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### KEY HIGHLIGHTS

#### Sector Update

##### Consumer

Page 2

Upcoming headwinds should result in lacklustre interest. This is balanced by the sector trading at a bargain. Downgrade to MARKET WEIGHT.

#### Company Update

##### MISC (MISC MK/BUY/RM7.20/Target: RM8.80)

Page 4

MISC addressed sustainability goals and key ESG issues impacting the global shipping industry, like a potential U-turn of the sulphur cap rules.

##### XL Holdings (XLH MK/NOT RATED/RM0.81)

Page 9

XL Holdings is morphing into an integrated food security player with a wider presence across the supply chain.

### TRADERS' CORNER

Page 12

**Sern Kou Resources (SKOU MK):** Technical BUY

**Wellcall Holdings (WELL MK):** Technical BUY

### KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,449.46	(1.6)	(0.1)
Bursa Emas	10,682.37	(1.0)	(0.0)
Ind Product	169.83	(0.4)	(0.3)
Finance	16,340.29	(24.1)	(0.1)
Consumer	551.27	0.1	0.0
Construction	183.03	0.1	0.0
Properties	841.18	4.6	0.6
Plantations	6,988.90	5.7	0.1

### BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	5-Dec-23	% chg
Volume (m units)	3,538	12.1
Value (RMm)	1,998	6.5

By Investor type	(%)	ppt chg
Foreign investors	31.8	(1.3)
Local retail	26.3	(1.5)
Local institution	41.9	2.8

### TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg 5-day ADT (%)	(RM'000)
AirAsia X	1.92	(2.0)	6
AEON Credit	5.71	0.2	2,235
Alliance Bank Malaysia	3.51	0.6	6,904
AMMB Holdings	4.04	(0.5)	31,536
Astro Malaysia	0.36	(5.3)	2,773

#### Top Gainers

Axiata Group	2.40	3.0	22,519
IGB REIT	1.74	1.8	2,391
Lafarge	4.29	1.7	11,975
SP Setia	0.74	1.4	8,965
Astro Malaysia	0.38	1.3	1,992

#### Top Losers

Berjaya Corp	0.29	(5.0)	4,064
Hap Seng Consolidated	4.53	(4.4)	2,763
Parkson Holdings	0.28	(3.5)	1,225
WCT Bhd	0.46	(3.2)	1,400
7- Eleven Malaysia	1.94	(3.0)	119

### OTHER STATISTICS

	5-Dec-23	chg	% chg
RM/US\$	4.66	0.01	0.1
CPO 3rd mth future (RM/mt)	3,781	(43.0)	(1.1)

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

## SECTOR UPDATE

### Consumer – Malaysia

No End In Sight Yet

Interest in the sector could remain lacklustre due to the reforms on subsidy rationalisation and already-tightened disposable spending. These headwinds far outweigh companies potentially benefitting from cheaper input costs, that have inched up against the strengthening US dollar. Despite the sector offering bargain valuations, the sector could underperform given the headwinds. We downgrade the sector to **MARKET WEIGHT**. Our top picks are F&N, Mr. DIY and Heineken.

#### WHAT'S NEW

- **Likely sector overhang from subsidy rationalisation.** The government policies most relevant to the sector are reforms surrounding subsidy rationalisation. Subsidies and social assistance are expected to be rationalised to RM58.1b in 2024 from RM81.0b in 2023. Removals of certain subsidies have been market related, such as chicken prices having fallen below the ceiling price imposed by the government. That said, the lion's share of rationalisation will be drawn from fuel subsidy, which should have more clarity after 1Q24. Implementation is expected for 2H24, disproportionately impacting the top 20% of income earners. This is likely to cast an overhang on the sector given the tightened purse strings, constricted disposable income, and potential spillover effect.
- **3Q23 results were slightly underwhelming but margins appear to have hit an inflection point.** 3Q23 sector earnings grew 15.4% yoy and 4.8% qoq (PBT earnings: 10.5% yoy, -3.1% qoq). This far outstripped top-line growth of 2.1% yoy and 1.0% qoq thanks to broadly improved margins posted by consumer staples companies such as Nestle, QL and F&N. Results were slightly underwhelming in relation to overall expectations. Top-line growth remained unconvincing due to the increasing cost of living and high-base effect from the EPF special withdrawals that particularly benefitted retailers in 2Q22 and spillover into 3Q22. Positively, margins appear to have reached an inflection point.

#### ACTION

- **Downgrade to MARKET WEIGHT with near-term headwinds in sight.** Sector valuations are trading at a depressed 21.0x, close to -1.5SD to its five-year mean. Against this backdrop, we expect earnings to grow by a decent 11.8% for 2024. However, as subsidy rationalisation details will only be made known from March onwards, this could further weigh on consumer and investor sentiments alike. Certain commodities prices have also strengthened recently, potentially limiting the desired recovery in gross margins. Furthermore, the sector is relatively defensive and is likely to relatively underperform in a risk-on environment. The sub-optimal relative returns and an overhang in sentiment appear to be reflected in the current depressed valuations. This confluence of factors underlines our tactical **MARKET WEIGHT** call for the sector.
- **F&N, Mr. DIY and Heineken as our top picks.** We have a preference for consumer staples and staple-like derived demand amid emerging headwinds for the sector. Top picks for the sector include F&N, Mr. DIY and Heineken. In addition, F&N is a tourism recovery beneficiary.

#### PEER COMPARISON

Company	Tickers	Price 5 Dec (RM)	Rec	Target Price (RM)	Market Cap (RMm)	P/E (x)		P/BV (x)	Yield (%)	
						FY23F	FY24F	FY23F	FY23F	FY24F
MyNews	MNHB MK	0.51	SELL	0.43	383	82.8	26.1	1.6	0.2	0.7
Farm Fresh	FFB MK	1.35	SELL	1.00	2,527	45.4	22.1	3.7	0.6	1.1
British American Tobacco	ROTH MK	9.35	BUY	11.50	2,670	13.3	11.7	7.1	7.5	8.5
Carlsberg	CAB MK	18.96	BUY	24.35	5,797	18.6	17.5	32.6	4.8	5.1
Heineken (M)	HEIM MK	21.50	BUY	28.30	6,495	17.4	16.1	13.3	5.8	6.2
F&N Holdings	FNH MK	27.50	BUY	33.60	10,086	19.9	19.0	2.8	2.8	3.2
QL Resources	QLG MK	5.63	BUY	6.80	13,701	34.9	32.4	4.6	0.6	0.6
Mr DIY	MRDIY MK	1.55	BUY	2.10	14,635	25.7	21.8	8.5	1.9	2.3
Nestle	NESZ MK	113.90	BUY	146.00	26,710	38.8	34.9	40.4	2.4	2.7
<b>Average</b>					<b>9,222.7</b>	<b>33.0</b>	<b>22.4</b>	<b>12.7</b>	<b>3.0</b>	<b>3.4</b>

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT

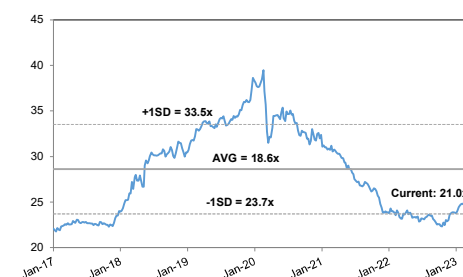
(Downgraded)

#### 3Q23 RESULTS SNAPSHOT

Company	3Q23 (RMm)	yoy % chg	qoq % chg	Results
BAT	60.0	-20.0	25.0	Below
Carlsberg	78.3	2.5	-13.2	Below
Farm Fresh	12.2	-7.6	100.0	Below
F&N	134.6	37.3	1.7	Above
Heineken	87.3	-19.7	-3.5	Below
Mr. DIY	123.9	22.4	-17.6	In-line
MyNews	-2.2	46.7	-65.1	In-line
Nestle	133.7	18.7	-26.1	In-line
QL Resources	122.6	30.6	32.1	Above

Source: Bloomberg, UOB Kay Hian

#### SECTOR VALUATIONS



Source: Bloomberg, UOB Kay Hian

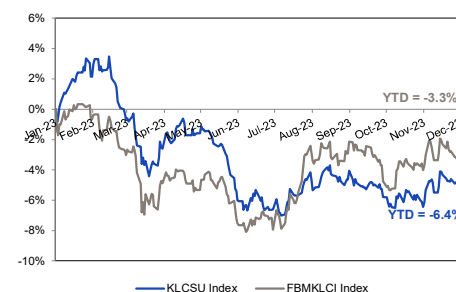
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### ESSENTIALS

- Ytd review.** Despite the FBMKLCI's lacklustre performance of -3.3% ytd, the KL Consumer Product Index has underperformed with a -6.4% ytd. Despite the defensive properties offered by consumer companies, the underperformance could be due to: a) increasing cost of living, curtailing discretionary spending, b) subsidy rationalisation reforms steering investors to the sidelines to await improved visibility, and c) pedestrian 4.3% earnings growth for 2023.
- Limited margin downside but uncertainty creeps in.** Following unfavourable weather conditions, certain soft commodities prices have firmed up recently. Prices of sugar, cocoa and robusta are now +12.8%, +26.0% and +12.7% vs ytd averages. In contrast, wheat and corn prices are -15.4% and -18.1% vis-à-vis ytd averages. Meanwhile, crude oil, barley and aluminium prices are largely unchanged against their ytd averages. The trend vs 2022's average is largely similar as well. Over the next few quarters, margin downside is limited as companies have borne the full brunt of the multi-year commodities highs in 2022 and have correspondingly raised ASPs. However, the current uptrend of several soft commodities prices could cast some uncertainty over a margin recovery, thereby adding some uncertainty over earnings visibility that investors had highly yearned for.
- Brewers' costs could ease in 2024.** Commodities prices appear to have firmed up in recent months. However, on average, they remain lower than when prices were hedged. Raw materials and packaging account for 15% of revenue, by our estimates. Given these economics, every 1% fall in input cost translates into 0.7% rise in earnings. The primary cost component for breweries' is excise duties, which account for about 45% of revenue (or 60% of COGS).
- Anti-smoking Bill passed in the lower house of the Parliament.** The Control of Smoking Products for Public Health Bill 2023 (CoS Health Bill) has finally been passed in the lower house of the Parliament. The bill essentially applies similar traditional cigarette restrictions to vape products. This includes the ban on advertisements and the sale and purchase of vape products to minors. The generation end-game (GEG) element has been removed from the CoS Health Bill however. Initially, the GEG element looked to ban those born from 2007 onwards from smoking or purchasing smoking products. While the development is positive, there is minimal near-term impact as those aged 18-21 account for less than 3% of BAT's volume sales. The removal of GEG would have long-term implications for structural demand for smoking products. This could remove an overhang that has plagued BAT since GEG was mooted in Jul 22.

### BURSA MALAYSIA CONSUMER PRODUCT INDEX VS FBMKLCI INDEX



### COMMODITIES PRICES

	2022	YTD	YTD23 vs 2022	Current	Last close vs YTD	Key Companies
Sugar (US\$/lb)	18.8	24.2	28.8	25.8	6.5	F&N, Power Root
Cocoa (US\$/MT)	2,460	3,177	29.2	4,271	34.4	Nestle
Robusta (US\$/MT)	2,103	2,460	17.0	2,546	3.5	Power Root, Nestle
Whole Milk Powder (US\$/MT)	3,870	2,676	-30.9	2,635	-1.5	F&N, Dutch Lady, Farm Fresh
CPO (RM/MT)	5,134	3,847	-25.1	3,683	-4.3	Nestle, F&N, QL
Wheat (US\$/MT)	903	647	-28.3	596	-7.9	Nestle, Kawan Food
Barley (INR/quintal)	2,887	2,131	-26.2	2,145	0.6	Breweries
Aluminium (US\$/MT)	2,716	2,292	-15.6	2,182	-4.8	Breweries, F&N
Corn (USD/Bushel)	694	572	-17.7	461	-19.4	QL
Soybean (USD/Bushel)	1,551	1,423	-8.2	1,309	-8.1	QL

Source: Bloomberg, Respective companies, UOB Kay Hian  
As of 5 Dec 23

## COMPANY UPDATE

### MISC (MISC MK)

Addressing Sustainability Goals And Key ESG Shipping Trends

**MISC not only updated investors on sustainability goals, it also addressed certain key net-zero transition issues that may impact the shipping industries. A potential future ESG regulation risk is on sulphur emissions. Ultimately, these developments will likely prolong the tight vessel supply situation in the crude and LNG tanker segments. Hence, MISC should be a net beneficiary of the ESG trends, yet share price has not adequately priced these in. Maintain BUY and target price of RM8.80.**

#### WHAT'S NEW

- **Actively promoting and practising energy transition.** As Bursa's largest shipping stock and a key global tanker conglomerate worldwide, MISC is committed to its net-zero 2050 pathways, with a target of 50% reduction in greenhouse gas (GHG) intensity emissions by 2030 vs 2008 levels. To ensure the execution of its transition journey, MISC has set up a green business unit directly under its CEO's purview, has made various investments to champion greener fuel and ships usage, and made extensive disclosure on its Scope 1 & 2 emissions, as well as Scope 3 emissions estimates (based on five out of the 15 Scope 3 categories that meet the materiality definition). For the 2.8m-tonne equivalent of Scope 3 emissions that was disclosed in 2022, MISC said that about 1.2m tonnes were emitted from LNG segment, and 1m tonnes from petroleum.
- **Potential allocation of 38% capex for green and transition projects.** Effective 2023, MISC will avoid investing in new conventional projects. Effective 2030, MISC aims to commercialise only zero-emissions new and/or retrofitted vessels. One of the major investments that MISC is championing is the green ammonia vessels. Alongside PETCO Trading Labuan and PTT, MISC is developing several green ammonia VLCC and Aframax vessels (for 2025/26 deliveries) to test the market.
- **MISC is developing its own internal carbon pricing for future capital purposes.** Recently, Petronas' subsidiary Petronas CCS Ventures agreed to form a JV with MISC and Mitsui to invest in/monetise liquefied carbon dioxide (LCO2) carriers. This is a follow-through from the conceptual design of the LCO2 carriers by Petronas-Mitsui in Jun 23. Separately, MISC has a conceptual design approved for Floating Carbon Storage Unit (FCSU) only, and not for LCO2, and hence this JV partnership is positive.
- **Minor capex impact from EEXI/CII rules.** International Maritime Organisation (IMO) rules, ie Energy Efficiency Existing Ship Index (EEXI, effective Jan 23), and the carbon intensity indicator (CII) rating (effective Jan 24) will be fully felt as 2024 will be the first year for vessels above 5,000GT that attained an annual operating CII for their emissions performance in 2023. MISC had invested sufficiently in technology to ensure most of its ships are compliant with at least a "C" rating in the CII.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	10,672	13,867	14,455	15,010	15,029
EBITDA	3,898	5,132	5,056	5,254	5,268
Operating profit	1,948	3,102	2,800	2,836	2,708
Net profit (rep./act.)	1,831	1,823	2,285	2,339	2,328
Net profit (adj.)	1,319	2,214	2,285	2,339	2,328
EPS (sen)	29.6	49.6	51.2	52.4	52.2
PE (x)	24.4	14.5	14.1	13.7	13.8
P/B (x)	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	11.8	8.9	9.1	8.7	8.7
Dividend yield (%)	4.6	4.6	4.6	4.6	4.6
Net margin (%)	17.2	13.1	15.8	15.6	15.5
Net debt/(cash) to equity (%)	26.6	28.6	33.5	31.8	33.0
Interest cover (x)	9.3	7.9	7.4	6.6	6.9
ROE (%)	5.5	5.1	6.0	6.0	5.9
Consensus net profit	-	-	2,169	2,330	2,613
UOBKH/Consensus (x)	-	-	1.05	1.00	0.89

Source: MISC, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM7.20
Target Price	RM8.80
Upside	+22.2%

#### COMPANY DESCRIPTION

Shipping company.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MISC MK
Shares issued (m):	4,463.7
Market cap (RMm):	32,139.0
Market cap (US\$m):	6,900.5
3-mth avg daily t'over (US\$m):	2.8

#### Price Performance (%)

52-week high/low RM7.56/RM6.97

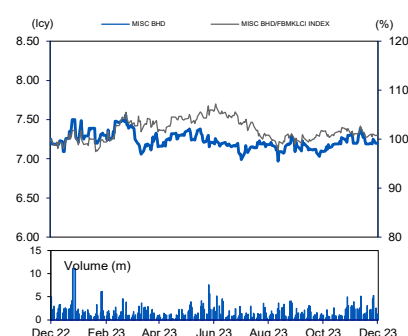
1mth	3mth	6mth	1yr	YTD
(1.4)	(0.3)	(0.1)	(0.1)	(4.0)

#### Major Shareholders

	%
Petroleum Nasional Bhd	51.1
Employees Provident Fund	12.7

FY23 NAV/Share (RM)	8.57
FY23 Net Debt/Share (RM)	2.87

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **We understand only a few ships will be given CII ratings of D or E.** For context, it is compulsory for vessels with a D CII rating for three consecutive years, or an E rating, to have corrective plans to improve their emissions to bring the CII rating to at least a C. This means the ship will either have to sail slower, or be retrofitted with necessary emission reduction equipment, or be more efficient. Fortunately, out of 96 ships, only one LNG tanker is expected to be rated E (Aman Sendai). There are a few other LNG ships (steam turbine technology) and a few petroleum tankers that are expected to be rated D. The petroleum tankers will most likely be shuttle tankers given their size and technical specification.
- **Market conditions favour shippers, against the risk of contract penalty for high-emission vessels.** There were extensive questions from investors on the risks of adverse contract terms changes or penalties for MISC's vessels that are on long-term charters, but operational deliveries or business costs may be affected by the EEXI/CII rules. MISC explained that the situation today is that charterers (counterparties) are beginning to understand that everyone needs to play their part to reduce emissions.
- **We agree with MISC's view...** In the crude tanker markets, with long-term rates still stubbornly hovering at multi-year highs, it is clear that the tight vessel markets are pushing the bargaining power in the shippers' favour. Likewise for LNG carriers, with spot daily rates are now at US\$160,000, and the Panama Canal's transit availability for LNG tankers being lesser than expected, there is industry talk that even the steam-turbined old LNG tankers will not be able to be phased away, to meet long-term LNG demand.
- **...not discounting future ESG regulatory risks.** A climate change scientist who is known as the "Godfather of Global Warming" sounded another warning - the sulfur dioxide (SOx) emissions cuts, which was too efficient especially from shipping industry, is actually causing acceleration in global warming. Please refer to appendix section for details. If the IMO rules change again based on this narrative, it may distort the future capex considerations and low-sulphur fuel opex of all ships. Fortunately, MISC has only six ships with scrubbers installed.
- **Maintain 2023-25 earnings forecasts.**

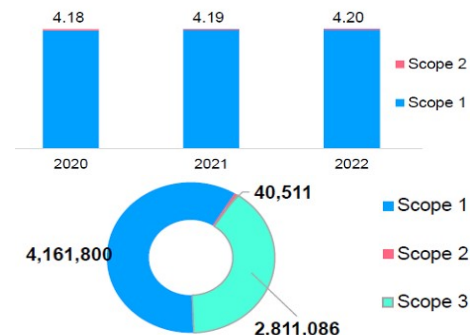
## VALUATION/RECOMMENDATION

- **Maintain BUY with target price of RM8.80**, implying 17x 2024F PE (at +1SD of five-year average PE band). We believe MISC deserves to trade at the top end, due to strong EBITDA from an upcycle in petroleum earnings, followed by a step-up in long-term earnings base from Mero-3 (to compensate for the cyclical nature of tankers), and further contract wins.
- **Also, from a P/B perspective**, MISC appears to be trading at a discount to its pure crude tanker peers worldwide, which are trading at 4-5x forward PE but at high 1.3-1.4x P/B and this reflects the more persistent bullishness of the crude tanker upcycle. Hence, it is possible that markets have yet to digest the full impact of the LNG and crude tanker market opportunities.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<b>• Environmental</b>	
- <b>Carbon (CO2) reduction.</b>	Adding new vessels with LNG-dual/ammonia fuel to meet net-zero emission by 2050 (50% reduction of greenhouse gas by 2030).
- <b>Promoting circular economy via green ship recycling.</b>	Aims to avoid wastage while disposing aged vessels that do not meet carbon reduction criteria.
<b>• Social</b>	
- Diversity.	>20 nationalities; >40% female proportion among onshore staff.
- Safety (HSE).	Lost Time Injury Frequency (LTIF) remains low at 0.08 (2021: 0.15).
<b>• Governance</b>	
- Achieved 5/5 rating (FTSE4Good) for governance & supply chain management.	

## MISC GROUP SCOPE 1,2,3 GHG EMISSIONS (million tonnes CO<sub>2</sub>e)



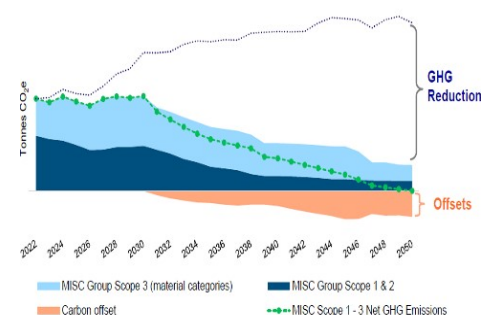
Source: MISC

## MATERIAL SCOPE 3 CATEGORIES, OUT OF 15

Category	Scope
1	Purchased goods and services
3	Fuel and energy related activities
8	In-chartered vessels but MISC is operator
13	Offshore / FPSO assets
15	JV vessels with equity stake; without control

Source: MISC

## MISC NET-ZERO PATHWAY

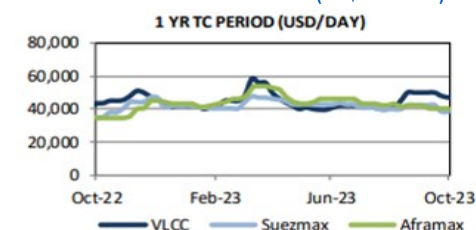


GHG Reductions		
Transition to low carbon operations		
Improve energy efficiency	Low-carbon alternative fuels	Technology retrofits
Deploy zero emission vessels latest by 2030	Increase usage of renewable energy mix	
Value chain (Scope 3) reductions		

- **Carbon Offset**
- A key building block for MISC to achieve net zero but will only be used as a **secondary strategy** to balance out residual emissions.
- Only **high-quality carbon credits** certified by credible and internationally recognized standards will be used.

Source: MISC

## CRUDE TANKER TCE EARNINGS (US\$'000/DAY)



Source: BanCosta Weekly



# APPENDIX : RECENT FINDINGS FROM A LEAD CLIMATE CHANGE SCIENTIST, DR JAMES HANSEN

- **Who is Dr James Hansen, who was nicknamed "The Godfather of Global Warming"?**  
Dr James Hansen was a NASA climate scientist most renowned for making the world's first high-profile message to the world on global warming via his testimony to the US Senate in 1988. Hence, he was nicknamed the Godfather of Global Warming for his early warnings
- **The "Godfather" is back with another warning.** In mid-23, Hansen sounded another warning that the world was moving towards a "new climate frontier" with temperatures higher than at any point over the past million years, bringing impacts such as stronger storms, heatwaves and droughts. He found that the planet might breach the 1.5 degrees Celsius warming target by the end of 2030, and surpass the 2 degrees Celsius target by 2050. He said the record 2023 heatwaves that have roiled the US, Europe, China and elsewhere in recent weeks have heightened "a sense of disappointment that we scientists did not communicate more clearly and that we did not elect leaders capable of a more intelligent response". Since then until the United Nation's annual climate change conference, COP28 happening now in Dubai, James Hansen had been making a series of presentations.
- **Key differences between Hansen's model and other climate sensitivity models, including the model assumed by the United Nation's Intergovernmental Panel on Climate Change (IPCC).** Hansen's model findings are considered to be at the higher-end of the spectrum, as he touched on key issues which are still subject to scientific debates, because it is impossible to capture every commingling factors of the Earth System, including the behaviour of the El Nino/La Nina natural phenomena. Hansen's key issues are:
  - a) **Energy imbalance.** The sun's energy being trapped by greenhouse gases (GHG) means more energy is being absorbed by the planet Earth, vs being reflected. This implies that if the Earth is absorbing more energy from the sun, the rate of global warming increases;

## SOTP BREAKDOWN (AT RM4.3/US\$)

Segments	Valuation	RM/share
LNG	DCF, 8.2% WACC	3.17
Petroleum	Earnings upgrade ; 1.1x to 1.2x P/B	2.95
MMHE (66.5%)	Based on RM0.70 TP	0.16
Gumusut	1x (no more cash flow discount)	1.65
Kikeh (51%)	1x P/B	0.18
FPSO Mero 3	JV DCF, lesser 10% discount	0.38
Other offshore	0.9x P/B	0.05
(-) Net debt	LNG (RM5b); others RM4b	(0.99)
(+) New contracts	Potential contracts; FPSO and LNG	1.25
SOTP	18x 2024F PE	8.80

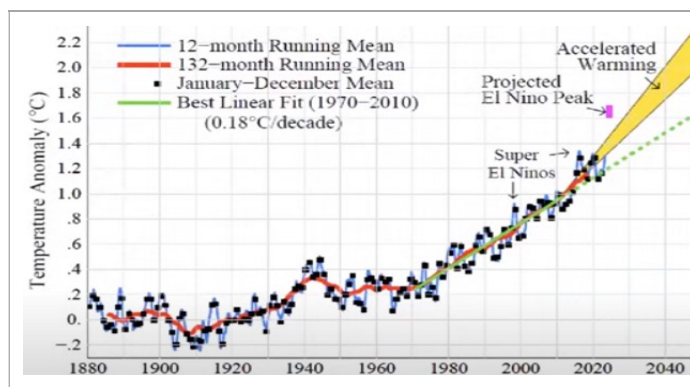
Source: Bloomberg, UOB Kay Hian

## SEGMENT FORECASTS

(RMm)	2023F	2024F	2025F
Revenue	14,455.2	15,009.9	15,028.5
LNG	3,007.2	3,019.6	3,159.1
Petroleum	4,582.6	4,774.1	4,515.1
MMHE	2,230.0	2,815.0	3,020.0
Offshore	4,635.4	4,401.2	4,334.3
EBIT	2,799.8	2,836.0	2,708.0
LNG	1,383.3	1,419.2	1,453.2
Petroleum	939.3	947.4	775.4
MMHE	13.7	29.2	35.9
Offshore	463.5	440.1	443.5

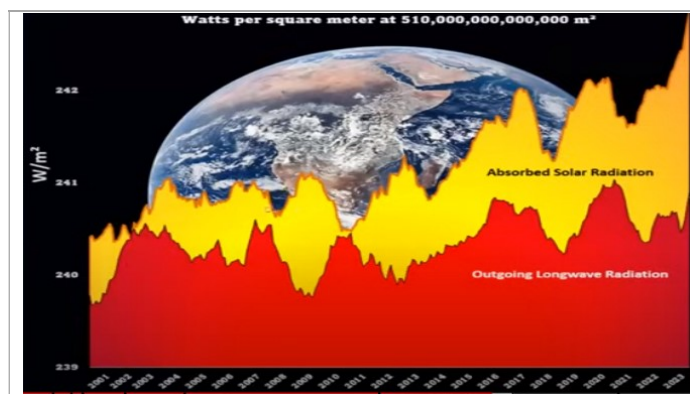
Source: Bloomberg, UOB Kay Hian

## GLOBAL TEMPERATURES RELATIVE TO 1880-1920



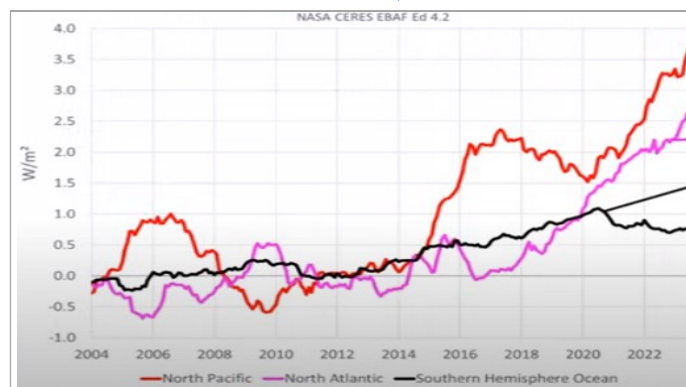
Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

## EARTH ENERGY IMBALANCE IN GRAPHICAL FORM



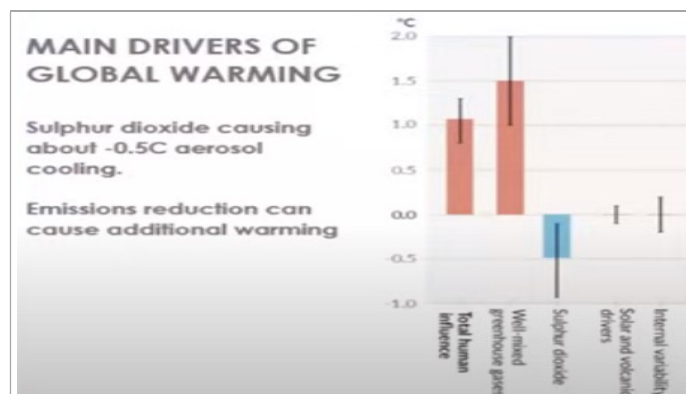
Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

## SOLAR RADIATION ABSORBED BY EARTH, 48-MONTH MEAN



Source: NASA's Clouds and the Earth's Radiant Energy System (CERES) data

## SULPHUR DIOXIDE HAD BEEN USED AS AEROSOL COOLING

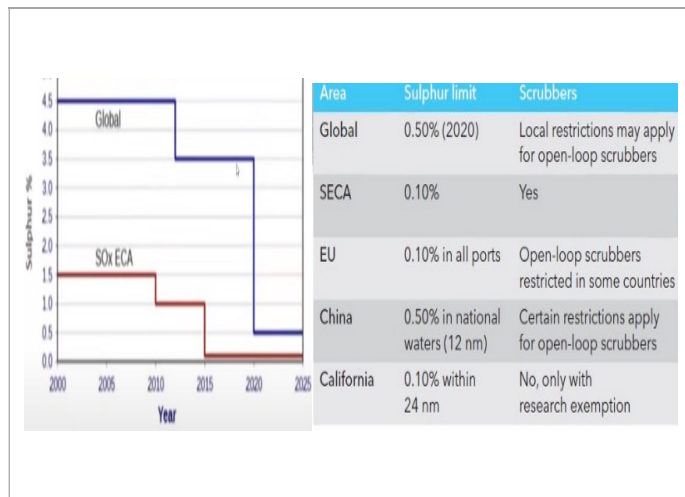


Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

**b) Reduced aerosol cooling.** Aerosols are tiny particles of pollution which slightly cooled the planet and protected it from further warming. Hansen argued that aerosols are free parameters that were under-measured in relation to climate change, as they were more prominent in causing health risk or premature deaths worldwide. Hansen said that humanity "made their own bargain with the devil" in the past, by using aerosol cooling to reduce heatwaves and GHG warming. Then, humanity reduced health risks by cutting aerosol cooling. Today, Hansen said humanity is "paying its price for the bargain with the devil" as global warming is accelerating because of reduced aerosol cooling. Hansen predicts that current El Nino may reach +1.7 degrees Celsius simply due to reduced aerosol cooling

- **Sulphur dioxide (SOx) is one of the aerosol particles relevant to MISC's shipping industry,** due to IMO Sulphur Cap rules. The bunker fuel supply and availability landscape changed especially when IMO tightened the regulation by capping the global fuel sulphur limit at 0.50%, which was enforced from 1 Jan 20. In addition, certain ports in Emission Control Areas (ECA) enforced even stricter bunker conditions, of 0.10% fuel sulphur limit. Shippers have to use ultra or low Sulphur fuel (like ULSFO or VLSFO) to meet compliance, or install scrubbers if they wish to continue using the less expensive heavy fuel oil (HFO).
- **Globally as of 2022, only 13% of the dry bulk, container and tanker ships had scrubbers installed.** Even though they represented 29% of deadweight capacity, the adoption of scrubbers is low because the premium between low Sulphur fuels and HFO had not been wide enough to justify the payback period of installing the scrubbers as additional capex. The crude tanker fleet has the highest installation rate, at 32% of the ships or 38% of deadweight capacity with scrubbers installed. Still, in the long term, the use of scrubbers to cut SOx emissions should reduce as decarbonisation efforts will boost the viability of using alternative cleaner fuels. On MISC's 96 vessel fleet for both LNG and petroleum segments, only 6 ships have scrubbers installed (mostly on the VLCC fleet).

#### IMO – MARPOL ANNEX VI FUEL SULPHUR LIMITS AND ECA RULES



Source: International Maritime Organisation (IMO)

#### SHIPPING SOX GLOBAL EMISSIONS REDUCED MATERIALLY SINCE 2020



Source: CEDS

## PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>13,867</b>	<b>14,455</b>	<b>15,010</b>	<b>15,029</b>
EBITDA	5,132	5,056	5,254	5,268
Deprec. & amort.	2,030	2,257	2,418	2,560
EBIT	3,102	2,800	2,836	2,708
Total other non-operating income	(551)	n.a.	n.a.	n.a.
Associate contributions	(25)	226	356	451
Net interest income/(expense)	(651)	(687)	(793)	(769)
<b>Pre-tax profit</b>	<b>1,874</b>	<b>2,339</b>	<b>2,399</b>	<b>2,390</b>
Tax	(39)	(49)	(50)	(50)
Minorities	(12)	(5)	(10)	(12)
<b>Net profit</b>	<b>1,823</b>	<b>2,285</b>	<b>2,339</b>	<b>2,328</b>
Net profit (adj.)	2,214	2,285	2,339	2,328

## CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>2,994</b>	<b>2,918</b>	<b>4,491</b>	<b>5,218</b>
Pre-tax profit	1,874	2,339	2,399	2,390
Tax	(2,138)	(2,138)	(763)	(50)
Other operating cashflows	3,258	2,718	2,855	2,877
<b>Investing</b>	<b>(1,943)</b>	<b>(3,610)</b>	<b>(1,270)</b>	<b>(4,165)</b>
Capex (growth)	(2,294)	(3,960)	(4,620)	(4,515)
Others	351	351	3,351	351
<b>Financing</b>	<b>(1,992)</b>	<b>(1,790)</b>	<b>(1,262)</b>	<b>(1,276)</b>
Others/interest paid	(1,992)	(1,790)	(1,262)	(1,276)
<b>Net cash inflow (outflow)</b>	<b>(941)</b>	<b>(2,482)</b>	<b>1,959</b>	<b>(223)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7,952</b>	<b>7,134</b>	<b>4,653</b>	<b>6,613</b>
Changes due to forex impact	123	1	1	1
<b>Ending cash &amp; cash equivalent</b>	<b>7,134</b>	<b>4,653</b>	<b>6,613</b>	<b>6,391</b>

## BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	24,286	26,266	28,576	30,833
Other LT assets	25,634	24,545	22,615	21,973
Cash/ST investment	7,134	4,653	6,613	6,391
Other current assets	5,611	7,178	7,448	7,457
<b>Total assets</b>	<b>62,665</b>	<b>62,641</b>	<b>65,252</b>	<b>66,654</b>
ST debt	3,606	2,640	3,080	3,010
Other current liabilities	5,162	4,699	4,878	4,880
LT debt	14,256	14,844	15,960	16,562
Other LT liabilities	1,337	1,337	1,337	1,337
Shareholders' equity	37,459	38,271	39,137	39,992
Minority interest	846	850	860	872
<b>Total liabilities &amp; equity</b>	<b>62,665</b>	<b>62,641</b>	<b>65,252</b>	<b>66,654</b>

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	37.0	35.0	35.0	35.1
Pre-tax margin	13.5	16.2	16.0	15.9
Net margin	13.1	15.8	15.6	15.5
ROA	3.0	3.6	3.7	3.5
ROE	5.1	6.0	6.0	5.9
<b>Growth</b>				
Turnover	29.9	4.2	3.8	0.1
EBITDA	31.7	(1.5)	3.9	0.3
Pre-tax profit	5.6	24.8	2.6	(0.4)
Net profit	(0.5)	25.4	2.4	(0.5)
Net profit (adj.)	67.8	3.2	2.4	(0.5)
EPS	67.8	3.2	2.4	(0.5)
<b>Leverage</b>				
Debt to total capital	31.8	30.9	32.3	32.4
Debt to equity	47.7	45.7	48.6	48.9
Net debt/(cash) to equity	28.6	33.5	31.8	33.0
Interest cover (x)	7.9	7.4	6.6	6.9



## COMPANY UPDATE

### XL Holdings (XLH MK)

Climbing The Value Chain: New Upstream Ventures In Food Security

XL, historically involved in the trading of bird's nests and ornamental fish, has begun to diversify its business into food production and aquaculture. Recent earnings have uplifted its earlier acquisitions, and its newest venture into seaweed cultivation could prove to be earnings-accretive given a short gestation period. While its historical valuation appears stretched at 35.1x PE, the earnings-accretive restructuring could lead to an undemanding valuation should its new ventures succeed.

#### WHAT'S NEW

- **Expanding into a full upstream-downstream operation.** XL Holdings (XL), via a series of investments and acquisitions, is transitioning into an integrated food security player with both upstream and downstream exposure in the supply chain. Notable acquisitions include: a) the acquisition of Ergobumi, a local pineapple producer in May 22, b) the acquisition of frozen food delivery service Xtra Delivery (XDSB) in May 22, and c) its most recent venture into seaweed cultivation via investment into Waf Holdings (Waf) this year. While Waf is still in the early stages of setting up its seaweed cultivation platform in Semporna, management shared that it sees strategic value in developing the space given the relatively straightforward farming process and rising demand for seaweed raw materials.
- **A blue ocean in the local market...** Management stated that local seaweed farming remains mostly undeveloped in Malaysia, especially compared to regional peers (ie Philippines, Indonesia, China). Malaysia lacks large, centralised players within the space and XL is looking to become the first via this initial investment in Waf. Raw materials such as carrageenan and dried seaweed powder are widely used as food additives as well as in skincare and cosmetic products. The by-product from seaweed processing can also be used in animal feed production. Management shared that there is demand for these raw materials in the region. However, potential buyers are waiting to see if XL can consistently deliver the required quantities before entering any longer-term deals. There is also future potential for XL to venture into downstream processing of its seaweed products to capture higher value add business, which is aligned with the Sabah state government's industrialisation initiatives.
- **...while earlier acquisitions bear fruit.** Following the acquisition of Ergobumi and XDSB, the duo has become the largest contributors to the group's profits. Looking forward, XL is still cautiously optimistic; especially as food security and raw material prices continue to be a growing concern. XL still aims to integrate itself within the supply chain, leveraging its upstream and downstream presence to minimise the impact of heightened raw material prices on the rest of its operations.

#### KEY FINANCIALS

Year to 30 Apr (RMm)	2020	2021	2022	2023	2020
Net turnover	14	28	84	60	14
EBITDA	0	2	3	10	0
Operating profit	(1)	1	1	5	(1)
Net profit (rep./act.)	(1)	0	0	5	(1)
Net profit (adj.)	(1)	0	0	5	(1)
EPS (sen)	n.a.	0.01	0.00	0.02	n.a.
PE (x)	n.a.	137.1	771.0	35.1	n.a.
P/B (x)	0.6	0.6	0.6	0.9	0.6
EV/EBITDA (x)	n.a.	29.9	33.1	14.5	n.a.
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	n.a.	1.7	0.1	8.4	n.a.
Interest cover (x)	n.a.	39.5	39.0	35.8	n.a.
ROE (%)	n.a.	1.0	0.1	3.5	n.a.
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: XL Holdings, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	RM0.81
Target Price	n.a.
Upside	n.a.

#### COMPANY DESCRIPTION

XL Holdings Berhad is an investment holding company which produces and trades agricultural produce, ornamental fish, bird nest and other products.

#### STOCK DATA

GICS sector	Agricultural Producers
Bloomberg ticker:	XLH MK
Shares issued (m):	251.8
Market cap (RMm):	204.0
Market cap (US\$m):	43.9
3-mth avg daily t'over (US\$m):	0.9

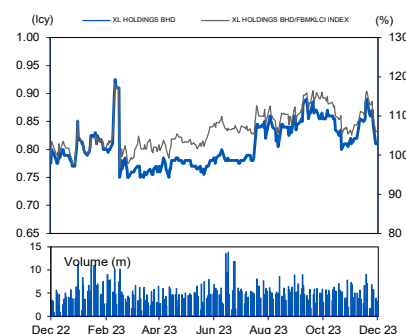
#### Price Performance (%)

52-week high/low			RM0.925/RM0.74	
1mth	3mth	6mth	1yr	YTD
7.5	2.4	11.7	16.2	8.9

#### Major Shareholders

	%
Ng Min Lin	18.8
Chiau Beng Teik	4.7
Chiau Haw Choon	4.4
2023 NAV/Share (RM)	0.6
2023 Net Debt/Share (RM)	0.0

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Developing Waf as a regional player.** XL intends to develop Waf into a regional platform for seaweed production, both investing in the company as well as providing a RM15.0m loan to the group. XL's current plan is to develop 11,300 hectares of land across Semporna into not just a seaweed farm, but also an aggregator for other small local players. XL intends to connect smaller players to large customers who require raw materials in bulk via aggregating the harvest of these smaller players in its collection platforms. It also plans to establish a contract farming program, enabling locals to leverage its infrastructure to begin farming, which XL will benefit from. Management has guided that larger, more consistent harvests enable better pricing and more recurring sales, especially given the lack of large players locally. Management has also guided that beyond the initial RM15.0m (planned to be utilised within three years), Waf may explore acquiring more land to further develop its business in the region. However, it may require further investment and will depend on the group's performance at the end of the three-year period.
- Further appetite for acquisitions.** While XL currently has no concrete plans, management has guided that it is continuously exploring further opportunities for acquisitions. Currently, the intention is to further integrate XL into the supply chain, strengthening its presence downstream and potentially expanding into ready-to-cook and ready-to-eat meals. Additionally, XL also plans to further strengthen the upstream presence of its existing investments, developing them into a one-stop solution for potential customers.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Non-rated.** While its historical PE of 35.1x is demanding, the earnings upside from its acquisitions could bring down valuations to a more palatable level. However, this may require a gestation period for its more early-stage projects.

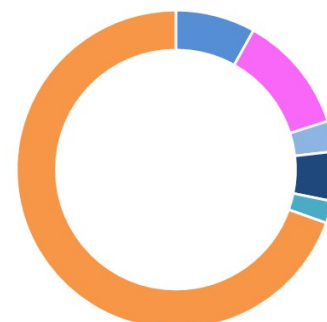
### CORPORATE STRUCTURE

Company/Subsidiary	Ownership (%)	Primary Business
Ergobumi	100	Agriculture: cultivation of pineapples
Xtra Delivery	51	Logistics: frozen food delivery
Samajutera*	25	Investment holdings: 70% stake in Waf Holdings
Waf Holdings*		Aquaculture: cultivation of seaweed

\* Proposed

Source: XL Holdings, Bursa, UOB Kay Hian

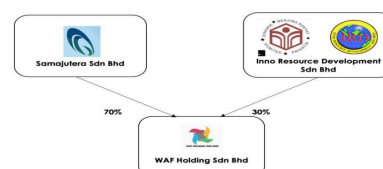
### SEGMENTAL EARNINGS



Investment Holdings  
Fish Farming  
Bird Nest  
Foods  
Merchandise  
Crop & Others

Source: Bursa, XL Holdings

### WAF HOLDINGS OWNERSHIP



Source: Samajutera Holdings

## PROFIT & LOSS

Year to 30 Apr (RMm)	2020	2021	2022	2023
<b>Net turnover</b>	<b>14.1</b>	<b>27.8</b>	<b>84.2</b>	<b>59.9</b>
EBITDA	(0.1)	1.6	2.7	10.4
Deprec. & amort.	0.8	1.0	1.9	4.9
EBIT	(0.9)	0.6	0.8	5.5
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.2	0.0	0.1	0.3
<b>Pre-tax profit</b>	<b>(0.7)</b>	<b>0.7</b>	<b>0.8</b>	<b>5.5</b>
Tax	(0.1)	(0.2)	(0.7)	(0.4)
Minorities	0.0	0.0	0.0	(0.2)
Net profit	(0.8)	0.5	0.1	5.2
<b>Net profit (adj.)</b>	<b>(0.8)</b>	<b>0.5</b>	<b>0.1</b>	<b>5.0</b>

## BALANCE SHEET

Year to 30 Apr (RMm)	2020	2021	2022	2023
Fixed assets	36.4	35.5	53.0	89.2
Other LT assets	1.3	1.5	1.9	13.7
Cash/ST investment	4.2	2.9	18.8	5.0
Other current assets	3.8	4.6	10.9	26.4
<b>Total assets</b>	<b>48.1</b>	<b>48.9</b>	<b>105.0</b>	<b>154.9</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	1.0	1.6	14.5	4.2
LT debt	0.3	0.1	6.5	5.5
Other LT liabilities	1.0	1.6	14.5	4.7
Shareholders' equity	46.8	47.3	84.0	144.9
Minority interest	0.0	0.0	0.0	(0.2)
<b>Total liabilities &amp; equity</b>	<b>48.1</b>	<b>48.9</b>	<b>105.0</b>	<b>154.9</b>

## CASH FLOW

Year to 30 Apr (RMm)	2020	2021	2022	2023
<b>Operating</b>	<b>(1.3)</b>	<b>(1.2)</b>	<b>(8.7)</b>	<b>(22.9)</b>
Pre-tax profit	(0.7)	0.7	0.8	(9.0)
Tax	(0.1)	(0.2)	(0.7)	(1.0)
Deprec. & amort.	0.8	1.0	1.9	5.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	(1.3)	(2.8)	(11.2)	23.7
<b>Investing</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(11.9)</b>	<b>(43.7)</b>
Capex (growth)	(0.7)	(0.1)	(10.8)	(14.4)
Investments	0.0	0.0	(1.1)	(30.2)
Proceeds from sale of assets	0.0	0.0	0.0	0.9
Others	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>35.4</b>	<b>53.0</b>
Dividend payments	0.0	0.0	0.0	0.0
Loan repayment	(0.2)	(0.2)	(1.0)	(1.6)
Others/interest paid	(0.1)	0.1	36.4	54.6
<b>Net cash inflow (outflow)</b>	<b>(2.2)</b>	<b>(1.3)</b>	<b>14.8</b>	<b>(13.7)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>6.4</b>	<b>4.2</b>	<b>2.9</b>	<b>17.7</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>4.2</b>	<b>2.9</b>	<b>17.7</b>	<b>4.0</b>

## KEY METRICS

Year to 30 Apr (%)	2020	2021	2022	2023
<b>Profitability</b>				
EBITDA margin	(0.5)	5.7	3.2	17.3
Pre-tax margin	(4.9)	2.5	0.9	9.2
Net margin	(5.8)	1.7	0.1	8.4
ROA	(1.7)	1.0	0.1	3.2
ROE	(1.7)	1.0	0.1	3.5
<b>Growth</b>				
Turnover	8.5	97.9	202.6	(28.9)
EBITDA	(78.8)	(1,2357.1)	72.8	280.6
Pre-tax profit	(9.2)	(200.0)	10.1	623.7
Net profit	(11.2)	(159.5)	(74.5)	4258.3
Net profit (adj.)	(9.0)	(158.0)	(76.6)	4463.6
EPS	(9.0)	(158.0)	(82.2)	2093.8
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.1	0.0
Debt to equity	0.0	0.0	0.1	0.0
Net debt/(cash) to equity	(0.08)	(0.05)	(0.13)	0.02
Interest cover (x)	-0.4	39.5	39.0	35.8

### TRADERS' CORNER



Source: UOBKH ChartGenie

### Sern Kou Resources (SKOU MK)

Technical BUY with +23.1% potential return

Last price: RM0.605

Target price: RM0.695, RM0.745

Support: RM0.545

Stop-loss: RM0.54

**BUY** with a target price of RM0.7455 and stop-loss at RM0.54. Yesterday's price movement has triggered a BUY on the back of the positive closing above the BBI line, a growing bullish divergence in the DMI and a bullish crossover in the MACD. With the consistent climb along the trendline, this is likely to increase SKOU's probability of moving higher in the near term. As such, we peg our targets at RM0.695 and RM0.745 in the near term.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading



Source: UOBKH ChartGenie

### Wellcall Holdings (WELL MK)

Technical BUY with +11.2% potential return

Last price: RM1.70

Target price: RM1.84, RM1.89

Support: RM1.50

Stop-loss: RM1.49

**BUY** with a target price of RM1.89 and stop-loss at RM1.49. Based on the daily chart, WELL has formed a series of higher highs and higher lows that indicates an uptrend pattern. This is supported by an uptick in the RSI. Currently, both the MACD and DMI are showing positive signals of supporting the upward momentum. We peg our targets at RM1.84 and RM1.89 in the near term.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

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