

STRATEGY – MALAYSIA

1H23 Outlook: Positioning For Winter And Spring

We expect 2023 to be a warmer and less turbulent year for Malaysian equities, having rejoined global equities' uptrend that is expected to last through early-23. However, the market should cool off in 1Q23 and warm up before 2H23. Appealing investment themes include trade diversion, the green agenda, economic reopening, blockchain and rising ROIs for O&G offshore asset owners. We are **OVERWEIGHT** on the aviation, building material, gaming, technology and O&G sectors.

WHAT'S NEW

- Overall, we expect 2023 to be a warmer and less turbulent year for Malaysian equities**, contrasting with expectations for sharply lower GDP growth. As qualms over the 15th General Election (GE15) subside, Malaysian equities have rejoined global equities' uptrend (since Oct 22) that is expected to continue through early-23. As hoped, abating concerns of a runaway US core inflation have transitioned to expectations for moderation of and a pause to the US Fed's rate hikes in 1Q23, and investors could also be pricing in option values for a lower terminal policy rate and China's potential border reopening.
- However, market should cool off mildly in 1Q23 and warm up before 2H23.** We envision a mild-to-moderate consolidation period in 1Q23 for global markets as investors pause to assess the cumulative impact of rate hikes on corporate earnings, the severity of winter in the Eurozone (implications for global energy prices) and the ongoing Russia-Ukraine war. In addition, Malaysian equities will react to uncertainties related to UMNO's general election which is expected in 2Q23. Our assessment assumes status quo situations for the Russia-Ukraine conflict, the US's trade war against China and the unity government remaining the ruling coalition in Malaysia.
- Our recently-introduced end-23 FBMKLCI target of 1,640** is based on 15.2x 2023 earnings or -0.75SD to the historical PE mean, and conservatively buffers for a political risk premium and potential earnings downgrades (as domestic consumption eases and GDP growth cools down to 4% in 2023 from 2022's 8%). We note that 2022 marks the second consecutive year the FBMKLCI is likely to end at below-mean valuation, although the downward distortion in 2021 was due to the glove sector.
- Appealing investment themes** include trade diversion (US-China trade war) and the green agenda. The former theme benefits mainly the electrical and electronics (E&E) sector, while the latter particularly benefits hydro-electric powered smelters and supporting industries of electric vehicle (EV) production. Meanwhile, economic reopening remains a lucrative theme, particularly so for the tourism-related aviation and gaming sectors, as well as the EMS sector (replenishment of foreign workers to ensure sharp margin recovery). Other compelling themes include MYEG's blockchain and rising ROIs for O&G offshore asset (FPSO and jackup rig) owners.
- Strategy: Risk-on and position for current market uptrend through parts of 1Q23.** Thereafter, turn defensive and wait for opportunities to re-accumulate in 2Q23.

Click [here](#) for Blue Top dated 14 Dec 22

TOP PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 14 Dec 22 (RM)	Target Price (RM)	PE (x) 2022F	PE (x) 2023F	P/B (x) 2022F	P/B (x) 2023F	Div Yield (%) 2022F	Div Yield (%) 2023F
CIMB Group	CIMB MK	BUY	14,155	5.84	6.50	11.4	9.6	0.9	0.9	4.4	5.2
Genting Malaysia	GENM MK	BUY	3,431	2.66	3.50	46.7	15.5	1.2	1.2	5.5	7.3
Greotech Technology	GREATEC MK	BUY	1,472	5.16	6.30	49.3	28.7	11.5	8.2	n.a.	n.a.
Malaysia Airports	MAHB MK	BUY	2,410	6.38	7.52	n.a.	20.0	2.0	1.8	n.a.	1.7
My EG Services	MYEG MK	BUY	1,532	0.905	1.30	15.2	14.4	3.0	2.5	2.0	2.1
Press Metal	PMAH MK	BUY	9,116	4.86	6.30	26.5	21.6	6.6	5.4	1.0	1.2
TIME dotCom	TDC MK	BUY	2,124	5.08	6.40	22.8	20.3	2.9	2.9	4.4	4.9
VS Industry	VSI MK	BUY	817	0.935	1.40	15.6	13.7	1.8	1.7	2.9	3.3
Yinson Holdings	YNS MK	BUY	1,635	2.48	4.45	20.0	11.8	2.4	2.2	4.0	4.0

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI: 1,483

TARGET END-22 FBMKLCI: 1,550

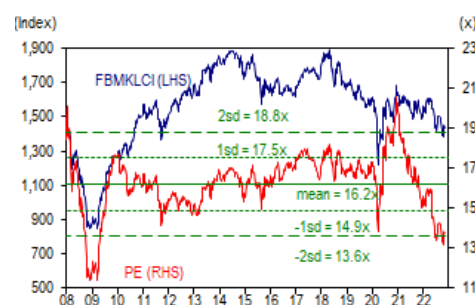
TARGET END-23 FBMKLCI: 1,640

KEY ECONOMIC/MARKET PROJECTIONS AND ASSESSMENTS

Indicator	Prediction/Assessment for 2023
GDP Growth	• 4% (2022: 8.3%)
Current Account	• 2.5% of GDP
Fiscal Balance	• -5.5% of GDP
Interest Rate	• 3.25% (a 50bp hike in 1Q23)
Inflation	• 2.8%
RM/US\$	• RM4.65/US\$ (2022F: RM4.40/US\$)
Average CPO Price	• RM4,000/tonne
Average Crude Oil Price	• 1Q23: US\$90/bbl; 2Q23: US\$90/bbl; 3Q23: US\$100/bbl; 4Q23: US\$100/bbl

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

FBMKLCI AND PE



Source: UOB Kay Hian

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ACTION

- Our top picks are CIMB Group, Genting Malaysia, Greatech Technology, Malaysia Airports Holdings, My EG Services, Press Metal Aluminium Holdings, TIME dotCom, VS Industry and Yinson Holdings.

ESSENTIALS

- Our market valuation has incorporated adequate political risk premium. Our end-23 FBMKLCI target of 1,640, which is based on -0.75SD to the historical PE mean vs the pre-pandemic years' year-end valuations of +0.5SD, has sufficiently incorporated the country's political risk premium. We assume that the unity government would remain the country's ruling coalition, and expect the unity government to adopt pragmatic and pro-business policies.
- The key structural themes relate to trade diversion arising from the US's sanction against China, and the green agenda. The compelling winners within our coverage of the first theme are Penang-based automation and SPE companies, followed by Johor-based EMS companies. The green agenda theme is uplifting for industrial commodities and particularly hydro-powered Malaysian smelters, suppliers to the EV supply chain and selected O&G offshore-oriented (FPSO and jack-up rigs) companies.
- The cyclical themes relate to the turning point of the downtrodden semiconductor stocks (refer to our technology sector section), economic reopening themes (Asia's border reopening and ramp-up of foreign worker hiring in Malaysia), as well as China's emergence from lockdowns and potential border reopening.
- Other meaningful investment themes include blockchain trading platforms, the O&G sector's rising ROI for offshore assets (FPSO and jackup rigs), and the eventual MRT3 contract award.
- Other notable BUY calls include: a) trade diversion beneficiary Pentamaster Corp; b) green agenda beneficiary OM Holdings; c) reopening and cyclical recovery beneficiaries Genting Bhd and SKP Resources; d) O&G beneficiaries Bumi Armada and Velesto Energy; e) bank credit cost tailwinds beneficiary Public Bank; and f) Gamuda, the frontrunner to clinch a sizeable MRT3 contract in 1H23.
- Meanwhile, high-yielding stocks should particularly appeal during market consolidation which is anticipated sometime in 1Q23. We categorise high yielders into three groups – stocks having: a) back-ended dividends, b) anticipated special dividends, and c) high absolute yields. The first two categories are BUY-rated companies while the last category includes some HOLD-rated companies. Stocks which fit this theme are BUY-rated British American Tobacco (high absolute yields), Hap Seng Plantations (back-loaded dividends), Sunway REIT, RHB Bank and Genting Malaysia (special dividends), and HOLD-rated Astro Malaysia.

INVESTMENT STRATEGY FOR 2023

	4Q22 Thawing	1Q23 Moderately Frigid	Thawing (in 2Q23) & Warming (2H23)
Strategy/ Investment Mode	<ul style="list-style-type: none"> Risk-on Through Jan 23 Pricing In Fed Pause, Option Values for Lower Fed Funds Terminal Rate, China Reopening 	<ul style="list-style-type: none"> Defensive: BUY on Anticipated Weakness Market Focuses on Earnings Downside, US Economic Recession, Possible Winter in Euroland, and Russia-Ukraine War 	<ul style="list-style-type: none"> Sustained Uptrend Market Anticipates Fed Pivot as Inflation Falls to US Fed Acceptable Range Market Prices in US Economic Recovery, Corporate Earnings Growth Momentum Through 2024
Sectors/Themes in Limelight	<ul style="list-style-type: none"> Tourism-related: Aviation (Malaysia Airports) Industrial Commodity Stocks Banks: NIM Expansion, Credit Cost Tailwind O&G: FPSO Technology: Trade Diversion and EV Post-GE15 Plays: Construction (MRT3), Blockchain 	<ul style="list-style-type: none"> Defensive: REITs, Selected Consumer, Healthcare Technology: Trade Diversion & EV, Semicon Cyclical Recovery Blockchain 	<ul style="list-style-type: none"> Cyclicals, Retailers & Laggards Technology: Trade Diversion & EV, Semicon Cyclical Recovery Blockchain
Potential Underperformers	<ul style="list-style-type: none"> Glove Stocks Reversing Technical Run-up Domestically-oriented Cyclical Sectors 	<ul style="list-style-type: none"> Turning Neutral on Banks Cyclical Stocks Could Retreat Temporarily 	

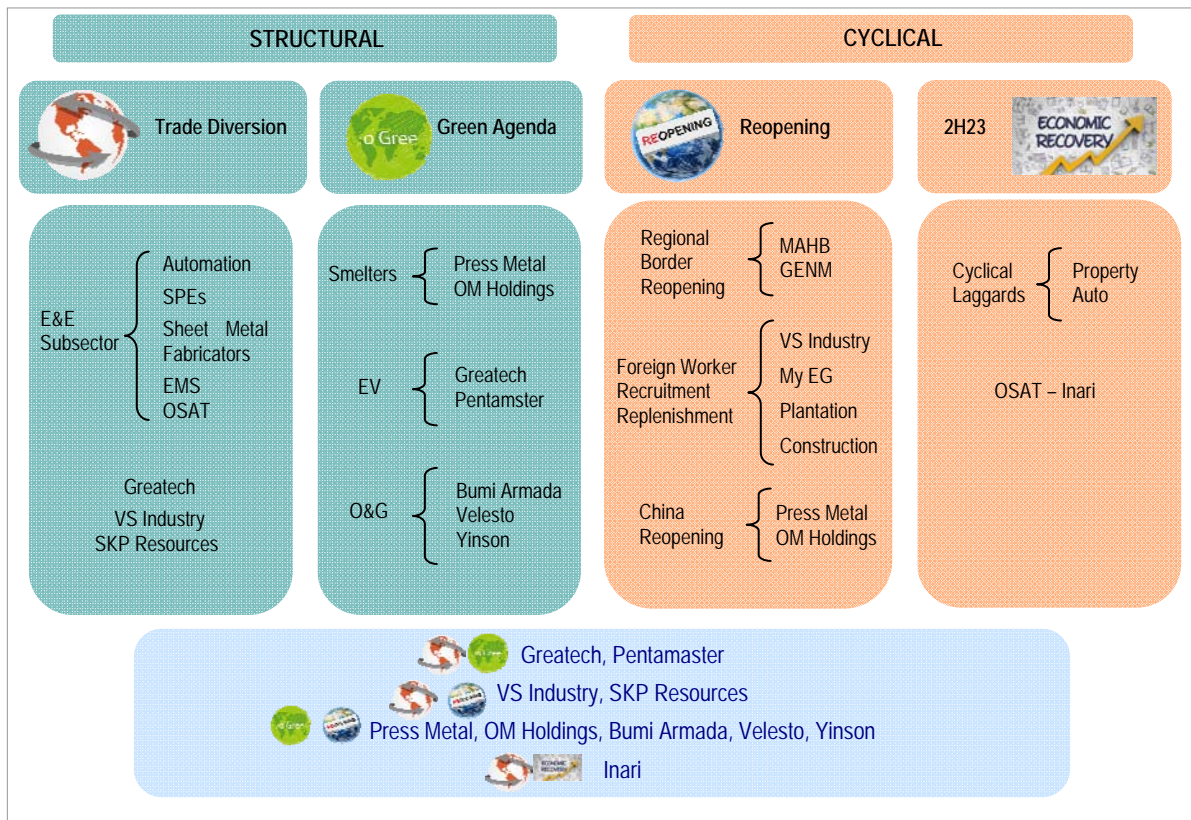
* Green highlighted investment themes are themes which are recurring through 2023
Source: UOB Kay Hian

SELECTED INVESTMENT THEMES

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
STRUCTURAL: Trade Diversion				
Coraza Integrated Technology	CORAZA MK	BUY	0.835	1.10
Greatech Technology	GREATEC MK	BUY	5.16	6.30
Pentamaster Corporation	PENT MK	BUY	4.68	5.20
STRUCTURAL: Green Agenda				
Bumi Armada	BAB MK	BUY	0.495	0.65
OM Holdings	OMH MK	BUY	2.08	3.53
Press Metal	PMAH MK	BUY	4.86	6.30
Yinson	YNS MK	BUY	2.48	4.45
CYCLICAL: Reopening Plays – Border Reopening				
Genting Malaysia	GENM MK	BUY	2.66	3.50
Malaysia Airports	MAHB MK	HOLD	6.38	7.52
CYCLICAL: Reopening Plays – Ramp Up In Foreign Worker Hiring				
VS Industry	VSI MK	BUY	0.935	1.40
OTHERS: Blockchain				
My EG Services	MYEG MK	BUY	0.905	1.30

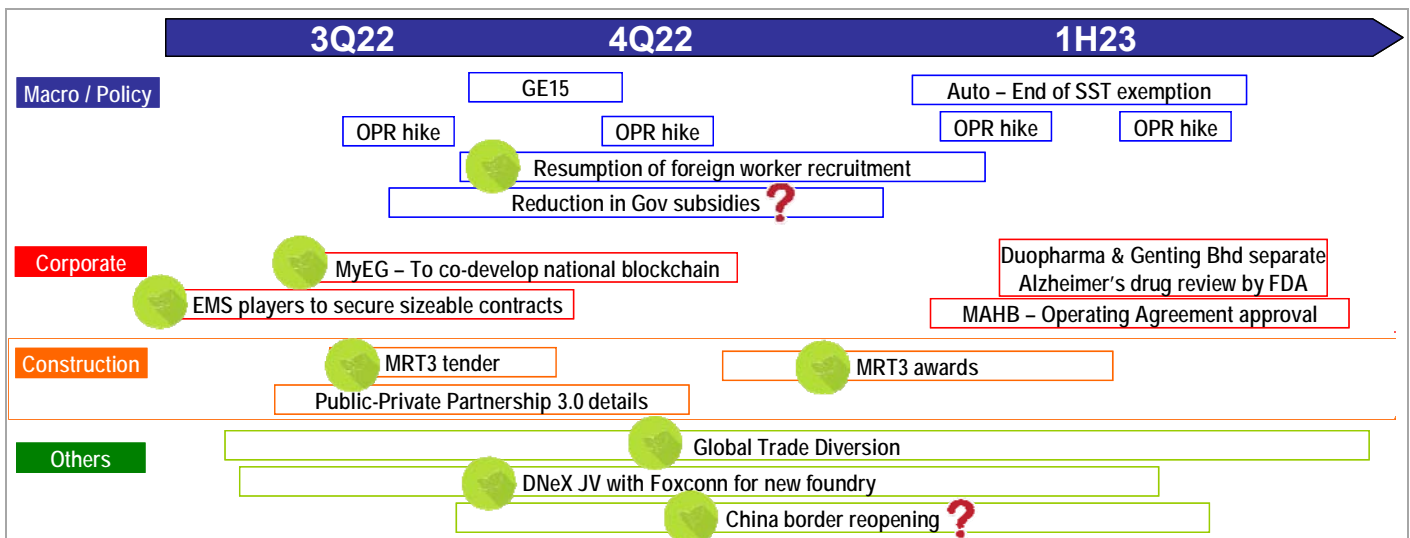
Source: Bloomberg, UOB Kay Hian

THEMES & BENEFICIARIES



Source: UOB Kay Hian

KEY EXTERNAL EVENTS AND ANTICIPATED EVENTS



Source: Media reports, UOB Kay Hian

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