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KEY HIGHLIGHTS

Strategy – Malaysia

A Longer Wait For Year-End Recovery

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While we still expect the FBMKLCI to end the year higher, the current consolidation will persist until inflation expectations ease. Nevertheless, there are still trading opportunities.

Company Update

Scientex (SCI MK/BUY/RM3.63/Target: RM4.36)

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Despite a challenging macroeconomic environment, Scientex is attractive for its diversified business portfolio, bargain valuations and good track record. Maintain BUY.

TRADERS' CORNER

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PLS Plantations (PLS MK): Technical BUY

CAM Resources (CAM MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,438.12	(2.9)	(0.2)
Bursa Emas	10,577.81	(42.6)	(0.4)
Ind Product	170.25	(2.1)	(1.2)
Finance	16,203.82	13.5	0.1
Consumer	552.33	(2.4)	(0.4)
Construction	182.87	(1.0)	(0.5)
Properties	839.84	(1.8)	(0.2)
Plantations	6,873.61	(36.4)	(0.5)

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	23-Oct-23	% chg
Volume (m units)	3,378	(3.8)
Value (RMm)	1,997	4.9

By Investor type	(%)	ppt chg
Foreign investors	31.1	(5.2)
Local retail	29.6	2.8
Local institution	39.3	2.5

TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg (%)	5-day ADT (RM'000)
CIMB Group	5.66	0.7	108,759
Malayan Banking	8.99	0.0	79,714
Tenaga Nasional	9.85	0.3	78,911
Hong Leong Bank	19.44	(0.2)	44,163
YTL Corp	1.26	(6.0)	42,739

Top Gainers			
IOI Properties	1.82	4.6	9,718
Mah Sing Group	0.80	3.2	5,813
M'sian Bulk Carriers	0.32	1.6	134
Gas Malaysia	3.17	1.6	8,023
Westports Holdings	3.28	1.2	9,378

Top Losers			
SapuraEnergy	0.05	(9.1)	1,402
AirAsia X	1.83	(9.0)	16
Parkson Holdings	0.29	(7.9)	5,119
YTL Corp	1.26	(6.0)	42,739
WCT Bhd	0.52	(3.7)	3,942

OTHER STATISTICS

	23-Oct-23	chg	% chg
RM/US\$	4.79	0.03	0.5
CPO 3rd mth future (RM/mt)	3,753	(18.0)	(0.5)

Notes:

ADT = Average daily turnover.

Top trading turnover, gainers and losers are based on FBM100 component stocks.

STRATEGY – MALAYSIA

A Longer Wait For Year-End Recovery

While we still expect the FBMKLCI to end the year higher, the current consolidation will persist until inflation expectations ease. Global equities have been prominently spooked by the UST10 yield's run-up towards 5%, followed by the Gaza war and the US' widened export ban on Nvidia's AI chips to China. While it is best to stay tactically defensive until the UST10-US fed funds rate gap narrows or when there is clear evidence pointing to easing US inflation, there are still selected trading opportunities.

WHAT'S NEW

- Market sentiment upended by...** Last week witnessed significant pullbacks in small-mid caps (most prominent was the hefty profit taking in the earlier 'Iskandar 2.0' winners) while the ringgit touched a 25-year low against the greenback to RM4.76. While the FBMKLCI has been relatively steady, the FBMSC index has fallen 2.0% in the past two weeks. Foreign equity flows have turned negative since the beginning of Oct 23, and net foreign selling hit RM613m the last week.
- ...relentless climb in UST10 yield.** US 10-year treasuries (UST10) have surged by >150bp from the low in 2Q23, and more recently spiked up by >50bp since the US Fed indicated a 'higher-for-longer' interest rate policy in September, to briefly top 5%. The latest data (September) on US core inflation and retail sales remained stubbornly sticky and perpetuated the UST10 yield uptrend. The UST10 yield can conceivably still rise as while the discount to the US fed funds rate has narrowed to about 50bp, the yield spread could theoretically capitulate to parity (refer to overleaf charts on the previous and present interest rate hike cycle). In the near term, there is still upside risks to UST10 yield and the US dollar.
- Gaza war should have limited impact on global inflation fears.** Review of the past few Israel-Palestinian wars (Gaza wars – see overleaf charts) suggests moderate impact on crude oil prices. Given that Brent crude oil has risen 9.9% since the war erupted two weeks ago, the upside risk is limited unless in the unlikely event that the conflict spreads to the neighbouring oil producing countries. Nevertheless, the timing of the Gaza war has amplified Saudi Arabia's efforts to maintain lofty crude oil prices.
- Still rooting for FBMKLCI to end the year higher.** Our optimism rests on both external and domestic considerations. Externally, we expect an improving investor sentiment by the year end as investors should be re-focusing on moderating inflation and peakish policy rates in the US, the recovery in the semiconductor cycle (which has endured a longer period of yoy contraction vs past downcycles), and China's economic recovery. Domestically, sentiment should again be lifted by an easing political risk premium and the government's efforts to attract FDIs (eg Iskandar 2.0 investment theme).

ACTION

- Defensive picks appeal the most in the interim period.** Stocks with defensive cash flows and high prospective yields which favour the banks and gaming stocks that dominate our selected list of BUY-rated high yielding stocks appeal the most (see overleaf table).
- Iskandar 2.0 should regain traction.** The Iskandar 2.0 theme should regain traction with the upcoming Malaysia-Singapore joint leader's retreat (to finalise the bilateral Special Economic Zone in Johor) and council of rulers' planned meeting in October. Key BUY-rated beneficiaries of this theme are **Ekovest and Sunway Bhd.**
- Meanwhile, our top picks** are **Hume Cement, Inari Amertron, IOI Corporation, Malaysia Airports Holdings, My EG Services, NationGate Holdings and Yinson Holdings.**

STOCK PICKS

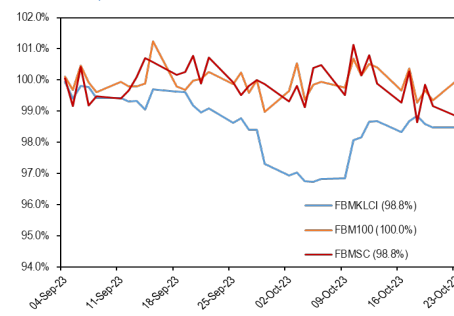
Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Net Profit			EPS			PE			Yield 2024F (%)	ROE 2024F (%)	Market Cap (US\$m)	P/B 2024F (x)
					2022 (RMm)	2023F (RMm)	2024F (RMm)	2022 (sen)	2023F (sen)	2024F (sen)	2022 (x)	2023F (x)	2024F (x)				
Hume Cement	HUME MK	BUY	1.64	2.54	121.5	136.3	123.7	16.9	18.9	17.2	9.7	8.7	9.5	n.a.	24.0	174.8	1.1
Inari Amertron	INRI MK	BUY	2.84	3.80	319.5	405.8	450.1	8.6	10.9	12.1	33.1	26.1	23.5	3.9	15.4	2,218.0	4.1
IOI Corporation	IOI MK	BUY	3.92	4.80	1,519.4	1,651.2	1,847.0	24.2	26.3	29.4	16.2	14.9	13.3	1.9	14.0	5,073.0	2.0
Malaysia Airports	MAHB MK	BUY	7.25	8.11	163.5	416.9	701.1	9.9	25.1	42.3	73.6	28.9	17.2	1.8	6.6	2,523.5	2.1
My EG Services	MYEG MK	BUY	0.785	1.18	413.0	433.5	466.7	5.6	5.9	6.3	14.1	13.4	12.5	2.0	18.2	1,221.5	2.4
NationGate	NATGATE MK	BUY	1.20	1.83	85.3	76.2	151.6	4.1	3.7	7.3	29.3	32.4	16.4	n.a.	19.8	519.3	3.3
Yinson	YNS MK	BUY	2.39	3.75	467.2	623.8	797.8	13.6	18.2	23.3	17.5	13.1	10.3	1.8	10.4	1,449.2	1.9

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI : 1,438

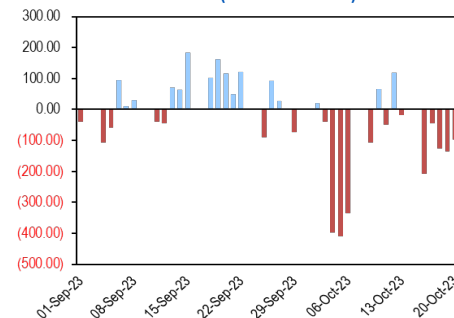
TARGET END-23 FBMKLCI: 1,540

FBMKLCI, FBM100 AND FBMSC PERFORMANCE



Source: Bloomberg, UOB Kay Hian

NET FOREIGN FLOWS (SINCE SEP 23)



Source: Bloomberg, UOB Kay Hian

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SELECTED HIGH YIELD STOCKS

Company	Tickers	Rating	Current Price (RM)	Target Price (RM)	Dividend Yield (%) 2023F	2024F
TIME dotCom	TDC MK	BUY	5.23	6.40	16.5	6.1
British American Tobacco	ROTH MK	BUY	9.44	14.40	9.2	11.0
Sports Toto	SPTOTO MK	BUY	1.46	1.72	8.2	9.6
Genting Malaysia	GENM MK	BUY	2.40	3.45	8.1	8.1
Sentral REIT	SENTRAL MK	HOLD	0.825	0.95	7.8	8.3
Magnum	MAG MK	BUY	1.08	1.52	7.4	11.1
Sunway REIT	SREIT MK	HOLD	1.48	1.66	7.1	7.2
Kim Loong Resources	KIML MK	HOLD	1.91	1.95	7.0	8.1
Malayan Banking	MAY MK	HOLD	8.99	9.00	6.7	7.1
RHB Bank	RHBBANK MK	HOLD	5.57	6.10	6.7	7.1
Alliance Bank Malaysia	ABMB MK	HOLD	3.35	3.80	6.3	6.9

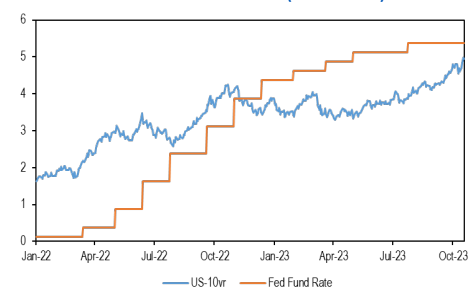
Source: Bloomberg, UOB Kay Hian

FED FUND RATE VS US-10YR (PREVIOUS INTEREST RATE UPCYCLE)



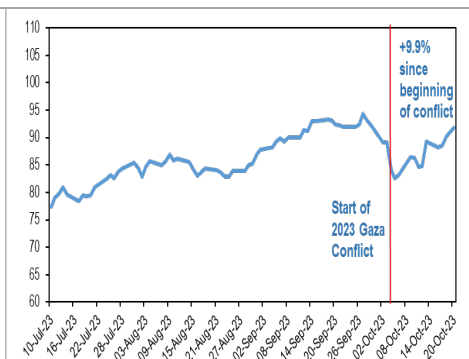
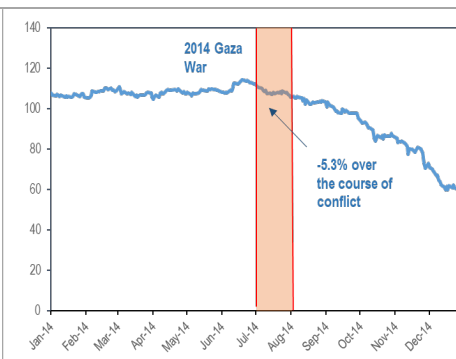
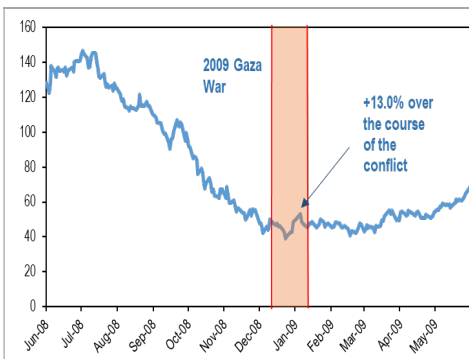
Source: Bloomberg, UOB Kay Hian

FED FUND RATE VS US-10YR (PRESENT)



Source: Bloomberg, UOB Kay Hian

OIL PRICES DURING PREVIOUS ISRAEL-PALESTINIAN CONFLICTS



Source: Various media sources, Bloomberg, UOB Kay Hian

COMPANY UPDATE

Scientex (SCI MK)

The Best Of Both Worlds

Global economic prospects remain unclear amid an escalation of the recent Israel-Hamas geopolitical tensions, softening trade demand and inflation-induced weaker consumption. Nevertheless, we are confident Scientex's unique dual-segment business model provides a solid foundation for stable earnings visibility to withstand this cyclical downturn. The ytd share price increase of 12% also endorses the group's resilient earnings momentum despite the challenging times. Maintain BUY with a target price of RM4.36.

WHAT'S NEW

- **Malaysia's exports see seventh consecutive month of yoy contraction.** Malaysia exports posted a 13.7% yoy decline in September, mainly reflecting: a) lower trade activity, b) an economic slowdown of its major partner China, c) uncertainties in commodity prices, and d) a high base last year. As such, we expect the Malaysian plastic packaging sector to continue to see demand shrinkage with sub-optimal utilisation rate throughout 2H23. Scientex's plastic manufacturing segment has also been negatively impacted by these headwinds, posting an 8% yoy revenue decline in FY23.
- **Nevertheless, cyclical downcycle could potentially reach its epilogue in FY24.** With the interest rate hike cycle reaching a conclusion and firmer semiconductor demand anticipated, Malaysia and intra-Asian countries' trade flows are poised to recover in 2024. We expect Scientex to benefit from the anticipated trade demand rebound and easing supply-chain pressure for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activities continue to ramp up. We are forecasting a 9-10% revenue growth for Scientex in FY24.
- **Pristine track record and bargain valuations anchor palatable capital upside.** Scientex charted five-year revenue and net earnings CAGR of 9% and 10% respectively. Such a commendable track record reflects precise execution by management. Meanwhile, its current valuation of 10.2x FY24F PE (-1SD below 10-year mean) remains attractive and possesses about 22.1% upside based on our forecasted FY24 valuations. Share price is still falling short (c.29% below) of its recent 2022 peak.

KEY FINANCIALS

Year to 31 Jul (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	3,985	4,077	4,636	4,962	5,184
EBITDA	675	713	855	926	978
Operating profit	561	590	713	774	817
Net profit (rep./act.)	410	438	550	597	630
Net profit (adj.)	410	438	550	597	630
EPS (sen)	26.4	28.3	35.5	38.5	40.7
PE (x)	13.7	12.8	10.2	9.4	8.9
P/B (x)	1.8	1.7	1.5	1.3	1.2
EV/EBITDA (x)	9.6	9.1	7.6	7.0	6.7
Dividend yield (%)	2.5	2.8	2.9	3.2	3.4
Net margin (%)	10.3	10.7	11.9	12.0	12.2
Net debt/(cash) to equity (%)	31.5	19.8	18.0	13.6	9.2
Interest cover (x)	33.0	21.3	61.7	65.6	74.5
ROE (%)	13.7	13.5	15.3	15.0	14.3
Consensus net profit	-	-	536	583	595
UOBKH/Consensus (x)	-	-	1.03	1.02	1.06

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.63
Target Price	RM4.36
Upside	+20.1%

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,551.1
Market cap (RMm):	5,630.4
Market cap (US\$m):	1,174.5
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low			RM3.90/RM3.17	
1mth	3mth	6mth	1yr	YTD
(3.7)	4.0	6.8	12.7	12.7

Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.0
Scientex Infinity Sdn Bhd	9.6

FY24 NAV/Share (RM)	2.44
FY24 Net Debt/Share (RM)	0.44

PRICE CHART



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STOCK IMPACT

- Manufacturing segment: Looking beyond temporary headwinds.** Despite recording a sales revenue contraction of 8.2% yoy in FY23, we expect Scientex's manufacturing segment to chart a reasonable recovery in FY24. With the successful recruitment of foreign workers alleviating Scientex's earlier worker shortage problem, coupled with demand recovery following a ramp-up in China's trade activities, we expect Scientex to improve its FY22-23 average utilisation of 60% to 65-75% in FY24. We also forecast this segment's revenue to grow 9% yoy and margin to improve from FY23's 7.9% to c.9% in FY24. We believe that Scientex's plastic packaging segment has exhilarating growth potential, underpinned by: a) demand recovery following the reopening of global economies; and b) a gradual shift of production lines to automation which would potentially increase output by several folds.
- Property segment: Paramount pillar for the group to drive FY24 earnings growth.** Recall that Scientex's property segment was aggravated by higher raw material costs, material shortages, and delays in obtaining regulatory approvals in FY22. While we have seen better launches of c.RM2.18b in FY23 with an impressive average take-up rate of c.80%, we foresee a brighter outlook in FY24 as the issue of material shortages, delays in obtaining regulatory approvals and worker shortages have been completely resolved. We forecast an 8% sales growth for the segment in FY24. This will also be backed by the aggressive strategic landbank acquisitions undertaken in the past three years, which will fulfill the group's target of delivering 50,000 affordable houses by 2028. Current unbilled sales stand at RM1.76b.
- Input costs receding; Scientex's margin expected to see an uplift.** While resin price has eased 2-4% ytd and 28-30% from 2022's peak, we believe that the manufacturing segment's margin will see meaningful expansion from 4QFY23 onwards. This will also be complemented by the stabilisation of upstream freight cost. As for the property segment, prices of steel bars, which is one of the key building materials, eased in 9M23, in tandem with the softening international prices of steel and iron ore. To add on, Scientex has also been revising the selling prices of its property launches by 5-10% since early-23 to buffer the rising raw material costs. As such, we deem this will provide relief and boost Scientex's property segment's EBIT margin in FY24.
- Shareholders have increased stakes since Oct 22.** Scientex's substantial shareholders have also acquired 25.8m shares (RM83m-85m/1.7% of total shares) since Oct 22, which may signal confidence to investors over the group's robust mid- to long-term outlook.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of RM4.36**, which implies 12.4x FY24F PE (10-year mean). Scientex's unique business model with two core diversified industries – property and packaging - provide multi-pronged growth drivers to deliver earnings visibility throughout different economic cycles, which is a distinct advantage in such a fast-paced and volatile market environment. We advocate investors to accumulate on weakness.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental <ul style="list-style-type: none"> 1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification. 8.2% decrease in group-wide greenhouse gas emissions in FY21.
Social <ul style="list-style-type: none"> Spent RM5.3m in community investment in response to COVID-19. Members of local communities comprise 78% of workforce.
Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

KEY ASSUMPTIONS

	FY24F	FY25F	FY26F
Manufacturing	2,862.9	2,991.5	3,257.4
Property	1,500.0	1,600.0	1,700.0
Total Revenue	4,362.9	4,591.5	4,957.4
Manufacturing	272.0	293.2	319.2
Property	435.0	464.0	493.0
EBIT	707.0	757.2	812.2

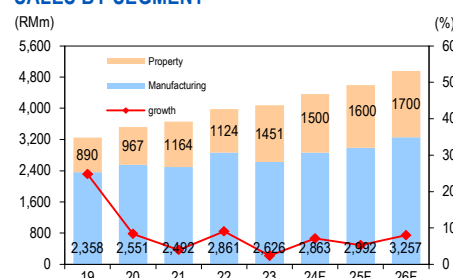
Source: UOB Kay Hian

ANNUAL CHANGE IN GLOBAL TRADE VOLUME (%)



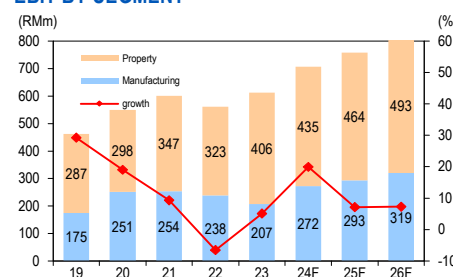
Source: Financial Times

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Net turnover	4,077	4,636	4,962	5,184
EBITDA	713	855	926	978
Deprec. & amort.	124	142	151	160
EBIT	590	713	774	817
Associate contributions	13	13	13	13
Net interest income/(expense)	(34)	(14)	(14)	(13)
Pre-tax profit	569	712	773	817
Tax	(120)	(142)	(155)	(163)
Minorities	(11)	(20)	(22)	(23)
Net profit	438	550	597	630
Net profit (adj.)	438	550	597	630

CASH FLOW

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Operating	806	683	789	838
Pre-tax profit	569	712	773	817
Tax	(119)	(142)	(155)	(163)
Deprec. & amort.	132	142	151	160
Working capital changes	199	(28)	20	24
Other operating cashflows	26	0	0	0
Investing	(270)	(300)	(300)	(300)
Capex (growth)	(220)	(300)	(300)	(300)
Investments	(65)	0	0	0
Proceeds from sale of assets	4	0	0	0
Others	11	0	0	0
Financing	(561)	(365)	(379)	(389)
Dividend payments	(162)	(165)	(179)	(189)
Issue of shares	0	0	0	0
Proceeds from borrowings	(106)	0	0	0
Loan repayment	(250)	(200)	(200)	(200)
Others/interest paid	(42)	0	0	0
Net cash inflow (outflow)	(25)	18	110	149
Beginning cash & cash equivalent	191	166	185	295
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	166	185	295	444

BALANCE SHEET

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Fixed assets	1,558	2,224	2,372	2,512
Other LT assets	1,881	1,890	1,890	1,890
Cash/ST investment	166	185	295	444
Other current assets	1,900	1,244	1,195	1,138
Total assets	5,505	5,750	6,160	6,593
ST debt	767	565	566	567
Other current liabilities	914	728	698	664
LT debt	70	301	301	302
Other LT liabilities	148	145	145	146
Shareholders' equity	3,392	3,777	4,195	4,636
Minority interest	214	234	256	279
Total liabilities & equity	5,505	5,750	6,160	6,593

KEY METRICS

Year to 31 Jul (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	17.5	18.4	18.7	18.9
Pre-tax margin	13.9	15.4	15.6	15.8
Net margin	10.7	11.9	12.0	12.2
ROA	8.0	9.8	10.0	9.9
ROE	13.5	15.3	15.0	14.3
Growth				
Turnover	2.3	13.7	7.0	4.5
EBITDA	5.6	19.9	8.2	5.6
Pre-tax profit	3.7	25.2	8.5	5.7
Net profit	6.9	25.5	8.5	5.7
Net profit (adj.)	6.9	25.5	8.5	5.7
EPS	6.9	25.5	8.5	5.7
Leverage				
Debt to total capital	18.8	17.7	16.3	15.0
Debt to equity	24.7	22.9	20.7	18.7
Net debt/(cash) to equity	19.8	18.0	13.6	9.2
Interest cover (x)	21.3	61.7	65.6	74.5

TRADERS' CORNER



Source: UOBKH ChartGenie



Source: UOBKH ChartGenie

PLS Plantations (PLS MK)

Technical BUY with +18.2% potential return

Last price: RM0.905

Target price: RM0.995, RM1.07

Support: RM0.88

Stop-loss: RM0.875

BUY with a target price of RM1.07 and stop-loss at RM0.875. Yesterday, the stock closed above the BBI line, indicating upward potential in the near term. This is supported by the 7-day EMA crossing above the 21-day EMA, which indicates a bullish signal. This is consistent with the uptick in the RSI and a bullish crossover in the MACD, which suggest stronger buying momentum ahead. Currently, the DMI is on the verge of making a golden cross to the positive signal.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

CAM Resources (CAM MK)

Technical BUY on breakout with +30.3% potential return

Last price: RM0.375

Target price: RM0.445, RM0.495

Support: RM0.355

Stop-loss: RM0.345

BUY on breakout with a target price of RM0.495 and stop-loss at RM0.345. The stock has been trading above the BBI line, and rebounded on yesterday's gain to establish a new up-leg. Persistent buying interest as shown by the MACD should drive share price higher. Additionally, the positive RSI reading suggests a stronger uptrend ahead. We expect the stock to continue to move toward our targets at RM0.445 and RM0.495 once it manages to penetrate above RM0.38.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

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