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KEY HIGHLIGHTS

Strategy – Malaysia

Alpha Picks: Still Focusing On Domestic Winners Page 2

Our Alpha Picks trounced the FBMKLCI in Nov 23, mostly thanks to Hume's run-up. Dec 23 picks: BUY Bursa Malaysia, Ekovest, Genting Malaysia Inari Amertron, IOI Corp, KPJ Healthcare, RGB International and Sunway Bhd.

3Q23 Results Wrap-up Page 7

While corporate earnings continued to disappoint, market sentiment has improved and Malaysian equities should end the year higher (although we have trimmed our FBMKLCI target).

Sector Update

Construction – Malaysia (MARKET WEIGHT) Page 9

3Q23 results in line with higher sector earnings. Anticipate stronger earnings ahead on sequential earnings recovery and improved job flows. Maintain MARKET WEIGHT.

UOBKH Highlights

Axiata Group (AXIATA MK/HOLD/RM2.33/Target: RM2.50) Page 11

Axiata exits Nepal with sale of stake in Ncell.

Telecommunications – Malaysia (MARKET WEIGHT) Page 12

Five MNOs execute share subscription agreements (SSAs) with DNB.

TRADERS' CORNER Page 13

Scicom (MSC) (SCIC MK): Technical BUY

Kenanga Investment Bank (KNKIB MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,456.38	3.6	0.3
Bursa Emas	10,725.65	(1.8)	(0.0)
Ind Product	171.99	(0.3)	(0.2)
Finance	16,379.57	157.6	1.0
Consumer	556.56	(4.5)	(0.8)
Construction	183.33	(2.4)	(1.3)
Properties	837.37	(6.6)	(0.8)
Plantations	6,990.41	(51.0)	(0.7)

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	1-Dec-23	% chg
Volume (m units)	3,238	(23.8)
Value (RMm)	2,262	(54.5)

By Investor type	(%)	ppt chg
Foreign investors	35.8	(27.0)
Local retail	25.2	11.8
Local institution	39.0	15.3

TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg (%)	5-day ADT (RM'000)
AirAsia X	2.02	(1.5)	8
AEON Credit	5.71	0.2	2,197
Alliance Bank Malaysia	3.47	1.2	5,336
AMMB Holdings	4.06	2.5	32,024
Astro Malaysia	0.38	(1.3)	2,065

Top Gainers			
Dialog Group	2.21	6.8	10,322
Coastal Contracts	1.78	6.0	472
Digi.com	4.34	5.1	50,893
Gamuda	4.77	4.6	32,938
QL Resources	5.61	3.7	16,602

Top Losers			
Supermax Corp	0.93	(10.2)	20,826
Cahaya Mata Sarawak	1.04	(6.3)	4,837
Top Glove	0.81	(5.8)	120,648
Kossan Rubber	1.61	(5.3)	12,621
Malaysia Building Society	0.71	(4.7)	4,976

OTHER STATISTICS

	1-Dec-23	chg	% chg
RM/US\$	4.67	0.01	0.3
CPO 3rd mth future (RM/mt)	3,874	(21.0)	(0.5)

Notes:

ADT = Average daily turnover.

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

STRATEGY – MALAYSIA

Alpha Picks: Still Focusing On Domestic Winners

Our Alpha Picks trounced the FBMKLCI in Nov 23 (+5.9% vs. +0.7%) mostly thanks to Hume Cement's (Hume) run-up. Nov 23's performance validated our focus on winners of selective domestic demand, a strategy which remains valid. Dec 23 picks: Bursa Malaysia (Bursa), Ekovest, IOI Corp, Genting Malaysia (GENM), Inari Amertron (Inari), KPJ Healthcare (KPJ), RGB International (RGB) and Sunway Bhd. We add RGB and drop Hume (which has more than doubled ytd).

WHAT'S NEW

- Market review for Nov 23.** The FBMKLCI was up 0.7% in Nov 23. Major winners within the KLCI segments included gaming (+12.6%), ports (+4.0%) and plantation (+2.0%) while losers included the offshore contractor segment of oil and gas (-9.7%), healthcare (-2.0%) and building materials (-1.9%). Looking to the non-KLCI segments, gloves (+15.4%) was the major winner while losers included media (-8.4%), EMS tech (-1.2%) and aviation (-1.0%).
- Nov 23's Alpha Picks outperformed.** Nov 23's portfolio outperformed the KLCI, posting a return of +5.9% on the back of strong performance from the previous month's additions. Hume (+25.4%) and GENM (+10.3%) posted the largest gains while our other picks provided modest returns. The only exceptions were Ekovest (-5.3%) and Bursa (-0.4%) but overall, November was a solid month for our portfolio.
- Domestic theme winners to drive our Alpha Picks.** We continue to expect outperformances by beneficiaries of domestic-oriented investment themes: Iskandar 2.0 (favouring Ekovest and Sunway Bhd), en mass recovery of Chinese tourists (GENM), and year-end window dressing (Bursa).

ACTION

- Dec 23 Alpha Picks: Bursa, Ekovest, IOI Corp, GENM, Inari, KPJ, RGB and Sunway Bhd.** We added RGB, a value stock (prospective PE and dividend yield of about 6x and >6% respectively, backed by net cash of >40% of market cap) which is set to recover after falling >30% from its peak in August. We understand that RGB's assistance in an MACC (anti-corruption) investigation is at a tail end, which allows investors to refocus on its strong fundamentals. Meanwhile, we removed Hume from our Alpha Picks after its stellar performance, having more than doubled ytd. Nevertheless, Hume still promises substantial upside over the longer term, given that the current valuations have not fully reflected its ability to generate significant free cash flow.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance [#]	Catalyst
Keith Wee	Bursa Malaysia	BUY	(2.5)	Valuation rerating and ADV momentum as investors price in peak US interest rate cycle. Past beneficiary of window dressing.
Lucas Tan, Nazira Abdullah	Ekovest Bhd	BUY	(5.3)	Riding on the vibrancy of Johor's property /infrastructure demand, and asset monetisation efforts.
Jack Goh	Genting Malaysia	BUY	10.3	Recovery of international (China) patronage; expected New York downstate gaming concession bid.
Desmond Chong	Inari Amertron	BUY	2.5	Strong recovery in FY24 premised on its new flagship programme, fruition of new business collaboration.
Jacquelyn Yow, Leow Huey Chuen	IOI Corporation	BUY	2.3	Strong earnings sensitivity to rising CPO prices (driven by weather-related risks).
Philip Wong	KPJ Healthcare	BUY	4.7	Sale of its loss-making aged care centre in Australia and all its gestating hospitals should break even.
Jack Goh	RGB International	BUY	n.a.	Delivering stellar earnings growth in 2023-24 as major beneficiary of ASEAN's blooming gaming scene.
Nazira Abdullah	Sunway Bhd	BUY	7.0	Iskandar Malaysia proxy and value unlocking from healthcare segment.

* 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	6.75	7.85	16.3
EKOVEST	BUY	0.45	1.10	144.4
GENM	BUY	2.69	3.50	30.1
INRI	BUY	2.89	3.60	24.6
IOI	BUY	3.98	4.80	20.6
KPJ	BUY	1.34	1.40	4.8
RGB	BUY	0.29	0.35	20.7
SWB	BUY	1.90	2.38	25.3

Source: UOB Kay Hian

PORTFOLIO PERFORMANCE

Company	Rec	Nov 23 (%)	To-date* (%)
BURSA	BUY	(0.4)	(2.5)
EKOVEST	BUY	(5.3)	(5.3)
GENM	BUY	10.3	10.3
HUME	BUY	26.5	13.2
INRI	BUY	2.5	2.5
IOI	BUY	2.3	2.3
KPJ	BUY	4.7	4.7
SWB	BUY	7.0	7.0
FBMKLCI		0.7	

* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2022	1Q23	2Q23	3Q23
FBMKLCI Return	-4.6	-4.9	-3.2	5.9
Alpha Picks Return				
- Price-weighted	2.9	-3.6	-1.6	4.2
- Market Cap-weighted	-2.9	1.3	1.2	1.7
- Equal-weighted	-0.2	-1.1	1.2	4.3

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-Nov 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 for 2023 and 2024 respectively.** We recently raised our ADV assumptions for 2023 and 2024 to RM2.15b and RM2.40b respectively from our previous assumptions of RM2.10b and RM2.30b. 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.
- **Maintain 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 rerating.** We continue to expect positive price action underpinned by both valuation rerating 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 would rise 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.

Ekovest – BUY (Lucas Tan, Nazira Abdullah)

- **Higher earnings in FY24 on stronger construction operations and the maiden contribution of SPE.** Ekovest is poised to deliver stellar earnings growth over the next three years backed by: a) better performance of the construction division as the progress billing of Rapid Transit System (RTS) picks up pace, and b) maiden profit from Setiawangsa-Pantai Expressway (SPE) upon the highway's commencement of operations in 4Q23. Further upside to earnings could come from better-than-expected performance of Duta-Ulu Kelang Expressway (DUKE) and the property division.
- **To benefit from a strong pipeline of infrastructure projects.** We expect Ekovest to grow its construction orderbook amid a brighter sector outlook. Potential replenishment opportunities include DUKE Phase 2A Istana Link (estimated value of RM3.8b), projects from Johor and the reinvigoration of the River of Life project.
- **Multiple corporate reorganisations and acquisitions are gradually taking shape.** The group is undertaking multiple corporate exercises including: a) the merger of Knusford and its own construction arm, b) the acquisition of lands along RTS Bukit Chagar line for potential transit-oriented development (TOD) 2 & 3, c) the acquisition of at least 51% or up to 70% stake in Credence, and d) the IWH-IWC merger. These exercises allow Ekovest to streamline its operations, eliminate many of the existing recurrent-related party transactions as well as tap into the rising vibrancy of Johor's property market.
- **Maintain BUY with a target price of RM1.10,** based on a 50% discount to its SOTP of RM2.21, which is largely anchored by the valuation of its highways. We hold an optimistic view on the company's outlook, as it will be able to ride on the potential monetisation of its DUKE highways as well as the rising vibrancy of the Johor property market (through its access of IWC-IWH landbanks and TOD 2 & 3 near RTS Bukit Chagar).

KEY EVENTS IN NOV 23

Corporate

- 3Q23 results season: More positive surprises
- Notable outperformers: GENT, HUME, MAHB, MYEG, VS Industry
- Notable underperformers: INARI, TNB, Farm Fresh
- Air Asia X announced the upliftment of its PN17 status without having to submit a regularisation plan
- Bermaz Auto announced it will return the distributorship of Peugeot to Stellantis N.V. after its expiry on 30 November
- YTL Power has become a substantial shareholder of smaller rival Ranhill Utilities after acquiring an 18.9% stake

Economics

- 3Q23 GDP: up 3.3% yoy, mainly driven by private sector spending
- MIER Business Conditions Index fell to 79.7pt, the lowest since 2Q20, on concerns over rising costs
- MY international reserves: US\$110.5b as of 15 Nov
- Oct 23 trade data: Total trade down 2.4% yoy, trade surplus came in at RM12.9b
- EPF posted 19% higher investment income of RM14.67b in 3Q23

Others

- MITI has implemented a two-year moratorium on expansion in the iron and steel industry
- The government has restructured toll concessions for 19 highways to avoid toll hikes
- Real estate market transactions were up 22.6% yoy in 3Q23

Source: Media reports

SECTOR PERFORMANCE

Sector	--- Performance (%) ---	
	Oct	Ytd
Automobile	1.4	31.3
Aviation	-1.0	16.0
Banking	-0.3	-2.2
Building Materials	-1.9	-0.7
Construction	-0.1	23.7
Consumer	-0.5	-13.1
Exchange	-0.4	1.7
Gaming	12.6	0.7
Glove Manufacturing	15.4	16.5
Healthcare	-2.0	-4.0
Insurance	1.8	10.6
Manufacturing	0.3	13.7
Media	-8.4	-41.5
O&G - Heavy Engineering	2.2	-10.5
O&G - Asset Owners	-2.3	-1.2
O&G - Offshore Contractors	-9.7	37.7
O&G - Shipping	-0.8	-4.1
Plantation	2.0	-2.7
Port	4.0	-7.3
Property	-0.2	41.2
REITs	1.8	7.4
Technology - EMS	-1.2	-19.0
Technology - Semiconductor	1.4	3.4
Technology - Software	0.9	-5.6
Telecommunications	1.5	-2.3
Utilities	0.5	3.1

Source: Bloomberg, UOB Kay Hian

Share Price Catalyst

- **Potential monetisation of DUKE highways to unlock huge investment value.** Despite a lack of clarity, there is increasing likelihood of the monetisation of highways amid the government's commitment to fulfilling its earlier promises to abolish highway tolls in stages. The potential monetisation can be a major rerating catalyst since DUKE Phase 1 and Phase 2 could command a lucrative equity value of RM3.1b or enterprise value of RM4.6b (on a 60% basis), about 2x above Ekovest's market cap, while generating disposal gains of RM2b-3b.

Genting Malaysia (GENM) – BUY (Jack Goh)

- **Re-diverting attention towards 4Q23-2024's earnings quality.** GENM is well-positioned for strong gross gaming revenue (GGR) and earnings recovery momentum in 4Q23-2024, driven mainly by the ramp-up of intra-regional flight capacities and meaningful influx of international visitorship to Malaysia and Resorts World Genting (RWG).
- **Recovery strength to track progressive capacity restoration in RWG.** Note that RWG's operating matrix has largely normalised to pre-pandemic levels. We understand that: a) available hotel rooms in RWG have been restored to around 10,000 rooms; b) EBITDA margin expanded on higher gaming contributions and average spending (3Q23: 33.5% vs pre-COVID-19's 26-31%); and c) the earlier croupier shortage issues have been fully resolved.
- **RWG to see sustain solid recovery momentum.** RWG's EBITDA further improved (+6% qoq) in 3Q23, mainly reflecting higher gaming volume at Resorts World Genting (RWG), following the restoration of operating capacity and higher hilltop visitations. Note that RWG's GGR saw a commendable recovery to around 93% of 3Q19's figure (2Q23: 87%) on surging VIP GGR (103% of 3Q19's figure). Overseas operations in the US and UK have also posted stellar EBITDA growth on the back of improving capacity and business normalisation post-pandemic with an uptick in footfall visitations.
- **BUY with a target price of RM3.50**, which implies 11x 2023F EV/EBITDA (historical mean). Current risk-reward is highly appealing with discounted valuations (-1.5SD below mean) and a lush dividend yield of about 7.2%, making GENM palatable for mid- to long-term positioning.

Inari Amertron – BUY (Desmond Chong)

- **After the fifth consecutive yoy sales contraction on lower loading volumes amid inventory adjustment**, which saw Inari Amertron's share price dwindling from its all-time high of RM4.25 in late-21 to RM2.80, negatives have been fairly priced in on an undemanding valuation of 19x ex-cash FY24F PE
- **We expect growth to resume in 2024 (+22% yoy)**, predominantly driven by its RF segment as the group is gearing up for its new flagship programme (which would account for two-thirds of its total revenue).
- **The group is on-boarding new customers which could contribute around RM150m revenue** (11% of FY23 revenue; mostly memory related) in FY24. Meanwhile, the new plant from its JV company Yiwu Semiconductor International will be ready in 4Q23 and start contributing in 2024.

Share Price Catalyst

- Stronger-than-expected earnings growth from trade diversion-related customers.
- Better-than-expected demand adoption for its new optical transceiver products.

IOI Corporation – BUY (Jacquelyn Yow, Leow Huey Chuen)

- **Capitalising on CPO price uptrend.** We expect FY24 earnings to increase by 45% yoy, on the back of higher CPO ASP and lower cost of production as fertiliser prices have normalised.
- **Strong operational performance.** Among large-cap plantation companies, IOI Corp is the sole company to see an increase in oil extraction rate (OER) over the past three years, despite the sector-wide headwinds such as wet weather and labour issues.
- **IOI Corp has the highest downstream margin vs its peers.** We attribute this to its strong customer-based differentiated products and its new plant being more cost-effective.

Share Price Catalyst

- Better-than-expected CPO prices.
- Higher-than-expected FFB production growth.

KPJ Healthcare – BUY (Philip Wong)

- KPJ has largely completed its greenfield expansion, allowing for a healthier balance sheet and realisation of its positive operating leverage.
- Aside from enjoying its positive structural trend, its valuations are undemanding. It is currently trading close to its -2SD to its five-year pre-pandemic PE mean.
- Reorganisation of its loss-making regional operations paves the way for improved earnings visibility.

Share Price Catalyst

- Loss-making hospitals breaking even.
- Sale of loss-making aged care centre in Australia, expected for 1H24.

RGB International (RGB) – BUY (Jack Goh)

- **Record-high earnings under spotlight.** RGB reported record-high 2Q23 net profit of RM26.5m (+152% qoq), quadrupling four folds from pre-pandemic's (2Q19) earnings. In 3Q23, the group also reported a yoy stronger 3Q23 revenue of RM170.4m (+142% yoy, -49% qoq) and net profit of RM26.1m (+2318% yoy, -1% qoq).
- **Well-positioned to capture the exponential slot machines growth in ASEAN gaming jurisdictions.** While the ASEAN gaming scene especially in the Philippines remains highly charged with aggressive gaming capacity expansion and post-pandemic replacement cycle, RGB is poised to largely benefit from this trend. To note, RGB has >70% market share in the Indochina and Philippines' slot machines market.
- **Better capital management anticipated with strong balance sheet; lush prospective yield of 4.5%.** RGB currently holds net cash of around RM187m, equivalent to about 42% of the group's current market cap. This may allow better capital management or higher dividends payout. To note, RGB declared 1.2sen/share dividend as of 9M23, which implies a 4% yield.
- **Potential capital upside on palatable valuations.** RGB is currently trading at discounted valuations of 5.8x 2024F PE vs historical mean of 9-10x, which offers potential capital upside as the group sustains 2023 record-high earnings momentum moving forward.
- **BUY with a target price of RM0.35,** which implies 8x 2024F PE (-0.5SD below pre-pandemic's five-year mean), with potential upside to our target price should management embark on a more aggressive capacity management policy.

Sunway Bhd – BUY (Nazira Abdullah)

- Iskandar Malaysia's proxy.** Sunway's 1,632 acres of landbank in Johor with gross development value (GDV) of RM29b (57% of its remaining total GDV of RM51.4b) may stand to benefit from the positive prospects of Johor's property landscape in light of developments such as the RTS and special economic zone.
- Unlocking value of healthcare segment.** Growth of hospital network and performance of the healthcare division is on track. Sunway is targeting to list its healthcare segment by 2027 and may consider listing earlier should the opportunity arise
- Earnings outlook.** We expect Sunway to see a stronger 4Q23 on higher sales of RM2.2b (+22% yoy), strong unbilled sales of RM4.17b (3.6x cover ratio), higher number of hospital beds (from hospital expansion) as well as higher property investment from the leisure and hospitality businesses (seasonally stronger quarter). For 2024, we expect even higher contribution from the property segment given lumpy recognition from Parc Central Tampines in Singapore while the progress billings from the group's newly-launched Singapore projects namely Terra Hills and The Continuum should also start contributing. Additionally, we also anticipate more launches from the group's Johor township in 2024.
- Maintain BUY with a target price of price of RM2.38,** based on 10% discount to our SOTP-based valuation of RM2.64/share. The stock is currently trading at 2023F PE of 13.6x and 2024F PE of 13x (largely around its five-year average of 14.3x PE) and P/B of 0.7x (below five-year average of 0.9x).

Share Price Catalyst

- Riding on the Johor theme vibrancy.

VALUATIONS

Company	Ticker	Rec	Share Price 1 Dec 23 (RM)	Target Price (RM)	Last Year End	----- PE -----			Yield 2024F (%)	ROE 2024F (%)	Market Cap (US\$m)	Price/ NTA (x)
						2022 (x)	2023F (x)	2024F (x)				
Bursa Malaysia	BURSA MK	BUY	6.75	7.85	22-Dec	24.1	23.9	22.0	4.3	31.0	1,168.9	6.8
Ekovest Berhad*	EKO MK	BUY	0.450	1.10	23-Jun	(51.4)	31.0	20.8	0.0	n.a.	285.5	(0.3)
Genting Malaysia	GENM MK	BUY	2.69	3.50	22-Dec	92.0	18.6	16.6	7.2	7.7	3,262.3	1.3
Inari Amertron	INRI MK	BUY	2.89	3.60	23-Jun	33.7	28.5	23.9	3.8	16.8	2,316.5	4.0
IOI Corporation*	IOI MK	BUY	3.98	4.80	23-Jun	17.1	15.5	14.1	3.7	14.2	5,283.1	2.0
KPJ Healthcare	KPJ MK	BUY	1.34	1.40	22-Dec	36.2	25.0	21.4	2.3	11.6	1,251.3	9.9
RGB International	RGB MK	BUY	0.29	0.35	22-Dec	96.6	6.6	6.0	4.5	48.1	96.3	0.9
Sunway Berhad	SWB MK	BUY	1.90	2.38	22-Dec	14.8	14.0	13.3	3.0	5.3	2,018.9	0.7

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

STRATEGY – MALAYSIA

3Q23 Results Wrap-up

3Q23 results continued to disappoint, prompting another round of forecast cuts. Nevertheless, the global investment sentiment has clearly improved, and we retain our view for the market to end the year higher, although we trim our end-23 FBMKLCI target to 1,507. The FBMKLCI will be looking forward to further easing of US interest rates, a stronger prospective ringgit, and a significant corporate earnings recovery. Top picks: CIMB Group, Hume, Inari Amertron, IOI Corp, MAHB, MYEG, NationGate and Sunway Bhd.

WHAT'S NEW

- **3Q23: Similar disappointments but more positive surprises.** While 3Q23 saw a sequentially similar number of disappointments (30%), positive surprises more than doubled with 19% of our coverage beating expectations. By sector, consumer, healthcare and technology saw the most misses while the only consistent outperformer was automobile. Other notable stocks that beat forecasts were Malaysia Airports Holdings (MAHB), Hume Cement Industries (Hume), MyEG Services (MYEG) and VS Industry.
- **We lower 2023 earnings forecasts for our coverage universe by 2.7% and for the FBMKLCI in 2023 and 2024 by 2.7% and 2.1%.** The sectors that suffered the largest downgrades were consumer, media and most tech subsectors (excluding software). Earnings upgrades were scattered across the board with construction, automobile and the oil and gas subsectors being the most prevalent (see overleaf table for details).
- **We now expect our coverage universe and the FBMKLCI to deliver earnings growths of 4.7%/14.6% (ex-glove stocks) and 0.4%/11.2% in 2023/24, with the FBMKLCI's 2023 earnings dropping 2.7% yoy after adjusting for prosperity tax.**

ACTION

- **Strategy: Capitalise on an expected higher finish to the year and a good start for 1H24.** Market sentiment should be positively driven by optimism for 2024, on both the external front (falling US policy rate, global semiconductor cycle recovery and China's economic recovery) and internal front (strengthening of the ringgit, positive foreign equity inflows, supportive macro-policies, and a double-digit earnings recovery).
- **However, we trim our end-23 FBMKLCI target to 1,507** based on -0.50SD (15.6x 2023F PE), in tandem with the latest earnings downgrade.
- **Compelling investment themes** include trade diversion, Iskandar 2.0, the green agenda, blockchain, followed by plantation & El Nino, China-related themes (cyclical demand upturn for industrial metals, and the en masse return of Chinese tourists). Small-mid cap stocks are also expected to outperform.
- **Top picks: CIMB Group, Hume, Inari Amertron, IOI Corporation, MAHB, MYEG, NationGate Holdings and Sunway Bhd.** Other timely picks include **Ekovest** (Iskandar 2.0 beneficiary and asset monetisation play), **Gamuda** (potential award of MRT3), **Genting Malaysia** (return of Chinese-tourists), **Magnum** (high yield) and low PE stocks like **Gabungan AQRS** and **RGB International**. Other potential trading opportunities include **glove companies** (potential earnings upgrades) and **Tenaga Nasional** (depending on the National Energy Transition Roadmap).

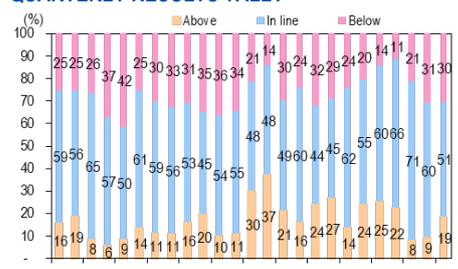
STOCK PICKS

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)				
CIMB Group	CIMB MK	BUY	5.77	6.65	5,433.2	6,811.5	7,307.0	52.6	64.7	68.1	10.7	8.7	8.3	6.5	10.4	13,167.4	0.9
Hume Cement Industries	HUME MK	BUY	2.14	2.54	60.0	182.6	172.0	8.4	25.4	23.9	25.5	8.4	9.0	n.a.	24.0	283.97	1.0
Inari Amertron	INRI MK	BUY	2.89	3.60	319.5	378.5	450.1	8.6	10.1	12.1	33.7	28.5	23.9	3.8	16.8	2,316.5	4.0
IOI Corporation	IOI MK	BUY	3.98	4.80	1,465.0	1,617.2	1,775.9	23.3	25.7	28.3	17.1	15.5	14.1	3.7	14.2	5,283.1	1.9
Malaysia Airports Holdings	MAHB MK	BUY	7.11	8.16	163.5	436.2	719.3	9.9	26.3	43.4	72.2	27.0	16.4	2.4	10.3	2,538.4	1.8
My EG Services	MYEG MK	BUY	0.80	1.21	470.0	474.3	502.0	6.3	6.4	6.8	12.6	12.5	11.8	2.5	18.0	1,276.9	2.0
NationGate	NATGATE MK	BUY	1.36	1.83	85.3	71.5	151.2	4.1	3.4	7.3	33.2	40.0	18.6	n.a.	28.1	603.7	3.7
Sunway Bhd	SWB MK	BUY	1.90	2.38	626.3	663.8	696.3	12.8	13.6	14.2	14.8	14.0	13.3	3.0	5.3	2,018.9	0.7

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI: 1,456
TARGET END-23 FBMKLCI: 1,507
(PREVIOUS TARGET 1,540)

QUARTERLY RESULTS TALLY



Source: UOB Kay Hian

FBMKLCI'S PE BAND



Source: UOB Kay Hian

FBMKLCI YEAR-END VALUATION

(x)	Index	PE	SD from Mmean
2018	1690	17.1	0.7
2019	1589	17.1	0.8
2020	1641	20.2	2.8
2021	1567	15.0	-1.0
2022	1495	15.9	-0.6

Source: Bloomberg, UOB Kay Hian

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NOTABLE EARNINGS SURPRISES AND DISAPPOINTMENTS

Company	Comments
Above Expectations	
CIMB Group	Lower-than-expected credit costs and stabilizing NIMs
Hume Cement Industries	Strong rebound in ASPs and improving demand
Malaysia Airports Holdings	Lower-than-expected operating expenses and improving throughput
My EG Services	Contributions from the blockchain division, particularly Zetrix token sales.
VS Industry	Improving product mix and record sales in 4Q23
Below Expectations	
Astro Malaysia	Lower revenue contributions and higher content costs
British American Tobacco	Sluggish volume sales and increased downtrading
Breweries	Declining sales volume and rising marketing costs
Farm Fresh	Higher operating expenses that weighed on net margins
Inari Amertron	One-off effects of electricity disruption, startup costs and yield loss of new products
Tenaga Nasional	Negative fuel margins, higher repair & maintenance costs and subsidiary opex
Yinson	Higher-than-expected transition costs associated with non-O&G & green ecosystem

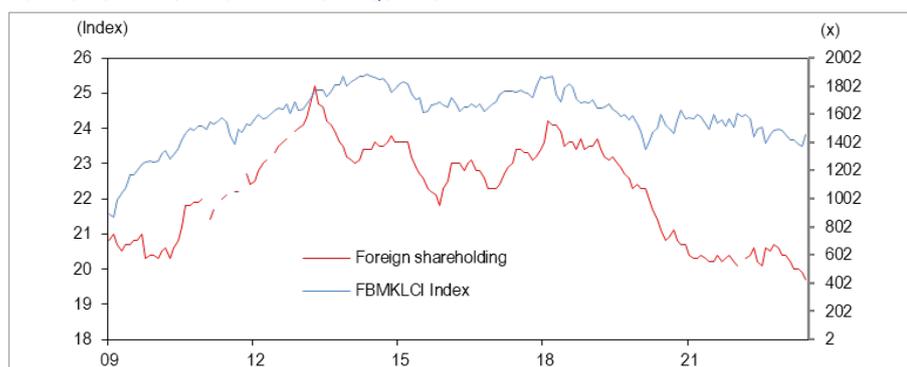
Source: UOB Kay Hian

CORPORATE EARNINGS, REVISION AND GROWTH

	Net Profit (RMm)			Revision (% chg vs 2Q23)			Earnings Growth (yoy % chg)		
	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
Automobile	713	850	777	2.1	23.4	15.9	75.3	19.3	(8.6)
Aviation	(1,863.0)	616	1,239	(0.0)	(18.1)	(7.8)	(50.2)	(133.1)	101.2
Banking	31,787	35,167	37,331	0.0	1.4	1.0	9.2	10.6	6.2
Building Material	1,917	1,532	2,157	2.3	4.6	3.2	28.2	(20.1)	40.8
Construction	1,161	1,554	2,015	(3.0)	12.5	18.3	31.4	33.9	29.6
Consumer	5,252	4,054	4,861	0.0	(16.4)	(11.6)	28.4	(22.8)	19.9
Exchange	227	228	249	0.0	0.0	0.0	(36.2)	0.8	8.8
Gaming	(410.0)	2,643	3,092	0.0	(1.1)	0.0	n.a.	(744.6)	17.0
Glove Manufacturing	722	(702.8)	624	0.0	170.0	4.6	(94.9)	n.a.	n.a.
Healthcare	1,722	1,638	1,852	0.0	(3.6)	(3.6)	(2.7)	(4.9)	13.1
Insurance	319	389	408	0.0	0.0	0.0	(21.8)	22.3	4.8
Manufacturing	410	438	550	0.0	(8.1)	0.7	18.3	6.9	25.5
Media	312	228	213	0.0	(32.4)	(26.6)	(34.5)	(26.9)	(6.3)
Oil & Gas - Heavy Engineering	530	485	592	0.0	(7.6)	(3.8)	140.3	(8.5)	21.9
Oil & Gas - Asset Owners	2,061	2,289	2,690	0.0	3.8	7.0	24.9	11.1	17.5
Oil & Gas - Offshore Contractors	(128.0)	(71.6)	118.4	0.0	51.1	338.7	n.a.	n.a.	n.a.
Oil & Gas - Shipping	2,214	2,285	2,339	0.0	5.4	7.8	67.8	3.2	2.4
Plantation	7,745	4,478	6,324	0.0	(8.0)	(1.0)	13.6	(42.2)	41.2
Port	667	792	861	0.0	5.5	4.1	(13.6)	18.7	8.7
Property	1,584	1,642	1,862	0.0	(3.6)	3.7	48.5	3.7	13.4
REITs	1,948	2,034	2,176	0.0	0.4	1.0	60.3	4.4	7.0
Technology - EMS	344	283	382	(1.2)	(4.3)	(9.4)	(21.8)	(17.7)	34.9
Technology - Semiconductor	858	752	977	0.0	(7.0)	(5.6)	13.1	(12.4)	30.0
Technology - Software	495	632	666	0.0	10.2	7.2	21.7	27.7	5.4
Telecommunications	5,083	5,007	6,108	0.0	8.3	6.4	(0.4)	(1.5)	22.0
Utility	5,842	4,198	5,093	0.0	(24.8)	(12.0)	(0.6)	(28.1)	21.3
Total	71.5	73.4	85.6	0.0	(2.7)	0.1	2.6	2.7	16.5
Total (ex-Glove)	70.8	74.1	84.9	0.0	(2.1)	0.0	27.5	4.7	14.6
FBMKLCI							9.6	0.4	11.2

Source: UOB Kay Hian

FOREIGN OWNERSHIP OF MALAYSIA EQUITIES



Source: Bloomberg, Bursa, UOB Kay Hian

EARNINGS REVISION

Earnings Revision (qoq % chg)	Current FY		Next FY
	Current FY	Next FY	Next FY
1Q20	(21.7)	(7.3)	(7.3)
2Q20	(7.1)	3.9	3.9
3Q20	0.8	16.9	16.9
4Q20	1.7	1.2	1.2
1Q21	(3.6)	0.7	0.7
2Q21	(2.1)	(1.6)	(1.6)
3Q21	(3.2)	(6.8)	(6.8)
4Q21	(1.1)	2.3	2.3
1Q22	0.3	1.2	1.2
2Q22	0.0	(1.1)	(1.1)
3Q22	0.2	(1.9)	(1.9)
4Q22	0.8	3.1	3.1
1Q23	(3.2)	(1.9)	(1.9)
2Q23	(3.2)	(2.3)	(2.3)
3Q23	(2.7)	0.1	0.1

Source: UOB Kay Hian

SECTOR WEIGHTINGS

Sector	Weighting
Automobile	MARKET WEIGHT
Aviation	MARKET WEIGHT
Banking	MARKET WEIGHT
Building Material	OVERWEIGHT
Construction	MARKET WEIGHT
Consumer	MARKET WEIGHT
Exchange	MARKET WEIGHT
Gaming	OVERWEIGHT
Glove Manufacturing	MARKET WEIGHT
Healthcare	MARKET WEIGHT
Insurance	MARKET WEIGHT
Manufacturing	OVERWEIGHT
Media	MARKET WEIGHT
Oil & Gas	OVERWEIGHT
Plantation	OVERWEIGHT
Port	OVERWEIGHT
Property	MARKET WEIGHT
REITs	MARKET WEIGHT
Technology	OVERWEIGHT
Telecommunications	MARKET WEIGHT
Utility	MARKET WEIGHT

Source: UOB Kay Hian

SECTOR YTD PRICE PERFORMANCE

Sector	ytd % chg
Property	41.2
Oil & Gas - Offshore Contractors	37.7
Automobile	31.3
Construction	23.7
Glove Manufacturing	16.5
Aviation	16.0
Manufacturing	13.7
Insurance	10.6
REITs	7.4
Technology - Semiconductor	3.4
Utilities	3.1
Exchange	1.7
Gaming	0.7
Building Materials	(0.7)
Oil & Gas - Asset Owners	(1.2)
Banking	(2.2)
Telecommunications	(2.3)
Plantation	(2.7)
Healthcare	(4.0)
Oil & Gas - Shipping	(4.1)
Technology - Software	(5.6)
Port	(7.3)
Oil & Gas - Heavy Engineering	(10.5)
Consumer	(13.1)
Technology - EMS	(19.0)
Media	(41.5)
FBMKLCI	(2.9)

Source: UOB Kay Hian

SECTOR UPDATE

Construction – Malaysia

3Q23 Results In Line; Better Prospects Ahead

3Q23 earnings are in line with expectations with sector earnings spiking 28% qoq in tandem with higher revenue. We anticipate a brighter sector outlook ahead on account of the sequential earnings recovery as well as improved job flows. The rollout of mega projects (eg MRT3) is expected to breathe new life into the earnings trajectory. Maintain MARKET WEIGHT. Our top picks are Gamuda, Ekovest and Kerjaya Prospek Group.

WHAT'S NEW

• **Overall 3Q23 results within expectations.** 3Q23 earnings were generally stronger with four companies delivering results that were within expectations vs two that exceeded expectations. The underperformance came from WCT Holdings and Malaysian Resources Corporation, dragged by weaker contributions from the construction and property development segments as well as higher operating expenses. Sector earnings spiked 27.6% qoq to RM456.7m in tandem with a similar 31.9% increase in revenue to RM7.0b amid accelerated progress billing.

3Q23 RESULTS SUMMARY

Company	Revenue (RMm)	CNP (RMm)	vs. UOBKH	vs. consensus	----- Earnings Revision -----		
					+1YR Fwd	+2YR Fwd	+3YR Fwd
Ekovest*	271.9	12.1	Above	-	115%	-	-
Gabungan AQRS	81.4	5.1	In line	Above	-	-	-
Gamuda**	3,416.8	237.2	In line	In line	14%	18%	-
IJM Corp***	1,458.4	139.2	Above	In line	12%	7%	7%
Kerjaya Prospek Group	362.2	35.5	In line	In line	-	-	-
Malaysian Resources Corp	503.7	1.5	Below	Below	-21%	-32%	-35%
Sunway Construction	673.5	38.3	In line	In line	-	-	-
WCT Holdings	496.6	(12.3)	Below	Below	-75%	-43%	-52%

* FYE Jun, based on 1QFY24 results; **FYE July, based on 4QFY23 results; ***FYE Mar, based on 2QFY24 results
Source: Companies, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT.** Our neutral sector rating is premised on a lack of visibility on the details regarding the rollout of mega projects amid fiscal constraints, despite a more stable domestic political landscape. On a positive note, we believe the sector outlook in 2024 is shaping up to be auspicious by virtue of multiple catalysts such as the rollout of mega projects (such as MRT3 and Penang LRT) coupled with the up-and-coming earnings recovery.
- Our top pick for the sector remains Gamuda, backed by its robust orderbook with pronounced overseas jobs secured which help to mitigate the muted local contract flows. Meanwhile, we are still sanguine on Ekovest's prospects, backed by the potential monetisation of the Duta-Ulu Kelang Expressway (DUKE) as well as the ongoing restructuring exercises which allow the group to capitalise on the prospering Johor property market. We also like Gabungan AQRS and Kerjaya Prospek Group for their strong orderbook and stronger property development earnings from upcoming project launches.

PEER COMPARISON

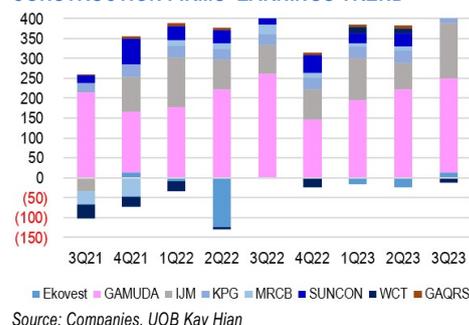
Company	Ticker	Rec	Share Price 1 Dec 23 (RM)	Market Cap (RMm)	Target Price (RM)	Last Year End	----- EPS -----			----- PE -----			PB 2024F (x)	DY 2024F (%)
							2022 (sen)	2023F (sen)	2024F (sen)	2022 (x)	2023F (x)	2024F (x)		
Ekovest	EKO MK	BUY	0.45	1,334	1.10	Jun-23	(0.9)	1.4	2.2	n.m.	31.0	20.8	0.5	n.m.
Gabungan AQRS	AQRS MK	BUY	0.33	180	0.48	Dec-22	7.2	9.9	13.2	4.5	3.3	2.5	0.3	n.m.
Gamuda	GAM MK	BUY	4.48	12,092	5.64	Jul-23	29.9	33.9	44.6	15.0	13.2	10.0	1.2	2.7
IJM Corp	IJM MK	HOLD	1.88	6,857	1.70	Mar-23	9.6	11.0	12.1	19.6	17.1	15.5	0.7	3.3
Kerjaya Prospek Group	KPG MK	BUY	1.43	1,812	1.74	Dec-22	9.5	10.4	14.2	15.1	13.8	10.0	1.6	4.4
Malaysian Resources Corp	MRC MK	HOLD	0.42	1,854	0.40	Dec-22	1.1	1.7	2.3	36.5	24.6	17.8	0.4	2.4
Sunway Construction	SCGB MK	HOLD	1.83	2,366	1.95	Dec-22	10.4	10.5	12.8	17.6	17.4	14.2	2.7	4.2
WCT Holdings	WCTHG MK	HOLD	0.48	674	0.56	Dec-22	9.1	1.2	3.9	5.2	41.0	12.1	0.2	3.5
Sector										16.2	20.2	12.9	0.9	3.4

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

CONSTRUCTION FIRMS' EARNINGS TREND



OUTSTANDING ORDERBOOK AS OF AUG 23

Company	Value (RMb)	Orderbook Cover (x)
Ekovest	1.4	1.3
Gabungan AQRS	0.8	2.3
Gamuda	20.6	2.5
IJM Corporation	6.4	1.4
Kerjaya Prospek Group	4.7	4.2
Sunway Construction Group	5.8	2.7
WCT Holdings	3.0	1.4

Source: UOB Kay Hian

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ESSENTIALS

- On course to meet orderbook replenishment.** In 3Q23, companies under our coverage continued to record robust job wins and are on course to meet their orderbook replenishment targets. We highlight that while Gamuda did not secure any sizeable contracts in its latest quarter (4QFY23), its ytd total orderbook replenishment of RM10.5b still broadly outpaced all its sector peers. Moreover, management also aims to secure new jobs amounting to RM25b in FY24-25 (averaging RM12.5b p.a.) with potential replenishment opportunities largely coming from six large projects that are expected to materialise in the coming 3-15 months.

IJM Corp also recently recorded robust replenishment, securing five new contracts worth RM1.7b in the last five months. Meanwhile, Sunway Construction Group and Kerjaya Prospek Group also posted commendable replenishments of RM2.4b and RM1.6b respectively as of end-Nov 23, underpinned by a balanced mix of external and internal job flows. While other companies had secured fewer new projects in 2023, we understand that they still hold a rather upbeat outlook on the back of a potentially strong influx of infrastructure jobs such as MRT3 and ECRL. This is despite a lukewarm outlook from the private sector owing to the long-lasting property overhang environment.

- Anticipate stronger contract flows in 2024.** Meanwhile, we opine that the rollout of mega infrastructure projects remains the key catalyst in 2024 as the awards of multiple construction packages under the long-awaited MRT3 and Penang LRT are expected to be concluded by 1H24. This suggests huge replenishment opportunities for big-cap construction firms such as Gamuda, IJM Corp, Sunway Construction, etc. We also see enormous replenishment opportunities from the private sector, taking a cue from the rising vibrancy of the property market in Johor and Penang, both of which are expected to gain stronger traction driven by the booming economic development as well as the rollout of the two railway projects.

In addition, other infrastructure projects in the pipeline that also expected to gather steam in 2024 include Phase 1B of Sabah Pan Borneo Highway (PBH), Phase 2 of Sarawak-Sabah Link Road (SSLR), the reinstatement of five LRT3 stations, as well as a number of high-priority flood mitigation projects.

- Easing of building material prices to support margin improvement.** We also believe the subsidised building material prices would continue to anchor construction firms' margin expansion. We note that average steel bar prices came down 3.8% qoq to RM2,708/tonne in 3Q23 while average bag cement prices also declined 4.5% qoq to RM21.93/bag in 3Q23. Average prices for bulk cement, on the other hand, edged up 2.2% qoq to RM380/tonne in 3Q23. While prices for steel bar and bag cement increased marginally mom by 4.0% and 0.6% respectively in Oct 23, we reckon that they are still trending below the average levels in 1H23. The prices for bulk cement were unchanged mom in Oct 23. This reasonably supports our anticipation of a sector-wide margin improvement from 2H23 onwards.
- Muted impacts from the implementation of diesel subsidy rationalisation.** While the subsidy rationalisation for diesel is widely expected to be carried out in 1Q24, followed by petrol (mainly RON95), we understand that the diesel subsidy for vehicles carrying goods will be maintained to keep inflations under control. This means diesel prices for the logistics of building materials will still be fixed at RM2.15 per litre, providing substantial breathing room to construction firms amid an inflationary operating environment. Note that while diesel only accounts for >5% of total construction costs, the rise in diesel price would lead to increased logistics costs of key building materials (steel, cement, etc.) and thus higher operating expenses.

MEGA PROJECT IN THE PIPELINE

Project	Value (RMb)	Remarks
ECRL	50	Status: 49% completion in Aug 23 with expected completion in Dec 26. Potential beneficiaries: IJM Corp (for vertical package; Econpile, Sunway Construction Group (Suncon) (for horizontal package).
MRT3	45	Status: Approved in Budget 2023; jobs expected to be awarded in 1H24. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM Corp, WCT, GAQRS, MRCB, YTL, HSSE.
Pan Borneo Highway Sabah	31	Status: The tender process for the 19 work packages worth (RM15.7b) under Phase 1B to be concluded by end-23. Phase 1 was 85% done as of Oct 23. Potential beneficiaries: Suria Capital (JV with GAQRS), WCT.
Rapid Transit System (RTS)	4	Status: 41% completion as of Jul 23; aims to hit 70% by end-23; expected completion: Dec 26. Ekovest won RM2b EPC contract. Potential beneficiaries: Subcontractor works for rail-related contractors such as Suncon, IJM Corp.
High Speed Rail (HSR)	TBC	Status: In preliminary stages with MyHSR recently hosting RFI exercise in Jul 23 and may submit proposal to Singapore government in coming months. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM Corp, WCT, GAQRS, MRCB, YTL, HSSE
Penang LRT	10	Status: Being highlighted in the mid-term review of 12MP while Transport Minister expects the project to kick off by end-23. Potential beneficiaries: Gamuda, IJM Corp, Suncon.

Source: Media, UOB Kay Hian

MRT3 PROJECT DETAILS

Project owner	MRT Corp
Project period	2023-30 (8 years)
Project structure	a) 2 contractors for elevated works b) 1 contractor for underground works c) 1 contractor for integrated rail system d) 1 project management consultant
Estimated cost	RM45-50b
Funding structure	Sukuk issuances and other hybrid funds; every work package will have its own PFI
Length of alignment	51km: 40km of elevated tracks & 11km of underground tunnels
No. of stations	31 including 10 interchange stations

Source: Media, UOB Kay Hian

UOBKH HIGHLIGHTS**Axiata Group (AXIATA MK/HOLD/RM2.33/Target: RM2.50)**

Axiata Exits Nepal With Sale of Stake In Ncell

WHAT'S NEW

- Axiata Group Bhd has decided to sell its stake in Ncell Axiata Bhd and exit Nepal after seven tumultuous years. The multinational telecom company has disposed of Reynolds Holdings Ltd, which holds an 80% stake in Ncell Axiata, to Spectrlite UK Ltd for a fixed consideration of US\$50m. The decision to withdraw from Nepal is attributed to challenges in the business environment, including unfair taxation and regulatory uncertainties. Despite settling capital gains tax previously, a new assessment in Jan 21 led to further disputes, legal proceedings, and arbitration. The government of Nepal has not withdrawn the assessment, posing significant financial risks for Axiata. The deal allows Axiata to exit cleanly, with Ncell retaining full responsibility for its business and liabilities.

COMMENT

- We are neutral on the news as Axiata will receive a fixed consideration of US\$50m from the sale and at the same time safeguard Axiata from potential complications, both financial and legal in Nepal. However, the completion of the deal may potentially result in impairments, which could impact Axiata's performance in 4Q23. To recap, Axiata has recorded NCell asset impairment of RM811m during 3Q23 subsequent to the sale of Ncell.
- The cash received from the sale may potentially benefit shareholders through a special dividend or be allocated to fuel the expansion of its current core business. By divesting from Ncell and withdrawing from Nepal, Axiata can redirect its focus and resources to its core business areas or explore opportunities in markets with more favorable conditions.

RECOMMENDATION

- **Maintain HOLD with a SOTP-based target price of RM2.50.** We have imputed a 10% discount in our SOTP in arriving at our fair value to factor in the previous earnings-dilutive acquisition of towers in the Philippines. Naturally, the listing of edotco will allow for share price re-rating. The stock trades at an undemanding 4.4x mean EV/EBITDA.

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UOBKH HIGHLIGHTS**Telecommunications – Malaysia (MARKET WEIGHT)**

Five MNOs Execute Share Subscription Agreements (SSAs) With DNB

WHAT'S NEW

- Five mobile network operators (MNOs) - CelcomDigi, Maxis, U Mobile, Telekom Malaysia and YTL Power - have signed share subscription agreements (SSA) to collectively acquire a 70% equity stake (14% each) in Digital Nasional Berhad (DNB). The government, through the Minister of Finance, retains the remaining 30% and holds a Special Share. Each MNO will inject approximately RM233m, totalling RM1.17b, to meet DNB's funding requirements. The SSAs however, are contingent on satisfactory due diligence. The SSAs are expected to be completed between Feb and Apr 24. Each MNO will be represented by its nominated Board member in DNB.

COMMENT

- This is well within our expectation, paving the way for an eventual dual wholesale network (DWN) in 2024. That said, we believe that the timeline for DWN will likely be delayed to 2H24.
- With all five MNOs entering into SSAs, subject to a due diligence process, the government's next focus is achieving an 80% 5G population coverage by end-23 and rolling out the DWN.
- We expect the government, through the Ministry of Finance, to potentially exit from DNB upon DNB achieving the 80% COPA target. Once this milestone is achieved, the government will move forward to award DWN to the telcos. Consequently, we expect capex for telcos to remain at the current elevated level as telcos transition from 4G to 5G.

RECOMMENDATION

- **Maintain MARKET WEIGHT.** Stepping into 1Q24, we expect the sector to trade range bound in the absence of key re-rating catalysts. We believe the current valuation and share price outperformance have partly factored in: a) monetisation of 5G in the consumer space, b) positive synergies from the CelcomDigi merger, and c) implementation of DWN. We reiterate MARKET WEIGHT on the sector. We prefer fixed players over wireless. Our top picks are: a) TIME dotCom – for its lush dividends over 2024-25; and b) Telekom Malaysia – for its attractive valuation and good cost management.

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TRADERS' CORNER



Scicom (MSC) (SCIC MK)

Technical BUY with +14.8% potential return

Last price: RM1.08

Target price: RM1.18, RM1.24

Support: RM1.03

Stop-loss: RM1.02

BUY with a target price of RM1.24 and stop-loss at RM1.02. Based on the daily chart, share price is recovering gradually and moved above the 7- and 21-day EMAs to close higher at RM1.08 last Friday. Last Friday's gain was also accompanied by high trading volume as well as rising RSI and DMI indicators, which show that positive momentum will strengthen in the near term. We peg our targets at RM1.16 and RM1.24 in the near term.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading



Kenanga Investment Bank (KNKIB MK)

Technical BUY with +15.3% potential return

Last price: RM0.885

Target price: RM0.94, RM1.02

Support: RM0.835

Stop-loss: RM0.83

BUY with a target price of RM1.02 and stop-loss at RM0.83. Last Friday, the stock closed above the BBI line, which indicates upward potential in the near term. This is supported by the 7-day EMA making a cross above the 21-day EMA, indicating a bullish signal. This is consistent with the uptick in the RSI and a bullish crossover in the DMI, which suggest stronger buying momentum ahead. We expect KNKIB will continue the upward movement to the previous high of RM1.03 in the near term.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

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