13 January 2021

Market Strategy

Emergency + MCO Redux = Opportunity

Stocks Covered	150
Rating (Buy/Neutral/Sell):	90 / 52 / 8
Last 12m Earnings Revision Trend:	Positive

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- **Double whammy.** Hot on the heels of another MCO which takes effect today, pandemic-fatigued Malaysians were stunned by yesterday's state of emergency declaration by the Yang di-Pertuan Agong. This was likely motivated by political considerations, to enable the Perikatan Nasional (PN) government avoid being forced to call snap polls. In the news, PN coalition personalities have raised the possibility of the withdrawal of parliamentary support for the Prime Minister. Near-term market volatility should bring opportunities to reposition into cyclical and value stocks at lower levels.
- **Emergency has a silver lining.** The Yang di-Pertuan Agong consented to the Proclamation of Emergency under Article 150(1) of the Federal Constitution, until 1 Aug, or when COVID-19 infections subside. Prime Minister Tan Sri Muhyiddin Yassin emphasised that the declaration is not a military coup, nor will there be a curfew. He vowed that he will not abuse emergency powers to interfere with the judiciary, which is to function as usual. Parliament and State Legislative Assembly sessions, as well as elections, will be suspended. If the alternative was to conduct polls in the midst of a raging pandemic that could have a high toll on human lives, then we believe – in these circumstances – an emergency is the lesser of the two evils.
- **MCO 2.0: *Deja vu*.** While the re-imposition of the MCO is a setback to the economic recovery, we believe this was already anticipated by the market – given the alarming surge in domestic infections in the preceding months. With medical facilities reaching full capacity and domestic mass availability of vaccines still some months away, there were few alternatives to the implementation of a more draconian option. Nonetheless, we are assured that this is not considered as unchartered waters, given the experience gleaned from the first iteration back in Mar 2020. However, while essential and critical industries will be allowed to operate, there were no corresponding initiatives to implement additional safety nets for economically important small businesses.
- **Strategy.** Although an extended MCO will pose downside risks to economic and corporate earnings growth, investors should not lose sight of the light at the end of the tunnel. With the availability of the vaccine being a matter of time, we believe that positioning for a post-pandemic scenario should remain the key focus. Accordingly, market volatilities will present opportunities to re-position into cyclical and value stocks, with risk assets back-stopped by supportive monetary conditions and fiscal initiatives. Ample liquidity implies shallow market corrections while, conversely, investors' propensity to take profit on sharp rallies should remain elevated. Given the potential for volatility, a balanced portfolio remains appropriate. This comprises a trading bucket, coupled with an increasing focus on cyclical sectors and tactical holdings in defensive and resilient yield stocks. We have OVERWEIGHT ratings on banks, non-bank financial institutions, auto, construction, rubber products, basic materials, and gaming.

Company Name	Rating	Target Price(MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
Cahya Mata Sarawak	BUY	MYR2.40	30.4	9.9	0.7	4.0
DRB-HICOM	BUY	MYR2.50	29.5	16.3	0.5	0.5
Gabungan AQRS	BUY	MYR1.04	73.3	7.9	0.5	5.0
Guan Chong	BUY	MYR4.15	66.0	10.4	1.9	2.2
Hartalega	BUY	MYR23.50	78.8	13.1	17.4	4.6
Hong Leong Bank	BUY	MYR21.90	25.1	12.3	1.2	2.7
Kerjaya Prospek	BUY	MYR1.31	29.4	8.9	1.0	3.5
Malayan Banking	BUY	MYR10.00	25.0	12.9	1.1	5.9
NTPM	BUY	MYR1.03	40.1	13.0	1.7	4.0
Power Root	BUY	MYR2.58	35.7	17.1	3.8	6.6
Press Metal	BUY	MYR8.50	2.8	28.9	7.3	1.4
Sarawak Oil Palms	BUY	MYR5.40	26.9	12.6	1.0	1.9
Sunway Construction	BUY	MYR2.09	27.4	14.1	2.9	3.5
Syarikat Takaful M'sia Keluarga	BUY	MYR5.60	25.0	10.9	2.4	4.1

Source: Company data, RHB

Figure 1: Earnings outlook and valuations

COMPOSITE INDEX @ 1,617.25 11 Jan 2021	FBM KLCI 2019	2020F	2021F	2022F	RHB BASKET 2019	2020F	2021F	2022F	RHB BASKET (EX-FBM KLCI) 2019	2020F	2021F	2022F
Revenue Growth (%)	(1.1)	(8.6)	18.8	4.5	1.0	(7.8)	17.2	4.6	4.0	(7.2)	13.2	4.4
EBITDA Growth (%)	2.8	(3.2)	24.6	1.8	4.5	(3.2)	26.0	3.0	8.2	(4.1)	21.9	6.0
Normalised Earnings Growth (%)	(9.8)	(23.0)	60.6	4.7	(7.1)	(20.9)	62.4	6.2	0.5	(17.9)	50.4	9.9
Normalised EPS (sen)	34.8	26.8	42.9	44.9	19.1	15.1	24.4	25.9	9.3	7.6	11.4	12.5
Normalised EPS Growth (%)	**(10.6)**	**(23.2)**	**60.2**	**4.7**	**(8.0)**	**(21.4)**	**61.8**	**6.3**	**(0.6)**	**(18.6)**	**49.7**	**10.2**
Prospective P/E (x)	**19.6**	**25.4**	**15.9**	**15.1**	**19.4**	**24.7**	**15.2**	**14.4**	**18.4**	**22.6**	**15.1**	**13.7**
Normalised EPS (sen) ex-Rubber glove	37.3	26.0	35.5	40.6	19.8	14.0	19.7	22.4	9.4	7.0	10.3	11.6
Normalised EPS Growth (%) ex-Rubber glove	(10.8)	(30.2)	36.5	14.3	(8.2)	(29.0)	40.2	14.0	(0.8)	(25.3)	47.4	12.8
Prospective P/E (x) ex-Rubber glove	17.9	25.7	18.8	16.5	17.9	25.2	18.0	15.8	17.9	24.0	16.2	14.5
Price/BV (x)	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.2	1.1	1.1	1.1
Dividend Yield (%)	3.7	2.7	3.8	3.9	3.6	2.6	3.6	3.8	3.3	2.5	3.3	3.6
ROE (%)	9.1	6.9	10.6	10.6	8.1	6.3	9.8	9.9	6.3	5.0	7.3	7.8

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie Hong Leong Financial Group, RHB Bank, PPB and Hap Seng Consolidated
Source: Bloomberg, RHB

Figure 2: RHB basket – sector weightings & valuations

Sectors	Mkt Cap MYRbn	Weight %	EPS Growth (%) FY20F	FY21F	FY22F	P/E (x) FY20F	FY21F	FY22F	Recommendation
Banks	275.0	20.5	(31.7)	25.6	18.0	16.1	12.8	10.8	OVERWEIGHT
Rubber Products	126.6	9.5	379.9	230.7	(19.0)	20.7	6.2	7.7	OVERWEIGHT
Gaming	35.2	2.6	(127.6)	370.3	28.2	n.m	11.4	8.9	OVERWEIGHT
Construction	26.6	2.0	(40.4)	69.8	13.7	20.8	12.2	11.3	OVERWEIGHT
Basic Materials	37.9	2.8	1.2	336.2	16.5	110.9	25.4	21.8	OVERWEIGHT
Auto	29.5	2.2	(32.6)	54.9	8.8	21.1	13.6	12.5	OVERWEIGHT
Non-Bank Financials	16.6	1.2	1.8	7.4	7.4	13.7	12.8	11.9	OVERWEIGHT
Property-REITs	33.6	2.5	(24.8)	19.4	(0.8)	22.6	18.8	18.9	NEUTRAL
Oil & Gas	144.6	10.8	(11.7)	35.8	23.6	27.5	20.3	16.4	NEUTRAL
Telecommunications	134.8	10.1	(7.7)	4.4	7.7	27.6	26.4	24.5	NEUTRAL
Utilities	106.5	8.0	(16.2)	11.7	7.0	16.5	14.7	13.8	NEUTRAL
Plantation	112.4	8.4	61.7	31.5	3.1	39.1	29.7	28.8	NEUTRAL
Consumer	107.5	8.0	(18.6)	38.9	12.7	36.9	26.6	23.6	NEUTRAL
Transport	31.7	2.4	(104.1)	3266.3	28.6	(810.9)	25.6	19.9	NEUTRAL
Property	34.3	2.6	(38.8)	49.0	17.4	17.8	12.0	10.2	NEUTRAL
Technology	25.5	1.9	7.1	44.5	10.5	43.5	29.8	26.8	NEUTRAL
Healthcare	55.7	4.2	(37.7)	56.6	17.9	74.4	47.5	40.3	NEUTRAL
Media	4.8	0.4	(26.6)	(7.9)	15.2	9.2	10.0	8.7	NEUTRAL
RHB BASKET	**1338.8**	**100.0**	**(21.7)**	**62.5**	**7.0**	**24.8**	**15.3**	**14.3**	

Source: RHB

Figure 3: FBM KLCI – weightings & valuations

	Market Cap	Weight	EPS Growth (%)				P/E (x)			
	MYRbn	(%)	FY19	FY20F	FY21F	FY22F	FY19	FY20F	FY21F	FY22F
Sime Darby	15.5	1.62	9.5	9.5	6.6	5.6	16.3	14.9	14.0	13.2
Auto	**15.5**	**1.62**	**9.5**	**9.5**	**6.6**	**5.6**	**16.3**	**14.9**	**14.0**	**13.2**
CIMB	40.1	4.18	5.7	(74.2)	162.1	32.9	7.7	29.7	11.3	8.5
Hong Leong Bank	39.2	4.09	1.0	(6.4)	10.0	12.0	13.9	14.8	13.5	12.0
Malayan Banking	92.1	9.60	(1.0)	(27.9)	17.2	18.9	11.2	15.5	13.2	11.1
Public Bank	78.7	8.21	(1.4)	(14.4)	12.8	11.2	14.2	16.6	14.7	13.2
Banking	**250.1**	**26.09**	**0.3**	**(33.1)**	**27.6**	**18.4**	**11.5**	**17.0**	**13.3**	**11.3**
Press Metal	33.3	3.48	(19.9)	(5.3)	162.1	12.6	71.5	75.5	28.8	25.6
Basic Material	**33.3**	**3.48**	**(19.9)**	**(5.3)**	**162.1**	**12.6**	**71.5**	**75.5**	**28.8**	**25.6**
Nestle	32.8	3.42	1.5	(17.0)	25.0	7.7	50.4	60.7	48.5	45.1
Consumer	**32.8**	**3.42**	**1.5**	**(17.0)**	**25.0**	**7.7**	**50.4**	**60.7**	**48.5**	**45.1**
Genting	15.6	1.63	(14.4)	(108.4)	920.5	21.0	6.6	n.m.	9.6	7.9
Genting Malaysia	13.6	1.42	(41.0)	(193.7)	184.5	50.9	11.0	n.m.	13.9	9.2
Gaming	**29.2**	**3.05**	**(26.2)**	**(138.7)**	**287.6**	**32.5**	**8.2**	**n.m.**	**11.2**	**8.5**
IHH Healthcare	49.2	5.13	(33.0)	(40.0)	70.4	19.2	52.6	87.7	51.5	43.2
Healthcare	**49.2**	**5.13**	**(33.0)**	**(40.0)**	**70.4**	**19.2**	**52.6**	**87.7**	**51.5**	**43.2**
Dialog	18.7	1.95	24.8	12.9	(2.8)	14.0	38.4	34.0	35.0	30.7
MISC	29.8	3.11	21.2	11.9	10.7	11.6	18.0	16.0	14.5	13.0
Petronas Chemicals	58.4	6.09	(46.2)	(39.3)	57.0	39.7	20.9	34.5	22.0	15.7
Petronas Dagangan	21.0	2.19	(3.3)	(60.3)	106.4	25.1	25.4	63.9	31.0	24.7
Oil & Gas	**127.9**	**13.34**	**(25.9)**	**(22.9)**	**33.4**	**25.9**	**22.3**	**28.9**	**21.7**	**17.2**
IOI Corp	28.2	2.94	(33.0)	11.7	22.7	6.1	39.8	35.6	29.0	27.4
Kuala Lumpur Kepong	26.6	2.78	(9.0)	4.9	40.6	(4.4)	40.5	38.6	27.4	28.7
Sime Darby Plantations	35.9	3.74	(89.0)	503.2	14.7	5.0	+>100.0	44.1	38.5	36.6
Plantation	**90.7**	**9.46**	**(50.2)**	**53.8**	**24.7**	**2.0**	**60.5**	**39.4**	**31.5**	**30.9**
Hartalega	41.9	4.37	12.8	374.2	50.5	(5.7)	80.0	16.9	11.2	11.9
Supermax	18.5	1.93	15.5	326.6	505.5	3.6	+>100.0	35.0	5.8	5.6
Top Glove	51.6	5.38	(15.0)	340.2	567.8	(32.4)	+>100.0	32.7	4.9	7.2
Rubber Products	**111.9**	**11.68**	**1.1**	**356.0**	**284.7**	**(20.3)**	**111.8**	**24.5**	**6.4**	**8.0**
Axiata	33.3	3.47	16.6	(22.6)	18.1	10.8	34.2	44.2	37.5	33.8
DiGi.Com	32.3	3.37	(13.7)	(7.7)	0.5	9.4	24.3	26.4	26.2	24.0
Maxis	39.9	4.16	(25.5)	(8.8)	2.4	7.3	25.0	27.4	26.7	24.9
Telekom Malaysia	20.8	2.17	59.4	7.2	(0.6)	2.9	20.5	19.2	19.3	18.7
Telecommunication	**126.3**	**13.18**	**(4.4)**	**(7.9)**	**3.7**	**7.5**	**25.7**	**27.9**	**26.9**	**25.0**
Petronas Gas	33.3	3.47	4.4	1.1	0.0	1.0	17.7	17.5	17.5	17.3
Tenaga	58.4	6.09	(6.6)	(23.8)	17.7	9.6	12.1	15.9	13.5	12.3
Utilities	**91.7**	**9.57**	**(3.8)**	**(16.8)**	**11.8**	**6.9**	**13.7**	**16.5**	**14.7**	**13.8**
FBM KLCI	**958.6**	**100.00**	**(10.7)**	**(22.9)**	**68.3**	**5.7**	**19.9**	**25.8**	**15.3**	**14.5**

Source: Bloomberg, RHB

Figure 4: MCO 2.0's impact on sectors

Sector	Impact	Comment
Auto	Negative	The industry is allowed to operate as it has been classified as an essential service. However, we believe consumer sentiment will be adversely affected with the re-implementation of the MCO.
Aviation	Negative	We expect Malaysia Airports' (MAHB MK, NEUTRAL, TP: MYR4.90) passenger volume to be affected due to the ban on inter-state travel. Airline operators should be affected as well, due to an expected fall in passenger volume.
Banks	Negative	Another partial lockdown will likely deepen the gross impaired loans cycle and result in banks making higher provisions. This, in turn, would put downward pressure on our FY21 earnings and ROE forecasts. Separately, a weaker-than-expected economy may prompt Bank Negara Malaysia to further lower the Overnight Policy Rate, which will negatively impact NIMs. We believe the Targeted Repayment Assistance programme will likely be extended, but a blanket moratorium is unlikely – as most economic activities are allowed to continue.
Basic Materials	Neutral	No material impact on companies' operations, as well as those of their customers
Construction	Neutral	We believe the impact of MCO 2.0 will be neutral, as the sector is allowed to continue operating. This is different compared to the first round of MCO which took effect in Mar 2020, when all contractors had to stop work immediately. Works only resumed in Apr 2020, and only for the companies that managed to get approval from the Ministry of International Trade and Industry. For now, it remains the status quo for the sector, with no new restrictions imposed on contractors. The impact of this national emergency should be neutral, as well. As the economic recovery remains in focus, it is likely that government measures could be implemented faster. This is on account that it bypassed the regular political process which previously posed hurdles to the current administration. Should efforts to pump-prime the economy through mega projects persist, local contractors with prior experience are seen to be the direct beneficiaries. While projects with the like of MRT3 and RTS are officially back in the pipeline, we expect further developments to follow, which could give a better context on its execution.
Consumer	Negative	Negative to the consumer discretionary segment or the retail-based players, as operations will be halted or disrupted by the MCO, while overall consumer sentiment could also turn more cautious in the wake of rising COVID-19 infections. Meanwhile, it should be neutral to consumer staples companies as well – since we believe consumption will remain largely unaffected. As for the state of emergency, the ensuing political stability should prevent anxiety from arising potentially, from a snap election.
Gaming	Negative	Negative for the sector, as earnings will be impacted. Assuming Resorts World Genting will be closed for two weeks, Genting Malaysia (GENM MK, BUY, TP: MYR2.93) and Genting's (GENT MK, BUY, TP: MYR5.86) FY21F earnings could be c.8% and c.3% lower. As for the number forecast operators (NFOs), a 14-day closure of all outlets would mean six less draws for 2021. As a result, Berjaya Sports Toto's (BST MK, BUY, TP: MYR2.49) FY21F (Jun) and Magnum's (MAG MK, BUY, TP: MYR2.97) FY21F (Dec) net profits are expected to decline by c.6.5% and c.6%. While this MCO will impact near-term earnings, casino operators and NFOs' lean cost structures and robust balance sheets should steer them through this difficult time. As we head closer to the roll-out of COVID-19 vaccines, the gaming sector is a clear beneficiary of a cyclical recovery.
Healthcare	Neutral	Hospitals are allowed to operate under the MCO and state of emergency.
Media	Negative	Adex sentiment will remain dampened, with retail sentiment/spending taking a hit. The slowdown in economic activities will again weigh on GDP growth prospects, with advertisers likely to hold back on advertising budgets and/or sponsorships until the number of cases is brought under control. Our preferred pick for the media sector is Media Prima (MPR MK, BUY, TP: MYR0.31), due to its pivot into an integrated adex model (OMNIA) and cost initiatives.
NBFIs	Negative	We expect the overall sector to be affected by the MCO, although the impact should be less severe than the one that took place in Mar 2020. The operations of their distribution channels (motorcycle dealers, insurance agents, etc) could be disrupted. However, on Bursa Malaysia, we continue to expect trading of securities to be vibrant.
Oil & Gas	Neutral	The sector should mostly be unaffected, given that it is classified under essential services – as evidenced in the previous MCO period. However, sales volume for fuel retailers can be dragged down on a decline in local transportation activities.
Plantations	Neutral	There should be no impact to the plantations sector, as this industry is allowed to operate, being classified under essential services.
Ports	Neutral	Port operations are allowed to operate under the MCO. On the state of emergency, ports' shipping volumes should not be affected, as the majority of economic activities are allowed to continue.
Property	Negative	Sentiment will be adversely affected, as developers will likely hold back their launches. Also, buyers are expected to delay their purchases due to an uncertain economic outlook and murky job prospects. As we think the MCO 2.0 will likely be extended, we now expect property sales to fall by another 10%, after plunging by 20-25% YoY in 2020F.

REITs	Negative	While we await further clarity on the guidelines set for MCO 2.0, the likeliest outcome is that rental assistance will continue to be extended to tenants, and at a higher quantum than in 2H20 – after the gradual ease-off, given the pick-up in business activity. The prospects of a recovery continues to be dampened, as footfall recedes. We estimate that the worst-case scenario of the closure of non-essential services entailing a rent-free period would result in an 8-10% YoY drop in 1Q21 earnings for every two weeks of the MCO (slightly less severe than the YoY drop seen in 1Q20, due to flat-to-negative reversions already imputed into our forecast). Non-renewal risk is also elevated, as retailers prepare for a challenging time. This would also be made worse by the new restrictions on inter-state travel, while the continued dampened outlook for the tourism sector will also negatively impact the occupancy rates of hotels – which are already at an all-time low. We continue to be bearish on the hospitality segment.
Rubber Products	Neutral	Glove factories are allowed to operate under the MCO and state of emergency.
Technology	Neutral	Almost all of the companies in the technology sector are categorised under essential services, as evidenced in the previous MCO. As such, we do not foresee any significant impact on the sector.
Telecommunications	Neutral	There are some downside risks to industry mobile revenue (9MFY20: -6% YoY) if MCO2.0 is prolonged. For 9M20, industry mobile revenue fell 6% YoY. Industry mobile revenue contracted by 6% YoY in 1H20 during the first MCO, with 2Q20 seeing the brunt of the impact, at -9% YoY. Lessons from the previous lockdown would suggest that telcos are more prepared this time round with acquisition activities taking place via digital channels and capex optimised to cater for the surge in data from WFH demands. Similar prepaid reloads can also be done online. The industry is finalising the mechanics of the B40 giveaways (telco credit of MYR180) which looks most timely now and could stimulate usage. Maintain NEUTRAL on sector, with the preference for fixed/wireline operators and infrastructure-based companies. Top picks are Telekom Malaysia (T MK, BUY, TP: MYR5.60) and OCK Group (OCK MK, BUY, TP: MYR0.63).
Utilities	Neutral	Electricity demand recovery is likely to be affected but it may not be as severe as the previous MCO back in Mar 2020. Overall we do not expect material impact to local utilities players. Earnings impact to Tenaga Nasional (TNB MK, NEUTRAL, TP: MYR11.52) is largely safeguarded under the Incentive-Based Regulation mechanism, except for the potential drag from retail which is electricity consumption-dependent. Earnings of independent power producers are also being protected by power purchase agreements.

Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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