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MALAYSIA EQUITY

A Liquidity Trap?

3Q20 OUTLOOK

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

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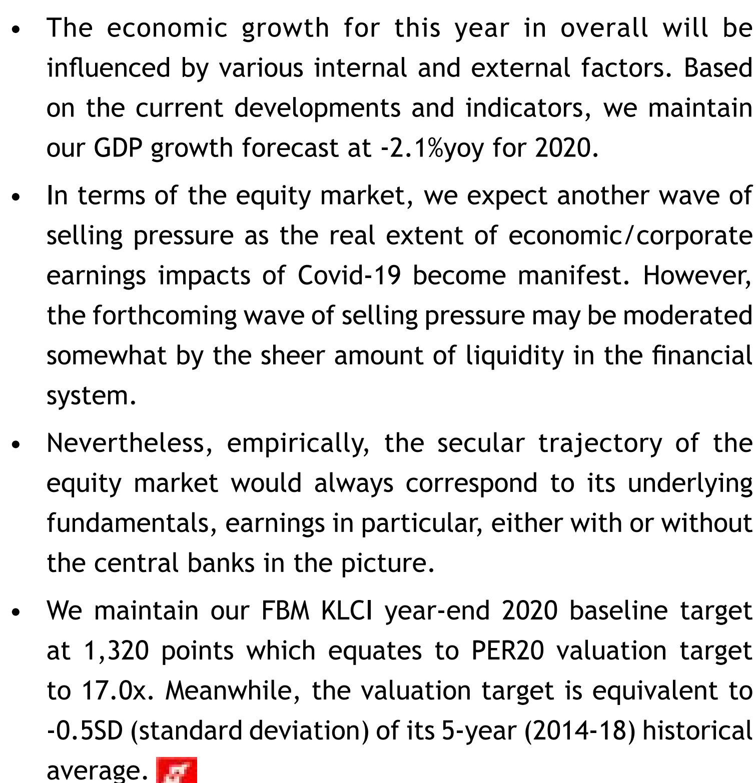
EXECUTIVE SUMMARY

IT IS A LIQUIDITY DRIVEN MARKET

- The FBMKLCI recovered strongly in 2QCY20 in line with global markets. This rally has confounded our expectations of how the market will perform in 2QCY20, given the uncertainty on economic recovery from the Covid-19 pandemic and the incessant coronavirus itself. We opine that the main driver was liquidity and increased participation of retail investors.
- At first glance, the behaviour of the markets in 2QCY20 suggests that the market is pricing in a sharp V-shape economic recovery. However, we expect complete economic recovery might be a long drawn affair. Indeed, we noted that the market rally has not been broad-based.
- Unsurprisingly, the global economy registered a contraction in the first half this year as countries imposed national lockdowns to control the Covid-19 outbreak. Due to the national lockdowns, consumer spending activities were constrained and unemployment had jumped.
- Malaysia's GDP managed to escape contraction in 1Q20 and registered growth albeit at a significantly moderated pace of +0.7%yoy. However, GDP contraction in 2Q20 is inevitable.



MOVING FORWARD

- The economic growth for this year in overall will be influenced by various internal and external factors. Based on the current developments and indicators, we maintain our GDP growth forecast at -2.1%yoy for 2020.
- In terms of the equity market, we expect another wave of selling pressure as the real extent of economic/corporate earnings impacts of Covid-19 become manifest. However, the forthcoming wave of selling pressure may be moderated somewhat by the sheer amount of liquidity in the financial system.
- Nevertheless, empirically, the secular trajectory of the equity market would always correspond to its underlying fundamentals, earnings in particular, either with or without the central banks in the picture.
- We maintain our FBM KLCI year-end 2020 baseline target at 1,320 points which equates to PER20 valuation target to 17.0x. Meanwhile, the valuation target is equivalent to -0.5SD (standard deviation) of its 5-year (2014-18) historical average.

10 July 2020

KLCI (10/07/2020) : 1,591.8
END-2020 TARGET : 1,320.0

SECTOR VIEW

POSITIVE	
Automotive	Healthcare
NEUTRAL	
Aviation	Oil & Gas (Downstream)
Banks	Plantations
Construction	Power
Consumer	Property
Gloves	REITS
Insurance	Technology
Media	Telecommunications
Oil & Gas (Upstream)	Transportation & Logistics

TOP BUYS

STOCK	Target Price (RM)	Total Return (%)
S P Setia	1.33	60.1
Bermaz Auto	1.95	46.3
Pharmaniaga	3.16	42.8
Mah Sing	0.70	31.8
BIMB	4.25	25.1

A. MARKET PERFORMANCE

I. MARKET PERFORMANCE, COMPARISONS AND ASSESSMENT

It has been a quarter that confounded expectations. The FBMKLCI recovered strongly in 2QCY20 as it posted gains +13.5%, closing at 1,500.97 on 30 June 2020. Comparing to the trough reached on 19 March 2020 of 1,219.72, it showed a rebound of +23.1%. This rally has confounded our expectations of how the market will perform in 2QCY20. We had expected the FBMKLCI to be trade range bound between 1,200 and 1,400 points, given the uncertainty on economic recovery from the Covid-19 pandemic and the incessant coronavirus itself.

Globally rising together. Much like Covid-19, this unexpected rebound in 2QCY20 was a global phenomenon. ASEAN peers gained on average +13.0%, North Asia saw its indices on average +15.9% higher. As a proxy to a global index, MSCI World Index gained +23.6% in 2QCY20.

Table 1: Comparison of Selected Global Equity Indices

Stocks	Index points as at			Performance		
	2-Jan-20	31-Mar-20	30-Jun-20	YTD (as at end 2QCY20)	2QCY20	From trough
FBMKLCI	1,602.50	1,350.89	1,500.97	-6.3%	13.5%	23.1%
STI	3,252.00	2,481.23	2,589.91	-20.4%	6.1%	16.0%
SET	1,595.82	1,125.86	1,339.03	-16.1%	21.1%	30.7%
JCI	6,283.58	4,538.93	4,905.39	-21.9%	9.8%	24.6%
SHCOMP	3,085.20	2,750.30	2,984.67	-3.3%	9.1%	12.2%
Han Seng	28,543.52	23,603.48	24,427.19	-14.4%	5.8%	12.6%
KOSPI	2,175.17	1,754.64	2,108.33	-3.1%	25.1%	44.6%
Nikkei	23,656.62	18,917.01	22,288.14	-5.8%	23.4%	34.6%
ASX	4,231.66	3,107.42	3,410.93	-19.4%	14.0%	25.0%
DAX	13,385.93	9,935.84	12,310.93	-8.0%	29.0%	45.8%
Dow	28,868.80	21,917.16	25,812.88	-10.6%	23.3%	38.8%
S&P	3,257.85	2,584.59	3,100.29	-4.8%	25.5%	38.6%
Nasdaq	9,092.19	7,700.10	10,058.77	10.6%	36.7%	46.6%
MSCI Asia ex Japan	696.56	560.22	648.80	-6.9%	18.6%	29.5%
MSCI World	2,375.94	1,852.73	2,201.79	-7.3%	23.6%	37.4%

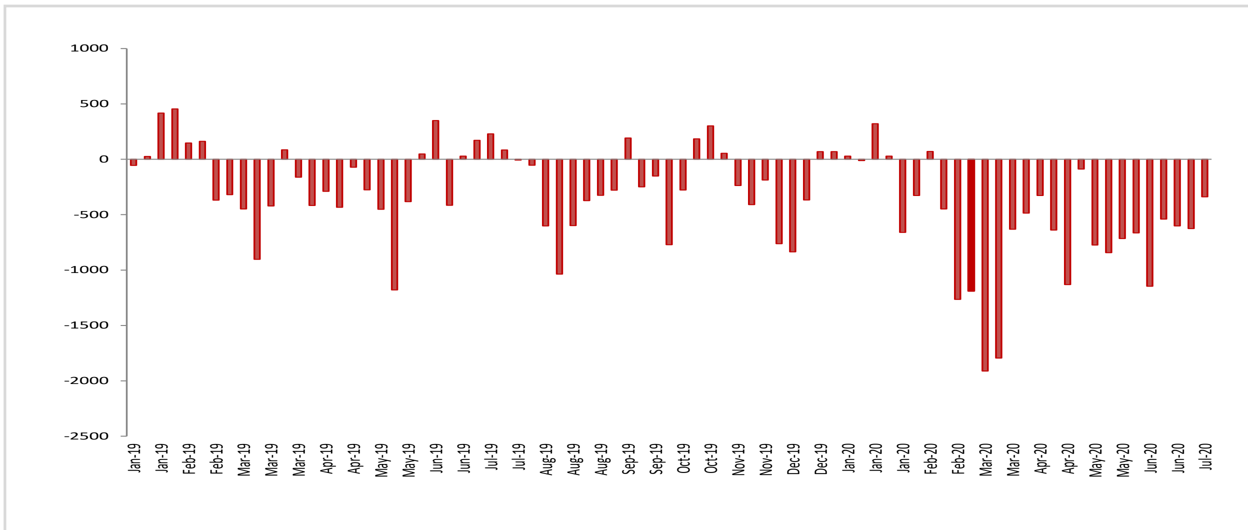
Source: Bloomberg, MIDFR

A tsunami of liquidity. We saw the markets flooded with liquidity coming from stimulus programmes, especially from the central banks. By our estimation, approximately USD20t have been announced or implemented by governments and central banks all over the world. This liquidity had boosted financial markets, besides intending to provide support to the real economy.

Retail investors joining the fray. According to the trade statistics from Bursa Malaysia, volume and value increased in 2QCY20 by +88.7%qoq and +42.1%qoq. It is interesting to note that volume and value from combined local retail and local nominee (as proxy for retail participation) rose +97.0%qoq and +95.2%qoq respectively. We opine that this is evident that retail investors are participating more into the markets which contributed to the rally in 2QCY20. Anecdotal evidence also suggest the same such as the increased opening of online trading accounts. Some of the possible reason for the sudden interest from retail investors could be: (1) loan moratorium which left borrowers with excess cash for investment, (2) low interest rate environment, (3) attractive pricing following from the market rout in March, (4) ease of opening an trading account via online channel, and (5) idleness due to the movement control order (MCO).

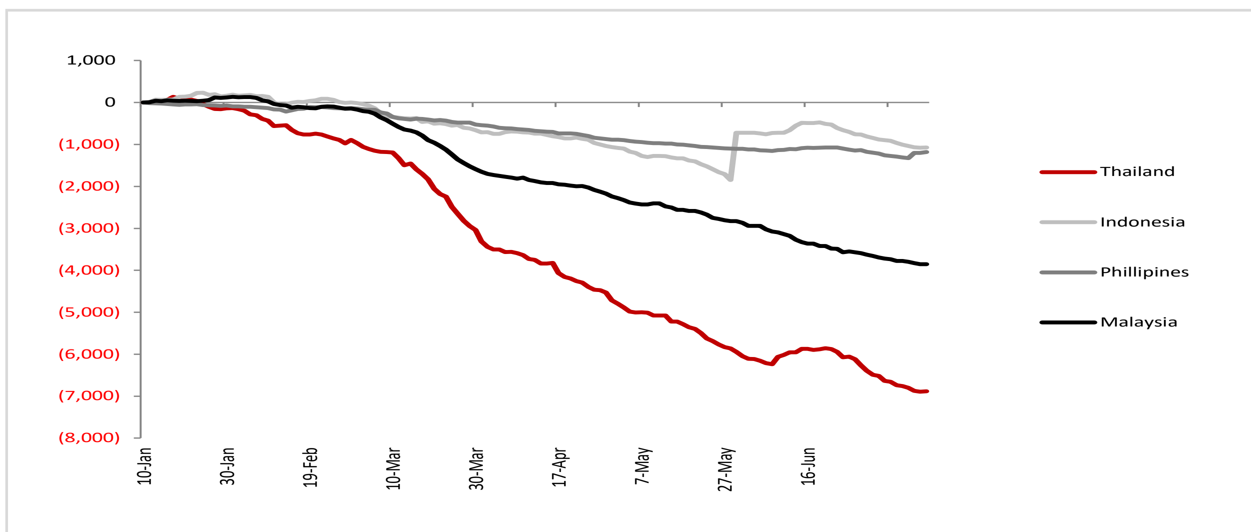
Domestic led rally. Another point to note is that we opine that the rally in 2QCY20 had been mostly domestic investor driven. Up until 3 July 2020, foreign investors have sold a cumulative -RM16.7b (-USD3.9b) in the Malaysia equities market this year. As for 2QCY20, the net selling was -RM8.6b (-USD2.0b). However, we should note that foreign net selling have not been confined to Malaysia's market. We have observed net selling in all the Asian markets that we tracked with South Korea, Taiwan and Thailand being the most at -USD21.7b, -USD18.3b and -USD6.7b respectively.

Chart 1: Weekly Net Inflow of Foreign Funds into Malaysian Equity Since Jan 2019 (RM'm)



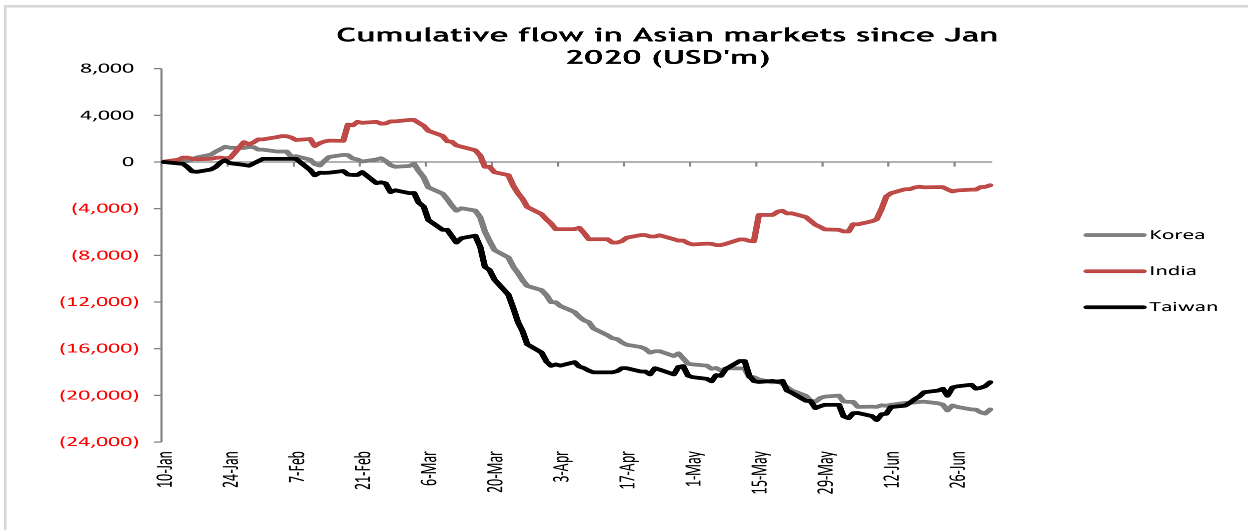
Source: Bloomberg, MIDFR

Chart 2: Cumulative flow in SEA markets since Jan 2020 (USD'm)



Source: Bloomberg, MIDFR

Chart 3: Cumulative flow in Asian markets since Jan 2020 (USD'm)



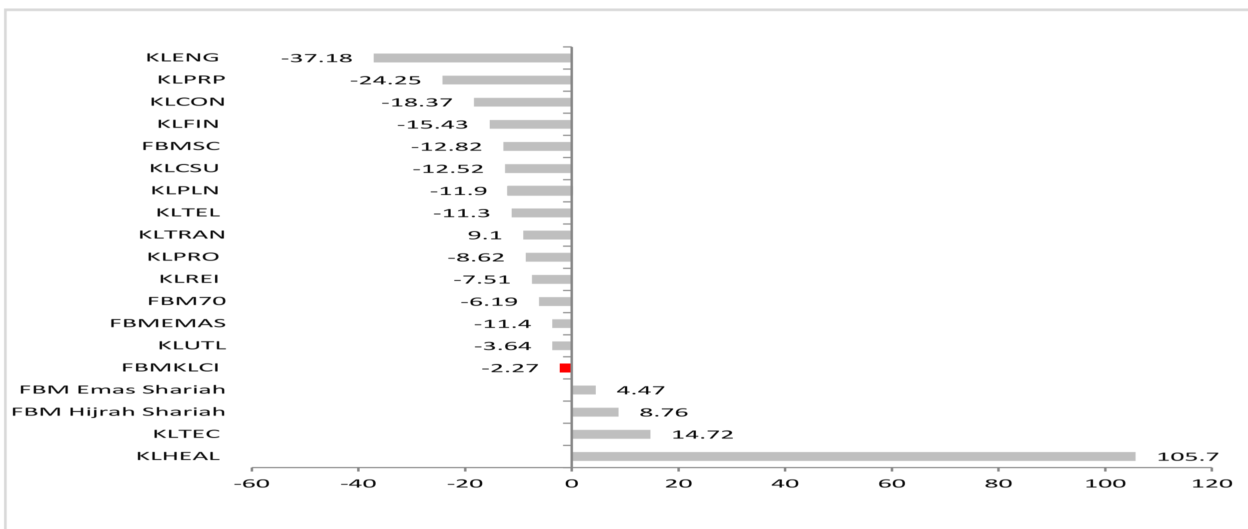
Source: Bloomberg, MIDFR

Suggesting a sharp V-shaped economic recovery. At first glance, the behaviour of the markets in 2QCY20 suggests that the market is pricing in a sharp V-shape economic recovery. However, judging by the economic data and, expectations of our economist, consensus, central banks and from leading multilateral agencies, it appears that this might not be the case. We expect complete economic recovery might be a long drawn affair.

Putting hope on a fast vaccine. We opine that hopes on a fast discovery of a vaccine have also fuelled the markets. According to WHO, there are 13 pharmaceutical companies working on a vaccine which are going through clinical trials. Meanwhile, there are 129 potential vaccines which are in the pre-clinical trial phase. Of course, the discovery of a vaccine will be a game changer. However, the question will be on how fast, by how much and the cost of the production of the vaccine.

Sector indices suggesting otherwise. Having said that, we noted that the market rally has not been broad-based. From the sectoral indices, healthcare and technology index seems to be the only performer thus far. In our opinion, this suggest that investors are continuing to reward companies which will continue to benefit from a lingering Covid-19 pandemic rather than an economic recovery. We understand similar trends can be found in other markets, and most notably the US' Nasdaq which have broken its all time high.

Chart 4: Malaysia Sectoral Indices



Source: Bloomberg, MIDFR

II. MACRO ECONOMIC OUTLOOK

GLOBAL: GROWTH OUTLOOK TO REMAIN SLUGGISHUNCERTAINTIES

Global growth contracted in 1H20. Unsurprisingly, the global economy registered a contraction in the first half this year as countries imposed national lockdowns to control the Covid-19 outbreak. The IMF in its June 2020 World Economic Outlook reported that the fallout from the Covid-19 pandemic had been more severe than predicted. The IMF projected that the global economy will fall at a faster pace of -4.9%yoy in 2020, before recovering to grow by 5.4%yoy in 2021. Over the two year period, the cumulative loss for the global output is estimated to be more than USD12 trillion. In 1H20, major advanced and emerging economies experienced a sharp slowdown as the lockdowns forced consumers to stay at home and businesses shut down its operations. Due to the national lockdowns, consumer spending activities were constrained by limited income and reduced working hours. The International Labour Organization (ILO) estimated the loss of workhours to be equivalent of the global labour market losing 135 million full-time jobs in 1Q20 and 305 million full-time jobs in 2Q2020. Unemployment also jumped as a result of the lockdowns as companies struggled to maintain its workers.

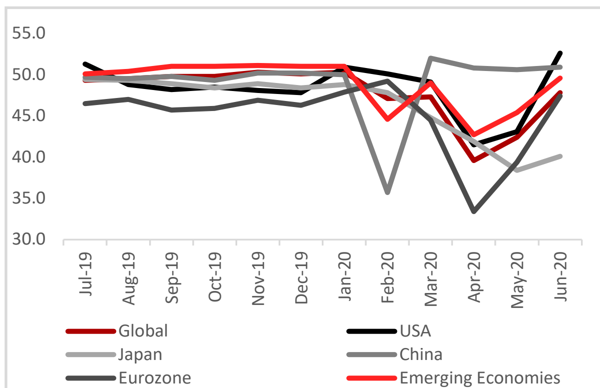
Fighting Covid-19 vs. reopening the economy. While some countries have already eased and uplifted lockdowns gradually, other economies are registering growing number of Covid-19 cases. As at end-June 2020, the total Covid-19 cases have surpassed 10 million confirmed cases. Countries like Japan, Germany, the UK, China, South Korea and Singapore have begun to reopen economic activities in phases. We expect that the recovery process will take time and especially for activities to return to the levels before the Covid-19 outbreak, as consumers and businesses adjusting to the new normal, practicing social distancing and improving hygiene levels. In contrast, some countries and states may need to consider and re-introduce lockdowns as the number of Covid-19 cases continued to escalate. In the US, for example, several states had to retract plans to reopen its economies as the number of Covid-19 cases has more than doubled in June 2020. Despite the ongoing concerns over Covid-19, there are signs that economic activities will eventually pick up and gradually recover.

Global manufacturing picked up from reopening. The momentum of slowdown is seen reversing with the global manufacturing activities showed more encouraging trends in June 2020. The PMI Index for the US manufacturing sector registered its biggest monthly jump to 49.8 (May: 39.8), on improving production and rising new orders. The Eurozone PMI also rebounded strongly to 47.4 in June (May: 39.4) as the recovery in manufacturing production raised hopes that the overall economic situation will normalize further in coming months. Similar trend was observed in Asia, with manufacturing rebounding in China and Malaysia in June 2020. For South Korea, Taiwan, Singapore, Thailand and Indonesia, there were also improvements in the same month but the latest PMI reports indicated that the overall manufacturing activities continued to decline for these economies albeit a slower pace. Relative to the height of the Covid-19 lockdowns in April 2020, we expect that the recovery in production activities will gain traction and the growth overall growth momentum will pick up going into the second half of 2020.

Expansionary policy stance. Policymakers are expected to maintain its policy stance on an expansionary mode to cushion the impacts of slowdown and sustain the recovery in economic activities. Governments will remain vigilant on the recovery pace vis-à-vis the overall national economic health. However, governments that have rolled out stimulus packages will be constrained by the limited fiscal space to introduce additional fiscal stimulus for the economy. Sticking to a fiscal discipline to reduce and manage the size of fiscal deficits will be key for the sustainability of economic growth in the future. Nevertheless, many countries could further ease its monetary policy. Most central banks have rooms to slash its policy interest rates to further stimulate economic activities if the post-lockdown improvements in the recent months proved to be short-lived.

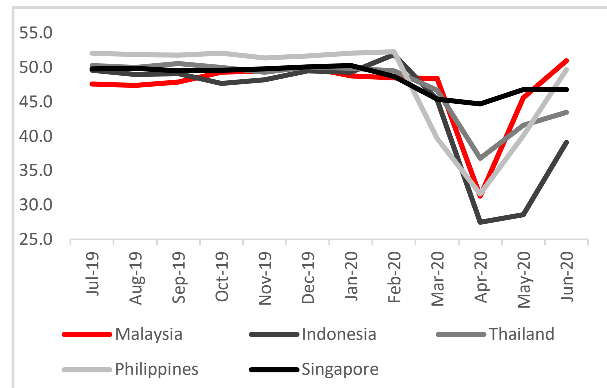
Uncertainty continues to weigh on outlook. The resurgence of tensions between the US and China will be one of the downside risks to the global economy. Earlier this year, China focused more on combating and limiting the impact of Covid-19 on the Chinese economy. However, with the US election approaching, there could be a change in the US stance which may re-escalate the tension with China. Other downside risks to the global economy may come from a prolonged weakness in the aggregate demand and a new wave of Covid-19 cases. A more pessimistic scenario will be challenging especially for governments with limited fiscal space to introduce more fiscal stimulus to cushion the impacts of prolonged economic slowdown on the people and the businesses.

Chart 5: Manufacturing PMI (Points)



Source: Bloomberg, MIDFR
*>50; Expansionary, <50; Contractionary

Chart 6: Regional Manufacturing PMI (Points)

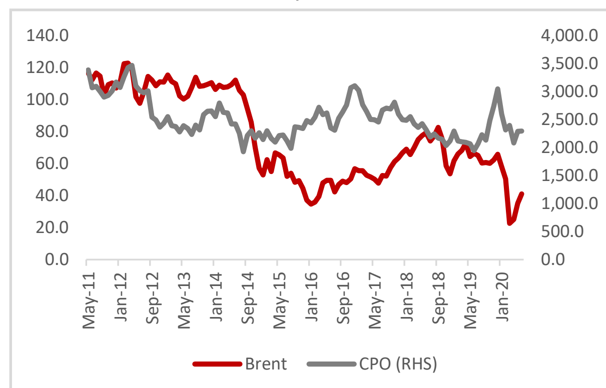


Source: Bloomberg, MIDFR
*>50; Expansionary, <50; Contractionary

Subdued inflationary pressure. The US core PCE inflation was at 1.0%yoy in May, below the Fed's inflation target of 2%. Likewise, the euro area annual inflation rate was at 0.3%yoy in June (May: 0.1%yoy), far below the ECB's inflation target. In Asia, Thailand's inflation rate remained in negative in June, while Indonesia reported the lowest annual inflation rate in 20 years at 1.96%yoy during the same month. Elsewhere, price pressure also declined in Singapore, with the inflation remaining in negative for the fourth consecutive month in May. Moving forward, we believe that the inflationary pressures in many countries to remain subdued in view of the weak demand condition as well as low global commodity prices.

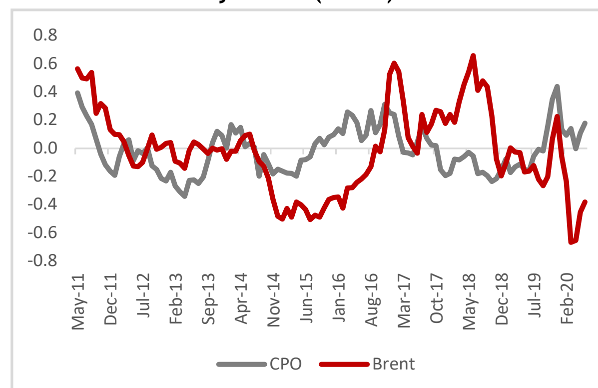
Global commodity to see some recovery in demand. The crude oil prices had fallen sharply to 18-year lows in April 2020 as demand weakened following travel restrictions and Covid-19 lockdowns. However, the oil prices have since recovered, with Brent reaching to above USD40 per barrel by the end of 1H2020. This increase was backed by the drawdown in US oil inventory and the gradual increase in demand as more countries began to lift lockdowns. For the CPO prices, the palm oil industry benefited from the move by importing countries, namely China and India, to restock its low inventories. There can be a potential surge in demand for countries to replenish its stocks of edible oils on concern over potential second wave of the Covid-19 outbreak.

Chart 7: Global Commodity Prices



Source: Bloomberg, MIDFR
*$ per barrel & RM per tonne

Chart 8: Commodity Prices (YoY %)



Source: Bloomberg, MIDFR

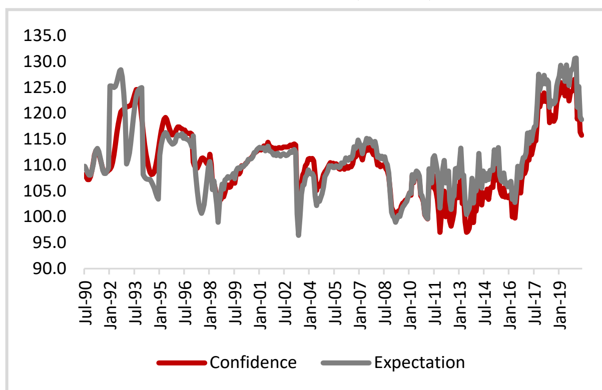
CHINA: GROWTH TO REBOUND AFTER SHARP DECLINE IN THE EARLY PART OF THE YEAR

China growth momentum to pick up. China was the first to be hardest hit by the coronavirus outbreak, with the economy contracting by -6.8%yoy in 1Q20 (4Q19: +6.0%yoy). The sharp decline was the first drop in 28 years, mainly due to weak consumer spending and worsened investor confidence as the new coronavirus (Covid-19) spread to other parts of the world. Moving forward, China's economy is expected to rebound and avert technical recession. Latest releases pointed towards positive recovery in production activity and revival in consumer spending. Domestic demand will be key driver for China's growth as export activity will be dragged by the weakness in international trade, in view that the recovery in the foreign demand will take time amid ongoing struggle to control the coronavirus pandemic globally. Other downside risks are the re-escalation of tension with the US and a new wave of Covid-19 outbreak which will hurt China and the global trade outlook.

Domestic demand to recover and drive growth. Official data showed that retail sales and industrial production fell sharply in the first quarter, contracting by -18.9%yoy (4Q19: +7.7%yoy) and -9.4%yoy (4Q19: +5.9%yoy) respectively. On consumer prices, China's inflation rate moderated to 14-month low of 2.4% in May from more than 5% at the beginning of the year. The moderation in inflation was due to slowdown in domestic demand and less pressure from food prices. China has reported positive developments over the past couple months with consumer spending and business activities gradually returning to normal after the lockdown for many cities had been uplifted. Consumer spending is expected to grow as workers returning back to work. The job market is recovering as the unemployment rate fell to 5.9% in May (Feb-20: 6.2%) this year.

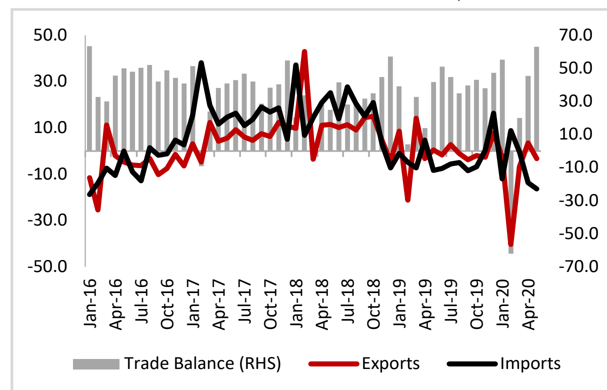
Cautious on providing too much policy support. The People Bank's of China (PBOC) has been more cautious on providing additional support to the economy as the central bank viewed the impact from Covid-19 pandemic to be temporary. This is contrary to the finance minister's call for the Chinese central bank to provide more monetary support to the economy. The government needs to be watchful of the risk of inflation and rapid increase in leverage level as a result of large stimulus. PBOC has eased its monetary and credit stance to cushion the impact of slowdown linked to Covid-19 pandemic, such as offering CNY1.8 trillion (USD254 billion) in re-lending and re-discounting to help small businesses, injections of liquidity in trillions of yuan to safeguard the financial markets, extension of CNY7.1 trillion in bank loans during the first quarter, and several rate cuts to stimulate the economy. In view of the improving domestic demand and expectation for better growth prospect in going forward, the PBOC is expected to slow and tighten its monetary policy.

Chart 9: Consumer Confidence (Points)



Source: CEIC, MIDFR

Chart 10: External Trade Performances (YoY% & USDb)

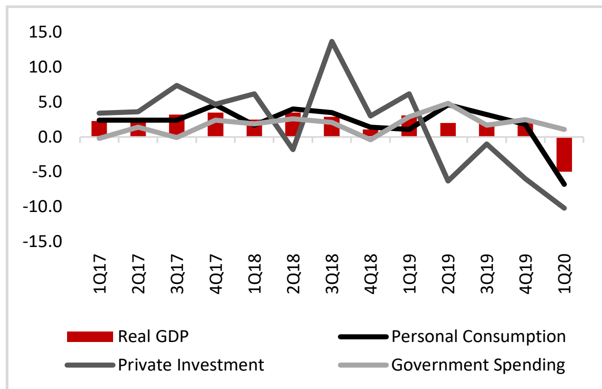


Source: CEIC, MIDFR

UNITED STATES: SIGNS OF TURNAROUND AFTER SHARP SLOWDOWN

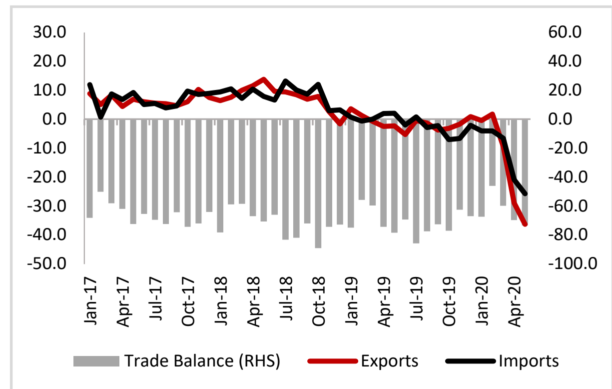
1Q20 GDP contracted amid Covid-19 outbreak. The US economy shrank by -5%yoy on annualized rate, a sharp slowdown from +2.1%yoy in 4Q19. The decline reflected the extent of the impact of Covid-19 outbreak on the economy after the US government issued "stay-at-home" orders in March 2020. The restriction had cause consumers to cancel or redirected its spending, while businesses switched to working remotely or even stopped its operations. During the quarter, private consumption contracted sharply by -6.8%yoy (4Q19: +1.8%yoy) and private domestic investment declined at the fastest pace since the Great Recession falling by -10.2%yoy (4Q19: -6.0%yoy). Exports contracted by -9.0%yoy (4Q19: +2.1%yoy) due to lower exports of services, mainly related to travel restrictions.

Chart 11: Annualised GDP Growth (%)



Source: CEIC, MIDFR

Chart 12: External Trade Performances (YoY% & USDb)

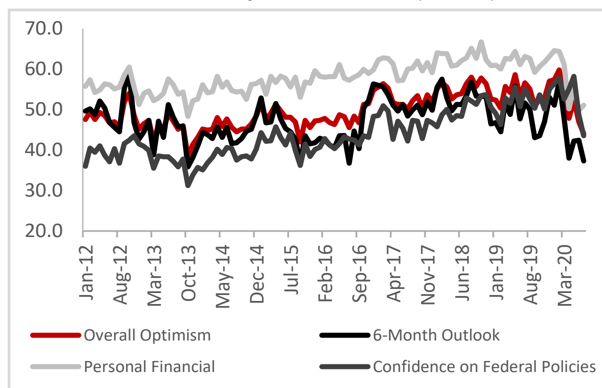


Source: CEIC, MIDFR

Recovering labour market amid subdued inflation. The latest job market numbers showed an encouraging development. The US economy added more jobs for the second straight month in June, with the non-farm payrolls rising strongly by 4.8 million jobs (May: +2.7 million). The US jobless rate also declined to 11.1% from 13.3% in May. The positive job market releases will be good for consumer spending, although spending activities could be constrained by falling income and the ongoing spread of Covid-19 among Americans. The inflationary pressure in the US was still subdued, as core personal consumption and expenditure (PCE) price index remaining at 1.0% in May, below the Fed's 2% target for inflation. The demand condition is expected to improve gradually if more states gradually ease Covid-19 lockdowns and restrictions and the positive turnaround in the job market continues into 2H2020.

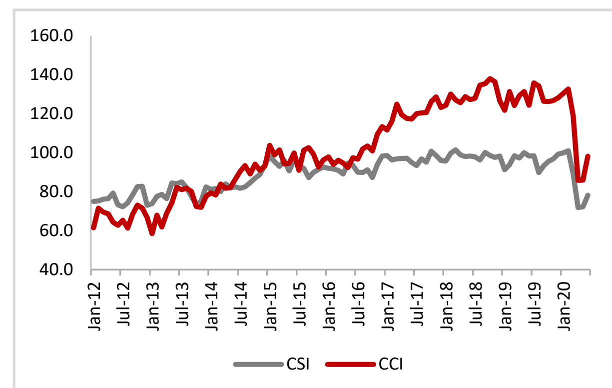
Sentiment improved although at low levels. The domestic demand condition improved from the lows in April 2020, with sentiment among consumers and businesses increasing in June 2020. The improved sentiment gives rise to growing confidence in the US economy that consumer spending and production activities will pick up further in coming months after the sharp slowdown in April due to Covid-19 lockdowns. Economic Optimism Index fell to 47.0 in June (May: 52.4), the lowest level during the President Trump's era, as households continued to struggle despite signs of turnaround in the US job and stock markets. Nevertheless, the consumer sentiment and confidence indices both improved in June, rising to 78.1 (May: 72.3) and 98.1 (May: 85.9), respectively. The US manufacturers also reported a better sentiment and activities, as reflected by the ISM manufacturing PMI which rose sharply to 49.8 in June (May: 39.8). The upbeat announcement signals that the condition for the manufacturing sector will continue to improve going forward as new orders rose during the month.

Chart 13: Economic Optimism Index (Points)



Source: CEIC, MIDFR

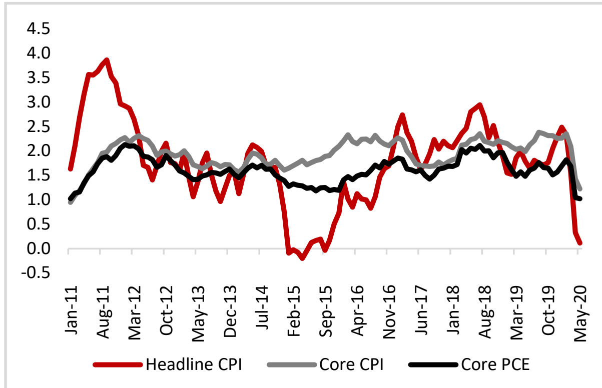
Chart 14: Consumer Sentiment & Confidence Indices



Source: CEIC, MIDFR

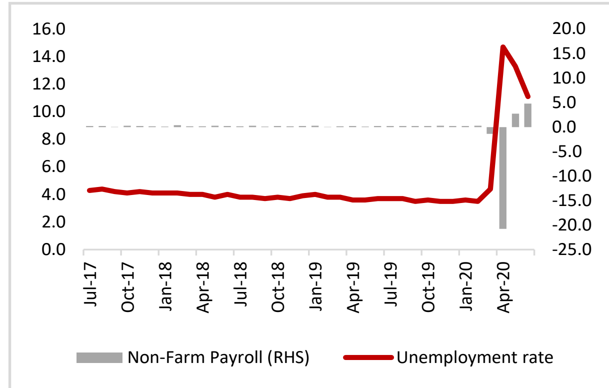
Keeping the rate at low levels. The US Fed has kept its federal funds rate at a target range of 0.00-0.25% since March 2020 to ensure that the interest rate levels are accommodative to support the US economy from further slowdown. The Fed has recently relooked at the idea to revive the Great Recession promise to keep the interest rates low until the inflation rate reaches or slightly exceeds the Fed's 2%-inflation target. This indicates that the Fed will adopt the low interest rate policy for as long as the economy remaining weak and the inflationary pressures are subdued. It is not surprising that the Fed had also looked at the possibility that the US economy could go into a more severe slowdown in the event of a second wave of Covid-19 outbreak.

Chart 15: Headline vs Core PCE Inflation (%)



Source: CEIC, MIDFR

Chart 16: NFP ('000) vs Unemployment Rate (%)



Source: CEIC, MIDFR

Table 2: Central Bank Policy Rate by Selected Economies (%)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Malaysia	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00
Indonesia	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25
Philippines	4.50	4.50	4.50	4.50	4.25	3.75	3.25	3.25	2.75
Thailand	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50
Vietnam	6.00	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50
Korea	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50
India	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
United Kingdom	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.83	1.55	1.55	1.55	1.58	0.63	0.05	0.05	0.08

Source: CEIC, MIDFR

MALAYSIA: UNCERTAINTIES TO LIMIT RECOVERY

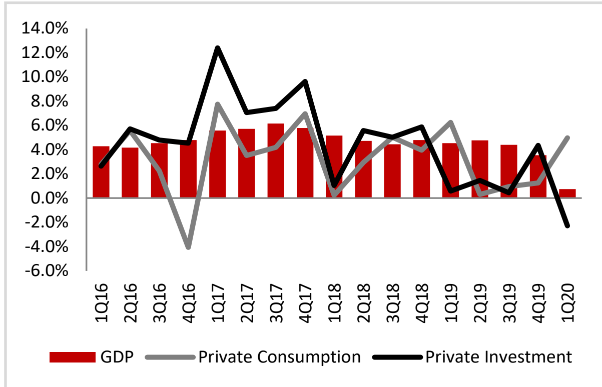
Recovery to start in 3Q20. Malaysia's GDP managed to escape contraction in 1Q20 and registered growth albeit at a significantly moderated pace of +0.7%yoy. However, GDP contraction in 2Q20 is inevitable as we had a full month of MCO followed by conditional MCO until June-20. At the same time, most of the countries globally also had lockdowns, in efforts to contain the spread of Covid-19 pandemic. During this period, most of the economic activities were put on hold particularly of non-essentials. Nevertheless, recovery is anticipated to start as early as in 3Q20 in line with easing restrictions both domestically and globally. The economic growth for this year in overall will be influenced by various internal and external factors including disruption in global production and consumption following Covid-19, recession fears, global financial stability, rising protectionism, oil price war, political stability, inflationary pressure and labor market performance. Based on the current developments and indicators, we maintain our GDP growth forecast at -2.1%yoy for 2020.

Feeble private consumption. Private consumption, the biggest driver of the economy is foreseen to be significantly affected due to MCO and further influenced by deteriorating sentiments. Consumers are likely to continue tightening its purse string due to uncertainty over the near future. Consumption will be particularly curtailed as Rakyat reduce outside activities and substantial increase in unemployment in badly affected sectors. However, we foresee a recovery starting 3Q20 in line with Malaysia's progress in containing the pandemic and supported by low inflationary pressure, OPR cuts and stimulus packages particularly through Rakyat-centric measures. For instance, exemption of stamp duty and sales tax for houses and passenger cars as announced in PENJANA could be a kick-start for big ticket items' purchases, partially addressing the concern over changes in consumption pattern from discretionary to necessity. We foresee a marginal contraction in private consumption at -0.5%yoy in 2020. Similarly, services sector will decline by -1.6%yoy dragged down even more by weak tourism activities.

Sentiment push investment down. Private investment is expected to plunge by -6.5%yoy (2019: 1.6%yoy) weighing by weak demand and business sentiments. Covid-19 is disrupting global supply chain as all key countries are affected. Moreover, some countries such as China and South Korea are experiencing new wave of this pandemic. This had also put China's commitment to the US-China phase one trade deal at stake, which prompting new protectionism threats by President Donald Trump. Domestic political uncertainty will also have its own impact on it. All these are deteriorating investors' confidence and halt business expansion or investment which will take more time to be restored. Nevertheless, lower interest rates and huge stimulus packages could provide some buffer. Manufacturing sector in particular is expected to gradually improve in 2H20 as global economies reopen. In line, Malaysia's Manufacturing PMI surged to expansionary mode of 51 in Jun-20, the highest recorded since Sep-18.

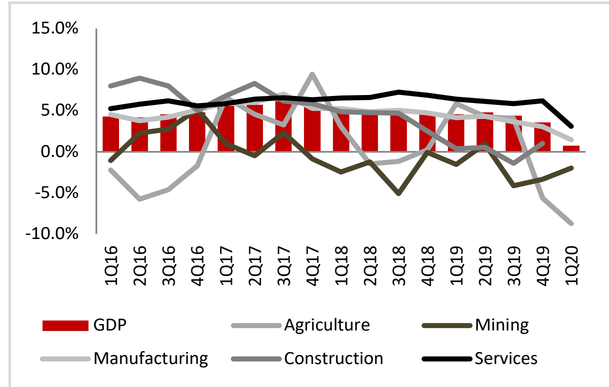
Government will be the saviour. Government expenditure are anticipated to cushion the adverse impact to Malaysian economy. Stimulus packages announced by government with total fiscal injection of RM45b to combat threats from Covid-19 to the economy which comprise one-off cash assistance, vouchers & discounts, special allowances and wage subsidy, among others would increase government consumption. Therefore, we foresee public consumption to expand higher by +4.7%yoy (2019: +2%yoy). Meanwhile, government investment is expected to recover marginally with softer negative growth of -9%yoy (2019: -10.9%yoy) due to mega projects. However, the fiscal space is likely to be somehow limited by lower oil prices. Furthermore, the Government's priority in combating the spread of Covid-19 might delay other public investment activities.

Chart 17: GDP vs Private Sector (YoY%)



Source: CEIC, MIDFR

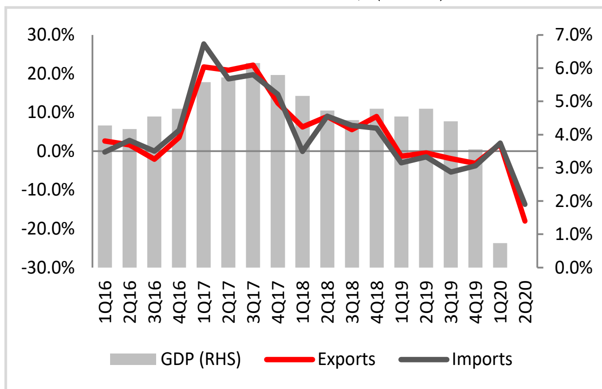
Chart 18: GDP by Supply-Side (YoY%)



Source: CEIC, MIDFR

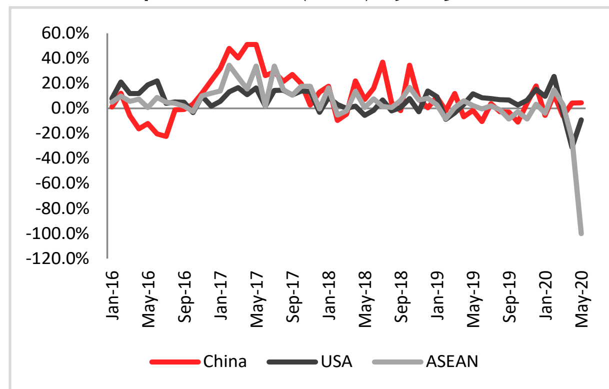
Covid-19 and trade war threaten external trade performance. Impact of Covid-19 emerged as the top risk to global trade flows. MCO in Malaysia and also in a number of key countries have a negative knock-on effect to export and import activities as most businesses shut down temporarily. Furthermore, delayed investment decisions may be chipping away some impetus in trade. As economies gradually reopen, most of the business activities have resumed, providing slightly brighter outlook for 2H20. However, the resurface of the US-China trade feud and concerns over second wave of the pandemic are downside risks to the estimate. We forecast both exports and imports growth to contract in 2020 at -8.3%yoy (2019: -1.7%yoy) and -7.8%yoy (-3.5%yoy) respectively

Chart 19: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

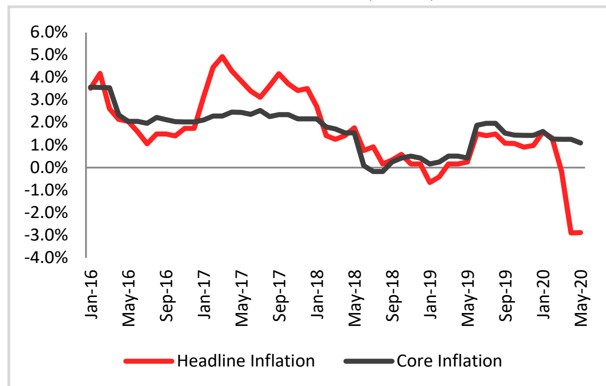
Chart 20: Exports Growth (YoY%) by Major Destination



Source: CEIC, MIDFR

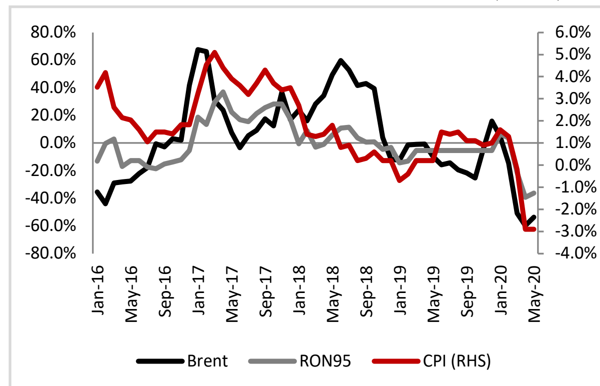
Muted inflationary pressure. Prices of utilities particularly electricity will continue to decline following the rebates under government stimulus package for six months effective from Apr-20. In addition, high volatility in global crude oil prices which skewed towards the low-side will influence fuel related components. As housing & utilities and transport are the biggest component in overall CPI basket after F&B, we opine these to have a significant impact to overall inflation. On the other hand, consumers are trending away from discretionary to necessity, avoiding most purchases of non-food items such as clothing and furniture. This trend is likely to continue for substantial period of time as concerns over future personal finances persist. Hence, we foresee inflation to average at -0.5%yoy (2019: 0.7%yoy).

Chart 21: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

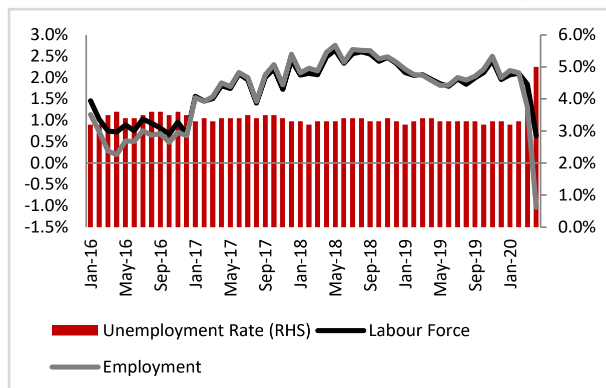
Chart 22: CPI vs Crude & Retail Fuel Prices (YoY%)



Source: CEIC, MIDFR

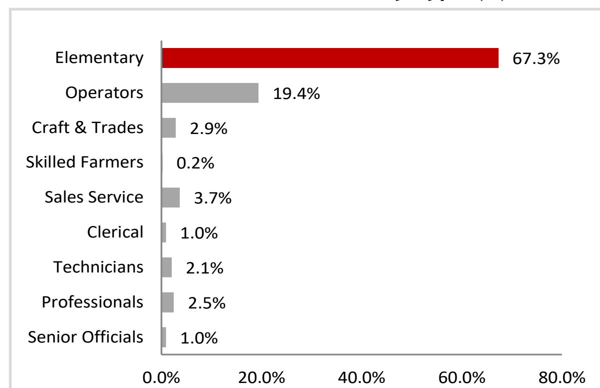
A breach of full employment condition. Malaysia's unemployment rate spiked to 5% in Apr-20, breaking the full employment condition of below 4% for first time since GFC. We foresee unemployment rate to stay at the high side for upcoming month as most of the businesses have not fully resumed its operations. Furthermore, as the economy begun the reopen, some companies will likely rationalise its workforce, adjusting it to the production level. Therefore, we foresee unemployment rate to edge up higher to 4% than 3.8% previously estimated. Nevertheless, the Government's effort through stimulus packages which extend aid to badly affected sectors and wage subsidies would provide some buffer. In addition, structural shift is occurring as employees in affected sectors are moving to those with high demand such as food based and logistics.

Chart 23: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

Chart 24: Share of Job Vacancies by Type (%)

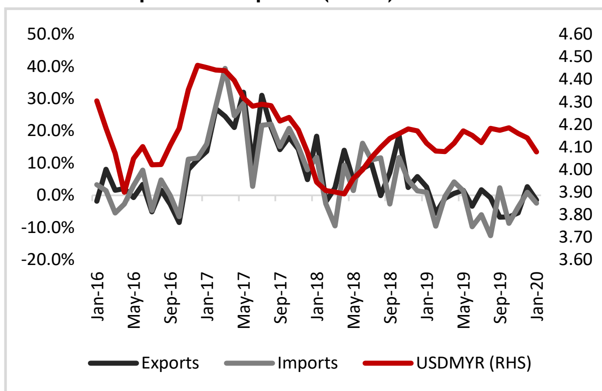


Source: CEIC, MIDFR

End-2020 Ringgit target at RM4.25 against the USD. Being a net exporter of petroleum, volatility in crude oil prices greatly affects the Ringgit movement. As oil prices are gradually increasing especially with OPEC & Russia's commitment in extending oil production cuts, it will lend support for Ringgit. In addition, resumption of businesses worldwide as restrictions being lifted in stages is likely to increase demand for oil. Nevertheless, the Covid-19 pandemic remains a downside risk to Ringgit especially with fear of second wave as it could hamper the growth of demand. Rising protectionism could also deteriorate the sentiment. In addition, OPR cut and political instability will weigh down Ringgit performance. Factoring all that, we foresee Ringgit at USD/RM4.25 (2019: USD/RM4.09) by year-end of 2020 and average at USD/RM4.26 (2019: USD/MYR4.14).

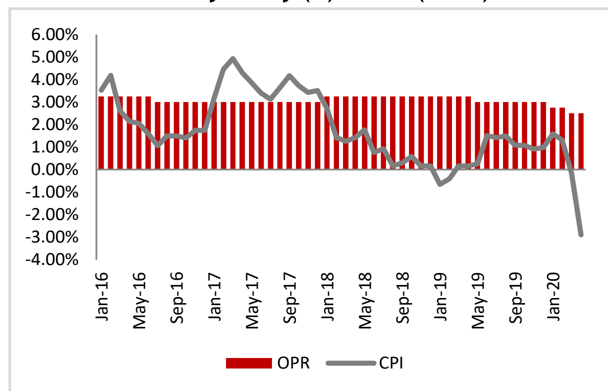
We expect no more rate cut in 2020. BNM decided to reduce the OPR by 25 basis points to 1.75% in its 4th MPC meeting, in line with MIDF's expectation. This brings the cumulative rate cuts to 125 basis points, since January 2020. The additional easing in monetary policy will provide additional support the economy, which is expected to recover gradually coming out from the Movement Control Order (MCO). Nevertheless, we do not foresee any need for further monetary easing this year. Despite the uncertainty and the downside risk to growth, the current level of policy rate is deemed accommodative for the recovery in economic activities to pick up further in coming months. Measures to support employment will be positive for consumer spending, and the growing confidence in the economy while businesses reopen and adjusting to the new normal will provide additional boost to the country's economic recovery. The external demand could remain as a drag to growth, depending on the pace of recovery and stabilization in foreign demand.

Chart 25: Exports & Imports (YoY%) vs USDMYR



Source: CEIC, MIDFR

Chart 26: Monetary Policy (%) vs CPI (YoY%)



Source: CEIC, MIDFR

Table 3: MIDF Research Macroeconomic Forecast Figures for 2020

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019	2020f
Real GDP	4.4	5.7	4.7	4.3	(2.1)
Govt. Consumption	1.6	5.5	3.2	2.0	4.7
Private Consumption	5.8	6.8	7.9	7.6	(0.5)
Govt. Investment	(0.8)	0.5	(5.0)	(10.9)	(9.0)
Private Investment	4.4	9.1	4.4	1.6	(6.5)
Exports of goods & services	1.3	8.8	2.2	(1.3)	(10.2)
Imports of goods & services	1.5	10.3	1.3	(2.5)	(8.7)
Net Exports	0.3	(3.9)	14.6	9.7	(22.4)
Agriculture etc.	(3.6)	5.8	0.2	2.0	(3.0)
Mining & Quarrying	2.3	0.5	(2.6)	(2.0)	(2.6)
Manufacturing	4.4	6.1	5.0	3.8	(3.0)
Construction	7.5	6.8	4.3	0.1	(2.7)
Services	5.7	6.2	6.8	6.1	(1.6)
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.7)	(8.3)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(3.5)	(7.8)
Trade Balance	88.1	98.5	123.8	137.4	121.7
Consumer Price Index	2.1	3.8	1.0	0.7	(0.5)
Current Account - %of GDP	2.4	2.8	2.1	3.6	2.0
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.7)	(3.4)	(6.4)
Federal Government Debt - % of GDP	51.9	50.1	51.2	52.5	57.2
End of Unless States Otherwise	**2016**	**2017**	**2018**	**2019**	**2020f**
Brent Crude Oil (Avg)	**46.0**	**55.7**	**70.0**	**64.3**	**41.0**
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,079	2,300
USD/MYR (Avg)	4.14	4.30	4.00	4.14	4.26
USD/MYR	4.46	4.08	4.10	4.09	4.25
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00	1.75

Source: Various, MIDFR

III. LATEST CORPORATE EARNINGS

Earnings already showing decline. The aggregate reported earnings of FBM KLCI 30 constituents totalled only RM7.57b in 1QCY20. It registered starkly negative growth both sequentially and on-year at -41.7%qoq and -48.0%yoy respectively. The aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance. On this score, the aggregate normalized 1QCY20 earnings of FBM KLCI 30 constituents came in higher at RM11.40b (after adjusting for, among others, the RM3.04b and RM1.05b provisions for goodwill impairment and litigation by Sapura Energy and MISC respectively). After neutralizing the impact of non-operational items (1QCY20: -RM3.83b, 4QCY19: -RM96.2m, 1QCY19: RM516.3m), the aggregate normalized growth in 1QCY20 was less negative both sequentially and on-year at -12.9%qoq and -18.8%yoy respectively.

More disappointments rather than upside surprises. The recently concluded 1QCY20 earnings seasons saw more companies underperforming despite only 2 weeks of MCO in March 2020. In comparison to the preceding quarter, there were more underperformers in 1QCY20 but equal number of outperformers.

Table 4: FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
1QCY20	3	9
4QCY19	3	7
3QCY19	2	4
2QCY19	1	7
1QCY19	2	6

Source: MIDFR

Jump in companies reporting earnings below expectations in our universe. Meanwhile, the percentage of companies within MIDFR Universe which registered earnings that came below our expectations jumped to 43% in 1QCY20 from 25% in the prior quarter. Moreover, the percentage of positive surprises declined to 9% in 1QCY20 from 12% in the prior quarter. Accordingly, companies with results which met expectation declined to 47% in 1QCY20 from 63% in the prior quarter.

Changes to forward earnings. The aggregate FY2020 earnings of the FBM KLCI constituents under our coverage came in -17.6% lower at RM43.8b vis-à-vis our earlier estimate prior to the latest reporting season. Likewise, the aggregate FY2019 earnings of the stocks under MIDFR coverage universe came in -18.8% lower at RM58.6b vis-à-vis our earlier estimate.

Table 5: MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	0%	0%	100%
CONSUMER PRODUCTS & SERVICES	56%	0%	44%
ENERGY	43%	14%	43%
FINANCIAL SERVICES	50%	25%	25%
HEALTH CARE	0%	57%	43%
INDUSTRIAL PRODUCTS & SERVICES	73%	0%	27%
PLANTATION	25%	13%	63%
PROPERTY	50%	0%	50%
REITS	25%	0%	75%
TECHNOLOGY	40%	0%	60%
TELECOMMUNICATIONS & MEDIA	57%	0%	43%
TRANSPORTATION & LOGISTICS	75%	13%	13%
UTILITIES	100%	0%	0%
TOTAL	47%	9%	43%

Source: MIDFR

III. VALUATION

We revised our FBM KLCI 2020 target a total of three times since early March due to heightened uncertainty in both the economic and corporate environments as direct consequences of the countermeasures (i.e. MCO and social distancing rules) introduced to fight the Covid-19 pandemic.

BUY LOW, SELL HIGH

Chart 27: FBM KLCI vis-à-vis MSCI Emerging Market (MSCI EM) and MSCI World Index

Source: Bloomberg, MIDFR

The most recent revision to our FBM KLCI 2020 target was made in early June (vide Fallout Phase Remains A Lurking Fear dated 2 June). The downward revision to 1,320 points (from 1,400 points) was premised on the diminution in consensus EPS20 estimate for the FBM KLCI to 77.4 points as of end-May as well as the reduction in our GDP target to -2.1% for this year. Thus, at this juncture, we are tacitly recommending a Sell on the market (as the FBM KLCI is currently trading at 1,500+ points level).

MARKET REBOUND WENT OVERDRIVE DRIVEN BY LIQUIDITY

The world's equity market rebound (which began in late March) went into overdrive since mid-May on the pretext of post-lockdown economic recovery but arguably driven by burgeoning financial liquidity worldwide.

On above score, it should be highlighted that the total assets of the US Fed alone jumped by nearly USD3 trillion during a short three-month period ended May (from less than USD4.2t end-February to circa USD7.1t end-May). By comparison, it took more than five years (from August 2008 to November 2013) for the US Fed to expand its balance sheet by a similar dollar amount (from USD0.9t to USD3.9t) post-2008 crisis.

MARKET REBOUND IMPLYING V-SHAPE RECOVERY WHICH MAY NOT BE FORTHCOMING

It is implicit in the prevailing buoyant world's equity market performance that (i) there will be no second (and subsequent) wave of Covid-19 infections, (ii) the Covid-19 vaccine shall be found (sooner than normally expected) hence rescinding the need for social distancing and its attendant adverse impacts on economic activities, and (iii) the economy is slated for a V-shape recovery after the lockdown is over with very limited fallouts on both the corporate and consumer fronts while social norms would quickly reverting back to the old normal.

However, fundamentally, we believe the unfolding reality may differ from what the liquidity-driven market is currently implying.

Firstly, the WHO says that the Covid-19 could become endemic (i.e. the virus would never go away) thus the risk of subsequent waves of infections remain present until the society develops herd immunity. In fact, the daily number of new Covid-19 cases spiked up again recently in the US (particularly among the so-called sunbelt states of Texas, California, Florida and Arizona) to new all-time high levels.

Secondly, according to many health experts, the likely scenario is for a Covid-19 vaccine to be found and ready only by the middle of next year at the earliest. Hence the social distancing rules would likely remain in effect at least for the next 13 months. Another point to note is that none of the vaccine of the earlier types of coronavirus (e.g. SARS and MERS) was ever found.

Thirdly, a V-shape economic recovery could be achieved and sustained only if the virtuous economic circle of employment-consumption-revenue-investment-employment can be revived and safeguarded. However, without the Covid-19 vaccine, the economic consequence of social distancing rules on consumption and investment would remain a drag to output revival and growth in the foreseeable future.

Additionally, in the more immediate future, it is hard to imagine that despite the financial as well as psychological trauma (in the form of material loss of revenue and employment) brought about by the lockdowns and social distancing measures, the market could still be hopeful of very limited fallouts on both the corporate and consumer fronts.

In fact, there are already emerging signs of heightened financial conservatism (e.g. materially higher savings rate) among US businesses and households, a reactive behaviour which may prove detriment to the economic recovery process going forward. While this behaviour may seem reactive and fleeting, it could be counterproductive to the economic recovery effort if it became entrenched as consumption constitutes more than two-thirds of the US economy. However, it may well become entrenched for as long as jobs security remains a real issue.

Moreover, as alluded by the US Fed Chair Jerome Powell, a slower than desirable pace of economic recovery could turn what initially deem as liquidity problems into solvency problems among both the households and businesses.

Lastly, since the onset of the pandemic, the market seems to be totally preoccupied with ongoing assessments of the battle against Covid-19 that it risks ignoring other unresolved confrontations particularly the deteriorating US-China relations as well as geopolitical conflicts in the Middle-east and South China Sea, among others.

ANOTHER WAVE OF SELLING PRESSURE MAY BE MODERATED BY LIQUIDITY

Moving forward, we expect the equity market to encounter another wave of selling pressure as the real extent of economic/corporate earnings impacts of Covid-19 become manifest.

In both the current and ensuing quarters, the economic/corporate earnings data (i) may continue to deteriorate based on year-on-year basis, while (ii) the post-lockdown monthly sequential (month-on-month) jump may quickly fizzle out as pent-up demand in the aftermath of the economic reopening is duly satisfied. During this period, we may see the next wave of selling in the equity market.

Having said the above, we are reminded of the adage which warns, “do not fight the Fed” as its financial firepower is technically unlimited. In dealing with Covid-19, the US Fed has made known its commitment (and well proven by its recent actions) to provide essentially unlimited liquidity to support the economy. Thus the forthcoming wave of selling pressure may be moderated somewhat by the sheer amount of liquidity in the financial system.

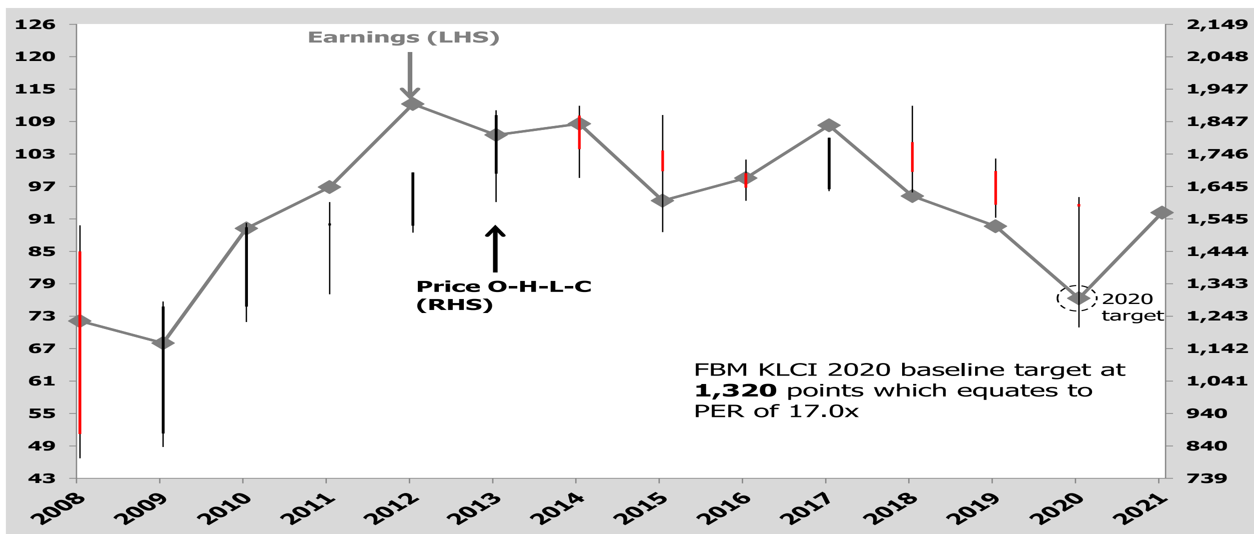
FUNDAMENTALS WOULD EVENTUALLY FIND ITS COURSE

Nevertheless, empirically, the secular trajectory of the equity market would always correspond to its underly-ing fundamentals, earnings in particular, either with or without the central banks in the picture.

In regard below, as demonstrated by the Earnings versus Price (Open-High-Low-Close) chart of the FBM KLCI, short-term equity valuation (i.e. price relative to earnings) may be influenced by multitude of factors (such as change in sentiment, macro performance, situational events as well as deluge or dearth of liquidity). However, the secular trajectory of the equity prices has always corresponded to the underlying fundamentals, earnings performance in particular.

We maintain our FBM KLCI year-end 2020 baseline target at 1,320 points which equates to PER20 valuation target to 17.0x. Meanwhile, the valuation target is equivalent to -0.5SD (standard deviation) of its 5-year (2014-18) historical average.

Chart 28: Cumulative flow in Asian markets since Jan 2019 (USD'm)



Source: Bloomberg, MIDFR

IV. STOCK SELECTION

Downside risk prevalent. Although the equity markets have rebounded past our expectation, we believe that a number of downside risks are still prevalent that can put a downward pressure to the markets. Most notably of course is the incessant Covid-19 pandemic which may lead to renewed fears and lockdowns, presenting a stumbling block to the nascent economic recovery. Other downside risks come from the resurgent geopolitical tensions between the US and China, domestic political uncertainties, US Presidential Elections and further manifestation of the economic impact from Covid-19 amongst others.

It is a liquidity driven market. While we are cautious on the sustainability of the current market rally, we recognize that liquidity have played a major factor in it. As such, there will be trading opportunities for investors to take advantage of given this deluge of liquidity. We also do not foresee the liquidity tap will be turned off anytime soon.

Taking profit from the rally. With the possibility of the market heating up due to the sheer amount of liquidity, we continue to advise caution for investors. We believe that there are opportunities for investors to take profit on the recent run-up. With this in mind, below are the 5 top sell stocks:

Table 6: Top Sell Stock Picks

Company	Price (RM) 10 July 2020	Target Price (RM)	Price Return %)	Dividend Yield (%)	Total Return (%)
IOI Corp	4.50	3.58	-20.4	2.2	-18.2
Maxis	5.32	4.45	-16.4	3.8	-12.6
AirAsia	0.78	0.54	-30.8	0.0	-30.8
Telekom Malaysia	4.13	3.15	-23.7	2.4	-21.3
Media Prima	0.17	0.12	-29.4	0.0	-29.4

Source: MIDFR

Opportunities in short term with thematic plays. Having said the above, we also believe that investors could take short term advantage of some thematic plays surrounding the PENJANA stimulus, short term pent up demand and the rebound in economic activities, such as those in the automotive and property sectors. Below are our top stock picks going into 2HCY20:

Table 7: Top Stock Picks

Company	Price (RM) 10 July 2020	Target Price (RM)	Price Return %)	Dividend Yield (%)	Total Return (%)
S P Setia	0.84	1.33	58.3	1.8	60.1
Bermaz Auto	1.42	1.95	37.3	9.0	46.3
Pharmaniaga	2.33	3.16	35.6	7.2	42.8
Mah Sing	0.55	0.70	27.3	4.5	31.8
BIMB	3.55	4.25	19.7	5.4	25.1

Source: MIDFR

B. SECTORS OUTLOOK

I. AUTOMOTIVE

Looking for an Inflection Point in 3Q20 .... Maintain POSITIVE

Received a shot in the arm. Year-to-date (May20) saw TIV decline by -49%yoy following implementation of the Movement Control Order (MCO) which ran from 18th March till 5th May, forcing shutdown of economic activities including the auto industry. However, the auto sector received a shot in the arm following the announcement of a sales tax holiday for passenger cars under the PENJANA stimulus package. Under the incentive, the 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. This is slightly more than twice longer than the 2018 tax holiday which ran for 3 months from Jun18-Aug18. Savings from the tax-holiday is fully passed on to consumers, resulting in price reductions of between 2%-7% industrywide.

How will this impact volumes? Given the positive development, we had upgraded autos to POSITIVE (from NEGATIVE previously) and raised our FY20F TIV to 554,433 units from 504,580 units (See report titled: Inflection Point Brought Forward). We now expect FY20F TIV to contract by a narrower 8.3%yoy compared to the previously expected 16.5%yoy contraction. Sector earnings meanwhile, are expected to contract 31%yoy in FY20F, narrower than our previously projected -50%yoy. As a yardstick, when the 3-month tax-holiday was implemented in 2018, monthly TIV during the period rose by an average 32%yoy, or in absolute terms, ~21K units/month increase against the pre-tax-holiday monthly TIV. In comparison, our revised FY20F projections imply a relatively conservative 7800 units/month incremental TIV over the tax holiday period.

Rocketing back to pre-pandemic levels. Preliminary June sales volume is showing positive signs of improvement. For example, Perodua reported a 33%yoy growth in June TIV at 21,250 units, reflecting maiden (half-month) impact of the tax-holiday incentive. Perodua's June TIV almost tripled compared to the 7,886 units registered in May 2020, which had already marked a strong sequential rebound versus a weak April TIV (impacted by the MCO). As a bellwether of the auto industry, we expect Perodua's strong June performance to signal the trend for sector-wide June TIV to be announced later this month.

Early signs of improvement. Mirroring Perodua's June performance, channel checks with other industry players also indicate early signs of sales improvement after the tax-holiday announcement. BAuto (Mazda distributor) for example, saw a strong rebound in daily bookings post the automotive tax-holiday announcement; pre-pandemic daily bookings stood at 30-40/day (in-line with 900-1200 monthly sales), while post-MCO daily bookings declined to 20-25/day. However, daily bookings ballooned to around 60/day in the week immediately after the announcement, implying an almost doubling in daily bookings against pre-pandemic levels and a tripling against the post-MCO daily bookings. At certain points in fact, BAuto's daily bookings hit some 99 units/day (triple even pre-pandemic daily booking levels). Discussions (and briefings) with UMW (Toyota, Perodua) and Tan Chong (Nissan) also suggested indications of sales improvements coupled with improved showroom traffic.

Converting the cash into spending. Though we are still in the early stages of the 6.5-month-long tax holiday, these early trends are definitely very encouraging. Notwithstanding dented consumer sentiment given the impact of lockdown measures to contain the Covid-19 pandemic, the strong combination of: (1) Tax-holiday induced demand, (2) Robust liquidity created for consumers from various stimulus measures which transfers massive amounts of cash to consumers (e.g. via EPF contribution reductions, EPF Account-2 withdrawals, 6-month loan moratorium), (3) A low interest rate environment (Hire Purchase loans are traditionally fixed rate loans locked in at the point of approval, though floating rate Hire Purchase loans have been made available in recent years), are strong catalysts to drive a rebound in vehicle-buying sentiment in 2H20.

Recommendation. Our contrarian **POSITIVE** on autos is reaffirmed. **BAuto (BUY, TP: RM1.95)** and **UMW (BUY, TP: RM3.40)** remain our top sector picks.

Bermaz Auto (BUY, TP: RM1.95). Key catalysts: (1) Strong earnings rebound from 1QFY21 onwards (2) Potential introduction of a 3rd CKD model (3) Potential brand expansion riding on Inokom's capacity expansion and BAuto's solid balance sheet (4) Potential NAP incentives to drive CBU exports.

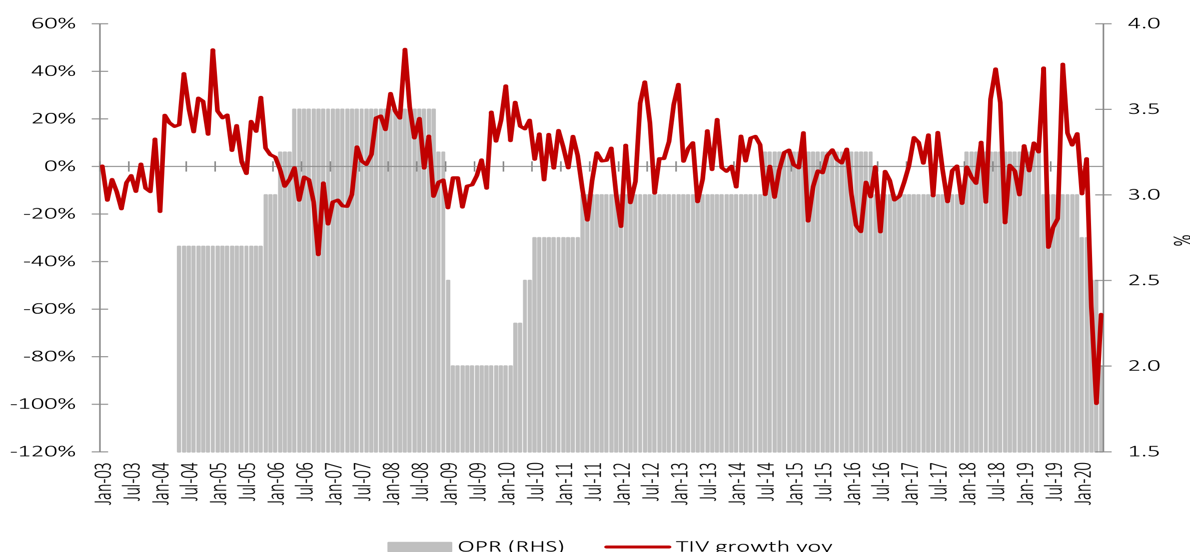
UMW (BUY, TP: RM3.40). Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division (2) Potential launches of mass market/CKD SUV models (3) Commencement of Trent 7000 fan case assembly in 4Q20.

Table 8: Sector Valuation Matrix

		Shr. Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY20F	CY21F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	1.47	11.3	8.3	2.8	25.7	8.7	1.95	41.3
Tan Chong	NEUTRAL	1.10	(17.6)	9.6	0.3	2.3	3.6	1.15	8.2
UMW Holdings	BUY	2.55	16.0	13.3	0.8	6.3	1.2	3.40	34.6
MBM Resources	BUY	3.26	8.2	6.9	0.7	10.2	5.8	3.80	22.4

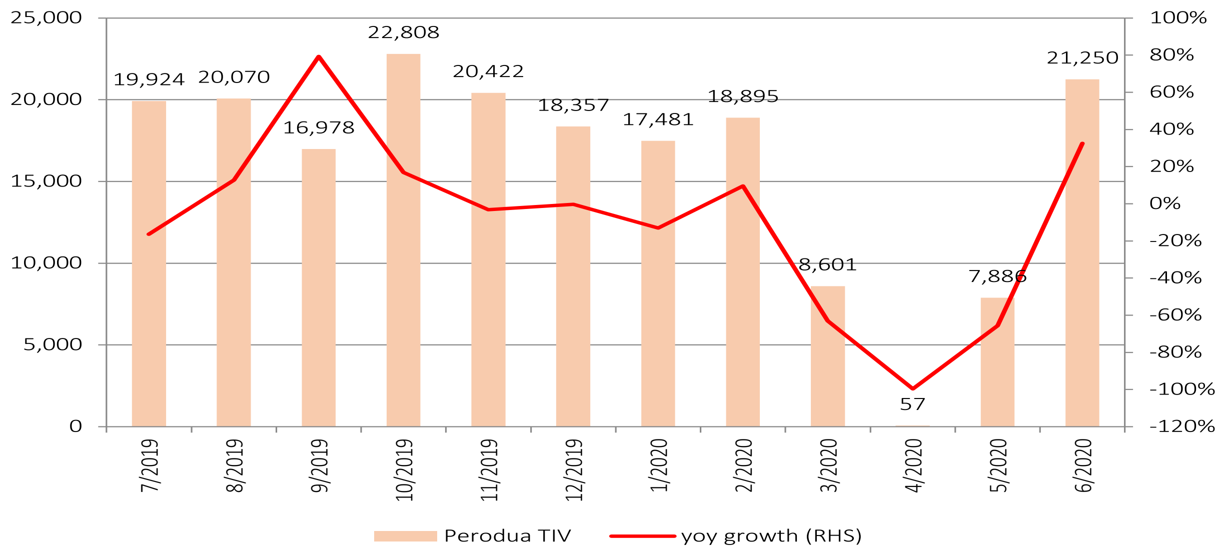
Source: Companies, MIDFR

Chart 29: Positive Impact of Low Interest Rate on TIV Growth Historically



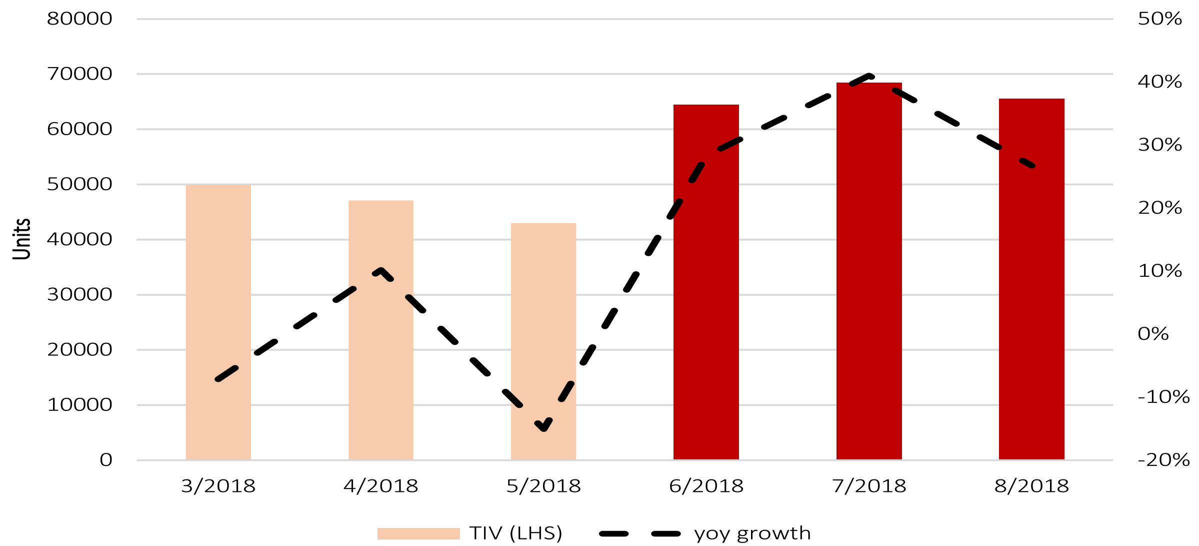
Source: MAA, Bloomberg, MIDFR

Chart 30: Perodua TIV Rebounded to Pre-Pandemic Levels in June



Source: MAA, Company, MIDFR

Chart 31: Significant TIV improvement during Jun18-Aug18 Tax-Holiday Period



Source: MAA, MIDFR

II. AVIATION

A Tough Time Indeed for Aviators... Maintain NEUTRAL

Passenger trend near and medium term outlook. Travel restrictions were imposed for individuals travelling in and out of Malaysia since the MCO began on 18 March 2020 and continues during the Conditional Movement Control order (CMCO) which ended on 9 June 2020. Therefore, 2QFY20 had seen a larger decline in passenger traffic compared to 1QFY20 with April already seeing only 137 passengers. The month of May 2020 saw the resumption of domestic flights by certain airlines such as AirAsia Group Berhad to Sabah and Sarawak while Malaysia Aviation Group has operated several domestic routes out of KLIA and Subang Airport. As for ISGA, Pegasus, Anadolu Jet and Turkish Airlines had recommenced domestic flights from 4 June after the suspension of flights since 2 March 2020. On the other hand, most Malaysian carriers are set to resume international services from July 2020 before progressively increasing frequencies from end 3QFY20. Henceforth, we opine that domestic traffic will pick up faster compared to international traffic as the overall sentiment remained a drag amidst the Covid-19 pandemic.

Social distancing measures to impact capacity flown. With regard to social distancing measures, Prevention and Control of Infectious Diseases (Measures Within Infected Local Areas) (No. 5) Regulations 2020, dated 3rd May 2020, point number 8 (1) states that:

"A holder of any land, sea or air public transport licence or permit to carry passengers shall ensure that the public transport relating to his licence or permit does not carry more than half of the total maximum capacity of the number of passengers that may be carried on board the public transport for each journey."

However there is an exception for: (i) scheduled flights from Peninsular Malaysia to Sabah and Sarawak whereby the allowable number of passengers per flight is revised from 50% up to a maximum of 66.6%, of the total number of passenger seats depending on the aircraft type and (ii) all inbound and outbound international charter flights meant for the repatriation of Malaysian nationals back to Malaysia or foreigners back to their home country. Assuming all carriers flying in and out from Malaysia will have to comply with the above regulation, flight capacity will be severely impacted. Carriers such as **AAGB (SELL;RM0.54)** will also have to hike airfares to compensate for the lack of capacity offered, creating an additional hurdle in the already dampened travel market.

Maintain NEUTRAL. Consumer confidence in air travel remains key and may take some time to be restored; even after governments begin the process of opening borders and relaxing travel restrictions. The reason being is that, additional procedures such as a 14-day quarantine from returning abroad may hamper demand for leisure travel. As we have noted earlier, after a lockdown in 2QCY20, domestic and short-haul air travel markets will begin to recover over the course of 3QCY20, but long-haul markets will be slower to recommence. Domestic RPKs are expected to decline by around 40% globally this year, while international RPKs are likely to decline by around 60% according to IATA. Global GDP growth is expected to fall by around 5% this year, before rebounding, and returning to its 2019 level in 2021. To put this decline into context, it is around 4x larger than that of the global financial crisis, where world GDP fell by 1.3% in 2009. In contrast, the expected decline in air passenger volumes (measured by Revenue Passenger Kilometres – RPKs) is much more severe, with a decline of around 50% this year. The recovery is such that a return to the level of 2019 does not occur until 2023, taking around two years longer than global GDP. Taking all of these matters into consideration; we are reiterating our **NEUTRAL** stance on the aviation sector.

III. BANKING

Monitoring Asset Quality Post Loan Moratorium .... Maintain NEUTRAL

Earnings will continue to be weighed by elevated provisions. We expect that earnings of banks under our coverage in 2HCY20 will continue to be weighed down by increased credit cost. This is due to the further manifestation of the economic impact of the Covid-19 pandemic and the subsequent MCO to control its spread. Recall, we have observed that banks' earnings in 1QCY20 saw year-on-year contraction due to higher provisions as banks' take into account the macro economic factors stemming from the impact of Covid-19. Bear in mind, we saw only circa 2 weeks of MCO in 1QCY20. Therefore, we expect more provisions will likely come in 2QCY20 and 3QCY20.

PPOP will be stable. While earnings will be dragged by higher provisions, we expect pre-provision operating profit (PPOP) will like see growth. This is based on our expectation of marginal net interest margin (NIM) compression, growth in non-interest income (NOII) from gains in trading banks' trading book and controlled cost. This will moderate the effect of the higher provisions.

NIM compression might not be as pronounced despite OPR cuts. The OPR cuts have totaled 100bp and our economics team is expecting another 25bp reduction to bring OPR to 1.75% the lowest level since the Global Financial Crisis. In normal circumstances, OPR cuts will be a negative factor as it will cause NIM compression. However, we believe that the NIM compression will likely be muted despite the cuts. This is due to: (1) the OPR cuts were most likely been anticipated allowing the banks to maneuver accordingly, (2) benign deposit competition due to relaxation of regulatory requirements such as LCR and NSFR, and (3) depositors are probably preferring to keep their deposits in CASA rather than fixed deposits to ensure sufficient liquidity in current uncertain climate. Hence, for 2HCY20, we expect NIM compression will be benign and could be absent as banks will be able to keep its cost of fund low.

Actual loans growth will be muted. The banking system loans growth has been robust thus far. As at May'20, loans growth came in at 3.9%yoy to RM1.79t. However, we believe that this was due to lack of repayments stemming from the loan moratorium. Going forward, loans growth could come under pressure after the end of the loan moratorium period, and repayments restarts. In our opinion, there will be less demand for loans given the uncertain economic conditions and consumer shift towards necessities from discretionary spending. Nevertheless, the pent-up consumption during the RMCO period could carry the loans growth in 2HCY20. In tandem with the GDP performance, we are estimating a loans growth of 2% for CY20.

Asset quality expected to deteriorate post loan moratorium. Besides loans growth, we believe the other effect of the ending of the loan moratorium in 2HCY20 will be on asset quality. We expect gross impaired loans (GIL) ratio to spike up post loan moratorium. While economic recovery is currently underway, we opine that it is too short of time period for some businesses to regenerate the loss of income during the MCO. This will be in tandem with the increase in provisions.

Capital position remains strong. While there will be pressure to banks' earnings in 2HCY20, we believe that it will be able to weather this difficult period. This is premised upon the strong capital positions of the banking sector. In hindsight, it was a very prudent measure by the banks to build up its capital position, sacrificing some of its ROEs.

Maintain NEUTRAL. We maintain our **NEUTRAL** stance as we expect the various forms MCO will have an impact to the economy. This will have an impact to loans growth and asset quality. Also, we foresee that it will take some time for the situation to return to normal. However, we do not foresee exacerbated stress to the banking sector as it face current headwinds on a position of strength. Our top picks is **BIMB (BUY, TP: RM4.25)** due to its asset quality which we expect to be stable on account of its borrower's profile. A re-rating catalyst would be faster than expected recovery of the economy.

IV. CONSUMER

Demand Will Likely Recover in 2HCY20 but More Towards Necessities..... Maintain NEUTRAL

Weaker sequential earnings expected. The consumer sector is expected to see a potentially weaker sequential reporting season for the quarter ended June. As such, we believe that weaker quarter-on-quarter contraction is probably on the cards. This can be attributed to the longer period of the Movement Control Order (MCO) in April and May compared to the impact in March that lasted from 18th March to 31st March. Topping that is a somber mood during this Raya season as celebration has toned down vastly due to the lockdown. The absence of sales boost during the usual seasonally strong period will result in a softer year-on-year performance for companies.

…but recovery in 3QCY20. Looking beyond the upcoming reporting season in August, we expect recovery in 3QCY20 partially due to pent up demand and the reopening of the local economy, which enabled consumers to regain confidence as the number of Covid-19 cases has been under control since the recovery MCO. As people step out from their homes, consumption is expected to increase as well. That said, the sequential increase in demand expected in 3QCY20 is coming from a low base in 2QCY20. Consumers stocked up some essentials prior to the MCO. We have also seen companies launching new products targeted on home consumption. However, we expect the spike in demand to wane down subsequently while we expect demand for bottled drinks to remain weak as most people stay in. Looking forward, we expect a more normalised demand curve.

Spending skewed towards necessities. Consumers increasingly skewed towards necessities in their spending as oppose to discretionary items in face of job prospect uncertainties. We expect the trend to continue until the economic outlook turns brighter. In order to lure consumers to spend, we notice that many retailers have been holding sales and promotions in-stores. This may somewhat attract consumers to spend especially for discretionary items. We think that consumers will be more likely to spend on discounted discretionary items as compared to full-priced items amid the cautious sentiment.

New SOP for factories. As for the factories, utilisation rates came off from the optimum level as companies have to observe the new standard operating procedures of social distance and more stringent hygiene and sanitization. We expect efficiency to improve over time as companies adapt to the new norm and hence a recovery in production efficiency in 3QCY20.

Maintain NEUTRAL. We maintain **NEUTRAL** on the sector due to high valuation while earnings growth are expected to be limited in the near-term. In the sector, we expect earnings from **Nestlé Malaysia (NEUTRAL, TP: RM143.9)** and **QL Resources (NEUTRAL, TP: RM9.21)** to be more resilient due to their product mix while operating margins should also remain relatively stable.

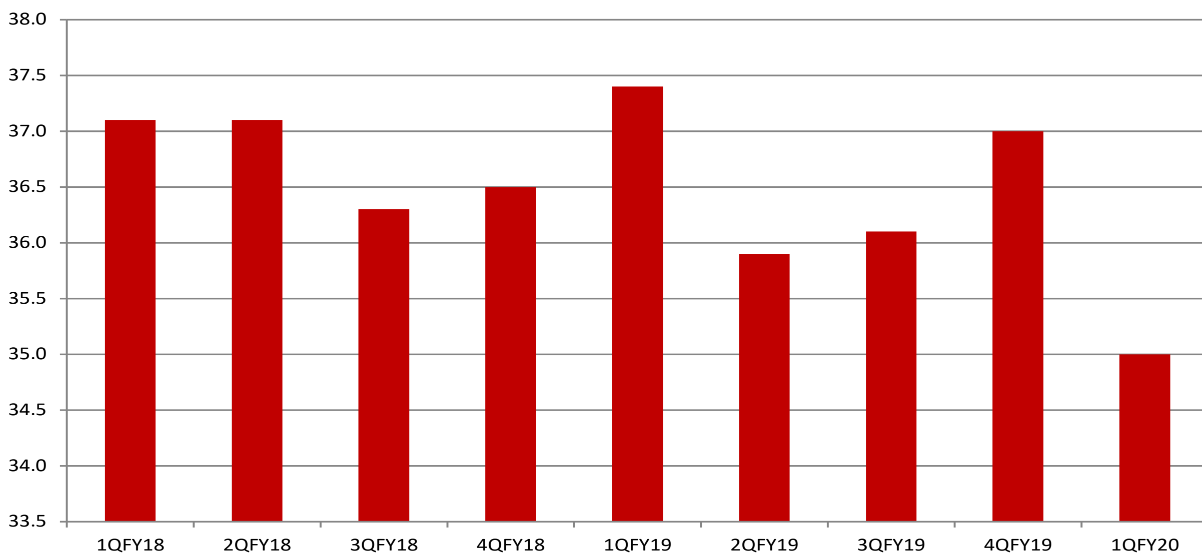
V. CONSTRUCTION

Slow Recovery Mode .... Maintain NEUTRAL

Uninspiring results in 1QFY20. Based on the recent reporting season, companies under our coverage ended the quarter with gloomy performance. To recall, 3 stock has performed within our expectation and 7 stocks have performed below our expectations. To begin with, the slow-down in construction activities was expected due to the implementation of Movement Control Order (MCO) by the Government. The Works Ministry had announced that all construction work must be halted during the MCO except for critical works. As a result, MCO period had been a challenging period for local contractors as the MCO impacted: (1) progress billings for construction and property development, (2) property sales, (3) construction activities, and (4) toll road collections.

Frozen construction activities amid MCO period led to slower construction progress. Based on the data from Department of Statistics Malaysia (DOSM), Malaysia's construction sector contracted by 6.3% in 1QCY20, amounting to RM35b, compared with the same month of the previous year. Also, there was a few major projects delay due to MCO implementation namely, (1) Johor Baru-Singapore Rail Transit System (RTS) - the finalization of contract terms was scheduled to extend the bilateral discussions by three months to July 31,2020, after the previous April 30 deadline, and (2) Kuala Lumpur-Singapore High Speed Rail (HSR) - both the Malaysian and Singaporean governments have agreed to extend the deferment of the project from May 31 to December 31. However, it is worth noting that there were a few sizable contracts clinched by local contractors under our coverage namely (1) **WCT Holdings (BUY, TP: RM0.64)** – RM1.2b Pavilion Damansara Heights Contract, and **(2) Gamuda (BUY, TP: RM3.70)** – RM932.5m Seawall Construction Contract in Taiwan.

Chart 32: Value of Construction Work Done (Quarterly)



Source: DOSM, MIDFR

PRIHATIN and PENJANA packages to support small and medium construction players. To combat the Covid-19 impact and stabilize the economy, the Government introduced RM250b Prihatin Stimulus Package and RM25b Penjana Short Tem Recovery Plan. Under the stimulus package, only RM2.0b was allocated for domestic, small-scale infrastructure projects. This includes: (1) implementing infrastructure projects in Federal Land Development Authority (FELDA) and others - RM600m, (2) repairing dilapidated school in Sabah and Sarawak – RM350m, and (3) refurbishing housing for the poor – RM150m. It is also worth noting that, the Government also announced the continuation of all projects allocated in the 2020 Budget – including the ECRL, MRT 2 and National Optical and Connectivity Plan. We opine that the continuation of these mega infrastructure projects is seen as a strong catalyst for local construction sector. These projects are expected to assist economic growth as it will stimulate other new investments. As for the Penjana Recovery Plan, the Government has introduced SME Bank via the SME Go-Scheme which will provide financing to 16,000 qualified G2 and G3 contractors who have received projects under the PRIHATIN package. Plus, no collateral or deposit is required. We believe that this measures are positive for small and medium local construction players as we think this implementation will encourage more job replenishments. Altogether, we can conclude that both Prihatin and Penjana packages will be benefiting mostly small and medium contractors rather than big players in the sector while the big players in the sector can heave a sigh of relief with the continuation of mega projects allocated in the 2020 budget.

Sarawak prospects remain resilient. Given that the next Sarawak state election will be held on or before 7 September 2021- formally the 12th Sarawak state election, we opine there will be more Sarawak job flows in 2020 to stimulate economic growth. Going ahead, we anticipate these infra projects to be tendered out the remaining subcontracts in 2HFY20 namely; (1) The Second Trunk Road project and (2) Sabah-Sarawak Link Road. Additionally, it is worthwhile to note that on 17 May 2020, the allocation for the Sarawak water grid programme was upgraded to RM4.0b from RM2.8b previously. We believe that one of our coverage, **KKB Engineering (BUY, TP: RM2.10 RM1.90)** is likely to be the beneficiary of state water projects, considering its long track record in the piping and steel business. For instance, the Group managed to booked revenue increased to RM21.6m by about +340.8%yoy in the 1QFY20 due to increase off takes of steel pipes required under the Sarawak Water Supply Grid Programme before the MCO imposition in March 2020. In regards to the above, our players in East Malaysia like **Cahya Mata Sarawak (BUY, TP: RM2.21), KKB Engineering (NEUTRAL, TP: RM1.90)** and **Hock Seng Lee (BUY, TP: RM1.21)** are expected to benefit from bullish prospects of the construction sector in Sarawak.

Maintain NEUTRAL. We maintain our **NEUTRAL** view on the sector, in view of its performance in 2020 to remain in slow recovery mode post-MCO. We anticipate slower rate of progress billings due to the (1) disruption in the building material supply chain and (2) additional construction site restrictions. Nevertheless, we opine that construction sector may rebound in CY21, as the government will likely to accelerate the implementation of infrastructure projects soonest possible to support economic growth as well as stimulate new investments. While we maintain our Neutral stance on the sector, our top picks for the sectors are **Gabungan AQRS (BUY, TP: RM1.42), Muhibbah Engineering (BUY, TP: RM1.35)** and **WCT Holdings (BUY, TP: RM0.64)**. On top of that, we also have BUY calls for some East Malaysia counters namely **KKB Engineering (NEUTRAL, TP: RM1.90) and Hock Seng Lee (BUY, TP: RM1.21)**.

VI. GLOVES

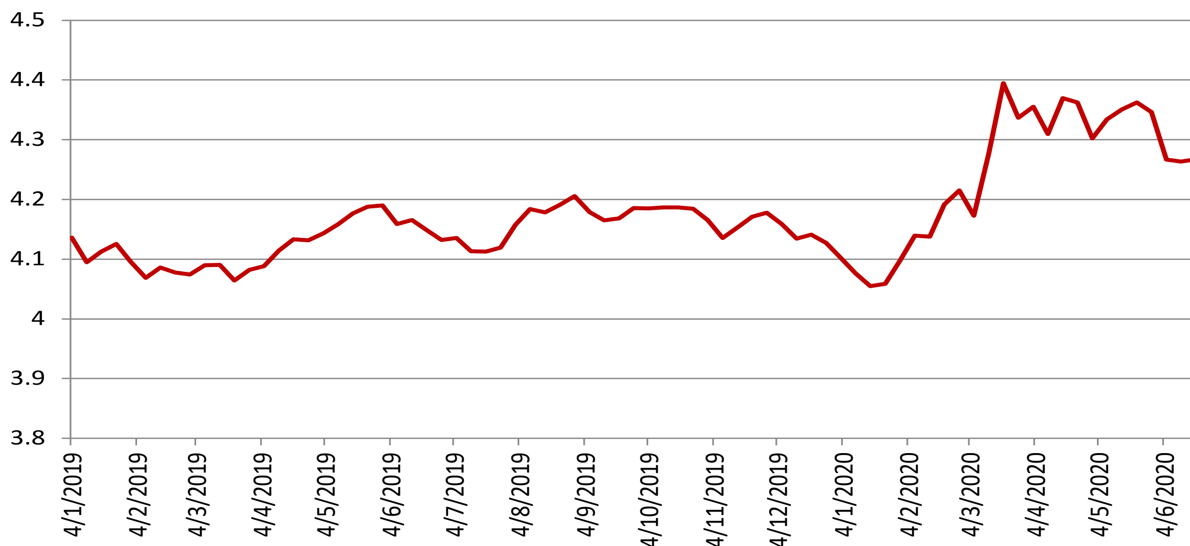
Earnings Growth Priced in .... Maintain NEUTRAL

1QCY20 earnings beat expectations due to surge in demand for gloves. Three out of gloves producers reported earnings that were better than expected in 1QCY2020 as earnings were boosted by increase in average selling price (ASP) of gloves and higher sales volume of gloves. The Covid-19 pandemic has led to higher demand for gloves and resulting into upward revision in ASP. The surge in demand for gloves has resulted in demand outstripping supply and longer delivery lead times. Besides, earnings of glove makers were also helped by lower raw material prices and strengthening of USD. This has resulted in margin expansion of glove produces in 1QCY20.

Expanding production capacity to meet higher demand. Glove makers are expanding its production capacity to meet the growing demand for gloves. Notably, production capacity of Top Glove is expected to grow by 36% from 73.8bil pcs in 3QFY20 to 100.4bil pcs in 4QFY21. Similarly, Hartalega will continue with its NGC capacity expansion plan whereby annual installed capacity is expected to increase from current 38.1 billion to 43.7 billion pieces by FY22. Meanwhile, Plant 19 of Kossan Rubber has so far commissioned 6 production lines beginning January while all 10 lines are expected to fully commissioning by June 2020. Lastly, Supermax is expanding its production capacity with 3 plants under construction. The 3 plants would increase Supermax's installed capacity by 12 billion pieces from 26.18billion gloves to 38.18billion gloves by CY2022.

Margin to continue expanding in 2QCY2020. Profit margins of glove makers are expected to continue expand due to: (i) continuous upward revision in ASP, (ii) strengthening of US Dollar, and (iii) subdued raw material prices. Glove makers are expected to continue revise ASP higher due to the robust demand for gloves. Impact of upward revision of gloves ASP will be more significant in 2QCY2020 as ASP of gloves were set few months before delivery time hence the spike in ASP for the period February to April will be reflected in 2QCY2020. Besides, glove makers are the main beneficiaries of stronger US Dollar as gloves were priced in US Dollar. Meanwhile, prices of raw material such as nitrile-butadiene rubber (NBR) are expected to remain subdued due to the trade war tension. On the other hand, prices of natural rubber latex have been trending upwards recently due to wintering season which we are not overly concern as the increase in ASP is more than enough to offset the increase in raw material prices.

Chart 33: Net profit margin of the big four local glove manufacturers (%)



Source: Bloomberg, MIDFR

Maintain NEUTRAL on gloves sector. Overall, we expect earnings outlook for glove makers to remain positive in 2HCY2020 due to continuous upward revision in gloves ASP and favorable forex as well as raw material prices. We opine that the tight supply situation in the gloves industry would continue in the medium term. Nevertheless, we believe that the positives have been largely priced in following the good run in share prices of glove counters which had made the glove counters trading above its multiple year +2 standard deviation PER. Hence, we maintain **NEUTRAL** on the sector.

VII. HEALTHCARE

Organic Growth to Drive Sector Earnings .... Maintain POSITIVE

Organic growth to continue driving revenue and earnings. We reiterate our view that we expect earnings of the private healthcare operators to display further improvements from 2HCY20 onwards. Recall that, 1HCY20 saw number of inpatients declining by mid-single digits in general for all healthcare service operators following the implementation of movement control order (MCO) by the Malaysian government. This had restricted movement for all and closure of businesses nationwide. This has insofar resulted in the decline of patients admissions at hospitals. However, the decline in patient admissions was cushioned by higher revenue per patient during the period as more complex cases were undertaken. Going forward, we expect the condition to improve in 2HCY20 as bulk of the procedures and treatments are expected to take place during this period. Furthermore, we opine that the private healthcare providers will be concentrating on developing ancillary revenue e.g. laboratory testing services and providing assistance to the government hospitals via undertaking non-critical public hospital cases to further cushion the slowdown in revenue due to the pandemic.

The "new normal" to bode well for HSS providers. The adoption of a "new normal" in Malaysia may be a blessing in disguise for infrastructure support services provider such as **UEM Edgenta (BUY, TP: RM3.24)**. Given that more emphasis is being placed on hygiene and cleanliness due to the Covid-19 pandemic. Edgenta, a company that provides among others maintenance of buildings, infrastructures and hospitals is expected to benefit from the potential increase in demand for services such as sanitization as well as periodic cleaning. Its main business which is providing healthcare support services (HSS) to government hospitals in Malaysia and private hospitals regionally will be among the beneficiary of the current pandemic crisis. Edgenta is currently maintaining 33 hospitals in the northern region of Malaysia until year 2025. Additionally, its facilities and building maintenance services have also seen an increase in demand for maintenance of hygiene and cleanliness at corporate buildings.

Covid-19 to benefit pharmaceutical players. While the private healthcare providers are expected to be impacted by the movement restrictions imposed to curb the spread of Covid19, we opine that local pharmaceutical players will benefit instead. For the two largest generic drug manufacturers in Malaysia, **Pharmaniaga (BUY, TP: RM3.16)** and **Duopharma Biotech (CCMD MK, NR)**, the largest buyer of generic drugs (70% of the country's total medicine) is Malaysia's MoH. Currently, the sales to MoH make up 90% and up to 50% of Pharmaniaga and Duopharma's revenue respectively. As evident in the 1QFY20 earnings announcement, we opine that the revenue coming from the government will potentially increase in FY20 given that the MoH are procuring more drugs and medical consumables in its nationwide fight against Covid-19 this year.

With regards to the concession agreement Pharmaniaga has with MoH, we do not expect any major changes to the current agreement despite a recent talk about reverting to the previous procurement practice. However, should the previous arrangement come into practice again, we expect it to be beneficial to Pharmaniaga as it not only possesses the network of logistic and distributions, but it also has a positive track record of delivering pharmaceutical products to MoH's hospitals with ~98% delivered safely and on-time.

Maintain POSITIVE. All in, we are reiterating our **POSITIVE** stance on the sector as we expect demand for healthcare services to remain robust for the remainder of 2020 despite the slowdown in inpatient admissions experienced by the healthcare service providers in the 1H of 2020. We opine that the sector's earnings growth will remain resilient as we expect demand to return in 2H of 2020 as consumers gradually returns to hospitals to seek treatments with the easing of Covid19 measures nationwide. Additionally, delayed and postponed medical procedures are expected to take place in 2H of 2020 as well which will cushion the impact on earnings for FY20.

Our **POSITIVE** stance is premised on: (i) strong demand for quality healthcare and, (ii) lack of public healthcare amenities to cater for patients both in the urban as well as suburban areas. We also opine that private healthcare operators will continue to be the preferred choice for the urban dwellers with higher disposable income and insurance coverage. That said, **Pharmaniaga (BUY; TP: RM3.16)** is our top pick for the sector during the current pandemic period. We like Pharmaniaga as it is most likely to benefit from the influx of order for drugs and pharmaceutical consumables during the Covid19 pandemic from the government hospitals. Additionally, it also has a well-developed logistics and distributions network nationwide and an excellent delivery track record to MoH facilities.

VIII. INSURANCE

Insurance Demand Expected to Remain Subdued in 3QCY20 .... Maintain NEUTRAL

Premium growth to be tepid in 3Q. The anticipated weakening economic conditions brought by the Covid-19 outbreak and movement control order (MCO) are expected to dampen the demand for insurance, particularly at the general insurance segment. With the recent spike in Malaysia's unemployment rate to 5% in Apr-20 which broke the full employment condition of below 4% for the first time since GFC, we expect this would have a negative spill-over effect on consumers' lesser purchasing power that might lead to lower insurance sales in the third quarter. Moving forward, we foresee the lacklustre performance of the labour market to continue to weigh on the insurance demand as consumers have a tendency to treat insurance as less of a priority.

Anticipated premium contraction in general insurance. Our economics team foresee private consumption and services sector to decline that could stifle domestic demand and distributive trade in 3QCY20. As one of the major components of distributive trade, motor vehicles could experience a larger decline on a year-over-year basis in third quarter as consumers avoid purchases of big ticket items amidst the ongoing Covid-19 crisis. This would probably lead to lower motor insurance sales which are the biggest insurance class in the general insurance segment, accounting for 48% and 68% in conventional general and takaful segment respectively. In addition, the movement restriction and border control will continue to hurt the travel insurance demand in the third year which had already saw a sharp decline as evidenced by the significant fall in **Tune Protect Group (TPG) (SELL, TP: RM0.25)** underwriting profit. Consequently, coupled with an increase in competition through the liberalisation of the industry, we opine that the above indicators and developments will dampen the demand for insurance products in 3QCY20. Nonetheless, the recent stimulus packages and OPR cuts could partially mitigate the expected fall in insurance demand.

Possible further review of the fire insurance detariffication. In our opinion, the progressive phased liberalisation of the fire insurance to keep the general insurance segment under pressure. This is primarily attributable to that some general insurers might be undercutting its products' pricing in order to gain market share. As such, we expect that the general insurers' premium growth under our coverage to continue to be subdued into 3QCY20, as they vying with one another to offer more competitive products with cheaper pricing. Coupled with the possible anaemic property sales which might affect the mortgage market, we opine this would moderate the new business growth of fire insurance. Nonetheless, the reintroduction of home ownership campaign (HOC) might partially provide indirect support to fire insurance demand through a sequential increase in property sales in the third quarter. We believe that the review of further liberalisation of the fire insurance possibly in coming quarter might be an area of concern for insurers who have a larger exposure such as **LPI Capital (NEUTRAL, TP:11.70)**.

Continual investment into digital platforms in 3QCY20. Given the stagnant penetration rate and social distancing rules put in place, we opine insurers would continue to introduce commission-free pure protection products through direct distribution channels (i.e. mainly online channels) to minimise physical interaction as well as to accelerate the adoption of technology. This is to help lower the cost of insurance amidst the possible moderating demand in 3QCY20. Therefore, we are of the view that more insurance companies to continue embarking on digitalisation and offering a wide array of insurance products via entirely online. However, the insurance products sold online normally would have lower premiums, less customisable and less stringent underwriting criteria to entice buyers. While the online distribution will help to improve the insurers' commission structure, we posit that it wasn't enough to make up for the lower premium and higher management expenses at this juncture and might affect unfavourably to the underwriting margin.

However, the growth of Life and Family takaful segments to remain resilient. The growth of the overall insurance and takaful sector have been relatively stable as driven largely by the higher growth of net premiums and contributions in the life insurance and family takaful segments. We also foresee a possible increase in demand for life, health and medical insurance amidst the Covid-19 outbreak. This is premised on the historical data that the health and insurance market in Malaysia grew about 35% after the SARS crisis in 2003. While the weaker consumer sentiments and sombre labour market are expected to affect new business growth and profitability of investment-linked products (ILP), we believe the growth will be partly sustained by the insurance tax relief of RM3,000 and the increasing popularity of ILP. To recall, the ILP accounted for 59% and 36% of the new business growth for Life Insurance and Family Takaful segments respectively in CY19. Moving forward in 3QCY20, we opine that the growth in the insurance sector will largely coming from the life segments as compared non-life which is going through a transition period towards a liberalised market.

Maintain NEUTRAL. We believe that the outlook of the Malaysian insurers' earnings continue to be less encouraging in 3QCY20. This is premised on the economic implications of the Covid-19 pandemic and the softening market cycle in the insurance sector as well as slumping retail sales growth which will possibly dampen the demand, especially for motor, fire and engineering insurance products. We also postulate that the expected further de-tarrification of the fire insurance will be putting further downward pricing pressure on the general insurers. Consequently, we foresee the general insurance segment's premium to shrink in 3QCY20. With the relatively stagnant penetration rate and social distancing rules put in place, we also expect to see an increasing number of major insurers to boost its digitalisation efforts in rolling out competitive products via online platforms to minimise physical interaction and lower barriers of access. On a positive note, we expect the growth from the Life Insurance and Family Takaful to remain resilient with the insurance tax relief of RM3,000 and recent stimulus packages to provide partial support to insurance demand. All factors considered, we are maintaining our **NEUTRAL** stance on the sector.

IX. MEDIA

Advertising Income to Remain Under Pressure .... Maintain NEUTRAL

Advertising expenditure (adex) to remain subdued in 3QCY20. The anticipated economic implications from the Covid-19 pandemic and movement control order (MCO) is expected to have negative spill-over effects on the adex in the third quarter. This is mainly predicated on the possible sombre labour market and weakening distributive trade performance as indicators of lacklustre business sentiments. As such, we opine that businesses will be more attentive in diverting their resources to conserve cash flow and hold back on their marketing budgets to reduce operating cost. According to Nielsen, the adex of traditional media dipped -9.0%yoy with the newspaper segment experienced the largest decline of -24.0%yoy in 1QCY20. In addition, our economics team foresee a contraction in the private consumption and services sector which could further put a downward pressure on adex demand. Nonetheless, the gradual easing of lockdowns and stimulus packages might provide partial support to the recovery of adex demand. Moving forward, we are of the view that the financial performance of media companies under our coverage to remain challenging in 3QCY20.

Downsizing is imminent. We observed that the media companies' latest quarterly results under our coverage have performed below our expectation, primarily attributable to lower advertising revenue. In order to cushion the adverse impact by reducing operating cost, we have seen the loss-making media companies under our coverage to undergo manpower rationalisation exercises. We understand that **Media Prima Berhad (MPB) (SELL, TP:RM0.12)** is expected to undergo a second downsizing exercise. Similarly, the **Star Media Group Berhad's (Star) (NEUTRAL, TP:RM0.34)** is also pursuing another round of reduction in workforce, possibly in 3QCY20. Meanwhile, we note that there was an exodus and change of key management personnel at both **MPB** and **Star** in 1HCY20 which might possibly impede the progress of business transformation plan. While the downsizing could help to partially alleviate the cost structure, we opine that it wasn't enough to mitigate the expected downfall in revenue.

Healthy cash balance. We foresee that the relatively strong balance sheet of media companies with healthy cash piles to partially help them weather through the unfavourable adex environment amidst the Covid-19 outbreak. In this regard, MPB and Star have a cash balance of about RM393.3m and RM398.6m as of 31 March 2020 respectively while **Astro Malaysia Holdings Berhad (Astro) (NEUTRAL: TP:RM0.86)** has RM297.6m as of 30 April 2020. This provides them with sufficient headroom to manoeuvre through this challenging period and focus on their transformation exercises. In addition, we also do not discount the possibility of media companies to pursue earnings accretive M&A opportunities that could improve their prospects in the foreseeable future. Moreover, we also foresee that media companies such as **Star** and **Astro** would also continue to make lower dividend payment.

Home-shopping seen as long-term beneficiary. We believe that the Covid-19 outbreak and MCO would probably alter consumer behaviour to a certain extent which would encourage e-commerce including home-shopping as people prone to stay at home. This is evidenced by the revenue growth of **Astro**'s Go Shop (+14%yoy) and **MPB**'s CJ WOW Shop (+18%yoy) as they experienced spike in orders during MCO, as seen in their latest quarterly results. Meanwhile, we are also projecting higher online sales from **Astro**'s Go Shop in which its customers are typically more affluent as compared to **MPB**'s CJ WOW Shop. Moving forward, we expect the positive momentum of the home-shopping segment to continue albeit minimal effects to the earnings.

Maintain NEUTRAL. We opine that the outlook of the media sector to be less encouraging given the weakening economic indicators and subdued business sentiments. This will dampen the adex in which the local media outfits are still heavily reliant on. While workforce rationalisation could partially improve cost structure, we opine that it will not be sufficient to mitigate the anticipated fall in advertising income. Nonetheless, the healthy cash balance of media companies should enable them to weather the Covid-19 pandemic as easing of lockdown in 3QCY20 might provide partial support to the recovery of adex. The possible further increase of e-commerce sales and higher consumption of TV contents in 3QCY20 could also partially support the domestic media companies' ongoing tough transition period. As such, we see no significant growth catalysts for the media sector at this juncture. All factors considered, we are maintaining our **NEUTRAL** recommendation on the sector.

X. OIL & GAS

Soft Offshore Activities as Demand Inches up Gradually.....................Upstream: NEUTRAL
Downstream: NEUTRAL

Crude oil priced to remain swayed by Covid19 developments. We view that the oil price will continue to be susceptible to all the major socio and geopolitical developments in the world throughout the year which will cause oil price to remain volatile. That said, we are positive on the recent development in the market where: (i) OPEC+ nations have renewed their commitment of the 9.7mbpd production cut through July 2020; (ii) the easing of Covid-19 related measures by countries worldwide which will boost demand and; (iii) voluntary production cut by the non-OPEC countries especially the US shale producers. Additionally, the US Energy Information Administration (EIA) recently reported that crude inventory in the US has dropped by 7.2mb during the last week of June which is expected to lift oil price even further. Hence, we opine that, crude oil inventory will gradually decline until 3Q20 before the demand finally catches up in 4Q20 after two quarters of suppressed consumption and expected production cut by US shale producers. Note that production output often lags by six-months from the change in oil price resulting in the full-impact of production cut to be felt only in 2H20. This is however, remains subjected to the latest development in the fight against Covid-19 where currently there is a fear on the arrival of a "second wave" which could result in a prolonged pull-back in demand that could stunt the recovery of the industry.

E&P capex cut to support soft crude oil price. We note that spending for the upstream exploration and production (E&P) by oil majors consisting global integrated oils and independent E&P companies for 2020 have been slashed by 20-30% in order to deliberately reduce production output and to assist in the recovery of the oil. This is in view of slowing demand attributed to the Covid-19 pandemic which has shrunk China's demand for crude oil by 20% year-to-date and plunged the world into perpetual uncertainty. China's demand alone account for 80% of global oil demand growth in 2019. On average, approximately 30-40% of E&P capex is allocated for drilling and completion while around 15-20% for subsea production. Meanwhile, on the local front, PETRONAS has announced that it will be cutting back on its CAPEX by -21% to RM39.0b (from RM50.0b previously) to account for the current low oil price environment and expected slowdown in offshore activities. Further to that, it has also announced a cut in its OPEX spending this year by -12% this year which is estimated to be about RM2.0b. This in turn would lead to potential termination of soon-to-be-renewed contracts and margin compression for oil and gas service providers which are dependent on PETRONAS-related contracts.

Stable rigs and drillships average day rates and utilisations a positive sign. Overall offshore and onshore E&P activities are expected to improve into 2H20 with average day rates and contracted utilisation rates for worldwide semisubmersibles, drillships and Southeast Asian jack-up rigs have not shown much sign of decline despite the current low oil price environment and weak demand. Utilisation rates and average day rates for worldwide semisubmersibles in particular, have remained rather stable in the 1Q of 2020 into the 2Q of 2020. Jackup rigs utilisation rates remains in excess of 60% with stable average day rates. That said, industry players do see further signs of recovery with increased drilling activities particularly in Southeast Asia with new contracts awarded back in 2HCY19 by regional players which is expected to drive the utilisation rates for the rigs. Furthermore, demand particularly in Southeast Asia is expected to continue its upward trajectory with an average demand of about 40.5 units of rigs in 2020, up from the 34.7 units in 2019.

Brent crude average oil price target for 2020 maintained at USD41pb. The crude oil price so far has averaged at USD42.10 in the 1H20. However, we are maintaining our 2020 oil price assumption at USD41pb. This is after taking into account the impact from: (i) the movement of crude oil inventory and production cut by OPEC+ nations; (ii) development in the Covid-19 pandemic outbreak and; (iii) the upcoming US Presidential Election in November. Our new target has not only taken into account the abovementioned events but we have also factored in the oil price movement trend from 2014-2016 into our calculation. Our quarterly Brent crude oil price targets are as follows:

Table 9: MIDF's quarterly and annual Brent crude oil price forecasts

Quarter	Brent crude oil price forecast (USD)
1QFY20 (A)	50.80
2QFY20 (A)	33.39
1HFY20 (A)	**42.10**
3QFY20	36.00
4QFY20	45.10
2HFY20	**40.55**
FY20	**41.33**

Source: MIDFR

That said, though we anticipate the recovery in demand for crude oil in the coming quarters; we believe that it will not be strong enough to overcome the effect of the ongoing US-China trade war which has previously taken a back seat due to the outbreak of the Covid-19.

Maintain NEUTRAL on both Upstream sub-segment and Downstream sub-segment. Due to the various events impacting the oil price's stability going forward, the reduced offshore E&P capex and potential derail in demand recovery for oil-related products globally due to Covid-19, we are maintaining our stance on the upstream sub-segment of the oil and gas industry at **NEUTRAL**. We are also maintaining our **NEUTRAL** stance on the downstream sub-segment of the oil and gas industry. This is also in-line with our crude oil assumption for 2020 at USD41pb.

Subdued operating environment as offshore activities gradually recovers. The recent recovery in oil price is premised on: (i) gradual easing of Covid-19 measures and re-opening of economies around the world while observing the "new normal" and; (ii) the decline in crude inventories worldwide following the voluntary production cuts initiated by both OPEC+ nations and non-OPEC producers. While we note that oil price have been hovering between USD40-45pb and averaged at USD33pb in 2QCY20, we opine that at this juncture, oil price would unlikely to appreciate beyond USD50pb. This is as the fear of the emergence of a second wave of Covid19 that could potentially derail the recovery of demand which has slumped by >30% worldwide since March 2020.

Therefore, on the local front, we opine that while the decline in demand for crude oil and crude oil derivatives in the 1HCY20 would continue to impact the earnings growth for upstream oil and gas players in 2020, the operating environment should gradually improve with the easing of the Covid-19 measures worldwide. Furthermore, major E&P players have also rationalized its respective CAPEX and OPEX spending in the 1HCY20. Hence, in our opinion, this should provide a more stable operating environment going into 2H of 2020 despite curtailed E&P activities following CAPEX rationalization. Should the current environment prolong, listed E&P players such as **Hibiscus Petroleum (NR), Reach Energy (NR)** and **Sapura Energy Berhad (TRADING BUY, TP: RM0.113)** could witness a slowdown in earnings growth for **2020** given that cost of production remains high at about USD30-40pb for most of the producers.

As for the local oil and gas support services players, in the event of a prolonged low oil price environment; we are favourable towards companies that are involved in maintenance, construction and modification (MCM) services. This is due to the fact that Malaysia is an oil exporting nation and revenue from oil-related income constitutes 30.9% of the total Government revenue in 2019. To ensure stable revenue and cash flow, oil production must be sustained. Hence, MCM services will be carried out regardless of the oil price environment. Therefore, we believe that national oil company Petroliam Nasional Berhad (PETRONAS) will remain committed to its maintenance spending in 2020. Nevertheless, the low oil price environment could also mean compressed margins for the players.

Hence, our Top Pick for the sector is **Dialog Group (BUY, TP: RM3.83)** specifically due to its stable recurring income from its tank farm business and due to it being one of the main beneficiary of the soon-to-be operational Pengerang Integrated Complex (PIC) MCM contract awards and; **Serba Dinamik Berhad (NR)** as the company is also specialised in MCM with a well-diversified revenue stream and has geographically-wide exposure to the global oil and gas network.

As for the downstream subsector of the O&G industry, we continue to favour **Gas Malaysia Berhad (BUY; TP: RM3.11)** as the recent decline in natural gas price and crude oil price has a neutral impact on its cost due to the offtake arrangement it has with Petronas Gas. Furthermore, the decline in sales volume due to the implementation of MCO in 2QFY20 is expected to be mitigated by the increase in volume from other existing customers (eg: gloves companies) which continues to operate more than capacity during the pandemic period. On the other hand, outlook remains challenging for **Petronas Chemicals Berhad (NEUTRAL, TP: RM5.85)** and **Petronas Dagangan Berhad (NEUTRAL, TP: RM21.39).** For PChem, even though the low oil price environment is favourable in terms of feedstock price, the low price will also result in low average selling prices (ASPs) of its products which will reduce its margin spread. Coupled with the persistent weak selling price outlook partially due to Covid-19, earnings are expected to remain weak in 2HFY20. As for PetDag, the lower sales of petrol due to MCO in April and May are expected to impact its 2QFY20 earnings as movements remains restricted during the quarter. We opine that this will also continue into 2HCY20 as consumers remains wary of excessive movement post-MCO.

XI. PLANTATIONS

Peak Production Cycle to Put Pressure on Inventory Level .... Maintain NEUTRAL

Entering into seasonally peak production period. We expect a higher level of production in the 3QCY20 as the palm oil industry is about to enter into its usual peak production period (i.e. July to October). The production could also be further boosted by more aggressive fertiliser application by industry players during 1QCY20, in view of the better CPO price. However, we remain wary of the shortage of foreign workers in which the palm oil industry is heavily reliant on at the moment. This is due to border controls that could potential pose a risk to the supply of Malaysian palm oil in 3QCY20. Nonetheless, this concern could be partially alleviated via the application of technology in managing oil palm plantation.

Export demand to be lacklustre. We foresee that the palm oil demand in the 3QCY20 to remain tepid on a year-over-year basis. This is primarily attributable to the continued Covid-19 outbreak at major palm oil consuming countries such as India and EU, dampening the palm oil consumption significantly in the Hotel, Restaurant, and Cafe (HoReCa) segment. In addition, the subdued oil prices will also make palm oil to be less appealing as biodiesel feedstock given the huge premium over crude oil. In China, the gradual recovery of the swine sector and Phase-1 trade deal with the US probably lead to more soybean imports into the country which could reduce the demand of palm oil. Nonetheless, we anticipate some recovery of CPO demand from India, EU and China in 3QCY20, mainly due to restocking activities as lockdowns are eased. Meanwhile, we are also of the view that the export duty exemption on Malaysian palm oil will partially support export demand as it has now a pricing advantage over Indonesian CPO.

Biodiesel mandate as one of the key pricing determinant. We opine that the continued implementation of higher biodiesel mandate in Malaysia and Indonesia are expected to partially support the recovery of the palm oil-based biofuel demand as lockdowns are gradually eased in 3QCY20. Note that the Malaysian government has merely delayed the nationwide B20 roll-out to Sept 2020. Meanwhile, the Indonesian government has also raised its CPO export levy to USD55/mt to fund its B30 mandate programme. Thus, we posit that the above developments would partially support domestic CPO demand in biodiesel production. Nonetheless, we also do not discount the possibility that there would be a further downward pressure on the CPO price in 3QCY20 should the implementation of biodiesel mandate be disrupted further. According to the Malaysian Biodiesel Association (MBA), any disruption to the biodiesel mandate implementation would result in the CPO price range in CY20 to be about RM1,900-2,100/mt.

Higher stockpiles level. With the expected subdued CPO demand, we opine that the seasonally higher palm oil production in the third quarter of the year to put pressure on the inventory level. As a result, we foresee that the Malaysian palm oil stockpile could increase to around 2.5m mt level. While some forecasts seeing the inventory level to jump to 3.0m mt, we opine that it is unlikely given the anticipated moderated annual production and government intervention to spur CPO demand through export duty exemption until year end. Historically, the CPO price would normally trend downward in the third quarter of the year as inventory creeps up amidst the seasonally peak production period. The CPO price is also dependent on the efficiency of the implementation of biodiesel mandate which has been delayed. Consequently, we posit that the above indicators and developments to further weigh on the CPO price.

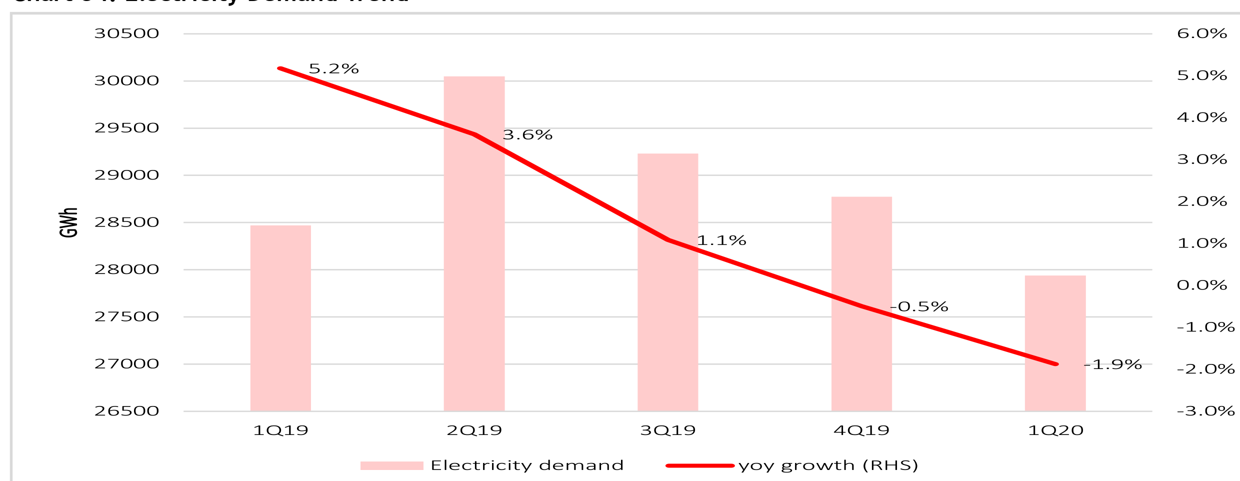
Maintain NEUTRAL. We expect CPO price to be trending downward in the coming months, primarily due to the anticipated rising inventory level on peak production cycle and a moderated CPO export demand. We opine that the ongoing Covid-19 outbreak at major palm oil consuming countries such as India and EU to continue to dampen the CPO demand. However, a successful execution of the biodiesel mandate is now one of the major pricing factors to provide partial support to the CPO price. Nonetheless, the support for the CPO price would still be highly dependent on the severity of the Covid-19 outbreak which continues to impede business activities. All factors considered, we are maintaining our **NEUTRAL** recommendation on the sector with average CPO target price of **RM2,300/mt** for 2020.

XII. POWER

Defensive Amid Near-Term Volatilities .... Maintain NEUTRAL

Defensive earnings despite near-term demand drag. In view of the Covid-19 outbreak and its impact on economic activities, electricity demand in 1H20 is likely to have experienced a contraction. In 1Q20, electricity demand contracted by 2%yoy (impacted by circa half month impact of the MCO), while 2Q20 contraction is likely to be deeper given a full month (April) impact. Tenaga is guiding for a 7%-15% potential reduction in FY20F electricity demand. However, the bulk of Tenaga's regulated earnings are on a revenue-cap basis; Tenaga is technically compensated for any shortfall in demand (relative to RP2 projected demand growth of 1.8% - 2% per annum). Vice versa, any excess demand relative to the RP2 projections are returned to consumers. For the most part of RP2 so far, demand had exceeded the projected growth and Tenaga had been returning the excess revenue to consumers. Meanwhile, independent power producers' (IPP) returns are governed and guaranteed by long-term PPAs (provided capacity is made available to the grid as per schedule), regardless of short-term demand fluctuations.

Chart 34: Electricity Demand Trend



Source: Tenaga, MIDFR

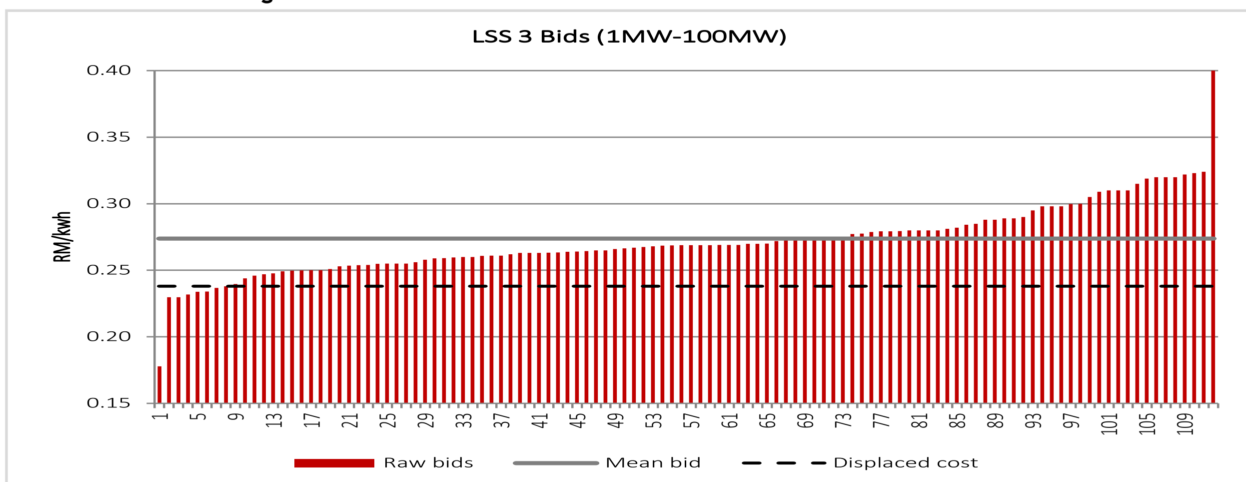
Some are exposed to demand risk. YTL Power's power operations in Singapore (via YTL Power Seraya) are exposed to demand risk as it operates in a merchant electricity market. As such, the expected slowdown in Singapore's economy is likely to have an adverse impact on YTL Power Seraya's near-term earnings. Underlying dynamics in Singapore's power sector were already dragged by overcapacity issues and the gradual phase-out of vesting contracts, prior to the Covid-19 pandemic.

Proposed gap year ensures near-term earnings visibility. FY20F is the final year of the 3-yearly Regulatory Period 2 (RP2) under the IBR (Incentive-Based Regulation) framework. Tenaga's regulated earnings is expected to increase by 4.2%yoy to ~RM4b in FY20F from an estimated RM3.8b in FY19F on the back of a larger projected regulated asset base of ~RM55b. A key uncertainty that typically weighs on sentiment however, are negotiations on the next regulatory period parameters i.e. RP3 parameters. However, given the uncertainties brought about by the Covid-19 pandemic, Tenaga is proposing to the Energy Commission to implement a "gap year" in FY21F and to shift RP3 implementation to FY22F instead. This is in order to get a better handle on underlying demand and fuel cost trends in setting RP3 parameters considering the extraordinary circumstances currently, and to avoid excessive volatility in Imbalance Cost Pass Through (ICPT) adjustments during RP3. The "gap year" is likely to maintain RP2 parameters while regulated capex may incorporate some that has been planned for RP3. Implementation of the "gap year" is positive in that it underpins near-term earnings visibility for Tenaga.

Introduction of NEDA+. Based on the MESI2.0 rollout plans, the New Enhanced Dispatch Arrangement (NEDA) is scheduled to be rolled out in 3Q20. NEDA+ will essentially enable all players, including expired IPPs and players with excess capacity, to bid to dispatch to the grid. While this could create higher competition for dispatch, it is unlikely to impact the PPA-based IPPs much as the bulk of profits are captured in capacity payments, which are locked in over the PPA tenure. In the longer run, once all PPAs have fallen off, NEDA+, which will function as the energy market, is likely to drive increased competition in the generation space.

Large Scale Solar. A total of 500MW capacity was awarded in LSS 3; LSS 1 saw a total 450MW capacity awarded (COD 2017/2018) while LSS 2 saw another 563MW capacity awarded (COD 2019/2020). LSS 2 projects are expected to be operational from end-2019 while LSS 3 projects are targeted to reach commercial operation date (COD) in 2021. Notably mean bids for LSS3 reduced substantially to 27sen/kwh from 39sen/kwh in LSS2 and 45sen/kwh in LSS1. **Cypark (Non-Rated)** was among the few listed local players to have been shortlisted for the LSS3 projects.

Chart 35: LSS3 Bid Range



Source: EC, MIDFR

LSS 4. The LSS4 program was launched recently, a notably short 6 months' gap against the award of LSS3 projects in late-FY19; the acceleration of LSS4 is part of the Government's initiative to stimulate the economy. LSS4 entails a total of 1000MW solar capacity (double that of LSS3) which is up for bidding from 31st May 2020 till 31st August 2020, with targeted COD latest by December 2023. We doubt there has been much change in costs since LSS3, given the short gap; at an estimated RM4m/MW The total capex expected for LSS4 is estimated at around RM4b. Key differences between LSS3 and LSS4 are: (1) Much larger capacity of 1000MW on offer on top of segregation of bids into 2 packages of 10MW-30MW and 30MW-50MW capacity which should allow the participation of more players and allow smaller players an opportunity to compete in the smaller bidding package, (2) 100% local shareholding requirement for companies intending to participate and a minimum 75% local shareholding for listed companies – this should be broadly positive for local players as it greatly reduces competition from foreign players.

Ranhill (BUY, TP: RM1.40): Share price has retraced by >30% year-to-date. Earnings remains solid backed by Johor water operations (accounts for 80% of earnings) which is the bedrock of its sustainable 5.4% dividend yield (FY20F-21F). Stock is now trading at a mere 10x FY20F earnings. Key catalysts: (1) Progress in 1150MW Kedah CCGT power export to Thailand, (2) Scheduled rate hike for Johor water, (3) Johor water-sewerage integration, (4) Potential expansion of water operations into new states, (5) NRW-reduction contract wins, (6) 1000MW solar project launch under the accelerated LSS4 program.

Tenaga (BUY, TP: RM13.70): Share price has retraced significantly in the past six months and we see value emerging. This is underpinned by easing capex (notwithstanding the accelerated RM2b capex for FY20F which is exceptional) for generation in the near-to-mid-term, which suggests base dividends of at least at the higher end of the group's 30%-60% payout policy. Key catalysts: (1) 1000MW solar project launch under the accelerated LSS4 program, (2) Higher regulated asset base resulting from accelerated capex under the 2020 Stimulus Package, (3) A more aggressive dividend stance given easing generation capex - as it is, dividend yield already stands at 4.1% (FY21F). Tenaga is now trading at just 13x FY20F earnings, at a 16% discount to the index's 15.5x (MIDF's FY20F baseline target).

Table 10: Sector Valuation Matrix

		Shr Price	PE (x)			P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	FY19	FY20	FY21	(x)	(%)	(%)	Price (RM)	Upside (%)
Tenaga	BUY	11.76	14.1	13.4	12.8	1.1	8.2	3.9	13.70	20.4
Ranhill	BUY	0.93	12.2	10.3	12.6	1.0	12.1	5.4	1.40	55.9
YTL Power	NEUTRAL	0.68	9.5	16.0	14.4	0.4	2.8	4.9	0.70	8.6
YTL Corp	NEUTRAL	0.81	32.4	107.8	49.7	0.6	1.2	1.4	0.85	6.3

Source: Company, MIDF

XIII. PROPERTY

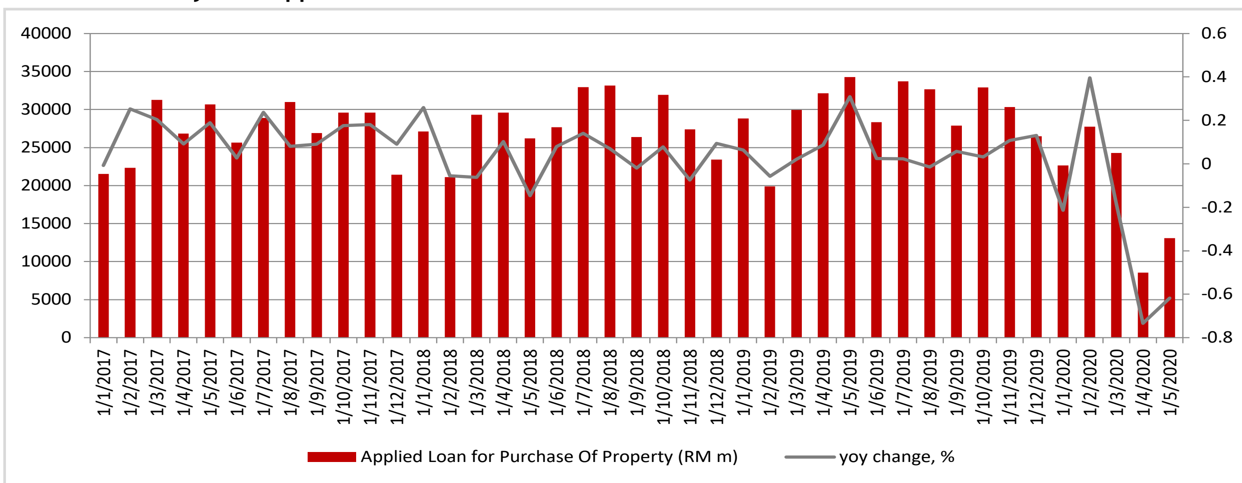
New Property Sales to Recover in 2H2020 .... Maintain NEUTRAL

1QCY20 earnings dragged by delayed construction progress. For the recently concluded 1QCY20 earnings reporting season, most of the property developers reported earnings that were below expectations. The main cause for the earnings disappointment was delayed construction progress of property projects and closure of sales gallery following the enforcement of Movement Control Order (MCO) in March 2020. The disruption to business activity had prompted some of the developers such as SP Setia and Eco World Development Group to revise downwards their new sales target to account for the cautious market sentiment. Looking forward, earnings of developers are expected to remain weak in 2QCY20 as most of construction works were only fully resumed in June 2020.

New property sales outlook to be supported by PENJANA incentives. We expect new property sales outlook to improve marginally in 2HCY20 due to incentives introduced in Short Term Economic Recovery Plan (PENJANA). Note that the incentives introduced include: (i) reintroduction of Home Ownership Campaign (HOC) for residential properties from RM300,000 to RM2.5m from 1st June 2020 to 31st December 2021, (ii) uplift the 70% margin of financing limit for the third housing loan onwards for properties valued at RM600k and above during the HOC period, and (iii) RPGT exemption from 1 June 2020 to 31 December 2021 for three residential properties per individual. The incentives introduced are expected to stimulate more buying interest from buyers. Nevertheless, we do not expect the measures introduced in PENJANA to boost the property sector strongly as we expect it to only partially cushion the negative impact of cautious buyer sentiment.

Loan demand to recover in 2H2020. According to loan statistic released by Bank Negara Malaysia, total applied loan for purchase of property improved sequentially by +52.9%mom to RM13.1b in May 2020 after plunging by -64.8%mom in April 2020. Note that the total applied loan recorded steep decline in April was due to the disruption to business activity following the commencement of MCO. Nevertheless, total applied loan in May was lower by -61.8%yoy while cumulative total applied loan in 5MCY20 was lower by -33.6%yoy, indicating buying interest was subdued. Looking ahead, we expect buying interest to recover in 2HCY20 due to incentives introduced in PENJANA.

Chart 36: Monthly total applied loan



Source: BNM, MIDFR

Property inventory fell for four consecutive quarter. According to data released by National Property Information Centre (NAPIC), unsold completed residential units in Malaysia eased for four consecutive quarters in 1Q2020, since 2Q2019. Latest data as of 1Q2020 saw that unsold completed residential units eased by 3.2%qoq and 9.8%yoy to 29,698units. Johor has the highest number of residential overhangs with 5,468 units, followed by Perak (4,919 units) and Selangor (4,844 units). We think that the decline in property inventory were largely due to HOC in 2019 and aggressive efforts of property developers to clear their inventory whereby developers offered discount and attractive package to attract property buyers. Going forward, we reckon property inventory to continue decline in 2020 due to reintroduction of HOC.

Maintain NEUTRAL on property sector. Overall, we expect earnings of property developers to be lackluster in CY20 due to disruption to business activity and construction progress as a result of MCO. Buying interest is expected to recover in 2HCY20 however we do not expect the momentum of recovery to be strong as buyer's sentiment remains cautious due to uncertainty on economic growth. Hence, we maintain our **NEUTRAL** view on property sector. Our top picks for the sector are **UOA Development (BUY, TP: RM2.06)** and **Mah Sing Group (BUY, TP: RM0.70)** due to the attractive dividend yields of 7.8% and 6.3% respectively which should protect downside.

XIV. REITS

Yield Spread Is Not Attractive at the Moment.................................... Maintain NEUTRAL

Earnings impact to overtake lower interest rates. We expect low interest rate environment bodes well for REITs due to the lowered required rate of return and borrowing cost theoretically. However, identifying and purchasing the right property that fits into the portfolio at the right price will be something that REIT managers will focus on. Based on channel checks, the impact of lower interest rates on borrowing costs are minimal thus far. In the near-term, we expect REITs' core net income (CNI) to have a bigger impact on their unit price performance. Looking past the earnings expectation for the next few quarters, we opine that asset quality matters for longer-term potential as good assets are likely to rebound from the challenging operating environment eventually.

Expect 2QCY20 to be worse than 1QCY20. As the MCO was extended, hurting non-essential services tenants, we expect 2QCY20 to be more challenging than 1QCY20. In 1QCY20, we saw IGB REIT, Sunway REIT, Pavilion REIT, and CMMT reporting earnings that were below expectation. Although offices are not affected immediately, we do not rule out that asset owner may assist tenants by giving rebates to help them through the challenging times. We expect rental assistance programs to abate for good quality assets in 3QFY20 as these malls are likely to recover sooner in terms of footfall and sales turnover. As such, we prefer prime malls and megamalls over neighbourhood malls. On another note, malls that receive high ratio of tourist shoppers may still be impacted in 3QCY20 as the reopening in border for international travellers remains uncertain for now.

Rental income hurt due to MCO. Retail REITs under our coverage have reported significant year-on-year drop in core net income (CNI) for 1QCY20. Earnings of REITs missed expectations mainly due to lower than expected rental income. Only 3 out of 8 REITs under our coverage reported earnings that are within our expectation. A drop in rental income during the quarter as a result of the MCO has hurt shopping malls and hotels. Rental income for industrial assets are relatively more resilient.

Cash preservation a trend across. REIT managers are trying to preserve cash to help them weather through the pandemic by introducing dividend reinvestment programs, scaling down in non-essential asset enhancement initiatives and lowering the frequency in payment of dividend.

Maintain Neutral on the sector. We are still **NEUTRAL** as yield spread is not attractive at the moment. Yield spread between 10-year MGS and REITs under our coverage is estimated at 1.5%-pt. Recovery in rental income will be something that should be tracked closely as is expected to affect earnings per unit and dividend per unit. Based on our channel checks, rental assistance are provided to tenants on a case-by-case basis, which makes it hard to quantify as some of the negotiations are on-going. Our top pick for the sector is **Sunway REIT (BUY, TP: RM1.88)** as it is diversifying its asset portfolio to create a more stable income stream in the longer run. Its assets in Sunway City should remain stable and are able to garner sustainable long-term growth due to its integrated facilities.

XV. TECHNOLOGY

Uncertainty Clouds 3QCY20 Earnings Performance............................ Maintain NEUTRAL

Downward revision in annual sales forecast. As anticipated, the World Semiconductor Trade statistics (WSTS) revised downwards 2020 global semiconductor sales forecast to USD426.0b (+3.3%yoy) from USD433.0b (+5.9%yoy) previously. The revision mainly stemmed from decline in discrete semiconductors (-6.9%), optoelectronics (-3.9%) and sensors (-2.9%). However, on a positive note, the sales of integrated circuits is expect to increased by has been revised upwards by +6.2%. This would mean that demand of semiconductor components is expected to be weaker than previously predicted which is possibly due to the Covid-19 outbreak.

Contraction in smartphone market. According to International Data Corporation (IDC), the world wide smartphone shipment plunged by more than -10% in 1QCY20. This is in-tandem with the advent of the Covid-19 pandemic which led to lockdown globally and thus, affected the supply chain of smartphone. Despite some restrictions are lifted and pockets of spending return, we still expect the contraction in smartphone sales to persist, albeit at a slower pace. We view that this will impact the volume order of semiconductor companies who fall within the smartphone value chain.

Possible delay in Apple's iPhone launches. There is also a likelihood that Apple may delay the launches of its next generation range of iPhone i.e. iPhone 12, due to the advent of Covid-19 pandemic. According to newswires, Apple is expected to push back its annual launching event to the fourth quarter given the possibility of factory lockdowns and workplace absence. Should it occur, we view that it could put a dent on 3QCY20 earnings performance of semiconductor companies which fall within Apple's product value chain.

Trade war between US and China intensifies. In May 2020, President Donald Trump has barred US companies from using telecommunications equipment made by firms posing a national security risk until May 2021. The move was mainly aimed at Chinese companies like Huawei Technologies Co and ZTE Corp. A month later, the US Department of Commerce revoked the preferential treatment for Hong Kong as it views the newly enacted Hong Kong national security law will increase the risk that sensitive US technology will be diverted to the Chinese Government. These developments may potentially disrupt the manufacturing strategies of the semiconductor industry. In other words, there may be changes to the existing supply chain. Given that Malaysia is closely involved in the semiconductor supply chain, there may be opportunities and/or threats resultant from the potential realignment.

Earnings resiliency from the provision of IT services. Among the companies under our coverage, **MY E.G Services Bhd's (MYEG) (Buy, TP:RM1.58)** 1QCY20 earnings had been intact despite the Covid-19 outbreak. Moving forward, we foresee the outbreak will continue to promote to the shift in preference via the online platform. On another note, MYEG is one of the main contenders for the National Integrated Immigration System (NIIS) contract which is expected to be award in the third quarter. We view that MYEG's odds has improved subsequent to the partnership with S5 Holdings Inc. Note that we have yet input the earnings potential from this contract.

Maintain NEUTRAL. The well-being of semiconductors companies under coverage would primarily rely on the smartphone market. While there has been effort to diversified, a huge portion of the earnings still rely on the smartphone industry. With the anticipated delay on the launch of Apple's iPhone, we foresee that 3QCY20 earnings performance could be impacted. On another note, the trade war between US and China has escalated. This could affect the manufacturing strategies of semiconductor companies. Nonetheless, at this juncture, there is no visible impact from this yet. Given the uncertainty surrounding the smartphone market, we favour companies that are in the provision of IT services such as MYEG. All factors considered, we are maintaining our **NEUTRAL** recommendation on the Technology sector.

XVI. TELECOMMUNICATIONS

Price War Breaks Out .... Maintain NEUTRAL

Potentially further downside risk. From the 1QCY20 results season, we gathered that the earnings of all the telecommunication service providers contracted by more than -10%yoy. This was mainly due to the decline in service revenue. Due to Covid-19 pandemic, all the telecommunication service providers under our coverage have also retracted their annual financial performance guidance. Coupled with on-going intense competition, we expect the contraction in service revenue will persists in the coming quarters.

Cost management remains an important factor. To partially alleviate the concern on revenue growth, having a lean cost structure is essential to limit the downfall in earnings. As such, we expect these service providers would put more emphasis in making their cost structure leaner in the coming quarters. In addition, better capital spending management would also lead to lower cost per GB. This would provide these providers with better room to provide a more competitive offerings as and when the need arise.

More data allocation. To solidify its position in the postpaid segment, Maxis revamped its postpaid offerings by providing higher data allocation and removing the weekend data split. At this juncture, we have yet seen its peers to execute similar offerings. On another note, we recently observe that Celcom focuses on provision of hotspot while U Mobile offers postpaid supplementary line for a token sum. Nevertheless, we do not discount the possibility that there could be revision in data allocation to defend their respective market share. However, with such revision in data allocation, we opine that it will discourage postpaid users to upgrade their plans, leading to subdued growth in ARPU.

Unlimited prepaid plan. Subsequent to the free data upgrades for the postpaid plan, Maxis also introduced its revamped Hotlink prepaid plans that come with unlimited data (bearing speed of either 3Mbps or 6Mbps) and unlimited voice calls. We view that Maxis intend to garner a larger share of the prepaid market as predominantly Maxis' main focus has been on the postpaid segment. Meanwhile, both Celcom and Digi have also response quickly by offering similar prepaid offerings. We opine that the new plan structure would help to partially deter the pre-to-post conversion. However, on a longer term horizon we expect that existence of limitation on internet speed would encourage prepaid users to eventually upgrade to the postpaid plan which do not has any restriction on internet speed.

Possible delay in 5G deployment. The Malaysian Communications and Multimedia Commission (MCMC) had cancelled the initial allocation of 5G spectrum on account of technical issues, legal requirements and the need for a transparent process. Coupled with the on-going impact on the Covid-19 pandemic, we could expect delay on the commercialisation of 5G possibly towards the end of 2020 or even into 2021. Note that the deployment of 5G is closely linked to the National Fiberisation and Connectivity Plan (NFCP) which aim at improving broadband connectivity and quality while reducing the broadband prices.

Covid-19 pandemic to support demand for fixed broadband. We understand that the Covid-19 pandemic has encouraged work-from-home arrangement. This has led to higher number of applicants for fixed broadband as well as upgrades in broadband speed for existing fixed line subscribers. We view that this would help to partially address the concern of dwindling subscriber base for **Telekom Malaysia Bhd (TM) (SELL, TP:RM3.15)** as well as sustaining the broadband ARPU above the RM150 level.

Maintain NEUTRAL. We expect the revenue pressure for the mobile service providers to persist in the coming quarters as evident in the 1QCY20 earnings season. This would be further aggravated by the recent revamp in both postpaid and prepaid offerings. However, we do not expect further revision in the mobile offerings in the immediate term. Thus, to protect the earnings, it would be easier to place more emphasis in advocating a leaner cost structure. This would also include careful spending on capex which would lead to lower cost per GB. On another note, we view that the contraction on earning would also affect the traditionally defensive earnings qualities of the telecommunication sectors. All factors considered, we are maintaining our **NEUTRAL** recommendation on the sector.

XVII. TRANSPORTATION (LOGISTICS, PORTS, SHIPPING)

Battle for a Bigger Piece of the Pie Continues .... Maintain NEUTRAL

Logistics

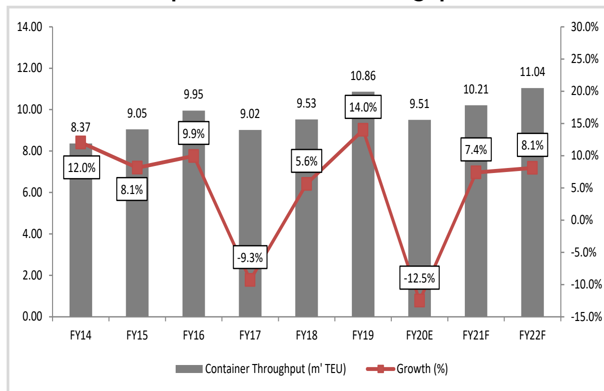
Disruption in supply chain activities was inevitable. Supply chain operations in China have gradually picked up in late March 2020, enabling GDEX to clear the backlog of deliveries. Due to the MCO, consumers have shifted their spending habits towards online platforms, leading a recovery in parcel volumes in 4QFY20 (or 2QCY20). GDEX's sorting capacity even hit a high of 180,000 parcels per day. A research study done by Commerce.Asia, an e-commerce ecosystem of technology and big data solutions, saw that the gross merchandise volume growth surged by +149%yoy in the first quarter of 2020 since the MCO was enforced in Malaysia. As a result, last-mile delivery companies such as **GDEX (NEUTRAL; TP:RM0.48)** had numerous clientele migrate to digital platforms, namely myGDEX online portal which was launched in late 2018 with the help of its 32.7%-owned associate, Web Bytes. Even after the conditional movement control order (CMCO) was lifted, the tendency of consumer to remain with online purchasing is high due to the social distancing measures at physical retail outlets.

Competition to remain intense even after market normalizes. We expect manufacturing and production activity in China to gradually recover in 2HCY20 provided that the fears of Covid-19 have subsided. However, the 'pent-up' demand in and outside China once factories resume running at full tilt will lead to a crowded market whereby local companies such as **GD Express Carrier (NEUTRAL; TP:0.23), Tasco (NEUTRAL; TP:RM1.10)** and **Tiong Nam Logistics Holdings(SELL; TP:RM0.37)** will have to compete with bigger established companies in offering attractive services. The pressure of competition will reach to an extent of margins preservation via: i) additional price reductions to retain market share and ii) further capital spending to enhance capacity and efficiency. Malaysia's courier industry for example is already saturated with a high number of players at 116 as of May 2020.

Ports

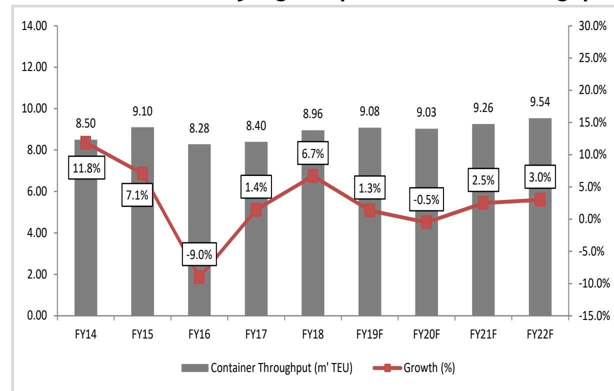
Ports to brace through the Covid-19 headwinds. The period of 2QCY20 was a sluggish quarter due to impact of lower consumption amidst the Covid-19 pandemic, causing container throughput of port operators to bottom out. While factories in China have resumed operations, other parts of the world particularly the U.S saw retails sale plunging the most in history by -8.7% in March and the Eurozone had its consumer confidence hit the lowest since the 2008 financial crisis. In short, the weak demand in other parts of the world will slow down manufacturing activity in China. As a result, more than 250 scheduled sailings has been withdrawn in 2QCY20 as carriers react to fading demand amidst the general shutdowns across many countries. Having said that, we opine that Port Klang's **Westports Holdings Berhad (BUY;TP:RM4.38)** and Port of Tanjung Pelepas' **MMC Corporation Berhad (BUY;TP:RM1.27)** role as a transshipment hub will act as a cushion for other Malaysian ports which rely heavily on gateway containers. Therefore, this will prevent overall container throughput from declining by more than -15.0% annually. In addition, we expect MMC Corp's container throughput to recover in FY21, in line with IMF's projection of Malaysia's GDP growth of 9% for the same year, the fastest amongst ASEAN-5. Moreover we expect 3QFY20 to be a period of gradual recovery in container throughput as many economies reopen after imposing lockdown restrictions.

Chart 37: Westports container throughput



Source: Westports, MIDFR

Chart 38: Port of Tanjung Pelepas container throughput



Source: MMC Corp, MIDFR

Shipping

Charter rates remain strong despite extension of production cuts. The OPEC and its allies agreed to extend the group's historic production cut for an additional month in an ongoing effort to balance the global oil market. To recap, OPEC cut production by 9.7 million barrels per day beginning 1 May 2020. The cuts were initially supposed to be lowered beginning July 1. Notwithstanding this, we remain encouraged with the oil tanker market as tanker rates are still higher than a year ago albeit declining from a peak seen in March. Moreover, the US is considering imposing additional sanctions on oil tankers that have recently loaded oil from Venezuela due to geopolitical reasons. This could include penalizing tankers that have either loaded from Venezuela or have carried Venezuelan oil. If these sanctions did come into effect, it could affect a large proportion of the crude oil tonnage, leading to a surge in freight rates. As such, MISC will be a beneficiary of such circumstances. Overall, we remain encouraged by its long term prospect of MISC's exposure to the time charter contracts which will shield MISC from huge fluctuations seen in the spot market. Valuations are expected to be higher if the potential job wins for the offshore segment in FY20 worth around USD4.0b which includes FPSO Mero 3 and FPSO Limbayong. We also favour MISC for its attractive dividend yield of 3.8%. In terms of the provision for litigation claims for GKL made in 1QFY20, management guided that this is sufficient barring any unforeseen circumstances. Aside from that, MISC via GKL is advised that it has legal merits to challenge the award by the Arbitral Tribunal related to Sabah Petroleum dated 8 April 2020. Therefore, we are maintaining our **Trading BUY call on MISC with a TP of RM8.41.** Risks to MISC are: (i) further downward movement of tanker rates and; (ii) lack of demand for floating storage.

Maintain NEUTRAL. We remain optimistic on Malaysian ports given their strategic location along major trade lanes and the economic prospects of the ASEAN region. However, for the logistics industry, the anticipated higher demand of e-commerce activities will attract more new entrants. As such, logistics companies are prompted to not only expand operations to capture the high demand, but also revise their rates offered to customers reducing margins. Meanwhile, for energy transporters, the outlook of the petroleum tankers will be dependent upon whether the lack of output cuts from OPEC and its allies will remain beyond March 2020. A further cut in oil production could suppress tanker rates moving forward. All factors considered, we reiterate our **NEUTRAL** stance on the transportation sector.

APPENDIX

Table i: MIDF Research Stock Universe as at 10 July 2020

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PER		
					FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19	FY20F	FY21F
CONSTRUCTION																
Cahya Mata Sarawak	Dec	BUY	1.74	1.70	159.5	108.5	181.4	14.9	10.1	16.9	-39.2	-32.0	67.2	11.7	17.2	10.3
Gabungan AQRS	Dec	BUY	0.89	1.01	36.3	30.6	49.6	7.4	6.2	10.1	-42.1	-16.3	62.1	12.0	14.4	8.9
Gamuda	Jul	NEUTRAL	3.45	3.35	706.1	529.1	594.2	28.6	21.1	23.6	32.7	-26.4	12.3	12.1	16.4	14.6
Hock Seng Lee	Dec	BUY	1.07	1.21	55.2	43.3	55.5	10.1	7.9	10.1	2.8	-21.6	28.2	10.6	13.6	10.6
IJM Corp	Mar	BUY	1.77	1.95	418.9	250.6	437.5	11.6	6.9	12.1	20.9	-40.2	74.4	15.3	25.6	14.7
MRCB	Dec	BUY	0.54	0.73	23.7	63.6	80.2	0.5	1.4	1.8	-76.5	166.9	26.1	99.1	37.1	29.4
Muhibbah	Dec	BUY	0.98	1.35	34.9	55.2	65.3	7.2	11.4	13.5	-76.0	57.9	18.3	13.6	8.6	7.3
Sunway Construction	Dec	BUY	1.92	2.26	129.3	113.0	162.1	10.0	8.8	12.6	-10.4	-12.5	43.5	19.2	21.9	15.3
WCT	Dec	NEUTRAL	0.50	0.52	-27.3	30.7	66.1	-2.0	2.2	4.7	-125.7	-212.8	115.3	n.a.	22.7	10.6
CONGLOMERATE																
MMC Corp	Dec	BUY	0.76	1.17	255.2	218.9	267.2	8.4	7.2	8.8	16.7	-14.4	22.1	9.0	10.6	8.7
YTL Corp	Jun	NEUTRAL	0.80	0.85	242.6	79.0	172.0	2.3	0.7	1.6	-29.0	-67.7	117.7	34.8	107.8	49.5
TELECOMMUNICATIONS																
Axiata	Dec	BUY	3.41	4.67	1,457.6	586.4	650.9	16.0	6.4	7.1	-130.4	-60.0	11.0	21.3	53.3	48.0
DiGi	Dec	NEUTRAL	4.34	4.30	1,432.9	1,383.1	1,396.2	18.4	17.8	18.0	-7.1	-3.3	0.9	23.6	24.4	24.2
Maxis	Dec	SELL	5.32	4.45	1,519.0	1,571.0	1,654.0	19.4	20.1	21.1	-14.9	3.5	5.3	27.4	26.5	25.2
Telekom Malaysia	Dec	SELL	4.13	3.15	632.7	935.7	948.3	16.8	24.8	25.2	309.8	47.9	1.3	24.6	16.6	16.4
MEDIA																
Astro	Jan	NEUTRAL	0.84	0.86	462.9	655.3	493.9	9.0	13.0	9.5	-40.0	44.4	-27.1	9.3	6.5	8.9
Media Prima	Dec	SELL	0.17	0.12	-177.9	-176.1	-145.7	-16.0	-15.9	-13.1	-403.0	-1.0	-17.3	n.a.	n.a.	n.a.
Star	Dec	NEUTRAL	0.36	0.34	5.7	-15.4	2.3	0.8	-2.1	0.3	8.5	-376.0	-114.9	46.8	n.a.	113.4
TECHNOLOGY																
D&O Green Tech	Dec	SELL	0.82	0.63	31.1	31.8	42.3	2.8	2.8	3.7	-8.5	0.5	33.0	29.1	29.0	21.8
Globetronics	Dec	SELL	2.30	1.67	44.7	41.7	51.7	6.7	6.2	7.7	-36.4	-6.8	24.0	34.4	36.9	29.8
Inari Amertron	Jun	NEUTRAL	1.83	1.36	191.7	155.1	202.2	6.1	4.8	6.2	-25.0	-21.4	30.4	30.2	38.4	29.5
My E.G.	Sep	BUY	1.46	1.58	235.3	257.6	271.7	6.7	7.4	7.8	214.6	10.9	5.5	21.8	19.6	18.6
Unisem	Dec	NEUTRAL	2.39	1.90	-9.5	54.1	66.8	-1.3	7.4	9.2	-110.0	-668.0	23.5	n.a.	32.1	26.0
PLANTATION																
FGV	Jan	NEUTRAL	1.05	1.02	-242.2	21.8	91.5	-6.6	0.6	2.5	-77.7	-109.1	319.7	n.a.	175.7	41.9
Genting Plant	Dec	NEUTRAL	9.90	12.10	142.1	236.5	332.1	16.6	26.4	37.0	-18.9	58.6	40.4	59.6	37.6	26.7
IJM Plant	Mar	NEUTRAL	1.71	1.70	-36.3	-63.4	43.6	-4.1	-7.2	5.0	-230.7	74.3	-168.8	n.a.	n.a.	34.5
IOI Corp	Jun	SELL	4.50	3.58	631.7	609.0	786.0	10.1	9.7	12.5	-79.4	-3.3	29.1	44.8	46.3	35.9
KL Kepong	Sep	NEUTRAL	22.58	20.19	617.5	753.8	805.6	58.0	69.9	74.7	1.4	20.5	6.9	38.9	32.3	30.2
PPB Group	Dec	NEUTRAL	18.00	17.95	1,152.6	77.2	93.0	81.0	5.4	6.5	7.1	-93.3	20.5	22.2	331.7	275.3
Sime Darby Plantation	Dec	NEUTRAL	5.03	5.19	-200.2	780.2	880.4	-2.9	11.3	12.8	-137.7	-490.8	12.8	n.a.	44.4	39.3
TSH Resources	Dec	BUY	0.86	1.20	44.3	68.5	84.6	3.2	5.0	6.1	9.6	54.6	23.5	26.6	17.2	13.9
TOBACCO																
BAT	Dec	BUY	10.58	15.70	345.7	289.9	321.0	121.1	101.5	112.4	-26.2	-16.2	10.7	8.7	10.4	9.4
GLOVE																
Hartalega	Mar	NEUTRAL	17.06	15.69	455.2	434.8	472.6	13.7	12.9	13.9	3.1	-5.6	8.0	124.6	132.0	122.3
Kossan	Dec	NEUTRAL	12.38	12.32	224.7	423.3	492.3	17.6	33.1	38.5	12.5	88.4	16.3	70.5	37.4	32.2
Supermax	Jun	NEUTRAL	13.62	11.20	123.1	272.8	386.4	9.3	21.1	29.9	16.1	128.4	41.6	147.2	64.5	45.5
Top Glove	Aug	BUY	21.92	26.12	364.7	1,146.4	1,556.5	14.3	42.5	57.7	-15.5	197.9	35.8	153.6	51.6	38.0
HEALTHCARE																
IHH Healthcare	Dec	BUY	5.34	6.34	463.3	740.4	923.4	5.3	8.4	10.5	-19.3	59.8	24.7	101.1	63.3	50.8
KPJ	Dec	NEUTRAL	0.82	0.94	211.4	166.6	200.5	5.0	3.9	4.7	20.1	-21.4	20.3	16.6	21.1	17.5
Pharmaniaga	Dec	BUY	2.33	3.16	-149.2	79.1	81.8	-57.2	30.2	31.3	-450.2	-152.8	3.4	n.a.	7.7	7.5
UEM Edgenta	Dec	BUY	2.04	3.23	181.8	81.7	128.9	21.9	9.8	15.5	23.0	-55.1	57.8	9.3	20.8	13.2
CONSUMER (F&B, Retail)																
AEON Co.	Dec	NEUTRAL	1.01	1.08	109.3	95.1	104.3	7.8	6.8	7.4	3.9	-12.9	9.7	13.0	14.9	13.6
F&N	Sep	NEUTRAL	32.08	31.59	410.3	450.5	464.5	111.9	122.8	126.6	6.3	9.8	3.1	28.7	26.1	25.3
Leong Hup	Dec	NEUTRAL	0.89	0.60	150.6	137.5	185.9	4.2	3.8	5.1	-22.8	-10.9	35.2	21.0	23.6	17.5
MSM	Dec	NEUTRAL	0.60	0.74	-299.8	-36.0	39.0	-42.6	-5.1	5.5	-939.4	-88.0	-208.3	n.a.	n.a.	10.8
Nestle	Dec	NEUTRAL	139.50	143.90	672.9	659.2	694.1	287.0	281.1	296.0	2.1	-2.1	5.3	48.6	49.6	47.1
Padini	Jun	NEUTRAL	2.39	2.61	160.2	106.1	127.2	24.3	16.1	19.3	-10.1	-33.7	19.9	9.8	14.8	12.4
Panasonic	Mar	NEUTRAL	30.98	29.62	105.8	117.0	92.0	174.0	193.0	151.5	-19.4	10.9	-21.5	17.8	16.1	20.5
QL Resources	Mar	NEUTRAL	9.88	9.21	216.8	239.3	296.7	13.0	14.8	18.3	8.3	13.5	24.0	76.0	67.0	54.0
Spritzer	Dec	NEUTRAL	2.06	2.15	31.2	17.8	25.8	14.9	8.5	12.3	28.9	-43.0	44.9	13.8	24.3	16.8
INDUSTRIAL PRODUCT																
Daibochi	Jul	BUY	2.42	2.66	n.a.	45.0	45.8	n.a.	13.7	14.0	n.a.	n.a.	1.8	n.a.	17.6	17.3
Favelle Favco	Dec	BUY	2.30	3.00	82.7	75.9	83.0	37.2	33.9	37.1	30.0	-8.8	9.4	6.2	6.8	6.2
KKB Engineering	Dec	BUY	1.68	2.10	47.7	29.0	36.1	18.5	11.2	14.0	170.5	-39.2	24.5	9.1	14.9	12.0
P.I.E. Industrial	Dec	NEUTRAL	1.34	1.20	36.6	35.4	43.5	9.5	9.2	11.3	-15.2	-3.2	22.9	14.1	14.5	11.8
Superlon	Apr	NEUTRAL	0.69	0.73	10.3	8.6	8.9	6.5	5.4	5.6	-16.1	-16.2	3.3	10.6	12.7	12.3
SERVICES																
Scicom	Jun	NEUTRAL	0.94	1.05	20.2	20.6	24.9	5.7	5.8	7.0	-37.2	1.8	20.9	16.4	16.1	13.4
BANKING																
Affin Bank	Dec	NEUTRAL	1.60	1.65	487.8	463.0	475.0	24.6	23.3	23.9	-5.0	-5.2	2.6	6.5	6.9	6.7
Alliance Bank	Mar	NEUTRAL	2.20	2.05	537.6	424.3	409.0	34.7	27.4	26.4	8.8	-21.0	-3.6	6.3	8.0	8.3
AMMB	Mar	TRADING BUY	3.25	3.60	1,505.3	1,340.7	1,276.0	50.0	44.6	42.4	32.9	-10.8	-5.0	6.5	7.3	7.7
BIMB	Dec	BUY	3.55	4.25	786.9	695.3	717.4	44.8	38.8	40.0	10.9	-13.3	3.2	7.9	9.2	8.9
CIMB	Dec	TRADING BUY	3.81	3.95	4,559.7	2,446.0	3,786.0	47.0	24.6	38.2	-21.3	-47.5	54.8	8.1	15.5	10.0
Hong Leong Bank	Jun	NEUTRAL	14.52	13.60	2,664.5	2,586.0	2,709.0	130.2	119.3	125.0	0.9	-8.4	4.8	11.2	12.2	11.6
Hong Leong Financial	Jun	NEUTRAL	13.98	14.10	1,919.4	1,822.0	1,885.0	167.8	159.1	164.6	0.6	-5.2	3.5	8.3	8.8	8.5
Malayan Banking	Dec	BUY	7.90	8.20	8,198.1	7,008.0	7,642.0	73.5	62.3	68.0	-0.9	-15.2	9.0	10.7	12.7	11.6
Public Bank	Dec	TRADING BUY	18.50	17.20	5,511.6	4,918.0	5,641.0	142.0	126.7	145.3	-1.7	-10.8	14.7	13.0	14.6	12.7
RHB Bank	Dec	BUY	5.09	5.25	2,482.4	2,153.0	2,553.0	61.9	53.7	63.7	7.7	-13.3	18.6	8.2	9.5	8.0

Source: Company, MIDFR

DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19							High (RM)	Low (RM)
3.0	6.5	6.5	1.7	3.7	3.7	0.70	2.49	6.33	2.38	3.44	1,072.6	1,866.4	3.08	0.83
3.2	4.0	4.0	3.6	4.5	4.5	0.86	1.04	7.39	2.06	5.94	493.4	439.2	1.54	0.60
12.0	11.0	12.0	3.5	3.2	3.5	1.01	3.42	11.59	3.08	6.25	2,513.5	8,671.7	4.30	2.36
2.4	1.4	1.4	2.2	1.3	1.3	0.71	1.50	6.33	3.85	5.27	549.5	588.0	1.41	0.96
4.0	4.0	5.0	2.3	2.3	2.8	0.67	2.64	3.79	1.07	2.15	3,629.5	6,424.1	2.44	1.15
1.0	1.0	1.0	1.9	1.9	1.9	0.49	1.09	4.82	0.75	1.32	4,412.0	2,360.4	0.97	0.28
7.5	5.2	5.2	7.7	5.3	5.3	0.41	2.38	3.59	1.41	3.29	483.4	473.8	2.84	0.72
3.5	6.2	7.0	1.8	3.2	3.6	3.87	0.50	6.39	5.93	18.08	1,289.4	2,475.6	2.20	1.25
3.0	1.2	1.3	6.0	2.4	2.6	0.22	2.25	1.68	0.35	0.82	1,395.8	697.9	1.22	0.25
4.5	4.0	4.0	5.9	5.3	5.3	0.25	3.08	4.65	0.83	2.17	3,045.1	2,314.2	1.21	0.45
4.0	0.5	1.1	5.0	0.6	1.4	0.66	1.21	0.46	0.10	0.38	10,649.9	8,519.9	1.12	0.60
9.0	10.0	10.0	2.6	2.9	2.9	2.00	1.70	2.39	0.88	2.64	9,169.0	31,266.4	5.19	3.01
18.2	17.7	17.9	4.2	4.1	4.1	51.92	0.08	21.96	16.97	209.56	7,775.0	33,743.5	5.10	3.82
20.0	20.0	20.0	3.8	3.8	3.8	5.91	0.90	16.87	7.33	22.22	7,823.0	41,618.6	5.75	4.59
10.0	10.0	11.3	2.4	2.4	2.7	2.18	1.90	8.18	3.66	14.28	3,765.9	15,553.0	4.68	3.09
8.0	7.5	5.0	9.5	8.9	6.0	4.98	0.17	13.34	10.57	69.80	5,214.5	4,380.2	1.61	0.71
0.0	0.0	0.0	0.0	0.0	0.0	0.33	0.51	-15.92	-12.27	-29.54	1,109.2	188.6	0.52	0.11
2.0	2.0	2.0	5.6	5.6	5.6	0.33	1.08	-4.87	-1.58	-1.89	724.8	260.9	0.64	0.23
100.0	1.0	1.0	122.7	1.2	1.2	7.06	0.12	6.31	5.01	8.21	1,130.1	921.0	0.93	0.43
3.0	6.0	7.0	1.3	2.6	3.0	5.35	0.43	19.28	12.35	14.05	669.4	1,539.7	2.50	1.28
4.1	4.3	5.9	2.2	2.3	3.2	4.98	0.37	13.45	11.57	13.82	3,254.3	5,955.4	2.09	0.90
1.4	2.1	2.3	1.0	1.4	1.6	6.60	0.22	54.09	25.09	38.94	3,466.7	5,061.4	1.70	0.77
7.0	5.0	6.0	2.9	2.1	2.5	1.27	1.89	4.32	3.05	3.99	727.1	1,737.7	2.93	1.53
2.0	2.0	2.0	1.9	1.9	1.9	0.94	1.11	0.16	0.12	0.36	3,648.2	3,830.6	1.59	0.72
13.0	13.0	13.0	1.3	1.3	1.3	1.88	5.26	10.44	2.80	4.67	897.2	8,882.3	11.14	7.99
2.0	2.0	3.0	1.2	1.2	1.8	6.53	0.26	-8.58	-2.76	-5.36	880.6	1,505.8	2.48	1.01
8.0	10.0	10.5	1.8	2.2	2.3	3.16	1.42	8.25	3.69	6.40	6,266.8	28,200.7	4.82	3.41
45.0	45.0	45.0	2.0	2.0	2.0	2.37	9.52	4.85	3.70	6.68	1,078.5	24,352.1	25.40	17.40
28.0	10.0	10.0	1.6	0.6	0.6	1.16	15.50	1.65	0.33	0.35	1,422.6	25,606.8	19.96	15.00
1.0	5.7	6.4	0.2	1.1	1.3	2.62	1.92	6.47	2.74	4.92	6,884.6	34,629.4	5.63	3.82
1.0	2.0	2.0	1.2	2.3	2.3	0.93	0.92	8.17	2.10	4.35	1,380.2	1,180.0	1.59	0.56
118.0	99.5	110.2	11.2	9.4	10.4	8.58	1.23	11.56	28.20	74.60	285.5	3,020.9	31.00	9.26
4.4	5.8	7.6	0.3	0.3	0.4	22.72	0.75	14.87	13.11	17.09	3,388.0	57,799.4	18.10	4.80
6.0	9.0	10.0	0.5	0.7	0.8	10.63	1.16	19.09	17.81	29.17	1,278.9	15,833.2	13.20	3.93
1.5	5.0	5.0	0.1	0.4	0.4	14.47	0.94	17.74	14.80	24.05	1,291.4	17,589.2	16.00	1.29
7.5	22.0	30.0	0.3	1.0	1.4	12.32	1.78	23.88	20.15	44.88	2,696.5	59,106.6	24.50	4.21
4.0	4.0	4.0	0.7	0.7	0.7	2.18	2.45	4.97	1.64	2.64	8,777.2	46,870.3	5.94	4.55
2.0	2.2	2.3	2.4	2.7	2.8	1.84	0.45	4.62	2.78	8.13	4,279.6	3,509.3	1.04	0.72
16.5	16.8	17.4	7.1	7.2	7.5	1.74	1.34	2.80	4.97	22.16	261.7	609.8	2.80	0.91
8.0	7.9	12.4	3.9	3.9	6.1	1.11	1.83	3.39	2.80	5.16	831.6	1,696.5	3.52	1.88
4.0	4.0	4.0	4.0	4.0	4.0	0.85	1.19	2.10	1.45	5.61	1,404.0	1,418.0	1.83	0.91
57.5	67.5	68.5	1.8	2.1	2.1	4.49	7.15	11.05	12.86	17.81	366.8	11,766.3	36.00	24.12
1.6	1.5	2.0	1.8	1.7	2.2	1.97	0.45	2.27	2.54	6.31	3,650.0	3,248.5	1.00	0.43
0.0	0.0	0.0	0.0	0.0	0.0	0.26	2.30	-1.79	-1.21	-2.17	703.0	421.8	1.78	0.23
280.0	282.0	296.0	2.0	2.0	2.1	38.15	3.66	11.95	24.18	99.14	234.5	32,712.8	149.90	120.00
10.0	8.0	8.0	4.2	3.3	3.3	2.01	1.19	5.95	11.10	14.33	657.9	1,572.4	3.87	1.78
226.0	198.0	160.0	7.3	6.4	5.2	2.30	13.44	11.12	11.98	14.33	60.7	1,881.9	41.20	22.82
4.5	4.5	4.5	0.5	0.5	0.5	7.94	1.24	5.76	5.88	11.45	1,622.4	16,029.7	10.20	6.50
3.5	2.5	3.7	1.7	1.2	1.8	1.02	2.03	4.75	3.57	4.29	210.0	432.5	2.40	1.70
n.a.	4.1	4.2	n.a.	1.7	1.7	3.21	0.75	11.58	12.32	19.53	327.3	792.2	2.60	1.45
13.5	13.7	15.4	5.9	6.0	6.7	0.71	3.25	11.03	5.78	10.11	223.9	515.1	3.02	1.71
6.0	4.0	2.0	3.6	2.4	1.2	1.26	1.33	5.19	5.29	7.84	257.8	433.1	2.37	1.26
2.4	6.0	6.0	1.8	4.5	4.5	1.15	1.17	5.37	6.53	7.83	384.0	514.6	1.62	0.71
2.8	1.2	3.1	4.0	1.7	4.4	0.85	0.81	8.49	5.51	6.70	158.7	109.5	1.08	0.40
7.5	5.0	6.0	8.0	5.3	6.4	3.26	0.29	12.77	18.50	21.16	355.5	332.3	1.30	0.48
0.0	5.0	5.0	0.0	3.1	3.1	0.35	4.62	13.14	0.68	4.93	1,986.0	3,177.6	2.11	1.25
16.7	14.2	9.2	7.6	6.5	4.2	0.57	3.87	14.81	0.70	7.08	1,548.1	3,405.8	3.75	1.48
20.0	13.3	15.0	6.2	4.1	4.6	0.52	6.19	18.66	0.79	6.85	3,009.5	9,781.0	4.35	2.82
16.0	19.0	20.0	4.5	5.4	5.6	1.03	3.46	10.81	0.90	10.83	1,792.7	6,364.0	4.59	2.79
26.0	12.0	18.0	6.8	3.1	4.7	0.69	5.51	8.75	0.43	4.26	9,923.0	37,806.5	5.40	3.09
50.0	48.0	49.0	3.4	3.3	3.4	1.13	12.89	29.92	1.25	10.15	2,167.7	31,475.3	19.00	11.70
42.0	40.0	42.0	3.0	2.9	3.0	0.78	17.88	19.40	0.77	6.37	1,145.2	16,010.5	18.90	9.75
64.0	36.0	43.0	8.1	4.6	5.4	1.14	6.94	18.92	0.84	8.34	11,241.4	88,806.7	8.98	7.00
73.0	74.0	73.0	3.9	4.0	3.9	1.66	11.15	23.70	1.14	10.99	3,882.1	71,819.6	23.06	12.58
31.0	22.0	25.0	6.1	4.3	4.9	0.78	6.50	18.58	0.84	8.34	4,010.0	20,411.1	5.98	4.23

Table i: MIDF Research Stock Universe as at 10 July 2020 (cont'd)

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PER		
					FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19	FY20F	FY21F
FINANCE																
AEON Credit	Feb	NEUTRAL	9.50	9.45	341.0	274.4	175.2	133.6	107.5	69.1	-6.6	-19.5	-35.7	7.1	8.8	13.8
Bursa Malaysia	Dec	TRADING BUY	8.35	6.45	185.9	225.2	231.0	23.0	27.9	28.6	-17.3	21.1	2.6	36.3	30.0	29.2
MBSB	Dec	NEUTRAL	0.61	0.70	716.9	203.5	376.1	11.0	3.0	5.6	6.3	-72.4	84.8	5.6	20.1	10.9
INSURANCE																
LPI Capital	Dec	NEUTRAL	13.72	11.70	322.4	280.2	290.2	80.9	70.3	72.8	2.7	-13.1	3.6	17.0	19.5	18.8
Syarikat Takaful	Dec	NEUTRAL	4.53	4.82	364.8	301.5	311.8	44.2	36.5	37.7	23.4	-17.4	3.4	10.3	12.4	12.0
Tune Protect	Dec	SELL	0.33	0.25	50.7	19.3	28.0	6.7	2.6	3.7	2.3	-61.9	45.1	4.9	12.9	8.9
OIL & GAS																
Bumi Armada	Dec	BUY	0.23	0.56	58.6	299.1	322.2	1.0	5.1	5.5	-102.5	408.2	7.7	22.5	4.4	4.1
Dayang Ent	Dec	NEUTRAL	1.28	1.42	230.9	187.9	223.9	23.8	17.7	21.1	50.8	-25.7	19.2	5.4	7.2	6.1
Deleum	Dec	NEUTRAL	0.64	0.86	33.1	38.0	41.3	8.3	9.5	10.3	21.8	14.6	8.7	7.7	6.7	6.2
Dialog Group	Jun	BUY	3.88	3.83	535.8	563.6	570.5	9.5	10.0	10.1	4.9	5.2	1.2	40.8	38.8	38.3
Gas Malaysia	Dec	BUY	2.80	3.11	190.1	195.0	195.4	15.0	15.2	15.2	7.1	1.2	0.2	18.7	18.4	18.4
MMHE	Dec	NEUTRAL	0.40	0.43	-34.2	24.8	40.4	-2.1	1.6	2.5	-72.1	-172.4	62.9	n.a.	25.5	15.6
Petronas Chemicals	Dec	NEUTRAL	6.30	5.85	2,811.0	2,581.0	3,117.1	35.1	32.3	39.0	-41.4	-8.1	20.8	17.9	19.5	16.2
Petronas Dagangan	Dec	NEUTRAL	20.82	21.39	829.5	542.7	852.4	83.5	54.6	85.8	-2.3	-34.6	57.1	24.9	38.1	24.3
Petronas Gas	Dec	NEUTRAL	16.70	16.00	1,935.3	1,895.6	1,919.1	97.8	95.8	97.0	6.9	-2.0	1.2	17.1	17.4	17.2
Sapura Energy	Jan	TRADING BUY	0.10	0.11	207.5	-4,560.8	54.5	3.4	-28.6	0.3	-108.1	-933.8	-101.2	2.8	n.a.	27.9
Wah Seong	Dec	NEUTRAL	0.50	0.66	24.1	47.6	79.7	3.1	6.1	10.3	-62.8	97.7	67.4	16.1	8.1	4.9
PROPERTY & REITS																
Al 'Aqar Healthcare REIT	Dec	BUY	1.37	1.52	76.2	63.1	67.4	10.4	8.6	9.2	-17.5	-17.2	6.8	13.2	16.0	15.0
AmanahRaya REIT	Dec	NEUTRAL	0.69	0.68	35.5	32.5	34.2	6.2	5.7	6.0	-56.3	-8.4	5.2	11.1	12.2	11.6
Axis REIT	Dec	NEUTRAL	2.08	1.83	209.2	132.0	138.0	16.6	9.2	9.6	32.1	-44.9	4.5	12.5	22.7	21.7
Capitaland	Dec	NEUTRAL	0.78	0.69	72.6	77.9	78.7	3.6	3.8	3.8	-46.5	6.8	1.0	22.0	20.6	20.4
E&O	Mar	NEUTRAL	0.41	0.42	61.9	-195.9	23.8	4.7	-13.7	1.7	-33.5	-391.1	-112.2	8.7	n.a.	24.7
Eco World	Oct	BUY	0.43	0.61	203.4	146.0	193.0	6.9	5.0	6.6	117.3	-28.2	32.2	6.2	8.6	6.5
IGB REIT	Dec	NEUTRAL	1.81	1.70	315.9	233.0	342.0	8.9	6.6	9.6	-5.7	-26.4	46.8	20.3	27.6	18.8
IOI Prop	Jun	BUY	0.97	1.21	661.3	520.0	616.0	12.0	9.4	11.2	-12.3	-21.4	18.5	8.0	10.2	8.6
KLCCP Stapled	Dec	NEUTRAL	8.05	7.57	356.5	690.0	740.0	19.8	38.2	41.0	25.4	93.5	7.2	40.8	21.1	19.6
Mah Sing	Dec	BUY	0.55	0.70	200.3	64.3	137.4	8.3	2.6	5.7	-26.3	-67.9	113.7	6.7	20.8	9.7
Pavilion	Dec	NEUTRAL	1.64	1.73	262.6	160.8	206.8	8.6	5.3	6.8	-9.1	-38.8	28.6	19.0	31.0	24.1
S P Setia	Dec	BUY	0.84	1.33	343.7	224.0	292.0	8.6	5.5	7.2	-41.6	-35.6	30.4	9.8	15.2	11.7
Sunway REIT	Jun	BUY	1.61	1.88	386.4	284.0	287.0	13.0	9.6	9.7	-10.6	-25.7	1.1	12.4	16.7	16.5
Sunway	Dec	BUY	1.38	1.59	767.3	560.7	664.5	14.6	11.4	13.6	13.2	-21.8	18.5	9.4	12.1	10.2
UEM Sunrise	Dec	BUY	0.44	0.54	223.8	84.0	103.0	4.9	1.9	2.3	-18.3	-62.2	22.6	9.0	23.8	19.4
UOA Development	Dec	BUY	1.80	2.06	399.5	276.1	246.3	21.1	14.0	12.5	-0.9	-33.3	-10.8	8.5	12.8	14.4
TRANSPORT																
- Aviation																
AirAsia	Dec	TRADING SELL	0.78	0.54	-315.8	-514.8	227.1	-9.4	-15.4	6.8	-116.0	63.9	-144.1	n.a.	n.a.	11.5
AirAsia X	Dec	TRADING SELL	0.10	0.03	-489.5	-242.9	-99.1	-11.8	-5.9	-2.4	61.6	-50.4	-59.2	n.a.	n.a.	n.a.
Malaysia Airports	Dec	NEUTRAL	5.30	4.97	479.5	96.8	236.4	28.9	5.8	14.2	-28.4	-79.8	144.2	18.3	90.8	37.2
-Logistics																
GD Express	Jun	NEUTRAL	0.37	0.48	32.5	20.7	23.8	0.6	0.4	0.4	38.1	-36.7	15.0	62.9	99.4	86.5
Tasco	Mar	NEUTRAL	0.92	0.73	13.1	8.9	10.7	6.5	4.5	5.4	-55.6	-31.9	20.2	14.1	20.7	17.2
Tiong Nam	Mar	SELL	0.42	0.32	-1.4	0.7	6.8	-0.3	0.2	1.5	-104.9	-151.6	848.4	n.a.	259.4	27.3
- Ports																
Westports	Dec	BUY	3.62	4.03	590.9	583.8	669.7	17.3	17.1	19.6	10.8	-1.2	14.7	20.9	21.1	18.4
- Shipping																
MISC	Dec	TRADING BUY	7.85	8.41	1,426.4	2,189.8	2,544.1	32.0	49.1	57.0	8.8	53.3	16.2	24.5	16.0	13.8
TOLL																
LITRAK	Mar	TRADING BUY	4.19	5.08	236.1	261.9	270.8	44.7	49.4	51.0	3.2	10.4	3.2	9.4	8.5	8.2
UTILITIES																
Ranhill Utilities	Dec	BUY	0.93	1.40	81.2	96.1	78.7	7.6	9.0	7.4	82.3	18.9	-18.1	12.2	10.3	12.6
Tenaga Nasional	Dec	BUY	11.36	13.70	4,529.2	4,964.1	5,176.9	79.6	87.0	90.7	21.4	9.3	4.3	14.3	13.1	12.5
YTL Power	Jun	NEUTRAL	0.71	0.70	476.8	321.8	359.5	6.2	4.2	4.7	-21.3	-32.4	11.7	11.5	16.9	15.2
AUTO																
Bermaz Auto	Apr	BUY	1.42	1.95	264.0	100.5	186.1	22.8	8.7	16.0	87.7	-62.0	85.1	6.2	16.4	8.9
MBM	Dec	BUY	3.19	3.80	223.7	155.1	184.6	57.2	39.7	47.2	34.0	-30.6	19.0	5.6	8.0	6.8
Tan Chong	Dec	NEUTRAL	1.12	1.15	43.6	-42.1	77.2	6.7	-6.5	11.8	-58.8	-196.5	-283.4	16.7	n.a.	9.5
UMW Holdings	Dec	BUY	2.63	3.40	524.1	186.0	224.1	44.9	15.9	19.2	52.1	-64.5	20.5	5.9	16.5	13.7
BUILDING MATERIAL																
- Cement																
Malayan Cement	Dec	NEUTRAL	2.35	2.70	-168.1	-140.2	21.3	-19.8	-16.5	2.5	-47.3	-16.7	-115.2	n.a.	n.a.	93.7
- Timber																
Ta Ann	Dec	NEUTRAL	2.44	2.44	54.2	77.2	93.0	12.3	17.5	21.1	-30.1	42.6	20.5	19.9	13.9	11.6

Source: Company, MIDFR

DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
FY19	FY20F	FY21F	FY19	FY20F	FY21F	FY19							High (RM)	Low (RM)
42.3	44.6	36.0	4.4	4.7	3.8	1.58	6.01	15.73	2.63	15.61	253.7	2,409.7	16.86	7.70
20.8	22.3	22.9	2.5	2.7	2.7	9.28	0.90	46.90	9.70	29.60	808.5	6,751.0	8.59	4.32
3.0	0.0	0.0	4.9	0.0	0.0	0.47	1.29	14.40	0.40	2.37	6,713.4	4,095.2	0.92	0.46
70.0	70.0	70.0	5.1	5.1	5.1	3.17	4.33	22.80	6.93	14.21	398.4	5,465.8	16.28	9.90
20.0	15.0	15.0	4.4	3.3	3.3	2.85	1.59	10.63	2.91	24.03	826.8	3,745.4	7.04	2.93
3.0	3.0	3.0	9.1	9.1	9.1	0.44	0.74	5.72	1.20	2.76	751.8	248.1	0.75	0.20
0.0	0.0	0.0	0.0	0.0	0.0	0.44	0.51	14.44	2.14	9.31	5,885.9	1,324.3	0.56	0.11
0.0	0.0	0.0	0.0	0.0	0.0	0.91	1.41	17.96	6.38	10.65	1,061.3	1,358.5	3.01	0.71
3.7	2.9	3.2	5.7	4.6	5.0	0.75	0.85	4.38	5.08	10.04	401.6	255.0	1.11	0.34
3.8	4.5	6.0	1.0	1.2	1.5	5.37	0.72	23.62	8.40	14.42	5,638.3	21,876.6	3.99	2.70
4.8	13.7	14.0	1.7	4.9	5.0	3.50	0.80	2.83	7.44	18.70	1,284.0	3,595.2	2.96	2.30
0.0	0.0	0.0	0.0	0.0	0.0	0.26	1.49	2.46	0.77	1.04	1,600.0	632.0	0.97	0.26
29.0	37.0	38.0	4.6	5.9	6.0	1.66	3.80	15.77	6.64	8.45	8,000.0	50,400.0	8.50	4.00
70.0	43.6	68.4	3.4	2.1	3.3	3.73	5.59	1.79	5.43	9.03	993.5	20,683.7	26.41	17.50
72.0	64.0	66.0	4.3	3.8	4.0	2.55	6.56	34.73	9.68	13.97	1,978.7	33,044.8	19.00	13.36
0.0	0.0	0.0	0.0	0.0	0.0	0.16	0.60	-70.72	-20.05	-49.71	15,979.1	1,518.0	0.32	0.06
0.4	4.0	5.0	0.8	8.0	10.0	0.41	1.23	1.89	1.79	4.57	774.3	387.2	1.45	0.46
7.8	7.2	7.8	5.7	5.3	5.7	1.05	1.30	58.17	3.77	6.58	736.0	1,008.3	1.65	1.19
6.2	5.0	5.2	9.0	7.2	7.6	0.51	1.35	33.52	2.21	4.18	573.2	395.5	0.84	0.50
9.3	7.8	8.2	4.5	3.8	3.9	1.43	1.46	58.96	4.28	6.35	1,442.3	3,000.0	2.15	1.66
6.3	4.2	4.2	8.0	5.4	5.4	0.63	1.25	22.76	1.88	2.99	2,055.4	1,603.2	1.11	0.74
3.0	1.0	2.0	7.3	2.4	4.9	0.33	1.23	-40.25	-5.79	-10.81	1,431.3	586.9	0.82	0.30
0.0	0.0	0.7	0.0	0.0	1.6	0.27	1.56	5.93	1.37	3.22	2,944.4	1,251.4	0.83	0.30
9.1	6.2	8.9	5.0	3.4	4.9	1.70	1.07	42.20	4.46	6.16	3,555.0	6,434.6	2.10	1.43
3.0	2.5	3.2	3.1	2.6	3.3	0.28	3.44	23.66	1.59	2.74	5,506.1	5,313.4	1.40	0.83
38.0	34.2	36.6	4.7	4.2	4.6	2.85	2.83	48.49	3.79	4.51	1,805.3	14,532.9	8.48	7.38
3.4	2.5	3.2	6.1	4.5	5.8	0.31	1.77	3.64	0.96	1.33	2,427.7	1,335.2	0.95	0.31
8.5	5.0	6.4	5.2	3.0	3.9	1.28	1.28	27.47	2.53	4.04	3,043.3	4,991.1	1.91	1.35
1.0	1.5	2.0	1.2	1.8	2.4	0.28	2.99	5.70	0.75	1.42	4,056.7	3,407.6	2.10	0.55
9.6	8.7	8.8	6.0	5.4	5.5	0.99	1.63	48.93	3.48	5.92	2,945.1	4,741.6	1.98	1.50
5.0	6.9	8.2	3.6	5.0	6.0	0.80	1.73	11.73	2.38	5.51	4,901.4	6,763.9	1.87	1.25
0.0	0.0	0.0	0.0	0.0	0.0	0.28	1.58	2.89	0.62	1.08	4,537.4	1,996.5	0.84	0.28
14.0	14.0	11.0	7.8	7.8	6.1	0.68	2.64	25.00	4.63	5.24	1,966.0	3,538.8	2.26	1.38
12.0	0.0	2.0	15.4	0.0	2.6	0.88	0.89	-4.34	-2.01	-17.69	3,342.0	2,606.7	2.15	0.50
0.0	0.0	0.0	0.0	0.0	0.0	1.76	0.05	-5.53	-2.50	-108.43	4,148.1	394.1	0.24	0.04
14.0	14.0	14.0	2.6	2.6	2.6	1.07	4.94	1.86	0.44	1.04	1,659.2	8,793.7	8.86	3.92
0.3	0.3	0.3	0.7	0.8	0.8	4.33	0.08	6.60	3.73	4.32	5,637.2	2,057.6	0.45	0.12
5.0	2.0	2.5	5.4	2.2	2.7	0.42	2.18	1.19	0.94	1.78	200.0	184.0	1.29	0.65
0.0	0.0	0.0	0.0	0.0	0.0	0.27	1.53	0.12	0.04	0.10	448.1	186.0	0.60	0.26
13.0	12.8	14.7	3.6	3.5	4.1	4.94	0.73	32.74	11.38	22.80	3,410.0	12,344.2	4.54	2.97
30.0	30.0	30.0	3.8	3.8	3.8	1.02	7.71	24.43	4.22	6.12	4,463.7	35,040.4	9.37	6.52
25.0	25.0	25.0	6.0	6.0	6.0	2.07	2.03	51.98	12.33	24.38	531.4	2,226.4	4.95	3.30
5.0	5.0	5.0	5.4	5.4	5.4	1.67	0.56	5.90	3.16	12.01	1,063.8	989.4	1.44	0.82
50.0	44.0	45.9	4.4	3.9	4.0	1.18	9.60	9.75	2.78	8.37	5,704.6	64,804.4	13.48	10.36
5.0	2.9	3.3	7.0	4.1	4.6	0.46	1.54	2.74	0.70	2.50	7,675.3	5,449.5	0.85	0.48
15.8	0.0	12.8	11.1	0.0	9.0	-11.83	-0.12	5.71	7.94	19.31	1,162.2	1,650.3	2.72	0.94
0.0	15.9	18.9	0.0	5.0	5.9	0.71	4.47	7.44	7.07	7.71	390.9	1,246.9	4.47	2.50
4.0	4.0	4.0	3.6	3.6	3.6	0.24	4.59	-1.01	-0.72	-1.40	652.5	730.7	1.51	0.98
2.0	3.2	3.9	0.8	1.2	1.5	0.82	3.20	1.58	1.67	3.05	1,168.3	3,072.6	5.41	1.65
0.0	0.0	0.0	0.0	0.0	0.0	0.84	2.80	-7.29	-3.33	-5.87	849.7	1,996.8	3.85	1.30
5.0	10.0	10.0	2.0	4.1	4.1	0.75	3.26	8.17	3.09	5.05	440.5	1,074.7	3.56	1.81

Table ii: Performance of various markets in Local Currency (% change)

In Local Currency	Index Point	2Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20*
Taiwan Weighted	12,073.68	9.4%	0.8%	0.9%	10.8%	23.3%	-19.1%	24.4%
Mumbai Sensex 30	36,594.33	7.2%	1.9%	-1.8%	6.7%	14.4%	-28.6%	24.2%
Shanghai Composite	3,383.32	23.9%	-3.6%	-2.5%	5.0%	22.3%	-9.8%	23.0%
KOSPI	2,150.25	4.9%	-0.5%	-3.2%	6.5%	7.7%	-20.2%	22.5%
SET Index	1,350.50	4.8%	5.6%	-5.4%	-3.5%	1.0%	-28.7%	20.0%
Dow Jones	26,075.30	11.2%	2.6%	1.2%	6.0%	22.3%	-23.2%	19.0%
FBM KLCI	1,591.84	-2.8%	1.7%	-5.3%	0.3%	-6.0%	-15.0%	17.8%
Nikkei 225	22,290.81	6.0%	0.3%	2.3%	8.7%	18.2%	-20.0%	17.8%
Philippines Composite	6,197.38	6.1%	1.0%	-2.8%	0.5%	4.7%	-31.9%	16.5%
Jakarta Composite	5,031.26	4.4%	-1.7%	-3.0%	2.1%	1.7%	-27.9%	10.8%
Hang Seng	25,727.41	12.4%	-1.8%	-8.6%	8.0%	9.1%	-16.3%	9.0%
Straits Times	2,652.65	4.7%	3.4%	-6.1%	3.3%	5.0%	-23.0%	6.9%

Source: Bloomberg *as at 10 July 2020

Table iii: Performance of various markets in US dollar (% change)

In US Dollar	Index Point	2Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20*
Taiwan Weighted	12,073.68	8.2%	0.5%	0.7%	15.0%	25.9%	-20.0%	27.3%
SET Index	1,350.50	7.4%	9.3%	-5.1%	-1.5%	9.7%	-34.8%	25.3%
Jakarta Composite	5,031.26	6.4%	-0.8%	-3.3%	4.0%	6.1%	-38.3%	24.5%
Mumbai Sensex 30	36,594.33	7.8%	2.5%	-4.3%	5.9%	11.9%	-32.5%	24.5%
Shanghai Composite	3,383.32	27.0%	-5.8%	-6.3%	7.8%	20.8%	-11.3%	24.5%
KOSPI	2,150.25	2.8%	-2.2%	-6.4%	10.4%	3.8%	-24.2%	24.3%
Philippines Composite	6,197.38	5.8%	3.8%	-3.8%	2.4%	8.2%	-32.0%	19.9%
FBM KLCI	1,591.84	-1.5%	0.4%	-6.4%	2.7%	-5.0%	-19.4%	19.2%
Dow Jones	26,075.30	11.2%	2.6%	1.2%	6.0%	22.3%	-23.2%	19.0%
Nikkei 225	22,290.81	5.6%	3.0%	2.0%	8.0%	19.8%	-19.2%	18.8%
Straits Times	2,652.65	5.3%	3.5%	-8.1%	6.2%	6.5%	-27.3%	9.3%
Hang Seng	25,727.41	12.1%	-1.3%	-8.9%	8.7%	9.7%	-15.9%	9.0%

Source: Bloomberg *as at 10 July 2020

APPENDIX

Table iv: Performance by sectors (% change)

	Index point	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20*
Healthcare	3,062.57	-5.8%	5.5%	-2.9%	-0.7%	-4.2%	3.6%	136.3%
Technology	45.72	10.8%	-1.7%	9.0%	8.7%	29.2%	-21.9%	54.5%
Transport & Logistics	691.34	5.5%	0.7%	-0.9%	-0.6%	4.6%	-30.1%	30.1%
Industrial Products & Services	139.07	1.5%	-4.9%	-4.6%	0.1%	-7.9%	-29.9%	29.2%
Energy	772.67	25.3%	1.0%	6.2%	12.5%	51.3%	-50.3%	25.3%
Construction	169.68	23.6%	13.7%	-6.5%	2.1%	34.3%	-34.1%	23.1%
Utilities	967.13	6.7%	1.1%	-2.3%	2.3%	7.8%	-15.5%	14.9%
Property	632.41	3.8%	-0.9%	-14.4%	7.7%	-5.2%	-33.5%	14.5%
Telecommunications & Media	606.28	12.4%	1.8%	3.8%	-5.7%	12.1%	-19.8%	12.3%
Consumer Products & Services	571.32	3.1%	0.4%	-5.3%	1.7%	-0.3%	-22.1%	12.0%
Financial Services	13,546.64	-1.9%	-1.7%	-8.3%	1.0%	-10.6%	-20.7%	10.4%
Plantation	6,861.08	4.1%	-3.0%	-3.6%	15.1%	12.0%	-19.2%	9.7%
Reits	887.35	6.9%	0.4%	0.9%	-3.9%	4.1%	-12.3%	5.1%
FBM Small Cap	**12,543.32**	**12.5%**	**2.2%**	**-0.1%**	**9.1%**	**25.4%**	**-35.0%**	**36.2%**
FBM Emas	11,206.81	0.2%	2.0%	-4.9%	1.1%	-1.8%	-18.4%	21.3%
FBM 100	11,061.38	-0.3%	2.0%	-5.1%	0.7%	-2.9%	-17.5%	20.7%
FBM KLCI	1,591.84	-2.8%	1.7%	-5.3%	0.3%	-6.0%	-15.0%	17.8%

Source: Bloomberg *as at 10 July 2020

Table v: Regional earnings and valuations

	EPS Growth (% change)					PER				
	2019	2020 (est as of)		2021 (f'cast as of)		2019	2020 (est as of)		2021 (f'cast as of)	
		Mar-20	Jul-20	Mar-20	Jul-20		Mar-20	Jul-20	Mar-20	Jul-20
Nikkei 225	-16.8%	5.5%	-10.0%	10.5%	27.5%	19.7	15.9	21.9	14.4	17.2
Taiwan Weighted	-13.1%	11.5%	4.0%	12.8%	17.2%	19.6	14.2	18.9	12.6	16.1
Hang Seng	-2.1%	-5.5%	-13.6%	11.0%	17.9%	10.3	10.0	11.9	9.0	10.1
FBM KLCI	**12.8%**	**1.7%**	**-14.8%**	**8.3%**	**21.1%**	**17.8**	**14.8**	**20.9**	**13.7**	**17.2**
Jakarta Comp.	12.4%	25.2%	-10.2%	11.1%	27.3%	15.5	11.2	17.2	10.0	13.6
SET Index	-9.0%	-6.9%	-26.3%	17.0%	27.0%	15.4	13.8	20.9	11.8	16.5
Philippines Comp.	12.7%	4.3%	-22.9%	12.6%	27.9%	13.6	11.2	17.7	10.0	13.8
Shanghai Comp.	5.4%	22.6%	13.9%	12.7%	15.6%	15.9	10.5	13.9	9.3	12.1
Straits Times	6.2%	-13.7%	-29.6%	7.7%	16.3%	10.3	11.1	14.6	10.3	12.6
Mumbai Sensex 30	22.7%	12.9%	-2.1%	11.4%	38.4%	22.3	15.9	22.8	14.3	16.4
DJIA	-8.3%	-5.2%	-22.4%	21.8%	33.7%	18.4	16.3	23.7	13.4	17.8

Source: Bloomberg *as at 10 July 2020

Table vi: Performance of MIDFR's stocks under coverage

OUT-PERFORMERS	Share price (RM)		% change	TP
	10/7/2020	31/3/2020		
Supermax Corporation	13.62	1.69	705.9%	11.20
Top Glove Corporation	21.92	6.41	242.0%	26.12
Hartalega Holdings	17.06	6.87	148.4%	15.69
Kossan Rubber Industries	12.38	5.11	142.1%	12.32
GD Express Carrier	0.37	0.16	135.5%	0.48
AirAsia X	0.10	0.05	90.0%	0.03
Pharmaniaga	2.33	1.23	89.4%	3.16
MSM Malaysia Holdings	0.60	0.34	76.5%	0.74
Bumi Armada	0.23	0.14	66.7%	0.56
Bursa Malaysia	8.35	5.05	65.3%	6.45
Leong Hup International	0.89	0.57	57.5%	0.60
D&O GreenTechnologies	0.82	0.53	53.8%	0.63
Unisem	2.39	1.56	53.0%	1.90
My E.G.	1.46	0.96	52.1%	1.58
Inari Amertron	1.83	1.23	48.4%	1.36
Star Media Group	0.36	0.25	46.9%	0.34
Mah Sing Group	0.55	0.38	44.7%	0.70
Cahya Mata Sarawak	1.74	1.21	43.8%	1.70
Globetronics Technology	2.30	1.61	43.3%	1.67
Daibochi	2.42	1.72	41.0%	2.66
MRCB	0.54	0.38	40.1%	0.73
Syarikat Takaful Malaysia	4.53	3.25	39.4%	4.82
Deleum	0.64	0.47	35.1%	0.86
Superlon Holdings	0.69	0.52	34.0%	0.73
Scicom (MSC)	0.94	0.70	34.0%	1.05
QL Resources	9.88	7.40	33.5%	9.21
WCT Holdings	0.50	0.38	33.3%	0.52
MMC Corporation	0.76	0.57	32.4%	1.17
Malayan Cement	2.35	1.78	32.0%	2.70
Muhibbah Engineering	0.98	0.75	30.7%	1.35
TSH Resources	0.86	0.66	30.5%	1.20
Tiong Nam Logistics	0.42	0.32	29.7%	0.32
P.I.E. Industrial	1.34	1.04	28.8%	1.20
Dialog Group	3.88	3.03	28.1%	3.83
Sunway Construction	1.92	1.51	27.2%	2.26
Bermaz Auto	1.42	1.12	27.0%	1.95
Media Prima	0.17	0.14	25.9%	0.12
FGV Holdings	1.05	0.84	25.3%	1.20
Malaysia Airports Holdings	5.30	4.24	25.1%	4.97
Petronas Chemicals	6.30	5.05	24.8%	5.85
Tune Protect Group	0.33	0.27	24.5%	0.25
Tasco	0.92	0.74	23.8%	0.73
Favelle Favco	2.30	1.86	23.7%	3.00
UMW Holdings	2.63	2.14	22.9%	3.40
Gamuda Berhad	3.45	2.83	21.9%	3.35
IJM Plantations	1.71	1.44	18.8%	1.70
Sapura Energy	0.10	0.08	18.8%	0.11
Padini Holdings	2.39	2.02	18.3%	2.61
LPI Capital	13.72	11.60	18.3%	11.70
MBM Resources	3.19	2.70	18.0%	3.80
Ta Ann Holdings	2.44	2.07	17.9%	2.44

Source: MIDFR, Bloomberg *as at 10 July 2020

Table vi: Performance of MIDFR's stocks under coverage (Cont'd)

UNDER-PERFORMERS	Share price (RM)		% change	TP
	10/7/2020	31/3/2020		
Capitaland Malaysia Mall Trust	0.78	0.91	-14.3%	0.69
KPJ Healthcare Berhad	0.82	0.93	-11.5%	0.94
Sunway Berhad	1.38	1.55	-11.0%	1.59
AEON Co. (M) Berhad	1.01	1.13	-10.6%	1.08
UEM Edgenta Berhad	2.04	2.20	-7.3%	3.23
Wah Seong Corporation Berhad	0.50	0.53	-5.7%	0.66
Tenaga Nasional Berhad	11.36	12.02	-5.5%	13.70
MMHE Holdings Berhad	0.40	0.42	-4.8%	0.43
Al 'Aqar Healthcare REIT	1.37	1.39	-1.4%	1.52
Petronas Dagangan Berhad	20.82	21.11	-1.4%	21.39
AirAsia Group Berhad	0.78	0.79	-1.3%	0.54
Maxis Berhad	5.32	5.31	0.2%	4.45
DiGi.Com Berhad	4.34	4.31	0.7%	4.30
IOI Properties Group Berhad	0.97	0.96	1.0%	1.21
Sunway Real Estate Investment Trust	1.61	1.59	1.3%	1.88
Astro Malaysia Holdings Berhad	0.84	0.83	1.8%	0.86
Sime Darby Plantation	5.03	4.93	2.0%	5.19
Hong Leong Financial Group	13.98	13.68	2.2%	14.10
Nestlé	139.50	135.30	3.1%	143.90
IHH Healthcare	5.34	5.16	3.5%	6.34
Eco World Development Group	0.43	0.41	3.7%	0.61
Pavilion REIT	1.64	1.58	3.8%	1.73
British American Tobacco	10.58	10.14	4.3%	15.70
Fraser & Neave	32.08	30.75	4.3%	31.59
Ranhill Holdings	0.93	0.89	4.4%	1.40
KLCCP Stapled Group	8.05	7.71	4.5%	7.57
Axiata Group	3.41	3.24	5.2%	4.67
Genting Plantations	9.90	9.41	5.2%	12.10
CIMB Group Holdings	3.81	3.60	5.8%	3.95
MISC	7.85	7.38	6.4%	8.41
Westports Holdings	3.62	3.38	7.1%	4.03
Tan Chong	1.12	1.04	7.7%	1.15
Hong Leong Bank	14.52	13.46	7.9%	13.60
AMMB Holdings	3.25	3.00	8.3%	3.60
Spritzer	2.06	1.90	8.4%	2.15
Malaysia Building Society	0.61	0.56	8.9%	0.70
BIMB Holdings	3.55	3.25	9.2%	4.25
Petronas Gas	16.70	15.26	9.4%	16.00
Gas Malaysia	2.80	2.56	9.4%	3.11
Kuala Lumpur Kepong	22.58	20.62	9.5%	20.19
Hock Seng Lee	1.07	0.98	9.5%	1.21
Telekom Malaysia	4.13	3.75	10.1%	3.15
YTL Corporation	0.80	0.73	10.3%	0.85
Eastern & Oriental	0.41	0.37	10.8%	0.42
Affin Bank	1.60	1.44	11.1%	1.65
PPB Group	18.00	16.19	11.2%	17.95
Dayang Enterprise	1.28	1.15	11.3%	1.42
IJM Corporation	1.77	1.59	11.3%	1.95
UEM Sunrise	0.44	0.40	11.4%	0.54
Malayan Banking	7.90	7.08	11.6%	8.20
KKB Engineering	1.68	1.50	12.0%	2.10
RHB Bank	5.09	4.53	12.4%	5.25
IOI Corporation	4.50	4.00	12.5%	3.58
Gabungan AQRS	0.89	0.79	12.7%	1.01
AmanahRaya REIT	0.69	0.61	13.1%	0.68
UOA Development	1.80	1.59	13.2%	2.06
Lingkaran Trans Kota Holdings	4.19	3.70	13.2%	5.08
S P Setia	0.84	0.74	13.5%	1.33
AEON Credit	9.50	8.28	14.8%	9.45
AXIS REIT	2.08	1.81	14.9%	1.83
IGB REIT	1.81	1.57	15.1%	1.70
Panasonic	30.98	26.88	15.3%	29.62
Alliance Bank	2.20	1.90	15.8%	2.05
Public Bank	18.50	15.90	16.4%	17.20
YTL Power International	0.71	0.61	16.4%	0.70
FBM KLCI	**1,591.84**	**1,350.89**	**17.8%**	**1,320.00**

Source: MIDFR, Bloomberg *as at 10 July 2020

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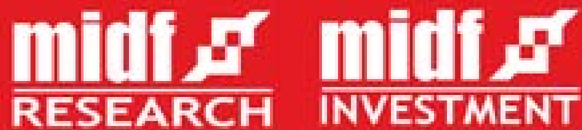
MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	*Negative* total return is expected to be -10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.



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