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**Kenanga Investment Bank Berhad**

# **Hunting For Gems Among Shariah-compliant Stocks On Bursa Malaysia**

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# CONTENT

- ✓ The Economy At A Glance
- ✓ An Insight Into Shariah Stocks On Bursa Malaysia
- ✓ Foreign Fund Flows Analysis
- ✓ Global Investment Environment Today
- ✓ The Investment Landscape In Malaysia
- ✓ Risk Factors Watch List
- ✓ Investment Themes & Top Shariah Stock Picks

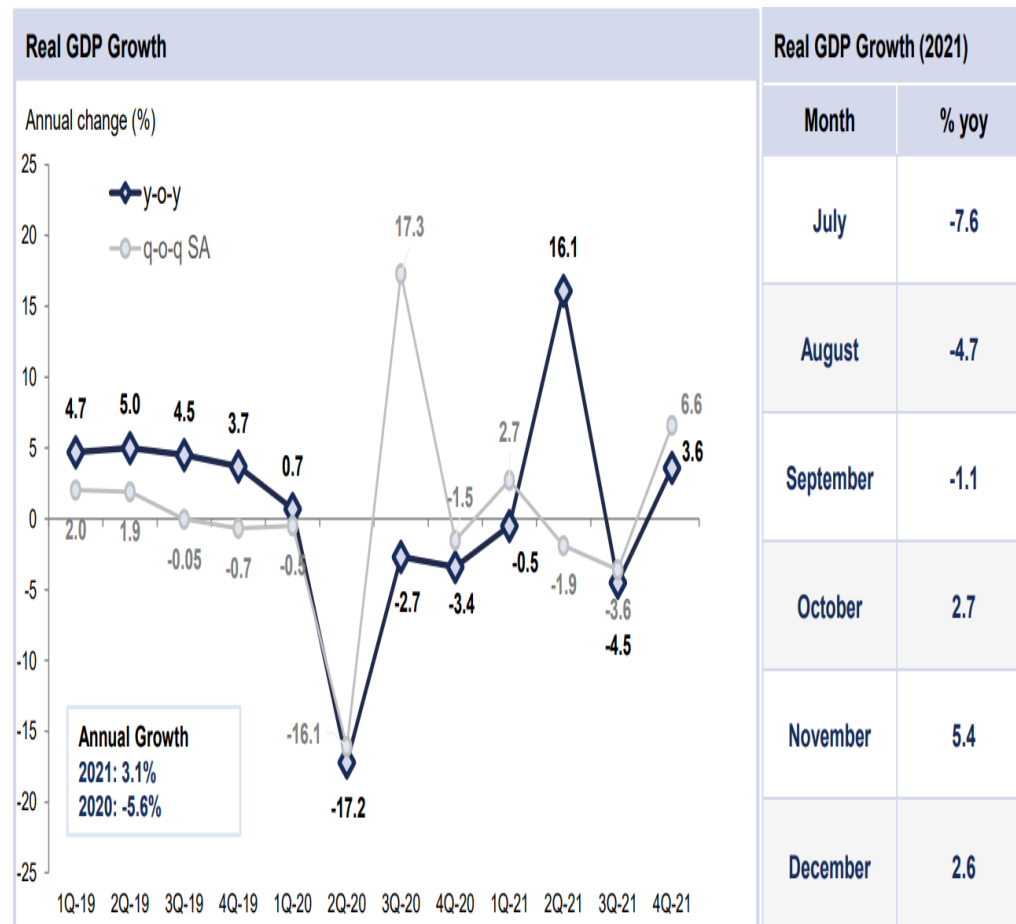


# THE ECONOMY AT A GLANCE

☐ The broad Malaysian economy is on a recovery path

Key Economic Indicators At A Glance	2020A	2021A	2022F
Real GDP	-5.6%	3.1%	5.0%-5.5%
Inflation (CPI)	-1.2%	2.5%	2.4%
Interest Rate (OPR) (eop)	1.75%	1.75%	2.25%
Exchange Rate (USD-RM) (eop)	4.02	4.17	4.10
Average Brent Crude Oil Price (USD/b)	41.7	70.9	90.0
Average CPO Price (RM/MT)	2,750	4,400	4,250
Export YoY growth	-1.1%	26.0%	6.9%
Import YoY growth	-5.8%	23.3%	9.7%
Trade Balance (RMb)	183.3	252.6	241.5

Source: Kenanga Research

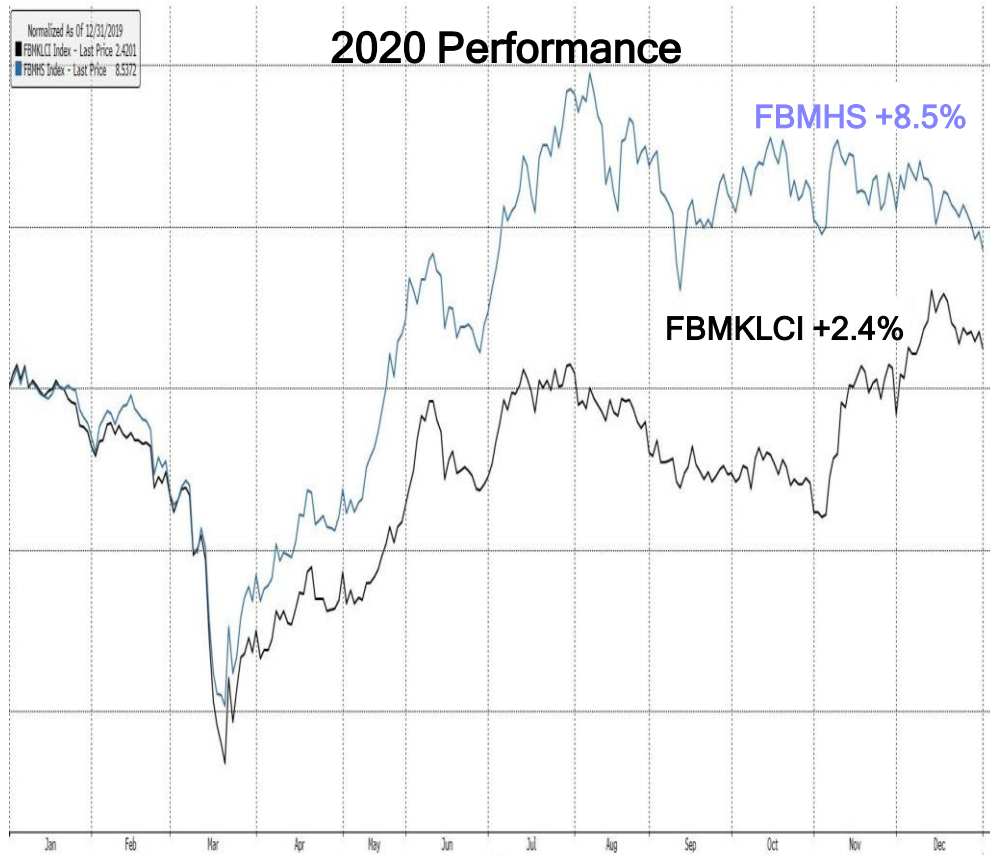


Source: Bank Negara Malaysia

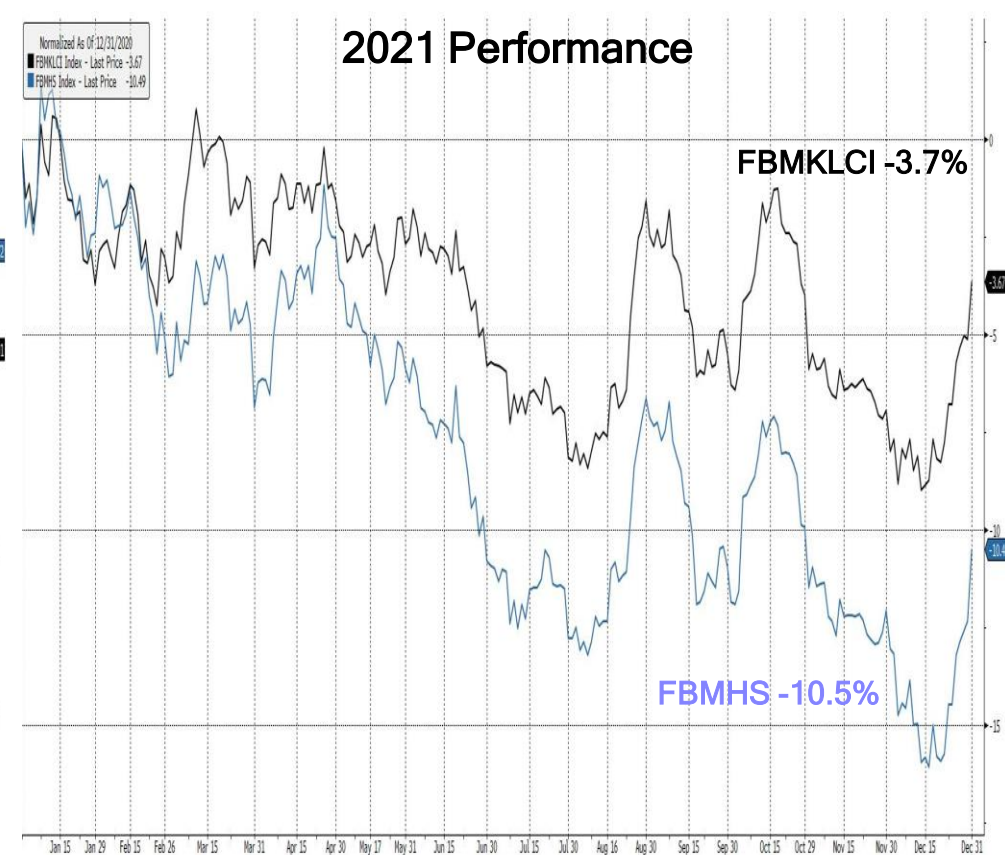


# AN INSIGHT INTO SHARIAH STOCKS ON BURSA MALAYSIA

❑ FBM HS Index~ outperformed FBMKLCI in 2020 but underperformed in 2021



Source: Bloomberg



Source: Bloomberg

~ FBM Hijrah Shariah Index comprises the 30 largest companies in the FBM EMAS Index that meets the Shariah screening process

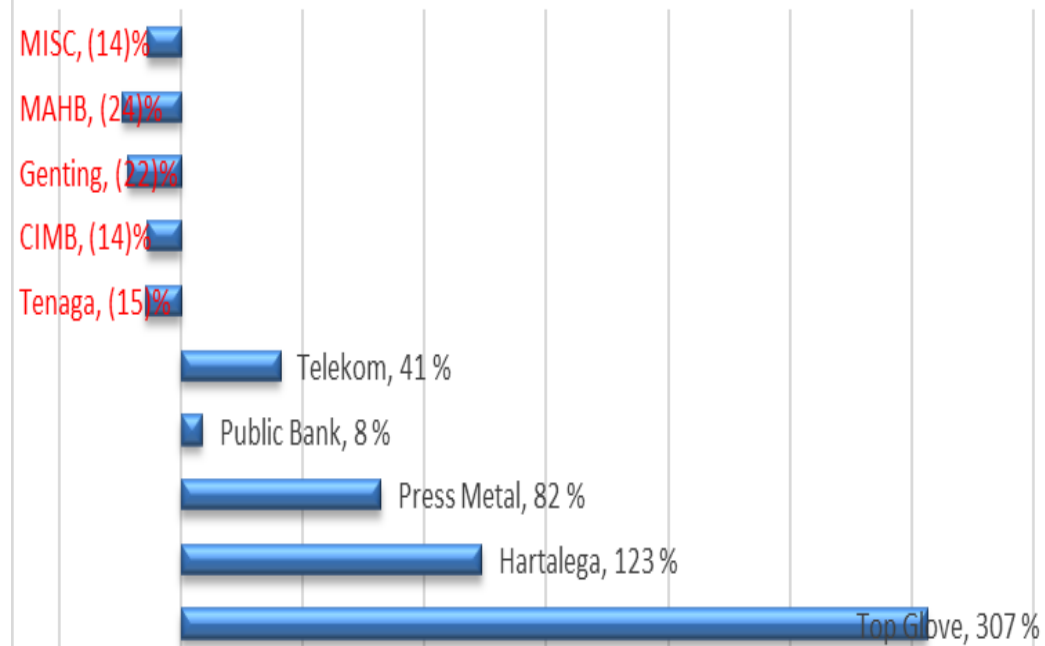
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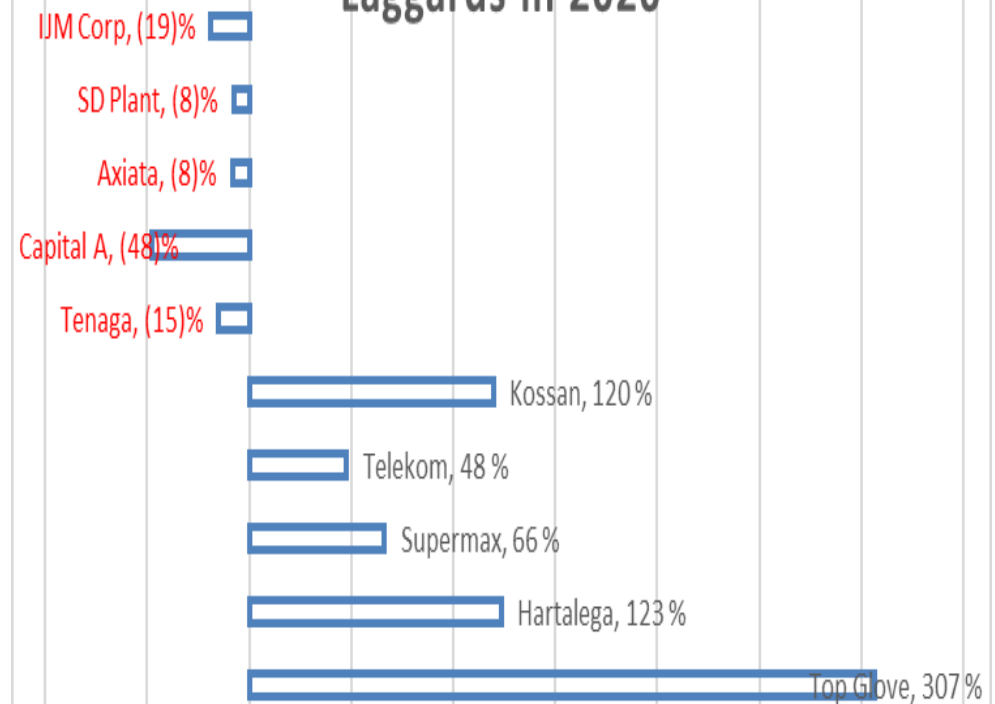
## ❑ FBM Hijrah Shariah Index vs FBMKLCI: Top Movers in 2020

### Top 5 KLCI Leaders & Laggards in 2020



Source: Bloomberg

### Top 5 Hijrah Shariah Leaders & Laggards in 2020



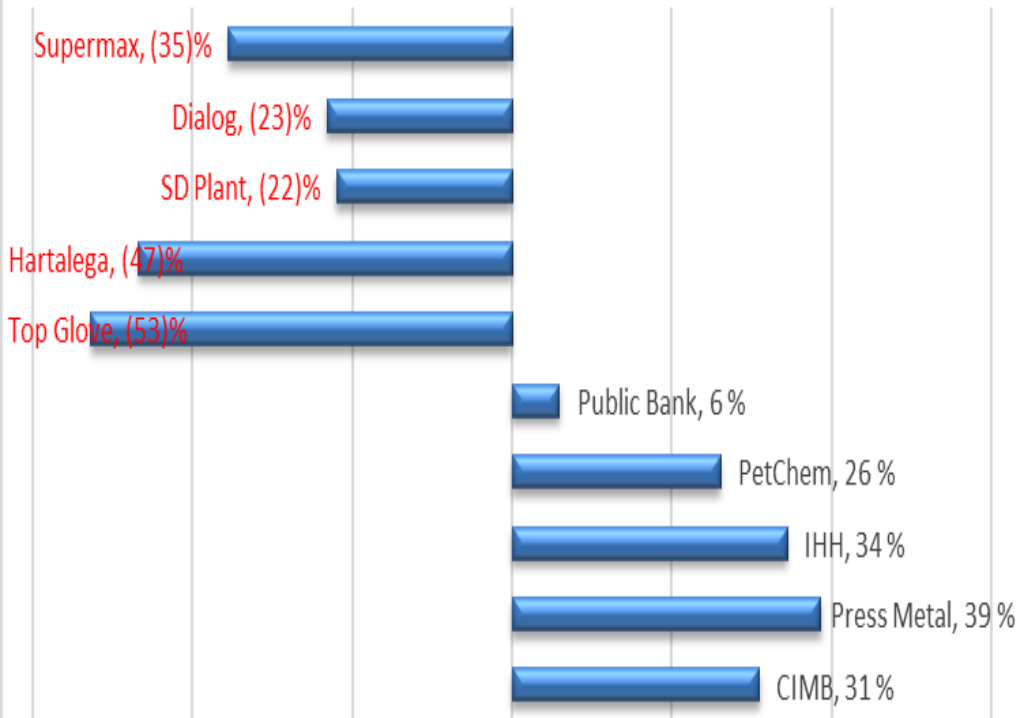
Source: Bloomberg



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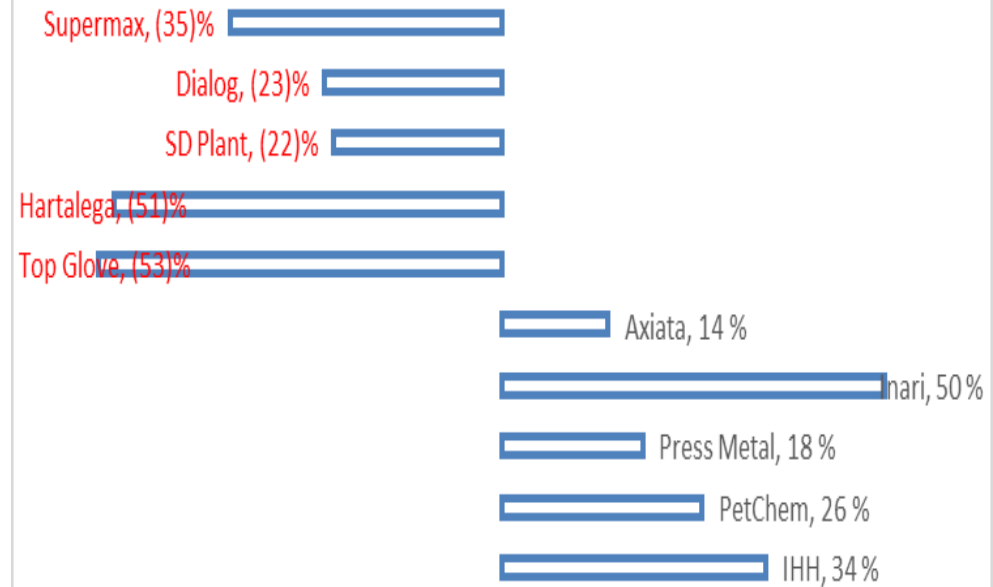
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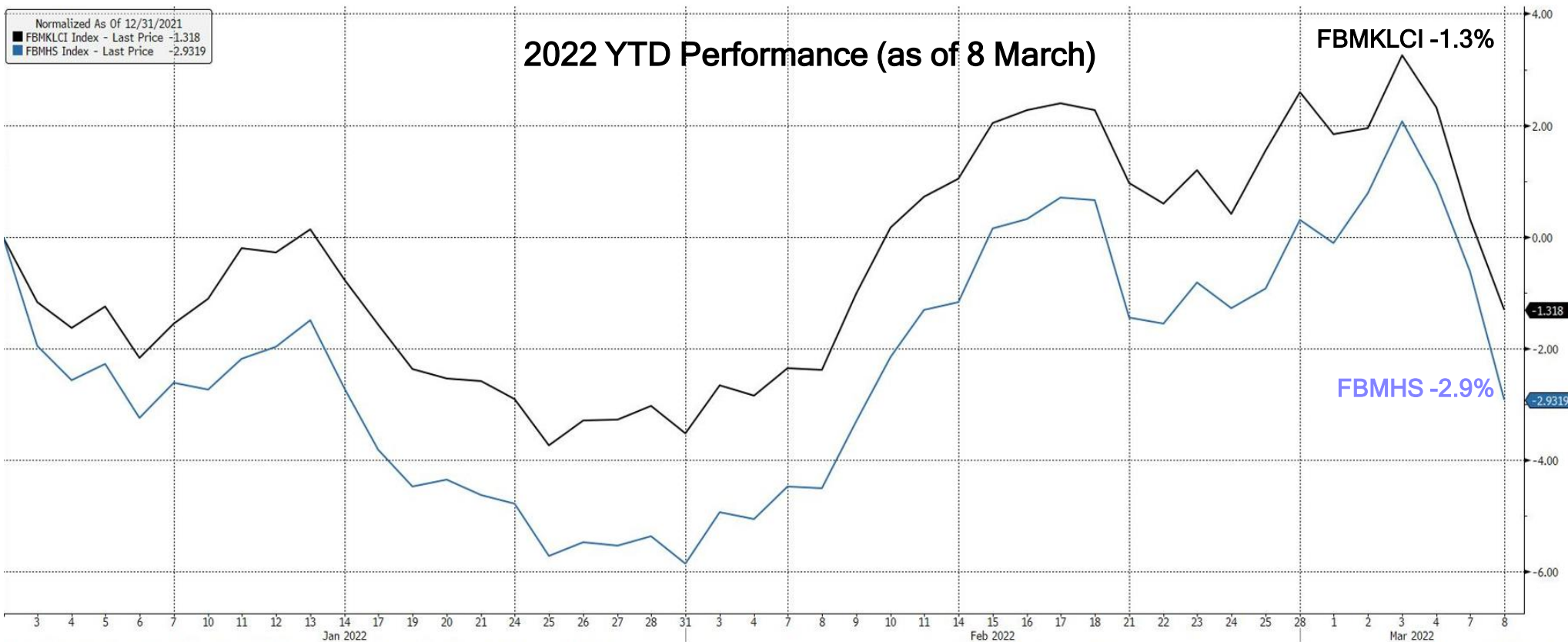


Source: Bloomberg



# AN INSIGHT INTO SHARIAH STOCKS ON BURSA MALAYSIA

☐ FBM HS Index~ is down slightly versus FBMKLCI YTD 2022



Source: Bloomberg

~ FBM Hijrah Shariah Index comprises the 30 largest companies in the FBM EMAS Index that meets the Shariah screening process

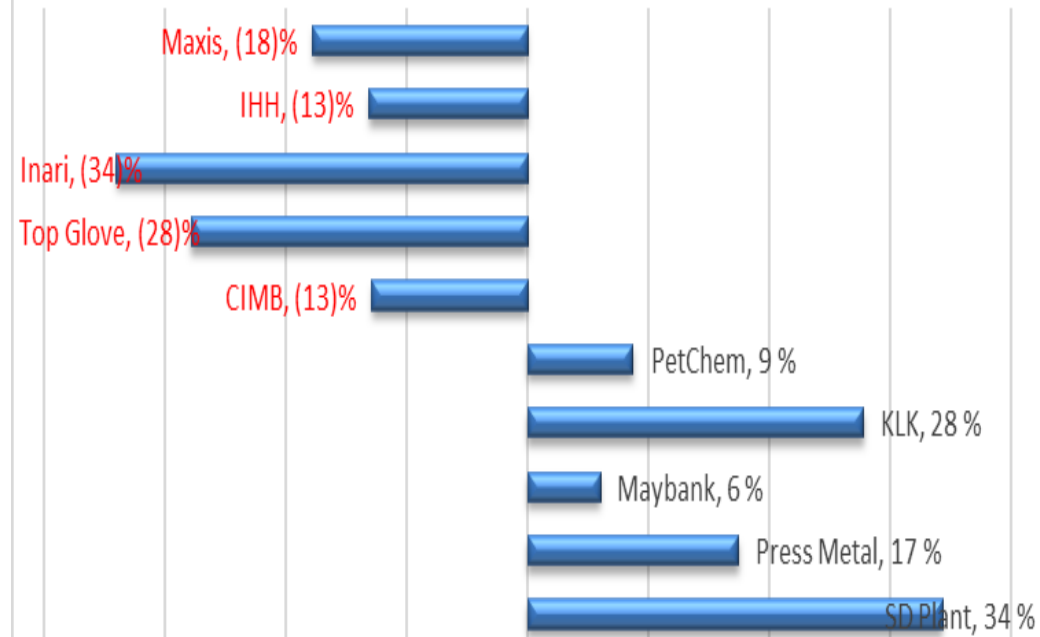
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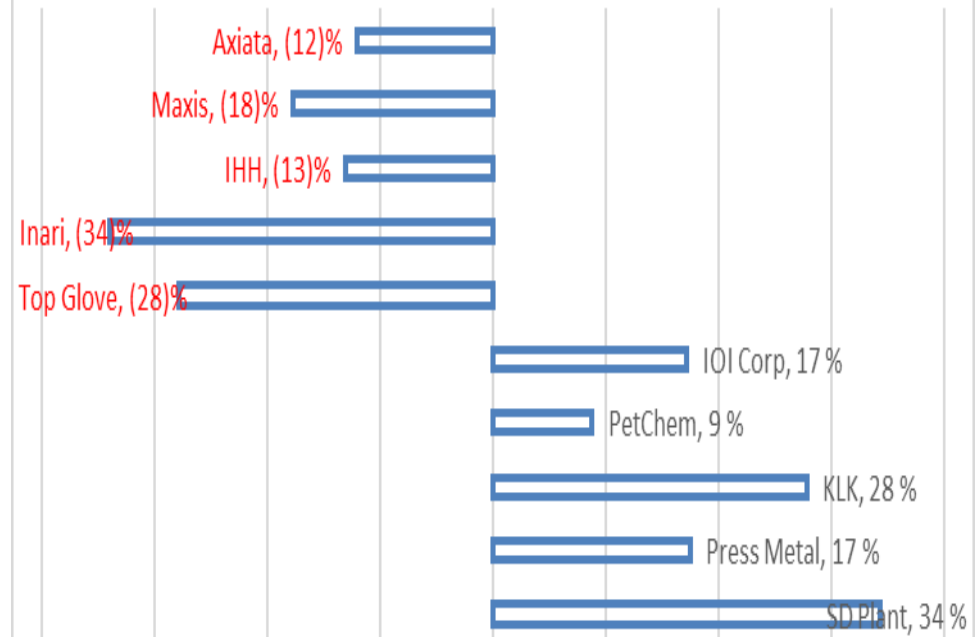
## ❑ FBM Hijrah Shariah Index vs FBMKLCI: Top Movers in YTD 2022

### Top 5 KLCI Leaders & Laggards (YTD 8 March)



Source: Bloomberg

### Top 5 Hijrah Shariah Leaders & Laggards (YTD 8 March)



Source: Bloomberg

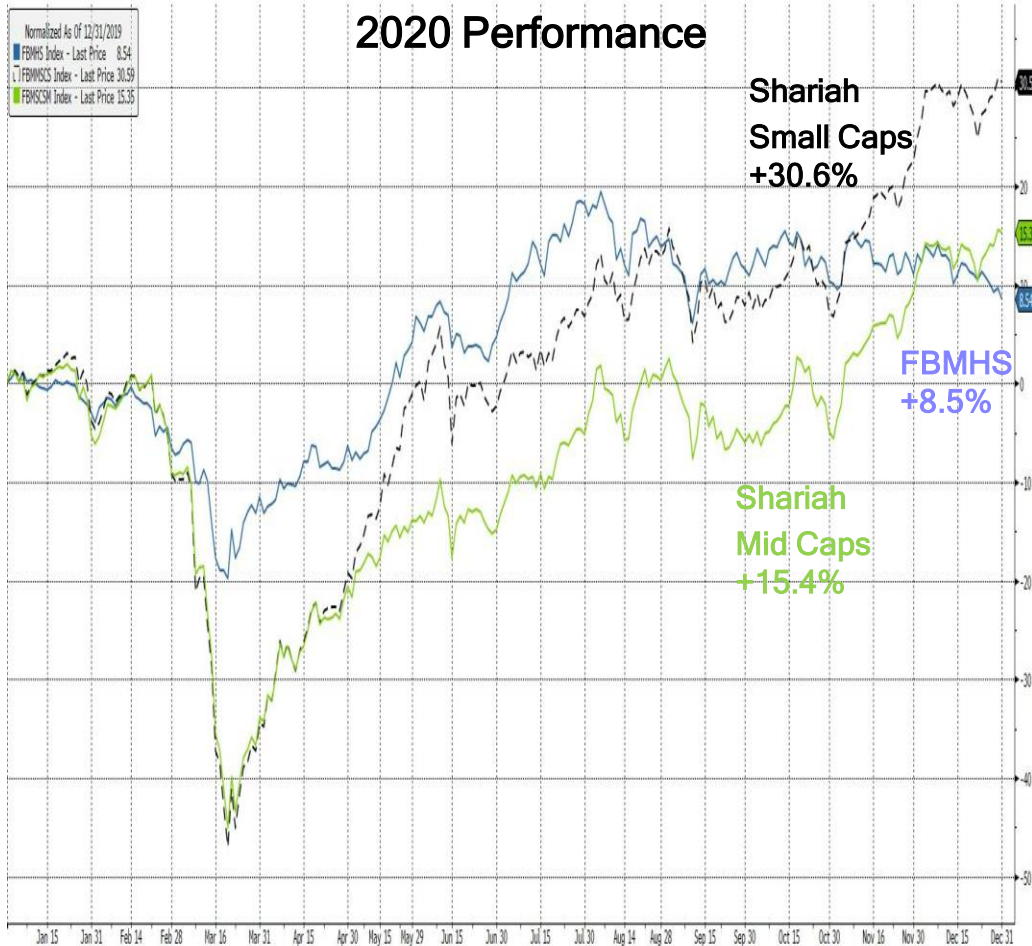




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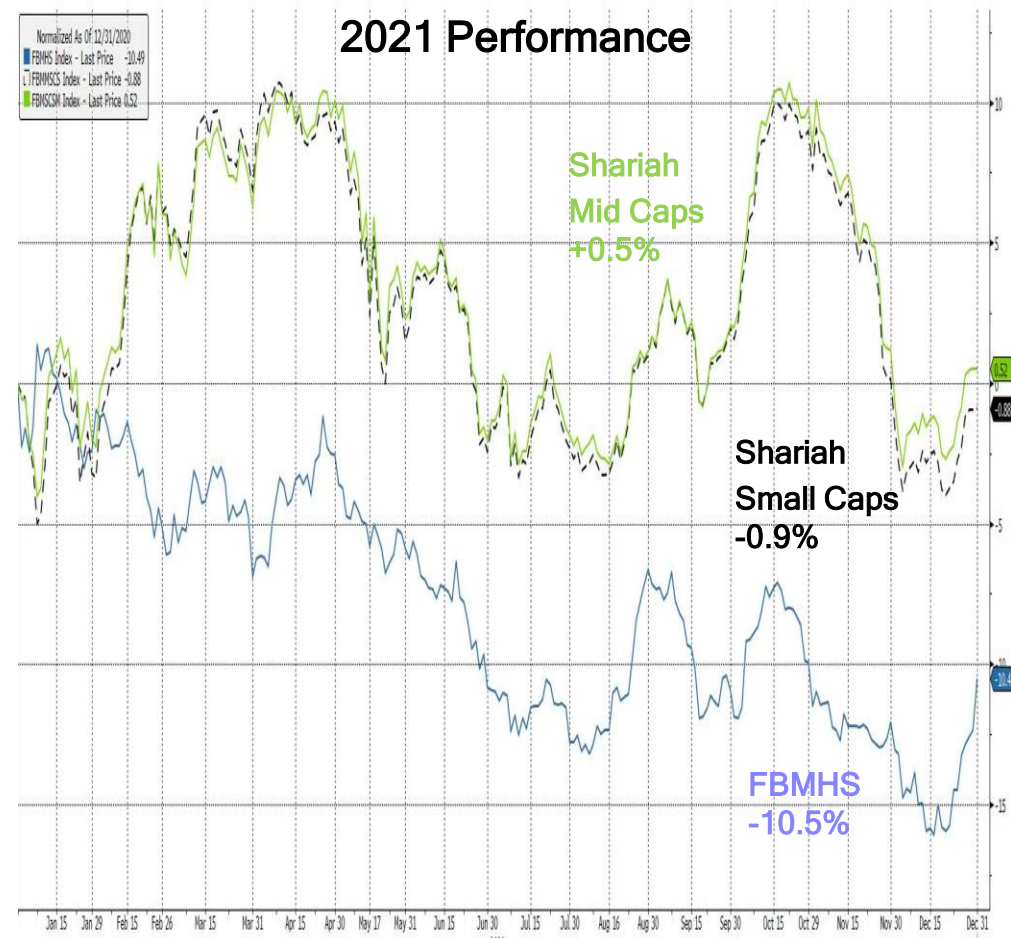
☐ Shariah Mid- and Small-Caps outperformed Big Caps in 2020 and 2021

## 2020 Performance



Source: Bloomberg

## 2021 Performance



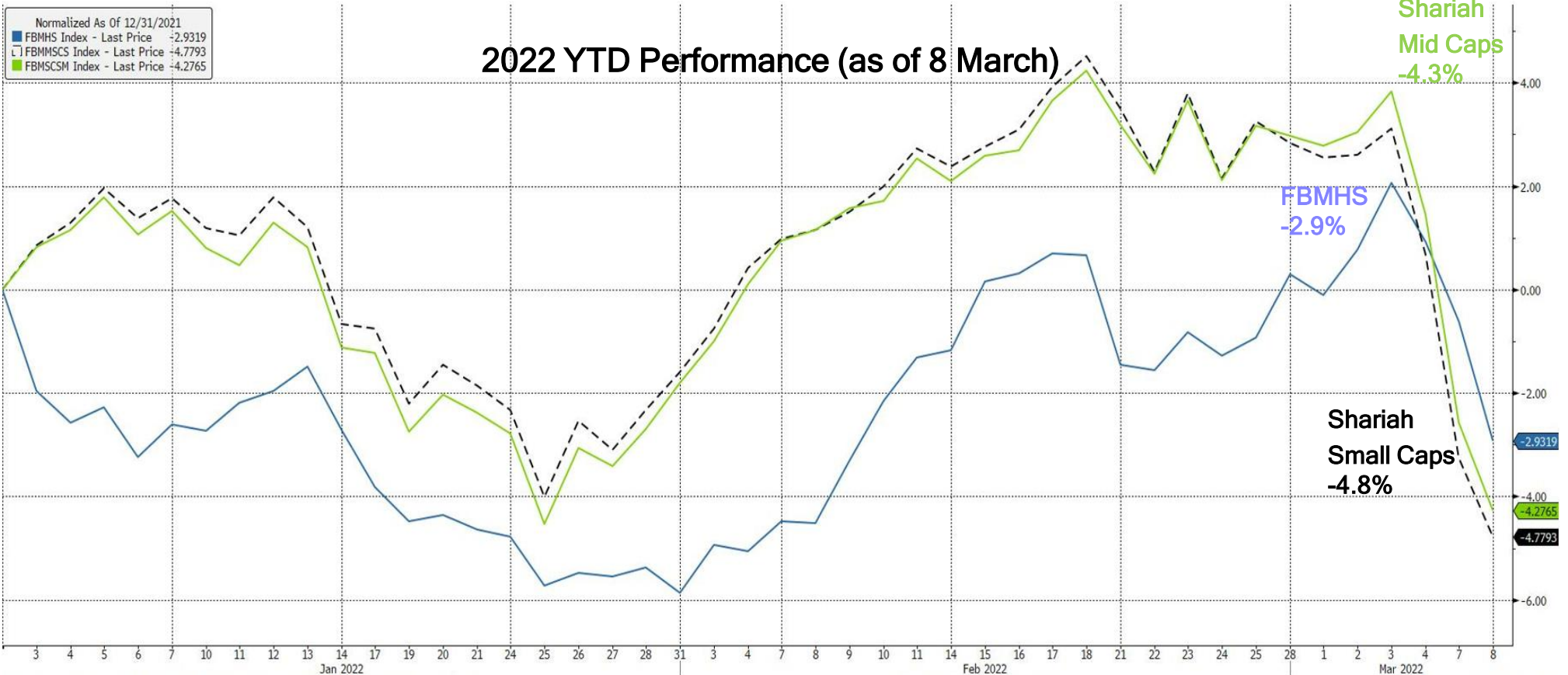
Source: Bloomberg

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# AN INSIGHT INTO SHARIAH STOCKS ON BURSA MALAYSIA

- ❑ Shariah Mid- and Small-Caps initially outperformed the Shariah Big Caps this year before tumbling more of late



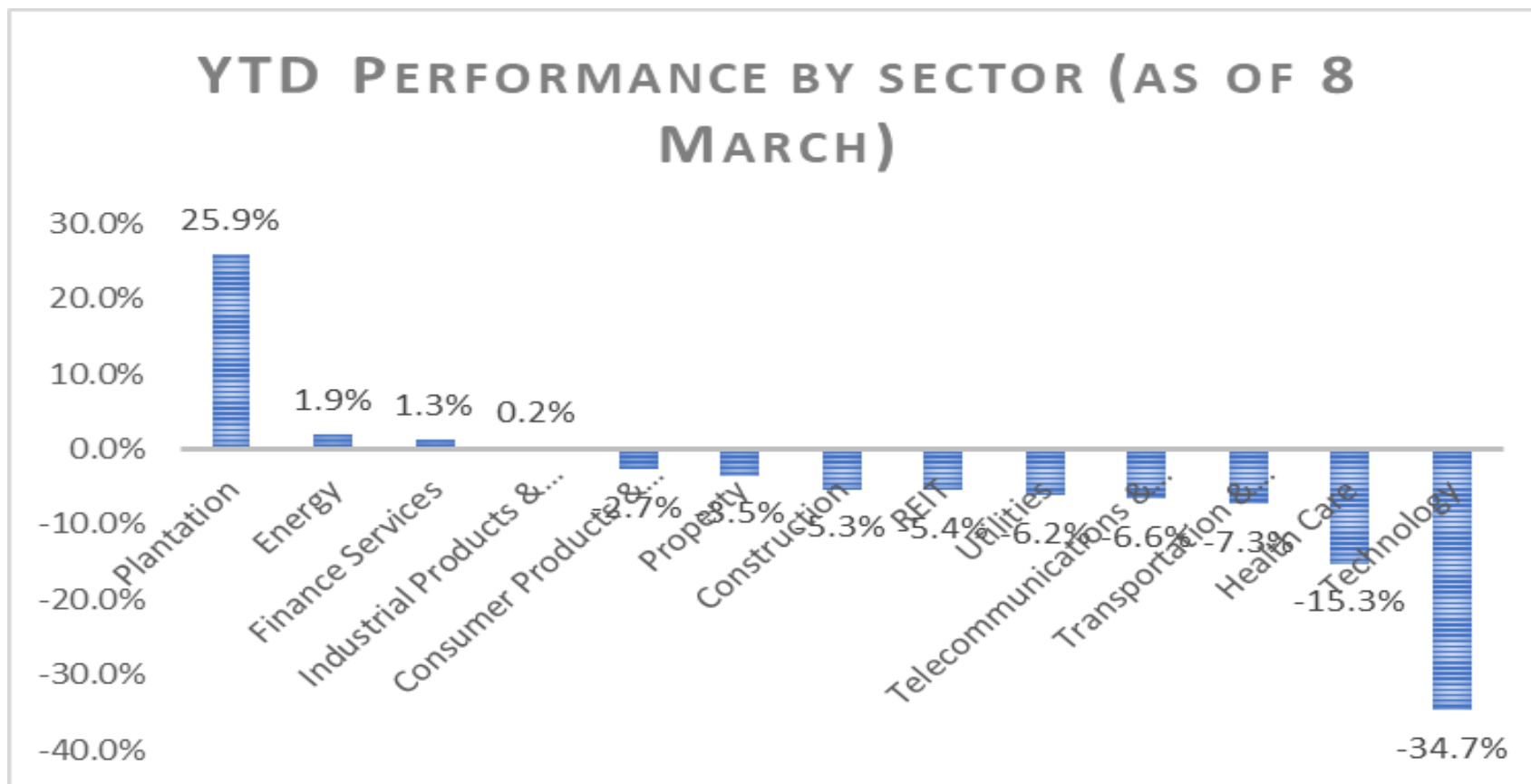
Source: Bloomberg

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# SECTOR PERFORMANCE ANALYSIS

- ❑ YTD 2022, plantation and energy sectors are the early winners while technology and healthcare are the underperformers



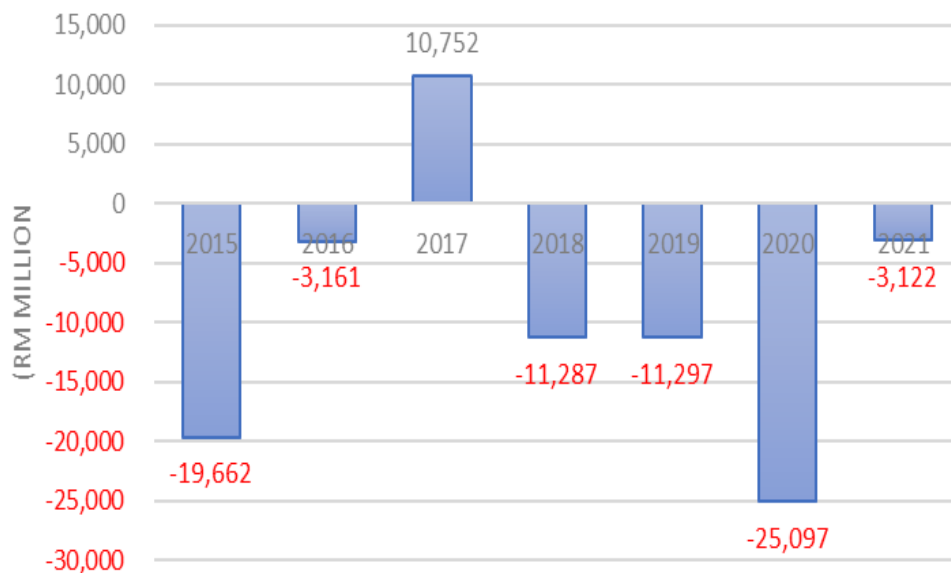
Source: Bloomberg



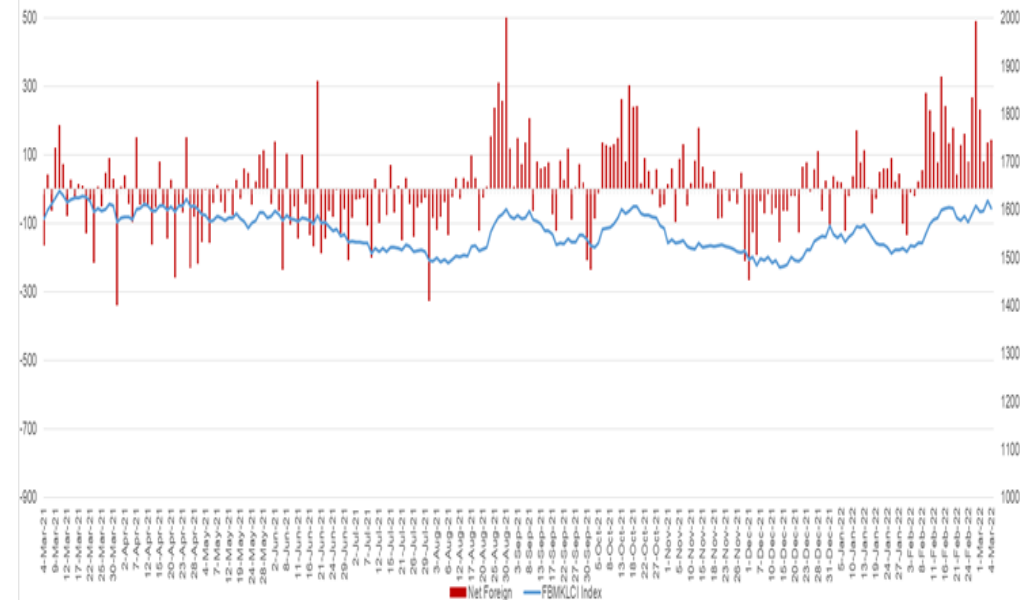
# FOREIGN FUND FLOWS ANALYSIS

- Foreign investors were net sellers on Bursa Malaysia every year since 2015 except for 2017.
- But YTD 2022, foreigners registered net monthly inflows in January (RM332m) and February (RM2,843m).

Yearly Foreign Fund Flows on Bursa Malaysia  
(2015 - 2021)



Weekly Foreign Fund Flows On Bursa Malaysia  
(for the past 1 year)



Source: Bursa Malaysia, Kenanga Research

# GLOBAL INVESTMENT ENVIRONMENT TODAY

- ❑ The Investment World Today:
  - Global economy is on a recovery path.
  - Central bankers plan to unwind their quantitative easing programs gradually.
  - Elevated inflationary pressures arising from soaring commodity prices (e.g. crude oil, edible oils, metals), supply chain bottlenecks and increased transportation / logistic costs.
  - Interest rate hikes on the horizon attributable to tightening monetary policies and high inflation outlook.
  - Potential financial market disruptions from international fund flow movements.
  - Covid-19 threat (from new variants) still exists to derail the economic recovery momentum.
  - Heightened geopolitical tensions triggered by Ukraine invasion by Russia.



# STOCK MARKET REACTIONS TO PAST WAR EVENTS

- ❑ No two wars are exactly the same.
- ❑ As a rough guide, past stock market corrections triggered by war breakouts have been generally shallow.
- ❑ Following initial knee-jerk sell-offs, stock markets have subsequently bounced back.
- ❑ The key assumption is that the worst from the war event would be over when it appears clear that the conflicts are not expected to spread and prolong.





# STOCK MARKET REACTIONS TO PAST WAR EVENTS

- ❑ The Gulf War (when Iraq invaded Kuwait): 2 Aug 1990 to 28 Feb 1991

S&P500



KLCI



Source: Kenanga Research, various media websites

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# STOCK MARKET REACTIONS TO PAST WAR EVENTS

- ❑ The Iraq War (when US invaded Iraq): 20 Mar 2003 to 9 Apr 2003

S&P500



KLCI



Source: Kenanga Research, various media websites

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# STOCK MARKET REACTIONS TO PAST WAR EVENTS

- Annexation of Crimea by Russia: 20 Feb 2014 to 17 Mar 2014

S&P500



KLCI



Source: Kenanga Research, various media websites

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# CORPORATE EARNINGS OUTLOOK ON BURSA MALAYSIA

- ❑ Corporate Malaysia's earnings are showing a strengthening trend, recovering from the Covid-19 pandemic effects.
- In the just concluded 4QCY21 results season, out of the 129 stocks under our coverage that reported results, 31% beat expectations, 43% were within and 26% came in below par.
- Sector-wise, automotive, media, healthcare, plantation and banking sectors surprised on the upside while building materials and gaming missed expectations.
- Kenanga Research is now forecasting the FBMKLCI's earnings growth at -0.3% for CY22 and 12.2% for CY23.
- Our FBMKLCI year-end target stands at 1,670, which implies a FY22E PER of 15.0x.



# THE INVESTMENT LANDSCAPE IN MALAYSIA

- ❑ What investors expect:
  - The Malaysian economy is on a recovery trajectory.
  - Corporate earnings are on the mend.
  - Foreign funds are returning as net buyers after a long absence.
  - Inflationary pressures are manageable (partly shielded by subsidies and price controls mechanism).
  - Interest rate hikes likely in the second half of 2022.
  - Further relaxation of Covid-19 restriction measures as the country plans to live with the virus (transition to endemic phase from 1 April 2022).
  - Political question mark as GE15 may be held sometime this year.
  - The Malaysian bourse will continue to face market volatility going forward.



# RISK FACTORS WATCH LIST

- Escalating inflationary pressures - on account of runaway commodity prices, heightened logistic costs and supply chain disruptions - could lead to stagflation.
- Faster and larger than expected interest rate hikes will divert fund outflows from emerging markets.
- Covid-19 resurgence threat may derail the global economic recovery momentum.
- Prolonged and spreading geopolitical conflicts will change the global economic / investment equation.
- GE15 outcome uncertainties may cause investors to be wary and stay on the sideline.



# INVESTMENT THEMES

- ❑ Beaten down stocks with sound fundamentals still intact.
- ❑ Economic / international borders reopening plays that stand to benefit from a resumption of economic activities.
- ❑ Laggard stock names that could play catch up (as value emerges).



# OUR SHARIAH STOCK PICKS

## ❑ INARI (0166) - OUTPERFORM / Target Price: RM4.60

- An Outsourced Semiconductor Assembly & Test (OSAT) service provider for the semiconductor industry, covering radio frequency, fiber-optics transceivers, optoelectronics, sensors and custom integrated circuit technologies.
- Proxy to 5G rollout, as it is a beneficiary of 5G adoption in end devices.
- Robust earnings momentum (just achieved a record high quarterly net profit of RM108m in 2QFY22). Net cash of RM1.95b (or 52.6 sen/share) as of end-Dec 2021.
- TP of RM4.60 based on CY22E PER of 40x (+2SD to 3-year mean), which is justified by a super upcycle driven by 5G theme.

Summary Earnings Table			
FYE Jun (RM m)	2021A	2022E	2023E
Turnover	1,428.7	1,750.1	2,006.1
Pretax Profit	352.2	432.2	495.6
Net Profit (NP)	330.5	399.0	457.5
Consensus (NP)	n.a.	397.5	457.7
EPS (sen)	10.0	10.8	12.3
EPS growth (%)	112.2	7.6	14.7
DPS (sen)	11.0	9.6	11.0
PER (x)	26.4	24.4	21.5
Gearing (x)	0	0	0
Dividend Yield (%)	4.2	3.6	4.2

*\* Based on closing price as of 8 March (RM): 2.64*



# OUR SHARIAH STOCK PICKS

## ❑ INARI (0166) - Technical View (Share price as of 8 March: RM2.64)

➤ Share price has fallen from a high of RM4.30 in November last year to RM2.64, down 39%.

➤ Downside support may be cushioned by the Fibonacci retracement level (@ 50%), which has been tested recently.

➤ Stock could rebound as both the MACD and RSI indicators are set to reverse from their oversold positions.



## OUR SHARIAH STOCK PICKS

### ❑ KGB (0151) - OUTPERFORM / Target Price: RM1.90

- An integrated engineering services provider with a niche in ultra high purity (UHP) gas and chemical delivery solutions for the high technology industry. Also in the industrial gases business (providing on-site gas supply & manufacturing of liquid carbon dioxide).
- Reported record net profit of RM31.8m in FY21. Forward earnings visibility from outstanding orderbook of RM1.1b (as of 31 Dec 2021), which covers 2x FY21's revenue.
- Exposure to the front-end semiconductor supply chain, riding on the expansion of wafer fab capacity amid chips shortage.
- TP of RM1.90 based on 27x FY22E PER (+1SD to 5-year peers' mean).

Summary Earnings Table			
FYE Dec (RM m)	2021A	2022E	2023E
Turnover	517.7	687.1	590.7
Pretax Profit	38.5	54.1	47.6
Core Net Profit	31.8	44.7	39.3
Consensus (NP)	-	45.6	38.7
Core EPS (sen)	4.9	7.0	6.1
Core EPS growth (%)	78.8	40.6	-12.1
DPS (sen)	1.5	1.7	1.5
Core PER (x)	23.1	16.1	18.5
Gearing (%)	0.3	0.2	0.2
Dividend Yield (%)	1.3	1.5	1.3
* Based on closing price as of 8 March (RM):			1.13





# OUR SHARIAH STOCK PICKS

## ❑ KGB (0151) - Technical View (Share price as of 8 March: RM1.13)

- After sliding from a high of RM1.86 in early January this year to RM1.13 currently (-39%), a share price bottom may be near.
- Downside supports are seen at the Fibonacci retracement levels of 50% and 61.8%.
- Stock is in a position to reverse from the lower Bollinger Band as RSI unwinds from an oversold zone, setting the stage for an ensuing technical rebound.



## OUR SHARIAH STOCK PICKS

### ❑ GHLSYS (0021) - OUTPERFORM / Target Price: RM1.90

- A leading ASEAN payment services provider with operations in Malaysia, Philippines, Thailand, Indonesia and Australia, offering multiple payment services (physical, e-commerce and QR payments).
- Regional re-opening play, via >383,600 footprint of payment touchpoints across its ASEAN markets that enable credit/debit card, e-wallets, contactless payment, loyalty, prepaid credit top up, and bill collection payment services.
- Target Price of RM1.90 based on FY22E PER of 45x, representing +0.5 SD from 5-year mean.

Summary Earnings Table			
FYE Dec (RM m)	2021A	2022E	2023E
Turnover	360.2	475.0	507.5
Pretax Profit	40.7	68.1	76.5
Core NP (CNP)	28.1	47.1	52.9
Consensus (NP)	n.a	43.9	56.6
EPS (sen)	2.5	4.1	4.6
EPS growth (%)	-8.9	67.5	12.3
DPS (sen)	0	0	0
PER (x)	56.0	34.1	30.4
Gearing (x)	0.1	0.1	0.1
Dividend Yield (%)	0	0	0

*\* Based on closing price as of 8 March (RM): 1.40*



# OUR SHARIAH STOCK PICKS

## ❑ GHLSYS (0021) - Technical View (Share price as of 8 March: RM1.40)

- Stock is in the midst of a downtrend since pulling back from a high of RM2.05 in mid-October last year to RM1.40 (-32%).
- Share price is now back to where it was in October 2020, likely to find immediate support at the 50% Fibonacci retracement level.
- A technical reversal could be on the cards when the MACD and RSI indicators swing up from their oversold territories.



# OUR SHARIAH STOCK PICKS

## ❑ DIALOG (7277) - OUTPERFORM / Target Price: RM3.30

- A leading integrated technical service provider to the energy sector, with a comprehensive variety of services covering upstream assets & services, mid-stream assets & services and downstream integrated technical services.
- Key catalyst lies in the future developments of Pengerang Phase 3 while its mid-stream assets will provide earnings defensiveness and resiliency.
- TP of RM3.30 based on sum-of-parts valuation methodology.

Summary Earnings Table			
FYE Jun (RM m)	2021A	2022E	2023E
Revenue	1,609.9	1,828.0	2,728.0
Pretax Profit	595.0	653.5	739.4
Core Net Profit (CNP)	531.1	540.0	611.3
Consensus (NP)	-	576.6	645.3
Core EPS (sen)	9.4	9.6	10.8
CNP Growth (%)	-11.7	1.7	13.2
DPS (sen)	3.1	2.9	3.3
PER (x)	27.9	27.3	24.3
Net Gearing (%)	0.1	0.2	0.1
Dividend Yield (%)	1.2	1.1	1.3
* Based on closing price as of 8 March (RM):			2.62



# OUR SHARIAH STOCK PICKS

## ❑ DIALOG (7277) - Technical View (Share price as of 8 March: RM2.62)

- Following a retracement from a peak of RM3.96 in end-May 2020 to a trough of RM2.29 in early-October last year, the stock has since bounced up.
- With the stochastic indicator on the verge of climbing out from an oversold area, the share price could see an upward shift ahead.
- Favourable risk versus return investment trade-off.



## OUR SHARIAH STOCK PICKS

### ❑ PESTECH (5219) - OUTPERFORM / Target Price: RM1.11

- An integrated electrical power technology company that offers solutions for high voltage and extra high voltage electrical systems, which include EPCC of substations, transmission line and power cables, infrastructure asset management, power generation, rail electrification & signalling as well as power distribution & smart grid.
- A niche utility infrastructure play offering exposure to the booming energy infrastructure and rail electrification jobs in ASEAN.
- Existing orderbook of RM2bn as of end-Dec 2021, boosted by the KLIA aerotrain contract win in December 2021 worth RM743m.
- Target price of RM1.11 based on 3-year moving mean of 14x FY22 PER.

#### Summary Earnings Table

FYE Jun (RM m)	2021A	2022E	2023E
Turnover	889.4	1,000.0	1,050.0
Pretax Profit	113.8	111.0	118.9
Net Profit (NP)	66.4	75.7	87.0
Core Net Profit	72.4	75.7	87.0
Consensus (NP)	N/A	N/A	N/A
Core EPS (sen)	7.6	7.9	9.1
Core EPS growth (%)	38.8	4.7	14.9
DPS (sen)	1.0	0.0	0.0
Core PER (x)	7.6	7.3	6.4
Gearing (%)	1.8	1.5	1.1
Dividend Yield (%)	1.7	0.0	0.0

\* Based on closing price as of 4 March (RM): 0.58



# OUR SHARIAH STOCK PICKS

## ❑ PESTECH (5219) - Technical View (Share price as of 8 March: RM0.58)

- Stock has fallen from a high of RM1.00 in November 2021 to RM0.58, a drop of 42%.
- With the share price crossing back above the lower Bollinger Band and the RSI unwinding from an oversold position, a technical rebound is anticipated.
- Attractive risk versus return investment trade-off.





# Q & A



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# Thank You!

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