# THEMATIC REPORT

## Remarkable Post-Pandemic External Trade Performances

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### KEY HIGHLIGHTS

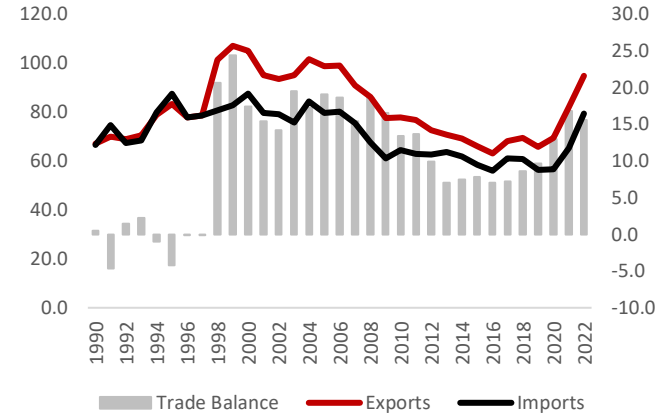
- **2022 marks second year of double-digit growth in external trade. For the whole 2022, exports surged by +25%, sustaining double-digit yearly growth for the second year (2021: +26.1%yoy).**
- **As of GDP ratio, exports contribution to economy surged to 94.7% in 2022 (2021: 81.9%), the highest since 2007. Re-exports to GDP ratio skyrocketed to record high at 20.2% while contribution by domestic exports at 74.6%, highest since 2009.**
- **Johor surpassed Penang & Selangor. 28.6% of Malaysia's total trade occurred in Johor, outpacing Penang (27.4%) and Selangor (28.2%).**
- **By structure, close to 60% of Malaysia's total trade go through Sea while 31% via Air and 12.7% via Land.**
- **Export growth in 2022 was driven more by surge in export prices (2022: +17.3%; 2021: +10.2%). This can be linked to the uptrend in commodity prices (such as LNG, crude & refined oil, and palm oil).**
- **Comparing against regional countries, Malaysia's export growth in 2022 was commendable, sustaining double-digit growth for the second straight year and the second fastest after Indonesia.**
- **We forecast exports and imports to grow at +9.2% and +9.5% in 2022.**

### ECONOMIC & POLICY

**2022 marks second year of double-digit growth in external trade.** For the whole 2022, exports surged by +25%, sustaining double-digit yearly growth for the second year (2021: +26.1%yoy). Factors that supported the robust export growth last year was mainly due to strong demand for E&E products, and also supported by diversified export products. Malaysia as it gained from external demand for commodities particularly crude oil and petroleum products, LNG and palm oil & palm oil-based products. To a certain extent, the robust growth in commodity exports was also boosted by higher commodity prices, while growing exports of manufactured goods reflect improved easing constraints on the global supply chain. Imports, on the other hand, grew by +31.3%, stronger than +23.3% expansion in 2021. This indicated that the full reopening of the economy resulted in continued strong recovery in purchases of foreign-made intermediate goods (+29.3%) and consumption goods (+24.1%). Recovery in investment activities also saw increased imports of capital goods (+15.9%). The value of total trade rose to new high at RM2.85t last year, surging by +27.8% from 2021.

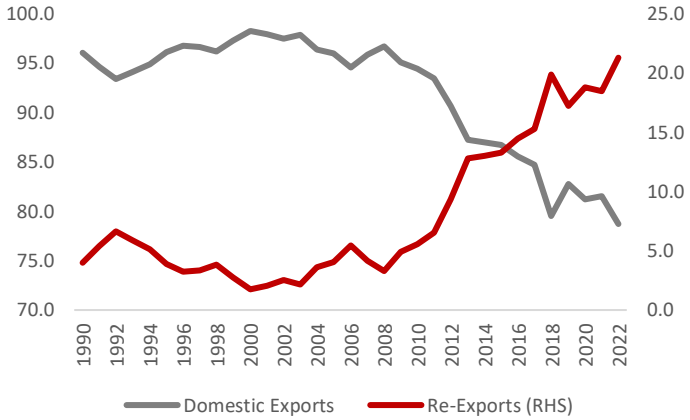
**Exports share to GDP hit 16-year high.** As of GDP ratio, exports contribution to economy surged to 94.7% in 2022 (2021: 81.9%), the highest since 2007. Re-exports to GDP ratio skyrocketed to record high at 20.2% while contribution by domestic exports at 74.6%, highest since 2009. Imports ratio jumped from 65.2% in 2021 to 79.2% in 2022, 16-year high. Nevertheless, net exports contribution moderated from +16.7% in 2021 to +15.6% last year. We opine the strong imports growth underpinned by domestic economic reopening outperformed the exports expansion rate which drove the lower net exports contribution. In addition, labor & input shortages and oilfields maintenance works among others limited industrial production activities and outbound shipments last year. Looking into exports, domestic exports continue to dominate total exports at 78.7% while re-exports at new peak point 21.3% in 2022.

**Chart 1: External Trade Performances (% of GDP)**




Source: MACROBOND, MIDFR

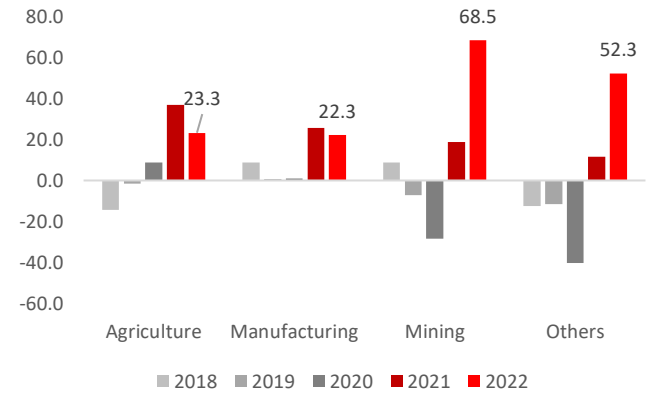
**Chart 2: Domestic vs. Re-exports (% of Exports)**




Source: MACROBOND, MIDFR

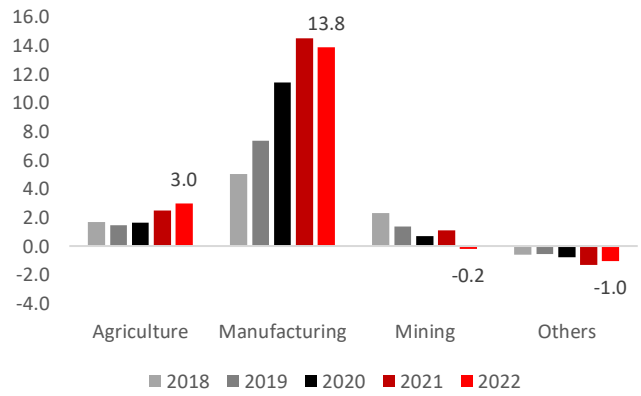
**Mining recorded trade deficit for the first time**. Trade balance of mining turned from +RM16.4b in 2021 to -RM3.1b last year. Inbound shipments of mining grew faster than the exports growth, +126.6% vs +68.5%. Maintenance works in several key oilfields among the factors limiting the mining exports especially crude petroleum in 2022 despite of the strong global oil prices. As for agriculture, the trade balance to GDP ratio improved to +3% despite of labor shortages concern. Malaysia's main exports sector manufacturing oversea sales increased steadily by double-digit, thanks to post-pandemic revived global demand. Labor & input shortages, China lockdown, Ukraine-Russia war and tightening monetary policy by major economies were among downside pressures for external trade flows in 2022. Moving into 2023, we foresee easing pressure in global supply chain especially with the reopening of China, better supply of labor & input and mild correction of commodity prices.

**Chart 3: Exports by Sector (YoY%)**




Source: MACROBOND, MIDFR

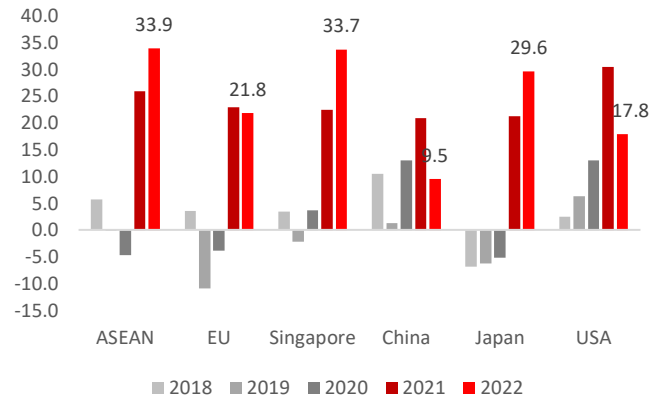
**Chart 4: Trade Balance by Sector (% of GDP)**




Source: MACROBOND, MIDFR

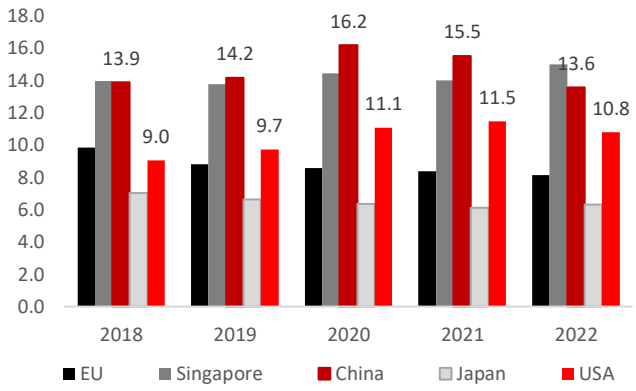
**Exports growth to China at 3-year low**. As the Chinese authorities opted with its zero-Covid policy, the expansion pace of Malaysia's outbound shipments to China moderated to +9.5% in 2022. On the flip side, exports to major partners recorded double-digit rate especially Asean, EU, Singapore, Japan and the US. In fact, share of exports to China declined to 5-year low at 13.6% last year. EU and Japan's exports shares were also on slight downward trend. Asean and Singapore were the ones holding Malaysian exports market last year. Even though global outlook for 2023 surrounded with pessimism, we believe the reopening of China shall provide silver lining to global trade flows this year.

**Chart 5: Exports by Major Destination (YoY%)**




Source: DOSM, MIDFR

**Chart 6: Exports by Major Destination (% of Exports)**




Source: DOSM, MIDFR

**Busier seaports in 2022.** By structure, close to 60% of Malaysia's total trade go through Sea while 31% via Air and 12.7% via Land. International trade via Seaport increased strongly by +29.6%yoy. Port Klang, Bintulu, Pasir Gudang and North Butterworth Cargo Terminal were among the seaports growing more than +10% in 2022. Trade by Air transport increased by +28%yoy. Bayan Lepas Airport and KLIA registered +30.7%yoy and +23.6%yoy improvements last year. As for Lands exports, the three major gates Tanjung Kupang, Tambak Causeway and Bukit Kayu Hitam rose steadily by +22.5%yoy, +47.3%yoy and +0.4%yoy respectively.

**Table 1: Total Trade Performances by Mode Transport**

| | % of Total Trade | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| **Sea** | **54.2** | **55.6** | **56.4** | **(7.5)** | **28.0** | **29.6** |
| Port Klang | 21.8 | 23.0 | 19.9 | (4.6) | 31.5 | 10.4 |
| Bintulu | 3.4 | 3.6 | 4.5 | (18.5) | 30.4 | 60.3 |
| Pasir Gudang | 6.8 | 7.4 | 7.0 | (7.6) | 35.1 | 21.8 |
| North Butterworth Cargo Terminal | 5.0 | 4.3 | 3.8 | (5.0) | 7.3 | 12.7 |
| Tanjung Pelepas Port | 3.1 | 2.6 | 2.5 | (3.2) | 5.5 | 23.9 |
| Tanjung Gelang Kuantan Port | 1.9 | 2.1 | 1.9 | 29.3 | 39.1 | 15.3 |
| Others | 12.2 | 12.6 | 16.8 | (14.6) | 29.7 | 69.8 |
| **Air** | **31.6** | **31.0** | **31.0** | **3.0** | **22.4** | **28.0** |
| Bayan Lepas | 22.5 | 21.9 | 22.4 | 11.8 | 21.8 | 30.7 |
| KLIA | 8.0 | 8.0 | 7.8 | (15.8) | 24.9 | 23.6 |
| Others | 1.1 | 1.0 | 0.8 | 6.2 | 14.9 | 4.6 |
| **Land** | **13.4** | **13.4** | **12.7** | **(1.2)** | **25.1** | **20.4** |
| Tanjung Kupang | 9.9 | 9.7 | 9.3 | 7.1 | 22.3 | 22.5 |
| Tambak Causeway | 1.2 | 1.2 | 1.4 | (24.7) | 20.7 | 47.3 |
| Bukit Kayu Hitam | 1.8 | 2.0 | 1.6 | (13.0) | 39.5 | 0.4 |
| Others | 0.5 | 0.6 | 0.4 | (24.5) | 41.0 | (2.6) |

Source: DOSM, MIDFR

**Johor surpassed Penang & Selangor.** 28.6% of Malaysia's total trade occurred in Johor, outpacing Penang (27.4%) and Selangor (28.2%). Based on available records, Johor hit its highest record of national total trade share in 2022. The rise was in line with the expansionary trends seen in seaports and land gates in the state such as Pasir Gudang, Tanjung Pelepas Port, Tanjung Kupang and Tambak Causeway. Even though lower share, trade value via Bayan Lepas and Butterworth grew steadily by +20.1% and +6.6% respectively last year. Another key state, Selangor's external

trade increased by low single-digit rate of +3.9% especially dragged down by marginal expansion rate +0.8% by Port Klang.

**Table 2: Total Trade Performances by State**

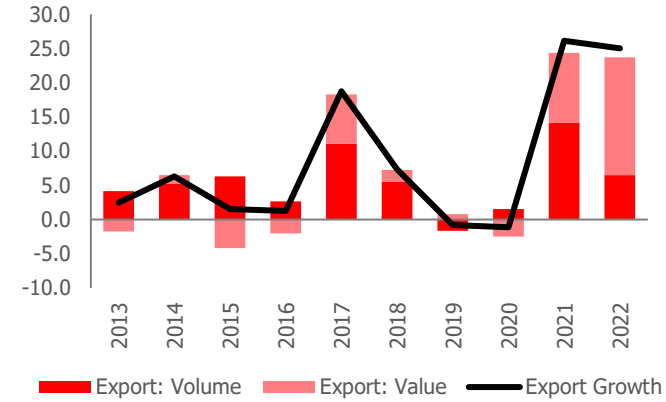
| | % Total Trade | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Johor | 25.4 | 26.0 | 28.6 | (4.9) | 27.4 | 30.0 |
| Kedah | 1.8 | 2.0 | 1.6 | (13.5) | 40.0 | (7.4) |
| Kelantan | 0.1 | 0.1 | 0.2 | (30.2) | 16.4 | 117.1 |
| Melaka | 1.2 | 0.9 | 1.2 | (5.7) | (11.1) | 67.5 |
| Negeri Sembilan | 0.5 | 0.6 | 0.8 | (30.6) | 60.9 | 56.0 |
| Pahang | 2.1 | 2.1 | 1.9 | 30.6 | 25.3 | 6.0 |
| Perak | 0.6 | 0.8 | 0.8 | (17.7) | 61.2 | 14.9 |
| Perlis | 0.3 | 0.4 | 0.3 | (28.6) | 45.7 | 6.5 |
| Penang | 28.5 | 27.3 | 27.4 | 7.6 | 19.3 | 17.6 |
| Sabah | 2.8 | 2.2 | 2.3 | 4.6 | 1.6 | 17.9 |
| Sarawak | 4.8 | 4.9 | 5.8 | (15.5) | 27.7 | 39.0 |
| Selangor | 30.5 | 31.7 | 28.2 | (7.6) | 29.5 | 3.9 |
| Terengganu | 0.9 | 1.1 | 1.0 | (26.0) | 52.6 | 0.8 |

Source: DOSM, MIDFR

**Changes in prices and other costs have larger impact on exports growth...** Unlike the year before, export growth in 2022 was driven more by surge in export prices (2022: +17.3%; 2021: +10.2%). This can be linked to the uptrend in commodity prices (such as LNG, crude & refined oil, and palm oil), particularly at the early part of year in response to the Russia-Ukraine war. Higher export prices also suggest the general rise in trade and production costs. On another note, growth in export volume (+6.5%) also added to the surge in overall exports last year but the increase was more moderate than the year earlier (2021: +14.2%). In particular, export volume growth slowed significantly towards end-2022 after peaking in Aug-22, mainly due to weaker volume for exports of manufactured goods, foods and crude materials. We believe commodity price correction towards end of last year led to softer demand for primary and manufactured goods to soften. Moreover, manufacturers also indicated in PMI surveys that new orders and demand weakened on the back of looming recession concerns.

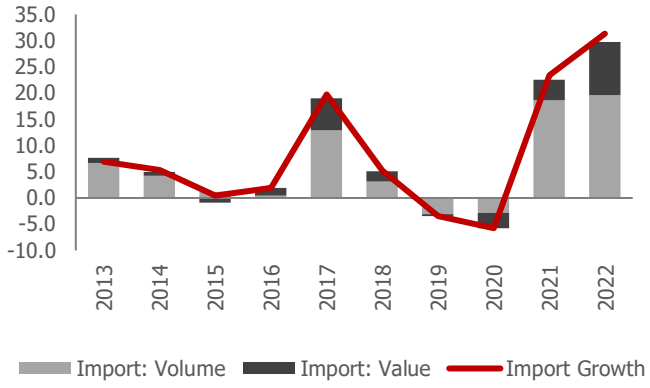
**...but volume rise is major driver for imports.** In contrast, volume growth (2022: +19.6%; 2021: +18.6%) remained the key contributor to imports growth. This generally reflected the effect of economic reopening and transitioning into endemic phase as rising consumption and business activities contributed to the increased purchases of foreign-made consumption and intermediate goods. Even the pick-up in investment activities led to increased imports of capital goods. Meanwhile, based on price movement, the increase in import prices was larger than previous year (2022: +10%; 2021: +3.9%). This indicated costs to import rose further on the back of weaker ringgit last year and surging commodity prices, especially food and energy. Furthermore, prices of manufactured goods rose further as companies pass on cost increases to its customers.

**Chart 7: Export Growth by Value and Volume (%)**




Source: Macrobond, MIDFR

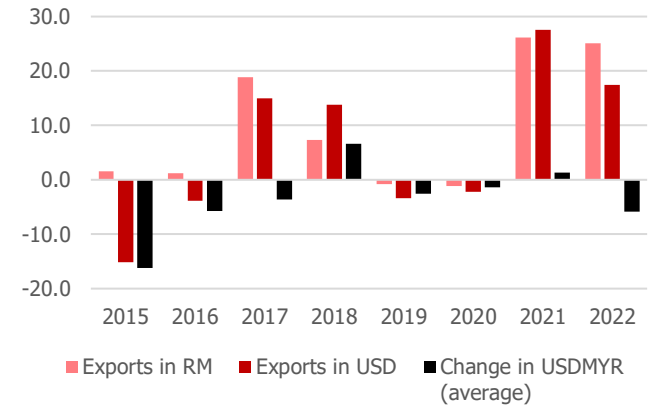
**Chart 8: Import Growth by Value and Volume (%)**




Source: Macrobond, MIDFR

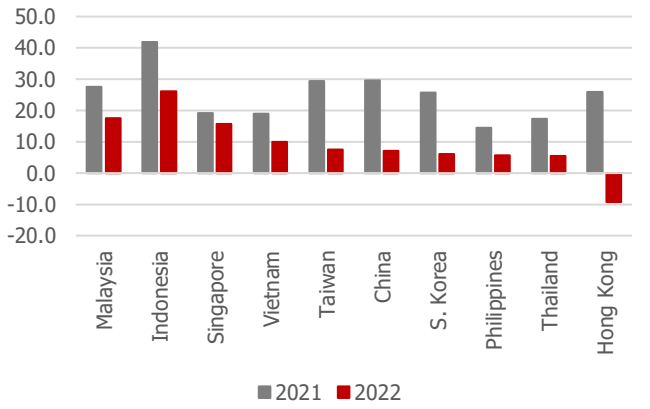
**Commendable exports growth vis-à-vis other regional peers.** Measuring the exports performance in US dollars, the growth looks more moderate at +17.5% vs. 25% in ringgit term. Due to the weakness in ringgit last year following aggressive policy tightening by the Fed, ringgit depreciated by -5.8% and averaged RM4.40 to the dollar last year (2021: RM4.14). The boosted export growth in ringgit term in a way reflects the effect of USD strength against local currency as experienced during 2015-2017. Although ringgit touched weakest level since Asian Financial Crisis back in Nov-22, the size of depreciation last year was not as sharp as in 2015 when the US Fed first moved towards quantitative tightening (and then balance sheet reduction) after the post-Global Financial Crisis recovery. With ringgit to continue strengthening this year, we anticipate this will translate to relatively weaker export growth in ringgit terms. Comparing against regional countries, Malaysia's export growth in 2022 was commendable, sustaining double-digit growth for the second straight year and the second fastest after Indonesia.

**Chart 9: Malaysia Export Growth in RM and USD (%)**




Source: Macrobond, Bloomberg, MIDFR

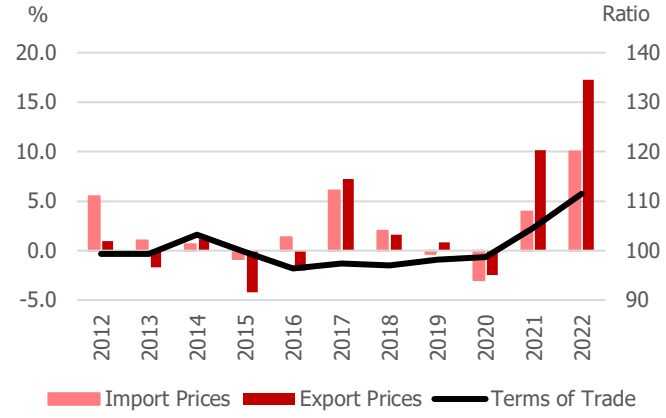
**Chart 10: Export Growth (in USD) for 2021-2022 (%)**




Source: Macrobond, MIDFR

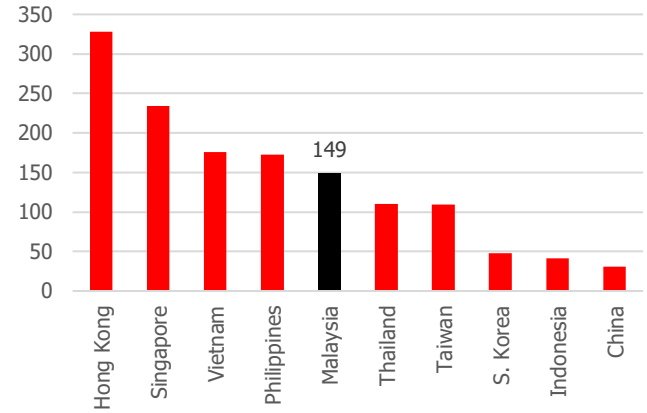
**Terms of trade improved further in 2022.** Comparing the change in external trade prices, Malaysia's terms of trade improved further with the ratio of export prices to import prices rising to new high last year. This suggests Malaysia's gained more from international trade as weakness in ringgit and increased commodity prices pushed export prices higher. In terms of trade openness, Malaysia remained a highly open economy with total trade covering more nearly 150% of GDP last year. Compared to regional peers, Malaysia is ranked 5th after Hong Kong, Singapore, Vietnam and the Philippines in terms of trade openness and involvement in international trade activity.

**Chart 11: Change in Export and Import Prices (%)**




Source: Macrobond, Bloomberg, MIDFR

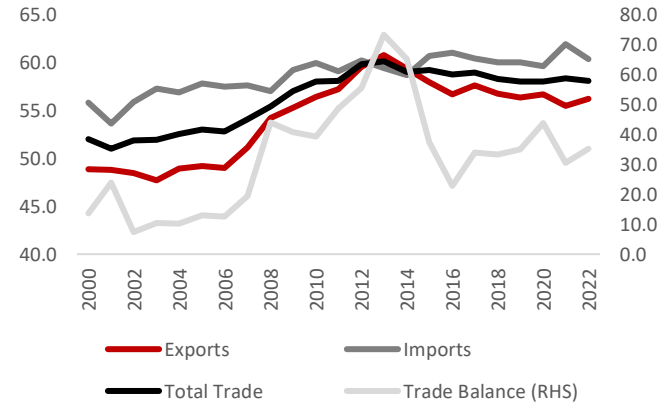
**Chart 12: Trade Openness in 2022 (total trade as % of GDP)**




Source: Macrobond, MIDFR

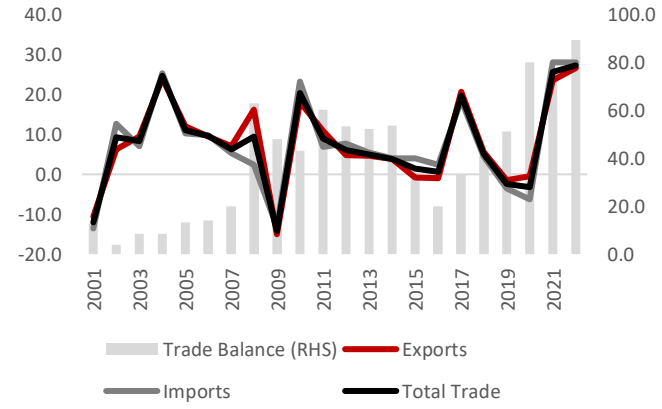
**RCEP, CTPPP to alleviate 2024 external trade performances.** Looking beyond 2023, we are positive on Malaysia's external trade outlook. Apart from elevated commodity prices and lower monetary rates, external trade activities of Malaysia are anticipated to expand steadily amid new trade agreements impacts. In post-pandemic era, Malaysia has ratified Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP came into force on 18th Mar-22 and CPTPP on 29th Nov-22. There are 15 countries in RCEP; Malaysia, Brunei, Singapore, Vietnam, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, China, South Korea, Australia, Japan and New Zealand. CPTPP is a free trade agreement (FTA) between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam. As of 2022, RCEP members contributed 58.1% of Malaysia's total trade while CPTPP members sponsored 27.5%. Even though RCEP held larger contribution of the total trade, Malaysia's trade surplus with CPTPP members higher at RM132.9b vs. RCEP members RM89.6b in 2022. According to MITI, CPTPP would alleviate Malaysia's GDP by USD56.5b over the period of 2021 to 2030. Having these two FTAs, Malaysian products are able to penetrate into wider markets and enjoy cheaper imported goods. Henceforth, we view Malaysia's exports and imports growth rates to touch +12.1% and +10.9% respectively in 2024.

**Chart 13: Trade with RCEP Members (% of Ex. Trade Components)**



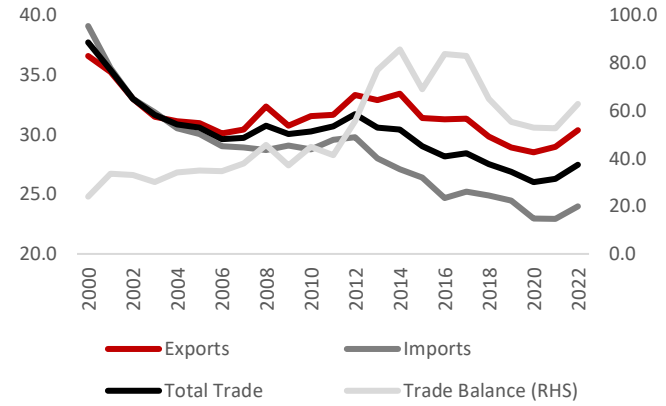

Source: DOSM, MIDFR

**Chart 14: Trade with RCEP Members (YoY%) & Trade Balance (RM Billion)**



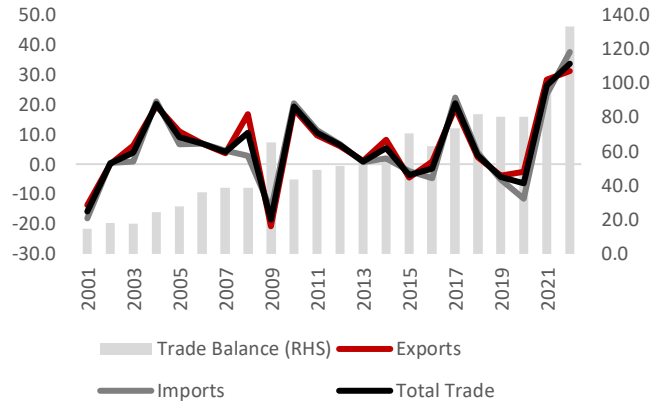

Source: DOSM, MIDFR

**Chart 15: Trade with CPTPP Members (% of Ex. Trade Components)**




Source: DOSM, MIDFR

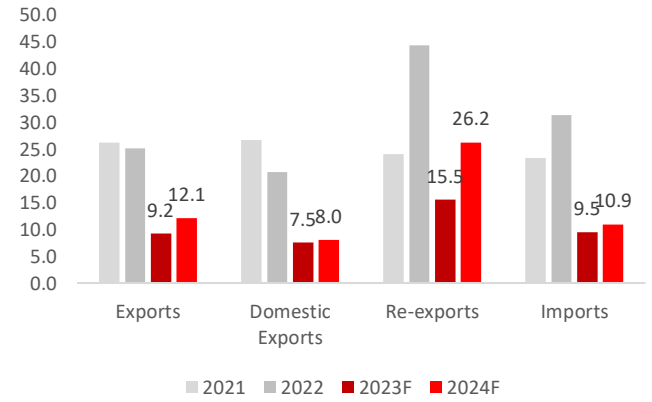
**Chart 16: Trade with CPTPP Members (YoY%) & Trade Balance (RM Billion)**




Source: DOSM, MIDFR

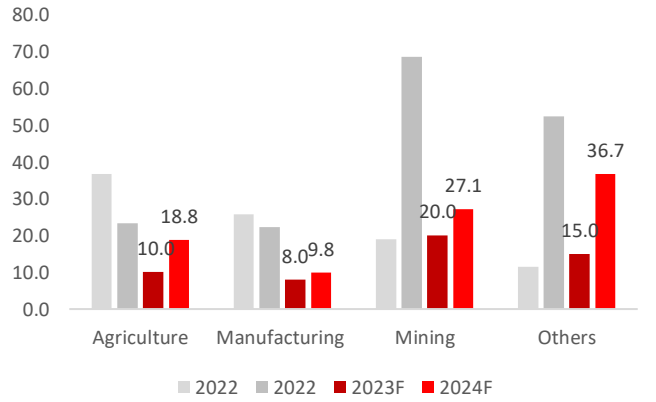
**Global slowdown, elevated commodity prices and China's reopening.** We view the external front still in challenging path particularly with concerns of a global economic slowdown, inflation bite, tightening monetary policy in many countries and geopolitical risks in Europe & Asia. Judging from PMI performances, global demand is on a softening trend as both Global Services and Manufacturing PMI registered pessimistic figures of 48.1 and 48.6 points respectively in Dec-22. Even flash Jan-23 Manufacturing PMI for the US remained under the pessimistic zone at 46.8. The Eurozone's Manufacturing PMI continued on pessimism for 7-straight months since Jul-22. We foresee slight moderation in exports growth forecast from +25%yoy for 2022 to +9.2%yoy for 2023. On a bright side, China's reopening provides a silver lining for the global trade flows. Malaysia's exports market can still hold among others underpin by oversea sales of commodity products with commodity prices remain elevated, CPO at RM3,500 per tonne and Brent crude oil USD94pbd for 2023. As for imports, strong domestic demand and improving local activities led to higher inbound shipments, averaging +31.3%yoy for 2022. Imports growth forecast is set to touch +9.5%yoy, higher than exports as we view domestic demand to stay sturdy.

**Chart 17: External Trade Forecasts (YoY%)**



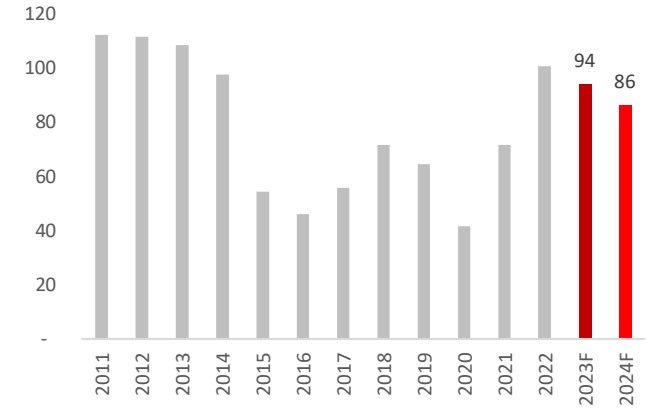

Source: DOSM, MIDFR

**Chart 18: Exports Growth Forecasts by Sector (YoY%)**



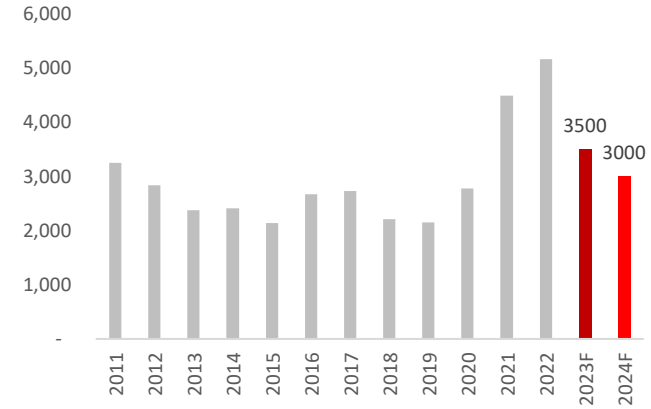

Source: DOSM, MIDFR

**Chart 19: Brent Crude Oil Price Forecast (USDpbd)**




Source: BLOOMBERG, MIDFR

**Chart 20: CPO Price Forecast (RM per tonne)**




Source: BLOOMBERG, MIDFR

## EQUITY

### TRANSPORTATION..... Maintain NEUTRAL

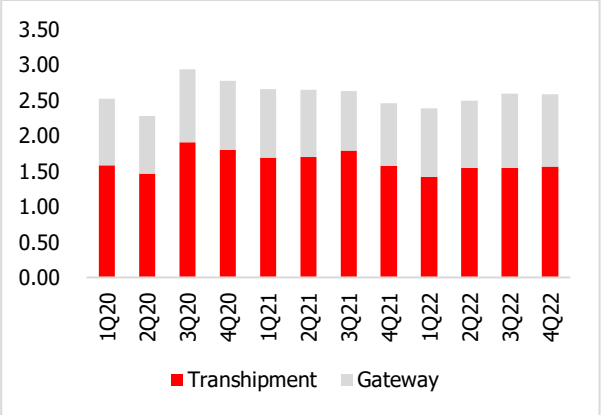
**Throughput is holding up.** The port players remained the leading beneficiaries of the robust external trade. Based on the latest available data published by the Ministry of Transport (MoT), Malaysian ports have collectively reported growth in exports and imports container volume by +5.3%yoy and +4.5%yoy respectively in 9MCY22. Growth in the gateway segment has largely cushioned the drop-in transshipment container volume of -3.6%yoy during the same period. The transshipment business faced a myriad of challengers last year as the global trade flows were impacted by: (i) China's zero-Covid policy, (ii) the Russia-Ukraine war, (iii) consumer switching to services consumption as opposed to goods and (iv) weakening consumer demand against a backdrop of rising interest rates. For **Westports (NEUTRAL, TP: RM3.90)**, which handles c.80% of the container business in Port Klang, its container volume fell by -3.4%yoy (gateway: +8.8%yoy, transshipment: -9.9%yoy) in FY22.

**Chart 21: Overall Port Container Volume (m TEUs)**




Source: MoT, MIDFR

**Chart 22: Westports' Container Volume (m TEUs)**




Source: Westports, MIDFR

**Port players to remain resilient.** We expect the port players to remain resilient this year, mainly underpinned by the sustained growth in the gateway segment. Port congestion has eased with the absence of lockdowns by neighbouring countries; hence most seaports are able to operate at optimal capacity. We would likely see further easing of supply chain disruptions with China's reopening, albeit gradually. Headwinds for the port players include: (i) elevated fuel prices due to their consumption of unsubsidized diesel and (ii) the transshipment segment could be weighed down by slowing global trade on the back of recessionary pressures. Our top pick for the port sector is **Suria Capital (BUY, TP: RM1.24)** as its throughput will be boosted by the recent mega foreign direct investments (FDIs) in Sabah and the state is expected to receive a series of incentives from the new government which could support their longer-term growth.

Furthermore, Suria Capital might be partnering up with DP World, the world's 5th largest port operator, to leverage on their container handling expertise.

**Favourable outlook for the logistics players.** The logistics players under our coverage are also the beneficiaries of the strong external trade numbers given that their customers mainly operate in the export-oriented industries, hence they have been reporting sustained growth in goods volume handled. To complement the growth, the players have been focusing on expanding their warehousing segment due to the shortage in space which has driven up the rental rates. The outlook for the logistics sector remains favourable as the demand for the logistics services should grow in tandem with growing trade activities. The ratification of RCEP and CPTPP should also provide an additional boost for these players as they stand to benefit from the flows of goods with the eventual reduction of up to 90% of the tariffs on goods traded between the members over the next two decades. Our top picks for the logistics sector are **Swift Haulage (BUY, TP: RM1.05)** and **Tasco (BUY, TP: RM1.75)**. The former is a direct beneficiary of growing gateway port throughput as it is a dominant player in the container haulage business, serving most of the major ports in Peninsular Malaysia and commands a 9% market share, while the latter has a sizeable exposure in the electrical and electronic (E&E) products and semiconductor markets, which have been driving the growth in exports.

## PLANTATION..... Maintain NEUTRAL

**Export volume inched higher.** In retrospect, PO export by volume increased by +1.1%yoy to 15.7m Mt in CY22, owing to increased demand from global reopening activities as well as a positive impact of sunflower oil scarcity due to the Russia-Ukraine war. As a result, export revenue for palm oil and other palm-based products increased by +24.4%yoy to RM135.0b. The PO segment generates the most revenue at RM81.0b (60%) followed by Oleo at RM33.4b (24.7%), Others at RM13.3b (9.9%), and PKO at RM7.3b (5.4%). Last year, CPO daily local delivery prices averaged RM5,136.0/Mt (+16.0%yoy), up from RM4,433.4/Mt in CY21. The Russia-Ukraine conflict, followed by an Indonesian export embargo, along with flattish domestic PO output in CY22, was a main cause in the CPO price spike. The downside risk of an acute labor shortage persists and has hindered production development (as we rely on foreigners for 70% of our plantation employees), with rainy weather complicating FFB evacuation process.

**Key factors for the improved volume.** Some of the key factors that contributed to the lower volume on CPO export in 1HCY22 were; (1) The Russia-Ukraine War, (2) Indonesia ruled out Domestic market obligation (DMO) to sell 20-30% planned export volume of PO products to domestic market to ensure sufficient local supply amid soaring cooking oil prices ahead of Eid al Fitr celebration, (3) Narrowing price disparity between SBO and CPO price of USD175.7/Mt-USD102.4/Mt following sabbatical supply on Indonesia ban move, and (4) Weak cycle months. However, Malaysia's palm oil export has shown a significant improvement starting in 2HCY22 driven by; (1) moderation of CPO price averaged RM3,949.8/Mt versus RM6,301.5/Mt in early part of the year, (2) better demand from China as relaxation mode gradually made on stringent zero-policy resulting resumption majority of its imports, which began in July, and (3) switch to RBD palm Olein demand by India due to high import levy on CPO to local Indian refiners.

**India remains top buyer.** Based on MPOB data, India remains as top buyer in CY22, importing about 2.9m tonnes (-19.6%) with share of 18.4% of export by destination. In term of value, last year trade remain stable (due to elevated CPO price) at RM15.4b (+0.6%). While we expect that the India import demand for PO will still be healthy in CY23 supported by wider price disparity against SBO. We believe RBD palm olein is now benefitting from significantly lower duties, though over time these may well be raised in near term. As for China, we opine that the demand from China can notch a similar trend 2HCY22 on the reopening of its economic activities. 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.

**Maintain NEUTRAL with CY23 CPO target price of RM3,500/mt.** We anticipate the palm oil supply tightness situation will likely ease in CY23 on better weather conditions aided by recovery in foreign labor shortage in 2HCY23. This was demonstrated by the fact that CPO production has increased to 18.5m tonnes, a marginal improvement of

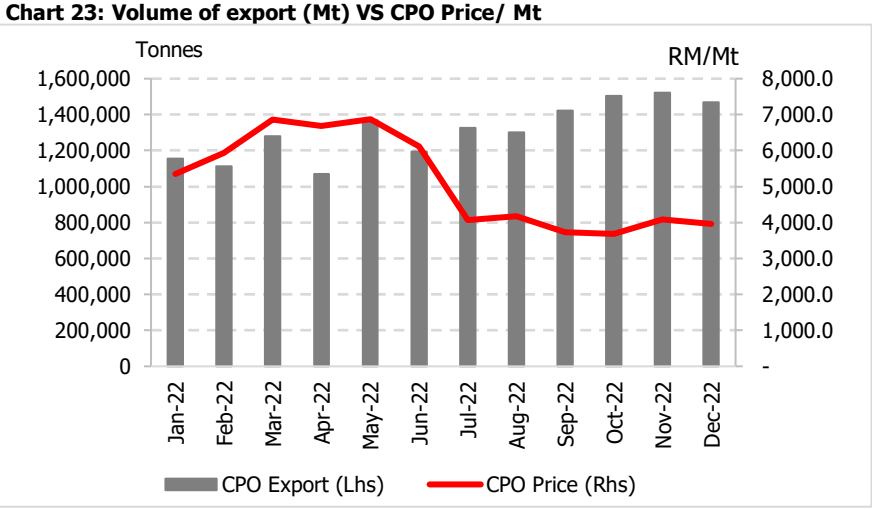
+1.9%yoy, while closing stock increased by a significant amount, by +35.9%yoy, to 2.2m tonnes. Closing stocks started recording 2m tonnes level in August 2022. This demonstrated that there are no longer supply limitations, and that cumulative closing stock has started to accumulate again in CY22.

We believe that the expansion in production and closing stocks in CY23 will be fuelled by the high FFB yield backed by greater fertiliser application on improved window application as well as normalisation of NPK pricing previous year. The key risk to the optimism projection, however, was the slower than expected foreign labour inflow because it would affect; (1) harvesting activities, which would result in lower OER (last year's OER has dropped to 19.7% (-1.5%) from 20.01%), and (2) replanting activities (the planted area last year fell to 5.67m (-1.1%) from 5.74m Ha).

We do not expect the price of CPO to significantly decline this year (to below RM3,000/Mt), and we project that it would stay elevated in CY23, ranging between RM3,000 and RM4,000. On another note, we anticipate that the current high price of CPO (RM3,500-4,500/Mt) will persist in 1Q-2Q23 due to lower production seasons during pollination but will then moderate further once we begin the productive cycle in 3-4Q23. All factors considered we maintain our **NEUTRAL** stance on plantation sector with **2023 CPO average price forecast** of **RM3,500/mt.**

**Top pick.** Our top pick in the plantation sector is **Sime Darby Plantation (BUY, TP: RM5.50).** We remain bullish on SDPL outlook due to 1) FFB yield/mature of 18.5/ha, which ranks among the top tiers, 2) fairly prime of palm trees age profile of 12.2 years, still impressive given their large planted area, and 3) well integrated operation, where the manufacturing segment, which accounts for roughly 28% of group profit, will assist withstand and decline in average selling price for CPO – thus, lowering the volatility of earnings. In addition, we also small cap space like **Sarawak Plantation (BUY, TP: RM2.60).** We understand most of the planters operates in higher production cost environments, but SPLB's EBITDA margin to remain stable at 19-20% in FY22-24 backed by 1) centralized mills which helps shorter FFB logistical delivery 2) lower seedling cost since SPB owns seedling innovation hub and 3) prudent fertilizer application based on the availability of window to apply 4) cost rationalization by the new management.

**Chart 23: Volume of export (Mt) VS CPO Price/ Mt**




Source: MPOB, MIDFR

## OIL & GAS.....Maintain POSITIVE

**Export of petroleum products picking up.** The increase in vaccination campaigns against the Covid-19 pandemic and gradual easing of restrictions in CY21 pushed external demand for petroleum products higher. In CY22, the total of petroleum products exported rallied further by +11.1%yoy to an average of 910,000 bpd – the highest volume per day in 20 years. Among the products, Gas and Diesel Oil had shown the highest growth and the highest volume traded, by +16.6%yoy to 291,500 bpd, in CY22. However, kerosene dropped -26.3%yoy to 57,600 bpd in CY22, and we believe this was due to lesser demand for jet-type kerosene particularly from China over its strict Covid-19 policy. Petroleum products make up for 8.6% of the total export.

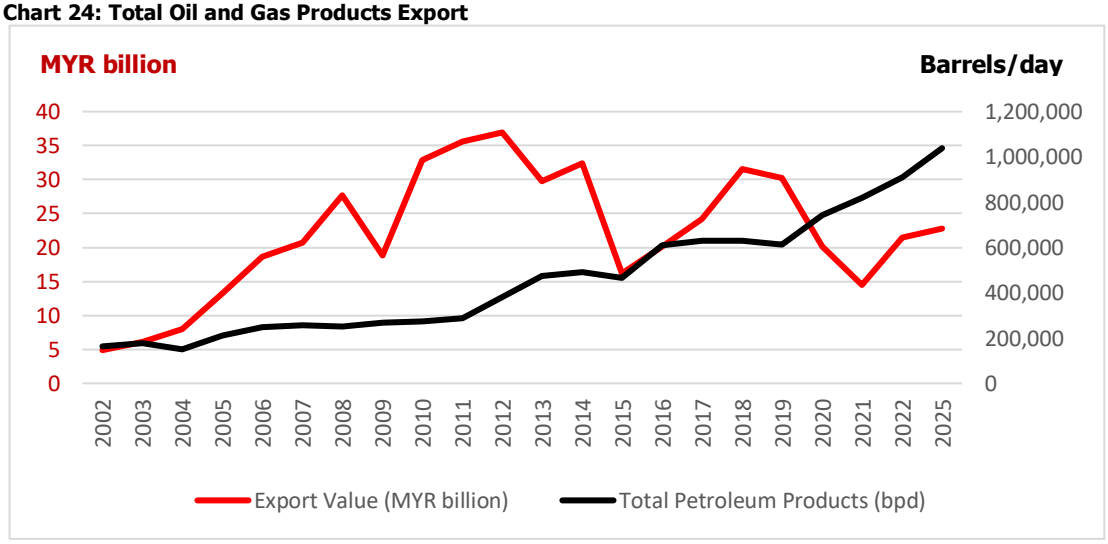
**Singapore tops export demand.** Singapore is the top exporter for the overall petroleum products in CY22, with a value of approximately RM2.5b, followed by China (RM2.3b), Australia (RM1.6b) and Indonesia (RM1.5b). With close proximity to Malaysia and the full lifting of border restrictions, we believe Singapore will continue to be Malaysia's primary ASEAN importer for petroleum products, with demand from China and the Euro zone to increase in the long term, on the back of Chinese economic reopening and the embargo on Russian petroleum products. However, the risks remain to be: (i) high freight rates and 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 high crude oil and natural gas pricing, and (v) eco-friendly substitutes risking demand for traditional petroleum products.

**Table 3: Export Volume for Petroleum Products**

| Export Volume ('000 barrels per day) | 2020 | 2021 | 2022 | % YoY |
|---|---|---|---|---|
| **Fuel Oil** | 183.7 | 202.0 | 232.7 | +15.2 |
| **Gas/Diesel Oil** | 256.1 | 249.9 | 291.5 | +16.6 |
| **Kerosene** | 63.7 | 78.2 | 57.6 | -26.3 |
| **LPG** | 15.3 | 28.2 | 31.8 | +12.9 |
| **Aviation Gasoline** | 139.6 | 205.2 | 217.1 | +5.8 |
| **Other** | 83.8 | 78.3 | 79.2 | +1.2 |
| **Total Petroleum Products Exported** | **742.3** | **819.2** | **910.0** | **+11.1** |

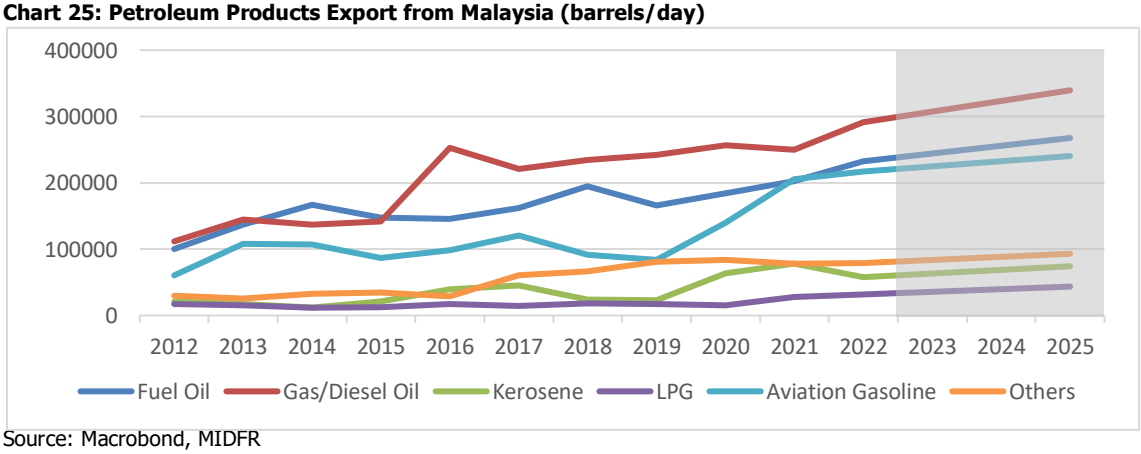
Source: Macrobond, MIDFR

**Chart 24: Total Oil and Gas Products Export**




*Source: Macrobond, MIDFR*

**Chart 25: Petroleum Products Export from Malaysia (barrels/day)**




Source: Macrobond, MIDFR

**Maintain POSITIVE**. We believe that the demand recovery for petroleum products over a continuous tight supply would continue to keep the crude prices stable and elevated above USD80 pb in CY23. The Russian-Ukraine war continues to push prices higher, offset by the recovery in demand in China post-pandemic. In line with these drivers, we also opine that the oil and gas sector will continue to be robust in CY23, most notably in the upstream and midstream phases. However, sustainability issues and inflationary pressures wage concerns on the long-term demand for petroleum product exports. Nevertheless, we reiterate our **POSITIVE** call for the oil and gas sector, despite an estimated average price for Brent crude in CY23 to reach USD92 pb, as compared to USD98 pb in CY22, in emphasis to the risks and uncertainties from the Russian oil and gas sanctions, US productions and China's long-term demand.

**Top picks.** Our top pick in Oil and Gas sector is **Dialog Group (BUY, TP: RM3.70).** We continue to view the group positively for its initiatives to elevate its upstream business in tandem with the growing demand for long-term energy security, as well as continuous sustainability efforts on its storage farm. We also like **Petronas Chemicals Berhad (BUY, TP: RM11.77)**, given its: (i) robust petrochemical production amid high utilization of its plants, (ii) multiple efforts to establish Malaysia as the regional's petrochemical hub, and (iii) localization of sustainable and green products for the long run. We believe that, despite the risk of uncertainties pertaining: (i) the length of the Russia-Ukraine war, (ii) the EU embargo on Russian oil and petroleum products, (iii) higher freight rates and competitiveness, and (iv) imbalance in the production of crude and natural gas, with the volatility of crude oil prices; the demand for petroleum products will continue to grow and eventually contribute positively to local oil and gas retailers.

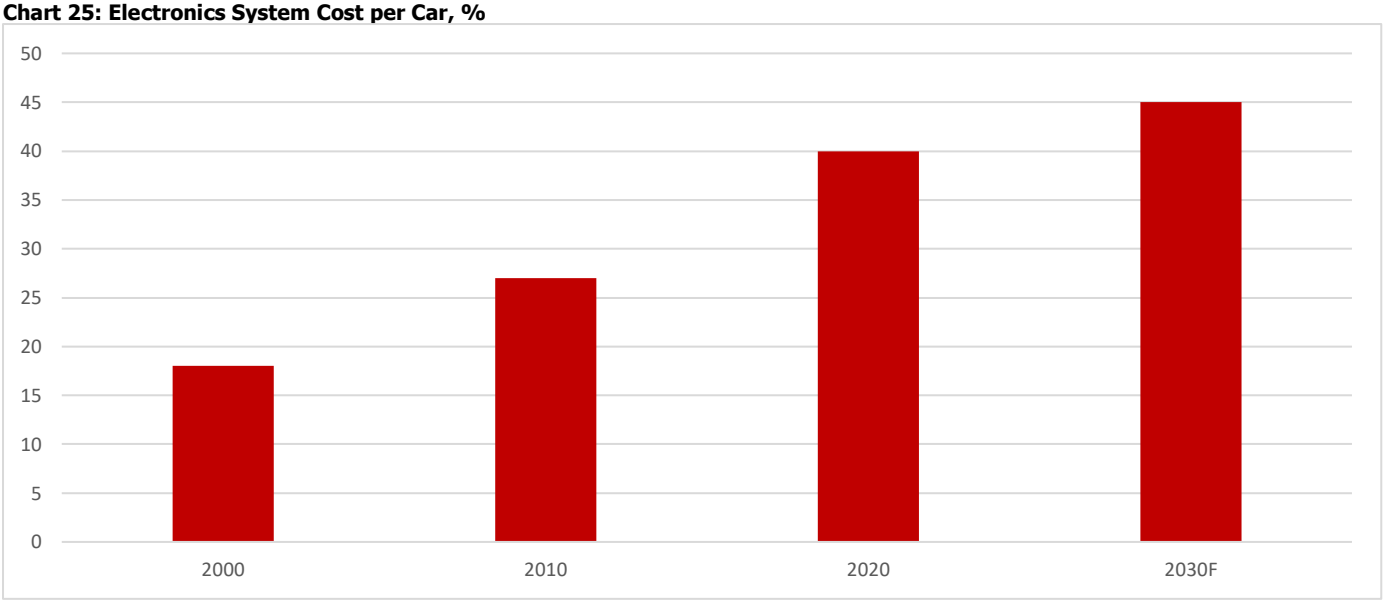
## TECHNOLOGY.....Maintain POSITIVE

**Slow demands in the end market.** In 2022, the semiconductor industry faced significant inventory issues due to declining demand for consumer electronics, personal computers, and smartphones, causing an increase in chip stockpiles. Although there has not been a noticeable increase in demand yet, the inventory situation is improving as chips power many products and processes worth trillions of dollars. This includes a wide range of devices beyond just computers, smartphones, and IoT sensors. We also think that the consumer sentiment, driven by the opening of China market, will recover once inflation cool down.

**The current downturn is different.** The current downturn is nothing similar to the prior tech cycle as previously it was driven by consumer technologies. The extensive use of semiconductors in a variety of devices including 5G, cloud data centers, phones, PCs, laptops and cars, is making demand more widespread and production more expensive. Moving forward, the focus is expected to shift towards industrial and B2B technology, bringing about major changes in traditional industries such as retail, logistics, automotive, food and beverage, life sciences, healthcare, energy, and commodities. We opine companies in the semiconductor, equipment, and memory industries may continue to perform well and may even receive a higher market valuation, as investors see them as more stable and predictable businesses.

**Driven by automotive segment.** According to Grand View Research, the size of the worldwide automotive semiconductor market was estimated to be worth USD 41.78b in 2020. It is predicted to grow at a compound annual growth rate (CAGR) of 6.2% from 2021 to 2028. This is highly supported by the increasing use of safety electronics as well as infotainment systems in the automotive industry. Deloitte states that electronics systems, which are powered by semiconductor-based chips, comprises 40% of the cost of a new car in 2020. This was a great jump from the 18% recorded in 2000 and the 20% in 2007. Moving forward, the cost of a car's electronics is expected to reach 45% by 2030. This will increase demand for semiconductors such as microcontrollers, sensors, and memory and benefitted automotive semiconductor suppliers such **D&O Green Technologies Berhad (BUY, TP: RM5.10)**.

**Chart 25: Electronics System Cost per Car, %**




Source: Deloitte, MIDFR

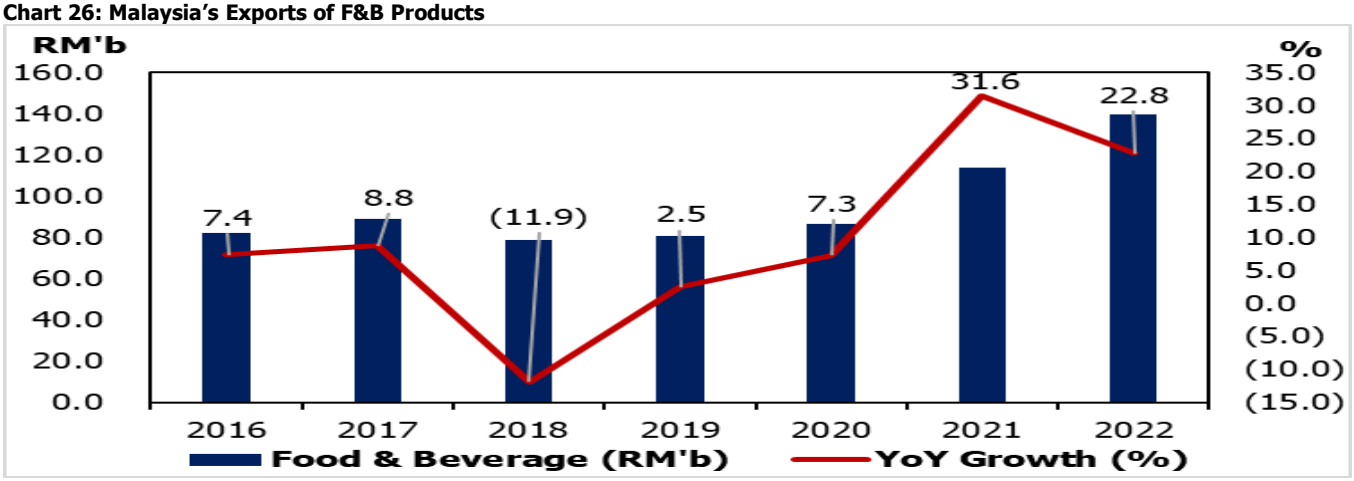
**Growth outlook stay intact especially with AI technologies.** According to McKinsey and company, AI currently adds between USD5b and USD8b to semiconductor companies' earnings before interest and taxes each year. This represents about 10% of AI's full potential within the industry. In the next 2 to 3 years, AI could generate between USD35b and USD40b in annual value. Over a longer time-frame, this figure could increase to between USD85b and USD95b per year in the future. This amount is equal to about 20% of the industry's current yearly revenue of USD500b and nearly equal to its 2019 capital expenditures of USD110b. We think our local players such as **Inari Amertron Berhad (BUY, TP: RM3.20)** and **Unisem (M) Berhad (BUY, TP: RM3.72)** primed for better growth due to their exposure in radio frequency (RF) technology which is require in wireless communication for some AI application such as IoT devices with AI capabilities, robotics with wireless control systems, AI-powered wearable devices, AI-powered drones.

**Reiterate POSITIVE in the technology sector.** Overall, we maintain a favorable outlook on the semiconductor sector in 2023 due to its ongoing growth potential driven by advanced technologies such as 5G, IoT, AI, PCs, Cloud, and EVs. We believe that the recent decline in the tech sector has been overstated, offering opportunities for forward-looking investors to invest in growth stocks.

## CONSUMER.....Maintain POSITIVE

**Solid F&B exports**. Based on Department of Statistics Malaysia ("DOSM"), exports of food and beverage ("F&B") products had a double-digit growth of +22.8%yoy to RM139.7b in CY22, following a +31.6%yoy growth in CY21. This was supported by robust growth in exports of processed F&B, which increased by 24.3%yoy to RM131.7b in CY22. F&B exports for CY22 was +73.3% higher than the pre-pandemic level of RM80.6b in CY19, mostly due to a significant rise in processed F&B exports. We see that this will benefit F&B companies that export their products, such as **Fraser & Neave Holdings (BUY, TP: RM29.70) and Nestle Malaysia (NEUTRAL, TP: RM137.80)**. Going forward, we think that external demand for F&B products will remain resilient due to the staple nature of the products. In addition, falling global commodity prices may result in decreased raw material costs for F&B firms and increase profitability of F&B companies.

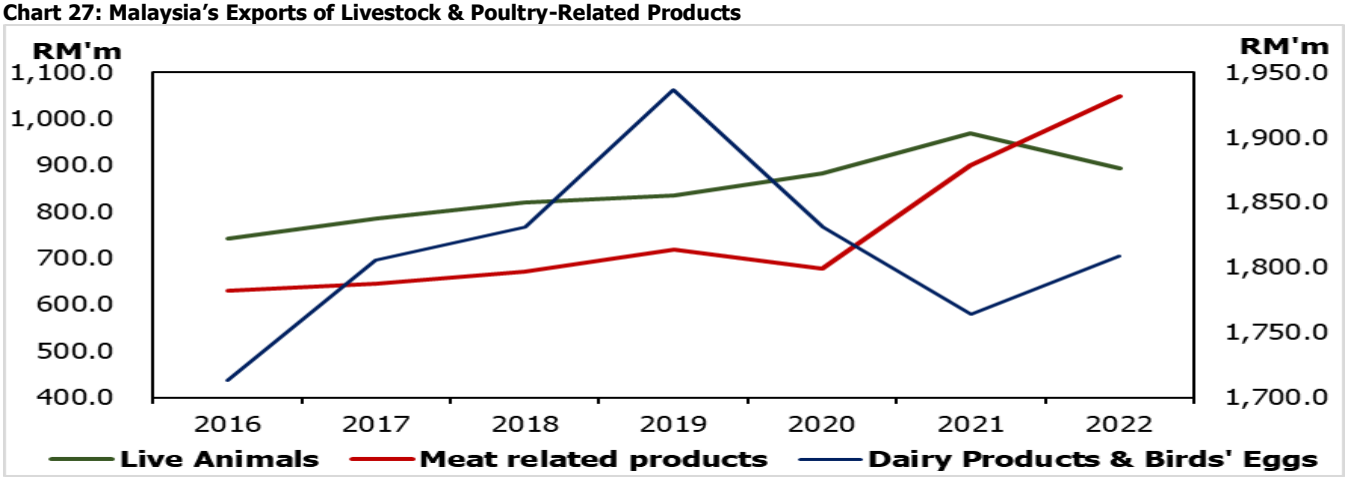
**Chart 26: Malaysia's Exports of F&B Products**




Sources: DOSM, MIDFR

**Stable exports of livestock and poultry products ahead.** DOSM recorded upward momentum in exports of meat-related products, dairy products, and birds' eggs in 2022. Meat-related exports climbed by +16.8%yoy to RM1.1b in CY22, while dairy products & bird egg exports rose +2.6%yoy to RM893m. In contrast, live animal exports fell -7.94%yoy in CY22, after rising +9.98%yoy in CY21. This was due to the imposition of a chicken export ban in Malaysia on 23 May CY22. Exports of live animals and meat-related products were +6.82% and +46.2% higher in CY22 than in CY21. Meanwhile, the export value of dairy products and birds' eggs fell from RM1.9b in CY19 to RM1.8b in CY22 partly due to a shortage of chicken and eggs in Malaysia. Overall, the growth of items related to livestock and poultry is favourable, reflecting persistently high external demand for the products. As a result, players such as **Leong Hup International (BUY, TP: RM0.80)** and **QL Resources (BUY, TP: RM6.30)** will benefit from better sales volume.

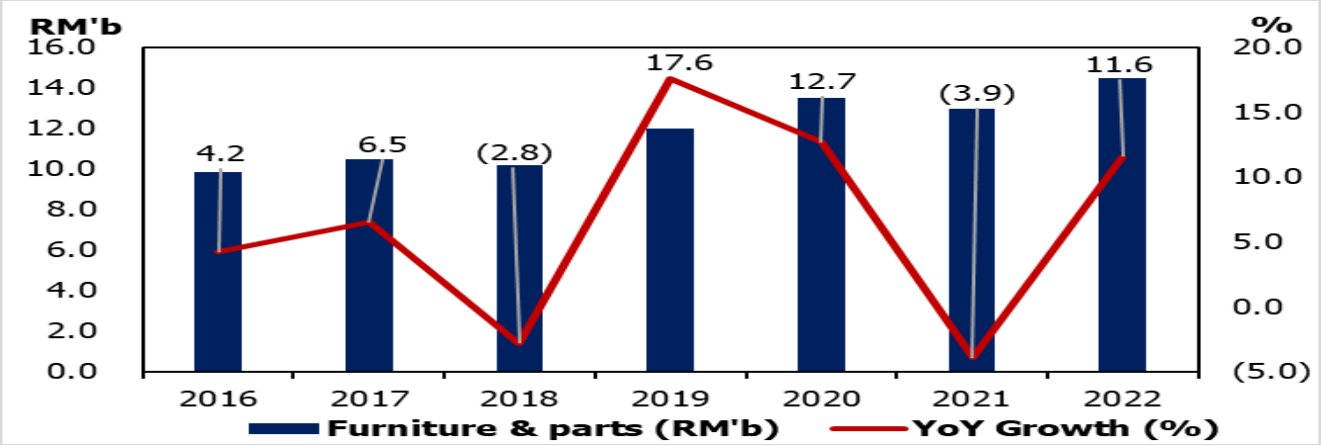
**Chart 27: Malaysia's Exports of Livestock & Poultry-Related Products**




Sources: DOSM, MIDFR

**Normalising furniture and component exports.** Based on DOSM, Furniture & Parts exports increased by +11.6%yoy to RM14.5b in 2022. This was +20.83% higher than the RM12b in CY19. The expansion was primarily due to increased demand for furniture products for home working during the pandemic. However, the positive trend was reversed in May 2022 as monthly furniture export dropped from RM1.5b in April CY22 to RM1.1b in May CY22. This was mainly due to normalising demand post-reopening of the economy. Besides, aggressive interest rate hikes in developed countries and high inflation have led to cautious consumer spending on major durables such as furniture. As a result, demand for furniture-related items fell, leading to fewer orders from furniture importers and decreased revenues for firms like **Rhong Khen International (NEUTRAL, TP: RM1.23).**

**Chart 28: Malaysia's Exports of Furniture & Parts**




Sources: DOSM, MIDFR

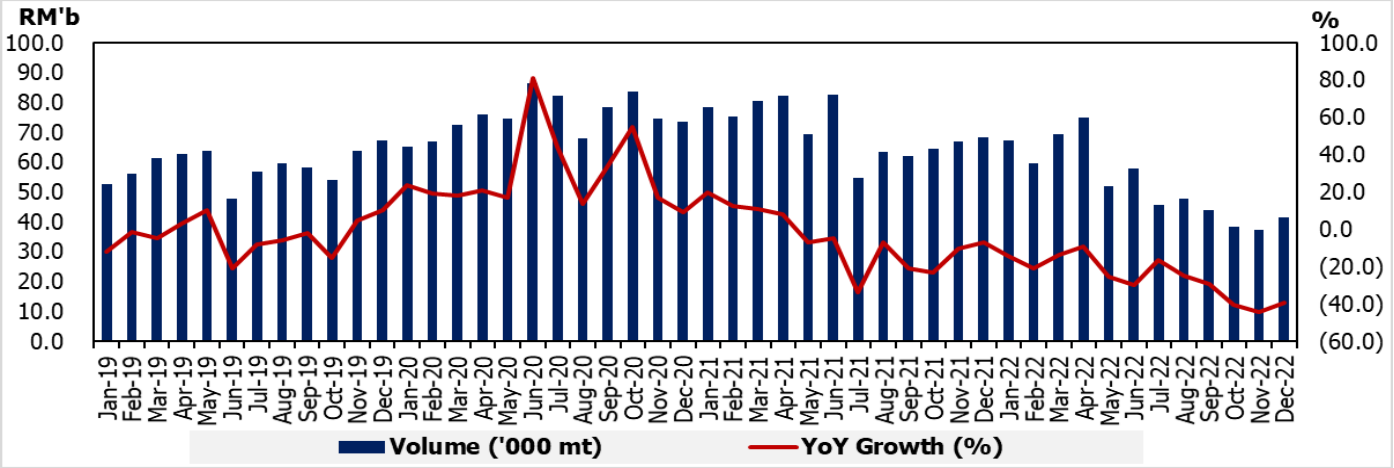
**Reiterate POSITIVE in the consumer sector.** We remain optimistic about the sector underpinned by the stable labour market, returning of tourists, and positive domestic spending. Hence, we retain our **POSITIVE** stance on the consumer sector. We anticipate continuing resilient external demand for consumer staples such as F&B and poultry products due to inelastic demand for essential items. Meanwhile, we remain cautiously optimistic that consumer discretionary products such as furniture will experience soft demand in the near term. In a nutshell, we like consumer staple-related companies. Our top picks are **QL Resources (BUY, TP: RM6.30), Fraser & Neave Holdings (BUY, TP: RM29.70),** and **AEON (BUY, TP: RM1.81).** We also like AEON because we believe that the general merchandise store (GMS) and supermarket will continue to see steady sales ahead supported by the positive domestic demand and resumption of out-of-home activities.

## GLOVES.....Maintain NEGATIVE

*Analyst: Genevieve Ng Pei Fen (Genevieve.ng@midf.com.my)*

**Declining external demand for rubber gloves.** According to the Department of Statistics Malaysia ("DOSM"), export volume of rubber gloves fell from 848.5k metric tons ("mt") in 2021 to 636.1k mt in CY22. This was -11.0% lower than the pre-pandemic level of 705k mt in CY19. Correspondingly, the utilisation rate of glove manufacturers under our coverage tumbled from 75%-90% during the pandemic to 30-45% as of 3QCY22. Note that it was around 85%-90% before the pandemic. The drop in export volume and lower utilisation rate was mostly due to an oversupply of gloves in the market and lower demand for gloves than during the pandemic times. We think that the softer external demand will impact all glove companies under our coverage. Given the glove's oversupply and poor utilisation rate, we believe that the demand-supply dynamics will not return to normal in CY23. As a result, we anticipate that glove export volume will remain subdued at 600k mt to 680k mt in CY23 based on the projected utilisation rate of 35-45% for all glove companies under our coverage.

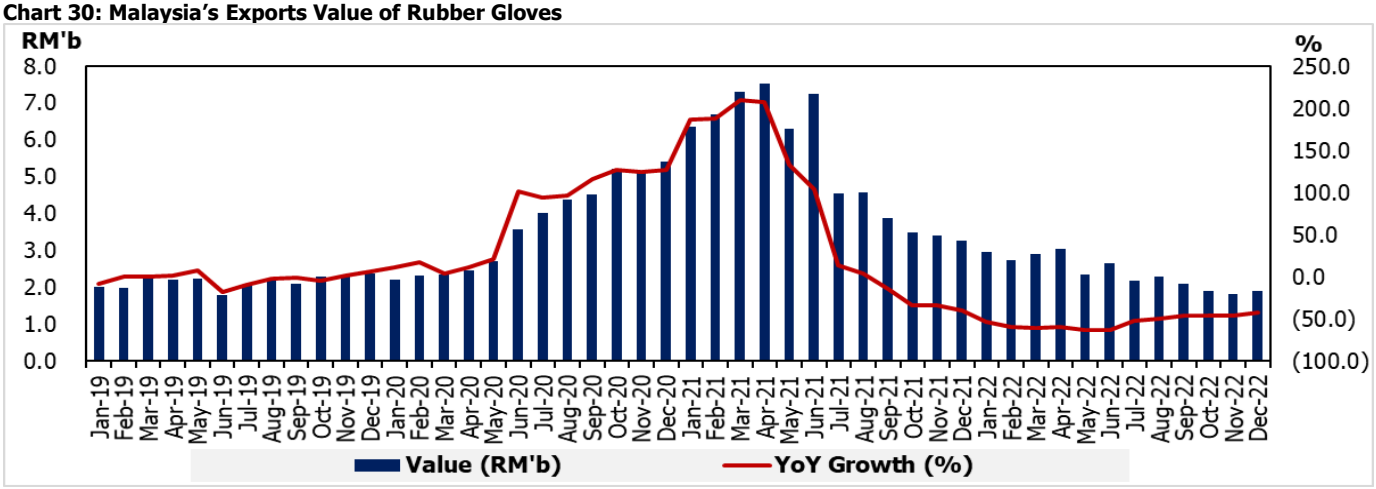
**Chart 29: Malaysia's Exports Volume of Rubber Gloves**




Sources: DOSM, MIDFR

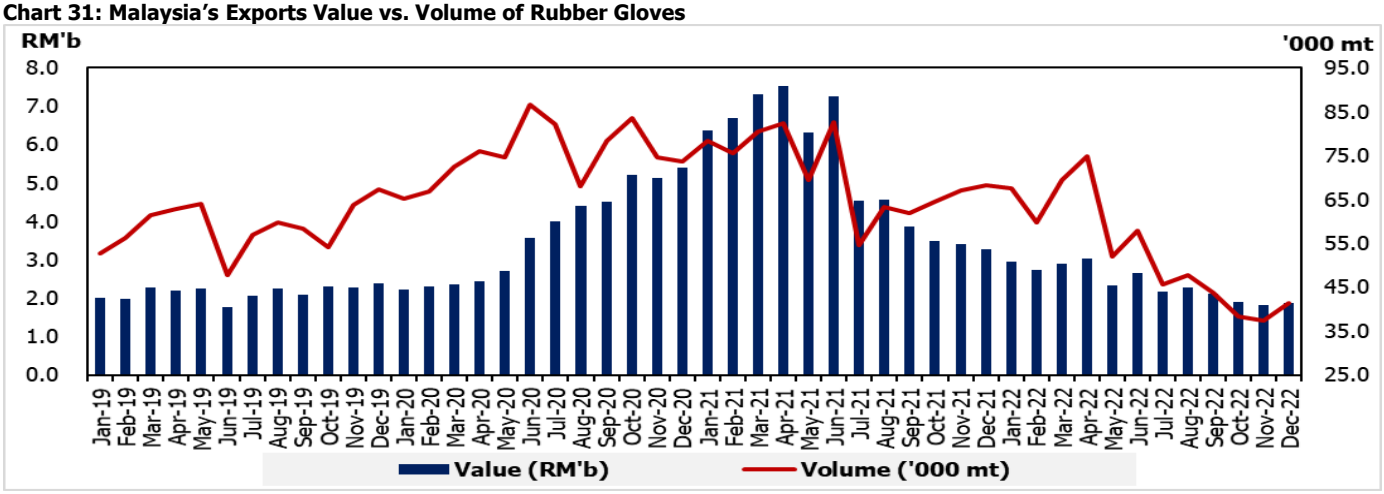
**Falling export value of rubber gloves.** Malaysian rubber glove exports plunged -55.4%yoy to RM28.8b in CY22, following a +45.9%yoy growth in CY21 and +71.4%yoy in CY20. The reduction was caused by falling blended average selling prices ("ASPs") combined with a reduced export volume. Note that the blended ASPs fell from USD60-USD64/1000 pieces during the pandemic in 2021 to USD16-USD26/1000 pieces in CY22. On the contrary, the export value of rubber gloves in 2022 was +11.4% higher than in CY19. This was mainly due to higher blended ASP than the pre-pandemic level in CY19 and stronger USD against RM as most rubber gloves are sold in USD. Looking ahead, we expect blended ASP for CY23 to settle at USD19-USD21/1000 pieces before the uneven demand-supply dynamics return to normal. Our in-house economists forecast a USD/RM average of RM4.20/USD in CY23. Hence, we believe that the export value of rubber gloves will continue to shrink in 2023 owing to decreasing export volume, normalised blended ASP, and stronger RM against USD.

**Chart 30: Malaysia's Exports Value of Rubber Gloves**




Sources: DOSM, MIDFR

**Chart 31: Malaysia's Exports Value vs. Volume of Rubber Gloves**




Sources: DOSM, MIDFR

Maintain **NEGATIVE** on the gloves sector. We maintain our negative view on the sector, owing to (1) weak demand ahead due to continuing glove oversupply in the market, (2) normalised ASP, and (3) high energy costs, which continue to compress the margin. Our top pick for the sector is **Hartalega (NEUTRAL, TP: RM1.68)** as we believe that its solid net cash position of RM1.8b may provide some support against downside risk. Re-rating catalysts are small players exiting the market and existing players discontinuing some of their capacity.

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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