

### STRATEGY – MALAYSIA

## Alpha Picks: Digging More Trenches

Our economic reopening-oriented Feb 22 Alpha Picks underperformed the FBMKLCI (+2.6% vs +6.3%). This month, we deploy a more cautious investment strategy to defend against the highly inflationary effect of Russia's invasion into Ukraine, and the imminent upward march of the US interest rate cycle. Nevertheless, while our Alpha Picks are more defensive in nature, we continue to embrace selected border reopening beneficiaries and reasonably valued growth-oriented stocks.

#### WHAT'S NEW

- Market review: Uplifted by plantation sector amid stiff inflationary and monetary policy tightening headwinds.** While the FBMKLCI gained 6.3% in Feb 22, which was primarily driven by plantation stocks as crude palm oil price flew into stratospheric levels, the index prematurely surrendered some of the gains as investors were spooked by Russia's invasion of Ukraine. This stoked inflationary fears, which coupled with the expected global monetary policy tightening, triggered a sell-down on previously outperforming stocks and in particular, loftily valued growth stocks. The worst-hit sectors were technology (lofty valuations) and gloves (earnings disappointments).
- Alpha picks underperformed the FBMKLCI.** Our portfolio appreciated 2.6% mom in Feb 22, underperforming the FBMKLCI's 6.3% gain. Best performers were CIMB (+8.6%) and Genting Malaysia (GENM, +7.6%) while VS Industry (VSI) dragged the portfolio, declining 5.7%.
- Turning defensive ahead of the US's contractionary monetary policy.** While the market has already anticipated the US Federal Reserve (Fed) to raise Fed funds by 25bp in its upcoming meeting on 15-16 March, there will be a follow-up of a barrage of rate hikes, while the Fed's QE is predicted to end in March (beyond this, the Fed may de-leverage its bloated balance sheet). With the Russia-Ukraine situation aggravating inflationary expectations, we brace for a period of economic stagflation which points to an imminent consolidation of equities.
- Nevertheless, we still foresee upside for selected border reopening beneficiaries and event-driven growth stocks.** Malaysia may reopen its borders as soon as April.

#### ACTION

- Mar 22 Alpha Picks: BUY Genting Malaysia, Heineken, MyEG, RHB Bank, TIME dotCom, and VSI.** We remove Mr DIY, add Heineken and TIME dotcom, and replace CIMB with RHB Bank. Catalysts for our picks are elaborated below and overleaf. This month's picks feature a line-up of high yielders (RHB Bank, GENM, Heineken and TIME) and border reopening beneficiaries (GENM, Heineken, MYEG). Besides this, most high yielders should outperform in a cautious market (refer to overleaf RHS table for the list).

#### ANALYSTS' TOP ALPHA\* PICKS

Analyst	Company	Rec	Performance <sup>#</sup>	Catalyst
Vincent Khoo & Jack Goh	Genting Malaysia	BUY	0.7	Full border reopening (expected in early-2Q22), higher visitation driven by recently-opened outdoor theme park (SkyWorlds), and lush prospective dividend yield of >6.5%.
Philip Wong	Heineken	BUY	n.a.	The reopening of the economy including entertainment outlets and longer operating hours coupled with border restrictions being relaxed should improve sentiment and translate into tangible demand for Heineken.
Vincent Khoo & Jack Goh	My EG Services	BUY	19.9	A key beneficiary of the country's border reopening via MySafeTravel and MyVTL-related services and foreign worker-related services, various upcoming road transport-related services, and blockchain-related services.
Keith Wee	RHB Bank	BUY	n.a.	Positives include: a) industry leading CET ratio of 17.2%, which could provide scope for further upside surprise in dividends; b) attractive valuations, and c) above-industry loans growth.
Chong Lee Len & Chloe Tan	TIME dotCom	BUY	n.a.	Our blue-sky target price of RM5.10 implies a 10% 2024 earnings upside should the Phase 2 DC rollout in Cyberjaya take place earlier than expected.
Desmond Chong	VS Industry	BUY	0.0	Value emerges with negatives overly priced in following a sell-down on unfounded concerns of improper labour practices. At close to -2SD below its forward PE, the risk-and-reward is attractive vs its two-year net profit CAGR of 24% even from its peak year, which implies 0.5x PEG.

\* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

<sup>#</sup> Share price change since stock was selected as alpha pick  
Source: UOB Kay Hian

#### KEY RECOMMENDATIONS

Company	Rec	Share Price (RM)	Target Price (RM)	Upside to TP (%)
Genting Malaysia	BUY	2.98	4.00	34.2
Heineken*	BUY	21.88	27.70	26.6
My EG Services	BUY	0.97	1.58	63.7
RHB Bank*	BUY	5.81	6.90	18.8
TIME dotCom*	BUY	4.23	4.80	13.5
VS Industry	BUY	1.10	1.90	72.7

\* New additions

Source: UOB Kay Hian

#### PORTFOLIO PERFORMANCE

Company	Rec	Feb 22 (%)	To-date* (%)
CIMB	BUY	8.6	30.6
Genting Malaysia	BUY	7.6	0.7
Mr DIY	BUY	3.4	0.6
My EG Services	BUY	(1.0)	19.9
VS Industry	BUY	(5.7)	0.0
FBMKLCI		6.3	

\* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

#### PORTFOLIO RETURN

(%)	1Q21	2Q21	3Q21	4Q21	2021
FBMKLCI return	-3.3	-2.6	0.3	0.4	-5.1
<b>Alpha Picks Return</b>					
- Price-weighted	1.3	-5.6	8.4	2.6	3.7
- Market cap-weighted	-5.8	-6.9	10.2	3.7	2.2
- Equal-weighted	4.3	-3.3	9.3	10.9	10.7

Assumptions for the 3 methodologies:

- Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.
- Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.
- Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

#### KEY EVENTS IN FEB 22

Genting SkyWorlds opening
4Q21 GDP
COVID-19 daily cases exceed 30,000
Government is looking to reopen international borders
Bursa plantation index up 23%
Record number of nominations in upcoming Johor state elections
Run up in commodity prices:
- CPO spot price breached RM7,000
- Three-month aluminium on the London Metal Exchange (LME) jumped 11.8%
- Benchmark LME prices for nickel soared 9%

Source: Media, Bloomberg

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### Genting Malaysia – BUY (Vincent Khoo & Jack Goh)

- GENM recorded a resilient 4Q21, turning around previous quarters' losses.
- The strong recovery pace of its UK and US casinos was sustained, where GGR surpassed pre-pandemic levels with an uptick in margins. Associate Empire also turned around EBITDA losses in 2021 (US\$36m EBITDA in 2021 vs EBITDA losses of US\$30m in 2020), which implies it will not require any further equity injection from GENM.
- RWG's earnings will continue to be supported by vibrant local patronage which accounts for >70% of Genting Highland's visitorship.
- GENM is one of the cheapest casino stocks globally and is expected to provide a high DPS payout in 2022-23 (yielding 4.9-6.7%), which puts it among the top-yielding Bursa-listed companies.

#### Share Price Catalyst

- Appealing prospective dividend yield of 5-7% after GENM regains its form of revenue resilience and steady streams of cash flows in 2022-23 on business normalisation, and as GENM has gone ex-capex.
- Potential pent-up demand from domestic visitors to RWG in tandem with the "revenge spending" phenomenon.
- Resorts World New York City's bid to be a full-fledged casino in 2022.

### Heineken – BUY (Philip Wong)

- We expect Heineken to see a paced recovery over the next two years, offering attractive earnings growth.
- Our volume growth assumptions for 2022-23 of 13%/10% respectively only assumes that beer volume returns to pre-pandemic levels in 2023.
- Off this volume recovery and economies of scale, Heineken offers a two-year earnings (2021-23) CAGR of 16.4%.
- Its current valuations are trading at a PE of 23.2x and 19.9x to 2022 and 2023 respectively. Apart from these attractive valuations, Heineken offers a decent dividend yield of 4.6-5.7% over 2022-24.

#### Share Price Catalyst

- The reopening of the economy including entertainment outlets and longer operating hours should translate into tangible demand for beer.
- Increased confidence among consumers and a return to pre-pandemic lifestyle behaviour should further spur overall beer consumption.
- The reopening of borders should further aide Heineken's recovery since the Heineken brand is more globally recognised relative to its peer.

### My EG Services – BUY (Vincent Khoo & Jack Goh)

- MYEG provides an enviable proposition of being a beneficiary of the major economic reopening as well as vibrant near-term earnings growth, largely anchored on its healthcare-related initiatives.
- The group's diversification into the healthcare segment continues to bear fruit, boosted by resilient demand for COVID-19 testing, travel insurance and private quarantine arrangements for COVID-19 patients through its MySafeTravel and MyVTL portals. MYEG has also unveiled its COVID-19 breath test kit and will also exclusively distribute Zhifei's COVID-19 vaccines in the Philippines and Malaysia after receiving the authorities' approval.
- MYEG's e-government and immigration-related services are poised for a strong recovery post-pandemic, including its foreign worker matching services, amnesty programme and robust growth from road transport services.

### SECTOR PERFORMANCE

Sector	Performance (%)
	Feb
Automobile	6.1
Aviation	9.2
Banking	5.8
Building Materials	10.2
Construction	6.1
Consumer	(16.9)
Exchange	3.5
Gaming	6.8
Glove Manufacturing	(11.0)
Healthcare	1.7
Insurance	1.4
Manufacturing	(3.5)
Media	3.1
O&G - Heavy Eng	9.3
O&G - Asset Owners	5.0
O&G - Offshore Contractors	(9.8)
O&G - Shipping	5.6
Plantation	30.3
Port	4.8
Property	3.8
REITs	1.0
Tech - EMS	(4.0)
Tech - Semiconductor	(9.6)
Tech - software	(3.2)
Telecommunications	1.8
Utilities	(0.2)

Source: Bloomberg, UOB Kay Hian

### HIGH YIELDERS

Company	Dividend yield (%)	
	2022	2023
Astro Malaysia*	8.3	8.8
Sentral REIT	8.3	8.6
British American Tobacco	7.8	9.2
Magnum	6.5	7.7
RHB Bank	6.5	7.6
Maybank	6.1	7.3
Kim Loong*	5.2	4.5
Genting Malaysia	4.9	6.5
Heineken	4.3	5.0

\* Final dividend to yield 3%

\* Final dividend could yield >5% given past months' run-up in CPO prices

Source: Bloomberg, UOB Kay Hian

### Share Price Catalyst

- Receiving health authorities' approval to commercially distribute Zhifei's COVID-19 vaccines and Brethonix's rapid COVID-19 breath test in Malaysia and the Philippines.
- Installation and deployment of its MySafeTravel and MyVTL infrastructure in other ASEAN countries.
- Forthcoming blockchain development and issuance of stablecoins which will contribute positively to the group's earnings.
- Commercial roll-out of new road transport service – E-testing.

### RHB Bank – BUY (Keith Wee)

- Industry-leading CET1 ratio of 17.8% provides ample headroom for dividends to continue surprising on the upside.
- Assuming a similar dividend payout ratio of 63% in 2022 (2021: 63%) the stock would provide a highly attractive yield of 7.5%, the highest among peers.
- Net credit cost could continue to decline to 20-25bp by 2023/24 from 37bp in 2021 which would provide upside surprise to earnings given our relatively more conservative net credit cost assumptions of 35-38bp for 2022-24.

### Share price catalyst

- Potential for further capital management upside given its very strong capital ratios.
- Potential upside surprise to NIM as its balance sheet is relatively well positioned (high proportion of floating rate loans) to benefit from the rising interest rate environment.

### TIME dotCom – BUY (Chong Lee Len & Chloe Tan)

- TIME continued to register a double-digit revenue growth from the retail broadband segment in 2021. This was underpinned by higher household penetration with the accelerated fibre network expansion, its superior network quality with low churn rate, and customers upgrade with resilient demand for connectivity.
- Notably, revenue from data centre grew 117% in 2021 due to maiden contribution from Phase 1 Data Centre in Cyberjaya. As the current utilisation rate of P1DC has topped management expectations (>70% utilisation since its launch in Jul 21), TIME is mulling the rollout of Phase 2 DC in the next 18-20 months
- The stock has corrected 10% ytd and we believe its superior growth trajectory across all segments could allow it to trade at above-mean valuation. This would also be underpinned by its strong management team with low execution risk.
- Our blue-sky scenario suggests a 10% earnings upside in 2024 assuming the Phase 2 DC commences commercial operations in the next 18-24 months. This will see our target price lift to RM5.10.

### Share Price Catalyst

- The rollout of Phase 2 data centre in Cyberjaya.
- Faster-than-expected subscriber growth.
- Stronger-than-expected ARPU uplift.
- Rollout of 5G infrastructure in Malaysia.

### VS Industry – BUY (Desmond Chong)

- VSI offers the best investment proposition vs its peers, in terms of growth (two-year net profit CAGR of 24%), value (0.5x PEG) and most diverse customer concentration risks.

- It is still the front runner as the prime beneficiary of the US-China trade diversion.
- Even though VSI could temporarily be hit by the component shortage which could partially hinder its aggressive growth in 2022, it is set to benefit from other electronics manufacturing services (EMS) companies' fallout with potential earnings accretion of RM45m to its FY23 (or +12%).
- VSI is still being approached by new MNC customers, with discussions of prospective contracts at the early stages of evaluation.

### Share Price Catalyst

- Stronger-than-expected earnings growth (major wins on lucrative orders) from trade-diversion-related customers.
- Higher-than-expected order wins following the fallout from other EMS players on major contract termination.
- Potential asset monetisation from its China assets and other investments.

### VALUATIONS

Company	Ticker	Rec	Price 2 Mar 22 (RM)	Target Price (RM)	Last Year End	----- PE -----			Yield 2022F (%)	ROE 2022F (%)	Market Cap. (US\$m)	Price/ NTA (x)
						2021F (x)	2022F (x)	2023F (x)				
Genting Malaysia	GENM MK	BUY	2.98	4.00	12/21	n.m.	25.3	12.5	4.9	5.1	4,016	1.3
Heineken	HEIM MK	BUY	21.88	27.70	12/21	20.9	23.2	19.9	4.3	72.0	1,576	16.7
My EG Services	MYEG MK	BUY	0.97	1.58	12/21	22.7	16.4	19.1	1.8	25.6	1,700	3.9
RHB Bank	RHBBANK MK	BUY	5.81	6.90	12/21	8.1	8.5	7.2	6.5	9.5	5,739	0.9
TIME dotCom	TDC MK	BUY	4.23	4.80	12/21	20.2	18.9	16.5	2.6	12.5	1,841	2.3
VS Industry	VSI MK	BUY	1.10	1.90	07/21	15.5	17.0	13.3	5.5	13.7	1,001	2.2

Source: UOB Kay Hian

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