Maybank

INVEST ASEAN2022

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CHARTBOOK

ASEAN: Framing a Future

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Contents

ASEAN ECONOMICS

Cross Currents: Reopening Tailwind versus Global Headwinds

Dr. Chua Hak Bin
Regional Co-Head, Macro Research

Reopening driving recovery in first half

Reopening is lifting growth in the first half, but crosswinds threaten to douse the momentum by the second half. ASEAN is relaxing border controls after two long years of periodic lockdowns. Mobility indices have largely returned to pre-pandemic levels. Vaccinated visitors can enter without quarantine in all ASEAN-6 countries. Laggard sectors will catch up and support the recovery. Tourism revenue accounts for a large share of GDP in Thailand (11.3% in 2019), Vietnam (9.9%), and Malaysia (5.7%).

But China's zero-Covid strategy and stricter restrictions in Northeast Asian countries (Japan, HK and Taiwan) will cap the upswing. Open borders can cut both ways: more Singaporeans traveling abroad could reduce domestic spending. Rising commodity prices have an uneven impact, supporting commodity exporters Indonesia (gas, nickel, palm oil, coal) and Malaysia (oil, gas, palm oil) but hurting the rest.

Global headwinds dousing recovery in the second half

Emerging global headwinds because of the Russia-Ukraine war, China's lockdowns and global monetary tightening may roil the reopening tailwind and douse the recovery. Three major shocks – the inflation shock, impending interest rate shock and potential recession shock – will undercut ASEAN's economic recovery in 2022-23. We forecast ASEAN-6 GDP to expand by +4.9% in 2022 (down from +5.4% at the start of the year), but the risk remains on the downside.

#1 Inflation shock: Fuel subsidy cuts & reopening

ASEAN-6 inflation (+3.4% in March) has been climbing but remains low compared to developed and other emerging markets. Singapore is the exception because of its earlier reopening and strong recovery. But inflation is picking up quickly with higher commodity prices, reopening and fuel subsidy cuts. Thailand is tapering its diesel subsidy in May. Indonesia plans to raise fuel and LPG prices, and electricity tariffs. Malaysia is planning more targeted fuel subsidies. ASEAN's labour market is recovering with the reopening. ASEAN-6 inflation is forecasted to rise to about +4.4% in 2H22 from +3% in 1Q.

#2 Interest rate shock: Fed hikes may force premature tightening

The Fed will hike the fund's rate to about 3% in 2022 and 3.3% in 2023, based on the futures market. The MAS has tightened and Bank Negara Malaysia has surprised with an earlier than expected +25bps rate hike. We expect other ASEAN central banks to tighten in the coming months, including the Philippines and Indonesia.

Rising US interest rates may spark capital outflows and pressure on ASEAN currencies, forcing ASEAN central banks to tighten more than otherwise despite the nascent recovery. A repeat of the 2003 taper tantrums and equity sell-off is however unlikely given larger FX reserves and lower foreign investor positions. The current episode represents a broader US dollar rally, impacting all other currencies and not just ASEAN. But tighter global monetary conditions and rising interest rates will dampen ASEAN's economic recovery.

#3 Recession shocks: War, China lockdown & an overzealous Fed

ASEAN faces potential recession shocks from Europe due to the Ukraine-Russia war; a China hard landing because of extended lockdowns, and a US recession in 2023-24 if the Fed is overzealous in battling inflation. Our recession model, based on the US 3M and 10Y yield spread, is estimating the recession probability at 6% in Singapore and 5% in Malaysia over the next 12 months. The New York Fed model is forecasting only a 4% recession probability, but the odds will rise as the Fed hikes. A Fed funds rate above 3.5% will likely tip the US and trade-dependent ASEAN economies into recession.

The Cleanest Dirty Shirt

Anand Pathmakanthan
Head of Regional Equity Research

ASEAN has been outperforming regional and global benchmarks YTD ...

While the earlier macro section has articulated numerous macro challenges facing ASEAN, these appear to be somewhat ameliorated by its relatively moderated susceptibility to key issues such as macro/policy fundamentals, food and energy security, as well as geopolitical liabilities. Banks and corporates are generally in sound shape, while new economy drivers are starting to carry greater weight. Further, it is a "neutral" player in the intensifying US-China rivalry, with strong geographical and human capital attractions, and hence stands to benefit re diplomatic courting and investment flow from both sides.

Against this relatively favourable backdrop, ASEAN as a whole has seen relative outperformance YTD, mainly underpinned by i) accelerating, broad economic reopening into 2022 as vaccination rates have surged, supporting corporate earnings and GDP recovery; ii) predominantly old economy-dominated equity markets that have seen their defensive/valuation attractions boosted by years of relative underperformance/ deflated foreign ownership and, for Malaysia and Indonesia in particular, sizeable commodities-related weightings; and iii) a comparatively less aggressive multi-speed monetary policy normalization/tightening, supported by a range of ex-monetary policy interventions and measures to mitigate inflationary pressures.

... But can this relative outperformance sustain into 2H22?

For now, with Fed tightening still in its early stages and energy/food inflation still raging, the aforementioned supportive drivers remain intact. However, 2H22 appears a more difficult proposition given drag from now-rising regional interest rates, and more tangible fallout from China's GDP-deflating lockdowns, the latter being ASEAN's largest trading partner as well as a key source of FDI and tourism. Further, evidence of peaking US interest rates / inflationary pressures could result in capital outflows as investor risk appetite recovers – in particular, there could be a reversal in the global de-rating of growth / technology stocks in the face of sharply rising interest (discount) rates that has resulted in sharp declines in the US and North Asia, and the related switch into value stocks, has been a key lift for ASEAN equity market benchmarks dominated by banks, utilities, telcos and consumer stocks.

After a prolonged dry spell, foreign buying is back

Foreign ownership in ASEAN equity markets has trended down to near historical lows over recent years. However, Indonesia has seen sustained foreign buying over the last 12 months, while an extending positive turn is also evident for Thailand and Malaysia. Among the sectors that have seen the biggest foreign inflows are: i) banks/financials which provide the biggest weightings in the respective benchmark indices, have come through the pandemic with fundamentals intact and are positively leveraged into rising interest rates and, especially in the case of the regionalised, USD-funded Sing banks, supply chain relocation out of China into ASEAN; ii) commodities, principally in the net commodity exporters Indonesia (gas, nickel, palm oil and coal) and Malaysia (oil, gas and palm oil); and iii) reopening beneficiaries in consumer/retail, gaming and travel.

However, evidence of a positive structural shift in foreign investor perceptions of ASEAN's attraction as a long-term investment remains weak. Current buying interest appears primarily tactical in nature, i.e. funds seeking a relatively low-beta safe haven from global market turmoil and/or trade on the commodities price surge. Should market risk factors – geopolitics, China lockdowns, interest rates/inflation – ease, there appears little in the way of systemic reforms regionally, be it less-populist politics or progressive economic policies, to keep foreign funds interested.

What are the best plays to leverage rebounding regional mobility?

As reflected by Google mobility index data, economic reopening/ending of lockdowns as vaccination thresholds are reached has normalised intra-country people movement to pre-pandemic levels, while the subsequent relaxation of international borders into 2Q22 has seen a rebound in air traffic/inter-country mobility.

The rebound in domestic mobility benefits the broad economy, particularly consumption-linked sectors such as consumer/retail where footfall is recovering even as rental rebates decline. Reopening of internal borders will most directly benefit the aviation sector, especially airport operators and entrenched regional, volume-driven airlines. Tourism proxies will also gain, including hotels/leisure and hospital groups that are recipients of medical tourism.

Optimising portfolios for an inflationary/higher interest rate environment

Sector winners in an inflationary environment would include commodities exposures such as oil & gas and palm oil, consumer staples where demand is relatively inelastic and pricing power is strong, banks from the perspective of higher inflation leading to higher interest rates which are good for net interest margins and green energy stocks as transition plans accelerate in the face of surging energy prices. A key loser from eroding real disposable incomes is consumer discretionary stocks where demand is elastic and pricing power weak.

Rising interest rates will be a broad headwind for corporate earnings (especially leveraged operating models) but the positive is that ASEAN corporate leverage is relatively modest/well-structured. An expected beneficiary is banks, where higher interest rates should reverse a prolonged period of net interest margin (NIM) pressure, especially for banks with high CASA. With ASEAN rate hikes likely to lag the Fed, and China's unwavering zero-Covid strategy, regional currencies are set to remain under pressure vs. the USD – this is a boon for local-cost exporters, especially the tech and manufacturing sectors, but a margin squeeze for importers of USD inputs (e.g. commodities, auto parts and media content).

SECTOR PICKS ACROSS ASEAN

Aviation
AOT TB
MAHB MK
ACV VN
CAPITALA MK

Banks
DBS SP
OCBC SP
RHBBANK MK
KBANK TB
BMRI IJ
BDO PM
VPB VN

Consumer/Retail
MRDIY MK
MAKRO TB
SM PM
MWG VN

Consumer Staples
ICBP IJ
MYOR IJ
FFB MK
URC PM

Green Energy
AP PM
BGRIM TB
SOLAR MK
CYP MK

Hotels/Leisure
MINT TB
CENTEL TB
GENT MK
GENT SP

Medical Tourism
IHH MK
BH TB
BDMS TB

Oil & Gas
PCHEM MK
YNS MK
HIBI MK
GAS VN
PVD VN

Plantations
IOI MK
KLK MK
BAL SP

Retail REITs
MCT SP
FCT SP
CICT SP
PREIT MK
CPNREIT TB

Our recommended positioning & sector picks across ASEAN

Our ASEAN country heads of research remain constructive on the market upside, especially as 1Q22 reporting has generally delivered on expectations of a sharp earnings rebound post-economic reopening.

A broadly favoured sector is banks/financials – besides being economic proxies, valuations are attractive, high capital ratios mean dividend upside and rising interest rates are a margin tailwind. Consumer and property sectors are also favoured, though selectively given inflation (prefer staples over discretionary) and interest rates (greatest leverage where household debt and ownership are lowest, i.e. Indonesia, the Philippines and Vietnam).

From a structural perspective, Indonesia and the Philippines stand out for aggressive corporate tax cuts initiated during the pandemic, while the Singapore banks and Vietnam are the best plays on supply chain relocation.

TOP 3 STOCK PICKS PER COUNTRY

Singapore

DBS SP (Bank)

ST SP (Telco)

VMS SP (Tech)

Malaysia

PCHEM MK (Petrochem)

RHBBANK MK (Bank)

INRI MK (Tech)

Indonesia

ICBP ID (Consumer Staples)

KLBF IJ (Healthcare)

BMRI IJ (Bank)

Thailand

BH TB (Healthcare)

SCC TB (Materials)

MINT TB (Hotels)

Vietnam

VPB VN (Bank)

NVL VN (Property)

Gemadept (Logistics)

Philippines

SM PM (Retailer/Mall Operator)

BDO PM (Bank)

TEL PM (Telco)

FIXED INCOME

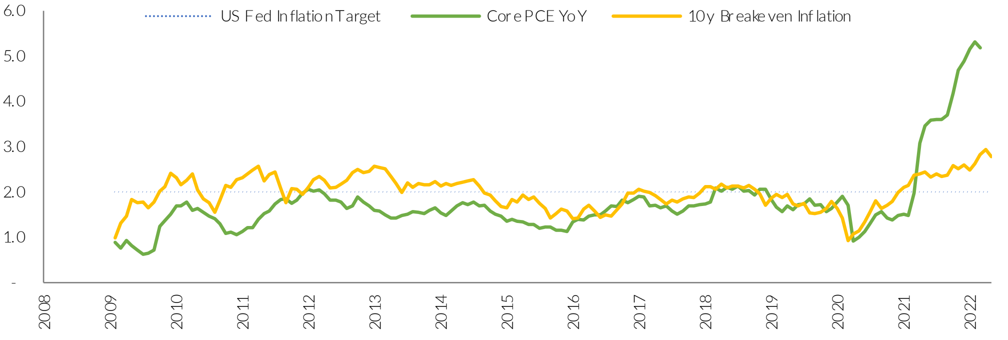
Inflation Fears vs. Late-cycle Risk

Winson Phoon
Head, Fixed Income Research

With US inflation at a multi-decade high, the Fed is in inflation-fighting mode. The US rates market has priced in for a steep rise in interest rate by about 300bp over a 12-month period, the most aggressive tightening since at least the mid-1990s.

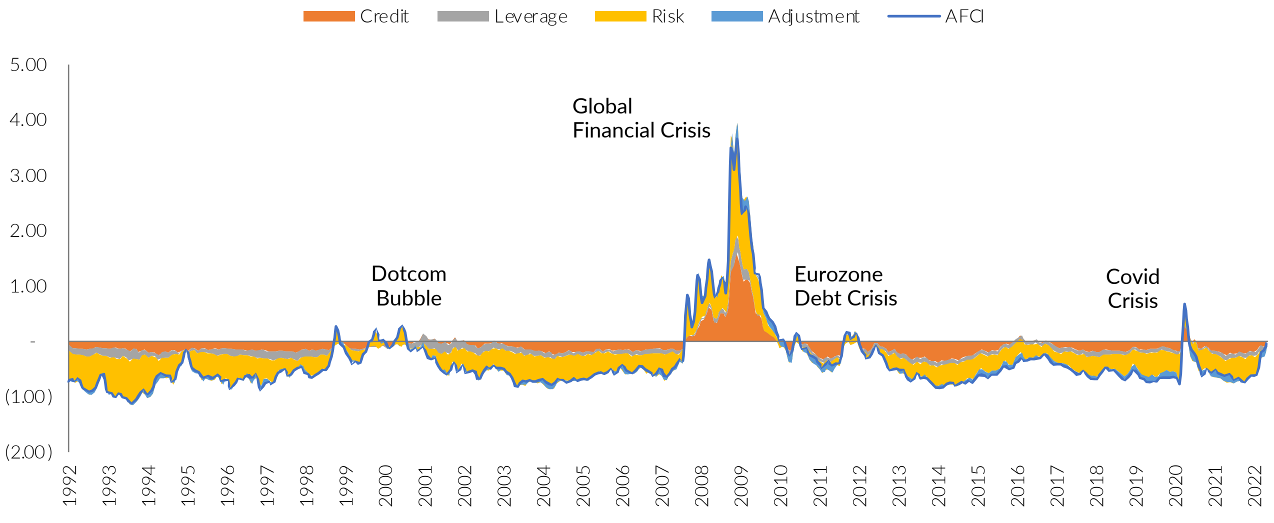
As inflation pressures peak, the 10-year breakeven rate, a market-based measure of long-term inflation expectations, has receded to 2.70-2.80% after rising above 3.00%, a record high, in April.

Peak US Inflation to Peak Inflation Expectations?



Source: CEIC (1Q20-1Q21; 2020); Maybank Kim Eng (2021-2022)

Tightening US Financial Conditions May Raise Haven Demand

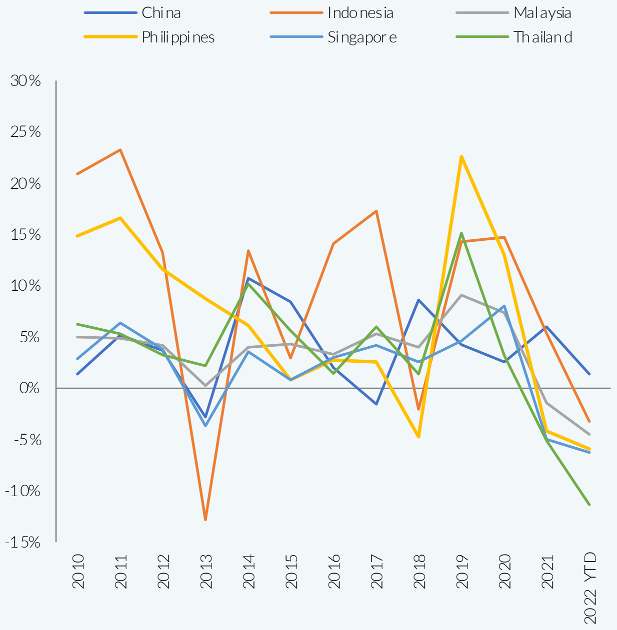


Source: Maybank IBG Research

Financial conditions in the US have tightened considerably. The Chicago Fed Adjusted National Financial Conditions Index has increased from -0.63 at the beginning of the year to +0.06 as of 6 May 2022. A negative/positive figure indicates looser/tighter than average financial conditions.

This is the highest reading since 2011 if we exclude March-April 2020 when the global financial market was in a meltdown entering the pandemic. A further deterioration in financial conditions is expected to raise haven demand for UST.

EM Asia Government Bond Yearly Total Return in Local Currency

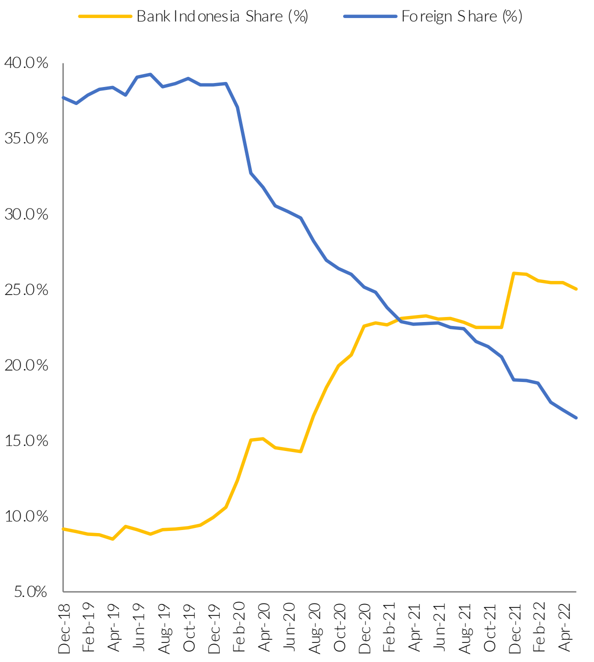


Source: Maybank IBG Research

The UST market posted a negative total return of -9.1% YTD as of 17 May. While highly correlated with the UST, ASEAN government bonds generally outperformed UST measured in local currency with total return of between -3.2% and -6.3% for Indonesia, Malaysia, Philippines and Singapore, except for Thailand which recorded a larger YTD loss at -11.4%.

The losses of regional bonds are wider after including FX effect, as all regional currencies are weaker against the USD this year.

Indonesia: Rupiah Bonds Are Exposed to Policy Exit Risk



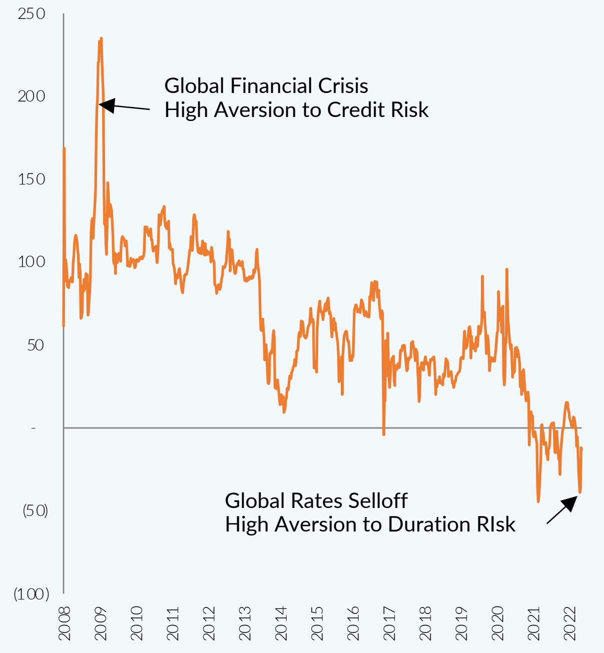
Source: Maybank IBG Research

The foreign share of Rupiah government bonds has fallen sharply from close to 40% pre-Covid to around 17% currently, due to persistent foreign outflows and significant purchases by Bank Indonesia to address funding gap during the pandemic.

Bank Indonesia now holds are larger share at about 25%, anchoring market stability over the past two years.

With both growth and inflation normalising to levels near pre-Covid, both IndoGB and Rupiah may be exposed to policy exit risk as Bank Indonesia reduces its presence in the market.

Malaysia: Disproportionate Duration-Credit Risk Pricing



Source: Maybank IBG Research

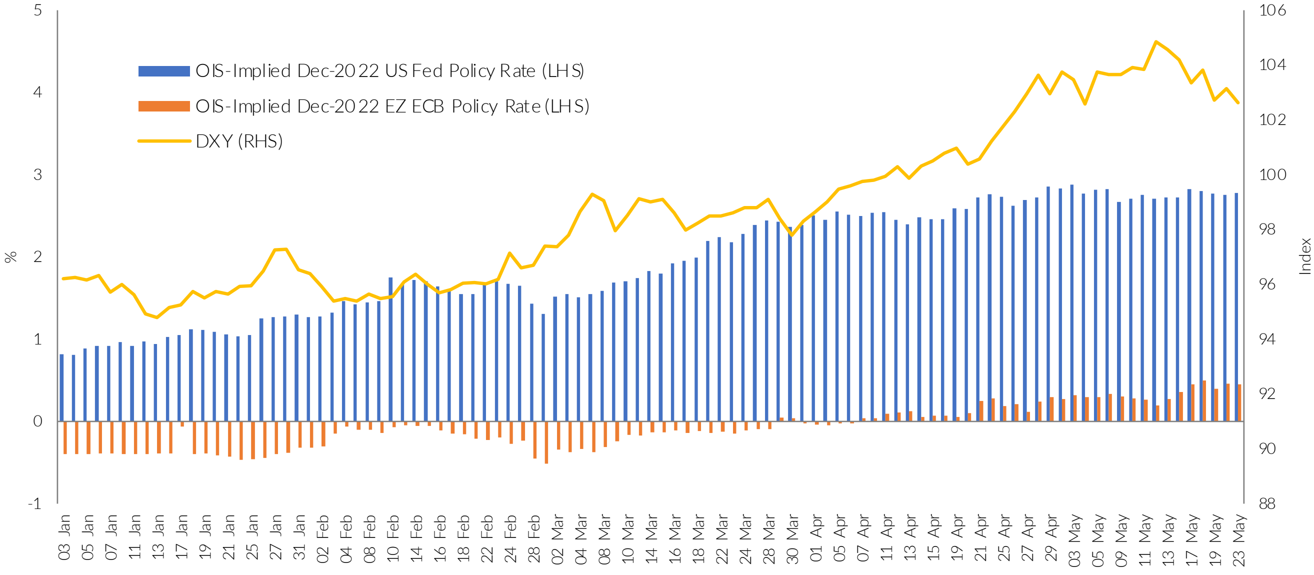
The global rates selloff has resulted in significant aversion to duration risk. In Ringgit bonds, ultra-long government bond yields are trading at or near record highs. Following the hawkish repricing, MYR rates market has essentially priced in for a full normalisation by BNM.

The current duration-credit risk pricing of MYR bonds is disproportionately wide. We use 15y MGS as a proxy for duration risk and composite 5y AA3 onshore credit spreads as a proxy for credit risk. We recommend investors to extend duration in MGS and GII.

FX

Dollar Rally Shows Signs of Moderating as Market Expectations of Fed Hike Pace Stabilises; ECB Grows Hawkish

Saktiandi Supaat
Head, FX Research



Source: Bloomberg, Maybank FX Research & Strategy

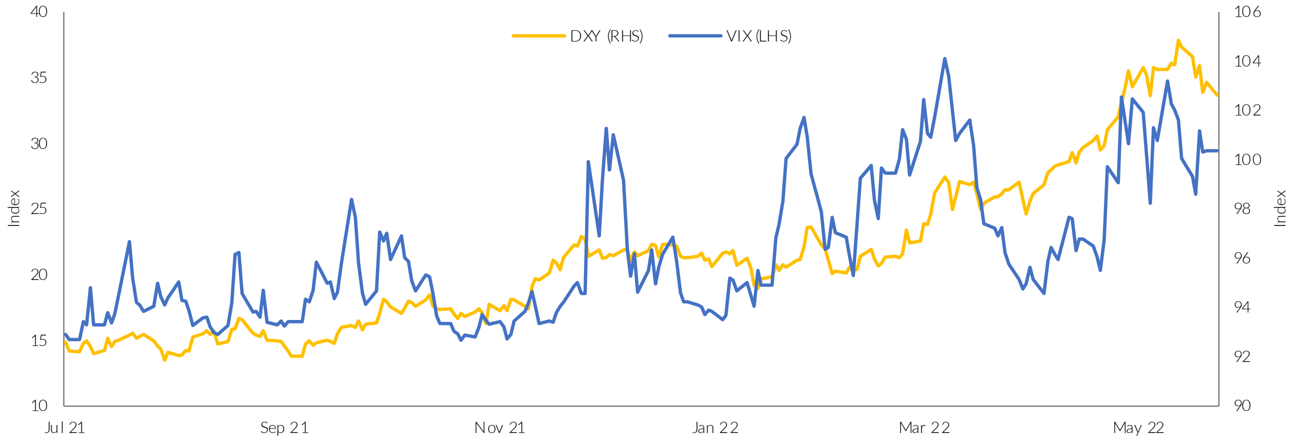
Persistent inflation pressures in the US had led to hawkish shifts in Fed signalling, with markets swiftly repricing a front-loading in Fed rate hikes in recent months, contributing to the earlier broad dollar rally.

But expectations have stabilized a tad since late April, with markets now looking for Fed policy rate to reach around 2.8-2.9% by December 2022.

This tentative plateauing in US rate hike expectations occurred just as ECB turned hawkish in policy tones. A rate lift-off by ECB in July is highly likely.

As other major central banks embark on or continue their own monetary policy normalization plans, policy divergence vis-à-vis Fed could be capped, limiting room for another bout of strong dollar rally.

Elevated uncertainty over the global growth outlook could lend USD some interim support



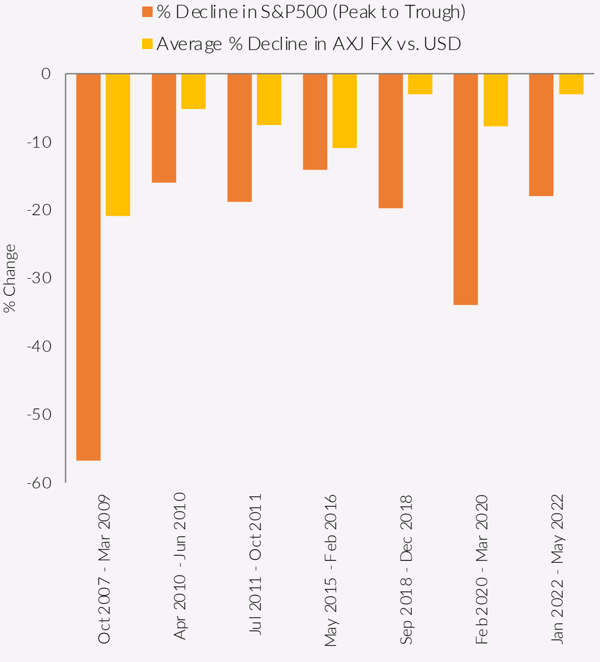
Source: Bloomberg, Maybank FX Research & Strategy

Despite synchronous global policy normalization (excluding China and Japan) in the face of inflationary pressures, the protracted nature of the geo-political situation in Ukraine and Russia, risks of Fed turning even more hawkish if inflation momentum persists, expectedly softer China growth outlook etc., are contributing to elevated uncertainty in financial markets.

Developments suggest that markets may be mired in a risk-based cautious view based on the global economic backdrop.

These factors could lend USD some interim support on haven demand, and delay any significant retracement lower in dollar strength until the latter part of the year.

Current episode of AxJ FX sell-off still modest



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Note: We consider sell-offs of above 14% magnitude (as significant) over the last 14 years; cut-off date of current episode of S&P 500 sell-off is 12 May 2022; AxJ FX performance versus USD measured via peak to trough for periods around respective S&P 500 sell-off episodes. AxJ FX decline is average of % changes in SGD, MYR, IDR, THB, PHP, CNY, KRW, TWD, INR.

Historically, average AxJ FX depreciation range between -3% and -11% in episodes of global equity routs (excluding GFC outlier), and AxJ FX drags in this episode (-3%) has been relatively modest in comparison. ASEAN FX NEER baskets have also been broadly steady YTD.

Reopening momentum in the region could be helping to mitigate externally-induced drags but caution could persist for a while more. In-house FX volatility models suggest some slight under-pricing in regional FX risks.

We do not expect broad or severe depreciation pressures from here, but a more sustainable or significant recovery in the AxJ FX complex may not be forthcoming yet.

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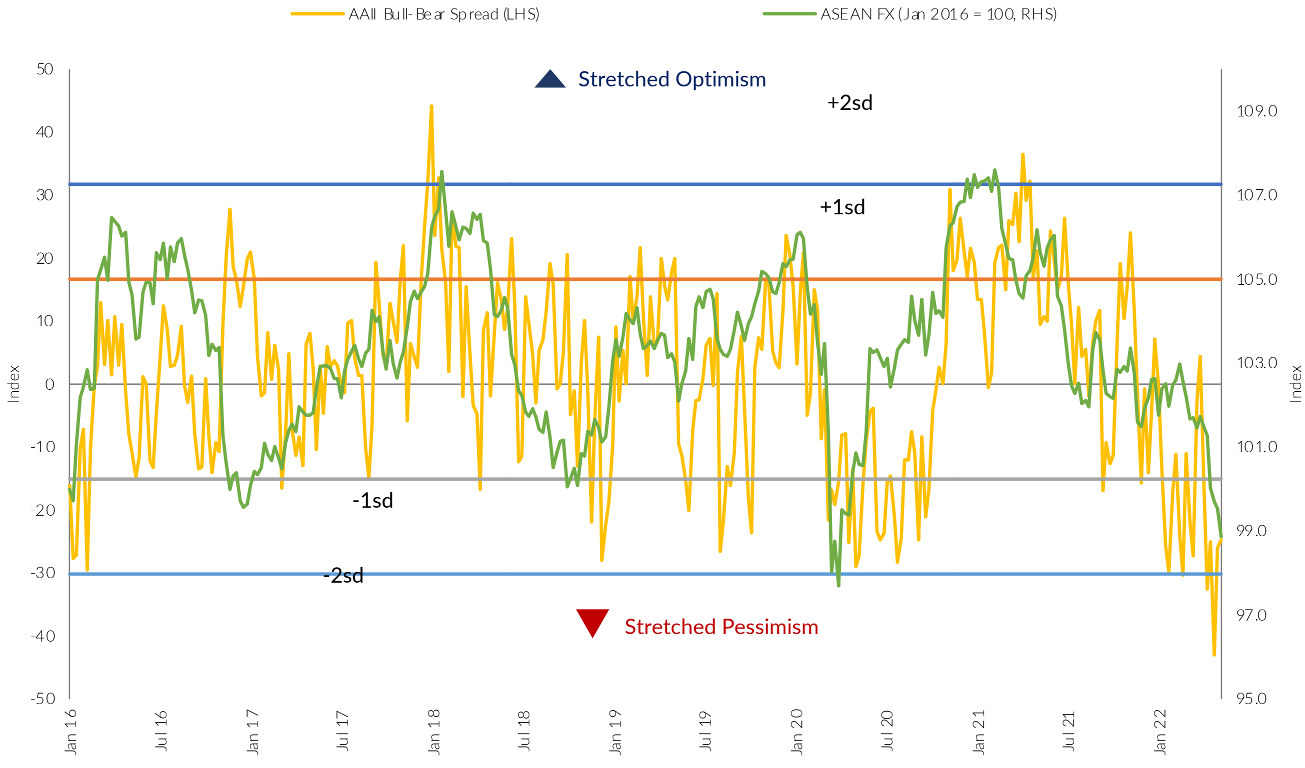
Further Severe Bearish Pressures on ASEAN FX May Be Less Likely Given Stretched Risk Sentiments



Source: Bloomberg, Maybank FX Research & Strategy Estimates

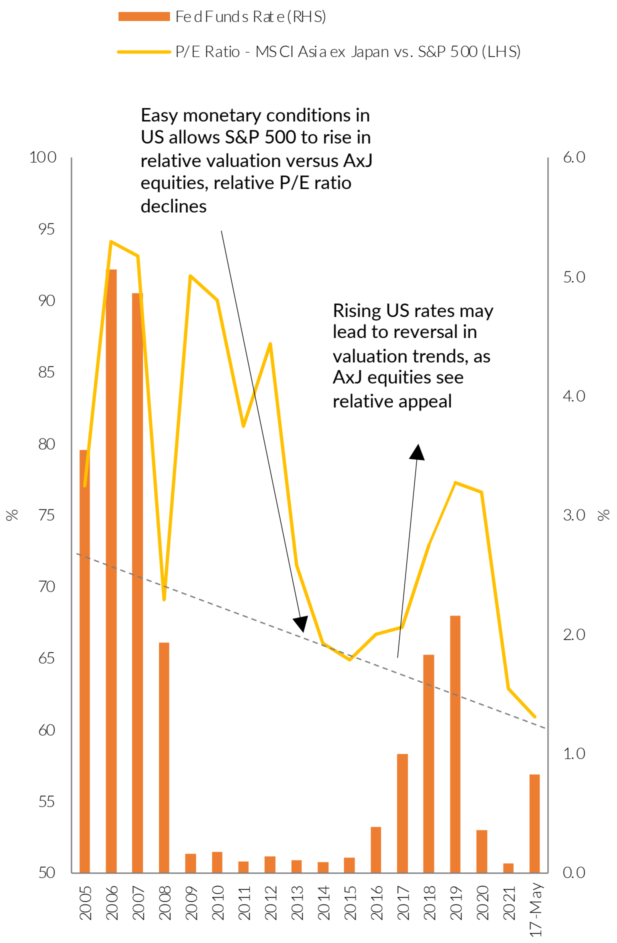
Note: AAII Investor Sentiment Survey is a regular weekly survey conducted by American Association of Individual Investors and aims to offer insights into the opinions of individual investors by asking them where the market is heading in the next 6 months. AAII bull-bear spread in chart aims to capture shifts in broader risk sentiments. ASEAN FX index captures equal-weighted moves in SGD, MYR, IDR, THB, PHP.

At this point, indicators such as the fear-greed index, AAII investor sentiment survey are painting a coherent story of fear and caution.

But as per historical performance, the emergence of contrarian bets when broader risk sentiment readings are at stretched levels can indicate a moderation in negative FX drags.

If positive catalysts, i.e. growth slowdown fears dissipating, China Covid risks easing, etc. set in over time, a more meaningful rebound in regional FX sentiments can occur.

Last Fed Rate Hike Cycle Saw Asian Risk Assets Gaining Appeal; Cautious AxJ FX Optimism in 2H



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Higher-frequency data shows some signs of tentative easing in portfolio outflow drags in some ASEAN markets such as Indonesia and Thailand.

Meanwhile, valuations for AxJ equities have reached relative lows versus US assets in mid-May, and risk-reward dynamics could suggest Asian assets gaining some appeal alongside the easing of China-induced drags later in 2H22. Historically, the last period of rising US rates did see an improvement in Asian risk asset appeal.

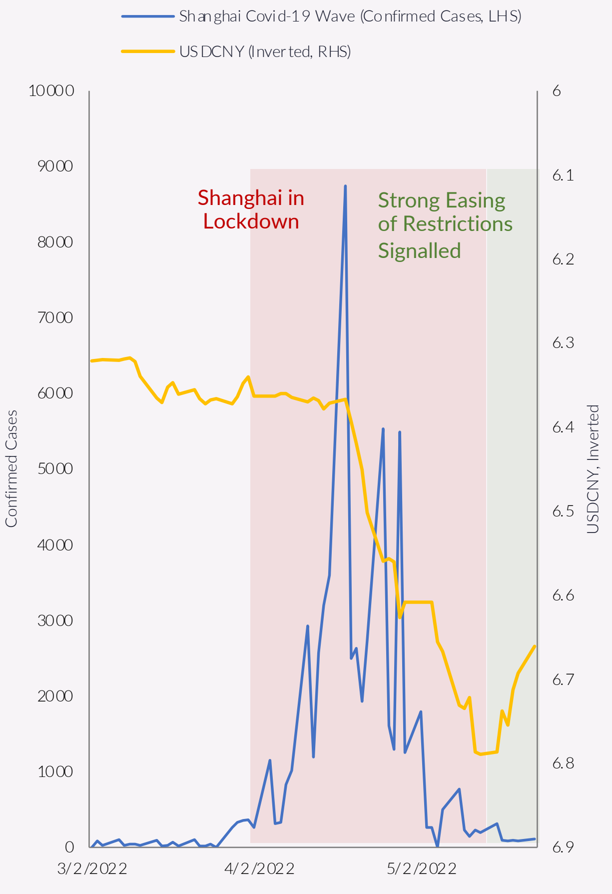
Such developments could concomitantly provide some support for AxJ FX in 2H.

CNY In Tentative Recovery Mode After Shanghai Infections Came off, Restrictions Ease, Downside Risks Remain

CNY only started to rebound after Shanghai infections have come off considerably and Shanghai authorities declared a halt in the community spread with more easing of restrictions to be expected. Chinese officials now combat outbreaks with aggressive mass testing and early enactment of flash lockdowns. Eyes are on Covid counts in Beijing, Tianjin.

UST 10y yield is trading at par with that of China's, with US recession fears possibly limiting US-CH yield premium divergence.

Factors that could keep USDCNY supported include a lack of carrying, the possibility that more infectious Covid variants could lengthen the period of flash lockdowns and worsen growth prospects, or any escalation in geopolitical tensions that could intensify capital outflows.



Source: 丁香医生, Bloomberg, Maybank FX Research & Strategy

QUANTS

ASEAN Resilient; Reflation Trades Outperformed

Chan Han Chin
Analyst, Quantitative Strategy

ASEAN financials, energy & consumer discretionary outperformed

On a YTD basis (USD terms), MSCI AC ASEAN lost only 3.7%, outperforming S&P500, MSCI AxJ and MSCI China which lost 11.8%, 13.5% and 17.6% respectively. Positive performance in MSCI Indonesia (+8.9%) and MSCI Thailand (+0.6%) has helped buoy ASEAN's performance.

Boosted by high commodity prices and pandemic reopening themes, Energy (+16.6%) and Consumer Discretionary (+11.6%) stood out as the best performing sectors in ASEAN. Top-performing stocks in these sectors include Adaro Energy Indonesia (+52.2%), PT United Tractors (+45.1%), PTT Exploration & Production (+40.4%), Astra International (+30.1%) and Minor International (+15.9%).

Financials, which made up more than one-third of MSCI AC ASEAN's weight returned 2.9%. This was led by Indonesian banks (+6.9%) and Malaysian banks (+4.1%) including Bank Negara Indonesia (+31.5%), Bank Mandiri (+20.4%) and AMMB Holdings (+12.5%).

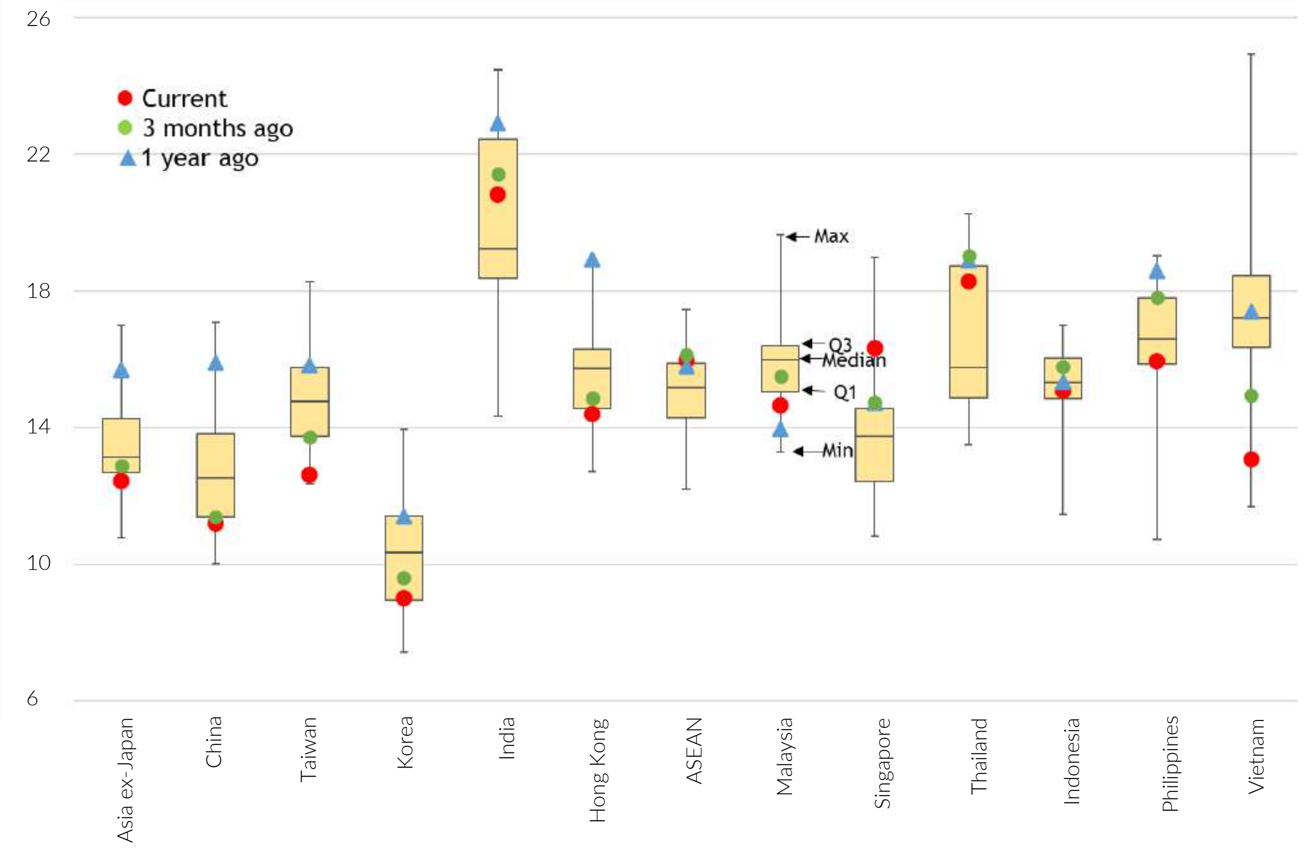
MSCI AxJ & S&P 500 YTD performance

Source: Factset, MSCI, Maybank IBG Research; USD total return data as of 2 June 2022

MSCI ASEAN YTD performance

Source: Factset, MSCI, Maybank IBG Research; USD total return data as of 2 June 2022

Asia ex-Japan 12month forward PE box plot (by countries)



Source: Factset, MSCI, Maybank IBG Research; 5-year data as of 31 May 2022
Note: A box plot displays the five-number summary of a dataset, namely minimum, 1st quartile, median, 3rd quartile and maximum (Min, Q1, Median, Q3, Max)

Valuations attractive in Greater China, Malaysia & Vietnam

MSCI AxJ has returned a negative 13.5% year to date. In terms of 12m forward PE valuation, all countries covered in this index have been de-rated on both three months and 1-year basis except for Malaysia and Singapore. Only India, Singapore and Thailand trade above their historical median forward PE.

China, Taiwan, Hong Kong, Malaysia and Vietnam are trading at attractive levels with forward PE at 11.2x, 12.6x, 14.4x, 14.7x and 13.1x, compared to their historical median of 12.5x, 14.8x, 15.7x, 16x and 17.2x respectively.

Regional Recovery to Drive ROE Upside

PREFERRED PICKS

Singapore
DBS

OCBC

Malaysia
HLBK

RHB Bank

Indonesia
BMRI

BBNI

Thailand
KBANK

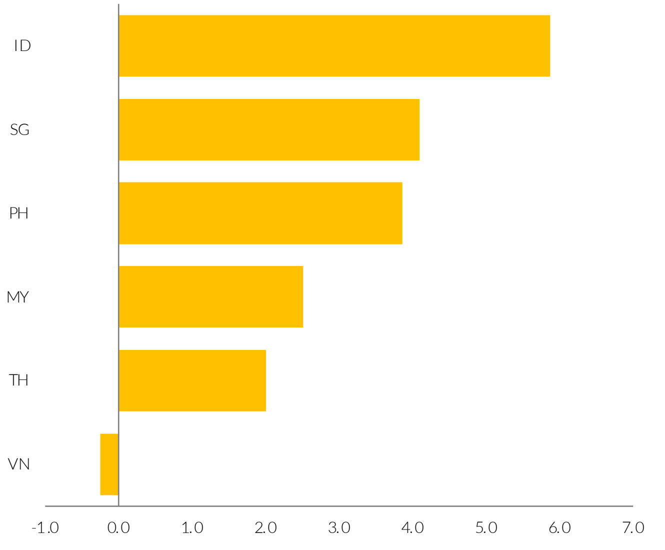
KKP

Vietnam
VCB

MBB

Thilan Wickramasinghe
Regional Head of Financial Research

ASEAN banks ROE growth 2020-2023E (ppts)



Source: Company data, Maybank IBG Research

Regional re-opening is underway following Covid lockdowns. We forecast ASEAN GDP to expand +4.9% by 2022E, overtaking Chinese growth (+4.5%). This should drive stronger credit demand and rising interest rates are set to deliver a tailwind in terms of NIM growth. We see banks across ASEAN delivering expanding ROEs from their pandemic lows. Indonesia, Singapore and Malaysia should display some of the strongest expansions by 2023E, with respective ROEs set to exceed pre-pandemic levels.

Having recently been surprised with a 25bp hike in the Overnight Policy Rate (OPR), our Economics Team now expects Malaysia's central bank to raise rates by another 25bps this year and 75bps in 2023. Generally, rate hikes are positive on banks' interest margins, with every 25bps hike raising banks' earnings by 1-3% on average. Coupled with lower credit costs and the absence of the Prosperity Tax that is expected to hit earnings in 2022, we expect banks' ROEs to rebound to 10.2% in 2023 from 9.1% in 2022 (9.6% in 2021).

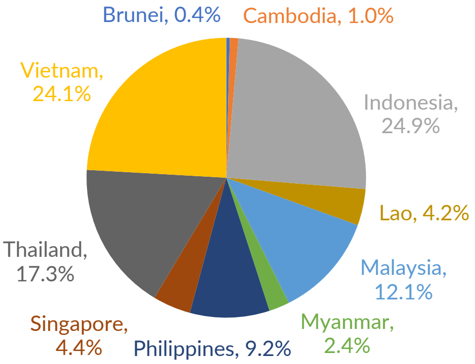
Our preferred picks in the region are filtered based on improving earnings visibility, strong execution track records and high levels of provisioning cover.

ESG

Renewables & Sustainable Finance on Acceleration Mode

Jigar Shah
Head of Research, India

2020 Installed capacity by country



Source: ASEAN Power Updates

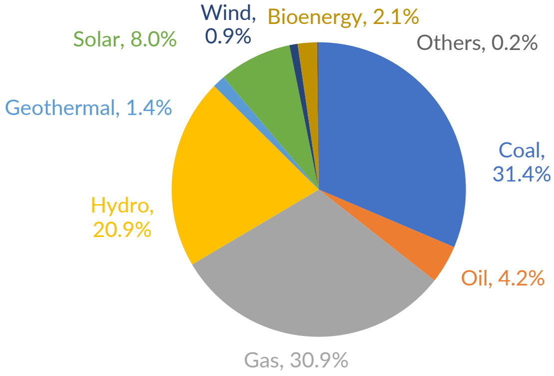
ASEAN: Targets 35% share of renewables by 2025

Within ASEAN, Indonesia makes up 25% of total electricity consumption, Vietnam was 24%, Thailand was 17% and Malaysia was 12%.

ASEAN region is still relying on fossil fuels despite the urgent need to reduce carbon emissions. There is a growing chorus to increase the share of renewable energy, no new addition of coal plants and early retirement of coal capacity.

Through the ASEAN Plan of Action for Energy Cooperation (APAEC), the region has committed to achieving the targets on Renewable Energy (RE) share of 23% in Total Primary Energy Supply (TPES) vs 14% in 2019 as well as the 35% share in installed power capacity by 2025 vs 33.5% in 2020 dominated by hydro at 21%.

2020 Installed capacity by source



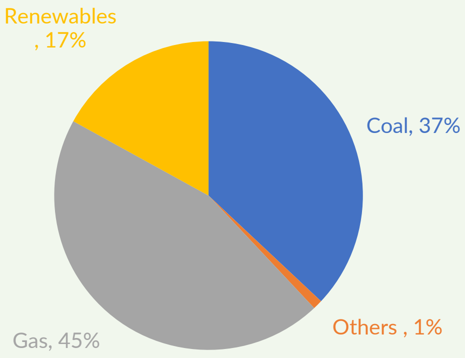
Source: ASEAN Power Updates

Malaysia: Targets 40% share of renewables by 2040

Including hydropower, Malaysia targets 31% of its installed power capacity to be renewable by 2025 and 40% by 2035.

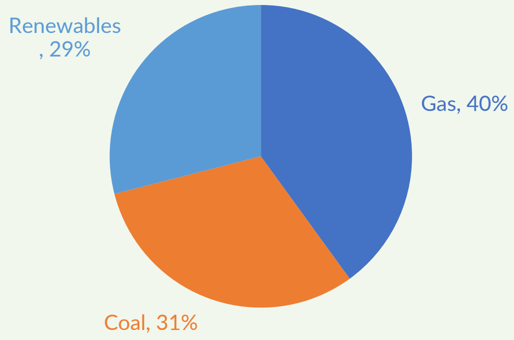
Industry reports forecast renewables including hydro to be 29% of the total energy basket of Malaysia by 2030 because the country's rollout of large-scale renewable energy projects is yet to gain speed compared to some other ASEAN countries.

Current Capacity by Fuel Mix



Source: Report on Peninsular Malaysia Generation Development Plan 2020
Above does not include large hydro projects in East Malaysia

Sources of Energy in 2030



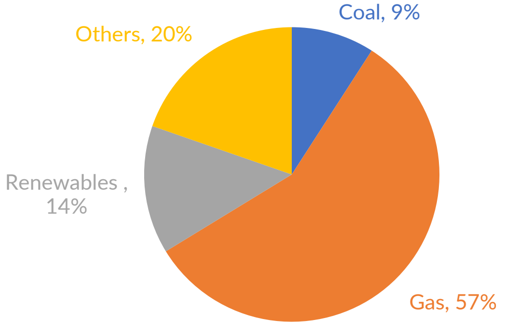
Source: Report on Peninsular Malaysia Generation Development Plan 2020
Above does not include large hydro projects in East Malaysia

Thailand: Targets 50% share of renewables by 2050

By 2050, Thailand is aiming for renewable energy sources to account for 50% of its power generation capacity vs its earlier target of 30%. Currently, it is 14%.

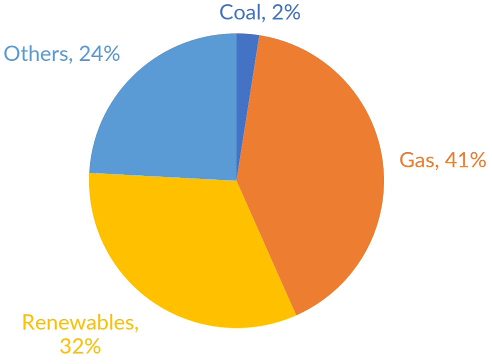
Fitch forecasts renewables capacity to surge to 17.2GW by 2030-end from 9.7GW at end-2021; representing a 7% CAGR.

Current Sources of Energy



Source: Thailand Power Development Plan (PDP) 2018

Sources of Energy in 2037



Source: Thailand Power Development Plan (PDP) 2018

18

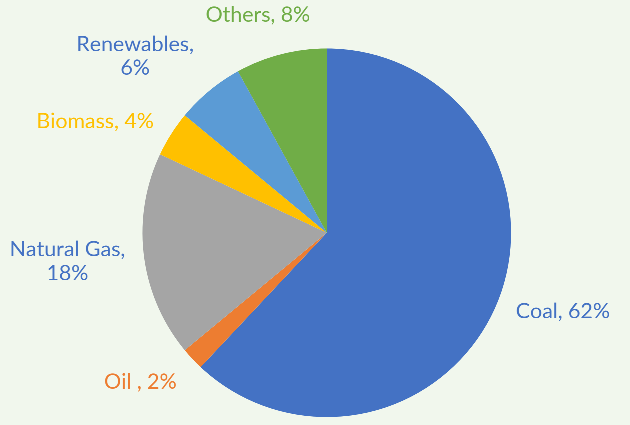
Indonesia: Targets 25% share of renewables by 2030

According to Climate Action tracker, Indonesia's policies are critically insufficient to put it on track for the 1.5°C pathway. Indonesia has installed electricity generation capacity of 73.3GW as of June 2021 and is dominated by coal, which accounts for above 60%.

The government wants to shift away from fossil fuel and reach net zero carbon emissions by 2060. It targets new solar power capacity of 908MW from around 150MW in 2020. Renewables would comprise 25% of Indonesia's energy mix by 2030 as renewables will be 51.6% of planned capacity addition in 2021-30.

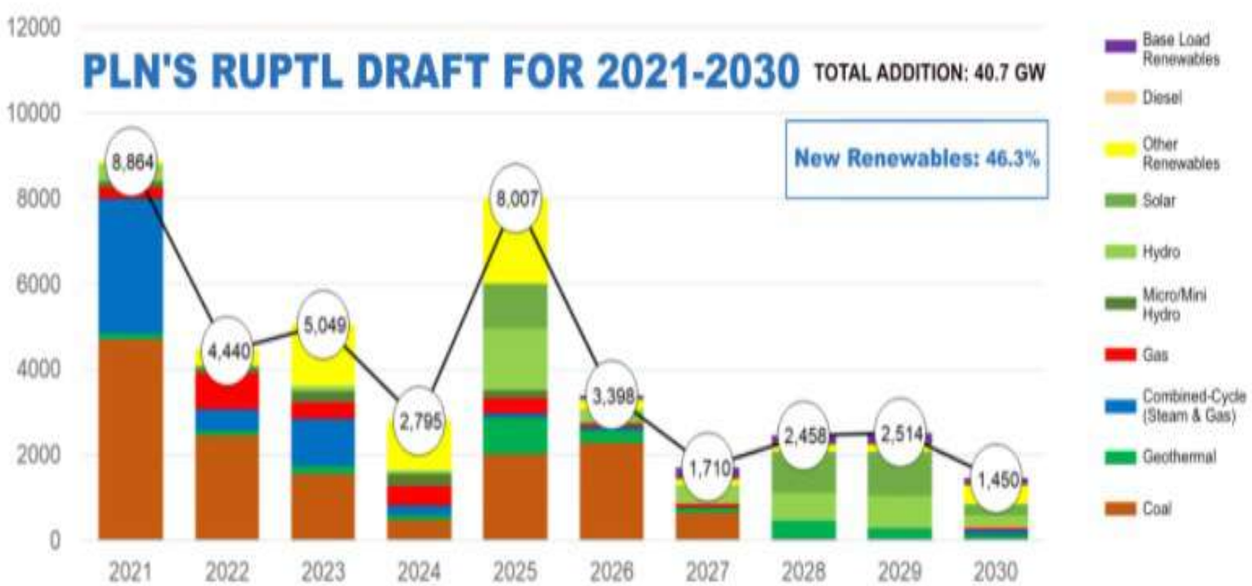
The government is seeking USD56b private investment for all new plants in 2021-2030.

Current sources of energy



Source: IEA

Sources of energy in 2030



Source: PLN's RUPTL plan

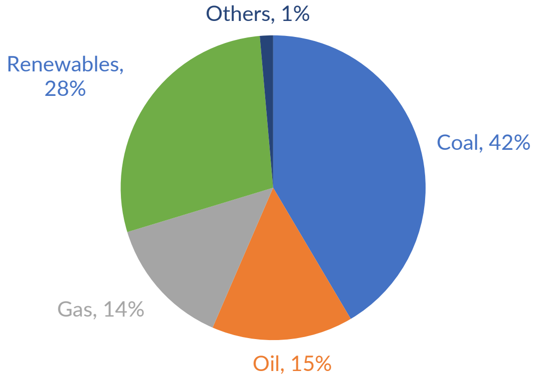
Philippines: Targets 35% share of renewables by 2030

Based on the updated plan of the Philippines government, it is aiming for renewable energy to account for above 35% of the country's power generation mix by 2030 and above 50% by 2040.

The Philippines announced a moratorium on new coal-fired plants in October 2020. In fact, it has led to the cancellation of 8-10GW of proposed coal-based power plants in the country.

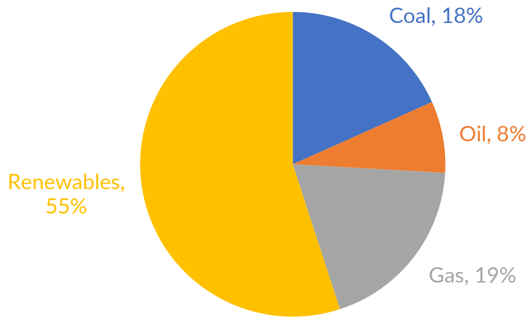
It is reforming to allow foreign investments in geothermal and biomass projects but not in solar/wind yet.

Current sources of energy



Source: Department of Energy

Energy mix in 2030 with coal moratorium



Source: Department of Energy

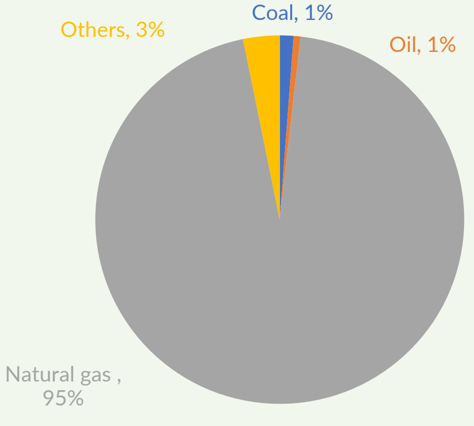
Singapore: Plans to Increase Renewables in its Energy Basket

Owing to its small size, Singapore imports almost all its energy needs, and has limited renewable energy options.

Nevertheless, Singapore aims to deploy at least 2 gigawatt-peak of solar energy by 2030. It also plans to diversify its energy mix from natural gas to include regional power grids and low-carbon alternatives such as hydrogen.

Singapore has already placed a carbon tax of SGD5/tCO2e from 2019 to 2023 on industrial facilities emitting more than 25ktCO2e/annum. This will be raised to USD25/tCO2e in 2024 and 2025 and USD45/tCO2e in 2026 and 2027 with a view to reaching USD50-80/tCO2e by 2030. It targets 80% of the buildings to be certified green energy buildings by 2030.

Current sources of energy



Source: Statista

Vietnam: Targets 21% share of renewables by 2030

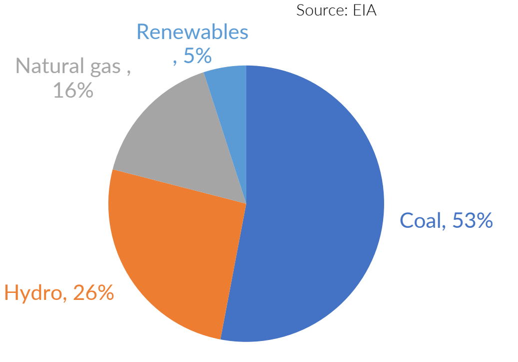
Vietnam is highly vulnerable to climate change as rising sea levels threaten the most vulnerable regions in South Vietnam, home to >20m people. Vietnam is a regional leader in solar with a capacity of 16.6GW, making it one of the top 10 countries globally in terms of solar capacity.

The next phase of growth will be wind as Vietnam has a large untapped potential of 16GW for offshore wind, of which the target is to add 10GW of wind projects by 2030. Vietnam plans to increase solar capacity to 18.6GW and wind capacity to 18GW by 2030. Vietnam has pledged to phase out coal plants by 2040, which is a step in the right direction.

The share of renewable capacity of overall energy is only 5%, which it is targeting to take to 21% by 2030 under the current plan but a more aggressive plan if executed well could take it to 49%.

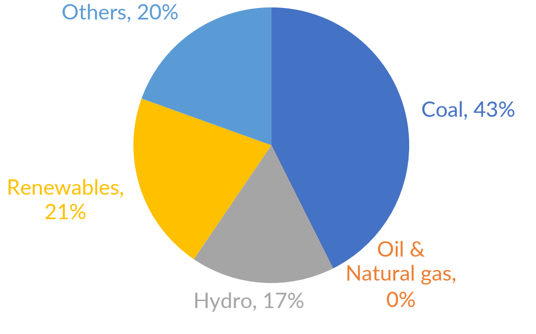
Current sources of energy

Source: EIA



Sources of energy in 2030

Source: PDP8



Stocks covered – BUYs on TPWR IN, AP PM & BGRIM TB

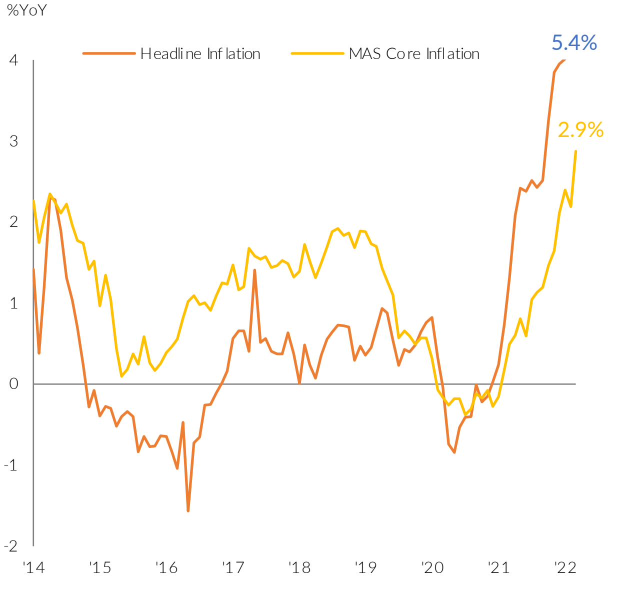
Company	Bbg code	Currency	Rating	CP	TP	Remarks
Tenaga Nasional	TNB MK	MYR	HOLD	9.1	9.3	Target 8.3GW RE by 2025, reduce emission intensity by 35% and coal by 50% by 2035 and net-zero and coal-free by 2050 Under recovery of generation costs will continue which will drive government approval for full passthrough Valuations are attractive and ESG concerns seemingly largely priced-in, near term concerns over ICPT mechanism remain
Tata Power	TPWR IN	INR	BUY	226	300	Target 60%/80% share of clean energy by 2025/2030 Full service RE offerings generation to Ev charging, recent funding in RE business to propel the business to next level Renewables and transmission businesses to be future growth drivers
Manila Electric	MER PM	PHP	NR	333	NR	Largest private sector electric distribution utility company in the Philippines, covering 36 cities and 75 municipalities A huge enabler of govt's RE policy mandate to source a 1% annual increment of their power demand from RE sources Trading below its 5-year average, but trading above median versus local peers. FY22E dividend yield is above peers
Aboitiz Power	AP PM	PHP	BUY	29	42	Pioneer developer in hydro RE, is targeting a 50-50 traditional-RE generation portfolio mix by YE30E balance sheet can still support expansion along with predictable operating cash flows SOTP-TP based on DCFs of AP's subsidiaries, using WACC of 6.3-6.7% for RE and 6.1-7.0% for non-RE and distribution
B Grimm Power	BGRIM TB	THB	BUY	32	42	Ambitious target to reach an installed capacity of 7.2GW by 2025, up from 3.2GW as of 2021 Operates/developing projects in Thailand, Laos, Cambodia, Vietnam, the Philippines, South Korea, and Malaysia Current price fails to reflect BGRIM's improving and superior sustainability metrics relative to its peers
AC Energy	ACEN PM	PHP	BUY	6.7	9.4	Targeting to grow its attributable RE capacity to 5GW by FY25, currently RE at 87% of capacity Key beneficiary of the Renewable Portfolio Standards, has sold the majority of its coal assets, balance by 2030-2040 Internally generated cash and proceeds from its divestments should be sufficient to fund future projects
Sembcorp Ind	SCI SP	SGD	NR	2.8	NR	Has a balanced portfolio of over 15GW of power of which RE is 36% which focus on brown to green Targets to grow net profit contribution from its sustainable solutions portfolio from 40% in 2020 to 70% by 2025F Committed to halving its greenhouse gas emissions by 2030 and delivering net-zero emissions by 2050.
First Gen Corp.	FGEN PM	PHP	NR	20.7	NR	Owns and operates four of the country's five natural gas-fired power plants and presence in geothermal and other RE Catalysts: Its delivery of the LNG terminal by 4Q22, gas contracting and securing new power supply agreements Trading within its 5-year mean and significantly below median PER of its local peers, depetion issues leading to derating
Ha Do Group	HDG VN	VND	NR	40,700	NR	Is a medium-sized property developer that is transforming into a RE producer Consolidated its RE investments into a subsidiary, planned on its listing in 2023/24 Aims to be the leading player in RE market while maintaining good exposure to the profitable real estate industry

Source: Maybank IBG Research

Singapore

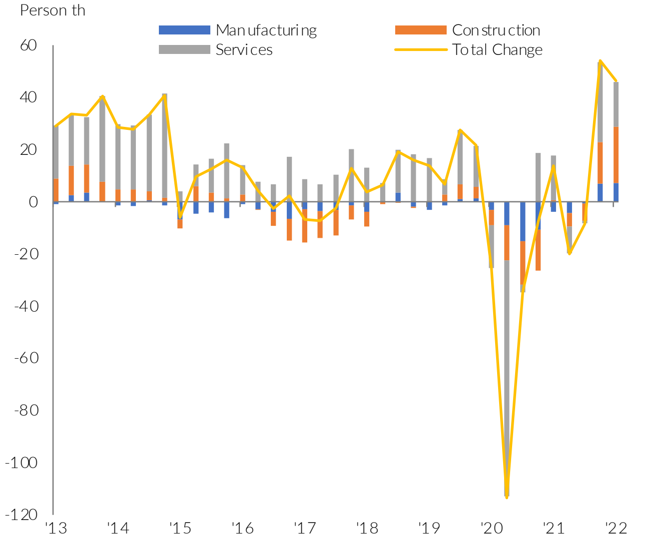
MACRO

Headline and core inflation hit decade high



Source: Maybank IBG Research

Employment is recovering, as foreigners return with the easing of border controls



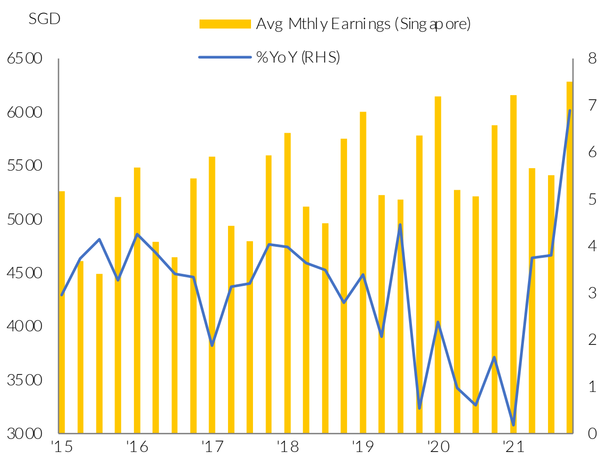
Source: Maybank IBG Research

Prices are soaring, with both core and headline inflation rising jumping to decade highs, reaching 2.9% and 5.4% respectively in March. Core inflation has been driven by higher food and services costs. Headline inflation has been mainly driven by higher private transport costs – both car and petrol prices.

Total employment has been recovering, with foreigners returning as border controls are eased.

The unemployment rate has fallen to 2.2% in 1Q 2022, back to pre-pandemic levels.

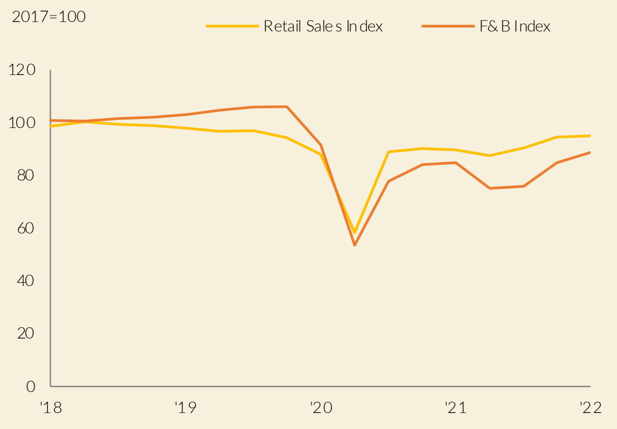
Average monthly earnings surging as the labour market tightens



Source: Maybank IBG Research

A tightening labour market and strict foreign worker measures are driving up average monthly wages which are up by almost 7% in the fourth quarter of last year from a year ago. Wage costs are expected to remain elevated with the introduction of the new local qualifying salary and the expansion of the progressive wage model to the retail sector in September 2022.

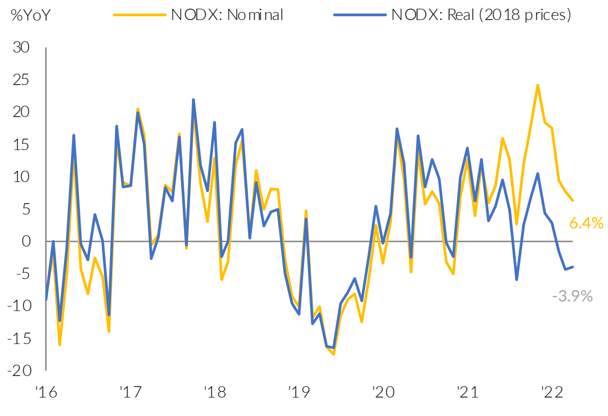
Domestic-oriented sectors rebounding, but remain below pre-pandemic levels



Source: Maybank IBG Research

Domestic-oriented sectors are rebounding but remain below the pre-pandemic level. The recent reopening and relaxation of border restrictions should lift both sectors to above the pre-pandemic level by the second quarter.

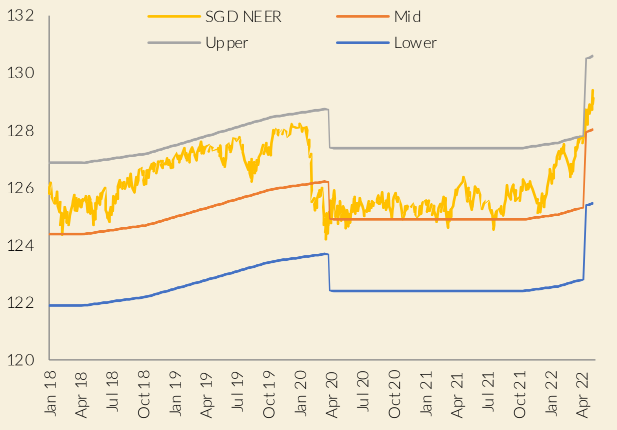
Easing non-oil domestic exports, with volumes contracting in February & March



Source: Maybank IBG Research

Slowing global growth, China's lockdown and the Ukraine-Russia conflict are dampening global and Singapore trade volumes. The WTO recently cut global trade growth forecasts to 3% from 4.7%, as global PMI dipped to its lowest since October 2020.

MAS has tightened monetary policy 3 times: October 2021, January 2022 & April 2022



Source: Maybank IBG Research

MAS tightened monetary policy by increasing the S$NEER band slope in October 2021 and January 2022. In April 2022, MAS tightened with a double-barrelled move, re-centring the mid-point of the S$NEER band upwards and increasing the slope further. MAS is projecting inflation to peak in 3Q22.

STRATEGY

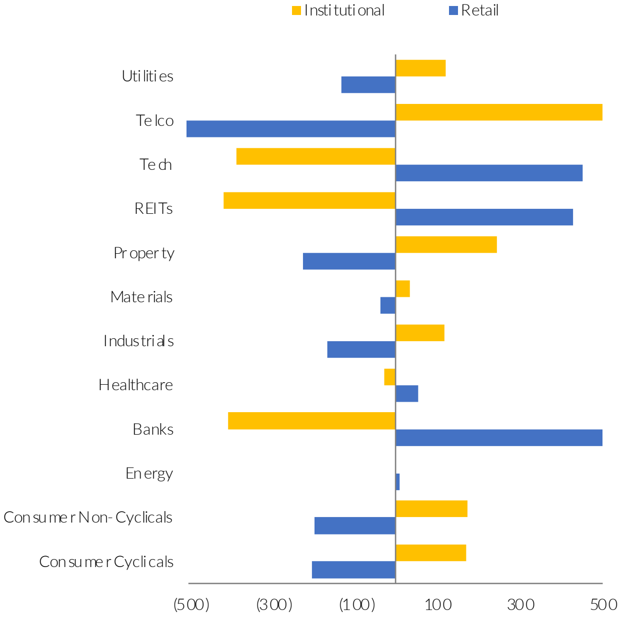
Institutional investors increasing weights in defensive, value sectors

Singapore has outperformed the S&P index by 19% YTD. The market is proving defensive despite record levels of volatility and uncertainty brought about by rising interest rates, record inflation together with disruptions from the Russia-Ukraine conflict and China's continued Covid lockdowns.

Within the STI, 72% of the market cap is banks, industrials, telcos and property. As a result, the index is dominated by traditional value sectors offering significant defensive positioning as money rotates out of growth sectors with uncertain earnings outlooks. As Central Banks continue to battle record levels of inflation and rate risks remain on the upside, we expect Singapore to continue to see inflows.

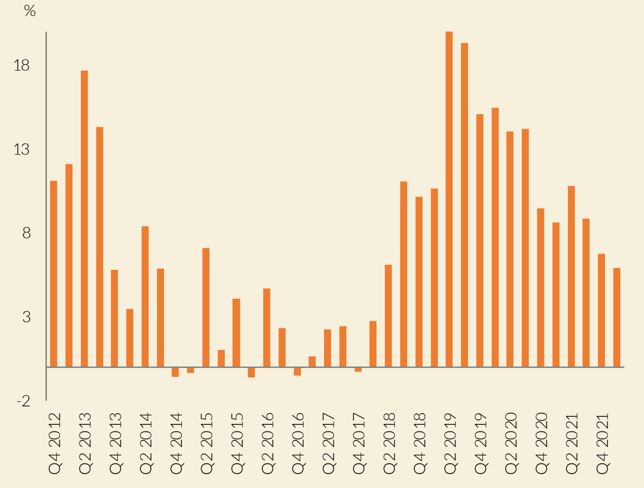
Institutional investors have been increasing weightings on key value sectors such as Telcos, Industrials, etc. We think this is supportive of our 12-month STI target of 3,629. It is based on bottom-up earnings expectations which should continue to see growth led by banks and industrials, while top-down PE and PB valuations are upstretched at levels below the long-term mean.

YTD SGX fund flows by institutional & retail investors



Source: SGX

STI components cumulative net gearing



Source: Bloomberg

STI gearing is now the lowest since pre-pandemic, which provides a buffer from rising rates

Rising inflation remains a key known unknown. A 10% rise in oil prices would add 10bps to Singapore inflation and lower GDP growth by 5bps. MAS' tightening stance, as well as rising interest rates, should be supportive of countering this. However, the risks remain on the upside as supply-chain disruptions remain.

A higher interest rate environment could impact corporate margins by raising interest costs. For the STI, net gearing is at 6% vs. 15% pre-pandemic. This lowers the risks of negative surprise from rising rates, we believe. Further, we believe this enhances the defensive qualities of Singapore during this period of uncertainty, in our view.

In the Banking sector, 56-76% of deposits are low-cost CASA. A rising interest rate environment should provide significant upside net interest margin upside from higher loan yields. Similarly, REITs – particularly in office, retail and hospitality – should benefit from upward rental revisions as inflation takes hold.

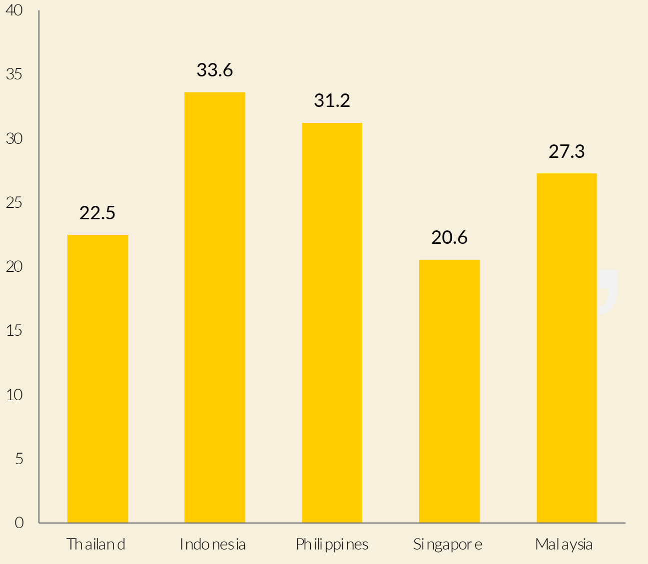
Corporate restructuring driving stronger sustainability. A catalyst for multiple rerating?

Singapore's M&A and restructuring deal volumes continue to accelerate with 2Q22 total deals increasing 2x YoY. The average deal size has increased 4x YoY during this period. Structural changes to operating environments from Covid together with valuations dislocations are driving a rising pace of restructurings in Singapore.

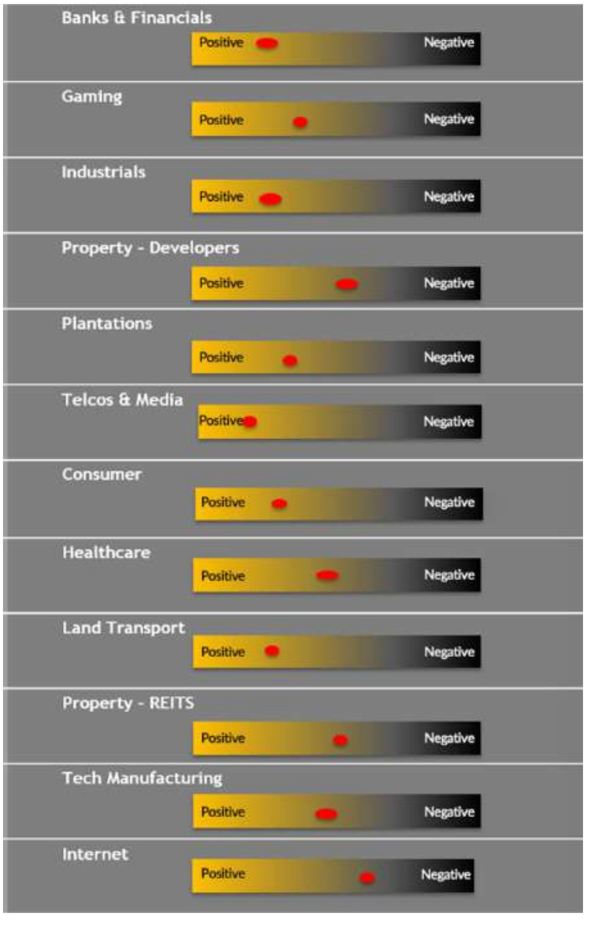
Another key driver for restructuring is ESG, with corporates strategizing to transition towards a lower-carbon future. This is catalysed by the Government's Singapore Green Plan - where policy support is focused on reaching carbon neutrality - as well as increasing calls from stakeholders for lower emissions and social equity.

We believe this should increasingly differentiate capital flows towards corporates that are transitioning toward better ESG risk management. A comparison of the ESG risks amongst the top-30 listed stocks in SE Asia places Singapore in the lowest risk category. We believe this would catalyse higher valuation multiples going forward as investors increase sustainability weightings.

Top 30 stocks average ESG score (lower = better)



Source: Sustainalytics, Maybank IBG Research



We are positive on Banks, Industrials, Telcos, Land Transport

Rising interest rates should support NIM expansion opportunities to Banks together with regional re-opening boosting loan demand. This should drive positive earnings momentum, especially as incremental provisioning risks remain low following large charges in 2020-21. Rising aviation demand together with a shift towards increased renewable capacity should be supportive of the Industrials.

Increasing international travel, rising 5G take-up rates and a new focus on ICT as SE Asia digitalises should drive revenues and margins for Telcos, we believe. While rising rentals should drive upside to REIT income, rising interest rates may compress the yield spread in the near term.

We believe in adopting a barbell approach in stock selection. On one end, we prefer defensive stocks that offer strong earnings certainty and competitive moats to withstand current uncertainty – BAL, CICT, CDREIT, SGX, SingTel. Concurrently, we also prefer stocks that offer exposure to longer-term themes such and ESG, digitalisation and emerging markets consumption – CLI, CD, DBS, OCBC and Venture.

BANKS

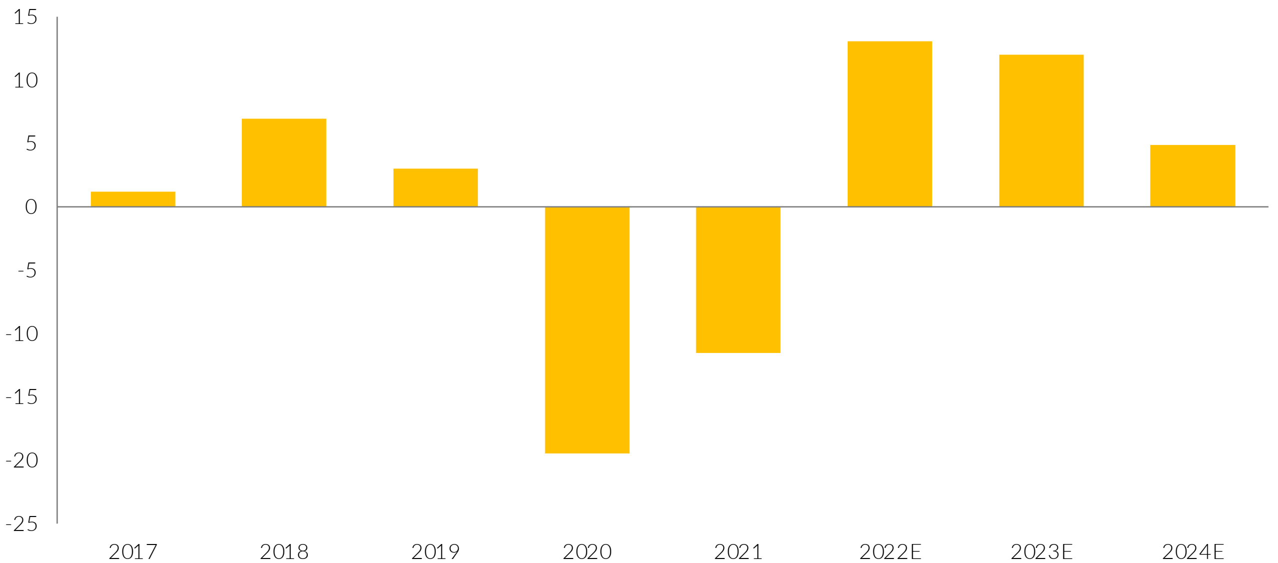
NIMs set to drive operational growth

We believe the Singapore banks are in the early phase of operational growth with rising net interest income supported by robust loan growth and improving net interest margins. Loans in 1Q22 expanded 8-9% YoY pointing to a strong regional recovery, but a slower North Asia is an overhang. Potential policy support from China may be an upside surprise.

NPL ratios are largely benign pointing to improving conditions and rising loan growth. While provision write-backs are unlikely given macro uncertainty, we think steep increases in credit charges are also unlikely given significant balance sheet strength. This should allow operating improvements to be largely reflected in earnings going forward.

Our preferred pick in the sector is DBS given its large, low-cost funding base, which should allow it to maximise spreads as asset-yields rise. We believe OCBC should be a key beneficiary of any policy-driven revival in North Asian economic activity. Border re-openings within SE Asia together with potential North-South supply chain relocations should be a key catalyst for UOB.

Singapore banks NIM growth YoY (bps)



Source: Company data, Maybank IBG Research

REITs

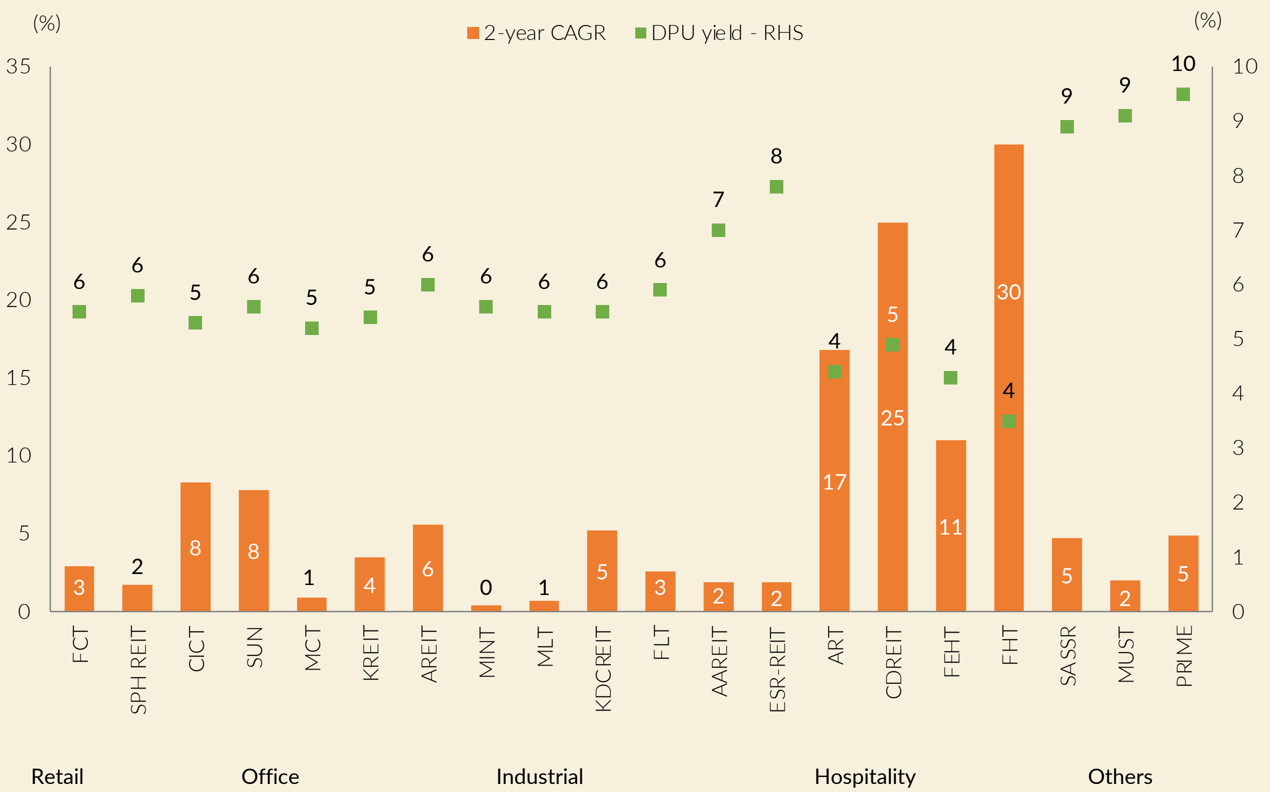
Re-opening efforts to mitigate inflationary cost pressures

We stay constructive on S-REITs, with evidence of broad-based DPU recovery in 1Q22, underpinned by resilient occupancies, and improving leasing momentum. We see the growth outlook strengthening amid firmer macro fundamentals and re-opening efforts, which are expected to mitigate inflationary cost pressures and rising interest costs. With the absence of rental waivers, rising rents from business normalisation, and contributions from acquisitions, we expect DPUs to rise by +12% YoY in FY22, from +10% in FY21. On a total return basis, the S-REITs are trading at a 4-10% dividend yield, and we expect them to generate 2-3% 2-year DPU CAGR for retail, 1-8% for office, up to 6% for industrial and a higher 11-30% for hospitality, as RevPARs recover from a low base.

The office sector saw a short-lived downcycle and is recovering on stronger-than-expected demand, led by tech occupier expansion, a 'flight-to-quality' and an easing of work-from-home mandates. With supply constrained, pricing power has returned to the office landlords. We forecast Grade A rents to rise at +12% through 2023 and see a more active physical market and increasing inorganic growth opportunities for S-REITs, especially as the cost of capital improves.

In our view, the sector remains under-owned, as risks of higher interest rates have kept investors on the side lines. Our sensitivity analysis suggests DPUs could be lower by 1-6%, assuming rates rise by a faster-than-expected 50bps. We prefer office REITs and large-cap industrial names with new economy exposure. We have BUYs on AREIT, CICT, KREIT, and SUN, as they are expected to deliver higher total return potential with a 5-6% dividend yield, and 4-8% DPU CAGR.

S-REITs DPU yield and 2-year CAGR



Source: Company data, Maybank IBG Research

LAND TRANSPORT

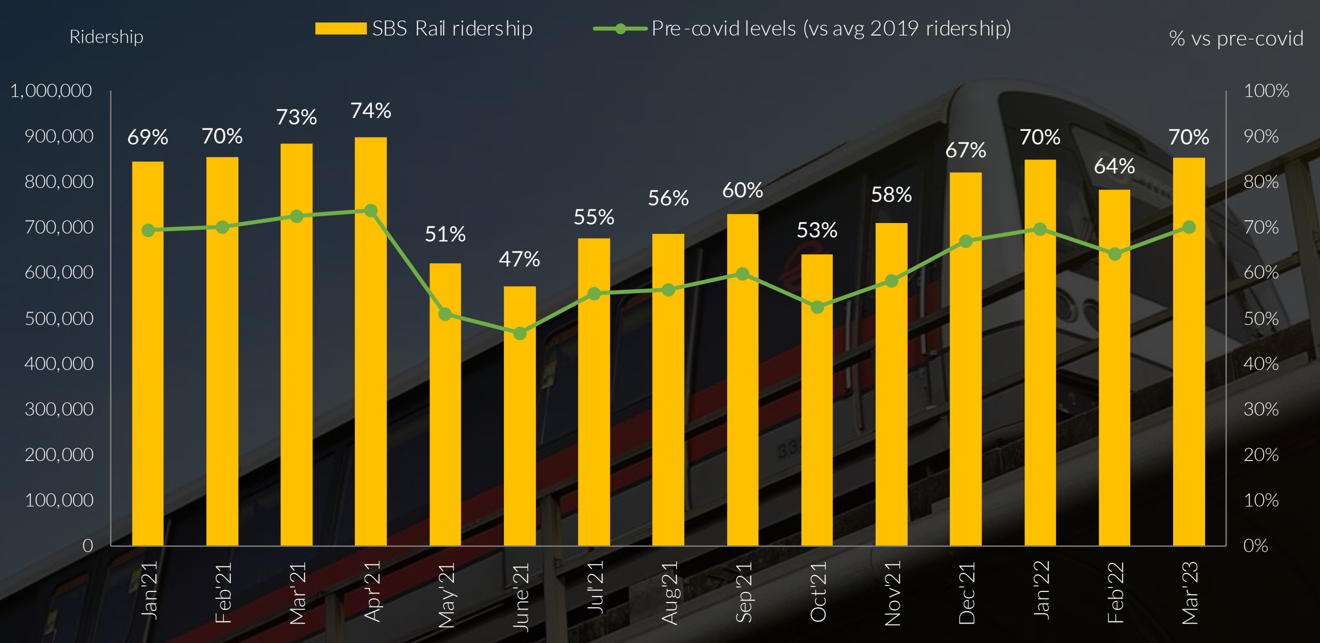
Set for sequential operating growth from re-opening tailwind

With most geographies starting to relax Covid restrictions and international travel gradually resuming, we expect rail ridership in Singapore to continue showing improvement (c.65-70% of the pre-Covid level in 1Q22). Notably, passenger traffic through Changi Airport now averages above 40% of pre-pandemic levels and Singapore aims to reach its target of 50% by the end of 2022. The strong recovery of passenger traffic is projected to gain momentum with the upcoming June holidays and the start of the summer travel period overseas. Anecdotal evidence also suggests that higher taxi fares (amid elevated fuel prices) have not dampened commuters' demand for P2P trips along with increasing mobility as Singapore dropped most of its pandemic-era curbs and reopened its economy.

To lower the fixed costs and enhance drivers' income, ComfortDelgro (CDG) is extending its 15% taxi rental rebate until end-September, while the temporary one-cent hike in its distance and waiting time fares will also be extended until end-July. The surcharge for taxi trips starting from Changi Airport will be raised by SGD3 from 19 May until 30 June to increase the supply of cabs for passengers there amidst a revival in international air travel. Meanwhile, CDG recently tweaked its taxi revenue model by introducing a 4% commission rate on the trip fare (vs. 20% for Grab/Gojek) for all bookings via its mobile app (c.45% of its total rides) w.e.f. 1 May. We think this will help to attract more private hire drivers over to its platform, thus potentially boosting the market share for its taxi business.

Notwithstanding the cessation of most government relief schemes, we expect the Group to show sequential core operating profit growth, particularly with the relaxation of social distancing restrictions from late April 2022. Within the land transport sector, we continue to like CDG as a strong reopening play and retain our Buy recommendation with a DCF-based TP of SGD1.76 (WACC: 8.3%, LTG: 1%).

Expects improvement in SG rail ridership



Source: SBS Transit

Source: SBS Transit

HEALTHCARE

Expect higher-margin electives & medical tourism to boost growth

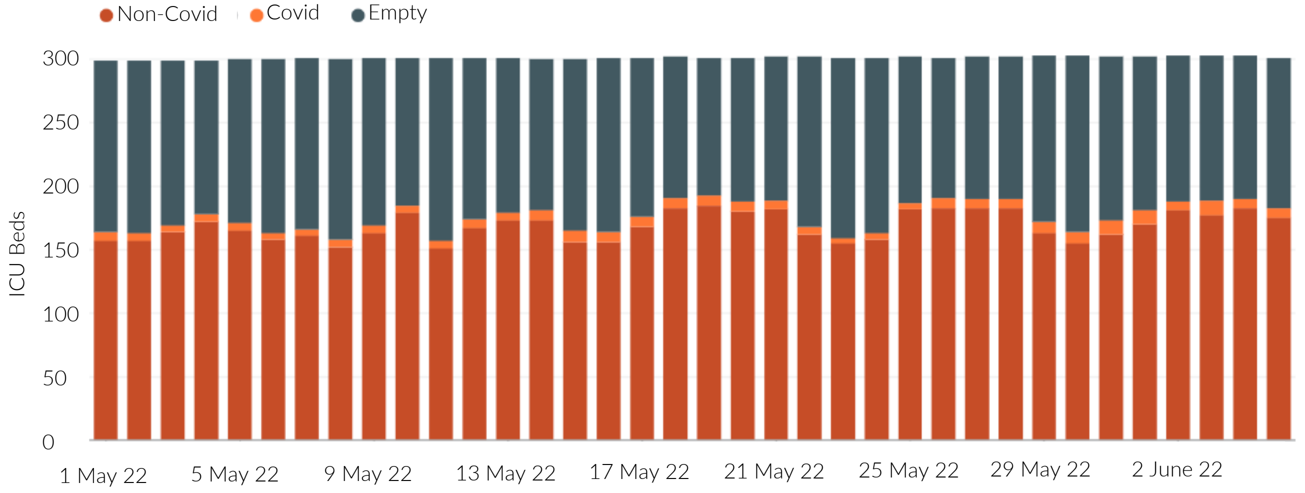
In may 2022, health minister ong ye kung announced a major restructuring of Singapore's healthcare ecosystem to lighten the burden on public hospitals and make healthcare expenditure more sustainable. First, the Ministry of Health (MOH) would establish a scheme where every Singaporean would be enrolled in a named general practitioner (GP) or family physician. Secondly, the three public health care clusters, SingHealth, National Healthcare Group and the National University Health System, would be funded differently. Instead of the current volume-based funding, the clusters would instead be moved to a capitation model.

MOH will kickstart the process with a national enrolment programme, inviting Singapore residents to register with a family doctor of their choice from 2023. This requires the integration of primary care providers, especially GPs, into the public healthcare ecosystem and is central to the national strategy that MOH unveiled called "Healthier SG".

To support this shift towards primary and community care over the next few years, MOH will look into how family doctors can be given access to patients' medical records and tools such as clinical dashboards to better track their patients' conditions and health trends over time.

For medical stocks under our coverage, Covid-related activities are expected to taper off progressively, especially PCR test revenues as Singapore moves into the endemic phase. That said, we think foreign patient load and elective procedures (which typically translates into higher billings) should increase as regional patients begin to return with borders reopening. In terms of stock picks, we prefer Raffles Medical (RFMD SP, BUY, TP: SGD1.50) as the group is a potential beneficiary of this fundamental trend towards preventive health in the longer term especially given its large primary care networks.

Daily adult ICU bed utilisation



Source: Singapore MOH

TELECOMMUNICATIONS

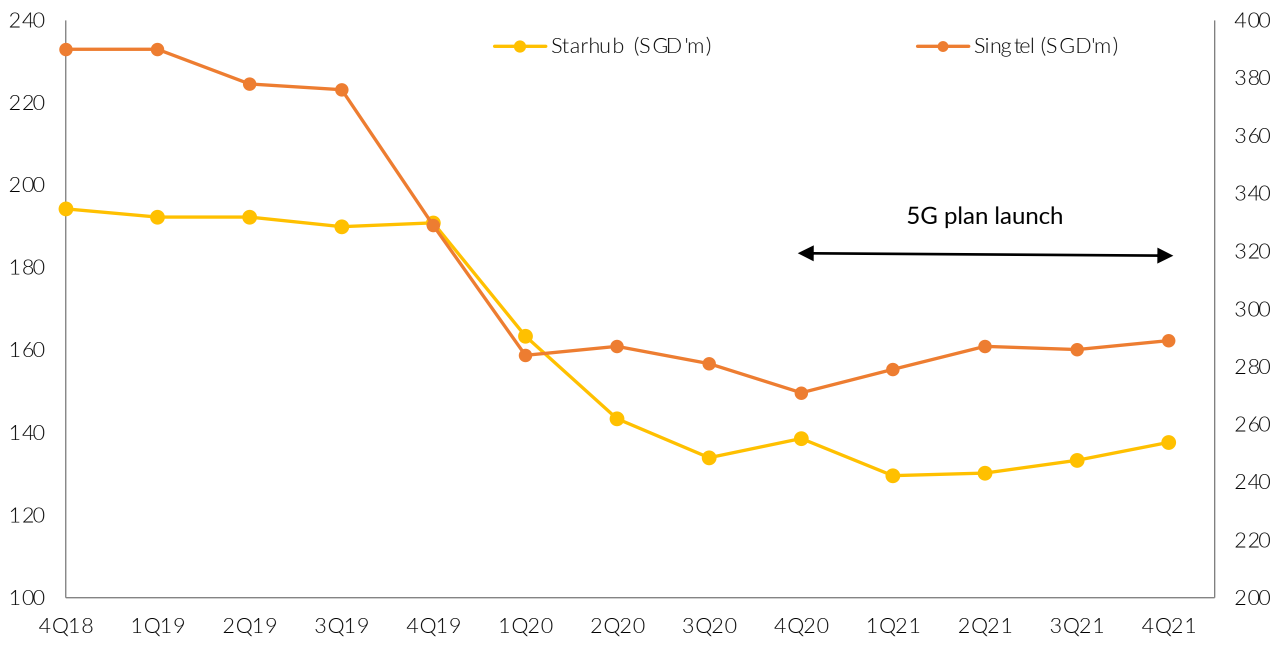
Improved outlook from improving post-paid ARPU, asset recycling & new segments

The telecommunication sector is experiencing a nascent recovery in roaming revenue with the reopening of cross-border travel. We continue to see stable mobile service revenue among the incumbent telcos (Singtel, Starhub). 5G handset-bundle plans were first rolled out in December 2020. The companies have been reporting good take-up rates, as smartphone users are embracing 5G. This was evidenced in the higher post-paid average revenue per user (ARPU) trend in both Singtel and Starhub, which offset the dilution from SIM-only plans.

Stepping into 2H22, Singtel management remains encouraged by the post-paid trajectory seen in Singapore and Optus, while being cautiously optimistic about its associate investments in India, Indonesia and Thailand. Starhub has guided for a robust 10% YoY service revenue growth, but EBITDA would be adversely impacted by inflationary pressures and upfront investment in IT transformation. Management expects margins to recover from 2023 onwards (to at least 23% from 20%). Similarly, Netlink expects operational inflationary pressures to materialise in 2022, including higher interest rates in the rising rate environment.

Our top pick remains Singtel as it is a proxy to: a) regional economic reopening, b) monetisation of their existing assets to narrow the valuation gap, and c) growth opportunities in data centres and their regional digital banking (GXS bank) outfit in Southeast Asia. We also got a BUY call for Netlink as we continue to see the stock as a good shelter (yield at 5.2%) amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions.

Stabilisation in mobile service revenue



Source: Individual Companies, Maybank IBG Research

TECHNOLOGY HARDWARE

Demand remains robust

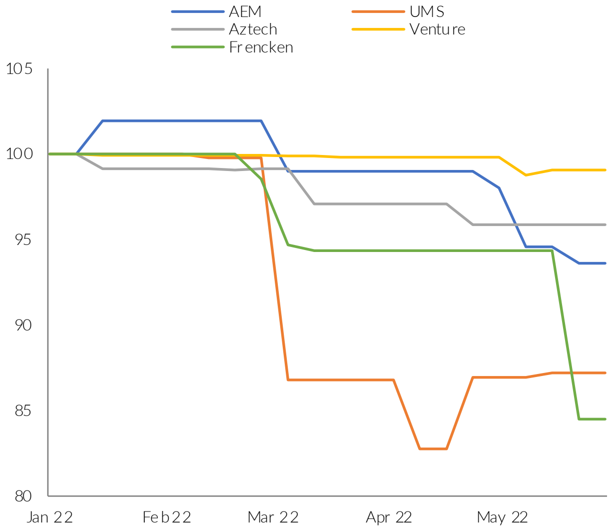
The Russia-Ukraine war, as well as Covid related disruptions in China, are the latest to compound supply chain concerns for Singapore technology hardware companies. The street has had to reduce net margin assumptions for tech stocks due to higher raw materials, freight, energy, and labour costs, amongst others. In the case of AEM/ Frencken, margin revision also factored in higher R&D/ depreciation (due to capex in FY21) respectively – as they pursue further growth.

As fears that material global economic slowdown might take place, we believe the next key risk to observe would be on the demand side. We point out that thus far demand for semiconductor equipment (relates to AEM, UMS, Frencken) remains resilient as chipmakers plan capacity for higher structural demand on the back of technologies like 5G and AI. Demand for certain industrial end-markets like life sciences and medical (relates to Venture and Frencken) and networking (Venture) also appear robust currently. In our view, we are more concerned with the vulnerability of consumer electronics demand (relates to Aztech).

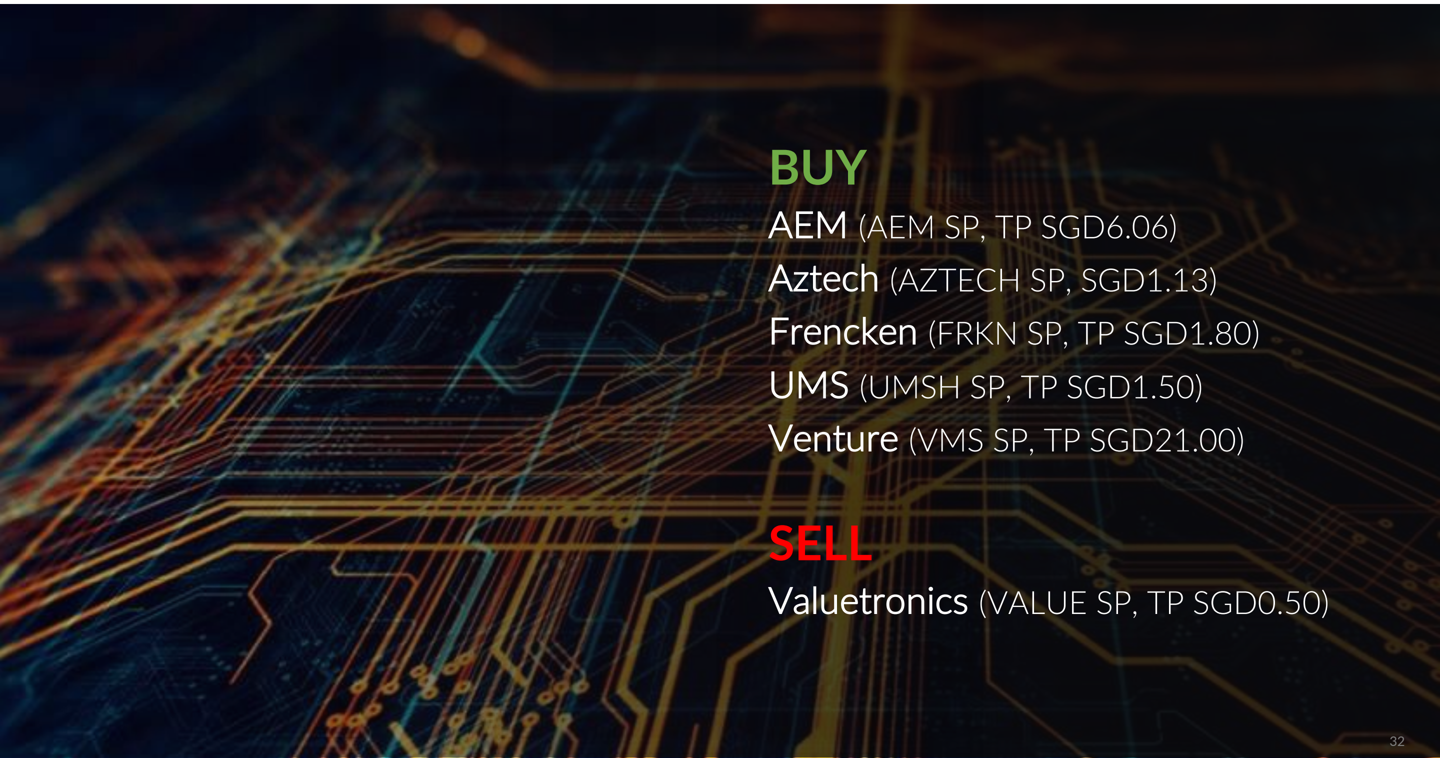
While we are cognizant of the aforementioned risks, we are POSITIVE on the sector on: i) valuation; and ii) long-term growth prospects. Multiple companies exhibit multi-year growth drivers from: i) potential new customers (e.g. AEM, UMS, and Aztech); and ii) new products with likely higher margins due to stronger value add (e.g. Frencken and Venture).

For companies that may benefit from potential new customers, we see upside to our forecasts over a multi-year horizon. Our current top pick is Venture – due to resiliency in margins and end-market demand. As we progress into 2023, we believe Intel would have to start taking delivery of equipment for its new Penang plant due to begin in 2024 – which should be a catalyst for AEM in the early-to-mid 2023 vicinity.

YTD changes in FY22 consensus street margin in % terms indexed to start of the year



Source: Bloomberg



BUY

AEM (AEM SP, TP SGD6.06)

Aztech (AZTECH SP, SGD1.13)

Frencken (FRKN SP, TP SGD1.80)

UMS (UMSH SP, TP SGD1.50)

Venture (VMS SP, TP SGD21.00)

SELL

Valuetronics (VALUE SP, TP SGD0.50)

INTERNET

As inflation drives market concerns of central bank overtightening, pre-earnings growth stocks like Grab and Sea have underperformed

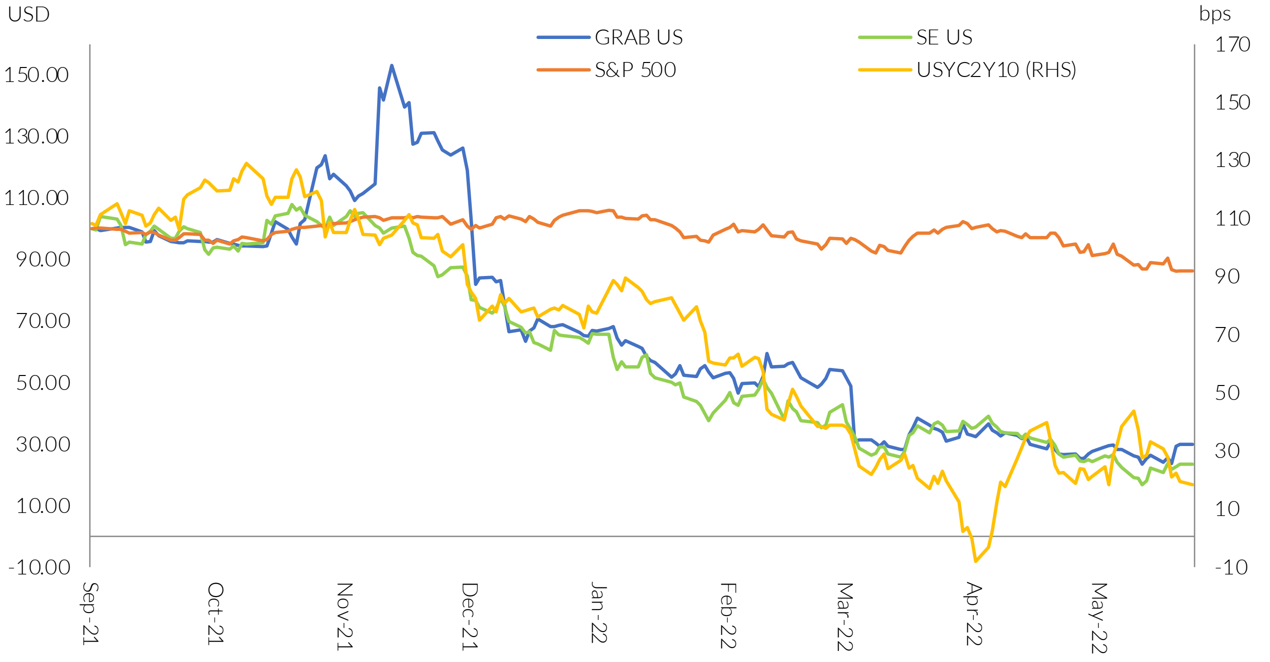
Grab's (or Altimeter prior to December 21) and Sea's share prices have fallen by 85% over September 21 to May 22 as interest rates rose and the US 10Y-2Y yield curve collapsed. During this time, US 2Y yields have risen 241bps to 2.6%, outpacing 10Y yields (+151 bps to 2.8%). We think this could be reflecting a lack of appetite for pre-earnings growth stocks as the Fed turns hawkish.

In our view, the sell-off is a combination of)i risk-off as investors position defensively; ii) re-pricing of valuations (valuations are now pegged towards revenue multiples than GMV multiples previously), and iii) investors cautious towards rate of cash burn and need for fundraising that could be dilutive.

Higher costs of capital have also increased the opportunity cost of holding these stocks. We perceive that Sea and Grab understand the lack of appetite for investors to tolerate equity fundraising in the current climate, as they judiciously manage resources to pursue growth. However, we flag decreasing consumer sentiment as a risk as large parts of the ASEAN population are price sensitive given their purchasing power positions.

We are POSITIVE towards internet stocks on an 18-24 months horizon as we try to look past current market sentiment and focus on the competitive positioning of Sea and Grab as regional champions in their respective verticals. We expect them to continue maintaining net cash positions as they eventually reach profitability and positive free cash flow in a few years. BUYs on Sea (SE US, TP USD140), Grab (GRAB US, TP SGD4.25)

Grab (or Altimeter, prior to December 21), Sea and S&P500 indexed share price performance vs. US 10Y-2Y yield curve

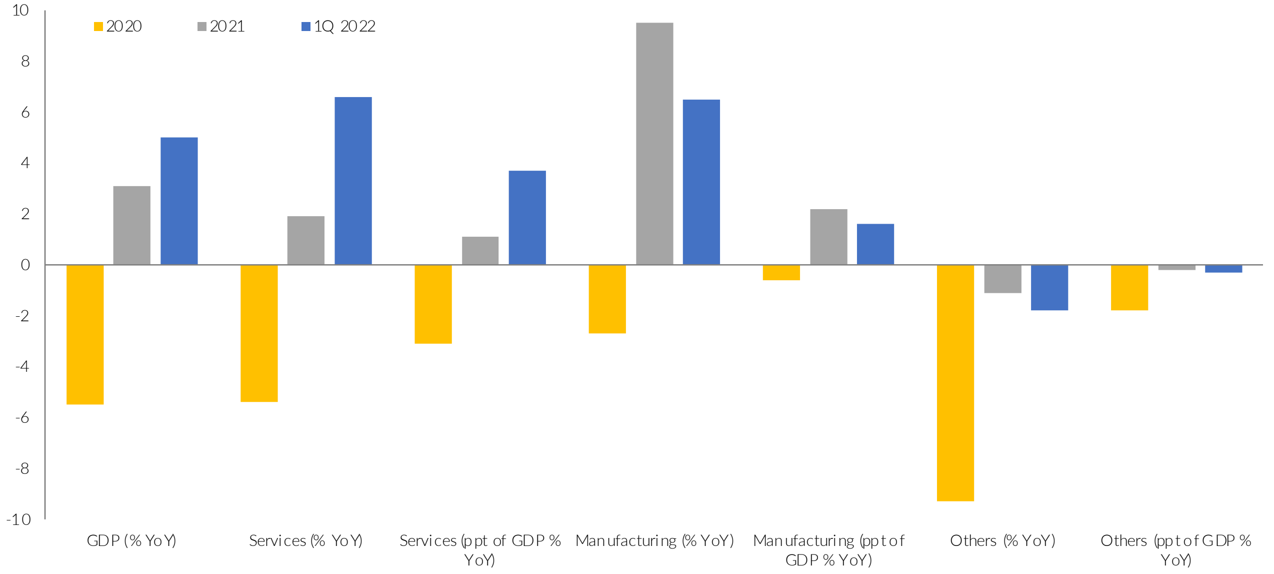


Source: Bloomberg

Malaysia

MACRO

Services-driven pick up in 1Q22 real GDP growth

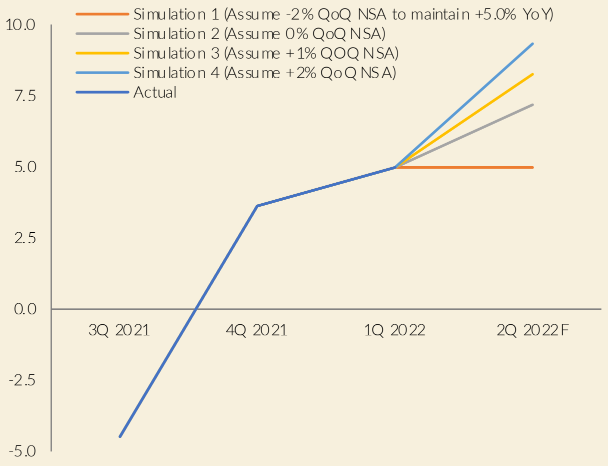


Note: "Others" refers to Mining, Agriculture and Construction
Source: Department of Statistics Malaysia, Maybank IBG Research

Economy expanded by a faster +5.0% YoY in 1Q22 (4Q21: +3.6% YoY; 2021: +3.1%). Services contributed to +3.7 percentage points of three-quarters of the +5.0% YoY growth. Growth surged in the previously hardest-hit services industries due to pandemic and lockdowns/ restrictions.

E.g. food & beverages (1Q22: +16.8% YoY; 4Q21: +0.1% YoY; 2021: -8.9%; 2020: -20.8%); accommodation (1Q22: +86.0% YoY ; 4Q21: +47.8% YoY; 2021: -24.3%; 2020: -50.7%); transport & storage (1Q22: +25.8% YoY ; 4Q21: +11.8% YoY; 2021: +1.3%; 2020: -25.8%).

Expect higher 2Q22 real GDP growth

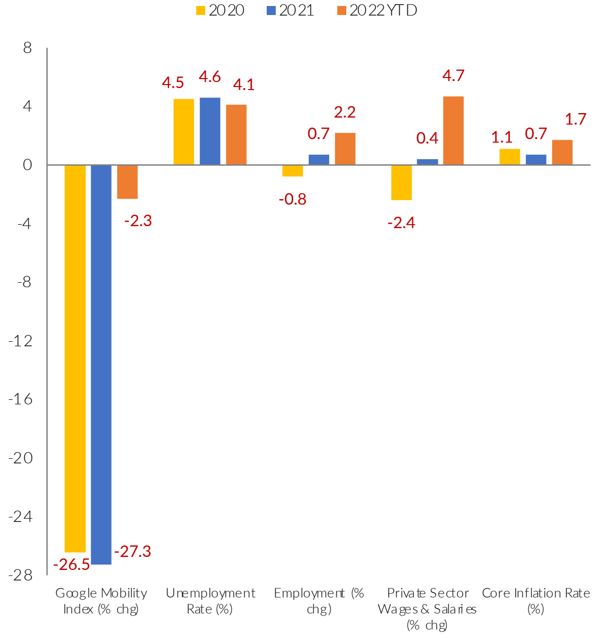


Source: Department of Statistics Malaysia, Maybank IBG Research

Economy shrank by a non-seasonally adjusted (NSA) -3.0% QoQ in 1Q22 (4Q21: +10.5% QoQ NSA). Historically in non-recession years, NSA QoQ real GDP always shrinks in 1Q (historical average: -3.6%) and always rebound in 2Q (historical average: +2.7%). Economy shrinks -2.0% QOQ NSA if % YoY 2Q22 real GDP growth is the same as 1Q22's +5.0% YoY. Every +1 percentage point (ppt) rise in % QOQ NSA growth lifts % YoY growth by +1 ppt.

Further opening of the economy with the lifting of international border restrictions on 1 April 2022, plus pent-up demand/spending during Ramadhan and Eid in April-May 2022 amid removals and relaxations of restrictions, and the boost from the special EPF withdrawal scheme of around MYR45b will further support the recovery of services sector (57% of GDP) as well as private consumption (59% of GDP).

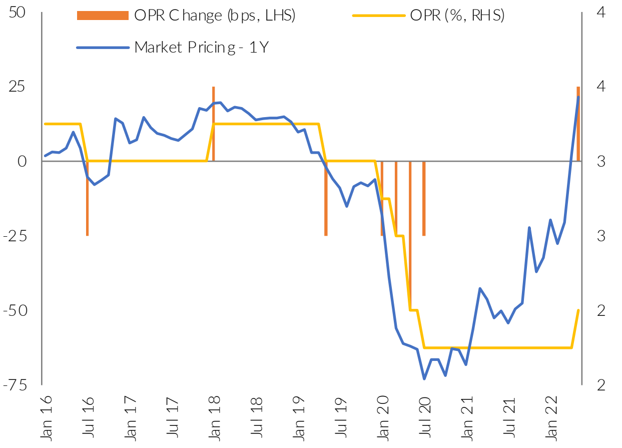
On tailwinds from economic re-opening



Source: Maybank IBG Research

Mobility is normalising and job market conditions are improving as per lower unemployment rate, faster employment growth and rising income with economic re-opening. The flipside of economic re-opening is rising core inflation rate, initially and mainly on cost-push factors, with the potential for demand-pull and wage-driven inflation setting in ahead.

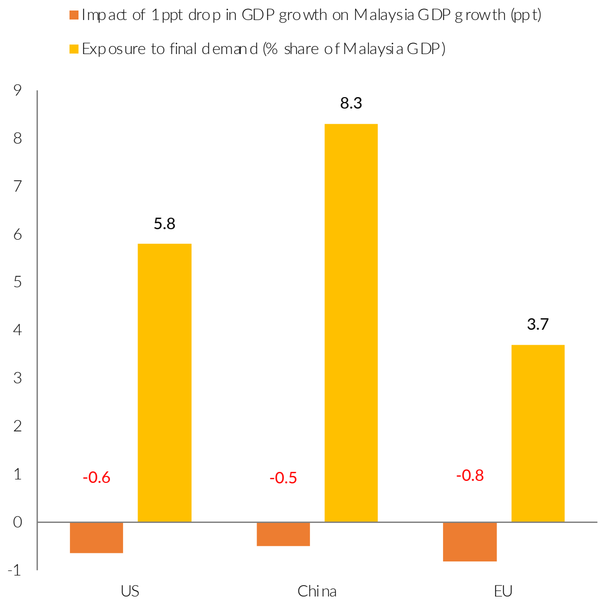
BNM's OPR normalisation begins



Source: Bank Negara Malaysia, Bloomberg

Given firmer domestic growth, improving job market conditions, rising core inflation, pressures on Ringgit, and build up in global monetary policy normalisation/tightening momentum, BNM's Monetary Policy Committee (MPC) meeting raised Overnight Policy Rate (OPR) by 25bps to 2.00% from the record-low 1.75% in place since July 2020. We expect another 25bps hike later this year, to be followed by 75bps increases in 2023. Remaining OPR hikes to be at 25bps quantum and spread over the next 1½ years or 9 MPC meetings, i.e. "measured and gradual" OPR normalisation. We estimated every 25bps OPR hike cut real GDP growth by 0.22 percentage point over one year with the biggest impact 3-4 quarters after the hike, ceteris paribus

Growth to moderate in 2H22 on global uncertainties, external headwinds

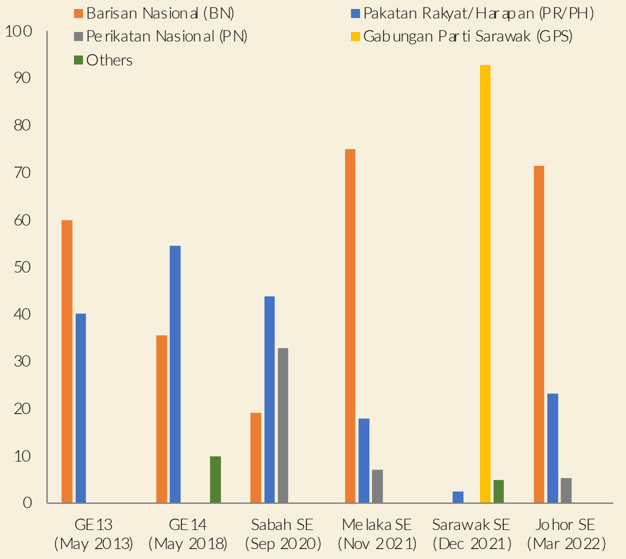


Source: Maybank IBG Research, OECD Trade in Value Added (TIVA) Database

2H22 growth is expected to moderate amid re-surgent global uncertainty due to external headwinds from the impact of the prolonged Russia-Ukraine war on Europe, rolling lockdowns in China and aggressive US Fed's monetary policy tightening on major economies and Malaysia's key trade partners, i.e. Europe, China and US.

We maintain our +6.0% real GDP growth expectation for 2022 but have trimmed the forecast for 2023 to +4.7% from +5.0% previously.

Wildcard: Domestic politics; Malaysia general & state elections



Source: Wikipedia

The 15th General Election may happen as soon as 2H 2022 vs. as late as within 60 days after the automatic Parliament dissolution on 16 July 2023.

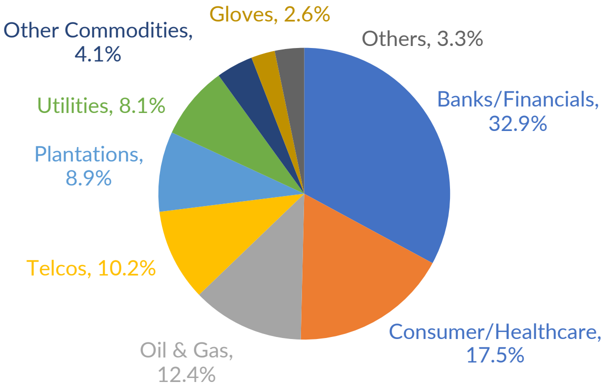
The outcome depends on a multitude of factors, e.g. whether political parties/coalitions can sustain/reverse the performances at recent state elections; whether there will be more one-on-one or multi-cornered contests; voter turnouts; the impact of youth voters; details of election manifestoes.

EQUITY

STRATEGY

What's behind the KLCI's YTD relative outperformance?

KLCI constituents' breakdown by sector



Source: Bursa Malaysia, Maybank IBG Research (chart)

The heavily value-centric "old economy" weightings within the KLCI (see pie chart above; banks, telcos, utilities, consumer), coupled with large commodities-related exposures (i.e. oil & gas, plantations and aluminium via smelter Press Metal) have underpinned the 30-stock benchmark's resilience, as globally tightening monetary policy has prompted investors to switch out of long-outperforming tech/digitalisation-related growth stocks, into value-plays and commodities exposures, the latter driven by rising product prices as well as attraction as an inflation hedge.

Looking ahead, a constructive case can be made for sustained KLCI resilience. The banks/financials sector, which has the biggest weighting in the KLCI, has emerged from the pandemic years relatively unscathed, with ample liquidity and capital, and now set to enjoy a positive inflection in long-suppressed net interest margin (NIM) as interest rates trend higher (note BNM's surprise +25bps OPR hike in May). Underlying commodities price supports such as supply shortages and logistical disruptions are unlikely to resolve over the short-medium term, keeping related share prices elevated. At the same time, consumer/healthcare plays are reporting healthy earnings rebounds in line with economic reopening.

It's not all sunshine for the market, however. The SMID caps space has had a rough ride YTD, especially previous market "darlings" such as glove stocks (Top Glove and Hartalega are on our SELL list as ASPs continue to deflate even as input costs rise) and technology, where the Bursa Malaysia Technology Index has plunged -33% YTD on the valuations-suppressing effect of tightening monetary policy and rising concerns on component shortages/supply bottlenecks related to sanctions and the disruptive lockdowns stemming from China's unrelenting zero-Covid strategy.

Foreign portfolio flows have turned in favour of equities

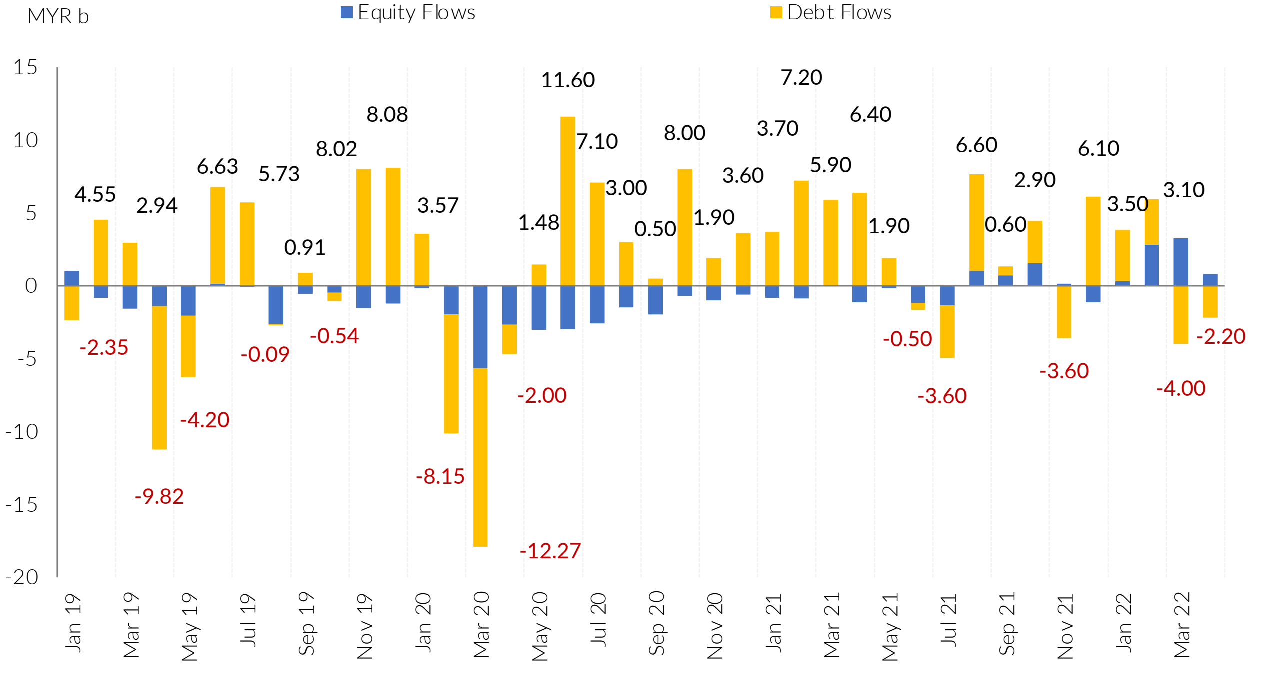
Supporting the KLCI's YTD resilience has been a long-awaited return of net foreign buying (other ASEAN countries that have enjoyed similar positive reversals are Indonesia and Thailand). April 2022 saw foreign inflows into MY equities for the 4th consecutive month - however, the MYR0.8b net buy was a sharp deceleration MoM (March: MYR3.3b net buy; 1Q22 total net buy: MYR6.5b). Cumulative foreign net sells since 2010 (post-GFC) is still a sizeable MYR28.8b, while the KLCI's foreign ownership remains depressed, inching up to 20.3% as of end-March 2022, from end-February's post-AFC low of 20.1%.

Ringgit debt, a consistent draw for foreign bond investors (per bar chart above) given a relatively strong A- sovereign rating and generous spread vs. Treasuries, is now experiencing heavy selling. Foreign funds net sold another –MYR2.2b of Ringgit bonds in April (March: -MYR4b), with total foreign holdings down to MYR256.9b at end-April, near end-2021 levels.

The exit from regional bond markets is being driven by expectations of aggressive Fed rate hikes and USD strength. Still-sizeable foreign holdings of Ringgit debt mean there remains plenty of "sell" potential, especially if fiscal dynamics worsen (rising debt burden, i.e. 10yr MGS now at 4.35% vs. 3.6% at end-2021) and/or there is negative ratings action.

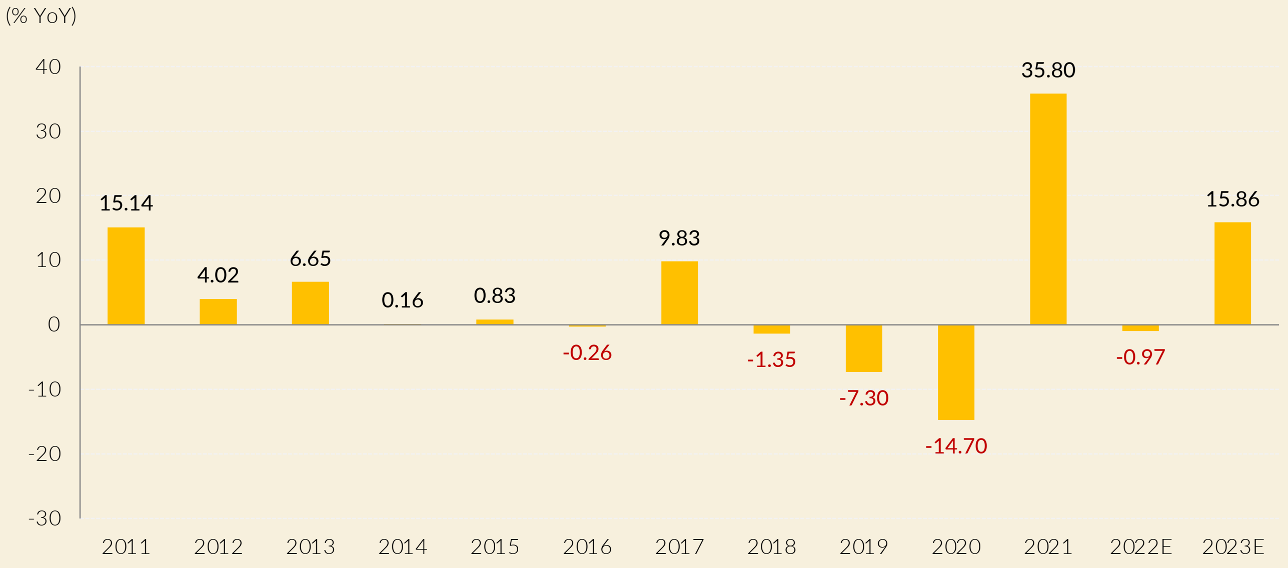
Will foreign buying continue? YTD net inflows appear tactical in nature, i.e. funds seeking comparative safe havens like ASEAN where value-centric markets are low-beta, and with tailwinds like economic reopening and commodities exposures as additional draws. Structurally, however, ASEAN's long-term attraction for foreign equity investors remains challenging given middle-income trap drags/lack of new economy drivers, debilitating politics and eroding index weightings. Hence, current buying interest is vulnerable to rapid reversal if global risk premiums re geopolitics and interest rates ease.

Foreign Portfolio flows – equities vs. bonds (MYR b)



Source: Bursa Malaysia, BNM, Maybank IBG Research (chart)

Maybank IBG Research universe core earnings growth



Source: Maybank IBG Research (compilation)

Malaysia's middle-income trap concerns are very real

While pre-pandemic average annual GDP growth was prima facie commendable at 4-5%, this was supported by uptrends in government indebtedness (public debt to GDP is now 63%, the highest in ASEAN) and household borrowing (household debt to GDP is now at a near-record 89%, second only to Thailand's 91%). At the same time, domestic direct investment (DDI) has been declining YoY since 2015, signalling a lack of confidence in the country's business (and increasingly volatile political) environment, USD per capita income has been stagnant over the past decade, and industries have long been subsidised by a depreciating currency and influx of cheap foreign labour, deterring investment in technology and R&D.

Corporate Malaysia's earnings track record, based on reported results of the 110 stocks under our coverage, has shown a clear disconnect with headline GDP performance, i.e., slowing revenue/demand growth coupled with intensifying margin pressure due to rising competition and sticky cost bases have resulted in weak overall market earnings delivery, per the bar chart above.

Sustained underperformance has been particularly evident for government-linked companies (GLCs), the latter making up c.35% of KLCI market capitalisation – in all relevant sectors (banks, telcos, plantations), GLCs trail their non-GLC counterparts on ROIC, and pose a drag on overall economic vitality by crowding out private investment.

Policy responses to incentivise investment and support the development of high value-added industries appear disjointed, while the Cukai Makmur tax levy in 2022E which was effectively a transfer from the private sector to the government adds a fiscal risk/stress dimension to this issue. There are no quick fixes – good places to start would be GLC Restructuring (if properly executed, this would represent the most tangible and internally-driven opportunity to reinvigorate Malaysia's broad economic dynamism, tax reforms (shift to indirect taxes) and wean businesses off subsidies (e.g. currency and labour).

OVERWEIGHT

Automotive

Aviation

Gaming (Casinos + NFOs)

Healthcare (Hospitals)

Large-cap Oil & Gas

Mid-cap Financials / Banks / Insurers

Petrochemicals

Renewables

Technology (Semicon)

Technology (Software)

NEUTRAL

Construction

Consumer

Large-cap Banks

Media

Mid-cap Oil & Gas

Plantations

Ports & Shipping

Property

REITs

Telcos

Utilities

UNDERWEIGHT

Healthcare (Gloves)

Balanced positioning is recommended, with yield & ESG overlays

Given heightened volatility/uncertainties on both the domestic (imminent general elections (GE15), pending fiscal changes re Medium-Term Revenue Strategy, potentially including subsidy rollbacks) and external (accelerated monetary tightening, China's lockdowns, Ukraine-Russia conflict) fronts, our recommended positioning is a mix of value and growth stocks, with overlaying yield and ESG considerations. Our end-2022 KLCI target is 1,710, (15x fwd. earnings, -0.5 SD vs. mean), underpinned by forecast double-digit market earnings rebound in 2023E and likely conclusion of GE15 by 4Q22.

Per the table above, our thematic sector positioning includes Banks/Financials (positively leveraged into rising interest rates; prefer mid-caps for better valuation-yield dynamics; top picks are RHB, HLBK, Allianz), Oil & Gas/Petrochems (a play on rising oil prices; picks include Yinson, Pchem, Hibiscus) and reopening plays in Consumer/Retail (Mr. DIY, Farm Fresh, Heineken, Bfood, AEON), Auto (Bermaz), Aviation (MAHB), Gaming (GENT(M)) and Healthcare (IHH). Re Plantations, while CPO prices are buoyant, the recent Indo export ban may mark a peak; sharp re-ratings leave only two BUYs (KLK and IOI).

As underscored by generally robust 1Q22 reporting, we view the Technology sector's ongoing de-rating on rising interest (discount) rates as an opportunity to accumulate what remains the best secular growth story in the market – top picks include Inari, ViTrox, Greatech, Frontken, CTOS and GHL. Ringgit depreciation is an additional earnings tailwind for this export sector, where revenues are in USD but costs are substantially Ringgit-denominated; while Gloves also see a similar uplift, this positive overwhelmed by sustained ASP downtrend and rising input costs – Hartalega and Top Glove are SELLs.

BANKS

Focusing on margins

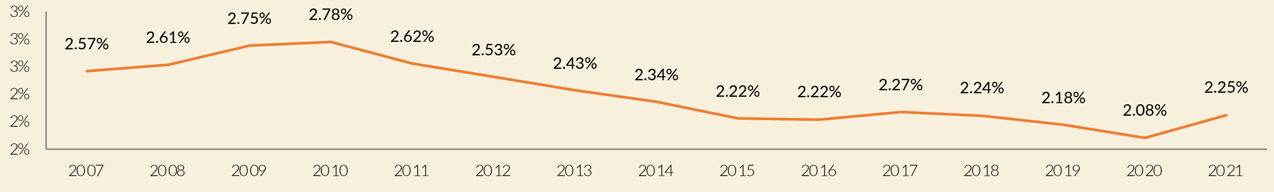
Banks' NIM have trended downwards over the years amid factors such as stiff deposit competition, regulatory compliance issues, modification losses due to the loan moratoriums. The prospect of rate hikes is nevertheless short-term positive to banks' earnings because variable lending rates tend to adjust automatically, while there is a time lag in repricing fixed deposits. Floating rate loans account for about 80% of total banking system loans, while fixed deposits generally account for about 60% of deposits.

Our Economics Team has pencilled in two 25bp rate hikes this year and 75bps in 2023.

Guidance from the banks points to a 2-3bps enhancement to margins for every 25bp rate hike. At the top end, key beneficiaries would be the likes of Alliance Bank, RHB, AMMB and Public Bank, which could see an uplift in earnings of about 2.6% for every 25bp rate hike.

Despite the expectations of rate hikes into 2023, we see no compulsion to raise banks' earnings just yet. An immediate concern would be the prospect of marked-to-market losses as a result of rising bond yields, The 10-year MGS now stands at about 4.5% vs. 3.6% in December 2021. As such, we maintain our forecasts for now, as any improvement in margins would serve to buffer against such MTM losses. POSITIVE on the mid-cap banks and continue to recommend a BUY on HLBK, RHB, AMMB, ABMB, HLFG and BIMB.

Average net interest margins for banks in our coverage



Source: Maybank IBG Research

CONSUMER

Passing on costs to consumers

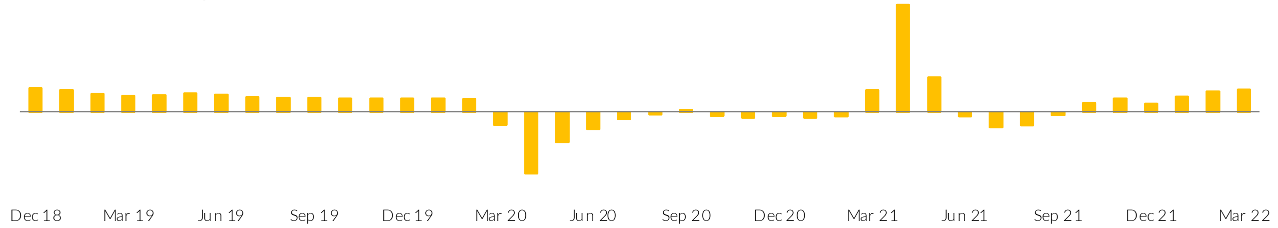
In tandem with lower Covid cases and gradual relaxation in movement restrictions, retail sales growth turned positive in October 2021 and has maintained its positive growth trajectory to March 2022. This comes on the back of pent-up demand in 4Q21 followed by celebratory spending in 1Q22 during the Chinese New Year.

Negatively, food producers and consumer retail are under immense pressure to maintain margins amidst rising input costs. Given operational challenges experienced since the pandemic began in 2020, the consumer industry no longer has the ability to continue absorbing additional costs of production at the expense of its margins.

Hence, we observe that the degree of average product price hikes has accelerated since 4Q21 to offset its potentially adverse impact on consumer demand before the full weight of cost inflation is felt by the average consumer.

Although consumer spending will likely remain heightened throughout 1H22, it is expected to soften into 2H22 with the absence of material drivers to spur sales momentum elevated household expenditure. NEUTRAL on the consumer sector with BUYs on FFB, MRDIY, HEIM, BFD and AEON, on the basis of potential benefits of consumer down-trading, or business operating environments within higher-income target markets.

Retail sales growth YoY (%)



Source: CEIC

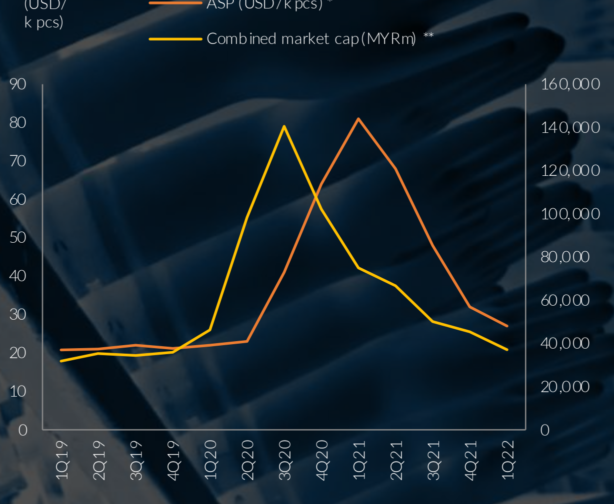
HEALTHCARE: GLOVES

Competition remains stiff. Despite the recent pick up in orders and stabilising ASP, we remain cautious about Malaysian glove makers' ability to fully pass on the higher costs (from manpower, electricity and raw materials) to its customers due to stiff competition. We expect a contraction in margins post-Covid due to rising global supply and production costs.

Expansions on hold/postponed. The Malaysian/ Chinese glove makers have put their capacity expansion on hold for now in view of the current oversupply situation. Positively though, the listed glove producers in Malaysia have strong balance sheets and this will sustain them through this competitive phase.

The sector is experiencing structural change. The oversupply situation could potentially extend longer than the typical down cycle of 6-9 months. We maintain our NEGATIVE stance on the glove sector. We have SELLs on Hartalega and Top Glove and a HOLD on Kossan.

ASP trend & combined market cap (for Hartalega, Top Glove & Kossan)



Source: Top Glove, Bloomberg

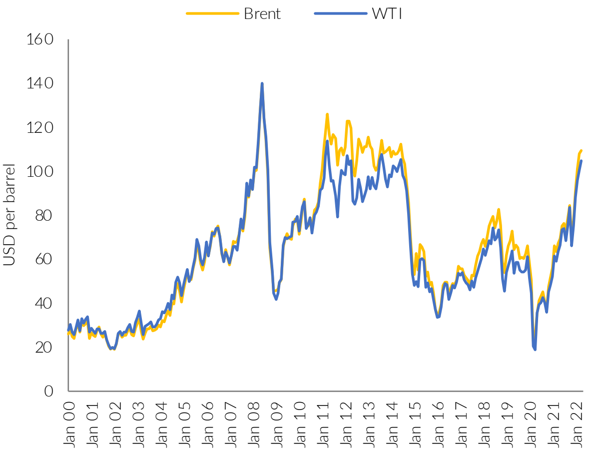
OIL & GAS

Crude oil price has surpassed USD100/bbl in 2022, last seen in 2014 and has averaged USD101/bbl to-date. The energy market is currently facing an energy 'tri-lemma': i) strong global oil demand post-pandemic, ii) supply disruptions due to structural underinvestment; and iii) rising geo-political tensions (the Russia-Ukraine crisis). A potential sanction on Russia will see the oil crisis take a turn for a worse, with heightened volatility over an extended period. We have an in-house crude oil price estimate of USD100/bbl (average) for 2022.

On the local front, PETRONAS' expected improved YoY financials in FY22 are not a surprise. It is building FCF fast in a USD100/bbl oil level, on the back of an expected P&L break-even oil price of sub-USD30/bbl. Capex-wise, it is targeting for a higher spend in FY22. While it has committed to a MYR25b dividend payout to the Government in 2022, we do not rule out a higher payout, in lieu of the strengthening oil market. It is also accelerating its energy transition strategy, allocating 20% of its 5-year capex (2022-26) for clean energy solutions, targeting renewables, hydrogen and green mobility markets.

POSITIVE on the sector. That said, we are selective on our picks. We continue to advocate PLCs with growth prospects, delivery track record, strong financials and focused management, in riding on the cyclical recovery play. Our key BUYs are Yinson, Dialog, Hibiscus and BArmada. Velesto, WSC, MMHE, Favelle and Icon.

Crude oil price



Source: Bloomberg, Maybank IBG Research

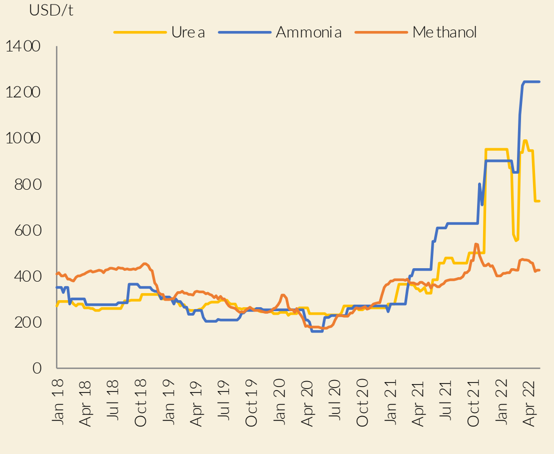
PETROCHEMICALS

A slew of geopolitical factors has driven key product ASPs to staggering heights in 1Q22. This is especially pronounced in PCHEM's fertiliser and methanol (F&M) segment, with prices of ammonia and urea breaching multi-year record highs (see chart). Olefin and derivatives (O&D) ASPs have also risen in tandem with the rising oil price amidst prolonged Russia-Ukraine tensions, capacity constraints due to structural underinvestment since 2015, and a post-pandemic surge in global demand as borders reopened.

The rally in F&M segment ASPs is attributed to structural supply-side factors that are unlikely to ease in the near-term. Include: i) shutdown of the Togliatti-Odessa ammonia pipeline; ii) soaring natural gas prices rendering production at key Euro plants unfeasible; and (iii) China's fertiliser export controls placing upward pressure on ASPs as China is the global marginal producer for urea and phosphates.

In a nutshell, PCHEM is the clear beneficiary from rising ASPs owing to its relatively linear input cost structure from favourable feedstock agreements with its parent company, Petronas Group. Coupled with its solid operational track record (>90% plant utilisation since 2016), strong balance sheet and attractive FY22-23 yields of c.4%, it remains our Top BUY in the Malaysian petrochemical space. Meanwhile, we maintain a SELL on TTNP as margin compression from higher feedstock costs (procured from the open market) and the erosion of its existing domestic premium (c.USD50-100) with PCHEM's entry into its key market segments (via Pengerang) is likely to mitigate any potential gains from elevated ASPs.

Fertiliser products' average selling prices (ASPs)



Source: Bloomberg, Maybank IBG Research (compilation)

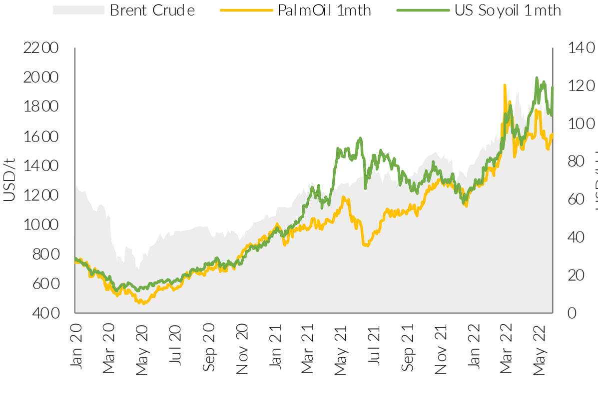
PLANTATIONS

A confluence of factors formed the perfect storm to lift 1M FCPO to a historic high of USD1,944/t on 1 Mar. These factors included: i) tight CPO supply as output fell short of market expectations in 4Q21 which extended into the low seasonal crop cycle in 1Q22; ii) deteriorated South American crop prospects due to La Nina; iii) spike in crude oil prices due to geopolitical tensions; iv) disrupted sunflower oil exports from the Black Sea region due to the Russia-Ukraine conflict; and v) Indonesia restricted palm oil exports to ensure sufficiency of cooking oil in the domestic market has disrupted exports since 27 January.

Looking ahead, we believe the storm will soon be over. La Nina, which has decimated oilseed crops in the last 2 years that led to tightening supplies, is forecasted to end as most international climate models surveyed by the Australia Bureau of Meteorology expect a return to neutral ENSO condition soon. While parts of the world suffered pockets of dryness, La Nina brought ample rainfall to Malaysia and Indonesia. This provided a conducive environment for palm oil crop recovery in 2022, especially in 2H22. Still, sufficient fertilizer will need to be administered in 1H22 to support optimal output recovery in 2022 and we believe palm oil supply will hit its seasonal peak in 2H22.

The cure for high prices is high prices themselves. This is mostly true for annual crops whereby high prices will attract a quicker response as oilseed plantings can yield harvest as soon as 4 months after planting. Hence, we stay NEUTRAL on the sector as we expect CPO ASP in 2H22 to be lower HoH on supply recovery. In a CPO price downtrend, pure growers (i.e. SMID Caps) will feel more of the earnings downside compared to integrated players. Our preferred BUYs are KLK and IOI.

1M FCPO has tripled from the recent pandemic low



Source: Bloomberg

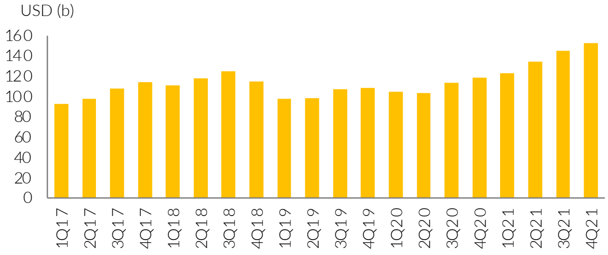
TECHNOLOGY: HARDWARE

Global semiconductor sales reached an all-time annual high of USD556b in 2021 following 6 consecutive quarters of growth between 3Q20 to 4Q21. Against the backdrop of supply-side disruptions brought about by pandemic-induced lockdowns, demand for semiconductor chips/components remained resilient as companies significantly ramped-up production. Demand is expected to remain robust in the near-to-medium term as chips become increasingly embedded in everyday objects. With global mega-foundries announcing record capacity expansion plans to keep up with the unprecedented structural shift in demand, the sector looks well-placed to profit from the supply-demand imbalance well through to 2023.

Local semiconductor companies have thus far been largely insulated from global chip/component shortages despite the presence of sporadic strains in the supply chain. Most companies have managed their inventories on a "just-in-time"/hand-to-mouth basis, whilst there are also a select few that were successful in adopting a proactive "just-in-case" strategy (in anticipation of tightening supply chains). Although the Russia-Ukraine conflict has had a limited impact on Malaysian players, the jury is still out if recent lockdowns in China would adversely impact the local semiconductor supply chain. Malaysian manufacturers are dependent on China for a significant portion of their E&E exports/imports.

Sector valuations remain depressed in anticipation of more aggressive monetary tightening by the US Federal Reserve. Nonetheless, we believe the recent sell-down provides an excellent opportunity for selected picks in the previously richly-valued sector. We remain BUYers of INRI, VITRO, GREATEC and FRCB on solid fundamentals and long-term growth prospects, but maintain a SELL on GTB for its subdued earnings growth. INRI is our top OSAT pick for its RF division's sustained resilience, whilst VITRO is our preferred ATE for its market-leading position in the machine vision technology space.

Global semiconductor billings (all product categories)



Source: WSTS, Maybank IBG Research (compilation)

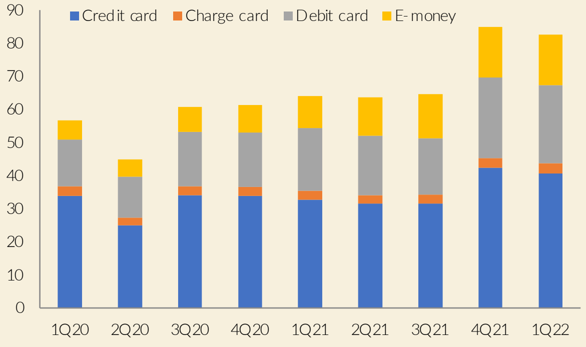
TECHNOLOGY: SOFTWARE

Total transaction value processed for electronic payments in Malaysia grew by 22% YoY in 1Q22, driven by the economic reopening and recovery in consumer spending. This momentum may likely continue into 2Q22 due to stepped-up demand from the festive season and support from the one-off EPF withdrawal, benefiting the payments companies i.e. GHL System and Revenue Group. Elsewhere, the economic reopening should also benefit CTOS' SME segment through higher new activations, and MyEG's immigration and transportation segments through better business volumes.

Despite the likely strong momentum in 1H22, we think there could be a potential softness in consumer spending towards 2H22 as the rising interest rate and inflations may erode consumer spending power, thus negatively impacting the TPV growth for the payments companies. Having said that, the general structural shift in preferences toward digital financial solutions should be supportive of the top-line growth of the companies under our coverage, hence achieving better economies of scale.

On a relative basis, we like Revenue over GHL System in the payments space. We see a stronger upside to its earnings ahead as its high-growing, high-margin ETP segment sales mix is relatively lower at 30% vs. GHL's 65%. We also prefer MyEG over CTOS due to having more growth wildcard from its blockchain initiative and JPJ e-testing services, despite declining revenues from its healthcare business due to recent policy changes. While we remain optimistic about CTOS' fundamental prospects, the uncertainty around its pioneer tax status extension may weigh on the share price in the near term.

Total electronic transaction value processed by payment type (MYRb)



Source: Bank Negara Malaysia

TELCOS

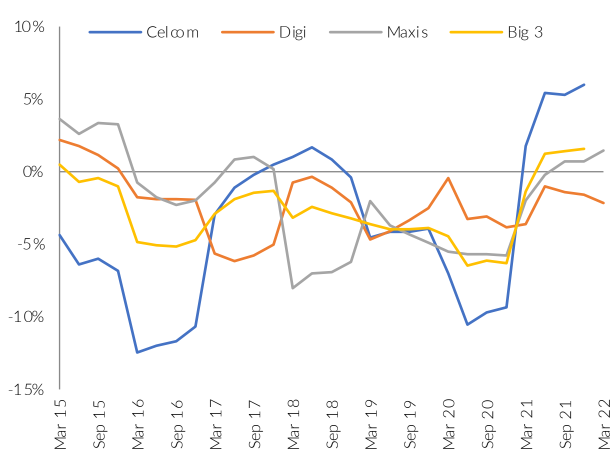
Mobile uncertainty

Sentiment on the telco sector has been weighed down by the uncertainty surrounding 5G deployment. This is despite positive mobile revenue trends in 2021, with Big 3 service revenue growing for the first time in 7 years. With borders reopening, we expect revenue trends to remain healthy in 2022. In the fixed space, fixed broadband trends continue to remain healthy with fibre broadband penetration climbing further to 39% in end-2021. This is due largely to the JENDELA-induced increase in premises passed.

5G uncertainty continues to linger as telcos remain in negotiations with DNB and the government over both 5G commercial terms and equity ownership of DNB. The Big 4 had previously issued statements in March 2022 welcoming the offer to take up equity stakes in DNB, but there have been no material developments since. In our view, the current model (telcos taking equity stakes in DNB which owns and operates Malaysia's only 5G network on a wholesale basis) is the only plausible outcome that appeases both the government and the Big 4 mobile telcos. The government had previously set a 30 June 2022 deadline for the conclusion of negotiations.

Neutral on the sector, with a preference for fixed over mobile. Our preferred pick is TM, which is poised to benefit from higher fibre demand from both increased broadband adoption and 5G deployment. Its ongoing cost optimisation efforts would help to further elevate earnings. We also like Axiata although near-term earnings could potentially come under pressure from Sri Lanka macro challenges and the initial dilution from the Philippines towers acquisition.

Mobile service revenue growth



Source: Companies

UTILITIES

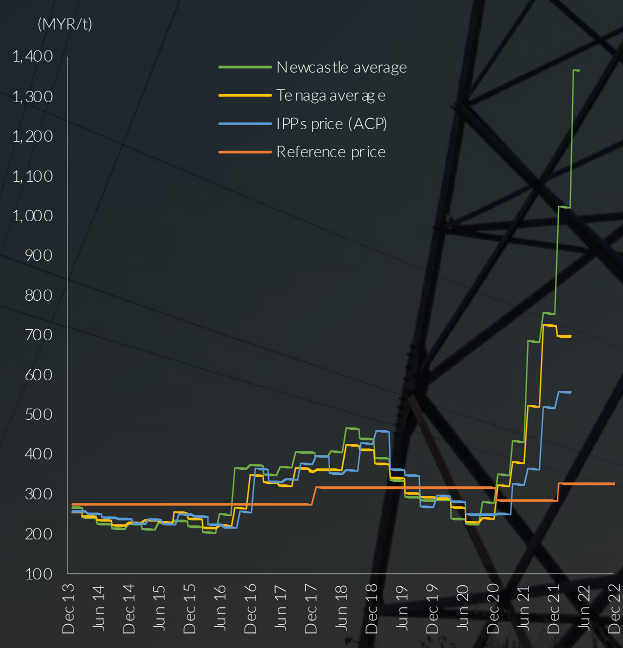
Concerns over fuel cost pass-through

Utilities worldwide are dealing with surging fuel input costs, and Malaysia is no different. Coal accounts for >60% of Peninsular Malaysia's electricity generation mix and is entirely imported. The tariff framework in Malaysia allows for fuel cost imbalances to be passed-through, with an Industry Fund in place to smoothen surcharges and rebates. However, soaring coal prices combined with a depletion of the Industry Fund have led to concerns over the integrity of the pass-through mechanism to emerge, resulting in a suppression of Tenaga's share price.

Gas utilities are similarly not spared from having to deal with rising input costs. Petronas Gas' transportation and regasification divisions face a lag in recovering cost imbalances for internal gas consumption, and its utilities division is unable to directly pass on rising gas costs for electricity sales. Gas Malaysia has thus far not experienced any demand destruction from rising gas prices, having also raised retail margin post price liberalisation in 2022.

Neutral on the sector, with preference for stocks with healthy cash balances (for new project deployment or div payment). Our BUY are YTL Power, Mega First, and Gas Malaysia.

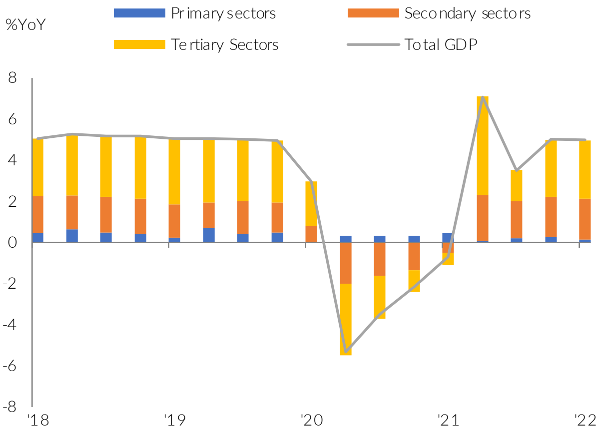
Coal prices



Source: Bloomberg, Energy Commission, Tenaga

MACRO

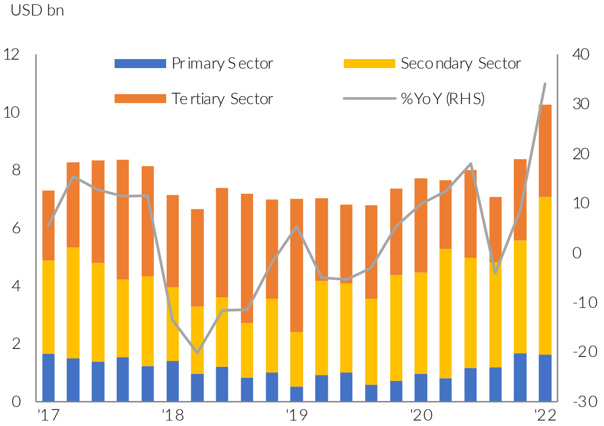
Steady growth in 1Q2022



Source: Maybank IBG Research

GDP expanded at a steady 5% in 1Q 2022, driven by both the tertiary and secondary sectors. We forecast GDP growth at +5.1% in 2022, supported by the economic reopening despite headwinds from the Ukraine-Russia conflict, China's lockdown and slowing global growth.

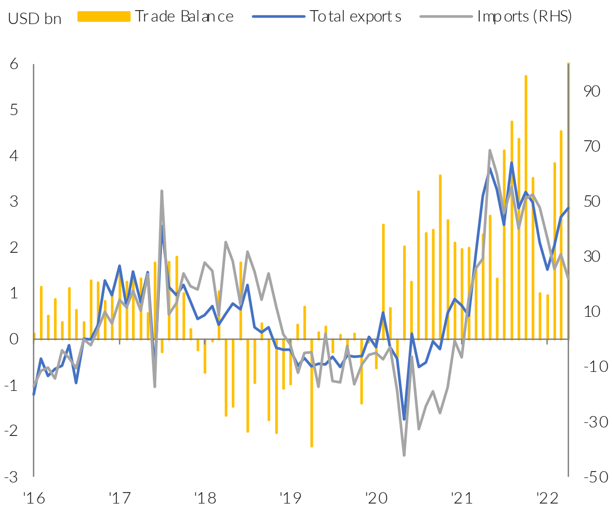
Foreign investment realisation surging in 1Q22



Source: Maybank IBG Research

Foreign investment realisation (+34.1%) surged in 1Q22. The expansion was broad-based, with the tertiary sector rising by +35%, the secondary sector by +21% and the primary sector more than doubling. With the target of "transformation and down streaming of natural resources", foreign investment is expected to surge in the remaining quarters, particularly in the natural-processing industries.

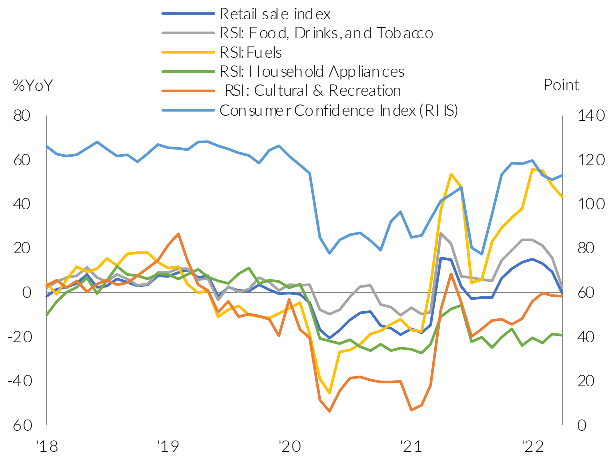
Ballooning trade surplus from high commodity prices



Source: Maybank IBG Research

Exports are booming, both in terms of value and volume, underpinned by higher commodity prices, including palm oil, nickel, coal and tin. The trade surplus widened to US$9.3 billion in 1Q 2022.

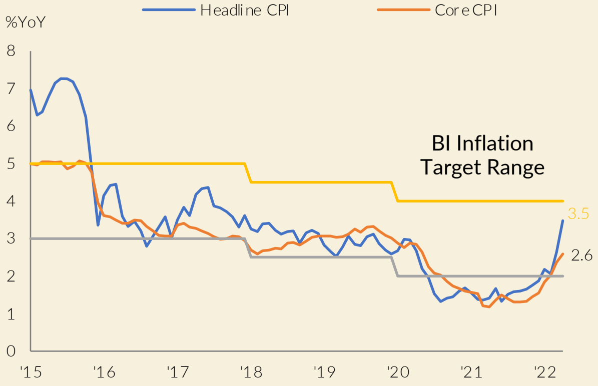
Retail sales eased in April, weighed down by household appliances and recreation sales



Source: Maybank IBG Research

Retail sale index surprisingly eased in April, weighed down by household appliance sale (-19.4%) and cultural & recreation (-1.7%). Reopening will help boost retail sales in the coming months but purchasing power of consumers may be eroded by rising inflation and fuel subsidy cuts.

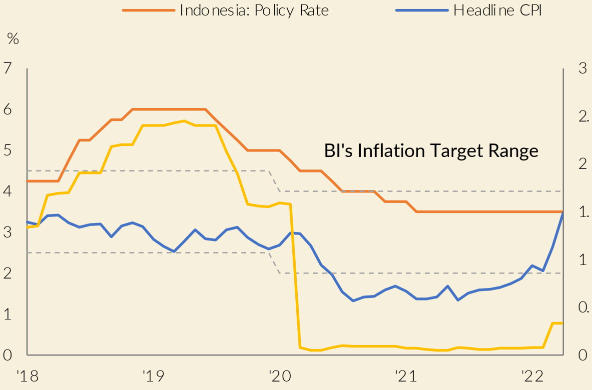
Headline inflation is rising and approaching the upper bound of Bank Indonesia's target range



Source: Maybank IBG Research

Headline inflation soared to 3.5% in April, the highest since December 2017, while core inflation jumped to 2.6% in March. Potential fuel subsidy cuts could drive headline inflation above Bank Indonesia's target range of 2% to 4%.

Bank Indonesia expected to hike policy rates as inflation climbs



Source: Maybank IBG Research

Bank Indonesia is expected to hike policy rates in response to rising inflation pressures and the Fed's aggressive monetary tightening. We expect Bank Indonesia to hike the policy rates by +75ps in 2022, bringing the policy rate to 4.25% by year-end.

EQUITY

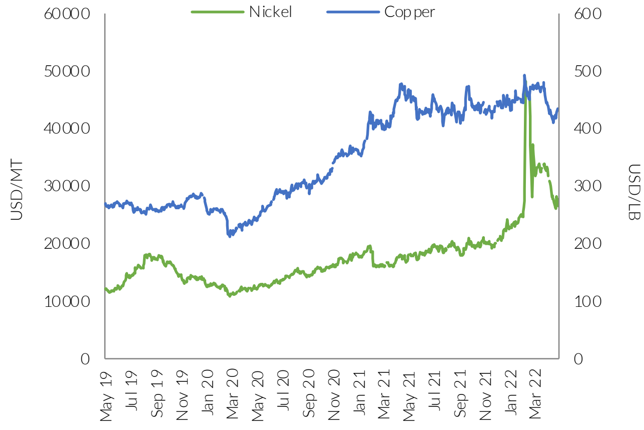
STRATEGY

Over the past three years, the price of Indonesia' most important export commodities have risen significantly: CPO (+250%), coal (+131%), nickel (+119%) and copper (+60%).

We believe the commodity windfalls will provide strong buffers for the nation's equities, fixed income and Rupiah from global market uncertainties caused by China's economic slowdown, rising USD, fear of stagflation in the US and the EU and monetary tightening by central banks around the world.

Our year-end JCI Index target is 7,500, representing 16.9x FY22E earnings.

Nickel & copper prices



Source: Bloomberg

CPO & coal prices

Source: Bloomberg

TELECOMMUNICATIONS

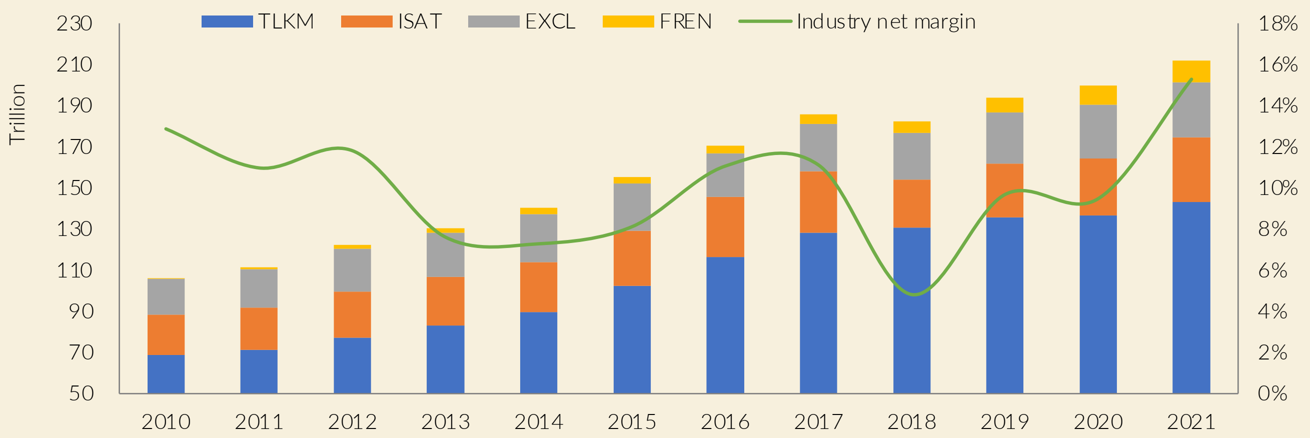
The revenue of Indonesia's telcos increased by 3.7% 5-year CAGR to IDR211.8t by 2021. Telekomunikasi Indonesia (TLKM IJ) remains the market leader with 68% revenue share, followed by Indosat Ooredoo Hutchison post-merger at 15% and XL Axiata at 13%.

Over the same period, net profit rose by 9.4%, 5-year CAGR to IDR32.4t with FY21 industry net margin of 15%.

TLKM contributed 77% of industry margin, while FREN's net loss is narrowing.

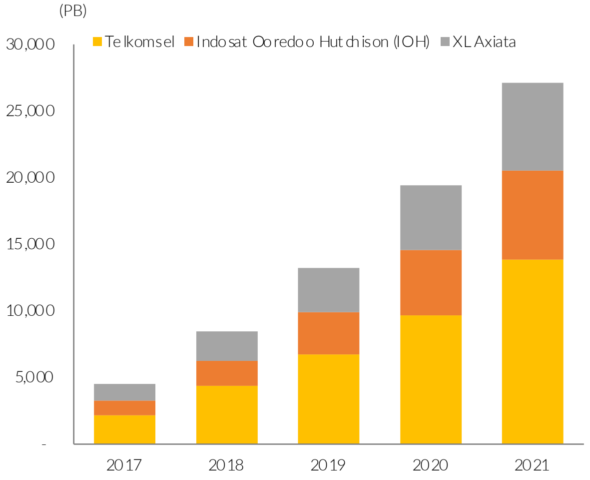
The industry's outlook for margins is positive as mobile network operators (MNOs) are upgrading their networks (by retiring their 3G networks) and thus cost per GB should fall, while industry consolidation may lead to data price stabilisation.

Net margin has risen steadily over the past 5 years



Source: Company, Bloomberg Finance L.P.

Data traffic is increasing at a double-digit rate



Source: Company, MSI

Data traffic of the top three MNOs surged during the pandemic; in FY21, it grew 39% YoY to c27,000pb. In our view, mobile data consumption is still trending up as most of Indonesia relies on mobile cellular to connect to the Internet (c329m mobile subscribers), while Indonesians are consuming more video content (TikTok users have reached 92.1m by 2022, making up about 48% of social media users in the country).

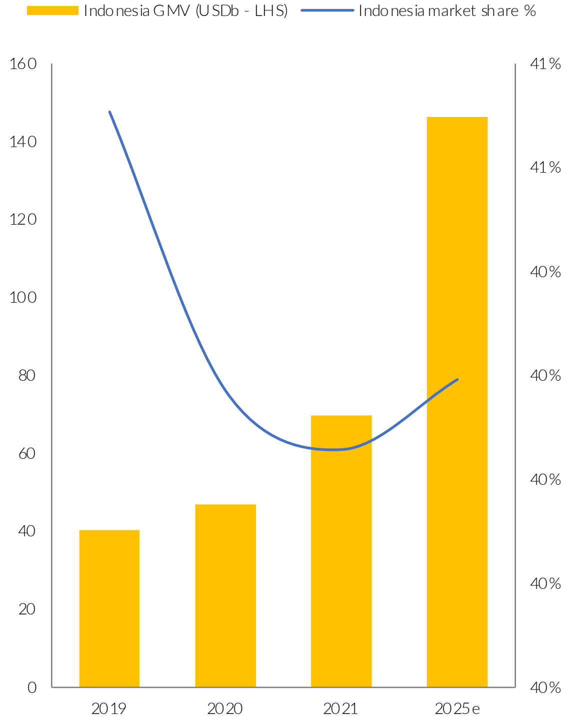
NEW ECONOMY

According to research by Google, Temasek and Bain, Indonesia's digital economy's gross merchandise value grew by 49% YoY in 2021 to USD70b and it's projected to expand by 20% YoY to USD146b in 2025.

Referring to Figure 2, e-commerce is forecasted to be the leader with 71% market share by 2025 (vs. 52% in 2019), followed by transportation & food at 11% market share (vs. 14 % in 2019).

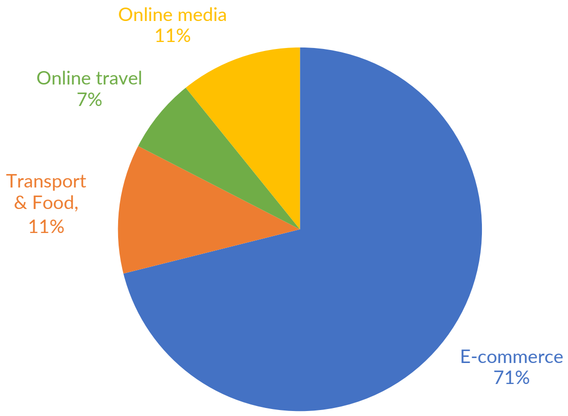
Meanwhile, the online media market share is anticipated to increase from 9% in 2019 to 11% by 2025. On the contrary, as the recovery of the online booking travel industry is likely to be gradual, they forecast only a 7% market share in 2025 compared to 25% pre-pandemic.

Indonesia is the market leader in Southeast Asia's new economy



Source: e-Conomy SEA 2021, Google, Temasek, Bain & Company

Indonesia's digital economy market size in 2025E projected at USD146b



Source: e-Conomy SEA 2021, Google, Temasek, Bain & Company

In our view, Indonesia will continue to adopt digital services, driven by its massive young population with higher income per capita, willingness to adopt new technology, improving digital payments and logistics services, and easy access to digital financing (buy now, pay later/BNPL).

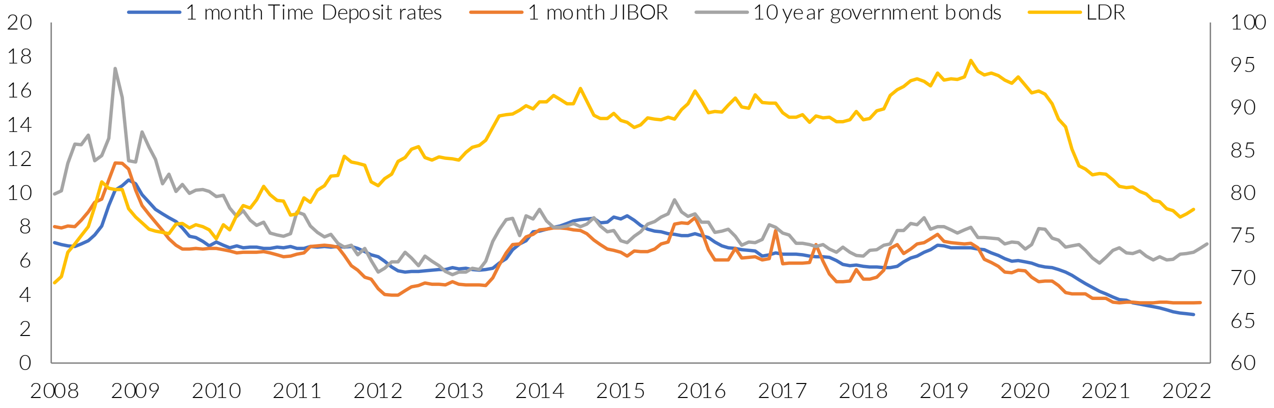
BANKS

With such high liquidity in the system, the risk that Indonesian banks' excess deposits might start to diminish should not interfere with near-term lending capacity. Based on our estimate, even with the upcoming increase in the RRR , banks should still have enough room to grow their loan books by 12% YoY this year before funding competition starts to heat up. A steeper hike in the yield curve will work to the advantage of banks with low LDR, as they are the ones with the prospects to redeploy excess liquidity into higher-yielding assets. Another factor that we expect would keep margins stable in the near term is that more accounts will be taken out of the restructured loan bucket.

Concerns about loan quality should be mitigated by the fact that despite the existence of a lenient restructuring policy, provisioning coverage has accelerated across the sector to an average of 199% by YE21, as the onset of 2020 NPL formation resulted in the priorities of banks being shifted in favour of balance sheet protection, from profit maximization.

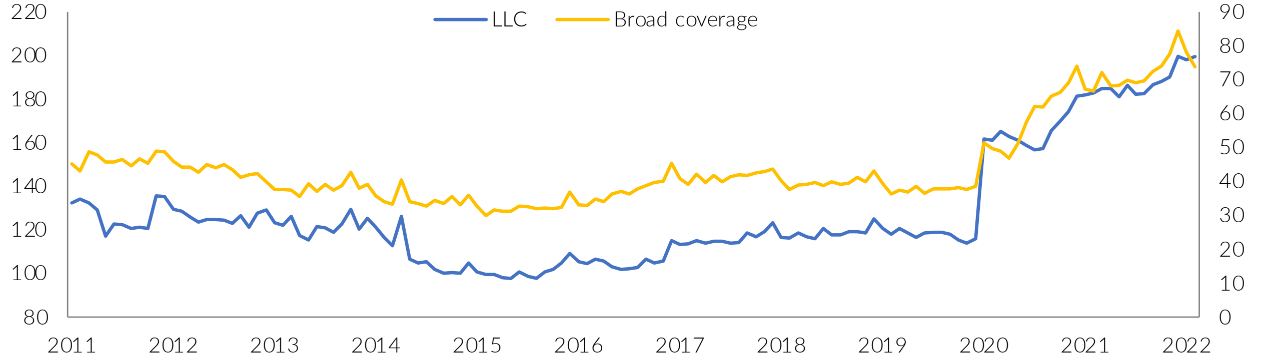
We forecast the ROE of Indonesian banks to improve in FY22E. Given current economic conditions, a bottom-up stock picking strategy should work best. We see merit in focusing on operating metrics for sector positioning. Our preference is for banks that not only offer value but provide strong growth opportunities as well as the potential for an upside surprise. BMRI, BBNI and BJBR are our top picks.

Interest rates & LDR trend



Source: OJK, Bloomberg, Maybank IBG Research

Indonesian banks' provisioning coverage



Source: OJK, Bloomberg, Maybank IBG Research

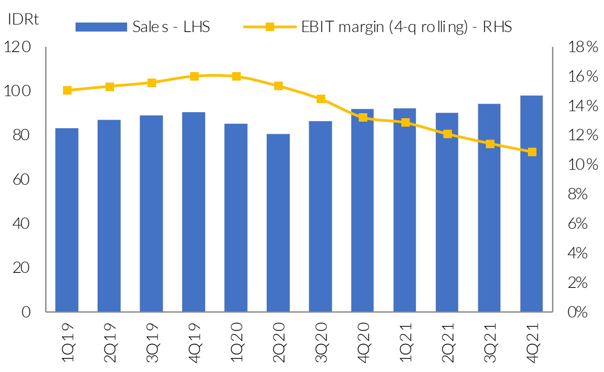
CONSUMER STAPLES

We believe consumer names under our coverage are 'pandemic proof' as their sales continue to rise.

But the sector's EBIT margin remains under pressure due to rising input costs.

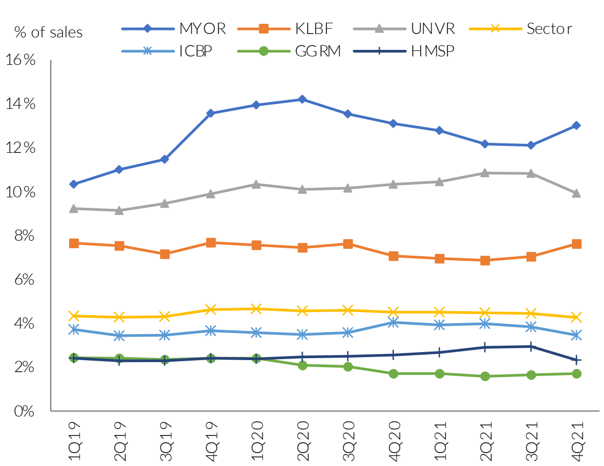
Maintain our NEUTRAL view on the sector with ICBP as our Top Pick. We remain selective and prefer names with a strong brand and pricing power to buffer the potential impact of rising soft commodity prices.

Quarterly sales and EBIT margin for our staple names*



Source: Company, Maybank IBG Research
*Staple names under our coverage consist of Garam (GGRM IJ, HOLD, TP IDR33,000); HM Sampoerna (HMSP IJ, HOLD, TP IDR1,000); Indofood CBP (ICBP IJ, BUY, TP IDR12,000); Kalbe Farma (KLBF IJ, BUY, TP IDR2,000); Mayora Indah (MYOR IJ, BUY, TP IDR2,550); Unilever Indonesia (UNVR IJ, HOLD, TP IDR4,500); Gudang.

Quarterly advertising spending for our staple names



Source: Company, Maybank IBG Research
*Staple names under our coverage consist of Garam (GGRM IJ, HOLD, TP IDR33,000); HM Sampoerna (HMSP IJ, HOLD, TP IDR1,000); Indofood CBP (ICBP IJ, BUY, TP IDR12,000); Kalbe Farma (KLBF IJ, BUY, TP IDR2,000); Mayora Indah (MYOR IJ, BUY, TP IDR2,550); Unilever Indonesia (UNVR IJ, HOLD, TP IDR4,500); Gudang.

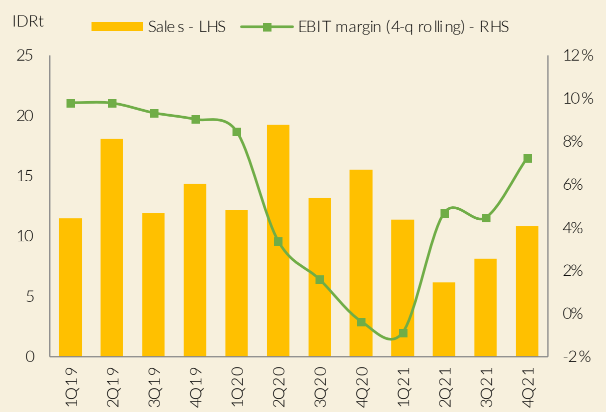
CONSUMER RETAIL

The improvement in consumer mobility is driving a recovery in sales for retail names under our coverage, especially for the high-end segment (such as MAPI and ACES). Also, operating efficiency, i.e. reduction in rental and salary costs (c.11-20% of sales), has driven a strong recovery in EBIT margin.

Meanwhile, our retail universe has strong balance sheets to help them through challenging times.

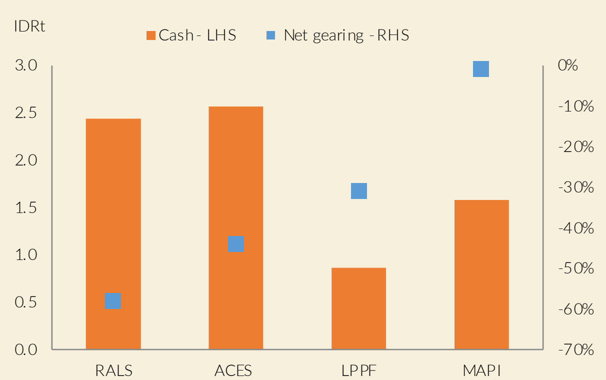
Maintain our NEUTRAL view on the sector with MAPI as our Top Pick. We favour the high-end discretionary segment with mall-centric operations and high-income target customers.

Quarterly sales and EBIT margin for our retail names*



Source: Company, Maybank IBG Research
*Staple names under our coverage consist of ACE Hardware (ACES IJ, HOLD, TP IDR1,450); Matahari Department Store (LPPF IJ, HOLD, TP IDR5,000); Mitra Adi Perkasa (MAPI IJ, BUY, TP IDR1,050); and Ramayana (RALS IJ, HOLD, TP IDR725).

Cash holding and net gearing in FY22E

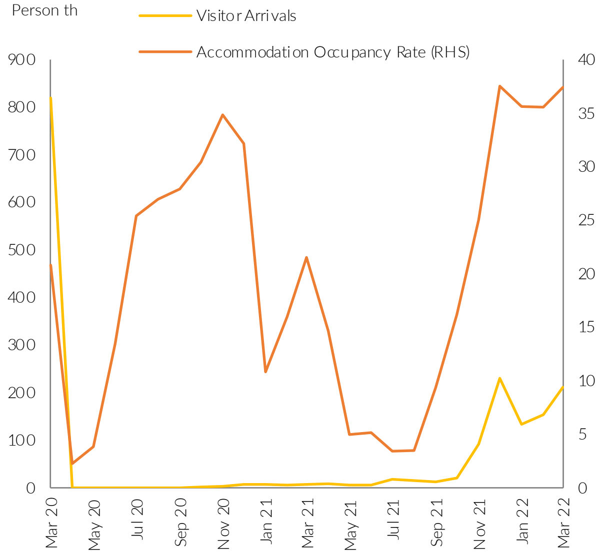


Source: Company, Maybank IBG Research

Thailand

MACRO

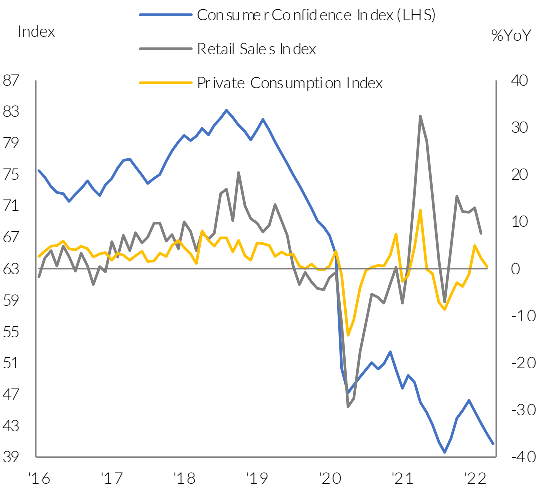
Reopening of borders triggering influx of foreign visitors



Source: Maybank IBG Research

Reopening of borders has triggered an influx of visitors, mainly from ASEAN, India, UK, and Germany. Visitor arrivals climbed to 293k in April 2022, the highest since March 2020.

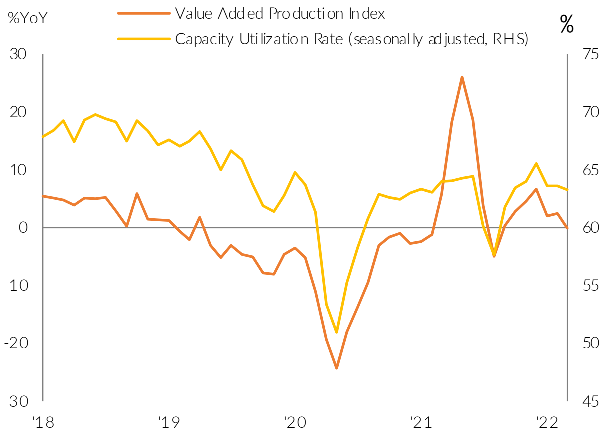
Consumer confidence dipped to 6-month low in March, but may recover with the reopening



Source: Maybank IBG Research

Retail sales and private consumption are picking up as the economy reopens. But the consumer confidence index dipped to an 8-month low in April due to surging living costs.

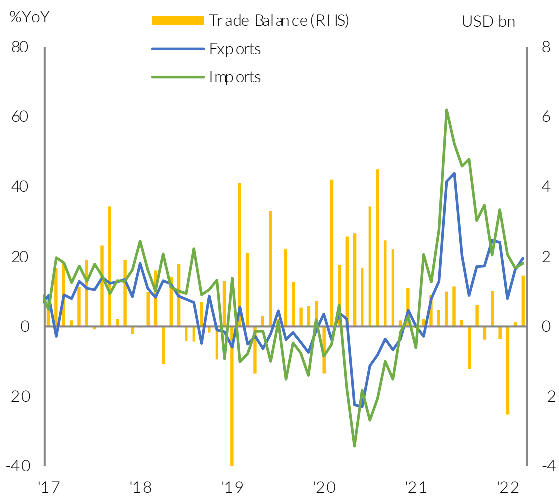
Manufacturing contracted in March on lower domestic demand & supply disruptions



Source: Maybank IBG Research

Manufacturing weakened in March and April due to lower domestic demand and supply chain disruptions. Thailand's growth recovery has been more sluggish compared to other ASEAN countries.

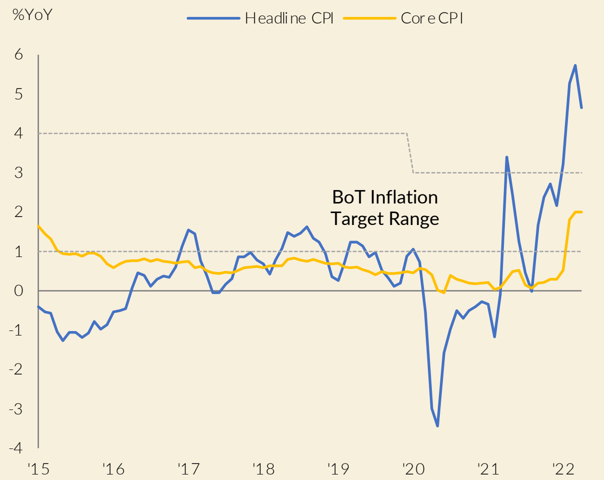
Export growth has been holding up, supporting the trade balance



Source: Maybank IBG Research

Exports jumped to an all-time high in March on strong demand from the ASEAN-5 and US markets. The trade balance widened to a 17-month high of $1.5bn surplus.

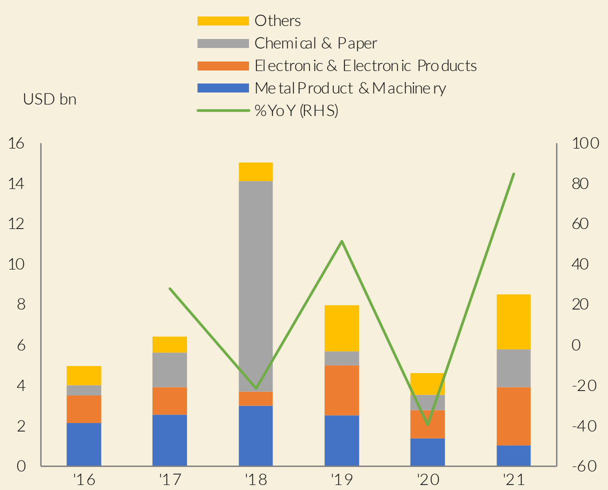
Headline inflation has overshot Bank of Thailand's target range



Source: Maybank IBG Research

Headline inflation (4.6% in April) has overshot Bank of Thailand's target range on surging transport and food costs. Core inflation has climbed to a decade high of 2%. Bank of Thailand has not tightened despite surging headline inflation.

Manufacturing FDI rebounded by +85% in 2021



Source: Maybank IBG Research

FDI applications suggest that manufacturing supply chains continue to reconfigure towards ASEAN, including Thailand, given rising US-China trade tensions. Manufacturing FDI rebounded by +85% in 2021 and surged by +36% in 1Q22, mainly into the electronics and metal product & machinery clusters.

EQUITY

STRATEGY

Thailand's stock market continues gaining, mainly driven by:

Domestic economic recovery

The domestic economic recovery seen in consumption, tourism and exports is in line with the easing Covid situation. We expect this to lead to the announcement of an endemic state soon. In addition, Thailand's tourism is strongly recovering thanks to the government's stimulus measures and easing the entry requirements. We forecast the number of international tourists visiting Thailand to reach 9 million this year from only 400k in 2021.

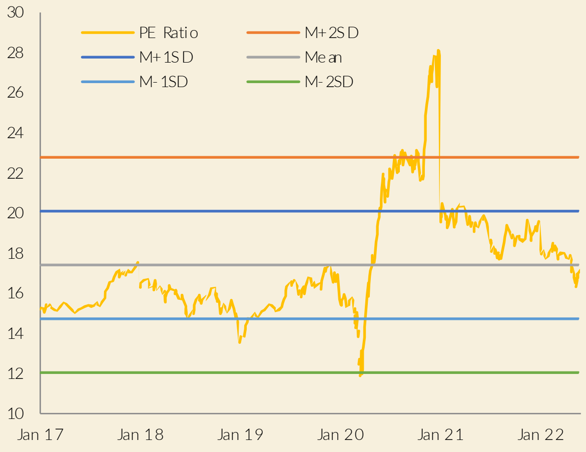
External factors beginning to ease

China's economic recovery is getting back on track as lockdown is eased in major cities. We expect it to have a positive effect on Thailand, which is an important trading partner. Raising interest rates to tame inflation is a better direction and it should trigger speculation in risk-asset markets again.

SET's valuation remains attractive

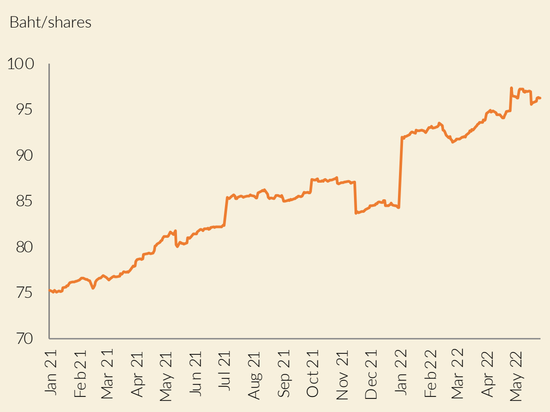
The SET index's correction has been pressured by several risks, while the SET EPS since the beginning of the year has a +28%YTD trend upward against the weakening index. Thus, this has brought the SET's valuation back to trade at only 17x, which is lower than the average PE level of the past 5 years. This makes it more attractive for accumulating stocks for medium-term investments. We maintain this year's SET index target of 1,750 points (6% upside).

SET: 5-year PE band

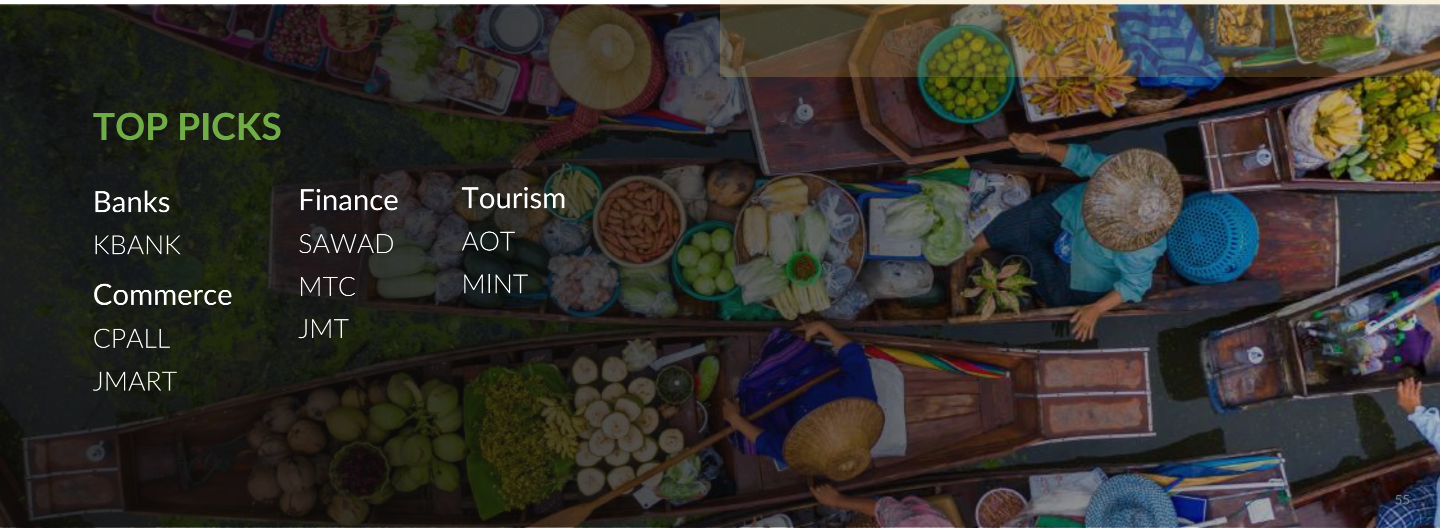


Source: Maybank IBG Research, Bloomberg

SET: Consensus EPS



Source: Bloomberg



TOP PICKS

Banks
KBANK

Commerce
CPALL
JMART

Finance
SAWAD
MTC
JMT

Tourism
AOT
MINT

BANKS

We see a recovery in loan demand mainly driven by higher working capital requirements due to inflation from the rising oil prices. It is also possible that with elections coming, infrastructure projects may again come into the narrative and that is a potential for corporate loans. Expect banks to outperform the SET as earnings improved in 2022.

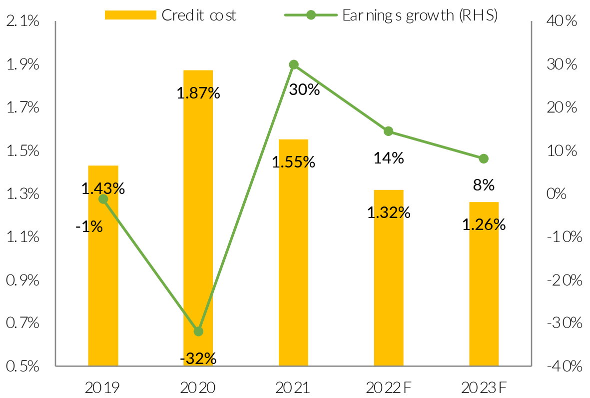
Loan growth picked up QoQ driven by HP, mortgages and corporate loans in 1Q22

Chg QoQ	1Q21	2Q21	3Q21	4Q21	1Q22	YoY	YTD
BBL	0.0%	2.2%	4.3%	9.2%	0.0%	9.2%	0.0%
KBANK	2.6%	3.5%	2.5%	6.8%	1.5%	6.8%	1.5%
KKP	2.6%	3.9%	1.7%	20.9%	6.6%	20.9%	6.6%
KTB	1.2%	5.3%	3.0%	12.7%	1.1%	12.7%	1.1%
SCB	1.0%	0.8%	-0.8%	2.1%	1.1%	2.1%	1.1%
TISCO	-1.8%	-3.1%	-4.5%	-7.8%	0.3%	-7.8%	0.3%
TTB	-0.9%	-1.6%	0.1%	-1.0%	-0.5%	-1.0%	-0.5%
Sector	0.9%	2.3%	1.9%	6.7%	0.9%	6.7%	0.9%

Source: Companies, MST

We expect the economic reopening has gradually increased household income after the unemployment and income shocks. Looking forward, we expect banks to report earnings growth of 8-14% YoY from lower credit costs in FY22-23E. In sum, we see no major rise in NPLs as banks can spread out losses from NPLs over time, thanks to the BoT policy support.

Expect sector earnings to grow 8-14%, thanks to the lower credit cost in FY22-23F

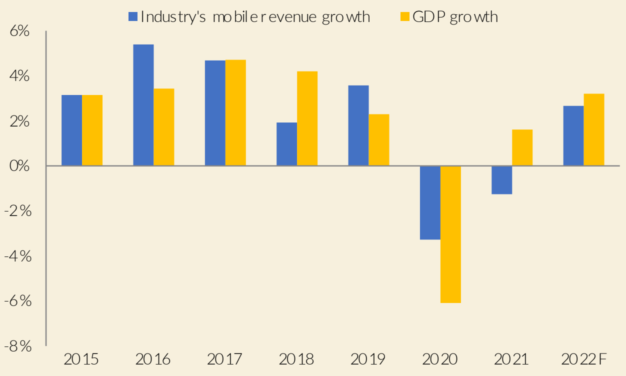


Source: Companies, MST

TELECOMMUNICATIONS

Mobile revenue growth is strongly correlated to GDP growth in Thailand; the FY14-21 CAGR of mobile revenue growth is 1.7%, very close to 1.8% CAGR for GDP over the same period. Strong economic growth leads to increases in purchasing power, which in turn allows consumers to: i) top-up more money in their prepaid accounts; or ii) convert from prepaid to postpaid data plans. Nevertheless, we forecast mobile revenue (+2.7% YoY) to underperform GDP (+3.2% YoY, according to Bank of Thailand) in FY22e due to accelerating inflation rates, which could also hurt consumers' purchasing power.

Mobile revenue growth vs. Thailand's GDP growth



Source: Company, MST

Bloomberg's consensus is too optimistic

	FY22E Core Net Profit		
	BB consensus	MIBG	% downside to BB Consensus
DTAC	3,827	3,149	-17.7%
ADVANC	28,437	25,380	-10.7%
TRUE	-1,667	-5,135	-208.1%

Source: Bloomberg, MST

ADVANC and TRUE have decided to maintain a revenue target of 4-6% growth for FY22E despite 1Q22 mobile revenue dropping 1.8% QoQ (dragged by the peak of the Omicron outbreak) and the weak outlook in 2Q-3Q22E (intense price competition in the prepaid market and rising inflation rates). We expect the telecom operators to revise down their annual targets during July-August 2022, pushing the consensus earnings estimates downward.

RESIDENTIAL PROPERTY

We rate the residential property sector as Neutral as the macro outlook has worsened due to the surge in costs and potential weakening in demand. YTD presales remain healthy for well-to-do people who rush to buy property before any price adjustments from rising inflation. But slow progress of construction from a shortage of workers and contractors is another downside for it implies a delay in revenue recognition.

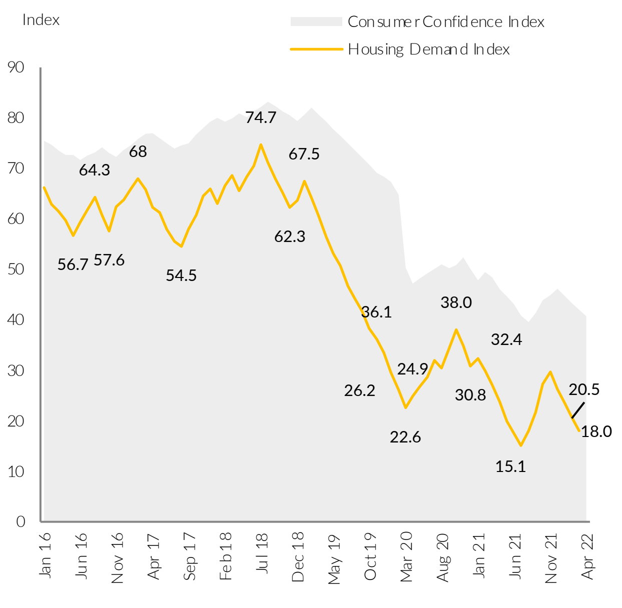
According to Real Estate Information Center (REIC), the residential development (excluding land) index rose 5.3% YoY and 3.9% QoQ in 1Q22 mainly from a sharp increase in steel/steel products (+35% YoY, +18% QoQ). Other materials such as sanitary ware and concrete products also surged 13%/7% YoY. Going forward, costs are likely to increase further given rising energy, transportation and labor. On the other hand, the residential price index for 1Q22 increased only slightly QoQ and still lower YoY.

REIC Director announced a downward revision of the 2022 property sales forecast from 14.2% YoY estimated end-21 to 9.1% YoY and he expected the property sector to return to a pre-Covid level in 2024, a previous forecast of 2023. This is attributable to several negatives such as interest rate upcycle, slower than expected GDP growth and fast-rising of inflation.

We still favor mid to high-end developers who should be strong enough to weather headwinds. While the overall property market is likely to grow at a single-digit rate in 2022, leading developers under our coverage which mainly target the mid to upper-end segment should outperform the industry's peers. They keep their aggressive 2022 guidance; combined presales growth of 24% YoY and a combined value of new launches growth of 91%.

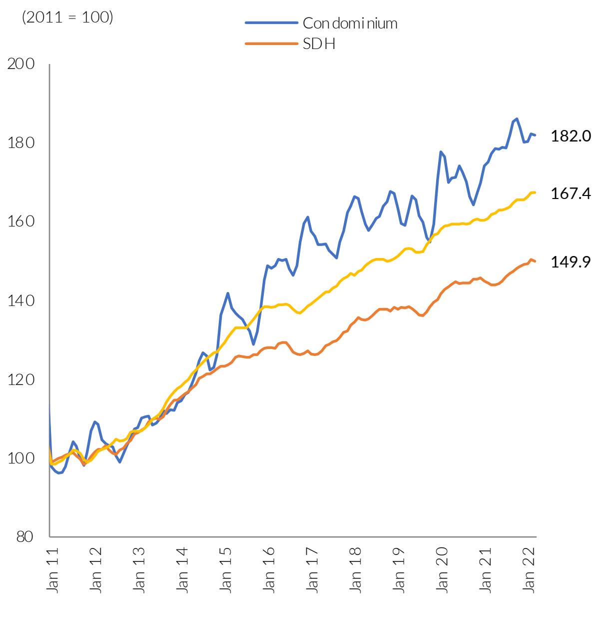
We rate LH, QH and AP as BUY. LH and QH should see a good recovery in both residential business and rental/hotel income. AP, the market leader, expects soft earnings in 2Q-3Q before rebounding in 4Q. It will continue to post a record-high performance for three years in a row (2020-22E).

Consumer Confidence Index (CCI) & Housing Demand Index



Source: Economic and Trade Indices Database, Bank of Thailand

Residential Property Price Index



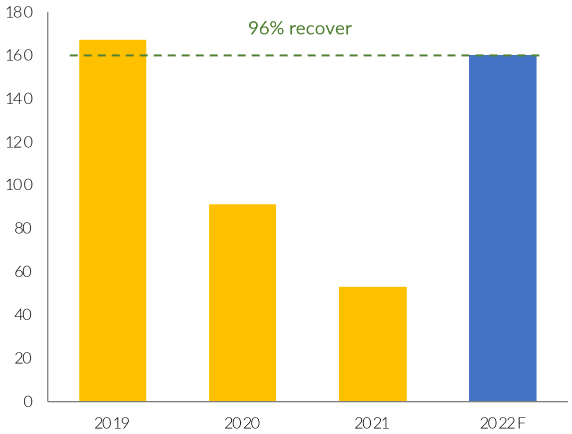
Source: Bank of Thailand

TOURISM

The Ministry of Tourism forecasts 10 million foreign arrivals, 3 million of which will be in 4Q22

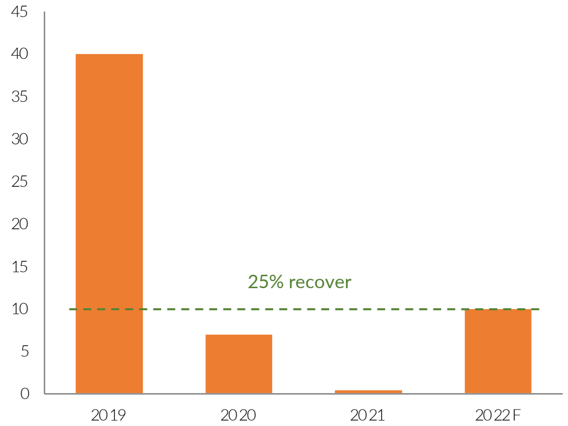
Thailand's easing entry rules have led to surging tourist arrivals since March. We expect the 4Q22 to be the best quarter, with 1 million tourist arrivals monthly.

Ministry of Tourism forecast 2022 domestic trip (million/trip)



Source: Erawan, Bangkok Biz New 9 May 2022, MOT, TATNo. of arrivals vs. The easing of entry restrictions

Ministry of Tourism forecast 2022 international arrivals (million)



Source: Erawan, Bangkok Biz New 9 May 2022, MOT, TATNo. of arrivals vs. The easing of entry restrictions

No. of arrivals vs. the easing of entry restrictions

Timeline	Feb 2022	Mar 2022	Apr 2022	May-Jun 2022	Jul-Sep 2022 (Expected)	Oct-Dec 2022 (Expected)
No. of Arrivals	152,954	210,836	245,964	>300,000per month (TAT target)		>1 Million per month (TAT target)
Easing of entry restriction	Restart Test & Go with 3 RT-PCR tests	Cancel RT-PCR test on Day 5th	Cancel RT-PCR test before departure	Cancel All RT-PCR testing	Endemic and lifting of all travel restrictions and requirement	

Source: Erawan, Bangkok Biz New 9 May 2022, MOT, TATNo. of arrivals vs. The easing of entry restrictions

Thailand plans to achieve endemicity by 1 July 2022, and this should be good for Thai tourism

Daily new Covid cases have been on a declining trend since the middle of April. This should lead to lower Covid income for the healthcare sector from 2Q22 onwards.

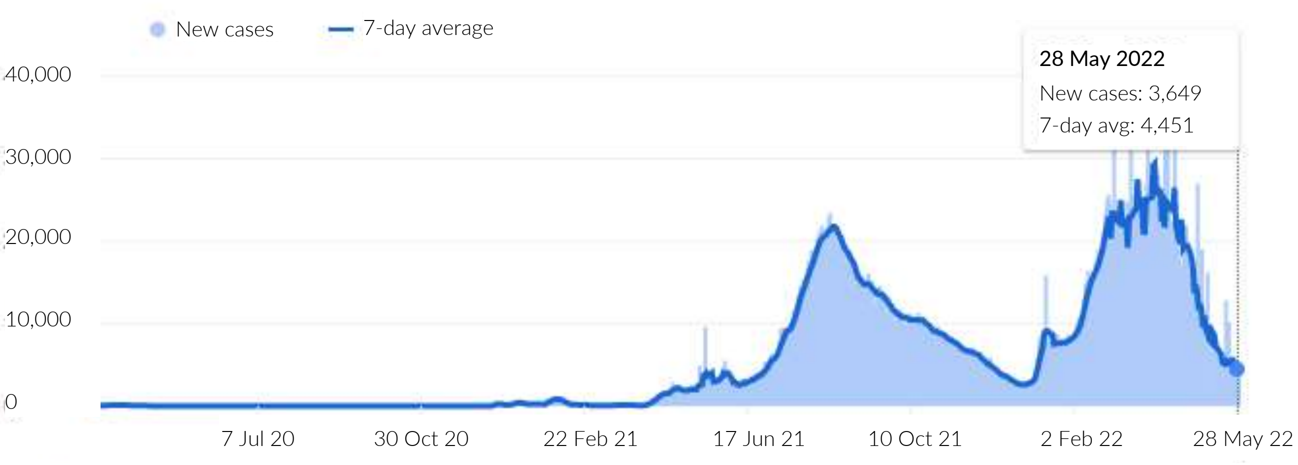
LEARNING TO LIVE WITH COVID A four-stage public health measure plan has been drawn up before Thailand declares Covid-19 an endemic disease from July onwards

Measures	Phase one (March 12 to early April) Combatting	Phase two (April-May) Plateau	Phase three (the end of May-June) Declining	After June 30 Post pandemic
Surveillance measures on international arrivals	**Traveller tests positive D0 >3%**, tested with RT-PCR D0 + ATK D5, unvaccinated will be put in 10-day quarantine	**Traveller tests positive D0 1-3%**, tested with ATK D 0,5, unvaccinated will be put in 5-day quarantine	**Traveller tests positive D0 <1%**, unvaccinated will be tested with ATKs at airports	There will be no ATK and PCR tests
Domestic surveillance inspections	Case-based: infection cases, IPD, pneumonia the bed occupancy rate 2,3, Event-based: Death, Cluster, New variants, Vaccine-related: AFFI, VF		Case-based: IPD, pneumonia cases per week, Event-based: Death, Cluster, New variants, Vaccine-related: AFFI, VF	
Investigation of disease	Containment of severe clusters, reducing the number of deaths, disease control assessments		Detemining the factor that causes severe symptoms and deaths	
Vaccination	Booster ≥ 45% of population	Booster ≥ 50% of population	Booster ≥ 55% of population	Booster ≥ 60% of population
Disease prevention besides vaccination	Controlling large public gatherings, certain venues will be allowed to reopen by order of the committee		Implementing social distancing and wearing masks in risk-prone areas, as well as large public gatherings, most venues will be able to reopen	
Disease control measures	Patient quarantine (depends on vaccine profile), considering restrictions on inter-provincial travel for virus containment, avoiding commuting on public transport, closure of pubs and bars		Patient quarantine (depends on vaccine profile), considering restrictions on inter-provincial travel for virus containment, travelling by public transport under universal prevention measures, reopening pubs and bars	

Source: The Ministry of Public Health BANGKOK POST GRAPHICS

Lower new daily Covid cases should lead to lower Covid income for the healthcare sector

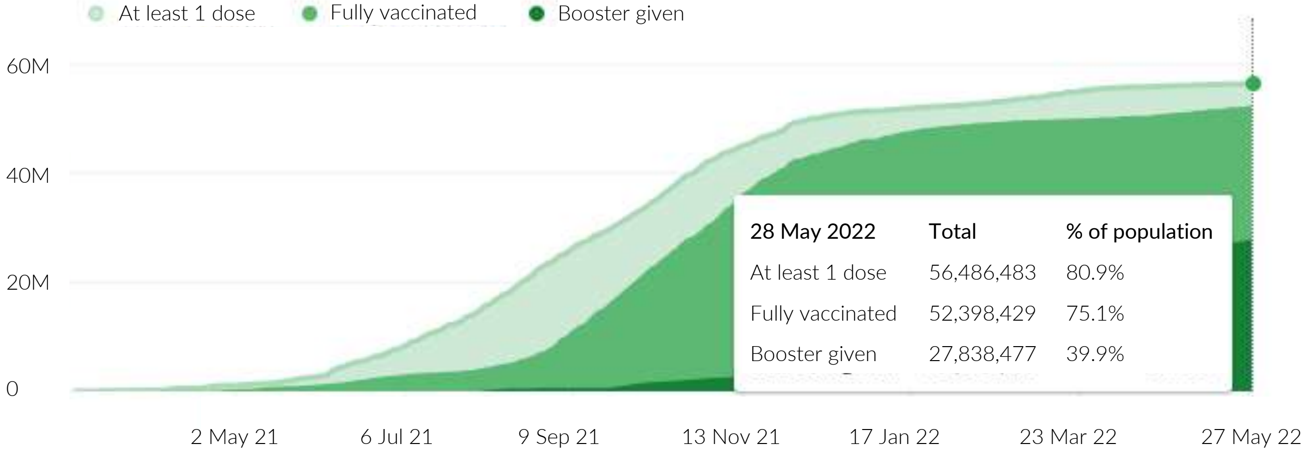
Daily new Covid cases have been on a declining trend since the middle of April. This should lead to lower Covid income for the healthcare sector from 2Q22 onwards.



Source: The Ministry of Public Health

About 40% of the population have received booster vaccines and so are less likely to be hospitalised

Additionally, with more people having received booster vaccination, we believe that Covid patients are less likely to be hospitalized.



Source: The Ministry of Public Health

COMMERCE

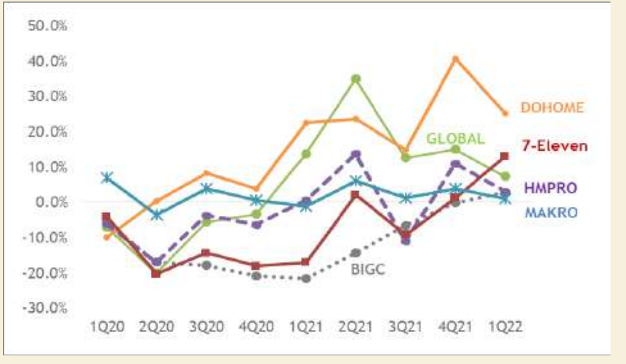
Growing along the reopening

All retailers' SSSG turned positive in 1Q22 due to the ease of lockdown and product price hike driven by inflation. SSSG of the consumer staple segment continued to rise, while that of the consumer discretionary segment slowed down from high base but was still remarkably positive.

We expect to see positive momentum carried on for the rest of this year. The endemic and more tourism activities would enhance domestic consumption which benefit the retail sector. The higher cost of goods and energy has been partly passed through to consumers.

CPALL (TP THB79) is our top pick, underpinned by a recovery in consumption, which has a positive effect on the convenience store business (7-Eleven), wholesale business (MAKRO) and retail business (Lotus's).

SSSG of consumer staple improving while that of consumer discretionary slowing down



Source: Company reports & MST

FOOD (AGRIFOOD) & BEVERAGES

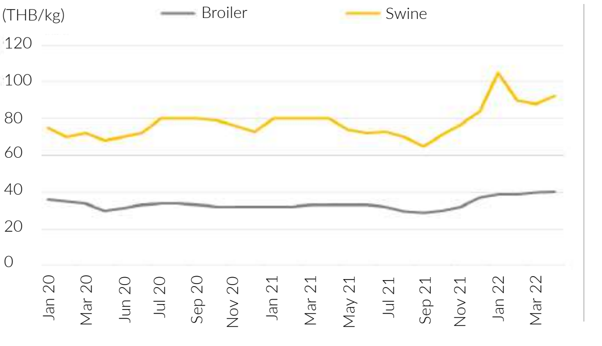
Keep an eye on rising costs

Domestic swine prices have increased substantially on the back of supply shortage and cost inflation. Broiler prices have also risen to stay at a favorable level. Both swine and broiler prices tend to remain high for the rest of this year due to high raw material prices and the reopening. Raw material prices, corn and soybean meal, have surged significantly from declining supply and rising logistic costs. We expect raw material prices to stay at a high level which would pressure on the GPM of agrifood companies.

As for Food and Beverage sector, sales tend to pick up from the recovery of the beverage industry and consumption in Thailand and CLMV, as well as new product launches. However, there will be a challenge on GPM given the increase in energy and raw material costs.

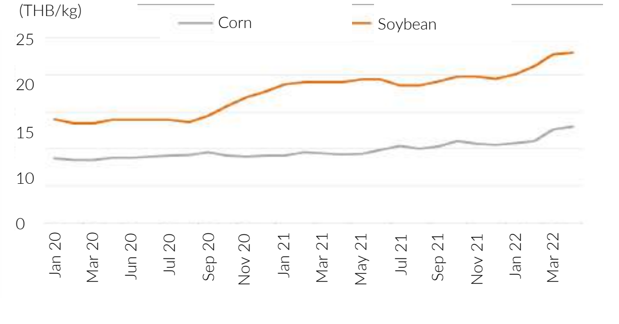
We have a Neutral view on Food (Agrifood) & Beverage sector.

Domestic swine prices surging, broiler prices also climbing



Source: Company reports & MST

Increasing raw material prices

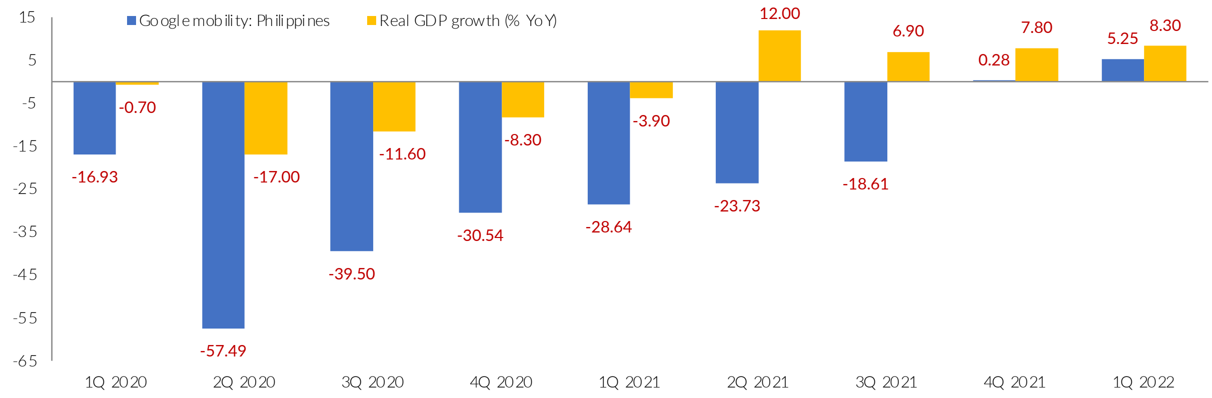


Source: Company reports & MST

Philippines

MACRO

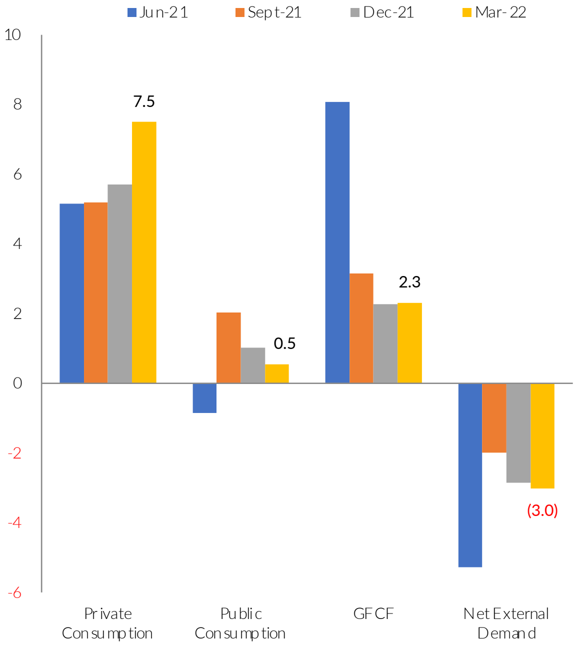
Mobility and real GDP growth



Source: Google LLC, CEIC

Movement restrictions due to lockdown measures by the authorities to curb the pandemic have been a drag on recovery during past quarters. Mobility is improving, translating into decelerating contractions in quarterly GDP culminating in the rebound that began in 2Q21. Progress in economic openings has helped to sustain the recovery momentum and resulted in the unemployment rate dropping to the pandemic-era low of 5.8% in March 2022, as well as reviving the services industry with +8.6% YoY growth in 1Q22 (4Q21: +8.0% YoY). We expect mobility to improve further as the number of new cases had started to show a significant drop from the recent peak in mid-January 2022, hence contributing to firmer economic growth this year at +6.5% vs. +5.7% in 2021.

Demand aggregates' contributions to real GDP growth (ppt) – rising private consumption

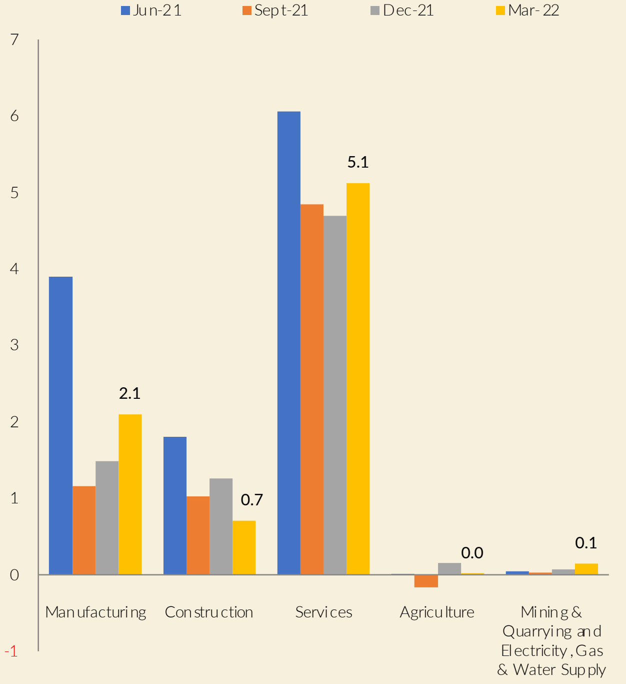


Source: PSA, CEIC

Domestic demand growth expanded by a faster +10.3% YoY in 1Q22 (4Q21: +9.8% YoY, revised from +9.4% YoY) on the pickup in both private consumption (1Q22: +10.1% YoY; 4Q21: +7.5 YoY) and gross fixed capital formation growth (1Q22: +11.0% YoY; 4Q21: +10.8% YoY, revised from +9.5% YoY) to offset the moderation in government consumption (1Q22: +3.6% YoY; 4Q21: +7.8% YoY;, revised from +7.4% YoY) due to the spending ban at the end of 1Q22 head of the election on 9 May 2022. On seasonally adjusted QoQ basis, GDP expanded +1.9% (4Q21: +3.5%, revised from +3.1%).

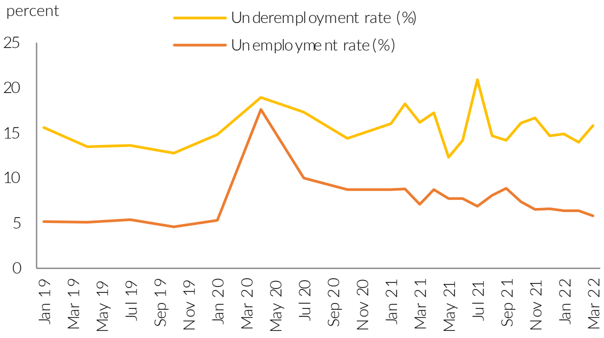
Economic sectors' contributions to real GDP growth (percentage points)

Services sector growth gained momentum (1Q22: +8.6% YoY; 4Q21: +8.0% YoY, revised from +7.9% YoY) amid steady recovery in "transportation & storage" and "accommodation & food services". With 61% share of GDP and the largest employer in the country (1Q22: 55.9% of total employment), recovery in the services sector will help to sustain economic growth.



Source: PSA, CEIC

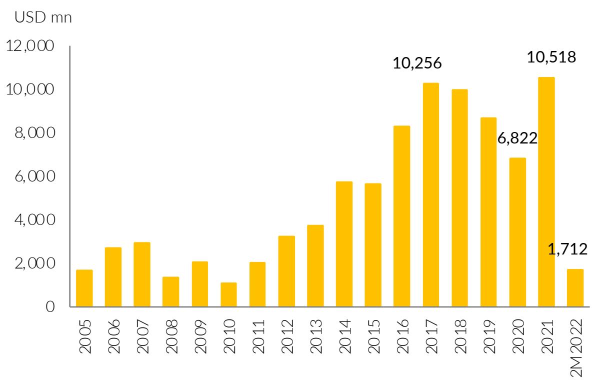
Sustained improvement in monthly unemployment rate is positive to private consumption



Source: PSA, CEIC

The unemployment rate fell to 5.8% in March 2022 (February 2022: 6.4%; 3M2022: 6.2%), the lowest since the start of the pandemic. Labour force participation rate rose to 65.4% (February 2022: 63.8%) with a total of 1.50m jobs created during the month, mainly in agriculture and services. But underemployment rate was higher (March 2022: 15.8%; February 2022: 14.0%). Revised our 2022 unemployment rate forecast to 6.0% from 6.3% previously (2021: 7.8%).

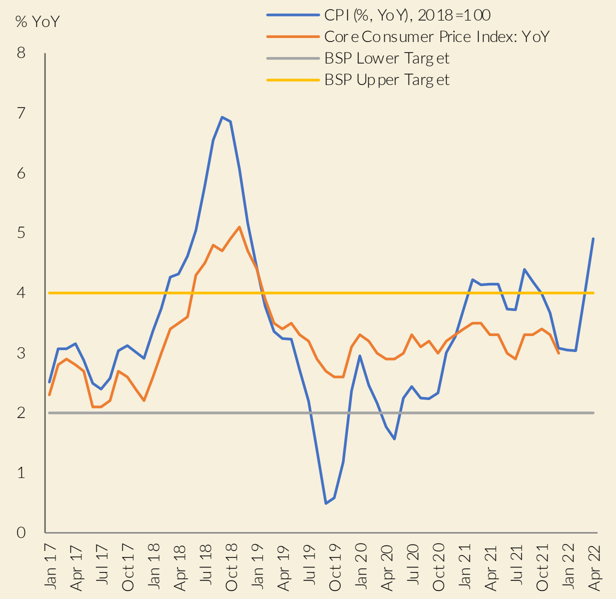
Record high net FDI in 2021 – reaping rewards of legislative reforms



Source: BSP, CEIC

We expect a series of legislative reforms (Financial Institutions Strategic Transfer (FIST), Corporate Recovery and Tax Incentives for Enterprises (CREATE), Retail Trade Liberalisation Act (RTL), Foreign Investment Act (FIA) and Public Service Act (PSA) to boost Philippines' long-term economic competitiveness and attractiveness to investors and spur private investment – including foreign direct investment (FDI) – which posted a record high of USD10.5b net FDI In 2021.

Headline inflation in Apr 2022 exceeded BSP's upper end target



Source: PSA, CEIC

Headline inflation rate accelerated to +4.9% YoY in April 2022 (March 2022: +4.0% YoY; 4M2022: +3.7% YoY), well above the upper end of BSP's target range of 2%-4%, mainly on higher FNAB, HWEGOF and transport costs. The risk to inflation outlook continues to lean to the upside as the biggest impact of the Russia-Ukraine conflict is the elevated global commodity prices, including crude oil (Brent) price which surged to well over USD100/bbl as well as food commodity prices such as grains (wheat, barley, maize) and vegetable oils (e.g. palm oil and sunflower oil). At the same time, easing of mobility restrictions leads to recovery in the domestic economy, which could add further inflationary pressure. We expect 2022 and 2023 headline inflation rate of +4.6% and +3.3% respectively (2021: +3.9%). BSP has responded to inflation with a 25bps hike in its policy rate to 2.25% on 19 May 2022, and we see further 25bps hikes in 3Q22 and 4Q22.

CONGLOMERATES

Stock performance is most correlated to NAV accretion

Unlike in other more developed economies, where conglomerates behave like private equities firms and position as strong yield plays, Philippine conglomerates act as incubators for new businesses in typically underserved, underdeveloped and unsupported sectors. This is the reason why Philippine conglomerates are always in cash conservation mode and have fixed dividend payouts and why this sector is best played by aligning with its sponsor's growth, which is most reflected the growth of its NAV.

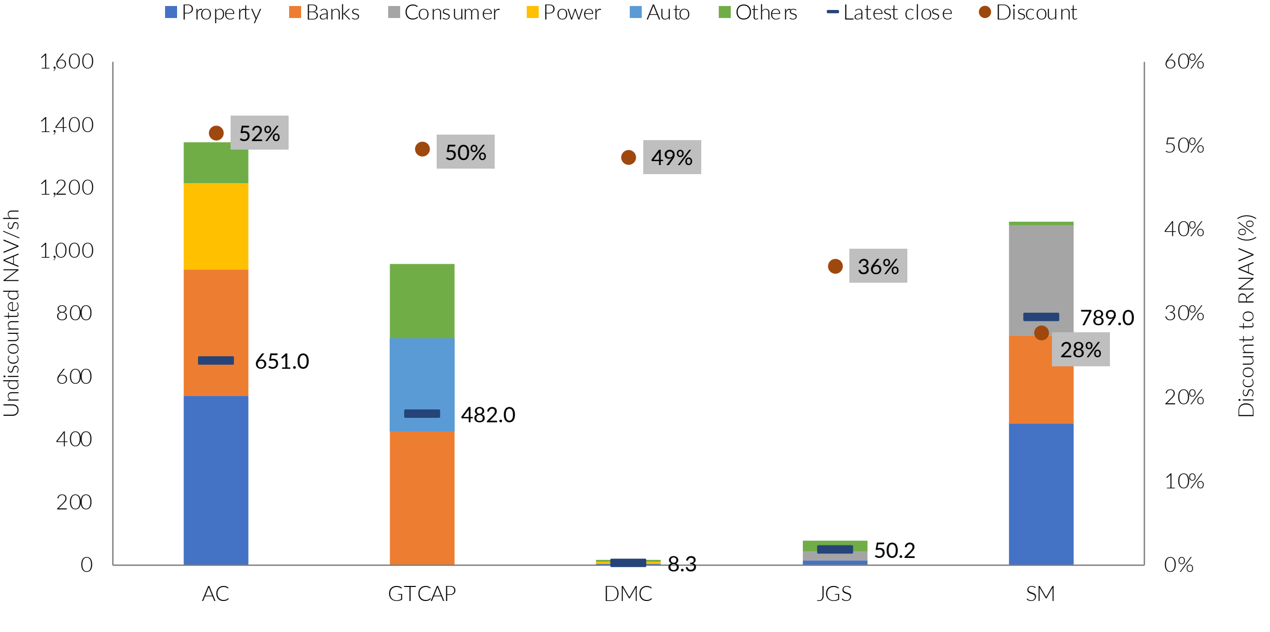
Some winners are positioned to win "better"

The reopening theme of FY22E should bode well for all conglomerates and should translate to NAV accretion. However, the magnitude of this NAV growth will largely depend on the conglomerate's sector key exposures and its own portfolio management strategy. We prefer groups that complement the expected macro-driven external uplift with opportunistic M&As and/or divestments, which would likely extend their NAV growth momentum well beyond the FY22 recovery year.

AC & SM are our top picks

In 2021, AC launched its value realization program, where it aims to divest out of its less profitable and non-core assets by YE23E and reinvest proceeds to its core subsidiaries and emerging healthcare and logistics businesses. This portfolio management strategy provides a boost to the group's property- and banking-led recovery trajectory. SM, on the other hand is our preferred reopening play. As the holder of country's consumption catch-basin, through the country's largest retailer, mall operator and bank, SM will be the first and biggest beneficiary of any and all macroeconomic improvement in the country.

NAV composition of Philippine conglomerates



Source: Maybank IBG Research, Bloomberg

BANKS

Sustained lending recovery

Philippine banks continued to post strong loan growth momentum in 4Q21 and 1Q22, since recording their first, post-pandemic loan growth in 3Q21 and is well positioned to post higher lending growths of 8-12% by YE22E (excluding UBP's +24% YoY FY22E lending growth, which is attributable to its acquisition of Citi's retail assets in the Philippines). We expect the rebound will be corporate-led (c.54-78% of total loan book) as the sustained economic reopening trajectory translates to higher working capital requirements and capex deployments.

Asset yield expansion

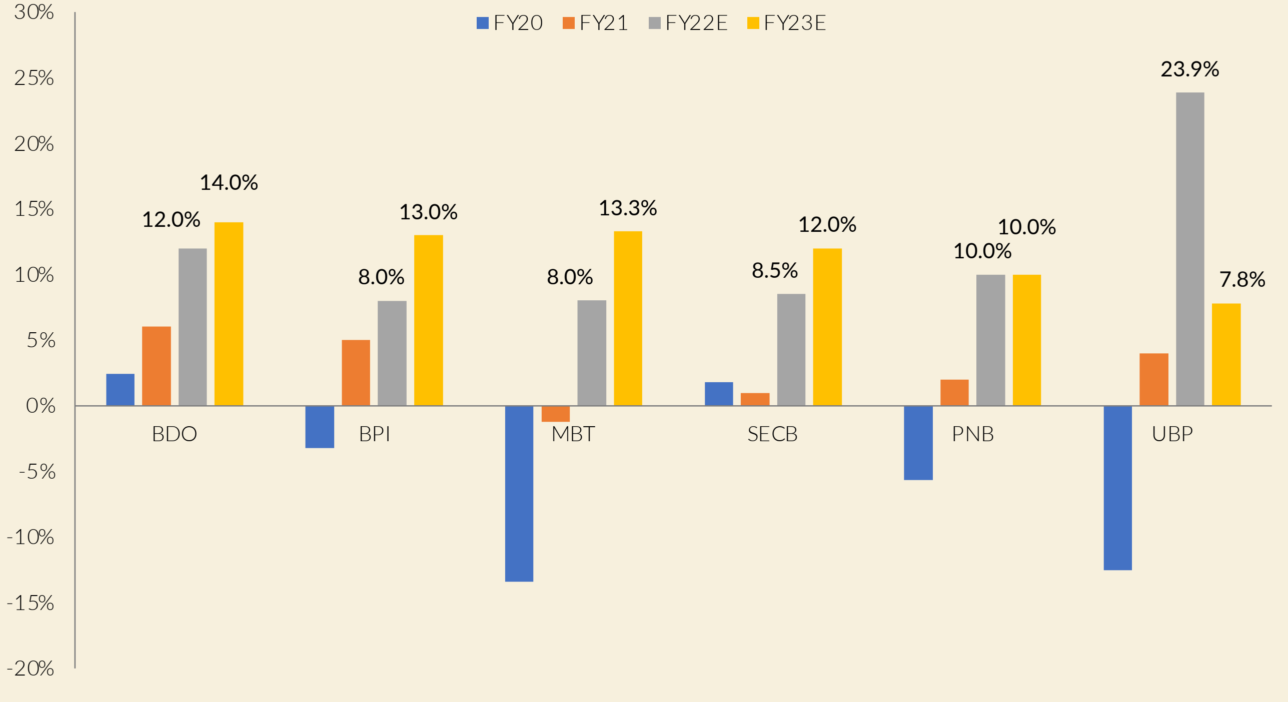
Bank's low funding costs from the significant rise in CA/SA deposits in FY20/21A (+15.8%/+16.7% YoY) will be further improved by a rising rate environment as banks are able to pass on higher rates to their floating rate corporate lenders, which, on average, account for 70% of their corporate loan books.

Maybank IBG forecasts policy rates to increase by +75bps in FY22E – one in June, one in 3Q22 and another in 4Q22. Our earnings sensitivity analysis shows that BDO will benefit most from this given that it has the highest proportion of CA/SA among the banks under our coverage, at 86.0% of total deposits. UBP and SECB, which have CA/SA to total deposits ratio of 60.0% and 62.5%, respectively, will be the least impacted.

BDO is our top pick

Aside from benefitting the most from the anticipated rise in policy rates, BDO is also best positioned to capture the upswing in loan demand given its size, lending appetite, access to the SM group's expansive network of clientele, and its dual digital and physical branch expansion strategy. PNB is our least preferred stock in the banking sector given its continually elevated NPL ratios and lack of visible catalysts, past the property dividend declaration last May 2021.

Lending Growth



Source: Maybank IBG Research, Company disclosures

PROPERTY / REITs

Malls continue to be a drag

Despite the sustained economic re-opening trajectory since 2H21, the 1Q22 results of Philippine property companies showed uneven, protracted recovery among the various segments. The residential segment is approaching c. 50-70% of pre-pandemic levels in terms of both sales reservations and recognized revenues. Office revenues did not contract amid the pandemic. Revenues from malls and hotels, however, continue to lag at less than half of FY19A levels. To illustrate, private consumption grew 10.1% YoY in 1Q22 but mall revenues have yet to return to pre-pandemic levels. Within our coverage, SMPH has the highest exposure to malls, at 54% of total revenues in FY19A, while MEG has the least, at 9% of pre-pandemic revenues.

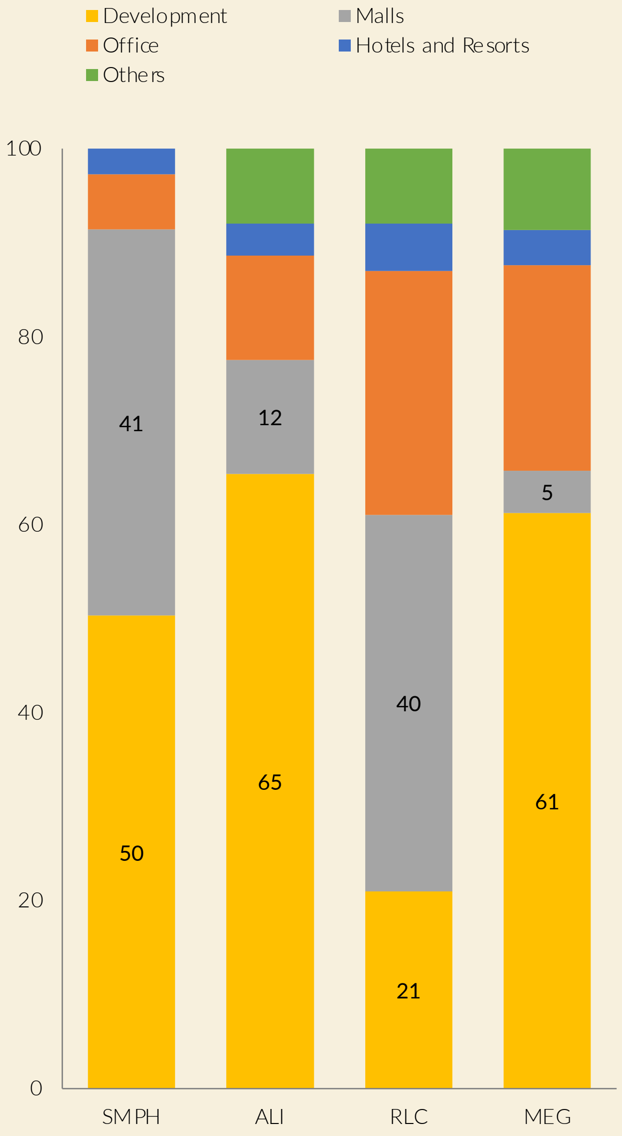
Reiterate preference for developers over landlords

The recovery of the residential segment, particularly for the upscale to the luxury segment, is underpinned by pent-up demand, which we view as a secular trend. The performance of malls, on the other hand, is heavily influenced by macroeconomic factors (such as mobility, growth in domestic consumption, inflation and employment), which currently limit the ability of mall operators to re-escalate rents back to pre-pandemic levels. Further, we believe residential development is less susceptible to geopolitically-driven, oil-based inflationary pressures than mall leasing given more resilient spending power for higher-income brackets and locked-in rates for construction contracts.

Pair trade: Buy ALI, sell SMPH

We recommend buying ALI while selling SMPH. This pair trade is consistent with our investment thesis for the sector. Valuations also reinforce our call. SMPH's current price implies a 3.0x P/BV and a 24% discount to RNAV, in line with 10Y averages (10Y ave. P/BV: 3.3x; 10Y ave. discount: 23%). On the other hand, ALI's current price implies a 1.8x P/BV and a 59% discount to RNAV, a steep discount to 10Y averages (10Y ave. P/BV: 3.8x; 10Y ave. discount: 32%).

1Q22 revenue mix (%)



Source: Maybank IBG Research, Company disclosures

TELCOMMUNICATIONS

Growth is broadband driven

The pandemic-induced mobility restrictions have led to an exponential increase in demand for fast and reliable home broadband service, which translated to the +16.5%/+20.4%, +23.2%/+9.7% and +98.7%/+83.1% YoY growth in the FY20/21A broadband revenues of TEL, GLO, and CNVRG, respectively. In terms of broadband subscriber growth, CNVRG outperformed TEL and GLO in FY20/21A, with total broadband subscribers growing by +96.0%/+62.9% YoY. CNVRG uses micro trenching technology, which deploys cables at <2 feet depths (vs. 1-2m using the old method), cutting the installation time for CNVRG's fast fibre ports and last-mile fibre lines. Given the country's low broadband penetration rates (FY21A: c.20%) and hybrid work- and learn-from-home setup, we expect TEL, GLO and CNVRG to continue their aggressive fibre expansion plans, which will largely drive revenue growth for the next 2-3 years. As such, we expect the Capex for TEL, GLO and CNVRG to remain elevated Capex in FY22 as they spend more on network upgrades to improve network speed and reliability, and fibre expansion.

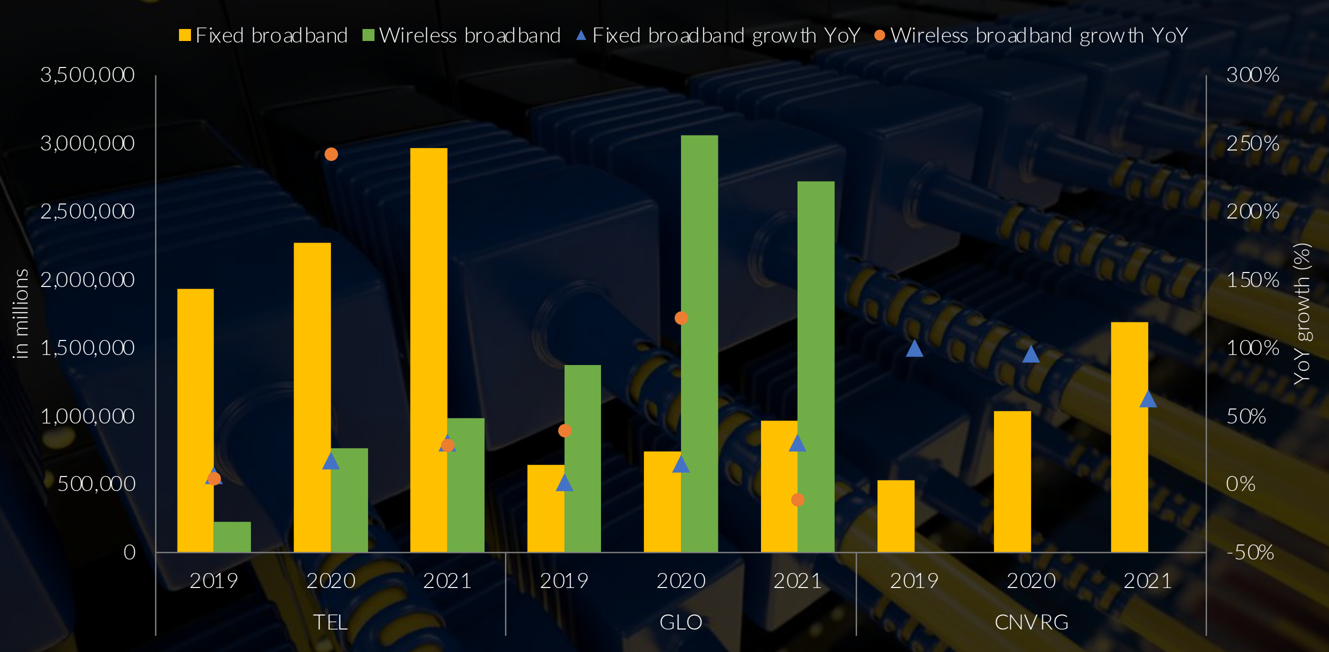
Increased mobility to spur the recovery of the mobile data segment

Mobile data revenue growth expectedly lagged in FY20/21A but the increased mobility should accelerate mobile revenue growth to +6-8% YoY in FY22E. Growth will be usage-driven as we expect only a slight +2-3% YoY uptick in mobile ARPUs, coming from mobile data top-ups. The flattish ARPU outlook is also a result of China Telecoms-backed DITO's aggressive data pricing. DITO, which launched in March 2021, now has over 7m subscribers or c.3% of the country's total mobile customers.

TEL is our top pick

We are generally positive on the sector given growth opportunities in the broadband space, but we prefer TEL over GLO and CNVRGE given its market leadership in fibre and enterprise, as well as in data centers, and relatively low exposure to the wireless mobile segment (53% of FY21A revenues vs GLO's 69%). Although we do not expect disruptions in the wireless business to be significant in the next 1-2 years, pricing pressures in the wireless mobile segment could still create a drag to earnings.

Fixed and Wireless broadband subscribers



Source: Company disclosures

TRANSPORT

Geopolitical tensions could be a drag on global trade volume recovery

Considering the base effects of the pandemic and the addition of the Port of Nigeria into ICT's portfolio, ICT's +9.5% YoY volume growth in FY21 was the highest growth ICT has posted in the past 5 years. However, the trade disruptions caused by the Russia-Ukraine war and the lockdowns in various parts of China will likely decelerate volume growth in FY22E to 3.5% YoY. This translates to revenue growth of +6.2% YoY, also a deceleration from FY21's +23.9% YoY. Even so, with the 8% tariff hike in the Manila port being effective on 15 May 2022, as well as higher yields in Mexico, Papua New Guinea and Melbourne from tariff adjustments and higher ancillary fees, there could be a potential upside to our forecast, which could mitigate the threat on volume growth.

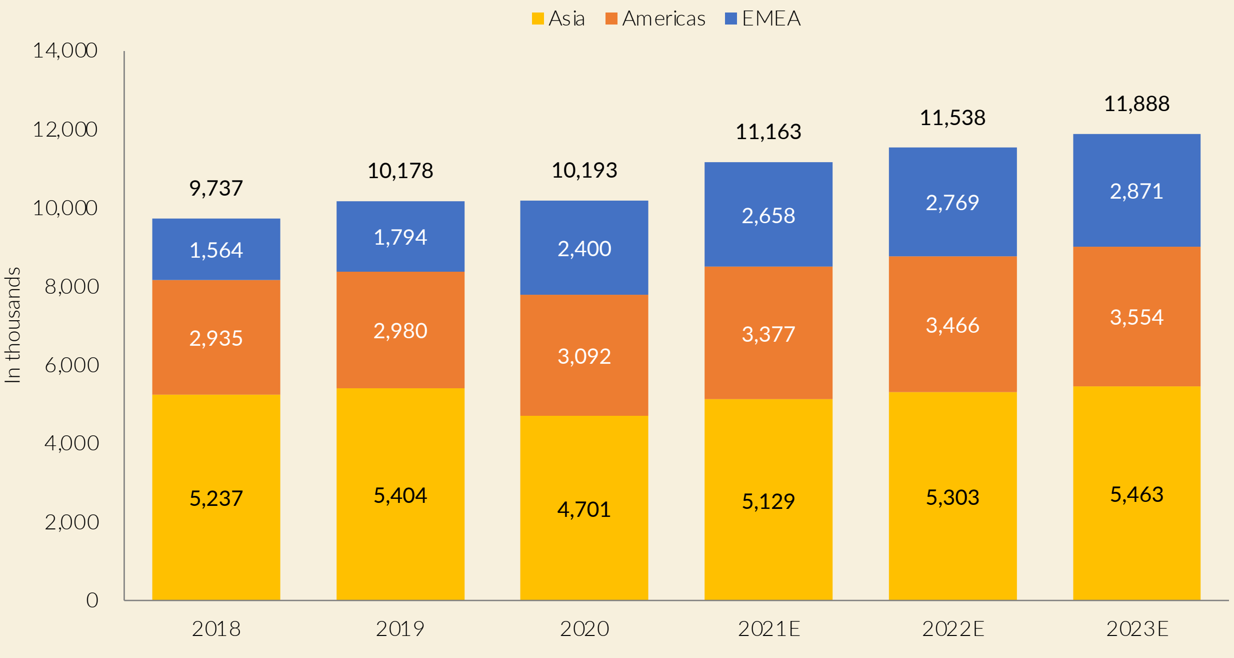
Potential boost from M&As

ICT is on the constant lookout for M&A opportunities and is currently negotiating with several ports in west and east Africa, Indonesia and India. Our FY22/23E forecasts factor in only the Indonesia port acquisition so any addition to ICT's port portfolio should be positive. Nevertheless, we expect these acquisitions to take time to be completed, given the varying lockdown situations across the globe and supply chain concerns.

We have a HOLD call on ICT

Our DCF-based TP of PHP224 implies 9.4x FY22E EV/EBITDA, 0.9SD above the 5Y mean, which we believe is justified given ICT's strong growth and continuous expansion efforts. However, with the stock's strong performance YTD capping the upside to our TP, coupled with risks to trade volumes due to geopolitical tensions and the lockdowns in China, we have a HOLD recommendation on ICT. ICT's long-term growth story remains attractive, and we believe it will continue to see volume and yield growth as economic tensions ease over the long term. There could be further upside on sustained higher yields and stronger-than-expected volume recovery, as seen in 1Q22.

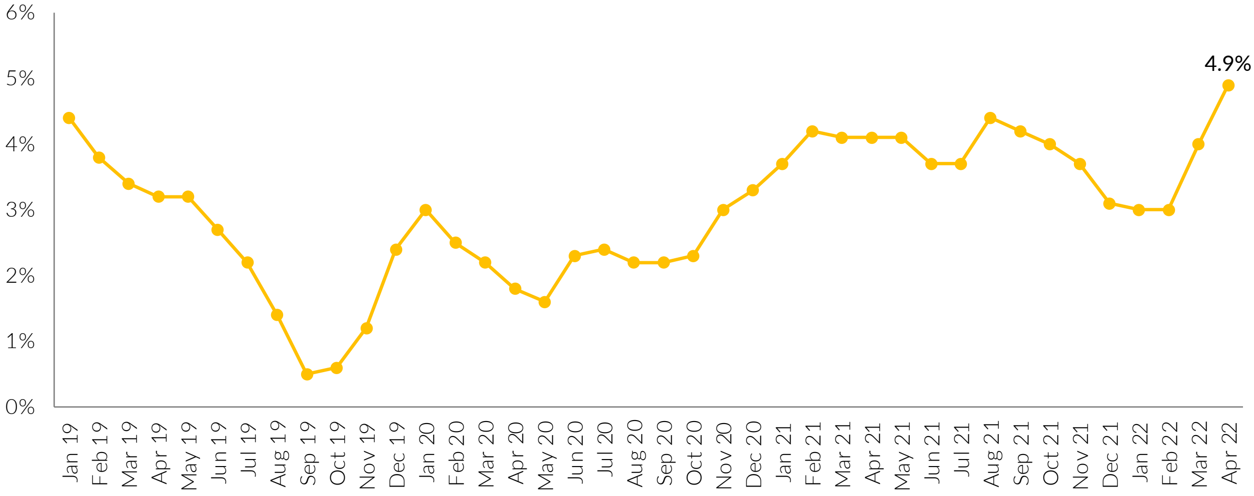
Segment volume growth



Source: Maybank IBG Research, Company disclosures

CONSUMER

Philippine Inflation Rate



Source: Philippine Statistical Authority

Supply-driven raw material price risk is a major headwind

The onset of the Russia-Ukraine war in late February 2022, along with the ban of Indonesian palm oil exports last April 2022, has caused the prices of key imported commodity items such as wheat, palm oil and crude oil to surge by 30-60% YTD. Despite implementing selling price adjustments, local consumer companies, which are catering to the broad C and D markets, are not able to pass this magnitude of input price surge on, causing gross profit margins to decline by 40-420 bps in 1Q22. Among the consumer companies under coverage, MONDE is most impacted (GPM decline of 420bps as of 1Q22) as c.40-45% of its raw materials are wheat and palm oil.

Downside risks trumps catalysts

The recovery of mobility within grocery and retail stores to pre-pandemic levels is offset by the inflation-driven contraction in basket sizes such that we expect FY22E earnings to contract by 4-21.6% YoY. Further, we also expect the inflationary environment to continue to protract dampening the recovery prospects for discretionary-driven name segments. Manageable inflation risk and improving employment figures, coupled with a declining trend in raw material input prices in 2H22, should be drivers of an inflection point in our view of the sector.

DNL is our top pick

Companies with pricing power offering products with inelastic demand should fare well in a cost-volatile environment. DNL is our top pick in the sector as its market leadership and R&D-based economic moat ensure that: i) DNL maintains pricing power; ii) its customers are sticky and price-insensitive; and iii) barriers to entry in its sector are kept high. We remain positive about DNL's two-pronged strategy to grow its high-margin specialty segment and its export business in the medium term. DNL currently trades at 17.6x FY22 PER, still below its 5-year mean PER of 22.1x.

POWER / UTILITIES

The Philippines' renewable energy (RE) targets are government-led

Amid the tightening Philippine power supply situation and rising calls to address climate change, the Department of Energy, in its Philippine Energy Plan 2020-40, remains intent on lifting the country's RE generation mix from 21% as of December 2020, to 35% by YE30E, 50% by YE40E. ACEN and AP have the most aggressive RE targets, aiming to add 5GW and 3.7GW RE capacities by YE25E and YE30E, respectively. Between the two, ACEN is further along, as it has achieved 65% of its target as of 1Q22A.

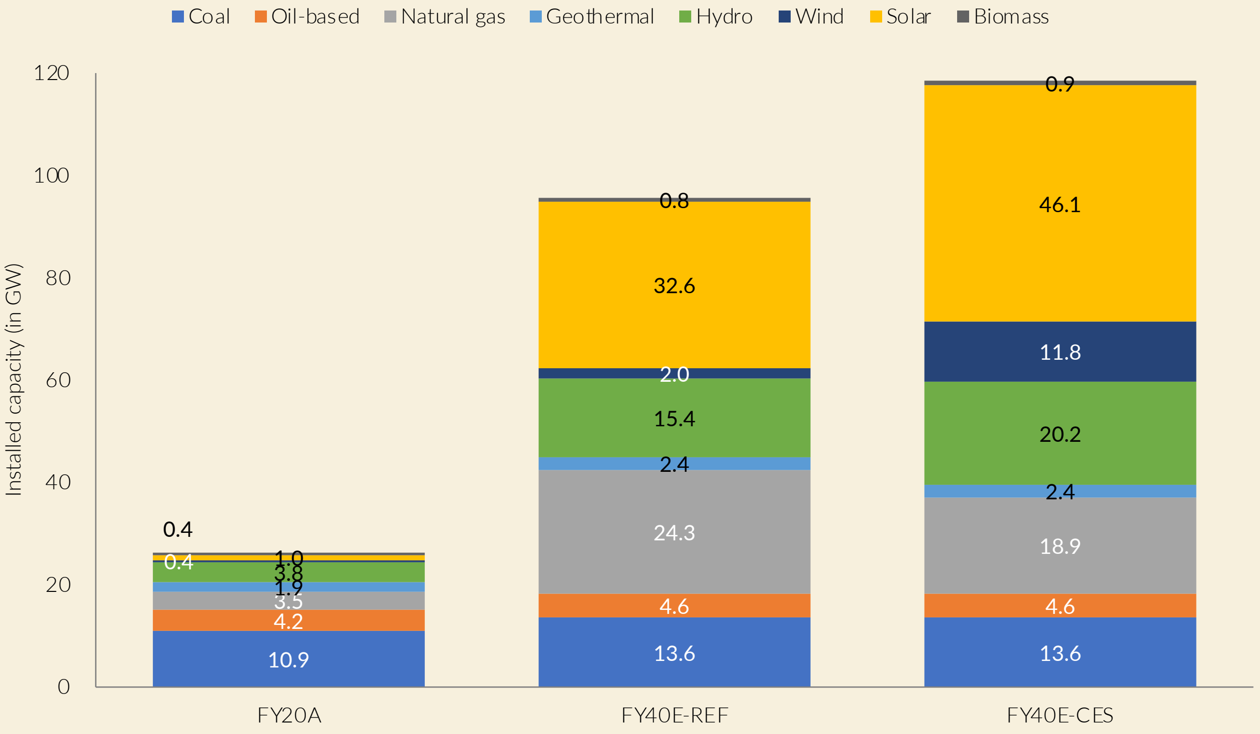
Banking on portfolio effect to bankroll aggressive RE pipeline in the absence of domestic feed-in-tariff (FIT) regimes

To fund their aggressive RE expansion, power generators are establishing baseline cashflows by: i) investing in offshore RE markets with viable FIT regimes; and/or ii) retaining thermal baseload power plants. This strategy will expose power generation companies to marginal generation cost volatility over the near term (given the uptrend in coal/fuel prices) but should enable their long-term energy transition programs in the absence of active solar or wind FIT regime in the Philippines.

AP is our top pick

AP is our top pick as the commencement of 2x668MW, coal-based GNPower Dinginin in January 2022 provides a near-term boost to earnings, contributing up to 20% of AP's FY22E earnings, while its PHP190b portfolio transformation investment for 3.7GW new RE projects by YE30E offer long-term catalysts.

Installed capacity by fuel (PEP FY20A-40E)

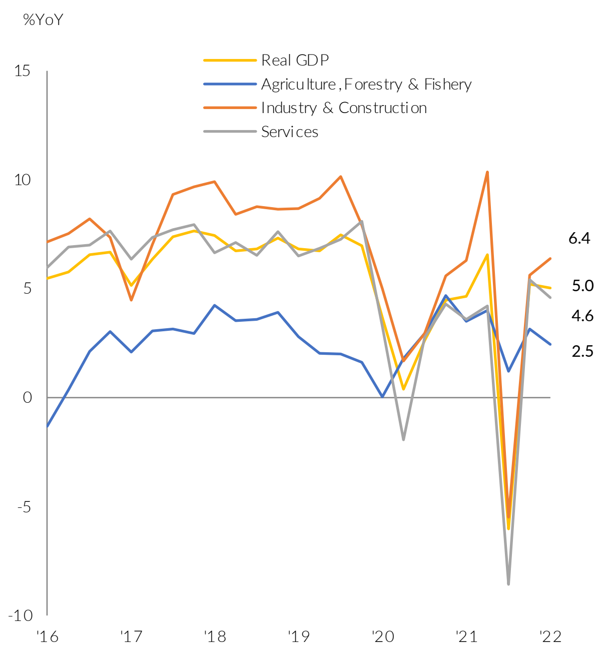


Source: Department of Energy

Vietnam

MACRO

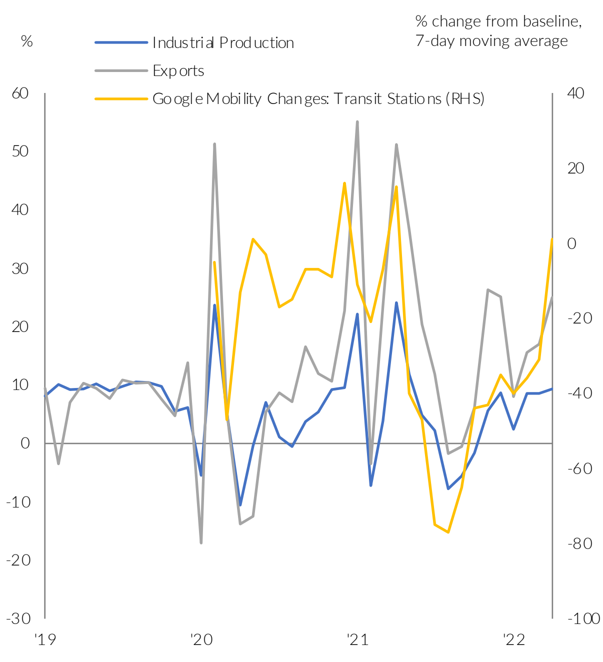
Growth normalizes with economic reopening



Source: Maybank IBG Research

GDP expanded +5% in 1Q22, underpinned by the reopening and easing of Covid restrictions. The recovery was driven by a pick-up in industry and construction

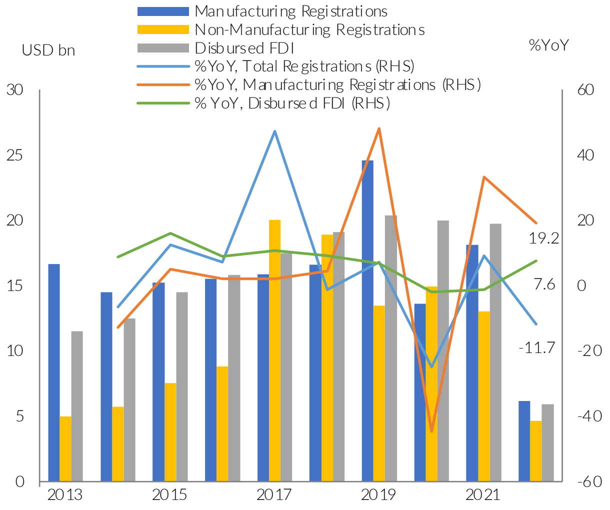
Factories ramping up production as workers return



Source: Maybank IBG Research

Industrial production and exports have picked up since late 2021. Factories are ramping up production as workers return with the easing of pandemic restrictions.

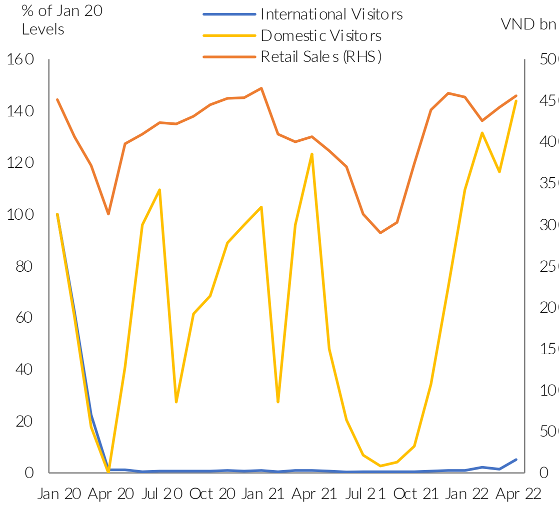
Disbursed FDI rose in the first 4 months of 2022



Source: Maybank IBG Research

Disbursed FDI rose 8% in the first 4 months of 2022. Total registrations fell in value but remained steady in terms of the number of new projects. Manufacturing registrations remain a bright spot.

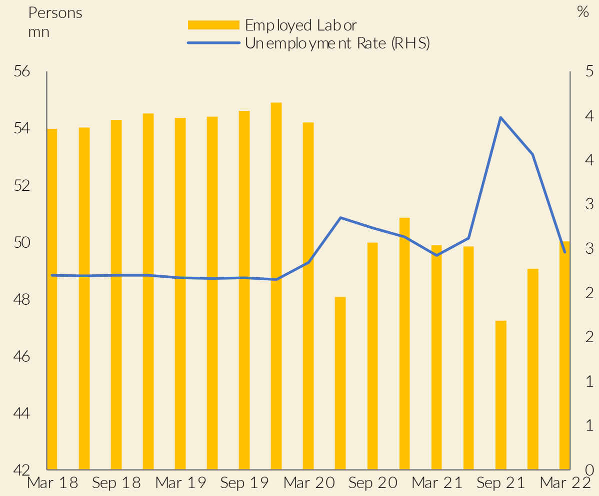
Domestic visitors back to pre-pandemic levels, international visitors still well below



Source: Maybank IBG Research

Foreign visitors jumped 2.5 times in April but remain at only 5% of pre-Covid levels due to the absence of China tourists. Relaxation of travel restrictions has underpinned the resurgence of domestic tourism, supporting the recovery in retail sales.

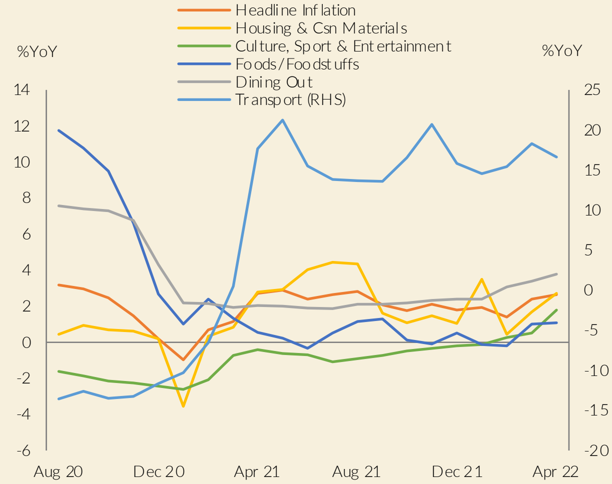
Employment recovering but still below pre-pandemic levels



Source: Maybank IBG Research

Total employment has returned to 1Q 2021 levels before the fourth wave of the pandemic struck. However, employment has yet to return to pre-pandemic levels and firms are facing labor shortages, as workers may be wary of returning to factories and cities from their hometowns for fear of more lockdowns and catching the virus.

Headline inflation rising on higher food, transport & housing costs



Source: Maybank IBG Research

Headline inflation has risen since the start of the year, driven by war-induced increases in food, transport and housing material costs. The reopening has boosted entertainment and dining out prices.

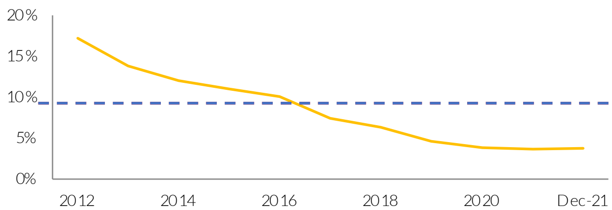
EQUITY

STRATEGY

A liquidity crunch caused by a legal turmoil in the capital market has sent the VNIndex down 20% from a near all-time high of 1,530pts to a 1Y low of 1,228pts. In the next couple of months, as shadow margin activities must stay low, official margins are likely to also contract and the market searches for a new equilibrium.

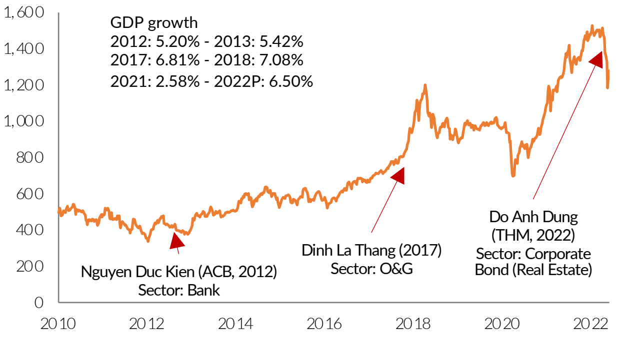
Policy-wise, the prime minister has stated clearly that the government does not aim to disrupt the capital market but rather to make it more transparent and sustainable. Economy-wise, compared to the situation in 2012 when ACB's BOD member Nguyen Duc Kien was arrested (leading to the restructuring of the banking system), the banking system today is much healthier with all-in NPLs at 3.8% vs 17.2% as of end-2012. Therefore, we believe the turmoil will not disrupt the recovery of the economy.

All-in NPLs now at 3.8%, much lower than 17.2% in 2012 when Nguyen Duc Kien's arrest caused a turmoil in the banking system



Source: SBV, GSO

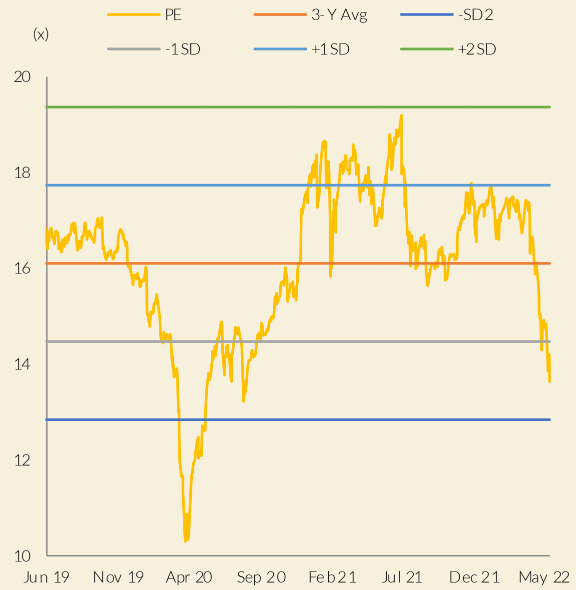
Like 2012, the current legal turmoil is unlikely to disrupt the economic recovery & the long-term uptrend of the stock market



Source: Maybank IBG Research

Market-wise, we expect risk-off sentiment will shift liquidity back to blue chips in the meantime, helping the market resume its long-term uptrend. Despite slowing from 37% YoY in FY21, our projected FY22E earnings growth of 24% YoY will likely still make the Vietnam market the brightest star in the region. The Vietnam market is now trading at 13.6x TTM PER, which is -1.5xSD below the 3-year average mean and offers long-term buying opportunities. The lowest PER level was 10.5x on March 2020, when Covid first hit Vietnam.

Valuation drops to an attractive level 3y avg – 1.5sd



Source: Maybank IBG Research

In 2022, we see: i) a booming year for consumption thanks to the wealth effect kicking in, tax cuts, and rising confidence; ii) record infrastructure investment at VND640t (+30% YoY) which will connect economic zones and trade flows, especially in the South; iii) secular uptrend in quantity and quality of exports and FDI as a manufacturing (especially hi-tech) hub is being established in Vietnam; and (iv) M&A activities are about to blossom as Vietnam's economy and its domestic companies head for a new development stage which needs more expertise and capital.

Top-performing sectors are likely to include banks, retail, energy, logistics, and real estate.

BANKS

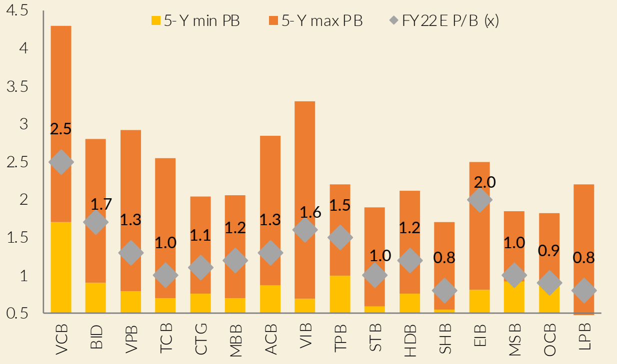
Short-and-mid-term view (next 6 months)

Vietnam's stock market is currently dominated by retail Banks have exposure to most of the economic segments and are highly regulated. Hence, during times when there are macro headwinds, banking is the first sector to be affected, both fundamentally and sentimentally. In a market like Vietnam where retail dominates the market, the rumours could be easily inflated and misunderstood, which could drag on bank stocks for longer than expected. In our view, two major concerns, i.e. inflation and recalibration of bond-market operation, need to retreat from the market's mind, before there is another significant rally in Vietnam's stock market, led by the banking sector.

Long-term view (2022-2025)

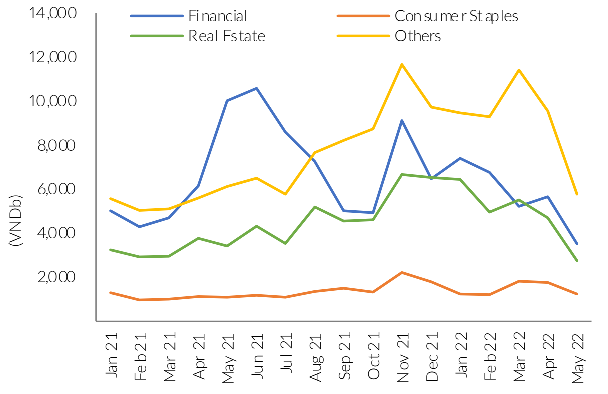
When bank stocks become distressed due to retail panic and other non-FA reasons as it is now, we believe it opens excellent entries for long-term investors to accumulate. We reiterate our BUY on TCB, VCB and MBB. For mid-sized banks, we recommend investors investigate TPB, HDB and STB. We remain bullish about the VN banking sector in view of its strong credit growth, rising fee incomes, stabilized & easing provision, which will underpin its rising ROA to a sustainable level around 2%. In addition, reasonable capital regulations (i.e. Basel 2) allow VN banks to maintain decent balance sheet leverage of 8-10x, which means they can generate robust ROEs (= ROA * BS leverage) of around 18-20% (vs. regional peers' avg. 10-12%) over the next 4 years. VN's leading banks are trading near their 5-Y average P/BV, while their ROEs have improved to a 5-Y high.

VN bank's 12-m forward P/B range (last 5 years)



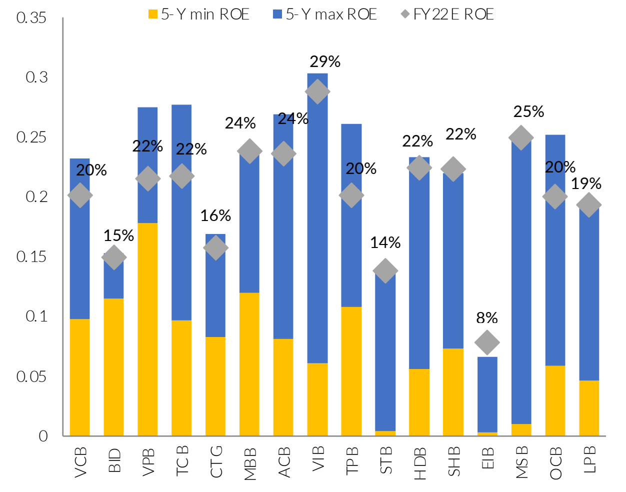
Source: Bloomberg consensus, Maybank IBG Research estimates (for VCB, TCB, VPB, ACB and MBB) (as of 19 May 2022)

Liquidity into bank stocks decreased due to misperception about banks' outlook & value creation



Source: Maybank IBG Research, FiinPro, Bloomberg (data as of 31 March 2022)

VN bank's ROE (FY22E vs. 5-year range)



Source: Bloomberg consensus, Maybank IBG Research estimates (for VCB, TCB, VPB, ACB and MBB) (as of 19 May 2022)

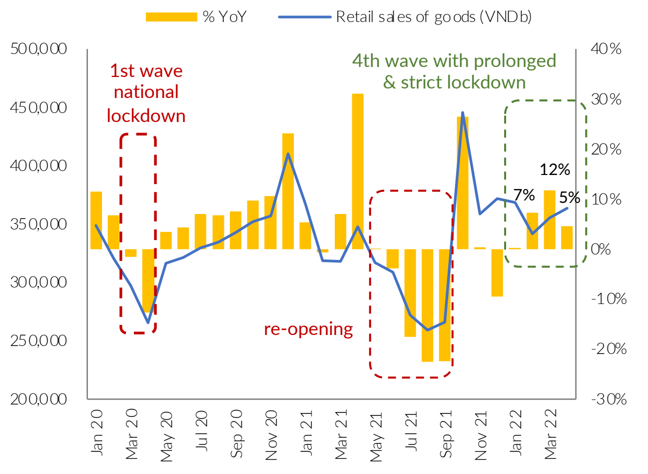
Most of the VN-listed banks have generated over 30% on average per year in return for "Buy-and-Hold" investors during 2018-21. For 2022-25, we believe Vietnam banks can still deliver robust ROEs (of above 18%, which will materially result in a doubling of their BVPS by 2025) and the stock market's rising liquidity and EM upgrade (around 2025) will support banks' valuation to rerate to around 1.8-2x, from currently 1.4x FY22E P/BV). As such, we believe VN banks can generate an investment return of at least 30% p.a. on average for the period 2022-2025.

RETAIL

Strong rebound in 2022 with positive long-term outlook

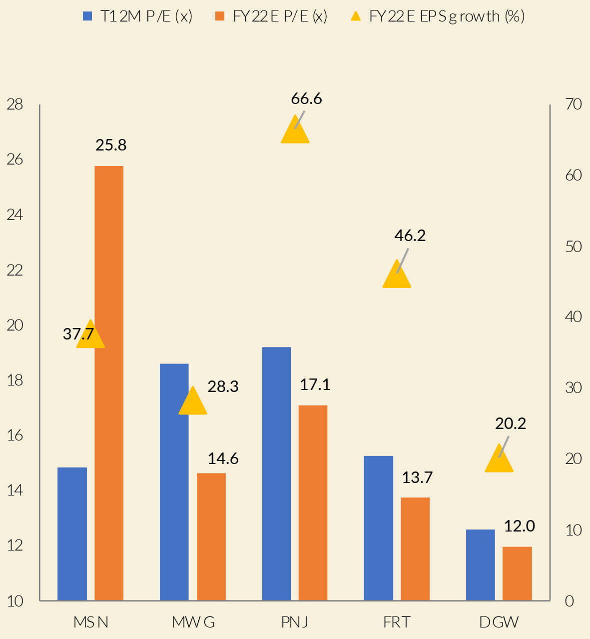
We are POSITIVE on Vietnam's retail sector and expect strong FY22E earnings rebound from the FY21 low-base caused by Covid, to help this sector outperform the VN-Index in 2022. Economic recovery, rising incomes, together with a re-opening stimulus package will likely boost consumer sentiment and spending, especially for discretionary goods. More importantly, the conversion to modern trade has been rapid and local leaders such as Mobile World (MWG VN), Masan Group (MSN VN), and Phu Nhuan Jewelry (PNJ VN) are driving this trend. We believe there is enormous room for these players to grow in the long run amid burgeoning demand and a market still dominated by traditional channels.

Retail sales of goods are showing steady recovery post-Covid



Source: CEIC, GSO

Vietnam's top listed retailers & related



Source: Bloomberg, Maybank IBG Research

Modern trade takes off, huge potential in groceries

Fast Moving Consumer Goods (FMCGs) and fresh food still account for a large chunk, c.30-40%, of household expenditure in Vietnam. At USD70b market size, the grocery market is very large but is highly fragmented. Around 85% of this market is still traditional channels like wet markets and small stores. Covid sped up the transition from traditional to modern trade in FMCG shopping, driven by mini-store formats. The shifting trend accelerated both in urban cities and rural areas. But a survey by Kantar noted that the contribution of Vietnam's modern proximity channel (minimarkets and convenience stores) was still small at less than 7%, vs. 12.5% for Southeast Asia and 17-18% in Indonesia/ Thailand. Local leading minimart-chains like Winmart, Bach Hoa Xanh (BHX) have accelerated their network expansions to capture the huge market potential.

Stock Picks

Retailing stocks performed well in 1H22, in line with our expectations. However, the recent irrational correction driven by the overall market's liquidity crunch has pushed the valuations of these stocks back to attractive levels. We maintain two BUY calls on MWG (Buy, TP VND180,000), and PNJ (Buy, TP VND118,000). Besides that, we also like MSN, DGW and FRT.

REAL ESTATE

Opportunity emerges, BUY on dips

The liquidity-driven sell-off caused by the government's recent scrutiny of the capital market presents an opportunity to accumulate various quality names at substantial discounts, in our view. Real estate sector in Vietnam has been trading on an average c.16-21x Price to Earnings as a norm, but now is hovering around c.20-30% below its average valuation average on a back of a strong FY22F earnings growth.

Market overly factored in the risk of corporate bonds

Despite Covid, the issuance of corporate bonds (C-bond) still skyrocketed in the past two years. The worries are real but the size of the debt market is still relatively small (Vietnam's C-bond market value as of end FY21 is less than c.15% of total GDP versus regional peers such as Thailand at c.25%, China and Singapore at c.30-35% and Malaysia at c.50%). With a superior absorption rate and margin that developers in Vietnam are enjoying (>90% average absorption rate and avg. GPM of 40-45% versus regional average of <30-40% and 20-30% respectively), we believe the property market is not in a bubble yet and further regulatory tightening is needed for more sustainable growth.

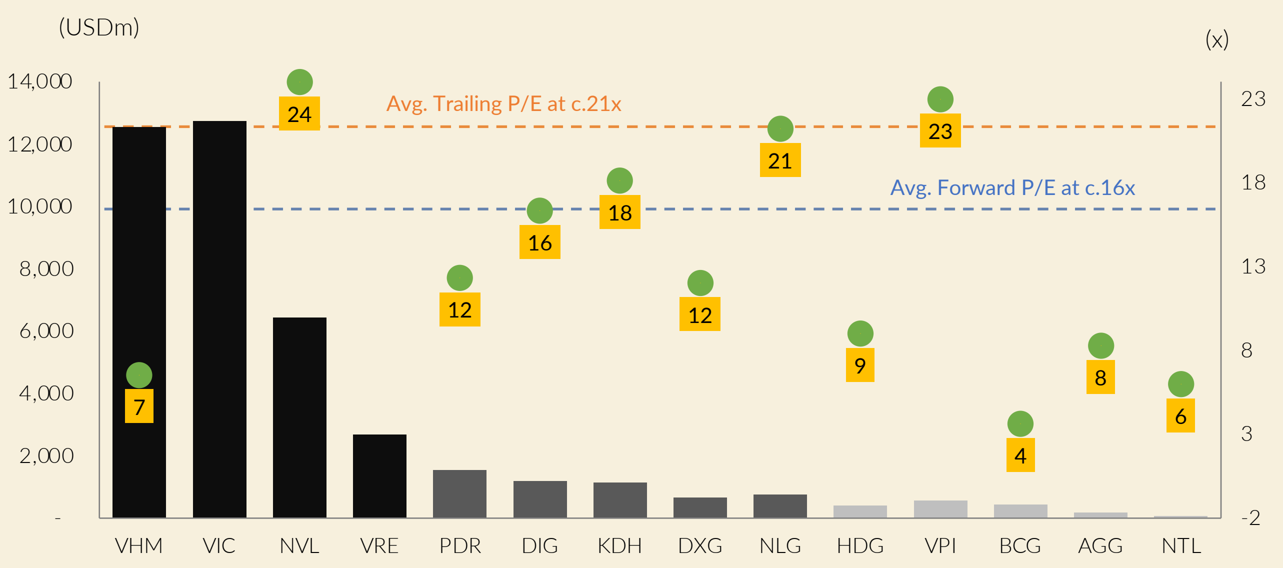
Government scrutiny of capital market aims to promote integrity and sustainability

Prime Minister Pham Minh Chinh recently ordered a crackdown on violations/manipulation/bad practices in the equities, bond and property markets. Officials have also been instructed to closely monitor the issuance and trading of corporate debt. This directive has led to a string of Vietnamese executives being detained by police, which led to a sharp correction in the VN-index, mainly due to panic selling by retail investors and margin calls creating a domino-like effect. However, we opine the turmoil will ease soon as regulators mainly target to improve market integrity and credibility. As the country looks to be upgraded to emerging market status by FTSE in the coming years, further law enforcement like this is essential to prepare the market for the next big leap, in our view.

Hardest-hit real estate sector is attractive

We believe the nascent real estate sector will continue to thrive as it's still in an upcycle (see initiation report). Following the sell-off, we see attractive value in names under our coverage, including NVL, NLG, VHM and VRE. Other notable names worth highlighting in the sector are HDG (NR report), VPI (NR report), KDH, DXG and BCG

Vietnamese real estate peers



(*) Based on management guidance for FY22
Source: Maybank IBG Research Compilation, Bloomberg as of 23rd May 2022

F&B

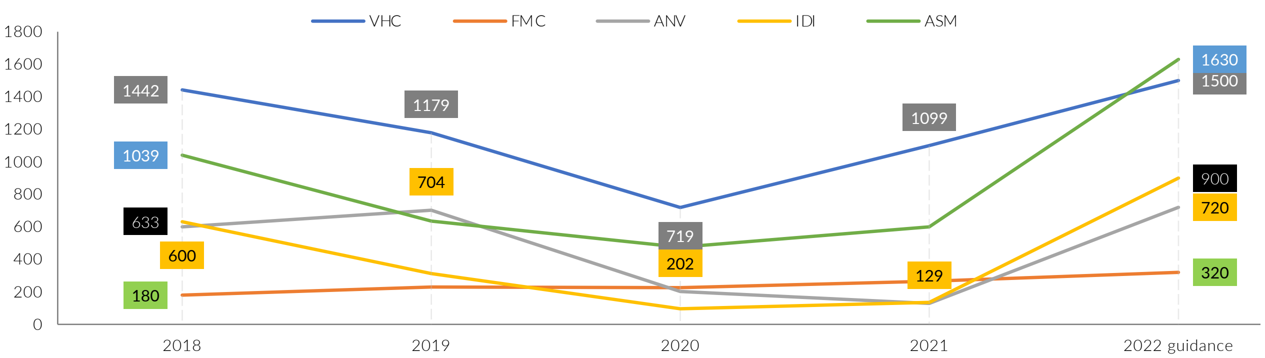
Neutral in the short-term but positive in the long-term

Vietnam has gradually reopened the economy since early 2022 and has restored the entire tourism system since Mar'22. However, the recovery of Vietnam F&B consumption continued to be hindered when the Russia-Ukraine war broke out in mid-February 2022. This impacts from the embargoes imposed by the US, UK and European Union countries on Russia via the galloping increase of commodities, i.e. wheat, soybeans and corn etc. in the short term. For the long-term outlook, we expect the F&B industry will benefit from economic recovery and rising incomes, which will likely boost consumer sentiment and spending. Domestic F&B manufacturers such as VNM, SAB, KDC and QNS will be driven by this trend due to: i) top local leaders with advantages in cost policies; ii) lower selling prices compared to imported finished products and satisfy the domestic consumers' taste; iii) being able to be self-sufficient in input materials; and iv) diversified product portfolios to get more spending from consumers.

Pangasius industry – explosion of growth after a long time at the bottom

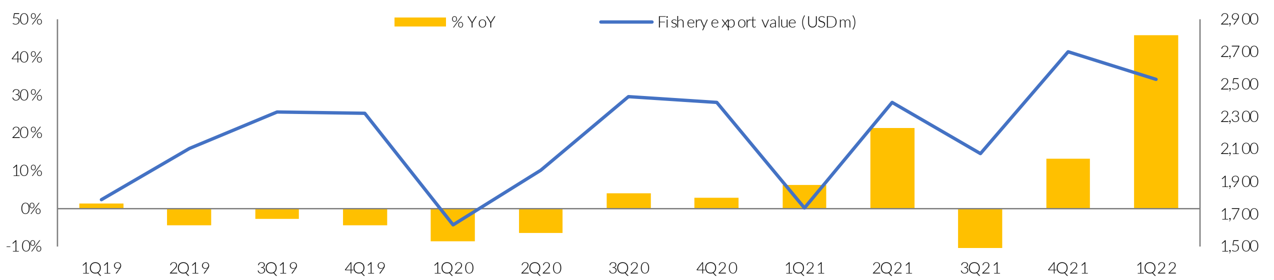
Pangasius industry in Vietnam often operates in cycles (the most recent cycle 2017 - 2019). After being impacted by the downturn of the industry (2019) and two years of being affected by Covid diseases and broken supply chains (2020 - 2021), we expect that the pangasius industry will enter an uptrend in 2022. The demand in the US market is growing strongly due to the low level of pangasius inventories after 2-year of Covid-19. Exports to China are expected to recover as China reopens after a long period of lockdown for the zero-Covid policy, thus, this market is considered a factor in the growth momentum of this industry in 2H22. In 1H22, the price of Vietnam's raw pangasius increased to VND30,000-VND32,000/kg, reaching the highest since FY19.

Listed seafood companies expects FY22E performance to recovery to 2018's baseline (VNDb)

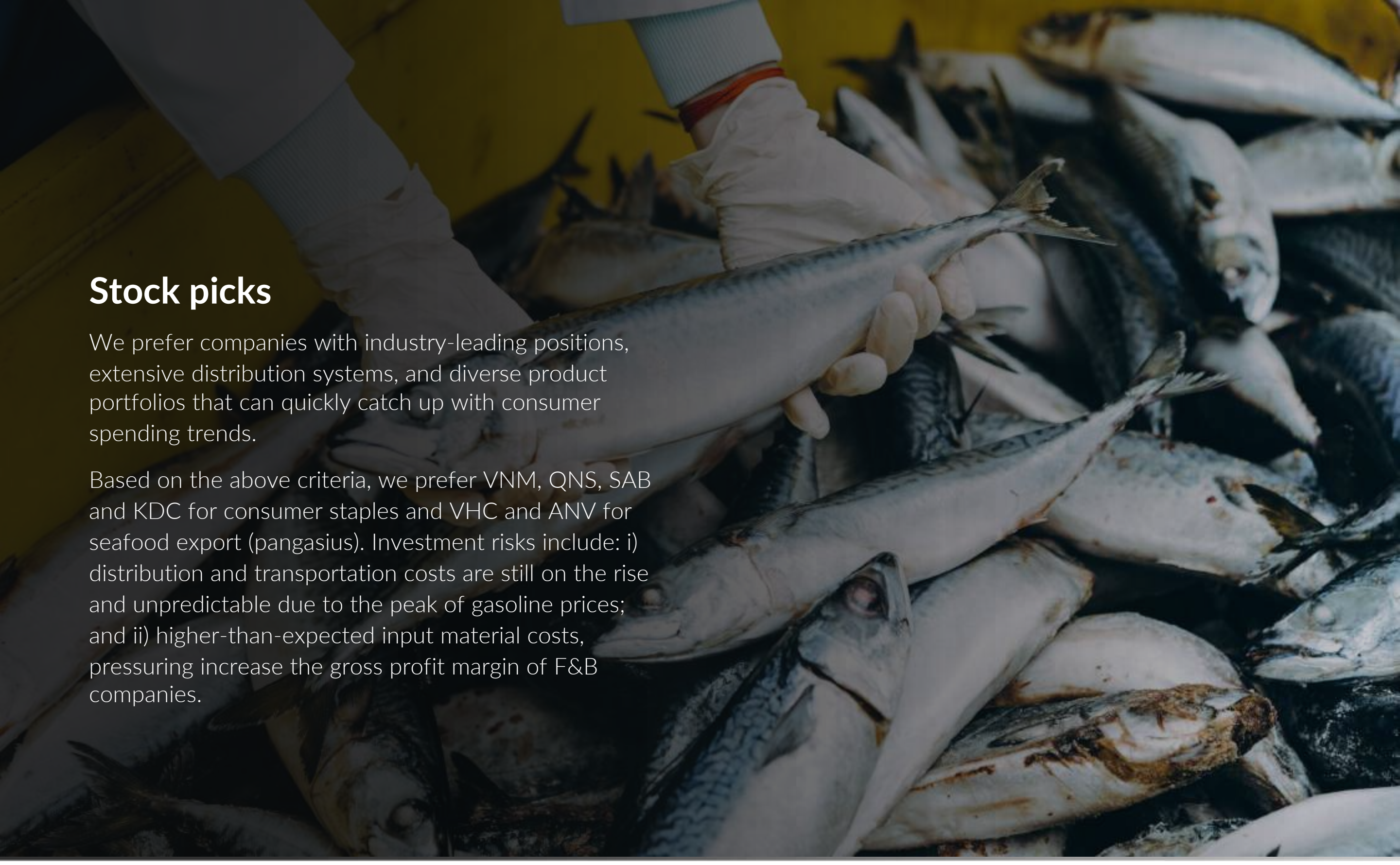


Source: Companies

Fishery export value improved in 1Q22 (USDm)



Source: CEIC, VASEP

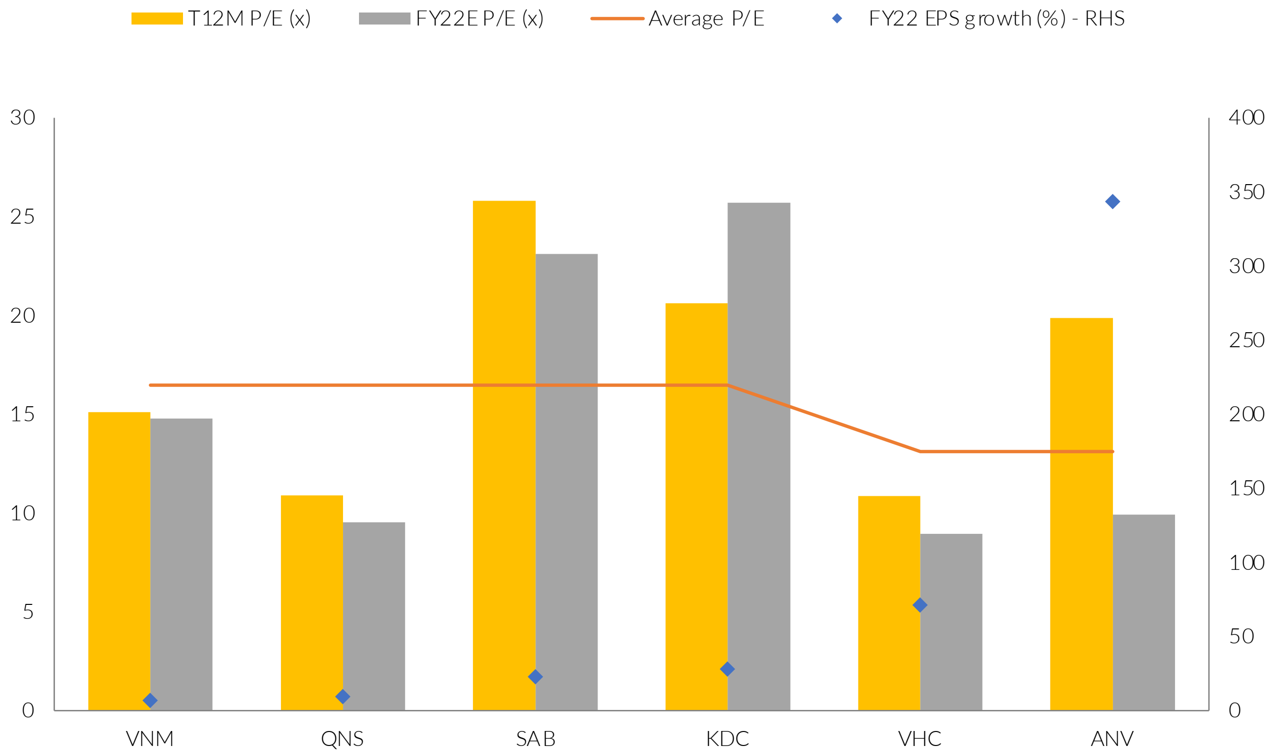


Stock picks

We prefer companies with industry-leading positions, extensive distribution systems, and diverse product portfolios that can quickly catch up with consumer spending trends.

Based on the above criteria, we prefer VNM, QNS, SAB and KDC for consumer staples and VHC and ANV for seafood export (pangasius). Investment risks include: i) distribution and transportation costs are still on the rise and unpredictable due to the peak of gasoline prices; and ii) higher-than-expected input material costs, pressuring increase the gross profit margin of F&B companies.

Listed seafood companies expects FY22E performance to recovery to 2018's baseline (VNDb)



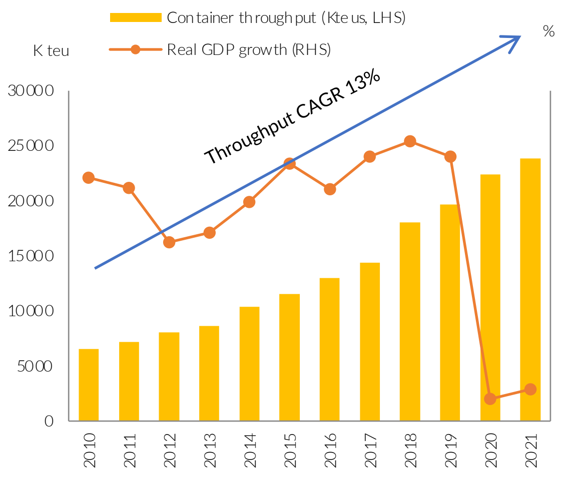
Source: Bloomberg, Maybank IBG Research

LOGISTICS

Ports & logistics: Riding the up-cycle

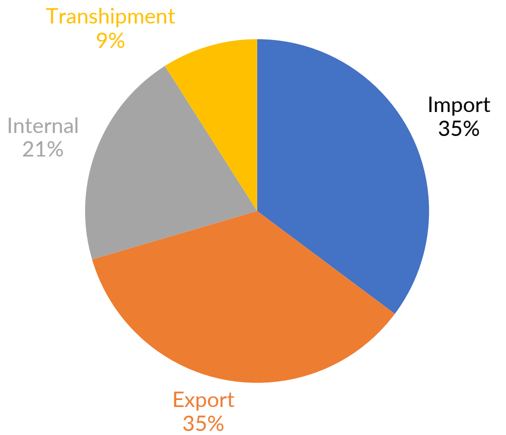
Vietnam's ports and logistics are enjoying a robust and sustained cargo volume growth. This is thanks to increasing FDI as a result of macro stability and the re-allocation of manufacturing in the region. Vietnam is pointed to benefit from the trade war. The sector is observing an interrupted growth of 13% CAGR for container volume during the past decade.

Vietnam's container throughput



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

Vietnam's container throughput breakdown



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

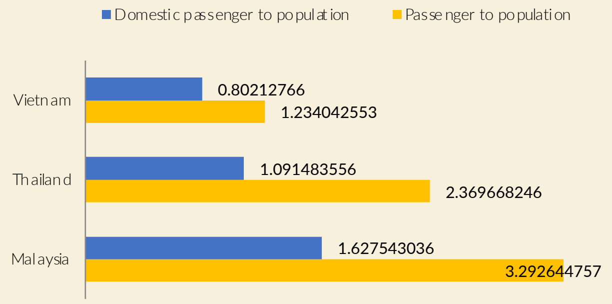
Key beneficiaries are well-prepared players

Despite the larger market, we see opportunities are fragmented among players in the sector. We observe that only players who have available capacity, which is a result of the past few years of restructuring and investing, can grab market share and fully benefit from the surging volume. We like GMD (BUY, TP VND65,500) and VSC (Not Rated) for their ports' premium locations and room to grow.

Air logistics: turnaround in 2022, on track to double passenger traffic

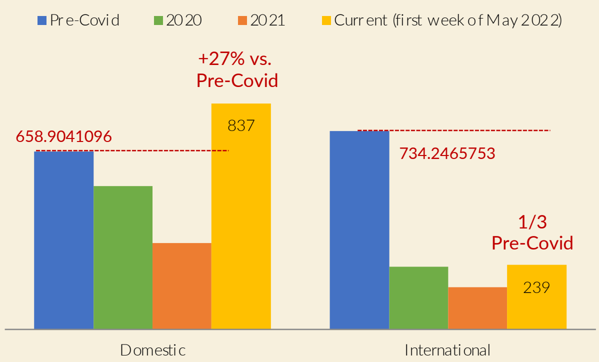
With this pace of recovery, we expect passenger volume to rebound 2x this year. The downside risk is minimal as the live-with-Covid policy minimizes the potential of a hard lockdown. Our stock pick is ACV (BUY TP VND111,000). We also like VJC (Nonrated) which benefits from the traffic recovery.

Air traffic saturation



Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

Vietnam's average daily flight frequency



Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

CHEMICAL/FERTILISER

Vietnam's urea production: Input self-sufficient; widening gross margin

Vietnam has plenty of natural gas and coal to fulfill its urea production with a total capacity of 3m tonnes of urea per year. Gas-based urea producers are enjoying huge profit margin expansion thanks to the surging global urea prices while their gas input material is not increasing as much as ASP. The global ban on Russia's fertilizer and oil caused a huge spike in production costs for global urea producers, pushing up the selling price of urea globally and for Vietnam as well. However, Vietnam's urea producers are enjoying a softer increase in production cost. Unlike the rest of the world where gas price is determined by supply and demand, gas price in Vietnam is linked to oil price via a formula (46%*fuel oil price + tariff), which results in less aggressive pick-up of gas input cost for domestic producers compared to the world.

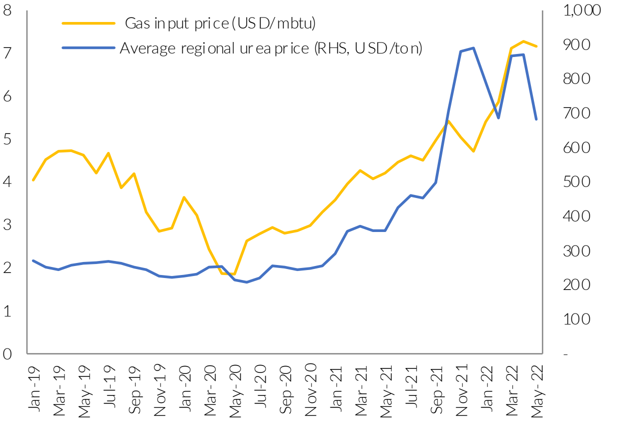
Running maximum capacity & exporting excess products to exploit the commodity price

The two gas-based urea producers, DPM and DCM are running near their full capacity to capture the global up-cycle of urea price, increasing export volume to maximize profits. In 1Q22, export revenue made up 50% of revenue of DCM while DPM exported about 40% of its production volume and beat its full-year earnings target. However, this also brings a risk to the sector if the government imposes a policy to restrict fertilizer export in order to tame domestic fertilizer prices.

Undemanding valuation

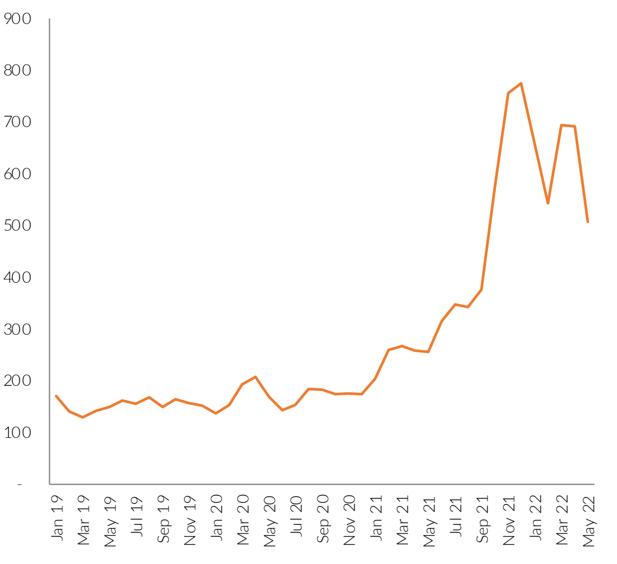
The market sell-off during April- May sent share prices of urea producers to attractive levels. DPM and DCM are trading at T12M PE of 4.3x and 5.5x respectively, which are near their 2 SD below 5-year average. We believe these names will be dividend players for this year as their payout ratio is relatively high while the companies may not have intensive CAPEX for years to come.

Gas input price for Vietnam's urea producers vs. regional urea price



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

Difference between regional average urea price and Vietnam's gas input cost per ton of urea

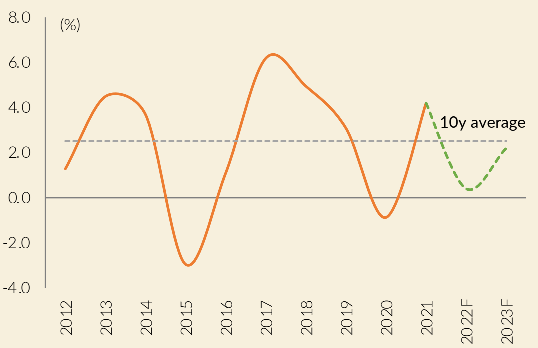


Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

STEEL

Local steel prices retreated 4% from record highs in early April due to: i) global commodity price correction; ii) concerns about ongoing local regulatory scrutiny of real estate; and iii) upcoming low construction season. Global reopening is likely to soften steel prices further in the medium term as we see an improved demand/supply balance. The World Steel Association forecasts volume growth returning to 2.2% YoY in 2023 (near 10Y average of 2.5%) from 0.4% in 2022 (due to Russia – Ukraine war).

World steel demand is expected to grow 2.2% in 2023, near the 10Y average level, despite slowing to 0.4% in 2022



Source: World Steel Association

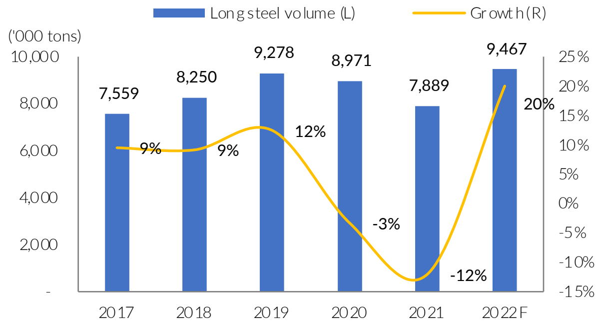
Steel price likely to soften further in medium term given global reopening

Source: Bloomberg

For domestic market, Vietnam's long steel consumption grew 22% YoY in 1Q22. We maintain our FY22 growth forecast of 20% YoY for the whole steel industry thanks to reopening and the 2022-23 stimulus package.

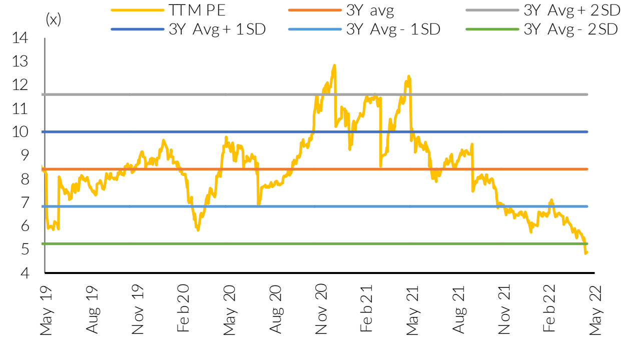
This should help offset the slowdown in overseas markets while stronger sales volume will partly mitigate the negative impact of lower prices. Overall, the impact of scrutinization of the corporate bond market should be short term, we believe, while the undersupplied real estate market and underdeveloped infrastructure system are long-term drivers for the steel industry.

Reopening and 2022-2023 stimulus package will help local steel consumption jump 20% YoY to a new record high



Source: VSA, Maybank IBG Research

HPG is oversold at TTM PE of 4.9x, below it's 3-year average -2SD



Source: Bloomberg

Although declining selling prices will eventually hurt the sales and profit of these companies in 2022, we see downside risk as low given their low valuation multiples vs. history after the recent substantial price correction. Prices already reflect 2022 headwinds, in our view. We are NEUTRAL on the sector for 2022. In that context, we still see an attractive opportunity from HPG, which is well-prepared by shifting its product mix to greater value-added products and improving raw material self-supply capability. And in the longer run, it is on track to join the ranks of the world's top 30 steelmakers.

INDUSTRIAL PARK

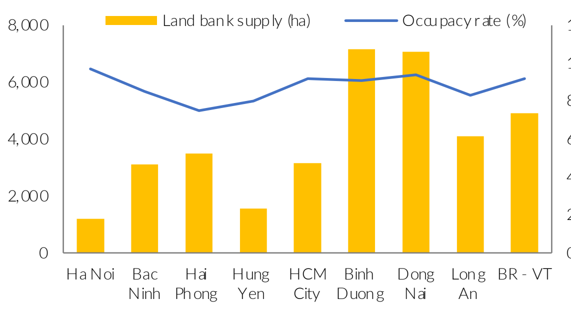
Robust demand from new FDI waves

Vietnam Industrial Park (IP) developers are well-positioned to capture higher FDI waves into the country. In addition to Vietnam's own internal strengths (i.e. political stability, comparatively lower leasing, energy prices, labour costs and active participation in various FTAs…), the reallocation of the global supply chain since the US-China trade war (accelerated by the Covid pandemic) and the presence of big MNCs like Samsung, Intel, LG, Foxconn, Luxshare (which helped to substantially derisk Vietnam in the eyes of other foreign investors) helped Vietnam become a hot destination for new FDI waves. In 4M22, additional-registered FDI and disbursed FDI rose 92% YoY and 8% YoY, respectively, driving higher demand for industrial land and ready-built factory (RBF) leasing. Indeed, the average IP occupancy rate in important Northern and Southern industrial hubs remained high in 1Q22, ranging between 85-90%, while the RBF occupancy rate was between 80-98%. We believe that normalised mobility and improved public infrastructure will underpin stronger FDI flows in the coming years.

More land bank supply & good leasing price

Vietnam currently has 335 IPs with a total industrial land bank of over 100,000 ha. In 1H22, the market has witnessed substantial land bank supply from BCM (1,000ha VSIP 3 IP and 700 ha Cay Truong IP), VGC (250ha Thuan Thanh I IP) and Ammata (Thai-based IP developer; 410 ha Amata Long Thanh IP). To capture the high demand in this potential market, a several Ips were approved in 2021, and are expected to provide thousands of IP landbank in the coming year (i.e. TIP's Long Duc 3 IP, GVR's Bau Can-Tan Hiep IP and Song Que-Xuan Nhan IP). Rubber land in provinces near HCM City has also been eyed for conversion into IPs. As such, rubber companies with huge landbank (i.e. GVR and PHR) will potentially see notable one-off gains (i.e. compensation fees) from the conversion of the rubber land for IP development and/or from the direct operation of their own IPs. In 1Q22, average Northern and Southern industrial leasing prices increased 9,2% YoY and 9% YoY, respectively (Northern market: USD 109/sqm/term; Southern market: USD 120/sqm/term) as the demand still outpaces the supply.

Industrial land bank and occupancy rate in key industrial provinces

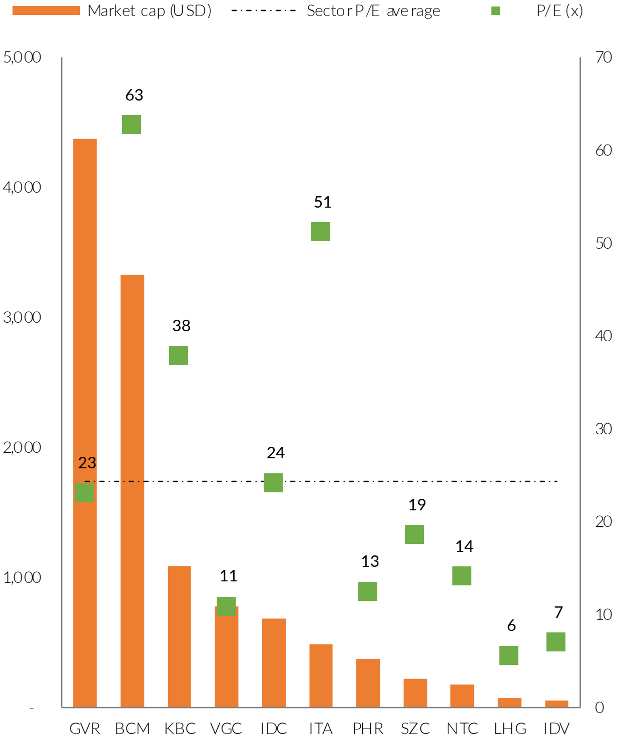


Source: Cushman and Wakefield, Maybank IBG Research

Stock picks

We contend that IP operators having: i) substantial available landbank for leases in prime locations; (ii) strong project execution capacity; and iii) advanced infrastructure will come out as winners. Though we have not picked any names for our investment portfolio due to lingering corporate governance issues, we believe the following (KBC, BCM, IDC and GVR) are key stocks to focus on and could fit into a trading portfolio. They are the best proxies to benefit from rising FDI inflows into prominent provinces (i.e., Vung Tau, Binh Duong, Hai Phong).

Industrial park peers



Source: Bloomberg, Maybank IBG Research

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Stocks Mentioned in the Report

Name	Blbg Code	Mkt Cap (USDm)	Current Price	Rating	Target Price
Aboitiz Power Corp	AP PM	4,421	31.45	Buy	40.70
AC Energy Philippines	ACEN PM	5,610	7.31	Buy	9.40
ACE Hardware	ACES IJ	1,168	980	Sell	900
AEM Holdings	AEM SP	1,013	4.55	Buy	6.06
AEON Co. (M)	AEON MK	489	1.50	Buy	2.00
AIMS APAC REIT	AAREIT SP	713	1.39	Buy	1.65
Airports Corp of Vietnam	ACV VN	7,959	85,000	Buy	111,000
Airports of Thailand	AOT TB	28,709	69.50	Buy	80.00
Alliance Bank	ABMB MK	1,250	3.54	Buy	4.30
Allianz Malaysia	ALLZ MK	518	12.86	Buy	16.75
AMMB Holdings	AMM MK	2,842	3.74	Buy	4.40
AP (Thailand)	AP TB	1,013	11.10	Buy	12.50
Ascendas REIT	AREIT SP	8,599	2.83	Buy	3.50
Ascott Residence Trust	ART SP	2,769	1.16	Buy	1.30
Asia Commercial Bank	ACB VN	3,582	25,300	Hold	30,720
Axiata Group	AXIATA MK	6,533	3.15	Buy	4.50
Ayala Corp	AC PM	7,944	661.50	Buy	1,046.17
Ayala Land	ALI PM	8,657	29.95	Buy	45.90
Aztech Global	AZTECH SP	479	0.86	Buy	1.13
B.Grimm Power PCL	BGRIM TB	2,572	34.75	Buy	42.00
Bank BJB	BJBR IJ	1,054	1,450	Buy	2,100
Bank Mandiri	BMRI IJ	26,610	8,150	Buy	9,500
Bank Negara Indonesia	BBNI IJ	11,504	8,900	Buy	9,600
BDO Unibank	BDO PM	10,632	129.00	Buy	157.00
Berjaya Food	BFD MK	393	4.64	Buy	5.70
Bumi Armada	BAB MK	599	0.45	Buy	0.58
Bumitama Agri	BAL SP	957	0.76	Buy	0.98
Capital A	CAPITALA MK	630	0.66	Buy	1.29
CapitaLand Int. Comm. Trust	CICT SP	10,594	2.22	Buy	2.55
CapitaLand Investment Ltd	CLI SP	14,455	3.89	Buy	4.30
Carlsberg Brewery Malaysia	CAB MK	1,583	22.78	Buy	27.80
CDL Hospitality Trusts	CDREIT SP	1,139	1.30	Buy	1.40
ComfortDelGro	CD SP	2,267	1.45	Buy	1.76
Converge ICT Solutions Inc.	CNVRG PM	3,322	23.85	Buy	35.00
CP All	CPALL TB	16,684	65.00	Buy	79.00
CTOS Digital Berhad	CTOS MK	730	1.41	Buy	2.17
D&L Industries Inc	DNL PM	941	6.89	Buy	10.20
DBS Group	DBS SP	57,520	30.71	Buy	41.22
DHG Pharma	DHG VN	518	91,100	Hold	116,865
Dialog Group	DLG MK	2,939	2.35	Buy	4.90
Far East Hospitality Trust	FEHT SP	936	0.66	Buy	0.77
FPT Corporation	FPT VN	4,399	113,000	Buy	107,000
Frasers Centrepoint Trust	FCT SP	2,855	2.34	Buy	2.80
Frasers Hospitality Trust	FHT SP	923	0.65	Hold	0.55
Frencken Group Ltd	FRKN SP	363	1.19	Buy	1.80
Frontken Corp. Bhd	FRCB MK	969	2.83	Buy	3.55
Gas Malaysia	GMB MK	905	3.07	Buy	3.30
GEMADEPT Corp	GMD VN	790	59,800	Buy	65,500
Genting Bhd	GENT MK	4,563	5.17	Buy	5.96
GHL Systems	GHLS MK	400	1.49	Hold	1.58
Globe Telecom	GLO PM	6,058	2,364	Buy	2,962
Globetronics Technology	GTB MK	198	1.33	Hold	1.44
Grab Holdings	GRAB US	10,137	2.64	Buy	4.25
Greatech Technology	GREATEC MK	1,085	3.89	Buy	5.25
Gudang Garam	GGRM IJ	4,222	31,050	Hold	33,000
Hartalega	HART MK	3,086	3.94	Sell	3.14
Heineken Malaysia	HEIM MK	1,693	24.72	Buy	29.30
Hibiscus Petroleum	HIBI MK	590	1.30	Buy	1.90
HM Sampoerna	HMSP IJ	9,045	1,095	Hold	1,000
Hoa Phat Group	HPG VN	6,344	33,300	Buy	54,000
Hong Leong Bank	HLBK MK	10,345	20.96	Buy	24.70
Hong Leong Financial Group	HLFG MK	5,142	19.68	Buy	22.10
Icon Offshore	ICON MK	62	0.11	Buy	0.16
IHH Healthcare	IHH MK	13,035	6.50	Buy	7.60
Inari Amertron	INRI MK	2,335	2.85	Buy	3.50
Indofood CBP	ICBP IJ	6,972	8,650	Buy	12,000
Indofood Sukses	INDF IJ	4,233	6,925	Buy	9,000
Int'l Container Terminal Svcs	ICT PM	8,247	215.40	Hold	224.00
IOI Corporation	IOI MK	5,893	4.23	Buy	4.87
Kalbe Farma	KLBF IJ	5,200	1,640	Buy	2,000
Kasikornbank	KBANK TB	9,901	145.50	Buy	185.00
Keppel REIT	KREIT SP	3,136	1.17	Buy	1.20
Kossan Rubber Industries	KRI MK	929	1.60	Hold	1.85
Kuala Lumpur Kepong	KLK MK	6,249	26.00	Buy	30.90
Land & Houses	LH TB	3,086	8.95	Buy	10.80
Malaysia Airports	MAHB MK	2,517	6.71	Buy	7.17
Malaysia Marine Heavy Engr	MMHE MK	147	0.41	Buy	0.85
Manulife US REIT	MUST SP	1,076	0.61	Buy	0.88
Mapletree Commercial Trust	MCT SP	4,351	1.79	Buy	2.25
Mapletree Industrial Trust	MINT SP	4,823	2.50	Buy	3.00
Mapletree Logistics Trust	MLT SP	5,808	1.67	Buy	2.15
Matahari Department Store	LPPF IJ	976	5,000	Hold	5,000
Mayora Indah	MYOR IJ	2,619	1,690	Buy	2,550
MBB Bank	MBB VN	4,349	27,250	Buy	35,400
Mega First Corp. Bhd	MFCB MK	793	3.69	Buy	4.20
Minor International	MINT TB	5,226	34.75	Buy	42.00
Mitra Adiperkasa	MAPI IJ	1,101	960	Buy	1,050
Mobile World Investment	MWG VN	4,755	154,700	Buy	180,000
MR D.I.Y. Group (M)	MRDIY MK	4,617	3.25	Buy	3.90
Muangthai Capital PCL	MTC TB	2,922	48.50	Buy	58.00
My EG Services	MYEG MK	1,520	0.91	Buy	1.28
Nam Long Investment	NLG VN	677	43,100	Buy	54,278
Novaland Investment Group	NVL VN	6,355	76,300	Buy	103,800
OCBC Bank	OCBC SP	38,792	11.86	Buy	14.04
Pavilion REIT	PREIT MK	937	1.36	Buy	1.49
PetroVietnam Drilling	PVD VN	488	22,600	Buy	26,250
PetroVietnam Gas	GAS VN	10,479	129,900	Buy	133,000
PetroVietnam Power Corp	POW VN	1,489	13,800	Buy	15,100
PetroVietnam Technical Services	PVS VN	643	31,500	Hold	30,000
Phu Nhuan Jewellery	PNJ VN	1,303	125,000	Buy	132,000
PLDT Inc.	TEL PM	7,886	1,910	Buy	2,275
Prime US REIT	PRIME SP	847	0.71	Buy	1.07
Public Bank	PBK MK	20,133	4.58	Hold	4.80
Quality Houses	QH TB	696	2.24	Buy	2.70
Raffles Medical Group	RFMD SP	1,604	1.18	Buy	1.50
Ramayana Lestari	RALS IJ	309	610	Hold	725
Revenue Group Bhd	REVENUE MK	115	1.11	Buy	1.58
RHB Bank	RHBBANK MK	5,579	5.96	Buy	7.10
Robinsons Land Corp	RLC PM	1,862	19.40	Buy	25.00
Sasseur REIT	SASSR SP	737	0.84	Buy	1.08
Sea Ltd	SE US	45,479	81.25	Buy	140.00
Security Bank (Philippines)	SECB PM	1,283	88.00	Buy	123.00
Siam Makro	MAKRO TB	11,361	37.25	Buy	44.80
Singapore Exchange Ltd	SGX SP	7,659	9.70	Buy	11.20
Singapore Telecommunications	ST SP	30,690	2.57	Buy	3.02
SM Investments	SM PM	19,663	861.00	Buy	1090.00
SPH REIT	SPHREIT SP	1,926	0.95	Hold	0.93
Srisawad Corporation	SAWAD TB	2,142	54.75	Buy	72.00
StarHub	STH SP	1,559	1.24	Hold	1.32
Suntec REIT	SUN SP	3,461	1.68	Buy	1.85
Tata Power	TPWR IN	9,636	232.25	Buy	300.00
Techcombank	TCB VN	5,336	36,050	Buy	82,200
Telekom Malaysia	T MK	4,489	5.31	Buy	7.50
Top Glove	TOPG MK	2,313	1.24	Sell	0.91
UMS Holdings	UMSH SP	572	1.19	Buy	1.50
Unilever	UNVR IJ	12,551	4,770	Hold	4,500
Union Bank of the Philippines	UBP PM	3,343	82.60	Buy	98.00
United Overseas Bank	UOB SP	34,752	28.73	Buy	34.62
Valuetronics	VALUE SP	165	0.53	Hold	0.50
Velesto Energy Berhad	VEB MK	215	0.12	Buy	0.23
Venture	VMS SP	3,727	17.93	Buy	21.00
Vietcombank	VCB VN	16,037	79,700	Buy	115,000
Vinamilk	VNM VN	6,334	70,800	Hold	82,800
Vincom Retail	VRE VN	2,910	29,950	Buy	37,800
Vinhomes JSC	VHM VN	12,766	69,300	Buy	100,000
VPBank	VPB VN	5,769	30,600	Buy	50,000
Wah Seong	WSC MK	122	0.70	Buy	1.20
Yinson Holdings	YNS MK	1,236	2.18	Buy	4.85
YTL Power	YTLP MK	1,437	0.76	Buy	0.90

Note: Prices as at 6 June 2022 closing, in local currencies
Source: Bloomberg, Maybank IBG Research

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