

STRATEGY – MALAYSIA

2H22 Outlook: Positioning For Breaks In The Storm

While Malaysian equities will still be swayed in 2H22 by chunky policy rate hikes and quantitative tightening in the US, the FBMKLCI already trades at our assessed trough valuation. While global inflationary concerns should ebb by 4Q22, the Russia-Ukraine war remains a key risk, and we await clearer signs of market capitulation to turn more aggressive. Our strategy is to remain defensive but the depressed market warrants taking some trading bets and longer-term positioning into growth stocks.

WHAT'S NEW

- **Darkest sentiment in 3Q22.** We expect market sentiment in the global capital markets to be darkest in 3Q22, as investors assess the effects of successive hefty rate hikes and quantitative tightening (QT) in the US, and price in the possibility of further inflationary pressures from harsher European sanctions against Russia. Domestically, the market will need to brace for another phase of inflation by 4Q22 given the untenable costly government subsidies and price control.
- **Rooting for meaningful recovery in 4Q22 from current trough valuation.** Nevertheless, we take the view that global equities could bottom out by 3Q22, in anticipation of moderating US rate hikes (after July) and inflationary concerns in 4Q22. The FBMKLCI already trades at our assessed trough valuation of 1,435 2022F PE multiple (-1.5SD to mean valuation), which is exceptionally low for periods of economic slowdown/downturns that are not accompanied by any systemic financial crisis. Other supporting factors include China's eventual border reopening and an expected market-friendly outcome for Malaysia's next general election (anticipated to be called in 3Q22).
- **Lowering end-22 FBMKLCI target to 1,585 from 1,635**, which implies -0.5SD (15.7x 2022F PE or 15.3x after normalising (raising) earnings for the one-off prosperity tax) to historical PE mean vs the previous mean valuation. The new target imputes a cloudier outlook for 2023 earnings growth, despite earnings upgrades after the 1Q22 results season.
- **Appealing investment themes** include defensive/yield picks, banks' rising NIM and credit cost tailwinds, economic and border reopening beneficiaries, and selected beaten-down tech alphas and commodity stocks which are supported by structural positive changes in global dynamics for demand (for technology) or supply (ESG agenda curbing commodities).
- **Strategy: Stay defensive, but gradually raise exposure in quality high beta large caps and growth stocks in 3Q22.** OVERWEIGHT on the REIT, healthcare and consumer (primarily the F&B segment) sectors, followed by gaming and banking.

ACTION

- **Our top picks are Genting Malaysia, Hap Seng Plantations, Hong Leong Bank, IHH Healthcare, Magnum, My EG Services, Press Metal, Sunway REIT, TIME dotCom and VS Industry.** This "portfolio" features a combination of defensive traits (low beta and above market dividend yield) and a few event-driven alpha bets.

Click [here](#) for Blue Top dated 06 Jul 22

STOCK PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 6 Jul 22 (RM)	Target Price (RM)	PE (x)		P/B (x)		Div Yield (%)	
						2022F	2023F	2022F	2023F	2022F	2023F
Genting Malaysia	GENM MK	BUY	3,611	2.82	4.00	24.0	11.9	1.2	1.2	5.1	6.9
Hap Seng Plantations	HAPL MK	BUY	376	2.08	2.80	6.2	8.3	0.8	0.7	10.4	7.3
Hong Leong Bank	HLBK MK	BUY	9,985	20.38	24.00	11.0	10.2	1.3	1.2	3.2	3.4
IHH Healthcare	IHH MK	BUY	12,694	6.38	7.30	32.4	31.1	2.4	2.2	0.6	0.6
Magnum	MAG MK	BUY	533	1.64	2.38	14.2	10.9	1.0	1.0	6.0	8.2
My EG Services	MYEG MK	BUY	1,436	0.86	1.30	17.4	16.5	3.1	2.7	1.7	1.8
Press Metal	PMAM MK	BUY	8,399	4.51	7.40	17.6	15.9	5.7	4.5	1.5	1.6
Sunway REIT	SREIT MK	BUY	1,138	1.47	1.61	13.9	13.4	1.0	1.0	6.7	7.0
TIME dotCom	TDC MK	BUY	1,849	4.48	5.20	20.1	17.3	2.4	2.3	2.5	3.5
VS Industry	VSI MK	BUY	839	0.97	1.40	23.5	16.1	2.0	1.9	1.6	2.4

Source: Bloomberg, UOB Kay Hian

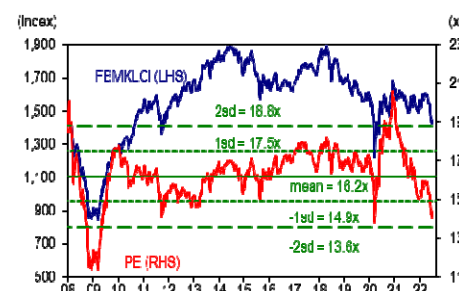
CURRENT FBMKLCI: 1,421
TARGET END-21 FBMKLCI: 1,585

KEY ECONOMIC/MARKET PROJECTIONS AND ASSESSMENTS

Indicator	Prediction/Assessment for 2022
GDP Growth	• 5.5% (2021: 3.1%)
Current Account	• 2.0% of GDP
Fiscal Balance	• -6.0% of GDP
Interest Rate	• 2.5% (a 50bp hike in 2H22)
Inflation	• 3.0%
RM/US\$	• 3Q22: RM4.46/US\$; 4Q22: RM4.48/US\$
FBMKLCI	• End-22: 1,585 (15.7x 2022F PE)
FBMKLCI Earnings	• -2% core earnings growth in 2022; ROE of 10% in 2022
Average CPO price	• RM5,200/tonne
Average crude oil price	• 3Q22: US\$130/bbl; 4Q22: US\$130/bbl

Source: UOB Global Economics & Market Research, Bloomberg, UOB Kay Hian

FBMKLCI AND PE



Source: UOB Kay Hian

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ESSENTIALS

• **Remain defensive but gradually position for a significant market rebound in 4Q22.**

While generally defensive, we advocate positioning for a significant market rebound in 4Q22. Higher beta stocks should appeal, especially heavily sold-down and reasonably valued growth companies and commodity stocks. Nevertheless, we would limit our top selections to only mid- to large-cap stocks.

• **Prominent investment themes in 2H22.** We expect defensive (yield) themes to dominate in 3Q22 as equities remain in a consolidation mode, before the higher beta themes regain attention in 4Q22. The latter themes include the economic reopening themes (comprising Malaysia's border reopening and ramp-up of foreign worker hiring, and China's emergence from lockdown and border reopening), comeback of downtrodden technology (semiconductor and IT-related) and commodity stocks, and banks' rising NIM.

• **Other investment themes.** Other compelling themes include Malaysia's economic reopening, China's emergence from lockdown and eventual border reopening, and GE15. The former theme relates to the snowballing of inbound tourists (positive for the aviation sector and Genting Malaysia), and the recruitment of foreign workers (which will be most beneficial to the electronics manufacturing services (EMS) companies and MYEG).

• **Our strategy resonates with key anticipated events.** Prominent events anticipated in 2H22 include GE15, improved momentum on inbound tourists (as more Asian countries open their borders) and foreign workers, award of mega infrastructure projects (MRT3) and legalisation of vaping (Figure 29). Other events include the utilisation pick-up of Pengerang Complex (positive for Swift Logistics) and Genting Malaysia's bid for a full-fledged New York downstate gaming concession.

• **Other notable BUY calls** include: a) Genting Bhd, RHB Bank, b) high-yield plays British American Tobacco and Sentral REIT, c) O&G beneficiaries Bumi Armada and Yinson Holdings, and d) Gamuda, the front runner in clinching a sizeable MRT3 contract in 2H22.

• **Reasonably valued technology stocks highly appeal**, in view of the structural demand growth. Among the beneficiaries are BUY-rated Greatech Technology and Pentamaster Corporation, and Not Rated Dagang Nexchange (which sports by far the lowest forward PE of 10-11x among the semiconductor stocks, based on 1Q22's annualised earnings).

SELECTED INVESTMENT THEMES

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Defensive & Dividend Plays				
Astro	ASTRO MK	HOLD	0.91	1.03
BAT	ROTH MK	BUY	10.68	16.05
Magnum	MAG MK	BUY	1.64	2.38
Sunway REIT	SREIT MK	BUY	1.47	1.61
Banks (Rising NIM And Credit Cost Tailwinds)				
Hong Leong Bank	HLBK MK	BUY	20.38	24.00
RHB Bank	RHBBANK MK	BUY	5.72	6.60
Reopening Plays – Border Reopening				
Genting Malaysia	GENM MK	BUY	2.82	4.00
Malaysia Airports	MAHB MK	HOLD	6.29	7.52
Reopening Plays – Ramp Up In Foreign Worker Hiring				
My EG	MYEG MK	BUY	0.86	1.30
VS Industry	VSI MK	BUY	0.97	1.40
Commodity Plays (Structural ESG-Related Supply Shock, China's Reopening)				
Press Metal Aluminium	PMAH MK	BUY	4.51	7.40
Tech Alphas (Structural Demand Growth, Trade Diversion)				
Greatech	GREATEC MK	BUY	3.42	5.00
Pentamaster	PENT MK	BUY	3.58	4.40
Lofty Oil Prices (Structural Supply Shock)				
Yinson Holdings	YNS MK	BUY	1.91	3.05

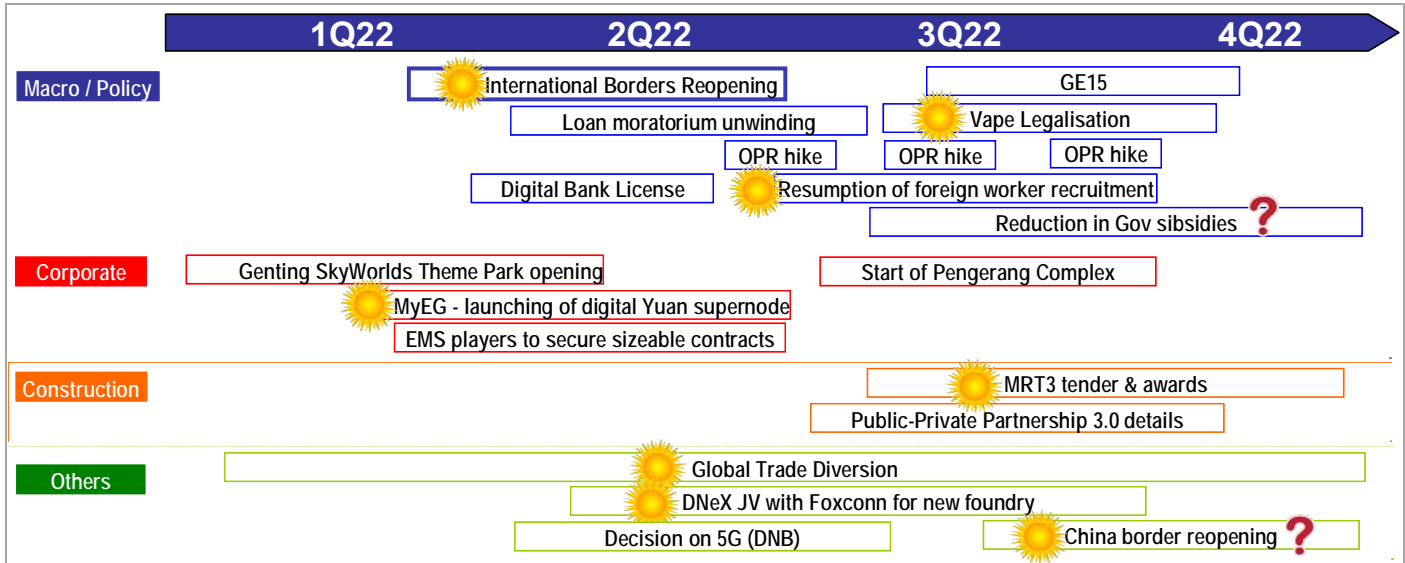
Source: Bloomberg, UOB Kay Hian

INVESTMENT STRATEGY FOR 2H22

	3Q22 Bear Sentiment On Inflation and the US' 'Extreme' Hawkish Monetary Policy	4Q22 Moderating Inflation
Strategy	<ul style="list-style-type: none"> Largely Defensive but raise exposure to sold down growth stocks & higher beta stocks for 4Q22 market rebound 	<ul style="list-style-type: none"> Moderate Risk-On as the quantum of US interest rate hike eases, China to potentially open its borders
Sectors/Themes in Limelight	<ul style="list-style-type: none"> Defensive – REITs, selected Consumer Tourism-related – Gaming China's emergence from lockdown – Commodity stocks Beneficiaries of foreign worker influx GE15 	<ul style="list-style-type: none"> Banks' NIM expansion Reasonably valued E&E stocks China's potential border reopening Beneficiaries of foreign worker influx Award of mega infrastructure projects (MRT3)
Potential Underperformers	<ul style="list-style-type: none"> Glove sector Domestically-oriented cyclical sectors Small caps 	

Source: UOB Kay Hian

KEY EXTERNAL EVENTS AND ANTICIPATED EVENTS



Source: Media reports, UOB Kay Hian

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