Maybank Investment Bank

STRATEGY

Malaysia

Malaysia 2H24 Outlook & Lookouts

Sustaining Momentum

Malaysia's real GDP growth picked up in 1Q 2024, which had prompted us to raise 2024E real GDP growth forecast to +4.7% (from +4.4%) and 2025E to +5.1% (from +5.0%). Over at equities, core earnings of our research universe rose +20.1% YoY in 1Q 2024 which had led to upliftment in our forecasts; we now estimate a higher +15.5% core earnings growth for our universe in 2024E (previously +13.1%), while for 2025E, we now estimate +10.7% growth (previously +9.9%).

Malaysia's economic growth will be underpinned by the trifecta of positives: 1) investment upcycle in FDI and DDI reflecting the on-going realisation of the sustained momentum in robust approved investment since 2021; 2) external demand recovery especially in electronics/tech and tourism, contributing to firmer services sector growth, pick up in manufacturing sector growth as well as rebound in exports of goods and services; and 3) resilient consumer spending on the back of the favourable job market conditions as per the low and stable unemployment rate as well as income growth and support measures.

Positively, the Ringgit has stabilised vs. USD following intervention by Bank Negara and coordinated communications and measures by Bank Negara and Ministry of Finance. We forecast Ringgit ending this year vs. USD at 4.60. Ringgit-positive factors include improving domestic economic growth prospect, as well as the expectation of stable Overnight Policy Rate of 3.00% vs. market and our expectations of 2-3 cuts in the US federal funds rate between Sep 2024 and Dec 2024.

For equities, 1) progress in economic restructuring and fiscal reforms; 2) record high approved FDI/DDIs; and 3) corporate earnings growth delivery has led to the KLCI's outperformance and re-rating in 2024 YTD. We maintain our YE KLCI target of 1,680, with tailwinds including: 1) US interest rate cuts; 2) details of the JSSEZ which will be catalytic in bringing in further FDIs and infra developments; and 3) the outlook of a firmer Ringgit. For investment strategy, we recommend a portfolio of selective investment-related, and domestic sectors, balanced with yield stocks. We also recommend seven thematics for investing in 2H 2024.

Key wildcards to Malaysia's macro outlook are the upside risk to domestic inflation and the downside risk of external geopolitics. Key risks for equities are US elections (in Nov 2024) and a "Trump 2.0" outcome, "higher-for-longer" US interest rate, and Russia-Ukraine & Middle East instability escalating.

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ECONOMICS: Domestic Growth Picking Up

Expect global real GDP growth to moderate slightly (2024E: +3.1%; 2023: +3.2%) primarily as US economy "soft lands" (2024E: +2.3%; 2023: +2.6%) amid slight growth moderation in China (2024F: +5.0%; 2023: +5.2%) and sub-1% growth in Eurozone (2024F: +0.7%; 2023: +0.5%), UK (2024F: +0.6%; 2023: +0.1%) and Japan (2024F: +0.6%; 2023: +1.9%).

We remain constructive on ASEAN-6 growth (2024E: +4.7%; 2023: +4.0%) given the electronics/tech-driven manufacturing and export recoveries, continued tourism rebound, and investment upcycle, especially the surge in FDI on the back of capex boom driven by the need for supply chain security and resilience amid the geopolitics of US/China-led trade tension, as well as new structural growth drivers such as data centres (DC), Artificial Intelligence (AI) and renewable energy (RE).

Malaysia's economic growth is also expected to be firmer (2024E: +4.7%; 2023: +3.6%), underpinned by the trifecta of positives i.e. 1) investment upcycle in both foreign direct investment (FDI) and domestic direct investment (DDI) reflecting the on-going realisation of the sustained momentum in robust approved investment since 2021; **2) external demand recovery** especially in electronics/tech and tourism, contributing to firmer services sector growth, pick up in manufacturing sector growth as well as rebound in exports of goods and services; and **3) resilient consumer spending** on the back of favourable job market conditions as per the low and stable unemployment rate as well as income growth and support measures.

Ringgit has stabilised vs USD as it trades in 4.68-4.72 range since mid-May 2024, and improved further to close at 4.6715 on 12 July 2024, compared with this year's low of 4.80 on 20 Feb 2024. This follows FX market interventions by BNM as well as coordinated communications and measures by Bank Negara Malaysia and Ministry of Finance that include encouraging Government-linked companies (GLCs) and Government-linked investment companies (GLICs) to repatriate and convert their foreign exchange earnings and overseas investment incomes. Our FX Research forecasts Ringgit ending this year vs USD at 4.60. Ringgit-positive factors include improving domestic economic growth prospect, as per the abovementioned growth pickup and trifecta of positives, as well as the expectation of stable Overnight Policy Rate (OPR) of 3.00% vs market and our expectations of 2-3 cuts in the US federal funds rate between Sep 2024 and Dec 2024.

Key wildcards to macro outlook are the upside risk to domestic inflation and the downside risk of geopolitics. The key factor behind the upside risk to domestic inflation is the timing, quantum and mechanics of RON95 petrol subsidy rationalisation - which remains a "black box" – as follow up to the diesel subsidy rationalisation that took effect on 10 June 2024. The upside risk to inflation is factored into the official full-year 2024 inflation rate forecast of between +2.0% and +3.5% and our projection of +2.4% (5M 2024: +1.8% YoY; 2023: +2.5%). Externally, the biggest wildcard is geopolitics - more specifically the risk of a US-China-led global trade war given the high probability scenario of Donald Trump winning the US Presidential Election on 5 Nov 2024. The risk here is Trump's statement that he will impose tariffs of 60% or higher on Chinese goods and a blanket 10% tariff on imports from other countries, which could trigger a global trade war.

GLOBAL ECONOMY

Global economy is a picture of health despite uneven vital signs as recession risk faded

Global real GDP growth is expected to expand by +3.1% in 2024 (2023: +3.2%; Fig 1**).** This is an upward revision from +2.9% previously (note: upgraded slightly in Apr 2024 from the original forecast of +2.8% back in Dec 2023), primarily reflecting resilient US growth momentum (2024F: +2.3% vs +1.8% previously; 2023: +2.6%) amid growth moderation in China (2024F: +5.0% vs +4.8% previously; 2023: +5.2%), continued sub-1% growth in Eurozone (2024F: +0.7% vs +0.6% previously; 2023: +0.5%) and the UK (2024F: +0.6% vs +0.4% previously; 2023: +0.1%), as well as the downward revision in Japan's growth outlook (2024F: +0.6% vs +1.0% previously; 2023: +1.9%).

Fig 1: Real GDP Growth (% YoY)

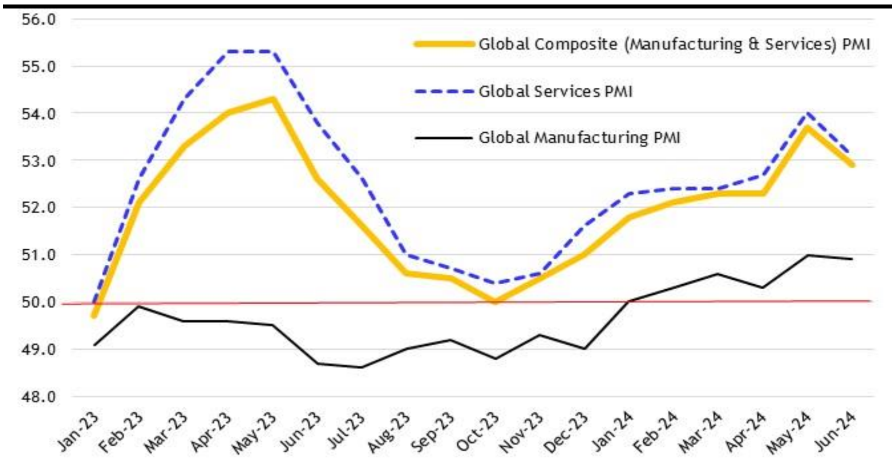
	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	2023	2024F	2025F
WORLD	-	-	-	-	-	-	**3.2**	**3.1**	**3.0**
US	2.1	2.5	2.8	2.9	2.9	-	2.6	2.3	1.8
Eurozone	1.6	0.4	(0.1)	0.0	0.1	-	0.5	0.7	1.4
Japan	2.6	2.2	1.5	1.0	(0.7)	-	1.8	0.6	1.1
UK	0.3	0.2	0.2	(0.2)	0.3	-	0.1	0.6	1.4
China	4.5	6.3	4.9	5.2	5.3	4.7	5.2	5.0	4.5
ASEAN-6	**4.1**	**3.6**	**3.9**	**4.2**	4.3	-	**4.0**	**4.7**	**4.7**
Singapore	0.5	0.5	1.0	2.2	3.0	2.9	1.1	3.0	2.1
Indonesia	5.0	5.2	4.9	5.0	5.1	-	5.0	5.1	5.2
Thailand	2.6	1.8	1.4	1.7	1.5	-	1.9	2.4	2.8
Malaysia	5.5	2.8	3.1	2.9	4.2	-	3.6	4.7	5.1
Philippines	6.4	4.3	6.0	5.5	5.7	-	5.5	6.0	6.2
Vietnam	3.4	4.3	5.5	6.7	5.9	6.9	5.1	6.4	6.2

Sources: Bloomberg & CEIC (1Q 2023 - 2Q 2024, 2023); Maybank IBG Research (2024F-2025F for World, China and ASEAN-6); Consensus (2024E-2025E for others)

The outlook is supported by the performance of Global Composite Purchasing Managers Index (PMI, Fig 2) in 1H 2024 that showed continued expansions in the world economy as it posted the eighth consecutive month of above-50 level as of June 2024 i.e. 52.9 (May 2024: 53.7; 2Q 2024: 53.0; 1Q 2024: 52.1; 1H 2024: 52.5; 2023: 51.7). This was reflective of the trend in the global services PMI which posted 17 straight months of above-50 reading (June 2024: 53.1; May 2024: 54.0; 2Q 2024: 53.3; 1Q 2024: 52.4; 1H 2024: 52.8; 2023: 52.3). Meanwhile, global manufacturing PMI hovered at just above-50 level for the sixth consecutive month (June 2024: 50.9; May 2024: 51.0; 2Q 2024: 50.7; 1Q 2024: 50.3; 1H 2024: 50.5; 2023: 49.2) after sixteen months (Sep 2022 – Dec 2023) and five quarters (4Q 2022 – 4Q 2023) of sub-50 figures.

But Global PMI also continues to point to a divergent global economy (Fig 2) in terms of the outperformance of services sector, especially in major economies (i.e. US, China, Eurozone, UK) relative to the manufacturing sector, where the performances between economies are far more mixed (Fig 3).

Fig 2: Global Purchasing Managers Index (PMI)



Source: CEIC

Fig 3: Purchasing Managers Indices (PMIs) Dashboard

Global Manufacturing PMI Dashboard

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024
Global	**50.0**	**50.3**	**50.6**	**50.3**	**51.0**	**50.9**	**49.5**	**49.3**	**48.9**	**49.0**	**50.3**	**50.7**
US	50.7	52.2	51.9	50.0	51.3	51.6	47.8	48.3	48.9	49.1	51.6	51.0
China	50.8	50.9	51.1	51.4	51.7	51.8	50.3	50.3	50.3	50.3	50.9	51.6
Japan	48.0	47.2	48.2	49.6	50.4	50.0	48.6	50.0	49.2	48.3	47.8	50.0
Eurozone	46.6	46.5	46.1	45.7	47.3	45.8	48.2	44.7	43.2	43.9	46.4	46.3
UK	47.0	47.5	50.3	49.1	51.2	50.9	48.1	47.1	44.2	46.1	48.3	50.4
S. Korea	51.2	50.7	49.8	49.4	51.6	52.0	48.2	48.1	49.4	49.9	50.6	51.0
Taiwan	48.8	48.6	49.3	50.2	50.9	50.9	47.3	45.4	44.9	47.7	48.9	50.7
ASEAN	50.3	50.4	51.5	51.0	51.7	51.7	51.2	51.6	50.5	49.8	50.7	51.5

Global Services PMI Dashboard

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024
Global	**52.3**	**52.4**	**52.4**	**52.7**	**54.0**	**53.1**	**52.3**	**54.8**	**51.4**	**50.9**	**52.4**	**53.3**
US	52.5	52.3	51.7	51.3	54.8	55.3	50.0	54.3	51.0	50.9	52.2	53.8
China	52.7	52.5	52.7	52.5	54.0	51.2	55.2	55.8	52.0	51.6	52.6	52.6
Japan	53.1	52.9	54.1	54.3	53.8	49.4	53.8	55.1	54.0	51.3	53.4	52.5
Eurozone	48.4	50.2	51.5	53.3	53.2	52.8	52.8	54.4	49.2	48.4	50.0	53.1
UK	54.3	53.8	53.1	55.0	52.9	52.1	51.7	54.9	50.1	51.3	53.7	53.3

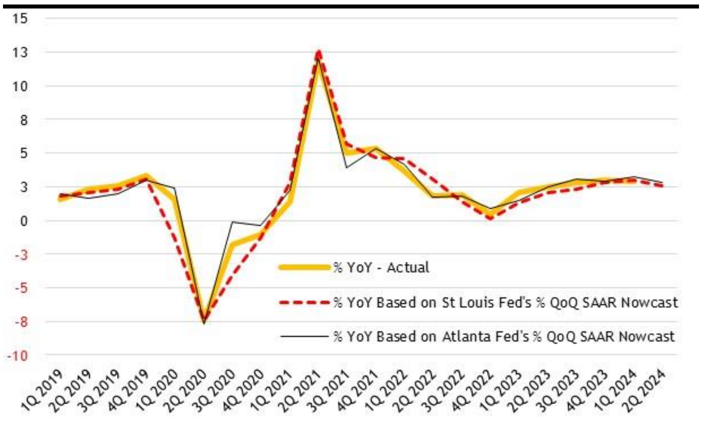
Global Composite (Manufacturing & Services) PMI Dashboard

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024
Global	**51.8**	**52.1**	**52.3**	**52.3**	**53.7**	**52.9**	**51.7**	**53.6**	**50.9**	**50.5**	**52.1**	**53.0**
US	52.0	52.5	52.1	51.3	54.5	54.8	49.7	53.6	50.8	50.8	52.2	53.5
China	52.5	52.5	52.7	52.8	54.1	52.8	53.3	53.9	51.5	51.4	52.6	53.2
Japan	51.5	50.6	51.7	52.3	52.6	49.7	51.6	53.1	52.3	50.0	51.3	51.5
Eurozone	47.9	49.2	50.3	51.7	52.2	50.9	52.0	52.3	47.5	47.2	49.1	51.6
UK	52.9	53.0	52.8	54.1	53.0	52.3	51.3	53.9	49.3	50.5	52.9	53.1
Hong Kong	49.9	49.7	50.9	50.6	49.2	48.2	52.9	51.1	49.6	50.1	50.2	49.3
Singapore	54.7	56.8	55.7	52.6	54.2	55.2	51.1	54.6	53.0	55.1	55.7	54.0

Source: CEIC

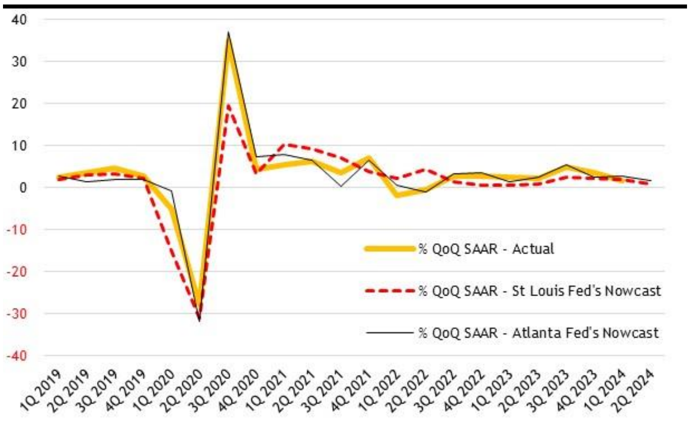
GDP growth "nowcasts" also point to divergent growth performance between the major economies. Based on the St Louis and Atlanta Feds' quarterly real GDP growth nowcasts (Fig 4-5), US 2Q 2024 GDP growth is projected to remain resilient at an average of +2.7% YoY and seasonally-adjusted annual rate (SAAR) of +1.1% QoQ (1Q 2024: +2.9% YoY; +1.4% QoQ SAAR). Meanwhile, monthly GDP growth for the UK suggests continued sub-1% YoY growth into 2Q 2024 (Fig 6), while the momentum in China's quarterly economic growth appears intact in 2Q 2024 based on GDP growth estimates for Apr-May 2024 (Fig 7).

Fig 4: US - % YoY Quarterly Real GDP Growth – Actual vs Nowcasts



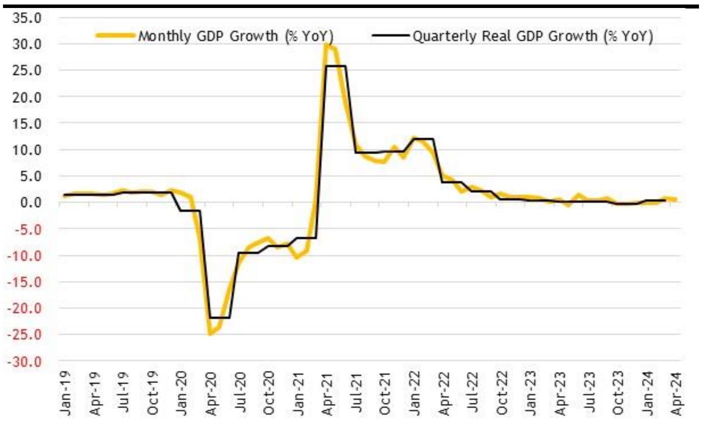
Sources: CEIC; St Louis Fed; Atlanta Fed; Maybank IBG Research

Fig 5: US - % QoQ SAAR Quarterly Real GDP Growth – Actual vs Nowcasts



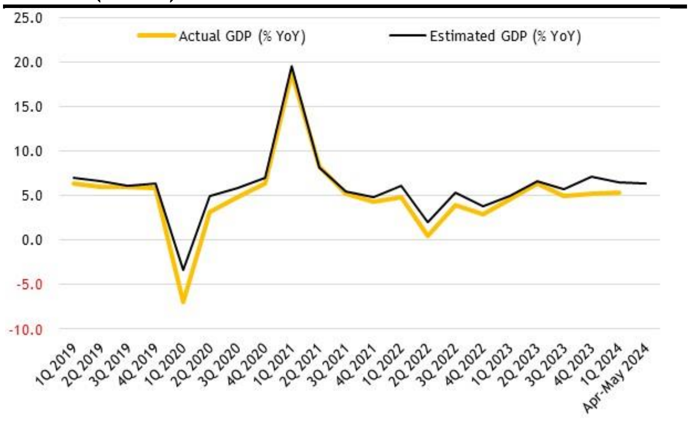
Sources: CEIC; St Louis Fed; Atlanta Fed; Maybank IBG Research

Fig 6: UK – Monthly and Quarterly Real GDP Growth (% YoY)



Sources: Bloomberg; CEIC

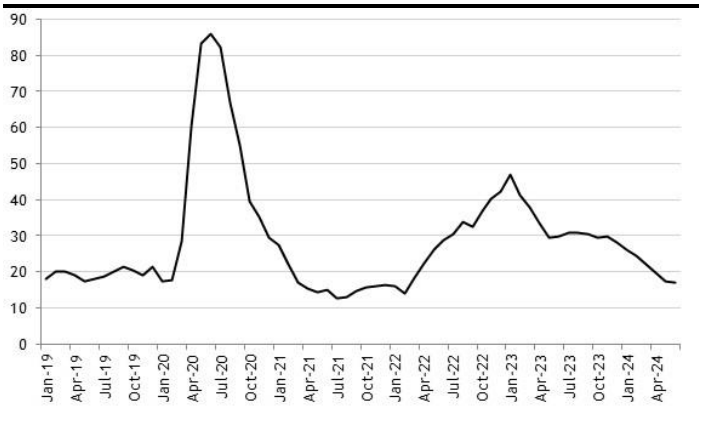
Fig 7: China – Actual vs Estimated Quarterly Real GDP Growth (% YoY)



Sources: Bloomberg; CEIC

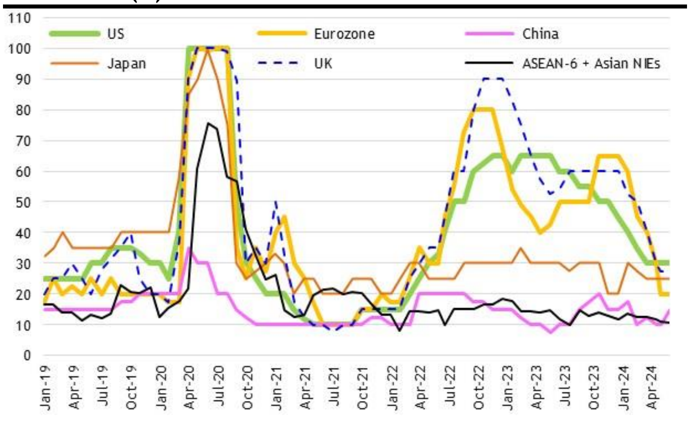
At the same time, recession risk has faded. Our monitoring of Bloomberg survey on recession probability in major advanced and regional economies shows global recession risk has dissipated (Fig 8-9).

Fig 8: Probability of Recession – Global (%)



Source: Bloomberg

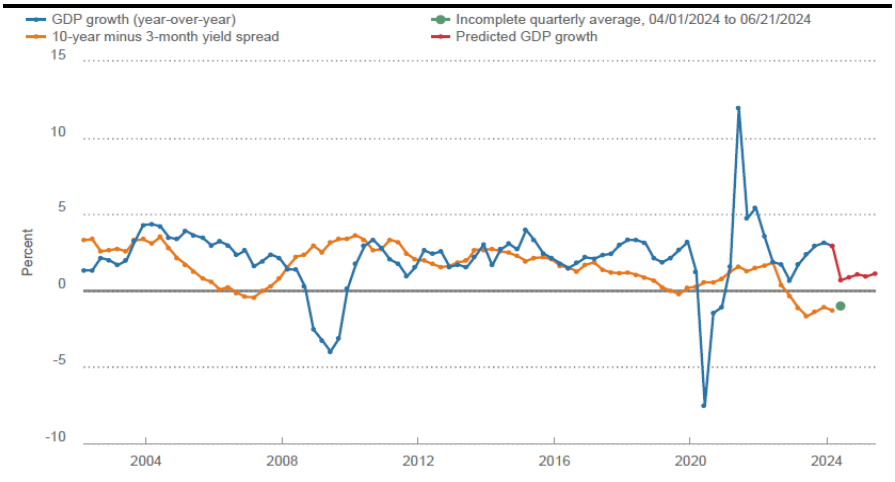
Fig 9: Probabilities of Recession – Major and Regional Economies (%)



Source: Bloomberg

Underpinned by US “soft-landing”. Interestingly, Cleveland Fed’s one-year forward US quarterly GDP growth (% YoY) forecasts based on the US Treasury yield curve (i.e. difference between 10-year and 3-month yields) do not expect contractions in quarterly economic growth. The “conventional wisdom” is inverted US Treasury yield curve is a leading indicator of US recession i.e. signaling recession within 6 to 24 months after the inversion. The US Treasury yield curve has been inverted since Nov 2022 i.e. negative spread between 10-year and 3-month US Treasury yields. As of end-June 2024, Cleveland Fed predicts slower GDP growth averaging +0.9% YoY for the period 2Q 2024 – 2Q 2025 (Fig 10).

Fig 10: Cleveland Fed’s Forecasts on US Quarterly Real GDP Growth for 2Q 2024 – 2Q 2025 Based on US Yield Curve (% YoY)



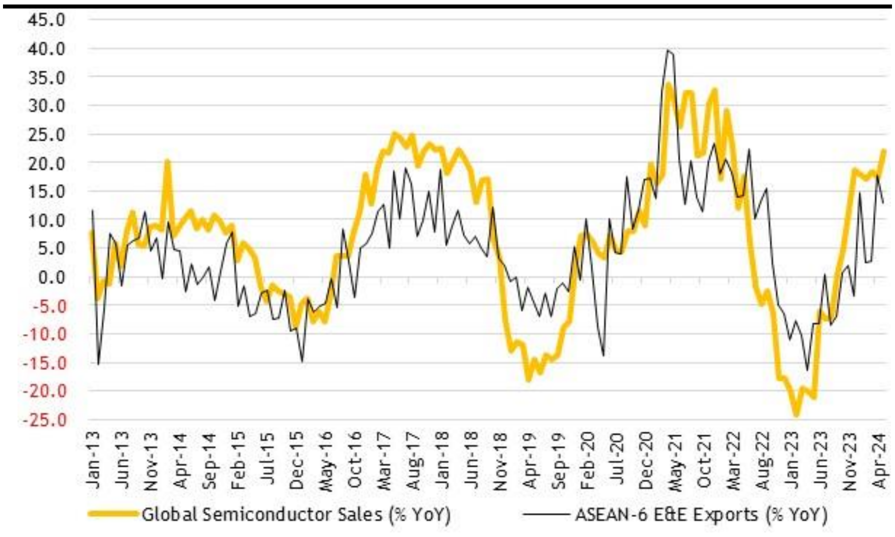
Source: Cleveland Fed

We remain constructive on ASEAN-6’s GDP growth which is expected to pick up to +4.7% in 2024 from +4.0% in 2023, backed by the acceleration in Vietnam’s growth and the resilience of Singapore’s economy during 1H 2024 (re: Fig 1). The outlook is underpinned by:

- a broadening electronics sector/technology industry-led growth pickup as per the turnaround in global semiconductor sales (Fig 11);
- investment upcycle – especially the surge in FDI (Fig 12) - on the back of capex boom driven by the need for supply chain security and resilience amid the geopolitics of US/China-led trade tension, as well as new structural growth drivers such as data centres (DC), Artificial Intelligence (AI) and renewable energy (RE);
- plus 3) continued tourism recovery (Fig 13).

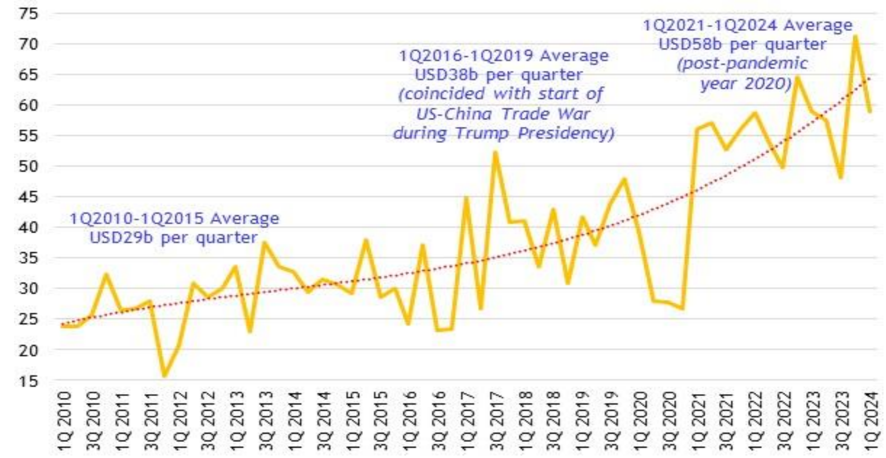
All these augurs well for ASEAN-6’s growth prospects, especially the output and trade outlook for manufacturing and services, as well as investment cycle (re: *Invest ASEAN: ASEAN Frontiers – the New Trailblazers, 7 June 2024*).

Fig 11: Global Semiconductor Sales vs ASEAN-6 E&E Exports



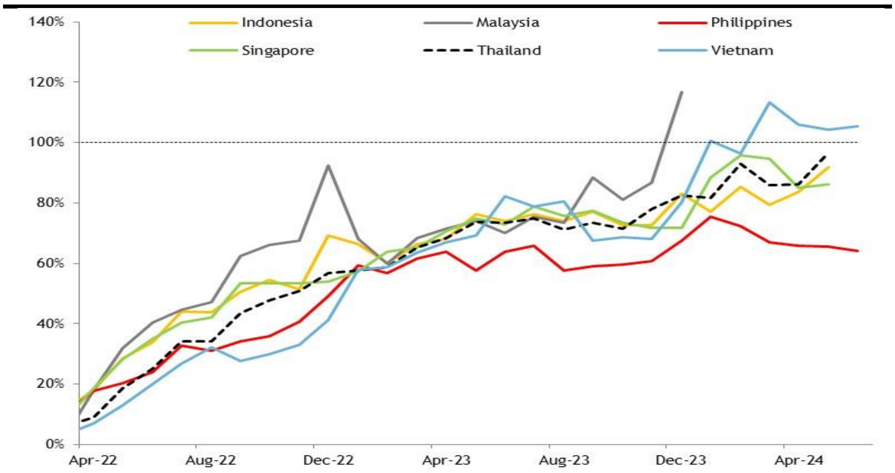
Sources: CEIC; World Semiconductor Trade Statistics (WSTS)

Fig 12: ASEAN-6 FDI Inflows (USDb)



Source: CEIC

Fig 13: ASEAN-6 – Monthly Tourist Arrivals (% of 2019 Level)



Sources: CEIC; Maybank IBG Research

There is also the divergence in interest rate policy actions among central banks (Fig 14) **as a direct result of the above-mentioned uneven growth dynamics as well as inflation trajectory** (Fig 15-16) **and FX market dynamics.**

- **US Fed "holds-for-longer" amid "sticky" inflation, though market - and we - beg to differ**. Its latest median forecast for the fed funds rate (FFR) or the "dot plot" released in conjunction with the 11-12 June 2024 FOMC meeting signaled just one 25bps cut in FFR this year i.e. possibly as late as Dec 2024. This was despite the latest US inflation rate (CPI) number showing third consecutive month of deceleration to +3.0% YoY in June 2024 (May 2024: +3.3% YoY). However, based on the latest 30-day fed funds futures (as of 12 July 2024) – and encouraged by the above inflation trend as well as "dovish" remarks by US Fed Chairman Powell at the recent ECB Forum in Sintra, Portugal and at the US Congress testimony, markets are now pricing in three 25bps (total 75bps) cuts in FFR between Sep 2024 and Dec 2024. Our forecast is currently two 25bps (total of 50bps) cuts between Sep 2024 and Dec 2024.

- **While several major central banks started cutting their policy interest rates, namely the European Central Bank (ECB)** who reduced its benchmark interest rate by -25bps on 6 June 2024 to 3.75% from the record high of 4.00% as its inflation rate decelerated to below that of the US. Several other major central banks have also cut their interest rates, namely the central banks of Switzerland (-25bps to 1.25% on 20 June 2024 - the second consecutive cut this year after the -25bps cut to 1.50% on 21 Mar 2024, which was the first cut in nine years, with expectations of another cut in Sep 2024), Canada (-25bps cut to 4.75% on 5 June 2024 – the first cut in four years and also the first G7 central bank to do so) and Sweden (-25bps cut to 3.75% on 8 May 2024 – the first cut since 2016 - and signals two more cuts in 2H 2024). Expectations are also high that the Bank of England (BoE) will be the next major central bank to cut interest rates as UK inflation hit BoE's inflation target +2% YoY in May 2024.

- **In contrast, Bank of Japan (BoJ) is the laggard among the major central banks on policy normalization/tightening.** BoJ ended its ultra-easy monetary policy stance following its monetary policy meeting on 18-19 Mar 2024 i.e. raised key policy rate to a range of 0.00%-0.10% from -0.10% (in place since 2016); ended the yield curve control (YCC) policy – also introduced in 2016 – that targeted the 10-year Japanese Government bond (JGB) yield; and stopped purchasing exchange traded funds (ETFs) in the stock market, which began in 2010. This is as inflation makes a comeback in an economy known for decades of deflation. BoJ maintained the policy rate and measures at its subsequent meetings on 26 Apr 2024 and 14 June 2024, but signals further hike and unwinding of its asset purchases/QE – namely the purchases of Japanese government bonds (JGBs) - as soon as in July/3Q 2024.

- **While other Asian central banks are "constrained" by US interest rate outlook and FX implications.** "Hold for longer" Fed continues to exert pressures on Asian currencies vs USD in 1H 2024 after the USD strength in 2022-2023 during aggressive US Fed's interest rate hikes (Fig 17), and thus some notable interest rate policy responses by the regional central banks e.g. surprise 25bps interest rate hike by Bank Indonesia in Apr 2024; decisions in 2Q 2024 by People's Bank of China (PBoC) to keep its key interest rates unchanged despite the deflationary real estate slump, and by Bank of Thailand to stand pat despite market expectations (and political pressures) of a 25bps cut.

Fig 14: Major Economies & ASEAN-6: Benchmark Interest Rates, 2021-2025F (% p.a.)

	2021	2022	2023	end-June 2024	2024F	2025F
US	0.00-0.25	4.25-4.50	5.25-5.50	5.25-5.50	4.75-5.00	3.75-4.00
Eurozone	(0.50)	2.00	4.00	3.75	3.25	2.50
Japan	(0.10)	(0.10)	(0.10)	0.00-0.10	0.25	0.50
UK	0.25	3.50	5.25	5.25	4.75	3.50
China	3.80	3.65	3.45	3.45	3.35	3.00
Indonesia	3.50	5.50	6.00	6.25	6.25	5.50
Malaysia	1.75	2.75	3.00	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	6.50	6.00	5.00
Singapore	0.19	3.10	3.71	3.63	3.40	2.70
Thailand	0.50	1.25	2.50	2.50	2.50	2.25
Vietnam	4.00	6.00	4.75	4.75	5.25	5.25

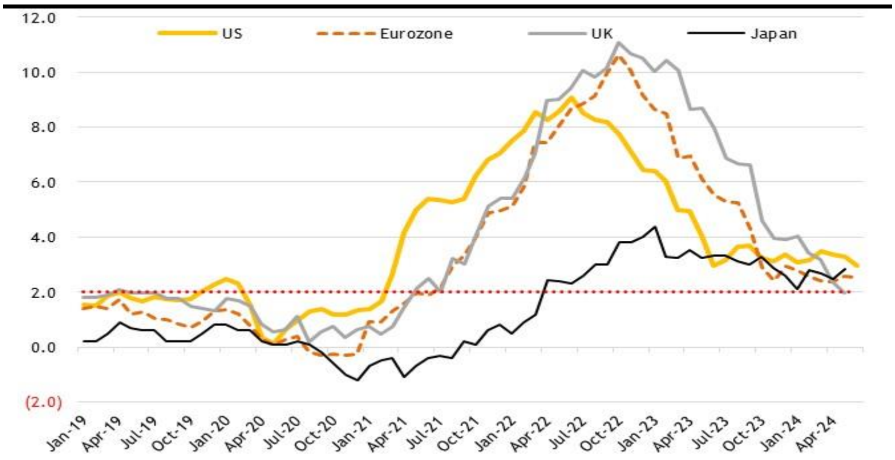
Sources: CEIC, Maybank IBG Research (for forecasts)

Fig 15: Major Economies & ASEAN-6: Inflation Rates 2021-2025F (%)

	2021	2022	2023	2024 YTD	2024F	2025F
US	4.7	8.0	4.1	3.2	3.0	2.3
Eurozone	2.6	8.4	5.4	2.5	2.4	2.1
Japan	(0.2)	2.5	3.3	2.6	2.4	1.8
UK	2.6	9.1	7.3	3.0	2.6	2.2
China	0.9	2.0	0.2	0.1	0.7	1.5
Indonesia	1.6	4.2	3.7	2.8	3.0	3.0
Malaysia	2.5	3.4	2.5	1.8	2.4	3.0
Philippines	3.9	5.8	6.0	3.5	3.2	2.8
Singapore	2.3	6.2	4.8	3.0	2.6	1.8
Thailand	1.2	6.1	1.2	0.0	0.9	1.8
Vietnam	1.8	3.2	3.3	4.1	3.7	3.4

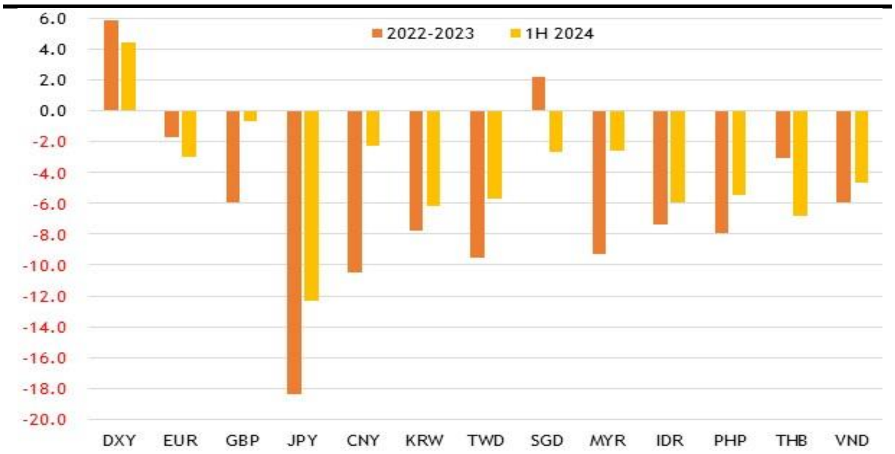
Sources: CEIC, Maybank IBG Research (for forecasts)

Fig 16: Headline Inflation Rate (CPI, % YoY) - US, Eurozone, UK, Japan



Source: CEIC

Fig 17: USD Index and Currencies vs USD (% chg)



Source: Bloomberg

MALAYSIAN ECONOMY

Growth picking up…

High-frequency economic data and indicators show the Malaysian economy is on track for higher growth in 2024 given the 1Q 2024 growth pick up. To note, we expect Malaysia's real GDP growth to pick up to +4.7% this year from +3.6% last year. The economy is already off to a good start as real GDP quickened to +4.2% YoY in 1Q 2024 from +2.9% YoY in 4Q 2023 (Fig 18).

Fig 18: Malaysia - Real GDP (% Chg / % YoY)

	ACTUAL						MAYBANK		OFFICIAL
	2023	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2024F	2025F	2024F
Real GDP	**3.6**	**5.5**	**2.8**	**3.1**	**2.9**	**4.2**	**4.7**	**5.1**	**4.0 - 5.0**
Services	5.1	7.1	4.5	4.9	4.1	4.7	5.5	6.0	5.5
Manufacturing	0.7	3.2	0.1	(0.1)	(0.3)	1.9	3.0	4.3	3.5
Agriculture	0.7	1.4	(0.7)	0.3	1.9	1.6	1.7	1.0	(0.5)
Mining	0.5	1.6	(2.1)	(1.1)	3.5	5.7	5.0	3.0	3.5
Construction	6.1	7.4	6.2	7.2	3.6	11.9	10.0	8.0	6.7
Domestic Demand	4.6	4.8	4.4	4.5	4.9	6.1	5.8	6.0	5.4
Private Consumption	4.7	6.1	4.2	4.1	4.2	4.7	5.1	5.7	5.7
Public Consumption	3.3	(2.0)	3.3	5.3	5.8	7.3	5.2	4.9	3.2
Gross Fixed Capital Formation	5.5	4.9	5.5	5.1	6.4	9.6	8.3	7.4	6.2
Private Investment	4.6	4.7	5.1	4.5	4.0	9.2	8.1	8.2	6.1
Public Investment	8.6	5.7	7.9	7.5	11.3	11.5	9.3	4.8	6.2
Net External Demand	(16.2)	71.2	(11.9)	(19.9)	(52.9)	(24.5)	(16.9)	(17.5)	2.1
Exports of Goods & Services	(8.1)	(2.9)	(9.0)	(12.0)	(7.9)	5.2	5.5	5.9	4.0
Imports of Goods & Services	(7.4)	(6.7)	(8.8)	(11.3)	(2.6)	8.0	7.0	7.3	4.1

Sources: Department of Statistics Malaysia (DOSM), BNM (Economic & Monetary Review 2023, Mar 2024), Maybank IBG Research

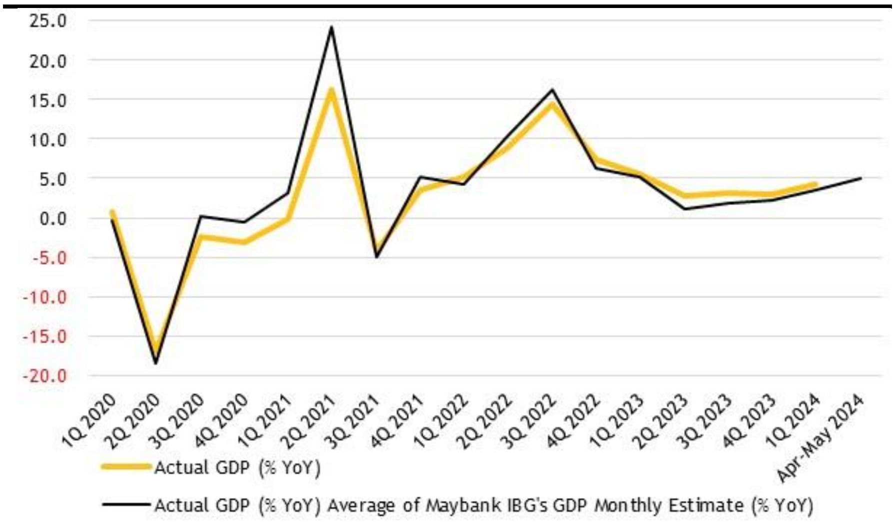
To recap, 1Q 2024 growth pick up was broad-based as all key economic sector expanded in the first three months of the year i.e. services (1Q 2024: +4.7% YoY; 4Q 2023: +4.2% YoY); manufacturing (1Q 2024: +1.9% YoY; 4Q 2023: -0.3% YoY); mining (1Q 2024: +5.7% YoY; 4Q 2023: +3.5% YoY); agriculture (1Q 2024: +1.6% YoY; 4Q 2023: +1.9% YoY); and construction (1Q 2024: +11.9% YoY; 4Q 2023: +3.6% YoY).

Domestic demand was firmer (1Q 2024: +6.1% YoY; 4Q 2023: +4.9% YoY), led by faster private expenditure (1Q 2024: +5.7% YoY; 4Q 2023: +4.1% YoY) as per the performance of private consumption (1Q 2024: +4.7% YoY; 4Q 2023: +4.2% YoY) and private investment (1Q 2024: +9.2% YoY; 4Q 2023: +4.0% YoY), plus pick up in public expenditure (1Q 2024: +8.4% YoY; 4Q 2023: +7.4% YoY) on stronger public consumption (1Q 2024: +7.3% YoY; 4Q 2023: +5.8% YoY) and sustained public investment (1Q 2024: +11.5% YoY; 4Q 2023: +11.3% YoY). Stronger private investment and sustained public investment resulted in faster gross fixed capital formation (1Q 2024: +9.6% YoY; 4Q 2023: +6.4% YoY).

Net external demand was less of a drag on the economy as it shrank by a lower quantum (1Q 2023: -24.5% YoY; 4Q 2023: -52.9% YoY), reflecting rebounds in both exports of goods & services (1Q 2024: +5.2% YoY; 4Q 2023: -7.9% YoY) and imports of goods & services (1Q 2024: +8.0% YoY; 4Q 2023: -2.6% YoY).

Our monthly GDP tracker for Apr-May 2024 points to further growth pick up in 2Q 2024. Apr-May 2024 saw faster growth in Industrial Production Index (IPI – Apr-May 2024: +4.2% YoY; 1Q 2024: +3.3% YoY), Distributive Trade Index (DTI – Apr-May 2024: +5.1% YoY; 1Q 2024: +3.7% YoY) and Crude Palm Oil output (CPO – Apr-May 2024: +18.2% YoY; 1Q 2024: +3.4% YoY). Based on the performance of IPI, DTI and CPO which constitute 52% of GDP, our monthly GDP tracker estimated the economy grew by +5.0% YoY in Apr-May 2024, suggesting further strengthening in real GDP growth momentum in 2Q 2024, where actual data will be out on 16 Aug 2924 (Fig 19).

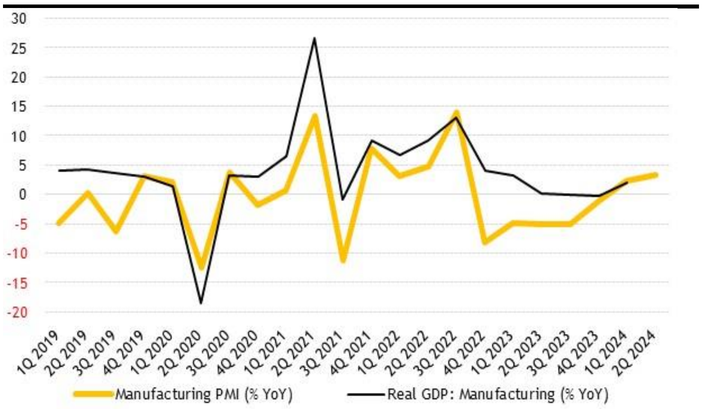
Fig 19: Malaysia – GDP Growth (% YoY)



Sources: DOSM; Maybank IBG Research

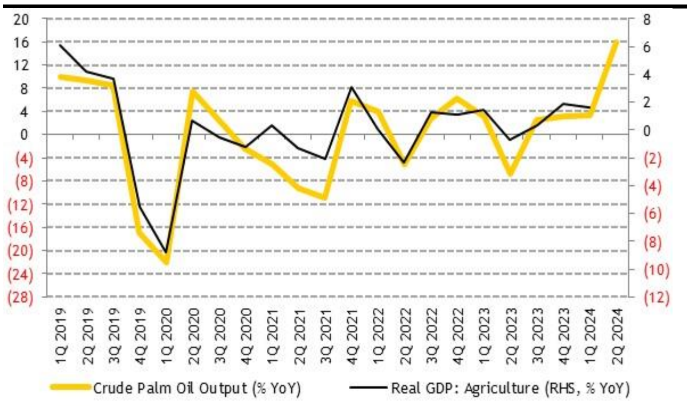
Economic activities in June 2024 remain healthy based on the continued double-digit growth in CPO output (June 2024: +11.6% YoY; May 2024: +12.3% YoY; 2Q 2024: +15.9% YoY; 1Q 2024: +3.4% YoY) and sustained manufacturing purchasing managers index (PMI - June 2024: +4.6% YoY to 49.9; May 2024: +5.0% YoY to 50.2; 2Q 2024: +3.3% YoY to 49.7; 1Q 2024: +2.2% YoY to 49.0), with both indicators signal further strengthening in the growth of manufacturing GDP (Fig 20) and agriculture GDP (Fig 21).

Fig 20: Malaysia - Manufacturing GDP vs Manufacturing PMI



Sources: DOSM, CEIC

Fig 21: Agriculture GDP vs CPO Output



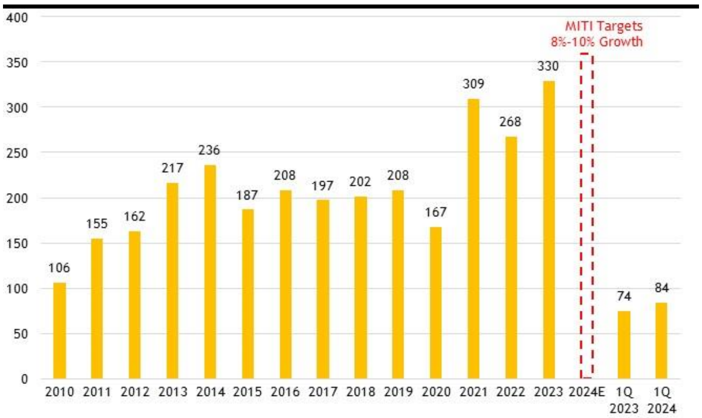
Sources: DOSM, CEIC

Trifecta of positives for the constructive economic outlook…

The constructive outlook for the Malaysian economy is essentially down to the country benefitting from a trifecta of positives.

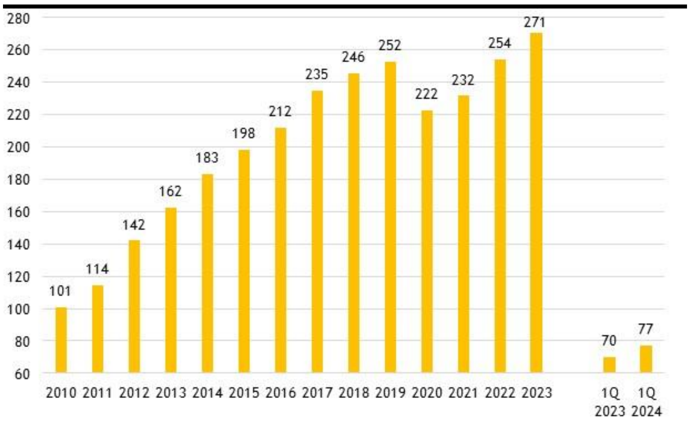
First is the private investment upcyle in both foreign direct investment (FDI) and domestic direct investment (DDI), reflecting the on-going realisation of the sustained momentum in robust approved investment since 2021 (Fig 22-25), primarily driven and dominated by technology (electronics and digital) in FDI space and real estate in DDI segment (Fig 26-28), namely semiconductor manufacturing facilities, data centres, industrial parks, renewable energy production (namely solar farms) and logistic hubs.

Fig 22: Malaysia - Approved Private Investment - Total (MYRb)



Source: MIDA

Fig 23: Malaysia - Actual Private Investment - Total (MYRb)

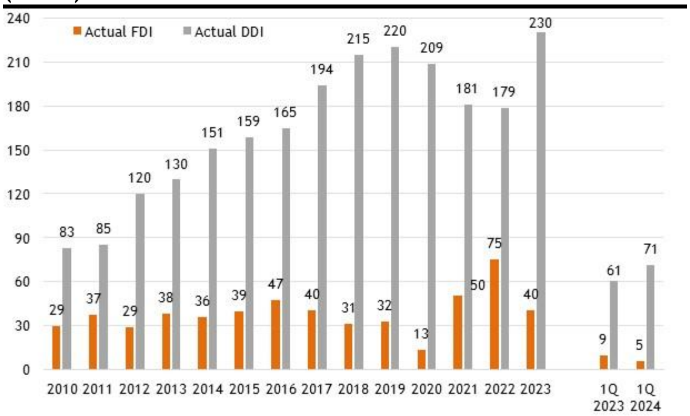


Source: DOSM

Fig 24: Malaysia - Approved Private Investment - FDI and DDI (MYRb)

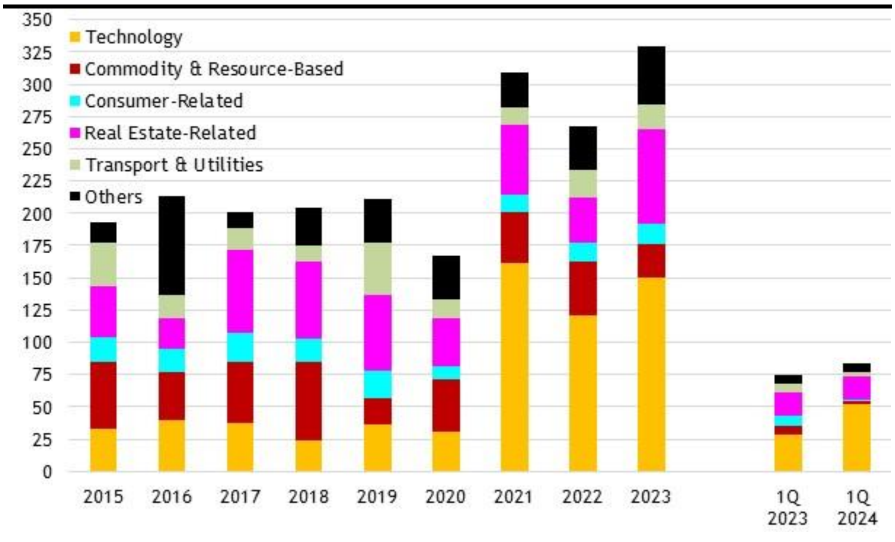
Source: MIDA

Fig 25: Malaysia - Actual Private Investment - FDI and DDI (MYRb)



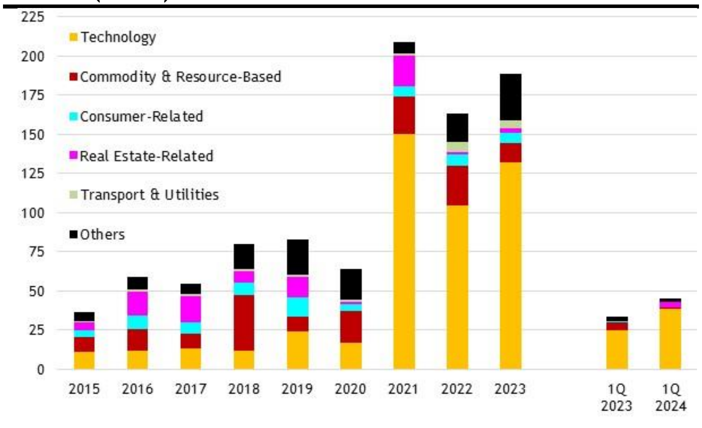
Sources: DOSM, Maybank IBG Research

Fig 26: Malaysia – Total Approved Private Investment by Key Sectors



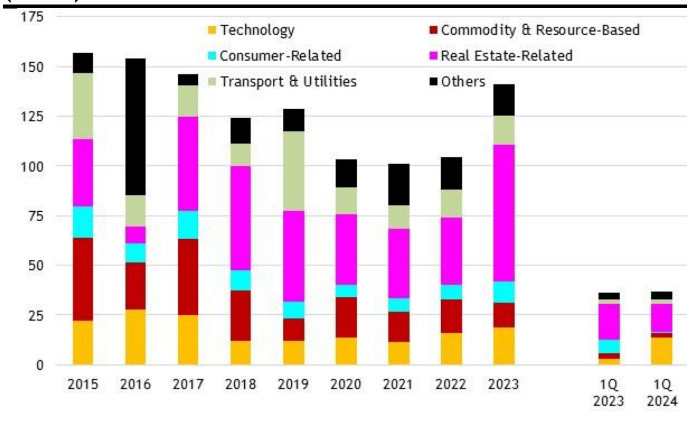
Sources: CEIC; Maybank IBG Research

Fig 27: Malaysia - Approved Private Investment FDI by Key Sectors (MYRb)



Sources: CEIC; Maybank IBG Research

Fig 28: Approved Private Investment DDI by Key Sectors (MYRb)



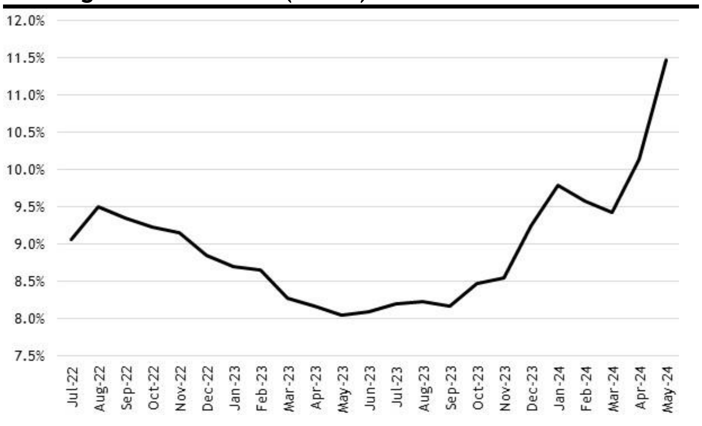
Sources: CEIC; Maybank IBG Research

The Malaysian Investment Development Authority (MIDA) highlighted that between Jan 2021 and Mar 2024, the National Committee on Investment (NCI) has approved 2,638 manufacturing projects, of which **77.2% of these approved projects are already in various stages of implementation**, ranging from factory construction to machinery installations to commencement of operations, while 21.1% are in the planning phase such as site selection and consultations with developers and consultants, thus only 1.6% yet to take off.

MIDA also noted that as of end-May 2024, it has in the pipeline 1,775 proposed projects worth MYR68b pending approvals, comprising of 1,709 in the services sector (MYR44.7b) and 66 in manufacturing (MYR23.3b), plus another MYR60.4b worth of high-potential investment leads.

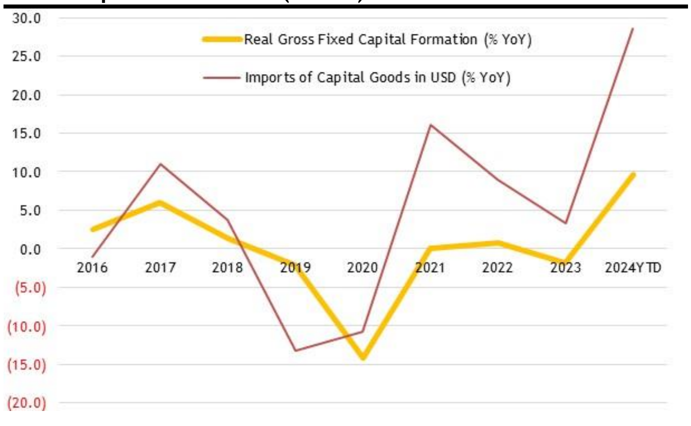
The progress in realizing approved investments – and thus private investment upcycle - are also reflected by the strong uptrends in indicators like the banking system's loans growth for "industrial buildings and factories" (Fig 29) **as well as imports of capital goods** (Fig 30).

Fig 29: Malaysia - Banking System's Loans for "Industrial Buildings and Factories" (% YoY)



Source: BNM

Fig 30: Malaysia - Imports of Capital Goods vs Actual Gross Fixed Capital Formation (% YoY)

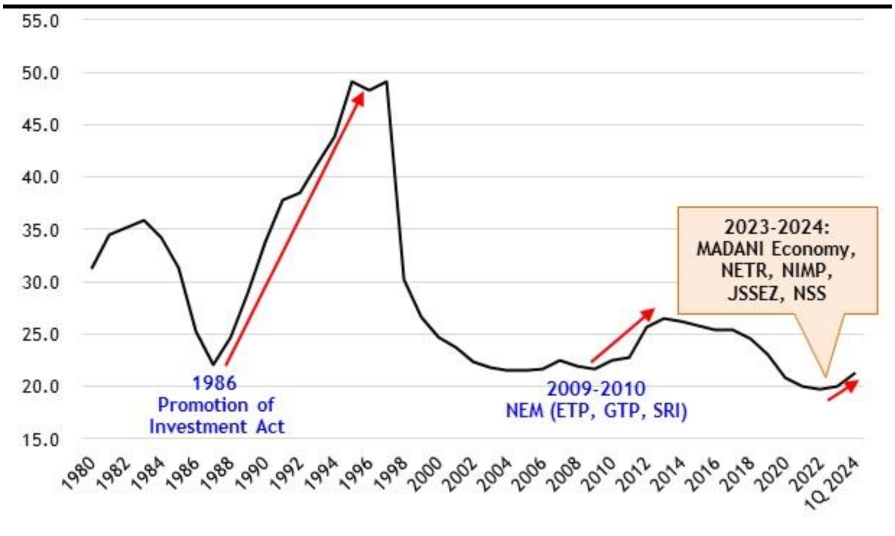


Sources: DOSM

In addition, greater policy clarity on the way forward for Malaysia provides the impetus for investment upcycle following the announcements of blueprints, roadmaps, masterplans and strategic initiatives i.e. MADANI Economy Framework (27 July 2023); National Energy Transition Roadmap (NETR - Part 1 on 27 July 2023; Part 2 on 29 Aug 2023); New Industrial Master Plan 2030 (NIMP2030, 1 Sep 2023), Mid-Term Review of 12th Malaysia Plan (12MP MTR, 11 Sep 2023); Public Finance and Fiscal Responsibility Act (FRA, 11 Oct 2023); Memorandum of Understanding (MoU) between Malaysia and Singapore on the Johor-Singapore Special Economic Zone (JSSEZ, 11 Jan 2024); National Semiconductor Strategy (NSS, 28 May 2024).

We have seen in the past the positive impact of policy clarity on gross fixed capital formation (Fig 31) e.g. in the post-Global Financial Crisis (GFC) years following the announcement of New Economic Model [i.e. Economic and Government Transformation Programmes (ETP/GTP); Strategic Reforms Initiatives (SRI)]; late-80s and for much of the 90s [pre-Asian Financial Crisis (AFC)] following the announcement of Promotion of Investment Act 1986 that launched Malaysia's industrialization in earnest after the prior policy push in the 1970s and 1980s via the export-oriented industrialization driven by export-processing zones (EPZs), and import-substitution industrialization that promoted domestic heavy industries (e.g. national car project).

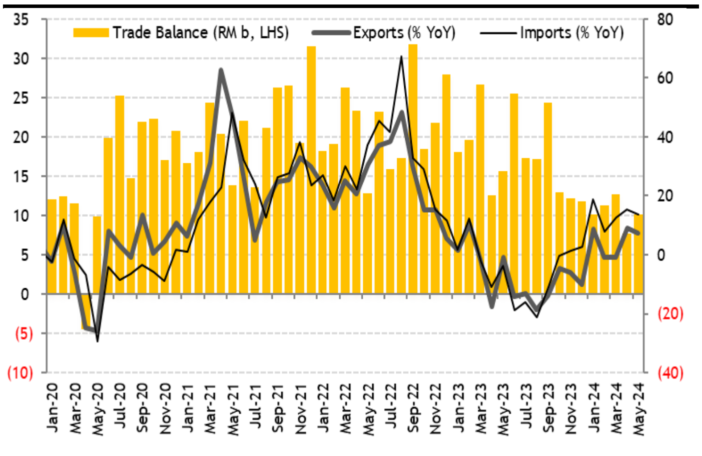
Fig 31: Malaysia - Gross Fixed Capital Formation as % of GDP



Sources: DOSM; Maybank IBG Research

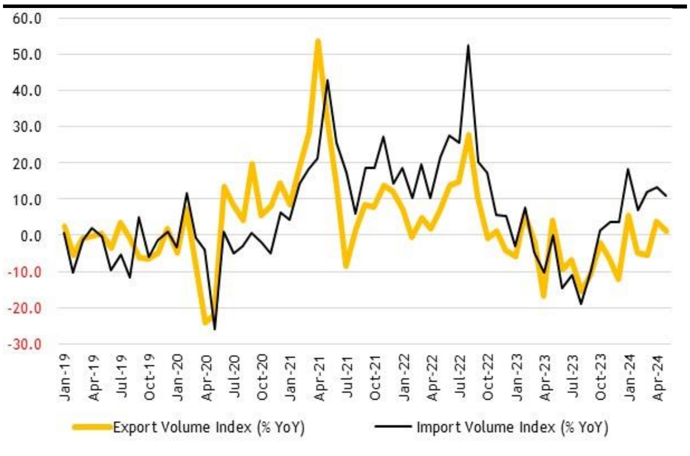
Second, is the external demand recovery, especially in electronics and tourism, which underpinned our forecasts of firmer services sector growth, pick up in manufacturing sector growth, as well as rebound in exports of goods and services. To note, Malaysia's gross exports and imports *values* have rebounded in 5M 2024 by +4.5% YoY (2023: -8.0%) and +13.7% YoY (2023: -6.4%) respectively (Fig 32), which is supportive of our full-year 2024 growth forecasts of +5.0% and +10.7% respectively. This is also accompanied by improving trends in 5M2024 exports and import *volumes* as well i.e. -0.3% YoY (2023: -6.9%) and +12.3% YoY (2023: -5.2%) respectively (Fig 33).

Fig 32: Malaysia - Export and Import Values (% YoY)



Source: DOSM

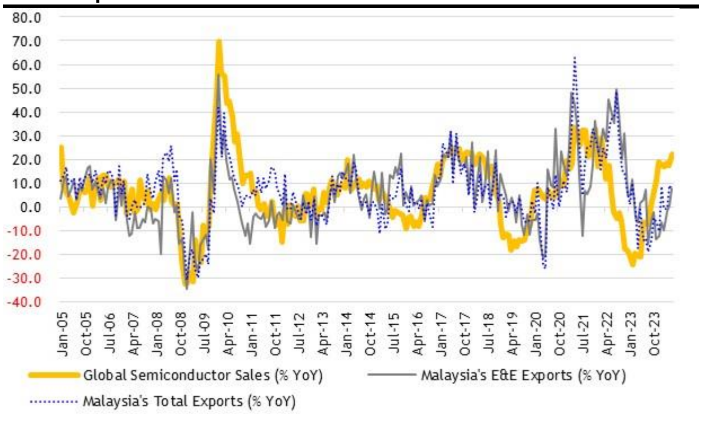
Fig 33: Malaysia - Export and Import Volumes (% YoY)



Sources: DOSM

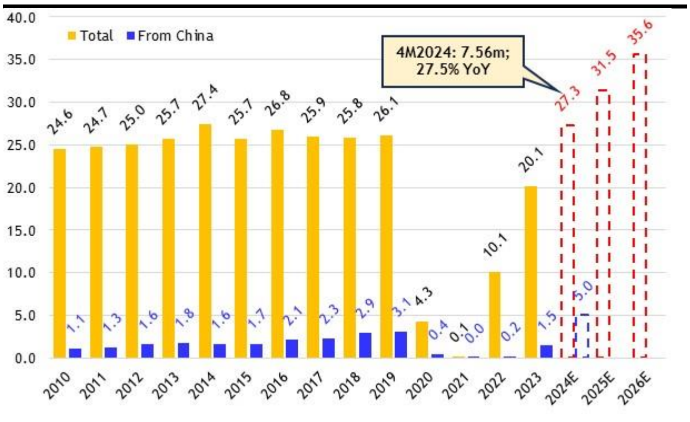
Malaysia – like its ASEAN peers – are also a beneficiary of the electronics/tech recovery cycle (Fig 34), providing the key tailwinds for manufacturing sector pick up and rebounds in goods exports. And positively, the World Semiconductor Trade Statistics (WSTS) in June 2024 raised its global semiconductor sales forecast for this year to +16.0% from +13.1% previously (5M 2024: +18.6% YoY; 2023: -8.2%) and projected +12.5% growth for 2025.

Fig 34: Global Semiconductor Sales vs Malaysia's E&E and Total Exports



Sources: WSTS, DOSM

Fig 35: Malaysia - Annual International Tourist Arrivals (m)

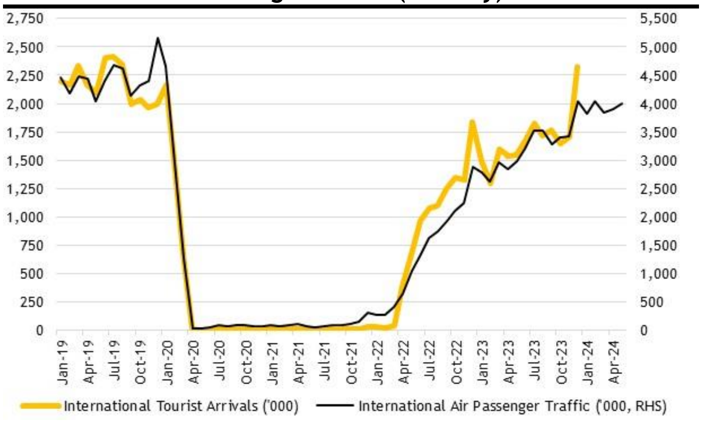


Sources: CEIC, MOTAC, Maybank IBG

At the same time, the on-going post-pandemic recovery of tourism sector augurs well for Malaysia's services sector, domestic private consumption and services exports via higher tourist arrivals and their spending (Fig 35-37). To note, for 4M

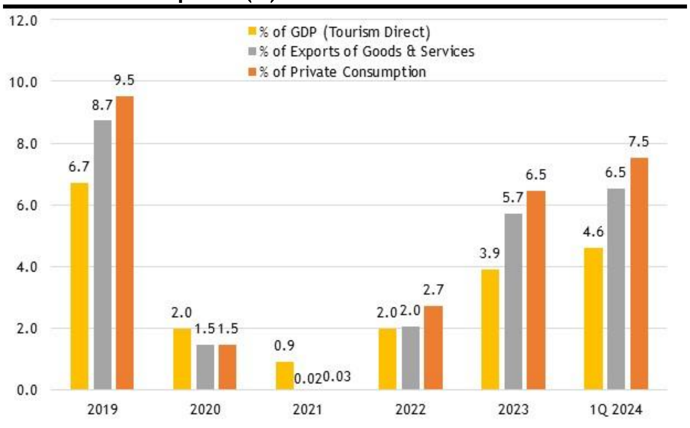
2024, tourist arrivals rose +27.5% YoY to 7.56m. The Ministry of Tourism, Arts and Culture (MOTAC) targets 27.3m tourist arrivals and MYR102.7b in tourism revenues (2023: 20.1m with MYR71.3b tourism revenues) and aims to achieve 35.6m tourist arrivals and MYR147.1b tourism receipts in 2026, which is also the Visit Malaysia Year. The tourist arrivals target for this year also seeks to achieve a record-high 5.0m tourist arrivals from China (2023: 1.5m; note: current record high is 3.1m in 2019), hence the specific policy measure of waiving visa requirements for visitors from China effective 1 Dec 2023 until 31 Dec 2024, which was further extended to 31 Dec 2026 for Chinese citizens, as announced during Chinese Premier Li Qiang's official visit to Malaysia on 18-20 Jun 2024.

Fig 36: Malaysia - International Tourist Arrivals vs International Air Passenger Traffic (Monthly)



Sources: WSTS, DOSM

Fig 37: Malaysia - Tourism's Shares of GDP, Exports and Private Consumption (%)



Sources: CEIC, MOTAC, Maybank IBG

Third, is the resilience in consumer spending growth momentum. Aside from the abovementioned positive effect on private consumption growth from the on-going recovery in tourism – thus tourist spending in the economy, domestic consumer spending is also supported by the favourable job market conditions in terms of low and stable unemployment rate (Fig 38) and sustained growth in workers' income (Fig 39), and supplanted by:

- Higher annual one-off special payout to civil service (Early Incentive Payments) i.e. MYR2,000 to Government employees (<Grade 56) and MYR1,000 to Government retirees, totaling MYR3.9b in 2024 (2023: MYR1.3b).

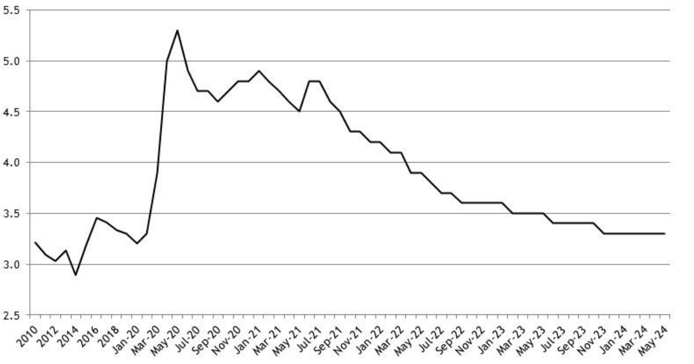
- Higher Budget 2024 allocation for - and disbursement of - cash handout programmes to lower income households i.e. Sumbangan Tunai Rahmah (STR - 2024: MYR10b vs 2023: MYR8b); Sumbangan Asas Rahmah (SARA - 2024: MYR700m vs 2023: MYR130m).

- Introduction of Employees Provident Fund's (EPF) Account 3 on 11 May 2024 i.e. flexibility for EPF members to withdraw their retirement savings from Account 3 (10% of total EPF savings) at any time for any purpose. As of 24 June 2024, 3.61m EPF members (27.8% of EPF members below 55 years old) have transferred MYR11.52b into their Account 3 (i.e. from Account 2's outstanding amount as of 11 May 2024), and of this, 3.16m (24.3% of EPF members below 55 years old) have withdrawn MYR7.81b.

- Civil service salary revision effective Dec 2024 i.e. at least +13% or +MYR10b increase in total cost to the Government.

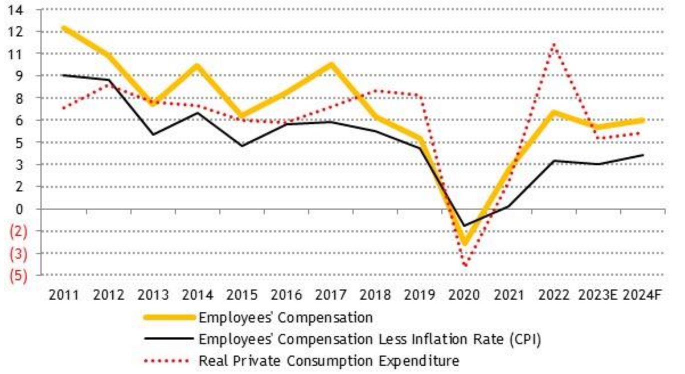
The impact of the above factors in supporting the resilience of – and momentum in - consumer spending growth can be seen from the trend in the weighted average growth of the retail and motor vehicles trade volume (Apr-May 2024: +6.7% YoY; 1Q 2024: +4.0% YoY), which we used as the proxy for real private consumption growth (Fig 40).

Fig 38: Malaysia - Unemployment Rate (%)



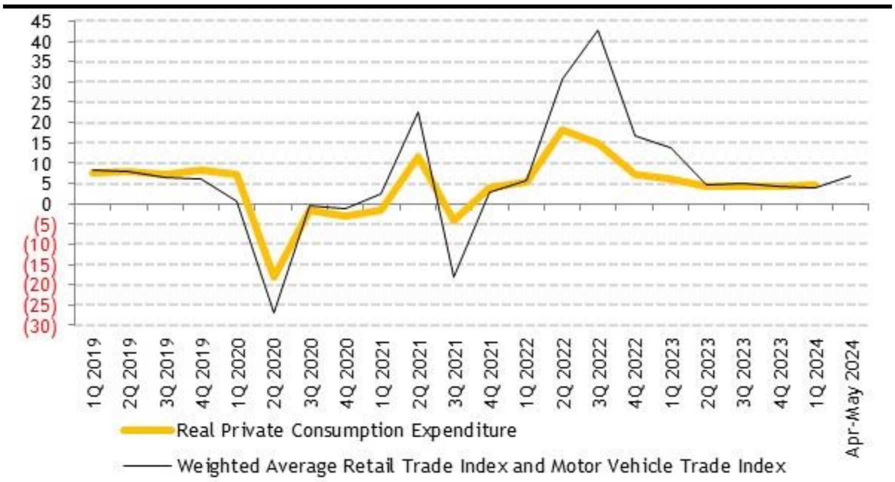
Source: DOSM

Fig 39: Malaysia - Employees Compensation vs Real Private Consumption (% chg)



Sources: DOSM (for 2011-2023), BNM (for 2023E-2024F Employees Compensation), Maybank IBG Research (for 2024F Real Private Consumption and CPI)

Fig 40: Malaysia - Weighted Average of Retail and Motor Vehicle Trade Volume vs Real Private Consumption

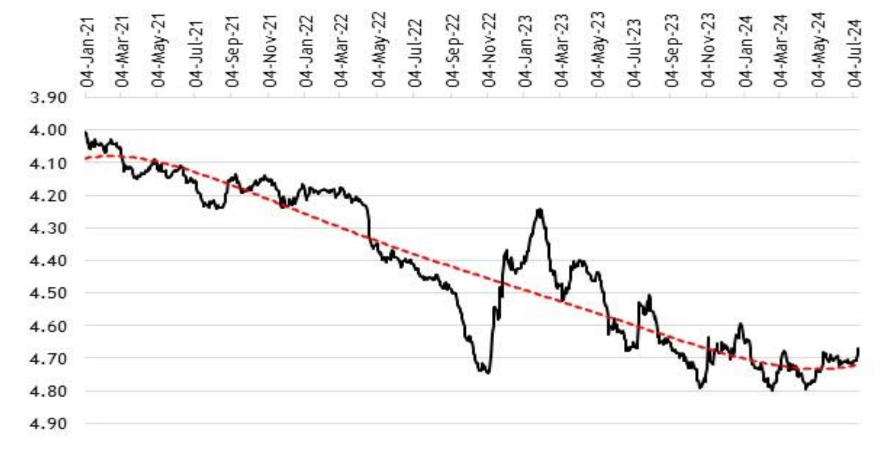


Sources: DOSM; CEIC

Another macro positive is Ringgit has stabilised

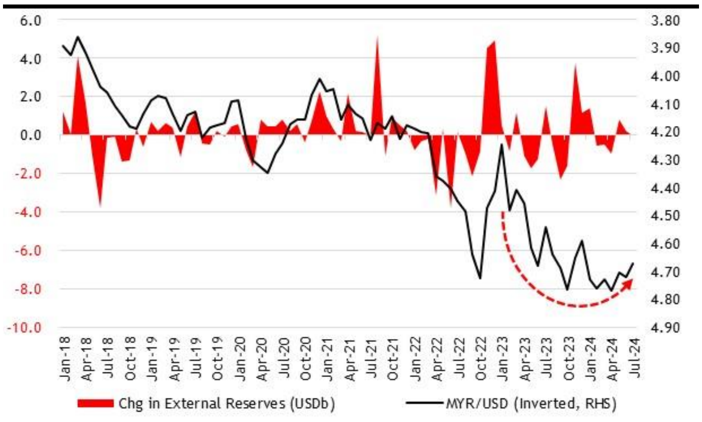
Ringgit has stabilized vs USD as it trades in a 4.68-4.72 range since mid-May 2024, and improved further this month to close at 4.6715 on 12 July 2024 (source: Bloomberg)**, compared with this year's low of 4.80 on 20 Feb 2024** (Fig 41). This follows FX market interventions by BNM as per the -USD2.1b drop in external reserves during Feb-Apr 2024 (Fig 42). In addition, there is the coordinated communications and actions by BNM (e.g. Governor's, Financial Market Committee (FMC) and Monetary Policy statements on 20/27 Feb 2024, 1 Mar 2024 and 7 Mar 2024 respectively) and Ministry of Finance (e.g. Second Finance Minister's statement in the Parliament on 29 Feb 2024) that include encouraging Government-linked companies (GLCs) and Government-linked investment companies (GLICs) to repatriate and convert their foreign exchange earnings and overseas investment incomes. The "repatriation and conversion" appears to be taking place as per the rebound in 1Q 2024 current account surplus (1Q 2024: +MYR16.2b or +3.5% of GDP; 4Q 2023: +MYR0.9b or +0.2% of GDP) that was primarily driven by larger inflows of investment income (1Q 2024: +MYR26.4b; 4Q 2023: +MYR19.3b) which recorded its second highest value on record (Fig 43).

Fig 41: USDMYR



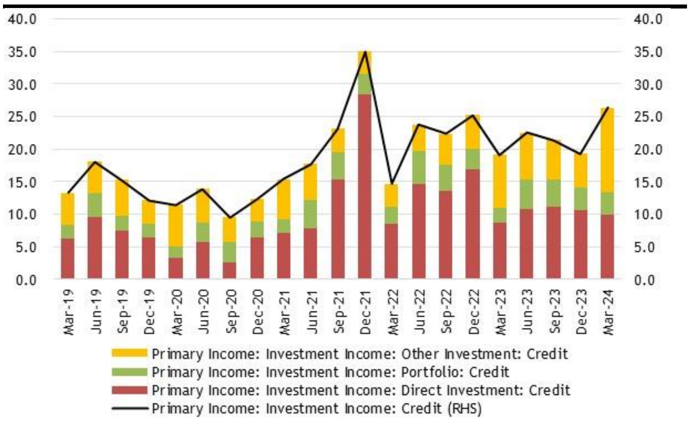
Source: Bloomberg

Fig 42: Malaysia – USDMYR vs Change in External Reserves



Sources: Bloomberg, BNM

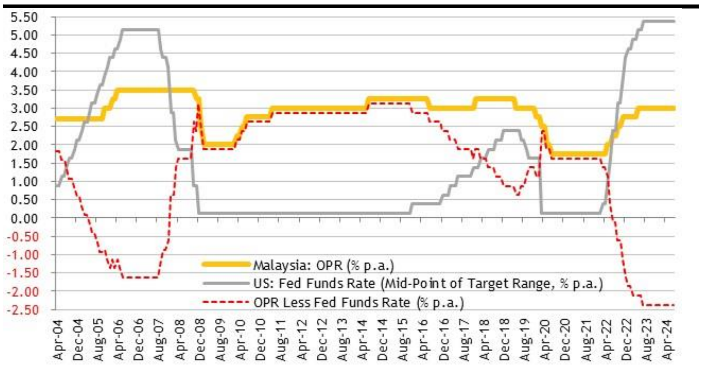
Fig 43: Malaysia – Investment Income Inflows (MYRb)



Source: DOSM

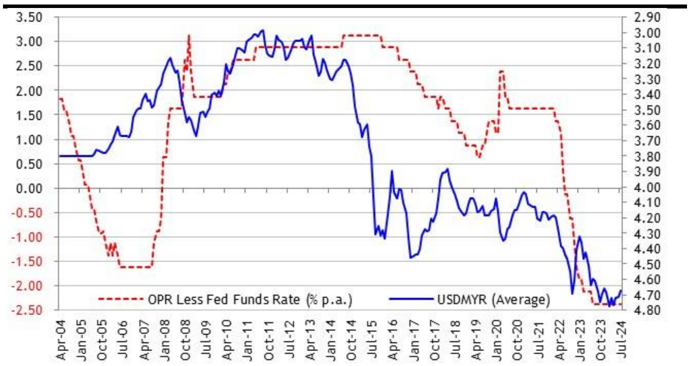
Our FX Research sees Ringgit ending this year vs USD at 4.60. Ringgit-positive factors include improving domestic economic growth prospect, as per the afore-mentioned growth pickup and trifecta of positives. At the same time, the outlook on US interest rate – and thus interest rate differential between US and Malaysia - matters (Fig 44-45). To recap, Ringgit strengthened to close at 4.59 at end-2023 vs the low of 4.79 on 23 Oct 2023 as markets priced US Fed cutting interest rate as soon as Mar 2024 and by as much as -150bps cuts back then. The outlook has since been volatile, with the latest 30-day fed funds futures (as of 12 July 2024) pricing in as much as -75bps cuts in the Fed funds rate between Sep 2024 and Dec 2024. We expect Ringgit outlook to improve further in an environment of stable OPR and cuts in US Fed Funds Rate.

Fig 44: Malaysia OPR, US Fed Funds Rate (FFR) and Malaysia-US Interest Rates Differential



Sources: CEIC, BNM, Maybank IBG Research

Fig 45: USDMYR vs Malaysia-US Interest Rates Differential



Sources: Bloomberg, Maybank IBG Research

Over the longer term, stronger Ringgit rests on deliveries and tangible results of economic reforms and restructuring. BNM have repeatedly stated in its last three Monetary Policy Statements (MPS on 7 Mar 2024, 9 May 2024 and 11 July 2024) that "*over the medium term, ongoing structural reforms will provide more enduring support to the Ringgit*".

We view fiscal consolidation and reforms as the "low-hanging fruit" part of the overall economic restructuring and reforms for a sustained Ringgit-positive outcome, given the legally-binding target of reducing budget deficit to -3.0% of GDP (2024E: -4.3% of GDP; 2023: -5.0% of GDP) and capping Government total debt at no more than 60% of GDP (end-2023: 64.3% of GDP) in 3-5 years as per the Public Finance and Fiscal Responsibility Act (FRA) i.e. by 2026 at the earliest and by 2028 latest (Fig 46-47).

Fig 46: Budget Deficit (% of GDP)

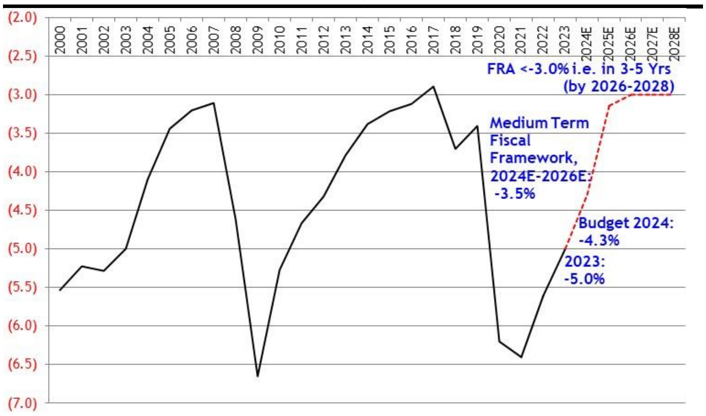
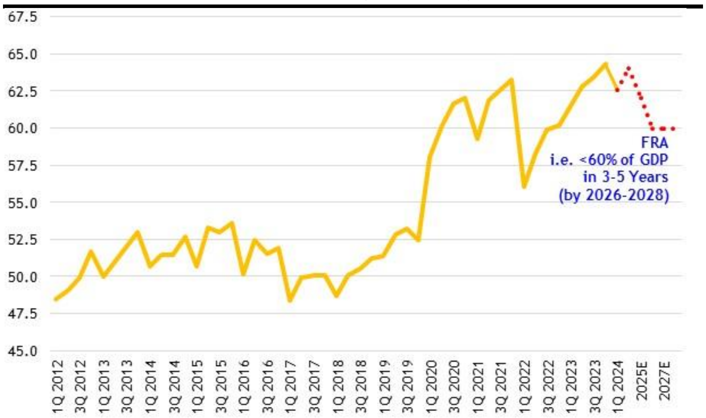


Fig 47: Total Government Debt (% of GDP)

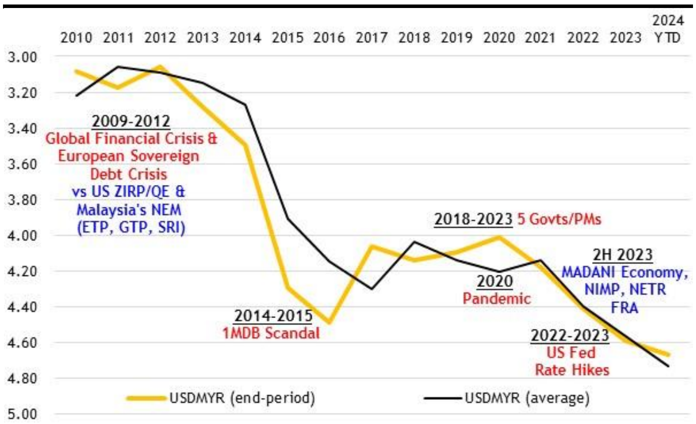


Sources: CEIC, Ministry of Finance (Budget 2024 & Medium-Term Fiscal Framework 2024-2026), Fiscal Responsibility Act; Maybank IBG Research

To-date, the Government has rolled out revenue-enhancing broadening of the tax bases i.e. introducing Capital Gains Tax and 10% Low Value Goods Tax effective 1 Jan 2024; Services Tax base expansion and rate adjustment to 6%-8% range from 6% as well as "Sugar Tax" hike effective 1 Mar 2024. Further revenue-enhancement measure this year involves strengthening tax compliance via the phasing in of "e-invoicing" starting 1 June 2024 for full implementation on 1 July 2025. At the same time, the Government made further progress in targeted subsidy rationalisation by rolling out the targeted diesel subsidy rationalization on 10 June 2024 after the implementation of targeted electricity subsidy and ending the subsidy for chicken production last year. We also expect the Government to complement FRA with the tabling of Government Procurement Act (GPA) in 4Q 2024.

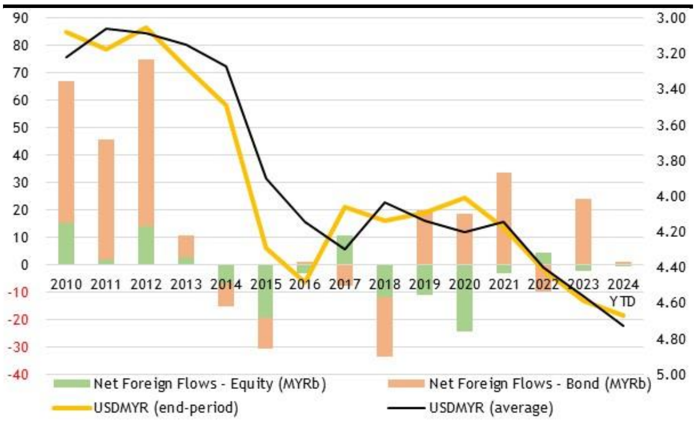
And we have seen the Ringgit-positive outcome in the past following US Fed's interest rate cuts AND tangible execution and implementation of domestic economic reforms and restructuring, supported by net inflows of foreign funds into both the local equity and bond markets underscoring investors' confidence and buy-ins i.e. the post-GFC years of 2010-2013 (Fig 48-49).

Fig 48: USDMYR vs Key Global and Domestic Events



Sources: CEIC, Maybank IBG Research

Fig 49: USDMYR vs Net Foreign Flows into Malaysian Equity and Bond Markets



Sources: CEIC, BNM, Bursa Malaysia, Maybank IBG Research

Fig 50: Malaysia - Other Key Economic Indicators

	ACTUAL			MAYBANK		OFFICIAL
	2022	2023	2024YTD	2024F	2025F	2024F
Gross Exports (% chg)	24.9	(8.0)	4.5 (5M)	5.0	5.8	5.0
Gross Imports (% chg)	31.0	(6.4)	13.7 (5M)	10.7	6.0	5.4
Trade Balance (MYRb)	256.2	214.1	52.0 (5M)	172	179	220.3
Current Account Balance (MYRb)	57.2	28.2	16.2	40	37	41.5
Current Account Balance (% of GDP)	3.2	1.5	3.5 (1Q)	2.1	1.8	1.8-2.8
Fiscal Balance (% of GDP)	(5.6)	(5.0)	(5.7) (1Q)	(4.3)	(3.3)	(5.0)
Inflation Rate (CPI, %)	3.3	2.5	1.8 (5M)	2.4	3.0	2.0-3.5
Overnight Policy Rate (% p.a., end-period)	2.75	3.00	3.00	3.00	3.00	-
Exchange Rate (MYR/USD, end-period)	4.40	4.59	4.67 (12 July)	4.60	4.35	-
Exchange Rate (MYR/USD, average)	4.40	4.57	4.73	4.685	4.48	-
Unemployment Rate (%)	3.8	3.4	3.3 (4M)	3.3	3.3	3.3
Crude Oil (USD/bbl, Brent average)	99.0	82.2	83.4 (6M)	82	75	80-90
Crude Palm Oil (MYR/tonne, average)	5,115	3,812	4,016 (6M)	3,700	3,600	4,200-4,400

Sources: Bloomberg, CEIC, Department of Statistics, BNM (Mar 2024), Maybank IBG

Key wildcards to economic outlook…?

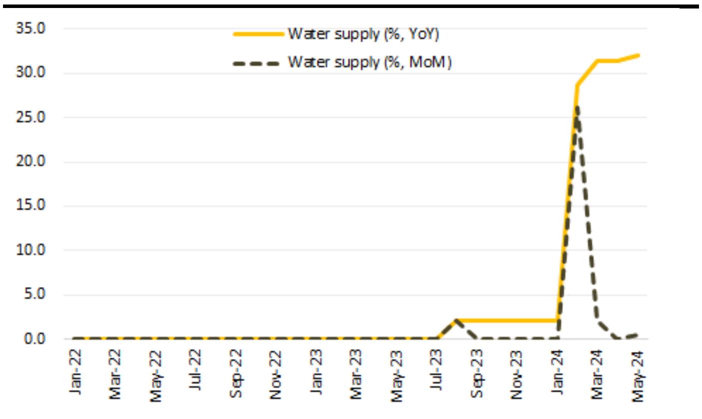
Domestically, the key wildcard is the extent of upside risk to inflation. To note, headline inflation rate in May 2024 picked up to +2.0% YoY after three straight months of +1.8% YoY print in Feb-Apr 2024, while core inflation picked up to +1.9% YoY in Apr-May 2024 from +1.7% YoY in Mar 2024. This follows the adjustments in consumption-related taxes and water tariff in 1Q 2024 i.e. the introduction of 10% Low Value Goods Tax effective 1 Jan 2024; Services Tax's base expansion and rate adjustment to 6%-8% range from 6%, plus "Sugar Tax" hike, both effective 1 Mar 2024; nationwide water tariff hike averaging 22 sen per cubic metre effective 1 Feb 2024.

Granted that the year-to-date inflation rate remains mild (5M 2024: +1.8% YoY; 2023: +2.5%) despite the above adjustments in consumption-related taxes and water tariff due to mitigations and low weightages in Consumer Price Index (CPI) basket of goods and services.

In the case of water tariff hike, the CPI component on "water supply" jumped to +28.8% YoY in Feb 2024 (Jan 2024: +2.1% YoY) with the latest Fig of +32.0% YoY in May 2024 (Fig 51), but its direct impact on CPI is muted by the small weight of 0.9%.

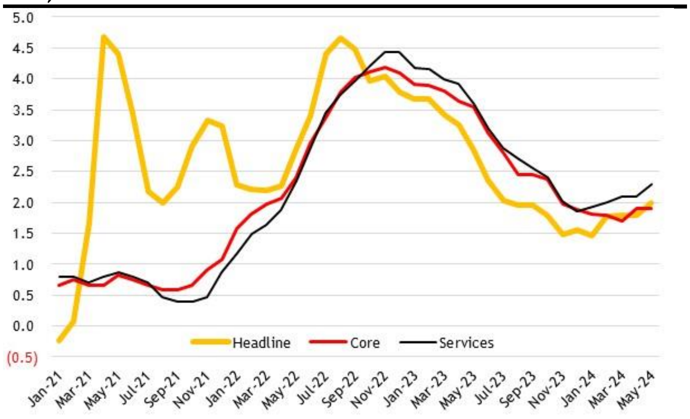
Meanwhile, the impact of broadening of Services Tax base and its rate from 6% to 6%-8% range effective 1 Mar 2024 on services inflation was somewhat muted (Fig 52), as per services inflation (May 2024: +2.3% YoY; Apr 2024: +2.1% YoY; Mar 2024: +2.1% YoY; Feb 2024: +2.0% YoY; 5M 2024: +2.1% YoY; 2023: +3.1%), given that the Services Tax rate on food & beverages (F&B) and telecommunication services remains at 6%, plus the exemptions for selected logistics services (e.g. freight forwarders; haulage, warehouse, port terminal and conventional truck operators) and repairs and maintenance services of residential properties. This is in contrast to what happened when Services Tax was raised to 6% from 5% in Jan 2011 that saw monthly headline and services inflation rates accelerated (Fig 53) in turn causing 2011 headline and services inflation rates to accelerate to +3.2% (2010: +1.7%) and +2.7% (2010: +1.7%) respectively (Fig 54). To also note, the uptrend in inflation during 2011 was also due to the effect of the +MYR0.05/litre hikes in both petrol and diesel price on Dec 2010.

Fig 51: Malaysia – Water Supply Component of CPI



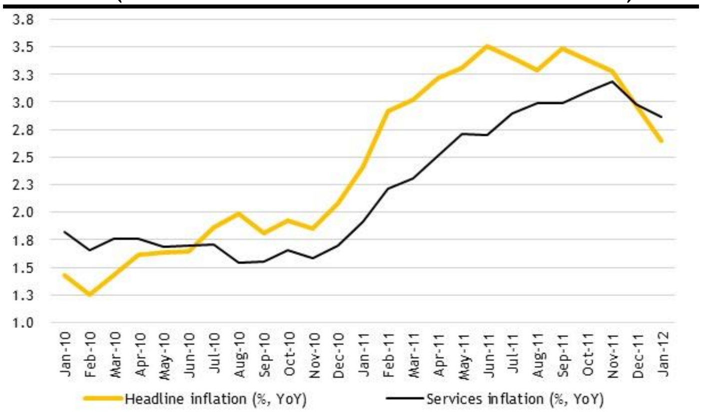
Source: DOSM

Fig 52: Malaysia – Headline, Core and Services Inflation (% YoY)



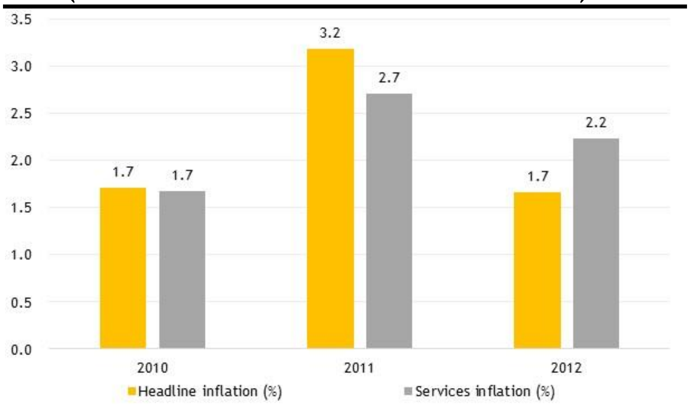
Source: DOSM

Fig 53: Malaysia – Headline and Services Inflation, Jan 2010 – Jan 2012 (Services Tax Hike to 6% from 5% in Jan 2011)



Source: DOSM

Fig 54: Malaysia – Headline and Services Inflation, 2010-2012 (Services Tax Hike to 6% from 5% in Jan 2011)



Source: DOSM

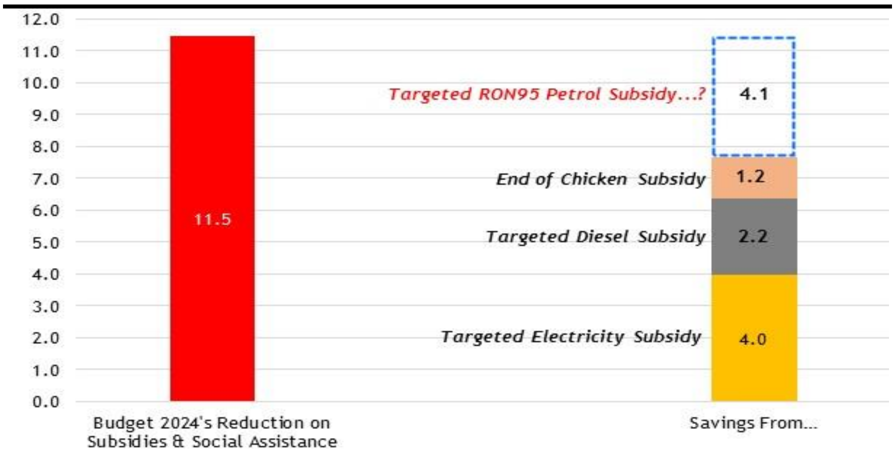
Direct impact of the targeted diesel subsidy rationalization should be small due to 0.2% weightage in CPI, but the wildcard is the *knock-on* effect on prices of other goods and services. The targeted diesel subsidy rationalisation which commenced on 10 June 2024 resulted in diesel price in Peninsular Malaysia set higher at MYR3.35/litre from MYR2.15/litre i.e. +56% increase, but with several targeted exemptions given i.e. MYR2.15/litre for eligible logistics vehicles; MYR1.88/litre for land public transport; MYR1.65/litre for fishermen; while Sabah, Sarawak and Labuan still enjoy subsidized diesel price of MYR2.15/litre. Given diesel's 0.2% weight in the CPI basket of goods and services, the *direct* impact of targeted diesel subsidy rationalization on inflation should be small. The wildcard is the *knock-on* effect on prices of other goods and services.

The key upside risk to inflation will be the timing, quantum and mechanics of RON95 petrol subsidy rationalization - which remains a "black box" - and as RON95 petrol accounts for 5.5% of CPI weight. With the rollout of targeted diesel subsidy rationalization on 10 June 2024, eyes are on the recalibration of RON95 petrol subsidy, seen as the next move in the whole process of subsidy rationalization.

The question is "when" and "how"? The "when" is ultimately a "political decision". But when it happens, we expect there to be increase in RON95 petrol price from current subsidised level of MYR2.05/litre. Current totally unsubsidised or market price of RON95 petrol is around MYR3.20/litre. We expect the lower-income groups/households to receive cash offset to mitigate the inflation / cost of living impact. The income eligibility criteria is likely to be the same as that under "Budi Individu" for targeted diesel subsidy i.e. annual income of MYR100,000 and below, which we expect to be based on the information from the Central Database Hub (PADU) collected during its registration, verification and submission period (2 Jan – 31 Mar 2024).

As to the pricing of RON95 petrol, we do not think there will be a two-tier pricing of subsidised and non-subsidised RON95 petrol like the above-mentioned diesel pricing. To figure out the potential adjustment in subsidised RON95 petrol price, we noted Budget 2024's target to cut spending on "Subsidies and Social Assistance" by -MYR11.5b (equivalent to 0.6% of GDP) or -17.9% to MYR52.8b (2023: MYR64.2b) and the achieved/estimated savings from subsidy rationalisation implemented and announced so far totalling MYR7.4b (0.4% of GDP) i.e. MYR4b from targeted electricity subsidy; MYR1.2b from the ending of subsidy to chicken producers; and MYR2.2b from the targeted diesel subsidy (i.e. pro-rated from the annual savings of MYR4b following the announcement of the implementation of targeted diesel subsidy rationalisation on 10 June 2024). This leave MYR4.1b, which we assumed to be achieved via RON95 petrol subsidy rationalisation (Fig 55).

Fig 55: Budget 2024's Subsidy Rationalisation – Where Is It Coming From…?



Sources: Ministry of Finance, Maybank IBG Research

We estimated that every 10 sen hike in fuel price saves MYR2.5b in fuel subsidy over a 12-month period. The quantum of RON95 price adjustment required to achieve the remaining MYR4.1b of the MYR11.5b total subsidy savings targeted under Budget 2024 depends on when the targeted RON95 petrol subsidy will be implemented. The earlier it is done, the smaller is the rise in RON95 petrol price required to achieve the MYR4.1b RON95 petrol saving this year. Our simulation shows that if, for example, the targeted RON95 petrol subsidy was announced on 1 July 2024 to achieve the MYR4.1b savings during 2H 2024, RON95 petrol price would have to be raised by +MYR0.32/litre or +15.6%. In contrast, if the targeted RON95 petrol subsidy is done, for example. on 1 Oct 2024 to achieve the MYR4.1b savings during 4Q 2024, RON95 petrol price must be increased by +MYR0.65/per litre or +31.7%.

Of course, the Government has the final say on the quantum and timing of the adjustment in RON95 price against our simulations above. The Government can announce a much smaller adjustment in RON95 price compared with our two hypothetical simulations above, and even postpone the implementation of targeted RON95 petrol subsidy this year. Whatever shortfall against the remaining MYR4.1b needed to achieve Budget 2024's target to reduce subsidy spending by MYR11.5b this year can also be covered by higher dividend from Petronas vs the MYR32b estimated for this year.

The upside risk to inflation is factored into the official and our 2024 inflation forecasts i.e. official's forecasts of between +2.0% and +3.5% and our forecast of +2.4% (5M 2024: +1.8% YoY; 2023: +2.5%).

Given the upside risk to inflation, we maintain our view of BNM's Overnight Policy Rate (OPR) staying at 3.00% for the rest of this year, notwithstanding the actual and expected starts of interest rate cuts cycle by the major central banks noted earlier. To note, BNM kept the OPR at 3.00% for the seventh consecutive Monetary Policy Committee (MPC) meeting on 10-11 July 2024, and the accompanying Monetary Policy Statement (MPS) remarked that inflation will trend higher in 2H 2024 due to the diesel subsidy rationalization effective 10 June 2024.

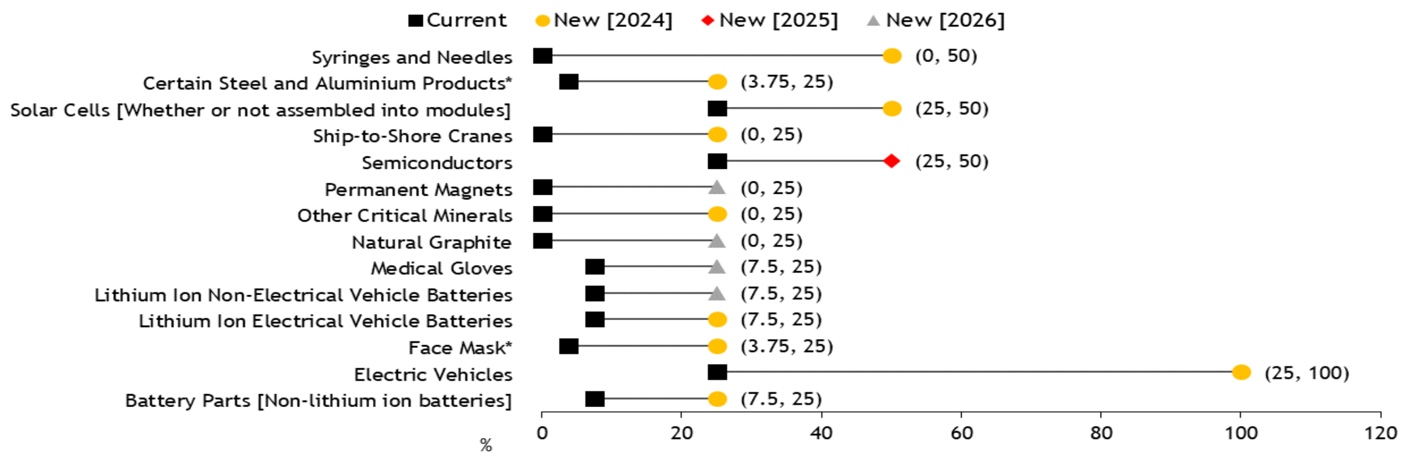
A final note on domestic wildcard is the potential upsides to GDP and inflation from the earlier-mentioned introduction of Account 3 by the Employees Provident Fund (EPF) in May 2024, which allows EPF members to withdraw from the account at any time for any purposes. We have not priced this into our real GDP growth forecast – especially the private consumption component – pending clarity on the "behaviour" of EPF members in utilising the Account 3 e.g. all amount withdrawn to-date end up as consumer spending or include for other purposes like paying household debts, invest (e.g. stock market; gold), assists family members and kept as emergency savings. In the event of consumer spending surge due to withdrawals from EPF's Account 3, this could trigger additional upside risk to inflation via demand-pull inflation, on top of the expected cost-push inflation due to the implementation of the targeted fuel subsidy rationalisation this year, with potential implications on the outlook for OPR i.e. risk of OPR hike(s) by BNM instead of the baseline forecast of no change in OPR.

Externally, the biggest wildcard is geopolitics, and more specifically the risk of a US-China-led global trade war given the high probability scenario of Donald Trump winning the US Presidential Election on 5 Nov 2024, together with the potential outcome of his Republican Party taking control of both chambers of the US Congress i.e. the House of Representative and the Senate.

US has maintained a hardline stance on trade with China. The Biden administration is wary of the threat to American firms from China's industrial push and global dominance in clean energy products. President Biden has maintained Donald Trump's tariffs on USD250b of Chinese imports, in addition to imposing additional tariffs on USD18b of Chinese imports in June 2024 (Fig 56). The latest round of US trade barriers will kick in progressively in August 2024, January 2025 and January 2026, and were launched after the Biden administration accused Beijing of discriminatory trade practices and fostering industrial overcapacity (see *ASEAN Economics - China's Industrial Push: The Threat to ASEAN Exports*, 12 April 2024).

The risk now is that of US casting its protectionist net wider. Triggering this concern is Biden administration's review of petitions filed by leading US solar manufacturers to investigate rival imports from Cambodia, Malaysia, Thailand and Vietnam. A two-year solar panel tariff moratorium for these four countries was allowed to expire on 6 June 2024, and all bifacial panels will now face a 14.25% import duty.

Fig 56: Biden's New Tariffs on China: Kicking in Progressively over Aug 2024, Jan 2025 and Jan 2026



Source: US Trade Representative[1], The White House[2]

*Current tariffs for these products range from 0% to 7.5%, we take the average

In our ASEAN X Macro titled *"Trump 2.0 Trade Policies - Turbulence Ahead" (5 July 2024)*, we highlighted five potential US trade policy shocks and escalation in US-China trade tension under Trump Presidency 2.0 i.e. 1) imposing import tariffs of >60% on China and a blanket 10% on rest of the world; 2) eliminating "de minimis" rule of USD800 i.e. value where imports are exempted from customs duties; 3)

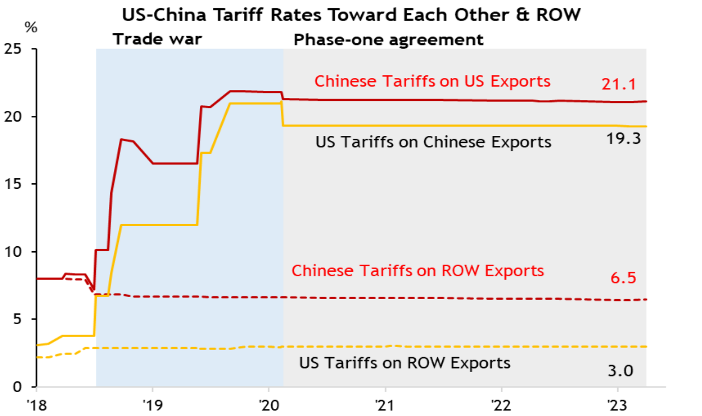
[1] Office of the United States Trade Representative, "*Request for Comments on Proposed Modifications and Machinery Exclusion Process in Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*".

[2] The White House, "Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices", 14 May 2024.

imposing tariffs on "currency manipulators"; 4) imposing tariffs on carbon-heavy imports; and 5) revoking China's Most Favored Nation (MFN) status.

The clear and present danger is Trump's statement that he will impose tariffs of 60% or higher on Chinese goods and a blanket 10% tariff on imports from other countries, which risks triggering a global trade war. Currently, the US effective tariff rate (ex-China) stands at about 3%, while the tariff rate on Chinese imports is 19% (Fig 57-58).

Fig 57: US Tariffs on China and Rest of the World



Note: ROW stands for Rest of World.

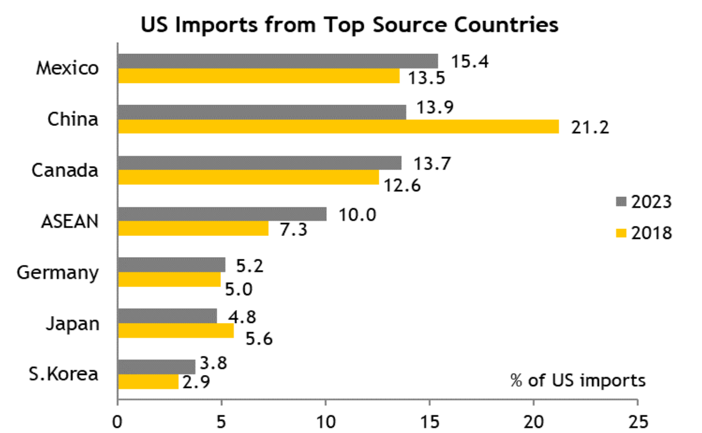
Source: PIIE "US-China Trade War Tariffs: An Up-to-Date Chart" April 2023, Maybank IBG Research

Fig 58: Percent of US-China Trade Subject to Trade War Tariffs

Source: PIIE "US-China Trade War Tariffs: An Up-to-Date Chart" April 2023, Maybank IBG Research

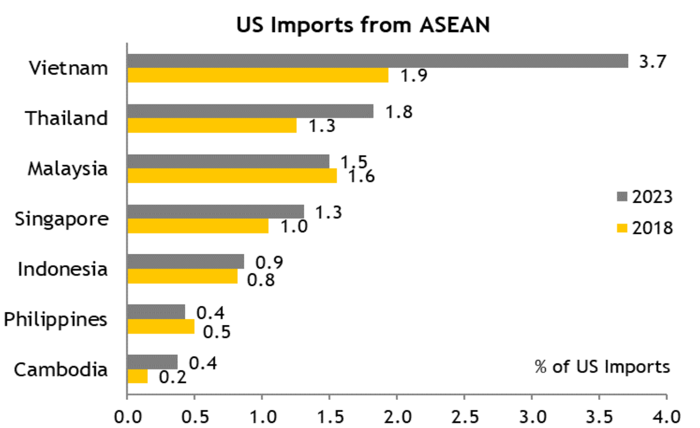
Trump has also pledged to crack down on tariff evasion and trade diversion, which could result in collateral damage on ASEAN and discourage Chinese manufacturing investments in the region. Rules of origin may be actively enforced or tightened, with additional duties imposed on imports from third – or connector – countries manufactured with significant proportions of Chinese components, or products made by Chinese firms based overseas. This is in view of US-China trade war and the tit-for-tat tariff hikes since the days of President Trump have benefitted Malaysia and its ASEAN peers in terms of trade diversions (Fig 59-60) and FDI relocation/re-shoring for supply chain resilience and security. Vietnam may be more vulnerable as a third-country target, given its growing intermediate imports and FDI from China. Malaysia, Singapore and Thailand are at risk of collateral damage given their export dependence.

Fig 59: US Share of Imports from China Has Fallen Since the Trade War; Visible Gain in Share of Imports from ASEAN



Source: CEIC

Fig 60: Vietnam's Share of Imports into US Nearly Doubled Over 2018 to 2023



Source: CEIC

EQUITY

EQUITY: Optimism still

Optimism still. The KLCI is enjoying a good run, and has re-rated by 2 PER multiples to 15x on 12M fwd. PER as at 10 Jul, from slightly under 13x back in Dec 2023. The re-rating, we believe, is due to: 1) progress in economic restructuring and fiscal reforms; 2) record high approved direct investments (FDI/DDIs); and 3) corporate earnings growth delivery. In terms of fund flow, foreign investors have turned net buyers again in the first 7 trading days of July (till 10 Jul) parring down their YTD net sell to just about MYR0.3b. We remain optimistic on Malaysia's outlook into 2H24 amid ongoing economic & fiscal reforms, and growth delivery.

YE 2024 KLCI target. We maintain our YE KLCI target of 1,680 which implies 15x 12M fwd. PER (-0.5SD of mean). Our bottom-ups calculation derives 1,740 but this is a 12-month estimate. Besides earnings growth delivery (+15.5% in 2024E for our universe), KLCI's tailwind includes: 1) US interest rate cuts; 2) details of the JSSEZ which will be catalytic in bringing in further FDIs and infra developments; and 3) the outlook of a firmer MYR - we expect the USDMYR to end the year at 4.600. Key risks are: 1) US elections and a "Trump 2.0" outcome; 2) "higher-for-longer" US interest rate, and 3) Russia-Ukraine & Middle East instability escalating.

Strategy & sector weights. We continue to recommend an equity portfolio of selective investment-related & domestic sectors, to be balanced with yield stocks. Rising FDIs/DDIs momentum, renewable energy (RE) transition, tourism recovery and higher economic activities will be positive for stocks in Construction (OW/ Overweight), RE (OW), Aviation (OW), Gaming-Casino (OW), and selective stocks in Consumer (OW) – also the Banks (OW) in terms of loans growth and asset quality.

We are also OW on Gloves, expecting the worst to be over; and Oil & Gas, expecting crude oil prices to stay elevated which is supportive of investments and activities. As for Technology, we remain Neutral (NT) on Semicon but are OW on Software and EMS. We are Underweight (UW) on Petrochems on weakening global demand amid new supplies; and Media due to headwinds in adex & demand.

Investment themes. We revisit (and reiterate) three thematics introduced in our "*2024 Year Ahead: Rising Momentum*" report, In addition, we introduce four thematics for 2H24:

- "The Three Sisters – Johor (JSSEZ to be catalytic), Penang (Malaysia's high-tech powerhouse) & Sarawak (new economic POWER-house)"
- "Rising FDI momentum"
- "Renewable Energy transition"
- "Data centre in full swing"
- "Recalibration of RON95 petrol subsidy"
- "Civil service salary hike"
- "Gan bei (cheers) to 50 years of Malaysia-China friendship".

Top BUYs, yield picks. We have largely retained our top BUY list from that in our "*1Q24: Positive uplift; raising YE KLCI target*" report, and added on **CelcomDigi** (preferred Telco pick), **Eco World** (top BUY in Property) and **Aurelius Tech** (Tech-EMS pick). Our other key BUYs are **AMMB**, followed by **CIMB** in Banks; **SD Guthrie** in Plantation which offers a fresh RE angle; and **Solarvest** in the RE sector. For Consumer, our key pick is **MR D.I.Y.**, followed by **AEON Co.** (both offers consumer down-trading angle). We reiterate **Genting** as one of our top BUYs on deep valuation with upside if TauRx receives regulatory approval for its Alzheimer's disease drug. Our other key BUYs are as per the table on the right.

We also refresh our yield picks with the top 5 highest yield stocks and which are on our BUY list being **Bermaz Auto** (9+% yield), **Magnum** (7+%), **Sentral REIT** (7+%), **DXN** (6+%), and **Sports Toto** (6+%).

Current KLCI:	1,618 (10 Jul 2024)
2024 YE KLCI target:	1,680 (14.9x 12M fwd. PER)

M'sia equities growth & valuation

		2023	2024E	2025E
KLCI @ 1,618.4	**PE (x)**	**17.7**	**15.7**	**14.4**
Earnings Growth	(%)	3.0%	12.4%	9.6%
Research Universe	**PE (x)**	**18.4**	**15.9**	**14.4**
Earnings Growth	(%)	3.5%	15.5%	10.7%

Source: Maybank IBG Research (as of 10 Jul 2024)

Top BUY picks

Stock	BB Ticker	Share Price (MYR)	Target Price (MYR)	*Upside (%)*
Large Caps				
CIMB	CIMB	7.09	7.70	8.6%
CelcomDigi	CDB	3.59	4.50	25.3%
SD Guthrie	SDG	4.21	4.96	17.8%
MR D.I.Y.	MRDIV	1.93	2.45	26.9%
Sime Darby	SIME	2.64	3.44	30.3%
Genting	GENT	4.54	5.84	28.6%
AMMB	AMM	4.36	5.05	15.8%
Dialog	DLG	2.47	3.13	26.7%
Hartalega	HART	3.36	4.50	33.9%
Top Glove	TOPG	1.17	1.43	22.2%
My E.G.	MYEG	1.02	1.68	64.7%
Greatech	GREATEC	5.75	6.50	13.0%
SP Setia	SPSB	1.45	1.66	14.5%
Mid-small Caps				
Eco World	ECW	1.61	1.96	21.7%
SAM Eng	SEQB	6.28	6.85	9.1%
Bermaz Auto	BAUTO	2.54	3.04	19.7%
Velesto	VEB	0.27	0.33	24.5%
AEON Co. (M)	AEON	1.39	1.74	25.2%
Aurelius Tech	ATECH	3.70	4.02	8.6%
Solarvest	SOLAR	1.64	1.84	12.2%

Source: Maybank IBG Research (share px on 10 Jul 2024)

1H 2024 REVIEW

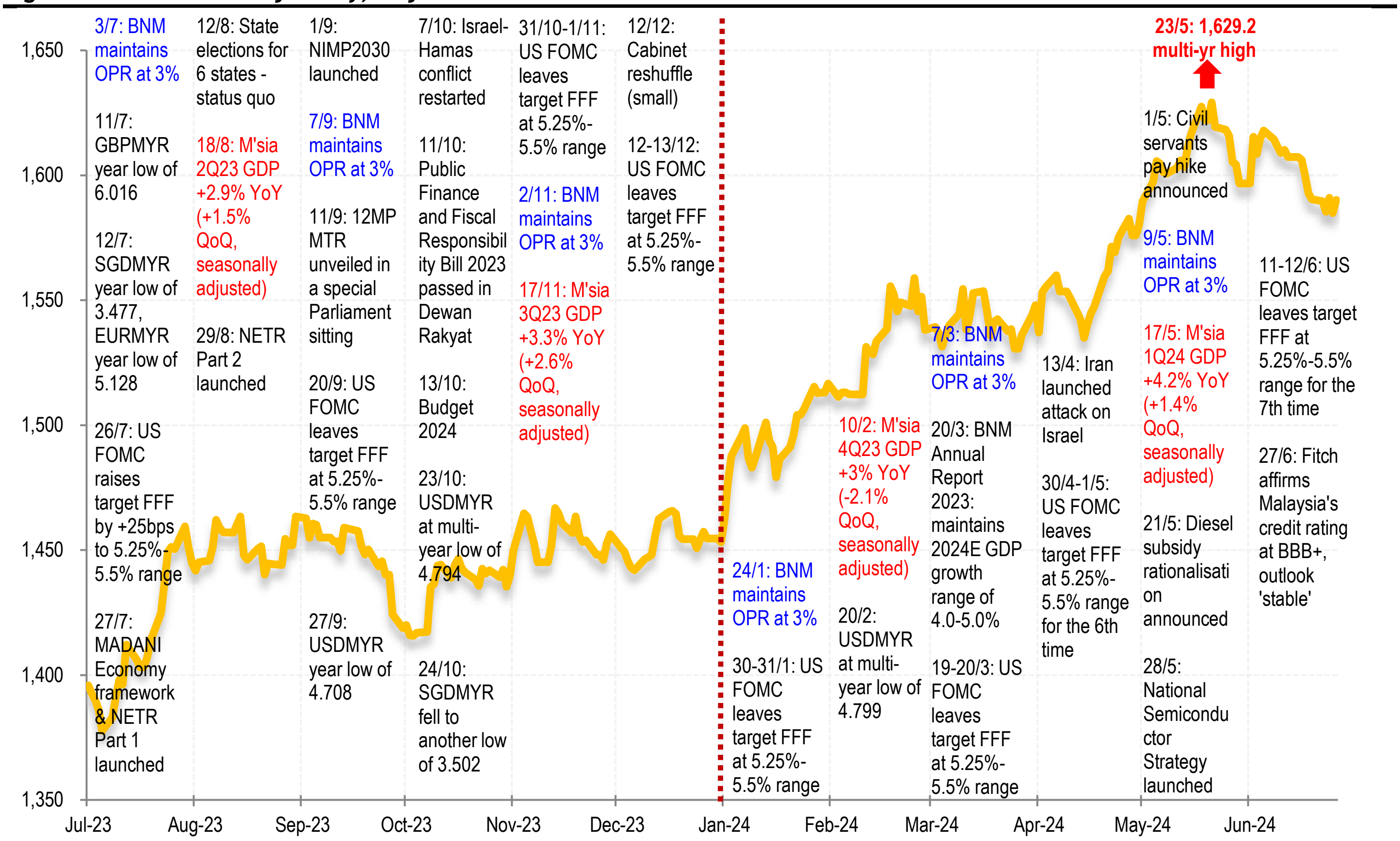
Economic restructuring & fiscal reforms in motion

While 2023 has been an eventful year on the macro policy front - MADANI Economy Framework (launched on 27 Jul), National Energy Transition Roadmap (NETR; 27 Jul), New Industrial Master Plan 2030 (NIMP2030; 1 Sep), 12th Malaysia Plan (2021-25) Mid-Term Review (12MP MTR; 11 Sep), Public Finance and Fiscal Responsibility Act (FRA; 11 Oct) – the momentum continued into 1H24 with the launch of the National Semiconductor Strategy (NSS) on 28 May which aims to move Malaysia to the high-value front-end of the semiconductor chain. Another key development in 1H24 was the Memorandum of Understanding (MoU) for the Johor-S'pore Special Economic Zone (JSSEC) inked on 11 Jan, with a deal expected in Sep 2024.

In terms of fiscal reforms, new tax measures were rolled out in 1H24 to enhance the Government's revenue – Capital Gains Tax and Low Value Goods Tax (both wef 1 Jan); and Service Tax's base expansion & rate adjustment and "Sugar Tax" hike (both wef 1 Mar). Subsidy rationalisation, which started in early-2023 for electricity bills, progressed to diesel, which was restructured wef 10 Jun.

Relating to monetary decisions, Bank Negara maintained the OPR at 3.00% in all three of its meetings in 1H24 after raising the benchmark rate by a total 125bps in 2022 and May 2023. The MYR, which weakened further by as much as 4.5% against the USD in 1Q24, stabilised in May-Jun on policymaker's intervention and measures for GLCs/GLIFs, private companies and exporters to repatriate their overseas earnings and investment income, and to convert them into MYR. Elsewhere, key commodity prices stabilised higher - crude oil price averaged USD84.0/bbl (Brent) vs. 2023's USD82.6/bbl; CPO price averaged MYR4,023/t vs. MYR3,834/t in 2023.

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



Note: KLCI at 1,455 (31 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)

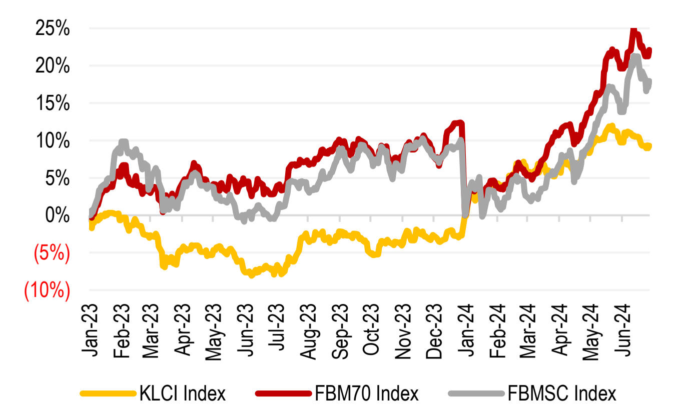
KLCI charts multi-year high after 3 years of losses

After 3 years in the red (2021-2023), the KLCI gained +9.3% in 1H24 (+6.4% in USD terms) as it convincingly crossed the 1,500 level on 24 Jan. Although it also broke 1,600 on 7 May, the momentum slowed subsequently, leading to a 1,590 close as of 30 Jun. The KLCI's peak (for 1H24) of 1,629 on 23 May was also its multi-year high since 2021 (all-time high was 1,895 on 19 Apr 2018). The mid-small caps fared better with the FBM70 gaining +22.1% in 1H24 and FBMSC +18%. Within the region, KLCI's +9.3% gain in 1H24 was ahead of its peers' benchmarks in Singapore (+2.9%), Philippines (-0.6%), Indonesia (-2.9%) and Thailand (-8.1%), thus making KLCI the 2nd best performing market in the region, behind Vietnam (+10.2%).

77% of our stock coverage (making up 70% of total market cap on Bursa Exchange) posted gains. The gains were broad-based across most sectors - and selective Telcos - with the exception of Media and Petrochems. Top gainers were mainly in the Property, Construction and Utility sectors - driven by their exposure in Iskandar Puteri and Kulai-Sedenak in Johor, and involvement in data centers (for Property); positive FDI momentum, leading to contract/job wins for data centre and industrial building construction, and expectation for more wins to come (for Construction); and new investments in data centres (for Utility). In the Telco sector, Telekom Malaysia and Axiata led the charge, leaving the rest behind.

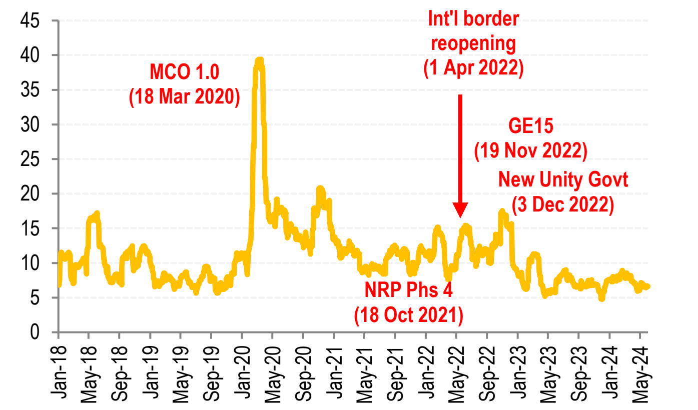
The "Midas Touch" in 1H24 was Data Centres; this compares to 2023 when interests on Renewable Energy drove gains in EPCC and solar asset owners. Banks saw mainly gains too in 1H24, and so did Gloves on upward trend in sales volume and scope for reactivation of cost pass-throughs driven by rising demand and tight supply.

Fig 2: Key indices, 1H24 (% gains/ (losses)



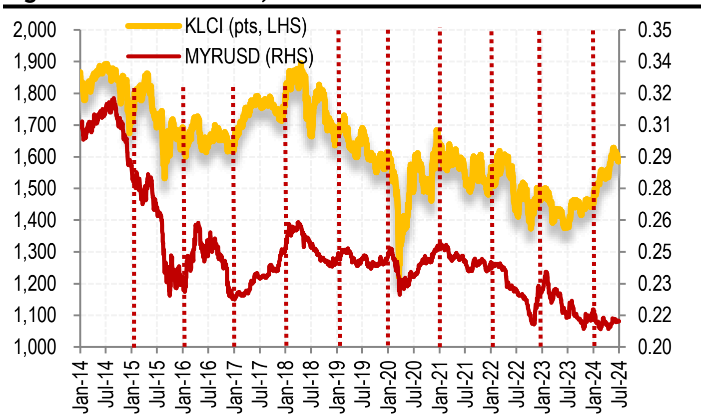
Source: Bloomberg, Maybank IBG Research (chart)

Fig 3: KLCI 30-day volatility, 2018-1H24



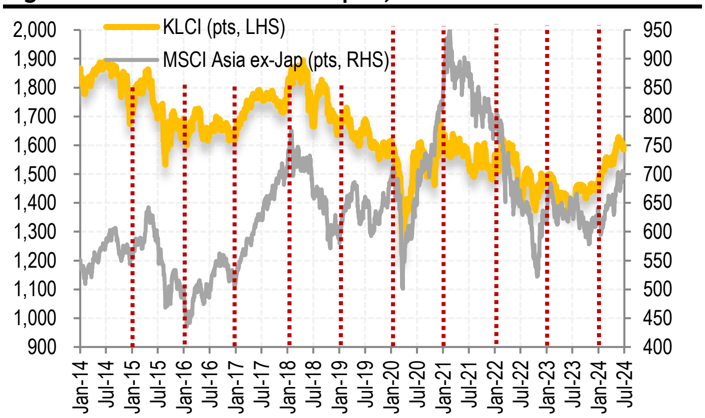
Source: Bloomberg, Maybank IBG Research (chart)

Fig 4: KLCI vs. MYRUSD, 2014-1H24



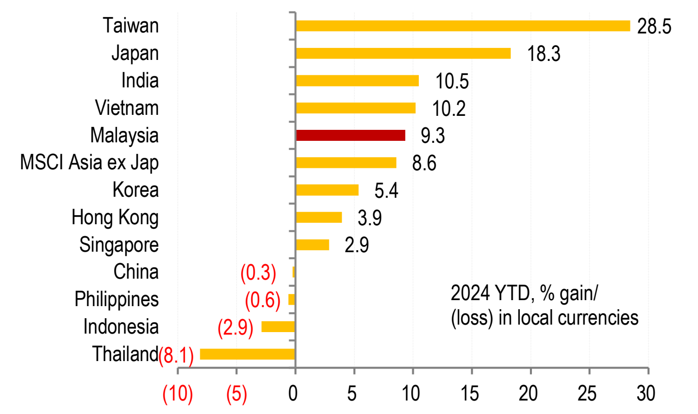
Source: Bloomberg, Maybank IBG Research (chart)

Fig 5: KLCI vs. MSCI Asia ex-Japan, 2014-1H24



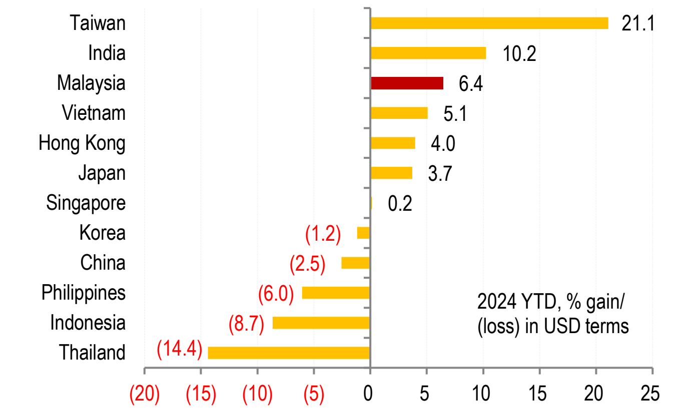
Source: Bloomberg, Maybank IBG Research (chart)

Fig 6: KLCI vs region, 1H24 in local currencies



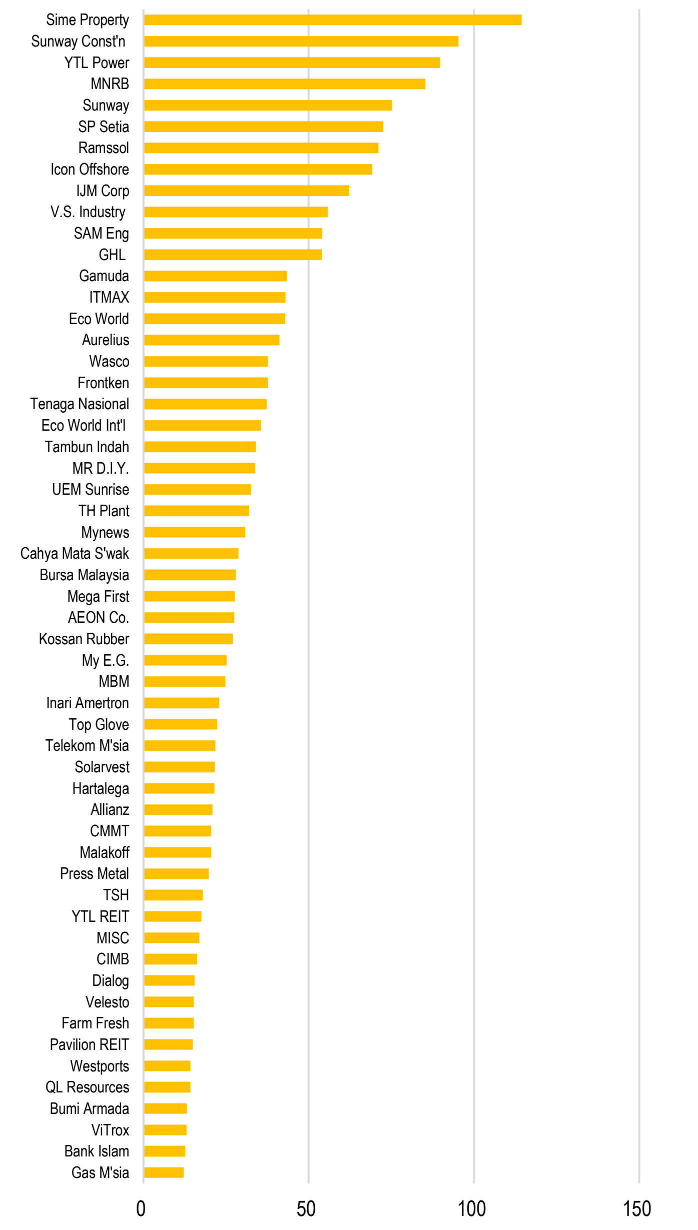
Source: Bloomberg, Maybank IBG Research (chart)

Fig 7: KLCI vs region, 1H24 in USD terms



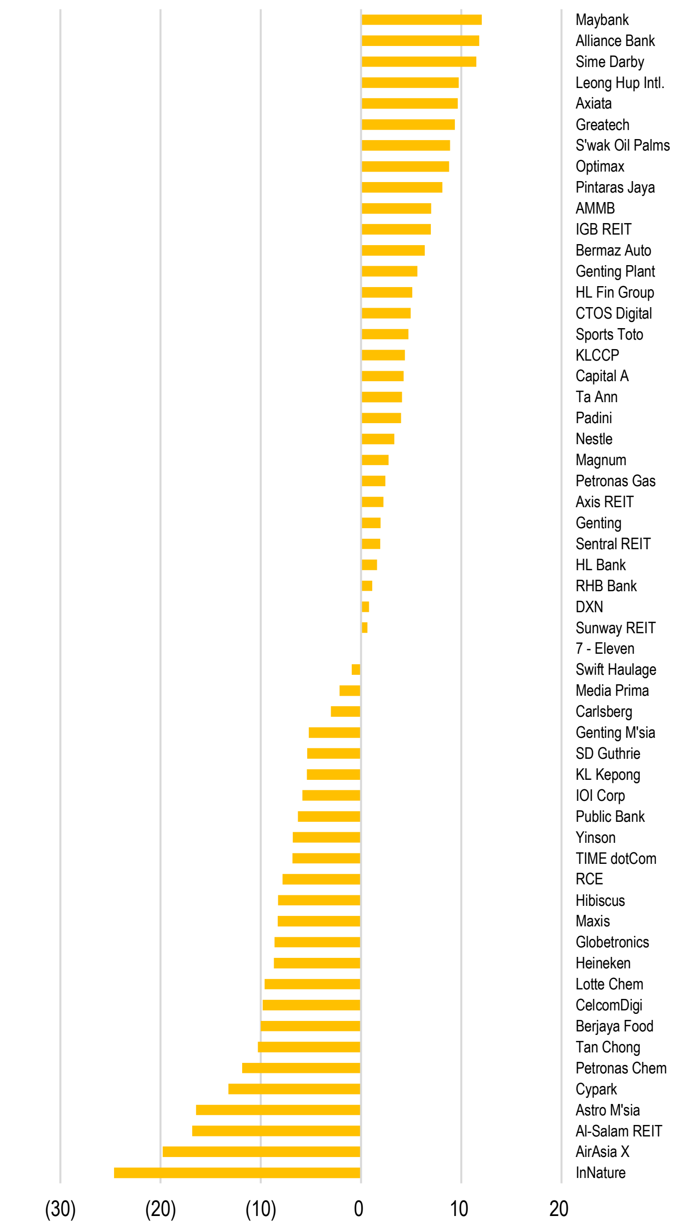
Source: Bloomberg, Maybank IBG Research (chart)

Fig 8 (a): Share price gain of research universe, 1H24 (%)



Source: Maybank IBG Research

Fig 8(b): Share price gain/decline of universe, 1H24 (%)



Source: Maybank IBG Research

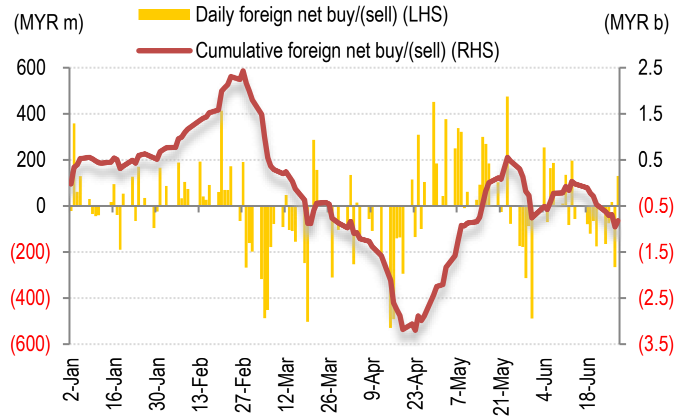
Foreign fund flows experienced higher volatility

1H24 saw a higher volatility in foreign fund flows into Malaysia equities, with net buys in 3 months and net sells in the other 3 months. The first two months of 2024 saw net buys, followed by net sells in Mar-Apr, net buy again in May, and marginal net sell in Jun. In total, Malaysia equities recorded a foreign outflow of MYR0.83b in 1H24; this compares to MYR2.34b outflow in 2023. Per Dibots data, the top 5 stocks with foreign net buys in 1H24 were Tenaga (#1), MISC (#2), IJM (#3), YTL Power (#4) and Sime Darby (#5), while their key sells were mainly the Banks with Public Bank (#1), RHB (#3) and CIMB (#4) in the top 5.

Across the region, foreign investors were, in fact, selling in 1H24. On a relative basis, Malaysia's foreign net sell in USD terms of USD0.17b in 1H24 was smaller than its ASEAN peers which experienced larger outflows - Thailand (-USD3.23b), Vietnam (-USD2.07b), Philippines (-USD0.53b) and Indonesia (-USD0.43b).

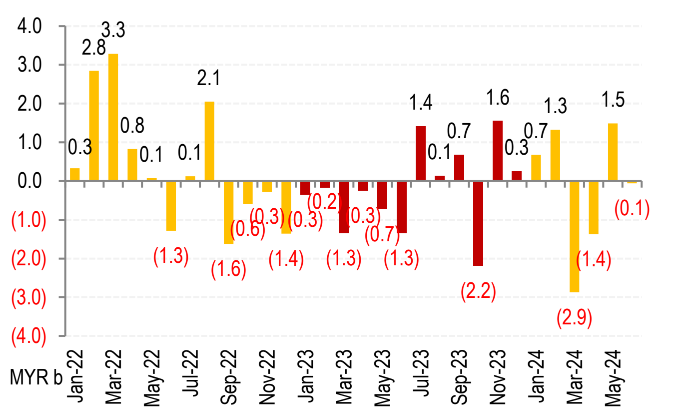
Market foreign shareholding was unchanged from end-2023 - at 19.5% as at 30 Jun 2024. We expect the composition of foreign holdings, as at end-Jun 2024, to be quite similar to that of end-2023, comprising 10.2% strategic investors, 5.6% non-strategic active investors, and 3.8% non-strategic passive investors.

Fig 9: Daily & cumulative foreign net buy/(sell) since early-2024 (till 30 Jun, MYR m/b)



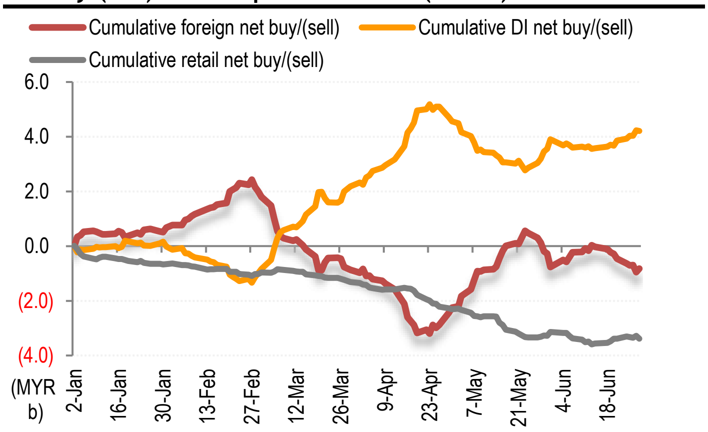
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 10: Monthly foreign net buy/(sell) since early-2022 (MYR b)



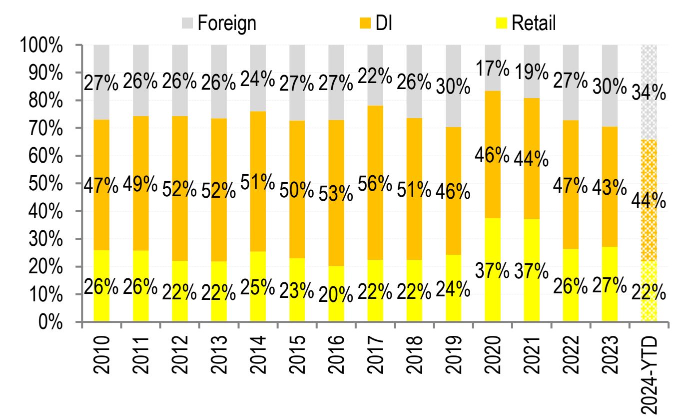
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 11: Cumulative foreign, domestic institutions and retail net buy/(sell) of MY equities in 1H24 (MYR b)



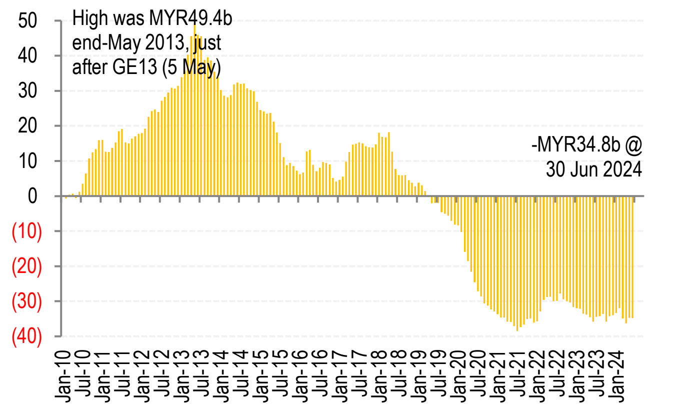
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 12: Foreign vs. domestic institutions vs. domestic retail participation in equity trades since early-2010 (%)



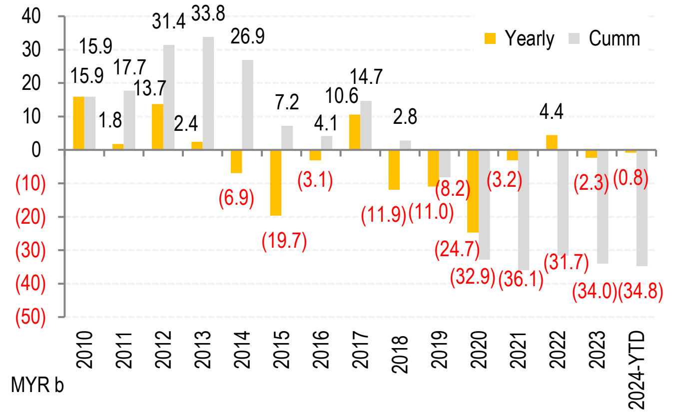
Source: Bursa Malaysia, Maybank IBG Research (chart)

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



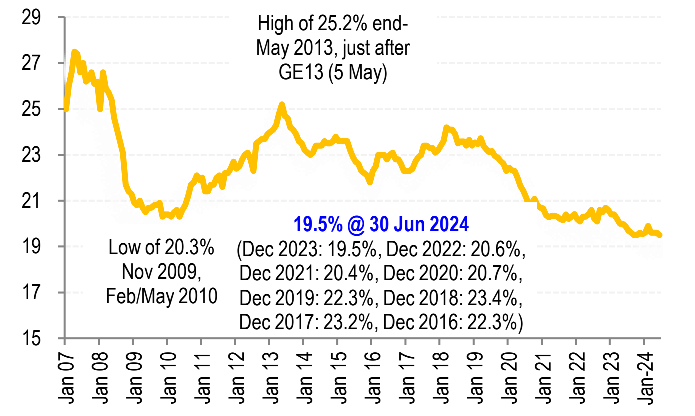
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 14: Yearly & cumulative foreign net buy/(sell) since early-2010 (MYR b)



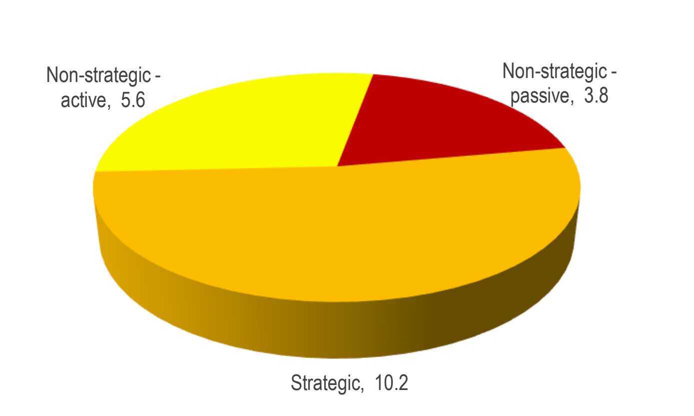
Source: Bursa Malaysia, Maybank IBG Research (chart)

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



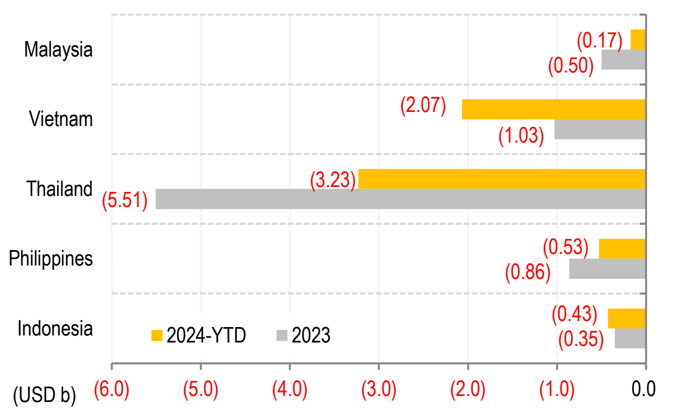
Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 16: Composition of foreign holding in MY equities of 19.5% as at end-Dec 2023 - by holding type (%)



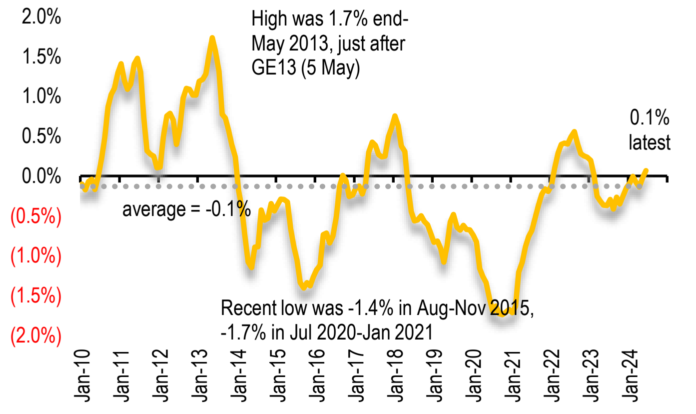
Source: Securities Commission, Maybank IBG Research (chart)

Fig 17: Foreign net buy/(sell) in ASEAN equities, in 1H24 (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 30 Jun 2024)



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

Fig 19: Top 20 stocks bought/(sold) by foreign investors in Jan-Jun 2024

Rank	Stock name	Value of net buy (MYR)	% of MYR0.8b foreign net sell	Stock name	Value of net sell (MYR)	% of MYR0.8b foreign net sell
	|---------------------- NET BUY ----------------------|			|---------------------- NET SELL ---------------------|		
1	TENAGA	1,347,363,568	(163.7%)	PBBANK	(1,456,893,950)	402.0%
2	MISC	709,572,225	(86.2%)	KLK	(862,421,036)	2064.0%
3	IJM	497,248,854	(60.4%)	RHBBANK	(846,039,996)	551.0%
4	YTLPOWR	478,440,844	(58.1%)	CIMB	(785,881,501)	680.0%
5	SIME	354,474,416	(43.1%)	NESTLE	(425,080,464)	12150.0%
6	MAHSING	348,430,978	(42.3%)	PPB	(418,697,145)	1430.0%
7	AIRPORT	333,475,532	(40.5%)	MAYBANK	(383,104,571)	996.0%
8	IOIPG	299,663,294	(36.4%)	DIALOG	(360,592,947)	239.0%
9	TM	299,521,959	(36.4%)	PCHEM	(323,044,042)	631.0%
10	BURSA	294,051,985	(35.7%)	SUNWAY	(321,406,923)	361.0%
11	FRONTKN	286,822,096	(34.8%)	QL	(291,690,439)	652.0%
12	AXIATA	283,030,221	(34.4%)	IOICORP	(226,657,594)	370.0%
13	IHH	263,903,897	(32.1%)	HLBANK	(213,411,472)	1920.0%
14	CTOS	240,516,294	(29.2%)	PETDAG	(211,003,062)	1744.0%
15	VS	197,316,703	(24.0%)	GENTING	(200,876,553)	471.0%
16	SPSETIA	194,832,553	(23.7%)	PETGAS	(134,288,120)	1782.0%
17	YTL	149,456,861	(18.2%)	TIMECOM	(133,907,686)	503.0%
18	GCB	129,421,537	(15.7%)	HLFG	(132,732,633)	1728.0%
19	DAYANG	125,460,386	(15.2%)	UMW	(128,941,493)	497.0%
20	ECOWLD	118,739,227	(14.4%)	KPJ	(125,707,948)	193.0%

Source: Dibots, Maybank IBG Research (analysis)

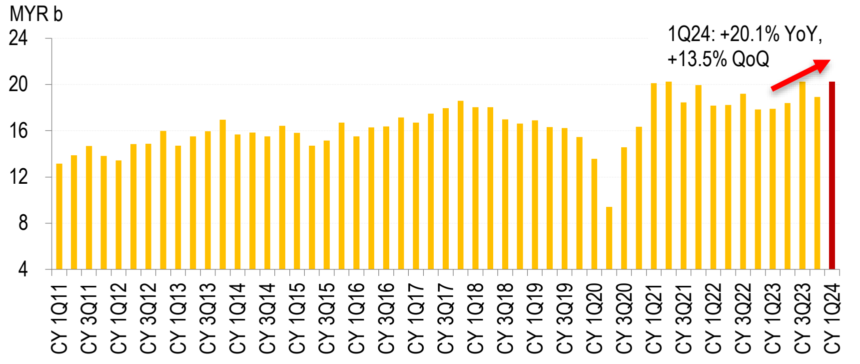
Earnings momentum received a positive uplift

For the 4th consecutive quarter, core earnings of our research universe expanded YoY in 1Q24 and on strong momentum too. 1Q24 core profit of our universe rose 20.1% YoY, contributed by almost all sectors – except Petrochemicals and Technology. QoQ universe core profit was also higher by 13.5% – despite drags from Plantation, Consumer, Property and Technology which delivered weaker QoQ earnings. For the first time since 3Q22, the ratio of earnings miss-to-beat (vis-à-vis our forecasts) fell below 1.0x - at 0.7x; and this ratio has, in fact, been trending down since 1Q23. Core earnings of four sectors positively surprised in the 1Q24 reporting – Construction, Gaming, Non-Bank Financials and Aviation.

Consequently, our coverage 2024E core earnings estimates were uplifted by 2.5%, and 3.2% for 2025E. Including earnings revisions post 1Q24 reporting, we now estimate a higher +15.5% core earnings growth for our universe and +12.4% for the KLCI in 2024E (previously +13.1% and +11.4%), while for 2025E, we now estimate +10.7% growth for our universe and +9.6% for the KLCI (previously +9.9% and +8.2%). We expect all sectors to deliver higher YoY core earnings in 2024E with the exception of Media. We expect Gloves and Aviation to return to the black.

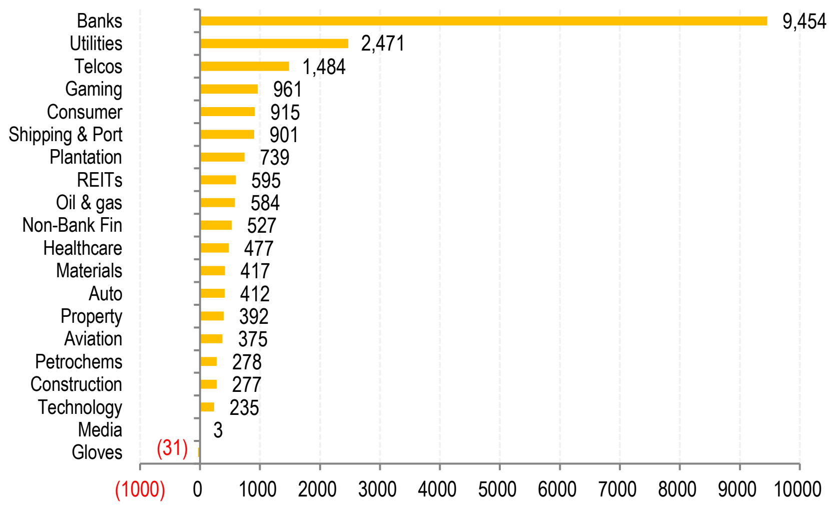
To note that our Macro Research Team has also raised Malaysia's 2024E real GDP growth forecast to +4.7% (from +4.4%) and 2025E to +5.1% (from +5.0%) post the release of 1Q24 GDP data (+4.2% YoY) [*see "GDP growth up in 1Q24; upped 2024-25E growth forecasts", 19 May 2024*].

Fig 20: Quarterly core net profit of research universe (PLCs with quarters ended Feb/Mar 2024)



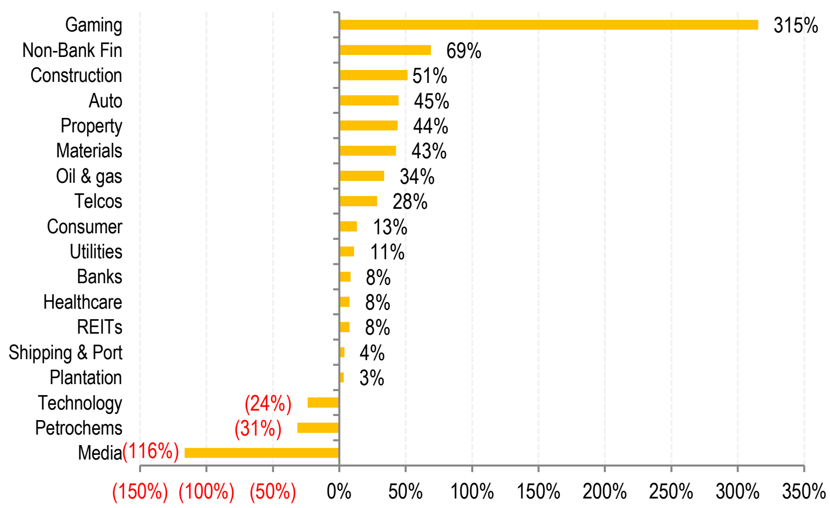
Note: Exclude stocks with FYE Jan, Apr, Jul, Oct, i.e. Gamuda, Yinson, ECW, EWI, MyNews, BAuto, Astro, Cypark, VSI; Source: Maybank IBG Research

Fig 21: 1Q24 core profit of research universe (Feb/Mar 2024 qtrs) - MYRm



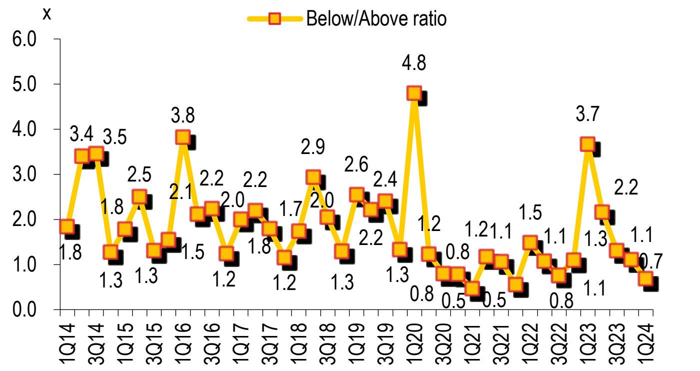
Note: Exclude stocks with FYE Jan, Apr, Jul, Oct
Source: Company results data, Maybank IBG Research

Fig 22: 1Q24 core profit of research universe (Feb/Mar 2024 qtrs) - % YoY



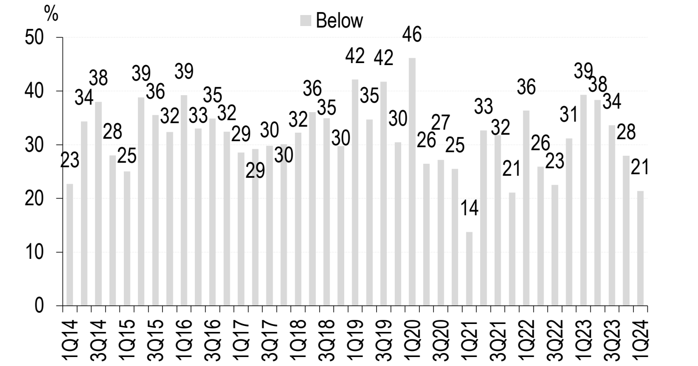
Note: Aviation was back to profits in 3M24; Gloves' losses were down 76% YoY
Note: Excl. stocks with FYE Jan, Apr, Jul, Oct
Source: Company results data, Maybank IBG Research

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



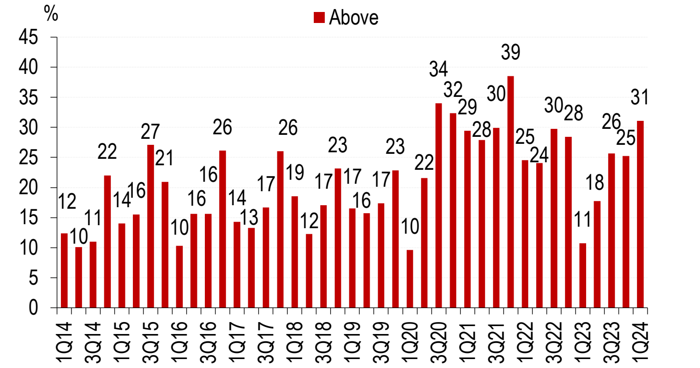
Source: Company results data, Maybank IBG Research

Fig 24: Below expectation (% of research universe)



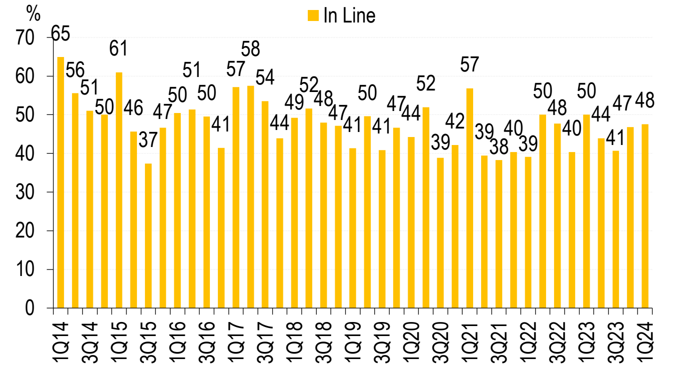
Source: Company results data, Maybank IBG Research

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

	2023	2024E	2025E
Maybank IBG's Research Universe			
Earnings Growth (%) - early-Jul '24	3.5%	15.5%	10.7%
Earnings Growth (%) - early-Mar '24	3.8%	13.1%	9.9%
Earnings Growth (%) - early-Dec '23	2.6%	15.6%	-
Maybank IBG's Research Universe (ex-Glove stocks)			
Earnings Growth (%) - early-Jul '24	5.3%	14.9%	10.4%
Earnings Growth (%) - early-Mar '24	5.5%	12.5%	9.5%
Earnings Growth (%) - early-Dec '23	4.4%	15.2%	-

Source: Maybank IBG Research

2H24 OUTLOOK & LOOKOUTS

We highlight several key lookouts in 2H24 globally and in Malaysia which are macro- (growth & policy) and sectors related.

Global growth to moderate slightly; ASEAN to accelerate

Compared to 6 months ago, we have raised our growth forecasts for US and China, lowered for Eurozone and maintained for ASEAN-6. Our Macro Research Team expects global real GDP growth to decelerate to +3.1% in 2024E (vs. +2.8% in our previous estimate in YE2023) from +3.2% in 2023. 2024E's global growth slight deceleration will be led by the US (2024E: +2.3% vs. +1.0% previous est.; 2023: +2.6%) and China (2024E: +5.0% vs. +4.4% previous est.; 2023: +5.2%) with tepid growth still in the Eurozone (2024E: +0.7% vs. +0.9% previous est.; 2023: +0.5%). ASEAN-6's growth is expected to accelerate as we maintained our growth forecast of +4.7% for 2024E (2023: +4%). For Malaysia, as mentioned in the preceding paragraph, we now forecast +4.7% real GDP growth in 2024E (vs. +4.4% previous est.; 2023: +3.6%).

Fig 28: ASEAN & major economies real GDP growth forecast, 2021 – 2025F

	2021	2022	2023	2024F	2025F
Indonesia	3.7	5.3	5.0	5.1	5.2
Malaysia	3.3	8.9	3.6	4.7	5.1
Philippines	5.7	7.6	5.5	6.0	6.2
Singapore	8.9	3.6	1.1	3.0	2.1
Thailand	1.6	2.6	1.9	2.4	2.8
Vietnam	2.6	8.0	5.1	6.4	6.2
ASEAN 5 (excl. SG)	3.4	6.0	4.4	4.8	5.1
ASEAN 6	4.2	5.7	4.0	4.7	4.7
US	5.8	1.9	2.6	2.3	1.8
China	8.5	3.0	5.2	5.0	4.5
Eurozone	5.9	3.4	0.5	0.7	1.4
Japan	2.7	1.2	1.8	0.6	1.1

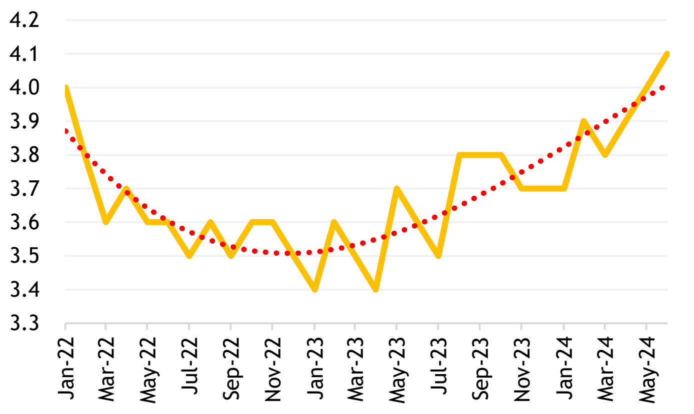
Source: CEIC, Maybank IBG Research (for forecast), EUStat (for EU historical data)

Expect US Fed to move on the FFR towards year-end

The US Fed has thus far, kept the FFR at 5.25%-5.5% - for the 7th time at its 11-12 Jun FOMC meeting. The latest FOMC meeting statement mentioned that there was "modest further progress" towards the US Fed's 2% inflation target and the risks to achieving its mandate on employment and inflation "has moved towards better balance" as latest monthly data showed uptrend in unemployment rate and easing in inflation rate i.e. signs that the transmission mechanism of FFR hikes in 2022-23 are taking effect. The Fed also revised its "dot plot", signalling just one FFR cut of 25bps in 2024E (previously -75%) and 100bps cuts in 2025E (previously -75bps). Our Macro Research Team believes that the Fed possibly err on the side of caution in terms of FFR guidance as it has raised 2024E headline and core inflation rate forecasts to 2.6% (from 2.4%) and 2.8% (from 2.6%), while maintaining real GDP growth and jobless rate projections at 2.1% and 4.0% respectively.

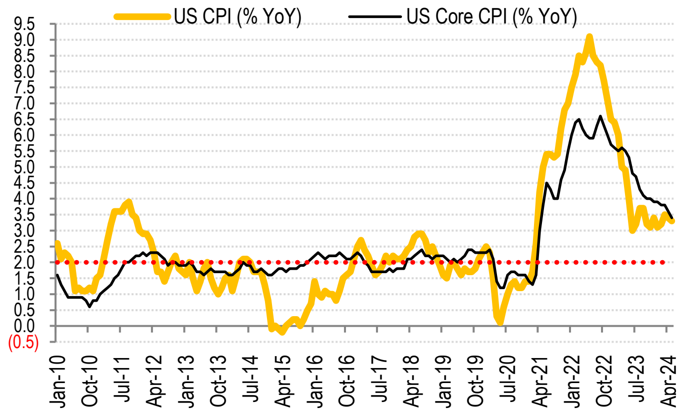
We maintain our view of US Fed cutting the FFR by 50bps by YE2024 and -100bps in 2025E. There are four other FOMC meetings in 2H24: 30-31 Jul, 17-18 Sep, 6-7 Nov, and 17-18 Dec. Across the Atlantic, the ECB has moved ahead with a 25bps cut on 6 Jun 2024, and our Macro Research Team expects another 50bps cut in 2H24.

Fig 29: US unemployment rate (%)



Source: Bloomberg

Fig 30: US Consumer Price Index (CPI, % YoY)



Source: CEIC

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

	2021	2022	2023	2024F	2025F
US	0.00-0.25	4.25-4.50	5.25-5.50	4.75-5.00	3.75-4.00
EU	(0.50)	2.00	4.00	3.25	2.50
Japan	(0.10)	(0.10)	(0.10)	0.25	0.50
UK	0.25	3.50	5.25	4.75	3.50
China	3.80	3.65	3.45	3.35	3.00
Indonesia	3.50	5.50	6.00	6.25	5.50
Malaysia	1.75	2.75	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	6.00	5.00
Singapore	0.19	3.10	3.71	3.40	2.70
Thailand	0.50	1.25	2.50	2.50	2.25
Vietnam	4.00	6.00	4.75	5.25	5.25

Sources: CEIC, Maybank IBG Research (for forecasts)

US Presidential election - Trump 2.0?

US election is around the corner (on 5 Nov) and our Macro Research Team believes that there could be far reaching consequences for the world if Trump returns to office (Trump 2.0). Trump will likely escalate the trade and tech war with China (tariffs of 60% or higher on Chinese goods), raise US tariffs on the rest of the world (a blanket 10% tariff), and penalize countries which run a wide bilateral trade surplus. More protectionist US policies could dampen ASEAN exports, reduce FDI (as higher tariffs will increase the incentive to onshore), and produce a major deflationary shock as China's excess supply is diverted. A wider China-ASEAN US tariff gap of 60% vs. 10% may however continue to encourage MNCs' relocation from China, but a crack down on tariff evasion and trade diversion could discourage and reduce Chinese manufacturing investments in ASEAN.

Vietnam may be more vulnerable as a third-country target, given its growing intermediate imports and FDIs from China. Malaysia, Singapore and Thailand are at risk of collateral damage given their export dependence. For Malaysia, it may be less likely targeted for trade restrictions in the semiconductor category being a major supplier to businesses in the US. However, as nearly a fifth of Malaysia's FDI in 2018-2023 came from China and Hong Kong, its exports of certain goods (eg. solar panels) may come under scrutiny for being used as a "finishing base" for Chinese manufacturers [*see "Trump 2.0 Trade Policies: Turbulence Ahead", 5 Jul 2024*].

Bank Negara to maintain OPR at 3.00%

Our Macro Research Team maintains its view for the OPR to stay at 3.00% this year. Based on its monetary policy statement (MPS) on 10 Jul, Bank Negara maintained that the risk to global growth outlook remained biased to the downside due to the inter-connected risk of escalations in geopolitical tensions, higher-than-expected inflation and financial market volatility. However, risks to the domestic economy outlook are balanced between the downsides to external demand and commodity output, and the upsides from greater spillover from the tech upcycle, more robust tourism activity and faster implementation of existing and new projects.

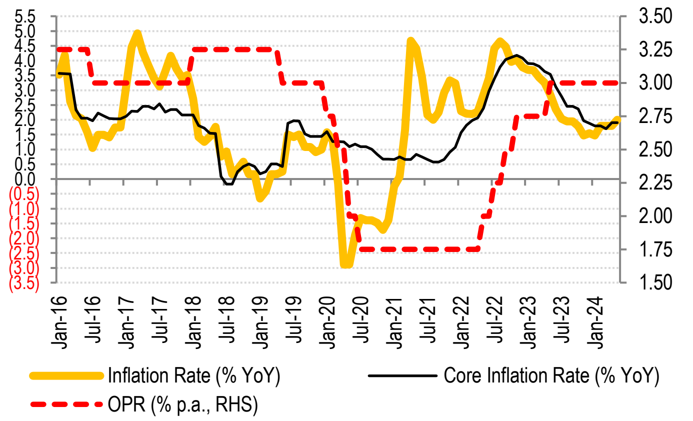
The MPS maintains the view of inflation rate remaining moderate in 2024 with a headline and core inflation rate forecasts of 2.0%-3.5% and 2.0%-3.0% respectively. However, the MPS remarked that inflation will trend higher in 2H24 due to recent diesel subsidy rationalization (wef 10 Jun), but will remain manageable given the mitigation measures to minimise the cost impact on businesses.

Fig 32: 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

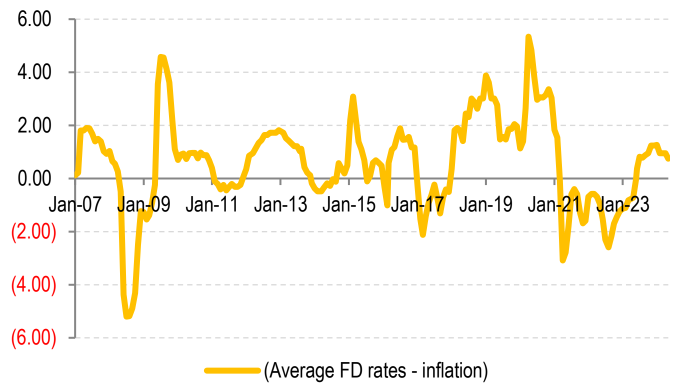
Source: Bank Negara

Fig 33: OPR vs. Inflation rates (%)



Source: Department of Statistics, Bank Negara Malaysia

Fig 34: Differential between average fixed deposit rates and inflation



Source: Bank Negara, Maybank IBG Research

A firmer MYR amid fiscal reforms, rising FDIs

Our FX Research Team maintains its forecast for the USDMYR to end the year at 4.60 (30 Jun close: 4.718). Based on our expectation of the US Fed cutting the FFR in the latter part of 2024 and Bank Negara pausing the OPR for the remaining of this year, the benchmark interest rate differential would narrow, which should be supportive of the MYR. Note that the MYR has been impacted since 2022 when the US Fed embarked on its aggressive interest rate hikes. In addition, we believe that continued economic growth, further progress in fiscal reforms, and rising FDI momentum should be positive for the MYR.

Fig 35: DXY and MYR's expected direction

	End Q2-24	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
DXY Index	105.87	105.00	103.86	102.56	101.69	100.87	99.94
USD/MYR	4.7175	4.6500	4.6000	4.5500	4.5000	4.4000	4.3500
SGD/MYR	3.48	3.46	3.45	3.42	3.38	3.33	3.32
JPY/MYR	2.93	2.82	2.88	2.99	3.00	2.97	3.00
EUR/MYR	5.05	5.07	5.06	5.05	5.04	4.97	4.96
GBP/MYR	5.97	5.91	5.84	5.78	5.76	5.63	5.57
AUD/MYR	3.14	3.16	3.13	3.14	3.11	3.04	3.05

Source: Maybank IBG FX Research

Subsidy rationalisation to continue, a matter of timing

As highlighted by our Macro Research Team in their report, "*Malaysia's Fiscal Reforms: Tracking the Progress?*", *10 Jun 2024*, we expect fiscal reforms to continue given the targets to reduce budget deficit to -3.0% of GDP (2024E: -4.3%; 2023: -5.0%) and cap the Government's total debt at no more than 60% of GDP (end-Mar 2024: 62.6%; end-2023: 64.3%) in 3-5 years, as per the Public Finance and Fiscal Responsibility Act ie. by 2026 at the earliest and by 2028 the latest.

Given un-budgeted increases in the Government's operating expenses (OE) - the largest item will be the civil service salary hike of at least 13% wef Dec 2024 which could add MYR10b of annual costs to the OE – and the reality that the Government's revenue-enhancing tax measures are insufficient to lower the fiscal deficit, we believe rationalisation of RON95 (petrol) subsidy is inevitable – the key question is when. Fuel (RON95 petrol, diesel and LPG) and energy (electricity) subsidies accounted for MYR60.6b or 72% of the MYR84.2b total government spending on subsidies, social assistances and welfare programmes in 2022.

Fig 36: 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

Johor-Singapore Special Economic Zone (JSSEZ)

We reiterate our view, expecting the JSSEZ to be catalytic in terms of FDIs and infrastructure developments especially in Johor state. Our Macro Research Team believes that there is strong impetus from both M'sia and S'pore to make JSSEZ a success as greater economic integration – with freer movement of people, goods and capital – will open up new opportunities that tie in with long-term policy goals.

In its report, "*JSSEZ: What's Special and Different*", *10 May 2024*, our Macro Research Team highlighted 6 reasons why this time it could be different and how the JSSEZ could spur the flow of trade, labour, investments and energy: 1) strong support from both Governments and the Malaysian King; 2) land connectivity is being stepped up with the JB-S'pore RTS link now under construction and 77.61% completed as of 11 Jun 2024; 3) the JSSEZ will capture MNCs' supply chain shifts by integrating S'pore's financial, logistics and advanced manufacturing capabilities with Johor's competitive costs, energy resources and abundant land; 4) Johor offers steep cost advantage, amplified by a favorable exchange rate; 5) Johor will benefit from high-value added jobs creation while for Singapore, the JSSEZ will ease pressure on housing supply and rent; and 6) the JSSEZ will benefit from Singapore's green energy transition.

Following the MoU inked on 11 Jan this year, both Governments will work towards a full-fledged agreement, with a possible deal in Sep 2024, according to Malaysia's Economy Minister [link]. Since the MoU, Johor has proposed the Iskandar Malaysia (IM) and Pengerang regions (involving 6 local councils – Johor Bahru [JB], Iskandar Puteri, Pasir Gudang, Kulai, Pontian, Pengerang) as the location for JSSEZ [link]. Johor is also proposing an elevated Automated Rapid Transit (ART) system for southern Johor / Johor Bahru costing almost MYR7b - as an alternative to the earlier proposal for a Light Rail Transit (LRT) - to complement the Rapid Transit System (RTS) Link to S'pore which is expected to start operations in Jan 2027 [link].

Fig 37: Map of Iskandar Malaysia

Source: Maps4news, Financial Times

Fig 38: RTS link between Woodlands and Bukit Chagar

Source: Straits Times Graphics, Maybank IBG Research

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 39: Sector specific lookouts in 2H24

Sector	Lookouts	Comments
Auto	Policies promoting NxEV sales	Many existing EV incentives are set to expire in 2025 - including road tax exemptions, import duty and excise duty exemptions for CBU EVs, and restrictions on importing CBU EVs priced below MYR100k. We believe EV sales could accelerate if: (i) more incentives and effective policies are successfully introduced; (ii) affordable national EV models from Proton and Perodua are successfully launched (anticipated by end-2024 for Proton and 2025 for Perodua); (iii) more affordable EV models become available in the market (if the restriction on importing CBU EVs below MYR100k is lifted); and (iv) EV infrastructure improves, such as achieving the target of installing 10,000 EV chargers by 2025 (vs. 2,585 as at 28 Jun 2024, per MEVnet).
Construction	Award of major infra projects	Our expectations are for the award or construction start of a few key infra projects by YE2024 – i) Penang's Mutiara LRT line, which offers about MYR10b in civil works value – Silicon Island to Komtar (Segment 1), Komtar to Penang Sentral (Segment 2); and ii) Klang Valley's New Pantai Expressway (NPE) Phase 2. Also, private sector driven infra project awards: i) Penang Int'l Airport expansion (e.MYR1b+); ii) Westports 2.0 (e.MYR4.4b for Phase 1 civil works); iii) Penang Silicon Island common infra works (e.MYR2b+). For 2025, we expect the following key infra projects to feature in Budget 2025 (on 18 Oct 2024): i) Juru-Sg Dua Elevated Highway in Penang (e.MYR1.8b); ii) JB ART system (e.MYR7b); and iii) Perak's water management project (e.MYR4b) mainly to supply to Kerian and Seberang Perai. We expect the Government to re-call a tender for the KVMRT3 project in 2025 - we understand that land acquisition is ongoing.

Source: Maybank IBG Research

Fig 39: Sector specific lookouts in 2H24 (continued)

Sector	Lookouts	Comments
Consumer	Subsidy roll-backs, EPF Acc 3, civil service salary hike	i) With diesel subsidy rationalisation implemented on 10 Jun 2024, next will be RON95 petrol – a matter of timing, in our view. ii) Impact of EPF Account 3 withdrawal (implemented wef 1 May 2024; MYR11.52b has been transferred to Account 3 by 3.61m EPF members (out of total 13.01m members) as at 24 Jun 2024). iii) Civil service salary revision (wef Dec 2024).
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. A draft bill setting the regulatory framework may be tabled this month. The Thai Prime Minister hopes to pass it by 1Q25.
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.
Petrochemicals	PIC’s COD	Petronas Chemicals has guided for the Commercial Operation Date (COD) of the Pengerang Integrated Complex (PIC) to be sometime in 2H24 (delayed from 1H24). The PIC is expected to raise Petronas Chem’s total production capacity by 3.3 mTpa (+26%; now 12.8 mTpa).
Renewable Energy	CGPP EPCC awards, TPA framework	i) With the commissioning of most LSS4 projects, we now look forward to 800MW of Corporate Green Power Programme (CGPP) EPCC works to be awarded in 2H24. ii) For the industry, we expect the third party access (TPA) framework to be announced soon, which will allow electricity customers (off-takers) to purchase energy directly from RE or non-RE asset owners.
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 2H24 (deferred from 1H24). We think 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	i) The Government decided in Mar 2023, to switch to a dual 5G networks model. We expect negotiations for the second 5G network (under Entity B) to commence in 2H24 with the current incumbent DNB having achieved 80% population coverage. ii) On DNB lease payments, recall the minimum annual fee – by telcos - would rise upon fulfillment of 80% coverage and other conditions. We believe this DNB lease payments are unlikely to step up in 2024, although we are unsure if these fees would be revised as part of the process of setting up Entity B.
Utility	Tenaga’s RP4	With Tenaga now in the final year of its 3-year regulatory period in 2024, negotiations for the next regulatory period – RP4 (2025-2027) - have commenced. We believe a step-up in capex is a possibility to cater for RE-related grid investments.

Source: Maybank IBG Research

MARKET EARNINGS AND VALUATIONS

+15.5% universe core earnings growth in 2024E, +10.7% in 2025E

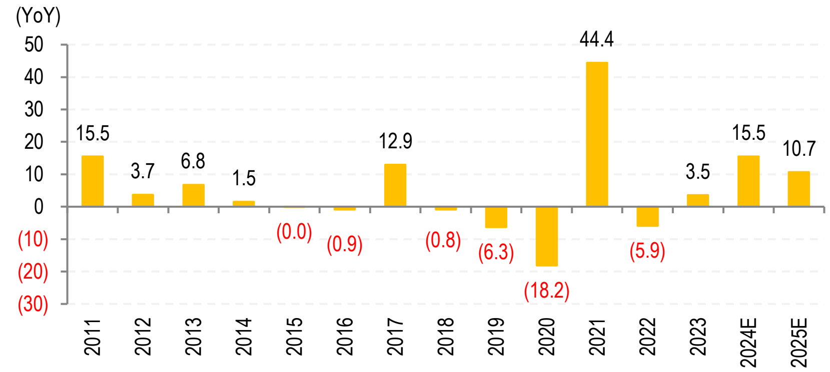
Our current forecasts are for core earnings of our research universe to accelerate to +15.5% in 2024 (+15.8% previous est. at YE2023) from +3.5% in 2023 (+2.7% previous est.). As for the KLCI, we forecast core earnings growth of +12.4% in 2024E (vs. +11.2% previous est.) compared to +3.0% in 2023 (+1.5% previous est.). The key contributors to our universe earnings growth estimates in 2024E are the Banks (+6.7% YoY), Utilities (+21.9%) and Aviation (to return to the black after losses since 2019) sectors, which together contribute close to half of our universe earnings growth in 2024E. In addition, the other larger contributors to our universe earnings growth are Materials (+67.4%), Property (+45.1%) and Gaming-Casino (+43%). For 2025E, we estimate +10.7% earnings growth for our universe and +9.6% for KLCI.

Sector growth highlights for 2024E:

- We expect all sectors to deliver YoY core earnings growth with the exception of Media.
- For the big-caps, we expect Banks' earnings growth to decelerate (+6.7% YoY) after a robust expansion in 2023 (+15%), and Telco earnings to pick up (+4.8% vs. 2023's +3.9%). Also, Gaming-Casinos' core earnings to continue recovering post-pandemic for the 2nd year (+43% vs. 2023's +460%) but their absolute core earnings in 2024E would still be below pre-pandemic's (2019) level.
- We expect Petrochems, Plantation, Materials and Utilities earnings to rebound by +31%, +15.2%, +67.4% and +21.9% respectively, after their earnings fall in 2023 (Petrochems: -85.2%, Plantation: -43.7%, Materials: -12.6%, Utilities: -5.2%). For Petrochems and Plantation, their absolute 2024E core earnings would still be below their 2022 levels.
- We expect both Gloves and Aviation to return to the black.

Key risks to our universe's earnings growth forecasts are: 1) elevated margin pressures from cost inflation – wages, fuel, utilities, raw/intermediate materials, etc; 2) lower-than-expected crude oil prices potentially affecting Oil & Gas activities (our in-house Brent ASP forecast for 2024E is USD82/bbl), and lower-than-expected CPO ASPs directly impacting earnings in the Plantation sector (our CPO ASP forecast for 2024E is MYR3,700/t); 3) negative government policies (especially in reference to the regulated sectors - in terms of service/product pricing, lease payments, capex).

Fig 40: Research universe core earnings growth



Source: Maybank IBG Research

Fig 41 (a): Research universe core earnings, growth, PER, P/B and ROE (10 Jul 2024) (cont'd)

	Core earnings (MYR m)				Core earnings gwth (% YoY)				CAGR (%)
Sector	CY22	CY23	CY24E	CY25E	CY22	CY23	CY24E	CY25E	CY23-25E
Banks	30,992	35,627	38,024	40,373	6.2	15.0	6.7	6.2	6.5
Non-bank Financials	955	1,333	1,418	1,491	(16.4)	39.5	6.4	5.2	5.8
Consumer	3,280	3,548	3,739	4,225	39.1	8.2	5.4	13.0	9.1
Healthcare	1,567	1,802	2,016	2,318	(5.2)	15.0	11.9	15.0	13.4
Automotive	1,610	1,775	2,211	2,488	9.2	10.2	24.6	12.6	18.4
Construction, Infra	1,416	1,603	1,822	2,101	7.5	13.2	13.6	15.3	14.5
Gaming - NFO	293	349	402	403	68.4	19.2	15.3	0.3	7.5
Gaming - Casino	323	1,808	2,587	3,174	NA	459.7	43.0	22.7	32.5
Gloves	1,037	(241)	230	540	(90.9)	NA	NA	134.4	NM
Materials	1,421	1,242	2,080	2,010	40.9	(12.6)	67.4	(3.4)	27.2
Media	304	203	150	223	(41.9)	(33.2)	(26.1)	48.4	4.7
Oil & Gas	2,433	2,751	3,279	3,317	46.5	13.1	19.2	1.2	9.8
Petrochemical	5,965	882	1,156	2,333	(27.8)	(85.2)	31.0	101.7	62.6
Plantation	7,205	4,059	4,675	5,082	(0.3)	(43.7)	15.2	8.7	11.9
Property - Developer	1,467	1,736	2,519	2,292	41.0	18.4	45.1	(9.0)	14.9
Property - REIT	2,072	2,177	2,365	2,579	38.5	5.0	8.7	9.0	8.8
Renewable Energy	99	31	35	73	37.3	(68.8)	14.1	107.6	53.9
Technology	1,703	1,781	2,187	2,526	5.5	4.6	22.8	15.5	19.1
Telco	5,199	5,403	5,661	7,237	0.2	3.9	4.8	27.8	15.7
Transport - Aviation	(4,198)	(596)	1,078	1,588	(13.6)	(85.8)	NA	47.3	NM
Transport - Shipping	1,491	2,410	2,438	2,623	(16.2)	61.6	1.2	7.6	4.3
Transport - Port & Logistic	719	807	866	852	(8.2)	12.2	7.3	(1.5)	2.8
Utilities	8,510	8,064	9,827	10,635	3.9	(5.2)	21.9	8.2	14.8
Stocks under coverage	**75,864**	**78,554**	**90,766**	**100,483**	**(5.9)**	**3.5**	**15.5**	**10.7**	**13.1**

Source: Bloomberg pricing, Maybank IBG Research

Fig 41 (b): Research universe core earnings, growth, PER, P/B and ROE (10 Jul 2024) (cont'd)

	PER (x)			P/B (x)			ROE (%)		
Sector	CY23	CY24E	CY25E	CY23	CY24E	CY25E	CY23	CY24E	CY25E
Banks	10.9	10.2	9.6	1.1	1.1	1.0	10.3	10.6	10.7
Non-bank Financials	11.4	10.7	10.2	1.7	1.5	1.4	14.6	14.3	13.9
Consumer	25.8	24.5	21.7	6.4	5.9	5.4	24.9	24.0	24.7
Healthcare	35.6	31.8	27.7	2.2	2.2	2.1	6.3	6.8	7.5
Automotive	13.3	10.7	9.5	1.0	1.0	0.9	7.8	9.2	9.7
Construction, Infra	25.0	22.0	19.1	1.6	1.5	1.4	6.2	6.8	7.5
Gaming - NFO	11.1	9.7	9.6	1.1	1.1	1.0	9.8	11.0	10.6
Gaming - Casino	17.5	12.2	10.0	0.7	0.7	0.6	3.9	5.4	6.5
Gloves	(112.5)	117.6	50.2	2.1	2.1	2.0	(1.8)	1.8	4.0
Materials	40.3	24.1	24.9	7.2	6.1	5.3	17.9	25.5	21.4
Media	10.4	14.0	9.4	1.2	1.1	1.1	11.3	8.2	11.6
Oil & Gas	11.0	9.2	9.1	1.3	1.1	1.0	11.9	12.4	11.4
Petrochemical	59.1	45.1	22.4	1.0	1.0	1.0	1.7	2.2	4.4
Plantation	21.1	18.3	16.9	1.5	1.4	1.4	7.1	7.9	8.2
Property - Developer	29.1	20.1	22.0	1.0	0.9	0.9	3.3	4.7	4.2
Property - REIT	18.1	16.7	15.3	1.0	1.0	1.0	5.7	6.1	6.5
Renewable Energy	60.5	53.1	25.6	1.9	1.8	1.6	3.2	3.3	6.2
Technology	36.4	29.6	25.6	5.0	4.5	4.1	13.8	15.1	15.8
Telco	23.8	22.7	17.7	2.2	2.2	2.1	9.4	9.7	12.1
Transport - Aviation	(35.5)	19.6	13.3	(13.3)	(24.9)	59.2	37.4	(127.2)	445.1
Transport - Shipping	16.1	15.9	14.8	1.0	1.0	0.9	6.1	6.1	6.4
Transport - Port & Logistic	20.0	18.6	18.9	3.8	3.6	3.4	19.1	19.4	18.2
Utilities	22.0	18.1	16.7	1.8	1.7	1.6	8.0	9.3	9.6
Stocks under coverage	**18.4**	**15.9**	**14.4**	**1.5**	**1.5**	**1.4**	**8.2**	**9.1**	**9.7**

Source: Bloomberg pricing, Maybank IBG Research

KLCI's PER valuation at 15.0x 12M forward

Based on market's close as of 10 Jul 2024, KLCI's valuation (at 1,618 pts) was at:

- 15.0x 12M forward PER, which is minus 0.5SD of its long-term mean (since 2001) of 15.9x (1SD is 1.7x). On 2024/25E core earnings, KLCI's PER valuation was at 15.7x/14.4x.
- 1.4x trailing P/B, which is minus 1SD of its long-term mean of 1.7x.

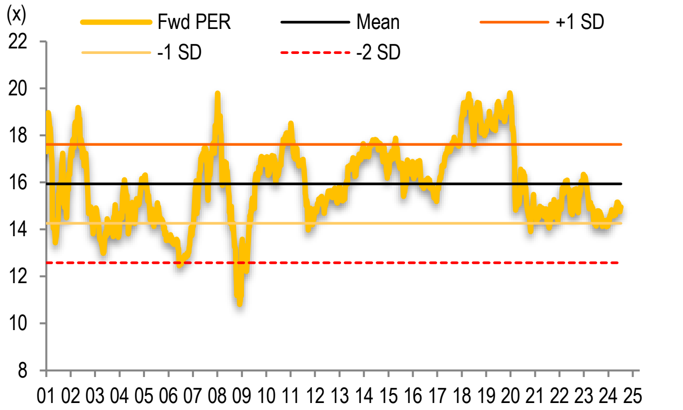
Meanwhile, equity risk premium (ERP) - as measured by the inverse of KLCI's 12M forward PER over the 10Y MGS yield - was at 385bps vs. its mean of 231bps.

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

		2023A	2024E	2025E
KLCI @ 1,618.4 on 10 Jul 2024	**PE (x)**	**17.7**	**15.7**	**14.4**
Earnings Growth (%)		3.0%	12.4%	9.6%
Maybank IBG's Research Universe	**PE (x)**	**18.4**	**15.9**	**14.4**
Earnings Growth (%)		3.5%	15.5%	10.7%

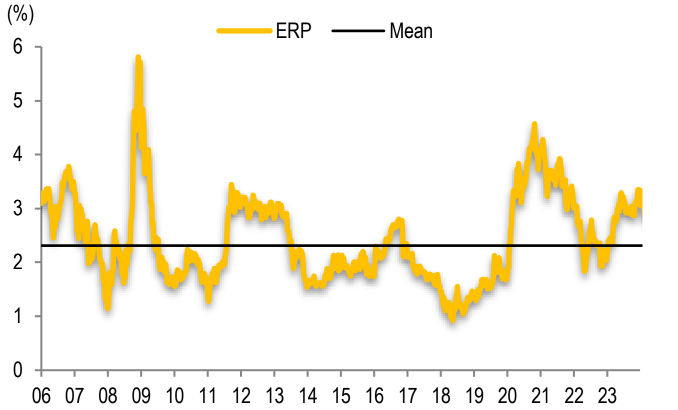
Source: Maybank IBG Research

Fig 43: KLCI's 12M forward PER at 15.0x @ 10 Jul 2024, or -0.5SD of LT mean (mean = 15.9x, 1SD = 1.7x)



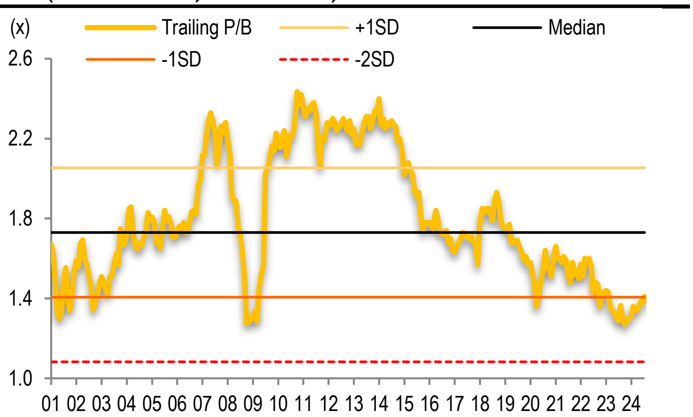
Source: Maybank IBG Research, Bloomberg

Fig 44: KLCI's equity risk premium (over 10Y MGS yield) at 283bps @ 10 Jul 2024 (mean = 231bps)



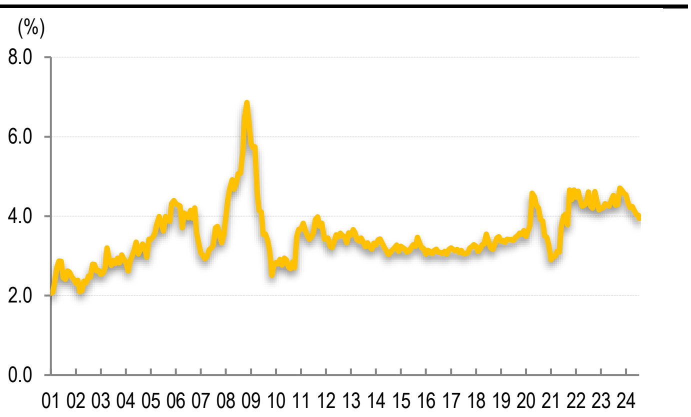
Source: Maybank IBG Research, Bloomberg

Fig 45: KLCI's trailing P/B at 1.4x @ 10 Jul 2024, or -1SD of LT mean (mean = 1.7x, 1SD = 0.3x)



Source: Maybank IBG Research, Bloomberg

Fig 46: KLCI's trailing dividend yield at 3.9% @ 10 Jul 2024



Source: Maybank IBG Research, Bloomberg

STRATEGY & INVESTMENT THEMES

Optimistic still; maintaining 1,680 YE KLCI target

The KLCI is enjoying a good run – +11.3% YTD (10 Jul) - and is the best performing market in the region, after Vietnam. In terms of valuation, the KLCI has re-rated by 2 PER multiples - to 15x on 12M forward PER as at 10 Jul, from slightly under 13x back in Dec 2023. The re-rating, we believe, is due to a combination of factors: 1) progress in economic restructuring and fiscal reforms; 2) record high approved direct investments (after a record year in 2023, approved investments expanded further in 1Q24 - +13% YoY, driven by FDIs [+24% YoY]); and 3) corporate earnings growth delivery. In terms of fund flow, foreign investors have turned net buyers again in the first 7 trading days of July (till 10 Jul) – at MYR0.5b – parring down their YTD net sell to just about MYR0.3b.

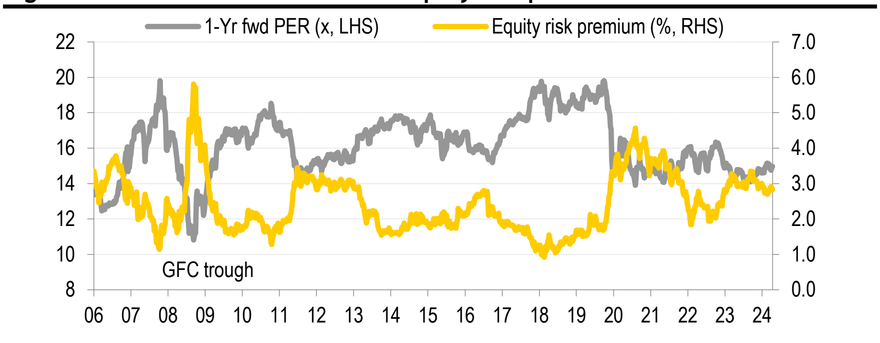
Besides subsidy rationalisation (diesel, effective 10 Jun), and wage reforms (civil service pay hike to be effective Dec 2024), rising FDI/DDI momentum provides the backdrop for more sustainable economic growth. We expect another record year in terms of approved investments in 2024 amid new commitments from tech-giants like ByteDance, Microsoft and Google. The timely launch of the National Semiconductor Strategy (NSS) on 28 May - with a fiscal commitment of MYR25b to move up the value chain from back-end processes - adds onto the longer term proposition. The NSS targets MYR500b investments in Phase 1, with DDI focusing on integrated circuit (IC) design, advanced packaging, and manufacturing equipment; and FDI focusing on wafer fabs and manufacturing equipment.

As for corporate earnings, the strong delivery in 1Q24 (+20.1% YoY) do imply that our +15.5% growth forecast for 2024E is realistic. Our forecast implies sustained sequential quarterly earnings growth YoY but at a reduced pace mainly due to the base effect.

Considering optimism still, ***we maintain our YE KLCI target of 1,680 which implies 15x 12M forward PER. Our bottom-ups calculation (from our target prices for KLCI stocks) derives 1,740 but this is a 12-month estimate.*** Besides earnings growth delivery, catalysts that could take the KLCI higher from the current levels include 1) US interest rate cuts – our Macro Research Team expects the US Fed to move in 2H24 by -50bps and a further -100bps in 2025; 2) details of the Johor-Singapore Special Economic Zone (JSSEZ) – expected in Sep 2024 - which we think will be catalytic in bringing in further FDIs and infrastructure developments especially in Johor state; and 3) the outlook of a firmer MYR - our FX Team expects the USDMYR to end the year at 4.600 (vs. 4.718 as at 30 Jun 2024).

Our cautiousness is however on the external environment. US election and in particular, a Trump 2.0 outcome, is a key risk for equities to end the year on a stronger note. Other risk factors include a "higher-for-longer" US interest rate environment, and Russia-Ukraine & Middle East instability escalating. For Malaysia, a focused Government in delivering on the reforms will be a key supporting factor.

Fig 47: KLCI's 12M forward PER vs. equity risk premium



Source: Maybank IBG Research, Bloomberg

Strategy & sector weights

We continue to recommend an equity portfolio of selective ***investment-related & domestic sectors (refer also to the Thematics section of this write-up), to be balanced with yield stocks***. Rising FDIs/DDIs momentum, RE transition, tourism recovery and overall higher economic activities will be positive for stocks in Construction (Overweight/OW), Renewable Energy (RE; OW), Aviation (OW), Gaming-Casino (OW), and selective stocks in Consumer (OW) – also the Banks (OW) in terms of loans growth and asset quality.

- We remain **Overweight (OW)** on the **Banks** as we look forward to a better 2024 – we project operating profit growth of 7.6% and net profit growth of 6.8%, as well as decent ROEs of 10.9% and dividend yields of 5.5% (average). Valuations are undemanding with the sector trading at a CY24E PER of 9.3x, which is minus 1SD (10.1x) to mean (11.7x) – significantly below KLCI's 15.7x 2024E PER. Our BUYs are **AMMB**, **CIMB**, **Alliance Bank**, **Public**, **HL Bank** and **HLFG**, in that order of preference.

- We also maintain an **OW** on **Construction**, which will benefit from rising direct investment momentum and the need for new infrastructure support. In addition, we expect the awards of several key infra projects to materialise in 2H24, which will uplift orderbooks – Mutiara LRT line, Penang International Airport expansion, Westports 2.0, Silicon Island common infra works. We remain positive on **Gamuda**, **IJM** and **CMS** being the direct beneficiaries – the latter for higher cement and construction materials uptake in Sarawak.

- As for **Consumer**, we maintain an **OW** rating premised on resilient product demand for consumer staple players (i.e. QLG, FFB, LHIB), undemanding valuation for the brewers and consumer retailers (i.e. HEIM, CAB and AEON) and a refreshed perspective from income support measures (eg. EPF Account 3 withdrawal and civil service salary hikes) to support consumer spending from 2H24. Our top BUY is **Mr D.I.Y.**

- We are still **OW** on the **Gaming** sector, and at this juncture, our preference is for the Casinos i.e. the two Gentings. A continued recovery in tourism (in Malaysia, boosted by visa-free entry for citizens from China and India effective 1 Dec 2023) are expected to bring RWG/RWS visitor arrivals at, or near to their pre-pandemic record levels. In addition, winning a downstate commercial casino license in New York City will be a re-rating catalyst for **GENM** (BUY); similarly, approval for 20%-owned TauRx's Alzheimer disease drug, hydromethylthionine mesylate or HMTM, for **GENT** (BUY).

Fig 48: Sector weights

OVERWEIGHT (OW)	NEUTRAL (NT)	UNDERWEIGHT (UW)
Aviation	Automotive	Media
Banks	Plantation	Petrochems
Construction	Ports & Shipping	
Consumer	Property	
Gaming	REITs	
Gloves	Technology (Semicon)	
Oil & Gas	Telecom	
Renewable Energy	Utilities	
Technology (Software & EMS)		

Source: Maybank IBG Research

- We maintain an **OW** on the **Glove** sector. In our view, the worst is over and the sector is poised to recover from a nearly 3-year long downturn. We anticipate glove demand to be supported by restocking activities after depleting pandemic inventory draw-down. Additionally, demand for Malaysia-made gloves is also driven by narrowing price gap between Malaysia and China glove makers. Malaysia gloves will be more price attractive in the US from 2026 where tariffs on Chinese rubber medical and surgical gloves will be hiked to 25% (from 7.5%). Unlike 1H23, M'sia glove makers have now managed to pass on most/more of the increases in raw material costs, thanks to stronger demand. We are BUYers of all the three glove makers under our coverage. Our order of preference are **Hartalega**, **Top Glove** and **Kossan**.

- Over at **Oil and Gas**, we expect Brent crude oil prices to stay elevated in 2024E as EIA has forecasted a record-high crude oil consumption of 102.99mbpd in 2024E, with expectations that the supply/demand gap to be harshly narrow at an average of 0.42mbpd (ie. supply deficit) throughout 2024. The PETRONAS Activity Outlook 2024-2026 has hinted to a sizeable capex in 2024E and it pointed a robust outlook for: i) FPSO & MOPU; ii) HUC & MCM; iii) Drilling Rigs; and iv) OSVs. With that, we maintain **OW** on the sector with an in-house Brent Oil ASP assumption of USD82/bbl for 2024E. Top BUYs are **Dialog** and **Velesto**.

- We maintain an **OW** rating on the **Renewable Energy (RE)** sector. We forecast strong sector earnings growth in CY24/25E YoY mainly from higher orderbook replenishments. We believe sector earnings would remain on an upward trajectory from higher solar capacity awarded by the Government through the NEM, CGPP and LSS5 programmes. Meanwhile, as solar panel prices remain low, demand for solar installation will continue to increase and benefit the RE players. Our key BUY is **Solarvest**.

- As for the **Technology** sector, we expect near-term challenges for back-end semicon (ATE/OSAT) but are more optimistic on its 2025 prospects. Meanwhile, growth momentum for FAS and front-end semicon is expected to continue unperturbed into 2H24. For EMS, we expect a continuation of its recovery trajectory, underpinned by utilisation and capacity improvements. We maintain our positive stance on the software sector due to snowballing digital adoption trends. We are currently **OW** on **Software and EMS**, but **Neutral (NT)** on **Semicon**. In the Software space, our top picks are **MYEG, CTOS** and **Ramssol**. For EMS, we prefer **ATech**, while for Semicon, our BUY picks are **SAM Engineering** and **Greatech**.

- Elsewhere, we are still **OW** on the **Aviation** sector. We expect CAPITALA and AAX to have a profitable 2024. At first glance, this seems obvious from today's vantage point but is highly significant when we consider the fact that both of them were incurring losses even before the COVID-19 pandemic struck due to industry overcapacity. With industry overcapacity being rationed (higher demand and lower supply growth) and all Malaysian airlines (especially Malaysia Airlines) pricing fares rationally, we expect 2024 to be the first core profitable year for CAPITALA and AAX after many years of losses.

- **Petrochems** remains an **Underweight (UW)** 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 **Petronas Chem** and **Lotte Chemical Titan**.

(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.)

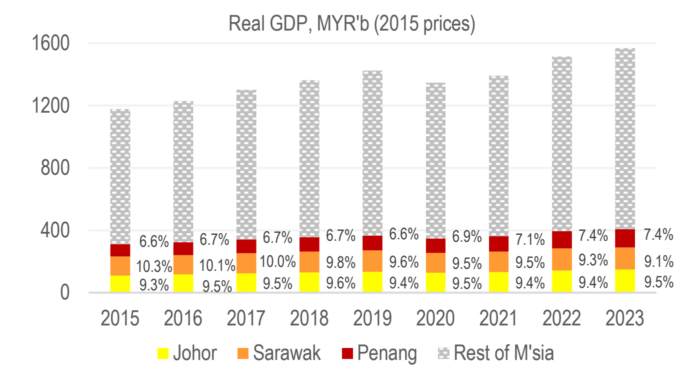
Thematics for 2H24

We revisit (and reiterate) three thematics introduced in our "*2024 Year Ahead: Rising Momentum*", *16 Dec 2023* report – "The Three Sisters – Johor (JSSEZ to be catalytic), Penang (Malaysia's high-tech powerhouse) & Sarawak (new economic POWER-house)", "Rising FDI momentum", and "Renewable Energy transition". In addition, we introduce four thematics for 2H24 – "Data centre in full swing", "Recalibration of RON95 petrol subsidy", "Civil service salary hike", and "Gan bei (cheers) to 50 years of Malaysia-China friendship".

Thematic 1: "*The Three Sisters*" - Johor, Penang, Sarawak

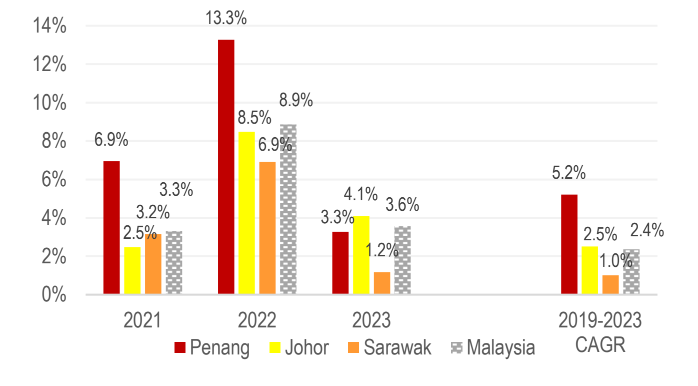
Newsflow on the 3 states were aplenty in 1H24, and we continue to see excitement ahead driven by catalytic developments and their longer-term growth proposition. The 3 states of Johor, Sarawak and Penang contributed 25.9% to Malaysia's real GDP in 2023 (Johor: 9.5%, Sarawak: 9.1%, Penang: 7.4%), according to latest data released in Jun 2024. In terms of growth, Johor's real GDP growth of +4.1% in 2023 surpassed that of the country (+3.6%), and the other states (Penang: +3.3%; Sarawak: +1.3%), while compared to pre-pandemic (2019), Penang's real GDP CAGR (2019-23) has been the fastest at +5.2% due to recovery of its large manufacturing base (esp. E&E) – followed by Johor (CAGR +2.5%) and Sarawak (CAGR +1.2%) (vs. the country's +2.4%). Economic cluster plans under the NIMP2030 will further help raise industrialisation and economic activities in these 3 states.

Fig 49: States' real GDP & as % of Malaysia



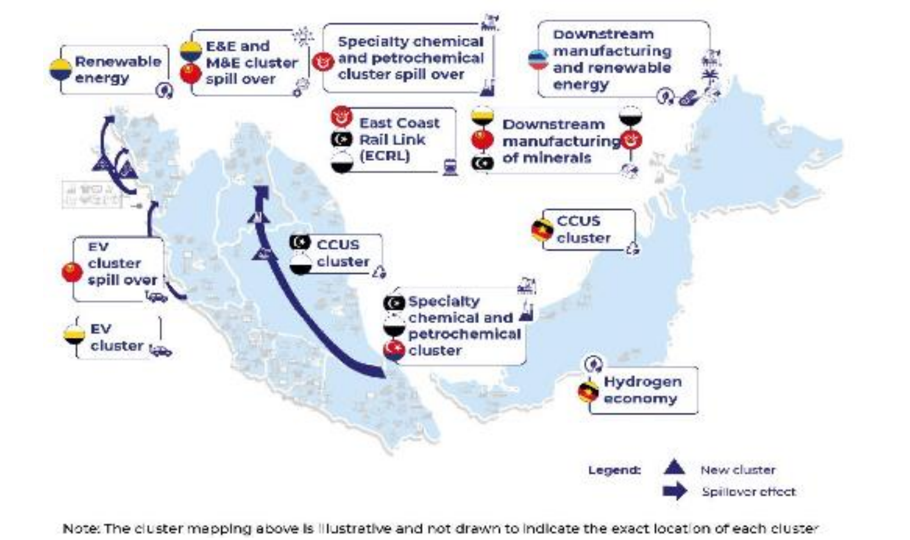
Source: DOSM, Maybank IBG Research (chart)

Fig 50: States' real GDP growth – annual & CAGR



Source: DOSM, Maybank IBG Research (chart)

Fig 51: Economic clusters in Malaysia under NIMP2030



Source: NIMP2030 blueprint

Johor – JSSEZ to be catalytic on many fronts

Both Malaysia and Singapore Governments inked the MoU to work on the Johor-Singapore Special Economic Zone (JSSEZ) on 11 Jan 2024. Following the MoU, both Governments will work towards a full-fledged agreement, with a deal expected to be reached in Sep 2024 [link]. Since then, Johor has proposed the Iskandar Malaysia (IM) and Pengerang regions (involving 6 local councils – Johor Bahru [JB], Iskandar Puteri, Pasir Gudang, Kulai, Pontian, Pengerang) as the location for the JSSEZ [link]. Johor is also proposing an elevated Automated Rapid Transit (ART) system for southern Johor / Johor Bahru costing almost MYR7b - over an earlier proposal for a Light Rail Transit (LRT) - to complement the Rapid Transit System (RTS) Link to Singapore which is expected to start operations in Jan 2027 [link].

The JSSEZ will sharpen Johor's longer-term prospects, in our view. Potential beneficiaries of higher economic activities and infrastructure needs in Johor are many.

- **Identifying potential beneficiaries**

The **Construction** sector stands to gain from new demand for industrial and commercial buildings, and supporting infrastructure in Johor - contractors with an established presence in Johor are **Sunway Construction (SCGB MK, SELL)**, **Ekovest (EKO MK, Not Rated)**, and **YTL Corp (YTL MK, Not Rated)**, among others. **IJM (IJM MK, BUY)** is the main contractor for the JB-SG RTS' Johor ICQ Complex, now under construction. Based on its existing involvement in Kuching's KUTS Rembus Depot project, it is likely to vie for Johor's ART project when the works are available.

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. Developers with a presence in Johor (esp. in Iskandar Malaysia) are **SP Setia (SPSB MK, BUY)**, **Eco World (ECW MK, BUY)** and **UEM Sunrise (UEMS MK, SELL)**. **Iskandar Waterfront City (IWC MK, Not Rated)** is also a likely beneficiary for its vast landbank in Johor. In addition, other land owners like **Genting Plantations (GENP MK, BUY)** have ongoing property projects in Johor. Others property PLCs with a presence in Johor are **Sunway (SWB MK, HOLD), IOI Properties (IOIPG MK, Not Rated), AME Elite (AME MK, Not Rated), Scientex (SCI MK, Not Rated), Lagenda Properties (LAGENDA MK, Not Rated)**, **Kimlun (KICB MK, Not Rated), KSL (KSL MK, Not Rated)** and **Haily Group (HAILY MK, Not Rated)**.

We also view **ITMAX (ITMAX MK, BUY)** as a direct beneficiary of higher economic activities in Johor. ITMAX has recently secured its maiden award for smart parking operations in Bandar Iskandar Puteri, thus creating a new revenue vertical for the group (*"Smart parking venture takes off", 5 Jun 2024*). We are positive on further contracts especially in all four district councils that ITMAX has existing CCTV contracts. ITMAX has, so far, secured contracts totaling MYR373m for deployment of CCTVs and traffic controllers in four out of the six Johor districts that will likely make up the JSSEZ.

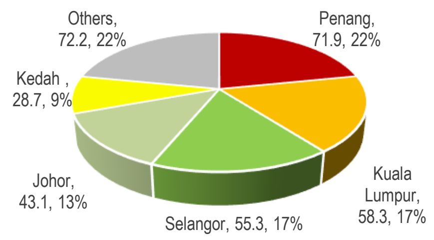
(Please refer to our report, "JSSEZ - Causeway to Opportunities", 16 Apr 2024 for a longer list of potential beneficiaries. Also our report, "JSSEZ - What's Special and Different", 10 May 2024 where we have highlighted why the JSSEZ is different and how it could spur the flow of trade, labour, investments and energy).

Penang – Malaysia's high-tech powerhouse

Penang has been among the top FDI recipients in Malaysia - in 2023, it ranked no.1 with MYR71.9b of approved investments, or 21.8% of the MYR329.5b approved investments in Malaysia. Of the MYR71.9b, MYR63.4b was in manufacturing (+463% YoY) or 41.7% of Malaysia's total approved investments in manufacturing (of MYR152b). And of the MYR63.4b, the E&E sector contributed MYR54.7b or 86%. Speaking at our Invest ASEAN 2024 Conference on 10 Jun 2024, Penang's Chief Minister reiterated the state government's commitment to making Penang one of the global hubs in high-tech industry by continuing to focus on developing the supply chain for front-end manufacturing equipment, encouraging R&D and D&D, and nurturing more homegrown companies to penetrate the global supply chain.

New infrastructure support for higher level of economic activities in Penang are underway. Construction for the Penang International Airport expansion - to raise its terminal handling capacity to 12mppa (from 6.5mppa) - will start this year; similarly for the Mutiara LRT line (previously known as "Bayan Lepas LRT") as the track alignment has been finalised – very similar to the original - leading the project to enter the open tender stage [link]. Silicon Island reclamation is going full-scale - 25-30 acres have since been reclaimed (depending on the tide), of total 1,260 acres under Phase 1. Meanwhile, the State Government has proposed an 18km, MYR1.8b Juru-Sg Dua elevated highway to ease traffic congestion [link].

Fig 52: Approved investments in M'sia, 2023 (MYR329.5b) – by states



Source: MIDA

▪ Identifying potential beneficiaries

In the **Construction** space, **Gamuda (GAM MK, BUY), IJM (IJM MK, BUY)** and **Sunway Construction (SCGB MK, SELL)** are among those vying for a role in the Mutiara LRT works. This LRT project is expected to cost MYR10b-MYR13b over 3 work packages: 2 civil and 1 system. The first civil work package from Silicon Island to Komtar has been awarded to Gamuda's 60%-owned SRS Consortium, as they are the appointed project delivery partner (PDP) after a tender exercise in 2018. The 2nd civil (Komtar to Penang Sentral on the mainland) and system work packages will be tendered out. Mutiara LRT line ought to have its construction completed by 2029 and be operational by 2030.

For Penang's **Property** market, the Mutiara LRT project will be an immediate game changer, in our view. Based on the original LRT track alignment and station stops, 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, Not Rated)** is a beneficiary with the LRT track to be extended to Penang mainland to end at Penang Sentral; **E&O (EAST MK, Not Rated)** too, if the alignment extends to Tj Bungah. A future phase of the LRT network – to Simpang Ampat on Penang mainland – could benefit **Tambun Indah (TILB MK, BUY)**.

LRT aside, **E&O (EAST MK, Not Rated)** is well positioned to capitalize on the boom in direct investments and infrastructure in Penang being the largest listed landowner on Penang island. **Ivory Properties (IVORY MK, Not Rated)** is also a known property developer based in Penang.

(Please refer to our research report, "Penang: Malaysia's High-Tech Powerhouse", 14 Jun 2024 for more details, which captured conversations from our Invest ASEAN 2024 Conference in Penang).

Fig 53: Penang Transport Master Plan, which features the original Mutiara LRT alignment (in 2020)

Source: Penang Infrastructure Corp

Fig 54: Silicon Island's layout plans

Source: Silicon Island Development

Sarawak – new economic POWER-house

A key development in 1H24 was the appointment of state-owned company, Petroleum Sarawak Bhd (Petros) in Feb 2024 as Sarawak's sole gas aggregator. Petros will take over from PETRONAS the buying and selling of natural gas produced in the state from 1 Jul 2024 (with a 6-month transition period) [link], effectively giving Sarawak full control over the distribution of gas resources in the state, in-line with Sarawak's 10-year Gas Roadmap which aims to use natural gas to power industrialisation and development in the state via a hub-and-spoke approach - to four strategic hubs ie. Kuching, Bintulu, Samalaju and Miri – for the petrochemical (in Bintulu), heavy (in Samalaju) and light industries, and the power sector [link].

Elsewhere, after taking on 4.8% equity holding in **Affin Bank (ABANK MK, Not Rated)** in 2023, the Sarawak state is poised to take on a larger stake, which could make Affin Bank a dominant bank in Malaysia. Affin Bank's largest shareholder (as at 29 Feb 2024) is Lembaga Tabung Angkatan Tentera (28.8%), followed by The Bank of East Asia Limited (23.9%) and Boustead Holdings (20%). The press reported that the intention is for a 30% stake by the Sarawak state. A larger stake in a banking group should help mobilise more financing to industrialise and develop the state over the longer term. Elsewhere, the take-over of Bintulu Port Authority by the Sarawak state from the federal government is still ongoing – the take-over is pursued under the Malaysia Agreement 1963.

In addition, Sarawak remains committed to its hydrogen economy aspiration – the state is poised to be a commercial hydrogen producer by 2027, according to its Premier. 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 back 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. We understand that these MoUs are still effective.

In terms of infrastructure, construction of the Sarawak-Sabah Link Road Phase 2 (320km) worth MYR7.4b is targeted to start in 2024 (as per 2024 Budget Speech). Tender for Kuching's Blue Line Package 2 (from Stutong to Hikmah Exchange) under the Kuching Urban Transportation System (KUTS) project has just closed on 18 Jun.

▪ Identifying potential beneficiaries

Sarawak, in our view, offers substantial and multi-year order book replenishment potential for the **Construction** sector. Here, we prefer players 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 supplier. Other Sarawak construction players and non-construction based players (but with a construction arm) are **KKB Engineering (KKB MK, Not Rated), Sarawak Consolidated (SCIB MK, Not Rated), Naim Holdings (NHB, Not Rated), Ibraco (IBRA MK, Not Rated),** and **Pansar (PNSR MK, Not Rated)**. Ibraco had, in Nov 2023, together with its JV partners, China Railway Engineering Corp and Nanyang Tunnel Engineering, won the tender for infrastructure works for the KUTS Blue Line Package 1 (Rembus to Stutong). Peninsular-based **IJM (IJM MK, BUY)** won the tender for the KUTS Rembus Depot in Dec 2024.

Apart from this, the other Sarawak-based PLCs that would gain from higher economic activities in the state are **Bintulu Port (BPH MK, Not Rated), Sarawak Cable (SRCB MK, Not Rated), Shin Yang Group (SYGROUP MK, Not Rated),** and **Harbour-Link Group (HALG MK, Not Rated).** The other Sarawak-based PLCs are **Dayang Enterprise (DEHB MK, Not Rated), Subur Tiasa (STH MK, Not Rated), Sarawak Oil Palms (SOP MK, BUY), Ta Ann (TAH MK, BUY)** and **Sarawak Plantation (SLPB MK, Not Rated)**, but their operations are commodity centric.

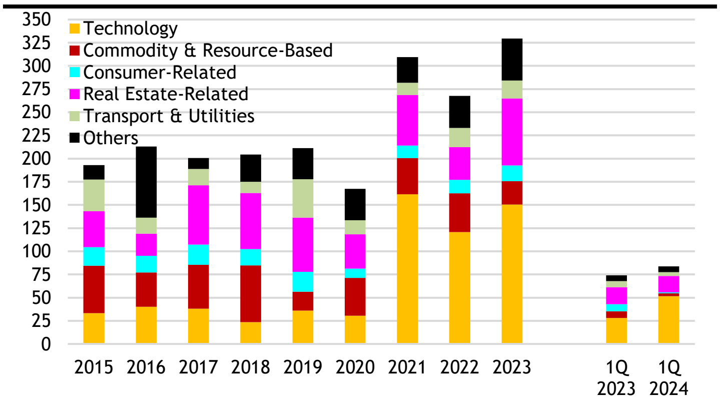
Thematic 2: Rising FDI momentum

2023 was a record year in terms of approved investments for Malaysia – MYR329.5b, a 23% increase over the previous year – with FDIs accounting for 57% (or MYR188.4b) and DDIs 43% (or MYR141.1b). US-China trade tension has obviously led to supply chain reconfiguration especially in semiconductor and electric vehicle manufacturing, leading to relocation of operations, with Malaysia being a beneficiary. The upward momentum continued into 1Q24, with MYR83.7b of investments approved (+13% YoY) comprising 56% FDIs (MYR47b; +24% YoY) and 44% DDIs (MYR36.7b; +1.6% YoY). Of the MYR83.7b approved investments in 1Q24, MYR43b (or 51%) were in manufacturing sector, of which MYR34.3b were in E&E.

Digital investments are also gaining momentum with MYR144.7b approved from 2021 to 2023, of which MYR114.7b (or 79%) were for data centres and cloud service infrastructure. Microsoft's USD2.2b investment pledge over the next 4 years in cloud and AI infrastructure (announced on 2 May) and Google's USD2.2b investment (announced on 30 May) which includes a data center and a cloud facility are set to transform Malaysia into a leading digital hub. Driven by the potential of AI and geopolitics, Malaysia has been a major investment destination for new data centres with some 1,146MW of known proposed new data centre capacity [link].

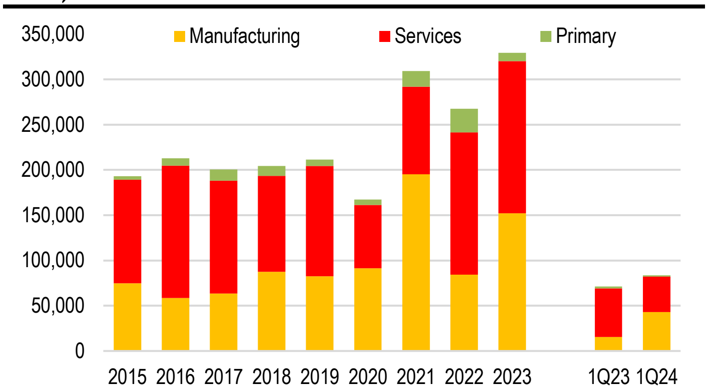
For the semiconductor industry, NIMP2030 has identified Integrated Circuit (IC) design as a potential growth area and targets to create five globally competitive local IC design companies. Malaysia's rise in the back-end of the semiconductor chain has made it conducive to pursue high-value front-end work. The National Semiconductor Strategy (launched on 28 May 2024) targets at least MYR500b investments in Phase 1 and to develop Malaysia as a global R&D hub for semiconductors, amid a fiscal pledge of MYR25b [link].

Fig 55: Approved investment in Malaysia (MYR b) – record high in 2023



Source: MIDA, CEIC, Maybank IBG Economics Research (chart)

Fig 56: Approved investments - MYR83.7b in 1Q24 (+13% YoY)



Source: MIDA, CEIC, Maybank IBG Economics Research (chart)

Fig 57: National Semiconductor Strategy (NSS)

Three phases

Phase 1 – Building on Foundations
Phase 2 – Moving to the Frontier
Phase 3 – Innovating at the Frontier

Five headline targets

1) In Phase 1, to court at least MYR500b investments
2) By Phase 2, to establish at least 10 M'sian companies in design and advanced packaging with revenues of MYR1b-MYR4.7b, and at least 100 semiconductor-related companies with revenues close to MYR1b
3) Malaysia as a global R&D hub for semicon
4) Train & upskill 60,000 high-skilled Malaysian engineers
5) At least MYR50b fiscal support to operationlise the NSS

Source: Prime Minister's Office

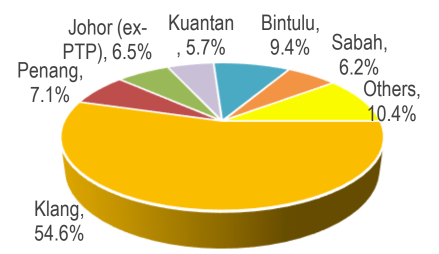
- **Identifying potential beneficiaries**

The initial beneficiaries of rising FDIs/DDIs momentum are **Construction** players whom have built, or are building up expertise in specialised industrial building offerings including the more M&E centric data centre type of works - **Gamuda (GAM MK, BUY), IJM (IJM MK, BUY),** and **Sunway Construction (SCGB MK, SELL).** In 1H24, SCGB and Gamuda have secured MYR2.2b and MYR2b of data centre projects each, while IJM has clinched MYR1.3b new jobs to build a logistics hub, a semiconductor manufacturing facility, and a data centre. Gamuda and IJM will utilise their IBS solutions - Next Gen Digital IBS for Gamuda and SMART IBS for IJM - to accelerate the construction progress. In addition, IJM's spun pile operations are benefiting from the direct investment uprise, supplying 25% to data centres, logistics warehouses and E&E manufacturing projects in FY24 (FYE Mar).

Realisation of recently approved investments and higher manufacturing activities ahead will be positive for the **Port Operators** too. Already, we are seeing higher gateway volume at Westports, which grew to 45% of total container volume in 1Q24, compared to c.33% historically – gateway volume was up +16% YoY in 1Q24. Over at Kuantan Port, throughput growth was also a robust +15% YoY in FY24 (FYE Mar) and the port's pretax profit in FY24 was a record high. Bintulu Port's 1Q24 revenue rose 9% YoY – from LNG and bulk fertiliser - while Samalaju Industrial Port's revenue jumped 22% YoY. A direct exposure to the port operators would be via **Westports (WPRTS MK, BUY), Bintulu Port (BPH MK, Not Rated), Suria Capital (SURIA MK, Not Rated)** and indirectly via **IJM (IJM MK, BUY - for Kuantan Port).** In addition, **Straits Energy Resources (STRA MK, Not Rated)** provides bunkering services at the major ports in Malaysia.

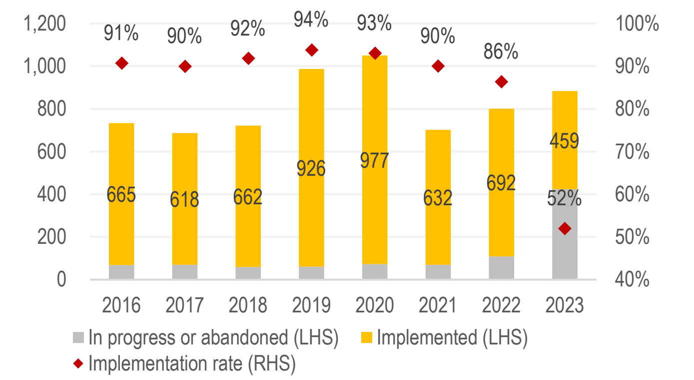
The **Ground Logistics** players should also gain from higher investment momentum over the long run, but competition in this segment is stiff. That said, **Swift Haulage (SWIFT MK, HOLD)** is worth monitoring. The other logistics players are **Tiong Nam Logistics (TNL MK, Not Rated), Tasco (TASCO MK, Not Rated), GDEX (GDX MK, Not Rated)** and **Sin-Kung Logistics (SINKUNG MK, Not Rated).**

Fig 58: Gateway volume market share at Malaysia ports, 2023



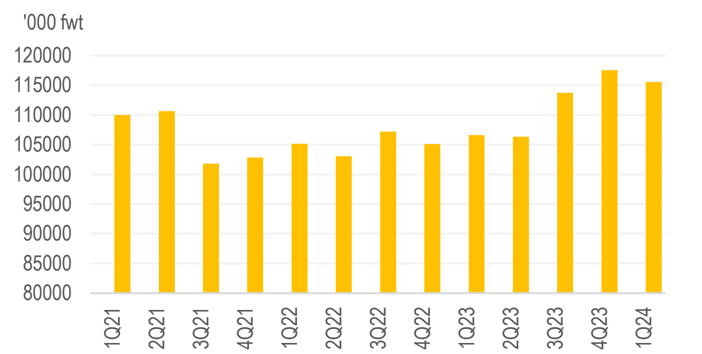
Source: Ministry of Transport, Maybank IBG Research (chart)

Fig 59: Implementation status in the manufacturing sector for projects approved from 2016-2023 - by no. of projects



Note: Implemented as at 28 Feb 2024; Source: Malaysian Industrial Development Authority (MIDA), Maybank IBG Research (chart)

Fig 60: Gateway (import-export) volume at Malaysia ports



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

Thematic 3: Data centre in full swing

Malaysia has experienced a boom in data centres in recent years. Prior to 2020, data centres in Malaysia were of smaller power loads (typically <10MW), focusing mainly on co-location, and geographically concentrated in Cyberjaya. There were also pockets of development in the Klang Valley and Nusajaya, Johor. After 2020, Malaysia started attracting more high-powered hyperscale data centres, with Sedenak in Johor emerging as a major hub. Pipeline-wise, Tenaga estimates energy demand attributable to data centres to grow from c.635MW at end-2023, to >5,000MW in 2035, representing a CAGR of >18%.

Fig 61: Selected hyperscale data centres (current and pipeline)

Entity	Location	State	Power (MW)	Commission Year
Bridge	Sedenak	Johor	110	2022
GDS	Nusajaya	Johor	70	2023
SIPP YTL	Kulai	Johor	500	2024
Airtrunk	Nusajaya	Johor	150	2024
Yondr	Sedenak	Johor	300	2024
K2 Strategic	Sedenak	Johor	200	2024
Princeton Digital Group	Sedenak	Johor	150	2024
DC-Science	Sedenak	Johor	120	2024
ST Telemedia	Nusajaya	Johor	120	2025
Bridge	Bukit Jalil	Klang Valley	48	2025
Vantage	Cyberjaya	Klang Valley	256	2025
edgeconnex	Bukit Jalil	Klang Valley	70	2026
edgeconnex	Cyberjaya	Klang Valley	200	2026
TM-Nxera	Nusajaya	Johor	200	2026
Google	Elmina Biz Park	Selangor	80	2026
Total			**2,574**	

Note: Excludes:
1) *Microsoft's USD2.2b investment pledge in cloud and AI infrastructure (announced on 2 May 2024), pending details;*
2) *ByteDance's planned expansion its data centre facilities in Sedenak, Johor with an additional investment of MYR1.5b [link].*

Source: Maybank IBG Research

- ### Identifying potential beneficiaries

The rise of data centre creates monetization opportunities for **land owners**. The initial beneficiaries were government-affiliated landowners - Cyberview for Cyberjaya, UEM Group (Khazanah) for Nusajaya, and Johor Corp for Sedenak. In recent years, data centre developers have started moving outside traditional hubs, by purchasing land from private property players. Public-listed companies that have sold land to develop data centres include **Eco World (ECW MK BUY), Crescendo (CCDO MK, Not Rated), UEM Sunrise (UEMS MK, SELL), Sunway (SWB MK, HOLD), AME Elite (AME MK, Not Rated)** and **Boustead Plantation (Not Listed),** among others. The likes of **Mah Sing (MSGB MK, Not Rated)** and **Sime Property (SDPR MK, BUY)** have diversified into data centre ownership by taking on equity stakes in their respective data centre entities (in partnership with the land buyer).

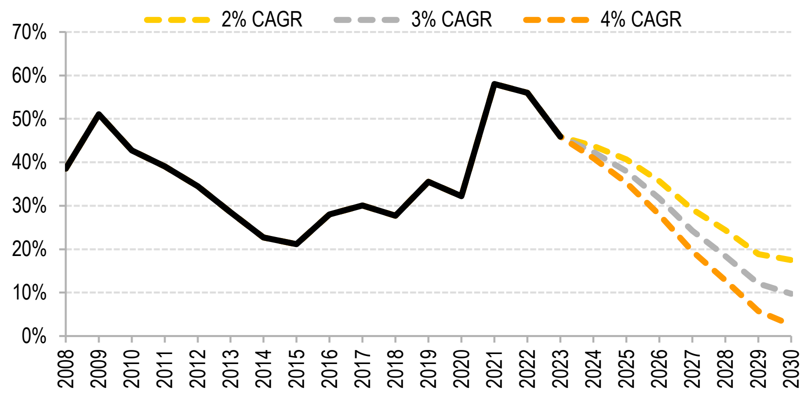
Costing MYR30-50m/MW, construction of data centres (particularly those of large power loads catering to hyperscalers) are potentially sizable jobs for contractors. Listed **Construction** names that have engaged in data centre jobs include majors such as **Sunway Construction (SCGB MK, SELL), Gamuda (GAM MK, BUY)** and **IJM (IJM MK, BUY).** Listed companies involved in specialized M&E works that have participated in data centre jobs are **MN Holdings (MNHLDG MK, Not Rated), AWC (AWCF MK, Not Rated)** and **Powerwell (PWRWELL MK, Not Rated)**, with many others currently tendering for data centre-related jobs.

On the connectivity front, fixed-line **Telcos** **TM (T MK, BUY)** and **TIME dotCom (TDC MK, HOLD)** to some extent, are the main owners of on-land fibre and offshore submarine cable systems in Malaysia, and thus are beneficiaries of the data centre boom. Conceptually, the higher traffic brought about by hyperscale data centres should result in an accretion in telcos' wholesale revenue. Quantifying the amount however is a challenge given limited disclosure (wholesale terms are inherently customizable and confidential).

With data centres being defined by its power load, the **Power** sector also features prominently under this thematic. Higher electricity demand has already started to manifest, with Peninsular Malaysia's electricity demand growing 9.6% YoY (generation was up 10.0% YoY) in 1Q24. We however note that under the prevailing regulatory framework (Tenaga's IBR model, IPPs' PPA terms), ***Malaysia's power sector is largely insulated from demand risk, and thus does not materially benefit from demand upside***.

The growth rate of data centres is inevitably constrained by the nation's generation capacity. Peninsular Malaysia's reserve margin is still ample presently (c.45% at end-2023 including solar, c.30% without), but could fall in the coming years due to ongoing peak demand growth and PPA expiries. To facilitate the planned growth of new data centres, we believe the regulator would need to contemplate either extending expiring PPAs, or look to build new capacity (likely base-load gas plants). This bodes well for generation players such as **Tenaga (TNB MK, HOLD)** and **Malakoff (MLK MK, SELL),** in our view. New power plants also create EPCC opportunities for contractors.

Fig 62: Peninsular Malaysia's reserve margin (electricity)



Source: Energy Commission, Maybank IBG Research

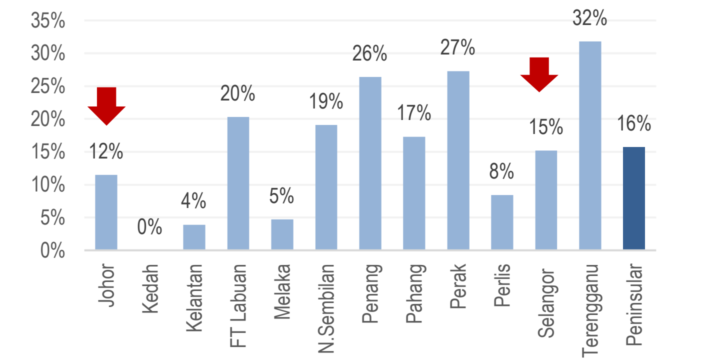
The customers of hyperscale data centres are typically the international tech names with their own ESG aspirations to achieve. Hence longer term, we believe these renowned companies would eventually begin pushing for a higher proportion of **renewable energy (RE)** supply to their respective data centres. This could result in another round of land procurement for solar farm development. Landowners such as **Plantation** companies, and **Renewable Energy (RE)** names (both project owners and EPCC) could potentially benefit. In particular, **SD Guthrie (SDG MK, BUY)** has made known its intention to leverage onto its ~341,000 ha of plantation land in Malaysia, as it ventures into RE (namely large-scale solar) and industrial parks. Elsewhere, supporting policies such as the Third-Party Access (TPA) for electricity are now being developed, and could be announced in the coming years.

Apart from power, data centres are also major consumer of **Water**, primarily for cooling purposes. That said, we take note that the need may not be wholesale for treated water - and the water could be recycled. In respect of treated water, reserve margin in the two states which have seen the proliferation of hyperscale data centres - Johor and Selangor - was 12% and 15% respectively in 2022, per Suruhanjaya Perkhidmatan Air Negara's (SPAN) data. For now, we think that their water reserve margins should be sufficient to cater to rising demand over the next 3-5 years. That said, a continuous rise in direct investments overall (apart from data centres) may necessitate the need to bring forward the planning and construction of new raw water intake, water treatment plants (WTP) and other supporting distribution infrastructure.

Johor has 3 larger water treatment plant (WTP) projects in the plan totaling 1,200 MLD in capacity - Sg Sedili Besar Kota Tinggi (600 MLD, estd. completion 2030), Semanggar (300 MLD; 2030), Sg Johor (300 MLD; 2030) which would add 56% to its total capacity of 2,133 MLD in 2022. In Selangor, the Sg Rasau WTP (700 MLD, estd. Jun 2025 completion) is now under construction (awarded to Gamuda in Jul 2022); it would add 11% to Selangor's capacity of 6,035 MLD in 2022. Meanwhile, Langat 2 Phase 2 WTP (1,100 MLD; 2030) would add another 18% in capacity.

Here, beneficiaries of new water infrastructure would be the construction players especially those with track records. Larger water infra project completed by **Gamuda (GAM MK, BUY)** was the SSP3 water supply scheme (Sg Selangor dam and 1,050 MLD WTP), while **IJM (IJM MK, BUY)** was involved in the Pahang-Selangor raw water transfer project.

Fig 63: Water reserve margin, 2022



Source: SPAN, Maybank IBG Research (chart)

Fig 64: WTP design capacity & water production in Johor & Selangor

	2018	2019	2020	2021	2022
WTP design capacity (MLD)					
Johor	2,026	2,026	2,098	2,133	2,133
Selangor	4,706	4,706	6,036	6,036	6,035
Water production (MLD)					
Johor	1,757	1,888	1,831	1,848	1,837
Selangor	4,856	4,932	4,967	4,985	5,116

Source: SPAN

Meanwhile, other listed companies which could benefit from the rise of data centre are **Jati Tinggi (JTGROUP MK, Not Rated)** - underground utilities engineering services; **HE Group (HEGROUP MK, Not Rated)** - power distribution system; **Critical Holdings (CHB MK, Not Rated)** - mechanical, electrical and process utilities solutions; and **Cloudpoint Technology (CLOUDPT MK, Not Rated)** - IT solutions in enterprise, data centre networking, cybersecurity, cloud services.

Thematic 4: Renewable Energy transition

Renewable Energy (RE) transition is a multi-year theme, we have highlighted earlier. The country's 70% RE capacity target by 2050 outlined in the National Energy Transition Roadmap (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.

There has been continuous progress since. On 1 April this year, LSS5 totaling 2GW in capacity was opened for competitive bidding, with 3 out of 4 packages for rooftop or ground mounted solar projects (with an aggregate quota of 1,500MW) and the 4th package for floating solar projects (500MW). All LSS5 projects are scheduled to start operations by 2026. Subsequently in mid-April, the Energy Exchange Malaysia (Enegem) platform was set up to facilitate cross-border trading of RE – we view this development positively given that RE export is potentially a new revenue source and capacity growth driver for the RE industry.

With the "data centres" thematic remaining high on investors' interest in 2024 YTD, we believe that the ***RE theme will come back into play (like it did in 2023)*** especially as an alternative and greener way to supply power to these data centres. Also, RE offers a green alternative to direct investments especially in E&E manufacturing, in-line with MNCs' net-zero agenda.

- ### Identifying potential beneficiaries

We have earlier 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, HOLD), Sunview (SUNVIEW MK, Not Rated), Pekat (PEKAT MK, Not Rated)** and **Samaiden (SAMAIDEN MK, Not Rated)** and construction-based EPCC players like **Sunway Construction (SCGB MK, SELL)** which is completing two LSS4 projects in Gopeng and Klang, **Nestcon (NESTCON MK, Not Rated), Reservoir Link (RLEB MK, Not Rated)** and **Advancecon (ADVC MK, Not Rated)**;

2) Solar and waste-to-energy asset owners like **Solarvest** (50MW of LSS4 assets + 90MW CGPP), **Cypark** (90MW of LSS2 & 3 assets + 20MW of WTE plant), **Uzma (UZMA MK, Not Rated;** 12MW of CGPP), **Mega First (MFCB MK, HOLD;** 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.

We have since added on a 4th category of likely beneficiaries:

4) Plantation players with suitably located landbank for LSS farms. We view **SD Guthrie (SDG MK, BUY), KL Kepong (KLK MK, HOLD), IOI (IOI MK, HOLD), Genting Plant (GENP MK, HOLD), TH Plant (THP MK, SELL)** and **United Plant (UPL MK, Not Rated)** as potential beneficiaries given their estate locations. So far, only **SD Guthrie** has made public its RE ambition with a 1GW capacity target (*see our report, "MY Plantation: The magnifying power of solar is a game changer for earnings", 3 Jun 2024*).

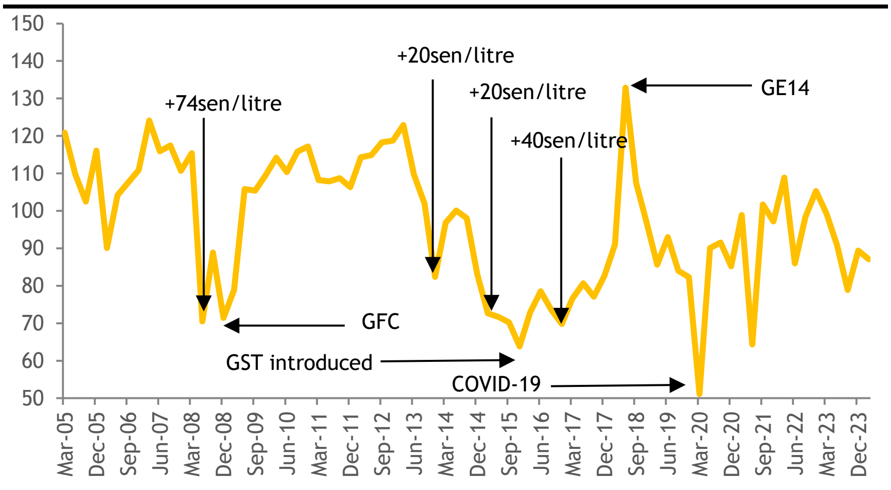
Specifically on LSS5, **Citaglobal (CITAGLB MK, Not Rated)**, which signed a Joint Development Framework Agreement with MASDAR (of Abu Dhabi) in Dec 2023 to develop up to 2GW of RE (solar) projects (e.USD2b) in Pahang state could be vying for the LSS5 Package 4 for floating solar projects. In addition, Citaglobal, in a 50:50 JV with **Genetec Technology (GENE MK, Not Rated)** which developed Malaysia's first locally produced Battery Energy Storage System (BESS) called "MYBESS" is looking to scale up on their offering for BESS technology solutions. As of end-May 2024, MYBESS's mgmt guided that it had tendered for contracts worth c.700MWh. We estimate there is c.1.5GWh of domestic capacity available for tender in CY24.

Thematic 5: Recalibration of RON95 petrol subsidy

With the rollout of targeted diesel subsidy rationalisation wef 10 Jun this year, the recalibration of RON95 petrol subsidy will be next, in our view. The big question is when. We expect the lower-income groups/households to receive cash offset to mitigate the inflationary/cost of living impact. The income eligibility criteria is likely to be the same as that under "Budi Individu" for targeted diesel subsidy i.e. annual income of MYR100,000 and below, and to be based on the information from the Central Database Hub (PADU). The current subsidised price of RON95 is MYR2.05/litre. In a simulation conducted by our Macro Research Team, to achieve a savings in the government's subsidy bill of MYR4.1b in 2H24 (calculated from Budget 2024's target to cut spending on "Subsidies and Social Assistance" by MYR11.5b, less estimated savings from subsidy rationalisation implemented so far of MYR7.4b), RON95 petrol price needs to be raised by 32sen/litre (+15.6%) if implemented from 1 Jul, and 65sen/liter (+31.7%) if implemented from 1 Oct.

It goes without saying that RON95 petrol prices have fluctuated over the years depending on crude oil price and refining margins. Having said that, we notice that it always had a ***substantial negative impact on consumer sentiment*** whenever it was increased markedly. This occurred in mid-2008 when RON92 petrol price was hiked +74sen/litre on 5 Jun 2008 (RON95 was introduced in Sep 2009), in late-2013 when RON95 petrol price rose +20sen/litre on 1 Sep 2013, in late-2014 when the RON95 price was again increased by +20sen/litre on 1 Oct 2014, and in early-2017 when RON95 price was hiked by a total +40sen/litre (1 Jan 2017: +20sen/litre; 1 Feb 2017: +20sen/litre). It follows that a larger fuel bill will reduce disposable incomes and lead to less spending, especially discretionary ones.

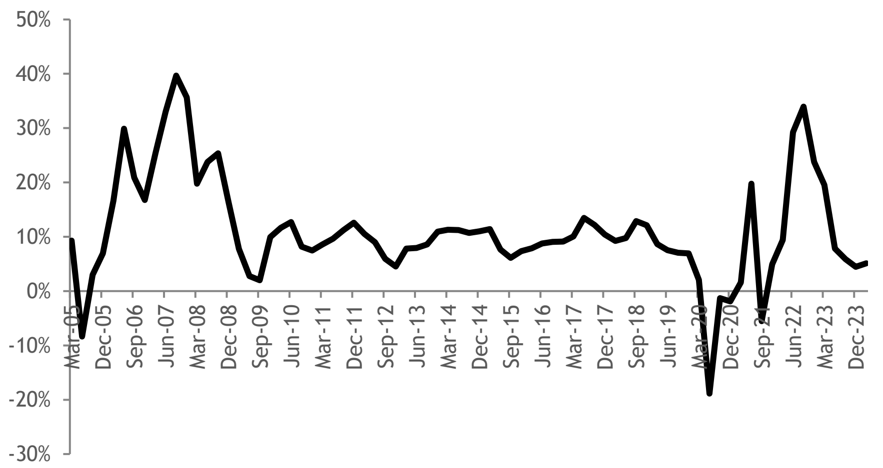
Fig 65: Consumer sentiment index vs. substantial RON95 price hikes



Source: Malaysian Institute Of Economic Research

To be sure, weaker consumer sentiment did not necessarily lead to lower **retail sales**. In all of the 4 aforementioned instances of RON92/95 price hikes, total retail sales growth decelerated but remained in positive territory. Over the last 20 years, there were only 3 instances where total retail sales contracted YoY, the most notable in recent years being in 2Q20 due to the onset of the COVID-19 pandemic bringing about the first Movement Control Order, and in 3Q21 due to the much more fatal Delta wave of the COVID-19 pandemic bringing about the Full Movement Control Order. We reckon that poor consumer sentiment or not, Malaysians continued to purchase consumer staples but likely rationed purchasing consumer discretionaries.

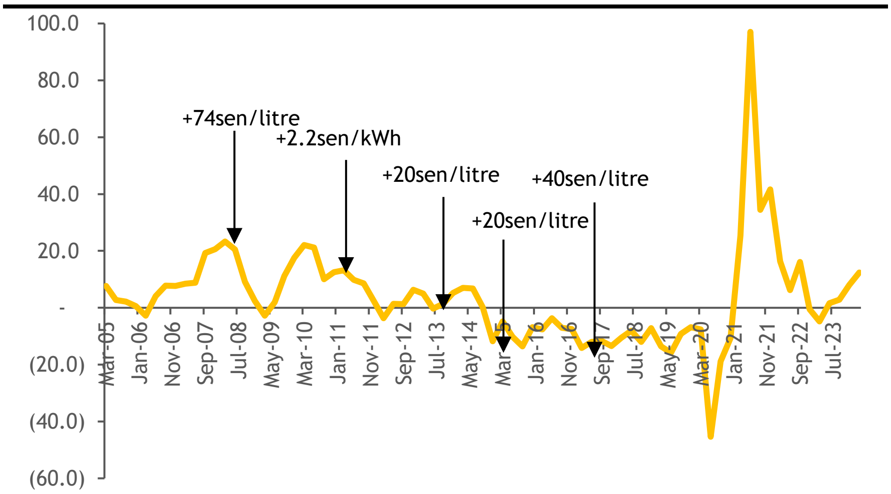
Fig 66: Total retail sales chg YoY



Source: Department Of Statistics

The above notwithstanding, we observe that weaker consumer sentiment almost always led to ***weaker adex sentiment***. In fact, we note that a 7% hike in electricity tariff to 33.5sen/kWh in Jun 2011 also led to weaker adex sentiment. We gather that advertisers themselves consider adex as discretionary and will ration them when consumer sentiment weakens. Going back to our earlier analysis on the Government needing to raise RON95 petrol price between +32sen/litre and +65sen/litre sometime this year in order to achieve Budget 2024's target of reducing budget deficit by 0.7 ppts to 4.3% of GDP this year (2023: -5.0% of GDP), we fear that this will have a negative impact on the already weak consumer sentiment, retail sales and more poignantly, adex sentiment.

Fig 67: Total gross adex chg YoY



Source: Nielsen Media Research

- ### Posit 5 potential losers and 5 potential winners

From the potential rationalisation of RON95 subsidies, our posited 5 potential losers are **Petronas Dagangan (PETD MK, Not Rated)** on lower sales volumes with retail fuel price rise, **Media Prima (MPR MK, HOLD)** on weaker adex sentiment, **Astro Malaysia (ASTRO MK, SELL)** on weaker TV subscription revenue and adex sentiment and brewers, **Heineken Malaysia (HEIM MK, BUY)** and **Carlsberg Brewery Malaysia (CAB MK, BUY)** on less disposable income to be spent on discretionary alcoholic beverages.

Our posited 5 potential winners are **Mr DIY Group (M) (MRDIY MK, BUY)**, **Padini Holdings (PAD MK, HOLD)** and **AEON Co (M) (AEON MK, BUY)** as those with less disposable incomes will be more likely to consider 'downtrading' coupled with pawnbrokers, **Pappajack (PPJACK MK, Not Rated)** and **Evergreen Max Cash Capital (EMCC MK, Not Rated)** as those with less disposable incomes may pawn their valuables to make ends meet.

Going back to Mr DIY, Padini and AEON, we notice that 1) same store sales growth (SSSG) for Mr DIY has been resilient to weak consumer sentiment; 2) SSSG for Padini appears counter to consumer sentiment (SSSG rose in FY16, FY17 and FY19 when consumer sentiment was weak but eased in FY18 when consumer sentiment was strong; SSSG however fell in FY20 and FY21 due to the Movement Control Orders); and 3) SSSG for AEON Co. (M) has been resilient to weak consumer sentiment (SSSG fell in FY20 and FY21 due to the Movement Control Orders).

Fig 68: Same store sales growth

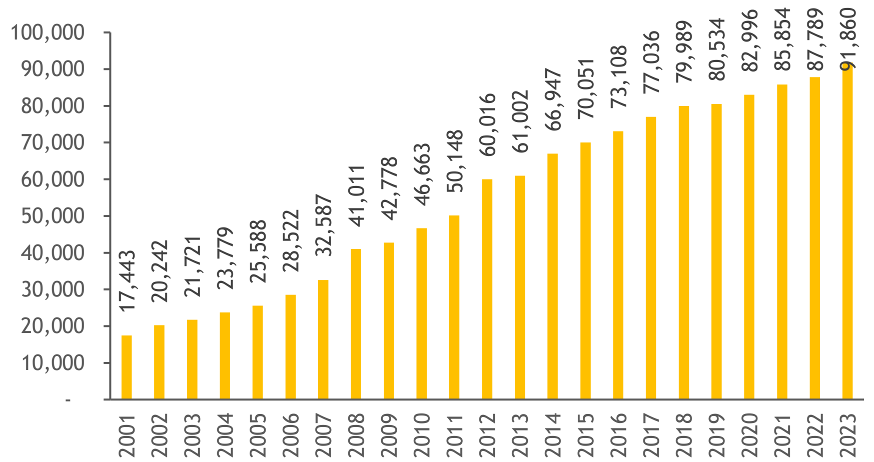
	FYE	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Mr DIY Group (M)	Dec	0.9%	6.5%	4.5%	1.8%	4.4%	0.5%	2.0%	-3.7%
Padini Holdings	Jun	20.0%	8.0%	-2.0%	4.0%	-26.0%	-23.0%	39.0%	120.0%
AEON Co. (M)	Dec	3.9%	1.2%	6.0%	4.5%	-10.1%	-10.0%	13.8%	-2.0%

Sources: Mr DIY Group (M), Padini Holdings and AEON Co (M)

Thematic 6: Civil service salary hike

On 1 May 2024, the Prime Minister announced that salaries of the civil service will be reviewed upwards by ≥13% on 1 Dec 2024 and this will cost the government ≥MYR10b p.a. Our 'back of the envelope' calculations indicate that this will translate into an additional ≥MYR6,666 p.a. in average disposable income for each civil servant (= MYR10b/1.5m civil servants) which we believe is meaningful. The last salary scheme review was conducted on 1 Jul 2013 where the salaries of civil servants were raised by 7% to 13%. The one before that was conducted on 1 Jul 2007 where the salaries of civil servants were raised by 7.5% to 35% (Fig. 1).

Fig 69: Government emoluments (MYRm)



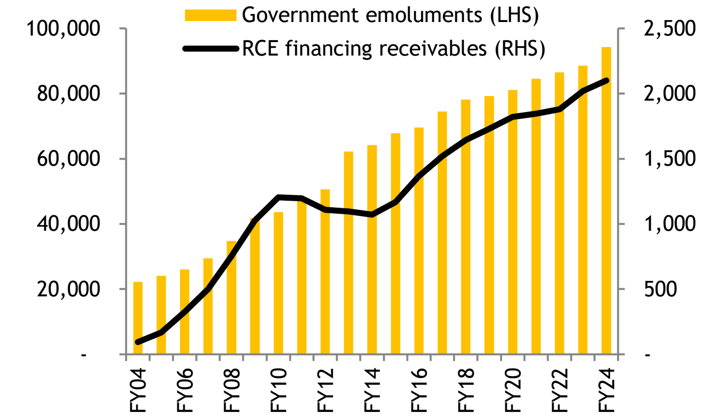
Source: Bank Negara Malaysia

▪ Identifying potential beneficiaries

We look back into history to posit potential beneficiaries from the upcoming civil service salary scheme review:-

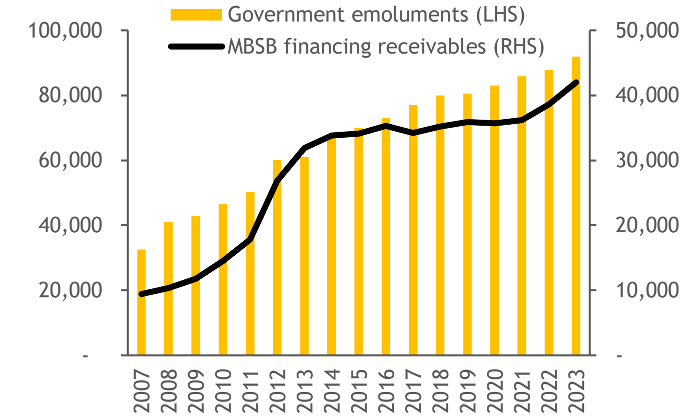
- <u>**Non-bank financial institutions**</u> – non-bank financial institutions like **RCE Capital (RCE MK, HOLD)** and **MBSB (MBSB MK, Not Rated)** lend to civil servants. We note that there is a near perfect correlation between government emoluments and RCE/MBSB financing receivables (Fig. 70 and 71). Civil servants account for almost all of RCE's financing receivables and 68% of MBSB's. Thus, we would say that they are the prime beneficiaries of the upcoming salary scheme review. Another potential beneficiary is conglomerate, **OSK Holdings (OSK MK, Not Rated)** which has a segment that lends to civil servants.

Fig 70: RCE financing receivables (MYRm)



Source: RCE Capital

Fig 71: MBSB financing receivables (MYRm)

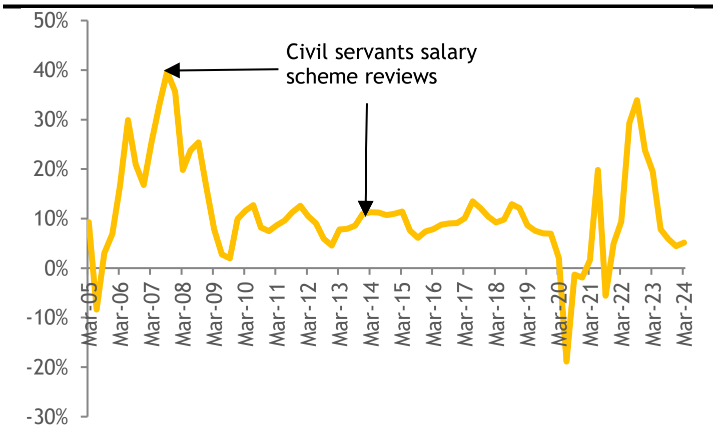


Source: MBSB

- **Consumer sector** – we note that there was a 'bump up' in retail sales in the quarters following civil servants salary scheme reviews (Fig. 72). That said, they were moderated as RON92/RON95 petrol prices were raised. In mid-2008, RON92 petrol price was hiked +74sen/litre on 5 Jun 2008; in late-2013 when RON95 petrol price was increased +20sen/litre on 1 Sep 2013; in late-2014 when RON95 petrol price was again increased +20sen/litre on 1 Oct 2014; and in early-2017 when RON95 petrol price was hiked +40sen/litre between 1 Jan 2017 (+20sen/litre) and 1 Feb 2017 (+20sen/litre).

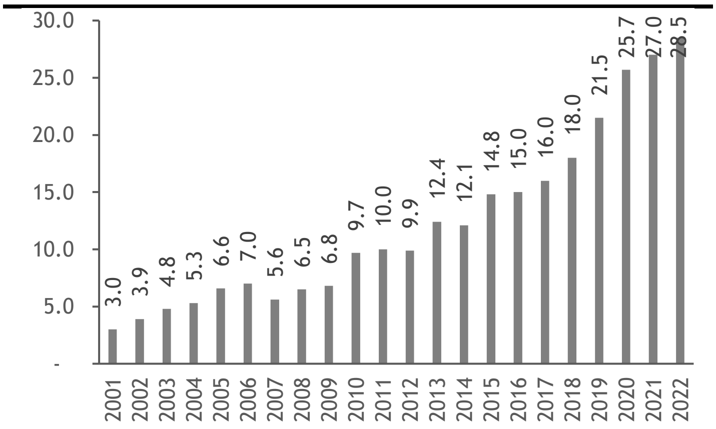
  In the consumer sector, we posit **AEON Co. (M) (AEON MK, BUY)** as a potential beneficiary. We also posit direct sales companies like **Amway (AMW MK, Not Rated), Beshom (BESHOM MK, Not Rated)** and **Zhulian (ZHCB MK, Not Rated)** as potential beneficiaries. We note that direct selling sales tend to do better in the year civil service salary scheme reviews are executed and after (2008, 2013 and 2014 ex-2007) (Fig. 73). That said, we acknowledge that the direct selling industry is currently very competitive as they now have to contend with sales via social media like TikTok Shop. Thus, they may not benefit as much this time around relative to the last two salary scheme reviews.

Fig 72: Total retail sales chg YoY



Source: Department Of Statistics

Fig 73: Direct selling industry sales (MYRb)

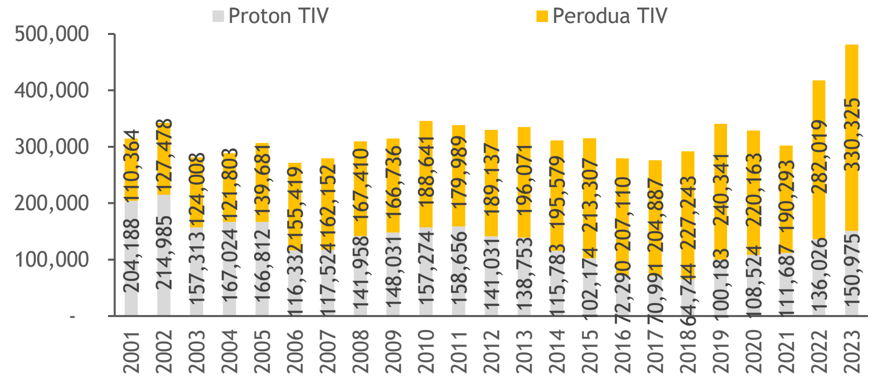


Source: Ministry of Domestic Trade and Cost of Living

- **Automotive sector** – we note that national passenger total industry volume (TIV) did better in 2008 after the civil service salary scheme review of 2007. While the national passenger TIV was poorer in 2014 after the civil servants salary scheme review of 2013, we note that this was due to the 2 events:- (i) Bank Negara introducing macro prudential measure to restrain household debt in Jul 2013 by capping personal loans at 10 years and debt service ratios at 60%; and (ii) Proton ceding market share before Geely acquired 49.9% of it in Jun 2017.

  Perodua sales surged in 2015 after it introduced the extremely popular *Axia* model in Sep 2014. Since then, both marque's TIV have improved significantly, especially Proton after it introduced its range of sports utility vehicles in Dec 2018. With higher disposable incomes for civil servants, we posit **MBM Resources (MBM MK, HOLD)** (owns 20% of Perodua) and **DRB-Hicom (DRB MK, Not Rated)** (owns 50.1% of Proton) as potential beneficiaries. That said, we gather that both marques will need new and popular models like the *Axia* to capitalize on this opportunity.

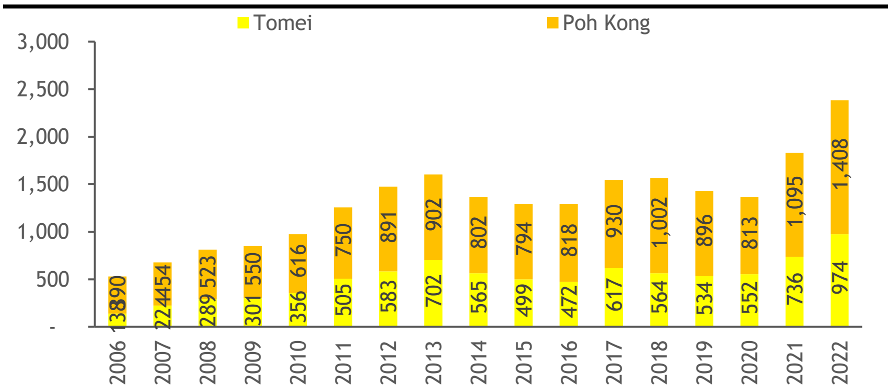
Fig 74: National passenger total industry volume



Source: Malaysian Automotive Association

- **Jewellers** – we note that the sales of **Poh Kong (PKH MK, Not Rated)** and **Tomei (TOME MK, Not Rated)** surged in the year civil servants salary scheme reviews were executed (i.e. 2007 and 2013). One may argue that their higher sales were due to higher gold prices. While we concede that that may be true, we believe the additional disposable income for civil servants enabled them to purchase higher priced jewels. That said, we note that margins for jewelers are often inconsistent due to the volatile price of gold. Thus, higher sales do not necessarily translate into significantly higher profits for jewelers. **YX Precious Metal (YXPM MK, Not Rated)** which is involved in wholesaling, design and manufacturing of gold jewellary is also a potential beneficiary.

Fig 75: Poh Kong and Tomei revenue (MYRm)



Source: Poh Kong, Tomei

Thematic 7: 'Gan bei' (cheers) to 50 years of Malaysia-China friendship

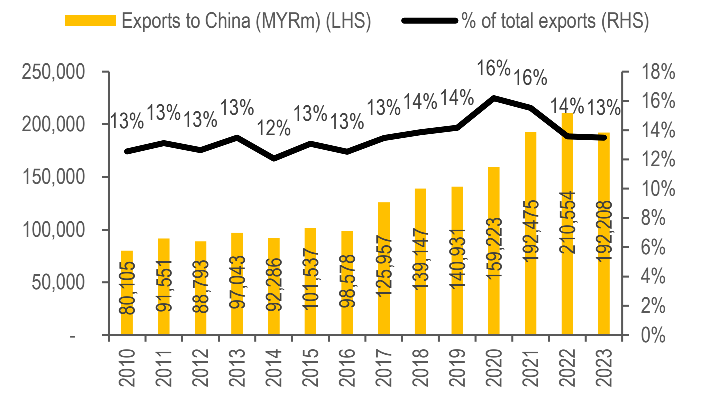
2024 marks the 50th year of diplomatic relations between Malaysia and China, established on 31 May 1974. Chinese Premier, Li Qiang visited Malaysia on 18-20 Jun and the leaders of both countries witnessed the exchange of 14 documents relating to economic & trade cooperation, digital economy, green development, tourism, visa exemption, fresh fruit durian export, and higher education, among others. The joint statement issued by both countries also mentioned on the strengthening of "rail transportation and infrastructure cooperation to realise the Pan-Asian Railway vision", and to work closely to "promote of projects including Malaysia's ECRL and the "Two Countries, Twin Parks"" concept.

Since 2009, China has been Malaysia's largest bilateral trade partner. From 2010 to 2023, Malaysia's exports to China grew by 7% CAGR. In 2023, China was Malaysia's second largest export destination (13% of total exports) after Singapore. If one were to include Hong Kong, Greater China (mainland China and Hong Kong) was Malaysia's largest export destination in 2023 (20% of total exports). Malaysia's major exports to China are electrical & electronic (E&E) products, palm oil & palm oil based agricultural products, and iron & steel products.

Within the Malaysian tourism industry, Chinese visitors were the 4th largest source market (7% of total visitor arrivals) in 2023. Pre-COVID (i.e. 2019), Chinese visitors were the 3rd largest source market (12% of total visitor arrivals). Chinese visitation to Malaysia boomed from 2016 onwards after Malaysia granted 15-day visa free access to Chinese visitors from Mar 2016 onwards. More current data from global travel data provider, OAG, indicates that current flight seat capacity from China to Malaysia has recovered to 96% of pre-COVID levels.

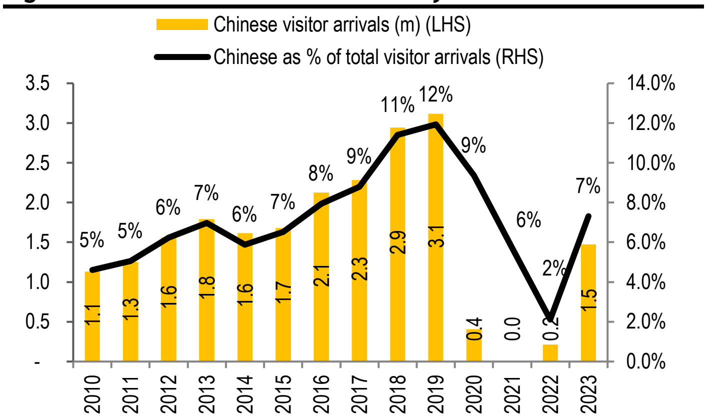
The FDIs from China to Malaysia story is even more amazing, in our view. In 2023, Greater China (mainland China and Hong Kong) was the second largest source of FDI for Malaysia after Singapore. From 2010 to 2023, FDIs from China to Malaysia grew by 24% CAGR. Following former Chinese premier, Li Keqiang's visit to Malaysia in Nov 2015, FDIs from China to Malaysia surged in 2016 and 2017. The largest FDIs from China to Malaysia are in the non-metallic mineral, basic metal, electrical & electronic, steel and solar industries.

Fig 76: Malaysia's exports to China



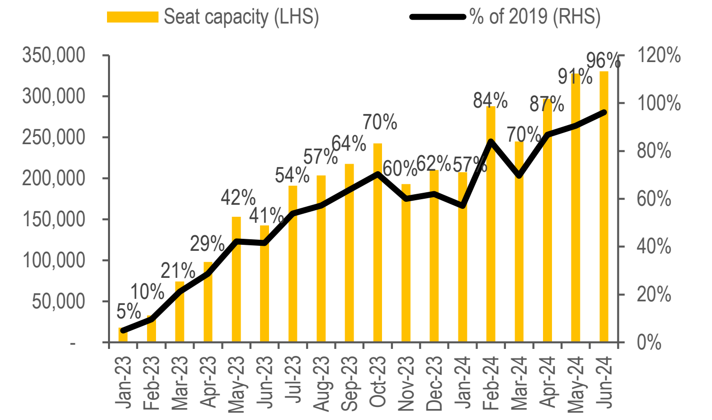
Source: Ministry Of Investment, Trade And Industry

Fig 77: Chinese visitor arrivals to Malaysia



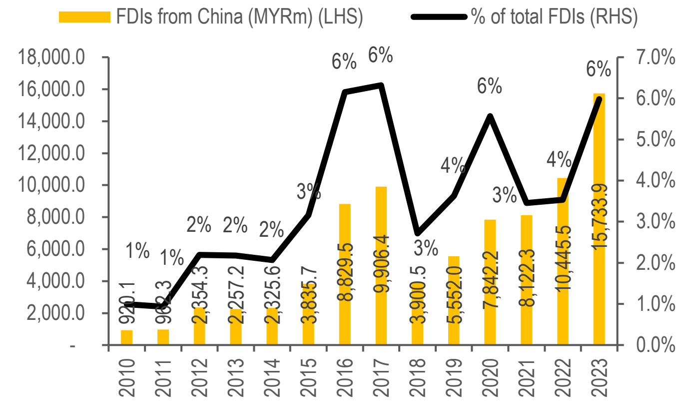
Source: Tourism Malaysia

Fig 78: Flight seat capacity from China to Malaysia



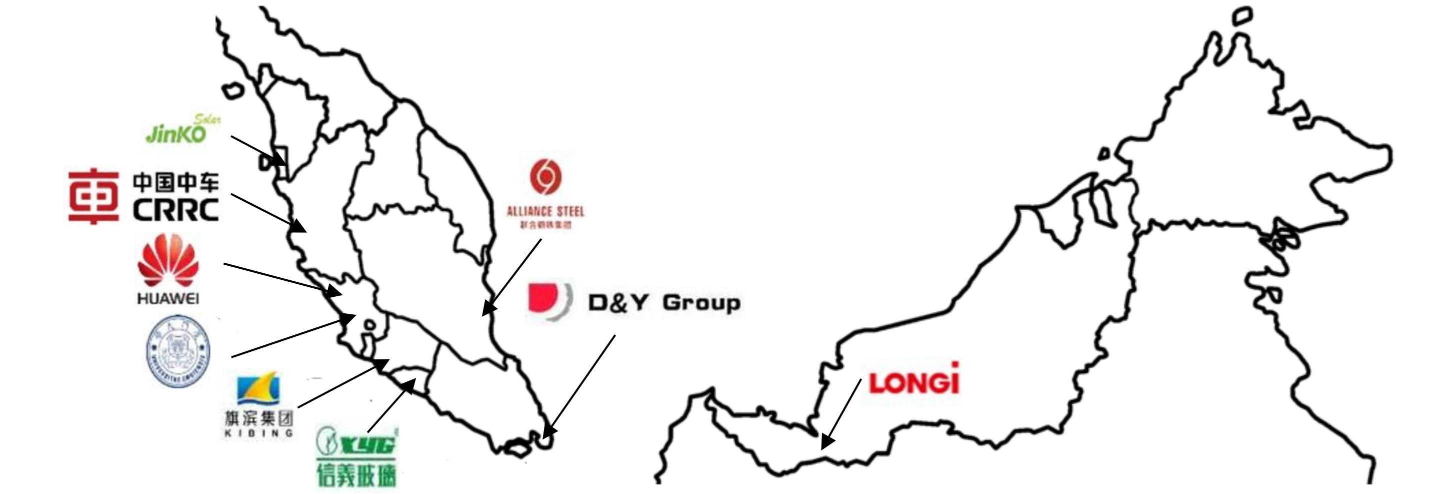
Source: OAG, Maybank IBG Research (chart)

Fig 79: FDIs from China to Malaysia



Source: Bank Negara Malaysia

Fig 80: Prominent Chinese investment projects in Malaysia



Source: Malaysian Investment Development Authority

- **Identifying potential beneficiaries**

We put the likely beneficiaries of this Malaysia-China thematic under 2 categories – trade & investments, and tourism. While many Malaysian listed companies have exposure to China, most of their exposure are small to their earnings. Instead, we filter our selection to Malaysian listed companies under our coverage (ex-EP Manufacturing) where we have BUY calls on and have potential Chinese catalysts.

1) **Trade & investments**. **MYEG's (MYEG MK, BUY)** blockchain-based ZTrade platform, which provides connectivity deployment to General Administration of Customs of the People's Republic of China's single window platform, has since gone live – enabling digitalisation of trade clearance and tariff computation which could cut processing time by up to 50%. We have yet to impute for potential ZTrade earnings accretion into our forecasts for MYEG as cross-border trade volume is harder to ascertain (vs. publicly available trade value statistics). We however expect the impact to be meaningful considering Malaysia's sizeable exports to China totaling MYR192.1b (-9% YoY) in 2023.

   For **Dialog (DLG MK, BUY)**, we believe it will be a beneficiary when Rongsheng Petrochemical's (the world's largest petrochemical company) commitment for a MYR80b investment for a refining facility in Pengerang, Johor, is realised in the future. This is due to the need for: i) local EPCC expertise, and/or ii) storage of crude/refined/distilled products, as Dialog will be able to provide long term tank-terminal services to Rongsheng.

Relating to **EP Manufacturing (EPMB MK, Not Rated)**, it has recently expanded upstream, collaborating with Chinese OEMs Great Wall Motor and Beijing Automotive Group to serve as their contract assembler in M'sia for right-hand drive vehicles for local and export markets. Operations at the assembly plant are set to begin in 2H24, with an initial capacity of 6,000 units p.a., projected to reach 30,000 units p.a. as EPMB secures more OEM assembly contracts.

EPMB is also expanding its automotive parts supply services, leveraging on Geely's investment in the Automotive High Tech Valley in Tanjung Malim. It recently secured a project as the sole supplier of car seats for Proton's S70 model, with production starting in Oct 2023 at a new Tanjung Malim plant. This plant has a capacity of 12,500 units, currently operating at 20%. EPMB is actively bidding for more projects to increase utilization.

And relating to the "Two Countries, Twin Parks" area of further collaboration by Malaysia and China as contained in the joint statement following Premier Li Qiang's visit in June, there is already a "case precedent" - Malaysia-China Kuantan Industrial Park (MCKIP), which has achieved >MYR31b cumulative investment value (as at Nov 2023; [link]) of which MYR14.6b has been realised.

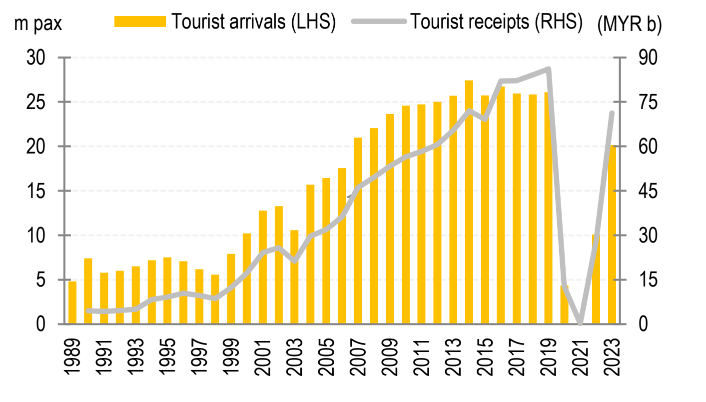
MCKIP, launched in 2013, is the 1st industrial park in Malaysia to be jointly developed by Malaysia and China and to be accorded the "National Industrial Park" status. **IJM (IJM MK, BUY)** is part of the Malaysian consortium holding a 51% stake in MCKIP with the other 49% held by state-owned Guangxi Beibu Gulf International Port Group and Qinzhou Investment Development Co. Ltd. With already a head-start in the development of "twin parks", IJM stands out as a potential beneficiary of future collaboration.

2) **Tourism**, which is receiving a lift as Malaysia extends its 30-day visa-free entry programme to Chinese citizens by 2 years until 31 Dec 2026 (from 31 Dec 2024, as per an official statement in Nov 2023).

In Aviation, **AirAsia X (AAX MK, BUY)** has the largest exposure to Chinese destinations among Malaysian airlines - in pre-pandemic 2019, 25% of its Available Seat Kilometres were to Chinese destinations vs. **Capital A's (CAPITALA MK, BUY)** 14%. While AirAsia X is unlikely to fly a lot more frequently to Chinese destinations - it is operating 16 out of a planned 19 Airbus A330s by end-2024E - it could charge higher fares.

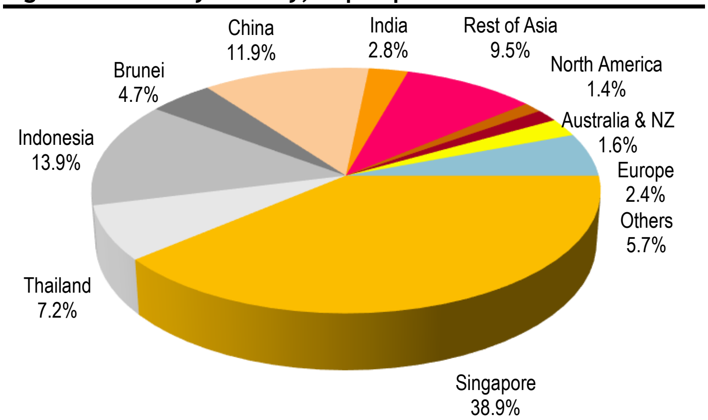
Another beneficiary of higher tourist arrivals from China – although small - is **Genting Malaysia (GENM MK, BUY)** with Chinese tourists making up 4% of the total 24.2m visitors to Resorts World Genting in 2019.

Fig 81: Tourist arrivals and receipts



Source: Tourism Malaysia, Maybank IBG Research (chart)

Fig 82: Arrivals by country, in pre-pandemic 2019



Source: Tourism Malaysia, Maybank IBG Research (chart)

STOCK PICKS

Top BUYs, yield picks

We have largely retained our top BUY list from that in our 1Q 2024 Results Roundup report (*"1Q24: Positive uplift; raising YE KLCI target", 5 Jun 2024*), and added on **CelcomDigi** (preferred Telco pick), **Eco World** (top BUY in Property) and **Aurelius Tech** (Tech-EMS pick). Our other key BUYs are **AMMB**, followed by **CIMB** in Banks; **SD Guthrie** in Plantation which offers a fresh RE angle; and **Solarvest** in the RE sector. For Consumer, our key pick is **MR D.I.Y.**, followed by **AEON Co.** (both offers consumer down-trading angle). We reiterate **Genting** as one of our top BUYs on deep valuation with upside if TauRx receives regulatory approval for its Alzheimer's disease drug. Our other key BUYs are as per Fig. 83 with their investment thesis in Fig. 84.

We also refresh our yield picks – Fig. 85 – with the top 5 highest yield stocks and which are on our BUY list being **Bermaz Auto** (9+% yield), **Magnum** (7+%), **Sentral REIT** (7+%), **DXN** (6+%), and **Sports Toto** (6+%).

Fig 83: Top BUYs

	Price MYR	TP MYR	Rec	Mkt Cap MYRm	PER (x) CY24E	PER (x) CY25E	ROE (%) CY24E	Div Yld (%) CY24E	P/B (x) CY24E	Px chg (%) YTD
Large caps										
CIMB Group	7.09	7.70	Buy	75,842	10.0	9.5	10.5	5.5	1.1	21.2
CelcomDigi	3.59	4.50	Buy	42,116	26.6	17.8	9.6	3.6	2.6	(12.0)
SD Guthrie	4.21	4.96	Buy	29,115	22.9	19.2	6.9	2.2	1.6	(5.6)
MR D.I.Y.	1.93	2.45	Buy	18,243	28.0	23.5	31.7	1.9	8.9	33.1
Sime Darby	2.64	3.44	Buy	17,993	11.3	9.7	8.8	4.4	1.0	12.3
Genting	4.54	5.84	Buy	17,482	9.4	8.0	5.4	4.4	0.5	(1.7)
AMMB	4.36	5.05	Buy	14,413	8.0	7.6	8.9	5.3	0.7	8.7
Dialog	2.47	3.13	Buy	13,937	21.1	18.8	10.6	1.5	2.2	19.3
Hartalega	3.36	4.50	Buy	11,469	75.9	57.4	3.2	0.7	2.4	24.4
Top Glove	1.17	1.43	Buy	9,372	n.a.	45.6	(1.0)	0.26	2.0	30.0
My E.G.	1.02	1.68	Buy	7,608	12.1	12.1	23.1	1.7	2.8	25.2
Greatech	5.75	6.50	Buy	7,212	37.3	30.4	20.7	-	7.6	19.8
SP Setia	1.45	1.66	Buy	6,904	7.7	16.7	5.3	3.8	0.5	81.3
Mid-small caps										
Eco World	1.61	1.96	Buy	4,747	15.3	11.7	6.3	4.3	1.0	53.3
SAM Eng	6.28	6.85	Buy	4,251	36.8	30.0	7.7	0.6	3.6	57.3
Bermaz Auto	2.54	3.04	Buy	2,969	8.4	8.2	39.7	9.4	3.4	7.6
Velesto	0.27	0.33	Buy	2,177	13.9	8.5	6.1	1.5	0.8	15.2
AEON Co. (M)	1.39	1.74	Buy	1,952	13.6	12.6	7.4	2.9	1.0	27.5
Aurelius Tech	3.70	4.02	Buy	1,604	25.3	21.1	12.9	2.0	4.1	42.3
Solarvest	1.64	1.84	Buy	1,143	27.4	21.1	14.7	0.7	4.2	26.2

** Share price as of 10 Jul 2024; Source: Maybank IBG Research*

Fig 84: Top BUYs (investment thesis)

Stocks	Investment thesis
CIMB Group (CIMB MK)	▪ Our FY24E ROE of 10.8% trails management's target of 11-11.5%, presenting room for further re-rating if management's targets are achieved. ▪ 1Q24 net profit grew a strong 18% YoY (+13% QoQ) with operating income up 13% YoY, supported by decent loan growth of 7% YoY, +3bps QoQ NIM expansion and a 27% YoY rise in NOII. ▪ Our MYR7.70 TP is based on FY24E PBV target of 1.1x, supported by a FY24E ROE of 10.8%.
CelcomDigi (CDB MK)	▪ Risk-reward has turned favourable, in our view, following the share price weakness in the past 3 months as 5G capex risk resurfaces. ▪ We believe 5G-capex risk is largely priced-in, with CDB's market cap loss being more than sufficient to fund a hypothetical participation into a consortium for the second 5G network. ▪ The stock could re-rate when merger synergies (c.MYR8b NPV over 5 years) begin to manifest more meaningfully possibly from FY25E onwards. ▪ Our MYR4.50 TP is based on a DCF, assuming 8.1% WACC and 2% LT growth.
SD Guthrie (SDG MK; formerly Sime Darby Plantation)	▪ SDG's recent name change signifies its intent to diversify from oil palm business. It intends to leverage onto its ~341,000 ha of land in Malaysia, as it ventures into renewable energy (namely large-scale solar) and industrial parks. In 5 years, these new segments are targeted to be a meaningful contributor to SDG's bottom line. ▪ SDG also has ongoing plans to monetise the value of its landbank via some land disposal annually. ▪ In the immediate term, we expect its CPO yield improvement (following FY23's low base due to lack of skilled harvesters) and fertiliser cost savings to lift SDG's FY24E core EPS by 45% YoY. ▪ Our MYR4.96 TP is based on 0.55x RNAV.
MR D.I.Y. Group (M) (MRDIY MK)	▪ MR D.I.Y. has resilient product demand backed by its mass-market appeal and product affordability. ▪ We expect MR. D.I.Y. to be a potential beneficiary of consumer down-trading. ▪ We project strong core earnings growth (+16% in FY24E, +20% in FY25E) driven by new store openings. ▪ Our TP of MYR2.45 is based on 30x FY25E PER, -0.5SD to mean.
Sime Darby (SIME MK)	▪ SIME's recent acquisitions, ie. UMW, Cavpower and Onsite Rental, are expected to boost the group's earnings as full-year contribution kicks in in FY25E. ▪ Its industrial segment is expected to benefit from robust commodity prices and increased demand for mining equipment in Australia. ▪ Meanwhile, its motor segment is expected to be bolstered by higher assembly profits in Malaysia, although this could be partially offset by intense price competition in China. ▪ Our TP of MYR3.44 is derived based on SOP.
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. ▪ Undemanding 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. It has already applied for regulatory approval in the UK. Our TP may be revised to above MYR9 should TauRx be valued at USD15b. ▪ Our MYR5.84 TP is SOP-based.

Source: Maybank IBG Research

Fig 84: Top BUYs (investment thesis)

Stocks	Investment thesis
AMMB Holdings (AMM MK)	▪ Having clawed its way back up from below 11%, AMMB's CET1 ratio now stands at a respectable 13% end-Mar 2024 after tax write-back following approval from the Inland Revenue. ▪ This paved the way for the normalization of its dividend payout ratio to 40% (43% excluding one-offs) in FY24 from 35.5% in FY23. We have raised our FY25-27E payout ratios to 42% from 40%. ▪ The potential disposal of AmMetLife could bring in about MYR500m-600m in cash, adding an estimated 50bps to the group's CET1 ratio. ▪ Our MYR5.05 TP is based on a CY24E PBV of 0.8x.
Dialog (DLG MK)	▪ Dialog has strong operational/financial stability from its LT midstream tank terminal assets. We note that it has secured a renewal for its Master Service Agreement (3+2 years) from PETRONAS (for its plant maintenance segment) beginning Jul 2024 at significantly higher rates. Also, with the gradual phase out of loss-making legacy EPCC contracts by Jun 2024, the segment (EPCC) will be profitable beginning 1QFY25E as newer jobs are also signed at improved rates. ▪ We forecast record-high earnings in FY25E (+24% YoY). Also, Dialog is poised to benefit from investments from ChemOne/ Rongsheng Petrochemical in Pengerang via: i) EPCC/sub-contracting works; or ii) the need for long-term tank terminals for storage of crude/refined/distilled products. ▪ Potential re-rating catalysts include: i) strong earnings growth delivery; and ii) new tank terminal contracts in Pengerang. ▪ Our MYR3.13 TP is based on SOP.
Hartalega (HART MK)	▪ Improvement in sales volume, due to an improved sector outlook, would translate into a better FY25E for HART. Alongside better cost efficiencies post decommissioning of the Bestari Jaya Facilities leading to lower production costs, this will allow HART to be more competitive in pricing and defend its operating margin in the event of any hike in raw material prices. ▪ Stable ASP, coupled with lower raw material costs from May 2024 onwards, should translate into a better operating margin in 2HCY24E. ▪ We also like HART for its hands-on management, proven track record in technology and product quality, and strong balance sheet (MYR0.40/sh net cash). ▪ Our MYR4.50 TP is based on 3.2x CY26E P/B (historical mean).
Top Glove (TOPG MK)	▪ TOPG is a turnaround play. As sector fundamentals are improving, TOPG aims to return to profitability by FY25E. ▪ We also like TOPG due to its large unutilized capacity (35b pcs p.a.) which would benefit from the rise in demand while the other glove makers may take longer to expand their capacity. TOPG is reopening some idle plants and reconstructing one new plant (+3b pcs p.a.) which were previously halted during the sector downturn. ▪ Margin is expected to improve in the coming quarters due to the reactivation of the cost pass-through mechanism driven by strong demand for gloves and tight supply. ▪ Our TP of MYR1.43 is based on 2x CY26E P/B (-0.5SD to mean).
MyEG Services (MYEG MK)	▪ The concession-centric e-government service provider has been nimble in adapting to a changing business landscape via the development of its Tier-1 blockchain platform, Zetrix. Its high-margin blockchain business has been gathering rapid momentum, with segmental revenues now accounting for c.25% of group turnover in 1Q24, up from just 8% in 1Q23. ▪ Blockchain segmental turnover to-date has been primarily attributable to sales of Zetrix tokens. MyEG expects to continue selling c.1m tokens per quarter, yielding top/bottom-line contributions of c.MYR80m/76m in 2Q-4Q24 respectively (assumptions: (i) USD17 ASP, (ii) USDMYR of 4.70, (iii) PBT margin of 95%). Zetrix token sales are expected to accelerate further in FY25E following MyEG's MoU signing with HK-based MaiCapital to introduce the token as part of an ETF offering. ▪ Blockchain turnover will be further buttressed in 2H24 following the official launch of its ZTrade cross-border trade facilitation platform on 27 Jun 2024. ZTrade enables the digitalisation of trade clearance and tariff computation to cut processing time by up to 50%. Early-stage revenue generation from ZTrade will be primarily driven by the issuance of digital Certificates of Origin that is mandatory for all outbound trade of Malaysian goods to China. ▪ Our MYR1.68 TP is based on 20x FY25E PER (at LT mean) and offers >65% upside to the prevailing share price.

Source: Maybank IBG Research

Fig 84: 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. Greatech's business model allows it to remain relatively insulated from ongoing inventory correction in the larger semiconductor supply chain. ▪ As of end-May 2024, it had a robust outstanding orderbook of MYR1.01b (60% solar/26% EV/12% life sciences/2% others), expected to last through to 3Q25. 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 commenced ops in May 2024) and inorganic (M&A of Euro-based life science 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. Mgmt is also on track to double its life sciences orderbook YoY in FY24E to c.MYR200m ▪ Valuations remain palatable, with our MYR6.50 TP pegged to 35x FY25E PER (at LT mean).
SP Setia (SPSB MK)	▪ We like SPSB for its cheap valuation. SPSB is trading at an undemanding P/B of just 0.5x, versus industry average's 0.9x. ▪ 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 Alam and Bertam into industrial parks. SPSB offers data centre play. ▪ SPSB is actively reducing its debt level by disposing off non-core landbank and assets. It is also looking to list its investment properties by 2025. As at end-1Q24, SPSB's net gearing stood at 0.45x. ▪ Our MYR1.66 TP is based on 0.5x FY24E P/B.
Eco World Development (ECW MK)	▪ We like ECW for its hands-on management, proven track record (in term of sales and product creativity) and healthy balance sheet (0.24x net gearing in end-2QFY24). ECW is looking to pay at least 6sen DPS in FY24E (4% yield). ▪ With industrial land in Johor and Klang Valley, ECW offers data center play. ECW's ability to secure Microsoft for its upcoming Eco Business Park VI (via a MYR402m land sale) is testament to management's capability. ▪ ECW is actively seeking new landbank opportunities, backed by a healthy balance sheet. ▪ We value ECW at MYR1.96 TP, on 1.1x FY25E P/B.
SAM Engineering & Equipment (SEQB MK)	▪ SAM Eng (SAMEE) is a well-managed secular growth stock – which is poised and well positioned to capitalise on the expected recovery of both the aerospace and front-end semiconductor sectors. SAMEE has exposures to top-quality clients like Customer X and Y (FE SPEs) and Z (BE ATE), all of which have fabs like TSMC/Samsung Electronics as top-paying customers. ▪ Various studies (by SEMI, Gartner, Bloomberg) have implied a record-high WFE spending in 2025 – implying that we may soon see an inflection point in the SPE capex flow to its respective contract manufacturers/vendors. Meanwhile, SAMEE's aerospace division is out of the woods and is ready for take-off with the recent acquisition of Aviatron, which will continue to boost profitability in FY25E onwards. ▪ We project a conservative 3-year FY24-27E core net profit CAGR of 18% for SAMEE, stemming from: i) acquisition of Aviatron in end-Feb 2024; ii) steady improvement in SAMEE's aerospace sales, coupled with gradual ramp-up of its BB2 plant; iii) steady recovery in orders from FE semicon customers in 1HCY25E, followed by BE customers in 2HCY25E; and iv) commissioning of its RJ2 and BB1 plants for its equipment segment. ▪ Our MYR6.85 TP is based on 32.7x PER on CY25E EPS, which is at +1.5SD to its 5-year mean PER.
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 >9% dividend yield. ▪ BAuto's vehicle sales are expected to remain resilient as it focuses on driving growth for its Kia sales from a low base (to double the sales YoY in FY25E). ▪ In the longer term, BAuto is in the midst of seeking new distributorships (focusing on Chinese OEM) to address the gap in the mass premium market segment portfolio, leveraging on its existing customer pool as Mazda progressively moves up to the premium segment. ▪ Our MYR3.04 TP is based on 10x FY25E PER (-20% below 12M fwd. mean).

Source: Maybank IBG Research

Fig 84: Top BUYs (investment thesis)

Stocks	Investment thesis
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 standing at only 38. This shows a tight market - which will continue to drive DCR upward in 2H24/ 2025E. As at Jun 2024, the highest DCR recorded for a regional competitor's rig was USD165k (vs. USD145k in Apr 2023). We expect Velesto to realise and ride on higher DCRs in 2H24/2025E as it wins new jobs in the upcoming quarters. ▪ We forecast a strong net profit growth (+60% YoY) in FY24E based on the following assumptions: (i) higher overall blended Jack-Up rig DCR forecast of USD119k in FY24E (vs. USD94k in FY23); and (ii) a sustained elevated Jack-Up rig utilisation rate of 82% in FY24E (vs. 83% in FY23E), coupled with operating leverage. ▪ We expect some contract wins in the upcoming months as another 2 of Velesto's rigs are slated to complete their current jobs by early-2Q24, for: (i) Petronas Carigali (Naga 3); and (ii) 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 MYR0.33 TP is based on 13x PER on mid-FY25E EPS, 8% above domestic OGSE peers' average PER.
AEON Co. (M) (AEON MK)	▪ Higher occupancy and rental reversion in its property management services (PMS) segment are key drivers to the group's earnings growth (we forecast +5% in FY24E, +7% in FY25E), with existing shopping mall rejuvenation plans expected to translate positively to PMS segment revenue. ▪ For its retail segment, AEON Co. is a potential beneficiary of 'downtrading' amid rising cost-of-living - we notice that its same store sales growth (SSSG) has been resilient in the past to weak consumer sentiment. Moving forward, its retail sales momentum could be supported by added financial support measures like the EPF Account 3 withdrawals. ▪ Our MYR1.74 TP is based on 17x FY24E PER (mean).
Aurelius Technologies (ATECH MK)	▪ ATech is a key beneficiary of supply chain diversification and local E&E FDIs. Its active new product initiatives (NPIs) are yielding positive results in FY24E, with new products/models gradually being rolled out, supporting sales and volume growth. ▪ Longer term growth is underpinned by its ongoing P5 expansion, with advanced manufacturing capabilities to support low-mix-high-volume production. We are assuming only 20% utilization for P5 by FY25E, and higher utilization could lead to stronger growth. ▪ Key products to be rolled out in P5 include the tire pressure monitoring system (TPMS), IMD for EV/charging stations, and advanced POS devices. There are also ongoing talks with prospective customers focusing on automotive components, IoT, video communications, and semiconductor components, which may translate into orders in the future. ▪ Our MYR4.02 TP is based on 23x PER on FY25E EPS (30% premium to its peers' historical PER).
Solarvest Hldgs (SOLAR MK)	▪ Solarvest's MYR242m outstanding EPCC orderbook (OB) as at end-Mar 2024 provides earnings visibility into FY25E and this can extend into FY26E from potential CGPP EPCC works which could lift its OB by another c.MYR1b. ▪ Solarvest is also expanding its revenue base beyond EPCC works. We expect Solarvest's LSS4 owned assets of 67.3MWp could generate a recurring revenue from electricity sales of around MYR23m p.a. for the next 25 years. Overall, we expect Solarvest's asset development and ownership portfolio to increase to c.220MWp in capacity (currently 67.3MWp), with recurring revenue to increased from 2.4% to group's revenue in FY24 to 4%/9% in FY25/26E. ▪ Solarvest also targets 200MWp of solar rooftop and large scale projects to materialise in FY25E (vs. 23.5MWp in FY24), namely in Vietnam, Philippines and Taiwan. Its tenderbook for overseas projects stood at 2.04 GW as at end-May 2024. ▪ Our MYR1.84 TP is based on SOP (EPCC on PER + solar assets on DCF).

Source: Maybank IBG Research

Fig 85: Top-yield stocks

Stocks	Rec	Shr px at 10 Jul 2024 (MYR)	Mkt Cap (MYR m)	TP (MYR)	2024E Net Yld (%)	2025E Net Yld (%)	Upside to TP (%)	Potential total returns (%)
Eco World Int'l	Hold	0.34	804	0.28	39.7	15.7	(16.4)	23.3
Bermaz Auto	Buy	2.54	2,969	3.04	9.4	9.2	19.7	29.1
MBM Resources	Hold	5.19	2,029	4.69	8.1	8.3	(9.6)	(1.5)
Magnum	Buy	1.17	1,681	1.34	7.7	7.7	14.5	22.2
Sentral REIT	Buy	0.81	968	0.98	7.4	7.8	21.0	28.4
YTL REIT	Hold	1.23	2,096	1.28	7.3	6.9	4.1	11.4
RHB Bank	Hold	5.53	24,108	5.90	7.1	7.1	6.7	13.7
DXN Holdings	Buy	0.64	3,158	0.86	6.9	7.5	35.4	42.3
Bank Islam M'sia	Hold	2.49	5,644	2.75	6.8	7.2	10.4	17.3
Sports Toto	Buy	1.63	2,199	1.71	6.7	6.7	4.9	11.7
Capitaland M'sia Trust	Buy	0.67	1,899	0.70	6.6	6.6	4.5	11.0
Gas Malaysia	Hold	3.60	4,622	3.60	6.4	6.4	0.0	6.4
Ta Ann Hldgs	Buy	3.88	1,709	4.29	6.3	6.6	10.6	16.9
Heineken M'sia	Buy	22.08	6,670	28.20	6.0	6.2	27.7	33.8
Genting Malaysia	Buy	2.49	14,113	3.09	6.0	6.8	24.1	30.1
Alliance Bank M'sia	Buy	3.88	6,007	4.35	5.9	6.3	12.1	18.0
Pavilion REIT	Buy	1.41	5,156	1.55	5.8	6.2	9.9	15.7
RCE Capital	Hold	2.85	2,089	3.00	5.8	6.2	5.3	11.1
Tambun Indah Land	Buy	1.08	474	1.24	5.6	6.1	14.8	20.4
CIMB Group	Buy	7.09	75,842	7.70	5.5	5.8	8.6	14.1
Sunway REIT	Hold	1.60	5,480	1.60	5.4	6.1	0.0	5.4
AMMB Holdings	Buy	4.36	14,413	5.05	5.3	5.4	15.8	21.1
IGB REIT	Hold	1.91	6,894	1.75	5.2	5.3	(8.4)	(3.2)
Carlsberg Brewery M'sia	Buy	18.54	5,669	21.00	5.1	5.4	13.3	18.4
KLCCP Stapled Group	Hold	7.45	13,450	7.52	5.1	5.3	0.9	6.0
Allianz Malaysia	Hold	22.00	3,933	24.85	4.9	5.2	13.0	17.9
Public Bank	Buy	4.14	80,360	4.85	4.8	5.6	17.1	22.0
TIME dotCom	Hold	5.20	9,614	5.60	4.8	5.0	7.7	12.5
Axis REIT	Buy	1.87	3,268	2.17	4.7	6.0	16.0	20.7
Maxis	Hold	3.46	27,103	4.00	4.6	4.6	15.6	20.2
Sime Darby	Buy	2.64	17,993	3.44	4.4	5.2	30.3	34.7
Genting	Buy	4.54	17,482	5.84	4.4	4.4	28.6	33.0
Eco World Development	Buy	1.61	4,747	1.96	4.3	4.3	21.7	26.1
Genting Plantations	Hold	5.85	5,248	6.21	4.2	4.5	6.2	10.3
MISC	Hold	8.67	38,701	8.13	4.2	4.2	(6.2)	(2.1)
Petronas Gas	Hold	17.88	35,380	18.00	4.0	4.0	0.7	4.7
Axiata Group	Buy	2.49	22,863	3.50	4.0	4.0	40.6	44.6

Source: Maybank IBG Research

Appendix

Fig 86: Foreign shareholding of selected stocks under coverage (%)

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Latest (2024)	As at (2024)
Autos												
Bermaz Auto	15.5	16.1	20.9	17.7	18.3	21.2	15.4	11.5	NA	31.7	29.2	31 Mar
Tan Chong	7.7	7.5	7.3	6.6	6.5	NA	NA	11.4	NA	NA	-	-
Sime Darby	13.9	13.7	12.6	18.8	18.6	19.2	17.4	17.9	NA	17.8	21.2	31 Mar
Banking												
Malayan Banking	22.5	17.4	15.7	20.7	19.6	18.9	16.7	16.4	18.0	19.0	19.7	31 May
AMMB Holdings *	32.0	26.0	25.0	24.0	24.0	25.7	20.6	16.2	20.0	20.2	23.5	31 Mar
Alliance Bank	32.0	29.3	29.6	31.8	31.6	22.9	19.5	20.1	23.0	21.4	20.8	31 May
CIMB Group	32.7	27.0	25.8	27.5	25.8	30.2	20.9	24.7	30.9	30.7	31.6	30 Apr
Hong Leong Bank	9.5	8.1	9.1	12.1	12.1	11.0	9.9	9.8	11.5	10.3	10.3	31 Mar
Public Bank	31.0	31.3	35.9	38.1	37.1	32.8	27.9	25.2	27.7	25.8	24.6	31 May
RHB Bank	9.5	9.8	9.9	9.8	10.3	21.1	18.1	18.1	17.5	15.6	14.0	31 May
Construction/Infra												
Gamuda	29.0	22.0	22.0	30.0	28.0	26.0	21.0	11.5	16.0	25.0	24.9	31 May
IJM Corp	40.4	29.7	28.2	27.0	23.8	21.6	13.8	12.1	12.2	14.8	20.0	30 Jun
Consumer												
Nestle *	NA	NA	NA	NA	NA	8.7	8.4	8.6	9.9	9.4	9.0	31 Mar
QL Resources	NA	NA	NA	NA	NA	12.0	11.0	11.0	12.0	11.6	12.0	31 Mar
Non-Bank Finance												
Bursa	23.5	21.6	22.6	25.1	25.6	17.3	19.3	14.5	13.7	13.2	16.8	30 Jun
Gaming												
Genting Berhad	46.0	39.0	44.0	45.0	43.0	33.7	25.6	19.5	37.1	21.3	21,4	31 Mar
Genting Malaysia	39.0	39.0	40.0	40.0	31.0	26.8	19.4	15.5	17.3	15.5	15.7	31 Mar
Glove Producers												
Hartalega	16.0	16.0	13.0	15.0	15.0	14.9	21.2	18.1	16.2	10.6	9.2	31 Mar
Top Glove	31.0	43.0	32.0	32.0	34.0	34.0	35.0	35.0	31.0	28.0	-	-
Hospitals												
IHH Healthcare *	NA	NA	NA	20.5	20.5	20.0	17.5	18.5	17.2	16.9	17.0	31 Mar
KPJ	NA	8.9	8.8	7.5	6.7	6.3	5.6	NA	5.5	9.1	11.2	31 Mar
Media												
Media Prima	30.9	29.3	27.1	29.1	33.0	29.4	23.1	23.0	22.6	20.3	20.1	31 Mar
Oil & Gas												
Dialog Group	16.0	15.0	16.0	20.0	22.0	NA	22.3	20.0	NA	20.0	20.0	31 Mar
Wasco	NA	NA	NA	NA	NA	9.9	NA	7.2	7.3	8.5	-	-
Bumi Armada	13.2	12.7	11.0	12.4	10.5	14.9	9.7	17.1	NA	16.0	14.7	31 Mar
Yinson	NA	NA	NA	NA	NA	6.0	NA	8.8	NA	10.0	9.0	31 Mar
Velesto	NA	NA	NA	NA	NA	7.2	4.5	3.6	NA	11.5	13.0	31 Mar
Hibiscus	NA	NA	NA	NA	NA	NA	NA	NA	NA	30.0	25.0	31 Mar

… continued

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Latest (2024)	As at (2024)
Petrochemicals												
Petronas Chemicals	8.5	9.0	8.0	11.0	12.0	9.5	7.3	9.4	10.6	8.3	7.9	31 Mar
Lotte Chem Titan *	NA	NA	NA	NA	NA	NA	NA	5.0	3.9	3.5	3.2	31 Mar
Plantations												
Genting Plant	7.2	7.0	8.0	8.7	8.8	8.6	8.3	5.3	5.9	4.7	5.0	31 Mar
IOI Corporation	17.4	16.0	15.0	11.0	10.5	10.5	10.5	10.5	11.2	10.4	10.1	30 Apr
KL Kepong	12.4	11.5	13.5	16.3	18.2	14.6	12.5	12.2	14.6	14.0	13.1	31 Mar
Sime Plantation	NA	NA	NA	13.9	12.2	10.4	9.3	9.0	10.8	10.0	9.8	31 May
Property												
S P Setia	8.1	7.6	4.9	9.7	9.6	6.2	5.7	5.5	NA	7.5	10.5	31 Mar
UEM Sunrise	13.1	9.1	8.4	7.9	7.9	7.9	6.6	5.2	NA	5.6	8.5	31 Mar
Sunway Berhad	8.1	7.6	7.8	9.5	8.1	7.7	5.5	5.5	6.5	4.8	5.0	31 Mar
Ecoworld	NA	NA	NA	NA	2.9	2.5	1.8	3.3	4.4	5.3	5.7	31 Mar
Ecoworld Intl.	NA	NA	NA	NA	28.1	27.8	28.0	27.0	27.0	28.0	27.0	31 Mar
Sime Property	NA	NA	NA	14.7	14.3	10.8	9.8	9.7	8.2	11.8	10.9	30 Apr
Property- REITs												
Axis REIT	6.9	5.2	4.6	3.6	2.8	4.4	8.1	8.0	13.4	12.4	12.4	31 Mar
Sunway REIT	19.5	12.6	13.3	9.2	8.7	11.5	7.3	7.3	9.5	6.9	6.8	31 Mar
Technology												
MyEG	NA	NA	NA	NA	NA	NA	NA	NA	18.0	15.0	13.0	15 Apr
CTOS	NA	NA	NA	NA	NA	NA	NA	NA	15.0	17.0	20.6	31 Mar
Telecomm												
CelcomDigi *	15.6	10.1	9.9	9.1	10.8	11.5	10.6	10.2	7.1	7.7	7.3	31 May
Telekom Malaysia	16.7	11.7	12.8	11.3	11.1	12.2	12.3	10.0	12.8	12.5	14.1	30 Apr
Axiata Group	21.0	15.2	10.3	10.0	10.5	11.1	10.4	10.9	11.2	10.7	10.5	31 May
Maxis *	6.7	6.2	5.7	6.4	6.9	7.8	7.2	7.5	6.9	7.5	7.5	30 Apr
Time dotCom	7.0	6.8	6.3	7.3	6.1	7.6	9.9	8.8	13.4	11.7	10.4	30 Apr
Transport												
Capital A / AirAsia	60.8	47.6	43.4	44.4	33.6	25.8	15.7	23.3	19.6	21.4	18.2	31 Mar
MAHB	18.9	19.0	19.0	39.3	40.0	34.8	27.1	25.3	21.0	27.2	27.0	31 Mar
Westports *	9.0	11.0	13.0	10.3	9.5	11.0	9.7	9.9	3.2	3.2	3.4	31 Mar
MISC Bhd	7.8	10.8	8.0	9.0	8.6	12.2	9.8	8.1	9.3	9.4	10.1	31 Mar
Utilities												
Tenaga Nasional	25.8	23.1	27.7	24.1	20.8	18.4	12.9	12.1	13.1	12.5	13.9	31 May
Petronas Gas	7.5	8.5	8.8	8.4	10.0	10.1	9.5	8.9	9.1	9.9	10.3	31 Mar
YTL Power Int'l	12.0	12.0	12.0	12.0	8.0	5.5	4.8	NA	NA	14.0	14.5	31 Mar
Market	**24.3**	**22.3**	**22.3**	**23.2**	**23.4**	**22.3**	**20.7**	**20.5**	**20.6**	**19.5**	**19.5**	**30 Jun**

** AMMB: Excludes ANZ's 21.7% stake @ 30 Jun 2023*
** Nestle: Excludes Nestle S.A.'s 72.6% stake @ 28 Feb 2023*
** Lotte Chem Titan: Excludes Lotte Chem Corp's 75.9% @ 28 Feb 2023*
** Maxis: Excludes Saudi Telecom's stake via BGSM Equity Holdings*
** IHH: Excludes Mitsui & Co's 32.8% stake @ 31 Mar 2023*
** CelcomDigi: Excludes Telenor ASA's 33% stake @ 17 Mar 2023*
** Westports: Excludes Hutchison Port's 23.6% @ 29 Feb 2024*

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	Market	TP	Rec	Core Net Profit			EPS			CAGR	PER			ROE	Div Yld	PBV	*Px chg*
				10 Jul	Cap			CY23	CY24E	CY25E	CY23	CY24E	CY25E	23-25E	CY23	CY24E	CY25E	CY24E	CY24E	CY24E	*YTD*
				MYR	MYR m	MYR		|---------- MYR m ----------|			|--------- MYR sen --------|			(%)	|------------- (x) ------------|			(%)	(%)	(x)	*(%)*
Auto																					
BAUTO MK	Bermaz Auto	*	4	2.54	2,969	3.04	Buy	336.5	353.9	361.8	28.9	30.3	31.0	3.6	8.8	8.4	8.2	39.7	9.4	3.4	*7.6*
MBM MK	MBM Resources	*	12	5.19	2,029	4.69	Hold	305.5	298.9	305.6	78.2	76.5	78.2	-	6.6	6.8	6.6	12.6	8.1	0.9	*22.4*
TCM MK	Tan Chong Motor	*	12	0.86	560	0.85	Hold	(130.0)	(41.7)	(38.1)	(20.2)	(6.5)	(5.9)	n.a.	n.a.	n.a.	n.a.	(1.5)	3.5	0.2	*(11.3)*
SIME MK	Sime Darby	*	6	2.64	17,993	3.44	Buy	1,262.9	1,599.6	1,858.9	18.5	23.5	27.3	21.5	14.3	11.3	9.7	8.8	4.4	1.0	*12.3*
Banks																					
AMM MK	AMMB Holdings		3	4.36	14,413	5.05	Buy	1,726.3	1,797.5	1,896.6	52.0	54.3	57.3	4.9	8.4	8.0	7.6	8.9	5.3	0.7	*8.7*
BIMB MK	Bank Islam M'sia	*	12	2.49	5,644	2.75	Hold	553.1	600.0	636.9	25.0	26.0	28.0	5.8	10.0	9.6	8.9	7.9	6.8	0.7	*12.7*
ABMB MK	Alliance Bank		3	3.88	6,007	4.35	Buy	687.3	716.1	758.9	44.8	46.5	49.3	4.9	8.7	8.3	7.9	9.6	5.9	0.8	*14.5*
CIMB MK	CIMB Group		12	7.09	75,842	7.70	Buy	6,981.0	7,541.0	7,970.6	65.0	71.0	75.0	7.4	10.9	10.0	9.5	10.5	5.5	1.1	*21.2*
HLBK MK	Hong Leong Bk		6	19.12	41,447	23.00	Buy	4,004.2	4,284.1	4,599.5	190.0	197.5	212.0	5.6	10.1	9.7	9.0	11.3	3.7	1.0	*1.2*
HLFG MK	HL Fin Group		6	17.20	19,698	21.70	Buy	2,870.1	3,027.7	3,238.3	253.5	267.5	286.0	6.2	6.8	6.4	6.0	10.0	3.4	0.6	*4.6*
PBK MK	Public Bank		12	4.14	80,360	4.85	Buy	6,649.3	6,846.2	7,292.1	34.0	35.0	38.0	5.7	12.2	11.8	10.9	12.0	4.8	1.4	*(3.5)*
RHBBANK MK	RHB Bank		12	5.53	24,108	5.90	Hold	2,806.2	2,895.0	3,155.0	70.0	66.0	71.0	0.7	7.9	8.4	7.8	9.0	7.1	0.7	*1.5*
Construction																					
GAM MK	Gamuda	*	7	7.52	20,848	7.25	Buy	881.5	997.3	1,192.9	33.9	37.5	44.8	15.0	22.2	20.1	16.8	8.6	2.1	1.7	*63.8*
IJM MK	IJM Corp	*	3	3.39	11,886	3.30	Buy	463.7	518.2	556.3	13.2	14.8	15.9	9.7	25.7	22.9	21.4	5.0	2.4	1.1	*80.3*
CMS MK	Cahya Mata S'wak	*	12	1.39	1,493	1.38	Buy	115.1	147.8	175.1	10.7	13.8	16.3	23.4	13.0	10.1	8.5	4.3	1.4	0.4	*28.7*
SCGB MK	Sunway Con	*	12	4.33	5,583	2.30	Sell	145.1	154.4	169.7	11.3	12.0	13.2	8.1	38.3	36.1	32.8	17.2	1.4	6.2	*123.2*
PINT MK	Pintaras	*	6	1.69	280	1.70	Hold	(2.3)	4.1	6.7	(1.4)	2.5	4.1	n.a.	n.a.	69.0	41.7	1.0	1.2	0.7	*5.6*
Consumer																					
AEON MK	AEON Co. (M)	*	12	1.39	1,952	1.74	Buy	137.1	143.6	153.8	9.8	10.2	11.0	5.9	14.2	13.6	12.6	7.4	2.9	1.0	*27.5*
CAB MK	Carlsberg Brew		12	18.54	5,669	21.00	Buy	316.0	321.6	340.0	103.3	105.2	111.2	3.8	17.9	17.6	16.7	132.4	5.1	20.7	*(3.8)*
HEIM MK	Heineken Msia		12	22.08	6,670	28.20	Buy	386.8	402.8	410.9	128.0	133.3	136.0	3.1	17.3	16.6	16.2	84.8	6.0	14.5	*(8.5)*
PAD MK	Padini Holdings	*	6	3.53	2,322	4.10	Hold	187.9	170.8	199.7	28.6	26.0	30.4	3.1	12.4	13.6	11.6	14.4	3.3	2.0	*0.6*
NESZ MK	Nestle (Malaysia)	*	12	122.70	28,773	123.60	Hold	767.4	808.1	879.9	327.3	344.6	375.2	7.1	37.5	35.6	32.7	113.3	2.7	40.3	*4.3*
QLG MK	QL Resources	*	3	6.53	15,892	7.05	Buy	415.1	475.6	510.7	17.1	19.6	21.0	10.9	38.2	33.4	31.1	14.9	1.0	5.0	*14.4*
SEM MK	7 - Eleven Msia		12	1.98	2,196	1.97	Hold	68.7	68.9	78.5	6.2	6.2	7.0	6.3	31.9	31.9	28.3	17.7	1.8	5.6	*(1.0)*
MNHB MK	Mynews Holdings		10	0.67	503	0.75	Buy	(8.5)	7.6	15.5	(1.3)	1.1	2.3	n.a.	n.a.	60.9	29.6	3.1	0.0	2.0	*28.8*
BFD MK	Berjaya Food	*	6	0.54	957	0.35	Sell	24.7	(7.4)	56.5	1.4	(0.5)	3.1	51.5	40.0	n.a.	17.4	(1.7)	1.3	2.2	*(10.0)*
LHIB MK	Leong Hup Intl.		12	0.65	2,354	0.75	Buy	301.7	223.5	258.3	8.3	6.1	7.1	(7.5)	7.8	10.6	9.1	9.3	2.8	1.0	*14.2*
MRDIY MK	MR D.I.Y. Group	*	12	1.93	18,243	2.45	Buy	560.7	647.8	776.6	5.9	6.9	8.2	17.9	32.7	28.0	23.5	31.7	1.9	8.9	*33.1*
INNATURE MK	InNature	*	12	0.26	184	0.30	Hold	10.5	10.7	14.0	1.5	1.5	2.0	15.5	17.3	17.3	13.0	7.2	3.8	1.2	*(28.8)*
FFB MK	Farm Fresh	*	3	1.50	2,809	1.60	Buy	59.4	91.2	122.2	3.2	4.9	6.5	43.4	47.2	30.8	23.0	12.6	0.8	3.8	*13.6*
DXN MK	DXN Holdings	*	2	0.64	3,158	0.86	Buy	320.5	374.8	408.3	6.5	7.6	8.3	13.3	9.8	8.4	7.7	26.5	6.9	2.1	*0.0*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 31 May 2024; Source: Bloomberg pricing, Maybank IBG Research*

… continued

Ticker	Company		FYE	Price 10 Jul	Market Cap	TP	Rec	Core Net Profit CY23	Core Net Profit CY24E	Core Net Profit CY25E	EPS CY23	EPS CY24E	EPS CY25E	CAGR 23-25E	PER CY23	PER CY24E	PER CY25E	ROE CY24E	Div Yld CY24E	PBV CY24E	*Px chg YTD*
				MYR	MYR m	MYR		MYR m	MYR m	MYR m	MYR sen	MYR sen	MYR sen	(%)	(x)	(x)	(x)	(%)	(%)	(x)	*(%)*
Gaming																					
SPTOTO MK	Sports Toto		6	1.63	2,199	1.71	Buy	223.2	222.7	224.8	16.7	16.7	16.8	0.4	9.8	9.8	9.7	18.8	6.7	1.8	*10.1*
MAG MK	Magnum		12	1.17	1,681	1.34	Buy	125.4	179.3	178.4	8.7	12.5	12.4	19.4	13.4	9.4	9.4	7.2	7.7	0.7	*7.3*
GENT MK	Genting Bhd		12	4.54	17,482	5.84	Buy	1,224.8	1,861.5	2,176.7	31.8	48.3	56.5	33.3	14.3	9.4	8.0	5.4	4.4	0.5	*(1.7)*
GENM MK	Genting Msia		12	2.49	14,113	3.09	Buy	583.6	725.4	997.4	10.3	12.8	17.6	30.7	24.2	19.5	14.1	5.7	6.0	1.1	*(7.4)*
Glove																					
HART MK	Hartalega Hldgs	*	3	3.36	11,469	4.50	Buy	78.1	150.4	201.4	2.3	4.4	5.9	59.5	146.1	75.9	57.4	3.2	0.7	2.4	*24.4*
KRI MK	Kossan Rubber	*	12	2.45	6,251	2.72	Buy	56.8	125.5	134.3	2.2	4.9	5.3	55.2	111.4	50.0	46.2	3.2	1.6	1.6	*32.4*
TOPG MK	Top Glove Corp	*	8	1.17	9,372	1.43	Buy	(375.6)	(45.6)	204.4	(4.7)	(0.5)	2.6	n.a.	n.a.	n.a.	45.6	(1.0)	0.3	2.0	*30.0*
Healthcare																					
OPTIMAX MK	Optimax	*	12	0.69	372	0.87	Buy	12.9	13.2	16.6	2.3	2.3	3.0	14.2	29.8	29.8	22.8	18.6	2.5	5.4	*9.6*
Materials																					
PMAH MK	Press Metal Ind	*	12	6.08	50,097	6.10	Buy	1,242.0	2,079.5	2,009.8	15.1	25.2	24.4	27.1	40.3	24.1	24.9	25.5	1.2	6.0	*26.4*
Media																					
ASTRO MK	Astro Msia Hldgs		1	0.31	1,592	0.29	Sell	183.8	113.1	169.2	3.5	2.1	3.2	(3.9)	8.8	14.5	9.6	10.0	4.6	1.4	*(22.8)*
MPR MK	Media Prima		6	0.46	510	0.42	Hold	19.2	37.0	53.6	1.7	3.4	4.9	67.3	26.5	13.7	9.5	5.2	3.3	0.8	*(1.1)*
Non-Banking Financials																					
BURSA MK	Bursa Malaysia	*	12	9.18	7,429	7.50	Hold	252.4	275.6	283.8	31.2	34.1	35.1	6.1	29.4	26.9	26.2	32.2	3.5	8.8	*32.9*
ALLZ MK	Allianz Malaysia		12	22.00	3,933	24.85	Hold	730.9	788.6	834.3	211.1	227.8	241.0	6.8	10.4	9.7	9.1	14.9	4.9	0.7	*19.3*
RCE MK	RCE Capital	*	3	2.85	2,089	3.00	Hold	138.8	146.6	158.3	19.0	19.8	21.5	6.4	15.0	14.4	13.3	17.2	5.8	2.5	*(6.9)*
MNRB MK	MNRB		3	2.27	1,778	1.70	Buy	210.4	207.1	214.9	26.9	26.4	27.5	1.2	8.5	8.6	8.3	7.1	2.0	0.6	*86.1*
Oil & Gas																					
DLG MK	Dialog Group	*	6	2.47	13,937	3.13	Buy	547.1	659.7	741.1	9.7	11.7	13.2	16.4	25.5	21.1	18.8	10.6	1.5	2.2	*19.3*
ICON MK	Icon Offshore	*	12	0.96	595	0.49	Sell	(12.3)	4.1	22.2	(2.3)	0.8	4.1	n.a.	n.a.	119.4	23.3	1.2	2.1	1.5	*63.2*
WSC MK	Wasco	*	12	1.39	1,076	1.55	Hold	76.2	100.0	104.8	9.9	12.9	13.6	17.2	14.0	10.8	10.2	12.4	0.0	1.3	*39.7*
BAB MK	Bumi Armada		12	0.60	3,527	0.66	Buy	662.4	852.7	636.1	11.2	14.4	10.7	(2.3)	5.3	4.1	5.6	13.1	0.0	0.5	*20.2*
YNS MK	Yinson Hldgs		1	2.37	7,083	4.78	Buy	909.3	997.9	1,038.9	31.1	31.5	32.6	2.4	7.6	7.5	7.3	15.3	1.6	1.1	*(5.2)*
VEB MK	Velesto Energy	*	12	0.27	2,177	0.33	Buy	99.5	158.8	255.4	1.2	1.9	3.1	60.7	22.1	13.9	8.5	6.1	1.5	0.8	*15.2*
HIBI MK	Hibiscus Petro	*	6	2.37	1,893	2.31	Hold	468.9	505.8	518.9	58.3	62.9	64.5	5.2	4.1	3.8	3.7	15.0	3.2	1.1	*(6.7)*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 31 May 2024; Source: Bloomberg pricing, Maybank IBG Research*

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Ticker	Company		FYE	Price 10 Jul MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY23 (MYR m)	Core Net Profit CY24E (MYR m)	Core Net Profit CY25E (MYR m)	EPS CY23 (MYR sen)	EPS CY24E (MYR sen)	EPS CY25E (MYR sen)	CAGR 23-25E (%)	PER CY23 (x)	PER CY24E (x)	PER CY25E (x)	ROE CY24E (%)	Div Yld CY24E (%)	PBV CY24E (x)	*Px chg YTD (%)*
Petrochemical																					
PCHEM MK	Petronas Chem	*	12	6.17	49,360	5.05	Sell	1,774.0	1,926.4	2,230.4	22.2	24.1	27.9	12.1	27.8	25.6	22.1	4.7	1.9	1.2	*(13.8)*
TTNP MK	Lotte Chemical	*	12	1.22	2,779	0.94	Sell	(891.6)	(770.1)	102.2	(39.1)	(33.8)	4.5	n.a.	n.a.	n.a.	27.1	(7.2)	0.0	0.3	*(9.6)*
Plantation																					
GENP MK	Genting Plant	*	12	5.85	5,248	6.21	Hold	253.6	293.2	318.2	28.3	32.7	35.5	12.0	20.7	17.9	16.5	5.4	4.2	1.0	*3.0*
IOI MK	IOI Corp	*	6	3.68	22,830	3.95	Hold	1,220.5	1,215.0	1,288.1	19.7	19.6	20.8	2.8	18.7	18.8	17.7	10.1	3.2	1.9	*(6.4)*
KLK MK	KL Kepong	*	9	20.02	21,950	22.60	Hold	1,122.9	1,292.8	1,329.4	104.2	119.9	123.3	8.8	19.2	16.7	16.2	8.5	3.0	1.4	*(8.2)*
SDG MK	SD Guthrie	*	12	4.21	29,115	4.96	Buy	875.4	1,273.0	1,516.0	12.7	18.4	21.9	31.3	33.1	22.9	19.2	6.9	2.2	1.6	*(5.6)*
SOP MK	Swak Oil Palms	*	12	2.85	2,542	3.18	Buy	300.2	257.5	271.4	33.7	28.9	30.5	(4.9)	8.5	9.9	9.3	7.0	3.1	0.7	*10.0*
TSH MK	TSH Resources	*	12	1.22	1,684	1.00	Sell	87.1	126.1	129.3	6.3	9.1	9.4	22.2	19.4	13.4	13.0	5.9	2.2	0.8	*25.1*
THP MK	TH Plantations	*	12	0.65	570	0.58	Sell	17.1	37.5	41.2	1.9	4.2	4.7	57.3	33.9	15.4	13.7	5.1	3.3	0.8	*33.0*
TAH MK	Ta Ann Hldgs	*	12	3.88	1,709	4.29	Buy	182.7	179.8	188.4	41.5	40.8	42.8	1.6	9.3	9.5	9.1	9.5	6.3	0.9	*6.0*
Property Dev																					
SPSB MK	SP Setia	*	12	1.45	6,904	1.66	Buy	331.9	791.0	364.2	8.1	18.8	8.7	3.6	17.9	7.7	16.7	5.3	3.8	0.5	*81.3*
UEMS MK	UEM Sunrise	*	12	1.10	5,564	1.00	Sell	75.6	98.9	105.2	1.5	2.0	2.1	18.3	73.3	55.0	52.4	1.4	0.9	0.8	*35.0*
SWB MK	Sunway Berhad	*	12	3.93	22,171	3.78	Hold	659.4	780.1	853.0	11.0	13.0	14.2	13.6	35.7	30.2	27.7	5.5	1.4	1.8	*90.8*
ECW MK	Eco World Devt	*	10	1.61	4,747	1.96	Buy	275.7	310.1	407.6	9.4	10.5	13.8	21.3	17.2	15.3	11.7	6.3	4.3	1.0	*53.3*
ECWI MK	Eco World Intl	*	10	0.34	804	0.28	Hold	(78.5)	(17.2)	(16.3)	(3.3)	(0.7)	(0.7)	n.a.	n.a.	n.a.	n.a.	(1.4)	39.7	0.6	*8.1*
TILB MK	Tambun Indah	*	12	1.08	474	1.24	Buy	49.0	66.1	73.0	11.1	15.0	16.6	22.3	9.7	7.2	6.5	8.3	5.6	0.6	*27.1*
SDPR MK	Sime Darby Prop	*	12	1.45	9,861	1.40	Buy	423.3	490.4	505.0	6.2	7.2	7.4	9.2	23.4	20.1	19.6	4.7	2.3	1.0	*132.0*
REIT																					
AXRB MK	Axis REIT	*	12	1.87	3,268	2.17	Buy	149.6	170.0	218.5	8.6	9.7	12.5	20.6	21.7	19.3	15.0	6.0	4.7	1.1	*4.5*
SALAM MK	Al-Salam REIT	*	12	0.42	241	0.41	Hold	9.1	8.3	20.6	1.6	1.4	3.6	50.0	25.9	29.6	11.5	1.3	2.9	0.4	*(12.6)*
KLCCSS MK	KLCCP Stapled	*	12	7.45	13,450	7.52	Hold	726.4	791.9	823.4	40.2	43.9	45.6	6.5	18.5	17.0	16.3	5.7	5.1	1.0	*5.1*
SENTRAL MK	Sentral REIT		12	0.81	968	0.98	Buy	73.7	84.2	87.7	6.2	7.0	7.3	8.5	13.1	11.6	11.1	6.2	7.4	0.7	*3.2*
CLMT MK	Capitaland MT		12	0.67	1,899	0.70	Buy	106.5	130.9	133.0	3.9	4.8	4.8	10.9	17.2	14.0	14.0	4.8	6.6	0.7	*19.6*
SREIT MK	Sunway REIT		12	1.60	5,480	1.60	Hold	319.0	330.4	369.1	9.3	9.6	10.8	7.8	17.2	16.7	14.8	6.4	5.4	1.1	*3.9*
IGBREIT MK	IGB REIT		12	1.91	6,894	1.75	Hold	359.1	382.6	393.4	10.0	10.6	10.9	4.4	19.1	18.0	17.5	9.5	5.2	1.7	*11.0*
PREIT	Pavilion REIT		12	1.41	5,156	1.55	Buy	285.3	309.4	373.6	7.8	8.4	9.1	8.0	18.1	16.8	15.5	6.1	5.8	1.1	*16.5*
YTLREIT MK	YTL REIT		6	1.23	2,096	1.28	Hold	148.1	157.5	159.7	8.7	9.3	9.4	3.9	14.1	13.3	13.1	5.6	7.3	0.7	*19.4*
Renewable Energy																					
CYP MK	Cypark Res	*	10	0.89	728	0.83	Hold	1.8	(8.7)	16.3	0.2	(1.1)	2.0	195.2	379.3	n.a.	43.5	(1.2)	0.0	0.7	*(6.3)*
SOLAR MK	Solarvest	*	3	1.64	1,143	1.84	Buy	29.2	44.0	56.9	4.0	6.0	7.8	39.9	41.3	27.4	21.1	14.7	0.7	4.2	*26.2*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 31 May 2024; Source: Bloomberg pricing, Maybank IBG Research*

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Ticker	Company		FYE	Price	Market	TP	Rec	Core Net Profit			EPS			CAGR	PER			ROE	Div Yld	PBV	*Px chg*
				10 Jul	Cap			CY23	CY24E	CY25E	CY23	CY24E	CY25E	23-25E	CY23	CY24E	CY25E	CY24E	CY24E	CY24E	*YTD*
				MYR	MYR m	MYR		|---------- MYR m ----------|			|--------- MYR sen --------|			(%)	|------------- (x) ------------|			(%)	(%)	(x)	*(%)*
Technology																					
INARI MK	Inari Amertron	*	6	3.95	14,910	3.40	Hold	330.2	370.2	437.3	8.6	9.7	11.4	15.1	45.9	40.9	34.6	13.7	2.1	5.5	*31.2*
VITRO MK	ViTrox Corp	*	12	4.40	8,324	3.40	Sell	133.2	159.7	190.6	7.1	8.4	10.1	19.7	62.4	52.4	43.6	14.5	0.5	7.7	*20.7*
GTB MK	Globetronics	*	12	1.44	973	1.65	Hold	25.7	31.6	42.5	3.8	4.7	6.4	29.8	37.9	30.6	22.5	10.0	2.6	3.1	*(11.1)*
VSI MK	V.S. Industry	*	7	1.28	4,930	1.41	Buy	180.8	196.1	269.1	4.4	4.7	6.1	18.5	29.3	27.3	20.9	8.0	1.6	2.2	*57.1*
GREATEC	Greatech Tech	*	12	5.75	7,212	6.50	Buy	151.2	193.3	236.4	12.1	15.4	18.9	25.0	47.5	37.3	30.4	20.7	0.0	7.6	*19.8*
FRCB MK	Frontken Corp	*	12	4.74	7,458	4.75	Buy	111.3	168.5	192.3	7.1	10.7	12.2	31.1	66.8	44.3	38.9	28.4	0.7	9.8	*46.3*
GHLS MK	GHL Systems	*	12	1.07	1,221	1.08	Hold	31.1	35.5	39.4	2.7	3.1	3.5	13.9	39.6	34.5	30.6	6.1	0.0	2.1	*54.0*
MYEG MK	My E.G. Services	*	12	1.02	7,608	1.68	Buy	488.4	627.0	624.9	6.5	8.4	8.4	13.7	15.7	12.1	12.1	23.1	1.7	2.8	*25.2*
CTOS MK	CTOS Digital	*	12	1.45	3,350	2.10	Buy	118.6	127.0	154.1	5.1	5.5	6.7	14.6	28.4	26.4	21.6	19.7	2.3	5.1	*2.8*
ATECH MK	Aurelius Tech	*	1	3.70	1,604	4.02	Buy	38.4	63.2	75.7	9.7	14.6	17.5	34.3	38.1	25.3	21.1	12.9	2.0	4.1	*42.3*
RAMSSOL MK	Ramssol	*	12	0.67	214	1.00	Buy	6.4	16.0	18.7	2.0	4.8	5.6	67.3	33.5	14.0	12.0	21.3	1.6	2.2	*76.3*
ITMAX MK	ITMAX System	*	12	2.66	2,738	2.65	Buy	63.9	84.0	104.0	6.2	8.2	10.1	27.6	42.9	32.4	26.3	20.8	0.6	6.7	*48.6*
SEQB MK	SAM Eng & Equip	*	3	6.28	4,251	6.85	Buy	101.9	115.2	141.4	15.1	17.1	20.9	17.9	41.7	36.8	30.0	7.7	0.6	3.6	*57.3*
Telecommunication																					
CDB MK	CelcomDigi	*	12	3.59	42,116	4.50	Buy	1,552.3	1,580.9	2,372.6	13.2	13.5	20.2	23.7	27.2	26.6	17.8	9.6	3.6	2.6	*(12.0)*
T MK	Telekom Msia	*	12	6.94	26,634	6.80	Buy	1,908.8	1,518.5	1,633.7	49.9	39.6	42.6	(7.6)	13.9	17.5	16.3	15.3	2.9	2.7	*25.0*
AXIATA MK	Axiata Group	*	12	2.49	22,863	3.50	Buy	542.2	699.7	1,271.1	5.9	7.6	13.8	52.9	42.2	32.8	18.0	3.2	4.0	1.0	*4.6*
MAXIS MK	Maxis	*	12	3.46	27,103	4.00	Hold	993.0	1,399.8	1,476.7	12.7	17.9	18.9	22.0	27.2	19.3	18.3	23.8	4.6	4.1	*(10.1)*
TDC MK	Time dotCom	*	12	5.20	9,614	5.60	Hold	406.4	462.5	483.0	22.1	24.9	26.0	8.5	23.5	20.9	20.0	11.2	4.8	2.3	*(3.7)*
Transport																					
CAPITALA MK	Capital A	*	12	0.85	3,638	1.00	Buy	(877.4)	318.2	701.3	(18.9)	6.5	12.9	n.a.	n.a.	13.0	6.6	(3.8)	0.0	(0.4)	*2.4*
AAX MK	AirAsia X	*	12	1.46	653	1.88	Buy	(79.4)	84.9	120.0	(17.8)	19.0	26.8	n.a.	n.a.	7.7	5.4	42.3	0.0	3.0	*(21.9)*
WPRTS MK	Westports	*	12	4.60	15,686	4.43	Buy	774.8	824.9	809.2	22.7	24.2	23.7	2.2	20.3	19.0	19.4	22.1	3.9	4.2	*26.0*
MISC MK	MISC	*	12	8.67	38,701	8.13	Hold	2,409.8	2,438.1	2,622.5	54.0	54.6	58.8	4.3	16.1	15.9	14.7	6.1	4.2	1.0	*18.9*
SWIFT MK	Swift Haulage	*	12	0.52	455	0.51	Hold	31.7	40.7	43.1	3.6	4.6	4.9	16.7	14.3	11.2	10.5	5.6	3.1	0.6	*(5.5)*
Utilities																					
TNB MK	Tenaga Nasional	*	12	14.40	83,706	13.50	Hold	3,734.5	3,666.4	4,360.8	64.4	63.2	75.2	8.1	22.4	22.8	19.1	6.1	3.2	1.4	*43.4*
PTG MK	Petronas Gas	*	12	17.88	35,380	18.00	Hold	1,842.2	1,783.9	1,822.9	93.1	90.2	92.1	(0.5)	19.2	19.8	19.4	12.8	4.0	2.5	*2.8*
GMB MK	Gas Msia	*	12	3.60	4,622	3.60	Hold	383.4	388.5	387.8	29.9	30.3	30.2	0.5	12.0	11.9	11.9	26.6	6.4	3.2	*12.1*
MLK MK	Malakoff Corp	*	12	0.83	4,056	0.55	Sell	(837.2)	358.3	384.3	(17.1)	7.3	7.9	n.a.	n.a.	11.4	10.5	6.5	4.5	0.9	*30.7*
YTLP MK	YTL Power		6	5.22	42,802	5.20	Hold	2,489.7	3,110.7	3,136.5	30.8	38.4	38.7	12.2	17.0	13.6	13.5	15.0	1.1	2.0	*105.5*
MFCB MK	Mega First Corp	*	12	5.06	4,770	4.80	Hold	393.5	455.1	464.6	41.7	48.3	49.3	8.7	12.1	10.5	10.3	13.3	1.8	1.4	*37.1*
RAHH MK	Ranhill Utilities	*	12	1.62	2,099	0.90	Sell	57.9	64.4	78.1	4.5	5.0	6.1	16.4	36.0	32.4	26.6	7.9	1.5	2.6	*80.8*

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SECTOR OUTLOOK

AUTOMOTIVE: Navigating the crossroad

NEUTRAL (unchanged)

- **We raise TIV forecast to 740k units for 2024E, with potential upside if new launches perform well, but remain cautious on risks like fuel subsidy rationalization, high-value goods tax, and price wars from new market entrants.**
- **EV sales are on track to achieve MAA's forecast of 14,800 units (2% of total TIV forecast), but PHEV/HEV target of 59,200 units (>2x YoY) seems optimistic on lack of attractive new hybrid models and promotional incentives.**
- **We have a BUY on BAuto due to its resilience and attractive valuation, with a dividend yield of >9%; and SIME due to its industrial segment growth and increased earnings from recent acquisitions.**

1H24, in retrospect. Total industry volume (TIV) has maintained strong momentum in 5M24 - 328,901 vehicle sales (+8% YoY) - despite coming off a very high base in 2023 (vehicle purchase surged during the SST holiday, which ended in Mar 2023). Key outperformers included Perodua (+20% YoY) and Honda (+14% YoY), along with new market entrants BYD and Chery, which collectively sold 10,028 units, capturing 3% of TIV. Chery Malaysia made a strong debut, selling 10,913 units in just 11 months since its official launch on 6 Jul 2023, with four models - OMADA 5, Tiggo 8 Pro, Omoda E5 - and the newly launched Tiggo 7 Pro in Jun 2024. BYD, launched in Malaysia in Dec 2022, has only been included in MAA data since Apr 2023; it has since registered robust sales of 7,336 units with 3 models - Atto 3, Dolphin, Seal.

Despite the stronger-than-expected TIV so far, NxEVs sales are slightly trailing behind targets in 1Q24. EV/HEV sales were 2,703/8,296 units respectively in 1Q24, accounting for only 18%/14% of MAA's 2024 forecasts of 14,800/59,200 units. Additionally, only 2,585 EV chargers have been installed YTD, falling significantly short of the national target for 10,000 EV chargers by 2025.

2H24 outlook. We expect vehicle sales in 2H24 to continue benefiting from backlog orders and a robust pipeline of new launches. YTD, backlogs for Perodua, Proton, Toyota and Mazda are 100k, 26k, 23k and 1.5k units respectively. Highly anticipated new launches in 2H24 include Kia Sportage, Jaecoo J7 and GWM H6 Hybrid, focusing primarily on the mass premium SUV segment (priced between MYR100k-MYR180k).

Recent launches, such as the updated Proton X50 RC, Chery Tiggo 7 Pro and GAC GS3 Emzoom, which all fall in the mass premium SUV segment, have already started to trigger price competition among dealers with discounts and cash rebates ranging from MYR2k-MYR10k, based on our ground research. We are cautious on this development, as it may signify the beginning of a price war, especially with more new launches expected ahead. Additionally, enforcement of the service tax hike, diesel subsidy rationalization, and impending minimum wage revision and high-value goods tax could raise margin pressure for local auto players in the near term.

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Automotive sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Sime Darby	Buy	17,993	2.64	3.44	14.3	11.3	9.7	1.0	8.8	4.4	12.3
Bermaz Auto	Buy	2,969	2.54	3.04	8.8	8.4	8.2	3.4	39.7	9.4	7.6
MBM Resources	Hold	2,029	5.19	4.69	6.6	6.8	6.6	0.9	12.6	8.1	22.4
Tan Chong Motor	Hold	560	0.86	0.85	n.a.	n.a.	n.a.	0.2	(1.5)	3.5	(11.3)
Simple average		**23,551**			**9.9**	**8.8**	**8.2**	**1.4**	**14.9**	**6.4**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

In this context, we believe this situation could be a blessing in disguise for national marques like Perodua and Proton. They are better positioned in a price war due to their competitive pricing, and an increase in minimum wage could spur demand for mass-market segment vehicles (priced <MYR100k). Their key target market is also more shielded from subsidy rationalization and high-value goods tax. We observed quality improvements and more attractive product offerings in recent launches by the national marques, which are reflected in their increasing market share in the local TIV segment - from 40-50% pre-COVID to as high as 66% in May 2024. This could bode well for MBMR (a shareholder, dealer, and parts supplier for Perodua) and DRB-Hicom (Not Rated; which owns 50.1% of Proton).

Meanwhile, in the EV space, we expect sales to pick up in 2H24, with robust launches in the pipeline, such as Xpeng G6, Smart #3, Proton e.Mas, bZ4X EV, Zeekr X, Leapmotor C10, Lotus Emeya, BMW i5 M60 xDrive, and MINI Countryman SE ALL4. While we believe MAA's EV sales target of 14,800 units (+46% YoY) remains on track, PHEV/HEV target of 59,200 (more than double YoY) seems optimistic due to the lack of attractive new hybrid models and promotional incentives.

A key lookout in 2H24 is upcoming policies promoting NxEV sales, as many existing EV incentives are set to expire in 2025 - including road tax exemptions, import duty and excise duty exemptions for CBU EVs, and restrictions on importing CBU EVs priced below MYR100k. We believe EV sales could accelerate if: (i) more incentives and effective policies are successfully introduced; (ii) affordable national EV models from Proton and Perodua are successfully launched (anticipated by end-2024 for Proton and 2025 for Perodua); (iii) more affordable EV models become available in the market (if the restriction on importing CBU EVs below MYR100k is lifted); and (iv) EV infrastructure improves, such as achieving the target of installing 10,000 EV chargers by 2025.

Sector rating. We have a NEUTRAL rating on the sector expecting TIV growth to taper. We are also concerned on risks such as (i) the impact of fuel subsidy rationali-zation and impending high-value goods tax and (ii) the influx of new market entrants which could trigger or intensify a price war in the market, thereby compressing industry players' margins.

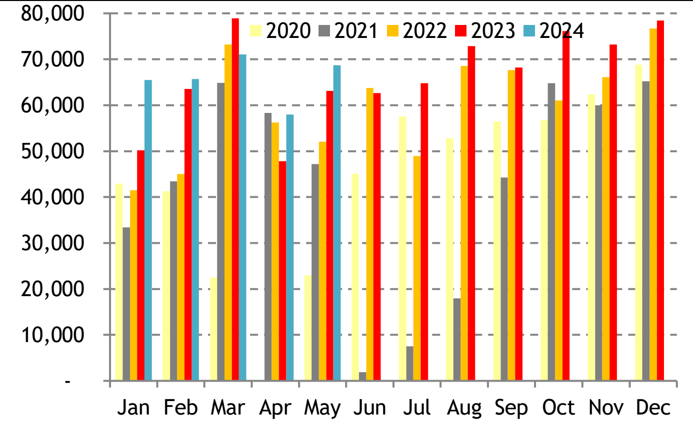
We raise our 2024 TIV forecast to 740k units (-7.5% YoY) from 650k, aligning with MAA forecasts. There is potential upside if the market reception remains positive towards upcoming new launches. Typically, 2H sees stronger sales compared to 1H, driven by new launches, year-end promotions, and fewer festive holidays/plant shutdowns (impacting production output and working days). Based on annualized 5M24 TIVs, we may achieve 789,000 units TIV in 2024 (-1% YoY). Catalyst for higher TIV include civil servants' pay hike from Dec 2024, which may boost car purchases.

Sector top BUY. We have BUYs on BAuto and SIME. We expect BAuto auto sales to remain resilient despite focusing on the mass premium segment, thanks to its strong brand reputation and solid customer base. Having successfully established the Mazda brand in Malaysia, BAuto aims to replicate this success with Kia, projected to be its next growth driver in FY25E (to double its sales from a low base). Our BUY recommendation is supported by compelling valuation (8x FY25E PER) and an attractive >9% FY25E DY.

Similarly, SIME's positive outlook is underpinned by its industrial segment, which is expected to benefit from robust commodity prices and increased demand for mining equipment in Australia. We expect the motor segment to be bolstered by higher assembly profits in Malaysia, although this could be partially offset by intense price competition in China. Additionally, full-year contributions from recently acquired units - UMW, Cavpower, and Onsite Rental - are anticipated to boost group earnings.

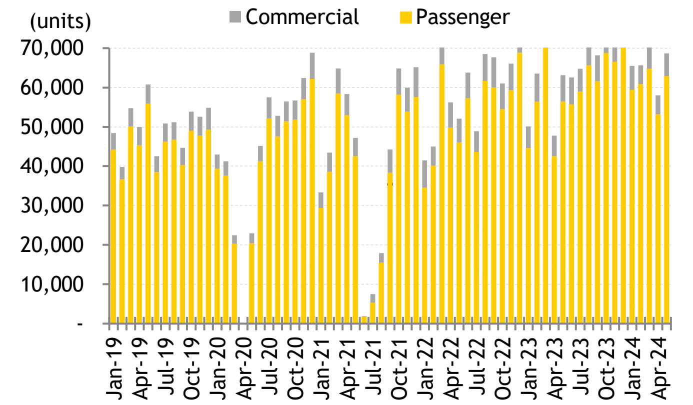
Risks. (i) An unfavorable and sudden shift in automotive policies and direction will adversely impact local vehicle sales and vice versa; (ii) a significant downturn in consumer sentiment or disruptions in the supply chain could impact vehicle sales and production. Additionally, (iii) FX volatility,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

Total Industry Volume (TIV)



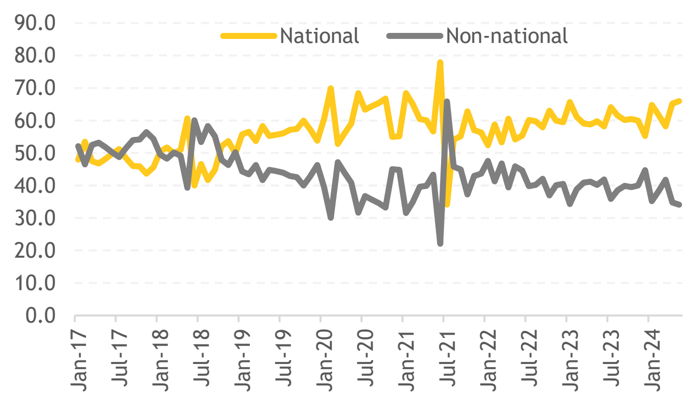
Source: MAA, Maybank IBG Research

Commercial vs. passenger vehicle volume



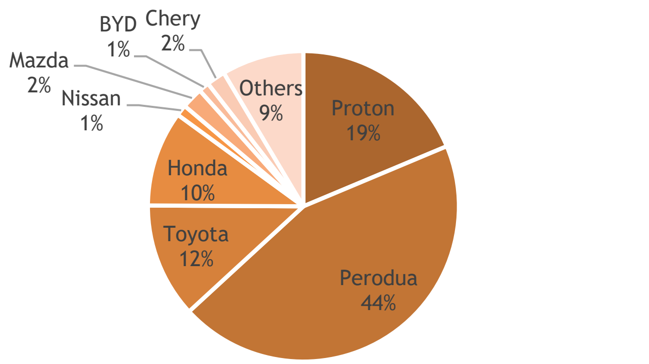
Source: MAA, Maybank IBG Research

Malaysia's market shares by national/non-national marques



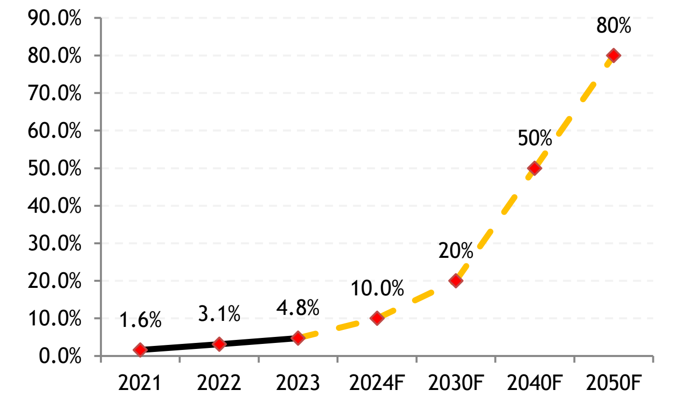
Source: MAA, Maybank IBG Research

Malaysia's market shares by marques (5M 2024)



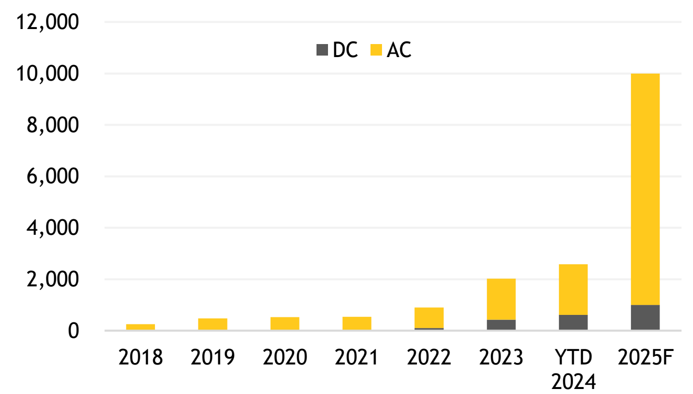
Source: MAA, Maybank IBG Research

% of xEVs vs. TIV



Source: MOT, MAA, Maybank IBG Research

EV chargers in Malaysia



Source: MGTV, MEVnet

Target sales and upcoming new launches for key marques in Malaysia

Marques	Target sales (2024E)	Backlogs	New launches slated for 2H24
Perodua	330,000	100,000	D66B
Proton	160,000	26,000	eMas EV
Toyota	95,000	23,000	bZ4X EV
Mazda	18,200	1,500	CX-60
Kia	3,600	300	Kia Sportage
Honda	95,000	-	
Others (EV)	14,800	-	Xpeng G6, Smart #3, Zeekr X, Leapmotor C10, BMW i5 M60 xDrive, MINI Countryman SE ALL4, Lotus Emeya
Others	-	-	Jaecoo J7, GWM H6 Hybrid, GWM Tank 300, BAIC BJ40 Plus, BMW 520i, MINI JCW Countryman ALL4, MINI Cooper S
Total TIV	**740,000**	**-**	

Source: Companies, Maybank IBG Research (compilation)

AVIATION: Firing on all engines

POSITIVE (unchanged)

- **We expect future quarterly earnings to be stronger on still high fares coupled with more aircraft returning to service.**
- **Our expectation is for 2024 to be profitable. This is highly significant as the industry was generating losses even before COVID-19 struck.**
- **We have BUYs on both CAPITALA and AAX but our top pick is AAX as it will receive more AAG shares from its 'merger' with CAPITALA's 5 airlines.**

1H24, in retrospect. 2024 was off to a good start with Malaysia having exempted visa requirements for Chinese and Indian visitors on 1 Dec 2023. Then, the global aviation industry was shaken when a door plug on a Alaska Airlines Flight 1282 Boeing 737 MAX blew out at c.16,000 feet on 5 Jan 2024. Following the incident, the US Federal Aviation Administration ordered Boeing to limit monthly production of Boeing 737 MAXs to 38. This impaired Malaysia Airlines' (Not Listed) ability to expand its fleet. Higher demand coupled with lower supply growth led to a marked increase in fares for AirAsia flights (Fig. 1 & 2).

In mid-April 2024, the world held its breath when war nearly erupted in the Middle East but it did not come to pass. The higher fares resulted in both AAX and CAPITALA reporting stellar 1Q24 earnings. AAX returned to core profitability after a 3 quarter hiatus while CAPITALA returned to core profitability after more than 4 years. Corporate activities wise, CAPITALA and AAX finally announced that the former will sell its shareholdings in 5 airlines to the latter for MYR3.0b effectively via 2.3b new AAX shares at MYR1.30/shr in a bid to uplift its PN17 classification. AAX will be renamed as AirAsia Group (AAG)

2H24 outlook. After an eye watering 1Q24 average fare of MYR264, CAPITALA reiterated that average fares remain high at >MYR250 or >25% higher than pre-COVID times. Yet, it is experiencing c.90% load factors or 5ppts higher than pre-COVID times. Domestic demand remains resilient while foreign demand improved markedly thanks to the aforementioned visa requirements exemption. Recall that CAPITALA generated 1Q24 core net profit of MYR66.5m although only 78% of its aircraft were operational. It expects 92% of its 221 aircraft to be operational by year end, which we believe will set the stage for markedly better 4Q24 results.

On its PN17 status, CAPITALA expects announcement of its regularisation plan in July, submission of a circular to Bursa Malaysia Exchange (BME) in Sep, approval from BME in Nov, EGM seeking shareholders' approval in Dec and uplifting of its PN17 status in 1Q25/2Q25 after 2 profitable quarters. For AAX, we expect 2Q24 and 3Q24 to be seasonally weaker. Traditionally, 1Q and 4Q are seasonally the strongest for AAX. It will return 2 aircraft to service and lease another in 2H24, bringing the total number of operational aircraft to 19 by year end and pave the way to strong 4Q24 results.

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Aviation sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Capital A	Buy	3,638	0.85	1.00	n.a.	13.0	6.6	(0.4)	(3.8)	0.0	2.4
AirAsia X	Buy	653	1.46	1.88	n.a.	7.7	5.4	3.0	42.3	0.0	(21.9)
Simple average		**4,291**			**n.a.**	**10.3**	**6.0**	**1.3**	**19.2**	**0.0**	

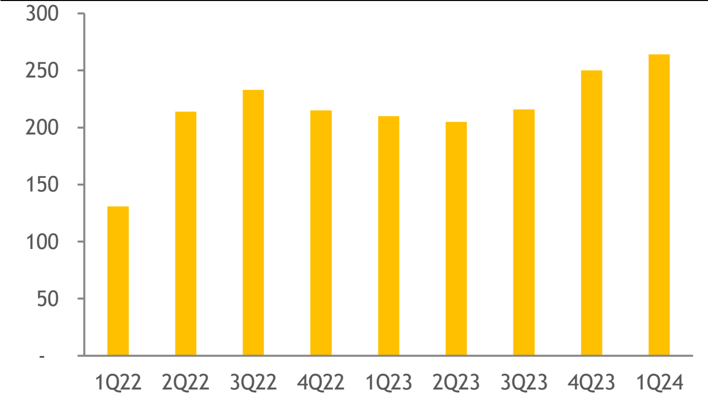
Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector rating. We remain positive on the Malaysian aviation industry. We expect CAPITALA and AAX to have a profitable 2024. At first glance, this seems obvious from today's vantage point but is highly significant when we consider the fact that both of them were incurring losses even before the COVID-19 pandemic struck due to industry overcapacity. With industry overcapacity being rationed (higher demand and lower supply growth as explained above) and all Malaysian airlines (especially Malaysia Airlines) pricing fares rationally, we expect 2024 to be the first core profitable year for CAPITALA and AAX in the last several years. Thus, we do not believe that they should be trading at only 5-7x CY25E PER when the global low cost carrier average CY25E PER is much higher at 10x.

Sector top BUY. We have BUY calls on both CAPITALA and AAX but between the 2, we prefer AAX. In the 'merger' of CAPITALA's 5 airlines and AAX to create AAG, every 1 AAX share entitles the shareholder to 1 AAG share and 0.5 free AAG warrant whereas 1 CAPITALA share entitles the shareholder to a fewer 0.4-0.5 AAG shares. To be sure, CAPITALA will still be left with the maintenance, repair and overhaul (Asia Digital Engineering), superapp (MOVE), logistics (teleport), fintech (BigPay) and branding (Capital A International) businesses whose values could be unlocked via listing and distribution in specie to CAPITALA shareholders but we believe that it will take effort and time for their values to be realized whereas AAX shareholders will receive free AAG warrants that can be monetised much more quickly.

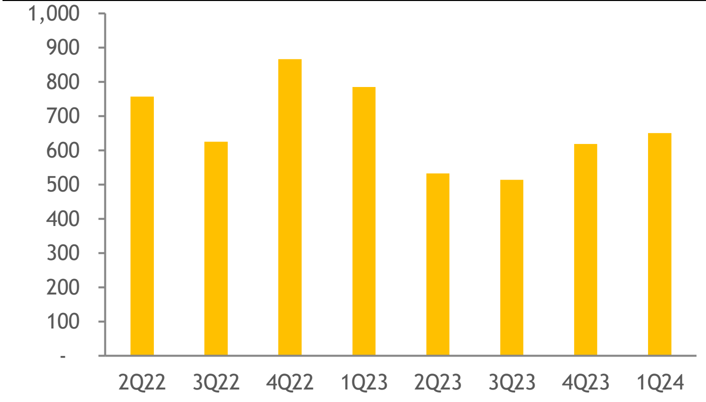
Risks. (i) Exogenous events – SARS; MH370, MH17 & AK8501 tragedies; and COVID-19 negatively impacted passenger traffic growth; (ii) fuel prices – they are volatile and there is no certainty that they will be hedged at low levels; and (iii) weak MYR – 60-70% of CAPITALA's operating costs are USD denominated while c.80% of AAX's operating costs are USD denominated.

Fig 1: CAPITALA average fares (MYR)



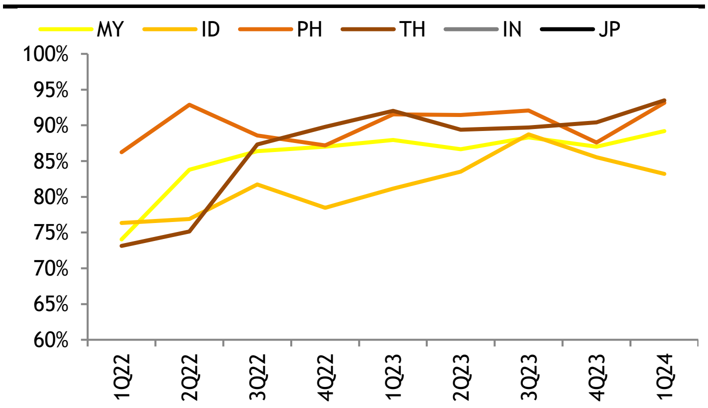
Source: CAPITALA

Fig 2: AAX average fares (MYR)



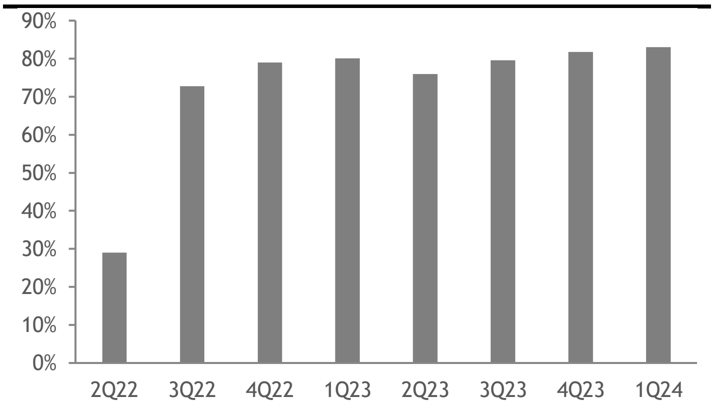
Source: AAX

Fig 3: CAPITALA load factors (%)



Source: CAPITALA

Fig 4: AAX load factors (%)



Source: AAX

BANKING: Encouraging trends

POSITIVE (unchanged)

- **We project core net profit growth of 6.8% in 2024E and 6.1% in 2025E, aided by stable NIMs, fairly robust loan growth and marginally lower cost/ income ratios. We expect ROEs to average 10.3% in 2024E, 10.4% in 2025E.**
- **What would be positive is if deposit competition is more muted than expected, thus allowing for a faster restoration in overall margins.**
- **POSITIVE maintained on the sector, with BUYs on AMMB, CIMB, ABMB, PBK, HLBK and HLFG.**

1H24, in retrospect. 1Q24 was an encouraging quarter. Cumulative operating income rose 12% YoY, led by robust loan growth (+7.9% YoY), higher QoQ NIMs (+5bps) and higher NOII (+29% YoY). Operating expenses, however, kept pace, up 12% YoY, and as a result, operating profit rose 11% YoY. Credit cost was higher YoY and thus cumulative core pretax and net profit rose just 8% YoY. This compares favourably against pretax profit growth of just 3% in 2023 (2023 net profit climbed 14% YoY, but was aided by the absence of *Cukai Makmur*).

Industry loans growth was 5.8% YoY in May 2024 with household (HH) loan growth at 6.5% and non-HH loan growth at 4.8%. Deposit growth was 5.0% YoY with CASA growth at 7.4%, which is positive for banks' margins. Asset quality improved as absolute impaired loans declined 4.2% YoY. The industry's gross impaired loans (GIL) ratio was 1.63% end-May 2024 (end-2023: 1.65%).

2H24 outlook. We forecast a 2024E operating profit growth rate of 7.6%, on domestic loan growth of 5.5%, stable NIMs (-1bp YoY), and a marginally lower cost/income ratio of 44.7% (44.9% in 2023). We project core net profit growth of 6.8%, driven by faster operating profit growth, mitigated in part by a higher credit cost average of 24bps versus 23bps in 2023. Into 2025E, we project operating profit growth of 5.5% and core net profit growth of 6.1%.

Sector rating. We expect ROEs to average 10.3% in 2024E, 10.4% in 2025E. Dividend yields are attractive, with most banks offering yields of >5%, except for HL Bank and Public Bank. BIMB, MAY and RHB potentially offer yields of 7% or more for FY24E. We remain POSITIVE on the sector.

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Banking sector – Peer valuation summary

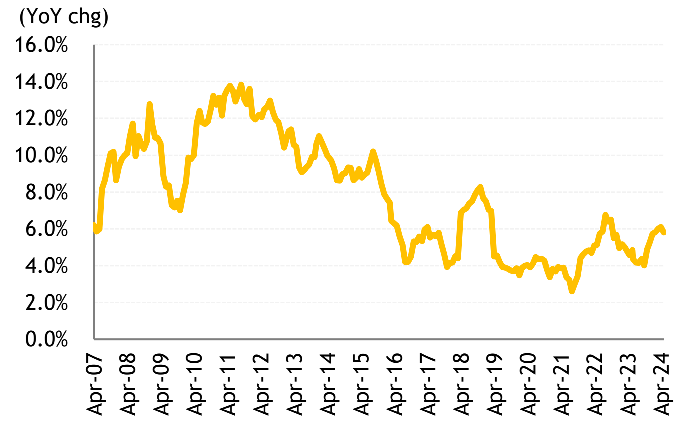
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Public Bank	Buy	80,360	4.14	4.85	12.2	11.8	10.9	1.4	12.0	4.8	(3.5)
CIMB Group	Buy	75,842	7.09	7.70	10.9	10.0	9.5	1.1	10.5	5.5	21.2
Hong Leong Bank	Buy	41,447	19.12	23.00	10.1	9.7	9.0	1.0	11.3	3.7	1.2
RHB Bank	Hold	24,108	5.53	5.90	7.9	8.4	7.8	0.7	9.0	7.1	1.5
Hong Leong Fin Group	Buy	19,698	17.20	21.70	6.8	6.4	6.0	0.6	10.0	3.4	4.6
AMMB Holdings	Buy	14,413	4.36	5.05	8.4	8.0	7.6	0.7	8.9	5.3	8.7
Bank Islam M'sia	Hold	5,644	2.49	2.75	10.0	9.6	8.9	0.7	7.9	6.8	12.7
Alliance Bank M'sia	Buy	6,007	3.88	4.35	8.7	8.3	7.9	0.8	9.6	5.9	14.5
Simple average		**267,518**			**9.8**	**9.3**	**8.7**	**0.9**	**10.0**	**5.5**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector top BUYs. Our big cap pick in the sector continues to be CIMB, which could see further re-rating should management successfully achieve its ROE target of 11-11.5% for 2024E. Our forecasted FY24E ROE of 10.8% trails management's target, and our TP of MYR7.70 pegs on a FY24E PBV of 1.1x, which is undemanding, in our view. In the mid-cap space, our top pick is AMMB, which we think is undervalued – the stock trades at a prospective FY3/25E PBV of 0.7x against our forecasted ROE of 9.1% (which trails management's target of 10%). Moreover, the strengthening of its capital ratios would imply potentially higher dividend payouts moving forward from 40% currently, paving the way for higher dividend yields in the near future.

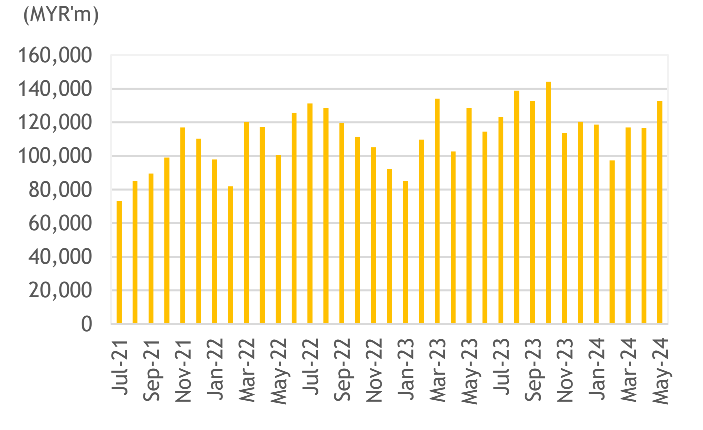
Risks. (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset quality issues; (ii) inflationary pressure and its negative impact on consumption and spending power; (iii) intensifying deposit competition which could further pressure interest margins; iv) global instability amid ongoing wars and conflicts; and v) ongoing defaults in the consumer/SME space.

Industry loan growth (Apr 2007 – May 2024)



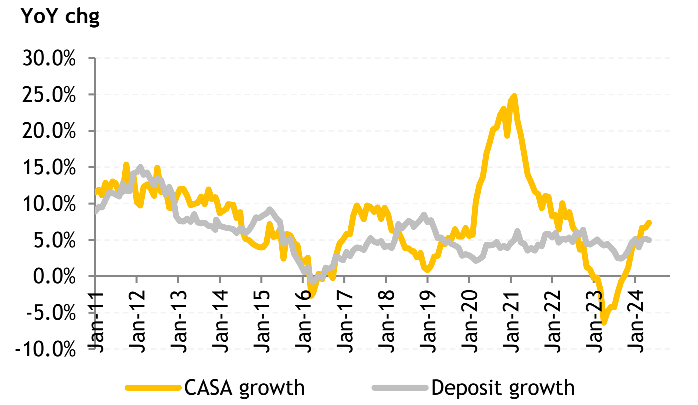
Source: BNM

Total monthly loan applications (Jul 2021 – May 2024)



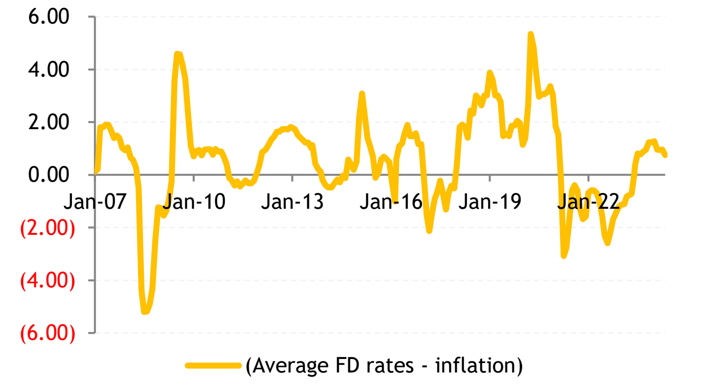
Source: BNM

Total deposits and CASA growth (Jan 2011 – May 2024)



Source: BNM

Differential between average fixed deposit rates and inflation (Jan 2007 – May 2024)



Source: BNM

CONSTRUCTION: Tailwind still

POSITIVE (unchanged)

- **We remain upbeat for 2H24; our expectations are for the award or construction of a few key infra projects to happen or to start by YE2024.**
- **Into 2025, there will also be key infra projects that will sustain excitement; and we expect the government to re-call a tender for the KVMRT3.**
- **We remain positive on Gamuda, IJM and CMS being the direct beneficiaries.**

1H24, in retrospect. The value of completed construction works throughout the country rose 14.2% YoY (+7.7% QoQ) to MYR38.6b in 1Q24 (2023: +8.4% YoY). The YoY growth, we observe, was driven by civil engineering works which contributed 66% to the growth, and by state, projects in Pahang and Johor contributed 65%. We believe two key infra projects contributed to the YoY growth – ECRL, which reached 62.4% completion as of Feb 2024 [link] vs. 43% in Apr 2023 [link] and JB-SG RTS which reached 77.6% completion as at 31 May 2024 [link] vs. about 1/3 in Apr 2023 [link]. The ECRL has since reached 67.1% progress as of 31 May 2024 [link].

Elsewhere, all was quiet on the KVMRT3 project after the validity of tender for its main civil work packages expired in end-Mar 2024. Similarly on the KL-SG HSR after a request for information (RFI) to solicit concept proposals closed on 15 Jan 2024. Positively, there has been progress on Penang's Mutiara LRT project as the track alignment was finalised – very similar to the original - leading the project to enter the open tender stage [link]. In addition, rising FDI/DDIs in manufacturing are filtering down to the construction sector with SCGB and GAM securing MYR2.2b and MYR2b of data centre projects each in 1H24, and IJM clinching MYR1.3b new jobs to build a logistics hub, a semicon manufacturing facility and a data centre.

2H24 outlook. We remain upbeat for 2H24 and into 2025. Our expectations are for the award or construction start of a few key infra projects to happen or to start by YE2024. The Mutiara LRT offers about MYR10b in civil works value, we estimate – Silicon Island to Komtar (Segment 1), Komtar to Penang Sentral (Segment 2) - while in the Klang Valley, a decision on the NPE Phase 2 - part of the planned highway extensions under the KL Structure Plan 2040 to complete connectivity with the other highways for effective traffic dispersal – is also expected soon.

Elsewhere, sizeable private sector driven infra project awards can be expected in 2H24: i) Penang Int'l Airport expansion (e.MYR1b+, by M'sia Airports); ii) Westports 2.0 (e.MYR4.4b for Phase 1 civil works, by Westports); iii) Silicon Island common infra works (e.MYR2b+, by Gamuda). Beyond these key infra projects, the positive momentum in DDI/FDIs will continue to offer high-value industrial building type of works (for logistics hubs, E&E manufacturing facilities, data centres, etc).

Into 2025, the following key infra projects will sustain excitement in the sector: i) Juru-Sg Dua Elevated Highway in Penang (e.MYR1.8b), now under the federal govt's main discussion list; ii) JB ART system (e.MYR7b) to complement the JB-SG RTS link [link]; iii) Perak's water management project (e.MYR4b) mainly to supply to Kerian and Seberang Perai [link]. We expect the government to re-call a tender for the KVMRT3 project – perhaps in 2025 - we understand that land acquisition is ongoing.

Abbreviations

ECRL= East Coast Rail Link
JB-SG RTS = Johor Bahru-Singapore Rail Transit System
KVMRT3 = Klang Valley Mass Rapid Transit 3
KL-SG HSR = Kuala Lumpur-Singapore High Speed Rail
LRT = Light rail transit
FDI/DDI = Foreign/Domestic direct investment
NPE = New Pantai Expressway
JB ART = Johor Bahru Automated Rapid Transit
E&C = engineering & construction
Ops = operations

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Construction sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Gamuda	Buy	20,848	7.52	7.25	22.2	20.1	16.8	1.7	8.6	2.1	63.8
IJM Corp	Buy	11,886	3.39	3.30	25.7	22.9	21.4	1.1	5.0	2.4	80.3
Sunway Construction	Sell	5,583	4.33	2.30	38.3	36.1	32.8	6.2	17.2	1.4	123.2
Cahya Mata Sarawak	Buy	1,493	1.39	1.38	13.0	10.1	8.5	0.4	4.3	1.4	28.7
Pintaras Jaya	Hold	280	1.69	1.70	n.a.	69.0	41.7	0.7	1.0	1.2	5.6
Simple average		**40,090**			**24.8**	**31.6**	**24.2**	**2.0**	**7.2**	**1.7**	

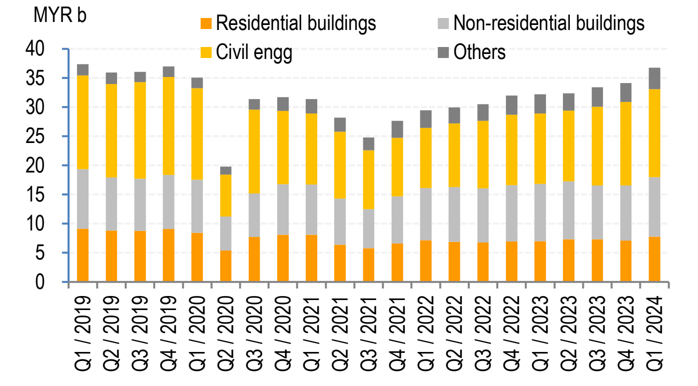
Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector rating. We remain POSITIVE on the construction sector, with rising order-book replenishment potential to be supported by key infra and industrial building type of projects. Despite having outperformed YTD, valuations are not overly demanding with the two largest construction groups – GAM and IJM - trading at about 0.5SD above their mean valuations (at the time of writing) while we note that they have traded beyond +1SD before.

Sector preference. We remain positive on Gamuda and IJM being the direct beneficiaries of major infra jobs (at the main tier level) based on their delivery track records. With both having invested in IBS solutions – Next Gen Digital IBS for GAM, and SMART IBS for IJM – to accelerate the construction process especially for industrial building (including data centre) type of works, we expect them to be prime beneficiaries of rising FDI/DDIs in the country. Besides Malaysia, GAM has identified its overseas ops to provide the growth (it targets to double E&C and property revenues in FY28E vs. FY24E levels); similarly, IJM has a long established presence in India to grow its construction orderbook. CMS meanwhile remains a liquid proxy to higher construction activities in Sarawak being the only producer of cement and largest supplier of construction materials in Sarawak.

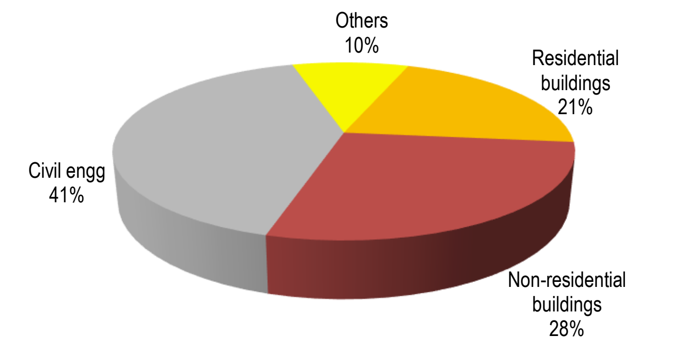
Risks. (i) Shortfall in orderbook replenishment will hamper future earnings momentum; (ii) Surge in construction material, fuel and labour costs will cut into margins for jobs already secured.

Value of construction works completed, quarterly



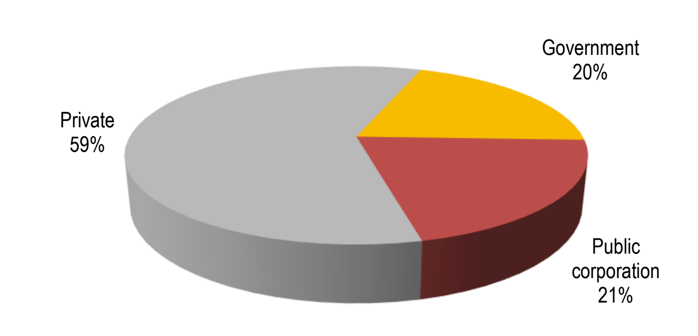
Source: DOSM, Maybank IBG Research

Value of works completed in 1Q24 of MYR36.8b – by type



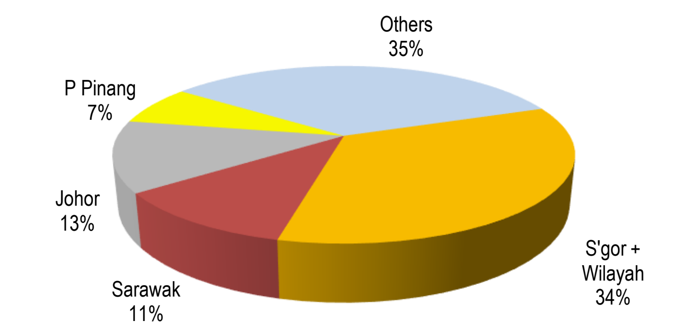
Source: DOSM, Maybank IBG Research

Value of works completed in 1Q24 of MYR36.8b – by funding



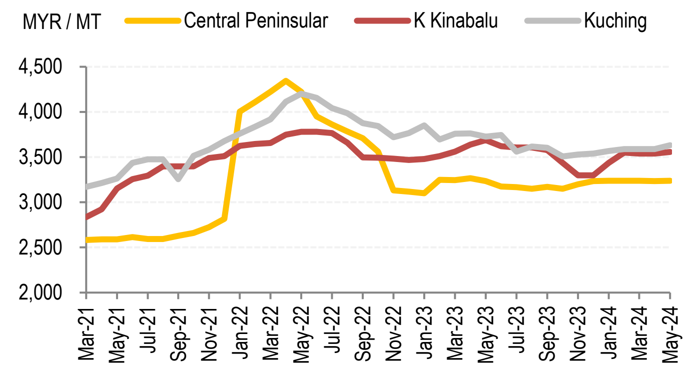
Source: DOSM, Maybank IBG Research

Value of works completed in 1Q24 of MYR36.8b – by state



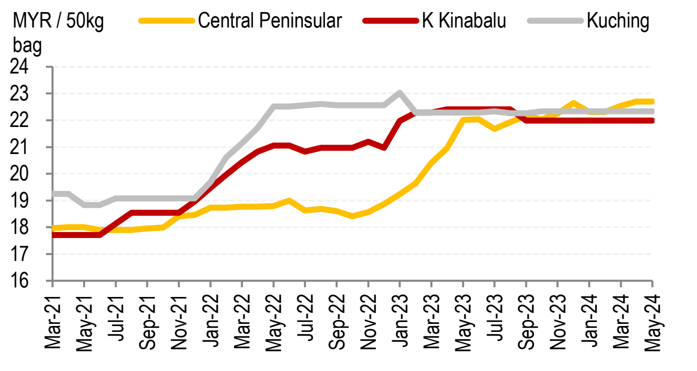
Source: DOSM, Maybank IBG Research

Steel bar prices (high tensile deformed bars, 1/2 inch)



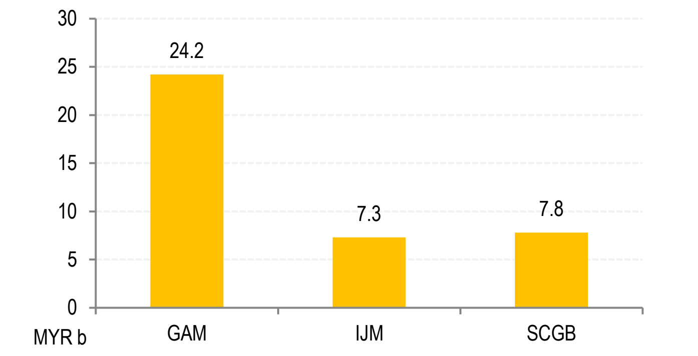
Source: DOSM, Maybank IBG Research

Cement prices (ordinary portland BS12)



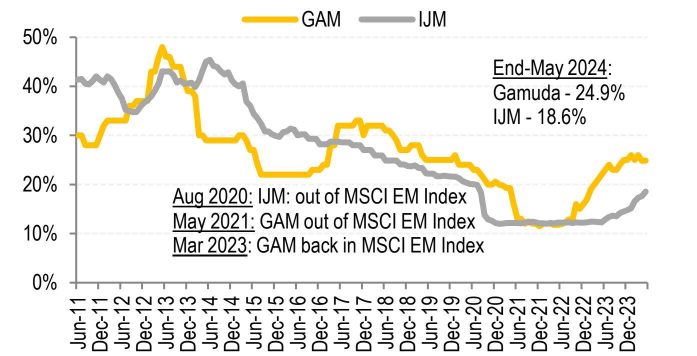
Source: DOSM, Maybank IBG Research

Outstanding orderbook



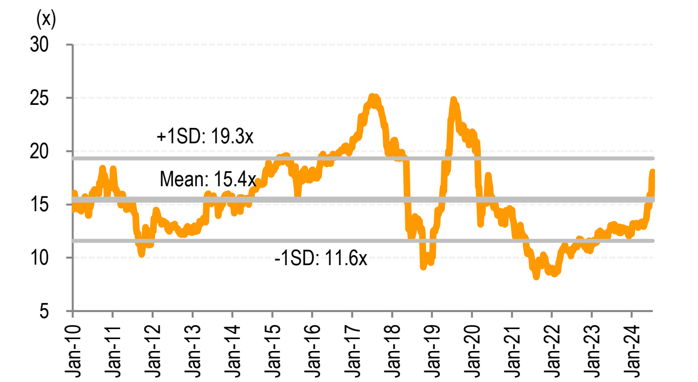
As of end-Mar 2024 for IJM & SCGB plus new wins in 2QCY24; end-Apr 2024 for GAM plus new wins in May 2024
Source: Companies

Foreign shareholding



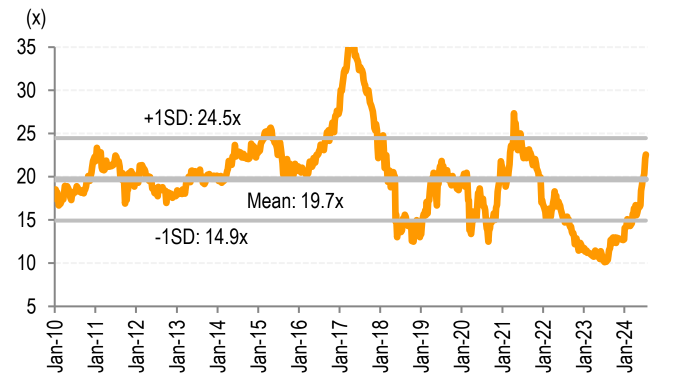
Source: Companies

GAM – 12M forward PER



Source: Bloomberg, Maybank IBG Research

IJM – 12M forward PER



Source: Bloomberg, Maybank IBG Research

CONSUMER: Selected bright spots

POSITIVE (unchanged)

- **Our 2024E sector earnings growth of +6% YoY arises from selected stapled F&B producers and mass market retailers that possess relatively inelastic product demand during periods of rising cost-of-living.**
- **Financial support measures (eg. EPF Account 3 withdrawal) are short-term positive to the overall consumer sector but subsidy roll-backs may off-set overall impact on consumer spending.**
- **Our top BUY is MRDIY.**

1H24, in retrospect. 1Q24 was a very decent quarter for the consumer sector in terms of earnings delivery, with cumulative core net profit rising +15% YoY on heightened sales during both Chinese New Year and pre-Hari Raya Aidilfitri festivities. Although consumer spending momentum showed promise in 1Q24, it was inadequate to fully offset rising cost of production for certain F&B manufacturers, which ultimately led to the announcements for higher product prices. NESZ raised prices for 22 of its core products (by c.5%-6%) with effect from 1 Jul 2024 due to significant spikes in cocoa, coffee, and other raw material costs, while the brewers (HEIM and CAB) also announced similar price hikes of c.5%-8% (from 1 Jul 2024), on rising production cost of beer.

2H24 outlook. We forecast +6% YoY earnings growth for our basket of consumer stocks in 2024E, with the growth to be contributed by selected stocks, namely QLG, LHIB, and MRDIY, where demand for their products - food staples and low-priced household goods - is relatively inelastic in a rising cost-of-living environment.

MIER's Consumer Sentiment Index was 87.1 in 1Q24 - below the optimism threshold of >100. While EPF Account 3 withdrawal (wef 1 May 2024) could lead to some uplift in consumer spending in the immediate months, this could be short-lived amid ongoing subsidy roll-back (diesel wef 10 Jun 2024; RON95 is next) and any further increases in product prices, pressuring household wallets. We expect 1) moderate impact to food staple producers (eg. NESZ, QLG, FFB, LHIB) and mass market retailers (eg. MRDIY, PAD) but 2) heavier sales risk in the consumer retail segment (eg. BFD, INNATURE, SEM, MYNEWS, AEON), and the brewers (CAB and HEIM) as essential household spending takes precedence over discretionary ones.

Analyst: Jade Tam
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Consumer sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Nestle (Malaysia)	Hold	28,773	122.70	123.60	37.5	35.6	32.7	40.3	113.3	2.7	4.3
MR D.I.Y. Group (M)	Buy	18,243	1.93	2.45	32.7	28.0	23.5	8.9	31.7	1.9	33.1
QL Resources	Buy	15,892	6.53	7.05	38.2	33.4	31.1	5.0	14.9	1.0	14.4
Heineken M'sia	Buy	6,670	22.08	28.20	17.3	16.6	16.2	14.5	84.8	6.0	(8.5)
Carlsberg Brewery	Buy	5,669	18.54	21.00	17.9	17.6	16.7	20.7	132.4	5.1	(3.8)
DXN Holdings	Buy	3,158	0.64	0.86	9.8	8.4	7.7	2.1	26.5	6.9	0.0
Farm Fresh	Buy	2,809	1.50	1.60	47.2	30.8	23.0	3.8	12.6	0.8	13.6
Padini Holdings	Hold	2,322	3.53	4.10	12.4	13.6	11.6	2.0	14.4	3.3	0.6
Leong Hup Intl.	Buy	2,354	0.65	0.75	7.8	10.6	9.1	1.0	9.3	2.8	14.2
7 - Eleven M'sia	Hold	2,196	1.98	1.97	31.9	31.9	28.3	5.6	17.7	1.8	(1.0)
AEON Co. (M)	Buy	1,952	1.39	1.74	14.2	13.6	12.6	1.0	7.4	2.9	27.5
Berjaya Food	Sell	957	0.54	0.35	40.0	n.a.	17.4	2.2	(1.7)	1.3	(10.0)
Mynews Holdings	Buy	503	0.67	0.75	n.a.	60.9	29.6	2.0	3.1	0.0	28.8
InNature	Hold	184	0.26	0.30	17.3	17.3	13.0	1.2	7.2	3.8	(28.8)
Simple average		**91,681**			**24.9**	**24.5**	**19.5**	**7.9**	**33.8**	**2.9**	

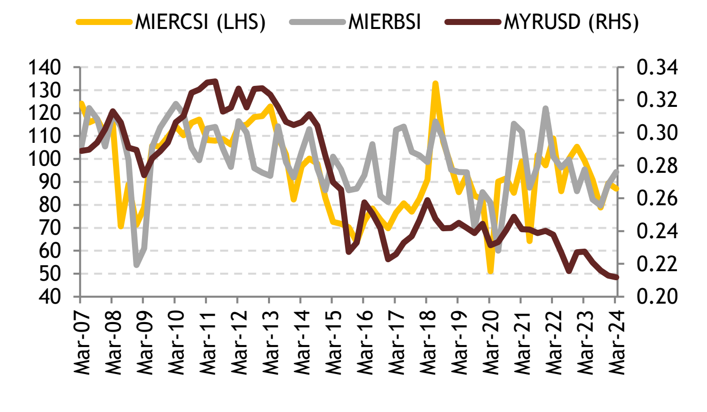
Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector rating. We have a POSITIVE weightage on the consumer sector from a bottoms-up approach. We have BUYs on AEON, CAB, HEIM and MRDIY premised on stabilizing margins and undemanding valuations, while food staple producers like FFB, LHIB, QLG should see earnings growth from resilient demand, new product launches and capacity expansion. We also have a BUY on MNHB based on its earnings turnaround, contributed by the eventual breakeven of its *CU* stores and food processing center in FY24E. BFD is a SELL due to ongoing operating challenges.

Sector top BUY. MRDIY is our sector top BUY as we expect demand for its products to remain resilient due to affordability and consumer down-trading amid rising cost-of-living. MRDIY's FY24E earnings growth is mainly driven by its new store opening target of +180 stores p.a. along with stable group margins from favorable CNY/MYR FX and manageable freight costs.

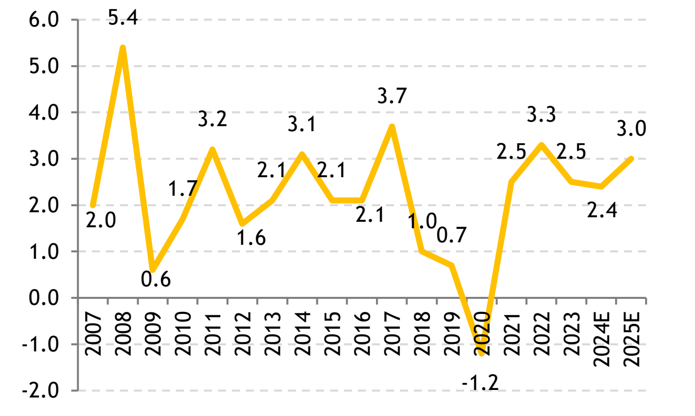
Risks. Key risks to our earnings forecasts and recommendation are: (i) weaker-than-expected consumer sentiment, (ii) raw material cost spikes, (iii) weaker MYR (impacting import costs), and (iv) regulatory and illicit risks for the brewers.

Consumer Sentiment & Business Condition Index, MYRUSD



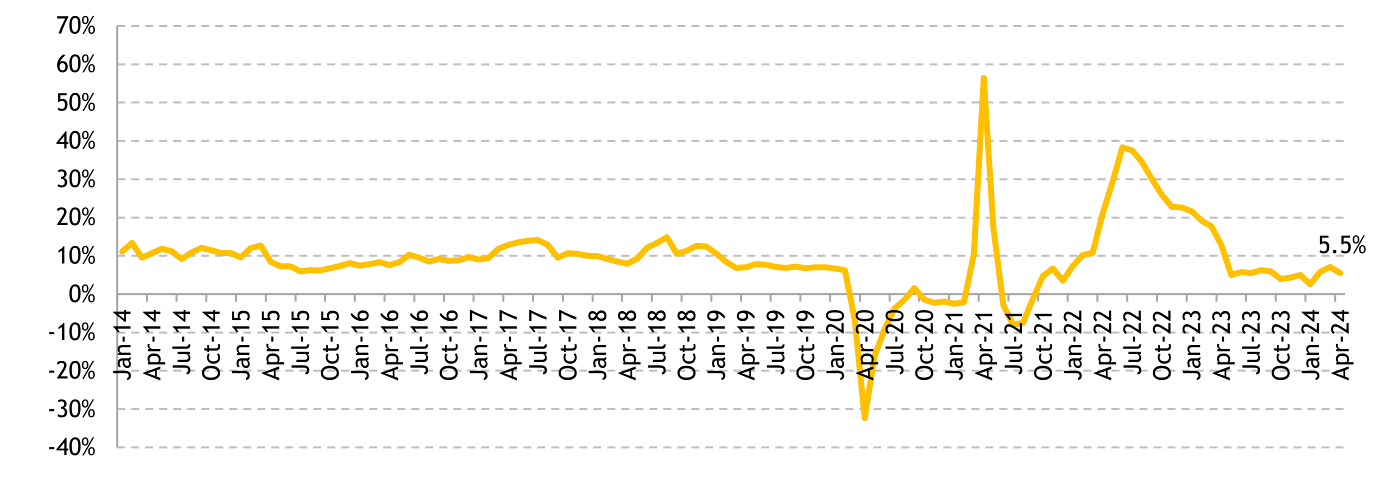
Source: MIER, Bloomberg, Maybank IBG Research

CPI Growth (%)



Source: CEIC, Maybank IBG Research

Retail sales growth YoY (%)



Source: Department of statistics, CEIC

GAMING: Has been an eventful Dragon year

POSITIVE (unchanged)

- **We expect 2024E sector earnings to continue recovering post-COVID, albeit not to pre-COVID levels.**
- **Key lookouts for 2H24 are Thailand liberalising its casino industry and potential regulatory approval for GENT's 20%-owned TauRx.**
- **We have BUY calls on all the gaming companies under our coverage but our top picks are GENT and SPTOTO.**

1H24, in retrospect. For the casino subsector, 1Q24 RWG visitor arrivals recovered to c.95% of 1Q19 levels while 1Q24 RWS VIP volume/1Q24 mass market gross gaming revenue (GGR) grew 14% QoQ/6% QoQ driven by the en masse return of Chinese visitors to Singapore after visa requirements for them were waived on 9 Feb 2024. Notably, both latter metrics were higher than 2019 levels. Following a decent Chinese New Year showing, RWG shuttered *Circus Palace* and *Hollywood* for renovation on 28 Feb 2024.

In other news, 253 of 257 Thai lawmakers voted in favour of a study by a panel of lawmakers to allow entertainment complexes to house casinos on 28 Mar 2024. We are wary that this will lead to more intense regional competition in the long term. Corporate activities wise, GENT's 20% owned TauRx, whose experimental drug, hydromethylthionine mesylate (HMTM) is designed to combat Alzheimer's, reported positive Phase 3 trial results in early Mar 2024. GENT also announced that it is expanding into another Chinese independent power producer and commissioned a >USD1.0b floating liquefied natural gas facility on 20 Jun 2024.

For the NFO subsector, NFO sales/draw/outlet appears to have stabilised at c.95% of CY19 levels for SPTOTO and c.85% of CY19 levels for MAG.

2H24 outlook. For the casino subsector, assuming normalised VIP win rate especially for RWS, we expect seasonally weaker 2Q24 before seasonally stronger 3Q24 and 4Q24 for both RWG and RWS. GENM stated that it is still not able to guide on when both of RWG's aforementioned mass gaming floors will reopen. That said, it stated that *Sky Casino* has been able to absorb all the gamblers that used to frequent *Circus Palace* and *Hollywood*. This suggests that our net 25% reduction in average daily mass market GGR forecast for FY24E while *Circus Palace* and *Hollywood* remain shuttered may be conservative.

In Thailand, industry observers will be on the lookout for its final regulatory framework on entertainment complexes that will house casinos. At GENT's 20%-owned TauRx, all eyes will be on it at year end as it ought to receive at least 1 response from either the United Kingdom Medicines & Healthcare Products Regulatory Agency or the United States Food & Drug Administration.

For the NFO subsector, we expect status quo as it does not appear to us that NFO sales/draw/outlet have improved very much in recent quarters especially for MAG.

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Gaming sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Genting	Buy	17,482	4.54	5.84	14.3	9.4	8.0	0.5	5.4	4.4	(1.7)
Genting Malaysia	Buy	14,113	2.49	3.09	24.2	19.5	14.1	1.1	5.7	6.0	(7.4)
Magnum	Buy	1,681	1.17	1.34	13.4	9.4	9.4	0.7	7.2	7.7	7.3
Sports Toto	Buy	2,199	1.63	1.71	9.8	9.8	9.7	1.8	18.8	6.7	10.1
Simple average		**35,475**			**15.4**	**12.0**	**10.3**	**1.0**	**9.3**	**6.2**	

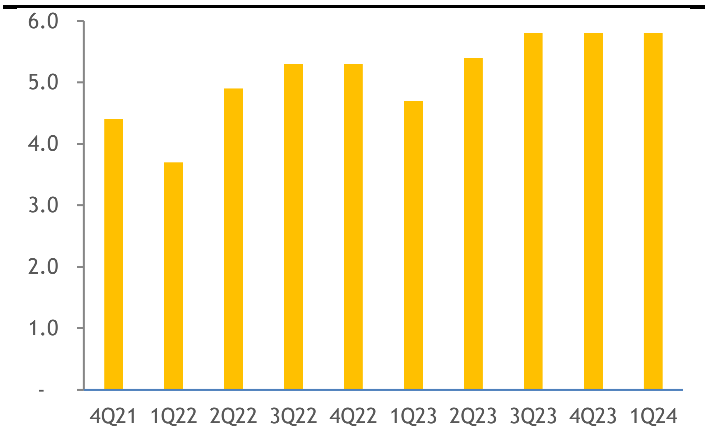
Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector rating. We remain positive on both subsectors of the Malaysian gaming industry. To be sure, we do not expect any of the companies under our coverage to have their earnings recover completely to pre-COVID levels in 2024E. All of them have had to deal with higher tax rates post-COVID (service tax rate for GENM, SPTOTO and MAG was raised by 2ppts to 8% on 1 Mar 2024 while the effective casino tax rate for GENS was raised by 5ppts). GENM is also weighed down by higher depreciation from Genting SkyWorlds and share of losses from Empire Resorts. GENT, in turn, is also weighed down by Resorts World Las Vegas whose earnings delivery has not been consistent. The above being said, we still like them for their post-COVID recovery and decent dividend yields.

Sector top BUY. For casinos, we have BUY calls on GENS, GENT and GENM. For NFOs, we have BUY calls on SPTOTO and MAG. In the casino subsector, we prefer GENT as not only is it a cheaper proxy to GENS and GENM but also for its exposure to 20%-owned TauRx. In a ‘blue sky’ scenario where HMTM receives regulatory approval and TauRx is valued at USD15b, we estimate that GENT could be worth MYR9.40. In the NFO subsector, we prefer SPTOTO as it has been a lot more consistent with earnings and dividends delivery (>6.5% dividend yield p.a.) compared to MAG where higher-than-expected prize payout ratio has supressed earnings and dividends. SPTOTO’s gross NFO sales/draw/outlet has also recovered to c.95% of CY19 levels or c.10ppts higher than MAG.

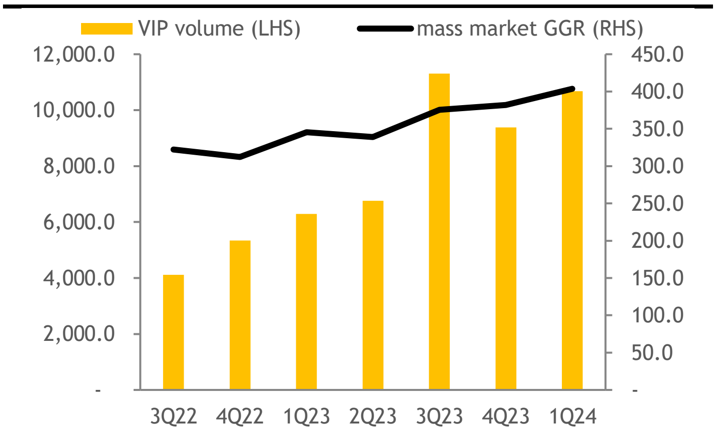
Risks. For casinos:- (i) related party transactions (RPT) – GENM has a history of executing RPTs that do not favour minority shareholders; (ii) regional expansion – new jurisdictions often require high capex commitments without guaranteeing returns; and (iii) politics – NFO outlets in states controlled by the opposition have been shut. There is no guarantee that RWG will not be shut if the opposition comes to power. For NFOs:- (i) prize payout ratio – every 1ppt increase in prize payout ratio will deduct c.MYR20m from core net profit; (ii) gaming tax rate hikes – government raised gaming tax rates in the past and they may do so again going forward; and (iii) competition from illegal NFOs - illegal NFOs offer prize payout ratios which are 10-20ppts higher for 4D.

Fig 1: RWG visitor arrivals (m)



Source: GENM

Fig 2: RWS VIP volume and mass market GGR (SGDm)



Source: GENS

GLOVES: Tangible signs of sector recovery

POSITIVE (unchanged)

- **Sector recovery is real, with improving utilization, stable pricing supported by tight supply, and improving EBITDA margins.**
- **Higher tariffs on China-made rubber gloves from 2026 onwards could be a structural change for the sector.**
- **Our top BUY is HART, backed by its solid fundamentals in both operations and financials. We also like TOPG for its huge unutilized capacity and Kossan for its diversified income base and strong balance sheet.**

1H24, in retrospect. 2024 marks a year of recovery for the glove sector. Sales volume increased significantly in 1Q24 due to restocking activities and narrowing price gap between the Malaysia and China glove makers (from USD3-4/k pcs to USD1-2/k pcs). Order lead time for Malaysia glove makers has now been extended to 2-3 months (previously 1 month), resulting in better plant utilization rates, and consequently, lower operating costs. Additionally, tight supply due to limited capacity/capacity expansion has supported pricing. Malaysia glove makers have been able to pass on majority of/all the increases in raw material costs to their customers since Apr 2024. Consequently, glove makers intend to resume operations at some of their idle factories (TOPG) or continue on their expansion plan that was halted during the downturn (TOPG, HART), albeit more carefully and gradually.

2H24 outlook. The US trade measures on China's rubber medical and surgical gloves, where tariffs will be increased to 25% in 2026 (from 7.5% currently), could represent a structural change for the glove sector. This higher tariff is expected to close the price gap between Malaysia and Chinese gloves, making Malaysia gloves more price attractive in the US (a key export market). While there is a risk that Chinese glove makers may shift their focus to the European markets, we believe Malaysia glove makers will be able to compete, especially after a few rounds of cost rationalization exercises over the last two years that have led to better cost efficiency. Regained market share or improved profit margins from the US market could also support Malaysia glove makers in the event of any price war in the European markets.

Sector rating. We maintain our POSITIVE sector rating. We believe the worst is over and the sector is poised to recover from the nearly three-year long sector downturn. Malaysia glove makers should be able to report stronger earnings in the coming quarters due to improving sector fundamentals. The sector currently trades at 1.9x CY26E P/B. In our view, price-to-book valuation methodology is useful for evaluating turnaround sectors/stocks.

Analyst: Wong Wei Sum, CFA
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Glove sector – Peer valuation summary

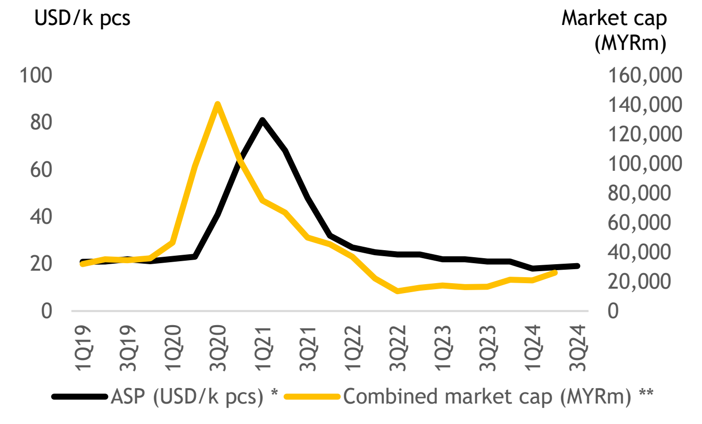
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Hartalega Hldgs	Buy	11,469	3.36	4.50	146.09	75.9	57.4	2.4	3.2	0.7	24.4
Top Glove Corp	Buy	9,372	1.17	1.43	n.a.	n.a.	45.6	2.0	(1.0)	0.3	30.0
Kossan Rubber	Buy	6,251	2.45	2.72	111.36	50.0	46.2	1.6	3.2	1.6	32.4
Simple average		**27,092**			**128.7**	**63.0**	**49.7**	**2.0**	**1.8**	**0.9**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector top BUY. Our top pick is HART. We like HART for its hands-on management, proven track record in technology advancement and product quality, and strong balance sheet (MYR0.40/sh net cash). We also like TOPG due to its large unutilized capacity (35b pcs p.a.) which would benefit from the rise in demand while the other glove makers may take longer to expand their capacity. As for Kossan, we appreciate its diversified income base (gloves & technical rubber products) and strong balance sheet (MYR0.82/sh net cash).

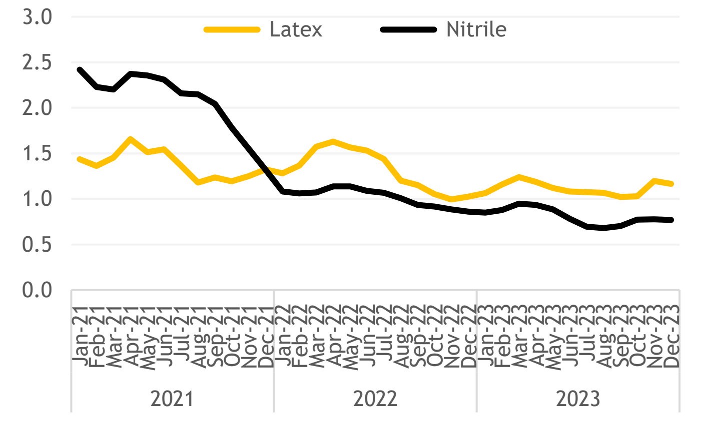
Risks. (i) Capacity expansion from Chinese counterparts outside of China, allowing them to avoid tariff hikes imposed by the US government; (ii) a more aggressive pricing strategy by Chinese glove makers in non-US markets, potentially resulting in lower market share for Malaysia glove makers; (iii) aggressive capacity expansion by existing glove players; (iv) hikes in raw material prices that cannot be fully passed on; and (v) prolonged price wars and oversupply issues.

Average selling price and market cap trends



Source: TOPG, Bloomberg

Raw material price trend



Source: TOPG

OIL & GAS: Crude oil prices to stay elevated

POSITIVE (unchanged)

- **We expect Brent crude oil prices to remain elevated in 2H24 with eyes on OPEC+ alliances' collective direction on production cuts/phases. Our in-house Brent ASP est. for 2024E is unchanged at USD82/bbl. We reiterate that while energy security precedes energy transition pursuits for now, decarbonisation remains a long-term agenda.**
- **We expect PETRONAS's capex to be buoyant in 2024E amid a prolonged elevated crude oil price environment, and lower dividend commitments.**
- **Key BUYs are Dialog and Velesto.**

1H24, in retrospect. The global oil market remained buoyant amid volatility in 1H24 with prices averaging USD83/bbl (flattish vs. 2023's average of USD82bbl). In June 2024, the OPEC+ alliance decided on 3 matters: i) to maintain a collective baseline mandatory production cut of 1.46mbpd till end-2025; ii) to maintain its voluntary production cut of 2.2mbpd until Sep 2024 and to gradually roll back cuts of 0.18mbpd per month from Oct 2024 till Sep 2025; iii) to allow an additional 0.3mbpd production quota (at a pace of 0.033mbpd per month from Jan 2025 till Sep 2025). Elsewhere, our ground checks confirmed that service provider rates (OSV, drilling rigs, MCM, HUC) were still on an uptrend in 1H24.

2H24 outlook. We think that the oil markets will continue to face the energy tri-lemma in 2024, from: i) an improvement in demand (EIA forecasts a record-high demand of 102.99mbpd in 2024E); ii) supply tightness (due to structural under-investments and OPEC+ production cuts); and iii) potential geo-political risks/ trade wars/embargoes.

- ***OPEC+ internal conflict.*** We expect oil prices to normalise slightly higher (albeit still elevated) from current levels of ~USD86/bbl given the uncertain outlook for OPEC+ action and continued growth in non-OPEC+ supply. Also, we expect volatility as cracks are starting to emerge among the OPEC+ members, in our view. On one hand, Saudi Arabia is trying to keep all members under the production cut agreement. On the other hand, UAE has continued to ask for additional production quotas and has been overproducing since its voluntary cuts last year. We view the decision to raise UAE's quota by 0.3mbpd but postpone the quota review to Nov 2025 as a compromise.
- ***Supply-demand gap is expected to be tight in 2H24.*** In EIA's latest Short-Term Energy Outlook (STEO) report (June 2024), it forecasts a record-high crude oil consumption of 103.6-103.7mbpd in 2H24E, with expectations that the supply-demand gap would be harshly tight at an average of 0.5-0.6mbpd throughout 2H24E.

Analyst: Jeremie Yap
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Oil & Gas sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Dialog Group	Buy	13,937	2.47	3.13	25.46	21.1	18.8	2.2	10.6	1.5	19.3
Yinson Hldgs	Buy	7,083	2.37	4.78	7.62	7.5	7.3	1.1	15.3	1.6	(5.2)
Bumi Armada	Buy	3,527	0.60	0.66	5.31	4.1	5.6	0.5	13.1	0.0	20.2
Hibiscus Petroleum	Hold	1,893	2.37	2.31	4.07	3.8	3.7	1.1	15.0	3.2	(6.7)
Velesto Energy	Buy	2,177	0.27	0.33	22.08	13.9	8.5	0.8	6.1	1.5	15.2
Wah Seong Corp	Hold	1,076	1.39	1.55	14.04	10.8	10.2	1.3	12.4	0.0	39.7
Icon Offshore	Sell	595	0.96	0.49	n.a.	119.4	23.3	1.5	1.2	2.1	63.2
Simple average		**30,288**			**13.1**	**25.8**	**11.1**	**1.2**	**10.5**	**1.4**	

Source: Bloomberg pricing (10 Jul 2024), 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 still be allocated towards green investments, with focus on renewables (solar, wind) and carbon capture and storage (CCS) as oil majors try to 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.

Sector rating. PETRONAS Activity Outlook 7th Edition: 2024-2026 document (link) points towards a robust outlook for 2024 as most OGSE sub-segments are expected to see step-ups in investments and activities. Given lower targeted dividend commitment of MYR32b for 2024E, coupled with our expectation of a stable average Brent crude oil price of USD82/bbl for the year, we think that PETRONAS' domestic capex will likely be higher in 2024E. As at end-Mar 2024, PETRONAS sat on a net cash position of MYR98.2b (from MYR96.9b as at end-Dec 2023). On this ground and expectation for crude oil price to remain elevated to support OGSE activities, we remain POSITIVE on the sector.

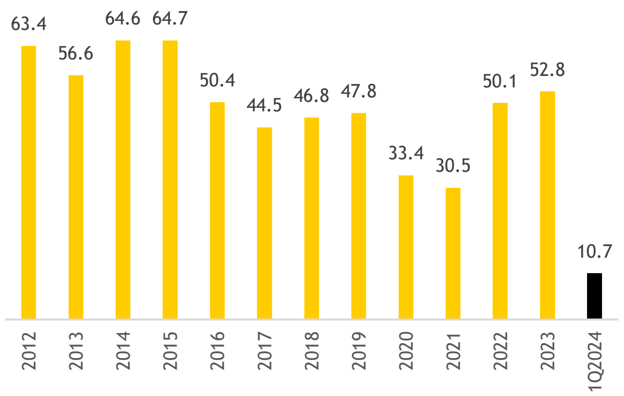
Sector top BUYs. We continue to advocate PLCs with growth prospects, strong financials and a focused management, in riding on the elevated oil price environment. Our sector's top BUYs are Dialog and Velesto.

- **Dialog** is our top pick at this juncture as we are positive on its: i) improvement in margins in FY25E onwards as the group has secured a renewal for its Master Service Agreement (3+2 years) from PETRONAS; ii) lapsing of loss-making EPCC contracts in June 2024; iii) improvement in JV & associate contribution; and iv) its operational/financial stability from its dedicated midstream tank terminal assets.

- **Velesto,** as: i) the group is set to ride on higher utilisation rates in 2H24E and and higher DCRs in FY25E; ii) we are confident that the group will continue to show strong back-to-back earnings growth of 60% and 61% respectively in FY24-25E; and iii) low valuation of about 8.5x FY25E PER.

Risks. Another pandemic outbreak, demand uncertainty, higher-than-expected global 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 1Q24)



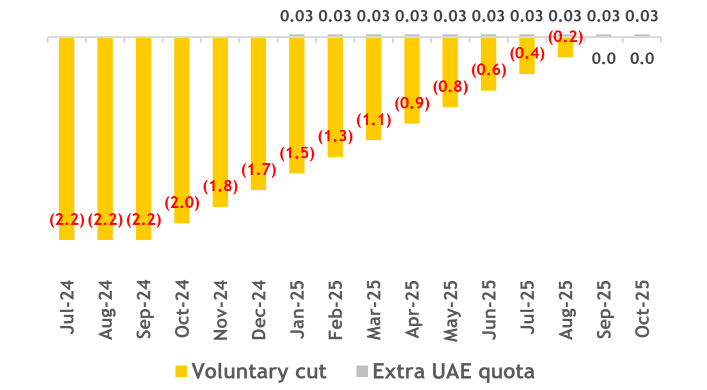
Source: PETRONAS, Maybank IBG Research

OPEC+ output vs quota with and without voluntary cuts

In mbpd	Voluntary cuts	Quota Jun-Sep 2024	Quota Oct-Dec 2025	Change
Algeria	0.051	0.908	0.959	0.051
Iraq	0.223	4.000	4.220	0.220
Kuwait	0.135	2.413	2.548	0.135
Saudi Arabia	1.000	8.978	9.978	1.000
UAE	0.163	2.912	3.375	0.463
Kazakhstan	0.082	1.468	1.550	0.082
Oman	0.042	0.759	0.801	0.042
Russia	0.500	8.978	9.449	0.471
Total	**2.196**	**30.416**	**32.880**	**2.464**

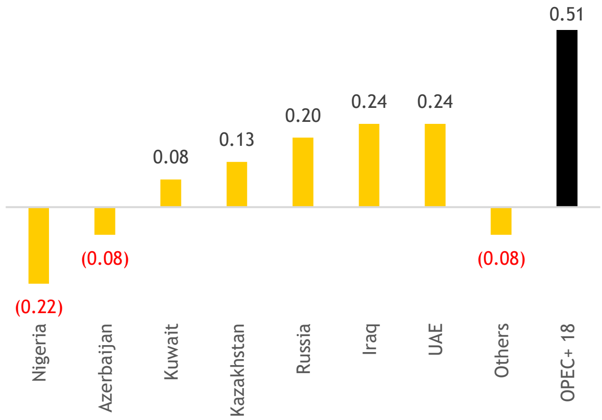
Source: OPEC, MST, Maybank IBG Research

OPEC+ phase out 2.2mbpd voluntary cuts/add 0.3mbpd to UAE



Source: OPEC, MST, Maybank IBG Research

Over-and under-production by OPEC+ members



Source: OPEC, IEA, MST, Maybank IBG Research
Note: April 2024 data

Production and Consumption of crude oil for 2023-2025E

Production (mbpd)

	2023				2024E				2025E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024E	2025E
Total OPEC	32.78	32.46	31.63	31.88	32.02	31.97	32.05	32.06	32.13	32.40	32.69	32.51	32.18	32.02	32.44
Total Non-OPEC	68.33	69.02	70.06	71.00	69.82	70.24	70.96	71.15	71.14	72.10	72.75	73.14	69.61	70.55	72.29
Total World Production	**101.11**	**101.48**	**101.69**	**102.88**	**101.84**	**102.21**	**103.01**	**103.21**	**103.27**	**104.50**	**105.44**	**105.65**	**101.79**	**102.57**	**104.73**
OPEC / World (%)	32%	32%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	32%	31%	31%

Consumption (mbpd)

	2023				2024E				2025E				Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024E	2025E
OECD	45.22	45.67	46.02	46.08	45.34	44.99	46.25	46.41	45.85	45.45	46.32	46.47	45.75	45.75	46.02
Non-OECD	55.71	56.27	56.33	56.30	56.83	57.50	57.33	57.29	58.13	58.65	58.59	58.58	56.16	57.24	58.49
Total World Consumption	**100.93**	**101.94**	**102.35**	**102.38**	**102.17**	**102.49**	**103.58**	**103.70**	**103.98**	**104.10**	**104.91**	**105.05**	**101.91**	**102.99**	**104.51**
Net surplus/(deficit)	0.18	(0.46)	(0.66)	0.50	(0.33)	(0.28)	(0.57)	(0.49)	(0.71)	0.40	0.53	0.60	(0.12)	(0.42)	0.22

Source: EIA STEO (June 2024)

PETROCHEMICALS: No major catalysts in 2H24

NEGATIVE (unchanged)

- **We anticipate downstream polymer ASPs to remain weak in 2H24 as demand outlook remains tepid whilst the start-up of new regional capacities is looking to continue, overflooding supply. Meanwhile, COD of PIC is expected to happen sometime in 2H24.**
- **Independent Chemical & Energy Market Intelligence (ICIS) thinks that we are still in the middle of 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 SELLs on both PCHEM and LCTITAN.**

1H24, in retrospect. 1Q24 showed slight improvements in polymer prices, where average ASPs for HDPE, LDPE and LLDPE increased slightly by 2-7% while urea and methanol prices also rebounded marginally by 4% QoQ. We believe that the worst is over for the current petrochemical downcycle before the next large influx of PE and PP capacities in 2026.

2H24 outlook. PCHEM has guided for the Commercial Operation Date (COD) of the Pengerang Integrated Complex (PIC) to be sometime in 2H24 (delayed yet again from 1H24). The PIC is expected to increase PCHEM's total production capacity by 3.3 mTpa (+26%; now 12.8 mTpa). PCHEM PIC's PE/PP capacity of 1.65 mTpa will exceed LCTITAN's combined M'sian PE/PP capacity of 1.2 mTpa, posing 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 the PIC will use naphtha as a primary feedstock, which may subject PCHEM's earnings to 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 sizeably for the foreseeable future. With that, both PCHEM and LCTITAN's earnings delivery will remain tepid as ASPs are expected to remain under pressure with the sustained imbalanced supply-demand dynamics. ICIS also estimate that average PP spreads needs to recover by c.150% before the emergence of a new upcycle, which we concur. Meantime, too much capacity will continue to chase too little demand.

Sector rating. While we believe that the worst is over for the current petrochemical downcycle, the sector's best days are also behind us. Coupled with additional polymer capacities coming onstream in Greater China in 2026, it is unlikely that the industry will revisit its ASP highs in 2021 and 2H22. We have a NEGATIVE sector rating.

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Petrochemical sector – Peer valuation summary

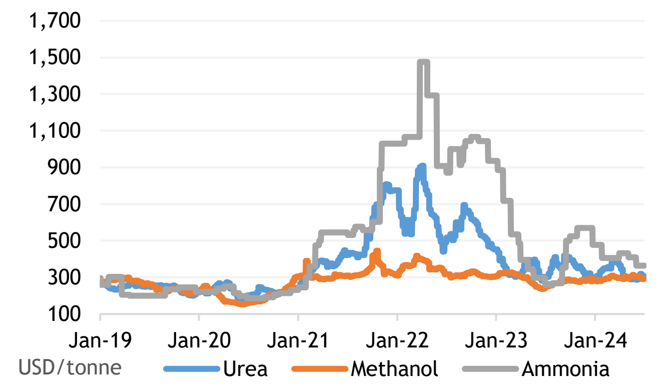
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Petronas Chemicals	Sell	49,360	6.17	5.05	27.8	25.6	22.1	1.2	4.7	1.9	(13.8)
Lotte Chemical Titan	Sell	2,779	1.22	0.94	n.a.	n.a.	27.1	0.3	(7.2)	0.0	(9.6)
Simple average		**52,139**			**27.8**	**25.6**	**24.6**	**0.7**	**(1.3)**	**1.0**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Stock calls. We have SELL on both PCHEM and LCTITAN with: i) PCHEM's valuations being lofty, trading at >25x FY25E PER; and ii) we expect LCTITAN to remain loss-making for the 3rd year in FY24E as PE-naphtha spreads are not wide enough for LCTITAN to be profitable just yet. A weak operating environment has also prompted management to maintain a suboptimal full-year plant utilisation guidance of 65-70%.

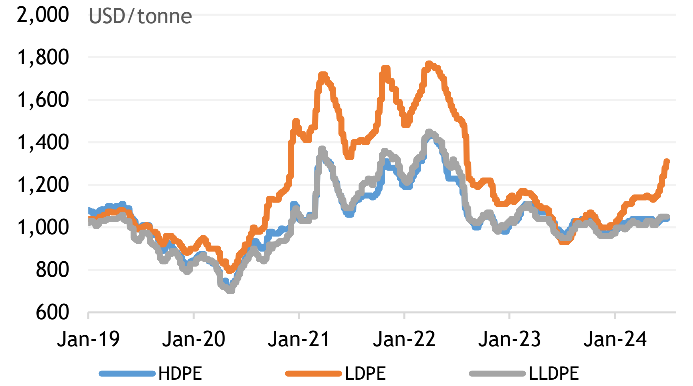
Risks. (i) A faster-than-expected recovery in polymer/monomer prices; and (ii) a sudden decline in crude oil/naphtha prices.

Urea, Methanol and Ammonia Prices



Source: Bloomberg data

HDPE, LDPE and LLDPE Prices



Source: Bloomberg data

PLANTATION: LSS offers growth option

NEUTRAL (unchanged)

- **Barring any weather surprises especially in the Northern Hemisphere, palm oil prices in 2H24 will likely weaken HoH on seasonal increase in supply.**
- **LSS5, TPA, and cross-border electricity sales offer selected planters with strategic landbank to diversify their business into RE that generates better returns than oil palm (on a per hectare basis), and grow their earnings.**
- **Our preferred BUYs are SDG (new strategic direction to unlock the value of its strategic land in Peninsular Malaysia), SOP (trades at mid single-digit PER adjusted for MYR1b net cash) and TAH (attractive dividend yield of >6%).**

1H24, in retrospect. In 1H24, MPOB's spot CPO price ranged between MYR3,629/t – MYR4,535/t (1H24 CPO ASP: MYR4,021/t; +2.3% YoY), a c.MYR900/t range which was pretty similar to a year ago (1H23: MYR3,331/t – MYR4,343/t with CPO ASP of MYR3,929/t). A weakened MYR (against USD; -5.6% YoY) also helped to lift CPO price in MYR terms in 1H24 as CPO ASP in USD term was, in fact, lower YoY by 3.5% to USD851/t (1H23: USD882/t). CPO was, at times, a price leader in the Feb to Apr 2024 period owing to earlier Ramadhan demand which coincided with CPO's low output cycle period that fueled concerns over tightening stockpile. CPO is recently back to being a price taker taking cues from other major vegetable oils as market anticipates rising seasonal supply in 2H24.

In terms of corporate activities, we witnessed renewed investors interest in the sector in 1H24 with the successful raising of MYR890m in IPO proceeds (JPG: MYR735m, MKHOP: MYR155m) from the listing of Johor Plantations (JPG MK, Not Rated; valued at MYR2.1b market cap at listing) and MKH Oil Palm (MKHOP MK; Not Rated; MYR0.64b market cap at listing).

2H24 outlook. USDA projects 9 major vegetable oils' production to grow by 5.3mt (+2.4% YoY) to 223.6mt for Oct/Sept 2023/24F marketing year while its stock-to-usage ratio (SUR) is projected to ease to 14.5% (2022/23: 15.1%), which is slightly below the historical 5-year average of 14.8%. Most of the production growth will emanate from palm oil (+1.7% YoY), soybean oil (+4.6% YoY) and rapeseed oil (+3.4% YoY). Overall, the oil supply is considered relatively ample for this marketing year. But for 2024/25F marketing year, based on preliminary forecast by USDA, the global 9 major vegetable oils is projected to grow slower by 4.3mt (+1.9% YoY) to 227.9mt - under the lead of soybean oil (+4.8% YoY) while projecting a smaller growth for palm oil (+0.9% YoY). If the slowing production materializes while consumption growth remains robust, 2024/25F's SUR is projected to tighten further to 13.3%.

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Plantation sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
SD Guthrie	Buy	29,115	4.21	4.96	33.15	22.9	19.2	1.6	6.9	2.2	(5.6)
IOI Corp	Hold	22,830	3.68	3.95	18.73	18.8	17.7	1.9	10.1	3.2	(6.4)
KL Kepong	Hold	21,950	20.02	22.60	19.22	16.7	16.2	1.4	8.5	3.0	(8.2)
Genting Plantations	Hold	5,248	5.85	6.21	20.67	17.9	16.5	1.0	5.4	4.2	3.0
Sarawak Oil Palms	Buy	2,542	2.85	3.18	8.46	9.9	9.3	0.7	7.0	3.1	10.0
Ta Ann Hldgs	Buy	1,709	3.88	4.29	9.35	9.5	9.1	0.9	9.5	6.3	6.0
TSH Resources	Sell	1,684	1.22	1.00	19.37	13.4	13.0	0.8	5.9	2.2	25.1
TH Plantations	Sell	570	0.65	0.58	33.95	15.4	13.7	0.8	5.1	3.3	33.0
Simple average		**85,648**			**20.4**	**15.6**	**14.3**	**1.1**	**7.3**	**3.4**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

The projected tightening of vegetable oils supply contrast sharply with very ample forecast of 7 oilseeds (especially soybean). Overall, USDA is projecting an incremental +19mt (+3.0% YoY) growth in the global 7 oilseeds output to 657mt in 2023/24F (under the lead of soybean, +4.6% YoY) with SUR rising to 19.8% (2022/23: 19.0%), slightly above its 5-year average of 19.5%. For 2024/25F, the SUR is expected to rise further to 21.6% on higher oilseeds output (+29mt; +4.4% YoY), boosted by higher soybean output in Brazil and US.

Thematic: LSS is a potential game changer for planters in 2H24 and beyond. The new thematic for the sector is owning-and-operating large-scale solar (LSS) farms in the coming years. Selected planters with suitable and well-located land near the national grid and interconnection points have the opportunity to participate in LSS projects such as LSS5 (tender closing in July 2024), TPA (Third-Party Access), and cross-border electricity sale. LSS allows planters to sweat their assets, augment returns by multi-fold compared to oil palm – see our report *"MY Plantations: The magnifying power of solar is a game changer for earnings".* For a start, SDG has publicly announced its ambition to grow its RE (renewable energy) capacity to 1,000 MW in 3-5 years. It is unclear if other planters will follow suit. Nonetheless, it will be a game changer for planters who are willing to venture into LSS in a meaningful way given limited-to-no opportunity for upstream oil palm expansion.

Sector rating. Having said the above, we retain our NEUTRAL call on the sector. We anticipate CPO price to weaken during 3Q24E in view of seasonal increase in output before CPO price recovers towards end-4Q24E in anticipation of weaker supply going into 1Q25.

Overall, for 2H24, we anticipate CPO price to be weaker HoH as output peaks in 2H. Despite lower HoH CPO ASP, we nonetheless expect earnings to be stronger in 2H24 (vs. 1H24) on higher output and lower production costs (as most fertilizer cost would have been expensed in Q1 to Q3 of 2024). Macro uncertainties (including geopolitical tension in Russia-Ukraine and the Middle East) will continue to influence and result in CPO price volatility in 2H24. For now, we maintain our CPO ASP forecast of MYR3,700/t for 2024E. There is potential upside if MYR continues to remain weak in the coming months.

Sector top BUY. SDG is our top BUY for the large cap. SDG's recent strategic shift with its RE ambition to achieve 1,000MW capacity is likely a game changer, potentially lifting its core earnings by double-digit in 3-5 years. SDG is also a real estate play considering its more than 200,000 ha of freehold land located across Peninsular Malaysia, allowing SDG to gradually unlock their values via its new industrial development initiatives as well as pacing out its outright land sales in the years to come. SDG trades at 53% discount (as of 2 July) to our RNAV estimate of MYR9.03/sh.

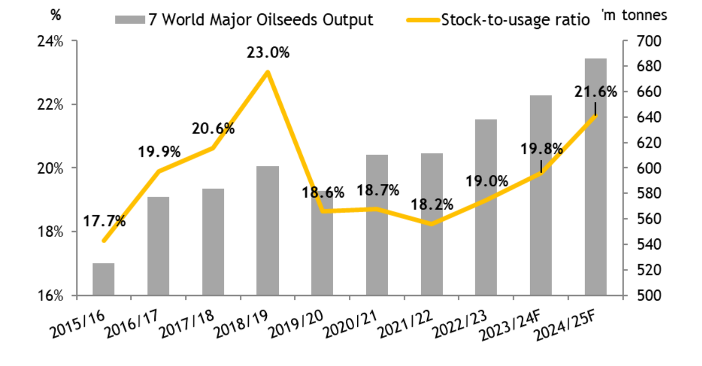
For the SMID caps, we like Sarawak Oil Palms (SOP) and Ta Ann (TAH) as both are in net cash position (SOP: MYR1.0b; TAH: MYR270m) while trading at near 10x forward PERs. TAH even offers attractive dividend yields of more than 6%.

Risks. There are several risk factors that may affect our sector view, earnings estimates, price targets, and ratings of stocks under coverage. Key risks to the sector and companies are:

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

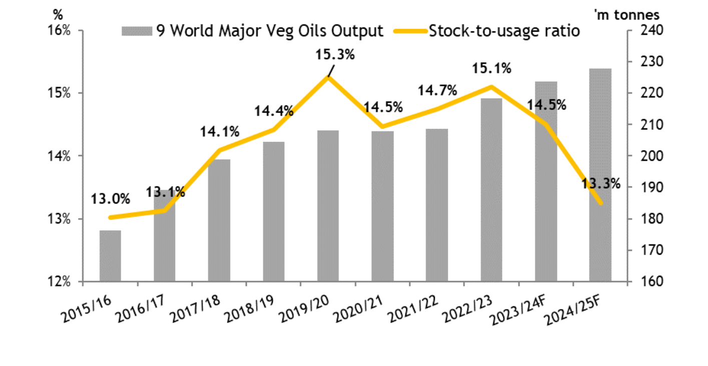
Downside risks: (i) Reversal of Brent crude oil price to sharply below USD80/ barrel; (ii) negative policies imposed by importing countries and/or exporting countries; (iii) global demand turns out to be weaker than expected on demand destruction and/or global recession; (iv) weaker competing oil prices (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



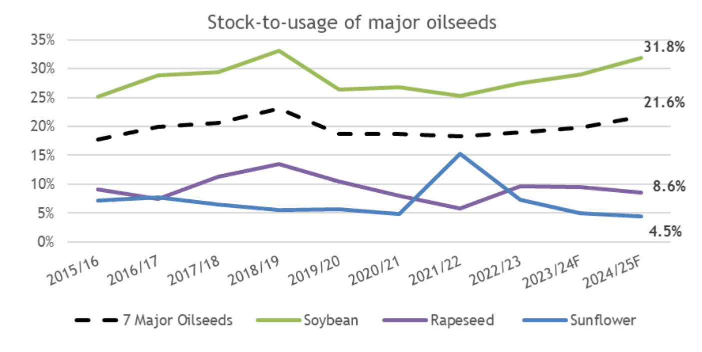
Sources: USDA, Maybank IBG Research

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



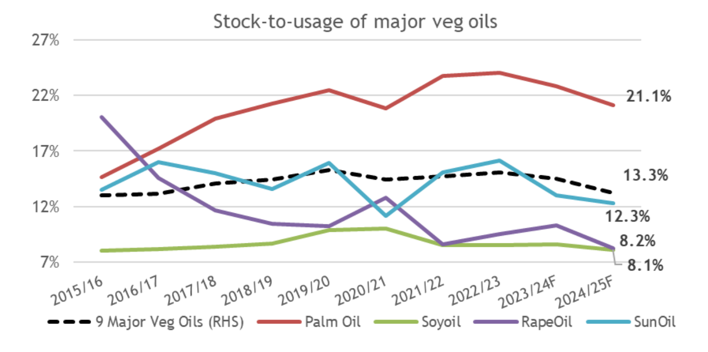
Sources: USDA, Maybank IBG Research

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: Exciting … but largely priced in

NEUTRAL (unchanged)

- **JSSEZ and data centers will continue to be the sector's focus. Industrial property segment will continue to be in the spotlight too, benefitting from investment diversion from China.**
- **Surprises from major infrastructure projects like KL-SG High-Speed Rail (HSR) could provide short-term trading opportunities.**
- **Our top BUY is ECW - it could be a good data centre play for its industrial landbank in Klang Valley and Johor. We also like SPSB for its undemanding valuation and potential listing of its investment properties.**

1H24, in retrospect. The KL Property Index (KLPI) continued to outperform the broader market by 18% (KLPI +29% vs. KLCI +11%) in YTD 2024 (@ 4 July). The gains in property stocks were particularly notable for those with exposure in Iskandar Puteri and Kulai-Sedenak, as well as those involved in data centers (DCs), whether through outright land sale (ECW, SWB) or as asset owner/co-owner (SDPR, UEMS). Corporate exercises, such as the potential listing of investment properties (SPSB, IOI Property Group [IOIPG MK; Not Rated]) or those with other businesses like healthcare (SWB) also contributed to the rise in share prices. On the corporate front, two developers under our coverage reported stronger-than-expected sales and earnings (SDPR, TILB) in 1H24 while the rest (ECW, ECWI, SWB, UEMS, SPSB) were within expectations. Elsewhere, SPSB has finally completed the sale of a 960-acre land in Johor for MYR564m, in line with its de-gearing strategy.

2H24 outlook. Focus should remain on data center (DC) plays and the location of Johor-Singapore Special Economic Zone (JSSEZ), which could be announced as early as late-Aug or early-Sep 2024. The JSSEZ area will likely cover the entire Iskandar Malaysia (IM) rather than just one area within IM. While a larger area might dilute the positive impact on developers due to higher competition, it ensures more balanced growth across different regions of IM. Elsewhere, DCs can expedite land monetization, especially in less prime locations, but the rapid increase in DCs raises concerns about potential oversupply and limited resources. Therefore, we prefer outright land sale over venturing into data center as asset owner, unless the developers are partnering strong and experienced DC players.

Other thematic for the sector includes the finalization of Mutiara LRT line in Penang (potential beneficiaries: **SPSB, IJM, MRCB [MRC MK, Not Rated]** and **E&O [EAST MK, Not Rated])** and potential revival of the KL-Singapore HSR (**SDPR, ECW, UEMS, SPSB, Matrix Concept [MCH MK, Not Rated]**). Additionally, corporate exercises such as the listing of investment properties (**SPSB, IOIPG, WCT [WCT MK, Not Rated]**) or other businesses **(SWB)** could continue to drive investors interest.

Sector rating. While we are positive on upcoming/potential developments (JSSEZ, DCs, infrastructure plays), we believe the positives have been largely priced in and hence, we are NEUTRAL on the sector. The sector now trades at 0.9x CY25E P/B.

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Property sector - Peer valuation summary

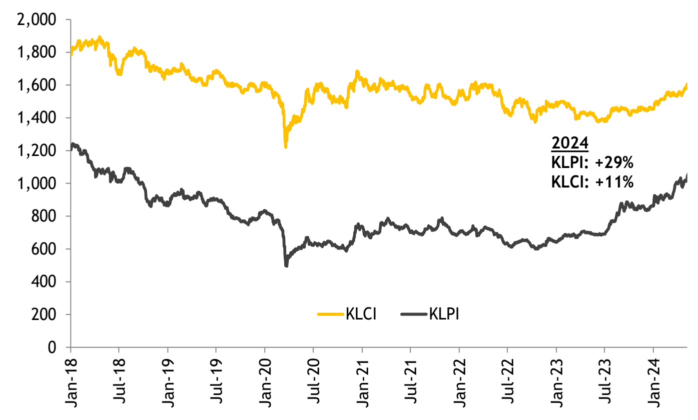
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Sunway Berhad	Hold	22,171	3.93	3.78	35.73	30.2	27.7	1.8	5.5	1.4	90.8
Sime Darby Property	Buy	9,861	1.45	1.40	23.39	20.1	19.6	1.0	4.7	2.3	132.0
SP Setia	Buy	6,904	1.45	1.66	17.90	7.7	16.7	0.5	5.3	3.8	81.3
UEM Sunrise	Sell	5,564	1.10	1.00	73.33	55.0	52.4	0.8	1.4	0.9	35.0
Eco World Dev	Buy	4,747	1.61	1.96	17.16	15.3	11.7	1.0	6.3	4.3	53.3
Eco World Int'l	Hold	804	0.34	0.28	n.a.	n.a.	n.a.	0.6	(1.4)	39.7	8.1
Tambun Indah Land	Buy	474	1.08	1.24	9.73	7.2	6.5	0.6	8.3	5.6	27.1
Simple average		**26,931**			**11.4**	**9.6**	**9.5**	**1.3**	**13.5**	**6.9**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector top BUY. ECW is our top BUY call for the sector. We continue to like ECW for its hands-on management, proven track record and healthy balance sheet (0.24x net gearing in end-2QFY24). With industrial land in Johor and Klang Valley, ECW offers DC play. We also have a BUY rating on **SPSB** for its low valuation (0.5x P/B) and potential REIT-ing of its investment properties, which would help to reduce its debt level further (0.45x net gearing end-1Q24) and **TILB** for its exposure to the booming industrial activities in the Batu Kawan area. TILB could also benefit from the potential extension of the Mutiara LRT to Simpang Ampat in the future.

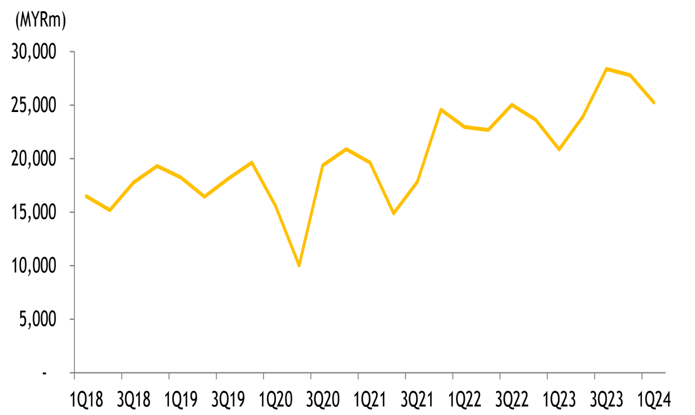
Risks. Potential introduction of the build-then-sell scheme by the Government may set back developers with financial constraints; (ii) stronger-than-expected property sales driven by better economic growth; (iii) policy risks; (iv) easing of lending measures by the banks; (v) higher-than-expected Liquidated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

Fig 1: KL Property Index outperformed KLCI in 1H24



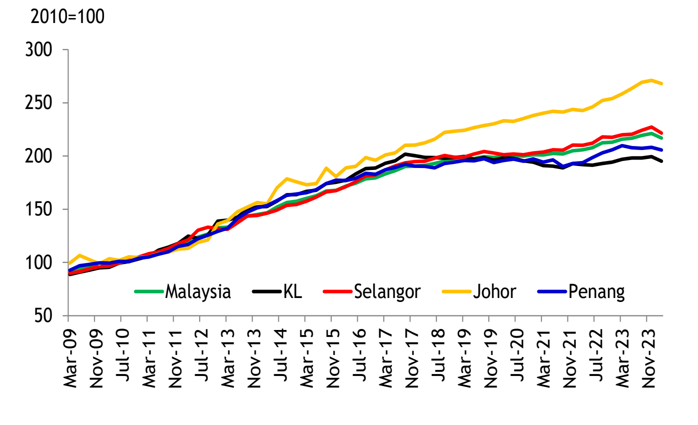
Source: Bloomberg

Fig 2: Property sales improved +21% YoY, -9% QoQ in 1Q24



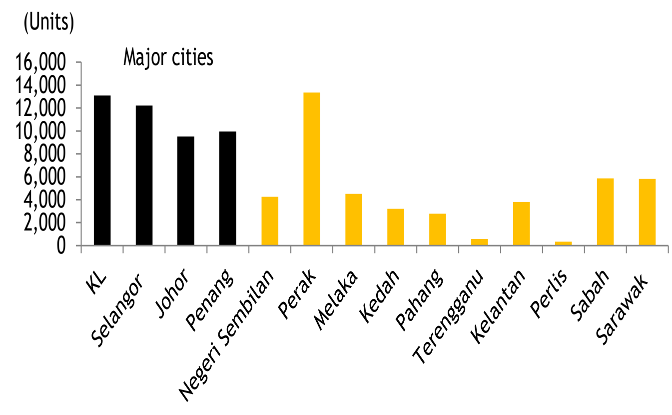
Source: CEIC, NAPIC, Maybank IBG (chart)

Fig 3: House Price Index up 0.5% YoY, down 1.9% QoQ in 1Q24



Source: CEIC, NAPIC, Maybank IBG (chart)

Fig 4: KL and Perak have the highest unsold stocks in 1Q24



Source: CEIC, NAPIC, Maybank IBG (chart)

REITs: Growth remains decent

NEUTRAL (unchanged)

- **We remain constructive on Retail and Hospitality REITs on sustained consumer spending from the gradual return of international tourists.**
- **We forecast sector's CY24/25E earnings to grow +8.7%/9.0% respectively.**
- **Our top BUY is Axis REIT, backed by its active acquisition strategy for industrial assets.**

1H24, in retrospect. The 10-year MGS yield has been relatively stable at average 3.87% (3.8-4.0% range) compared to 3.84% in 1H23. Consequently, the yield spread between average M-REIT gross yield over the 10-year MGS yield averaged 208bps in 1H24 (189-236bps range) vs. 239bps as at end-2023. YoY, the 1H24 average yield spread was also stable (-1bps or -0.5% YoY).

The KLREI index rose +5.6% YTD, albeit still underperforming the broader FBMKLCI index (+9.3%). KLREI's rise was mainly due to improved earnings delivery of the Retail and Hospitality assets. M-REITs within our coverage reported mixed 1Q24 earnings performance, with Pav REIT, CLMT and YTLREIT above expectations mainly lifted by new assets and outperformance of the Australian hotels (for YTLREIT).

Asset acquired by M-REITs under our coverage in 1H24 included: (i) Syuen Hotel in Ipoh by YTLREIT (completed in Apr 2024, but to undergo renovation until 2QCY25), (ii) manufacturing facilities in Negeri Sembilan and Selangor by Axis REIT (expected to complete in 2H24), and (iii) two auto service centres in Selangor by Axis REIT (to complete in 4Q24). YTLREIT has also proposed a development of Moxy Niseko Hotel in Japan (expected to complete in 4QCY26). Meanwhile, Axis REIT has proposed to dispose Axis Steel Centre @ SiLC in Johor to a data center operator in Apr 2024; the facility has been vacant for a year (expected to complete in 2H24).

2H24 outlook. Our Economics Research Team expects the OPR to remain at 3% throughout 2024. This will provide respite in terms of higher financing cost experienced in 2023. As at end-Mar 2024, the sector's floating rate debt exposure was 57%; interest costs in 1Q24 ranged between 3.9%-6.0% (1Q23: 3.6%-5.0%).

M-REITs current yield spread against 10-year MGS is at 218bps, which is +1SD above mean. Going forward, we expect the yield spread to widen if the 10-year MGS yield softened to 3.6% end-2024, as per our Fixed Income Research Team's forecast. M-REITs within our coverage currently trade at an average CY24/25E net dividend yield of 5.7%/6.5% which is +180bps above the average 10-year MGS yield of 3.88%.

Sector rating. We are still NEUTRAL on the sector. We forecast the sector's CY24/25E earnings growth to remain decent at +8.7%/9.0% respectively, to be supported by sustained occupancy and rental rates, coupled with several new asset injections (i.e. into Pav REIT, CLMT, SREIT, SENTRAL, Axis REIT and YTLREIT).

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REITs sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
KLCCP Stapled Group	Hold	13,450	7.45	7.52	18.5	17.0	16.3	1.0	5.7	5.1	5.1
IGB REIT	Hold	6,894	1.91	1.75	19.1	18.0	17.5	1.7	9.5	5.2	11.0
Sunway REIT	Hold	5,480	1.60	1.60	17.2	16.7	14.8	1.1	6.4	5.4	3.9
Pavilion REIT	Buy	5,156	1.41	1.55	18.1	16.8	15.5	1.1	6.1	5.8	16.5
Axis REIT	Buy	3,268	1.87	2.17	21.7	19.3	15.0	1.1	6.0	4.7	4.5
YTL REIT	Hold	2,096	1.23	1.28	14.1	13.3	13.1	0.7	5.6	7.3	19.4
Capitaland M'sia Trust	Buy	1,899	0.67	0.70	17.2	14.0	14.0	0.7	4.8	6.6	19.6
Sentral REIT	Buy	968	0.81	0.98	13.1	11.6	11.1	0.7	6.2	7.4	3.2
Al-Salam REIT	Hold	241	0.42	0.41	25.9	29.6	11.5	0.4	1.3	2.9	(12.6)
Simple average		**39,451**			**18.3**	**17.4**	**14.3**	**0.9**	**5.7**	**5.6**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

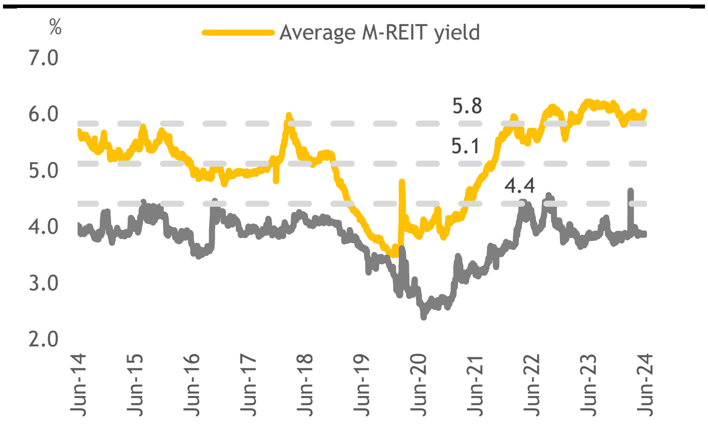
On a relative basis, we prefer the retail and hospitality REITs with the gradual return of international tourists, which will sustain demand for retail space and hotel occupancy rates. We like prime retail malls which are located in prominent locations (e.g. Suria KLCC, Pavilion KL and MidValley Megamall), which entail high shopper traffic and high demand for retail space. Meanwhile, we expect rental rates of the industrial assets to grow due to healthy demand. We are still cautious on the office space leasing market due to oversupply, with the exception of KLCCP Stapled Group which is largely backed by long and triple net lease agreements.

Sector top BUY. Axis REIT is our top BUY as we remain upbeat on its active asset acquisition strategy for industrial assets, which generally entails resilient rental income and lowers occupancy risks.

We also like Pav REIT due to resilient earnings by Pavilion KL Mall, due to its prime location, and with additional growth contribution from Pavilion Bukit Jalil.

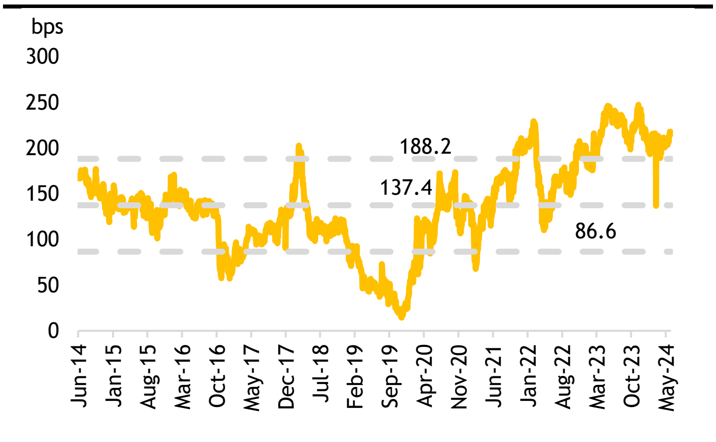
Risks. We remain cautious on the oversupply of retail and office space in the Klang Valley which could exert pressure on occupancy rates and/or rental reversions. These, in turn, would increase the downside risk to DPUs. Elsewhere, OPR hike(s) would lower M-REITs' profitability (higher finance cost)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

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



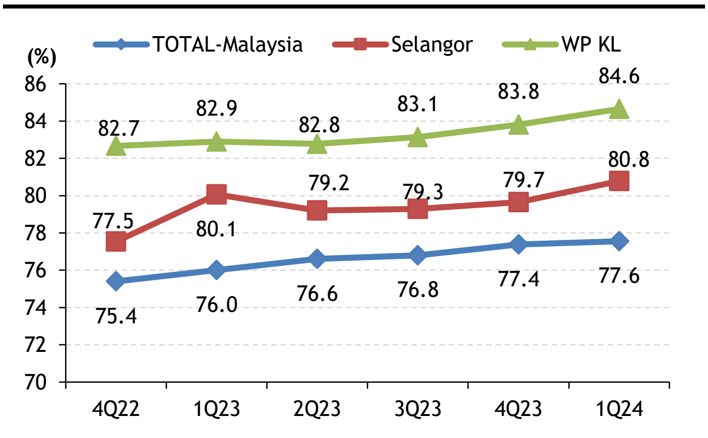
Source: Bloomberg, Maybank IBG Research

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



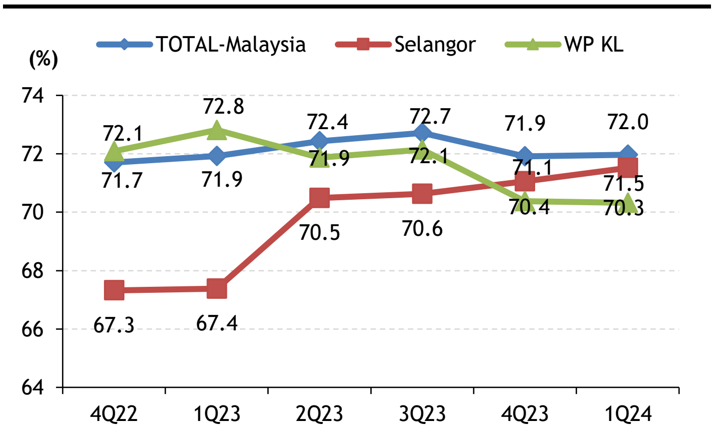
Source: Bloomberg, Maybank IBG Research

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: Awaiting for CGPP EPCC to be awarded

POSITIVE (unchanged)

- **We look forward to 800MW of CGPP EPCC to be awarded in 2H24.**
- **The RE sector remains on an upward trajectory from higher solar capacity awarded by the Government via NEM, CGPP and LSS5 programmes.**
- **Our top BUY is Solarvest.**

1H24, in retrospect. Additional quotas of 500MW under the Net Energy Metering programme (NEM, solar energy via rooftop) was released in Feb and Apr 2024. In line with this, the Ministry of Energy Transition and Water Transformation introduced a Solar for Rakyat Incentive Scheme (SOLARIS) from 1 Apr to 31 Dec, to encourage the installation for residential solar under the NEM. A new Low Carbon Energy Generation programme with a capacity of 400MW was also introduced for non-solar renewable resources - wind, small hydro, biogas, biomass and hydrogen. To address the intermittency issues of RE sources, the first utility-scale Battery Energy Storage System (BESS) project will be spearheaded by Tenaga Nasional (TNB MK, HOLD, TP MYR13.50), with a 400MWh capacity.

In Apr 2024, the Energy Commission (EC) opened the fifth competitive bidding for Large-Scale Solar (LSS5), with a total capacity of 2GW - more than double the capacity offered under the previous round of LSS. In addition, LSS5 will have a specific category for the development of floating solar projects, with a total quota of 500MW. The maximum aggregated capacity for each bidder is also increased from 50MW to 500MW.

Another key development was the establishment of the Energy Exchange Malaysia (ENEGEM) in Apr 2024 for cross-border electricity sales to neighbouring countries. ENEGEM acts as the marketplace to sell Green Electricity through a bidding mechanism, operated by the Single Buyer. The first phase offers a capacity of up to 300MW using the existing interconnection between Malaysia and Singapore, with a 100MW pilot project targeting bidders licensed in Singapore's electricity market.

2H24 outlook. With the commissioning of most LSS4 projects, we now look forward to 800MW of Corporate Green Power Programme (CGPP) EPCC works to be awarded in 2H24. Assuming EPCC value at MYR2.5m per MW, we estimate the 800MW capacity offers MYR2b worth of jobs. This provides solar orderbook replenishment opportunities for RE pure-plays.

In terms of industry outlook, we expect the third party access (TPA) framework to be announced soon. TPA to the national grid was earlier highlighted in Budget 2024. The TPA will allow electricity customers (off-takers) to purchase energy directly from RE or non-RE asset owners. Upon implementation, we believe, this will drive more significant investments in the RE sector.

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Renewable Energy sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Solarvest Holdings	Buy	1,143	1.64	1.84	41.3	27.4	21.1	4.2	14.7	0.7	26.2
Cypark Resources	Hold	728	0.89	0.83	379.3	n.a.	43.5	0.7	(1.2)	0.0	(6.3)
Simple average		**1,871**			**41.3**	**27.4**	**21.1**	**4.2**	**14.7**	**0.7**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Meanwhile, the current trend for solar panel prices remain at record lows. According to Bloomberg NEF, installed global solar PV capacity this year could range between 520GW to 655GW, up from 444GW in 2023. China will continue to dominate the installed capacity (313.7GW), and to account for 54.7% of the global solar PV capacity additions this year. Given the strong demand from China but existing excess capacity, panel prices are expected to remain low. The low prices would provide opportunity to boost installation of solar projects and contribute positively to project IRRs (for solar asset owners).

Sector rating. We have a POSITIVE rating on the sector. We forecast strong sector earnings growth of +17.6%/+36.6% in CY24/25E YoY respectively mainly from higher orderbook replenishments. We believe sector earnings would remain on an upward trajectory from higher solar capacity awarded by the Government through the NEM, CGPP and LSS5 programmes. Meanwhile, as solar panel prices remain low, demand for solar installation will continue to increase and benefit the RE players. RE pure-plays are currently trading at a forward PER of 21x.

Sector top BUY. Our top BUY is Solarvest. We remain upbeat on Solarvest's prospects in growing its orderbook and asset base amid strong demand for RE in the medium to longer term. Solarvest's MYR242m outstanding orderbook as at end-Mar 2024 provides earnings visibility into FY25E and this can extend into FY26E from potential CGPP EPCC works which could lift its orderbook by another c.MYR1b. Solarvest now trades at 24x/19x our FY25/26E EPS. We believe Solarvest deserves a premium valuation due to its leading market share position in the solar industry.

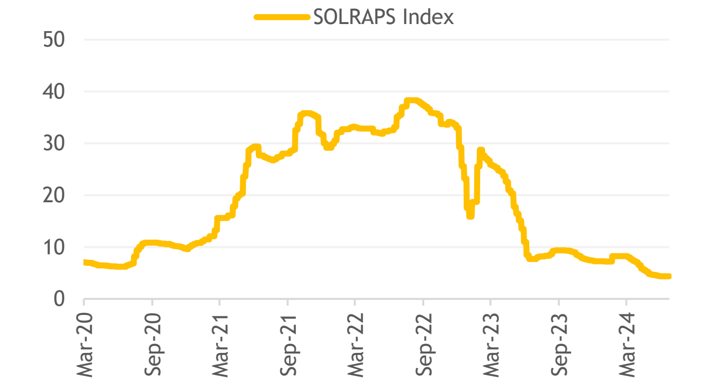
Risks. (i) Delays in commissioning of solar assets could affect the timing of earnings and cash flow recognition; (ii) rising solar-related material cost and labour shortages could affect the solar projects' margins; (iii) another earnings risk would be if another pandemic occurs.

Solar capacity awarded to-date

Solar programmes	Quata offered MWac	Quota approved MWac	Operational MWac
Solar - FiT	-	323	322
Solar - NEM 2.0	500	487	456
LSS (1-4)	2,460	2,457	1,822
Solar - NEM 3.0	1,550	1,175	193
CGPP	800	800	-
LSS 5	2,000	-	-
Total	**7,310**	**5,242**	**2,794**

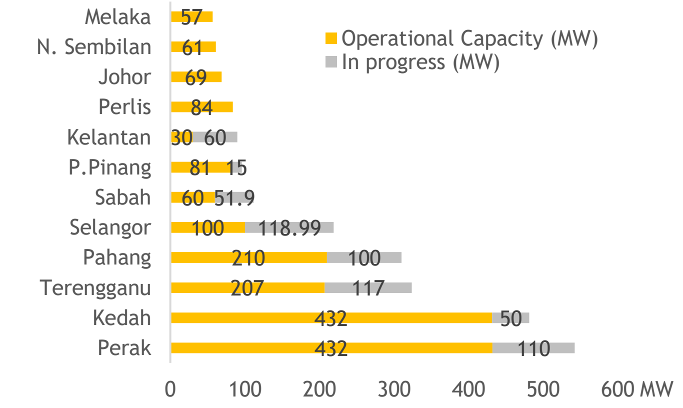
Source: Compilation of Maybank IBG Research

Polysilicon price (USD/kg)



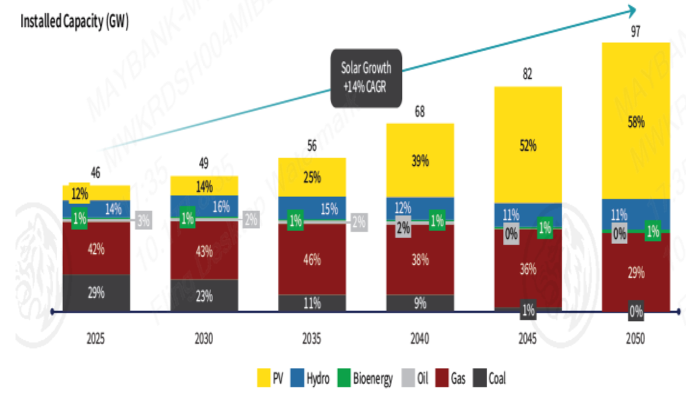
Source: Bloomberg, Maybank IBG Research

LSS progress by state as at 1Q24



Source: Energy Commission, Maybank IBG Research

Projected power system installed capacity mix 2050



Source: NETR

TECHNOLOGY: Varying sub-sector prospects

Semiconductors: NEUTRAL (unchanged)

Software & EMS: POSITIVE (unchanged)

- **We expect near-term challenges for back-end semicon (ATE/OSAT) but are more optimistic on its 2025 prospects. Meanwhile, growth momentum for FAS and front-end semicon is expected to continue unperturbed into 2H24.**
- **For EMS, we expect a continuation of its recovery trajectory, underpinned by utilisation and capacity improvements. We also maintain our positive stance on the software sector due to snowballing digital adoption trends.**
- **Selective on hardware (GREATEC, SAMEE). Broad-based BUYs on our software and EMS coverage (top picks: MYEG, CTOS, RAMSSOL, ATECH).**

1H24, in retrospect. Amidst muted sector optimism in the early months of the year, the KLTEC index was a relatively late bloomer. Buoyed by the Prime Minister's National Semiconductor Strategy (NSS; Fig. 5) announcement that aims to catalyse Malaysia's established back-end semiconductor ecosystem up the value chain towards higher value-added front-end exposure, the index surged c.26% between late-April through to mid-June (Fig. 1). The tangible fiscal support offered by the NSS (MYR25b to be deployed in three phases) was unprecedented and promises to attract a further MYR500b in FDI/DDI over the next 5-10 years in critical high-margin tech manufacturing sectors like chip design, advanced packaging and wafer fabrication. Although details about targeted fund allocation remain scant, the roadmap was lauded by industry players for its boldness in adopting a top-down approach to nudge Malaysia's E&E industry in the right direction.

1Q24 earnings delivery was relatively mixed. In the **manufacturing** space, back-end ATP growth momentum remained sluggish as industry bellwethers Inari (OSAT), ViTrox (ATE) and Greatech (FAS) all missed expectations. In contrast, front-end players like Frontken and SAM Engineering performed well (CNP: +16%/+129% YoY respectively), underpinned by their direct exposure to leading global wafer foundries amidst an AI-driven upcycle. Despite weaker 1Q seasonality, EMS players' earnings surpassed expectations, with Aurelius and VSI both sustaining strong order flows from a recovery in customer demand and new product launches.

The largely fragmented and domestic consumption-driven **software** space saw continued growth momentum, with heavyweights MYEG, ITMAX and SMID outlier Ramssol all delivering strong 1Q24 earnings on the back of solid project execution. This is reflected in their strong YTD share price performance that ranged from +25-72%. Despite shrugging-off share price overhang from its litigation woes in March (resolved at Court of Appeals hearing on 9 Jul 2024), CTOS' 1Q24 earnings missed slightly due to holiday season-induced delays in revenue recognition. Meanwhile, soon-to-be privatized GHL Systems continued to be weighed by margin pressures in 1Q24 from its investments in merchant acquisition and tech infrastructure.

Acronyms

AI - artificial intelligence
ASP - average selling price
ATE - automated test equipment
ATP - assembly, test & packaging
CNP - core net profit
DC - data center
DDI - domestic direct investment
DeFi - decentralised finance
EMS - electronic manufacturing services
EV - electric vehicles
FAS - factory automation solutions
FDI - foreign direct investment
HCM - human capital management
IoT - internet of things
FDI - foreign direct investment
KLTEC - Kuala Lumpur Technology Index
MGO - mandatory general offer
MNC - multinational corporation
NSS - national semiconductor strategy
OSAT - outsourced assembly & testing
PH - Philippines
PLC - public-listed company
R&D - research & development
SG&A - selling, general & administrative
SMID - small & mid-caps
WSTS - World Semiconductor Trade Statistics

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Semicon sector – Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Inari Amertron	Hold	14,910	3.95	3.40	45.9	40.9	34.6	5.5	13.7	2.1	31.2
Vitrox Corp	Sell	8,324	4.40	3.40	62.4	52.4	43.6	7.7	14.5	0.5	20.7
Greatech Technology	Buy	7,212	5.75	6.50	47.5	37.3	30.4	7.6	20.7	0.0	19.8
Frontken Corp	Buy	7,458	4.74	4.75	66.8	44.3	38.9	9.8	28.4	0.7	46.3
SAM Eng & Equip	Buy	4,251	6.28	6.85	41.7	36.8	30.0	3.6	7.7	0.6	57.3
Globetronics Tech	Hold	973	1.44	1.65	37.9	30.6	22.5	3.1	10.0	2.6	(11.1)
Simple average		**43,128**			**50.4**	**40.4**	**33.3**	**6.2**	**15.8**	**1.1**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Software sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
My E.G. Services	Buy	7,608	1.02	1.68	15.7	12.1	12.1	2.8	23.1	1.7	25.2
CTOS Digital	Buy	3,350	1.45	2.10	28.4	26.4	21.6	5.1	19.7	2.3	2.8
ITMAX System	Buy	2,738	2.66	2.65	42.9	32.4	26.3	6.7	20.8	0.6	48.6
Ramssol	Buy	214	0.67	1.00	33.5	14.0	12.0	2.2	21.3	1.6	76.3
Simple average		**13,910**			**30.1**	**21.2**	**18.0**	**4.2**	**21.2**	**1.5**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

EMS sector - Peer valuation summary

Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
V.S. Industry	Buy	4,930	1.28	1.41	29.3	27.3	20.9	2.2	8.0	1.6	57.1
Aurelius Technologies	Buy	1,604	3.70	4.02	38.1	25.3	21.1	4.1	12.9	2.0	42.3
Simple average		**6,534**			**33.7**	**26.3**	**21.0**	**3.1**	**10.4**	**1.8**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

2H24 outlook. Notwithstanding WSTS expectations of global semiconductor sales rebounding 16% in 2024E to USD611b (primarily from strong AI/compute-driven logic and memory sub-segment sales in 2H24), ***we do not anticipate a near-term follow-through*** to local semicon PLC players that are largely concentrated in the back-end of the semicon supply chain. Our thesis is premised upon 3 core assumptions: (i) the lack of domestic back-end exposure to emerging AI platforms, (ii) the presence of cyclical time lags affecting aggregate demand levels in the delineated front and back-ends of the sector, and (iii) local semicon PLCs heavy reliance on Chinese customers and/or end-demand.

Imperatively, while our focus of weak external demand drivers previously centred upon the pace of China's economic recovery, we now note policy-driven structural shifts in Chinese semicon manufacturing geared towards supporting local suppliers in a government-led effort to combat trade sanctions and achieve technological self-sufficiency. This is especially evident in the smartphone and EV markets where homegrown Chinese brands have been rapidly gaining market share from its Western counterparts in 1H24. The effect of this structural shift on Malaysia's semicon supply chain is two-fold: (i) for ATEs with sizeable China end-market exposure, we expect some near-term margin compression as local PLCs either decrease ASPs and/or increase R&D/SG&A spend to boost sales and defend market share, while (ii) for OSATs, we expect the net effect to be neutral as weak utilisation for lines geared towards export-oriented MNC customers will likely be offset by improved utilisation for lines catering to the captive Chinese market. All three major OSAT PLCs – Inari, MPI (MPI MK, Not Rated) and Unisem (UNI MK, Not Rated) have plant operations in China serving the domestic smartphone/ automotive markets.

Despite the throttled outlook on 2H24 growth prospects, we still expect marginal HoH improvements in domestic OSAT plant utilisation rates (c.55-65% in 1H24) from a likely uptick in aggregate demand towards 4Q24 as global interest rates taper. We are more optimistic of a stronger pick-up in earnings prospects for ATEs/OSATs in 2025. We also don't foresee any tangible 2H24 impact from China's policy direction shift on FAS and front-end auxiliary players (Greatech, Frontken, SAM Engineering) as their Chinese end-market exposure is negligible.

On EMS, we expect the 1H24 growth momentum to sustain as new model production continues to ramp-up. Improved utilisation should help improve margins. The recovery will also be supported by new capacity expansions (P5 for ATech; commencement of Philippine operations for VSI). However, meaningful earnings contribution from the expanded capacity is only expected from 2025 onwards.

Our outlook for the Malaysian **software** space remains positive amidst favourable structural tailwinds in relation to digital adoption. The positive momentum will be supported by the expected introduction of the High-Growth High-Value (HGHV) blueprint for digital-based industries in 2H24 (deferred from 1H) by the Ministry of Economy. We believe the blueprint will detail sub-sectoral roadmaps to intensify the development of Malaysia's start-up ecosystem and lay the foundations to turn Malaysia into an attractive investment hub for global tech companies. In terms of our coverage, we expect GHL to be delisted in late-July since the acceptance rate for its acquirer's MGO is now above the 90% threshold (94.6% as of 5 Jul 2024).

Sector rating. Notwithstanding BUYs on auxiliary front-end players Frontken/SAM Engineering and FAS-specialist Greatech, we maintain our NEUTRAL stance on the semicon sector, underpinned by our HOLD and SELL ratings for OSAT/ATE market cap leaders Inari and ViTrox respectively. Although we like both companies (sound fundamentals backed by strong management teams), valuations are rich amidst uncertain wider industry prospects. Meanwhile, our POSITIVE stance on software and EMS is maintained on more favourable risk-reward propositions and stock picks.

Sector top BUYs. For **semicon**, we remain selective and prefer players with limited exposure to the back-end (OSAT/ATE) inventory cycle. Our top picks are (i) **Greatech** and (ii) **SAM Engineering**. We remain upbeat on Greatech's growth prospects, supported by its healthy outstanding orderbook (Fig. 3), solid exports customer base in high-growth industries (EV/solar/med-tech) and aggressive growth strategies backed by healthy cash balances. Greatech's US-based customers are also prime trade war beneficiaries of the Biden administration's latest round of tariffs on Chinese imports. Meanwhile, we like SAM Engineering for its earnings resilience as a secular growth stock poised to capitalise on both the front-end semicon upcycle, and the expected cyclical recovery of the aerospace sector.

For **EMS**, we prefer **ATech** for its ability to capture key E&E-centric trade relocation FDI opportunities in high-growth industries like IoT, EVs, and AI/DCs. We also forecast a strong 24% CNP CAGR over the next three years (FY24-26E) for the stock.

In the **software** space, our top picks are (i) **MYEG** (continued earnings growth momentum from high-margin DeFi ventures); (i) **CTOS** (resilient core businesses, dominant market position, international expansion); and (iii) **Ramssol** (stellar earnings accretion potential from its HCM distributor projects and partnerships).

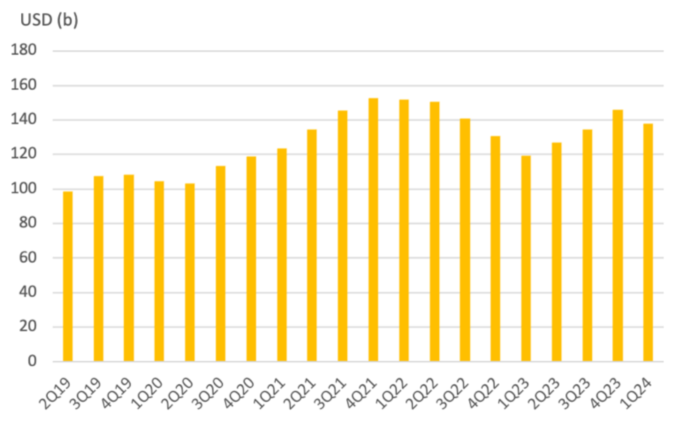
Risks. For **semicon and EMS**, risk factors affecting our earnings estimates, target price and ratings for companies under our coverage include (i) a prolonged downturn in the demand for automotive and consumer electronics; (ii) a stronger MYR vis-à-vis USD; and (iii) the imposition of wage-related/electricity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

For **software**, (i) softening of consumer spending patterns that could result in slower domestic consumption; (ii) security breaches affecting operational capabilities; and (iii) subsidy removals that could impact discretionary spending.

Fig. 1: KLTEC Technology Index (5Y performance)

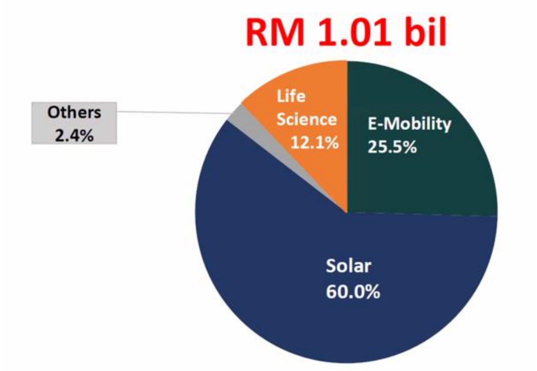
Source: Bloomberg, Maybank IBG (compilation)

Fig. 2: Global semiconductor billings (blended total)



Source: WSTS, Maybank IBG (compilation)

Fig. 3: Greatech's outstanding orderbook (as at 20 May 24)



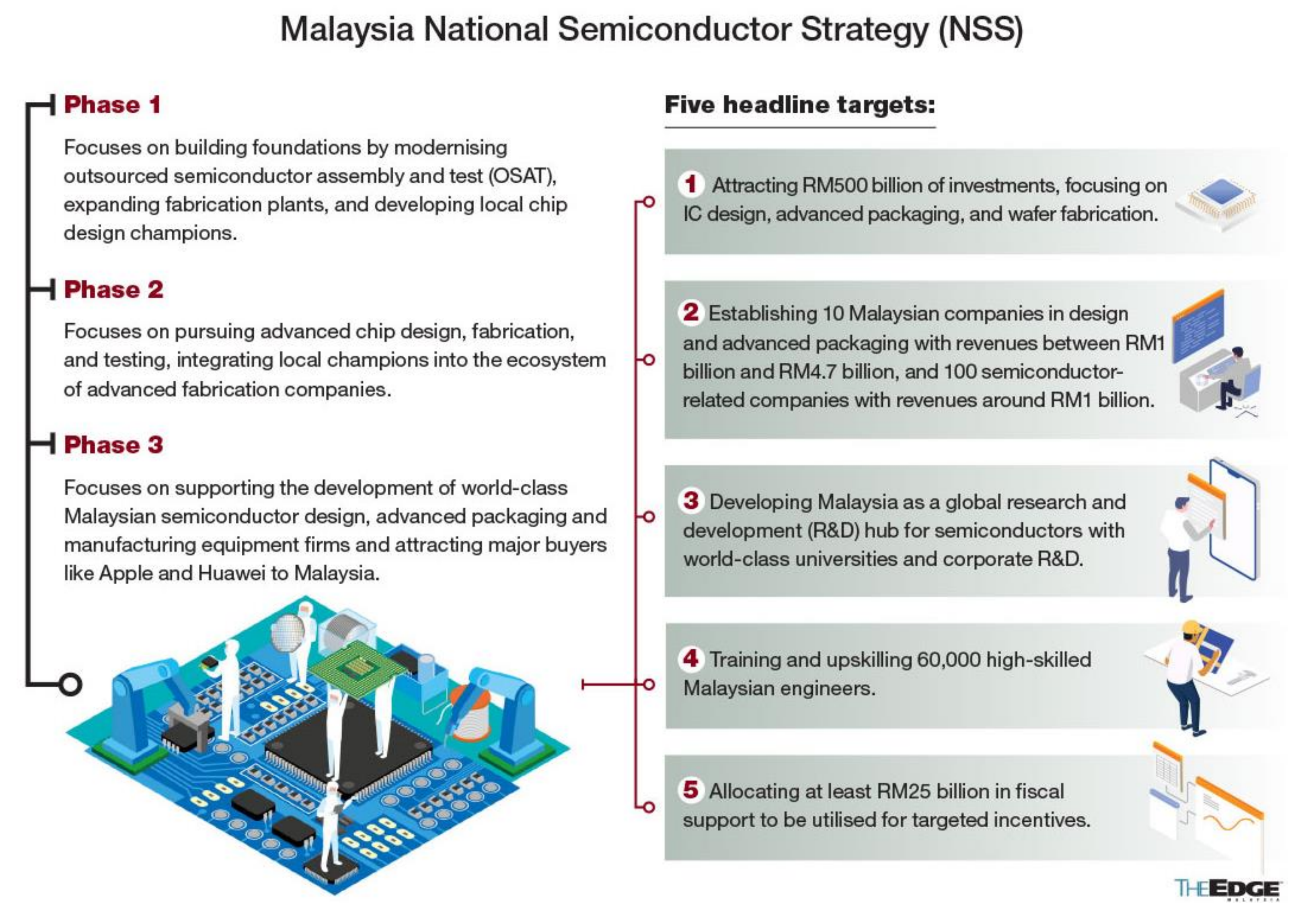
Source: Company, Maybank IBG (compilation)

Fig. 4: Domestic EMS PLCs' capacity expansion status

Company Name	Expansion Completion	New Capacity (sq ft)	Expanded Capacity (sq ft)
Aurelius Technologies	4QCY24	243,977	504,334
PIE Industrial	4QCY24	380,000	-
Nationgate Holdings	4QCY24	230,588	1,062,803
EG Industries	3QCY24	25,000	80,000
VS Industry	4QCY24	560000*	-

*Source: Company, Maybank IBG (comp); Note: *rented PH factory space*

Fig. 5: National Semiconductor Strategy (NSS) Roadmap



Source: The Edge, Maybank IBG (compilation)

TELECOM: Uncertainty drags on

NEUTRAL (unchanged)

- **The transition to dual 5G networks is progressing, resulting in the resurfacing of 5G capex risk on the mobile operators.**
- **We believe the DNB lease payments are unlikely to step up in 2024.**
- **Our preferred sector picks are CelcomDigi and Axiata, we also have a BUY rating on TM.**

1H24, in retrospect. In the mobile space, cumulative Big 3 service revenue was up 0.5% YoY in 1Q24, and is on course for a fourth consecutive year of growth (after seven years of decline previously). On 5G, telcos continue to pay a nominal amount to use DNB's 5G services in 2024, which suggest there are other conditions outside coverage (already exceeded the 80% target) that have not yet been met. The transition from single to dual 5G networks is ongoing, with 4 of the 5 telcos (excluding TM) having recently signed share subscription agreements for DNB (this is a precursor to participation in Entity B).

In the fixed space, TM announced a 51-49 JV with Nxera (Singtel's data centre arm) to develop data centres (up to 200MW, Phase 1 comprises 64MW) in Iskandar Puteri, Johor. The venture requires the approval of TM's non-interested shareholders. On the M&A front, Axiata's tower arm edotco announced the disposal of its Myanmar entity. The transaction serves as a precursor to the broader edotco fund-raising. Axiata and Sinar Mas have also entered into a non-binding MOU to mutually explore a proposed merger of XL Axiata (61%-owned subsidiary) and Smartfren (3rd and 4th largest players) in Indonesia.

2H24 outlook. We believe mobile operators will continue be plagued by regulatory uncertainty and 5G capex risk throughout 2H24 as negotiations for the second 5G network commences. On DNB lease payments, recall the minimum annual fee would rise to MYR360m for Maxis, and MYR288m for the other telco upon fulfillment of 80% coverage and other conditions. We believe the DNB lease payments are unlikely to step up in 2024, although we are unsure if these fees would be revised as part of the process of setting up Entity B. Given the share price correction of mobile telcos in particular, some of the 5G capex risk could have been priced-in, in our view.

Sector rating. We maintain a NEUTRAL stance on the sector. 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 the near to medium term however, we see some tactical BUY opportunities given the share price underperformance of some of the telcos (mobile players in particular).

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Telecom sector – Peer valuation summary

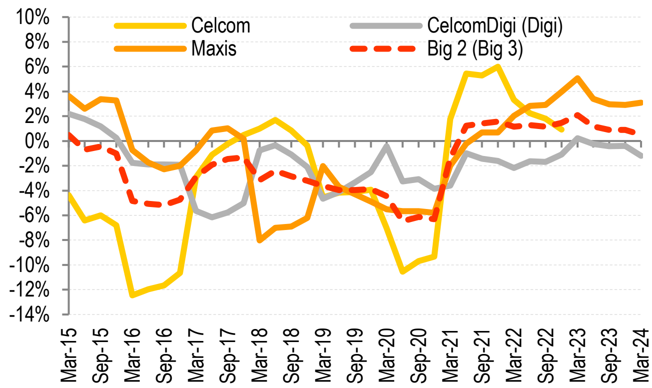
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
CelcomDigi	Buy	42,116	3.59	4.50	27.20	26.6	17.8	2.6	9.6	3.6	(12.0)
Maxis	Hold	27,103	3.46	4.00	27.24	19.3	18.3	4.1	23.8	4.6	(10.1)
Axiata Group	Buy	22,863	2.49	3.50	42.20	32.8	18.0	1.0	3.2	4.0	4.6
Telekom M'sia	Buy	26,634	6.94	6.80	13.91	17.5	16.3	2.7	15.3	2.9	25.0
TIME dotCom	Hold	9,614	5.20	5.60	23.53	20.9	20.0	2.3	11.2	4.8	(3.7)
Simple average		**128,329**			**26.8**	**23.4**	**18.1**	**2.5**	**12.6**	**4.0**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector top BUYs. Our preferred sector pick is **CelcomDigi**. We believe 5G-capex risk is largely priced-in, and the stock could re-rate when merger synergies begin to manifest more meaningfully (possibly from FY25 onwards). We retain our BUY rating on **Axiata**, 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. **TM** had a good share price run in 1H24 on the back of the data centre theme. As the dominant fibre provider in Malaysia, TM benefits from increased demand for connectivity arising from the data centre boom. Its overall earnings outlook remains favourable on the back of its ongoing multi-year cost optimisation efforts.

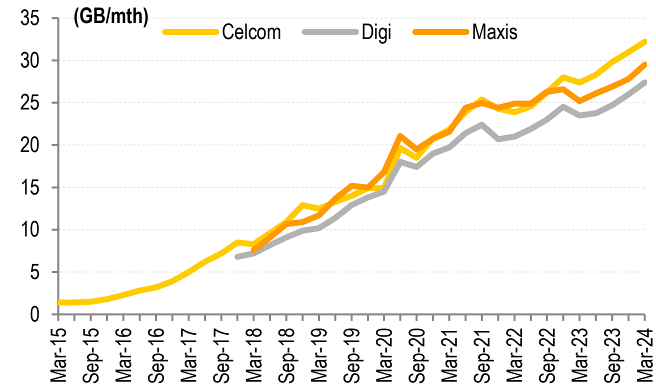
Risks. All telcos could be affected if consumer spending comes under pressure from economic weakness. Developments pertaining to industry consolidation could also have an impact on share prices. In the mobile space, the emergence of a serious price war remains a material risk, particularly if initiated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



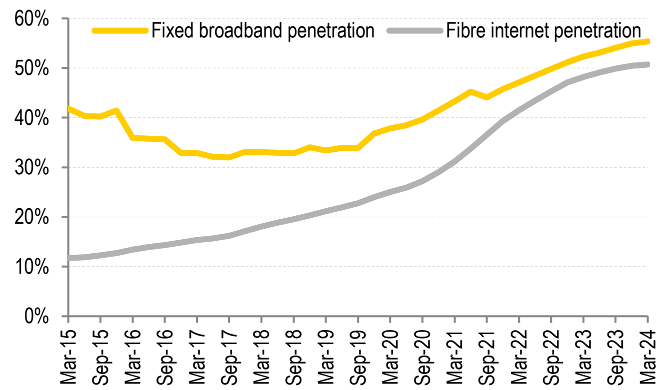
Source: Companies

Average monthly data usage



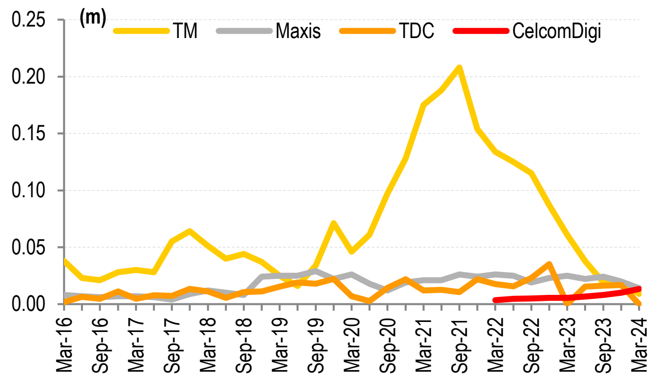
Source: Companies

Fibre broadband penetration



Source: MCMC, Companies

Quarterly fibre broadband subscriber additions



Source: Companies

UTILITY: Positives somewhat priced-in

NEUTRAL (unchanged)

- **Prevailing sector euphoria driven by expectations of stronger electricity demand and higher grid investments.**
- **We caution electricity demand does not have a material impact on both Tenaga and IPPs' earnings.**
- **We have no BUY ratings in the sector; our relative preferred pick is YTL Power.**

1H24, in retrospect. Electricity utilities across our coverage rallied in 1H24 on the back of positive sentiment arising from improved demand outlook (from Malaysia's data centre boom). Peninsular Malaysia's electricity demand was up 9.6% YoY, and generation up 10.0% YoY in 1Q24 due mainly to an uptick in commercial and domestic consumption. Consequently, Tenaga's return of surplus revenue (other regulatory adjustments) trended up in the quarter. RP4 negotiations are ongoing.

Coal prices were generally stable HoH, thus there were no sharp fluctuations in Tenaga's fuel cost under-recoveries and ICPT receivables. Similarly, Malakoff returned to profitability in 1Q24 as fuel margins at the coal plants normalised. Its Prai Power concession will expire in Jun 2024 (we do not rule out the possibility of an extension). For YTL Power, PowerSeraya's earnings tapered sequentially in its latest quarter. Meanwhile, the 3rd five-year term of Petronas Gas' gas processing agreement (GPA) took effect in early-2024, with fixed reservation charge being raised by 6% and incentive for the performance-based structure (PBS) of liquids being raised by 33%.

2H24 outlook. Coal prices have remained stable to date, thus ICPT concerns for Tenaga and negative fuel margin risks are unlikely to resurface, in our view. We expect continued attention on Tenaga's RP4 (2025-2027) negotiations. For YTL Power, tapering PowerSeraya's earnings could be partly offset by recovering Wessex's earnings as UK inflation tapers. We however have slight reservations on both the data centre (potentially 2-3 years breakeven) and AI compute (possibly initial monetization challenges) segments. Meanwhile on Mega First, Don Sahong's fifth turbine should be operational in 2H24. We also expect more updates and developments on its modern farming / hospital ventures.

Sector rating. We maintain a NEUTRAL stance on the sector. In our view, the prevailing euphoria for the sector (due to expectations of earnings accretion from stronger electricity demand and higher grid investments) is largely priced-in. We however note the sector is generally insulated from demand risk, and thus does not materially benefit from demand upside. Nevertheless, given the market views this as a multi-year thesis, the mismatch between earnings expectations and actual delivery might not manifest until some years down the road. Thus, share prices could remain elevated in the near future.

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Utility sector - Peer valuation summary

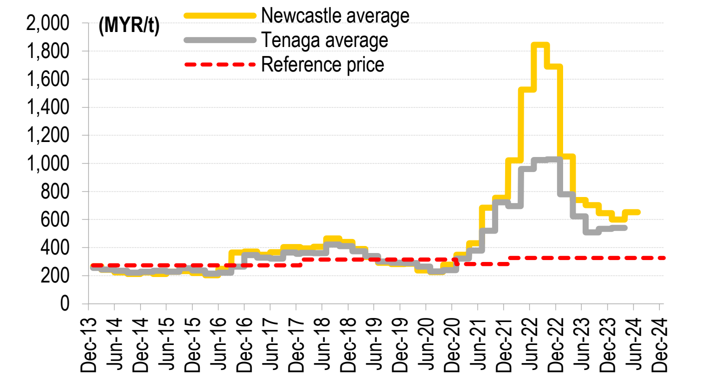
Stock	Rec	Mkt cap (MYRm)	Shr px (MYR)	TP (MYR)	PER (x) CY23	PER (x) CY24E	PER (x) CY25E	P/B (x) CY24E	ROE (%) CY24E	Div Yld (%) CY24E	Px chg (%) YTD
Tenaga Nasional	Hold	83,706	14.40	13.50	22.4	22.8	19.1	1.4	6.1	3.2	43.4
Petronas Gas	Hold	35,380	17.88	18.00	19.2	19.8	19.4	2.5	12.8	4.0	2.8
YTL Power	Hold	42,802	5.22	5.20	17.0	13.6	13.5	2.0	15.0	1.1	105.5
Gas Malaysia	Hold	4,622	3.60	3.60	12.0	11.9	11.9	3.2	26.6	6.4	12.1
Mega First Corp	Hold	4,770	5.06	4.80	12.1	10.5	10.3	1.4	13.3	1.8	37.1
Malakoff Corporation	Sell	4,056	0.83	0.55	n.a.	11.4	10.5	0.9	6.5	4.5	30.7
Ranhill Utilities	Sell	2,099	1.62	0.90	36.0	32.4	26.6	2.6	7.9	1.5	80.8
Simple average		**177,436**			**19.8**	**17.5**	**15.9**	**2.0**	**12.6**	**3.2**	

Source: Bloomberg pricing (10 Jul 2024), Maybank IBG Research

Sector top BUY. We currently do not have any BUY ratings in the sector. On a relative basis, our preferred pick for the sector is **YTL Power**. We believe the tapering PowerSeraya's earnings could be partly offset by recovering Wessex's earnings as UK inflation tapers. We note of possible earnings upside from its AI compute segment if monetization challenges do not crop up (the announcement of its first major AI compute customer could serve as a re-rating catalyst). On **Tenaga**, we caution that higher demand does not translate to materially higher earnings under the current regulatory framework. Elevated grid capex and possibly new generation projects are more tangible earnings drivers for Tenaga, but priced-in to a large extent, in our view.

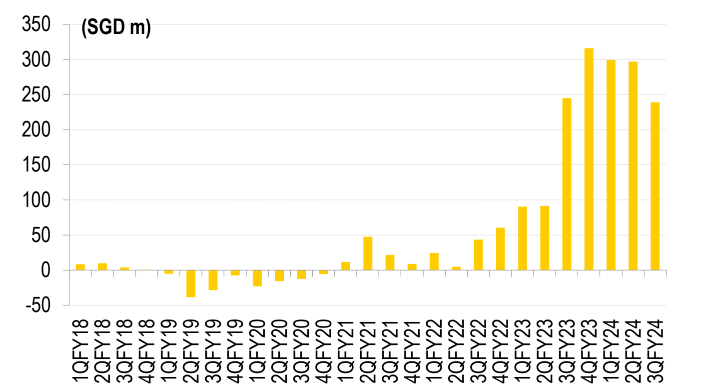
Risks. For Tenaga, Petronas Gas and Gas Malaysia, any changes to regulatory terms would have direct earnings implications. YTL Power's earnings are largely overseas-derived (with Wessex in UK being the main earnings contributor), and are thus vulnerable to currency fluctuations. For Malakoff, any major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

Coal prices



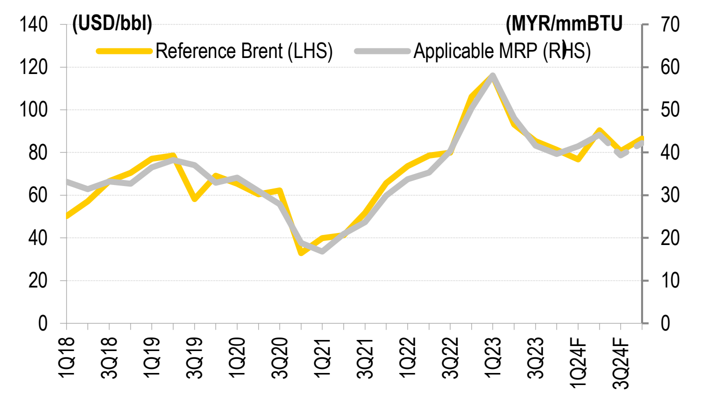
Source: Bloomberg, Company

PowerSeraya quarterly pre-tax profit



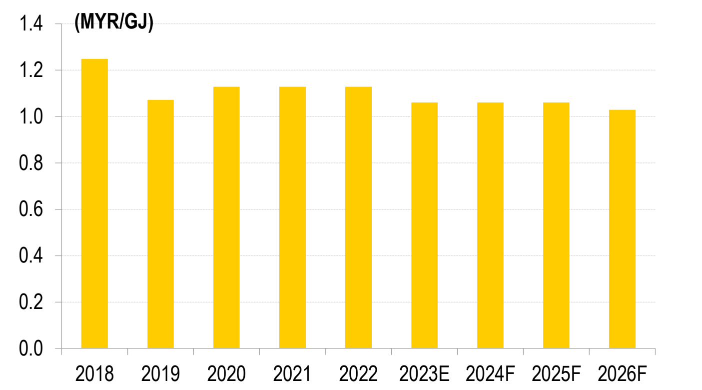
Source: Company

Domestic gas price



Source: Bloomberg, Energy Commission, DOSM

Petronas Gas transportation tariff



Source: Company, Maybank IBG Research

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