

Strategy

Darkest before dawn – Shariah perspective

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- This report delineates our 2H21F equity strategy outlook from a Shariah perspective.
- The market was hit by a perfect storm in 1H21 with persistently high Covid-19 cases, multiple lockdowns, ESG concerns and political uncertainty.
- At the current run rate, we project Malaysia to be on track to inoculate around 70-80% of the population by 4Q21.
- We expect recovery stocks to see renewed interest in 4Q and the market to re-rate to our KLCI target of 1,604 pts, after an anticipated lacklustre 3Q21.
- We provide six trading themes for 2H21F in this report; our top Shariah sector picks are Islamic banking, healthcare, media, oil & gas, packaging, semiconductor, EMS, transport and utilities.
- Our top three Shariah stock picks are Gamuda, Telekom Malaysia and Unisem.

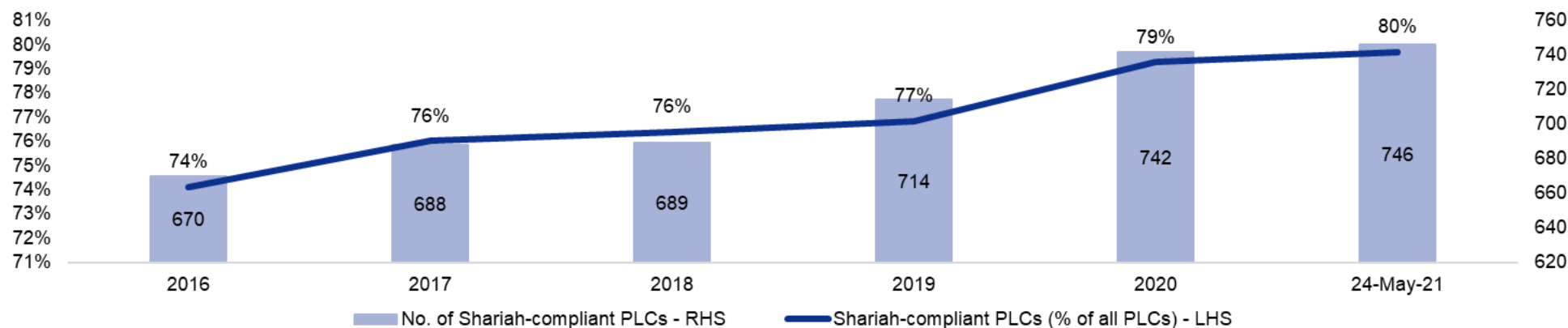
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Key takeaways of our views on the outlook for 2H21F

- The market was hit by a perfect storm in 1H21 with persistently high Covid-19 cases, multiple lockdowns, ESG concerns and political uncertainty.
- We are of the view that market may be lacklustre in 3Q21 due to concerns over political uncertainty and ongoing lockdown measures, which are likely to dent corporate earnings in 2Q21 and 3Q21.
- Our analysis suggests that the government can achieve its target to fully vaccinate 70-80% of the population by 4Q at the current daily vaccination run rate.
- This would pave the way for the economy to fully reopen in 4Q, leading to stronger corporate earnings.
- This could also coincide with the return of net buy flows from local institutional investors, leading the market to re-rate in 4Q21.
- Among the key events to watch in 2H21F are the tabling of the 12th Malaysia Plan and 2022 Budget on 20 Sep and 29 Oct, respectively. The 2Q earnings season in Aug and 3Q earnings season in Nov as well as political developments and parliament meetings in Jul, Sep and Nov are also likely determinants of market direction.
- The key concerns are emergence of Covid-19 variants that are vaccine-resistant, slower-than-expected vaccine rollout, worsening political uncertainty and the sustainability of aggressive fiscal and monetary stimulus measures.
- We expect KLCI earnings to rise 37.4% in 2021F and 1.9% in 2022F. We maintain our end-2021 KLCI target at 1,604 points based on P/E target of 14.2x (1.5 s.d. below 3-year mean P/E).
- We advise investors to position themselves in recovery stocks in Aug/Sep ahead of the expected full reopening of the economy in 4Q21F.
- The six themes for 2H21 are: (1) laggard plays, (2) M&A/value plays, (3) high dividend yielders, (4) beneficiary of OPR rate hikes, (5) recovery plays, and (6) ESG picks. Our top three picks are Gamuda, Telekom and Unisem.
- Our preferred sectors are Islamic banks, oil and gas, media, healthcare, EMS, technology, packaging, transport and utilities.

Shariah-compliant PLCs rising over the past years



Main Market/Ace Market	No. of shariah compliant securities	Sectoral breakdown (%)	Total securities in Bursa Malaysia	% of shariah-compliant securities within the sector
Industrial products & services	222	30%	266	83%
Consumer products & services	147	20%	197	75%
Property	88	12%	99	89%
Technology	85	11%	100	85%
Construction	55	7%	59	93%
Plantation	34	5%	43	79%
Transportation and logistics	27	4%	35	77%
Energy	28	4%	33	85%
Telecommunications & media	23	3%	32	72%
Healthcare	23	3%	24	96%
Utilities	11	1%	13	85%
Financial services	3	0%	33	9%
SPAC			1	na
Closed-end funds			1	na
Total	746	100%	936	80%

Data as at 24-May-21

SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA, SECURITIES COMMISSION

Increasing interest in Shariah investments

- The total Islamic assets under management for the Malaysian fund management industry grew from 22% of total assets in 2017 to 23.7% in May 2021.
- The Islamic unit trust size expanded at a faster pace, accounting for 24.7% of the total net asset value of unit trusts in May 2021 vs. 18.2% in 2017. Total Islamic assets under management stood at RM223.7bn at end-May 2021.

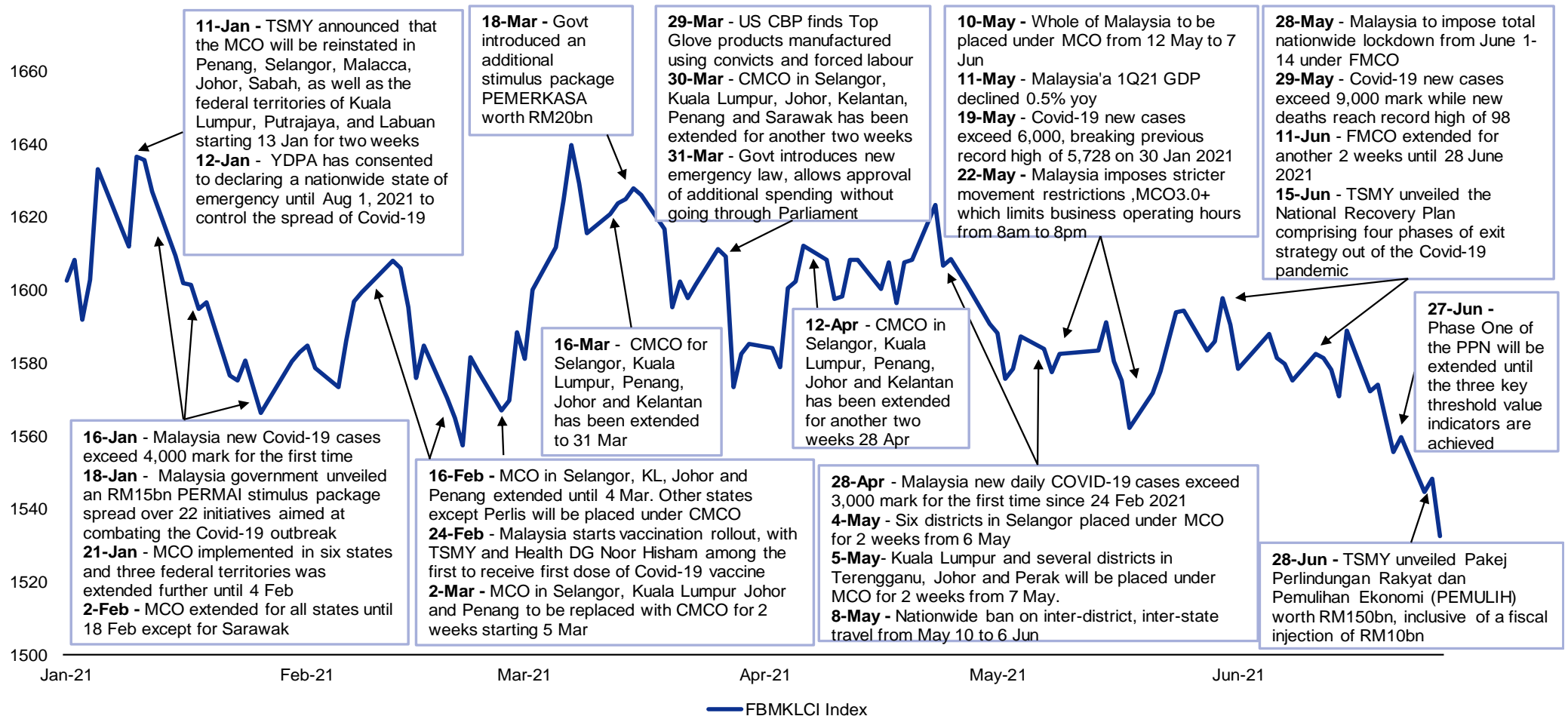
Period	Islamic Assets under Management (RM bn)	Islamic Assets under Management (% of total)	Islamic Unit Trust Net Asset Value (RM bn)	Islamic Unit Trust Net Asset Value (% of total)
Annual				
2017	170.8	22.0	77.8	18.2
2018	158.8	21.4	83.5	19.6
2019	180.5	21.9	107.3	22.3
2020	216.8	23.9	128.5	24.7
Monthly				
Jan-21	220.4	24.2	131.7	25.2
Feb-21	220.3	23.9	130.7	24.8
Mar-21	224.9	24.2	134.6	25.2
Apr-21	222.9	23.7	132.6	24.7
May-21	223.7	23.7	133.0	24.7

SOURCES: CGS-CIMB RESEARCH, SECURITIES COMMISSION

Recap of market performance in 1H21

- The KLCI fell 6% or 95 pts in 1H21 as the market was hit by a series of negative newsflows – declaration of state of emergency in Jan to combat Covid-19, reinstatement of various Movement Control Orders in 1H21, rise in Covid-19 cases and slow vaccination progress.
- 1H21 was a less volatile ride vs. 1H20 due to the availability of Covid-19 vaccines, high commodity prices, strong exports in 1H21 and various stimulus measures announced by the government.
- However, the market was not able to leverage the positive newsflow we had predicted in 1H21 as the strong 1Q results season and liquidity from stimulus measures were offset by concerns over stricter movement controls in 1H21, persistently high Covid-19 cases due partly to the emergence of new Covid-19 variants, slow vaccination progress, and political uncertainty.
- We are of the view that these, along with various ESG risks affecting Malaysian listed companies, have led foreign investors to reduce their exposure to Malaysia, further dampening the Malaysian stock market's performance in 1H21.
- The fund flows data showed foreign investors net sold RM4.2bn worth of Malaysian equities in 1H21 and foreign shareholdings in Malaysia fell 0.4%-pt from 20.7% as at end-Dec 2020 to 20.3% as at end-Jun 2021.

Key market events in 1H21



MCO: Movement Control Order

CMCO: Conditional Movement Control Order

FMCO: Full Movement Control Order

TSMY: Tan Sri Mahiaddin Yassin, Prime Minister of Malaysia

YDPA: Malaysia's King, Yang di-Pertuan Agong Al-Sultan Abdullah Ri'ayatuddin Al-Mustafa Billah Shah

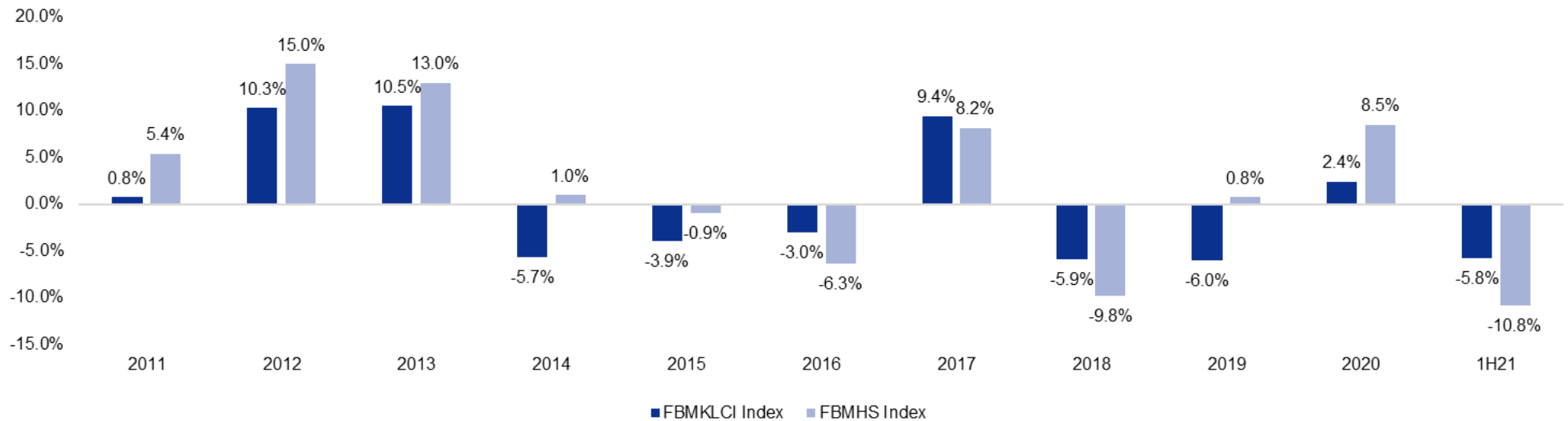
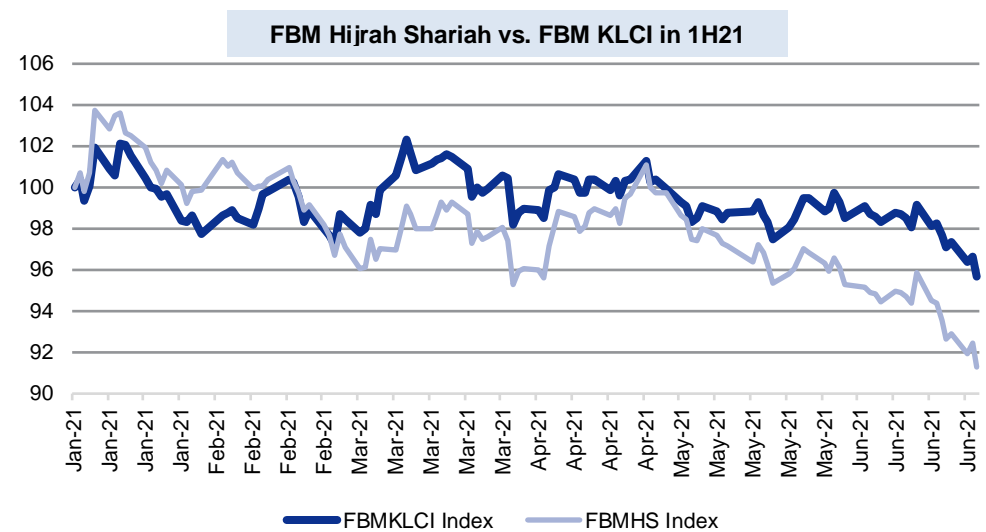
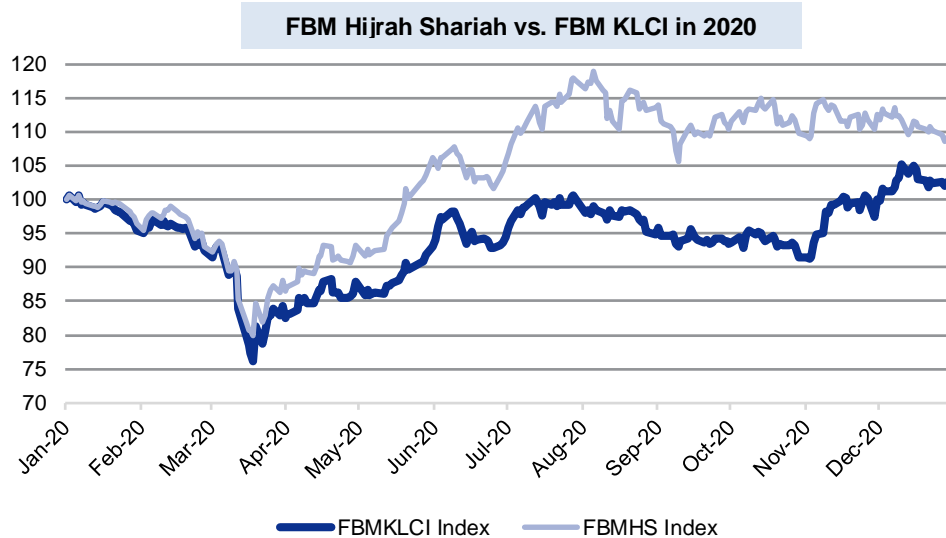
Data up to 30-Jun-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, VARIOUS NEWS ARTICLES

Comparing performances of FBM KLCI and FBM Hijrah index

- The FBM KLCI comprises the 30 largest companies on Bursa Malaysia by market capitalisation that meet the eligibility criteria of FTSE Bursa Malaysia Index Ground Rules.
- FBM Hijrah Shariah Index outperformed the conventional FBM KLCI index in seven out of the past ten years (2011-20).
- A closer analysis reveals that one of the key determinants of the relative performance of KLCI vs. Hijrah Shariah Index is the banking sector's performance.
- This is because six out of the 30 constituents in the KLCI index are banks that are non-Shariah compliant; these formed around 35% of KLCI's total weightage on 30 June 2021.
- As at 30 June 2021, the key heavyweights in the Hijrah Shariah index were the telecommunications (19.13% of total index weight), food and beverages (17.41%), healthcare (16.79%) and utilities (14.81%) sectors.
- The top three companies with the highest weightage in FBM Hijrah Shariah Index are Tenaga, Petronas Chemical and Top Glove.

FBM Hijrah Shariah outperformed FBM KLCI in 7 out of the past 10 years



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

FBM KLCI vs. FBM Hijrah Shariah index

FBM KLCI Top 10 Constituents	
Constituent	Weight (%)
Public Bank	13.09
Malayan Banking	10.01
Tenaga Nasional	7.88
CIMB Group Holdings	6.62
Petronas Chemicals Group	4.69
Top Glove Corp	4.53
Press Metal Aluminium Holdings	3.74
Axiata Group	3.56
IHH Healthcare	3.35
Digi.com	3.11
Total	60.58

FBMKLCI sector breakdown		
Sector	No. of constituents	Weight (%)
Telecommunications	4	11.6
Food Beverage and Tobacco	5	11.5
Health Care	3	10.2
Utilities	2	9.7
Chemicals	1	4.7
Energy	2	4.1
Basic Resources	1	3.7
Industrial Goods and Services	3	5.0
Retailers	1	0.7
Travel and Leisure	2	3.9
Banks	6	34.8
Total	30	100.0

FBM Hijrah Shariah Top 10 Constituents	
Constituent	Weight (%)
Tenaga Nasional	12.03
Petronas Chemicals Group	7.15
Top Glove Corp	6.92
Press Metal Aluminium Holdings	5.7
Axiata Group	5.44
IHH Healthcare	5.11
Digi.com	4.75
Sime Darby Plantation	4.46
Dialog Group	4.15
Maxis	3.78
Total	59.49

FBM Hijrah Shariah sector breakdown		
Sector	No. of constituents	Weight (%)
Telecommunications	5	19.1
Food Beverage and Tobacco	7	17.4
Health Care	4	16.8
Utilities	2	14.8
Chemicals	1	7.2
Energy	2	6.2
Basic Resources	1	5.7
Industrial Goods and Services	3	4.3
Retailers	1	1.1
Construction and Materials	2	4.0
Technology	2	3.4
Total	30	100.0

Note : Data as at end-Jan 21

SOURCES: CGS-CIMB RESEARCH, FTSE RUSSELL BLOOMBERG

Shariah indices underperformed conventional indices in 1H21

- The technology and transport sectors were the top performing sectors in 1H21.
- The energy, plantation and healthcare sectors were the worst performing sectors in 1H21.
- FBM Hijrah Shariah and FBM Emas Shariah indices underperformed the FBM KLCI indices in 1H21. This is due mainly to the outperformance of the finance sector against the healthcare and utilities sectors in 1H21.

Index	2015	2016	2017	2018	2019	2020	1H21
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	% chg
Bursa Malaysia Technology	52.4%	-13.3%	89.7%	-29.9%	29.2%	83.9%	13.0%
Bursa Malaysia Transport	2.4%	0.2%	6.9%	-32.1%	4.6%	4.7%	9.1%
FBM Fledgling	18.2%	-4.5%	17.0%	-23.3%	6.7%	30.3%	4.8%
Bursa Malaysia Industrial Production	21.6%	-7.3%	21.1%	-4.8%	-7.9%	16.1%	4.6%
Bursa Malaysia Telecom	-2.8%	-7.3%	-2.5%	-39.0%	12.1%	-2.0%	4.5%
FBM Small Cap	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	-0.9%
Bursa Malaysia Finance	-9.8%	1.6%	17.2%	2.6%	-10.6%	-1.0%	-1.4%
Bursa Malaysia Consumer	5.8%	-2.1%	12.1%	1.6%	-0.3%	-7.6%	-2.0%
FBM Small Cap Shariah	9.5%	-9.4%	11.1%	-34.8%	26.9%	15.4%	-2.1%
Bursa Malaysia REIT	-0.9%	11.2%	4.8%	-12.5%	4.1%	-13.4%	-2.5%
FBM Mid 70	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-4.4%
Bursa Malaysia Property	-7.6%	-5.0%	8.8%	-28.6%	-5.2%	-11.5%	-4.7%
FBM Emas	-2.3%	-2.8%	12.9%	-10.9%	-1.8%	3.9%	-5.1%
FBM Top 100	-2.9%	-2.5%	12.7%	-9.3%	-2.9%	3.5%	-5.5%
FBM KLCI	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-5.8%
FBM Emas Shariah	2.3%	-6.1%	10.7%	-13.5%	3.9%	10.1%	-7.5%
Bursa Malaysia Utilities	1.5%	-5.0%	-2.1%	-5.4%	7.8%	-1.6%	-8.1%
Bursa Malaysia Construction	-0.8%	3.0%	9.8%	-50.2%	34.3%	-10.8%	-10.2%
FBM Hijrah Shariah	-0.9%	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.8%
Bursa Malaysia Energy	-18.8%	-18.9%	32.5%	-36.6%	51.3%	-27.8%	-11.9%
Bursa Malaysia Plantation	-3.4%	1.7%	2.0%	-12.7%	12.0%	-5.6%	-12.3%
Bursa Malaysia Healthcare	60.9%	-12.0%	18.5%	10.1%	-4.2%	185.6%	-19.2%
FBM Ace	13.0%	-25.2%	38.1%	-34.6%	21.1%	105.4%	-35.3%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Performance of global and regional markets

- Malaysia was the worst performer and the only market that posted negative returns among the MIST (Malaysia, Indonesia, Singapore and Thailand) markets in 1H21. This could be due partly to profit-taking in glove sectors after its outperformance in 2020.

Global indexes	2015	2016	2017	2018	2019	2020	1H21
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	chg
Taiwan TaieX Index	-10.4%	11.0%	15.0%	-8.6%	23.3%	22.8%	20.5%
KOSPI Index	2.4%	3.3%	21.8%	-17.3%	7.7%	30.8%	14.7%
Dow Jones Indus. Avg	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	12.7%
Nasdaq Composite Index	5.7%	7.5%	28.2%	-3.9%	35.2%	43.6%	12.5%
S&P BSE Sensex Index	-5.0%	1.9%	27.9%	5.9%	14.4%	15.8%	9.9%
FTSE 100 Index	-4.9%	14.4%	7.6%	-12.5%	12.1%	-14.3%	8.9%
Hang Seng Index	-7.2%	0.4%	36.0%	-13.6%	9.1%	-3.4%	5.9%
MSCI AC Asia x Japan	-11.3%	2.9%	38.7%	-16.4%	15.4%	22.5%	5.5%
Nikkei 225	9.1%	0.4%	19.1%	-12.1%	18.2%	16.0%	4.9%
Shanghai SE Composite Index	9.4%	-12.3%	6.6%	-24.6%	22.3%	13.9%	3.4%
FTSE Bursa Malaysia KLCI	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-5.8%
FBM Hijrah Shariah	-0.9%	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.8%

Regional indexes	2015	2016	2017	2018	2019	2020	1H21
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	chg
Straits Times Index STI	-14.3%	-0.1%	18.1%	-9.8%	5.0%	-11.8%	10.1%
Thai Index	-14.0%	19.8%	13.7%	-10.8%	1.0%	-8.3%	9.6%
Jakarta Composite Index	-12.1%	15.3%	20.0%	-2.5%	1.7%	-5.1%	0.1%
PSEi - Philippine SE Index	-3.9%	-1.6%	25.1%	-12.8%	4.7%	-8.6%	-3.3%
FBM KLCI	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-5.8%
FBM Hijrah Shariah	-0.9%	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.8%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Only 9 KLCI constituents delivered positive returns in 1H21

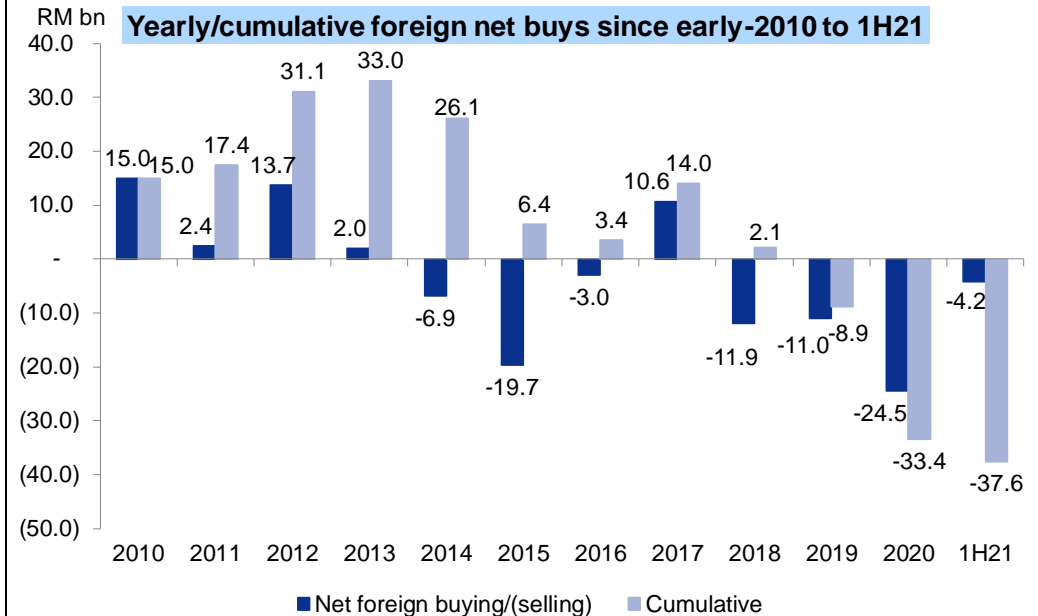
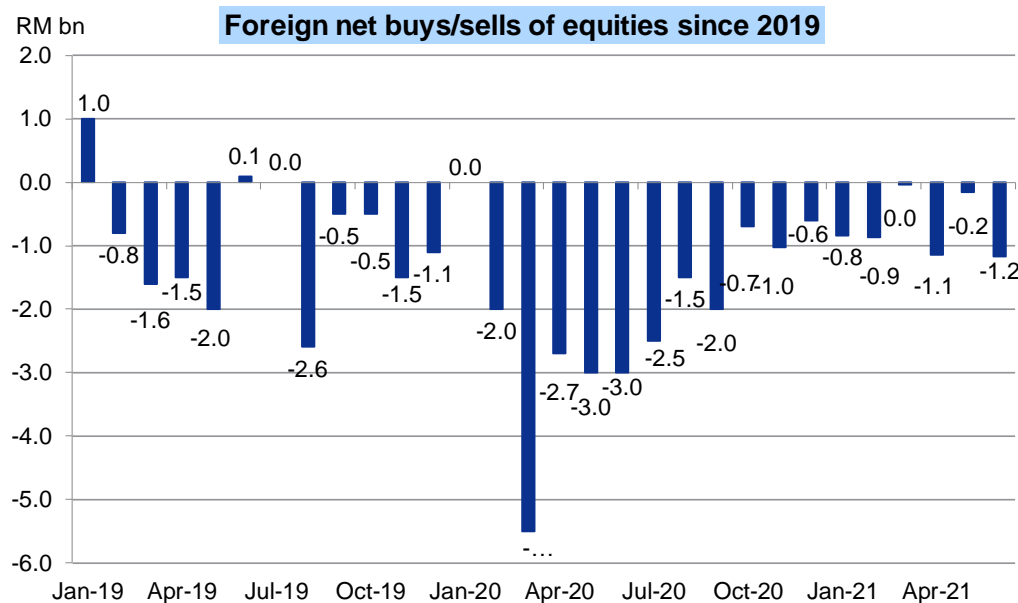
KLCI constituents	2015	2016	2017	2018	2019	2020	1H21
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	chg
Mr DIY Group	-	-	-	-	-	-	15.1%
Press Metal	-16.2%	119.4%	245.3%	-9.2%	-2.6%	80.4%	13.9%
Telekom Malaysia	-28.2%	-1.4%	6.3%	2.1%	-5.3%	41.9%	12.2%
Genting	-16.9%	9.5%	17.5%	-32.0%	2.2%	-26.3%	10.5%
Petronas Chemicals	37.3%	-1.6%	14.0%	24.7%	-18.0%	1.1%	8.5%
CIMB Group	-17.2%	4.5%	51.2%	-9.3%	-5.1%	-16.5%	8.2%
Genting Malaysia Bhd	9.3%	6.3%	26.8%	-44.3%	15.5%	-18.2%	3.0%
Hong Leong Bank	2.4%	3.6%	29.7%	22.9%	-12.8%	5.2%	2.9%
Axiata Group	-5.8%	-24.1%	18.1%	-27.0%	7.8%	-9.6%	0.0%
Digi.Com	-8.7%	-6.6%	9.7%	-7.9%	3.1%	-7.2%	-0.2%
Public Bank Bhd	4.3%	9.8%	8.5%	22.5%	-19.0%	6.0%	-0.2%
Maybank	-2.4%	3.7%	26.6%	2.8%	-3.1%	-2.1%	-0.3%
IHH Healthcare	37.2%	-3.0%	-7.2%	-7.6%	2.0%	0.6%	-0.5%
RHB Bank	-22.3%	11.3%	8.6%	9.3%	14.3%	-5.7%	-0.9%
PPB Group	12.9%	1.3%	10.3%	24.3%	8.8%	-1.7%	-1.2%
MISC	32.1%	-18.5%	6.6%	-5.4%	29.9%	-17.7%	-1.3%
Hong Leong Financial	-11.7%	4.5%	28.5%	6.0%	-6.8%	6.9%	-1.4%
Nestle (Malaysia)	11.7%	10.4%	36.2%	45.6%	1.7%	-5.5%	-4.0%
Sime Darby Berhad	-13.0%	8.1%	29.7%	11.9%	-3.3%	4.1%	-5.6%
Tenaga Nasional	-1.4%	6.8%	14.4%	-7.9%	1.5%	-21.2%	-5.7%
Hap Seng Consolidated	46.2%	43.0%	11.9%	6.9%	5.0%	-13.8%	-9.3%
Petronas Gas	5.1%	-3.6%	-15.0%	14.1%	-9.6%	3.4%	-9.8%
Maxis	3.9%	-9.1%	3.8%	-7.8%	3.2%	-5.0%	-13.1%
Petronas Dagangan	49.7%	-1.8%	5.2%	13.4%	-10.3%	-7.4%	-13.1%
Kuala Lumpur Kepong	2.8%	6.9%	6.3%	0.9%	2.2%	-3.3%	-14.0%
IOI Corp	-5.1%	0.4%	5.3%	2.4%	5.5%	-5.5%	-14.2%
Dialog Group	8.2%	-2.4%	65.0%	25.1%	12.2%	0.1%	-16.2%
Sime Darby Plantations	-	-	-	-17.8%	14.9%	-8.4%	-19.9%
Top Glove Corp	210.1%	-19.3%	53.3%	42.3%	-13.8%	308.1%	-32.0%
Hartalega	71.7%	-17.2%	124.4%	16.5%	-9.4%	125.1%	-39.6%

Note : Light blue represents Shariah-compliant constituents

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Foreigners were net sellers for all six months in 1H21

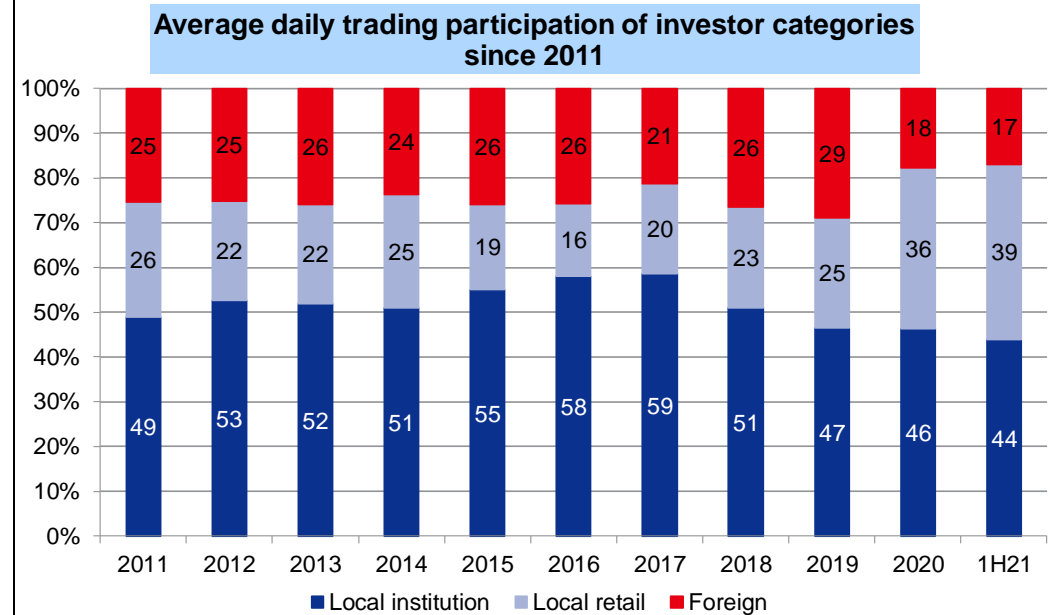
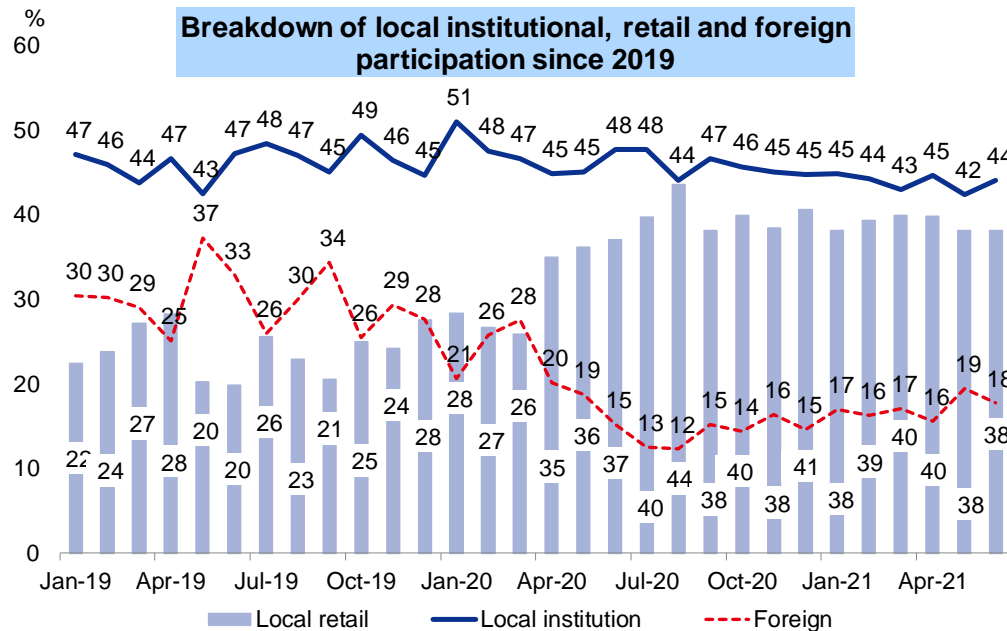
- Foreign investors continued to be net sellers of Malaysian equities, with cumulative net selling of RM4.2bn in 1H21.
- This was lower than the net outflow experienced in 1H20 of RM16.2bn (highest net foreign net outflows experienced by the Malaysian equity market since statistics were available in 2010 due to concerns over MCO 1.0, change of government and Covid-19) and RM4.6bn foreign net outflow registered in 1H19.
- The average monthly net foreign fund outflow 1H21 works out to be RM700m.
- Foreign investors net fund outflows from Malaysia rose to a monthly high in 2021 in Jun to RM1.17bn due to concerns over the potential impact from prolonged lockdowns on businesses, political uncertainties and a weaker ringgit.



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

Retail investors interest remained strong in 1H21

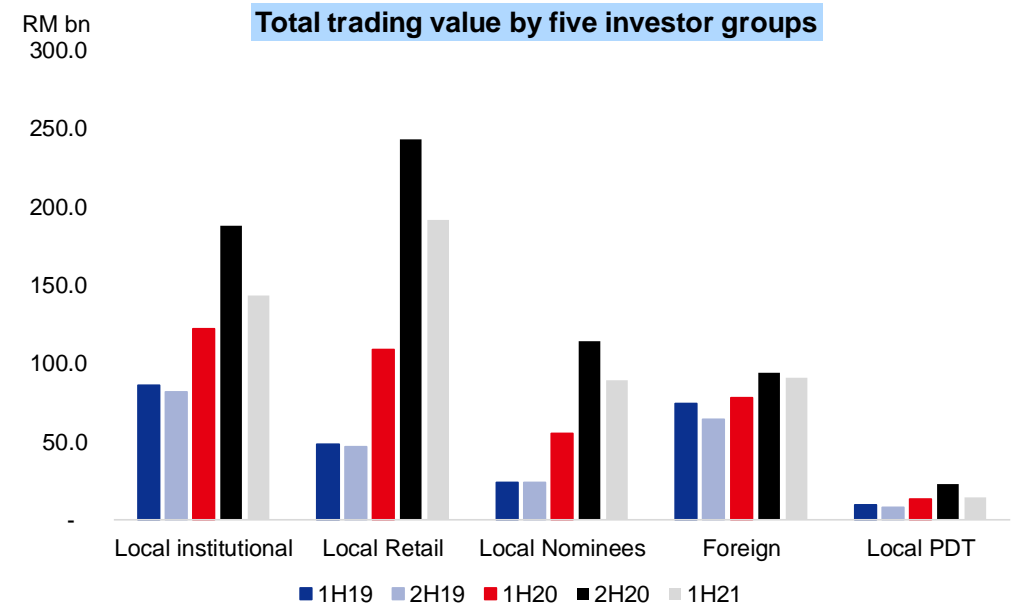
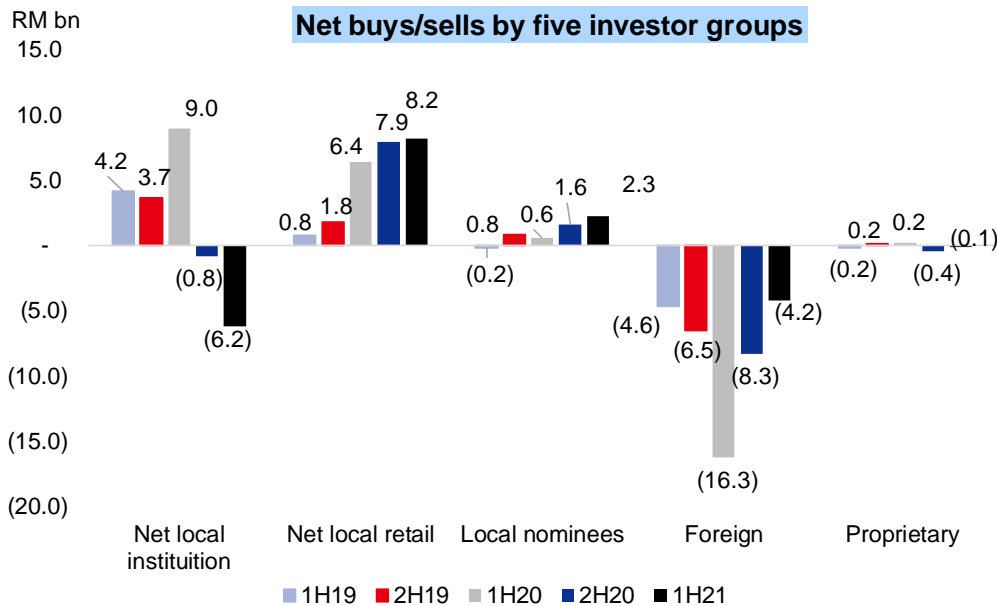
- Retail investors raised their participation in the Malaysian equity market after the government imposed a Movement Control Order (MCO 1.0) on 18 Mar 2020.
- Retail investors' monthly share of daily trades on Bursa Malaysia rose from 20-27% (Jan 18 to Mar 20) to 35-44% (Apr 20-Dec 20).
- In 1H21, we note that retail share of trades remained at 39% of total trades, from 36% in 2020.
- We also note that local institutions' participation declined from 46% in 2020 to 44% of total trades in 1H21.
- Foreign investors' share of participation fell from 18% in 2020 to 17% in 1H21.



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

Local institutions and foreign investors were net sellers

- In terms of fund flows, retail investors were the most significant net buyers in 1H21 with a net buy position of RM8.2bn, while local nominees were the second-largest net buyers with a net buy of RM2.3bn in 1H21.
- Local institutions were the most significant net sellers. They net sold RM6.2bn of equities in 1H21, followed by foreign investors, which net sold RM4.2bn.

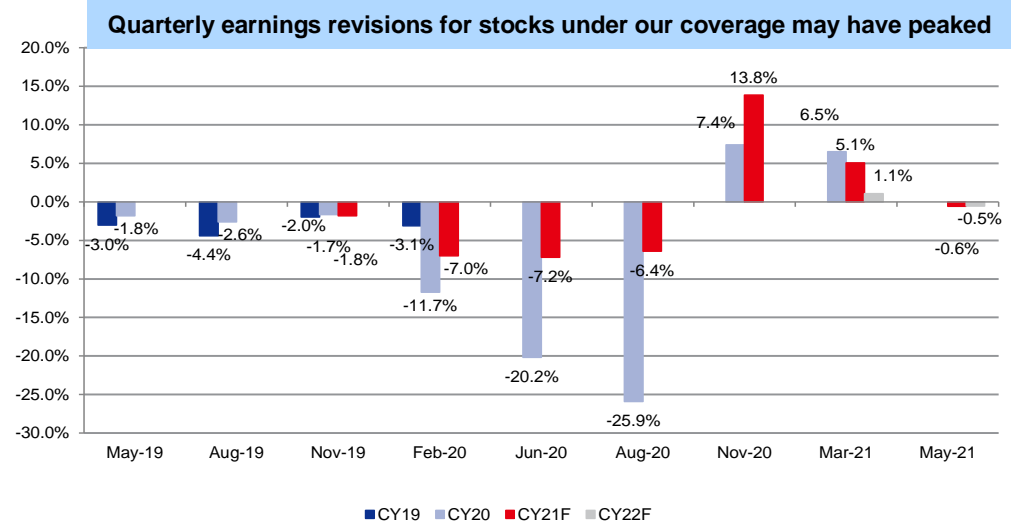
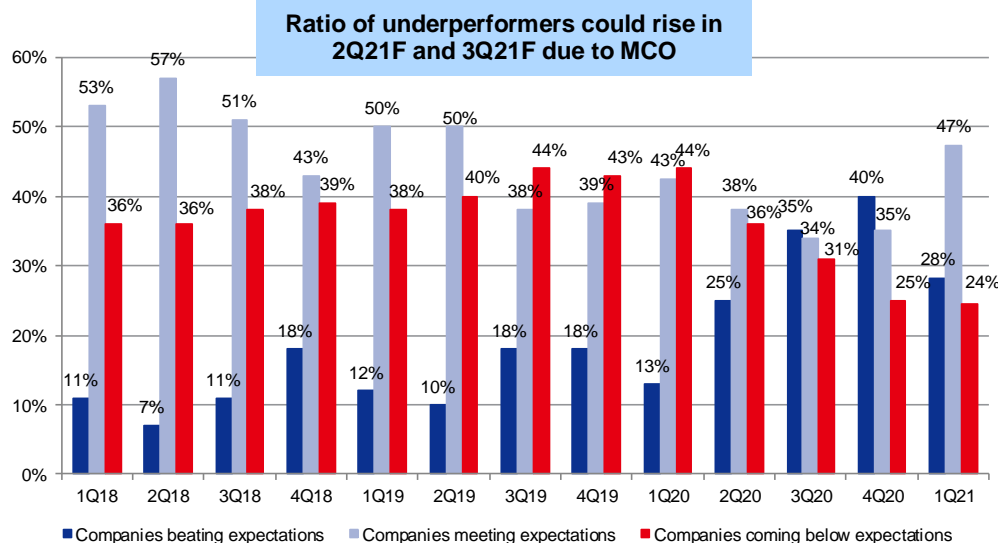


Note: PDT stands for Proprietary Day Trading

SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA DIBOTS

Market needs to navigate through earnings risks in 3Q21

- The Full Movement Control Order (FMCO) imposed on all states in Jun 2021 and Enhanced Movement Control Order (EMCO) in the Klang Valley in 1–16 Jul will pose corporate earnings risks in the 2Q and 3Q results season.
- Analysts are likely to revise down their earnings projections during the 2Q earnings season in Aug to reflect the prolonged lockdown and closure of businesses, following guidance from management. Sectors most affected by the movement restrictions are tourism-related, gaming, property, auto, banks, construction and consumer sectors. Utilities, telco, and export-oriented industries are less impacted by the movement restrictions.
- We expect more companies to report weaker-than-expected earnings in the upcoming 2Q results season in Aug, as analysts may not have reflected the impact of movement restrictions imposed since May, which was tightened nationwide in Jun, followed by the EMCO imposed in the Klang Valley from 1 Jul until 16 Jul.
- As such, the positive earnings revision ratio that Malaysian companies posted may have peaked in 1Q21 for most sectors except plantation and petrochemical due to rising commodity prices. We expect the rubber glove sector, the star performer in 2021, to report peak earnings in 2Q21 due to peak ASPs.



SOURCES: CGS-CIMB RESEARCH

Political uncertainty is negative for the market

- The United Malays National Organisation (UMNO), a key ally in the ruling coalition, officially withdrew support for Prime Minister (PM) Tan Sri Muhyiddin Yassin, after its supreme council meeting on 7 Jul and called on him to resign for failing to manage the Covid-19 pandemic. This has led to concerns over Perikatan Nasional's (PN) ruling coalition parliamentary majority.
- The decision by UMNO does not come as a surprise as the party had voiced its unhappiness with the PM since Sep 2020.
- We gathered from political experts that some of the potential scenarios following UMNO's decision are: 1) the PM resigns, 2) the PM requests for parliament to dissolve, 3) the PM carries on as it cannot be proven that he does not have majority support, 4) the PM is dismissed via a vote of no confidence (should the Speaker of the House accept such a motion), or 5) the king exercises his reserve powers and calls for an interim PM before elections can be held due to the current Covid-19 situation. The current scenario is that the PM carries on unless and until it is proven that he does not have majority MP support in parliament.
- This development is negative for the market as it leads to further uncertainties about the future leadership and policy direction of the country. This is likely to lead to further outflow of foreign funds from the Malaysian equity market and companies with high foreign shareholding may be vulnerable due to potential selling.

Foreign shareholdings fell after GE14 in May 2018 due partly to concerns over political uncertainty



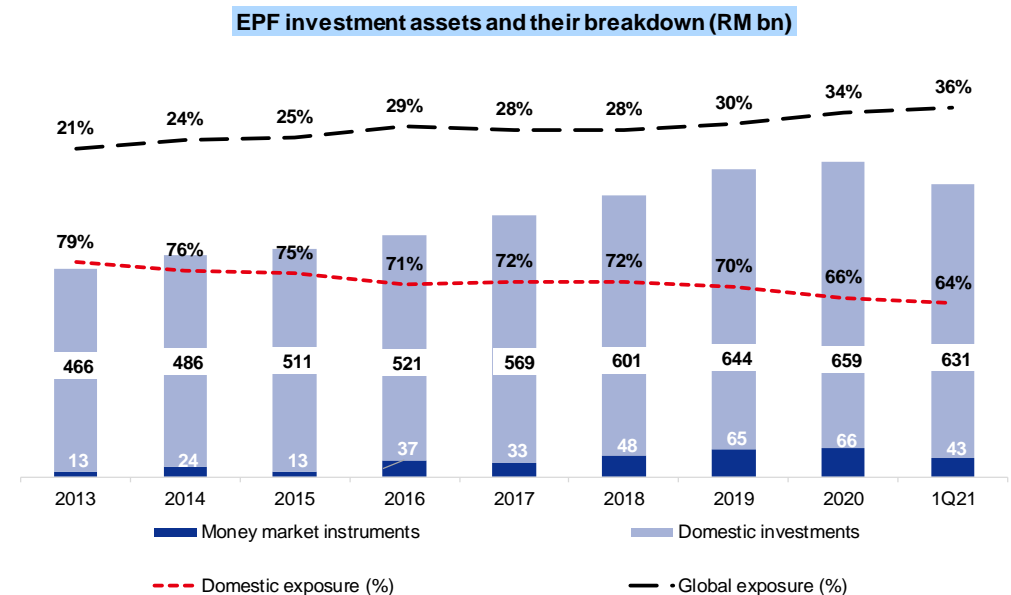
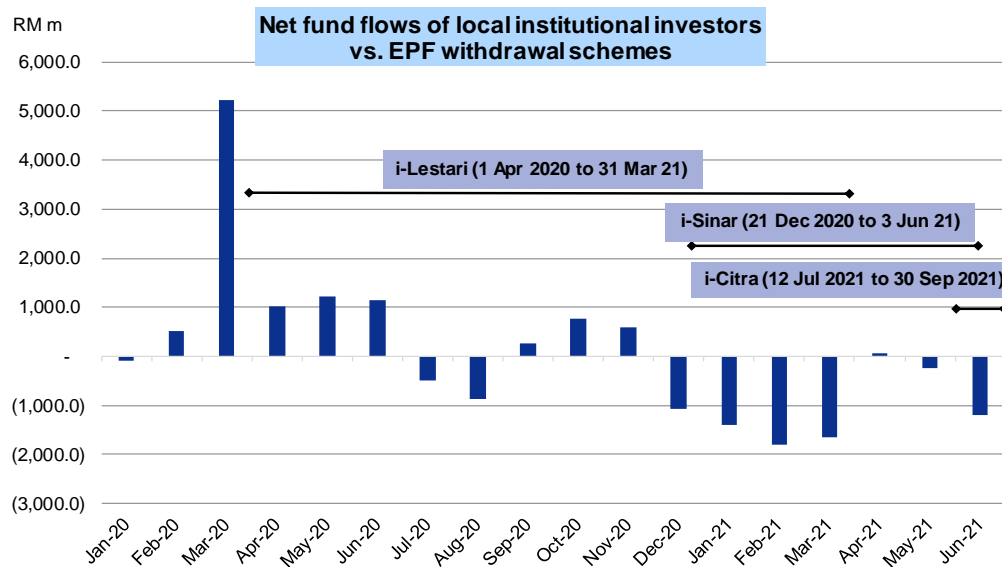
SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

An amicable solution to leadership concerns would be positive

- The parliamentary majority support required for the PN government to stay in power may not be tested when Malaysia holds a special sitting for five days, i.e. from 26 to 29 Jul 2021 and on 2 Aug 2021, to allow lawmakers to be briefed on the national recovery plan.
- This is because the Dewan Rakyat speaker would have the final say on these matters during the session even if members of parliament are allowed to debate and put forward questions during the on-going Parliament sitting.
- Given that it is a short session, there may not be time allocated for a no-confidence vote as recovery plans take priority.
- As such, the potential resolution of this issue could be pushed forward to the next two parliament sessions, which are scheduled for **(1) 15 days from 6 Sep to 30 Sep and (2) 32 days from 25 Oct to 16 Dec**. These are **key dates to watch for potential changes to the political landscape**.
- We are of the view that there could be negotiations among the various political parties ahead of these crucial parliament sessions to find a resolution to the leadership issue.
- An **amicable solution between various political parties**, which could stabilise the government, is **likely to be viewed positively by the market**.

Selling pressure by local institutional investors to subside

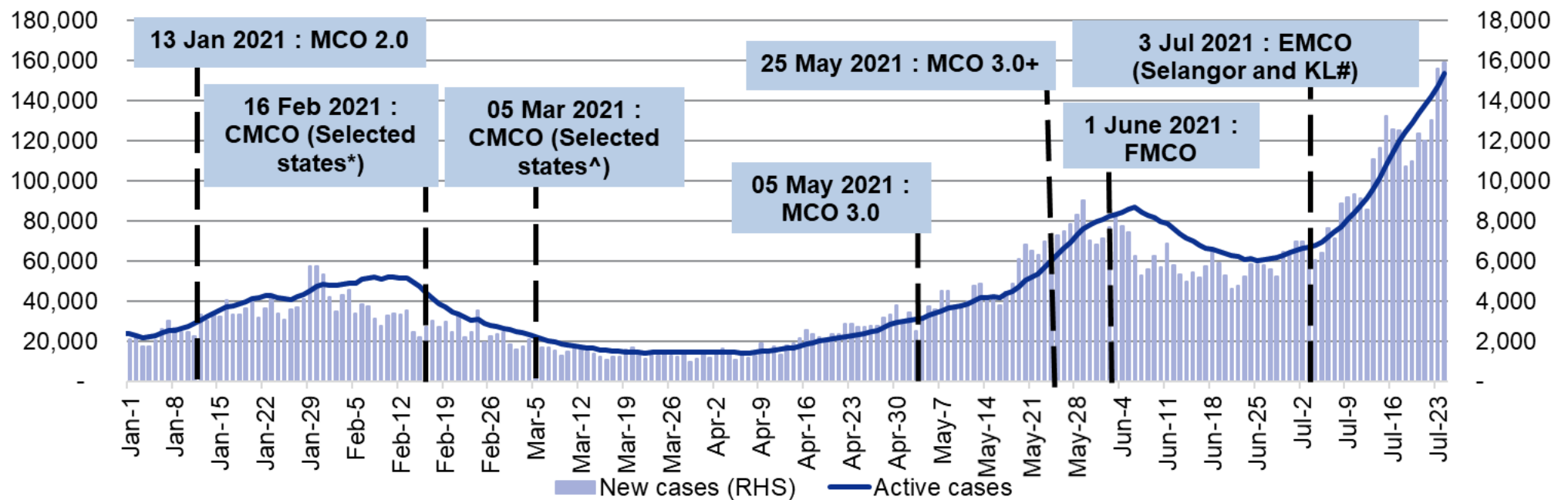
- The prospect of net selling by local institutional investors in 4Q21 could subside as potential withdrawals by EPF members from the i-Citra scheme of up to RM30bn is lower than potential withdrawal from schemes like i-Lestari and i-Sinar of RM120bn.
- We gathered from EPF's latest media statement that the total withdrawals from i-Lestari and i-Sinar schemes (part of one-off stimulus measures announced by government) were around RM78.5bn as at 8 Jun, equating to a withdrawal rate of around 65%.
- This is higher than the RM55bn-75bn gross contributions for reinvestment that EPF received before Covid-19, where some are ploughed back to the domestic equity market in line with its Strategic Asset Allocation (SAA).
- EPF paid the bulk of the withdrawal to its contributors in 1H21, which could partly explain the higher net selling by local institutional investors of RM6.2bn in 1H21 vs. RM0.8bn in 2H20.
- Barring any major changes to EPF's SAA for the domestic equity market and assuming Malaysia recovers from Covid-19 in 2022F, we expect the net annual contributions to EPF to rise, potentially reversing the current net selling by local institutional investors, which would be positive for the market.



SOURCES: CGS-CIMB RESEARCH, EPF, BURSA MALAYSIA, DIBOTS

Malaysia's new Covid-19 cases are on the rise

- The Malaysian market underperformed in 1H21 due partly to the slow national vaccine rollout.
- The slower-than-expected rollout was due to the shortage of vaccine supply. We gathered that total vaccine supply in Malaysia was only 8.6m doses in mid-Jun. The seven-day moving average of daily Covid-19 vaccinations in the country was only 208,900 doses as at 30 Jun.
- Daily Covid-19 cases jumped to a record 17,045 on 25 Jul from 6,824 cases as at 30 May, despite one month of FMCO in Jun and two weeks of EMCO in the Klang Valley. Malaysia's Covid-19 daily deaths continued to climb to a record 207 as at 27 Jul and the positivity rate from Covid-19 as at 27 Jul was 10.89% based on 148,049 individuals who were tested. The number of patients in the Intensive Care Unit (ICU) stood at 1,023 and the utilisation rate was 73.7% as at 27 Jul.



SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH MALAYSIA

Scenario analysis on fully vaccinated population

- We think that vaccination is the key to containing the Covid-19 pandemic. The speed of the vaccination rollout will help determine how fast Malaysia can achieve some form of normalcy.
- We see some positive signs emerging on this front. The seven-day moving average of daily Covid-19 vaccination rate jumped by 96% from 208,900 on 30 Jun 2021 to 410,000 on 18 Jul 2021.
- Assuming Malaysia is able to consistently achieve a daily vaccination rate of 200,000/100,000 for second doses for the rest of the year, we estimate that **40% of the country's population could be fully vaccinated by 29 Aug/12 Oct 2021.**
- Our sensitivity analysis also reveals that based on daily vaccination rate of 200,000/150,000 of daily first doses for the rest of the year, around **70% of the country's population will receive at least one dose of vaccines by 20 Sep/14 Oct 2021.**
- This is a positive development as based on the experience in Israel, the US and the UK, new daily Covid-19 cases fell or were more manageable when around 30-40% of the population was fully vaccinated.
- This suggests that the prospects of Malaysia containing the spread of Covid-19 should improve around Aug-Oct 2021.

Daily first Covid-19 doses vaccination achieved					Daily second Covid-19 doses vaccination achieved				
Population fully vaccinated (one dose)	100,000	150,000	200,000	250,000	Population fully vaccinated (two doses)	100,000	150,000	200,000	250,000
30.1%	As at 18 July 2021 - 9,815,735 pax received one dose				13.9%	As at 18 July 2021 - 4,531,550 pax received two doses			
40.0%	20-Aug	9-Aug	3-Aug	31-Jul	20.0%	7-Aug	1-Aug	28-Jul	26-Jul
50.0%	22-Sep	31-Aug	19-Aug	13-Aug	30.0%	9-Sep	23-Aug	13-Aug	8-Aug
60.0%	25-Oct	22-Sep	4-Sep	26-Aug	40.0%	12-Oct	14-Sep	29-Aug	21-Aug
70.0%	27-Nov	14-Oct	20-Sep	8-Sep	50.0%	14-Nov	6-Oct	14-Sep	3-Sep
80.0%	30-Dec	5-Nov	6-Oct	21-Sep	60.0%	17-Dec	28-Oct	30-Sep	16-Sep
90.0%	1-Feb	27-Nov	22-Oct	4-Oct	70.0%	19-Jan	19-Nov	16-Oct	29-Sep
100.0%	6-Mar	19-Dec	7-Nov	17-Oct	80.0%	21-Feb	11-Dec	1-Nov	12-Oct

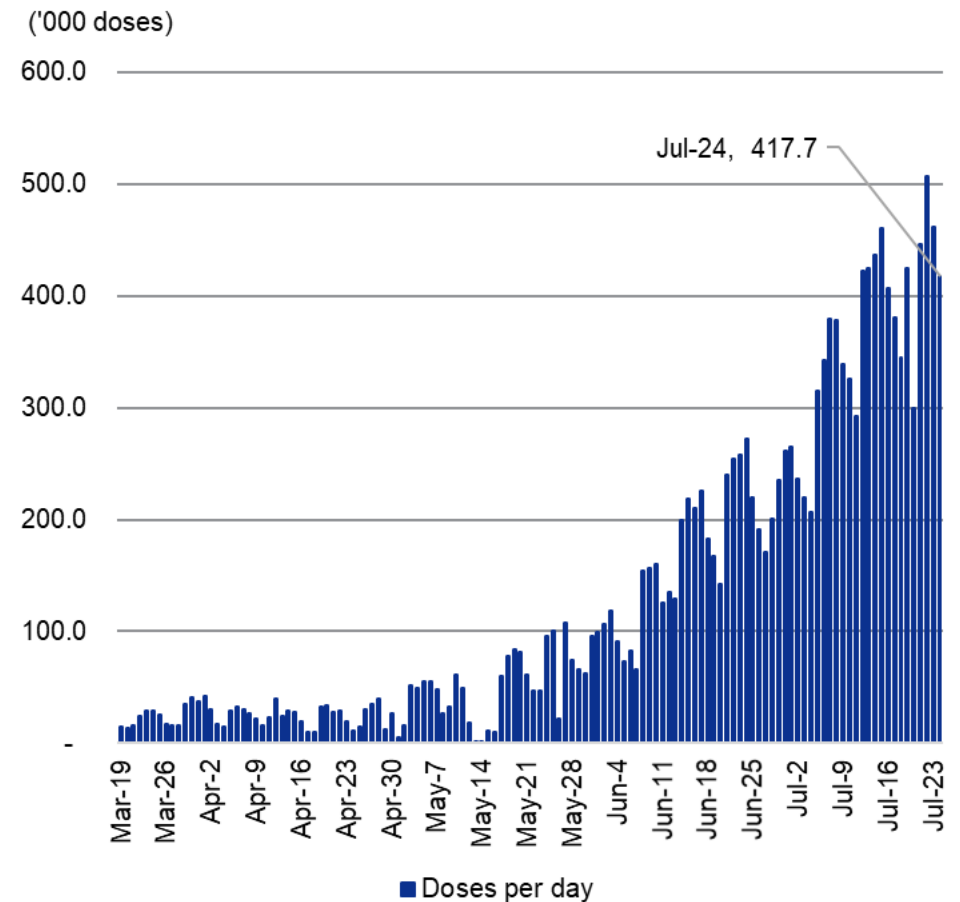
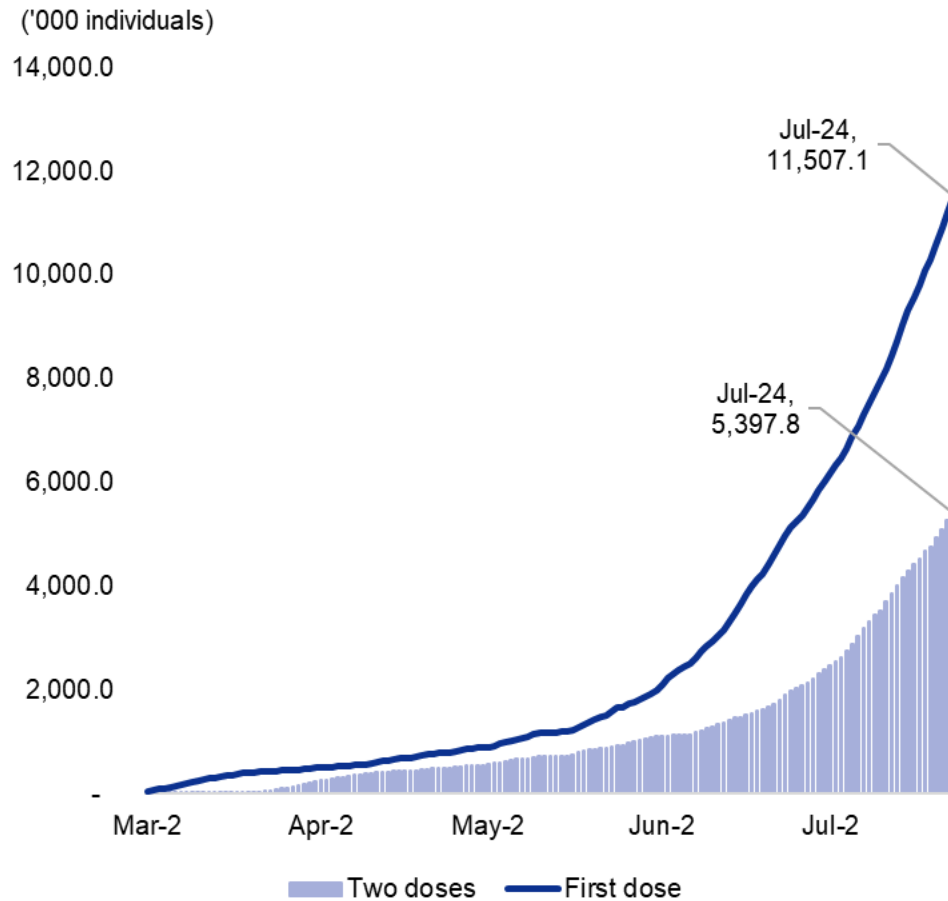
SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH MALAYSIA

Total registration for Covid-19 vaccines as at 17 Jul and cumulative vaccine doses administered as at 20 Jul 2021

	Total population			Total adult population		
	Registered	Dose 1	Dose 2	Registered	Dose 1	Dose 2
Malaysia	18,885,523	10,301,905	4,769,909	58%	31.5%	14.6%
States						
WP Labuan	60,207	59,884	44,301	60%	60.1%	44.5%
Sarawak	1,740,911	1,591,810	967,201	62%	56.5%	34.3%
Perlis	150,655	90,187	66,078	59%	35.4%	25.9%
Klang Valley (KL, Putrajaya and Selangor)	6,437,033	4,140,969	1,329,503	76%	49.2%	15.8%
Negeri Sembilan	773,548	452,555	169,872	69%	40.1%	15.1%
Melaka	595,504	248,224	125,553	64%	26.6%	13.5%
Terengganu	575,222	273,309	144,364	46%	21.7%	11.5%
Pahang	855,472	325,465	203,553	51%	19.4%	12.1%
Kelantan	718,879	333,609	209,935	38%	17.5%	11.0%
Pulau Pinang	1,169,578	532,427	224,051	66%	30.0%	12.6%
Perak	1,359,451	585,969	304,730	54%	23.3%	12.1%
Kedah	1,112,219	435,289	229,839	51%	19.9%	10.5%
Johor	2,346,163	723,119	382,662	62%	19.1%	10.1%
Sabah	990,681	509,089	368,267	25%	13.0%	9.4%

SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH MALAYSIA

Daily and cumulative vaccine doses



SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH MALAYSIA

Covid-19 vaccine supplies and portfolio breakdown

- Malaysia has ordered more than 76m doses of Covid-19 vaccines and expects to receive 12m doses in Jul.
- According to the Prime Minister on 18 Jul, Malaysia received 20m of the doses it ordered and expects to receive 30m doses by the end of Jul, 40m doses by Aug, 53m doses by Sep and 58m doses by Oct. He added that the capacity of the rate of vaccination would be increased to 500,000 doses daily.
- The latest target set by the PM is to ensure that 100% of all adults in Malaysia receive two doses by Oct 2021.
- The government also introduced “Operation Surge Capacity” on 16 Jul 2021 to ensure that every adult resident in Kuala Lumpur and Selangor receives at least one dose of Covid-19 vaccine by 1 Aug.

Expected Covid-19 supplies in Malaysia and coverage ratio	Vaccine supply (m doses)	Total orders (m doses)	Coverage (m) - 2 doses per pax	Total population (m)	% coverage
As at 18 Jul	20	76.1	10.0	32.657	31%
end-July	30	76.1	15.0	32.657	46%
end-Aug	40	76.1	20.0	32.657	61%
end-Sep	53	76.1	26.5	32.657	81%
end-Oct	58	76.1	29.0	32.657	89%

Breakdown of vaccine portfolio for Malaysia	Doses (m)	Population coverage (m)	Population in Malaysia (m)	Population coverage (%)
Pfizer	44.8	22.4	32.7	68.6%
Sinovac	12.0	6.0	32.7	18.4%
Astra Zenaca	6.4	3.2	32.7	9.8%
CanSino Biologics	3.5	3.5	32.7	10.7%
Covax initiative	6.4	3.2	32.7	9.8%
Gamaleya (Sputnik v)	6.4	3.2	32.7	9.8%
Total	79.5	41.5	32.7	127.1%

SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH MALAYSIA

National Recovery Plan

- On 15 Jun, the Prime Minister announced Malaysia's National Recovery Plan (NRP), an exit strategy from the Covid-19 pandemic comprising four phases. Each phase will have three main threshold indicators that need to be met before progressing to the next phase.
- Based on our analysis, we think these targets are achievable and we expect investors to shift their portfolios in favour of recovery stocks in the period leading to Phase 3 of the recovery and Budget 2022.
- Hence, our view is that the market may rebound in 4Q21 on expectations of a recovery in economic activities and higher productivity in certain sectors to cater to backlog demand. Post recovery, Malaysia could hold elections in Sarawak (due in Sep 21) and call for GE15, if the current political impasse is not resolved.

		Phase 1	Phase 2	Phase 3	Phase 4
Target month		Jun	Jul-Aug	Sep-Oct	Nov-Dec
What's allowed	Total MCO Only essential services permitted to operate		Economic sectors allowed to operate at 80% capacity	Economic sectors allowed to operate at 80% capacity, capacity limits may be lifted depending on vaccination	
			Expansion of Positive list - Cement manufacturing - Retail: electronics and computers	All economic sectors allowed to operated, expect high-risk sectors and activities in Negative list (pubs, spas, beauty salons, conventions)	All economic sectors allowed to operate
			Social sector and interstate travel prohibited	Gradual reopening of the social sector, including education and certain sports	More social activities permitted
				Interstate travel permitted	
				Domestic tourism reopened	
				Parliament to sit	
Indicators for phase transition			Interstate travel prohibited		
		<ul style="list-style-type: none">• < 4,000 daily Covid-19 cases• Moderate ICU bed occupancy rate• 10% of population fully vaccinated	<ul style="list-style-type: none">• < 2,000 daily Covid-19 cases• Sufficient ICU beds available• 40% of population fully vaccinated	<ul style="list-style-type: none">• <500 daily Covid-19 cases• Sufficient ICU beds available• 60% population fully vaccinated	
Projected timeline for phase transition		Early-Jul	End-Aug	End-Oct	

SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH , VARIOUS NEWS ARTICLES

Malaysian retail investors' survey

- We conducted the second edition of our annual retail investor sentiment survey in May 2021. A total of 1,044 Malaysian retail investors responded to our survey request which was carried out from 20 Apr to 31 May 2021 (41-day period).
- A **smaller proportion of respondents is investing directly in the stock market** in 2021 vs. 2020 survey.
- **Respondents were less bullish compared to a year ago**, with 51% of them expecting the market to return 0-10% over the next three months.
- The three biggest sources of funds deployed to invest in the stock market are **(1) savings, (2) income from employment and others, and (3) additional income from lower Employees Provident Fund (EPF) contributions and withdrawals via I-Sinar and I-Lestari.**
- The three biggest concerns of respondents are **(1) domestic economy/politics, (2) external factors (global stock market performances, global economy), and (3) sharp falls in stocks/markets.**
- 89% of the sample surveyed indicated that their **current disposable incomes remained below pre-Covid-19 levels**, with over half of the respondents reporting incomes at 60% or below pre-pandemic levels.
- Benign inflation expectations may explain why **72% of those polled expected the Overnight Policy Rate (OPR) to remain at or below the current level of 1.75% over the next 18 months.** Just 24% expected monetary policy normalisation to occur by end-2022.
- A significant rise in OPR or availability of alternative investment products that offer higher returns may entice profit-taking in the equity markets among the retail investors as **most are deploying their savings to achieve higher returns.**
- **Key areas to track closely are domestic sentiment on the economy and political situations** - if sentiment worsens, retail investors could reduce their exposure to the domestic stock market.
- The survey suggests that **consumer sentiment remains relatively weak**, though this observation is caveated by our sample data which is skewed towards those earning incomes higher than the population average.
- Kindly refer to our note for more details in the link here : [2021 CGS-CIMB Retail Investors' Sentiment Survey](#)

ESG ratings from F4GBM index perspective

- We are of the view that the FTSE4Good Bursa Malaysia (F4GBM) could become more prominent over time with increasing focus and scrutiny by asset managers in Malaysia on ESG practices of their investee companies.
- It probably has the largest coverage in terms of ESG ratings for Malaysian listed companies among ESG rating providers. Also, the methodology used by FTSE Russell to determine ESG practices in F4GBM is based on global standards. We believe that the increased public disclosure of companies' ESG rankings among their peers since Jun 2020 has allowed investors to track ESG scores of companies and to follow the index more closely.
- As at 30 Jun 2021, Malaysia's weightage in the FTSE4Good Emerging Market (F4GEM) index was 2.72%, which is higher than its index weight of 1.71% in the FTSE Emerging Market (FEM) index. This suggests that Malaysian companies fared better in their ESG scores relative to some of its peers in the FEM index.
- There are currently 76 constituents in the F4GBM index, following the latest Jun semi-annual review. This represents a significant increase from the 24 members when the index was launched in 2014. This suggests that more Malaysian-listed companies are improving their ESG transparency and scores, which is a positive sign.
- Bursa Malaysia and FTSE Russell in July 2021 launched the FTSE4Good Bursa Malaysia Shariah (F4GBMS) index, which is designed to track constituents in the F4GBM that are Shariah-compliant. The index has 54 constituents.
- We found that the F4GBM index outperformed FBM Emas in two (2017 and 2018) of the past five years.
- YTD 30 Jun, the F4GBM registered a negative return of -5.6%, underperforming the FBM Emas (-5.1%) but outperforming FBMKLCI (-5.8%). This could be because Malaysia is still in the early stages of adopting ESG and given the underperformance of banks and utilities, which have a high weightage in the F4GBM, in some years.
- We suspect the exclusion of Top Glove and Nestle from the F4GBM Index could be due to controversies while Dialog's exclusion could be due to it not meeting the minimum climate change score threshold.
- Companies that score well or demonstrate improvement in their ESG ratings or are part of the index could fetch premium valuations vs. peers, in our view. However, Malaysian companies will need to improve their ESG practices as the bar is likely to be raised over time. FTSE Russell recently introduced new climate performance standards at its 8 Jun 2021 review.
- Kindly refer to our note for more details in the link here: [ESG ratings from F4GBM index perspective](#)

Key trading themes: Laggard plays

- We are of the view that the 5.8% correction in KLCI in 1H21 offers investors opportunities to buy on dips. In our first theme for 2H21, we screened for laggard plays within our coverage.
- Some of these stocks that were impacted by Covid-19 could re-rate after the economy reopens, supported by an earnings recovery story driven by pent-up demand, resolution of labour shortage issues and improved economies of scale, in our view.
- In view of the above, we screened for stocks based on the following criteria: (1) stocks currently under our coverage that are Shariah-compliant, (2) share prices trading at more than 20% below their pre-Covid-19 levels or 31 Dec 2019 closing price, and (3) our research team has an Add rating on these companies.
- The top three stocks that are Shariah-compliant with Add calls and which have fallen the most since 31 Dec 2019 are Velesto Energy, UEM Sunrise and HSS Engineers.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Performance since 31-Dec-19 %
Velesto Energy Berhad	VEB MK	Add	0.15	0.19	31%	1,191	(61.8%)
UEM Sunrise Bhd	UEMS MK	Add	0.39	0.56	45%	1,948	(45.4%)
HSS Engineers	HSS MK	Add	0.53	0.89	69%	260	(37.9%)
WCT Holdings	WCTHG MK	Add	0.55	0.67	22%	779	(36.8%)
Genting Plantations	GENP MK	Add	6.71	10.40	55%	6,020	(36.6%)
Sime Darby Property Berhad	SDPR MK	Add	0.60	0.83	38%	4,081	(34.4%)
SP Setia	SPSB MK	Add	1.05	1.42	35%	4,271	(34.4%)
UMW Holdings	UMWH MK	Add	2.97	4.20	41%	3,470	(33.9%)
Gamuda	GAM MK	Add	2.76	4.00	45%	6,937	(29.2%)
Bermaz Auto Berhad	BAUTO MK	Add	1.49	1.90	28%	1,731	(29.0%)
Star Media Group Bhd	STAR MK	Add	0.35	0.50	43%	254	(27.8%)
Tenaga Nasional	TNB MK	Add	9.62	13.40	39%	55,085	(27.5%)
Syarikat Takaful Malaysia Keluarga	STMB MK	Add	4.28	5.80	36%	3,576	(24.9%)
Ta Ann	TAH MK	Add	2.65	3.47	31%	1,167	(24.3%)
Yinson Holdings Bhd	YNS MK	Add	4.99	6.18	24%	5,316	(23.0%)

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG COMPANY REPORTS

Key trading themes: M&A theme/Value play

- There were several large M&A deals involving listed companies in 1H21. These include but are not limited to KLK's offer to buy a controlling 56.2% stake in IJM Plantations from IJM Corp and the proposed merger of Celcom and Digi by its parent companies.
- We maintain our view that M&A activities could pick up as the low interest rate environment and challenges faced by businesses and conglomerates due to Covid-19 provide good opportunities for companies with strong balance sheets to look for potential acquisition targets at attractive valuations.
- In view of this, we update our screen of stocks under our universe based on several characteristics we have observed in historical privatisation and takeover deals. We note that most of the stocks being taken over exhibited some of the following characteristics: (1) low P/BV (<0.7x), (2) share price falling significantly (>30%) from the peak five years ago, (3) negative EPS CAGR over the past three years (CY17-20), and (4) major shareholders having a significant stake (>30%) in the companies.
- The top three stocks that are Shariah-compliant, rated Add by us, meet the above screening criteria and which have fallen the most from their peak prices are Star Media, Veleso and UEM Sunrise.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Share price chg from peak (%)	3 year EPS CAGR (%)	P/BV (x)	Largest Shareholder	Largest shareholder's stake (%)
Bonia Corporation	BON MK	Add	0.87	1.00	(55%)	5%	0.49x	Chiang Sang Sem	65%
DRB-Hicom	DRB MK	Hold	1.63	1.95	(46%)	(7%)	0.42x	Etika Strategi Sdn. Bhd	56%
LBS Bina Group	LBS MK	Add	0.44	0.56	(59%)	9%	0.54x	Gaterich Sdn Bhd	42%
Lotte Chemical Titan	TTNP MK	Hold	2.77	2.92	(60%)	na	0.51x	Lotte Chemical Corporation	76%
Malaysian Resources Corp	MRC MK	Hold	0.40	0.44	(75%)	(29%)	0.39x	Employees Provident Fund	36%
MSM Malaysia Holdings	MSM MK	Hold	1.17	1.41	(76%)	49%	0.55x	Fgv Holdings	51%
Sime Darby Property Berhad	SDPR MK	Add	0.60	0.83	(66%)	30%	0.45x	Permodalan Nasional Berhad	55%
Star Media Group Bhd	STAR MK	Add	0.35	0.50	(86%)	na	0.36x	Malaysian Chinese Assocation	42%
Success Transformer Corp	STC MK	Add	0.82	1.05	(61%)	11%	0.59x	Omega Attraction Sdn	45%
UEM Sunrise Bhd	UEMS MK	Add	0.39	0.56	(71%)	10%	0.29x	Khazanah Nasional Berhad	70%
UOA Development	UOAD MK	Hold	1.62	1.88	(41%)	(28%)	0.64x	UOA Holdings Sdn Bhd	70%
Veleso Energy Berhad	VEB MK	Add	0.15	0.19	(85%)	na	0.54x	Permodalan Nasional Berhad	37%

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: High dividend yielders

- Investors continue to seek companies that offer high dividend-yielding stocks in view of the record-low interest rate environment in Malaysia. The high dividend yield could also cap the downside risk of the stock. To recap, Malaysia cut its OPR rate by 125bp to a record low of 1.75% in 2020.
- As such, we continue to like stocks that offer high dividend yields, which we think will provide shelter in these uncertain times. We screened for Shariah-compliant stocks in our universe with Add ratings that offer dividend yields above 4%.
- The top three stocks that are Shariah-compliant with Add calls and which offer the highest dividend yields for CY21 are Kossan, Hartalega and Taliworks.

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Upside	Market Cap	Dividend yield (%)	
			(RM)	(RM)		(RM m)	CY21F	CY22F
Kossan Rubber Industries	KRI MK	Add	3.07	4.20	37%	7,833	19.1%	5.2%
Hartalega Holdings	HART MK	Add	7.26	8.50	17%	24,811	9.3%	5.4%
Taliworks Corporation	TWK MK	Add	0.86	0.93	8%	1,734	7.7%	7.7%
Freight Management Hldgs	FMH MK	Add	0.67	1.20	79%	374	7.5%	7.5%
Sime Darby Bhd	SIME MK	Add	2.16	2.80	29%	14,693	6.0%	6.0%
Wellcall Holdings	WELL MK	Add	1.00	1.22	22%	497	6.0%	6.8%
Ta Ann	TAH MK	Add	2.65	3.47	31%	1,167	5.7%	5.7%
Uchi Technologies	UCHI MK	Add	3.05	3.20	5%	1,381	5.6%	5.9%
Malakoff Corporation	MLK MK	Add	0.81	1.04	29%	3,934	5.6%	5.7%
Mah Sing Group	MSGB MK	Add	0.81	1.16	43%	1,966	5.6%	6.3%
Gas Malaysia Berhad	GMB MK	Add	2.65	2.97	12%	3,403	5.4%	5.5%
MISC Bhd	MISC MK	Add	6.88	7.95	16%	30,711	5.0%	5.0%
Tenaga Nasional	TNB MK	Add	9.62	13.40	39%	55,085	5.0%	5.1%
Syarikat Takaful Malaysia Keluarga	STMB MK	Add	4.28	5.80	36%	3,576	5.0%	5.2%
Bermaz Auto Berhad	BAUTO MK	Add	1.49	1.90	28%	1,731	4.8%	5.5%
Axis REIT	AXRB MK	Add	1.92	2.44	27%	2,777	4.8%	5.4%
Hap Seng Plantations	HAPL MK	Add	1.81	2.35	30%	1,447	4.7%	2.8%
Petronas Gas	PTG MK	Add	15.60	17.70	13%	30,868	4.6%	4.6%
EITA Resources Bhd	EITA MK	Add	0.80	1.86	133%	208	4.4%	4.4%

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: Beneficiaries of an OPR hike

- Our economist expects BNM to dial back some monetary support with a 75bp hike in OPR in 2022F as economic activity returns to normalcy and Covid-19 becomes less of a threat to the economy after 70% of the adult population is vaccinated.
- A rate hike is positive for banks, as the upward repricing of lending rates has historically been higher than the increase in deposit rates, leading to potential expansion in banks' margins.
- Among the Shariah-compliant banks under our coverage, we have an Add call on **BIMB Holdings**, and we project BIMB to see earnings upside of 7.9% in FY22F for every 25bp hike in OPR rate.
- Other potential beneficiaries of a rate hike are companies that have a large net cash position from higher interest income.
- As such, we screened for Shariah-compliant companies under our coverage that have Add calls and net cash positions of at least 10% of their market cap.
- The top three stocks that are Shariah-compliant, rated Add by us and which have the highest net cash over their market caps are Star Media, Success Transformer and AWC Berhad.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Net cash per share (RM)	Net cash % of market cap
Star Media Group Bhd	STAR MK	Add	0.35	0.50	43%	254	0.46	132%
Success Transformer Corp	STC MK	Add	0.82	1.05	28%	188	0.35	43%
AWC Berhad	AWCF MK	Add	0.48	0.79	65%	152	0.16	34%
UMW Holdings	UMWH MK	Add	2.97	4.20	41%	3,470	0.68	23%
Media Chinese Int'l	MCIL MK	Add	0.19	0.21	14%	312	0.04	20%
EITA Resources Bhd	EITA MK	Add	0.80	1.86	133%	208	0.14	17%
Bermaz Auto Berhad	BAUTO MK	Add	1.49	1.90	28%	1,731	0.25	17%
Thong Guan Industries	TGI MK	Add	2.52	3.43	36%	955	0.38	15%
Petronas Chemicals Group	PCHEM MK	Add	8.03	9.05	13%	64,240	1.19	15%
Hap Seng Plantations	HAPL MK	Add	1.81	2.35	30%	1,447	0.25	14%
Petronas Dagangan Bhd	PETD MK	Add	19.04	20.17	6%	18,915	2.53	13%
Lee Swee Kiat Group	LSKG MK	Add	0.79	1.52	92%	128	0.09	12%
Pentamaster Corp Bhd	PENT MK	Add	5.36	5.85	9%	3,818	0.61	11%
Uchi Technologies	UCHI MK	Add	3.05	3.20	5%	1,381	0.35	11%
Wellcall Holdings	WELL MK	Add	1.00	1.22	22%	497	0.11	11%
Kawan Food	KFB MK	Add	1.87	3.00	60%	672	0.18	10%

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: Beneficiaries of an OPR hike (cont'd)

- In addition, a rate hike is negative for companies with high gearing in ringgit borrowings as it will result in higher interest expense.
- We screened the top 20 Shariah-compliant companies with the highest net gearing under our coverage with Add calls.
- The top three companies under our coverage with the highest gearing are Berjaya Food, Pharmaniaga and Maxis.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Net debt (RM m)	Net gearing (x)
Berjaya Food Berhad	BFD MK	Add	1.90	2.80	48%	676	642	1.92
Pharmaniaga Bhd	PHRM MK	Add	0.92	1.06	16%	1,199	631	1.78
Maxis Berhad	MAXIS MK	Hold	4.33	4.80	11%	33,888	9,028	1.28
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.33	4.36	31%	20,901	1,107	1.26
KPJ Healthcare	KPJ MK	Add	1.01	1.10	9%	4,328	2,692	1.22
Tenaga Nasional	TNB MK	Add	9.62	13.40	39%	55,085	64,626	1.12
Sapura Energy Bhd	SAPE MK	Hold	0.12	0.14	17%	1,917	9,864	1.10
Yinson Holdings Bhd	YNS MK	Add	4.99	6.18	24%	5,316	4,083	1.01
Malakoff Corporation	MLK MK	Add	0.81	1.04	29%	3,934	6,455	1.00
Nestle (Malaysia)	NESZ MK	Hold	133.20	136.70	3%	31,235	542	0.97
DKSH Holdings (Malaysia)	DKSH MK	Add	2.96	4.20	42%	467	628	0.94
Cypark Resources Bhd	CYP MK	Hold	0.86	1.00	16%	416	860	0.90
Telekom Malaysia	T MK	Add	6.06	7.00	16%	22,869	5,050	0.72
WCT Holdings	WCTHG MK	Add	0.55	0.67	22%	779	2,649	0.72
SP Setia	SPSB MK	Add	1.05	1.42	35%	4,271	10,547	0.69
Only World Group Holdings	OWG MK	Hold	0.40	0.36	-9%	158	151	0.68
Eco World Development Group Bhd	ECW MK	Hold	0.69	0.66	-4%	2,017	2,876	0.62
Destini Berhad	DSTN MK	Reduce	0.19	0.06	-68%	290	79	0.60
Eastern & Oriental	EAST MK	Hold	0.61	0.75	24%	866	867	0.51
Axis REIT	AXRB MK	Add	1.92	2.44	27%	2,777	1,072	0.51

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: Recovery plays

- Malaysia is expected to move to the third phase of its recovery plan in Sep as it aims to vaccinate Klang Valley residents with at least one dose of Covid-19 vaccine by early Aug and complete two doses of vaccine inoculation by the end of Aug.
- This is expected to lower the number of new Covid-19 cases in the country and ease the tremendous pressure that has been placed on the healthcare system. This should allow the country to transition to a recovery stage in 4Q21.
- In line with this, we look for stocks under our coverage that are expected to show strong earnings growth post Covid-19. In our selection criteria, we compare the net profit forecasts for CY22F vs. CY21F for stocks under our coverage with Add ratings. Based on this, we have a list of the top 20 companies that exhibit the highest earnings recovery on an absolute basis, including those that are expected to recover from losses.
- The top three Shariah-compliant companies with Add calls and which offer the highest earnings growth rates in CY22F are Media Chinese, Veleso and Karex.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	CY22F EPS growth vs CY21F yoy %
Media Chinese Int'l	MCIL MK	Add	0.19	0.21	14%	312	282.1%
Veleso Energy Berhad*	VEB MK	Add	0.15	0.19	31%	1,191	nm
Karex Berhad	KAREX MK	Add	0.47	0.77	66%	490	138.4%
Malayan Cement Bhd	LMC MK	Add	2.73	3.73	37%	2,552	108.9%
Star Media Group Bhd*	STAR MK	Add	0.35	0.50	43%	254	nm
Lee Swee Kiat Group	LSKG MK	Add	0.79	1.52	92%	128	72.9%
Aemulus Holdings Bhd	AMLS MK	Add	0.87	1.10	26%	527	66.1%
Oceancash Pacific Bhd	OCP MK	Add	0.46	0.60	30%	120	63.7%
KPJ Healthcare	KPJ MK	Add	1.01	1.10	9%	4,328	52.0%
SP Setia	SPSB MK	Add	1.05	1.42	35%	4,271	47.8%
Mi Technovation	MI MK	Add	3.68	5.20	41%	3,019	39.5%
Tomypak Holdings	TOMY MK	Add	0.51	0.71	41%	218	32.2%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.33	4.36	31%	20,901	29.9%
IHH Healthcare Bhd	IHH MK	Add	5.64	6.91	23%	49,514	27.2%
Unisem	UNI MK	Add	7.76	10.50	35%	6,259	27.2%
WCT Holdings	WCTHG MK	Add	0.55	0.67	22%	779	26.2%
InNature Bhd	INNATURE MK	Add	0.60	0.75	25%	424	24.9%
HSS Engineers	HSS MK	Add	0.53	0.89	69%	260	24.0%
Daibochi Bhd	DPP MK	Add	2.28	3.83	68%	746	22.4%
EITA Resources Bhd	EITA MK	Add	0.80	1.86	133%	208	20.9%

Note*: Negative earnings growth as they're loss making in CY21F

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: ESG picks

- In this theme, we look for stocks under our coverage that have the highest ESG scores by third-party assessors.
- In our selection criteria, we screen for Shariah stocks under our coverage with Add ratings and which have the best ESG scores ranked using (1) FTSE ESG Grading Band (score of 4 equates to top 25% by ESG ratings among companies in FBMEMAS), (2) Refinitiv ESG scores (A – excellent relative ESG performance), (3) Sustainalytics ESG ratings (lower Sustainalytics score is equivalent to lower ESG risk), and (4) MSCI's ESG rating (AAA represents leader).
- The top three Shariah-compliant companies under our coverage with Add calls that scored well on three or four third-party ESG assessors on ESG ratings relative to peers are MISC, Petronas Dagangan and Telekom Malaysia.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	FTSE ESG Grading Band	Refinitiv Score	Sustainalytics Rating	MSCI Rating
MISC Bhd	MISC MK	Add	6.88	7.95	16%	30,711	4.00	B+	18.70	na
Petronas Dagangan Bhd	PETD MK	Add	19.04	20.17	6%	18,915	4.00	B	32.70	AA
UEM Sunrise Bhd	UEMS MK	Add	0.39	0.56	45%	1,948	4.00	B	na	na
Bermaz Auto Berhad	BAUTO MK	Add	1.49	1.90	28%	1,731	4.00	B-	na	na
IJM Corp Bhd	IJM MK	Add	1.76	2.16	23%	6,342	4.00	B-	35.80	na
Genting Plantations	GENP MK	Add	6.71	10.40	55%	6,020	4.00	B-	47.80	na
Telekom Malaysia	T MK	Add	6.06	7.00	16%	22,869	4.00	B-	26.20	AA
Kuala Lumpur Kepong	KLK MK	Add	19.80	25.25	28%	21,350	4.00	B-	40.40	A
Petronas Chemicals Group	PCHEM MK	Add	8.03	9.05	13%	64,240	4.00	B-	28.00	B
Hartalega Holdings	HART MK	Add	7.26	8.50	17%	24,811	4.00	C	17.40	AA
Sime Darby Bhd	SIME MK	Add	2.16	2.80	29%	14,693	4.00	C+	25.20	A
Dialog Group Bhd	DLG MK	Add	2.85	3.82	34%	16,081	4.00	C+	31.50	BBB
MY E.G. Services	MYEG MK	Add	1.62	2.50	54%	5,822	4.00	D	na	na
Mah Sing Group	MSGB MK	Add	0.81	1.16	43%	1,966	4.00	na	na	na
DKSH Holdings (Malaysia)	DKSH MK	Add	2.96	4.20	42%	467	4.00	na	na	na
Duopharma Biotech Bhd	DBB MK	Add	2.90	3.67	26%	2,048	4.00	na	na	na
Karex Berhad	KAREX MK	Add	0.47	0.77	66%	490	4.00	na	na	na
Unisem	UNI MK	Add	7.76	10.50	35%	6,259	4.00	na	na	na
Velesto Energy Berhad	VEB MK	Add	0.15	0.19	31%	1,191	4.00	na	na	na
Sime Darby Property Berhad	SDPR MK	Add	0.60	0.83	38%	4,081	3.00	B+	na	na
Gamuda	GAM MK	Add	2.76	4.00	45%	6,937	3.00	B	39.10	na
UMW Holdings	UMWH MK	Add	2.97	4.20	41%	3,470	3.00	B-	27.90	na
Petronas Gas	PTG MK	Add	15.60	17.70	13%	30,868	3.00	B-	29.40	BB
SP Setia	SPSB MK	Add	1.05	1.42	35%	4,271	3.00	B-	na	na
Tenaga Nasional	TNB MK	Add	9.62	13.40	39%	55,085	3.00	C	36.10	BBB

Share price data as at 14-Jul-2021

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: ESG picks (cont'd)

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	FTSE ESG Grading Band	Refinitiv Score	Sustainalytics Rating	MSCI Rating
Kossan Rubber Industries	KRI MK	Add	3.07	4.20	37%	7,833	3.00	C-	na	A
Yinson Holdings Bhd	YNS MK	Add	4.99	6.18	24%	5,316	3.00	na	29.70	na
Axis REIT	AXRB MK	Add	1.92	2.44	27%	2,777	3.00	na	na	na
Malakoff Corporation	MLK MK	Add	0.81	1.04	29%	3,934	3.00	na	na	na
Malaysian Pacific Industries	MPI MK	Add	43.32	42.00	-3%	8,616	3.00	na	na	na
Media Chinese Int'l	MCIL MK	Add	0.19	0.21	14%	312	3.00	na	na	na
Pentamaster Corp Bhd	PENT MK	Add	5.36	5.85	9%	3,818	3.00	na	na	na
Pharmaniaga Bhd	PHRM MK	Add	0.92	1.06	16%	1,199	3.00	na	na	na
Star Media Group Bhd	STAR MK	Add	0.35	0.50	43%	254	3.00	na	na	na
Syarikat Takaful Malaysia Keluarga	STMB MK	Add	4.28	5.80	36%	3,576	3.00	na	na	na
Uchi Technologies	UCHI MK	Add	3.05	3.20	5%	1,381	3.00	na	na	na
VS Industry Bhd	VSI MK	Add	1.34	1.66	24%	5,104	3.00	na	na	na

MSCI rating:-

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	
A company lagging its industry based on its high exposure and failure to manage significant ESG risks		A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers			A company leading its industry in managing the most significant ESG risks and opportunities	

Sustainalytics rating:-

Negl.	Low	Med.	High	Severe
0-10	10-20	20-30	30-40	40+

Refinitiv Score:-

D -	D	D +	C -	C	C +	B -	B	B +	A -	A	A +
Poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly			Satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly			Good relative ESG performance and above average degree of transparency in reporting material ESG data publicly			Excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly		

FTSE ESG Grading Band:-

- 4 Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
- 3 Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

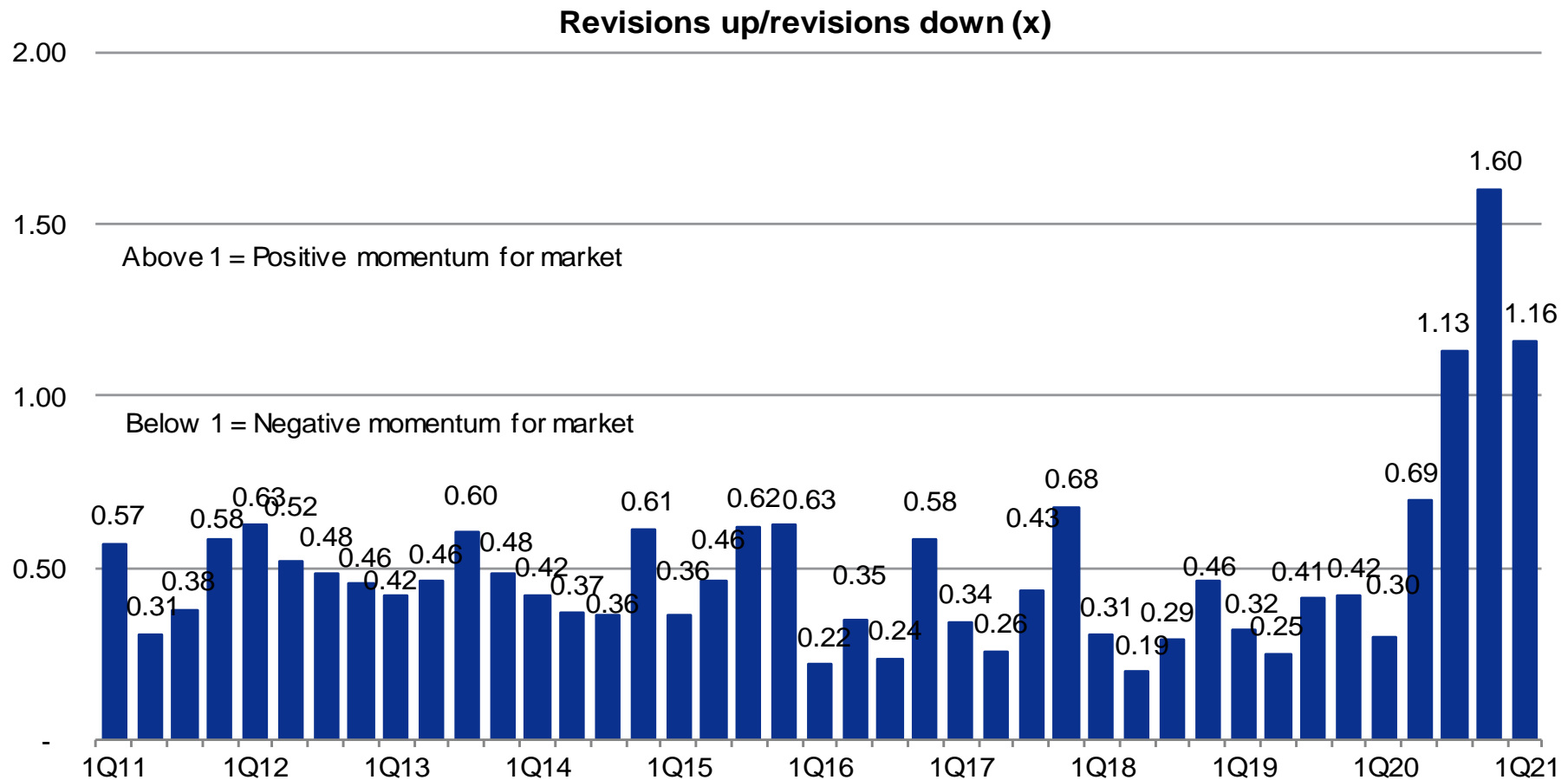
Risks: Economic risks

Our base case assumes a lower likelihood of restrictive lockdowns and therefore an improved growth outlook for MIST in 2022. External growth momentum is peaking – driven by reopening and stimulus-led recoveries in the US, China and Europe – and the next leg of recovery will be led by domestic demand and intra-ASEAN trade and investments. That said, the path to economic normalisation faces a multitude of risks.

- By far, the main tail risk is a **worsening Covid-19 pathology, emergence of more virulent strains or the virus developing a resistance to existing vaccines** or treatments that would require a return to broad-based restrictions with acute effects on economic activity.
- The risk of **premature withdrawal of stimulus or policy errors** driven by concerns over fiscal sustainability, inflation surprises or market dislocations from tapering monetary stimulus in developed economies. We forecast a gradual and orderly pullback in fiscal and monetary accommodation, with budget deficits to narrow sharply in 2022, while central banks in Malaysia, Singapore and Indonesia are poised to begin policy normalisation in 2Q22.
- Weaker rebound due to **economic scarring** via slow labour market normalisation, supply chain disruptions and weakened public sector, corporate and household balance sheets.
- **Political instability and social unrest** driven by pandemic-induced economic stress, inequality and poor policy response, particularly in Malaysia and Thailand.

Risks: Corporate earnings

- For 2021, our concerns over potential earnings risks are a weaker topline due to movement control orders, higher raw material costs due to rising commodity prices, potential modification loss for banks due to loan moratorium, and higher operating costs due to weaker economies of scale. Other potential headwinds are rising interest rates, fifth wave of the Covid-19 outbreak and political instability.
- Earnings revision ratio (companies that surprised on the upside/companies that surprised on the downside) may have peaked in 4Q20.



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Risks: Political concerns

Previous parliament composition (17 Nov 20)

TOTAL: 220

**PERIKATAN NASIONAL
(Ruling Coalition)**

112

UMNO 38

BERSATU 31

PAS 18

MCA 2

MIC 1

GPS 18

GBS 3

Independent 1

PSB

2

PAKATAN HARAPAN

91

DAP 42

AMANAH 11

PKR 38

Mahathir + Warisan

15

Warisan 8

Pejuang 4

UPKO 1

Independent 2

Vacant*

2

*Vacant seat following the passing of YB Datuk Liew

Vui Keong (Warisan - Batu Sapi) on 2-Oct-20 and YB

Dato' Hasbullah bin Osman (UMNO - Gerik) on 16-Nov-20

SOURCES: CGS-CIMB, PARLIMEN OF MALAYSIA, MALAYSIKINI

Current parliament composition (8 Jul 21)

TOTAL: 220

**PERIKATAN NASIONAL
(Ruling Coalition)**

77

PAS 18

MCA 2

MIC 1

GPS 18

GBS 3

Independent 4

Warisan

9

Warisan 8

UPKO 1

Unclear

42

UMNO 38

Independent 2

PSB 2

PAKATAN HARAPAN

88

DAP 42

AMANAH 11

PKR 35

Mahathir

4

Pejuang 4

Vacant*

2

*Vacant seat following the passing of YB Datuk Liew

Vui Keong (Warisan - Batu Sapi) on 2-Oct-20 and YB

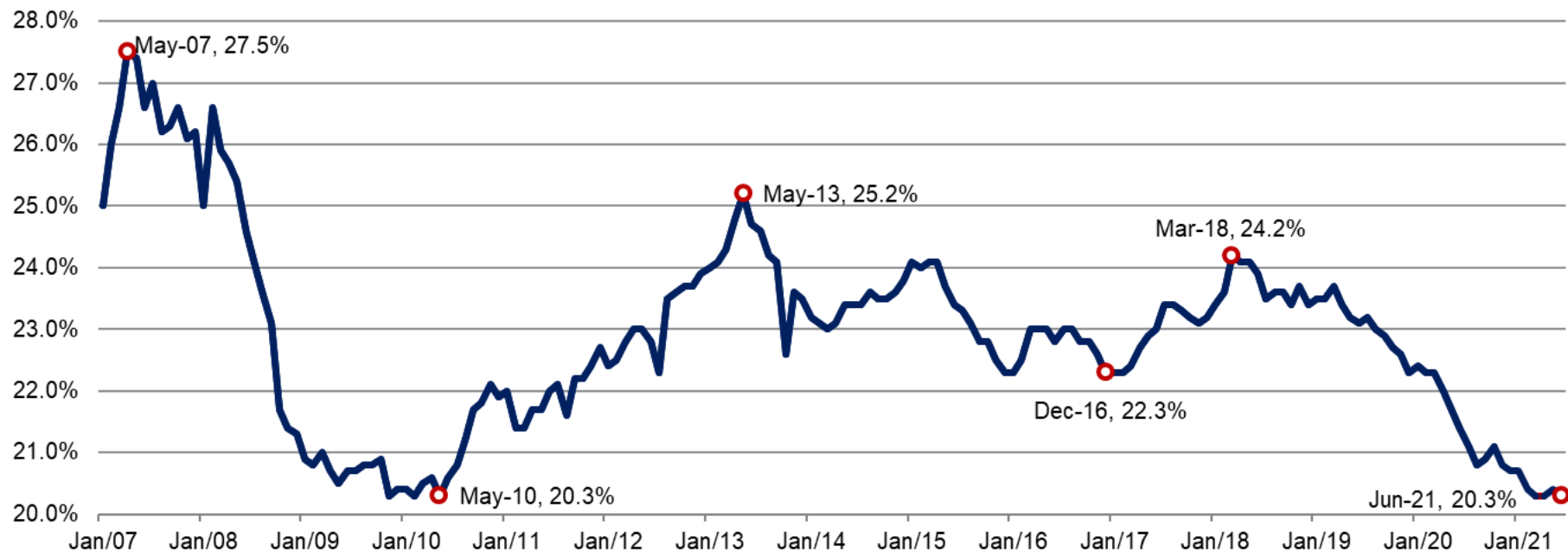
Dato' Hasbullah bin Osman (UMNO - Gerik) on 16-Nov-20

SOURCES: CGS-CIMB RESEARCH, PARLIMEN OF MALAYSIA, MALAYSIKINI

Risks: Potential outflow of foreign funds

- Foreign shareholding in Malaysia at end-Jun 2021 was 20.3%. This represents a decline of 1.1% pts from the level a year ago of 21.4% at end-Jun 2020. Based on the market capitalisation of the main market on 30 Jun 2021 of RM1,698m, we estimate the foreign shareholding value to be around RM345bn.
- Every 1% pt change in the foreign shareholding ratio will lead to an outflow of around RM17bn. We are currently at the lowest monthly foreign shareholding registered post the global financial crisis (GFC) of 20.3% as at end-Jun 2021. To put things into perspective, foreign investors have been net sellers in the Malaysian equity market since 2018. It was net seller of RM24.6bn equities in 2020 and RM4.2bn in 1H21.
- Companies under our coverage that have high foreign shareholdings, low ESG ratings and whose share prices have done well may witness selling pressure should foreign investors continue to exit Malaysia.

Foreign shareholdings of the whole Malaysian equity market



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

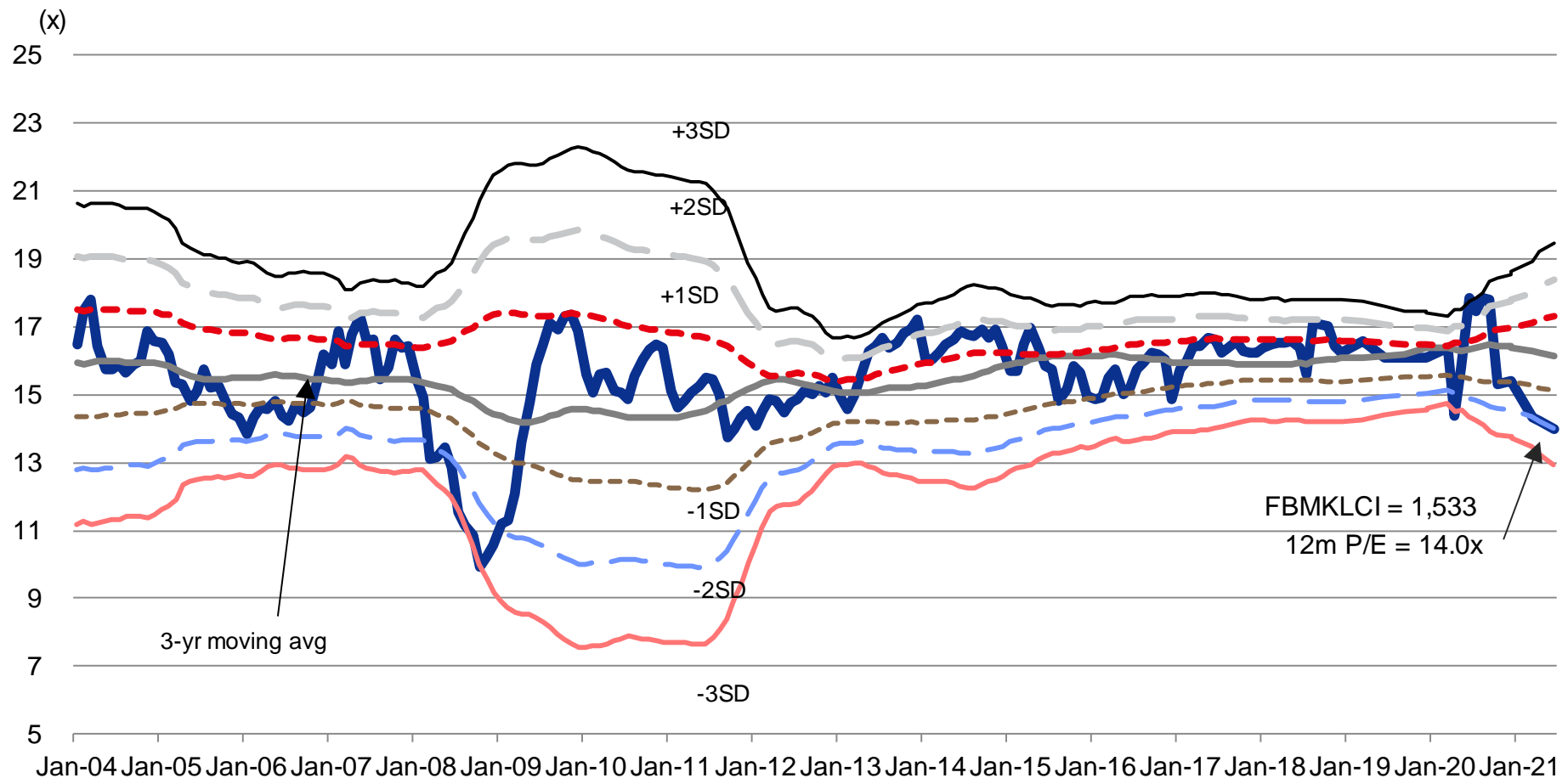
Key events that could impact 2H21F

Dates	Country	Key events
3Q21F		
8-Jul-21	Malaysia	Monetary Policy Decision
20-Jul-21	Malaysia	Hari Raya Aidilfitri
26-Jul-21	Malaysia	Special five-day parliament session
28-Jul-21	US	FOMC Rate decision
Aug-21	Malaysia	2Q21 Malaysia corporate results season
29-Aug-21	Malaysia	Expiry of temporary suspension on IDSS and PDT short sale
30-Aug-21	Global	MSCI quarterly index rebalancing date
13-Aug-21	Malaysia	2Q21 GDP
31-Aug-21	Malaysia	Merdeka Day
6 to 30-Sep-21	Malaysia	First meeting of the fourth session of the 14th Parliament meeting sitting
9-Sep-21	Malaysia	Monetary Policy Decision
20-Sep-21	Malaysia	Potential tabling of 12th Malaysia Plan (12MP)
22-Sep-21	US	FOMC Rate decision
4Q21F		
4Q21	Malaysia	Potential reactivation of MRT 3
11-Oct-21	Global	World Bank and IMF Annual Meeting
25 Oct to 16-Dec-21	Malaysia	Second meeting of the fourth session of the 14th Parliament meeting sitting
29-Oct-21	Malaysia	Malaysia Budget 2022
30-Oct-21	Global	G20 Summit
Nov-21	Global	OPEC meeting (dates TBA)
Nov-21	Malaysia	3Q21 Malaysia corporate results season
3-Nov-21	Malaysia	Monetary Policy Decision
3-Nov-21	US	FOMC Rate decision
4-Nov-21	Malaysia	Deepavali
12-Nov-21	Malaysia	3Q21 GDP
30-Nov-21	Global	MSCI semi-annual index rebalancing date
2-Dec-21	Malaysia	FTSE Bursa Malaysia Index semi-annual review
15-Dec-21	US	FOMC Rate decision
25-Dec-21	Global	Christmas Day
Nov-Dec 21	Malaysia	Announcement on Regulatory Period 3 (RP3) parameters

SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

FBM KLCI's 12M forward core P/E(x) band

- We estimate the KLCI is trading at 14.78x CY21F P/E and 14.5x CY22F P/E. On a three-year moving average P/E basis, the market is trading at 14x which, in our view, is at the lower end of its historical trading range. We believe that this captures the concerns over earnings risks in 2H21 due to the ongoing movement control order (MCO), ESG risks and political instability.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Sensitivity of CGS-CIMB's end-2021F KLCI target

- Our revised base case KLCI target of 1,604 pts at end-2021 values the KLCI at 14.5x forward P/E or 1.5 s.d. discount to its 3-year historical average forward P/E.
- Our sensitivity analysis reveals that should the market trade at mean P/E, our KLCI target could rise to 1,792 pts.
- We project KLCI earnings to grow by 37.4% in CY21F and 1.9% in CY22F. This is a tad weaker compared to our projection at the start of the year for KLCI earnings to grow by 38% in 2021F.

Sensitivity of CGS-CIMB's end-2021F KLCI target to various P/E valuation assumptions	FBMKLCI	12M Forward P/E (x)
Mean P/E	1,792	16.2
+1SD	1,918	17.4
+2SD	2,043	18.5
+3SD	2,169	19.6
-1SD	1,667	15.1
-1.5SD	1,604	14.5
-2SD	1,541	13.9
-3SD	1,415	12.8

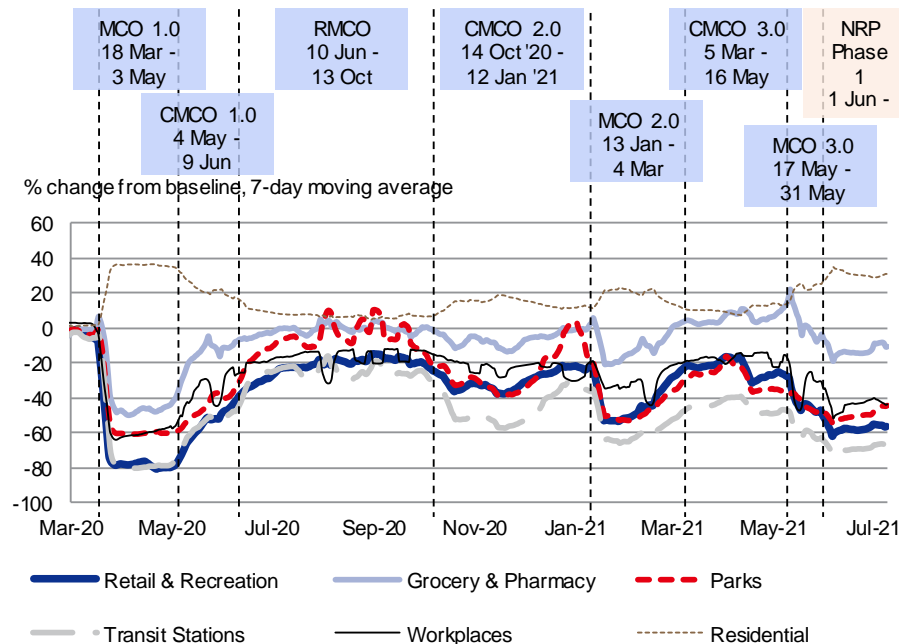
FBMKLCI Statistics	2017	2018	2019	2020	2021F	2022F
Core P/E (x)	17.5x	16.1x	17.9x	20.3x	14.7x	14.5x
Core Net Profit Growth (%)	7.3%	-0.7%	-9.7%	-6.6%	37.5%	1.9%
P/BV (x)	1.7x	1.7x	1.7x	1.6x	1.6x	1.5x
Dividend yield (%)	3.5%	3.4%	3.9%	3.2%	4.2%	4.1%
Recurring ROE	9.4%	10.7%	9.3%	8.1%	10.6%	10.4%

* 2017-2020 are based on previous constituents; 2021-2022F are based on new constituents

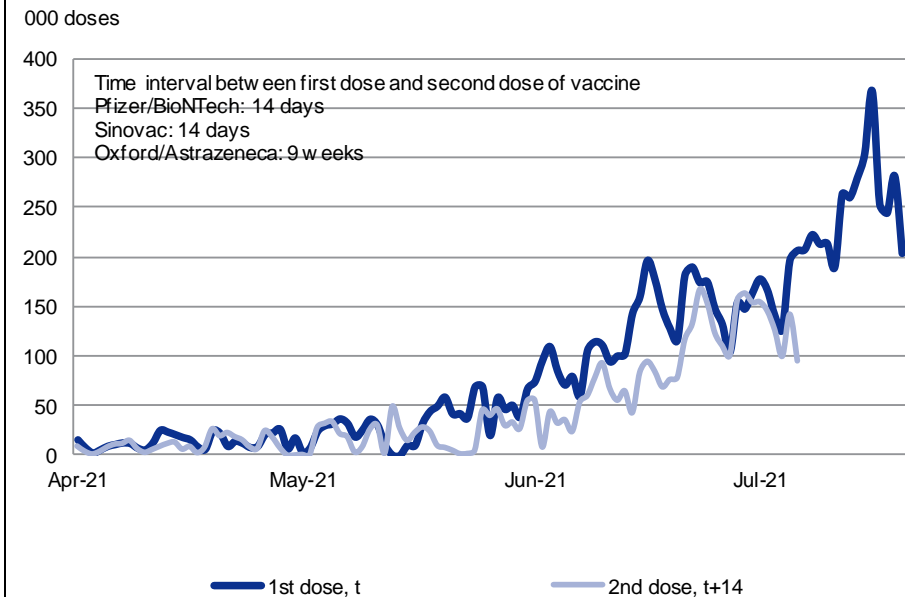
Economic outlook: Light at the end of tunnel

- We recently lowered our 2021 GDP forecast from 4.4% to 3.9% as we extend our assumption of Phase 1 and 2 MCO restrictions being in place until Aug (vs. end-Jul previously), with estimates for private consumption and investments trimmed to reflect curbs placed on physical movement and operational capacity as well as precautionary social distancing.
- Despite the persistently elevated Covid-19 cases and implementation of MCO 3.0 since May and FMCO since Jun, we believe the rapid acceleration in vaccinations and visibility over supply deliveries through Oct have increased the likelihood of a relaxation of MCO and phased reopenings after Aug.
- Our base case scenario for 2022 assumes Malaysia will be well into Phase 4 of the National Recovery Plan, which would allow all economic sectors to reopen, interstate travel to resume and with fewer curbs on social activities. We forecast Malaysia's GDP to expand 4.7% in 2022, with the rebound in household and business spending offsetting diminishing tailwinds from net exports and stimulus measures.

Current lockdown is the most stringent since MCO 1.0 in 2Q20



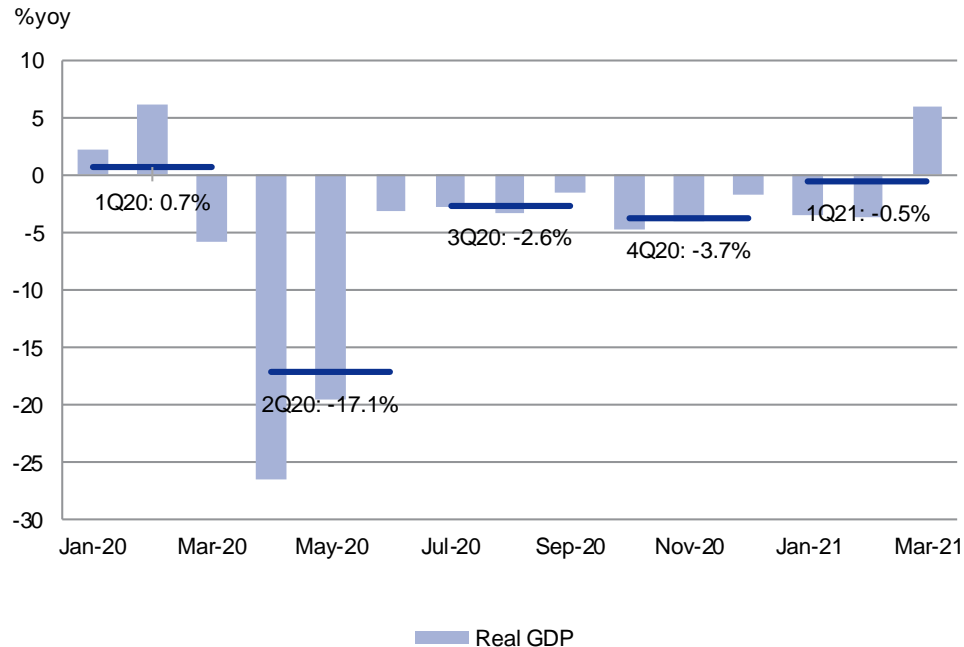
Daily vaccination has exceeded 400k



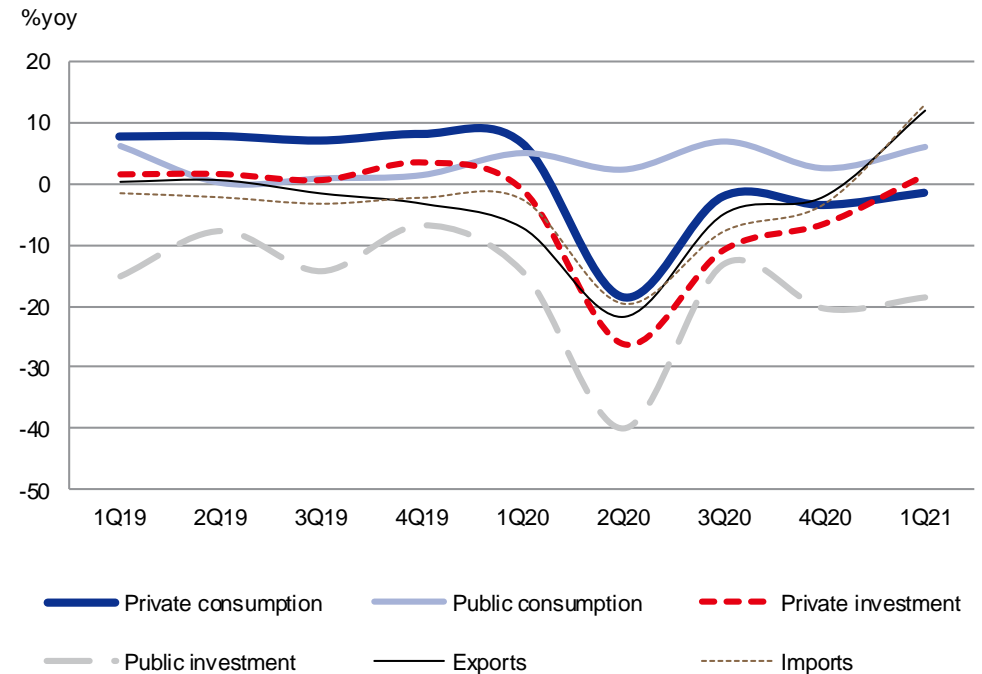
SOURCES: CGS-CIMB RESEARCH, GOOGLE MOBILITY, CEIC

Economic outlook: Light at the end of tunnel (cont'd)

Real GDP contraction narrowed to 0.5% yoy in 1Q21



Speedier trade recovery on rising global demand

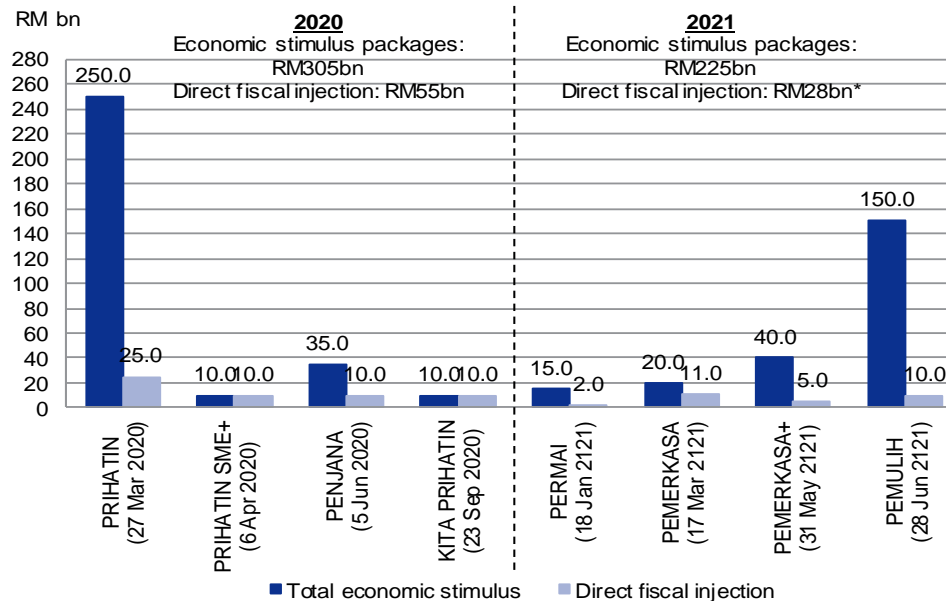


SOURCES: CGS-CIMB RESEARCH, CEIC, DOS

Economic outlook: Budget 2022 faces political limbo as Parliament reconvenes

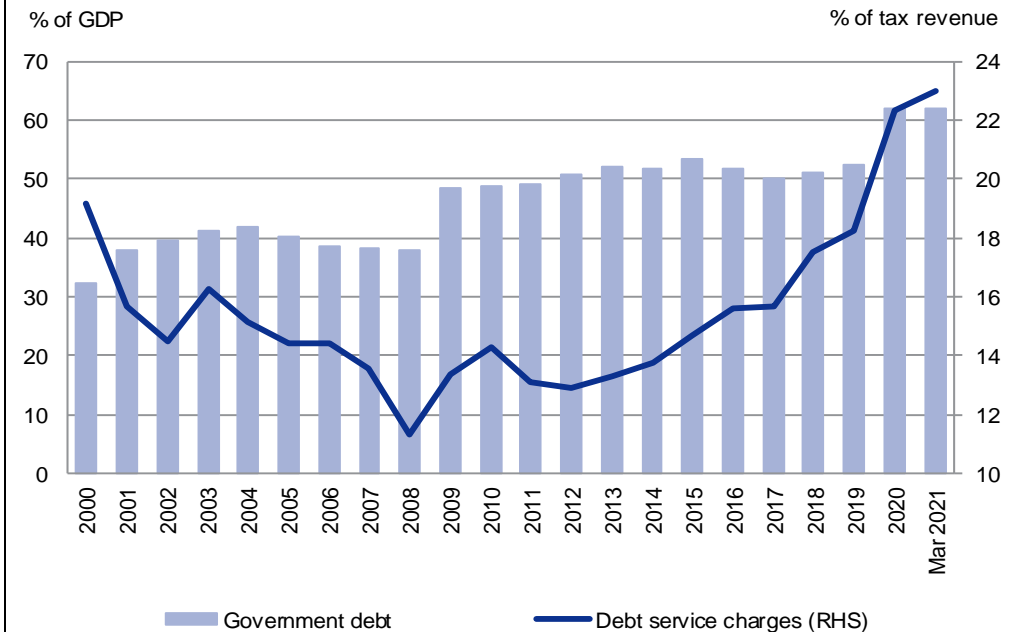
- We expect stimulus enhancements (Pemerkesa Plus and Pemulih) to take Malaysia's budget deficit to 7% of GDP in 2021, which we project to narrow to 4.5% of GDP in 2022 and 3.5% of GDP in 2023, keeping the government on track to meet the medium-term fiscal framework target of 4.5% of GDP in 2021-23. The Ministry of Finance has also proposed to raise the government debt ceiling from 60% of GDP to 65% of GDP to fund the national recovery.
- Despite a clear need for fiscal policy to remain accommodative, the uneventful passage of Budget 2022 through Parliament, which sits from 25 Oct to 16 Dec 2021, is not a certainty amid political instability and the fracturing of coalition support for the government led by PM Muhyiddin. A repeat of last year's laboured passage of the budget or an outright rejection, effectively a vote of no confidence in the government, will sap public expenditure, derail plans to kickstart the economy and dent household and business confidence.

The government has announced economic stimulus packages totalling RM530bn or 37.5% of 2020 nominal GDP



*CGS-CIMB estimate for direct fiscal injection under PERMAI

Rising government debt service burden



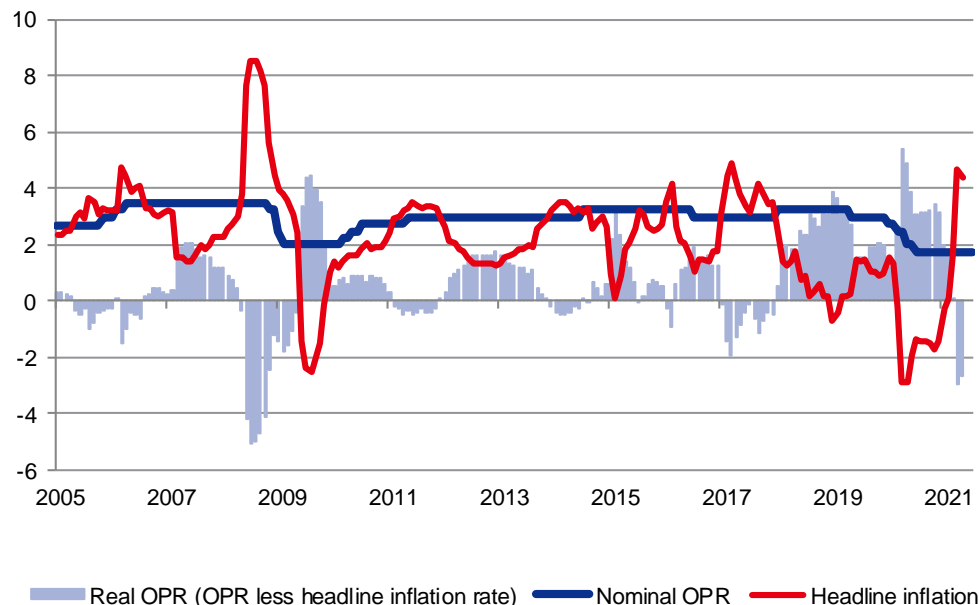
SOURCES: CGS-CIMB RESEARCH, CEIC, MOF

Economic outlook: OPR hikes on the cards in 2022

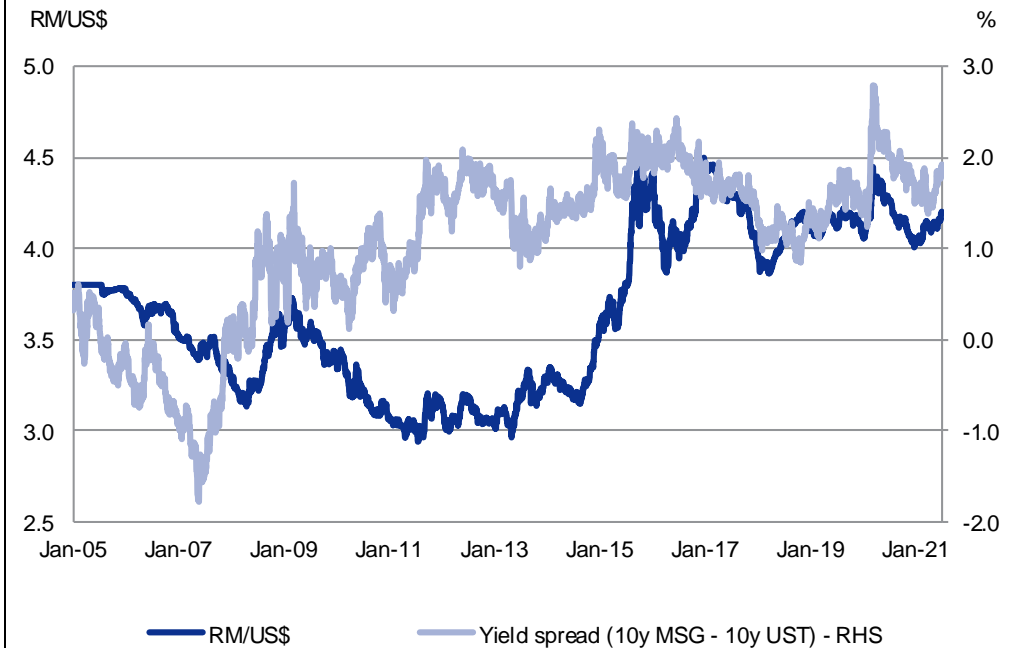
- BNM has identified the factors behind the recent spike in headline inflation as “cost-push” and “transitory”, which are unlikely to compel shifts in monetary policy this year, leading us to reiterate our end-2021 OPR forecast at 1.75%.
- As Malaysia’s economic outlook improves in 2022, we expect the OPR to follow the gentle upward drift in short-term interest rates and inflation expectations globally and foresee a total of 75bp in rate increases by end-2022, with the first hike coming as early as May next year.

Monetary policy does not respond aggressively to fluctuations in headline inflation

%yoy, %p.a.



Ringgit weakness exacerbated by political uncertainty



SOURCES: CGS-CIMB RESEARCH, CEIC, BLOOMBERG

Macro forecast

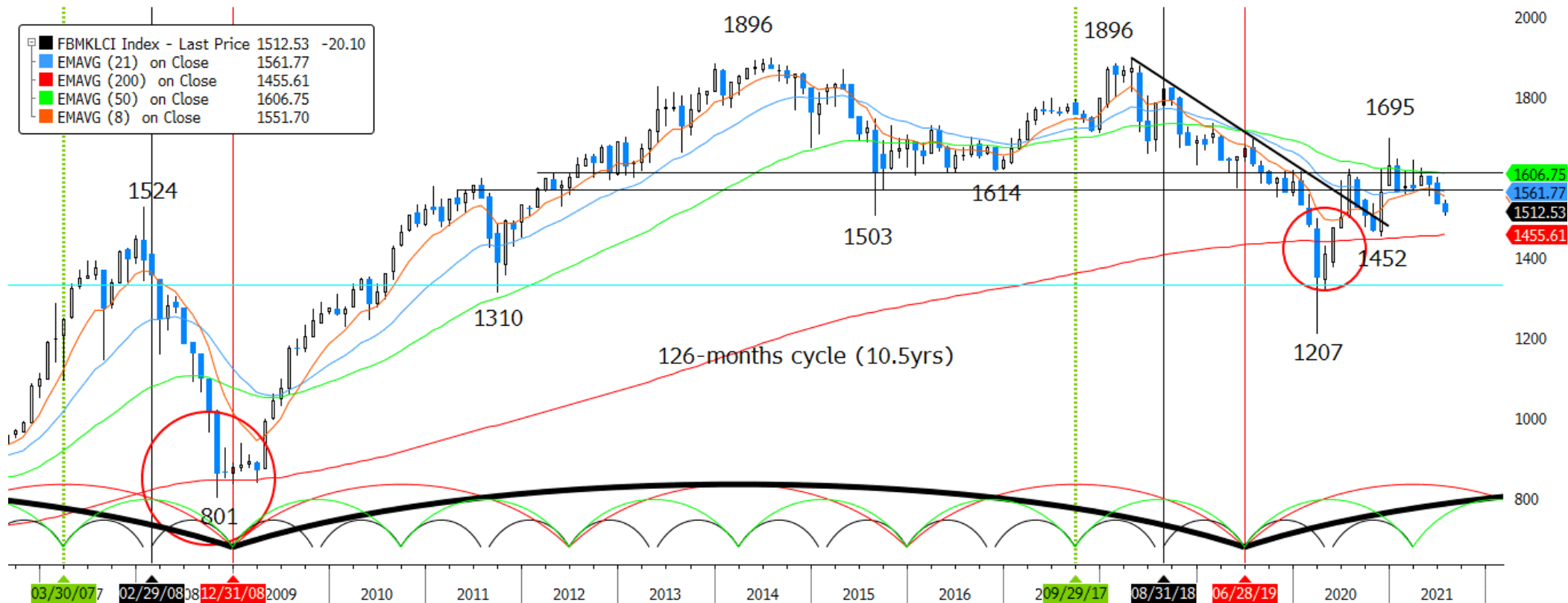
	2018	2019	2020	2021F	2022F	2018	2019	2020	2021F	2022F
	%yoy					% of GDP				
Real GDP	4.8	4.4	-5.6	3.9	4.7	100.0	100.0	100.0	100.0	100.0
<i>By expenditure</i>										
Private consumption	8.0	7.7	-4.3	3.6	5.4	56.9	58.7	59.5	59.3	59.7
Public consumption	3.4	1.8	3.9	2.7	-1.5	12.5	12.2	13.4	13.3	12.5
Gross fixed capital formation	1.4	-2.1	-14.5	4.2	5.2	24.6	23.1	20.9	21.0	21.1
Net exports	-	-	-	-	-	6.7	7.1	6.5	7.0	6.7
Exports	1.9	-1.0	-8.9	11.3	5.9	67.3	63.7	61.5	65.9	66.7
Imports	1.5	-2.4	-8.4	11.2	6.5	60.6	56.7	55.0	58.9	60.0
<i>By sector</i>										
Agriculture	0.1	2.0	-2.2	-4.9	3.0	7.3	7.1	7.4	6.8	6.7
Mining	-2.2	-0.6	-10.6	4.0	1.2	7.6	7.2	6.8	6.8	6.6
Manufacturing	5.0	3.8	-2.6	5.9	4.3	22.4	22.2	22.9	23.4	23.3
Construction	4.2	0.4	-19.4	5.3	6.3	4.9	4.7	4.0	4.0	4.1
Services	6.9	6.2	-5.5	4.3	5.3	56.7	57.6	57.7	57.9	58.3

	Unit	2014	2015	2016	2017	2018	2019	2020	2021F	2022F
Real GDP	%yoy	6.0	5.1	4.4	5.8	4.8	4.3	-5.6	3.9	4.7
Industrial production	%yoy	5.2	4.7	4.1	4.4	3.1	2.3	-4.2	5.0	3.4
Gross exports	%yoy	6.3	1.6	1.2	18.8	7.3	-0.8	-1.4	14.2	7.7
Gross imports	%yoy	5.3	0.4	1.9	19.7	5.2	-3.5	-6.3	16.5	10.5
Trade balance	RM bn	82.5	91.6	88.1	98.5	123.8	145.7	184.8	193.2	182.2
Current account	% of GDP	4.3	3.0	2.4	2.8	2.2	3.4	4.4	4.7	3.5
International reserves, end-period	US\$ bn	115.9	95.3	94.5	102.4	101.4	103.6	107.6	106.0	107.9
Headline inflation, average	%yoy	3.1	2.1	2.1	3.7	1.0	0.7	-1.1	3.1	2.0
Unemployment rate, end-period	%	0.0	3.4	3.5	3.3	3.3	3.3	4.8	4.3	3.7
Overnight Policy Rate, end-period	%p.a.	3.3	3.3	3.0	3.0	3.3	3.0	1.8	1.8	2.5
Ringgit per US dollar, average	RM/US\$	3.27	3.91	4.14	4.30	4.04	4.14	4.20	4.15	4.10

SOURCES: CGS-CIMB RESEARCH, CEIC

Technical analysis for FBMKLCI: Base-building to continue

- The rebound from the Mar 2020 low of 1,207 has been in the form of higher highs and higher lows, which supports our earlier view that the benchmark FBMKLCI's (KLCI) new 126-month cycle is now underway. However, in the final few months of 2020 and the first half of 2021, the KLCI struggled to break out above the 1,618-1,625 critical resistance.
- The recent breakdown to a new 2021 low suggests that the consolidation from end-2020 is likely to continue with its base-building phase above its 200-month EMA (currently at 1,455) for the rest of 2H21F.
- Closing below the said moving average is negative for the index, where a dip towards 1,300-1,350 cannot be ruled out. On the upside, the bulls need to overcome the said critical resistance to confirm that the longer-term uptrend has resumed.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Technical analysis for FBM Hijrah Shariah

- The long-term uptrend for the FTSE Bursa Malaysia Hijrah Shariah Index (FBMHS) is still intact. The index has been in consolidation mode after failing to firmly clear the 15,350 resistance levels in 2020.
- The pullback from the 15,825 high is fast approaching its historical support of 12,315-12,616, which includes its 62% Fibonacci Retracement (FR) levels at 12,365. The bulls may take a stand and form a base at or above the said support band. If a base is formed, then there is a good chance for a rebound back towards its 200-week EMA at 13,700 to happen in 2H21. Moving back above 14,000 would likely indicate that the longer term uptrend has resumed.
- IF the index fails to find support at the said band, then look for a test of the 78% FR levels (at 11,424) next. Failure to hold above the 79% FR levels would drastically cut any bullish potential outlook for 2H21 or 1H22.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Top picks: Big-cap to mid-cap picks

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY2021F	CY2022F		CY2021F	CY2022F	CY2021F	CY2022F	CY2023F	CY2021F	CY2022F	CY2021F	CY2022F
ATA IMS Bhd	AIB MK	Add	2.49	3.25	707	16.7	14.0	33.2%	3.25	2.83	20.9%	21.7%	21.3%	12.1	10.0	2.1%	2.5%
Axis REIT	AXRB MK	Add	1.93	2.44	659	20.7	18.3	6.4%	1.32	1.31	6.4%	7.2%	8.0%	na	na	4.8%	5.4%
Gamuda	GAM MK	Add	2.82	4.00	1,674	14.0	12.5	-3.9%	0.82	0.82	5.9%	6.6%	na	14.7	13.4	1.7%	4.1%
Kossan Rubber Industries	KRI MK	Add	3.34	4.00	2,013	2.7	7.9	70.1%	1.99	1.71	97.7%	23.4%	12.0%	1.7	4.2	14.9%	4.4%
Malaysian Pacific Industries	MPI MK	Add	41.62	42.00	1,955	30.3	26.7	30.9%	5.13	4.46	17.9%	17.8%	na	13.7	11.5	0.8%	0.8%
MISC Bhd	MISC MK	Add	6.80	7.95	7,168	13.7	12.3	14.2%	0.88	0.85	6.5%	7.0%	6.5%	9.3	8.4	5.1%	5.1%
MY E.G. Services	MYEG MK	Add	1.71	2.50	1,451	19.5	17.8	21.4%	4.57	3.87	25.8%	23.6%	21.5%	14.5	12.1	1.3%	1.5%
Pentamaster Corp Bhd	PENT MK	Add	5.28	5.85	888	39.5	32.5	9.5%	6.38	5.47	17.6%	18.1%	16.8%	21.5	17.7	0.4%	0.5%
Petronas Gas	PTG MK	Add	15.70	17.70	7,337	16.0	15.9	1.2%	2.36	2.27	15.1%	14.5%	13.5%	8.5	8.3	4.6%	4.6%
Sime Darby Bhd	SIME MK	Add	2.19	2.80	3,518	12.7	12.7	5.5%	0.95	0.92	7.6%	7.4%	na	4.8	4.6	5.9%	5.9%
Sime Darby Property Berhad	SDPR MK	Add	0.61	0.83	972	16.1	16.7	-14.0%	0.44	0.44	3.1%	2.6%	1.6%	24.9	25.7	1.9%	1.8%
Telekom Malaysia	T MK	Add	6.01	7.00	5,356	19.3	16.5	10.5%	2.98	2.78	16.3%	17.5%	19.2%	6.1	5.8	3.1%	3.6%
Tenaga Nasional	TNB MK	Add	9.78	13.40	13,226	11.1	10.9	0.3%	0.96	0.92	8.8%	8.6%	8.5%	6.1	6.0	4.9%	5.0%
Unisem	UNI MK	Add	8.00	10.50	1,524	29.0	22.9	55.5%	3.11	2.85	11.7%	13.0%	10.4%	13.3	11.0	1.2%	1.5%
Yinson Holdings Bhd	YNS MK	Add	4.85	6.18	1,220	12.5	16.6	45.5%	1.29	1.33	10.9%	7.9%	14.7%	7.7	9.3	1.2%	1.2%
Average						18.2	17.0	19.1%	2.43	2.19	18.1%	13.1%	12.8%	11.4	10.6	3.6%	3.2%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Top picks: Small-cap picks

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY2021F	CY2022F		CY2021F	CY2022F	CY2021F	CY2022F	CY2023F	CY2021F	CY2022F	CY2021F	CY2022F
Berjaya Food Berhad	BFD MK	Add	2.02	2.80	170	15.9	14.2	na	2.14	2.04	13.6%	14.7%	na	3.5	2.6	1.5%	2.0%
Bermaz Auto Berhad	BAUTO MK	Add	1.53	1.90	420	12.4	11.3	0.0%	2.89	2.59	24.8%	24.3%	24.5%	6.1	5.2	4.7%	5.3%
CCK Consolidated Holdings	CCK MK	Add	0.59	0.83	87	10.2	9.2	6.2%	1.14	1.05	11.8%	11.9%	12.0%	4.9	4.3	3.4%	3.8%
Duopharma Biotech Bhd	DBB MK	Add	2.83	3.67	472	23.0	22.2	12.5%	2.77	2.61	12.6%	12.1%	13.0%	13.3	11.8	2.2%	2.2%
Freight Management Hldgs	FMH MK	Add	0.67	1.20	88	11.6	11.1	42.4%	1.25	1.23	10.7%	11.2%	na	6.0	5.8	7.5%	7.5%
Kawan Food	KFB MK	Add	1.88	3.00	160	17.9	15.1	62.3%	1.83	1.69	10.7%	11.6%	13.0%	9.4	8.2	1.9%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.92	1.52	35	13.5	7.8	34.3%	2.21	1.83	17.6%	25.8%	28.4%	7.5	4.2	3.3%	5.8%
Mah Sing Group	MSGB MK	Add	0.82	1.16	470	9.1	7.8	21.2%	0.46	0.44	6.2%	7.0%	7.0%	8.2	7.3	5.5%	6.2%
Star Media Group Bhd	STAR MK	Add	0.37	0.50	63	na	110.7	-24.2%	0.37	0.37	-3.7%	0.3%	0.7%	na	-5.0	1.3%	4.0%
Ta Ann	TAH MK	Add	2.58	3.47	268	9.3	10.3	42.4%	0.76	0.74	8.5%	7.3%	8.1%	5.1	5.1	5.8%	5.8%
Velesto Energy Berhad	VEB MK	Add	0.14	0.19	262	na	9.2	52.7%	0.64	0.48	-3.3%	5.9%	4.9%	12.1	3.3	0.0%	0.0%
Average						13.7	20.8	25.0%	1.50	1.37	10.0%	12.0%	12.4%	7.6	4.8	3.4%	4.1%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Sector weightings

Overweight

- Chemicals
- Islamic Banking
- Healthcare
- Media
- Oil & Gas
- Packaging
- Semiconductor
- Tech Manufacturing Services
- Transport
- Utilities

Neutral

- Agribusiness
- Automotive
- Construction
- Consumer
- Gloves
- Insurance
- Property Development
- REIT
- Telco

Top three picks

Gamuda (Add, TP: RM4.00)

- Gamuda has emerged as the big cap laggard among contractors under coverage (YTD: -24%).
- We view the potential reactivation of the MRT 3 (RM20bn-30bn, likely to undertake turnkey and tunnelling packages) as the main share price catalyst.

Telekom Malaysia (Add, TP: RM7.00)

- Telekom Malaysia (TM) is our top Malaysia telco pick due to its robust FY21F/22F/23F core EPS growth (+15%/+9%/+21% yoy), driven by higher Internet and data services revenue, plus cost containment.
- Its FY21F EV/OpFCF is also at 0.8 s.d. below its 13-year mean and at a 22% discount to the Malaysian mobile average.

Unisem (Add, TP: RM10.50)

- Unisem is in a multi-year growth phase driven by strategic portfolio expansion in radio-frequency, power management and sensor products.
- We project a FY20-23F core net profit CAGR of 22%. The stock trades at an average 9% discount to the Malaysian semiconductor assembly and test sector's CY21-22F P/E.
- Unisem has also been recently reincluded into the Bursa FTSE4Good Index.

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Add	72.1%	1.1%
Hold	19.3%	0.0%
Reduce	8.7%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

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1 CG Score 2020 from Thai Institute of Directors Association (IOD)

2 AGM Level 2019 from Thai Investors Association

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4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2019" included:

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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.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.