THEMATIC REPORT

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Fast & Furious External Trade: 2021 Review

KEY HIGHLIGHTS

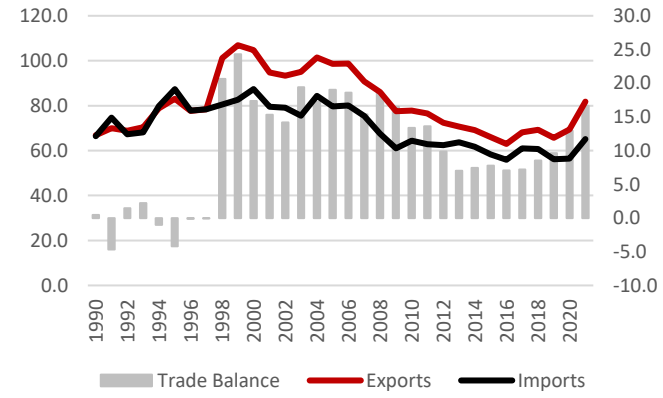
- **For the year 2021, exports and imports rebounded by +26%yoy and +23.3%yoy**
- **The strong pick-up in the external trade performances among others fueled by robust recovery in global demand and elevated commodity prices**
- **Malaysia remains a highly open economy. We estimate that the robust expansion pushed the total trade to GDP ratio higher to 147% (2020: 126% of GDP)**
- **International trade via Seaport improved significantly by +28.2%yoy and trade surplus surged to record high at +7.8% approximately**
- **Port Klang, Bintulu, Pasir Gudang and Tanjung Gelang were among the seaports experiencing more than +30%yoy trade growth in 2021**
- **Johor the largest beneficiary of exports robustness. Exports activity in Johor rose steadily throughout the pandemic years, 25.7% of total national exports in 2019 to 27% in 2021**
- **Malaysia's exports performed relatively better than other regional peers. Measured in USD terms, exports registered relatively stronger growth of +27.7% (vs. +26% in ringgit) last year**
- **We forecast exports and imports to grow at +4.5% and +5.1% in 2022**

ECONOMIC & POLICY

Vigorous expansion in oversea shipments. Malaysia's exports grew strongly in 2021 despite of disruptions caused by the Delta-variant and imposition of long containment measures. The recent data showed that the oversea sales of goods sustained a strong growth of +29.2%yoy in Dec-21, the fifth straight month of double-digit growth. Domestic exports were up by +34.3%yoy while re-exports increased by +23.9%yoy. With the gradual reopening of domestic economy amid progressive vaccination rate, imports rose by +23.6%yoy in Dec-21, sustaining two-digit growth since Feb-21. For the year 2021, exports and imports rebounded by +26%yoy and +23.3%yoy. The strong pick-up in the external trade performances among others fueled by robust recovery in global demand and elevated commodity prices.

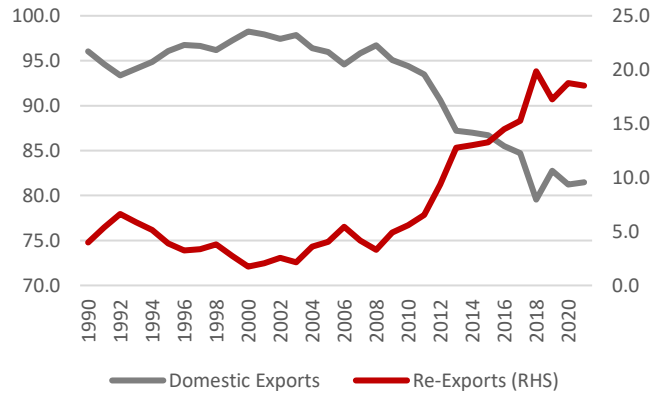
Exports share to GDP more than decade high. As of GDP ratio, exports contribution to economy surged to 13-year high at 81.9% in 2021. Similarly, imports ratio rose to 65.2%. Net exports which contributes significantly to the GDP hit +16.7% in 2021, the highest point since 2009. We believe the diversification of products in Malaysia's external trade aid the recovery momentum especially the sales of E&E, rubber gloves, pharmaceuticals and commodity-based products. Looking into exports, domestic exports continue to dominate total exports at 81.5% while re-exports at 18.5% in 2021.

Chart 1: External Trade Performances (% of GDP)



Source: CEIC, MIDFR

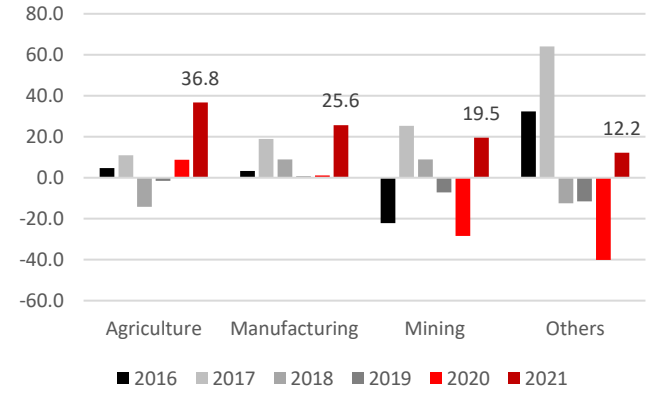
Chart 2: Domestic vs. Re-exports (% of Exports)



Source: CEIC, MIDFR

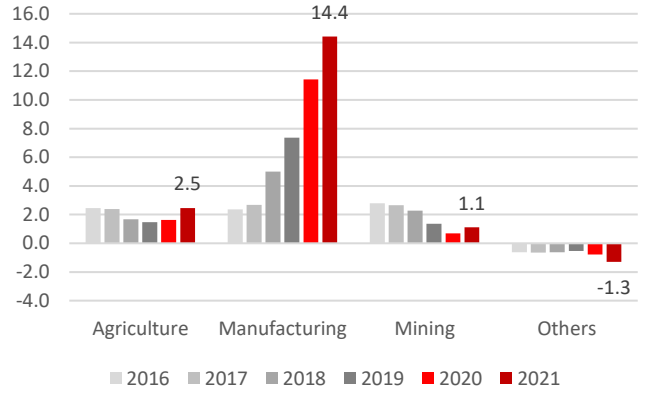
Manufacturing surplus surged. Strong rebound in oversea sales among others thanks to refined petroleum, chemicals, machinery equipment and metals push up manufacturing exports in 2021. In addition, continuous upbeat momentum of E&E and rubber products further support the export growth. Hence, trade surplus of manufacturing goods surged to record high at +14.4% of GDP in 2021. Agriculture's surplus ratio increased to 4-year high at +2.5% while mining improved slightly to +1.1%. Palm oil and natural gas were among the key boosting factors pushing up the export's growth of primary goods. With the elevated commodity prices, we expect crude petroleum exports to expand at solid pace in 2022 as well as enlarging trade surplus contribution in mining outbound sales.

Chart 3: Exports by sector (YoY%)



Source: CEIC, MIDFR

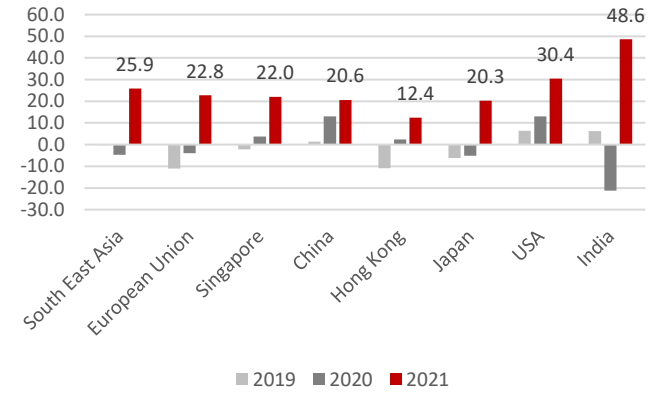
Chart 4: Trade balance by sector (% of GDP)



Source: CEIC, MIDFR

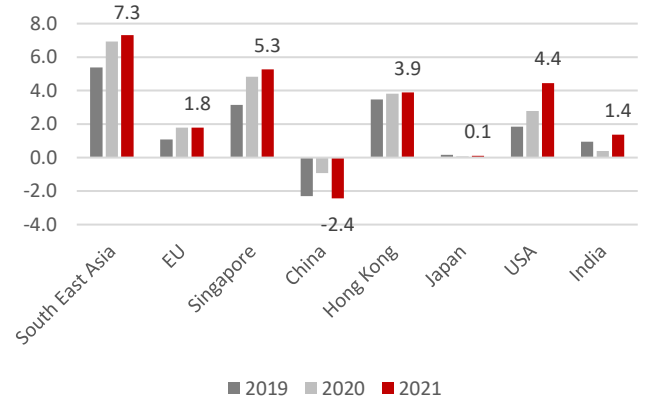
USA, Southeast Asia among others fueled trade surplus. Exports to major trading partners grew handsomely in 2021. Oversea sales to Southeast Asia and EU grew at above +20%yoy amid low-base effects. Even registering +13%yoy in 2020, exports the US and China continue expanding at firm pace of +30.4%yoy and +20.6%yoy respectively in 2021. Post pandemic recoveries in major economies have assisted global demand to rebound and benefiting trade activities. In terms of trade balance, trade surplus to GDP ratio for Southeast Asia and the US improved to +7.3% and +4.4% respectively. Trade deficit with China at -2.4%, slightly lower than -2.3% recorded in 2019.

Chart 5: Exports by destination (YoY%)



Source: CEIC, MIDFR

Chart 6: Trade balance by destination (% of GDP)

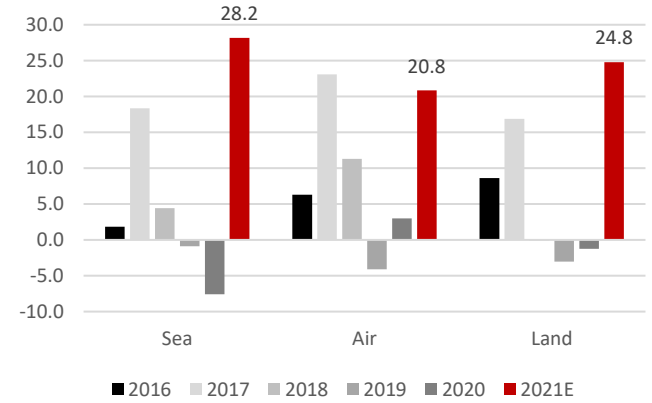


Source: CEIC, MIDFR

Sailing across the ocean. By structure, close to 60% of Malaysia's total trade go through Sea while 30.7% via Air and 13.5% via Land. International trade via Seaport improved significantly by +28.2%yoy and trade surplus surged to record high at +7.8% approximately. Port Klang, Bintulu, Pasir Gudang and Tanjung Gelang were among the seaports experiencing more than +30%yoy trade growth in 2021. Trade by Air transport increased by +20.8%yoy yet trade surplus as percentage of GDP reduced to +4.5%. Bayan Lepas Airport and KLIA saw +20%yoy and +24.1%yoy

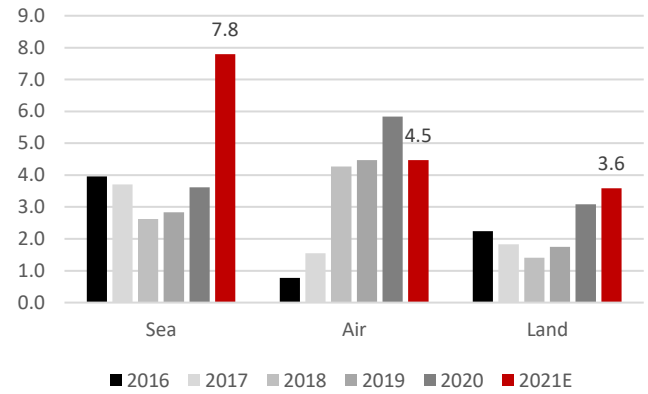
improvements last year. As for Lands exports, the three major gates Tanjung Kupang, Tambak Causeway and Bukit Kayu Hitam rose steadily by +22%yoy, +19.5%yoy and +40.4%yoy respectively.

Chart 7: Total trade by transport mode (YoY%)



Source: CEIC, MIDFR

Chart 8: Trade balance by transport mode (% of GDP)



Source: CEIC, MIDFR

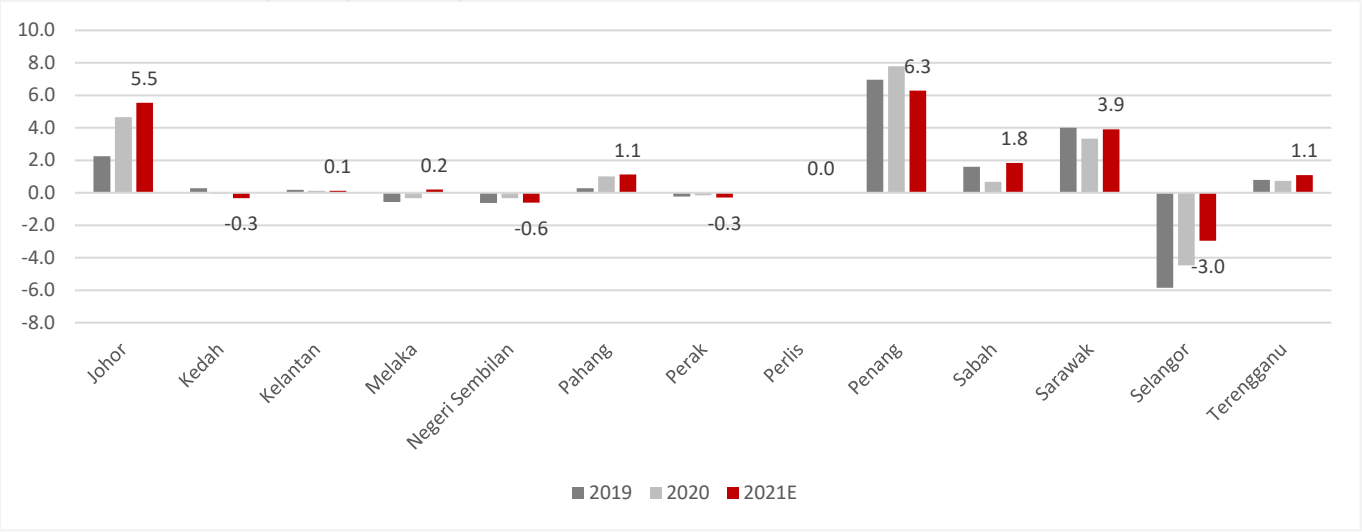
Johor the largest beneficiary of exports robustness. Exports activity in Johor rose steadily throughout the pandemic years, 25.7% of total national exports in 2019 to 27% in 2021. This was in line with the expansionary trends seen in seaports and land gates in the state such as Pasir Gudang port, Tanjung Kupang and Tambak Causeway. After Penang, trade surplus in Johor was the highest at +5.5% of GDP in 2021. In fact, the trade surplus ratio has been on upward trajectory. Selangor also saw slight improvements as exports activity rose to highest record at 26.8% and trade deficit shrink -3% in 2021. Penang remains as the top contributor to national exports by 28.4%, mainly via Bayan Lepas airport and North Butterworth Cargo Terminal port.

Table 1: Exports performances by state

	% of Exports			YoY%		
	2019	2020	2021E	2019	2020	2021E
Johor	25.7	26.4	27.0	(1.5)	1.6	26.4
Kedah	2.1	1.6	1.6	(1.7)	(24.3)	26.0
Kelantan	0.3	0.2	0.2	(11.6)	(32.2)	8.6
Melaka	0.7	0.9	0.9	(19.0)	19.3	32.6
Negeri Sembilan	0.1	0.2	0.2	10.4	51.8	10.7
Pahang	1.6	2.6	2.6	87.3	57.7	22.0
Perak	0.5	0.4	0.5	27.0	(9.4)	48.3
Perlis	0.4	0.3	0.3	0.8	(23.2)	33.2
Penang	29.0	31.5	28.4	(2.0)	7.1	11.3
Sabah	3.6	3.0	3.1	(16.3)	(17.6)	28.7
Sarawak	8.1	6.8	6.7	(3.2)	(18.0)	24.0
Selangor	25.2	24.4	26.8	(4.0)	(3.9)	35.4
Terengganu	1.7	1.3	1.7	(20.8)	(21.0)	52.5

Source: CEIC, MIDFR

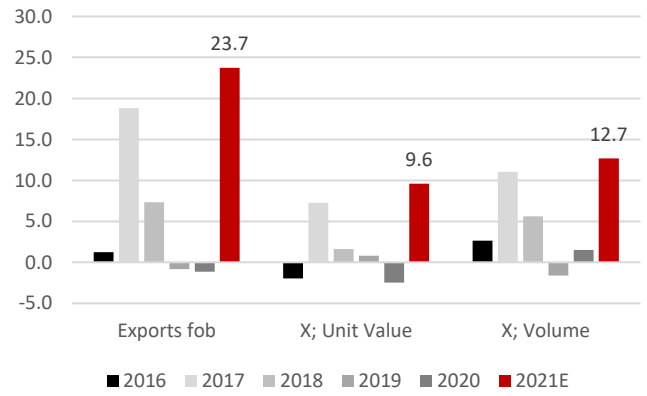
Chart 9: Trade balance by state (% of GDP)



Source: CEIC, MIDFR

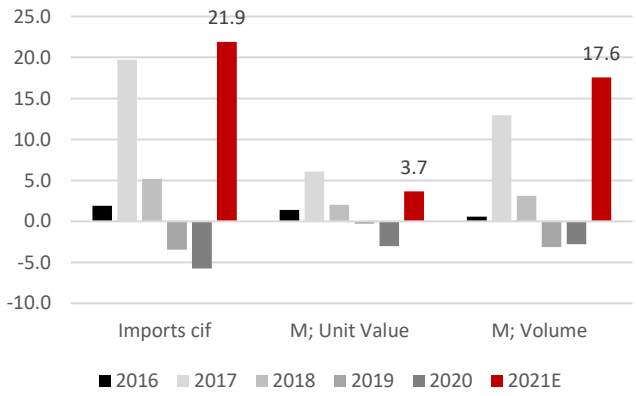
Minimal price effects. Despite of low-base effects factor, Malaysia's external trade volume rose by double digit pace. Exports volume up by +12.7%yoy while unit value rose lower at +9.6%yoy. Similarly, imports volume increased by +17.6%yoy whereas unit value only pick-up at +3.7%yoy. The strong uptick in volume reflects the firm external demand, not mainly influenced by upswing in commodity prices. We forecast average Brent crude oil price to rise by +4.9%yoy to USD75pbd while CPO price to settle at RM3,300 per tonne.

Chart 10: Exports Value vs. Volume (YoY%)



Source: CEIC, MIDFR

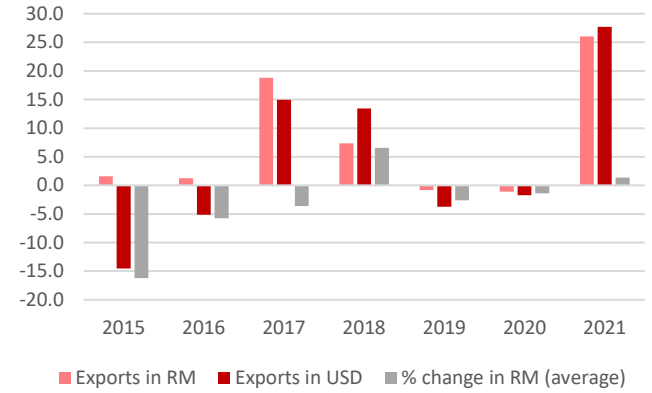
Chart 11: Imports Value vs. Volume (YoY%)



Source: CEIC, MIDFR

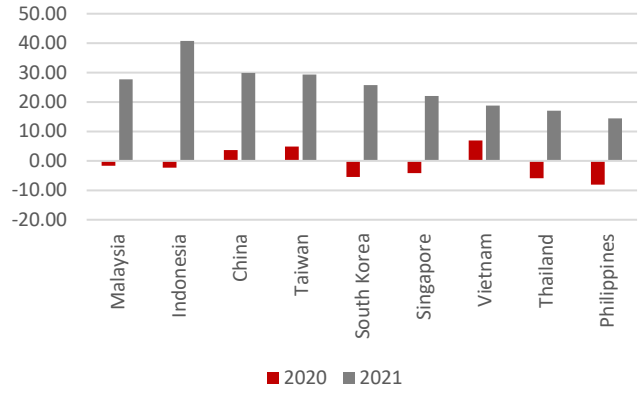
Robust exports vis-à-vis regional countries. Malaysia's exports performed relatively better than other regional peers. Measured in USD terms, Malaysia's exports registered relatively stronger growth of +27.7% (vs. +26% in ringgit) last year. The stronger growth in USD terms reflected the strengthening of ringgit last year, exchanging at RM4.14 per dollar on average or +1.4% stronger than previous year (2020: USD4.20). Malaysia's performance was commendable despite the imposition of full lockdown. Although regional countries like Thailand, Vietnam and even Singapore also tightened Covid-19 restrictions last year, the growth in exports was not as high as Malaysia. Again, we attribute this to the diversified export products as Malaysia benefited from global demand for E&E and resource-based products, especially palm oil, refined petroleum, and LNG. Not to forget, high commodity prices also underpinned Malaysia's strong trade performance last year.

Chart 12: Malaysia's exports in RM and USD (YoY%)



Source: CEIC, MIDFR

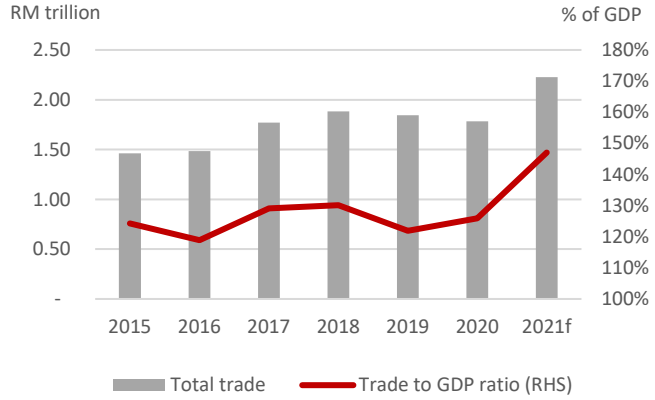
Chart 13: Exports growth (in USD) in 2020-2021 (YoY%)



Source: CEIC, Macrobond, MIDFR

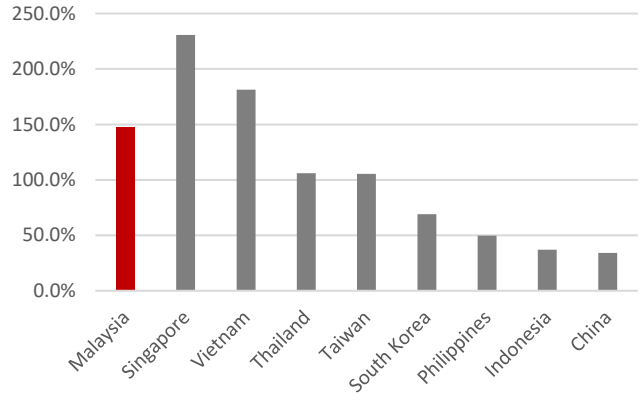
Malaysia remains a highly open economy. Following the commendable rebound in both exports and imports, Malaysia's total trade reached a new record high of RM2.2t, an increase of +24.8% from 2020. We estimate that the robust expansion pushed the total trade to GDP ratio higher to 147% (2020: 126% of GDP). As a highly open economy, Malaysia's economy continued to benefit from the sustained growth in global trade activity last year.

Chart 14: Malaysia's total trade



Source: CEIC, MIDFR

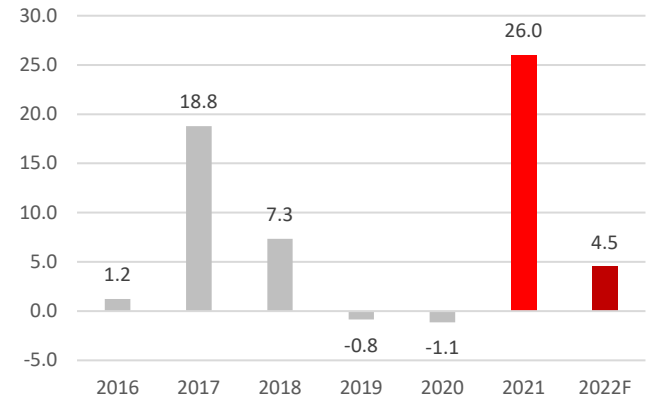
Chart 15: Trade openness (total trade as % of GDP) in 2021



Source: CEIC, Macrobond, MIDFR

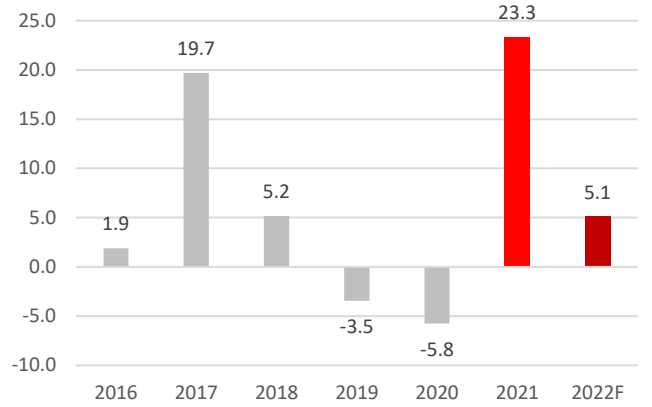
We forecast exports and imports to grow at +4.5% and +5.1% in 2022. Malaysia's external trade will continue to benefit from the post-pandemic recovery of the global economy. We project for exports growth at +4.5% this year given the encouraging outlook of external demand for E&E, and commodity export products such as palm oil, LNG and petroleum. Nevertheless, the pace of growth will continue to be influenced by the change in the Covid-19 situation, the slowdown in China and prolonged disruptions in the global supply chain. Meanwhile, we forecast imports to grow at +5.1% in 2022, driven by the recovery in domestic spending and investment activities. As we assume the Government will not re-introduce another full lockdown, this sets a stage for a steady recovery in domestic economic activities.

Chart 16: Exports of goods forecast (YoY%)



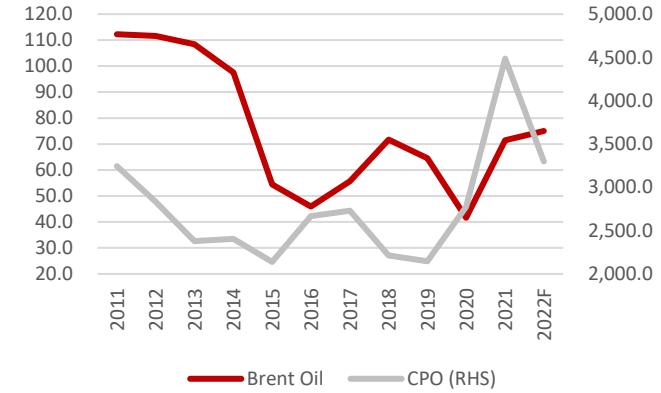
Source: CEIC, MIDFR

Chart 17: Imports of goods forecast (YoY%)



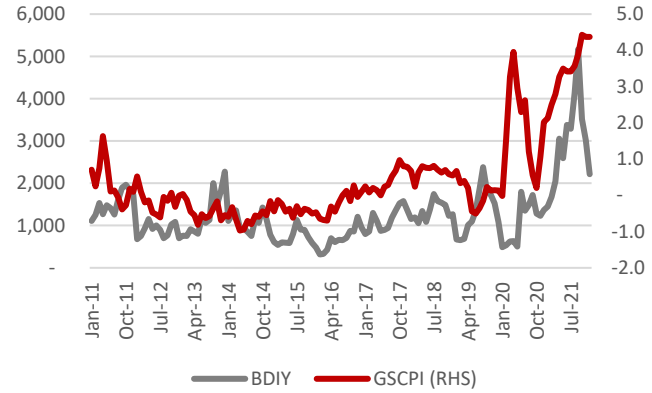
Source: CEIC, MIDFR

Chart 18: Brent crude oil (USDpbd) vs. CPO (RM per tonne)



Source: CEIC, MIDFR

Chart 19: Supply Chain Constraint Reached Pandemic Peak



Source: BLOOMBERG, MIDFR

EQUITY

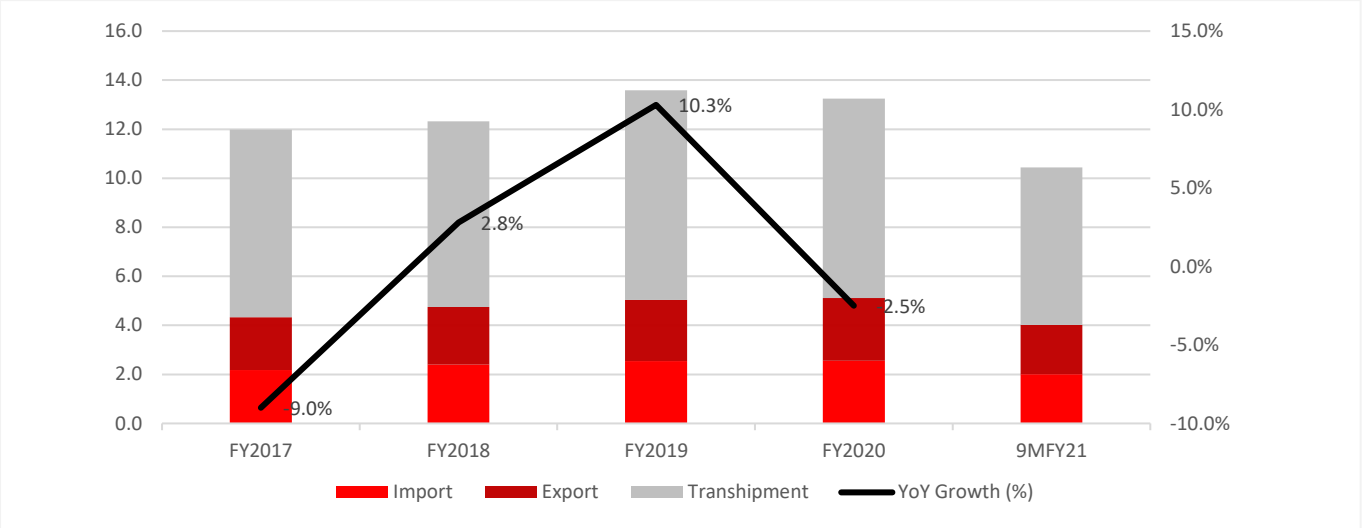
Transportation..... Maintain NEUTRAL

Port players. Port players are the leading beneficiaries of the upswing in external trade due to the increase in container throughput volume. Malaysia's seaports have showed commendable performance in CY21 with several new milestones achieved. The Port of Tanjung Pelepas (PTP) in Johor became the first container terminal to surpass the 11.0m TEUs mark in a year with a total of 11.2m TEUs (CY20: 9.8m TEUs) handled last year. Meanwhile, Port Klang managed to hit a total volume of 13.64m TEUs (CY20: 13.2m TEUs) in CY21, which is higher than its CY19's record of 13.58m TEUs. However, there are a few pandemic-induced factors that have caused the inefficiency of the operations at **Westports Holdings Berhad (Westports) (BUY, TP: RM4.45)**.

Slightly lower than estimated throughput. The company's total container throughput volume was 10.4m TEUs in CY21 (CY20: 10.5m TEUs), which fell short from our initial estimate of 11.0m TEUs and it was marginally lower than the year prior. The main reason for the shortfall was the highly utilised yard caused by regional lockdowns at neighboring ports. It was noted that some of the container services had to be transferred to Northport due to the limited capacity. Westports' operations were also temporarily impacted by the flood in mid-December which resulted in 30% reduction in manpower. Moving forward, the sustained growth in trade activities should translate into higher flow of containers hence benefitting the port players that have the capacity to handle it. In contrast, the port congestion issues are still expected to plague the prospects of Westports in the intermediate term. Nonetheless, the congestion has started to ease, and we do not foresee punitive containment measures being imposed as the Governments have become more adaptive in handling the Covid-19 situation. The management of Westports expects its container throughput volume to

record a low single digit growth in CY22. Our volume projection for Westports is 10.9m TEUs for CY22 which implies +5.0%yoy growth.

Chart 20: Container Statistics at Port Klang (TEU)



Source: Port Klang Authority, MIDFR

Logistics players. As for the logistics players, **Swift Haulage Berhad (Swift) (BUY, TP:RM1.28)** is at the forefront of the beneficiaries of upswing in external trade. The company is a dominant player in the container haulage segment with a strong presence in Peninsular Malaysia hence its performance was insulated by the volatility of air and sea freight rates, mimicking the port players to a certain extent due to the same key revenue driver i.e., container throughput volume. As at 9MFY21, Swift has handled 456.7k TEU, which is about 75% of the throughput volume that the company has handled in 2019. Overall, Swift and its peers, **Tiong Nam Logistics Holdings Berhad (Tiong Nam) (NEUTRAL, TP: RM0.85)** and **Tasco Berhad (Tasco) (BUY, RM1.44)**, have each showed resilient performance in CY21 despite facing operational disruptions due to the lockdown.

The logistics businesses have been allowed to operate during said period and their customers that are mainly in the export-oriented industries were also deemed as essential services. In addition, the operations of the logistics players were moderately impacted by the sporadic floods last month as their staffing capacity was temporarily reduced and they experienced power outages as well as inaccessibility to several delivery areas. Fortunately, the operational and financial impact of said incidents was minimal. Looking ahead, growing trade activities would translate into higher demand for logistics services following an increase in shipment volume. As most of the logistics companies have robust warehouse capacity expansion plans underway, we shall expect to see high take-up rates for these facilities as they are currently high in demand. Meanwhile, air freight rates are expected to remain at an elevated level until widespread long-haul passenger flights return to service in key Asian markets, considering APAC had the lion's share of the pre-pandemic global air cargo market at more than 30%. **Our top pick for the sector is Swift** as the company is a dominant player in the container haulage segment. The company has a sizeable fleet of commercial vehicles which is a competitive advantage considering the industry has high barriers to entry due to the capital expenditure requirement. With these assets, they offer a comprehensive coverage of the main seaports in Malaysia, thus enabling them to fetch a bigger market share in terms of throughput volume. Swift plans to purchase more prime movers throughout CY22 as part of their expansion strategy which should allow them to handle higher throughput volume moving forward.

Plantation..... Maintain POSITIVE

Export volume declined but value surged. Palm oil export declined by -10.56%yoy to 15.56m mt in CY21. Nonetheless, despite lower volume of export recorded in CY21, we note that the export revenue for palm oil surged by +47.30%yoy to RM106.50b predominantly due to CPO prices which skyrocketed to an all-time high in CY21. Average CY21 CPO spot price jumped by +59.3%yoy to RM4,429.52/mt from RM2,781.14/mt in CY20. To recap, the anticipated CPO supply tightness in CY21 was a primary factor in the surge in CPO price. This was predominantly driven by the slow production growth which was influenced by unresolved labor shortages (as we rely on foreigners for 70% of our plantation workforce), and implementation of movement control order (MCO) rules on agribusiness.

Key factors for the lower volume. Some of the key factors that attributed to the lower volume on CPO export in 1QCY21 were (1) Malaysia reinstatement of export tax (8.0%) on CPO effective 1st Jan 2021 which was also affecting market sentiment, (2) recovery of the China's hog industry from the African Swine Fever as China ramped up its soybean imports to boost the expansion of its hog industry, and (3) India implementation of higher import duty on crude palm oil (CPO) by 5.5% to 35.75%, effective 1st February 2021. However, Malaysia's palm oil export has shown a significant improvement starting in 2QCY21 due to (1) restocking activities especially from Muslim countries ahead of Ramadhan and Eid al Fitr celebration, (2) approval of new standards for premium palm oil in China and (3) India's government decision to reduce the import duty on crude palm oil in India which effective from 30th June to 30th September 2021 & removal of restriction on import of refined palm oil until the end of December 2021. On top of that, another factor that lead to better figures of export volume in 2HCY21 was the large-scale Covid-19 vaccination rollouts worldwide which helped to boost higher demand in the HORECA (Hotels, restaurants and café) sector, food manufacturing, oleochemicals as well as biofuels industries

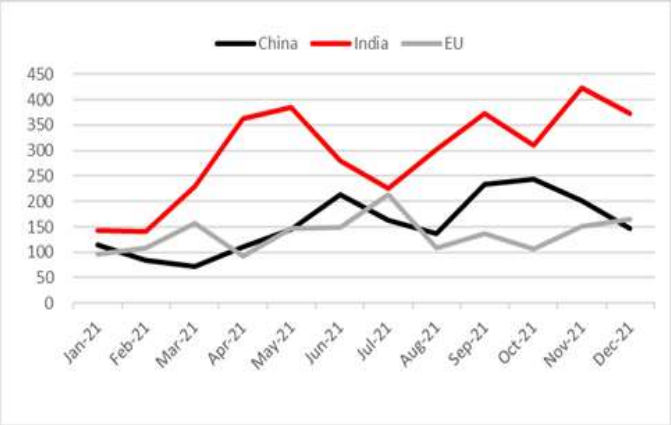
India remains top buyer. Based on our observation, India remains as top buyer in CY21, surging by +31.8%yoy to 3.58m mt driven by high restocking activities. While we expect that the global export demand for palm oil will still be resilient in CY22, we foresee the demand from India will ease but still maintain at the healthy level due to the its huge purchase in 2021. As for China, we opine that the demand from China might soften and switch to soybean due to higher hog population. As for the export demand from EU, in a short run, we reckon that the export demand for palm oil-based biodiesel to be partially supported by stable demand from EU countries given that biodiesel mandates that they have to fulfil. Nonetheless in a long run, we do anticipate lower export demand from EU countries as they will start phasing out the use of palm oil from biofuels in 2023 until it is completely halted by 2030 because of sustainability concerns under the Renewable Energy Directive (RED) II.

Table 2: Total export (in volume and value) and average CPO price

Year	2019	2020	2021
Total export (Volume in '000 mt)	18,471.06	17,393.12	15,557.18
Total export (Value in RM b)	64.84	72.30	106.50
Average CPO price (RM/mt)	2,128.67	2,781.14	4,429.52

Source: MPOB, Bloomberg, MIDFR

Chart 21: Volume of export by major country ('000 mt)



Source: MPOB, MIDFR

Chart 22: Volume of export and import (mt)



Source: MPOB, MIDFR

Maintain POSITIVE with CY22 CPO target price of RM3,300/mt. We believe the palm oil supply tightness situation will likely ease in CY22 due to higher production. Despite the easing concerns, we do not expect a drastic decline in CPO price next year and anticipate that CPO price will remain favourable in CY22. On another note, we opine that the current high price of CPO will normalise going forward but at a slow pace given the reopening of the economic activities globally. All factors considered we maintain our **POSITIVE** stance on plantation sector with **2022 CPO average price forecast** of **RM3,300/m**

Top pick. Our top pick in the plantation sector is **KLK (BUY, TP: 28.37).** We remain optimistic about the outlook of the group moving forward, premised on the favourable business environments in plantation and manufacturing divisions as well as the acquisition of IJMP. The profit contribution from the plantation segment is expected to be resilient propelled by expected high ASP of CPO and PK. On top of that, production is expected to improve seasonally. We also like **TSH Resources (BUY, TP: 1.53).** Given: (i) a young tree age profile at its Indonesia operations, and (2) the group's FFB production is expected to remain robust as it continues to maintain its commitment in diligently carrying out the fertilizer application.

Oil & Gas.....Maintain POSITIVE

Crude oil export had been declining since CY18 and is expected to decline marginally by -3.5%yoy to 270,000 bpd for CY21. Despite the low crude export per day, total petroleum products export had rallied in tandem with Malaysia's overall export trade in CY21, with a +14.2%yoy increase to an average of 25.9m barrels – the highest volume in 20 years. Among the petroleum products, liquified petroleum gas (LPG) shown the highest growth by +87.6%yoy to 879,000 barrels in CY21. The highest volume traded in CY21 was Gas/Diesel Oil at 7.9m barrels. The return of demand for petroleum products in line with increasing Covid-19 vaccination rates, subsequently affecting the relaxing of border lockdowns had been the main driver to the growth in petroleum product exports. To note, petroleum products had recorded a surge of +148%yoy of export in 9MCY21, totaling to RM9.3b. Petroleum products make up for 8.4% of the total export.

Expect exports to surge. All in, we opine that overall export of petroleum products is expected to surge on an external trade upswing. Demand recovery for petroleum products have gradually return since the downfall of Brent crude price in CY20, resulting in the lowest Brent crude price at USD19pb. However, prices had surged to its highest in CY21 at USD86pb; attributed by (i) tight supply and reduced inventories over sanctions and bad weather, (ii) controlled supply output by OPEC+ at 400,000 bpd, and (iii) gradual lifting of lockdowns from the Covid-19 pandemic. We expect that the global export demand for non-OPEC fuel will remain robust in CY22. Nevertheless, we anticipate that not all downstream products will remain uplifting in the long term. While we are in the positive that demand for petrol, diesel, gas and jet fuel will hike in line with demand recovery and the rising global oil prices, kerosene, LPG and other petroleum products would eventually ease towards a plateau in the long run over resupplying of power generative fuel and petrochemicals in the Northern Hemisphere, most notably in China.

Australia remained to be the top buyers of petroleum products at RM2.63b, followed by Indonesia (RM1.7b), Pakistan (RM744m), the Philippines (RM443m) and Thailand (RM292m). Netherlands, representing petroleum product exports in Europe, also appeared to be the primary importer (RM663m). We opine that Australia will continue to be Malaysia's primary importer for petroleum products, with demand from countries in the Euro zone as well as from China

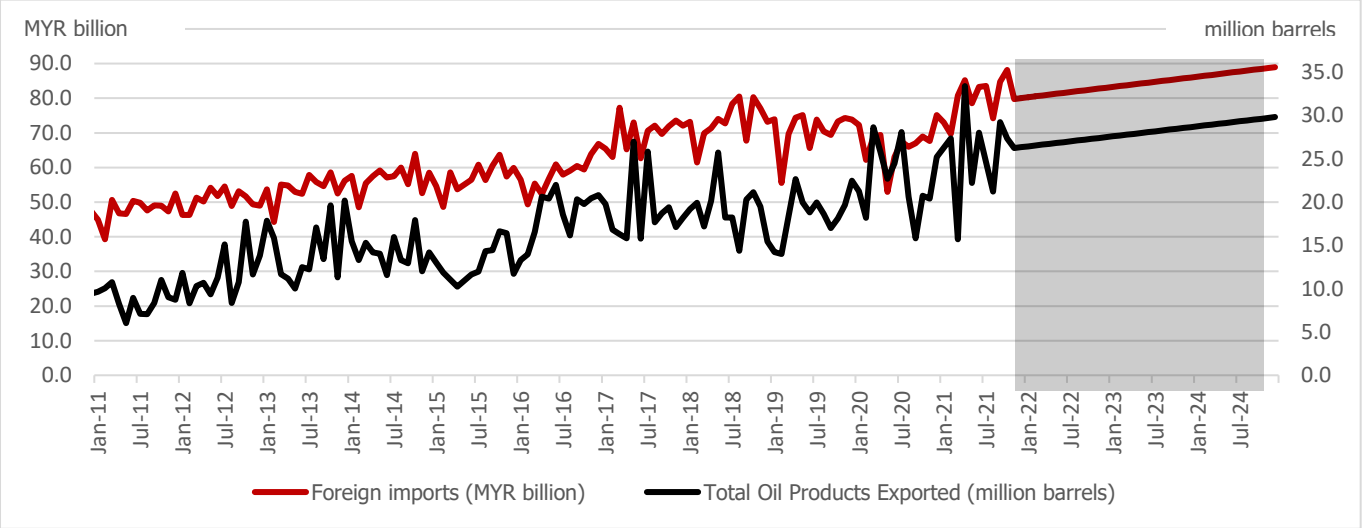
to increase in the long term. Despite the positive outlook, the risks remain in the long run, in the form of: (i) limited feedstock from supply chain disruptions, (ii) geopolitical tensions and government policies affecting export markets, (iii) self-reliance on local production which limits import activities, (iv) impacts from prolonged Covid-19 pandemic, and (v) eco-friendly substitutes and renewables risking demand for traditional petroleum products.

Table 3: Export Volume for Petroleum Products

Export Volume (million barrels)	2019	2020	2021	% YoY
Petrol/Fuel	5.05	5.60	6.00	7.0
Gas/Diesel	7.37	7.83	7.87	0.6
LPG	0.53	0.47	0.88	87.6
Kerosene	0.71	1.95	2.28	16.6
Jet Fuel	2.55	4.26	6.54	53.6
Other	2.46	2.56	2.31	-9.8
Total Petroleum Products Exported	**18.66**	**22.67**	**25.87**	**14.2**

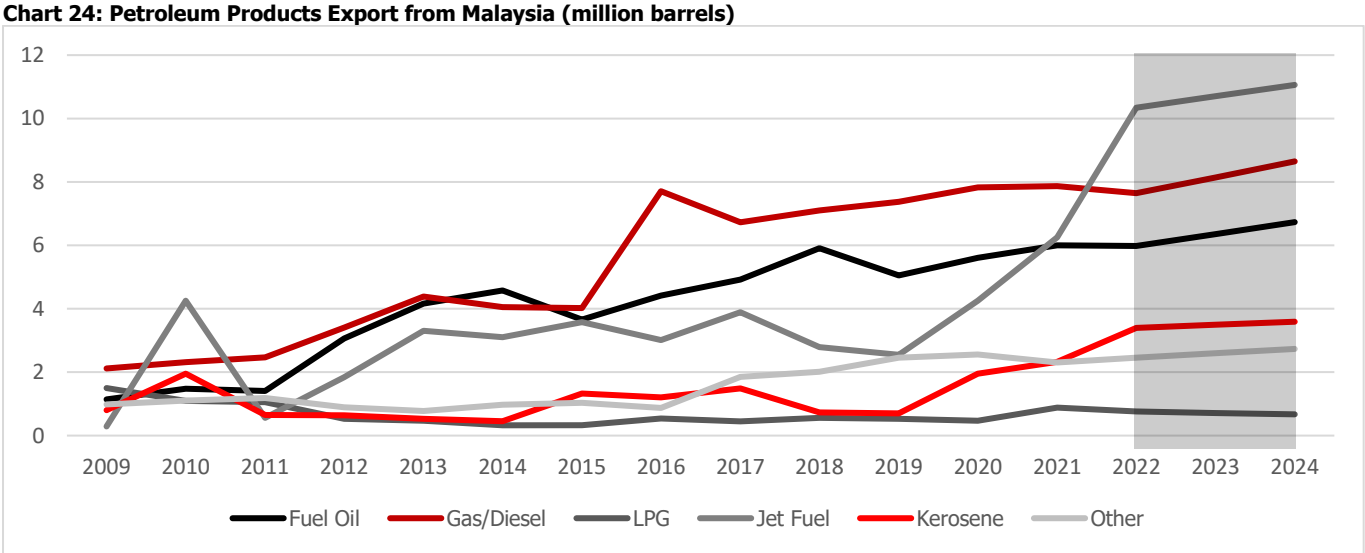
Source: Macrobond, MIDFR

Chart 23: Total Oil and Gas Products Export



Source: Macrobond, MIDFR

Chart 24: Petroleum Products Export from Malaysia (million barrels)



Source: Macrobond, MIDFR

Maintain POSITIVE on the Oil and Gas sector. We believe that the high demand for petroleum products over a tight supply would continue to keep the crude prices above USD80pb in CY22. The current geopolitical tensions between Russia and Ukraine, as well as the attacks on UAE had been pushing up oil prices even more. However, climate commitments and tightened monetary policy by the US Federal Reserve would bring about a balance over the supply concerns. Overall, we reiterate our **POSITIVE** call for the oil and gas sector, with an estimated average price for Brent crude in CY22 to reach USD80 pb, as compared to USD71pb in CY21.

Top pick. Our top pick in Oil and Gas sector is **Dialog Group (BUY, TP: RM3.80).** We continue to view the group positively for its initiatives to elevate its upstream and downstream businesses, as well as continuous sustainability of its tank farm. We like Dialog mainly for its: (i) growing potential for its storage tank farm business in PDT and DLT, (ii) strong prospects for its upstream and downstream sector, and (iii) new initiatives to contribute to the environment and to support the government's sustainability goals. We also take a shine to **Petronas Chemicals Berhad (BUY, TP: RM10.33)** on the basis of: (i) the robust oil and natural gas prices, (ii) the high petrochemical product prices in tandem with high demand, and (iii) the expected demand recovery for industrial sectors that rely on petrochemical products in CY22. We believe that, despite the uncertainty of the ongoing Covid-19 pandemic and the supply tightness, the potential revision of OPEC+ crude supply output in response to supply restocks by non-OPECs in line with the ever-growing demand for petroleum products will contribute positively for these companies.

Technology.....Maintain POSITIVE

Global economic expansion is one of the building blocks for solid semiconductor revenue growth. According to IHS Markit, there is approximately 70% of all semiconductor components used in consumer related-products. We opine that good correlation between the global economy and revenue growth for the semiconductor industry are existing and therefore as long as the global economy expanding, we will likely observe robust demands coming for global semiconductor sales ("GSS").

Chart 25: % of Semi sold to Consumer & Enterprise segments

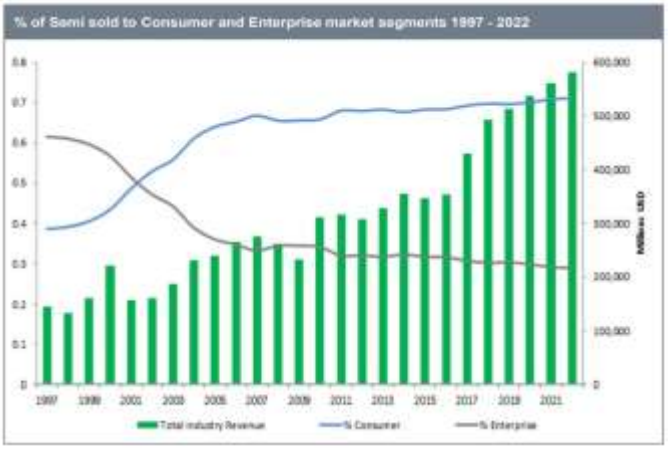
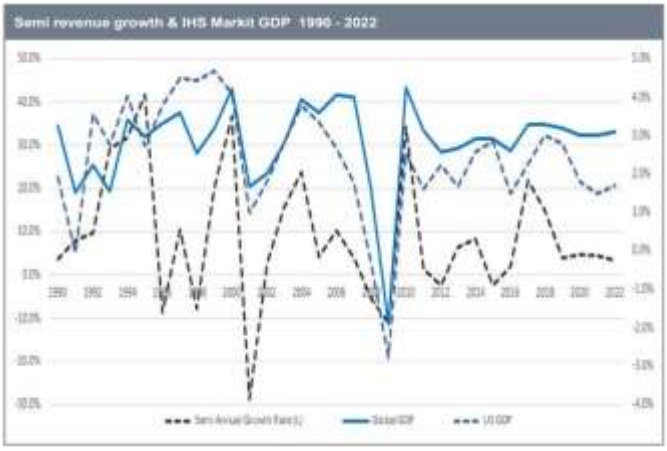


Chart 26: Semi revenue growth vs. IHS Markit GDP



Source: IHS Markit, MIDFR

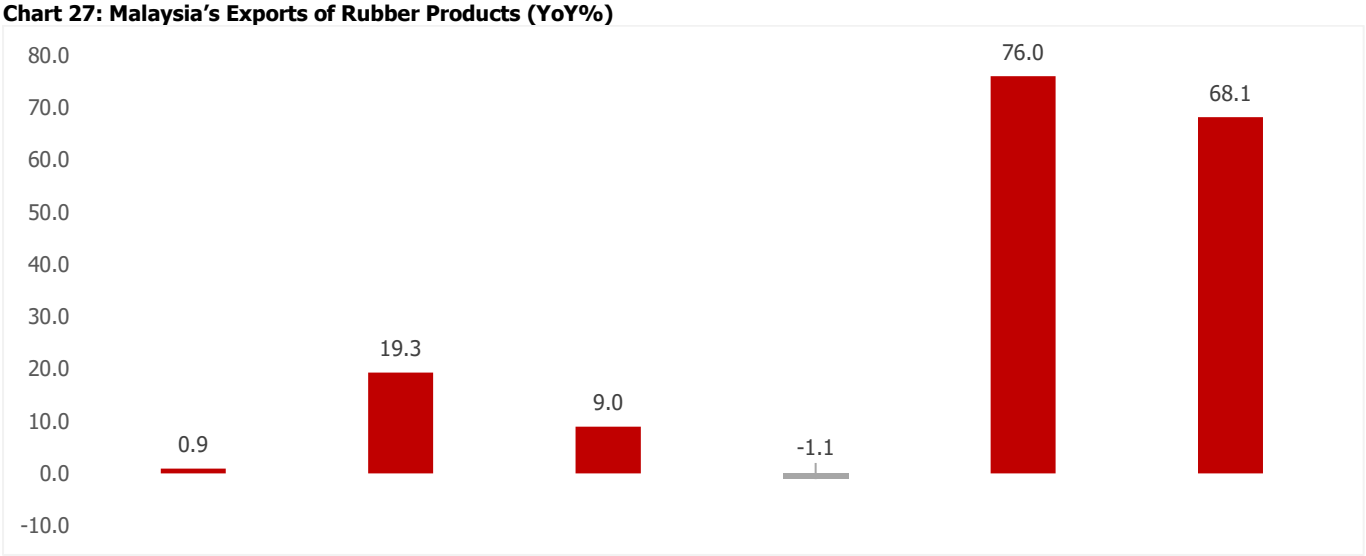
While the GSS for October 2021 came in at USD48.8b or +24.0%yoy, showing healthy demands across all major regional market, World Semiconductor Trade Statistics estimates that the annual GSS will increase by +25.6%yoy in 2021 and +8.8%yoy in 2022. In our opinion the expected moderation of GSS in 2022 is due to normalised effect. We do not opine that the expected moderation sales are correlated to the recent correction in tech sector as we think the pullback likely to occur due to investors' overreaction fear over higher interest rate environment which generally not favourable for growth stock like tech. We are still optimistic that the fundamental of this sector is still intact as semiconductor has an exponential demand from various sectors and application. We expect that GSS will continue to be strong in the next couple of years at least given the prevalence of devices and potential of the EV market and therefore, maintain our **POSITIVE** stance on the sector. Any price correction in tech should be perceived as a healthy retracement as it provides an opportunity for investor to build position for longer term growth.

Our top picks for tech sector are **Inari Amertron Bhd (Buy, TP:RM4.55)** and **Unisem (M) Bhd (BUY, TP: RM5.00)** given their exposure to RF chips assembly, packaging and testing processes. We also have a BUY recommendation on **Globetronics Technology Berhad ("Gtronics") (BUY, TP: RM2.53)** given the company has the right products in the growing segments of LED and sensor markets as well as **MY E.G. Services Berhad (BUY, TP: RM1.27)**, due to its aggressive moves in blockchain technologies which solidify its position as leading digital solution provider.

Gloves.....Maintain NEUTRAL

Exports of rubber products to remain above pre-pandemic levels. In 2020, exports of Malaysian rubber products increased by +76.0%yoy and is estimated to surge by +68.1%yoy for 2021. In similar past-year trends, latex goods remained the largest contributor to the exports of Malaysian rubber products, which increased +86.3%yoy to RM51.4b in 10MFY21. For 10MFY21, medical gloves constituted RM22.2b of latex good exports, on the back of global large-scale vaccination programs. The rubber manufacturing sales were primarily led by rubber gloves at 76.7%, followed by rubber re-milling, latex processing and other synthesis products (8.9%), other rubber products (7.7%), rubber tyre for vehicles (6.1%), and interchangeable tyre treads (0.7%). US remains to be the main markets for Malaysian rubber products, accounting for RM20.8b of total exports, an increase of +118.9%yoy for 10MFY21.

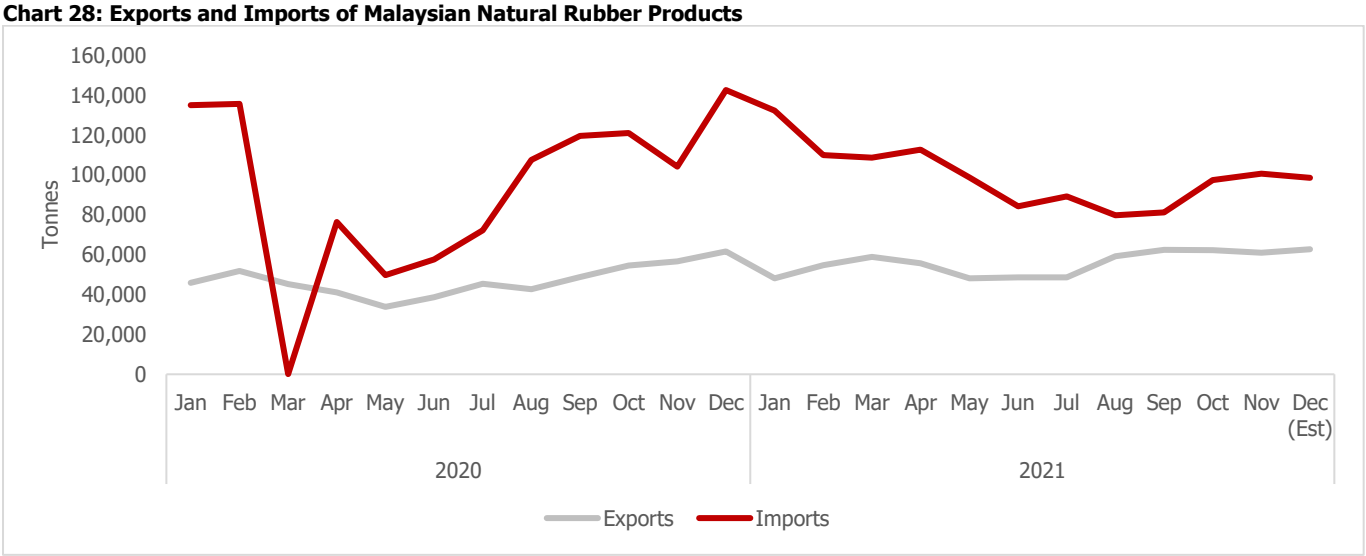
Chart 27: Malaysia's Exports of Rubber Products (YoY%)



Source: CEIC, MIDFR

While the imports of natural rubber grew by +6.36%yoy to 1.1m tonnes in FY2021, the exports of natural rubber increased by +18.5%yoy to 669,919 tonnes in FY2021. Gloves were the main export of rubber-based products, valued at an estimated RM54.5b in FY2021, an uptick of 54.4%yoy from RM35.3b in FY2020.

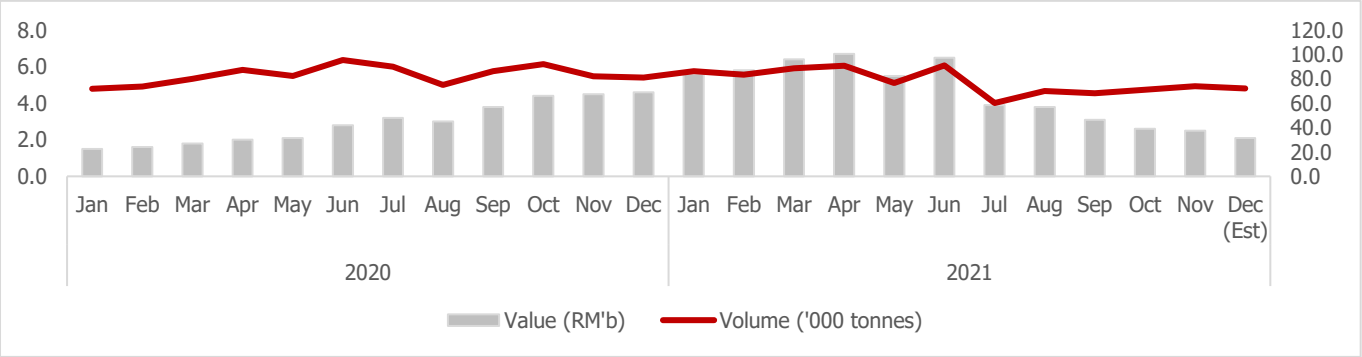
Chart 28: Exports and Imports of Malaysian Natural Rubber Products



Source: CEIC, MIDFR

Exports has been fairly stable in FY2021, barring the short-term periods of decline due to the movement restrictions and lockdowns which resulted in supply chain disruptions. This is attributed to the strong demand and production of rubber gloves due to the pandemic. Moving forward, we opine that demand in major markets like US and Europe will continue due to heightened hygiene awareness.

Chart 29: Value and Volume of Rubber Gloves in 2020 and 2021



Source: CEIC, MIDFR

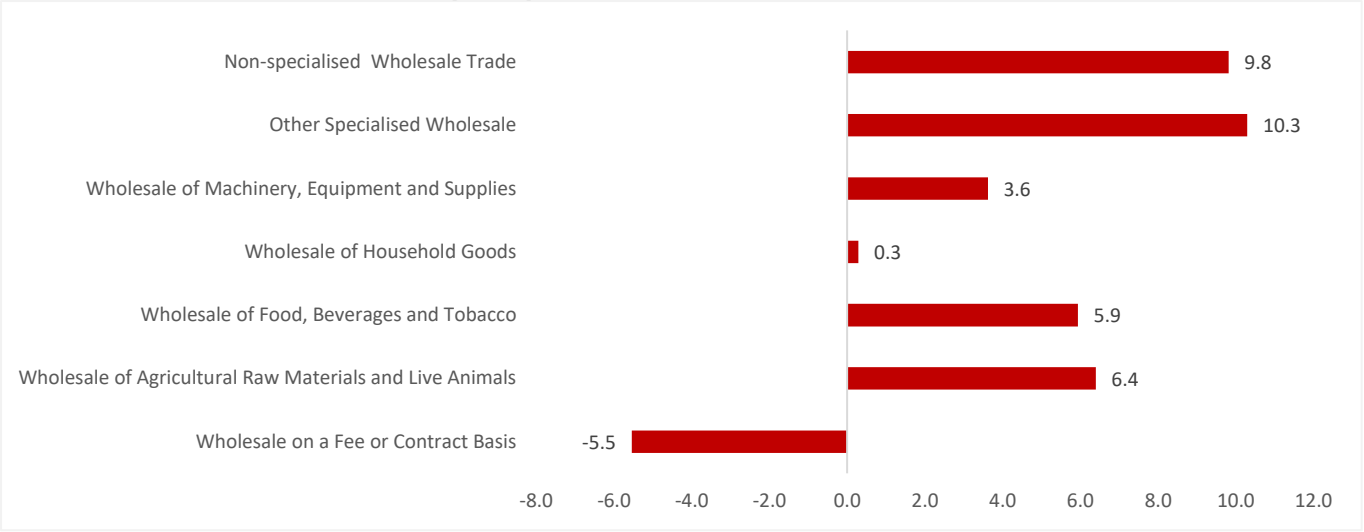
Downtrend in value of rubber gloves. While the value of rubber gloves has increased by +54.4%yoy in FY2021, the value has been on a downtrend after reaching its peak in April 2021 due to declining ASP. To note, the ASP is currently around US$27 for nitrile rubber and US$23 for natural rubber, which is a sharp decline from the heightened ASP during the peak of the pandemic above US$100. On the other hand, sales volume of rubber gloves has been stable due to the demand triggered by the Covid-19 pandemic.

Maintain NEUTRAL on the sector. We think that the challenging outlook will continue to persist with the rising raw material prices, shortage of workers and supply chain disruptions which will squeeze margins and affect the profitability of the glove companies. The glove companies with healthy cashflow, sturdy balance sheet and investment into new facilities as well as research and development are in a good position to defend their market share. Risk to our call include larger than expected movements in ASP and volatility in raw material prices. Our top sector pick is still **Hartalega (BUY, TP:RM8.03)** for their innovative approach towards automated production and focus on mitigating ESG risks. We are **NEUTRAL** on **Kossan (TP:RM2.17), Top Glove, (TP:RM2.27)** and **Supermax (TP:RM1.39)** as we think declining ASP remains to be a key risk factor, moving forward.

Consumer.....Maintain POSITIVE

Encouraging wholesale and retail trade. Malaysia's wholesale and retail trade sales grew by 6.2%yoy and 5.0%yoy, respectively in 2021. This has been predominantly supported by the reopening of various economic sectors and the relaxation of interstate travels. In terms of subsector performance, the wholesale trade was supported by significant growth of +10.3%yoy in the other specialized wholesale trade, followed by non-specialized wholesale trade (+9.8%yoy) and wholesale of agricultural raw materials and live animals (+6.4%yoy).

Chart 30: Sales Value of Wholesale Trade (YoY%)



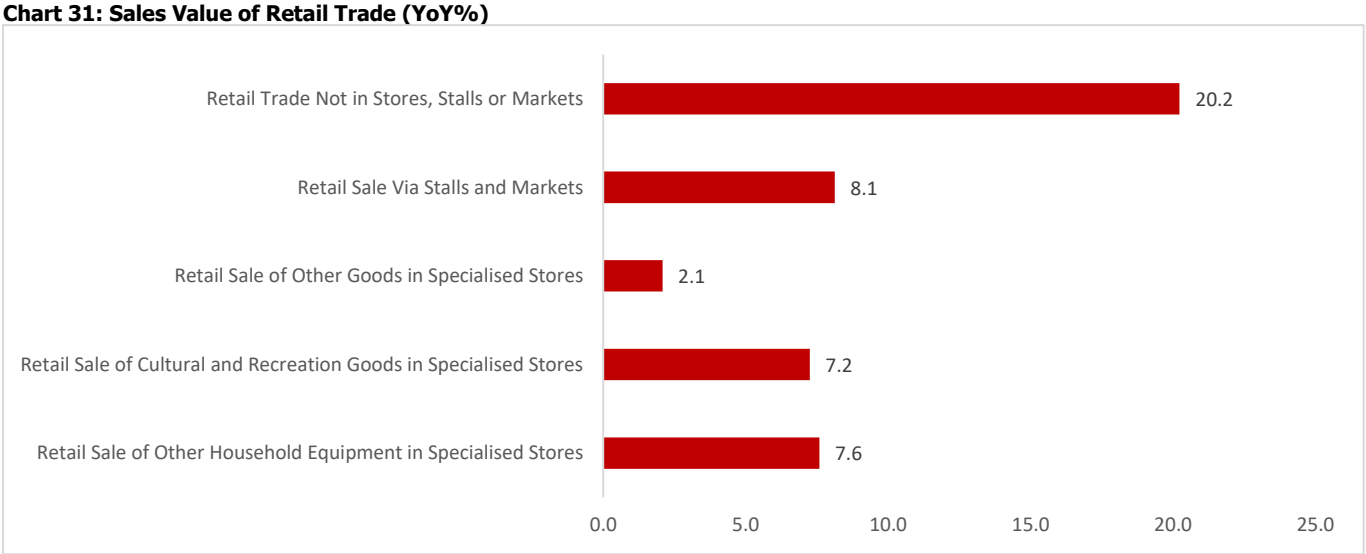
Source: CEIC, MIDFR

*Other specialized wholesale - includes other specialized wholesale activities not classified in the other groups. This includes wholesale of intermediate products, except agriculture, typically not for household use.

*Non-specialized wholesale - includes the wholesale of a variety of goods without any particular specialization.

On retail trade, a strong increase of +20.2%yoy was recorded for the retail trade not in stores, stalls or markets. This is in tandem with the shift in the consumption pattern of consumers who are now more accustomed to online shopping. Other groups in the subsector that showed strong growth includes retail sale via stalls and markets (+8.1%yoy), followed by retail sales of other household equipment in specialized stores (+7.6%).

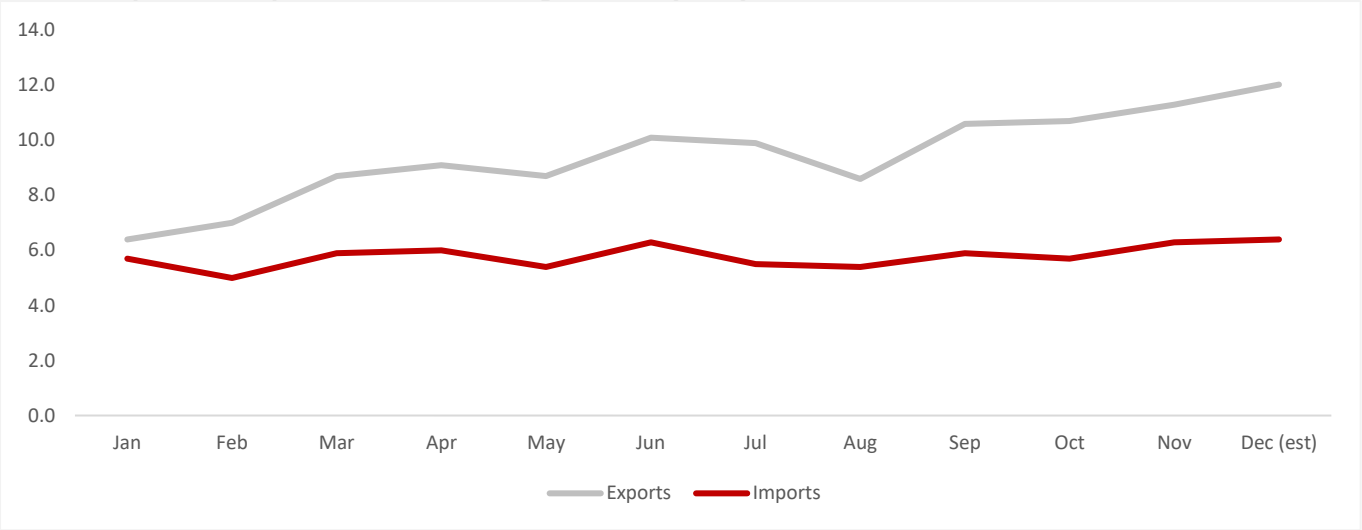
Chart 31: Sales Value of Retail Trade (YoY%)



Source: CEIC, MIDFR

Positive growth in exports and imports. The food and beverage sector recorded an increase of +30.9%yoy and +19.4%yoy in the exports and imports, respectively. For **Nestle (TP:RM141.50)** and **Fraser & Neave Holdings Berhad (TRADING BUY, TP:RM33.07),** exports contributed significantly to the Groups' top-line and will remain a key focus, moving forward. However, the rising raw material prices and logistics cost will pose a threat to the Groups' export margins and affect profitability. The prices of goods have been rising globally due to the supply chain disruptions brought on by the pandemic.

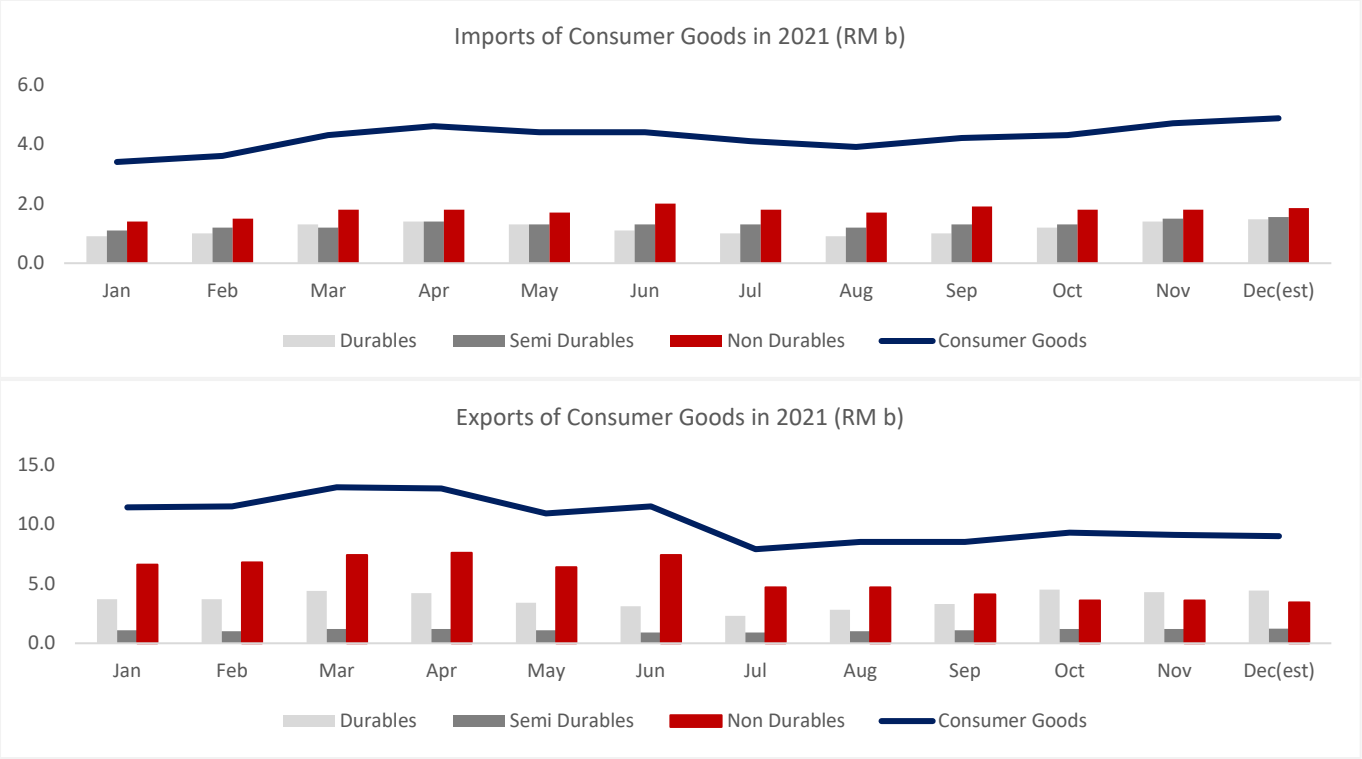
Chart 32: Exports and Imports of Food and Beverages in 2021 (RM 'b)



Source: CEIC, MIDFR

The exports and imports of consumer goods recorded a positive growth at +25.5%yoy and +10.2%yoy, respectively, supported by both the demand in durables and non-durables goods.

Chart 33: Imports and Exports of Consumer Goods in 2021 (RM 'b)



Source: CEIC, MIDFR

Maintain POSITIVE. We posit that the easing of movement restrictions, re-opening of borders and high vaccination rates bodes well for the consumer sector in 2022. Our top pick in the F&B segment is **QL Resources (BUY, TP: RM6.37)** as we do not foresee future disruptions in the marine production manufacturing (MPM) activities. For the retail segment, our top pick is **Fraser & Neave Holdings Berhad (TRADING BUY, TP:RM33.07)** as we believe that its plans to focus on exports for both F&B Malaysia and Thailand markets as a hedge against financial disruption caused by the Covid-19 pandemic would augur well for the company. We maintain **BUY** call on **Leong Hup International Berhad (TP:RM0.74)** and **Spritzer (TP: RM3.04).** Meanwhile, we are **NEUTRAL** on **Nestle (TP:RM141.50), Panasonic (TP: RM30.45), Padini (TP: RM3.16)** and **AEON Co. (TP: RM1.38).**

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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