4Q23 Market Strategy

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Final Spurt to the Finishing Line

Summary

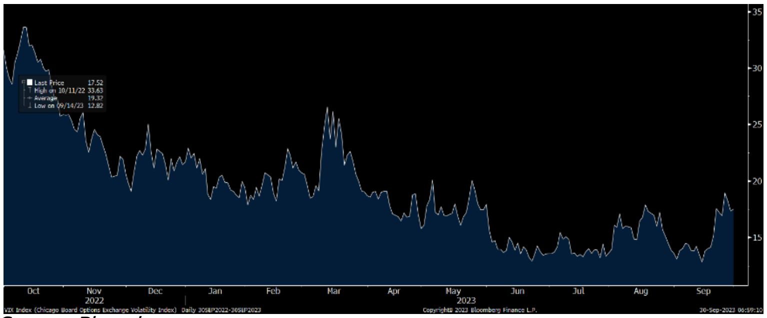
- **Given that risks have turned more balanced and valuations are now slightly appealing, we expect global markets to tick higher, moving into the final quarter of 2023.**
- **With the prospects of earnings growth still on the cards, we reckon that the usual year-end window dressing activities may present some investment/trading opportunities.**
- **Investors may adopt a blend of moderate and aggressive stance on stocks with sustained earnings growth prospects.**
- **Our 2023F and 2024F year-end target for FBM KLCI are 1,497 and 1,547 respectively, based on assigned 15x and 14x PERs.**

Global Markets Review

- **Global markets review**. Global markets were fairly upbeat at the start of 3Q23 on signs that aggressive monetary tightening by majority of the central banks across the globe appears to be near infection point. Gains were also buoyed by the series of strong economic data (particularly labour), coupled with cooling inflationary pressure which played down recession concerns. At end July 2023, the Federal Reserve delivered another 25-basis pts of interest rate hike and signals for another rate hike moving to end-2023.

- **Volatility kept gains in check** as the CBOE Volatility Index spiked in mid-September 2023 on expectations that the higher interest rates environment is here to stay, rising risk of US government shutdown and the renewed Sino-US trade tension. Volatility also briefly took control after the Japanese's 10-year government bond yield reached multi-year high amid upward pressure in global interest rates. Elsewhere, US credit rating was trimmed by Fitch Ratings from AAA to AA+ to reflect the (i) potential fiscal deterioration over the next 3 years, (ii) high and growing general government debt burden and the (iii) erosion of governance. The move came after the US government succeeded in lifting the debt ceiling to USD31.4trn at end-2Q23.

CBOE Volatility Index



Volatility hovering near 4-months high

Source: Bloomberg

- **Wall Street Performance**. After delivering a strong performance (+4.6% MoM) in June 2023, the Dow marched higher, rising +3.4% MoM in July 2023, driven by the stronger-than-expected corporate earnings whereby 79% of S&P 500 companies have reported a positive EPS surprise. Profit taking activities took precedence as the Dow slipped -2.4% MoM in August 2023 before trudging lower (-3.5% MoM) in September 2023 to close at 33,507.50 pts. All-in-all, the Dow slipped -2.6% QoQ in 3Q23 to snap three consecutive quarters of gains. The S&P 500 was also traded in a similar move in 3Q23 before finishing 4,288.05 pts (-3.6% QoQ). Following the pullback in recent quarter, valuations have now turned more attractive with the S&P 500 trading at prospective forward PERs of 19.2x and 17.43x for 2024F and 2025F respectively; slightly below the historical five-year average of 22.0x.

- **Regional markets fairly mixed**. Asia Pacific regional stockmarkets ended mixed as the return of foreign funds inflow met with the sluggish Chinese economic data. Both China and Hong Kong stockmarkets that ended relatively weaker on the back of the dismissal Chinese economic recovery post Covid-19, amid the disappointment over the absence of robust policy response from the Chinese government and renewed Sino-US trade tensions following China's bid to achieve self-sufficiency across supply chains. Notably, the Jakarta Composite Index rose +4.2% QoQ on the back of the positive surprise of 2Q23 GDP that expanded +3.9% YoY against consensus expectations of +3.7% YoY.

Selected Global & Regional Markets Performances

	3Q23 QoQ	3Q23 YoY	2022 YoY	2021 YoY	2020 YoY
MSCI World Index	-3.8%	**18.7%**	**-19.8%**	**16.8%**	**14.3%**
Dow Jones	-2.6%	16.6%	-8.8%	18.7%	7.2%
FTSE	1.0%	10.4%	0.9%	14.3%	-14.3%
DAX	-4.7%	27.0%	-12.3%	15.8%	3.5%
CAC	-3.6%	23.8%	-9.5%	28.9%	-7.1%
Nikkei	-4.0%	22.8%	-9.4%	4.9%	16.0%
Hang Seng	-5.9%	3.4%	-15.5%	-14.1%	-3.4%
ASX All Ordinaries	-2.1%	8.5%	-7.2%	13.6%	0.7%
Shanghai Composite	-2.9%	2.8%	-15.1%	4.8%	13.9%
FBM KLCI	3.4%	2.1%	-4.6%	-3.7%	2.4%
FTSE STI	0.4%	2.8%	4.1%	9.8%	-11.8%
Jakarta Composite Index	4.2%	-1.4%	4.1%	10.1%	-5.1%
Stock Exchange of Thailand	-2.1%	-7.4%	0.7%	14.4%	-8.3%

** Data as of 29th September 2023*
Source: Apex Securities, Bloomberg

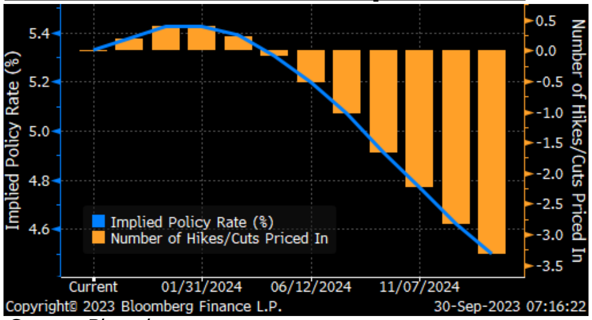
Global markets were mostly weaker

Global Markets Outlook

- **Potential upsides on the cards**. With the calmer market conditions and risks have turned more balanced, we expect global markets to tick higher, moving into the final quarter of 2023. Globally, the upward revisions of forward earnings have continued to outweigh the downward revisions, suggesting that room for further upsides. Optimism fuelled by newfound AI revolution is expected to remain dominant with the aforementioned industry still at nascent stage.

- **Higher interest rates a new normal**. Looking ahead, consensus is still pointing towards another interest rate hike by end-2023 as economist in general expects the solid US economy will able to withstand another rate hike in bid to support the US Federal Reserve efforts to tame inflationary pressure. For now, central banks will continue to juggle between the risk of monetary tightening, keeping inflation at desirable levels and ensuring sustainable economic growth. We expect another rate hike on the table for the remainder of the year and potentially another rate hike in 1H24. Thereafter, interest rates may stay elevated over a period of time and will remain largely data dependent.

US Fed Interest Rates Expectations



Source: Bloomberg

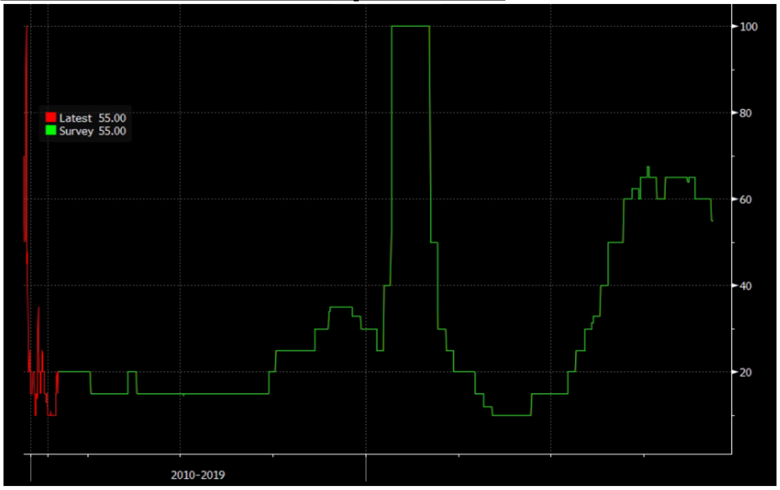
Interest rate upcycle expectations rolled into 1Q24

- **Forward valuations are slightly attractive**. Despite the mixed performances across majority of the global markets to-date, global equities' (MSCI All World Index) valuations are slightly appealing with forward PERs trading at 17.0x and 15.9x for 2023F and 2024F respectively, which is at the lower end against the long-term forward averages of 18.7-20.1x. At the same time, global corporate earnings growth estimates remain upbeat at +7.9% YoY and +9.8% YoY for 2023F and 2024F respectively. Coming closer to 3Q23, consensus is pointing towards marginal improvement with expectations that the S&P 500 earnings growth were to chalk in +0.8% MoM improvement.

- **Regional markets turning stable**. Meanwhile, Asia Pacific equities (except China and Hong Kong) are also poised for near term upsides on the back of the calmer market conditions. Foreign funds have turned their heads to regional markets, owing to the (i) prospects of stronger economy growth from Indonesia as the lifting of travel restrictions buoyed tourism activities and solid foreign direct investment with export ban on raw minerals forced foreign companies to invest in Indonesia's smelters and (ii) political scene at Thailand turned more stable after 3 months of post-polls uncertainty following the appointment of their 30th Prime Minister (Srettha Thavisin) that aims to roll out populist and business friendly measures. However, the anticipated upsides is likely to be measured on the back of unexciting economic growth prospects with valuations may once again turn fair.

- **Recession risks still elevated**. We gather that the risk of recession over the next 12 months remains elevated (55-65%) in recent year, owing to multiple factors such as the on-going inflationary pressure, prospects of potential US government shutdown, political uncertainty between Ukraine and Russia, escalating trade war between US and China, rising global debt levels, inverted yield curve. Still, we reckon that a soft landing may take place if recession looms, in view of the growing economy that is supported by strong jobs data and healthy consumer spending.

US Risk of Recession Expectations



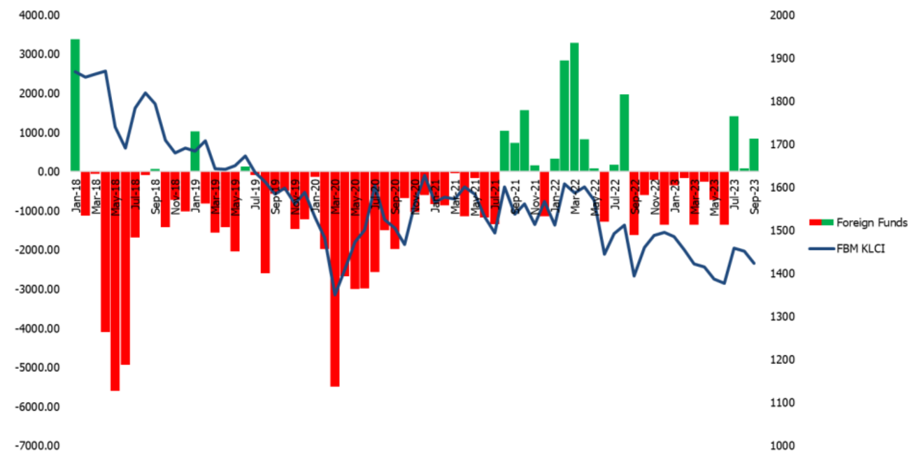
Risk of recession remains elevated

Source: Bloomberg

Malaysia Market Review

- **Gradual improvement**. Back home, Malaysian equities that were mostly in purple patch throughout 1H23 have turned fairly upbeat. The said improvement was supported by the political stability following the conclusion of 6 states elections, which in turns affirms the policies laid out under the Pakatan Harapan-Barisan Nasional led coalition. With the stability in the political front, we noticed that there appears to be signs of return of foreign funds flowing into the Malaysian equities. Foreign funds have turned net buying position since the month of July 2023, snapping 10 consecutive months of net outflows and have cumulatively brought in RM2.33bn of net inflow in 3Q23. Consequently, the FBMKLCI added 3.4% QoQ in 3Q23.

Bursa Malaysia Foreign Fund Participants vs FBM KLCI



Source: *Apex Securities, Bloomberg*

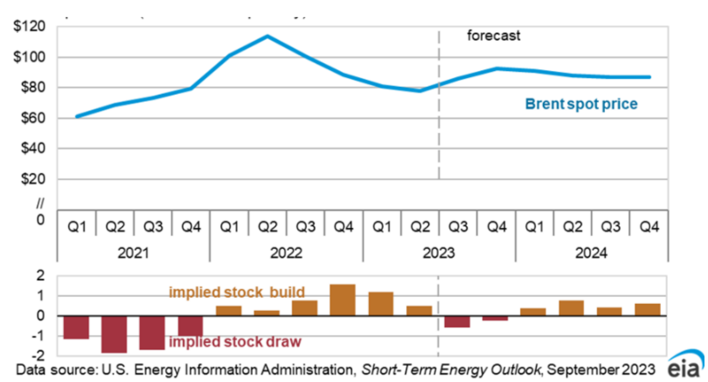
Return of foreign funds over the past 3 months provided some stability to FBM KLCI

- **Firing all cylinders.** In bid to rejuvenate economy growth, the Malaysia government introduced several economic blueprints such as Madani Economy framework, National Energy Transition Roadmap (NETR), National Industrial Master Plan (NIMP) 2030 and the 12th Malaysia Mid-Term Plan review. While we are sanguine over the tabling of these ambitious masterplans, we reckon that key infrastructural and legislative reforms on a national scale are required to be established prior to their implementations and executions. Nevertheless, we lauded the proposed measures which demonstrates the commitment by the government to ensure sustainable economic growth. Meanwhile, the strong bilateral trade and investment linkages, especially within Asia will continue to be supportive of the Malaysia markets.

- **Supported by strong labour force**. We gather that active EPF members hitting all-time high of 8.5m in 1H23, which indicates robust employment market. This represents 50.2% of the Malaysia's 16.9m labour force. While unemployment rate is inching towards pre-Covid19 pandemic levels, challenges arise from the levelling of human capital through upskilling, given that businesses are generally still highly dependent on low-skilled foreign workers.

- **Spiking crude oil prices is a double edge sword**. We gather that crude oil price is currently hovering near 11-months high. The aforementioned uptrend move was mainly supported by the optimistic revision forecast by the International Energy Agency (IEA) after OPEC and its allies including Russia pledge to extend production to end-2023 which may result in supply shortages in coming months. With Brent oil prices averaging USD81.95 per barrel in 9M23, the Malaysian government assumption of average Brent oil prices under the revised Budget 2023 at USD80.00 per barrel is largely on the mark to ensure the government meets their budget allocations. However, we caution that the elevated crude oil prices may pose a threat to bring down inflation to a more manageable level.

Brent crude oil spot price and global inventory changes

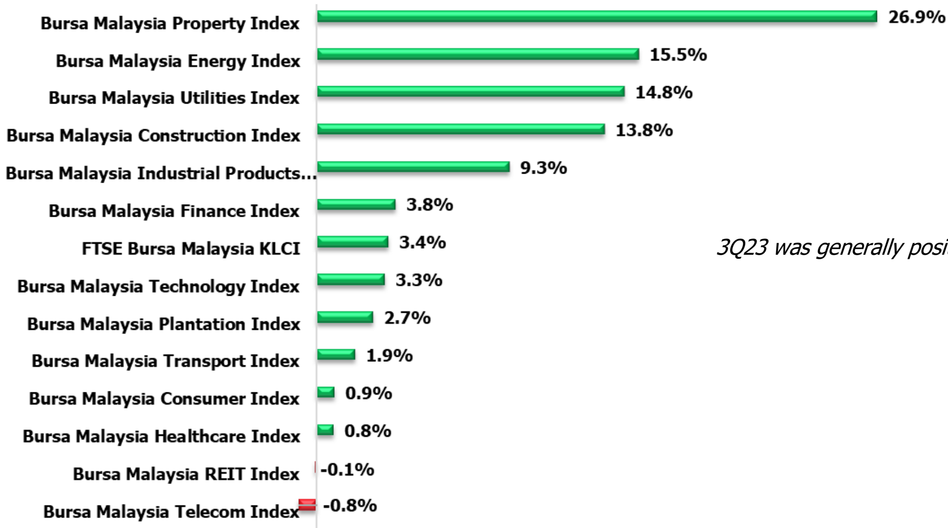


Implied stock draw in recent quarter keeping crude oil prices elevated

- **FBM KLCI biggest movers**. Following the firmer crude oil prices, Petronas Chemicals Bhd (+21.2% QoQ) and Sime Darby Bhd (+12.8% QoQ) that is riding onto the M&A with UMW Holdings Bhd topped the key index winners list in 3Q23. On the flipside, Westports Holdings Bhd (-9.2% QoQ) underperformed after delivering a flattish topline and near-term outlook is expected to be impacted by the on-going global inflationary pressure that may affect recovery in trade volume.

- **Positive sentiment driving trading activities**. The number of initial public offerings (excluding LEAP Market Listing) in 3Q23 stood at 9 companies against 10 companies listed in the same period last year. Average daily traded volumes stood at 3.33bn shares, up from 2.90 bn shares recorded in 2Q23, owing to the stability of market that prompt investors to nibble onto beaten down shares. Likewise, average transacted value rose to RM2.13bn, from average RM1.78bn recorded in 2Q23 as larger cap stocks were benefiting from the return of foreign funds. On the retail segment, total transacted valued in 3Q23 stood at RM70.66bn vs. RM57.68bn recorded in the same period last year.

Bursa Malaysia 3Q23 Sector Performances



3Q23 was generally positive, led by the property sector

Source: Apex Securities, Bloomberg

Malaysia Market Outlook

- **Limited upside to local bourse**. By and large, large-cap stocks have found some stability as foreign funds provided the support in 3Q23. With most of these funds remain invested, there should be selling pressure and it will also help to sustain the market elevated for the foreseeable future. We foresee the Malaysian stockmarket outlook remains fluid over the uncertainties from external factors such as the on-going the trade spat between US and China as well as global tightening monetary conditions. Mild volatility may persist over the interim, given that the key index is largely in tune with overseas developments, historically.

- **Political tailwind is favourable.** Following the status quo outcome from the 6 states elections, we reckon that various economic policies and measures will accelerate, moving into 2024, which will benefit the equity markets. This will ensure clarity and execution of short-and-medium-term policies to remain on track, while allowing markets to refocus onto their fundamentals.

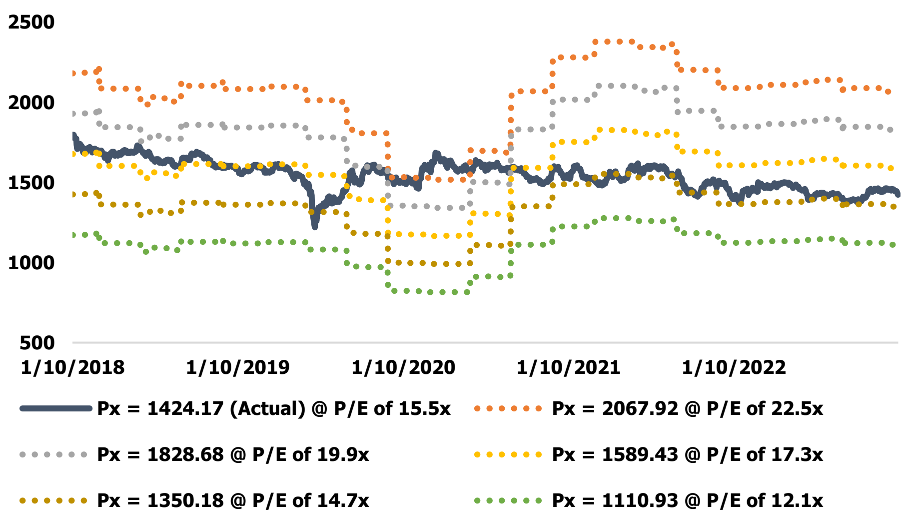
- **Budget 2024 may provide fresh impetus**. Moving into the final quarter of the year, investors' attention will largely tune onto the upcoming tabling of Budget 2024. Following the higher revision of fiscal spending under the mid-term 12th Malaysia Plan (12MP), we expect growth to be bolstered by the expectation of higher development expenditure by additional RM15.0bn, which we expect the government to allocate c.RM90.0bn into development expenditures over the remaining period under 12MP (till 2025).

- **Base building**. Based on current scenario, the key index is attempting to find stability around the 1,440 level. Should the key index manage to sustain above the aforementioned level, further gains may come by over the foreseeable future amid the relatively attractive valuations. However, should the said level failed to hold, downside risk is prevalent. Meanwhile, the return of foreign funds as of late would continue to provide cushion for further downside.

- **Lower liners faring better**. Elsewhere, the FBM Small Cap Index that enjoyed a better run is expected to remain upbeat with rotational play on the table. Although the general market sentiment remained upbeat, we think that recovery will be remain choppy as quick profit taking activities may sneak into the picture. Still, the improving corporate results (in general) may present further gains. While we reckon that interest rates may hold steady, the Malaysia equity markets are still expected to remain attractive in search for higher yields return.

- **Undemanding valuations.** At present, Malaysian stocks are deemed slightly undervalued with FBM KLCI trading at PERs at 14.6x and 13.2x for 2023F and 2024F respectively. The PERs are slightly below historical forward averages of 14.3-15.9x, implying potential upsides in our view. Our 2023F and 2024F year-end target for FBM KLCI are 1,497 and 1,547 respectively, based on assigned 15.0x and 14.0x PERs. Although market sentiment has turned slightly volatile as of late, we reckon that the prospects of earnings growth that are on the cards (2024F EPS projected to grow 10.7% YoY), coupled with the usual year-end window dressing (particularly in the final 2 weeks of the year) may present some investment/trading opportunities.

5-Year Historical FBM KLCI PE Band



FBM KLCI trends below the historical average PE

Source: Apex Securities, Bloomberg

4Q23 Economic Review & Outlook

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External headwinds pose risks to growth outlook

Malaysia Economy Review

Supply side (YoY) (%)						
	QUARTERLY					
SECTOR	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Agriculture	0.2	-2.4	1.2	1.1	0.9	-1.1
Mining and quarrying	-1.1	-0.5	9.2	6.8	2.4	-2.3
Manufacturing	6.6	9.2	13.2	3.9	3.2	0.1
Construction	-6.2	2.4	15.3	10.1	7.4	6.2
Services	6.5	12.0	16.7	8.9	7.3	4.7

Demand Side (YoY) (%)						
	QUARTERLY					
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
GDP Growth	5.0	8.9	14.2	7.0	5.6	2.9
Public Consumption	6.7	2.6	4.5	2.4	-2.2	3.8
Private Consumption	5.5	18.3	15.1	7.4	5.9	4.3
GFCF (Investment)	0.2	13.1	5.8	8.8	4.9	5.5
Exports	8.0	10.4	23.9	9.6	-3.3	-9.4
Import	11.1	14.0	24.4	8.1	-6.5	-9.7

Source: DOSM, Apex Securities

- **Shifting to lower gear**. Malaysia's economy posted the latest quarter (2QCY23) with slowest growth in recent 2 years that expanded 2.9% YoY (vs 2Q23: 5.6% YoY) mainly dragged by the weakening external trade and demand that stemmed from both exports (-9.4% YoY) and imports (-9.7% YoY). However, domestic demand remains strong mainly supported by the household spending which was driven by the growth in job market and rising wages. Meanwhile, the investment activities growth was anchored by capacity expansion, multi-year projects, and increased government spending on fixed assets.

- **Moderating inflation**. The headline inflation from Apr-Aug 2023 moderated to +2.5% (Q1: +3.6%), mainly attributed to the easing cost and high interest rate environment. However, the inflation rate remained higher than the relatively long-term average of 2.0%.

- **Bogged down by sluggish external trade**. Malaysia's external trade decelerated in line with the worldwide economic slowdown. Exports declined 13% YoY in Apr - Aug (1Q23: -3.3% YoY) mainly attributed to the weakening global demand and a slowing down of economic in main trading partner, China. Imports plummeted 14.54% YoY during Apr-Aug (vs 1Q23: -6.5%) which reflected the moderation in domestic demand and slower pace of inventory build-up.

- **Persistent weakness in Ringgit**. Malaysia Ringgit has depreciated by 6.0% since 1Q23 over USD mainly attributed by the slower global economic outlook, and weaker than expected recovery from China's economy which is one of Malaysia's largest trade partners. Notably, BNM kept its Overnight Policy Rate (OPR) unchanged at 3.0% in their latest Monetary policy meeting.

Malaysia Economy Outlook

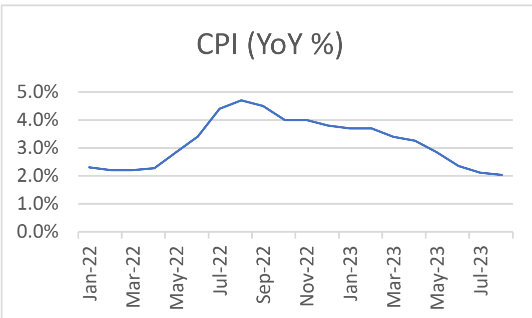
- **2H23 outlook to be stable**. 2Q23 delivered slower than expected economic growth, in line with a global economic slowdown and challenging external trade conditions, particularly slower than expected economic activities in China. However, the extended recovery in the inbound tourism partially cushioned the slower growth from external trade. Moving forward, we anticipate GDP growth in 2H23 to post moderate growth mainly limited by cautious consumer spending, higher borrowing costs, and rising living expenses.

- **On track for growth**. We project the Malaysia economy to grow at +3.2% YoY in 2023. Growth will be supporting by the firm domestic demand amid improving job market and salary coupled with the inbound of tourists. At the same time, the low unemployment rate suggests that nation's productive resources are being place to work to support economic activities.

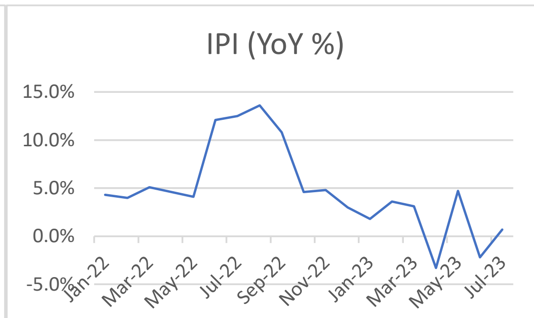
- **Inflation on track for normalising path**. We expect inflation to trend lower in 2H23, underpinned by the easing cost and commodities environment in tandem with the slower consumer spending. We revised our 2023 CPI forecast to +2.6% YoY from +2.8% YoY previously after the 2Q23 Production Price Index (PPI) came lower than our expectations. 2023 headline inflation is expected to moderate to +2.6 YoY, from +3.4% YoY in 2022.

- **One more rate hike on the table**. While the slowdown in economic growth might quash the appetite of BNM for further interest rate hikes, we anticipate another 25bps hike in OPR by BNM, which will bring the terminal rate to 3.25% in 2023. The anticipated move is aimed at strengthening the local currency and safeguarding against the outflow of foreign funds.

CPI Data

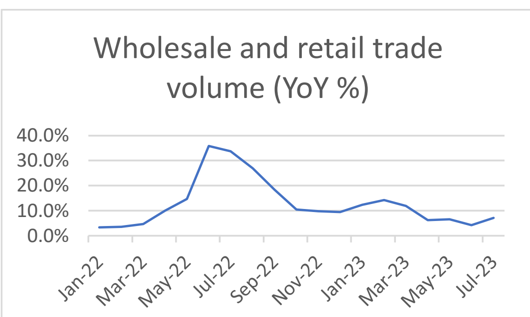


IPI Data

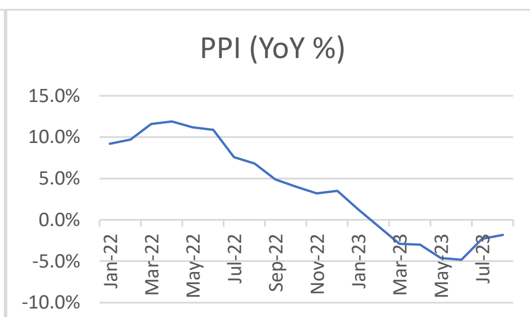


Source: Source: DOSM, Apex Securities

Wholesale and Retail Trade Volume

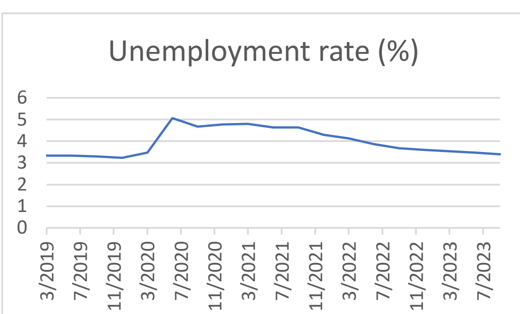


Malaysia PPI Data



Source: Source: DOSM, Apex Securities

Unemployment Rate



Source: Source: DOSM, Apex Securities

Sector Updates

Construction sector

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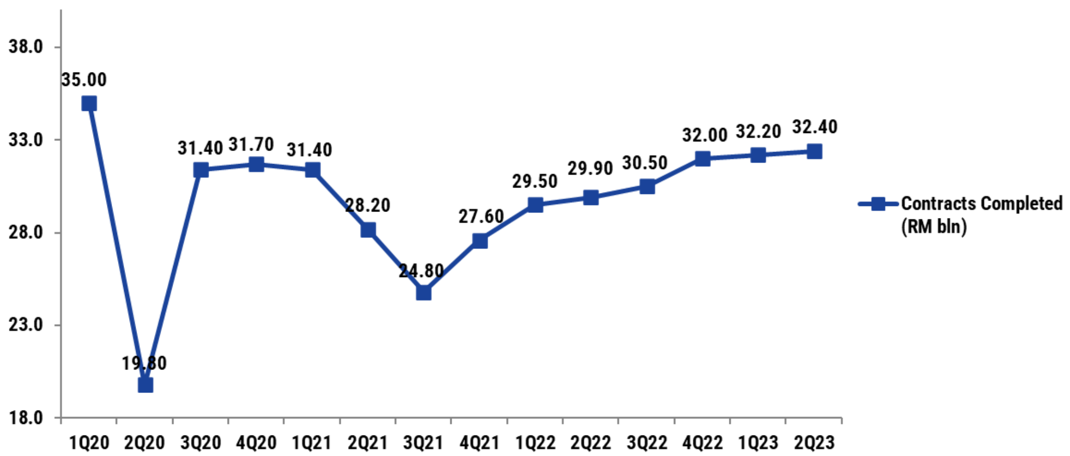
Shifting into higher gear

- **Review**. The construction sector delivered its fifth consecutive quarter of growth (+8.1% YoY) in 2Q23 with value added totalling RM32.4bn, driven by civil engineering (+10.4% YoY), special trades activities (+9.8% YoY), non-residential buildings (+5.7% YoY) and residential buildings (+6.9% YoY). Meanwhile, the private sector makes up to 63.1% or RM20.4bn of the market share, while the remainder (36.9% or RM11.9bn) was contributed from the public sector.

- Elsewhere, 3Q23 construction index registered +13.8% QoQ gains to close at 184.62 pts. The said improvement was backed by stronger earnings growth with the construction sector in 2Q23 recorded EPS of 2.73 sen vs 1.61 sen in 1Q23.

Historical Value of Contracts Completed



Source: Department of Statistics, Apex Securities

- **Outlook**. The recovery in the construction sector remained on track moving into 4Q23 ahead of the tabling of Budget 2024. We reckon growth will emanate from the acceleration of government-related projects following the favourable outcome from State elections as well as continuous expansion in private sector. Meanwhile, the easing of acute shortage of foreign workers, coupled with the softening steel bar prices (although cement prices still remain afloat) bodes well for margins stability.

- Key transport mega-infrastructure projects such as Central Spine Road, East Coast Highway 3, West Coast Expressway, ECRL, the Bayan Lepas Light Rail Transit in Penang, Mass Rapid Transit 3 projects are expected to remain on the table under Budget 2024 which will continue to rejuvenate the construction sector. For the time being, construction players should be kept busy with on-going road rehabilitation and upgrade works, construction of mass affordable housing projects and flood mitigation projects.

- **Valuation & Recommendation**. Budget 2024 is expected to remain expansionary and is set to surpass RM390.0bn (above RM386.1bn in the revised Budget 2023) and approximately 25.0% (RM97.5-100.0bn) will be channelled into the development expenditure. Moving forward, we expect construction giants with solid track record such as **Gamuda Bhd (NR)**, **Sunway Construction Group Bhd (NR)** and **Kerjaya Prospek Group Bhd (NR)** to remain as focal point in the construction scene. Meanwhile, our top pick would be **MGB Bhd (NR)** that is leveraging onto LBS Bina

Group Bhd's developments and cost-optimisation initiatives and **AME Elite Consortium Bhd (BUY; FV: RM1.80)** for its established presence in the industrial building development that rides onto the rising foreign direct investment. We gather that the construction sector is trading at forward PERs of 15.3x and 12.5x for 2023F and 2024F is below its historical two-year average of 16.1x implies potential upside over the foreseeable future.

- **Key Risk**. Increasing labour costs, elevated building material costs, delay or slowdown in projects execution.

- **Summary.** While the construction sector may continue to operate in a competitive landscape, outlook appears to be brighter in anticipation of the acceleration in mega-infrastructure projects. All in all, we are **Overweight** on the construction sector, premised to the improvement in the country's fiscal position which provide further financial leeway for new mega-infrastructure projects to jump-start.

Top Picks

Company	Price (RM)	P/E (x)			Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
AME Elite Consortium Bhd#	1.46	9.60	14.88	13.50	1.51	1.80	23.3%
MGB Bhd	0.71	23.46	10.47	7.95	1.86	0.87	22.5%
Kerjaya Prospek Group Bhd*	1.21	14.72	13.18	11.08	4.96	1.52	25.6%
Gamuda Bhd*	4.35	13.65	14.63	13.06	9.43	5.16	18.6%
Sunway Construction Bhd*	1.86	15.77	17.91	15.89	3.23	2.01	8.1%

 # AME Elite Consortium Bhd data based on FYE Mar
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Property sector

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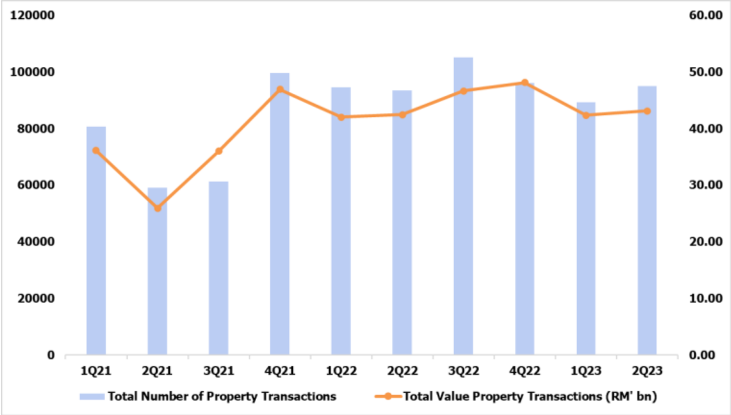
Stable demand ensures recovery prospects

- **Review**. The property sector raked in a strong quarter in 1H23 with 11,273 (+120% YoY) residential properties transacted, according to Real Estate and Housing Developers' Association (REHDA) Malaysia. Meanwhile, residential property launches also jumped 95.8% YoY to 14,392 units during the period (of which 3,945 units representing 27.4% of new launches were sold), which highlights the optimism of recovery in demand. In 1H23, total property transaction value rose 1.1% YoY to RM85.37bn with more than 184,000 transactions recorded. At the same time, the stability in loan approval rate at 44.1% in 7M23 ensures sustainability

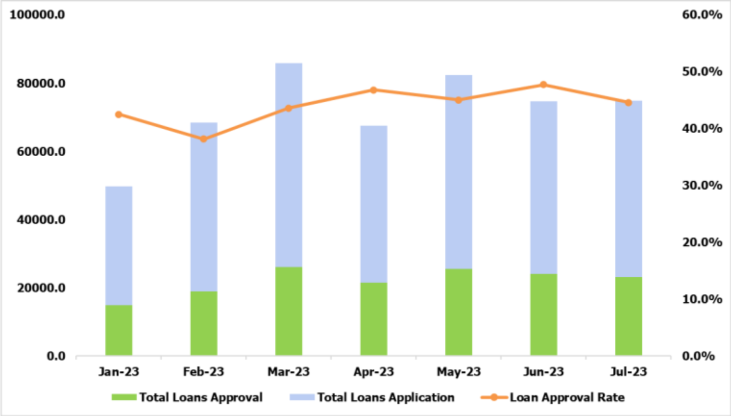
- While 1Q23 unsold properties continues to deliver gradual improvement at 142,000 units (from the high of 174,000 units in 2021), the aforementioned figure is still on an elevated level against historical average. Elsewhere, the 3Q23 property index emerged as the biggest winner (+26.9% QoQ) to close at 875.30 pts. The said improvement was spurred by the prospects of turnaround in Johor property scene amid the on-going Johor-Singapore RTS project, coupled with the prospects of High-Speed Rail (HSR) link resumption.

Historical Quarterly Property Transactions



Source: NAPIC, Apex Securities

Historical Monthly Loan Statistics



Source: BNM, Apex Securities

- **Outlook**. We expect challenges to persists in bid to reduce the overhang units due to the mis-match of income and property prices, given that bulk of the overhang high-rise units are priced above RM500,000. Majority of the property players are also now proceeding with their launches on a more prudent, gradual and progressive manner (new residential property launches fell 50.2% YoY to slightly over 16,000 units in 1H23). As at end-2022, we gather that Malaysia household debt-to-GDP ratio moderated to 81.2% – the lowest since 2011. Although the aforementioned ratio bodes well, majority of Malaysians are coping with the rising cost of living due to the low wages and multiple special withdrawals from their retirement funds. Hence, the ability to gear up for big ticket items remains challenging. With Bank Negara taking a pause in OPR hike, we expect loan applications to tick higher in subsequent months as the move could provide some relieve for prospective homebuyers and allowed planned purchases to proceed accordingly.

- **Valuation & Recommendation**. We favour property players that sits on strong balance sheet that is expected to be able to weather the interest rate upcycle environment (holding cost of land banks), coupled with good traction of township developments such as **S P Setia Bhd (NR), Matrix Concepts Holdings Bhd (NR)** and **OSK Holdings Bhd (NR)**. Meanwhile, our top picks are **Lagenda Properties Bhd (BUY; FV: RM1.63)** for its strong exposure in the affordable housing segment which is strongly aligned with the mass market demand and **Skyworld International Bhd (BUY; FV: RM0.94)** for its strong historical take-up rates backed by competitive property pricing and strategic locations. Following the appreciation of share prices in majority of the property players, we gather that current PB for the property sector at 0.5x and is now fair against the historical average of 0.4-0.6x.

- **Key Risk**. Difficulty to pass on higher building material cost to prospective purchasers, higher compliance cost and rising utilities cost.

- **Summary.** We expect the property sector to operate in a challenging landscape in bid to balance between the rising material and operational costs and delivery of sales. We are **Neutral** on the property sector on the back of the (i) stability in demand for residential properties, (ii) slower rollout in commercial properties to ensure no. of overhang units kept in check and (iii) pent-up demand for industrial properties as a proxy to rising foreign direct investment (FDI) following the US-China trade diversion.

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Lagenda Properties Bhd	1.29	7.13	7.05	6.02	4.88	1.52	17.8%
Skyworld International Bhd#	0.585	4.07	5.22	4.59	3.83	0.84	43.6%
LBS Bina Group Bhd*	0.56	6.11	7.74	7.53	3.57	0.68	21.4%
Matrix Concepts Holdings Bhd*	1.49	7.36	7.24	7.67	6.71	1.85	24.2%
OSK Holdings Bhd*	1.22	4.66	5.81	5.30	4.92	1.61	32.0%

 # Skyworld International Bhd & Matrix Concepts Holdings Bhd data based on FYE Mar
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

REIT sector

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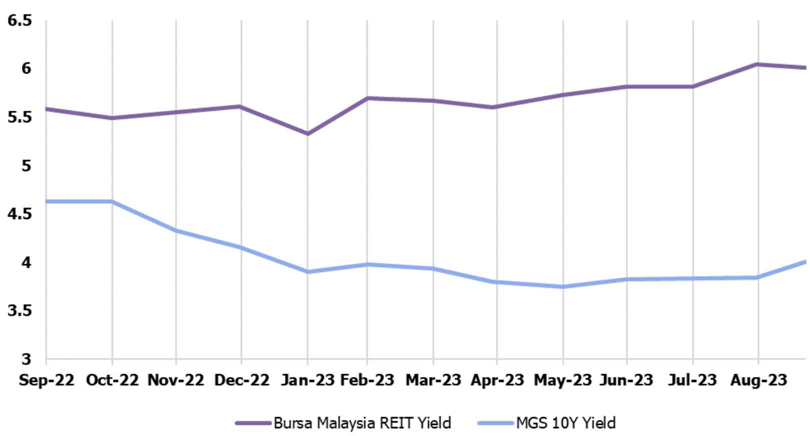
Defensive play comes in handy

- **Review**. The REIT sector delivered a softer performance, on the back of absence if festive period with the retail industry contracted -4.0% YoY in 2Q23 and is expected to record only +2.7% YoY expansion for 2023, according to the Retail Group Malaysia (RGM). The weakness was also compounded by the weaker purchasing power of Malaysia consumers on the back of the normalising interest rate environment, high inflationary pressure and weakening Ringgit against the Greenback.

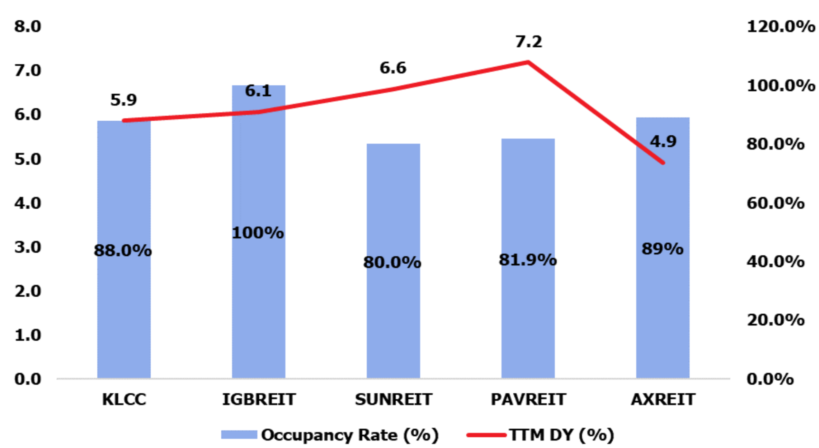
- We gather that the aggregate Malaysia REIT (MREIT) dividend yields remain fairly decent at 6.0% as at end-3Q23, whilst top 5 MREIT (based on market capitalisation) demonstrated healthy occupancy rates. Meanwhile, 3Q23 REIT index (-0.1% QoQ) was one of the two underperformers amongst the 13 major sectors on Bursa Malaysia to close at 776.22 pts. The said weakness came despite stronger earnings demonstrated within the REIT sector in 2Q23 that recorded EPS of 2.73 sen vs 1.61 sen in 1Q23 following the full-blown re-opening of economic activities.

Bursa Malaysia REIT Yield vs 10Y MGS Yield



Source: BNM, Bloomberg, Apex Securities

Top 5 Market Cap MREIT



Source: BNM, Bloomberg, Apex Securities

- **Outlook**. In light of the rising number of tourist arrivals, we expect retail sales to demonstrate stable improvement which benefits REIT players equipped with larger exposure to retail malls particularly within the Kuala Lumpur city. The industrial REIT space is expected to be driven by the on-going trade diversion from the US-China trade spat as well as rising demand for data centers that is riding onto the technological advancement. However, the commercial REIT space is expected to remain challenging, owing to the oversupply condition, while demand of office space is expected to remain soft due to the change in working environment dynamics. Although interest rates may remain elevated, we reckon that the stability of MREIT yields will continue to attract long term investment proposition.

- **Valuation & Recommendation**. We favour REIT players such as **Pavilion REIT (NR), IGB REIT (NR), Sunway REIT (NR)** as proxies to strong occupancy rates in their respective retail malls segment and **Axis REIT (NR)** for their diverse exposure in the offices, industrial, logistic warehouse, manufacturing facility and hypermarket space.

- **Key Risk**. Oversupply of office spaces keeping yields in check, incoming supply of new malls, limited property expansion due to scarcity of land.

- **Summary.** We expect the REIT sector to remain steady, owing to the stability in occupancy rate. All in, we are **Neutral** on the REIT sector on the back of the (i) fairly attractive yield proposition play for a longer-term investment horizon in view of the volatility of market conditions, (ii) stable economic growth anchoring retail spending and (iii) tail-end of OPR upcycle.

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Pavilion REIT*	1.22	6.49	6.42	5.36	6.56	1.50	23.0%
IGB REIT*	1.68	10.62	10.20	9.89	5.95	1.86	10.7%
Sunway REIT*	1.46	7.68	7.26	6.86	6.85	1.70	16.4%
Axis REIT*	1.84	10.28	10.95	9.96	4.89	2.03	10.3%

** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Telecommunication Sector

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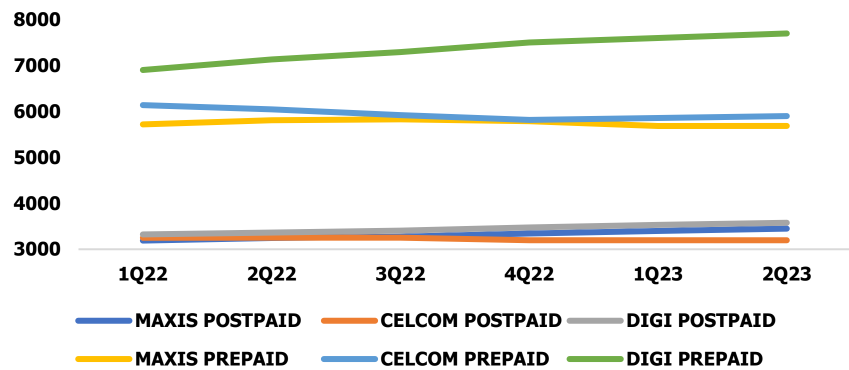
Gearing up for 5G

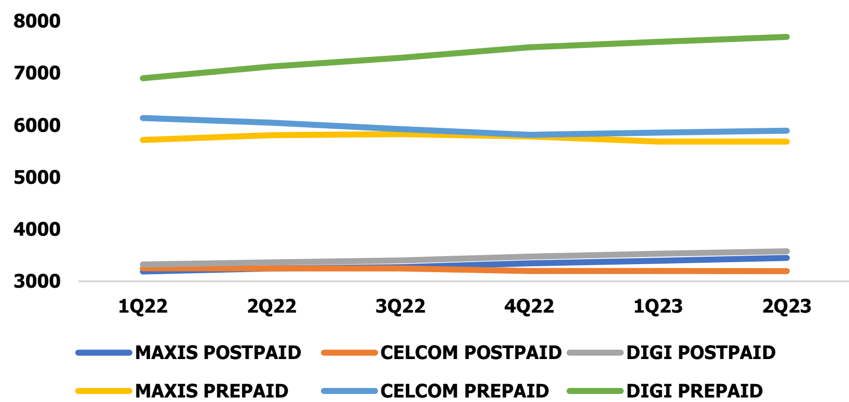
- **Review**. Bursa Malaysia Telecommunication Index was flat in 3Q23, hovering below 600 pts after coming off its peak of near-640 pts in 2Q23. Operation-wise, the industry remains steady with healthy subscriber and ARPU levels. Prepaid subscribers were supported by the return of foreign workers while Postpaid subscribers continue to see growth due to migration from Prepaid. Meanwhile, ARPU continue to inch lower gradually due to competitive pricing but remains steady.

Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

APRU (RM)



Source: Maxis, CelcomDigi

- **Outlook**. After a long delay, **Maxis (HOLD, FV: RM4.44)** finally signed the 5G access agreement with DNB. Moving forward, telcos including **CelcomDigi (HOLD, FV: (RM4.08)** will now focus in rolling out 5G plans. However, we are concerned whether capex allocation for 5G rollout could affect dividend payouts as Maxis has reduced its dividend payments to conserve cash for 5G investment.

- **Valuation & Recommendation**. Previous national budgets have seen the government allocating huge amounts to construct telecommunication infrastructure. As such, we expect Budget 2024 to benefit players such as **Opcom Holdings Bhd (NR), OCK Group Bhd (NR), Telekom Malaysia Bhd (BUY, FV: RM6.31), ITMAX System Bhd (NR), and Mestron Holdings Bhd (NR).**

- Our top pick would be **Telekom Malaysia Bhd** backed by its market leadership in the home fibre segment which is operating in a less competitive landscape against the mobile segment. While **Axiata (BUY, FV: RM3.27)** continues to face challenges in its overseas operations, we opine the worst could be over as the situation stabilises in Sri Lanka.

- **Key Risk**. Regulatory risk, higher-than-expected 5G capex affecting cashflow and dividend, excessive price competition.

- **Summary.** All in all, we are **Neutral** on the telecommunication sector on the back of continuous demand for data. However, the prospects of unattractive dividend yields may discourage longer term investors.

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Telekom Malaysia Bhd	4.90	14.12	12.73	12.66	3.96	6.31	28.8%
CelcomDigi Bhd	4.370	45.86	30.56	26.01	2.91	4.08	-6.6%
Maxis Bhd	4.04	26.23	23.22	22.57	3.96	4.44	9.9%
Axiata Bhd	2.49	2.43	38.91	24.17	2.13	3.27	31.3%

Source: Apex Securities Bhd, Bloomberg

Oil & Gas Sector

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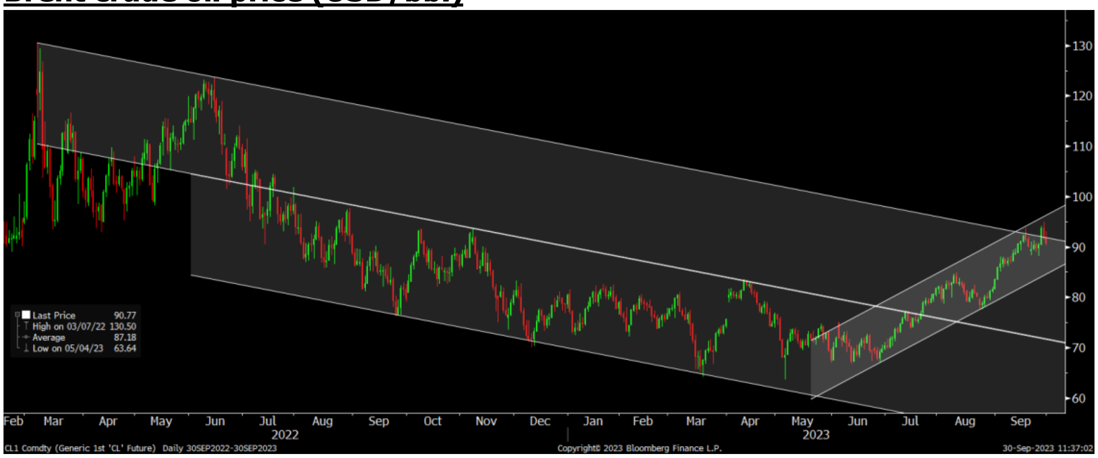
Riding on higher oil prices

- **Review**. Oil price rallied in 3Q23 from below USD70/bbl in June 2023 to over USD90/bbl in recent month; its highest since August 2022. The rise in oil price took place as consumption outpaced production. According to International Energy Agency (IEA), global oil consumption grew 0.2m barrels per day (mb/d) to 101.37 mb/d in August 2023 while global production declined to a 7-month low of 100.79 mb/d as Saudi Arabia and Russia's extended their voluntary production cuts to end-2023 in bid to tighten supply.

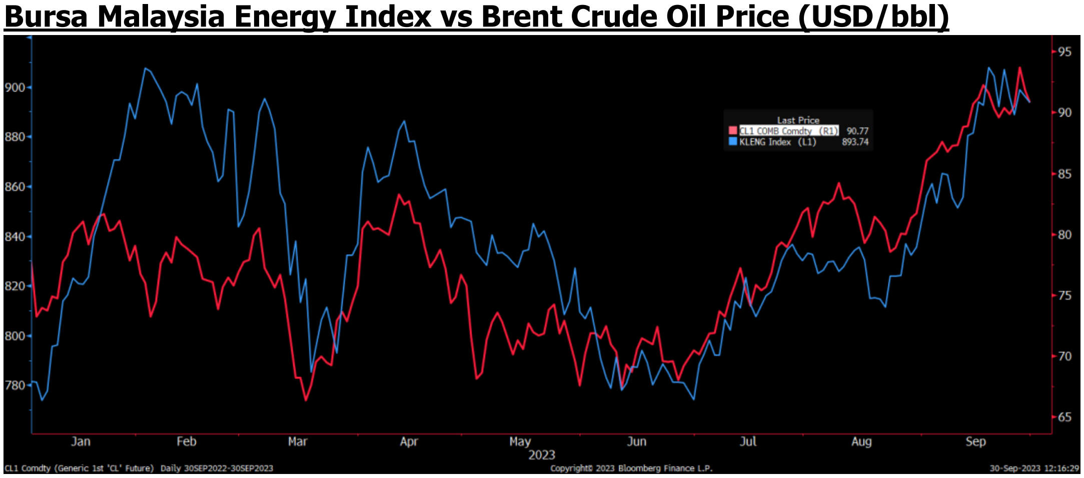
Brent crude oil price (USD/bbl)



Source: Bloomberg

- In line with higher oil prices, the Bursa Malaysia Energy Index advanced to the highest level since February 2023 to retested 900 pts in 3Q23. We gather that the index continues to demonstrate strong correlation with oil price.

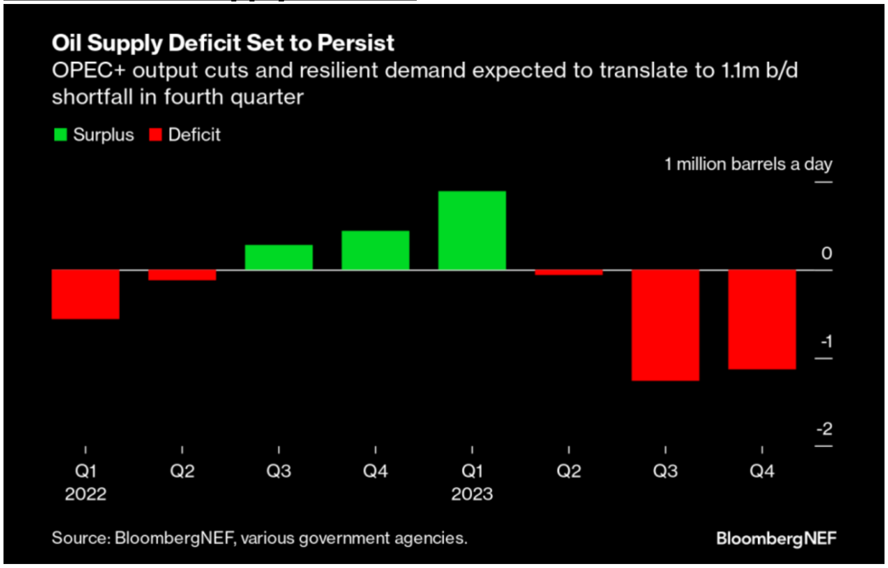
Bursa Malaysia Energy Index vs Brent Crude Oil Price (USD/bbl)



Source: Bloomberg

- **Outlook**. Oil price is expected to remain elevated over the near term despite softer demand due to slower global economic growth as OPEC+ remains defensive with its production cuts. Other potential catalysts include China's reopening which could gain momentum and potentially boost demand for oil, recovery in air travel increases jet fuel demand, and geopolitical factors that affects supply.

Oil Demand/Supply Outlook



Source: Bloomberg

- **Valuation & Recommendation**. High oil prices are expected to benefit players such as **Hibiscus Petroleum Bhd (NR, FV: RM1.39), Bumi Armada Bhd (HOLD, FV: RM0.61), Dayang Enterprise Holdings Bhd (NR, FV: RM1.39), Uzma Bhd (NR, FV: RM1.06) and Yinson Holdings Bhd (NR, FV: RM3.67).**

- **Key Risk**. Lower oil demand due to global economic slowdown, sticky inflation and monetary tightening by central banks, rising US inventories, stronger-than-expected output from non-OPEC countries (such as US shale gas).

- **Summary.** All in all, we are **Overweight** on the Oil and Gas sector, premised to the elevated oil prices and higher capex by Petronas to spur the industry's growth.

Top Picks

Company	Price (RM)	P/E (x)			Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
Bumi Armada Bhd	0.565	4.91	5.65	4.28	-	0.61	8.0%
Hibiscus Petroleum Bhd*	1.13	5.68	5.26	5.65	0.44	1.39	23.0%
Dayang Enterprise Holdings Bhd*	1.93	19.07	13.50	11.56	0.78	2.11	9.3%
Uzma Bhd*	0.845	7.63	7.68	7.48	-	1.06	25.4%
Yinson Holdings Bhd*	2.48	11.23	10.69	9.36	1.21	3.67	48.0%

** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Plantation sector

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Rising supply will be a concern

- **Review**. CPO production demonstrated favourable increase of +6.1% QoQ (2Q23: 4.2m tonnes compared to 1Q23: 3.9m tonnes). We attribute the better production as a result of improvement in labour shortages. Looking ahead, we anticipate a stronger growth in CPO production, with projected +24.0% QoQ increase in 3Q23. The projection is based on the comparatively lower base production figures in 2Q23, coupled with expectation of seasonally stronger yields in the upcoming quarters.

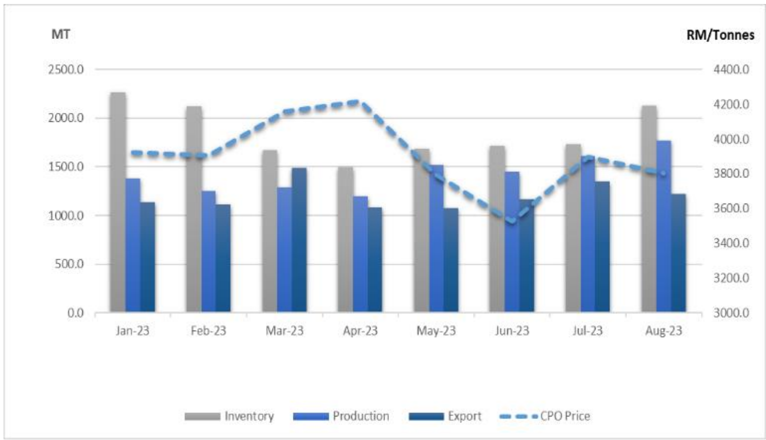
- Exports in palm oil recorded decline of -11.0% QoQ to 4.2m tonnes 2Q23. We believe the slowdown was primarily dragged down by sluggish demand from China and India, attributed to inflationary pressures and economic uncertainties. Additionally, the less competitive pricing of palm oil compared to other vegetable oils also attributed to the weakness. During the period of April to May 2023, soybean oil premium against palm oil reached an all-time low, averaging around USD 257/tonne. Nonetheless, we expect exports to experience robust growth (+19% QoQ) in 3Q23 due to festive seasons in late-September to October 2023.

- Palm oil inventory experienced a notable -19.1% QoQ decline in 2Q23, reaching a total of 4.9m tonnes after production plunged in April 2023. Moving forward, we anticipate increase in palm oil inventory (+24.7% QoQ), notching 6.1m tonnes in 3Q23 in line with the higher production.

Soybean Oil vs Palm Oil Price Spread (USD/tonne)

Source: Bloomberg, Apex Securities

Monthly Inventory, Production, Export and CPO Price)



Source: MPOB, Apex Securities

- **Outlook**. Average CPO price maintained its downward trajectory, from RM3,996/tonne in the 1Q23 to RM3,846/tonne in 2Q23. Overall, we believe the slight drop in CPO price was attributed to expectation of higher production outweighing the strengthened soybean price and export growth expectation. Our full-year 2023 forecast for CPO price were unchanged at RM3,800/tonnes in anticipation of additional supply that impacts the market in 2H23.

- **Valuation & Recommendation**. We maintain our **Neutral** view on the sector for remainder of 2023 as we expect recovery of FFB production will offset by softening CPO price coupled with accumulating inventory level. For stocks under our coverage, we retain **HOLD** recommendations for **Kuala Lumpur Kepong Bhd (FV: RM 19.20)**, **Hap Seng Plantations Holdings Bhd (FV: RM1.80)** and a **SELL** call for **Sarawak Plantations Bhd (FV:1.80)**. We keep our **BUY** call on **United Plantation Bhd (FV: RM17.40)** due to its inexpensive valuation and high dividend yield prospects. The Plantation sector is trading at forward PERs of 20.8x/16.8x for 2023F/2024F and is currently close to its historical 3-year average of 17.1x; implying the sector has been fairly valued at the moment.

- **Key Risk**. Unpredictable weather patterns affect FFB production, lower tax rate and import duties of Indonesia threatens local CPO demand, shortage of labour and rising operational cost.

- **Summary.** Over the near-term, the plantation sector will remain under pressure, due to geopolitical uncertainty as well as rising supply. Nonetheless, we believe uptick in CPO price are in the cards in 2024, due to the potential implication from El-Nino phenomenon on production and hence, we deemed the plantation sector to be attractive for a longer-term investment horizon. We continue to favour plantation stocks with solid fundamentals with decent yields.

Top Picks

Company	Price (RM)	P/E (x)			Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
United Plantation Bhd	16.64	10.10	14.37	14.31	5.91	17.40	4.57%
Kuala Lumpur Kepong Bhd#	21.4	19.54	18.00	18.63	4.71	19.20	-10.28%
Hap Seng Plantations Bhd	1.88	20.00	14.32	14.32	4.91	1.80	-4.26%
Sarawak Plantations Bhd	2.09	11.24	10.83	9.61	3.69	1.80	-13.88%

 # Kuala Lumpur Kepong Bhd data based on FYE Sep

Source: Apex Securities Bhd, Bloomberg

Automotive sector

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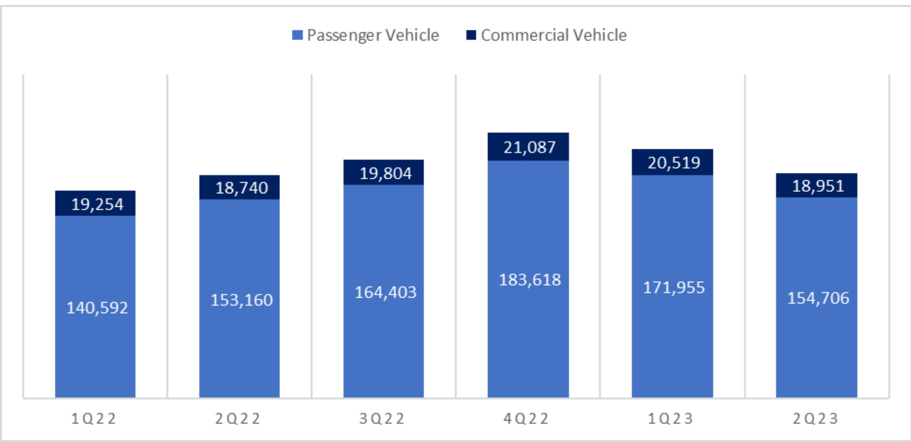
Keeping busy with backlog orders fulfilment

- **Review**. Back in 2Q23, we gather that Total Industry Volume (TIV) contracted -9.8% QoQ, primarily due to decline in both passenger (-10.0% QoQ) and commercial vehicle sales (-7.6% QoQ). The lower passenger vehicle sales were attributed to a steep contraction in sales during April 2023 (-41.7% MoM) following the high base effect in March 2023, which was the final month for sales tax exemption. However, it's worth noting that passenger car sales rebounded swiftly in May 2023 (+33.2% MoM) and June (+5.5% MoM), thanks to the introduction of new vehicle models and quick delivery of backlog orders.

Historical Passenger and Commercial Vehicle Sales



Source: MAA, Apex Securities

- **Outlook**. Looking forward, we anticipate that the Total Industry Volume (TIV) will remain robust for 2023, driven by the continuous fulfilment of backlog orders and new models release. Recently, the Malaysian Automotive Association (MAA) has also expressed optimism regarding the automotive sector by revising its full-year 2023 TIV projection from 650,000 units to 725,000 units, reflecting an increase of +11.5%. Nevertheless, we foresee TIV growth for 2024 to slowdown from the high base as orderbook replenishment normalised.

- Shifting to the EV space, we are generally positive on the long-term prospect, anchored by the notable commitment from the government to promote widespread adoption. During the 42nd National Physical Planning Council (MPFN) meeting, the government reinstated their commitment to construct 10,000 EV charging stations by 2025 in order to boost the availability of charging infrastructure. The government also provided various incentives such as tax exemption for CKD and CBU EVs for EV manufacturers, which we reckon will be the trend in upcoming tabling of Malaysia Budgets.

- **Valuation & Recommendation**. We anticipate auto companies involved in the premium EV space such as **Sime Darby Bhd (NR)** and **DRB-Hicom Bhd (NR)** to benefit from the government incentives due to MITI restriction where only CBU above RM100,000 are allowed to be imported into Malaysia**.** We also identify automotive component manufacturers such as **Greatech Technology Bhd (NR), Genetec Technology Bhd (NR) and D&O Green Technologies Bhd (NR**) to ride on the EV wave.

- **Key Risk**. Changes in government regulations and policies, supply chain disruptions, lower TIV due to economic uncertainty, slower-than-expected adoption of EV.

- **Summary.** We maintain our **Neutral** view on the sector after taking into account the potential slower TIV in 2024, stem from weaker orderbook replenishment. Although the government is providing robust backing to the EV sector, infrastructure supports are still at infant stage and the price barrier is constraining widespread consumer adoption.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
Sime Darby Bhd#	2.21	10.33	12.63	11.57	5.61	2.37	7.24%
DRB-Hicom Bhd*	1.43	15.05	8.77	7.73	1.40	1.81	26.57%
Greatech Technology Bhd*	4.37	38.00	31.44	26.17	-	5.49	25.63%
Genetec Technology Bhd#	2.39	28.86	19.12	15.93	-	4.07	70.29%
D&O Green Technologies Bhd*	3.41	75.38	71.04	33.43	0.26	3.60	5.57%

 # Sime Darby Bhd data based on FYE Jun
 # Genetec Technology Bhd data based on FYE Mar
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Technology sector

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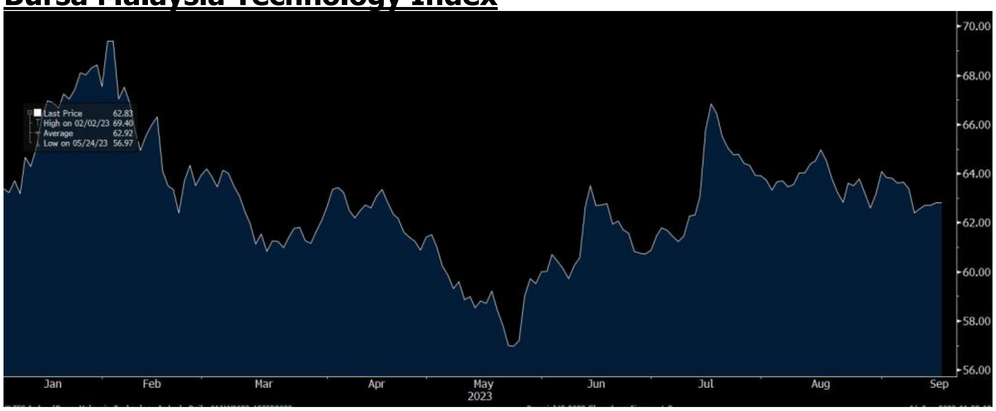
Lingering uncertainty tempers recovery path

- **Review**. Bursa Malaysia Technology Index rebounded from May 2023, supported by the spillover positive sentiment from US tech-sector on the anticipation of less hawkish US Federal Reserve interest rate hikes and AI craze. World Semiconductor Trade Statistics (WSTS) organisation's data exhibit global semiconductor sales dropped 19.5% YoY in 2Q23. In addition, global chip sales registered fifth consecutive quarter of MoM growth. This implies that rate of decline is softening, riding onto the dispersion of excess inventory and improved demand from recovery in China. Local companies OSAT and EMS players delivered disappointing 2Q23 results in terms of both topline and margins, attributed to lower demand and weaker economic of scale. However, ATE player and soft-tech companies whom serve domestic market posted resilient performance, given their wide clientele portfolio that was driven by the strong demand from automotive and medical segment from robust domestic economic that cushioned the weak demand from electro-optical and consumer industrial products.

Bursa Malaysia Technology Index



Source: Bloomberg

- **Outlook**. In anticipation of uptick in stock replenishment cycle and the seasonally stronger technology sector in 2H, we expect in coming months ahead. However, the said improvement may be capped by softer seasonal demand against previous years owing to the weaker global worldwide consumer demand and inventory adjustments. In fact, WSTS adjusted 2023F semiconductor forecast multiple instances to -10.3% YoY in 2023, while anticipates strong recovery of +11.8% YoY in 2024F. We remained cautious on FY24F full-recovery, attributed to the prolonged high interest rate environment, rise of Huawei latest flagship device (home-grown 7nm chip) and ban of IPhone models in China that may spark further trade tension which potentially impact to the full-recovery progress.

- **Valuation & Recommendation**. Bursa Technology index is trading at 30.71x 2023F PER and 23x 2024F PER with EPS anticipate to decrease 22.3% YoY in 2023F, before staging a rebound of 33.6% YoY in 2024F. At present, Bursa Technology index is trading higher than pre-pandemic trailing and forward 1Y PER (refer below) mainly attributed to the spillover sentiment from US tech stocks and pricing in high recovery growth prospects for FY24F. We opine the sector's current valuation are not attractive as the timing of recovery remained ambiguous. Our top pick would be **Aurelius Technology (BUY ; FV: RM 3.22)** due to its exposure to IoT, which sees relatively lower impact from the cooling demand, strong profit growth and prospects with massive expansion coupled with margin enhancement expecting with higher margin product mix. Meanwhile, we like **QES Group Bhd (BUY; FV: RM 0.725)** for its diversification of customer segments beyond a heavy reliance on semiconductors industry has positioned itself to mitigate risks during the semiconductor downturn and gain resilience in fluctuating markets compares to its peers.

Bursa Malaysia Technology Index

Source: Bloomberg

- **Key Risk**. Softer seasonal demand and slower-than-expected inventory adjustment. Prolonged high interest rate may keep valuations on the lower end against historical average

- **Summary.** We believe the technology sector in general will deliver better 2H23 results compared to 1H23, but remained cautious on the relatively high valuation due to the timing of full-recovery that remain ambiguous. In short, we are **Neutral** on the technology sector while monitoring onto a clearer global central banks interest rate decisions and further signs for a meaningful recovery of the sector.

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
QES Group Bhd	0.55	18.70	19.50	17.30	0.91	0.72	30.91%
Kronologi Asia Bhd#	0.41	11.60	15.70	16.10	-	0.53	29.27%
Aurelius Technologies Bhd#	2.65	22.10	20.90	17.80	1.51	2.90	9.43%
Frontken Corporation Bhd	3.15	46.30	41.50	32.20	1.33	3.32	5.40%
Inari Amerton Bhd*	2.90	32.87	20.43	27.50	2.83	3.39	16.90%

 # Kronologi Asia Bhd & Aurelius Technologies Bhd data based on FYE Jan

** Denotes Bloomberg consensus data*

Source: Apex Securities Bhd, Bloomberg

Transportation & Logistic sector

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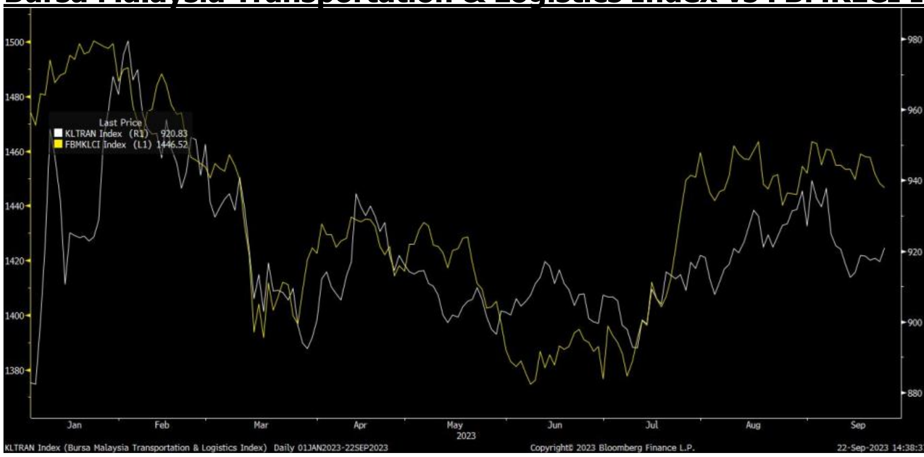
Operating in ambiguous economic prospects

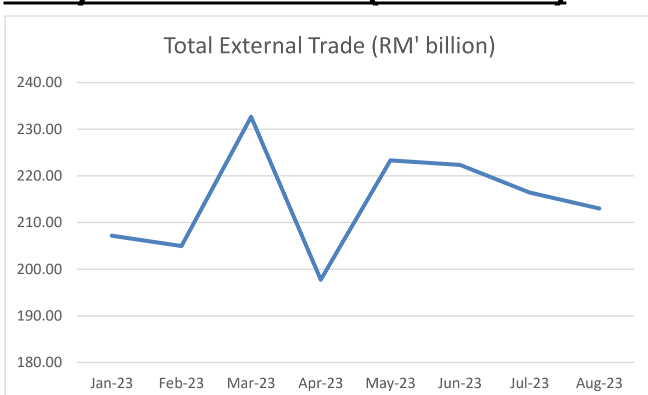
- **Review**. Bursa Transport and Logistic index is similar to the overall market which the performance of the sector remains relatively flattish. The performance is in line with the uncertainties of the global economic and international trade. We can observe that our external trade (figure 2) has been declining over the past few months due to challenges in international trade (April 23 – Aug 23 average -13.7% YoY). In August, the ocean freight container index has experienced a surge in rate mainly due to seasonally peak shipping season and partly due to the Canadian West Coast dock strike. However, the rate has come down in September and return to more normal prices, but remains 4% higher than average 2019 (pre-pandemic) rates of USD1,420, Drewry is expecting the East-West spot rates trend to remain close to current levels in the next few weeks. The Air freight rates continue to showed retreat from the peak during pandemic time, but the price remains around 43% higher than average 2019 (pre-pandemic) rates.

Bursa Malaysia Transportation & Logistics Index vs FBMKLCI Index



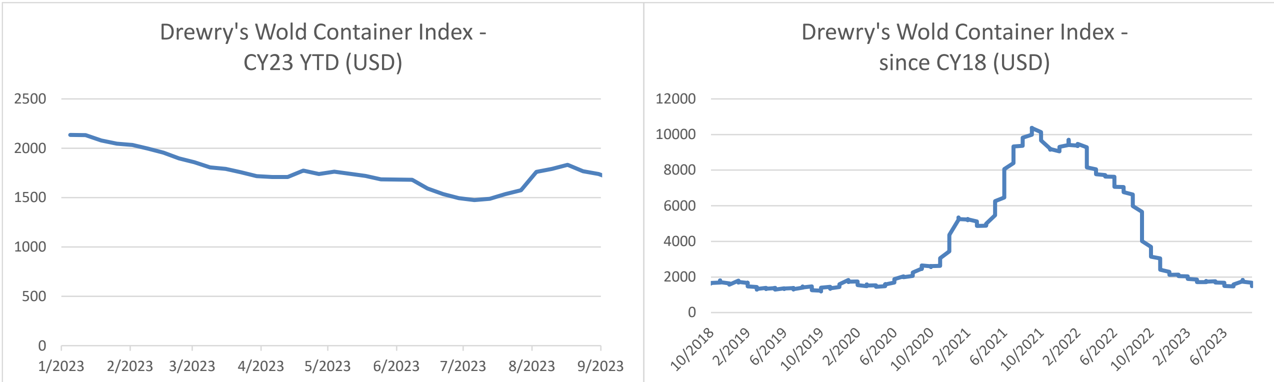
Source: Bloomberg

Malaysia External Trade (Jan-23-YTD)



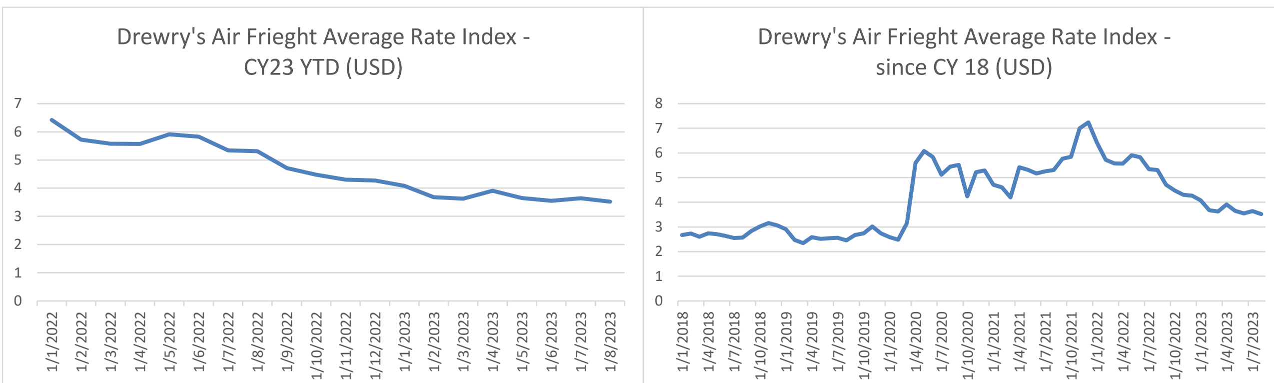
*Surge in Feb and Mar due to seasonality
Source: DOSM, Apex Securities

Dewry's Ocean Freight Index



Source: Bloomberg, Apex Securities

Dewry's Air Freight Index



Source: Bloomberg, Apex Securities

- **Outlook**. Given that the health of the logistics industry is closely aligned with the economic activity and international trade, the prospects of the sector are closely tied to the performance of the global as well as Malaysian economy. With the prospects of weaker global economic outlook, WTO forecasted the global merchandise trade volumes to grew merely +1.7% YoY in 2023 before picking up to +3.2% YoY on 2014. The logistic sector is expected to remain challenging, on the back of the sluggish global economic growth that is hampered by multiple headwinds such as rising costs on labour, finance and fuels, as well as declining freight rates. However, we reckon that the domestically-driven logistic players with exposure to domestic logistic, warehousing and cold-chain will outperform the sector that is supported by firm domestic economic growth and booming of e-commerce.

- **Valuation & Recommendation**. The sector transportation & logistics sector is trading at the level of 14.0x of 1Y forward PER which is slightly lower than the pre-pandemic level (17.0-18.0x). We believe the discount is factoring the uncertainties of global economics, rising fuel, labour and finance cost. Our top pick would be **SWIFT Haulage Bhd (BUY; FV: RM 0.85)** as we favour its: i) attractive risk to reward ratio that is currently trading at undemanding 7.8x 1Y forward PER, ii) warehouse expansion as growth catalyst and iii) Market leader in container haulage with superior profit margin than the industry peers.

- **Key Risk**. Softer-than-expected economic growth projections and an extended normalisation of freight charges may impact margins.

- **Summary.** While the logistic sector is in line with the global economic outlook which remains ambiguous. We suggest the investor should wait for a clearer direction of the global economy before revisiting the sector. We are **Neutral** on the logistic sector, in view of the aforementioned challenging but opine the current valuation has factored all the negatives

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Swift Haulage Berhad	0.56	8.40	9.50	7.50	3.57	0.85	51.79%
Tasco Berhad#	0.795	7.00	8.90	8.20	4.40	0.99	23.90%
Westports Holdings Berhad*	3.23	14.82	15.66	14.95	4.45	3.88	20.12%
MISC Berhad*	7.08	12.58	13.61	13.31	4.66	8.13	14.83%
Bintulu Port Holdings Berhad*	5.05	20.87	21.40	20.53	2.77	5.66	12.08%

 # Data based on FYE Mar
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Consumer sector

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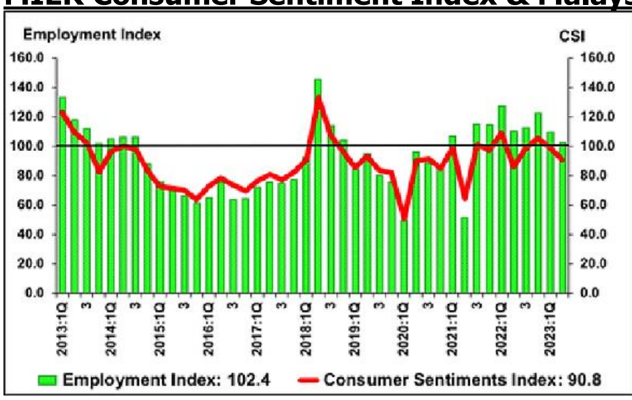
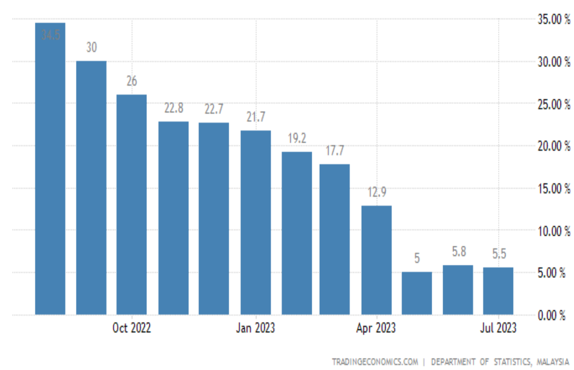
Expecting a rebound in the final chapter

- **Review**. Stocks within our coverage have maintained a positive trajectory in the recent quarter, despite a seasonal dip in purchasing power and the stabilisation of the OPR. Additionally, there has been an improvement in topline figures which triumph over the rising CPI that expanded 2.0% YoY in August 2023, while the OPR remains steady at 3.00%. We gather that private consumption recorded slower growth from 5.9% to 4.3%, compared to the previous quarter. Interestingly, the unemployment rate shown signs of improvement, shifting from 3.5% to the 3.4% range according to the latest data from DOSM. Nevertheless, the Consumer Sentiment Index, as per MIER's latest available data declined to 90.8 pts, down from 99.2 pts in the previous quarter. However, the Bursa Malaysia Consumer Product and Services Index has witnessed 0.9% QoQ increase in 3Q23, possibly driven by festive occasions such as Merdeka Day.

MIER Consumer Sentiment Index & Malaysia Retail Sales Growth



Source: Malaysian Institute of Economic Research



Source: Trading Economics ~ DOSM

- **Outlook**. Looking into 4Q23, we anticipate a more favourable performance in the consumer product sector. We believe several factors, including the upcoming school holidays towards the year-end, various festive seasons like Deepavali and Christmas, and the expectation of increased domestic and international tourist arrivals may buoy the aforementioned sector. This improved outlook expectations also aligns with the expectations of the newly appointed DG of Tourism Malaysia. Despite the weakening of the Malaysian Ringgit against the Greenback, we believe that it could serve as an attraction for international tourists visiting Malaysia. Furthermore, the consumer product sector is expected to benefit from the lower unemployment rate, attributed to the Madani Economy and other government initiatives. Additionally, retail sales growth is starting to show initial signs of improvement and rebounded to 5.5% in July 2023. Noteworthy that Paynet will be implementing transaction fees for DuitNow QR payments on merchants. This move may potentially exert pressure on the profit margins of these merchants. There is also a possibility that these merchants may opt to pass on some of these costs to consumers, which could result in higher prices for goods and services.

- **Valuation & Recommendation**. We remained optimistic on our coverage with the top pick would be **Padini Bhd (BUY, RM4.67)** underpinned by more festive season and their value-for-money products and **CCK Consolidated Holdings Bhd (BUY, RM0.96)**, thanks to its well-established retail network and its strong market share in Borneo as well as its presence in Indonesia. The average forward PE for the consumer is at 15.2x and 13.7x for 2024F and 2025F which is below its 2Y historical average PE of 18.8x.

- **Key Risk**. i) Increasing raw materials, ii) weak consumer sentiment, iii) new policy from the government.

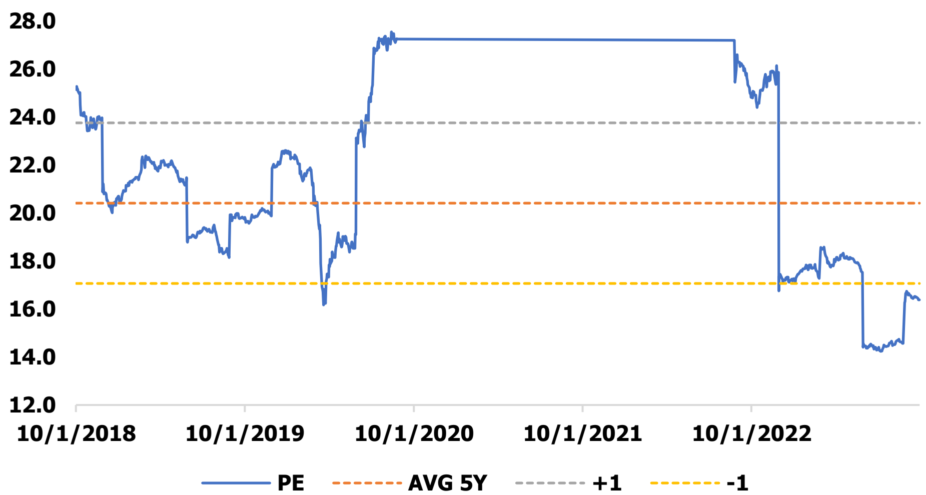
- **Summary**. To encapsulate, the consumer product sector is expected to maintain its competitiveness, despite the challenges posed by the normalisation of the OPR and inflationary pressures. Nevertheless, we anticipate that the positive impact of various festive seasons and increased tourist arrivals in Malaysia could help offset these challenges. In conclusion, we hold a cautiously optimistic view on the consumer product sector for the upcoming quarter and are **Overweight** in our position within this sector

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Padini Holdings Bhd#	3.95	11.70	11.50	11.20	3.42	4.67	18.23%
CCK Consolidated Bhd	0.805	6.80	8.00	7.30	3.98	0.96	19.25%
Yenher Holdings Bhd	0.85	11.80	10.40	4.90	4.00	1.03	21.18%

 # Padini Holdings Bhd data based on FYE Jun
Source: Apex Securities Bhd, Bloomberg

Bursa Malaysia Consumer Product and Services Index 5Y PER



Source: Bloomberg, Apex Securities

Gloves sector

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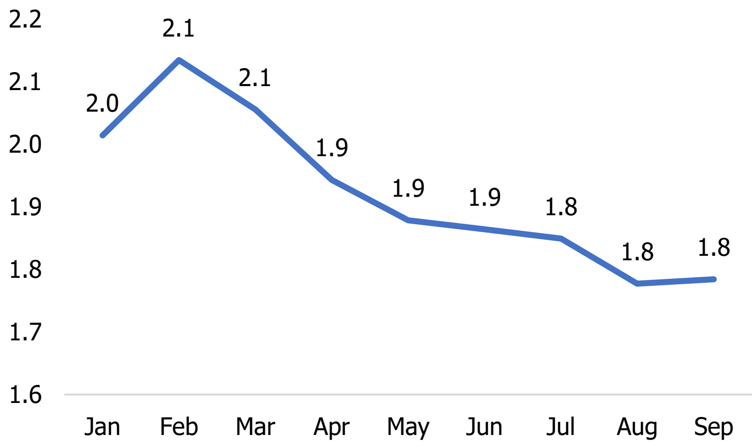
Still on shaky ground

- **Review**. Players in the glove industry have been grappling with challenging conditions for nearly a year. Despite enduring these difficulties, companies within our coverage managed to narrow their losses in the current quarter under review. This improvement can be attributed to a slight uptick in Average Selling Prices (ASP), which now ranges from USD$21 to USD$24 per 1000 pieces. However, the improved trend was offset by reduction in sales volumes, as customers remain price-sensitive. On the supply side, several key players have taken steps to address cost pressures by decommissioning outdated facilities. On the demand front, the market remains subdued, with global glove imports now totalling 15bn pieces per month, compared to the pre-pandemic level of 20-25bn pieces per month. In terms of costs, there has been a notable drop of approximately 15-16% QoQ in natural gas prices, which mitigated some of the cost pressures.

NR Concentrated Latex price (USD/kg)



Source: Malaysia Rubber Board, Apex Securities

- **Outlook**. With the normalisation of Average Selling Prices (ASP) in recent quarters, we anticipate glove industry players will continue to reduce their losses. However, it's important to note that in terms of margins, they may not reach pre-Covid levels due to market competitiveness and lower sales volume. It's worth highlighting that market dynamics are still in the process of recovery, as capacity rationalisation and inventory adjustments are now in play. Recovery is reinforced by the decommissioning of older manufacturing facilities by glove manufacturers, along with some players exiting the industry. The moves are expected to result in a reduction in production capacity, leading to improved efficiency and productivity. However, it's important to acknowledge that the current utilisation rate remains low, at below approximately 40%, due to intense market competition and lower demand. With that said, we anticipate demand to gradually improve in the near future as customer inventory levels continue to deplete. This is further supported by inventory accumulation since pandemic that are approaching their expiry dates. Costing wise, the potential for further decline in raw material and natural gas prices could lead to reduction in production costs.

- **Valuation & Recommendation**. We anticipate glove companies within our coverage to experience further reduction in net losses against previous quarters. This expectation is driven by the ongoing market adjustments and the improvement in ASP. While we do not have any top picks for the sector, we hold a favourable view of **Hartalega Holdings Bhd (SELL, TP: RM1.61)** due to its substantial net cash position of RM1.70bn. The strong cash position may serve as a buffer against the prevailing sector downcycle. In comparison, **Top Glove Corporation Bhd (HOLD, TP: RM0.89)** holds a net cash position of RM390.0m.

- **Key Risk**. i) Market intensity, ii) Low utilisation rate, iii) Higher raw material/operating cost

- **Summary**. In short, we are **Underweight** on the gloves sector. While sequential improvement in fundamentals is on the cards, improvements may be measurable over the foreseeable future. We expect stronger recovery to kick in only from 2H24 or even 2025 onwards.

Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Hartalega Holdings Bhd#	1.99	8.40	152.30	23.33	0.20	1.61	-19.10%
Top Glove Corporation Bhd*	0.775	7.00	770.00	42.13	-	0.89	14.84%

 # Hartalega Holdings Bhd data based on FYE Mar
** Top Glove Corporation Bhd data based on FYE August*
Source: Apex Securities Bhd, Bloomberg

4Q23 Strategy

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Selective buying is the key

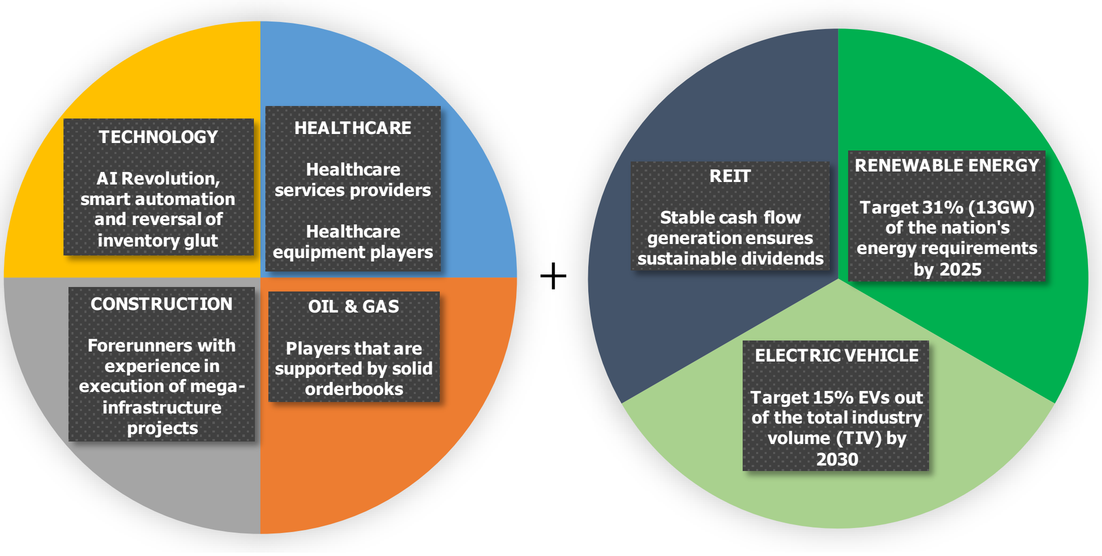
- **Balanced portfolio**. Against the backdrop of calmer market conditions, investors may adopt a blend of moderate and aggressive stance. Our preference lies within stocks with sustained earnings growth prospects. For the time being, we think that valuations in certain companies have turned much attractive and could offer some upsides after falling below their historical PER averages as well as below their book values.

- **Upsides prevails**. While the FBM Small Cap was traded in tune with the market's favour in 3Q23, we believe there are still ample of pockets of buying opportunities, given that the recent rebound has not recovered to their fair levels. However, we also think that some of these stocks could first undergo a consolidation spell after their recent sharp recovery that have left them treading near the overbought zone.

- **Rotation towards selective sectors**. Meanwhile, our preference towards rotational play will be within the **healthcare** which will ride onto the higher allocation under Budget 2024 and **oil & gas** companies as the latter saw OPEC members and Russia has extended their voluntary production cuts and resulted in the firmer crude oil prices. The **construction** sector may also warrant a look as the several mega infrastructure projects would remain on the table under Budget 2024. We reckon that the **technology** sector may come into the limelight on the back of the expectations of recovery in semiconductor sales post inventory adjustment from semiconductor players.

- **Other key themes**. The **renewable energy (RE)** sector may be in the spotlight ahead and post tabling Budget 2024 with various incentives likely to be on the cards that is in line with the government aspirations under the Malaysia Renewable Energy Roadmap (MyRER) to target of renewable energy providing 31% (13GW) of the nation's energy requirements by 2025 and 40% (18GW) by 2035. Likewise, the **electric vehicle (EV) segment** is expected to be buoyed by the Low Carbon Mobility Blueprint (LCMB) 2021-2030 to achieve at least 15% EVs out of the total industry volume (TIV) by 2030. This in turn will be supported by 10,000 units of charging facilities in 2025. In the meantime, we also favour high dividend paying stocks backed by strong cash generation such as **REIT** companies for portfolio stability as well as for a source of recurrent income stream.

Strategy Focus



Source: Apex Securities

4Q23 Top Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
AME Elite Consortium Bhd#	1.46	9.60	14.88	13.50	1.51	1.80	23.29%
Kerjaya Prospek Group Bhd*	1.21	14.72	13.18	11.08	4.96	1.52	25.62%
Hibiscus Petroleum Bhd*	1.13	5.68	5.26	5.65	0.44	1.39	23.01%
Uzma Bhd*	0.845	7.63	7.68	7.48	-	1.06	25.44%
Supercomnet Technologies Bhd*	1.32	36.34	30.00	23.16	1.52	1.84	39.39%
Umedic Group Bhd*	0.75	25.54	21.29	17.33	-	1.01	34.67%
QES Group Bhd	0.55	18.70	19.50	17.30	0.91	0.72	30.91%
Kronologi Asia Bhd#	0.41	11.60	15.70	16.10	-	0.53	29.27%
Pavilion REIT*	1.22	6.49	6.42	5.36	6.56	1.50	22.95%
Sunway REIT*	1.46	7.68	7.26	6.86	6.85	1.70	16.44%
Greatech Technology Bhd*	4.37	38	31.44	26.17	-	5.49	25.63%
Genetec Technology Bhd#*	2.39	28.86	19.12	15.93	-	4.07	70.29%
Samaiden Group Bhd#*	1.23	37.74	22.78	17.83	0.81	1.54	25.20%
Solarvest Holdings Bhd#*	1.32	28.81	29.33	23.16	-	1.46	10.61%

 # AME Elite Consortium Bhd, Genetec Technology Bhd, Solarvest Holdings Bhd data based on FYE Mar
 # Kronologi Asia Bhd data based on FYE Jan
 # Samaiden Group Bhd data based on FYE Jun
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Selected Dividend Yield Picks

Company	Price (RM) as at 29Sep23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside / Downside
Power Root Bhd#*	1.98	15.12	14.67	13.83	5.68	2.59	30.81%
Bermaz Auto Bhd#*	2.49	8.79	9.61	9.69	9.64	2.96	18.88%
Scicom (MSC) Bhd#*	1.09	12.75	12.39	10.90	7.34	1.32	21.10%
Pantech Group Holdings Bhd*	0.880	5.29	7.95	7.95	6.82	1.08	22.73%
Ranhill Utilities Bhd*	0.65	6.16	17.57	17.57	6.15	0.70	7.69%

 # Power Root Bhd data based on FYE Mar
 # Bermaz Auto Bhd data based on FYE Apr
 # Scicom (MSC) Bhd data based on FYE Jun
 # Pantech Group Holdings Bhd data based on FYE Feb
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Key Risks

- **Weak local currency**. The weakening of Ringgit against the Greenback as well as other neighbouring countries may deter foreign investments.
- **US government shutdown**. Shutdown in the world largest economy may derail global economic growth forecast.
- **Inflationary risk**. Although prices of commodities have cooled down, the rising crude oil prices may continue to deliver a ripple effect and keep pressure on the central banks across the globe to tame inflation.
- **Elevated interest rates.** Corporate profits forecasts may get discounted at higher rates.
- **Wobbly economic outlook at our eastern counterpart.** China is deemed to be one of the largest trade partners to Malaysia. Slowdown in economic activities in the aforementioned country may result in weaknesses from external demand.

FBM KLCI Technical Outlook

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Change of tides

Source: Bloomberg

- **Sustained downward pressure in 2Q23**. The FBM KLCI encountered significant challenges in 2Q23 as the key index touched the support level for the year at 1,369.41 pts. This downturn can be attributed to the sustained selling pressure that carried over from the previous quarter in 1Q23 and was further exacerbated by a weaker regional market performance. The roots of this regional slump can be traced to the negative performance of Wall Street, which was driven by concerns among investors regarding high interest rates.

- **Turnaround progress in 3Q23**. However, there was a notable turnaround in early 3Q23 when Bursa Malaysia witnessed a resurgence. The index exceeded the 1,400 level and made substantial progress by breaking through the immediate resistance at 1,435 pts. This recovery was underpinned by robust support from local institutional investors and sustained foreign fund inflows, ultimately resulting in an impressive 3.4% surge in FBM KLCI during 3Q23.

- **Near term consolidation**. As the key index gained momentum, it eventually entered a consolidation phase, oscillating within the 1,435 to 1,466 range ahead of the state election in mid-August. Despite the recent recovery, it is noteworthy that FBM KLCI continues to exhibit a downward trajectory over the longer term.

- **Outlook turns promising**. Despite that, prospects appear to be more promising as we monitor for a potential breakout above the current downtrend channel. The first resistance level to located at 1,501 pts, followed by 1,557 pts. This anticipated positive outlook is further complemented by the anticipation of Malaysia's Budget 2024 presentation in October 2023.

- **Technical viewpoint is mixed**. The Moving Average Convergence Divergence (MACD) is trending below its Signal line and is within the negative region, signifying potential bearish momentum. However, the Relative Strength Index (RSI) is above the 30-point mark and above the oversold region, indicating growing investor confidence and a potential recovery in the near future. For moving average, the 50-day moving average has crossed above the 100-day moving average which indicate a near-term bullish momentum. Any recovery above the 100-day moving average will reinforce its strong support level. Meanwhile, should the 100-day moving average crosses above the 200-day moving average, it could be the signal for initial bullish impulsive wave. For now, the 1,417 pts proves to be the near-term support level which aligns with 50.0% Fibonacci Retracement level for the index. However, should the aforementioned level fail to hold, the next support is pegged at 1,391 (75% Fibonacci Retracement level)

APEX SECURITIES BERHAD

4Q23 Technical Pick

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Globetronics Technology Bhd

Analysis: Price has breakout above the triangle pattern and rebounded from the 50-day moving average.

Strategy: Accumulate around RM1.44-RM1.53

Target Price: TP1-RM1.71, TP2-RM1.88

Stop Loss: RM1.35

Toyo Ventures Holdings Bhd

Analysis: Price has breakout above the minor downtrend line. Price has rebounded from the moving averages and rejected multiple times at the 61.8% Fibonacci retracement level.

Strategy: Accumulate around RM1.35-RM1.40

Target Price: TP1-RM1.65, TP2-RM1.94

Stop Loss: RM1.17

Eco World Development Group Bhd

Analysis: Formed a cup and handle pattern and recently established a new higher high as well as tested the previous base, after rejecting the 50-day moving average.

Strategy: Accumulate around RM1.08-RM0.99.

Target Price: TP1-RM1.20, TP2-RM1.26

Stop Loss: RM0.905

Mi Technovation Bhd

Analysis: Price notched a new higher high after breaking above the resistance of RM1.69. Additionally, the stock has formed a role reversal formation of resistance-become-support and could maintain its uptrend momentum.

Strategy: Accumulate at the market base of RM1.70-RM1.60.

Target Price: TP1-RM1.78, TP2-RM1.89

Stop Loss: RM1.59

Evergreen Fibreboard Bhd

Analysis: Formed a rounding bottom in the 1H23 and broken the downtrend line coupled with the formation of new higher high. The stock is currently trading above all its moving averages. The initial impulsive wave could sustain if price extends its uptrend momentum to break above the RM0.38.

Strategy: Accumulate at the market base of RM0.345-RM0.325.

Target Price: TP1-RM0.38, TP2-RM0.425

Stop Loss: RM0.31

APEX SECURITIES BHD – CONTACT LIST

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER