1Q24 Outlook & Strategy

Loui Low
louilow@msec.com.my
(603) 2201 2100

Reboot, Realign and Revitalise

Summary

- **The US GDP continues to grow, while inflationary pressure has been cooling off throughout the year. Thus, the market is pricing in at least 3 rate cuts for 2024.**
- **Overall external catalysts have been stabilising at least for the near term and investors should focus on domestic catalysts going into 2024.**
- **We expect infrastructure project could restart next year, while NETR and NIMP will provide decent growth. Besides, the Johor-theme could be emerging as a strong catalyst for 2024. Also, we like the data centre and tech-related investments.**
- **Given this setup, we expect there will be opportunities within the Construction, Building Materials, Property, Utilities, Technology as well as Consumer & Transportation, while Banking and Telco could be some defensive picks.**

FBMKLCI	1454.38
Resistance	1470-1480
Support	1440-1450

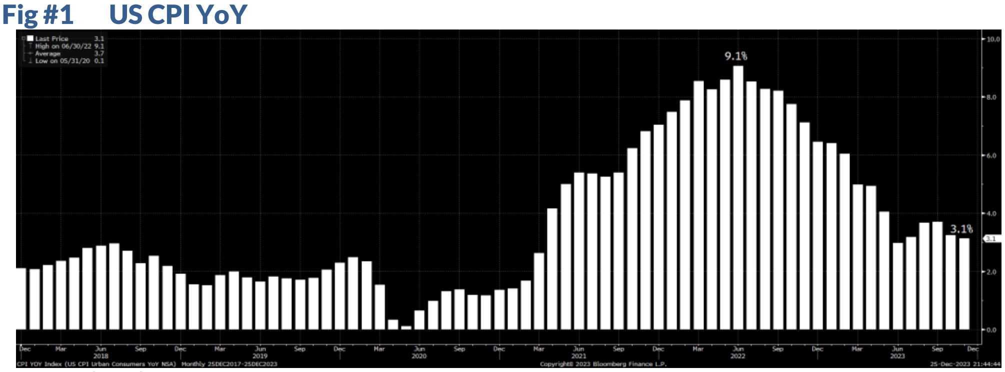
Indices	3Q23 (%)
KLCI	2.1%
FBMSCAP	0.6%
FBMACE	0.8%
Utilities	14.1%
Healthcare	13.5%
Construction	2.8%
Plantation	2.3%
Financial Services	2.1%
REITs	0.8%
Ind Products	0.7%
Consumer	0.7%
Technology	0.5%
Transport	0.4%
Telco & Media	-0.6%
Property	-1.8%
Energy	-8.4%

1Q24 Stock picks	S1	S2	R1	R2
AME	1.63	1.55	1.92	2.05
CCK	0.805	0.76	0.95	1.00
INARI	2.86	2.75	3.30	3.45
ITMAX	1.76	1.70	1.95	2.00
KSL	0.995	1.07	1.21	1.30
MYEG	0.805	0.75	1.00	1.08
NATGATE	1.48	1.35	1.76	1.85
OSK	1.15	1.10	1.30	1.35
PBBANK	4.17	4.06	4.41	4.50
SCGBHD	0.40	0.38	0.475	0.50
SUNCON	1.92	1.85	2.15	2.25
SWIFT	0.515	0.495	0.60	0.635
TM	5.35	5.21	6.00	6.25
WCEHB	0.88	0.82	1.00	1.07

Global Catalysts

- **Inflation has been on a declining trend…** The CPI data has peaked at 9.1% YoY in Jun-2022 and continued to decline 3.1% YoY in November. Meanwhile, the PPI data has declined from 11.7% YoY in Mar-2022 to 0.9% YoY for the month of November. These showed that the Fed has been tackling the inflation effectively with the help of elevated interest rates environment.

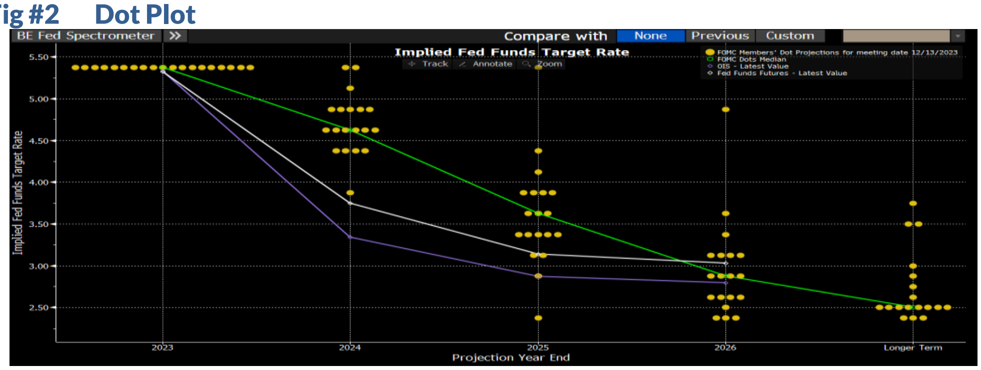
Fig #1 US CPI YoY



Source: Bloomberg

- **...the Fed is turning dovish.** Thus, in the recent FOMC meeting, the Fed is turning dovish without further increasing the interest rate. Also, the dot plot is showing that the Fed could be signalling for 3 rate cuts in 2024.

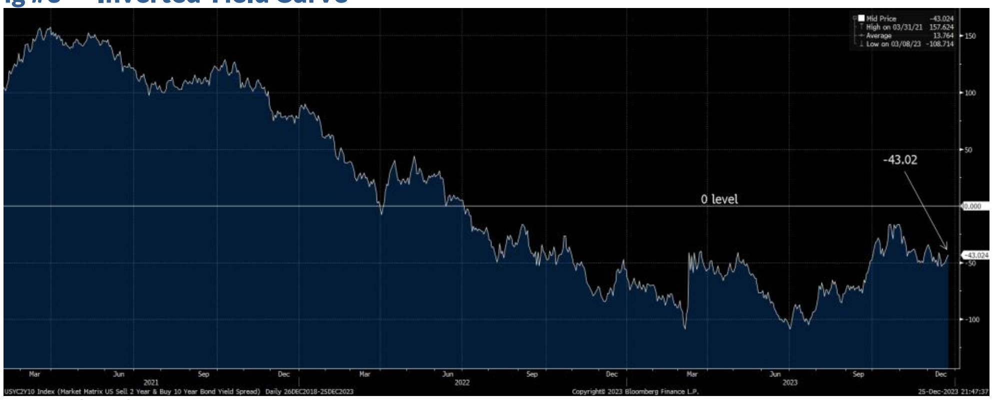
Fig #2 Dot Plot



Source: Bloomberg

- **Inverted yield curve environment.** Yield curve remains inverted albeit rebounding significantly throughout the past months. Since the yield curve is negative, it might indicate that the market could still be anticipating a potential slowdown in the next 12-24 months. However, it might be a soft landing that the Fed is expecting.

Fig #3 Inverted Yield Curve

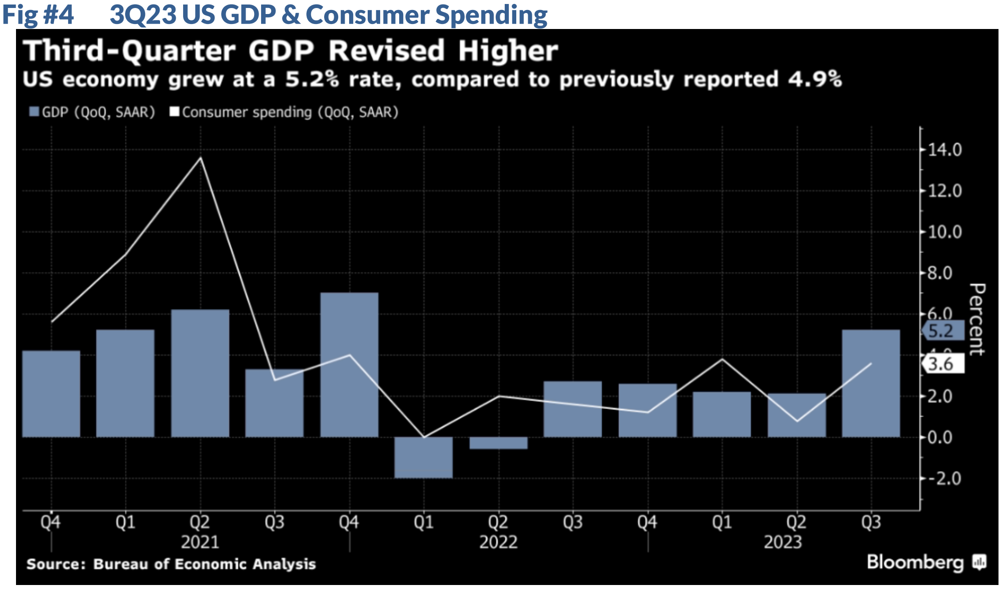


Source: Bloomberg

US Economic Review and Outlook

- **US economy is still growing.** In 3Q23, the US GDP is still increasing at a faster pace of 5.2% QoQ, up from the initial estimate of 4.9%, while economists predicted 5%. The number was revised upwards on the business investment and government spending. However, the consumer spending came in at 3.6% as compared to the initial figure of 4.0%.

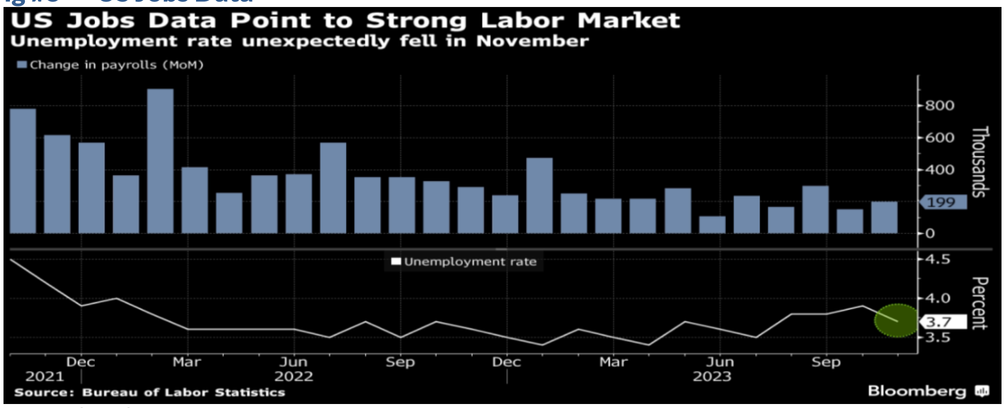
Fig #4 3Q23 US GDP & Consumer Spending



Source: Bloomberg

- **US jobs data and unemployment rate.** In November, the US job grew steadily with addition of 199k jobs vs. estimates of 180k, while the unemployment rate declined to 3.7%. Despite the elevated interest rate environment, the jobs data continue to be resilient, which the market could be looking at avoiding the recession concerns and may anticipate a soft landing approach to the economy.

Fig #5 US Jobs Data

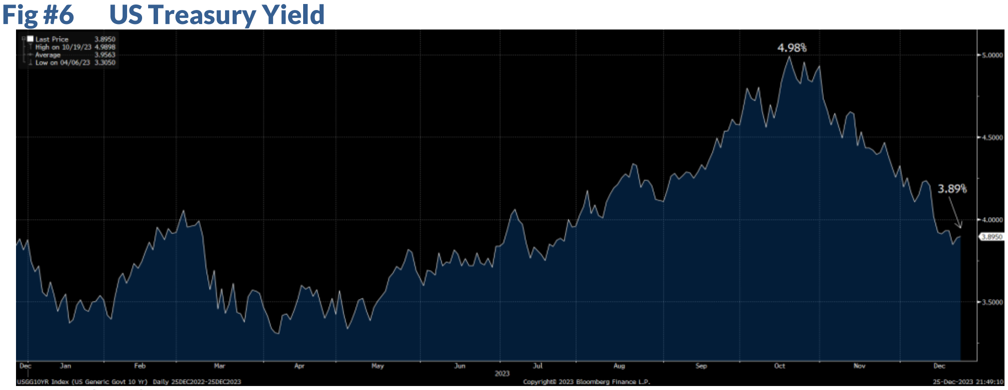


Source: Bloomberg

- **The Fed kept the interest rates unchanged…** The Federal Reserve has kept the benchmark interest rates unchanged in the recent December FOMC meeting at 5.25-5.5%.

- **…US Treasury yield declined.** Meanwhile, the 10-year US Treasury yield surged above 5% briefly in late October for the first time in 16 years before easing in the past 6 weeks.

Fig #6 US Treasury Yield



Source: Bloomberg

- **Softening Dollar index following Fed's dovish tone.** Given the decline in the inflation data, the Fed turned dovish with potential 3 rate cuts by 2024, which has contributed to the weaker dollar movements recently.

Fig #7 US Dollar Index Daily (2021-2023)

Source: Bloomberg

US Outlook

- We expect the world largest economy to grow, premised on the following few factors:-

- **Technological Innovations:** The ongoing innovations and advancement in the AI space will provide more opportunities and poised to revolutionise in various industries. We expect this may boost productivity and creating new markets and should drive economic growth going forward.

- **Global Trade:** Despite ongoing trade war since Jan-2018 between the US and China, the US still rely on products imported from China, albeit at a softer pace in 2023 as compared to 2021-2022. We believe the world is interconnected and the globalisation effect should create opportunities for businesses.

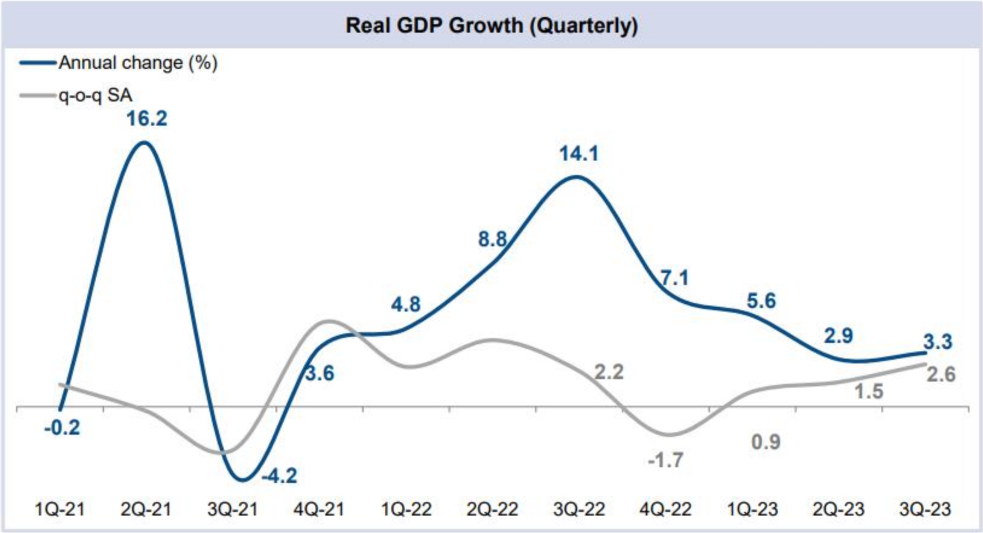
- **Manageable inflationary pressure.** The inflation has declined and it could hit the Fed's inflation target at 2% by end-2024 based on the current conditions.

- **Downside risk.** However, the downside risk towards the economy will include (i) a potential government shutdown, (ii) the debt ceiling discussion by 2025 and (iii) the threat of a wider war in the Middle East may dampen the recovery momentum. Also, the Bank Term Funding Programme will end 1st quarter next year, and it may put some pressure towards the banking sector in our view.

Malaysia Economic Review and Outlook

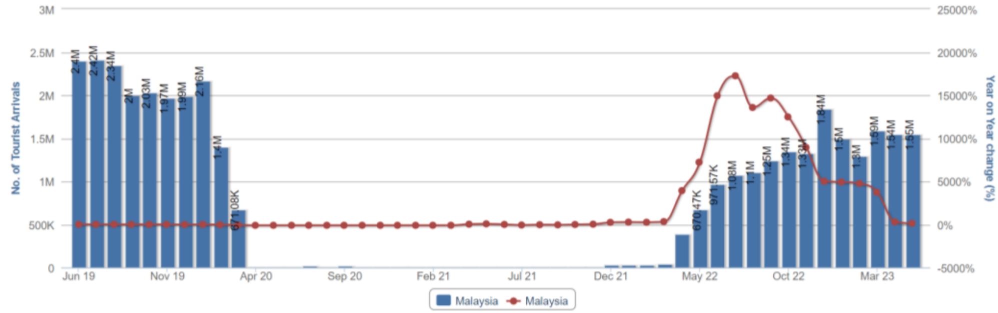
- **Rebounded from 2.9% in 2Q23.** The Malaysia GDP rebounded to 3.3% YoY in 3Q23, it was supported by the increase in domestic spending, recovery in tourism activities and higher construction activities, offsetting weaker external demand affecting goods productions and exports. Still, BNM and MOF are expecting that Malaysia GDP will be growing at 4-5% for 2023, while projecting similar growth rate for 2024.

Fig #8 Malaysia Real GDP Growth



Source: DOSM

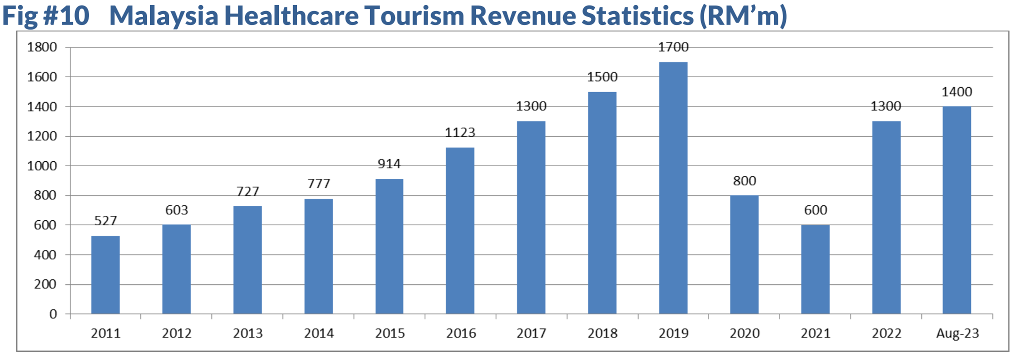
Fig #9 Malaysia Tourist Arrival data (Jun-19-May-23)



Source: https://mytourismdata.tourism.gov.my/

- **International tourists are growing.** Since Apr-22, international arrivals are increasing, stabilising around 1.6-1.7m range as compared to 1.8-2.4m pre-Covid days, due to a delayed recovery from China. Going forward, the government has pushed Visit Malaysia Year to 2026, with a higher target of 26.1m arrivals and an estimated domestic expenditure of RM97.6bn. We opine that part of the tourism sector will be supported by the healthcare tourism segment as well.

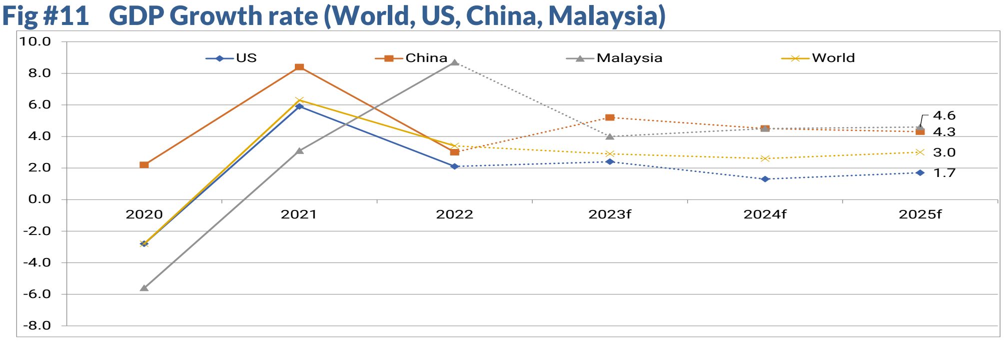
Fig #10 Malaysia Healthcare Tourism Revenue Statistics (RM'm)



Source: https://www.mhtc.org.my/statistics/

- **Based on Bloomberg consensus (Fig #8)**, the World GDP is likely to grow at a gradual pace of 2.6-3.3% over 2023-2025. Meanwhile, the US is expected to advance by 0.9-2.1% over 2023-2025. China and Malaysia will be growing at 4-5% for the same period.

Fig #11 GDP Growth rate (World, US, China, Malaysia)



Source: Bloomberg

- **Brent oil price trended weaker.** Despite the production cuts by OPEC+ and export ban from Russia, the Brent oil stayed on a weaker tone below the USD80/bbl level. However, we believe the softer dollar environment may bode well for the overall Brent oil price going into 2024. Likely, the support will be at USD72 and resistance will be located around USD85-90/bbl.

Fig #12 Brent oil Weekly (2021-2023)

Source: Bloomberg

Market performances and review

- **Both the MSCI World and S&P500 are trading at a premium vs. long term average,** at the P/E of 20.1x and 22.9x vs. 10Y average P/E of 19.3x and 20.6x, respectively.

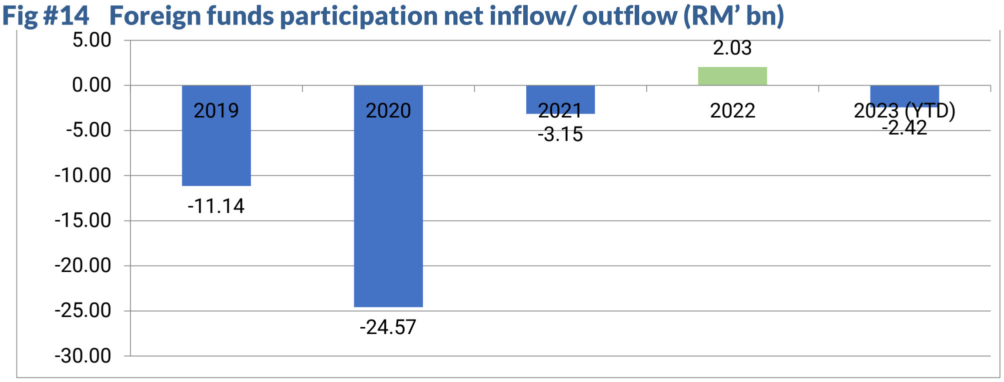
- **However, the FBM KLCI is trading at a discount** of 15.1x P/E vs. the 10Y average P/E of 17.4x. Overall, we believe foreign investors could start to position within emerging markets. Also, foreign investors may view attractive amid the soft ringgit and discounted valuation environment.

Fig #13 FBMKLCI P/E Band

Source: Bloomberg

- **Foreign buying interest picked up in 2H, but still negative overall in 2023.** In 4Q23, we observed that the ADTV has rebounded to RM2.15bn vs. RM2.13bn in 3Q23. Meanwhile, foreign funds are still net sellers with an outflow of–RM2.42bn vs. net buying of RM2.03bn in 2022.

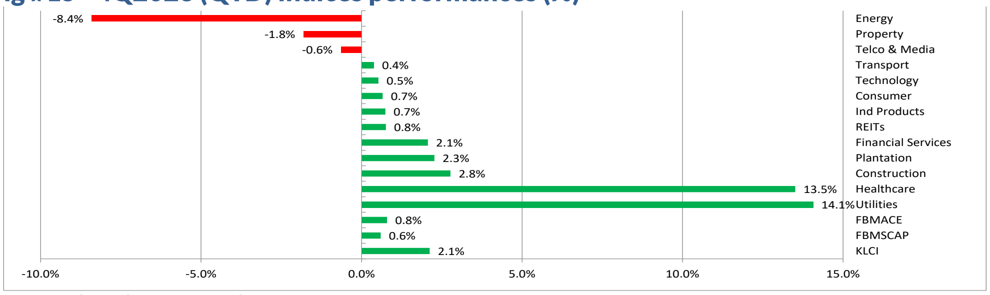
Fig #14 Foreign funds participation net inflow/ outflow (RM' bn)



Source: Bursa Market Place

- **More positives in the final quarter.** In 4Q23, the FBM KLCI, FBM Small Cap and FBM ACE traded higher by 2.1%, 0.6% and 0.8%, respectively. Utilities (+14.1%) and Healthcare (+13.5%) were the top 2 leading sectors, while the Energy (-8.4%), Property (-1.8%) and Telco & Media (-0.6%) were the laggards.

Fig #15 4Q2023 (QTD) indices performances (%)



Source: Bloomberg, M+ Online

1Q24 Strategy

- **Government remained stable at least for the term.** After the GE15 and 6 states elections, the market is expecting the government to remain stable for the term. Meanwhile, with the cabinet reshuffling done recently, we believe the additional Deputy Finance Minister, may boost the confidence of FDI returning to Malaysia.

- **PMX's charm as Finance Minister.** Do note that several MOUs valued at RM170bn investment were signed back in Mar-23. Besides, PMX has inked several foreign investments namely from (i) Geely, (ii) Tesla, (iii) SpaceX. Recently, Nvidia has decided to collaborate with YTL on the data center venture which is worth RM20bn. **We expect this to benefit the Construction, Property, and Building Material.**

- **Johor theme to flourish with the ongoing infra developments.** Given the construction of JB-SG RTS link project rate is progressing well at 52% in Oct-23, we believe this may provide decent catalyst for the growth going forward. Moreover, the KL-SG HSR will start after the completion of the request for information process which has been extended to Jan-2024, according to MRT Corp. **Overall benefiting the Construction and Building Material.**

- **Significant government masterplans.** We have launched the National Energy Transition Roadmap and New Industrial Mater Plan 2030. Under the NETR, renewable energy generation capacity will be increased from 40% to 70% by 2050 and more than RM600bn is required for this deployment in the power sector. For NIMP, we believe this will provide positive opportunities towards smart factories, EV and chemical industries. **Under this theme, we like Renewable Energy, Water segment, coupled with Technology sectors.**

- **Tourism & Healthcare.** After the international borders being uplifted since 2022 and 2023 for the China borders, we expect more tourist arrivals to be seen going forward. Meanwhile, for the healthcare tourism, we believe this will be an area of growth into 2024. **This should benefit the Glove, Hospitals as well as Medical Consumables segment.**

- **Budget 2024 to focus on welfare of the lower income population and rebuilding government coffers.** Following the electricity, targeted subsidy for water will be introduced next year, while the market could be waiting for the upliftment of the sugar-controlled price by the government. Besides the SST being raised to 8% (from 6%), new taxes were being introduced such as (i) 10% capital gains tax on unlisted shares, (ii) 5-10% luxury tax and (iii) 15% Global Minimum Tax by 2025 in the recent Budget 2024. **Under this theme, we believe there could be more upside towards the consumer sector.**

- **Net cash companies will be rewarded.** Although the interest rate in the US is expected to decline throughout 2024, the elevated environment may persist and we believe the investors will opt for companies with net cash, low gearing and stable dividend track record.

Factors/ Elements/ Theme for 1Q24 sectors and stock picks

Companies	Sector	Johor-theme	Recovering outlook	Data Centre	Infrastructure-theme	Net Cash/ High Dividend Yield
AME	Construction	✓			✓	✓
CCK	Consumer		✓			✓
INARI	Technology		✓			✓
ITMAX	Technology	✓		✓		✓
KSL	Property	✓				✓
MYEG	Technology		✓			
NATGATE	Technology		✓	✓		
OSK	Property	✓			✓	✓
PBBANK	Bank		✓			✓
SCGBHD	Building Material	✓		✓	✓	
SUNCON	Construction	✓				✓
SWIFT	Transportation		✓			
TM	Telco		✓	✓		✓
WCEHB	Construction		✓		✓	

Source: M+ Online

AME – China+1 Strategy Could Benefit AME

- **AME** is an integrated industrial property development, construction, engineering services and property management services provider.
- **MNCs to push on with the China+1 strategy.** To benefit from supply chain relocation from US-China geopolitics as AME is experienced in building industrial parks.
- **Expanding in the northern region.** AME's JV with Majestic Builders to develop an industrial park in Penang, which AME's stake of GDV stands at RM500m

Fig #16 AME – Uptrend move intact

Source: Bloomberg, M+ Online

CCK – Poultry Sector Benefit From Normalized Feed Costs

- **CCK** engaged in processing poultry, seafood, and prawns. Also, CCK trades and retails cold storage goods and live-stock farming as well as provides transportation services and veterinary supplies.
- **Net income trend has been growing consistently.** 3Q23 net profit increased 19.3% QoQ to RM19.9m amid stronger retail segment and lower raw material costs.
- **Expectation of stronger earnings.** Going forward, there should be stronger retail segment in Q4 on the back of higher demand during festive seasons.
- **Removal of chicken ceiling price.** Poultry segment could benefit from the removal of price ceiling for chicken as healthy supply and demand factors could normalise profits for poultry producers.

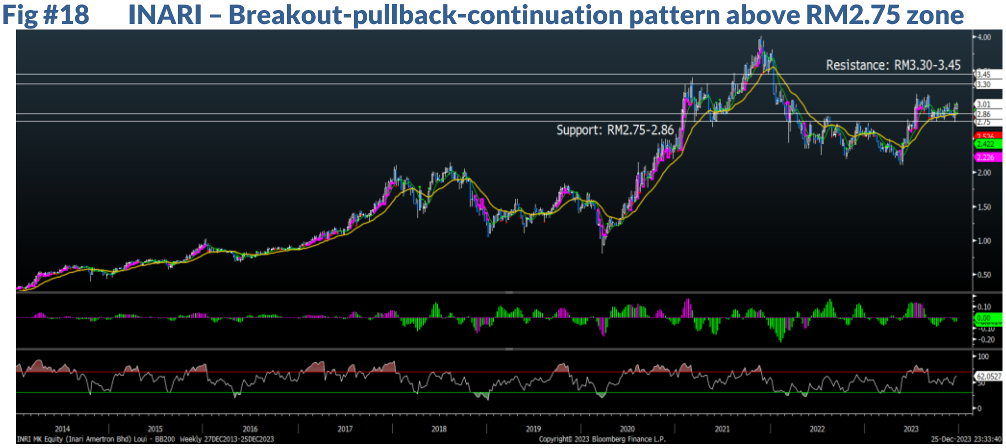
Fig #17 CCK – Uptrend consolidation phase, monitor for a breakout

Source: Bloomberg, M+ Online

INARI – Still Riding On The 5G Developments

- **2 consecutive quarters of increases in net profit.** 1QFY24 net profit recorded at RM85m (+28.1% QoQ) on the back of higher revenue and better forex conditions.
- **INARI-CFTC (Yiwu) JV.** JV with China Fortune-Tech Capital Co Ltd (CFTC) to carry out outsourced semiconductor assembly and test (OSAT) services in China, which may bring in more revenue and earnings stream going forward. This is expected to be completed by Dec-23.
- **5G smartphone upgrade cycle.** In view of ongoing migration to 5G handset going forward, we believe there will be higher growth in radio frequency, which may benefit its RF segment.

Fig #18 INARI – Breakout-pullback-continuation pattern above RM2.75 zone



Source: Bloomberg, M+ Online

ITMAX – Smart City Solution Providers

- **ITMAX** is a leading solution provider in the field of Public Space Networked Systems and related Artificial Intelligence.
- **Poised to win more projects in Johor.** Currently, ITMAX has secured contracts from 3 out of 16 councils in Johor. Given their expertise and proven track record in this field, we strongly believe they might win more contracts in the near future.
- **Awarded with MAHB project**. Besides getting contracts from the state governments, ITMAX has secured a contract from MAHB in 3Q23 worth RM3.9m, where the group will supply and install aeronautical ground lighting control system for 6 airports in Malaysia.

Fig #19 ITMAX – Trending sideways, poised for a breakout

Source: Bloomberg, M+ Online

KSL – Johor-Focused Catalysts Look Appealing

- **Johor-focused property player.** Established more than 30 years, KSL is one of the major property players in Johor. After KSL registered losses in FY20, 9M23 earnings stood at RM285m, it has normalised and considered stronger than FY17-19 period.
- **KL-SG HSR, international financial hub and JB-SG SEZ.** Given the recent announcement on the KL-SG HSR that may be revived in 2024, the setting up of an international financial hub in Forest City, as well as the Johor-Singapore special economic zone, we believe the Johor region may emerge as a theme for year 2024.
- **RTS and double track electrified rail projects.** JB-SG Rapid Transit System Link is more than 50% completed as of 2023, it should boost the appeal for property sector once it is completed by 2025.

Fig #20 KSL – Bottoming up formation after a sideways conslidation phase

Source: Bloomberg, M+ Online

MYEG – Moving Into The Blockchain Segment

- **MYEG** is primarily engaged in the business of development, implementation and provision of e-Government services. Besides, MYEG has expanded its offering into the blockchain space, where it has recently listed its Zetrix tokens on Coinstore.
- **Steady growth in earnings.** Net profit in 3Q23, rose 7.5% QoQ to RM120.1m in 3Q23, supported by the contribution from the Zetrix blockchain platform and the sale of Zetrix tokens.
- **MYEG continue to innovate on the blockchain or Web 3.0** in Malaysia as well as globally. Recently, Zetrix has been integrated with China's national blockchain platform, namely "Xing Huo", which makes for more convenient cross border trades and it will be the stepping stone for MYEG to expand into the global markets.
- **Extension of e-govt services.** Despite the change of the government over the past few years, MYEG continues to receive the extension from Road Transport Department of Malaysia and Immigration Department for a period of 3 and 2 years, respectively. We believe this is due to strong track record and expect the stickiness of the users to persist for a longer period.

Fig #21 MYEG – Triangle formation breakout

Source: Bloomberg, M+ Online

NATGATE – Benefiting From The Rising Adoption Of AI

- **NATGATE may benefit from the ongoing US-China tension** as MNCs may be relocating production to other countries, especially with the China+1 strategy.
- **NATGATE & xFusion collaboration** may benefit from the increased adoption AI, cloud computing and machine learning, which may boost the need for new data centres and GPU servers. Therefore, the NATGATE's Penang factory, housing xFusion's global supply centre will bode well for the group.

Fig #22 NATGATE – Turning higher after the breakout above RM1.40

Source: Bloomberg, M+ Online

OSK – Solid Property Player With Healthy Dividend Yield

- **Strong unbilled sales at RM1.2bn** with minimal unsold completed stocks. Also, we expect the property division to continue launching new phases in its townships.
- **Construction outstanding orderbook stood at RM319m as at Sep-2023** to provide earnings visibility for at least another 1-2 years. Meanwhile, the hospitality segment may benefit from the festive season in 4Q23-1Q24 and recovery in tourism spending in post-Covid environment.
- **Steady dividend paymaster.** Currently, the dividend yield stood at 5.7% and they have been consistently rewarding shareholders over the past 10 years.

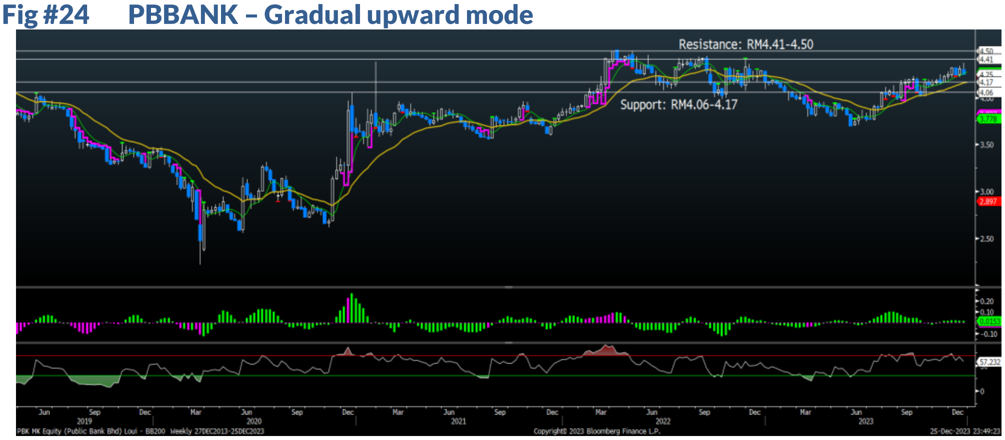
Fig #23 OSK – Poised for a breakout

Source: Bloomberg, M+ Online

PBBANK – Navigating Through The Growing Economy

- **On track for record earnings in FY23.** As of 9M23, the earnings stood at RM5bn and we anticipate PBBANK to register earnings of RM1.6-1.7bn, which may translate to RM6.6-6.7bn earnings for FY23.
- **Solid ROE against the peers.** Its ROE stood at 13.2% vs. peers' average of 9.6% indicated its superiority of its profitability against the other financial institutions.
- **Above average dividend yield.** Meanwhile, the trailing 12M dividend yield stood at 6.2% as compared to the peers' average of 5.7%.

Fig #24 PBBANK – Gradual upward mode



Source: Bloomberg, M+ Online

SCGBHD – Decent Growth With The Rising Demand For Cables

- **SCGBHD earnings continued to improve for the 6th quarter.** In 3Q23, net profit added 22.1% QoQ to RM6.5m on the back of higher sales, a better product mix and lower finance costs.

- **SCGBHD has strong orderbook value c.RM900m as of 3Q23.** Based on the value, we believe it should sustain its earnings at least for 1-2 years. Meanwhile, SCGBHD will be capable of fulfilling the orders with its new manufacturing capacity that will be commissioning next year.
- **Rising demand for cables on the back of government initiatives in renewable energy.** In view of the government's NETR initiative, greater adoption of renewable energy is anticipated by investing multi-billion ringgits of capex in infrastructure. Therefore, SCGBHD could be well positioned to capture the increase in demand for cable infrastructure in areas such as EPCC, electric grids.

Fig #25 SCGBHD – Sideways consolidation breakout

Source: Bloomberg, M+ Online

SUNCON – End-to-end Construction Solutions Provider

- **Pure-play construction player.** SUNCON is a leading pure-play construction group that provides a full range of integrated design and construction services, manufacturing and sale of precast concrete products, as well as sustainable energy services.
- **Decent earnings visibility.** As of 3Q23, SUNCON's orderbook stood at RM5.78bn which should provide earnings visibility for another 1-2 years.
- **Vibrant construction sector to emerge.** With the rolling out of MRT3 project (~RM40-50bn), Bayan Lepas LRT (c.RM10bn) as well as the launching of NETR and NIMP blueprints. Also, the growing investment in the technology and data centres would allow SUNCON to benefit from all these projects and should deliver stronger results going forward.

Fig #26 SUNCON – Breakout-pullback-continuation pattern above triangle

Source: Bloomberg, M+ Online

SWIFT – Everlasting Expansion Plans

- **Container haulage and land transportation.** Swift since its establishment in 2011 from 88 is currently ranked as number 1 top haulier in Peninsular Malaysia in terms of twenty-foot equivalent unit (TEU) volume with the largest market share.
- **Going green.** SWIFT is going green with its ongoing effort to provide green logistics services such as (i) green freight carbon emission tracking, (ii) electric prime mover using Volvo Electric Trucks with live carbon emission tracking and monitoring, (iii) electric light truck with smart optimisation and digital authorisation, and others.
- **Continued expansion.** As several expansion plans such as expanding its warehouses capacity has been completed, SWIFT has acquired 3 pieces of industrial land (totalling 21.7k sqm) in Penang worth RM30.2m last month.

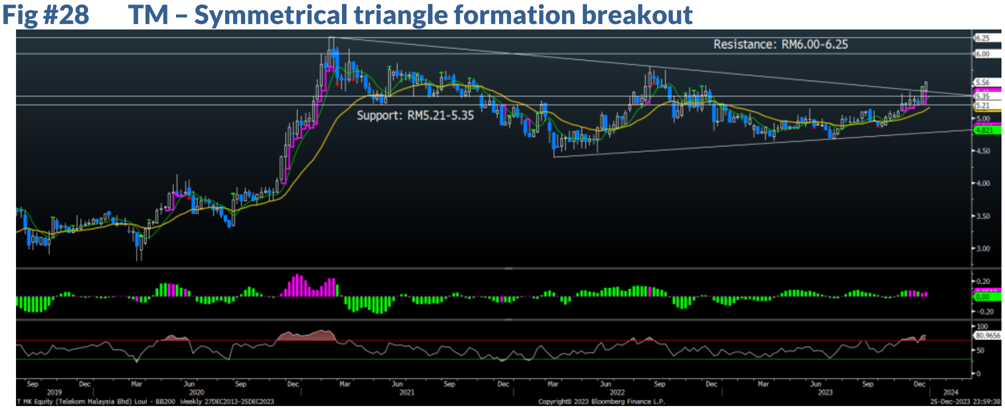
Fig #27 SWIFT – Bottoming up formation, monitor for a breakout

Source: Bloomberg, M+ Online

TM – Persistent Growth For Internet Connectivity

- **Stronger earnings boosted by tax credits.** 3QFY23 earnings grew by more than +100%yoy RM538.2m, bringing 9M23 net profit to RM1.4bn, as was boosted by stronger sales and tax credits and TM may capitalise for another 2 years.
- **Reaping the fruits from the data centre boom.** TM One, the enterprise and public sector business solution arm of TM has launched its data center (i) Klang valley Core Data Centre located in Cyberjaya in 2019 and Iskandar Puteri Core Data Centre in Iskandar Puteri during 2017 and we believe the recent data centre boom may benefit TM in revenue and earnings going forward.
- **Ongoing development within the 5G network.** We believe the continued effort by the government and Digital Nasional Berhad is to attain the 5G network coverage, covering 80% of the populated areas by 2024. We believe the significant uptake of 5G compatible smartphones will increase the 5G network traffic.

Fig #28 TM – Symmetrical triangle formation breakout

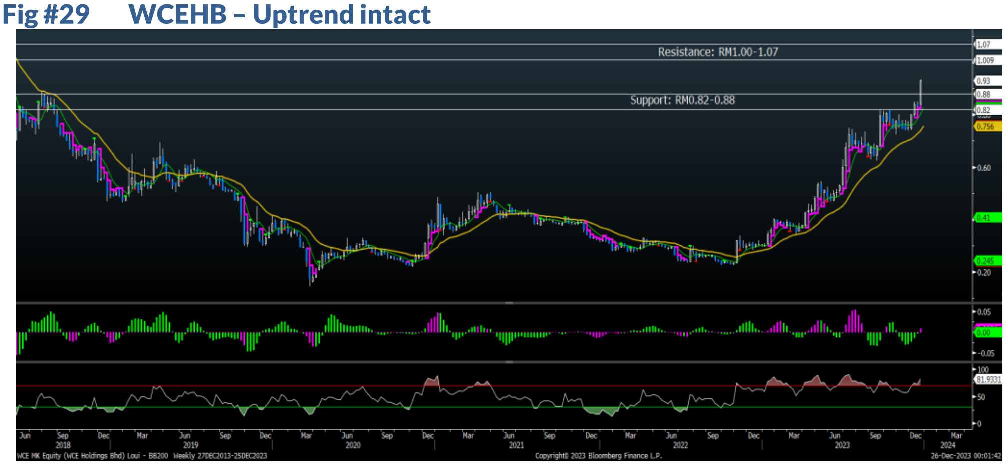


Source: Bloomberg, M+ Online

WCEHB – Opening Up For More Traffic Flow

- **Section 6 opened in Nov 2023.** The 11-section West Coast Expressway has opened up the sixth section, which will allow public to access WCE through Bandar Bukit Raja in Klang and Assam Jawa in Kuala Selangor. This will start bringing in mid-to-long haul traffic. Meanwhile, WCEHB is targeting to complete another 3 sections (Section 1, 2, and 11) by 1Q24.
- **Final 3 sections targeted to be completed by 2025.** Section 3 (Kesas - Federal Highway Route 2), Section 4 (Federal Highway Route 2 - New North South Klang Straits Bypass) and Section 7 (Assam Jawa - Tanjung Karang) are targeted for completion by 2025. This is expected to further improve future financial performance of the group in terms of cash flow and operating results.

Fig #29 WCEHB – Uptrend intact



Source: Bloomberg, M+ Online

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Tuesday, 26 Dec, 2023**, the analyst(s), Loui Low Ley Yee whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned