

STRATEGY – MALAYSIA

High-Yield And Defensive Plays

With the global equity market consolidation expected to deepen in the coming months, amid a steep US monetary policy tightening, our prescribed high-yield and defensive plays will outperform. We foresee particular outperformance by REITs, gaming, banks, utilities and selected consumer staples. Top high yielders and defensive picks: **BAT, GENM, Heineken, IHH Healthcare, Magnum, Matrix Concepts, Maybank, RHB Bank, Sentral REIT, Sunway REIT, Time dotCom, Westport.**

WHAT'S NEW

- **FBMKLCI's near-term outlook swayed by anticipated US equity consolidation.** While the US equities remain surprisingly resilient thus far despite heightened inflation and fears of stagflation/recession (amid the flattened or inverted US bond yield curves), the upcoming steep US monetary policy coupled with the S&P 500 Index's 'complacent' forward PE valuation (see Figure 2 and 1 overleaf) suggests significant downside in the coming months. While Malaysia's yield curve and credit spread (Figure 4) suggest a relatively sanguine economic outlook, Malaysian equity performance will react to the US market consolidation, and tightened global liquidity could flatten or reverse the ytd's impressive foreign fund inflows (RM6.9b).
- **High-yield plays should outperform...** While seemingly counter intuitive in a rising interest rate scenario, quality yield plays are expected to outperform the FBMKLCI index and deliver positive returns assuming these conditions: a) equity market consolidation, b) moderate 50bp rise in overnight policy rate, and c) credit spreads in Malaysia remain moderate.
- **...with the average yield of our selected yield plays reaching a decade high.** Our model portfolio of high dividend yielders, which comprises many economic and border reopening beneficiaries, offer an average prospective 2023 yield of 6.1%, a decade high (Fig 5). Confirmation of earnings recoveries and the reinstatement to the pre-pandemic dividends should ensure swift re-rating as many of our high yielder stocks remain substantially depressed since the COVID-19 pandemic.
- **Interestingly, our model portfolio of high yielders has outperformed the index over the 10-year period.** Backtesting the performances of selected BUY- and HOLD-rated high yielders (refer to Fig 7 footnotes for the stock list) show significant capital appreciation and total return outperformances over the past decade (Fig 7 and 8).
- **Appealing defensive stocks.** Meanwhile, this report also spotlights defensive stocks which will significantly outperform during market consolidation (see table on the right). Our model on high-yielding (<5% yield) defensive stocks are mainly selected based on the following criteria: low <1.0 beta, resilient cash flows, and reasonable trading liquidity. Consumer, healthcare and logistics stocks take prominence in this category.

ACTION

- **Our top picks for the defensive investment theme** include high-yielders **British American Tobacco (BAT), Genting Malaysia (GENM), Magnum, Matrix Concept, Maybank, RHB Bank, Sentral REIT, Sunway REIT,** and defensive stocks **Heineken, IHH Healthcare, Time dotCom** and **Westports.** While the list generally avoids cyclical companies, Matrix Concepts' high dividends are assured by its 'staple' product offering within the property sector.

STOCK PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 8 Apr 22 (RM)	Target Price (RM)	PE (x) 2022F	PE (x) 2023F	P/B (x) 2022F	P/B (x) 2023F	Div Yield (%) 2022F	Div Yield (%) 2023F
High Yielders											
British American Tobacco	ROTH MK	BUY	859	12.70	18.20	13.5	11.4	9.5	9.5	7.4	8.7
Genting Malaysia	GENM MK	BUY	3,999	2.98	4.00	25.3	12.5	1.3	1.2	4.9	6.5
Magnum	MAG MK	BUY	633	1.86	2.45	14.1	11.8	1.1	1.1	6.4	7.6
Matrix Concepts	MCH MK	BUY	462	2.34	2.70	8.0	7.1	1.0	0.9	6.2	7.0
Maybank	MAY MK	BUY	24,903	8.85	9.45	12.1	10.1	1.1	1.1	6.2	7.4
RHB Bank	RHBBANK MK	BUY	5,898	6.01	6.90	8.7	7.5	0.8	0.8	6.3	7.4
Sentral REIT	SENTRAL MK	BUY	244	0.96	1.00	12.1	11.8	0.8	0.8	7.9	8.1
Sunway REIT	SREIT MK	BUY	1,128	1.39	1.55	16.4	15.4	0.9	0.9	5.7	6.1
Defensive Stocks											
Heineken	HEIM MK	BUY	1,775	24.80	27.70	26.3	22.6	18.9	18.9	3.8	4.4
IHH Healthcare	IHH MK	BUY	13,450	6.45	7.60	32.8	30.9	2.4	2.3	0.9	0.9
TIME dotCom	TDC MK	BUY	1,864	4.31	5.20	19.4	16.7	2.3	2.2	2.6	3.6
Westports	WPRTS MK	HOLD	3,272	4.05	4.20	20.6	16.8	4.2	3.9	3.6	4.5

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI : 1,607

TARGET END-22 FBMKLCI: 1,635

SELECTED TOP YIELDERS

Company	Dividend Yield (%)	
	2022	2023
BUY Rated		
Malakoff Corporation	9.2	9.5
Sentral REIT	7.9	8.1
British American Tobacco	7.4	8.7
Magnum	6.4	7.6
RHB Bank	6.3	7.4
Matrix Concepts	6.2	7.0
Maybank	6.2	7.4
Hap Seng Plantations	6.1	3.0
Sunway REIT	5.7	6.1
IGB REIT	5.6	5.9
Berjaya Sports Toto	5.5	7.1
Pavilion REIT	5.4	6.0
Axis REIT	5.3	5.5
KLCCP Stapled Group	5.3	5.4
Syarikat Takaful	5.3	6.0
Genting Malaysia	4.9	6.5
HOLD Rated		
Astro Malaysia	7.3	8.2
Gas Malaysia	6.2	6.1
Kim Loong Resources	5.6	6.0
Tenaga Nasional Berhad	5.3	5.7

*yield rises to 5-6% assuming CPO ASP of RM4,000/t
Source: UOB Kay Hian

DEFENSIVE PICKS

Company	Beta	Div Yield (%)	
		2022	2023
Heineken	0.77	3.8	4.4
IHH Healthcare	0.90	0.9	0.9
MISC	0.76	3.9	3.9
Nestle	0.42	1.8	2.1
QL Resources	0.44	0.9	1.0
Time dotCom	0.39	2.5	3.5
Westport	0.60	3.7	4.5

Source: Bloomberg, UOB Kay Hian

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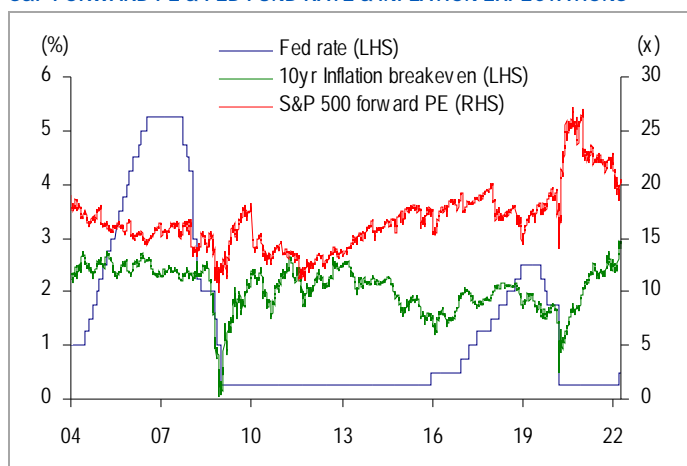
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TOP YIELD RECOMMENDATIONS & CATALYSTS

Company	Ticker	--- Div Yield (%) ---		Catalyst
		2022	2023	
Sentral REIT	SENTRAL MK	7.9	8.1	Yield >8% from 2022 onwards, anchored by resilient office space demand in the KL Sentral area.
British American Tobacco	ROTH MK	7.4	8.7	Earnings have bottomed out after five years in late-20, aided by the saturation of illicit and favourable government policy on transshipment. Its now relatively stable earnings offer attractive yields. Apart from that, nicotine vaping is due to be legalised in Malaysia, offering a significant catalyst over the near term.
Magnum	MAG MK	6.4	7.6	Sustainable prospective yields of 7-8% from FY23 onwards; swift ticket sales recovery to >90% of pre-pandemic levels following entry of migrant workers after borders reopening and potential dismantling of MySejahtera contact tracing requirement which allows punter to place bets more conveniently.
RHB Bank	RHBBANK MK	6.3	7.4	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.
Matrix Concepts	MCH MK	6.2	7.0	Resilient earnings base would lend strength to 6-7% dividend yields for 2022-24.
Maybank	MAY MK	6.2	7.4	Attractive dividend yields coupled with recovery in provision trends should help underpin share price outperformance. Early indications of the unwinding of the loans moratorium in Jan-Feb 22 indicate a high percentage of its borrowers are resuming repayment (over 95%).
Sunway REIT	SREIT MK	5.7	6.1	Border reopening beneficiary. Hotels contribute about 10-15% to total revenue historically.
Genting Malaysia	GENM MK	4.9	6.5	Full border reopening, higher visitation driven by recently-opened outdoor theme park (SkyWorlds), and lush prospective dividend yield of >6.5%.

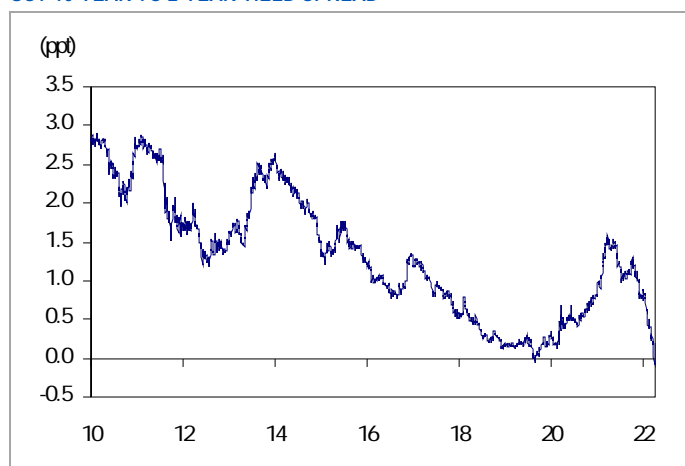
Source: UOB Kay Hian

S&P FORWARD PE & FED FUND RATE & INFLATION EXPECTATIONS



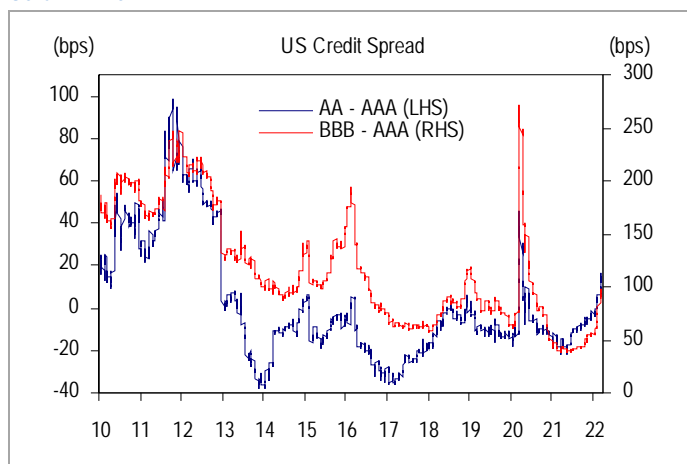
Source: Bloomberg, UOB Kay Hian

UST 10-YEAR TO 2-YEAR YIELD SPREAD



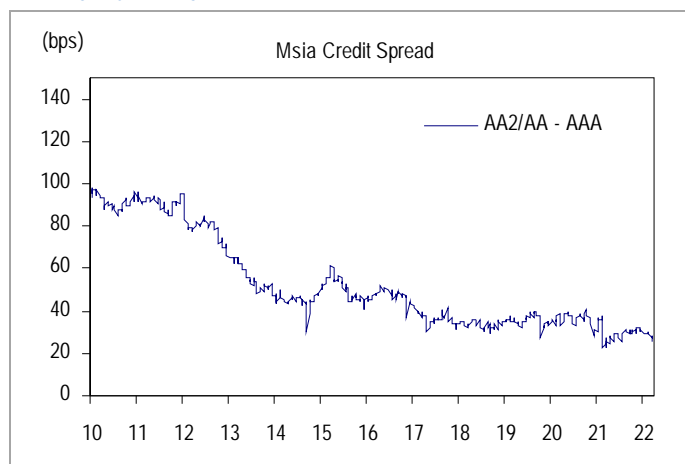
Source: Bloomberg, UOB Kay Hian

US CREDIT SPREAD



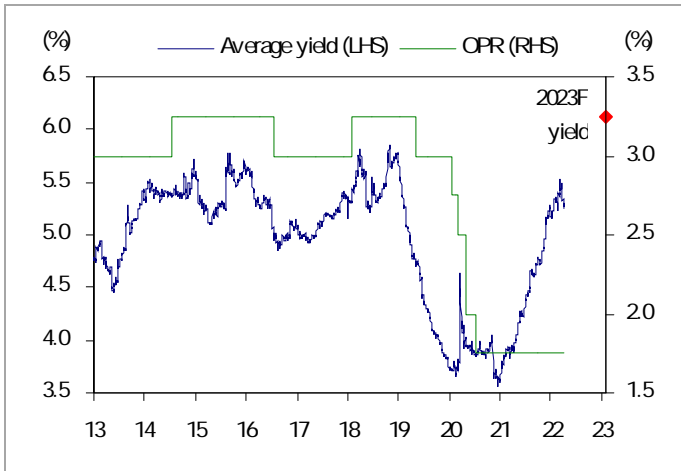
Source: FRED, CEIC, Bloomberg, UOB Kay Hian

MALAYSIA CREDIT SPREAD



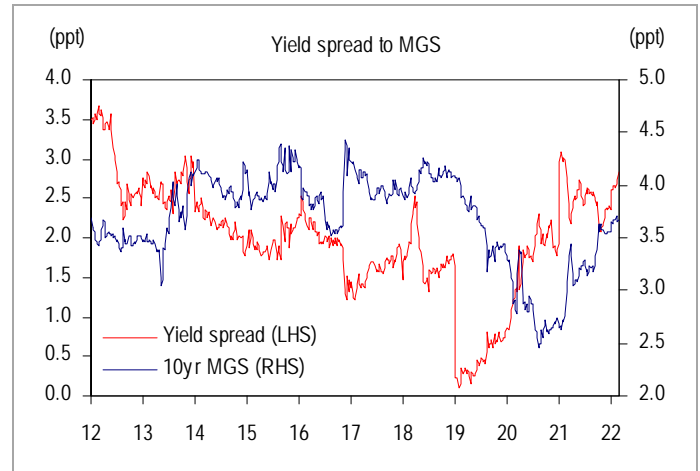
Source: CEIC, Bloomberg, UOB Kay Hian

SIMPLE AVERAGE YIELD OF UOBKH HIGH YIELDERS INDEX



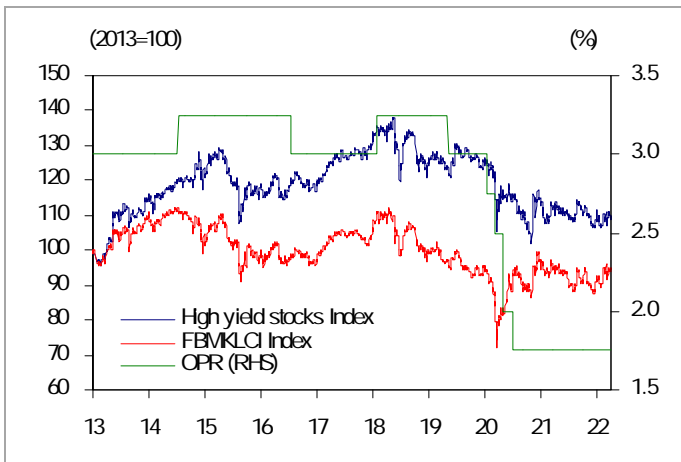
High yield stocks Index: REITS (AXRB, IGBREIT, Sentral REIT, PREIT, SREIT, KLCCSS, CLMT, Brewers (Carlsberg, Heineken), NFOs (Berjaya Sports Toto, Magnum) Telcos (Digi, Maxis, Time dotCom), TNB, Maybank
Source: Bloomberg, UOB Kay Hian

REITS YIELD SPREAD TO 10-YEAR MGS



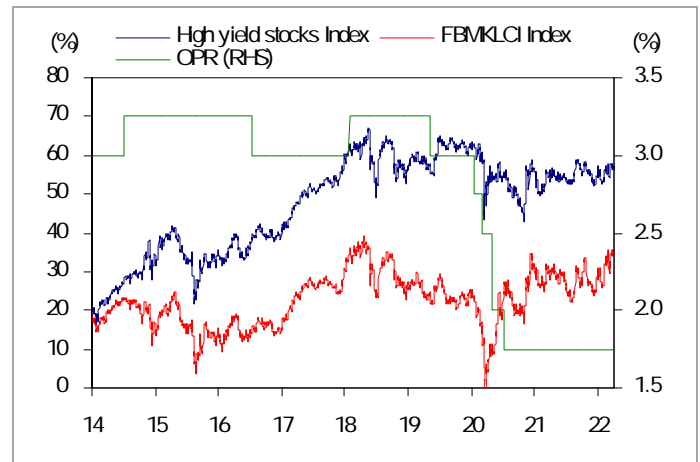
Source: Bloomberg, UOB Kay Hian

HIGH YIELDERS VS FBVKLCI PERFORMANCE



High yield stocks Index: REITS (AXRB, IGBREIT, Sentral REIT, PREIT, SREIT, KLCCSS, CLMT, Brewers (Carlsberg, Heineken), NFOs (Berjaya Sports Toto, Magnum) Telcos (Digi, Maxis, Time dotCom), TNB, Maybank
Source: Bloomberg, UOB Kay Hian

CUMULATIVE RETURNS OF HIGH YIELDERS AND FBVKLCI



High yield stocks Index: REITS (AXRB, IGBREIT, Sentral REIT, PREIT, SREIT, KLCCSS, CLMT, Brewers (Carlsberg, Heineken), NFOs (Berjaya Sports Toto, Magnum) Telcos (Digi, Maxis, Time dotCom), TNB, Maybank
Source: Bloomberg, UOB Kay Hian

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