SHARIAH RETAIL MARKET MONITOR

2Q22 Strategy

Navigating Through Uncharted Territory

The market remains jittery thus far in 2022, as reflected by the indices' subpar performances that have also been aggravated by a thinning ADV. Given the lingering Russia-Ukraine conflict alongside US rate hike cycles which could continue to spell a volatile market ahead, we advocate investors to seek shelter in high yielders while embracing selected themes with imminent catalysts ie border reopening beneficiaries and reasonably valued growth-oriented stocks to derive alpha growth.

WHAT'S NEW

- **Market review: Rotation from loftily valued growth stocks to commodity plays.** While the heavyweight plantation stocks outperformed as crude palm oil price flew into stratospheric levels, the index prematurely surrendered some of the gains as investors were spooked by Russia's invasion of Ukraine. As a result, the FBMKLCI remained flattish at 1,557.41 (-1.1%) ytd. This stoked inflationary fears, which coupled with the expected global monetary policy tightening, triggered a selldown on previously outperforming stocks and especially loftily valued growth stocks. The worst-hit sectors were technology (lofty valuations) and gloves (earnings disappointments).
- **Range-bound market on thinning ADV; local institutions as the biggest net seller ytd.** Ytd average daily value (ADV) has continued to shrink to RM2.5b, which is flat qoq but halve of 1Q21's ADV. In particular, retail net buys have slimmed to RM629m as of last Friday (-76% qoq, -85% yoy) amid the challenging trading environment with the absence of imminent catalysts relative to 2021. On the other hand, local institutions' selling momentum continues, with 25 consecutive trading days of outflow amounting to RM5.04b as of 11 March. Foreigners, who favour big caps in nature, have been net buyers for 25 consecutive trading days with a total amount of RM4.4b.
- **Entering a cautious period with the twin effects of inflation and US rate hike cycle.** While the market had already anticipated the US Federal Reserve (Fed) to raise Fed funds by 25bp in its meeting two days back, there will be a follow-up of a barrage of rate hikes, while the Fed's QE is predicted to end in March (beyond this, the Fed may de-leverage its bloated balance sheet). With the Russia-Ukraine situation aggravating inflationary expectations, we brace for a period of economic stagflation which points to an imminent consolidation of equities.

ACTION

- **Seeking refuge in high yielders; bottom-fish for valued growth oriented stocks.** We advocate investors to turn defensive while embracing selected themes with imminent catalysts including: a) defensive stocks (including high-quality dividend yielders) on the RHS table, b) border reopening beneficiaries, and c) cherry picking stocks in the reasonably valued growth-oriented stocks which are benefitting from secular growth. For shariah picks, we have our list of stocks with their respective catalysts listed in table below.

CURRENT FBMKLCI: 1,557

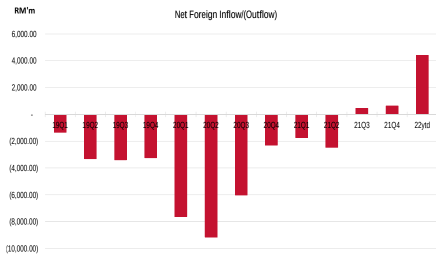
TARGET END-22 FBMKLCI: 1,635

HIGH YIELDERS

Company	-- Dividend Yield (%) -- 2022	2023
Hap Seng Plantations	6.9	3.4
Kim Loong Resources	6.7	3.9
Malakoff Corp	9.7	10.0
Syarikat Takaful	5.5	6.2
Tenaga Nasional	5.3	5.7

Source: Bloomberg, UOB Kay Hian

NET FOREIGN INFLOW/(OUTFLOW)



Source: Bursa Malaysia, UOB Kay Hian

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SHARIAH TOP PICKS

Company	Rec	Market Cap (RMm)	Share Price 15 Mar 22 (RM)	Target Price (RM)	PE FY22F (x)	P/B FY22F (x)	Yield FY22F (%)	Catalyst
Coraza Integrated Technology	BUY	263.4	0.615	0.88	16.5	3.0	0.0	Staging three-year net profit CAGR of 20% even from its record year in 2021, riding on a strategic portfolio exposure, aggressive capacity expansion and growing relevance in customers' high margin products.
My EG Services	BUY	6,907.3	0.935	1.58	15.9	3.7	1.9	A key beneficiary of border reopening via MySafeTravel and MyVTL-related services and foreign worker-related services, various upcoming road transport related services, and blockchain-related services.
Optimax Holdings	BUY	302.4	1.12	1.60	22.5	4.5	2.0	The resilient demand of ophthalmology services and the ongoing expansion could lend strength to an earnings CAGR of 20% for 2021-24F.
Press Metal	BUY	49,426.0	6.12	7.50	23.7	7.7	1.1	One of the largest aluminium smelters which is staging a two-year net profit CAGR of 43% from a record 2021 on structural growth.
TIME dotCom	BUY	7,503.3	4.11	4.80	18.4	2.2	2.7	Blue-sky target price of RM5.10 implies a 10% 2024 earnings upside should the Phase 2 DC rollout take place earlier than expected.
VS Industry	BUY	3,492.9	0.915	1.60	16.0	1.9	5.8	Risk-and-reward is attractive at -2SD below its forward PE vs its two-year net profit CAGR of 24% even from its peak year, which implies 0.5x PEG

Source: Bloomberg, UOB Kay Hian

Coraza Integrated Technology – BUY (Desmond Chong)

- Coraza is running close to maximum utilisation (at 75-80%) amid the twin supply-demand shock and supply chain reconfiguration. About 47%/20%/5% of the gross proceeds will be allocated to purchase new machinery, new factory and extension of existing buildings respectively.
- Major customers of Coraza, which are prominent players in the semiconductor, medical & life sciences as well as electrical & electronics sectors listed on the New York Stock Exchange, are deepening their presence in Malaysia, which would continue to benefit Coraza.
- Expect a three-year net profit CAGR of 35% from 2020 on the back of better order loadings from its key customers in tandem with the capacity expansion. These customers are seeing booming demand, which has prompted Coraza to expand its capacity and improve its service offerings.

Share Price Catalyst

- Additional machinery to pave way for new services, and hence higher margins.
- 2x floorspace expansion with fourth factory, with completion expected by Dec 23. This would lead to higher value added jobs.

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

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

Share Price Catalyst

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

Optimax Holdings – BUY (Chloe Tan & Desmond Chong)

- Optimax recorded its highest surgeries performed in history, in 4Q21 (+38% yoy, +71% qoq). Management is still seeing strong customer footfall in Jan-Feb 22 despite 1Q a seasonally weaker quarter.
- We expect a 25% earnings growth for 2022, in view of: a) the resilient demand for ophthalmologist services, b) an additional Ambulatory Care Centre and three satellite clinics, c) incremental revenue from the provision of vaccination services, and d) the resumption of medical tourism with the full border reopening in 2022.
- Besides greenfield expansion, the group has forged a partnership with Sena Healthcare Selgate Group of Hospitals to offer full eye services at their designated hospitals. We expect the earnings impact to be from 2024 onwards.

Share Price Catalyst

- Higher-than-expected patient volume growth.
- Improving pricing capabilities.
- Reopening of Malaysia’s borders to healthcare tourists.
- Further expanding presence in hospitals via partnerships.

Press Metal Aluminium – BUY (Desmond Chong)

- LME aluminium prices have reached a 13-year high at US$3,399/tonne (ytd average: US$3,100/tonne), way above our previous conservative assumption of US$2,500/tonne for 2022.
- Besides favourable structural demand globally from electric vehicles (EV), renewable energy (RE) and infrastructure, the supply tightness is also aggravated by partial plant shutdowns due to global supply chain disruption, power rationing in China as well as supply eruption caused by the Russia-Ukraine war.
- As Press Metal (using mostly hydraulic power as an energy source instead of coal power) is also registering its product under the green aluminium category, we believe such practice could result in Press Metal becoming the preferred environmental, social and corporate governance investing target.

Share Price Catalyst

- Spot price has continued to rise to around US$3,400/tonne, well ahead of our spot price assumptions of US$2,500 and US$2,600 for 2022 and 2023 respectively.
- Should aluminium prices remain elevated, based on our sensitivity analysis, every US$100/tonne increase to our current spot aluminium price assumption of US$2,500/tonne in 2022 would increase Press Metal's earnings by 9% annually, assuming alumina cost of US$388/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb4,625/MT.

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

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

Share Price Catalyst

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

VS Industry – BUY (Desmond Chong)

- VSI offers the best investment proposition vs its peers, in terms of growth (two-year net profit CAGR of 24%), value (0.5x PEG) and most diverse customer concentration risks.
- It is still the front runner as the prime beneficiary of the US-China trade diversion.
- Even though VSI could temporarily be hit by the component shortage which could partially hinder its aggressive growth in 2022, it is set to benefit from other electronics manufacturing services (EMS) companies' fallout with potential earnings accretion of RM45m to its FY23 (or +12%).
- VSI is still being approached by new MNC customers, with discussions of prospective contracts at the early stages of evaluation.

Share Price Catalyst

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

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