

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

KEY HIGHLIGHTS

Strategy – Malaysia

Alpha Picks: Adding Layers Of Risk-On Mode

Page 2

Our Alpha Picks outperformed the FBMKLCI in Aug 23. Sep 23 picks: BUY Bursa Malaysia, Hap Seng Plantations, Hume Cement Industries, Malaysia Airports Holdings, Mr DIY Group, My EG Services, VS Industry and Yinson Holdings.

TRADERS' CORNER

Page 7

MCE Holdings (MCE MK): Technical BUY

XL Holdings (XLH MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,462.72	(0.7)	(0.0)
Bursa Emas	10,802.87	(13.8)	(0.1)
Ind Product	173.77	1.2	0.7
Finance	16,488.28	16.7	0.1
Consumer	559.48	(3.3)	(0.6)
Construction	182.00	(2.1)	(1.1)
Properties	878.59	1.1	0.1
Plantations	6,946.62	8.9	0.1

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	4-Sep-23	% chg
Volume (m units)	4,006	(14.0)
Value (RMm)	2,373	(23.0)

By Investor type	(%)	ppt chg
Foreign investors	26.5	(6.3)
Local retail	29.6	4.5
Local institution	43.9	1.8

TOP VOLUME / GAINERS / LOSERS

	Price	Chg	Volume
<u>Top Volume</u>	<u>(RM)</u>	<u>(%)</u>	<u>('000)</u>
MRCB	0.49	(2.0)	96,907
Velesto Energy	0.25	6.4	85,746
Bumi Armada	0.54	1.9	78,981
MY EG Services	0.78	1.3	43,603
YTL Corp	1.50	(5.1)	39,382

Top Gainers

Velesto Energy	0.25	6.4	85,746
Bank Islam	2.15	4.4	2,193
Tropicana	1.33	3.9	153
IOI Properties	1.69	3.0	4,993
Hap Seng Consolidated	4.11	2.8	3,631

Top Losers

Parkson Holdings	0.26	(7.3)	26,673
YTL Corp	1.50	(5.1)	39,382
Eastern & Orient	0.60	(4.8)	17,596
JobStreet Corp	1.51	(4.4)	1
Malaysia Building Society	0.70	(4.1)	34,405

OTHER STATISTICS

	4-Sep-23	chg	% chg
RM/US\$	4.66	0.01	0.2
CPO 3rd mth future (RM/mt)	3,986	(54.0)	(1.3)

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

STRATEGY – MALAYSIA

Alpha Picks: Adding Layers Of Risk-On Mode

Our Alpha Picks outperformed the KLCI in August (+1.6% vs. -0.5%). We add a variety of small-mid caps as we gradually add layers of risk-on mode from now till the year-end. September's picks: Bursa Malaysia (Bursa), Hap Seng Plantations (Hap Seng), Hume Cement Industries (Hume), Malaysia Airports Holdings (MAHB), Mr DIY Group (Mr DIY), My EG Services (MYEG), VS Industry (VSI) and Yinson Holdings (Yinson). Bursa and Hume are new additions.

WHAT'S NEW

- **Market review for Aug 23.** The FBMKLCI contracted slightly during August following its rally to the 1,450 mark earlier in June. Major losers within the KLCI subsectors included plantation (-5.0%), consumer (-4.0%) and oil & gas subsectors (with the exception of offshore contractors) while the automobile (+13.4%) and aforementioned offshore contractor (+10.4%) sectors posted the largest gains. Looking to non-FBMKLCI sectors, property (+20.3) and construction (+9.3%) rallied significantly following renewed interest in government projects and the development of Johor as an economic hub. Other winners include the EMS (+6.6%) players as well as the aviation sector (6.4%). A key event in August was the election of six states, of which the '3-3' outcome between the competing coalitions PH-Unmo and Perikatan Nasional (PN) was well anticipated.
- **August's Alpha Picks outperformed**, with the portfolio posting gains of 1.6% mom vs the FBMKLCI's 0.5% contraction. MAHB (+7.8%) and VSI (+5.6%) were the biggest winners while MYEG (+3.9%) and Mr DIY (+2.7%) also posted respectable gains. Otherwise, Hap Seng (-5.6%), NationGate (-1.9%) and Yinson (-1.6%) dragged performance.
- **Positioning for a rising risk-on market.** We expect the market to add on layers of risk-on mode through 4Q23 which favours the small-mid caps. Most of our alpha picks are expected to capitalise on events in Sep 23. They include: a) Bursa, for its persistently high trading value, b) Hume, which will see rising demand and production volumes, stronger margins, c) MYEG, as the brisk sales of Zetrix tokens suggest upside to 3Q23 earnings, d) VSI, for its new client acquisition, and e) Yinson for its strong qoq earnings growth.

ACTION

- **Sep 23 Alpha Picks: BUY Bursa, Hap Seng, Hume, MAHB, Mr DIY, MYEG, VSI and Yinson.** We have removed NationGate in favour of Bursa (strong trading volumes) and Hume (another strong upcoming quarter anticipated). Hume trades at only 5x 2023 fully diluted PE.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance*	Catalyst
Keith Wee	Bursa Malaysia	BUY	n.a.	Positive share price action driven by valuation re-rating and ADV momentum due to heightened global equity risk sentiment as the US interest rate cycle reaches its peak.
Jacquelyn Yow & Leow Huey Chuen	Hap Seng Plantations	BUY	(5.6)	Strong earnings sensitivity to rising CPO prices (driven by weather-related risks).
Malaysia Research Team	Hume Cement Industries	BUY	n.a.	Stronger demand and rising margins in the upcoming quarter. Trades at mid-single-digit PE based on the latest quarter's annualised earnings.
Malaysia Research Team	Malaysia Airports Holdings	BUY	35.3	Poised for sequentially better quarterly earnings. Revision of new Operating Agreement (OA) in 2H23 is also an immediate re-rating catalyst.
Philip Wong	Mr DIY Group	BUY	(8.5)	Firming of SSSG particularly in 2H23 alongside improving margins.
Jack Goh/ Jack Lai	My EG Services	BUY	(12.2)	Zetrix blockchain's ongoing pilot phase of China's custom integration portal led to strong earnings in 2Q23.
Desmond Chong	VS Industry	BUY	5.6	Making a comeback from cyclical weakness. Onboarding new prospects to anchor a strong growth in FY24.
Kong Ho Meng	Yinson Holdings	BUY	19.0	Delivery of existing FPSO contracts, potential new FPSO contract, and potential unlocking of more capital.

* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec	Share Price (RM)	Target Price (RM)	Upside to TP (%)
Bursa	BUY	6.93	7.85	13.3
Hap Seng	BUY	1.92	2.65	38.0
Hume	BUY	1.91	2.54	33.0
MAHB	BUY	7.70	8.11	5.3
Mr DIY	BUY	1.47	2.15	46.3
MYEG	BUY	0.785	1.18	50.3
VSI	BUY	1.00	1.10	10.0
Yinson	BUY	2.50	4.05	62.1

Source: UOB Kay Hian

PORTFOLIO PERFORMANCE

Company	Rec	Aug 23 (%)	To-date* (%)
Hap Seng	BUY	(5.6)	(3.0)
NationGate	BUY	(1.9)	2.1
MAHB	BUY	7.8	40.0
Mr DIY	BUY	2.7	(10.9)
My EG	BUY	3.9	(13.3)
VSI	BUY	5.6	11.7
Yinson	BUY	(1.6)	18.5
FBMKLCI		(0.5)	

* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2022	1Q23	2Q23
FBMKLCI Return	(4.6)	(4.9)	(3.2)
Alpha Picks Return			
- Price-weighted	2.9	(3.6)	(1.6)
- Market Cap-weighted	(2.9)	1.3	1.2
- Equal-weighted	(0.2)	(1.1)	1.2

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.
- 3) Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

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Bursa Malaysia – BUY (Keith Wee)

- **Market sentiment is perking up as reflected by encouraging ADV recovery.** Bursa's ADV has been trending upwards from RM1.76b in 2Q23 to RM2.2b in Aug-Jul 23 on improving foreign net equity inflows, which is above its historical mean ADV of RM2.1b.
- **Risk-to-reward profile remains tilted to the upside.** Despite the recent share price performance, the stock is trading at 23.0x 2024F PE, in line with its historical mean. However, given the current positive market sentiment, which has previously led to a PE valuation increase ranging from +0.5SD to +2.0SD above its mean, we believe the current risk-to-reward profile favours the upside.
- **Increase ADV assumptions to RM2.15b and RM2.40b in 2023 and 2024.** We recently raised our ADV assumptions for 2023 and 2024 to RM2.15b and RM2.40b from our previous assumptions of RM2.10b and RM2.30b respectively. We expect 2H23 ADV to strengthen to RM2.35b vs 1H23's ADV of RM1.94b, and the momentum should be further sustained into 2024 (RM2.4b) as increasing global risk on equity market sentiment takes centre stage.
- **BUY with target price of RM7.85 (25.5x 2024F PE).** Our target price is pegged to +0.5SD to factor in the expected market upcycle on the back of peaking interest rate cycle in the US.

SHARE PRICE CATALYST

- **Twin catalysts of ADV recovery and valuation re-rating.** We continue to expect positive price action underpinned by both valuation re-rating and ADV recovery into 2024 on the back of a more pronounced global equity risk-on sentiment as the US interest rate cycle peaks. Whenever Bursa's ADV exceeds its historical mean of RM2.1b, its valuations have risen above its mean PE of 23.0x. In 1H17, Bursa's valuation reached +0.5SD with an ADV of RM2.47b and even surpassed +1SD when ADV peaked at RM2.7b in 1H18.

Hap Seng Plantations – BUY (Jacquelyn Yow & Leow Huey Chuen)

- **Leveraging on strong CPO prices.** Compared with other Malaysian plantation companies, Hap Seng's earnings showed a higher sensitivity towards CPO prices as it sells all of its products at spot prices. The company's CPO ASP usually comes in higher than that of its Sabah peers due to its Roundtable Sustainability Palm Oil (RSPO) certification.
- **BUY with a target price of RM2.65** where we peg its valuation at 12x 2024F PE.

SHARE PRICE CATALYST

- **CPO price uptrend.** We reckon CPO prices will be trending upwards from 3Q23-1H24. We expect palm oil output to fall below market expectations during this period due to the impact of extreme weather changes. Moreover, there is significant weather-related risk affecting other global oilseed crops, which could potentially lead to deviations in global vegetable oil and oilseed oil production.

Hume Cement Industries – BUY (Malaysia Research Team)

- **Strong earnings and margin ahead.** We expect Hume to record stronger earnings in 2024, supported by stronger demand and more construction activities on the back of improved foreign labour intake. We expect prices to remain elevated at >RM350/mt in FY24. With coal prices having retreated recently and ASPs remaining elevated, cement players should see better margins ahead.
- **Better utilisation rate with uptick in construction activities.** The industry is expected to grow this year with utilisation rates normalising as construction activities rebound with the acceleration of infrastructure projects and some affordable housing projects. This will lead to stronger demand and stable prices, which act as the primary drivers of improvements in the earnings outlook. Long-term prospects still rest on key projects including MRT3, Pan Borneo Highway, ECRL, RTS and PSR.

KEY EVENTS IN JUNE 23

CORPORATE

- 2Q23 results season: Generally disappointing earnings with positive surprises from auto stocks, MYEG, TM and Hume
- KLK proposed to acquire a 33% stake in Boustead Plantations with plans to privatise the company via mandatory general offer
- Malaysia Airports Holdings terminated Pestech International's contract to supply aerotrains to KLIA
- Proton Holdings' vehicle sales for 7M23 hit 90,647, surpassing 90,000 for the first time since 2012
- Sime Darby purchased a 61% stake in UMW Holdings with plans to privatise the company
- Sime Darby paid RM1.5b for the purchase of Australia's Cavprower Group which sells caterpillar equipment
- The Ministry of Home Affairs terminated Iris Corp's NIISE contract

ECONOMICS

- 2Q23 employment stats: unemployment down to 3.4% (-0.1ppt) in June
- EPF recorded a total investment income of RM33.2b in 1H23, up 39.7% yoy
- July exports fell 13.1% yoy to RM116.8b on lower demand for manufactured goods
- July inflation moderated to 2.2% from 2.4% in June
- Malaysia saw 2.9% slower yoy economic growth in 2Q23 compared to 5.6% in 1Q23.

POLITICS & POLICY

- State election results: 3-3 split maintained with only surprise being Unity Gov losing two-thirds majority in Selangor.
- The government announced a Special Financial Zone in Forest City to boost investment, growth and economic activity in Johor.

Source: Media reports

SECTOR PERFORMANCE

Sector	--- Performance (%) ---	
	Aug	Ytd
Automobile	13.4	30.9
Aviation	6.4	22.0
Banking	0.7	1.4
Building Materials	(2.9)	1.7
Construction	9.3	21.8
Consumer	(4.0)	(9.0)
Exchange	5.1	7.9
Gaming	0.6	(1.4)
Glove Manufacturing	(12.9)	0.2
Healthcare	(0.2)	(1.0)
Insurance	6.9	10.9
Manufacturing	6.2	19.1
Media	(4.7)	(21.1)
Oil & Gas - Heavy Engineering	(11.2)	(15.9)
Oil & Gas - Asset Owners	(2.7)	0.8
Oil & Gas - Offshore Contractors	10.4	46.7
Oil & Gas - Shipping	0.1	(1.5)
Plantation	(5.0)	(1.7)
Port	2.1	(3.7)
Property	20.3	49.1
REITs	0.7	9.3
Technology - EMS	6.6	(8.5)
Technology - Semiconductor	0.8	10.0
Technology - Software	3.0	(5.0)
Telecommunications	(2.2)	2.0
Utilities	1.8	4.6

Source: Bloomberg, UOB Kay Hian

- **BUY with a target price of RM2.54 based on 15x FY24F PE**, lower than the industry's 2011-13 average 19x PE, prior to earnings disappointment in 2017 to reflect the positive outlook for the industry on the back of economic recovery.

SHARE PRICE CATALYST

- **Rising cement, falling coal.** Hume is poised to benefit from rising cement prices and falling coal costs (comprising 52% of its COGS at floating basis). We favour Hume for its strong clinker capacity, and it is operating at a robust 75% utilisation rate compared to the industry average of 60%. In FY24, we anticipate improved results driven by: a) increased construction activity, b) higher cement prices and lower coal costs, c) lower coal prices due to global decarbonisation and d) effective cost-cutting measures.

Malaysia Airports Holdings – BUY (Malaysia Research Team)

- **Major beneficiary of Asia's restoration of flight capacities and Malaysia's tourism recovery.** Passenger traffic movement further recovered to 82.7% of 2019's levels in 1H23, and should significantly improve in 2H23 as regional flight capacities and frequencies have ramped up close to pre-pandemic levels.
- **Return of Chinese travellers**, which historically made up about 12% of Malaysia's pre-pandemic tourist arrivals, will largely boost MAHB's passenger traffic recovery and allow the group to further restore its pre-pandemic earnings dynamic.
- **New OA still being ironed out.** We expect the new Operating Agreement (OA), which introduces a cross-subsidisation model and establishment of the Airport Development Fund, to also allow an upward adjustment of airports' passenger service charge (PSC), which is well below the regional benchmark rate. A significantly higher PSC would be uplifting to MAHB's earnings.
- **Palatable valuations on plate.** MAHB trades at attractive valuations of around 7x FY24 EV/EBITDA, well below its pre-pandemic five-year mean of 10x EV/EBITDA. Maintain BUY and a SOTP-based target price of RM8.11 (about 5% upside).

SHARE PRICE CATALYST

- Return of inbound tourists, particularly from China.
- Finalisation of new OA with more favourable terms, eg hike in PSC.

Mr DIY Group – BUY (Philip Wong)

- **Proxy for 2H23 consumption recovery play.** Despite being a retailer and being susceptible to headwinds associated with a downshift in consumer spending, Mr DIY is the clear low-cost leader for its product offerings and may even benefit from downtrading activity. Downside is further cushioned by the easing of supply chain and cost inflationary pressures.
- **Highly cash generative.** Mr DIY has the potential to increase its dividend payout ratio over the medium term given its high cash generation and increasingly low debt levels. Net gearing is expected to turn net cash to -0.5x in 2025 from 0.2x in 2020.
- **BUY with a target price of RM2.15.** Our PE peg of 35x based on 2023 earnings is at a 35% discount to large-cap domestic consumer peers Nestle and QL, which have historically traded at 54x. Mr DIY's valuations are extremely attractive, trading at a PE of 26x 2023F. This is a deep discount to its historical -1SD of its mean valuations of 36.6x.

SHARE PRICE CATALYST

- **SSSG should firm up, especially in 2H23.** Raised ASPs will also alleviate margins that were previously under pressure. This is against the backdrop of still-robust store rollout going forward.

My EG Services – BUY (Jack Goh & Jack Lai)

- **China targets making full conversion to the blockchain trading platform mandatory by 2025.** My EG Services (MYEG) has rolled out the initial stages of its blockchain integration with Chinese customs via its Zetrix platform with the scope of the pilot project encompassing the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. We understand that China plans to fully host its customs services on its national blockchain by 2025 with the exporters from RCEP economic bloc nations and MYEG set to officially launch its Zetrix integration with China in 3Q23.
- **E-government services holding up well.** The official extensions of MYEG's concessions – JPJ (announced) and the immigration department (expected soon) – should provide a level of support for MYEG's core e-government segment in the near-to-medium term. Recall that the introduction of digital road tax renewal by JPJ did not significantly (c.5% volume reduction) affect MYEG in 1Q23 and immigration service contributions have remained relatively robust. For the latter, the eventual easing backlog of foreign worker matching services (currently still in the tens of thousands) should be offset by the heightened foreign worker renewal income.
- **BUY with an SOTP-based target price of RM1.18**, which implies 22x 2023F PE (-0.5SD below five-year mean). Our target price is still well below the theoretical blue-sky scenario fair value of RM3.73.

SHARE PRICE CATALYST

- The full launch of Zetrix's China's custom integration blockchain platform and eventual ICO of Zetrix.
- Listing of its various upstart investments locally and in China.

VS Industry – BUY (Desmond Chong)

- **Expect a sequentially stronger 4QFY23.** After a gestation period in Jan-Jun 23, most of its key customers have ramped up orders from 2QFY23 onwards, followed by the launch of new models which would be the growth drivers for FY24.
- **New prospects to anchor a stronger FY24.** The group has started pre-production (at the component level) for one of the three prospective customers with potential imminent earnings contribution in FY24. While the initial sales contribution is only about RM50m-100m, this prospective contract could carry better margins relative to the other turnkey contracts.
- **Negatives fairly priced in on appealing valuations.** We see bright spots stemming from: a) order rechannelling which would cushion the general weakness, b) a relief in systemic disruption, and c) undemanding valuation with de-rating catalysts being sufficiently priced in. It is trading at 13.0x FY24F PE (near to -1SD below its five-year mean even at its trough earnings) which presents a balanced risk-reward ratio for entry.

SHARE PRICE CATALYST

- Stronger-than-expected earnings growth (major wins on lucrative orders) from trade diversion-related customers.
- Higher-than-expected order wins following the fallout from other EMS players on major contract termination.
- Potential asset monetisation from its China assets and other investments.

Yinson Holdings – BUY (Kong Ho Meng)

- **Solid proxy for FPSO.** Among the floating production, offloading and storage (FPSO) stocks under our coverage, Yinson has the best track record of delivering new FPSO projects.
- **It also has the highest future earnings growth**, with earnings (excluding finance lease income accounting distortions) in the next 2-3 years potentially growing by >2x to >RM1b base, which will come from at least three new FPSOs.
- **BUY with an SOTP-based target price of RM4.05.** This implies 18x FY24F PE, or 8x on long-term PE assuming FPSO Agogo fully contributes to earnings (lifting earnings base to about RM2b). Our SOTP still ignores the non-O&G ventures' long-term value.

SHARE PRICE CATALYST

- **Progress of delivering existing FPSOs in its upcoming earnings announcement.** FPSO Anna Nery achieved provisional acceptance in Jan 23 (to effectively earn 90% of day rate until first oil). On 7 May 23, first oil was achieved.
- **Secured Eni's FPSO Agogo (US\$5.3b for a 20-year tenure)**, and with a US\$0.5b early prepayment to fund early-stage working capital, the IRR and daily rate of this FPSO will be the highest ever in Yinson's current fleet. Yinson also recently exercised the call option to proceed with the long-term lease of FPSO Atlanta. Assuming the lease contract terms for FPSO PAJ (for BP in Angola) is firmed up for an estimated 10-year firm tenure starting 2024, this event catalyst may provide a net present value (NPV) upside of US\$1b (before deducting loans or potential stake divestments).

VALUATIONS

Company	Ticker	Rec	Share Price 4 Sep 23 (RM)	Target Price (RM)	Last Year End	PE			Yield 2023F (%)	ROE 2023F (%)	Market Cap (US\$m)	Price/ NTA (x)
						2022 (x)	2023F (x)	2024F (x)				
Bursa Malaysia	BURSA MK	BUY	6.93	7.85	Dec 22	24.7	24.5	22.5	3.9	28.9	1,204.9	7.0
Hap Seng Plantations	HAPL MK	BUY	1.92	2.65	Dec 22	7.0	12.3	8.8	4.9	6.3	329.9	0.8
Hume Cement Industries*	HUME MK	BUY	1.91	2.54	Jun 23	11.3	10.1	11.1	n.a.	24.0	209.9	1.0
Malaysia Airports Holdings	MAHB MK	BUY	7.70	8.11	Dec 22	78.1	30.6	18.2	1.8	6.6	2,760.2	2.2
Mr DIY Group	MRDIY MK	BUY	1.47	2.15	Dec 22	29.3	23.8	20.2	1.9	36.6	2,981.2	7.9
My EG Services	MYEG MK	BUY	0.785	1.18	Dec 22	14.1	13.4	12.5	2.2	18.2	1,248.2	2.3
VS Industry	VSI MK	BUY	1.00	1.10	Jul 23	21.6	14.6	12.4	3.1	11.2	825.8	1.6
Yinson Holdings*	YNS MK	BUY	2.50	4.05	Jan 23	18.3	11.2	9.5	4.0	12.6	1,561.2	1.9

* Figures for 2023, 2024F and 2025F shown due to FYE
Source: UOB Kay Hian

TRADERS' CORNER



Source: UOBKH ChartGenie

MCE Holdings (MCE MK)

Technical BUY with +12.9% potential return

Last price: RM1.78

Target price: RM1.93, RM2.01

Support: RM1.66

Stop-loss: RM1.64

BUY with a target price of RM2.01 and stop-loss at RM0.89. Based on the daily chart, MCE has recovered from the low of RM7.21 and moved above the 7-day EMA yesterday. This is supported by the rising MACD and RSI indicators, which indicate that the positive momentum will strengthen in the near term. Currently, DMI is on the verge of making golden cross to the positive signal. We peg our targets at RM1.93 and RM2.01 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading



Source: UOBKH ChartGenie

XL Holdings (XLH MK)

Technical BUY on breakout with +30.3% potential return

Last price: RM0.86

Target price: RM0.995, RM1.14

Support: RM0.80

Stop-loss: RM0.795

BUY on breakout with a target price of RM1.14 and stop-loss at RM0.795. Based on the daily chart, share price has consolidated lower and been trading sideways for the past few weeks. We expect share price to continue to move up if it penetrates the breakout level of RM0.875. Positive readings in both the DMI and the MACD should translate into stronger momentum, which will in turn lift share price. We peg our targets at RM0.995 and RM1.14 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

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