

Strategy

A leap in the dark – Shariah perspective

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- This report delineates our 2H22F equity strategy outlook from a Shariah perspective.
- Market sentiment could stay weak in 3Q before potentially rebounding in 4Q.
- We see potential upside from the return of foreign workers, better-than-expected tourist arrivals, easing inflationary pressures and a resolution to some of the ESG concerns relating to forced labour.
- We advise investors to take shelter in sectors with defensive earnings and high dividend yields as well as beneficiaries of rate hike cycle and return of foreign tourists. We offer six investment themes for 2H22F.
- We maintain our KLCI target of 1,506 pts and our top Shariah picks are Bank Islam, Mr. DIY and Telekom.

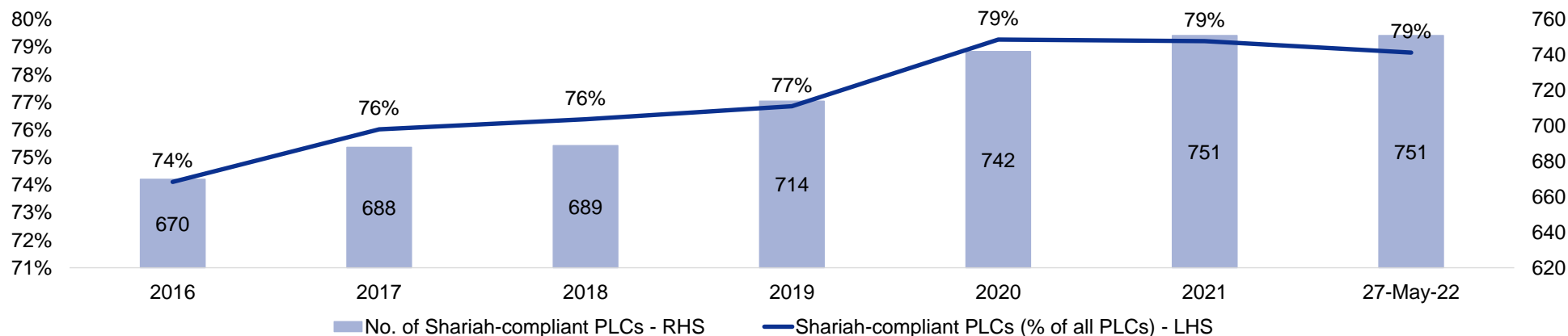
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Key takeaways of our views on the outlook for 2H22F

- The multiple headwinds we predicted for 2022, plus the unexpected Russia-Ukraine war and the US Federal Reserve's aggressive stance on rate hikes have mostly been priced in by the market. These negatives have overwhelmed the stronger economic growth as Malaysia reopened international borders on 1 Apr 2022 and foreign fund inflows returned.
- KLCI recently fell to its YTD low of 1,411 pts on 13 Jul 2022. As at 22 Jul 2022, the KLCI is down 13% from its post-Covid-19 peak level of 1,685 pts on 12 Dec 2020. We track the GFC period in 2008 and Covid-19 pandemic in 2020 to gauge the downside risk to the KLCI. During the GFC, KLCI fell by 45% from its peak to 829 pts while KLCI earnings fell by 8.7% in 2009. During the pandemic, KLCI fell by 36% from its peak to 1,220 pts, and KLCI earnings fell by 6.6% in 2020. There is potential earnings downside risk of c.19.4%/17.3% to our current 10.7% 2023F KLCI EPS growth forecast, if the earnings decline resembles that of the GFC/Covid-19 periods (-8.7%/-6.6%). Applying this earnings risk to our target P/E of 12.9x would give us potential lows of 1,213/1,245 pts for KLCI vs. our current KLCI target of 1,506 pts for end-2022.
- Among the key events to watch in 2H22F are (1) global/Malaysia monetary policy decisions; (2) potential fiscal stimulus measures to avert global slowdown/recession; (3) potential GE15 and its outcome; (4) developments on the Russia-Ukraine war; (5) results seasons in Aug and Nov; (6) details of Budget 2023; (7) government policies on 5G, Imbalance Costs Pass Through (ICPT) for Tenaga, return of foreign workers and large construction projects; and (8) risk of any major Covid-19 outbreak that forces governments to impose lockdowns.
- We advise investors to take shelter in sectors/stocks with defensive earnings (utilities, telco, healthcare, consumers) and high dividend yields. We also like beneficiaries of rising interest rates and the return of foreign tourists.
- The 6 themes for 2H22F are: (1) beneficiaries of rate hikes; (2) beneficiaries of weaker ringgit; (3) high dividend yielders; (4) beneficiaries of GE15; (5) value plays; and (6) ESG picks. Our top three picks are Bank Islam, Mr D.I.Y and Telekom.

Shariah-compliant PLCs rising over the past six 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	229	30%	272	84%
Consumer products & services	144	19%	202	71%
Property	90	12%	99	91%
Technology	79	11%	103	77%
Construction	59	8%	64	92%
Plantation	34	5%	42	81%
Energy	28	4%	34	82%
Transportation and logistics	26	3%	33	79%
Telecommunications & media	25	3%	25	100%
Healthcare	22	3%	30	73%
Utilities	11	1%	13	85%
Financial services	4	1%	34	12%
SPAC	na	na	1	na
Closed-end funds	na	na	1	na
Total	751	100%	948	79%

Data as at 20-Jul-22

SOURCES: CGS-CIMB RESEARCH, SECURITIES COMMISSION

Increasing interest in Shariah investments

- The total Islamic assets under management for the Malaysian fund management industry grew marginally from 22.0% of total assets in 2017 to 22.7% in May 2022.
- The Islamic unit trust size expanded at a faster pace, accounting for 22.1% of the total net asset value of unit trusts in May 2022 vs. 18.2% in 2017. Total Islamic assets under management stood at RM211.6bn at end-May 2022.

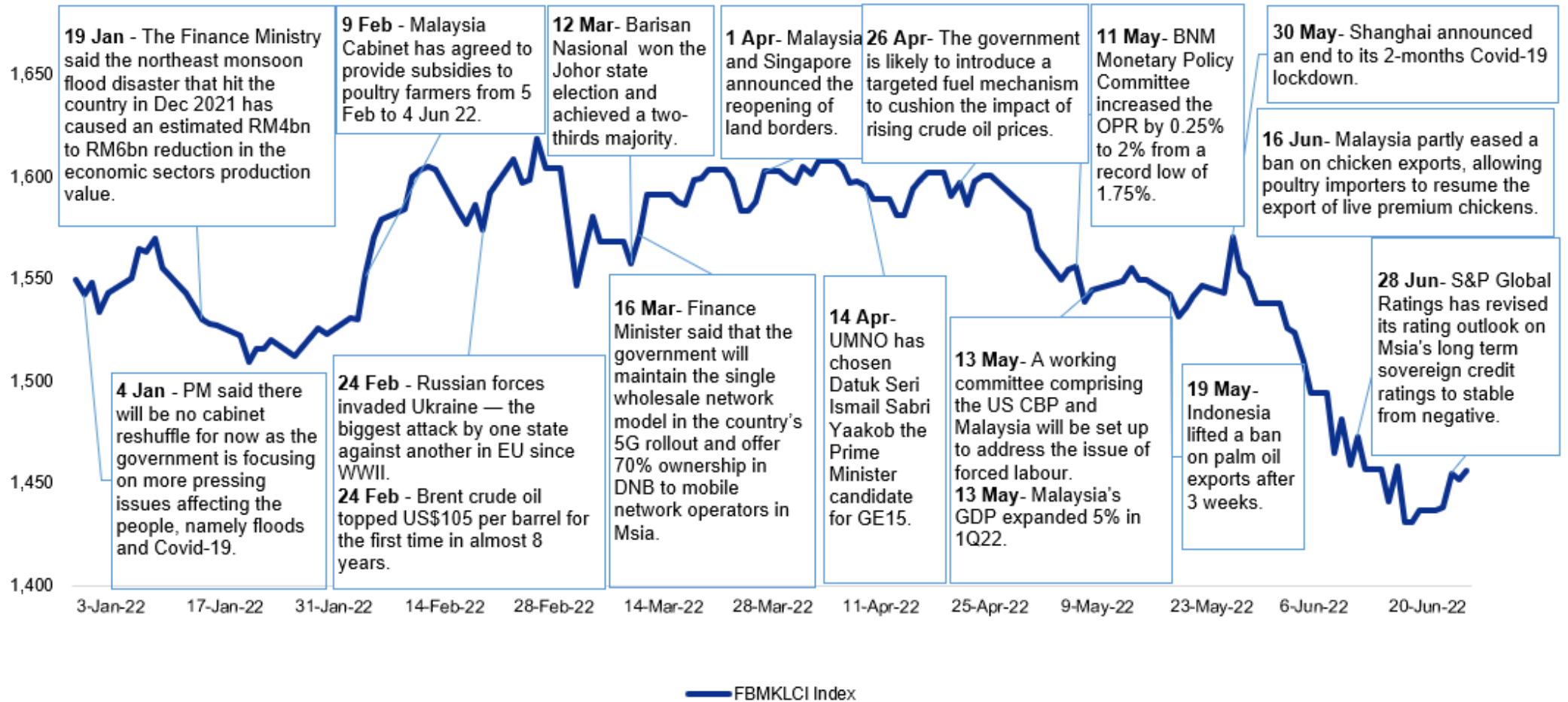
Period	Islamic Assets under Management (RM bn)	Islamic Assets under Management (% of total)	Islamic Unit Trust Net Asset Value (RM bn)	Islamic Unit Trust Net Asset Value (% of total)
Annual				
2017	170.8	22.0	77.8	18.2
2018	158.8	21.4	83.5	19.6
2019	180.5	21.9	107.3	22.3
2020	216.8	23.9	128.5	24.7
2021	224.8	23.6	128.3	24.4
Monthly				
Jan-22	214.7	23.0	121.0	23.6
Feb-22	218.7	23.2	119.6	23.0
Mar-22	215.6	23.0	118.1	22.8
Apr-22	212.2	22.7	115.0	22.3
May-22	211.6	22.7	112.9	22.1

SOURCES: CGS-CIMB RESEARCH, SECURITIES COMMISSION

Recap of market performance in 1H22

- The KLCI fell 7.9% in 1H22 to 1,444.2 pts, as a series of negative events hit the market (Covid-19 Omicron outbreak, Russia-Ukraine war, high commodity prices, minimum wage hike, increase in US Fed Funds Rate). On top of these, Malaysian corporates faced headwinds in the form of labour shortages and supply chain issues.
- The above, coupled with the recent sharp fall in commodity prices, raised earnings risks and led to a de-rating in KLCI's P/E multiple to 2 s.d. below its 3-year historical mean P/E.
- KLCI briefly touched its YTD high of 1,619 pts on 3 Mar 2022, before retreating to close 1H22 at 1,444 pts on 30 Jun 2022. In 1H22, average daily trading volume and value fell 58% and 46% yoy, respectively, to 3.2bn units and RM2.5bn value. This was broadly in line with the 2017-19 pre-pandemic average daily trading value for the Malaysia equity market of RM2.4bn.
- Only four sectors delivered positive returns in 1H22 – plantation, finance, REIT and construction. The technology, healthcare and telecom sectors were the three worst-performing sectors in Malaysia in 1H22. The decline in healthcare sector in 1H22 was due to continued sell-down of the glove sector due to the fall in ASPs for gloves and overcapacity concerns. The telecom sector was impacted by concerns over potential negative earnings impact for telcos should the government decide to keep to its plan to roll out 5G via a Single Wholesale Network model under Digital Nasional Berhad (DNB).
- The fund flows data showed foreign investors were net buyers in five out of the six months in 1H22, with cumulative net buying of RM6.1bn in 1H22 (vs. RM4.2bn outflow in 1H21). The foreign shareholdings in Malaysia was 20.6% at end-Jun 22.

Key market events in 1H22

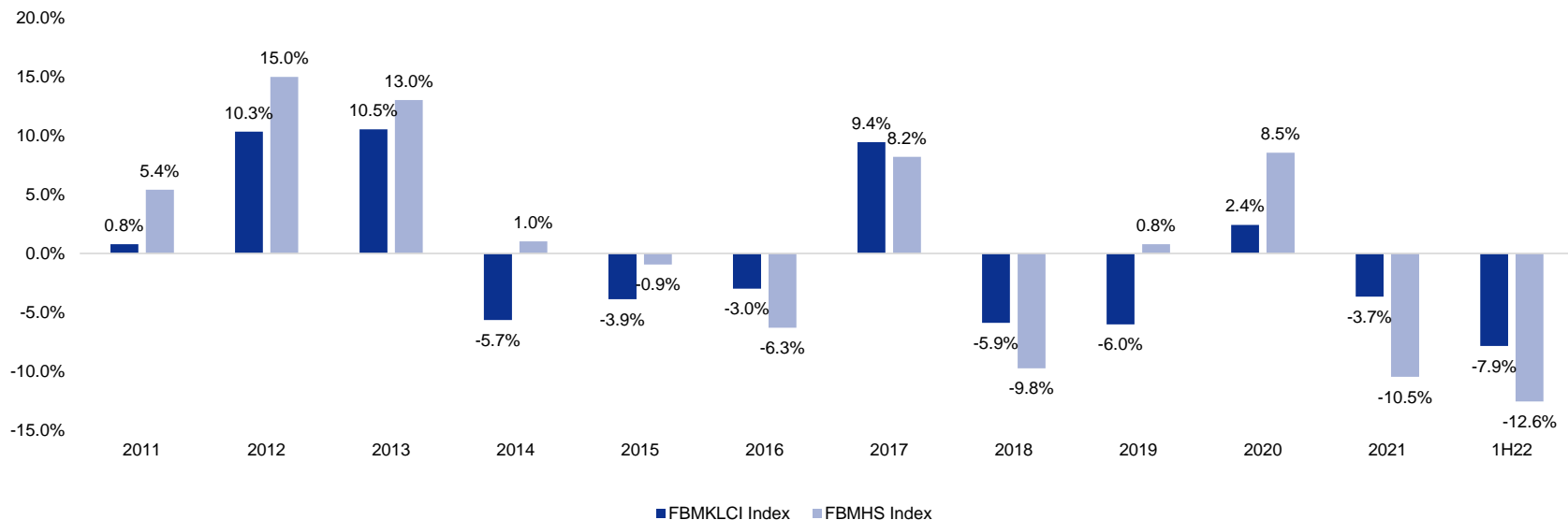
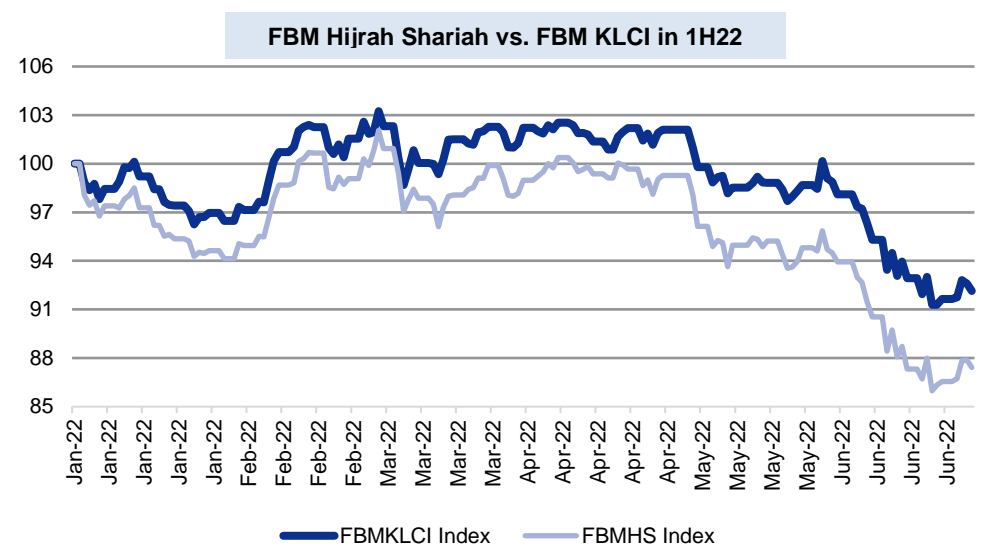
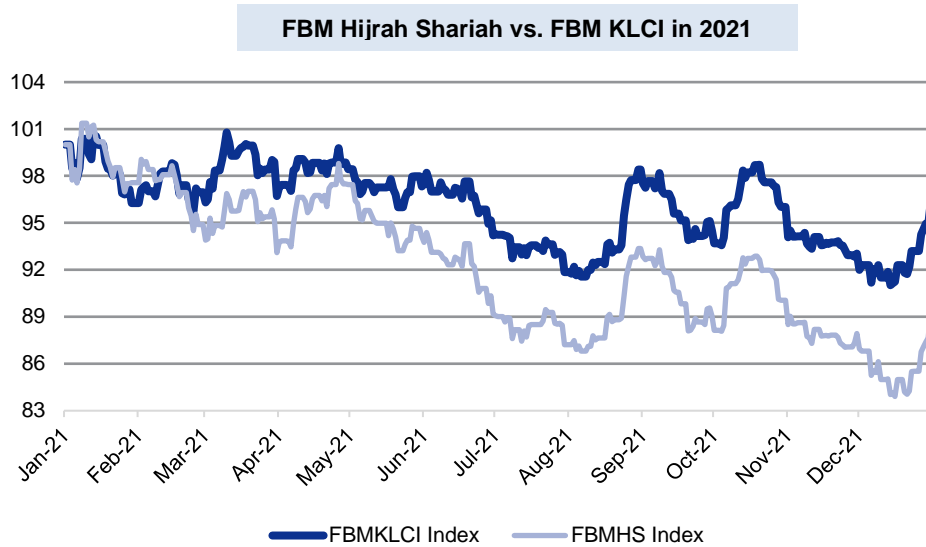


Data up to 30-Jun-2022
 SOURCES: CGS-CIMB RESEARCH, BLOOMBERG , VARIOUS NEWS ARTICLES

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 eleven years (2011-21).
- 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 41% of KLCI's total weightage on 30 Jun 2022.
- As at 30 Jun 2022, the key heavyweights in the Hijrah Shariah index were the F&B (27% of total index weight), telecommunications (18%), and utilities (14%) sectors.
- The top three companies with the highest weightage in FBM Hijrah Shariah Index are Tenaga, Petronas Chemical and IHH.

FBM Hijrah Shariah outperformed FBM KLCI in 7 out of the past 11 years



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

FBM KLCI vs. FBM Hijrah Shariah index

FBM KLCI Top 10 Constituents	
Constituent	Weight (%)
Public Bank BHD	13.8
Malayan Banking	13.6
CIMB Group Holdings	7.3
Tenaga Nasional	5.7
PETRONAS Chemicals Group Bhd	5.7
IHH Healthcare	3.8
Press Metal Aluminium Holdings	3.7
Sime Darby Plantation	3.5
Hong Leong Bank	3.0
Axiata Group Bhd	2.9
Total	63.1

FBMKLCI sector breakdown		
Sector	No. of constituents	Weight (%)
Banks	6	41
Food Beverage and Tobacco	5	12
Telecommunications	4	9
Utilities	2	8
Healthcare	3	6
Chemicals	1	6
Industrial Goods and Services	2	4
Basic Resources	1	4
Travel and Leisure	2	4
Energy	2	3
Technology	1	2
Retailers	1	1
Total	30	100

FBM Hijrah Shariah Top 10 Constituents	
Constituent	Weight (%)
Tenaga Nasional	10.3
PETRONAS Chemicals Group Bhd	10.2
IHH Healthcare	6.8
Sime Darby Plantation	6.2
Axiata Group Bhd	5.3
IOI	4.8
Digi.com	4.4
PPB Group	4.3
Telekom Malaysia	4.1
Petronas Gas	3.8
Total	60.2

FBM Hijrah Shariah sector breakdown		
Sector	No. of constituents	Weight (%)
Food Beverage and Tobacco	9	27
Telecommunications	5	18
Utilities	2	14
Healthcare	2	9
Chemicals	1	10
Technology	3	4
Energy	2	6
Industrial Goods and Services	2	4
Construction and Materials	2	5
Retailers	1	2
Real estate	1	1
Total	30	100

Note : Data as at end-June 22

SOURCES: CGS-CIMB RESEARCH, FTSE RUSSELL BLOOMBERG

Shariah indices underperformed conventional indices in 1H22

- The plantation and finance sectors were the top performing sectors in 1H22.
- The technology, healthcare and telecommunications sectors were the worst performing sectors in 1H22.
- FBM Hijrah Shariah and FBM Emas Shariah indices underperformed the FBM KLCI and FBM Emas indices in 1H22. This is due mainly to the outperformance of the finance sector against the healthcare and technology sectors in 1H22.

Index	2016 % yoy	2017 % yoy	2018 % yoy	2019 % yoy	2020 % yoy	2021 % yoy	1H22 % chg
Bursa Malaysia Plantation	1.7%	2.0%	(12.7%)	12.0%	(5.6%)	(10.3%)	5.3%
Bursa Malaysia Finance	1.6%	17.2%	2.6%	(10.6%)	(1.0%)	1.6%	2.7%
Bursa Malaysia REIT	11.2%	4.8%	(12.5%)	4.1%	(13.4%)	(5.0%)	1.1%
Bursa Malaysia Construction	3.0%	9.8%	(50.2%)	34.3%	(10.8%)	(17.6%)	0.9%
Bursa Malaysia Energy	(18.9%)	32.5%	(36.6%)	51.3%	(27.8%)	(21.5%)	(1.5%)
Bursa Malaysia Consumer	(2.1%)	12.1%	1.6%	(0.3%)	(7.6%)	(4.5%)	(3.5%)
Bursa Malaysia Utilities	(5.0%)	(2.1%)	(5.4%)	7.8%	(1.6%)	(11.6%)	(4.7%)
Bursa Malaysia Transport	0.2%	6.9%	(32.1%)	4.6%	4.7%	8.3%	(6.1%)
FBM Fledgling	(4.5%)	17.0%	(23.3%)	6.7%	30.3%	1.4%	(7.2%)
FBM KLCI	(3.0%)	9.4%	(5.9%)	(6.0%)	2.4%	(3.7%)	(7.9%)
FBM Top 100	(2.5%)	12.7%	(9.3%)	(2.9%)	3.5%	(4.2%)	(8.8%)
FBM EMAS	(2.8%)	12.9%	(10.9%)	(1.8%)	3.9%	(3.9%)	(8.9%)
Bursa Malaysia Property	(5.0%)	8.8%	(28.6%)	(5.2%)	(11.5%)	(4.2%)	(9.5%)
FBM Small Cap	(7.7%)	15.9%	(33.7%)	25.4%	9.9%	1.3%	(9.7%)
Bursa Malaysia IndusProd	(7.3%)	21.1%	(4.8%)	(7.9%)	16.1%	13.8%	(10.4%)
FBM Mid 70	(0.8%)	23.4%	(18.7%)	8.7%	6.6%	(6.2%)	(12.1%)
FBM Hijrah Shariah	(6.3%)	8.2%	(9.8%)	0.8%	8.5%	(10.5%)	(12.6%)
Bursa Malaysia Telecom	(7.3%)	(2.5%)	(39.0%)	12.1%	(2.0%)	(2.5%)	(13.4%)
FBM Emas Shariah	(6.1%)	10.7%	(13.5%)	3.9%	10.1%	(6.8%)	(14.3%)
FBM ACE	(25.2%)	38.1%	(34.6%)	21.1%	105.4%	(40.2%)	(26.0%)
Bursa Malaysia Healthcare	(12.0%)	18.5%	10.1%	(4.2%)	185.6%	(34.6%)	(28.3%)
Bursa Malaysia Technology	(13.3%)	89.7%	(29.9%)	29.2%	83.9%	38.6%	(35.3%)

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Performance of global and regional markets

- Malaysia was the worst performer among the MIST (Malaysia, Indonesia, Singapore and Thailand) markets in 1H22. This could be due partly to profit-taking in glove, technology and telecom sectors in 1H22.

Index	2016	2017	2018	2019	2020	2021	1H22
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy
S&P 500 Index	9.5%	19.4%	-6.2%	28.9%	16.3%	26.9%	-20.6%
Taiwan Taiex Index	11.0%	15.0%	-8.6%	23.3%	22.8%	23.7%	-18.6%
Nasdaq Composite Index	7.5%	28.2%	-3.9%	35.2%	43.6%	21.4%	-29.5%
Dow Jones Indus. Avg	13.4%	25.1%	-5.6%	22.3%	7.2%	18.7%	-15.3%
FTSE 100 Index	14.4%	7.6%	-12.5%	12.1%	-14.3%	14.3%	-2.9%
Nikkei 225	0.4%	19.1%	-12.1%	18.2%	16.0%	4.9%	-8.3%
Shanghai SE Composite Index	-12.3%	6.6%	-24.6%	22.3%	13.9%	4.8%	-6.6%
KOSPI Index	3.3%	21.8%	-17.3%	7.7%	30.8%	3.6%	-21.7%
FTSE Bursa Malaysia KLCI	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	-7.9%
FBM Hijrah Shariah	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.5%	-12.6%
MSCI AC Asia x Japan	2.9%	38.7%	-16.4%	15.4%	22.5%	-6.4%	-17.3%
Hang Seng Index	0.4%	36.0%	-13.6%	9.1%	-3.4%	-14.1%	-6.6%

Regional Indexes	2016	2017	2018	2019	2020	2021	1H22
	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy	% yoy
Thai Index	19.8%	13.7%	-10.8%	1.0%	-8.3%	14.4%	-5.4%
Jakarta Composite Index	15.3%	20.0%	-2.5%	1.7%	-5.1%	10.1%	5.0%
Straits Times Index STI	-0.1%	18.1%	-9.8%	5.0%	-11.8%	9.8%	-0.7%
PSEi - Philippine SE Index	-1.6%	25.1%	-12.8%	4.7%	-8.6%	-0.2%	-13.6%
FTSE Bursa Malaysia KLCI	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	-7.9%
FBM Hijrah Shariah	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.5%	-12.6%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

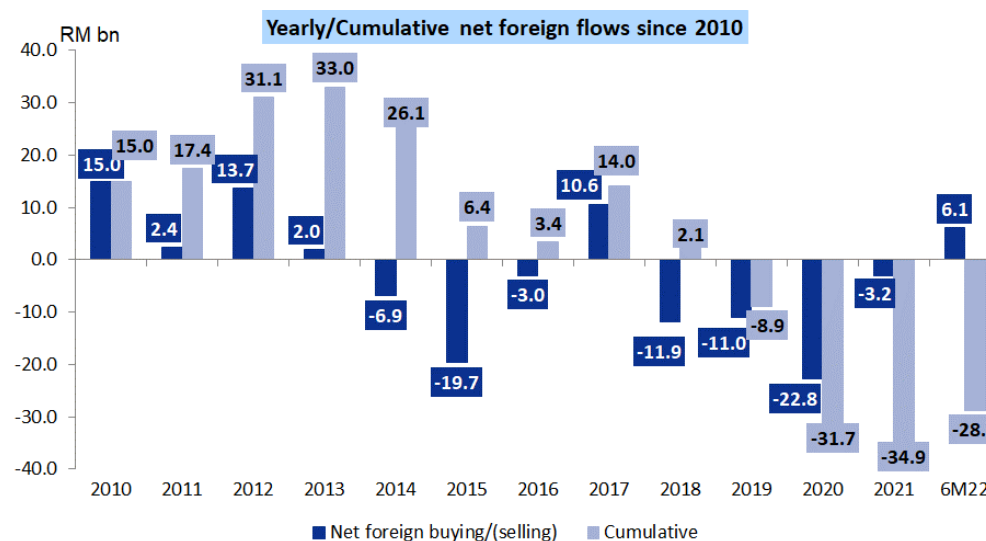
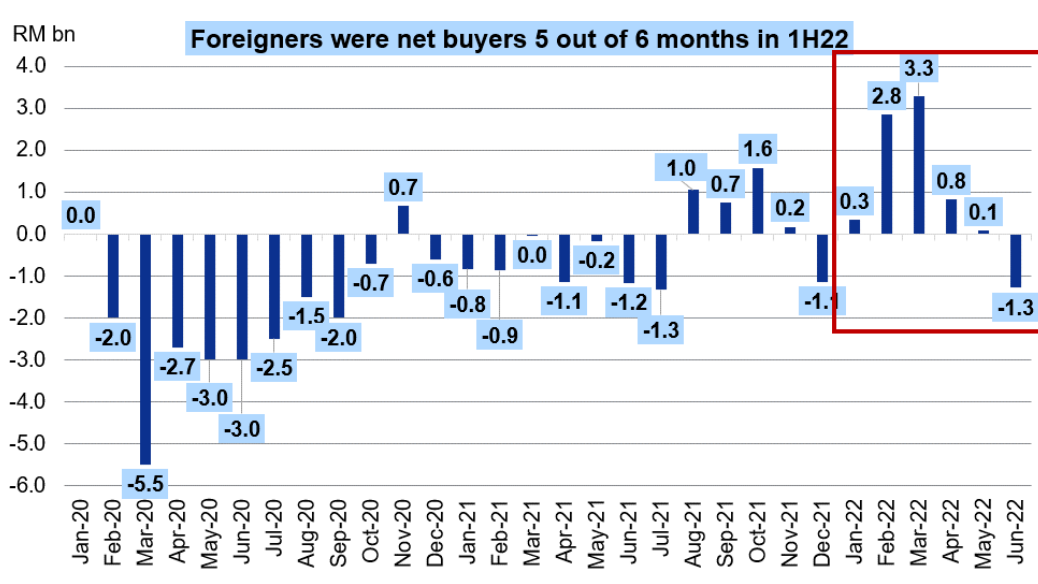
1H22 review: Only 11 KLCI constituents delivered positive returns in 1H22

KLCI constituents	2018 % yoy	2019 % yoy	2020 % yoy	2021 % yoy	1H22 % YTD
Sime Darby Plantations	(20.7%)	15.9%	(8.4%)	(24.3%)	15.2%
Hong Leong Bank	20.0%	(10.1%)	5.2%	2.3%	9.9%
RHB Bank	5.8%	9.3%	(5.7%)	1.8%	8.5%
Hong Leong Financial	3.8%	(8.9%)	6.9%	(4.0%)	6.7%
Public Bank Bhd	19.8%	(21.5%)	6.0%	1.0%	5.0%
Maybank	(0.7%)	(7.4%)	(2.1%)	3.7%	4.3%
IOI Corp	(4.7%)	6.6%	(5.5%)	(15.4%)	2.9%
Petronas Dagangan	9.2%	(12.8%)	(7.4%)	(3.7%)	2.5%
Petronas Chemicals	20.6%	(20.9%)	1.1%	20.1%	0.9%
Kuala Lumpur Kepong	(1.1%)	0.3%	(3.3%)	(8.1%)	0.8%
MISC	(9.7%)	24.6%	(17.7%)	2.6%	0.7%
Genting Malaysia Bhd	(46.5%)	8.9%	(18.2%)	7.1%	(1.2%)
Nestle (Malaysia)	42.8%	(0.3%)	(5.5%)	(3.4%)	(1.2%)
Genting	(33.3%)	(0.8%)	(26.3%)	4.7%	(2.8%)
Telekom Malaysia	(57.8%)	43.9%	41.9%	1.7%	(4.5%)
CIMB Group	(9.5%)	(6.4%)	(16.5%)	30.6%	(6.7%)
PPB Group	22.4%	7.2%	(1.7%)	(7.7%)	(7.3%)
Sime Darby Berhad	8.6%	(7.5%)	4.1%	0.5%	(8.2%)
Petronas Gas	9.8%	(13.4%)	3.4%	4.8%	(8.7%)
IHH Healthcare	(2.1%)	1.5%	0.6%	33.8%	(12.1%)
Mr DIY Group	na	na	na	15.8%	(13.9%)
Tenaga Nasional	(10.5%)	(2.5%)	(21.2%)	(10.0%)	(14.6%)
Press Metal	(7.6%)	(1.6%)	80.4%	37.8%	(16.0%)
Dialog Group	23.9%	10.9%	0.1%	(24.0%)	(18.7%)
Digi.Com	(11.8%)	(0.9%)	(7.2%)	5.3%	(19.7%)
Axiata Group	(28.2%)	6.4%	(9.6%)	11.3%	(32.0%)
Maxis	(10.9%)	(0.5%)	(5.0%)	(3.9%)	(32.0%)
Inari Amertron	(31.9%)	14.7%	67.3%	62.6%	(33.9%)
Hartalega	15.9%	(9.6%)	125.1%	(52.9%)	(46.6%)
Top Glove Corp	42.8%	(16.0%)	308.1%	(57.8%)	(59.8%)

Note : Light blue represents Shariah-compliant constituents
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

1H22 review: Foreigners turned net buyers in 1H22

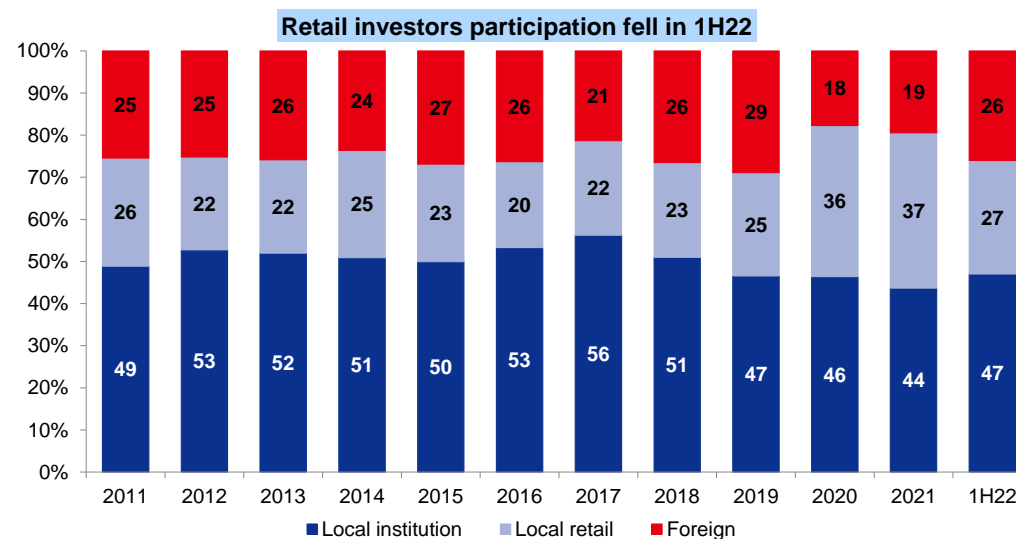
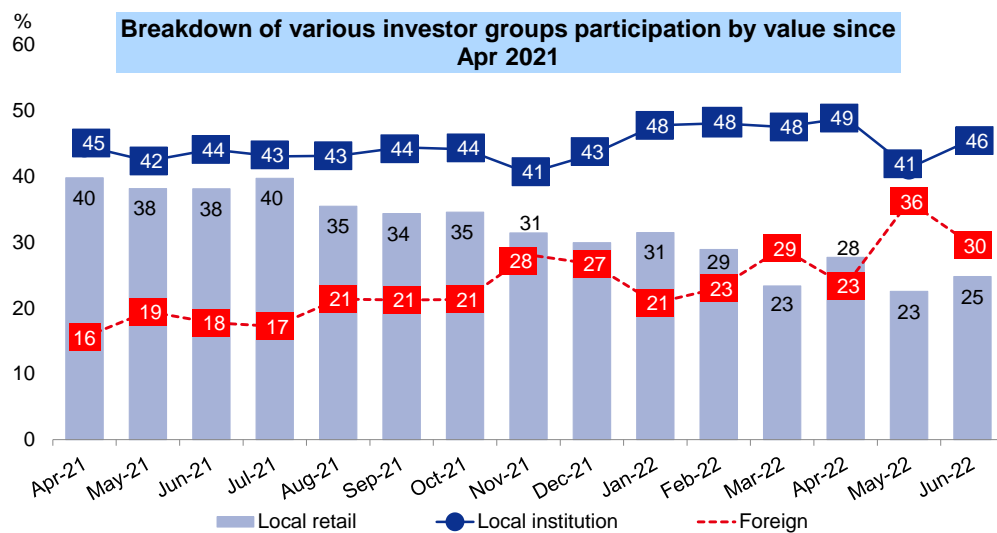
- Foreign investors turned net buyers of Malaysian equities in 1H22, after being persistent net sellers for the past four years (2018-2021). They were net buyers in five out of the six months in 1H22, with cumulative net buying of RM6.1bn in 1H22.
- In Mar 2022, foreign investors' net funds inflows into Malaysia rose to a monthly high of RM3.3bn as foreign investors bought into commodities-related plays –palm oil players, petrochemical players, energy players and Press Metal.
- Their funds inflow had since declined significantly and they turned net sellers of Malaysian equities in Jun 22, net selling RM1.3bn due possibly to concerns over the depreciating ringgit, slowing global growth and expectation of a significant rise in US FFR.
- Foreign investors' share of KLCI participation by value rose to 26% in 1H22 from 17% in 1H21. We believe that following Russia's invasion of Ukraine, foreign funds are attracted to commodity plays in Malaysia as a hedge against rising inflation, as well as Malaysia's stronger economic growth due to reopening of its borders.



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

1H22 review: Retail interest fell post Covid-lockdowns, higher stamp duty

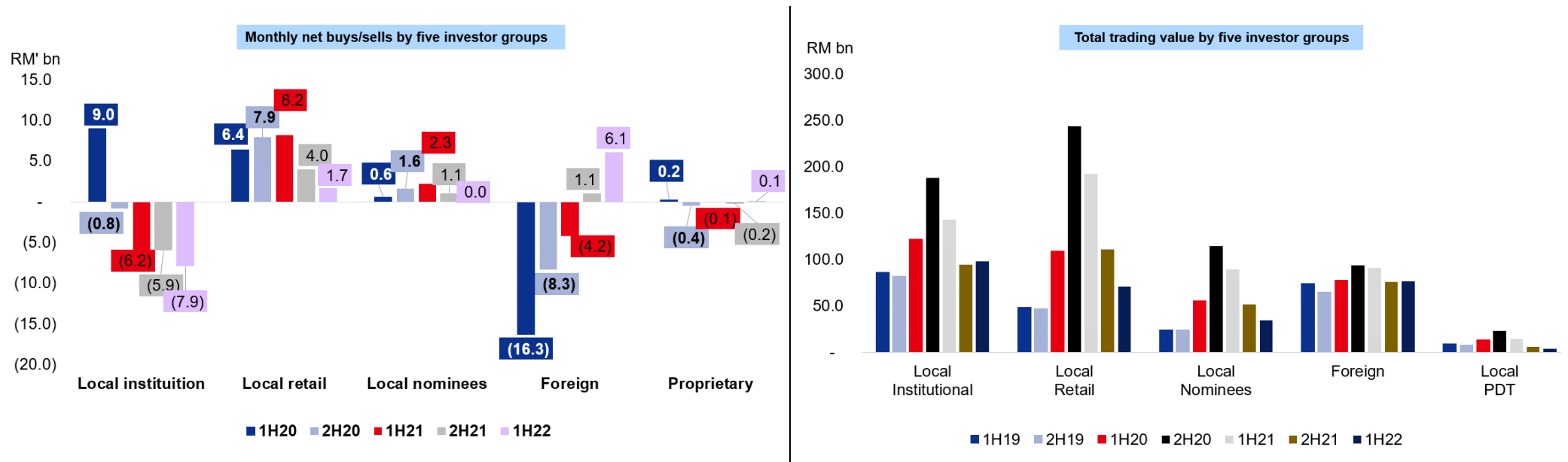
- Retail investors raised their participation in the Malaysian equity market after the government imposed Movement Control Order (MCO 1.0) on 18 Mar 2020. However, retail investors' share of trades by value appeared to have peaked at 39% of total trades in 1H21, and fell to 27% of trades in 1H22.
- This is closer to its pre-Covid share of trades by value which ranged from 20% to 26%. We note that retail investors' share of trades started declining in 2H21 after Covid-19 restrictions were relaxed and the glove stocks rally ended.
- It fell further in 1H22, possibly due to higher transaction costs on securities and concerns over interest rate hikes.
- To recap, Malaysia raised the stamp duty on contract notes for trading of shares on Bursa Malaysia from 0.1% to 0.15%, and stamp duty cap from RM200 to RM1,000 effective 1 Jan 2022.



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

1H22 review: Foreign investors the key net buyers in 1H22

- In terms of fund flows, foreign investors were the most significant net buyers in 1H22, with a net buy position of RM6.1bn (from net selling RM4.2bn in 1H21), while retail investors were the second-largest net buyers with a net buy of RM1.7bn (-79% yoy) in 1H22. Local nominees saw a sharp dip in their net buying from RM2.3bn in 1H21 to only RM15.5m in 1H22.
- Local institutions were the most significant and only net sellers, and their net sold rose RM7.9bn (+27% yoy) of equities in 1H22 due to possibility of the unexpected announcement (in Mar) of a special EPF withdrawal scheme from 1 Apr 2022.
- On 16 Apr 2022, EPF announced that as at 8pm on 14 Apr 2022, it had received a total of 5.3m applications under the special withdrawal facility; this is equivalent to RM40.1bn.

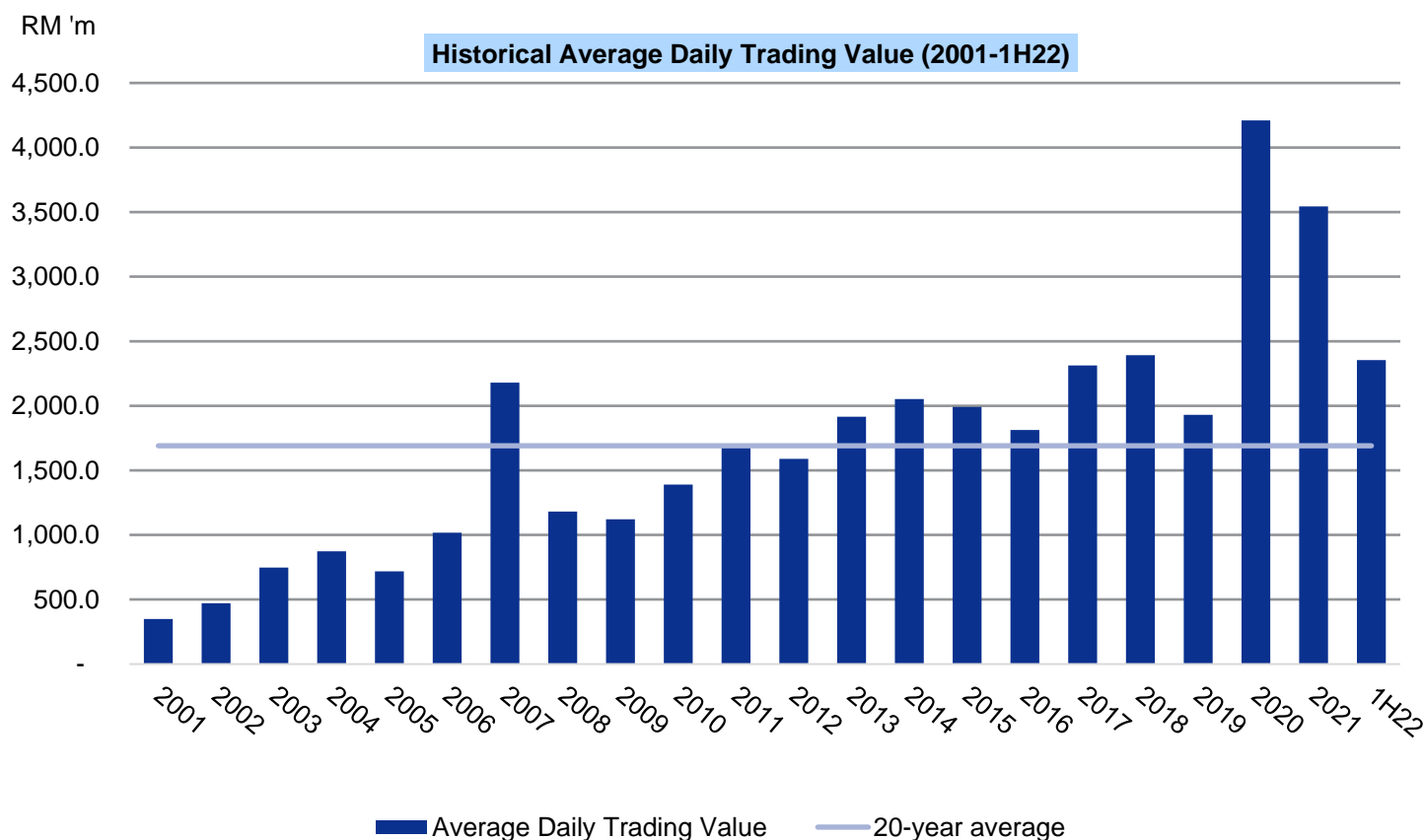


Note: PDT stands for Proprietary Day Trading

SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA DIBOTS

Outlook: Multiple headwinds predicted earlier have mostly played out

- The multiple headwinds we predicted for 2022, plus the unexpected Russia-Ukraine war as well as the US Federal Reserve's more aggressive stance on rate hikes have mostly been priced in by the market.
- This is because all of these factors have been well-telegraphed to the market and have negatively affected sentiment, reduced liquidity, and dragged down valuations and the performance of global equity markets.
- These negatives have overwhelmed the stronger economic growth as Malaysia reopens international borders on 1 Apr 2022 following the lifting of the interstate travel ban on 11 Oct 2021 and return of foreign fund inflows.

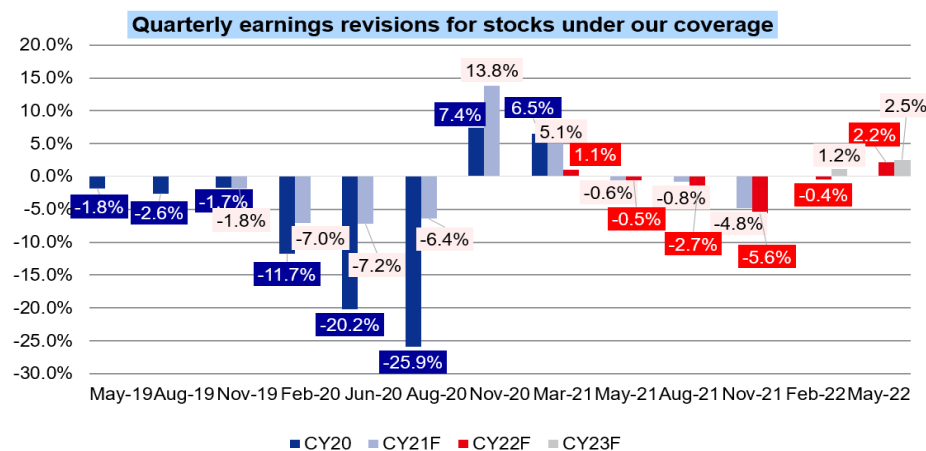
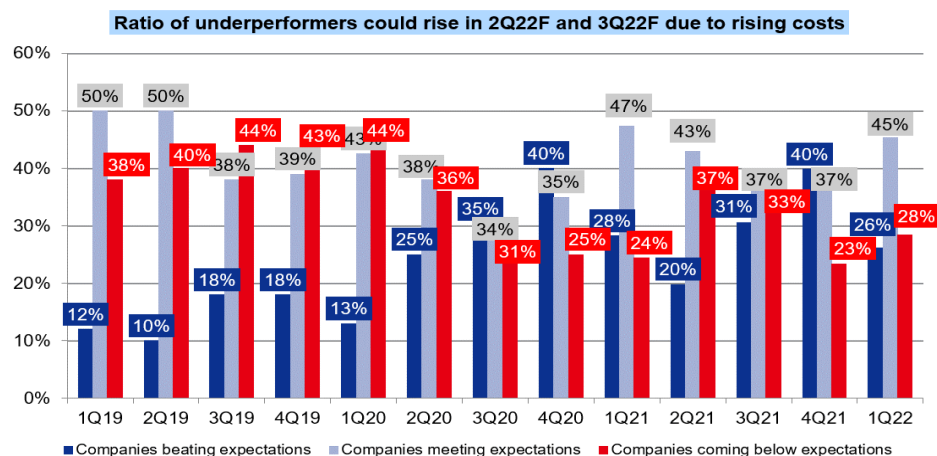


Outlook: Market could bottom in 3Q as market prices in peak rate

- KLCI recently fell to its YTD low of 1,411 points on 13 Jul 2022. As at 22 Jul 2022, the KLCI is down 13% from its post-Covid-19 peak level of 1,685 pts on 12 Dec 2020. The KLCI is now trading at 13x P/E – at close to 2 s.d. below its 3-year average mean. This suggests the market has partially priced in earnings risks to reflect global economic slowdown and political concerns.
- However, the market may not have bottomed yet due to elevated risks from a more universal spread of inflation, more substantial interest rate hikes, a slowdown in China’s economic growth, and escalating sanctions related to Russia’s war in Ukraine.
- We are of the view that market sentiment may stay weak with downside risk in 3Q as the market attempts to price in peak US interest rates. Thereafter, the market could be range-bound with potential upside if concerns over rate hikes or US recession risks subside and earnings risks for Malaysian corporates have been priced in.
- This could offer trading opportunities for investors looking for bargains in the stock market over the medium term.
- We see potential upside from the return of foreign workers, better-than-expected tourist arrivals, easing inflationary pressure, a resolution to some of the ESG concerns relating to forced labour, a market-friendly Budget 2023 and additional liquidity for domestic institutional funds like EPF following the end of the unprecedented one-off withdrawal schemes under stimulus packages announced in 2020, 2021 and 1H22 totalling around RM141bn deployed to the EPF contributors.
- Overall, we expect the market to be volatile in 2H22F as it adjusts to the various challenges.

Outlook: Potential earnings risks/upside to our KLCI forecasts

- We believe there could be further downside risks to (1) commodity prices due to weak global growth prospects; this could affect palm oil players, petrochemical players and Press Metal, (2) weaker sales for consumer-related companies due to slower exports and rising costs of living in Malaysia, and (3) potential earnings cut from additional 5G wholesale fees affecting the telco players.
- On a positive note, there could be upside to our earnings forecasts in 2023F from a potential 50bp OPR hike. Our banking analyst estimates that every 25bp rate hike would increase our net profit forecasts for banks by 2.1%.
- Analysts are likely to revise their earnings projections downwards during the 2Q/3Q earnings season in Aug/Nov to reflect concerns over slower global economic growth, foreign workers issue and lack of clarity on government policies relating to 5G wholesale fees.
- We expect a higher number of companies to report weaker-than-expected earnings in the upcoming 2Q results season in Aug 22, as analysts may not have fully reflected the rising costs into their projections.
- As such, the positive earnings revision ratio that Malaysian companies posted may have peaked in May 22, along with palm oil players' earnings. We could also see a rising ratio of underperformers, which stayed low during Covid-19 due to stimulus measures while analysts were too pessimistic on the impact of Covid-19 lockdowns on earnings.



Analysing historical market downturns in Malaysia

- Since 1995, the average duration of a Malaysian market downturn had been 13.6 months, with the longest being 23 months. Our analysis revealed that the Malaysian market may have peaked on 12 Dec 2020 and appears to be on a downtrend, having fallen 13% from its peak.
- Tracking the key sectorial index during the previous market downturn periods, we found that the construction, property, finance and small-cap sectors (local cyclical sectors) tended to underperform the KLCI.
- Sectors that tend to perform better against the KLCI in most instances during past market downturns are consumer, technology, telco, healthcare, and utilities. This leads us to take the view that in a market downturn phase, the best sectors to take shelter in are utilities (Gas Malaysia, Malakoff and Tenaga), telco (Telekom), healthcare (IHH), consumer (QL Resources and MR DIY).
- We observe that the technology and transport sectors have gained the most since their Covid-19 lows (+166% to +70%) while the REIT and utilities sectors have gained the least (+3 to +10%). Sectors that gave up the most of their gains from previous Covid-19 peaks were the healthcare (gloves), energy, and construction (-16% to -56%) sectors.

Key indexes performance: 6 months after bottom

Performances 6 months after the bear market	AFC	Dot com burst	GFC	Eurozone debt crisis	Oil price crash	US-China trade war+Covid 19+ Political instability+ Oil price rout
FTSE Bursa Malaysia KLCI	106%	10%	18%	19%	9%	26%
FTSE BM Hijrah Shariah	na	12%	20%	23%	12%	39%
FTSE Malaysia Emas Shariah	na	10%	21%	24%	14%	42%
FTSE Bursa Malaysia Emas	93%	13%	19%	21%	11%	33%
Bursa Malaysia Technology	na	12%	-7%	46%	20%	134%
Bursa Malaysia Construction	136%	26%	37%	30%	16%	35%
Bursa Malaysia Finance	116%	14%	18%	18%	2%	18%
Bursa Malaysia Plantation	63%	12%	59%	30%	18%	29%
Bursa Malaysia Property	73%	7%	23%	30%	5%	26%
Bursa Malaysia Consumer	67%	9%	13%	20%	7%	21%
Bursa Malaysia REIT	na	na	na	na	7%	9%
Bursa Malaysia Energy	na	na	na	na	8%	49%
Bursa Malaysia Healthcare	na	na	na	na	18%	223%
Bursa Malaysia Telecom	na	na	na	na	10%	23%
Bursa Malaysia Transport	na	na	na	na	9%	40%
Bursa Malaysia Utilities	na	na	na	na	12%	27%

Key indexes performance: 12 months after bottom

Performances 12 months after the bear market	AFC	Dot com burst	GFC	Eurozone debt crisis	Oil price crash	US-China trade war+Covid 19+ Political instability+ Oil price rout
FTSE Bursa Malaysia KLCI	191%	36%	53%	22%	11%	32%
FTSE BM Hijrah Shariah	na	45%	50%	31%	13%	29%
FTSE Malaysia Emas Shariah	na	32%	53%	28%	15%	44%
FTSE Bursa Malaysia Emas	185%	41%	57%	23%	14%	44%
Bursa Malaysia Technology	na	78%	24%	21%	17%	252%
Bursa Malaysia Construction	339%	55%	76%	17%	22%	50%
Bursa Malaysia Finance	257%	52%	70%	21%	6%	43%
Bursa Malaysia Plantation	59%	48%	98%	24%	16%	29%
Bursa Malaysia Property	169%	26%	65%	28%	11%	52%
Bursa Malaysia Consumer	114%	29%	39%	24%	11%	37%
Bursa Malaysia REIT	na	na	na	na	18%	7%
Bursa Malaysia Energy	na	na	na	na	-1%	95%
Bursa Malaysia Healthcare	na	na	na	na	11%	162%
Bursa Malaysia Telecom	na	na	na	na	16%	52%
Bursa Malaysia Transport	na	na	na	na	14%	73%
Bursa Malaysia Utilities	na	na	na	na	13%	27%

What could lift the market in 2H22F and key events to follow

- A more stable political environment that provides more clarity and certainty on future policy directions regarding 5G (Telekom and Maxis), foreign workers, construction projects (Gamuda, IJM and HSS) and others could boost market sentiment and corporate earnings visibility. This would also attract local and foreign investor interest to participate in the market, leading to higher liquidity and valuations for the equity market.
- Stronger-than-expected return of foreign tourists and/or if China decides to reopen its borders, leading to a faster-than-expected recovery in foreign tourist arrivals, would be viewed positively by the market. This could catalyse some of the tourism-related stocks (IHH and Bonia).
- In our view, the return of buying interest from institutional investors in the local market as a potential catalyst as they have been net sellers since 2H20 due to government policy to allow the withdrawal of EPF savings due to Covid-19 totalling RM141bn, which has led EPF to liquidate some of its position in the equity market.
- A negotiated settlement between Russia and Ukraine to end the ongoing war resulting in relaxation of trade sanctions and return of global trade flows. We believe that this would help ease food and energy inflation fears, leading to a less aggressive rate-rise stance and reduce recession expectations. This would help boost profit margin on most Malaysian companies over time though negative for the commodities sector and lower future earnings risk and would be positive for equity markets.
- A resolution to most of the ESG issues as companies complete third-party audits on forced labour allegations. This could potentially see a return of investors to some of the sectors that have been affected by this, such as rubber gloves, palm oil and EMS sectors.
- As such, the key events to watch in 2H22F are: (1) global/Malaysia monetary policy decision and its impact on the ringgit; (2) potential fiscal stimulus measures to avert global slowdown/recession; (3) potential GE15 and its outcome; (4) developments on the Russia-Ukraine war; (5) results season in Aug and Nov; (6) details of Budget 2023; (7) government policies relating to 5G, Imbalance Costs Pass Through (ICPT) for Tenaga, foreign workers and large construction projects and (8) any major Covid-19 outbreak that forces governments to impose lockdowns.

Malaysian retail investors' survey

- We conducted the third edition of our annual retail investors' sentiment survey in Jun 2022. A total of 1,068 Malaysian retail investors responded to our survey request, which was carried out from 13 Jun 2022 to 22 Jun 2022 (a 10-day period).
- The survey's aim was to better understand Malaysian retail investors' preferences, views and investment strategy. We also incorporated economic questions into our survey for the second year running.
- Respondents were bearish, with 47% expecting the market to post negative returns over the next six months.
- The three biggest concerns are: 1) domestic economy, 2) sharp falls in stocks/markets, and 3) external factors (crash in US market, rising interest rates).
- We gathered the three biggest catalysts that could prompt retail investors to buy more equities are (1) a sharp fall in stock market pushing stocks' valuations to attractive level, (2) stronger-than-expected economic growth, and (3) more stable political landscape.
- Respondents continue to state their preference to invest directly into Malaysia equity market and appeared less keen on unit trust products and robo-advisors compared to a year ago. Their preferred overseas markets are the US, China/Hong Kong and Singapore.
- The key motivation for investing in equities is to achieve higher return from their savings and their preferred trading strategies continue to be "buy and hold". Majority said their expected return from the stock market is 0-10% (lower vs. previous year survey where majority were targeting a return of 11-20%).
- Retail investors that answered our survey make their investment decisions via their own research and follow research reports. They use a combination of fundamental and technical analysis to arrive at their stock selection with fundamental research taking a slight edge over technical.
- 34% of the sample surveyed indicated that their current disposable incomes remained below pre-Covid-19 levels, and 10.5% of the respondents revealed that they are borrowing to maintain their current lifestyle.

Malaysian retail investors' survey

- 44% of those surveyed planned to increase allocations to essential items and services by 5% or more while only 28% planned to increase their discretionary spending by 5% or more. This suggests that consumer spending remains weak.
- Our survey indicates that categories in which respondents expected to increase their spending relative to 2021 were groceries and food consumed at home (68% of responses), restaurants and eating out (61%), transport and fuel (60%), healthcare (45%), tourism and hotels (38%) and home improvement and appliances (36%).
- Most respondents predict an inflation rate of 5% to 10% and OPR rate of 2% to 2.5% for 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 retail investors, as most are deploying their savings to achieve higher returns.
- Key areas to track closely on retail participation are liquidity and valuations, domestic sentiment on the economy and political situations – if sentiment worsens, retail investors could reduce their exposure to the domestic stock market. Malaysia's market valuations need to stay attractive relative to overseas markets (US, China/HK and Singapore) to attract higher retail participation.
- The survey suggests that consumer sentiment remains relatively weak as income appears to have not caught up with rising inflation, though this observation is caveated by our sample data.
- The rising risks of US recession and slower global growth coupled with rising costs are likely to pose higher earnings risks to corporates. We advise investors to take shelter in stocks with defensive earnings qualities or those that benefit from rate hike cycle.
- Kindly refer to our note for more details in the link here : [2022 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 2022, Malaysia's weightage in the FTSE4Good Emerging Market (F4GEM) index was 3.08%, which is higher than its index weight of 1.79% 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 87 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 Jul 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 56 constituents as of 31 May 2022.
- We found that the F4GBM index outperformed FBM Emas in three (2017, 2018 and 2021) of the past five years.
- During 1 Jan 2022 to 20 Jul 2022, the F4GBM registered a negative return of -6.5%, outperforming the FBM Emas (-9.8%) and FBMKLCI (-8.33%).
- 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 last revised its 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: Beneficiary of the OPR rate hike cycle

- On 6 Jul 2022, Bank Negara Malaysia (BNM) raised its overnight policy rate (OPR) by 25bp to 2.25%. This is the second successive rate hike this year. We expect BNM to make another 25bp hike at its Monetary Policy Committee (MPC) meeting in Sep 22, and stand pat at its Nov MPC meeting, ending the year with an OPR of 2.50%. For 2023F, we price in 50bp in rate hikes, which brings the end-2023F OPR to 3.00%.
- An OPR hike is positive for banks as their total floating-rate loans are larger than their total fixed deposits (both likely to be repriced upwards following an OPR hike). Companies with high net cash balances could also benefit given the higher interest income. OPR hikes are negative for cyclical sectors such as property, auto and consumer due to the decrease in consumers' disposable income. A rate hike is also negative for companies with high floating-rate ringgit borrowings, due to higher interest expense.
- There is only one Shariah bank under our coverage – Bank Islam. Our sensitivity analysis suggests that Bank Islam could post a net profit increase of 7.1% on a full-year basis for every 25bp hike in OPR.

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Share Price Upside (%)	Market Cap (RM m)	Impact of 25bps hike % impact to EPS
Bank Islam Malaysia Bhd	BIMB MK	Add	2.62	3.48	33%	5,646.8	7.1%

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG COMPANY REPORTS

Key trading themes: Stocks that will benefit from a weaker ringgit

- The ringgit has depreciated by 6.3% YTD to RM4.425/US\$1 due to US\$ strength. Historically, a weaker ringgit tends to be negative for the KLCI due to foreign funds outflow.
- Prior to Covid-19 and change in government in 2018, we noticed a pattern where the period of ringgit appreciation is associated with higher foreign fund inflows and vice-versa.
- A weak ringgit generally benefits export earners – Palm oil, Rubber gloves, Technology, Oil and Gas, Shipping, Furniture, Timber and food or manufacturing companies with a high proportion of export earnings or where Malaysia has a competitive edge in terms of land, power, labour costs and investment incentives.
- It is also positive for companies that earn a high proportion of revenue from foreign subsidiaries –IHH, PPB group and MISC.
- A weak ringgit is negative for auto players, airlines, F&B companies, if they are not able to pass on the higher costs to consumers due to weak demand. Other key losers of a weaker ringgit are companies with high foreign shareholding and high costs denominated in foreign currencies.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside (%)	Market Cap (US\$ m)	Core P/E (x)		P/BV (x)		Dividend Yield (%)	
							CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
High proportion of revenue from foreign subsidiaries												
IHH Healthcare Bhd	IHH MK	Add	6.43	8.12	26%	12,723	36.0	30.7	2.21	2.11	1.0%	1.1%
MISC Bhd	MISC MK	Add	6.92	8.00	16%	6,942	14.2	13.7	0.83	0.82	4.9%	4.9%
Export earners												
Kuala Lumpur Kepong	KLK MK	Add	21.44	28.64	34%	5,195	10.3	13.6	1.62	1.54	4.3%	3.2%
Kossan Rubber Industries	KRI MK	Add	1.29	2.05	59%	740	11.3	10.7	0.78	0.75	3.5%	3.7%
Aemulus Holdings Bhd	AMLS MK	Add	0.58	1.20	107%	87	19.1	14.1	2.82	2.35	0.0%	0.0%
Inari-Amertron Bhd	INRI MK	Add	2.67	3.40	27%	2,225	23.6	21.2	4.05	3.98	3.9%	4.3%
Mi Technovation	MI MK	Add	1.47	2.20	50%	296	16.7	13.3	1.24	1.19	3.4%	3.7%
Malaysian Pacific Industries	MPI MK	Add	30.44	48.60	60%	1,361	18.3	16.7	3.04	2.65	1.1%	1.2%
Pentamaster Corp Bhd	PENT MK	Add	3.73	4.00	7%	596	28.0	23.1	4.13	3.61	0.7%	0.8%
Unisem	UNI MK	Add	2.46	3.70	50%	892	16.9	14.6	1.73	1.63	2.8%	3.0%
VS Industry Bhd	VSI MK	Add	0.97	1.21	25%	835	17.2	12.3	1.67	1.54	1.9%	2.7%

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: High dividend yielders

- Investors continue to seek high dividend-yielding stocks as they could offer shelter in these uncertain times. The high dividend yield could also cap the downside risks for share prices.
- The top five dividend-yielding stocks under our coverage in CY22F with Add calls are Bonia, Malakoff, Gas Malaysia, Uchi and Taliworks.
- Among the KLCI constituents, the highest dividend-yielding stocks in CY22F among our coverage with Add calls are Maxis and Tenaga.

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap	Core P/E (x)		Dividend Yield	
			(local curr)	(local curr)	(US\$ m)	CY2022F	CY2023F	CY2022F	CY2023F
Bonia Corporation	BON MK	ADD	1.82	3.00	82.7	11.2	10.4	7.2%	7.7%
Malakoff Corporation	MLK MK	ADD	0.63	0.98	692.1	10.9	9.6	7.8%	8.3%
Gas Malaysia Berhad	GMB MK	ADD	2.88	3.40	837.9	12.5	14.8	7.2%	6.1%
Uchi Technologies	UCHI MK	ADD	3.00	3.60	307.9	13.2	12.5	7.3%	7.6%
Taliworks Corporation	TWK MK	ADD	0.92	1.15	420.2	22.8	21.2	7.2%	7.2%
Star Media Group Bhd	STAR MK	ADD	0.29	0.42	47.2	na	na	6.9%	0.0%
Eco World Development Group Bhd	ECW MK	ADD	0.64	0.80	427.0	8.0	8.6	6.6%	6.6%
Maxis Berhad	MAXIS MK	ADD	3.30	3.60	5,855.0	21.1	17.7	5.9%	5.9%
IJM Corp Bhd	IJM MK	ADD	1.69	2.09	1,350.7	24.0	21.2	6.0%	4.1%
Tenaga Nasional	TNB MK	ADD	7.91	13.30	10,263.2	9.6	8.9	5.7%	6.2%
Syarikat Takaful Malaysia Keluarga Bhd	STMB MK	ADD	3.16	4.00	599.5	8.4	7.9	5.4%	5.7%
Bermaz Auto Berhad	BAUTO MK	ADD	1.72	2.40	453.0	11.7	10.4	5.4%	6.0%
Pharmaniaga Bhd	PHRM MK	ADD	0.59	0.73	175.1	14.7	14.0	4.8%	5.0%
LBS Bina Group	LBS MK	ADD	0.42	0.64	148.4	7.6	8.2	5.3%	4.9%
Axis REIT	AXRB MK	ADD	1.87	2.34	695.4	19.7	17.6	5.0%	5.6%
MISC Bhd	MISC MK	ADD	6.99	8.00	7,070.1	14.2	13.7	4.9%	4.9%
Mah Sing Group	MSGB MK	ADD	0.59	0.75	321.8	9.7	7.5	4.8%	5.3%
EITA Resources Bhd	EITA MK	ADD	0.75	0.93	43.9	7.1	6.0	4.7%	4.7%
Lee Swee Kiat Group	LSKG MK	ADD	0.71	1.63	25.8	8.2	5.5	4.8%	7.2%
Bank Islam Malaysia Bhd	BIMB MK	ADD	2.66	3.48	1,299.1	10.9	7.7	4.5%	6.5%
Inari-Amertron Bhd	INRI MK	ADD	2.55	3.40	2,142.3	23.6	21.2	3.9%	4.3%

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Key trading themes: Potential GE15 beneficiaries

- We are of the view that GE15 could be called after 31 July 2022, as the government promises not to dissolve the parliament before 31 Jul 2022 under the Memorandum of Understanding (MOU) on Transformation and Political Stability entered into by the current government and Pakatan Harapan (opposition coalition) on 13 Sep 2021.
- A recent media report from Malaysiakini quoting two sources from the Prime Minister Office (PMO) revealed that GE15 could be held in Nov 2022 if there are no major floods on the East Coast of Malaysia. The next option is to hold elections in Mar 2023, should there be flooding on the East Coast. This could lead to short-term volatility as investors take profits given uncertainties over the potential outcome of the election.

KLCI performances before and after historical general elections

Date	Election	12 months	9 months	6 months	3 months	1 month	1 month	3 months	6 months	9 months	12 months
before							after				
22-Apr-82	1982	-35.1%	-25.2%	3.4%	-11.7%	2.7%	1.0%	-16.0%	-11.6%	-5.3%	16.2%
2-Aug-86	1986	-25.9%	-26.8%	0.4%	23.4%	-2.9%	11.8%	28.6%	32.8%	72.5%	114.1%
20-Oct-90	1990	-2.2%	-15.9%	-12.0%	-23.8%	-8.1%	0.0%	2.2%	24.9%	23.0%	8.3%
24-Apr-95	1995	-6.1%	-5.0%	-12.1%	14.7%	1.8%	5.3%	7.2%	-1.6%	8.4%	20.4%
29-Nov-99	1999	49.8%	44.4%	0.4%	-2.8%	0.4%	7.9%	31.9%	21.6%	7.2%	-1.0%
21-Mar-04	2004	43.1%	32.6%	21.5%	17.5%	5.0%	-4.8%	-9.1%	-5.0%	0.0%	-2.1%
8-Mar-08	2008	9.0%	-4.7%	-0.7%	-9.6%	-8.4%	-5.8%	-3.7%	-17.4%	-34.6%	-33.8%
5-May-13	2013	6.5%	3.6%	2.3%	4.1%	0.4%	4.8%	5.2%	6.8%	6.4%	9.8%
7-May-18	2018	3.7%	2.8%	4.9%	-1.3%	-0.5%	-2.8%	-2.7%	-6.5%	-7.9%	-10.3%
	Average	4.8%	0.6%	0.9%	1.2%	-1.1%	1.9%	4.8%	4.9%	7.7%	13.5%
	Median	3.7%	-4.7%	0.4%	-1.3%	0.4%	1.0%	2.2%	-1.6%	6.4%	8.3%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Key trading themes: Potential GE15 beneficiaries (cont.)

- Highly regulated sectors or companies dependent on government contracts are likely to see higher volatility pre-election and could potentially benefit post-election if there is more policy clarity – telcos (Telekom, Maxis), utilities (Tenaga, Malakoff), MYEG, contractors (Gamuda, HSS, IJM). Consumer sector (MRDIY, Farm Fresh, Kawan Food, QL Resources and Bonia) could do well pre-election as the government will likely implement market-friendly policies like cash handouts and subsidies to assist consumers.

Company	Bloomberg Ticker	Recom.	Share price (RM)	Target Price (RM)	Upside (%)	Market Cap (US\$ m)	Core P/E (x)		P/BV (x)		Dividend Yield (%)	
							CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
Telecommunication												
Maxis Berhad	MAXIS MK	Add	3.39	3.60	6%	5,966	21.1	17.7	4.13	4.18	5.9%	5.9%
Telekom Malaysia	T MK	Add	5.48	6.75	23%	4,648	17.5	12.7	2.59	2.40	3.4%	4.7%
Utilities												
Malakoff Corporation	MLK MK	Add	0.64	0.98	54%	697	10.9	9.6	0.50	0.49	7.8%	8.3%
Tenaga Nasional	TNB MK	Add	7.92	13.30	68%	10,240	9.6	8.9	0.77	0.75	5.7%	6.2%
Construction												
Gamuda	GAM MK	Add	3.62	4.35	20%	2,078	12.4	12.8	0.99	0.99	3.2%	3.2%
HSS Engineers	HSS MK	Add	0.43	0.69	59%	48	17.2	15.1	0.98	0.99	0.0%	0.0%
IJM Corp Bhd	IJM MK	Add	1.69	2.09	24%	1,339	24.0	21.2	0.50	0.47	6.0%	4.1%
Consumer discretionary												
Bonia Corporation	BON MK	Add	2.13	3.00	41%	96	11.2	10.4	1.07	1.01	7.2%	7.7%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.10	2.40	14%	4,449	26.3	21.4	9.17	7.36	1.1%	1.3%
Consumer staples												
Farm Fresh Berhad	FFB MK	Add	1.64	1.83	12%	685	30.8	25.2	4.59	4.04	0.8%	1.0%
Kawan Food	KFB MK	Add	1.86	2.50	34%	150	18.0	14.9	1.70	1.58	1.9%	2.2%
QL Resources	QLG MK	Add	5.20	5.60	8%	2,844	46.6	35.5	4.85	4.48	0.8%	1.1%

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: Value play or stocks with P/BV of 0.5x or below

- We define value play as companies under our coverage with Add ratings and trading at an attractive P/BV of 0.5x and below. Based on this, we have a list of 10 Shariah-compliant companies that trade at P/BV at 0.5x or lower which we believe will provide support for share prices during uncertain times. The top five stocks that have the lowest P/BV are WCT Holdings, SP Setia, UEM Sunrise, Sime Darby Property, and Star Media.

Company	Bloomberg ticker	Recom.	Share price (local curr)	Target price	Market cap (US\$ m)	P/BV (x) CY2021F	% chg from covid low	CY2023F core net profit growth % yoy
WCT Holdings	WCTHG MK	ADD	0.44	0.63	139.3	0.16	38.4%	9.3%
SP Setia	SPSB MK	ADD	0.65	1.83	597.7	0.19	-8.8%	-42.9%
UEM Sunrise Bhd	UEMS MK	ADD	0.31	0.40	348.7	0.23	33.7%	97.8%
Sime Darby Property Berhad	SDPR MK	ADD	0.43	0.84	653.3	0.32	-9.3%	4.7%
Star Media Group Bhd	STAR MK	ADD	0.29	0.42	46.7	0.33	52.9%	72.6%
Mah Sing Group	MSGB MK	ADD	0.59	0.75	321.0	0.35	51.6%	29.6%
Eco World Development Group Bhd	ECW MK	ADD	0.58	0.80	386.0	0.40	100.9%	-5.9%
Media Chinese Int'l	MCIL MK	ADD	0.17	0.20	64.8	0.42	na	-1.7%
Malakoff Corporation	MLK MK	ADD	0.63	0.98	695.9	0.49	-7.7%	13.5%
LBS Bina Group	LBS MK	ADD	0.42	0.64	148.0	0.49	27.9%	-7.2%

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Key trading themes: ESG picks

- In this theme, we look for stocks under our coverage with an Add rating that score well in ESG based on 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).
- Based on our analysis of the combined ESG scores, our ESG-Shariah picks are MISC, Dialog, Maxis, UEM Sunrise and F&N Holdings.

Company Name	BBG Code	Recom.	Share Price (RM)	Target Price (RM)	Upside	Market Cap (US\$ m)	FTSE Rating	Refinitiv	MSCI Rating	Sustainalytics Rating
MISC Bhd	MISC MK	ADD	6.94	8.00	15%	7,002	4	A-	BB	18.8
Kuala Lumpur Kepong	KLK MK	ADD	20.68	28.64	39%	5,040	4	B-	A	38.5
Telekom Malaysia	T MK	ADD	5.13	6.75	32%	4,376	4	B	A	26.1
Mr D.I.Y. Group (M) Bhd	MRDIY MK	ADD	2.06	2.40	17%	4,389	4	B-	na	na
Dialog Group Bhd	DLG MK	ADD	2.01	2.77	38%	2,563	4	B	BBB	26.4
Inari-Amertron Bhd	INRI MK	ADD	2.60	3.40	31%	2,179	4	B-	BBB	11.2
Fraser & Neave Holdings	FNH MK	ADD	21.20	25.60	21%	1,757	4	A-	na	24.4
MY E.G. Services	MYEG MK	ADD	0.87	1.20	39%	1,444	4	C+	na	21.5
IJM Corp Bhd	IJM MK	ADD	1.68	2.09	24%	1,339	4	B-	na	33.1
Unisem	UNI MK	ADD	2.15	3.70	72%	784	4	-	na	29.1
Bermaz Auto Berhad	BAUTO MK	ADD	1.70	2.40	41%	447	4	B-	na	10.8
UEM Sunrise Bhd	UEMS MK	ADD	0.30	0.40	33%	343	4	A	na	15.9
Mah Sing Group	MSGB MK	ADD	0.60	0.75	26%	326	4	-	na	18.8
Malaysian Pacific Industries	MPI MK	ADD	28.00	48.60	74%	1,259	4	-	na	29.1
VS Industry Bhd	VSI MK	ADD	0.97	1.21	25%	835	4	-	na	9.5
SP Setia	SPSB MK	ADD	0.68	1.83	171%	621	4	A-	na	17.4
Eco World Development Group Bhd	ECW MK	ADD	0.56	0.80	44%	369	4	-	na	20.6

Share price data as at 20 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS, MSCI, REFINITIV, FTSE RUSSELL, BURSA MALAYSIA, SUSTAINALYTICS

Key trading themes: ESG picks (cont'd)

Company Name	BBG Code	Recom.	Share Price (RM)	Target Price (RM)	Upside	Market Cap (US\$ m)	FTSE Rating	Refinitiv	MSCI Rating	Sustainalytics Rating
Tenaga Nasional	TNB MK	ADD	7.96	13.30	67%	10,302	3	C+	BBB	38.2
UMW Holdings	UMWH MK	ADD	2.93	4.00	37%	774	3	B-	na	28.2
Pentamaster Corp Bhd	PENT MK	ADD	3.59	4.00	11%	577	3	-	na	14.6
Pharmaniaga Bhd	PHRM MK	ADD	0.59	0.73	25%	173	3	-	na	19.2
Gamuda	GAM MK	ADD	3.55	4.35	23%	2,049	3	B+	na	35.3
Kossan Rubber Industries	KRI MK	ADD	1.28	2.05	60%	738	3	C	na	19.6
Axis REIT	AXRB MK	ADD	1.90	2.34	23%	705	3	-	na	14.9
Uchi Technologies	UCHI MK	ADD	2.97	3.60	21%	304	3	-	na	11.7
Star Media Group Bhd	STAR MK	ADD	0.29	0.42	47%	47	3	-	na	14.1
QL Resources	QLG MK	ADD	5.26	5.60	6%	2,893	3	C+	BB	41.1
Dagang NeXchange	DNEX MK	ADD	0.77	1.70	122%	546	3	-	na	na
Maxis Berhad	MAXIS MK	ADD	3.34	3.60	8%	5,911	3	C+	AA	27.8

<p>MSCI rating:-</p> <p>LAGGARD A company lagging its industry based on its high exposure and failure to manage significant ESG risks</p> <p>AVERAGE A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</p> <p>LEADER A company leading its industry in managing the most significant ESG risks and opportunities</p>	<p>Sustainalytics rating:-</p> <p>0-10 10-20 20-30 30-40 40+</p>
<p>Refinitiv Score:-</p> <p>Poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly</p> <p>Satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly</p> <p>Good relative ESG performance and above average degree of transparency in reporting material ESG data publicly</p> <p>Excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly</p>	<p>FTSE ESG Grading Band:-</p> <p>4- Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell</p> <p>3- Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell</p>

Share price data as at 20 Jul 2022

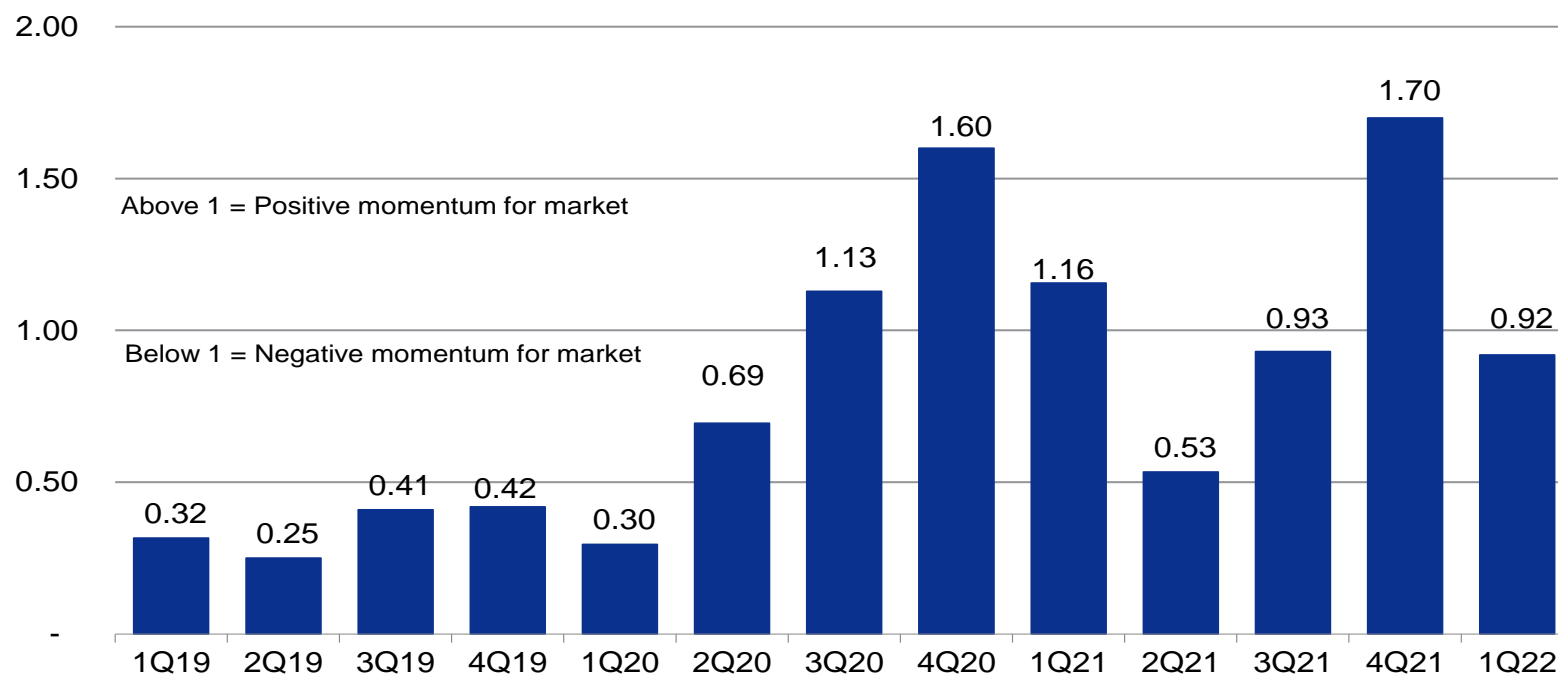
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS, MSCI, REFINITIV, FTSE RUSSELL, BURSA MALAYSIA, SUSTAINALYTICS

Risks: Global volatility

- Risks that could derail earnings growth prospects and roil financial markets include:
 - Sharper fading of the pent-up demand leading to slower-than-expected global economic growth;
 - Materialisation of shocks from the build-up in macroeconomic imbalances, including financial scarring, high debt serving burdens, external financing gaps and collapse of asset prices;
 - Deterioration in public sector finances prompting fiscal readjustments, successive sovereign ratings downgrades or dislocations in bond markets;
 - Persistent rise in inflation posing policy dilemma for central banks;
 - Re-escalation in US-China tensions;
 - Escalation of Russia-Ukraine war
 - Excessive currency and commodity price volatility;
 - Fluid geopolitical and domestic political dynamics; and
 - Emergence of new Covid-19 variants putting a strain on hospital capacity and a return to strict lockdowns.

Risks: Corporate earnings

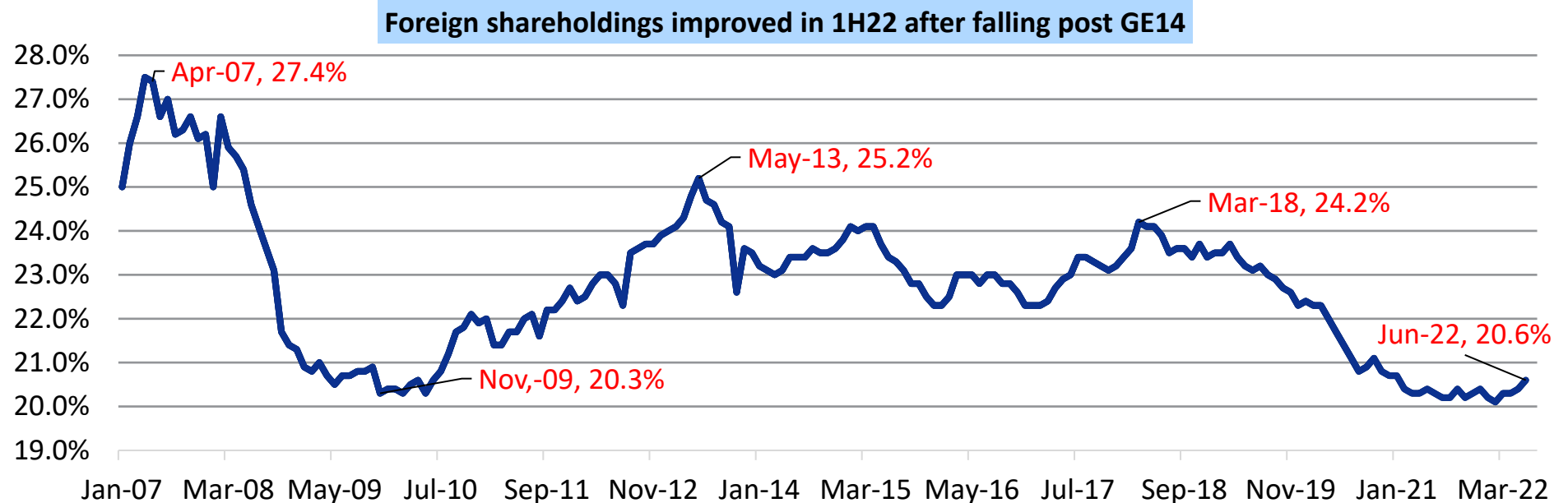
- The key risks to our future earnings forecasts for corporate Malaysia lie in changes in government policies which are detrimental to earnings prospects, such as limiting the intake of foreign workers and inability to raise selling prices of goods, introduction of new tax measures leading to higher tax expenses, sharp fall in CPO and petrochemical prices, sharper-than-expected rise in OPR rate and political instability. Other potential global headwinds are global economic recession, new waves of Covid-19 outbreaks globally, global inflation risk, rising interest rate risks, geopolitical risks (escalation of Russia-Ukraine war) and spillover from the global debt crisis and US-China trade tensions.



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Risks: Potential outflow of foreign funds

- The foreign shareholding in Malaysia as at end-Jun 22 was 20.6%, an increase of 0.3% pt from the level of 20.3% as at end-Jun 21. Based on the market capitalisation of RM1,607m as at 30 Jun 2022, we estimate the foreign shareholding value to be around RM331bn.
- We estimate every 1%-pt change in the foreign shareholding ratio will lead to outflows/inflows of around RM17bn. The market's current foreign shareholding is 0.5% pt higher vs. the lowest monthly foreign shareholding of 20.1% registered post Covid-19 as at end-Feb 2022. This is because foreign investors were net buyers in the Malaysian equity market in 1H22, a reversal from being net sellers for four consecutive years from 2018 to 2021.
- Companies under our coverage that have high foreign shareholdings may witness selling pressure should foreign investors continue to exit Malaysia.
- The top-five stocks with highest foreign fund inflows in 1H22 were Petronas Chemical, Press Metal, KL Kepong, Sime Plant, and IOI Corp.



SOURCES: CGS-CIMB RESEARCH, BURSA MALAYSIA

Risks: Potential outflow of foreign funds (cont.)

Sector	Foreign investor fund flows	
	2021	YTD to 1 Jul 2022
Construction	(659.3)	35.6
Consumer Products and Services	(1,262.7)	424.7
Energy	(591.7)	(71.7)
Financial Services	(956.7)	3,080.4
Healthcare	(665.0)	(227.5)
Industrial Products and Services	1,678.6	2,210.5
Plantation	(110.9)	2,267.5
Property	(86.8)	(127.3)
REIT	(99.6)	(36.6)
Technology	1,081.5	(538.6)
Telecommunications and Media	(168.3)	(319.6)
Transportation and Logistic	(577.6)	(628.6)
Utilities	(629.7)	52.3

< 2021 and 1H22 foreign investors' fund flows by sectors

2021 and 1H22 top-10 net buy flows > by foreign investors

2021		YTD to 1 Jul 2022	
Company	Net buy (RMm)	Company	Net buy (RMm)
PCHEM	1317.0	PCHEM	1435.2
INARI	1213.9	PMETAL	1077.7
IHH	833.2	KLK	836.8
TOPGLOV	750.4	SIMEPLT	461.4
PMETAL	530.3	IOICORP	329.7

2021		YTD to 1 Jul 2022	
Company	Net sell (RMm)	Company	Net sell (RMm)
DIALOG	(623.9)	WPRTS	(511.2)
GAMUDA	(578.2)	MYEG	(193.6)
TENAGA	(543.8)	IHH	(170.2)
MISC	(469.3)	SUPERMX	(169.2)
HARTA	(440.3)	FRONTKN	(159.0)

Risks: Potential outflow of foreign funds (cont.)

Company	Bloomberg Ticker	Recom.	Foreign shareholding %	Share price (RM)	Target Price (RM)	Upside (%)	Market Cap (US\$ m)	Core P/E (x)		EV/EBITDA (x)		Dividend Yield (%)	
								CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Inari-Amertron Bhd	INRI MK	Add	23.4%	2.67	3.40	27%	2,224	23.6	21.2	14.3	13.0	3.9%	4.3%
Wellcall Holdings	WELL MK	Hold	22.3%	1.15	1.18	3%	129	16.9	14.5	9.1	8.0	4.4%	5.1%
Mi Technovation	MI MK	Add	22.1%	1.47	2.20	50%	296	16.7	13.3	8.7	7.3	3.4%	3.7%
Dialog Group Bhd	DLG MK	Add	21.0%	2.03	2.77	36%	2,573	22.2	21.1	18.8	18.8	1.9%	2.0%
MY E.G. Services	MYEG MK	Add	21.0%	0.78	1.20	55%	1,286	16.0	14.9	12.4	11.2	3.2%	3.5%
Capital A Berhad	CAPITALA MK	Reduce	20.9%	0.68	0.18	-74%	636	na	na	na	10.3	0.0%	0.0%
Media Chinese Int'l	MCIL MK	Add	20.7%	0.17	0.20	21%	63	na	na	0.3	3.0	0.9%	0.0%
Kossan Rubber Industries	KRI MK	Add	19.4%	1.29	2.05	59%	739	11.3	10.7	1.9	2.2	3.5%	3.7%
IHH Healthcare Bhd	IHH MK	Add	18.3%	6.43	8.12	26%	12,716	36.0	30.7	15.0	13.6	1.0%	1.1%
Hartalega Holdings	HART MK	Hold	18.3%	2.69	4.70	75%	2,065	7.7	16.2	3.6	7.5	8.9%	3.1%
Success Transformer Corp	STC MK	Add	18.1%	0.74	1.17	59%	38	8.1	7.6	1.5	1.2	4.1%	4.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

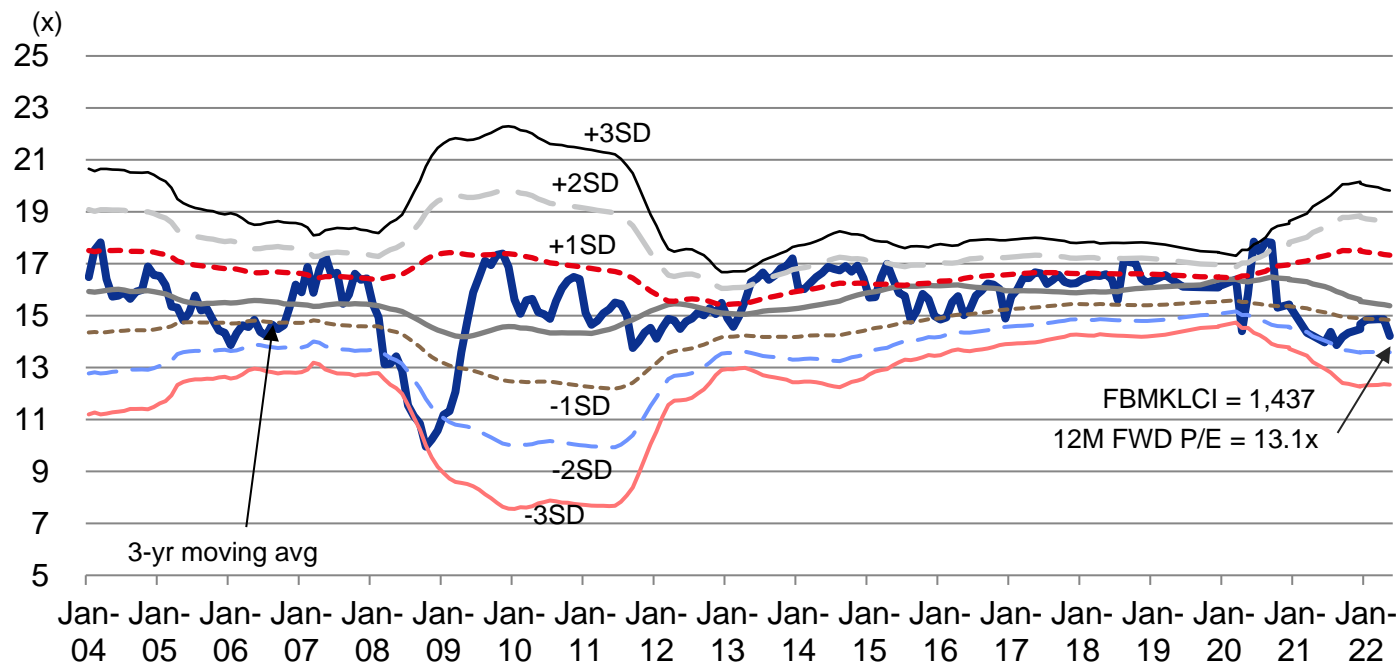
Key events that could impact 2H22F

Dates	Country	Key Events
3Q22		
26 to 27-Jul-22	US	FOMC rate decision
Aug-22	Malaysia	2Q22 Malaysia corporate results season
12-Aug-22	Malaysia	2Q22 GDP
18-Jul to 4-Aug-22	Malaysia	Malaysia parliament 2 nd meeting
30-Aug-22	Global	MSCI quarterly index rebalancing date
31-Aug-22	Malaysia	Merdeka Day
7 to 8-Sep-22	Malaysia	Monetary Policy Decision
16-Sep-22	Malaysia	Malaysia Day
20 to 21-Sep-22	US	FOMC rate decision
4Q22		
10 to 16-Oct-22	Global	IMF annual meeting
14 to 16-Oct-22	Global	World Bank annual meeting
24-Oct-22	Malaysia	Deepavali
26-Oct to 15-Dec-22	Malaysia	Malaysia parliament 3 rd meeting
28-Oct-22	Malaysia	Table of Budget 2023
Nov-22	Malaysia	3Q22 Malaysia corporate results season
1 to 2-Nov-22	US	FOMC rate decision
2 to 3-Nov-22	Malaysia	Monetary Policy Decision
11-Nov-22	Malaysia	3Q22 GDP
15 to 16-Nov-22	Global	G20 Leaders' Summit
30-Nov-22	Global	MSCI quarterly index rebalancing date
13 to 14-Dec-22	US	FOMC rate decision
16-Dec-22	Malaysia	FTSE KLCI rebalancing date
25-Dec-22	Global	Christmas Day

SOURCES: CGS-CIMB RESEARCH, VARIOUS MEDIA ARTICLES

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

- We maintain our end-2022 KLCI target to 1,506pts which is based on an unchanged target forward P/E of 12.9x (based on 2.5 s.d. below to three-year moving average P/E of 16x).
- We are valuing the end-2022 KLCI at 2.5 s.d. below its three-year historical average P/E to account for earnings risks from weaker profit margins due to rising costs (higher raw material prices and wages due to higher minimum wage), regulatory risks and concerns over slowing global growth/US recession.
- Rising political uncertainty as the next general election is due in 2023, could lead to weak market sentiment in the near term, reducing liquidity in the market, in our view.



Market valuations: Sensitivity of CGS-CIMB's end-2022F KLCI target

- Our base case KLCI target of 1,506 pts for end-2022 values the KLCI at 12.9x forward P/E or 2.5 s.d. below its 3-year historical average forward P/E.
- Should the market correct to reflect concerns over further earnings risks, it could trade as low as 3 s.d. below its 3-year historical average forward P/E, at 12.3x, our KLCI target could fall to 1,433 pts, based on our estimates.
- The sensitivity of our KLCI target if we move our target P/E by 1 s.d. above or below the 3-year moving average forward P/E is around 147 pts, based on our current earnings estimates.

	FBMKLCI	12M Forward P/E (x)
Mean	1,875	16.0
+1SD	2,022	17.3
+2SD	2,170	18.6
+3SD	2,317	19.8
-1SD	1,728	14.8
-2SD	1,581	13.5
-2.5SD	1,506	12.9
-3SD	1,433	12.3

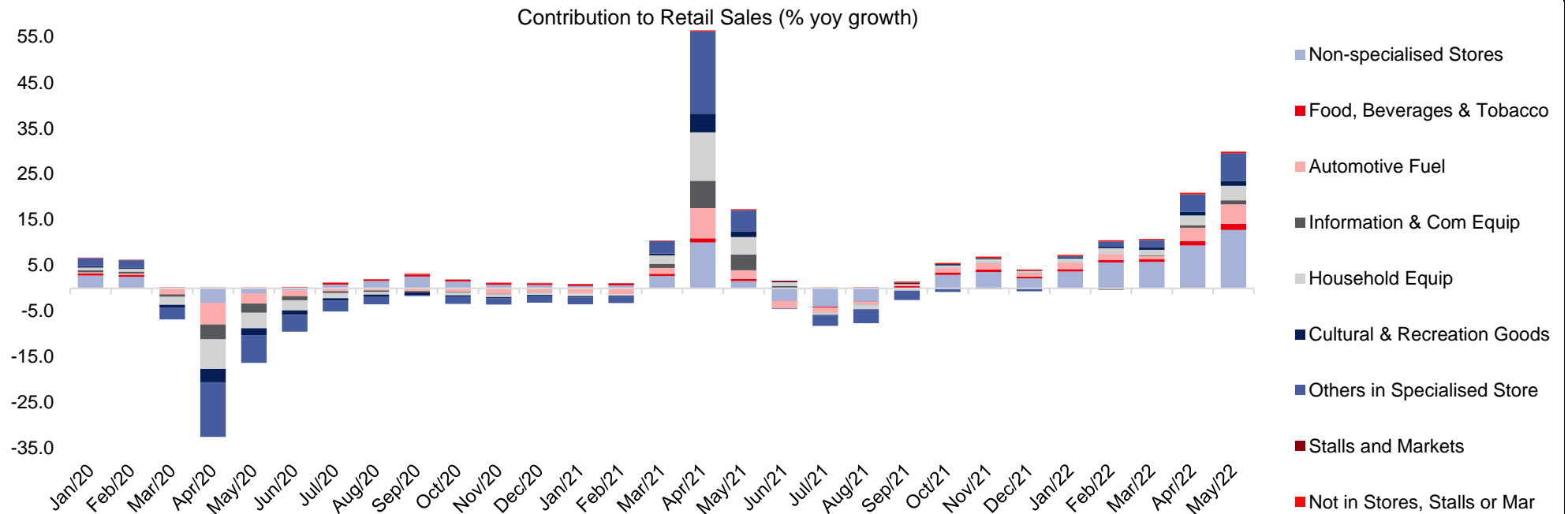
FBMKLCI Statistics	2019	2020	2021	2022F	2023F
Core P/E (x)	16.9x	19.7x	14.7x	14.7x	13.3x
Core Net Profit Growth (%)	-9.7%	-6.6%	34.5%	-0.1%	10.7%
P/BV (x)	1.6x	1.5x	1.5x	1.4x	1.3x
Dividend yield (%)	4.1%	3.7%	4.6%	4.1%	4.5%
Recurring ROE	9.3%	7.8%	10.1%	9.5%	10.1%

* 2019-2020 are based on previous constituents; 2021-2023F are based on new constituents

Economic outlook: We maintain 2022F GDP of 6.2% yoy

- We maintain our 2022F GDP growth forecast of 6.2% and project the economy to expand 5.0% in 2023F.
- After better-than-expected GDP growth of 5.0% yoy in 1Q22 (3.2% in 2021), we expect a continual outperformance in the following quarters. Extensive subsidies have allowed consumer spending to continue somewhat unabated despite rising prices.
- That said, we expect robust GDP growth in 2Q22F and 3Q22F, before moderating in 4Q22F and 2023F. Challenges to growth are 1) withdrawal of extraordinary policy support, 2) policy shift into a more targeted subsidies, 3) domestic political risks, and 4) global economic headwinds affecting export-oriented industries.

Near term support from the pent-up demand

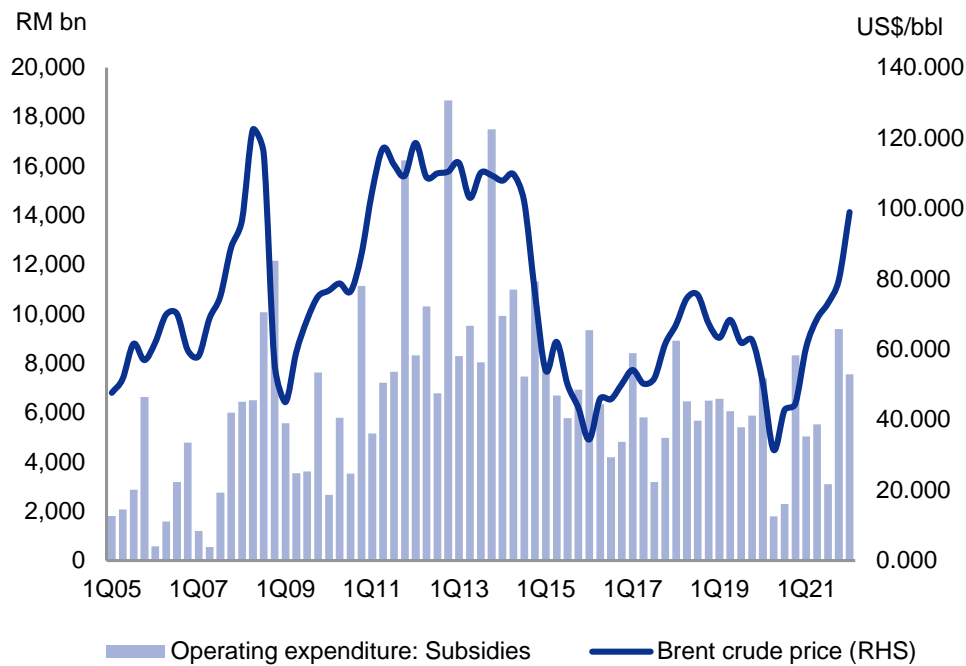


SOURCES: CEIC, CGS-CIMB RESEARCH

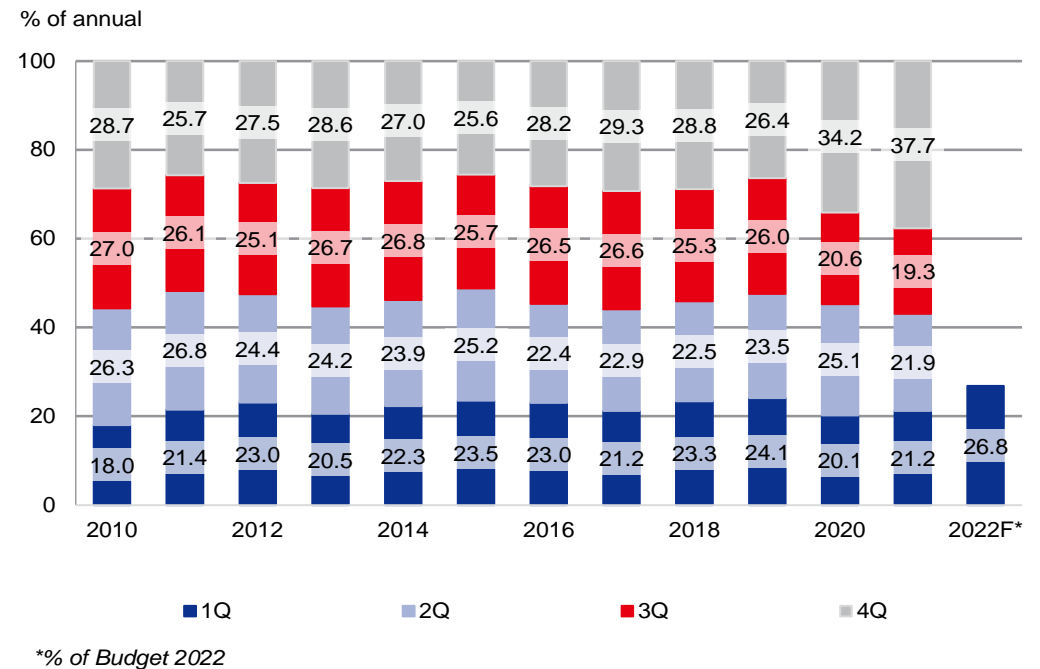
Economic outlook: Further fiscal consolidation in 2023F

- We believe the Malaysian government can maintain its fiscal deficit projection at 6.0% of GDP in 2022F despite the Ministry of Finance recent guide for a record high subsidy bill of RM77.3bn for 2022F (from RM31bn in Budget 2022).
- In 2023F, we are looking at further fiscal consolidation at 5.0% of GDP. In our view, further announcement of tax reforms to broaden the government’s revenue base are likely and reorientation of fuel subsidy looks inevitable should commodity prices remain elevated. The government has indicated that a targeted fuel subsidy mechanism is in the works, and reintroduction of Goods and Service Tax (GST) is being studied.

Subsidy commitment expected to soar this year and next, likely matching 2011-14 period



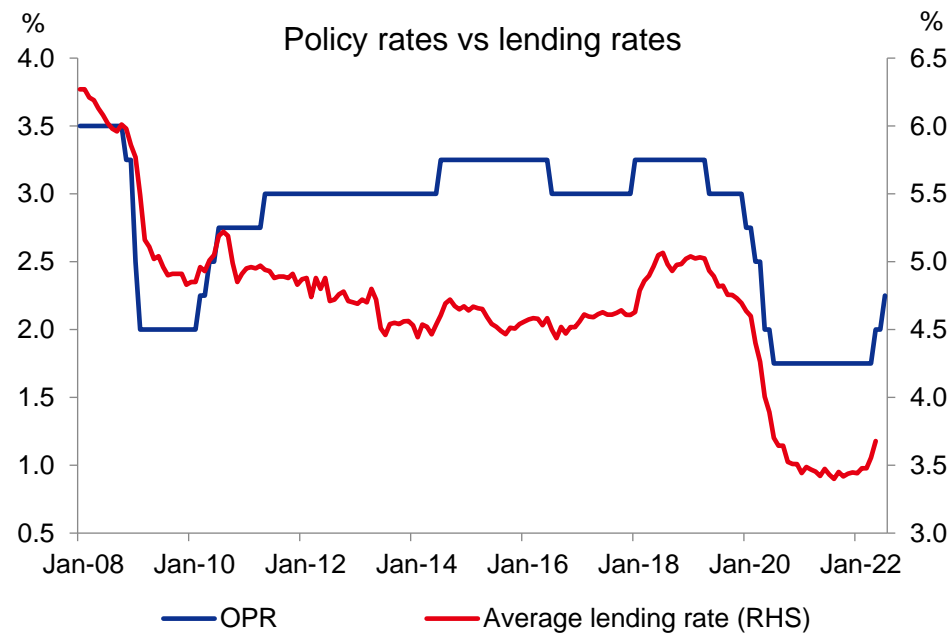
Higher revenue collection helps to balance higher spending. 1Q22 fiscal revenue has exceeded past trends



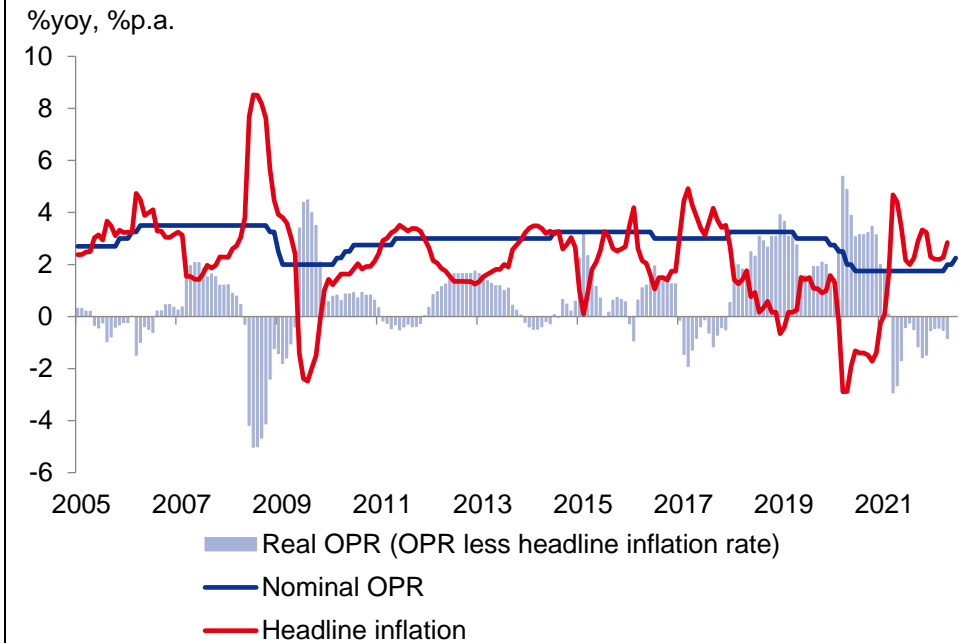
Economic outlook: BNM to stick to its gradual tightening cycle

- We see Bank Negara Malaysia (BNM) raising the overnight policy rate (OPR) by 25bp in September, ending the year with a rate of 2.50%, followed by another two 25bp hikes in 1H23F. We expect BNM to remain steadfast in policy normalisation even if that means a greater divergence from the more hawkish US Fed. BNM's key focus is to prioritise domestic growth and address inflationary pressures, and will utilise other approaches to handle currency volatility, in our view.
- Meanwhile, we estimate an end-2022F US\$/RM rate of 4.25, and 4.15 for end-2023F. The ringgit depreciation is probably nearing the end as the market has priced in the Fed's hawkish stance and China's bearish outlook. On top of that, the return of foreign tourists should bring in the much-needed inflows.

Despite the rate increase, average lending rates is still among the lowest



Nominal OPR rate is still below inflation growth, indicating more room to rise



SOURCES: CGS-CIMB RESEARCH, CEIC, BLOOMBERG

Macro forecast

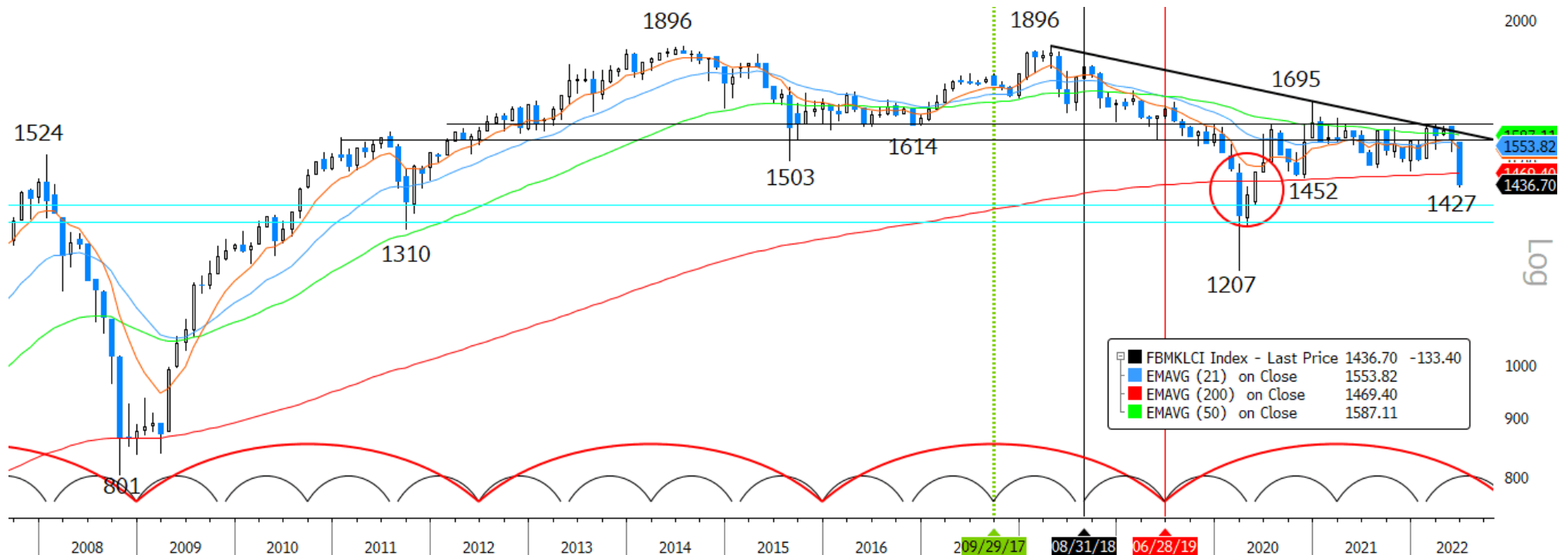
	2019	2020	2021	2022F	2023F	2019	2020	2021	2022F	2023F
	%yoy					% of GDP				
Real GDP	4.4	-5.5	3.1	6.2	5.0	100.0	100.0	100.0	100.0	100.0
<i>By expenditure</i>										
Private consumption	7.7	-4.2	1.9	11.7	5.4	58.7	59.5	58.8	61.8	62.1
Public consumption	1.5	5.0	5.3	8.8	3.1	12.1	13.5	13.8	14.1	13.9
Gross fixed capital formation	-2.1	-14.4	-0.9	14.5	6.1	23.1	20.9	20.1	21.7	21.9
Net exports	-	-	-	-	-	7.1	6.5	6.0	2.4	2.2
Exports	-1.0	-8.6	15.4	8.4	6.0	63.8	61.7	69.1	70.6	71.3
Imports	-2.4	-7.9	17.7	14.7	6.4	56.7	55.2	63.1	68.1	69.1
<i>By sector</i>										
Agriculture	1.9	-2.4	-0.2	0.3	6.0	7.1	7.4	7.1	6.7	6.8
Mining	-0.6	-9.7	0.3	-0.6	0.6	7.2	6.9	6.7	6.3	6.0
Manufacturing	3.8	-2.7	9.5	6.3	5.0	22.2	22.9	24.3	24.3	24.3
Construction	0.4	-19.3	-5.3	1.0	12.4	4.7	4.0	3.7	3.5	3.7
Services	6.2	-5.4	1.9	8.2	4.9	57.6	57.7	57.0	58.1	58.0

	Unit	2016	2017	2018	2019	2020	2021	2022F	2023F
Real GDP	%yoy	4.4	5.8	4.8	4.4	-5.5	3.1	6.2	5.0
Industrial production index	%yoy	4.1	4.4	3.1	2.4	-4.1	7.2	4.0	4.1
Gross exports	%yoy	1.2	18.8	7.3	-0.8	-1.1	26.0	19.8	7.5
Gross imports	%yoy	1.9	19.7	5.2	-3.5	-5.8	23.3	24.6	11.2
Trade balance	RM bn	87.0	98.4	123.5	145.9	182.6	251.7	255.0	220.7
Current account balance	% of GDP	2.4	2.8	2.2	3.5	4.2	3.8	1.7	2.1
International reserves	US\$ bn	94.5	102.4	101.4	103.6	107.6	116.9	117.9	124.8
Headline inflation, average	%yoy	2.1	3.8	1.0	0.7	-1.1	2.5	3.1	3.2
Headline inflation, end-period	%yoy	1.7	3.5	0.2	1.0	-1.4	3.2	3.7	2.9
Unemployment rate, end-period	%	3.5	3.3	3.3	3.3	4.8	4.2	3.7	3.3
Fiscal balance	% of GDP	-3.07	-2.94	-3.69	-3.40	-6.18	-6.39	-6.00	-5.00
Overnight Policy Rate	%p.a.	3.00	3.00	3.25	3.00	1.75	1.75	2.50	3.00
Ringgit per US\$, average	MYR/US\$	4.14	4.30	4.04	4.14	4.20	4.15	4.30	4.20
Ringgit per US\$, end-period	MYR/US\$	4.49	4.05	4.13	4.09	4.02	4.17	4.25	4.15

SOURCES: CGS-CIMB RESEARCH, CEIC

Technical analysis for FBMKLCI: Base-building to continue

- The benchmark FBMKLCI's (KLCI) rebound from the Mar 2020 low of 1,207 came to a halt after hitting a multi-month high of 1,695 in Dec 2020.
- The benchmark found the combination of the neckline of the previous double top (1,618-1,625) and the falling downtrend line from the 2018 high of 1,896 a tough nut to crack. KLCI failed to break out above these resistances despite numerous attempts by the bulls over the past year and the half.
- Failure to breakout appears to have induced selling pressure on the index, taking the index to a new 2-year low since May 2020. With the bearish trend likely to continue for 2H22F as the index is currently trading below the 200-month EMA (1,469). A move lower towards 1,330-1,370 levels cannot be ruled out should the existing weakness persist.
- On the upside, 1,618-1,625 remains as the critical resistance while a breakout above the said levels would likely see the return of the longer-term uptrend.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Technical analysis for FBM Hijrah Shariah

- The correction of the FTSE Bursa Malaysia Hijrah Shariah Index (FBMHS) from the 15,825 high has exacerbated to a new-low (currently at 10,892) since Mar 2020. The recent gap down that occurred in Jun 2022, induced further selling pressure on the index, keeping it in a downtrend.
- We are cautious on the index's 2H22 outlook as it has broken a few critical support levels, i.e. the 12,315-12,616 range, the 62% Fibonacci Retracement (FR) levels at 12,083 as well as the 79% FR levels at 11,228. Given the persisting weakness reflected by the declining EMAs, further weakness cannot be ruled out as the index may continue to find its footing.
- Failure to hold above the 10,227 levels (the Mar 2020's low) would translate into more downside moves, targeting the 10,000-psychological mark or the next Fibonacci target of 8,655. Topside, the bulls would need to fill the Jun 2022's gap of 11,534-11,605 levels before a stronger rebound can take place next. The index may encounter strong resistance at the previous support turned resistance levels of 12,315-12,616.



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Top picks: Big-cap to mid-cap picks

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(RM)	(RM)		CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
Bank Islam Malaysia Bhd	BIMB MK	Add	2.64	3.48	1,277.8	11.0	7.7	0.80	0.75	7.7%	10.0%	na	na	4.5%	6.5%
Bermaz Auto Berhad	BAUTO MK	Add	1.79	2.40	467.2	11.7	10.4	2.95	2.56	27.3%	26.3%	4.9	4.2	5.4%	6.0%
Dagang NeXchange	DNEX MK	Add	0.78	1.70	549.3	11.4	8.8	1.60	1.39	15.8%	16.9%	4.5	3.7	1.0%	1.9%
Farm Fresh Berhad	FFB MK	Add	1.66	1.83	692.6	31.2	25.5	4.64	4.09	17.1%	17.1%	22.5	18.5	0.8%	1.0%
Gamuda	GAM MK	Add	3.69	4.35	2,116.3	12.6	13.0	1.01	1.01	8.0%	7.7%	9.9	9.0	3.1%	3.1%
Gas Malaysia Berhad	GMB MK	Add	3.19	3.40	919.8	12.9	15.2	3.53	3.45	27.8%	22.9%	8.1	9.6	7.0%	5.9%
Kuala Lumpur Kepong	KLK MK	Add	21.70	28.64	5,254.0	10.4	13.8	1.64	1.56	17.2%	11.6%	6.0	7.5	4.2%	3.2%
Malaysian Pacific Industries	MPI MK	Add	30.80	48.60	1,375.7	18.5	16.9	3.07	2.68	18.0%	17.0%	8.0	7.1	1.1%	1.2%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.12	2.40	4,487.8	26.5	21.6	9.26	7.43	39.9%	38.2%	13.7	11.5	1.1%	1.3%
MY E.G. Services	MYEG MK	Add	0.77	1.20	1,277.1	15.9	14.8	3.22	2.79	22.3%	20.3%	12.3	11.1	3.2%	3.5%
QL Resources	QLG MK	Add	5.22	5.60	2,852.8	46.7	35.7	4.87	4.50	11.0%	13.2%	19.6	16.5	0.8%	1.1%
Sime Darby Property Berhad	SDPR MK	Add	0.46	0.84	694.9	11.3	10.7	0.33	0.32	3.0%	3.1%	20.3	14.8	2.7%	2.8%
Telekom Malaysia	T MK	Add	5.48	6.75	4,644.0	17.5	12.7	2.59	2.40	15.7%	19.6%	5.2	5.1	3.4%	4.7%
Tenaga Nasional	TNB MK	Add	8.08	13.30	10,439.0	9.8	9.1	0.79	0.76	8.2%	8.5%	4.3	4.1	5.6%	6.1%
Average						18.0	14.2	3.61	3.28	21.1%	21.7%	10.2	9.0	3.8%	4.5%

Data as at 25 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Top picks: Small-cap picks

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(RM)	(RM)		CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
Bonia Corporation	BON MK	Add	2.14	3.00	96.3	11.3	10.4	1.08	1.02	9.9%	10.0%	4.5	4.2	7.1%	7.7%
EITA Resources Bhd	EITA MK	Add	0.76	0.93	44.4	7.3	6.2	0.90	0.81	13.0%	13.7%	3.1	2.7	4.6%	4.6%
Genetec Technology Bhd	GENE MK	Add	2.25	4.50	344.2	23.0	20.0	7.88	5.99	41.3%	34.2%	18.4	16.0	0.7%	1.0%
HSS Engineers	HSS MK	Add	0.44	0.69	48.4	17.4	15.3	0.99	1.00	5.5%	6.5%	5.6	5.0	0.0%	0.0%
Kawan Food	KFB MK	Add	1.90	2.50	153.0	18.4	15.2	1.74	1.61	9.8%	11.0%	9.4	7.8	1.8%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.71	1.63	25.8	8.5	5.6	1.55	1.29	19.6%	25.0%	3.6	2.2	4.6%	7.0%
Optimax Holdings	OPTIMAX MK	Add	0.60	0.77	72.8	25.5	20.8	5.51	5.10	22.8%	25.5%	11.7	10.0	2.7%	3.4%
Pentamaster Corp Bhd	PENT MK	Add	3.82	4.00	610.2	28.7	23.7	4.23	3.69	16.1%	16.7%	14.6	12.2	0.7%	0.8%
Senheng New Retail Bhd	5305 MK	Add	0.61	0.80	203.8	13.3	13.1	1.65	1.52	17.9%	12.1%	4.6	4.5	2.3%	2.3%
SKP Resources Bhd	SKP MK	Add	1.56	1.89	547.3	13.7	11.9	2.77	2.48	21.8%	22.2%	8.0	6.9	3.7%	4.2%
Average						15.9	13.5	2.64	2.29	17.0%	17.1%	7.7	6.6	3.0%	3.6%

Data as at 25 Jul 2022

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Sector weightings

Overweight Sectors	Most Preferred stocks
Banks	Bank Islam
Healthcare	IHH Healthcare
Insurance	Syarikat Takaful Malaysia
Oil & Gas	Dialog
Packaging	Thong Guan
Semiconductor	Malaysia Pacific Industries
Tech Manufacturing Services	SKP Resources
Telecommunication	Telekom Malaysia
Utilities	Tenaga Nasional
Neutral Sectors	Most Preferred stocks
Agribusiness	KLK
Automotive	Bermaz
Chemicals	Petronas Chemicals
Construction	Gamuda
Consumer	MR DIY
Gloves	Kossan
Property Development	Sime Darby Property
REIT	Axis REIT
Transport	MISC

Top three picks

Bank Islam (Add, TP: RM3.48)

- Based on our analysis, Bank Islam is a beneficiary of OPR hike (7.1% increase in FY23 net profit for every 25bp hike). This is because its FY23 floating-rate ratio of 91.8% is the highest in the sector. Its loan growth of 8% (as projected by us) in FY22F would also be above the industry's pace of 4-5% and one of the highest in the sector.

Mr DIY (Add, TP: RM2.40)

- Mr. DIY is a likely beneficiary of the down-trading trend due to rising inflationary pressures. Mr. DIY is a Malaysia-based home improvement retailer that provides home improvement products for do-it-yourself projects through online and offline stores. As of 1Q22, Mr. DIY owns and operates 947 stores across all retail formats.

Telekom (Add, TP: RM6.75)

- We see Telekom as a beneficiary of the structural demand for fibre, data centres and cloud services. Coupled with cost discipline, its robust FY21-24F core EPS CAGR of 12.1% is a key re-rating catalyst, in our view. Its valuation is also undemanding, with FY22F EV/OpFCF 26% below the mobile average and decent FY22-24F yields of 3.5-5.2% p.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Recommendation Framework

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Definition:

- 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.

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- 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.

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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