Malaysia Market Focus

Malaysia Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Feb 2021

Bracing for longer recovery

- Record high COVID-19 cases to derail recovery momentum
- State of emergency lasting till August 2021 helps to provide **political** stability
- End-2021 KLCI target of 1,770 based on 16x CY21 earnings
- Top picks: KLK, WPRTS, GAM, TDC, IJM, VSI, HIBI, SENTRAL

Prolonged health crisis. Malaysia has continued to report record high daily COVID-19 cases, exceeding 5k recently despite the Movement Control Order (MCO) being re-instated since 13 January 2021. It is no secret that the health crisis is straining the healthcare system to breaking point. There could also be more cases involving foreign workers that are yet to be reported as only c.15% of the 1.7m foreign workers have done the mandatory COVID-19 screening since 1 December 2020. Nevertheless, the government has reassured the public that it will not implement a total lockdown even under the worst-case scenario. This provides some relief for the economy as most businesses continue to operate during the MCO.

Less political disruption for now. With the state of emergency potentially lasting until August 2021, the Perikatan Nasional (PN) government will be able to govern by fiat as Parliament has now been suspended indefinitely. As the focus remains on the containment of the pandemic, the much-anticipated economic recovery may only take place in 2H21 as domestic consumption could remain disrupted. Meanwhile, the 15th General Election remains the wild card in 2H21 as political parties may seek different alliances to ensure victory.

Ample liquidity. Despite the near-term setback, we reiterate our end-2021 KLCI target to 1,770 pegged to 16x CY21 earnings (10-year mean of 12-month rolling forward price-to-earnings (PE)). Our investment strategy will broadly encompass three key themes, namely: i) recovery plays to ride on the post-pandemic recovery, ii) yield plays due to widening yield spread, and iii) resilient business models. The flush of liquidity remains supportive of the market and the central bank could further cut the overnight policy rate to a new low of 1.5% to stimulate the economy if economic conditions remain lackluster.

Selective picks. We continue to favour potential beneficiaries of an improving economy such as Westports (WPRTS), VS Industry (VSI), KL Kepong (KLK) and Hibiscus Petroleum (HIBI). Gamuda (GAM) and IJM Corp (IJM) are the best proxies to play on the revival of infrastructure projects. We also like companies with resilient business models and our picks are TIME dotCom (TDC) and Sentral REIT (SENTRAL).

KLCI : 1,566.40

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Market Key Data

(%)	EPS Gth	Div Yield
2019A	(8.1)	2.9
2020F	(4.6)	2.3
2021F	27.2	3.8

(x)	PER
2019A	18.3
2020F	19.2
2021F	14.4

STOCKS

	Price RM	Mkt Cap US$m	12-mth Target RM	Performance (%) 3 mth	12 mth	Rating
KL Kepong	23.24	6,204	27.00	9.5	0.5	BUY
Westports	4.30	3,629	5.00	10.3	8.3	BUY
Gamuda	3.30	2,053	4.60	(0.9)	(16.9)	BUY
TIME dotCom	13.90	2,079	16.00	7.9	50.3	BUY
IJM Corp	1.50	1,345	2.20	11.9	(33.3)	BUY
VS Industry	2.74	1,276	3.25	17.1	89.0	BUY
Hibiscus	0.54	229	0.70	16.3	(41.2)	BUY
Sentral REIT	0.93	245	1.20	18.6	(6.1)	BUY

Source: AllianceDBS, Bloomberg Finance L.P.

Closing price as of 29 Jan 2021

Short-term setback from COVID-19

While the global equity market had a good rally in January 2021 in anticipation of the mass vaccination to bring the COVID-19 pandemic under control, Malaysia continues to witness a strong resurgence of daily infection cases which have now exceeded 5k. This is despite the MCO which was re-instated since 13 January 2021 to ban social activities and gatherings. Nevertheless, this round of MCO has been much less disruptive compared to the previous one as many economic sectors are allowed to operate.

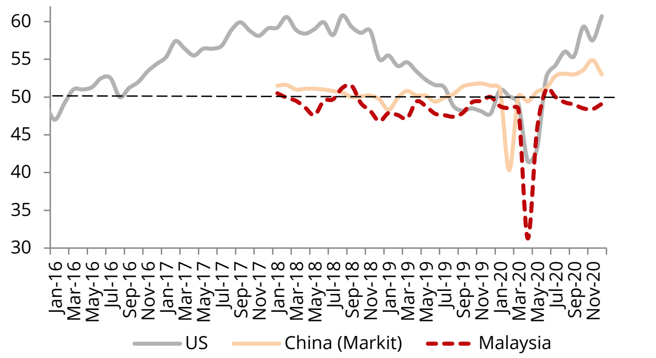
We believe the number of daily infections will not go down sharply in the near term as more testing is being rolled out. For instance, only c.15% of the entire 1.7m documented foreign workers have been tested since 1 December 2020 when it was made mandatory for foreign workers to undertake COVID-19 screening. In addition, mass vaccination for the public is most likely to only take place from 2Q21 as the healthcare front-liners will be given priority.

Therefore, the health crisis which has strained the public healthcare system to breaking point will continue to be the key factor undermining the economic recovery. While this may temporarily affect domestic consumption and investment, external trade continues to enjoy strong growth momentum, aided by resilient external demand.

On external trade, Malaysia continues to benefit from the improved economic outlook in 2H20, which may continue in 2021. In 4Q20, Malaysia's exports improved by 5.1% y-o-y and 4.2% q-o-q which barely showed any signs of the pandemic-induced slowdown. While there has been a resurgence of COVID-19 infections in recent months, the availability of vaccines has largely helped to project optimism that the worst is over.

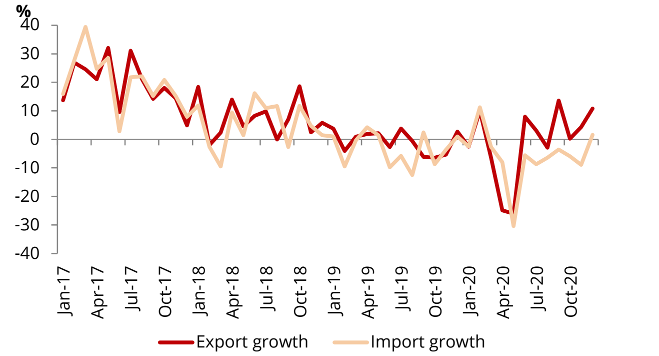
We believe exporters will continue to deliver good financial performance given the strong external demand which could be reflected in the upcoming quarterly results season, though it could be partly negated by the weakening US dollar.

Improving manufacturing PMI



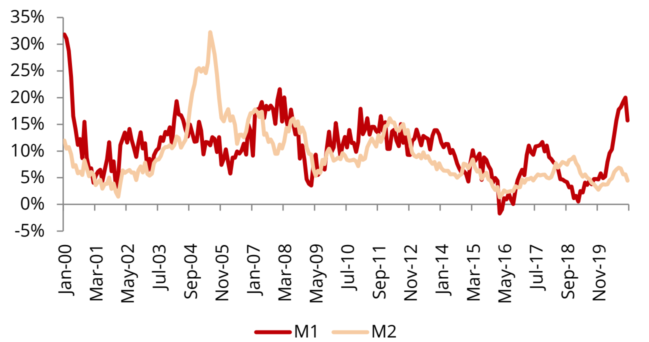
Source: AllianceDBS, Bloomberg Finance L.P.

Malaysia's external trade growth



Source: AllianceDBS, Bloomberg Finance L.P.

M1 and M2 money supply growth

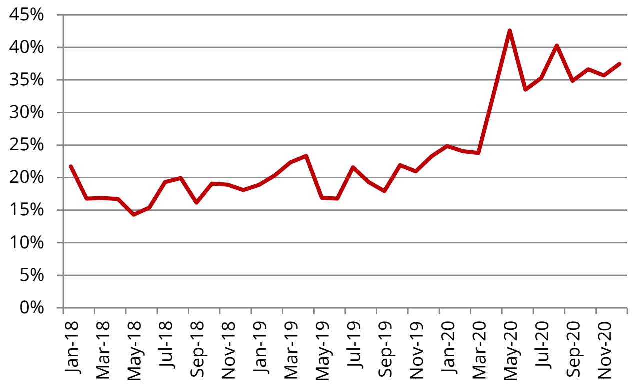


Source: AllianceDBS, Bloomberg Finance L.P.

Meanwhile, there is still ample liquidity in the financial system as M1 money supply grew 15.7% y-o-y in December 2020. Though this is a slight reduction from the impressive 20% growth in November 2020, it marks eight consecutive months of double-digit growth of M1 money supply which will remain supportive of Malaysia's equity market. Retail participation in the equity market also remains elevated at above 35%, which may also help to sustain the equity market.

Bank Negara Malaysia continues to adopt an accommodative monetary policy, cutting interest rate four times in 2020 by a cumulative quantum of 125 bps. Should economic conditions deteriorate, we believe the central bank is ready to cut interest rate to a new record low of 1.5%.

Equity market retail participation remains elevated



Source: AllianceDBS, Bloomberg Finance L.P.

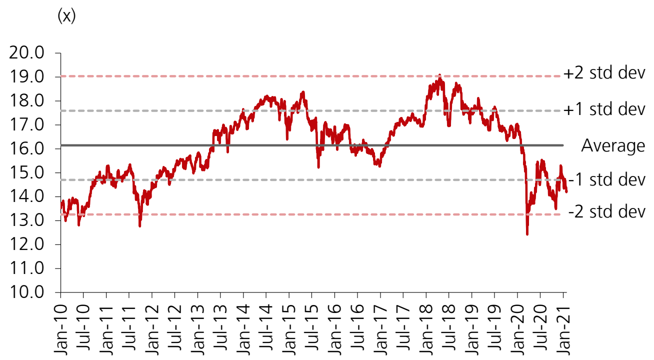
On the domestic political front, it is likely to be stable as the state of emergency could remain in place until August 2021. This allows the PN government to govern by fiat as Parliament has been suspended indefinitely. Nevertheless, the priority of the government will be to combat the COVID-19 pandemic which has continued to affect the economic recovery momentum.

There are also chances that the 15th General Election will be held in 2H21 once the pandemic is under control. There is a strong likelihood that the PN coalition could remain in power if the existing political parties within the coalition remain united.

Market strategy

Supported by ample liquidity. We maintain our end-2021 KLCI target of 1,770, which is based on 16x CY21 earnings (10-year mean of 12-month rolling forward PE). We are currently projecting FBM KLCI earnings to contract by 5% in 2020 before rebounding by 27% in 2021.

FBM KLCI 12-month rolling forward PE



Source: AllianceDBS, Bloomberg Finance L.P.

Selective picks. Despite the short-term setback due to COVID-19, we remain optimistic of an eventual recovery of the economy. Therefore, we continue to pivot our strategy to include more cyclical plays as the economic recovery gains momentum. We are positive on: a) beneficiaries of post-pandemic demand recovery in 2021 as health authorities continue to make progress on vaccine development, b) proxies of revival of infrastructure projects, c) resilient names with strong execution track record.

Beneficiaries of an improving economy are **WPRTS, MAHB, FGV** and **HIBI**. **GAM** and **IJM** are the best proxies for revival of infrastructure projects. We also favour companies with resilient business models like **TDC** and attractive yield play like **SENTRAL**.

We continue to have Overweight calls on healthcare, gaming, gloves, construction, plantation and telecommunication sectors.

Sector calls

Sector	Rating	Top picks
Automotive	Neutral	BAUTO, UMW
Aviation	Underweight	MAHB
Banking	Neutral	HLBK
Building Materials	Neutral	LMC
Construction	Overweight	GAM, IJM, SCGB
Consumer	Underweight	-
Gaming	Overweight	MAG, BST
Glove	Neutral	TOPG, KRI, HART
Healthcare	Overweight	IHH, KPJ
Media	Underweight	ASTRO, MCIL, STAR
Oil & Gas	Neutral	HIBI, BAB, SDB
Plantation	Overweight	KLK, TSH, SDPL
Property	Neutral	ECW, SWB, MKH
REIT	Neutral	SENTRAL, SREIT
Shipping	Neutral	WPRTS, MISC
Technology	Neutral	VSI, INRI
Telecommunication	Overweight	TDC, TM, AXIATA
Utilities	Neutral	YTLP, GMB

Source: AllianceDBS

Top picks

					P/E		EPS Growth (YoY)		Dividend Yield		Price/ BVPS		ROAE	
	Call	Target Price	Share Price	Market Cap	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21
KL Kepong	BUY	27.00	23.24	25,064	30.8x	26.9x	24%	12%	1.6%	1.9%	2.3x	2.2x	8%	8%
Westports Holdings	BUY	5.00	4.30	14,663	22.7x	20.4x	9%	11%	2.6%	3.7%	5.2x	4.8x	23%	23%
Gamuda	BUY	4.60	3.30	8,295	21.5x	13.5x	(21%)	35%	1.3%	2.2%	1.1x	0.9x	5%	7%
Time dotcom	BUY	16.00	13.90	8,399	22.8x	21.4x	(3%)	12%	1.8%	1.9%	1.9x	2.6x	12%	11%
IJM Corp	BUY	2.20	1.50	5,432	29.2x	20.0x	(26%)	27%	1.3%	1.5%	0.6x	0.6x	2%	3%
TSH Resources	BUY	1.25	1.02	1,408	24.9x	14.9x	118%	48%	1.0%	1.7%	1.1x	0.9x	4%	6%
Hibiscus Petroleum	BUY	0.70	0.54	924	32.7x	6.4x	(45%)	43%	0.0%	0.0%	0.7x	0.6x	7%	9%
Sentral REIT	BUY	1.20	0.93	991	12.9x	12.8x	12%	(4%)	8.1%	7.8%	0.7x	0.7x	6%	6%

Based on closing price on 29 Jan 2021
Source: Bloomberg, AllianceDBS

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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