THEMATIC REPORT

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Opportunities amid a bear market

KEY INVESTMENT HIGHLIGHTS

- **After two weeks of almost relentless selloff, equity price and valuation are becoming very attractive**
- **Equites are trapped in a cautious mood but selloff acts as a valuation leveler**
- **Gradual upward march of equities can be expected once Covid-19 pandemic starts to be contained**
- **Despite the volatile markets, there are pockets of opportunities**
- **Investors would need to select potential stocks which have solid fundamentals and defensive earnings in nature**
- **This should be paired those that gives very attractive dividend yields which should moderate any downside risk**

Overall market strategy – a gradual march upward

Valuation becoming very attractive. After two weeks of almost relentless selloff, most major equity indices around the world fell into bear territory. Locally, the FBM KLCI had in fact turned bear slightly earlier as highlighted by our report; The End of World's Longest Bull Market. Consequently, both the equity price and valuation are becoming very attractive.

Rapid fiscal and monetary response from authorities. Moreover, as broadly anticipated in our report, Coronavirus: More Liquidity On The Horizon, the world's monetary and fiscal authorities are now adopting a 'whatever it takes' stance, e.g. US cut interest rate to 0%, introduce QE worth USD700b and USD1.0t stimulus; Euro region introduce QE worth EUR750b. The massive liquidity injections, both fiscal and monetary, are expected to provide a backstop to the real economy and financial markets.

Equities trapped in a cautious mood. Despite the recent flare up in new cases of Covid-19 outside China, our baseline scenario is for the outbreak to be brought under control within the next four to six months, i.e. similar to the durations taken by (i) China to bring new Covid-19 cases under control, as well as (ii) the world to contain the 2002/3 SARS epidemic. Thus, the equity market would be trapped in a cautious mood or even occasionally under extreme risk aversion perhaps until the third quarter of this year. However, as the total number of infected cases begins to dwindle, we envisage the equity market shall thereafter regain some upward momentum together the tapering of risk aversion among investors.

Selloff acts as a valuation leveller. In above regard, we must take note that despite the recent massive sell down in world's equity, China (CSI300) stock market suffered the least with month-to-date return of -10.2% in March as investors were rather sanguine at the progress made in containing the spread Covid-19. In comparison, the US (S&P500) and European (STOXX600) markets were down thus far this month by -25.4% and -22.1% respectively. Meanwhile, the local FBM KLCI retreated -11.2% thus far in March. Hence, from another perspective, the prevailing selloff in world's equity markets has also acted as a valuation leveller between the, until recently, outperforming US and European bourses vis-à-vis the emerging markets as discussed in our earlier report: Valuation Expansion: Asia In Footsteps Of US/Europe?.

Gradual upward march. Moreover, similar to the aftermath of 1987 sell down, in the absence of an ensuing (outright) recession, the equity market would thereafter establish a footing for a gradual upward march. Hence looking further forward into the final quarter of this year, we reckon the additional financial liquidity and outlays would help to propel the recovery of world's equity market with the local benchmark **FBM KLCI** scaling towards our 2020 baseline **target of 1,480 points**.

Finding opportunities amid cautiousness

Volatile markets. While we expect that equity markets will recover from current levels, we are cognizant of the fact that markets are extremely volatile at current juncture. Gyration of circa 5% (sometimes more) in either direction seems the norm for now. This presents a very precarious situation for investors to navigate.

Nevertheless, there are pockets of opportunities. We believe that there are pockets of opportunities for investors to take advantage of despite the volatile market. This is especially so given the significant retracement in share prices. However, we also advise caution for investors. We believe that investors would need to select potential stocks which have solid fundamentals and defensive earnings in nature. Furthermore, this should be paired those that gives very attractive dividend yields which should moderate any downside risk.

Out top 20 stocks to look out for. The table below presents our view of the stocks that investors could consider. As mentioned above, these are companies which in our opinion are either defensive in nature or have solid fundamentals, or a combination of both.

Stocks	FYE	Recm.	TP (RM)	Share Price @ 20/3 (RM)	Net earnings (RM m)		DPS (sen)		Div. yield	Expect. return	Total expect return
					Current FY	FY+1	Current FY	FY+1			
BAT	31 Dec	BUY	16.00	9.71	348.1	351.2	119.5	120.5	12.3%	64.8%	77.1%
Pharmaniaga	31 Dec	BUY	2.35	0.98	45.3	50.7	9.6	10.8	9.8%	139.8%	149.6%
MMC Corp	31 Dec	BUY	1.27	0.49	265.4	291.1	4.0	4.0	8.2%	159.2%	167.3%
CIMB	31 Dec	BUY	5.70	3.64	5,206.0	5,565.0	26.0	26.0	7.1%	56.6%	63.7%
UEM Edgenta	31 Dec	BUY	3.22	2.05	162.2	170.6	15.6	16.4	7.6%	57.1%	64.7%
Maybank	31 Dec	BUY	9.55	7.51	8,392.0	8,608.0	56.0	56.0	7.5%	27.2%	34.6%
Ranhill	31 Dec	BUY	1.45	0.88	101.3	97.1	5.7	5.5	6.5%	64.8%	71.3%
BIMB	31 Dec	BUY	5.05	2.90	826.9	839.7	18.0	18.0	6.2%	74.1%	80.3%
Al-'Aqar Healthcare	31 Dec	BUY	1.52	1.34	63.1	67.4	8.0	8.6	6.0%	13.4%	19.4%
YTL Power	30 Jun	BUY	0.70	0.54	321.8	417.9	2.9	3.8	5.4%	29.6%	35.0%
Public Bank	31 Dec	T. BUY	19.00	14.04	5,603.0	5,687.0	73.0	73.0	5.2%	35.3%	40.5%
Westports	31 Dec	BUY	4.38	3.92	683.0	736.2	15.0	16.2	3.8%	11.7%	15.6%
MISC	31 Dec	T. BUY	8.11	7.44	1,809.8	1,926.6	30.0	30.0	4.0%	9.0%	13.0%
Tenaga Nasional	31 Dec	BUY	13.80	12.02	5,192.1	5,252.9	46.0	46.5	3.8%	14.8%	18.6%
Gas Malaysia	31 Dec	BUY	3.11	2.50	191.3	195.4	10.0	11.0	4.0%	24.4%	28.4%
Axiata	31 Dec	BUY	4.77	3.20	1,103.7	1,145.1	10.0	10.0	3.1%	49.1%	52.2%
My E.G.	30 Sep	BUY	1.49	0.84	257.6	271.7	2.1	2.3	2.5%	77.4%	79.9%
Top Glove	31 Aug	BUY	6.63	6.27	525.5	565.8	10.5	11.5	1.7%	5.7%	7.4%
Dialog Group	30 Jun	BUY	3.83	3.03	563.6	570.5	4.5	6.0	1.5%	26.4%	27.9%
IHH Healthcare	31 Dec	BUY	6.45	5.17	966.6	1,032.7	4.0	4.0	0.8%	24.8%	25.5%

Source: MIDFR

1) **British American Tobacco (M) Berhad (BUY, TP: RM16.00).** We opine that business environment will continue to remain challenging for BAT as illegal cigarettes and vaping market share keep on rising. According to a recent study, illegal cigarettes being smuggled into Malaysia has cost the government about RM5.1b losses in cigarette taxes annually. We opine that the new government could recognise the disadvantages of the narrowing tax base from legal cigarettes and decide to reverse or reduce the excise tax, leading BAT reclaiming its legal market share. Due to the recent decline in share price, we believe the risk-reward profile has become attractive as the stock offers an attractive dividend yield of more than +10.0%. Moreover, we believe that there might be a possibility that BAT's parent company could take the company private given the current depressed valuation.

2) **Pharmaniaga Berhad (BUY, TP: RM2.35).** Pharmaniaga plays a vital role as the main logistics and distribution of medical supplies to more than 148 government hospitals and 1,700 clinics nationwide. That said, recently, the group recorded its first-full year loss since going public in 1999. Nonetheless, this was mainly due to the revision in the useful life of rights to supply, a non-cash item worth RM247.0m which was fully recognised last year. Moving forward, we expect strong sales growth from both concession and non-concession businesses. This is especially so amidst facing the current health crisis whereby MOH will increasingly be reliant on Pharmaniaga's support and expertise in preventing shortage of essential medical supplies at all its facilities.

3) **MMC Corporation Berhad (BUY, TP:RM1.27).** We opine that MMC Corporation Berhad will benefit from the recent spike in container throughput at Chinese ports such as in Yangshan and Shanghai. MMC Corp's Port of Tanjung Pelepas has a strong exposure to intra-Asian trade lanes. In fact, the first two months of the year has seen as the container throughput at PTP for January and February 2020 combined is still good, registering a growth of around +9.0-11.0%yoy despite concerns of the Covid-19 outbreak. Factors of the positive performance in PTP's container throughput were partly due to: (i) spillover effect from the seasonally strong month of December 2019, and (ii) shippers transiting to quarantine cargo containing perishables via reefer containers especially the outbound China cargo.

   With Maersk owning a 30.0% stake in PTP, we believe that the shipping company will ensure to maintain PTP as its regional transhipment hub in the wake of the Covid-19 outbreak. It is also notable that MMC Corp's ports other than PTP such as Johor Port, Penang Port have a high concentration of gateway cargo of more than 90.0% of total container throughput. The increasing prevalence of intra-ASEAN trade following the emergence of regional distribution hubs in ASEAN especially Malaysia will bode well for these two ports.

4) **CIMB (BUY, TP: RM5.70).** CIMB's share price has retraced by -33.3% from its 52 week high level. Although we are cognizant of the risk the current situation pose to banks' earnings and asset quality, we believe that CIMB will be able to weather those headwinds given its scale and size. The fact that it is classified as a Domestic Systemically Important Banks (D-SIB) means that it is too important to the domestic financial system to be allowed to fail. Also, it is well capitalized with CET1 capital ratio and total Capital ratio of 12.9% and 16.8% respectively. Hence, we must point out that it is a boon that CIMB retained a higher than expected capital as this means that any stress to its asset quality can be mitigated. Furthermore, we expect that there will be some leeway in classification of restructured and rescheduled accounts especially for SMEs whereby it does not have to impair those accounts. Previously, any R&R accounts will be classified as impaired. Therefore, we believe that current valuation of below 1x PBV is unjustified.

5) **UEM Edgenta (BUY, TP: RM3.22).** We opine that it is a well-diversified defensive stock with attractive dividend yield. UEM Edgenta is one of our Top Pick within the healthcare sector given that it is set to benefit positively from the recent outbreak of the Covid-19 pandemic outbreak. This is attributable to its healthcare support services (HSS) segment which primarily operates maintenance and services that includes daily cleaning and linen laundry of 33 Malaysian government hospitals in the northern region of Peninsular Malaysia and one Women and Children's Hospital in Kuala Lumpur. With the outbreak of Covid-19, government hospitals need to maintain an exceptionally clean environment within the hospitals more than usual. Hence, more services are expected to be rendered by Edgenta to these government hospitals. We expect margin for the HSS concession is expected to expand following this. We expect the concession margin to expand to 11-12% in 2020 due to the Covid-19.

   Additionally, Edgenta's commercial HSS which currently involve maintaining hospitals in the region including in Singapore and Taiwan are expected to highly benefit during this period as well. We are expecting the high volume of maintenance services carried out during the Covid-19 pandemic outbreak to lift Edgenta's commercial margin slightly

given that the commercial segment is a highly competitive space. We opine that the margin will expand to 8.0-9.0% in 2020 due to Covid-19. Furthermore, its share price like many others has been affected by the market-wide sell-down by investor though we believe that this is unjustified given the company operates in both; defensive and recession-proof business segments. It is also operating in a net cash position. In terms of dividend, we opine that Edgenta is able to meet our dividend forecast of 15.6sen in 2020 and its dividend yield too remains attractive at 7.6% FY20F following the drop in its share price.

6) **Maybank (BUY, TP: RM9.55).** It is the biggest bank in Malaysia and it is classified as a D-SIB. Similar to CIMB, it means that Maybank is too important to the domestic financial system to be allowed to fail. Therefore, in our opinion, it will be well supported if there is any stress to its balance sheet. We also believe that classification of R&R accounts will be more lenient which should moderate any spike in credit cost. We also expect that income will recover as with the recovery of the Covid-19 pandemic. Furthermore, it has a very attractive dividend yield. We are expecting a dividend yield of over 7% and it is a high likelihood that it will be all cash as well.

7) **Ranhill (BUY, TP: RM1.45).** Its share price has retraced significantly year-to-date. Meanwhile, earnings remain solid backed by Johor water operations (accounts for 80% of earnings) which are the bedrock of its sustainable 6.5% dividend yield (FY21F). The stock is now trading at a mere 9x FY21F earnings and 10% discount to book value. 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) RM500m NRW-reduction contract wins.

8) **BIMB (BUY, TP: RM5.05).** We opine that BIMB has a strong balance sheet and earnings. Its PAZTAMI grew +15.4%yoy to RM786.9m in FY19 with Bank Islam growing +6.0%yoy to RM626.0m. Its financing book is also skewed towards retail with 93.9% of its consumer finance book in house and personal financing. This means that it is well shielded as long as Malaysian employment remains stable, which our economics team is expecting despite the Covid-19. Also, Gross Impaired Financing ratio remains low at 0.86%. In terms of capital, CET1 and total capital ratio was high at 14.2% and 18.6%.

9) **Al-`Aqar Healthcare REIT (BUY, TP: RM1.52).** Al-`Aqar Healthcare REIT (Al-`Aqar) is a pure healthcare REIT whereby earnings were derived mainly from hospital under KPJ brands. Earnings of Al-`Aqar is expected to be unaffected by the outbreak of Covid-19 and movement control order as rental income from healthcare assets is fixed. Typically, rental income of healthcare assets is increased on a fixed step up rate every year. Hence, that suggests limited downside risk to earnings even during the heightened risk of economy slowdown. Its fixed rental income structure in defensive healthcare industry suggest fairly stable dividend yield. Earnings outlook for Al-`Aqar is expected to be positive, underpinning by rent renewal healthcare assets.

10) **YTL Power (BUY, TP: RM0.70).** Share price has retraced significantly year-to-date and YTLP is now trading at just 9x FY21F (YE June) earnings. Dividend yield of 7.6% is backed by UK-based Wessex Water operations which accounts for the majority of group earnings. Key catalysts: (1) Completion of 45% owned Jordan shale power plant mid-CY20F (2) Financial close of 1320MW Tanjung Jati coal power plant (3) Consolidation in Singapore power generation sector (4) Gradual expiry of LNG supply contracts for Singapore power (5) Accelerated breakeven of mobile broadband business from any potential partnership.

11) **Public Bank (BUY, TP: RM19.00).** Another bank classified as D-SIB by Bank Negara Malaysia. Again, this means that it will likely be supported in the event of severe stress. Its loans book exposure is skewed to the retail segment with 65% of total gross loans as FY19. This means that as long as employment condition remains stable, it will be able to weather any stress to its assets. Also, asset quality is the strongest in the industry with Gross Impaired Loans ratio at 0.5%.

12) **Westports Holdings Berhad (BUY, TP: RM4.38).** We observed that the container throughput in key Chinese ports reached a trough in the middle to late February 2020 before rebounding. Using the port of Zhoushan, the third largest container port in the world by annual handling capacity as an example, the average waiting time for container vessels spiked to more than 60 hours in the week of February 11-17. This coincided with the travel curbs on workers returning from the prolonged Lunar New Year holiday forced ports to operate with limited manpower. According to data released by Shanghai International Shipping Institute, this was around 15 hours longer than the week before the holiday, and nearly 20 hours more than the average in early January before the travel restrictions.

Nevertheless turnaround times at Zhoushan and other ports are starting to improve as more container crane operators, customs officers, tugboat pilots and other key logistics links slot back into place. In relation to the port operators in Malaysia, we believe that the recent spike in container throughput at Chinese ports will support Malaysian ports. We are cognizant of the risks coming from the growing spread of the Covid-19 pandemic in Europe and the U.S.

Notwithstanding this, Malaysian port operators such as Westports Holdings Berhad have a <60.0% exposure to intra-Asian trade lanes while Asia-Europe and Asia-America only contribute 16.8% and 5.3% to its container throughput.

13) **MISC Berhad (Trading BUY, TP: RM8.11).** MISC Berhad is set to benefit from oversupply of oil due to the oil price war which is bullish for freight rates as tonnage will be tightened with more barrels of oil in storage. Spot rates for tankers such as Suezmaxes have more than quadrupled early to mid-March 2020, and recent levels are still high from a year ago. We gathered that 72% of MISC's petroleum vessels (100.0% for VLCC, 74.0% for Aframax, and 44.0% for Suezmax) are tied to time charter contracts. Nevertheless, we believe that time charter rates will still provide gains for MISC albeit not as much as spot rates. More importantly in the long run, MISC's exposure to the time charter contracts will shield MISC from huge fluctuations seen in the spot market. Meanwhile, MISC's LNG segment is expected to remain robust due to the small exposure to the LNG spot market while any force majeure declaration by Chinese firms will still require LNG vessel charterers to honour the contract with MISC being the vessel owner. Apart from that, MISC's share price remained resilient during the 2014 slump in oil prices while current share price levels translates to an attractive dividend yield of 4.0%. Risks to MISC are: (i) resumption of output cuts by OPEC and its allies which will adversely impact freight rates and; (ii) a global economic slowdown which will dampen demand for crude oil.

14) **Tenaga (BUY, TP: RM13.80).** 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) 1400MW solar project launch under the 2020 Stimulus Package (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 12x FY20F earnings, at a deep 23% discount to the index's 15.5x (MIDF's FY20F baseline target).

15) **Gas Malaysia Berhad (BUY, TP: RM3.11).** We continue to favour Gas Malaysia (GMB) within the downstream sub-segment of the oil and gas sector given that it is poised to benefit from the recently implemented Third Party Agreement (TPA) by the Energy Commission. The implementation of TPA enables it to carry out the activity of import into regasification terminal, bringing or causing to be brought liquefied natural gas (LNG) into or within Malaysia by any means other than by transshipment. In other words, it is no longer bound to off-take gas supplies solely from one source and could seek better option elsewhere should the opportunity presents itself - that could translate to improved margin. Furthermore, it can now enjoy a "retail margin" portion, that was not present pre-TPA which we expect will considerably assist in boosting its earnings from 2020 onwards.

Additionally, GMB is also one of the few companies within the downstream oil and gas sub-segment that is not impacted by the recent outbreak in Covid-19 pandemic. This is attributable to the fact that there will be no changes to GMB's cost of sales given that the gas cost has been previously fixed with its main supplier Petronas Gas. Dividend yield for GMB has also turned attractive following the decline in its share price from the recent market-wide sell-down at 4.0% FY20F.

16) **Axiata Group Bhd (BUY, TP: RM4.77).** Making reference to Italy, subsequent to the lockdown, Italians are placing 20% more calls and sending 20% more messages on Whatsapp compared to a year ago. Italians say staying in touch through these platforms is helping them cope with isolation and anxiety. In some cases it is also giving them remote access to some mental healthcare providers, or even allowing hospitalised coronavirus patients to interact with loved ones through video calls. Similarly, we could potentially see higher call frequency and duration as well as higher data consumption. This would help to partially support the ailing voice revenue as well as further accelerating the growth in data revenue, especially should there be higher usage of video. In this regard, we expect the opportunity would come from mobile number operators such as Axiata.

Despite the on-going regulatory issues and execution, the group has performed well as seen in the latest financial performance, especially from its two main opcos i.e. Celcom and XL. The better performance across almost all the group's opcos is able to offset the underperformance from Ncell. Meanwhile, the group has finally manage to improve its earnings, albeit marginally. Moving forward, we expect the group is on track to meet its 5-year cost savings target of RM5.0b by 2021. This would translate into higher pace of earnings growth in the foreseeable years. In addition, we believe that valuation has turn attractive post the fallout of the mega merger.

17) **My E.G. Services Bhd (Myeg) (BUY, TP: RM1.49).** We expect its local business to remain resilient, in view of the good track record of providing the online services. Moreover, we view that the Covid-19 pandemic will further drive the adoption of its online services. We also expect the group's earnings growth will stem from the group's effort to replicate its offerings in the region. The effort has started to bear fruit as seen in its latest progress in Indonesia and the Philippines. We believe the move would also help to reduce the group's reliance on the local market.

Meanwhile, we view that the recent fall in the group's share price due to the political turmoil is unjustified. To recall, Myeg and **Datasonic Group Bhd (NR)** are believed to be eyeing two government contracts namely the foreign visa system and the National Integrated Immigration System (IIS). The latter is expected to worth RM1.0b to RM1.5b. In addition, competition for the IIS projects is expected to intense as **Iris Corporation Bhd (NR)** is also among the bidder. Nonetheless, we view that Myeg stand a fair chance of securing at least one of these projects given its good track record.

18) **Top Glove Corporation Berhad (BUY, TP: RM6.63).** The Malaysian Rubber Glove Manufacturers Association (MARGMA) estimated that global demand for rubber glove products to increase by +15.7%yoy to 345.0b pieces in 2020 driven by the Covid-19 led demand. As the world's largest manufacturer of gloves, we believe that Top Glove is well-positioned to benefit from this crisis. Furthermore, the recent plunge in oil price augurs well for the group given that Nitrile latex cost which now command a substantial portion of its total cost of raw material could remain subdued. Also, its stronger balance sheet and improving cash flow position will provide the group additional resources to fund future expansion project.

19) **Dialog Group (BUY, TP: RM3.83).** We remain sanguine on Dialog which is among the few upstream players that we opine will weather through the current low oil price environment with minimal impact on its earnings. This is based on its recurring income and defensive earnings business model. While its upstream production segment – which make up 10-15% of its earnings; from its 20%-owned D35/D21/J4 production sharing contract and other offshore-related activities is expected to be hit directly by the fall in oil price; we opine that this will be well-mitigated by its 46%-owned crude storage tank terminals named Pengerang Independent Terminals Sdn Bhd. We expect the tanks to serve increase in demand for crude storage as more traders are expected to engage in more crude purchasing to take advantage of the current low oil price environment.

Additionally, its 25%-owned Pengerang Terminal (Two) Sdn Bhd, which is currently a dedicated tank terminal for Petronas is structured on a take-or-pay basis, is unlikely to be affected by the current low oil price environment even if there is a delay in the commercialization of Pengerang Integrated Complex due to the recent explosion at the RAPID Pengerang area.

20) **IHH Healthcare Berhad (BUY, TP: RM6.45).** As Asia's largest private healthcare group, IHH's main focus is on providing on upmarket health services. That said, we acknowledge that the group is facing near term business headwinds particularly in the form of weak demand arising from Covid-19 pandemic. This is expected to slow down demand for medical tourism and deferrals of non-urgent and non-essential procedures and services. Nonetheless, we continue to like IHH as we are confident of the group's ability to response to these challenges. Going forward, it will further drive efficiency in operation as well as realising additional resources through divestments of underperforming non-core assets. Through these initiatives, we believe that the group would be able to protect its profit margin and redeploy the additional cash to pare down debts.

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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	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.