.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes - purchased goods and services (Cat. I) and use of sold products (Cat. II); calculated using Simplified IPCC Tier 1 method.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

It has a framework to reduce 20%/80% of emissions by 2030/40 based on the 2020 baseline, in line with its 2050 NCZE aspiration. It conducted a feasibility study with a private firm to turn non-recyclable plastic waste into crude naphtha and also invested MYR40m in a plant that produces Bio-MEG from palm biomass. To reduce air emissions, it utilises UHPM fuel cell applications (24% lower CO₂ emissions) while for water mgmt, it deployed mobile reverse osmosis tech to reduce raw water consumption by 16% and has invested MYR3m in an automated water quality management system powered by renewable energy.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes

Target (Score: 100)

Particulars	Target	Achieved
Reduce Scope 1 & 2 GHG emissions (tonnes) by 2024	6.98	7.00
Reduce energy intensity (GJ/tonne) vs 2014 baseline	10%	11%
Recover plastic waste from total MY polymer production volume by 2030	100%	N/A
Increase hazardous waste 3R (reduce, reuse, recycle) rate by 2024	82%	75%
Increase number of people reached by CSR outreach initiatives ('000)	1,000	295
Reduce 2030/40 carbon emissions vis-a-vis 2020 baseline	20%/80%	N/A
Net-zero carbon emissions by 2050	Net 0	N/A

Impact

NA

Overall score: 69

As per our ESG matrix, Petronas Chemicals Group (PCHEM MK) has an overall score of 69.

ESG score	Weights	Scores	Final Score
Quantitative	50%	39	19
Qualitative	25%	100	25
Target	25%	100	25
Total			69

As per our ESG assessment, PCHEM has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative 'E' metrics YoY. PCHEM's overall ESG score is 69, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Source: Company, Maybank IBG Research (Tear Sheet)

To recap on our ESG Portfolio stock selection process, we combined the granular insights from the ESG 1.0 Tear Sheets with data and risk scoring from Sustainalytics to generate our maiden 16-stock ESG Portfolio in April 2021. We have since, per our recently-published Malaysia ESG Compendium 2022 *"Shifting into higher gear"* report dated Nov 29, utilised a combination of insights from our completed ESG 2.0 Tear Sheets and three Sustainalytics-based stock filters namely **i)** ESG risk ratings (negligible-low-medium only); **ii)** quality of management (average-high only); **and iii)** level of controversies (0-1 only), to guide us in refreshing the constituent make-up of our ESG portfolio, together with consideration for the following combination of factors and parameters:

- Analyst stock rating:** as ESG factors lend support and de-risk existing business models that are fundamental drivers of long-term shareholder returns, we include both BUY and HOLD-rated companies with attractive business models and long-term growth outlooks, but exclude SELL-rated stocks, the latter notably including some companies with attractive ESG credentials / scores such as filters-satisfying Nestle and UEM Sunrise;
- Sustainalytics risk score and category:** for many of the constituents we have chosen, there is clear positive correlation or cross-check between the analysts' fundamental stock rating and the risk score from the external ESG research provider - examples are across a diverse set of sectors and include BUY-rated names like Bermaz and Yinson, as well as HOLD-rated Westports and Sunway, all of which also have strong Sustainalytics risk scores / low risk ratings;
- Momentum assessment:** while Sustainalytics momentum indicators are useful for flagging near-term changes in risk score, and where they are coming from (i.e. exposure or management issues), the analysts may, from their frequent dialogues with company management and deep understanding of the

underlying business, have greater insights into management's commitment and plans to address and improve the company's ESG factors. This bottom-up, forward-looking understanding underscores portfolio picks that are not currently in the filtered 38 stocks list (see Appendix 1 for full list) but show strong signs of joining this list over the medium-term i.e. where current relatively high ESG risk scores have scope to improve significantly on positively pivoting business models and improving ESG factor measurements and disclosures.

We have chosen 5 such "momentum" stocks to include in our refreshed ESG portfolio notwithstanding these names not satisfying all the 3 aforementioned Sustainability filters, namely telco [Telekom](#) (controversy score of 2 relating to Bribery and Corruption events over the past decade, the last being in 2019), banking group [RHB Bank](#) (controversy score of 2 relating to being on the 2022 Global Coal Exit List over financial relationships with the coal industry), construction company [Gamuda](#) (high overall ESG Risk Score / Rating), shipper [MISC](#) (controversy score of 2 relating to Emissions, Effluents and Waste issues from environmentally-damaging shipbreaking activities, the last such report being in Feb 2022) and tech play [ViTrox](#) (weak management score related to poor disclosures, and lack of policies and programmes to manage risks related to its material ESG issues).

- **FTSE4Good membership:** considering whether portfolio constituent stocks are in Bursa's FTSE4Good Bursa Malaysia Index is a useful cross-check - recall this index adopts best-in-class positive screening and inclusion criteria are consistent with the global ESG model that FTSE has developed. However, we note that the 30-stock KLCI substantially overlaps with the 98-stock FTSE4Good index (as at end-June 2023; 26 of the KLCI constituent stocks are also in the FTSE4Good) - hence, there is a very high positive correlation between the two indices - therefore, for investors looking to capture differentiated performance vs. the KLCI benchmark, a more refined ESG portfolio appears to be required; and
- **Risk scores and ESG Tear Sheet completion:** we have required constituent stocks to have both a Sustainability risk score as well as completed ESG Tear Sheets (1.0 and 2.0). We note that this results at the moment in exclusion of smaller-cap stocks with prima facie promising ESG underpinnings such as Allianz and Aurelius Technologies.

Per Fig 147, as compared to the 15-stock portfolio as constituted in the recently-published Malaysia ESG Compendium 2022 "[Shifting into higher gear](#)" report dated Nov 29, we make no changes to the constituents post-1Q23 reporting. While the bulk of our updated ESG Portfolio (10 out of the 15 stocks) are constituted of stocks which satisfy the three quantitative/qualitative Sustainability-derived filters as previously articulated, we have also included 5 "momentum" stocks ([MISC](#), [RHB](#), [Telekom](#), [Gamuda](#), [ViTrox](#)) which, while they do not immediately satisfy all three filters, are, per our on-the-ground research assessment, showing positive momentum re closing the implied disclosure and operational gaps to improve their ESG metrics / scoring over the medium-term.

Fig 147: MY ESG portfolio: recommended constituents

Stock	BBG Code	Mkt Cap. (MYRm)	Rec.	Price (MYR)	TP (MYR)	PER (x)		ROE (%)		Yield (%)		Risk Rating*	Risk Score*	Management Rating*	Controversy Score*	MIBG ESG Score	In FBM4G Index?^
Filtered Stocks																	
Petronas Chemicals	PCHEM MK	48,160	Hold	6.02	6.85	14.0	10.1	8.4%	3.6%	22.6	Medium	Strong	0	69	Yes		
CelcomDigi	CDB MK	47,513	Hold	4.05	4.60	36.3	22.3	8.1%	2.8%	24.2	Medium	Average	0	67	Yes		
Hong Leong Bank	HLBK MK	40,883	Buy	18.86	22.70	10.2	9.7	11.8%	3.4%	18.7	Low	Strong	0	76	Yes		
Westports	WPRTS MK	12,071	Hold	3.54	3.85	14.9	14.3	23.3%	5.0%	10.4	Low	Strong	1	62	Yes		
Inari	INRI MK	10,079	Hold	2.70	2.75	32.1	24.6	12.6%	2.6%	27.7	Medium	Average	0	70	Yes		
Sunway	SWB MK	7,828	Hold	1.58	1.72	11.6	12.2	6.4%	2.7%	8.8	Negligible	Strong	0	74	No		
Yinson	YNS MK	7,383	Buy	2.54	5.05	14.2	8.9	11.7%	0.8%	16.6	Low	Strong	1	78	Yes		
Bursa	BURSA MK	5,163	Hold	6.38	6.20	23.0	22.5	27.8%	4.2%	15.2	Low	Strong	0	69	Yes		
Axis REIT	AXRB MK	3,221	Buy	1.85	2.16	19.9	15.7	5.9%	4.5%	14.0	Low	Average	0	59	Yes		
Bermaz Auto	BAUTO MK	2,685	Buy	2.30	3.53	8.9	8.5	39.8%	9.5%	10.8	Low	Average	0	65	Yes		
Momentum Stocks																	
MISC	MISC MK	31,202	Hold	6.99	7.19	12.9	12.9	6.3%	4.7%	17.7	Low	Strong	2	71	Yes		
RHB Bank	RHBBANK MK	23,146	Buy	5.40	6.40	8.3	7.9	9.5%	7.4%	25.8	Medium	Average	2	65	Yes		
Telekom	T MK	18,307	Buy	4.79	6.50	12.3	12.3	17.1%	4.1%	27.8	Medium	Average	2	67	Yes		
Gamuda	GAM MK	11,660	Buy	4.38	4.80	13.9	13.8	16.8%	11.4%	35.5	High	Average	1	68	No		
ViTrox	VITRO MK	7,458	Hold	7.89	8.60	35.3	27.6	20.5%	0.7%	14.3	Low	Strong	0	55	No		

* derived from leading external ESG research & data provider Sustainalytics

^ FTSE4Good Bursa Malaysia (F4GBM) Index (98 constituents as of Jun 2023)

Source: Maybank IBG Research, Sustainalytics, FactSet, Bloomberg (as of 07 Jul)

Turning to performance, in Fig 148 below, we have updated (to end-May 2023) the backtesting of the performance of the 15-stock ESG Portfolio against Sustainalytics and MIBG Malaysia overall and filtered coverage. When considering relative performance vs. the benchmark MSCI Malaysia, both overall and filtered coverage generated significantly superior returns. Further, while there has been a narrowing of the outperformance gap since our last update (for period to end-Mar 2023 per 1Q23 Results Roundup report “*Broadly Disappointing*”, dated June 5), the MIBG 15-stock ESG portfolio continues to modestly outperform the 62 filtered Sustainalytics stocks. In sum, the backtested 15-stock ESG Portfolio generated returns of -3.8%/5.5%/2.1% over 1/3/5 years, beating both overall market coverage baskets as well as the 37 filtered Malaysian stocks covered by MIBG.

Fig 148: Backtesting our 15-stock ESG Portfolio performance vs. both MSCI and broad coverage (end-May 2023)

		MCAP weighted return								
		MSCI Malaysia			Annualised Returns			Out/underperformance		
		5Y	3Y	1Y Ret	5Y	3Y	1Y Ret	5Y	3Y	1Y Ret
		Ann. Ret	Ann. Ret		Ann. Ret	Ann. Ret		Ann. Ret	Ann. Ret	
No of companies										
Malaysia										
Total companies - Sustainalytics	135	-5.1%	-2.6%	-12.4%	0.1%	5.8%	-5.3%	5.2%	8.4%	7.2%
ESG risk score -- low/medium + controversy (no or 1) + mgmt (medium or strong)	62	-5.1%	-2.6%	-12.4%	1.4%	10.6%	-5.2%	6.5%	13.2%	7.2%
MIBG coverage (overlaps with Sustainalytics)	79	-5.1%	-2.6%	-12.4%	-0.9%	3.9%	-7.1%	4.2%	6.5%	5.4%
ESG risk score -- low/medium + controversy (no or 1) + mgmt (medium or strong)	37	-5.1%	-2.6%	-12.4%	0.4%	8.7%	-8.4%	5.5%	11.3%	4.0%
MIBG 15-stock ESG Portfolio	15	-5.1%	-2.6%	-12.4%	2.1%	5.5%	-3.8%	7.2%	8.2%	8.7%

Source: Sustainalytics (as of 23 June, Bloomberg, Maybank IBG Research (computation as of 31 May)

In conclusion, the ESG Tear Sheets 1.0 and 2.0 for the 15 ESG Portfolio constituent stocks, as well as for all MIBG Malaysia Research coverage thus far completed (summarised in Fig 149 below), can be referenced in our recently-published Malaysia ESG Compendium 2022 “*Shifting into higher gear*” report dated Nov 29; refer to pages 45-147 for details on ESG qualitative fundamentals and quantitative Sustainalytics and MIBG proprietary scoring, and how these relate to risks and opportunities that impact the core business model.

Fig 149: MIBG Malaysia Research Coverage: 58 stocks now have MIBG ESG Scores

Stock	BBG Code	Rec.	Price	TP	PER (x)		ROE (%)	Yield (%)	MIBG ESG Score (total)	Quant Score	Qual Score	Target Score	Sust. Risk Score*	In FBM4G Index?^
			MYR	MYR	FY22E	FY23E	FY23E	FY23E						
Yinson Holdings	YNS MK	Buy	2.54	5.05	14.21	8.9	11.7%	0.8%	78	56	100	100	16.6	Yes
Hong Leong Bank	HLBK MK	Buy	18.86	22.70	10.16	9.7	11.8%	3.4%	76	69	67	100	18.7	Yes
Sunway	SWB MK	Hold	1.58	1.72	11.56	12.2	6.4%	2.7%	74	47	100	100	8.8	No
Allianz	ALLZ MK	Buy	14.22	16.75	7.97	6.9	11.1%	6.0%	73	80	33	100	25.3	No
MISC Bhd	MISC MK	Hold	6.99	7.19	12.92	12.9	6.3%	4.7%	71	43	100	100	17.7	Yes
Sunway REIT	SREIT MK	Hold	1.56	1.54	15.96	14.5	6.6%	5.6%	71	50	83	100	12.7	No
Inari Amertron	INRI MK	Hold	2.70	2.75	32.08	24.6	12.6%	2.6%	70	47	86	100	27.7	Yes
Bursa Malaysia	BURSA MK	Hold	6.38	6.20	23.01	22.5	27.8%	4.2%	69	54	100	67	15.2	Yes
IOI Corporation	IOI MK	Hold	3.75	3.85	16.35	17.6	12.4%	3.7%	69	39	100	100	24.7	Yes
Petronas Chemicals	PCHEM MK	Hold	6.02	6.85	14.05	10.1	8.4%	3.6%	69	39	100	100	22.6	Yes
Gamuda	GAM MK	Buy	4.38	4.80	13.88	13.8	16.8%	11.4%	69	56	100	67	35.5	No
Axiata Group	AXIATA MK	Buy	2.57	3.50	37.90	22.6	2.6%	3.9%	68	62	83	67	29.9	Yes
CIMB Group	CIMB MK	Buy	5.16	5.85	8.64	8.0	9.6%	5.6%	67	50	67	100	19.2	Yes
CelcomDigi	CDB MK	Hold	4.05	4.60	36.30	22.3	8.1%	2.8%	67	43	83	100	24.2	Yes
My EG Services	MYEG MK	Buy	0.72	1.03	13.81	12.7	18.1%	2.2%	67	67	33	100	20.2	Yes
Telekom Malaysia	T MK	Buy	4.79	6.50	12.32	12.3	17.1%	4.1%	67	50	67	100	27.8	Yes
Astro	ASTRO MK	Sell	0.51	0.59	11.79	10.2	24.2%	4.9%	66	76	50	60	13.4	Yes
Hong Leong FG	HLFG MK	Buy	17.22	21.00	7.20	7.2	10.7%	3.0%	66	73	17	100	27.4	Yes
Sunway Construction	SCGB MK	Hold	1.65	1.73	15.71	15.7	16.9%	3.3%	66	31	100	100	24.2	No
Bermaz Auto	BAUTO MK	Buy	2.30	3.53	8.87	8.5	39.8%	9.5%	65	71	57	60	10.8	Yes
RHB Bank	RHBBANK MK	Buy	5.40	6.40	8.32	7.9	9.5%	7.4%	65	80	0	100	25.8	Yes
AMMB Holdings	AMM MK	Buy	3.60	4.15	7.15	7.3	9.9%	4.9%	63	30	8	25	27.1	Yes
IJM Corp	IJM MK	Buy	1.47	2.18	16.66	15.4	1.6%	5.0%	63	44	83	80	31.1	No
Public Bank	PBK MK	Hold	3.85	4.30	11.13	10.7	13.0%	4.9%	63	60	33	100	26.8	Yes
Tenaga Nasional	TNB MK	Hold	9.05	10.00	10.37	9.9	8.3%	5.3%	63	25	100	100	32.2	Yes
CapitaLand Malaysia	CLMT MK	Hold	0.50	0.55	11.93	11.0	4.6%	7.5%	62	36	100	75	N/A	No
Westports Holdings	WPRTS MK	Hold	3.54	3.85	14.93	14.3	23.3%	5.0%	62	30	88	100	10.4	Yes
Hartaalega	HART MK	Sell	2.01	1.35	50.55	355.4	nm	0.0%	61	47	50	100	17.1	Yes
KLCCP Stapled Group	KLCCSS MK	Hold	6.90	7.00	16.46	16.2	5.5%	5.2%	61	47	50	100	12.3	No
Malaysia Airports	MAHB MK	Hold	6.84	6.99	58.66	23.0	3.0%	0.9%	61	38	67	100	21.5	Yes
Axis REIT	AXRB MK	Buy	1.85	2.16	19.85	15.7	5.9%	4.5%	59	38	60	100	14.0	Yes
Greatech Technology	GREATEC MK	Buy	4.30	6.05	28.82	24.8	24.2%	0.0%	57	65	100	0	18.6	Yes
Dialog Group	DLG MK	Buy	2.11	4.90	22.43	20.5	9.8%	1.7%	56	27	71	100	26.1	Yes
V.S. Industry	VSI MK	Hold	0.86	0.80	16.96	13.9	8.4%	2.4%	56	37	67	83	9.5	Yes
Nestle (Malaysia)	NESZ MK	Sell	130.60	118.80	44.49	39.5	108.8%	2.2%	55	26	67	100	19.6	No
Petronas Gas	PTG MK	Hold	16.88	17.00	18.69	18.4	13.2%	4.3%	55	19	83	100	29.8	Yes
ViTrox Corp	VITROX MK	Hold	7.89	8.60	35.35	27.6	20.5%	0.7%	55	67	86	0	14.3	No
Heineken Malaysia	HEIM MK	Buy	25.84	30.80	18.25	17.8	85.7%	5.5%	54	50	33	83	21.9	No
Optimax	OPTIMAX MK	Buy	0.71	0.86	23.73	23.7	24.4%	3.4%	52	53	100	0	N/A	No
Alliance Bank	ABMB MK	Buy	3.35	4.00	7.77	7.7	10.3%	6.5%	52	21	67	100	27.2	Yes
Carlsberg Malaysia	CAB MK	Buy	20.24	24.70	17.87	17.1	nm	4.6%	52	21	67	100	15.5	No
Kuala Lumpur Kepong	KLK MK	Buy	22.54	23.90	16.04	17.3	10.2%	3.7%	52	28	50	100	37.9	Yes
MR D.I.Y. Group (M)	MRDIY MK	Buy	1.52	2.40	24.88	20.9	33.2%	1.9%	52	29	67	83	31.4	Yes
Sime Darby Plantation	SDPL MK	Hold	4.28	4.30	24.19	18.3	7.8%	2.2%	52	35	83	50	27.7	Yes
Genting Malaysia	GENM MK	Buy	2.46	2.85	20.89	14.2	5.4%	6.1%	51	36	33	100	28.9	Yes
Media Prima	MPR MK	Hold	0.43	0.38	93.80	17.0	6.8%	0.0%	49	65	67	0	N/A	No
IHH Healthcare	IHH MK	Buy	5.79	7.13	32.66	29.2	6.0%	3.0%	48	20	50	100	34.7	No
Top Glove	TOPG MK	Sell	0.85	0.80	nm	nm	nm	0.0%	47	11	67	100	20.3	No
Genting Bhd	GENT MK	Buy	4.09	5.61	12.99	7.6	3.8%	4.9%	46	15	67	86	26.8	No
QL Resources	QLG MK	Hold	5.32	5.90	40.77	31.9	13.1%	1.2%	45	63	33	20	41.8	No
Bank Islam Malaysia	BIMB MK	Hold	1.94	2.05	9.15	8.7	6.9%	6.5%	43	36	0	100	29.0	No
YTL Power	YTL MK	Buy	1.26	1.50	7.74	6.7	8.7%	4.0%	42	9	50	100	54.1	No
TIME dotCom	TDC MK	Hold	5.35	5.40	23.44	22.1	11.0%	12.7%	38	67	17	0	23.9	No
Genting Plantations	GENP MK	Hold	5.72	6.30	17.26	18.1	5.6%	3.5%	35	6	67	60	42.4	No
IGB REIT	IGBREIT MK	Hold	1.65	1.70	16.03	15.6	9.5%	5.9%	31	20	33	50	16.8	No
Maxis Bhd	MAXIS MK	Hold	3.95	4.00	22.57	21.0	22.2%	5.1%	31	46	33	0	27.8	Yes
MNRB	MNRB MK	Hold	0.98	1.09	6.08	5.5	4.7%	0.0%	29	16	13	0	N/A	No
Cahaya Mata Sarawak	CMS MK	Buy	1.06	1.48	8.14	7.2	4.2%	2.8%	18	19	33	0	36.1	No

* derived from leading external ESG research & data provider Sustainalytics

^ FTSE4Good Bursa Malaysia (F4GBM) Index (98 constituents as of Jun 2023)

Source: Sustainalytics, Maybank IBG Research. Bloomberg (as at 22 Jun)

Thematic 5: Capex revival, supply chain relocation

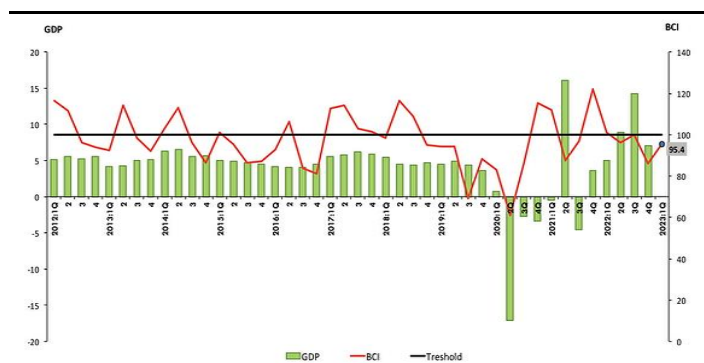
As articulated in the earlier macroeconomics section, policies to revive investment / capex, especially in the more dynamic and efficient private sector, are crucial for a sustained recovery in economic growth. With the double blows of the pandemic and extended political uncertainty, business confidence had fallen sharply - it subsequently bounced back from the 2Q20 low, recovering to above the 100 point-optimism threshold over 4Q20-1Q21 per the Malaysian Institute of Economic Research's (MIER) Business Conditions Index or BCI (Fig 150). However, it dipped back below 100 in 2Q22 as domestic and external softness/uncertainties that had started to weigh in the previous quarter worsened, with cuts in both domestic and external orders. Subsequent bounce back over 2H22 proved unsustainable, with YTD 2023 seeing the BCI struggle to recover towards the 100 level (1Q23: 95.4) notwithstanding stabilising domestic and external orders. The MIER Consumer Sentiments Index's (CSI; 1Q23: 99.2) reading has shown a similar

trend, having struggled to sustain its' post-pandemic recovery to the 100 level as inflation / cost of living issues and weak job and income expectations have weighed.

Even before the current pandemic-charged negative economic and sentiment headwinds, private investment growth (Fig 151; note correlations with equity market earnings growth, DDI) has been generally weak ex-2022 reopening bounce (2022: +7.2%; 2021: +2.7%; 2020: -11.9%; 2019: +1.5%; 2018: +4.3%; 2017: +9.0%), as has public investment (2022: +5.3%; 2021: -11.1%; 2020: -21.3%; 2019: -10.8%; 2018: -5.0%; 2017: +0.3%). The weak appetite for domestic investment was further underscored by domestic investment approved by the Malaysian Investment Development Authority (MIDA) falling steadily since 2015 ex-small bounce in 2022 (2022: +3.5%; 2021: -1.9%; 2020: -20.5%; 2019: +1.1%; 2018: -15.0%; 2017: -4.9%; 2016: -2.0%; 2015: -14.0%). Re DDI vs. FDI's diverging trends, MIDA approved DDI declined steadily by an average 6.0% pa from MYR175.1b in 2014, to MYR99.8b in 2020 (-21% YoY), and then even lower to MYR97.9b in 2021 (-1.9% YoY), before staging a modest rebound to MYR101.3b in 2022. On the other hand, approved foreign direct investment (FDI) increased 5.1% pa from MYR64.6b in 2014 to MYR82.9b in 2019, dipped in 2020 to MYR64.2b (-22% YoY), then soared to a record MYR209b in 2021 (manufacturing FDI jumped to MYR180b, more than triple 2020's figure of MYR56.6b) before moderating in 2022 to a still-high MYR163.3b.

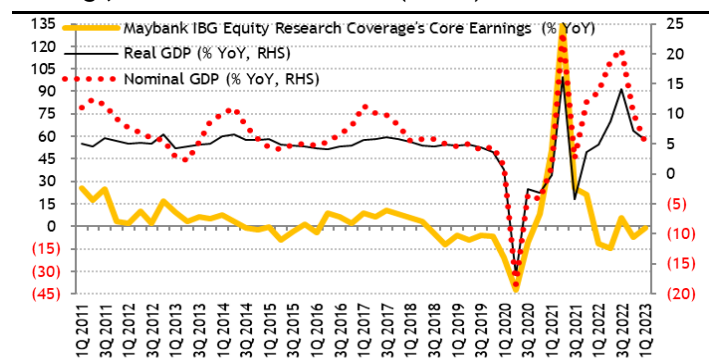
While the Malaysian corporate sector has the strongest balance sheet currently vis-à-vis the Malaysian government and consumers, continuing uncertainty about the economic and governance outlook, coupled with insufficient clarity re tax and incentives policies, mean aggressive deployment (capex) of this balance sheet slack is unlikely for the foreseeable future.

Fig 150: MIER Business Conditions Index vs. GDP (YoY)



Source: Malaysian Institute of Economic Research's (MIER)

Fig 151: Approved Domestic Direct Investment, Corporate Earnings, Real Private Investment (% YoY)



Source: Malaysian Investment Development Authority (MIDA), Department of Statistics, Maybank IBG Research

Notwithstanding the broadly positive tailwind from economic reopening, the now-decelerating economic recovery due to aforementioned domestic and external headwinds, as well as policy uncertainties re the new government, are investment deterrents, and entrench a 'wait-and-see' attitude among businesses. Besides lack of fiscal latitude for further stimulus, many large economic sectors, per Fig 121, await government and regulatory policy guidance/finality. This is over and above the ongoing uncertainties created by pending reviews of tax structures and investment incentives e.g. the delayed Medium Term Revenue Strategy (MTRS).

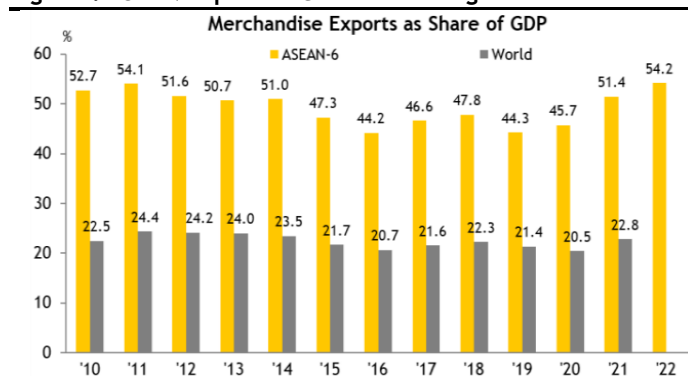
On a more positive note, some of the externally-facing / export sectors centered around commodities and manufacturing/tech have continued to perform strongly, despite the pandemic and political uncertainty. Further, trade diversions and relocation of supply chains out of China that picked up momentum in 2019 due to the US-China trade war has gained renewed urgency following the wide-ranging disruptions to global manufacturing supply chains / production when China imposed its pandemic control measures over the 2019-2021 period. The continued souring of relations between the US and China means trade and supply chain

diversion gains that Malaysia has enjoyed since 2019 are set to extend, boosting related production and capex.

Of more entrenched and lasting benefit to the Malaysian economy would be the ability to attract relocating or redirected foreign direct investment (FDI), this encompassing foreign as well as domestic Chinese investors looking to establish 'neutral' production bases and supply chains outside of China. The production disruptions caused by the pandemic, including the current lockdowns and shipping bottlenecks, have also spurred the desire for greater localization to bring a critical mass of production closer to home, and China + 1 risk-moderation strategies. Recent Budgets have contained specific measures to tap into the opportunities relating to supply chain security and resilience to attract relocation FDI. Additional impetus comes from the signing of the Regional Comprehensive Economic Partnership on 15 Nov 2020 involving ASEAN-10, China, Japan, South Korea, Australia and New Zealand.

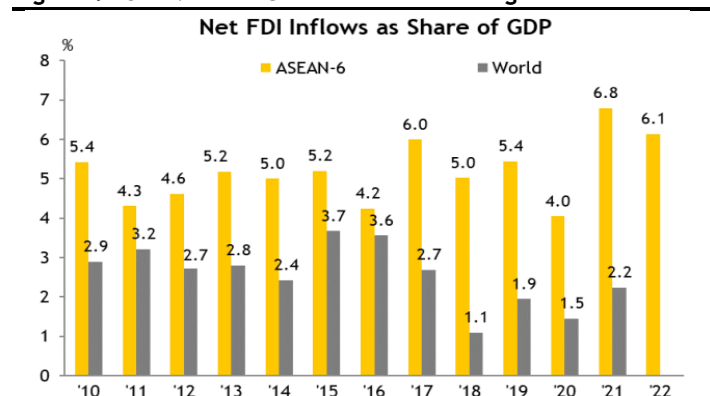
As articulated in MIBG's ASEAN X Macro report "*Deepening Supply Chains in a Fragmented World*", dated May 12), the IMF has warned that fragmentation and formation of opposing geopolitical blocs centered on the two largest economies - US and China - could reduce global GDP, undermine trade and increase financial stability risks. ASEAN is not immune to the fallout from fragmentation, but has so far benefited from the rechanneling of trade and investment because of its "neutrality". Of note is the fact that ASEAN has seen large increases in exports to both the US and China (Fig 152), while also benefitting from higher FDI from both countries as well (Figs 153, 154 and 155). ASEANs' increases in exports to the US (Fig 156) and China (Fig 157) are resulting in market share gains that will continue to build as the region attracts further production relocation. In the medium-to-long run, ongoing US-China trade tensions present local players with unprecedented relocation opportunities that is expected to boost future revenue streams. Inari and **Globetronics** have both received enquiries from prospective customers keen to relocate test and assembly supply chains out of China, whilst **ViTrox** is already benefiting from an increase in firm order flows from India/Mexico/Europe from its EMS customers actively ramping up capacity outside of China to counter US-imposed tariffs - this has more than offset the slowdown in orders from its Chinese customers. Trade diversion is also particularly pronounced in the local EMS sector whereby **VS Industry**, **Aurelius Technology**, **PIE Industrial**, as well as recent listings **Nationgate** and **Cape EMS**, have all received RFQs (order enquiries) either from existing or new customers keen to relocate manufacturing supply chains out of China.

Fig 152: ASEAN Export to GDP Ratio rising



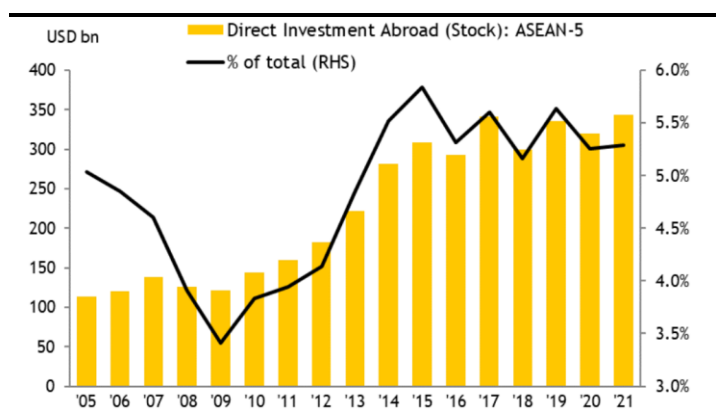
Source:CEIC, World Bank

Fig 153: ASEAN FDI to GDP Ratio hits new highs



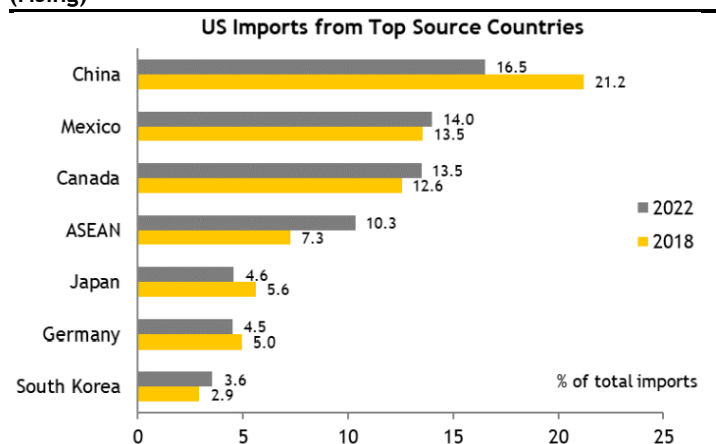
Source: CEIC, World Bank

Fig 154: US Cumulative Direct Investment to ASEAN-5



Source: CEIC, Bureau of Economic Analysis

Fig 156: US: share of imports from China (falling) and ASEAN (rising)

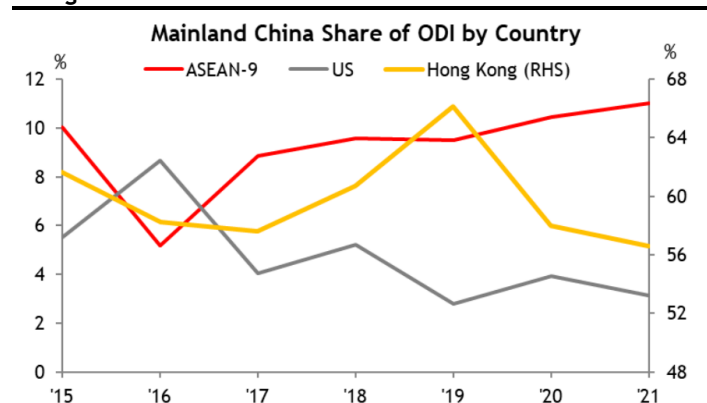


Source: CEIC

Refocusing on Malaysia, per Fig 158, Malaysia's approved manufacturing FDI soared to a record high of RM180b in 2021, while approved total FDI also rose to a record MYR209b in 2021 - there was some moderation of these stats in 2022, to MYR66b and MYR163b, respectively, but they remain elevated vs. historical levels. The approved FDI is underpinned by the technology-related sectors i.e. approved FDI projects in Electronics & Electrical and Telecommunications amid some "mega" capex by global electronics players (e.g. MYR30b by Intel; MYR8.35b by Infineon re a new wafer fab) and FDI surge in data centres (e.g. China's Bridge Data Centres, ByteDance and GDS; US' Microsoft, Japan's NTT and Taiwan's Wiyynn). The technology-driven investment growth is also bolstered by capex for 5G infrastructure rollout as well as for automation and digitalization.

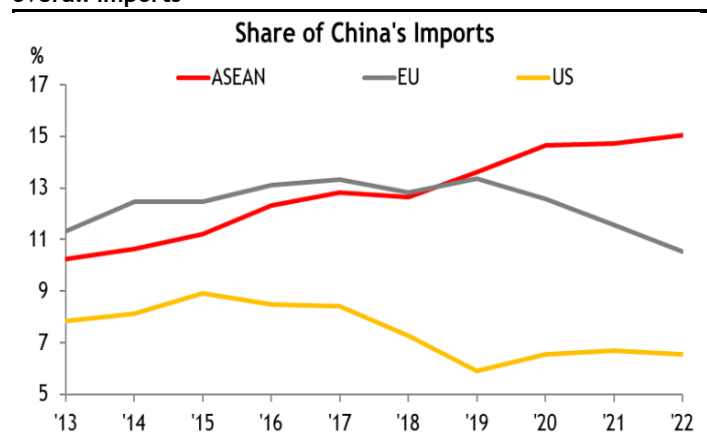
Of note, Malaysia's exports to China soared +73% between 2018 and 2022 (Fig 159), led by mineral products and machinery, mechanical appliances & electrical equipment. Exports of mineral fuels rose +212% to USD39bn in 2022, from USD12.5bn in 2018. Malaysia became China's third largest crude oil supplier in 2022, behind Saudi Arabia and Russia. Ship-to-ship transfers of oil originating from other locations, rather than domestic production, may have accounted for a significant proportion of China's crude imports from Malaysia last year. The volume of China's crude imports from Malaysia was 3x Malaysia's average daily production over Jan-Sept 2022. Malaysia's exports of machinery, mechanical appliances & electrical equipment to China hit USD40.7bn last year, a +20% increase from 2018, although down from its peak of USD43.7bn in 2021. Growth of the segment was fueled by integrated circuits, which made up nearly a quarter of China's imports from Malaysia in 2021 in value terms, reflecting Malaysia's rising importance in the global semiconductor supply chain as a packaging and testing hub.

Fig 155: ASEAN share of China Outward Direct Investments Rising



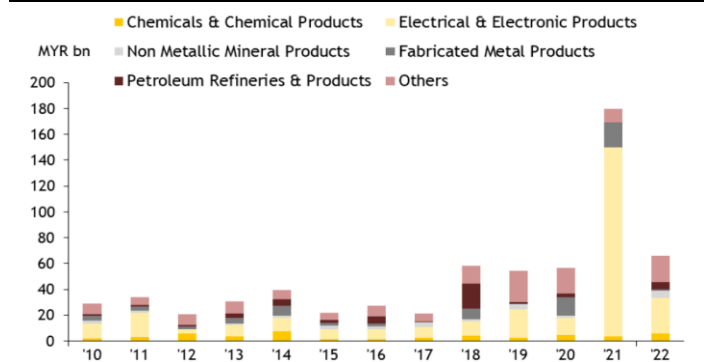
Source: China Ministry of Commerce

Fig 157: China: imports from ASEAN outpacing the EU, US and overall imports

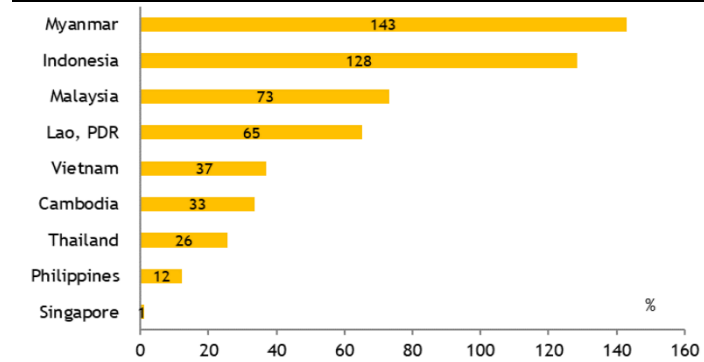


Note: in USD terms

Source: China General Administration of Customs

Fig 158: Malaysia: Approved Manufacturing FDI by Industry

Source: CEIC

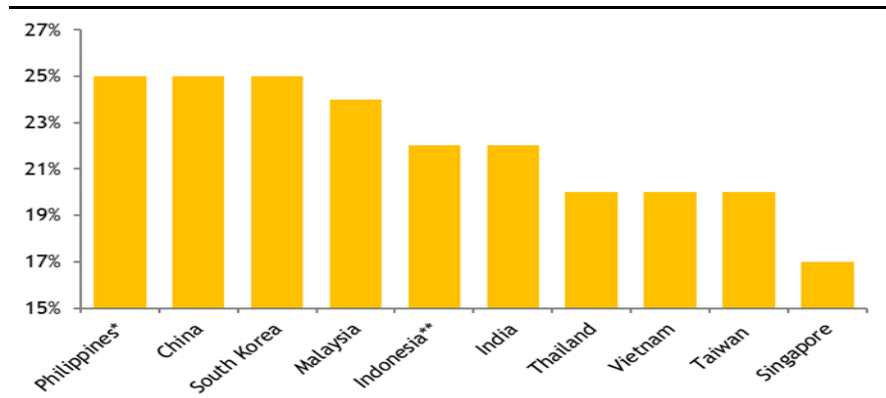
Fig 159: Growth in Exports to China (% over 2018 - 2022)

Source: China General Administration of Customs)

Wild Card #1: Linking corporate tax cuts to equity market free float

Corporate tax cuts are a powerful economic stimulus tool, encouraging private sector investment by increasing net returns on capital, which in turn has positive spillover on employment and growth. The US economy has enjoyed considerable growth tailwinds generated by the tax cuts of Dec 2017, which included both large reductions in headline corporate tax rate (from 35% to 21%) as well as personal income tax rates. More recently, India's sharp reduction in base corporate tax rate, from 30% to 22%, is also expected to spur investment and growth, as is Indonesia cutting its corporate tax rate from 25%, to 22% for 2020/2021, with a further reduction to 20% from 2022. The Philippines, per the CREATE Act, is cutting its corporate tax to 25%, from a region-topping 30% - this will be for the period from July 2020 until 2022, after which there will be a 1ppt yearly reduction until 2027, to bring the corporate income tax to a very competitive 20%.

Over recent years, tax policy has become an integral part of the competitiveness toolkit for regional economies as they compete for FDI and look to spur domestic investment. Malaysia, at 24%, now has one of the higher corporate tax rates in the region (Fig 160). We acknowledge that a blanket corporate tax cut may be overly-ambitious at this juncture given the challenging fiscal position and elevated budget deficit and debt/GDP ratios. Looking at the latest projections provided by the MOF in conjunction with the release of the re-tabled Budget 2023 in Feb 2023, corporate income taxes (CITA) are to remain the single biggest source of revenues for the government, forecast to contribute MYR82.1b or c.28% of total projected budget revenues in 2022. A simple first-cut extrapolation (note *Cukai Makmur* mostly impacts 2022 revenues raised, boosting it by an estimated MYR5-7bn) re reduction in corporate tax to 20% would imply prima facie revenue foregone of c.MYR14b. Without revenue offsets, this is equivalent to a c.70bps increase in projected fiscal deficit for 2022 (of MYR93.9b), from a targeted 5.0%, to 5.7%.

Fig 160: Corporate tax rates: regional comparison (%)

Source: Maybank IBG Research

* for Phils, the CREATE Act lowers the corporate tax rate from 30% to 25%, from July 2020 to July 2022, followed by a 1ppts reduction annually until 2027, to bring the tax rate down to 20%.

** for Indo, tax rate will be further reduced to 20% from 2022; public listed companies with free floats of over 40% pay a 3ppts lower corporate tax rate (2020/21: 19%; 2022: 17%)

Hence, instead of a blanket corporate tax cut, we would propose an interim step via the government adopting the Indonesian model of allowing corporate tax reductions for companies listed on Bursa Malaysia and which have a free float of at least 40%. This achieves multiple fiscal and capital-market objectives:

- **Spur private investment:** with most of the large listed corporates (now including Petronas-listed subsidiaries post-2019/2020 stake reductions by parent; see Fig 105) *prima facie* qualifying for the tax reduction, this will be a substantial boost to corporate profitability and investment appetite (as well as investor sentiment). With returns on invested capital now higher, there will be a greater incentive for many of the largest companies in the country to put broadly-healthy balance sheets to work, translating into a powerful, private sector-led economic stimulus;
- **Increase market free float:** by tying the corporate tax break to the companies' free-float, this will encourage non-compliant companies to improve available trading liquidity in their shares. This would be particularly impactful in the small-mid market segment, where many of the faster-growing companies tend to be family-owned and tightly-held i.e. barely satisfy Bursa's minimum 25% public float requirement. The focus on free-float also helps address Bursa's steadily declining weighting in free-float adjusted benchmark indices like MSCI and FTSE, which are widely followed by the global investor fraternity.
- **Encourage new listings:** by restricting the corporate tax concession to listed companies, the measure will incentivize unlisted companies to IPO, increasing both the breadth of companies on the Bursa as well as overall economic efficiency via the related lift to corporate sector accounting and governance transparency from being a listed public company.

Compared to a blanket corporate tax cut, our proposed measure is much more fiscally palatable, based on the following first-cut estimations. Bursa's current market capitalisation is around MYR1.7t, with the market trading on around 13x current (2022) earnings. This implies a total net earnings of c.MYR130b from Bursa-listed companies, and related corporate tax paid of c.MYR31b (c.38% of 2022 fiscal year CITA projections) at the headline corporate tax rate of 24%. A reduction in tax rate to 20% would imply a worst-case (i.e. all corporates qualifying) foregone fiscal revenue of around MYR5b (as compared to aforementioned estimated first-cut c.MYR14b fiscal revenue loss with a blanket corporate tax cut) or, *ceteris paribus*, a c.30bps increase in the fiscal deficit.

In actuality, net revenue loss to the government will be lower as the tax cut will spur economic activity / growth (so generating tax revenues) and not all Bursa companies will qualify for the lower corporate tax rate (vs. our 100% compliance assumption). As such, we gauge relatively limited fiscal stress from this measure.

Wild Card #2: Abolishing foreign shareholding limits

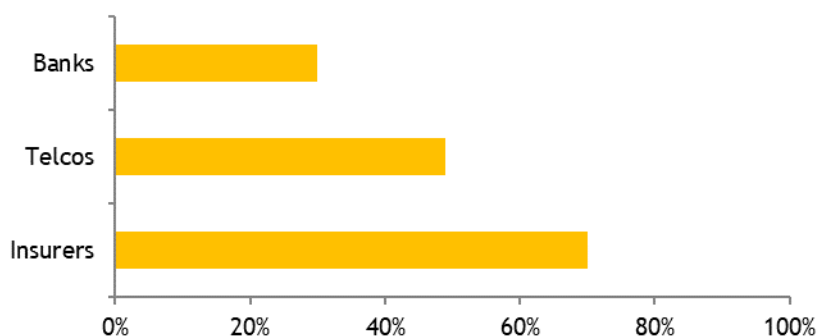
Malaysia has been liberalising foreign ownership in major sectors of the economy (i.e. manufacturing, services and financial) for the past decade, as underscored by the deregulation of the Foreign Investment Committee's investment guidelines from 30 June 2009. However, certain high-profile limits remain in place, including (Fig 159) a 30% foreign strategic shareholder ownership cap on domestic banks, a 49% foreign strategic shareholder ownership cap on telcos, and a 70% foreign equity ownership limit on life and general insurance companies and takaful (Islamic insurance) operators. These caps also have a negative free-float implication for Bursa given regional indices are based on available foreign free float (i.e. if limits on foreign shareholdings are liberalized, foreign free float could also rise). At the same time, companies in sectors deemed strategic such as power, water, ports

and telecommunications are subject to equity ownership conditions, as imposed by their respective sector regulators.

To make a strong statement and signal Malaysia's openness to foreign investment, especially during this crucial post-pandemic window of accelerated regional investment relocations in the wake of US-China trade tensions, we would propose the abolishment of all explicit foreign shareholding limits across the economy. This would reverse perceptions of Malaysia being relatively closed to foreign investment vis-à-vis open regional competitors such as Singapore, while also addressing related foreign investor complaints e.g. friction with the US on foreign-ownership limits in the insurance sector. Ultimately, like most liberalized developed countries around the world, 'hard' foreign ownership limits should be replaced with 'soft' investment-approval parameters centered on 'prudential and best interests of Malaysia' criteria that give regulators leeway to negotiate and optimize with investors.

Such positive signaling on Malaysia's openness to foreign investment is particularly important at this juncture, given the need for a more impactful approach to moving up the value chain and the added urgency given the post-pandemic fiscal and growth challenges faced by the country, as well as increasingly-competed trade and investment diversion opportunities stemming from the US-China trade tensions. Foreign investment liberalization coupled with properly structured fiscal incentives could build on aforementioned trade diversion and investment/FDI relocation gains. In this regard, we note Malaysia established a National Committee on Investment I (NCII) in 2019, co-chaired by the International Trade and Industry Minister and the Finance Minister to woo and fast-track related investments.

Fig 161: Malaysia foreign strategic shareholding limits



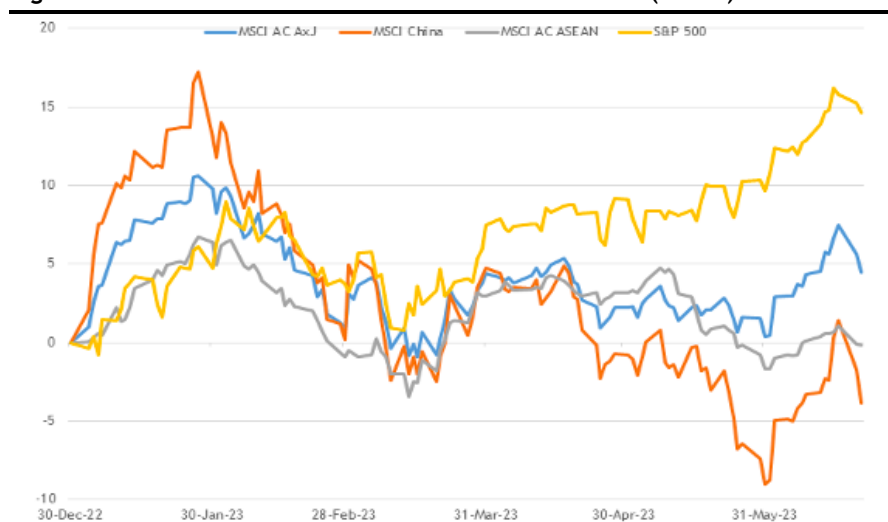
Source: Maybank IBG Research (chart, compilation)

Balanced positioning, with ESG and yield overlays

The disconnect between macro and market performance has been something ASEAN as a whole (Fig 162), and Malaysia in particular, has been grappling with for the past decade. The headline stats paint a grim picture: where Malaysia's nominal GDP expanded from around MYR1.0t in 2012, to c.MYR1.8tr in 2022, an 80% increase, Bursa Malaysia's total capitalization (valuation) over the same period grew just 20%, to c.MYR1.8t (2012: c.MYR1.5t) while total number of listed companies has been stagnant around the 950 mark. The benchmark KLCI, laden with "old economy" stalwarts (i.e. banks, utilities, telcos, plantations), has been especially feeble, now hovering around the 1,400 level, which is almost 20% below where it was a decade ago, with market trading liquidity similarly hobbled. Interconnected reasons for the disconnect include increasingly competitive revenue and margin dynamics typical of a sclerotic middle-income trap country, fading foreign portfolio investor interest being exacerbated by eroding benchmark weightings, and shifting of growth impetus to export-oriented companies/FDI which have thrived on subsidized inputs, a steadily depreciating currency and detachment from local politics. Unfortunately, these reasons do not appear to be at an inflection point.

And so the disconnect continues. Malaysia's 1Q23 real GDP growth was a better-than-expected albeit moderating +5.6% YoY (consensus: +4.8%; 4Q22: +7.1%), underpinned by drawdown of household/individual "excess savings" built up over the pandemic, tourism recovery and positive investment growth momentum as surge in 2021-2022 approved private sector investment is translating into rising actual/realised private investment (see macro update report "GDP growth moderated further in 1Q 2023", dated May 13, for details). However, while we have raised our 2023E GDP growth forecast to 4.5% (from 4.0% previously), 1Q23 corporate results as well as guidance were broadly disappointing, as has already been covered in detail in the earlier part of this report. ASEAN as a whole has been underperforming YTD vs. North Asian peers, the latter boosted by China's reopening, normalizing supply chains / logistics costs and renewed interest in technology stocks as the US interest rate upcycle looks close to peaking. While slowing economic growth in 2023, in synch with global growth deceleration and a likely US recession, is not unexpected, ASEAN is also facing headwinds in the form of generally uninspiring 1Q23 reporting, political uncertainties (Thailand, Vietnam, Malaysia and with Indonesia revving up for Presidential elections in 2024) and lack of China reopening-related impetus i.e. China's recovery so far has been largely driven by consumption and domestic services, and not manufacturing demand that would have the greatest spillover benefits for ASEAN. Re Malaysia specifically, with the KLCI remaining one of the worst YTD performers in the region, the market is also grappling with sustained net foreign selling (June was the 10th straight month of foreign net sell - see Figs 81 and 82), weak crude oil and crude palm oil (CPO) prices and uncertainties relating to the upcoming state elections to be held in Aug.

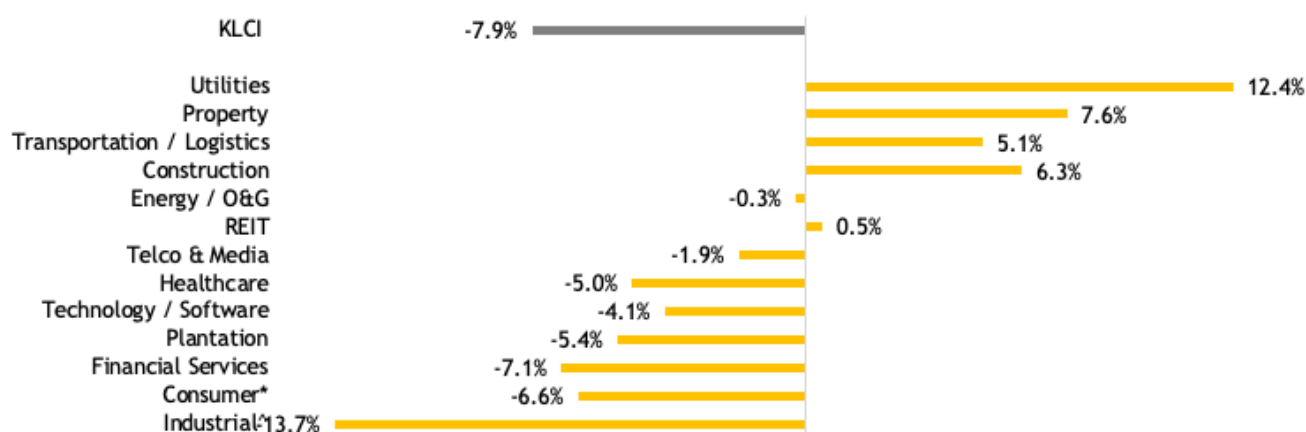
Fig 162: MSCI AxJ MSCI indices and S&P 500 YTD returns (USD %)



Source: Factset, MSCI, Maybank IBG Research; Data as of 21 Jun

From a Bursa-designated sector index perspective, the biggest drag on the KLCI YTD, bearing in mind the sector compositions as flagged in Fig 77, has been the poor performance of the Banks (Financial Services) sector (Fig 163), where profit-taking pressures after strong performances in 2022 has been exacerbated by anticipation of weak NIM delivery this year (on a combination of heightened deposit competition + declining CASA ratios) and rising asset quality concerns as the economy continues to decelerate. Other large-cap sectors which have fared poorly YTD are Plantations (sluggish CPO price outlook, continuing foreign worker-related production bottlenecks), Consumer (higher labour, utility and raw materials costs are squeezing margins even as pricing power is eroded by a slowing economy) and Petrochemicals (Industrial Products & Services; declining ASPs as global supply normalizes in the wake of declining energy costs), with more resilient performances by Utilities and Telcos (Telecommunication and Media) providing some offset. Among the SMIDs sectors which have little representation in the KLCI, Energy (resilient price outlook, especially with planned OPEC+ output cuts) and Transportation & Logistics (regional tourism, supply chain normalisation), as well as domestic economy-gear Property/REITs and Construction, have been relatively strong performers. Technology remains under pressure from a combination of interest rate hikes (pressuring valuations) and weak demand outlook (pressuring earnings expectations) - however, the EMS (Electronics Manufacturing Services) sub-sector is proving relatively resilient given increasingly powerful US-China tensions/supply chain relocation thematic (as flagged earlier).

Fig 163: Bursa YTD performance: by individual indices



Source: Bloomberg (as of 30 Jun), Maybank IBG Research (chart)

* Includes Gaming and Auto

^ includes Petrochem, EMS and Renewables

In sum, notwithstanding the positives of a fairly resilient macro growth outlook notwithstanding consumption pressures and reduced fiscal spending stimulus, still-supportive external demand and strong bank sector fundamentals, investors will be awaiting signs of a peaking in growth and earnings stresses / negative revisions stemming from the interrelated combination of revenue pressures from weakening end-demand (made worse by eroding real disposable incomes) and margin squeeze (higher labour, energy and raw materials costs) before a sustained, broad-based rally can be supported. At the same time, investors will also be keeping an eye on the evolving policy positions of Prime Minister Anwar Ibrahim's ruling coalition, and how these, as well as the outcome of upcoming state elections in Aug 2023, may impact corporate sector performance and a much-anticipated Budget 2024 in Oct.

Notwithstanding sharp downward market earnings revisions as detailed in Fig 89, we still anticipate a more positive Bursa Malaysia equity market performance in 2H 2023 given the combination of more settled global and domestic inflation / interest rate dynamics, confirmation of peak US rates and related relatively shallow US recession (our base case), as well as more tangible macro / corporate earnings uplift from China's reopening. Domestic politics should also be more settled post-state elections in July, provided there are no major upsets, especially in relation to Selangor, that may once again stir speculation of (yet another) change in the federal government.

Nonetheless, it is clear earnings momentum in 2023 will be significantly lower than initially anticipated, with the risk (per guidance) of sustained headwinds stemming from a combination of weakening demand, pressured ASPs and extended margin pressures due to higher labour and material input costs, the latter potentially exacerbated by ongoing adjustments to subsidies relating to energy / electricity in particular. Lack of policy clarity relating to keeping the fiscal sums / projections on track in the face of declining energy prices (a key revenue generator for the government) and stasis re structurally-desirable subsidy and tax measures are also an overhang, the latter potentially to worsen should the outcome of the state elections leave the government in a weaker position, hence derailing needed social and economic reforms as well as potentially necessitating greater pandering to sub-optimal conservative opposition demands.

Hence, given the bearish combination of the aforementioned market overhangs and significantly moderated earnings traction, we have revised (as first flagged in recent 1Q23 Results Roundup report “*Broadly Disappointing*”, dated June 5) our end-2023 KLCI target from 1,660 (14x forward PER, -1.0SD vs. mean; per our 2023 Outlook report “*A New Hope*”, dated Dec 15, 2022), to 1,520 (13x forward PER, -1.5SD vs. mean). As per the KLCI’s historical PER trading band going back over 20 years (Fig 98), the index has tended to bottom around the 12-13x forward PER level before recovering - given current domestic and external economic and political / policy circumstances, this bottoming process is likely to extend through 2023.

With regards broad market themes of note, we flag / refresh the following:

- Reopening/Mobility:** economic reopening / ending of lockdowns has normalised intra-country people movement to pre-pandemic levels, while the subsequent relaxation of international borders into 2Q22 has seen a rebound in air traffic albeit from a depressed base. The tailwinds from this rebound in domestic mobility is fading but still tangible into 2023, benefitting the broad economy, particularly consumption-linked sectors such as consumer/retail (e.g. **MRDIY MK**, **AEON MK**, **MNHB MK**, **PAD MK**) and retail REITs (e.g. **PREIT MK**) where footfall is recovering even as rental rebates decline. Other beneficiaries of normalised intra-country worker mobility and operating conditions include the property (**ECW MK**, **SDPR MK**, **SPSB MK**), construction/building material (**GAM MK**, **IJM MK**), auto/transport (**BAUTO MK**) and leisure (**GENM MK**) sectors. Reopening of external borders will most directly benefit the aviation sector, especially airport operators (**MAHB MK**) and entrenched regional, volume-driven airlines like **CAPITALA MK**. Tourism proxies will also gain, including hotels/leisure (**GENT MK**), brewery (**HEIM MK**, **CAB MK**), retail (**INNATURE MK**) and hospital groups via more medical tourism (**IHH MK**, **OPTIMAX MK**).
- Supply Chain Relocation:** As articulated in MIBG’s ASEAN X Macro report “*Deepening Supply Chains in a Fragmented World*”, dated May 12), the IMF has warned that fragmentation and formation of opposing geopolitical blocs centered on the two largest economies - US and China - could reduce global GDP, undermine trade and increase financial stability risks. ASEAN is not immune to the fallout from fragmentation, but has so far benefited from the rechanneling of trade and investment because of its “neutrality”. Of note is the fact that ASEAN has seen large increases in exports to both the US and China (Fig 26), while also benefitting from higher FDI from both countries as well (Figs 27, 28 and 29). ASEANs’ increases in exports to the US (Fig 30) and China (Fig 31) are resulting in market share gains that will continue to build as the region attracts further production relocation. In the medium-to-long run, ongoing US-China trade tensions present local players with unprecedented relocation opportunities that is expected to boost future revenue streams. Inari and **Globetronics** have both received enquiries from prospective customers keen to relocate test and assembly supply chains out of China, whilst ViTrox is already benefiting from an increase in firm order flows from India/Mexico/Europe from its EMS customers actively ramping up capacity outside of China to counter US-imposed tariffs - this has more than offset the slowdown in orders from its Chinese customers. Trade diversion is also particularly pronounced in the local EMS sector whereby **VS Industry**, **Aurelius Technology**, **PIE Industrial**, as well as recent listings **Nationgate** and

Cape EMS, have all received RFQs (order enquiries) either from existing or new customers keen to relocate manufacturing supply chains out of China.

- Inflation:** while rising cost pressures is resulting in margin pressures across multiple sectors, winners in an inflationary environment with sustained growth would include commodities exposures such as oil & gas (**DLG MK**, **YNS MK**, **HIBI MK**), aluminium smelting (**PMAB MK**) and palm oil (**KLK MK**), consumer staples where demand is relatively inelastic and pricing power is strong (**FFB MK**, **LHIB MK**), consumer brands and financiers that benefit from down trading as real disposable incomes / affordability is eroded (**MRDIY MK**, **PAD MK**, **RCE MK**), banks from the perspective of higher inflation leading to higher interest rates, which are good for net interest margins (**HLBK MK**, **RHBBANK MK**, **ABMB MK**) and green energy stocks as transition plans accelerate in the face of surging energy prices (**SOLAR MK**, **CYP MK**). A key loser from eroding real incomes is consumer discretionary stocks where demand is elastic and pricing power weak. In a bear case, stagflation scenario, a more defensive approach via utilities (**GMB MK**, **T MK**, **MLK MK**, **MFCB MK**) and healthcare (**IHH MK**, **OPTIMAX MK**) would be warranted.
- Interest Rates:** with ASEAN rate hikes, including Malaysia, continuing to lag the Fed, and commodity prices remaining soft on global growth concerns, weaker Ringgit bias is a boon for local-cost exporters, especially the tech and manufacturing sectors, but equates to a margin squeeze for importers of USD inputs (e.g. coal imports for **Tenaga**, auto parts imports for USD-priced components, media content imports for **Astro**). While most sectors will see earnings drag from higher finance costs, especially property/REITs-centric leveraged operating models, the impact is relatively modest given broadly subdued corporate net gearing. However, sectors enjoying both an interest income uplift stemming from net cash balance sheets and FX tailwind given USD-exports are petrochemicals (**PChem**) and technology (**INRI MK**, **VITRO MK**, **FRCB MK**, **GREATEC MK**).
- Politics and Policy:** while Prime Minister Anwar Ibrahim's ruling coalition appears to have a comfortable majority in Parliament, policymaking will nonetheless require consensus among the component parties and this could prove unwieldy and sub-optimal. Investors will be watching the following policy issues particularly closely given potential impact on corporate earnings trajectory: **i)** revision of current blanket subsidies for petrol - the expectation is a more targeted subsidy mechanism will be introduced so that prices can remain capped for the lower-income while generating fiscal savings; some inflationary impact is anticipated, with corporates likely to see production costs rise; **ii)** to widen the tax base, new taxes may be introduced - while carbon tax and capital gains tax have been mentioned, we do not see these as particularly imminent or sufficiently impactful; most probably, GST will need to be reintroduced, likely at a more immediately palatable lower rate than the 6% when it was first introduced in April 2015 (and subsequently abolished in 2018); again, there is likely to be an inflationary impact on cost of production;

And **iii)** GLC Reform may resurface as an important thematic for the market should there be clear political appetite for the same - bearing in mind the lessons learned from the first 10-year GLC Transformation Programme launched in 2004, we would advocate a second and more aggressive transformation programme (i.e. GLCT 2.0), that focuses on the matching of capable, performance-linked and empowered management teams with these asset-rich but efficiency-lacking entities. In essence, there should be a comprehensive review of the unwieldy GLC-GLIC construct, with a view to boosting ROI via a combination of leadership revamps, asset restructuring and fund diversification. Given their outsized weightage in the equity market as well as broader economy, such GLC reforms, if well-executed, represent the most potent, internally-driven opportunity to reinvigorate middle-income "trapped" Malaysia's broad economic dynamism.

On ASEAN peer basket valuation comparison per Fig 164 below, bearing in mind the KLCI's aforementioned YTD underperformance, the historical average 20% PE multiple premium the Malaysian market used to command over regional peers is unlikely to be revisited, with the offshoot being PB and dividend yield measures have become relatively attractive. The market's gradual structural de-rating is attributable to a combination of factors, in particular sustained foreign selling as Bursa Malaysia's weighing in benchmark global indices continues to decline, an erosion of Malaysia's historical policy and political stability premium, as well as uncertain medium-long term growth potential (i.e. middle-income trap concerns), the latter already an issue pre-Covid per the KLCI's negative earnings growth over 2018 and 2019 (and continuing in pandemic-impacted 2020) notwithstanding sustained underlying GDP expansion. Improving sentiment towards the KLCI as a defensive draw vis-à-vis volatile global economic and market conditions, underpinned by its aforementioned heavy 'old economy' financials, utilities and commodities weightings, has seen performance gap vis-à-vis ASEAN peers momentarily narrow. However, without deeper structural reforms to facilitate new growth drivers, this narrowing valuation gap trend is likely to be transient.

For a by-country rundown on 2023 equity market strategies and sector/stock positioning by MKE's ASEAN country Heads of Research, please refer to our bi-monthly ASEAN+ Strategy publication, the most recent being that dated June 30 ("*ASEAN+ Fortnightly: Highlights (19 - 30 June)*").

Fig 164: ASEAN: regional market valuations

	Index	PER (x)		Growth (%)		ROE (%)		P/B (x)		Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Malaysia	1,388	13.8	12.7	7.1	8.4	9.3	9.6	1.3	1.2	4.4	4.5
Singapore	3,207	12.0	11.3	37.2	6.1	10.7	10.9	1.3	1.2	4.6	4.8
Indonesia	6,662	15.2	13.8	27.2	10.4	14.8	15.2	2.3	2.1	4.3	4.4
Thailand	1,480	15.9	14.1	0.4	13.0	10.1	11.0	2.2	2.1	2.0	2.3
Philippines	6,511	14.3	11.8	22.0	19.9	12.2	12.2	1.6	1.5	2.4	2.4
Vietnam	1,125	11.4	9.1	11.0	24.7	14.6	16.0	1.7	1.5	-	-

Source: Maybank IBG Research, MSCI, Bloomberg (as of 29 Jun)

A snapshot of recommended sector weightings is per Fig 167 below - recent sectoral developments of note going into 2023 are detailed below:

- **Auto:** total industry volume (TIV) sales momentum for the Malaysian automotive sector has been strong YTD, as detailed in sector update report "*Marching strong in March*", dated April 19. TIV hit an all-time monthly high of 78.8k units in March, and is on track to reach the 700k units mark in 2023 (YTD: 28% realized). This is a realistic target, for bookings are still strong post pandemic/ SST-holidays, underpinned by various new launches and still-high order backlog across the marques. While we do not expect 2023's TIV to exceed 2022's 721k units, owing to the absence of the much popular SST-holidays incentive that ended end-June 2022, it is on track to closely match it; potentially reaching 700k units (avg: 56.4k units/mth in Apr-Dec 2023), for bookings (based on our channel checks) is still very much achievable across most of the key franchises. In the national segment, Perodua (P2) is targeting record vehicle sales of 314k units (+27% YoY) while Proton can match P2's achievement too, should it sustain monthly sales of 13.3k units. Non-national leader Toyota could also match 2022's 100k units performance.

On a related note, we see Malaysia's e-mobility movement gaining traction. For one thing, the retabled Budget in Feb 2023 made some notable changes vis-à-vis the earlier proposed Budget (tabled in Oct 2022). Firstly, tax exemptions for both CBU and CKD EVs were extended for another 2 years, as well as components for locally assembled EVs. Secondly, there is a greater emphasis on CKD EVs vs. CBU EVs, which should attract new CKD EV investments to the country while providing a greater push, with regards to building out an EV ecosystem. Secondly, MITI has approved Tesla's application to import BEVs into Malaysia. Note Tesla is the maiden applicant for MITI's BEV Global Leaders Initiative program, which aims to boost BEV demand in the local market. Under this program, Tesla will be directly accorded the franchise AP without a local partner, an atypical arrangement vis-à-vis the existing franchise APs holders. Among approval requirements is entering into discussions with MIDA with regards to setting up manufacturing factory for: (i) CKD BEVs; (ii) EV chargers, (iii) critical components, and (iv) battery reuse repair, recycle or remanufacturing (4R) services for energy storage and generation technology in Malaysia at the end of 2nd year of approval.

While Tesla is a positive start, Malaysia still needs to formulate a long-term strategy to develop its e-mobility ecosystem in an integrated and comprehensive manner so that more prospective BEV players (especially from China: Nio; X-Peng) will consider Malaysia as their preferred CKD BEV hub in this region. Our Auto sector top picks are as follows:

- i) **Bermaz Auto:** has arguably the highest EBIT/unit economics in the industry and targets a higher: (i) 18k-23k units of vehicle sales (FY22: 14k units); & (ii) DPR of 70% in FY23-24 (vs. 65% previously). Possible to exceed these targets, given high bookings, attractive incentives and new models rollout. Medium-term target is 30k units (Mazda, Kia, Peugeot);
 - ii) **UMW:** its' Perodua (P2) ops is targeting record vehicle sales of 314k units (+11% YoY), backed by ~220k units backlog. Toyota is conservatively aiming for 90k units (-11% YoY) in FY23. Non-core asset disposals could boost dividend; and
 - iii) **MBM Resources:** provides 3-tier exposure as a: (i) shareholder; (ii) dealer; and (iii) supplier of auto parts to P2. Backed by a net cash balance sheet, our DPS estimates offer attractive dividend yield of >9%, based on a 55% DPR.
- **Numbers Forecast Operators (NFOs):** as articulated in detail in sector update note *"Quantifying the potential impact of a 2nd green wave Part II"*, dated May 15, the states of Selangor, Penang, Negeri Sembilan, Kedah, Kelantan and Terengganu are expected to dissolve their state assemblies in late June, paving the way for state elections in July 2023. Recall that NFO outlets in Kelantan and Terengganu were shut in the 1990s following changes in state governments. All 45 NFO outlets in Kedah were recently shut on 1 Jan 2023 following a change in state government on 16 May 2020. We flag the risk of NFO outlets in Selangor, Penang and Negeri Sembilan being shut should their state governments change at the upcoming state elections, and thus leading to the anti-gaming Islamic party PAS (green wave) playing a more prominent role in state matters. For **Sports Toto**, NFO outlets in Selangor, Penang and Negeri Sembilan account for 22%/8%/5% of its total NFO outlets (Fig 165). For **Magnum**, NFO outlets in Selangor, Penang and Negeri Sembilan account for 18%/9%/6% of its total NFO outlets. Assuming average NFO sales/draw/outlet are uniform throughout the country and NFO outlets are shut on 1 Jan 2024, our long-term earnings estimates for SPTOTO/MAG could be cut by 52%/48% should all the aforementioned state governments change. Should just Selangor state government change, our SPTOTO/MAG long term earnings estimates could be cut by a still-deep 33%/26%. There is no positive offset at the operational level either. Google Trends imply to us that NFO sales for SPTOTO and MAG remain plateaued at c.80% and c.70% of pre-COVID levels. As such, we have tactically downgraded the NFO subsector to NEGATIVE from NEUTRAL, with both SPTOTO and MAG cut to SELL (from HOLD previously).

Fig 165: Distribution of NFO outlets by states or territories

	Sports Toto		Magnum		Da Ma Cai	
	# of outlets	%	# of outlets	%	# of outlets	%
Selangor	144	21.9%	85	18.0%	78	23.6%
Johor	89	13.5%	59	12.5%	42	12.7%
Sabah	33	5.0%	0	0.0%	0	0.0%
Sarawak	52	7.9%	53	11.2%	0	0.0%
Perak	66	10.0%	83	17.5%	55	16.6%
Labuan	4	0.6%	2	0.4%	0	0.0%
Kuala Lumpur	113	17.2%	69	14.6%	70	21.1%
Penang	54	8.2%	41	8.7%	39	11.8%
Pahang	40	6.1%	17	3.6%	9	2.7%
Negeri Sembilan	32	4.9%	30	6.3%	17	5.1%
Perlis	4	0.6%	1	0.2%	1	0.3%
Melaka	26	4.0%	33	7.0%	20	6.0%
Total	657	100.0%	473	100.0%	331	100.0%

Source: Department Of Statistics Malaysia

- Aviation/Tourism:** as articulated in ASEAN Tourism update report “*Tracking the Chinese outbound tourism dragon*”, dated April 13, after a tepid start to the year due to lack of seat capacity (Fig 166) and high airfares, the recovery in Chinese outbound tourism is accelerating and will reach more meaningful levels by mid-2023. Based on insights from Dragon Trail International, 60% of its surveyed respondents in China (n=1,058) intend to travel overseas, most during the summer holidays in Jul and Aug (42%) and the mid-autumn festival and national day holidays otherwise known as Golden Week (32%). 71% intend to travel overseas for 5 to 10 days. Data from Trip.com also reveals 59% have booked 4-5 star accommodations. In summary, Chinese tourists are travelling for longer and spending more relative to pre-COVID times. Country-wise, we recommend positioning as follows:
 - Malaysia:** actual travel from China to Malaysia ranks 8th in the 1H23 top 10 Chinese outbound departures relative to 2019 list despite not being in the top 10 preferred Chinese outbound destinations list of any survey. Potential beneficiaries: **Capital A** and **MAHB** (aviation), as well as **Pavilion REIT** and **KLCCP Stapled** (shopping).
 - Singapore:** by mid-2023, seat capacity from China to Singapore will recover to c.65% of 2019 levels. Moreover, Singapore has emerged as a preferred outbound destination for high net worth Chinese and single Chinese women. Potential beneficiaries are **Genting Singapore** (gaming), **CDL Hospitality Trusts**, **Far East Hospitality Trust**, **Frasers Hospitality Trust** (hoteliers) and **CapitaLand Int. Comm. Trust** (shopping). Non-rated potential beneficiaries are **SIA** (aviation) and **Shangri-La Asia** (hotelier).
 - Thailand:** actual travel from China to Thailand is not in the 1H23 top 10 Chinese outbound departures relative to 2019 list, due to slow recovery in seat capacity (TH has always been a top ASEAN destination). Potential beneficiaries: **Erawan** (hotelier), **Airports Of Thailand** (aviation). Non-rated potential winners: **Dusit Thani** (hotelier), **Siam Wellness** (spa chain).

Fig 166: Seat capacity from China to selected countries relative to 2019

	Jan-23	Feb-23	Mar-23
Hong Kong	23%	33%	40%
Thailand	4%	12%	22%
Macau	62%	78%	85%
Taiwan	19%	22%	28%
South Korea	12%	11%	16%
Singapore	12%	17%	37%
Japan	8%	8%	9%
Malaysia	5%	10%	21%
United Arab Emirates	12%	28%	46%
Cambodia	11%	22%	26%
Australia	7%	23%	31%
Philippines	8%	17%	34%
Vietnam	4%	10%	19%
Indonesia	12%	12%	26%

Source: OAG

- Technology:** the impact of the US Chips Act on indigenous Malaysian semiconductor companies has been two-fold - negative in the short-run, but positive in the longer run. In the near-term, demand destruction due to BAU uncertainties stemming from the Act's enactment has adversely affected Malaysia listed companies' Chinese customers and led to a broad-based decline in 2H22 sales from the region. This trend is guided to persist through to 2H23, when fortunes are expected to turnaround once the Chinese reopening is underway and the US Fed turns dovish on interest rates. **ViTrox**, Malaysia's largest ATE manufacturer and a global market leader in machine vision technology saw China's contribution to its overall revenue pie dip from 33% in 2021 to 28% in 2022 due to its customers adopting a more cautious approach to investing in capacity growth. **Inari**, Malaysia's leading OSAT, has seen a

sequential slowdown in its optoelectronics segment whilst also having to delay progress on its China JV with SMIC-backed YSIC.

With expectations of a sustained challenging operating environment throughout 2H23, we have downgraded both **Inari** and **Frontken** to HOLD post-1Q23 reporting whilst our HOLD and SELL ratings are maintained for **ViTrox** and **Globetronics**, respectively. **Greatech** is now our sole BUY and top pick in the Malaysian hardware space owing to its healthy outstanding orderbook, solid exports customer base in high-growth industries (EV/solar), aggressive growth strategies backed by healthy cash balances, as well as its relative insulation from the ongoing inventory correction in the larger semiconductor supply chain. We are now NEUTRAL on the Technology (Semicon) sub-sector (vs. POSITIVE pre-1Q23 reporting).

In the medium-to-long run however, ongoing US-China trade tensions has presented local players with unprecedented relocation opportunities that is expected to boost future revenue streams. Inari and **Globetronics** have both received enquiries from prospective customers keen to relocate test and assembly supply chains out of China, whilst **ViTrox** is already benefiting from an increase in firm order flows from India/Mexico/Europe from its EMS customers actively ramping up capacity outside of China to counter US-imposed tariffs - this has more than offset the slowdown in orders from its Chinese customers. Trade diversion is also particularly pronounced in the local EMS sector whereby **VS Industry**, **Aurelius Technology**, **PIE Industrial**, as well as recent listings **Nationgate** and **Cape EMS**, have all received RFQs (order enquiries) either from existing or new customers keen to relocate manufacturing supply chains out of China. Optimism should be, however, tempered by the reality that although many local semiconductor and EMS companies increased capex by varying degrees during the height of the pandemic, it is still unlikely that additional capacities will be able to cater to all prospective trade diversion clients. Meanwhile, for new prospective customers that are successfully on-boarded, the lengthy qualification and pilot production stage (6-12 months) in semiconductor and electronic manufacturing may imply that they may not contribute meaningfully to local players' top/bottom-line over the near-term.

Fig 167: Recommended sector weightings

Overweight	Neutral	Underweight
Automotive	Consumer	Healthcare (Gloves)
Aviation	Large-cap Banks	Gaming (NFOs)
Construction	Mid-cap Oil & Gas	Media
EMS	Petrochemicals	
Gaming (Casinos)	Plantations	
Healthcare (Hospitals)	Ports & Shipping	
Large-cap Oil & Gas	Property	
Mid-cap Financials / Banks / Insurers	REITs	
Technology (Software)	Renewables	
	Technology (Semicon)	
	Telcos	
	Utilities	

Source: Maybank IBG Research

Re our Top BUYs (Fig 168), we flag notable initiations/rating changes, deletions and additions over the last quarter vis-à-vis the recommendations in our 4Q22 Results Roundup report "*Downbeat Finish*", dated March 5:

Notable initiations/rating changes:

- **Press Metal (PMAH MK)**: we have initiated coverage (see report "*Largest aluminium producer in Southeast Asia*", dated April 5) on local integrated aluminium producer PMAH with a BUY and SOTP-based TP of MYR5.65, noting 12.9% FY22- 25E 3-year earnings CAGR. Its entrenched position as the largest aluminium smelter in Southeast Asia (SEA), strategically located within close

proximity to raw materials and having significant energy cost advantage via its hydro-powered facility in Sarawak are its strong attributes. Elevated energy costs since 2H21 have resulted in the reduction of aluminium output, mostly across EU smelters as closures prolonged. Additionally, the crackdown on Chinese coal-powered smelters - as the country moves to more sustainable energy - has also capped supply influx. This, combined with steady annual demand growth of 3-4% for aluminium products should support aluminium price of c.USD2,500/t in FY23-25E, in our view. Aluminium is also a key metal component for electric vehicles (EV), solar energy and recyclable packaging, thus ensuring rising demand over the long-term as sustainable products become more prevalent.

1Q23 results, per report “A weak start”, dated May 31, disappointed, making up just 16/18% of our/consensus FY estimates, due to subdued aluminium price and weak associates contribution. However, while we lower FY23-25E earnings by c.5% and SOTP-derived TP to MYR5.40 (-4%), we maintain our BUY call on likely continued supply-demand tightness that could support aluminium prices ahead. The group’s cost structure could also improve on the back of growing VAP sales mix and declining carbon anode prices.

- **ITMAX System (ITMAX MK):** we have initiated coverage (see report “The smart city specialist”, dated June 20) on local video surveillance and analytics provider ITMAX with a BUY and PER-based TP of MYR1.71, noting robust 27% FY22- 25E 3-year earnings CAGR vs. 23% for its peers. ITMAX provides a niche exposure to the traffic and network surveillance industry, as well as smart city solutions in Malaysia. The company has a long track record in providing smart city solutions for both government agencies and commercial clients, with its’ competitive advantage stemming from its extensive asset and network infrastructure (~8,600 video cameras, ~400km of underground fibre optic cables, 2 patented traffic management system modules) that enables it to deliver comprehensive networked systems solutions to customers such as Dewan Bandaraya Kuala Lumpur (DBKL). Its solutions are powered by strong in-house R&D capabilities and broad management expertise, and can readily be replicated in other states in Malaysia. We project healthy EBITDA margins of 66-68% in FY23-FY25E, and attractive ROEs of 20-21%.
- **Petronas Chemicals (PCHEM MK):** as articulated in our upgrade report “Mixed fortunes”, dated April 4, PCHEM’s O&D (Olefins & Derivatives) division ASPs have likely found a bottom following modest 1Q23 gains and further supported by OPEC+’s decision to scale back production through to Dec 2023; however, its’ F&M (Fertiliser & Methanol) division outlook appears gloomier, with ASPs having declined sharply to 2-year lows. We also note that PIC has since restarted test-runs since the latest fire incident in Oct 2022, with full COD still slated for late-3Q23. Assuming no further hiccups, we estimate PIC (Pengerang Integrated Complex) may only achieve an annualised PU (plant utilisation) rate of c.30-35% and is unlikely to be profitable till 2H24. Whilst making no changes to our forecasts and TP of MYR7.35, we upgrade the stock to a HOLD (albeit still pegged to 6x FY24E EV/EBITDA, at -1SD to the LT Mean) on a balanced present risk-reward proposition.

Subsequent 1QFY23 results, as detailed in “1Q23: Supercycle well and truly over”, dated May 30, largely reflected aforementioned concerns, with 1Q23 core PATMI coming in at MYR609m (-70% YoY, -33% QoQ). The results were below both ours and the street’s expectations, at 14%/12% of full-year estimates respectively. EBITDA margins continued to compress (-22ppts YoY, -6ppts QoQ) from higher unit cost of production (+28% YoY) whilst ASPs in both key segments (O&D/F&M) remained relatively weak QoQ. With product prices now appearing to revert to its downtrend mean, we slash our FY23-25E forecasts by 9-24% and lower our TP by 7% to MYR6.85 (pegged to 6x FY24E EV/EBITDA at -1SD to the LT Mean). Our HOLD rating is maintained.

- Carlsberg (CAB MK):** while CAB's sequential quarters could see subdued sales volume as inflationary pressure dampens consumer spending, we flag in our results update report "1Q23 results: In-line", dated May 10, that eventual recovery in international tourism is a key sales catalyst while softening commodity spot prices may lead to group margin accretion towards end-FY23. CAB's group volumes are now hovering at c.70% of pre-pandemic levels. Hence, its focus in the near-term will be on growing domestic sales, defending its mainstream brand share, and expanding its premium brand share through ongoing brand investments and marketing campaigns. Separately, recent news on Family Mart halting alcohol sales will not materially affect CAB given that convenience store sales as a whole contribute <5% of group sales. Upgraded to BUY (from HOLD).
- RCE Capital (RCE MK):** as detailed in results report "A gift that keeps on giving", dated May 24, while 4QFY23 (March YE) earnings were within our expectations, RCE positively surprised by raising its DPR policy to 60-80% from 20-40% i.e. the FY23 recurring DPS of 12sen translated into 63% DPR or 9ppts more than we expected. While cost of funds is on an uptrend, RCE has managed to pass it on to new customers via higher profit rates - thus, we expect earnings to be stable going forward. We raise DPS estimates by 2sen p.a. (+20%) to reflect a higher DPR of 65% (54% previously) and also raise our end-CY23E target P/BV by a similar 20% to 1.8x from 1.5x - this lifts our TP to MYR2.07 from MYR1.75. Coupled with dividend yields of $\geq 6.3\%$ p.a., we have upgraded RCE to BUY (from HOLD).
- YTL Power (YTLP MK):** as detailed in results update report "Record core earnings", dated May 26, YTLP's 3QFY23 results again beat our/consensus expectations due to an exceptionally strong PowerSeraya performance. We expect the group's positive earnings momentum to sustain in the near term notwithstanding continuing losses at its mobile division as **i)** Singapore generation trends seasonally higher, **and ii)** Wessex's tariff hike takes effect next quarter. YTLP is also a potential beneficiary of RE exports longer term. We have raised our FY23/24/25 net profit forecasts by 90%/83%/90% respectively to incorporate latest run rates. Our TP (based on a sum-of-parts, with the operating entities each valued by DCF) is consequently raised to MYR1.50 (from MYR1.00).
- My EG Services (MYEG MK):** as articulated in results report "1Q23 above expectations; U/G to BUY", dated May 31, 1Q23 earnings exceeded expectations (+25% YoY) due to stronger-than-expected margins and stable JPJ-related business despite recent policy headwinds. The immigration segment benefited from the pickup in job matching of foreign workers as the country addresses the worker shortages across the country. The transportation segment was relatively stable despite the introduction of digital roadtax and driver license options by the Ministry of Transport in Feb 2023 as the adoption was rather gradual. We raise FY23-25E earnings by 8-12% and tactically upgrade the stock from HOLD to BUY as the recent share price weakness provides greater upside to our new TP of MYR1.03 (+10sen), based on sum-of-parts methodology. The immigration and new cross-border blockchain solutions (i.e. Malaysia-China customs and supply chain financing) segments are near-term growth drivers, which could offset decline in transport revenue.
- Berjaya Food (BFD MK):** as articulated in downgrade report "The party is over", dated May 19, when we initially cut our rating to SELL (from BUY), BFD's 3QFY23 results disappointed on lower operational margins, with EBIT declining 38% YoY due to c.30-50% increases in raw material costs (eg. coffee, syrups, milk, packaging) and higher labour expenses. We understand that Starbucks Intl. had previously hedged its major raw material components for a two-year period during the onset of the pandemic. As it moves into its next hedging cycle, raw material ASPs have climbed by 30-50% and is expected to stay elevated for at least 9M from early-CY2023. Hence, the group's cost

environment is likely to remain high in the near-term whilst it also has less room to pass on additional costs through price hikes. We cut FY23E-FY25E earnings by 28%-30%, deriving a lower TP of MYR0.72 on an updated 5-year mean PER of 13x (19x FY24E PER previously).

Following a sharp share price retracement, however, we have subsequently upgraded BFD back to BUY, per upgrade note "Bottoming out", dated June 28. Sales momentum is expected to be lacklustre in 4QFY23 due to seasonally weaker sales during Ramadan - however, lower coffee ASPs in 4QFY23 (management believes raw material costs in general peaked in 3QFY23) may partially offset the earnings drag from slower sales momentum in sequential quarters. BFD's largest raw material component is coffee, followed by milk, which is sourced locally. Separately, after its MYR1/beverage price hike in Nov 2022, the group does not plan to raise product prices any further for now given subdued consumer sentiment. Store expansion plans are also unchanged, with the target being to open another c.14 BStarbucks stores in 4QFY23 to bring total BStarbucks stores to 393 stores in FY23. With demand remaining stable, the group believes it can open another 40 to 45 BStarbucks stores in FY24 along with 5 Paris Baguette (PB) stores p.a..

- **Bumi Armada (BAB MK):** per downgrade report "1Q23 results in line; priced in", dated May 25, while 1Q23 results met expectations, we believe BAB's turnaround story (centered on de-gearing sustainably, improving cashflows and monetizing non-core assets) has been more than priced in following its recent sharp share price re-rating. To catalyse sustained growth and re-rate, BArmada needs to win a BOO FPSO project. We reckon that while securing an EPC FPSO job will offer a mid-term earnings boost (3 years; provided execution is on par, no delay in deliveries and/or minimal cost overruns), it is insufficient to catalyst growth longer term. FPSO chartering model typically offers visibility re steady cashflow. Inability to secure a BOO contract in a booming market does not reflect well re prospective client(s) confidence in BAB's execution capabilities, track record, cost management and financing abilities, in our view. Downgraded to SELL (from HOLD).
- **QL Resources (QLG MK):** after being on our SELL list for an extended period of time, we have upgraded QLG to HOLD per update report "Calmer waters ahead", dated May 23. While we believe QLG's MPM (marine products) segment could experience margin compression in 4QFY23 (March YE) given lower fish catch from unfavourable weather conditions and festivity disruptions, we note the following positives in the pipeline: **i)** despite ongoing volatility in feed raw material ASPs (corn & soybean), we believe QLG's cost pass-through mechanism at its ILF (integrated livestock) segment will be more efficient after egg price control is lifted from end-Jun 2023; **ii)** demand-supply dynamics will improve with stabilised egg ASPs in the medium-term; **iii)** QLG is in the process of divesting its palm oil operations in Tawau and Indonesia; **and iv)** there are signs of gradual sales improvement in its CVS segment though we expect recovery to be slow given demand has not yet improved sufficiently for its stores to revert to 24hr operations.

Subsequent 4QFY23 results, as detailed in "4QFY23 results: In-line", dated May 30, met our aforementioned expectations, with projected FY24E earnings growth of 17% YoY largely driven by stable growth in surimi and surimi-based product sales in MPM, and ongoing ILF earnings recovery from higher poultry demand and improved cost-pass through mechanism once poultry price controls are lifted by end-Jun 2023.

Deletions:

- Frontken (FRCB MK):** as articulated in results update report “1Q23: Subdued performance”, dated May 5, higher opex and demand softness from FRCB’s memory fab customers dragged EBIT margins at its TW ops below the 40% mark for the first time since 4Q21. Persisting weakness in the market for consumer electronics (esp. amongst FRCB’s leading memory fab customers) meant that 1Q23 semicon revenue only came in at 77% of group turnover (vs. 81%/85% in FY22/21). Lower revenue and an additional MYR3.6m cost for opex at its new Kaohsiung plant also posed a 4.0/2.8 ppts YoY drag on group/TW’s operating margins (TW was 83% of group EBIT in FY22). With its Kaohsiung plant now fully operational, management had previously guided for it to achieve breakeven capacity by 3Q23 - this however, looks increasingly unlikely with softness in the memory market set to persist through to mid-2H23. Separately, management also disclosed that talks for its US-based strategic acquisition have fallen through. We have revised down our FY23-25E forecasts by 4-6% and lowered our valuation peg to 33x FY24 PER, at the LT Mean (vs. 38x FY23 PER, at +0.5SD to the Mean previously). Imputing for both, we have downgraded the stock to a HOLD with a revised TP of MYR3.35 (-18%) in view of decelerating growth.
- Inari Amertron (INRI MK):** per downgrade report “Risk-reward is now balanced”, dated June 27, despite positive AI-driven market sentiment re global tech that has seen INRI’s share price run-up 21% over the past month, the domestic tech sector still faces multiple headwinds that is likely to hamper growth well into 2024. For its bread & butter RF segment (59% of group turnover in 3QFY23), marginal QoQ improvement is expected due to initial production ramp-up in anticipation of Apple’s Sept flagship smartphone launches. Although the new launches are expected to have c.15% higher RF content vis-à-vis its predecessors, the outlook for the global smartphone market remains weak as the IDC now forecasts a sharper CY23 contraction of 3.2% vs. its Feb projection of -1.1%. The inflection point for INRI’s optoelectronics segment (33% of 3QFY23 revenue) appears to be even further out as demand for its high-speed optical transceivers is not expected to recover till 1H24 amidst the ongoing industry-wide inventory correction, coupled with the delayed global 5G rollout. More positively, progress on INRI’s 55%-owned China JV with YSIC has picked up pace with its plant in Yiwu slated for completion in late-2023. To recap, the JV will focus on premium OSAT services for domestic Chinese customers and at full production capacity (c.20 lines), could potentially contribute MYR650m to INRI’s top-line in the future. Nonetheless, reflecting persistent opto segment weakness & uncertainty over China’s sputtering economic recovery, we lower our FY23/24/25E forecasts by 14%/8%/11%. Valuation peg, however, is raised to 24x FY24 PER, at -0.5SD to Mean (from 20x FY24 PER, at -1SD) on account of marginally improved near-term RF segment outlook and progress re its’ previously-stalled China JV. Revised TP is now MYR2.75 and we D/G Inari to HOLD on balanced current risk-reward. **GREATEC (GREATEC MK)** is now our top pick in the M’sian tech hardware space.
- Farm Fresh (FFB MK):** per results update report “4QFY23 results: Fell short”, dated May 31, 4QFY23 (March YE) core net profit of MYR5m (-78% YoY, -75% QoQ) brought FY23 core net profit to MYR52m (-36% YoY), reflecting just 81%/77% of our/consensus full-year earnings estimates. The earnings shortfall was mainly from higher-than-expected dairy raw material costs. 1QFY24E earnings may remain weak as dairy raw material costs are likely to stay elevated given that FFB has not fully pared down its existing (higher cost) milk inventory levels yet. That said, 2QFY24E earnings should improve in tandem with its recently announced price hike for its chilled category products (+5% effective Jul 2023). FFB is also anticipating for 10%-14% lower raw milk ASPs (new contract to be signed end-Jun 2023) but input cost savings are only expected to flow through in Aug 2023 at the earliest. We cut FY23E earnings by 21% - coupled with near-term challenges, we have downgraded FFB to HOLD with a lower TP of MYR1.60 (previously MYR1.75).

- **Leong Hup International (LHIB MK):** after having upgraded the stock following decent 4Q22 results, we now once again downgrade to SELL (from BUY) after 1Q23 results fell short on depressed poultry ASPs in Indonesia and lower-than-expected feedmill sales in Vietnam. As articulated in results note “1Q23 results: Below expectations”, dated June 1, although Malaysia’s livestock and feedmill operations are expected to see continued recovery and poultry ASPs have begun to rise in Indonesia, we believe the prolonged demand-supply imbalances in the latter market will continue to hinder the group’s earnings recovery in sequential quarters. Further, feed sales in Vietnam are expected to remain subdued given the swine flu outbreak. Hence, our FY23E-FY25E earnings are cut by 17%-61% upon adjusting for lower broiler and DOC (day old chicks) ASPs in Indonesia. Rolling over valuation to FY24 base year, we derive a lower TP of MYR0.50 based on a lower PER of 12x (-1SD to mean, 15x previously).
- **Berjaya Food (BFD MK):** per flagged / articulated rating changes above, we also remove BFD from our Top Buys stock list.

Additions:

- Aurelius Technologies (ATECH MK):** per results update report “*Exceeding expectations*”, dated March 29, FY23 (Jan YE) earnings beat expectations, with revenue surging +31% YoY, thanks to maiden contribution from new capacity added post-IPO (plant 3 capacity), as it ramped up production for its new and existing customers - this lifted FY23 core net profit to MYR41.2m (+71% YoY). Apart from the four new customers secured, ATECH is also increasing its new product initiatives (NPI) activities, with plans to add 2 more general lines to cater for strong demand, an upside risk to our forecasts. Should ATECH be able to fully utilise its new capacity by FY26E (vs. our current assumption of FY28E), this will translate to a stronger 3Y CAGR of 60% (vs. our current assumption of 41%). We have raised our FY24/25E CNP forecasts by 7%/16% and also raise our TP to MYR3.90 by pegging revised CY24E EPS of 19.2sen to a PER of 20x (vs. previous MYR2.40 TP based on 15.9sen CY23E EPS and PER of 15x). We impute a 20% PER premium vs. peer average to reflect ATECH’s much stronger growth prospects as compared to peers (per undemanding PEG of 0.5x), its business diversification into providing OSAT services (which typically command a higher PER as compared to the traditional EMS players), and its more resilient prospects (underpinned by its exposure to industrial electronic products and being a beneficiary of the supply chain diversification trend). Maintain BUY.
- IHH (IHH MK):** per results update note “*Within expectations*”, dated June 1, 1Q23 results came in within expectations as we believe subsequent quarters could be stronger as patient volumes in Singapore recover as the COVID-19 situation improves, while the group could also benefit from the recent disposal of loss-making Gleneagles Chengdu. Singapore revenue intensity grew by 20% YoY due to sustained high acute treatment mix while the other markets recorded strong patient volume growth due to the strong return of elective treatments. Revenue intensity also picked up substantially in Turkey’s Acibadem, up 31% YoY, as prices were raised to reflect the hyperinflationary pressure. Appetite for inorganic expansions remains strong as the group is sitting on net gearing of 17% (post special DPS payout). The outcome of the open offer on the additional Fortis shares is a key stock overhang but this appears to already be discounted in the share price, with IHH now trading at 33.1x FY23E PER, 1SD below its 5Y historical average. Reiterate BUY.
- Press Metal (PMAH MK):** per flagged / articulated initiation of coverage above, we add PMAH to our Top Buys stock list.
- ITMAX System (ITMAX MK):** per flagged / articulated initiation of coverage above, we add ITMAX to our Top Buys stock list.
- RCE Capital (RCE MK):** we have added RCE to our Top Dividend Yield Stocks per Fig 132.

Fig 168: Malaysia: Stock Recommendations (General Portfolio)

Stock	BBG Code	Mkt. cap (MYRm)	Rec.	Price (MYR)	TP (MYR)	Upside (%)	PER (x) 2023E 2024E	P/B (x) 2023E 2024E	ROE (%) 2023E 2024E	Div. Yield (%) 2023E 2024E
Large caps										
IHH Healthcare	IHH MK	50,992	Buy	5.79	7.13	23.1%	32.7 29.2	1.9 1.9	6.0% 6.4%	3.0% 1.6%
Hong Leong Bank	HLBK MK	40,883	Buy	18.86	22.70	20.4%	10.2 9.7	1.2 1.1	11.8% 11.5%	3.4% 3.6%
Press Metal Aluminium	PMAM MK	39,468	Buy	4.79	5.40	12.7%	26.9 23.3	5.2 4.6	19.4% 19.7%	1.5% 1.7%
Kuala Lumpur Kepong	KLK MK	24,308	Buy	22.54	23.90	6.0%	16.0 17.3	1.6 1.6	10.2% 9.1%	3.7% 3.5%
Axiata Group	AXIATA MK	23,590	Buy	2.57	3.50	36.1%	37.9 22.6	1.0 1.0	2.6% 4.4%	3.9% 3.9%
RHB Bank	RHBBANK MK	23,146	Buy	5.40	6.40	18.5%	8.3 7.9	0.8 0.8	9.5% 9.8%	7.4% 7.9%
Telekom Malaysia	T MK	18,307	Buy	4.79	6.50	35.7%	12.3 12.3	2.1 1.9	17.1% 15.8%	4.1% 4.1%
Genting Bhd	GENT MK	15,749	Buy	4.09	5.61	37.1%	13.0 7.6	0.5 0.5	3.8% 6.2%	4.9% 4.9%
MR D.I.Y. Group (M)	MRDIY MK	14,339	Buy	1.52	2.40	57.9%	24.9 20.9	8.3 6.9	33.2% 32.8%	1.9% 2.3%
Dialog Group	DLG MK	11,906	Buy	2.11	4.90	132.2%	22.4 20.5	2.0 1.9	9.8% 10.1%	1.7% 1.9%
Gamuda	GAM MK	11,660	Buy	4.38	4.80	9.6%	13.9 13.8	1.1 1.0	16.8% 7.4%	11.4% 2.7%
Yinson Holdings	YNS MK	7,383	Buy	2.54	5.05	98.8%	14.2 8.9	1.7 1.4	11.7% 15.5%	0.8% 0.8%
Greotech	GREATEC MK	5,387	Buy	4.30	6.05	40.7%	28.8 24.8	7.0 5.4	24.2% 21.9%	0.0% 0.0%
Alliance Bank	ABMB MK	5,186	Buy	3.35	4.00	19.4%	7.8 7.7	0.8 0.7	10.3% 9.6%	6.5% 6.5%
Mid-small caps										
Capital A	CAPITALA MK	3,460	Buy	0.83	0.90	8.5%	nm 9.2	nm nm	71.4% nm	0.0% 0.0%
Axis REIT	AXRB MK	3,221	Buy	1.85	2.16	16.8%	19.9 15.7	1.2 1.2	5.9% 7.5%	4.5% 5.7%
CTOS Digital	CTOS MK	3,142	Buy	1.36	1.97	44.9%	26.9 25.6	5.5 5.1	20.6% 20.0%	1.9% 2.4%
Mega First Corp.	MFCB MK	2,896	Buy	3.07	4.30	40.2%	7.5 7.0	0.9 0.9	12.6% 12.2%	2.8% 3.1%
Bermaz Auto	BAUTO MK	2,685	Buy	2.30	3.53	53.6%	8.9 8.5	3.5 3.3	39.8% 38.5%	9.5% 8.9%
Padini	PAD MK	2,566	Buy	3.90	5.20	33.3%	11.9 11.5	2.5 2.1	20.7% 18.5%	2.6% 2.6%
Allianz Malaysia	ALLZ MK	2,531	Buy	14.22	16.75	17.8%	8.0 6.9	1.1 1.0	11.1% 11.2%	6.0% 6.0%
AEON Co. (M)	AEON MK	1,783	Buy	1.27	2.00	57.5%	12.7 12.2	0.9 0.9	7.4% 7.4%	3.1% 3.1%
Hibiscus Petroleum	HIBI MK	1,741	Buy	0.87	1.90	119.7%	3.9 3.5	0.6 0.5	12.5% 14.3%	2.9% 0.0%
ITMAX Systems	ITMAX MK	1,460	Buy	1.42	1.71	20.4%	22.3 18.6	4.3 3.6	19.2% 19.5%	0.9% 1.1%
Aurelius Technologies	ATECH MK	926	Buy	2.35	2.61	11.0%	24.8 19.6	4.4 2.8	16.1% 14.2%	0.8% 2.6%
InNature	INNATURE MK	381	Buy	0.54	0.61	13.0%	17.8 15.8	2.6 2.5	14.4% 15.9%	5.6% 5.6%

Source: Maybank IBG Research, FactSet, Bloomberg (as of 7 July)

In regard to our Top Sells (Fig 169), which remains anchored by our continuing Underweight stance on the gloves sector (i.e. reiterate SELL ratings for **Hartalega**, **Top Glove** and **Kossan**), the list has become longer vs. our 4Q22 Results Roundup report “**Downbeat Finish**”, dated March 5, following:

- i) downgrading of **Astro Malaysia** to SELL (from HOLD) - as detailed in downgrade report “*Not much post-FIFA World Cup relief*”, dated June 20, traditionally, earnings in the years following those with FIFA World Cups tend to recover strongly due to non-recurrence of FIFA World Cup content cost. Yet, it may not be the case this year as weak consumer sentiment has caused revenues to decline further. In a similar vein, the first interim DPS of 0.25sen also disappointed at only 6% of our FY estimate, being attributed to the incurring of unrealized forex losses relating to USD content costs. As such, we have cut our FY24E/FY25E/FY26E earnings by 16%/20%/22% (FY24E/FY25E/FY26E EBITDA by 7%/8%/8%; Jan YE) as we assume lower TV adex, radio adex and home shopping revenue going forward. With revised yield now barely reaching 4.0%, Astro has also been removed from our dividend picks per Fig 132.
- ii) downgrading of **Bumi Armada** to SELL (from HOLD) - as detailed earlier, per results review report “*Hard to repeat FY22’s impressive deliveries*”, dated Feb 24, while while 1Q23 results met expectations, we believe BAB’s turnaround story (centered on de-gearing sustainably, improving cashflows and monetizing non-core assets) has been more than priced in following its recent sharp share price re-rating. Inability to secure a BOO FPSO contract in a booming market does not reflect well re prospective client(s) confidence in BAB’s execution capabilities, track record, cost management and financing abilities, in our view. Our preferred FPSO play is **Yinson (YNS MK)**;

- iii) downgrading of both NFO (Numbers Forecast Operator) stocks, namely **Magnum** and **Sports Toto**, to SELL (from HOLD), which underscores a tactical downgrade of the NFO sector to NEGATIVE (from NEUTRAL) - as detailed earlier, per sector update note *“Quantifying the potential impact of a 2nd green wave Part II”*, dated May 15, we flag the risk of NFO outlets in Selangor, Penang and Negeri Sembilan being shut should their state governments change at the upcoming state elections. Assuming average NFO sales/draw/outlet are uniform throughout the country and NFO outlets are shut on 1 Jan 2024, our long-term earnings estimates for SPTOTO/MAG could be cut by 52%/48% should all aforementioned state governments change. Should only Selangor flip, our SPTOTO/MAG long term earnings estimates could be cut by a still-deep 33%/26%. There is no positive offset at the operational level, with NFO sales for SPTOTO and MAG remaining plateaued at c.80% and c.70% of pre-COVID levels; and;
- iv) **Leong Hup International (LHIB MK)**: as articulated in results note *“1Q23 results: Below expectations”*, dated June 1, although Malaysia’s livestock and feedmill operations are expected to see continued recovery and poultry ASPs have begun to rise in Indonesia, we believe the prolonged demand-supply imbalances in the latter market will continue to hinder the group’s earnings recovery in sequential quarters, continuing the trend of disappointing earnings delivery per 1Q23 underperformance. Further, feed sales in Vietnam are expected to remain subdued given the swine flu outbreak. Hence, our FY23E-FY25E earnings are cut by 17%-61% upon adjusting for lower broiler and DOC (day old chicks) ASPs in Indonesia, while TP is slashed to MYR0.50 (from MYR1.00) based on a lower PER of 12x (-1SD to mean; 15x previously).

Dropping out of our SELL list are:

- **Petronas Chemicals (PCHEM MK)**: as detailed earlier, per upgrade report *“Mixed fortunes”*, dated April 4, PCHEM’s O&D (Olefins & Derivatives) division ASPs have likely found a bottom following modest 1Q23 gains and further supported by OPEC+’s decision to scale back production through to Dec 2023. Whilst making no changes to our forecasts and TP of MYR7.35, we upgraded the stock to a HOLD on a presently balanced risk-reward proposition. We have maintained the HOLD rating notwithstanding undershooting 1QFY23 reporting, and subsequent earnings (FY23- 25E forecasts cut by 9-24%) and TP (reduced by 7% to MYR6.85) revisions, as detailed in results note *“1Q23: Supercycle well and truly over”*, dated May 30; and
- **QL Resources (QLG MK)**: as detailed earlier, we have upgraded QLG to HOLD per results report *“Calmer waters ahead”*, dated May 23, noting the following positives in the pipeline: **i)** despite ongoing volatility in feed raw material ASPs (corn & soybean), we believe QLG’s cost pass-through mechanism at its ILF (integrated livestock) segment will be more efficient after egg price control is lifted from end-Jun 2023; **ii)** demand-supply dynamics will improve with stabilised egg ASPs; **iii)** QLG is in the process of divesting its palm oil operations in Tawau and Indonesia; **and iv)** there are signs of gradual sales improvement in its CVS segment though we expect recovery to be slow given demand has not yet improved sufficiently for its stores to revert to 24hr operations. 4QFY23 results were in-line, per results note *“4QFY23 results: In-line”*, dated May 30, with projected FY24E earnings growth of 17% YoY driven by stable growth in surimi and surimi-based product sales, and ongoing earnings recovery from higher poultry demand and improved cost-pass through mechanism once poultry price controls are lifted by end-Jun 2023.

- **TH Plantations (THP MK):** per results update note “*1Q core LATMI within our expectation*”, dated May 30, while 1Q23 was a loss and 2Qwe core earnings are likely to remain lacklustre, we expect earnings to play significant catch up in 2H23 on sharply stronger output (on improving labour situation) and lower cost (especially in Q4). Given now-limited downside to our TP, we tactically upgrade THP to HOLD (from SELL) as we believe most of the negatives have been priced-in by the market. Our TP is unchanged at MYR0.49 on 0.6x FY23E PBV, -1SD 5Y mean. We prefer **Ta Ann Holdings (TAH MK)** re plantation SMID caps.

Fig 169: Malaysia: Sell-rated stocks

Stock	BBg Code	Mkt. cap (MYRm)	Rec.	Price (MYR)	TP (MYR)	Downside (%)	PER (x)		P/B (x)		ROE (%)		Div. Yield (%)	
							2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Nestle Malaysia	NESZ MK	30,626	Sell	130.60	118.80	-9.0%	44.5	39.5	48.4	47.8	108.8%	nm	2.2%	2.5%
Hartalega	HART MK	6,869	Sell	2.01	1.35	-32.8%	50.5	355.4	1.4	1.5	nm	nm	0.0%	0.0%
Top Glove	TOPG MK	6,807	Sell	0.85	0.80	-5.9%	nm	nm	1.1	1.2	nm	nm	0.0%	0.0%
Kossan Rubber	KRI MK	3,368	Sell	1.32	1.00	-24.2%	nm	nm	0.9	0.9	nm	nm	2.3%	2.3%
Bumi Armada	BAB MK	2,902	Sell	0.49	0.58	18.4%	3.5	3.4	0.5	0.4	13.9%	12.4%	0.0%	0.0%
Lotte Chemical Titan	TTNP MK	2,710	Sell	1.19	1.19	0.0%	nm	46.9	0.2	0.2	nm	0.5%	0.0%	1.0%
Astro Holdings	ASTRO MK	2,633	Sell	0.51	0.59	17.5%	11.8	10.2	3.0	2.2	24.2%	21.4%	4.9%	4.7%
Velesto	VEB MK	1,849	Sell	0.23	0.20	-11.1%	22.9	15.5	0.8	0.7	3.4%	4.8%	0.0%	0.0%
Leong Hup	LHIB MK	1,825	Sell	0.50	0.50	0.0%	18.7	11.5	0.9	0.8	4.7%	7.2%	1.6%	2.6%
Sports Toto	SPTOTO MK	1,823	Sell	1.36	1.04	-23.5%	9.1	9.5	2.0	1.9	21.4%	19.6%	8.5%	8.1%
Magnum	MAG MK	1,437	Sell	1.00	0.91	-9.3%	9.9	9.9	0.6	0.6	6.0%	5.9%	8.0%	8.0%
Globetronics	GTB MK	931	Sell	1.39	0.87	-37.4%	30.1	23.7	2.9	2.8	9.7%	11.6%	1.7%	2.1%
Tan Chong Motor	TCM MK	684	Sell	1.05	0.88	-16.2%	nm	50.0	0.2	0.2	nm	0.5%	2.9%	2.9%
Sapura Energy	SAPE MK	559	Sell	0.04	0.03	-14.3%	nm	nm	nm	nm	102.7%	17.2%	0.0%	0.0%

Source: Maybank IBG Research, FactSet, Bloomberg (as of 7 Jul)

Fig 170: Maybank KE Equity Research Stock Universe

Ticker	Company	FYE		Price 07 Jul MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS			CAGR	PER			ROE	Div Yld	PBV	Px chg
								CY22	CY23E	CY24E	CY22	CY23E	CY24E	21-23E	CY22	CY23E	CY24E	CY23E	CY23E	CY23E	YTD
								-----	MYR m	-----	-----	MYR sen	-----	(%)	-----	(x)	-----	(%)	(%)	(x)	(%)
<u>Automotive</u>																					
BAUTO MK	Bermaz Auto	*	4	2.30	2,685	3.53	Buy	254.1	312.4	334.1	21.8	26.8	28.7	14.7	10.6	8.6	8.0	38.9	9.1	3.3	10.1
MBM MK	MBM Resources	*	12	3.54	1,384	4.80	Buy	224.2	247.4	254.5	57.3	63.3	65.1	6.6	6.2	5.6	5.4	11.4	9.8	0.6	11.5
TCM MK	Tan Chong Motor	*	12	1.05	684	0.88	Sell	(28.7)	(57.9)	13.5	(4.5)	(9.0)	2.1	n.a.	n.a.	n.a.	50.0	(2.0)	2.9	0.2	(10.2)
UMWH MK	UMW Hldgs	*	12	3.85	4,498	5.30	Buy	421.0	423.9	438.9	36.0	36.3	37.5	2.1	10.7	10.6	10.3	9.1	3.8	1.0	14.2
SIME MK	Sime Darby	*	6	2.05	13,972	2.70	Buy	1,114.9	1,253.4	1,295.8	16.4	18.5	19.1	7.9	12.5	11.1	10.7	7.6	7.0	0.9	(9.7)
<u>Banks</u>																					
MAY MK	Malayan Banking		12	8.67	104,509	NR	NR	8,201.0	9,438.4	10,101.4	68.3	76.9	79.2	7.7	12.7	11.3	10.9	10.8	7.6	1.2	3.2
AMM MK	AMMB Holdings		3	3.60	11,904	4.15	Buy	1,656.9	1,661.9	1,716.6	52.8	50.8	52.0	(0.7)	6.8	7.1	6.9	8.8	4.8	0.6	(10.0)
BIMB MK	Bank Islam M'sia	*	12	1.94	4,397	2.05	Hold	491.7	484.6	528.2	20.0	21.0	22.0	4.9	9.7	9.2	8.8	6.7	6.7	0.6	(27.8)
ABMB MK	Alliance Bank		3	3.35	5,186	4.00	Buy	651.6	674.2	737.2	42.3	43.3	47.5	6.0	7.9	7.7	7.1	9.4	6.6	0.7	(6.0)
CIMB MK	CIMB Group		12	5.16	55,032	5.85	Buy	5,439.9	6,229.9	6,725.4	52.0	60.0	65.0	11.8	9.9	8.6	7.9	9.3	5.6	0.8	(8.9)
HLBK MK	Hong Leong Bank		6	18.86	40,883	22.70	Buy	3,545.0	3,893.4	4,172.0	173.5	190.5	204.0	8.4	10.9	9.9	9.2	11.2	3.5	1.1	(7.3)
HLFG MK	Hong Leong FG		6	17.22	19,721	22.20	Buy	2,582.3	2,710.2	2,834.7	227.5	239.0	250.0	4.8	7.6	7.2	6.9	9.9	3.0	0.7	(6.5)
PBK MK	Public Bank		12	3.85	74,731	4.30	Hold	6,119.5	6,714.5	7,008.2	32.0	35.0	36.0	6.1	12.0	11.0	10.7	12.6	4.9	1.4	(9.8)
RHBBANK MK	RHB Bank		12	5.40	23,146	6.40	Buy	2,707.7	2,801.1	3,015.8	68.0	65.0	69.0	0.7	7.9	8.3	7.8	9.3	7.4	0.8	(2.5)
<u>Construction / Infra</u>																					
GAM MK	Gamuda	*	7	4.38	11,660	4.80	Buy	829.9	828.4	946.5	32.4	31.6	36.1	5.6	13.5	13.9	12.1	7.5	7.8	1.2	18.6
IJM MK	IJM Corp	*	3	1.47	5,157	2.18	Buy	318.6	389.0	382.0	9.0	9.5	11.0	10.4	16.3	15.4	13.4	3.9	4.4	0.5	(5.6)
CMS MK	Cahaya Mata Swk	*	12	1.06	1,139	1.48	Buy	106.7	140.0	157.7	9.9	13.0	14.7	21.9	10.7	8.2	7.2	4.2	2.8	0.3	1.8
SCGB MK	Sunway Cons.	*	12	1.65	2,127	1.73	Hold	135.2	135.4	135.8	10.5	10.5	10.5	-	15.7	15.7	15.7	16.9	3.3	2.7	7.4
PINT MK	Pintaras Jaya	*	6	1.70	282	1.70	Hold	18.3	5.7	6.3	11.0	3.4	3.8	(41.2)	15.5	50.0	44.7	1.4	0.0	0.7	(17.3)
<u>Consumer</u>																					
AEON MK	AEON Co. (M)	*	12	1.27	1,783	2.00	Buy	133.5	140.2	146.2	9.5	10.0	10.4	4.6	13.4	12.7	12.2	7.4	3.1	0.9	(4.4)
CAB MK	Carlsberg Brew		12	20.24	6,188	24.70	Buy	326.5	346.2	361.1	106.8	113.2	118.1	5.2	19.0	17.9	17.1	164.9	4.6	28.8	(9.6)
HEIM MK	Heineken M'sia		12	25.84	7,806	30.80	Buy	412.8	427.7	437.3	136.7	141.6	144.8	2.9	18.9	18.2	17.8	85.7	5.5	16.0	6.4
PAD MK	Padini Holdings	*	6	3.90	2,566	5.20	Buy	184.0	219.0	227.4	28.0	33.3	34.6	11.2	14.0	11.7	11.3	19.5	2.6	2.3	18.0
NESZ MK	Nestle (Malaysia)	*	12	130.60	30,626	118.80	Sell	662.9	688.4	775.0	282.7	293.6	330.5	8.1	46.2	44.5	39.5	108.8	2.2	48.4	(5.9)
QLG MK	QL Resources	*	3	5.32	12,947	5.90	Hold	314.4	391.1	426.3	13.0	16.1	17.5	16.3	41.1	33.0	30.4	13.8	0.8	4.5	(2.8)
SEM MK	7 - Eleven (M)		12	1.99	2,209	1.90	Hold	68.6	75.4	83.7	6.2	6.8	7.5	10.0	32.1	29.3	26.5	46.1	2.1	13.5	5.9
MNHB MK	Mynews Holdings		10	0.43	293	0.51	Hold	(19.0)	(13.1)	3.2	(2.8)	(1.9)	0.5	n.a.	n.a.	n.a.	89.0	(6.4)	0.0	1.4	(31.7)
BFD MK	Berjaya Food	*	6	0.65	1,140	0.72	Buy	113.0	97.3	102.6	6.3	5.5	5.7	(4.9)	10.3	11.9	11.4	17.7	4.2	2.1	(35.7)
LHIB MK	Leong Hup Intl.		12	0.50	1,825	0.50	Sell	218.9	97.7	158.7	6.0	2.7	4.3	(15.3)	8.3	18.5	11.6	4.7	1.6	0.9	4.4
MRDIY MK	MR D.I.Y. Group	*	12	1.52	14,339	2.40	Buy	479.6	575.9	685.7	5.1	6.1	7.3	19.6	29.8	24.9	20.8	33.2	1.9	8.3	(23.4)
INNATURE MK	InNature	*	12	0.54	381	0.61	Buy	21.3	21.4	24.1	3.0	3.0	3.4	6.5	18.0	18.0	15.9	14.4	5.6	2.3	(4.6)
FFB MK	Farm Fresh	*	3	1.06	1,984	1.60	Hold	58.0	74.4	110.3	3.1	4.0	5.9	37.4	33.9	26.7	18.0	11.0	0.9	2.9	(21.5)

* Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 26 May 2023; Source: Bloomberg pricing, Maybank IBG Research

Maybank IBG Equity Research Stock Universe (Cont'd)

Ticker	Company	FY	Price 07 Jul MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			CY22	EPS CY23E	CY24E	CAGR 21-23E	CY22	PER CY23E	CY24E	ROE CY23E	Div Yld CY23E	PBV CY23E	Px chg YTD	
							-----	MYR m	-----	-----	MYR sen	-----	(%)	-----	(x)	-----	(%)	(%)	(x)	(%)	
<u>Non-Bank Financials</u>																					
BURSA MK	Bursa Malaysia	*	12	6.38	5,163	6.20	Hold	226.6	224.4	229.7	28.0	27.7	28.4	0.7	22.8	23.0	22.5	27.8	4.2	6.5	(2.4)
ALLZ MK	Allianz Malaysia		12	14.22	2,531	16.75	Buy	472.8	489.0	538.4	136.6	141.3	155.5	6.7	10.4	10.1	9.1	10.6	6.0	0.6	7.7
RCE MK	RCE Capital		3	2.32	1,700	2.38	Hold	137.4	136.6	140.3	18.8	18.3	18.8	-	12.4	12.7	12.4	16.4	7.8	2.1	41.9
MNRB MK	MNRB Holdings		3	0.98	767	1.09	Hold	118.5	134.3	152.6	15.1	17.2	19.5	13.6	6.5	5.7	5.0	5.0	2.3	0.3	11.4
<u>Gaming</u>																					
SPTOTO MK	Sports Toto		6	1.36	1,823	1.04	Sell	181.8	197.2	194.4	13.5	14.6	14.4	3.3	10.1	9.3	9.4	20.5	8.3	1.9	(13.3)
MAG MK	Magnum		12	1.00	1,437	0.91	Sell	100.5	145.5	144.8	7.0	10.1	10.1	20.1	14.3	9.9	9.9	6.0	8.0	0.6	(20.7)
GENT MK	Genting		12	4.09	15,749	5.61	Buy	87.2	1,212.7	2,067.9	2.3	31.5	53.7	383.2	177.8	13.0	7.6	3.8	4.9	0.5	(6.9)
GENM MK	Genting Malaysia		12	2.46	13,943	2.85	Buy	235.9	667.3	983.7	4.2	11.8	17.4	103.5	58.6	20.8	14.1	5.4	6.1	1.1	(5.3)
<u>Gloves</u>																					
HART MK	Hartalega Hldgs	*	3	2.01	6,869	1.35	Sell	905.4	46.8	59.5	26.3	1.4	1.7	(74.4)	7.6	146.2	116.5	1.0	0.0	1.5	18.2
KRI MK	Kossan Rubber	*	12	1.32	3,368	1.00	Sell	156.6	(64.9)	(15.6)	6.1	(2.5)	(0.6)	#NUM!	21.6	n.a.	n.a.	(1.7)	2.3	0.9	22.8
TOPG MK	Top Glove Corp	*	8	0.85	6,807	0.80	Sell	(37.9)	(476.7)	(140.1)	(0.4)	(5.8)	(1.7)	n.a.	n.a.	n.a.	n.a.	(9.7)	0.0	1.4	(6.1)
<u>Healthcare</u>																					
IHH MK	IHH Healthcare	*	12	5.79	50,992	7.13	Buy	1,380.7	1,559.9	1,742.6	15.7	17.7	19.8	12.3	36.9	32.7	29.2	6.0	3.0	1.9	(5.8)
KPJ MK	KPJ Healthcare	*	12	1.09	4,757	1.20	Hold	167.0	217.5	263.0	3.7	4.8	5.8	25.2	29.5	22.7	18.8	9.4	2.7	2.1	9.1
OPTIMAX MK	Optimax	*	12	0.71	383	0.86	Buy	14.7	16.2	16.2	2.2	2.4	2.4	4.4	32.3	29.6	29.6	26.4	3.4	6.5	(8.0)
<u>Materials</u>																					
PMAH MK	Press Metal	*	12	4.79	39,468	5.40	Buy	1,418.0	1,465.5	1,690.6	17.2	17.8	20.5	9.2	27.8	26.9	23.4	19.4	1.5	5.2	(1.1)
<u>Media</u>																					
ASTRO MK	Astro Malaysia		1	0.51	2,633	0.59	Sell	288.9	259.1	202.6	5.5	4.9	3.8	(17.1)	9.1	10.3	13.3	21.7	4.9	2.2	(21.9)
MPR MK	Media Prima		6	0.43	471	0.38	Hold	10.3	16.4	36.9	1.0	1.5	3.3	86.4	44.7	28.3	12.9	2.4	0.9	0.7	1.2
<u>Oil & Gas</u>																					
DLG MK	Dialog Group	*	6	2.11	11,906	4.90	Buy	518.4	555.8	621.8	9.2	9.9	11.0	9.3	22.9	21.4	19.2	9.1	1.8	2.1	(13.3)
ICON MK	Icon Offshore	*	12	0.08	203	0.10	Buy	(9.0)	26.1	30.7	(0.3)	1.0	1.1	n.a.	n.a.	7.5	6.8	6.1	0.0	0.5	(21.1)
WSC MK	Wah Seong Corp	*	12	0.90	693	1.20	Buy	61.7	92.3	109.7	8.0	11.9	14.2	33.2	11.2	7.5	6.3	13.7	0.0	1.0	44.4
MMHE MK	M'sia Marine	*	12	0.54	864	0.85	Buy	48.6	77.3	83.5	3.0	4.8	5.2	31.7	18.0	11.3	10.4	4.2	0.0	0.5	(7.2)
BAB MK	Bumi Armada		12	0.49	2,902	0.58	Sell	821.7	829.5	842.8	13.9	14.0	14.3	1.4	3.5	3.5	3.4	13.9	0.0	0.5	2.1
YNS MK	Yinson Hldgs	#	1	2.54	7,383	5.05	Buy	551.8	846.7	996.7	18.5	27.8	32.6	32.9	13.7	9.1	7.8	15.2	0.8	1.7	4.5
SAPE MK	Sapura Energy	*	1	0.04	559	0.03	Sell	(784.3)	(221.7)	(177.6)	(4.9)	(1.4)	(1.1)	n.a.	n.a.	n.a.	n.a.	17.2	0.0	(0.2)	0.0
VEB MK	Velesto Energy	*	12	0.23	1,849	0.20	Sell	(49.8)	80.6	119.4	(0.6)	1.0	1.5	n.a.	n.a.	22.5	15.0	3.4	0.0	0.8	50.0
FAVCO MK	Favelle Favco	*	12	1.78	416	1.85	Hold	46.1	56.9	73.7	20.0	24.6	31.9	26.3	8.9	7.2	5.6	7.5	2.4	0.6	3.5
HIBI MK	Hibiscus	*	6	0.87	1,741	1.90	Buy	391.6	474.3	517.8	19.5	23.6	25.8	15.1	4.4	3.7	3.4	14.8	1.4	0.6	(17.1)

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Maybank IBG Equity Research Stock Universe (Cont'd)

Ticker	Company	FY	Price 07 Jul MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS	CAGR	PER	ROE	Div Yld	PBV	Px chg				
							CY22	CY23E	CY24E	CY22	CY23E	CY24E	21-23E	CY22	CY23E	CY24E	CY23E	CY23E	CY23E	YTD
							-----	MYR m	-----	-----	MYR sen	-----	(%)	-----	(x)	-----	(%)	(%)	(x)	(%)
<u>Petrochemicals</u>																				
PCHEM MK	Petronas	*	12	6.02	48,160	6.85	Hold	6,411.0	3,428.2	4,776.5	80.1	42.9	59.7	(13.7)	7.5	14.0	10.1	8.4	3.6	1.2
TTNP MK	Lotte Chemical	*	12	1.19	2,710	1.19	Sell	(712.1)	(320.2)	57.8	(31.3)	(14.1)	2.5	n.a.	n.a.	n.a.	47.6	(2.9)	0.0	0.2
<u>Plantation</u>																				
GENP MK	Genting	*	12	5.72	5,132	6.30	Hold	491.1	297.3	283.7	54.7	33.1	31.6	(24.0)	10.5	17.3	18.1	5.6	3.5	1.0
IOI MK	IOI Corp	*	6	3.75	23,264	3.85	Hold	1,581.5	1,377.9	1,280.5	25.4	22.2	20.6	(9.9)	14.8	16.9	18.2	11.7	3.5	2.0
KLK MK	KL Kepong	*	9	22.34	24,308	23.90	Buy	2,029.1	1,487.9	1,425.5	188.2	138.0	132.2	(16.2)	11.9	16.2	16.9	9.9	3.7	1.8
SDPL MK	Sime Darby	*	12	4.28	29,599	4.30	Hold	2,180.1	1,223.7	1,616.9	31.5	17.7	23.4	(13.8)	13.6	24.2	18.3	7.2	2.2	1.7
BPLANT MK	Boustead	*	12	0.97	2,162	0.92	Hold	185.3	52.4	51.0	8.3	2.3	2.3	(47.4)	11.6	42.0	42.0	1.8	1.5	0.7
SOP MK	Sarawak Oil	*	12	2.48	2,208	2.73	Hold	490.0	218.5	232.4	55.6	24.8	26.4	(31.1)	4.5	10.0	9.4	6.3	3.0	0.6
TSH MK	TSH Resources	*	12	0.93	1,277	0.94	Hold	189.6	117.8	124.1	13.7	8.5	9.0	(18.9)	6.8	10.9	10.3	5.8	4.4	0.7
THP MK	TH Plantations	*	12	0.53	464	0.49	Hold	69.3	23.0	21.7	7.8	2.6	2.5	(43.4)	6.7	20.2	21.0	3.2	0.0	0.6
TAH MK	Ta Ann Hldgs	*	12	3.38	1,489	3.72	Buy	348.3	181.9	166.1	79.1	41.3	37.7	(31.0)	4.3	8.2	9.0	10.0	7.3	0.8
<u>Property</u>																				
SPSB MK	SP Setia	*	12	0.57	2,326	0.73	Buy	286.8	707.5	420.4	7.0	17.4	10.3	21.3	8.1	3.3	5.5	5.6	8.2	0.2
UEMS MK	UEM Sunrise	*	12	0.31	1,543	0.27	Hold	73.2	83.5	127.3	1.4	1.7	2.5	33.6	21.8	17.9	12.2	1.2	1.6	0.2
SWB MK	Sunway Berhad	*	12	1.58	7,828	1.72	Hold	637.8	801.9	758.9	10.7	13.5	12.8	9.4	14.8	11.7	12.3	6.1	2.7	0.7
ECW MK	Eco World	*	10	0.85	2,503	1.02	Buy	239.5	280.0	294.3	8.2	9.5	10.0	10.5	10.4	8.9	8.5	5.7	5.9	0.5
ECWI MK	Eco World Int'l	*	10	0.62	1,476	0.66	Hold	(139.2)	(52.8)	(47.8)	(5.8)	(2.2)	(2.0)	n.a.	n.a.	n.a.	n.a.	(2.0)	0.0	0.6
TILB MK	Tambun Indah	*	12	0.88	384	0.98	Hold	61.2	58.4	58.5	14.0	13.3	13.3	(2.5)	6.3	6.6	6.6	7.5	6.1	0.5
SDPR MK	Sime Darby Prop	*	12	0.49	3,332	0.58	Buy	328.0	291.8	294.3	4.8	4.3	4.3	(5.4)	10.2	11.4	11.4	3.0	3.9	0.3
<u>REITS</u>																				
AXRB MK	Axis REIT	*	12	1.85	3,221	2.16	Buy	157.9	162.2	205.5	9.6	9.3	11.8	10.9	19.3	19.9	15.7	5.9	4.5	1.2
SALAM MK	Al-Salam REIT	*	12	0.46	267	0.48	Hold	15.7	16.7	22.3	2.7	2.9	3.8	18.6	17.0	15.9	12.1	2.6	5.2	0.4
KLCCSS MK	KLCCP Stapled	*	12	6.90	12,457	7.00	Hold	684.9	756.8	769.9	37.9	41.9	42.6	6.0	18.2	16.5	16.2	5.5	5.2	0.8
SENTRAL MK	Sentral REIT		12	0.83	890	0.89	Hold	76.2	71.7	73.0	7.1	6.7	6.8	(2.1)	11.7	12.4	12.2	5.5	6.9	0.7
CLMT MK	Capitaland Trust		12	0.50	1,349	0.55	Hold	86.5	133.4	144.7	4.0	4.2	4.5	6.1	12.5	11.9	11.1	4.6	7.6	0.5
SREIT MK	Sunway REIT		12	1.56	5,343	1.54	Hold	328.7	334.9	369.7	9.6	9.8	10.8	6.1	16.3	15.9	14.4	6.4	5.6	1.1
IGBREIT MK	IGB REIT		12	1.65	5,931	1.70	Hold	336.2	370.1	382.8	9.4	10.3	10.6	6.2	17.6	16.0	15.6	9.5	6.2	1.5
PREIT MK	Pavilion REIT		12	1.24	4,525	1.51	Buy	246.4	297.2	341.0	8.1	7.3	8.3	1.2	15.3	17.0	14.9	5.5	5.6	1.0
YTLREIT MK	YTL REIT		6	0.99	1,687	1.03	Buy	141.7	148.0	152.3	8.3	8.7	9.0	3.8	11.9	11.4	11.1	5.4	8.5	0.6
<u>Renewables</u>																				
CYP MK	Cypark Res	*	10	0.79	614	0.77	Hold	82.7	50.0	27.1	12.9	7.8	4.2	(42.6)	6.1	10.1	18.5	6.0	0.0	0.3
SOLAR MK	Solarvest Hldgs	*	3	1.24	828	1.22	Hold	16.5	26.7	32.8	2.4	4.0	4.8	41.1	51.1	31.4	25.7	12.8	0.7	3.8

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Maybank IBG Equity Research Stock Universe (Cont'd)

Ticker	Company	FY		Price 07 Jul MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY22 CY23E CY24E ----- MYR m -----			EPS CY22 CY23E CY24E ----- MYR sen -----			CAGR 21-23E (%)		PER CY23E CY24E ----- (x) -----	ROE CY23E (%)	Div Yld CY23E (%)	PBV CY23E (x)	Px chg YTD (%)	
<u>Technology</u>																					
INRI MK	Inari Amertron	*	6	2.70	10,079	2.75	Hold	364.0	372.2	439.0	9.5	9.7	11.5	9.8	28.4	27.8	23.6	14.3	3.1	3.9	4.9
VITRO MK	ViTrox Corp	*	12	7.89	7,458	8.60	Hold	217.2	211.3	270.3	22.9	22.3	28.6	11.8	34.5	35.4	27.6	20.5	0.7	7.2	3.7
GTB MK	Globetronics	*	12	1.39	931	0.87	Sell	47.2	30.8	39.1	7.1	4.6	5.9	(8.8)	19.6	30.2	23.6	9.7	1.7	2.9	21.8
VSI MK	V.S. Industry	*	7	0.86	3,278	0.80	Hold	198.0	211.2	260.9	4.8	5.1	6.1	13.6	18.0	16.8	13.9	8.9	2.6	1.4	(1.5)
GREATEC MK	Greatech	*	12	4.30	5,387	6.05	Buy	126.6	186.8	216.7	10.1	14.9	17.3	30.9	42.6	28.9	24.9	24.1	0.0	7.0	(11.2)
FRCB MK	Frontken Corp	*	12	3.15	4,953	3.35	Hold	122.5	148.5	161.2	7.8	9.4	10.2	14.4	40.4	33.5	30.9	27.2	1.6	8.0	3.1
GHLS MK	GHL Systems	*	12	0.79	902	0.82	Hold	28.8	31.1	35.5	2.5	2.7	3.1	11.4	31.6	29.3	25.5	5.7	0.0	1.7	(8.1)
MYEG MK	My E.G. Services	*	12	0.72	5,295	1.03	Buy	353.0	387.1	419.4	4.7	5.2	5.6	9.2	15.2	13.8	12.8	18.1	2.2	2.5	(17.1)
REVENUE MK	Revenue Group		6	0.25	136	0.27	Hold	(9.7)	(14.2)	5.6	(1.6)	(2.3)	0.9	n.a.	n.a.	n.a.	27.8	(11.3)	0.0	0.9	(63.0)
CTOS MK	CTOS Digital	*	12	1.36	3,142	1.97	Buy	74.0	116.6	122.7	3.2	5.0	5.3	28.7	42.5	27.2	25.7	20.6	1.9	5.6	(3.7)
ATECH MK	Aurelius	*	1	2.35	926	2.61	Buy	39.8	46.8	60.9	10.1	11.9	15.5	23.6	23.2	19.8	15.2	14.4	2.4	3.3	29.3
RAMSSOL MK	Ramssol		12	0.33	80	0.46	Buy	4.0	7.2	8.9	1.8	2.9	3.6	41.4	18.1	11.2	9.0	11.5	0.0	1.2	(26.1)
ITMAX MK	ITMAX System	*	12	1.42	1,460	1.71	Buy	44.5	65.6	78.4	4.3	6.4	7.6	32.9	33.0	22.2	18.7	19.4	0.9	4.3	0.6
<u>Telecommunications</u>																					
CDB MK	CelcomDigi	*	12	4.05	47,513	4.60	Hold	763.5	1,308.7	2,131.2	9.4	11.2	18.2	39.1	43.1	36.2	22.3	8.1	2.8	2.9	2.8
T MK	Telekom M'sia	*	12	4.79	18,307	6.50	Buy	1,245.9	1,485.8	1,491.3	32.9	38.9	39.0	8.9	14.6	12.3	12.3	17.1	4.1	2.1	(9.9)
AXIATA MK	Axiata Group	*	12	2.57	23,590	3.50	Buy	1,586.7	622.3	1,044.8	17.3	6.8	11.4	(18.8)	14.9	37.8	22.5	2.6	3.9	1.0	(15.5)
Maxis MK	Maxis	*	12	3.95	30,937	4.00	Hold	1,182.0	1,370.5	1,471.7	15.1	17.5	18.8	11.6	26.2	22.6	21.0	22.2	5.1	5.0	5.2
TDC MK	TIME dotCom	*	12	5.35	9,836	5.40	Hold	421.1	419.3	444.7	23.0	22.8	24.2	2.6	23.3	23.5	22.1	11.0	12.7	4.3	11.7
<u>Transport</u>																					
CAPITALA MK	Capital A	*	12	0.83	3,460	0.90	Buy	(2,717.1)	(707.1)	375.8	(65.2)	(10.7)	7.3	n.a.	n.a.	n.a.	11.4	10.9	0.0	(0.6)	32.8
MAHB MK	M'sia Airports		12	6.84	11,413	6.99	Hold	(406.2)	194.6	495.3	(24.5)	11.7	29.7	n.a.	n.a.	58.5	23.0	3.0	0.9	1.5	4.8
WPRTS MK	Westports	*	12	3.54	12,071	3.85	Hold	673.5	808.3	846.5	19.8	23.7	24.8	11.9	17.9	14.9	14.3	23.3	5.0	3.5	(5.0)
MISC MK	MISC	*	12	6.99	31,202	7.19	Hold	2,374.3	2,414.9	2,409.8	53.2	54.1	54.0	0.7	13.1	12.9	12.9	6.3	4.7	0.8	(4.4)
SWIFT MK	Swift Haulage	*	12	0.47	410	0.51	Hold	45.6	47.0	52.2	5.1	5.3	5.9	7.6	9.1	8.8	7.9	6.8	4.1	0.6	(1.1)
<u>Utilities</u>																					
TNB MK	Tenaga Nasional	*	12	9.05	52,375	10.00	Hold	4,702.9	5,019.7	5,255.9	81.4	86.9	91.0	5.7	11.1	10.4	9.9	8.3	5.3	0.9	(3.4)
PTG MK	Petronas Gas	*	12	16.88	33,401	17.00	Hold	1,696.2	1,787.2	1,810.9	85.7	90.3	91.5	3.3	19.7	18.7	18.4	13.2	4.3	2.5	0.9
GMB MK	Gas Malaysia	*	12	3.00	3,852	3.20	Hold	389.5	383.8	338.4	30.3	29.9	26.4	(6.7)	9.9	10.0	11.4	27.9	7.5	2.8	(3.0)
MLK MK	Malakoff Corp	*	12	0.61	2,957	0.60	Hold	302.2	180.6	386.6	6.2	3.7	7.9	12.9	9.8	16.4	7.7	2.8	6.1	0.5	(3.7)
YTLP MK	YTL Power		6	1.26	10,209	1.50	Buy	651.5	1,426.2	1,601.2	8.1	17.6	19.8	56.6	15.7	7.2	6.4	9.0	4.0	0.6	79.7
MFCB MK	Mega First Corp	*	12	3.07	2,896	4.30	Buy	372.0	386.1	412.7	39.4	40.8	43.7	5.3	7.8	7.5	7.0	12.6	2.8	0.9	(6.5)
RAHH MK	Ranhill Utilities	*	12	0.55	709	0.65	Hold	96.7	56.9	44.7	7.5	4.4	3.5	(31.7)	7.3	12.5	15.7	7.2	4.5	0.9	30.0

* Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 26 May 2023; Source: Bloomberg pricing, Maybank IBG Research

SECTOR WRITE-UPS

AUTOMOTIVE: Sustaining strong performances

POSITIVE (maintained)

- Sustained strong bookings, easing of parts supply shortages and a robust backlog will contribute to the industry's positive outlook for 2H23.
- The transition to electric vehicles is expected to gain momentum, with more supportive policies and initiatives anticipated to accelerate adoption and drive long-term industry growth.
- We like BAuto, MBM Resources and UMW. These companies exhibit robust fundamentals and financial stability, with attractive dividend yield of 4%-11% projected for FY23E.

In retrospect. Malaysia's automotive industry has showcased robust performance in 5M2023, with the total industry volume (TIV) reaching an impressive 300,978 units, marking a 12% YoY increase, despite the conclusion of the SST-tax holiday at end-June 2022. These numbers represented 43%/46% of ours/MAA's projected TIV forecast of 700k/650k units for the year. We believe the industry is on track to achieve our 700k units total sales target for 2023, or an average monthly sales target of 57k units from June through to December 2023.

2H23 is expected to benefit from sustained strong bookings, easing of parts supply shortages and a promising lineup of new launches. Based on our channel checks, the booking rate remains remarkably robust, surpassing pre-pandemic levels. The industry is experiencing high levels of backlogs, ie. Mazda: 5k; Perodua: 190k; UMW: 45k.

EV transition underway. The transition towards electric vehicles (EVs) is gaining significant momentum, with EVs sales expected to reach parity with internal combustion engine vehicles (ICEVs) by 2030. ASEAN countries, including Malaysia, are proactively advancing their EV-readiness initiatives. Although there is still a considerable gap to bridge before achieving widespread adoption of EVs locally, we anticipate the implementation of additional policies and regulatory measures to further facilitate the transition to EVs/hybrid EVs. Key developments, such as the highly anticipated National Automotive Policy (NAP) and the upcoming New Industrial Master Plan 2030, are expected to provide more clarity in the blueprinting of the transformation. These initiatives hold the potential to act as positive catalysts for total industry volume (TIV) in the medium to long term, particularly if authorities introduce attractive incentives to stimulate demand.

Sector pick. We are BUYers of BAuto, MBM and UMW, as these companies demonstrate robust fundamentals and financial stability. They also offer compelling dividend yields of 4%-11% in FY23E, based on our conservative, lower-than-historical DPR assumptions. We foresee the possibility of UMW declaring a special dividend following its divestment of its Serendah Land, which could provide additional upside to its dividend yield.

Key risks. An unfavorable and sudden shift in automotive policies and direction, a significant downturn in consumer sentiment, or disruptions in the supply chain could impact vehicle sales and production. Additionally, foreign exchange volatility, particularly in USD/MYR and JPY/MYR, may affect the profit margins of auto players which are exposed to these currencies.

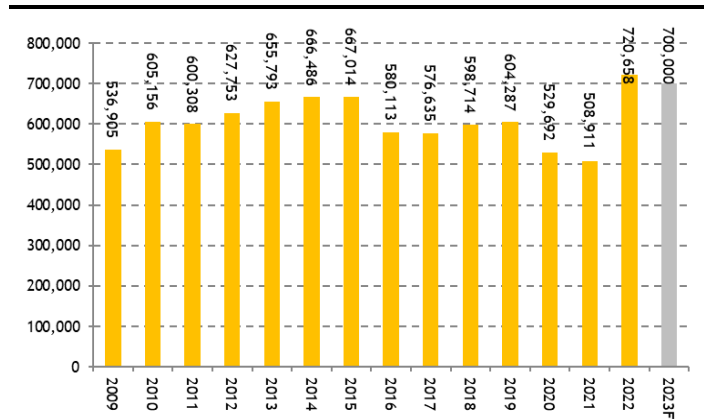
Analyst: Loh Yan Jin
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Automotive sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Sime Darby	Buy	13,972	2.05	2.70	12.5	11.1	10.7	0.9	7.6	7.0	(9.7)
UMW Hldgs	Buy	4,498	3.85	5.30	10.7	10.6	10.3	1.0	9.1	3.8	14.2
Bermaz Auto	Buy	2,685	2.30	3.53	10.6	8.6	8.0	3.3	38.9	9.1	10.1
MBM Resources	Buy	1,384	3.54	4.80	6.2	5.6	5.4	0.6	11.4	9.8	11.5
Tan Chong Motor	Sell	684	1.05	0.88	n.a.	n.a.	50.0	0.2	(2.0)	2.9	(10.2)
Simple average		23,224			10.0	9.0	16.9	1.2	13.0	6.5	

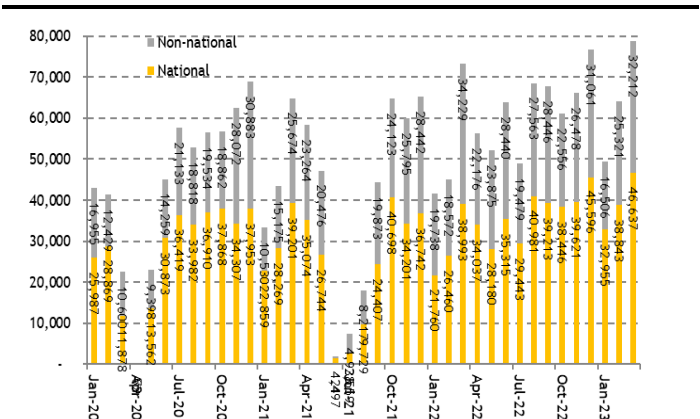
Source: Maybank IBG Research, FactSet (as of 07 Jul)

TIV: 2009-23E



Source: Bloomberg, WCI

Monthly TIV breakdown: national vs. non-national



Source: Bloomberg, World Liner Data Limited/Container Trade Statistics Limited

Aviation: Recovery taking flight

Positive (unchanged)

- We expect 2H23 to be better as the recovery consolidates thanks to more aircraft being returned to service.
- For MAHB, we expect local airlines to ramp up and foreign airlines to return. For CAPITALA, we expect fares to stay high but fuel prices to ease.
- MAHB is a HOLD due to uncertainties over its new OA. CAPITALA is a BUY for its potential to breakeven in 3Q23 and have its PN17 status lifted.

1H23: MAHB - generated first quarterly core net profit post-COVID. Recall that in Oct 2022 (the latest data point employed to write our 2023 Outlooks and Lookouts report), MAHB Malaysian pax traffic hit 63% of pre-COVID levels (domestic: 78%, international: 49%). Fast forward to Apr 2023, MAHB Malaysian pax traffic has recovered further to 72% of pre-COVID levels (domestic: 81%, international: 64%). While that was expected, we were positively surprised by MAHB's Turkish passenger traffic which has been stable at c.95% of pre-COVID levels (domestic: c.75%, international: c.135%) considering the massive earthquake that hit Turkey in early Feb 2023. All of this culminated in MAHB reporting 1Q23 core net profit of MYR44.0m, its first since the COVID-19 pandemic struck in 1Q20.

1H23: MAHB - still a lot of uncertainty regarding the new OA, however. Regulatory-wise, Malaysian Aviation Commission (MAVCOM) released its second consultation paper that will guide how MAHB's new Operating Agreement (OA) with the Government of Malaysia (GOM) will be drafted. MAVCOM is proposing 2 Regulatory Periods (RP). RP1 will take place from 2024 to 2026 and RP2 ostensibly from 2027 to 2029. During RP1, MAVCOM proposed: - (i) holding tariffs constant in real terms; and (ii) instituting a loss and profit sharing mechanism. During RP2, our understanding is that MAVCOM is proposing that MAHB adopt the Regulated Asset Base model. To be sure, we would not be positive on MAHB not being able to recoup ≥MYR3.0b of investments (e.g. KLIA aero train and baggage handling system, Penang and Subang airport expansions) until RP2.

2H23: MAHB - to consolidate its post-COVID recovery further. Towards end-2023, we expect MAHB's Malaysian pax traffic to inch to 93% of pre-COVID levels (domestic: 100%, international: 85%). Domestic pax traffic will be driven by the return to service of Malaysia AirAsia's aircraft (current: 66, end-4Q23E: 100) and the expansion of MYAirline's (Not Listed) fleet from 8 aircraft to 20 aircraft by end-4Q23. International pax traffic will be driven by the return of foreign airlines to Malaysia (current: 63, end-4Q23E: 75). However, we do not expect MAHB's Malaysian international pax traffic to recover to 100% of pre-COVID levels due to fewer wide body planes. For example, Malaysia Airlines (Not Listed) has returned 6 A380s and AirAsia X (AAX MK, Not Rated) has returned 7 A330s but Batik Air Malaysia (Not Listed) has taken delivery of only 1 A330.

1H23: CAPITALA - reports first quarterly net profit post-COVID. CAPITALA positively surprised the investment community by reporting 4Q22 net profit of MYR256.2m. While the 4Q22 results were buoyed by exceptional items, the 4Q22 core net loss of MYR292.3m was still the narrowest since the COVID-19 pandemic struck. Most recently, CAPITALA again reported a profitable 1Q23, with net profit of MYR57.1m. While the 1Q23 results were again buoyed by exceptional items, the 1Q23 core net loss narrowed slightly to MYR286.7m which we took constructively as 1Q tends to be seasonally weaker than the 4Q on seasonally lower demand and fares. Although 1Q23 average fares seasonally fell 15% QoQ, number of passengers carried recovered 11% QoQ and average jet fuel price fell 11% QoQ.

2H23: CAPITALA - ought to breakeven in 3Q23. To be sure, we expect CAPITALA to generate another core net loss in 2Q23 as only c.80% of its aircraft will have been actively flying by then. Yet, we expect CAPITALA to at least breakeven from

3Q23 onwards as nearly all its c.200 aircraft (includes Thai AirAsia) will be actively flying by then. We forecast that group wide passengers carried will recover to 83%/100% of 2019 levels by 2023/2024 and that elevated airfares caused by still-tight capacity will more than offset jet fuel prices which we expect to average at USD110/bbl throughout 2023 and 2024. Note that current jet fuel prices are a lot lower at USD90/bbl which poses significant upside potential to our earnings estimates. Thus, we are comfortable with our CAPITALA estimates.

2H23: Look forward to CAPITALA exiting PN17 status. Recall that CAPITALA is proposing to sell its 4 airlines - Malaysia AirAsia (MAA), Indonesia AirAsia (IAA), Philippines AirAsia (PAA) and Thai AirAsia (TAA) - to AirAsia X (AAX MK, Not Rated) in exchange for AAX shares. It is hoped that the sale will result in a gain on disposal that will be more than enough to offset its negative shareholders' equity position of MYR5.55b as at end-1Q23. CAPITALA will be left with Asia Digital Engineering (maintenance, repairs and overhaul), MOVE (formerly known as airasia SuperApp), teleport (logistics), BigPay (fintech) and exposure to MAA, IAA, PAA and TAA via AAX shares. CAPITALA hopes to complete this disposal by end-2023.

Maintain Aviation sector at Overweight. We have a HOLD call on MAHB with a DCF-based TP of MYR6.99. In our view, Malaysian international passenger traffic has to convincingly breach 85% of pre-COVID levels for there to be more upside potential. For the moment, we 'wait and see' as the terms of the new OA are finalised. We have a BUY call on CAPITALA with a SOP-based TP of MYR0.90. There could be more upside potential should it be able to monetise Asia Digital Engineering, MOVE or teleport which are all now EBITDA positive. CAPITALA has spoken about disposing stakes in or listing the aforementioned subsidiaries. Currently, we are ascribing a minimal valuation of USD500m for MOVE, MYR150m for teleport and nil for Asia Digital Engineering and BigPay.

Risks to our call. (i) Full blown recession leading to subdued demand for air travel; (ii) For MAHB, less than favourable new OA between it and the GOM; (iii) For CAPITALA, higher jet fuel prices, higher USD exchange rate relative to MYR and potential delisting due to PN17 listed issuer status.

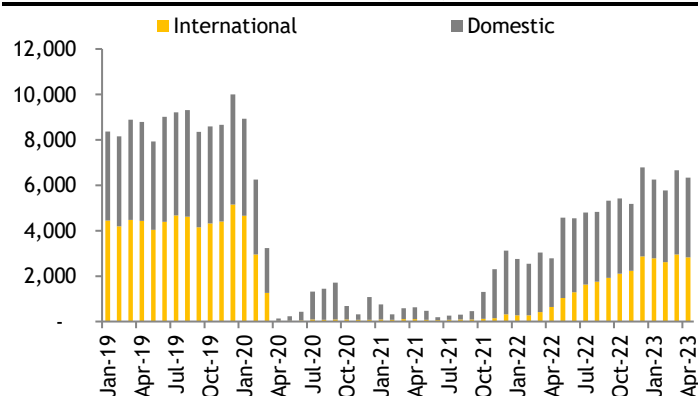
Analyst: Samuel Yin Shao Yang
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Aviation sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
M'sia Airports Hldgs	Hold	11,413	6.84	6.99	n.a.	58.5	23.0	1.5	3.0	0.9	4.8
Capital A	Buy	3,460	0.83	0.90	n.a.	n.a.	11.4	(0.6)	10.9	0.0	32.8
Simple average		14,873			n.a.	58.5	17.2	0.5	6.9	0.4	

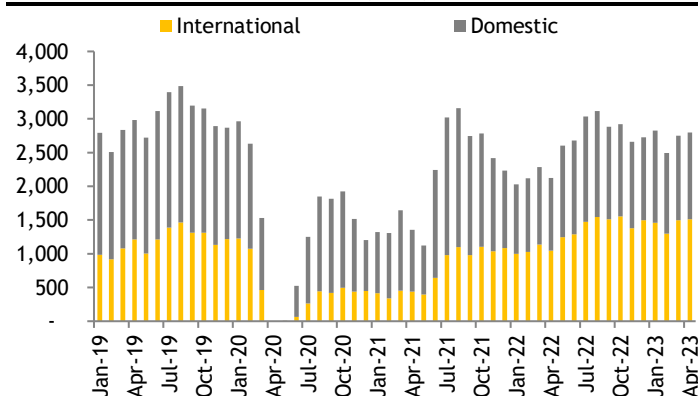
Source: Maybank IBG Research, FactSet (as of 07 Jul)

MAHB Malaysian passenger traffic ('000)



Source: MAHB

MAHB Turkish passenger traffic ('000)



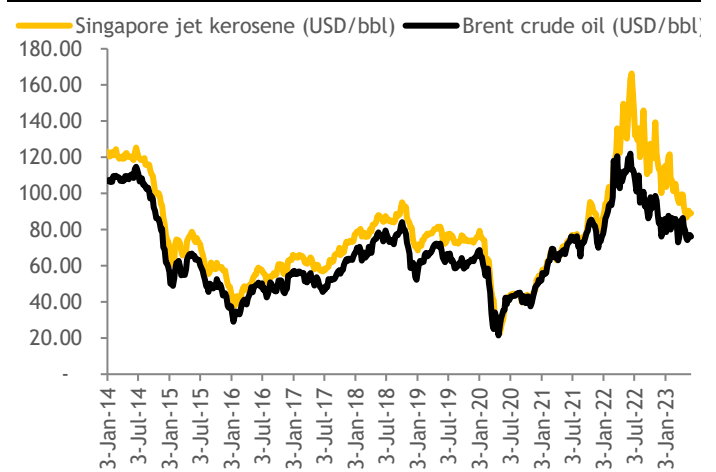
Source: MAHB

USD/MYR exchange rate



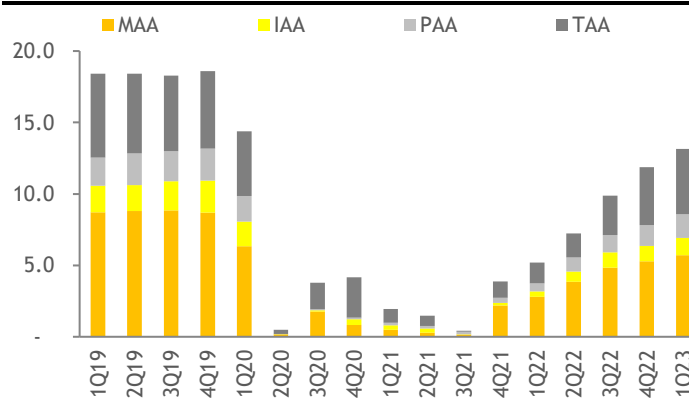
Source: Bloomberg

Crude oil and jet fuel prices



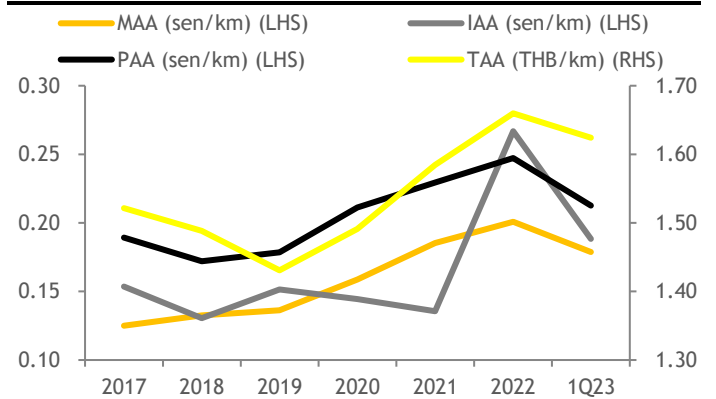
Source: Bloomberg

CAPITALA passengers carried (m)



Source: CAPITALA

MAA, IAA, PAA and TAA average fare/stage length



Source: CAPITALA

BANKING: Buffering against NIM compression

POSITIVE (maintained)

- NIM contraction has been severe, but positively, banks continue to hold sizeable management overlays to buffer against NIM pressure, and to provide support to overall earnings.
- We project net profit growth of 9.2% in 2023 and 6.5% in 2024, with stable ROEs of about 10%. Dividend yields provide support at >5% for most banks.
- POSITIVE maintained on the sector, with BUYs on CIMB, AMMB, ABMB, HLBK, HLFG and RHB.

Deposit competition was vicious in 1Q23. As a result, NIMs contracted 30bps QoQ for banks in our coverage. It was nevertheless still a decent quarter for banks, for NOII held up well (+18% YoY), other provisions were lower YoY and associate income surged 40% YoY. Cumulative core pretax profit rose 8% YoY (-8% QoQ) while core net profit jumped 16% YoY in the absence of *Cukai Makmur*. Anecdotal evidence would suggest that NIM pressure has somewhat eased towards end-2Q23 and positively, banks continue to hold on to sizeable management overlays that are likely to be gradually released over the course of this year and next, to buffer against earnings drag posed by contraction in NIM.

2023 net profit growth of 9.2%. We expect 2023 operating profit to contract 2.4%, taking into account 5% domestic loan growth, 14bps NIM compression YoY, and a higher cost/income ratio (CIR) of 45% versus 43% in 2022. Aggregate core net profit growth is estimate to be 9.2%, aided by average credit costs of 29bps versus 30bps in 2022, and lower tax rates. We expect ROAEs to improve slightly to about 10.0% in 2023, as compared to 9.9% in 2022.

2024 net profit growth of 6.5%. Operating profit growth in 2024E of 4.7% is predicated on 4.5% loan growth, stable NIMs (-1bp), and a still elevated CIR of 45%. We project core net profit growth in 2024 of 6.5%, supported by a lower, but still elevated credit cost of 26bps. ROAEs are expected to remain stable at about 10.1%.

Risks: (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset quality issues; (ii) marked-to-market investment losses if bond yields rise further; and (iii) a further slowdown in CASA growth, which could exacerbate deposit competition. Present downside risks include a) inflationary pressure and its negative impact on consumption and spending power; b) global instability amidst the continuing Russia-Ukraine war; c) further corporate debt defaults and d) higher-than-expected defaults on Repayment Assistance loans.

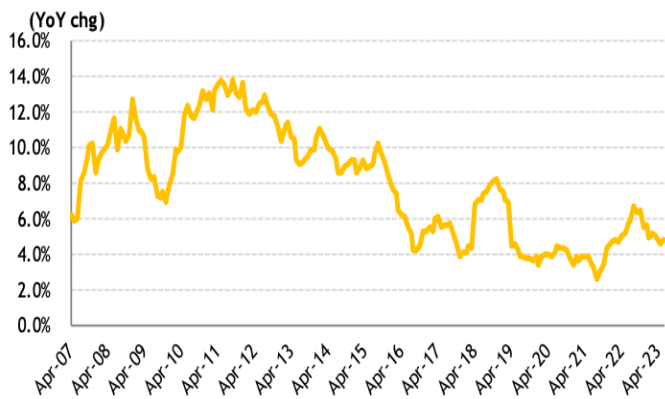
Analyst: Desmond Ch'ng
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Banking sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Public Bank	Hold	74,731	3.85	4.30	12.0	11.0	10.7	1.4	12.6	4.9	(9.8)
CIMB Group	Buy	55,032	5.16	5.85	9.9	8.6	7.9	0.8	9.3	5.6	(8.9)
Hong Leong Bank	Buy	40,883	18.86	22.70	10.9	9.9	9.2	1.1	11.2	3.5	(7.3)
RHB Bank	Buy	23,146	5.40	6.40	7.9	8.3	7.8	0.8	9.3	7.4	(2.5)
Hong Leong Financial Group	Buy	19,721	17.22	22.20	7.6	7.2	6.9	0.7	9.9	3.0	(6.5)
AMMB Holdings	Buy	11,904	3.60	4.15	6.8	7.1	6.9	0.6	8.8	4.8	(10.0)
Bank Islam Malaysia	Hold	4,397	1.94	2.05	9.7	9.2	8.8	0.6	6.7	6.7	(27.8)
Alliance Bank Malaysia	Buy	5,186	3.35	4.00	7.9	7.7	7.1	0.7	9.4	6.6	(6.0)
Simple average		339,510			9.5	8.9	8.5	0.9	9.8	5.6	

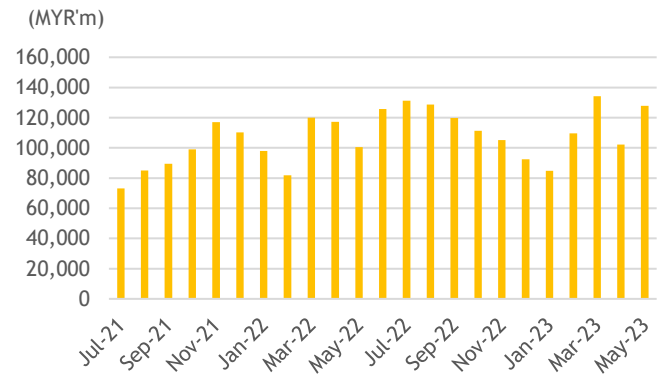
Source: Maybank IBG Research, FactSet (as of 07 Jul)

Industry loan growth (Apr 2007 - May 2023)



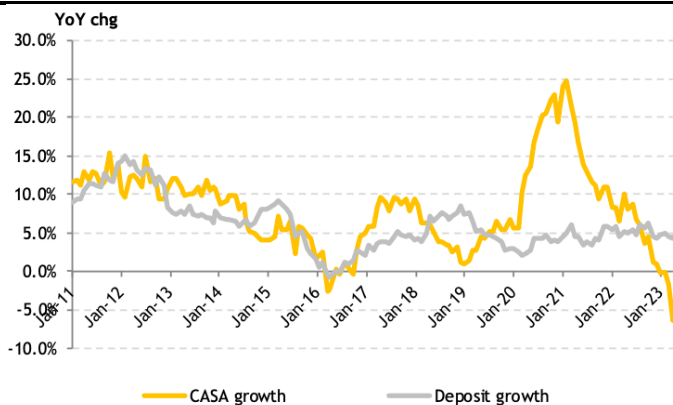
Source: BNM

YoY chg in loan applications (Jul 2021 - May 2023)



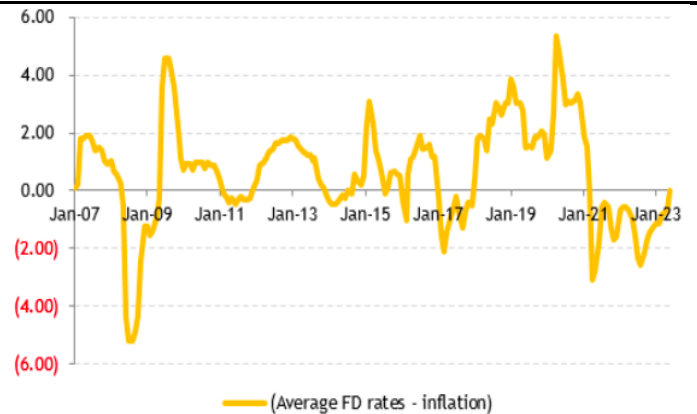
Source: BNM

Total deposits and CASA growth (Jan 2011 - May 2023)



Source: BNM

Differential between average fixed deposit rates and inflation (Jan 2007 - May 2023)



Source: BNM, Maybank KE

CONSTRUCTION: More action only in 4Q?

NEUTRAL (unchanged)

- Penang LRT and KVMRT3 CMC awards are the lookouts towards Sept / 4Q. Sarawak's high gear infra development offers long-term proposition.
- State election (Aug) is a risk as it could hold back decisions on / award of major infra projects. Another key risk is material and fuel costs.
- We continue to prefer stocks with strong balance sheet, delivery track record and sustainability pathways. Our BUYs are IJM, GAM and CMS.

In retrospect. The value of works completed in the country rose 9.4% YoY and 0.8% QoQ in 1Q23; however, at MYR32.2b, it was still below 1Q20's (pre-pandemic) MYR35b. Civil engineering works remained the largest component at 38%, followed by non-residential buildings at 30%. Private sector funded works continued to make up the bulk (61%) of total works value in 1Q23. Positively, new construction starts was a higher 6.7% of 1Q23's works value (1Q22: 5.4%). Cement prices in Peninsular M'sia rose by high single-digit (5M 2023) per DOSM data, while other material prices were generally higher, though not as pronounced. The only major infra award in 1H23 was the PSI reclamation, as the KVMRT3 decision was deferred again.

KVMRT3 civil works award only at year-end? Tender validity for the KVMRT3 civil work packages (CMC301-303) has been extended again to Sep 2023 (from Jun 2023), with contractors' financing (for the initial 2 years) potentially removed to help land the project cost at a targeted MYR45b (from MYR50b). The project cost review came about in the revised Budget 2023 in Feb 2023. We now expect tender awards to come in, in 4Q23, with the start of construction only in 2024.

PSI reclamation to start earlier (than KVMRT3), in 3Q. PSI, covering an initial 4,500 acres, received final EIA approval in Apr 2023 but the project size has since been scaled down by half to 2,300 acres, i.e. one island (from 3) - *Silicon Island*. This follows PM Anwar's announcement in May 2023 that the Federal Government will allocate funding for the Georgetown-Bayan Lepas LRT construction. Gamuda is the turnkey reclamation contractor for *Silicon Island*'s Phase 1. The LRT construction award could happen post the state election, likely in August, based on the Government's commitment to kick-start the works by year end.

Into high gear for infra development in Sarawak. With the 88km Northern Coastal Highway (NCH; connecting Limbang to Lawas via Brunei) being agreed to by the Brunei Government, construction will start this year. The NCH, which is the 2nd phase of the Pan Borneo Sarawak Highway, will be state funded. A new airport and port will also be built in Lawas, as part of Sarawak's Northern Region development. The Federal Government's commitment to speed up construction of the 425km Sarawak-Sabah Link Road (SSLR), and a new road - now under plan - to connect SSLR to the Sarawak-Indonesia border, offer sizeable construction works potential. Higher construction activities in Sarawak are already evident in the numbers - CMS' cement turnover rose 17% YoY in 1Q23, the increase being mostly volume driven.

Orderbook replenishment. Gamuda's E&C orderbook received a sizeable boost from PSI reclamation (MYR3.5b) and DTI acquisition in Australia (MYR4.5b), lifting it to an all-time high of MYR21.5b. SCGB's MYR1.3b job wins in 1H23 was an equal mix of internal (47%) and external (53%) jobs; the largest win was for the JB-SG RTS project (MYR0.6b). In terms of outstanding orderbook, Gamuda leads, followed by SCGB at MYR6b end-Mar 2023, and IJM at MYR4.5b. These are c.6.5x/2.8x/4.2x Gamuda/SCGB/IJM's FY22 (FY23 for IJM) construction revenue respectively.

Abbreviation

PSI = Penang South Island
 LRT = Light Rail Transit
 KVMRT3 = Klang Valley Mass Rapid Transit Phs 3
 JB-SG RTS = Johor Bahru-Singapore Rapid Transit System
 DOSM = Department of Statistics, Malaysia
 EIA = Environmental Impact Assessment
 PM = Prime Minister
 E&C = Engineering & Construction
 ESG = Environmental, Social & Governance

Our proprietary ESG scores. Based on our latest review of sustainability efforts, disclosures and targets (including net zero) for the listed E&C players, 3 under our coverage achieved above-average scores - Gamuda at 69 (out of 100), IJM at 63, SCGB at 66 - while CMS scored below-average at 18. In our view, CMS is short of a frame-work and tangible mid/long-term targets, and its recent disclosure on matters relating to “E” and “S” have been much fewer than in the past. We however draw comfort that it is working on a Sustainability Policy and Sustainability Plan, and targets to roll these out in 2023.

Sector picks. We expect newflow in the sector to only pick up towards Sept / 4Q relating to the Penang LRT and KVMRT3 awards. We continue to prefer stocks with strong balance sheet, proven delivery track record and clear sustainability pathways. Our preferred BUYs are IJM and Gamuda, while CMS is a tactical BUY, offering an exposure to Sarawak construction via being the only cement producer in the state, and it also has a larger share of the building material business.

Risks to our call. (i) Orderbook replenishment is a key risk if the KVMRT3 award is delayed further; (ii) Rise in material and fuel costs, and labour shortages (this is not affecting Gamuda, IJM and SCGB) will cut into margins for jobs already secured.

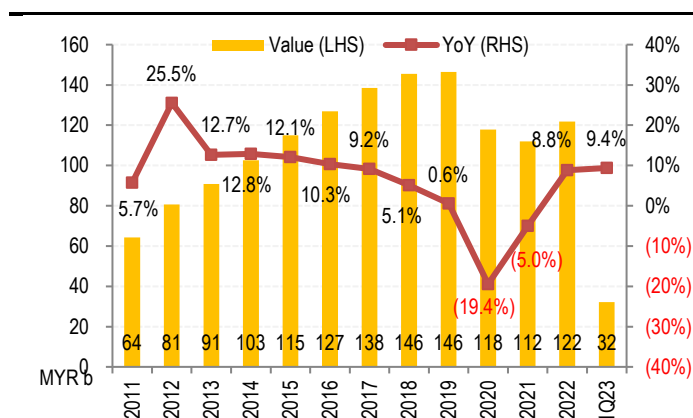
Analyst: Wong Chew Hann, CA
wchewh@maybank-ib.com

Construction sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Gamuda	Buy	11,660	4.38	4.80	13.5	13.9	12.1	1.2	7.5	7.8	18.6
IJM Corp	Buy	5,157	1.47	2.18	16.3	15.4	13.4	0.5	3.9	4.4	(5.6)
Sunway Construction	Hold	2,127	1.65	1.73	15.7	15.7	15.7	2.7	16.9	3.3	7.4
Cahaya Mata Sarawak	Buy	1,139	1.06	1.48	10.7	8.2	7.2	0.3	4.2	2.8	1.8
Pintaras Jaya	Hold	282	1.70	1.70	15.5	50.0	44.7	0.7	1.4	0.0	(17.3)
Simple average		20,365				20.6	18.6	1.1	6.8	3.7	

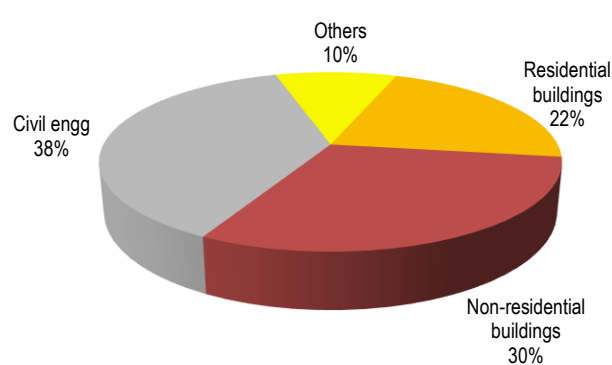
Source: Maybank IBG Research, FactSet (as of 07 Jul)

Value of construction works completed, yearly & YoY chg



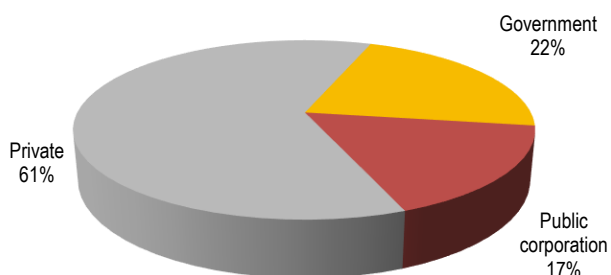
Source: DOSM, Maybank IBG Research

Value of construction works completed in 1Q23 of MYR32b, by type



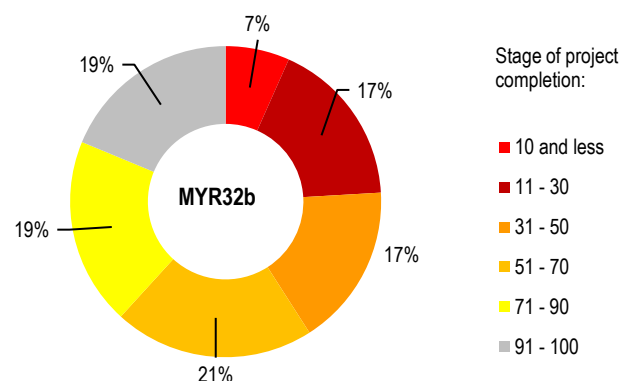
Source: DOSM, Maybank IBG Research

Value of construction works completed in 1Q23 of MYR32b, by funding type



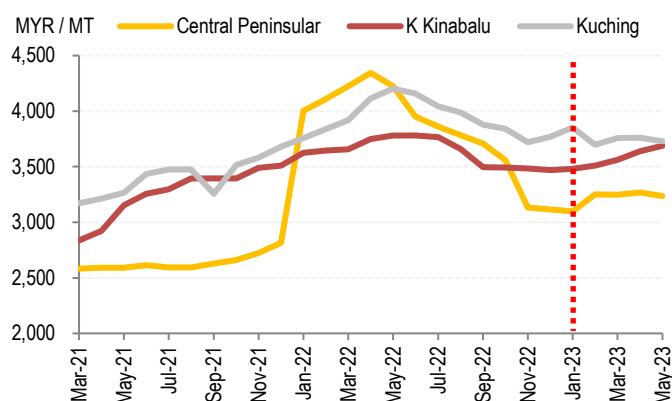
Source: DOSM, Maybank IBG Research

Value of construction works completed in 1Q23 of MYR32b, by completion stage



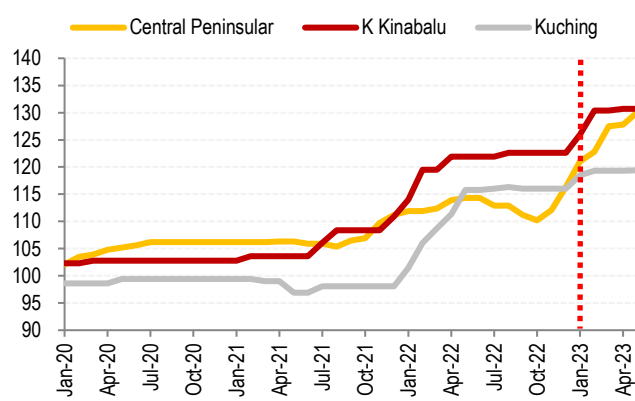
Source: DOSM, Maybank IBG Research

Selling price of high tensile deformed steel bars (1/2 inch, for civil engineering)



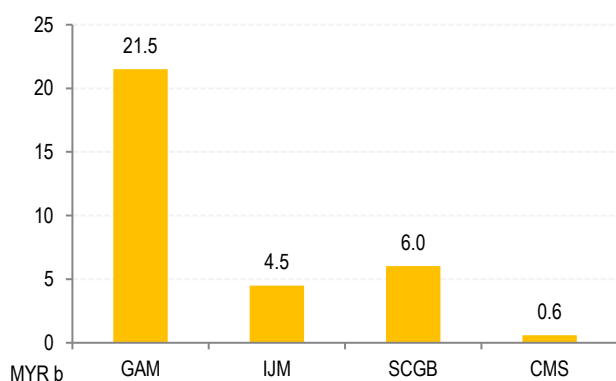
Source: DOSM, Maybank IBG Research

Cement unit price index (for building works)



Source: DOSM, Maybank IBG Research

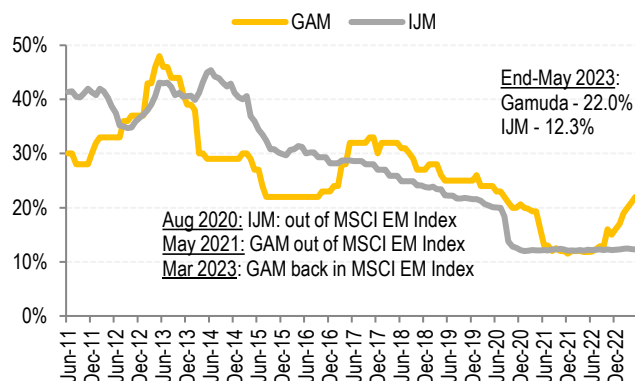
Outstanding orderbook



As of end-Mar 2023 for IJM, SCGB, CMS; end-Apr 2023 for GAM

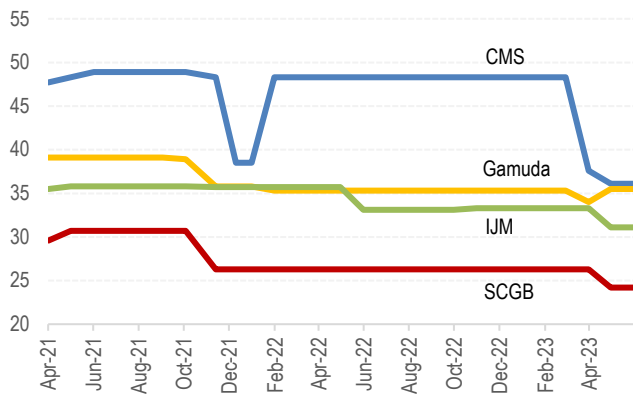
Source: Companies

Foreign shareholding



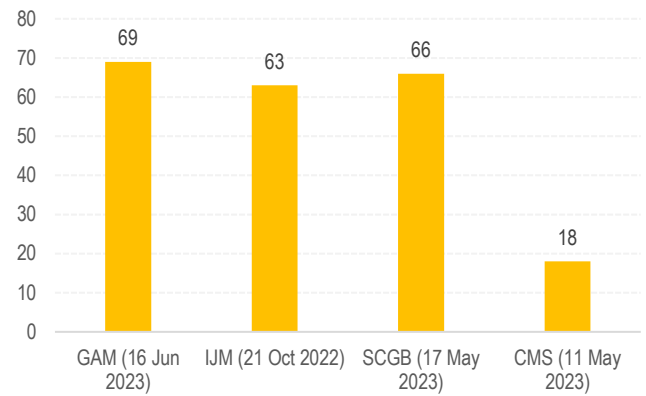
Source: Companies

Sustainalytics ESG risk score



Source: Sustainalytics

MIBG ESG score



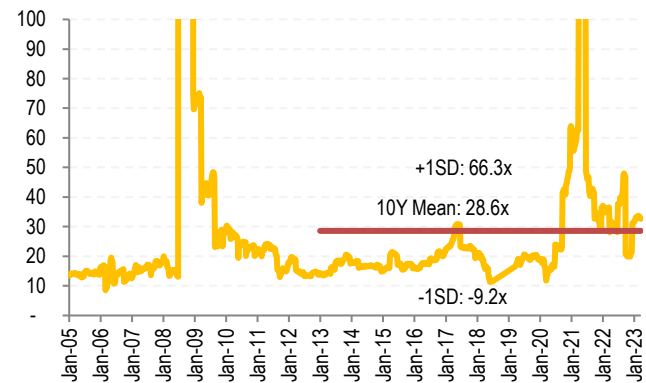
Note: In brackets (x-axis) are latest dates of MIBG's ESG reports
Source: Maybank IBG Research

Bursa Construction Index (+5.2% 2023-YTD till 16 Jun)



Source: Bloomberg

Bursa Construction Index PER (trailing)



Source: Bloomberg

Consumer: Declining purchasing power

NEUTRAL (unchanged)

- Our expected 2023E sector earnings growth of +6% YoY stems from resilient demand for staple F&B and mass-market retail goods.
- Subdued consumer spending and elevated cost pressures are expected to continue into 2H23.
- Our Top BUY is PAD.

In retrospect. Despite weakening consumer sentiment, cumulative 1QCY23 topline growth for the consumer stocks under our coverage remained positive but grew at a slower pace of 10% YoY (vs. 15% YoY in 1Q22), as the intensity of consumer spending eased amid a heightened cost inflationary environment. Stronger topline growth was evident sector-wide but steep cost increases from raw materials and labour adversely impacted EBIT growth for most stocks under our coverage, with the exceptions of PAD, MRDIY and QLG, which benefitted from higher product prices, affordability and resilient demand. Unfavorable currency hedging strategies and higher inventory cost levels also weakened earnings for FFB and BFD in 1QCY23.

Outlook. We are projecting for 6% YoY consumer sector earnings growth in 2023E, predominantly driven by selected stocks, namely QLG, NESZ, MRDIY and PAD where consumer demand is expected to remain defensive re staple F&B products and low-priced retail goods during this period of economic uncertainty. The consumer sector faces a challenging outlook in 2H23 as gradual improvements in sales may not be sufficient to offset rising input and operational costs (labour & electricity). Further sales pressure may also materialize if the MYR depreciates further and companies are forced to implement another round of price hikes to maintain margins at the expense of sales volume. MIER's Consumer Sentiment Index (CSI) fell below the 100 threshold, to 99.2 in 1Q23, and is at risk of falling further as consumers grapple with higher household expenditure and lower purchasing power.

Stock picks. We remain neutral on the sector with PAD (TP: MYR5.20) as our top consumer BUY pick. With inflationary pressures weighing heavily on consumers, PAD is well positioned to benefit from consumer down-trading given the affordability of its products and its appeal to mass market consumers. Its healthy balance sheet is also a buffer against potential store operational cost uncertainties.

Consumer sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Nestle (Malaysia)	Sell	30,626	130.60	118.80	46.2	44.5	39.5	48.4	108.8	2.2	(5.9)
MR D.I.Y. Group (M)	Buy	14,339	1.52	2.40	29.8	24.9	20.8	8.3	33.2	1.9	(23.4)
QL Resources	Hold	12,947	5.32	5.90	41.1	33.0	30.4	4.5	13.8	0.8	(2.8)
Heineken M'sia	Buy	7,806	25.84	30.80	18.9	18.2	17.8	16.0	85.7	5.5	6.4
Carlsberg Brewery M'sia	Buy	6,188	20.24	24.70	19.0	17.9	17.1	28.8	164.9	4.6	(9.6)
Farm Fresh	Hold	1,984	1.06	1.60	33.9	26.7	18.0	2.9	11.0	0.9	(21.5)
Padini Holdings	Buy	2,566	3.90	5.20	14.0	11.7	11.3	2.3	19.5	2.6	18.0
AEON Co. (M)	Buy	1,783	1.27	2.00	13.4	12.7	12.2	0.9	7.4	3.1	(4.4)
Leong Hup Intl.	Sell	1,825	0.50	0.50	8.3	18.5	11.6	0.9	4.7	1.6	4.4
7 - Eleven M'sia Hldgs	Hold	2,209	1.99	1.90	32.1	29.3	26.5	13.5	46.1	2.1	5.9
Berjaya Food	Buy	1,140	0.65	0.72	10.3	11.9	11.4	2.1	17.7	4.2	(35.7)
InNature	Buy	381	0.54	0.61	18.0	18.0	15.9	2.3	14.4	5.6	(4.6)
Mynews Holdings	Hold	293	0.43	0.51	n.a.	n.a.	89.0	1.4	(6.4)	0.0	(31.7)
Simple average		84,089				22.3	24.7	10.2	40.0	2.7	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

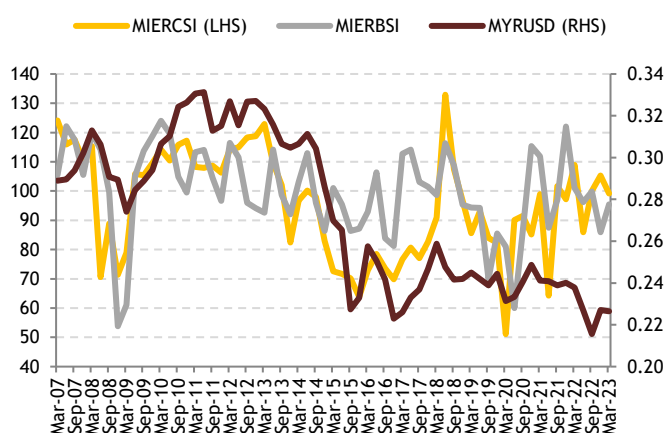
Other sector BUYs/SELLs. Our other BUY calls include HEIM (TP: MYR30.80) and CAB (TP: MYR24.70) due to the brewery sectors' steady demand, product stickiness and ability to successfully pass on costs to consumers through price hikes. Within consumer retail, we are also positive on MRDIY (TP: MYR2.40), AEON (TP: MYR2.00), INNATURE (TP: MYR0.61) and BFD (TP: MYR0.72). For MRDIY and AEON, we like them for their well-rounded and affordable product offerings coupled with improving footfall in both stand-alone stores and shopping malls. The eventual revival of in-bound tourism will also aid in-store sales for retailers like INNATURE and BFD. Our SELL ratings on NESZ, MNHB and Lhib are premised on rich valuations of >40x FY23 PER, loss-making operations and unfavorable regional poultry supply-demand dynamics, respectively.

Risks. For 2H23, key risks to our earnings forecasts are: (i) prolonged weak consumer sentiment, (ii) elevated raw material costs, (iii) weakening MYR currency, (iv) minimum wage hikes, and (v) regulatory and illicit risks for the brewery sectors.

Analyst: Jade Tam

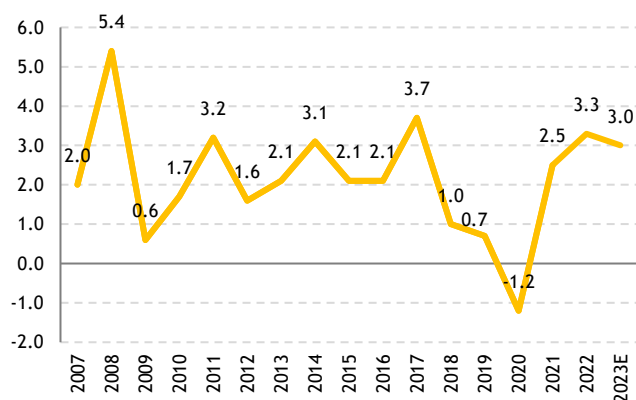
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Consumer Sentiment & Business Condition Index, MYRUSD



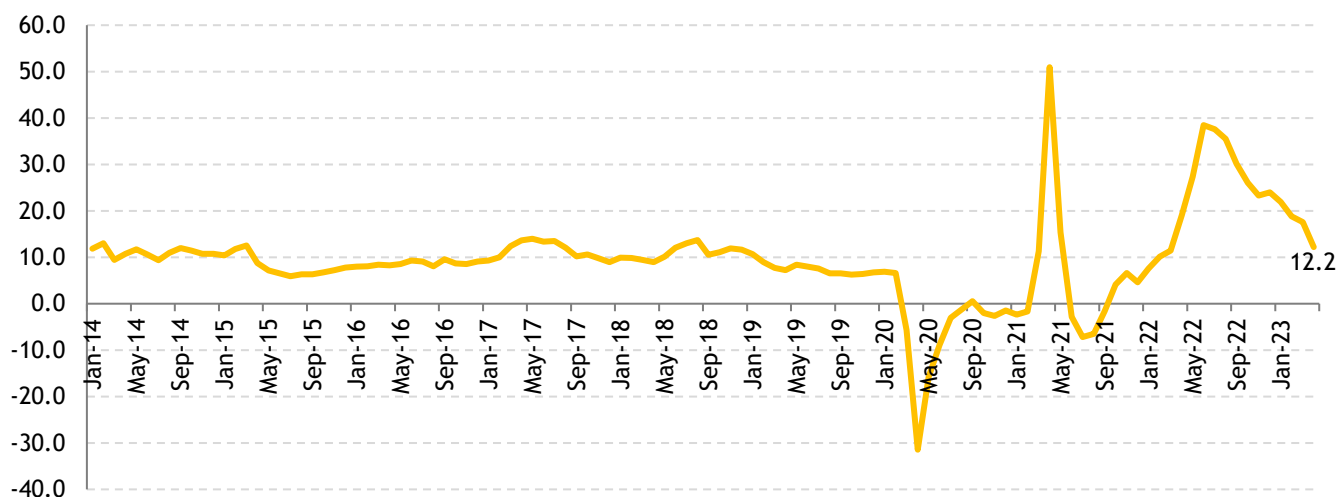
Source: MIER, Bloomberg, Maybank IBG Research

CPI Growth (%)



Source: CEIC, Maybank IBG Research

Retail sales growth YoY (%)



Source: Department of statistics, CEIC

EMS: Navigating the ups and downs

POSITIVE (maintained)

- 1H23 witnessed a noticeable slowdown in the EMS sector, attributed to customers aggressively reducing inventories and slower-than-anticipated demand recovery from China after borders reopened.
- Despite the near-term challenges, we are cautiously optimistic on recovery in 2H23, as customers complete their destocking activities, with new orders production anticipated to be ramped up for some players. RFQ from prospective customers remain robust, serving as another potential catalyst for sector recovery.

In retrospect. Following a strong performance in 2H22, with the sector gradually recovering from pandemic-induced disruptions as well as witnessing substantial earnings rebound and customer acquisitions among local EMS players, a noticeable slowdown has emerged at the beginning of 2023. This decline has been exacerbated by customers aggressively reducing their inventories, on top of seasonally lower volumes. As a result, utilization rates have dropped to slightly over 50% in 1Q23 vs. >100% in 4Q22 for some of the industrial EMS players. Furthermore, the slower-than-anticipated demand recovery from China after the reopening of its' borders has widened the supply-demand gap, exerting downward pressure on average selling prices (ASPs) for local EMS players.

While we have become more cautious about the sector's outlook in the near-term, we maintain a positive longer-term view due to our belief that the current headwinds are temporary. We anticipate a recovery in production volumes in 2H23 as customers complete their destocking activities. Additionally, the sector may receive a boost in the medium term from the robust demand for quotations (RFQs) from prospective customers, likely driven by US-China tensions / supply chain relocation thematic, which could serve as a catalyst for sector recovery.

Heading Towards Recovery. The pace of recovery in 2H of the year will heavily depend on the emergence of new end-consumer demand, which will serve as an indicator of the sell-through rate for EMS sector customers. Some players, including VSI, have already observed an uptick in customer orders ahead of the peak holiday season. However, it is expected that the demand might not match the strength witnessed in 2022. Additionally, several players anticipate a volume boost in 2H of the year, driven by the mass production of new orders secured in the past.

While our outlook for sector recovery remains optimistic, we acknowledge the shift in negotiation power in favour of customers. This shift is due to the availability of expanded capacity, which is expected to be ready by end-2023 and beyond. Consequently, EMS players need to intensify their efforts to secure new customers. Although supply chain / trade diversion continues to be a positive factor supporting the industry, it has become increasingly evident that EMS players must be more proactive in expanding their customer base.

In addition to that, the challenges brought about by the pandemic, such as labour shortages and supply chain disruptions, have largely normalised to pre-pandemic levels, although there are still occasional shortages observed for specific components. However, this normalisation has not been entirely positive for the contract manufacturers (CMs), as their customers have significantly reduced their order lead times in view of improved logistics reliability, and outlook remains uncertain, clouded by macro headwinds. This shift has resulted in diminished visibility of forward orders. Nevertheless, it is worth noting that the ad hoc orders could be seen as a potential upside for earnings.

Sector pick. Our preference remains with industrial EMS (e.g. ATECH) over consumer EMS (e.g. VSI), primarily due to the higher risks of demand slowdown and potential earnings risks faced by consumer EMS in times of recession. We anticipate that industrial EMS players will benefit from the increased adoption of 5G/IoT-

related products, the shift towards electric vehicles (EVs), and the growing demand for medical products driven by improving living standards. These factors create a favourable long-term growth environment for industrial EMS players, presenting significant expansion opportunities for the players.

Key risks and potential upside. Risks identified for the sector include (i) weaker-than-expected demand on unabated challenging economics outlook; (ii) lower-than-expected costs pass through (as the mechanism depends on the company's negotiation with its clients); (iii) persistent/recurrent operational disruptions; (iv) market share loss to regional peers.

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EMS sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
V.S. Industry	Hold	3,278	0.86	0.80	18.0	16.8	13.9	1.4	8.9	2.6	(1.5)
Aurelius Technologies	Buy	926	2.35	2.61	23.2	19.8	15.2	3.3	14.4	2.4	29.3
Simple average		4,204			20.6	18.3	14.5	2.4	11.7	2.5	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

GAMING: A tale of two subsectors

POSITIVE Casinos (unchanged)

NEGATIVE NFOs (unchanged)

- The underlying fundamentals of gaming operators are improving albeit gradually. That said, we still favour casinos over NFOs.
- BUY GENM for potential to win a license to deploy table games at RWNYP. BUY GENT for potential upside from TauRx.
- SELL SPTOTO and MAG on risk that NFO outlets in Selangor, Penang and Negeri Sembilan could be shut. Up to half of their earnings are at risk.

1H23: GENM - RWG visitor arrivals suppressed by landslide and lack of tourists. Lingering fears over the Batang Kali landslide caused 1Q23 Resorts World Genting (RWG) visitor arrivals to fall c.11% QoQ, to 4.7m. While RWG visitor arrivals began to improve from Mar 2023 onwards, the current QTD RWG daily visitor arrivals of c.56k implies 2Q23 RWG visitor arrivals of 5.1m-5.2m which is still c.15% below FY19A levels. Domestic and Singaporean visitor arrivals have just about fully recovered to FY19A levels. Yet, we understand that the aforesaid c.15% shortfall is due to visitors from key markets like Indonesia, Hong Kong and China having not returned en masse due to low flight capacity. On another note, GENM tried to sell part of its Miami land for USD1.23b but the transaction fell through.

2H23: GENM - RWG visitor arrivals to fully recover only in FY24E. Most visitors from Singapore travel to RWG by land which is more economical and explains why Singaporean visitor arrivals to RWG have more or less fully recovered to FY19A levels (c.90%). Yet, examining the fleet strategy of Malaysian carriers (which carried 2/3 of international passengers pre-COVID) reveals that the number of aircraft operated by Malaysian carriers will reach FY19A levels only by end-FY23E (implying RWG visitor arrivals should hit FY19A levels in FY24E). By year end-FY23E, GENM should also have attempted to sell part of its Miami land again and received news on its bid to secure a full casino license for Resorts World New York City (RWNYP).

1H23: GENT - underlying RWS operations improving while RWLV stabilising. Other than GENM, GENT's other major subsidiary is 53%-owned GENS which reported below consensus 1Q23 results due to lower-than-expected non-gaming revenue as many Singaporeans travelled overseas in Mar for the school holidays. Yet, we noticed that Resorts World Sentosa (RWS) 1Q23 VIP volume was up 18% QoQ to 76% of the FY19A quarterly average while 1Q23 mass market gross gaming revenue grew 11% QoQ to 100% of the FY19A quarterly average. We gather that the nascent return of Chinese gamblers since 8 Jan 2023 had a lot to do with the QoQ growth. Over in Las Vegas, 1Q23 Resorts World Las Vegas (RWLV) EBITDA stabilised QoQ at USD50m. We gather that RWLV is now EBIT neutral albeit still PBT negative due to c.USD200m of net finance cost annually.

2H23: GENT - RWS operations to improve further, TauRx to spring a surprise? Post-1Q23 to date, we understand that all major RWS operating metrics (i.e. VIP volume, mass tables GGR, slot machine GGR, non-gaming revenue) are trending higher QoQ. Curiously, 5M23 Chinese visitor arrivals to Singapore came in at only 20% of 5M19 levels. It follows that there is room for the aforementioned operating metrics to improve as flight seat capacity from China to Singapore recovers (Jun 2023: 60% of Jun 2019 levels). Meanwhile, 20%-owned TauRx Pharmaceuticals (Not Listed) will reveal results of its Phase 3 LUCIDITY trials on its lead Alzheimer's combating investigative drug, Hydromethylthionine Mesylate (HMTM) in Jul 2023.

1H23: NFOs - Kedah and Perlis outlets shuttered but not all was bad. On 1 Jan 2023, the Kedah state government shuttered all 45 NFO outlets there. NFO outlets located in Kedah accounted for 3% of the total NFO outlets operated by SPTOTO and MAG. Excluding the Kedah NFO outlets, 1Q23 gross NFO sales/draw/outlet improved QoQ to 88% of 1Q19 levels for SPTOTO (4Q22: 78% of 4Q19 levels) and 76% of 1Q19 levels for MAG (4Q22: 75% of 4Q19 levels). Judging that SPTOTO is more favoured by foreign workers, we gather that the aforementioned recovery was due to the nascent return of foreign workers. Then in mid-Jun 2023, the Perlis state government decided that it will shutter all 6 NFO outlets going forward by not renewing their business premise licenses. To be sure, the NFO outlets in Perlis accounted for <1% of the total NFO outlets operated by SPTOTO and MAG.

2H23: NFOs - state elections will be nail biters. Despite the better-than-expected 1Q23 gross NFO sales/draw/outlet by SPTOTO and MAG, we are still NEGATIVE on the NFO subsector. We fear that NFO outlets in Selangor, Penang and Negeri Sembilan may be shut should their governments change hands during the upcoming state elections. For SPTOTO, NFO outlets in Selangor, Penang and Negeri Sembilan account for 22%/8%/5% of its total NFO outlets. For MAG, NFO outlets in Selangor, Penang and Negeri Sembilan account for 18%/9%/6% of its total NFO outlets. Assuming average NFO sales/draw/outlet are uniform and NFO outlets are shut on 1 Jan 2024 should state government(s) change in Selangor, Penang and Negeri Sembilan, our long-term earnings estimates for SPTOTO could be cut by 52%, and for MAG, by 48%.

Maintain Casino subsector at Overweight and NFO subsector at NEGATIVE. We have a BUY call on GENM with a DCF-based TP of MYR2.85. We estimate that MYR0.53/shr will be added to our GENM DCF-based TP should RWNYS secure a full casino license to deploy table games ([link](#)). We also have a BUY call on GENT with a SOP-based TP of MYR5.61. Should TauRx's HMTM secure United States Food & Drug Administration approval and be ascribed a valuation of USD15.0b, our GENT SOP-based TP may be revised to MYR8.83. We have SELLS on the NFOs, with SPTOTO and MAG TPs of MYR1.04 and MYR0.91 respectively. As explained above, we are uncomfortable with the fact that c.50% of their earnings are at risk should the state governments of Selangor, Penang and Negeri Sembilan change hands.

Risks to our call. (i) Full blown recession leading to subdued demand for gaming; (ii) higher gaming taxes; (iii) smoking bans (partial or full) in Malaysia and Singapore; and (iv) even harsher clampdown on cross border gaming (VIP and mass market) by China.

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Gaming sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Magnum	Sell	1,437	1.00	0.91	14.3	9.9	9.9	0.6	6.0	8.0	(20.7)
Sports Toto	Sell	1,823	1.36	1.04	10.1	9.3	9.4	1.9	20.5	8.3	(13.3)
Simple average - NFO		3,260			12.2	9.6	9.7	1.2	13.2	8.1	
Genting	Buy	15,749	4.09	5.61	177.83	13.0	7.6	0.5	3.8	4.9	(6.9)
Genting Malaysia	Buy	13,943	2.46	2.85	58.57	20.8	14.1	1.1	5.4	6.1	(5.3)
Simple average - Casino		29,692				16.9	10.9	0.8	4.6	5.5	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

GLOVES: Turbulence remains

NEGATIVE (maintained)

- Efforts are aimed at raising selling prices at the expense of sales volume. Plant utilisation rates remain low at <50%.
- Expected restocking activities by the end of 2023 are unlikely to translate into higher ASP due to excess capacity.
- Technology, productivity and a strong balance sheet are key for survival. Maintain NEGATIVE. We are SELLers of Top Glove, Hartalega and Kossan.

In retrospect. As expected, glove makers have continued to report losses in 1H23 due to low plant utilisation rates and escalating operation costs. The anticipated restocking activities did not occur in June 23 as projected. Instead, we suspect some of the orders have been shifting to counterparts in China, driven by their cheaper pricing of USD14-17/k pcs (vs. Malaysia's USD19-21). The trend is evident in the high utilisation rates of >70% at major China glove makers in China. Despite weak sector fundamentals, the share prices of glove players under our coverage have experienced a strong rebound, peaking at 27%-77% gains since mid-March 23 on market optimism regarding implementation of price hikes and the expectation that glove makers will soon return to profitability. However, share prices subsequently retreated following the release of weaker-than-expected results from TOPG, indicating the sector is still far from recovery. In May 23, HART announced its plan to decommission its Bestari Jaya facilities, resulting in a 25% decline in its total capacity. The decommissioning has led to an impairment loss of MYR350m.

Outlook/Thematic. We anticipate a continued subdued earnings outlook for 2H23 as glove makers are expected to face persistent losses due to low plant utilisation. As for HART, it will be further hit by the provision for retrenchment costs and contract obligation expenses of about MYR70m resulted from the decommissioning of the Bestari Jaya facilities in FY3/24. Glove makers are facing significant customer resistance to further increases in ASP and may be required to pass on the cost savings resulting from declining raw material and energy costs in order to secure sales. Meaningful restocking activities are not expected until end-2023. Given the low plant utilisation rates of 22-50%, any increase in orders can be easily absorbed, resulting in limited upside potential for ASP. Major Malaysian glove players now project a rebalancing of demand and supply by end-2024/2025 (from end 2023), assuming no additional capacity from their China counterparts.

Maintain NEGATIVE. We believe strong balance sheets, cost efficiency, productivity and technology advancements are crucial factors that will enable glove makers to withstand the downturn and provide a financial buffer in the event of an extended sector downturn or price war. Among the glove makers under our coverage, Hartalega and Kossan have relatively stronger financials with net cash of MYR0.46/sh and MYR0.77/sh as at end-Mar 2023, respectively. As for TOPG, its net cash only stood at MYR0.04/sh as at end-May 2023 (including perpetual sukuk, it has net gearing of 0.13x). We remain SELLers of Top Glove, Hartalega and Kossan.

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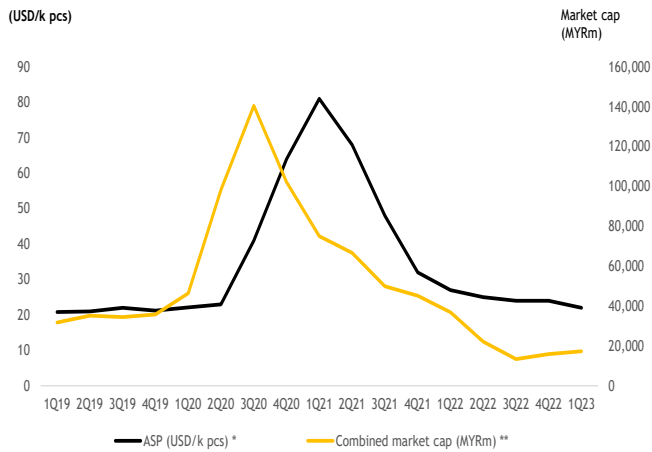
Gloves sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Top Glove Corp	Sell	6,807	0.85	0.80	n.a.	n.a.	n.a.	1.4	(9.7)	0.0	(6.1)
Hartalega Hldgs	Sell	6,869	2.01	1.35	7.64	146.2	116.5	1.5	1.0	0.0	18.2
Kossan Rubber	Sell	3,368	1.32	1.00	21.64	n.a.	n.a.	0.9	(1.7)	2.3	22.8
Simple average		17,044				146.2	116.5	1.2	(3.5)	0.8	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

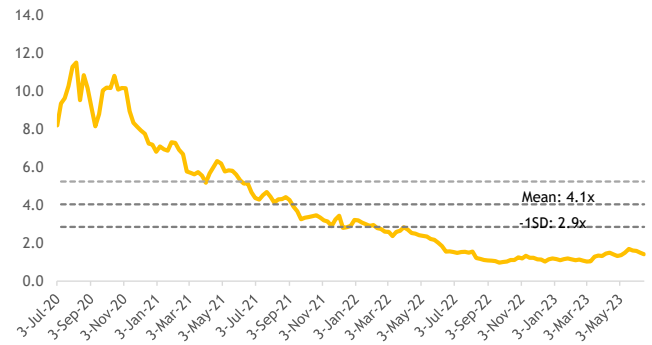
Upside risks. (i) Raw material prices declining faster than ASP, (ii) higher demand/consumption for gloves from non-healthcare industries post pandemic, and (iii) new players ceasing operations/exiting the industry sooner than expected that lead to lower supply of gloves.

ASP and market cap** trend



** the combined market cap of TOPG MK, HART MK and KRI MK
Sources: TOPG (for ASP), Bloomberg, Maybank IBG Research (chart)

Glove sector's 1-year forward PBV mean (2020-2023)*



*Top Glove, Hartalega, Kossan and Supermax
Source: Bloomberg, companies, Maybank IBG Research (chart)

Ports and Shipping: Signs of impending change?

NEUTRAL (maintained)

- Shipping freight rates have plummeted to close to pre-pandemic levels. However, bright spots remain for intra-Asia container volume demand, supported by robust FDIs in the region.
- Cautiously optimistic on Westports, with expectations of more updates on Westports 2.0 concession progress soon and potential opportunities emerging from shipping alliances developments.
- Having said that, material changes/contributions to earnings are not expected to happen any time soon, with many uncertainties ahead.

In retrospect. Drewry's World Container Index (WCI) has been following a downward trend since 1Q22, with rates having dropped below the USD2000 (per 40ft container) mark since Feb 2023. Certain trade lanes, particularly west-bound routes, have experienced rates falling below pre-pandemic levels, indicating a weakness in trade volume influenced by macroeconomic headwinds. Intra-Asia trade activities remain active, aligned with the guidance of local logistics players like Tasco and FM Global Logistics. This activity is supported by robust Foreign Direct Investments (FDIs) in recent years, attributed to the trend of supply chain diversification.

Major container shipping liners, such as Maersk and Hapag-Lloyd, have reported 1Q23 results that account for a significant portion of their full-year guidance, as they anticipate earnings in the remaining quarters to decrease to breakeven levels or potentially even lower. However, it is expected that container volume will recover from its trough in the second half of the year due to the conclusion of retailers' destocking activities. The rebound is not expected to be robust, and the ongoing trend of new capacity outpacing demand recovery will continue to exert downward pressure on freight rates. The extent of the recovery will depend on the level of end-consumer demand, although visibility on this remains limited due to recession concerns.

For energy shipping, we anticipate tanker shipping to hold up on impact of increased tonne-miles demand due to the change in crude oil trade pattern arising from the Russian-Ukraine conflict. Having said that, this could be partly offset by OPEC+ production cuts and recession risks ahead.

Key lookouts in 2H23. (i) **Westports container volume outlook.** We maintain our volume growth forecast for Westports at 2% YoY, compared to the 6% YoY growth recorded in 1Q23. We anticipate that the YoY growth in the second half of the year might moderate due to a high base from 2H22. However, there is potential for upside to our assumptions if strong gateway volume, supported by recent Foreign Direct Investments (FDIs), can be sustained and transshipment volume increases as retailers' destocking activities conclude.

(ii) **Westports 2.0 concession.** After experiencing significant delays, there is growing optimism that the negotiations for the Westports 2.0 concession might finally reach a conclusion before the end of 2023. Although we may not be overly excited about the outcome, considering the increased cost of capital in recent years, which could impact the project's return on investment (ROI), we believe the expansion is crucial for the port's long-term growth. Potential upside could arise from factors such as the source of funding for the expansion, future tariff revision mechanisms, and long-term container volume growth.

(iii) **Shipping alliances updates.** In January, the 2M alliance, comprising the world's two largest shipping liners, announced their mutual agreement to discontinue the alliance from 2025. Six months after the announcement, the two shipping liners have started to re-strategise their network coverage and have unveiled some standalone network plans. Meanwhile, the other two alliances - THE alliance and

Ocean alliance - are intensifying efforts to strengthen their east-west networks to gain market share from the soon-to-decouple 2M alliance. While it is too early to assess the net impact of these developments on Westports (being a Top 12 transshipment port globally, with transshipment container volume typically contributing more than two-thirds of the port's total container handling volume), it's worth noting that the 2M alliance is not a current customer of Westports. Therefore, we believe these alliance developments could potentially be positive (rather than negative) for Westports as it presents opportunities for the port to capture market share from 2M's services via its existing customers.

(iv) **Potential long-term upside from trade diversion trend.** According to separate reports by leading freight rate analytics platform Xeneta and global management consulting firm Kearney, there is an increasing trend of enhanced shipping services within the Southeast Asia region and the Indian subcontinent, largely driven by supply chain reallocation. This could have a positive impact on Westports' mid-to-long-term growth, further supporting Intra-Asia trade volume, which typically constitutes approximately 60% of the container volume handled by Westports.

Outlook. We maintain a cautiously optimistic stance regarding Westports' mid-to-long-term growth, despite concerns about its' near-term return on investment (ROI) due to its upcoming mega expansion plan. When considering the near-term outlook, we anticipate a slow recovery in trade volume for the second half of the year. Potential upsides include stronger-than-expected gateway container volume, supported by Malaysia's robust Foreign Direct Investments (FDIs), and better-than-expected transshipment volume from end of retailers destocking activities. On the other hand, MISC's performance is expected to sustain, as its' GAS business segment will remain stable given its portfolio of mostly long-term charter vessels, and its prudent petroleum tankers asset management will limit risks relating to exposure to the more volatile spot market. Re ratings, we are currently neutral on both Westports and MISC.

Risks. Substantial slowdown in global economy may lead to contraction in container throughput volume handled at Westports and lower crude tanker demand for MISC as oil consumption eases. Rising costs (such as labour, fuel, interest expense) could compress both companies' margins. Abrupt changes to ocean trade routes, unfavourable outcome on Westports 2.0 concession agreement may also dampen Westports' future earnings growth.

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Ports and shipping sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
MISC	Hold	31,202	6.99	7.19	13.14	12.9	12.9	0.8	6.3	4.7	(4.4)
Westports	Hold	12,071	3.54	3.85	17.88	14.9	14.3	3.5	23.3	5.0	(5.0)
Swift Haulage	Hold	410	0.47	0.51	9.12	8.8	7.9	0.6	6.8	4.1	(1.1)
Simple average		43,683			13.4	12.2	11.7	1.6	12.1	4.6	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

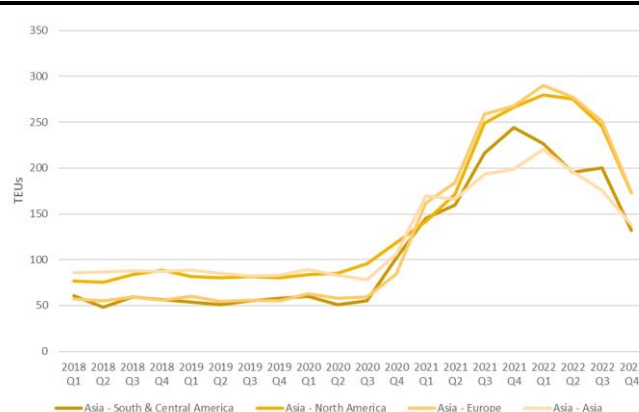
Drewry's World Container Index (WCI)



Source: Bloomberg, WCI

July 12, 2023

Container Volume by Trade Lane (m TEUs)



Source: Bloomberg, World Liner Data Limited/Container Trade Statistics Limited

Media: Sentiment taking a beating

Negative (downgrade)

- 4M23 total gross adex declined by 3% YoY, dragged by weaker consumer sentiment which corporates attributed to high inflation.
- Weaker adex and lower home shopping sales a common drag in 1Q23 earnings.
- Downgrade from NEUTRAL to NEGATIVE on lower earnings visibility and lack of catalysts. MPR remains a HOLD while we downgraded ASTRO to SELL.

1H23: Inflation-driven decline in adex and home shopping. In 4M23, total gross adex declined by 3% which was in-line with our expectations. Radio and newspaper adex took the largest hit, declining by 12% and 7% YoY respectively, while FTA TV adex remained relatively resilient, declining by only 2% YoY. Corporates attributed the underlying weak consumer sentiment to high inflation. Across the media stocks under our coverage, we saw the negative impact that the weakened consumer sentiment had on 1Q23 results, with lower adex and home shopping sales being a common drag on earnings. In fact, we observe that MPR and ASTRO's home shopping sales have even deteriorated to below pre-COVID levels which speaks to just how poor current consumer sentiment is.

1H23: Results season left much to be desired. MPR reported a core net loss of MYR18.5m which was below our expectations, struggling from lower adex, home shopping sales, and content sales. While the decline in adex were in line with our expectations, the miss in home shopping and content sales caused us to slash our 12MFP23E/FY24E/FY25E core net profit by 87%/28%/19%. ASTRO's core net profit of MYR61.9m came in at only 20% of our FY estimate, with TV adex, radio adex and home shopping sales falling by 20%/7%/37% YoY, missing our expectations of a 5% growth, as inflation tamed consumer sentiment. We cut our FY24E/FY25E/FY26E core net profit by 16%/20%/22%. We maintained our HOLD call on MPR as it is already trading far below BVPS but have downgraded ASTRO to SELL (from HOLD).

2H23: Visibility remains poor in the near to medium term. The feedback we have received from sources within and without the media stocks under our coverage is that adex and home shopping visibility remains poor. Consumer sentiment remains weak off the backs of rising inflation and interest rates domestically and globally. This has caused advertisers' business sentiment to turn cautious and caused them to cut advertising and promotional budgets. At the same time, pent-up demand from the economy's reopening in 1H22 has more or less fully dissipated while the prospect of more subsidy cuts via higher electricity tariffs, for example, does not augur well for consumer sentiment. It does not help that there are no major adex-friendly events in 2H23.

2H23: Narrowing 2023 total gross adex growth forecast to -5%, but not for positive reasons. In anticipation of an economic slowdown in 2023, we had initially forecasted a 10% decline in gross total adex. This is following an elevated 2022 adex base given the re-opening of the economy last year, as well as adex-friendly events such as the 15th General Election (GE15) and FIFA World Cup. However, in 4Q22, we note that gross total adex was much tamer than anticipated, with Nov and Dec 2022 gross total adex declining by 5% and 8% YoY respectively, despite the occurrence of GE15 and FIFA World Cup then. When we were authoring our 2023 Outlook & Lookouts report in early Dec 2022, we only had adex data up until Oct 2022. Given that the 2022 adex base was lower than we originally expected, we narrow our 2023 total gross adex forecasts to -5%, from -10% previously.

Risks. (i) Heavier-than-expected dampening of adex and home shopping growth from a full-blown global recession; (ii) Further disruptions to the traditional media industry from digital players such as Netflix and Disney+; (iii) New rounds of COVID-19 infections and lockdowns.

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Media sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Astro Malaysia Holdings	Sell	2,633	0.51	0.59	9.1	10.3	13.3	2.2	21.7	4.9	(21.9)
Media Prima	Hold	471	0.43	0.38	44.7	28.3	12.9	0.7	2.4	0.9	1.2
Simple average		2,633			9.1	10.3	13.3	2.2	21.7	4.9	

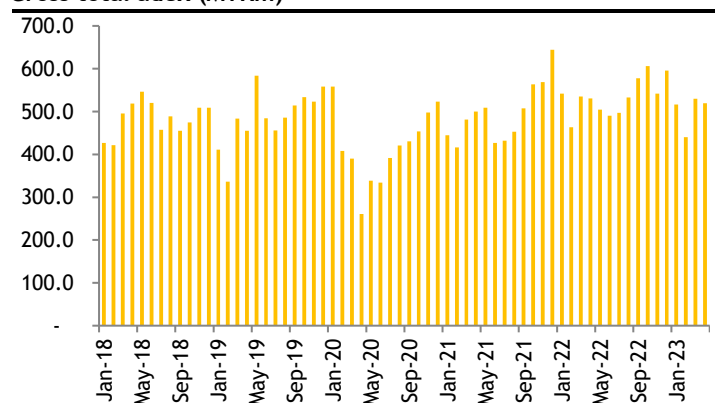
Source: Maybank IBG Research, FactSet (as of 07 Jul)

4M23 gross adex by segment (MYRm)

	4M23	4M22	YoY chg
FTA TV	1,118.9	1,143.5	-2.2%
Newspapers	274.5	310.1	-11.5%
Magazines	8.2	8.4	-1.5%
Radio	137.0	146.7	-6.6%
Cinema	45.3	40.2	12.5%
In-store media	5.1	8.7	-41.8%
Digital	416.2	414.0	0.5%
Total	2,005.2	2,071.6	-3.2%

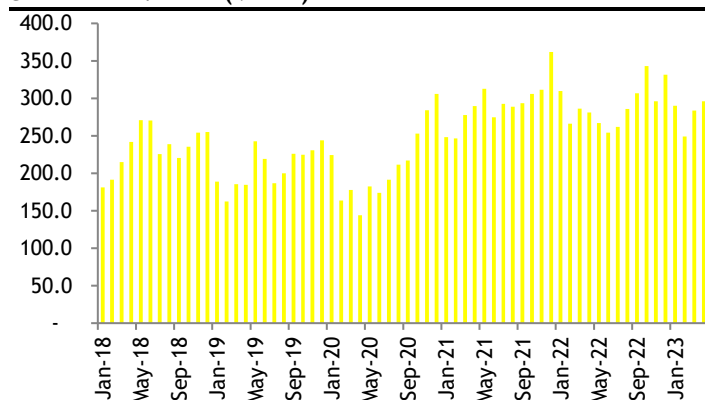
Source: Nielsen Media Research

Gross total adex (MYRm)



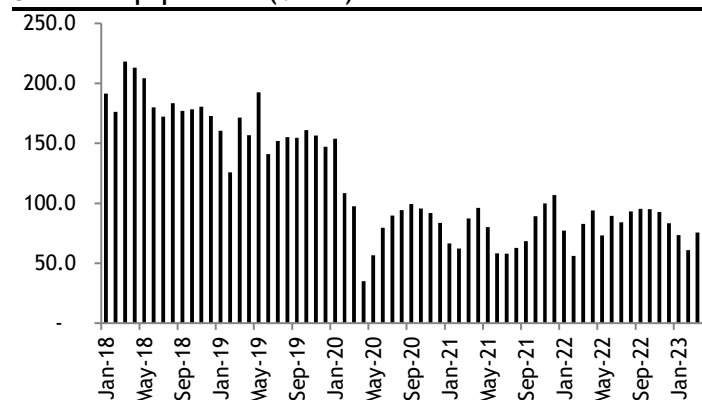
Source: Nielsen Media Research

Gross FTA TV adex (MYRm)



Source: Nielsen Media Research

Gross newspaper adex (MYRm)



Source: Nielsen Media Research

PETROCHEMICALS: Struggling to find a bottom

NEUTRAL (unchanged)

- After 12 months of outsized, decade-high gains, ASPs have reverted to their post-pandemic mean owing to a combination of tepid economic growth globally and an easing of supply-side constraints.
- Albeit still profitable, PCHEM is likely to have a subdued YoY performance for the remainder of 2H23 whilst TTNP will continue to be in the red for the foreseeable future as product spreads remain far from breakeven.
- We have a HOLD rating on PCHEM and a SELL on TTNP.

1H23 in retrospect - on a downward trajectory. Amidst sluggish global growth and ample downstream capacity exerting significant downward pressure on ASPs towards the tail-end of 2022, MY petrochemical players (PCHEM, TTNP) continued to struggle in 1Q23 as margins continued their steep compression trajectory. PCHEM's 1Q23 earnings were below ours/the street's expectations as the group had to contend with lower plant utilisation (96% vs 4Q22's 100%), higher opex (+28% QoQ) and tepid regional demand across the board. Despite marginal improvements (5-11%) in 1Q O&D ASPs, O&D segmental revenue/EBITDA still came in sequentially lower (-13%) due to weakened ethane polymer sales, STAs at two plants, as well as start-up losses (c.MYR100m) from the restarting of activity at PIC. The F&M segment meanwhile, posed a larger drag on the group's performance as urea prices rapidly declined QoQ (-26%) coupled with weaker sales volume (-11%) and a strengthening MYRUSD (sales are USD-denominated). The YoY contraction in PCHEM's CNP would have been sharper had the earnings shortfall not been mitigated by improved EBITDA margins (+4.6 ppts QoQ) at its newly-established Specialties division as lower feedstock costs from declining European natural gas prices and a surprise pick-up in demand for lube oil additives, resins & coatings helped shore up the group's bottom-line. TTNP meanwhile suffered its fourth consecutive quarterly loss in 1Q23 despite mgmt's best attempts to rein-in cost pressures, as declining margin spreads and a hefty MYR43.5m loss at its US associate exacted a heavy toll on the group's performance. The group registered expectedly lower turnover (-5% QoQ) on the back of marginally lower sales volumes (-1% QoQ), declining blended ASPs and a weakened USD but on a positive note, registered positive EBITDA (vs. MYR130m losses in 4Q22) as lower feedstock costs from waning regional cracker demand, a 332% increase in reversal of inventory write-downs as well as operational rationalisation helped alleviate stubborn cost pressures.

ASPs are yet to find bottom. On the back of a sequentially weak 1Q23, key F&M product prices plummeted even further in 2Q23 to 2-year lows (urea: -56% YoY; ammonia: -79% YoY; methanol: -23% YoY) from slowing agricultural end-demand and easing European natural gas prices, whilst O&D segment ASPs have remained equally lacklustre due to a subdued crude oil market. Moreover, decelerating aggregate demand in China and the US, the world's two largest economies, have likely curtailed a foreseeable CY23 recovery for downstream petrochemicals with the challenging operating environment acting as a natural stabiliser in remedying the supply woes that sent ASPs soaring in late-2021 and throughout much of 2022. If persistently tight supply was the industry norm in the 15 months spanning 4Q22 through to 4Q23, oversupply and excess inventory will likely characterise the regional downstream market for the remainder of 2023. To exacerbate the domestic industry's woes, the O&D market will be further pressured with PIC's impending COD in 4Q23 as TTNP could see its domestic premium (c.USD50-100/t) completely erode by 1H24. Within PCHEM's Specialties space, easing opex pressures and modest demand recovery in isolated product categories (lube oil, resins) has helped buffer EBITDA margins and mitigate the shortfall in the group's bottom-line, but inflation remains the primary barrier for growth across its broader product portfolio of diversified specialty chemicals, with the prospect of a 2H23 recovery looking bleak.

Maintain NEUTRAL. We opine that both PCHEM and TTNP will continue to face significant growth headwinds in 2H23. Despite markedly lower ASPs YoY, PCHEM is unlikely to post a loss-making quarter in 2H23 owing to competitive feedstock procurement from its parent. TTNP meanwhile, is likely to stay in the red for the remainder of the year as spreads are still well below breakeven despite mgmt's best attempts to streamline operations. We have a HOLD rating on PCHEM and a SELL rating on TTNP. Our CNP estimates and TP remain unchanged.

Risks. There are several risk factors for our earnings estimates, target price and ratings for PCHEM & TTNP: (i) slower than expected global demand as pockets of Covid-19 re-emerge to thwart governments' efforts to lift existing lockdown restrictions; (ii) a sudden cooling of the fertiliser market in the event planters switch to alternative crops that do not require a heavy dependence on nitrogen based fertilisers; (iii) Pengerang plants achieving poor operating earnings on a weaker-than-expected utilisation rate of <70% in FY23E; and (iv) sharp movements in naphtha cost that will significantly impact TTNP's product spread.

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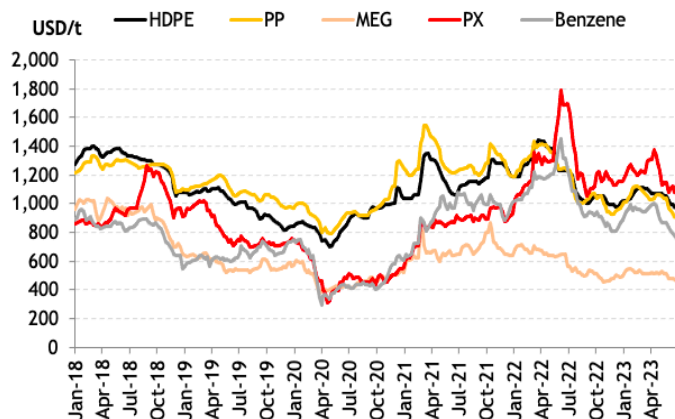
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Petrochemicals sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Petronas Chemicals	Hold	48,160	6.02	6.85	7.5	14.0	10.1	1.2	8.4	3.6	(28.4)
Lotte Chemical Titan	Sell	2,710	1.19	1.19	n.a.	n.a.	47.6	0.2	(2.9)	0.0	(16.2)
Simple average		50,870			7.5	14.0	28.8	0.7	2.8	1.8	

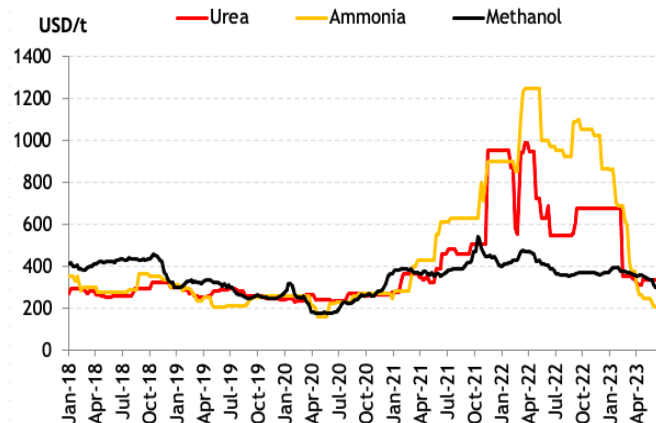
Source: Maybank IBG Research, FactSet (as of 07 Jul)

PCHEM: Olefin & Derivatives (O&D) division's key ASPs



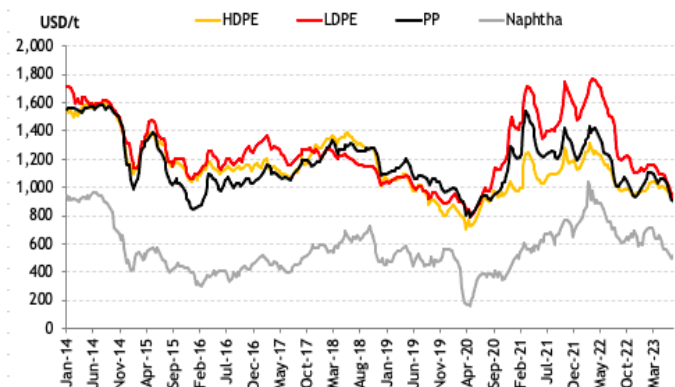
Source: Bloomberg, Maybank IBG (compilation)

PCHEM: Fertiliser & Methanol (F&M) division's key ASPs



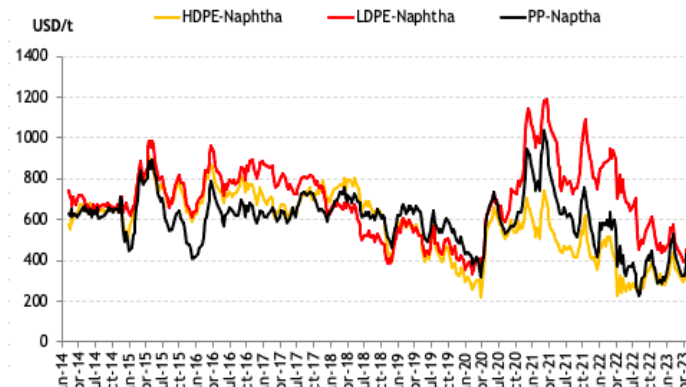
Source: Bloomberg, Maybank IBG (compilation)

TTNP: Prices of polymer and naphtha



Source: Bloomberg, Maybank IBG (compilation)

TTNP: Key product spreads



Source: Bloomberg, Maybank IBG (compilation)

PLANTATION: Expect a volatile 2H23 outlook

NEUTRAL (unchanged)

- Barring any weather surprises, the global supply of vegetable oils is forecasted to be relatively ample in 2023/24F on increased plantings.
- The looming El Nino and its severity will be closely monitored by the market in 2H23 for CPO price discovery. This will lead to a volatile soft commodity market amid macro concerns in the backdrop.
- In the absence of weather surprises, the seasonally stronger output in 2H should pressure CPO price in Q3 (to stimulate demand) before CPO price recovers in Q4. Stay NEUTRAL. Our preferred BUYs are KLK & TAH.

In retrospect. Unlike 1H22 where CPO price was briefly a price maker due to global supply shock, it has broadly reverted to be a price taker in 1H23. Despite tight palm oil supply following some palm oil export restrictions imposed by the Indonesian government in 1H23 to ensure sufficiency of cooking oil for the Indonesian people during the Raya festivity, MPOB's spot CPO price traded at a relatively narrower price range of between MYR3,331/t - MYR4,343/t compared to a year ago (1H22: MYR4,766/t - MYR8,077/t). In 1H23, CPO price was taking cues from other vegetable oils. CPO price was no longer attractive to importers as it lost price competitiveness given other vegetable oils had been correcting sharply over 1H23. CPO was even trading at a small premium to soy oils, sunflower oils, and rapeseed oils at one point in time during 2Q23.

Preliminary forecasts for 2023/24F indicate ample supply. Based on the preliminary forecast by *Oil World*, the global 17 Oils & Fats for Oct/Sept 2023/24F marketing year is projected to grow by 6.8mt (+2.7% YoY) to 256.8mt (2022/23F: +5.2mt to 250mt). Growth will emanate mainly from soybean oil (+3.5mt or +6% YoY) and palm oil (+1.3mt or +1.6% YoY). The growth in soybean oil supply correlates with the anticipated growth in soybean supply from Brazil, US and Argentina. Argentina, the 3rd largest producer of soybean, is anticipated to have a strong rebound in output following its decimated crop yield last year owing to the three consecutive years of La Nina that brought little rain to Argentina. Overall, *Oil World* is projecting an incremental +37mt (ie million tonnes) or +6.1% YoY growth in global 10 oilseeds output to 646mt; under the lead of soybean (+34.4mt or +9.4% YoY). If it materializes, this will translate to an uptick in the stock-to-usage (SUR) ratio of global 10 oilseeds to 21.7% in Oct/Sept 2023/24F marketing year (2022/23F: 19.4%), above its 5-year average of 20.1%.

Stock-to-usage (SUR) ratio for palm oil projected to be marginally lower in 2023/24F. The SUR projection of global 17 Oils and Fats for 2023/24F of 13.9% (-0.1-ppts YoY) is above the 5-year historical average of 13.6%, implying relatively ample oils supply in the market for the coming marketing year barring any weather anomalies. As for palm oil, which holds the largest market share of global vegetable oils consumed, its SUR is expected to come off marginally by 0.4-ppts to 19.0% but still above the 5-year historical average of 18.3%.

Will looming El Nino upsets global supply? Mother nature will have the final say despite anticipated plans by producers to boost supplies via increases in planting intentions. While US's NOAA has announced the arrival of the El Nino phenomenon, the Australia Bureau of Meteorology has yet to concur (as at 20 June) although it indicated a 70% chance (since 6 June) of an El Nino developing this year. Despite the ongoing debate on El Nino occurrence and intensity, there has been an early weather scare in the US as weather has been unusually dry at present. But there is still opportunity to turn things around as a timely return of sufficient rainfall (about 100mm) during the crucial pod setting months of July-Aug may just restore yield.

The one thing still unclear though for 2023's anticipated El Nino is its intensity. Based on our study of recent past 5 El Ninos since 1997 [please read -> [El Nino may](#)

not be all that friendly these days], there was no clear trend on FFB yield impact during periods of weak/ moderate El Ninos except during the periods of strong El Ninos of 1997 and 2015. During those strong El Nino periods, Malaysia's (MY) monthly yield actually grew YoY at the onset for a period of 7M-8M before tree stress set in (due to extreme dryness) to hurt yields thereafter. Hence, if a strong El Nino develops in 2023, it is almost guaranteed to impact 2024's yield (but likely compensated by higher CPO price). Drier weather at the onset of an El Nino would generally quicken the ripening of FFB, as well as aid harvesting and evacuation activities in the field. This may in turn, pressure CPO price at the onset of the El Nino given the improved yield, which is our base case scenario for 2023. Based on our study of past El Ninos too, an El Nino occurrence is generally positive for CPO prices over a 24M period from the onset but not a linear uptrend and there could be other factors influencing prices along the way. For 2023, there are underlying macro concerns (such as global recessionary risks and further rate hikes) on the immediate horizon that could water down overall optimism on commodity prices.

2H23 price outlook. Our base case scenario is for MY's CPO supply to normalise in 2H23 with the increased availability of guest workers. With improving seasonal supply of palm oil both in MY and Indonesia, CPO will need to be priced competitively vis-à-vis other competing oils. A wide discount will be required to boost demand for CPO when supply is ample. All things equal, we anticipate a potential softening in CPO price in 3Q23. Hence, we are keeping our CPO ASP forecast for 2023E at MYR3,400/t (2022A: MYR5,088/t) for now premised on the assumption that a looming El Nino will not derail the anticipated strong palm oil production recovery in Q3, and that US soybean crop will remain resilient with beneficial rainfall to follow during the crucial pod setting months of July-August 2023. The risk, therefore, is on the upside if these assumptions become invalid.

Sector picks. The sector is ripe for a trade in Q3 but there will be more conviction once the market gets a better picture on the El Nino development and its potential impact. Besides general macro concerns, we are also concerned about the upcoming potentially lackluster 2Q23 earnings season dampening investors sentiment in the short term. 2Q23 results will be sharply weaker YoY owing to weaker CPO and PK (ie palm kernel) ASPs, and higher cost (on high fertilizer prices and volume applied, encouraged by favourable Q2 weather). Overall, we maintain our NEUTRAL sector call. Within our coverage, our preferred BUYS are KLK and TAH. We believe M&A activities will continue to shine the spotlight on selected SMID stocks such as BPLANT (HOLD).

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Plantations sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Sime Darby Plantation	Hold	29,599	4.28	4.30	13.59	24.2	18.3	1.7	7.2	2.2	(6.7)
IOI Corp	Hold	23,264	3.75	3.85	14.76	16.9	18.2	2.0	11.7	3.5	(6.0)
KL Kepong	Buy	24,308	22.34	23.90	11.87	16.2	16.9	1.8	9.9	3.7	4.6
Genting Plantations	Hold	5,132	5.72	6.30	10.46	17.3	18.1	1.0	5.6	3.5	(10.0)
Sarawak Oil Palms	Hold	2,208	2.48	2.73	4.46	10.0	9.4	0.6	6.3	3.0	(2.3)
Ta Ann Hldgs	Buy	1,489	3.38	3.72	4.27	8.2	9.0	0.8	10.0	7.3	(7.8)
Boustead Plantations	Hold	2,162	0.97	0.92	11.63	42.0	42.0	0.7	1.8	1.5	58.7
TSH Resources	Hold	1,277	0.93	0.94	6.75	10.9	10.3	0.7	5.8	4.4	(11.2)
TH Plantations	Hold	464	0.53	0.49	6.73	20.2	21.0	0.6	3.2	0.0	2.7
Simple average		89,902				18.4	18.1	1.1	6.8	3.2	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

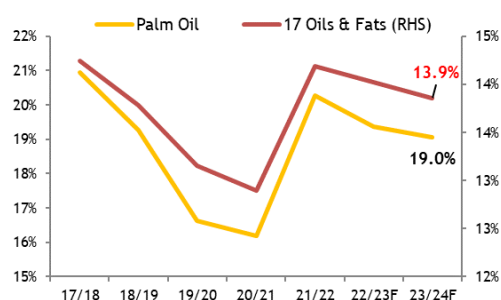
Risks. The present risk to our 2023 CPO ASP forecasts is on the upside if (i) palm oil output fails to live up to expectation of a good recovery, (ii) weather anomalies resulting in lower-than-expected palm oil and other vegetable oils output growth, (iii) crude oil prices stage a rebound rally to above USD100/bbl, (iv) the Russia-Ukraine war extends throughout 2023, and (v) MYR continues to remain weak against USD. Other key risks to the sector and companies are: (i) negative policies imposed by importing countries, (ii) unfriendly government policies at producing countries, (iii) further global vegetable oils demand destruction due to heightened risk of global recession, (iv) weaker competing oil prices (especially soybean oil, rapeseed oil, and sunflower oil), and (v) banking crisis in the West extending into a global crisis.

17 Global Oils & Fats - World Balance (million tonnes)

	October / September				
	19/20	20/21	21/22	22/23F	23/24F
Opening stocks	33.0	31.5	31.1	34.2	35.0
Production	238.3	240.9	244.8	250.0	256.8
Change	-0.4%	1.1%	1.6%	2.1%	2.7%
Imports	96.2	95.8	89.5	96.4	98.8
Exports	96.7	95.7	90.3	96.0	99.2
Consumption	239.4	241.3	240.9	249.5	255.9
Change	0.5%	0.8%	-0.2%	3.6%	2.6%
Ending stocks	31.5	31.1	34.2	35.0	35.5
Stocks-to-usage ratio	13.2%	12.9%	14.2%	14.0%	13.9%

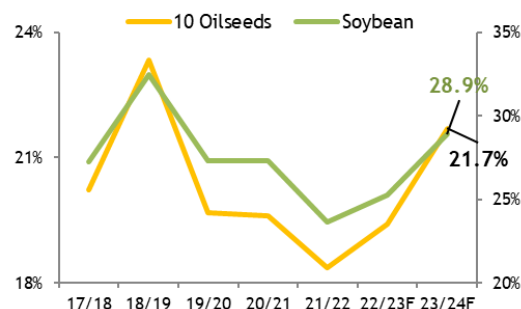
Source: Oil World

Stock-to-usage ratio (SUR) of 17 oils & fats



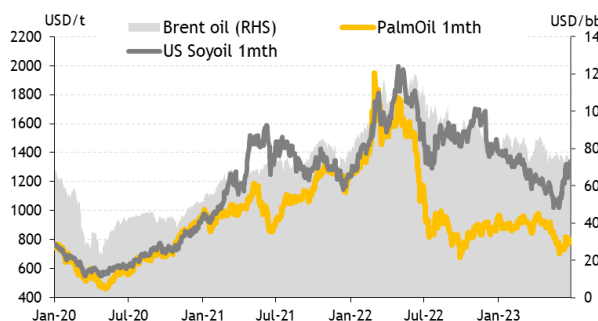
Source: Oil World

SUR of 10 Global Oilseeds & Soybean



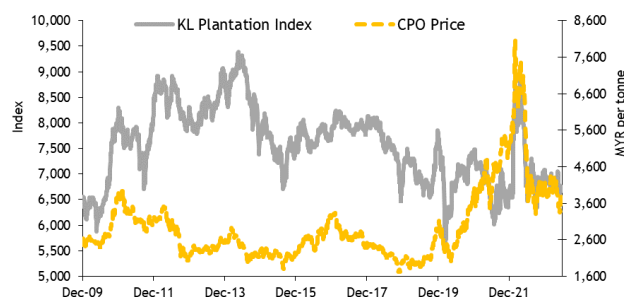
Source: Oil World

Palm oil, US soybean oil, and Brent oil prices



Source: Bloomberg

KL Plantation Index vs CPO spot price



Source: Bloomberg

Property developers: Lacklustre outlook

NEUTRAL (maintained)

- Trading opportunities linked to mega infrastructure projects may not materialize until the state elections due in Aug are settled.
- Sector recovery is not broad-based. Uncertainties abound due to tightening monetary policy and a weak economic outlook. While the weakening ringgit may attract some foreign buying interest, it is unlikely to be significant in relation to the residential property segment.
- The sector lacks re-rating catalysts while discounted valuations could be a value trap. We prefer township developers. BUYs: ECW, SDPR and SPSB.

In retrospect. Developers started the year with good sales in 1H23. 53% of the local developers under our coverage reported stronger-than-expected sales (ECW, SDPR, UEMS) during the period while the remaining came in within expectations. UEMS' 1H23 sales were boosted by a MYR874m enbloc sale in Melbourne. As expected, BNM has raised OPR by +25bps to 3.0% in early May 2023. The industrial property segment remains in the spotlight due to rising e-commerce activities, investment diversion from China amid escalating US-China tensions and limited supply of industrial properties. ECW is actively looking for new landbank to expand its industrial segment while SPSB is converting land in Klang and Bertam into industrial products. To lower debts, SPSB is selling its non-core landbank. It has managed to dispose 500 acres of land in Semenyih to MSGB (Not rated; CP: MYR0.615) for MYR392m. Despite the lacklustre economic outlook, rising financing cost and volatile input prices, the KL Property Index (KLPI) nonetheless finally outperformed the broader market by 15% (KLPI's 8% vs KLCI's -7% @ 23 June 2023).

Outlook/Thematic. We expect external factors such as higher interest rates (we are expecting another +25bps OPR hike in 3Q23) and volatile raw material costs to continue to weigh on property stocks. While the weakening ringgit may attract some foreign buying interest, it would benefit the industrial property segment more significantly than the residential segment. Having said that, the mega infrastructure projects (e.g. potential revival of KL-Singapore high speed rail (HSR) and even the Bandar Malaysia project), which may be announced post-state elections, may provide some trading opportunities on listed land owners along the HSR track such as SDPR MK (land at Pagoh and Labu) and UEMS MK (land at Iskandar Malaysia). Ekovest (EKO MK; CP: MYR0.36; Not rated), which is 31% owned by Tan Sri Lim Kang Hoo, could also be under the spotlight for the latter's involvement in the Bandar Malaysia project.

Maintain NEUTRAL. We remain defensive in our stock picking. We reiterate BUYs on ECW, SDPR and SPSB and HOLDs on ECWI, TILB, SWB and UEMS. We like ECW, SDPR and SPSB for their strong exposures to the landed residential and/or industrial property segments.

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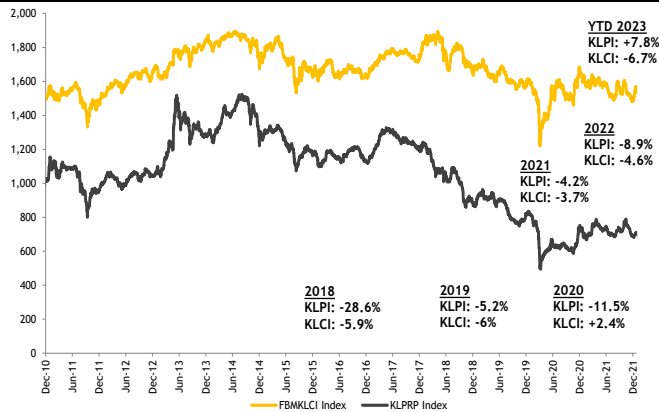
Plantations sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Sunway Berhad	Hold	7,828	1.58	1.72	14.77	11.7	12.3	0.7	6.1	2.7	(0.3)
Sime Darby Property	Buy	3,332	0.49	0.58	10.21	11.4	11.4	0.3	3.0	3.9	11.1
SP Setia	Buy	2,326	0.57	0.73	8.14	3.3	5.5	0.2	5.6	8.2	(2.7)
Eco World Development	Buy	2,503	0.85	1.02	10.41	8.9	8.5	0.5	5.7	5.9	39.3
UEM Sunrise	Hold	1,543	0.31	0.27	21.79	17.9	12.2	0.2	1.2	1.6	22.0
Eco World International	Hold	1,476	0.62	0.66	n.a.	n.a.	n.a.	0.6	(2.0)	0.0	57.7
Tambun Indah Land	Hold	384	0.88	0.98	6.25	6.6	6.6	0.5	7.5	6.1	14.4
Simple average		19,392				10.0	9.4	0.4	3.9	4.1	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

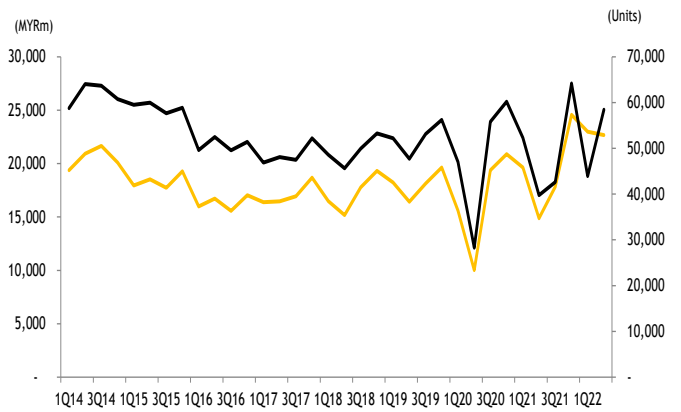
Upside / downside risks. i) Stronger-than-expected property sales driven by better economic outlook, ii) policy risks, iii) easing of lending measures by the banks, iv) political risk, v) higher-than-expected Liquidated Ascertained Damages (LAD) compensation following latest ruling by the Federal Court and vi) rising building material costs and labour issues.

KL Property index outperformed KLCI YTD (KLPI: +7.8% versus KLCI: -6.7%)



Source: Bloomberg, Maybank IBG Research (chart)

1Q23 residential property transactions (in value/unit) were -9.2%/+23% YoY, -12%/-13% QoQ



Source: NAPIC, CEIC, Maybank IBG Research (chart)

REITs: Momentum to pick up

NEUTRAL (unchanged)

- Selected M-REITs' DPU should remain resilient due to their LT leases and/or prime assets. We believe recovery at retail assets will continue, while hospitality assets should also show improvement with the return of international tourists.
- We expect an average CY23 net DPU yield of 6.5%.
- Our Top BUY is YTLREIT; our other BUYs are Axis REIT and Pavilion REIT.

In retrospect. In 1Q23, earnings recovery momentum for M-REITs under coverage continued, driven mainly by retail and hospitality assets on the back of better rental reversion as well as higher occupancy rates and revenue per available room (RevPAR). This earnings growth, however, was partly offset by higher utilities expenses and finance cost. Performance for Office and Industrial assets were stable.

Outlook/Thematic. We remain Neutral on the sector going into 2H23. We continue to like prime retail malls which are in prominent locations which, in turn, would drive high shopper traffic and consequently, high tenant demand for the malls' retail space. We also prefer office assets with long-term tenants which therefore entail lower occupancy risks. On the other hand, we are cautious on neighbourhood malls and multi-tenanted offices in the Klang Valley which would be at higher risk of being negatively impacted by the oversupply of retail and office space. Additionally, the acquisition of yield-accretive assets could help support growth.

We expect low to mid-single digit positive rental reversions across most Klang Valley retail properties and Industrial assets. However, rental reversions for office space is expected to remain flattish. Properties with triple net leases and master leases would remain defensive (e.g. certain office and hospitality assets), backed by their long-term lease structures with rental step-ups.

1H23 acquisitions. Pavilion REIT and CapitaLand Malaysia Trust have completed the acquisitions of *Pavilion Bukit Jalil* and *Queensbay Mall*, respectively in 1H23. Rental income from these newly-acquired assets is expected to contribute from 2H23 onwards. In Mar 2023, Sunway REIT had proposed to acquire six hypermarkets (i.e. Giant) from the Employees Provident Fund (EPF) for MYR520m in total. This acquisition is expected to complete in 4Q23. Current gearing level for our coverage mostly stands between 0.13x - 0.42x, providing debt headroom for new acquisitions (based on a borrowing limit of 50%).

Luxury tax to be introduced in 2H23. The government plans to impose a luxury goods tax on certain types of high-end items starting this year, as announced in the Revised Budget 2023. Nevertheless, the tax rate, the list of goods to be taxed and the area of coverage have not been finalised. Pending further details on the implementation, we believe this could potentially affect sales for tenants selling luxury goods in *KLCCP Stapled* and *Pavilion REIT*.

Higher interest rate environment. BNM has raised OPR by +25bps, to 3.0% in 2Q23. Any further hikes in OPR would translate into higher financing costs for selected borrowings. Most M-REITs under our coverage are still mainly funded by floating rate loans. As at 1Q23, the sector had an exposure to floating rate debt of 51% (as a percentage of total sector debt) while MREIT's average interest costs in CY22 had ranged between 2.8% to 4.3%. However, we believe higher finance cost for REITs under our coverage will be partially offset by improvement to portfolio income flows.

Higher yields and improving spread. The sector currently offers CY23E net DPU yields of 6.5%, primarily led by YTLREIT at 9.8% and CLMT at 7.8%. Meanwhile, the July 12, 2023

sector's trailing net yield spread (against the 10-year MGS yield) is at the trailing 12-months average of 262bps. Our Fixed Income Research Team expect 10y MGS yield to fall toward 3.50% by end-2023. This translates into CY23 net yield spread of 283bps.

Sector top BUY - YTLREIT. YTL Hospitality REIT is our Top Pick for the sector, supported by strong dividend yield of 9.8% and improved performance from its' Australian hotels. Meanwhile, rental income from its' Malaysian and Japanese hotels portfolio remains resilient per long-term master lease arrangements.

Other sector BUYs. We also have BUY ratings for *Axis REIT* and *Pavilion REIT*. We continue to like *Axis REIT* due to its strong exposure to the industrials space and active search for new acquisitions to further grow its portfolio. Meanwhile, *Pavilion REIT* is expected to benefit from improved performance by Pavilion KL and new rental income stream from Pavilion Bukit Jalil from 2H23 onwards.

Risks. We remain cautious on the oversupply of retail and office space in the Klang Valley which could exert pressure on occupancy rates and/or positive rental reversions. These, in turn, would increase the downside risk to DPU's. Elsewhere, OPR hike(s) would lower M-REITs' profitability (higher finance cost) and deter acquisitions (more expensive to fund acquisitions via borrowings). Another earnings risk would be if the economic impact from COVID-19 returns.

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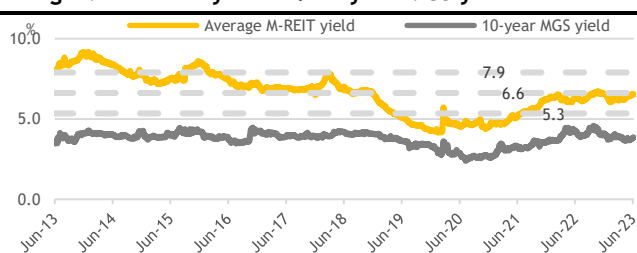
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REITs sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
KLCCP Stapled Group	Hold	12,457	6.90	7.00	18.2	16.5	16.2	0.8	5.5	5.2	6.2
IGB REIT	Hold	5,931	1.65	1.70	17.6	16.0	15.6	1.5	9.5	6.2	3.1
Sunway REIT	Hold	5,343	1.56	1.54	16.3	15.9	14.4	1.1	6.4	5.6	10.2
Pavilion REIT	Buy	4,525	1.24	1.51	15.3	17.0	14.9	1.0	5.5	5.6	8.8
Axis REIT	Buy	3,221	1.85	2.16	19.3	19.9	15.7	1.2	5.9	4.5	4.6
YTL REIT	Buy	1,687	0.99	1.03	11.9	11.4	11.1	0.6	5.4	8.5	11.0
Capitaland M'sia Trust	Hold	1,349	0.50	0.55	12.5	11.9	11.1	0.5	4.6	7.6	(1.8)
Sentral REIT	Hold	890	0.83	0.89	11.7	12.4	12.2	0.7	5.5	6.9	(3.6)
Al-Salam REIT	Hold	267	0.46	0.48	17.0	15.9	12.1	0.4	2.6	5.2	29.9
Simple average		35,668			15.5	15.2	13.7	0.9	5.7	6.2	

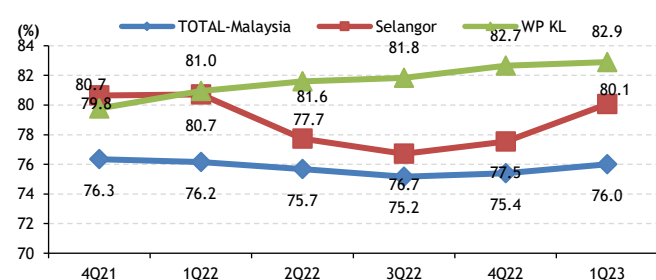
Source: Maybank IBG Research, FactSet (as of 07 Jul)

Average M-REIT net yield vs. 10-year MGS yield



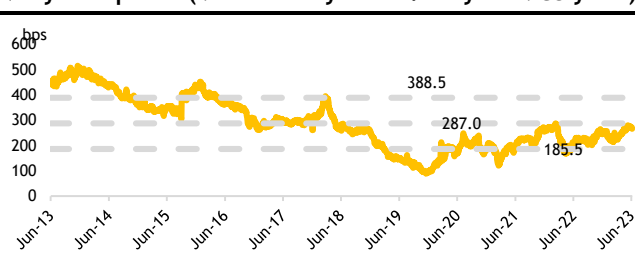
Source: Bloomberg, Maybank IBG Research

Retail space occupancy in shopping complexes



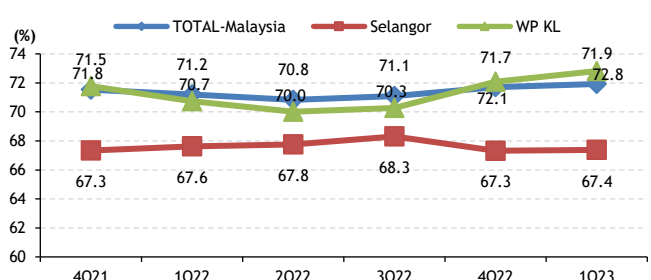
Source: National Property Information Centre (NAPIC)

Net yield spread (M-REIT net yield vs. 10-year MGS yield)



Source: Bloomberg, Maybank IBG Research

Office space occupancy in purpose built offices



Source: National Property Information Centre (NAPIC)

Renewable Energy: Awaiting for CGPP to be awarded

NEUTRAL (unchanged)

- 2H23 net profit to be stronger YoY mainly due to strong order books relating to LSS4.
- RE players are awaiting the CGPP tender to be awarded from Jul/Aug onwards to replenish their order books.
- We now have HOLD calls on both Cypark and Solarvest; Downgrade RE sector to NEUTRAL.

Earnings outlook for 2H23. Majority of the unbilled order book for most RE players are from LSS4 projects, which are due to be delivered by December 2023. Solarvest's outstanding order book of approximately MYR550m as at end-Mar 2023 represents an unbilled order book-to-cover ratio of 1.5x against FY23 revenue of MYR365.5m. This will provide earnings visibility until FY24. Meanwhile, tender book remains relatively healthy at 2.5GW of solar projects across Southeast Asia, with the biggest tender in Malaysia at 1.7GW, translating to c.MYR4bn of EPCC value.

800MW of CGPP. To recap, the Ministry of Energy and Natural Resources had, in Nov 2022, released 600MW of solar quota under the Corporate Green Power Programme (CGPP). CGPP is essentially a mechanism for virtual power purchase agreement, which is implemented using the existing New Enhanced Dispatch Arrangement (NEDA) framework. The agreement is a commercial agreement between the solar power producer and the Corporate Consumer. On 9 Mar 2023, the government had announced an additional 200MW of quota which brings the total available quota to 800MW.

The Energy Commission (EC) has set the maximum capacity limit of applicants at between 5MW and 30MW, where the solar power assets are to be operational by end-2025. The application date started from 9 May and will continue until end-2023 or until all quotas have been fully taken up. This programme provides opportunities for solar power producers to own new solar assets or replenish their solar EPCC order books. We understand that the contracts are expected to be awarded from Jul/Aug 2023 onwards, as the applications will be assessed based on first-come-first-served basis.

Declining price trend for solar-related materials. The Clean Energy Associates (CEA) anticipates that solar module prices in China will fall by about 15% between 4Q22 and 4Q23, as polysilicon prices continue to slide (Fig 2). Global PV manufacturing capacity across the supply chain will experience rapid growth from 2022 to 2027, according to CEA, with capacities doubling in the ingot/wafer stages and potentially quadrupling for polysilicon. This capacity will remain heavily concentrated in China. We expect this would ease related cost pressures for solar power producers.

Lifting of RE export ban. In early May 2023, the government announced the lifting of the ban on exports of RE, as part of a policy review to accelerate the growth of Malaysia's green economy industry. Nevertheless, the details on the mechanism are yet to be announced, being expected in Aug/Sep this year. To recap, the RE export ban was previously imposed in October 2021. Currently, Singapore has a target of 4GW of RE imports capacity by 2035. Noting Singapore has a higher average regulated household electricity tariff than Malaysia, we believe this could translate to a better gross profit margin for local RE players. In addition, this in turn will also incentivize RE players to explore battery energy storage system (BESS) projects, which were not viable at local tariffs.

Our ratings. We have NEUTRAL ratings for Cypark and Solarvest. Valuations for both stocks seem fair at current levels. Earnings for Cypark will be supported by

electricity sale from solar assets and WTE, in the absence of EPCC works. FY24E earnings will be supported by the 72MW_{AC} of solar assets (31MW_{AC} of SEDA, 11MW_{AC} of LSS1 and 30MW_{AC} of LSS2), 19.73MW_{AC} of WTE and MYR109m hospital construction contract. Its 2x30MW_{AC} LSS2 in Danau Tok Uban and 100MW_{AC} LSS3 in Merchang are only expected to be commissioned by Dec 2023.

Meanwhile, earnings for Solarvest will continue to be supported by strong EPCC unbilled order book of MYR550m, 50MW of LSS4 assets and strong tender book of 2.5GW solar projects for local and overseas projects.

Risks. (i) Return of COVID-19 disruptions would impact solar installation progress; (ii) Delays in commencement of solar power assets could affect the timing of earnings and cash flow recognitions; (iii) Rising material cost and labour shortages could affect the solar projects' margins.

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Renewable Energy sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Solarvest Holdings	Hold	828	1.24	1.22	51.1	31.4	25.7	3.8	12.8	0.7	45.0
Cypark Resources	Hold	614	0.79	0.77	6.1	10.1	18.5	0.3	6.0	0.0	67.0
Simple average		1,442				31.4	25.7	3.8	12.8	0.7	

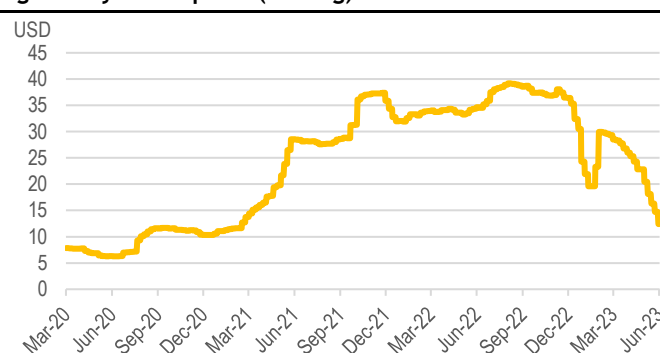
Source: Maybank IBG Research, FactSet (as of 07 Jul)

Fig 1: Update for NEM 3.0 quota (2021-2023)

NEM 3.0 categories	Quota allocation (MW)	Quota applied (MW)	Quota approved (MW)	Quota balance (MW)
NEM Rakyat	150	87.2	84.5	62.8
NEM GoMen (Government Ministries and Entities)	100	35.8	32.7	64.2
NOVA (C&I)	800	554.9	535.0	245.1
Total	1,050	677.9	652.2	372.1

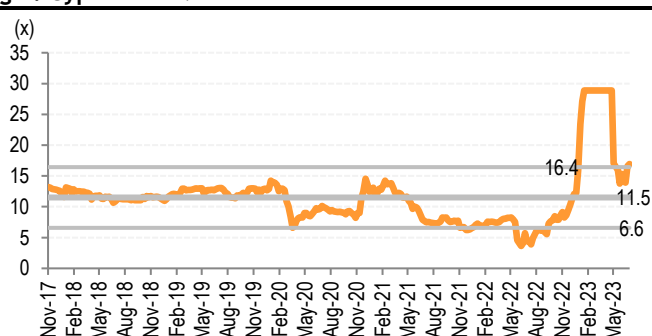
Source: SEDA Malaysia *To-date

Fig 2: Polysilicon price (USD/kg)



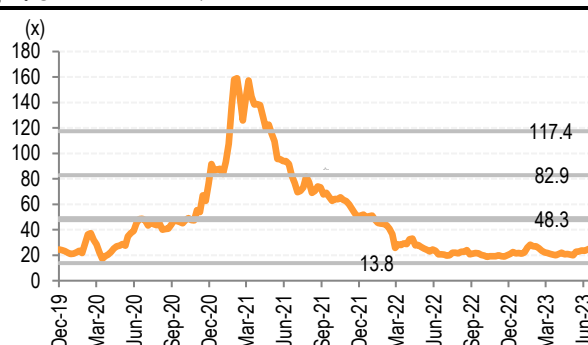
Source: Bloomberg

Fig 3: Cypark - 12M forward PER



Source: Company, Maybank IBG Research

Fig 4: Solarvest - 12M forward PER



Source: Company, Maybank IBG Research

TECHNOLOGY: Contrasting fortunes

Semiconductors: NEUTRAL (unchanged)

Software: POSITIVE (unchanged)

- Export-oriented hardware players have been blighted YTD by a combination of declining end-demand and margin compression from higher input costs. The operating environment is likely to remain foreseeably challenging.
- Against the backdrop of softening consumer spending amidst inflationary pressures in 1Q23, Malaysian software firms have performed admirably. With the government ramping up its digital adoption policies, the sector is likely to continue its growth trajectory in 2H23.
- Greatech is our top pick in the hardware sub-sector, while MYEG, CTOS and ITMAX are our top picks in the software space.

1H23 in retrospect - largely underwhelming. Coming off a strong performance in 2022 from a fundamental/operational standpoint, Malaysian semiconductor stocks broadly disappointed in 1Q23 as the industry grappled with a slew of shocks including (i) acute margin compression, (ii) abrupt uncertainty over Chinese end-demand, and (iii) persistent inventory overhang. Despite anticipated 1H23 earnings weaknesses (already priced-in to the street's projections in 3/4Q22), four of the five companies under our coverage (Globetronics, Frontken, Greatech as well as industry bellwether Inari) still underperformed both ours/the street's estimates. Notwithstanding a 28% YoY/46% QoQ bottom-line contraction however, ViTrox, the country's largest ATE manufacturer by market cap, delivered results that were deemed in-line. The narrative was consistent elsewhere in the industry as OSAT heavyweights MPI, Unisem and KESM all performed below consensus expectations, whilst foundry operator DNeX and LED manufacturer D&O also delivered underwhelming quarters vs. expectations (44% of 9MFY23 and 1% of 3MFY23) due to significantly lower volume loading and higher overheads. Although the sequential drop in QoQ earnings was to be expected after an unusually strong finish in CY22 vis-à-vis regional peers, the magnitude of earnings declines amongst Malaysian semiconductor manufacturers surprised negatively. Largely attributable to the industry's relatively high fixed cost base of manufacturing, hardware players are expected to continue struggling in 2Q23 through to the remainder of the year on demand concerns, primarily relating to sluggishness in China's economic recovery and dwindling business confidence in its domestic tech manufacturing sector (partially from the US-led imposition of blanket export controls in Oct 2022).

Fortunes in the domestic-centric M'sian software space have starkly juxtaposed that of its export-oriented hardware counterparts in 1Q23. MyEG's core earnings exceeded expectations due to stronger-than expected margins and stable JPJ-related business despite recent policy/concession uncertainty that has posed a drag on share price performance. Its immigration segment also benefited from the pickup in job matching as foreign worker shortage issues eased. GHL's performance came in in-line, as 1Q23 core earnings improved 34% YoY, aided by stronger TPA growth and lower depreciation expense. Total TPV and margins also grew 14%/13ppts YoY respectively from improvements in spending patterns despite lower total merchant footprint (-0.6% YoY). CTOS meanwhile delivered 33% core earnings improvement YoY, underpinned by strong revenue growth (c.40%) and sustained elevated EBITDA margins, although results were deemed below ours/consensus expectations due to higher-than-expected tax expenses as the group is yet to receive final approval for the extension of its pioneer tax status - the variation in incurred taxation charge will likely be reversed post-extension approval. Elsewhere, recently-listed ITMAX saw core net profit surge 138% YoY on the back of strong revenue growth in both its key business segment namely supply & installation of security cameras/smart lighting & traffic management systems.

Acronyms

ATE - automated test equipment
 EV - electric vehicles
 IDC - International Data Corporation
 OSAT - outsourced assembly and test
 WSTS - World Semiconductor Trade Statistics
 TPA - Transaction Payment Acquisition
 TPV - Transaction Processed value

Non-Rated Companies in this write-up

MPI Bhd (MPI MK)
 Unisem (UNI MK)
 KESM Industries (KESM MK)
 Dagang NeXchange (DNEX MK)
 D&O Green Tech (DOGT MK)

Outlook: China recovery remains key to a revival in tech hardware. China's third consecutive monthly contraction in June for manufacturing PMI data does not bode well for an already lethargic consumer electronics market. With c.36% of the world's consumer electronics originating in China coupled with local semicon players' heavy reliance on Chinese customers and/or end-demand, the sector is likely to struggle for the remainder of CY23 as inflation continues to erode end-demand and exacerbate inventory overhang. Imputing for these persistent weaknesses, the IDC is now forecasting global shipments of smartphones to experience a sharper CY23 contraction of 3.2% (vs. its Feb projection of -1.1%), with the recovery in the global consumer electronics market likely pushed back to 1H24 at the earliest. Earlier in June, WSTS had also revised its projected YoY decline in global semiconductor shipments downwards to double-digits (-10.3%) for the first time this year, with the consumer electronics-focused memory market (35% share) posing the largest drag on growth. Regionally, Asia-Pacific is also expected to be hardest hit by the ongoing downturn, with an estimated -15.1% YoY decline. Additionally, on the domestic front, hardware manufacturers will also have to contend with higher overhead costs including electricity tariff (c.+2-3%) and minimum wage (c.+3-5%) increases that will aggravate margin compression from lower volume loading. Positively, although we expect utilisation rates to remain depressed near-term, we do not foresee it falling below breakeven levels across our coverage, thus minimising risk of surprise loss-making quarters in 2H23.

The outlook for Malaysian software firms going into 2H23 appears more sanguine as structural tailwinds re digital adoption remain highly favourable. Contribution from MYEG's cross-border blockchain solutions pertaining to Malaysia-China Customs and supply chain financing is likely to cushion potential future earnings decline/uncertainty in its concession-related businesses whilst CTOS is seeing strong demand traction from digital moneylenders for the development of end-to-end credit on-boarding solutions. The latter will be abetted by the upcoming enactment of the Consumer Credit Act (CCA) which could help anchor the growth of digital report transaction volumes as digital moneylenders will soon be required by law to perform a more comprehensive credit assessment on potential customers. Moreover, CTOS has thus far accumulated excess paid taxes of MYR18m since 2Q22 which will be written back as tax credits with the likely extension of the group's pioneer tax status. ITMAX, meanwhile, will continue to benefit from a robust outstanding orderbook (MYR601m as at end-1Q23), incremental revenues from variation orders re its surveillance network contract with DBKL, as well as new smart city-related contracts wins from both federal as well as state governments.

Maintain NEUTRAL on Hardware, but POSITIVE on Software. With expectations of sustained challenging operating environment throughout 2H23, we have D/G-ed both Inari and Frontken to HOLD post-1Q23 reporting whilst our HOLD and SELL ratings are maintained for ViTrox and Globetronics, respectively. Greatech is now our sole BUY and top pick in the Malaysian hardware space owing to its healthy outstanding orderbook, solid exports customer base in high-growth industries (EV/solar), aggressive growth strategies backed by healthy cash balances, as well as its relative insulation from the ongoing inventory correction in the larger semiconductor supply chain. In the software space, we continue to remain BUYers of CTOS (resilient core businesses, dominant market position, margin resilience), MyEG (future earnings growth from decentralised finance venture) and ITMAX (potential for further contract wins in FY23).

Key Risks. There are several risk factors for our earnings estimates, target price and ratings for the companies under our coverage. For hardware, these are (i) a sharp downturn in the demand for consumer electronics; (ii) a stronger MYR vis-à-vis USD; (iii) minimum wage/foreign worker levy hikes; and (iv) prolonged economic impact from the Covid-19 pandemic and related lockdowns. For software, (i) softening of consumer spending patterns that could result in slower discretionary consumption, (ii) slower recovery in international visitor arrivals which could impede TPV growth, (iii) substantial removal of subsidies that may impact discretionary spending, and (iv) non-extension of tax incentives, in the case of CTOS (still under review).

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Hardware sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Inari Amertron	Hold	10,079	2.70	2.75	28.4	27.8	23.6	3.9	14.3	3.1	4.9
Vitrox Corp	Hold	7,458	7.89	8.60	34.5	35.4	27.6	7.2	20.5	0.7	3.7
Greatch Technology	Buy	5,387	4.30	6.05	42.6	28.9	24.9	7.0	24.1	0.0	(11.2)
Frontken Corp	Hold	4,953	3.15	3.35	40.4	33.5	30.9	8.0	27.2	1.6	3.1
Globetronics Technology	Sell	931	1.39	0.87	19.6	30.2	23.6	2.9	9.7	1.7	21.8
Simple average		28,808			33.1	31.2	26.1	5.8	19.2	1.4	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

Software sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
My E.G. Services	Buy	5,295	0.72	1.03	15.2	13.8	12.8	2.5	18.1	2.2	(17.1)
CTOS Digital	Buy	3,142	1.36	1.97	42.5	27.2	25.7	5.6	20.6	1.9	(3.7)
GHL Systems	Hold	902	0.79	0.82	31.6	29.3	25.5	1.7	5.7	0.0	(8.1)
Revenue Group	Hold	136	0.25	0.27	n.a.	n.a.	27.8	0.9	(11.3)	0.0	(63.0)
Ramssol	Buy	80	0.33	0.46	18.1	11.2	9.0	1.2	11.5	0.0	(26.1)
Simple average		9,554			26.8	20.4	20.1	2.4	8.9	0.8	

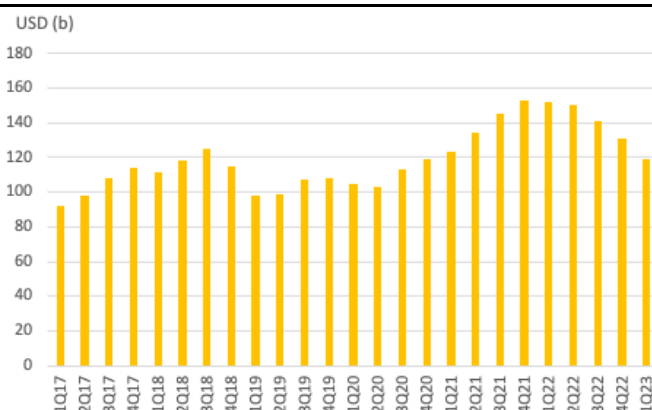
Source: Maybank IBG Research, FactSet (as of 07 Jul)

KLTEC: Bursa Malaysia Technology Index (5Y performance)



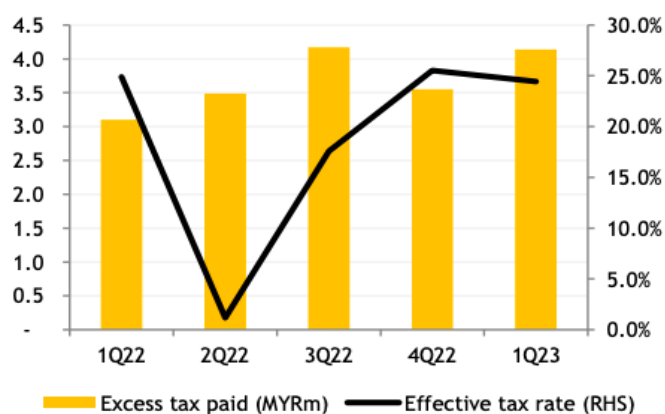
Source: Bloomberg, Maybank IBG (compilation)

Global semiconductor billings (all product categories)



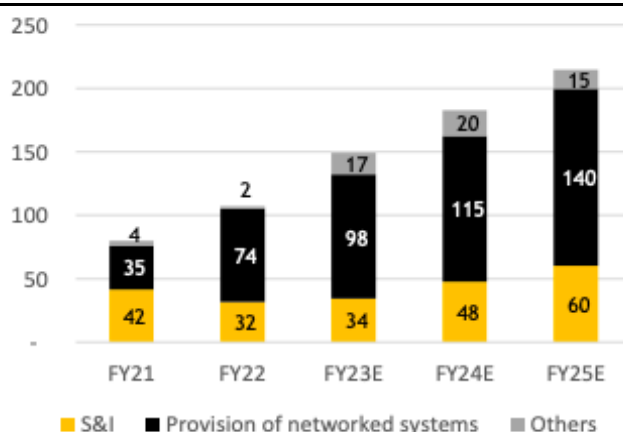
Source: WSTS, Maybank IBG (compilation)

CTOS: Excess tax paid and effective tax rate (post-1Q23)



Source: Company, Maybank IBG (compilation)

ITMAX: MIBG revenue projection by segment (MYR m)



Source: Company, Maybank IBG (compilation)

TELECOM: Uncertainty continues

NEUTRAL (unchanged)

- The phased transition to dual 5G networks has extended the operational uncertainty facing mobile operators.
- Outlook for fixed telcos is marginally more optimistic, with TM working to preserve its fibre broadband revenue under the new MSAP prices.
- Our preferred sector pick is TM; we also have a BUY rating on Axiata.

In retrospect. In the mobile space, cumulative Big 3 service revenue was up 1.3% YoY and down 1.9% QoQ in 1Q23, having delivered a second consecutive year of growth in 2022 (after seven years of decline). The merger of CelcomDigi was completed in Dec 2022, with integration of operations currently underway. About 25% of CelcomDigi's cumulative >23k sites could potentially be decommissioned in the next 2-3 years, which would likely result in elevated depreciation and amortization charges.

The government decided in Mar 2023, to switch to dual 5G networks (from a single network previously) following a period of review. Details are scant for now, but broadly, rollout of a second network (Entity B) will only begin in 2024 at the earliest after the current incumbent DNB achieves 80% population coverage in end-2023. 5 of the 6 mobile telcos have already signed access agreements with DNB, with Maxis being the sole exception.

Separately, in the fixed line space, the final HSBB (high-speed broadband) access pricing for 2023-2025 was announced in Feb 2023, and encompasses: 1) a c.50%-65% reduction in service gateway prices, 2) unchanged termination port charges, and 3) 13%-19% increase in installation charge. We estimate overall access prices are only materially reduced for the higher-speed plans (500Mbps plans and higher). For the most popular 100Mbps plan in particular, we do not see the savings as being significant enough to induce lower retail prices. TM is currently working on finalizing terms of its commercial reference access offer.

Outlook / Thematic. We believe the mobile operators will continue be plagued by regulatory uncertainty for the rest of 2023. Details on Entity B (ownership, rollout targets, capex etc.) would likely only be announced in 2024 at the earliest. Conceptually, TM should benefit from incremental fibre wholesale demand with a second 5G network.

In the fixed-line space, the overhang pertaining to the HSBB access price cuts remains in play, with TM's commercial agreements with access seekers still unrevised pending finalization of its commercial reference access offer possibly in 2H23. We continue to expect a relatively benign impact to TM's overall fibre broadband revenue. Meanwhile, TDC's management has also articulated an intention to focus more on fibre deployment in Malaysia following the divestment of its data centre business.

Telecom sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Maxis	Hold	30,937	3.95	4.00	26.16	22.6	21.0	5.0	22.2	5.1	5.2
CelcomDigi	Hold	47,513	4.05	4.60	43.09	36.2	22.3	2.9	8.1	2.8	2.8
Axiata Group	Buy	23,590	2.57	3.50	14.86	37.8	22.5	1.0	2.6	3.9	(15.5)
Telekom M'sia	Buy	18,307	4.79	6.50	14.56	12.3	12.3	2.1	17.1	4.1	(9.9)
TIME dotCom	Hold	9,836	5.35	5.40	23.26	23.5	22.1	4.3	11.0	12.7	11.7
Simple average		130,183			24.4	26.5	20.0	3.1	12.2	5.7	

Source: Maybank IBG Research, FactSet (as of 07 Jul)

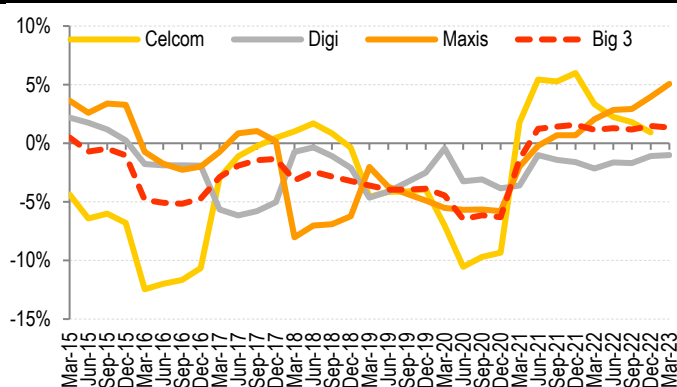
July 12, 2023

Sector top BUY. Our preferred sector pick remains **TM**. Its overall earnings outlook remains favourable on the back of strong fibre uptake coupled with ongoing multi-year cost optimisation efforts. We continue to expect a relatively benign impact to TM's overall fibre broadband revenue from the HSBB access price cuts. We also have a BUY rating on **Axiata** on valuation grounds. With the YTD share price decline after a weak 1Q23 and an unfavourable outcome on the Ncell capital gains tax arbitration, we think the negatives are largely priced-in. Management is focusing on balance sheet repair and being open to asset monetization.

Risks. All telcos could be affected if consumer spending comes under pressure from economic weakness. Developments pertaining to industry consolidation could also have an impact on share prices. In the mobile space, the emergence of a serious price war remains a material risk, particularly if initiated by one of the Big 3. 5G developments are still fluid and could have material implications to telcos' operations. Currency is also a risk factor for Axiata, with c.50% of earnings being derived from outside Malaysia. In the fixed space, the enterprise segment is getting increasingly competitive with encroachment from mobile operators. There remains a risk of retail subscribers potentially down-trading to cheaper plans.

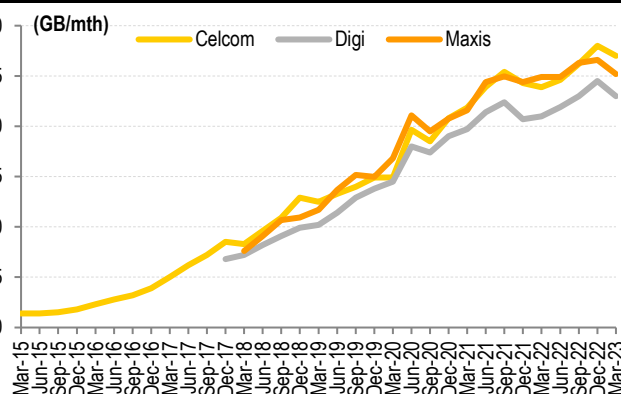
Analyst: Tan Chi Wei, CFA
chiwei.t@maybank-ib.com

Service revenue YoY growth (annual cumulative)



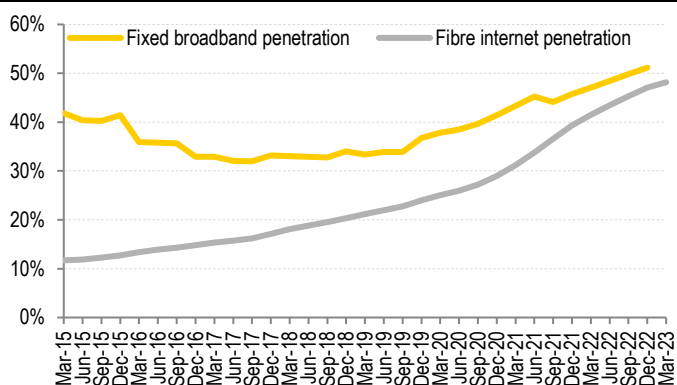
Source: Companies

Average monthly data usage



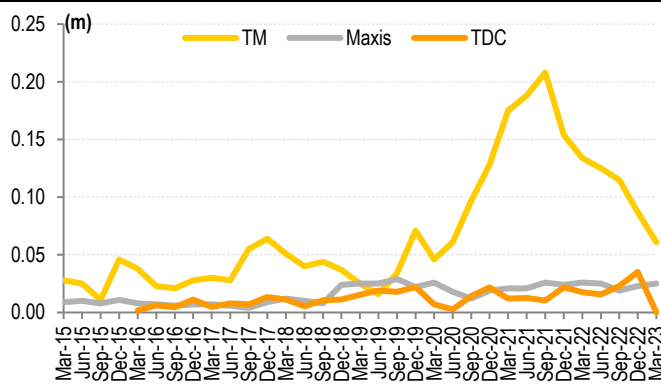
Source: Companies

Fibre broadband penetration



Source: MCMC, Companies

Quarterly fibre broadband subscriber additions



Source: Companies

UTILITY: Mixed dynamics

NEUTRAL (unchanged)

- ICPT concerns for Tenaga have dissipated further but sentiment remains weak on placement overhang.
- There is much excitement over RE exports, with the market awaiting the release of details.
- We have BUY ratings on YTL Power and Mega First.

In retrospect. Coal prices have fallen substantially in 1H23 (active Newcastle contract is down 64% YTD). Tenaga's fuel cost under-recoveries and ICPT receivables have consequently trended lower in 1Q23. The government made further progress on targeted subsidies, with high-voltage commercial and industrial users having to bear the full surcharge from 1H23, and large domestic users (consuming >1,500kWh/month) having to bear a sizable surcharge beginning 2H23. Sharply-declining coal prices also meant substantial negative fuel margins for IPPs, with Malakoff posting a net loss in 1Q23.

Gas utilities began their new regulatory cycles in 2023. PTG's RP2 tariff outcome appears better relative to our previous expectation, with higher-than-expected transport tariff offsetting lower Pengerang regas tariff. Regulatory details remained undisclosed, but management alluded to a reduction in regulatory WACCs. On the other hand, Gas Malaysia's distribution base tariff for the new regulatory period was kept unchanged. Meanwhile, YTL Power saw PowerSeraya's profits jump 2.5x QoQ in 3QFY23 from increased generation and lower fuel costs.

Outlook / Thematic. The government's progress on implementing targeted subsidies signals reduced resistance to future tariff surcharges. Along with falling coal prices, ICPT concerns for Tenaga have dissipated substantially, in our view. Note, however, that Khazanah has done 3 rounds of placements in 1H23, which cumulatively has reduced its stake in Tenaga by 1.7ppts, to 23.8%.

There has been much excitement over the government's move to allow the export of renewable energy. Details over the export mechanism remains unannounced. With Singapore electricity tariffs more than double that of Malaysia, project returns could potentially be lucrative in our view. In an environment of heightened rates, companies with substantial cash piles like Mega First (backed by Don Sahong's strong cashflows) and YTL Power (armed with the substantial disposal proceeds from Electranet and already owning sizable land bank in Johor) are relatively better positioned to pursue such opportunities should they materialise.

With commodity prices on the downtrend, we expect investors to shun utilities that are sensitive to commodity prices such as Gas Malaysia (retail profit is a function of gas price) and Malakoff (negative fuel margins).

Utility sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22F	PER (x) CY23F	PER (x) CY24F	P/B (x) CY23F	ROE (%) CY23F	Div Yld (%) CY23F	Px chg (%) YTD
Tenaga Nasional	Hold	52,375	9.05	10.00	11.1	10.4	9.9	0.9	8.3	5.3	(3.4)
Petronas Gas	Hold	33,401	16.88	17.00	19.7	18.7	18.4	2.5	13.2	4.3	0.9
YTL Power	Buy	10,209	1.26	1.50	15.7	7.2	6.4	0.6	9.0	4.0	79.7
Gas Malaysia	Hold	3,852	3.00	3.20	9.9	10.0	11.4	2.8	27.9	7.5	(3.0)
Mega First Corp	Buy	2,896	3.07	4.30	7.8	7.5	7.0	0.9	12.6	2.8	(6.5)
Malakoff Corporation	Hold	2,957	0.61	0.60	9.8	16.4	7.7	0.5	2.8	6.1	(3.7)
Ranhill Utilities	Buy	709	0.55	0.65	7.3	12.5	15.7	0.9	7.2	4.5	30.0
Simple average		106,399			11.6	11.8	10.9	1.3	11.6	4.9	

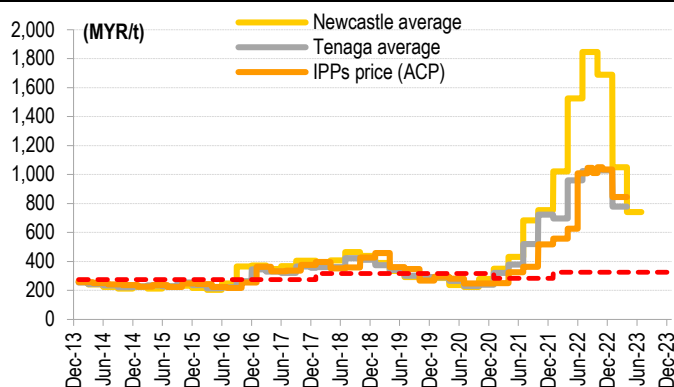
Source: Maybank IBG Research, FactSet (as of 07 Jul)

Sector top BUYs. Our preferred pick for the sector is **YTL Power**. We expect earnings to stay elevated in the upcoming quarters as 1) Singapore generation trends seasonally higher; and 2) Wessex's tariff hike takes effect from 3Q23. We also see YTL Power as potentially a key beneficiary of the RE export theme. **Mega First** is also rated **BUY**: at <10x PER, the stock is undervalued. Backed by Don Sahong's strong cashflows, Mega First has the means to pursue new growth opportunities and/or increase cash distribution to shareholders.

Risks. While ICPT concerns for Tenaga have dissipated, further sell downs by Khazanah could dampen sentiment. Together with Petronas Gas and Gas Malaysia, any changes to regulatory terms would have direct earnings implications. YTL Power's earnings are largely overseas-derived (with Wessex in UK being the main earnings contributor), and are thus vulnerable to currency fluctuations. For Malakoff, any major unscheduled plant outages could potentially lead to missed capacity payments, resulting in lower profitability. Mega First's investment thesis centres on its ability to optimally recycle capital, thus any non-accretive or non-complementary investments could adversely affect sentiment. Regulatory developments, such as license renewal and tariff determination, have a direct impact on Ranhill's earnings.

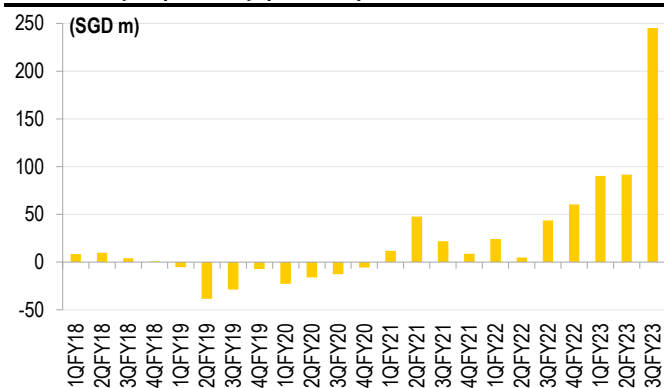
Analyst: Tan Chi Wei, CFA
chiwei.t@maybank-ib.com

Coal prices



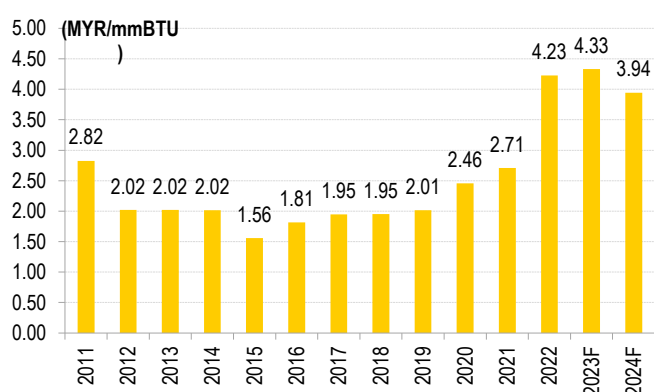
Source: Bloomberg, Company

PowerSeraya quarterly pre-tax profit



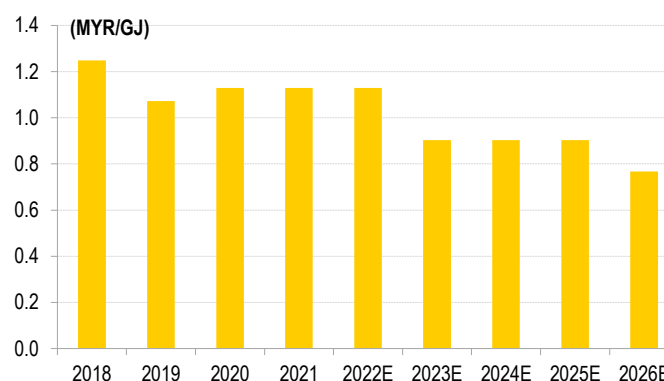
Source: Company

Gas Malaysia spread



Source: Company, Maybank IBG Research

Petronas Gas transportation tariff



Source: Company, Maybank IBG Research

APPENDIX 1: Dividend yielders

Dividend stocks (Maybank IBG Research's coverage: Stocks with more than 4% net yield)

Stocks	Rec	Mkt Cap (MYR m)	Shr px at 22 Jun 23	TP (RM)	2023E Net Yld (%)	2024E Net Yld (%)	Upside to TP (%)	Potential total returns (%)
MBM Resources	Buy	1,383.7	3.54	4.80	9.8%	10.1%	35.6%	45.7%
YTL Hospitality REIT	Buy	1,593.6	0.94	1.03	8.2%	10.0%	10.2%	20.2%
Malakoff Corporation	Hold	2,834.4	0.58	0.60	6.4%	9.5%	2.8%	12.3%
Bermaz Auto Berhad	Buy	2,603.7	2.23	3.53	9.5%	9.1%	58.4%	67.5%
CapitaLand Malaysia Trust	Hold	1,349.1	0.50	0.55	7.5%	8.2%	10.0%	18.2%
Magnum Berhad	Sell	1,451.6	1.01	0.91	7.9%	7.9%	-10.2%	-2.3%
Sports Toto	Sell	1,863.9	1.39	1.04	8.3%	7.9%	-25.1%	-17.2%
RHB Bank	Buy	23,189.1	5.41	6.40	7.4%	7.9%	18.3%	26.2%
Gas Malaysia	Hold	3,852.0	3.00	3.20	7.5%	7.5%	6.7%	14.2%
Sime Darby Bhd	Buy	13,972.0	2.05	2.70	6.8%	7.1%	31.7%	38.8%
Sentral REIT	Hold	889.6	0.83	0.89	6.9%	7.0%	7.2%	14.2%
Ta Ann	Buy	1,427.1	3.24	3.72	7.6%	7.0%	14.8%	21.8%
Bank Islam Malaysia	Hold	4,374.3	1.93	2.05	6.6%	6.9%	6.2%	13.2%
Al-Salam REIT	Hold	278.4	0.48	0.48	5.0%	6.7%	0.0%	6.7%
Alliance Bank	Buy	5,170.7	3.34	4.00	6.5%	6.5%	19.8%	26.3%
Pavilion REIT	Buy	4,524.7	1.24	1.51	5.6%	6.3%	21.8%	28.1%
Sunway REIT	Hold	5,411.2	1.58	1.54	5.6%	6.1%	-2.5%	3.6%
CIMB Group Holdings	Buy	55,885.1	5.24	5.85	5.5%	6.1%	11.6%	17.7%
IGB REIT	Hold	5,858.6	1.63	1.70	5.9%	6.1%	4.3%	10.4%
Genting Malaysia	Buy	13,942.6	2.46	2.85	6.1%	6.1%	15.7%	21.8%
Eco World Development	Buy	2,414.4	0.82	1.02	6.1%	6.1%	24.4%	30.5%
Tambun Indah Land	Hold	393.2	0.90	0.98	5.9%	5.9%	9.5%	15.4%
Allianz Malaysia	Buy	2,548.5	14.32	16.75	5.9%	5.9%	17.0%	22.9%
Berjaya Food	Sell	1,052.6	0.60	0.72	5.8%	5.8%	20.0%	25.8%
Axis REIT	Buy	3,203.5	1.84	2.16	4.6%	5.8%	17.4%	23.2%
InNature Bhd	Buy	370.6	0.53	0.61	5.7%	5.7%	16.2%	21.9%
RCE Capital Bhd	Buy	1,583.0	2.16	2.07	16.5%	5.6%	-4.3%	1.3%
Tenaga Nasional	Hold	53,242.3	9.20	10.00	5.2%	5.5%	8.7%	14.2%
Heineken Malaysia	Buy	8,053.9	26.66	30.80	5.3%	5.4%	15.5%	21.0%
KLCCP Stapled Group	Hold	12,583.2	6.97	7.00	5.1%	5.2%	0.4%	5.7%
Westports Holdings	Hold	12,241.9	3.59	3.85	5.0%	5.2%	7.2%	12.4%
Genting Bhd	Buy	15,748.9	4.09	5.61	4.9%	4.9%	37.1%	42.0%
Petronas Chemicals	Hold	48,960.0	6.12	6.85	3.5%	4.9%	11.9%	16.8%
Public Bank	Hold	76,089.9	3.92	4.30	4.8%	4.8%	9.7%	14.5%
Maxis Bhd	Hold	32,730.0	4.18	4.00	4.8%	4.8%	-4.2%	0.5%
AMMB Holdings	Buy	12,035.8	3.64	4.15	4.9%	4.8%	14.0%	18.8%
Ranhill Utilities	Hold	683.0	0.53	0.65	4.7%	4.7%	22.9%	27.6%
Carlsberg Brewery Malaysia	Buy	6,292.3	20.58	24.70	4.5%	4.7%	20.0%	24.7%
MISC Bhd	Hold	32,005.1	7.17	7.19	4.6%	4.6%	0.3%	4.9%
Swift Haulage	Hold	400.8	0.46	0.51	4.1%	4.5%	12.1%	16.6%
Petronas Gas	Hold	33,321.8	16.84	17.00	4.3%	4.3%	1.0%	5.2%
YTL Power	Buy	9,641.6	1.19	1.50	4.2%	4.2%	26.3%	30.5%
Sime Darby Property	Buy	3,196.4	0.47	0.58	4.1%	4.2%	23.4%	27.6%
Bursa Malaysia	Hold	5,236.2	6.47	6.20	4.1%	4.2%	-4.2%	0.0%
IJM Corporation	Buy	5,230.5	1.49	2.18	5.0%	4.0%	46.3%	50.3%
UMW Holdings	Buy	4,439.5	3.80	5.30	3.8%	4.0%	39.5%	43.4%

Source: FactSet, Bloomberg, Maybank IBG compilation (as of 22 Jun)

APPENDIX 2: Foreign shareholding trend

Foreign shareholding of selected stocks under coverage (%)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22	Sep-22	Dec-22	Latest (2023)	As at (2023)
<u>Autos</u>														
Bermaz Auto	NA	15.5	16.1	20.9	17.7	18.3	21.2	15.4	11.5	11.2	14.3	NA	23.8	31 Mar
Tan Chong	10.1	7.7	7.5	7.3	6.6	6.5	NA	NA	11.4	11.3	11.0	NA	NA	-
UMW Holdings	16.9	18.8	12.6	10.9	11.1	6.5	5.3	3.2	5.3	NA	^6.4	NA	9.6	31 May
Sime Darby	17.4	13.9	13.7	12.6	18.8	18.6	19.2	17.4	17.9	NA	17.1	NA	NA	-
<u>Banking</u>														
Malayan Banking	21.4	22.5	17.4	15.7	20.7	19.6	18.9	16.7	16.4	17.7	18.0	18.0	17.5	31 May
AMMB Holdings *	32.0	32.0	26.0	25.0	24.0	24.0	25.7	20.6	16.2	17.1	18.1	20.0	20.9	31 Mar
Alliance Bank	NA	32.0	29.3	29.6	31.8	31.6	22.9	19.5	20.1	21.2	22.1	23.0	22.8	31 May
CIMB Group	33.8	32.7	27.0	25.8	27.5	25.8	30.2	20.9	24.7	25.1	27.7	30.9	29.9	31 May
Hong Leong Bank	8.1	9.5	8.1	9.1	12.1	12.1	11.0	9.9	9.8	10.3	10.7	11.5	10.8	31 Mar
Public Bank	30.7	31.0	31.3	35.9	38.1	37.1	32.8	27.9	25.2	27.2	27.8	27.7	25.7	31 May
RHB Bank	8.3	9.5	9.8	9.9	9.8	10.3	21.1	18.1	18.1	17.2	17.3	17.5	16.6	31 May
<u>Construction/Infra</u>														
Gamuda	40.0	29.0	22.0	22.0	30.0	28.0	26.0	21.0	11.5	11.9	^16.0	16.0	22.0	31 May
IJM Corp	40.5	40.4	29.7	28.2	27.0	23.8	21.6	13.8	12.1	12.2	12.2	12.2	12.9	30 Jun
<u>Consumer</u>														
Nestle *	NA	NA	NA	NA	NA	NA	8.7	8.4	8.6	9.1	9.6	9.9	NA	-
QL Resources	NA	NA	NA	NA	NA	NA	12.0	11.0	11.0	11.0	10.6	12.0	12.0	30 Apr
<u>Non-Bank Finance</u>														
Bursa	23.6	23.5	21.6	22.6	25.1	25.6	17.3	19.3	14.5	15.1	14.5	13.7	13.7	30 Jun
<u>Gaming</u>														
Genting Berhad	45.0	46.0	39.0	44.0	45.0	43.0	33.7	25.6	19.5	35.0	NA	37.1	33.5	31 Mar
Genting Malaysia	39.0	39.0	39.0	40.0	40.0	31.0	26.8	19.4	15.5	17.0	17.5	17.3	15.9	31 Mar
<u>Glove Producers</u>														
Hartalega	18.0	16.0	16.0	13.0	15.0	15.0	14.9	21.2	18.1	18.9	19.7	16.2	11.7	31 Mar
Top Glove	37.0	31.0	43.0	32.0	32.0	34.0	34.0	35.0	35.0	36.0	^32.0	31.0	32.0	28 Feb
<u>Hospitals</u>														
IHH Healthcare *	NA	NA	NA	NA	20.5	20.5	20.0	17.5	18.5	18.1	18.0	17.2	16.7	31 Mar
KPJ	NA	NA	8.9	8.8	7.5	6.7	6.3	5.6	NA	6.6	5.8	5.5	6.4	28 Feb
<u>Media</u>														
Media Prima	29.5	30.9	29.3	27.1	29.1	33.0	29.4	23.1	23.0	23.0	^23.1	22.6	22.1	31 Mar
<u>Oil & Gas</u>														
Dialog Group	16.0	16.0	15.0	16.0	20.0	22.0	NA	22.3	20.0	21.0	25.0	NA	NA	-
MMHE	2.0	1.9	2.2	2.4	2.9	2.2	3.3	NA	0.5	0.4	0.3	NA	NA	-
Bumi Armada	12.3	13.2	12.7	11.0	12.4	10.5	14.9	9.7	17.1	NA	17.1	NA	NA	-
Yinson	NA	NA	NA	NA	NA	NA	6.0	NA	8.8	7.0	7.0	NA	NA	-
Sapura Energy	32.0	28.0	25.0	22.0	20.0	19.0	NA	8.1	7.7	NA	NA	NA	NA	-
Favelle Falco	NA	NA	NA	NA	NA	NA	NA	NA	2.6	2.4	2.6	NA	NA	-
Hibiscus	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	30.0	NA	NA	-

... continued

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22	Sep-22	Dec-22	Latest (2023)	As at (2023)
Petrochemicals														
Petronas Chemicals	12.0	8.5	9.0	8.0	11.0	12.0	9.5	7.3	9.4	12.2	11.4	10.6	8.8	31 May
Lotte Chem Titan *	NA	NA	NA	NA	NA	NA	NA	NA	5.0	4.8	4.8	3.9	3.7	31 Mar
Plantations														
Genting Plant	8.0	7.2	7.0	8.0	8.7	8.8	8.6	8.3	5.3	6.1	6.0	5.9	6.0	31 Mar
IOI Corporation	18.0	17.4	16.0	15.0	11.0	10.5	10.5	10.5	10.5	11.9	12.0	11.2	10.8	30 Apr
KL Kepong	12.7	12.4	11.5	13.5	16.3	18.2	14.6	12.5	12.2	15.9	14.7	14.6	14.0	31 May
Sime Plantation	NA	NA	NA	NA	13.9	12.2	10.4	9.3	9.0	10.7	10.7	10.8	10.5	31 May
Property														
S P Setia	8.8	8.1	7.6	4.9	9.7	9.6	6.2	5.7	5.5	5.6	^6.3	NA	5.4	31 May
UEM Sunrise	14.9	13.1	9.1	8.4	7.9	7.9	7.9	6.6	5.2	NA	^4.8	NA	5.5	31 May
Sunway Berhad	14.2	8.1	7.6	7.8	9.5	8.1	7.7	5.5	5.5	5.4	^5.3	6.5	5.6	31 May
Ecoworld Intl.	NA	NA	NA	NA	NA	28.1	27.8	28.0	27.0	28.0	^27.0	27.0	27.0	31 May
Sime Property	NA	NA	NA	NA	14.7	14.3	10.8	9.8	9.7	7.4	^7.2	8.2	8.3	31 May
Property- REITs														
Axis REIT	5.8	6.9	5.2	4.6	3.6	2.8	4.4	8.1	8.0	9.7	9.3	13.4	13.0	31 Mar
Sunway REIT	NA	19.5	12.6	13.3	9.2	8.7	11.5	7.3	7.3	8.6	8.4	9.5	9.5	31 Mar
Technology														
MyEG	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18.0	16.0	31 Mar
CTOS	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	15.0	NA	-
Telecomm														
CelcomDigi *	12.5	15.6	10.1	9.9	9.1	10.8	11.5	10.6	10.2	NA	10.6	7.1	7.3	30 Apr
Telekom Malaysia	13.0	16.7	11.7	12.8	11.3	11.1	12.2	12.3	10.0	NA	11.0	12.8	11.8	30 Apr
Axiata Group	23.0	21.0	15.2	10.3	10.0	10.5	11.1	10.4	10.9	NA	10.9	11.2	11.1	30 Apr
Maxis *	7.5	6.7	6.2	5.7	6.4	6.9	7.8	7.2	7.5	NA	7.1	6.9	7.2	30 Apr
Time dotCom	6.9	7.0	6.8	6.3	7.3	6.1	7.6	9.9	8.8	NA	9.6	13.4	13.8	30 Apr
Transport														
Capital A / AirAsia	50.2	60.8	47.6	43.4	44.4	33.6	25.8	15.7	23.3	20.5	^12.8	19.6	20.4	31 Mar
MAHB	15.0	18.9	19.0	19.0	39.3	40.0	34.8	27.1	25.3	24.4	^22.2	21.0	21.4	31 Mar
Westports *	NA	9.0	11.0	13.0	10.3	9.5	11.0	9.7	9.9	5.4	^3.5	3.2	4.1	30 Jun
MISC Bhd	5.9	7.8	10.8	8.0	9.0	8.6	12.2	9.8	8.1	NA	^8.6	9.3	9.0	31 May
Utilities														
Tenaga Nasional	27.8	25.8	23.1	27.7	24.1	20.8	18.4	12.9	12.1	12.1	^12.5	13.1	12.9	30 Apr
Petronas Gas	3.0	7.5	8.5	8.8	8.4	10.0	10.1	9.5	8.9	9.2	^8.9	9.1	9.1	31 Mar
YTL Power Int'l	9.0	12.0	12.0	12.0	12.0	8.0	5.5	4.8	NA	NA	NA	NA	NA	-
Market	24.0	24.3	22.3	22.3	23.2	23.4	22.3	20.7	20.5	20.6	20.6	20.6	19.9	30 Jun

^ As of 30 Oct 2022

* AMMB: Excludes ANZ's 21.6% stake @ 21 Jun 2022

* Nestle: Excludes Nestle S.A.'s 72.6% stake @ 28 Feb 2022

* Lotte Chem Titan: Excludes Lotte Chem Corp's 75.9% @ 28 Feb 2022

* Maxis: Excludes Saudi Telecom's stake via BGSM Equity Holdings

* IHH: Excludes Mitsui & Co's 32.8% stake @ 31 Mar 2022

* Digi: Excludes Telenor ASA's 49% stake @ 13 Mar 2022

* Westports: Excludes Hutchison Port's 23.6% @ 28 Feb 2022

Note:

Highlighted/shaded are stocks which have foreign shareholding close to, or above 20% (based on latest data available)

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