Constituents/sectoral contribution to FBM KLCI year-end target

Financial Services to lead the recovery

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EXECUTIVE SUMMARY

- **Heightened risk of US slowdown but local economy and corporate earnings may continue to see growth**
- **Hence anticipate positive market trajectory with FBM KLCI baseline end-2022 target at 1,600 points**
- **Expect biggest point contributor by Public Bank (25.5 points)**
- **Financial Services sector is the largest expected point contributor (52.2 points)**
- **Maintain positive expected return amid elevated risks to forward projections**

CONSTITUENTS

Table 1: Expected constituents point contribution to FBM KLCI

Constituent Name	Index Weightage	Price 14/07 (RM)	12-month Target Price (RM)	*end-2022 Target Price (RM)*	Expected Contribution FBM KLCI end-2022 Target (Points)
Public Bank	14.2%	4.40	5.67	*4.96*	25.49
Petronas Chemicals	5.1%	8.03	11.93	*9.74*	15.58
Axiata Group	2.8%	2.62	4.90	*3.62*	14.95
Press Metal Aluminium Holdings *	3.3%	4.18	7.13	*5.48*	14.69
Dialog Group	1.9%	2.01	3.96	*2.87*	11.27
Sime Darby Plantation	3.3%	4.09	6.30	*5.06*	11.20
CIMB Group Holdings	7.7%	5.10	6.14	*5.56*	9.76
IOI	2.8%	3.89	6.00	*4.82*	9.39
Malayan Banking	13.9%	8.62	9.52	*9.01*	9.04
Kuala Lumpur Kepong	2.0%	20.74	31.50	*25.46*	6.47
PPB Group	2.4%	15.88	22.00	*18.57*	5.79
IHH Healthcare	3.8%	6.44	7.96	*7.11*	5.65
Genting *	2.3%	4.50	6.09	*5.20*	5.14
Inari Amertron	1.5%	2.40	3.65	*2.95*	4.85
Telekom Malaysia	2.3%	5.24	6.91	*5.97*	4.65
RHB Bank	2.0%	5.65	7.13	*6.30*	3.33
Genting Malaysia *	1.8%	2.82	3.60	*3.16*	3.06
Hong Leong Bank	3.1%	20.30	23.55	*21.73*	3.05
MISC	2.6%	6.75	7.83	*7.22*	2.64
Maxis	1.5%	3.35	4.05	*3.66*	1.98
Sime Darby *	1.7%	2.17	2.57	*2.34*	1.98
Digi.com	2.4%	3.40	3.80	*3.58*	1.76
MR D.I.Y. Group *	1.0%	2.08	2.64	*2.33*	1.71
Tenaga Nasional	5.9%	8.08	8.45	*8.24*	1.68
Hong Leong Financial Group	0.9%	18.50	23.16	*20.55*	1.49
Petronas Gas	2.1%	16.40	17.90	*17.06*	1.21
Petronas Dagangan	1.3%	21.84	23.88	*22.74*	0.75
Nestle (Malaysia)	1.9%	134.00	141.50	*137.29*	0.65
Hartalega Holdings	1.1%	2.85	3.09	*2.96*	0.57
Top Glove Corp	1.2%	1.02	1.04	*1.03*	0.15
FBM KLCI	**100.0%**	**1,420.06**		**1,600.00**	**179.94**

Source: MIDFR, BM, * Target Price (Bloomberg), *Note: constituents' end-2022 Target Price is a proration based on FBM KLCI end-2022 target*

Heightened risk of US slowdown. The recent selloffs in most of world's equity markets were engendered by heightened risk of US economic slowdown. The deteriorating US macro expectations is attributable to aggressive monetary tightening by the US Fed in its quest to subdue the high inflationary pressure (with its latest headline CPI rate at 9.1% in May). Thus, market consensus is expecting the Fed rate to rise to at least 3.50% by end of this year. The FBM KLCI slumped from 1,560 points in early June to 1,420 points level currently. As the saying goes, when Wall Street sneezes, the world catches a cold.

Nonetheless, local economy and corporate earnings may continue to see growth. Despite the less than sanguine US outlook, the local economy is anticipated to continue recovering and corporate earnings are expected to improve likewise. Moreover, the inflation rate in Malaysia is much less severe partly due to subsidies and price controls. In this regard, the BNM is not expected to even be nearly as aggressive as its US counterpart. Hence, MIDF Research is expecting Malaysia's 2022 GDP growth, 2022 CPI rate and end-2022 OPR at 6.0%, 2.8% and 2.50% respectively.

Expect FBM KLCI to resume upward trajectory with biggest point contributor by Public Bank. In view of Malaysia's relatively resilient macro as well as earnings fundamentals, the FBM KLCI is expected to resume upward trajectory towards 1,600 points level by end of this year. Insofar as the anticipated recovery in FBM KLCI, the biggest contribution is expected from Public Bank at 25.5 points and the smallest from Top Glove Corp at 0.2 point. It is also of note that Public Bank has the biggest index weightage (at 14.2%) among all FBM KLCI constituents. Refer to Table 1 for more details.

SECTORAL

Table 2: Expected sectoral point contribution to FBM KLCI

Sector	Index Weightage	Expected Contribution FBM KLCI end-2022 Target (Points)
Financial Services	41.8%	52.16
Industrial P&S	8.5%	30.27
Plantation	8.1%	27.06
Telecommunications & Media	9.0%	23.33
Consumer P&S	12.4%	19.09
Energy	1.9%	11.27
Healthcare	6.1%	6.37
Technology	1.5%	4.85
Utilities	8.0%	2.89
Transportation & Logistics	2.6%	2.64
FBM KLCI	**100.0%**	**179.94**

Source: MIDFR, BM

Financial Services the largest expected point contributor. On sectoral basis, Financial Services is the largest expected point contributor to FBM KLCI henceforth until the end of 2022. It is also notable that Financial Services has the biggest index weightage at 41.8%. Collectively, the 6 financial services constituents (namely Public Bank, Maybank, CIMB, Hong Leong Bank, RHB Bank and HLFG) are expected to add 52.2 points to the FBM KLCI. This is not surprising as the banks are expected to be key beneficiaries in a recovering economy. On the other hand, Transport & Logistics sector is expected to contribute the least points to FBM KLCI until the end of this year. Its sole constituent (namely MISC) may add 2.6 points to the FBM KLCI. Refer to Table 2 for more details.

Maintain positive expected return amid elevated risks to forward projections. All in all, we are cognizant of the elevated downside risks to our forward projections particularly in the event of a manifest sharp slowdown in the US and other major economies. Nevertheless, we stay positive on the local macro and earnings outlook at least until the end of this year. Hence, the expectation of positive market trajectory henceforth with **FBM KLCI baseline end-2022 target at 1,600 points (PER22 of 15.5x)**.

RECOMMENDATION

Top picks based on the sector with the highest point contributor. Given that we expect believe Financial Services, Plantation and Telecommunication is expected to drive the index higher, we laid out a few recommendations of stocks which we believe may provide the impetus. These are as follows:

FINANCIAL SERVICES (BANKING SECTOR)

Banking share prices have gone down 4-8% since their peak in April-May. Regardless, earning expectations remain largely positive, with the benefits of higher NII from BNM's normalization of OPR largely offsetting slight upticks in credit cost and lower loan growth expectations. Our top banking picks within the FBM KLCI are:

1. **RHB (BUY, TP: RM7.13)**

   RHB has the higher sensitivity to rate hikes among the four largest banks. Management expects a +3bps increase in NIM for every full year +25bps OPR hike, translating into roughly RM90m to income. Meanwhile, we expect there will be headroom for good dividend payout expectations. Dividend yield is expected to reach ~6% region, while management is striving for a dividend payout of 50% this year (last year was ~60%). This is supported by having the highest CET-1 ratio in industry at 16.8% in 1QFY22, and management has stated its intention to return back to shareholders. We also expect of a sustained loan growth. It came in at +7.0% in 1QFY22 (domestic loan growth was at +5.6%), which was amongst the highest in the industry. This is well above its FY22 target of 4-5%. This is sustained by its lucrative Singapore franchise.

2. **Hong Leong Bank (BUY, TP: 23.55)**

   We expect continued good contribution from its 18% stake in Bank of Chengdu, which is still in a growth phrase growth phase. A snapshot of Bank of Chengdu performance suggest that future cash injections are unlikely, especially given the recent RMB8b bond issue to boost CET-1 and working capital (1QCY22 Stats: ROE: 18.3%, CIR: 23%, LLC: 436%, Total capital ratio: 12.3%, Loan growth: 33% and GIL ratio: 0.91%). We believe that Hong Leong Bank to be a good defensive play given its strong asset quality as GIL ratio (1QFY22: 0.48%) and net credit cost (management's FY22 guidance of ~10bps) are well below industry averages. It also has a high loan growth (1QFY22: 6.3%), with excellent double-digit growth from overseas operations.

3. **Maybank (BUY, TP: RM9.52)**

   We like its dividend yield of ~6% in FY22 which is the best in industry, making it a more reliable pick for investors. Also, its ROE target of 9.5-10% for FY22 remains amongst the highest in industry. It is also the ESG assessment leader in the industry, in our opinion, with the most comprehensive ESG disclosure in the sector and its initiatives to work with customers in their transition to higher ESG standards.

PLANTATION

We anticipate that the CPO price will remain elevated in 2HCY22 as the price level will be supported by i) higher price of edibles oil on the back of supply concerns amid Russia – Ukraine prolongs war (disrupted sunflower supply), ii) subdued production outlook for soybean in 2022/23 due return in La-Nina in third year in a row in South America such Brazil and Argentina compounded by lower planted area in USA, and iii) improved demand outlook on improved economic activities. Despite our positive view on the sector, we do expect the CPO price will ease in 2HCY22 but at a gradual pace on concern of inflationary pressure globally after achieving higher-than-expected CPO price in 1HCY22. As such, we maintained our CY22 CPO price forecast of **RM5,500/mt** at this juncture. Our top picks for the sector are:

1. **Kuala Lumpur Kepong (BUY, TP: RM31.50)**

   We like KLK for its efficiency as it the most efficient planter with highest oil yield of 4.7/ha. It also has the highest FFB yield/mature of 21.4/ha among peers. In addition, post IJM acquisition has increased its total landbank in Malaysia and Indonesia by 73,827 ha to 279,037 ha, around 66,503 (24%) young mature coming into maturity ahead. It is also a

well-integrated palm oil producer (involve with upstream & downstream business). Furthermore, given the Group's upstream business is highly exposed to the current strength of CPO price, its manufacturing arm, which makes up of c. 30%-40% of group PBT, looks to be in better shape to help cushion any large falls in plantation earnings due to an expected reversal in CPO prices, if any. In terms of valuation, it is currently trading at 8.8x PER which is nearly -1 standard deviation of 9.3x based 2-year historical average.

2. Sime Darby Plantation (BUY, TP: RM6.30)

One of the key driver we believe is that it is the largest planter in the sector with total landbank of 744,630, planted area around 579,708 ha (78%). It has FFB yield/mature of 18.5/ha and among the top tiers. Meanwhile, its oil yield is just slightly below that of KLK at 4.0/ha, which we believe is still impressive given it manages a large planted area. The group's upstream business which makes up of c. 80%-85% of group PBT is highly exposed to the current strength of CPO prices. In terms of valuation, it currently trade at 11.3x PER which is nearly -1 standard deviation below the 2-year historical average.

TELECOMMUNICATION

We think the supply driven SWN model mandated by the Government means that telcos are no longer having to bear the significant capex burden of rolling out 5G networks with the focus turning to service, quality of service (QoS) and product innovation. Yet, the uncertainty on the equity stake and value in DNB for 5G rollout, slow 5G adoption rate in Malaysia due to lack of 5G-compatible devices, unready 5G ecosystem to accommodate for mass commercial usage, ongoing competitive cellular market environment posed downside risks to the sector at this junction. Hence, we are more in favour of telcos with regional exposure and/or fixed-line players. Below are our top picks for the sector:

1. Axiata (BUY, TP:RM4.90)

Axiata stands out because of its regional exposure in the growing market. The Group has diverse exposure across the ASEAN countries, such as, Malaysia (Celcom and Edotco), Indonesia (XL Axiata), Sri Lanka (Dialog), Bangladesh (Robi), Cambodia (Robi) and Nepal (Ncell). All operating companies excluding Ncell (Nepal) keep posting revenue growth and are ahead of pre-pandemic levels in 2020. Moreover, the approval from majority of shareholders for the acquisition of 66% stake buy in Indonesia's PT Link Net Tbk (LinkNet) will benefit the Group's business in Indonesia. Based on the prospects of the Link Net Group, we believe the plan will contribute positively to the Axiata Group's future earnings. Axiata may leverage on Indonesia's fast-growing fixed broadband and enterprise market segments, while also establishing considerable synergies for Link Net and XL Axiata through network sharing and strong relationships with consumers in Indonesia. The estimated net earnings accretive (pro forma) is 10%. The target price of RM4.90 is based on a PER of 28x and an EPS of 17.5 sen for FY22. It is currently trading at a PER of around -0.5SD lower than the 2-year multiple average of 30.0x to account for the uncertain macroeconomic climate in general and in Sri Lanka in particular.

2. TM (BUY, TP: RM6.91)

We favor TM due to its extensive fibre infrastructure, strong demand for fixed broadband services, and a multitude of business opportunities through MyDigital Initiatives. Additionally, the 10-year service agreement with DNB, under which TM will serve DNB's 5G infrastructure needs in support of the Malaysian government's ambition to accelerate 5G implementation, will benefit the Group's earnings. The RM6.91 target price is based on the Dividend Discount Model, with a WACC of 6.7%.

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology