

RHB Research: ESG Matters

Shariah ESG Stock Universe Performance Update

RHB Research

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Stock Ratings:

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

Industry / Sector Ratings:

Overweight	The industry expected to outperform the benchmark index, weighted by market capitalisation, over the next 6-12 months.
Neutral	The industry is expected to perform in line with the benchmark index, weighted by market capitalisation, over the next 6-12 months.
Underweight	The industry is expected to underperform the benchmark index, weighted by market capitalisation, over the next 6-12 months.

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-	-

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Our proprietary ESG scoring methodology

- **We developed our in-house methodology – rather than rely on assessments done by third-party vendors** in order to get a better grasp on the scores.
- **When.** We first introduced our ESG methodology in Oct 2020, and have gradually applied these metrics to the universe of stocks we cover in all jurisdictions
- **Why.** To make our company-specific ESG assessments more relevant, we now integrate our ESG scores into the valuations of all companies under coverage.
- **How.**
 - The method we are adopting uses our derived ESG scores (outlined in our thematic research report from Oct 2020);
 - After that, we compare the ESG scores of the individual stocks we cover against the country's median, to derive the differential;
 - We then quantify that departure, and convert the ESG score into a discount/premium to be incorporated into equity valuation.

RHB's ESG methodology, scores, and local regulations.; Links to reports according to market are below.

- **Malaysia:** [Environmental, Social, And Governance : EnviSioninG a Better Future \(2 Oct 2020\)](#)
- **Thailand:** [Thailand Thematic : Environmental, Social, and Governance \(2 Dec 2020\)](#)
- **Singapore:** [Environmental, Social, And Governance: ESG : The New Way Forward For SG Equities](#)
- **Indonesia:** [Indonesia Environmental, Social, And Governance: ESG – The Way Forward For Conscious Investing](#)

Our proprietary ESG scoring methodology

Environmental rating		Weak (Low score)	Moderate (Medium score)	Good (High score)	Excellent (The highest score)
Environmental	A	Climate Change (CO2 emissions)	Hazardous CO2 emissions		Low CO2 emissions
	B	Natural Resources preservation (use of water, biodiversity and land use, raw material sourcing)	Does not capture the efficient use of natural resources		Captures the efficient use of natural resources
	C	Pollution & Waste (toxic emissions and waste, packaging material waste, electronic waste)	Hazardous pollution and waste		Does not pollute

Social rating		Weak (Low score)	Moderate (Medium score)	Good (High score)	Excellent (The highest score)
Social	D	Health & safety	No focus on labor standards through its business activities		Focus on labor standards (ex safety, etc) through most business activities
	E	Community engagement (access to public transportation, education, etc)	Low level of community engagement		High level of community engagement
	F	Employee relations	Low employee satisfaction; no access to healthcare or to finance		High employee satisfaction. Focus on human capital and workplace related health (good medical insurance) and safety

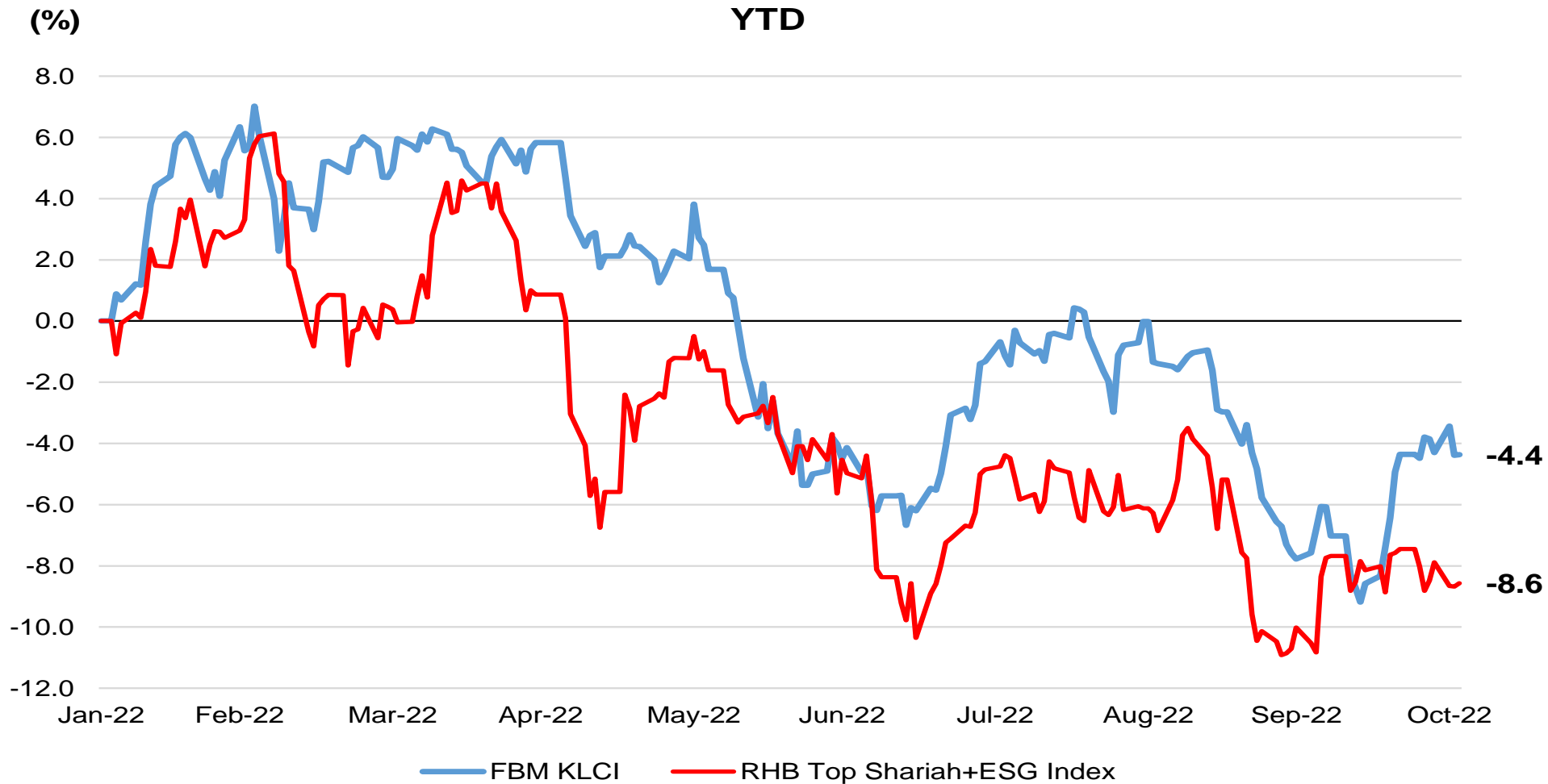
Governance rating		Weak (Low score)	Moderate (Medium score)	Good (High score)	Excellent (The highest score)
Governance	G	Board independence	Board/pay; Frequent change of auditor; Low earnings quality, governance use of leverage, etc		High earnings quality, governance in use of leverage, etc
	H	Transparency & disclosure	Low level of transparency, business ethics, disclosure of info about the business		High level of transparency, business ethics, disclosure of info about the business activities activities
	I	Shareholder rights	Low level of transparency concerning shareholders rights		Shareowners can actively exercise their rights to vote and engage with the companies they own.

Highest ESG-Scoring Shariah-Compliant Stocks Under Coverage

Stock	Mkt Cap (MYR m)	Price (MYR)	TP (MYR)	P/E (x)		EPS Growth (%)		Yield (%)	ESG Score
				FY23F	FY24F	FY23F	FY24F	FY23F	
Press Metal	36,172	4.39	5.73	18.1	17.7	7.0	2.3	1.7	3.44
Sunway Bhd	7,725	1.58	2.06	15.9	14.1	14.2	12.8	3.2	3.40
GHL Systems	799	0.70	0.88	26.0	22.1	19.8	17.8	0.0	3.30
FM Global Logistics	304	0.55	1.01	6.9	6.6	(4.8)	5.6	7.3	3.30
Farm Fresh^	2,991	1.61	1.85	26.1	21.0	31.5	24.1	1.0	3.30
UEM Edgenta	882	1.06	1.46	9.7	8.9	28.0	9.2	6.7	3.22
Axis Reit	3,003	1.83	2.19	17.2	16.3	8.7	5.3	5.8	3.20
Scientex	5,072	3.27	4.31	9.6	7.8	38.5	23.4	3.7	3.20
Bermaz Auto^	2,300	1.98	2.35	10.6	9.3	8.6	13.2	7.6	3.20
Mr DIY Group	19,045	2.02	2.90	28.3	25.1	23.7	12.8	1.8	3.20
Sunway Construction	1,960	1.52	1.93	13.0	12.8	7.4	1.8	4.6	3.20
Matrix^	1,789	1.43	1.88	7.4	7.1	11.5	4.3	7.0	3.20

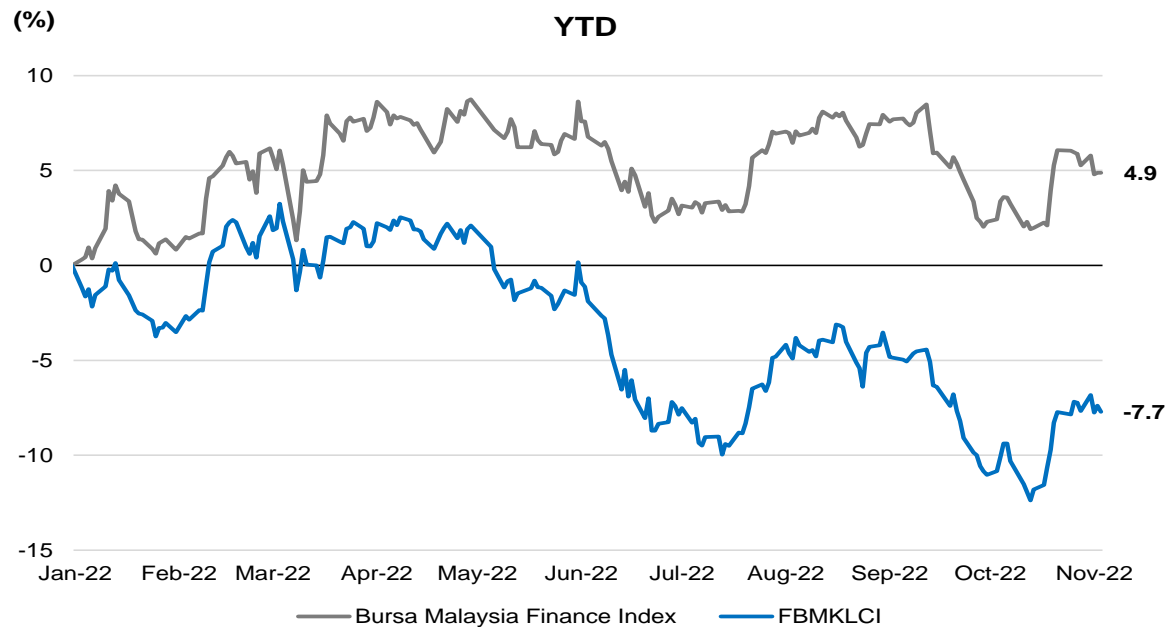
Note: As at 4 Nov 2022
Source: Bloomberg, RHB

YTD, our ESG+Shariah stocks are underperforming the benchmark index...



Note: As at 4 Nov 2022
Source: Bloomberg, RHB

... due to the strong performance of the banking industry



Note: As at 4 Nov 2022
Source: Bloomberg, RHB

FBMKLCI 2022/1/1-2022		Group By	None	Date Range	1/1/22 - 11/2/22	News	History
Start	1567.53	End	1451.61				
Net Chg	-115.92	% Chg	-7.40%				
Current	30	#Up	14				
Additions	0	#Down	16				
Removals	0	#Unch	0				
Leaders							
Name	End Prc	% Chg	Points	%Idx	Mv		
1. Public Bank Bhd	4.45	+10.71%	+21.440	+18.50%			
2. Malayan Banking Bhd	8.54	+9.93%	+15.445	+13.32%			
3. Sime Darby Plantation Bhd	4.37	+19.03%	+7.818	+6.74%			
4. CIMB Group Holdings Bhd	5.49	+5.75%	+6.483	+5.59%			
5. Hong Leong Bank Bhd	20.84	+14.93%	+5.716	+4.93%			
6. IOI Corp Bhd	3.99	+10.63%	+3.906	+3.37%			
7. RHB Bank Bhd	5.60	+11.74%	+3.029	+2.61%			
8. MISC Bhd	7.20	+5.90%	+2.237	+1.93%			
9. Petronas Chemicals Group Bhd	8.65	+2.13%	+1.795	+1.55%			
10. Petronas Dagangan Bhd	22.20	+9.96%	+1.761	+1.52%			
11. Hong Leong Financial Group Bhd	18.72	+8.79%	+1.041	+0.90%			
12. Kuala Lumpur Kepong Bhd	21.24	+1.53%	+0.820	+0.71%			
13. Telekom Malaysia Bhd	5.44	+1.73%	+0.721	+0.62%			
14. Nestle Malaysia Bhd	133.00	+0.40%	+0.091	+0.08%			
15. Sime Darby Bhd	2.19	-0.75%	-0.237	-0.20%			

Source: Bloomberg

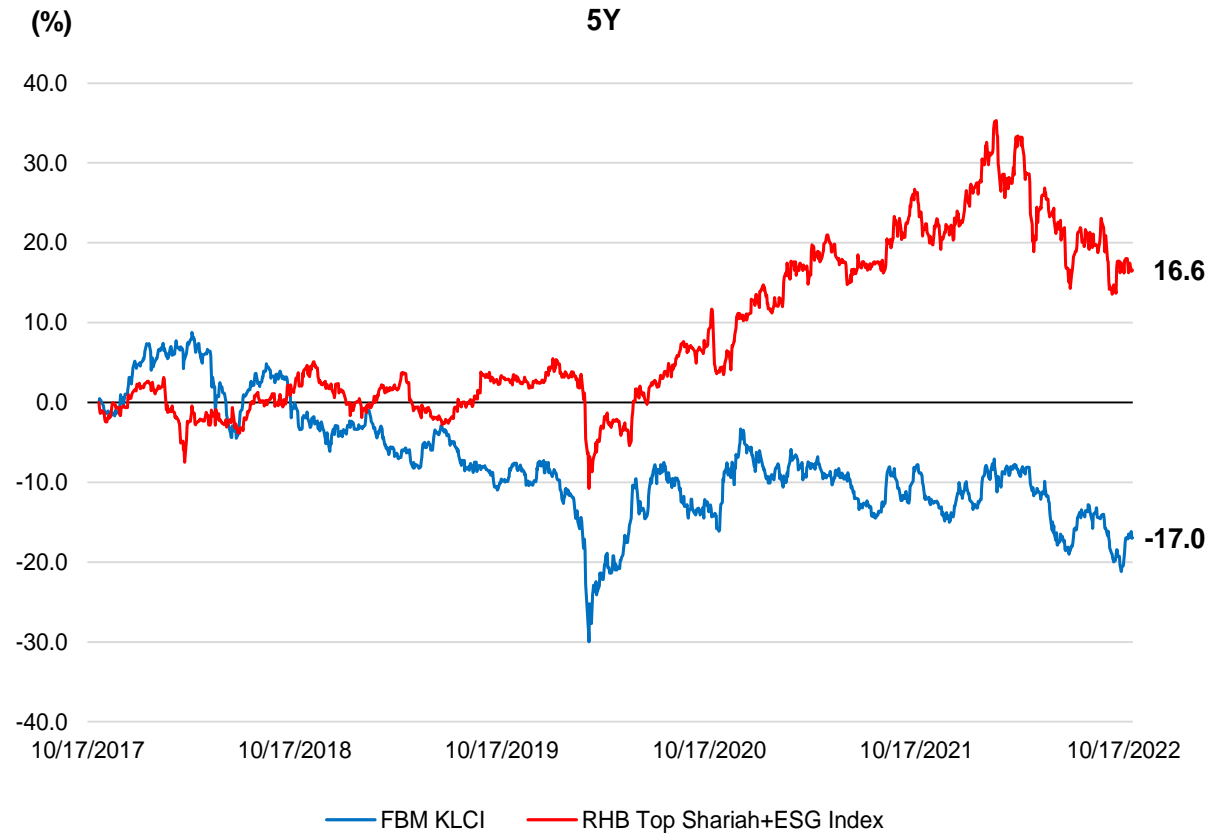
For a number of reasons:

- General economic recovery and stronger-than-expected demand for loans
- Repayment trends steady despite expiry of loan relief assistance programs/moratoriums
- Interest rate hike cycle is a positive for banks' earnings – defensive picks during rise rate environment

Over the medium/long term, our ESG+Shariah stocks are performing well



Note: As at 4 Nov 2022
Source: Bloomberg, RHB



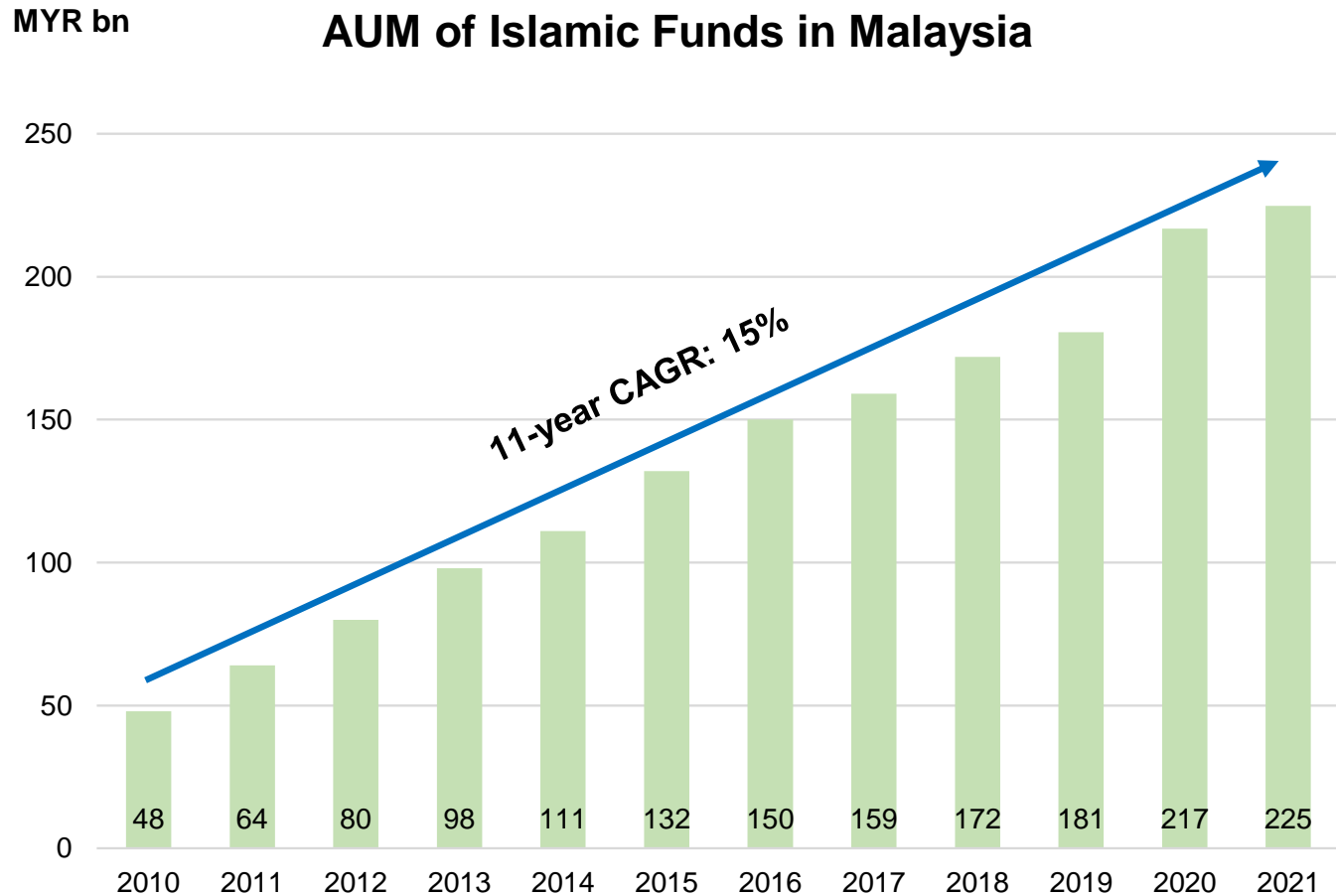
Note: As at 4 Nov 2022
Source: Bloomberg, RHB

ESG stocks offer unique propositions...

- Resilience against environmental, social and governance issues, e.g. floods, climate activism, labour scrutiny, etc.
- Customers are becoming increasingly alert to ESG issues; non-alignment to ESG values could lead to loss of business.
- Inclusion into ESG-related funds and indices (e.g. FTSE4Good Bursa Malaysia) increases visibility and investibility.
- Companies that are ESG-compliant/friendly tend to attract and retain the best talent, especially among millennials/new talent.

PwC insights estimate that Asia-Pacific ESG AUM will increase by a CAGR of 27% between 2021-2026.

... while Shariah-compliant stocks benefit from increasingly popular Islamic asset management



Source: Securities Commission of Malaysia, RHB

- More money to be invested exclusively in Shariah stocks presents capital gain opportunities for good Shariah counters

Key Takeaways

- ESG investing and Shariah investing are gaining steam.
- Fundamentally solid Shariah counters with good ESG scores have historically performed well against the overall market.
- We anticipate the trend will continue as ESG awareness becomes more widespread.

Thank You

