PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector Update

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,455.04	0.1	0.0
Bursa Emas	10,723.83	(3.1)	(0.0)
Ind Product	172.68	(0.1)	(0.0)
Finance	16,442.62	15.9	0.1
Consumer	556.58	(1.1)	(0.2)
Construction	177.20	(1.2)	(0.7)
Properties	845.89	(7.6)	(0.9)
Plantations	6,857.94	(6.2)	(0.1)

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	11-Sep-23	% chg
Volume (m units)	2,799	9.8
Value (RMm)	1,637	(11.7)

By Investor type	(%)	ppt chg
Foreign investors	31.8	2.5
Local retail	29.4	2.3
Local institution	38.8	(4.8)

TOP VOLUME / GAINERS / LOSERS

Top Volume	Price (RM)	Chg (%)	Volume ('000)
MY EG Services	0.79	1.3	35,178
MRCB	0.44	(2.2)	34,174
Bumi Armada	0.52	(1.9)	31,794
Top Glove	0.82	0.0	30,211
YTL Corp	1.48	(3.3)	20,175
Top Gainers			
Coastal Contracts	1.98	3.1	230
Astro Malaysia	0.52	3.0	6,078
AirAsia X	2.53	2.8	7,850
Inari Amertron	2.92	1.7	16,631
MY EG Services	0.79	1.3	35,178
Top Losers			
Eastern & Orient	0.57	(5.0)	15,925
Jaya Tiasa Holdings	0.76	(3.7)	2,928
YTL Corp	1.48	(3.3)	20,175
GD Express Carrier	0.17	(2.9)	759
UOA Development	1.72	(2.8)	331

OTHER STATISTICS

	11-Sep-23	chg	% chg
RM/US$	4.67	(0.00)	(0.1)
CPO 3rd mth future (RM/mt)	3,713	(117.0)	(3.1)

Top volume, gainers and losers are based on FBM100 component stocks

SECTOR UPDATE

Construction – Malaysia

Mixed 1H23 Results; All Eyes On Budget 2024

The sector delivered mixed 1H23 results with sector earnings moderating by 1.0% qoq despite higher revenue. We anticipate stronger 2H23 earnings on higher progress billing amid an easing of the labour shortage and lower building material prices. Companies are expected to ride on the fresh rollout of mega projects (such as MRT3) and a more vibrant Johor property market. Maintain MARKET WEIGHT. Our top picks are Gamuda, Gabungan AQRS and Kerjaya Prospek Group.

WHAT'S NEW

- **Mixed bag of 2Q23 results.** 2Q23 earnings were mixed as three companies' results came in within expectations vs three that came in below, and one that exceeded expectations. Sector earnings moderated by 1.0% qoq to RM382.0m despite a 10.0% increase in revenue to RM5.3b, weighed down by elevated building materials prices. Notably, Gamuda posted an exceptional 3QFY23 (FYE 31 July) earnings on higher contributions from Australia projects which partially made up for the weaker performances by IJM and WCT.

2Q23 RESULTS SUMMARY

Company	Revenue (RMm)	CNP (RMm)	vs. UOBKH	vs. Consensus	------- Earnings Revision (%) ------- +1yr Fwd	+2yr Fwd	+3yr Fwd
Gabungan AQRS	71.0	7.2	In line	In line	-	-	-
Gamuda*	2,067.1	223.4	In line	In line	-	-	-
IJM Corp**	1,225.8	66.4	Below	Below	-2	-3	-2
Kerjaya Prospek Group	309.3	29.9	Below	Below	-4	-10	-2
Malaysian Resources Corp	599.3	10.9	In line	Above	-	-	-
Sunway Construction Group	604.1	32.3	In line	In line	-	+18	+6
WCT Holdings	424.5	11.9	Below	Below	-7	-3	-3

*FYE July, based on 3QFY23 results; **FYE Mar, based on 1QFY24 results; Source: Companies, UOB Kay Hian*

- **Anticipate better 2H23 earnings; to ride on the rollout of mega projects and a more vibrant Johor property market.** We continue to anticipate stronger 2H23 earnings on the back of higher progress billing amid an easing of the labour shortage and decline in building material prices. In addition, the upcoming rollout of mega projects such as MRT3 and Penang LRT may further catalyse near-term earnings. For companies with exposure in property development operations, progressive new project launches would also help spur earnings momentum. We also think IJM Corp, WCT, and Gabungan AQRS may ride on the more vibrant property market in Johor given their existing landbanks in the state's prime areas such as Iskandar Puteri and Johor Bahru.

ACTION

- **Maintain MARKET WEIGHT on the sector.** Our neutral sector rating is premised on a lack of visibility on the details regarding the rollout of mega projects amid fiscal constraints, despite a more stable domestic political landscape. Our top pick for the sector remains Gamuda, backed by its robust orderbook with pronounced overseas jobs secured which help to mitigate the muted local contract flows. We derive a higher target price of RM5.14/share for Gamuda, upon rolling forward our valuation base year to FY24 and revising upward FY23-25 earnings to reflect a stronger orderbook. We also like Gabungan AQRS and Kerjaya Prospek Group for their superior orderbook cover ratio and stronger property development earnings from upcoming project launches.

PEER COMPARISON

Company	Ticker	Rec	Share Price 11 Sep 23 (RM)	Target Price (RM)	Market Cap (RMm)	P/E 2024F (x)	P/B 2024F (x)	Yield 2024F (%)
Gabungan AQRS	AQRS MK	BUY	0.37	0.48	199	3.3	0.4	n.a.
Gamuda	GAM MK	BUY	4.34	5.14	11,701	13.1	1.1	2.8
IJM Corporation	IJM MK	HOLD	1.78	1.62	6,493	19.3	0.7	3.1
Kerjaya Prospek Group	KPG MK	BUY	1.20	1.54	1,521	10.9	1.2	4.6
Malaysian Resources Corp	MRC MK	HOLD	0.44	0.41	1,966	17.6	0.4	2.3
Sunway Construction Group	SCGB MK	HOLD	1.86	1.69	2,405	15.8	2.8	3.8
WCT Holdings	WCTHG MK	BUY	0.51	0.69	723	7.7	0.2	3.3

Source: UOB Kay Hian

MARKET WEIGHT

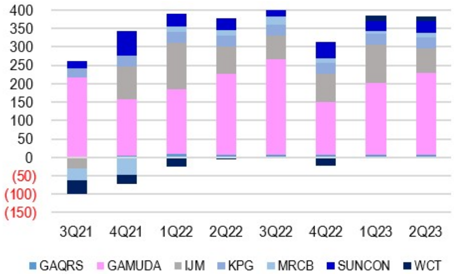
(Maintained)

SECTOR BUYS

Company	Target Price (RM)	Upside (%)
Gabungan AQRS	0.48	31.5
Gamuda	5.14	18.4
Kerjaya Prospeks Group	1.54	28.3
WCT Holdings	0.69	35.3

Source: UOB Kay Hian

CONSTRUCTION FIRMS' EARNINGS TREND



Source: Companies, UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF AUG 23

Company	Value (RMb)	Orderbook Cover (x)
Gabungan AQRS	0.9	2.7
Gamuda	21.5	4.2
IJM Corporation	4.9	1.1
Kerjaya Prospek Group	4.5	4.0
Sunway Construction Group	5.8	2.7
WCT Holdings	3.1	1.5

Source: UOB Kay Hian

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ESSENTIALS

- **Most companies met orderbook replenishment targets.** In 2Q23, most companies remained on track to meet their projected orderbook replenishment. In particular, Gamuda maintained its lead with RM10.5b (including the immediate addition of RM4.5b orderbook from the acquisition of DT Infrastructure) worth of new jobs secured as of end-3QFY23. This means the company will be able to comfortably meet its guided average annual orderbook replenishment target of RM12b-13b for FY23-FY24, while a subsequent pick-up in domestic job flows would further strengthen its already-sturdy position.

  Meanwhile, Sunway Construction Group and Kerjaya Prospek Group also recorded commendable replenishment of RM1.6b and RM1.1b respectively as of end-Aug 23, underpinned by a resilient mix of external and internal job flows. While other companies had secured fewer new projects in 2023, we understand that they still hold a rather upbeat outlook on the back of a potentially strong influx of infrastructure jobs such as MRT3 and ECRL. This is despite a lukewarm outlook from the private sector owing to the long-lasting property overhang environment.

- **Budget 2024 to provide further clarity on the rollout of mega projects.** We also believe that the upcoming Budget 2024 (which is tentatively scheduled to be on 13 October) may inject fresh stimulus to the construction sector. While the budget may likely entail higher development expenditure (DE) to pump prime the domestic economy, we reckon that a large portion of the DE is earmarked for small-to-medium projects which could hardly benefit listed contractors. That said, we think Budget 2024 may provide further execution details (project costs and implementation timelines) for mega projects such as MRT3.

- **MRT3 to be concluded soon.** Recall that there are three packages under MRT3: a) Civil Main Contractor 301 (CMC301) for the elevated portion with estimated costs of RM2b, b) CMC302 for other elevated portions coupled with additional tunnelling jobs with estimated costs of RM12b, and c) CMC303 - tunnelling jobs worth around RM11b. For CMC301, MRCB is said to have put the lowest bid, while YTL and Gamuda are the lowest bidders for CMC302 and CMC303 respectively. Besides proposed project costs, MRT Corp is also assessing tenders based on technical, commercial and track record aspects. The tender outcome is expected to be concluded later this month, following the three-month extension of tender validity to end-Sep 23.

  In addition, we note that there is a confluence of other sizeable infrastructure projects being highlighted in the mid-term review of 12th Malaysia Plan including: a) Penang LRT (estimated project costs of RM9.5b), b) remaining packages of Pan Borneo Highway Sabah and Sarawak-Sabah Link Road II, c) expansion of airports in Penang and Subang, d) upgrades and expansions of highways, as well as e) multiple flood mitigation projects worth RM22b. We believe this suggests a high likelihood of these projects being carried out eventually albeit with limited visibility on project timelines.

- **Stabilising building materials prices.** Meanwhile, the continued easing of building materials prices should bode well for construction companies and lead to margin improvements in the upcoming quarters. We note that steel bar prices eased by 7.8% qoq to RM2,765/tonne in 2Q23 and have further declined by 2.8% to RM2,640/tonne as of end-Aug 23. Meanwhile, prices for bulk cement also declined by 4.6% qoq to RM372/tonne in 2Q23 despite rising by 2.2% to RM380/tonne as of end-Aug 23 (still lower than RM390/tonne in 1Q23). This bolsters our anticipations of better 2H23 earnings for construction firms on profit margin improvements, not to mention a ramp-up of construction progress amid gradual easing of labour shortage issues.

MEGA PROJECTS PIPELINE

Project	Value (RMb)	Remarks
ECRL	50	**Status:** Around 49% completion in 1Q23 with expected completion in Dec 26. **Potential beneficiaries:** IJM Corp (for vertical package; Econpile, Suncon (for horizontal package).
MRT3	30	**Status:** Approved in Budget 2023; jobs to be awarded in 2023. **Potential beneficiaries:** Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Pan Borneo Highway Sabah	4	**Status:** Cabinet approval in 2022 to proceed with the remaining 19 work packages (five years) under Phase 1B. Phase 1 was 82% done as of Aug 23. **Potential beneficiaries:** Suria Capital (JV with GAQRS), WCT
Rapid Transit System (RTS)	4	**Status:** 41% completion as of Jul 23; Aims to hit 70% by end-23; Expected completion: Dec 2026 Ekovest won RM2b EPC contract. **Potential beneficiaries:** Subcontractor works for rail-related contractors such as Suncon, IJM Corp
High Speed Rail (HSR)	TBC	**Status:** In preliminary stages with MyHSR recently hosted RFI exercise in Jul 23 and may submit proposal to Singapore government in coming months. **Potential beneficiaries:** Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE

Source: Media reports, UOB Kay Hian

MRT3 PROJECT DETAILS

Project owner	MRT Corp
Project period	2023-30 (8 years)
Project structure	a) 2 contractors for elevated works b) 1 contractor for underground works c) 1 contractor for integrated rail system d) 1 project management consultant
Estimated cost	RM30-50b
Funding structure	Sukuk issuances and other hybrid funds; every work package will have its own PFI
Length of alignment	51km: 40km of elevated tracks & 11km of underground tunnels
No. of stations	31 including 10 interchange stations

Source: Media reports, UOB Kay Hian

SECTOR UPDATE

Plantation – Malaysia

Short-term Bearish, But Supported By Indonesia's Lower-than-expected Supply

Aug 23 palm oil inventory came in higher than market estimate mainly due to lower-than-expected exports and domestic consumption. We expect inventory level to increase marginally, driven largely by higher production, while exports remain sluggish. Having said that, we reckon that Indonesia's lower-than-market-expectation supply would support the pricing. Maintain OVERWEIGHT, accumulate on weakness with the upcoming strong earnings.

MPOB'S AUG 23 STATISTICS

(m tonne)	Aug 23	mom % chg	yoy % chg	8M23	yoy % chg
CPO Production	1.75	8.9	1.6	11.45	(1.1)
Palm Oil Stocks	2.12	22.5	1.4	2.12	1.4
Palm Oil Domestic Use	0.25	(27.3)	0.7	2.53	25.9
Palm Oil Exports	1.22	(9.8)	(6.0)	9.65	(1.7)
Oleochemical	0.26	11.6	18.9	1.85	2.2
Biodiesel	0.02	19.2	(23.7)	0.13	(42.6)
Palm Oil Imports	0.11	213.7	128.5	0.66	(13.6)
CPO Price (RM/tonne)	3,805.0	(2.4)	(8.7)	3,903.7	(32.2)

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- Palm oil inventory in Malaysia for Aug 23 came in higher than market expectation, hitting above 2m tonnes vs market expectation of 1.90m-1.94m tonnes. The main variance was mainly due to the lower-than-expected exports and domestic usage.
- Some of the key highlights are:

a) **Inventory: Hitting above 2m tonnes, beating market expectation.** This was mainly due to the lower-than-expected exports and domestic disappearance, while imports remained high.

b) **Production: Within market expectation** with growth mainly coming from Sarawak, Pahang and Johor. The drier weather had led to stronger FFB yield recovery in Sarawak, and less public holidays disruption translated into better performance for Peninsular Malaysia.

c) **Exports:** Weaker than expected as destination markets stock up comfortably now and weak domestic demand in China is also slowing down demand. Meanwhile, Indonesia continues to offer a wider discount to grab larger exports market share.

a) **Imports remained high in Aug 23.** With Indonesian refined palm oil pricing remaining attractive, Malaysia palm oil imports continue to remain at a high level with refineries buying directly from the Indonesian parties.

ACTION

- **Maintain OVERWEIGHT.** We maintain our view that CPO prices would trade at the range of RM3,800-4,200/tonne. From the recent East Malaysia Palm Oil Conference, the speakers were also bullish on CPO prices which is in line with our in-house view. With the current uncertain weather (especially from the South Africa region), we reckon that this would continue to buoy the soybean prices and palm oil prices as well.

OVERWEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.85	2.65
IOI Corporation	BUY	4.03	4.80
KL Kepong	HOLD	21.20	24.40
Sime Darby Plantation	BUY	4.30	5.00

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
Our Forecast:	
2023F	4,000
2024F	4,200
CPO Price:	
MPOB @ 11/9/2023	3,750
BMD 3rd Month Contract	3,628

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Share Price 11 Sep 23 (RM)	Target Price (RM)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	ROE (%)	P/B (x)	2023F Div (sen)	Div Yield (%)
Hap Seng Plantations	HAPL MK	BUY	1.85	2.65	316.5	7.0	11.9	8.5	11.0	0.8	9.3	5.0
IOI Corporation	IOI MK	BUY	4.03	4.80	5,348.6	15.8	16.7	15.3	10.0	2.2	12.6	3.1
Kuala Lumpur Kepong	KLK MK	HOLD	21.20	24.40	4,891.2	10.6	15.6	13.2	16.6	1.6	68.0	3.2
Sime Darby Plantation	SDPL MK	BUY	4.30	5.00	6,361.9	14.3	25.2	14.5	13.8	1.5	10.2	2.4
Genting Plantations	GENP MK	HOLD	5.18	6.40	994.3	9.9	14.9	13.8	9.1	0.9	15.2	2.9
Kim Loong Resources	KIML MK	HOLD	1.82	1.95	377.9	9.6	10.0	9.5	19.7	2.0	15.5	8.5
Sarawak Oil Palms	SOP MK	HOLD	2.56	3.00	487.6	4.7	7.4	5.9	15.7	0.7	13.9	5.4

Source: UOB Kay Hian

- We recommend investors to accumulate upstream plantation players with strong production growth. We expect CPO prices to trend higher from towards end-4Q23 to better reflect the tightness of global palm oil supplies. Thus, we recommend investors to accumulate plantation stocks. Top pick: Hap Seng Plantations and IOI Corporation. Trading BUY: Sime Darby Plantation.

ESSENTIALS

- **Sep 23 outlook:**

  a) **Production: Marginal increase mom.** We reckon that production is likely to remain strong in the first half of September as earlier rainfall induces FFB ripening. Based on our observation from our recent trips, the palm oil trees are still showing good production. However, based on our channel checks, Indonesia's production was not as good as Malaysia's in August, ie flat mom to marginal decline as some regions were suffering from dryness and hotspots started to emerge in West Kalimantan.

  b) **Exports: Lower or flat mom,** mainly due to slower demand from China and Malaysia palm oil exports losing market share to Indonesia. Having said that, we observed that the price discount between Indonesia and Malaysia pricing is narrowing. This is likely due to Indonesia's lower-than-expected production as compared with Malaysia.

  c) **End-stock: Higher mom.** We expect the inventory level to increase to 2.3m-2.4m tonnes, which may be bearish for the immediate term. Having said that, Indonesia's potentially lower-than-market expectation palm oil supply may continue to support the global palm oil pricing.

SECTOR CATALYSTS

- **2H23 earnings to be stronger hoh.** Based on most of the plantation companies under our coverage, 1H23 earnings only account for about 30% of our full-year estimate. We reckon that 2H23 earnings would come in strongly with margin expansion mainly from the softer fertiliser pricing as well as lower fertiliser application (most of the companies had applied more fertiliser in 1H23). On top of that, fuel cost has also dropped in 2H23.
- **Monitoring the uncertain weather closely.** Despite highlighting the possibility of El Nino in late-3Q23, we reckon that there may be some delay. Having said that, we would like to highlight the prolonged dry weather in Canada and the US which would affect the soybean yield given such extreme hot weather.
- **Watch out for rising crude oil prices.** The recent increase in crude oil prices may trigger non-mandated biodiesel blending as vegoil prices corrected lately. Palm oil – gasoil oil (POGO) price spread has narrowed with palm oil now at a discount of US$200/tonne to gasoil after both prices diverged recently.

ASSUMPTION CHANGES

- **No changes to CPO ASP assumptions.** We maintain our CPO price assumption at RM4,000/tonne and RM4,200/tonne for 2023 and 2024 respectively.

CPO PRODUCTION BY REGION

(m tonne)	Aug 23	mom % chg	yoy % chg	8M23	yoy % chg
CPO Production	**1.75**	**8.9**	**1.6**	**11.45**	**(1.1)**
Peninsular Malaysia	0.94	9.3	(0.9)	6.02	(7.4)
Sabah	0.39	9.8	1.7	2.83	9.1
Sarawak	0.42	7.2	7.3	2.59	4.8

Source: MPOB

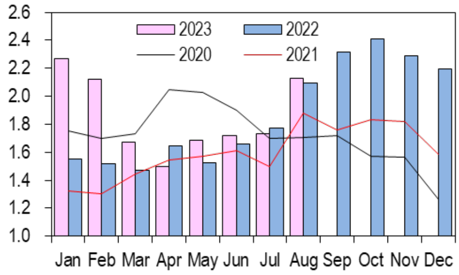
KEY EXPORTS DESTINATION FOR JAN-AUG 23

Country	Jan-Aug 23 (tonnes)	Jan-Aug 22 (tonnes)	yoy % chg
India	1,576,420	1,651,464	(4.5)
China	766,288	621,168	23.4
Kenya	524,461	441,402	18.8
Turkiye	468,074	540,620	(13.4)
Japan	304,606	302,921	0.6
Others	4,802,512	4,944,431	(2.9)
Total	**8,442,361**	**8,502,006**	**(0.7)**

Source: MPOC

AUG 23 INVENTORY LEVEL HIGHER THAN EXPECTED

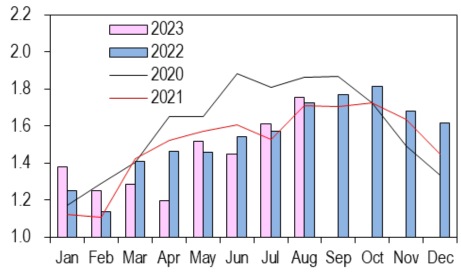
(m tonnes)



Source: MPOB

STRONG PRODUCTION IN AUG 23

(m tonnes)



Source: MPOB

TRADERS' CORNER

Source: UOBKH ChartGenie

Hextar Global (HEXTAR MK)

Technical BUY with +16.6% potential return

Last price: RM0.785

Target price: RM0.80, RM0.915

Support: RM0.735

Stop-loss: RM0.73

BUY with a target price of RM0.915 and stop-loss at RM0.73. Based on the daily chart, share price has climbed up gradually after establishing support at RM0.735. Positive readings for both the DMI and the MACD should translate into stronger momentum for share price. We peg our targets at RM0.80 and RM0.915 based on the Fibonacci Extension, as the latest candles are forming higher highs and higher lows, which suggest that the uptrend is intact.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

Source: UOBKH ChartGenie

Bank Islam Malaysia (BIMB MK)

Technical BUY with +21.6% potential return

Last price: RM2.13

Target price: RM2.20, RM2.59

Support: RM2.05

Stop-loss: RM2.04

BUY with a target price of RM2.59 and stop-loss at RM2.04. Based on the daily chart, share price has climbed up gradually after establishing support at RM2.05. Positive readings for both the DMI and the RSI should translate into stronger momentum for share price. We peg our targets at RM2.20 and RM2.59 based on the Fibonacci Extension, as the latest candles are forming higher highs and higher lows, which suggest that the uptrend remains intact.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

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