

STRATEGY – MALAYSIA

1H22 Outlook: Optimistic On Some Market Lift-off

We remain optimistic for a market upswing at the start of the year as investors should be shrugging off fears over the Omicron coronavirus variant, and once again price in the region's economic and border reopening. However, go defensive in 2Q22 as the market refocuses on global monetary policy tightening, in anticipation of policy rate hikes by major central banks. Our year-start top investment themes remain the economic reopening, a commodity supercycle and selected growth stocks.

WHAT'S NEW

- Anticipating a moderate market lift-off at the year start, fuelled by reopening hopes.** As hoped, the highly infectious Omicron variant has thus far proven to be a milder strain since its discovery over a month ago, and as such, we expect most governments (inclusive of Malaysia =>) around the world to soon loosen up movement restrictions. This will rekindle investor interests in economic/border reopening sector beneficiaries such as the tourism-related, commodities, logistics, REITs and banking.
- Market liquidity and risk indicators remain supportive for equities.** Key measures of equity market volatility and risk premiums remain supportive of global equities, such as the relatively low levels of VIX and US credit spreads. In addition, the US yield curve has somewhat steepened in recent months, which we partly attribute to easing concerns that high inflation would create a stagflation in the US economy. In Malaysia, the 10-year Malaysian Government Securities yield of c.3.6% and credit spreads remain benign.
- However, we still anticipate market consolidation by 2Q22** to reflect the completion of the US QE tapering programme and onset of the country's policy rate hikes. UOB economics team expects the US Fed to raise its policy rate three times (75bp) in 2022, and Bank Negara Malaysia to raise the overnight policy rate (OPR) by 25bp.
- End-22 FBMKLCI target at 1,635**, based on 16.2x 2022F PE (historical mean). Our target is conservative relative to our bottom-up target of >1,700.
- Palatable investment themes** include economic reopening, commodity supercycle, selected export-oriented growth stocks and high dividend yielders, with the latter theme expected to gain prominence from 2Q22. The commodity theme should gain traction in the upcoming 'super' results season. We still foresee some trading opportunities in domestic investment themes related to GE15 and the digital economy (cloud migration, digital banking licence award, e-government).
- OVERWEIGHT:** a) reopening plays, particularly tourism-related (eg gaming), hard commodity stocks and banks; b) high-yielders such as Astro Malaysia, British American Tobacco, real estate investment trust (REIT); and c) prominent exporters in the electrical and electronics (E&E) and medical device segments.

ACTION

- Our top picks** are **Astro Malaysia**, **CIMB Group Holdings** (CIMB), **Genting Malaysia** (GENM), **Inari Amertron** (Inari), **My EG Services** (MYEG), **Press Metal Aluminium Holdings** (PMetal), **Telekom Malaysia** (TM) and **VS Industry** (VSI).

STOCK PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 4 Jan 22 (RM)	Target Price (RM)	PE (x)		P/B (x)		Div Yield (%)	
						2022F	2023F	2022F	2023F	2022F	2023F
Astro	ASTRO MK	BUY	1,187	0.96	1.08	9.9	8.6	4.1	3.7	7.6	8.7
CIMB Group	CIMB MK	BUY	13,448	5.42	5.95	11.0	9.0	0.8	0.8	3.6	4.5
Genting Malaysia	GENM MK	BUY	3,942	2.96	4.00	13.7	12.1	1.3	1.2	6.7	6.7
Inari Amertron	INRI MK	BUY	3,593	3.99	4.40	38.5	36.7	6.0	5.9	2.4	2.5
My EG Services	MYEG MK	BUY	1,914	1.09	1.58	17.1	20.9	4.7	4.1	1.8	1.8
Press Metal	PMAH MK	BUY	10,955	5.70	7.10	23.1	21.1	6.7	5.7	1.8	2.0
Telekom Malaysia	T MK	BUY	4,992	5.47	6.60	16.4	13.8	2.6	2.4	3.7	4.3
VS Industry	VSI MK	BUY	1,226	1.35	1.90	20.8	16.2	2.7	2.5	4.5	5.8

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI: 1,542
TARGET END-21 FBMKLCI: 1,635

KEY ECONOMIC/MARKET PROJECTIONS AND ASSESSMENTS

Indicator	Prediction/Assessment for 2022
GDP Growth	• 5.5% (2021: 4.0%)
Current Account	• 2.0% of GDP
Fiscal Balance	• -6.0% of GDP
Interest Rate	• 2.00% (a 25bp hike in 2H22)
Inflation	• 3.0%
RM/US\$	• 1Q22: RM4.25/US\$; 2Q22: RM4.28/US\$
FBMKLCI	• End-22: 1,635 (16.2x 2021F PE)
FBMKLCI Earnings	• -3.4% core earnings growth in 2022; ROE of 10% in 2022
Average CPO price	• RM2,800/tonne
Average crude oil price	• 1H22: US\$70/bbl; 2H22: US\$75/bbl

Source: UOB Global Economics & Market Research, Bloomberg, UOB Kay Hian

FBMKLCI AND PE



Source: UOB Kay Hian

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ESSENTIALS

- Equities expected to see a lift-off at the start of the year as concerns over Omicron wane over time.** The reopening of the region's economies and borders (inclusive of Malaysia) remains a compelling re-rating catalyst for Malaysian equities. We expect most governments around the world to loosen movement and (albeit more gradually) border controls as the threat of Omicron wanes. After a month of the Omicron variant's discovery, studies have consistently shown that Omicron is a mild strain. Cases have peaked in South Africa (where the Omicron variant was first documented), prompting the country to loosen or lift movement restrictions. As such, we remain hopeful that Malaysia would soon reinstate bilateral travel bubbles with its neighbouring countries.
- Higher beta strategy at the start of the year, but turning defensive going into 2Q22.** We continue to advocate adopting a higher beta strategy for the start of 2022, with a particular focus on economic reopening plays - tourism-related sectors such as aviation, gaming (casino segment), banks, and selected commodity and technology companies. Moving on to 2Q22, sectors in the limelight will continue to be aviation, gaming (casino segment) and banking, and joining the limelight would be defensive high-yielding companies/sectors such as Astro, British American Tobacco (BAT), gaming NFOs and REITS. Finally, the street would presumably be strategising for GE15 by mid-2Q22. Our prescribed 1H22 portfolio strategy is shown in the table below.
- Our strategy resonates with key anticipated events.** Prominent events anticipated in 1H22 include the resumption or initiations of bilateral travel bubbles that would lead to a comprehensive border reopening, an exceptionally strong results season for commodity exporters, the return of foreign workers en masse, and at the company level, Genting Malaysia's opening of its outdoor theme park, legalisation of vaping, award of five digital banking licences. GE15 will be in focus in 3Q22.
- Other notable timely BUY calls include:** a) reopening plays: **Axiata Group, Genting Bhd, Heineken, RHB Bank**; and b) high-yield plays: **Sentral REIT, BAT, Magnum and Sunway REIT.**

SELECTED INVESTMENT THEMES

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Reopening Plays				
CIMB Group	CIMB MK	BUY	5.42	5.95
Genting Malaysia	GENM MK	BUY	2.96	4.00
Commodity Supercycle				
Press Metal Aluminium	PMAH MK	BUY	5.70	7.10
Dividend Plays				
Astro Malaysia	ASTRO MK	BUY	0.96	1.08
British American Tobacco	ROTH MK	BUY	14.18	18.20
Tech Bonanza (Structural Demand Growth, Trade Diversion)				
Inari Amertron	INRI MK	BUY	3.99	4.40
VS Industry	VSI MK	BUY	1.35	1.90
Explosive Digital World				
My EG Services	MYEG MK	BUY	1.09	1.58
Telekom Malaysia	T MK	BUY	5.47	6.60

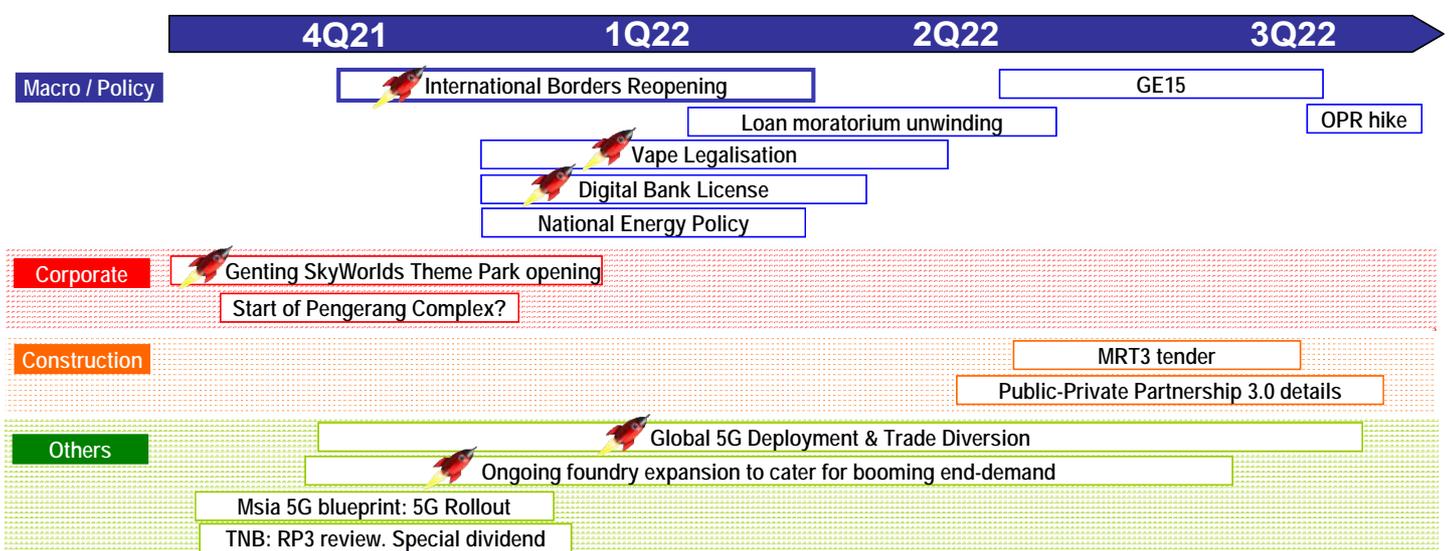
Source: Bloomberg, UOB Kay Hian

INVESTMENT STRATEGY FOR 1H22

	1Q22 Gradual Border Reopening	2Q22 Reverse Global QE Effects
Strategy	Focus on economic reopening plays Higher beta	Risk-off
Sectors/Themes in Limelight	Tourism related – gaming, aviation commodity stocks banks e-government, digital banking, cloud migration selected emerging mid-cap growth stocks	Yield-Recovery plays – REITs, Astro Consumer Position for GE15 strategy by end-2Q22
Potential Underperformers	Glove sector	Commodities Small caps

Source: UOB Kay Hian

KEY EXTERNAL EVENTS and ANTICIPATED EVENTS



Source: Media reports, UOB Kay Hian

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