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2 March 2023

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended December 2022

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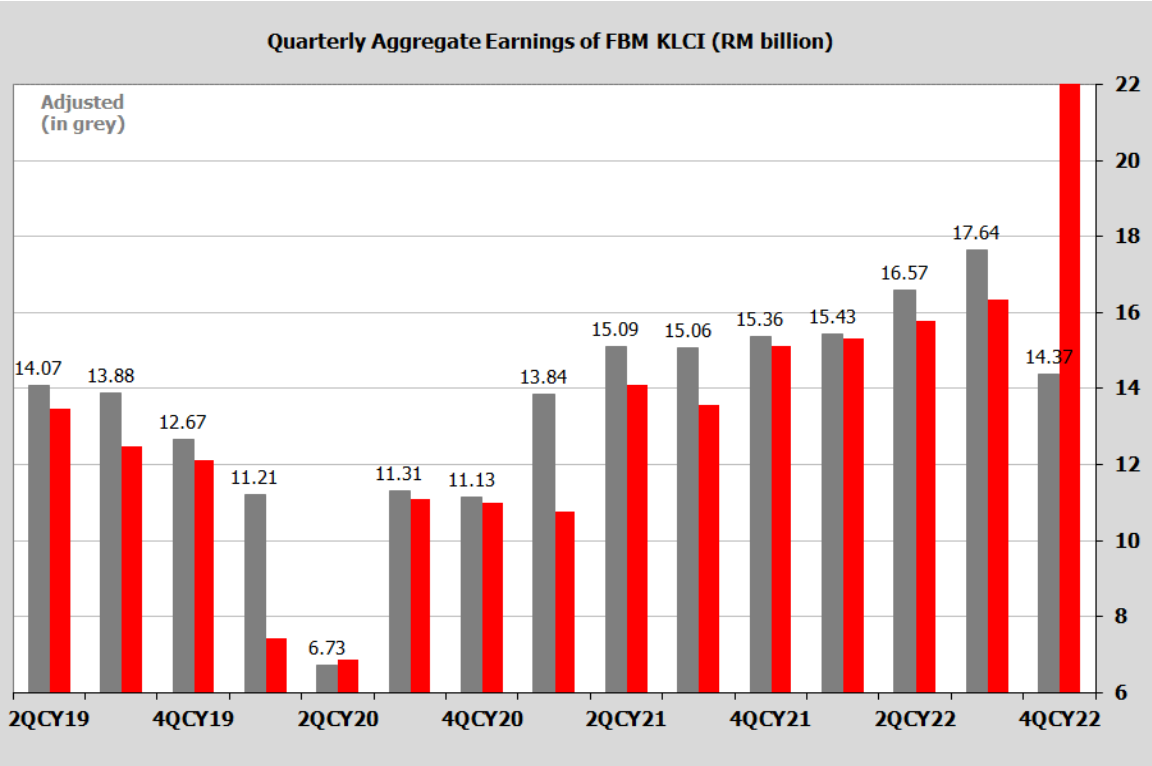
2 March 2023 | Earnings Wrap

Goldilocks

- *In 4QCY22, the aggregate reported quarterly earnings of FBM KLCI 30 current constituents jumped vis-à-vis preceding quarter at 47.9%qoq as well as against corresponding quarter last year at 59.8%yoy to RM24.2b mainly due to massive disposal gain by Axiata.*
- *On adjusted basis, the aggregate normalized earnings of FBM KLCI 30 current constituents in 4QCY22 declined both sequentially at -18.6%qoq and on-year at -6.5%yoy to RM14.4b.*
- *Within MIDFR Universe, 33% of stocks under coverage reported higher than expected earnings. Of the rest, 32% posted earnings that were lower than expected versus 35% which came within expectations. Target price changes involved 38 upward adjustments and 28 downward adjustments. Moreover, we made 11 changes to our stock recommendations with 6 upgrades and 5 downgrades.*
- *The aggregate FY2023 earnings forecast of the FBM KLCI current constituents under our coverage was tweaked higher by 0.6% to RM69.3b.*
- *We maintain our FBM KLCI end-2023 target at 1,700 points with downward bias due to likely postponement of the US Fed pause.*

FBM KLCI

In 4QCY22, the aggregate reported quarterly earnings of FBM KLCI 30 current constituents jumped vis-à-vis preceding quarter as well as against corresponding quarter last year to RM24.2b. It registered positive sequential growth at 47.9%qoq and on-year at 59.8%yoy.



Source: Bloomberg, MIDFR; *Note: Earnings hump in 1QCY21 & 2QCY21 due to bumper results of Glove constituents

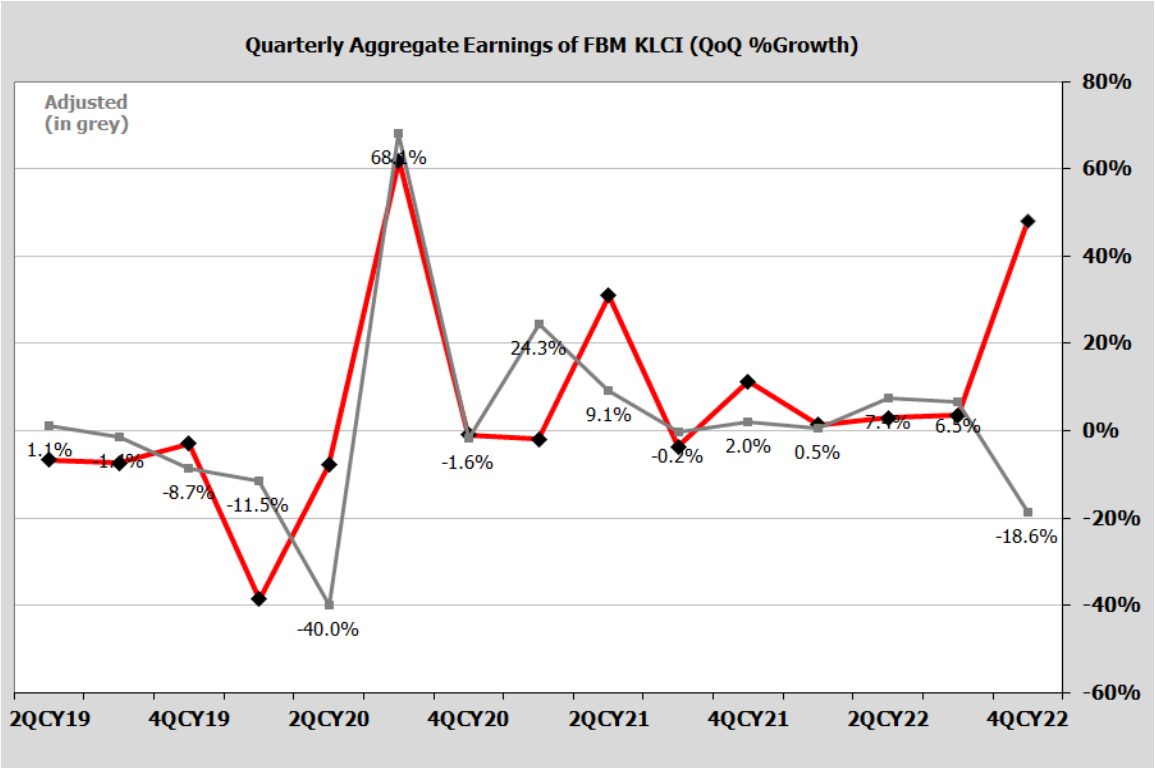
After adjusting for non-operational/recurrence items incurred during the review quarter (mainly goodwill impairment & gain on disposal by Axiata totalling almost RM9.5b), the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in lower at RM14.4b in 4QCY22. After neutralizing the extraordinary items during relevant quarters (4QCY22: 9.79b, 3QCY22: -1.32b, 4QCY21: -RM244m), the aggregate normalized growth in 4QCY22 came in at -18.6%qoq and -6.5%yoy.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	4QCY22	3QCY22	QoQ	4QCY21	YoY
CONSUMER P&S	1,067.17	1,855.21	-42.5%	1,466.83	-27.2%
ENERGY	127.20	125.80	1.1%	127.89	-0.5%
FINANCIAL SERVICES	8,254.00	8,076.88	2.2%	6,608.30	24.9%
HEALTHCARE	42.20	188.10	-77.6%	440.80	-90.4%
INDUSTRIAL P&S	753.21	2,210.80	-65.9%	2,349.55	-67.9%
PLANTATION	1,324.20	1,270.70	4.2%	1,346.40	-1.6%
TECHNOLOGY	96.10	85.30	12.7%	107.24	-10.4%
TELCO & MEDIA	1,195.60	1,282.30	-6.8%	1,081.60	10.5%
TRANSPORT & LOGISTICS	645.00	820.60	-21.4%	461.70	39.7%
UTILITIES	862.80	1,728.50	-50.1%	1,369.20	-37.0%
TOTAL	**14,367.48**	**17,644.19**	**-18.6%**	**15,359.50**	**-6.5%**

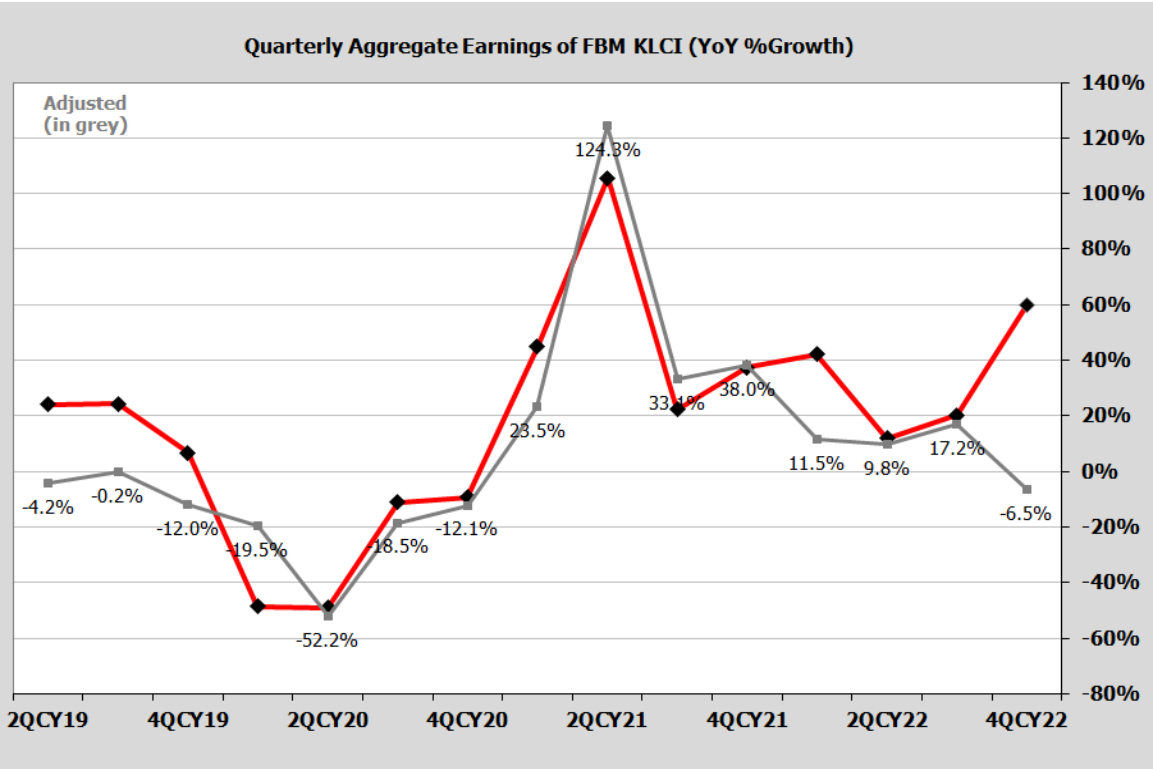
Source: Bloomberg, MIDFR

The negative on-quarter growth performance in 4QCY22 was mainly contributed by earnings underperformance among its Industrial P&S (namely Petronas Chemicals), Utilities (namely Tenaga Nasional) as well as Consumer P&S (such as PPB Group, Genting and Genting Malaysia) constituents.



Source: Bloomberg, MIDFR

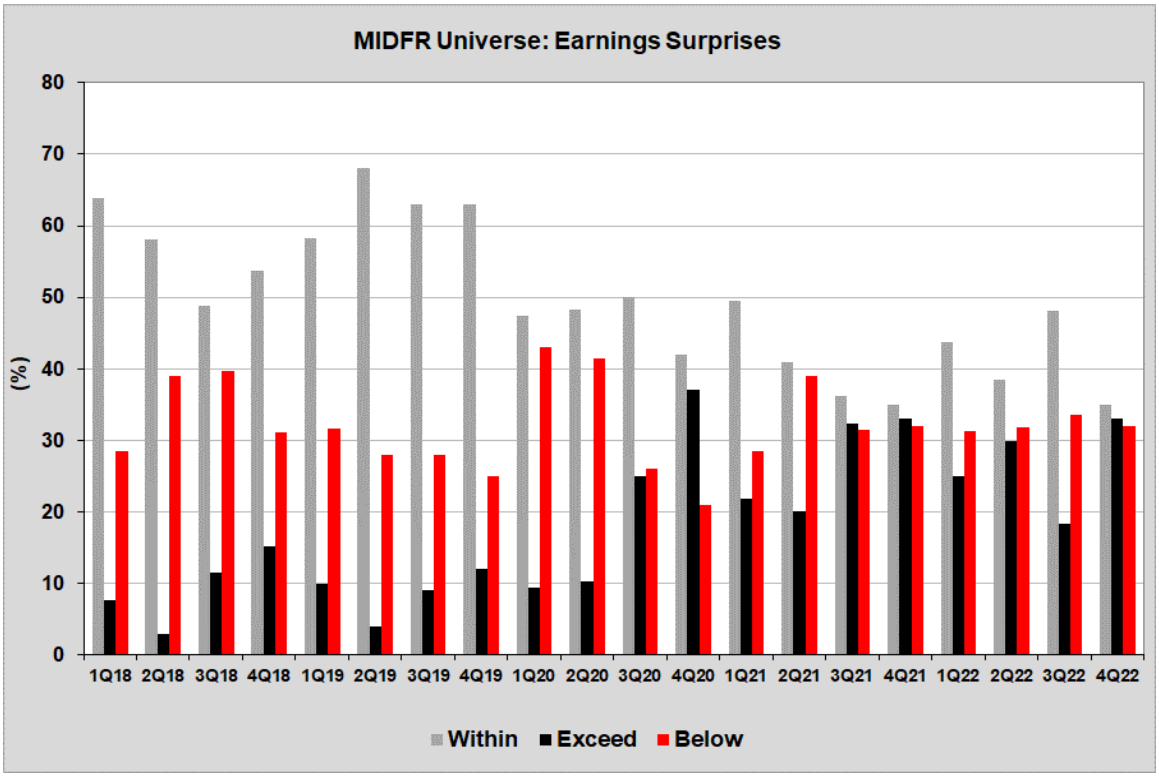
Similarly, the negative on-year growth performance in 4QCY22 was mainly contributed by earnings underperformance among its Industrial P&S (namely Petronas Chemicals), Utilities (namely Tenaga Nasional), Consumer P&S (namely Genting Malaysia) as well as Healthcare (namely IHH Healthcare) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations jumped to 33% in 4QCY22 as compared to 18% in the prior quarter. Meanwhile, the percentage of negative surprises declined slightly to 32% in 4QCY22 from 34% in the prior quarter.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation declined to 35% in 4QCY22 from 48% in the prior quarter. Moreover, Consumer P&S sector recorded the highest percentage of positive surprises at 56% of stocks under our coverage while Industrial P&S sector registered the biggest percentage of underperformers at 80% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	0%	29%	71%
CONSUMER PRODUCTS & SERVICES	28%	56%	17%
ENERGY	25%	50%	25%
FINANCIAL SERVICES	75%	17%	8%
HEALTH CARE	0%	33%	67%
INDUSTRIAL PRODUCTS & SERVICES	0%	20%	80%
PLANTATION	63%	25%	13%
PROPERTY	63%	25%	13%
REITS	67%	33%	0%
TECHNOLOGY	33%	17%	50%
TELECOMMUNICATIONS & MEDIA	17%	33%	50%
TRANSPORTATION & LOGISTICS	13%	38%	50%
UTILITIES	33%	33%	33%
TOTAL	**35%**	**33%**	**32%**

Source: MIDFR

In total, we made 11 changes to our stock recommendations with 6 upgrades and 5 downgrades. Furthermore, target price changes involved 28 upward against 28 downward adjustments.

The aggregate reported earnings of companies under MIDFR Universe grew 44.0%yoy and 45.7%qoq to RM29.4b in 4QCY22 principally contributed by massive gain on disposal (& goodwill impairment) by Axiata totalling almost RM9.5b.

MIDFR Universe: Sectoral Quarterly Net Profit (as reported, RM Million)

	YoY (%)	*QoQ (%)*	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20	2Q20	1Q20
CONSTRUCTION	*249.2*	*311.2*	1,304	317	371	250	373	865	253	419	26	97	-60	271
CONSUMER P&S	*151.6*	*106.6*	1,615	782	766	203	642	-166	91	625	-1,320	265	-506	520
ENERGY	*154.8*	*24.9*	379	303	335	330	149	258	246	200	265	244	-132	-65
FINANCIAL SERV	*21.9*	*(4.7)*	8,817	9,256	7,890	7,663	7,231	5,959	7,483	4,352	5,261	6,172	4,518	6,155
HEALTH CARE	*(148.7)*	*(297.0)*	-584	296	766	501	1,199	2,640	5,843	5,420	4,336	2,394	578	15
INDUSTRIAL P&S	*(84.0)*	*(66.7)*	738	2,216	2,113	2,309	4,599	2,085	1,984	1,605	703	660	200	579
PLANTATION	*(8.5)*	*26.5*	2,178	1,721	2,689	2,406	2,381	2,206	2,347	1,568	1,136	961	1,081	463
PROPERTY	*98.3*	*(27.6)*	639	883	557	234	322	132	244	202	191	146	-380	-10
REITS	*105.0*	*23.9*	588	474	331	365	287	179	182	198	-47	234	198	277
TECHNOLOGY	*(8.4)*	*(25.4)*	278	372	419	279	303	262	251	237	274	232	143	129
TELCO & MEDIA	*1,029.4*	*1,062.5*	10,439	898	936	964	924	1,354	1,291	1,173	786	1,514	1,039	1,140
TRANSP & LOGIS	*129.6*	*28.3*	1,296	1,010	123	474	564	453	502	419	36	147	332	-1,035
UTILITIES	*18.2*	*3.4*	1,686	1,630	1,585	2,827	1,426	1,796	433	1,673	1,945	1,745	862	1,252
TOTAL	***44.0***	***45.7***	29,373	20,159	18,881	18,805	20,400	18,021	21,149	18,091	13,594	14,812	7,875	9,691

Source: MIDFR

Construction, Consumer P&S, Energy, REITs, Telecommunications & Media, Transport & Logistics and Utilities were the sectors which recorded improved total earnings (as reported) in 4QCY22 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Healthcare, Industrial P&S and Technology were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 4QCY22.

Sectoral commentary

Construction: The year 2022 ended well for most contractors as they posted stronger top and bottom lines on the back of normalisation of activities, that allowed them to ramp up their operations that have been hindered in 2020 and 2021 due to Covid-19 restrictions. Ten out of the 11 construction companies under our coverage have announced their quarterly/full year results ending Dec-22 (Gamuda's announcement is next month). The results for eight out of the 10 companies came in below our expectations as we had projected a stronger rebound for the sector. Only Sunway Construction (BUY, TP: RM2.00) and WCT Holdings (BUY, TP: RM0.58) were above expectations. This concurs with the Department of Statistics Malaysia's (DOSM's) findings that the construction sector rebounded +8.8% in 2022 after two years of decline but the value of work done was RM121.9b, which was still lower than the pre-pandemic period of RM146.4b in 2019. Recall that margins were affected for the 1H22, especially due to the prices of steel bar that peaked in Jun-22 at an average of RM3,901.81 per tonne after 19 months of increase, before it started cooling off from Jul-22 to Dec-22. Cement prices also rose for 14 consecutive months until Jun-22 at an average of RM21.05 for every 50kg bag and prices have relatively stabilised at that level. We expect FY23 to be a better year for contractors, especially given the boost by the recently tabled Budget 2023. Though no mega projects were announced except for the revision of costs to the MRT3 by -10% to RM45b, there are a slew of infrastructure works and public utilities, such as RM26b for roads (RM20b for Pan Borneo Highway), about RM10b to RM13b for flood mitigation projects, RM2.8b to build and upgrade school and university infrastructures, to name a few. There are also large projects that are estimated to be in the tune of billions, such as the expansion of Penang International Airport and the Subang Airport and the construction of the Sanglang Port in Perlis and a main port on Carey Island. These would translate to stronger job flows for both large and small contractors alike. We opine that the highlight for FY23 will still be the rollout of MRT3, which has been delayed since Dec-22 due to a review by the Government to bring the cost down from RM50b to RM45b. We remain POSITIVE on the construction sector, with our top picks being GAMUDA (BUY, TP: RM5.04), Sunway Construction (BUY, TP: RM2.00) and IJM Corp (BUY, TP: RM1.90).

Consumer (Automotive): Most auto companies under our coverage reported 4QCY22 earnings that were within our estimates but behind consensus. Generally, despite higher topline, margin pressure was seen in the quarter from a stronger USD (auto companies typically lock-in forward currency requirements, therefore reflecting peak USD:RM rates in 3QCY22), higher raw material cost and higher labor cost. We flagged these risks in mid-2022 and in tandem, rejigged our projections back then. Nevertheless, raw material cost has eased along with weaker global demand while in terms of currency, players took the opportunity to lock in a more favourable rate during 4QCY22, which should reflect in the sector's results over the next few quarters.

Consumer (Retail, F&B): Consumer companies reported mixed performance in 4QCY22. Only 2 out of the 10 firms we cover met our estimation, namely F&N and Nestlé Malaysia. Seven came in above our forecasts, mostly driven by the stronger-than-expected revenue. Meanwhile, Asia File reported worse-than-anticipated financial results, mainly due to lower revenue and a share of associate loss. Overall, F&B companies recorded better quarterly earnings thanks to the lower prices for certain raw material costs, successful cost-cutting initiatives and solid demand for festive sales. The poultry players such as Leong Hup and QL Resources reported higher earnings on the back of lower operating expenses along with stable demand for livestock & poultry and feedmill. Retailers continued to benefit from the festive season celebration, which boosted sales and increased profits during the quarter. Furniture manufacturers like Rhong Khen International reported lower sales and profitability on a sequential basis because of the US's over-inventory situation, which dampened demand for furniture. Looking forward, we are positive about the sector on the back of a stable labour market, easing inflationary pressures, and various initiatives and cash assistance offered to B40 and M40 income groups to boost domestic spending. Besides, we are optimistic that the retailer and beverage sub-sector will benefit from the higher tourist arrival for out-of-home consumption. Hence, maintain POSITIVE on consumer sector. We continue to prefer consumer-related companies due to their resilient demand despite numerous headwinds. Our top picks are QL Resources (BUY, TP: RM6.80), F&N (BUY, TP: RM33.50) and Aeon (BUY, TP: RM1.90).

Financial Services: Overall bank performance was in line with expectations, with only Affin Bank going out of our and consensus earnings forecasts (given its small earnings base). ROE guidance is a lot more muted, with most tailwinds having petered out – NOII recovery and overlays are now core earnings drivers, with NII taking a backseat following heightened COF and funding restrictions. OPEX and asset quality issues are also less pressing than CY22.

Going forward, all banks signalled for compressed NIM in 1QCY23 – deposit competition began Oct-22 and has alleviated slightly since BNM made the decision not to alter rates. Note that banks have to contend with two issues happening at the same time: the rundown of cheaper CASA balances, as well as elevated need to maintain high level of funding. End-year deposit competition was exacerbated by multiple factors – an early CNY, hints of SRR normalisation (note that banks BNM deposits have risen in the quarter, albeit nowhere close pre-pandemic figures), a sudden surge in drawdowns (corporates and larger borrowers have waited for clearer market signs before opting to borrow). While most banks have been able to ride out 4QCY22 with asset repricing benefits, it will no longer be the case in CY23.

For banks with regional holdings, Indonesia's CIMB Niaga seems relatively confident that it can maintain its CASA balances through more targeted approaches, as well as ride on the increase in loan yields (which has been delayed for multiple months) to prevent too significant a compression. Maybank Indonesia is less optimistic. Singaporean exposures could see some pressure, given that there seems to be a lot more headroom for SIBOR hikes – subsequently resulting in sharp COF upticks.

Delinquency rates are expected to tick up in the next couple of quarters – the peak of which varies from bank to bank, given their different R&R processes and timescales. Most banks don't seem too worried for now – delinquency rates have been very much within expectations and overlays should be more than adequate to manage these accounts, especially given that high risk accounts tend to be skewed towards residential mortgage and small SMEs, both of which are guaranteed and heavily collateralised.

Do note most banks have reported fairly conservative net credit cost (NCC) estimates, which don't account for the release of overlays – we should see multiple positive surprises. Regulators have been clamoring for the release of the such overlays in 2023 – we expect them to be offloaded fairly evenly in the latter half of CY23 (possibly in 2QCY23). We may see a fair chunk of provisioning being allocated in 1QCY23, however, with impairment rumours surrounding certain large names – Alliance Bank has also cautioned for a large allocation to account for a construction name.

OPEX concerns for CY23 seem a lot less muted than that of CY22 – while tech spend and personnel costs are expected to remain elevated, these are coming off a higher base (Union collective agreement adjustments, reopening expenses, higher tech and marketing spend). Maybank sounds the most alarm for these OPEX concerns, calling for a much higher Cost/Income ratio in the next couple of years, as it unveils its large scale technology integration plan.

Understandably, CY23 loan growth targets have been more muted, given that they will be more funding-led. A number of banks have settled for more targeted approaches to loan growth, only focusing on segments which they view as profitable (this varies from bank to bank). Some interesting updates: With CIMB's restructuring programme in its Indonesia and Singapore commercial space coming to an end, we could see these segments start to register positive growth once more. Also, ABMB has reshifted focus back on its consumer and corporate portfolios – going so far as to vie for double digit growth in these portfolios in subsequent years.

Two banks (RHB and BIMB) have announced higher-than-forecasted dividend payouts in the quarter – BIMB intends to maintain the level payouts. Public Bank has split its 2HCY22 dividend into two separate instances – management hints that it may do so again, provided the economic situation is welcoming.

CIMB (BUY, TP: RM6.55) given that CIMB Niaga's outlook is still relatively positive, offering some reprise to pressures in other regions, as well as the end of loan pressure on its restructured portfolios, and Public Bank (BUY, TP: RM5.08), for its excellent asset quality and recovery potential of its sizeable unit trust facility.

Healthcare (Gloves): Performance of gloves companies were mixed in 4QCY22 which most companies reported net loss in 4QCY22 namely Kossan Rubber and Hartalega. Kossan Rubber reported earnings came in below expectations owing to lower-than-expected revenue and higher-than-expected input costs. Meanwhile, cumulative earnings of Hartalega came in above expectations due to the better-than-expected ASP. On the other hand, Top Glove is scheduled to release 4QCY22 result in Mar 2023. Overall, the glovemakers were loss making in 4QCY22 due to margin compression caused by: (1) reduced revenue because of lower ASP and sales volume, and (2) higher input costs due to increased natural gas prices and minimum wages. Going forward, we remain cautious about the glove's sector outlook as we believe that the oversupply of the glove in the market will persist in CY23, which will impact the ASP and utilisation rate. Besides, we are cognizant that the operating margin will continue to be under pressure from rising labour and energy expenses, which will result in lower earnings. As such, we maintain our NEGATIVE recommendation on glove sector.

Healthcare (Hospital/Pharmaceuticals): The healthcare sector has observed a robust performance in 4QCY22; most notably in healthcare services and hospitals subsector. Earnings had been returning higher than pre-pandemic levels, signalling the improving hospital activities upon the reopening of international borders and minimized effects of Covid-19-related diseases. Additionally, with China's reopening after it lifted its strict Covid policies last year, we are expecting a growth in international patient influx, in line with growing aging population and increasing numbers of comorbid illnesses in the region. KPJ Healthcare (BUY, TP: RM1.48) and IHH Healthcare (BUY, TP: RM6.91) are expected to leverage on the increase in inpatient visits and Bed Occupancy Rate (BoR) for its Malaysia and international operations; in tandem with its expansion activities to cater for the higher demand for quality hospital services. While optimistic on the hospitals' robust operations and resiliency amid the volatile global economy in FY22, the industry remains vulnerable to near-term macroeconomic headwinds. The majority of expenditures are anticipated to rise due to rising global inflation, interest rates and energy prices. The healthcare market is currently facing manpower shortages as well, which puts pressure on staff cost and BoR. Additionally, impairments from delayed China operations and the recent natural disaster in Turkey had dragged IHH's FY22 earnings performance; which is currently being mitigated by the disposals of its medical education arm and sales of its hospitals.

Meanwhile, pharmaceuticals continue to see mixed results. While companies like Duopharma Bhd (NC) and Apex Healthcare (NC) are leveraging on the higher sales following higher demand in SE Asia for generic drugs, as well as favourable forex and uninterrupted production post-pandemic, Pharmaniaga Bhd's (NEUTRAL, TP:RM0.48) is held back by their oversupply of Covid-19 vaccines that they had yet to make a sale from. Additionally, the concession with Malaysia's Health Ministry was only given up until 1HCY23, in light of the new government's policy in tenders for pharmaceutical companies operating in Malaysia. Pharmaniaga will be valued lower in the short-to-mid term until its sale of the Covid-19 vaccines is in full swing, offset partly by its penetration of 50% into the private sector. Nevertheless, barring the vaccine impairment issue, the demand for OTC medicines, as well as treatments for NCDs, rare diseases and mental health, are expected to be on the rise, hence we believe pharmaceuticals subsector as a whole will remain resilient.

Media: The 4QCY22 performance for our media company exceeded expectation. The positive divergence on Media Prima performance was most likely due to higher-than-expected revenue from Out-of-Home and Digital Media platforms which offset the softer advertising revenue on the Group's broadcasting media platform. On a side note, Astro will be releasing its quarter result in end of March. We think the Group could still provide attractive dividend yield. We hope to see better Adex environment as inflation resides. Overall, we maintain Positive on media sector. Our top pick for the sector is Astro (BUY, TP:RM 1.03) on the back of anticipated recovery in consumer sentiment.

Oil & Gas: The companies we covered under this sector had shown significant improvements from the previous quarter and previous year, on the back of increased activities in the sector as Brent crude oil price averaged to USD98pb in CY22. However, breaking the performance by streams, the impact of tight oil supply, geopolitical tensions, China's economic situation and hiking interest rates is different in each.

Integrated (MIXED)

Integrated companies that cover more than one stream had seen mixed results, depending on their main niche. The increase in upstream activities continues amid the recovery from Covid-19 pandemic impact on projects, supply and manpower, in line with the elevated oil prices. The shift from midstream-downstream to upstream operations in CY22 provides the opportunity for integrated companies like Dialog Bhd (BUY, TP:RM3.28) to expand its E&P by acquiring oil and gas fields for the long-term. Other integrated companies such as Hibiscus Petroleum (NC) continue to concentrate on its downstream segment, which still maintains its resiliency and had performed well on the strength of higher average realised oil price and relatively low average operation expenditure per barrel. Nevertheless, Dialog's FY22 earnings are still plagued with higher material and labour cost; trailing from the impacts of the Covid-19 pandemic and the Russia-Ukraine war. This subsequently led to cost overruns and some project losses. Nevertheless, the sale of specialised petroleum products and services to international buyers, as well as the advancement of engineering, construction and maintenance activities in Singapore and fabrications in New Zealand, had contributed to Dialog's FY22 performance positively.

Upstream (POSITIVE)

Upstream operations globally had ramped up on the back of elevated crude oil prices in FY22; subsequently increasing the demand for OGSE companies to service renewed projects for major oil players. Under our coverage, Deleum Berhad (BUY, TP:RM1.22) reported an earnings surge due to higher upstream activities demanding its services in slickline for well intervention, well simulation, gas lift valves, turbines, and paint blasting. The stabilised crude price coming into CY23 is expected to continue supporting the upstream. However, rising interest rates and geopolitical uncertainties in many regions of the world continue to pose significant risks in terms of supply and pricing trends.

Midstream (POSITIVE)

Crude petroleum and petroleum product shipping has seen an increase in demand, in line with higher tanker rates, in 4QCY22. This benefit dry-docking and ship maintenance operations as well, despite the worries on global economy and geopolitical tensions.

Under our coverage, Malaysia Marine & Heavy Engineering (BUY, TP:RM0.81) had shown a surge in earnings attributable to increased ship maintenance and repair activities under its Marine segment; improved since the reopening of international borders in April CY22. Crude oil and natural gas prices are expected to continue to be supported; subsequently increasing the demand for energy products and energy security. Additionally, the growth in renewable energy and increasing decarbonisation efforts provided a great commercial opportunity for MMHE's Heavy Engineering segment. Nevertheless, the challenges remain to be: (i) disruptions to demand and pricing, (ii) supply chain interruptions due to geopolitical tensions and inflationary pressures, (iii) manpower constraints, and (iv) higher competition amongst shipyards after the recent lifting of China's border restrictions.

Meanwhile, the FPSO market is strongly supported by a growing demand for LNG, coupled with uninterrupted floating storage activities and limited vessel availability. Additionally, petroleum shipping demand is expected to rise on the back of the recommencement of upstream activities. LNGCs are also on high demand following geopolitical tensions threatening energy security in Europe and East Asia. As such, Bumi Armada Berhad (BUY, TP:RM0.80) and MISC (BUY, TP:RM8.16) reported an improvement in its 4QFY22 earnings. Demand for FPSOs and offshore vessels is anticipated to develop favourably in the near-to-mid term.

Pipeline gas transportation is plagued by higher operating costs and higher fuel gas prices causing lower sales volume in CY22. Additionally, the approved Incentive-based Regulation (IBR) tariffs for the Regulatory Period 2 (RP2) for the Gas Transportation and Regasification services which commencing from January 2023 to December 2025 is expected to translate to lower revenues for Gas Transportation and Regasification business segment revenues. Despite the slightly lower results, Petronas Gas (BUY, TP:RM18.43) is expected to leverage on the expectation of a more stable regional gas market, while Gas Malaysia's (BUY, TP: RM4.00) performance is expected to remain robust on the laggard effect of the natural gas pricing. Nevertheless, the gas market is expected to gradually minimise its volatility amid the recovery in China's economy after lifting its strict Covid-19 restrictions, barring the risk of forex rates, raw material cost and regional fuel gas pricing on the back of inflationary pressures.

Downstream (MIXED)

Downstream oil and gas had shown a mixed in results. Driven by increasing travel demand, stronger tourism industry recovery, and ongoing investment in infrastructure projects, retail and commercial fuel had seen a significant increase in CY22. Petronas Dagangan (BUY, TP: RM24.52) is expected to leverage on the post-pandemic environment, although the risks of inflationary pressures on operating cost and non-fuel products remain. Additionally, the demand for EV batteries in the Automation sector subsequently increase the demand for EV charger installation nationwide, which is in line with the global projection for e-mobility to grow at about 27% to 29% in less than 10 years. We expect the downstream retail to remain resilient coming in CY23.

For the petrochemicals industry, higher operating cost and volatile feedstock prices continue to drag the industry, offset by the return of China's demand after its lifting of border restrictions. However, Petronas Chemicals Group's (BUY, TP:RM10.82) earnings slipped on its internal operations and acquisitions of two specialty chemical companies in CY22. The petrochemical market volatility will persist, in line with the volatile oil price, the continuous geopolitical tensions, supply-demand imbalance and inflationary fears. Olefins and derivatives will see a stable pricing on strong demand after China's economic reopening, fertilizers and methanol will see a mild growth due to weak downstream demand, and specialty chemicals remain to be impacted by supply chain disruptions and inflationary pressures.

Plantation: For the 4QCY22, planter's performance under our coverage were mixed with 2 stocks performed above estimation, 6 within and 2 came in below our expectations. The overall fell in earnings were in line with consolidation in CPO price realized, which hovered at around RM3,377-4,190/Mt levels during the quarter. The average selling price (ASP) of CPO in 4QCY22 was RM3,910/mt (-2.0%qoq, -24.1%yoy), representing a sharply decreased from RM5,154/mt in 4QCY21. Among those that reported results that were below our expectations were Sarawak Plantation and PPB. Sarawak Plantation earnings were dragged by smaller sales volume CPO & PK, lower FFB processed CPO production amidst high cost of production, whilst PPB earnings suffered from fair value loss of derivatives. While the others, namely Sime Darby Plant, KLK, FGV, Genting Plant and Ta Ann posted weaker upstream activity owing to the impact of acute labour shortage moderation of CPO prices.

Production of FFB typically declines in the first half of the year, as cropping pattern was impacted by persistent wet weather conditions which affected harvesting and logistic activities, compounded by slow foreign labour intake which

led to low FFB produced, yield and sales volume. Our earnings projections for the sector inch merely around +3%/+1%/+2% over FY23/FY24/FY25 following rebound in CPO prices within the 1HCY23 due distortion on PO supply from Indonesia, weak to-date FFB production catch up apart from increase in manuring and labour cost as well as on possible margin squeeze due to elevated operational cost ahead. On top of that, the production cost has increased from below RM1,500-2,000/Mt to RM2,200-2,700/Mt in 4QCY22. We pencil in fragile demand outlook for the sector on the back inflationary pressure as well increase in production cost coupled with tight household spending on high base interest rate locally and globally. All factored in considered, we maintain NEUTRAL call on the sector. Our top picks are Sime Darby Plant (BUY, TP: RM5.50) and IOICorp (BUY, TP: RM5.40).

Property: Most of the property companies under our coverage reported earnings that came in within expectations except for Sunway Berhad and S P Setia. Earnings of Sunway Berhad were mainly driven by recovery in property investment division while S P Setia saw a surge in earnings contribution from overseas projects in 4QFY22. Overall, property companies recorded improved earnings due to higher progress billing of property projects which partially offset the higher financing cost. Meanwhile, property companies reported new property sales that largely met expectation in CY22 due to recovery in buying sentiment post reopening of economy. Looking forward, property companies are slightly positive on new sales outlook by setting marginally higher sales target for CY22. Notably, Mah Sing Group set new sales target higher at RM2.2b for CY23 after securing new sales of RM2.12b in CY22. Similarly, Sunway Berhad set new sales target at RM2.3b for CY23 after hitting new sales of RM2b in CY22. We see that outlook for property sector to be marginal better in CY23 as Bank Negara Malaysia paused OPR hike. Hence, we maintain Neutral on property sector.

REITs: Earnings of REITs under our coverage were largely within expectations except for Pavilion REIT and IGB REIT. Earnings of Pavilion REIT came in stronger than expected due to lower than expected expenses while earnings of IGB REIT were supported by higher than expected rental income. Earnings growth of REITs were largely in positive territory as rental income continued to recover post reopening of economy. Shopper footfall increased to close to pre-pandemic level and that improved tenant sales and reduced tenants assistance from REIT. Besides, earnings recovery was also driven by positive rental reversion as tenant sales continued to improve. Looking ahead, we see that outlook for REIT to remain positive due to higher tourist arrival which should improve tenant sales further. Besides, the declining MGS yield following pause of OPR hike should improve attractiveness of REIT. In a nutshell, we maintain Positive on REIT.

Technology: Earnings of our technology companies were mixed in 4QCY22. Unisem and MYEG fell within our expectations. Globetronics surpassed our estimates while Inari, D&O Green Technologies and Datasonic recorded earnings that missed our expectations. Earnings were mostly affected from softer volume loadings due to the current weakening in the end market demands and applications such as the smartphones as a result from high inflation environment. Datasonic's earnings lagged our estimate due to lower-than-expected earnings from passport and MyKad-related services (Customised Solutions) in 9MFY23 despite the reopening of international borders. Nonetheless, we maintain our Positive stance on technology sector. Our top pick for the sectors is D&O Green Technologies (BUY, TP: RM5.10) primarily supported by the ongoing innovation in automotive LED lighting which continues to gain popularity in new car designs and applications. Overall, as inflation subsides, we anticipated more stable growth from our technology companies underpinned by the arrival of emerging technologies like 5G, IoT, AI and EVs.

Telecommunication: The 4QCY22 performance for telecommunication companies under our coverage was mixed with Axiata beating expectations, TM in line while CelcomDigi and Maxis came in below. Axiata results outperformed due to higher EBITDA contribution across all OpCos except Dialog and Ncell. In contrary, CelcomDigi as well as Maxis missed expectation attributable to lower-than-expected service revenue growth for both. Our top pick remains to be TM (BUY, TP: RM6.60) due to it being favored fiber service provider despite the larger than expected cut in the MSAP review. We maintain Neutral on this sector given the unclear 5G implementation policy under the new government.

Utilities (Power): The 4QCY22 result season was mixed for the power sector, but notably, players that operate in de-regulated power markets, i.e. YTL Power and YTL Corp (multi-sector, multi-country conglomerate with exposure to the power sector) reported stronger than expected results from improved market tariffs and margins, which is in-line with our 2022/23 sector thesis. YTL Corp benefitted from reopening of international borders with a strong recovery for its hotel operations. In contrast, Tenaga, which operates in a regulated environment, disappointed expectations given higher operating and fuel cost and higher interest cost to fund higher working capital given a lag in its ability to pass-through fuel cost inflation - this is also well in-line with our broad sector thesis. Having said that, Tenaga's cash flow outlook is improving following the Government's favourable ICPT decision in December 2022 to allow higher ICPT surcharge and provide a larger subsidy to fund ICPT surcharges for selective consumer groups. Meanwhile, Ranhill (a water utilities player) disappointed expectations, but these are mainly due to temporary factors such as scheduled maintenance for its power plant and losses for a rehab project. Ranhill will benefit from a water tariff hike for the non-domestic sector from January 2023 onwards, which should improve its earnings performance this year, we believe.

Outperformer versus underperformer

In comparison to preceding quarter, there was a drop in the number of outperformers among the FBM KLCI constituents under our coverage in 4QCY22 from 5 to 4. Nonetheless, the number of underperformers was unchanged at 9.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
4QCY22	4	9
3QCY22	5	9
2QCY22	7	10
1QCY22	10	10
4QCY21	6	5

Source: MIDFR

In 4QCY22, the outperformers among FBM KLCI constituents under our coverage comprised of Axiata, IOI Corp, MISC and QL Resources. Meanwhile, the underperformers comprised of two telco companies namely Digi and Maxis, three oil & gas players namely Petronas Chemicals, Petronas Dagangan and Dialog Group, as well as IHH Healthcare, Inari Amertron, PPB Group and Tenaga Nasional.

Earnings revision/ variation

The aggregate FY2023 earnings forecast of the FBM KLCI current constituents under our coverage was tweaked higher by RM425m (+0.6%) to RM69.3b.

FBM KLCI Constituents: Earnings Revision/Variation (RM million)

SECTOR	Stocks	FY2023 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	48
ENERGY	Dialog	-63
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	771
HEALTHCARE	IHH Health	-421
INDUSTRIAL P&S	Petronas Chemicals	-1,387
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	279
TECHNOLOGY	Inari Amertron	-33
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	-86
TRANSPORT & LOGISTICS	MISC	841
UTILITIES	TNB, Petronas Gas	475
TOTAL		**425**

Source: MIDFR; (F) – Forecast

The higher aggregate figure for FY2023 were mainly contributed by upward revisions to forward earnings of Transport & Logistics (namely MISC), Financial Services (mainly CIMB, Public Bank and Maybank), Utilities (Petronas Gas and Tenaga Nasional) as well as Plantation (namely IOI Corp) constituents. However, they were mainly moderated by downward revisions to forward earnings of Industrial P&S (namely Petronas Chemicals) constituent.

Similarly, the aggregate FY2023 earnings forecast of the stocks under MIDFR Universe was tweaked higher by 1.0% to RM86.7b.

Refer to Appendix for further details.

Market impact and outlook

In gist, the 4QCY22 results season turned out largely within our expectation as attested by the only slight upward revisions to aggregate earnings forecast of both (i) FBM KLCI current constituents under our coverage, as well as (ii) stocks under MIDFR Universe. Furthermore, the ratio of Above/Lower than expected results under MIDFR Universe came in at almost 1.0x. Overall, we expect muted market reaction to the 4QCY22 results.

In the near term, external factors are seen to continue exerting major sway over equity market sentiment. Presently, the main cues coming out of Wall Street are that (1) inflation pressures are ebbing but at a slower than expected pace, and (2) the US Fed is likely to continue raising rate at normalized 25bp pace in its upcoming meetings, however (3) the US Fed is anticipated to pause its rate hike only after the June meeting.

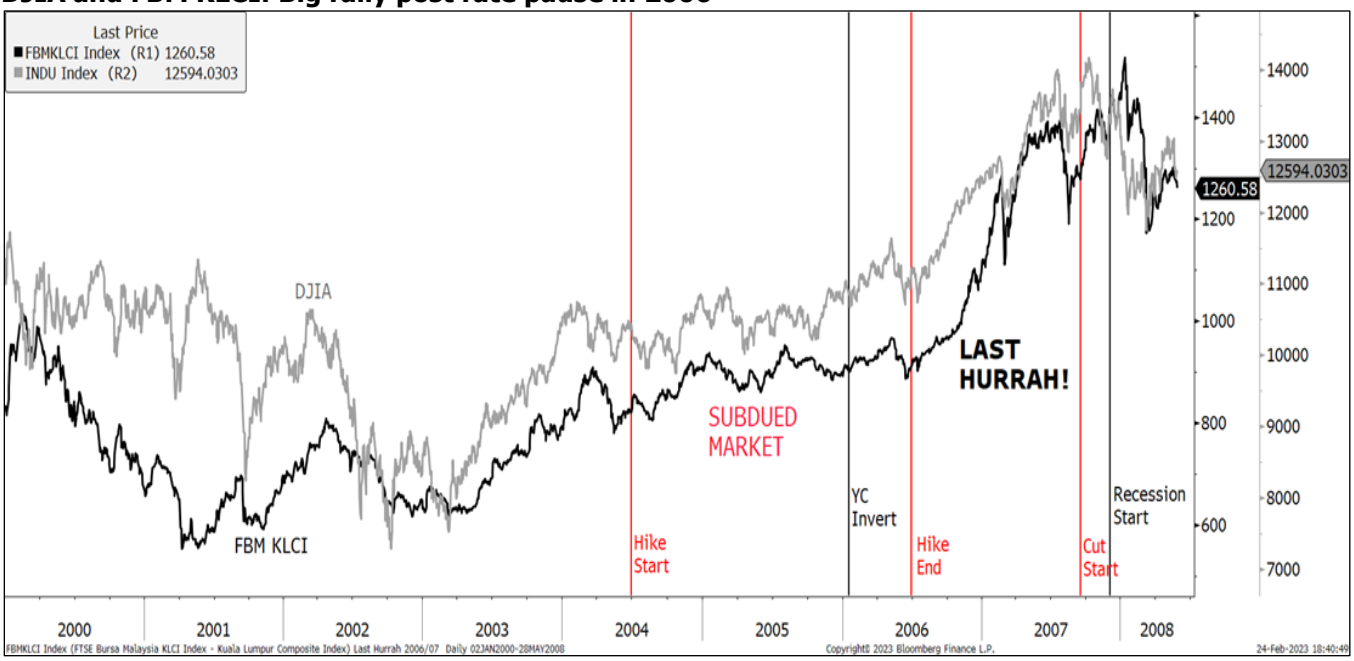
Due to the prevalent uneasiness over possible postponement of the US Fed pause, thus greater downward pressure on macro growth, we posit the risk asset markets and equity in particular are tilting sideways or even down in the short term.

However, in the medium term, we expect the risk-on mode to return after the anticipated US Fed pause. Empirically, the intervening period between the end of US Fed rate hikes and the impending recession could prove attractive for equity market, kind of a "last hurrah", principally due to two factors, namely:

(1) unwinding or subsiding pressure on equity required return (as the upside risk diminishes) with the end of tightening cycle, and

(2) in the meantime, corporate earnings are likely to remain buoyant as the supposed recession is yet to manifest and is possibly one (or more) year away.

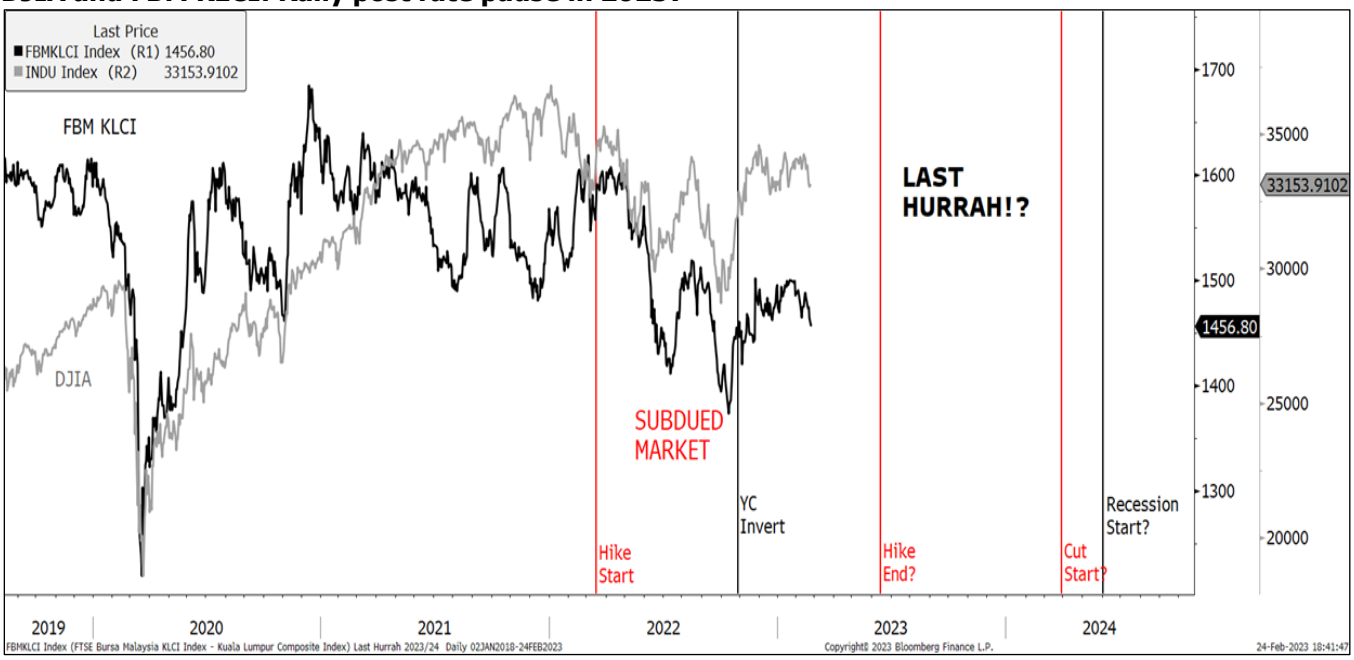
DJIA and FBM KLCI: Big rally post rate pause in 2006



Source: MIDFR, Bloomberg (G709)

In fact, it must be noted that European equity markets have somewhat decoupled and continued to remain buoyant despite the recent hiccups on the US inflation front. For example, UK's FTSE100 and French CAC40 are trading near all-time high levels while the German DAX is at levels prior to the onset of Russia-Ukraine war. We may argue that the "last hurrah" hypothesis is beginning to take hold among the European equities.

DJIA and FBM KLCI: Rally post rate pause in 2023?



Source: MIDFR, Bloomberg (G710)

On this score, the other key regions namely North America and Asia may be considered as laggards. But it is not farfetched to reckon that they would also, sooner or later, follow on the footsteps of the Europeans.

Maintain FBM KLCI end-2023 target at 1,700 points

We introduced our FBM KLCI end-2023 target of 1,700 points in early December last year. At that point, the US Fed was anticipated to pause its rate hikes cycle by March this year. However, the timeline is likely been delayed to June at the earliest in view of the recent robust jobs data as well as subsequent stronger than expected inflation figures. Moreover, it is notable that US economic data have been generally outperforming thus far in 2023 as attested by the positive Economic Surprise Index.

In above regard, while we still believe the cessation of rate hikes cycle would likely herald the onset a bullish equity market, the revised pause timeline may likewise postpone the achievement of our current FBM KLCI target. With downward bias, we maintain our FBM KLCI end-2023 target at 1,700 points or PER23 of 14.9x.

APPENDIX

MIDFR: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		EARNINGS *(% Chg)*
	FY2023 (F)		FY2023
	Old	New	
TOTAL (MIDFR Universe)	85,836.6	86,676.8	*1.0*
Annual % Change	*6.2*	*12.3*	
TOTAL (FBM KLCI)*	68,906.3	69,330.9	*0.6*
Annual % Change	*9.2*	*19.5*	

Source: MIDFR; * Aggregate earnings of 25 FBM KLCI constituents under MIDFR coverage; (F) – Forecast

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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