STRATEGY – MALAYSIA

Alpha Picks: Opting For More Adventurous Choices

Our Alpha Picks again beat the FBMKLCI in Jun 24 (+5.7% vs -0.4%). While we correctly guessed that FBMKLCI was entering a lull period in June, we decided to adopt more adventurous Alpha Picks for July. July picks: Bursa, Ekovest, Gamuda, Lagenda Mah Sing, MYEG, Pekat, PMetal, RGB and VSI. New inclusions are Ekovest and Pekat, which replace Bermaz Auto and Genting Malaysia.

WHAT'S NEW

- **Market review for Jun 24.** The FBMKLCI was down marginally in Jun 24, falling 0.4%. Within the KLCI subsectors, winners included utilities (+9.8%), building materials (+3.2%) and healthcare (+1.9%) while losers were the automobile (-4.6%), property (-2.7%) and gaming (-2.4%) sectors. Looking to the non-KLCI sectors, renewable energy (+17.5%), construction (+11.0%), and the EMS (+18.5%) and semiconductor (9.8%) subsectors of technology were among the major winners. Losers included the software subsector (-3.2%), manufacturing (-1.6%) and select oil and gas subsectors (see overleaf table for details).
- **June's Alpha Picks continued our outperformance streak,** posting a return of 5.7%. VSI (+19.8%), Mah Sing (+15.3%) and RGB (+14.6%) led the pack with Gamuda (+8.4%) also posting respectable returns. Conversely, MYEG (-7.3%), Genting Malaysia (-3.8%) and Lagenda (-0.8%) saw negative returns in June.
- **Leveraging on M&A and corporate developments.** Market conditions continue to favour the formation of M&A and various corporate exercises. Our Alpha Picks have included such beneficiaries, including Ekovest which is expected to create significant shareholder value via its outstanding proposal to become the holding company of controlling shareholder Tan Sri Lim Kang Hoo's stable of listcos and property assets, and separately via the eventual monetisation of its Duke highway concessions. Solar player Pekat Group's (Pekat) acquisition proposal of a solar EPCC peer promises to double its earnings base.
- **Jul 24 picks:** Bursa Malaysia (Bursa), Ekovest, Gamuda, Lagenda Properties (Lagenda), Mah Sing Group (Mah Sing), MY E.G. Services (MYEG), Pekat, Press Metal (PMetal), RGB International (RGB), and VS Industry (VSI).
- **New additions and removals.** New additions are Ekovest and Pekat, which replace the more defensive Bermaz Auto and Genting Malaysia (both companies remain BUY calls, although we do not foresee near-term catalysts).

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance[#]	Catalyst
Keith Wee	Bursa Malaysia	BUY	3.6	Stronger-than-expected ADV and valuation re-rating. Consensus average daily value (ADV) forecast of RM2.4b for 2024 significantly lags ytd ADV of RM3.1b.
Jack Goh, Nazira Abdullah	Ekovest	BUY	n.a.	Riding on the vibrancy of Johor's property/infrastructure demand, and asset monetisation efforts.
Jack Goh, Jack Lai	Gamuda	BUY	6.1	Robust earnings growth ahead backed by a sturdy orderbook, bright replenishment outlook, as well as resilient performance within the property segment.
Nazira Abdullah	Lagenda	BUY	(4.0)	Pure play affordable housing developer with the highest ROE of 17%, which reflects its low land costs, construction efficiency, and strategic contractor partnerships.
Nazira Abdullah	Mah Sing	BUY	77.4	Highest growth in its property sales target of minimum RM2.5b (+11%) in 2024 (vs RM2.26b sales achieved in 2023). Also an industrial property and data centre proxy.
Jack Goh	My E.G. Services	BUY	29.1	Anticipated launches of AI/blockchain initiatives eg China-centric eCNY and ZTrade, and WorldID and MyDigitalID.
Chong Lee Len	Pekat Group	BUY	n.a.	Set to capitalise on the long-term structural growth in solar energy demand. M&A will fuel growth.
Ku Wei XIang	Press Metal Aluminium Holdings	BUY	8.1	Rising LME aluminium prices on the back of demand recovery and supply tightening.
Jack Goh	RGB International	BUY	62.1	Delivering stellar earnings growth in 2024 as major beneficiary of ASEAN's blooming gaming scene. Offers appealing yield of 8-9%.
Desmond Chong	VS Industry	BUY	42.7	Strong earnings recovery in 2HFY24 backed by inventory replenishment alongside fruition of the enhancement of vertical integration. Additional impetus to come from new Philippines venture that will allow it to capture a larger market share.

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	8.88	9.42	6.1
EKOVEST	BUY	0.435	0.977	124.5
GAM	BUY	6.60	7.34	11.2
LAGENDA	BUY	1.22	2.32	89.8
MSGB	BUY	1.78	2.27	27.4
MYEG	BUY	0.995	1.36	36.9
PEKAT	BUY	0.960	1.09	13.6
PMAH	BUY	5.76	7.00	21.5
RGB	BUY	0.50	0.66	32.0
VSI	BUY	1.28	1.40	9.4

Source: UOB Kay Hian

PORTFOLIO PERFORMANCE

Company	Rec	Jun 24 (%)	To-date* (%)
BAUTO	BUY	3.3	2.4
BURSA	BUY	4.1	3.6
GAM	BUY	8.4	6.1
GENM	BUY	(3.8)	5.4
LAGENDA	BUY	(0.8)	(4.0)
MSGB	BUY	15.3	77.4
MYEG	BUY	(7.3)	29.1
PMAH	BUY	3.2	8.1
RGB	BUY	14.6	62.1
VSI	BUY	19.8	42.7
FBMKLCI		(0.4)	

*** Share price change since stock was selected as alpha pick*

Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2023	1Q24	2Q24
FBMKLCI Return	-2.7	5.6	3.5%
Alpha Picks Return			
- Price-weighted	-0.9	14.8	4.9%
- Market Cap-weighted	2.4	10.2	7.9%
- Equal-weighted	2.6	11.7	13.4%

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

THEMES & EXPECTED EVENTS IN 3Q24

Blockchain: Launches of government-endorsed MyDigitalID, ZTrade (blockchain platform for Asian exporters to China).

Commodities: Geopolitical-induced global supply disruption plus China's ongoing economic recovery to continue to uplift industrial metal prices and stocks.

Mega infra: Awards of multi-billion-dollar data centres and mega factories.

Trade diversion & semicon cycle recovery: Global semiconductor sales recovery plus new client acquisitions to favour EMS-related companies.

Source: UOB Kay Hian, Respective companies

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Bursa Malaysia – BUY (Keith Wee)

- **Market sentiment continues to surprise on the upside.** Bursa's ADV has continued to exceed expectations, averaging RM3.2b ytd vs our RM2.8b estimates and consensus RM2.7b forecast. This provides upside scope for further ADV and earnings revision. As such, we have recently raised our 2024 ADV forecast to RM3.1b.
- **Only midway into an ADV upcycle?** Bursa's previous ADV upcycles lasted an average of 10 months, ranging from 6 to 18 months. In comparison, the current upcycle which began in Dec 23 is only six months in, placing it at the lower end of the historical range. With the Federal Reserve expected to only start cutting interest rates in September, the current equity market upcycle could extend into late-24. If this holds, Bursa's ADV upcycle may last around 12 months, continuing for another six months.
- **Valuation re-rating has not fully played out.** Bursa is currently trading at its historical mean PE of 23x. However, during the previous ADV upcycles, Bursa's peak PE valuations averaged at 30.0x (+1.5SD to historical mean PE), with an average peak cycle PE of 30.0x, or 1.5SD above the historical mean. Additionally, longer upcycles tend to result in higher peak cycle PE valuations. In two past upcycles (2006-08 and 2017-18) that lasted over 12 months, peak PE valuations reached +2.0 SD and +2.5SD respectively above the historical mean. As such, the combination of stronger-than-expected ADV and valuation re-rating could drive its current share price outperformance well into 2H24.
- **Maintain BUY with a target price of RM9.42 (25.5x 2024F PE)**. Our target price is based on +0.5SD to historical mean PE. We anticipate equity market sentiment to remain robust, premised on the expectations of peakish US policy rates and moderating inflation outlook.

SHARE PRICE CATALYST

- Stronger-than-expected ADV.
- Valuation re-rating to price in robust ADV.
- Potential special dividend given strong ADV performance.

Ekovest – BUY (Jack Goh, Nazira Abdullah)

- **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 developments (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 RM0.98, based on a 50% discount to SOTP of RM1.95 (largely anchored by highways valuation), factoring in the gestation period for the SPE highway.** Despite near-term challenges from its capital-intensive highway business and restructuring exercise, we remain optimistic about Ekovest's outlook, driven by a potential DUKE highway monetisation (which will take a longer time to materialise). We believe the completed takeover of four highway concessionaires in 2022 by Amanat Lebuhraya Rakyat (ALR) and the recent Prolintas IPO may set the precedent for Ekovest's management to consider monetising its DUKE highway similarly.

SHARE PRICE CATALYST

- **Potential monetisation of DUKE highways to unlock enormous investment value**. Despite a lack of clarity, there is increasing likelihood of the monetisation of highways amid the government's commitment to fulfilling their earlier promises to abolish highway tolls in stages. The potential monetisation can be a major re-rating 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.

KEY EVENTS IN JUN 24

Corporate

- Lagenda Properties said one of its senior personnel was remanded by the MACC in an investigation into a past subdivision of Malay reserve land owned by the senior personnel's private family. Lagenda reiterated that the land under investigation does not belong to the company.
- YTL Power will acquire the remaining 31.4% stake in Ranhill Utilities for RM405.2m or 99.5sen per share.
- UEM Sunrise is selling land for RM144.9m in cash for the development of a data centre in Johor.
- KLCI Review: AMMB removed, Sunway Bhd included.
- Top Glove returned to the black for 3QFY24 with a net profit for RM50.7m.
- Genting Berhad awarded a contract worth over US$1b to Wison New Energies for the construction of a floating LNG facility.
- VS Industry's 3QFY24 net profit more than doubled yoy to RM54.4m on higher orders and a favourable product mix
- MYEG announced the activation of its ZTrade platform for facilitating cross-border trade.

Economics

- Malaysia recorded RM83.7b in approved investments during 1Q24.
- May exports grew 7.3% yoy, higher than consensus forecasts of 2.3%, driven by the manufacturing and agricultural sectors.
- 2.9m applicants applied to transfer initial amounts from EPF Account 2 to Account 3 as of May 22nd, totalling RM8.8b in funds.

Others

- Petronas announced that its 1Q24 net profit fell 10.5% to RM21.3b on a volatile pricing landscape.

Source: Media reports

SECTOR PERFORMANCE

	--------- Performance (%) -------	
Sector	Jun	Ytd
Automobile	-4.6	12.1
Aviation	0	29.2
Banking	-0.2	9.6
Building Materials	3.2	22.0
Construction	11.0	52.0
Consumer	-1.1	9.3
Exchange	4.1	30.3
Gaming	-2.4	1.7
Glove Manufacturing	5.1	23.5
Healthcare	1.9	8.3
Insurance	-0.8	3.1
Manufacturing	-1.6	14.6
O&G - Heavy Eng	0.2	14.7
O&G - Asset Owners	-7.4	-12.1
O&G - Offshore Contractors	-1.8	20.9
O&G - Shipping	3.1	19.9
Plantation	-1.4	-2.2
Port	2.7	16.3
Property	-2.7	54.4
REITs	-0.9	9.6
Renewable Energy	17.5	118.6
Tech - EMS	18.5	54.4
Tech - Semiconductor	9.8	16
Tech - software	-3.2	21.8
Telecommunications	-1.3	1.3

Source: Bloomberg, UOB Kay Hian

Gamuda – BUY (Jack Goh)

- **Set to deliver record earnings in FY24.** Gamuda's earnings outlook remains promising as we expect it to post record-breaking earnings in FY24 on stronger performance from both construction and property development divisions. This is backed by robust progress billings from its current projects on hand coupled with the progressive property launches and recognition of unbilled sales (stood at RM6.7b as of 3QFY24) within the property development division.
- **Resilient replenishment.** We believe the group is well on track to achieve its replenishment targets of RM25b in FY24-25 (~RM12.5b p.a), having secured seven contracts worth around RM16b-18b as of ytd. We believe there are some other big-ticket local infrastructure projects up for grabs, including MRT3 (although delay risk persists), Segment 2 and 3 of Penang LRT, as well as Pan Borneo Highway Sabah Phase 1B.
- **Property development division sees promising outlook ahead.** The property development division is also projected to deliver better earnings in FY24 on the back of higher new-property sales and progressive recognition of unbilled sales. Upcoming new launches in the pipeline include Gardens Park in Sungai Buloh with a gross development value (GDV) of RM4b, Eaton Park in Ho Chi Minh City with a GDV of RM5.1b, and two additional quick turnaround projects (QTPs). These new projects are expected to achieve commendable take-up rates, thus injecting fresh earnings momentum.
- **Maintain BUY with a target price of RM7.34,** which implies an appealing 16.0x FY25F PE (0.25SD above the five-year historical mean of 15x). Gamuda stands to be the prime beneficiary of the upcoming mega infrastructure projects both locally and regionally. We also like the company for its superior earnings visibility backed by a robust orderbook coupled with progressive new property launches.

SHARE PRICE CATALYST

- Stronger-than-expected orderbook replenishment in both Malaysia and overseas.
- Higher profit margins from better progress billing and lower building material prices.

Mah Sing Group – BUY (Nazira Abdullah)

- **Malaysia's king of urban residential projects.** Ever since Mah Sing launched its affordable property products (its fully sold-out M Centura was completed in 2021) from its M-Series range, it has achieved a higher take-up rate of about 95% (from new launches) as compared with its pre-pandemic take-up rate of 70-80%. 2023 sales of RM2.26b were pure residential sales in Malaysia, higher than other bigger-cap developers such as Sunway Bhd (RM2.1b residential sales in Malaysia out of RM2.44b total sales in 2023) and Sime Darby Property (RM2b residential sales in Malaysia out of RM3.3b total sales in 2023). Despite formidable competition, Mah Sing stands tall as one of the leaders in residential sales in Malaysia thanks to its right product offerings with strategic locations and affordable price points.
- **Industrial property proxy.** We are positive on Mah Sing's recent industrial land in Sepang acquisition (562 acres with GDV of at least RM2b) considering the continued resilience of the industrial segment. Additionally, amid the ongoing trade war and concerns about China's political and economic stability, China is actively seeking to relocate its factories and manufacturing operations. With Mah Sing partnering its Chinese counterpart from Jiangsu, we believe this collaboration enhances Mah Sing's potential to attract Chinese businesses looking to establish a presence in Malaysia, thereby contributing to the company's growth and market expansion. Furthermore, Mah Sing's completion and sell-out of previous industrial land developments nearby, such as iParc 1, 2, and 3 in Bukit Jelutong, add to the company's track record and demonstrate its capability in the industrial property market.
- **Data centre venture.** We are positive on Mah Sing's partnership with Bridge Data Centres for a data centre venture in Southville City, which we believe signifies a strategic shift,

utilising a 17.55-acre parcel in its 150-acre landbank. This move unlocks immediate value for its idle Southville City land, especially when township development plans are on hold (as Mah Sing has been focusing on developing pocket land). With a planned capacity of up to 500MW, the initial phase targets 100MW, diversifying Mah Sing's revenue beyond property development.

We understand Mah Sing will be able to replicate the same data centre JV structure in its recently-acquired Sepang industrial land. Apart from contributing land valued at RM160psf, Mah Sing will be involved in constructing buildings/infrastructure and hold some stakes in the JV (initially estimated at 20% or more). This stake will enable Mah Sing to generate recurring income from offtakers such as hyperscalers and AI data centres. Our pro forma calculation suggests that 100MW could generate RM650m revenue (based on Bridge Data Centres' holding co financial data). With a 19% industry net margin, and assumption of a 20% stake, this venture could contribute at least RM25m annually to its net profit.

- **Sets a higher sales target of a minimum of RM2.5b (2023: RM2.26b), which could reach RM2.8b-3b.** We remain optimistic that its M-Series products will continue to gain traction. Mah Sing will also launch its industrial property product in 4Q24. We believe there is potential for sales to come in higher than the targeted RM2.5b as management has only factored in a conservative RM54m sales of industrial property (as the land was just acquired in Jan 24). We estimate sales could reach RM2.8b (or incremental +4% to our 2024 earnings).

- **Maintain BUY with a target price of RM2.27.** Our target price is based on a 10% discount to the SOTP of RM2.52 and 40% RNAV discount, within its five-year average discount to RNAV. Our target price implies 18-22x 2024-26F PE (peers' average: 22x). We like Mah Sing for its swift turnaround strategy, which has enabled the company to turn parcels of land into affordable housing products with appealing pricing aimed at a more resilient segment. Mah Sing has 150 acres of land in Southville City earmarked for data centres, which could provide immediate value unlocking gain in land sales totalling RM1.3b. This could yield a net gain of approximately RM600m-800m to its net profit, assuming a net margin of 50-70%, just from land sales alone. We believe the data centre venture will not only provide immediate value unlocking for idle land in Southville City, but will also bolster recurring income and shareholder returns.

SHARE PRICE CATALYST

- Higher-than-expected sales from industrial property.
- Higher-than-expected cost savings from completed properties which in turn will bump up earnings.
- More data centre deals to boost recurring income.

My E.G. Services – BUY (Jack Goh)

- **Zetrix continues to offer deep monetisation potentials, …** Zetrix's potential is gaining more clarity as the Ztrade blockchain platform is on track to be commercially integrated into the China and Philippines customs in 2Q24. The key scope of services includes the issuance and authentication of the certificate of origin, smart contract information verification and blockchain-based digital signing. We expect more Zetrix token sales throughout 2024 as the customs project is commercially launched and starts generating transaction fees and gas fees which are settled with Zetrix tokens.

- **…supporting robust coin sales.** For 2024-25, we are forecasting 4.5m-5.0m Zetrix coin sales at an average price of US$12, which translates into RM200m-220m profit before tax (PBT). There may be upside to our current forecasts if MYEG's exchange-traded fund application in Hong Kong, which includes Zetrix coins, is successful.

- **Earnings accretion from Worldcoin project.** We understand that MYEG has been appointed by Worldcoin to provide infrastructure services and operate the blockchain-enabled iris scanning (RM50-100 revenue/scan). There is no major capex of software integration required for Worldcoin's iris scanning so the project should be earnings accretive to MYEG when it starts. To add on, there may also be cooperation on Malaysia and China's national ID available on Zetrix's ecosystem. We conservatively forecast around 100,000 sign-ups in 2024, which will add RM5m-10m revenue to the group.

- **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 (around 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.
- **Maintain BUY and target price of RM1.36,** which implies 18x 2024F PE (-0.5SD below five-year mean).

SHARE PRICE CATALYST

- Earnings delivery from Zetrix's China's custom integration blockchain platform.

Lagenda Properties – BUY (Nazira Abdullah)

- **One of Malaysia's biggest pure play affordable housing players.** Lagenda Properties (Lagenda) stands out in the affordable housing segment by prioritising single-storey landed housing units priced below RM300,000 for the underserved B40 and lower-M40 groups. We estimate its newly-launched housing units make up 40-50% of Malaysia's newly-launched landed residential property priced below RM300,000. This commitment to affordability has not hurt profitability, as Lagenda boasts higher margins than its competitors, with an average EBIT margin of 30% (industry average: 21%) and net margin of around 20% (industry average: 13%). The profitability is due to Lagenda's low land costs (land cost-to-GDV ratio: 5-7%), efficient construction methods (industrialised building system), strategic partnerships with contractors, and in-house material sourcing which enables cost optimisation
- **Positioned to capitalise on untapped demand for affordable houses.** Based on 2023 NAPIC data, 53% of residential transactions in Malaysia involved affordable housing with each project having a 95% take-up rate within the first year of launch. With a huge proportion of buyers being public sector employees (who can tap government financing schemes), Lagenda's business model is resilient to economic fluctuations, highlighting the company's profitable and sustainable approach to affordable housing.
- **Lagenda is proactively expanding its presence nationwide to address the affordability challenge,** starting from Perak and extending to Kedah, Pahang, Selangor and Johor. Its largest landbank exposure is in Johor, where it is opportunely placed to capitalise on the state's growth fuelled by economic incentives and infrastructure projects such as the rapid transit system. Lagenda's remaining landbank stands at 5,887 acres (including option land and recent Kedah land acquisition) with remaining GDV of RM15.9b.
- **Maintain BUY with a target price of RM2.32.** Our target price is based on 30% RNAV discount to estimated RNAV of RM3.31, within its five-year historical average discount as well as largely in line with peers' current average. Lagenda is a legend in the affordable space segment as it is able to fetch higher profitability than its competitors, attributed to its advantageous low land costs (with a land cost-to-GDV ratio of 5-7%), efficient construction methods (utilising industrialised building systems), strategic contractor partnerships, and in-house material procurement, facilitating cost optimisation. These factors position Lagenda as the highest ROE performer, yielding 16% among affordable property developers and across our broader developer universe.
- **We believe the recent market reaction to the MACC investigation involving senior personnel of the company has presented a favourable opportunity to consider investing.** Lagenda's fundamental strengths remain intact, with a high dividend yield of 5-7% and a PE of 4-7x for 2024-26. As far as we are aware, the scope of the investigation is limited to specific senior management personnel, and does not involve Lagenda itself. Importantly,

Lagenda reiterated that as far as they are aware, the land under investigation does not belong to the company, and its day-to-day business operations continue without disruption. We forecast Lagenda's revenue/earnings to grow at a three-year CAGR of 27%/28% respectively to 2026. This is supported by yearly sales growth of around 15% to RM1.6b by 2026, driven by more launches totalling RM1.9b-2.4b, as well as accelerated progressive billings. Lagenda's sales target of RM1.2b for 2024 (+15% yoy) will be supported by its aggressive 2024 launches amounting to RM2b (2.6x the size of the 2023 launches).

SHARE PRICE CATALYST

- Higher-than-expected sales as well as faster-than-expected progressive billing recognition.
- No further action from MACC on senior personnel of the company

Pekat Group – BUY (Chong Lee Len)

- **Capitalising on structural growth of solar market.** We believe Pekat's well-founded market competitiveness in the solar market allows it to capitalise on the enormous growth in solar energy demand. Pekat also aims to tap the huge replenishment opportunities arising from the upcoming engineering, procurement, construction and commissioning awards of Corporate Green Power Programme and Large-Scale Solar 5.
- **Building up recurring income assets.** Through its 45%-owned associated company MFP Solar, Pekat is gradually building up a recurring income stream. Pekat has also emerged as one of the asset owners under the corporate green power programme (CGPP), having secured a 29.99MW plant through another subsidiary.
- **M&A-fuelled growth.** The upcoming acquisition of switchgear supplier EPE Switchgears may also further propel its growth momentum. Based on conservative assumptions of a 50% stake and RM10m in annual net profit, the acquisition could lift our forecasts by 19-28% in the next three years.
- **Maintain BUY and target price of RM1.09,** pegged to 2025F PE of 30x which is 0.5SD above its three-year mean of 25x. Seeing that Pekat's valuation is set to expand swiftly on re-rating catalysts in the coming years, our target PE of 30x is benchmarked against that of Solarvest Holdings, the largest pure-play solar company on Bursa Malaysia.

SHARE PRICE CATALYST

- Stronger-than-expected earnings growth from main customers.

Press Metal Aluminium Holdings – BUY (Ku Wei Xiang)

- **Demand recovery and supply tightening spark LME aluminium prices (+8% ytd).** We gathered that China's aluminium is recovering albeit at a modest pace, driven by solar power and the new energy vehicles (NEV) industries. Meanwhile, three major downstream usages in 2023 were real estate at 24%, automobile (including NEVs) at 24%, and electronics and power (including solar) at 19% which will continue to gain traction from the green policy and initiatives implemented by China. On the supply side, ongoing supply tightness, stemming from the ban on Russia-produced metals (6-7% of global aluminium production), could further bolster LME aluminium prices. Additionally, the US has increased tariffs on Chinese aluminium imports from 7.5% to 25.0%, which could boost LME aluminium prices. Note that LME aluminium prices currently stand at US$2,741/tonne.
- **Meaningful contribution from VAPs from 2024 onwards.** The current total value-added products (VAPs) capacity stands at 61% of the total smelting capacity. Moving forward, the group intends to augment its VAPs capacity by 100,000mt p.a.. With the expansion plan in motion, we expect VAPs volume to reach 50% of PMetal's total sales volume (from 46% in 1Q24) by end-24.
- **Maintain BUY with a target price of RM7.00,** still based on 28.0x 2025F PE (which is at -0.5SD below its five-year forward PE mean). Should aluminium prices swing from our

conservative forecast, based on our sensitivity analysis, every US$100/tonne increase to our current spot aluminium price assumption of US$2,600/tonne in 2025 would increase PMetal's earnings by 13% annually, assuming alumina cost of US$390/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb6,500/MT.

SHARE PRICE CATALYST

- Stronger-than-expected LME aluminium prices, driven by supply disruption.
- Better-than-expected demand recovery for downstream aluminium application ie solar power and NEV industries.

RGB International– BUY (Jack Goh)

- **Well-positioned to capture the exponential slot machines growth in ASEAN gaming jurisdictions.** The ASEAN gaming scene, especially in the Philippines, remains highly charged with aggressive gaming capacity expansion and post-pandemic replacement cycle. Hence, RGB is poised to largely benefit from this trend. Note that RGB has >70% market share in the Indochina and the Philippines' slot machines market.
- **Sequential years of lucrative earnings base in the making; on track for record-high earnings in 2024.** RGB's sales, support and marketing division is poised to deliver sales of about 4,500 slot machines for 2024 (vs 1,500-1,700 units before the COVID-19 pandemic). Meanwhile, the concession-based technical support and management division has been recovering progressively and is set to recover to 80-90% of 2019's profitability levels in 2024. Including RM8m-12m in interest income (5% interest on RM160m-246m net cash) and contributions from the engineering services division, RGB is forecasted to achieve a record-high profit of RM101m respectively in 2024.
- **On cloud nine after securing massive SSM orderbook from PACGOR.** At end-May, RGB also revealed that the group secured a RM383m (US$81.3m) contract from Philippine Amusement and Gaming Corporation (PAGCOR) to supply 1,968 electronic gaming machines and accessories. We believe this is to support PACGOR's modernisation programme which includes revamping the gaming floor and rolling out new slot machines ahead of the privatisation of its casino operations. We expect these orderbooks to be fulfilled and translated into RGB's earnings within 2Q-3Q24, which will pave the way for RGB to deliver meaningful qoq earnings growth in the upcoming quarters.
- **Deep-in-value financial matrixes reaffirm our investment thesis.** Despite a 60% ytd share price rally, RGB's bargain valuations of 5.7x 2024F PE (4x ex-cash PE) still offer palatable potential capital upside. More importantly, RGB's current net cash of about RM185m (29% of market cap) is more than sufficient to support our 40% dividend payout forecasts and lush yields of 7-8% in 2024-25. Should management raise the dividend payout ratio to 50%, prospective yields will likely be 9-10%.
- **Maintain BUY and target price of RM0.66,** which implies 9x 2024F PE (pre-pandemic's mean), 4x 2024F ex-cash PE, and 4.5x 2024 EV/EBITDA.

SHARE PRICE CATALYST

- Massive SSM orderbook from PACGOR totalling RM383m.

VS Industry – BUY (Desmond Chong)

- **Expecting a better 2HFY24 on earnings acceleration.** Its current order run-rate is close to the peak level seen during the COVID-19 pandemic period. Additionally, three new capabilities were awarded by its major customer across the value chain, with the first and second project (that could yield an additional RM110m revenue on better profitability) already gaining optimal traction.
- **New Philippines venture to capture lion's share of market.** As part of VSI's customer diversification strategy, the group has incorporated a new subsidiary in Philippines to take on

additional orders from this key customer. Note that the group will rent a 560,000 sf factory which is capable of generating up to RM2b of yearly revenue in a blue-sky scenario.

- **Eyeing new contracts; discussions still in infancy stage.** We understand that VS is still being approached by new MNC customers, with discussions of prospective contracts at the early stages of evaluation.
- **Maintain BUY with a target price of RM1.40** based on 21x FY25F PE (+0.5SD above its average 5-year forward PE).

SHARE PRICE CATALYST

- Stronger-than-expected earnings growth from main customers.

VALUATIONS

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Last Year End	PE 2023 (x)	PE 2024F (x)	PE 2025F (x)	Yield 2024F (%)	ROE 2024F (%)	Market Cap (US$m)	Price/ NTA (x)
Bursa Malaysia	BURSA MK	BUY	8.88	9.42	23-Dec	28.4	24.0	26.0	4.0	36.0	1,524.6	8.6
Ekovest Berhad	EKO MK	BUY	0.435	0.977	23-Dec	n.a.	322.5	71.7	0.0	n.a	273.7	(0.2)
Gamuda Berhad	GAM MK	BUY	6.60	7.34	23-Jul	22.0	18.7	14.3	1.8	8.8	3,881.7	1.6
Lagenda Properties Berhad	LAGENDA MK	BUY	1.22	2.32	23-Dec	9.1	6.8	5.5	5.4	17.2	216.7	0.8
Mah Sing Group Berhad	MSGB MK	BUY	1.78	2.27	23-Dec	20.0	18.1	16.3	2.5	6.4	966.8	1.1
My EG Services Bhd	MYEG MK	BUY	0.995	1.36	23-Dec	12.8	11.9	11.1	2.5	21.8	1,574.5	2.4
Pekat Group Berhad *	PEKAT MK	BUY	0.960	1.09	23-Jun	37.4	26.4	18.1	0.0	14.2	131.4	3.5
Press Metal Aluminium Holdings	PMAH MK	BUY	5.76	7.00	23-Dec	38.4	25.2	22.8	1.0	24.6	10,068.6	5.7
RGB International	RGB MK	BUY	0.5	0.66	23-Dec	7.7	6.4	6.0	2.3	36.5	164.7	2.9
VS Industry	VSI MK	BUY	1.28	1.40	23-Jul	26.4	28.6	19.2	1.6	7.9	1,041.9	2.2

Source: UOB Kay Hian

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