

3QCY23 Report Card

Pockets of Positive Earnings Surprises

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| FBM KLCI | |
|----------|---------|
| Current | Target |
| 1,456.38 | 1,520 ↔ |

FBM KLCI component stocks reported 3QCY23 results with more positive earnings surprises compared to 2QCY23 results. While cost pressures (from energy, labour and inputs) weighed down on earnings across sectors, planters benefited from lower fertilizer cost while glove makers enjoyed lower latex and nitrile butadiene rubber (NBR) costs. Similarly, while many companies reported disappointing business volumes on slowdown in domestic consumption, port operators saw improved cargo throughput, while oil & gas support service providers were swamped with new work orders. We now project FBM KLCI earnings to contract slightly more by 4.5% in CY23F (from a 4.0% decline previously), followed by a higher growth of 12.6% in CY24F (from 10.5% previously).

More Positive Earnings Surprises

The earnings delivery (as against our expectations) of FBM KLCI component stocks improved sequentially in 3QCY23, with 29%, 43% and 29% beating, meeting and missing our projections compared with 10%, 66% and 24% in 2QCY23 (Exhibit 1), respectively.

Similarly, as against market expectations, there was also sequential improvement with "above", "within" and "below" at 17%, 43% and 40% vs. 10%, 50% and 40% in 2QCY23 (also see Exhibit 1), respectively.

Winners and Losers

An encouraging eight FBM KLCI component stocks under our coverage beat our projections, namely, **AXIATA** (strong showing from South Asian units), **CDB** (lower O&M cost and regulatory fees), **GENTING** (strong recovery in Singapore), **QL** (margin recovery), **RHBBANK** (better net interest margin), **SIMEPLT** (lower costs, better downstream margins), **TM** (tax credit) and **WPRTS** (higher container volume).

On the other hand, eight FBM KLCI component stocks under our coverage universe missed our projections, namely, **GENM** (weak tourist arrivals), **IHH** (weak showing from operations in Singapore and Türkiye), **IOICORP** & **KLK** (weak downstream performance), **MISC** (weak showing from petroleum shipping and offshore segments), **PCHEM** (low plant utilisation), **PETDAG** (unfavourable product price movement) and **TENAGA** (high-cost coal inventory).

Interesting Observations in 3QCY23 Earnings Reports

Within our coverage including non-FBM KLCI component stocks across sectors, a number of companies were hit by cost pressures, including **AEON**, **AIRPORT**, **ASTRO**, **DLADY**, **GHLSYS**, **HPPHB**, **JHM**, **KIMLUN**, **LGMS**, **MKH**, **PADINI**, **POS**, **SLP**, **TCHONG** and **VELESTO**. This is not surprising given the rising energy, personnel and input costs. What surprises us is, this time around, certain companies actually benefited from the easing of cost pressures, predominantly, planters due to lower fertilizer cost (**BPLANT**, **GENP**, **TAANN** and **TSH**) and glove makers as latex and nitrile butadiene rubber costs eased (**HARTA** and **KOSSAN**).

A number of companies were hit by disappointing business volumes in terms of sales volumes, orders, progress billings and adex (media companies) including **AEON**, **ANCOMNY**, **KERJAYA**, **KIMLUN**, **KOTRA**, **MCIL**, **MEDIA**, **NOVA**, **PADINI**, **PWROOT**, **SLP**, **STAR**, **SUNCON**, **TGUAN** and **UNISEM**. On a brighter note, stronger-than-expected business volumes were reported by port operators in terms of cargo throughput (**BIPORT** and **WPRTS**) and oil & gas support service providers in terms of work orders (**UZMA**, **WASCO** and **YINSON**).

End-CY23 FBM KLCI Target Maintained

We now project FBM KLCI earnings to contract slightly more by 4.5% in CY23F (from a 4.0% decline previously), followed by a higher growth of 12.6% in CY24F (from 10.5% previously) owing to a slightly lower base in CY23F.

We maintain our end-CY23F FBM KLCI target of 1,520 pts based on an unchanged 16.5x CY23F PER, which is at a 0.5x multiple premium to its historical PER range of 14x-16x post the economy reopening in 2021-2022, on a reduced market risk premium with improved political stability.

US Rate Cuts in Focus

Expectations of rate cuts in the US will set the stage for the return of investors to the emerging markets including Malaysia. We will tactically first position ourselves in beneficiaries of public spending during the early part of CY24, gradually also gravitating towards the export sector as the year progresses as the global economy picks up. We expect consumer spending to get softer before getting stronger as it takes time for consumers to “internalise” subsidy rationalisation.

Top Sector Picks

We pick **banks** for proxy to a healthier economy over the long term with stronger fiscal sustainability backed by subsidy rationalisation, and to a certain extent, for proxy to the multiplier effect throughout the economy with the roll-out of large-scale public infrastructure projects.

We are upbeat on **contractors**. While the gross development expenditure of RM90b in Budget 2024 is lower than RM97b in Budget 2023, it remains sizeable. Apart from small-scale public infrastructure projects such as roads, bridges, schools, hospitals and rural projects, there are large-scale ones such as flood mitigation and Bayan Lepas LRT. Coupled with “off-balance sheet” mega public projects (i.e. those to be funded by Special Purpose Vehicle Dana Infra Nasional Bhd) such as the MRT3, there will be enough jobs to go around in the market.

We also like **consumer staples players** and **automotive makers/distributors** focusing on the affordable segment, given their target customers in the B40 group will be shielded from the brunt of subsidy rationalisation and could potentially also benefit from the introduction of the progressive wage model.

We are keeping a close eye on the inflection point of the export sector, particularly, in relation to **tech and EMS players**. On cooling inflation, central banks all around the world now have room to ease policy to stimulate growth. Also, the inventory adjustment cycle in the global semiconductor sector would have run its full course at some point in CY24.

Our **top conventional picks**, **top Shariah picks** and **top small-cap picks** are reflected in Exhibits 2-4.

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Exhibit 1: Quarterly Results of FBM KLCI Component Stocks

| | 3QCY23 | | | | | | 2QCY23 | | | | | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | KENANGA | | | CONSENSUS | | | KENANGA | | | CONSENSUS | | |
| | Above | Within | Below | Above | Within | Below | Above | Within | Below | Above | Within | Below |
| AMBank | | 1 | | | 1 | | | | 1 | | | 1 |
| AXIATA | 1 | | | | | 1 | | | 1 | | | 1 |
| CIMB | | 1 | | 1 | | | | 1 | | | 1 | |
| CDB | 1 | | | | | 1 | | 1 | | | | 1 |
| DIALOG | | 1 | | | 1 | | | | 1 | | 1 | |
| GENM | | | 1 | | | 1 | | | 1 | | | 1 |
| GENTING | 1 | | | 1 | | | | | 1 | | | 1 |
| HLBank | | 1 | | | 1 | | | 1 | | | 1 | |
| HLFG | | 0 | | | 1 | | | 0 | | | 1 | |
| IHH | | | 1 | | | 1 | | | 1 | | | 1 |
| IOICORP | | | 1 | | | 1 | | 1 | | | 1 | |
| KLK | | | 1 | | 1 | | | 1 | | | | 1 |
| MAXIS | | 1 | | | | 1 | | 1 | | | 1 | |
| MAYBANK | | 1 | | | 1 | | | 1 | | | 1 | |
| MISC | | | 1 | | | 1 | | 1 | | | 1 | |
| MRDIY | | 1 | | | 1 | | | 1 | | | 1 | |
| NESTLE | | 1 | | | 1 | | | 1 | | | 1 | |
| PBBANK | | 1 | | | 1 | | | 1 | | | 1 | |
| PChem | | | 1 | | | 1 | | 1 | | | | 1 |
| PPB | | 1 | | | | 1 | | 1 | | | | 1 |
| PETDAG | | | 1 | | | 1 | | 1 | | 1 | | |
| PMETAL | | 1 | | | | 1 | | 1 | | | | 1 |
| PETGAS | | 1 | | | 1 | | | 1 | | | 1 | |
| QL | 1 | | | 1 | | | | 1 | | | 1 | |
| RHBBANK | 1 | | | | 1 | | | 1 | | | 1 | |
| SIMEPLT | 1 | | | | 1 | | 1 | | | | | 1 |
| SIME | | 0 | | | 1 | | 1 | | | 1 | | |
| TM | 1 | | | 1 | | | 1 | | | 1 | | |
| TENAGA | | | 1 | | | 1 | | | 1 | | | 1 |
| WPRTS | 1 | | | 1 | | | | 1 | | | 1 | |
| Total | 8 | 12 | 8 | 5 | 13 | 12 | 3 | 19 | 7 | 3 | 15 | 12 |
| Total (%) | 29 | 43 | 29 | 17 | 43 | 40 | 10 | 66 | 24 | 10 | 50 | 40 |

Source: Kenanga Research, Bloomberg

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Exhibit 2: Top Conventional Picks and Key Investment Statistics

| Stock | Stock Call | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RMmil) | FYE | EPS (sen) | | EPS Growth (%) | | PER (x) | | PBV (x) | ROE (%) | NDPS (sen) | D. Yield (%) |
|---------|------------|-----------------|-------------------|------------|--------------------|-----|-----------|-------|----------------|-------|---------|-------|---------|---------|------------|--------------|
| | | | | | | | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F | | | | |
| CIMB | OP | 5.77 | 6.30 | 9.2 | 61,538 | Dec | 64.2 | 66.6 | 23.0 | 3.7 | 9.0 | 9.5 | 0.9 | 10.5 | 35.0 | 6.1 |
| AMBANK* | OP | 4.06 | 4.80 | 18.2 | 13,434 | Mar | 47.7 | 54.2 | -9.0 | 13.7 | 8.5 | 8.9 | 0.7 | 8.5 | 19.0 | 4.7 |
| GAMUDA | OP | 4.48 | 5.45 | 21.7 | 12,092 | Jul | 31.9 | 41.3 | 6.7 | 29.5 | 14.0 | 13.2 | 1.0 | 9.8 | 12.0 | 2.7 |
| INARI | OP | 2.89 | 4.17 | 44.3 | 10,826 | Jun | 8.7 | 10.4 | -17.2 | 20.5 | 33.2 | 40.1 | 4.1 | 14.9 | 9.9 | 3.4 |
| IJM* | OP | 1.88 | 2.31 | 22.9 | 6,592 | Mar | 10.4 | 10.7 | 12.7 | 2.6 | 18.0 | 21.5 | 0.7 | 3.9 | 8.0 | 4.3 |
| KPJ | OP | 1.34 | 1.56 | 16.4 | 5,848 | Dec | 5.1 | 5.5 | 32.8 | 7.7 | 26.1 | 28.2 | 2.5 | 10.1 | 3.5 | 2.6 |
| ABMB* | OP | 3.47 | 4.30 | 23.9 | 5,372 | Mar | 47.1 | 51.0 | 7.6 | 8.4 | 7.4 | 8.4 | 0.8 | 10.5 | 24.5 | 7.1 |
| SUNCON | OP | 1.83 | 2.26 | 23.5 | 2,360 | Dec | 10.5 | 11.9 | -5.5 | 13.3 | 17.5 | 19.0 | 2.8 | 17.0 | 5.0 | 2.7 |
| MBMR | OP | 4.47 | 4.85 | 8.5 | 1,747 | Dec | 67.7 | 69.2 | 18.2 | 2.3 | 6.6 | 7.0 | 0.8 | 12.6 | 48.0 | 10.7 |
| DLADY | OP | 22.24 | 26.00 | 16.9 | 1,423 | Dec | 104.7 | 118.8 | -14.1 | 13.4 | 21.2 | 21.9 | 3.4 | 16.5 | 75.0 | 3.4 |

*FY23F and FY24F refers to FY24F and FY25F

Source: Kenanga Research

Exhibit 3: Top Shariah Picks and Key Investment Statistics

| Stock | Stock Call | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RMmil) | FYE | EPS (sen) | | EPS Growth (%) | | PER (x) | | PBV (x) | ROE (%) | NDPS (sen) | D. Yield (%) |
|--------|------------|-----------------|-------------------|------------|--------------------|-----|-----------|-------|----------------|-------|---------|-------|---------|---------|------------|--------------|
| | | | | | | | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F | | | | |
| IHH | OP | 5.84 | 7.00 | 19.9 | 51,433 | Dec | 16.7 | 20.6 | 5.9 | 23.9 | 35.1 | 33.9 | 1.9 | 5.5 | 15.5 | 2.7 |
| CDB | OP | 4.24 | 5.34 | 25.9 | 49,742 | Dec | 12.0 | 12.8 | -16.8 | 7.2 | 35.4 | 41.6 | 3.2 | 9.2 | 18.0 | 4.2 |
| GAMUDA | OP | 4.48 | 5.45 | 21.7 | 12,092 | Jul | 31.9 | 41.3 | 6.7 | 29.5 | 14.0 | 13.2 | 1.0 | 9.8 | 12.0 | 2.7 |
| INARI | OP | 2.89 | 4.17 | 44.3 | 10,826 | Jun | 8.7 | 10.4 | -17.2 | 20.5 | 33.2 | 40.1 | 4.1 | 14.9 | 9.9 | 3.4 |
| F&N | OP | 27.72 | 29.40 | 6.1 | 10,167 | Sep | 132.1 | 135.5 | 21.0 | 2.6 | 21.0 | 21.7 | 3.0 | 14.4 | 70.0 | 2.5 |
| IJM* | OP | 1.88 | 2.31 | 22.9 | 6,592 | Mar | 10.4 | 10.7 | 12.7 | 2.6 | 18.0 | 21.5 | 0.7 | 3.9 | 8.0 | 4.3 |
| KPJ | OP | 1.34 | 1.56 | 16.4 | 5,848 | Dec | 5.1 | 5.5 | 32.8 | 7.7 | 26.1 | 28.2 | 2.5 | 10.1 | 3.5 | 2.6 |
| SUNCON | OP | 1.83 | 2.26 | 23.5 | 2,360 | Dec | 10.5 | 11.9 | -5.5 | 13.3 | 17.5 | 19.0 | 2.8 | 17.0 | 5.0 | 2.7 |
| MBMR | OP | 4.47 | 4.85 | 8.5 | 1,747 | Dec | 67.7 | 69.2 | 18.2 | 2.3 | 6.6 | 7.0 | 0.8 | 12.6 | 48.0 | 10.7 |
| DLADY | OP | 22.24 | 26.00 | 16.9 | 1,423 | Dec | 104.7 | 118.8 | -14.1 | 13.4 | 21.2 | 21.9 | 3.4 | 16.5 | 75.0 | 3.4 |

*FY23F and FY24F refers to FY24F and FY25F

Source: Kenanga Research

Exhibit 4: Top Small-Cap Picks and Key Investment Statistics

| Stock | Stock Call | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RMmil) | FYE | EPS (sen) | | EPS Growth (%) | | PER (x) | | PBV (x) | ROE (%) | NDPS (sen) | D. Yield (%) |
|----------|------------|-----------------|-------------------|------------|--------------------|-----|-----------|-------|----------------|-------|---------|-------|---------|---------|------------|--------------|
| | | | | | | | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F | | | | |
| TGUAN | OP | 1.87 | 2.86 | 52.9 | 739 | Dec | 21.9 | 26.0 | -22.4 | 18.4 | 8.5 | 11.0 | 0.8 | 9.7 | 2.3 | 1.2 |
| KOTRA | OP | 4.70 | 6.03 | 28.3 | 697 | Jun | 44.1 | 40.2 | 5.1 | -8.9 | 10.7 | 15.0 | 2.5 | 19.8 | 26.0 | 5.5 |
| SAMAIDEN | OP | 1.13 | 1.44 | 27.4 | 464 | Jun | 2.8 | 4.1 | 0.9 | 48.3 | 40.4 | 35.1 | 5.3 | 14.8 | 0.0 | 0.0 |
| ULICORP | OP | 1.43 | 2.18 | 52.4 | 311 | Dec | 21.2 | 27.3 | 25.2 | 28.6 | 6.7 | 8.0 | 0.8 | 12.6 | 6.0 | 4.2 |
| UZMA | OP | 0.78 | 1.22 | 56.4 | 302 | Jun | 10.1 | 11.8 | 166.4 | 17.0 | 7.7 | 10.4 | 0.5 | 8.7 | 0.0 | 0.0 |
| HPPHB | OP | 0.36 | 0.72 | 100.0 | 140 | May | 2.4 | 3.6 | 10.0 | 52.7 | 15.0 | 20.0 | 1.1 | 11.0 | 1.5 | 4.2 |

Source: Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|--|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

Sector Recommendations***

| | |
|-------------|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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