1H24 Market Strategy

Kenneth Leong
kenneth.leong@apexsecurities.com.my

Ascending into the Year of Dragon

Summary

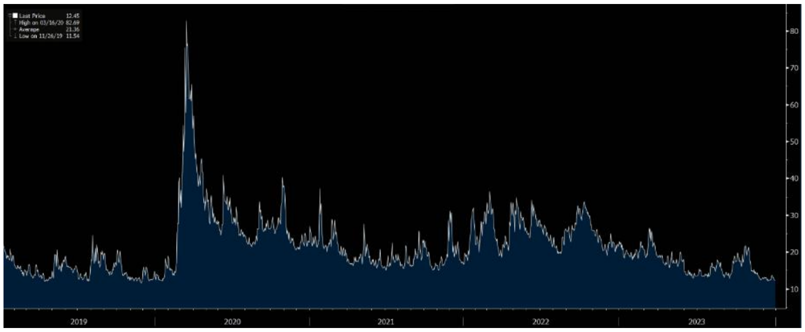
- **Execution of key blueprints laid out in 2023 will be the key focal point to drive economic reformation, while the prospects of corporate earnings growth will entice market participants into the equity markets.**
- **Amidst the prospects recovery alongside with interest rate cuts from US that may drive investor back into emerging markets, we advocate investors to turn slightly aggressive with selective sector to be in focus such as construction, property, technology and healthcare.**
- **We also favour the renewable energy (RE) sector on the back of the various incentives to spur business to adopt more green and sustainable measures, coupled with tourism sector that will ride onto the full-blown recovery in global travel.**
- **Our 2024F and 2025F year-end target for FBM KLCI are 1,560 and 1,650 respectively, based on assigned 14.0x PE multiple.**

Global Markets Review

- **Global markets review**. Global markets shifted into higher gear and subsequently ended the year on an upbeat tone. The said improvement was largely fuelled by optimism surrounding the more dovish tone over prospects of future interest rate cuts set by the US Federal Reserve, coupled expectations that the world largest economy may be able to pull off a soft landing. At end-2023, the Federal Reserve kept their benchmark interest rates unchanged for the third straight time; signalling that the aggressive rate hikes campaign is at tail-end.

- **Optimism on the cards.** Volatility briefly took control at the start of the final quarter of the year following the hotter-than-expected inflation data, coupled with the brief escalated geopolitical tension in Middle East. Since then, US equities charged higher and is hovering at all-time high levels with the CBOE Volatility Index dwindled to the lowest level since end-2019. Investors cheered on expectations that the prospects of interest rates cut may lend strength to riskier assets such as cryptocurrency whereby Bitcoin rallied some +56.45% qoq in 4Q23 to end the year sharply higher at US$42,218.56 (+154.82% yoy).

CBOE Volatility Index



Volatility softened to near 5-year low

Source: Bloomberg

- **Wall Street performance**. The Dow remained downbeat at the start of the final quarter of 2023, falling -1.36% mom in October 2023 on the back of the rising geopolitical uncertainties in the Middle East. However, a swift rebound took place with the Dow soaring +8.77% mom in November 2023; consequently, recouping all 3 months of decline before adding +4.84% in December 2023. All-in-all, the Dow rose +12.4% qoq in 4Q23 to end 2023 on a positive note (+13.70% yoy) at 37,689.54 pts. Likewise, the S&P 500 finished at 4,769.83 pts (+11.24% qoq), driven by slight uptick in EPS that rose +2.01% qoq and bargain hunting from the attractive valuations. Although the S&P 500 took several upward strides to hover near all-time high level, we gather that valuations are still fairly attractive with the S&P 500 trading at prospective forward P/E of 17.7x for 2024F; which is still slightly below the historical five-year average of 22.1x.

- **Regional markets 2023 performance recap**. Asia Pacific regional stockmarkets closed fairly mixed as the sluggish Chinese economic data continues to weigh down related markets, while Japanese equities staged a pullback after delivering one of the best performances in ten years. Both China and Hong Kong stockmarkets that ended relatively weaker on the back of the sluggish Chinese economic recovery post Covid-19 staged a late rebound towards end-2023 after the Chinese government pledged to step up their fiscal policy to spur economic growth on 2024. Notably, the Jakarta Composite Index gained +11.98% yoy as the basic materials industry continues to attract foreign direct investment (FDI). On the flipside, the Stock Exchange of Thailand (SET) tumbled -15.15% yoy, dragged down by selling pressure from foreign investors that offloaded approximately US$5.60bn in equity value.

Selected Global & Regional Markets Performances

	4Q23 QoQ	2023 YoY	2022 YoY	2021 YoY
MSCI World Index	10.7%	**20.1%**	**-19.8%**	**16.8%**
Dow Jones	12.5%	13.7%	-8.8%	18.7%
FTSE	1.6%	3.8%	0.9%	14.3%
DAX	8.9%	20.3%	-12.3%	15.8%
CAC	5.7%	16.5%	-9.5%	28.9%
Nikkei	5.0%	28.2%	-9.4%	4.9%
Hang Seng	-4.3%	-13.8%	-15.5%	-14.1%
ASX All Ordinaries	8.0%	8.4%	-7.2%	13.6%
Shanghai Composite	-4.4%	-3.7%	-15.1%	4.8%
FBM KLCI	2.1%	-2.7%	-4.6%	-3.7%
FTSE STI	0.7%	-0.3%	4.1%	9.8%
Jakarta Composite Index	4.8%	6.2%	4.1%	10.1%
Stock Exchange of Thailand	-3.8%	-15.2%	0.7%	14.4%

** Data as of 31st December 2023*
Source: Apex Securities, Bloomberg

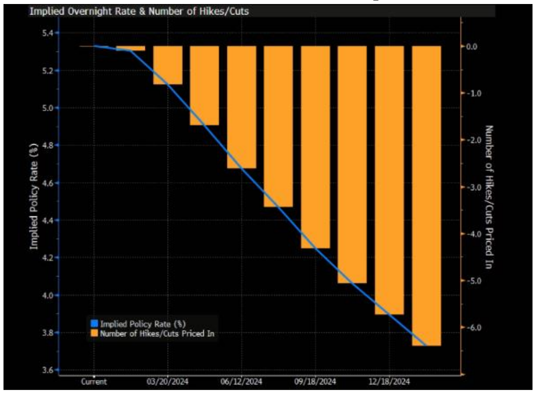
Global markets mostly improved

Global Markets Outlook

- **Further upside remains on the table**. As we move into 2024, we reckon that upsides are still present on the table. Globally on the MSCI All World Index, forward earnings are expected to see further improvement with expectation of +10.46% yoy global earnings growth in 2024F. The said improvement will be propelled by the strength of global economy growth that will be driven by revolution of technology such as artificial intelligence (AI) alongside strong government spending in healthcare and financials sectors as well as measures to incentivise energy transitions.

- **Interest rate upcycle at tail-end**. Going forward, expectations of further interest rate hikes are off the table for the time being. For now, consensus is pointing towards three potential rate cuts from the US Federal Reserve with the first as early as 1Q24. Still, any potential rate cuts will be very much data dependent onto several key aspects such as inflation, GDP growth, jobs data and production data. Central bankers across the globe will remain active in juggling between the risk of monetary tightening, keeping inflation at desirable levels and ensuring sustainable economic growth. On our end, we expect one potential rate cut in 1H24 and another two in 2H24, depending on economics data. While interest rates cuts may deepen into 2H24, we reckon that the moves will be measured in bid to keep inflation at bay.

US Fed Interest Rates Expectations



Interest rate cut prognosis may come in as early as 1Q24

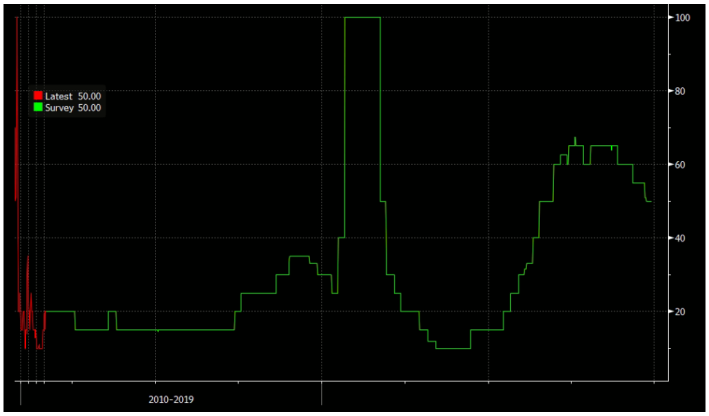
Source: Bloomberg

- **Forward valuations are slightly attractive**. Although global markets fared mostly well in 2023, global equities' (MSCI All World Index) valuations are slightly appealing with forward P/E trading at 16.8x and 15.2x for 2024F and 2025F 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 +10.46% yoy for 2024F. Coming closer to 1H24, consensus is pointing towards marginal improvement with expectations that the S&P 500 earnings growth were to chalk in +5.95% improvement in 1H24F.

- **Regional markets may continue to remain volatile**. Meanwhile, Asia Pacific equities are expected to remain choppy in view of the uncertainty surrounding the pace of China economic growth. With the prospects of interest rate cuts in US, foreign funds may tilt their heads to emerging markets, owing to several factors (i) recovery in emerging market currencies, (ii) attractive valuations with regional markets are lagging behind the strong up strides undertaken by Wall Street in 2023 and (iii) more stability in geopolitical scene across several neighbouring countries. Still, we opine that any anticipated upsides will be measured and met by a rocky road ahead in view of the lack of fresh domestic catalysts.

- **Recession risk is cooling off**. We gather that economists' consensus view over the risk of recession for the next 12 months is cooling off to 50%, owing to multiple factors such as the (i) tapering of inflationary pressure, (ii) prospects interest rate cuts to shore up economic growth, (iii) declining US treasury yields (although it is still inverted) and (iv) rapid evolvement of technological advancements. Still, we remain no change in our view that a soft landing may take place if recession looms, in view of the expansionary economy that is supported by strong jobs data and healthy consumer spending.

US Risk of Recession Expectations



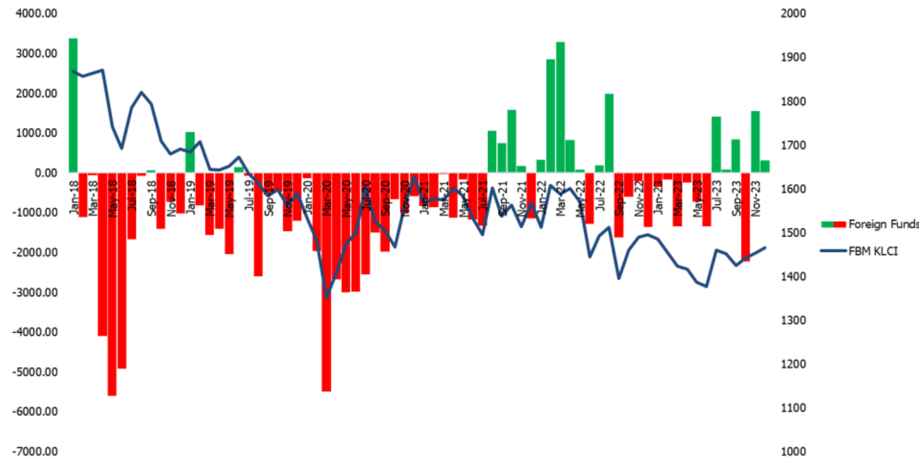
Risk of recession is cooling off

Source: Bloomberg

Malaysia Market Review

- **A tale of two halves**. After a lacklustre performance in 1H23, Malaysia equities have turned fairly upbeat, with investors nibble onto beaten down stocks. Much of the improvement was attributed to some certainty in political scene following the status quo outcome from the six state elections held on 12 August 2023. With political uncertainty took a backseat, coupled with the tabling of Budget 2024 which signals a steadfast commitment towards fiscal consolidation, signs of foreign funds returning to the local scene were noticeable in recent months. Still, foreign funds remained in the net selling position with outflow of RM2.29b throughout 2023. Consequently, the FBMKLCI fell -2.73% yoy in 2023.

Bursa Malaysia Foreign Fund Participants vs FBM KLCI



Return of foreign funds in 2H23 was not able to uplift the FBM KLCI into positive territory

Source: Apex Securities, Bloomberg

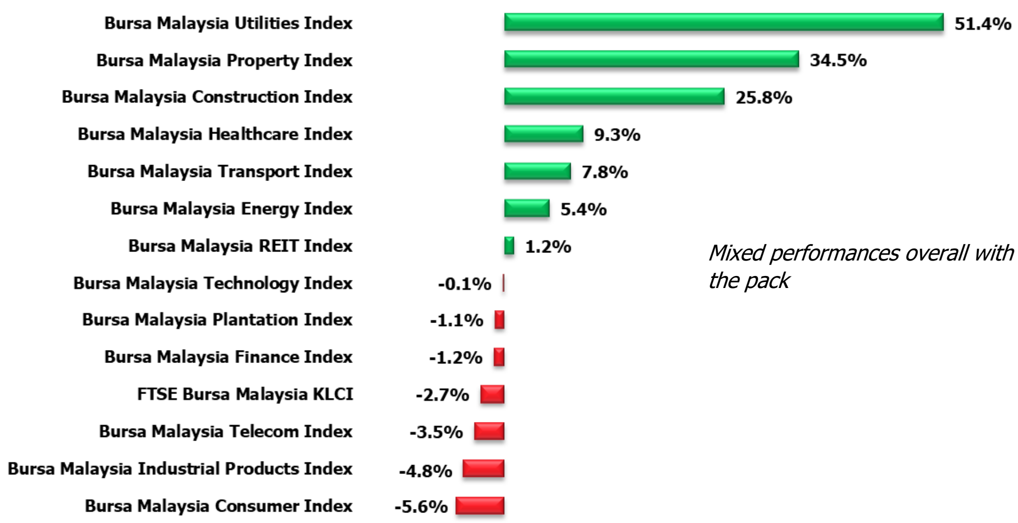
- **Budget 2024 geared towards a balance between strengthening of economic growth and fiscal consolidation**. We expect some challenges to take place with consumer spending likely to take a hit on the subsidy rationalisation. Still, consumers will gradually come to terms of the new implementation. For now, further clarity over subsidy rationalisation (timing of implementation and further details) will be the key focus. Already, the floating of chicken prices proves to be an effective measure since 1 November 2023. With the stability of political landscape (at least in coming years), we opine that acceleration of mega infrastructure projects will be one of the key domestic catalysts for 2024.

- **Supported by strong labour force and stability in key commodities prices**. While subsidy rationalisation will take shape, the introduction of EPF Account 3 will provide some alleviation to the aforementioned impact onto consumer spending. Labour force remains healthy with unemployment rate held steady at 3.4% at end-2023, but challenges remain on the fore over upskilling of human capital in bid to improve competitiveness and consequently improve wages growth. Meanwhile, commodity prices were traded in decent levels with crude palm oil averaging at approximately RM3,800/MT and Brent crude oil price averaging slightly above US$80/bbl throughout 2023.

- **FBM KLCI biggest movers**. In 2H23, Sime Darby Bhd (+19.38%) continues to lead the local bourse winners list following the M&A with UMW Holdings Bhd. Notably, Genting Berhad and Genting Malaysia Berhad added +13.17% and +11.49% respectively, riding onto the full-blown re-opening of economic activities. On the other end, Axiata Group Berhad (-8.99%) underperformed after delivering weak set of financial performance from asset impairment due to the reclassification of Ncell as an asset held for sale following the group decision to exit Nepal.

- **Positive sentiment driving trading activities**. The number of initial public offerings (excluding LEAP Market Listing) in 2023 stood at 33 companies against 30 companies listed 2022. Meanwhile, average daily traded volumes stood at 3.26bn shares, up from 2.82bn shares recorded in 2022, owing to the stability of market, particularly towards 2H23 that prompt investors to nibble onto beaten down shares. However, average transacted value was relatively unchanged at RM2.05bn, from average RM2.06bn recorded in 2023 as larger cap stocks turned less attractive which was evident with the foreign fund outflow of RM2.29bn in 2023. On the retail segment, total transacted valued in 2023 stood at RM262.61bn vs. RM262.47bn recorded in 2022.

Bursa Malaysia 2023 Sector Performances



Mixed performances overall with utilites sector leading the pack

Source: Apex Securities, Bloomberg

Malaysia Market Outlook

- **Recovery extending into 2024**. While it appears that the year-end window dressing activities has taken a pause, we reckon that any pullback will be quickly met by bargain hunting activities. The calmer market conditions will present trading opportunities as the key index remains largely in tune with overseas developments. We see this trend to linger overtime as market sentiment is expected to be generally on recovery mode over 1H24. Towards the end of 1H24, we reckon volatility may take again, ahead of the US Presidential election.

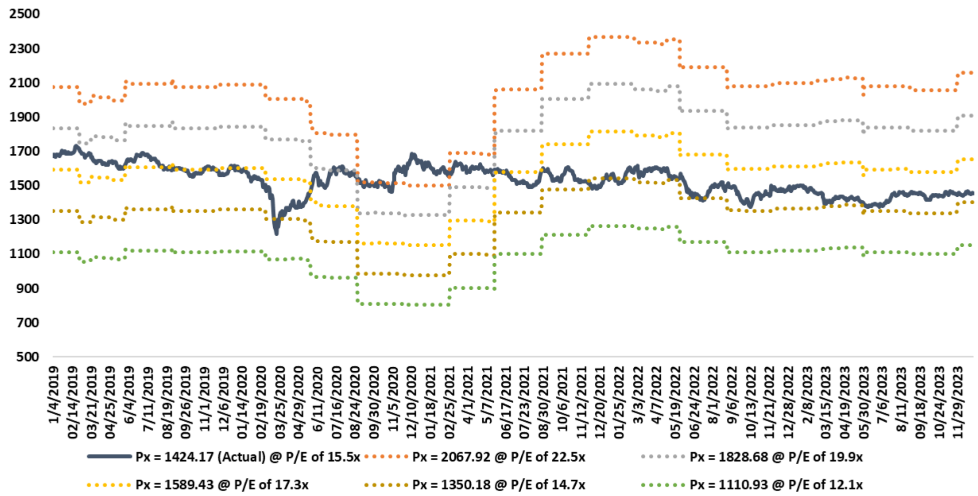
- **Prospects of Ringgit improvement to draw foreign funds.** With the prospects of interest rate cut from the US Federal Reserve, the move is expected to be favourable for Ringgit Malaysia as the US-Malaysia interest rate gap narrows and we reckon Bank Negara may stay pat onto the interest rate in 1H24. We also expect the execution of blueprints laid out such as the National Energy Transition Roadmap, New Industrial Master Plan 2030 and the 12th Malaysia Plan mid-term review may provide impetus towards the recovery of Ringgit and domestic economic growth.

- **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 to remain in focus**. 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, Malaysia equity markets are still expected to remain attractive in search for higher yields return.

- **Blue chip or Blue cheap?** At present, Malaysian stocks remain slightly undervalued with FBM KLCI trading at PERs at 13.1x and 12.3x for 2024F and 2025F respectively. The PERs are slightly below historical 5-year forward average of 17.2x, implying potential upsides in our view. Our 2024F and 2025F year-end target for FBM KLCI are 1,560 and 1,650 respectively, based on assigned 14.0x PE multiple. Given the calmer market conditions, we reckon that the prospects of earnings growth remain on the cards (2024F EPS projected to grow +11.6% yoy) may present some investment/trading opportunities.

5-Year Historical FBM KLCI PE Band



FBM KLCI still in discount against long term historical average PE

Source: Bloomberg, Apex Securities

4Q23 Economic Review & Outlook

Jayden Tan
kdtan@apexsecurities.com.my

External trade to drive 2024 economic growth

Malaysia 2023 Economy Review

Supply side							
	QUARTERLY						
SECTOR (YoY/%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Agriculture	0.2	-2.4	1.2	1.1	0.9	-1.0	0.8
Mining and quarrying	-1.1	-0.5	9.2	6.8	2.4	-2.3	-0.1
Manufacturing	6.6	9.2	13.2	3.9	3.2	0.1	-0.1
Construction	-6.2	2.4	15.3	10.1	7.4	6.2	7.2
Services	6.5	12.0	16.7	8.9	7.3	4.7	5.0

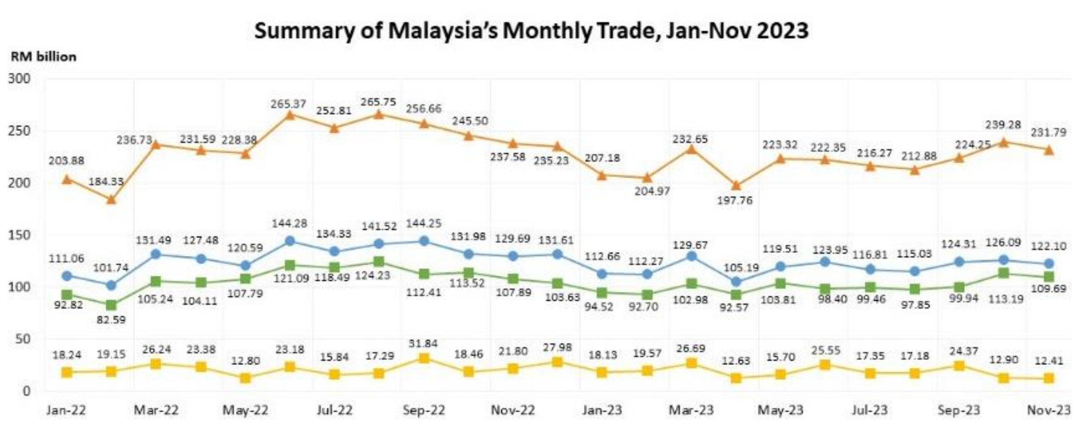
Demand Side							
	QUARTERLY						
(YoY) (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
GDP Growth	5.0	8.9	14.2	7.0	5.6	2.9	3.3
Public Consumption	6.7	2.6	4.5	2.4	-2.2	3.8	5.8
Private Consumption	5.5	18.3	15.1	7.4	5.9	4.3	4.6
GFCF (Investment)	0.2	13.1	5.8	8.8	4.9	5.5	5.1
Exports	8.0	10.4	23.9	9.6	-3.3	-9.4	-12.0
Import	11.1	14.0	24.4	8.1	-6.5	-9.7	-11.1

Source: DOSM, Apex Securities

- **2023 GDP review.** Malaysia's economy in 2023 experienced lackluster growth, with a 9MCY23 GDP growth of 3.9% yoy (compared to 9.2% yoy in 9MCY22). The slowdown was primarily drag from weakening external trade and demand, reflected in both exports (-8.2% yoy) and imports (-9.1% yoy). However, domestic demand remained robust, particularly driven by strong household spending (+4.9% yoy), supported by improving job market (latest unemployment rate: 3.4%) and increasing wages (rising from 4.8% in 2022 to 5.0% in 2023). Economic growth in FY23 was primarily supported by the (i) Services sector, with enhancements in both consumer and business-related services, and the (ii) Construction sector, benefiting from extensive infrastructure projects and smaller-scale initiatives.

- **Moderating inflation**. The headline inflation in 2023 year-to-date moderated to +2.6% yoy, primarily attributed to easing input costs, commodities, and the high base effect. However, the inflation rate remained higher than long-term average of 2.0%. The forecast for the full year 2023 headline inflation is maintained at +2.6% yoy, reflecting a moderation from +3.4% yoy in 2022.

- **Struggling external trade**. Malaysia's external trade decelerated in line with the worldwide economic slowdown. This performance is consistent with the negative growth recorded in the imports data of Malaysia's major trading partners, including Korea, China, and Indonesia.



Source: MATRADE

- **Weakness of Ringgit against USD**. The Malaysian Ringgit has depreciated approximately 4.1% yoy in 2023 against the USD. This depreciation is mainly attributed to the hawkish stance of the Federal Reserve (FED) in 1H23 and a weaker-than-expected recovery from China's economy, a significant trade partner for Malaysia.

- **OPR rate.** The Malaysia central bank has maintained the Overnight Policy Rate (OPR) at 3.0% in the latest Monetary Policy Committee (MPC) meeting on 2nd November 2023, highlighting the central bank's commitment to spur economic growth, rather than prioritising the defence against the local currency's depreciation.

- **Budget 2024.** Budget 2024 announced in October 2023 with the theme "Economic Reforms, Empowering People," involves a record-high allocation of RM393.8bn. Several measures were introduced, including subsidies rationalisations and tax hikes, signalling a commitment to fiscal consolidation that is set to impact the economy in 2024.

Malaysia 1H24 Economy Outlook

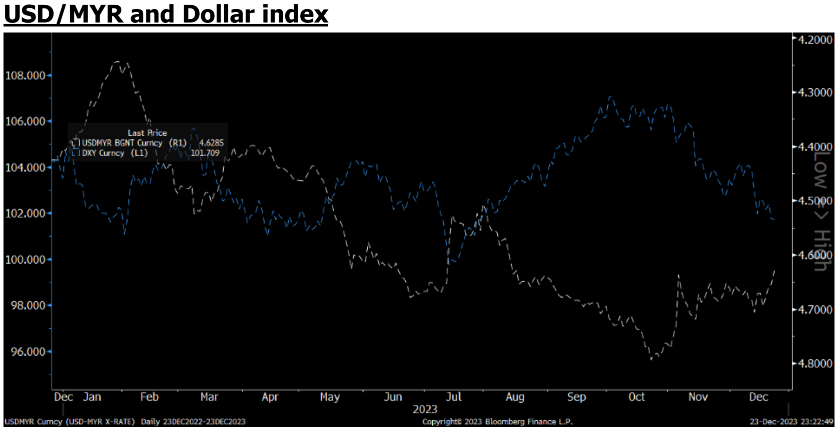
- **Reasonable growth**. Moving into 2024, the government expresses confidence in achieving a 5.0% yoy GDP growth projection through the MADINI economic reformation. However, our internal forecast for Real GDP in 2024 suggests a relatively moderate growth of +4.1% yoy. Our expectations are backed by an anticipated recovery in external trade and an increase in Foreign Direct Investment (FDI). Nevertheless, the growth outlook may be tempered by the expected slowdown in domestic demand, attributed to several tax hikes and introductions, including an increase in the SST to 8.0%, higher excise duties on tobacco and sugar-contained beverages, subsidies rationalisations, and the lifting of price ceilings in certain items.

- **External trade recover.** Key driver for the 2024 economic growth forecast would be the pickup in external trade. We anticipate external trade performance will gradually recover in 2024, supported by improved economic prospects among major trade partners, especially China, and a general uptick in global trade. This comes after a sluggish performance in 2023.

- **Expecting higher inflation.** During the tabling of Budget 2024, several measures, including the hike of SST to 8.0%, higher excise duties on tobacco and sugar-contained beverages, subsidies rationalisations, and lifting of price ceilings in certain items, are expected to set the stage for higher inflation and elevate living costs in 2024. Our 2024 CPI forecast stands at +3.2% yoy, compared to the government's forecast range of 2.5%-3.0%.

- **Ringgit to strengthen.** Over the course of 2023, the MYR depreciated against the USD. Moving forward in 2024, we opine that the trend will reverse. The potential reversal is supported by anticipation of a stronger current account surplus, driven by the gradual recovery in exports and an increase in inbound tourists. Additionally, factors such as a reduction of fiscal deficit target in Budget 2024 (targeting 4.3%), efforts to attract higher FDI by the Prime Minister, and a dovish stance by the US Federal Reserve may contribute to improve outlook.

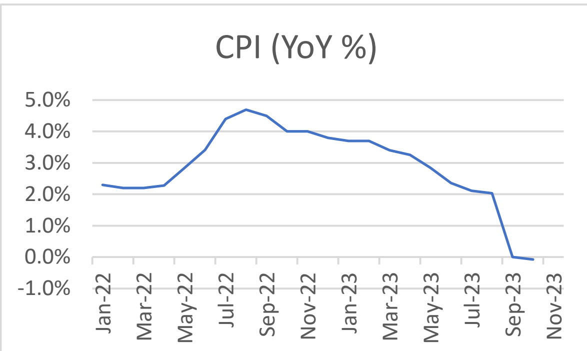
USD/MYR and Dollar index



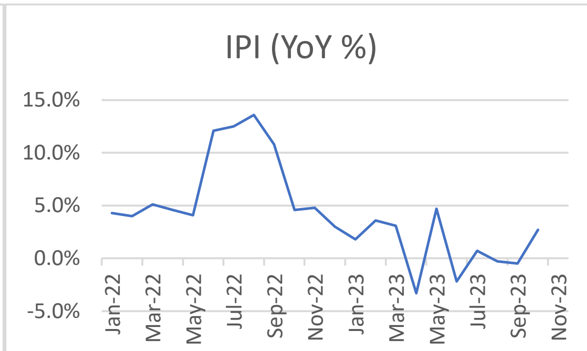
Source: Bloomberg

- **OPR forecast.** With the US Federal Reserve signaling the tail-end of interest rate hike cycle and signally the possibility of three potential cuts in 2024, we anticipate that BNM will maintain the OPR at 3.0% as the terminal rate before a potential cut to occur in 4Q24. Our outlook suggests there will be only one cut to the OPR, likely happening towards the end of the year, in contrast to the three cuts expected in the US. This stance is supported by a firm domestic economic and inflation environment.

CPI Data

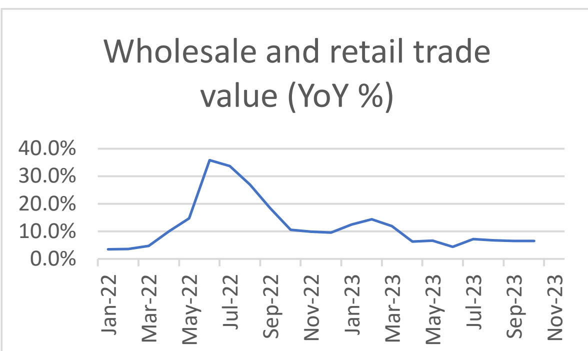


IPI Data

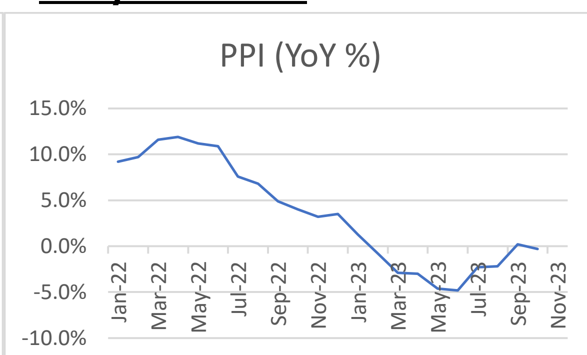


Source: Source: DOSM, Apex Securities

Wholesale and Retail Trade Volume

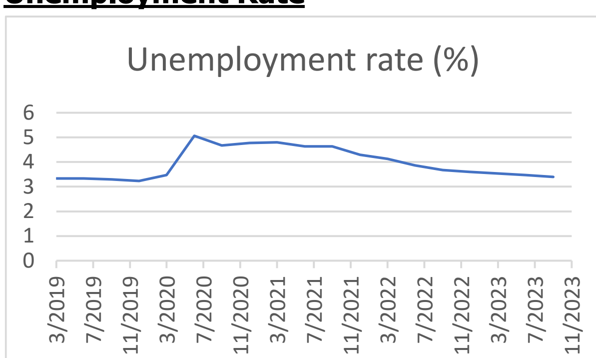


Malaysia PPI Data



Source: Source: DOSM, Apex Securities

Unemployment Rate



Source: Source: DOSM, Apex Securities

Sector Updates

Construction sector

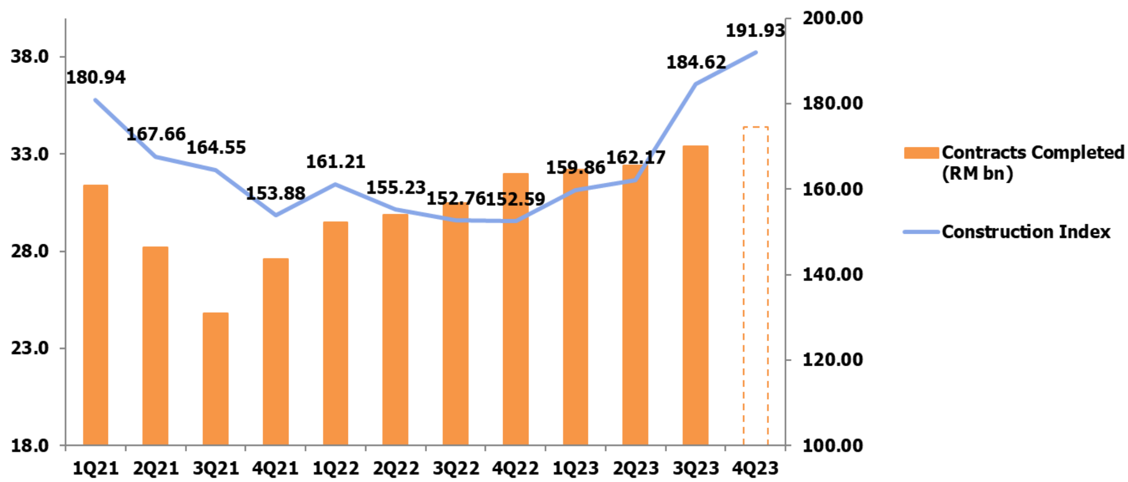
Kenneth Leong
kenneth.leong@apexsecurities.com.my

Full steam ahead

- **Review**. The construction sector remained upbeat of growth (+9.6% yoy) in 3Q23 with value completed totalling RM33.4bn, driven by civil engineering (+17.1% yoy) from the construction of road and railways, special trades activities (+16.2% yoy) and residential buildings (+7.9% yoy) that got the better of -0.7% yoy decline in the non-residential buildings. Meanwhile, the private sector makes up to 58.5% or RM19.6bn of the market share, while the remainder (41.5% or RM13.9bn) was contributed from the public sector.

- Along with the recovery in construction activities, the construction index registered +25.8% yoy gains to close at 191.93 pts in 2023. The said improvement came despite slightly softer earnings delivered within the construction sector in 3QFY23 which recorded core EPS of 3.60 sen vs 3.71 sen in 2QFY23. Still, consensus is pointing towards solid improvement in 4QFY23 with core earnings expected to record 4.63 sen.

Historical Value of Contracts Completed vs Construction Sector Index



Source: Department of Statistics, Apex Securities

- **Outlook**. We expect the construction sector to shift into higher gear, moving into 2024 as we political uncertainties took a back seat following the favourable outcome from State elections. Driving the construction sector would be acceleration of mega infrastructure projects in the pipeline as well as the upward revision of allocation for development expenditure under the 12th Malaysia Plan mid-term review in bid to spur the Malaysia economic growth. Among the mega infrastructure projects to keep an eye for include East Coast Highway 3, flood-mitigation projects, the West Coast Expressway, the East Coast Rail Link, the Central Spine Road, Mass Rapid Transit 3 (MRT3) which is expected to take off in 1Q24, Bayan Lepas Light Rapid Transit (BLLRT) in Penang, Pan Borneo Highway (Sabah section), and Johor-Singapore Rapid Transit System.

- Elsewhere, the construction activities under private sector are expected to remain vibrant, premised to the revolution of technological advancement which resulted in mushrooming of data centres, warehousing facilities as well as construction of new semiconductor plants. Key initiatives to tackle the housing affordability will also benefit small-mid scale contractors with experience within the space. We expect the construction sector to see sequential improvement with construction contracts value hitting RM34.0bn in 4Q23.

- **Valuation & Recommendation**. We gather that the construction sector is trading at forward PERs of 12.7x and 11.6x for 2024F and 2025F is below its historical two-year average of 15.0x implies potential upside over the foreseeable future. Under our coverage universe, we favour **AME Elite Consortium Bhd (BUY; FV: RM1.80)** for its established presence in the industrial building development that will be leveraging onto the construction of new manufacturing facilities and rising foreign direct investment into the country. Meanwhile, the group is also touted as one of the indirect beneficiaries from China Plus One strategy.

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

- **Summary.** We think that the construction sector outlook will remain vibrant, premised to the re-iteration of big-ticket items under Budget 2024. Consequently, we remain **Overweight** on the construction sector, as we view that the construction sector will play an integral role for Malaysia to transform into a high-income nation as early as 2026.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	P/E (x) 2024F	P/E (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
AME Elite Consortium Bhd#	1.67	10.55	11.97	11.98	1.80	1.95	16.8%
Kerjaya Prospek Group Bhd*	1.55	14.49	11.48	10.84	5.03	1.67	7.7%
Gamuda Bhd*	4.59	16.87	12.61	10.77	2.61	5.35	16.6%
Sunway Construction Bhd*	1.94	17.96	15.40	14.37	3.20	2.10	8.2%

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

Property sector

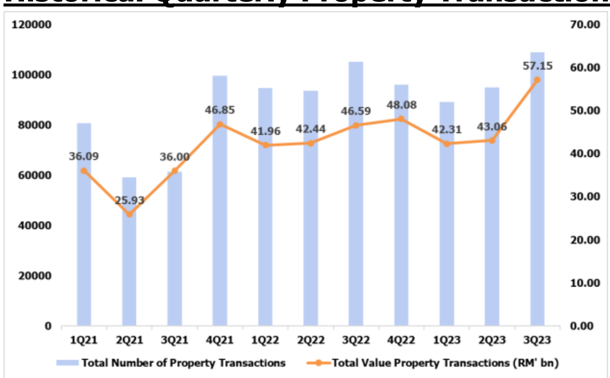
Kenneth Leong
kenneth.leong@apexsecurities.com.my

Recovery on the cards

- **Review**. The property sector recorded another decent quarter according to Valuation and Property Services Department (JPPH) with total property transactions valued climbed 22.6% yoy to RM57.15bn in 3Q23. Meanwhile, volume transacted also grew 3.7% yoy to 108,955 units. On the breakdown, residential sub-sector registered 62.9% of total transactions, followed by the agricultural subsector (18.5%) and the combination of trade subsector and other subsectors (18.6%). During the quarter, new residential launches rose to almost 6,900 units vs. close to 4,800 units in 2Q23, while sales of new launches increased to 37.6% against 24.7%, highlighting the stability of housing demand. At the same time, average property price to transaction also improved to RM524,528/unit which was the highest since 3Q21.

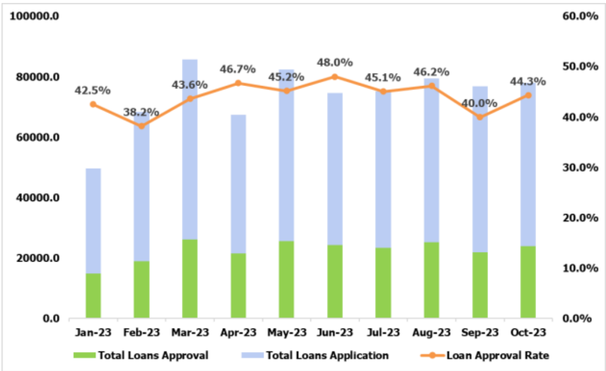
- Meanwhile, we gather that the stability loan approval rate averaging at 44.0% in 11M23 ensures sustainability. On the overhang or unsold completed houses, we noticed improvement with 3.7% decline in terms of volume to 25,311 units as the cautious approach from property players ensures unsold units gradually absorbed into the market. After anchoring the winners list in 3Q23, profit taking activities emerged with the property index fell (-1.5% qoq) to close at 862.11 pts. The sharp appreciation has led to valuations turning fair as investors locked in recent profits. Still, the property sector delivered a solid performance throughout 2023, registering 34.5% yoy gains

Historical Quarterly Property Transactions



Source: NAPIC, Apex Securities

Historical Monthly Loan Statistics



Source: BNM, Apex Securities

- **Outlook**. The Malaysia property sector may continue to remain stable, driven by healthy loan applications which signals demand remain fairly solid. Property players are expected to remain prudent over future launches in bid to avoid flooding the market and increase the overhang units. We expect interest to pick up within certain states such as Johor, Klang Valley and Penang, mainly driven by improving connectivity.

	Johor	Klang Valley	Penang
Key Catalyst	• Construction of Rapid Transit System (RTS) link that is slated for completion in 2026	• Potential revival of High-Speed Rail • Rapid urbanisation	• Development of Penang Transport Master Plan

Source: Apex Securities

- As at 1H23, we gather that Malaysia household debt-to-GDP ratio remained stable at 81.9%, supported by stable employment growth. Still, the aforementioned ratio is worrying as Malaysians will be bracing with the rising cost of living from several tax reformations underlined in Budget 2024. At the same time, wages growth remained fairly stagnant which limits the ability to undertake further gearing. Given that futures OPR hikes remains off the table, prospective purchasers would be able to make long-term plans and quick decisions in regards to loan applications.

- **Valuation & Recommendation**. We continue favour property players that sits on strong balance sheet and is equipped with good traction of township developments such as **OSK (NR)**, **MATRIX (NR)** and **SUNWAY (NR)**. Meanwhile, our top picks are **LAGENDA (BUY; FV: RM1.63)** for its strong exposure in the affordable housing segment which is strongly aligned with the mass market demand and **SKYWOLD (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 forward PB for the property sector is trading at 0.5x for 2024F 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.** Although the property sector turns slightly more favourable, the pace of recovery will be measured as the overhang situation remains in the bigger picture as well as rising material and operational costs which may impact bottomline margins. Consequently, we remain **Neutral** on the property sector on the back of the (i) stability in demand for residential properties particularly for units priced below RM500,000, (ii) improved demand for industrial properties as a proxy to rising foreign direct investment (FDI) following the US-China trade diversion and (iii) supportive measures from government to aid first time home buyers.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Lagenda Properties Bhd	1.24	6.65	4.92	4.56	5.08	1.43	15.3%
Skyworld International Bhd#	0.55	3.82	4.87	4.18	4.73	1.07	94.5%
OSK Holdings Bhd*	1.24	5.39	5.17	4.96	5.65	1.77	42.7%
Matrix Concepts Holdings Bhd*#	1.65	8.51	7.75	7.57	6.18	1.87	13.3%
Sunway Bhd	2.06	16.75	14.82	13.83	2.72	2.39	16.0%

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

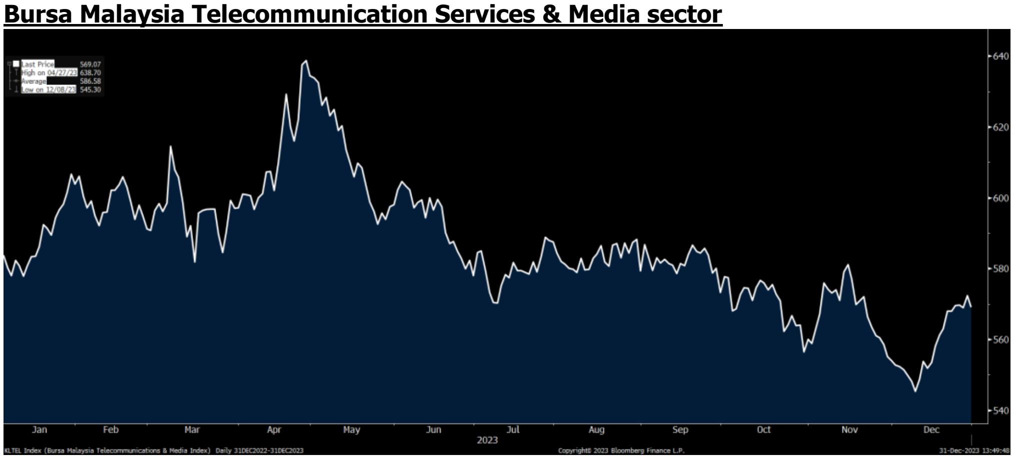
Telecommunication Sector

Lee Cherng Wee
leecw@apexsecurities.com.my

Gearing up for 5G

- **Review**. Bursa Malaysia Telecommunication Index has been on a downtrend since coming off its peak of near-640 pts in April 2023. However, the index saw some bargain hunting and rebounded off its bottom of 545 pts in December 2023 to 570 pts.

Bursa Malaysia Telecommunication Services & Media sector

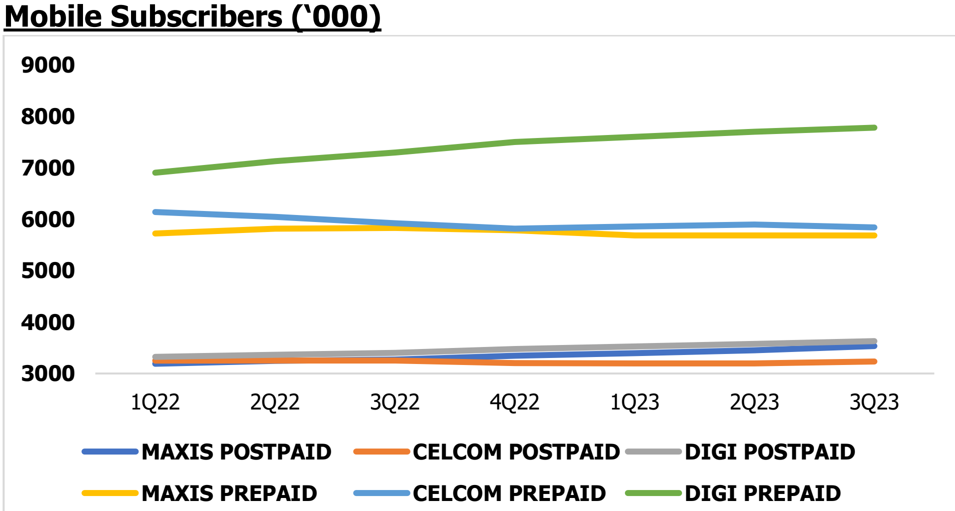


Source: Bloomberg

- 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.

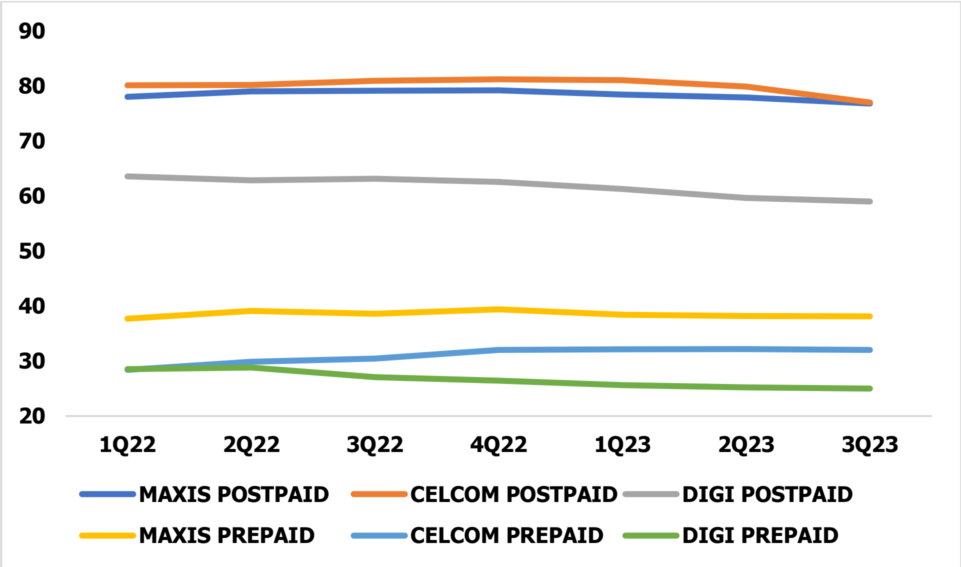
- 3Q23 results were filled negative surprises from Maxis's VSS and Axiata's impairment on Nepal while CelcomDigi posted better earnings. Moving forward, 4Q23 earnings could be lifted by rebound in device sales with the launch of iPhone 15. For 2024, we expect competition to intensify in the home fibre segment after U-Mobile teamed up with TIME to introduce fibre packages from 100Mbps at RM79/month.

Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

APRU (RM)



Source: Maxis, CelcomDigi

- **Outlook**. In early December, all five major telcos (Maxis, CDB, YTL, U-Mobile and TM) have signed share subscription agreements to take up 14.0% equity stakes each in Digital Nasional Bhd (DNB) for RM233.0m. This will pave way for DNB to achieve its target of 80% coverage next year. 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 is **Telekom Malaysia Bhd** backed by its market leadership in the home fibre segment where it is operating in a less competitive landscape against the mobile segment.

- **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 31Dec23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Telekom Malaysia Bhd	5.55	18.38	11.53	14.35	3.60	6.50	17.1%
CelcomDigi Bhd	4.08	25.46	28.27	19.44	3.92	4.36	6.9%
Maxis Bhd	3.85	25.25	22.35	19.06	5.19	4.35	13.0%
Axiata Bhd	2.38	-	35.02	6.98	4.20	3.06	28.6%

Source: Apex Securities Bhd, Bloomberg

Oil & Gas Sector

Lee Cherng Wee
leecw@apexsecurities.com.my

Oil prices

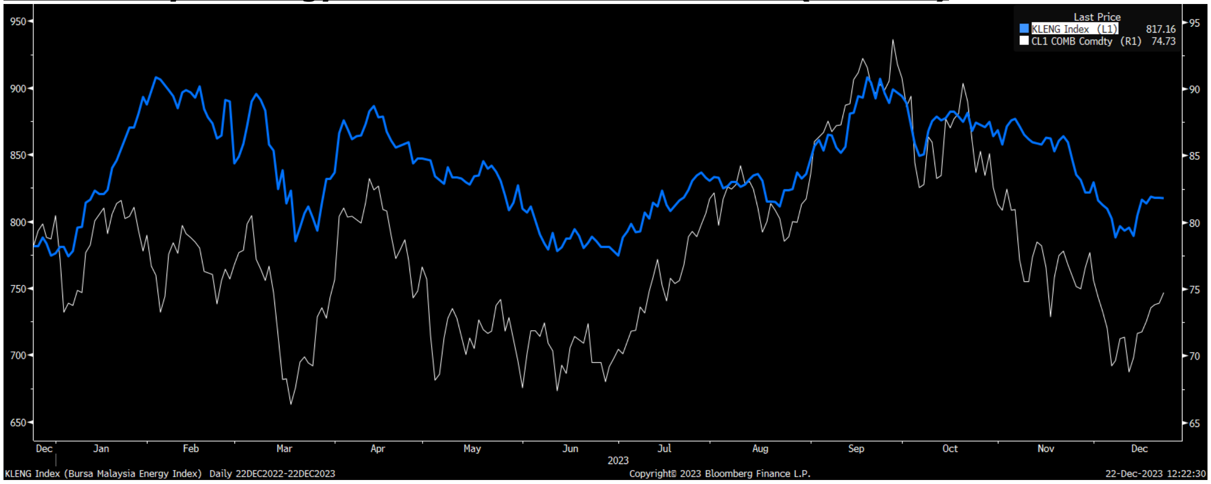
- **Review**. Oil price rallied in 3Q23 from below USD70/bbl in June 2023 to over USD90/bbl in September before correcting downwards in 4Q23.

Crude oil price (USD/bbl)

Source: Bloomberg

- In line with lower oil prices in 4Q23, the Bursa Malaysia Energy Index came of its peak of 900 pts in September. We gather that the index continues to demonstrate strong correlation with oil price.

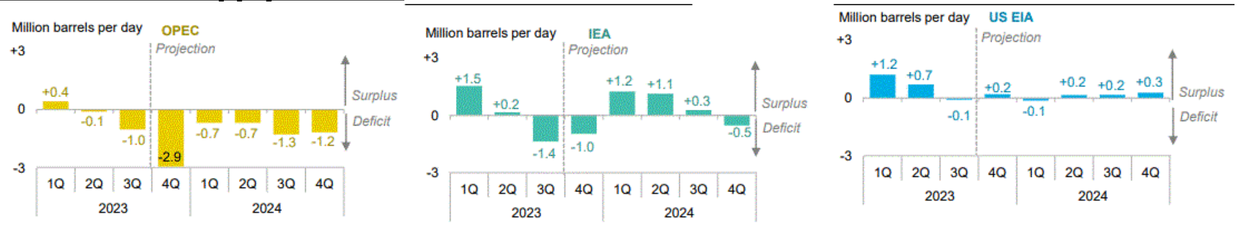
Bursa Malaysia Energy Index vs Brent Crude Oil Price (USD/bbl)



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 to limit supply and support prices. 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

- Going forward, OPEC forecasted supply deficit to continue next year while IEA and US IEA expect slight surplus in 2024. We expect oil prices to average around US$80/barrel in 2024.
- **Valuation & Recommendation**. Elevated 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 capex by Petronas of almost RM60bn to spur the industry's growth.

Top Picks

Company	Price (RM) as at 29Dec23	P/E (x) 2022	2023F	2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Bumi Armada Bhd	0.50	3.88	4.76	3.78	-	0.61	23.2%
Hibiscus Petroleum Bhd*	2.54	4.35	4.65	5.10	0.49	4.08	60.6%
Dayang Enterprise Holdings Bhd*	1.60	12.51	10.96	8.89	2.44	2.27	41.9%
Uzma Bhd*	0.75	6.49	6.25	5.77	-	1.13	50.7%
Yinson Holdings Bhd*	2.50	12.36	10.96	9.73	1.36	3.61	44.4%

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

Plantation sector

Steven Chong
stevenchong@apexsecurities.com.my

Rising supply will be a concern

- **Review**. Palm oil production experienced a significant surge of +25.2% qoq (3Q23: 5.2bn tonnes, compared to 2Q23: 4.2bn tonnes), slightly surpassing our anticipated growth of +24% qoq. This surge in production can be attributed to the seasonal peak crop period in Malaysia. For the final quarter, we reckon that palm oil production is unlikely to match the previous quarter's surge and is expected to maintain a more modest increase at 3.3% qoq. We foresee production to gradually decline in December 2023 following its peak in October 2023.

- Plam oil exports increased +13.0% qoq from previous quarter to 3.8bn tonnes in 3Q23 driven by the absence of Black Sea sunflower oil supplies. Sunflower oil from the Black Sea region have stalled after Russia refused to extend a safe passage grain corridor. Consequently, palm oil's discount against competing sunflower oil and soy oil has attracted more demand, especially during the Indian festivals in September. Moving forward, we expect exports to continue to experience robust growth of (+9.9% qoq) in 4Q23 mainly buoyed by the strong demand in October 2023.

- Palm oil inventory experienced a notable +25.8% qoq increase in 3Q23, reaching a total of 6.1bn tonnes on the back of higher production outpacing export demand. For 4Q23, we anticipate an increase in palm oil inventory (+12.4% qoq), reaching an estimated of 6.9bn tonnes.

Monthly Inventory, Production, Export and CPO Price)

Source: MPOB, Apex Securities

- **Outlook**. The average CPO price extended its decline, dropping from RM3,846/tonne in 2Q23 to RM3,809.7/tonne in 3Q23. Looking ahead to 2023, we expect the average CPO price to conclude on a softer note, mainly due to increased production outpacing demand. As we move into the 1H24, we anticipate weakness in CPO price driven by a narrowed premium spread between soybean oil and palm oil, thus diminishing the competitiveness of palm oil. Nevertheless, we maintain optimism that CPO price may experience a rebound in the 2H24 as palm oil yield is affected by the dry weather.

- **Valuation & Recommendation**. We are **Neutral** with the sector for 2023 as we expect recovery of FFB production is neutralised by softening in CPO price coupled with inventory pilling up. For stocks under our coverage, we retain **HOLD** calls for **Kuala Lumpur Kepong Bhd (FV: RM 20.00), Hap Seng Plantations Holdings Bhd (FV:**

RM1.80), Kim Loong Resources Bhd (RM1.84) and **Sarawak Plantations Bhd (FV:2.04)**. At last, we keep our **BUY** call on **United Plantation Bhd (FV: RM17.66)** due to its inexpensive valuation and high dividend yield. The Plantation sector is trading at forward PERs of 23.2x/16.9x for 2023F/2024F and is currently above its historical three-year average of 14.6x, implying the sector has been overvalued at the moment.

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

- **Summary.** We reckon the plantation sector will continue to face downward pressure due narrowed premium spread between soybean oil and palm oil coupled with building up of palm oil inventory. That being said, we believe there is potential uptick in CPO price trend in 2H24 due to the implication of El-Nino on production. We continue to favour plantation stocks with solid fundamentals with decent yields and limited downside.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2022	2023F	2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
United Plantation Bhd	17.80	10.10	13.94	13.58	6.10	17.66	-0.8%
Kuala Lumpur Kepong Bhd#	21.82	28.19	18.93	19.55	3.96	20.00	-8.3%
Hap Seng Plantations Bhd#	1.72	15.32	12.90	12.47	4.65	1.80	4.7%
Kim Loong Resources Bhd#	2.02	12.19	12.10	12.39	5.69	1.84	-8.9%
Sarawak Plantations Bhd	2.10	9.67	10.20	9.14	3.92	2.04	-2.9%

 # Kuala Lumpur Kepong Bhd data based on FYE Sep

 # Kim Loong Resources Bhd data based on FYE Jan

Source: Apex Securities Bhd, Bloomberg

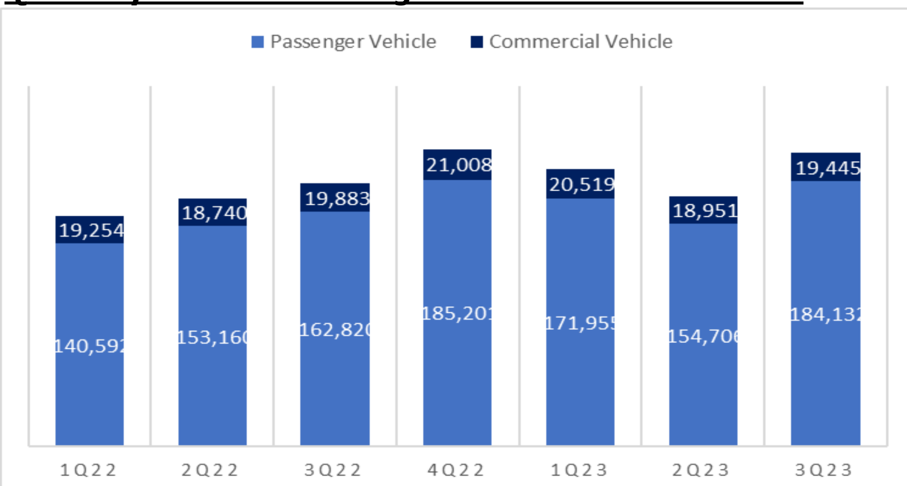
Automotive sector

Steven Chong
stevenchong@apexsecurities.com.my

Keeping busy with backlog orders fulfilment

- **Review**. We gather that Total Industry Volume (TIV) in 3Q23 rose +17.2% qoq primarily fuelled by robust sales in the passenger vehicles segment, which witnessed a growth of +19.0% for the quarter. This surge in passenger vehicle sales can be attributed to a strong demand observed in August 2023 (+12.7% mom), driven by improvements in supply chain and national day promotion offered by popular brands. Nonetheless, we noticed signs of slowdown in November 2023 (-4.0% mom), as consumers delayed purchases in anticipation of year-end promotions.

Quarterly Sales for Passenger and Commercial Vehicle



Source: MAA, Apex Securities

- **Outlook**. Looking forward, we maintain our view that the Total Industry Volume (TIV) will remain robust for 2023, driven by the continuous fulfilment of backlog orders and aggressive year-end promotions. As at 11M23, TIV has achieved 716,512 units and will likely to exceed MAA full-year 2023 TIV projection of 725,000 units. Nevertheless, we anticipate a modest deceleration in TIV growth for 2024, following a robust performance in 2023. This expectation considers factors such as the withdrawal of sales tax exemptions and a slower replenishment rate.

- Nevertheless, our long-term outlook for the automotive sector remains optimistic, primarily due to government's emphasis and dedication in transitioning to clean energy, as highlighted under Budget 2024. This commitment is evident through several initiatives, such as individual income tax relief for EV charging facilities and incorporating EVs as official vehicles for the federal administration. Although no groundbreaking incentives were introduced for the EV sector from the Budget announcement, we do hold the view that the government is moving in the right direction by progressively enhancing the ecosystem. This approach is essential, considering Malaysia's EV charging infrastructures at present are not be prepared to accommodate a sudden surge in EVs on the roads.

- While EV market share in Malaysia stood at a modest 0.4% of total passenger vehicle sales in 2022, we, however anticipated growth prospects is largely on the horizon. According to Malaysia Automotive, Robotics and IoT Institute (MARii) CEO Azrul, the adoption rate of electric vehicles in Malaysia is set to accelerate by 2025 and likely to 15% of market share before 2030.

- **Valuation & Recommendation**. We reckon EV distributor like **Sime Darby Bhd (NR)** will likely gain advantages from government incentives, given the Ministry of International Trade and Industry's (MITI) restriction, which permits the importation of CBU units valued at RM100,000 and above into Malaysia. We foresee Sime Darby upcoming launches of BYD Seal to remain attractive to buyers due its relatively competitive price point. Meanwhile, we are also positive on national OEM like **DRB-Hicom Bhd (NR)** supported by demand from both established and recently introduced models, such as the S70, which provides C-segment specifications at a B-segment price.

- **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 reiterate our **Neutral** view on the sector after taking into account the TIV downtrend in 2024, stem from slower orderbook replenishment. We maintain our 2024F TIV forecast on 650k-700k units (estimated -12% to -14% yoy).

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Sime Darby Bhd#*	2.35	8.74	13.13	11.69	5.61	2.68	14.0%
DRB-Hicom Bhd*	1.39	16.23	8.53	7.32	1.44	1.81	30.2%
MBM Resources Bhd*	4.24	5.63	6.00	6.82	10.87	4.49	5.9%
UMW Holdings Bhd	4.98	8.11	11.37	12.97	2.91	5.00	0.4%
Bermaz Auto Bhd#*	2.36	7.28	8.25	9.29	8.94	2.97	25.8%

 # Sime Darby Bhd data based on FYE Jun

 # Bermaz Auto Bhd data based on FYE Apr

** Denotes Bloomberg consensus data*

Source: Apex Securities Bhd, Bloomberg

Technology sector

Jayden Tan
kdtan@apexsecurities.com.my

Cautiously optimistic on gradually recovery

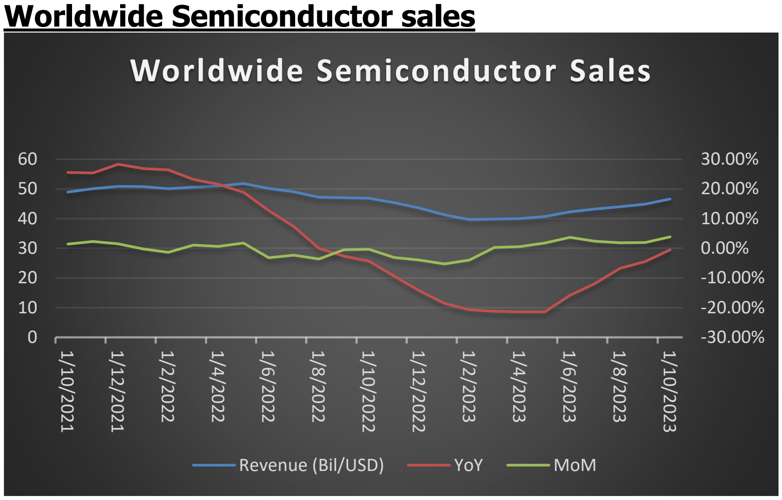
- **Review**. Bursa Malaysia Technology Index displayed an unremarkable performance in 2023, reflecting the broader challenges faced by the global semiconductor sector. The sector experienced sluggish performance and an uncertain outlook, due to excess inventory and weak demand after a period of remarkable growth from 2019 to 2022. Despite the challenges, technology counters recovered from May 2023. The said recovery was supported by positive sentiment spillover from the US tech sector, driven by expectations of less hawkish US Federal Reserve interest rate hikes and growing interest in AI. Data from Semiconductor Industry Association (SIA) indicated 14.3% yoy decline in global semiconductor sales in 2023 YTD. However, there were eight consecutive month-to-month growth in recent months, suggesting a softening rate of decline and indicating a potential stabilisation or bottoming out in the industry cycle.

- Local companies in the outsourced semiconductor assembly and test (OSAT) and electronics manufacturing services (EMS) segments faced challenges, delivering disappointing FY23 results in terms of both revenue and margins. This was attributed to lower demand and weaker economies of scale. However, companies involved in automated test equipment (ATE) and those serving the domestic market showed resilience. The latter benefited from a diverse client portfolio and strong demand from the automotive and medical segments, driven by a robust domestic economy, which helped offset the weak demand from electro-optical and consumer industrial products.

Bursa Malaysia Technology Index

Source: Bloomberg

Worldwide Semiconductor sales



Source: Bloomberg, SIA

- **Outlook**. In anticipation of an uptick in the stock replenishment cycle and a low base effect, earnings of the technology sector are expected to gradually recover in 2024. The Semiconductor Industry Association (SIA) has forecasted a rebound with +13.1% yoy growth in global semiconductor sales in 2024F, following a contraction of -9.4% yoy in 2023. The forecasts highlight growth in Memory (+44.8% yoy), Logic chip (+9.6% yoy), Discrete Semiconductors (+4.2% yoy), and Sensors (+3.7% yoy). However, it's important to note that the rebound will be largely attributed to the low base effect in 2023, and the growth may not be exceptional, due to expectations of modest improvement in consumer electronics, particularly in Western countries.

- Recovery in the industry is anticipated to occur gradually in 2H24 as a relatively subdued start to the year is expected, considering the seasonally slow 1H. While a strong rebound is considered unlikely due to economic uncertainties and ongoing geopolitical conflicts, we are holding a more optimistic view on the semiconductor industry. The projection of improving outlook is based on the anticipation of a rebound from the severe downturn experienced in 2023. Factors such as inventory normalisation, stabilisation of supply-chain costs, and a resurgence in consumer demand, especially in key end-markets like PCs, smartphones, and automotive are contributing to the cautious optimism regarding the industry's recovery in 2024.

- **Valuation & Recommendation**. Bursa Technology index is trading at 32.5x 2023F PER and 25x 2024F PER with EPS anticipate to decrease 25.9% yoy in 2023F, before staging a rebound of 29.2% 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. Despite a projected strong growth target % for 2024, we opine the sector's current valuation with 25.1x 2024F PER is less attractive, as the timing of strong recovery remained ambiguous.

- Our top pick would be **Aurelius Technologies Bhd (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 **Infoline Tec Group Bhd (BUY; FV: RM 1.15)** for its strong growth prospects driven by large-scale expansions are on the cards, coupled with favourable industry outlook on IT infrastructure and cybersecurity.

Bursa Malaysia Technology Index PER

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 will recover on a gradual manner, particularly in 2H24 after a seasonally slower 1H. However, we advised investors to exercise caution due to the relatively high valuation and the uncertainty over the timing of a potential strong recovery. In summary, we maintained a **Neutral** stance on the technology sector and advocate to monitor over the ongoing global economic conditions for any signals that may lead towards a potential substantial recovery.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Infoline Tec Group Bhd	0.76	15.90	13.10	11.80	2.91	1.15	51.3%
QES Group Bhd	0.51	18.80	22.70	17.30	0.98	0.73	42.2%
Kronologi Asia Bhd#	0.40	11.70	28.10	13.30	-	0.53	32.5%
Aurelius Technologies Bhd	2.60	25.90	22.10	16.70	1.54	3.22	23.8%
Frontken Corporation Bhd	3.24	48.90	53.40	34.70	3.28	3.32	2.5%

 # Kronologi Asia Bhd data based on FYE Jan

Source: Apex Securities Bhd, Bloomberg

Transportation & Logistic sector

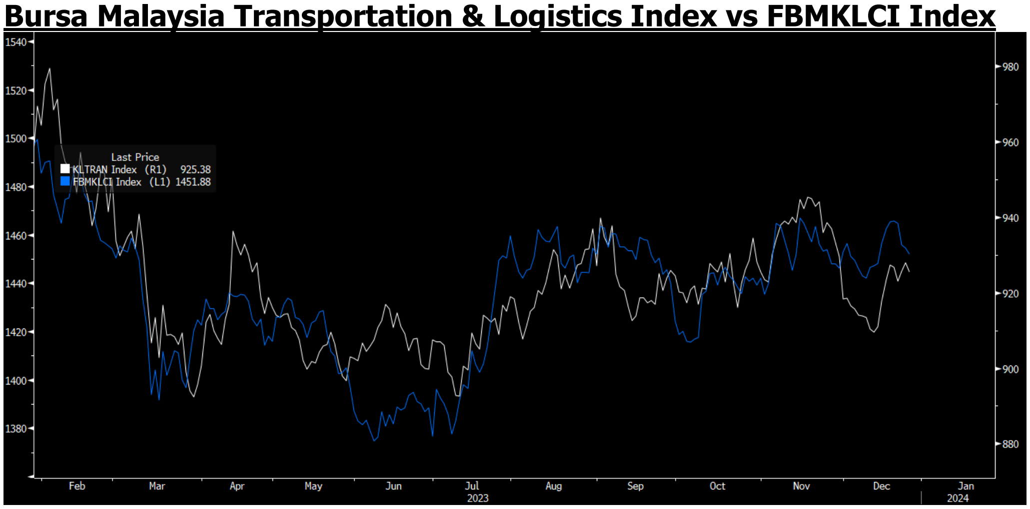
Jayden Tan
kdtan@apexsecurities.com.my

Gradual rebound with attractive valuation

- **Review**. The Bursa Transport and Logistic index in 2023 mirrored the overall market, exhibiting relatively flat performance. This aligns with the uncertainties surrounding the global economy and international trade during the period. Although the 2023 figures showed a 6.8% yoy decline due to challenges in international trade, external trade rebounded since August 2023 (figure 2). In August 2023, the ocean freight container index experienced a surge in rates, attributed to the seasonally peak shipping season and the Canadian West Coast dock strike.

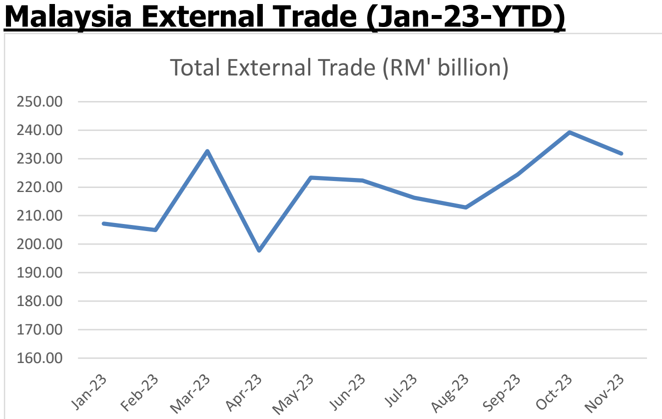
- While rates returned to normalise levels in September 2023, it is still approximately 4.0% higher than average 2019 pre-pandemic rates of US$1,420. Drewry expects East-West spot rates to remain close to current levels in the next few weeks. Air freight rates rebounded since September 2023, reaching 50% above pre-pandemic levels. The increase is attributed to reduction in capacity as certain airlines scaling back passenger flights, coupled with higher-than-expected China's industrial output data. In the latest quarter, domestically-driven logistic players exhibited resilient performance, supported by a firm domestic economy that mitigated the impact of the global economic downturn.

Bursa Malaysia Transportation & Logistics Index vs FBMKLCI Index



Source: Bloomberg

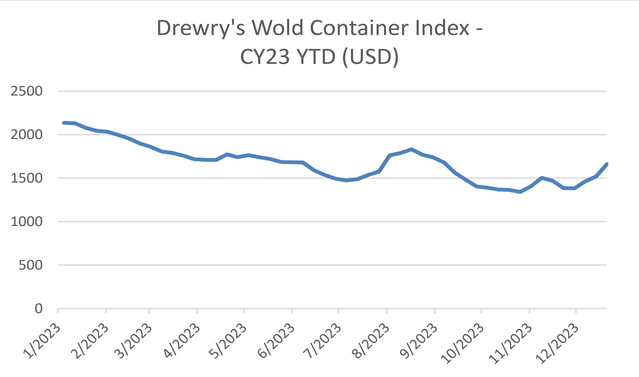
Malaysia External Trade (Jan-23-YTD)

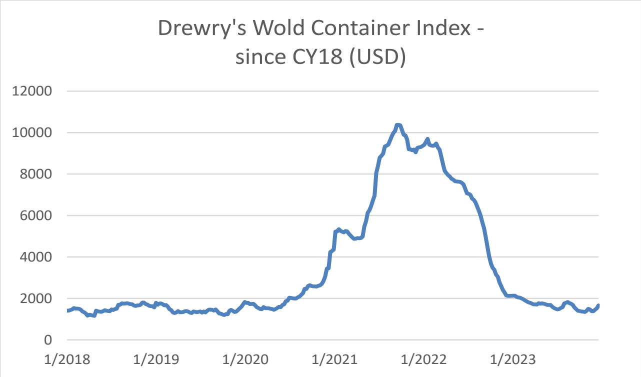


Surge in Feb and Mar due to seasonality

Source: DOSM, Apex Securities

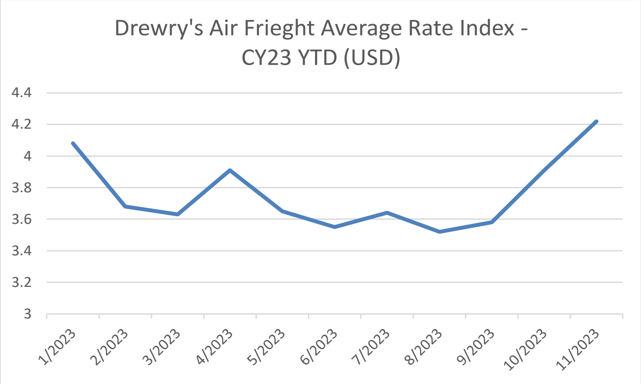
Drewry's Ocean Freight Index

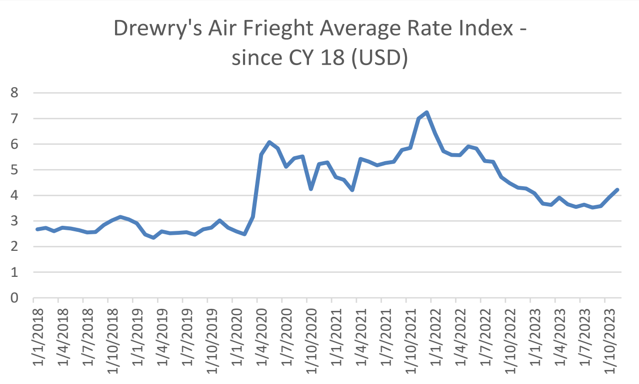




Source: Bloomberg, Apex Securities

Drewry's Air Freight Index





Source: Bloomberg, Apex Securities

- **Outlook**. The logistics industry is closely tied to the global and Malaysian economies, and it is influenced by economic activity and international trade. Although global economic outlook indicating some weakness, World Trade Organization (WTO) forecasts a pickup in global merchandise trade volumes of +3.2% yoy in 2024. Local logistics players are expected to generally post improved results in 2024F, benefitting from expansions, particularly in warehouse capacity. Cautious optimism is placed on the recovery in the technology sector, manufacturing activities, and the China economy. The sector is anticipated to gain momentum in external trade and demonstrate resilience in the domestic economy. Optimism is particularly directed towards domestically-driven logistics players that are exposed to domestic logistics, warehousing, and cold-chain operations. Optimism is based on the expectation of resilient domestic economic growth.

- However, challenges persist in the logistics sector, primarily related to rising costs of labor, finance, and fuels, as well as declining freight rates. Given the considerable uncertainty surrounding factors such as consumer demand, interest rates, and the global economy, the outlook for volumes is cautious for 1H24, but we hold an optimistic view for a potential rebound in 2H24.

- **Valuation & Recommendation**. Transportation & logistics sector is trading at the level of 16.1x PER which is at its historical low and below the mean of 18.2x. We believe the discount is factoring the uncertainties of global economics, rising fuel, labour and finance cost. Our top pick would be **TASCO Bhd (BUY; FV: RM 1.18)** as we favour for its: positive earnings growth underpinned by IBS segment is expected to recover on improved external trade performance and DBS segment is poised for further improvement, supported by firm warehouse and CSC demand, coupled new warehouse expansions. Meanwhile, we like **SWIFT Haulage Bhd (BUY; FV: RM 0.71)** for its 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.** We opine valuation of the logistics sector is considered attractive at this point, especially at the tail end of the global central bank interest rate hike cycle and expectations of a gradual recovery in the global economy, particularly in China and the semiconductor market. The view is that domestically-driven logistics players will outperform, benefiting from the resilience of the domestic economy and the recovery of external trade. As a result, the recommendation for the logistics sector is upgraded from Neutral to **Overweight**, reflecting the perceived attractiveness of the sector's valuation.

Bursa Malaysia Transportation & Logistics Index PER

Source: Bloomberg

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Tasco Bhd#	0.77	7.00	8.90	7.50	1.18	1.17	52.9%
Swift Haluage Bhd	0.55	9.40	8.00	10.00	0.71	0.71	30.3%
Bintulu Port Holdings Bhd*	5.14	17.28	20.41	19.61	5.62	5.78	12.5%
MSIC Bhd*	7.29	18.38	15.18	14.23	8.07	8.06	10.6%
Westports Holdings Bhd*	3.65	18.52	16.62	15.62	3.93	3.94	7.9%

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

Consumer sector

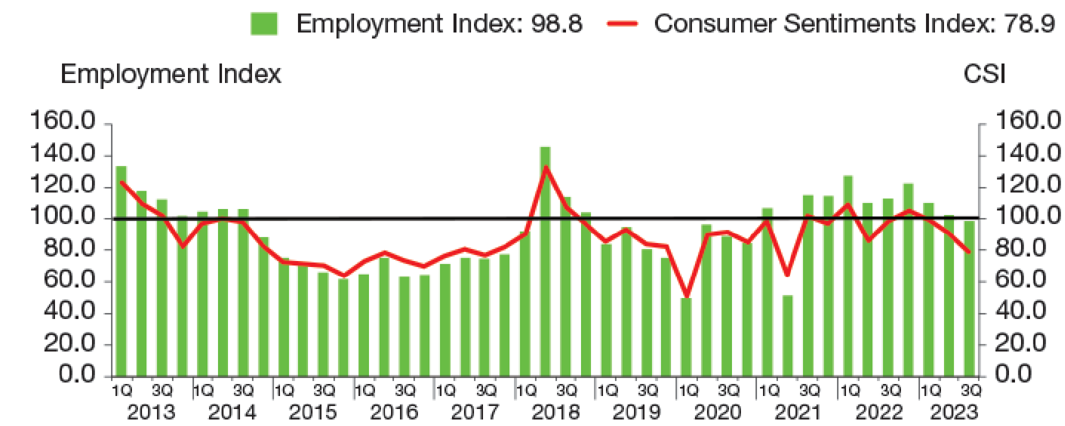
Kenneth Leong
kenneth.leong@apexsecurities.com.my

Bracing for further headwinds

- **Review**. Inflationary pressure continues to beset the consumer sector in 2H23, despite the overnight policy rate turns stable in recent MPC meetings. Retail sales growth continues to ease to 3.9% yoy in October 2023; the slowest pace of gain since December 2021. While unemployment rate held steady, we gather that Malaysian Institute of Economic Research (MIER) consumer sentiment index continues to taper towards 78.9 in 3Q23 which highlights concerns over the stagnating wages will keep the battle with inflation at an uphill task.

- Still, the Bursa Malaysia Consumer Product and Services Index witnessed 3.8% improvement in 2H23, possibly driven by multiple year end festive occasions. To cap off, the aforementioned index slipped 5.6% yoy in 2023 to close at 553.68 pts, mainly dragged down by weakness in 1H23 following a series of interest rate hikes by Bank Negara.

MIER Consumer Sentiment Index (Qurterly)



Source: Malaysian Institute of Economic Research

Malaysia Historical Monthly Retail Sales Growth

Source: Trading Economics

- **Outlook**. Going into 1H24, we anticipate challenges persist with introduction of several taxes, higher sales tax and subsidy rationalisation program (although the latter may only take place towards 2H24 and is expected to be implemented in stages). We opine the RM10.0bn Rahmah cash handout and lump-sum cash incentives for civil servants and government retirees allocated under 2024 Budget may not be sufficient to cushion the prospect of weaker domestic spending. With the introduction of EPF Account 3, this may provide some alleviation, but potentially at the cost of longer-term consequences.

- Consumers will have to bear with the prospects of higher cost of living, moving into 2024 and the process of adapting is expected to be gradual. All, however, was not bleak as the expectations of improved tourist spending will continue to provide upliftment towards retail sales growth. For now, we expect retail sales growth continue demonstrating improvement, but at a slower pace.

- **Valuation & Recommendation**. While challenges persist, our coverage with the top pick would be **CCK Consolidated Holdings Berhad (BUY, RM0.96)**, riding onto the floating of poultry prices, coupled with undemanding valuations. Sector wise, the average forward PE for the consumer is at 17.6x and 15.1x for 2024F and 2025F which is fair against 1Y average of 16.5x.

- **Key Risk**. i) Increasing raw materials, ii) weak consumer sentiment, iii) changes in government policies.

- **Summary.** The consumer product sector is expected to brace for further headwinds. Despite the prospects of interest rate cuts in US, we expect Bank Nagara to keep OPR steady in 1H24. Still, festive seasons at the start of the year may keep growth at sustained levels, while the rising tourist arrivals which is near towards pre-pandemic levels may mitigate these challenges. In summary, we hold a **Neutral** stance on the consumer product sector in 1H24.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Padini Holdings Bhd#	3.51	10.37	12.98	12.30	2.85	3.92	11.7%
CCK Consolidated Bhd	0.83	7.52	6.83	6.76	4.82	0.98	18.1%
QL Resources Bhd#*	5.71	33.79	31.55	30.37	1.10	6.57	15.1%
Aeon Co (M) Bhd*	1.09	13.46	12.49	11.60	3.85	1.26	15.6%
Leong Hup International Bhd*	0.56	6.81	7.53	6.98	4.11	0.80	42.9%

 # Padini Holdings Bhd and QL Resources Bhd data based on FYE Jun and FYE Mar respectively
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Healthcare sector

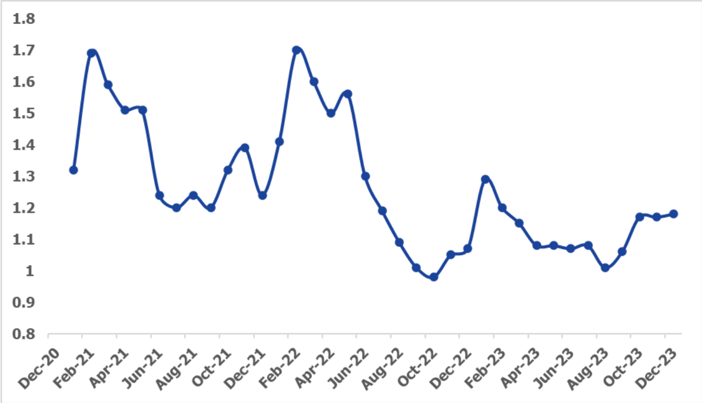
Kenneth Leong
kenneth.leong@apexsecurities.com.my

Sprouting green shoots of recovery

- **Review**. After a downbeat performance in 1H23, sentiment over the healthcare sector turns more favourable, particularly within the gloves sector which continues to narrow their losses as well as chalking in marginal profit under the financial period under review. The said improvement was largely attributable to the cost rationalisation measures undertaken in bid to streamline operations efficiency as well as signs of stability in average selling prices (ASP). Demand is also on the mend with inventories tapered with purchasers reignited minor stockpiling activities. Meanwhile, we gather that natural rubber concentrated latex price has turned fairly stable at close to US$1.20/kg towards end-2023.

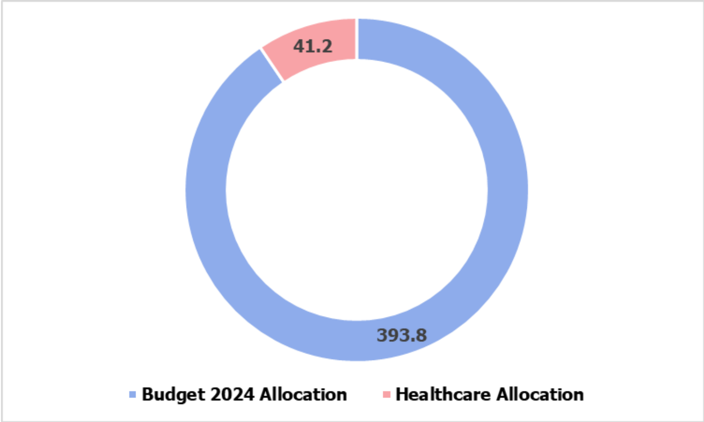
- Elsewhere, healthcare services and equipment players will be reinforced by the higher budget allocation under Budget 2024 which saw 13.5% yoy rise in allocation to RM41.2bn. Healthcare-related projects such as development and upgrade of hospital facilities as well as equipment aligns with the Malaysia government goal to gradually uplift public health expenditure to 5.0% of gross domestic product (GDP) bodes well. All in, Bursa Malaysia's healthcare sector added 9.7% yoy in 2023 to close at 1,903.93 pts.

NR Concentrated Latex price (USD/kg)



Source: Malaysia Rubber Board, Apex Securities

Malaysia Budget 2024 Healthcare Allocation



Source: Bloomberg, Apex Securities

- **Outlook**. We expect ASP for rubber gloves to remain fairly stable at approximately US$20-22/1,000 pieces in 1H2024 as pricing gap with peers from regional players narrows. Still, margins are expected to remain lukewarm as any upward in price adjustment may be met with potentially weaker demand, while the upward revision of natural gas prices are limiting margins improvement. For now, we reckon local gloves players will continue to focus onto on-going capacity rationalisation measures, while banking onto inventory replenishment from prospective purchasers. While, utilisation rate is expected to see mild uptick, moving in 1H2024, we reckon the aforementioned figure will remain a distance from pre-Covid-19 pandemic levels.

- On the other hand, we note that medical tourists are returning to Malaysia towards pre-pandemic levels, supported by reopening of borders, visa free travel for Chinese nationals, improved quality healthcare and competitive pricing. Back home, the ageing population, rising healthcare awareness and improving healthcare technology will be some of the key avenue drivers for the healthcare industry.

- **Valuation & Recommendation**. While outlook for gloves players is turning brighter, we reckon that recent recovery in their share prices has reflected the prospects of improved fundamentals. While we do not have any top picks for the sector, we hold a favourable view of **Hartalega (SELL, TP: RM2.09)** due to its substantial net cash position of RM1.64bn and strong operational efficiency which able to weather further economic shocks.

- **Key Risk.** Stiff competition from both local and regional players. Fluctuation in raw material costs may affect margins, while changes in utilisation rate will depend on demand and supply dynamics. Change in healthcare regulatory may impact industry operations landscape.

- **Summary**. Amid the prospects of recovery, we upgrade the healthcare sector to **Neutral** as the recent recovery in share prices, particularly gloves players have reflected their fundamentals. Still, we do not discount for potential re-rating in the cards, should the pace of recovery shoots above our expectations.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	P/E (x) 2024F	P/E (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Hartalega Holdings Bhd#	2.70	82.73	181.34	76.42	-	2.09	-22.6%
Top Glove Corporation Bhd#	0.90	-	-	43.16	-	0.73	-18.9%
Supercomnet Technologies Bhd*	1.22	32.97	24.90	21.03	1.72	1.58	29.5%
IHH Helathcare Bhd*	6.03	34.66	31.24	27.66	1.29	7.00	16.1%
Optimax Holdings Bhd*	0.63	26.04	21.55	17.36	3.84	0.82	31.2%

 # Hartalega Holdings Bhd & Top Glove Corporation Bhd data based on FYE Mar & FYE Aug respectively
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

1H24 Strategy

Kenneth Leong
kenneth.leong@apexsecurities.com.my

Tilting towards slightly aggressive stance

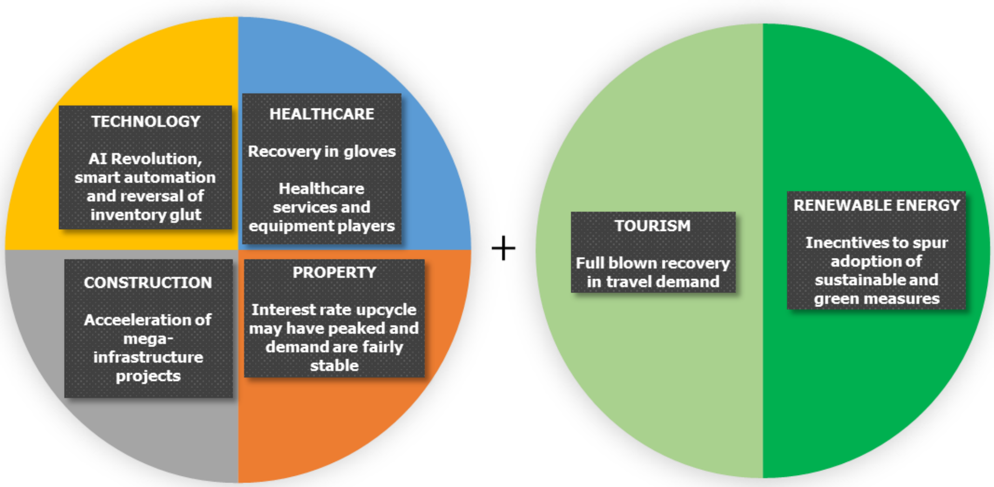
- **Path to recovery lighting up**. Amidst the prospects of an extended recovery, we advocate investors to turn slightly aggressive with selective sector to be in focus. Our preference lies within selective sectors that is bracing for further earnings growth. We reckon Malaysia economic fundamentals remains fairly stable and attractive valuations could entice foreign fund inflows. At the same time, the execution of key blueprints laid out in 2023 will be the key focal point to drive economic reformation.

- **Lower liners to fare in similar pattern**. While the local bourse is expected to chart higher, we opine the FBM Small Cap may mirror the key index movement, premised to the prospects of earnings growth that is still on the cards, coupled return of investment flow towards the equity markets with in search for higher yields in anticipation of interest rate cuts. Still, recovery is expected to remain choppy with any negativity may tempered the recovery progress.

- **Selective sectors in focus**. Coming into 2024, our preference lies towards the **construction** as we anticipate the news flow to accelerate from tenders and award of key mega infrastructure projects. However, prospect of earnings growth remains dim as execution and billings may only hasten towards end-2024 or early-2025. The said sector may also associate towards the **property** sector as key mega transport projects may uplift demand for property projects in selected vicinities. Also, the expectation that interest rate upcycle may have peak will allow planned purchases to progress accordingly. We also favour the **technology** sector that is building onto the recovery in semiconductor sales post inventory adjustment from semiconductor players with plant expansions remains intact and mushrooming of data centres following the revolution in digital space, rising adoption of AI and Internet of Things. We also reckon that the **healthcare** sector, particularly gloves players may build onto the recovery trend, while healthcare services providers equipment manufacturers will continue to ride onto the industry expansion.

- **Other key themes**. With emphasis remain being place in Budget 2024, we continue to favour the **renewable energy (RE)** sector on the back of the various incentives to spur business to adopt more green and sustainable measures. Other defensive picks include **tourism** sector that will ride onto the full-blown recovery in global travel alongside with the visa-free entry into Malaysia for China and India citizens that takes effect from December 2023 as well as healthcare sector in anticipation of improving outlook for gloves sectors and higher Budget 2024 allocation for the healthcare industry.

Strategy Focus



Source: Apex Securities

1H24 Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	P/E (x) 2024F	P/E (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
AME Elite Consortium Bhd#	1.67	10.55	11.97	11.98	1.80	1.95	16.8%
Gamuda Bhd*	4.59	16.87	12.61	10.77	2.61	5.35	16.6%
Lagenda Properties Bhd	1.24	6.65	4.92	4.56	5.08	1.43	15.3%
OSK Holdings Bhd*	1.24	5.39	5.17	4.96	5.65	1.77	42.7%
Supercomnet Technologies Bhd*	1.22	32.97	24.90	21.03	1.72	1.58	29.5%
Optimax Holdings Bhd*	0.63	26.04	21.55	17.36	3.84	0.82	31.2%
Infoline Tec Group Bhd	0.76	15.90	13.10	11.80	2.91	1.15	51.3%
Aurelius Technologies Bhd	2.60	25.90	22.10	16.70	1.54	3.22	23.8%

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

Selected Dividend Yield Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	P/E (x) 2024F	P/E (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Uchi Technologies Bhd*	3.71	15.46	14.55	12.37	6.74	3.80	2.4%
Pantech Group Holdings Bhd#*	0.90	6.57	7.50	6.67	6.67	1.26	40.0%
Bermaz Auto Bhd#*	2.36	7.28	8.25	9.29	8.94	2.97	25.8%

 # Bermaz Auto Bhd data based on FYE Apr
 # Pantech Group Holdings Bhd data based on FYE Feb
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Key Risks

- **Further depreciation in local currency**. The weakening of Ringgit against the Greenback as well as other neighbouring countries may deter foreign investments.

- **Sooner-than-expected US Presidential election**. Should US calls for a Presidential election sooner-than-expected, volatility may beset global markets.

- **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

Kenneth Leong
kenneth.leong@apexsecurities.com.my

Change of tides

Source: Bloomberg

- **A tale of two halves**. The FBM KLCI found stability at the start of 2H23 after a dismal performance in 1H23 as the key index rebounded and hovered mostly above SMA200 throughout 2H23. Although there were bouts of volatility, the key index managed to recoup most of its year-to-date losses before steading largely above 1,400 pts.

- **Near term consolidation**. As the key index gained momentum, the consolidation phase was set up, oscillating within the 1,435 to 1,465 pts range ahead in the final months of the trading year. With the recent recovery, it is noteworthy that FBM KLCI continues to exhibit an upward trajectory with the key index demonstrating higher high and higher low formation.

- **Technical indicators are mixed**. We gather that SMA50 has formed a "golden crossover" above SMA200 since mid-September 2023 implying that longer-term perspective is slightly bullish. Meanwhile, the Moving Average Convergence Divergence (MACD) is floating sideways near the Signal line and is hovering above the zero level, suggesting momentum is indecisive. Likewise, the Relative Strength Index (RSI) is lingering around 50 level and should it steady above the aforementioned level, further strength may lift the key index higher.

- **Outlook turns promising**. With the recovery prospects on the cards, we advocate traders to monitor for a potential breakout above the upper band of the consolidation level of 1,465 pts. The first resistance level to located at 1,488 pts, followed by 1,500 pts. Downside wise, support is pegged at 1,435 pts.

1H24 Technical Pick

Kenneth Leong
kenneth.leong@apexsecurities.com.my

Kumpulan Perangsang Selangor Bhd

Analysis: Price has retraced before finding stability above SMA200

Strategy: Accumulate around RM0.70-RM0.73 to monitor for breakout above RM0.735

Resistances: RM0.795-0.83

Support: RM0.695

SDS Group Bhd

Analysis: Price has recovered above SMA200 and is establishing the longer-term uptrend formation

Strategy: Accumulate around RM0.70-RM0.72 to monitor for potential flag-formation breakout above RM0.73

Resistances: RM0.775-0.80

Support: RM0.90

MN Holdings Bhd

Analysis: Price is on the uptrend formation and has recently turned sideways.

Strategy: Accumulate around RM0.50-RM0.53 to monitor for potential short-term triangle formation breakout above RM0.54

Resistances: RM0.58-0.62

Support: RM0.48

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex,
Off Jalan Semenyih,
Bukit Mewah 43000 Kajang,
Selangor Darul Ehsan, Malaysia

General Line: (603) 8736 1118

Mutiara Damansara Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

DEALING TEAM

Head Office:
Kong Ming Ming (ext 2002)
Shirley Chang (ext 2026)
Norisam Bojo (ext 2027)
Ahmad Mujib (ext 2028)

Institutional Dealing Team:
Siti Nur Nadhirah (ext 2032)

PJ Office:
General Line: (603) 7620 1118
Azfar Bin Abdul Aziz (Ext 822)

RESEARCH TEAM

Mutiara Damansara Office:
Kenneth Leong (ext 2093)
Lee Cherng Wee (ext 2067)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)

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