MALAYSIA Outlook & Lookouts

Maybank Investment Bank

2024 YEAR AHEAD

RISING MOMENTUM

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Malaysia 2024 Outlook & Lookouts

Rising Momentum

2024 should be a better year for Malaysia on several fronts. It will be a year of execution of the macro blueprints launched in 2023, as well as a year of delivery especially in fiscal reforms, to bring the country's balance sheet back on stronger footing. Hard work and staying-the-course are thus pivotal in Malaysia's economic transformation, to eventually drive and support the longer-term sustainability agenda.

On the macroeconomic front, we expect slower global growth in 2024 as US economy 'soft lands' and China's growth slows. However, we see green shoots sprouting in ASEAN's exports and manufacturing, brightening their growth outlook. For Malaysia, we forecast GDP growth to be firmer (2024E: +4.4%; 2023E: +3.9%), underpinned by resilient consumer spending, sustained private and infrastructure investment momentum, plus recoveries in trade-related services and manufacturing industries, namely tourism and electronics.

We expect a slight inflation uptick in 2024 amid gradual adjustments in subsidy rationalisation measures to mitigate the impact on inflation. Consequently, we expect BNM to maintain the OPR in 2024, despite the outlook of interest rate cuts in major advanced economies and regional peers. This is expected to be positive for the Ringgit vs. USD.

For equities, the tail-end of global monetary policy tightening is a tailwind, while stable domestic interest rate policy outlook, economic transformation via the NETR and NIMP2023, and rising FDI momentum are the key catalysts. We also look forward to better corporate earnings growth in 2024. We maintain our YE 2024 KLCI target of 1,610. For investment strategy, we recommend a portfolio of selective trade-related, and domestic sectors, balanced with yield and ESG stocks. We also recommend 6 thematic investing for 2024.

Key risks to our views include a 'higher-for-longer' US interest rates, widening of US-China geopolitical rivalry, escalations in Russian-Ukraine war and Middle East instability - due to Israel-Hamas war - impacting global demand and trade recovery, and China's real estate sector flaring up and souring financial/capital market sentiment. A black swan event – like another pandemic – will derail global growth again.

Analysts

Suhaimi Ilias
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Wong Chew Hann
(603) 2297 8686
wchewh@maybank-ib.com

Malaysia Research Team
(603) 2297 8888
MSSG_ResearchDesk@maybank.com

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Contents

ECONOMICS: Domestic Take Off for Transition amid Global Upsides and Downsides

Expect global real GDP growth to slow (2024E: +2.8%; 2023E: +3.3%) as US economy "soft lands" (2024E: +1.0%; 2023E: +2.2%) on factors like household excess savings and resilient job market supporting consumer spending; supply-side/industrial policies (e.g. Inflation Reduction Act; CHIPS Act) lifting US manufacturing investment; and expansionary fiscal policy negating Fed's interest rate hikes.

With US "soft-landing", the spotlight on key downside risk to global economic outlook is on China's growth (2024E: +4.4%; 2023E: +5.2%) given its "underwhelming" post-pandemic growth and the spillover risk from its weak real estate sector. More policy interventions can be expected in 2024, including larger deficit spending by the Government and further interest rate cuts.

ASEAN-6 growth is expected to pick up (2024E: +4.7%; 2023E: +4.0%) on measures to support domestic economy (e.g. further boost to the on-going tourism recovery via relaxations of visa requirements for foreign travelers) and green shoots of recovery in global electronics cycle that augurs well for ASEAN-6 manufacturing output and exports outlook.

Similarly, Malaysia's economic growth is expected to be firmer (2024E: +4.4%; 2023E: +3.9%), underpinned by resilient consumer spending, sustained private and infrastructure investment momentum, plus recoveries in trade-related services and manufacturing industries, namely tourism and electronics.

2024 should be a "take off" year for Malaysia's medium-to-long-term economic "transition" outlined in the blueprints, masterplans, roadmaps and legislations announced in July-Oct 2023 i.e. MADANI Economy; National Energy Transition Roadmap (NETR); New Industrial Master Plan (NIMP2030); 12th Malaysia Plan Mid-Term Review (12MP MTR); Hydrogen Economy & Technology Roadmap (HETR); Fiscal Responsibility Act (FRA) and Energy Efficiency & Conservation Act (EECA).

Fiscal reforms and economic restructuring will be high on the agenda. Key element of fiscal reform in 2024 is targeted fuel subsidy rationalization while the main item under economic restructuring is Progressive Wage Policy (PWP) to address cost of living, adequacy of retirement savings and equality issues.

There will also be sector/industry-specific policy announcements and measures plus legislations as "follow ups" e.g. Government Procurement Act (GPA); establishment of renewable energy (RE) exchange; blueprints for High-Value, High Growth (HVHG) sectors and industries (e.g. tech & digital; modern agriculture & agro-based; rare earth elements); and updated National Automotive Policy (NAP). In addition, Malaysia and Singapore is scheduled to ink the MoU on Johor-Singapore Special Economic Zone (SEZ) on 11 Jan 2024.

"Political will" is key for restructuring and reforms, especially on fuel subsidy rationalization. Recent Cabinet reshuffle, next general election in four years' time, sub-2% monthly inflation rate currently, and fiscal consolidation targets legislated by FRA are the "carrots and sticks" to execute and implement. The exact details on timing and mechanics of targeted fuel subsidy rationalization are still pending, but we need to see 1) strict enforcement to address serious diesel subsidy leakage; 2) rollout of Central Database Hub (PADU) to "means-testing" eligibility for targeted RON95 subsidy; and 3) a gradual adjustments in fuel prices to mitigate the impact on inflation, which we expect inflation to re-accelerate (2024E: +3.0%; 2023E: +2.6%). Consequently, we expect BNM to keep the Overnight Policy Rate (OPR) at 3.00% in 2024 despite the outlook of interest rate cuts in major advanced economies and regional peers, which is expected to be positive for Ringgit vs USD i.e. end-2024E: 4.40 vs end-2023E: 4.70.

GLOBAL ECONOMY

Global growth to drift lower in 2024

Global real GDP growth is expected to moderate to +2.8% in 2024 after displaying resilience with +3.3% expansion in 2023 (2022: +3.5%). This outlook mainly reflects our forecasts of slower growth in US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%), amid continued sub-1% growth in Europe (Fig 1).

The onset of slower global growth in 2024 is signaled by the downtrend in the global composite purchasing managers index (PMI, Fig 2) since mid-2023 to just over 50 as of 4Q 2023. This mainly reflects the same trajectory in global services PMI as the expansion in services activities following the full re-opening of the global economy dissipates with the normalization in pent-up spending. Meanwhile, global manufacturing PMI languishes below 50 throughout 2023 as consumer spending shift to services (with full economic opening) from goods (during lockdowns and movement restrictions), although it has essentially bottomed and showing green shoots of recovery in late-2023.

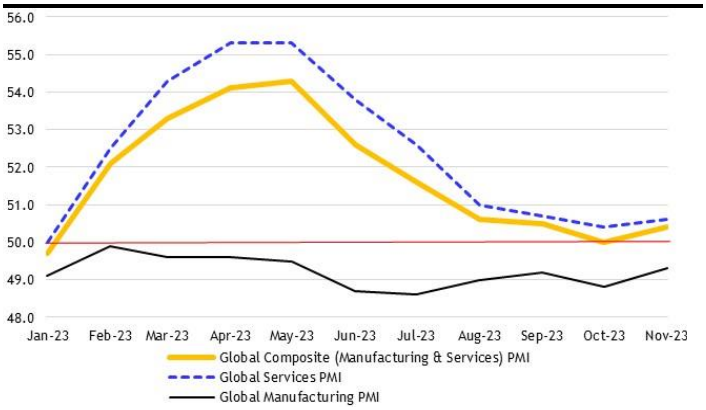
But we are constructive on ASEAN-6's growth which is expected to pick up to +4.7% in 2024 from +4.0% in 2023, reflecting among others, policy measures to boost domestic economy (e.g. further boost to the on-going tourism recovery via relaxations of visa requirements for foreign travelers), as well as the emerging sign of turnaround in global electronics cycle (Fig 3) that augurs well for ASEAN-6 manufacturing output and exports outlook (re: *ASEAN Economics - Year Ahead 2024: Green Shoots in a Fragmented World, 11 Dec 2023*).

Fig 1: Real GDP Growth (% YoY)

	1Q 2023	2Q 2023	3Q 2023	2020	2021	2022	2023F	2024F	2025F
WORLD	-	-	-	**(2.8)**	**6.3**	**3.5**	**3.3**	**2.8**	**3.3**
US	2.1	2.5	2.8	(2.8)	5.9	2.1	2.2	1.0	1.8
Eurozone	1.2	0.5	0.1	(6.1)	5.3	3.3	0.6	0.9	1.6
Japan	2.0	1.7	1.2	(4.2)	2.2	1.0	1.5	1.0	0.9
UK	0.5	0.6	0.6	(11.0)	7.6	4.1	0.5	0.5	1.6
China	4.5	6.3	4.9	2.2	8.4	3.0	5.2	4.4	4.5
ASEAN-6	**4.1**	**3.6**	**3.9**	**(3.6)**	**4.1**	**5.7**	**4.0**	**4.7**	**4.8**
Singapore	0.1	0.5	1.1	(3.9)	8.9	3.6	1.1	2.2	2.1
Indonesia	5.0	5.2	4.9	(2.1)	3.7	5.3	5.0	5.1	5.2
Thailand	2.6	1.8	1.5	(6.2)	1.6	2.6	2.3	3.6	3.8
Malaysia	5.6	2.9	3.3	(5.5)	3.3	8.7	4.0	4.4	5.0
Philippines	6.4	4.3	5.9	(9.5)	5.7	7.6	5.8	6.5	6.2
Vietnam	3.3	4.1	5.3	2.9	2.6	8.0	4.8	5.8	6.2

Source: Bloomberg & CEIC (1Q-3Q 2023, 2020-2022); Maybank IBG Research (2023E-2025E for World, China and ASEAN-6); Consensus (2023E-2025E for others)

Fig 2: Global Purchasing Managers Index (PMI)



Source: CEIC

Fig 3: Global Semiconductor Sales vs ASEAN-6 Electronics & Electrical (E&E) Exports

Sources: Bloomberg, CEIC

Inflation and interest rate dynamics

Globally, inflation rates have peaked and are slowing, while interest rate hikes cycle is over. Inflation rates globally have peaked and are moderating (Fig 4). As inflation slows, benchmark interest rates have also peaked and central banks are broadly on pause mode, signaling the end of the hike cycle (Fig 5-7). The debate on monetary policy has shifted to "hold for how long?" now.

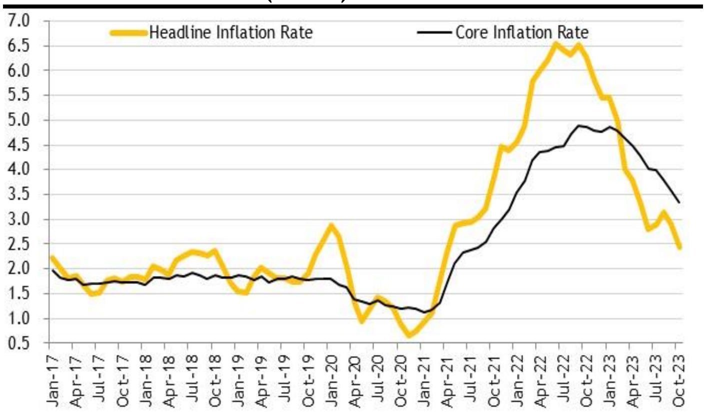
To note, 2023's final US Fed's FOMC meeting on 12-13 Dec 2023 saw Fed kept the fed funds rate (FFR) target range at 5.25%-5.50% for the third FOMC meet in a row; FOMC statement and forecasts point to Fed's "soft landing" expectation; and Fed's latest "dot plot" signals FFR cuts of -75bps in 2024 and -100bps in 2025 (re: *US FOMC Meeting, 12-13 Dec 2023 - Fed on hold, signals -75bps cuts in 2024, 14 Dec 2023*).

Market pricing in earlier and bigger rate cuts in 2024. Market implied policy interest rates (Fig 8) are signaling major central banks' benchmark interest rates – i.e. US Federal Reserve (US Fed), European Central Bank (ECB), Bank of England (BoE) - will be cut by between -75bps to as much as -150 bps – and thus early - in 2024. ASEAN central banks are also expected to lower their benchmark interest rates, but generally by smaller quantum of between -25bps and -50bps, except for Philippines at -100bps. The outlier is Japan, where Bank of Japan (BoJ) is expected to start normalizing from its ultra-easy monetary policy stance by ending its negative interest rate policy.

But inflation expectations still "sticky". It is important to note that central banks' interest rate decisions are also guided and influenced by inflation expectations going forward, not just actual inflation outcome thus far. In this regard, we noted that the US Fed's 5-Year Breakeven Inflation Rate (i.e. a measure of market participants' expected inflation rate next five years derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities) points to the still "sticky" inflation expectations (Fig 9).

In addition, ECB's latest consumer expectations survey showed median expectations for inflation over the next 12 months remained at +4.0% - the same as in the previous survey in Sep 2023 and doubled ECB's inflation target of +2.0%. Meanwhile, BoE's latest quarterly households survey indicated that consumers expect prices to rise by +3.3% over the next 12 months, the lowest predicted inflation rate in two years and easing from +3.6% in the previous survey in Aug 2023, but remain above BoE's +2.0% target.

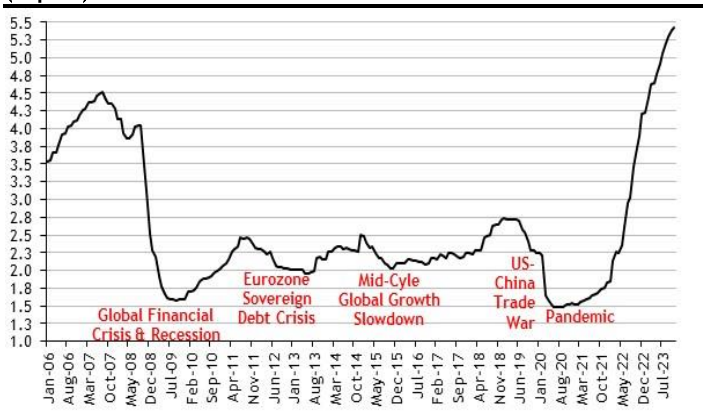
Fig 4: Weighted Average Headline and Core Inflation Rates of Selected Economies (% YoY)



Note: Average for US, Eurozone, UK, Japan, BRIC, Asian NIEs and ASEAN-6 weighted by the respective country's GDP

Source: Maybank IBG Research

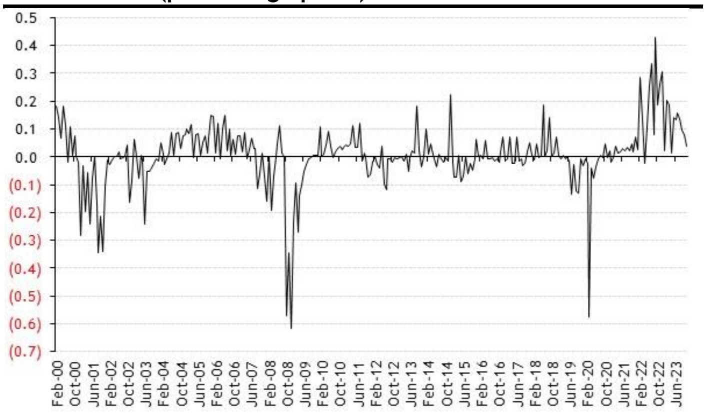
Fig 5: Weighted Average Global Benchmark Interest Rate (% p.a.)



Note: Average of benchmark interest rates of 34 central banks weighted by the respective country's GDP

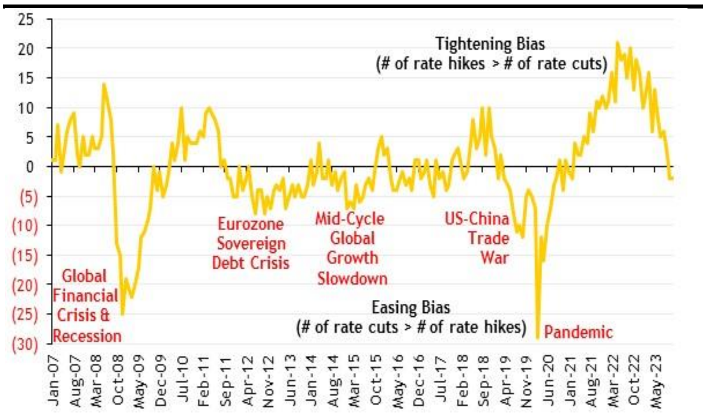
Source: Maybank IBG Research

Fig 6: Monthly Change in Weighted Average Global Benchmark Interest Rate (percentage point)



Source: Maybank IBG Research

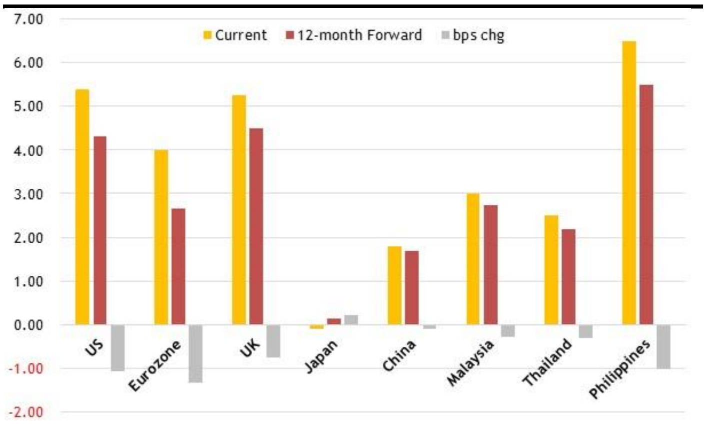
Fig 7: Global Benchmark Interest Rate Action Diffusion Index



Note: Global Benchmark Interest Rate Action Diffusion Index refers to the difference between the numbers of central banks that raise and cut their benchmark interest rates from a panel of 45 central banks

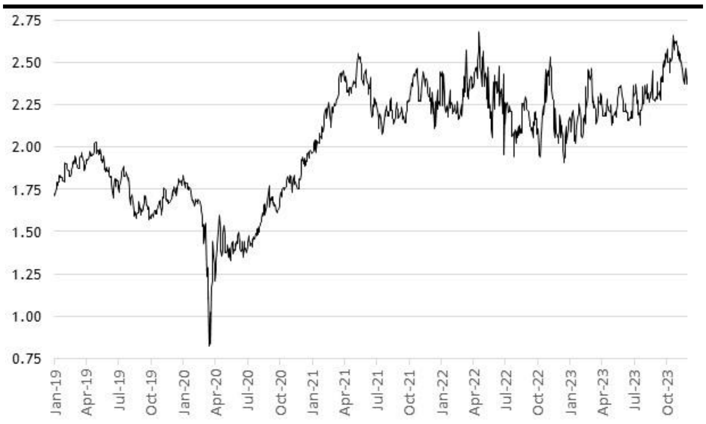
Source: Maybank IBG Research

Fig 8: Market Implied Policy Interest Rates 12 Month Forward



Source: Bloomberg (as at 7 Dec 2023)

Fig 9: US Fed's Five-Year Breakeven Inflation Rate (%)



Source: Bloomberg

At the same time, we have seen incidences of re-acceleration in inflation, as per the Philippines in Aug-Sep 2023, Indonesia in Oct 2023 and Singapore in Sep-Oct 2023 that led to the surprise +25bps interest rate hikes by Bank Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) in Oct 2023. For Malaysia, there is upside risk to inflation expectation and outcome in 2024, primarily due to the consumption-related tax hikes in Budget 2024 (i.e. Services Tax, Sugar Tax and Low Value Goods Sales Tax) and the expected fuel subsidy rationalization.

Consequently, we are more "guarded" on the timing and quantum of interest rate cuts in 2024, penciling in monetary policy easing cycle in major advanced economies and ASEAN-6 to begin in 3Q 2024, with the exceptions of Malaysia and Vietnam where policy interest rates are expected to remain unchanged (Fig 10).

Fig 10: Major Advanced Economies & ASEAN-6: Benchmark Interest Rates, 2021-2025 (% p.a.)

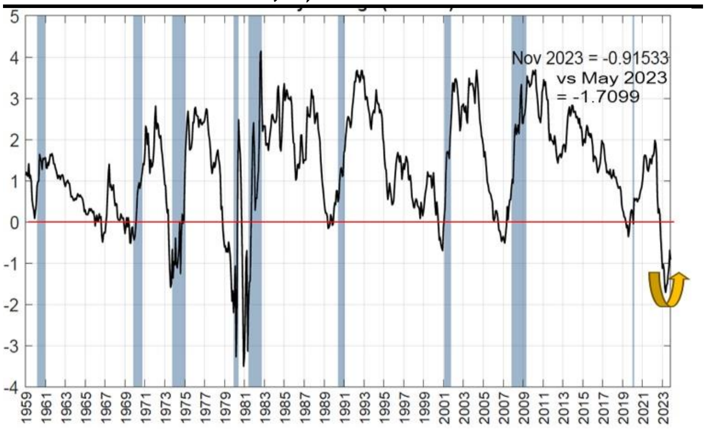
	2021	2022	2023F	2024F	2025F
US	0.00-0.25	4.25-4.50	5.25-5.50	4.50-4.75	3.50-3.75
EU	(0.50)	2.00	4.00	3.50	2.75
Japan	(0.10)	(0.10)	(0.10)	0.00	0.25
UK	0.25	3.50	5.25	4.50	3.75
China	0.44	4.25	3.35	3.00	3.00
Indonesia	3.50	5.50	6.00	5.25	4.75
Malaysia	1.75	2.75	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	5.75	4.75
Singapore	0.19	3.10	3.80	3.25	2.60
Thailand	0.50	1.25	2.50	2.25	2.00
Vietnam	4.00	6.00	4.50	4.50	4.50

Sources: CEIC, Maybank IBG Research

Spotlight on Global Growth Risk on China - the "Elephant in the room"

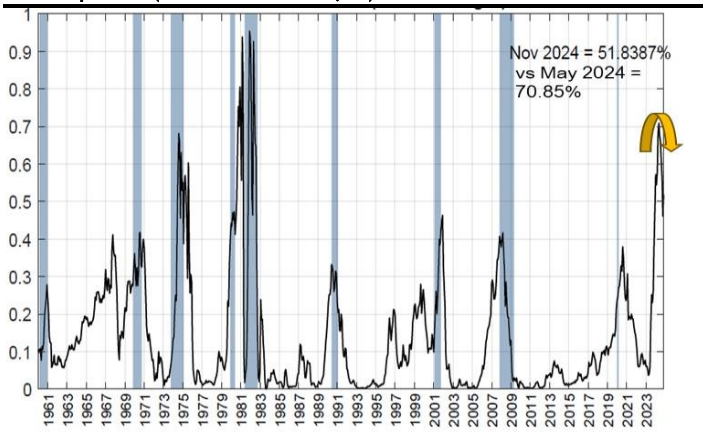
As US economy is expected to "soft-land"... The outlook of slower growth in 2024 is premised on the prospect of US economy heading to a growth "soft-landing" rather than plunging into recession. The prospect of US growth "soft-landing" is enhanced by the falling risk of 2024 recession as US yield curve is "flattening" after the earlier "inversion" (Fig 11-12).

Fig 11: Monthly Average US Treasury Yield Spread (10 Year Bond Minus 3-Month Bill, %)



Source: Federal Reserve Bank of New York

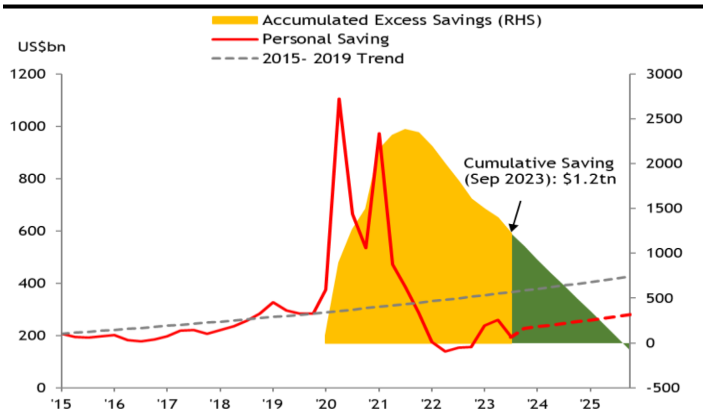
Fig 12: Probability of US Recession Predicted by US Treasury Yield Spread (Next 12 Months, %)



Source: Federal Reserve Bank of New York

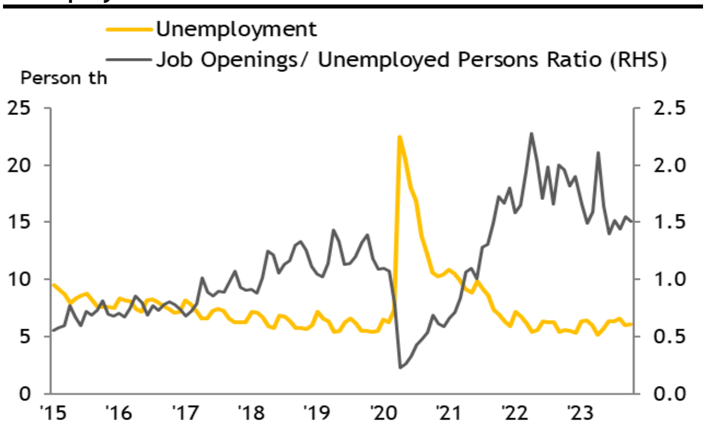
Granted the track record of US Treasury yield curve inversion – and the derived US recession probability – in signaling the past US recessions, and that from historical perspective, there is nothing particularly unique about reversals of yield curve inversions and recession probabilities, the current situation needs to take into account the factors that mitigate US recession risk. These include 1) the availability and drawdown of households' excess savings from economic stimulus measures during the pandemic years (Fig 13) as well as the robust post-pandemic job market condition (Fig 14) that supported resilient US consumer spending; 2) supply-side/industrial policies like the Inflation Reduction Act and the CHIPS Act lifting US manufacturing investment and jobs (Fig 15) especially in the high/advanced technology industries; and 3) continued expansionary fiscal policy (Fig 16) negating US Fed's aggressive monetary policy tightening.

Fig 13: Total US Household "Excess Savings"



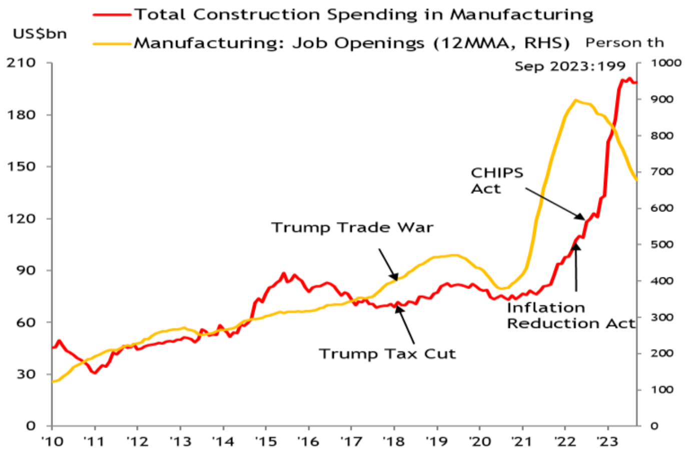
Sources: St. Louis Fed, CEIC, Maybank IBG Research calculation

Fig 14: US Unemployment Rate and Job Openings-Unemployed Persons Ratio



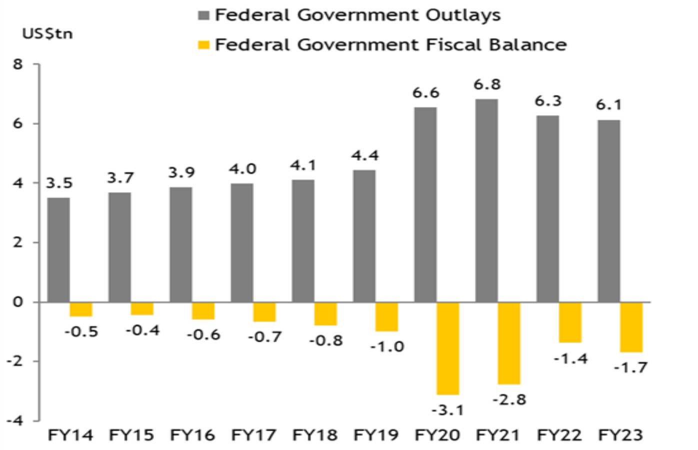
Source: CEIC

Fig 15: US Manufacturing Construction and Jobs



Note: Total construction and manufacturing job openings are seasonally adjusted.
Source: St. Louis Fed, Maybank IBG Research

Fig 16: US Government Spending and Budget Deficit



Source: CEIC

... the spotlight on key downside risk to global - and ASEAN-6 - economic outlook is on the other "elephant in the room" i.e. China, given the "underwhelming" post-pandemic growth. China's key economic data and indicators point to an "uneven" economy i.e. domestic-driven industrial output and retail sales growth; mixed and volatile external trade amid swings between gains and losses in exports and imports; composite (i.e. manufacturing and services) PMI hovering around "stall" reading of 50.0 in the later part of 2023; and consumer prices swinging between zero-bound inflation and deflation since Apr 2023.

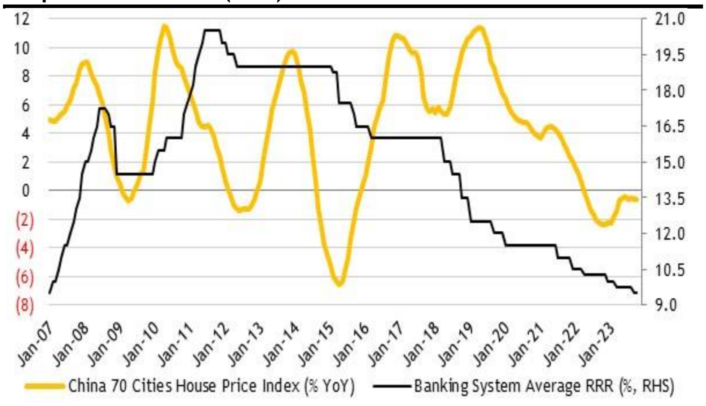
This is despite policymakers' efforts to further stimulate the economy after ending its zero-COVID19 policy in late-2022, reinvigorate the property sector, and revive consumer sentiment and business confidence via measures like interest rate cuts, liquidity injections, relaxation in mortgage rules and developers' financing, as well as speeding up and raising government spending that led to a rare above-3% fiscal deficit in 2023 of 3.8% of GDP.

To note, the 8 Dec 2023 meeting of the Politburo – the ruling Communist Party top-24 officials and chaired by President Xi Jinping – indicated 2024 real GDP growth target of +5%, to be backed by stronger fiscal policy and targeted monetary policy supports. Thus, we expect China's 2024 budget deficit to be larger at 4.1% of GDP (2023: 3.8% of GDP) and -35bps cut in policy interest rate to 3.00% (2023: -90bps to 3.35%). (For further reading on our house view on China's macro i.e. China Economics - Year Ahead 2024: A Delicate Landing, 11 Dec 2023; *China Economics - Central Economic Work Conference: Fighting the Cold, 13 Dec 2023*)

The real estate sector – accounting for nearly 30% of China's GDP, with 40% of outstanding banking system loans extended to developers and homebuyers – will be under scrutiny. The sector remained weak despite policy measures (Fig 17), causing financial troubles at highly leveraged developers and local governments dependent on land sales for funding, as well as loss of wealth and confidence among homeowners/homebuyers who are also consumers, plus concerns over the spill over to the banking/financial sector.

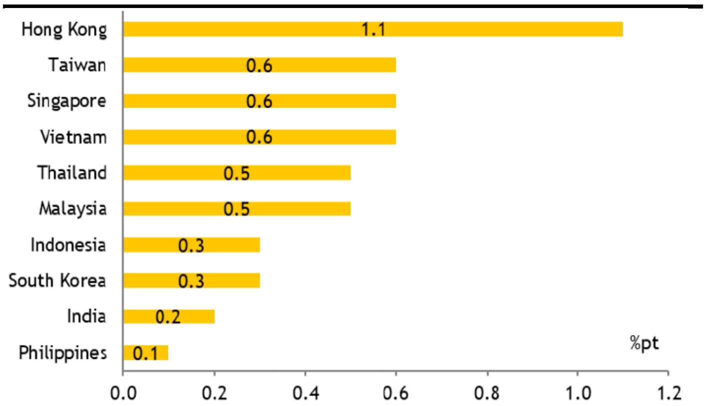
Downsides to our China's 2024 real GDP growth forecast will have material impact on growth of regional economies like Hong Kong and Taiwan as well as ASEAN economies, particularly Singapore, Vietnam, Thailand and Malaysia (Fig 18).

Fig 17: China - House Prices vs Banking System's Reserve Requirement Ratio (RRR)



Source: Bloomberg

Fig 18: Impact of 1 Percentage Point Change in China's GDP Growth on Selected Asian Economies' GDP Growth



Source: Maybank IBG Research

Wildcards to global outlook - Geopolitics and domestic political events

Market currently pricing in a prolonged Russia-Ukraine stalemate, no broader Middle East tension from Israel-Palestine. The year 2023 ends with two major conflicts i.e. the prolonged Russia-Ukraine war since Feb 2022, and the outbreak of Israel-Palestine war in Oct 2023. Currently, market appears to be pricing in the scenarios of prolonged stalemate in Russia-Ukraine war, and no/low risk of Israel-Palestine conflict broadening into another episode of Middle East tension.

Geo-economic fragmentation amid on-going US-China geo-strategic competition. The above are on top of the on-going US-China geostrategic competition that led to geoeconomic fragmentation. Despite recent meeting between US President Biden and China President Xi on 15 Nov 2023 at the sideline of the APEC Summit in San Francisco that, among others, led to agreement to re-establish military communications which eased worries over a “third war” given the continued US-China divide over Taiwan issue, core economic issues in US-China relations remain, namely trade tariffs in place since the time of President Trump, and restrictions in trade and investments in advanced technology between US (and allies) with China, which escalated under President Biden.

US “fiscal fight” amid domestic politics. At the same time, the fractious domestic politics have seen US repeatedly teetering on the edge of government shutdowns and debt defaults, only to be pulled back by last minute temporary budget deals, with the next round of US government funding “drama” returning in early-2024.

There are also several key elections taking place in 2024 we need to keep an eye on - presidential elections in US and Indonesia, as well as Taiwan election. The big one is US Presidential election on 5 Nov 2024 considering that there is the possibility of a Trump comeback as opinion polls point to Trump leading President Biden by wide margins. A Trump comeback potentially have wide-ranging policy impact e.g. continuation – even escalation – in US-China trade tariff and technology wars, thus deterioration in bilateral relations; possible reversals in US commitments and policies on climate change, renewable energy and electric vehicles; uncertainties over US foreign policies given the risk of an inward-looking US, especially on funding and support for Ukraine as well as US relations with Europe/NATO, Russia, Asia Pacific and Middle East. Indonesia will go into election on 14 Feb 2024 to pick President Jokowi’s successor, and thus will see whether there will be policy continuity or change. Another key political event to watch is Taiwan election on 13 Jan 2024, the outcome of which has bearings on US-China relations.

MALAYSIAN ECONOMY

"Transition" in 2023

Transition to a more stable domestic political environment... 2023 started with the fifth government in charge since 2018 following the 15th General Election (GE15, 19 Nov 2022). However, with the Unity Government led by Prime Minister (PM) Datuk Seri Anwar Ibrahim controlling two-thirds majority in the Parliament i.e. 147 MPs from the ruling coalition plus 5 Opposition MPs (from Bersatu party) supporting PM, we see a "transition" to political stability, at least until the next general election which is not due until within 60 days after 18 Dec 2027 when Parliament "auto-dissolves" i.e. completion of a full five-year term after the start of current Parliament on 19 Dec 2022.

… enables focus on medium to long term transition of the economy. 2023 also saw a flurry of blueprints, masterplans, roadmaps and legislations – notably between July and Oct - that aim to "transition" the economy over the medium to long term. These include MADANI Economy (27 July 2023), National Energy Transition Roadmap (NETR - Part 1 on 27 July 2023 and Part 2 on 29 Aug 2023), New Industrial Master Plan 2030 (NIMP2030, 1 Sep 2023), 12th Malaysia Plan Mid-Term Review (12MP MTR, 11 Sep 2023), Hydrogen Economy & Technology Roadmap (HETR, 5 Oct 2023), as well as Fiscal Responsibility Act and Energy Efficiency & Conservation Act (FRA and EECA, 11 Oct 2023).

"Take off" in 2024

2024 should therefore be the "take off" year i.e. execution and implementation of the blueprints, masterplans and roadmaps, with fiscal reforms and economic restructuring high on the agenda.

Fiscal reforms high on the agenda, with the key element being the implementation of targeted rationalisation of fuel subsidy in 2024… Fuel and energy are the largest item in Government spending on subsidies and social assistances (Fig 19). Fuel subsidy rationalization is one of the key fiscal strategies to realise the targets in 12MP MTR and MADANI Economy – and legislated by FRA - to lower budget deficit, as per Budget 2024 (4.3% of GDP vs the estimated 5.0% of GDP in 2023), the Medium-Term Fiscal Framework (2024-2026 average: 3.5% of GDP), and ultimately capping deficit spending to no more than 3% of GDP under FRA and MADANI Economy (Fig 20). This is on top of FRA's target to lower Government's total debt to 60% of GDP in 3-5 years' time (end-3Q 2023: 62.5%; end-2023E: 63%; 2024E: 64%; Fig 21). Furthermore, blanket fuel subsidy is at odds with NETR and NIMP2030, especially in relation to the overall objective of net zero greenhouse gas (GHG) emission by 2050 (note: in 2019, road transport contributes to 85% of total transport emissions, and transport accounts for 21% total emissions in Malaysia), as well as specific targets on EV ecosystem like 1) raising the electric vehicle (EV) shares of new vehicles sales to 20% by 2030, 50% by 2040 and 80% by 2050[1] (vs <1% currently), and 2) building 10,000 EV charging stations nationwide by 2025 (vs 1,434 EV charging stations nationwide currently[2]).

… together with economic restructuring where the main "event" is Progressive Wage Policy (PWP, Fig 22) as the key labour market policy intervention/ measure to address the economic, social and political issues of cost of living, adequacy of retirement savings and equality i.e. raise workers income (Fig 23) and ultimately labour share of GDP over the next 10 years (Fig 24), which are the targets under 12MP MTR, NIMP2030 and MADANI Economy. The White Paper on PWP was tabled at the Parliament on 30 Nov 2023, and key takeaways and highlights include:

[1] https://paultan.org/2023/11/24/malaysia-targets-evs-and-hybrids-to-make-up-50-of-new-car-sales-by-2040-80-by-2050-tengku-zafrul/
[2] https://www.planmalaysia.gov.my/mevnet/

- PWP is optional via voluntary participation of employers and complements the mandatory Minimum Wage of MYR1,500 per month by covering local workers earning above the Minimum Wage and up to MYR4,999 per month.
- PWP will subsidise workers' wage increases by MSME (i.e. excluding MNCs and GLCs) who are qualified and registered as "Progressive Wage Employers" for 12 months with monthly incentive of up to MYR200 for entry-level workers and up to MYR300 for non-entry level workers.
- Wage increases under PWP is productivity-based, thus committing workers to raise productivity, improve skills via Government-recognised training courses and programmes, and expand job scopes.

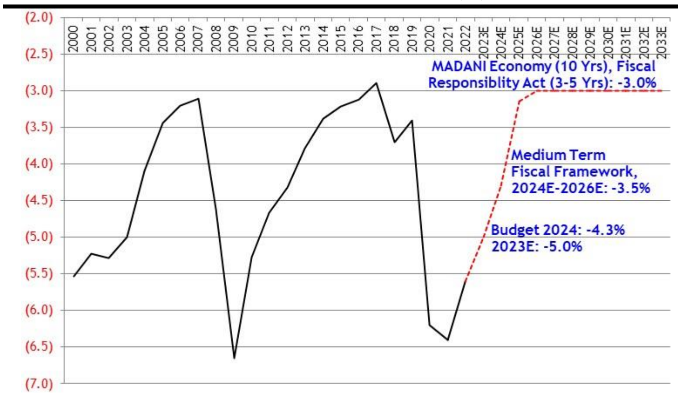
In terms of PWP's implementation timeline, there will be:

- Engagement sessions between the stakeholders (i.e. representatives of government, employers and workers), development of PWP registration, selection and monitoring systems, and publication of proposed guidelines on annual wage increases in 1Q 2024.
- Registration and selection of employers for the PWP pilot programme in Apr-May 2024.
- Implementation of PWP pilot programme in June-Sep 2024
- Assessment of the PWP pilot programme in Sep 2024.

Fig 19: Malaysia - Subsidies and Social Assistances in 2022

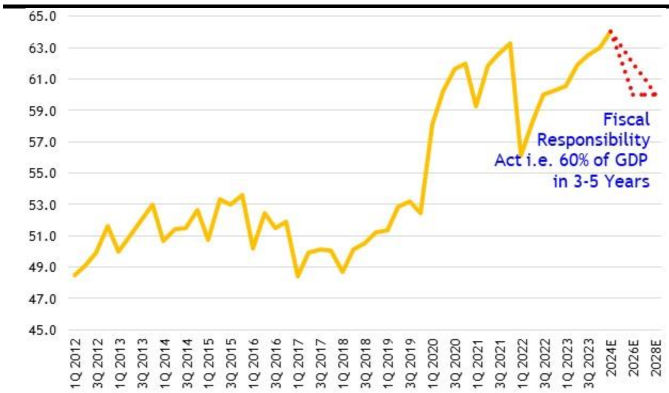
Sources: Bank Negara Malaysia

Fig 20: Malaysia - Budget Deficit to GDP (%)



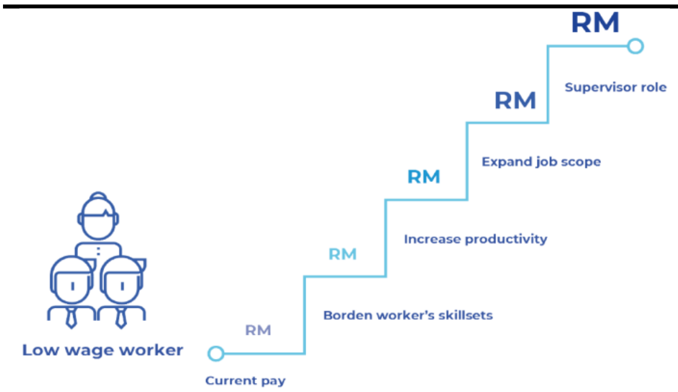
Sources: Bank Negara M'sia, Dept of Statistics, Ministry of Finance (Fiscal Outlook 2024), Fiscal Responsibility Act, MADANI Economy

Fig 21: Malaysia - Government Total Debt to GDP (%)



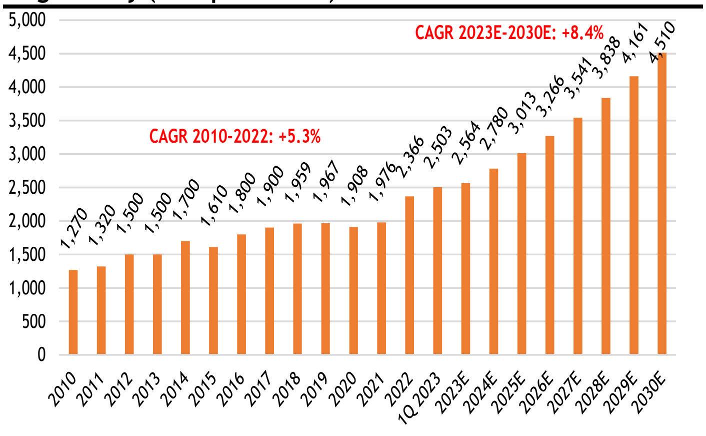
Sources: Bank Negara Malaysia, Department of Statistics, Ministry of Finance (Fiscal Outlook 2024), Fiscal Responsibility Act

Fig 22: Malaysia - Progressive Wage Policy



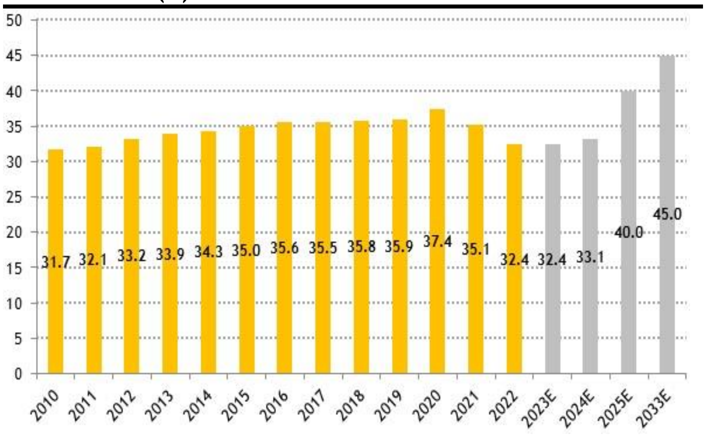
Source: NIMP2030

Fig 23: Malaysia - Manufacturing Sector Median Monthly Wage/Salary (MYR per month)



Sources: NIMP2030

Fig 24: Malaysia - Labour (Compensation of Employees) Share of GDP (%)



Sources: Department of Statistics, Ministry of Finance (Economic Outlook, 2024), MADANI Economy

Legislations, policies and measures in 2024 as follow up and complement to 2023 blueprints, masterplans, roadmaps

We also expect to see further policy announcements to complement - and as follow ups to - the "macro" or "big-picture" blueprints, masterplans and roadmaps, especially at sector/industry levels. These include:

- **Government Procurement Act (GPA) is the next key legislative measure after FRA on fiscal reforms** to further enhance fiscal governance and strengthen discipline and oversight in public finance. It is expected to be tabled at the Parliament in 2Q 2024. GPA is to improve governance in public spending and contracts, including via open tender as well as compulsory audit and accountability in large-value procurement/contracts. The legislation is in line with the MADANI Economy target to improve Malaysia's position in the Global Corruption Perception Index to Top-25 in 10 years' time (2022: #61).

- **Establishment of a renewable energy (RE) exchange** as a marketplace and aggregator to facilitate RE pricing and trade, both domestically and cross-border. This is a crucial next step following earlier key RE policy moves such as adjustments of RE tariffs to better reflect local and international market pricing; raising RE quota and installed capacity targets; and as well as abolishing RE export ban.

- **Releases of blueprints for High-Value High Growth (HVHG) sectors and industries that provide details on sector/industry-specific targets, incentives, initiatives and pilot/flagship/catalytic projects.** After such blueprints for the electronics and electrical (E&E) industry and energy transition-based industry embedded in NIMP 2030 and NETR respectively, the next blueprint is for technology and digital-based industries that aims to intensify the development of start-ups and attract global technology companies to Malaysia, which is expected to be out in Feb 2024. This will be followed by blueprints for modern agriculture and agro-based industry and the rare earth industry.

- **The next installment of National Automotive Policy (NAP) after the last "update" back in 2020.** We expect the next version of NAP to further advance the policy focus and facilitations on EV ecosystem in support of NETR and NIMP 2030. We will also be looking at measures like vehicle "end of life" or "scrapping" policy for both internal combustion engine (ICE) vehicles and EV, coupled with specific incentives for EV as replacement for ICE vehicles under the "end of life" or "scrapping" policy.

In addition, Malaysia and Singapore is scheduled to sign the Memorandum of Understanding (MoU) on the Johor-Singapore Special Economic Zone (SEZ) on 11 Jan 2024. The SEZ aims to further enhance the long-standing economic ties between the two neighbouring countries, among others by strengthening the ecosystem of the Iskandar development region and Singapore; increase the flows of investments/capitals, goods and people between the two sides of the Causeway; and what we see as the focus industries/sectors as well as areas of cooperations/ collaborations like RE, tourism, environment, innovation, education and finance (taking cue from the designation of Johor's Forest City as Special Financial Zone that was announced in Aug 2023, with incentives that include special income tax rate of 15% for skilled workers and multiple entry visas).

Another policy announcement pending that is worth mentioning here is the review of plantation sector's windfall profit levy. Currently, the levy is presently charged at a rate of 3% on crude palm oil (CPO) prices above MYR3,000/tonne in Peninsular Malaysia and above MYR3,500/tonne in Sabah & Sarawak. To note, the 2023 Shadow Budget of Pakatan Harapan (PH – the main group in the current coalition Government) proposed reverting the levy on Sabah and Sarawak to the original 1.5% as well as raising the CPO price thresholds for the imposition of the levy to above MYR3,500/tonne for Peninsular Malaysia and above MYR4,000/tonne for Sabah and Sarawak.

"Translating" into firmer growth

Penciling firmer domestic real GDP growth in 2024. Despite our forecast of slower global economic growth (2024E: +2.8%; 2023E: +3.3% in 2023) that is mainly due to the projected slowdowns in US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%), we expect firmer domestic real GDP growth (2024E: +4.4%; 2023E: +3.9%), underpinned by resilient consumer spending, pick up in Government consumption and private investment, plus recoveries in the trade-related services and manufacturing industries, namely tourism and electronics (Fig 25).

Consequently, 2024 economic growth will be driven primarily by private consumption (2024E: +5.1%; 2023E: +4.9%), Government consumption (2024E: +4.1%; 2023E: +3.2%), private investment (2024E: +5.3%; 2023E: +5.0%) amid rebounds in exports (2024E: +3.2%; 2023E: -7.7%) and imports (2024E: +3.8%; 2023E: -7.5%) of goods and services, plus services (2024E: +5.7%; 2023E: +5.5%) and manufacturing (2024E: +3.0%; 2023E: +1.0%) sectors.

Fig 25: Malaysia - Real GDP (% Chg / % YoY)

	ACTUAL					MAYBANK IBG			OFFICIAL	
	2022	1Q 2023	2Q 2023	3Q 2023	9M 2023	2023E	2024E	2025E	2023E	2024E
Real GDP	**8.7**	**5.6**	**2.9**	**3.3**	**3.9**	**3.9**	**4.4**	**5.0**	**4.0**	**4.0-5.0**
Services	10.9	7.3	4.7	5.0	5.7	5.5	5.7	6.0	5.5	5.6
Manufacturing	8.1	3.2	0.1	(0.1)	1.1	1.0	3.0	4.3	1.4	4.2
Agriculture	0.1	1.0	(1.1)	0.8	0.3	0.5	1.7	1.7	0.6	1.2
Mining	2.6	2.4	(2.3)	(0.1)	0.0	0.2	0.8	1.0	(0.8)	2.7
Construction	5.0	7.4	6.2	7.2	7.0	6.8	6.5	6.5	6.3	6.8
Domestic Demand	9.2	4.6	4.5	4.8	4.6	4.8	4.9	5.5	4.9	5.3
Private Consumption	11.2	5.9	4.3	4.6	4.9	4.9	5.1	5.5	5.6	5.7
Public Consumption	4.5	(2.2)	3.8	5.8	2.5	3.2	4.1	4.7	1.0	2.6
Gross Fixed Capital Formation	6.8	4.9	5.5	5.1	5.2	5.5	5.1	6.0	5.1	6.1
Private Investment	7.2	4.7	5.1	4.5	4.8	5.0	5.3	5.8	4.3	5.4
Public Investment	5.3	5.7	7.9	7.5	7.0	7.3	4.3	6.6	8.2	8.3
Net External Demand	(1.0)	54.4	(3.7)	(22.7)	2.8	(9.8)	(4.8)	(7.1)	1.1	5.5
Exports of Goods & Services	14.5	(3.3)	(9.4)	(12.0)	(8.4)	(7.7)	3.2	3.4	(6.2)	4.1
Imports of Goods & Services	15.9	(6.5)	(9.7)	(11.1)	(9.2)	(7.5)	3.8	4.1	(6.8)	3.9

Sources: Department of Statistics, Ministry of Finance (Economic Outlook 2024), Maybank IBG Research

The outlook of resilience in consumer spending growth is based on labour market conditions and worker/consumer-friendly policies i.e. stable job market conditions (e.g. unemployment rate forecast of 3.4% in 2024 vs 3.5% in 2023), implementation of PWP, and consumer-friendly Budget 2024 measures such as the "special bonus" of between MYR1,000 and MYR2,000 for civil service employees and retirees to be paid in Feb 2024, and higher allocations for financial assistance programmes for low and low-middle income individuals/households e.g. Rahmah Cash Assistance (STR) raised to MYR10b in 2024 from MYR8b in 2023 with the minimum and maximum amount per eligible recipient raised to MYR500 and MYR3,700 respectively from MYR300 and MYR3,100 respectively; expand and extend the coverage of the MYR100 per month Basic Rahmah Contribution (SARA) to 700,000 recipients (from 200,000 recipients) and to 12 months (from 6 months).

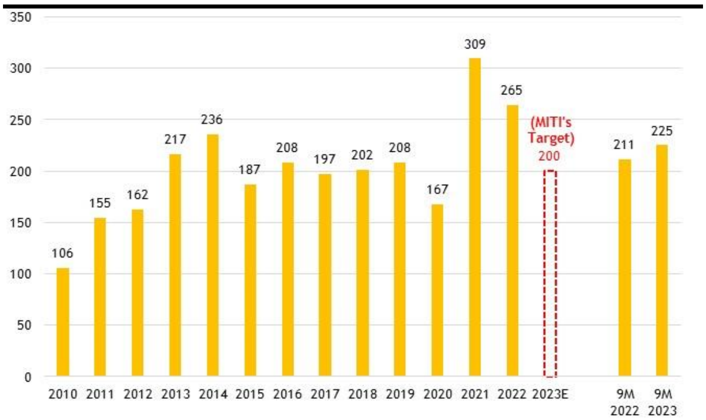
Positive investment growth momentum is expected to be sustained, reflecting:

- **Higher Budget 2024's gross development expenditure allocation** of MYR90b (vs MYR83.6b in 2023 i.e. after taking out the USD3b redemption of 1MDB bond from the MYR97b total).

- **Realization of the robust approved private sector investments since 2021** (Fig 26-27) – which, at MYR225b in 9M 2023, had exceeded the full-year target of MYR200b - and is expected to remain strong in 2024, especially with the MYR347b potential FDIs garnered from Prime Minister's recent trips and MITI's missions to China, US, Japan, South Korea, Singapore and the Middle East (i.e. Saudi, UAE).

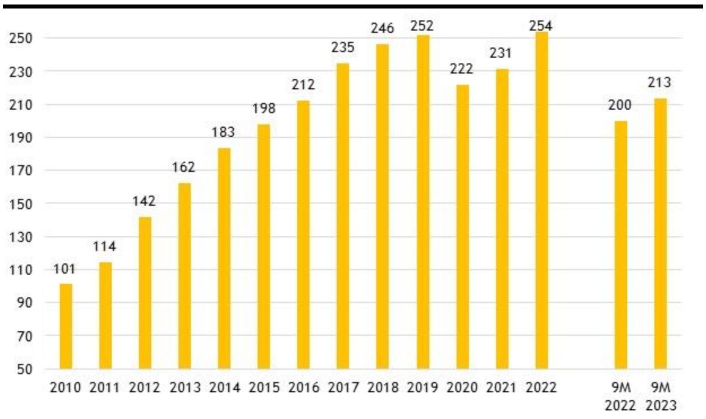
- **Progress in the on-going major infrastructure projects** [e.g. Klang Valley Light Rail Transit 3 (KVLRT3); East Coast Rail Link (ECRL); Pan Borneo Highway (PBH); Johor Bharu-Singapore Rail Transit System (JB-SG RTS); MyDIGITAL 5G], **and the upcoming and potential new major infrastructure projects** e.g. Klang Valley Mass Rapid Transit 3 (KVMRT3); five additional stations for KVLRT3; Bayan Lepas LRT; Penang and Johor Bus Rapid Transits (BRT); Subang, Penang and Tawau Airports expansions; new Kota Kinabalu (Sabah) International Airport; Sarawak-Peninsular Malaysia Submarine Power Cable; as well as MYR11.8b for nationwide flood mitigation.

Fig 26: Malaysia - *Approved* Private Sector Investment (MYRb)



Source: Malaysian Investment Development Authority (MIDA)

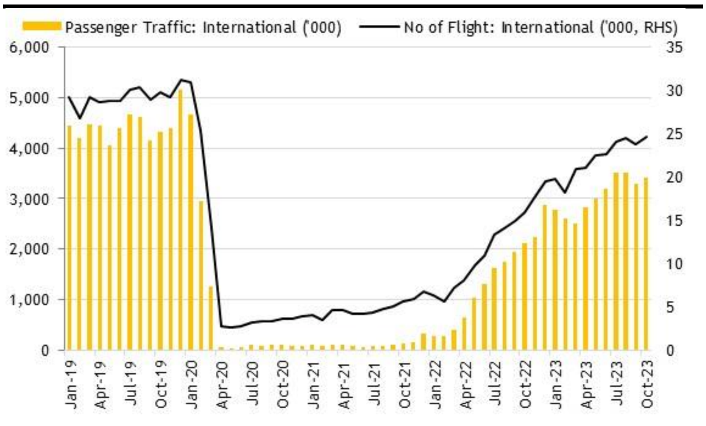
Fig 27: Malaysia - *Actual* Private Investment (MYRb)



Source: Department of Statistics

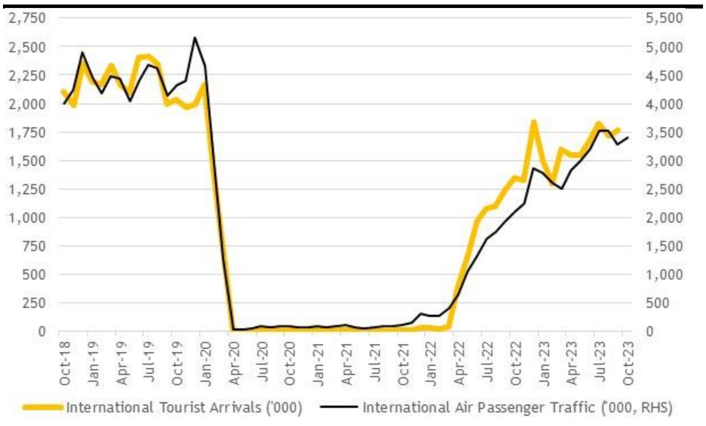
Tourism and Tech driving exports rebound. Meanwhile, our forecast of a rebound in exports of goods and services mainly reflects the continuing recovery in tourism (Fig 28-32) and the emerging recovery in electronics cycle (Fig 33). To note, the government on 27 Nov 2023 announced visa-free entry to citizens of China and India for stays of up to 30 days starting 1 Dec 2023 until 31 Dec 2024 to boost inbound tourists and further support the tourism industry's post-pandemic recovery. Meanwhile, the World Semiconductor Trade Statistics (WSTS) reported that global chip sales stabilized in Sep 2023 at +0.3% YoY after 14 straight months of decline. Further, WSTS expects global semiconductor sales to rebound by +11.8% in 2024 (2023E: -10.3%) which augurs well for the outlook of Malaysia's electronics – specifically semiconductor – exports.

Fig 28: Malaysia - International Flights and Air Passenger Traffic



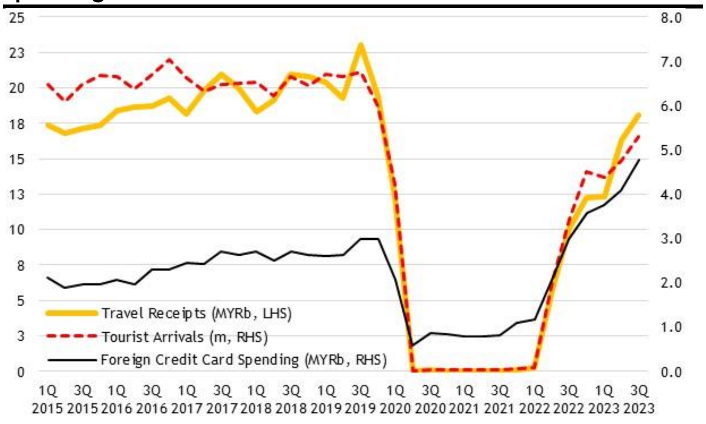
Source: CEIC

Fig 29: Malaysia - International Air Passenger Traffic and Inbound Tourist Arrivals



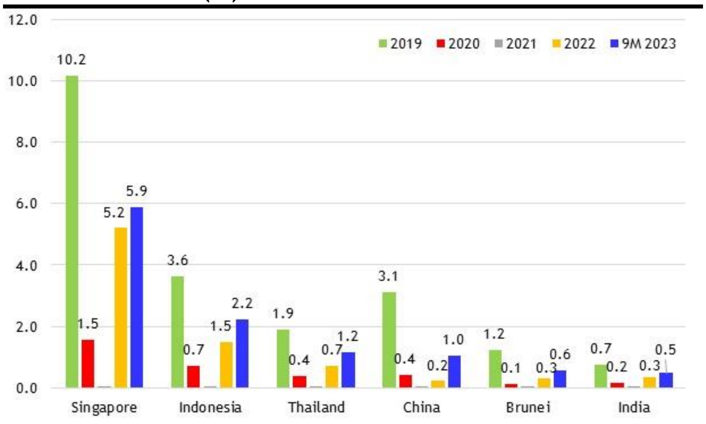
Source: CEIC

Fig 30: Malaysia - Inbound Tourist Arrivals and Tourist Spending Indicators



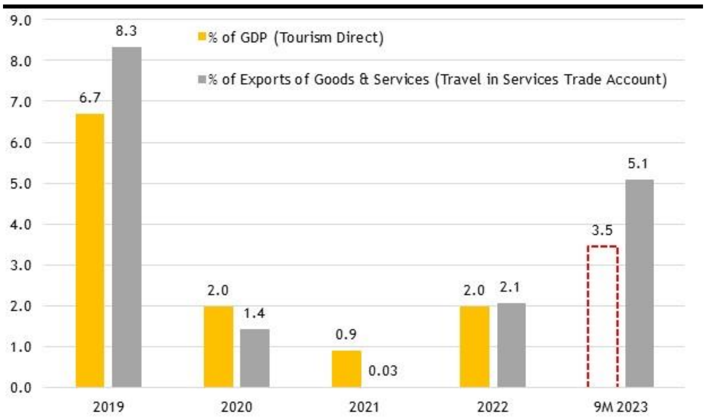
Sources: Department of Statistics, Bank Negara Malaysia, CEIC

Fig 31: Malaysia - Inbound Tourist Arrivals from Major Source Countries (m)



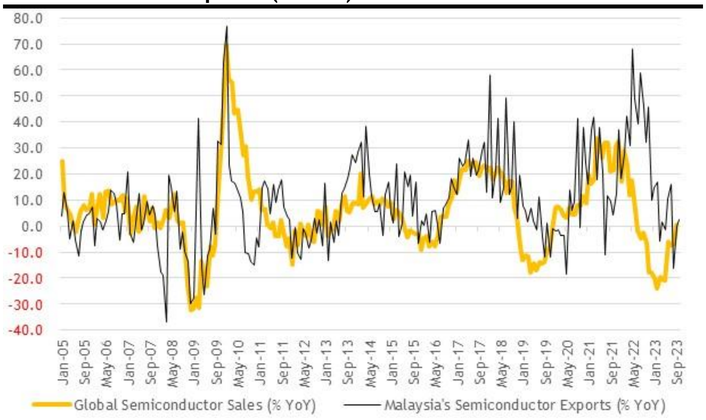
Source: CEIC

Fig 32: Malaysia - Tourism's Contribution to GDP and Exports of Goods & Services



Note: Tourism direct contribution to GDP for 9M 2023 is estimate by Maybank IBG Research as official data is available on annual basis.
Source: Department of Statistics

Fig 33: Global Semiconductor Sales vs Malaysia's Semiconductor Exports (% YoY)



Source: Bloomberg, Department of Statistics

Wildcard – "Political will"…?

"Political will" is key in any medium-to-long-term economic restructuring and reforms, especially with the politically unpopular rationalisation of the long-standing fuel subsidy.

Reshuffle of the Cabinet in late-2023- - which the PM says will remain until the next general election - signals the commitment to implement and execute the "take off" for the country's medium-to-long-term "transition" as outlined by the blueprints, master plans and roadmaps.

PM announced a Cabinet reshuffle on 12 Dec 2023 that, in our opinion, is oriented towards strengthening the focus and deliveries on the economy broadly, and on specific areas like investment and business promotions, sector/industry developments (e.g. energy, digital) as well as reforms and transition agendas (e.g. labour market; sustainability). These include:

- Appointment of a non-politician - Senator Datuk Seri Amir Hamzah Azizan, former CEO of the Employees Provident Fund (EPF) who also has a diverse experience in the corporate sector - as the Second Finance Minister (MoF2) to assist PM who double hats as the Finance Minister.

- Retaining the Ministers for Economy (Rafizi Ramli) and for Investment, Trade and Industry (MITI – Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz) who are the key persons for the National Energy Transition Roadmap, Progressive Wage Policy and New Industrial Master Plan 2030.

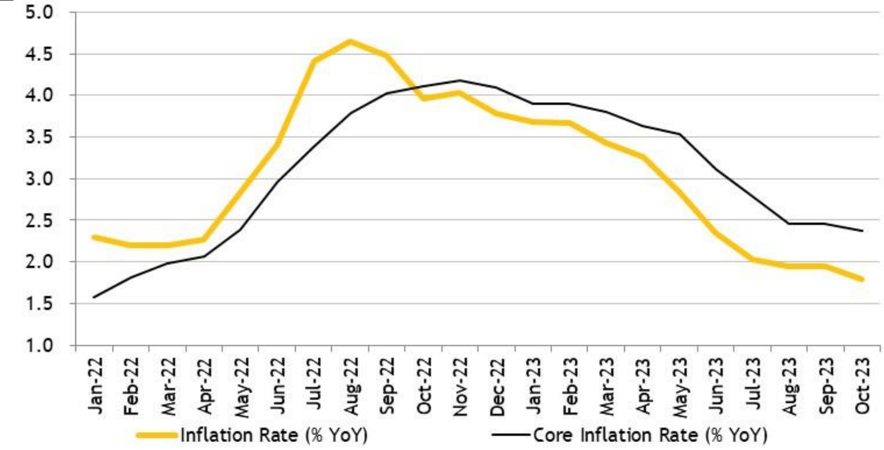
- Splitting the Ministry of Natural Resources, Environment and Climate Change (previously under Nik Nazmi Nik Ahmad) into the Ministry of Energy Transition & Public Utilities (now under Deputy Prime Minister Datuk Seri Fadillah Yusof) and the Ministry of Natural Resources and Sustainability (headed by Nik Nazmi), as well as separating the Communication and Digital portfolio (previously under Fahmi Fadzil) into Communication (helmed by Fahmi Fadzil) and Digital (headed by Gobind Singh Deo, former Communication and Multimedia Minister) portfolios.

We also find it interesting that the Foreign Minister is handed to Datuk Seri Utama Mohamad Hassan, who was the Defence Minister prior to the Cabinet reshuffle. He is not only presently UMNO number 2, but also formerly from the banking and corporate world. Another UMNO senior politician with corporate background in the reshuffled Cabinet is Datuk Seri Johari Abdul Ghani, who was former Cabinet minister and brought back to oversee the Plantations and Commodities Ministry.

Political "runway" of four years before next general election; fiscal legislations and moderating inflation are the "carrots and sticks" to implement and execute subsidy rationalisation. Timing wise, the government "can do" it because of the "political runway" of four years before the next general election i.e. not due until within 60 days of 18 Dec 2027 when the current Parliament "auto-dissolves" on completion of the full five-year term from the start of the current Parliament on 19 Dec 2022. And the government "has to do" it because of the FRA targets on budget deficit and Government total debt reductions (re: Figs 20-21). In addition, with monthly inflation rate decelerating to low-single digit i.e. sub-2% YoY since Sep 2023 (Fig 34), there is the window of opportunity to execute the targeted subsidy rationalization.

Furthermore, things have already moved in 2023 as far as subsidy rationalisation is concerned i.e. the targeted electricity bill subsidy since the start of 2023 that excluded MNCs, high-and-medium voltage industrial and commercial users as well as 83,000 domestic/residential users (of total 8.1m) with monthly electricity consumption of over 1,500 kilowatt hours (kWh); and the removal of chicken price ceiling - and thus subsidy - on 1 Nov 2023.

Fig 34: Inflation Rate (CPI, % YoY)

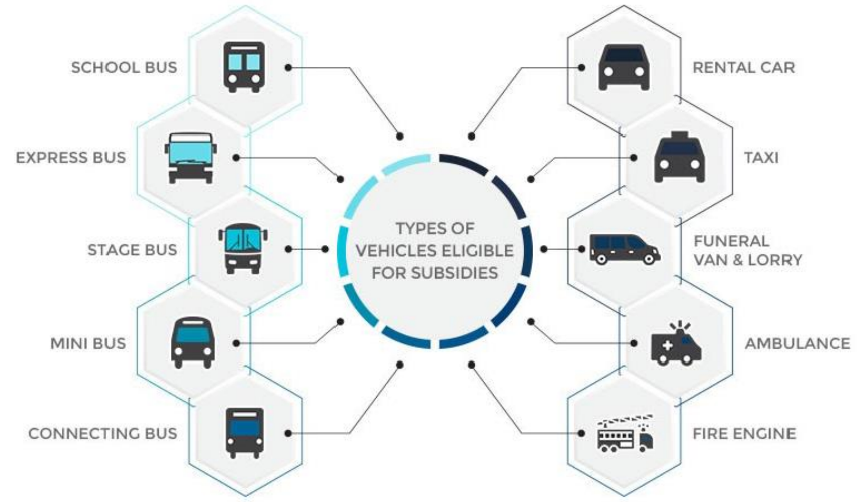


Source: Department of Statistics

Expect fuel subsidy rationalization in 2024 to focus on addressing leakages and being targeted, thus gradual, to mitigate inflation and cost of living effects. The exact details on the timing and mechanics of targeted fuel subsidy rationalization are also still pending.

There is this urgent need to address the serious leakage amounting to MYR10b of the MYR18b annual cost of diesel subsidy via strict enforcement. The Government must ensure that only the beneficiaries are strictly the qualified recipients as per the types of vehicles – and thus industries – eligible for diesel subsidies under the Subsidised Diesel Control System, which are predominantly in public transport (Fig 35). Tackling the diesel subsidy leakages directly via strong enforcement can minimise the need to significantly raise subsidised diesel price to close the gap with unsubsidised diesel prices - which is the reason for the leakages - thus mitigating the inflation impact from higher transport and logistics costs. In addition, diesel subsidy rationalisation in 2024 will be implemented in Peninsular Malaysia only and not in Sabah and Sarawak in view of the widespread use of diesel in East Malaysia for transportation (e.g. 4WD vehicles and boats due to the under/ less-developed road infrastructure) and power generators.

Fig 35: Malaysia – Types of Vehicles Eligible for Diesel Subsidies under the Subsidised Diesel Control System



Note: A category of subsidized diesel recipient not included in the chart is for fishermen (with subsidised diesel price of MYR1.65 per litre)
Source: Ministry of Domestic Trade and Cost of Living

At the same time, successive Governments have argued that it is not right for high-income individuals/households to benefit from subsidies. In the case of fuel subsidy, 35% of the subsidy goes to the Top-20% (T20) income groups compared with 41% to Middle-40% (M40) and 24% to the Bottom-40% (B40).

To execute targeted fuel subsidy, Central Database Hub (PADU) will be key in "means-testing" eligibility for targeted fuel - especially RON95 – subsidy, based on net disposable income. PADU was announced in May 2023. It combines 270 databases from ministries, federal government agencies, state governments and statutory bodies through data-sharing agreements to consolidate and centralise the socio-economic information of individuals/households in the country. According to the Economy Minister, PADU is 72% complete as of late-Oct 2023, and is currently (Nov-Dec 2023) undergoing system tests and trial runs before being made accessible to the public during 1Q 2024 for information updates and verifications prior to it being fully operational.

On the use of PADU to "means-testing" eligibility for targeted subsidies, the Economy Minister indicated - and based on our interpretation and understanding of the Parliament Hansard for the Ministers' Question and Answer on Budget 2024 involving the Economy Minister on 6 Nov 2023 - that the Government is considering several options to "means-testing" eligibility for targeted subsidies. These are essentially tied to net disposable income as alternatives to – and represent a departure from - the current monthly household income classifications of T20 (MYR11,820 and above), M40 (between MYR5,250 and MYR11,819) and B40 (MYR5,249 and below) i.e.

- Based on individual net disposable income, and targeted subsidies for the eligible recipients to be provided in "cash" via the social protection system.
- Based on household net disposable income, and targeted subsidies for the eligible recipients to be given in "cash" via combination of social protection and social assistance schemes.
- "Subsidy cards" to be given to eligible households and individuals based on their net disposable incomes.

In the context of targeted fuel subsidy system, we assume the above "cash" options will be to compensate for inflation and cost of living impact from adjustments in the subsidised fuel prices, while the "subsidy cards" will be the non-cash option and is to allocate quota (e.g. in litres per week/month/quarter/ year) for subsidised fuel to eligible recipients.

We also see PADU usage to be optimised to facilitate the targeting of other subsidies and social assistances so as to improve the existing cash handouts, welfare, social protection and safety nets programmes with the aim to address the issue of exclusion/inclusion errors, abuses and leakages, thus ultimately ensure the biggest bang for the bucks in Government budget for "subsidies and social assistance" by reaching the intended and the deserving. This may include:

- Possibly ending subsidies on essential food items – given the issue of shortages which is the "underside" of price and/or supply-side subsidies - and substitute them with additional cash handouts or financial offsets instead.

- Improving and streamlining various welfare, social protection and safety net programmes especially involving groups like the poor, orphans, disabled, elderly, as well as the informal sector and the retrenched workers.

At the same time, we expect the process and timing of fuel subsidy rationalization to be gradual, taking cue from the apparent target to cut fuel subsidy by MYR6b in 2024, compared with the record high RON95 and diesel subsidies amount of MYR41.75b in 2022 (MYR45.2b if include liquefied petroleum gas or LPG i.e. cooking gas).

The fuel subsidy rationalization - and hence the adjustment in fuel prices - must be gradual to mitigate impact on inflation, which we expect to re-accelerate (2024E: +3.0%; 2023E: +2.6%), hence our view of BNM keeping the Overnight Policy Rate (OPR) at 3.00% in 2024 despite the outlook of interest rate cuts in major advanced economies and ASEAN peers. We estimated every 10 sen per litre hike in fuel prices can push up annual inflation rate by as much as +0.3 percentage point. Other upside risk to inflation in 2024 is the potential impact of increases in the consumption-based taxes in Budget 2024 as per the hikes in Services Tax rate (to 8% from 6% on most services) and Sugar Tax; the introduction of High-Value Goods Tax as well as the broadening of the Sales Tax base to include low value goods.

However, the upside to inflation will also be tempered by our expectations of a firmer Ringgit vs USD, which we expect to end 2024 at 4.40 vs 4.70 close at end-2023. This outlook reflects the aforementioned expectations of US Fed interest rate cuts amid stable OPR, thus narrowing of the interest rate differential which has widened to all time high in 2023, as well as the above-mentioned expected execution and implementation of macro blueprints that should be positive for investor and business confidence, hence on Ringgit.

Fig 36: Malaysia - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**(5.5)**	**3.3**	**8.7**	**3.9**	**4.4**	**5.0**
Private Consumption (%)	(3.9)	1.9	11.2	4.9	5.1	5.5
Government Consumption (%)	4.1	6.4	4.5	3.2	4.1	4.7
Gross Fixed Capital Formation (%)	(14.4)	(0.8)	6.8	5.5	5.1	6.0
Exports of Goods & Services (%)	(8.6)	18.5	14.5	(7.7)	3.2	3.4
Imports of Goods & Services (%)	(7.9)	21.2	15.9	(7.5)	3.8	4.1
Current Account Balance (% of GDP)	4.2	3.9	2.6	2.0	2.1	2.0
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.6)	(5.0)	(4.3)	(3.3)
Inflation Rate (%, period average)	(1.2)	2.5	3.3	2.6	3.0	3.0
Unemployment Rate (%, period average)	4.5	4.6	3.9	3.5	3.4	3.3
Exchange Rate (per USD, end-period)	4.02	4.17	4.40	4.70	4.40	4.20
10-Year Government Bond Yield (%, end-period)	2.65	3.59	4.00	3.80	3.30	3.30
Benchmark Interest Rate (% p.a., end-period)	1.75	1.75	2.75	3.00	3.00	3.00

Source: CEIC, Maybank IBG Research

EQUITY

EQUITY: Cautiously optimistic, amid lingering external risks

Cautiously optimistic. We are cautiously optimistic in terms of outlook for Malaysia in 2024, amid stable political outlook and delivery of macro blueprints cum targets announced in 2023. For equities, the tail-end of global monetary policy tightening is a tailwind, while stable domestic interest rate policy outlook, economic transformation, and rising FDI momentum are the key catalysts. We also look forward to better corporate earnings growth in 2024 (2024E: +15.8%, 2023E: +2.7%) - improved earnings in most sectors; Gloves and Aviation to turn profitable.

YE 2024 KLCI target at 1,610. We maintain our target, based on 13.5x 12M fwd. PER. We look forward to the execution of macro blueprints and stronger corporate earnings delivery in 2024 to lift KLCI's levels. A re-rating is possible as economic and institutional reforms are executed to facilitate new growth drivers, leading to improved risk-reward. From a valuation perspective, the KLCI remains attractive at 12.8x 12M fwd. PER (-1.6SD of LT mean), 1.3x trailing P/B (a historical low); ERP, at 400bps, is nearing its recent high. From a fund flow perspective, there is upside when Malaysia delivers on economic transformation and fiscal reforms. Finally, equities could get a lift from our expectation for a firmer MYR vs. USD.

Portfolio of selective trade-related & domestic sectors, balanced with yield and ESG stocks. A replacement tech cycle, and emerging signs of a turnaround in the global electronics cycle will benefit the Tech sector (OW EMS), and services (port/ logistics operators). On the domestic front, rising FDI momentum, RE transition and tourism recovery will be positive for stocks in RE (OW), Construction (OW), Aviation (OW) and Gaming-Casino (OW), and selective stocks in Consumer (NT). Meanwhile, the tail-end of interest rate hike cycle globally will draw attention back to the yield stocks. ESG will remain a relevant investment focus.

Investment themes. We recommend six (6) investment themes for 2024: 1) ***"The three sisters" - Johor (JSSEZ), Sarawak (Hydrogen) & Penang (Infra, FDIs)*** – **SPSB, YTLP, CMS, GAM** and **IJM** are our existing **BUYs** relating to this thematic; 2) ***Rising FDI momentum*** - **WPRTS** and **IJM** are our existing **BUYs** here; 3) ***Renewable Energy transition*** - **SOLAR, CYP** and **MFCB** are our existing **BUYs**; also, potential beneficiaries are **TNB (HOLD)**, to watch out for **GAM (BUY), YTLP (BUY)**; 4) ***Water tariff reset*** - potential beneficiaries are existing water supply operators and pipe producers; 5) ***Tourism recovery - "Malaysia, Truly Asia"*** - beneficiaries are **GENM (BUY), MAHB (BUY), CAPITALA (BUY), AAX (BUY), YTLREIT (BUY), INNATURE (HOLD), OPTIMAX (BUY)**; 6) ***A firmer MYR*** - which would benefit selected Consumer stocks including **FFB** (our sector top **BUY**), Media **(ASTRO; SELL)** and the **Airlines**. Also, **GENT (BUY)** is a more liquid exposure to the MYR-USD currency movement. We also highlight Not Rated stocks in these thematics.

Sector weights. We have recently upgraded **Gaming-NFOs to OW**; also, a tactical upgrade of **Gloves to OW**. For Gloves, sales volume is improving despite stiff competition from the Chinese glove makers, while raw material prices are also stabilising. **Petrochems** is now an **UW**; we expect another challenging year. As for the **Autos (NT,** from OW), we have become more cautious, anticipating TIV to stabilize, instead of another strong growth year. For the large-cap sectors, we have maintained **Banks as OW; NT on Plantation, Telco and Utilities**. We remain **OW on Construction, RE, O&G, Aviation, Gaming-Casino, Tech (EMS & Software).**

Top BUYs, yield and ESG picks. We have largely retained our top BUY list from that in our 3Q 2023 Results Roundup report, and added on GAM, HART and WPRTS. This list considers our research weights on the respective sectors, and also the thematics for 2024. We also refresh our yield picks, and highlight our ESG picks, based on their scores under our proprietary ESG scoring methodology.

Current KLCI:	1,462.5 (15 Dec 2023)
2024 YE KLCI target:	1,610 (unchanged)

M'sia equities growth & valuation

		2022A	2023E	2024E
KLCI @ 1,447.1	**PE (x)**	**14.4**	**14.2**	**12.7**
Earnings Growth	(%)	(6.4%)	1.5%	11.2%
Research Universe	**PE (x)**	**16.3**	**15.9**	**13.7**
Earnings Growth	(%)	(4.5%)	2.7%	15.8%

Source: Maybank IBG Research (as of 12 Dec 2023)

Top BUY picks

Stock	BB Ticker	Share Price (MYR)	Target Price (MYR)	*Upside (%)*
Large Caps				
Public Bank	PBK	4.25	5.05	18.8%
CIMB Group	CIMB	5.79	6.70	15.7%
Telekom M'sia	T	5.29	6.50	22.9%
Genting	GENT	4.66	5.49	17.8%
AMMB	AMM	4.02	4.75	18.2%
Westports	WPRTS	3.58	4.35	21.5%
Gamuda	GAM	4.44	5.25	18.2%
M'sia Airports	MAHB	7.20	7.96	10.6%
Hartalega	HART	2.29	3.02	31.9%
Yinson Hldgs	YNS	2.48	5.05	103.6%
IJM Corp	IJM	1.89	2.20	16.4%
Greatech	GREATEC	4.63	5.20	12.3%
Mid-small Caps				
Sime Prop	SDPR	0.59	0.75	28.2%
SP Setia	SPSB	0.77	1.20	56.9%
CTOS Digital	CTOS	1.44	1.97	36.8%
Bermaz Auto	BAUTO	2.30	3.51	52.6%
Farm Fresh	FFB	1.32	1.65	25.0%
ITMAX	ITMAX	1.83	2.10	14.8%
Velesto	VEB	0.23	0.30	33.3%
Solarvest	SOLAR	1.24	1.40	12.9%
Wasco	WSC	0.97	1.20	23.7%
Optimax	OPTIMAX	0.64	0.86	36.5%

Source: Maybank IBG Research (share px on 12 Dec 2023)

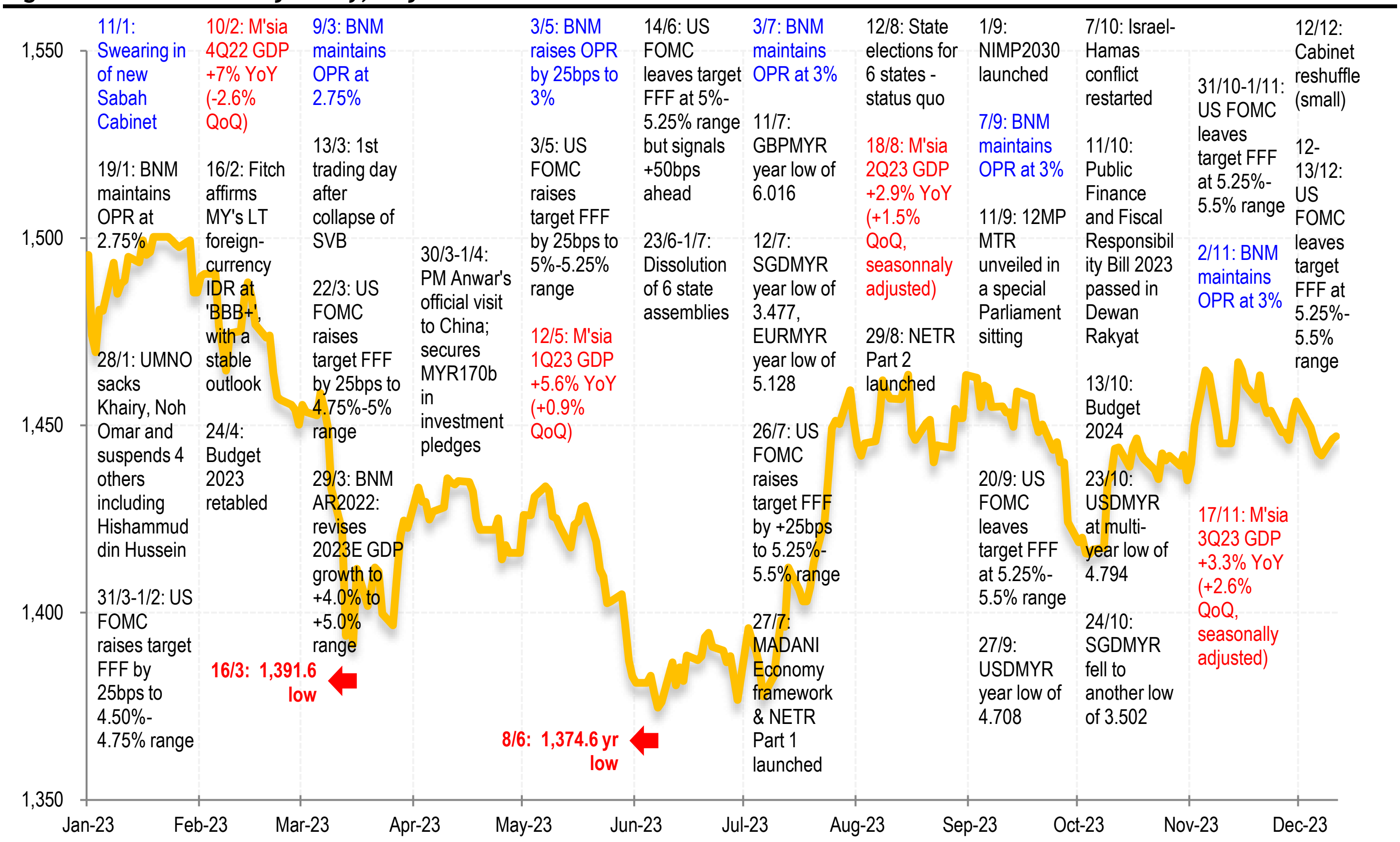
2023 REVIEW

Policy blueprints for economic transformation

2023 has been an eventful year for Malaysia on the macro policy front, especially in 2H. While the MADANI Economy Framework (launched on 27 Jul) emphasizes leveraging on Malaysia's inherent strength to be a leading Asian economy - top-12 in global competitiveness ranking (2022: #27); top-30 largest economy (2022: #36) - the National Energy Transition Roadmap (NETR; 27 Jul) offers a pathway in driving Malaysia's next phase of economic growth by transforming the economy - and sustainability agenda - as the country transits to renewable energy (RE). The New Industrial Master Plan 2030 (NIMP2030; 1 Sep) meanwhile will drive manufacturing industry transformation via advancing product complexity. Another key macro blueprint in 2023 was the 12th Malaysia Plan (2021-25) Mid-Term Review (12MP MTR; 11 Sep) which involves making modification and creating a transition for sustainable development. The Public Finance and Fiscal Responsibility Act, passed in Parliament in November, supports fiscal discipline and consolidation.

In terms of monetary decisions, Bank Negara raised the OPR once, by 25bps in May (2022: +100bps), returning the benchmark rate to pre-pandemic's 3%. Elsewhere, commodity prices trended down - crude oil prices averaged a lower USD82.31/bbl (Brent; till 12 Dec) compared to 2022's USD99.93/bbl, but remained elevated - while the MYR weakened to 4.557 on average against the USD (2022: 4.401), touching a low of 4.794 on 23 Oct and closed at 4.684 on 12 Dec. On 12 Dec, the Prime Minister reshuffled his Cabinet (after a year in office) to strengthen execution in economic transformation and in addressing cost of living issues.

Fig 1: KLCI's 12 months' journey, major events



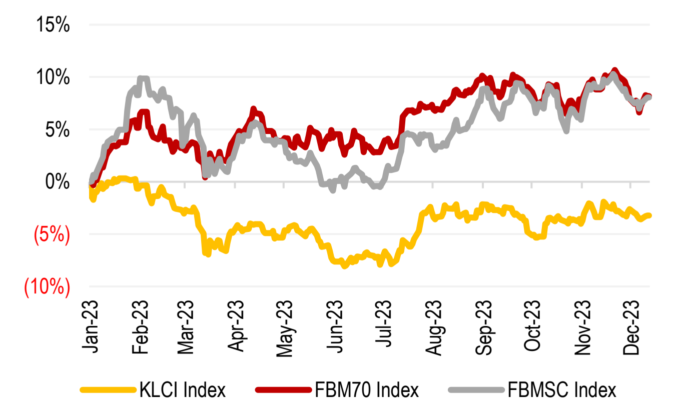
Note: KLCI at 1,447 (12 Dec 2023), 1,495 (31 Dec 2022), 1,568 (31 Dec 2021), 1,627 (31 Dec 2020), 1,531 (31 Dec 2019), 1,691 (31 Dec 2018), 1,797 (29 Dec 2017), 1,642 (30 Dec 2016); Source: Bloomberg, Maybank IBG Research (compilation)

KLCI down for the most part, mid-small caps fared better

As of 12 Dec, the KLCI has retraced -3.2% from 2022's close (-9% in USD terms) after touching a year-high of 1,500pts on 20 Jan, and falling to a multi-year low of 1,375pts on 8 Jun; a peak-to-trough of 126pts vs. 2022's 245pts. This would represent a 3rd straight year of loss for the KLCI. The mid-small caps fared better with the FBM70 gaining +8.2% and FBMSC up +8.1%. Within the region, the KLCI's -3.2% retracement (in local currency terms) is behind Thailand (-17.7%), Singapore (-4.6%) and Philippines (-4.2%), but ahead of Indonesia (+4%) and Vietnam (+12%).

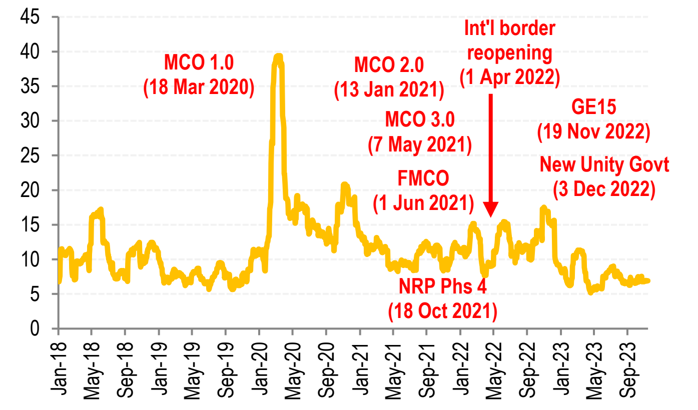
52% of our stock coverage (making up 71% of total market cap on the exchange) saw value erosion as their share prices weakened during the year. Most of the Bank stocks registered losses, as did Consumer, Gaming-NFO, Media, Petrochems, Plantation and Telco. This was in-line with the macro environment leading to lower NIMs (for Banks); inflation, impacting cost of living (Consumer); and lower ASPs (Petrochem, Plantation). Gains were largely in the Auto, Aviation, Construction, Gloves, Oil & Gas, Property, REITs and Renewable Energy (RE) sectors. This was in-line with the recovery in travel (Aviation), NETR launch (RE), expectation for major infrastructure projects implementation (Construction), and upcoming Johor-SG Special Economic Zone which will boost property values (Property).

Fig 2: Key indices, 2023 YTD (12 Dec) (% gains/ (losses))



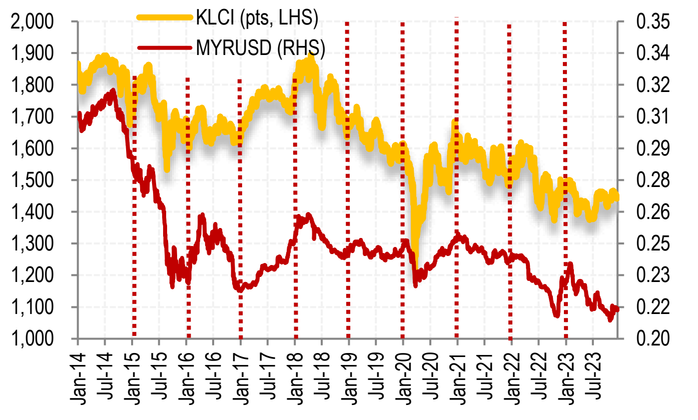
Source: Bloomberg, Maybank IBG Research (chart)

Fig 3: KLCI 30-day volatility, 2018-2023 YTD (12 Dec)



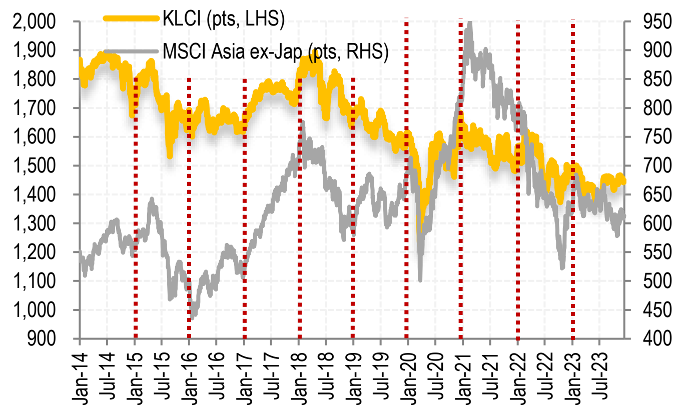
Source: Bloomberg, Maybank IBG Research (chart)

Fig 4: KLCI vs. MYRUSD, 2014-2023 YTD (12 Dec)



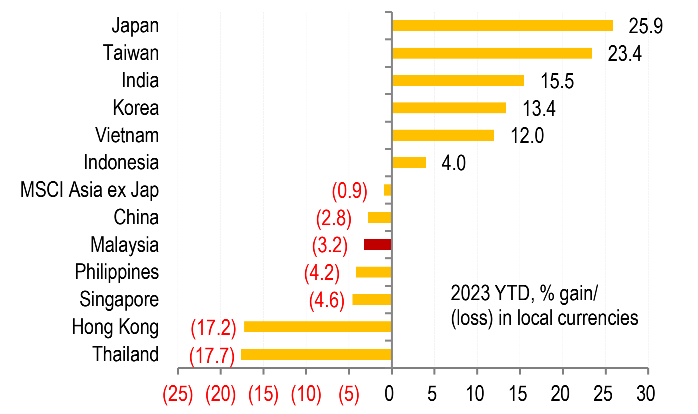
Source: Bloomberg, Maybank IBG Research (chart)

Fig 5: KLCI vs. MSCI Asia ex-Japan, 2014-2023 YTD



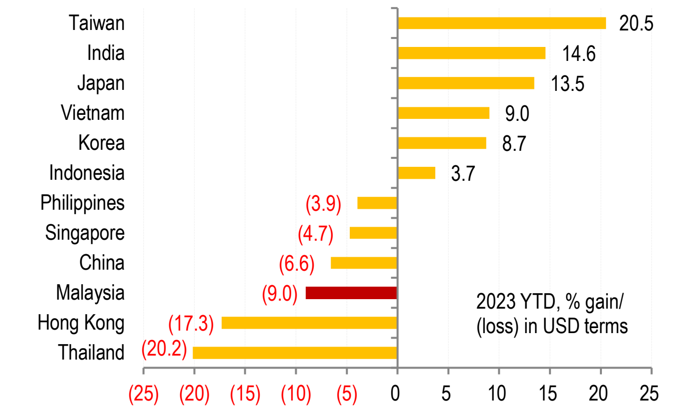
Source: Bloomberg, Maybank IBG Research (chart)

Fig 6: KLCI vs region, 2023 YTD (12 Dec) in local currencies



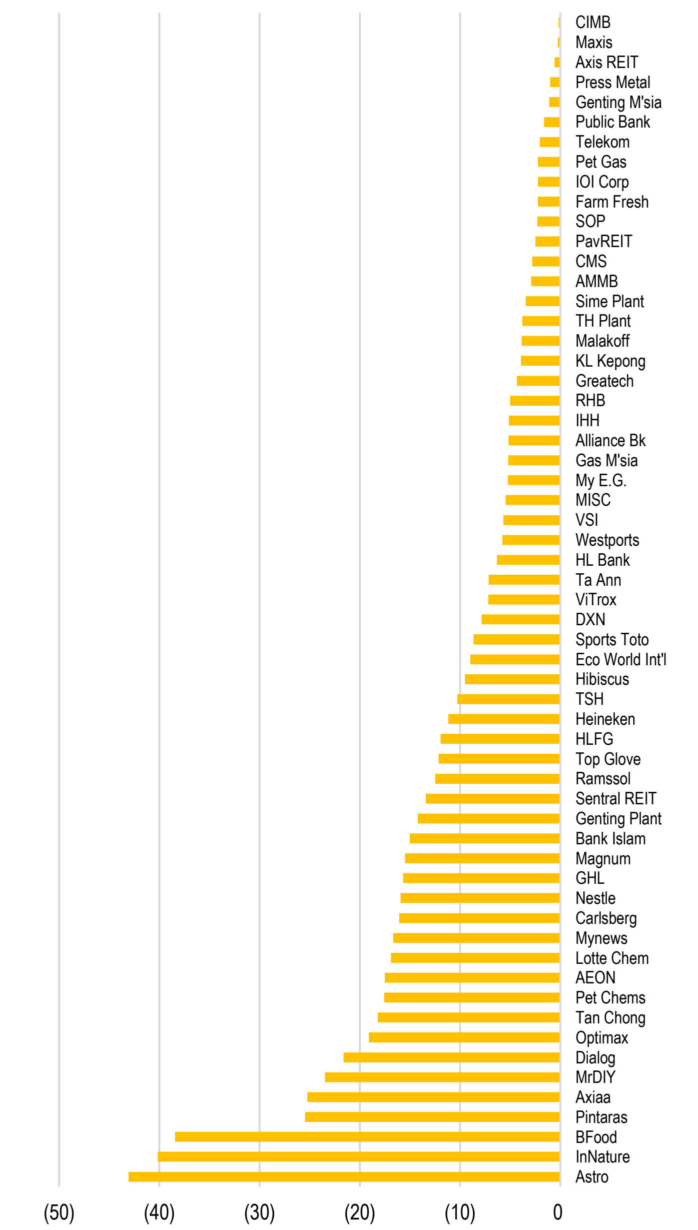
Source: Bloomberg, Maybank IBG Research (chart)

Fig 7: KLCI vs region, 2023 YTD (12 Dec) in USD terms



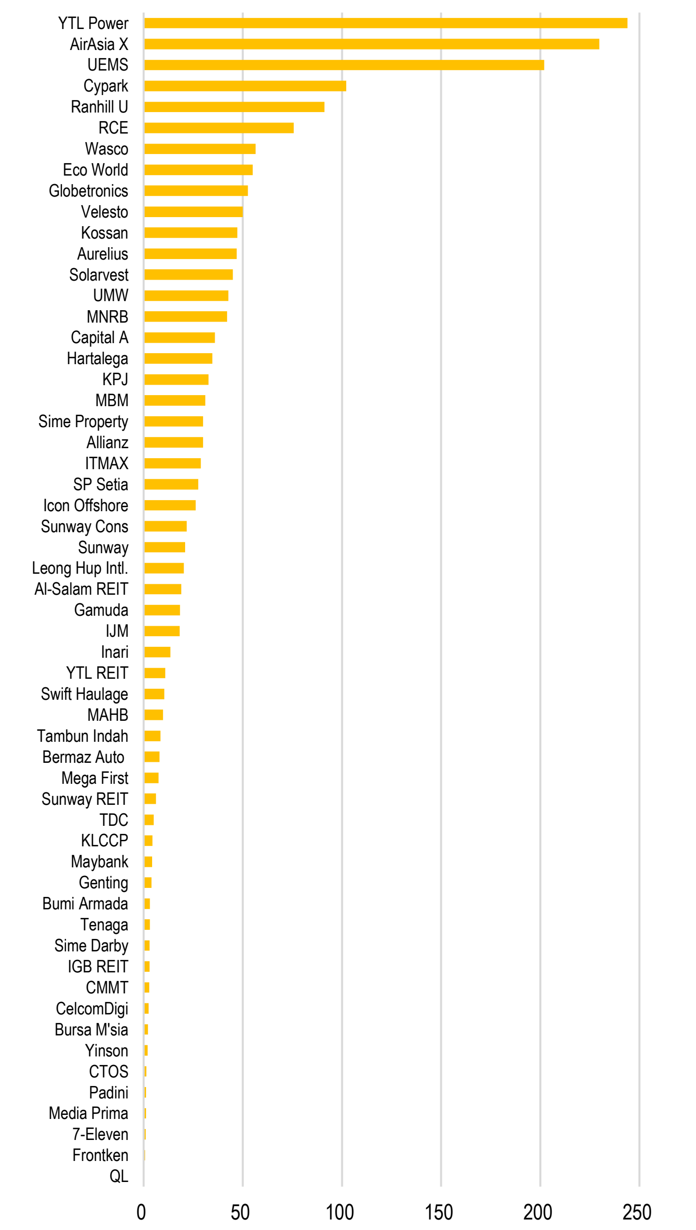
Source: Bloomberg, Maybank IBG Research (chart)

Fig 8 (a): Share price decline of stock coverage, 2023 YTD (12 Dec) (%)



Source: Maybank IBG Research

Fig 8(b): Share price gain of stock coverage, 2023 YTD (12 Dec) (%)



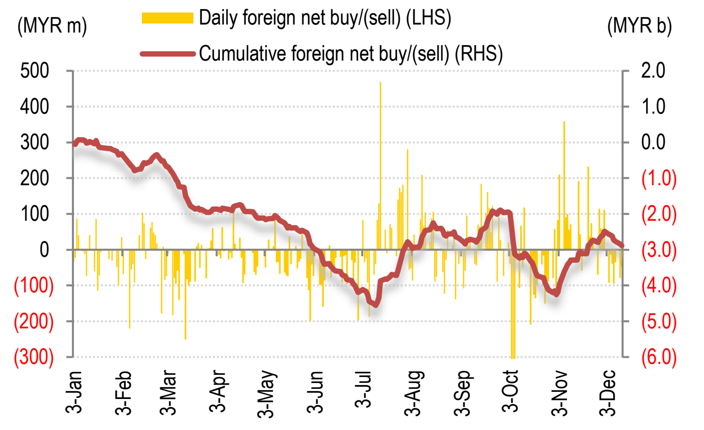
Source: Maybank IBG Research

Foreign flow reversed in 1H, turned more positive in 2H

Foreign investors, whom were buyers of Malaysia equities in 2022 with a net inflow of MYR4.4b, reversed their position as they exited in 1H 2023, before turning net buyers again in Jul-Sep, and again in Nov (net selling in Oct). In Dec (till 12 Dec), they were small net sellers. In total, foreign investors were net sellers at MYR2.89b in 2023 (as of 12 Dec). Their selling, for most part of the year, was largely focused on the Bank stocks (CIMB, RHB, HL Bank, Public), Petrochem (Petronas Chem) and Gloves (Top Glove, Hartalega). Selected stocks gained foreign interests; top 5 net buys (in order of values) were YTL Power, YTL Corp, Gamuda, Maybank and M'sia Airports. Compared to the region, Malaysia's foreign net sell at USD0.64b for 2023 (till 12 Dec) was behind that of its ASEAN peers - Thailand (-USD5.67b), Indonesia (-USD0.98b), Philippines (-USD0.85b) and Vietnam (-USD0.82b). As a ratio of market capitalisation, Malaysia's cumulative foreign net sell for the past 12M of -0.2% is below Thailand's -1.1% and Philippines' -0.4% (ahead of Indonesia's -0.1%).

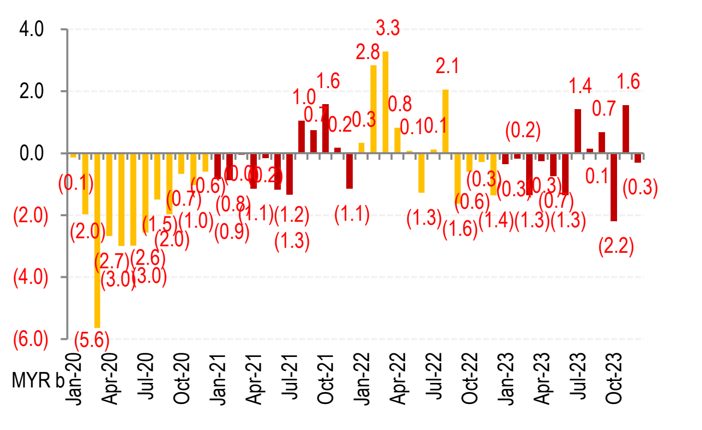
Market foreign shareholding retraced to 19.6% as at 30 Nov 2023, down 1ppt from end-2022. Throughout 11M 2023, market foreign shareholding touched 19.5% (end-Sep/Oct), which is a new low since the global financial crisis (GFC).

Fig 9: Daily & cumulative foreign net buy/(sell) since early-2023 (till 12 Dec, MYR m/b)



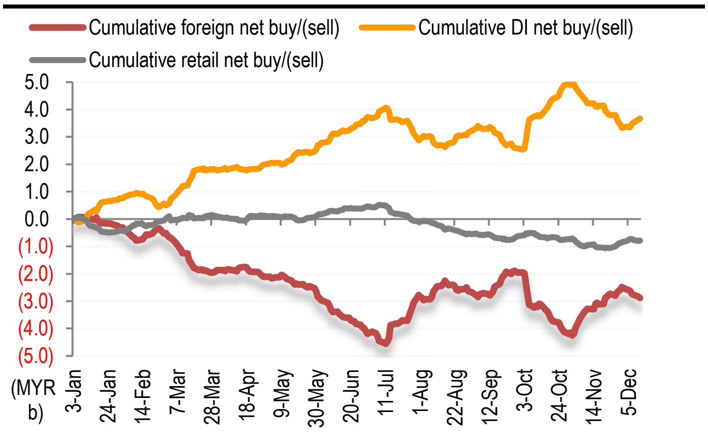
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 10: Monthly foreign net buy/(sell) since early-2020 (till 12 Dec 2023, MYR b)



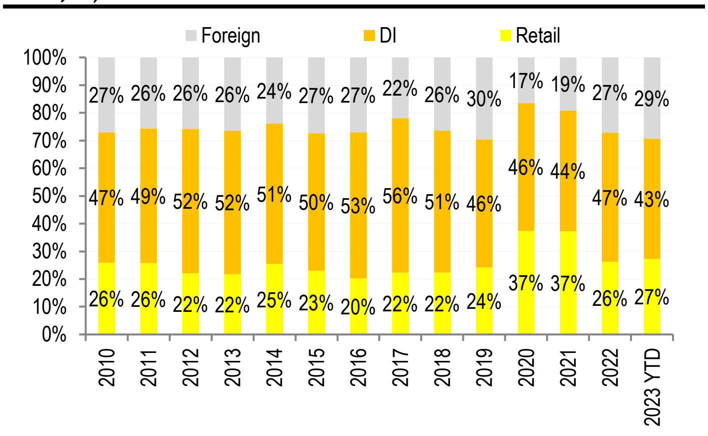
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 11: Cumulative foreign, domestic institutions and retail net buy/(sell) of MY equities in 2023 YTD (till 12 Dec, MYR b)



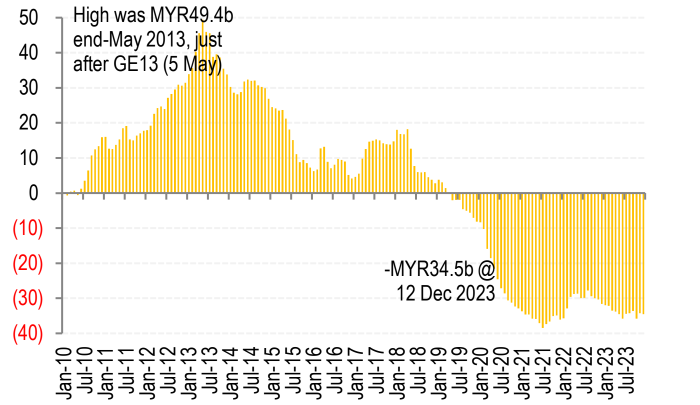
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 12: Foreign vs. domestic institutions vs. domestic retail participation in equity trades since early-2010 (and for 11M 2023, %)



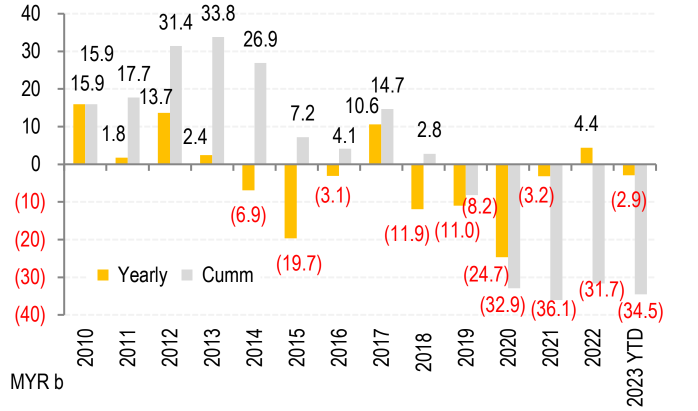
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 13: Cumulative monthly foreign net buy since early-2010 (MYR b)



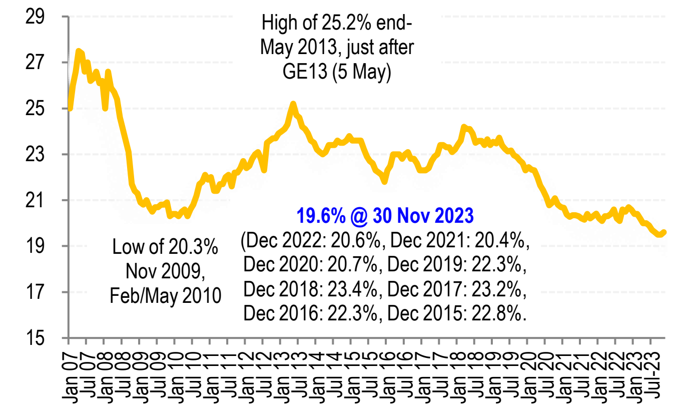
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 14: Yearly & cumulative foreign net buy/(sell) since early-2010 (till 12 Dec 2023, MYR b)



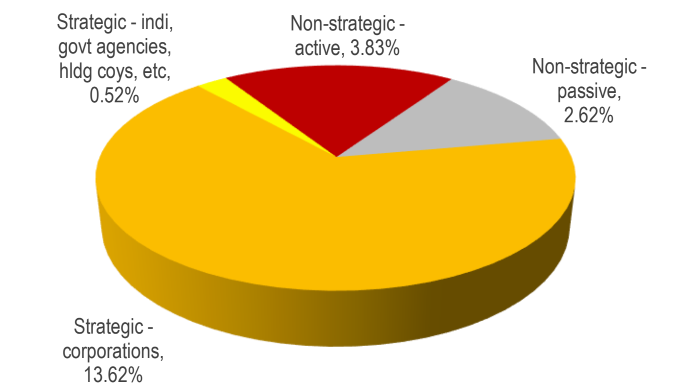
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 15: Foreign holding in MY equities (by market capitalisation) (%)



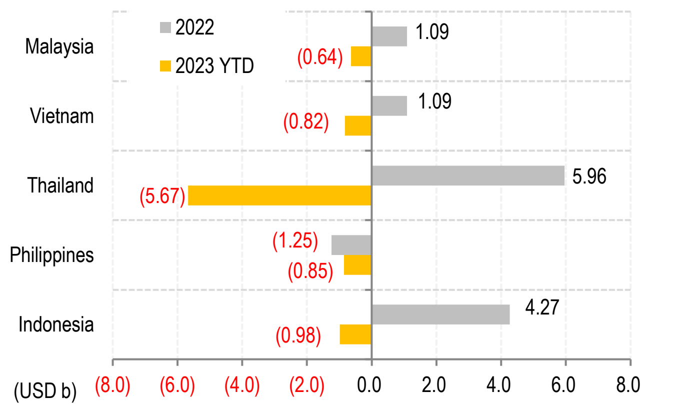
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 16: Composition of foreign holding in MY equities of 20.58% as at end-Sep 2022, latest available (%)



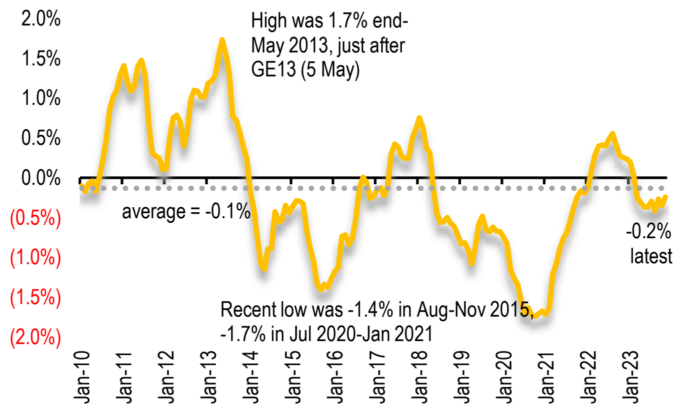
Source: Securities Commission, Maybank IBG Research (chart)

Fig 17: Foreign net buy/(sell) in ASEAN markets, in 2023 YTD (till 12 Dec, USD b)



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

Fig 18: Malaysia equities' rolling 12M foreign net buy/(sell) value as a % of market capitalisation (till 12 Dec 2023)



Source: Bursa Malaysia, Bloomberg, Maybank IBG Research (calculation, chart)

Fig 19: Top 20 stocks bought/(sold) by foreign investors in 2023 YTD (Jan to 12 Dec)

Rank	Stock name	Value of net buy (MYR)	% of MYR2,888m foreign net sell	Stock name	Value of net sell (MYR)	% of MYR2,888m foreign net sell
	|---------------------- NET BUY ----------------------|			|---------------------- NET SELL ---------------------|		
1	YTLPOWR	919,814,610	(31.8%)	CIMB	(1,035,701,732)	35.9%
2	YTL	859,589,962	(29.8%)	RHBBANK	(952,491,442)	33.0%
3	GAMUDA	645,406,282	(22.3%)	PCHEM	(924,114,083)	32.0%
4	MAYBANK	600,148,521	(20.8%)	HLBANK	(770,918,527)	26.7%
5	AIRPORT	394,682,494	(13.7%)	PBBANK	(729,712,168)	25.3%
6	FRONTKN	277,376,731	(9.6%)	NESTLE	(529,045,172)	18.3%
7	SIMEPROP	274,212,679	(9.5%)	GENM	(304,285,520)	10.5%
8	SPSETIA	264,865,882	(9.2%)	TOPGLOV	(284,950,699)	9.9%
9	BPLANT	234,291,164	(8.1%)	IHH	(275,758,996)	9.5%
10	MAXIS	227,569,508	(7.9%)	AXIATA	(258,569,057)	9.0%
11	INARI	217,412,727	(7.5%)	TIMECOM	(251,944,134)	8.7%
12	UTDPLT	200,061,705	(6.9%)	HLFG	(243,150,124)	8.4%
13	KLK	169,903,051	(5.9%)	HARTA	(235,732,301)	8.2%
14	CDB	165,952,768	(5.7%)	PPB	(180,441,592)	6.2%
15	VELESTO	164,721,609	(5.7%)	HAPSENG	(158,162,256)	5.5%
16	TENAGA	152,596,303	(5.3%)	YINSON	(155,244,596)	5.4%
17	KPJ	141,756,821	(4.9%)	SUNREIT	(150,779,961)	5.2%
18	IJM	141,377,755	(4.9%)	SIME	(149,637,503)	5.2%
19	MISC	124,637,327	(4.3%)	PMETAL	(141,442,921)	4.9%
20	MRDIY	116,875,435	(4.0%)	DIALOG	(141,120,435)	4.9%

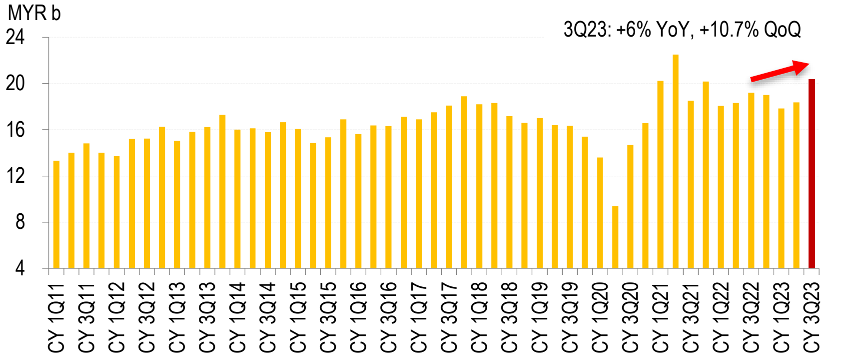
Source: Dibots, Maybank IBG Research (analysis)

Earnings momentum picked up pace, especially in 3Q

Earnings momentum softened further in 1Q23 as core net profit of our research universe was down both YoY (-1.2%) and QoQ (-6.1%), the 2nd consecutive quarter of both YoY/QoQ earnings decline. Earnings momentum regained some composure in 2Q23 (+0.4% YoY, +3% QoQ) and picked up speed in 3Q23 (+6% YoY, +10.7% QoQ), leading to 9M23 core earnings being a tad higher, +1.8% YoY. Two key sectors dragged down our universe 9M core earnings: Petrochems (-83% YoY) and Plantation (-57% YoY) due to lower ASPs. Banks' core earnings rose +16%; also strong were Utilities (+12%), Shipping/Port (+41%), Gaming (+2.5x), Auto (+19%). Telcos core earnings was flat, Aviation losses narrowed sharply, and Gloves fell into the red. Consistent with the improvement in earnings delivery in 3Q23, the ratio of earnings miss-to-beat (vs. our forecasts) continued to trend lower at 1.3x in 3Q, compared to 2.2x in the 2Q results reporting, and 3.7x in 1Q.

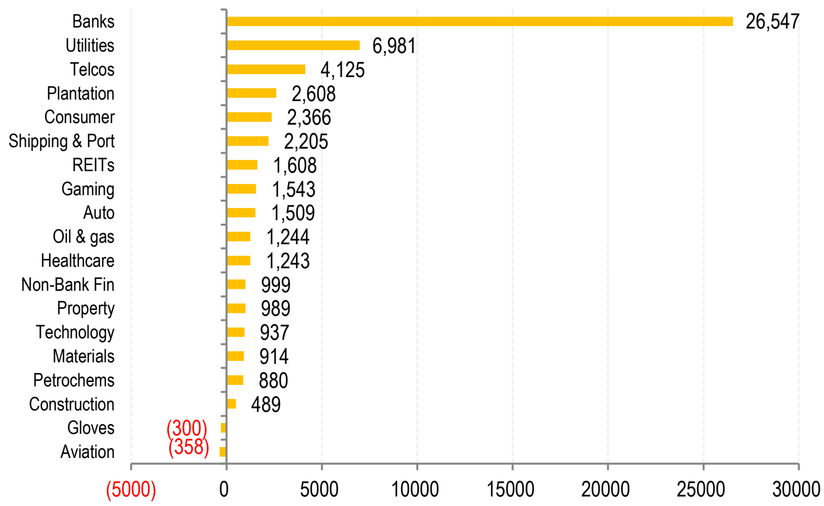
Since the start of 2023, we have lowered 2023E core earnings of our research universe by a total 10%. Consequently, our latest forecasts are for our universe core earnings to grow +2.7% YoY in 2023E (vs. +16% YoY forecast in early-2023). To note that our Macro Research Team has also trimmed Malaysia's 2023 real GDP growth forecast to +3.9% for 2023E (vs. +4.0% forecast in early-2023). The seemingly wide disparity between our GDP and universe earnings downgrades for 2023E was mainly due to lower ASPs at Petrochems and Plantation, with a direct hit to the bottomline of the affected PLCs.

Fig 20: Quarterly core net profit of research universe (PLCs with quarters ended Aug/Sep 2023)



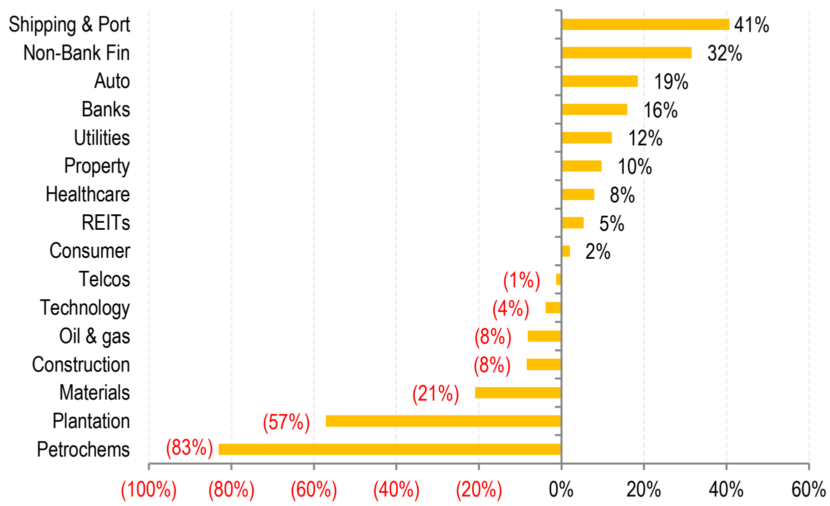
Note: Exclude stocks with FYE Jan, Apr, Jul, Oct, i.e. Gamuda, Yinson, ECW, EWI, MyNews, BAuto, Astro, Cypark, VSI, Aurelius, VSI; Source: Maybank IBG Research

Fig 21: 9M23 core profit of research universe (Aug/Sep 2023 qtrs) - MYRm



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

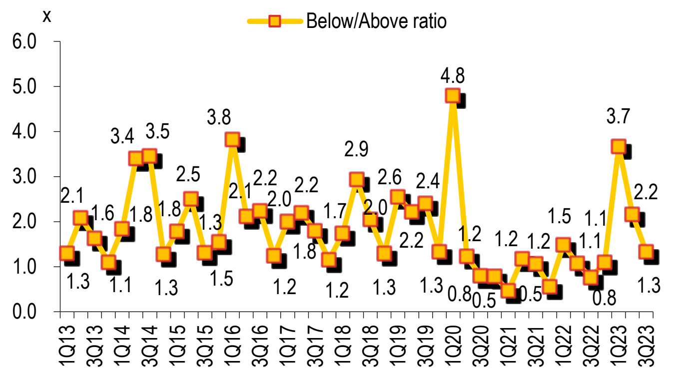
Fig 22: 9M23 core profit of research universe (Aug/Sep 2023 qtrs) - % YoY



Note: Aviation's losses shrunk 89% YoY in 9M23; Gloves fell into losses in 9M23 (vs. profit in 9M22); Gaming's core profit rose +2.5x YoY.

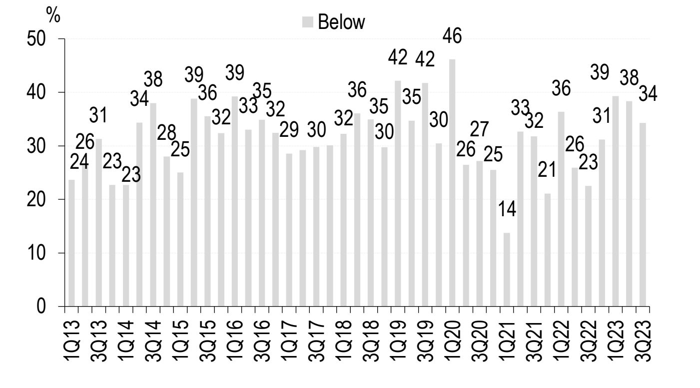
Note: Excl. stocks with FYE Jan, Apr, Jul, Oct; Source: Company, Maybank IBG Research

Fig 23: Below-to-above expectation ratio (research universe)



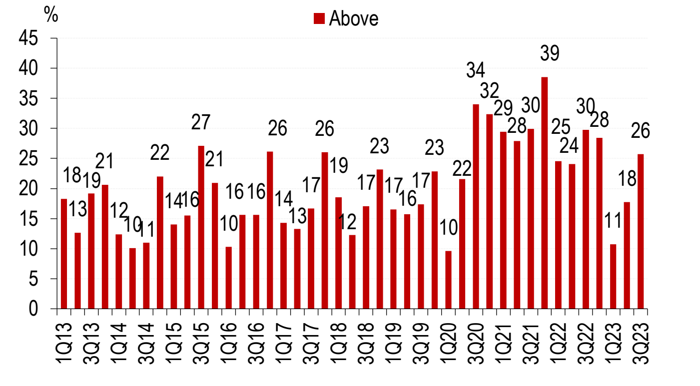
Source: Company results data, Maybank IBG Research

Fig 24: Below expectation (% of research universe)



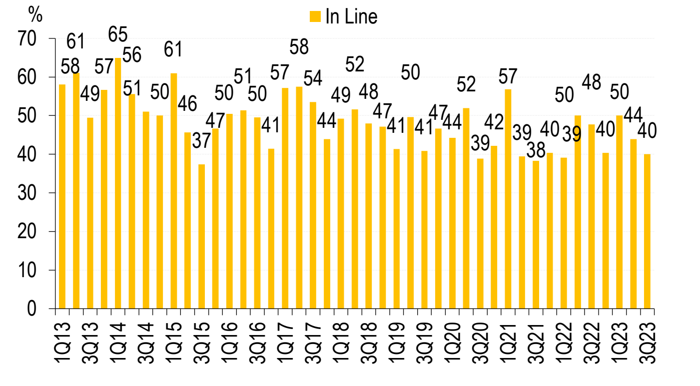
Source: Company results data, Maybank IBG Research

Fig 25: Above expectation (% of research universe)



Source: Company results data, Maybank IBG Research

Fig 26: In-line (% of research universe)



Source: Company results data, Maybank IBG Research

Fig 27: Research universe core earnings growth

	2022A	2023E	2024E
Maybank IBG's Research Universe			
Earnings Growth (%) - as of 12 Dec '23	(4.5%)	2.7%	15.8%
Earnings Growth (%) - early-Sep '23	(1.2%)	5.1%	16.5%
Earnings Growth (%) - early-Jun '23	(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 IBG's Research Universe (ex-Glove stocks)			
Earnings Growth (%) - as of 12 Dec '23	9.7%	4.4%	15.2%
Earnings Growth (%) - early-Sep '23	14.2%	7.2%	15.8%
Earnings Growth (%) - early-Jun '23	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

2024 OUTLOOK & LOOKOUTS

Slower global growth, but green shoots in ASEAN

Our Macro Research Team expects global real GDP growth to decelerate to +2.8% in 2024E (2023E: +3.3%). 2024E's growth deceleration will be led by the US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%) with tepid growth still in the EU (2024E: +0.9%; 2023E: +0.6%). However, recent data do suggest that green shoots are sprouting in ASEAN's exports and manufacturing, brightening their growth outlook in 2024. The catalysts are: 1) aggressive US fiscal spending and generous subsidies for semiconductors and electric vehicles (EV), 2) normalisation in global consumer spending towards goods, 3) a replacement tech cycle, 4) falling US inventories, and 5) an AI boom. We thus expect ASEAN-6's economic growth to accelerate to +4.7% in 2024E from +4% in 2023E. For Malaysia, we forecast a quicker +4.4% real GDP growth in 2024E, picking up from +3.9% in 2023E.

[*Please refer to our ASEAN Macro's 2024 Year Ahead report, "Green Shoots in a Fragmented World", 11 Dec 2023 for detailed read.*]

Fig 28: ASEAN & Major Economies GDP Forecast, 2021 – 2025F

	2021	2022	2023F	2024F	2025F
Indonesia	3.7	5.3	5.0	5.1	5.2
Malaysia	3.3	8.7	3.9	4.4	5.0
Philippines	5.7	7.6	5.8	6.5	6.2
Singapore	8.9	3.6	1.1	2.2	2.1
Thailand	1.5	2.6	2.3	3.6	3.8
Vietnam	2.6	8.0	4.8	5.8	6.2
ASEAN 5 (excl. SG)	**3.4**	**6.0**	**4.5**	**5.0**	**5.2**
ASEAN 6	**4.1**	**5.7**	**4.0**	**4.7**	**4.8**
US	5.8	1.9	2.2	1.0	1.8
EU	5.9	3.4	0.6	0.9	1.6
China	8.4	3.0	5.2	4.4	4.5

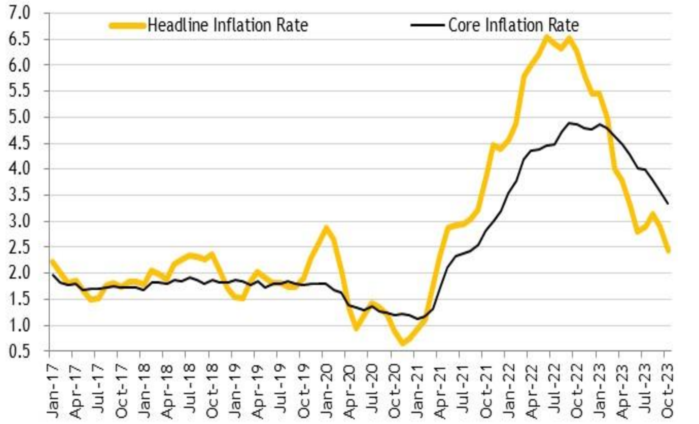
Source: CEIC, Maybank IBG Research (for Forecast), EUStat (for EU historical data)

Tail-end of global monetary policy tightening

After raising the FFR by a total 100bps in 2023 (2022: +425bps), our Macro Research Team sees a "hold-for-longer" position by the US Fed (the last change was a 25bps hike to a 22-year high of 5.25%-5.5% at the 25-26 Jul 2023 FOMC meeting; pause in the last 3 meetings for 2023, in Sep, Nov, Dec). Our readings from the FOMC statement dated 1 Nov 2023 are that while the US job market remains strong and unemployment rate remains low, that job gains "have moderated since earlier in the year" do suggest progress in cooling the job market. Further, "tighter financial and credit conditions for households and businesses …" implies US Fed's acknowledgement that the rise in market interest rates are assisting the impact of transmission mechanism of US Fed's monetary policy tightening on the economy.

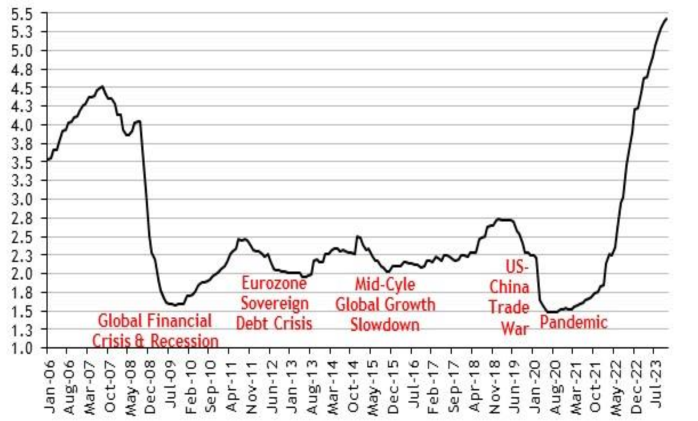
Globally, inflation rates have peaked and are moderating. As inflation slows, benchmark interest rates have also peaked and central banks are broadly on pause mode, signaling the end of the hike cycle. The debate on monetary policy has shifted to "hold for how long?" now. Market implied policy interest rates are signaling major central banks' benchmark interest rates – i.e. US Fed, ECB, BoE - will be cut by between -75bps to as much as -150 bps – and thus fairly early - in 2024. The outlier is Japan, where BoJ is expected to start normalizing from its ultra-easy monetary policy stance. Specifically for US FFR, our estimates are for a 75bps cut in 2024 (from 2H), bringing the target FFR range to 4.5%-4.75% by YE.

Fig 29: Weighted average headline and core inflation rates of selected economies (% YoY)



Note: Average for US, Eurozone, UK, Japan, BRIC, Asian NIEs and ASEAN-6 weighted by the respective country's GDP
Source: Maybank IBG Research

Fig 30: Weighted average global benchmark interest rate (% p.a.)



Note: Average of benchmark interest rates of 34 central banks weighted by the respective country's GDP
Source: Maybank IBG Research

Fig 31: Major advanced economies & ASEAN-6: Benchmark interest rates, 2021-2025 (% p.a.)

	2021	2022	2023F	2024F	2025F
US	0.00-0.25	4.25-4.50	5.25-5.50	4.50-4.75	3.50-3.75
EU	(0.50)	2.00	4.00	3.50	2.75
Japan	(0.10)	(0.10)	(0.10)	0.00	0.25
UK	0.25	3.50	5.25	4.50	3.75
China	0.44	4.25	3.35	3.00	3.00
Indonesia	3.50	5.50	6.00	5.25	4.75
Malaysia	1.75	2.75	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	5.75	4.75
Singapore	0.19	3.10	3.80	3.25	2.60
Thailand	0.50	1.25	2.50	2.25	2.00
Vietnam	4.00	6.00	4.50	4.50	4.50

Sources: CEIC, Maybank IBG Research

Crude oil prices to be range bound, but remain elevated

We expect crude oil prices to remain elevated into 2024 and forecast an average of USD80/bbl for Brent crude in 2024E versus USD82/bbl in 2023 YTD (till 12 Dec). This is premised on an inverse supply-demand gap (ie. supply deficit) expected for 2024 – the US Energy Information Administration (EIA), in its Dec 2023 Short-Term Energy Outlook (STEO), forecasts a demand-above-supply gap of 0.15mbpd in 2024 (vs. 0.62mbpd supply-over-demand in 2023E) - amid expectations for record-high crude oil consumption of 102.3mbpd in 2024 (vs. 101mpd in 2023E). On the supply side, our thoughts are for OPEC+ to continue prioritising a balance in oil prices; since Nov 2022, it has, together with its allies, engaged in several rounds of production cuts (*more in the O&G Sector write-up in the latter half of this report*).

Going forward, we expect further output cuts from OPEC+ if oil prices do not hold above USD75/bbl, providing some support in prices ahead. While in the past, the tight oil markets were relieved by using excess production capacity, drawing on inventory, or increasing short-cycle output (US shale), markets have yet to find sustainable breathing room that would ease the supply concerns, in our view.

Fig 32: Production & consumption of crude oil estimates for 2022-2024E

Production (mbpd)	2022				2023E				2024E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023E	2024E
Total OPEC	33.74	33.76	34.7	34.44	33.95	33.69	32.85	33.11	32.6	33.21	33.4	33.24	34.17	33.4	33.11
Total Non-OPEC	65.22	65.10	66.18	66.76	67.16	67.77	68.80	69.13	68.60	68.86	69.31	69.55	65.82	68.22	69.08
Total World Production	**98.96**	**98.86**	**100.88**	**101.20**	**101.11**	**101.46**	**101.65**	**102.24**	**101.20**	**102.07**	**102.71**	**102.79**	**99.99**	**101.62**	**102.19**
OPEC / World (%)	34%	34%	34%	34%	34%	33%	32%	32%	32%	33%	33%	32%	34%	33%	32%

Consumption (mbpd)	2022				2023E				2024E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023E	2024E
OECD	45.63	45.11	46.22	45.68	45.28	45.71	46.23	46.32	45.95	45.49	46.15	46.21	45.66	45.89	45.95
Non-OECD	52.82	53.48	53.80	53.86	54.67	55.19	55.27	55.30	56.05	56.55	56.50	56.46	53.49	55.11	56.39
Total World Consumption	**98.45**	**98.59**	**100.01**	**99.53**	**99.95**	**100.90**	**101.49**	**101.62**	**102.00**	**102.04**	**102.65**	**102.67**	**99.15**	**101.00**	**102.34**
Net surplus/(deficit)	0.51	0.27	0.87	1.67	1.16	0.56	0.16	0.62	-0.80	0.03	0.06	0.12	0.84	0.62	-0.15

Source: EIA

MYR to regain strength amid growth, fiscal reforms

After rising by as much as 3.4% in early-Oct 2023, the DXY index (for USD) has since given up almost all its gains (+0.3% 2023 YTD, as of 12 Dec) with its retracement more pronounced after the 30 Oct-1 Nov US FOMC meeting which left the target FFR unchanged (at the 5.25%-5.5% range). Into 2024, our FX Research Team expects a bumpy USD down-trend as the US and global economy slow, and US inflation eases gradually. Speculation and shifting of expectations on the timing and magnitude of US Fed's rate cuts, as well as up/downside surprises to US' economic data could however keep the USD buoyant. Against most major currencies, the MYR could regain some strength supported by an uptick in economic growth rate, fiscal reforms and as deliveries under the macro blueprints announced in 2023 get underway. Our FX Research Team expects USDMYR to end the year (2024) at 4.400.

Fig 33: DXY and MYR's expected direction

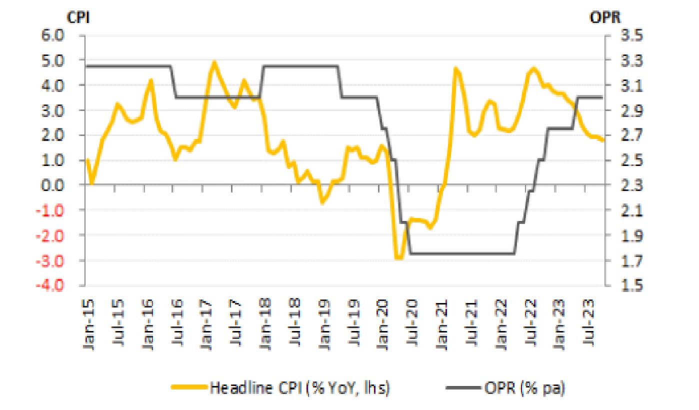
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
DXY Index	103.92	103.57	102.43	101.59	100.63	99.65	99.65	97.91	97.28
USD/MYR	4.7000	4.7000	4.6000	4.5000	4.4000	4.3500	4.3000	4.2500	4.2000
SGD/MYR	3.48	3.48	3.42	3.36	3.30	3.27	3.23	3.22	3.21
JPY/MYR	3.13	3.13	3.17	3.21	3.24	3.35	3.31	3.40	3.50
EUR/MYR	5.12	5.15	5.06	4.97	4.88	4.87	4.82	4.85	4.79
GBP/MYR	5.83	5.83	5.75	5.63	5.50	5.46	5.40	5.36	5.33
AUD/MYR	3.06	3.10	3.13	3.15	3.08	3.13	3.10	3.15	3.11

Source: Maybank IBG FX Research

Bank Negara to pause on interest rates

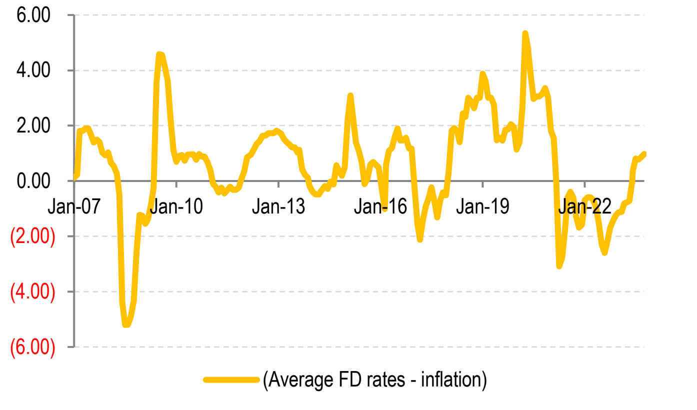
Our base case is for the OPR to stay at the 3.00% level throughout 2024. Having put through 100bps of hikes in 2022 and a further 25bps increase on 3 May 2023, our Macro Research Team expects no further rate hikes ahead, to balance between downside risk to slower growth and higher inflation forecast in 2024. Both headline and core inflation have eased to +1.8% YoY and +2.4% YoY respectively in Oct 2023, bringing 10M 2023 headline and core inflation to +2.7% YoY (2022: +3.3%) and +3.2% (2022: +3.0%). Our 2024 headline inflation forecast is +3.0% (2023E: +2.6%) pending more details on Budget 2024 measures especially that relating to the removal of price control and subsidies (quantum and timing) for eggs and fuel (diesel & RON95 petrol) and service tax hike from 6% to 8%, amongst others.

Fig 34: Malaysia's headline inflation and OPR (%)



Source: CEIC, Maybank IBG Research

Fig 35: Differential between average fixed deposit rates and inflation



Source: Bank Negara, Maybank IBG Research

Fig 36: Monetary Policy Committee Statement & GDP release dates in 2024

|----------------- 1H 2024 ----------------|		|----------------- 2H 2024 ---------------|	
24 Jan	MPC Statement	11 Jul	MPC Statement
16 Feb	4Q 2023 GDP	16 Aug	2Q 2024 GDP
7 Mar	MPC Statement	5 Sep	MPC Statement
9 May	MPC Statement	6 Nov	MPC Statement
17 May	1Q 2024 GDP	15 Nov	3Q 2024 GDP

Source: Bank Negara

Macro blueprints, and key policy decisions

As highlighted by our Macro Research Team in their report, "*Malaysia's Macro Watch: 2024 "Take Off" after 2023 "Transition"...?, 25 Nov 2023*", 2024 will be a year of "take off" for Malaysia in terms of execution and implementation of the blueprints announced in 2023 for the "transition" of the economy via reforms and restructuring. This considers that the Government has a "political runway" of 4 years before the next general election (GE16) which is not due until within 60 days of 18 Dec 2027 - when the current Parliament automatically dissolves. Key lookouts on this front, in 2024, in our view, are:

- ***Fiscal reforms***, in particular, implementation of targeted subsidy roll-back. Budget 2024 stated that the roll-out of targeted fuel subsidy rationalisation will start with diesel due to serious issue of leakages which is reported to be up to MYR10b p.a. The Economics Minister had further announced on 27 Nov 2023 that a new RON95 petrol subsidy programme will be introduced in mid-2024 to replace the existing blanket policy. The lookout here is on the inflationary impact of this fuel (diesel & pump petrol) subsidy roll-back. Our headline inflation forecast of +3.0% (2023E: +2.6%) may have upside risk.

- ***Economic restructuring***, in particular, labour market policy intervention i.e. Progressive Wage System (PWS). The policy was presented to the Parliament on 30 Nov 2023 as a White Paper with a pilot run to begin in Jun 2024 involving 1,000 companies that meet the requirements. The impact of the pilot run will be evaluated in Sep 2024, before its implementation (*source: "'Strong support' for progressive wage model", The Star, 29 Nov 2023*).

- ***Financial guarantee as a % of GDP***, at not more than 25%, under the newly passed Public Finance and Fiscal Responsibility Act. The ratio was 17.2% as of end-Jun 2023 (*source: 2024 Fiscal Outlook*). Based on the preceding four quarters' (4Q 2022 – 3Q 2023) nominal GDP figures which totaled MYR1.81tr, this would imply a headroom of MYR134b, we estimate. The infrastructure sector has been the highest government guarantee (GG) recipient at 57.5% as at mid-2023, mainly for public transportation projects like the KVMRT, ECRL, KVLRT and highways; services segment the 2nd largest at 28.8%, particularly for education, housing and finance. The lookout in 2024 (and even beyond) is the deployment of this headroom, as accorded by the new Act.

Fig 37: Fiscal targets under Public Finance and Fiscal Responsibility Act

Fiscal objectives	Quantified values
Annual development expenditure incurred as a percentage of gross domestic product	>/= 3%
Fiscal balance as a percentage of gross domestic product	</= -3%
Debt level as a percentage of gross domestic product	</= 60%
Financial guarantee as a percentage of gross domestic product	</= 25%

Source: Public Finance and Fiscal Responsibility Act

In addition, we list the following blueprints, legislative and other macro lookouts in 2024:

- ***Johor-SG Special Economic Zone***. Malaysia and Singapore are scheduled to ink a Memorandum of Understanding (MoU) on 11 Jan 2024, relating to the Johor-SG Special Economic Zone (JSSEZ). At the 10th SG-MY Leaders' Retreat on 30 Oct 2023, both Prime Ministers said that a joint feasibility study will be undertaken, leading to the MoU. The JSSEZ will improve the flow of goods and people between both sides of the Causeway, and enhance the ecosystem of the Iskandar development region and Singapore. Considerations of the joint feasibility study, we believe, could involve special taxes, bonded warehouses, and immigration arrangements. The JSSEZ, in our view, will be catalytic in terms of FDIs, and infrastructure developments especially in Johor state. The Johor state itself hopes that a JSSEZ agreement can be sealed no later than 6 months from 11 Jan 2024, and implementation in early-2025.

- ***Government Procurement Act***, which is expected to be tabled in Parliament in 2Q 2024. Overall, we think that the Act will be positive in firming up a "fair" competing environment in securing Government contracts. With this Act, negotiated contracts should be a thing of the past. However, we are unsure on whether and/or how this new Act will apply to "concession" and public-private partnership (PPP) type of arrangements which normally have a long gestation period to break-even and need substantial investments by the private sector.

- ***Establishment of a renewable energy (RE) exchange*** as a marketplace and aggregator for RE pricing and trade, both domestically and cross-border. Here, we think that with pricing and possibly some level of off-take being addressed via the exchange, this could lead to more certainty in ROIs for the existing and upcoming asset owners to invest in new RE projects, in particular, solar and waste-to-energy (WTE). Our key question is whether this exchange precludes Sarawak which is negotiating directly with Singapore on the export of hydro power. Sarawak's Premier has been reported in the press as saying that the state has the potential to generate 20GW from hydro power and wants to "share" this abundant power with its neighbours, including Singapore and Indonesia (*source: "Sarawak plans undersea power transmission to the peninsula and Singapore", The Edge, 6 Dec 2023*).

- ***Next installment of the National Automotive Policy (NAP).*** We expect the upcoming NAP to focus on establishing an EV ecosystem that would spur investments and support the mass demand for EVs. The latter could involve incentives for EVs as replacement for ICE vehicles, in view that the Transport Minister has recently clarified that an end-of-life vehicle policy is impractical for now considering the people's living needs (*source: "No plans for end-of-life vehicle policy to remove old vehicles, says Loke", The Star, 24 Oct 2023*).
- ***High-Growth High-Value blueprint for technology and digital-based industries.*** The Ministry of Economy is slated to launch the High-Growth High-Value (HGHV) blueprint for technology and digital-based industries in Feb 2024. The blueprint would include intensifying the development of Malaysia's start-ups and attracting global technology companies to Malaysia, and it will also complement two other blueprints for the other HGHV industries which have since been launched – NETR for energy transition-based industry, and NIMP2030 for the E&E industry (*source: "Rafizi: High-growth high-value blueprint for technology and digital-based industry to be launched in February 2024", Malay Mail, 30 Oct 2023*).

Apart from the above, we will also be on the lookout for developments relating to ***Thailand's Land Bridge proposal*** to build 2 deep seaports on each side of the Kra Isthmus, to be connected by rail and roads (e.USD35b-USD36b total cost). Construction is targeted to start in 2025 and be fully operational by 2039. Although the impact on Malaysia's ports in particular will not be over the next decade or so, Thailand's proposal may affect the planning of Malaysia's development for its ports for the long term, especially the proposed Pulau Carey deep sea port at Port Klang.

Sector specific lookouts

We highlight below lookouts specific to the sectors and our thoughts. Further details are in the Sector Outlook section of this report.

Fig 38: Sector specific lookouts in 2024

Sector	Lookouts	Comments
Auto	National Automotive Policy (NAP)	Following the last "update" in 2020, we anticipate that the upcoming version of the NAP will enhance policy focus and support for the EV ecosystem, aligning with the NETR and NIMP2030. This includes the formulation of regulations for Electric Two-Wheelers (E2WL), guidelines for standardizing EV infrastructure, etc. Additionally, we anticipate measures such as vehicle inspection, coupled with specific incentives to encourage the adoption of EVs as replacements for ICE vehicles.
Aviation	New Operating Agreement	Details of the new Operating Agreement for MAHB ought to be released in 1H24 after the third consultation paper by Malaysian Aviation Commission is published. Recall that MAVCOM proposed two Regulatory Periods (RP): RP1 will take place from 2024 to 2026, and RP2 ostensibly from 2027 to 2029. During RP1, MAVCOM had proposed: (i) holding tariffs constant in real terms; and (ii) instituting a loss and profit-sharing mechanism. During RP2, MAVCOM had proposed that MAHB adopts the Regulated Asset Base model. If executed soon, MAHB is still hopeful that a new OA can be implemented within 1H24.
Banks	Launch of the Digital Banks	Todate, GXS Bank, which is jointly owned by GRAB/Singtel, has commenced operations. The other four digital banks are in various stages of readiness and have until Apr 2024 to launch their operations. While we do not expect these digital banks to be much of a threat to the incumbent banks, the level of competition that they pose will be closely monitored.

Source: Maybank IBG Research

Fig 38: Sector specific lookouts in 2024 (continued)

Sector	Lookouts	Comments
Construction	Decisions on major rail projects	This refers to: (i) KVMRT3, where the validity of tender has been extended again (4x) to Mar 2024, by MRT Corp; (ii) Bayan Lepas LRT, where MRT Corp is believed to be driving a feasibility study to potentially extend the main line (via two spur lines) to the mainland (to end at Penang Sentral) and/or Tj Bungah (on the island); (iii) KL-SG HSR, where the Request for Information (to solicit concept proposals) has been extended to 15 Jan 2024 by MyHSR Corp. That said, we do not expect a decision on the KL-SG HSR to be reached in 2024 (although news flow will remain aplenty) considering that formal discussions with Singapore have yet to re-start. Related to rail infrastructure, Johor has identified 3 LRT lines totaling 30km in JB to complement the JB-SG RTS Link. However, a thorough study is still needed before Federal Government's approval is sought. (*Source: "State identifies three LRT lines for Johor Baru", The Star, 27 Nov 2023*)
Consumer	Potential lift in egg price control	With the lift in chicken price control on 1 Nov 2023, egg price control is likely to be removed in 2024, consistent with the Government's Budget 2024 announcement for the removal of poultry price controls and subsidies for better national food security.
Gaming-Casinos	Thailand liberalizing casinos	Thailand is mulling legalizing up to 5 'entertainment complexes' that will feature casinos. While a long way off, we are wary that these 'entertainment complexes' may erode Malaysia and Singapore's integrated resorts' appeal to tourists especially Chinese ones. Thailand's House of Representatives established a new 60-member committee to consider the possibility of developing the nation's first legal casinos on 27 Oct 2023. The committee has 90 days to complete its task.
Plantation	Plantation tax review	The Government is conducting a comprehensive study on taxes in the palm oil sector and hopes to complete the study sometime in 2024. Among others, planters are asking for a review of the plantation sector's windfall profit levy. At present, a levy of 3% is chargeable (on per tonne of FFB) on CPO prices above the MYR3,000/t threshold in Peninsular Malaysia and above the MYR3,500/t threshold in East Malaysia. Lower levies will help boost the bottom line of planters while helping them to build a war-chest for the much needed capex in replanting the industry's ageing oil palm trees.
Property	Build-then-sell (BTS) concept	The Local Government Development Minister has been quoted as saying (in Oct 2023) that the Ministry is looking to introduce incentives for the build-then-sell concept for residential development, to reduce abandoned and sick projects. The implementation of the BTS concept will not be carried out in a rushed manner; the Ministry will work closely with private developers for a win-win formula.
Renewable Energy	Details on RE export, RE exchange	Although the Government had announced (in early May 2023) the lifting of the RE export ban as part of a policy review to accelerate the growth of Malaysia's green economy industry, the details are pending. We expect the mechanism to be announced by mid-2024 which should also be supported by the establishment of RE exchange system.
Technology	HGHV blueprint for tech & digital-based industries	The Ministry of Economy is slated to launch its High-Growth High-Value (HGHV) blueprint for digital-based industries in Feb 2024. Although details are scant at this juncture, it will likely detail sub-sectoral roadmaps to intensify the development of Malaysia's start-up ecosystem with the aim of turning Malaysia into an attractive investment destination for global technology companies.
Telco	Developments on the 5G front	The Government decided in Mar 2023, to switch to a dual 5G networks model. Details are scant for now, but broadly, the process for a second network (Entity B) will likely only begin in 2024 at the earliest, after the current incumbent DNB achieves 80% population coverage.
Utility	Negotiations of regulatory terms	Petronas Gas' current Gas Processing Agreement (GPA) expires in Dec 2023, and a new 5-year GPA will begin in 2024. Separately, Tenaga enters the final year of its 3-year regulatory period in 2024. Regulatory negotiations have commenced, with a step-up in capex a possibility to cater for RE-related grid investments.
Water	New mechanism for setting water tariffs	A Cabinet Paper on the implementation of a new mechanism for setting water tariffs is being prepared, the Natural Resources, Environment and Climate Change Minister told the Dewan Rakyat on 1 Nov 2023. If adopted by the Cabinet, it would allow water operators in every state to set their own mechanism for fixing water tariffs without referring to the Federal Government for approval.

Source: Maybank IBG Research

MARKET EARNINGS AND VALUATIONS

+15.8% 2024E core earnings growth for our universe

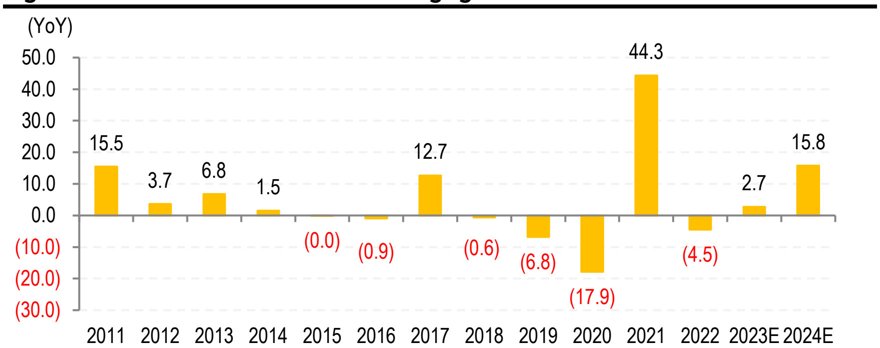
Our forecasts are for core earnings of our research universe to grow a quicker +15.8% in 2024 compared to +2.7% in 2023E. As for the KLCI, we forecast core earnings growth of +11.2% in 2024E compared to an estimated +1.5% in 2023. The core contributors to our market earnings growth estimates in 2024 will be the Banks (+5% YoY), Plantation (+19%), Telco (+18%) and Utilities (+16%) sectors. Continuing from its recovery in 2023E, we expect Gaming-Casino's core earnings to strengthen further in 2024E (+73%); also, Petrochems and Materials earnings to rebound at +118% and +33%, respectively, after their earnings fall in 2023E. We expect Gloves to deliver a small profit in 2024 (after expected losses in 2023E), and Aviation to also return to the black (losses since 2019).

For the largely 'domestic-economy' centric sectors, growth is expected to slow in 2024E compared to 2023E – Consumer, Auto, Gaming-NFOs, Port & Logistics – while Construction and Property earnings growth should pick up. And for the Tech sector, we expect stronger earnings (+21% YoY) contributed by an expected sector-wide recovery in 2H 2024.

As we look back into 2023, where we had started the year on a +16% YoY core earnings growth forecast for our coverage in 2023E, but ending the year on a lower +2.7% growth forecast – thus, we have lowered 2023E core earnings of our research universe by a total -10% - our major misses have been very much in two sectors: Petrochems and Plantation. Excluding these two sectors, our universe core earnings growth was a decently good +15.6% in 2023E. For these two sectors, our key assumptions for 2024E are higher ASPs for Petrochems, and higher CPO yields but lower production costs for Plantation, to off-set our lower industry-wide CPO ASP forecast of MYR3,700/t for 2024E (2023E: MYR3,800/t). (*Please refer to the "2024E core earnings growth (main assumptions)" table – Fig. 41 - for details.*)

Key risks to the earnings growth forecasts for our research universe are: 1) elevated margin pressures [from (i) cost inflation – wages, fuel, utilities, raw/intermediate materials etc; (ii) intense competition, especially from China for the glove makers, etc.); 2) lower-than-expected crude oil prices potentially affecting Oil & Gas activities, and lower-than-expected CPO ASPs directly impacting earnings in the Plantation sector; 3) negative government policies (especially in reference to the regulated sectors - in terms of service/product pricing, lease payments, capex).

Fig 39: Research universe core earnings growth



Source: Maybank IBG Research

Fig 40 (a): Research universe core earnings, growth, PER, P/B and ROE (12 Dec 2023)

	Core earnings (MYR m)				Core earnings gwth (% YoY)				CAGR (%)
Sector	**CY21A**	**CY22A**	**CY23E**	**CY24E**	**CY21A**	**CY22A**	**CY23E**	**CY24E**	**CY22-24E**
Banks	29,195	31,315	34,864	36,741	28.8	7.3	11.3	5.4	8.3
Non-bank Financials	1,143	955	1,218	1,176	(4.3)	(16.4)	27.5	(3.5)	10.9
Consumer	2,358	3,278	3,549	3,784	26.1	39.0	8.3	6.6	7.4
Healthcare	1,654	1,567	1,803	2,019	93.3	(5.2)	15.0	12.0	13.5
Automotive	1,630	2,032	2,230	2,406	3.8	24.6	9.8	7.9	8.8
Construction, Infra	1,317	1,415	1,454	1,631	10.2	7.4	2.8	12.1	7.4
Gaming - NFO	174	293	361	396	(32.3)	68.4	23.4	9.7	16.4
Gaming - Casino	(2,108)	323	1,797	3,102	14.1	NA	456.1	72.6	209.8
Gloves	11,392	1,007	(252)	184	57.1	(91.2)	NA	NA	NM
Materials	1,008	1,415	1,205	1,607	119.3	40.4	(14.8)	33.3	6.6
Media	524	304	277	237	(9.3)	(41.9)	(9.0)	(14.4)	(11.8)
Oil & Gas	1,661	2,181	2,600	3,112	11.2	31.3	19.2	19.7	19.4
Petrochemical	8,263	5,965	987	2,153	313.8	(27.8)	(83.5)	118.2	(39.9)
Plantation	7,471	7,391	4,524	5,400	105.1	(1.1)	(38.8)	19.4	(14.5)
Property - Developer	1,040	1,482	1,634	2,290	18.1	42.4	10.3	40.2	24.3
Property - REIT	1,496	2,071	2,215	2,416	(7.4)	38.5	6.9	9.1	8.0
Renewable Energy	72	99	70	75	(11.0)	37.3	(29.2)	6.5	(13.1)
Technology	1,567	1,613	1,735	2,090	38.0	3.0	7.6	20.5	13.8
Telco	5,189	5,199	5,364	6,341	8.1	0.2	3.2	18.2	10.4
Transport - Aviation	(4,857)	(3,905)	(84)	1,385	(19.4)	(19.6)	(97.8)	NA	NM
Transport - Shipping	1,780	2,074	2,133	2,168	(17.5)	16.5	2.8	1.7	2.2
Transport - Port & Logistic	783	719	819	866	18.7	(8.2)	13.9	5.7	9.7
Utilities	8,192	8,510	8,917	10,383	8.0	3.9	4.8	16.4	10.5
Stocks under coverage	**80,943**	**77,305**	**79,419**	**91,962**	**44.3**	**(4.5)**	**2.7**	**15.8**	**9.1**

Source: Bloomberg pricing, Maybank IBG Research

Fig 40 (b): Research universe core earnings, growth, PER, P/B and ROE (12 Dec 2023) (cont'd)

	PER (x)			P/B (x)			ROE (%)		
Sector	**CY22A**	**CY23E**	**CY24E**	**CY22A**	**CY23E**	**CY24E**	**CY22A**	**CY23E**	**CY24E**
Banks	11.5	10.4	9.8	1.1	1.1	1.0	9.9	10.4	10.4
Non-bank Financials	12.5	9.8	10.2	1.4	1.3	1.2	11.4	13.4	12.0
Consumer	25.5	23.6	22.1	6.6	6.0	5.4	26.0	25.5	24.6
Healthcare	37.1	32.3	28.8	2.0	2.0	2.0	5.5	6.3	6.8
Automotive	13.3	12.1	11.2	1.0	1.0	1.0	7.7	8.3	8.9
Construction, Infra	15.9	15.5	13.8	0.9	0.9	0.9	5.8	5.7	6.2
Gaming - NFO	12.0	9.8	8.9	1.0	1.0	1.0	8.7	10.3	11.0
Gaming - Casino	102.2	18.4	10.6	0.7	0.7	0.7	0.7	4.0	6.7
Gloves	18.2	NM	99.4	1.3	1.4	1.4	7.2	NM	1.4
Materials	28.1	33.0	24.8	6.0	5.4	4.8	21.3	16.4	19.3
Media	7.9	8.7	10.1	1.4	1.3	1.2	17.5	14.7	12.1
Oil & Gas	11.9	9.9	8.3	1.3	1.1	1.0	10.9	11.5	12.2
Petrochemical	10.0	60.2	27.6	1.2	1.2	1.2	11.7	1.9	4.2
Plantation	12.6	20.5	17.2	1.6	1.5	1.5	12.8	7.6	8.6
Property - Developer	17.6	15.9	11.4	0.5	0.5	0.5	2.9	3.3	4.6
Property - REIT	17.3	16.2	14.9	1.0	1.0	0.9	5.8	5.9	6.1
Renewable Energy	16.2	22.9	21.5	1.5	1.5	1.4	9.4	6.7	6.6
Technology	28.7	26.7	22.1	4.3	3.9	3.6	15.1	14.8	16.2
Telco	24.8	24.1	20.4	2.2	2.2	2.2	9.0	9.2	10.6
Transport - Aviation	NM	NM	11.9	NM	29.6	10.1	NM	NM	85.3
Transport - Shipping	15.3	14.8	14.6	0.8	0.8	0.8	5.5	5.6	5.6
Transport - Port & Logistic	17.6	15.5	14.6	3.2	3.1	2.9	18.3	19.7	19.8
Utilities	14.3	13.7	11.8	1.2	1.2	1.1	8.7	8.7	9.6
Stocks under coverage	**16.3**	**15.9**	**13.7**	**1.4**	**1.3**	**1.3**	**8.5**	**8.4**	**9.3**

Source: Bloomberg pricing, Maybank IBG Research

Fig 41: 2024E core earnings growth (main assumptions)

	Growth (%)	Main assumptions
Banks	5.4	(i) 4.6% domestic sector loans growth in 2024E (2023E: +4.6%); (ii) average NIMs to expand 2bps YoY to 2.11% (2023E: -25bps); (iii) average credit costs higher at 25bps in 2024E versus 24bps in 2023E.
Consumer	6.6	(i) Stable product demand for NESZ as consumers shift towards staple F&B based consumption; (ii) sustained growth momentum for QL Resources; (iii) ongoing store expansion plans for MRDIY alongside potential consumer down-trading benefits; (iv) DXN's penetration into high growth markets in Latin America will keep earnings growth momentum positive. **Downside risks:** (i) Further weakness in consumer spending power; (ii) a spike in raw material prices with persistent MYR weakness; (iii) regulatory risks for the tobacco and brewery sectors.
Healthcare	12.0	For KPJ: (i) +6% inpatient volume growth; (ii) average BOR of >70. For Optimax: (i) +2% total surgery volume growth; (ii) +4% revenue from surgery growth.
Automotive	7.9	We anticipate a moderation in Total Industry Volume (TIV) for 2024 to 650k units (compared to an estimated c.775k units for 2023 based on annualized figures). This is expected to result in generally lower core earnings for automotive players. Noteworthy exceptions include BAuto, where Mazda sales are on track to surpass expectations for FY24E, and SIME, benefitting from maiden contributions from various acquisitions completed in FY23E, along with robust overseas contributions. **Upside risks:** Higher-than-expected TIV due to robust product launches pipeline, favourable forex.
Construction, Infra	12.1	Our assumptions, in terms of orderbook replenishment: (i) Gamuda – MYR10b p.a. in FY24-26E, of which MYR4.8b has been secured in FY24-YTD till early-Dec 2023 (outstanding E&C works was MYR25.8b as of early-Dec 2023); (ii) IJM – MYR2b p.a. in FY24-FY26E, of which MYR2.8b has been secured in 1HFY24 (outstanding construction works was MYR6.4b as at end-Sep 2023); (iii) SCGB – MYR2.5b/MYR2.8b/MYR3b in FY23/24/25E of which MYR2.2b has been secured in 9M23 (outstanding orderbook was MYR5.8b end-Sep 2023).
Gaming – NFO	9.7	Assume (i) long-term NFO sales/draw/outlet relative to pre-COVID forecasts of 90% for SPTOTO and 80% for MAG; (ii) long-term prize payout ratio of 60% for SPTOTO (1QFY6/24: 60%) and 62% for MAG (9M23: 66%). **Upside risks:** Better-than-expected enforcement outcome against illegal operators will raise NFO sales/draw/outlet. Every 5ppt increase in NFO sales/draw/outlet relative to pre-COVID for SPTOTO/MAG will add MYR0.15/MYR0.10 to our TP.
Gaming – Casino	72.6	(i) For GENM, FY24E visitor arrival growth of 16% YoY to 24.2m or the FY19A high; (ii) For GENS, forecast FY24E VIP volume and mass market gross gaming revenue to settle at 120% of FY19A levels which will feed into our GENT estimates.
Gloves	NA *	(i) +14% YoY volume growth (2023E: -27%) for stocks under our coverage; (ii) USDMYR average of 4.60; (iii) latex and nitrile cost of MYR4.60/kg and USD0.90/kg respectively (2023E: MYR4.90/kg and USD0.98/kg). **Downside risks:** (i) Unexpected aggressive capacity expansion from Chinese counterparts; (ii) an aggressive pricing strategy from Chinese counterparts due to their relatively lower production costs supported by lower energy costs; (iii) hikes in raw material prices that are unable to be fully passed on; and (iv) prolonged price wars and oversupply issues.
Materials	33.3	Press Metal: (i) based on our average aluminium spot price assumption of USD2,300/tonne; (ii) the group's 30% forward hedge at USD2,500/tonne; and (iii) +30% alumina sales tonnage post-commissioning of its Phase 2 PT-Bintan.
Media	(14.4)	(i) For ASTRO, forecast TV subscription revenue to fall another 8% YoY in FY24 (6MFY1/24: -9% YoY); (ii) For MPR, forecast FY6/25E adex growth of only 5% YoY (FY6/24E: +2% YoY); (iii) USDMYR average of 4.50.
Oil & Gas	19.7%	(i) For Velesto: realised JU rig DCR of USD114k in 2024E (from USD93k in 2023); (ii) For Hibiscus: average realised crude oil prices of USD85/bbl in 2023 and USD80/bbl in 2024, coupled with increased offtake volume assumptions of 7.6m in FY24E (vs. 7.1m in FY23A); (iii) For Icon Offshore: realised OSV DCRs of MYR40.0k in FY24E (vs. MYR38.5k in FY23E); (iv) For Dialog: average independent tank terminal utilisation rate assumption of 90% for FY24E. **Down/Upside risks:** Crude oil price falling below above our average USD80/bbl (Brent) due to: (i) lower-than-expected demand; (ii) OPEC+ group not being able to agree upon future production curtailments as a unit; (iii) PETRONAS reducing domestic capex; (iv) cost-inflationary pressures on the OGSE companies.

** Gloves – expect profits in 2024E vs. losses 2023E*

Source: Maybank IBG Research

Fig 41: 2024E core earnings growth (main assumptions)

	Growth (%)	Main assumptions
Petrochemical	118.2	(i) 10-15% ASP increase for PCHEM, +5% for LCTITAN; (ii) +7% YoY growth in product volumes for PCHEM, +53% for LCTITAN; (iii) factory utilisation of >90.0% for PCHEM (ex-Pengerang), 70.0% for LCTITAN; (iv) -6% average naphtha prices for LCTITAN.
Plantation	19.4	Despite our lower YoY CPO ASP forecast for 2024E at MYR3,700/t (2023E: MYR3,800/t), core earnings growth for the sector will emanate from (i) lower unit costs due to lower fertiliser expenses for 1H24E (vs. 1H23), and (b) improving CPO yield on sufficiency of skilled harvesters, and substantial completion of rehabilitation work done in 2023. **Upside risk:** Stronger crude oil (i.e. Brent) price rebound which will help stimulate demand for discretionary palm biodiesel, weaker Ringgit, and/or weather anomalies at major producing regions. **Downside risk:** Changes in government policies, weak crude oil (i.e. Brent) price, weaker-than-expected demand, stronger-than-expected production, stronger Ringgit, and banking crisis in the West extending into a global crisis.
Property – Developer	40.2	+5-15% YoY higher property sales for the stocks under our coverage except for TILB (-10% YoY) and UEMS (-23%) (2023E: -4% to +111% YoY). **Risks:** (i) Potential introduction of the build-then-sell scheme by the Government may set back developers with financial constraints; (ii) stronger-than-expected property sales driven by better economic growth; (iii) policy risks; (iv) easing of lending measures by the banks; (v) higher-than-expected Liquidated Ascertained Damages (LAD) compensation; and (vi) rising building material costs and labour issues.
Property – REIT	9.1	(i) +3% to +5% rental reversions for retail assets; (ii) +0% to +3% in the office segment which are mostly on long-term leases; (iii) 96%-99% occupancy rates at prime malls (FY24E).
Renewable Energy	6.5	Earnings growth from EPCC orderbook replenishment (Solarvest: MYR600m, Cypark: NA) and income contribution from sale of electricity of newly completed solar/WTE projects.
Technology	20.5	**Semiconductor:** Growth primarily driven by an expected sector-wide recovery in 2H24. This will be underpinned by resilient US demand and the wide-ranging commercialisation of AI-based platforms and applications. On its current trajectory, earnings of our coverage will likely taper and bottom by mid-1H24, but China's uncertain economic recovery remains a wild card that could prolong the slump. Cyclical time-lags imply that companies with front-end exposure (FRCB) are likely to recover first, followed by the back-end (VITRO, GTB). Automation players (GREATEC) with limited exposure to packaging and test-related inventories could see limited downside altogether. Amongst OSATs, INRI is likely be least affected by the downturn, owing to its RF division's strength and underlying exposure to the world's best-selling smartphone brand. **Software:** (i) Favourable structural tailwinds from accommodative government policy in relation to adoption of digital payment mediums and the digitalisation of government and private sector services; and (ii) the normalisation of tourism inflows from increased cross-border travel and general macroeconomic improvements in 2H24 as the global rate tightening cycle approaches its tail-end. **EMS:** Earnings growth is primarily driven by increased production and the delivery of orders as customer inventory levels normalize, along with the commencement of production for new customers. **Downside risks:** (i) Strengthening of MYR vs. USD relative to our blended CY24 base case assumption of MYR4.55; (ii) prolonged downturn in China's macroeconomic fundamentals; (iii) further wage-related and electricity tariff hikes; (iv) abrupt blanket subsidy removals that could adversely impact consumer spending patterns; (v) re-emergence of virus strains that could lead to the re-imposition of pandemic era trade and travel restrictions.
Telco	18.2	(i) Recovery of Axiata's earnings (+43% YoY) from EBITDA growth and lower interest expense; (ii) earnings growth (+41%) at CelcomDigi from realisation of merger synergies; (iii) absence of full DNB lease payments (MYR360m for Maxis and MYR288m per telco for the rest) given timing uncertainty. **Downside risks:** Full DNB payments kicks in, and TM's fibre broadband revenue being impacted by downtrading.

Source: Maybank IBG Research

Fig 41: 2024E core earnings growth (main assumptions)

	Growth (%)	Main assumptions
Transport – Aviation	NA *	(i) For MAHB, we expect Malaysia passenger traffic to average at 93% of pre-COVID levels (international: 85%, domestic: 100%) and Turkey passenger traffic to continue averaging at 3.0m-3.1m p.m. with an international-to-domestic split of 53%:47%; (ii) average jet fuel price of USD100/bbl (2023 YTD: USD105/bbl); (iii) for CAPITALA, we expect it to carry 73.4m passengers group wide which is at par to the FY19A level of 73.7m; (iv) for AAX, we expect Malaysia AirAsia X to carry 4.1m passengers of 68% of FY19A and Thai AirAsia X to carry 2.0m passengers. **Downside risks:** COVID cases climbed again to the extend that travel curb is reinforced again, or emergence of another global pandemic.
Transport – Shipping	1.7	MISC: (i) 3 LNG term charter expiries with 0 newbuilds coming online; (ii) 5% increase in total petroleum tanker revenues from higher average Suezmax DCR assumption (+10%); and (iii) increased average Aframax DCR assumption (+9%) in 2024E.
Transport – Ports & Logistics	5.7	We anticipate Westports to experience moderate throughput growth of +2% for FY24E, considering its high base (9M23: +7% YoY). The sustained strength in gateway volume, supported by record FDIs and robust growth in intra-Asia container trade, could offer additional upside to container throughput. Moreover, a revision in conventional tariffs is on the horizon. However, potential downside risks include a significant slowdown in container throughput volume due to economic deceleration or sudden shifts in trading routes.
Utilities	16.4	(i) Tenaga's earnings to revert to growth (+7% YoY) in FY24E after incurring elevated costs in FY23E; (ii) further growth at YTL Power (+15% in CY24E) from sustained elevated PowerSeraya earnings and narrowing Wessex losses; (iii) Malakoff reverting to the black in FY24E (from heavy losses in FY23E). **Downside risks:** Sharp drop in coal prices resulting in IPPs experiencing negative fuel margins.

** Aviation – expect profits in 2024E vs. losses in 2023E*

Source: Maybank IBG Research

KLCI's PER valuation at 12.8x 12M forward

Based on market's close as of 12 Dec 2023, KLCI's valuations (at 1,447 pts) were at:

- 12.8x 12M forward PER, which is 1.6SD below its long-term mean (since 2001) of 15.9x (1SD is 2.0x). On 2023/24E core earnings, KLCI's PER valuations were at 14.2x/12.7x.
- 1.3x trailing P/B, which is 1.4SD below its long-term mean of 1.74x.

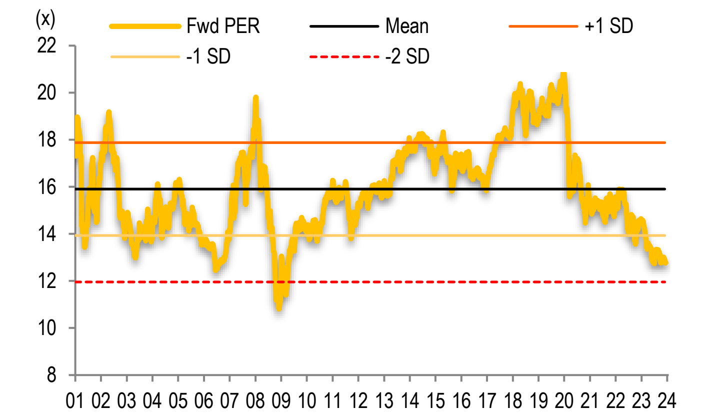
Meanwhile, equity risk premium (ERP) - as measured by the inverse of KLCI's 12M forward PER over the 10Y MGS yield - was at 400bps vs. its mean of 258bps.

Fig 42: KLCI & research universe core earnings growth & valuations

		2022A	2023E	2024E
KLCI @ 1,447.1 on 12 Dec 2023	**PE (x)**	**14.4**	**14.2**	**12.7**
Earnings Growth (%) - new		(6.4%)	1.5%	11.2%
Maybank IBG's Research Universe	**PE (x)**	**16.3**	**15.9**	**13.7**
Earnings Growth (%) - new		(4.5%)	2.7%	15.8%

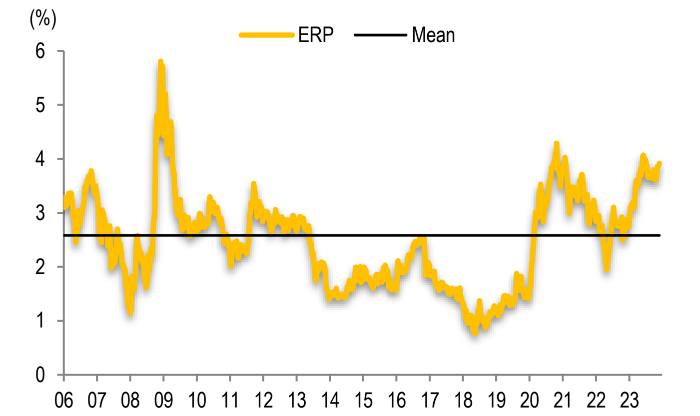
Source: Maybank IBG Research

Fig 43: KLCI's 12M forward PER at 12.8x @ 12 Dec 2023, or -1.6SD of LT mean (mean = 15.9x, 1SD = 2.0x)



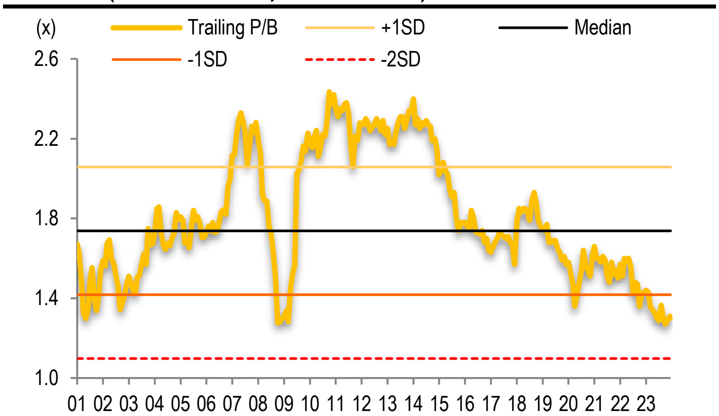
Source: Maybank IBG Research, Bloomberg

Fig 44: KLCI's equity risk premium (over 10Y MGS yield) at 400bps @ 12 Dec 2023 (mean = 258bps)



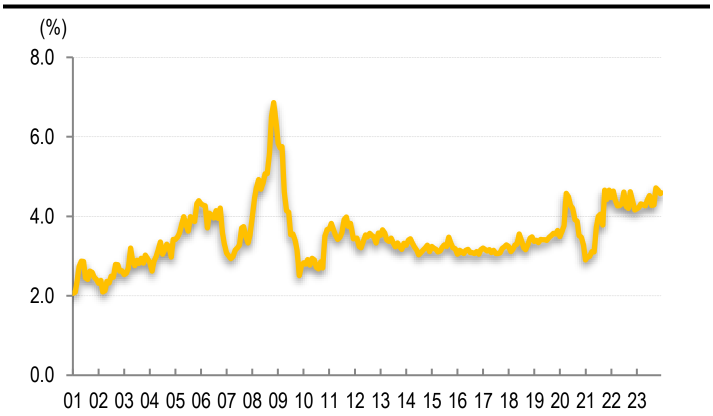
Source: Maybank IBG Research, Bloomberg

Fig 45: KLCI's trailing P/B at 1.3x @ 12 Dec 2023, or -1.4SD of LT mean (mean = 1.74x, 1SD = 0.32x)



Source: Maybank IBG Research, Bloomberg

Fig 46: KLCI's trailing dividend yield at 4.6% @ 12 Dec 2023



Source: Maybank IBG Research, Bloomberg

INVESTMENT STRATEGIES & THEMES

Cautiously optimistic, amid lingering external risks

We are cautiously optimistic in terms of outlook for Malaysia in 2024, on both the macro and equities fronts, amid stable political outlook and delivery of macro blueprints cum targets announced in 2023. Growth, economic restructuring and fiscal reforms are the key deliverables by the Government in 2024, in our view. In addition, an extended runway in terms of funding for major infrastructure projects under the new Public Finance and Fiscal Responsibility Act will support both public and private investments, thus creating the multiplier impact.

For equities, the tail-end of global monetary policy tightening is a tailwind, while stable domestic interest rate policy outlook, economic transformation via the NETR and NIMP2030, and rising FDI momentum (with targets to raise product complexity) are the key catalysts, in our view. We also look forward to better corporate earnings growth in 2024. As highlighted earlier, 2023E earnings growth was very much impacted by two big sectors: Petrochems and Plantation. On expectations for higher ASPs for Petrochems, higher yields and lower production costs in Plantation, as well as continued earnings deliveries in the other sectors, we are sanguine on our +15.8% earnings growth forecast for our universe for 2024E.

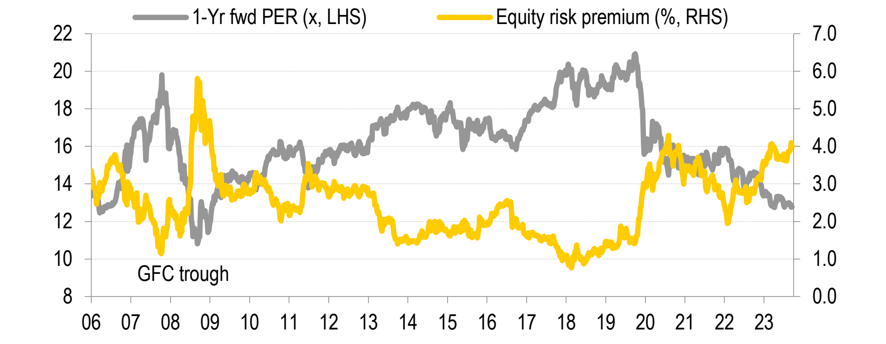
Key risks to our views on equities - mainly external - include a “higher-for-longer” US interest rates, widening of US-China geopolitical rivalry, escalations in Russian-Ukraine war and Middle East instability (due to Israel-Hamas war) impacting global demand and trade recovery, and China’s real estate sector flaring up and souring financial/capital market sentiment. A black swan event – like another pandemic – will derail global growth again. For Malaysia, the key is a stable and a focused Government in delivering on the targets for the longer term.

Maintain YE 2024 KLCI target; re-rating catalyst

On that note, we maintain our YE 2024 KLCI target of 1,610, based on 13.5x 12M forward PER – which represents an 11% upside from 12 Dec 2023’s KLCI close of 1,447 pts. We look forward to the execution of macro blueprints and stronger corporate earnings delivery in 2024 (vis-à-vis 2023E) to lift KLCI’s levels. A re-rating is possible as economic and institutional reforms are executed to facilitate new growth drivers, leading to an improved risk-reward profile of Malaysia equities.

From a valuation perspective, KLCI’s valuations remain attractive at both PER and P/B fronts. At 1,447 pts close (on 12 Dec), the KLCI trades at 12.8x 12M forward PER, which is 1.6SD below its long-term mean (since 2000) – this has been a short-lived market bottom in recent past; while at 1.3x trailing P/B, valuation is close to its historical low. Meanwhile, the equity risk premium (ERP) is touching 400bps, nearing the recent high of 429bps in Oct 2020. From a fund flow perspective, foreign investors have pulled out a sizeable MYR52b from Malaysia equities since May 2018 (after GE14) – they have been net sellers every year since 2018, except in 2022. With foreign holdings in equities down to 19.6% as of end-Nov 2023 – a new low since the GFC – vs. a high of 24.2% in end-Mar 2018 (before GE14 in May 2018), this implies upside when Malaysia delivers on economic transformation and fiscal reforms. Finally, Malaysia equities, in 2024, could get a lift if we are right for a firmer MYR vs. USD.

Fig 47: KLCI's 12M fwd. PER and ERP



Source: Maybank IBG Research, Bloomberg

Portfolio of selective trade-related & domestic sectors, balanced with yield and ESG stocks

With 2024 shaping up to be better year for Malaysia on several fronts, we recommend an equity portfolio of selective trade-related & domestic sectors, to be balanced with yield and ESG stocks. A replacement tech cycle and emerging signs of a turnaround in the global electronics cycle augur well for Malaysia – this will benefit the Tech sector (**OW EMS**), and services (port/logistics operators). On the domestic front, rising FDI momentum, RE transition and tourism recovery will be positive for stocks in **RE (OW)**, **Construction (OW)**, **Aviation (OW)** and **Gaming-Casino (OW)** sectors, and selective stocks in **Consumer (NT)**. Meanwhile, the tail-end of interest rate hike cycle globally will draw attention back to the yield stocks. ESG will remain a relevant investment focus – the recent launch (4 Dec) of Bursa Exchange's 'ESG Reporting Platform' for mandatory ESG reporting is another step up in lifting the bar for better ESG disclosures and compliance for Malaysia PLCs.

Changes in Sector weights. For the sectors under our coverage, we have recently upgraded the **Gaming-NFOs to OW**; also, a tactical upgrade of **Gloves to OW**. For Gaming-NFOs, we are more positive on long term NFO sales/draw/outlet for the NFO operators under our coverage following recovery seen in 3Q23 (both **Sports Toto (SPTOTO MK)** and **Magnum (MAG MK)** are now **BUYs**). As for the Gloves sector, sales volume is improving despite ongoing challenges of stiff competition from the Chinese glove makers, while raw material prices are also stabilising. Our tactical upgrade on the sector is premised on expectations for near-term news flow to remain positive, supporting a further uplift in sentiment on the stocks (despite share prices having moved up in 2023 YTD for Hartalega and Kossan). **Hartalega (HART MK)** is our top **tactical BUY** in the sector, followed by **Kossan (KRI MK)**.

Acronym

OW = Overweight
NT = Neutral
UW = Underweight

Petrochems is now an UW. We believe the best days of Malaysia's petrochemical industry are behind it, as weakening global demand from higher interest rates and lethargic European/Chinese economies are likely to pose headwinds in 2024. Coupled with additional polymer capacities coming onstream primarily in Greater China throughout 2023/2024, it is unlikely that the industry will revisit its ASP highs of 2021 and 2H22. We have a **SELL** rating on both **Petronas Chems (PCHEM MK)** and **Lotte Chemical Titan (TTNT MK)**.

As for the **Auto** sector, we have become more cautious about the industry's outlook into 2024 as TIV is anticipated to stabilize to previous levels, instead of another strong growth year. The industry landscape is also undergoing significant transformation due to the transition towards EV adoption, shifts in policies, and a rise in FDIs which would impact the industry's near-term dynamics (albeit being long-term positive). On these considerations, our sector rating is now a **NT**.

For the large-cap sectors, we have maintained **Banks as OW**; **NT on Plantation, Telco and Utilities**. We are still **OW on Oil & Gas, Tech (Software)**; **NT on Property, REITs and Tech (Semicon)**. **Media** is an **UW**.

Fig 48: Sector weights

OVERWEIGHT (OW)	NEUTRAL (NT)	UNDERWEIGHT (UW)
Aviation	Automotive	Media
Banks	Consumer	Petrochems
Construction	Mid-cap Financials / Insurers	
Gaming (Casinos & NFOs)	Plantation	
Gloves (tactical OW)	Property	
Oil & Gas	REITs	
Ports & Shipping	Technology (Semicon)	
Renewable Energy	Telcos	
Technology (Software & EMS)	Utilities	

Source: Maybank IBG Research

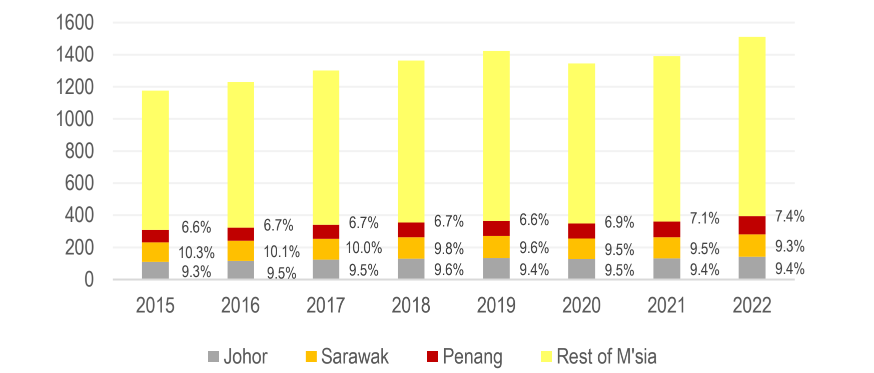
(Please refer to the 'Sector Outlook' sections in the latter half of this report for our investment thesis and top picks for the respective sectors.)

Thematics to watch out for. We also propose six (6) thematics as part of the investment strategy into 2024. These are derived from our observations on key developments in 2023, and which we expect will continue to build in momentum into 2024 – Thematic 1: "Johor, Sarawak, Penang", Thematic 2 - "Rising FDI momentum", Thematic 3 - "Renewable Energy transition", Thematic 4 - "Water tariff reset", and Thematic 5 - "Tourism recovery". Lastly, "A firmer MYR" forms our 6th thematic for 2024.

Thematic 1: "*The three sisters*" - Johor, Sarawak & Penang

The 3 states of Johor, Sarawak and Penang contributed an e.26.1% to Malaysia's real GDP in 2022 (Johor: 9.4%, Sarawak: 9.3%, Penang: 7.4%). In terms of growth, Penang's real GDP growth of +13.1% in 2022 surpassed that of the country (+8.7%), and the other states (Johor: +8.2%; Sarawak: +6.5%) mainly due to the recovery of its large manufacturing (esp. E&E) base. We see excitement in the 3 states in 2024 driven by catalytic developments and their longer-term growth plans.

Fig 49: States' real GDP, MYR b (in 2015 prices) & as % of Malaysia



Source: DOSM, CEIC, Maybank IBG Research

Johor – JSSEZ to be catalytic on many fronts

2024 will be a busy year for this buzzing southern state. Besides a new King from the Johor state from 31 Jan 2024, G-to-G MoU for the establishment of the Johor-SG Special Economic Zone (JSSEZ) will be signed on 11 Jan. Johor's Chief Minister has been quoted as saying that the state "hopes and will work towards ensuring that (an) agreement could be signed at least 6 months from that date" (11 Jan), to enable the JSSEZ to be implemented in 2025 (*source: Johor hopes to ink Special Economic Zone deal with Singapore in six months, The Star, 23 Nov 2023*).

The JSSEZ, in our view, will be catalytic on many fronts – 1) it will bring about higher FDI momentum especially by global MNCs who want to co-locate in both SG and Johor for strategic reasons, and 2) new infrastructure developments to support the higher economic activities ahead. Relating to this, Budget 2024 has several big-ticket allocations in Johor – for the construction of additional lanes for the NSE (PLUS) Expressway from Yong Peng Utara to Sedenak Phase 2 (MYR931m), and USM Teaching Hospital Phase 1 in Kota Tinggi (MYR938m). Meanwhile, the state government has identified 3 LRT lines totaling 30km in length in JB to complement the JB-SG RTS Link (to be operational by end-2026); a thorough study will be done before Federal Government's approval is sought.

Potential beneficiaries to this Johor thematic are many. For the **Property** sector, the JSSEZ should help lift real estate prices in-and-around the identified JSSEZ zone, and support future demand for industrial, commercial and residential properties. Here, equity investors have moved ahead - stock prices of PLCs with a presence in Johor, especially in the Iskandar Malaysia (IM) region, have gained considerably in 2023. One developer with a presence in Johor (in IM) and which is in our existing **BUY** list is **SP Setia (SPSB MK)**. **UEMS (UEMS MK, SELL,** due to valuations**)** has one of the largest landbank in Iskandar Puteri (besides Khazanah). In addition, plantation players like **Genting Plantations (GENP MK, BUY)** also have ongoing property developments in Johor. Others property PLCs with a presence in Johor are **Sunway Berhad (SWB MK, HOLD), IOI Properties (IOIPG MK, N.R.), Scientex (SCI MK, N.R.), Lagenda Properties (LAGENDA MK, N.R.)**, **Kimlun (KICB MK, N.R.), KSL Holdings (KSL MK, N.R.)** and **Haily Group (HAILY MK, N.R.)**.

Apart from the property sector, the **Construction** sector also stands to gain from an anticipated higher level of construction activities in Johor (for infrastructure, industrial buildings, data centres, warehouses, etc.). Contractors with a current presence in Johor are **Sunway Construction (SCGB HOLD), Ekovest (EKO MK, N.R.),** and **YTL Corp (YTL MK, N.R.)**, amongst others.

In **Retail**, a pedestrian overhead bridge to connect KOMTAR JBCC – an asset under **Al-Salam REIT (SALAM MK, HOLD)** - to the upcoming JB-SG RTS Link Bukit Chagar Station - to be ready in 2027 - is expected to be the game changer to improve the outlook for KOMTAR JBCC mall.

And in **Utilities**, **Ranhill Utilities (RAHH MK, SELL)** is a direct beneficiary of higher economic activities due to its exclusivity in providing source-to-tap water in Johor (since 1999). **YTL Power's (YTLP MK, BUY)** 18.87% equity stake in Ranhill on 3 Nov 2023 and a further 2.9% indirect stake on 24 Nov (thus bringing its total effective interest to 20.9%) draws considerable interest as to YTL Group's plans for Ranhill.

Sarawak – Hydrogen ENERGY & hydro POWER

Sarawak, with its abundant hydro energy resources, has taken an early lead in its green agenda with the launch of South East Asia's 1st integrated hydrogen production plant and refueling station in May 2019. The project was led by Sarawak Energy in collaboration with Linde EOX to build a facility that produces hydrogen via electrolysis and a refueling station for the state's hydrogen-powered vehicles. In Aug 2019, Kuching introduced 3 hydrogen buses, making Kuching the 1st city in Malaysia to use zero emission buses. Fast forward to 2023, Sarawak's Autonomous Rapid Transit (ART) hydrogen vehicle (H2V) began its on-road testing in Kuching in August. Built by China's CRCC, ART H2V is said to be the world's 1st hydrogen-powered smart tram. An initiative under Kuching Urban Transportation System (KUTS), ART H2V targets to start carrying passengers from 2025.

Besides incorporating hydrogen energy into its public transportation system, Sarawak, according to its Premier, is poised to be a commercial hydrogen producer by 2027, to meet its hydrogen economy aspiration. In Nov 2020, PETRONAS and Sarawak Energy signed an MoU to explore the commercial production of green hydrogen and its supply chain in Asia - this would position Sarawak as a hub for the hydrogen value chain. And in Jan 2022, Samsung Engineering, Lotte Chemical Corp, and POSCO inked an MoU with SEDC – the MoU is to study the supply of hydro power to develop a green hydrogen and ammonia plant in Bintulu called the 'H2biscus Project', with an annual capacity of 630k mt of green ammonia, 600k mt of blue ammonia, 460k mt of green methanol, and 7k mt of green hydrogen.

Apart from furthering its hydrogen energy agenda, Sarawak is also looking to export up to 1GW of hydro generated power to SG. Plans are for a 700km undersea transmission line to connect to SG; the state is negotiating directly with SG.

On the ground, development momentum in the 'Land of the Hornbills' continues to build. CMS, the largest cement producer in Sarawak, reported a 12.8% YoY growth in its 9M23 cement revenue, after a strong 16.6% YoY growth in sales volume in 2022. Assuming 9M23's rate of growth sustain into 4Q23, our estimates are for cement volume sales in 2023 to surpass pre-pandemic's (2019) level. CMS had, in Jun 2023, announced a proposed MYR750m investment in a new clinker line, implying the long-term economic growth potential of Sarawak.

Meanwhile, with the construction of the Pan Borneo Sarawak Highway at its tail-end – 98% completed as of early-Dec 2023, according to the Federal Works Minister - construction of the Sarawak-Sabah Link Road Phase 2 (320km) worth MYR7.4b will start (per 2024 Budget Speech).

Sarawak therefore, in our view, offers substantial (in value) and multi-year order book replenishment potential for the **Construction** sector. In this sector, we prefer the 'local' boys whom are based in Sarawak. **CMS (CMS MK, BUY)** remains a liquid proxy to higher construction activities in Sarawak being the largest cement producer and construction materials (quarry, concrete, etc.) supplier in the state. Other local construction players and non-construction based players (but with a construction arm) in Sarawak are **KKB Engineering (KKB MK, N.R.), Sarawak Consolidated Ind (SCIB MK, N.R.), Naim Holdings (NHB N.R.), Ibraco (IBRA MK, N.R.)** and **Pansar (PNSR MK, N.R.)**.

Apart from this, the other Sarawak-based PLCs that would gain from higher economic activities in the state are **Sarawak Cable (SRCB MK, N.R.), Shin Yang Group (SYGROUP MK, N.R.),** and **Harbour-Link Group (HALG MK, N.R.).** The other Sarawak-based PLCs are **Dayang Enterprise (DEHB MK, N.R.), Subur Tiasa (STH MK, N.R.), Sarawak Oil Palms (SOP MK, BUY), Ta Ann (TAH MK, BUY)** and **Sarawak Plantation (SLPB MK, N.R.)**, but their operations are commodity centric.

Penang – Enhancing *Pearl of the Orient*'s lustre

Several major infrastructure projects that are in the works/plans in Penang – including catalytic projects – are set to enhance Penang's appeal as an FDI and tourist destination. We believe these projects will help Penang to sustain its longer-term growth trajectory, by drawing in targeted FDIs centered around high-tech manufacturing. Manufacturing is the largest contributor to Penang's GDP at 48.3% in 2022, driven by electrical, electronic and optical products, at 36.1% of 2022 GDP. Penang's proposal for a health & medical hub in mainland Bandar Cassia will further raise its position in the healthcare industry.

- ***Penang International Airport (PIA) expansion***. PIA expansion is critical to Penang's long-term economic growth trajectory (FDIs and tourism). The PIA's existing terminal handling capacity is 6.5mppa but it handled almost 9m pax p.a. (above its handling capacity) during pre-pandemic 2019. In 2023, the airport is expected to record almost 8m passengers (not all flights have yet to return post the pandemic); this is expected to grow to 9m pax in 2024. PIA's expansion therefore is intended to lift its terminal handling capacity to 12mppa. Expected to cost MYR1+b, the ball is now at MAHB's court, with the Penang State Government willing to co-fund the expansion, we understand.

- ***Bayan Lepas LRT***. The Bayan Lepas LRT, part of the Penang Transport Master Plan (PTMP), is an extensive island link, to eventually connect to the mainland. Conditional approval has been received from the Transport Ministry at the Federal Government level (in 2019) for a main line to start from Komtar to PIA. With the Federal Government to fully fund the project, MRT Corp (under the Finance Ministry) is now driving a feasibility study to potentially extend the main line (via two spur lines) to the mainland (to end at Penang Sentral) and/or Tj Bungah (on the island). Transit-oriented (property) developments (TOD) along the track alignment is a possibility to partly fund the project.

- ***Silicon Island development***. Land reclamation has started (3 acres have been reclaimed todate). The project has big potential in terms of drawing in the FDIs and in job creation. *Silicon Island*'s potential (2,300 acres) is akin to the Bayan Lepas Industrial Zone which was established in the early 1970's (50+ years ago) and which has been instrumental in propelling Penang's high-tech industrialisation journey.

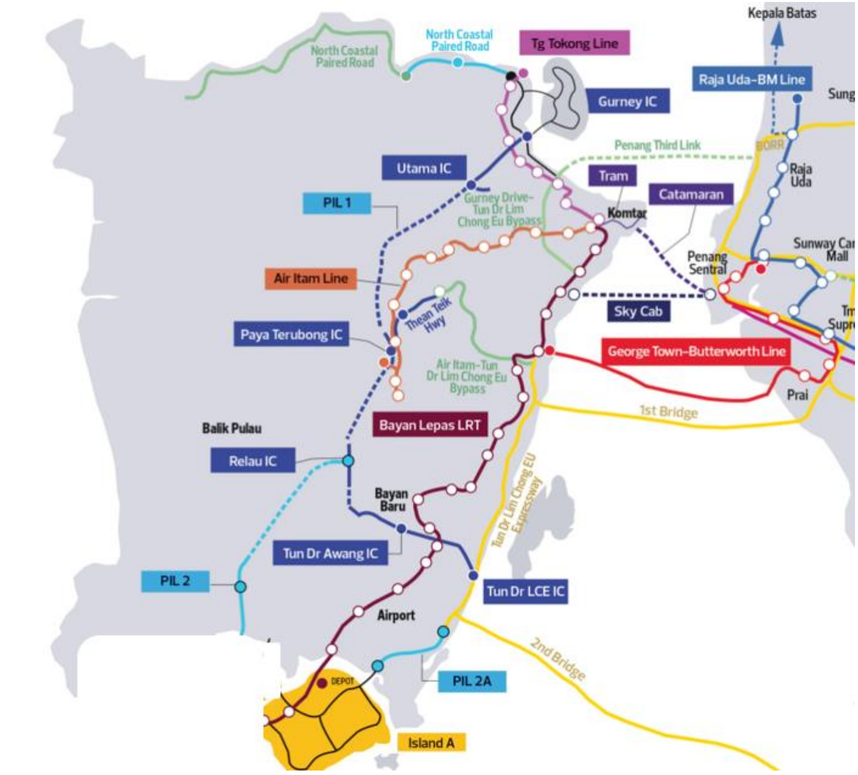
  (*Note: Bayan Lepas Industrial Zone measures approximately 1,100 acres, while the adjacent Bayan Lepas Free Trade Zone covers approx. 320 acres. The industrial park is home to big MNCs in the E&E, medical devices, and aviation and avionics industries, as well as many local SMEs that are part of the supply chain to these big MNCs.*)

- ***Health & medical hub in Bandar Cassia***. On 4 Dec 2023, Penang Development Corp ran an advertorial, welcoming proposals from potential investors to further explore the development of a health & medical hub in Bandar Cassia on the mainland, on a 200-acre site. The hub will host specialist hospitals and clinics, a medical institution, a R&D centre, a wellness centre, a rehabilitation centre, and other medical and technological-based components. It is set to be one of the best Medical Cities globally. The health & medical hub will catalyse not just Penang, but the country's medical tourism industry, in our view. Penang's medical tourism revenue was MYR285m in 2022 and this would have further growth potential when the health & medical hub crystalises.

For Penang's **Property** market, the Bayan Lepas LRT project will be an immediate game changer, in our view. Among the catalytic property projects, we believe that *Silicon Island*, *The Light Waterfront Phase 2* and *Andaman Island* have the potential to redefine the future dynamics of the property sector on the island. Based on the original Bayan Lepas LRT track alignment and station stops, property developers whom are potential beneficiaries include **SP Setia (SPSB MK, BUY;** SPICE station stop) and **IJM (IJM MK, BUY;** The Light stop). **MRCB (MRC MK, N.R.)** is a beneficiary if the LRT track extends to Penang mainland; **E&O (EAST MK, N.R.)** too, if the alignment extends to Tj Bungah.

In the <u>**Construction**</u> space, **Gamuda (GAM MK, BUY), IJM (IJM MK, BUY) and Sunway Construction (SCGB MK, HOLD)** are among those vying for a role in the Bayan Lepas LRT works.

Fig 50: Bayan Lepas LRT alignment (in 2020)



*<u>**NOTE**</u>: This map is taken from a news article dated Aug 2020; it is intended to provide an <u>indication</u> of the <u>original</u> Bayan Lepas LRT alignment which may have changed (the final alignment is PENDING). Also, the map has been digitally altered as the Penang South Islands project now comprises just one island (Island A, renamed 'Silicon Island') instead of three islands originally.*

Source of the map: The Edge Malaysia, 27 Aug 2020 [<u>link</u>])

Fig 51: *Silicon Island*'s layout plans

Source: Silicon Island Development

Thematic 2: Rising FDI momentum

Malaysia scored a significant rise in direct investments in 2023. 9M 2023's approved investments of MYR225b breached the target of MYR220b for 2023, and was 15% shy of 2022's MYR264.6b (a record high). Of the MYR225b, MYR125.7b (55.9%) was foreign direct investments (FDI) and MYR99.3b (44.1%) domestic. By sector, 52.3% was in services, 44.4% in manufacturing and 3.3% in the primary sector. The target for 2024 has not been announced, but the Investment, Trade and Industry Minister has reiterated on the commitment to realise the already approved investments.

Into the 2nd year of NIMP2030 (in 2024), the Government's priorities, according to the Minister, are: 1) skilled human capital and productivity (the need to raise student enrolment in STEM subjects to meet the high-skills demand); 2) ramping up ESG efforts to meet the global targets (by courting investments in green tech & manufacturing and RE, EV manufacturing & adoption, developing green-tech parks, hand-holding SMEs); and 3) disciplined execution and transparency. (*Source: "One year at Miti: A journey to elevate M'sia's economy", StarBizWeek 9 Dec 2023*).

The positive direct investment momentum has so far 'filtered' down to the construction and logistic sectors (including port operations), although not in full yet, in our view.

- In 2022 and 2023, the value of construction jobs secured by PLCs under our coverage - for industrial buildings/parks, data centres, warehouses, etc - was sizeable, eg. Sunway Construction's JHB1X0 Data Center in Sedenak, Johor (MYR1.7b; in 2022), Daiso Global Distribution Centre warehouse in Port Klang (MYR298m; 2023), K2 Data Centre in Johor (MYR190m; 2023); IJM's ASEM Chip Assembly & Testing Facility in Bayan Lepas, Penang (MYR341m; in 2022), Shah Alam Int'l Logistics Hub Phs 1 in Selangor (MYR654m, 2023), and Infineon Technologies' ancillary building in Kulim, Kedah (MYR190m).

- Over at the ports, Westports' gateway container throughput rose a strong 12% YoY in 9M 2023, after rising 9% YoY in 2022. But, growth was slightly slower on a combined basis for Malaysia's ports. 9M 2023's gateway (import-export) volume (in fwt) of Malaysia ports rose just 3.6% YoY, with export volume being flattish (+0.5% YoY) and import volume up 6.7%. On a quarterly basis, 1Q-2Q 2023 had been slow, with a pick up in throughput only in 3Q 2023. Obviously, newly committed FDIs/DDIs have yet to be realised/operational.

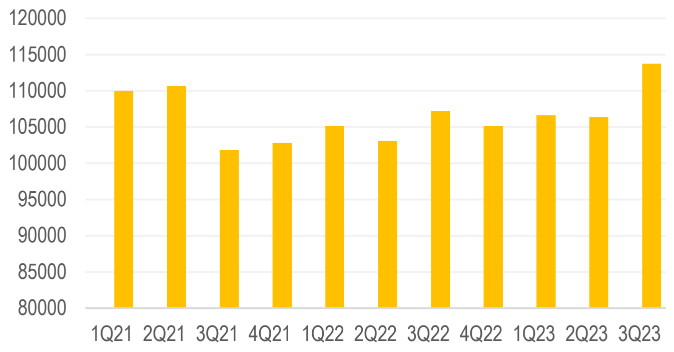
Into 2024, the outlook for ASEAN economies is brighter with green shoots sprouting in exports and manufacturing, per our Macro Research Team. ASEAN's export recovery will be supported by aggressive US fiscal spending and generous subsidies for semiconductors and EVs, normalisation in global consumer spending towards goods, a replacement tech cycle, falling US inventories, and an AI boom. In addition, the shifts in FDIs and MNCs' supply chains to ASEAN are likely to continue, while stronger external trades could speed up the realisation of approved FDIs.

For this thematic, the early beneficiaries of a higher direct investment momentum are the **Construction** players whom have built, or whom are building up experience in turnkey industrial building and the more M&E centric data centres type of works – **IJM (IJM MK, BUY)**, **Sunway Construction (SCGB MK, HOLD),** and **YTL Corp (YTL MK, N.R.)**. Also, **MN Holdings (MNHLDG MK, N.R.),** which is into underground utilities and substation engineering, has inked an MoU with Shanghai DC-Science Co. Ltd (in Apr 2023) for the latter's 1st high-performance data centre outside of China worth MYR2.85b (MN's role is in the provision of utility infrastructure).

For the **Port Operators**, a direct exposure would be via **Westports (WPRTS MK, BUY), Bintulu Port (BPH MK, N.R.), Suria Capital (SURIA MK, N.R.)** and indirectly via **IJM (IJM MK, BUY** – for Kuantan Port). Westports, together with the other ports in Port Klang, continue to have the largest market share of import-export volume in Malaysia – at 54.5% in 9M23, per our calculation – while Bintulu Port had a 9.2% share, the ports in Sabah (under Suria Capital) 6.2%, and Kuantan Port 5.8%.

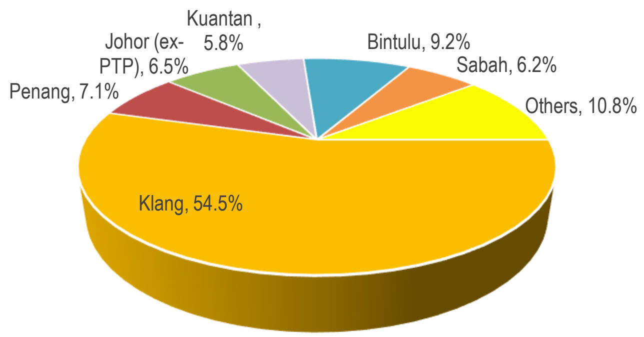
The **Ground Logistics** players should also gain from higher investment momentum over the long run, but competition in this segment is stiff. That said, **Swift Haulage (SWIFT MK, HOLD)** is worth monitoring. The other logistics players are **Tiong Nam Logistics (TNL MK, N.R.), Tasco (TASCO MK, N.R.)** and **GDEX (GDX MK, N.R.)**.

Fig 52: Gateway (import-export) volume at Malaysia ports



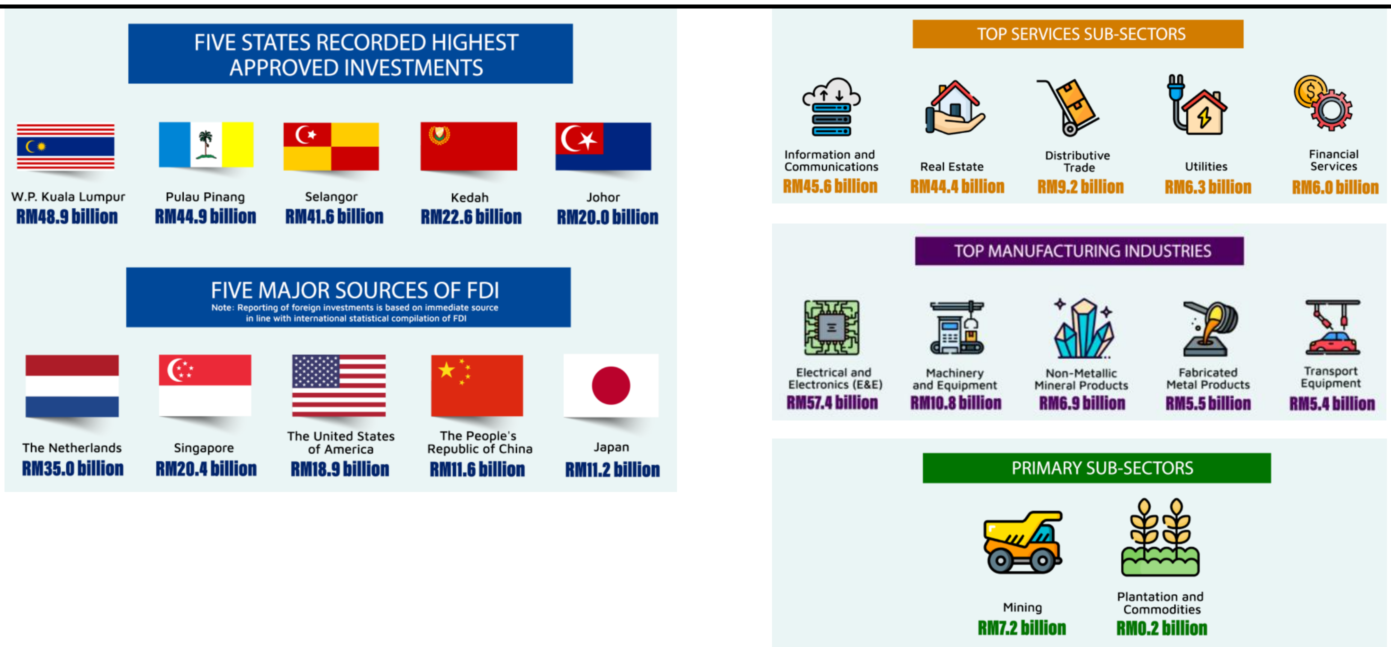
Source: Ministry of Transport, Maybank IBG Research (chart)

Fig 53: Gateway volume market share, 9M 2023



Source: Ministry of Transport, Maybank IBG Research (tabulation)

Fig 54: 9M 2023's MYR225b approved investments



Source: MIDA

Thematic 3: Renewable Energy transition

RE transition is a multi-year theme, in our view. The 70% RE capacity target by 2050 outlined by the NETR alludes to substantial new RE capacity to be developed over time. Catalytic developments in the RE sector in 2023 were the lifting of RE export ban in May, followed by the launch of NETR in July which provides a clear direction on the country's energy transition path. In addition to solar power, the NETR also opens up the hydrogen gateway in Sarawak, and puts in place the framework for carbon capture, utilisation and storage (CCUS), hence laying the foundation for the development of new, high value-add GDP growth drivers.

The Corporate Green Power Programme (CGPP) awards in Aug/Nov 2023 (totaling 800MW) marks the start of a new orderbook replacement cycle (e.MYR2.88b) for the solar EPCC players, with Solarvest, Sunview, Pekat, Samaiden, Mega First and Sunway Construction among the selected solar producers. To-date, no EPCC contracts have been awarded from the 800MW CGPP. Assuming EPCC works worth MYR3.6m per MW capacity, we estimate the 800MW offers MYR2.88b of EPCC works. This provides solar EPCC orderbook replenishment opportunities in 2024.

We see RE export to be a key thematic in 2024. Although the Government had, in early May 2023, announced the lifting of RE export ban as part of a policy review to accelerate the growth of Malaysia's green economy industry, the details are pending. We expect the mechanism to be announced by mid-2024 which should also be supported by the establishment of a RE exchange system. Once the RE export mechanism is clear, Malaysia RE players should also be incentivised to explore battery energy storage system (BESS) projects. Singapore has a 4GW target for RE imports by 2035, and it has a higher average regulated household electricity tariff. BESS projects have not been viable at local (Malaysian) tariffs.

Beyond solar, we expect further developments in the other green energy in 2024 – in particular, waste-to-energy (WTE) and hydro (+ hydrogen energy). YTL Power had confirmed in Aug 2023 that it is developing a 2,400-tonne per day WTE plant in Selangor, with a gross generating capacity of 58MW, together with KDEB Waste Management (100%-unit of the Selangor government). Believed to be the Sultan Idris Shah WTE Green Energy Plant in Rawang costing MYR4.5b, the WTE plant's investment proposition could also involve its by-products – ash – generated during the production process which can be used for cement (under YTL Cement) and bricks production. Separately, a 3,000-tonne per day WTE plant (to generate 52MW of electricity) in Jeram, Selangor by Worldwide Holdings (Delisted) and Shanghai Electric Power Generation (M), 'break ground' on 17 Oct 2023; the plant targets to start operations in 2026 (*source: "Selangor MB: Jeram waste-to-energy project can help dispose of 3,000 tonnes of waste daily", The Edge, 17 Oct 2023*).

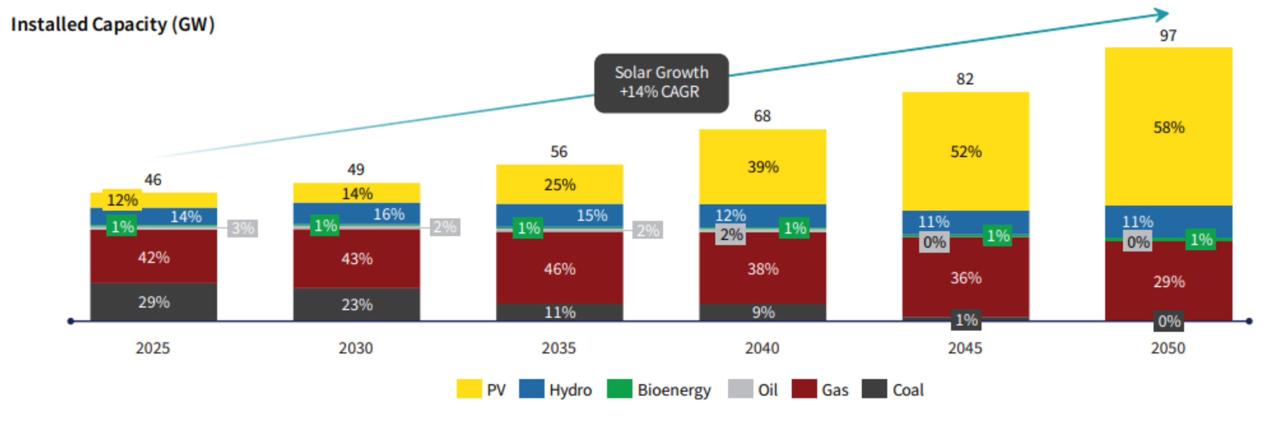
As for hydro, Sarawak has been in negotiations directly with SG to export up to 1GW and it is also advancing on its hydrogen economy agenda. The Hydrogen Economy and Technology Roadmap, unveiled in end-2023, provides a deployment pathway to scale up hydrogen economy and technology to drive both supply and demand, simultaneously.

We have put the likely beneficiaries of this RE thematic under 3 buckets: 1) **pure-play solar EPCC players** like **Solarvest (SOLAR MK, BUY), Cypark (CYP MK, BUY), Sunview (SUNVIEW MK, N.R.), Pekat (PEKAT MK, N.R.)** and **Samaiden (SAMAIDEN MK, N.R.)** and **construction-based EPCC players** like **Sunway Construction (SCGB MK, HOLD)** which is completing two LSS4 projects in Gopeng and Klang); 2) **solar and WTE asset owners** like **Solarvest** (50MW of LSS4 assets + 90MW CGPP), **Cypark** (90MW of LSS2 & 3 assets + 20MW of WTE plant), **Uzma (UZMA MK, N.R.;** 12MW of CGPP), **Mega First (MFCB MK, BUY;** 30MW of CGPP), **Sunview** (60MW of CGPP), **Pekat** (30MW of CGPP) and **Samaiden** (43MW of CGPP); 3) **grid owner** – **Tenaga (TNB MK, HOLD)**, where under the IBR model, a higher regulatory asset base (which includes grid investments) would translate to increased earnings, all else equal.

Also to watch out for are 1) **Gamuda (GAM MK, BUY)**, which could feature as both EPCC player (potentially via ERS Energy which Gamuda now has a 14.6% investment stake but which could go up to 30% depending on ERS' funding requirement), and as asset owner (with Gamuda targeting an 800MW RE capacity in Malaysia and overseas under its *Gamuda Green Plan 2025*, of which 80-90MW could come from Penang's Silicon Island *Green Tech Park*). ERS itself is a leading solar EPCC company having completed >700MW of solar projects in Malaysia and in the region. 2) **YTL Power (YTLP MK, BUY)** which has a large balance sheet, and a sizable land bank in Johor, an ideal location for large-scale solar farms, for export to SG. In addition, 3) **Citaglobal (CITAGLB MK, N.R.)** had, on 1 Dec 2023, together with its substantial shareholder, executed a 40:60 joint development agreement with Abu Dhabi Future Energy Company PJSC (a clean energy powerhouse) for a 2GW solar farm project in Pahang worth USD2b. The project, over 5 years, will see the construction of ground-mounted solar and floating solar farms, and BESS in Pahang.

In the waste management space, 1) **Malakoff (MLK MK, SELL)**, which bought a 97% stake in Alam Flora (Not Listed) from DRB-Hicom (DRB MK, N.R.) in Dec 2019, is worth monitoring. Alam Flora's concession areas in Peninsular Malaysia are the Federal Territory of KL and Putrajaya, and Pahang. Malakoff has also been reported to be in negotiations for a WTE plant in Melaka. Also, 2) **Citaglobal (CITAGLB MK, N.R.)** had, on 19 Sep 2023, inked an MoU with Shanghai SUS Environment Ltd (a GLC in China) for the joint development of WTE projects in Malaysia.

Fig 55: Projected energy installed capacity by 2050



Source: NETR blueprint

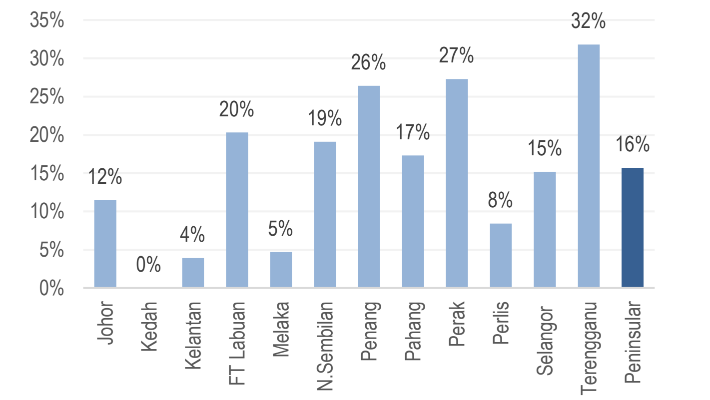
Thematic 4: Water tariff reset

The fact that Peninsular Malaysia (plus FT Labuan)'s water reserve margin was just 15.7% in 2022 (single-digit in Kedah, Kelantan, Melaka and Perlis) - +2.8ppts vs. 2018's 12.9% - implies that the portable water sector is still very much under-invested at the production level. That asbestos cement (AC) pipes (most of which are decades old) comprised still a sizeable 29% of the total pipe length in the Peninsular in 2022, would also imply that the pipe replacement programme has been slow, with the focus on laying new pipelines in the new areas. The total AC pipe length was 39,895km in 2022 and this compares to 40,322km in 2018 (-1.1%). At the same time, the country's total pipe length grew 7.6% to 135,975km in 2022, from 126,327km in 2018 - a CAGR of 1.9%. With ROIs being a key consideration for new investments – in water treatment capacity and in pipe replacement - a new mechanism to set water tariff for Peninsular Malaysia and Labuan is in the works.

The suggested mechanism was intended to brought up at the Cabinet meeting on 12 Dec 2023. According to the Natural Resources, Environment and Climate Change Minister, all state governments had agreed, at a National Water Council meeting, for state water tariffs to be reviewed (water tariffs and raw water resources are 'state matters' under the Constitution) and a new mechanism for setting water tariffs would be created to regulate the hike in tariffs (*source: "Suggested mechanism for new water tariffs to be brought to Cabinet next week", The Star, 10 Dec 2023*). Higher water tariffs will provide improved ROIs to the water supply operators (some are state-owned) which can be ploughed back into investments, including pipe replacements. Non-revenue water (NRW), due to pipe leakages, faulty meters and pilferages, was 34.4% in Peninsular in 2022, a slight uptick from 2018's 33.9%.

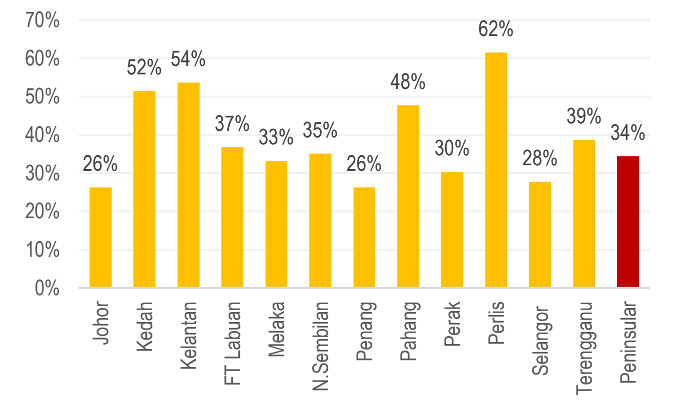
Higher water tariff implementation ultimately depends on political will, considering the larger subsidy roll-back for diesel and pump petrol in 2024. If it comes through, we expect the **water supply operators** and **pipe producers** to benefit; the latter as pipe replacements could step up. The listed water supply operators are **Ranhill Utilities (RAHH MK, SELL)** and **PBA Holdings (PBAH MK, N.R.)**. As for pipe producers, the listed players are **YLI Holdings (YLI MK, N.R.**; ductile iron pipes, steel pipes, high density [HDPE] & medium density polyethylene [MDPE] pipes), **Hiap Teck Venture (HTVB MK, N.R.**; steel pipes), and **Engtex Group (ENGT MK, N.R.**; mild steel concrete-lined pipes [MSCL], ductile iron pipes). Eventually, the **other players in the portable water supply chain** (including meter suppliers, contractors, etc.) will benefit when new upstream infrastructure (dams, treatment plants, pump houses, etc.) are built - potential beneficiaries are **George Kent (GKEN MK, N.R.), Salcon (SALC MK, N.R.)** and **Taliworks (TWK MK, N.R.)**.

Fig 56: Water reserve margin, 2022



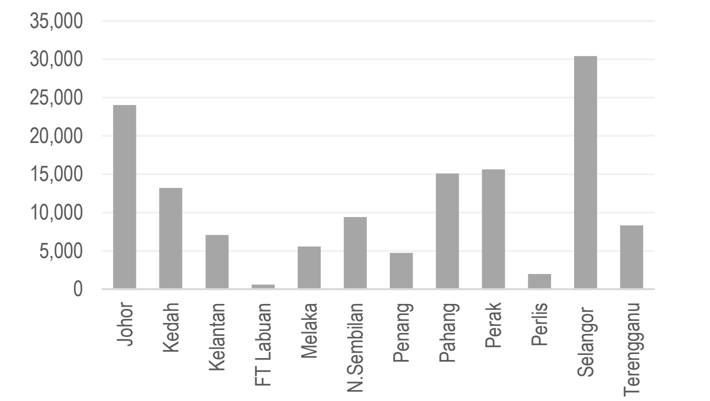
Source: SPAN, Maybank IBG Research (chart)

Fig 57: NRW, 2022



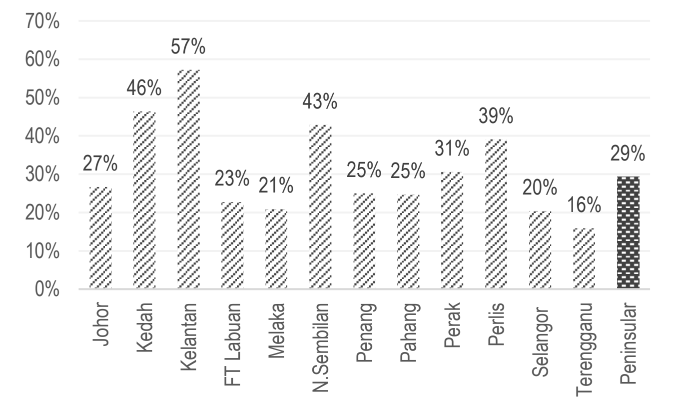
Source: SPAN, Maybank IBG Research (chart)

Fig 58: Water pipe length (km), 2022



Source: SPAN, Maybank IBG Research (chart)

Fig 59: Asbestos cement pipe, a % of total pipe length, 2022



Source: SPAN, Maybank IBG Research (chart)

Thematic 5: Tourism recovery - *"Malaysia, Truly Asia"*

Malaysia's extension of its 30-day visa-free entry programme effective 1 Dec 2023 for citizens from China and India will help to boost tourism activities in 2024. Pre-pandemic, China and India were the top two largest market sources in terms of tourist arrivals (besides ASEAN countries) – in 2019, arrivals from China made up 11.9% of total tourist arrivals and India 2.8%. Besides China and India, citizens from Western Asia countries (Turkiye, Jordan) and Middle East (Saudi Arabia, Oman, Qatar, UAE, Bahrain, Kuwait, Iraq and Iran) already enjoy a 30-day visa exemption. In 2019, visitors from West Asia and Middle East made up c.1% of total arrivals.

As of Aug 2023, foreign tourist arrivals was nearly 13m, 3x more than 2022, according to the 2024 Budget Speech. By Sep 2023, the arrivals were 14.4m for the first 9M which led to Tourism Malaysia raising its 2023 target to 19.1m pax (+18.6%) from 16.1m (*source: "Malaysia's 2024 tourist arrivals expected to surpass pre-Covid-19 levels", The Edge, 7 Dec 2023*). At 19.1m target pax for 2023, this is 7m below the peak (of 26.1m) in 2019. The next Visit Malaysia Year in 2026 targets 26.1m foreign tourist arrivals (per 2024 Budget Speech; back to 2019's level) and MYR97.6b in tourist spendings (13% above 2019's peak of MYR86.1b). These targets for 2026, in our view, are modest – they can be reached earlier if existing concerted efforts continue and barring another 'black-swan' event, i.e. another pandemic.

In fact, the Tourism, Arts & Culture Minister stated on 3 Dec 2023 that foreign tourist arrivals for 2023 YTD (until 15 Nov) amounted to 26.0m which seems to suggest that the 2019's figure of 26.1m arrivals may be surpassed in 2023 itself (source: "*Tourism Ministry: Malaysia records 26 million tourist arrivals from Jan 1 to Nov 15 this year*", *Malay Mail, 3 Dec 2023*). The highest number of tourists were from Singapore at 12.6m, followed by Indonesia at 3.2m, Thailand at 2.1m, China at 1.4m, Brunei at 0.9m and India at 0.8m. Note that the Minister quoted these figures when speaking at a press conference after chairing the first organisational meeting for World Tourism Day 2025 and World Tourism Conference 2025. The aforementioned statistics have not been published on the Tourism Malaysia website.

Besides extending the visa-free entry programme, other upcoming efforts to boost tourist arrivals include the 1) expansion of major airports – in particular, Penang International Airport (to 12.0mppa from 6.5mppa) and Subang Airport (to 8.0mppa from 1.5mppa) (both to be led by M'sia Airports; per retabled Budget 2023) and dedicated smaller airports like Tioman Airport (per Budget 2024); 2) federal government's Budget allocation for promotional activities and to maintain/ preserve heritage areas, buildings and sites that could be recognised by UNESCO (per Budget 2024), and 3) revamping and simplifying the conditions for MM2H programme (the details were announced on 15 Dec 2023; MM2H was earlier revived in post-pandemic Aug 2021 with stricter conditions). In addition, tourists will be given a tax refund for high value goods which will be subject to the new 5-10% High Value Goods Tax that is to be implemented from 1 May 2024 (note that "shopping" has been a major tourist spend, at 33.6% of total spending in 2019).

In terms of flight restoration, Malaysia Airlines is opening new flight routes to India, and increasing flight frequencies from China, Australia and ASEAN (*source: Malaysia Airlines' media statement, 1 Sep 2023*). OAG data indicates that Nov 2023 seat capacity from China to Malaysia has recovered to 60% of Nov 2019 levels; this compares to 41% of 2019's levels as of Jun 2023, per Malaysia Aviation Commission (Mavcom). In addition, AirAsia will return to service 25 aircraft by 1H24 for its Malaysia operations, raising its active fleet size by 34% for its Malaysia ops by end-1H24. Mavcom meanwhile expects a 75%-80% recovery in flights in 2023 compared to 2019, and passenger traffic to return to pre-pandemic levels in late-2024/2025 (*source: The Changing Trends of Travel, StarBiz, 2 Sep 2023*). Going into 2024-2025, MAHB expects to welcome 83 airlines or 20% more than 2019 levels. Notable foreign airlines returning to Malaysia after a hiatus are Lufthansa, British Airways and Qantas. 2026 is also a Visit Malaysia Year.

Considering the tourist spend pattern pre-pandemic (shopping - 33.6% in 2019, accommodation 24%, F&B 13.3%, entertainment 3.4%, medical 3.4% - per Tourism Malaysia data), the beneficiaries of higher tourist arrivals comprise the:

- <u>**Hospitality sector**</u> - **GENM (BUY)** – Singaporean and Chinese tourists made up 6% and 4% of total 24.2m visitors to RWG in 2019; **MAHB (BUY)** – international passenger traffic accounted for 51% of total passenger traffic in Malaysia in 2019; **CAPITALA (BUY)** – foreign destinations accounted for 46% of MAA's total passengers carried (MAA historically contributes c.80% of group earnings); and **AAX (BUY)** – AAX only flies to international destinations.

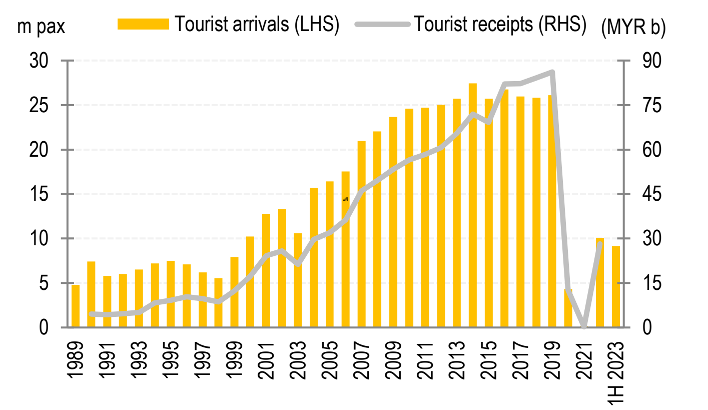
  Other PLCs in the hospitality sector are **YTLREIT (BUY), Shangri-la Hotels (SHMB MK, N.R), Impiana Hotels (IMPIANA MK, N.R), Only World Group (OWG MK, N.R), Kerjaya Prospek Property (KPPROP MK, N.R), Sentoria (SNT MK, N.R), Meridian (MEDA MK, N.R.)** and **KSL Holdings (KSL MK, N.R)**.

- <u>**Retail**</u> - **InNature (HOLD), Bonia (BON MK, N.R.), Atlan (ALN MK, N.R.), Spritzer (SPZ MK, N.R.), Poh Kong (PKH MK, N.R.), Tomei (TOME MK, N.R.),** and **Parkson (PKS MK, N.R.)**. InNature's '*The Body Shop*' stores located in high tourist traffic areas had previously contributed c.15% to total revenue.

  Indirectly, the retail REITs may also gain from possibly higher turnover rent - **KLCCP (KLCCSS MK, HOLD), Pavilion REIT (PREIT MK, BUY), Sunway REIT (SREIT MK, HOLD), IGB REIT (IGBREIT MK, HOLD),** and **Hektar REIT (HEKT MK, N.R.)**.

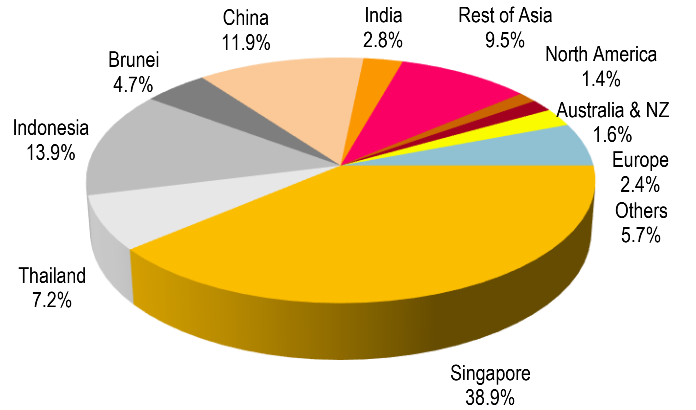
- <u>**Healthcare**</u>, via medical tourism – **IHH (BUY), KPJ (HOLD), OPTIMAX (BUY)**.

Fig 60: Tourist arrivals and receipts



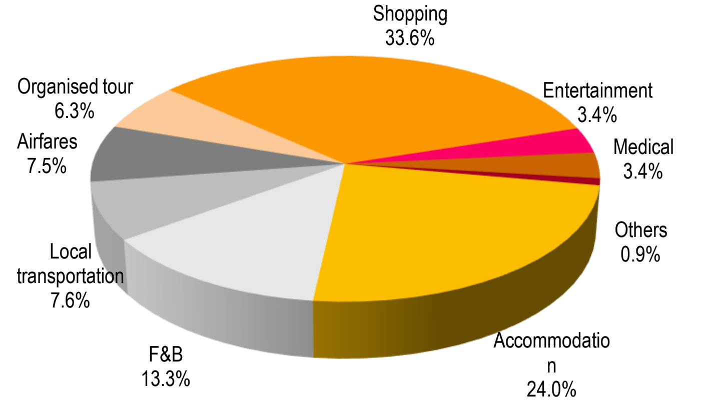
Source: Tourism Malaysia, Maybank IBG Research (chart)

Fig 61: Arrivals by country, in pre-pandemic 2019



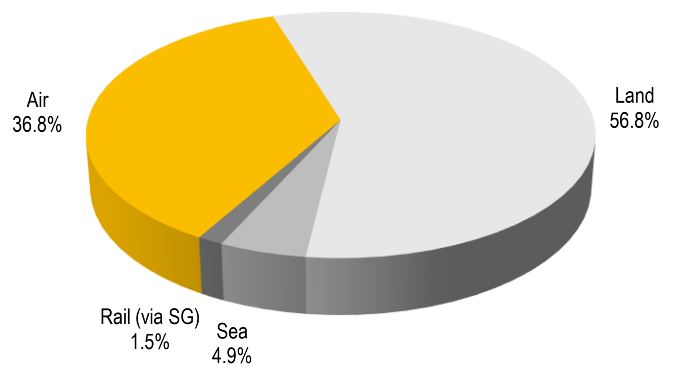
Source: Tourism Malaysia, Maybank IBG Research (chart)

Fig 2: Tourist spending, in 2019



Source: Tourism Malaysia, Maybank IBG Research (chart)

Fig 63: Mode of transport / point-of-entry, in 2019

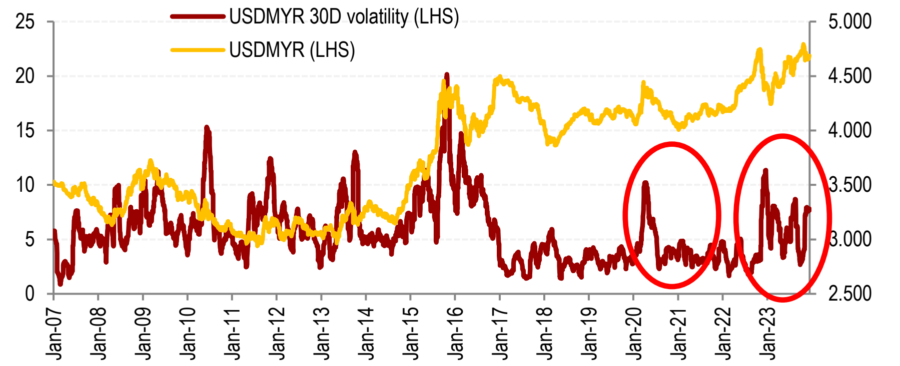


Source: Tourism Malaysia, Maybank IBG Research (chart)

Thematic 6: A firmer MYR

Admittedly, the MYR's volatility has been a recurring investment theme. The MYR's weakness (and higher volatility) against the USD in 2023, had provided investors with trading opportunities, especially in the Glove stocks in 2023, which had been sold down due to rising competition from China. Amid expectations for slower economic growth in the developed markets in 2024 - with US to head into a mild recession - and the likelihood of the US Feds cutting interest rates in 2024, our FX Research Team expects the benchmark DXY to weaken by 3.2% in 2024. Over in Malaysia, execution of plans under the macro blueprints launched (NETR, NIMP2030, 12MP MTN) and fiscal discipline-cum-consolidation provide the backdrop for a firmer MYR. As highlighted earlier, our FX Research Team expects the USDMYR to end 2024E at 4.400 (+6.8% YoY vs. 2023E's 4.700).

Fig 64: USDMYR vs. USDMYR 30D implied volatility

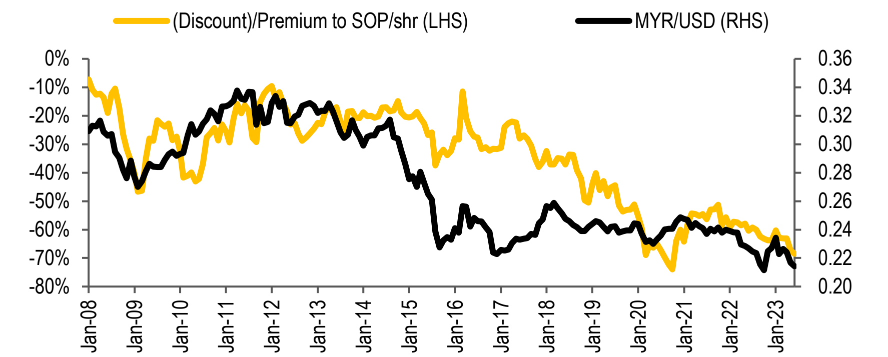


Source: Bloomberg (data), Maybank IBG Research (compilation)

In our research coverage, selected **Consumer** stocks could see a margin uplift in the scenario of a firmer MYR against the USD due to their USD raw material costs - **Nestle (NESZ MK, HOLD), Heineken (HEIM MK, BUY), Carlsberg (CAB MK, BUY), Leong Hup Int'l (LHIB MK, BUY), Farm Fresh (FFB MK, BUY)** and **BFood (BFD MK, SELL).** In the **Media** sector, the impact is also positive for A**stro (ASTRO MK, SELL)** as its transponder and some content costs are in USD. In the **Aviation** sector, **Capital A (CAPITALA MK, BUY)** and **AirAsia X (AAX MK, BUY)** would benefit as c.60-80% of their costs are in USD. As for the **Auto** sector, the impact is muted overall except for Tan Chong - for **UMW (UMWH MK, BUY)** and **SIME (SIME MK, HOLD),** their USD exposure are naturally hedged due to their overseas businesses; for **MBM (MBM MK, HOLD)** and **Bermaz Auto (BAUTO MK, BUY)**, a 5% movement in the USDMYR will have a <1% impact on their P&L; for **Tan Chong (TCM MK, SELL)**, a 5% movement in the USDMYR may impact its losses by >30%.

Related to this, a more liquid exposure to the MYR-USD currency movement is perhaps via **Genting (GENT MK, BUY)**. Our observation over the past decade shows a strong correlation between MYRUSD and the stock's valuation premium/ discount to its SOP/shr, because of its high foreign shareholding. We notice that foreign investors tend to BUY/SELL Genting when the MYR appreciates/ depreciates.

Fig 65: GENT's (disc)/premium to SOP/shr valuation vs. MYR/USD (R^2: 0.7)



Source: Bloomberg (data), Maybank IBG Research (computation)

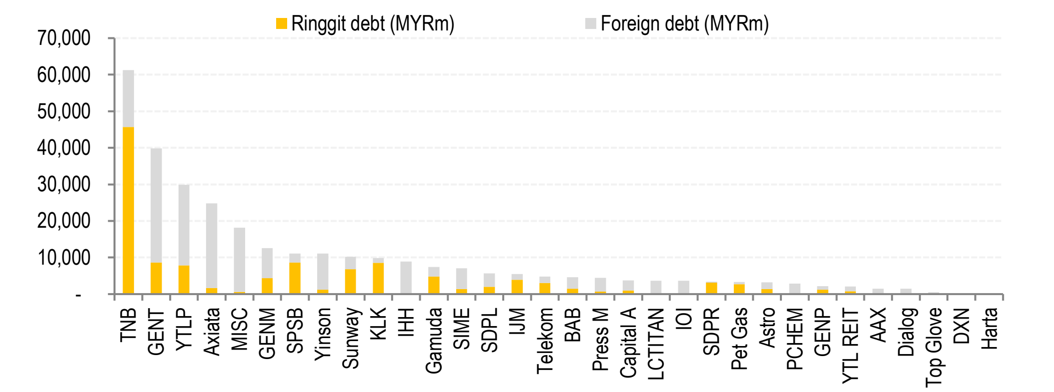
'Losers' of a firmer MYR against the USD are **exporters** in the 1) **Tech** sector such as **ViTrox (VITRO MK, HOLD;** 85% of revenue vs. 30% of COGS in USD), **Greatech (GREATEC MK, BUY;** >95% of revenue vs. 25% of COGS in USD) and **Inari (INRI MK, HOLD;** >95% of revenue vs. 50% of COGS in USD), 2) **Glove** sector (though relatively muted as both revenues and most raw material costs are in USD), 3) **Consumer** sector like **QL (QLG MK, HOLD;** c.50% of its marine manufactured products are exported in USD); 4) **O&G** service providers such as **MISC (MISC MK, BUY), Bumi Armada (BAB MK, BUY)** and **Velesto (VEB MK, BUY)**, as well as upstream player **Hibiscus (HIBI MK, BUY)** which is leveraged into the USD price of Brent crude oil. Similarly, those 5) with **operations in the US** like **Genting M'sia (GENM MK, BUY** - casino in New York) and indirectly **Genting (GENT MK, BUY)**; and 6) that **"bill" in USD** like MAHB (**MAHB MK, BUY** - for landing & parking charges, but the net negative impact is small).

With the SGD highly correlated to the USD, the other potential 'losers' of a firmer MYR would be those with operations/subsidiaries in SG like **Genting (GENT MK, BUY)** and **YTL Power (YTLP MK, BUY)**.

A note on the **Tech EMS** players – for **VS Industry (VSI MK, HOLD)** and **Aurelius Tech (ATECH MK, BUY)**, their USD exposure is naturally hedged (both revenue and raw material costs are in USD). They can also pass on any currency surplus or deficit for fluctuation of the MYR beyond 10%, per agreements with their customers.

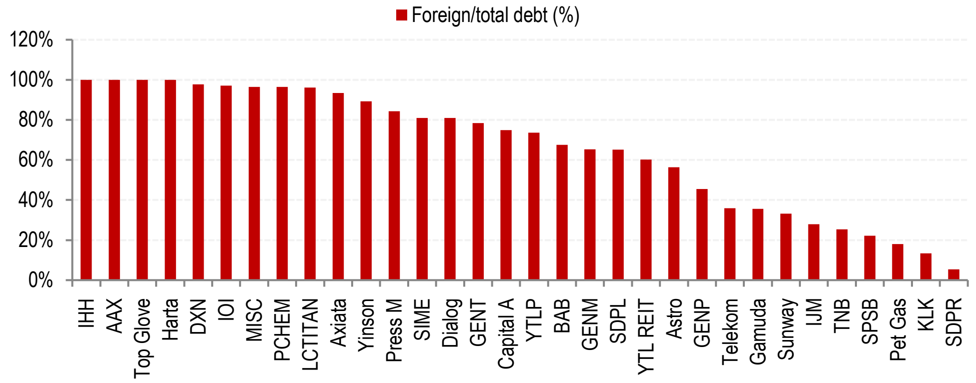
Meanwhile, for PLCs with foreign debt exposure, a firmer MYR will also translate into unrealised FX gains, ceteris paribus. The charts below and overleaf show PLCs under our coverage with debt exposure in foreign currencies, including USD.

Fig 66: Foreign currency vs. MYR borrowings



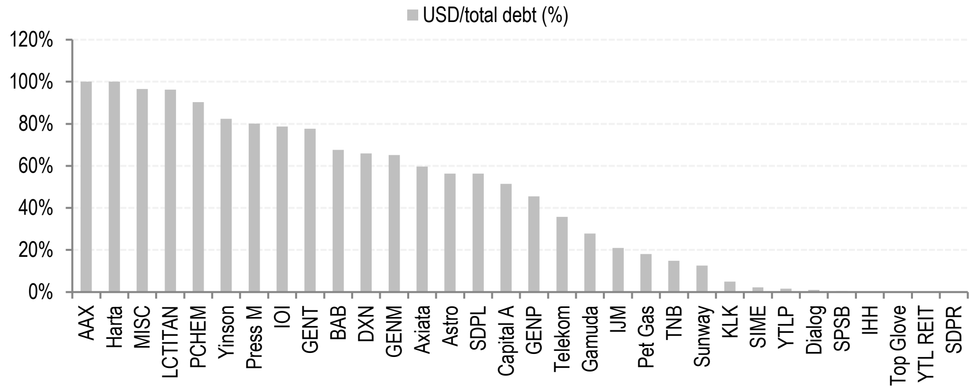
Source: Companies quarterly results, Maybank IBG Research (tabulation)

Fig 67: Foreign borrowings as a % of total borrowings



Source: Companies quarterly results, Maybank IBG Research (tabulation)

Fig 68: USD denominated borrowings as a % of total borrowings



Source: Companies quarterly results, Maybank IBG Research (tabulation)

STOCK PICKS

Top BUYs, yield & ESG picks

We have largely retained our top BUY list from that in our 3Q 2023 Results Roundup report (*"3Q23: Momentum picks up", 4 Dec 2023*), and added on Gamuda, Hartalega and Westports for the large caps. This list considers our research weights on the respective sectors, and also the thematics for 2024.

We also refresh our yield picks – Fig.71. As for ESG picks, our top 10 coverage which scored the highest under our proprietary ESG scoring methodology and which are also in our BUY list are **Yinson (YNS MK), Hong Leong Bank (HLBK MK), Allianz (ALLZ MK), MISC (MISC MK), Bermaz Auto (BAUTO MK), Gamuda (GAM MK), Axiata (AXIATA MK), CIMB (CIMB MK), My EG (MYEG MK)** and **Hong Leong Financial Group (HLFG MK)**; the full list is in Fig.72.

Fig 69: Top BUYs

	Price	TP	Rec	Mkt Cap	PER (x)	PER (x)	ROE (%)	Div Yld (%)	P/B (x)	Px chg (%)
	MYR	MYR		MYRm	CY23E	CY24E	CY23E	CY23E	CY23E	YTD
Large caps										
Public Bank	4.25	5.05	Buy	82,495	12.1	11.5	12.6	4.5	1.5	(1.6)
CIMB Group	5.79	6.70	Buy	61,751	9.0	8.6	9.9	5.9	0.9	(0.2)
Telekom M'sia	5.29	6.50	Buy	20,296	11.3	11.0	19.9	3.6	2.2	(2.0)
Genting	4.66	5.49	Buy	17,944	14.7	8.2	3.8	3.2	0.6	4.0
AMMB Holdings	4.02	4.75	Buy	13,301	8.2	7.9	8.5	4.5	0.7	(2.9)
Westports	3.58	4.35	Buy	12,208	15.6	14.7	22.6	4.8	3.5	(5.8)
Gamuda	4.44	5.25	Buy	12,080	13.1	12.4	8.0	7.7	1.1	18.4
M'sia Airports	7.20	7.96	Buy	12,014	38.9	19.6	4.7	1.3	1.6	9.8
Hartalega	2.29	3.02	Buy	7,816	120.5	70.5	1.4	-	1.7	34.7
Yinson Hldgs	2.48	5.05	Buy	7,209	8.8	7.8	17.6	0.7	1.7	2.1
IJM Corp	1.89	2.20	Buy	6,627	19.8	17.2	3.4	3.4	0.7	18.1
Greatech Technology	4.63	5.20	Buy	5,807	38.6	31.3	20.4	-	7.9	(4.3)
Mid-small caps										
Sime Darby Property	0.59	0.75	Buy	3,978	10.6	9.9	3.9	4.3	0.4	30.0
SP Setia	0.77	1.20	Buy	3,331	13.7	4.7	1.9	2.0	0.3	27.5
CTOS Digital	1.44	1.97	Buy	3,326	28.8	27.2	20.6	1.8	5.9	1.4
Bermaz Auto	2.30	3.51	Buy	2,685	8.4	8.0	39.5	9.3	3.3	8.0
Farm Fresh	1.32	1.65	Buy	2,471	40.0	25.6	9.2	0.6	3.7	(2.2)
ITMAX System	1.83	2.10	Buy	1,882	28.6	19.9	19.4	0.7	5.5	28.9
Velesto Energy	0.23	0.30	Buy	1,849	32.1	10.2	2.6	-	0.8	50.0
Solarvest Holdings	1.24	1.40	Buy	829	31.4	20.6	12.8	0.7	3.8	45.0
Wasco	0.97	1.20	Buy	751	10.2	7.5	11.2	-	1.1	56.5
Optimax	0.64	0.86	Buy	343	30.2	26.5	23.2	3.3	5.8	(19.1)

** Share price as of 12 Dec 2023; Source: Maybank IBG Research*

Fig 70: Top BUYs (investment thesis)

Stocks	Investment thesis
Public Bank (PBK MK)	▪ Public Bank's foreign shareholding of 25.25% end-Nov 2023 is close to its all-time low of 23.5% in March 2011. Foreign shareholding appears to have abated, which paves the way for greater stability to share price. ▪ Pre-emptive provisions of MYR1.75b are the highest among banks in our coverage at 36% of total provisions. There is thus room for more aggressive write-backs should management choose to do so. ▪ Impeccable fundamentals, with strong asset quality and higher provisioning levels. ROEs of about 13% are the highest in the industry. ▪ Our MYR5.05 TP is based on FY24E PBV target of 1.7x (ROE: 13%).
CIMB Group (CIMB MK)	▪ ROE of 10% in FY23E is within reach. The group targets a higher 11.5-12.5% ROE for FY24 through a) higher Niaga contributions, b) credit cost optimization, CIMB Digital Assets turnaround, capital optimization. Trading at below 1x PBV for FY24E, there is potential for further re-rating if the higher ROE is achieved. ▪ CIMB Niaga has turned around and is contributing decently to growth. Accounting for 26% of group earnings in 9M23, there is much potential for CIMB Niaga to augment growth for the CIMB group in the longer term. ▪ Dividend payout in FY23 is estimated at 55%, with a yield of close to 6%. Against a payout policy of 40-60%, there is room for further capital optimization as the group strives for a higher ROE next year. ▪ Our MYR6.70 TP is based on FY24E PBV target of 1x, supported by a FY24E ROE of 10.2%.
Telekom M'sia (T MK)	▪ With top-line growth stagnating across the industry, telcos increasingly can only rely on optimising costs to preserve earnings. We see ample headroom at TM for further cost optimisation. ▪ We continue to expect a relatively benign impact to TM's overall fibre broadband revenue from the HSBB access price cuts, and expect improved sentiment on the stock should upcoming operational data affirm such a trend. ▪ We expect the tax breaks that TM is enjoying (recognition of tax credits from unutilised tax losses post corporate restructuring) to continue into FY24, thus alleviating pressure on net profit and dividend. ▪ Our MYR6.50 TP is based on a DCF, assuming 8.6% WACC and 2% LT growth.
Genting (GENT MK)	▪ GENT provides a cheaper exposure to GENS which has been recovering above pre-COVID levels. GENT shareholders also get a secondary exposure to GENM potentially winning a full casino license in New York City. ▪ Demanding valuation, trading at c.65pct discount to its SOP/shr which is -2SD to its 25-year mean. We expect this discount to narrow as the MYR recovers, as history has shown. ▪ GENT has a call option in 20%-owned TauRx, which is developing a drug to combat Alzheimer's disease. Our TP may be revised to above MYR8 should TauRx be valued at USD15b. ▪ Our MYR5.49 TP is SOP-based.
AMMB Holdings (AMM MK)	▪ Having clawed its way back up from below 11%, AMMB's CET1 ratio now stands at a respectable 12.7% end-Sep 2023 and should improve further to 13.1% by Mar 2024, once it receives its tax credit from the Inland Revenue. ▪ Improving CET1 ratio – 13.1% by Mar 2024 (from tax credit), ~14% when sale of AmMetLife completed, paving the way for gradually higher dividend payouts vs. our 35% assumption. ▪ Valuations are attractive – the stock trades at a CY24E PBV of just 0.7x for prospective FY24E ROE of 8.6% (excluding one-offs) which is below management's 9-10% ROE target. ▪ Our MYR4.75 TP is based on a target PBV of 0.77x.
Hartalega (HART MK)	▪ Improvement in sales volume (on an improved sector outlook) would translate into a better 2HFY24E for HART, alongside better cost efficiencies, leading to lower production costs. Also, cost savings/efficiency gains from the decommissioning of its Bestari Jaya Facilities (BJF) will allow HART to be more competitive in pricing, and defend its operating margin in the event of any hike in raw material prices. ▪ HART has the lowest impairment risk among the glove makers under our coverage post the BJF decommissioning. ▪ We also like Hartalega for its prudent management and clean balance sheet (MYR0.44/sh net cash). ▪ Our MYR3.02 TP is based on 2.2x CY25E PBV (-0.5SD to mean).

Source: Maybank IBG Research

Fig 70: Top BUYs (investment thesis)

Stocks	Investment thesis
Westports (WPRTS MK)	▪ Westports' container volume growth will be bolstered by robust recent FDIs which would sustain its gateway volume expansion, with further support anticipated from intra-Asia trade for increased transshipment throughput. ▪ Westports 2.0 expansion is backed by a strong balance sheet and low net gearing, minimizing substantial equity dilution. The recent supplemental privatisation agreement signed enhances visibility for future prospects, enabling Westports to capitalize on medium to long-term intra-Asia trade growth. ▪ Additional upside potential may arise from a tariff hike in tandem with the port's expansion. Notably, the last container tariff increase occurred in 2019, and the last conventional tariff adjustment was in 2012. Better-than-expected container volume growth could also contribute to positive growth. We have a conservative projection of 2% throughput growth in FY24E and 1%-2% in the long term (vs. Seabury's forecast of a 3.5% CAGR over the next 5 years in intra-Asia container trade). ▪ Our MYR4.35 TP is based on DCF (WACC 6.7%, LTG 1%-2%).
Gamuda (GAM MK)	▪ Catalysts in 2024 are government's decisions on KVMRT3 project (Gamuda is vying for the underground tunnelling works) and Bayan Lepas LRT (Gamuda is looking for a turnkey role). Potential E&C projects in Malaysia include the Pan Borneo Highway Sabah and Upper Padas HEP (pending PPA with SESCO). ▪ Outlook in Australia is bright - upcoming tender book of AUD5-6b comprises Sydney Metro West linewide infra and stations works, and Suburban Rail Loop tunnelling works in Melbourne; while in the medium term, Gamuda is exploring >AUD20b of tenders. It is also positioning in the RE space with an 800MW of own RE asset target under its *Gamuda Green Plan 2025*. ▪ Quick-turnaround property projects in SG and LDN will help provide the lift to FY24E earnings; we anticipate a stronger FY25E, with Gamuda set to hit the MYR1b net profit mark. ▪ Our MYR5.25 TP is RNAV-based.
M'sia Airports (MAHB MK)	▪ MAHB has the best exposure to the recovering aviation sector ex-fuel price risk. Its top 5 local carriers (Malaysia Airlines, Malaysia AirAsia, AirAsia X, Batik Air Malaysia, firefly) plan to raise seat capacity by 24% in FY24E while the top 5 foreign carriers (Indonesia AirAsia, Singapore Airlines, Scoot, Cathay Pacific, Saudia) plan to raise seat capacity by 31% in FY24E. ▪ On the new operating agreement (OA) with the government, MAHB expects Malaysian Aviation Commission to release the 3rd consultation paper relating to it by next month. If the new OA is approved, MAHB hopes to implement the new regulatory charges before mid-FY24E. Beyond that, MAHB hopes to release details on Subang & Penang Airports expansion. ▪ Our base case MYR7.96 TP is based on Malaysia international passenger traffic plateauing at 85% of 2019 levels. If Malaysia international passenger traffic recovers to 100% of 2019 levels, our DCF-TP could be raised to MYR9.50. ▪ Our MYR7.96 TP is based on DCF (WACC 9%, LTG 1%).
Yinson (YNS MK)	▪ The FPSO market is booming, with an e.13 FPSO awards over the next 12M – with the majority being sizable FPSOs (>USD1b capex). Clients' preference are for FPSO operators with strong track records and the ability to raise financing such as Yinson. Most FPSO operators have limited capacity to take on new jobs due to current orders on hand – we believe Yinson is comfortable to take on 1-2 newbuild jobs over the next 12M – projects high upfront payment from its clients. ▪ Yinson has a strong track record and earnings growth prospects (33% FY22-25E core net profit CAGR). We expect a strong +77% growth in FY24E, +9%/+5% in FY25/FY26E driven by: i) the accelerated EPCIC billing for both FPSO Agogo and FPSO MQ (PDB); ii) commissioning of its Nokh project in Oct 2023. ▪ Potential re-rating catalysts include: i) more newbuild FPSO job wins; and ii) turnaround of its Renewable/GreenTech segments. Rapid expansion for the latter and excellent disclosures underscore why Yinson also has one of the highest ESG scores (per MIBG's proprietary scoring methodology) within our Malaysian stock coverage universe. ▪ Our MYR5.05 TP is based on SOP.
IJM Corp (IJM MK)	▪ Catalysts in 2024 include government's decisions on KVMRT3 project (IJM has tendered for the main civil work packages and system works), Bayan Lepas LRT (IJM is vying for a main role), and government building works (and potentially infra works) in Nusantara. Also, NPE extension works could add c.MYR1b to its orderbook (MYR6.4b outstanding end-Sep 2023). ▪ IJM's 'Industry' business is growing via higher deliveries of piles, quarry products and ready-mixed concrete; this is evident in its 1HFY24 revenue which rose 23% YoY; PBT +20% YoY excluding gain from sale of assets in 1HFY23. The business will remain a growth driver for the group based on its established platform. ▪ Restructuring of the WCE concession is a potential catalyst; BESRAYA and LEKAS have since been restructured (WIP for NPE). Elsewhere, Kuantan Port's longer term cargo growth prospects would be supported by sizeable new FDIs in MCKIP. ▪ Our MYR2.20 TP is RNAV-based.

Source: Maybank IBG Research

Fig 70: Top BUYs (investment thesis)

Stocks	Investment thesis
Greatech Tech (GREATEC MK)	▪ One of select few Bursa-listed pureplay factory automation solution (FAS) specialists with a leading US-based clientele (FirstSolar, Rivian) in high-growth EV/solar segments. Business model allows it to remain relatively insulated from ongoing inventory correction in the larger semiconductor supply chain. ▪ Record turnover delivery in 3Q23, backed by stellar MYR1.07b outstanding orderbook (+75% QoQ; 60% solar/30% EV/10% life sciences & others) that is expected to last through to 1H25. Management is looking to aggressively grow top/bottom-line over the next 3 years via a healthy mix of organic (new production plant – Batu Kawan IV to commence ops in 1Q24) and inorganic (M&A of Euro-based targets) expansion strategies. ▪ Refined technical expertise and solid delivery track record in production line manufacturing, as well as ongoing investments in floorspace/workforce capacity gives it an advantage over local and regional peers in competing for major orders from Tier 1 EV marques. We believe it has recently secured a battery assembly line contract from the world's best-selling EV marque - its first sizeable contract win from the globally coveted customer. ▪ Valuations remain palatable, with our MYR5.20 TP currently pegged to 35x FY24E PER (at LT Mean).
Sime Darby Property (SDPR MK)	▪ We like SDPR for its substantial exposure to the township segment, especially landed residential and industrial properties, where the demand lies. It is one of the largest land owners in Klang Valley, the key market in Malaysia. ▪ SDPR has relatively healthy balance sheet with 0.27x net gearing in end-Sep 2023, providing a debt headroom of up to MYR2.2b before hitting its internal net gearing limit of 0.5x. The group is exploring landbank opportunity overseas. ▪ Our MYR0.75 TP is based on 0.6x FY24E PBV (its 2018-23 mean).
SP Setia (SPSB MK)	▪ We like SPSB for its cheap valuation. SPSB is trading at an undemanding PBV of just 0.26x, versus industry average's 0.5x. ▪ SPSB has a diversified product range at different locations in Malaysia, and overseas - UK, Australia and Vietnam. It is entering the industrial property segment by converting land/part of its existing land in Tanjung Kupang, Setia Alaman and Bertam into industrial parks. ▪ SPSB is actively reducing its debt level by disposing off non-core landbank. The group's net gearing is expected to decline to 0.45x by end FY24E after the completion of three land sales in Semenyih, Johor and Setia Alam. ▪ Our MYR1.20 TP is based on 0.4x CY24E PBV (its 2018-23 mean).
CTOS Digital (CTOS MK)	▪ Consistently strong double-digit turnover growth and blended operating/EBITDA margins (>35%) across all 3 key segments (KeyAccounts, Commercial, D2C), underpinned by dominant share in M'sian consumer/corp credit reporting market; CTOS also owns 58% stake in RAM, MY's leading bond credit rating agency. ▪ Continues to leverage on a partnership (US-based FICO) and acquisition (MY-based JurisTech + alternative credit scoring coys in ID/PH)-based strategy to grow its business in ASEAN where middle income demographics are rapidly expanding; gearing levels expected to remain manageable (14%/4% in FY23/24E) before turning net cash in FY25E. ▪ Price overhang from prior absence of tax incentive likely to dissipate in the coming months having received (in Oct 2023) a 5Y extension of its Pioneer Status tax exemption through to Nov 2026; CTOS will receive a lumpy c.MYR28m in writebacks in 4Q23/1Q24 and its ETR will also revert to c.6% in FY24-26E (vs. STR of 24%; 9M23 ETR at 21%). ▪ Our MYR1.97 TP is based on 2x forward PEG.
Bermaz Auto BAUTO MK)	▪ We favour BAuto for its robust fundamentals and resilient financials (solid net cash, strong FCF from an asset-light model), and an appealing >8% dividend yield. ▪ Despite our expectation of a YoY normalisation in TIV, BAUTO is still targeting YoY vehicle sales growth (even into FY25E), supported by its sustained strong demand for Mazda and a robust pipeline of new model launches. It is striving to gain market share by penetrating its niche market with a greater focus on higher-margin models. ▪ Furthermore, BAuto's earnings would benefit from an increasing CKD mix (higher margins) in its portfolio. The potential addition of a new EV distributorship may further enhance its portfolio. ▪ Our MYR3.51 TP is based on 12.5x FY24E PER (5Y 12M fwd. mean).

Source: Maybank IBG Research

Fig 70: Top BUYs (investment thesis)

Stocks	Investment thesis
Farm Fresh (FFB MK)	▪ Farm Fresh stands to benefit from resilient product demand across its extensive dairy product range as consumers shift their wallet share towards basic F&B necessities. Based on the group's competitive pricing strategy and superior product quality, product accessibility also remains strong. ▪ Raw material cost savings from eased whole milk powder ASPs will be the key driver to group margin expansion in 2HFY24E as it contributes to c.50% of FFB's total milk cost. Price volatility and currency risk may also be muted given hedging activities that FFB has conducted for both its whole milk powder and USD currency till mid-4QFY24E. ▪ Strong new products pipeline, especially growing-up-milk in powdered format (launched mid-Nov 2023), and consumer packaged ice cream products (to be launched in early 2024), which are expected to add to the topline growth. ▪ Our TP of MYR1.65 is based on consumer sector average forward PER of 24x.
ITMAX System (ITMAX MK)	▪ Maintains a significant (i) cost (in-housed product development), (ii) security (deploys & utilises its own private/dedicated fiber optic cable network for data transmission), and (iii) technical (the sole domestic player offering a suite of tested & commercialised AI features with >80% accuracy level) advantage over its competitors. This allows it to be the de facto bidding frontrunner in most domestic smart city-related open tenders. ▪ Equipment rental-based model enables it to generate strong recurring monthly cash flows, primarily from long-tenure contracts (c.7-15 years) with creditworthy federal government agencies (PDRM) and district town councils (DBKL, MBJB). Having already secured lucrative CCTV contracts with 3 Johor districts in the Greater JB area, management is looking to make further in-roads with the state's remaining 13 districts, as well as other town councils in other East/West M'sian states in FY24-25. Current tenderbook remains healthy at c.MYR600m (80% CCTV; 20% S&I). ▪ One of the few Bursa-listed direct beneficiaries of accommodative government policy tailwinds in relation to Malaysia's national smart city framework. Momentum in this space is likely to continue following the combined c.MYR200m allocation to upgrade street-lighting and traffic light infrastructure at both federal/municipal levels in Budget 2024. ▪ Our MYR2.10 TP is pegged to 24.4x FY24 PER, at a 20% premium to the simple PER average of its comparable peers. We opine the premium is justified, underpinned by (i) its niche position as one of select few domestic providers of AI-enabled CCTVs; and (ii) strong 3-year (FY22-25E) CNP CAGR of 33%, translating to a PEG of just 0.8x at our TP.
Velesto Energy (VEB MK)	▪ Average demand in SEA for Jack-Up rigs in 2024 is estimated to range between 40-45 rigs while the total industry Jack-Up rig supply currently stands at only 38. This shows a tight market - which will continue to drive DCR upward in 2024. As at Oct 2023, the highest DCR recorded for a regional competitor's rig stood at USD165k (vs. USD120k in Oct 2022). We expect Velesto to realise and ride on higher DCRs in 2024/2025E as the group wins new jobs in the upcoming quarters. ▪ We forecast a strong net profit growth (almost 3x YoY) in FY24E based on the following assumptions: (i) higher overall blended Jack-Up rig DCR forecast of USD114k in FY24E (vs. USD93k in FY23E); and (ii) a marginally higher average Jack-Up rig utilisation rate of 83% in FY24E (vs. 82% in FY23E), coupled with operating leverage. ▪ We expect some contract wins in upcoming months as another 3 of Velesto's rigs are slated to complete their current jobs by early-2Q24, for: (i) Vestigo (Naga 2); (ii) Petronas Carigali (Naga 4); and (iii) Hess (Naga 5). We believe that Velesto will be able to win new jobs with relative ease given the supply tightness that the industry is currently facing. ▪ Our MYR0.30 TP is based on 14x PER on FY24E EPS, 20% above domestic OGSE peers' average PER.
Solarvest Hldgs (SOLAR MK)	▪ Solarvest has an unbilled EPCC orderbook (OB) of MYR289m as at Sep 2023. We understand that management is currently pursuing potential EPCC project opportunities of c.443.4MWp under the CGPP for OB replenishment, worth c.MYR1.1b. This potential contract wins and existing projects in the pipeline are expected to support its earnings growth in FY25/26E. We currently assume an OB replenishment of MYR600m each in FY25/26E. ▪ Meanwhile, Solarvest also expects to raise its own solar assets capacity by another 50MW (from LSS4) from CY24 onward. To-date, it has successfully commission two LSS4 assets totaling 38MW in Aug/Nov 2023, and another 25MW LSS4 assets are also on track for commissioning by end-2023. Upon full commissioning, these assets will able to generate an annual revenue of ~MYR24m and net profit of ~MYR9m (25 years). ▪ Solarvest has also won a total 90MW of solar assets (effective 43.5MWp) under the CGPP. Recurring income from these CGPP assets is estimated to start from 4QFY26. On top of this, it has secured potential local corporate PPAs of c.110MWp under Powervest and overseas projects of 23.5MWp. ▪ Our MYR1.40 TP is based on SOP (EPCC on PER + solar assets on DCF).

Fig 70: Top BUYs (investment thesis)

Stocks	Investment thesis
Wasco (WASCO MK)	▪ Clear beneficiary of a robust global tender of c.4,100km of pipelines for carbon capture and storage projects planned for 2023-2027 with a total estimated value of >USD1b for pipe coating. Its mid-term outlook is showing good promise with a healthy orderbook (pipe-coating loaded) @ MYR3.3b as at end-Sep 2023 and a strong tender pipeline of MYR7b. ▪ We are forecasting a 36% net profit growth in FY24E as we understand that the bulk of the accelerated progress billings for the MYR1.1b EACOP and MYR558m Yinson projects will be recognised in FY24E. Current completion rate for both projects stands at 37% and 31% respectively. ▪ Valuation at 7.5x FY24E PER is undemanding as Wasco is poised for multi-year growth, compared to its local OGSE peers, now trading at about 12x. Our estimates have also incorporated MYR3.8b/MYR3.5b job wins in FY24E/FY25E respectively. ▪ Our MYR1.20 TP is based on 12x PER on FY24E EPS, in line with local OGSE peers' average PER.
Optimax (OPTIMAX MK)	▪ Optimax is positively positioned to benefit from strong demand and rising surgery numbers from local and foreign patients across its 3 key segments: (i) cataract surgery, (ii) refractive surgery, and (iii) plastic surgery. ▪ With higher operating theatre (OT) utilization days, the introduction of the latest and fastest technology for refractive surgery, and various expansion plans for FY24, we anticipate a +5%/+16% YoY growth in revenue/PATMI for FY24E, backed by an est. +2%/+4% annual growth in surgery volumes/revenue from surgeries. ▪ Improvements in GP margin will materialize as OPEX normalize with the opening of 1 satellite clinic in Taman Melawati and 4 new ambulatory care centres (ACCs) in Atria (PJ), Kempas (Johor), Kota Kinabalu and Cambodia within the next 18 months. Its competitive pricing and quality of services make it a target for health tourism relative to its regional peers. ▪ Our MYR0.86 TP is based on DCF (ke: 10.5%, LTG: 3%).

Source: Maybank IBG Research

Fig 71: Top-yield stocks

Stock	Price MYR	Rec	Div. Yield 2022A (%)	Div. Yield 2023E (%)	Div. Yield 2024E (%)	FCF Yield 2022A (%)	FCF Yield 2023E (%)	FCF Yield 2024E (%)	Net Gearing 2023E (%)
Magnum	1.09	Buy	3.9%	6.9%	9.2%	9.2%	9.5%	12.5%	29%
Bermaz Auto	2.30	Buy	4.9%	9.5%	9.2%	13.6%	3.8%	10.3%	Net cash
YTL Hospitality REIT	1.02	Buy	3.8%	7.1%	8.9%	1.6%	19.2%	16.3%	66%
MBM Resources	4.30	Hold	11.9%	13.1%	8.3%	0.2%	4.2%	4.2%	Net cash
Sports Toto	1.48	Buy	4.8%	6.8%	8.1%	6.1%	1.6%	18.6%	98%
Sentral REIT	0.78	Buy	6.9%	6.7%	8.0%	9.9%	12.1%	15.4%	78%
Gas Malaysia	3.09	Hold	7.0%	7.3%	7.3%	11.3%	6.7%	2.8%	Net cash
Ta Ann	3.51	Buy	10.6%	7.1%	7.2%	24.4%	20.9%	15.6%	Net cash
Tambun Indah Land	0.83	Buy	7.3%	6.4%	7.0%	23.3%	15.0%	16.2%	Net cash
Malakoff	0.63	Sell	8.1%	3.2%	6.7%	nm	37.7%	51.1%	93%
Astro Malaysia	0.37	Sell	7.0%	4.9%	6.4%	20.1%	33.6%	55.5%	287%
CapitaLand M'sia Trust	0.55	Hold	6.9%	5.4%	6.4%	5.3%	nm	11.6%	65%
Sunway REIT	1.55	Hold	5.7%	5.7%	6.3%	1.7%	6.9%	9.3%	61%
CIMB Group	5.79	Buy	4.5%	5.9%	6.2%	-	-	-	NA
Bank Islam Malaysia	2.32	Hold	5.1%	5.9%	6.2%	-	-	-	NA
Pavilion REIT	1.18	Buy	6.2%	6.2%	6.1%	9.4%	7.5%	6.8%	73%
RHB Bank	5.50	Hold	6.9%	6.1%	6.0%	-	-	-	NA
Eco World Development	1.00	Hold	8.3%	6.0%	6.0%	44.0%	20.6%	1.2%	21%
Axis REIT	1.78	Buy	4.9%	4.5%	6.0%	7.8%	6.9%	8.6%	51%
Heineken	22.38	Buy	5.5%	5.8%	6.0%	3.9%	5.9%	6.0%	29%
Alliance Bank	3.48	Buy	4.9%	6.5%	5.9%	-	-	-	NA
IGB REIT	1.70	Hold	5.4%	5.5%	5.9%	7.2%	7.4%	7.3%	24%
AMMB Holdings	4.02	Buy	1.3%	4.9%	5.7%	-	-	-	NA
Genting Malaysia	2.66	Buy	5.6%	5.6%	5.6%	10.1%	13.9%	17.3%	78%
Sime Darby Bhd	2.37	Hold	5.4%	5.7%	5.5%	0.1%	nm	12.8%	16%
SP Setia	0.77	Buy	2.5%	2.0%	5.5%	51.9%	55.3%	nm	54%
DXN Holdings	0.65	Buy	-	-	5.5%	-	-	11.1%	Net cash
RCE Capital	2.97	Hold	5.8%	16.5%	5.4%	-	-	-	NA
KLCCP Stapled Group	7.01	Hold	5.3%	5.1%	5.2%	8.5%	6.9%	6.9%	8%
Westports Holdings	3.58	Buy	3.9%	4.8%	5.1%	5.5%	7.1%	2.2%	9%

** Share price as of 12 Dec 2023; Source: Maybank IBG Research, Factset*

Fig 72: ESG stocks (ranked by Maybank IBG Research's ESG score)

Stock	BBG Code	Mkt Cap. (MYRm)	Rec.	Price (MYR)	TP (MYR)	MIBG ESG Score	Quant Score	Qual Score	Targets Score	Sustainalytics Risk Score	In FBM4G Index?
Yinson	YNS MK	7,599	Buy	2.48	5.05	78	56	100	100	14.5	Yes
Hong Leong Bk	HLBK MK	41,664	Buy	19.22	23.00	76	69	67	100	18.6	Yes
Sunway Bhd	SWB MK	10,010	Hold	2.00	2.02	74	47	100	100	8.6	No
Allianz	ALLZ MK	3,264	Buy	18.34	20.00	73	80	33	100	24.4	No
CelcomDigi	CDB Mk	47,865	Hold	4.08	4.60	71	43	100	100	25.2	No
MISC Bhd	MISC MK	31,827	Buy	7.13	7.65	71	43	100	100	18.7	Yes
RCE Capital	RCE MK	2,186	Hold	2.95	2.59	71	50	83	100	N/A	Yes
Sunway REIT	SREIT MK	5,343	Hold	1.56	1.54	71	50	83	100	12.7	No
Inari Amertron	INRI MK	11,087	Hold	2.97	3.12	70	47	86	100	27.7	Yes
Bermaz Auto	BAUTO MK	2,763	Buy	2.36	3.51	69	54	100	67	10.8	Yes
Bursa M'sia	BURSA MK	5,438	Hold	6.72	6.55	69	54	100	67	15.2	Yes
Gamuda Bhd	GAM MK	12,007	Buy	4.45	5.25	69	56	100	67	31.0	Yes
IOI Corporation	IOI MK	24,952	Hold	3.97	4.07	69	39	100	100	24.7	Yes
Petronas Chem	PCHEM MK	57,200	Sell	7.15	5.75	69	39	100	100	22.6	Yes
Axiata Group	AXIATA MK	21,091	Buy	2.30	3.00	68	62	83	67	29.7	Yes

Source: Maybank IBG Research, Sustainalytics (leading external ESG research & data provider), Bloomberg pricing (as at 13 Dec 2023)

Fig 72: ESG stocks (ranked by Maybank IBG Research's ESG score)

Stock	BBG Code	Mkt Cap. (MYRm)	Rec.	Price (MYR)	TP (MYR)	MIBG ESG Score	Quant Score	Qual Score	Targets Score	Sustainalytics Risk Score	In FBM4G Index?
CIMB Group	CIMB MK	61,751	Buy	5.79	6.70	67	50	67	100	18.0	Yes
My EG Services	MYEG MK	6,095	Buy	0.82	1.23	67	67	33	100	20.2	Yes
Astro Holdings	ASTRO MK	1,931	Sell	0.37	0.47	66	76	50	60	13.4	Yes
Hong Leong FG	HLFG MK	18,682	Buy	16.28	21.70	66	73	17	100	27.1	Yes
Sunway Cons	SCGB MK	2,457	Hold	1.90	1.85	66	31	100	100	27.9	No
M'sia Airports	MAHB MK	12,097	Buy	7.25	7.96	65	63	83	50	21.3	Yes
Nestle (M)	NESZ MK	27,202	Hold	116.00	119.00	65	47	67	100	20.9	No
RHB Bank	RHBBANK MK	23,532	Hold	5.49	6.20	65	80	0	100	25.3	Yes
AMMB Holdings	AMM MK	13,257	Buy	4.00	4.75	63	60	33	100	25.0	Yes
IJM Corp	IJM MK	6,930	Buy	1.90	2.20	63	44	83	80	30.3	No
Public Bank	PBK MK	82,690	Buy	4.26	5.05	63	60	33	100	26.7	Yes
Tenaga Nasional	TNB MK	56,840	Hold	9.88	10.00	63	25	100	100	32.4	Yes
CapitaLand (M)	CLMT MK	1,130	Hold	0.55	0.56	62	36	100	75	N/A	No
Westports	WPRTS MK	12,344	Buy	3.62	4.35	62	30	88	100	7.7	Yes
Hartalega	HART MK	8,672	Buy	2.53	3.02	61	47	50	100	17.1	Yes
KLCCP Stapled	KLCCSS MK	12,655	Hold	7.01	7.00	61	47	50	100	12.2	No
Berjaya Food	BFD MK	1,318	Sell	0.67	0.51	60	44	50	100	N/A	Yes
Telekom M'sia	T MK	20,333	Buy	5.32	6.50	60	36	67	100	27.5	Yes
Axis REIT	AXRB MK	3,116	Buy	1.79	2.16	59	38	60	100	14.0	Yes
Capital A Bhd	CAPITALA MK	3,582	Buy	0.85	1.01	59	35	67	100	34.1	No
Genting Bhd	GENT MK	18,028	Buy	4.65	5.49	59	44	50	100	26.8	No
Genting M'sia	GENM MK	15,914	Buy	2.68	2.70	59	69	33	67	28.9	Yes
MNRB Holdings	MNRB MK	979	Buy	1.25	1.40	59	35	67	100	N/A	No
Greatech Tech	GREATEC MK	5,759	Buy	4.60	5.20	57	65	100	0	18.6	Yes
Dialog Group	DLG MK	10,727	Buy	1.90	2.43	56	27	71	100	24.2	Yes
Sports Toto	SPTOTO MK	2,013	Buy	1.49	1.55	56	28	100	67	22.3	No
V.S Industry	VSI MK	3,251	Hold	0.84	1.05	56	37	67	83	9.0	Yes
Petronas Gas	PTG MK	33,282	Hold	16.82	17.00	55	19	83	100	29.4	Yes
Press Metal	PMAH MK	39,797	Hold	4.83	4.90	55	10	100	100	29.2	Yes
ViTrox Corp	VITRO MK	6,797	Hold	7.19	8.10	55	67	86	0	14.3	No
Heineken M'sia	HEIM MK	6,858	Buy	22.70	28.20	54	50	33	83	21.9	Yes
Alliance Bank	ABMB MK	5,434	Buy	3.51	4.10	52	21	67	100	25.0	Yes
Carlsberg M'sia	CAB MK	5,870	Buy	19.20	23.10	52	21	67	100	15.5	No
KL Kepong	KLK MK	23,242	Hold	21.50	21.30	52	28	50	100	36.1	Yes
MR D.I.Y. Group	MRDIY MK	14,139	Buy	1.50	2.40	52	29	67	83	28.7	Yes
Optimax	OPTIMAX MK	343	Buy	0.64	0.86	52	53	100	0	N/A	No
Sime Plant	SDPL MK	31,328	Hold	4.53	4.58	52	35	83	50	24.6	Yes
Media Prima	MPR MK	471	Hold	0.43	0.41	49	65	67	0	N/A	No
IHH Healthcare	IHH MK	52,049	Buy	5.91	7.13	48	20	50	100	34.8	No
Top Glove	TOPG MK	7,182	Hold	0.88	0.80	47	11	67	100	17.4	No
QL Resources	QLG MK	13,799	Hold	5.67	5.90	45	63	33	20	40.8	No
Bank Islam	BIMB MK	5,258	Hold	2.32	2.45	43	36	0	100	28.1	No
YTL Power	YTLP MK	19,445	Buy	2.40	2.70	42	9	50	100	53.5	No
7-Eleven (M)	SEM MK	2,504	Hold	1.96	2.10	41	41	83	0	24.6	No
Padini Holdings	PAD MK	2,250	Hold	3.42	3.65	40	29	33	67	15.2	No
AirAsia X	AAX MK	854	Buy	1.91	3.40	39	12	33	100	N/A	No
TIME dotCom	TDC MK	9,477	Hold	5.16	5.30	38	67	17	0	23.9	No
Genting Plant	GENP MK	4,944	Buy	5.51	6.00	35	6	67	60	42.4	No
Magnum Bhd	MAG MK	1,567	Buy	1.09	1.31	35	28	83	0	27.3	No
IGB REIT	IGBREIT MK	6,099	Hold	1.72	1.70	31	20	33	50	16.8	No
Maxis Bhd	MAXIS MK	29,684	Hold	3.79	4.00	31	46	33	0	25.1	Yes
MyNews	MNHB MK	386	Hold	0.52	0.54	28	32	50	0	N/A	No
Lotte Chemical	TTNP MK	2,752	Sell	1.19	0.83	22	19	50	0	22.2	No
Cahya Mata	CMS MK	1,139	Buy	1.06	1.30	18	19	33	0	36.1	No

Source: Maybank IBG Research, Sustainalytics (leading external ESG research & data provider), Bloomberg pricing (as at 13 Dec 2023)

Appendix

Fig 73: 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	Dec-22	Mar-23	Jun-23	Latest (2023)	As at (2023)
Autos														
Bermaz Auto	NA	15.5	16.1	20.9	17.7	18.3	21.2	15.4	11.5	NA	23.8	NA	30.6	30 Sep
Tan Chong	10.1	7.7	7.5	7.3	6.6	6.5	NA	NA	11.4	NA	NA	NA	NA	-
UMW Holdings	16.9	18.8	12.6	10.9	11.1	6.5	5.3	3.2	5.3	NA	NA	9.6	9.6	30 Jun
Sime Darby	17.4	13.9	13.7	12.6	18.8	18.6	19.2	17.4	17.9	NA	NA	15.6	11.2	30 Sep
Banking														
Malayan Banking	21.4	22.5	17.4	15.7	20.7	19.6	18.9	16.7	16.4	18.0	17.8	17.7	18.4	31 Oct
AMMB Holdings *	32.0	32.0	26.0	25.0	24.0	24.0	25.7	20.6	16.2	20.0	20.9	19.9	18.9	30 Sep
Alliance Bank	NA	32.0	29.3	29.6	31.8	31.6	22.9	19.5	20.1	23.0	23.3	22.4	21.7	31 Oct
CIMB Group	33.8	32.7	27.0	25.8	27.5	25.8	30.2	20.9	24.7	30.9	30.8	29.5	29.3	31 Oct
Hong Leong Bank	8.1	9.5	8.1	9.1	12.1	12.1	11.0	9.9	9.8	11.5	10.8	10.6	10.5	30 Sep
Public Bank	30.7	31.0	31.3	35.9	38.1	37.1	32.8	27.9	25.2	27.7	26.1	25.4	25.1	31 Oct
RHB Bank	8.3	9.5	9.8	9.9	9.8	10.3	21.1	18.1	18.1	17.5	17.3	16.1	15.8	31 Oct
Construction/Infra														
Gamuda	40.0	29.0	22.0	22.0	30.0	28.0	26.0	21.0	11.5	16.0	20.0	23.0	24.0	31 Oct
IJM Corp	40.5	40.4	29.7	28.2	27.0	23.8	21.6	13.8	12.1	12.2	12.4	12.9	14.2	31 Oct
Consumer														
Nestle *	NA	NA	NA	NA	NA	NA	8.7	8.4	8.6	9.9	9.6	9.6	9.4	30 Sep
QL Resources	NA	NA	NA	NA	NA	NA	12.0	11.0	11.0	12.0	NA	12.0	12.0	30 Sep
Non-Bank Finance														
Bursa	23.6	23.5	21.6	22.6	25.1	25.6	17.3	19.3	14.5	13.7	13.8	13.7	13.2	30 Nov
Gaming														
Genting Berhad	45.0	46.0	39.0	44.0	45.0	43.0	33.7	25.6	19.5	37.1	33.5	32.6	32.6	30 Jun
Genting Malaysia	39.0	39.0	39.0	40.0	40.0	31.0	26.8	19.4	15.5	17.3	15.9	15.6	15.0	30 Sep
Glove Producers														
Hartalega	18.0	16.0	16.0	13.0	15.0	15.0	14.9	21.2	18.1	16.2	11.7	11.1	10.1	30 Sep
Top Glove	37.0	31.0	43.0	32.0	32.0	34.0	34.0	35.0	35.0	31.0	32.0	31.0	31.0	31 Aug
Hospitals														
IHH Healthcare *	NA	NA	NA	NA	20.5	20.5	20.0	17.5	18.5	17.2	16.7	NA	16.8	30 Sep
KPJ	NA	NA	8.9	8.8	7.5	6.7	6.3	5.6	NA	5.5	7.5	NA	8.0	30 Sep
Media														
Media Prima	29.5	30.9	29.3	27.1	29.1	33.0	29.4	23.1	23.0	22.6	22.1	20.6	20.4	30 Sep
Oil & Gas														
Dialog Group	16.0	16.0	15.0	16.0	20.0	22.0	NA	22.3	20.0	NA	NA	NA	20.0	30 Sep
MMHE	2.0	1.9	2.2	2.4	2.9	2.2	3.3	NA	0.5	NA	NA	NA	NA	-
Bumi Armada	12.3	13.2	12.7	11.0	12.4	10.5	14.9	9.7	17.1	NA	NA	NA	17.3	30 Sep
Yinson	NA	NA	NA	NA	NA	NA	6.0	NA	8.8	NA	NA	NA	10.0	30 Sep
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	NA	NA	NA	NA	-
Hibiscus	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	28.0	30 Sep

… continued

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Mar-23	Jun-23	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	10.6	8.9	8.5	8.3	30 Sep
Lotte Chem Titan *	NA	NA	NA	NA	NA	NA	NA	NA	5.0	3.9	3.7	3.6	3.5	30 Sep
Plantations														
Genting Plant	8.0	7.2	7.0	8.0	8.7	8.8	8.6	8.3	5.3	5.9	6.0	6.0	4.5	30 Sep
IOI Corporation	18.0	17.4	16.0	15.0	11.0	10.5	10.5	10.5	10.5	11.2	10.7	10.6	10.6	30 Sep
KL Kepong	12.7	12.4	11.5	13.5	16.3	18.2	14.6	12.5	12.2	14.6	14.0	13.6	14.0	31 Oct
Sime Plantation	NA	NA	NA	NA	13.9	12.2	10.4	9.3	9.0	10.8	10.6	10.2	10.1	30 Sep
Property														
S P Setia	8.8	8.1	7.6	4.9	9.7	9.6	6.2	5.7	5.5	NA	5.5	5.4	7.7	30 Sep
UEM Sunrise	14.9	13.1	9.1	8.4	7.9	7.9	7.9	6.6	5.2	NA	5.4	5.5	5.9	30 Sep
Sunway Berhad	14.2	8.1	7.6	7.8	9.5	8.1	7.7	5.5	5.5	6.5	6.2	5.5	4.7	30 Sep
Ecoworld Intl.	NA	NA	NA	NA	NA	28.1	27.8	28.0	27.0	27.0	27.0	27.0	27.0	30 Sep
Sime Property	NA	NA	NA	NA	14.7	14.3	10.8	9.8	9.7	8.2	8.4	8.3	9.3	30 Sep
Property- REITs														
Axis REIT	5.8	6.9	5.2	4.6	3.6	2.8	4.4	8.1	8.0	13.4	`13.0	12.0	12.0	30 Sep
Sunway REIT	NA	19.5	12.6	13.3	9.2	8.7	11.5	7.3	7.3	9.5	9.5	9.4	7.2	30 Sep
Technology														
MyEG	NA	NA	NA	NA	NA	NA	NA	NA	NA	18.0	16.0	17.0	17.0	30 Jun
CTOS	NA	NA	NA	NA	NA	NA	NA	NA	NA	15.0	NA	NA	16.0	31 May
Telecomm														
CelcomDigi *	12.5	15.6	10.1	9.9	9.1	10.8	11.5	10.6	10.2	7.1	7.2	7.7	7.7	30 Sep
Telekom Malaysia	13.0	16.7	11.7	12.8	11.3	11.1	12.2	12.3	10.0	12.8	11.9	11.9	11.7	30 Sep
Axiata Group	23.0	21.0	15.2	10.3	10.0	10.5	11.1	10.4	10.9	11.2	11.1	11.0	11.1	30 Sep
Maxis *	7.5	6.7	6.2	5.7	6.4	6.9	7.8	7.2	7.5	6.9	7.0	7.3	7.8	30 Sep
Time dotCom	6.9	7.0	6.8	6.3	7.3	6.1	7.6	9.9	8.8	13.4	14.6	13.2	12.6	30 Sep
Transport														
Capital A / AirAsia	50.2	60.8	47.6	43.4	44.4	33.6	25.8	15.7	23.3	19.6	20.4	21.0	21.0	30 Sep
MAHB	15.0	18.9	19.0	19.0	39.3	40.0	34.8	27.1	25.3	21.0	21.4	23.0	24.0	30 Sep
Westports *	NA	9.0	11.0	13.0	10.3	9.5	11.0	9.7	9.9	3.2	3.9	4.1	4.1	30 Jun
MISC Bhd	5.9	7.8	10.8	8.0	9.0	8.6	12.2	9.8	8.1	9.3	9.3	NA	9.2	30 Sep
Utilities														
Tenaga Nasional	27.8	25.8	23.1	27.7	24.1	20.8	18.4	12.9	12.1	13.1	12.9	12.5	12.9	30 Sep
Petronas Gas	3.0	7.5	8.5	8.8	8.4	10.0	10.1	9.5	8.9	9.1	9.1	9.4	9.4	30 Jun
YTL Power Int'l	9.0	12.0	12.0	12.0	12.0	8.0	5.5	4.8	NA	NA	NA	9.2	11.5	30 Sep
Market	**24.0**	**24.3**	**22.3**	**22.3**	**23.2**	**23.4**	**22.3**	**20.7**	**20.5**	**20.6**	**20.2**	**19.9**	**19.6**	**30 Nov**

^ 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)
There may be a one-month difference for % foreign holdings for some stocks
Sources: Companies, compiled by Maybank IBG Research

RESEARCH UNIVERSE

Maybank IBG Research Universe

Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY22	Core Net Profit CY23E	Core Net Profit CY24E	EPS CY22	EPS CY23E	EPS CY24E	CAGR 22-24E (%)	PER CY22	PER CY23E	PER CY24E	ROE CY23E (%)	Div Yld CY23E (%)	PBV CY23E (x)	Px chg YTD (%)
								MYR m	MYR m	MYR m	MYR sen	MYR sen	MYR sen		(x)	(x)	(x)				
Auto																					
BAUTO MK	Bermaz Auto	*	4	2.30	2,685	3.51	Buy	254.1	319.7	334.5	21.8	27.4	28.7	14.7	10.6	8.4	8.0	39.5	9.3	3.3	8.0
MBM MK	MBM Resources	*	12	4.30	1,681	4.91	Hold	224.2	285.2	254.8	57.3	73.0	65.2	6.7	7.5	5.9	6.6	13.4	13.1	0.8	31.1
TCM MK	Tan Chong Motor	*	12	0.97	629	0.86	Sell	(28.7)	(117.1)	(33.8)	(4.5)	(18.2)	(5.2)	n.a.	n.a.	n.a.	n.a.	(4.2)	3.1	0.2	(18.2)
UMWH MK	UMW Holdings	*	12	4.95	5,783	6.22	Buy	421.0	538.4	519.5	36.0	46.0	44.4	11.1	13.8	10.8	11.1	11.4	3.7	1.2	42.7
SIME MK	Sime Darby	*	6	2.37	16,153	2.53	Hold	1,161.0	1,204.1	1,330.8	17.1	17.7	19.6	7.1	13.9	13.4	12.1	7.3	5.2	0.9	3.0
Banks																					
AMM MK	AMMB Holdings		3	4.02	13,301	4.75	Buy	1,656.9	1,630.9	1,703.6	49.8	49.0	51.0	1.2	8.1	8.2	7.9	8.5	4.5	0.7	(2.9)
BIMB MK	Bank Islam M'sia	*	12	2.32	5,258	2.45	Hold	491.7	522.3	570.2	20.0	23.0	24.0	9.5	11.6	10.1	9.7	7.1	6.0	0.7	(15.0)
ABMB MK	Alliance Bank		3	3.48	5,387	4.10	Buy	651.6	647.4	674.5	42.3	41.8	43.3	1.2	8.2	8.3	8.0	9.1	6.1	0.8	(5.2)
CIMB MK	CIMB Group		12	5.79	61,751	6.70	Buy	5,439.9	6,630.9	6,987.0	52.0	64.0	67.0	13.5	11.1	9.0	8.6	9.9	5.9	0.9	(0.2)
HLBK MK	Hong Leong Bk		6	19.26	41,750	23.00	Buy	3,454.8	3,922.3	4,170.0	169.0	186.5	192.5	6.7	11.4	10.3	10.0	11.1	3.3	1.1	(6.3)
HLFG MK	HL Fin Group		6	16.38	18,759	21.70	Buy	2,558.4	2,805.5	2,894.9	226.0	247.5	255.5	6.3	7.2	6.6	6.4	10.1	3.1	0.7	(11.9)
PBK MK	Public Bank		12	4.25	82,495	5.05	Buy	6,119.5	6,714.5	7,148.5	32.0	35.0	37.0	7.5	13.3	12.1	11.5	12.6	4.5	1.5	(1.6)
RHBBANK MK	RHB Bank		12	5.50	23,575	6.20	Hold	2,707.7	2,879.1	2,906.7	68.0	67.0	66.0	(1.5)	8.1	8.2	8.3	9.2	6.0	0.8	(5.0)
Construction																					
GAM MK	Gamuda	*	7	4.44	12,080	5.25	Buy	843.8	881.6	951.9	33.3	33.9	35.7	3.6	13.3	13.1	12.4	8.0	7.7	1.1	18.4
IJM MK	IJM Corp	*	3	1.89	6,627	2.20	Buy	318.6	336.5	388.4	9.0	9.5	11.0	10.4	20.9	19.8	17.2	3.4	3.4	0.7	18.1
CMS MK	Cahya Mata S'wak	*	12	1.04	1,117	1.30	Buy	106.7	101.2	139.2	9.9	9.4	13.0	14.6	10.5	11.1	8.0	3.1	2.9	0.3	(2.8)
SCGB MK	Sunway Con	*	12	1.90	2,450	1.85	Hold	135.2	135.5	144.9	10.5	10.5	11.2	3.3	18.1	18.1	17.0	16.9	2.9	3.1	21.8
PINT MK	Pintaras	*	6	1.55	257	1.70	Buy	10.7	(0.7)	6.3	6.5	(0.4)	3.8	(23.2)	24.0	n.a.	40.8	(0.2)	2.3	0.6	(25.5)
Consumer																					
AEON MK	AEON Co. (M)	*	12	1.13	1,587	1.60	Buy	133.5	110.0	123.0	9.5	7.8	8.8	(3.8)	11.9	14.5	12.8	5.9	3.5	0.9	(17.5)
CAB MK	Carlsberg Brew		12	19.20	5,870	23.10	Buy	326.5	346.2	341.0	106.8	113.2	111.5	2.2	18.0	17.0	17.2	164.9	4.8	27.3	(16.1)
HEIM MK	Heineken Msia		12	22.38	6,761	28.20	Buy	412.8	390.5	402.8	136.7	129.3	133.3	(1.3)	16.4	17.3	16.8	84.5	5.8	13.8	(11.2)
PAD MK	Padini Holdings	*	6	3.39	2,230	3.65	Hold	185.7	187.9	184.0	28.2	28.6	28.0	(0.4)	12.0	11.9	12.1	17.3	3.2	2.1	1.2
NESZ MK	Nestle (Malaysia)	*	12	117.70	27,601	119.00	Hold	662.9	733.7	775.0	282.7	312.9	330.5	8.1	41.6	37.6	35.6	115.9	2.6	43.6	(15.9)
QLG MK	QL Resources	*	3	5.53	13,458	5.90	Hold	314.4	391.1	426.3	13.0	16.1	17.5	16.3	42.7	34.3	31.6	13.8	0.8	4.7	0.4
SEM MK	7 - Eleven Msia		12	1.95	2,163	2.10	Hold	68.6	75.4	83.7	6.2	6.8	7.5	10.0	31.5	28.7	26.0	46.1	2.2	13.2	1.0
MNHB MK	Mynews Holdings		10	0.53	394	0.54	Hold	(18.5)	(10.6)	3.2	(2.7)	(1.5)	0.5	n.a.	n.a.	n.a.	108.6	(5.0)	0.0	1.7	(16.7)
BFD MK	Berjaya Food	*	6	0.63	1,123	0.52	Sell	119.9	89.5	74.1	6.7	5.0	4.1	(21.5)	9.5	12.8	15.5	17.4	3.9	2.2	(38.4)
LHIB MK	Leong Hup Intl.		12	0.60	2,172	0.78	Buy	218.9	285.3	220.4	6.0	7.8	6.0	-	9.9	7.6	9.9	12.9	3.9	1.0	20.2
MRDIY MK	MR D.I.Y. Group	*	12	1.53	14,446	2.40	Buy	479.6	545.2	647.8	5.1	5.8	6.9	16.3	30.0	26.4	22.2	32.0	1.9	8.5	(23.5)
INNATURE MK	InNature	*	12	0.35	247	0.35	Hold	21.3	8.0	15.6	3.0	1.1	2.2	(14.4)	11.7	31.8	15.9	5.2	0.9	1.5	(40.2)
FFB MK	Farm Fresh	*	3	1.32	2,471	1.60	Buy	58.0	61.7	96.5	3.1	3.3	5.2	28.4	42.2	40.0	25.6	9.2	0.6	3.7	(2.2)
DXN MK	DXN Holdings	*	2	0.65	3,214	0.90	Buy	294.5	335.7	390.9	6.1	7.0	8.1	15.5	10.6	9.3	8.0	28.0	4.9	2.2	(7.9)

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 24 Nov 2023; Source: Bloomberg pricing, Maybank IBG Research*

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Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY22	CY23E	CY24E	EPS CY22	CY23E	CY24E	CAGR 22-24E (%)	PER CY22	CY23E	CY24E	ROE CY23E (%)	Div Yld CY23E (%)	PBV CY23E (x)	*Px chg YTD (%)*
								|--------- MYR m ---------|			|-------- MYR sen --------|			|------------ (x) ------------|					
Gaming																					
SPTOTO MK	Sports Toto		6	1.48	1,958	1.55	Buy	192.0	226.2	228.1	14.3	16.9	17.0	9.0	10.3	8.8	8.7	20.5	7.1	1.8	*(8.6)*
MAG MK	Magnum		12	1.09	1,567	1.31	Buy	100.5	134.9	168.0	7.0	9.4	11.7	29.3	15.6	11.6	9.3	5.6	6.9	0.6	*(15.5)*
GENT MK	Genting Bhd		12	4.66	17,944	5.49	Buy	87.2	1,220.8	2,188.7	2.3	31.7	56.8	396.9	202.6	14.7	8.2	3.8	3.2	0.6	*4.0*
GENM MK	Genting Msia		12	2.66	15,076	2.70	Buy	235.9	576.0	913.1	4.2	10.2	16.1	95.8	63.3	26.1	16.5	4.7	5.6	1.2	*(1.1)*
Glove																					
HART MK	Hartalega Hldgs	*	3	2.29	7,816	3.02	Buy	905.4	65.5	112.9	26.3	1.9	3.3	(64.9)	8.7	120.5	70.5	1.4	0.0	1.7	*34.7*
KRI MK	Kossan Rubber	*	12	1.62	4,134	2.12	Buy	156.6	48.8	98.8	6.1	1.9	3.9	(20.0)	26.6	85.3	41.5	1.2	0.4	1.1	*47.3*
TOPG MK	Top Glove Corp	*	8	0.80	6,366	0.80	Hold	(54.8)	(366.5)	(27.4)	(0.7)	(4.6)	(0.3)	n.a.	n.a.	n.a.	n.a.	(7.8)	0.0	1.4	*(12.2)*
Healthcare																					
IHH MK	IHH Healthcare	*	12	5.90	51,961	7.13	Buy	1,380.7	1,559.9	1,742.6	15.7	17.7	19.8	12.3	37.6	33.3	29.8	6.0	3.0	2.0	*(5.1)*
KPJ MK	KPJ Healthcare	*	12	1.34	5,848	1.42	Hold	172.0	229.3	260.3	3.8	5.1	5.7	22.5	35.3	26.3	23.5	9.7	2.2	2.6	*32.7*
OPTIMAX MK	Optimax	*	12	0.64	343	0.86	Buy	14.7	13.9	16.2	2.2	2.1	2.4	4.4	28.9	30.2	26.5	23.2	3.3	5.8	*(19.1)*
Materials																					
PMAH MK	Press Metal Ind	*	12	4.83	39,797	4.90	Hold	1,415.2	1,205.4	1,607.4	17.2	14.6	19.5	6.5	28.1	33.1	24.8	16.4	1.2	5.4	*(1.0)*
Media																					
ASTRO MK	Astro Msia Hldgs		1	0.37	1,931	0.47	Sell	288.9	259.1	202.6	5.5	4.9	3.8	(17.1)	6.7	7.5	9.7	21.7	6.6	1.6	*(43.1)*
MPR MK	Media Prima		6	0.43	471	0.41	Hold	15.1	17.5	34.2	1.2	1.6	3.1	64.2	37.0	26.8	13.7	2.6	2.9	0.7	*1.2*
Non-Banking Financials																					
BURSA MK	Bursa Malaysia	*	12	6.80	5,503	6.55	Hold	226.6	251.4	229.7	28.0	31.1	28.4	0.7	24.3	21.9	23.9	30.1	3.9	6.7	*2.3*
ALLZ MK	Allianz Malaysia		12	18.40	3,275	20.00	Buy	472.8	673.0	630.3	136.6	194.4	182.1	15.5	13.5	9.5	10.1	14.1	4.6	0.7	*29.9*
RCE MK	RCE Capital	*	3	2.97	2,177	2.59	Hold	137.4	148.0	152.5	18.8	19.8	20.8	5.2	15.8	15.0	14.3	17.8	6.6	2.6	*75.7*
MNRB MK	MNRB		3	1.25	979	1.40	Buy	118.5	145.9	163.2	15.1	18.6	20.8	17.3	8.3	6.7	6.0	5.5	3.6	0.4	*42.0*
Oil & Gas																					
DLG MK	Dialog Group	*	6	1.92	10,834	2.43	Buy	506.1	528.5	565.5	9.0	9.4	10.1	5.7	21.3	20.4	19.1	9.2	1.8	1.9	*(21.6)*
ICON MK	Icon Offshore	*	12	0.60	325	0.59	Buy	(12.3)	5.8	11.3	(2.3)	1.1	2.1	n.a.	n.a.	54.5	28.6	1.7	8.3	0.9	*26.3*
WSC MK	Wasco	*	12	0.97	751	1.20	Buy	68.8	73.3	100.0	8.9	9.5	12.9	20.4	10.9	10.2	7.5	11.2	0.0	1.1	*56.5*
BAB MK	Bumi Armada		12	0.50	2,932	0.71	Buy	827.9	649.0	853.1	14.0	11.0	14.4	1.4	3.5	4.5	3.4	11.2	0.0	0.5	*3.1*
YNS MK	Yinson Hldgs		1	2.48	7,209	5.05	Buy	442.8	852.1	966.0	16.2	28.0	31.7	39.9	15.3	8.8	7.8	17.6	0.7	1.7	*2.1*
VEB MK	Velesto Energy	*	12	0.23	1,849	0.30	Buy	(71.7)	60.8	178.1	(0.9)	0.7	2.2	n.a.	n.a.	32.1	10.2	2.6	0.0	0.8	*50.0*
HIBI MK	Hibiscus Petro	*	6	2.42	1,946	2.99	Buy	419.5	430.1	437.7	52.1	53.4	54.4	2.1	4.6	4.5	4.5	14.9	2.9	1.5	*(9.5)*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 24 Nov 2023; Source: Bloomberg pricing, Maybank IBG Research*

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Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY22 (MYR m)	Core Net Profit CY23E (MYR m)	Core Net Profit CY24E (MYR m)	EPS CY22 (MYR sen)	EPS CY23E (MYR sen)	EPS CY24E (MYR sen)	CAGR 22-24E (%)	PER CY22 (x)	PER CY23E (x)	PER CY24E (x)	ROE CY23E (%)	Div Yld CY23E (%)	PBV CY23E (x)	*Px chg YTD (%)*
Petrochemical																					
PCHEM MK	Petronas Chem	*	12	7.09	56,720	5.75	Sell	6,581.0	2,072.2	2,875.8	82.3	25.9	35.9	(34.0)	8.6	27.4	19.7	5.2	1.8	1.4	*(17.6)*
TTNP MK	Lotte Chemical	*	12	1.18	2,688	0.83	Sell	(615.7)	(1,085.4)	(722.6)	(27.0)	(47.7)	(31.7)	n.a.	n.a.	n.a.	n.a.	(10.2)	0.0	0.3	*(16.9)*
Plantation																					
GENP MK	Genting Plant	*	12	5.49	4,925	6.00	Buy	491.1	283.2	299.0	54.7	31.6	33.3	(22.0)	10.0	17.4	16.5	5.3	3.4	0.9	*(14.2)*
IOI MK	IOI Corp	*	6	3.96	24,567	4.07	Hold	1,519.1	1,312.5	1,330.7	24.5	21.2	21.5	(6.3)	16.2	18.7	18.5	11.3	3.0	2.1	*(2.2)*
KLK MK	KL Kepong	*	9	21.48	23,165	21.30	Hold	1,917.9	1,139.9	1,352.5	177.9	105.7	125.4	(16.0)	12.1	20.3	17.1	7.9	2.5	1.6	*(3.9)*
SDPL MK	Sime Plantation	*	12	4.49	31,052	4.58	Hold	2,180.1	1,196.7	1,757.7	31.5	17.3	25.4	(10.2)	14.3	26.0	17.7	6.9	3.5	1.9	*(3.4)*
SOP MK	Swak Oil Palms	*	12	2.54	2,261	3.15	Buy	490.0	235.0	255.1	55.6	26.4	28.6	(28.3)	4.6	9.6	8.9	6.8	3.1	0.7	*(2.3)*
TSH MK	TSH Resources	*	12	0.96	1,325	1.03	Hold	189.6	100.9	129.8	13.7	7.3	9.4	(17.2)	7.0	13.2	10.2	5.0	3.9	0.7	*(10.3)*
THP MK	TH Plantations	*	12	0.51	446	0.51	Hold	69.3	19.4	38.0	7.8	2.2	4.3	(25.8)	6.5	23.0	11.7	2.7	0.8	0.6	*(3.8)*
TAH MK	Ta Ann Hldgs	*	12	3.51	1,546	3.80	Buy	348.3	183.7	186.2	79.1	41.7	42.3	(26.9)	4.4	8.4	8.3	10.1	7.1	0.9	*(7.1)*
Property Dev																					
SPSB MK	SP Setia	*	12	0.77	3,331	1.20	Buy	286.8	230.3	669.5	7.0	5.6	16.4	53.1	10.9	13.7	4.7	1.9	2.0	0.3	*27.5*
UEMS MK	UEM Sunrise	*	12	0.77	3,895	0.68	Sell	73.2	86.4	120.4	1.4	1.7	2.4	30.9	55.0	45.3	32.1	1.3	0.6	0.6	*202.0*
SWB MK	Sunway Berhad	*	12	1.96	10,666	2.02	Hold	637.8	682.3	767.4	10.7	11.5	12.9	9.8	18.3	17.0	15.2	5.2	1.8	0.9	*21.0*
ECW MK	Eco World Devt	*	10	1.00	2,944	1.12	Hold	239.6	283.7	311.8	8.2	9.6	10.6	14.1	12.2	10.4	9.4	5.8	6.0	0.6	*55.0*
ECWI MK	Eco World Intl	*	10	0.36	852	0.34	Hold	(145.1)	(82.1)	(44.1)	(6.0)	(3.4)	(1.9)	n.a.	n.a.	n.a.	n.a.	(5.8)	91.5	0.6	*(9.0)*
TILB MK	Tambun Indah	*	12	0.83	365	0.98	Buy	61.2	58.4	63.8	14.0	13.3	14.5	1.8	5.9	6.2	5.7	7.5	6.4	0.5	*8.5*
SDPR MK	Sime Darby Prop	*	12	0.59	3,978	0.75	Buy	328.0	374.8	401.0	4.8	5.5	5.9	10.9	12.2	10.6	9.9	3.9	4.3	0.4	*30.0*
REIT																					
AXRB MK	Axis REIT	*	12	1.78	3,099	2.16	Buy	157.9	155.2	205.5	9.6	8.9	11.8	10.9	18.5	20.0	15.1	5.7	4.5	1.1	*(0.6)*
SALAM MK	Al-Salam REIT	*	12	0.44	255	0.45	Hold	15.7	8.9	12.4	2.7	1.5	2.1	(11.8)	16.3	29.3	21.0	1.4	3.0	0.4	*18.9*
KLCCSS MK	KLCCP Stapled	*	12	7.01	12,655	7.00	Hold	684.7	756.8	769.9	37.9	41.9	42.6	6.0	18.5	16.7	16.5	5.5	5.1	0.8	*4.5*
SENTRAL MK	Sentral REIT		12	0.78	927	0.96	Buy	76.2	72.5	87.1	7.1	6.1	7.3	1.4	10.9	12.7	10.6	5.2	6.7	0.7	*(13.4)*
CLMT MK	Capitaland MT		12	0.55	1,507	0.56	Hold	86.5	105.0	124.3	4.0	3.3	3.9	(1.3)	13.8	16.7	14.1	3.6	5.5	0.5	*2.8*
SREIT MK	Sunway REIT		12	1.55	5,308	1.54	Hold	328.7	334.9	369.7	9.6	9.8	10.8	6.1	16.1	15.8	14.4	6.4	5.7	1.1	*6.2*
IGBREIT MK	IGB REIT		12	1.70	6,123	1.70	Hold	336.2	360.4	386.4	9.4	10.0	10.7	6.7	18.1	17.0	15.9	9.3	5.5	1.6	*3.0*
PREIT	Pavilion REIT		12	1.18	4,310	1.41	Buy	246.4	278.1	312.0	8.1	7.6	7.6	(3.1)	14.6	15.5	15.5	6.2	6.2	0.9	*(2.5)*
YTLREIT MK	YTL REIT		6	1.02	1,738	1.08	Buy	139.0	142.8	149.0	8.2	8.4	8.8	3.6	12.5	12.1	11.7	5.1	7.7	0.6	*10.9*
Renewable Energy																					
CYP MK	Cypark Res	*	10	0.95	782	1.05	Buy	82.7	43.6	34.0	12.9	6.8	5.3	(35.6)	7.4	14.0	17.8	5.2	0.0	0.4	*102.1*
SOLAR MK	Solarvest	*	3	1.24	829	1.40	Buy	16.5	26.7	40.9	2.4	4.0	6.0	57.6	51.1	31.4	20.6	12.8	0.7	3.8	*45.0*

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Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY22	CY23E	CY24E	EPS CY22	CY23E	CY24E	CAGR 22-24E (%)	PER CY22	CY23E	CY24E	ROE CY23E (%)	Div Yld CY23E (%)	PBV CY23E (x)	*Px chg YTD (%)*
								|---------- MYR m ----------|			|--------- MYR sen --------|			|------------- (x) ------------|					
Technology																					
INARI MK	Inari Amertron	*	6	2.96	11,088	3.12	Hold	364.4	349.7	396.8	9.5	9.1	10.4	4.4	31.2	32.5	28.6	13.3	2.8	4.2	*13.4*
VITRO MK	ViTrox Corp	*	12	7.10	6,712	8.10	Hold	217.2	175.5	250.0	22.9	18.5	26.4	7.4	31.0	38.4	26.9	17.5	0.7	6.7	*(7.2)*
GTB MK	Globetronics	*	12	1.77	1,190	1.13	Sell	47.2	26.0	36.1	7.1	3.9	5.4	(12.8)	24.9	45.4	32.8	8.3	2.2	3.9	*52.6*
VSI MK	V.S. Industry	*	7	0.83	3,198	1.05	Hold	201.6	210.7	259.8	4.8	5.0	6.1	12.4	17.2	16.5	13.6	8.9	2.5	1.4	*(5.7)*
GREATEC	Greatech Tech	*	12	4.63	5,807	5.20	Buy	126.6	150.6	185.8	10.1	12.0	14.8	21.1	45.8	38.6	31.3	20.4	0.0	7.9	*(4.3)*
FRCB MK	Frontken Corp	*	12	3.10	4,876	3.50	Hold	122.5	115.8	168.4	7.8	7.4	10.7	17.1	39.7	41.9	29.0	21.9	1.3	8.1	*0.6*
GHLS MK	GHL Systems	*	12	0.73	828	0.93	Buy	28.1	31.1	35.5	2.5	2.7	3.1	11.4	29.0	26.9	23.4	5.7	0.0	1.5	*(15.7)*
MYEG MK	My E.G. Services	*	12	0.82	6,080	1.23	Buy	353.0	453.8	465.4	4.7	6.1	6.2	14.9	17.3	13.4	13.1	20.5	2.0	2.7	*(5.2)*
CTOS MK	CTOS Digital	*	12	1.44	3,326	1.97	Buy	74.0	116.6	122.7	3.2	5.0	5.3	28.7	45.0	28.8	27.2	20.6	1.8	5.9	*1.4*
ATECH MK	Aurelius Tech	*	1	2.69	1,060	3.13	Buy	39.8	46.8	60.9	10.1	11.9	15.5	23.6	26.5	22.7	17.4	14.4	2.1	3.8	*47.0*
RAMSSOL MK	Ramssol	*	12	0.39	118	0.46	Buy	4.0	7.2	8.9	1.8	2.9	3.6	41.4	21.4	13.3	10.7	11.5	0.0	1.4	*(12.5)*
ITMAX MK	ITMAX System	*	12	1.83	1,882	2.10	Buy	44.5	65.6	94.6	4.3	6.4	9.2	46.3	42.6	28.6	19.9	19.4	0.7	5.5	*28.9*
Telecommunication																					
CDB MK	CelcomDigi	*	12	4.10	48,099	4.60	Hold	763.5	1,503.6	2,117.2	9.4	12.8	18.0	38.4	43.6	32.0	22.8	9.3	3.1	2.9	*2.5*
T MK	Telekom Msia	*	12	5.29	20,296	6.50	Buy	1,245.9	1,794.9	1,830.6	32.9	47.0	47.9	20.7	16.1	11.3	11.0	19.9	3.6	2.2	*(2.0)*
AXIATA MK	Axiata Group	*	12	2.31	21,204	3.00	Buy	1,586.7	358.1	513.9	17.3	3.9	5.6	(43.1)	13.4	59.2	41.3	1.5	4.3	0.9	*(25.2)*
MAXIS MK	Maxis	*	12	3.83	29,997	4.00	Hold	1,182.0	1,287.7	1,436.1	15.1	16.4	18.3	10.1	25.4	23.4	20.9	20.4	4.4	4.8	*(0.3)*
TDC MK	Time dotCom	*	12	5.15	9,511	5.30	Hold	421.1	419.3	442.8	23.0	22.8	24.1	2.4	22.4	22.6	21.4	11.5	15.0	4.5	*5.1*
Transport																					
CAPITALA MK	Capital A	*	12	0.85	3,616	1.01	Buy	(2,717.1)	(457.7)	519.5	(65.2)	(6.6)	9.7	n.a.	n.a.	n.a.	8.8	7.4	0.0	(0.6)	*36.0*
AAX MK	AirAsia X	*	12	1.88	840	3.40	Buy	(781.2)	64.7	253.6	(188.3)	14.5	56.7	n.a.	n.a.	13.0	3.3	56.6	0.0	4,700.0	*229.8*
MAHB MK	Msia Airports		12	7.20	12,014	7.96	Buy	(406.2)	308.8	611.8	(24.5)	18.5	36.7	n.a.	n.a.	38.9	19.6	4.7	1.3	1.6	*9.8*
WPRTS MK	Westports	*	12	3.58	12,208	4.35	Buy	673.5	785.5	827.2	19.8	23.0	24.3	10.8	18.1	15.6	14.7	22.6	4.8	3.5	*(5.8)*
MISC MK	MISC	*	12	7.09	31,648	7.65	Buy	2,074.1	2,132.7	2,168.3	46.5	47.8	48.6	2.2	15.2	14.8	14.6	5.6	5.1	0.8	*(5.5)*
SWIFT MK	Swift Haulage	*	12	0.53	467	0.52	Hold	45.6	33.9	38.8	5.1	3.8	4.4	(7.1)	10.4	13.9	12.0	5.0	2.5	0.7	*10.4*
Utilities																					
TNB MK	Tenaga Nasional	*	12	9.93	57,468	10.00	Hold	4,702.9	4,300.2	4,604.8	81.4	74.5	79.7	(1.0)	12.2	13.3	12.5	7.1	4.1	0.9	*3.1*
PTG MK	Petronas Gas	*	12	16.74	33,124	17.00	Hold	1,696.2	1,787.2	1,810.9	85.7	90.3	91.5	3.3	19.5	18.5	18.3	13.2	4.3	2.5	*(2.2)*
GMB MK	Gas Msia	*	12	3.09	3,968	3.20	Hold	389.5	383.8	338.4	30.3	29.9	26.4	(6.7)	10.2	10.3	11.7	27.9	7.2	2.9	*(5.2)*
MLK MK	Malakoff Corp	*	12	0.63	3,054	0.52	Sell	302.2	(483.3)	292.4	6.2	(9.9)	6.0	(1.6)	10.1	n.a.	10.4	(8.4)	3.2	0.6	*(3.8)*
YTLP MK	YTL Power		6	2.46	19,931	2.70	Buy	950.7	2,497.9	2,878.9	11.8	30.9	35.6	73.9	20.9	8.0	6.9	13.8	2.4	1.1	*244.1*
MFCB MK	Mega First Corp	*	12	3.57	3,366	4.30	Buy	372.0	386.1	412.7	39.4	40.8	43.7	5.3	9.1	8.8	8.2	12.6	2.4	1.1	*7.5*
RAHH MK	Ranhill Utilities	*	12	0.87	1,122	0.70	Sell	96.7	45.1	45.4	7.5	3.5	3.5	(31.7)	11.6	24.9	24.9	5.8	2.9	1.4	*91.2*

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SECTOR OUTLOOK

AUTOMOTIVE: Transformation brewing

NEUTRAL (downgraded)

- **We anticipate 2024 TIV to stabilize at 650k units after two consecutive record years. Signs of demand softening reported by certain car dealers and automotive parts suppliers might soon be reflected in car sales volume.**
- **Local automotive players face risks tied to uncertainties in the industry and policies (ie. the upcoming High Value Goods Tax). Competition is also expected to intensify, potentially impacting margins for the auto players.**
- **Our top BUY is BAuto, backed by its solid fundamentals - resilient financials (in net cash, strong FCFs) - and an attractive dividend yield of >8%.**

In retrospect. 2023 is shaping up to be another record year in terms of volume sales for the automotive industry, even after the SST holiday ended in Mar 2023 (10M TIV: 647k units, +12% YoY). Sales were largely driven by pent-up demand post-pandemic, resulting in a high backlog of orders. Improvements in the supply chain and production contributed to meeting the increased demand. The industry is also benefitting from a robust pipeline of new product launches, including exciting new EV models. Tesla entered the M'sia market in Jul 2023 with its Model Y followed by the Model 3 launches.

Outlook. We anticipate 2024 TIV to stabilize at 650k units after two consecutive record years. Although current order backlogs are still higher than pre-pandemic levels, they are gradually normalizing as carmakers increase production to fulfill orders. Our channel checks reveal potential demand weakness ahead as reported by certain car dealers and automotive parts suppliers, which might soon impact car sales performance. Into 2024 too, local automotive players face risks tied to uncertainties in the industry and policies, such as 1) the High Value Goods Tax that is to be implemented from 1 May 2024 – this could affect premium vehicle sales; and 2) the shift from dealership to agency model, driven mainly by continental carmakers' plans to establish a stronger presence in Southeast Asia.

As for the increased FDIs by foreign automakers in the industry of late, the positive impact will be long-term and it depends on the position of auto players in the supply chain. Clear winners for now include the local consumers and auto parts players. For local players in the production and distribution chain, we expect competition to intensify in 2024, potentially impacting their margins. This considers numerous new product launches, including EV brands/models scheduled for the year.

Thematic 1: Influx of FDIs to tap into the underserved market. Post-pandemic, Malaysia has become an increasingly attractive destination for FDIs from global automakers establishing their regional HQ/EV hub, including prominent names such as Volvo, Stellantis, Tesla, and Chery. Notably, several carmakers have announced the local assembly of vehicles for both domestic and export markets, with players like Mercedes-Benz, BMW, Porsche, Audi, and Dong Feng leading the way.

Analyst: Loh Yan Jin
(lohyanjin.loh@maybank-ib.com)

Automotive sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Sime Darby	Hold	16,153	2.37	2.53	13.9	13.4	12.1	0.9	7.3	5.2	3.0
UMW Hldgs	Buy	5,783	4.95	6.22	13.8	10.8	11.1	1.2	11.4	3.7	42.7
Bermaz Auto	Buy	2,685	2.30	3.51	10.6	8.4	8.0	3.3	39.5	9.3	8.0
MBM Resources	Hold	1,681	4.30	4.91	7.5	5.9	6.6	0.8	13.4	13.1	31.1
Tan Chong Motor	Sell	629	0.97	0.86	n.a.	n.a.	n.a.	0.2	(4.2)	3.1	(18.2)
Simple average		**26,931**			**11.4**	**9.6**	**9.5**	**1.3**	**13.5**	**6.9**	

Source: Bloomberg, Maybank IBG Research

Consequently, there has been a robust pipeline of new products and models entering the Malaysian market, with more anticipated, especially in the realm of new EV models. While the influx of new offerings may intensify competition among local automotive players, there are positive aspects, such as higher penetration of car sales in the domestic market. Some industry insiders note an underserved affluent market locally, presenting a new potential market to explore. The introduction of new CKD products, particularly in the luxury segment, has the potential to make luxury cars more competitively priced. Depending on the local market's reception to these new offerings, there is a possibility that this surge in products could act as a catalyst for upward adjustments in TIV as market penetration improves.

Thematic 2: Agency model vs. distributorship model. Meanwhile, as Western carmakers establish their presence in Malaysia, there is a growing trend towards adopting the agency model over the traditional distributorship model. This shift poses a threat to local automotive players, as seen in the recent cases of Mercedes-Benz and Hap Seng (HAP MK, Not Rated), and Peugeot and BAuto. Notably, Tesla in Malaysia and Volvo's BEV lineup have also embraced the agency model. However, we view this trend as more of a diverse approach rather than a universal shift, depending on the distinct objectives of various carmakers. For instance, many new Chinese EV players entering Malaysia's market still adhere to the traditional distributorship/dealership model. Therefore, it is crucial for existing distributors/ dealers, especially those with exposure in the premium market like BAuto, SIME and MBM, to actively seek new distributorship partners. This would also enable them to gain exposure in the EV market, offering the right models at attractive price points. SIME has taken the lead by establishing a partnership with BYD in distributorship, while BAuto is actively exploring new opportunities in the EV space.

Thematic 3: EV transition goes into higher gear. While the penetration rate of BEVs (Battery Electric Vehicles) remain low in the local automotive market (c.1%), the industry is making significant strides in this direction. The introduction of new EV brands and models is a positive sign, and we anticipate that BEV sales in Malaysia will surpass the 10k units mark in 2024. Our optimism aligns with the national targets revealed by the Minister of Investment, Trade and Industry in late Nov 2023, aiming for 20%/50%/80% of new car sales to be xEVs by 2030/2040/2050 respectively. Noteworthy launches in 2023, such as the Tesla Model 3 and Model Y, smart #1, BYD Dolphin, Neta V, Chery Omoda 5, Porsche e-tron GT, and others, have garnered positive responses with strong market bookings.

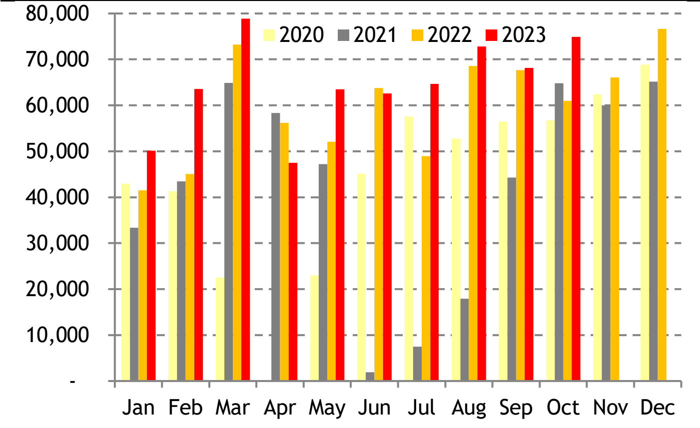
We expect the demand growth for xEVs to gain further momentum with upcoming launches in 2024, including the BYD Seal (1Q24), Dong Feng Nammi 01 (2Q24), Toyota bz4x, and more. The increased presence of EV brands locally is set to have a positive impact on expediting the transition of the entire EV ecosystem. This is likely to be facilitated through increased partnerships, collaborations, and M&As between EV automakers and infrastructure/component suppliers. Furthermore, we foresee additional policy announcements, including the next installment of the National Automotive Policy (NAP), which is expected to strengthen the policy focus and facilitations for the EV ecosystem in alignment with the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

Sector rating. We have become more cautious about the industry's outlook into 2024 as TIV is anticipated to stabilize to previous levels, instead of another strong growth year. The industry landscape is also undergoing significant transformation due to the transition towards EV adoption, shifts in policies, and a rise in FDIs which would impact the industry's near-term dynamics (albeit being long-term positive). On these considerations, we downgrade the sector to NEUTRAL.

Sector top BUY. Our preferred choice is BAuto. We favor BAuto for its robust fundamentals and resilient financial standing, characterized by a net cash position, robust FCFs (owing to its asset-light business model), and an attractive dividend yield offering of >8%. Despite our expectation of a YoY normalization in TIV, our projection for BAuto's earnings growth for FY24E remains well-supported by sustained strong demand for Mazda (1HFY24 Mazda MY sales: 10k units, vs. FY24E target of 18k units; booking rate: c.1,500 units/mth). Furthermore, BAuto's earnings would benefit from an increasing CKD mix (higher margins) in its portfolio. Potential addition of a new EV distributorship may further enhance its portfolio.

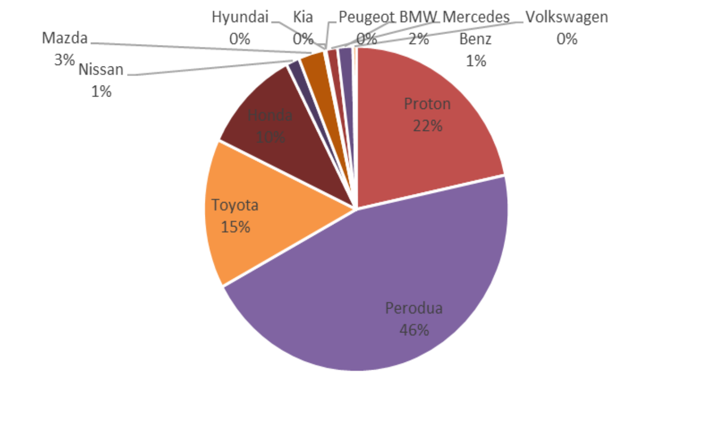
Risks. (i) An unfavorable and sudden shift in automotive policies and direction; and (ii) a significant downturn in consumer sentiment, or disruptions in the supply chain which could impact vehicle sales and production. Additionally, (iii) foreign exchange volatility, particularly the USD/MYR and JPY/MYR,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

Total Industry Volume (TIV)



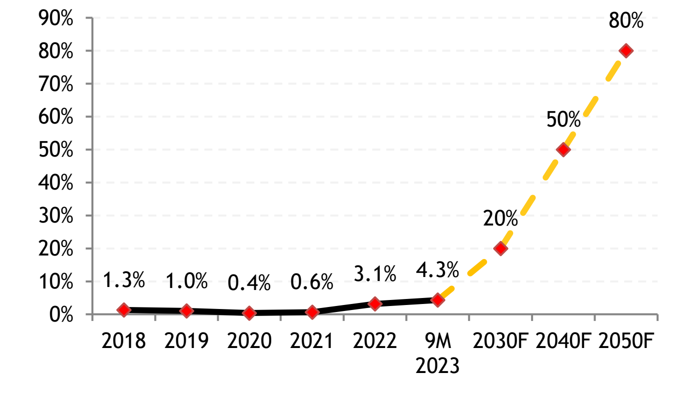
Source: MAA, Maybank IBG Research

Malaysia's market shares by marques



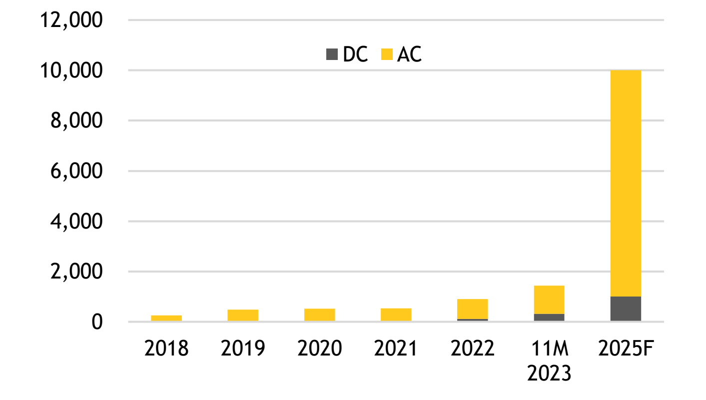
Source: MAA, Maybank IBG Research

% of xEVs vs. TIV



Source: MOT, MAA, Maybank IBG Research

EV chargers in Malaysia



Source: MGTV, MEVnet

AVIATION: Towards cruising altitude

POSITIVE (unchanged)

- **In 2024, we expect the post-COVID recovery to continue consolidating as airlines reactivate their fleet.**
- **Key themes are MAHB's new OA and China-Malaysia visa liberalisation.**
- **In our opinion, risk averse investors may prefer MAHB while alpha seeking investors may prefer CAPITALA and AAX.**

In retrospect - MAHB. 2023 started with MAHB's January Malaysia passenger traffic at 75% of 2019 levels (int'l: 62%, domestic: 89%) and Turkey passenger traffic at 101% of 2019 levels (int'l: 148%, domestic: 76%). In May 2023, MAHB reporting 1Q23 core net profit of MYR44.0m, its first since the COVID-19 pandemic struck. By Oct, MAHB's Malaysia passenger traffic has recovered to 80% of 2019 levels (int'l: 79%, domestic: 80%) as airlines reactivated their fleet and Turkey passenger traffic has recovered to 106% of 2019 levels (int'l: 133%, domestic: 86%). We were positively surprised by the resilience of MAHB's Turkey passenger traffic considering the massive earthquake that hit Turkey in Feb.

During the year, **MYAirline (Not Listed)** (which commenced operations in Dec 2022) expanded to 9 A320s but suddenly suspended operations on 12 Oct 2023 due to financial difficulties.

In retrospect - CAPITALA and AAX. The MYR weakened to a 25-year low of MYR4.79: USD1.00 in Nov as the Federal Reserve Board tightened monetary policy. While jet fuel prices were lower YoY, they were still high by historical standards as OPEC+ cut production quotas. Yet, CAPITALA continued to report narrower losses (1Q23: -MYR286.7m, 2Q23: -MYR182.8m, 3Q23: -MYR100.5m) as it carried more passengers on more of its aircraft returning to service. For AAX, it started the year well with a 1Q23 core net profit of MYR42.5m but generated 2Q23/3Q23 core net loss of MYR33.8m/MYR8.7m due to seasonally lower load factors, high maintenance costs as aircraft returned to service and lower fares QoQ on weak demand to and from China. Curiously, AAX got its PN17 classification lifted on 21 Nov 2023.

For 4Q23, we expect it to be profitable for both CAPITALA and AAX on seasonally more passengers and higher fares coupled with lower jet fuel prices. From a 3Q23 high of nearly USD130/bbl, jet fuel prices have eased to USD106/bbl.

Outlook - MAHB. For 2024, we expect MAHB's Malaysia passenger traffic to average at 93% of pre-COVID levels (int'l: 85%, domestic: 100%). Domestic passenger traffic will be driven by the return to service of Malaysia AirAsia's aircraft (current: 75, end-4Q23E: 99). We are not at all concerned on the impact of MYAirline's suspension of operations. MYAirline accounted for <10% of domestic passenger traffic and <2% of revenue, considering that domestic PSCs are 5-7x lower than that of international PSCs. Yet, we do not expect international passenger traffic to recover to 100% of pre-COVID levels due to fewer wide body planes. **Malaysia Airlines (Not Listed)** returned 6 A380s but leased only 1 A350 and AirAsia X returned 7 A330s but **Batik Air Malaysia (Not Listed)** leased only 2 A330s.

For MAHB's Turkey passenger traffic, we expect it to continue averaging at 3.0m-3.1m p.m. with an international-to-domestic split of 53%:47%.

Analyst: Yin Shao Yang, CPA
(samuel.y@maybank-ib.com)

Aviation sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
M'sia Airports Hldgs	Buy	12,014	7.20	7.96	n.a.	38.9	19.6	1.6	4.7	1.3	9.8
Capital A	Buy	3,616	0.85	1.01	n.a.	n.a.	8.8	(0.6)	7.4	0.0	36.0
AirAsia X	Buy	840	1.88	3.40	n.a.	13.0	3.3	4700.0	56.6	0.0	229.8
Simple average		**16,470**			**n.a.**	**25.9**	**10.6**	**n.m.**	**22.9**	**0.4**	

Source: Bloomberg, Maybank IBG Research

Outlook - CAPITALA and AAX. For CAPITALA, we expect it to generate its first yearly core net profit (since the COVID-19 pandemic struck) in 2024 due to:- (i) 100% of its aircraft being returned to service (end-3Q23: c.75%); and (ii) less intense competition after MYAirline suspended operations in Oct 2023. 4Q23 to date, we are told that Malaysia AirAsia (MAA) fares have already risen meaningfully. We also eagerly await CAPITALA's PN17 regularisation plan that may involve CAPITALA selling its shareholdings in its 4 airlines (MAA, Thai AirAsia, Indonesia AirAsia, Philippines AirAsia) to AAX.

For AAX, we expect it to be a profitable 2024 not just due to Malaysia AirAsia X (MAAX) having a larger active average fleet of 17 aircraft (end- FY23E average: 12) but also Thai AirAsia X (TAAX). AAX will begin equity accounting TAAX's results from 4Q23. We forecast TAAX to contribute c.MYR80m p.a. to AAX's group earnings.

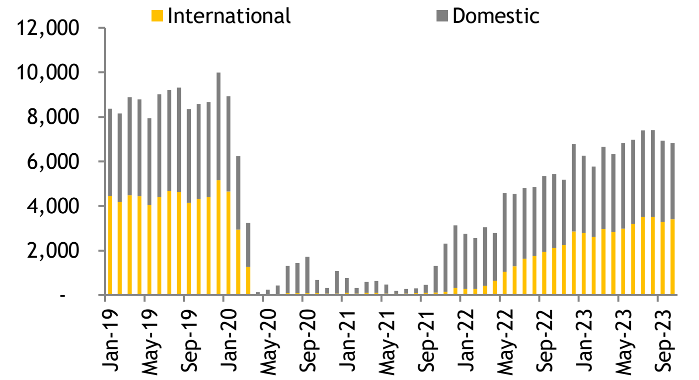
Thematic. We eagerly await the release of MAVCOM's third consultation paper that will guide how MAHB's new Operating Agreement (OA) with the Government of Malaysia (GOM) will be drafted. Recall that MAVCOM proposed 2 Regulatory Periods (RP). RP1 will take place from 2024 to 2026 and RP2 ostensibly from 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, MAVCOM proposed that MAHB adopts the Regulated Asset Base model. If executed soon, MAHB is still hopeful that a new OA can be implemented within 1H24.

We also await the positive impact from China and Malaysia's move to ease visa requirements for each other's citizens effective 1 Dec 2023 (link, link). We gather this will benefit AAX more as 25% of MAAX FY19A ASK was to Chinese destinations whereas only 11% of Malaysia AirAsia FY19A ASK was to Chinese destinations.

Sector top BUY. We have BUYs on all the aviation stocks under our coverage. We like MAHB for its steady earnings recovery driven by the recovery in passenger traffic while not being exposed to volatile fuel prices. We also like CAPITALA and AAX for the former's potential to generate a profitable FY24E and have its PN17 classification lifted and the latter's potentially strong earnings growth in FY24E driven by a larger active fleet and TAAX. That said, we concede that many investors do not appreciate their exposure to volatile jet fuel prices. In our opinion, risk averse investors may prefer MAHB while alpha seeking investors may prefer CAPITALA and AAX.

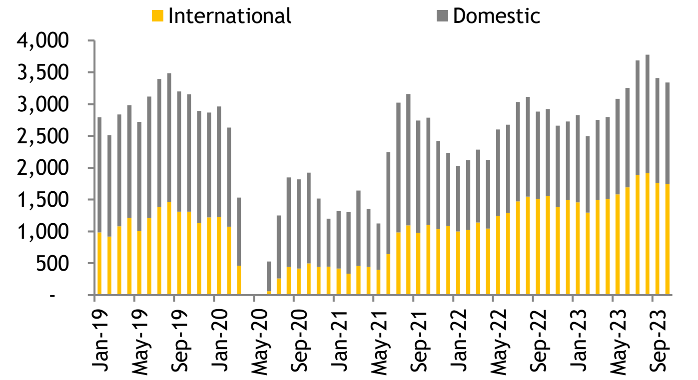
Risks to our call. (i) Full blown recession leading to subdued demand for air travel and/or lower fares; (ii) For MAHB, less-than-favourable new OA with the GOM; (iii) For CAPITALA and AAX, higher jet fuel prices, higher USD exchange rate relative to MYR and potential delisting due to PN17 listed issuer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

MAHB's Malaysia passenger traffic ('000)



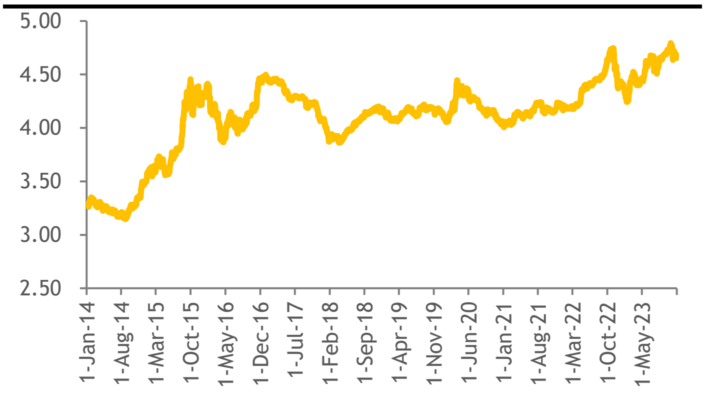
Source: MAHB

MAHB's Turkey passenger traffic ('000)



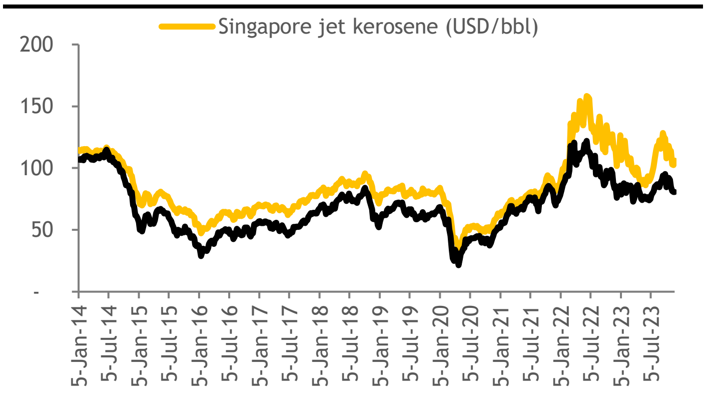
Source: MAHB

USD/MYR exchange rate



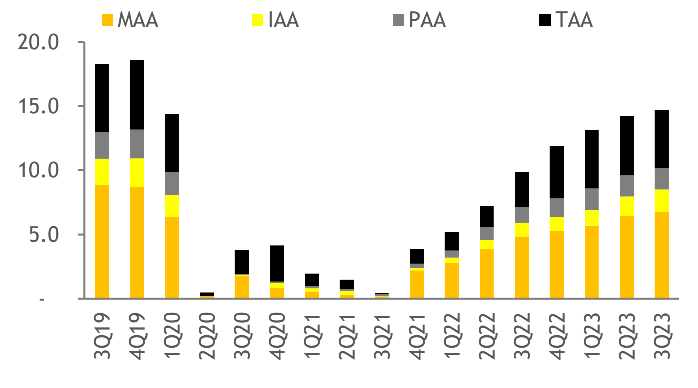
Source: Bloomberg

Crude oil and jet fuel prices



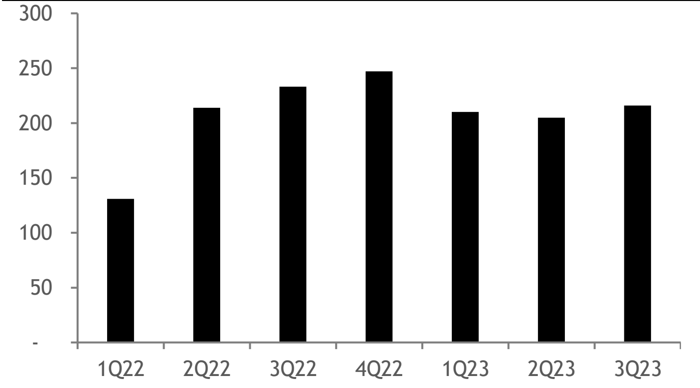
Source: Bloomberg

CAPITALA passengers carried (m)



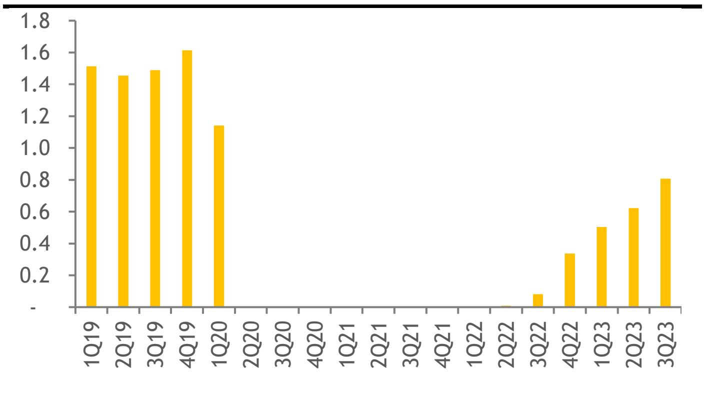
Source: CAPITALA

CAPITALA average fares (MYR)



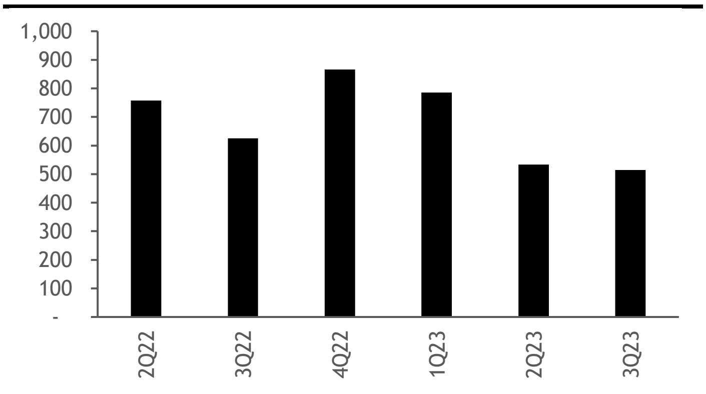
Source: CAPITALA

MAAX passengers carried (m)



Source: AAX

MAAX average fares



Source: AAX

BANKING: Stable earnings growth

POSITIVE (unchanged)

- **We project stable NIMs in 2024, but assume still elevated credit costs, given prevailing external uncertainties. Even so, we project decent operating/ net profit growth of 6.2%/5.8% in 2024E and 5.9%/6.5% in 2025E, with stable ROEs of 10.1%.**
- **Valuations undemanding with most stocks trading close to/below their -1SD forward PER valuations. Moreover, dividend yields of 5% provide support.**
- **POSITIVE maintained along with BUYs on CIMB, PBK, AMMB, HLFG, HLBK and ABMB.**

In retrospect. Industry loans growth was just 4.0% YoY in Oct 2023 supported by household (HH) loan growth of 5.8% while non-HH loan growth was a tepid 1.5% YoY as repayments outpaced disbursements. NIMs compressed on average by 26bps to 2.09% in 1H23 for banks in our coverage against an average of 2.34% in 2022; NIMs stabilised and expanded slightly in 3Q23 at 2.11%. 3Q23 was a commendable results season for banks, with no disappointments. Cumulative 9M23 operating profit was relatively flat YoY, as NIM compression negated NOII expansion, while 9M23 core pretax profit rose 8% YoY amid lower provisions and core net profit jumped 18% YoY in the absence of Cukai Makmur. We expect the banks in our coverage to end the year with a cumulative net profit growth of 11.6%.

Outlook. We maintain our 2024 industry loan growth forecast of 4.6% (2023E: 4.6%). NIMs expanded slightly in 3Q23, but we expect seasonal deposit competition to set in, in 4Q23. Overall, we expect NIM to compress by 25bps in 2023, but to stabilize into 2024, with an average 2bps expansion. We have maintained prudent credit cost assumptions and impute average credit costs of 25/24bps in 2024/25E (24bps in 2023E). Into 2024E, we project core net profit growth of 5.8%, driven by operating profit growth of 6.2% YoY, mitigated in part by a higher aggregate credit cost average of 25bps versus 24bps in 2023. We project core net profit growth of 6.5% YoY in 2025E on operating profit growth of 5.9%. We expect ROEs to average 10.2% in FY24/25E against 10.4% in FY23E.

Thematic. Todate, only one digital bank has commenced operations, which is GXS Bank, a joint venture between GRAB and Singtel. The other four digital banks are in various stages of readiness, and are expected to launch by April 2024. In the near term, we are likely to see heightened deposit competition, but we do not see the digital banks as a significant threat to the incumbent banks in the foreseeable future, given that the latter are stepping up their IT offerings as well.

Analyst: Desmond Ch'ng, ACA, BFP
(desmond.chng@maybank-ib.com)

Banking sector – Peer valuation summary

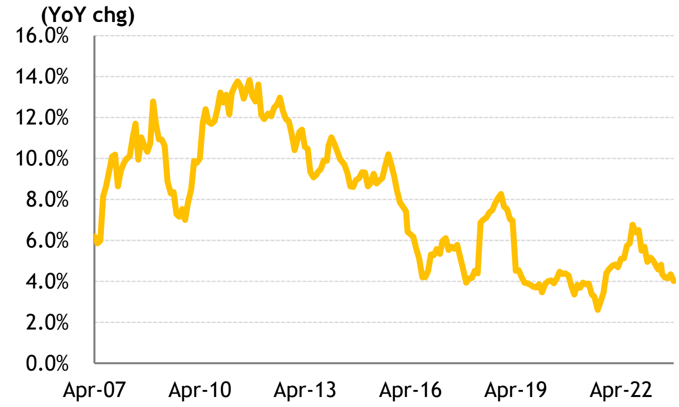
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Public Bank	Buy	82,495	4.25	5.05	13.3	12.1	11.5	1.5	12.6	4.5	(1.6)
CIMB Group	Buy	61,751	5.79	6.70	11.1	9.0	8.6	0.9	9.9	5.9	(0.2)
Hong Leong Bank	Buy	41,750	19.26	23.00	11.4	10.3	10.0	1.1	11.1	3.3	(6.3)
RHB Bank	Hold	23,575	5.50	6.20	8.1	8.2	8.3	0.8	9.2	6.0	(5.0)
Hong Leong Fin Group	Buy	18,759	16.38	21.70	7.2	6.6	6.4	0.7	10.1	3.1	(11.9)
AMMB Holdings	Buy	13,301	4.02	4.75	8.1	8.2	7.9	0.7	8.5	4.5	(2.9)
Bank Islam M'sia	Hold	5,258	2.32	2.45	11.6	10.1	9.7	0.7	7.1	6.0	(15.0)
Alliance Bank Malaysia	Buy	5,387	3.48	4.10	8.2	8.3	8.0	0.8	9.1	6.1	(5.2)
Simple average		**361,664**			**10.3**	**9.4**	**9.1**	**0.9**	**9.8**	**5.2**	

Source: Bloomberg, Maybank IBG Research

Sector BUYs. Stocks within our coverage currently trade at a 1-year forward average 2024E PER of about 9x, against a -1SD to mean of 10.1x. Valuations are close to the COVID low of 8.3x in Oct 2020, which is not justified, in our view, given the resumption in earnings growth. We maintain our BUY call on CIMB, PBK, AMMB, HLFG, HLBK and ABMB.

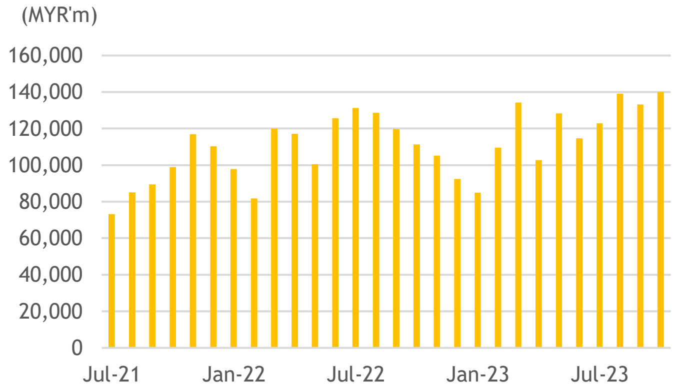
Risks. (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset quality issues; (ii) marked-to-market investment losses if bond yields rise further; and (iii) a further slowdown in CASA growth, which could exacerbate deposit competition. Present downside risks include a) inflationary pressure and its negative impact on consumption and spending power; b) global instability amid increased political tensions; c) higher-than-expected default rates.

Total industry YoY loan growth (Apr 2007 - Oct 2023)



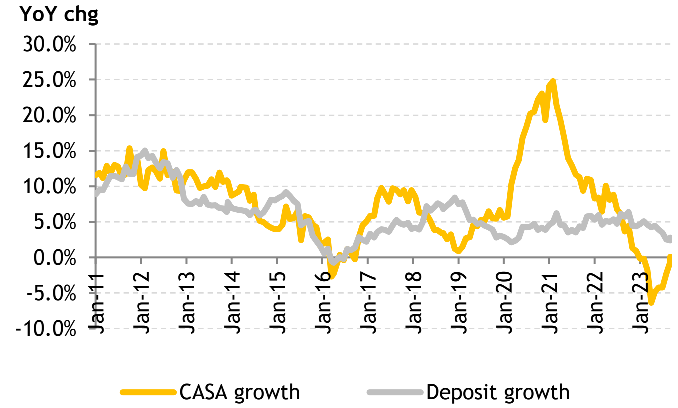
Source: BNM

Total monthly loan applications (Jul 2021 - Oct 2023)



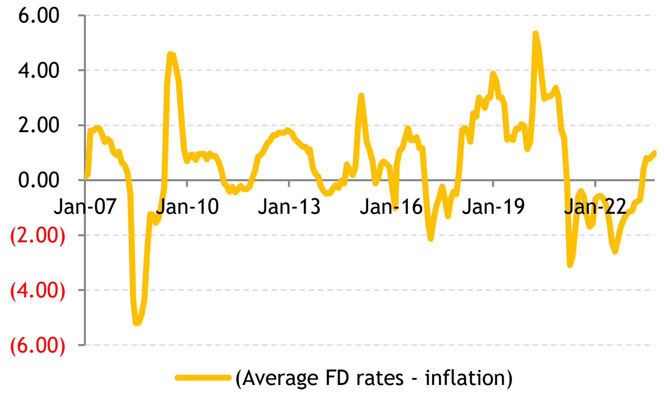
Source: BNM

Total deposits vs CASA growth (Jan 2011 - Oct 2023)



Source: BNM

Differential between average fixed deposit rates & inflation



Source: BNM, Maybank IBG Research

CONSTRUCTION: Tailwind ahead

POSITIVE (unchanged)

- **2024 to see Government's decisions on the Bayan Lepas LRT and KVMRT3; also, sizeable private sector driven infrastructure project awards.**
- **Besides thematics riding on key infra projects and FDIs, we foresee a continuing thematic on East Malaysia construction.**
- **Gamuda, IJM and CMS are our BUY picks in the sector.**

In retrospect. 2023 has not been a big disappointment for the construction sector on several fronts. The value of works completed in the country rose 9% YoY in 9M23, of which 38% was civil engineering, 52% residential/non-residential building works. By source of funding, 61% was private sector driven, 21% government, 18% public corporations. Budget 2024 reiterated the Government's commitment for the Bayan Lepas LRT, continuation of Pan Borneo Highway and Sabah-Sarawak Link Road, and revival of 5 KVLRT3 stations. Elsewhere, KVMRT3 is pending a decision for a lower project cost of <MYR45b; validity of tender for main civil work packages has been extended (for the 4th time) to end-Mar 2024. The KL-SG HSR may be revived under a design-finance-build-operate-transfer model; a request for information deadline has been extended to 15 Jan 2024 to be followed by a request for proposal next.

Outlook. We are upbeat for 2024. Budget 2024 forecasts the sector's real output to expand by a quicker 6.8% (2023E: +6.3%), supported by a higher GDE allocation of MYR90b (2023E: MYR83.6b, ex- allocation for USD3b 1MDB bond redemption), or 4.5% of GDP. Taking off, amongst others, will be a MYR11.8b nationwide flood mitigation program comprising 33 projects. Our expectations are also for decisions on key infra projects to be firmed up. The Bayan Lepas LRT (e.MYR10b, PIA to Komtar) is undergoing a feasibility study to potentially extend the main line to the mainland. Under the newly passed Public Finance and Fiscal Responsibility Act which provides for a higher financial guarantee (of up to 25% of GDP) by the Government, there will be headroom to fund both Bayan Lepas LRT and KVMRT3 projects. Beyond these key infra projects, the positive momentum in FDIs under the NIMP2030 will offer higher-value industrial building type of construction works.

Elsewhere, sizeable private sector driven infra project awards can be expected in 2024: i) Penang Int'l Airport expansion (e.MYR1b+, by M'sia Airports); ii) Westports 2.0 (e.MYR6.3b for Phase 1, by Westports); iii) Silicon Island common infra works (e.MYR2b+, by Gamuda). In addition, the Subang Airport Regeneration Plan (to be spearheaded by M'sia Airports) offers substantial construction potential.

Thematic. Besides thematics riding on key infra projects (in KV/Penang) and FDIs, we also foresee a continuing thematic on East M'sia. Another expansionary state budget totaling MYR12.36b for 2024F (+7.5% YoY) in Sarawak, of which MYR9b has been set aside to fund development – the largest ever – implies strong construction activities ahead. Sarawak's plan to export energy (hydro) to Singapore also implies the construction of new HEP dams and interior road networks. Sabah meanwhile will see the Pan Borneo Sabah Phase 1b (366km) comprising 19 work packages taking off. Federal Government development allocation in 2024F is a higher MYR6.6b for Sabah (2023E: MYR6.5b), and MYR5.8b for Sarawak (2023E: MYR5.6b).

Abbreviations

LRT = Light rail transit
KVLRT3 = Klang Valley Light Rail Transit 3
KVMRT3 = Klang Valley Mass Rapid Transit 3
KL-SG HSR = Kuala Lumpur-Singapore High Speed Rail
GDE = Gross development expenditure
GDP = Gross domestic products
PIA = Penang International Airport
FDIs = Foreign direct investments
NIMP2030 = New Industrial Master Plan 2030
KV = Klang Valley
HEP = Hydro electric power

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

Construction sector – Peer valuation summary

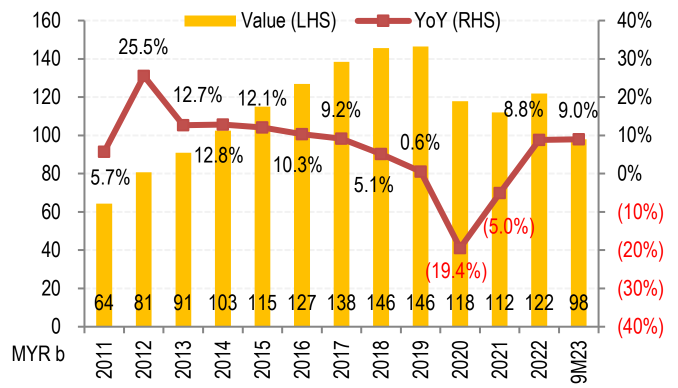
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Gamuda	Buy	12,080	4.44	5.25	13.3	13.1	12.4	1.1	8.0	7.7	18.4
IJM Corp	Buy	6,627	1.89	2.20	20.9	19.8	17.2	0.7	3.4	3.4	18.1
Sunway Construction	Hold	2,450	1.90	1.85	18.1	18.1	17.0	3.1	16.9	2.9	21.8
Cahya Mata Sarawak	Buy	1,117	1.04	1.30	10.5	11.1	8.0	0.3	3.1	2.9	(2.8)
Pintaras Jaya	Buy	257	1.55	1.70	24.0	n.a.	40.8	0.6	(0.2)	2.3	(25.5)
Simple average		**22,531**			**17.4**	**15.5**	**19.1**	**1.2**	**6.2**	**3.8**	

Source: Bloomberg, Maybank IBG Research

Sector top BUY. Our POSITIVE call on the sector is unchanged. Our three key BUYs are Gamuda, IJM and CMS. Both Gamuda and IJM are also eyeing for orderbook replenishment from East M'sia, in addition to those in the Peninsular, and overseas (esp. Australia) for Gamuda. Gamuda is also looking into the renewable energy (RE) segment - it targets to achieve at least 800MW in RE asset portfolio (solar & hydropower) under its Gamuda Green Plan 2025. As for IJM, we think upside could come from major contract wins in East M'sia (Nusantara) which it is pursuing. CMS meanwhile remains a liquid proxy to higher construction activities in Sarawak.

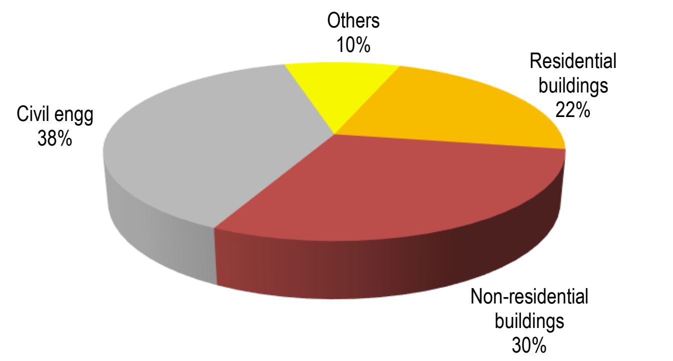
Risks. (i) Shortfall in orderbook replenishment will hamper future earnings momentum; (ii) Surge in construction material, fuel and labour costs will cut into margins for jobs already secured.

Value of construction works completed, yearly & YoY chg



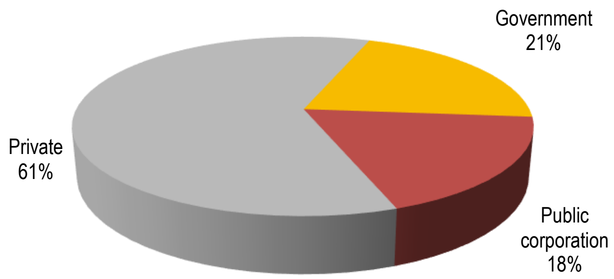
Source: DOSM, Maybank IBG Research

Value of construction works completed in 9M23 of MYR98b, by type



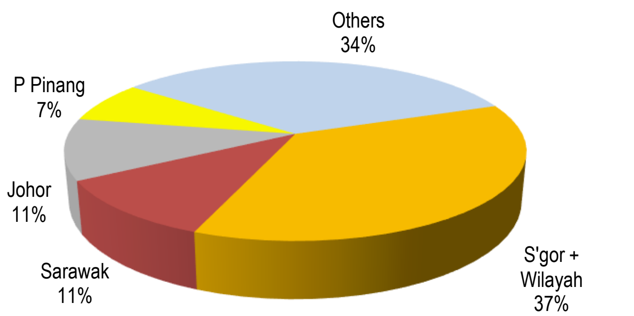
Source: DOSM, Maybank IBG Research

Value of construction works completed in 9M23 of MYR98b, by funding type



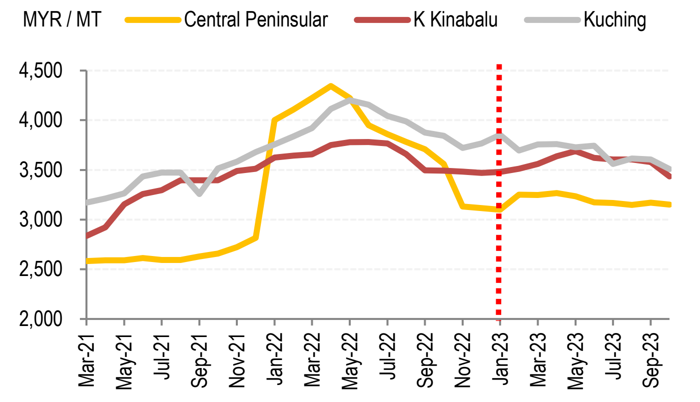
Source: DOSM, Maybank IBG Research

Value of construction works completed in 9M23 of MYR98b, by state



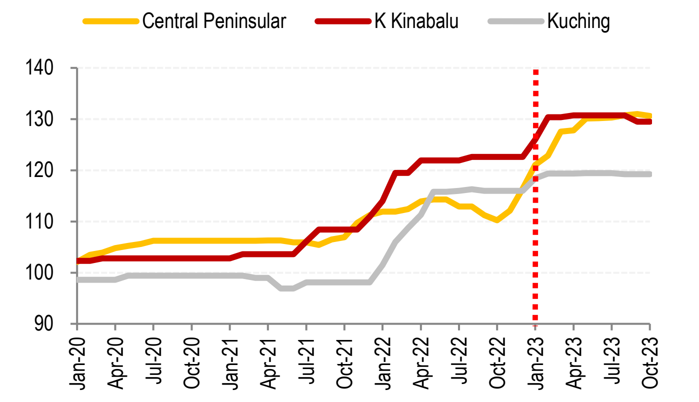
Source: DOSM, Maybank IBG Research

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



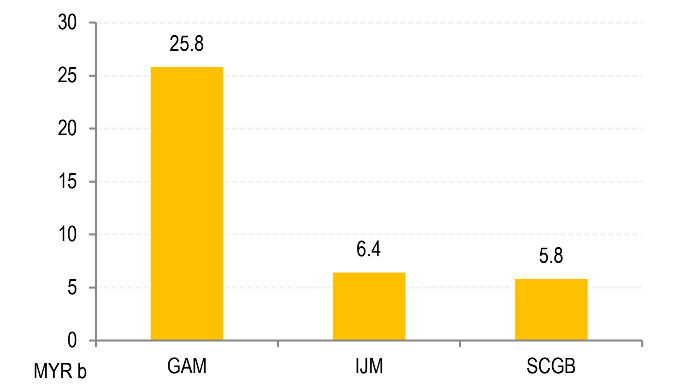
Source: DOSM, Maybank IBG Research

Cement unit price index (for building works)



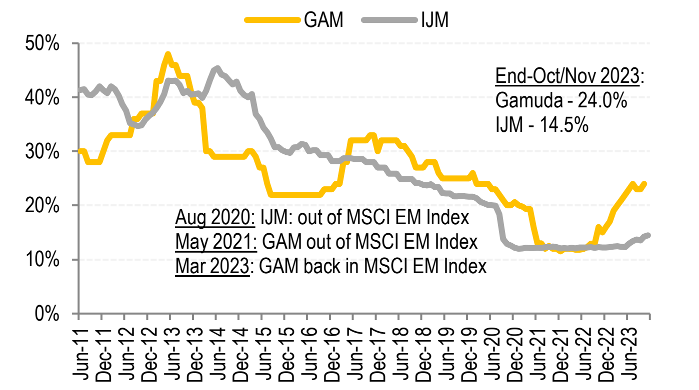
Source: DOSM, Maybank IBG Research

Outstanding orderbook



As of end-Sep 2023 for IJM & SCGB; early-Dec 2023 for GAM
Source: Companies

Foreign shareholding



Source: Companies

Tenders, Pre-Qualification (Pre-Q) and Request for Proposal (RFP) by MRT Corporation

	Rail Packages	Date of Tender / Pre-Q / RFP	Contractor | contract value | date of award
KVMRT3			
1	Tender for Package CMC301: Design, construction & completion of viaduct guideway, elevation stations, depot and other associated works from Pandan to Jalan Cheras	27 May 2022	-
2	Tender for Package CMC302: Design, construction & completion of viaduct guideway, tunnels, stations, depot, ancillary structures and other associate works from 1) Jalan Cheras to Pantai Dalam, and 2) Jalan Kuching to Pandan	27 May 2022	-
3	Tender for Package CMC303: Design, construction & completion of viaduct guideway, tunnels, stations, ancillary structures and other associated works from Pantai Dalam to Jalan Kuching	27 May 2022	-
4	Pre-Qualification for Package STC301: The appointment of Systems Turnkey Contractor (STC)	23 Sep 2022	-
JB-SG RTS			
1	Ekovest announced that it has been accepted by MRT S/B as the collaborative partner of Adil Permata S/B (APSB), the appointed main contractor for the RTS Link Project. Ekovest has also accepted a letter of award by APSB as the engineering, procurement and construction contractor for the RTS rail works	NA	Ekovest | MYR1,979m | 5 Jul 2022
2	SCGB announced that it has signed a Letter of Acceptance by MRT S/B for the construction and completion of Package 1B advance works for station and viaducts, and Package 5 terrestrial viaducts and ancillary structures	NA	SCGB | MYR605m | 23 Mar 2023
3	Tender for design, construction & completion of Package 2A Immigration Customs and Quarantine Complex (ICQC) and Package 2B ICQC external works	5 May 2023	IJM | MYR1,100.7m + MYR155m provisional sum | 12 Oct 2023
4	Tender for the proposed design, construction, installation & completion of Malaysia agencies fit-out works at Woodlands North Custom, Immigration and Quarantine (CIQ)	17 Jul 2023	-
5	Tender for Package 7: Construction & completion of viaduct aesthetic features (VAF)	17 Aug 2023	-
6	Tender for Package 8: Construction & completion of Bukit Chagar Station's façade	17 Aug 2023	-
Penang LRT			
1	Request for Proposal (RFP) for the appointment of design consultancy services (DC) & connectivity and mobility study consultancy services (CMS)	21 Aug 2023	-

Source: MRT Corp, Company announcements to Bursa

CONSUMER: Back to basics

NEUTRAL (unchanged)

- **Staple food manufacturers and mass-market retailers are key drivers to our 2024E sector earnings growth projection of +6.6%, with resilient demand and gradual easing in raw material costs lifting group margins.**
- **The risk for further weakness in consumer spending persists in 2024 with expectations for additional government subsidy rollbacks.**
- **Our top BUY picks for the sector is FFB.**

In retrospect. 9M23's sector revenue and core net profit grew 7% YoY and 8% YoY respectively. This was driven largely by stable demand for selected food manufacturers (i.e. NESZ, QLG, LHIB) and stronger volumes within the lower-price point and affordable retail categories (MRDIY, PAD), as consumer spending reverted to stapled necessities and down-trading trends. For other discretionary retailers (eg. SEM, INNATURE, BFD), negative sales growth stemmed from a high base comparison given pent-up demand in 9M22, and overall lower disposable income. EBIT growth for consumer retail also declined on lower operating leverage resulting from higher costs of labour and utilities. Based on economic data from MIER, Consumer Sentiment Index (CSI) contracted in its third consecutive quarter to 78.9 in 3Q23, below the 100 CSI optimism threshold, on heightened worries of inflation and shrinking consumer disposable income.

Outlook. Into 2024, our projected consumer sector net profit growth of 6.6% YoY showcases a slower rate of growth against 2023E's 8.3% YoY growth. Consumer spending momentum might worsen from its already subdued level with ongoing cost inflation pressures, weakened MYR and potential roll-backs of government subsidies. That said, there are pockets of growth within the stapled F&B space, namely Nestle, QLG and FFB, as consumer wallet share shifts away from discretionary spending towards basic food necessities. Mass-market driven retailers like MRDIY could also be relatively shielded due to its product affordability and ongoing store expansion plans, while new market penetration and member growth in Latin America and African regions further cements DXN's positive earnings prospects within the direct selling industry.

Sector top BUY. Our sector rating remains NEUTRAL with FFB as our top consumer BUY pick. FFB is in a unique position where product demand remains strong while its strong pipeline of new product launches planned in 2024 could also add to additional topline growth. Expansion in group margins are expected as it rolls into a lower raw material inventory cycle.

Analyst: Jade Tam
(jade.tam@maybank-ib.com)

Consumer sector - Peer valuation summary

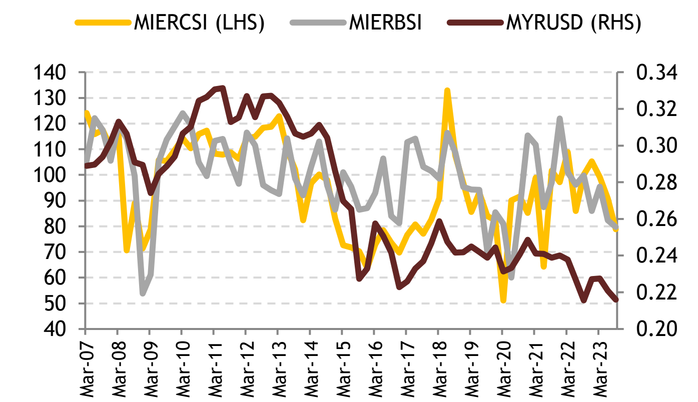
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Nestle (Malaysia)	Hold	27,601	117.70	119.00	41.6	37.6	35.6	43.6	115.9	2.6	(15.9)
MR D.I.Y. Group (M)	Buy	14,446	1.53	2.40	30.0	26.4	22.2	8.5	32.0	1.9	(23.5)
QL Resources	Hold	13,458	5.53	5.90	42.7	34.3	31.6	4.7	13.8	0.8	0.4
Heineken M'sia	Buy	6,761	22.38	28.20	16.4	17.3	16.8	13.8	84.5	5.8	(11.2)
Carlsberg Brew M'sia	Buy	5,870	19.20	23.10	18.0	17.0	17.2	27.3	164.9	4.8	(16.1)
DXN Holdings	Buy	3,214	0.65	0.90	10.6	9.3	8.0	2.2	28.0	4.9	(7.9)
Farm Fresh	Buy	2,471	1.32	1.65	42.2	40.0	25.6	3.7	9.2	0.6	(2.2)
Padini Holdings	Hold	2,230	3.39	3.65	12.0	11.9	12.1	2.1	17.3	3.2	1.2
Leong Hup Intl.	Buy	2,172	0.60	0.78	9.9	7.6	9.9	1.0	12.9	3.9	20.2
7 - Eleven M'sia Hldgs	Hold	2,163	1.95	2.10	31.5	28.7	26.0	13.2	46.1	2.2	1.0
AEON Co. (M)	Buy	1,587	1.13	1.60	11.9	14.5	12.8	0.9	5.9	3.5	(17.5)
Berjaya Food	Sell	1,123	0.63	0.52	9.5	12.8	15.5	2.2	17.4	3.9	(38.4)
Mynews Holdings	Hold	394	0.53	0.54	n.a.	n.a.	108.6	1.7	(5.0)	0.0	(16.7)
InNature	Hold	247	0.35	0.35	11.7	31.8	15.9	1.5	5.2	0.9	(40.2)
Simple average		**83,737**			**22.2**	**22.2**	**25.6**	**9.0**	**39.1**	**2.8**	

Source: Bloomberg, Maybank IBG Research

Other sector BUYs/SELLs. Our other consumer sector BUYs are CAB, HEIM, DXN, LHIB, MRDIY and AEON. For the brewers, negative sentiment surrounding volume weakness from a slowdown in consumer spending has been priced in, in our view, with their valuations falling below their respective mean PERs - to between 16x-17x (mean PERs of 21x-23x). DXN's diversified earnings outside Malaysia distances it from domestic sentiment challenges while retailers like MRDIY and AEON should benefit from ongoing store expansions and recovery in shopping mall occupancy rates respectively. As for LHIB, the lifting of poultry price controls on 1 Nov 2023 effectively rebalances the demand-supply dynamics for poultry, and allows LHIB to better manage its cost-pass through mechanisms as and when feed raw material prices turn volatile. Our SELL rating on BFD is premised on potential downward pressure on sales volume and operating margins given adverse sales impact from geopolitical tensions and heavy in-store promotions to improve store footfall.

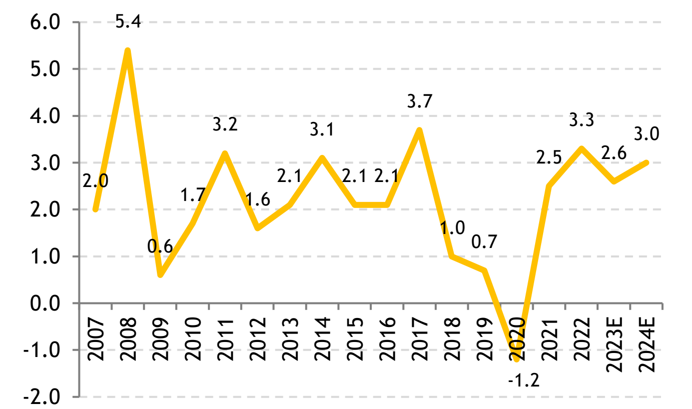
Risks. For 2024, risk to our earnings could arise from: (i) worsening consumer spending power, (ii) depreciating MYR currency exchange, (iii) spikes in raw material prices; and (iv) additional regulatory policies within the brewery and poultry sectors.

Consumer Sentiment & Business Condition Index, MYRUSD



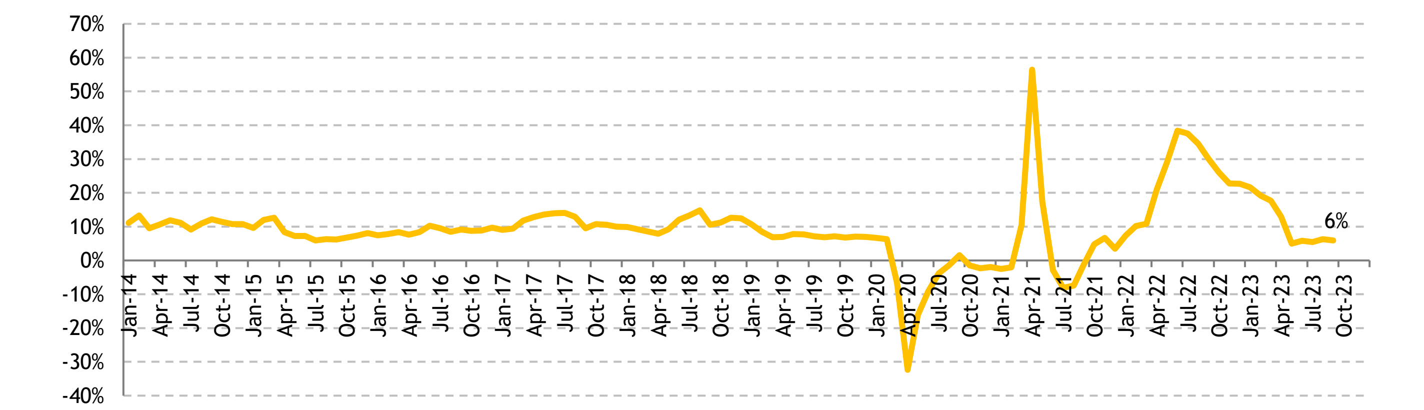
Source: MIER, Bloomberg

Consumer Price Index (%)



Source: Department of Statistics, Maybank IBG Research

Malaysia monthly retail sales growth YoY (%)



Source: CEIC

GAMING: What a difference a year has made

Casinos - POSITIVE (unchanged)

NFOs - POSITIVE (upgraded)

- **In 2024, we expect the post-COVID recovery that has been on-going since 2022 to continue consolidating.**
- **Key themes are GENM's bid for a downstate commercial casino license in New York City and Thailand's potential liberalization of casinos.**
- **We have BUYs on GENM, GENT, SPTOTO, MAG. GENT is our top sector BUY.**

In retrospect - casinos. For GENM's Resorts World Genting (RWG), the Batang Kali landslide of 16 Dec 2022 that claimed 31 lives caused 1Q23 RWG visitor arrivals to fall 11% QoQ. For GENS' Resorts World Sentosa (RWS), its 1Q23 EBITDA fell 22% QoQ although China reopened its border on 8 Jan 2023 due to Chinese tourists taking time to return to SG and Singaporeans travelling overseas enmasse during the Mar school holidays. As the year progressed, things improved. GENM's 3Q23 RWG visitor arrivals recovered to 5.4m or 90% of 3Q19 levels. GENS' 3Q23 RWS VIP volume surged c.65% QoQ to SGD11.3b and mass market GGR grew c.10% QoQ to SGD375m as Chinese visitors returned enmasse. Both metrics were above pre-COVID levels.

In retrospect - NFOs. For SPTOTO and MAG, their outlets in Kedah were shuttered on 1 Jan 2023 (3% of their total outlets). The Perlis state government also began shuttering outlets there (≤1% of their total outlets) beginning Jul 2023 with the last 2 being slated to be shut in Mar 2024. It goes without saying that the NFOs heaved a sigh of relief when the 6 state elections of 12 Aug 2023 saw the status quo prevail. As the year progressed, things also improved for this sub-industry. For the NFOs, their sales/draw/outlet improved from 75-80% of pre-COVID levels in 4Q22 to 80-95% of pre-COVID levels in 3Q23 thanks to strong jackpot runs, better footfall and more active enforcement.

Notwithstanding, the industry (casinos and NFOs) suffered a slight setback from Budget 2024's proposal to raise the Service Tax rate to 8% from 6% effective 1 Mar 2024. That said, we estimate that its negative impact to GENM, MAG and SPTOTO is minor at 5-7%.

Outlook - casinos. For GENM's RWG, we expect visitor arrivals to recover to pre-COVID levels in 2024 (i.e. 24m). While Malaysian and Singaporean visitation have recovered to pre-COVID levels, Indonesian and Chinese visitations have not. We hope that the restoration of air connectivity between the latter two source markets to Malaysia will be completed in 2024. It will also help a lot that Malaysia recently granted 30-days visa free entry to Chinese visitors. For GENS' RWS, we expect operations to continue to improve as airlines seat capacity from major source markets like China to Singapore continues to recover. In the long term, we expect RWS VIP volume and mass market GGR to exceed 2019 levels by c.20% thanks to a potent combination of more wealthy Singaporean citizens and permanent residents due to rising property prices and migration of more high net worth individuals.

Analyst: Yin Shao Yang, CPA
(samuel.y@maybank-ib.com)

Gaming sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Genting	Buy	17,944	4.66	5.49	202.6	14.7	8.2	0.6	3.8	3.2	4.0
Genting Malaysia	Buy	15,076	2.66	2.70	63.3	26.1	16.5	1.2	4.7	5.6	(1.1)
Sports Toto	Buy	1,958	1.48	1.55	10.3	8.8	8.7	1.8	20.5	7.1	(8.6)
Magnum	Buy	1,567	1.09	1.31	15.6	11.6	9.3	0.6	5.6	6.9	(15.5)
Simple average		**36,544**			**73.0**	**15.3**	**10.7**	**1.1**	**8.6**	**5.7**	

Source: Bloomberg, Maybank IBG Research

Outlook - NFOs. For the NFOs, we recently raised our long term NFO sales/draw/outlet relative to pre-COVID forecasts by 5ppts each to 90% for SPTOTO and 80% for MAG. We will be watching closely to see if the hitherto recovery in NFO sales/draw/outlet can be sustained. Returning to the Service Tax hike, again, we do not expect it to be a major earnings dampener as there are remedial measures like reducing junket commission rates, direct VIP rebate rates and promotional allowance rates for GENM's RWG and reducing prize payouts for SPTOTO and MAG. With any luck, we hope that investor interest in both sub-industries will return especially after all the political 'noise' generated by the 6 state elections subside.

Thematic - casinos. For GENM, all eyes will be on its bid for a downstate commercial casino license in New York City. A downstate commercial casino will be the 'ultimate prize' for GENM's Resorts World New York City (RWNYC) as it will be allowed to deploy table games and be located in or near New York City. We have long viewed RWNYC to win one license as it can deploy table games and generate additional tax revenue for New York State quickly, thanks to its existing infrastructure. We estimate a said license can add MYR0.53/shr to our TP (link).

For GENS, all eyes will actually be on Thailand. Thailand is mulling legalizing up to 5 'entertainment complexes' that will feature casinos. While a long way off, we are wary that these 'entertainment complexes' may erode Singapore's integrated resorts' appeal to tourists especially Chinese ones. Thailand's House of Representatives established a new 60-member committee to consider the possibility of developing the nation's first legal casinos on 27 Oct 2023. The committee has 90 days to complete its task.

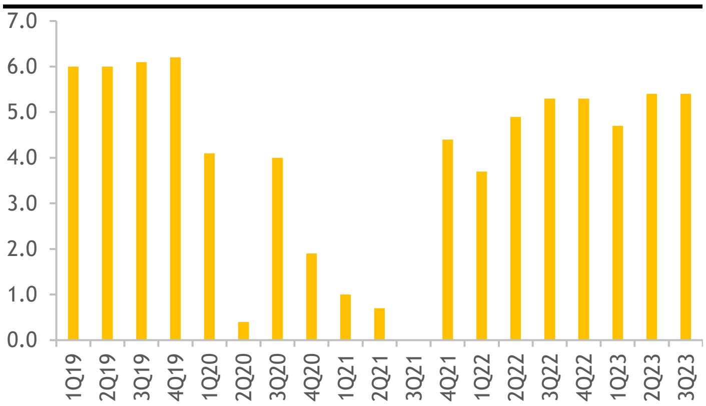
Thematic - NFOs. For the NFOs SPTOTO and MAG, we watch with interest if the Independent Police Conduct Commission (IPCC) will finally be launched in early-2024 after more than 6 months of delay. We hope that the IPCC will result in more active enforcement against illegal NFOs which will translate into better sales for SPTOTO and MAG.

Sector top BUY. We have BUYs on all the gaming stocks under our coverage but our sector top BUY is GENT for its cheaper exposure to 53%-owned GENS which is doing well as explained above, secondary exposure to a downstate commercial casino license in New York City via 49%-owned GENM and potential to have its discount to SOP/shr narrow (current: 65%: 25-year mean: 29%) as the MYR recovers against the USD. On GENM, again, we estimate that a downstate commercial casino license in New York City can add MYR0.53/shr to our TP.

On SPTOTO, every 5ppt increase in NFO sales/draw/outlet relative to pre-COVID above our forecast of 90% will add MYR0.15/shr to our TP. On MAG, every 5ppt increase in NFO sales/draw/outlet relative to pre-COVID above our forecast of 80% will add MYR0.10/shr to our TP.

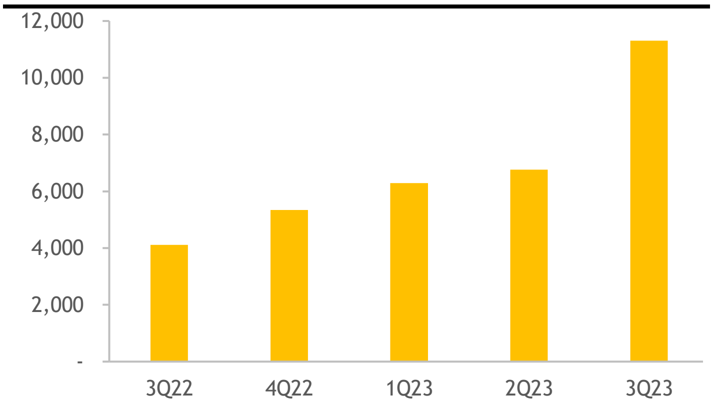
Risks to our call. (i) Full blown recession leading to subdued demand for gaming; (ii) higher gaming taxes; (iii) smoking bans (partial or full) in Malaysia and Singapore; (iv) even harsher clampdown on cross border gaming (VIP and mass market) by China; and (v) more intense regional competition should more jurisdictions like Thailand liberalise their casino industries.

RWG visitor arrivals (m pax)



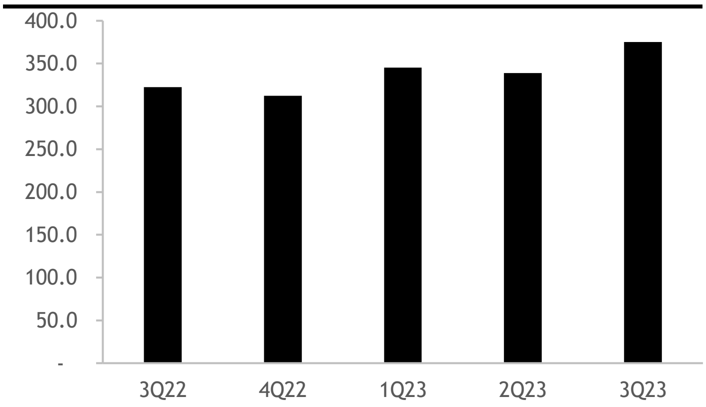
Source: GENM

RWS VIP volume (SGDm)



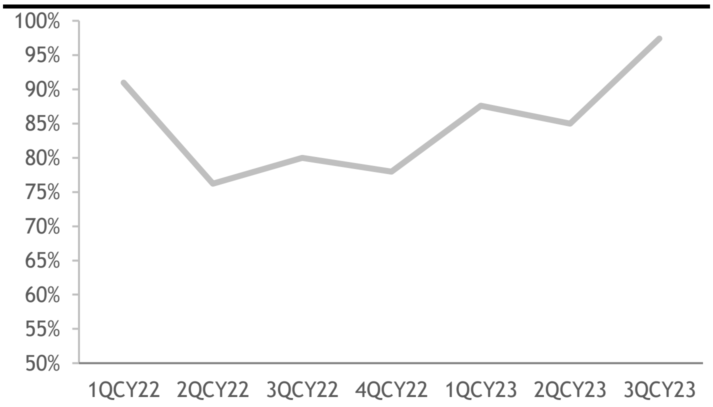
Source: GENS

RWS mass market GGR (SGDm)



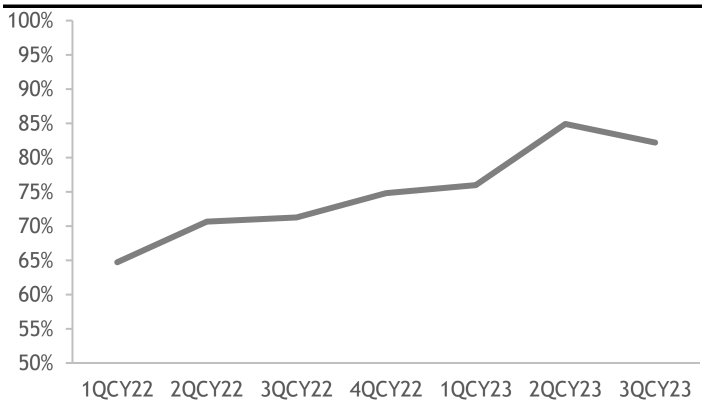
Source: GENS

SPTOTO NFO sales/draw/outlet relative to 2019



Source: SPTOTO, Maybank IBG Research

MAG NFO sales/draw/outlet relative to 2019



Source: MAG, Maybank IBG Research

GLOVES: A better 2024

POSITIVE (upgraded)

- **Sales volume is improving despite ongoing challenges of stiff competition and raw material prices have started to stabilise.**
- **The stakes in this competitive landscape rest on the hands of China's glove makers. Production and cost efficiencies are key amid intense competition.**
- **We tactically upgrade the sector to POSITIVE (a contrarian rating). We have tactical BUYs on HART and KRI; maintain HOLD on TOPG.**

In retrospect. Share prices of glove players in our coverage experienced a volatile year. Despite weak fundamentals, share prices surged in Mar 2023 due to an optimistic ASP outlook driven by rising raw material and energy costs. However, share prices later declined as the higher ASPs proved unsustainable as glove makers faced resistance from buyers, leading to lower sales volume. Plant utilization rates continued to suffer, falling to <45% for HART and KRI and <35% for TOPG. Orders then shifted to the Chinese counterparts due to their lower ASPs (cheaper by USD3-4/k pcs), forcing Malaysian glove makers to reduce ASPs to close the gap (to USD2-3/k pcs). As a result of lower pricing, sales volume improved in 3Q23 while EBITDA rebounded, also due to lower operating costs. The unexpected turnaround in July-Sep earnings triggered a positive market reaction, with share prices rising by +11-19% (HART: +16%, KRI: +19%, and TOPG: +11%) in Oct-Nov 2023.

Outlook. Share prices of glove stocks should be supported by a better earnings performance in 2024. While sales volume remains volatile with a shorter order lead time (as buyers are in no rush to lock in a contract due to excess supply in the glove market), sales volume has improved significantly QoQ among the Malaysian glove makers. This improvement could be attributed to rising restocking activities and lower price gap compared to their China counterparts. Consequently, we expect plant utilization rate to increase in the upcoming quarters, reaching between >35% to 45-50% (from the current range of 35% to 40-45%), leading to lower production costs. The utilisation rate is expected to improve further to above 65% for HART after the decommissioning of its Bestari Jaya Facilities. As for Kossan, it is looking to shut down some plants, which should lead to better utilization rate in 2024.

Thematic. We believe the stakes in this competitive landscape rest on the hands of China's glove makers, who wield significant influence due to their more competitive costing and pricing strategies. Having said that, not all purchase orders will necessarily go to China as buyers also implement risk management strategy; some purchase orders should be directed to the other markets, including Malaysia. Hence, cost and production efficiencies are key to seizing these opportunities. Additionally, given the continuous price war, a robust strong balance sheet is important to help glove makers weather the downturn. Under our coverage, KRI and HART are in net cash positions (KRI: 80 sen net cash/sh and 0.47x net cash/market cap ratio, HART: 44 sen/0.18x).

Analyst: Wong Wei Sum, CFA
(weisum@maybank-ib.com)

Gloves sector – Peer valuation summary

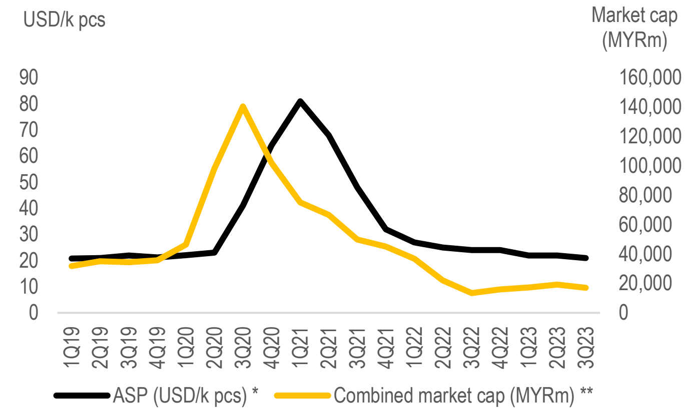
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Hartalega Hldgs	Buy	7,816	2.29	3.02	8.70	120.5	70.5	1.7	1.4	0.0	34.7
Top Glove Corp	Hold	6,366	0.80	0.80	n.a.	n.a.	n.a.	1.4	(7.8)	0.0	(12.2)
Kossan Rubber	Buy	4,134	1.62	2.12	26.56	85.3	41.5	1.1	1.2	0.4	47.3
Simple average		**18,316**			**17.6**	**102.9**	**56.0**	**1.4**	**(1.7)**	**0.1**	

Source: Bloomberg, Maybank IBG Research

Sector tactical BUYs. With near-term news flow expected to remain positive (higher sales volume and stable raw material costs), we tactically upgrade our call on the glove sector to POSITIVE. **HART** is our top tactical BUY in the sector. Cost savings/efficiency gains from the decommissioning of its Bestari Jaya Facilities (BJFD) will make its pricing more competitive and help to defend its operating margin in the event of any hike in raw material prices. HART also has the lowest impairment risk among the glove makers under our coverage post the BJFD. We also favour **KRI** for its strong cash position (80sen net cash/shr as at Sep 2023) and diversified income stream including its technical rubber products, which provides buffer amid challenges in the gloves industry.

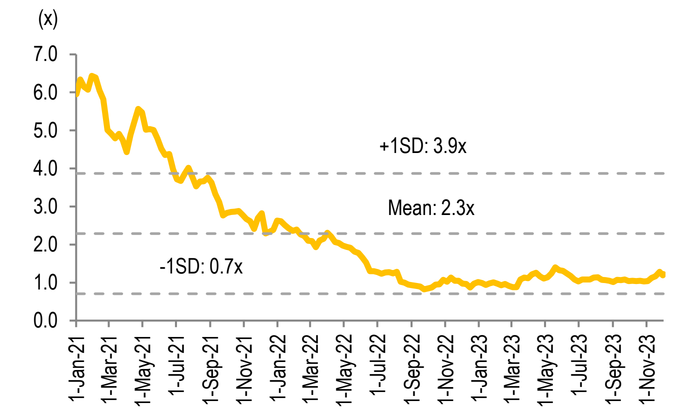
Risks. (i) Unexpected aggressive capacity expansion from the Chinese counterparts; (ii) an aggressive pricing strategy from the Chinese counterparts due to their relatively lower production costs supported by lower energy costs; (iii) hikes in raw material prices that are unable to be fully passed on; and (iv) prolonged price wars and oversupply issues.

ASP and market cap trends



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

Glove sector's 1-year forward PBV mean (2021-2023)*



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

HEALTHCARE: Upside surprises

POSITIVE (unchanged)

- **Inpatient volume trend, bed occupancy rate (BOR) and surgery numbers are underway to surpass pre-pandemic levels, positively geared to drive stronger earnings moving forward.**
- **Cost control remains a key variable for bottomline growth amid expansions to meet growing demand for local and foreign patients. The return of health tourism, referrals from public hospitals and high insurance penetration also serve as upside potentials for the sector.**
- **We have BUYs on IHH and Optimax.**

In retrospect. Hospital operators' (IHH and KPJ) earnings outperformed as patient volume and BOR trends came back with a vengeance. Both KPJ and IHH witnessed BOR hitting beyond 70%, surpassing pre-pandemic levels of around 65-70% as well as a surge in inpatient volumes, robust expansion plans and the normalization of COVID-19 within the community. Surgery numbers also picked up, driving positive topline growth for the hospitals as well as the niche healthcare service providers such as Optimax (eyecare specialist).

Outlook. We expect KPJ and IHH's BOR to surge to 70-80% and their inpatient volumes to rise past their combined 1,000,000 annual mark in 2024 to match pre-pandemic level highs as the industry and community normalizes COVID-19 to an endemic phase. The two operators' annual bed capacity growth is slated to double from +5% YoY in FY21-22 to +8-10% in FY23-24E, mostly through brownfield expansions, in support of double-digit combined inpatient volume growth (+17% YoY FY21-22) and current BOR of >70% in most of their major hospitals. Cost optimization will remain a key component for unstinted earnings growth amid all the expansionary plans.

On the eyecare side, we expect a growth of around 4-5% in total surgery revenue for Optimax in 2024, backed by higher operating theatre (OT) utilization days, new technology for refractive surgery, and growth in demand for plastic surgery/ aesthetic services. Optimax's earnings growth will be contingent on the normalization of its currently high pre-operating and staff costs ahead of its planned expansions of 1 satellite clinic in 4Q23 and 4 ambulatory care centres (ACCs) in FY24.

Thematic. We expect health tourism revenue to surpass its current range of 4-6% of Malaysia's total tourism revenue (as per MHTC) (vs. pre-pandemic levels of 3-4% of total revenue), driven by attractive pricing, strategic location, and quality of services. The recent Malaysia Government announcement for visa-free travel for citizens from China and India is a positive surprise that will help boost inbound health tourists from these countries (currently, both China and India are some of the main contributors of Malaysia's health tourism, alongside Indonesia). This uptrend in patient volume is also supported by the rising rate of insurance penetration in Malaysia. Budget 2024's proposed MYR200m allocation to refer patients from public to private hospitals further adds positive upside to topline growth in the private healthcare sector.

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

Nur Natasha Ariza Aiza Rizal
(natashaariza.aizarizal@maybank-ib.com)

Healthcare sector – Peer valuation summary

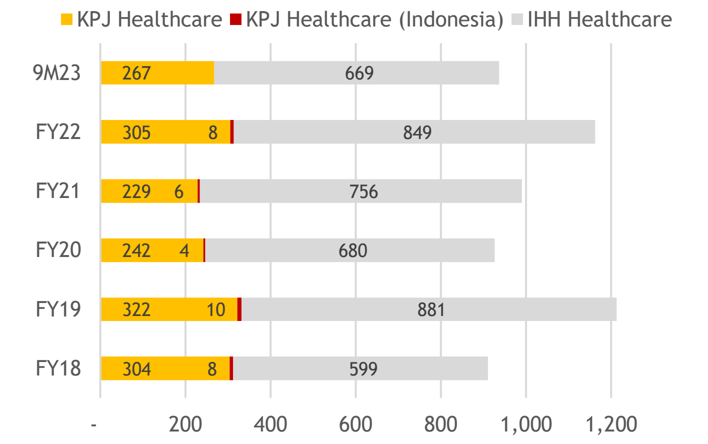
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
IHH Healthcare	Buy	51,961	5.90	7.13	37.6	33.3	29.8	2.0	6.0	3.0	(5.1)
KPJ Healthcare	Hold	5,848	1.34	1.42	35.3	26.3	23.5	2.6	9.7	2.2	32.7
Optimax	Buy	343	0.64	0.86	28.9	30.2	26.5	5.8	23.2	3.3	(19.1)
Simple average		**58,152**			**33.9**	**29.9**	**26.6**	**3.5**	**13.0**	**2.8**	

Source: Bloomberg, Maybank IBG Research

Sector top BUY. With resilient patient and surgery numbers, our POSITIVE call on the sector is unchanged. Cost optimization and normalization could cap earnings growth if not delivered. IHH (BUY) is slated to benefit from its aggressive organic brownfield expansion to drive capacity growth (+33% bed additions by FY28E), and the development of IHH Labs is a new growth engine. Optimax's (BUY) earnings potential remains positive due to resilient demand for cataract surgery, on rising demand for refractive and plastic surgeries, and equally aggressive ACC expansions locally and abroad. This leads to our +4.7%/+19.3% YoY revenue growth and +16%/ +23% PATAMI growth projections in FY24E/FY25E. Optimax will benefit from rising USD/MYR rates as its Cambodia ACC (target opening: 1Q24) will be priced in USD.

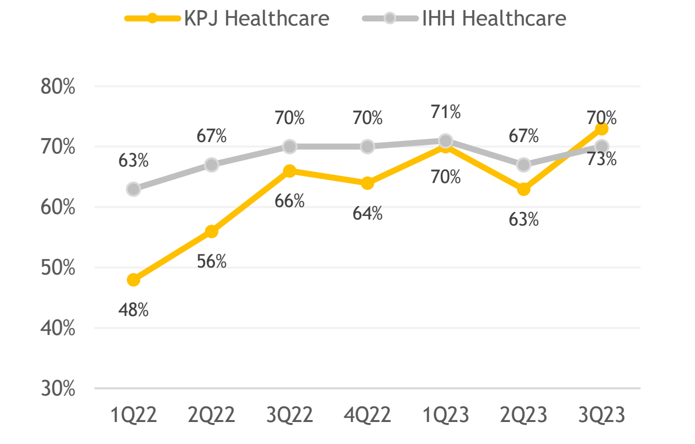
Risks. (i) Expansion delays could dampen future earnings growth; ii) a replay of medical professionals' supply constraints could cap operational bed numbers; iii) rising costs in human capital, energy and medical supply could erode operating margins, and iv) unexpected travel restrictions could cut into health tourism and patient numbers.

Inpatient volume trends ('000)



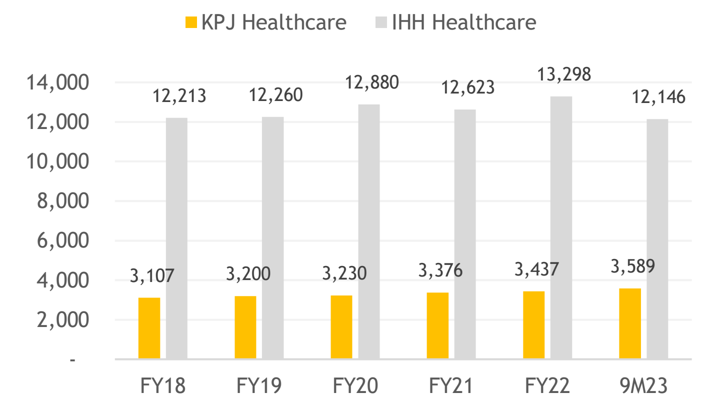
Source: Companies

Bed occupancy rate (BOR)



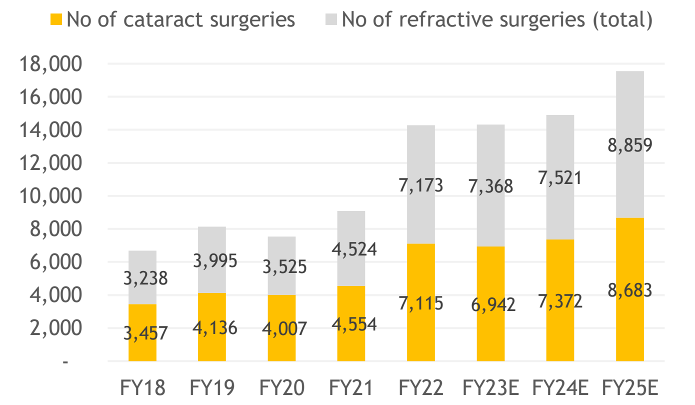
Source: Companies

Capacity expansion trend (no of operational beds)



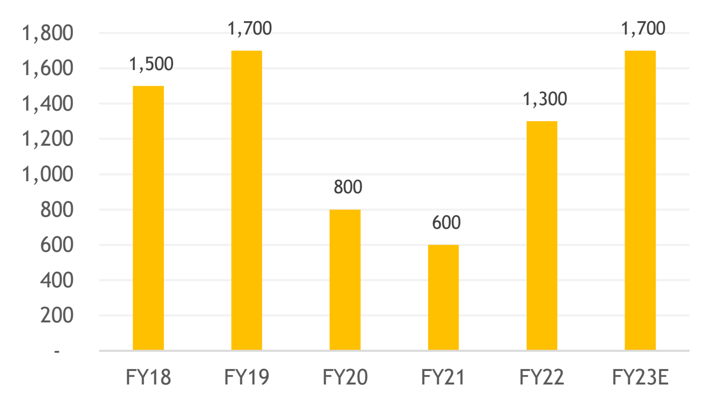
Source: Companies

Optimax - Surgery volume trend and outlook



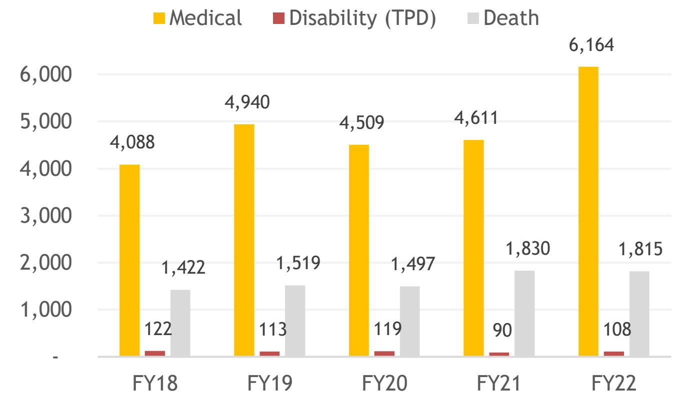
Source: Company, Maybank IBG Research

Health tourism trend (revenue from health tourism) (MYR'm)



Source: Malaysia Healthcare Travel Council (MHTC)

Insurance penetration trend (claims payout) (MYR'm)



Source: Life Insurance Association of Malaysia

OIL & GAS: Buoyant but volatile in 2024E

POSITIVE (unchanged)

- **We expect Brent oil prices to remain elevated in 2024E with much volatility in sight. Our in-house oil ASP estimate is unchanged at USD80/bbl (Brent). We reiterate that while energy security takes precedence over energy transition pursuits for now, decarbonisation remains a long-term agenda.**
- **On expectations of a prolonged elevated crude oil price environment, and lower dividend commitments, we expect PETRONAS's capex to be buoyant in 2024E.**
- **Key BUYs are Yinson, Velesto and Wasco.**

In retrospect. The global oil market remained buoyant in 2023 with prices averaging ~USD82/bbl, albeit a 17% YoY decline from 2022's average of USD99/bbl. Over the past year, OPEC+ maintained its stance to prioritise balance in the oil markets and remained a relevant "swing producer", having engaged in multiple rounds of production cuts: i) 2mbpd cut from Nov 2022; ii) 1.66mbpd cut from May 2023; iii) 1mbpd cut from Jul 2023; iv) Russia cut exports by 0.5mbpd in Aug 2023; v) Saudi Arabia extends 1mbpd cut till end-2023; vi) Russia extends its reduction in oil exports by 0.3mbpd in Sep 2023; most of these are set to end in end-2023. Meanwhile, the Israel-Hamas war did not have a direct impact on oil supplies.

Outlook. The oil markets will continue to face the energy tri-lemma in 2024, of: i) an improvement in demand (EIA forecasts record-high demand of 102.34mbpd); ii) supply tightness (due to structural under-investments); and iii) potential geo-political risks/trade wars/embargoes. These factors will continue to induce volatility in the oil markets, in our view.

- ***Crude demand to exceed supply in 2024E.*** In EIA's latest Short-term Energy Outlook (STEO) report (Dec 2023), it expects a net crude oil deficit in 1Q24 with world consumption slightly eclipsing production by 0.20mbpd. EIA also forecasted a record-high crude oil consumption of 102.34mbpd in 2024E, with expectations that the supply/demand gap to be harshly narrow at an average of 0.15mbpd (supply deficit) throughout the year.
- ***OPEC+ to retain its role as a "swing producer".*** In the latest OPEC+ meeting on 30 Nov 2023, the organisation and its allies have agreed to voluntarily cut outputs by 2.2mbpd (link) until end-2024, led by Saudi Arabia rolling over its current production cuts – to support the stability and balance of oil markets. Going forward, we expect further output cuts from OPEC+ if prices do not hold above USD75/bbl. OPEC constitutes to >30% of global oil production. With the organisation and its allies' efforts to continue curtailing production in 2024E, we expect oil supply to remain tight in the foreseeable future.

Analyst: Jeremie Yap
(jeremie.yap@maybank-ib.com)

Oil & gas sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Dialog Group	Buy	10,834	1.92	2.43	21.33	20.4	19.1	1.9	9.2	1.8	(21.6)
Yinson Hldgs	Buy	7,209	2.48	5.05	15.32	8.8	7.8	1.7	17.6	0.7	2.1
Bumi Armada	Buy	2,932	0.50	0.71	3.54	4.5	3.4	0.5	11.2	0.0	3.1
Hibiscus Petroleum	Buy	1,946	2.42	2.99	4.64	4.5	4.5	1.5	14.9	2.9	(9.5)
Velesto Energy	Buy	1,849	0.23	0.30	n.a.	32.1	10.2	0.8	2.6	0.0	50.0
Wasco	Buy	751	0.97	1.20	10.90	10.2	7.5	1.1	11.2	0.0	56.5
Icon Offshore	Buy	325	0.60	0.59	n.a.	54.5	28.6	0.9	1.7	8.3	26.3
Simple average		**25,845**			**11.1**	**19.3**	**11.6**	**1.2**	**9.8**	**2.0**	

Source: Bloomberg, Maybank IBG Research

- ***Energy security vs. transition***. While energy security takes precedence over energy transition for now, the sector will continue to see spending on low carbon energy in the longer term, as the energy transition momentum continues. A part of oil majors' capex will be dedicated towards green investments, with focus on renewables (solar, wind) and carbon capture and storage (CCS) as oil majors catch up on their climate goals and sustainability framework. In essence, most of the oil majors have committed to meet the Net Zero Carbon Emission (NZCE) aspiration by 2050.

Thematic. Based on our yearly observations, PETRONAS has to decide on how it is to strike a balance between 3 major decisions: i) capex spending; ii) dividend commitment; and iii) balance sheet preservation. Given lower dividend commitment of MYR32b for 2024 (per 2024 Fiscal Outlook Report; from MYR40b in 2023) despite a higher average Brent crude oil price expectation of USD85/bbl (PETRONAS' forecast), we see a possibility that PETRONAS' capex will be hearty in 2024. As at end-Sep 2023, PETRONAS sits on a net cash position of MYR96.7b.

Sector top BUYS. We continue to advocate PLCs with growth prospects, strong financials and focused management, in riding on the elevated oil price environment.

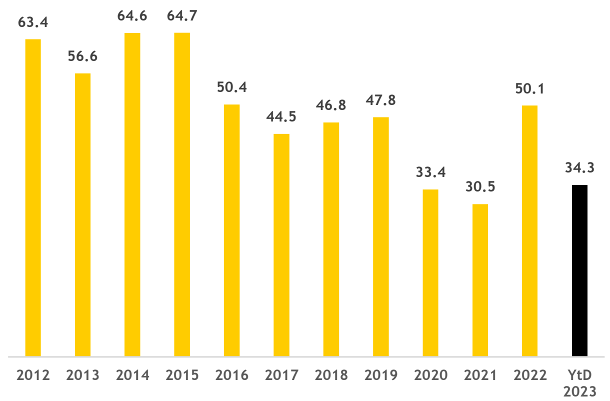
- **Yinson** stands out for its: i) growth prospects and leadership in the FPSO business globally, ii) operational and financial strength, iii) most comprehensive and clear sustainability agenda, and iv) undemanding valuations. Its management acumen/focus is a major plus point.

- **Velesto**, as: i) the forecasted average regional rig demand of 40-45 over the next 12 months, which exceeds the current supply of only 38, implies a tight market that will continue to drive DCR upwards in 2024; and ii) we forecast a strong ~3x YoY net profit growth in 2024E.

- **Wasco**, due to its: i) attractive valuations; ii) a robust global tender of c.4,100km of pipelines for CCS projects planned for 2023-2027 (total estimated value of >USD1b); iii) strong and bumper FY24E with the bulk of the EACOP line pipe thermal insulation job win and EPC of FPSO Agogo (Yinson) topside modules to be recognised in 2024.

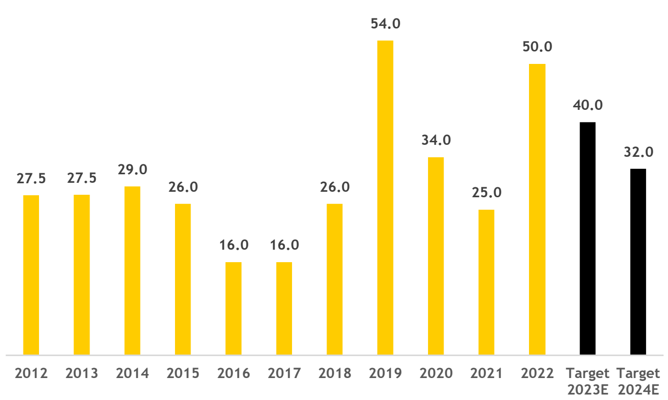
Risks to our call. Another pandemic outbreak, demand uncertainty, higher-than-expected oil production, and skepticism over OPEC+ compliance/discipline to manage output will create volatility and pressure on the oil market. Weakness and extreme volatility in oil prices will hurt sentiment, capex/opex plans and refinancing/restructuring efforts.

PETRONAS' capex (2012 till 3Q23)



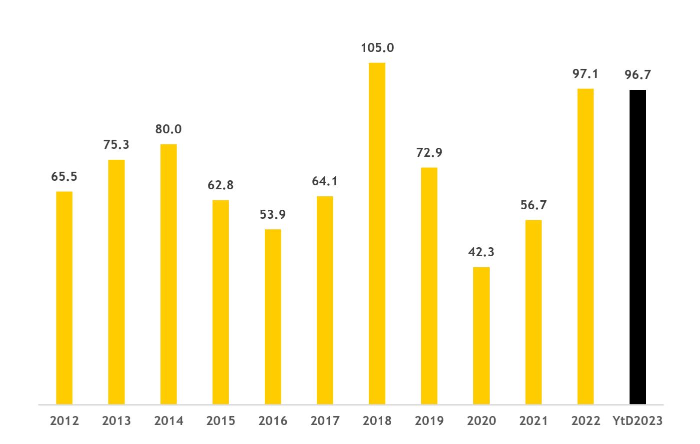
Source: PETRONAS, Maybank IBG Research

PETRONAS' dividends (2012 till 2024E)



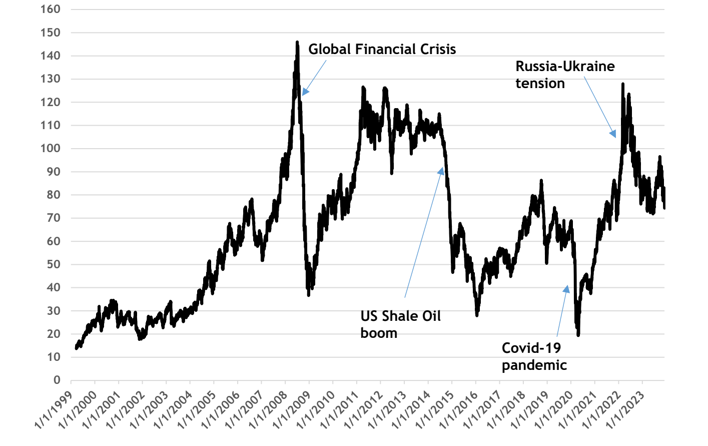
Source: PETRONAS, Maybank IBG Research

PETRONAS' net cash level (2012 till 3Q23)



Source: PETRONAS, Maybank IBG Research

Brent crude oil price (1999 till current)



Source: Bloomberg, Maybank IBG Research

Production and Consumption of crude oil for 2022-2024E

Production (mbpd)	2022				2023E				2024E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023E	2024E
Total OPEC	33.74	33.76	34.7	34.44	33.95	33.69	32.85	33.11	32.6	33.21	33.4	33.24	34.17	33.4	33.11
Total Non-OPEC	65.22	65.10	66.18	66.76	67.16	67.77	68.80	69.13	68.60	68.86	69.31	69.55	65.82	68.22	69.08
Total World Production	**98.96**	**98.86**	**100.88**	**101.20**	**101.11**	**101.46**	**101.65**	**102.24**	**101.20**	**102.07**	**102.71**	**102.79**	**99.99**	**101.62**	**102.19**
OPEC / World (%)	34%	34%	34%	34%	34%	33%	32%	32%	32%	33%	33%	32%	34%	33%	32%

Consumption (mbpd)	2022				2023E				2024E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023E	2024E
OECD	45.63	45.11	46.22	45.68	45.28	45.71	46.23	46.32	45.95	45.49	46.15	46.21	45.66	45.89	45.95
Non-OECD	52.82	53.48	53.80	53.86	54.67	55.19	55.27	55.30	56.05	56.55	56.50	56.46	53.49	55.11	56.39
Total World Consumption	**98.45**	**98.59**	**100.01**	**99.53**	**99.95**	**100.90**	**101.49**	**101.62**	**102.00**	**102.04**	**102.65**	**102.67**	**99.15**	**101.00**	**102.34**
Net surplus/(deficit)	0.51	0.27	0.87	1.67	1.16	0.56	0.16	0.62	-0.80	0.03	0.06	0.12	0.84	0.62	-0.15

Source: EIA STEO (Dec 2023)

PETROCHEMICALS: Another tough year ahead

NEGATIVE (downgraded)

- **We expect downstream polymer ASPs to remain weak from a rebalancing of new supply-demand dynamics. Demand outlook remains tepid whilst start-ups of new regional capacities is looking to continue, overflooding supply in 2024E. Meanwhile, PIC is expected to start operations in 1H24.**
- **Independent Chemical & Energy Market Intelligence (ICIS) thinks that there is a global polymer oversupply crisis, where global PE and PP capacities may have to be reduced by 23m tonnes/year and 18m tonnes/year in 2023-2030 respectively to end the downturn.**
- **We have SELL ratings on both PCHEM and LCTITAN.**

In retrospect – a celestial fall in downstream petrochemical prices. Since 1Q23, PCHEM has been reporting sequential major cracks in its quarterly profits. Its 9M23 core net profit fell -72% YoY with average polymer (HDPE, LDPE & LLDPE) prices down -16%-31% while urea/methanol ASPs declined -44%/-17%. On the other hand, LCTITAN remained loss-making in all 3 quarters with a cumulative core net loss of -MYR738m (FY22: -MYR599m). Despite lower 9M23 average naphtha prices by c.20% YoY which resulted in input cost reduction, lower polymer ASPs eroded margins to below breakeven levels. A weak operating environment had forced management to lower its full-year plant utilisation guidance from 75-80% to 65-70%.

Outlook. From PCHEM's recent post-3Q23 results briefing, we were guided that the Commercial Operation Date (COD) of the Pengerang Integrated Complex (PIC) will be in 1H24. The Pengerang Petrochemical Complex is expected to increase PCHEM's total production capacity by 3.3 mTpa (+26%; currently 12.8 mTpa). PIC's PE/PP capacity of 1.65 mTpa will exceed LCTITAN's combined M'sian PE/PP capacity of 1.2 mTpa and is likely to impose margin pressure on LCTITAN's domestic premium (c.USD50-100 per mT) in the downstream market for polyolefins (HDPE/PE/PP). We also note that PIC's petrochemical complex will use naphtha as a primary feedstock, which may subject PCHEM's earnings to a degree of volatility vis-à-vis its existing portfolio of ethane-based polymers that are protected by competitive long-term supply agreements with its parent company.

According to ICIS, global PE and PP capacities may have to be reduced by 23m tonnes/year and 18m tonnes/year in 2023-2030 respectively for global operating capacities to return to the historic healthy average of >85% for both downstream polymers. The outlook for polymers looks gloomy, with supply likely to outstrip demand by a significant margin for the foreseeable future. With that, both PCHEM and LCTITAN could potentially suffer if ASPs continue to decline with the sustained imbalanced supply-demand dynamics.

Downgrade to NEGATIVE. In a nutshell, we believe that the best days of the Malaysian petrochemical industry are behind it, as weakening global demand from higher interest rates and lethargic European/Chinese economies are likely to pose headwinds in 2024. Coupled with additional polymer capacities coming onstream primarily in Greater China throughout 2023/2024, it is unlikely that the industry will revisit its ASP highs of 2021 and 2H22. We have a SELL rating on both PCHEM and LCTITAN.

Analyst: Jeremie Yap
(jeremie.yap@maybank-ib.com)

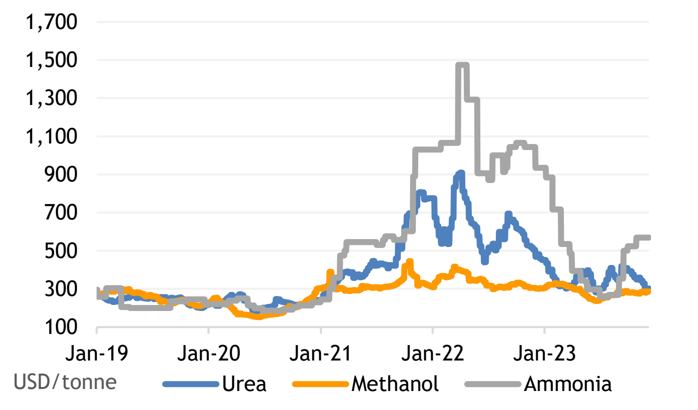
Petrochemical sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Petronas Chemicals	Sell	56,720	7.09	5.75	8.6	27.4	19.7	1.4	5.2	1.8	(17.6)
Lotte Chemical Titan	Sell	2,688	1.18	0.83	n.a.	n.a.	n.a.	0.3	(10.2)	0.0	(16.9)
Simple average		**59,408**			**8.6**	**27.4**	**19.7**	**0.8**	**(2.5)**	**0.9**	

Source: Bloomberg, Maybank IBG Research

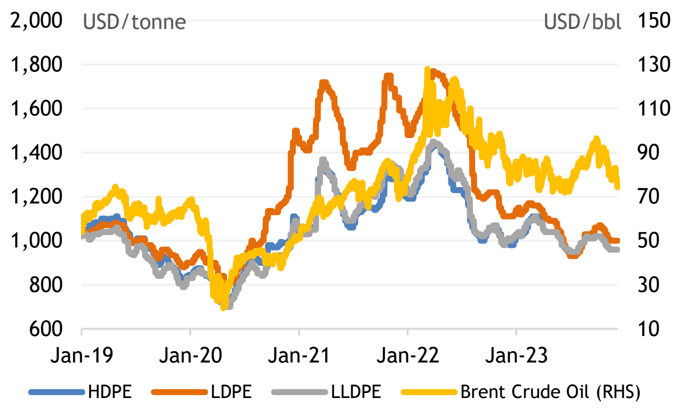
Risks to our call. Key risks include: (i) a faster-than-expected recovery in polymer/ monomer prices; and (ii) a sudden decline in crude oil/naphtha prices.

Urea, Methanol and Ammonia prices (2019 till current)



Source: Bloomberg, Maybank IBG Research

HDPE, LDPE, LLDPE and Brent prices (2019 till current)



Source: Bloomberg, Maybank IBG Research

PLANTATION: Potentially a range-bound year

NEUTRAL (unchanged)

- **2024 CPO price trend will broadly track the trend of 2023. However, Malaysian planters' earnings in 2024 will likely be better YoY owing to lower unit costs on lower fertilizer expenses and higher productivity.**
- **The market is monitoring ongoing El Nino that has delayed soybean planting in Brazil. A crop failure may lead to a spike in CPO price. At the same time, the market is fearful of a global recession that may drag CPO price lower.**
- **GENP is our sector top BUY for the large cap. For SMID caps, we like SOP and Ta Ann.**

In retrospect. After 3 long years, La Nina finally came to an end in early-2023 but it still managed to leave a big dent on Argentina's soybeans crops in the 2022/23 planting season at its tail end. Not long after La Nina ended, El Nino was forecasted to make a return by mid-2023. El Nino caused an initial scare in the just completed US soybean planting season as dry conditions in June drove soybean and soybean oil prices higher. Prices soon retraced in 3Q23 when beneficial rainfall returned.

Over at the oil palm producing region, after an unusually slow production start to 2023 owing to biological tree rest and shortage of skilled harvesters in Malaysia, CPO production recovered strongly in 2H23. The ample palm oil supply however coincided with large supplies of sunflower oil emanating from Russia and Ukraine (despite the end of the UN-brokered Black Sea grain corridor agreement in July 2023). On the demand side, hope of a strong demand from China reopening failed to materialise. US Fed's aggressive rate hikes in 2023 and the ensuing collapse of several banks stoked global recessionary fears. Globally, demand for palm oil in 2023 was also partly dampened as many countries remained dependent on financial assistance from institutions such as the IMF and World Bank.

Outlook. USDA, in its latest Nov 2023 issue, forecasts the stock-to-usage ratio (SUR) of CPO to dip to 20.5% for 2023/24F (2022/23F: 22.8%; below its 5-yr historical average of 21.7%) as incremental consumption will outpace incremental output. In turn, this will lead to lower SUR for 9 vegetable oils at 13.9% for 2023/24F (2022/23F: 14.6%); below its 5-yr average of 14.2%.

While USDA forecasts vegetable oils supplies to be relatively tighter at the end of 2023/24F, the global 7 oilseeds' SUR is however projected to be relatively ample at 20.4% (2022/23F: 19.0%), higher than its 5-yr average of 19.8%. The forecasted data is premised on record oilseeds production in 2023/24F. Bear in mind that these oilseeds could be crushed to ease the projected tightness in vegetable oils.

Analyst: Ong Chee Ting
(ct.ong@maybank-ib.com)

Plantation sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Sime Darby Plantation	Hold	31,052	4.49	4.58	14.25	26.0	17.7	1.9	6.9	3.5	(3.4)
IOI Corp	Hold	24,567	3.96	4.07	16.20	18.7	18.5	2.1	11.3	3.0	(2.2)
KL Kepong	Hold	23,165	21.48	21.30	12.07	20.3	17.1	1.6	7.9	2.5	(3.9)
Genting Plantations	Buy	4,925	5.49	6.00	10.04	17.4	16.5	0.9	5.3	3.4	(14.2)
Sarawak Oil Palms	Buy	2,261	2.54	3.15	4.57	9.6	8.9	0.7	6.8	3.1	(2.3)
Ta Ann Hldgs	Buy	1,546	3.51	3.80	4.44	8.4	8.3	0.9	10.1	7.1	(7.1)
TSH Resources	Hold	1,325	0.96	1.03	7.01	13.2	10.2	0.7	5.0	3.9	(10.3)
TH Plantations	Hold	446	0.51	0.51	6.47	23.0	11.7	0.6	2.7	0.8	(3.8)
Simple average		**92,759**			**10.4**	**22.7**	**19.6**	**1.2**	**6.4**	**3.1**	

Source: Bloomberg, Maybank IBG Research

We maintain our CPO ASP forecast of MYR3,700/t for 2024E, which is below 2023E's MYR3,800/t, premised on (i) good South American soybean harvest, and (ii) anticipated lower YoY unit cost. In terms of price trend, CPO price is expected to be off to a good start in 1Q24 owing to seasonally low output cycle, and trend lower by mid-2024 on anticipation of seasonally better output in 2H24.

Key things to watch out in 2024:

(a) **Weather development.** There is still much uncertainty in the anticipated record oilseeds output in 2023/24F as the ongoing El Nino is only projected to end sometime in early-2024. If unfavourable weather conditions continue in Brazil over the next two months, it could send soybean prices higher which should benefit CPO price indirectly too.

(b) **Recessionary fear lingers.** The effects of high US interest rates, the wars in Russia-Ukraine and Israel-Hamas, and the financial health of many countries pose much uncertainties on global demand. A weaker-than-expected demand will lead to higher-than-expected stockpile, dragging down CPO price.

(c) **Tax review.** The Malaysian Government is conducting a comprehensive study on taxes in the palm oil sector and hopes to complete the study sometime in 2024. Among others, planters are asking for a review of the plantation sector's windfall profit levy. At present, a levy of 3% is chargeable (on per tonne of FFB) on CPO prices above the MYR3,000/t threshold in Peninsular Malaysia and above the MYR3,500/t threshold in East Malaysia.

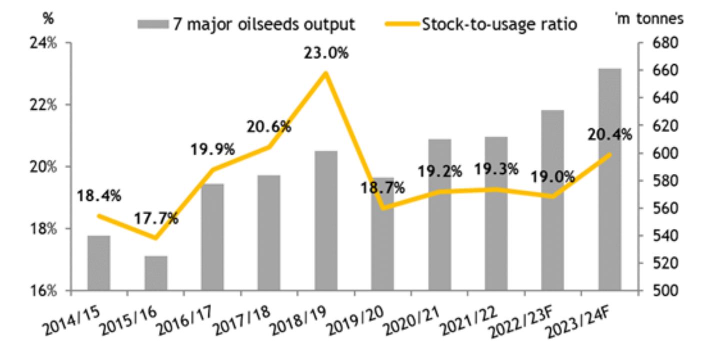
Thematic. M&A will continue to be a theme in 2024 given the lack of greenfield opportunities for almost 10 years now. With improving financial positions for most planters the past few years, planters will be on a look out for M&A opportunities.

Sector top BUYs. GENP is our sector top BUY for the large cap. GENP is attractive as it doubles as a real estate play too especially given its vast tracts of freehold land in Johor that are in part, gradually being unlocked for property development. GENP trades at 66% discount (as of 6 Dec) to our RNAV estimate of MYR15.88/sh. For the SMID caps, we like Sarawak Oil Palms (SOP) and Ta Ann as both are in net cash positions, and trading at single-digit PERs and below their replacement costs. Separately, Ta Ann offers attractive dividend yields of >6%.

Sector upside risks: (i) Weaker-than-expected production of palm oil and other vegetable oils; (ii) Brent crude oil price rising closer to USD150/bbl; (iii) weather anomalies at major palm oil and oilseeds producing regions; (iv) unfriendly government policies at exporting countries; and (v) escalation of geopolitical tensions in Russia-Ukraine and/or the Middle East.

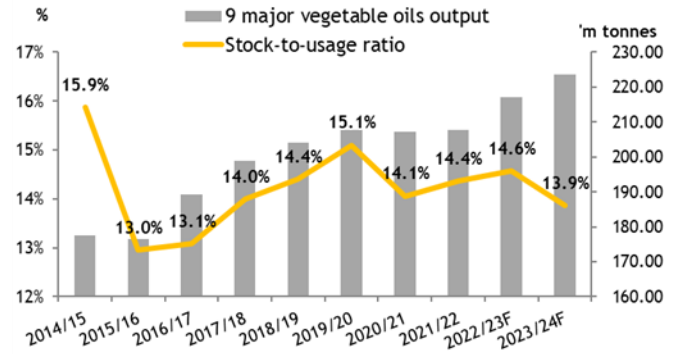
Sector downside risks: (i) Reversal of Brent crude oil price to sharply <USD80/bbl; (ii) negative policies imposed by importing and/or exporting countries; (iii) global demand turns out to be weaker than expected on demand destruction and/or global recession; (iv) weaker competing oil prices (like soybean and rapeseed); and (v) banking crisis in the West extending into a global crisis.

7 major oilseeds output and stock-to-usage ratio



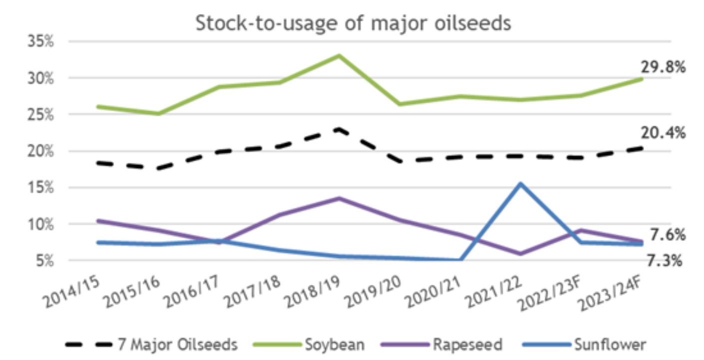
Sources: *USDA, Maybank IBG Research*

9 major vegetable oils output and stock-to-usage ratio



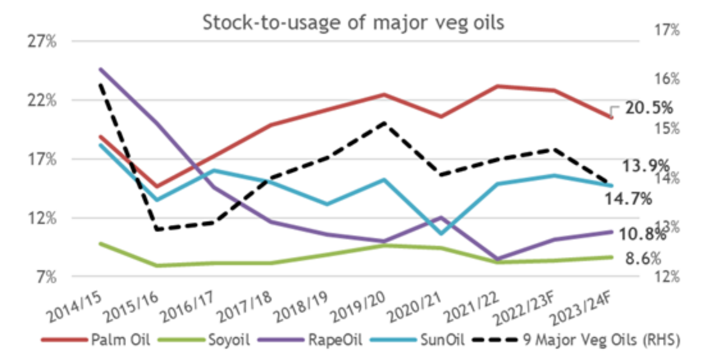
Sources: *USDA, Maybank IBG Research*

Stock-to-usage ratios of selected and 7 major oilseeds



Sources: *USDA, Maybank IBG Research*

Stock-to-usage ratios of selected and 9 major veg oils



Sources: *USDA, Maybank IBG Research*

PROPERTY: All eyes on the South

NEUTRAL (unchanged)

- **Developments in Johor, such as Johor-SG Special Economic Zone (JSSEZ) would continue to be the sector's focus. Other trading opportunities could come from the finalization of the Bayan Lepas LRT alignment in Penang.**
- **Demand for landed properties would remain resilient into 2024. Industrial property segment will continue to be in the spotlight.**
- **The property sector offers trading opportunities in 2024. Our stock calls, however, are more fundamental based. Our BUYs are SDPR, SPSB and TILB.**

In retrospect. The KL Property Index (KLPI) outperformed the broader market by 28.1% (KLPI's +31.3% vs KLCI's -3.2%) in YTD 2023 (@ 5 Dec). The gains in property stocks, particularly those with exposure in Iskandar Malaysia (IM), began when the Government announced plans to establish a SEZ in IM in July 2023, followed by the announcement of a Special Financial Zone in *Forest City*, Johor. The upcoming JB-SG RTS Link and potential revival of the KL-SG HSR project further fueled interests in IM related stocks. Despite the hike in OPR to 3% in May 2023, property sales remained robust, with most developers under our coverage reporting stronger-than-expected sales. The industrial property segment continues to shine due to strong demand and more developers are looking to expand in this segment.

Outlook. Property sales should remain resilient in anticipation of a better economic outlook (MIBG's GDP growth: +4.4% in 2024E vs. +3.9% in 2023E) coupled with a stable OPR at 3%. We expect +5% to +15% growth in property sales YoY for our coverage, except for UEMS and TILB, as their 2023 sales were boosted by MYR874m of en-bloc sales in Australia and the launch of a new sizeable project, respectively. Interest in landed and industrial properties should remain strong, especially the latter, benefitting from investment diversion from China, a weakened MYR and limited supply of strategic industrial parks in the country. Elsewhere, we expect to see more land transactions in IM, especially Kulai-Sedenak area due to high demand from data centers and the area's relatively cheaper land price vs. Iskandar Puteri.

Thematic. Immediate focus will be on the location of the JSSEZ. Based on our observations, we suspect that the SEZ could be located in Sedenak, which is part of the 7,290 acres of land owned by Johor Corp. In our view, it is rational to locate the SEZ in Sedenak to create a new growth area in IM. The SEZ will help to create more job opportunities **IOI Properties (IOIPG MK, N.R.), Genting Plantations (BUY), Scientex (SCI MK, N.R.)** and **Lagenda Properties (LAGENDA MK; N.R.)**. Other thematics include the finalization of the Bayan Lepas LRT alignment. Potential beneficiaries include **SPSB, IJM, MRCB (MRC MK, N.R.)** and **E&O (EAST MK, N.R.)**.

Analyst: Wong Wei Sum
(weisum@maybank-ib.com)

Property sector – Peer valuation summary

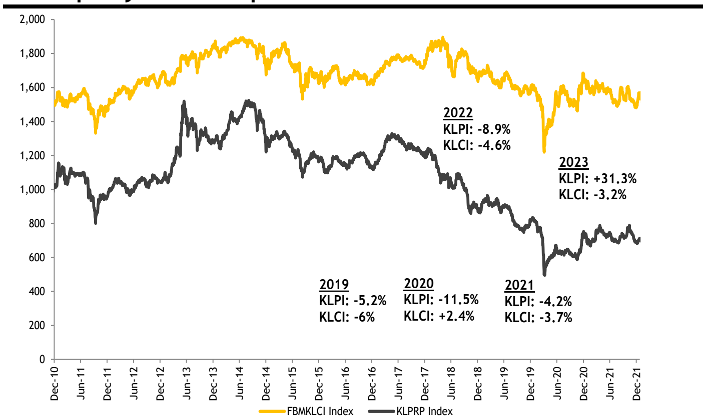
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Sunway Berhad	Hold	10,666	1.96	2.02	18.32	17.0	15.2	0.9	5.2	1.8	21.0
Sime Darby Property	Buy	3,978	0.59	0.75	12.19	10.6	9.9	0.4	3.9	4.3	30.0
SP Setia	Buy	3,331	0.77	1.20	10.93	13.7	4.7	0.3	1.9	2.0	27.5
UEM Sunrise	Sell	3,895	0.77	0.68	55.00	45.3	32.1	0.6	1.3	0.6	202.0
Eco World Dev't	Hold	2,944	1.00	1.12	12.24	10.4	9.4	0.6	5.8	6.0	55.0
Eco World Int'l	Hold	852	0.36	0.26	n.a.	n.a.	n.a.	0.6	(5.8)	91.5	(9.0)
Tambun Indah Land	Buy	365	0.83	0.98	5.93	6.2	5.7	0.5	7.5	6.4	8.5
Simple average		**26,032**			**19.1**	**17.2**	**12.8**	**0.5**	**2.8**	**16.1**	

Source: Bloomberg, Maybank IBG Research

Sector top BUYs. Our stock picks are fundamental based. **SDPR** is our top BUY call for the sector. We like its healthy balance sheet (0.27x net gearing in end-Sep 2023) and its significant exposure to the township and industrial property segments. We also have a BUY rating on **SPSB** for its cheap valuation (<0.3x PBV) and diversified product range. SPSB is actively reducing its debt level by disposing off non-core landbank. As for **TILB**, we like its prudent management, clean balance sheet (15sen net cash/sh as at Sep 2023) and >6% dividend yield.

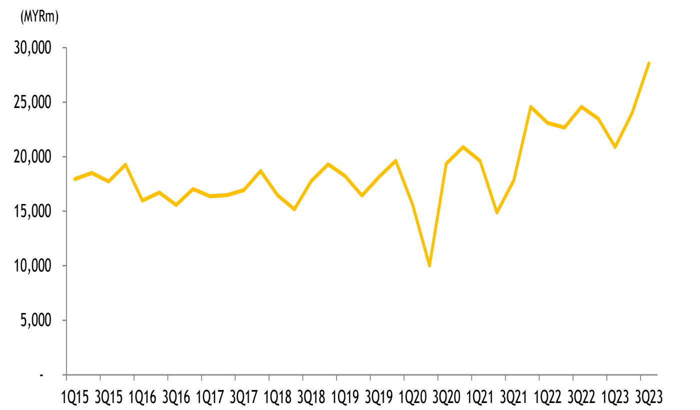
Risks. (i) Potential introduction of the build-then-sell scheme by the Government may set back developers with financial constraints; (ii) stronger-than-expected property sales driven by better economic growth; (iii) policy risks; (iv) easing of lending measures by the banks; (v) higher-than-expected Liquidated Ascertained Damages compensation; and (vi) rising building material costs and labour issues.

KL Property Index outperformed KLCI in 2023



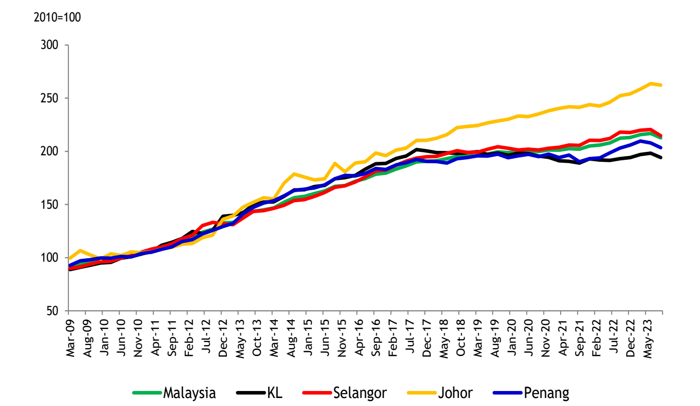
Source: Bloomberg

Property sales improved +16% YoY, +19% QoQ in 3Q23



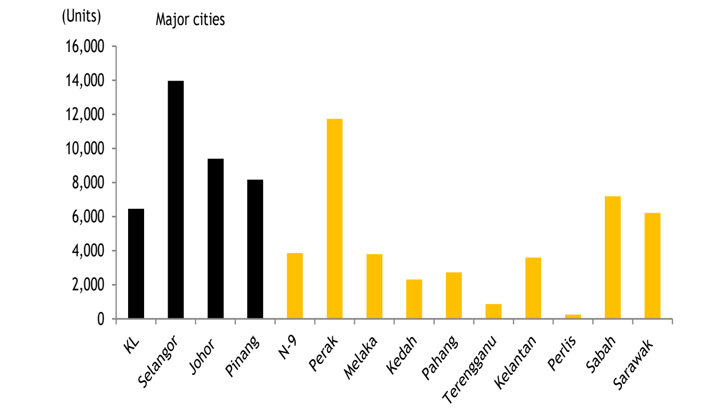
Source: CEIC, NAPIC, Maybank IBG (chart)

House Price Index up 0.1% YoY, down 1.9% QoQ in 3Q23



Source: CEIC, NAPIC, Maybank IBG (chart)

Selangor and Perak have the highest unsold stocks



Source: CEIC, NAPIC, Maybank IBG (chart)

REITs: Growth momentum to continue

NEUTRAL (unchanged)

- **Selected M-REITs' DPU should remain resilient due to their LT leases and/or prime assets. We remain NEUTRAL on the sector, expecting an average CY24E net DPU yield of 6.1%.**
- **Thematic includes global monetary policy tightening at its tail-end; thus, interest should return to high yielding stocks.**
- **Our Top BUY is YTLREIT; other BUYs are PREIT, SENTRAL and AXRB.**

In retrospect. 9M23 topline growth for M-REITs under our coverage (+15% YoY) was largely contributed by improved occupancies and strong rental growth from their retail and hospitality assets. Occupancy rose YoY for the sub-segments, led by Hospitality, following the recovery in travel. M-REITs' growth in revenue was also encouraged by partial income contribution from new assets eg. at PREIT, CLMT, and AXRB. Bottomline growth (9M23: +5% YoY) was however impacted by higher utilities and finance costs.

Outlook. We remain NEUTRAL on the sector going into 2024. We forecast the sector's CY24E YoY earnings growth to remain decent at +9.1%, to be supported by sustained occupancy and rental rates, coupled with several new asset injections (ie. into PREIT, CLMT, SREIT, SENTRAL, AXRB and YTLREIT).

- By segment, we expect hospitality and retail assets to maintain their growth momentum on gradual return of international tourists and improvement in tenant sales and footfalls, which will sustain tenants' demand for retail space. We continue to like prime retail malls which are in prominent locations. We expect positive mid-single digit rental reversions in FY24E across most Klang Valley retail properties.
- For the industrial segment, we believe it will remain on an upward growth trajectory amid a steady pipeline of industrial and warehouse assets, backed by strong demand from both the logistics and manufacturing industries.
- As for the office segment, we expect it to remain in a state of oversupply amid continuous new supply. We project rental and occupancy rates to remain challenging. However, the reinvention of office buildings via asset enhancement initiatives (AEI), and upgrading to 'green' building status could lift tenancies. In this segment, we prefer office assets with long-term tenants which will entail lower occupancy risks.

Elsewhile, we expect Bank Negara to pause on interest rate, and the OPR to stay at 3% throughout 2024. This will provide respite in terms of higher financing cost experienced in 2023. As at end-Sep 2023, the sector's floating rate debt exposure was 54%; interest costs in CY23E ranged between 3.8% to 5.4% (CY22: 2.8%-4.3%).

Analyst: Nur Farah Syifaa (nurfarahsyifaa.mohamadfuad@maybank-ib.com)

REITs sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
KLCCP Stapled Group	Hold	12,655	7.01	7.00	18.5	16.7	16.5	0.8	5.5	5.1	4.5
IGB REIT	Hold	6,123	1.70	1.70	18.1	17.0	15.9	1.6	9.3	5.5	3.0
Sunway REIT	Hold	5,308	1.55	1.54	16.1	15.8	14.4	1.1	6.4	5.7	6.2
Pavilion REIT	Buy	4,310	1.18	1.41	14.6	15.5	15.5	0.9	6.2	6.2	(2.5)
Axis REIT	Buy	3,099	1.78	2.16	18.5	20.0	15.1	1.1	5.7	4.5	(0.6)
YTL REIT	Buy	1,738	1.02	1.08	12.5	12.1	11.7	0.6	5.1	7.7	10.9
Capitaland M'sia Trust	Hold	1,507	0.55	0.56	13.8	16.7	14.1	0.5	3.6	5.5	2.8
Sentral REIT	Buy	927	0.78	0.96	10.9	12.7	10.6	0.7	5.2	6.7	(13.4)
Al-Salam REIT	Hold	255	0.44	0.45	16.3	29.3	21.0	0.4	1.4	3.0	18.9
Simple average		**35,923**			**15.5**	**17.3**	**15.0**	**0.9**	**5.4**	**5.5**	

Source: Bloomberg, Maybank IBG Research

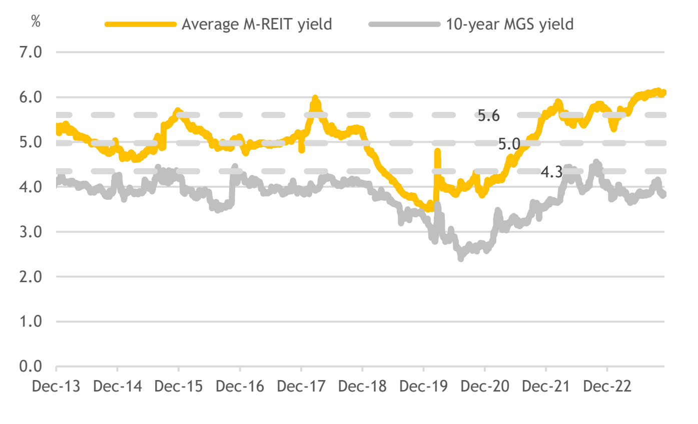
Thematic. With global monetary policy tightening at its tail-end, interest should return to high yielding stocks in 2024. M-REITs currently offer an average CY24E net yield of 6.1%, primarily led by YTLREIT (8.4%) and SENTRAL (7.4%). Meanwhile, the sector's trailing net yield spread (against the 10Y MGS yield) is at its average of 227bps. Our Fixed Income Research Team expects 10Y MGS yield to lower to 3.50% by end-1H24. This translates into a CY24E net yield spread of 192bps.

Sector top BUYs. YTLREIT is our Top Pick, supported by strong dividend yield offering of 8.4% and improved performance from its Australia hotels. Rental income from its Malaysia and Japan hotel portfolios should remain resilient under their long-term master lease arrangements.

We also have BUY ratings for PREIT, SENTRAL and AXRB. We expect PREIT to benefit from the improved performance of *Pavilion KL* and full year rental income contribution from *Pavilion Bukit Jalil*. Meanwhile, earnings growth at SENTRAL will be supported by higher occupancy rate for its office assets and new contribution from *Menara CelcomDigi*. We continue to like AXRB due to its strong exposure to the industrial segment and active search for new assets to grow its portfolio.

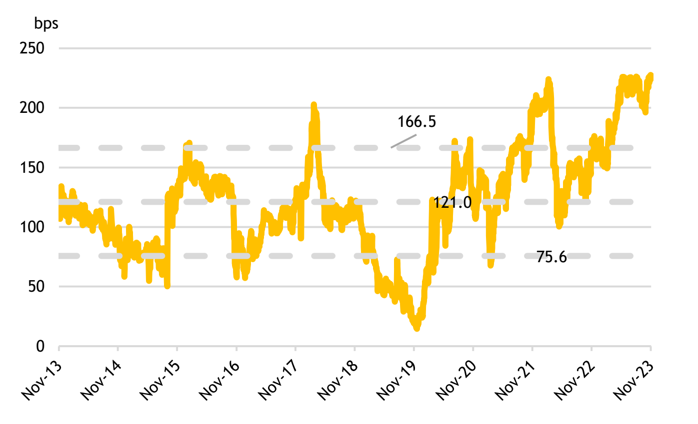
Risks. We remain cautious on the oversupply of retail and office space in the Klang Valley which could exert pressure on occupancy rates and/or rental reversions. These, in turn, would increase the downside risk to DPUs. Elsewhere, OPR hike(s) would lower M-REITs' profitability (higher finance cost)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

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



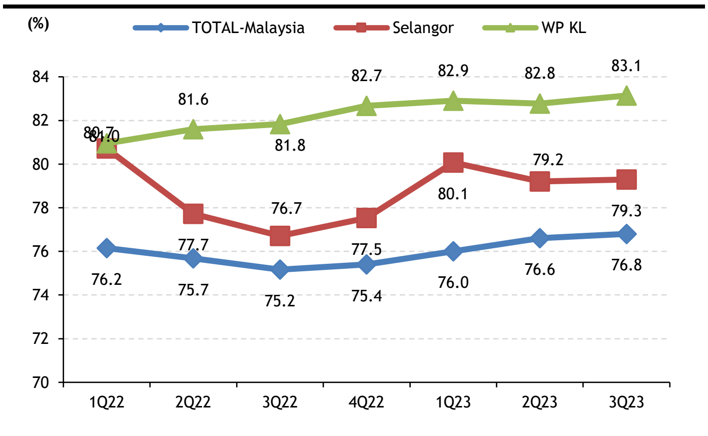
Source: Bloomberg, Maybank IBG Research

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



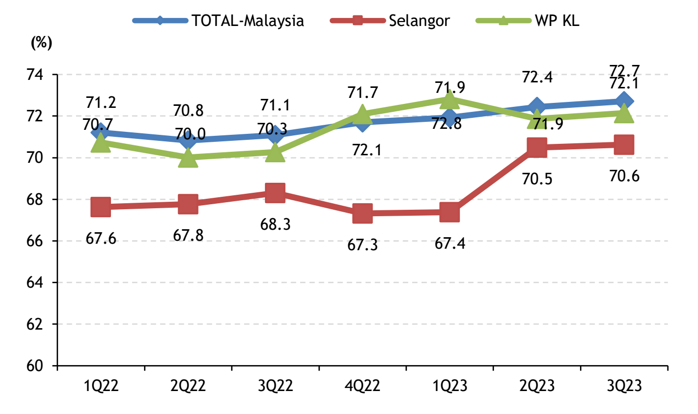
Source: Bloomberg, Maybank IBG Research

Retail space occupancy in shopping complexes



Source: National Property Information Centre (NAPIC)

Office space occupancy in purpose built offices



Source: National Property Information Centre (NAPIC)

RENEWABLE ENERGY: Another interesting year ahead

POSITIVE (unchanged)

- **Into 2024, RE players await for EPCC contract awards from the 800MW CGPP to replenish their orderbooks and to expand solar assets ownership.**
- **The mechanism for RE export and establishment of a RE exchange system are the lookouts in 2024.**
- **We have BUYs on both Solarvest and Cypark, and remain POSITIVE for the sector.**

In retrospect. Highlights for the RE sector in 2023 were the lifting of RE export ban in May, followed by launch of the NETR in July which provided a clear direction on the country's energy transition path. A cornerstone project under the NETR was a 1GW large scale integrated RE zone (solar powered), set to be the largest in ASEAN and having attracted MYR6b in FDIs to-date. In addition to solar power, the NETR also opens up the hydrogen gateway in Sarawak, and puts in place the framework for CCUS, hence laying the foundation for the development of new, high value-add GDP growth drivers.

CGPP awards in Aug/Nov 2023 (totaling 800MW) marks the start of a new orderbook replacement cycle (e.MYR2.88b) for the solar EPCC players, with Solarvest, Sunview (SUNVIEW MK, N.R.), Pekat (PEKAT MK, N.R.) and Samaiden (SAMAIDEN MK, N.R.) among the selected solar producers. As for the LSS projects (2.4GW awarded), 57% has finished construction as at mid-2023, where c.1.4GW are already operational. We expect construction completion for the remaining c.1GW LSS projects by end-2023.

For the RE players, Solarvest's outstanding order book declined to MYR289m as at end-Sep 2023 as all its LSS4 projects were nearing completion, due to be delivered by Dec 2023. Cypark reported a core net loss in 1QFY24 amid lower EPCC works recognition, among others. Specifically on their RE asset ownership: 1) Solarvest's 12MWp under the LSS4 is targeted to commission by Dec 2023 (it has commissioned two LSS4 assets totalling 38MW in Aug/Nov 2023). Solarvest has also won a total 90MW of solar assets (effective 43.5MWp) under the CGPP. 2) Cypark also targets to complete three on-going LSS2 and LSS3 construction in Terengganu and Kelantan (totalling 90MW) by Dec 2023. Upon completion, Solarvest and Cypark will receive stable recurring income from sale of electricity for 21-25 years from CY24E.

Outlook. To-date, no EPCC contracts have been awarded from the 800MW of CGPP. Assuming EPCC works worth MYR3.6m per MW capacity, we estimate the 800MW offers MYR2.88b of EPCC works. This provides solar EPCC orderbook replenishment opportunities for RE pure-plays. Solarvest has indicated potential works for 443.4MWp, which translate into a new orderbook of c.MYR1.1b.

Abbreviation

NETR = National Energy Transition Roadmap
CCUS = carbon capture, utilisation & storage
CGPP = Corporate Green Power Programme
LSS = large scale solar
EPCC = engineering, procurement, construction and commission
NEM = net energy metering
C&I = Commercial & Industrial
WTE = waste-to-energy

Analyst: Nur Farah Syifaa
(nurfarahsyifaa.mohamadfuad@maybank-ib.com)

Renewable energy sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Solarvest Holdings	Buy	829	1.24	1.40	51.1	31.4	20.6	3.8	12.8	0.7	45.0
Cypark Resources	Buy	782	0.95	1.05	7.4	14.0	17.8	0.4	5.2	0.0	102.1
Simple average		**1,611**			**51.1**	**31.4**	**20.6**	**3.8**	**12.8**	**0.7**	

Source: Bloomberg, Maybank IBG Research

We also expect more RE quota to be released under the NEM 3.0 programme in 2024. As at 6 Dec 2023, the balance quota available for NEM 3.0 is 61MW (out of 1.05GW), left only for NEM GoMEN (Government). Both quota for NEM Rakyat (Residential) and NOVA (C&I) are fully taken up. As the Government has extended the NEM 3.0 programme to 31 Dec 2024 during Budget 2024, we expect more NEM quotas for rooftop projects to be released by early-2024.

In terms of industry outlook, we see a favourable trend for solar panel prices. According to IEA, global solar PV manufacturing capacity had risen by over 70% in 2022, to reach almost 450GW, with China accounting for >95% of the new facilities throughout the supply chain. In 2023 and 2024, global solar PV manufacturing capacity is expected to double, with China claiming over 90% of this increase. This has led to China's solar panel prices continuing on a declining trend since early-2023 to new record low in Dec 2023. The low prices are expected to continue towards 2024. We expect this would ease the related cost pressure for solar power producers, and contribute positively to project IRRs (for solar asset owners).

Thematic. We see RE export to be the sector thematic in 2024. Although the Government had announced the lifting of the RE export ban as part of a policy review to accelerate the growth of Malaysia's green economy industry in early May 2023, the details are pending. We expect the mechanism to be announced by mid-2024 which should also be supported by the establishment of RE exchange system. Once the RE export mechanism is clear, Malaysia RE players should be incentivised to explore battery energy storage system (BESS) projects, in our view. Singapore has a 4GW target for RE imports by 2035, and it has a higher average regulated household electricity tariff. BESS projects have not been viable at local tariffs.

Sector top BUYs. We have BUY ratings for both Solarvest and Cypark. Solarvest's earnings will be supported by an unbilled EPCC orderbook of MYR289m, 50MW of LSS4 assets and a strong tender book of 3.1GW local and overseas solar projects. Meanwhile, Cypark's earnings will be supported by higher income contribution post commissioning of three on-going projects under the LSS2 and LSS3 (totalling 90MW), couple with higher income from its 20MW WTE plant as it achieves optimal operation from Dec 2023 onwards.

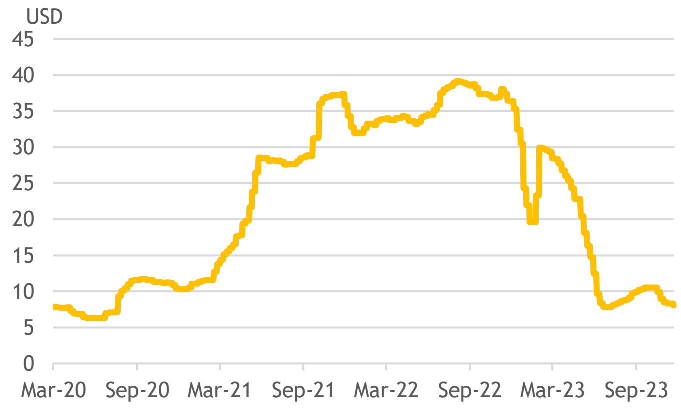
Risks. (i) Delays in commissioning of solar assets could affect the timing of earnings and cash flow recognitions; (ii) rising solar-related material cost and labour shortages could affect the solar projects' margins; (iii) another earnings risk would be if another pandemic occurs.

Solar capacity awarded to-date

Solar programmes	Quota offered (MW)	Quota approved (MW)	Notes
Solar - Fit	-	323	As at 2022
Solar - NEM 2.0	500	487	
Solar - NEM 3.0	1,050	989	As at 6 Dec
LSS (1-4)	2,460	2,457	As at 2Q23
CGPP	800	800	
Total	**4,810**	**5,056**	**372.1**

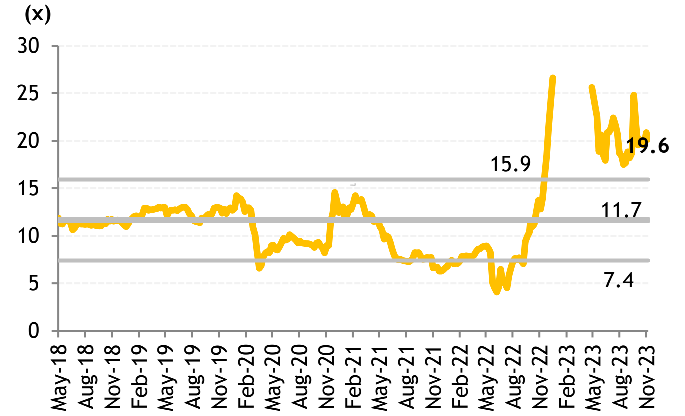
Source: Compilation of Maybank IBG Research

Polysilicon price (USD/kg)



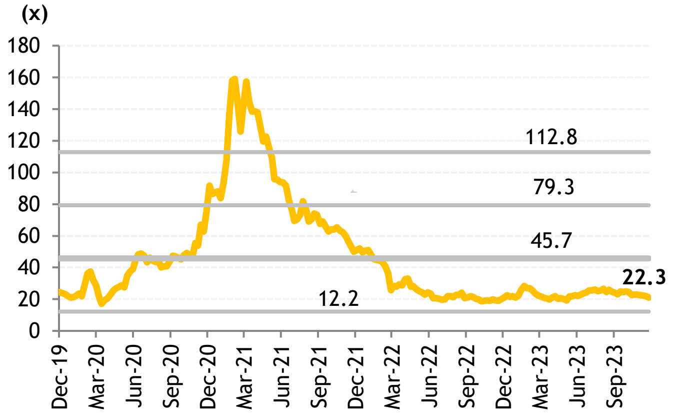
Source: Bloomberg

Cypark - 12M forward PER



Source: Company, Maybank IBG Research

Solarvest - 12M forward PER



Source: Company, Maybank IBG Research

TECHNOLOGY: Diverging fortunes led by differentiated fundamentals

Semiconductors: NEUTRAL (unchanged)

Software & EMS: POSITIVE (unchanged)

- **We expect 1H24 to remain challenging for semicon, with a recovery likely only from 2H. We are cautiously optimistic on EMS' near-term prospects, while for our entire software coverage, we are prima facie positive.**
- **Domestic back-end recovery is highly contingent on the recovery of China's macro fundamentals. Software will continue its upward trajectory from accommodative gov't policy and launch of HGHV blueprint in Feb 2024.**
- **Broad-based BUYs on our software coverage (top picks are CTOS, ITMAX). Selective on hardware (GREATEC) and EMS (ATECH).**

In retrospect – a tale of two sectors. 2H23 saw disappointing results delivery from **semicon** players. The underperformance stemmed primarily from a triumvirate of (i) weak external demand, (ii) higher input (labour/electricity) costs; and (iii) larger-than-expected taxation-related charges. Consequently, 9M23 results of our coverage were mostly below ours/the street's expectations, with only GREATEC (relatively insulated from inventory oversupply woes affecting backend OSAT/ATE players) coming in-line, delivering its best quarterly turnover to-date. Amongst heavyweights, INRI's gross margins saw steep sequential declines in both 1Q/ 2QCY23, before rebounding to 23% in 3Q but remained well below its CY22 average of c.30%. VITRO meanwhile, capitulated in 3Q23 (9M23 core earnings coming in at 60%/64% of ours/consensus), with guidance of a soberingly gloomy outlook for 1H24 despite its vaunted low customer/geographical concentration risks.

Auxiliary front-end players like foundry-cleaning specialist FRCB were not spared the downturn, as volume loading at large multinational fabs in Taiwan and Singapore remained tepid from weak global consumer electronic demand. The under-performance of the sector (historically one of Bursa's best secular growth stories) amidst reigning macro-level uncertainties was perhaps best encapsulated by range-bound trading of the KLTEC index throughout 2023 and the divergence of the index's historical correlation to the NASDAQ in recent months.

Starkly contrasting its hardware peers, the largely fragmented and domestic consumption-driven **software** space saw encouraging signs of growth throughout the year, with 9M23 results for our coverage largely meeting (if not exceeding) expectations. CTOS continued to deliver strong double-digit turnover growth and blended operating/EBITDA margins (>35%) across all key domestic segments, whilst also embarking on an aggressive acquisition & partnership strategy to grow its credit reporting business regionally. Recently listed smart city specialist ITMAX saw impressive share price gains (c.+30%) in late-Sept following a slew of CCTV and traffic control-related contract wins in Johor.

Acronyms

AI – artificial intelligence
ATE – automated test equipment
DeFi – decentralized finance
EMS – electronic manufacturing services
EV – electric vehicles
FDI – foreign direct investment
IDC – International Data Corporation
IoT – internet of things
NASDAQ – US-based stock exchange (tech-heavy)
KLTEC – Kuala Lumpur Technology Index
OSAT – outsourced assembly and test

Analyst: Anand Pathmakanthan
anand.pathmakanthan@maybank-ib.com

Analyst: Arvind Jayaratnam
arvind.jayaratnam@maybank.com

Analyst: Loh Yan Jin
lohyanjin.loh@maybank-ib.com

Hardware sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Inari Amertron	Hold	11,088	2.96	3.12	31.2	32.5	28.6	4.2	13.3	2.8	13.4
Vitrox Corp	Hold	6,712	7.10	8.10	31.0	38.4	26.9	6.7	17.5	0.7	(7.2)
Greatech Technology	Buy	5,807	4.63	5.20	45.8	38.6	31.3	7.9	20.4	0.0	(4.3)
Frontken Corp	Hold	4,876	3.10	3.50	39.7	41.9	29.0	8.1	21.9	1.3	0.6
Globetronics Tech	Sell	1,190	1.77	1.13	24.9	45.4	32.8	3.9	8.3	2.2	52.6
Simple average		**29,673**			**34.5**	**39.4**	**29.7**	**6.1**	**16.3**	**1.4**	

Source: Bloomberg, Maybank IBG Research

Software sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
My E.G. Services	Buy	6,080	0.82	1.23	17.3	13.4	13.1	2.7	20.5	2.0	(5.2)
CTOS Digital	Buy	3,326	1.44	1.97	45.0	28.8	27.2	5.9	20.6	1.8	1.4
ITMAX Systems	Buy	1,882	1.83	2.10	42.6	28.6	19.9	5.5	19.4	0.7	28.9
GHL Systems	Buy	828	0.73	0.93	29.0	26.9	23.4	1.5	5.7	0.0	(15.7)
Ramssol	Buy	118	0.39	0.46	21.4	13.3	10.7	1.4	11.5	0.0	(12.5)
Simple average		**12,234**			**31.1**	**22.2**	**18.9**	**3.4**	**15.5**	**0.9**	

Source: Bloomberg, Maybank IBG Research

EMS sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
V.S. Industry	Hold	3,198	0.83	1.05	17.2	16.5	13.6	1.4	8.9	2.5	(5.7)
Aurelius Technologies	Buy	1,060	2.69	3.13	26.5	22.7	17.4	3.8	14.4	2.1	47.0
Simple average		4,258			**21.9**	**19.6**	**15.5**	**2.6**	**11.7**	**2.3**	

Source: Bloomberg, Maybank IBG Research

Despite lingering uncertainties in its bread & butter concession businesses, MYEG delivered three consecutive quarterly beats as its DeFi/blockchain business grew from strength to strength in 2023. Elsewhere, GHLS continues to ride the wave of inbound tourism following widespread relaxation of cross-border travel restrictions as well as accommodative government policy towards propagating adoption of digital payment mediums.

Outlook – indigenous semicon growth contingent on recovery of China's macro fundamentals; software growth to remain secular. The IDC forecasts for global semicon revenue to decline 12% YoY to USD527b in 2023, but is more optimistic of growth in 2024. Their thesis is underpinned by capex improvements once demand picks up in 2H from returning fabless customers' wafer orders as capacity under-utilisation and inventory overhang issues gradually ease. Much of this growth is expected to be driven by a strong US economy and the mass commercialisation of next-gen AI-based technologies.

However, accounting for (i) local **semicon** players' heavy reliance on Chinese customers and/or end-demand and (ii) the presence of cyclical time lags affecting aggregate demand levels in the delineated front and back-ends of the sector; and (iii) the lack of domestic backend exposure to emerging AI platforms, ***we do not anticipate a recovery to materialise locally until late-2024***. To compound woes, Chinese monthly manufacturing activity contracted for a second consecutive month in November (sixth contraction since Apr 2023) with c.60% of factories reporting insufficient market demand - largely mirroring our channel checks of local players with sizeable China exposure. Notwithstanding weak external drivers however, we still expect most local PLCs' utilisation rates to continue hovering above breakeven levels (c.55-65%) in 1H24, at least. Although growth is likely to remain throttled, the risk of companies under our coverage incurring surprise loss-making quarters is minimal, in our view.

On **EMS**, we remain cautiously optimistic moving into 2024, with anticipation of gradual earnings improvements as customer inventory levels normalise. New orders are also expected to drive growth, thanks to the commencement of production for recently expanded capacities (Fig. 4). The key focus next year lies in delivering and strengthening ties with new customers, while EMS players enhance their capabilities in an effort to move up the value chain. Underpinned by record FDIs in recent years, our long-term outlook on the sector remains robust. We maintain the view that increasing demand (largely driven by the adoption of 5G/IoT, electric vehicles, and medical products) will continue to benefit key players in the sector.

Our outlook for the Malaysian **software** space is prima facie positive as structural tailwinds in relation to digital adoption remain highly favourable (as evidenced by the MYR200m in government allocation for SME digitalization initiatives, amongst a slew of other related initiatives in Budget 2024). The positive momentum is likely to snowball further in 2024 with the introduction of the High-Growth High-Value (HGHV) blueprint for digital-based industries by the Ministry of Economy, slated to be announced in Feb-24. The blueprint will likely detail sub-sectoral roadmaps to intensify the development of Malaysia's start-up ecosystem and lay the foundations for turning Malaysia into an attractive investment hub for global technology companies. Continuous easing of travel restrictions also serves as an additional growth driver for e-payments (GHLS) and cross-border trading (MYEG) players.

Sector top BUYs. With expectations for **semicon's** operating environment to remain challenging throughout much of 1H24, we remain selective and prefer automation players with limited exposure to the backend (OSAT/ATE) inventory cycle. Although execution remains a key risk, we are sanguine on **GREATEC**'s prospects owing to its healthy outstanding orderbook, solid exports customer base in high-growth industries (EV/solar) and aggressive growth strategies backed by healthy cash balances.

Conversely, we're broadly positive on Malaysian **software** space. Our top picks are (i) **CTOS** (resilient core businesses, dominant market position, removal of price overhang from tax incentive extension), (ii) **MYEG** (continued future earnings growth from high-margin DeFi ventures); and (iii) **ITMAX** (potentially making further inroads in Johor and anticipating new CCTV contract wins in other states next year). We prefer **ATECH** in the **EMS** space.

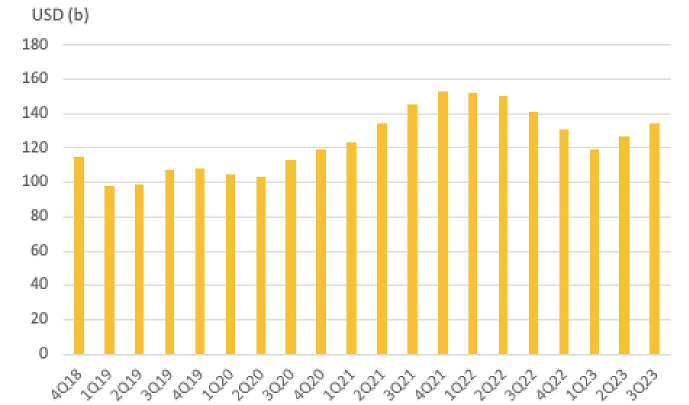
Risks. For **hardware**, risk factors affecting our earnings estimates, target price and ratings for companies under our coverage include (i) a prolonged downturn in the demand for consumer electronics; (ii) a stronger MYR vis-à-vis USD; and (iii) further wage-related and electricity tariff hikes.

For **software**, (i) softening of consumer spending patterns that could result in slower domestic consumption; (ii) slower recovery in international visitor arrivals which could impede TPV growth; and (iii) removal of subsidies that could impact discretionary spending.

KLTEC Technology Index (5Y performance)

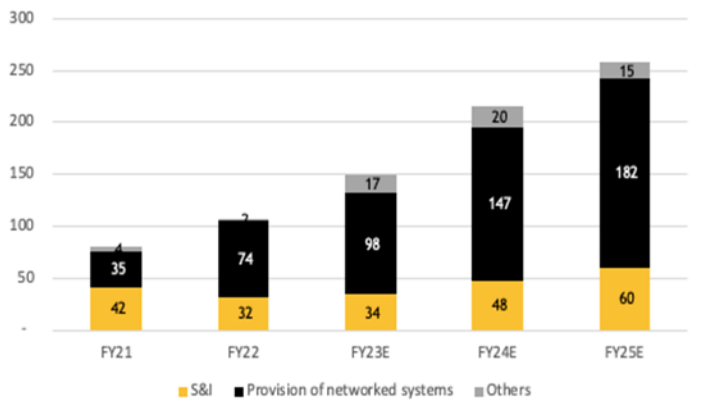
Source: Bloomberg, Maybank IBG (compilation)

Global semiconductor billings (blended total)



Source: WSTS, Maybank IBG (compilation)

ITMAX revenue projection by segment (MYR m)



Source: Company, Maybank IBG (compilation)

Domestic EMS PLCs' capacity expansion status

Company Name	Expansion Completion
Aurelius Technologies	2HCY24
PIE Industrial	4QCY23/1QCY24
Nationgate Holdings	4QCY23
EG Industries	4QCY23
YBS International	4QCY23
CapeEMS	4QCY23
VS Industry	-

Source: Company, Maybank IBG (compilation)

TELECOM: Uncertainty drags on

NEUTRAL (unchanged)

- **The phased transition to dual 5G networks will extend the operational uncertainty facing mobile operators.**
- **The overhang pertaining to the HSBB access price cuts for fixed broadband could remain in play for 2024.**
- **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 0.9% YoY in 9M23, and is on course for a third consecutive year of growth (after seven years of decline previously). 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, the process for a second network (Entity B) will only begin in 2024 at the earliest after the current incumbent DNB achieves 80% population coverage. All 5 mobile telcos have already signed access agreements and conditional share subscription agreements with DNB, which are precursors to participation to Entity B.

In the fixed space, the revised (lower) mandatory access prices for high-speed broadband (HSBB) were announced in Mar 2023. TM pre-emptively lowered prices of its retail fibre broadband plans in Oct 2023, effectively structuring these revisions as speed upgrades. Maxis and other access seekers followed suit, despite not having finalized their commercial arrangements with TM (at the time of writing). On the M&A front, TDC completed the very lucrative divestment (70%) of its data centre business. Axiata meanwhile disposed of its 80% stake in Ncell, thus making a clean exit from Nepal.

Outlook. We believe mobile operators will continue be plagued by regulatory uncertainty throughout 2024. The timing of the step-up in DNB lease payments (upon fulfillment of 80% coverage and other conditions) remains uncertain. Telcos are currently paying a nominal amount to use DNB's 5G services. When the required conditions are fulfilled, the minimum annual fee would rise to MYR360m for Maxis, and MYR288m per telco for the rest (we have yet to incorporate these costs into our telcos' earnings forecasts). We are unsure if these fees would be revised when the process of setting up Entity B kicks off. In the fixed space, we believe the overhang pertaining to the HSBB access price cuts would remain in play for 2024, with fibre broadband operational data being scrutinized upon release. We continue to expect a relatively benign impact to TM's overall fibre broadband revenue.

Thematic. The telecom industry increasingly depicts a long-drawn race to the bottom as competition hampers monetization and regulatory demands intensify. As revenue stagnate, telcos can only rely on optimising costs (including engaging in mergers) to preserve earnings. In Malaysia, telcos with headroom to address costs are TM (high staff costs), Axiata (holding co and finance costs) and CelcomDigi (realization of merger synergies).

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

Telecom sector – Peer valuation summary

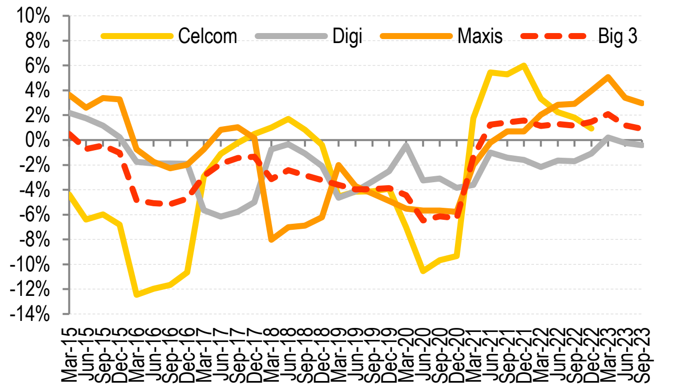
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
CelcomDigi	Hold	48,099	4.10	4.60	43.62	32.0	22.8	2.9	9.3	3.1	2.5
Maxis	Hold	29,997	3.83	4.00	25.36	23.4	20.9	4.8	20.4	4.4	(0.3)
Axiata Group	Buy	21,204	2.31	3.00	13.35	59.2	41.3	0.9	1.5	4.3	(25.2)
Telekom M'sia	Buy	20,296	5.29	6.50	16.08	11.3	11.0	2.2	19.9	3.6	(2.0)
TIME dotCom	Hold	9,511	5.15	5.30	22.39	22.6	21.4	4.5	11.5	15.0	5.1
Simple average		**129,107**			**24.2**	**29.7**	**23.5**	**3.1**	**12.5**	**6.1**	

Source: Bloomberg, Maybank IBG Research

Sector top BUY. Our preferred sector pick remains TM. Its overall earnings outlook remains favourable on the back of its 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 current share price only reflecting its stakes in CelcomDigi and XL. We view sequential net profit recovery and asset monetisation (leading to balance sheet repair) as potential re-rating catalysts.

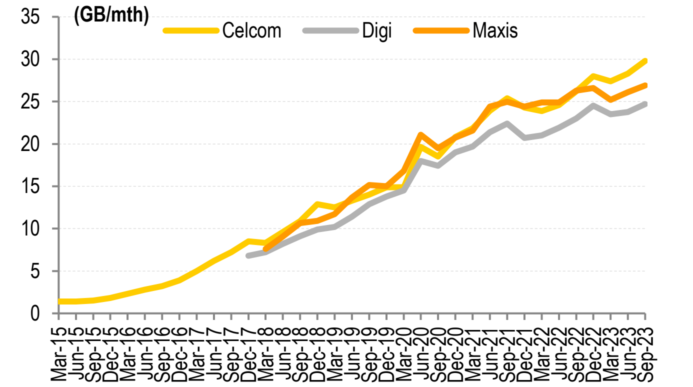
Risks. All telcos could be affected if consumer spending comes under pressure from economic weakness. Developments pertaining to industry consolidation could also have an impact on share prices. In the mobile space, the emergence of a serious price war remains a material risk, particularly if initiated 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 sizable 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.

Service revenue YoY growth (annual cumulative)



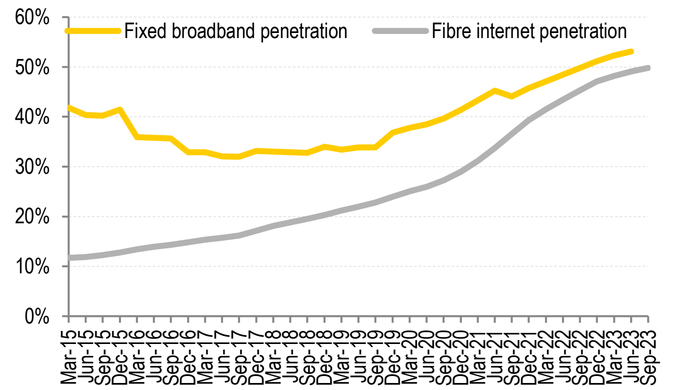
Source: Companies

Average monthly data usage



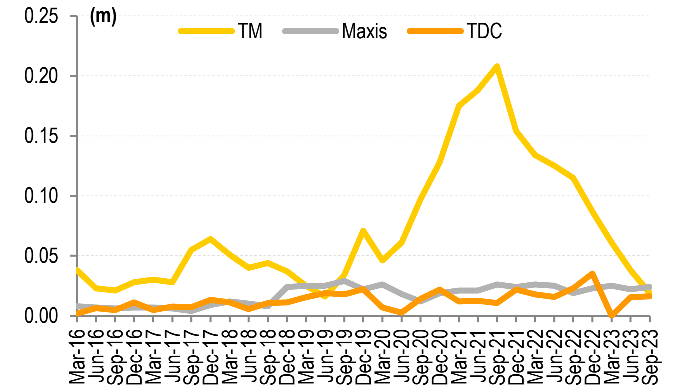
Source: Companies

Fibre broadband penetration



Source: MCMC, Companies

Quarterly fibre broadband subscriber additions



Source: Companies

UTILITY: RE Transition Takes Centre Stage

NEUTRAL (unchanged)

- **There are substantial RE projects in the pipeline; grid investments thus need to be accelerated.**
- **RE export has generated excitement, but details over the mechanism have thus far been lacking.**
- **We have BUY ratings on YTL Power and Mega First.**

In retrospect. The launch of the National Energy Transition Roadmap (NETR) listed various RE projects to be developed, while also bringing to the forefront the need to accelerate grid investments. Details on RE exports have not yet been disclosed to date. Meanwhile, coal prices fell substantially in 1H23 and remained generally stable over 2H23. Tenaga's fuel cost under-recoveries and ICPT receivables have thus trended lower throughout 9M23. Sharply-declining coal prices also meant substantial negative fuel margins for IPPs. This resulted in Malakoff posing net losses throughout 9M23.

The Government made further progress on targeted subsidies, with large users now bearing sizable or full ICPT surcharges. Gas utilities began their regulatory cycles in 2023. Petronas Gas' 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. Gas Malaysia's distribution base tariff for the new RP remained unchanged.

Outlook. 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. Tenaga enters into the final year of its 3-year regulatory period in 2024. Earnings have underwhelmed in FY23, and we expect investors' attention to centre on regulatory negotiations. Petronas Gas will begin a new 5-year Gas Processing Agreement in 2024.

Separately, coal prices are largely unchanged from the mid-2023 levels. We thus expect fuel margins for IPPs to normalize, and Malakoff to return to the black in FY24. Given the trajectory of crude oil prices in 2H23, we expect domestic gas prices (which lags crude oil by 6-7 months) to be higher HoH in 1H24. Gas Malaysia (whose retail profit is a function of gas price) is thus a potential near-term beneficiary.

Thematic. RE transition is a secular theme in the utility space. The 70% RE capacity by 2050 target outlined by the NETR alludes to substantial new RE capacity to be developed over time. Companies with substantial cash piles like Tenaga (sheer balance sheet size), Mega First (backed by Don Sahong's strong cashflows) and YTL Power (elevated distribution from PowerSeraya and already owns sizable land bank in Johor) are relatively better positioned to pursue such opportunities.

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

Utility sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY22	PER (x) CY23E	PER (x) CY24E	P/B (x) CY23E	ROE (%) CY23E	Div Yld (%) CY23E	Px chg (%) YTD
Tenaga Nasional	Hold	57,468	9.93	10.00	12.2	13.3	12.5	0.9	7.1	4.1	3.1
Petronas Gas	Hold	33,124	16.74	17.00	19.5	18.5	18.3	2.5	13.2	4.3	(2.2)
YTL Power	Buy	19,931	2.46	2.70	20.9	8.0	6.9	1.1	13.8	2.4	244.1
Gas Malaysia	Hold	3,968	3.09	3.20	10.2	10.3	11.7	2.9	27.9	7.2	(5.2)
Mega First Corp	Buy	3,366	3.57	4.30	9.1	8.8	8.2	1.1	12.6	2.4	7.5
Malakoff Corporation	Sell	3,054	0.63	0.52	10.1	n.a.	10.4	0.6	(8.4)	3.2	(3.8)
Ranhill Utilities	Sell	1,122	0.87	0.70	11.6	24.9	24.9	1.4	5.8	2.9	91.2
Simple average		**122,033**			**13.4**	**14.0**	**13.3**	**1.5**	**10.3**	**3.8**	

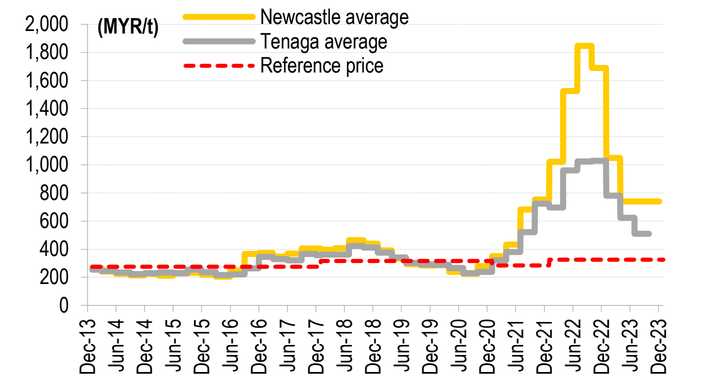
Source: Bloomberg, Maybank IBG Research

Meanwhile, increased RE adoption requires significant grid investments. Under the IBR model, the higher regulatory asset base would translate to increased earnings for Tenaga, all else equal. We do not rule out the possibility of Tenaga's capex stepping up in its next RP (2025-2027). There has been much excitement over RE exports. An ASEAN-wide energy exchange has been suggested, but details are lacking. We believe any extraordinary returns from the sale of RE to Singapore are unlikely to accrue fully to generators, at least in the near-term.

Sector top BUYs. Our preferred pick is YTL Power. With <10% of volume exposed to the volatile pool rates, we expect PowerSeraya's positive earnings momentum to sustain throughout FY24. YTL Power has also been actively on the lookout for new projects. We also have a BUY on Mega First. 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.

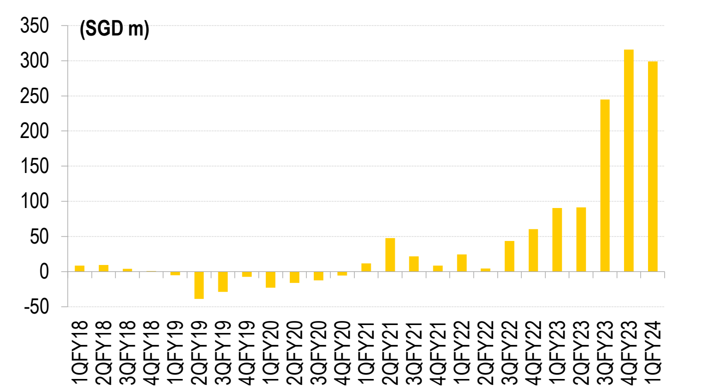
Risks. For Tenaga, Petronas Gas and Gas Malaysia, any changes to regulatory terms would have direct earnings implications. YTL Power's earnings are largely overseas-derived (with Wessex in UK being the main earnings contributor), and are thus vulnerable to currency fluctuations. For Malakoff, any major 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.

Coal prices



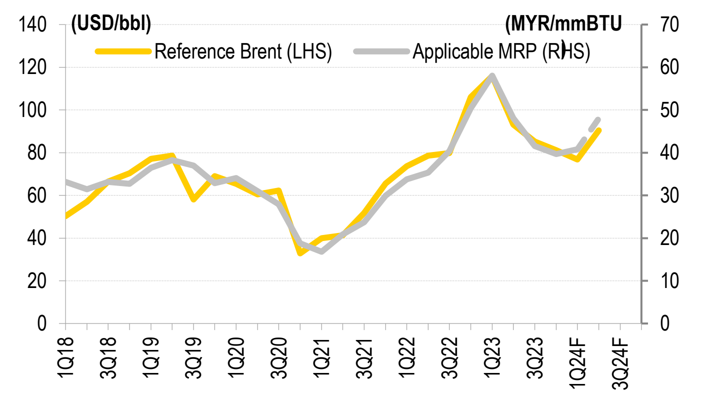
Source: Bloomberg, Company

PowerSeraya quarterly pre-tax profit



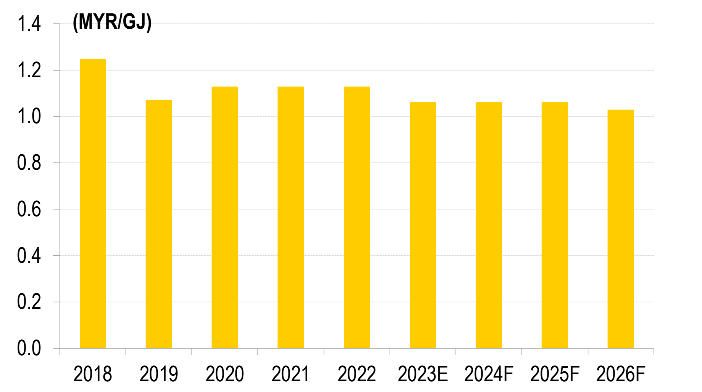
Source: Company

Domestic gas price



Source: Bloomberg, Energy Commission, DOSM

Petronas Gas transportation tariff



Source: Company, Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFLI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhuong@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Anand PATHMAKANTHAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Equity Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840
thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837
kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs

PHILIPPINES

Rachelleen RODRIGUEZ, CFA *Head of Research*
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs • Property
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

Boonyakorn AMORNSANK
(66) 2658 5000 ext 1394
boonyakorn.amornsank@maybank.com
• Services

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
adi.wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Sales Trading

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

London
Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com