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FBM KLCI current:	**1,590.09**
FBM KLCI end-2024 Target:	**1,650.00**

FBM KLCI	**2023**	**2024F**	**2025F**
P/E (x)	14.2	14.5	13.4
P/B (x)	1.4	1.4	1.3

FBM KLCI Chart (weekly)

Source: Bloomberg

2H24 Market Strategy

Navigating the Steady Upward Wave

Summary

- **Overseas developments such as prospects of interest rate cuts, US Presidential election results, along with the impact of removal of blanket subsidies locally will be in focus moving into 2H24.**
- **Turning less aggressive and selective following the stellar 1H24 performance with preferences skewed towards selective sectors such as construction, property and technology that could demonstrate resiliency in earnings.**
- **We are also upbeat on the (i) transportation & logistics sector that is capitalising onto trade diversion and most players embarking onto expansionary plans, (ii) renewable energy (RE) sector that is riding onto a slew of incentives outlined by policy makers, (iii) tourism sector taking off as the nation prepares for "Visit Malaysia Year 2025" and (iv) data-center supply chain players that are leveraging onto the AI and cloud computing boom.**
- **Our 2024F and 2025F year-end target for FBM KLCI are 1,650 and 1,720 respectively, based on assigned 15.0x PE multiple, which is in line with long-term historical mean average.**

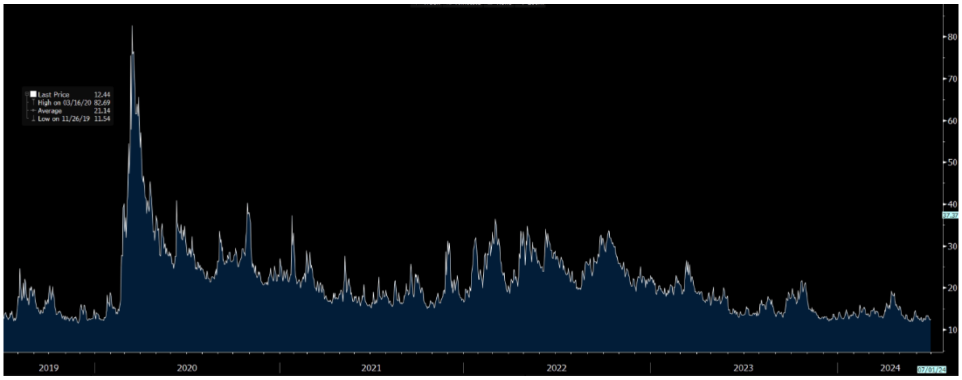
Global Markets Review

- **Global markets review**. Global markets took another step forward, stemmed by optimism surrounding the prospects of US interest rate cuts at the start of the year. While the prospects of rate cuts diminished, consensus are pencilling only one cut in in 2H24. Nevertheless, investors continue to capitalise onto the AI-driven theme, stability in corporate fundamentals and global economic growth are still on the cards.

- **Receding volatility powering markets**. Volatility continues to dwindle throughout 1H24 as inflation normalise albeit at a slower pace. Investors also brushed off the escalating geopolitical tension in Middle East as focus over the prospects of interest rate cuts continues to dominate headlines. Riskier assets such as cryptocurrency also advanced with Bitcoin surging 44.0% in 1H24 to close at US$60,419.66.

Volatility hovered near five-year low

CBOE Volatility Index



Source: Bloomberg

- **Wall Street performance**. The Dow stay upbeat, forming an extension of rally from end-2023 to mark 5.6% advance in 1Q24 before volatility took control after the Dow briefly touched the historic 40,000 pts to turn flattish in 2Q24 and consequently closed at 39,118.86 pts on concern over the stickiness of inflation painted a less dovish outlook for potential rate cuts. Still, the Dow climbed 3.8% in 1H24. On a stronger note, the S&P 500 registered 14.5% gains to close at 5,460.48 pts, supported by better-than-expected corporate fundamentals that recorded improved EPS of US$230.01 in 1Q24 (vs. 177.84 in 1Q23). Gains were also largely propelled by the "Magnificent Seven" AI-driven rally with Nvidia market capitalisation surpassing the US$3.00trn mark. With the S&P 500 taking another step forward, valuations are now hovering near fair levels level with the S&P 500 trading at prospective forward P/E of 22.4x for 2024F and 19.8x for 2025F respectively; which is still close to the historical five-year average of 23.0x.

- **Regional markets 1H24 performance recap**. Asia Pacific regional stockmarkets performed mostly fairly upbeat, led by Japanese equities that built onto their last year rally. Still, we noticed China and Hong Kong stockmarkets has yet to play catch up on global market performances. Despite the local bourse were in sync with the mostly positive regional peers, our neighbouring countries such as the Jakarta Composite Index fell -2.3% in 1H24. Likewise, the Stock Exchange of Thailand (SET) slipped -8.1% during the period.

Global markets mostly improved, with exception of selected regional peers

Selected Global & Regional Markets Performances

	1H23 YTD	1H24 YTD	2023 YoY	2022 YoY	2021 YoY
MSCI World Index	12.8%	**10.3%**	**20.1%**	**-19.8%**	**16.8%**
Dow Jones	3.8%	3.8%	13.7%	-8.8%	18.7%
FTSE	1.1%	5.6%	3.8%	0.9%	14.3%
DAX	16.0%	8.9%	20.3%	-12.3%	15.8%
CAC	14.3%	-0.8%	16.5%	-9.5%	28.9%
Nikkei	27.2%	18.3%	28.2%	-9.4%	4.9%
Hang Seng	-4.4%	3.9%	-13.8%	-15.5%	-14.1%
ASX All Ordinaries	2.5%	2.4%	8.4%	-7.2%	13.6%
Shanghai Composite	3.7%	-0.3%	-3.7%	-15.1%	4.8%
FBM KLCI	-7.9%	9.3%	-2.7%	-4.6%	-3.7%
FTSE STI	-1.4%	2.9%	-0.3%	4.1%	9.8%
Jakarta Composite Index	-2.8%	-2.9%	6.2%	4.1%	10.1%
Stock Exchange of Thailand	-9.9%	-8.1%	-15.2%	0.7%	14.4%

** Data as of 30 June 2024*
Source: Apex Securities, Bloomberg

Global Markets Outlook

- **Turning wobbly**. After marching to fresh record high levels, we expect further gains will be measured moving into 2H24. Globally on the MSCI All World Index, forward earnings continue to project further improvement with expectation of 7.9% yoy global earnings growth in 2024F. Despite growth are still on the cards, we gather that earnings projection has revised lower against earlier projections of 10.5% yoy global earnings growth tabled at end-2023. Nevertheless, growth will be anchored by revolution of AI technology, economic expansion and improving global demand.

- **Major sports events in focus**. In 2H24, major key sports events are in focus include Summer Olympics 2024 & Euro 2024. Summer Olympics 2024 will take place from 26 July 2024 till 11 August 2024 at Paris, France, while Euro 2024 will take place from 14 June 2024 till 14 July 2024 at Germany. Historically, we gather that there is no significant correlation of market performances (three months pre & post Olympics) across global markets, Wall Street and the FBM KLCI.

Uneven performance pre and post Olympics

Market Performances – Pre & Post Olympics

Period			3 months performance (before)			3 months performance (after)		
From	Till	Country	MSCI All World Index	Dow Jones	FBM KLCI	MSCI All World Index	Dow Jones	FBM KLCI
17-Sep-88	2-Oct-88	South Korea	-1.8%	2.0%	16.8%	11.5%	1.9%	7.1%
25-Jul-92	9-Aug-92	Spain	-1.9%	-1.2%	1.7%	-1.5%	-2.7%	8.7%
19-Jul-96	4-Aug-96	America	-1.8%	-2.0%	-3.9%	2.8%	6.4%	7.4%
15-Sep-00	1-Oct-00	Australia	-4.5%	2.0%	-10.0%	-7.9%	0.4%	-4.7%
13-Aug-04	29-Aug-04	Greece	-0.9%	-1.9%	1.6%	10.0%	2.8%	11.5%
8-Aug-08	24-Aug-08	China	-12.0%	-11.2%	-11.8%	-37.9%	-27.4%	-21.2%
27-Jul-12	12-Aug-12	London	-4.2%	-1.2%	3.6%	-0.1%	-3.0%	-0.5%
5-Aug-16	21-Aug-16	Brazil	5.1%	5.0%	1.2%	-1.9%	2.2%	-3.6%
23-Jul-21	8-Aug-21	Japan	2.8%	1.9%	-5.0%	3.7%	3.5%	3.1%

**2020 Summer Olympics in Tokyo scheduled from 24 July 2020 till 9 August 2020 was postponed to 2021 due to Covid-19 pandemic*
Source: Apex Securities, Bloomberg

- **US Presidential election may trigger renewed volatility ahead**. The impending US Presidential election is schedule to take place on 5 November 2024. Based on the latest polls, Donald Trump holds a marginal lead as of end-June 2024, particularly after the first Presidential debate. Historically, there is also no clear conviction over the past historical trends of selected market performances before election date.

- **However….** we noticed markets generally performs in mostly positive manner post US election (with the exception of year 2000 and 2008 that was impacted by the Dotcom bubble crash as well as subprime mortgage crisis respectively). Generally, we opine recovery of markets were largely stemmed by investors brushing away uncertainties during pre-election period and cheered onto new and/or existing key economic policies that were already on the table or planned.

Markets historically mostly recovers post US Presidential election

Market Performances – Pre & Post US Presidential Election

Period		3 months performance (before)			3 months performance (after)		
Date	Winner	MSCI All World Index	Dow Jones	FBM KLCI	MSCI All World Index	Dow Jones	FBM KLCI
3-Nov-92	Bill Clinton (Democratic)	-1.6%	3.9%	7.9%	2.6%	3.7%	-2.1%
5-Nov-96	Bill Clinton (Democratic)	3.3%	7.2%	6.4%	3.8%	11.0%	5.5%
7-Nov-00	George W. Bush (Republican)	-4.7%	0.8%	-6.2%	-5.9%	-0.1%	-4.6%
2-Nov-04	George W. Bush (Republican)	5.2%	-1.4%	5.6%	7.2%	5.6%	5.1%
5-Nov-08	Barack Obama (Democratic)	-32.2%	-23.8%	-20.2%	-13.0%	-11.8%	-3.9%
6-Nov-12	Barack Obama (Democratic)	3.5%	1.0%	0.4%	7.2%	5.6%	-1.9%
8-Nov-16	Donald Trump (Republican)	-1.4%	-1.1%	-0.5%	6.0%	9.4%	1.5%
3-Nov-20	Joe Biden (Democratic)	2.2%	3.1%	-7.1%	16.7%	11.8%	8.3%

Source: Apex Securities, Bloomberg

- **US Presidential key dates to watch** prior to the big day are as below;

Dates	Remarks
27 June 2024	First Presidential Debate
15 July 2024	Republican National Convention
19 August 2024	Democratic National Convention
10 September 2024	Second Presidential Debate
5 November 2024	Election Day

Source: Apex Securities

- **Election outcome impacting selective sectors.** A Democratic white house is expected benefit renewable energy (tax credit to businesses to develop carbon capture technologies), infrastructure and defense sectors, while a Republican white house is positive towards consumer discretionary (tariff hikes to protect local players), healthcare equipment (lower cost of drugs, additional flexibility for Medicare Advantage plans), financial services (extension of corporate tax cuts), infrastructure and defense sectors.

Sectors Focus Post US Presidential Election

Sectors	Democratic	Republican
Consumer Discretionary	Negative	Positive
Healthcare - Hospitals	Positive	Negative
Healthcare - Equipments	Neutral	Positive
Pharma & Biotech	Negative	Neutral
Financial Services	Negative	Positive
Traditional Energy	Negative	Neutral
Renewable Energy	Positive	Negative
Infrastructure	Positive	Positive
Defense	Positive	Positive

Source: Apex Securities

- **Geopolitical uncertainty lingers**. Heightening trade tensions with China (particularly post US election), on-going Russia-Ukraine conflict, turmoil in the Middle East and France's political instability collectively transpire to a persistent backdrop of geopolitical uncertainties. Although the direct economic repercussions towards globally have remained relatively contained, the overarching concern revolves around the potential for a supply shock in key commodities or goods remains largely on the cards.

- **Implied rate cut prognosis pushed further back to end-2024**. Despite further rate hikes from the US Federal Reserve are off the table, the prospects of rate cuts (previous three potential rate cuts in 2024) are being pushed back towards potentially only once either in September 2024 or December 2024. Inflation remains sticky at this current juncture (April 2024 reading recorded 3.4% yoy rise) are still far fetch from the US Fed long-term target of 2.0%. Going forward, we expect only one rate cut from the US Federal Reserve towards end-2024 on signs of mild cracks in the world's largest economy with consumer confidence are trending lower since the start of the year before edging mildly higher in May 2024. Nevertheless, we expect further rate cuts will continue to be very much gradual, measured and data dependent with central bankers across the globe juggles between balancing economic growth and interest rate cuts. All-in-all, we expect rates to remains considerably higher than pre-pandemic levels.

- **Implied potential interest rate cut in 2H24**;

Dates	Remarks
31 July 2024	**No cut**. Economic data still solid with recent inflation readings still far fetch from Fed target of 2.0%
18 September 2024	**Potential cut**. Inflation may have tapered towards near Fed target of 2.0%
7 November 2024	**No cut**. Too close to US Presidential Election date
18 December 2024	**Potential cut**. Inflation may have tapered towards near Fed target of 2.0%

Source: Apex Securities

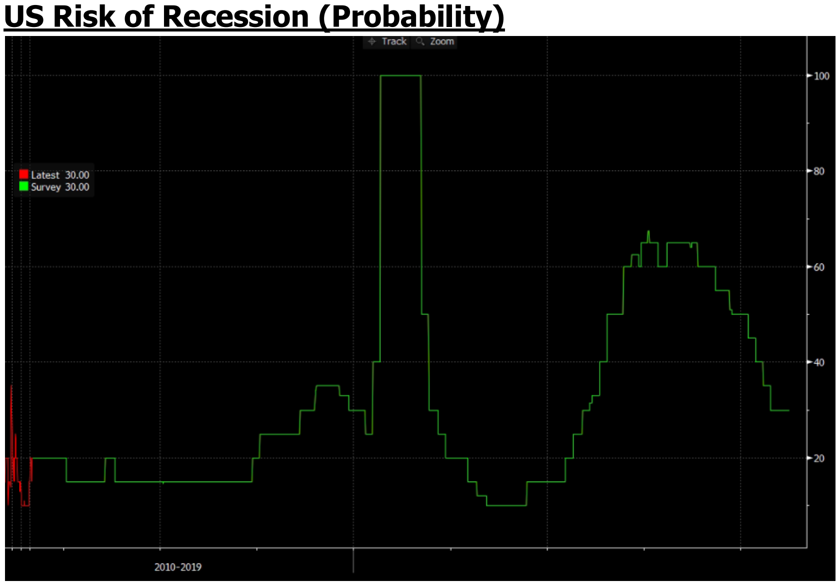
- **Forward valuations remain slightly attractive**. With global markets recording decent performance in 1H2024, global equities' (MSCI All World Index) valuations are still slightly attractive with forward P/E trading at 18.8x and 16.7x for 2024F and 2025F respectively, which is close to fair against the long-term forward averages of 18.7-19.8x. Concurrently, global corporate earnings growth estimates remain at the growth trajectory at 4.4% yoy for 2024F. Moving into 2H24, consensus is pointing towards further improvement with expectations that the global earnings growth were to chalk in 9.0% improvement in 2H24F, while S&P 500 earnings are projected to rise 11.9% in 2H24F.

- **Regional markets navigating through choppy waters**. Elsewhere, Asia Pacific equities are expected to remain choppy with China's property sector slump continues to drag on the better industrial production data. We expect an extension of easing economic policies over the foreseeable future in bid to support the sluggish fiscal, housing and domestic consumption. In 1H24, ASEAN-5 are generally lagging with the Jakarta Composite Index (-2.9%) fell post Indonesia Presidential election which will see the ever-popular Joko Widodo stepping down in October 2024 to pave way for the newly elected President – Prabowo Subianto. Meanwhile Stock Exchange of Thailand (-8.1%) tumbled on consecutive corporate earnings cut with foreign funds continues to offload their holdings. Philippines Stock Exchange Index (-0.6%) ended relatively flat, while Straits Times Index (+2.9%) advanced along with the solid performance delivered by regional peers including the FBM KLCI (+9.3%). Moving forward, we reckon selected regional markets would have to take a deep breath to navigate through the rough seas for any potential further recovery.

- **Recession risk continues to taper**. We gather that economists' consensus view over the risk of recession for the next 12 months continues to taper towards 30%, supported by (i) stable inflationary pressure, (ii) prospects interest rate cuts in the US whereby the European Central Bank has made a move in June 2024, (iii) corporate fundamentals projections still positive and (iv) growing adoption of technological advancements such as integration of AI into business and/or daily needs, quantum computing, Internet of Things (IoT), Augmented Reality and Virtual Reality. With global economic projections are still pointing towards growth trajectory, we expect risk of recession to remain well pocketed over the foreseeable future.

Risk of recession (US) continues to taper

<u>US Risk of Recession (Probability)</u>



Source: Bloomberg

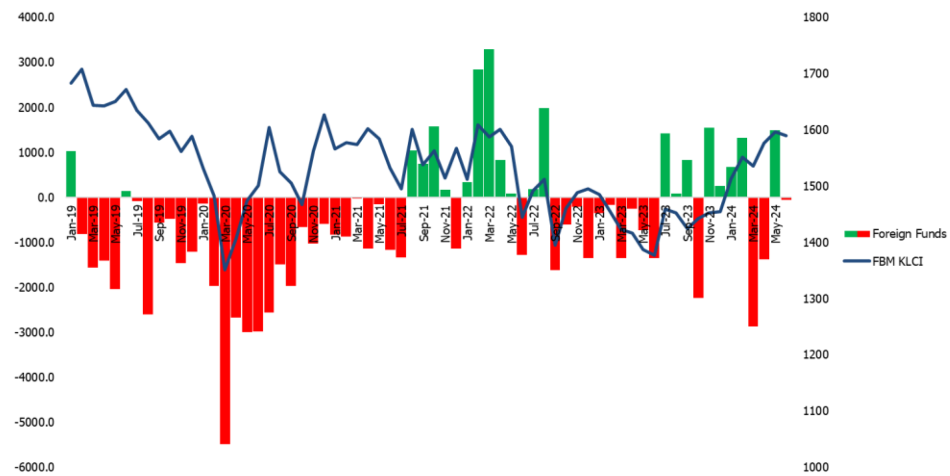
Malaysia Market Review

- **Steering near 1,600**. The local bourse started off the year on a buoyant manner as the key index advanced above 1,500 pts in January 2024 before solidifying its position above 1,600 pts since May 2024. Mild profit taking took place in June 2024 as the key index hovered to close mildly below 1,600 pts in 1H24. Gains were largely in tune with the developments across global markets that was anchored by the development of AI, with value-chain suppliers such as **Tenaga Nasional Bhd**, **YTL Corporation Bhd** and **YTL Power International Bhd** share prices took off. The strong strides were also driven by solid economic data alongside with the return of foreign funds inflow into the Malaysian equities market.

- **Return of foreign funds in recent months provided solid support**. After three consecutive years of outflow, foreign funds are still in the net selling position in 1H24 with outflow of RM822.4m. Nevertheless, we noticed foreign funds have turned into a net buying position in May and June 2024 with cumulative inflow of RM1.30bn over the past two months. Capping off, the FBM KLCI climbed 9.3% in 1H24 as the key index is now largely on track to close the year on a positive note. Meanwhile, the lower liners delivered a stronger performance with the FBM Small Cap Index rising to the highest level since 1997 and Bursa Malaysia's market capitalisation rose above a historic mark above RM2.0trn on 7 May 2024.

Return of foreign funds noticeable over the year turned supportive for stocks across Bursa Malaysia

Bursa Malaysia Foreign Fund Participants vs FBM KLCI



Source: Apex Securities

- **Commodities prices stabilised**. The Organisation of the Petroleum Exporting Countries and allies led by Russia, together known as OPEC+, has agreed to extend oil output cuts of 2.2m b/d till September 2024, before gradually phased out on monthly basis till end September 2025. Oil prices rose 12.1%, averaging at US$83.42 in 1H24, which is close to Malaysia's Budget 2024 forecast average of US$80/bbl. Meanwhile, CPO prices (3 months futures) traded at an average RM3,959/MT which was slightly above RM3,769/MT in 2023 as supply remained tight in 1Q24 on the account of seasonally weaker production while demand picked up from the festive seasons.

- **Solid labour force**. We gather that Malaysia's labour force remains stable with unemployment rate held steady at 3.3% in April 2024. Meanwhile, employment demonstrated improvement of 1.9% yoy to a fresh record high of 16.6m workforce. While challenges prevail over the prospects for employers to improve wages growth, we gathered that companies are placing greater emphasis towards human capital development in bid to upskill workers.

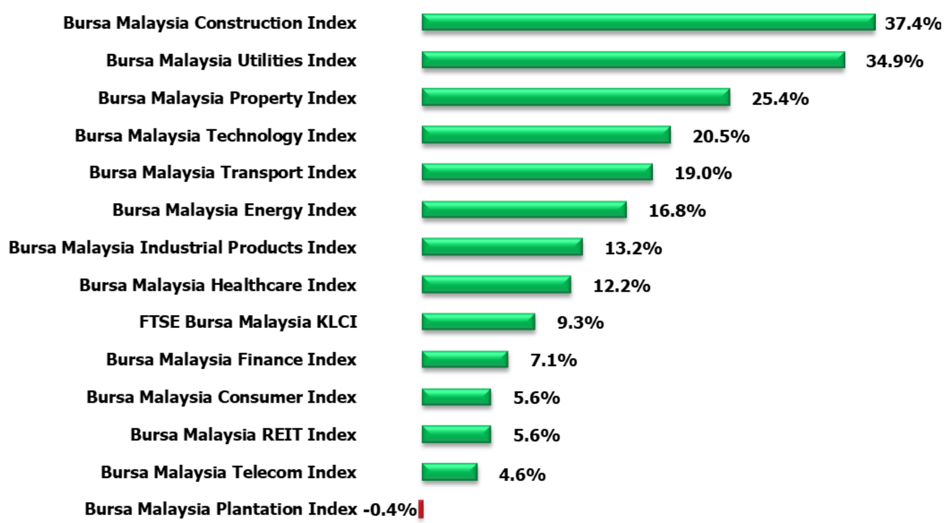
- **FBM KLCI biggest movers**. For 1H24, notable winners were the newly inclusion of utilities giants namely **YTL Power International Berhad** (+90.9%) and **YTL Corporation Berhad** (+82.5%) alongside with **Tenaga Nasional Berhad** (+40.7%) that is leveraging onto the booming AI and cloud computing industry following headlines of several multinational corporations pouring multi-billions of investments into data centres in Malaysia. Conversely, the Petronas-related heavyweights such as **Petronas Dagangan Berhad** (-18.7%) and **Petronas Chemicals Berhad** (-11.8%) fell after (i) posting weaker financial performance (ii) concerns over the possible of new competitor – Saudi Aramco entrance into Malaysia market and (iii) removal of blanket subsidies may impact demand.

- **Buoyant trading activities and market sentiment**. We gathered that a total 19 initial public offerings (excluding LEAP market listing) were launched in 1H24, largely on track to meet Bursa Malaysia's target of 42 IPO in 2024. Meanwhile, average daily traded volumes in 1H24 stood at 4.57bn shares, up from 3.17bn shares recorded in 1H23 as the improved trading liquidity and market sentiment drove the FBM Small Cap (+18.0% in 1H24 to close at 19,289.76 pts) towards near the historic high of 20,268.57 pts recorded back in March 1997. During the period, average transacted value advanced to RM3.27bn, from average RM1.96bn in the same period recorded last year as selected larger cap stocks were in favour by local and foreign institutional participants.

- **Retail market also gather pace**. On the retail participants segment, average daily transacted valued in 1H24 jumped to RM737.5m vs. RM548.8m recorded in 1H23 demonstrates that trading activities were also well centred towards small and mid captalisation stocks amidst the mostly positive quarterly financial performances in recent quarters.

*Positive overall performance led by **Construction** and **Utilities** sector, while the **Plantation** sector was the sole underperformer*

Bursa Malaysia 1H24 Sector Performances



Source: Apex Securities

Malaysia Market Outlook

- **Turning wobbly as we march into 1,600**. With the key index tethering near 1,600 level, we reckon that investors may adopt quick profit taking activities, whilst waiting for fresh catalyst. Still, any potential pullback will be quickly met by bargain hunting activities over the interim. Meanwhile, we expect some volatility to be a feature ahead of the US Presidential election and resumption of recovery prospects would largely be on the cards post US Presidential election when market sentiment turns calmer toward end-2024 along with the usual year-end window dressing.

- **In search for fresh catalyst**. A present, the key index may attempt to re-claim 1,600 level, driven by selective buying amongst the index heavyweights. Should the key index manage to sustain above the aforementioned range, further gains may come by over the foreseeable future as valuations remain fairly attractive against historical mean average. Also, the prospects of improving economic and corporate fundamentals may turn supportive towards the Malaysia market.

- **Lower liners to remain in focus**. The FBM Small Cap Index that propelled to multi-year high is expected to see increasing volatility as the overbought conditions may prompt investors to lock in gains over the interim. Should trading liquidity remains upbeat, we expect the FBM Small Cap to challenge the historic high recorded in 1997. With ample of trading liquidity as well as oversubscription rates of recent IPOs, we believe the Malaysia equities market remains a preferred destination of investment alternative.

- **Acceleration in removal of blanket subsidies**. With government sitting in tight coffers, the move to remove diesel subsidy took place on 10 June 2024. Looking ahead, all eyes will be focusing onto the removal of blanket subsidy for RON95 petrol in 2H24. The move is expected to send a minor jolt towards Malaysia inflation which hovered below 2.0% mark since September 2023. Nevertheless, the introduction of Employee's Provident Fund (EPF) Account 3 (Akaun Fleksibel) is expected to provide some alleviation towards consumer spending.

- **Prospects of Ringgit improvement may attract foreign funds**. Although the prospects of interest rate cut have reduced to only once for the remainder of 2024, we remain sanguine over the move which 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 2H24.

- **Execution of key economic blueprints in focus**. Looking ahead, on-going 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.

- **Final sprint towards end of Twelfth Malaysia Plan**. We expect development expenditure to remain fairly stable with spending of c.RM90.0bn under Budget 2025 (similar with Budget 2024) with the nation plans to narrow the fiscal deficit to 3.5% of gross domestic product (GDP).

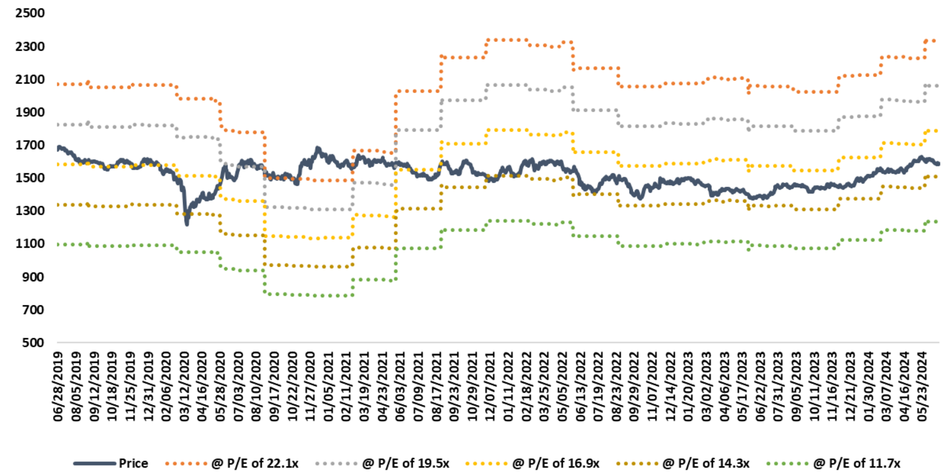
- **Expected key measures under Budget 2025 include;**
  - o Energy transition to be accelerated under the National Energy Policy, 2022-2040 (DTN), targeting 31.0% RE installed capacity by end-2025
  - o Strengthen Islamic Capital Market development solidifying the position of Malaysia as the global Islamic financial centre
  - o Gearing up tourism-related sector as we head towards "Visit Malaysia Year 2025"
  - o 100% internet coverage in populated areas
  - o Target 2.06 hospital beds per 1,000 population (c.1.9 hospital beds per 1,000 population in 2023)
  - o Strengthening of public transport network
  - o Flood mitigation projects
  - o Healthcare and education to remain with largest allocation
  - o Acceleration of affordable housing projects targeting 500,000 units as oppose to c.100,000 units completed
  - o Progressive wage model (details of civil servant salary increment)
  - o Reformation of water industry model nationwide to address key issue pertaining non-revenue water (NRW)
  - o Incentives on adoption of digital technologies across various sectors

- **Valuations still appealing**. Despite marking decent performance as of late, Malaysian stocks remain slightly undervalued with FBM KLCI trading at PERs at 14.5x and 13.4x for 2024F and 2025F respectively. The PERs are still below historical five-year forward average of 16.9x, implying potential upsides in our view. At the same time, the FBM KLCI is trading at forward P/B of 1.36x and 1.30x for 2024F and 2025F respectively, which is below the five-year historical average of 1.50x.

- **In-house targets**. Our 2024F and 2025F year-end target for FBM KLCI are **1,650** and **1,720** respectively, based on assigned 15.0x PE multiple. As the Malaysia economy remains on the growth projections, we reckon that the prospects of earnings growth remain on the cards (Growth in 2024F EPS are expected to be tepid at 1.4% yoy, while 2025F EPS projected to expand by 7.8% yoy) may present some investment/trading opportunities over the longer-term perspective.

Valuations still below historical mean average

5-Year Historical FBM KLCI PE Band



Source: Bloomberg, Apex Securities

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2H24 Economic Outlook

Charting Reasonable Growth Rate

Malaysia 1H24 Economic Review

Supply side

SECTOR (YoY/%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
	QUARTERLY						
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

(YoY) (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
	QUARTERLY						
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

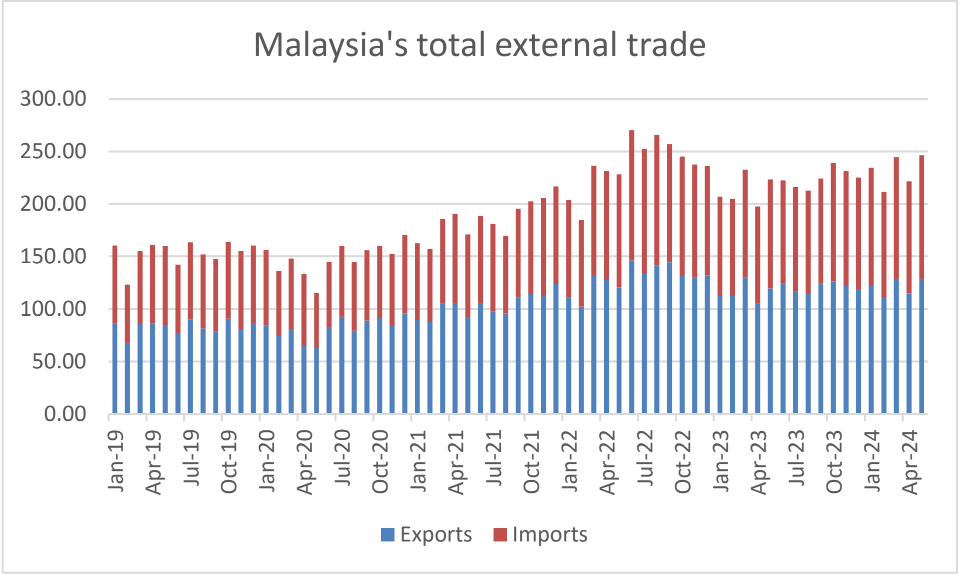
- **1Q24 GDP review.** Malaysia's economy expanded 4.2% yoy in 1Q24, surpassing initial and market forecasts of 3.9% and accelerating from the adjusted 2.9% growth in the preceding quarter. Robust domestic demand, fueled by strong household spending (+4.7% yoy), buoyed by a better job market (latest unemployment rate: 3.3%) and rising wages (up from 4.8% in 2022 to 5.0% in 2024), played a crucial role. Overall, this marked the swiftest economic expansion since 1Q23, primarily driven by (i) Services sector (+4.7% yoy), benefitting from higher household spending and heightened tourism activities following surge in tourist arrivals. (ii) Manufacturing sector (+1.9% yoy), supported by the recovering on E&E sectors. On the supply side, economic growth was led by these sectors, while demand was bolstered by private final consumption expenditure and gross fixed capital formation.

- **Highest inflation rate in eight months**. Malaysia's inflation rate rose 2.0% yoy in May 2024. Price hikes were observed in housing, water, electricity, gas, and other fuels (rose +3.2%), as well as restaurant and accommodation services (rose +3.2% yoy). Food and beverages saw a rise of 1.8% yoy, while clothing and footwear, along with insurance and financial services, declined by -0.2% and -0.1% yoy, respectively. Core inflation, which excludes fresh food and government-administered prices, remained steady at 1.9% yoy in May 2024, driven by increases in restaurant and accommodation services, and personal care, social protection, and miscellaneous goods and services. Inflation excluding fuel reached 1.9% yoy in May 2024, up from 1.8% yoy the previous year, covering all goods and services except specific types of petrol and diesel. Still, Malaysia's inflation rate remained lower than that of South Korea (2.7%), Indonesia (2.8%), and the Philippines (3.9%), while Thailand reported an inflation rate of 1.5% during the same period. Overall, headline inflation in Malaysia is expected to stay within the government's projected range of 2.0-3.5% for 2024, following the reform of diesel subsidies that began in June 2024.

- **Strong recovery in external trade**. As of May 2024, Malaysia's trade demonstrated robust performance with a 10.3% yoy growth, reaching RM246.3bn; the highest since October 2022. Exports rose 7.3% to RM128.2bn, driven primarily by strong demand for electrical and electronic products, palm oil, and metal manufacturers. Imports also saw a significant rise of 13.8% yoy to RM118.09 bn, resulting in a trade surplus of RM10.1bn, marking the 49th consecutive surplus month since May 2020. Key export markets including ASEAN, China, US, EU, and Japan exhibited positive trends, with ASEAN and the US showing particularly strong growth. Trade for the first five months of 2024 reached records highs, totaling RM1.16trn, up 8.7% yoy, supported by a trade surplus of RM52.01bn.

Malaysia Monthly Trade Performance

Signs of recovery in external trade



Source: MATRADE

- **FDI preferred location.** Malaysia recently experienced a significant influx of foreign direct investment (FDI), driven by major commitments from tech giants like Google, Apple, Microsoft, ByteDance, and BlackBerry. These investments are expected to elevate Malaysia's global appeal as a premier FDI destination. The investments are set to bolster Malaysia's economic position, showcasing dynamic growth supported by advancements in technology, diversified sectors, and enhanced global connectivity. Surge in FDI is anticipated to strengthen the Malaysia's economy, stimulate job creation, and foster skill development, and help Malaysia to move up the value chain into high-tech industries like AI, cybersecurity, and digital infrastructure. Malaysia' strategic location, robust infrastructure, skilled workforce, and supportive government policies continue to attract multinational firms seeking to expand their operations in Southeast Asia amid global economic shifts and geopolitical considerations. In addition, as of March 2024, private foreign investment across various economic sectors in Malaysia has a significant growth of 23.8% yoy, reaching RM47.0m.

Monthly Trade Performance

APPROVED PRIVATE INVESTMENTS IN VARIOUS ECONOMIC SECTORS, JANUARY-MARCH 2024 / JANUARY-MARCH 2023 / JANUARY-DECEMBER 2023

RM

Summary	Number			Potential Employment			Domestic Investment (RM million)*			Foreign Investment (RM million)*			Total Capital Investment (RM million)*		
	Jan-Mar 2024	Jan-Mar 2023	Jan-Dec, 2023	Jan-Mar 2024	Jan-Mar 2023	Jan-Dec, 2023	Jan-Mar 2024	Jan-Mar 2023	Jan-Dec, 2023	Jan-Mar 2024	Jan-Mar 2023	Jan-Dec, 2023	Jan-Mar 2024	Jan-Mar 2023	Jan-Dec, 2023
Primary Sector	11	23	75	48	22	661	1,265.6	2,266.4	7,103.7	161.1	655.4	1,977.3	1,426.7	2,921.8	9,081.1
Manufacturing Sector	252	192	883	17,991	11,915	73,939	4,791.9	3,018.3	23,529.5	38,154.8	12,602.1	128,438.2	42,946.7	15,620.5	151,967.7
Services Sector	994	1,137	4,143	10,988	13,382	52,732	30,638.6	30,820.7	110,456.3	8,696.3	24,722.5	57,949.9	39,334.9	55,543.2	168,406.2
Total	**1,257**	**1,352**	**5,101**	**29,027**	**25,319**	**127,332**	**36,696.1**	**36,105.5**	**141,089.6**	**47,012.2**	**37,980.1**	**188,365.4**	**83,708.3**	**74,085.5**	**329,455.0**

Note :
* - Due to rounding, figures presented in this table may not add up precisely to the totals provided

Source: MATRADE

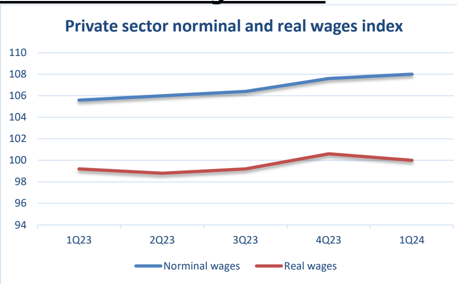
- **Budget 2024 implementation.** In Budget 2024, government announced plans to phase out diesel subsidies, maintaining lower prices for selected users like goods transport companies while imposing higher rates for others as part of the move to improve the country's finances. Despite moderate rise in vehicle usage, subsidised diesel sales surged by up to 40% since 2019, raising smuggling concerns. Thus, on 10 June 2024, the diesel blanket subsidy in Peninsular Malaysia was lifted, resulting in adjustment from RM2.15 to RM3.35/L. In the meantime, the Budi Madani program offers monthly assistance of RM200 to chosen vehicle owners and businesses to mitigate the impact of the raised pump prices.

- **Resilient Outlook in South Malaysia due to Johor-Singapore Special Economic Zone.** An MoU was ratified on 11 January 2024 by the leaders of both countries, with a comprehensive agreement expected by end-2024. The JS-SEZ aims to attract multinational companies to set up facilities to Johor, in bid to mitigate risks from US-China trade tensions. These include establishing the Investment Malaysia Facilitation Center Johor (IMFC-J) to boost investment and streamline business operations within Johor's Forest City Special Financial Zone (SFZ), and introducing QR code-based immigration clearance for Malaysians traveling to Singapore starting June 2024. These efforts along with the KL-SG High-Speed Rail and Gemas-Johor Bahru rail projects, aimed at enhancing regional connectivity and fostering economic growth. Johor aims to achieve developed status by 2030 through targeted investments in key sectors and sustainable development initiatives, supported by forthcoming key economic policies.

Malaysia 2H24 Economic Outlook

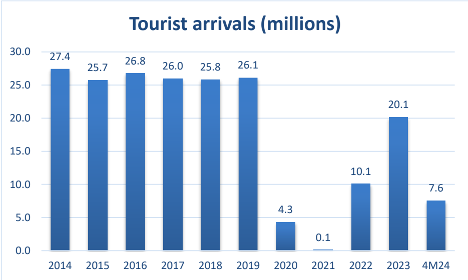
- **Reasonable growth**. Following strong growth in 1Q24, we expect the local economy to continue posting reasonable growth in coming quarters. This will be driven by the recovery of external trade, particularly from E&E sector, and resilient private consumption supported by a robust labour market, with the unemployment rate expected to remain at 3.1-3.3% in 2024, coupled with higher private wages. Additionally, several measures, such as EPF Account 3 withdrawal and salary hikes for civil servants, will further support private consumption. We also anticipate that tourist arrivals will continue to climb in 2H24, returning to pre-pandemic levels, supported by the implementation of the visa liberalisation program with other countries. Nevertheless, certain risks persist, including inflationary pressure expected from subsidy rationalisation and the SST hike. Considering these factors, we reiterate a reasonable growth of Malaysia GDP with a full-year 2024 forecast at **+4.1% yoy.**

Private sector wages index



Source: DOSM, Apex Securities

Tourist arrivals



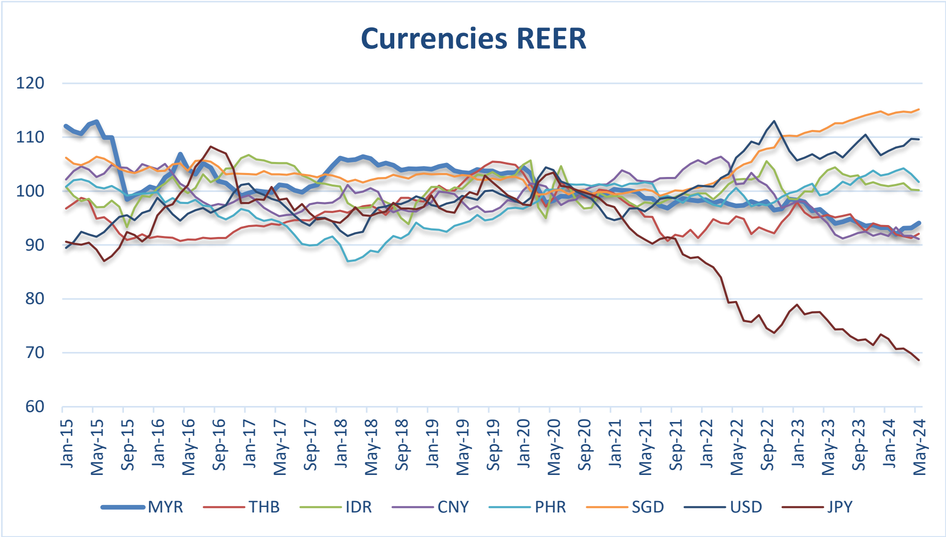
Source: TourismMalaysia, Apex Securities

- **Expecting higher inflation.** Inflation increased by 1.8% yoy (5M24), driven by higher water tariffs and service taxes due to increased electricity consumption. Moving into 2H24, we expect inflation to trend higher following the rationalisation of diesel blanket subsidy, with petrol expected to follow suit in late 2024. We project headline inflation to grow by **3.2%** year-on-year for 2024, compared to 2.5% in 2023.

- **External trade navigating in external headwinds.** We expect Malaysia's external trade to achieve reasonable single-digit growth in 2H24. Our projection aligns with Bank Negara Malaysia's (BNM) forecast of a +5% increase in exports for the overall year of 2024. Growth is driven by the recovery in global trade and the E&E sector, along with the economic recovery in China and benefits from trade diversion. However, these positives are tempered by external challenges, including escalating geopolitical tensions and a prolonged high interest rate environment.

- **Ringgit to strengthen.** Over 1H24, the Malaysian Ringgit (MYR) depreciated approximately -2.6% against the USD, mirroring the trend observed in most regional currencies. The depreciation was primarily due to shifting expectations regarding the US Federal Reserve's monetary policy, which anticipated a prolonged high interest rate environment. Against other regional currencies, the MYR showed relatively smaller depreciation in 1H24, supported by steady economic improvements and positive impacts from domestic structural reforms. Moving forward into 2H24, we anticipate a reversal of this trend. The potential reversal is supported by the anticipation of a stronger current account surplus, driven by robust FDI in the pipeline, a gradual recovery in exports, and an increase in inbound tourists. Additionally, we expect the US Federal Reserve to adopt a firmer stance on cutting interest rates as we approach the second half of the year.

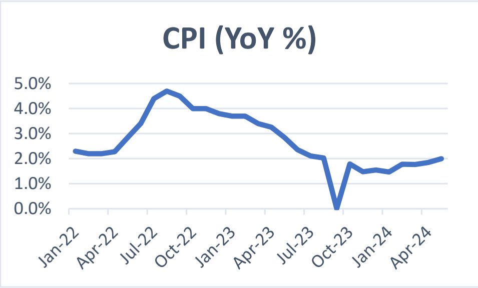
Currencies REER

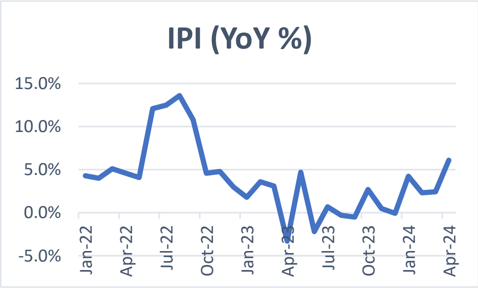


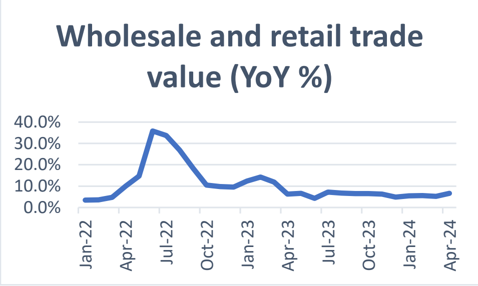
Source: Bloomberg, Apex Securities

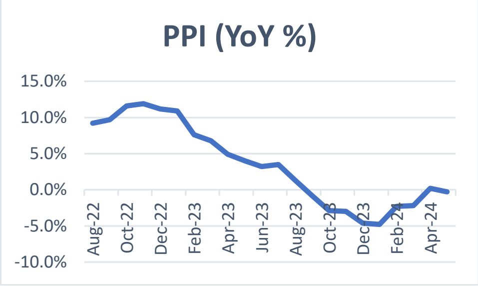
- **OPR forecast**. Considering the resilient domestic economy and inflationary pressures, we reiterate our projection that Bank Negara Malaysia BNM will maintain the Overnight Policy Rate (OPR) at 3.0% throughout 2024.

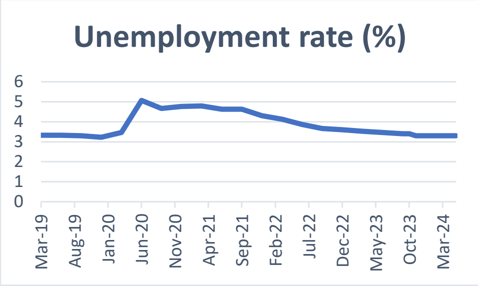
Malaysia Key Economic Data











Source: Source: DOSM, Apex Securities

Sector Updates

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Construction (Overweight)

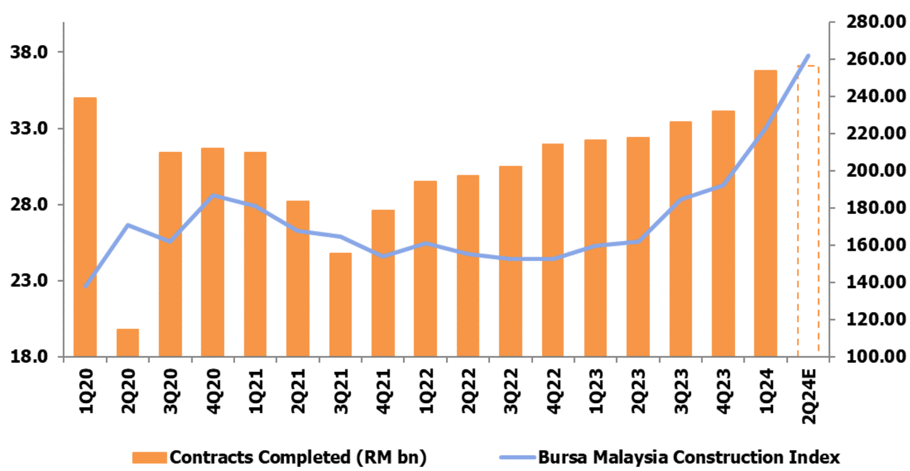
Billing progress gathering pace

- **Review**. The construction sector delivered a notable surge (+14.2% yoy) in 1Q24 with value completed totalling RM36.8bn, driven by civil engineering (+18.0 yoy) from the construction of road and railways, special trades activities (+11.8% yoy) and residential buildings (+11.5% yoy) followed by (+3.8% yoy) improvement from the non-residential buildings. Meanwhile, the private sector makes up to 59.2% or RM21.8bn of the total market share, while the remainder (40.8% or RM15.0bn) contributed from the public sector.

- With construction activities charting stronger performance, Bursa Malaysia's Construction Index advanced 37.4% to close at 263.71 pts in 1H24. The said improvement was partly attributed to the better-than-expected financial results in general as well as brighter prospects that is riding onto the acceleration of public mega infrastructure projects as well as pick up from private projects.

Charting sequential growth post-Covid19 pandemic

Contracts Completed vs Construction Sector Index



Source: Department of Statistics, Apex Securities

- **Outlook**. After completing a total value of RM132.1bn construction works in 2023, we expect Malaysia contractors to remain busy with potentially c.RM110.0bn value of works in the pipeline to be completed for the remainder of 2024. Already, 1Q24 figures recorded at RM36.8bn makes up to 25.4% of our projection of RM145.0bn.

- **Public sector may take the driving seat**. We gather that the private sector, led by higher FDI mainly accounted to a large slice of contractors orderbooks in 1H24. Orderbook replenishments, particularly in recent months were mainly filled by mushrooming of data center facilities, industrial warehouses and storage/logistics facilities as well as expansions of semiconductor factories. Looking into 2H24, particularly towards end-2024, we reckon that the rollout of public mega infrastructure projects with the likes of 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), Bayan Lepas Light Rapid Transit (BLLRT) in Penang and Pan Borneo Highway (Sabah section) that are relatively at nascent stages may shift into higher gear.

Selected key public transport projects to keep construction players busy

Selected Public Transport Projects	Tentative project timeline
Bus Rapid Transit (Johor Bahru & Klang Valley) expansion	Present – 3Q2025
Upgrading of new phases for North South Expressway (NSE)	June 2024 – June 2027
Sarawak-Sabah Link Road II	End-2023 – end 2028
Sabah Pan Borneo Highway Phase 1B	July 2024 – March 2029
Penang Light Rapid Transit (LRT) Project (Mutiara Line)	September 2024 – 2030
Penang International Airport expansion	2025 – 2028
Sultan Abdul Aziz Shah Airport, Subang redevelopment	2025 – 2031

Source: Twelfth Malaysia Plan Mid Term Review

- **Private sector still growing strong**. Mushrooming of data centers, warehouse and logistics expansions, semiconductor plants expansions are expected to remain on the cards in 2H24, riding onto the relatively inexpensive land, government-led efforts to attract FDI, a proxy to trade diversions and well-planned infrastructures. Additionally, we believe building-related focused players will be kept busy with new property launches amidst the improved sentiment within the property market, hospital, schools and related works in the pipeline.

- **Valuation & Recommendation**. Presently, the construction sector is trading at forward P/E multiples of 18.4x and 15.6x for 2024F and 2025F is now fair against the historical two-year mean average of 15.0-17.0x implies upsides may be limited at current juncture with majority of the construction player's share prices have appreciated and catch up towards near their fundamentals. Under our coverage universe, we favour **AME Elite Consortium Bhd (BUY; FV: RM1.95)** as the Group aims to replicate the success of industrial park in Johor to the development of new industrial park in Penang, potential further asset monetisation and increasing demand for industrial properties with Malaysia capitalising onto global trade diversion.

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

- **Summary.** While we expect outlook to remain bullish over the foreseeable future, we reckon that valuations appear to have turned fair at current levels, presenting limited upside in our view. Still, upsides may be continued to be predominantly driven by news flows over the interim. Consequently, we maintain **Overweight** on the construction sector, premised to the improving outlook and fundamentals.

Top Picks

Company	Price (RM) as at 30Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
AME Elite Consortium Bhd#	1.61	10.2	13.6	9.4	2.5	1.95	21.1%
Kerjaya Prospek Group Bhd*	1.81	14.9	13.1	12.0	5.0	2.08	14.9%
Gamuda Bhd*	6.58	16.9	18.5	14.9	2.1	7.10	7.9%
Econpile Holdings Bhd*	0.46	N/A	N/A	25.3	2.2	0.64	39.1%

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

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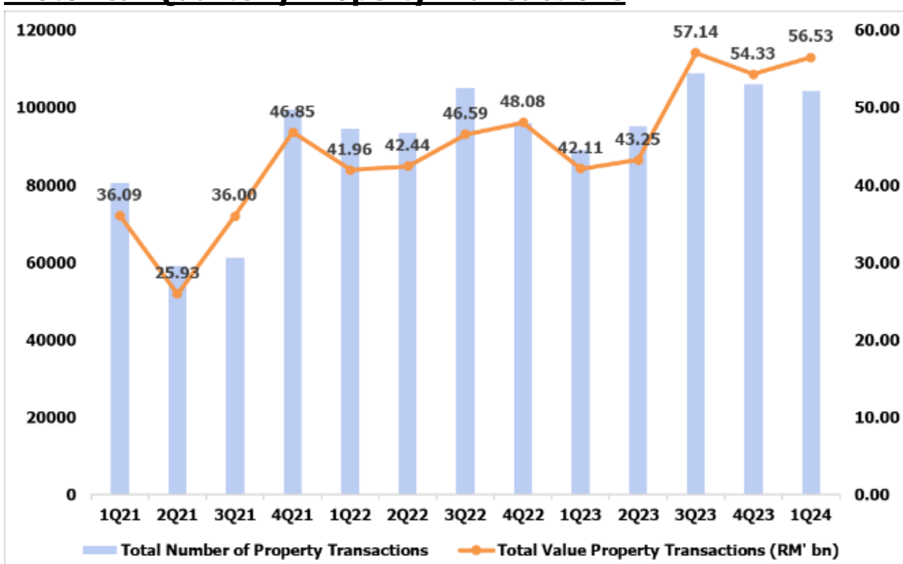
Property (Overweight)

Ensuring stability and resiliency

- **Review**. The property sector recorded as solid performance with total property transactions valued rose 34.2% yoy to RM56.5bn in 1Q24. Meanwhile, total volume transacted also expanded 17.2% yoy to 104,297 units. The improvement underscores demand for properties remains resilient, particularly affordable residential properties priced RM300,000 and below. On the breakdown of transacted value, residential sub-sector stood at 44.7% of total transactions, followed by commercial sub-sector (23.5%), industrial (12.5%), agricultural (11.0%) and development of land and others (8.3%). During the quarter, new residential launches stood at 5,585 units, while sales of new launches stood at 1,119 units, representing 20.0% sales conversion. At the same time, average property price to transaction in 1Q24 also improved to RM542,009/unit vs. RM512,861/unit recorded in 4Q23.

Improving property transaction value, hovering above RM50.00bn in recent quarters

Historical Quarterly Property Transactions



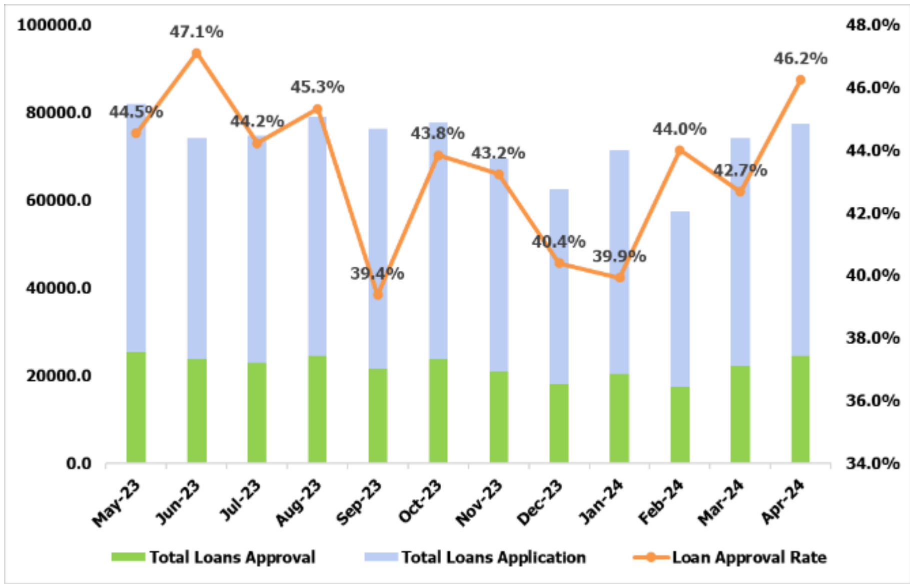
Source: Bank Negara, Apex Securities

- Stability in loan approval rate averaging above 40.0% in 4M24 ensures sustainability. On the overhang or unsold completed houses, we noticed improvement with 6.2% decline in terms of volume to 24,208 units as the more prudent launches approach adopted by property players bears fruits in ensuring existing unsold units are gradually absorbed by the market.

- Bursa Malaysia's property index emerged as the third biggest winner in 1H24 (+25.4%) to close at 1,080.89 pts. Gains were largely underpinned by new mega infrastructure projects which sparks demand in selected areas, particularly in Johor that was driven by various initiatives led by the Johor state government, including development of the RTS Link, establishment of Forest City as a Special Financial Zone (SFZ), and proposed Johor-Singapore Special Economic Zone (SEZ).

Historical Quarterly Property Transactions

Loan approval rate remains stable above 40.0% level



Source: Bank Negara, Apex Securities

- **Outlook**. The Malaysia property sector is expected to remain stable, driven by healthy loan applications as well as loan approval rates which we expect to stay above 40.0% threshold. Property players may continue to adopt a prudent approach over future launches until existing launches reaches certain take-up rates. Also, the revision of Malaysia My Second Home (MM2H) is positive to alleviate the high-end residential property segment. We expect interest to pick up within certain states such as Johor, Klang Valley and Penang, mainly driven by improving connectivity.

Demand-Pull Drivers in Selected States

Johor	Klang Valley	Penang
• Rapid Transit System (RTS) link • Forest City Special Financial Zone (SFZ) • Johor-Singapore Special Economic Zone • Johor Bahru Autonomous Rapid Transit (ART)	• Rapid urbanisation • Revival of KL-SG High Speed Rail • Klang Valley MRT 3 • LRT 3 extension	• Penang Mutiara Line LRT • Silicon Island development

Source: Apex Securities

Property Segment Outlook

Residential (+)	Office (-)	Retail (+)	Industrial (+)
• Demand stability ensures smooth roll-out of planned launches • Focused onto launches priced below RM500,000 • Developments of township remain sustainable	• Occupancy rates recovery remain challenging in view of prolonged oversupply • Impending new office spaces in coming years may pressure rental rates	• Improving footfall as domestic economy gain traction • Tourism-related businesses expected to fare better	• Riding onto implementation of NIMP 2030 • Rise in data center investment • Pent up demand for warehouse & logistics facilities

Source: Apex Securities

- Although Malaysia's household debt-to-GDP ratio ticked mildly higher to 84.2% as of end-2023, we reckon that the stability in labour market will cushion the aforementioned impact. Still, the potential rising cost of living in anticipation of higher inflation following the removal of blanket subsidies in 2H24 may put a dampener for Malaysian citizens to undertake big ticket purchases. On a brighter note, we reckon OPR to remain unchanged for the remainder of the year and this will allow planned purchases to proceed accordingly.

- **Valuation & Recommendation.** We remain in favour of property players operating in leaner balance sheet and is supported by good traction of township developments targeting lower-mid income level groups such as **MATRIX (BUY; FY: RM2.14)** and **OSK (NR)**. Following the appreciation of share prices in majority of the property players, we gather that forward PB for the property sector is trading at 0.65x and 0.64x for 2024F and 2025F is now fair against the historical average of 0.5-0.6x.

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

- **Summary**. With the change in fortunes as demand for land rose amid the higher demand to set up data center and cloud computing facilities, we are upbeat onto the property sector. We assigned an **Overweight** outlook premised to (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 (iii) supportive measures from government to aid first time home buyers, (iv) looser restrictions under MM2H programme to attract foreign buyers in bid to alleviate the prolonged property overhang scenario.

Top Picks

Company	Price (RM) as at 30Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Matrix Concepts Holdings Bhd#	1.78	8.1	7.2	5.7	5.6	2.14	20.2%
OSK Holdings Bhd*	1.59	5.5	6.6	6.1	5.0	2.37	49.1%
LBS Bina Group Bhd*	0.72	7.4	8.3	7.5	5.6	0.90	25.0%

 # Matrix Concepts Holdings Bhd data based on FYE Mar

** Denotes Bloomberg consensus data*

Source: Apex Securities Bhd, Bloomberg

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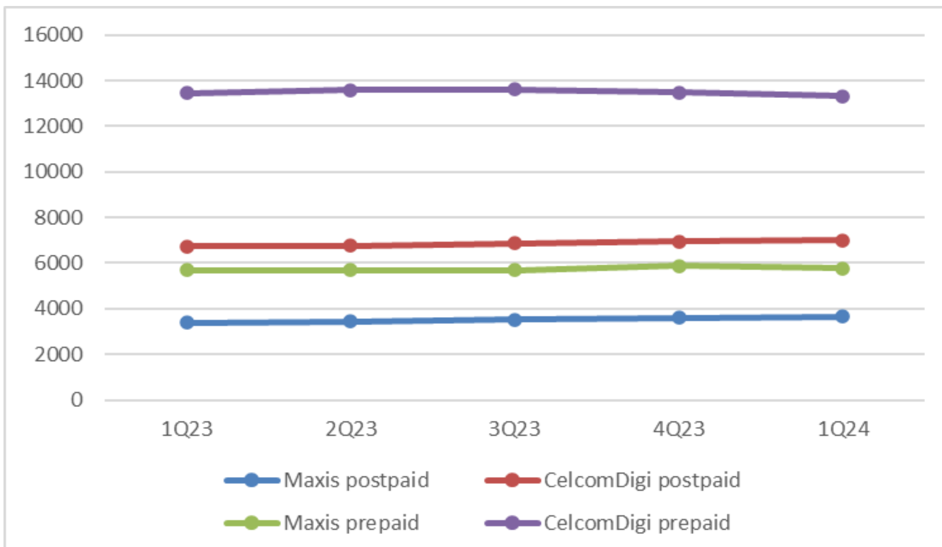
Telecommunication (Neutral)

Gearing up for 5G

- **Review**. Bursa Malaysia Telecommunication Index grew 4.6% in 1H24, hovering close to 600 pts after rebounding from the low of near-545 pts in late 2023. During the quarter, postpaid subscribers continue to see growth in contrast to the decline in ARPU. We gather telecommunication operators such as Maxis and CelcomDigi are able to expand the postpaid subscriber base due to ongoing implementation of fixed mobile convergence (FMC) strategy which attracted customer loyalty coupled with migration from prepaid. On the other hand, prepaid subscriber and ARPU has been tapering off qoq due to the intensifying price war.

CelcomDigi Prepaid still lead the pack, while Maxis postpaid inching up

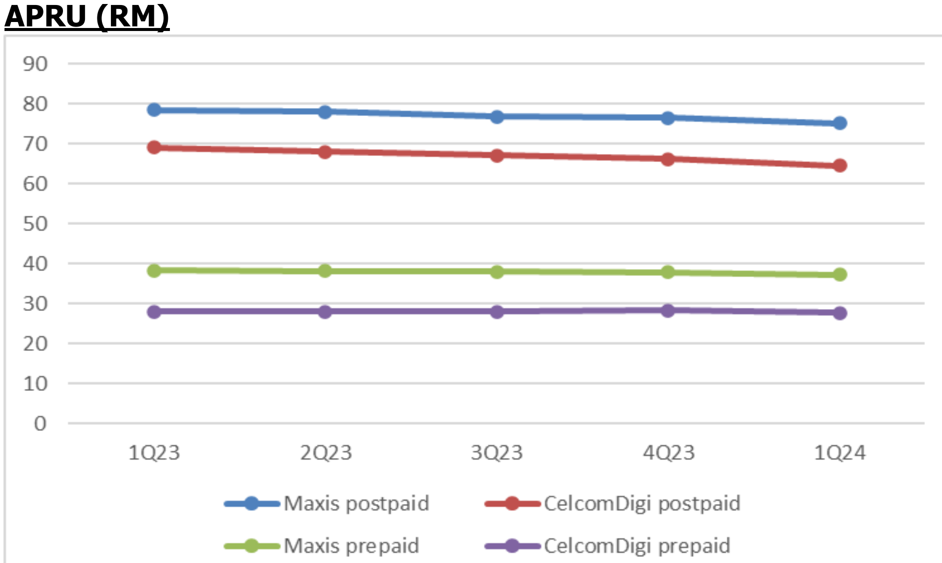
Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

Intense competitiveness postpaid packages

APRU (RM)



Source: Maxis, CelcomDigi

- Although consumer 5G adoption rate is rising rapidly, demand from enterprise remained tepid due to the high costs for 5G devices. Nevertheless, this also represents an opportunity for telecommunication operators to tap into the enterprise segment. The rise in AI development will prompt demand for computing resources for data centres in Malaysia. While Singapore has traditionally been the regional focal point for data centres due to its highly advanced telecommunications and impressive network infrastructure, we reckon growth in Singapore will eventually slow down due to limited land space and rising operational costs. Recently, Johor has become a hotspot for data centres attracting multinational players like Microsoft, Google and GDS Holdings as the state enjoy spillover demand from Singapore.

- **Outlook**. In regards to Malaysia's 5G rollout, Maxis, CelcomDigi and Umobile has announced they are ready to complete the Digital Nasional Berhad (DNB) share subscription agreement (SSA). The completing the SSA process will mark as a key milestone and necessary step to commence the transition to a dual 5G network. That said, this new venture will likely involve additional capital expenditure for these companies and may affect its near-term dividend payout.

- **Valuation & Recommendation**. Our top pick would be **Maxis Bhd (BUY, FV: RM4.28)** and **CelcomDigi Bhd (BUY, FV: 4.19)** as postpaid saw an encouraging growth across its consumer and enterprise businesses. We reckon recent retreat in share price has present a good opportunity to accumulate these high dividend yield stocks within the industry. Aside from that, we are also positive on **Axiata Group Bhd (BUY, FV: RM2.94)** current strategic merger XL Axiata and Smartfren which will generate cost saving synergy as well as edotco strong growth prospect in the emerging market. While we favour **Telekom Malaysia Bhd (HOLD, FV: RM6.48)** for its market leadership in the home fibre segment and monetisation opportunities from the second phase of the national digital network project, we believe share price has fairly reflected its current valuation. Besides that, we also identify Telekom and YTL Corporation (NR) to benefit from the boom in data centre.

- **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 the prospects of unattractive dividend yields and intensifying competition.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
CelcomDigi Bhd	3.68	26.8	21.5	18.6	3.9	4.19	13.9%
Maxis Bhd	3.53	26.9	20.4	18.9	4.5	4.28	21.2%
Telekom Malaysia Bhd	6.76	16.4	16.0	15.8	3.3	6.48	-4.1%
Axiata Group Bhd	2.61	44.2	34.8	25.1	3.7	2.94	12.6%
YTL Corporation Bhd#*	3.45	36.7	17.7	16.1	2.3	3.70	7.2%

 # YTL Corporation Bhd data based on FYE Jun
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

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Plantation (Neutral)

Peak production hampering CPO prices

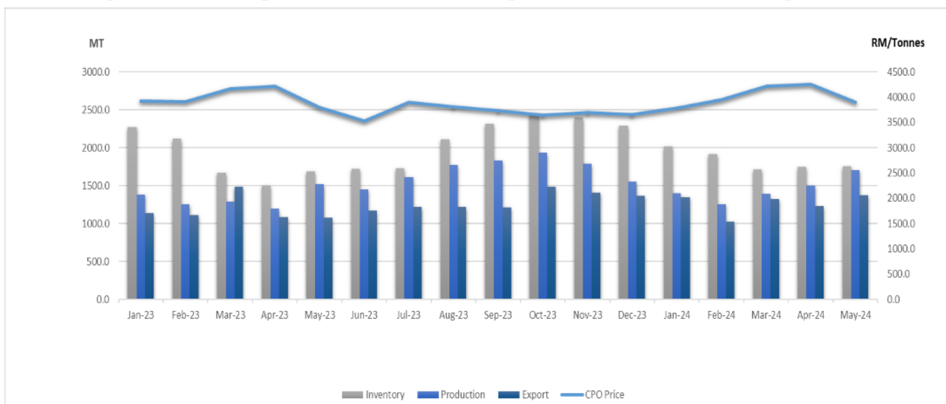
- **Review**. Palm oil production rose modestly 3.4% yoy to 4.2bn tonnes in 1Q24 (vs 3.9bn tonnes in 1Q23). In 5M24, palm oil production reached 7.3bn tonnes, marking 9.4% yoy increase. The strong production growth was supported by the improvement in labour availability for the sector and better fertiliser application. Lower fertiliser prices compared to previous years have improved affordability for farmers to apply the necessary nutrients to their crops, enhancing growth and yield.

- Exports in palm oil slipped 0.9% yoy to 3.7bn tonnes in 1Q24, but saw cumulative growth of 7.0% to 6.3bn tonne. We gather that both stockpile in India and China has dropped to critical low level as the high CPO price in 1Q24 dented demand in both countries. Moving forward, we anticipate export to rebound in the coming quarters in anticipation of China and India replenishing palm oil inventories as CPO price starts to taper off from rising supply. According to USDA, demand for palm oil is forecasted to increase by 4.3% yoy in 2024 led by growing consumption from Indonesia, India and China.

- Meanwhile, palm oil inventory experienced a notable decline 6.8% yoy in 1Q24 and was down 1.1% YTD, reaching a total of 5.6bn tonnes and 9.1bn tonnes respectively. Despite the recovery in palm oil production, stockpile dropped due to strong domestic consumption following the festive season.

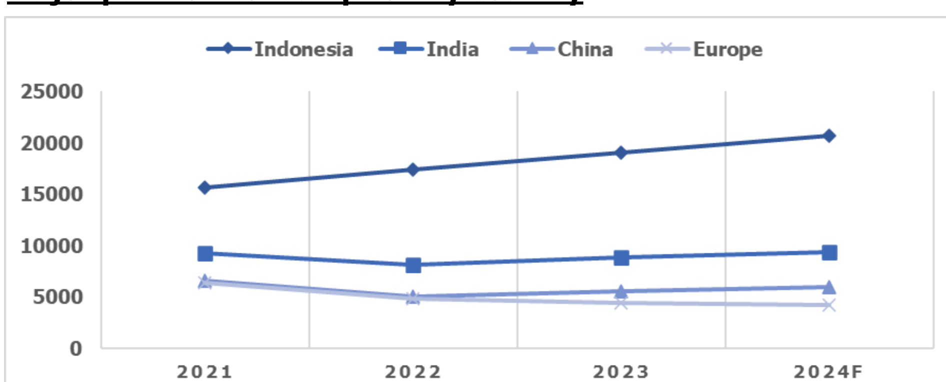
Rising production kept a lid onto prospects of CPO prices recovery

Monthly Inventory, Production, Export and CPO Price)



Source: MPOB, Apex Securities

Major palm oil consumption by country



Source: USDA, Apex Securities

- **Outlook**. Moving forward, we anticipate CPO price to average at RM4,000/tonne in 2024. Nevertheless, we foresee CPO price to trend downwards towards RM3,800/tonne in 2H24 as palm oil inventory is expected to further expand when the peak season starts.

- **Valuation & Recommendation.** We remain **Neutral** with the plantation sector for 2024. Under our coverage universe, we re-iterate our **HOLD** recommendation for **United Plantation Bhd (FV: RM25.83)**, **Hap Seng Plantations Holdings Bhd (FV: RM1.93), Kim Loong Resources Bhd (FV: RM2.34)** and **Sarawak Plantations Bhd (FV:2.16)**. We kept our **SELL** recommendation on **Kuala Lumpur Kepong Bhd (FV: RM 19.57)** as we anticipate KLK downstream segment may continue to face headwinds. The Plantation sector is trading at forward PERs of 17.2x/16.4x for 2024F/2025F and is currently above its historical three-year average of 13.7x, implying the sector's valuation is overstretched 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 may continue to face headwinds due to i) higher palm oil production as it enters peak season, and ii) further narrowing of premium between soybean oil and palm oil, stem from increased planted area and average yield. Hence, we maintain our **Neutral** stance on the plantation sector.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Hap Seng Plantations Bhd	1.76	14.6	12.2	12.5	5.6	1.93	9.7%
Kim Loong Resources Bhd#	2.20	11.8	14.4	13.5	5.5	2.34	6.4%
United Plantation Bhd	24.50	10.1	13.7	13.6	6.4	25.83	5.4%
Sarawak Plantations Bhd	2.12	8.9	8.0	6.1	5.0	2.15	1.4%
Kuala Lumpur Kepong Bhd#	20.64	27.7	18.3	15.2	4.1	19.57	-5.2%

 # Kuala Lumpur Kepong Bhd data based on FYE Sep
 # Kim Loong Resources Bhd data based on FYE Jan
Source: Apex Securities Bhd, Bloomberg

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Technology (Neutral)

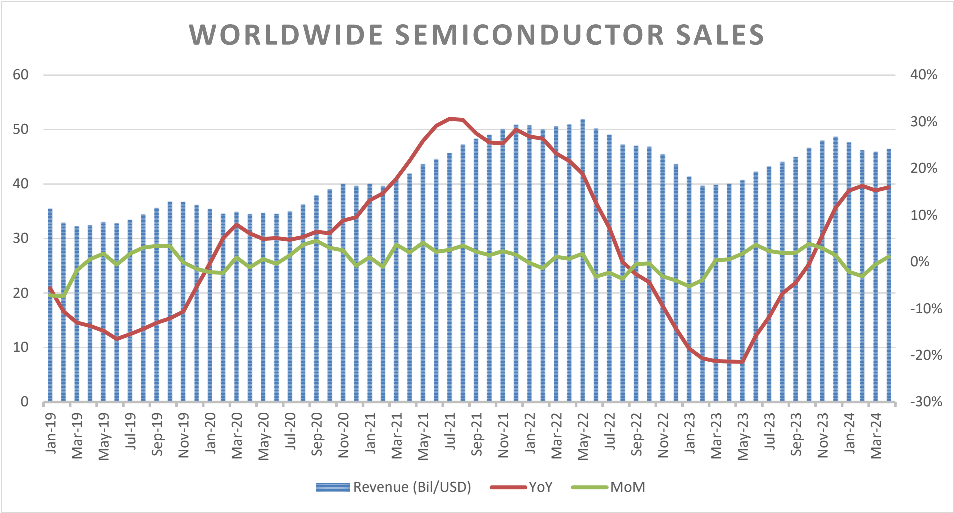
Uneven recovery amid brighter prospects

- **Review**. Bursa Malaysia Technology Index showed strong performance in 1H24, particularly from April 2024, mirroring the performance of the US tech-heavy Nasdaq. The index began to surge after technology companies released improved quarterly results and provided a more positive outlook for recovery. During 1H24, most technology companies, including OSAT, Electronic Manufacturing Services (EMS) and equipment makers, guided positive outlook and projected earnings recovery, particularly towards 2H24, indicating that the sector may have bottomed out and is poised for meaningful recovery in 2H24 and FY25.

- The AI boom in the US and the development of data centres (DC) in Malaysia, coupled with international FDI in the E&E sectors under the newly unveiled National Semiconductor Strategy (NSS), have also contributed to the positive sentiment and uptick in the technology sector. Data from the Semiconductor Industry Association (SIA) indicates that the growth trajectory for global semiconductor sales has been on a positive momentum since last year, reaffirming that the industry has bottomed out following a recovery in consumer electronics sales worldwide.

Semiconductor sales recovery gained traction since mid-2023

Worldwide Semiconductor sales



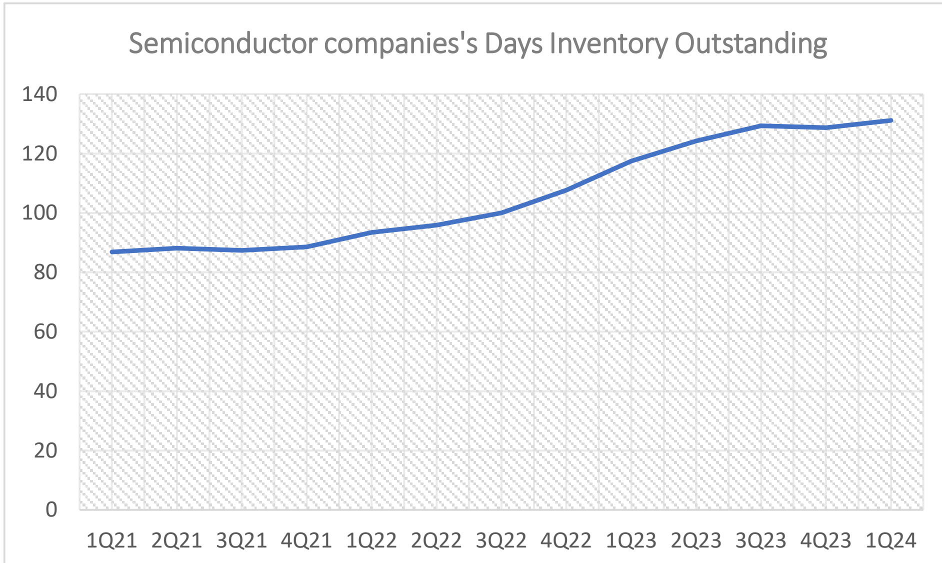
Source: Bloomberg, Apex Securities

- **Outlook**. WSTS upgraded their forecast for global semiconductor sales growth to 16% from 13% projected earlier in 2024, reflecting stronger performance in computing end markets, particularly for logic and memory chips. However, we remain cautious over the overall industry's recovery progress. While semiconductor demand has bottomed out and is on the path to recovery, we believe the pace is uneven. Logic and high-bandwidth memory chips are expected to see stronger demand, but consumer-driven chips such as analog, discrete, radio frequency, and optoelectronics may continue to face ambiguous demand due to persistent macroeconomic challenges. The inventory glut, as shown in below, with high days inventory outstanding, re-affirms our view on the uncertain recovery of the overall semiconductor sector.

- Despite these uncertainties, we remain optimistic about Malaysia's E&E sectors. The country's competitive advantage amid the ongoing US-China chip war and trade diversions, coupled with government initiatives and strategies, positions it well. We are optimistic that local technology companies, particularly OSAT, equipment makers, and

EMS companies, will perform better in 2H24. Although a strong recovery is not on the table, these companies are likely to benefit from the typically stronger demand in 2H, recovery from the bottoming out of the industry, and continued advantages from broader industry trade diversions, FDI influx, and capacity building in leading-edge semiconductors to cater to the AI boom.

Semiconductor Companies' Day Inventory Outstanding



Source: Bloomberg, Apex Securities

- **Valuation & Recommendation**. Bursa Technology Index is trading at a trailing P/E ratio of 49.8x, following a surge that began in April 2024 as the market priced in earnings recovery and overall positive sentiment in the industry. Presently, the index is trading at a forward P/E ratio of 30.6x for 2024F, which we believe is fair under the prevailing conditions. However, we remain skeptical over the market's slightly over-optimistic earnings forecasts. With valuations turning less attractive, we see limited upside and the risk-reward profile is not particularly favourable due to a lack of strong earnings growth visibility.

- Our top pick **QES Group Bhd (BUY; FV: RM 0.855)**, benefitting from the overall recovery in the semiconductor sector, with increased contributions from the semiconductor segment helping to mitigate external headwinds. Additionally, we favour **Aurelius Technology (HOLD; FV: RM 3.83)**, premised to the strong earnings visibility through FY25. We are optimistic over the company's long-term prospects, driven by significant potential earnings growth, substantial expansion, and margin enhancement expected from a higher-margin product mix resulting from new customer acquisitions.

- **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 post stronger 2H24 on the back of seasonality stronger 2H, recovery from the bottoming out and continued advantages from broader industry trade diversions, but caution is advised due to the relatively high valuation and full recovery timing remained ambiguous with several headwinds worldwide. In summary, a **Neutral** stance is maintained on the technology sector, with ongoing monitoring of global economic conditions and signals for a substantial recovery in the sector.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
QES Group Berhad	0.695	31.4	29.4	16.2	1.9	0.855	23.0%
Aurelius Technologies Berhad	3.67	37.8	26.2	22.1	1.8	3.83	4.4%
Kronologi Asia Berhad#	0.395	11.4	42.7	15.3	0.0	0.44	11.4%
Infoliine Tec Group Berhad	0.985	18.6	21.8	18.5	4.7	0.905	-8.1%
Frontken Corporation Berhad	4.46	62.9	39.8	35.0	0.5	4.33	-2.9%

 # Kronologi Asia Bhd data based on FYE Jan
Source: Apex Securities Bhd, Bloomberg

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Transport & Logistics (Overweight)

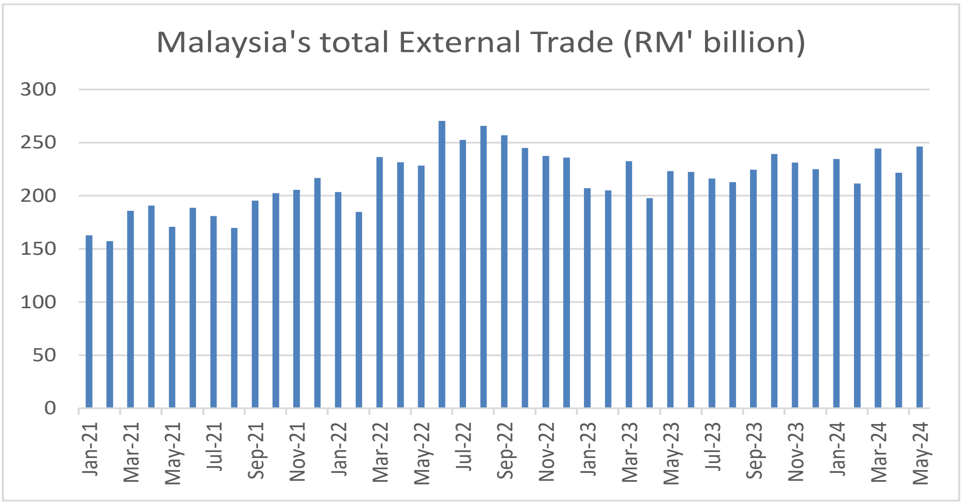
Riding onto trade diversion

- **Review**. Bursa Transport and Logistic Index in 1H24 experienced an uptrend, mirroring the overall market and exhibiting a relatively healthy uptick in the sector. This aligns with the resilience of Malaysia's economy and the stability of total external trade. Meanwhile, global trade volume remains resilient, supported by a mild recovery from the low base caused by economic uncertainties in 2023.

- Local logistics companies posted resilient earnings in 1Q24 and are cautiously optimistic about recovery in 2024. A topical topic in the industry during 1H24 was the Red Sea crisis, which disrupted the global supply chain, shipping schedules, and port operations. Surge in ocean container freight rates beginning in the year was largely attributed by the Red Sea crisis. Following the government's implementation of targeted subsidies in June 2024, we gather that the impact on local logistics companies has been minimal, as most vehicles operated by these companies are eligible for subsidised diesel.

Signs of recovery in external trade

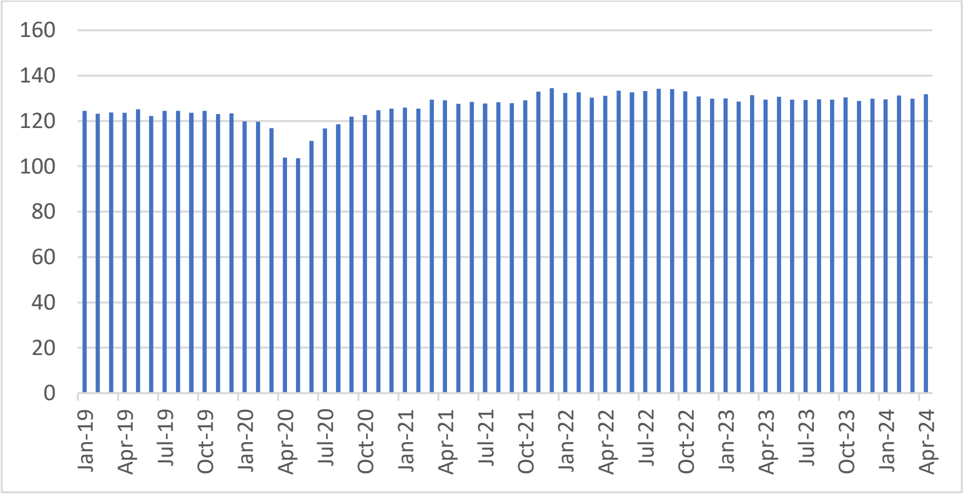
Malaysia External Trade (Jan-23-YTD)



Source: MATRADE, Apex Securities

Global trade fairly stable

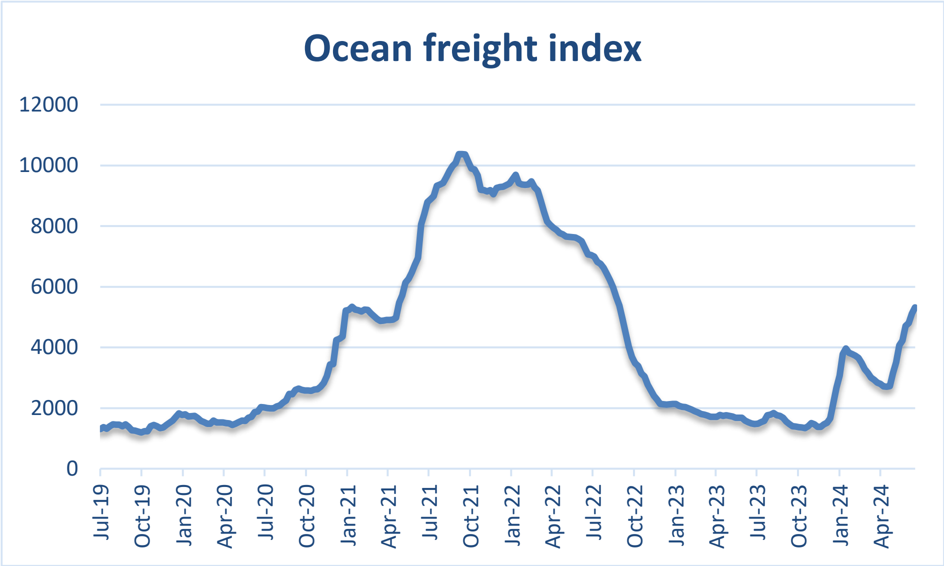
Global Trade Index



Source: Bloomberg, Apex Securities

Drewry's Ocean Freight Index

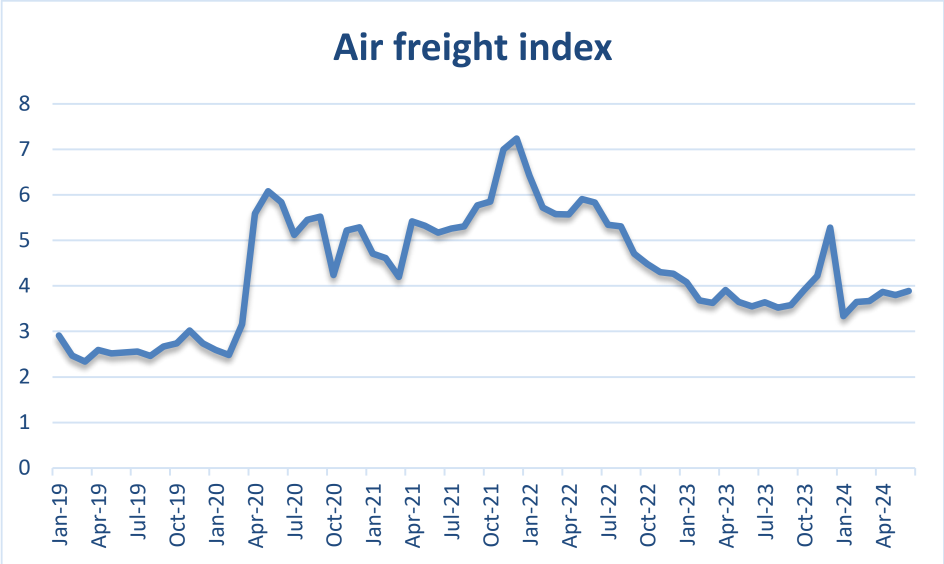
Ocean freight picking pace



Source: Bloomberg, Apex Securities

Drewry's Air Freight Index

Air freight stabilising



Source: Bloomberg, Apex Securities

- **Outlook**. Closely tied to the global and Malaysian economies, influenced by economic activity and international trade. We expect global trade to extend their recovery moving into 2H24, supported by lower inflationary pressure and the onset of a lower interest rate cycle worldwide, which will increase real incomes and spending power. This recovery is further bolstered by the revival of the E&E sector. However, we do not anticipate a strong rebound in international trade due to ongoing challenges such as disruptions in the shipping supply chain caused by events like the Red Sea crisis and low water levels in the Panama Canal. Additionally, ongoing geopolitical tensions in various regions limit the extent of the rebound by introducing uncertainties in global trade patterns and renewed volatility in commodity prices.

- Our cautious outlook on global trade aligns with the World Trade Organization (WTO) revising forecast for global merchandise trade volume growth in 2024 from +3.2% to

+2.6%. Despite these challenges, we remain optimistic about the resilience of local logistics players, supported by the resilience of the local economy (in-house projection to grow by +4.1% in 2024). Government initiatives to attract FDI and the recovering global E&E demand further support the performance of the local logistics sector. Majority of logistics companies are currently expanding their capacities, including fleets, warehouses, and cold chains. Considering these factors, we are optimistic that local logistics players will post better results in 2H24. Additionally, higher international freight rates are expected to benefit freight forwarding companies in terms of short-term profits.

- **Valuation & Recommendation**. The transportation & logistics sector is currently trading at a level of 21.6x PER, following an upbeat performance alongside with the broader market in 1H24. Meanwhile, the index is trading at 17.1x forward PER for 2024F, reflecting anticipated earnings recovery, compared to the historical median PER of 23.0x. We opine that the sector is undervalued at this juncture, as the market factoring in uncertainties of the global economy and geopolitical tensions. However, the bright spot is the resilience of local logistics companies, which can capitalise on trade diversion and steady economic performance, cushioning against external headwinds. Our top pick is **Westports Holdings Bhd (BUY; FV: RM 5.08)**, which we see as a proxy towards Malaysia's resilient domestic economy and strong external trade growth prospects. Additionally, the Westports 2 expansion and the anticipated tariff hike are expected to support long-term growth for the company. We also favour **TASCO Bhd (BUY; FV: RM 1.18)** for its positive earnings growth prospects, underpinned by the IBS segment, which is expected to recover with improved external trade performance. The DBS segment is poised for further improvement, supported by firm warehouse and CSC demand, along with new warehouse expansions. Additionally, short-term profit growth and margin expansion in 2H24 are likely to be supported by uptick in international ocean freight rates.

- **Key Risk**. Softer-than-expected economic growth projections and margin eroded due to higher costs from labors, finance and fuels.

- **Summary.** We opine the valuations of the logistics sector is considerably attractive, as we opine that the local logistic sector is resilient and is able to continue to capitalise onto trade diversion and steady economic performance, cushioning against external headwinds. As a result, the recommendation for the logistics sector is maintained on **Overweight**, reflecting the perceived attractiveness of the sector's valuation.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	P/E (x) 2024F	P/E (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Westports Holdings Bhd	4.17	18.2	16.9	16.2	4.1	5.08	21.8%
Tasco Bhd#	0.925	12.0	9.1	7.5	2.5	1.12	21.1%
Swift Haulage Bhd	0.54	7.5	8.2	7.9	3.0	0.68	25.9%
Bintulu Port Holdings Bhd*	6.30	18.9	20.3	18.0	1.9	6.75	7.1%
MISC Bhd*	8.52	15.3	15.2	14.1	4.3	9.00	5.6%

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

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Consumer (Neutral)

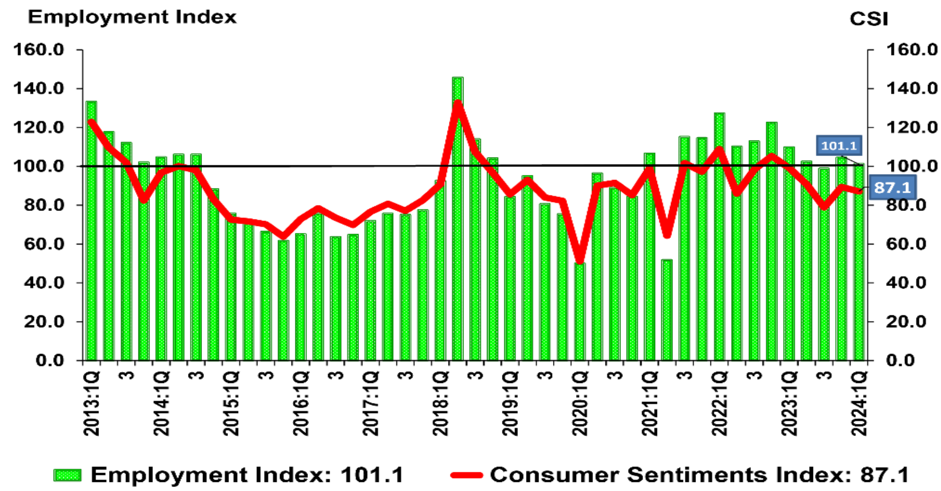
Inflationary pressure may bite back

- **Review**. Inflationary pressures persist in Malaysia's consumer sector in early 2024 ahead of the end of the diesel blanket subsidy on 10 June 2024. The expected rise in diesel prices is unlikely to impact overall inflation significantly, premised to fuel costs accounts to only 0.2% of the inflation weightage.

- Meanwhile, retail sales growth was fairly mixed, expanding at 7.1% yoy in March 2024 before slowing to 5.5% yoy in April 2024. Sales in non-specialised stores, specialised stores, and household equipment stores drove the improvement March 2024. Unemployment rate stayed steady, while the Malaysian Institute of Economic Research (MIER) consumer sentiment index rebounded in 4Q23 before edging lower to 87.1 in the 1Q24. This indicates that employment figures are not a major concern, but purchasing power is demonstrating weakness. Inflation remains a challenge, supported by rising commodity prices and global supply chain disruptions. Also, Malaysia's retail sales rebounded in 1Q24 with 7.8% yoy growth, driven by festive occasions.

Consumer Sentiment remain downbeat, hovering mostly below 100 pts

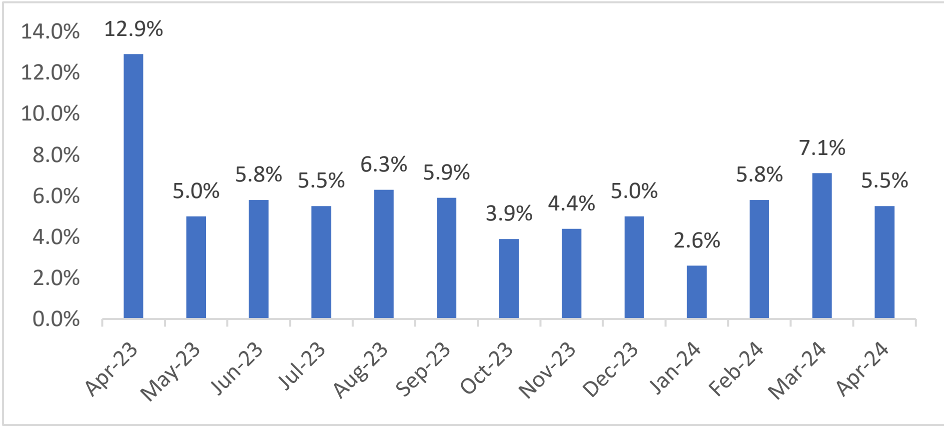
MIER Consumer Sentiment Index (Quarterly)



Source: Malaysian Institute of Economic Research

Retail sales growth hovering around mid-single digit

Malaysia Historical Retail Sales Growth (YoY)



Source: Trading Economics

- **Outlook**. Looking ahead, Retail Group of Malaysia (RGM) anticipates slower growth in the next three months. Despite stronger 1Q24 sales, Hari Raya Aidilfitri sales in April were below expectations due to shrinking purchasing power. While an attractive Ringgit and visa-free entry for Chinese tourists boosted retail data, rising food prices and living costs impacted consumers. Retailers project 1.7% yoy growth for 2Q24, with department stores expecting a 16.4% yoy decline and supermarkets minimal growth at 1.4% yoy. Fashion retailers anticipate a 6.7% yoy increase, and those selling children and baby products predict a 3.1% yoy growth rate. Retail sales 2H24 are expected to be less resilient, owing to 50.0% yoy decline in non-essential items and a 20.0% uyoy contraction during Hari Raya Aidilfitri festive period in 2024. Overall, we are aligned with RGM's perspective and expect cautious consumer spending to persist through 2024 and into early 2025 due to high inflation and ahead of further subsidy rationalisation, particularly post RON95 fuel blanket subsidy removal.

- Going into 2H24, we expect a sluggish 2Q and 3Q, particularly in the consumer discretionary sector, due to a lack of significant holidays. Retailers may trim margins to sustain sales in bid to alleviate the weaker consumer spending, influenced in part by inflationary pressure. Recent consumer sentiment has improved slightly but remains muted compared to pre-pandemic levels. Consumers may continue to grapple with higher living costs in 2024, with gradual adaption takes place. On the brighter note, a 13% pay hike for federal officials effective December 2024 aims to bolster purchasing power was announced. Optimism for retail growth stems from anticipated increased tourist spending, particularly in the luxury market. Despite uncertainties, mid-year sales events and tourism recovery could enhance retail sales growth, albeit at a moderated pace.

- **Valuation & Recommendation**. While challenges persist, our top pick under the consumer sector is **Padini Holdings Bhd (BUY, FV: RM4.32)**, benefiting from robust demand for its competitively priced products that cater to consumer preferences shifting towards value fashion items amidst ongoing inflationary pressures. Sector wise, the average forward PE for the consumer is at 15.3x and 14.0x for 2024F and 2025F respectively, which is slightly at the lower end against one-year average of 17.0x.

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

- **Summary.** The consumer product sector is expected to be sluggish moving into 2H24. Despite the prospects of subsidy rationalisation, we expect that the Malaysia government will provide financial assistance to bolster the economy. Optimism for retail growth hinges on tourist spending recovery, especially in the luxury segment. Despite uncertainties, mid-year sales events and tourism revival are expected to bolster retail sales growth moderately. In summary, we maintain a **Neutral** stance on the consumer sector in 2H24.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Padini Holdings Bhd#	3.65	10.78	13.50	12.79	2.74	4.32	18.4%
CCK Consolidated Bhd	1.51	10.82	10.94	10.82	2.65	1.54	2.0%
QL Resources Bhd#*	6.52	32.80	34.50	32.12	1.07	6.94	6.4%
Aeon Co (M) Bhd*	1.39	13.33	13.24	12.19	3.60	1.50	7.9%
Leong Hup International Bhd*	0.62	6.83	8.27	7.56	3.23	0.78	25.8%

 # 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

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Healthcare (Neutral)

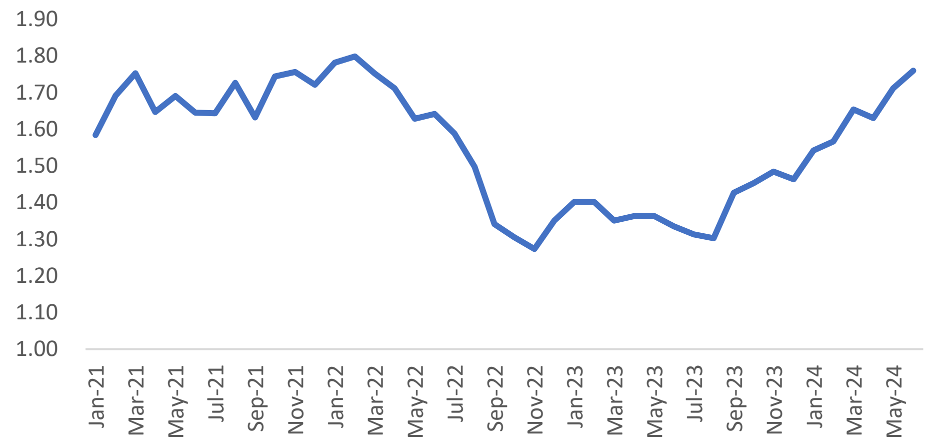
Steady path of recovery

- **Review**. Malaysian industry players remained resilient and committed maintain leaner operations in bid to overcome the prolonged oversupply condition. In response to these challenges, MARGMA is actively pursuing initiatives such as establishing industry standards for Malaysian-made gloves and promoting sustainable practices like "Green Gloves". These efforts highlight their dedication to environmental preservation. On a positive note, a few players have returned to profitability in their last financial quarter, while rubber prices advanced in recent months as demand improved. However, ongoing issues including overcapacity, aggressive price-war from international competitors and higher input costs such as nitrile rubber and latex are some of the hurdles for a smoother recovery process. Companies are grappling with high operating expenses and suboptimal economies of scale despite an increase in orders.

- Meanwhile, the medical market in Malaysia is poised for substantial growth in the coming years, supported by stronger healthcare expenditure. Growth is driven by double-digit increases in government healthcare budgets for 2023 and 2024, along with advancements in the private sector. Efforts to strengthen the medical tourism industry in Malaysia, including partnerships with prestigious institutions to enhance healthcare services, are part of Malaysia's strategy to remain competitive amidst regional competition. All in, Bursa Malaysia's healthcare sector added 12.2% in 1H24 to close at 2,138.15 pts.

Rubber prices stabilised demand-supply gap narrows

NR Concentrated Latex price (USD/kg)



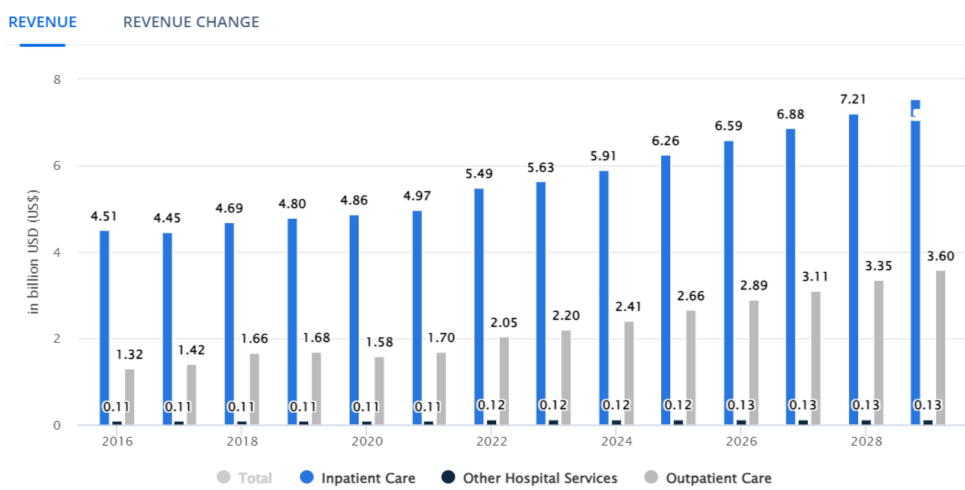
Source: Bloomberg, SIA

- **Outlook**. We anticipate rubber glove ASP to stabilise around US$19-22/1,000 pieces in 2H24 as industry continues to grapple with tight price competition and fluctuating raw material costs. While latex prices are expected to decrease post-winter season, nitrile butadiene rubber costs are expected to remain high, and natural gas expenses are set to rise. Efforts to reduce costs through decommissioning old facilities provide some relief. However, with oversupply and utilisation rates averaging around 40.0%, the industry continues to struggle to raise ASP. Purchasers are still leaning towards Chinese producers which offers more competitive pricing, maintaining downward pressure on prices globally. Oversupply challenges are expected to persist through 2H24, with a gradual move towards demand-supply equilibrium projected by 2026, assuming increased global demand driven by heightened hygiene awareness.

- MARGMA forecasts annual global glove market growth of 12-15% from 2024F onwards, rebounding from a steep decline in 2023. Despite 30% increase to 390.0bn pieces in 2024 due to restocking, surplus capacity is likely to keep prices and plant utilisation rates low. In summary, the glove industry in 2024 will navigate through fluctuating raw material prices, cost-cutting measures, and ongoing oversupply issues, all influencing pricing dynamics and operational strategies across the sector.

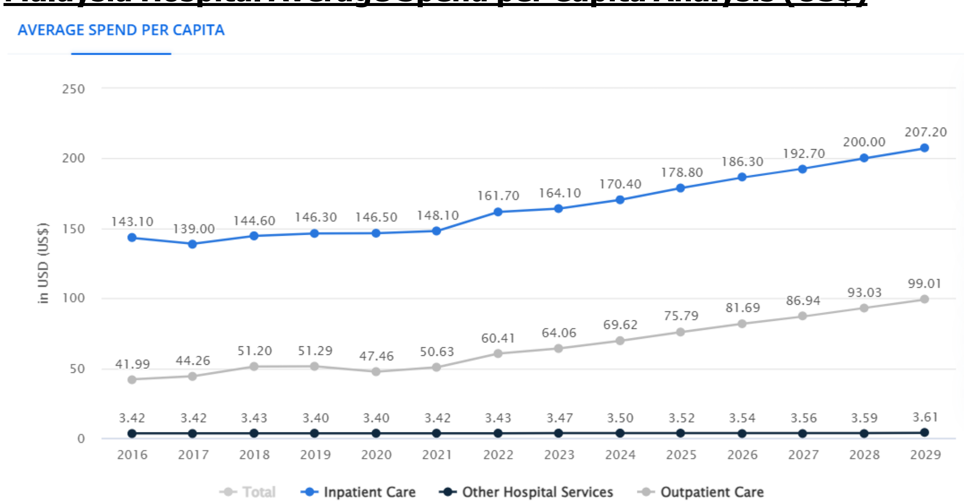
- Meanwhile, independent market research projects Malaysia's hospital market revenue could reach US$8.44bn by 2024 at to grow at five-year CAGR of 6.0% to US$11.27bn by 2029. Average hospitals per capita revenue in Malaysia is expected to be c.US$243.50 in 2024, highlighting promising growth prospects. Malaysian hospitals are increasingly adopting advanced telehealth technologies to improve rural healthcare access. Additionally, Asia's higher myopia rates influenced by factors like prolonged screen use and academic stress, exacerbated by increased indoor time are stressing the need for higher healthcare allocations. Recently, Malaysia reports a 13.4% myopia prevalence among school children globally, reinforcing a positive outlook in the healthcare sector aligned with governmental priorities.

Malaysia Hospital Revenue and Forecast Analysis (US$)



Source: Statista Market Insights

Malaysia Hospital Average Spend per Capita Analysis (US$)



Source: Statista Market Insights

- **Valuation & Recommendation**. While gloves players prospects are improving, we reckon the recent uptick in their share prices has reflected the prospects of improved fundamentals. While we have no specific top picks for the sector, we hold a positive outlook on **Hartalega (HOLD, TP: RM3.72)** due to its substantial net cash reserves of RM1.40bn and solid operational efficiency, which should bolster resiliency against future economic uncertainties. Moreover, we foresee a rebound in healthcare demand and potential effects of tariffs on Chinese manufacturers in the US by 2026 bodes well for the gloves industry.

- **Key Risk.** Intense competition arises from both local and regional players. Variations in raw material costs could impact profit margins, while shifts in utilisation rates will hinge on supply and demand dynamics. Changes in healthcare regulations could alter the operational environment of the industry.

- **Summary**. Despite the recovery prospects, we maintained our **Neutral** rating on the healthcare sector. Recent appreciation in share prices, particularly among glove players have reflected the improved fundamentals, in our view. However, we acknowledge the possibility of a re-rating is on the cards, should the pace of recovery exceed our expectations.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Hartalega Holdings Bhd#	3.28	N/A	504.5	87.2	-	3.72	13.4%
Top Glove Corporation Bhd#	1.10	N/A	N/A	54.5	-	1.25	13.6%
Supercomnet Technologies Bhd*	1.48	32.6	30.8	23.9	1.4	1.62	9.5%
IHH Healthcare Bhd*	6.30	18.0	31.7	28.1	1.4	7.27	15.4%
Optimax Holdings Bhd	0.68	28.7	19.4	20.8	3.2	0.72	5.9%

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

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Renewable Energy (Overweight)

Sunny days for Solar development

- **Review**. 1H24 saw an improvement in EPCC works mostly billed from recognition of LSS4 projects. Although EPCC players may benefit from deflation of solar module costs, some players still experienced margin compression dragged down thinner margin of LSS4 projects. On the positive notes, majority of the unbilled order book from LSS4 projects is nearly depleted, as deliveries set to be completed by July 2024.

- **Expect CGPP kick-start in the near-term**. We expect the CGPP to kick-start in the near term, with 800.0MW anticipated to be awarded over the near term to meet the commercial operation date target by the end-2025. CGPP will mark a new order book replacement cycle for EPCC contractor services, particular for companies such as Solarvest, Samaiden, Pekat (PEKAT MK – Not Rated), and Sunview (SUNVIEW MK – Not Rated). We project the 800.0MW CGPP projects are expected to yield up to RM2.2bn worth of EPCC jobs, keeping EPCC players busy until 2025.

- **LSS5 is next wave of order replenishment**. On 1 April 2024, EC approved the 5th cycle of LSS5 after a three-year hiatus, aiming to drive solar adoption. This cycle comprises 2.0GW allocation, which is 3.0x higher against the previous LSS4 capacity of 823.0MW. LSS5 is divided into four packages, allowing companies to bid based on their scale, with operations scheduled to commence in 2026. Notably, the maximum aggregated capacity for each bidder has been increased to 500.0MW, compared to the previous cycle's cap of 50.0MW. We estimate that the 2.0GW allocation will generate a construction value of RM5.0bn keeping players busy until 2026.

LSS5 Programme

Packages	Quota (MW)	Generation Capacity	Type	Eligibility
1	250	1MW to 10MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% Bumiputera ownership
2	250	10MW to 30MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% Bumiputera ownership
3	1000	30MW to 500MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% domestically owned ownership
4	500	10MW to 500MW	Floating solar power plants	Companies with at least 51% domestically owned ownership

Source: EC, Apex Securities

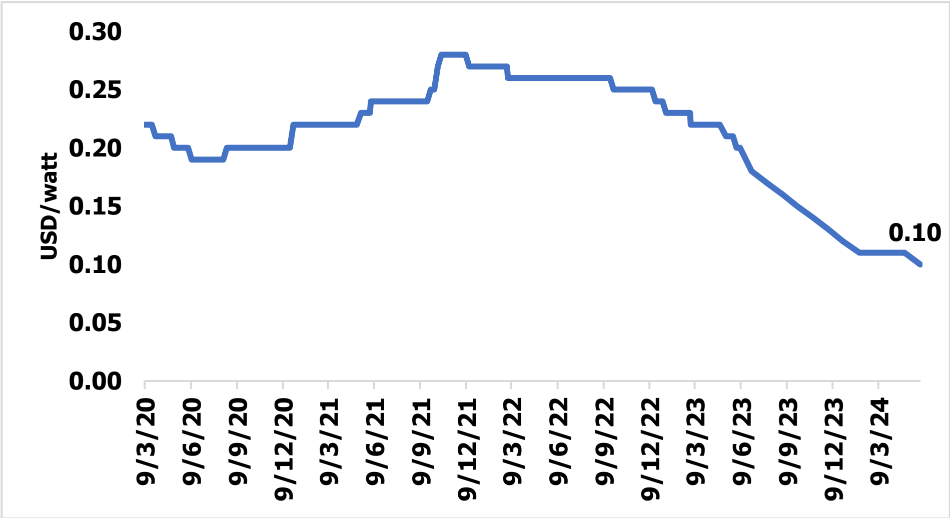
- **Outlook**. Based on NETR, an overarching goal is raising the RE capacity mix to 70.0% by 2050, from 27.0% target in 2025 which necessitates a more than double in annual RE installations to 2.1GW/annum till 2050. Among these capacity mix, solar accounted for 58.0% the key component to ramp up the RE ambitions. To achieve 59.0GW installed capacity by 2050, the government has implemented several initiatives in the 1H24, to accelerating solar panel installations across Malaysia;
  (i) In Feb 2024, the government allocated 400.0MW of quotas to boost rooftop solar installations. This includes 100.0MW for the NEM Rakyat program and 300.0MW for the NEM Nova program.
  (ii) In Mar 2024, the government introduced the Solar for Rakyat Incentive Scheme (SOLARIS). Under this scheme, a rebate of RM1,000/kWac (up to a maximum of RM4,000) will be offered to new participants in the NEM Rakyat program.
  (iii) In Apr 2024, EC launched the 5th cycle of the LSS5 competitive bidding process, aiming for a total capacity of 2.0GW. Operations are scheduled to commence by 2026.

(iv) On 28 Jun 2024, total NEM quota was further upsized to: residential (350.0MW), C&I (1100.0MW), and Government (100.0MW).

- We foresee the future of solar energy as a crucial component in the coming years, particularly with solar PV paving the landscape in the renewable energy sector on the national scale. We expect the Government to remain supportive in scalable projects like LSS and CGPP to stimulate renewable energy adoption. These initiatives serve as long-term catalysts for massive order book replenishment for EPCC players.

- **Boon from tapering of cost.** Solar module costs continue to deflate since 2022, primarily due to supply chain issues and the commissioning of large manufacturing capacities. According to BloombergNEF, Chinese companies ended 2023 with the ability to produce 1,154GW of solar modules, significantly surpassing the projected demand of 585.0GW for 2024. We expect the cost pressure to continue in the medium term, driven by significant oversupply in manufacturing capacity. This should benefit EPCC players, as these modules constitute a key component in EPCC costs.

Solar module price trend



Source: Bloomberg, Apex Securities

- **Valuation & Recommendation**. Our RE sector Top picks are as follows;
  1. **Solarvest (BUY, TP:RM1.95),** given its (i) solid track record, having completed 1.2GW of projects, which is the highest among its peers, (ii) efforts in building a solar empire to generate diversified revenue streams, (iii) uniqueness of in-house solar financing program from Powervest, which fosters the adoption of solar PV in the C&I sectors, (iv) consistently capturing an average 20.0% market share of EPCC jobs from LSS 1, 2 and 4 (v) robust tender book, currently standing at 6.1GW (Malaysia 4.0GW and Overseas 2.0GW).
  2. **Samaiden (BUY, TP:RM1.66),** for its (i) a solid track record of delivering 200 RE projects in a timely manner, (ii) specialisation in ground-mounted solar PV systems, commanding an average of 15.4% market share of EPCC jobs from LSS projects, (iii) expertise in bioenergy solutions, particularly in biomass, and (iv) robust order book replenishment, consistently c.RM350.0m, and (v) strong fundamentals, with a net cash position of RM96.9m and a low gearing ratio of 0.04x as of 9MFY24.

- **Key Risk.** Fluctuation in solar module costs, heavy reliance on government initiatives and intense market competition.

- **Summary**. We are **Overweight** onto the renewable energy sector, supported by a clear and firm policy layout under NETR. Recent significant ramp up of LSS5 to 2.0GW, continuous upsize quota under NEM programs, extension of the Green Investment Tax Allowance (GITA) until 31 December 2026, and the introduction of a 400.0MW quota in the Low Carbon Energy Generation program further reinforce progress toward low-carbon solutions.

Top Picks

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Solarvest Holdings Bhd	**1.58**	**32.8**	**22.3**	**18.7**	**0.0**	**1.95**	**23.4%**
Samaiden Group Bhd	**1.29**	**38.0**	**42.1**	**42.1**	**0.4**	**1.66**	**28.7%**
Sunview Group Bhd	0.75	39.6	21.9	16.6	0.0	0.91	22.1%
Pekat Group Bhd	0.94	42.2	26.1	20.9	1.1	0.99	5.3%

** Pekat & Sunview P/E multiple fotrecasts based on Bloomberg consensus expectations*
Source: Apex Securities Bhd, Bloomberg

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2H24 Strategy

Navigating Choppy Waters Ahead

- **Extension of upsides could be choppy**. Following a decent performance in 1H24, we advocate investors to turn slightly defensive with selective sector to be in focus. Our preferences are skewed towards selective sectors that could demonstrate resiliency in earnings performance as well sectors riding onto selected thematic plays. Still, we reckon upside prevails, supported by the improving Malaysia economic fundamentals and attractive valuations. At the same time, implications from economic reformation policies (removal of petrol subsidies) will be in focus.

- **Rally in lower liners may take a breather.** Under the prevailing circumstances, we believe the FBM Small Cap's run may take a breather to allow for a recovery of fresh legs before marching higher. We believe that investors preference towards the equities market remain upbeat in view of the prospects of US rate cut which augurs well to lock in investors' attention towards the equities market in search for higher yields.

1H24 Recap

Portfolio in 1H24 recorded decent performance in line with the generally positive market trend

1H24 Top Recommendations

Company	Price (RM) as at 2Jan24	Target Price (RM)	Potental Upside	Price (RM) as at 28Jun24	Change
AME Elite Consortium Bhd#	1.67	1.95	16.8%	1.61	-1.2%
Gamuda Bhd*	4.53	5.43	19.9%	6.58	47.2%
Lagenda Properties Bhd	1.24	1.43	15.3%	1.21	0.4%
OSK Holdings Bhd*	1.24	1.77	42.7%	1.59	32.5%
Supercomnet Technologies Bhd*	1.22	1.58	29.5%	1.48	22.8%
Optimax Holdings Bhd	0.63	0.82	30.2%	0.68	9.0%
Infoline Tec Group Bhd	0.76	1.15	51.3%	0.99	32.0%
Aurelius Technologies Bhd	2.60	3.22	23.8%	3.67	44.0%
# AME Elite Consortium Bhd data based on FYE Mar			**Portfolio Average**		**23.3%**
** Denotes Bloomberg consensus data*			**FBM KLCI**		**9.3%**
Portfolio performance inclusive of dividend gains			**FBM Small Cap**		**18.0%**

Source: Apex Securities Bhd, Bloomberg

1H24 Dividend Recommendations

Company	Price (RM) as at 2Jan24	Target Price (RM)	Potental Upside	Price (RM) as at 28Jun24	Change
Uchi Technologies Bhd*	3.66	3.80	3.8%	3.98	12.6%
Pantech Group Holdings Bhd#*	0.89	1.26	42.4%	1.06	21.8%
Bermaz Auto Bhd#*	2.36	2.97	25.8%	2.51	8.3%
# Bermaz Auto Bhd data based on FYE Apr			**Portfolio Average**		**14.3%**

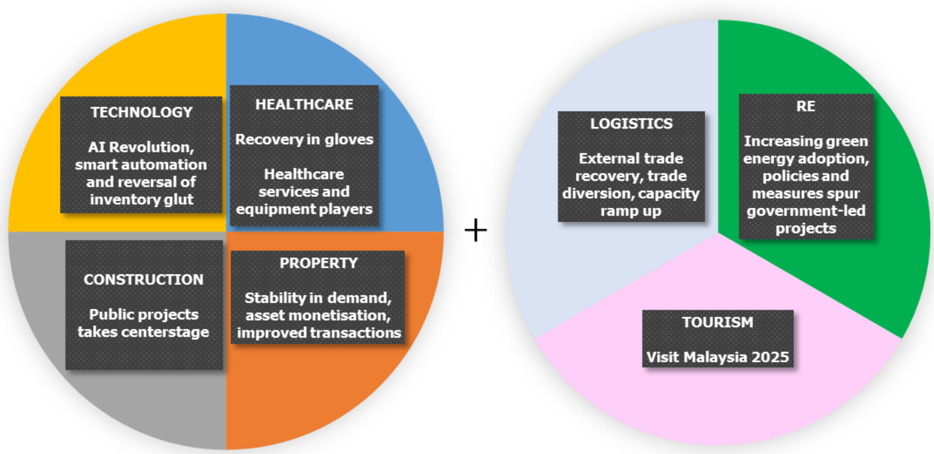
 # Pantech Group Holdings Bhd data based on FYE Feb
** Denotes Bloomberg consensus data*
Portfolio performance inclusive of dividend gains
Source: Apex Securities Bhd, Bloomberg

Total Portfolio Average	**20.9%**

- **Turning more selective and defensive**. Moving into 2H24, we advocate a more defensive stance to focus onto laggard plays. We continue to favour the **construction** sector in anticipation of more aggressive rollout in private and public infrastructure jobs as billings shift into higher gear. Meanwhile, we also like the **property** sector that is well positioned to capitalise onto development key mega transport projects that may uplift demand for property projects in selected vicinities. The **technology** sector remains in focus in view of the recovery in world semiconductor sales, leveraging onto the rise in AI industry, could computing and Internet of Things (IoT). We favour the **healthcare** sector, particularly gloves players which saw fortunes turning around with majority of the players returning to the black, while healthcare services providers and equipment manufacturers stands to benefit from the larger allocation under recent and upcoming Budgets.

- **Other key themes**. The **transportation and logistics** sector is expect to be resilient with majority of the players embarking onto their expansionary plans, capitalising onto trade diversion and steady economic performance. As energy transition gains momentum commitment to achieve net-zero green-house gas (GHG) emissions by 2050, we like the **renewable energy (RE)** sector that is riding onto a slew of incentives outlined by policy makers in recent years. We reckon that **tourism** sector may take-off as the nation prepares for "Visit Malaysia Year 2025". We also favour **data-center supply chain** players, leveraging onto the AI and cloud computing boom with multi billions of investments pouring into the country driven by several factors such as relatively inexpensive land, good infrastructure and government-led policies and efforts.

Strategy Focus



Source: Apex Securities

2H24 Top Recommendations

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
AME Elite Consortium Bhd#	1.61	10.2	13.6	9.4	2.5	1.95	21.1%
Matrix Concepts Holdings Bhd#	1.78	8.1	7.2	5.7	5.6	2.14	20.2%
QES Group Bhd	0.695	31.4	29.4	16.2	1.9	0.855	23.0%
Westports Holdings Bhd	4.17	18.2	16.9	16.2	4.1	5.08	21.8%
Tasco Bhd#	0.925	12.0	9.1	7.5	2.5	1.12	21.1%
Optimax Holdings Bhd	0.60	25.0	20.7	16.7	4.0	0.82	36.7%
Solarvest Holdings Bhd	1.58	32.8	22.3	18.7	0.0	1.95	23.4%
Samaiden Group Bhd	1.29	38.0	42.1	42.1	0.4	1.66	28.7%

 # AME, MATRIX & TASCO data based on FYE Mar
Source: Apex Securities Bhd, Bloomberg

2H24 Dividend Recommendations

Company	Price (RM) as at 28Jun24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Scicom (MSC) Bhd#*	0.90	12.8	12.2	11.0	8.0	1.10	22.2%
Sunway REIT*	1.55	16.6	14.9	14.0	6.0	1.74	12.3%
Bermaz Auto Bhd#*	2.54	7.7	9.5	9.2	8.3	2.91	14.6%

 # Scicom (MSC) Bhd data based on FYE Jun
 # Bermaz Auto Bhd data based on FYE Apr
** Denotes Bloomberg consensus data*
Source: Apex Securities Bhd, Bloomberg

Key Risks

- **Further strengthening in US Dollar**. The weakening of Ringgit against the Greenback as well as other neighbouring countries may deter foreign investments should the prospects of interest rates cut dials back.

- **Geopolitical tensions**. Unease geopolitical tension in the Middle East, Ukraine-Russia, political instability in Europe may impact investor confidence and market stability.

- **Inflationary risk**. While prices of commodities have normalised, the removal of blanket subsidies, particularly for RON95 poses risk of higher goods and services, in general which may erode consumer purchasing power.

- **Elevated interest rates.** Corporate profits forecasts may get discounted at higher rates.

- **Scattered signs of economic softening.** While global economic growth is still on the table, signs of softening are on the fore.

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2H24 FBM KLCI Technical Outlook

Flirting around 1,600

Turning choppy around 1,600, but longer-term trend is still resilient

Source: Bloomberg

- **Demonstrated resiliency**. The FBM KLCI extended its positive run from late 2023 into 1H24 as the key index stay afloat mostly above EMA20 throughout the period. The key index advanced above 1,600 pts for the first time since May 2022 in early May 2024 before staging a consolidation towards the end of 1H24.

- **Rangebound with 1,600 in focus**. As the key index traded in a rangebound pattern, the consolidation phase is expected to drive the key index to oscillate within the 1,580 to 1,630 pts range over the foreseeable future. Still, the longer-term perspective implies that the uptrend momentum may sustain with the key index extended its higher high and higher low formation.

- **Technical indicators fairly mixed**. We gather that SMA50 remains above SMA200 throughout 1H24 implying that longer-term perspective is slightly bullish. While the Moving Average Convergence Divergence (MACD) trended below the Signal line and is hovering above the zero level, we reckon current momentum is indecisive with the MACD Histogram turning flattish Likewise, the Relative Strength Index (RSI) is lingering around 50 level as an extended downward bias consolidation takes shape. A recovery above 50 may signal for a potential rebound with the key index likely to re-claim 1,600 pts.

- **Outlook on track for an extended positive run**. With the upward momentum still on the cards, we advocate traders to monitor for a potential breakout above the upper band of the consolidation level of 1,630 pts to sustain the upward momentum. Consequently, the next resistance level to located at 1,650 pts, followed by 1,680 pts. Downside wise, support is pegged at 1,530 pts, followed by 1,500 pts should the lower band of 1,580 pts failed to hold.

1H24 Technical Recommendation Recap

Company	Price (RM) as at 2Jan24	R1	R2	S	Price (RM) as at 28Jun24	Change
Kumpulan Perangsang Selangor Bhd	0.725	0.795	0.830	0.695	0.770	2.0%
SDS Group Bhd	0.715	0.775	0.800	0.690	0.880	23.1%
MN Holdings Bhd	0.530	0.580	0.620	0.480	0.975	84.7%
Portfolio Average						**36.6%**

Source: Apex Securities Bhd

APEX SECURITIES

APEX SECURITIES BERHAD

2H24 Technical Recommendation

Critical Holdings Bhd

Analysis: Price continues to march higher since debuting on Bursa Malaysia in late 2023

Strategy: Following the recent retracement, traders may accumulate around RM0.92-RM0.97 to monitor for breakout above RM0.99

Resistances: RM1.10-1.19

Support: RM0.90

P.A. Resources Bhd

Analysis: Price has staged an extended pullback in recent months

Strategy: Accumulate around RM0.36-RM0.39 to monitor for potential channel breakout above RM0.405

Resistances: RM0.435-0.445

Support: RM0.35

Resintech Bhd

Analysis: Price has established the uptrend formation in May 2024 and trading activities has improved along with the gradual step up in share price

Strategy: Accumulate around RM0.56-RM0.59 to monitor for potential short-term breakout above RM0.595

Resistances: RM0.65-0.675

Support: RM0.55

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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