

STRATEGY – MALAYSIA

2Q24 Results Wrap-up: On A Recovery Path

The 2Q24 results season largely met expectations, and we retain both our bullish market view for 2H24 and year-end FBMKLCI target of 1,735 (slightly below 15.6x 2024F PE or -0.5SD to mean PE). While our anticipated interim consolidation period turned out to be significantly more punishing for small and mid caps, sentiment has likely bottomed out, and we still expect the broad market to regain good momentum for the remaining 2H24. We advocate a risk-on strategy, but to still avoid concept stocks.

WHAT'S NEW

- 2Q24 results review: Moving in the right direction.** Although earnings disappointments still outweighed positive surprises (20% vs 14% of our coverage universe), the percentage of positive surprises improved qoq (see RHS chart). Sector wise, technology, plantation and property saw the highest proportion of disappointments while oil & gas saw the most positive surprises. Other notable outperformers included Hong Leong Bank, IHH Healthcare, Sunway Berhad and MyEG Services (refer to overleaf tables for more details).
- Uptick in 2024/2025 earnings forecasts.** In keeping with the recent past results reviews, we raise our 2024/25 earnings forecasts for FBMKLCI marginally by +0.3%/+0.4% respectively. Notable upgrades were for the automobile sector and the software and EMS subsectors of technology (see overleaf table for details). Conversely notable downgrades in earnings were for the gloves sector, and the semiconductor subsector of technology and plantation.
- We now expect our coverage universe and the FBMKLCI to deliver earnings growth of 21.8%/10.5% and 13.1%/11.5% respectively in 2024/25.**

ACTION

- Year-end FBMKLCI target maintained at 1,735.** Despite the earnings upgrades, we conservatively maintain our year-end index target which implies a 2024F PE target of 15.3x (slightly below -0.5SD to the 10-year mean PE (15.6x 2024F PE). For reference, the bottom-up target is 1,769, and the hypothetical targets at -0.5SD and mean PE valuations would be respectively 1,768 and 1,842.
- Strategy: Still on a risk-on mode. We advocate** capitalising on investment themes such as Iskandar 2.0, AI (data center), global semiconductor cycle recovery, blockchain and renewable energy. Quality high yielders, selected winners of the ringgit's strength and M&A beneficiaries are also expected to be prominent market outperformers.
- Maintain OVERWEIGHT** on the property, construction, building materials and technology sectors. The gloves sector could also provide periodic trading opportunities. For the defensive sectors which have benefitted from the recent weeks' broader sell-down, banking stocks should still trend higher in tandem with steady foreign equity inflows, although the telco sector may trail the market's ascent once the market turns decisively risk-on again.
- Our top picks are** Gamuda Berhad (Gamuda), Inari Amertron, IOI Property, My EG Services, RGB International, Pekat, Public Bank and VS Industry (VSI), with the latter two replacing exceptional outperformers CIMB and NationGate Holdings.

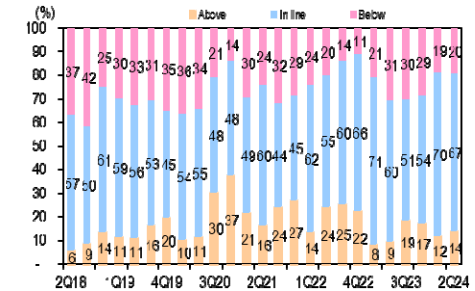
STOCK PICKS

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Net Profit			EPS			PE			Yield (%)	ROE (%)	Market Cap (US\$m)	P/B
					2023 (RMm)	2024F (RMm)	2025F (RMm)	2023 (sen)	2024F (sen)	2025F (sen)	2023 (x)	2024F (x)	2025F (x)				
Gamuda	GAM MK	BUY	7.55	8.88	976.6	1,276.0	1,309.8	35.3	46.1	47.3	21.4	16.4	16.0	1.6	10.7	4,835.2	1.7
Inari Amertron	INRI MK	BUY	3.23	3.80	306.5	376.9	423.6	8.2	10.0	11.3	39.6	32.2	28.7	2.8	13.5	2,808.0	4.3
IOI Properties Group	IOIPG MK	BUY	2.08	3.00	638.1	726.4	965.0	11.6	13.2	17.5	17.9	15.8	11.9	2.4	2.9	2,628.3	0.5
My EG Services	MYEG MK	BUY	0.895	1.42	631.2	657.9	704.5	8.5	8.9	9.5	10.5	10.1	9.4	3.0	22.8	1,532.0	2.1
Public Bank	PBK MK	BUY	4.75	5.35	7,138.3	6,932.1	7,388.0	36.8	35.7	38.1	12.9	13.3	12.5	4.1	n.a	21,159.1	1.6
Pekat Group	PEKAT MK	BUY	0.920	1.15	16.7	30.7	39.2	2.6	4.8	6.1	35.6	19.3	15.1	0.0	18.2	136.2	3.2
RGB International	RGB MK	BUY	0.395	0.66	76.0	112.9	122.6	4.9	7.3	7.9	8.1	5.4	5.0	9.2	36.5	135.1	1.8
VS Industry	VSI MK	BUY	1.07	1.60	174.5	277.5	326.8	4.5	7.1	8.4	23.9	15.0	12.8	3.1	11.9	950.2	1.7

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI: 1,678
TARGET END-24 FBMKLCI: 1,735

QUARTERLY RESULTS TALLY



Source: UOB Kay Hian

FBMKLCI'S PE BAND



Source: UOB Kay Hian

FBMKLCI YEAR-END VALUATION

	Index	PE (x)	SD from Mean (x)
2018	1,690	17.1	0.7
2019	1,589	17.1	0.8
2020	1,641	20.2	2.8
2021	1,567	15.0	-1.0
2022	1,495	15.9	-0.6
2023	1,455	14.3	-1.5

Source: Bloomberg, UOB Kay Hian

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NOTABLE EARNINGS SURPRISES AND DISAPPOINTMENTS

Company	Comments
Above Expectations	
Hong Leong Bank	Net write-backs in provisions for the third consecutive quarter
IHH Healthcare	Better-than-expected revenue intensity and margins across most key markets
Sunway Bhd	Higher progressive billings from the property segment as well as accelerated progress for newer construction projects
Uzma	IWS picked up strongly after suffering some setbacks in 3QFY24
MyEG Services	Stronger performance from the blockchain segment
Below Expectations	
Inari	Lower-than-expected net margin due to a jump in depreciation and unfavourable product mix
IOI Property	Weaker-than-expected contributions from the China market
Kerjaya Prospek	Slower-than-expected growth in property sales and progress billings
MAHB	Higher operating costs incurred for the Malaysia operations
Nestle	Sluggish sales and softer-than-expected margins
Plantation	Lower-than-expected production and poorer downstream performance

Source: UOB Kay Hian

CORPORATE EARNINGS, REVISION AND GROWTH

	----- Net Profit (RMm) -----			--- (2Q24 vs 1Q2 forecast) ---			----- Earnings Growth -----		
	2023	2024F	2024F	2023	2024F	2025F	2023	2024F	2025F
Automobile	1,719	2,059	2,140	9.1	20.5	2.7	9.6	19.8	4.0
Aviation	(235)	1,347	1,881	0.0	(4.1)	0.0	(89.5)	n.a.	39.6
Banking	35,717	38,479	41,554	(0.3)	1.4	2.5	15.6	7.7	8.0
Building Material	1,458	2,063	2,388	(3.5)	(11.2)	(7.9)	(21.4)	41.5	15.8
Construction	1,604	1,959	2,537	22.1	1.5	5.8	35.8	22.1	29.5
Consumer	4,485	4,673	5,223	0.4	(4.4)	(3.6)	(14.6)	4.2	11.8
Exchange	252	326	363	12.7	27.0	49.5	11.4	29.3	11.1
Gaming	1,636	3,371	3,853	14.9	7.0	6.9	n.a.	106.1	14.3
Glove Manufacturing	(1,044)	173	1,085	26.6	(45.9)	5.7	n.a.	n.a.	n.a.
Healthcare	1,632	1,833	2,039	1.5	(0.5)	(0.3)	(3.8)	12.3	11.2
Insurance	347	407	425	0.0	0.0	0.0	8.9	17.3	4.3
Manufacturing	438	545	583	0.0	0.0	0.0	6.9	24.3	7.1
Oil & Gas - Heavy Engineering	46	665	713	0.0	11.1	14.1	(91.3)	1335.7	7.2
Oil & Gas - Asset Owners	2,202	2,549	2,630	0.0	2.1	1.3	6.9	15.8	3.2
Oil & Gas - Offshore Contractors	(807)	(190)	57	0.0	(43.4)	(122.6)	n.a.	n.a.	n.a.
Oil & Gas - Shipping	2,498	2,601	2,831	0.0	2.9	29.4	12.8	4.1	8.8
Plantation	3,955	5,184	5,309	8.3	(13.5)	(9.0)	(46.0)	31.1	2.4
Port	780	761	837	0.0	(2.0)	0.6	25.2	(2.3)	9.9
Property	2,635	3,197	3,122	(0.1)	7.6	(4.3)	13.0	21.3	(2.3)
REITs	2,021	2,224	2,405	0.4	2.3	2.8	4.5	10.0	8.2
Technology (EMS)	314	321	431	10.8	16.6	8.9	5.4	2.2	34.4
Technology (Semiconductor)	727	721	955	0.0	(15.9)	(13.5)	(15.3)	(0.7)	32.3
Technology (Software)	623	814	884	(2.1)	19.1	20.1	22.7	30.7	8.6
Telecommunications	4,936	5,925	6,740	0.0	0.0	0.0	(23.2)	20.0	13.8
Utility	3,473	5,002	5,141	0.6	(1.5)	(2.3)	(48.0)	44.0	2.8
Total (RMb)	71.4	87.0	96.2	0.8	0.2	1.6	(2.4)	21.8	10.5
FBMKLCI							0.6	13.1	11.5

Source: UOB Kay Hian

EARNINGS REVISION

	----- Earnings Revision (qoq % chg) -----	
	Current FY	Next FY
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)
2Q23	(3.2)	(2.3)
3Q23	(2.7)	0.1
4Q23	(0.2)	0.1
1Q24	(0.7)	0.1
2Q24	0.2	1.6

Source: UOB Kay Hian

SECTOR WEIGHTINGS

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

Source: UOB Kay Hian

SECTOR YTD PRICE PERFORMANCE

Sector	ytd % chg
Automobile	7.6
Aviation	33.0
Banking	25.2
Building Materials	5.7
Construction	62.6
Consumer	6.8
Exchange	38.8
Gaming	(2.3)
Glove Manufacturing	(2.9)
Healthcare	7.5
Insurance	6.4
Manufacturing	10.3
O&G - Heavy Eng	13.4
O&G - Asset Owners	4.0
O&G - Offshore Contractors	3.8
O&G - Shipping	18.1
Plantation	4.2
Port	20.6
Property	53.0
REITs	15.5
Renewable Energy	109.3
Tech - EMS	37.1
Tech - Semiconductor	(0.8)
Tech - software	10.0
Telecommunications	1.6
FBMKLCI	15.4

Source: UOB Kay Hian

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