Malaysia

Malaysia Strategy

Key nuggets from our Corporate Day

- We hosted 320 investors at our 2nd Malaysia Virtual Corporate Day.
- Malaysia's GDP growth to moderate to 4.1% in 2023F, from 5.2% in 2022F
- On GE15, the current most likely potential scenario is Barisan Nasional gains majority seats in West Malaysia and forms the government.

320 investors attended our 2nd Malaysia Virtual Corporate Day

We hosted 320 institutional investors at our Malaysia Virtual Corporate Day on 19 July 2022. We also invited three expert speakers in the fields of economics, consumer and Malaysian politics and five corporates (Yinson, Telekom, Petronas Chemicals, IOI Corp and Malaysia Airports) who shared their insights into pressing current issues and outlook for 2H22F. In this report, we summarise the key takeaways from all the sessions.

Malaysia's GDP to grow 5.2% in 2022F and 4.1% in 2023F

Lee Heng Guie, Executive Director of SERC, sees growing risks of a global recession and US recession in 2023F. If there is a US recession, he expects GDP contraction to be mild and shallow for 6-8 months. He predicts US Fed to remain hawkish for longer, raising the Fed Funds Rate to a peak of 4% in 1H23F. Malaysia's GDP growth is projected to moderate to 4.1% yoy in 2023F, from 5.2% this year. Malaysia's external trade will feel the impact of the global slowdown as the country's growth correlation with the global economy has gotten stronger over the past 10 years. The tight labour market is also likely to continue given the limited inflow of foreign workers relative to what the country needs. Mr. Lee projects interest rate of 2.50% at end-2022F and 3.00% at end-2023F.

Malaysia retail sales projected to grow by 13% yoy in 2022F

Mr. Tan Hai Hsin from Retail Group Malaysia expects the Malaysian retail industry to post 13.1% retail sales growth in 2022F. This is mainly driven by the easing of lockdown measures and higher consumer footfall (driven by various factors including a return to office and lifting of interstate travel bans). In 2H22F, RGM expects Malaysia's quarterly retail sales growth rates to remain positive, albeit on a smaller scale. This is mainly due to a higher base effect in 2H21 as inter-state travel was allowed starting 11 Oct 2021.

Potential election date and scenario analysis on GE15

Mr. Ibrahim Suffian (Co-Founder and Director of Programs, Merdeka Centre of Opinion Research) revealed that should UMNO party's election take place after the GE15, then the first window to potentially hold the general election would be between Nov 2022 and Dec 2022, the second window would be from end-Feb 2023 until before Ramadhan (which starts 22 Apr 2023), while the third window would be between Jun and Jul 2023. On election outcome, his first and most likely scenario is that status quo would be maintained, and the three coalition parties and other independents — Barisan Nasional (BN), Pakatan Harapan (PH) and Perikatan Nasional (PN) — will contest against each other in the 15th General Election (GE15). Under this scenario, he expects BN to gain majority seats in West Malaysia and potentially form the government with Sarawak Parties Alliance (GPS).

Key takeaways from corporate sessions

On 5G, TM said its negotiations with Digital Nasional Berhad (DNB) are progressing well, with the wholesale agreement likely to be on a pay-as-you-go basis (rather than a high fixed coverage fee, based on a minimum volume commitment and DNB's site rollout). As such, the net impact on TM's P&L should be positive as wholesale fibre leasing revenue to be received from DNB will more than cover the 5G wholesale fees, it said. The bid for the time charter contract for Eni's FPSO Agogo project, offshore Angola, is nearing conclusion, as Yinson expects Eni to award the contract in 3Q or 4QCY22F. IOI Corp thinks the recent correction in CPO price to below RM4,000/tonne is overdone and expects it to trade at RM4,200-4,500/tonne over the next four months. Petronas Chemical said the demand for petrochemicals is weakening amid global inflationary pressures, which have hurt consumer and industrial demand for goods. We have Add calls on Yinson and Telekom Malaysia.

Highlighted Companies

Malaysia Airports Holdings
HOLD, TP RM6.76, RM6.30 close

Malaysia's international pax has so far lagged the domestic pick-up, slowing down earnings recovery as depreciation is calculated based on total pax. Malaysia may need to raise more borrowings to repay debts due this year; ISG's liquidity is sufficient for now, but is vulnerable to unexpected surprises.

Telekom Malaysia
ADD, TP RM6.75, RM5.51 close

We expect core EPS to ease 4.1% in FY22F (due to Makmur tax), before rebounding 37.6%/6.8% in FY23F/24F post-Makmur tax. Ex-Makmur tax, core EPS may rise 9.4%/20.7% in FY22F/23F on the back of Internet, ICT and data services revenue growth, with cost-saving initiatives helping to buffer any pressure from its fibre rollout acceleration.

Yinson Holdings Bhd
ADD, TP RM3.23, RM1.99 close

Yinson is bidding for Eni's Agogo project offshore Angola, which may be awarded in 2HCY22F. Yinson is also bidding for BP's Block 31 SE-PAJ development, offshore Angola, which may be awarded in CY23F. For Block 31, Yinson has offered the FPSO Nganhurra (where Yinson has a purchase option) as a redeployment candidate.

Analyst(s)

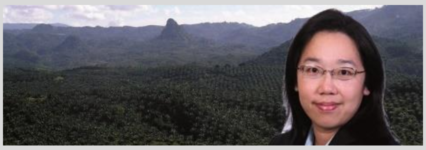

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Figure 1: Big-cap to mid-cap picks

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Market Cap (US$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
Astro Malaysia	ASTRO MK	Add	0.91	1.35	1,058.5	9.9	8.1	3.90	3.57	41.8%	46.3%	5.3	4.9	7.7%	9.8%
Bermaz Auto Berhad	BAUTO MK	Add	1.79	2.40	466.6	11.7	10.4	2.95	2.56	27.3%	26.3%	4.9	4.1	5.4%	6.0%
Carlsberg Brewery (M)	CAB MK	Add	22.68	25.20	1,555.4	23.6	20.1	27.17	25.45	129.3%	131.0%	15.2	14.1	3.6%	4.7%
Dagang NeXchange	DNEX MK	Add	0.77	1.70	541.6	11.3	8.7	1.58	1.37	15.8%	16.9%	4.4	3.7	1.0%	2.0%
Farm Fresh Berhad	FFB MK	Add	1.69	1.83	704.3	31.7	26.0	4.73	4.16	17.1%	17.1%	22.8	18.8	0.8%	1.0%
Gamuda	GAM MK	Add	3.65	4.35	2,090.9	12.5	12.9	1.00	1.00	8.0%	7.7%	9.8	8.9	3.2%	3.2%
Gas Malaysia Berhad	GMB MK	Add	3.14	3.40	904.3	12.6	14.9	3.47	3.39	27.8%	22.9%	8.0	9.5	7.1%	6.0%
Genting Bhd	GENT MK	Add	4.60	6.95	3,973.0	27.2	14.9	0.56	0.55	2.1%	3.7%	6.7	6.0	3.3%	4.8%
Genting Malaysia	GENM MK	Add	2.85	3.30	3,621.5	37.0	11.7	1.20	1.18	3.3%	10.2%	9.6	6.8	5.1%	7.0%
Hong Leong Bank	HLBK MK	Add	20.32	23.30	9,880.0	13.3	11.9	1.26	1.17	10.1%	10.3%	na	na	3.0%	3.4%
Kuala Lumpur Kepong	KLK MK	Add	21.56	28.64	5,213.9	10.3	13.7	1.63	1.55	17.2%	11.6%	5.9	7.4	4.3%	3.2%
Magnum Bhd	MAG MK	Add	1.64	2.10	528.7	11.4	9.4	0.98	0.97	8.9%	10.4%	8.6	7.5	6.9%	10.0%
Malaysian Pacific Industries	MPI MK	Add	30.44	48.60	1,358.0	18.3	16.7	3.04	2.65	18.0%	17.0%	7.9	7.0	1.1%	1.2%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.11	2.40	4,461.4	26.4	21.5	9.21	7.39	39.9%	38.2%	13.6	11.5	1.1%	1.3%
MY E.G. Services	MYEG MK	Add	0.78	1.20	1,283.8	16.0	14.9	3.24	2.81	22.3%	20.3%	12.3	11.2	3.2%	3.5%
QL Resources	QLG MK	Add	5.22	5.60	2,849.4	46.7	35.7	4.87	4.50	11.0%	13.2%	19.5	16.5	0.8%	1.1%
RHB Bank Bhd	RHBBANK MK	Add	5.77	7.70	5,451.3	8.8	6.7	0.74	0.68	9.3%	10.7%	na	na	5.7%	7.5%
Sime Darby Property Berhad	SDPR MK	Add	0.46	0.84	701.7	11.4	10.9	0.34	0.33	3.0%	3.1%	20.4	14.9	2.6%	2.8%
Telekom Malaysia	T MK	Add	5.51	6.75	4,663.9	17.6	12.8	2.61	2.41	15.7%	19.6%	5.2	5.1	3.4%	4.7%
Tenaga Nasional	TNB MK	Add	7.98	13.30	10,297.5	9.7	9.0	0.78	0.75	8.2%	8.5%	4.3	4.1	5.7%	6.1%
Yinson Holdings Bhd	YNS MK	Add	1.99	3.23	1,476.2	11.8	6.8	1.09	0.95	9.6%	14.9%	8.2	6.0	1.3%	1.3%
Average						**18.1**	**14.2**	**3.64**	**3.30**	**21.2%**	**21.9%**	**10.1**	**8.8**	**3.6%**	**4.3%**

SOURCES: CIMB, BLOOMBERG, COMPANY REPORTS

Figure 2: Small-cap picks

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Market Cap (US$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
Bonia Corporation	BON MK	Add	2.28	3.00	102.5	12.0	11.1	1.15	1.08	9.9%	10.0%	4.8	4.5	6.7%	7.2%
EITA Resources Bhd	EITA MK	Add	0.76	0.93	44.3	7.3	6.2	0.90	0.81	13.0%	13.7%	3.1	2.7	4.6%	4.6%
Genetec Technology Bhd	GENE MK	Add	2.13	4.50	325.5	21.8	19.0	7.46	5.67	41.3%	34.2%	17.5	15.2	0.7%	1.1%
HSS Engineers	HSS MK	Add	0.44	0.69	48.4	17.4	15.3	0.99	1.00	5.5%	6.5%	5.6	5.0	0.0%	0.0%
Kawan Food	KFB MK	Add	1.90	2.50	152.8	18.4	15.2	1.74	1.61	9.8%	11.0%	9.4	7.8	1.8%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.70	1.63	25.4	8.4	5.5	1.53	1.27	19.6%	25.0%	3.5	2.2	4.7%	7.1%
Media Prima Bhd	MPR MK	Add	0.44	0.51	109.5	8.2	6.6	0.75	0.70	9.6%	10.9%	1.3	0.6	4.9%	6.0%
Optimax Holdings	OPTIMAX MK	Add	0.60	0.77	72.7	25.5	20.8	5.51	5.10	22.8%	25.5%	11.6	10.0	2.7%	3.4%
Pentamaster Corp Bhd	PENT MK	Add	3.72	4.00	593.5	27.9	23.0	4.12	3.60	16.1%	16.7%	14.1	11.8	0.7%	0.8%
Senheng New Retail Bhd	5305 MK	Add	0.60	0.80	201.9	13.2	12.9	1.64	1.51	17.9%	12.1%	4.6	4.4	2.3%	2.3%
SKP Resources Bhd	SKP MK	Add	1.56	1.89	546.7	13.7	11.9	2.77	2.48	21.8%	22.2%	8.0	6.9	3.7%	4.2%
Average						**15.8**	**13.4**	**2.60**	**2.26**	**17.0%**	**17.1%**	**7.6**	**6.5**	**3.0%**	**3.5%**

SOURCES: CIMB, BLOOMBERG, COMPANY REPORTS

Key nuggets from our Corporate Day

Key highlights from the expert speakers' sessions

Panel Session: Malaysia's Economic Outlook for 2H22F

Presenter:

Mr. Lee Heng Guie, Executive Director of Socio-Economic Research Center (SERC)

Moderated by: Ahmad Nazmi Idrus, Head of Economics Research

From a global perspective, Mr. Lee sees growing risks of a global recession and US recession in 2023. If there is a US recession, he expects GDP contraction to be mild and shallow for 6-8 months. Mr. Lee argues that there are four reasons the recession in the US is likely to be mild, as follows:

- US inflation is not entrenched. Although prices have been rising, the US Fed's timely intervention could prevent the wage-price spiral which was seen during the high inflation periods of the 1980s.
- The US is entering an economic downcycle with a strong labour market. With unemployment at record lows, some weakening of the labour market will not significantly drag the economy down.
- Private sector's balance sheet is in a better shape to absorb the aggressive rate hikes and losses in asset prices. Household savings accumulated during the pandemic are still substantial at US$3.0tr, and the share of debt obligation to disposable income is relatively low at 9.5%. Household net worth has also improved.
- Mr. Lee expects no massive crash in home values. Some softening of home prices is expected given the rising mortgage rates and weaker demand but the situation is unlikely to be similar to the subprime crisis in 2008.

In response to the mild slowdown and likely persistent inflation, the US Fed is projected to continue to remain hawkish for longer, raising the Fed Funds Rate to a peak of 4% in 1H23F.

Meanwhile, Malaysia's GDP growth is projected to moderate to 4.1% yoy in 2023F, from 5.2% estimated this year. Malaysia's external trade will feel the impact of the global slowdown as the country's growth correlation with the global economy has gotten stronger over the past 10 years.

For consumption, Mr. Lee sees a softening of growth in 2H22F amid the waning policy support, the exhaustion of pent-up demand, as well as the resumption of spending commitments (i.e. higher EPF contribution and rising mortgage rates). The tight labour market is likely to continue given the limited inflow of foreign workers relative to what the country needs.

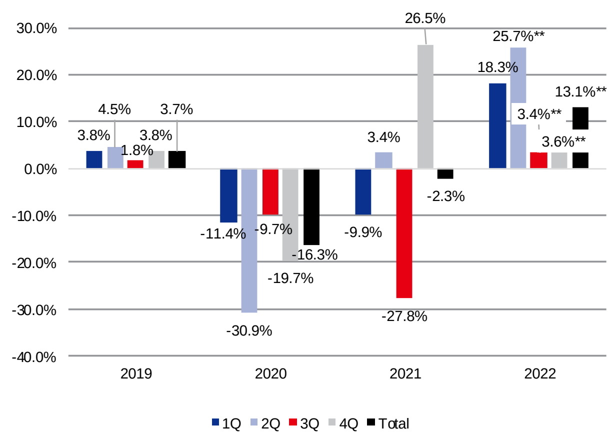
Finally, on BNM's Overnight Policy Rate, Mr. Lee said he is looking at an end-2022F interest rate of 2.50%, implying one more rate hike in 2H22F, and 3.00% at end-2023F.

Panel Session: Malaysia Retail Consumer Outlook 2H22

Panelist: Mr Tan Hai Hsin, Managing Director, Retail Group Malaysia (RGM)
Moderator: Walter Aw, Consumer analyst, CGS-CIMB

Malaysia's retail industry posted negative yoy retail sales growth of 16.3% and 2.3% in 2020 and 2021, respectively. This was due to the impact of Covid-19 as well as the re-imposition of several movement control orders (MCO). In the past two years, all retail sub-sectors were affected, including grocery and pharmacy. However, the worst-hit segments were entertainment-based retail businesses, tourist-orientated retail stores, night entertainment outlets and recreational-based retail businesses. According to Retail Group Malaysia (RGM), several notable foreign retailers as well as local retailers have ceased operations in Malaysia over the past two years (2020-2021).

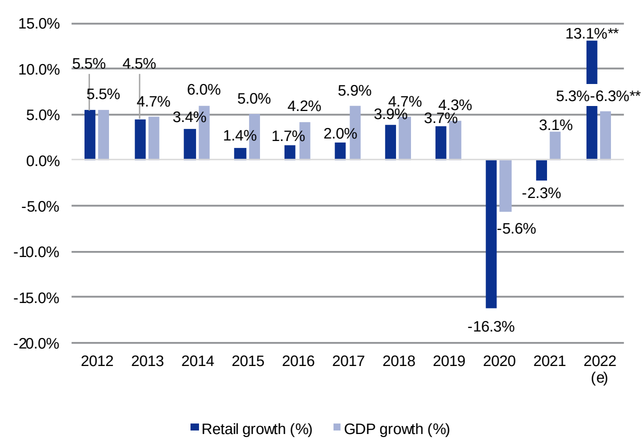
Figure 3: Malaysia's quarterly retail sales growth (2019-2022)



** denotes forecasted data by RGM.

SOURCES: CGS-CIMB RESEARCH, RGM

Figure 4: Malaysia's annual retail sales growth (2012-2022)



** denotes forecasted data by RGM.

SOURCES: CGS-CIMB RESEARCH, RGM

RGM expects the Malaysian retail industry to post 13.1% yoy retail sales growth in 2022. This is mainly driven by the easing of lockdown measures and higher consumer footfall (driven by various factors including a return to office and lifting of interstate travel bans).

RGM expects 25.7% yoy sales growth for the retail sector in 2Q22 (1Q22: +18.3% yoy growth), mainly driven by higher sales during Hari Raya festivities as well as the lifting of all lockdown measures. RGM is also projecting significant growth rates for some retail sub-sectors' sales in 2Q22, including department store-cum-supermarkets posting +41.8% yoy growth (1Q22: +18.3%), fashion & fashion accessories at +58.9% (1Q22: +52.1%) and personal care stores at +52.3% (1Q22: +5.6%). With minimal restrictions on interstate travel and restaurant dining, RGM sees a strong recovery in F&B sector sales growth. It projects a +37.2% yoy growth in 2Q22 sales (1Q22: +21.1% yoy) for café and restaurants and +13.0% yoy increase in sales for take away, kiosks and stalls (1Q22: +5.6% yoy).

In 2H22, RGM expects Malaysia's retail sales quarterly growth rates to remain positive, albeit on a smaller scale. This is mainly due to a higher base effect in 2H21 as inter-state travelling was allowed starting 11 Oct 2021.

Figure 5: Retail and F&B sub-sector sales growth rates (2020-2022)

Retail sector	2020	2021	2022	
Sub-sector			1Q	2Q**
Department store cum supermarket	-18.7%	-7.8%	18.3%	41.8%
Department store	-38.3%	-11.7%	39.1%	14.1%
Supermarket and hypermarket	-12.0%	-10.4%	-7.6%	-3.5%
Mini-market, convenience store & coop	14.8%	3.3%	7.6%	6.8%
Fashion & fashion accessories	-37.9%	-3.7%	52.1%	58.9%
Children & baby products	-20.2%	-9.8%	2.5%	41.2%
Pharmacy	-11.8%	0.8%	15.5%	21.3%
Personal care store	-11.8%	-37.3%	5.6%	52.3%
Furniture & furnishg, home imprt & E&E	0.4%	9.8%	4.7%	41.7%
Other specialty stores	-11.7%	-19.5%	-3.9%	13.3%
F&B sector	**2020**	**2021**	**2022**	
Sub-sector			**1Q**	**2Q****
Cafe & restaurant	-12.8%	14.3%	21.1%	37.2%
Take-away, kiosk and stal	-18.3%	5.2%	5.6%	13.0%

** denotes forecasted data by RGM.

SOURCES: CGS-CIMB RESEARCH, RGM

Mr Tan foresees the following challenges for Malaysia's retail industry

1) **Rising cost of living.** The current high prices for basic necessities are expected to continue rising over the next few months, leading to a higher cost of living. While RGM sees stable demand for essential goods and services as these are daily necessities, people may spend less on other high value and non-essential goods.

2) **Reduced purchasing power.** Bank Negara Malaysia (BNM) raised its overnight policy rate (OPR) by 25 basis points (bp) to 2.0% on 11 May 2022 and raised another 25bp to 2.25% on 6 Jul 2022. The interest rate hikes will lead to higher repayment of monthly instalments that could further erode the purchasing power of Malaysians.

3) **Increased costs of operation.** Retailers and operators involved in the entire retail supply chain have seen increases in operating costs, including higher energy prices, shortage of raw materials and imposition of a higher minimum wage policy of RM1,500/month from RM1,200/month. As a result, prices of consumer goods have risen as companies pass on the higher costs to consumers.

4) **Labour shortage.** Malaysia's retail sector faces a labour shortage from both Malaysians and foreign workers, which has affected sales and operating hours, adversely impacting customer experience.

5) Looming economic downturn. According to RGM, the global macro outlook appears pessimistic, including potential economic recession in the United States (with high inflation, rising interest rates and lower consumer spending), slow economic recovery in China and the ongoing Russia-Ukraine war.

6) More closures. RGM has noticed more closures of retail outlets in Malaysia due to: i) increased rental by landlords after the lockdown ended, ii) intensifying competition, iii) labour shortage, iv) rising operating costs and v) stretched expansion plans and unstainable business models.

7) Slow recovery in foreign tourist arrivals. Since the reopening of international borders on 1 Apr 2022, there have been only 2m foreign visitors as at Jun 2022. This is significantly lower compared to 26.1m foreign tourist arrivals in 2019. This is due to i) high travel costs, ii) fewer international flights, iii) continued border closures in some countries and iv) labour shortage in the HORECA segment.

8) New wave of Covid-19. There have been an increasing number of Covid-19 cases due to the spread of new variants, which may lead to potential movement restrictions going forward. This could affect retail sales.

He provided some updates on the new market trends in Malaysia's retail industry as follows:
1) Larger size store formats for convenience stores, more new entrants into the convenience store segment as well as value retailers. In our view, this is mainly to attract a larger consumer crowd with more varieties.
2) RGM also highlighted that various **cloud kitchen operators** have also started to operate their **own dine-in stores** as consumers prefer to dine-in rather than take away.
3) There has also been an **increase in instagrammable cafes**, modern coffee shops, and more fine-dining restaurants. We believe there is strong demand for these new locations given the increased use of social media as well as rising demand for thematic-based retailing (particularly for F&B).
4) In addition, RGM highlighted that it has seen more **brand owners setting up flagship and/or experience stores**. This is mainly to focus on displaying their products rather than retail sales.
5) Also, RGM noted that there are still **foreign retailers** that intend to set up operations in Malaysia, thanks to direct investments, licensing and franchising efforts. In addition, the emergence of more quality malls have also attracted new foreign retailers.

6) RGM also stated that there has been an **increase in online-based businesses opening physical outlets**, which helps them introduce their products and services to more consumers as well as obtain face-to-face interactions with consumers.
7) RGM also shared that it believes that **e-commerce is unlikely to replace physical shopping experience**. This is backed by data indicating that the easing of lockdown measures have led to a sharp decline in takeaway as well as delivery sales, in tandem with an increase in dine-in sales.
8) According to RGM, i) **online shopping activities have declined by an estimated 70% to 80% since early-2022**, ii) F&B outlets that offer food delivery have seen a 50-60% decline in delivery sales since early this year and iii) pure online retailers have seen a 20-90% dip in sales.
9) RGM thinks the **retail winners in this new normal are not trade specific**, but more company specific, depending on the company's strategy and business model, operations and customer service.
10) RGM is also of the view that retail businesses **need to adopt an omnichannel strategy**. Traditional retailers cannot depend solely on physical store expansion, while online retailers need to have physical stores to showcase and retail products. This also provides consumers with multiple options when they make purchases. It is key for retail businesses to fully integrate an omnichannel strategy, where both offline and online functions can be interchangeable and work seamlessly.

Panel Session: Malaysia Political Landscape 2H2022F

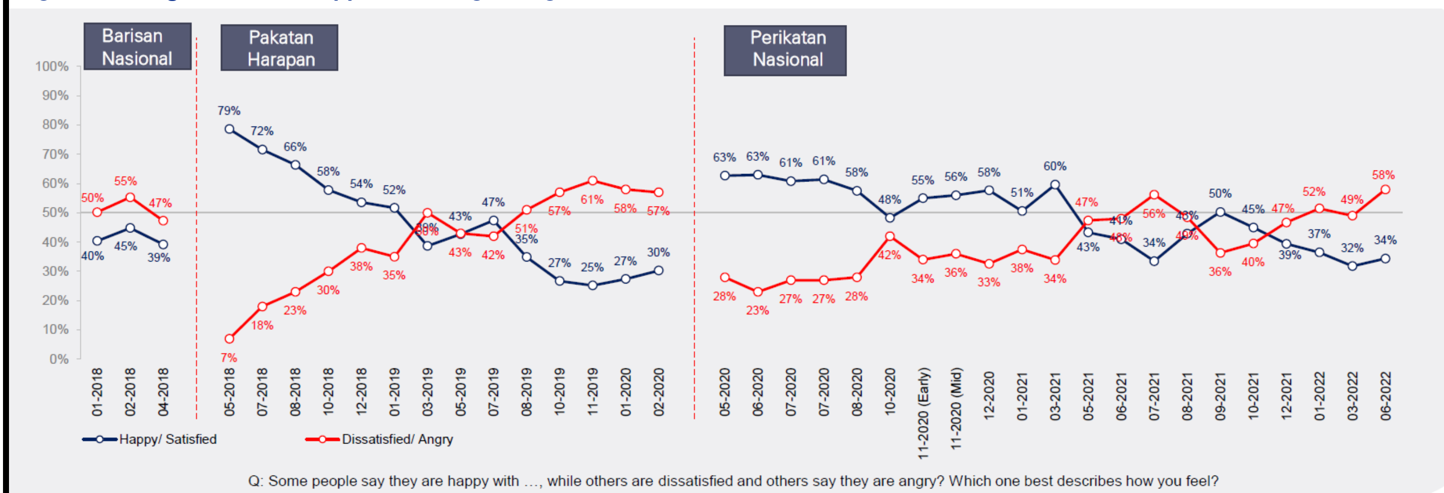
Presenter: Mr. Ibrahim Suffian, Co-Founder, Merdeka Center for Opinion Research

Moderated by: Ivy Ng, Head of Research, Malaysia

Mr Ibrahim Suffian (Co-Founder and Director of Programs, Merdeka Centre of Opinion Research) revealed that the public sentiment on the direction of the country has turned negative. The most recent poll conducted in Jun 2022 showed that 67% of poll participants think the country is going in the wrong direction — a sharp increase from 43%, based on a poll in Sep 2021. The current Prime Minister took office on 21 Aug 2021. Based on the polls, Mr. Ibrahim further revealed that the main areas of dissatisfaction are: 1) economy concerns (42%); 2) political instability (23%); and 3) poor and inefficient administration (8%).

The approval rating of the government (Perikatan Nasional and Barisan Nasional) has fallen to its lowest point of 34% in Jun 2022 (compared to 63% in May 2020) due to inflation and recessionary concerns, as well as lack of confidence in the government. Approval ratings for non-economic indicators showed mixed results, with pollsters approving the handling of Covid-19 but raising concerns over the country's governance (upholding the rule of law and fighting corruption).

Figure 6: The government's approval rating falling due to concerns over inflation and recession

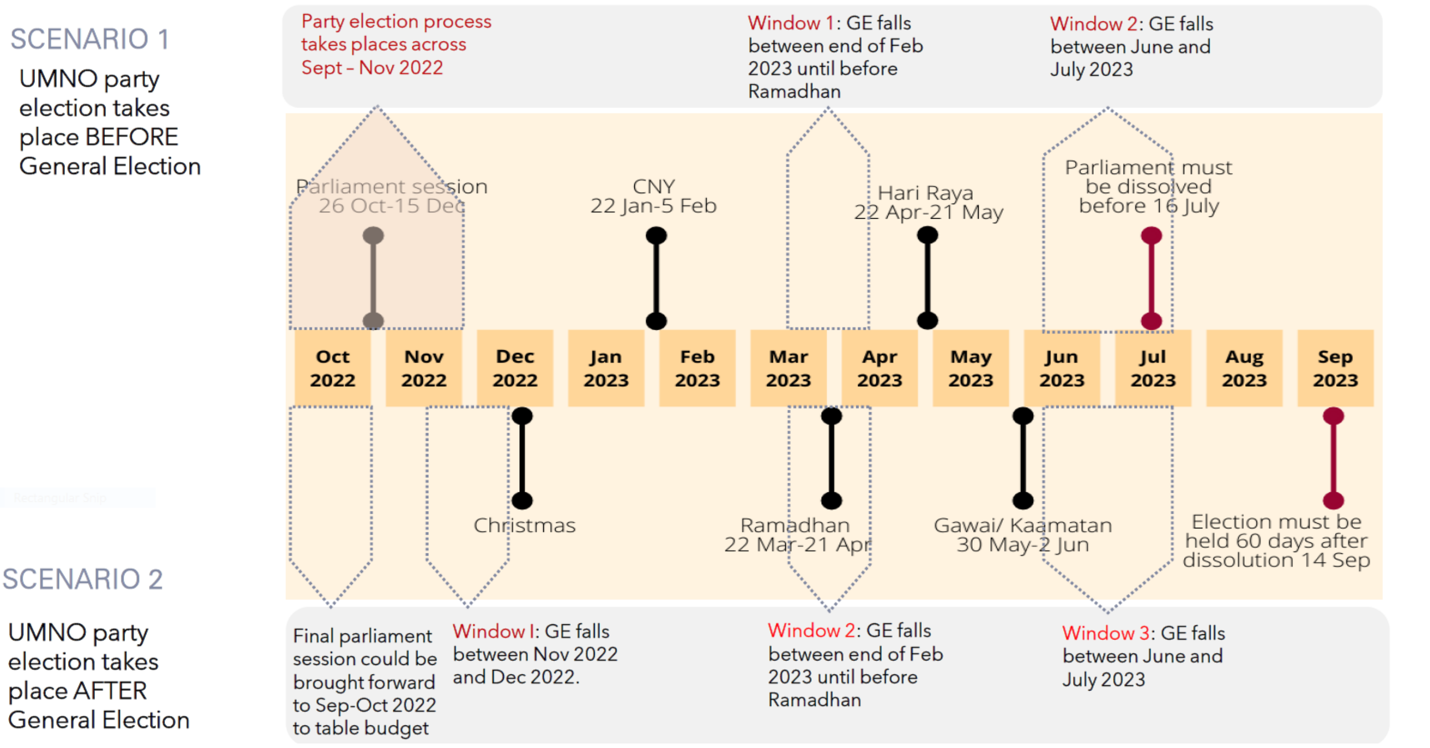


SOURCES: CGS-CIMB RESEARCH, MERDEKA CENTRE

Mr. Ibrahim provided potential scenarios on election timing in his analysis. The first scenario assumes that the UMNO party election would take place before the general election. Under this scenario, the first potential window for the general election would be between end-Feb 2023 and before the start of Ramadhan (22 Apr 2023), while the second window would be between Jun 2023 and July 2023.

The second scenario assumes that the UMNO party election takes place after the general election. Under this scenario, Mr. Ibrahim predicted that the final parliament session of the year could be brought forward to Sep-Oct 2022 to table the 2023 Budget. The first window to potentially hold the general election would be between Nov 2022 and Dec 2022, the second window would be end-Feb 2023 until before Ramadhan (which starts 22 Apr 2023), while the third window would be between Jun and Jul 2023.

Figure 7: Potential election timing



SOURCES: CGS-CIMB RESEARCH, MERDEKA CENTRE

On the possible election scenarios and outcomes, Mr. Ibrahim provided three scenarios and offered potential outcomes and implications from each scenario.

His first scenario is the status quo and the most likely scenario, where the three coalition parties and other independents — Barisan Nasional (BN) vs. Pakatan Harapan (PH) vs. Perikatan Nasional (PN) — will contest against each other in the 15th General Election (GE15). Under this scenario, he expects BN to gain majority seats in West Malaysia and potentially form the government with Sarawak Parties Alliance (GPS) in Sarawak and parties in Sabah. He expects Democratic Action Party (DAP) to retain most seats and PKR to lose the most seats in GE15 under this scenario.

The second scenario is where there could be an informal cooperation between the opposition coalition parties (PH and PN), although he thinks the likelihood of this scenario is low, given that PAS (under PN) has openly declared a refusal to cooperate with PH (notably DAP). In this scenario 2, he predicts a sizeable win for BN in GE15, with potential to form the government.

The third scenario is where there is a formal cooperation between some opposition parties, leading to potential three-cornered fights for Malay votes (BN vs. PKR/PN vs. PAS). He puts the possibility of this to be moderate as there is some likelihood of a PKR-Bersatu deal. In this scenario, he predicts the potential election results could be a repeat of 2018 (GE14), although this is dependent on how many seats PAS contests, if Bersatu is able to have an electoral pact, and if PN/PH voters would reciprocate with support.

Mr Ibrahim shared a few things that could influence election outcomes, namely: 1) whether UMNO party election comes before GE; 2) the opposition parties' ability to cooperate with each other (he sees the chances of the cooperation to be higher if the election is held in 2023); and 3) the election turnout (he is of the view that BN will have an advantage if voter turnout is low and a divided opposition persists).

He offers four things to watch out for the remaining 2H22, which are: 1) intra-UMNO stability; 2) economic growth; 3) political realignment and cooperation; and 4) Covid-19 infection rates.

Figure 8: Potential election scenarios and outcomes

Scenario	1 BN vs PH vs PN vs Others (Status Quo)	2 BN vs PH/PN (Informal Cooperation)	3 BN vs PKR/PN vs PAS (Formal Cooperation)
Outcome	Strong BN result, able to gain majority seats in W Msia and potential to form Govt with GPS and Sabah parties	Still sizable BN result with potential to form govt	Potential repeat of 2018 result but dependent on: 1. How many seats PAS contests and if Bersatu is able to have an electoral pact; 2. PN/PH voters reciprocate support
Implications	DAP would retain most seats by lose 2-4. PKR loses most	PKR and Bersatu will not make significant gains as voters do not reciprocate.	With reciprocation and electoral pact, it is possible for PN and PH to win sizable number of seats in W Msia and form a govt with Sabah and Sarawak parties. Question mark on post election cooperation – hung parliament a likelihood
Likelihood	High – if negotiations take too much time or internal rejection is high.	Low – PAS has openly declared refusal to cooperate with PH and DAP	Moderate – there is some likelihood of a PKR-Bersatu deal, but still early. Big question is if PAS is willing to deal as well

SOURCES: CGS-CIMB RESEARCH, MERDEKA CENTRE

Key highlights from corporates

Yinson Holdings Bhd (Add, TP RM3.23)

Yinson was represented by Mr. Lim Chern Yuan, Group CEO, and Mr. Chai Jia Jun, Director of Group CEO Office. Below are key takeaways:

The bid for the time charter contract for Eni's FPSO Agogo project, offshore Angola, is nearing conclusion, as Yinson is expecting Eni to award the contract in either 3Q or 4QCY22F. Yinson is in the running together with MISC (Add, RM6.92, TP: RM8) and Bumi Armada (Hold, RM0.35, TP: RM0.45). MISC recently said that it is no longer particularly keen on pursuing Agogo, preferring instead to focus its attention on TotalEnergies' FPSO Cameia project, also offshore Angola, which TotalEnergies is likely to award as an EPCIC project only, meaning that the ownership of the completed FPSO will remain with TotalEnergies (Yinson is not interested in the Cameia as an EPCIC project). This means that the FPSO Agogo time charter contract is now a two-horse race between Yinson and Bumi Armada. Bumi Armada recently undertook a significant recruitment exercise to build project execution capacity, while Yinson is likely to move the project team on the nearly-completed FPSO Anna Nery project to the Agogo project, should it win the award.

Recently, the FPSO Anna Nery set sail from the Cosco Qidong, China yard and will stop in Singapore enroute to Brazil; it is expected to achieve first oil by early-CY23F, upon which time charter revenues and profits can be booked in. Yinson is currently executing the FPSO Maria Quiteria project for Petrobras (at the Cosco Shangxing yard, China) and the FPSO Atlanta (at the Dubai Drydocks yard in UAE); the EPCIC profits for the former project were booked into the P&L commencing from the Apr 2022 quarter, while the EPCIC profits for the latter project will be booked in from the Jul 2022F quarter. This will likely help Yinson deliver sequentially-higher quarterly profits. Yinson is keen to secure the FPSO contract for BP's Block 31 SE-PAJ development, offshore Angola, and BP is apparently interested to use the FPSO Nganhurra as a redeployment candidate. Because Yinson has a purchase option for the Nganhurra that expires at end-CY23F, Yinson may have an edge over its competitors, in our view. If Yinson does not win the FPSO Agogo contract (it is asking for very high charter rates), the BP project can be a fallback. If Yinson wins Agogo and the BP project, it will wait for the Atlanta to be delivered in mid-CY24F before it will start EPCIC work for the BP project, in order not to overstretch its project execution capabilities.

Yinson's plan to list its FPSO holding company by end-CY22F is unlikely to materialise due to poor market conditions, and because the restructuring of the FPSO assets is being held back by slow client approvals. The Agogo or BP projects will be funded from selling down equity stakes in existing FPSO assets; a second rights issue is not under consideration. Potential rerating catalysts include winning either the Eni or the BP FPSO charter, and sequentially-higher quarterly profits from higher EPCIC profits. Downside risk: construction and execution challenges on Yinson's multiple FPSO projects. We reiterate Add with an unchanged SOP-based TP of RM3.23.

Raymond YAP, CFA

Telekom Malaysia Bhd (Add, TP: RM6.75)

Telekom Malaysia (TM) was represented by Delano Abdul Kadir, Vice President, Corporate Finance and Investor Relations. Below are the key takeaways:

TM expects the robust demand for Unifi fibre broadband to continue into the coming quarters, based on the trends it has seen post-1Q22. On the rollout of the high-speed broadband (HSBB) network into secondary towns, TM says the payback period (after factoring in subscriber acquisition costs) is quite fast (just slightly more than one year) even on the entry-level package (30Mbps). While there have been some aggressive promotions by fixed broadband resellers (e.g. freebies for switching telcos), there is little cause for concern at this juncture as Unifi's churn is in the low single-digit and improving, it said.

On the data centre (DC) business, TM shared that it expects Phase 1 of its Klang Valley Core Data Centre (KVDC; DC whitespace: 45k sq ft; total capex: c.RM350m) to be fully occupied by 1H23, based on its current order book, driven by take-up from international over-the-top (OTT) players that are looking to store their data locally. This does not factor in any demand from the government's cloud data migration project as it remains unclear how much of the project can be secured by TM. TM is now considering an expansion of its data centre capacity, by possibly building a multi-storey Tier-3 facility on the land adjacent to KVDC Phase 1, which we believe may start sometime in 2023F.

On 5G, TM said its negotiations with Digital Nasional Berhad (DNB) are progressing well, with the wholesale agreement likely to be on a pay-as-you-go basis (rather than a high fixed coverage fee, based on a minimum volume commitment and DNB's site rollout). As such, the net impact on its P&L should be positive as wholesale fibre leasing revenue to be received from DNB will more than cover the 5G wholesale fees, it said.

Elsewhere, Credence – TM's cloud and digital services arm that was recently unveiled in early-Jul – aims to pursue mainly cloud customers for now (with its revenue/earnings to be booked under TM ONE). Founded by CEO Krish Datta (who was appointed as TM's executive vice president of digital services in late-Apr), Credence will continue to recruit technology-focused talents in the next few quarters and possibly do some mergers & acquisitions. TM is optimistic that Credence will start to contribute some revenue to the group from FY23, with expectations of a healthy deal pipeline.

TM said it has not seen any major cost pressures that would dent EBITDA margins in the near term. In fact, it has been re-negotiating with vendors to reduce its costs further, and the higher minimum wage effective 1 May will have a negligible earnings impact (<1% of staff are impacted by the ruling). Meanwhile, capex may not taper even after the end of Phase 1 of JENDELA (National Digital Infrastructure Plan) at end-2022, as additional capex may need to be incurred for some fibre coverage/Credence/DC expansion and submarine cables, it said.

We reiterate our Add rating and DCF-based TP of RM6.75 for TM (WACC: 7.9%), with robust FY21-24F core EPS CAGR of 12.1% as a key re-rating catalyst. Downside risk: adverse regulatory developments.

FOONG Choong Chen

Sherman LAM Hsien Jin

Petronas Chemicals Group Bhd (Hold, TP RM9.30)

PCG was represented by its Investor Relations team (Ms. Zaida Alia, Ms. Safarah Salim, and Mr. M. Ikhwan) as well as Mr. Todd Nelmark, Head of Special Ventures. Below are key takeaways:

The demand for petrochemicals has started to weaken in the midst of significant inflationary pressures around the world, which have hurt consumer and industrial demand for goods. Consultancy Chemical Market Analytics (CMA, previously known as IHS Markit) noted that in the US, PE inventory is high, domestic demand is weak, and there is adequate supply in the spot market. In Europe, polymer demand is slowing due to the cost-of-living crisis, traders are eager to reduce their high inventory levels, and buyers are not taking up lower price offers. In Asia, excess PE supply from South Korea is flooding the market, rising inventories have put pressure on suppliers to cut prices, but plastic converters continue to destock as the demand for finished goods is weak. MEG demand in China has weakened as downstream polyester producers are cutting their plant utilisation rates due to depressed demand for fabrics; Chinese domestic demand is not rebounding strongly post-lockdown, and overseas demand is also weakening. This also pressured PX prices as MEG and PX are raw materials for the production of polyester; the decline in gasoline prices also caused naphtha catalytic reforming units to produce more aromatics instead of gasoline, leading to sharp declines in BZ and PX prices over the past five weeks. Methanol and urea prices peaked in Mar in the aftermath of the Russia-Ukraine war, and have declined 23% and 45%

respectively; methanol demand has slowed on the back of weakening industrial demand, while urea demand has been hurt by farmers' reluctance to pay high prices and due to seasonal factors such as the off-planting season.

The upside risk is that price support may come from supply cutbacks if and when plants cut their operating rates due to weak spreads between selling prices and feedstock costs. Coal-based olefins and MEG plants in China are already in the midst of utilisation cutbacks due to persistently-high coal prices, while naphtha-based players maintain their reduced utilisation levels first put in place in Mar 2022. The interplay between demand and supply will set the course for prices, but the continued drop in polymer, MEG, urea and methanol prices suggests that the negative demand impact is outweighing any supply restrictions, for now. Meanwhile, PCG's Pengerang facilities are scheduled to achieve their Commercial Operations Date (COD) by Nov 2022F, turning Malaysia into a net exporter just when Vietnam, Indonesia and the Philippines have reduced their import dependencies substantially over the past two years due to local expansion projects. The downside risk is that the incoming supplies could compress the SE Asian polymer price premium down towards Chinese prices, which are among the lowest in the world. '

Reiterate Hold with an unchanged TP of RM9.30, based on 6x CY23F EV/EBITDA (-2 s.d.) from 7x previously (-1 s.d.), as the selling price outlook is softening. PE, MEG, urea and methanol prices have continued to fall since peaking in Mar 2022; aromatics prices peaked in Jun and have dropped sharply. Malaysia will be a net exporter of polymers once the Pengerang plants start-up in Nov 2022F, just as other SE Asian countries reduce import reliance.

Raymond YAP, CFA

IOI Corporation Bhd (Add, TP: RM4.56)

IOI was represented by Managing Director and Chief Executive Dato Lee Yeow Chor and key management team.

The group believes that the recent sharp correction in CPO price to below RM4,000 per tonne is overdone and expects CPO price to trade at c.RM4,200-4,500 per tonne over the next four months. The group thinks that the sharp drop is due to multiple changes in Indonesia export policies. It is of the view that the edible oil supply remains tight as sunflower oil supply from Ukraine is likely to stay low due to the ongoing Russia-Ukraine war.

IOI Corp earnings will witness a lower decline in CPO price achieved compared to MPOB's spot price in 1QFY6/23 as the group has sold forward some of its production. Its downstream (oleo) business could benefit from lower palm kernel oil price too. The group also indicated that it has not experienced any default from customers following the sharp drop in CPO prices as it has strict risk management control.

The group expects FFB production growth to remain flattish at 0-5% over the next three years due to replanting programme of 6%-7%. However, it expects FFB output to rise in 3-4 years' time as efforts to replant its older estates with its own clonal palms start to bear fruit. The current average age of its oil palm estates is 13.5 years. Based on the group's FY2021 Annual Report, IOI has 176,926 ha oil palm planted area. Out of which, 39% consists of prime trees while 31% of the planted area has passed the prime age of above 21 years. Meanwhile, 19% of the remaining planted area is immature while 11% consists of young oil palm.

Its cost of production for CPO has been rising due to the increase in fertiliser cost caused by the ongoing Russia-Ukraine war and higher Sabah sales tax and windfall tax levy. This has resulted in its cost of production (excluding PK credit) rising from RM1,500 per tonne (pre-pandemic) to RM2,200 per tonne.

IOI indicated that the foreign workers shortage issue is more acute in West Malaysia than Sabah (where most of its estates are located). The group has been working to reduce its dependency on foreign labour by investing in the mechanisation of its estates. In its five-year plan, IOI Corp aims to reduce its workforce by more than 25% and raise the productivity of its plantation workers by 3% yoy. On the ESG front, the group is aiming for a net zero target for Scope 1 and 2 by 2030.

Overall, we are positive on the group's plan to replant its estates to improve its future FFB yields, invest in mechanisation to reduce reliance on foreign workers and improve workers' housing. This may result in higher operating costs in the short-term but should improve yields and lower ESG risks in the medium term. Its exposure to downstream business will reduce the group's earnings sensitivity to declining CPO price in the near-term. We retain our Hold rating.

Ivy NG Lee Fang, CFA

Nagulan RAVI

Malaysia Airports Holdings Bhd (Hold, TP RM6.76)

MAHB was represented by Mr. Zeid Razak, Acting General Manager, Regulatory Economics & Investor Relations.

Based on our 10 Jun analysis of airlines' schedules, we now cut our Malaysia domestic traffic forecast for FY22F from 85% to 75% of the 2019 base, and international (inter'l) traffic from 40% to 30%, on account of slower than expected passenger traffic recovery caused by airlines' crewing and operational bottlenecks, weak airline balance sheets, high fuel costs, Northeast Asia's continued border controls, and public reticence to travel abroad during the pandemic. However, we have raised ISG's inter'l traffic estimates for this year from 100% to 105% of the 2019 base on account of the strong performance year-to-date.

The net result is a widening of our FY22F core net loss forecast from RM82m to RM225m although the loss can be wider or narrower, depending on the extent to which MAHB ramps up its maintenance spending. While we forecast Malaysia's FY22F inter'l pax to rise by 14.63m yoy, domestic traffic may rise by an even greater 29.65m pax, leading to a dilution in the average revenue per pax. Regardless, depreciation expense will rise proportionately with the increase in total pax traffic. These two factors combine to constrain MAHB's earnings recovery in FY22F as we forecast depreciation to rise as a percentage of revenue.

MAHB's Malaysia business had a cash balance of RM1bn as at 31 Mar 2022, which was topped up by RM800m sukuk raised in Apr 2022 to RM1.8bn. After deducting planned capex of RM400m, the cash balance may be insufficient to repay RM1.5bn of sukuk due 16 Dec 2022 if Malaysia fails to generate positive operating cashflows for the rest of the year. We have confidence that MAHB will be able to successfully raise the necessary debt refinancing; MAHB continues to reiterate that an equity rights issue is not on the table. ISG had a cash balance of €266m as at 31 Mar 2022, and with more than €200m in annual operating cashflows from this year onwards, we believe it will be able to repay €375m in bank borrowings due by 2025F, as well as €383m in concession fees up to 2025F. The uncertainty lies in the terms of the payment of €230m in concession fees deferred from 2021-22, i.e. whether the Turkish government will insist on full payment or give a partial waiver, and the timing of that payment. We forecast that ISG will have sufficient funds to repay €230m in full in 2025F, but that would leave ISG with a rather low cash balance and make it susceptible to unexpected economic shocks. Upside risk: the reopening of China's borders in 2H22F. Downside risk: persistently-high jet fuel prices that may force airlines to rethink the pace of their capacity restoration.

Reiterate Hold with an unchanged DCF-based TP of RM6.76. Malaysia's international pax has so far lagged the domestic pick-up, slowing down earnings recovery as depreciation is calculated based on total pax. Malaysia may need to raise more borrowings to repay debts due this year; ISG's liquidity is sufficient for now, but is vulnerable to unexpected surprises.

Raymond YAP, CFA

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Description:	Excellent	Very Good	Good	N/A	N/A

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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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