

STRATEGY – MALAYSIA

1Q23 Results Wrap-up

Corporate earnings disappointment was widespread again in 1Q23 after three sequential quarters of narrowing disappointments, prompting us to make significant cuts to our FBMKLCI earnings and year-end target (to 1,510 from 1,620). Nevertheless, we maintain our view that Malaysian equities will soon shake off today's depressing consolidation mode to reflect abating political uncertainties, investors pricing in a global economic recovery, and potential positive government policy changes.

WHAT'S NEW

- **1Q23: Widespread disappointments.** Stocks under our coverage posted underwhelming results as earnings disappointments surged (21%) and earnings beats dropped (8%). Disappointments were prevalent in many major sectors, most notably in the building materials, gloves, healthcare and technology sectors. A notable disappointment was Press Metal. Key reasons for the earnings shortfall include low plant utilisation (affecting mainly the gloves and technology sectors), low ASP (plantation, technology), cost inflation (consumer stocks). Only a handful of results were impressive, and these were mostly O&G companies, Hartalega, MYEG, Oppstar and Petronas Dagangan (please refer to overleaf table for selected earnings misses/beaters and changes in sector forecasts).
- **We lower 2023/24 earnings forecasts for our coverage universe by 3.7%/2.3%, and for the FBMKLCI by 5.0% and 2.4%.** The earnings downgrades are mainly for the gloves, healthcare, plantation, telecommunication, and technology sectors, while upgrades were mainly to the automobile and O&G-asset owners sectors.
- **We now expect our coverage universe and the FBMKLCI to deliver earnings growths of 10.9%/11.4% and 6.1%/9.6% respectively in 2023/24.** The FBMKLCI's 2023 earnings growth would be pedestrian (<3%) after excluding 2022's one-off prosperity tax.

ACTION

- **Cutting our end-23 FBMKLCI target to 1,510 from 1,620 previously,** which is based on 15.6x 2023F PE, premised on -0.5SD below mean PE valuation. We have raised our market valuation to -0.5SD of mean PE as our earlier valuation (-0.75SD) had built in an earnings downside buffer. Our bottom-up target is 1,568 (previously 1,616).
- **Strategy: Position for a 2H23 rebound.** The FBMKLCI has extended its years of lacklustre performance with its ytd regional underperformance (accompanied by the recent rundown in the ringgit), and with foreign shareholding in Malaysian equities sliding to a 20-year low of 20% (see overleaf chart). Nevertheless, we remain optimistic that investors will price in easing political risk premium and a global cyclical recovery in 2H23. Domestically, we expect the unity government to maintain control in the key states in the upcoming (six) state elections, and introduce impactful business policy changes (eg lowering the requirement thresholds for the MM2H retirement programme). We also expect waning correlation between FBMKLCI and foreign shareholding levels in 2H23, reflecting the current low foreign shareholding and noting the prime minister's call for EPF to raise its domestic investments to 70% (2022: 64%).
- Externally, toppish US interest rates will allow investors to price in a global economic cyclical recovery that is accompanied by the upturn in the semiconductor cycle. Improving CPO price in 2H23 (fanned by the unfolding of El Nino) is another positive.
- **Our top picks** are Greatech Technology, Inari, IOI Corp, Malaysia Airports (MAHB), Mr DIY, My EG Services (MYEG), and Yinson. Additions are Inari and IOI Corp, replacing Press Metal and TIME dotcom.

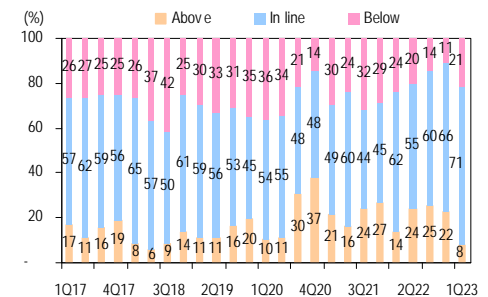
STOCK PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 1 Jun 23 (RM)	Target Price (RM)	PE (x) 2022	PE (x) 2023F	P/B (x) 2022	P/B (x) 2023F	Div Yield (%) 2022	Div Yield (%) 2023F
Greatech Technology	GREATEC MK	BUY	1,119	4.12	6.20	38.5	28.4	8.8	6.7	0.0	0.0
Inari Amertron	INRI MK	BUY	2,007	2.48	3.00	23.4	28.0	3.6	3.6	4.0	3.2
IOI Corporation	IOI MK	BUY	4,991	3.71	4.40	12.0	15.3	2.2	2.0	3.8	3.4
Malaysia Airports	MAHB MK	BUY	2,506	6.93	7.52	70.3	25.9	2.1	2.0	0.0	1.6
Mr DIY	MRDIY MK	BUY	3,169	1.55	2.15	30.9	25.1	10.2	8.3	1.4	1.8
My EG Services	MYEG MK	BUY	1,348	0.84	1.18	17.8	16.2	3.3	2.8	1.7	1.9
Yinson	YNS MK	BUY	1,644	2.61	4.05	19.1	11.7	2.2	2.0	3.8	3.8

Source: Bloomberg, UOB Kay Hian

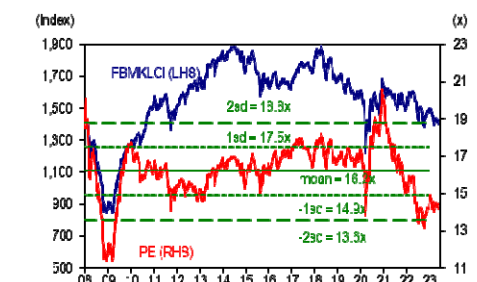
CURRENT FBMKLCI: 1,383
TARGET END-23 FBMKLCI: 1,510
(PREVIOUSLY 1,620)

QUARTERLY RESULTS TALLY



Source: UOB Kay Hian

FBMKLCI'S PE BAND



Source: UOB Kay Hian

FBMKLCI YEAR-END VALUATION

	Index	PE	SD from mean
2015	1692	16.3	0.2
2016	1641	16.9	0.5
2017	1796	17.5	1.1
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	15.1	-0.8

Source: Bloomberg, UOB Kay Hian

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NOTABLE EARNINGS SURPRISES AND DISAPPOINTMENTS

Company	Comments
Above Expectations	
My EG	Contributions from the blockchain division, particularly Zetrix token sales.
Oppstar	Higher-than-expected margins thanks to better cost control on top of a healthy top-line growth.
Petronas Dagangan	Higher-than-expected fuel volume growth and lower jet fuel.
Sapura Energy	Higher recognition from 420 claims and LD reversals in 4QFY23 alone that lifted E&C EBITDA materially.
Uzma	Weaker O&G activities qoq offset by leaner cost structure.
Below Expectations	
BAT	Decline in volume sales owing to increased illicit, vapour interaction and an earlier run-in of the fasting month.
Genting Msia	Overall gaming volume fell, as a qoq volume growth in the mass market segment was unable to offset a steeper qoq fall in the VIP segment.
Globetronics	Slower-than-expected loadings from its key customers amid the ongoing inventory adjustment, causing a significant drop in operational efficiency.
Greatech	Slower contracted billing milestone and higher cost structure.
Inari	Lower loading volumes in its radio frequency (RF) and optoelectronics segments with ongoing inventory adjustment.
My News	Higher opex.
Sports Toto	Exceptionally high prize payouts for the toto operation.

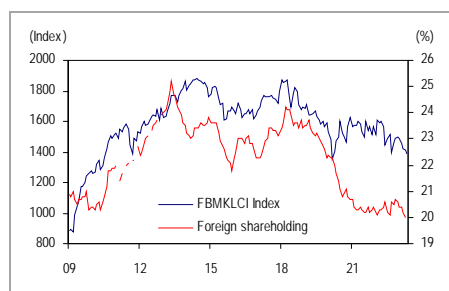
Source: UOB Kay Hian

CORPORATE EARNINGS, REVISION AND GROWTH

	Net Profit (RMm)			Revision (% chg vs 4Q22)			Earnings Growth (yoy % chg)		
	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
Automobile	656	592	683	10.6	2.8	3.4	63.9	(9.8)	15.3
Aviation	(2317)	1,874	2,493	0.0	0.0	0.0	(40.7)	(180.9)	33.0
Banking	31,893	35,140	37,655	0.4	(0.6)	(0.6)	9.5	10.2	7.2
Building Material	2,013	2,163	2,542	(5.2)	(18.0)	(11.4)	48.1	7.4	17.6
Construction	1,483	1,501	1,711	0.4	(3.3)	27.2	84.0	1.2	14.0
Consumer	5,271	4,911	5,523	(0.5)	(1.9)	(0.9)	28.8	(6.8)	12.5
Exchange	227	225	242	0.0	0.0	0.0	(36.2)	(0.7)	7.4
Gaming	(377)	2,720	3,115	0.0	(8.1)	(8.7)	n.a.	(822)	14.5
Glove Manufacturing	1,455	(95.8)	793	25.6	(194.7)	(21.7)	(91.9)	n.a.	n.a.
Healthcare	1,677	2,042	2,247	(23.4)	(21.4)	(20.0)	(2.0)	21.8	10.1
Insurance	319	389	408	(1.4)	0.0	(6.9)	(21.8)	22.3	4.8
Manufacturing	410	477	546	0.0	(3.3)	(1.4)	18.3	16.3	14.5
Media	312	428	369	(25.7)	(12.4)	(23.3)	(34.5)	37.3	(13.9)
Oil & Gas - Heavy Engineering	530	596	674	0.0	0.0	0.0	140.2	12.3	13.1
Oil & Gas - Asset Owners	2,061	2,620	2,926	2.1	12.7	6.8	24.9	27.1	11.7
Oil & Gas - Offshore Contractors	(128)	(40)	(173)	(58)	(67)	(154)	n.a.	n.a.	n.a.
Oil & Gas - Shipping	2,214	2,168	2,170	0.0	0.0	0.0	67.8	(2.1)	0.1
Plantation	7,771	5,190	5,768	1.0	(13.1)	0.2	14.0	(33.2)	11.2
Port	667	751	827	0.0	0.0	0.0	(13.6)	12.5	10.2
Property	1,515	1,694	1,697	(3.0)	(2.7)	(3.6)	56.7	11.8	0.2
REITs	1,942	2,017	2,143	0.4	(0.1)	0.7	59.8	3.9	6.2
Technology - EMS	290	323	457	(4.2)	(12.9)	(9.0)	(34.6)	11.3	41.5
Technology - Semiconductor	858	852	1,030	0.2	(17.1)	(16.1)	13.7	(0.6)	20.8
Technology - Software	495	545	592	2.1	1.6	(3.7)	21.7	10.2	8.6
Telecommunications	5,083	5,514	6,772	(0.0)	(7.5)	(2.0)	(0.4)	8.5	22.8
Utility	5,394	5,432	5,790	0.9	(1.5)	1.7	(8.2)	0.7	6.6
Total	71.7	80.0	89.0	(0.0)	(3.2)	(1.9)	(1.7)	11.6	11.2
Total (ex-Glove)	70.3	80.1	88.2	(0.4)	(2.9)	(1.7)	27.8	14.0	10.1
FBM KLCI	(1.8)	(5.0)	(5.0)	9.4	6.1	9.6			

Source: UOB Kay Hian

FOREIGN OWNERSHIP OF MALAYSIA EQUITIES



Source: Bloomberg, Bursa, UOB Kay Hian

SELECTED COMPANIES WITH HIGH FOREIGN SHAREHOLDING

Company	2018-2019	Current
CIMB Group	27.40%	30.80%
Top Glove	31.70%	29.60%
Public Bank	36.60%	26.10%
BAT	25.60%	24.30%
Alliance Bank	30.20%	23.30%
Inari	26.00%	20.70%
Kossan Rubber	17.50%	20.30%
Dialog	21-25%	Low 20s%
My EG	26.70%	c.16-17%
Astro	33.00%	15.00%

Source: Respective companies, UOB Kay Hian

EARNINGS REVISION

	Earnings revision (qoq % chg)	
	Cur FY	Next FY
1Q19	(1.6)	(1.9)
2Q19	(4.1)	(3.8)
3Q19	(1.6)	(1.4)
4Q19	(3.1)	(1.3)
1Q20	(21.7)	(7.3)
2Q20	(7.1)	3.9
3Q20	0.8	16.9
4Q20	1.7	1.2
1Q21	(3.6)	0.7
2Q21	(2.1)	(1.6)
3Q21	(3.2)	(6.8)
4Q21	(1.1)	2.3
1Q22	0.3	1.2
2Q22	0.0	(1.1)
3Q22	0.2	(1.9)
4Q22	0.8	3.1
1Q23	(3.2)	(1.9)

Source: UOB Kay Hian

SECTOR WEIGHTINGS

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

Source: UOB Kay Hian

SECTOR YTD PRICE PERFORMANCE

Sector	2022	ytd % chg
O&G - Offshore Contractors	9.6	30.9
Glove Manufacturing	(61.7)	28.5
Construction	21.9	12.8
Automobile	28.6	10.4
Aviation	2.2	10.1
REITs	5.6	7.4
Telecommunications	(10.7)	5.4
Manufacturing	(30.2)	3.1
Media	(27.2)	3.1
Property	(18.6)	2.4
Port	(4.7)	1.3
Utilities	8.4	1.2
Insurance	(5.5)	0.4
O&G - Asset Owners	6.5	(0.2)
O&G - Shipping	11.4	(1.1)
Consumer	0.4	(1.6)
Tech - Semiconductor	(27.5)	(2.1)
Healthcare	(14.0)	(3.2)
Tech - software	(24.4)	(4.2)
Building Materials	(16.3)	(4.4)
Exchange	6.7	(5.2)
Gaming	(3.5)	(5.6)
Plantation	15.3	(6.0)
Banking	12.4	(6.2)
O&G - Heavy Eng	(2.7)	(11.7)
Tech - EMS	(27.6)	(18.7)
FBM KLCI	(4.6)	(7.2)

Source: UOB Kay Hian

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