UOBKayHian

Malaysia Daily

Monday, 16 October 2023

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KEY HIGHLIGHTS

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,444.14	0.3	0.0
Bursa Emas	10,694.94	(1.4)	(0.0)
Ind Product	174.44	0.4	0.2
Finance	16,264.18	(14.3)	(0.1)
Consumer	553.47	(0.5)	(0.1)
Construction	189.55	(1.0)	(0.5)
Properties	875.73	(5.1)	(0.6)
Plantations	6,862.73	16.0	0.2

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	13-Oct-23	% chg
Volume (m units)	3,217	(4.9)
Value (RMm)	1,798	(11.4)

By Investor type	(%)	ppt chg
Foreign investors	29.9	1.4
Local retail	29.9	2.7
Local institution	40.3	(4.1)

TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg (%)	5-day ADT (RM'000)
CIMB Group	5.66	0.0	76,133
UEM Sunrise	0.83	(1.8)	62,141
Malayan Banking	8.98	(0.1)	60,053
Public Bank	4.17	(0.2)	47,078
YTL Corp	1.47	(1.3)	46,918
Top Gainers			
SapuraEnergy	0.06	10.0	2,014
Parkson Holdings	0.32	3.3	2,273
BAT	9.70	3.2	2,723
UOA Development	1.72	3.0	402
Eastern & Orient	0.65	2.4	9,712
Top Losers			
Faber Group	1.05	(3.7)	588
7- Eleven Malaysia	1.93	(3.5)	23
IOI Properties	1.81	(2.7)	19,788
SP Setia	0.97	(2.5)	14,434
Sunway	1.94	(2.5)	20,146

OTHER STATISTICS

	13-Oct-23	chg	% chg
RM/US$	4.73	0.02	0.4
CPO 3rd mth future (RM/mt)	3,737	99.0	2.7

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

STRATEGY – MALAYSIA

Malaysia Budget 2024: Fiscally Reforms Unfolding

Budget 2024 embraced fiscal consolidation by raising the SST rate, introducing a slew of new taxes and a targeted fuel subsidy reduction. The effectively slight expansionary budget is market-neutral. Meanwhile, the loosening of the MM2H criteria, along with upcoming events in October (including Malaysia-Singapore joint leader's retreat), would support the Iskandar 2.0 theme. Despite various external headwinds, we maintain our view for FBMKLCI to close the year higher.

WHAT'S NEW

- **Budget 2024 signals the unfolding of gradual fiscal reforms.** Themed "Madani Economy: Empowering the People," Budget 2024 underscores the government's commitment to further accelerate the pace of fiscal consolidation without burdening vulnerable groups. Budget 2024 is slightly expansionary (excluding 2013's RM13.2b 1MDB bond redemption), and features a significantly lower fiscal deficit of 4.3%. While fiscal consolidation points to slower domestic consumption growth, the country's fiscal discipline supports our view for a stronger ringgit in 2024.
- **Moderate impact on domestic consumption.** Fiscal reforms such as wider coverage and increased service tax (SST) from 6% to 8%, introduction of new taxes (luxury) and removal of chicken and egg price ceilings imply rising cost of living which will dampen consumption. Nevertheless, there are also mitigating factors such as higher cash aid to the needy, flexibility for EPF contributors to withdraw 5% of account values and higher tax deductions.
- **More catalytic events later this month supporting the Iskandar 2.0 investment theme.** Besides the loosening of the Malaysia My Second Home (MM2H) criteria (details have not yet been revealed), some prominent events unfolding in October would further uplift the Iskandar 2.0 investment theme. They include the planned Malaysia-Singapore leaders' retreat at end-Oct 23 (to sort out details of the Malaysia-Singapore Special Economic Zone) and the council of rulers meeting (when the new Agong is expected to be selected).
- **Mega infra projects: opportunities in LRT3 and Pan Borneo Sabah Highway.** The project value for LRT3 has been upsized by RM5b (reinstatement of five stations) while the award of Pan Borneo Sabah Highway (PBSH) has been indicated to be in November. The beneficiaries are MRCB for the former project, and potentially Gabungan AQRS for the latter project. The expected rollout of new mega projects in 2024 (MRT3, PBSH) also implies improving demand for the building material (particularly cement) sector.
- **Sin sector: no news is good news.** No additional indirect tax burden was imposed on the casino segment as feared, which should positively pave the way for gradual stock price recoveries, although the sector lacks strong re-rating catalysts in the near term.

ACTION

- **Strategy: Still position for a higher year-end closing.** By year-end, Malaysian equities should be pricing in positive expectations for 2024 such as: a) globally, easing inflation pressures, interest rate downcycle, semiconductor cycle recovery, and some economic recovery in China, and b) domestically, improving outlook for the ringgit and a pick-up in corporate earnings (FBMKLCI's earnings expected to rise to 10% from 2023's 3%).
- **Maintaining our end-23 FBMKLCI target of 1,540** (based on 15.6x 2023F PE or -0.50SD to the historical mean). Our top picks are Hume Cement Industries, Inari Amertron, IOI Corporation, Malaysia Airports Holdings, My EG Services, NationGate Holdings and Yinson Holdings. We dropped Mr DIY Group as a top pick given the expected consumption slowdown.

CURRENT FBMKLCI: 1,444

TARGET END-23 FBMKLCI: 1,540

HIGHLIGHTS OF BUDGET 2024

- Effectively a modest expansionary Budget (excluding 1MDB repayment distortion)
- Fiscal consolidation (a narrower fiscal deficit of 4.3%)
- The introduction of a slew of consumption taxes and capital gains tax for non-listed entities
- Sales & Service Taxes raised to 8% from 6% (except for F&B and telco) and coverage extended to more service activities
- RM52.8b in subsidies (2023e: RM81b)
- A narrow fuel subsidy rationalisation
- EPF: a flexible account that can be withdrawn from at will

	2022	2023P	2024F
GDP growth (%)	8.7	~4.0	4.0-5.0
Inflation (%)	3.3	2.5-3.0	2.1-3.6
Unemployment (%)	3.5	2.5-3.0	3.4
Fiscal deficit (% of GDP)	-5.6	-5.0	-4.3
Current account balance (% of GNI)	2.6	3.4	3.2
Global oil price (US$/bbl, average)	100	80	85

Source: MoF, BNM, Economic/Fiscal Outlook 2023

REAL GDP GROWTH

(yoy %)	2022	2023P	2024F
Domestic Demand	**9.2**	**4.9**	**5.3**
Private Expenditure	**10.3**	**5.3**	**5.6**
Consumption	11.2	5.6	5.7
Investment	7.2	4.3	5.4
Public Expenditure	**4.7**	**2.8**	**4.1**
Consumption	4.5	1.0	2.6
Investment	5.3	8.2	8.3
External Sector	**-1.0**	**1.1**	**5.5**
Exports	14.5	(6.2)	4.1
Imports	15.9	(6.8)	3.9

Source: Economic/Fiscal Outlook 2023

FEDERAL GOVERNMENT FINANCE

(RMb)	2022	2023P	2024F
Total Revenue	294.4	303.2	307.6
Operating Expenditure	292.7	300.1	303.8
Current Account Balance	1.7	3.1	3.8
Net Dev Expenditure	70.2	96.3	89.2
COVID-19 Fund	31.0	-	-
Overall Budget Balance	(99.5)	(93.2)	(85.4)
Deficit (% of GDP)	(5.6)	(5.0)	(4.3)

Source: Economic/Fiscal Outlook 2023

ANALYST(S)

Vincent Khoo, CFA
+603 2147 1998
vincentkhoo@uobkayhian.com

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

STOCK PICKS

Company	Ticker	Rec	Share Price 13 Oct 23 (RM)	Target Price (RM)	Net Profit 2022 (RMm)	Net Profit 2023F (RMm)	Net Profit 2024F (RMm)	EPS 2022 (sen)	EPS 2023F (sen)	EPS 2024F (sen)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	Yield 2024F (%)	ROE 2024F (%)	Market Cap (US$m)	P/B 2024F (x)
Hume Cement Industries	HUME MK	BUY	1.78	2.54	121.5	136.3	123.7	16.9	18.9	17.2	10.5	9.4	10.3	n.a.	24.0	192.5	1.1
Inari Amertron	INRI MK	BUY	2.95	3.80	319.5	405.8	450.1	8.6	10.9	12.1	34.4	27.1	24.4	3.3	15.4	2,335.7	4.1
IOI Corporation	IOI MK	BUY	3.91	4.80	1,519.4	1,651.2	1,847.0	24.2	26.3	29.4	16.2	14.9	13.3	3.5	14.0	5,130.1	2.0
Malaysia Airports Holdings	MAHB MK	BUY	7.39	8.11	163.5	416.9	701.1	9.9	25.1	42.3	75.0	29.4	17.5	1.9	6.6	2,607.8	2.1
My EG Services	MYEG MK	BUY	0.82	1.18	413.0	433.5	466.7	5.6	5.9	6.3	14.7	14.0	13.0	2.1	18.2	1,294.0	2.4
NationGate Holdings	NATGATE MK	BUY	1.23	1.83	85.3	76.2	151.6	4.1	3.7	7.3	30.0	33.2	16.8	n.a.	19.8	539.5	3.3
Yinson Holdings	YNS MK	BUY	2.44	3.75	467.2	623.8	797.8	13.6	18.2	23.3	17.9	13.4	10.5	4.1	10.4	1,500.0	1.9

Source: Bloomberg, UOB Kay Hian

BUDGET 2023 MEASURES

	Measures	Stock Impact/Comments
Macro/General		
	Revenue: Up 1.5% to RM307.6b from RM303.2b - Tax revenue expected to grow 6.4%, fuelled by improving economic conditions and higher tax from SST and newly imposed taxes. - Lower Petronas dividends of RM32b (2023F RM40b). **Total Expenditure: Down 0.8% to RM393.8b** - Operating expenditure (OE) +1.2% to RM303.8b, reflecting higher allocation for emoluments, debt service charges, retirement charges and supplies and services; offset partially by a reduction in subsidies - Development expenditure (DE) -7.2% to RM90.0b. The economic sector will receive 50.3%, social sector 31.5%, security sector 13.9% and general administration 4.3%. Adjusted DE is actually up 7.4% yoy after excluding the RM13.2b 1MDB bond redemption in 2023. - RM2b in contingency savings. **Fiscal Deficit: 4.3%, down from 2023F of 5.0%.** - Medium-term target is for fiscal deficit to reduce to 3% overall.	
Taxes	**Service tax increased to 8% from 6%** - Not applicable to F&B, telcos. - Service tax expanded to cover logistics, brokerage (excluding trading of securities), underwriting and karaoke. **New 10 % capital gains tax on unlisted company shares** - Considering exemptions for IPOs, internal restructuring and venture capital. **New luxury goods tax set at 5%-10%** **Global minimum tax by 2025** - Targeting to impose global minimum tax for companies with global income exceeding €750m (RM3.76b) per annum.	Higher effective taxes coupled with the removal of price controls on chickens and eggs would soften overall domestic consumption trends, although the impact would be mitigated by higher direct cash aid to the needy. The new EPF structure features a new flexible account that can be withdrawn from at will, and higher tax deductions on individual income tax.
Sector		
Automotive	No significant new incentives to boost EV adoption except: a) Extension of income tax relief for EV charging expenses above RM2,500 for an additional four years. b) Tax deductions for EV rental costs for an additional four years (from 2024 till 2027). c) Introduction of Electric Motorcycle Adoption Incentive Scheme for people with annual incomes of RM120,000 or less, and offering rebates up to RM2,400 to buyers.	**NEUTRAL**. The sales contribution of electric vehicles (EVs) cars remains insignificant but is showing improvement from a low base number. Continuous launches of new EV brands and models as well as previous incentives, may support the upfront demand. EV car distributors like Bermaz Auto (Mazda, Kia, and Peugeot) and Sime Darby (BMW and BYD) stand to benefit due to their established presence in the Malaysian market.
Banking	Total value of loan guarantee and financing for SME and micro SME amounting to Rm44b. BNM to provide RM900m funding allocation to SME to encourage increase productivity. Government to increase Skim Jaminan perumahan to RM10b.	**NEUTRAL.** The cumulative funding of RM55b is equivalent to less than 3% of system loans growth. However, as every 1% incremental improvement in loans growth will only impact sector earnings by 0.5% we see the overall impact to be fairly marginal.
Construction	Lower development expenditure of RM90b (-9.1% yoy vs RM99b under the revised budget 2023). Sabah and Sarawak to receive higher development expenditure of RM6.6b and RM5.8b respectively. RM23.1b allocated for the Pan Borneo Sabah Highway Phase 1B and Sarawak-Sabah Link Road. RM10b cost for Penang LRT is confirmed. Resumption of the proposed construction of five LRT3 stations at a cost of RM4.7b. 33 high-priority flood mitigation projects with a total cost of RM11.8b will be implemented in 2024. RM8.2b allocation for the repair and maintenance of roads and bridges. RM2.5b allocated for the execution of low-cost house projects.	**NEUTRAL.** Budget allocated is mainly for ongoing infra projects and development of rural infrastructure. While feeling positive with the honourable mention of Penang LRT and the revival of the proposed construction of five LRT3 stations, we were surprised by the lack of clarity on MRT3 despite it being highlighted earlier in the re-tabled Budget 2023. **Potential beneficiaries of mega projects:** MRT3: Gamuda, MMC Corp, MRCB, IJM, Sunway Construction, YTL, WCT, GAQRS, HSS. PBH Sabah Phase 1B: Suria Capital, GAQRS, WCT. Flood mitigation projects: Gamuda, IJM, MRCB. For Sarawak: Hock Seng Lee and KKB Engineering followed by CMS and SCIB. HSS may also benefit from project management jobs for infra work in Sabah and Sarawak. For Sabah: GAQRS, Suria Capital. Rural infrastructure roads: Protasco, Vizione, Cahya Mata, Hock Seng Lee. Potential beneficiaries of affordable and low-cost housing include Inta Bina, Vizione, and Vertice.

Sector	Measures	Stock Impact/Comments
Consumer	RM58.1b (Budget 2023: RM64b) is provided to finance various forms of government grants to the people including subsidies, incentives and assistance. Allocation for targeted cash handouts increased to RM10b (Budget 2023: RM8b), which will benefit 9m recipients (Budget 2023: 9m) under the Bantuan Keluarga Malaysia (BKM) programme or 60% of the Malaysian adult population. In totality, the government is allocating RM12.4b for both BKM and the Department of Social Welfare assistance in 2024 (Budget 2023: RM10b). Tobacco and breweries a) From 1 Jan 24, the government will tighten smuggling control measures. Transshipment activities for liquor products will be limited to certain ports only. b) Bukit Immigration, Customs, Quarantine and Security Complex Kayu Hitam will be used as a single exit for northern region. c) Import activities for cigarettes for the domestic market should done as a full container load (full container loads). d) Excise duty is introduced on chewing tobacco products at a rate of 5% plus 27 ringgit per kilogram.	**NEUTRAL**. As expected, there were no revisions to excise duties on alcohol and tobacco (excise duty introduction on chewing tobacco products is the exception). However, the new developments are positive for the brewers. While BAT offers oral products, we estimate that chewing tobacco products represent a minimal or insignificant contribution to overall revenue.
	Egg and chicken subsidy. Since Feb 22, the government has borne RM3.8b for egg and chicken subsidy. However, since market prices have fallen below the price control ceiling, the price control ceiling will be removed.	We had earlier anticipated for pricing to eventually revert to market driven and therefore this development does not affect our outlook for poultry operators under coverage.
	Sugar tax. Excise duty rate for sugary drinks is increased from RM0.40 to RM0.50 per litre. This applies to non-alcoholic beverages containing added sugars of more than 5g per 100ml drink; and for fruit or vegetable juice containing added sugars of more than 12gm per 100ml drink.	More than 90% of F&N products are below the threshold applicable to excise duty. Therefore, we estimate that the increased sugar tax has a minimal impact on F&N.
Gaming	Nothing major announced. The sector may be impacted by SST hike from 6% to 8% as they are unable to pass through the extra 2% to consumers, but earnings impact is not significant.	**POSITIVE.** The absence of punitive indirect tax measures being imposed or duty hikes is seen as a positive. In addition for NFO subsector, there are no changes to special draw days of 8 draws annually. The casino subsector should benefit from the government's plan to improve Visa-On-Arrival and offer Multiple Entry Visa for China and India tourists
Healthcare	Budget 2024 saw an increased 13.4% yoy allocation to the Ministry of Health (MoH) at RM41.2b (Budget 2023: RM36.3b). It accounts for 10.5% (Budget 2023: 9.1%) of the total budget. Meanwhile RM5.5b has been allocated to obtain supplies of medicine, materials consumables, reagents and vaccines.	**NEUTRAL.** We believe the allocation for procurement could be in-line with the overall increased allocation to the MoH. The relatively sizeable increase should help ease concerns over government pharmaceutical tenders, especially for the likes of Duopharma and Pharmaniaga.
Plantation	RM2.4b allocated to FELDA, FELCRA, and RISDA to further boost agri-commodity activities and improve the socio-economic status of smallholders. Oil Palm Replanting Incentive Program with an allocation of RM100m. This incentive will be offered in the form of grants and loans to 7,000 small private oil palm farmers. RM70m allocation to enhance the sustainability of the palm oil industry and intensify the campaign to address the anti-palm oil sentiment on the international stage. To increase the productivity of plantation products and reduce dependence on foreign labour through mechanization and automation, the scope of incentive for automation will be expanded to cover the commodity sector.	**NEUTRAL.** The allocation for oil palm replanting and for sustainability purpose mirrors the previous allocation level from previous budget

Sector	Measures	Stock Impact/Comments
Property		**NEUTRAL** as the highly anticipated Johor-themed incentives (such as special economic zones) are not mentioned.
	The government will establish a high-technology industrial area in Kerian, Northern Perak.	Based on our channel checks, none of the developers under our coverage have landbank in Kerian, Perak.
	The government has also agreed to relax the existing conditions for Malaysia My Second Home (MM2H) applications to increase the arrival of foreign tourists and investors in Malaysia	Although specific details are yet to be provided, we are optimistic about the prospects of the MM2H relaxation in spurring demand, particularly in Johor.
	The government has agreed to resume the construction plans for the five previously cancelled LRT3 stations, namely Tropicana, Raja Muda, Temasya, Bukit Raja, and Bandar Botanik.	We expect townships like Setia Alam which near to Raja Muda proposed LRT3 (SP Setia Bhd), Bukit Raja (Sime Darby Property) and Bandar Botanik (Gamuda Bhd) to benefit from these new stations.
	Pengerang Integrated Petroleum Complex (PIPC) to be developed into a hub for the chemical and petrochemical sector with the provision of tax incentives in the form of special tax rates or investment tax allowances.	This should benefit Mah Sing's Meridin East, Johor township (1,008 acres with GDV of RM3.7b).
	The Penang LRT to Seberang Perai will be as planned by the State Government	This should benefit E&O for its Andaman Island development
	A special guarantee fund of RM1b is provided to encourage reputable developers to revive identified abandoned projects.	We think this should benefit NCT Alliance on its expertise of revival of abandoned projects.
	The government will increase the Home Credit Guarantee Scheme to RM10b for the benefit of 40,000 borrowers.	We believe this should benefit affordable housing players like Lagenda, Mah Sing and Matrix Concept
	As a measure to control property prices, the government intends to impose a flat 4% stamp duty on property transfer instruments by non-citizens and foreign-owned companies, except for permanent residents in Malaysia.	While this measure discourage speculative property purchases by non-residents and foreign entities (which can sometimes contribute to rising property prices in the country), it could also be seen as to make property ownership and investment less attractive to non-residents compared to local residents and permanent residents.
Technology	RM10m will be set aside for the E&E sector under MIMOS, Aeronautical sector under MYSA and drone technology and robotics under MRANTI to foster innovation among the industrial players. The government will establish a new high-technology industrial area in Kerian, Northern Perak to build a broader ecosystem for the E&E cluster in the northern region. Allocation up to 10% of the total NIMP investment to support NIMP mission with an initial funding of RM200m in 2024. Manufacturing companies undertaking expansion, diversification, automation and modernization projects are eligible for Reinvestment Allowance (RA). These companies are eligible to claim RA of 60% of the capital expenditure incurred and can be set-off against up to 70% of statutory income for 15 consecutive years of assessment. To encourage existing companies that have exhausted their RA eligibility period and to increase capacity and investment in high-value activities under the NIMP 2030, the eligible investment tax allowance rate of a) both 100% for Tier 1 and b) 60%/70% for Tier 2 - qualifying capex and statutory income to be set-off, will be determined by an outcome-based approach. Manufacturing, services and agricultural companies that incurred capex for automation equipment including the adaptation of i4.0 elements are given 100% Accelerated Capital Allowance (ACA) on the first RM10m of the qualifying capital expenditure and can be fully absorbed within one year. Companies are also eligible for income tax exemption equivalent to 100% on the same capital expenditure.	**LONG TERM POSITIVE** to Malaysia technology/semiconductor sectors. Initiatives as stated in the form of investment funds, grants, tax allowances, incentives and tax deductions which aim to attract the +1 policy and trade diversion into Malaysia would continue to support the sector vibrancy.
Telecommunications	SST maintained at 6% - neutral on the telco sector. DNB has achieved 70% population coverage. This will benefit consumers. Government proposes to develop a 5G Cyber Security Testing Framework to increase preparedness against the threat of cyber attacks. RM60m has been allocated for this goal.	**NEUTRAL**. No winner or loser arising from Budget announcement.
Utilities	Focus on National Energy Transition Roadmap (NETR) goal of achieving 70% renewal energy generation mix by 2050.	No new measures were announced in Budget 2024.

Source: UOB Kay Hian

COMPANY RESULTS

IGB REIT (IGBREIT MK)

3Q23: Results Beat Expectations On Higher Turnover Rent

IGB REIT recorded a strong 3Q23 performance driven by sustained consumer spending. While 3Q23 utilities expenses were higher yoy, the lower ICPT charges since Jul 23 helped reduce utilities expenses qoq, thus improving its NPI margin. 4Q23 should see higher qoq revenue and net profit with a seasonally stronger quarter, contributed by higher turnover rent from the festive season. Maintain HOLD with a higher target price of RM1.80.

3Q23 RESULTS

Year to 31 Dec	3Q23 (RMm)	2Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	yoy % chg
Revenue	149.7	141.5	5.8	6.8	445.8	9.4
Property Expenses	(38.4)	(38.7)	(0.9)	(1.4)	(113.2)	21.6
Net Property Income	111.3	102.8	8.3	10.0	332.6	5.7
Other Income	1.7	1.1	55.2	(66.2)	3.8	(35.5)
Trust expenses	(10.4)	(9.4)	10.3	11.5	(29.8)	4.8
Finance costs	(13.6)	(13.5)	1.1	1.6	(40.4)	1.8
PAT	88.9	81.0	9.9	6.7	266.1	5.5
EPU (sen)	2.5	2.3	9.9	5.3	7.4	4.1
DPU (sen)	2.6	2.4	9.7	6.6	7.8	5.0
Margins	**%**	**%**	**+/- ppt**	**+/- ppt**	**%**	**+/- ppt**
Net property income	74.4	72.6	2.4	3.0	74.6	(2.6)
PAT	59.4	57.2	3.9	(0.1)	59.7	(2.2)

Source: IGB REIT, UOB Kay Hian

RESULTS

- **Results beat expectations.** IGB REIT reported 3Q23 revenue of RM149.7m (+5.8% qoq, +6.8% yoy) and core net profit of RM88.9m (+9.9% qoq, 6.7% yoy). Cumulatively, 9M23 net profit of RM266m (+5.5% yoy) accounted for 76% and 74% of our and consensus' full-year estimates respectively. Despite the traditionally weaker/flattish 3Q in the retail space due to absence of festivities, IGB REIT achieved resilient results thanks to a boost in turnover rent (comprising 12-15% of total rent). This was primarily driven by sustained consumer spending, buoyed by its unique retail offerings.
- We exclude RM162m in exceptional items (from net fair value changes) from 9M23's reported net profit of RM428m.
- **Declared 2.6 sen dividend for 3Q23** (+9.7% qoq, +6.6% yoy), which brought 9M23 dividend to 7.8 sen (9M22: 7.4 sen), representing annualised yield of 6.1%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	400	556	609	635	658
EBITDA	246	382	406	420	436
Operating profit	245	382	406	420	436
Net profit (rep./act.)	200	396	359	373	388
Net profit (adj.)	200	336	359	373	388
EPU (sen)	5.6	9.5	10.1	10.5	11.0
DPU (sen)	6.0	9.9	10.5	10.9	11.4
PE (x)	30.3	17.9	16.8	16.2	15.5
P/B (x)	1.6	1.6	1.6	1.6	1.6
DPU Yld (%)	3.5	5.8	6.2	6.4	6.7
Net margin (%)	50.1	71.2	59.0	58.7	59.0
Net debt/(cash) to asset (%)	26.1	24.7	25.9	26.7	28.3
Interest cover (x)	5.5	8.3	8.7	8.9	9.1
ROE (%)	5.3	10.3	9.3	9.8	10.3
Consensus DPU (sen)	n.a.	n.a.	10.2	10.6	11.1
UOBKH/Consensus (x)	-	-	1.03	1.03	1.03

Source: IGB REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.70
Target Price	RM1.80
Upside	+5.7%
(Previous TP	*RM1.75)*

COMPANY DESCRIPTION

IGB REIT is a real estate investment trust. Its portfolio consists of the Mid Valley Megamall and The Gardens Mall in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	IGBREIT MK
Shares issued (m):	3,597.8
Market cap (RMm):	6,116.3
Market cap (US$m):	1,293.5
3-mth avg daily t'over (US$m):	0.3

Price Performance (%)

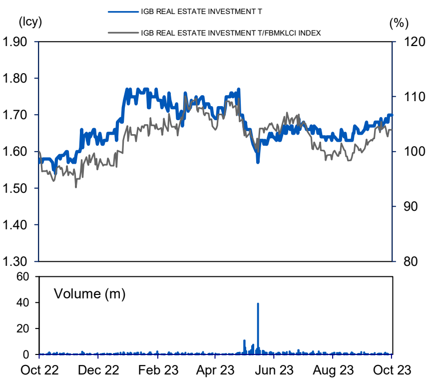
52-week high/low RM1.77/RM1.54

1mth	3mth	6mth	1yr	YTD
3.0	2.4	(1.2)	7.6	3.0

Major Shareholders	**%**
IGB Corp Berhad	48.2
Employees Provident Fund	11.6
Kumpulan Wang Persaraan	7.4

FY23 NAV/Share (RM)	1.08
FY23 Net Debt/Share (RM)	0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

Nazira Abdullah

+603 2147 1934

nurulnazira@uobkayhian.com

STOCK IMPACT

- **NPI margin was compressed on higher utilities charges.** 9M23 net property income (NPI) margin fell to 74.6% (9M22: 77.2%, 2022: 76%) on higher utility expenses. However, qoq wise, 3Q23 NPI margin was higher by 2.4ppt mainly on lower utility costs (-6%) from lower ICPT charges (from Jul 23 onwards). 3Q23 NPI margin was also higher by 3.0ppt yoy on lower maintenance expenses (-10%) and other expenses (-16% on lower upgrading cost) despite higher utilities (+22%).
- **4Q23 should see higher revenue and net profit qoq on seasonally stronger quarter,** contributed by higher turnover rent from festive season such as school holidays and Christmas. We forecast 4Q23 to post a 9% increase in revenue qoq (on higher turnover rent from higher tenants' sales) while net profit is expected to grow slightly slower at 5%. This is because we anticipate that other expenses and maintenance expenses will normalise, with utility charges to remain relatively stable.
- **Occupancy remained resilient** with Mid Valley and The Gardens at almost 100%. On lease expiry, about 30-40% of NLA is due for renewal in 2023. With tenants' sales continuously improving and consumer spending remaining relatively resilient, we believe IGB REIT will be able to achieve positive rental reversion for any renewals this year.
- **Well-managed debt; minimal impact from interest rate hike.** We continue to like IGB REIT due to its lean balance sheet with a low gearing level of 0.24x, which is well below the 0.5x threshold set by the Securities Commission. In terms of its debt structure, almost all its debt is on fixed financing rate.

EARNINGS REVISION/RISK

- We increased our net profit forecast by largely 6% for 2023F-25F to account for higher rental income from higher turnover rent.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM1.80 (from RM1.75)** as we increase our earnings base. Our target price is based on a dividend discount model (required rate of return: 7.9%, terminal growth: 2.0%), with an implied dividend yield of 5.9% for 2023F. We reckon the current valuation now is fair given that its forward yield spread to MGS of 2.1ppt has already narrowed to its historical mean (2.0ppt).

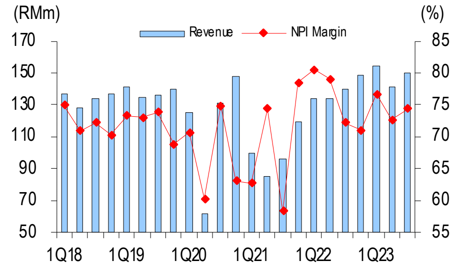
SHARE PRICE CATALYST

- Higher-than-expected rental reversions and consumer spending.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

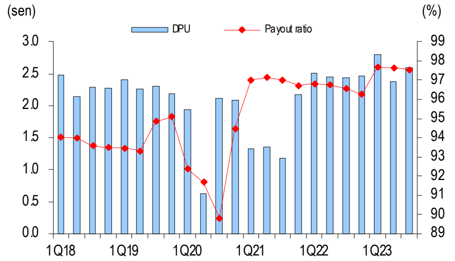
- **Environmental**
  - Remains committed to exploring ways to continue to reduce energy consumption and monitor total electricity consumed monthly. Electricity consumption has been on a downtrend since 2016 (base year).
- **Social**
  - Regular cybersecurity training through e-portals as well as ad hoc social engineering tests throughout the year.
  - Both malls continued practicing many of the health and safety initiatives implemented during the height of the pandemic, even as many COVID-19 restrictions and standard operating procedures were relaxed. These include frequent cleaning of high touch surfaces such as those in common areas, toilets, and car parks, the use of ultraviolet (UV) light to sterilise smaller enclosed areas such as elevators and suraus, and the use of high-performance UV light to purify the air in all Air Handling Units.
- **Governance**
  - The Board comprises four independent directors and five non-independent directors. There are four Board Committees – Audit Committee, Nomination Committee, Remuneration Committee and Sustainability Committee.
  - Subscribes to IGB Group's Anti-Bribery and Corruption Policy, which adheres to the Malaysian Anti-Corruption Commission Act 2018.

REVENUE AND NPI MARGIN



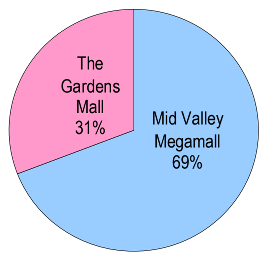
Source: IGB REIT, UOB Kay Hian

DPU AND PAYOUT RATIO



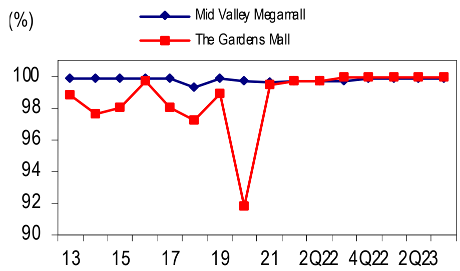
Source: IGB REIT, UOB Kay Hian

3Q23 REVENUE CONTRIBUTION



Source: IGB REIT, UOB Kay Hian

OCCUPANCY RATE



Source: IGB REIT, UOB Kay Hian

ASSUMPTIONS

	2023F	2024F	2025F
Mid Valley Megamall			
Occupancy (%)	99.9	99.9	99.9
Blended rental step-up (%)	+6.0	+5.0	+5.0
Rental Income – including car park income (RMm)	417.3	436.6	453.4
The Gardens Mall			
Occupancy (%)	99.9	99.9	99.9
Blended rental step-up (%)	+5.0	+4.0	+4.0
Rental Income – including car park income (RMm)	191.3	198.4	204.3

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	**556**	**609**	**635**	**658**
EBITDA	382	406	420	436
Deprec. & amort.	0	0	0	0
EBIT	382	406	420	436
Associate contributions	0	0	0	0
Net interest income/(expense)	(46)	(46)	(47)	(48)
Pre-tax profit	**396**	**359**	**373**	**388**
Tax	0	0	0	0
Minorities	0	0	0	0
Net profit	**396**	**359**	**373**	**388**
Net profit (adj.)	336	359	373	388

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,020	5,020	5,020	5,020
Other LT assets	2	5	8	11
Cash/ST investment	258	222	203	155
Other current assets	37	78	67	65
Total assets	**5,318**	**5,324**	**5,298**	**5,251**
ST debt	15	15	15	15
Other current liabilities	232	280	296	294
LT debt	1,199	1,199	1,199	1,199
Other LT liabilities	0	0	0	0
Shareholders' equity	3,871	3,830	3,787	3,743
Minority interest	0	0	0	0
Total liabilities & equity	**5,318**	**5,324**	**5,298**	**5,251**

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	**425**	**439**	**441**	**429**
Pre-tax profit	336	359	373	388
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Associates	0	0	0	0
Working capital changes	35	33	20	(7)
Other operating cashflows	54	46	47	48
Investing	**6**	**(3)**	**(3)**	**(3)**
Capex (growth)	0	(3)	(3)	(3)
Investments	0	0	0	0
Others	7	0	0	0
Financing	**(397)**	**(442)**	**(457)**	**(473)**
Distribution to unitholders	(343)	(389)	(403)	(420)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(54)	(53)	(53)	(53)
Net cash inflow (outflow)	**35**	**(7)**	**(19)**	**(47)**
Beginning cash & cash equivalent	**193**	**228**	**222**	**203**
Changes due to forex impact	30	0	0	0
Ending cash & cash equivalent	**258**	**222**	**203**	**155**

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	68.6	66.7	66.2	66.3
Pre-tax margin	71.2	59.0	58.7	59.0
Net margin	71.2	59.0	58.7	59.0
ROA	7.5	6.8	7.0	7.4
ROE	10.3	9.3	9.8	10.3
Growth				
Turnover	39.3	9.4	4.3	3.6
EBITDA	55.4	6.3	3.6	3.8
Pre-tax profit	97.9	(9.3)	3.8	4.1
Net profit	97.9	(9.3)	3.8	4.1
Net profit (adj.)	68.0	6.9	3.8	4.1
EPU	69.0	6.9	3.8	4.1
Leverage				
Debt to total capital	23.9	24.1	24.3	24.5
Debt to total asset	31.4	31.7	32.1	32.4
Net debt/(cash) to asset	24.7	25.9	26.7	28.3
Interest cover (x)	8.3	8.7	8.9	9.1

UOBKH HIGHLIGHTS

Construction (MARKET WEIGHT)

Lack Of CatalystS From Budget 2024

WHAT'S NEW

- **Budget 2024: Lower DE.** Budget 2024 outlines a lower headline development expenditure (DE) of RM90b (-7.2% yoy compared to the RM97b under the re-tabled Budget 2023). The transport sector accounts for the largest share at RM19b (+8.9% yoy), which represents around 21% of the total DE in 2024.
- **East Malaysia remains the biggest beneficiary.** Sabah and Sarawak came out as the prime beneficiaries of Budget 2024 as both states will receive higher DE of RM6.6b and RM5.8b respectively. Besides, the tender process of 19 work packages under the 336KM Pan Borneo Sabah (PBS) Phase 1B (estimated cost of RM15.7b) is expected to be concluded by end-Nov 23. We also understand that Sarawak-Sabah Link Road (SSLR) Phase 2, which comes with a cost of RM7.4b as highlighted under Budget 2024, is scheduled to kick off construction work by the end of this year. This could benefit companies such as WCT, Suria Capital, Gabungan AQRS, Cahaya Mata Sarawak, and Hock Seng Lee given their prior involvement in various projects in the two states.

COMMENTS

- **The absence of MRT3 details a slight disappointment.** We are surprised by the lack of clarity provided for the upcoming roll-out of MRT3, despite the project being highlighted in the re-tabled Budget 2023 early this year. The project's tender outcome is expected to be concluded in the coming months, following the extension of tender validity from end-Sep 23 to end-23. However, given the lack of execution details of the project at this juncture, we do not rule out the possibility of a further delay in the roll-out of the project to early-2024. To cushion the negative impacts of the potential delay in MRT3 is the honourable mention of Penang LRT (estimated costs of RM10b under the public-private partnership model) and the reinstatement of five LRT3 stations (estimated costs of RM4.7b), which suggests there is still a robust pipeline of railway projects available for listed contractors such as Gamuda, IJM Corp, Sunway Construction, Malaysian Resources Corp, etc. Other highlights under Budget 2024 include 33 high-priority flood mitigation projects worth RM11.8b that are expected to be carried out in 2024, RM8.2b allocations for the repair and maintenance of roads and bridges, as well as the RM2.5b allocation for low-cost houses.
- **Imminent improvement in quarterly earnings backed by the upcoming roll-out of mega projects and a more vibrant Johor property market.** We continue to anticipate stronger earnings over the upcoming quarters on the back of higher progress billings amid an easing of the labour shortage and the easing 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 Ekovest, 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.** Our neutral sector rating is premised on a lack of visibility on the execution details regarding the rollout of mega projects amid fiscal constraints, despite a more stable domestic political landscape. Our top pick remains Gamuda, backed by its robust orderbook with pronounced overseas jobs secured which helps to mitigate the muted local contract flows. Meanwhile, Ekovest is well-positioned as a niche theme-driven contractor, riding on the potential monetisation of its DUKE highways as well as tapping into the rising vibrancy of the Johor property market via the upcoming corporate restructuring exercises. We also like Gabungan AQRS and Kerjaya Prospek Group for their commendable orderbook cover ratio and stronger property development earnings on upcoming project launches.

PEER COMPARISON

Company	Ticker	Rec	Share Price 13 Oct 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2024F (x)	P/B 2024F (x)	Yield 2024F (%)
Ekovest	EKO MK	BUY	0.54	1.10	1,631	81.6	0.6	n.a.
Gabungan AQRS	AQRS MK	BUY	0.37	0.48	199	3.4	0.4	n.a.
Gamuda	GAM MK	BUY	4.60	5.64	11,701	13.4	1.2	2.6
IJM Corporation	IJM MK	HOLD	1.90	1.62	6,493	20.7	0.7	2.9
Kerjaya Prospek Group	KPG MK	BUY	1.40	1.74	1,521	9.6	1.4	4.6
Malaysian Resources Corporation	MRC MK	HOLD	0.48	0.41	1,966	19.2	0.4	2.1
Sunway Construction Group	SCGB MK	HOLD	1.92	1.95	2,405	17.1	2.9	4.3
WCT Holdings	WCTHG MK	BUY	0.58	0.69	723	8.8	0.3	2.9

Source: Bloomberg, UOB Kay Hian

ANALYST

Lucas Tan Jun Sian
+603 2147 1913
junsian@uobkayhian.com

TRADERS' CORNER

Source: UOBKH ChartGenie

EG Industries (EG MK)

Technical BUY with +19.2% potential return

Last price: RM1.46

Target price: RM1.56, RM1.74

Support: RM1.37

Stop-loss: RM1.36

BUY with a target price of RM1.74 and stop-loss at RM1.36. Share price has penetrated through the earlier breakout point of RM1.36 and closed above the BBI following last Friday's closing, setting a new tone for the short-term outlook. The bullish bias has been established following upticks in the DMI and the RSI. Meanwhile, both MACD and DMI have also formed a golden cross to the positive signal. We peg our targets at RM1.56 and RM1.74 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

Source: UOBKH ChartGenie

Guan Chong (GCB MK)

Technical BUY with +33.5% potential return

Last price: RM2.21

Target price: RM2.71, RM2.99

Support: RM2.16

Stop-loss: RM2.15

BUY with a target price of RM2.99 and stop-loss at RM2.15. Based on the daily chart, share price has since consolidated and last Friday's closing placed GCB in a higher low territory, suggesting renewed buying interest, which in our view will establish a new up-leg. This is supported by the MACD and DMI, which are both currently on a bullish crossover. We peg our targets at RM2.71 and RM2.99 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

ANALYST

Malaysia Retail Research Team

+603 2147 1998

research@uobkayhian.com

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