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FBM KLCI (current)		**1,642.33**
FBM KLCI 2025 Target:	**(↑)**	**1,760.00**
FBM KLCI 2026 Target:	**(new)**	**1,810.00**

FBM KLCI	**2024**	**2025F**	**2026F**
P/E (x)	**14.9**	**14.2**	**13.1**
P/B (x)	**1.5**	**1.4**	**1.4**

Sector	**UW**		**N**	**OW**	
Automotive			●		
Banking				●	
Consumer			●		
Construction					●
Gloves			●		
Industrial				●	
Logistics				●	
Oil & Gas			●		
Plantation			●		
Property				●	
Renewable Energy					●
Telecommunication				●	
Utilities					●

UW = Underweight *N = Neutral* *OW = Overweight*

1H 2025 Top Picks Summary

Stock	**Price (RM)**	**Target Price (RM)**
HLBANK	20.56	24.79
SCGBHD	1.23	1.63
UUE	0.865	1.10
LAGENDA	1.31	1.64
SLVEST	1.69	1.98
PEKAT	0.99	1.17
INARI	3.06	3.76
FRONTKN	4.46	5.38
MALAKOF	0.85	0.96

Source: Apex Securities

1H 2025 Market Strategy

Opportunity Lies in the Midst of Uncertainty

Executive Summary

- Key focus towards overseas developments such as further progress over US interest rate cuts, potential trade conflict between US-China and geopolitical tensions across the globe will continue to dictate market directions, moving into 2025, Back home, investors will be bracing over details surrounding the implementation of blanket subsidies removal for RON95.

- With interest rate cut took center stage in the US towards late 2024, we opine the further rate cuts remains on the horizon, albeit potentially at a slower pace. Given that inflation remains sticky at this current juncture (Nov 2024 reading recorded 2.7% yoy rise) and is still a distant from the US Fed long-term target of 2.0%, we expect two rate cuts from the US Federal Reserve throughout 2025. Still, we do not discount for additional rate cuts, should there be signs of economic slowdown arising potentially from the escalation of trade tension between the world two largest economic powerhouse.

- We are adopting a more selective stance in view of potential market volatility stemming from the trade tension between US-China. Upsides potentials remain on the cards, premised to the stability in domestic political landscape, prospects of corporate earnings growth and stability in economic growth along with the improved market sentiment towards late-2024.

- Valuations remains fairly attractive with the FBM KLCI trading at P/E multiples for 2025F/2026F at 14.2x/13.1x vis-à-vis its five-year average of 16.7x, implying potential upsides in our view. This will be further reinforced by corporate earnings growth forecast in 2025F with EPS set to expand +10.4% yoy, mainly anchored by banking, utilities and plantations heavyweights.

- After the key index performed a late surge to closed at 1,642.33 at end-2024; nearing our in-house target of 1,650, we made a slight upward revision in FBM KLCI end-2025F target at **1,760** (from 1,750) based on assigned 15.3x P/E multiple, following some house-keeping revolving around the inclusion of 99 Speed Mart Retail Holdings Bhd as well as Gamuda Bhd, replacing two Genting-related companies in the key index component list. We also our introduced 2026F year-end target at **1,810**, based on assigned 14.5x PE multiple. The discount of P/E multiple assigned as compared to 2025 is due to potentially slower corporate earnings growth potential in 2026 at +8.6% yoy.

- Sector wise, we are upbeat onto **utilities** sector that is primed for multi-year growth, on surging electricity demand from data centres, increasing adoption of electric vehicles, and the energy transition. This in turn set a stage for the **renewable energy** (RE) sector to ride onto a clear and firm government-led policies under NETR in bid to achieve net-zero emissions by 2050.

- Export oriented **technology** sector will capitalise onto global trade diversion, recovery in global semiconductor sales that is entering into a new upcycle as well as improving global consumer electronics sales along with local government-led initiatives such as the National Semiconductor Strategy (NSS) to attract FDI.

- We also remain in favour of **data centre** (DC) supply chain players that are leveraging onto the AI and cloud computing boom. Malaysia will remain as a preferred investment destination with abundant and relatively inexpensive land, coupled with adequate infrastructures.

- Our top picks for 1H 2025 are **HLBANK, SCGBHD, UUE, LAGENDA, SLVEST, PEKAT, INARI, FRONTKN** and **MALAKOF**.

KDN PP13226/06/2024 (035469)

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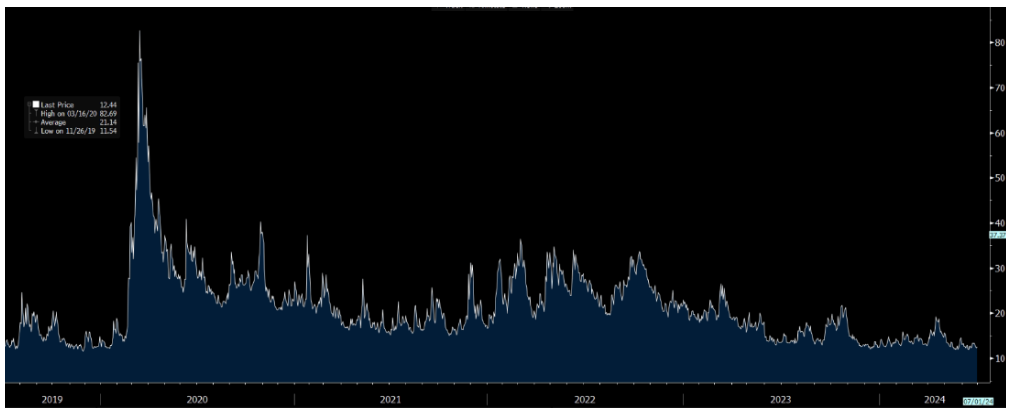
Global Market Review

Global markets review. Global markets were fairly upbeat in 2024, with investors brushing off geopolitical tension in the Middle East, Taiwan and Ukraine-Russia. Gains were mainly spurred by (i) anticipation of US interest rate cut amid cooling inflation, (ii) reported corporate earnings were mostly ahead of expectations, (iii) sustained global economic growth, and (iv) post-US Presidential election rally.

Tapering volatility continues to buoy equities market. Volatility remained well contained in 2024 as inflation normalise albeit at a slower pace. With gold prices enjoying a great run (+27.2% yoy) to hover above USD2,000/oz throughout 2024, riskier assets such as cryptocurrency also powered sharply higher with Bitcoin surging 121.8% yoy in 2024 to close at USD93,313 (after briefly topped USD100,000).

Volatility hovered near five-year low

CBOE Volatility Index



Source: Bloomberg

Wall Street performance. After registering a solid performance in 2023 (+13.7% yoy), the Dow continues to charge higher (+12.9% yoy) after briefly touched the historic 45,000 pts and consequently closed at 44,544.22 pts. Likewise, the S&P 500 climbed 23.3% yoy to close at 5,881.62 pts (after briefly marched above the historic 6,000 pts), mainly driven by expectations of better corporate fundamentals which poised to grow +4.2% yoy in 2024E. Despite raking in a decent performance in 2024, the S&P 500 valuations is still slightly attractive, trading at prospective forward P/E of 21.2x/19.3x for 2025F/2026F respectively; which is below the historical five-year average of 23.4x.

Asia Pacific markets were mostly positive in 2024, while the STI & FBM KLCI led the pack amongst their neighbours

Regional markets 1H24 performance recap. Asia Pacific regional stockmarkets remained upbeat with most major indices recording double digit growth. Japanese markets were powered by a significant shift in its economy, ending a long-standing zero interest rate policy. Chinese equities were spurred by ramp up in economic stimulus from the Chinese government. While the local bourse's rally took a mild pause in 2H24 before a late surge, the key index managed to record 12.9% yoy gains. Other PITMS countries (Philippines, Indonesia, Thailand, Malaysia, Singapore) performances were fairly mixed with the Jakarta Composite Index (-2.7% yoy) and Stock Exchange of Thailand (-1.1% yoy) slightly underperformed, while the Philippines Stock Exchange (+1.2% yoy) managed to chalk in marginal gains. Outperforming the neighbours was the Straits Times Index which jumped +16.9% yoy, driven by gains in three major banks – DBS, UOB, OCBC on better-than-expected growth in wealth management fees and promising outlook in 2025 with investors viewing the country as a safer investment destination on the back of the resilient economy, stable currency ahead of potential market volatility amid uncertainties surrounding US Presidential Donald Trump economic policies.

Elsewhere, we gather that South Korea's KOSPI (-9.6% yoy) was the biggest underperformer within the Asia Pacific region as political uncertainty took the front seat after South Korean president Yoon Suk Yeol declared emergency martial law in early Dec 2024. This is the first time martial law in the country has been declared since 1980 when a military coup was carried out by Chun Doo-hwan after the assassination of President Park Chung-hee in 1979.

Selected Global & Regional Markets Performances

	2024 YoY	2023 YoY	2022 YoY	2021 YoY	2020 YoY
MSCI World Index	**16.1%**	**20.1%**	**-19.8%**	**16.8%**	**14.3%**
Dow Jones	12.9%	13.7%	-8.8%	18.7%	7.2%
FTSE	5.7%	3.8%	0.9%	14.3%	-14.3%
DAX	18.8%	20.3%	-12.3%	15.8%	3.5%
CAC	-2.2%	16.5%	-9.5%	28.9%	-7.1%
Nikkei	19.2%	28.2%	-9.4%	4.9%	16.0%
Hang Seng	17.7%	-13.8%	-15.5%	-14.1%	-3.4%
ASX All Ordinaries	7.5%	8.4%	-7.2%	13.6%	0.7%
Shanghai Composite	12.7%	-3.7%	-15.1%	4.8%	13.9%
FBM KLCI	12.9%	-2.7%	-4.6%	-3.7%	2.4%
Jakarta Composite Index	-2.7%	6.2%	4.1%	10.1%	-5.1%
FTSE STI	16.9%	-0.3%	4.1%	9.8%	-11.8%
Stock Exchange of Thailand	-1.1%	-15.2%	0.7%	14.4%	-8.3%
Philippines Stock Exchange	1.2%	-1.8%	-7.8%	-0.2%	-8.6%

** Data as of 31 Dec 2024*
Source: Apex Securities, Bloomberg

Global markets performed mostly on an upbeat manner in 2024

Global Market Outlook

On the ascend. Amid a sustained earnings growth, relatively stable consumers purchasing power and easier monetary policy, we remain positive onto global equities market. Despite raking in decent gains in 2024, corporate earnings growth projections remain positive with MSCI All World Index forward earnings are expected to climb 9.4% yoy in 2025F. Projected growth is expected to be spurred by;

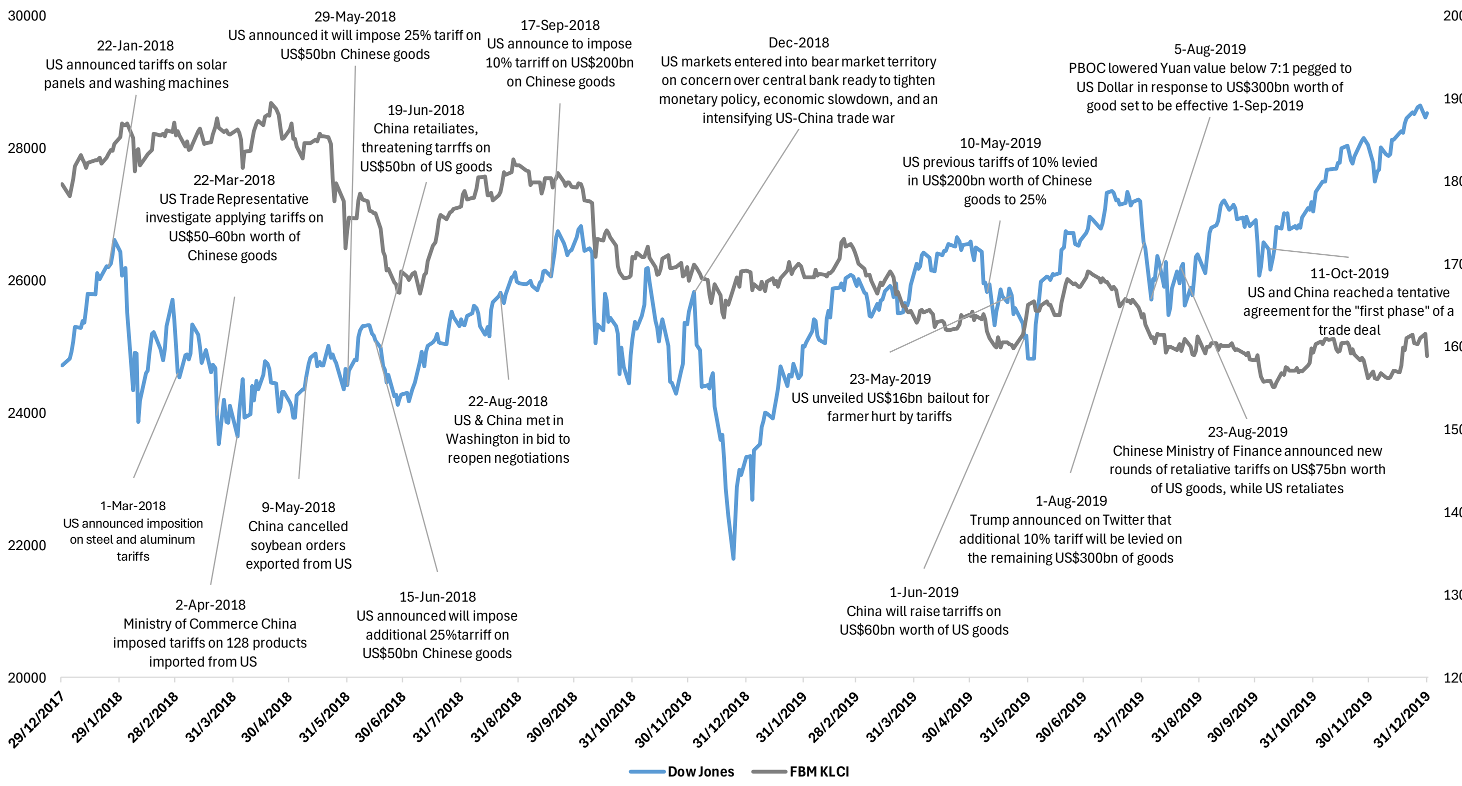
(i) Global economic expansion which drives demand for goods and services
(ii) Technological advancement with corporates and individuals embracing artificial intelligence, machine learning, and automation to boost productivity and efficiency
(iii) Favourable interest rate environment with expectations of further rate cuts
(iv) Manageable inflation rates

Trump's trade tariff 2.0 may trigger renewed volatility ahead. With Donald Trump taking the White House again, we reckon global trade tensions will be the key focus in investors' radar for 2025. We expect US may attempt to bring down trade deficits with countries such as China, the European Union, and among others through imposition of tariffs or sanctions on countries which US deemed to be at the short end of the stick, whilst attempting to enact more favourable agreements to US businesses. The US-China trade dispute is set to intensify next year and heightened tariffs may also potentially result in further inflationary pressure.

Recall Trump's pledge on trade measures during 2024 US Presidential Election race;

(i) Tariff wall of 10% or 20% on all imports on top of existing bound tariffs against all US trade partners, including those with free trade agreements
(ii) Hike partial 19% tariffs to 60% tariffs on all imports from China
(iii) Impose 25% tariffs on all US imports to Mexico and Canada unless both countries stop fentanyl exports and illegal emigration
(iv) Impose 100% tariffs on BRICS should the intergovernmental organisation seeks an alternative currency to the US Dollar

Historical Market Performance, Dow Jones & FBM KLCI (2018-2019)



Source: Bloomberg, NYtimes, SCMP, CNN, NBC, the Guardian, USTR, Apex Securities

Longer-term investment horizon to outperform, weathering volatility. Recall that despite US stockmarkets demonstrated volatility, which resulted in the Dow falling -5.6% yoy in 2018, the aforementioned index managed to bounce off quickly to register a remarkable +22.3% yoy gain in 2019. Much of the recovery was stemmed by US Federal Reserve's move to reverse their hawkish stance and began cutting interest rates three times in 2H 2019 in response to uncertainties stemming from the US-China trade tensions and expectations of recovery in semiconductor industry which powered chip-maker AMD +146.6% yoy higher, rising adoption of cashless transactions which brings Mastercard +57.8% yoy higher and Apple (+84.8% yoy) was the biggest winner under FAANG on growth in services and wearables which provides better margins, stabilisation in iPhone sales, and successful new product launches.

Focus may shift back towards corporate earnings growth. We believe longer-term narrative will be directed towards corporate earnings growth again as defined by the US stock market historically. Recall that S&P 500 recorded positive yoy core earnings growth in both 2018 and 2019, which resulted in the positive movement on Wall Street during the period.

Geopolitical uncertainty unabated. The on-going Russia-Ukraine conflict, unrest in the Middle East and political turmoil in South Korea will continue to pose a risk towards global economic growth. Evolution of current global alliances, including those between NATO, the EU, and rising powers like India, may result in the formation of new geopolitical alignments. With the protectionism measures imposed by the US, we reckon selective bilateral trades may take shape as well.

Rate cut expectations on the table for 2025. After delivering an unexpected jumbo rate cut of 50 bps in Sep 2024 together with 25 bps of rate cuts in both Nov 2024 and Dec 2024 respectively, we believe the US Federal Reserve dovish stance will extend moving into 2025, though inflation remains sticky at this current juncture (November 2024 reading recorded +2.7% yoy) is still some distance against the US Fed long-term target of 2.0%. Going forward, we expect two rate cuts from the US Federal Reserve in 2025 in bid to spur the slowdown in economic growth, while inflation remains manageable. Still, we expect future 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.

Forward valuations turning fair. After raking in a strong performance in 2024, global equities' (MSCI All World Index) valuations are now turning fair with forward P/E trading at 18.6x and 16.7x for 2025F and 2026F respectively, which is close to fair against the long-term forward averages of 18.9-20.2x. Concurrently, global corporate earnings growth estimates remain at the growth trajectory at +10.3% yoy for 2025F and +11.3% yoy for 2026F.

Regional markets weathering through. Regional market will be hit by tariff threats imposed, but could be partially offset by reactive stimulus measures in China. China's RMB10trn local government debt resolution plan should be able to help mitigate some risks posed by the impending escalation of trade dispute between the two economic powerhouses. Japanese equities will ride onto the on-going cyclical recovery that is supported by stock buybacks and rising real wages, which are boosting consumption. With a more favourable demographics, particularly India and selected parts of Asia, this will benefit from the trade diversion through improved investment activities.

Selected Asia Pacific Indexes Performance (2024)

Indices	Performance(yoy)	Remarks
Jakarta Composite Index	-2.7%	Weighted down by concerns over planned value-added tax hike to 12% (11% in 2024)
Stock Exchange of Thailand	-1.1%	Bogged down by sluggish economy, weak currency and political uncertainties
Philippines Stock Exchange Index	+1.2%	Lifted by rate cuts in 2H 2024, lowering corporate taxes and reducing stock transaction tax
Straits Times Index	+16.9%	Monetary Authority of Singapore's (MAS) efforts to boost stock markets and favouring as defensive positioning in view of uncertainties.
FBM KLCI	+12.9%	Lifted by resilient GDP growth, stable political situation and attractive valuations
Nikkei 225	+19.2%	Driven by higher wages that supports domestic consumption with Bank of Japan looking to hike rates in mid-2025 to end the long-standing zero interest rate policy
KOSPI	-9.6%	Beset by the political turmoil

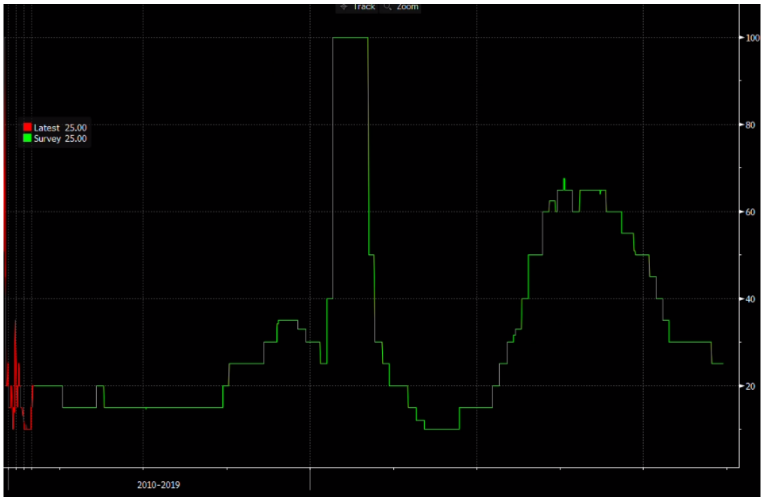
Source: Bloomberg, Apex Securities

Looking ahead, we reckon the sustained high GDP growth, narrowing US and Europe against Asia yields should be mostly supportive towards markets in Asia.

Recession risk dialled down. We gather that economists' consensus view over the risk of recession for the next 12 months continues to taper towards 25%. In view of the (i) expected global economic growth, (ii) manageable inflation, (iii) rising infrastructure spendings and (iv) supportive government stimulus measures, we reckon that recessionary risk will be well contained moving into 2025. While risk of recession has tapered, we do not discount the possibility of economic slowdown stemmed by the potential escalating US-China trade war to weigh onto market sentiment.

Risk of recession (US) continues to taper

US Risk of Recession (Probability)



Source: Apex Securities

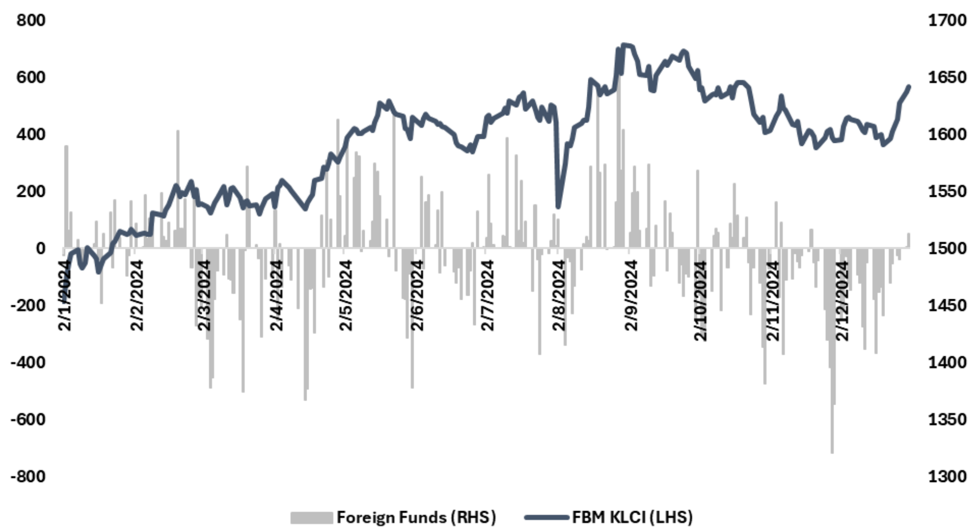
Malaysia Market Review

Tethering near 1,600, before a late surge. After a decent performance recorded in 1H 2024, the FBM KLCI's rally appears to have stuttered with the key index turning mostly directionless in 2H 2024. Powered by the usual year-end window dressing activities, the local bourse raked in +12.9% yoy in 2024; recording its best performance since 2013. Gains were largely underpinned by the development of data centre-related and value-chain suppliers such as Sunway Bhd, Gamuda Bhd, Tenaga Nasional Bhd, YTL Corporation Bhd and YTL Power International Bhd all share prices took off, coupled with the better-than-expected index heavyweights banking-led sector financial performances. Meanwhile, the strong economic growth which prompts market consensus to upgrade their growth projections also drove markets higher.

Foreign funds remain net selling capped further gains. Malaysian equities recorded another year of foreign fund outflow of RM4.14bn, bring it to the fourth straight year of outflow. Selling position were much noticeable particularly post-US election with net selling of RM2.27bn since 6 Nov 2024. Still, much support derived from local institutions with the Employees Provident Fund (EPF) aims to trim its overseas investment capital to no more than 30% lifted the key index performance. Likewise, the lower liners also registered a decent performance with the FBM Small Cap Index recorded 9.8% yoy gains in 2024 despite enduring a volatile period in 2H 2024.

Notable selling from foreign funds capping performance in 2H 2024 before late surge, driven by usual year-end window dressing

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 Mar 2025, before gradually phased out on monthly basis after cutting its oil demand growth forecast for the fifth consecutive period. Oil prices (Brent) averaging at USD79.97 in 2024 is close to Malaysia's Budget 2024 forecast average of USD80/bbl. Meanwhile, CPO prices (3 months futures) traded at an average RM4,128/MT which was above RM3,769/MT in 2023 as supply remained tight on disruption of production due to heavy rainfalls particularly towards end of the year, while demand held steady.

FBM KLCI biggest movers. In 2024, notable winners were the newly inclusions namely Sunway Berhad (+132.5% yoy), Gamuda Bhd (+106.5% yoy) along with utilities-related giants such as YTL Power International Berhad (+74.0%), Tenaga Nasional Bhd (+48.0% yoy) and YTL Corporation Berhad (+41.3%) that is capitalising onto the booming AI and cloud computing industry following headlines of several multinational corporations pouring multi-billions of investments into data centres in Malaysia. On the flipside, the Petronas-related heavyweights such as Petronas Chemicals Berhad (-27.8%) and Petronas Dagangan Berhad (-11.5%) and 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 on petrol may impact demand. Nestle Malaysia Bhd (-15.0% yoy) also took a hit on the back of boycott across several international brands that are deemed to be associated with Israel.

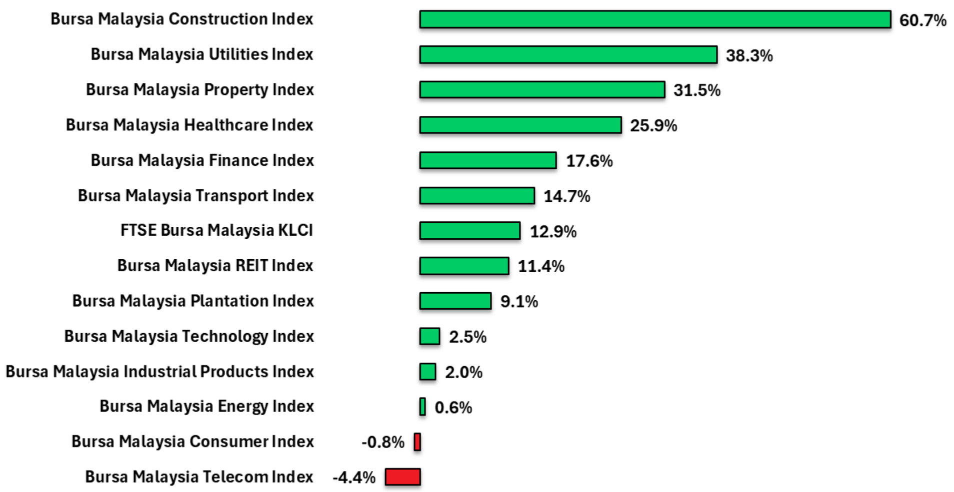
Buoyant trading activities and market sentiment. We gathered that a total 55 initial public offerings (excluding LEAP market listing) were launched in 2024, topping Bursa Malaysia's target of 42 IPO in 2024. Meanwhile, average daily traded volumes in 2024 stood at 4.00bn shares, up from 3.26bn shares recorded in 2023 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 year, average transacted value advanced to RM3.15bn, from average RM2.05bn in the same period recorded last year as selected larger cap stocks were in favour by local and foreign institutional participants.

Retail market heating up. On the retail participants segment, average daily transacted valued in 2024 jumped to RM664.5m vs. RM558.3m recorded in 2023 demonstrates that trading activities were also well centred towards small and mid captalisation stocks amidst the mostly positive quarterly financial performances in recent quarters.

Sector performance. In 2024, the Construction sector (+60.7% yoy) led the pack, driven by strong job inflows from data-center related projects, with construction activities also picking speed which buoyed GDP growth. Consequently, the outperformance in Gamuda share price resulted in the addition into the FBM KLCI components list. On the flipside, Telecommunications & Media sector (-4.4% yoy) underperformed, dragged down by declining average revenue per user (ARPU) as inflationary pressure resulted in consumers opting for more affordable packages, while the controversial second 5G network to U Mobile raises eyebrows. The Consumer sector (-0.8% yoy) also languished in the red following the weaker financial performance released by several consumer staples players.

*Positive overall performance led by **Construction**, **Utilities** and **Property** sectors, while the **Telecommunication** and **Consumer** sectors were the underperformers in 2024*

Bursa Malaysia 2024 Sector Performances



Source: Apex Securities

Malaysia Market Outlook

Strengthening beyond 1,600 in the final spurt of 2024. With the key index oscillating near 1,600 pts mostly in the later part of 2024 before the year end window dressing drove the key index higher, further upsides are largely on the cards. However, we do caution that potential knee-jerk reaction towards escalation of trade tariffs between US & China may temper towards global markets further upsides potential. Should the 1,600 pts remain defended, selective buying amongst the index heavyweights may provide an uplift for the local bourse. Additionally, the prospects of improving economic (GDP growth to hover at mid-single digit level) and better corporate fundamentals may remain supportive towards the Malaysia market.

Impending removal RON95 blanket subsidies. As we approach the planned removal of blanket subsidy for RON95, we reckon that Malaysian equity markets may react slightly negative towards this implementation, though the measure may only impact top 15% income earners. On a brighter note, the implementation of Progressive Wage Policy (PWP) will provide some alleviation towards the high household debt and serve as a cushion towards any inflationary pressure impacting consumer spending. Investors will be keeping an eye over further details over the implementation of RON95 subsidy removal over the interim.

Foreign funds outflow keeping gains in check. While the narrowing US-Malaysia interest rate gap (expecting further rate cuts from US Fed, while Bank Negara Malaysia may stay pat onto current rates till end-2025) may attract foreign investors, particularly from developing nations including US, we reckon that the Donald Trump-led US President trade protectionism mandate will eventually result in further foreign fund outflow from Malaysia equities. Recall back in 2018 when Donald Trump took over as the US Presidential election, Bursa Malaysia suffered a net foreign outflow of RM2.89bn. Still, much of the outflow was stemmed by the outcome of GE14 with the change in Malaysia government on 9 May 2018 (foreign outflow stood at RM5.60bn, RM4.93bn and RM1.68bn for May 2018, June 2018 and July 2018 respectively.

Tabling of Thirteenth Malaysia Plan. As we move into the final year of 12th Malaysia Plan (12MP), sustained development expenditure will continue to buoy the construction activities and in turn remains supportive towards the nation's economic growth. We reckon that the 13th Malaysia Plan will only be tabled sometime towards mid-2025, which will focus onto several key themes including (i) inclusivity, (ii) improving prosperity, (iii) empowering human capital development, (iv) environment sustainability and among others.

Current market conditions provide opportunity. With the local bourse turning directionless in recent months, we deem current stage of recovery presents opportunity for investors assess market conditions and to nibble onto selective trades for longer-term investment horizon. We kept our preferences skewing towards selective sectors (refer to Market Strategy below) that could demonstrate resiliency in earnings performance as well sectors riding onto selected thematic plays. As valuations remain fairly decent with the FBM KLCI trading at prospective P/E multiples of 14.2x/13.1x for 2025F/2026F vis-à-vis its five-year average of 16.7x, we reckon bargain hunting activities may present, should any weakness materialise.

Recovery in lower liners gathering momentum. Following a correction in 2H 2024, we believe the FBM Small Cap is ripe for cherry picking and potentially heading for recovery as we marched into 2025. This is supported by improving corporate fundamentals. After recording a total 55 initial public offerings (excluding LEAP market listing) in 2024, Bursa Malaysia's target of 50 IPO in 2025 is expected to remain well within reach.

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2024F GDP Growth Rate:	(↔)	**+5.2%**
2025F GDP Growth Rate:	(↔)	**+4.6%**
2024F Headline Inflation:	(↔)	**+2.1%**
2024F Core Inflation:	(↔)	**+2.0%**
2025F Headline Inflation:	(↔)	**+2.6%**
2025F GDP Growth Rate:	(↔)	**+2.4%**
End-2025 USD/MYR:	(↔)	**4.35**
End-2025 OPR:	(↔)	**3.0%**

1H 2025 Economic Outlook

Staying Resilient

Malaysia 2024 Economic Review

With the release of 9M 2024 GDP data at +5.2% yoy coming in line with our expectations, we reckon the positive momentum will extend into the final quarter, with private consumption anchoring growth prospects.

Solid labour market conditions along with progressive wage growth will remain supportive of household spending. Continued investment activities of multi-year projects in both the private and public sectors, with supportive measures under the national master plans will also contribute to future growth prospects.

Malaysia Historical GDP Growth Rate

Growth Rate (yoy)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Malaysia GDP	**7.4%**	**5.5%**	**2.8%**	**3.1%**	**2.9%**	**4.2%**	**5.9%**	**5.3%**
Agriculture	2.5%	1.4%	-0.7%	0.3%	1.9%	1.7%	7.3%	3.9%
Mining and quarrying	7.3%	1.6%	-2.1%	-1.1%	3.5%	5.7%	2.7%	-3.9%
Manufacturing	4.0%	3.2%	0.1%	-0.1%	-0.3%	1.9%	4.7%	5.6%
Construction	10.2%	7.4%	6.2%	7.2%	3.6%	11.9%	17.3%	19.9%
Services	9.2%	7.1%	4.5%	4.9%	4.1%	4.8%	5.9%	5.2%

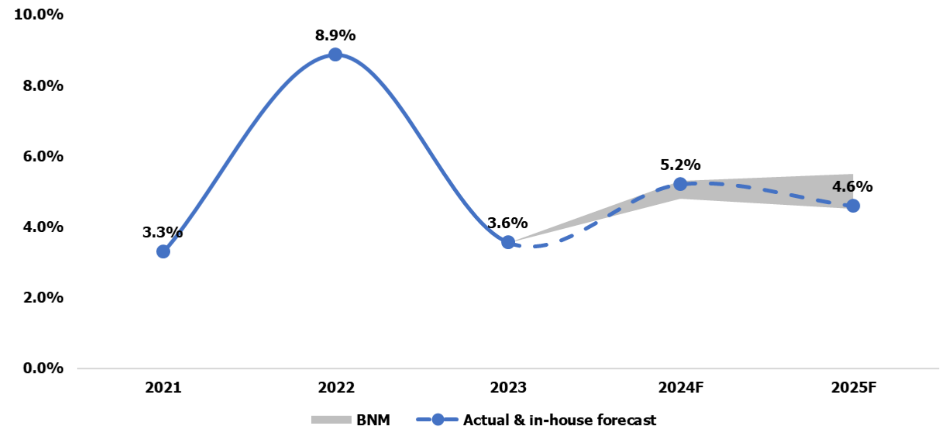
Source: BNM, Apex Securities

Malaysia 2025 Economic Outlook

Reasonable growth. We are keeping our 2024 Malaysia's GDP growth forecast at +5.2% yoy as well as our 2025 projection at +4.6% yoy. Future growth will remain resilient and will largely be supported by (i) stronger domestic spending, (ii) stable labour market conditions with unemployment rate hovering at multi-year low, (iii) progressive income growth that is supported by government-led policy measures, (iv) execution of multi-year projects from approved investments and (vi) recovery in tourism spending. On-going efforts in economic reformations along with the execution various government-link initiatives and key economic blueprints will continue to spur domestic economic growth.

Growth driven by sustained household spending, robust investment activities

Malaysia Annual GDP Growth Rate



Source: BNM, Apex Securities

Inflation well contained. With inflation rate well contained at 1.9% for the first ten months of 2024, we forecast headline inflation and core inflation at +2.1% yoy and +2.0% yoy respectively in 2024, which is in line with Bank Negara Malaysia (BNM)'s projection of 2.0%-3.5% and 2.0%-3.0% respectively, on the back of the implementation of the diesel subsidy rationalisation, hike of the SST to 8.0%, and resilient domestic demand.

Moving into 2025, both headline inflation and core inflation is projected higher at **+2.6%** yoy and **+2.4%** yoy, taking into account of the removal of RON95 blanket subsidy that is anticipated to take place in 1H 2025 as well as removal of subsidy for chicken eggs (currently being reviewed). We believe the moves will result in a knee jerk reaction toward domestic spending patterns before consumers eventually adjust to the new norm.

Greenback making a comeback, again. After appreciated towards MYR/USD at RM4.122/USD1.00 as at end-Sep 2024, US Dollar gained ground following the post-US election to close at USD/MYR of RM4.471/USD1.00. We believe the trade protectionism stance from US President-led Donald Trump will safeguard the strength of the US Dollar against major currencies, including MYR as we project another potential two rate cuts in the US in 2025. Hence, we are keeping our 2025 USD/MYR projection unchanged at **RM4.35**/USD1.00 towards end-2025.

More favourable trade balance with US. Malaysia is expected to stand as one of the key beneficiaries under the China Plus One Strategy as businesses from China navigates their supply chain into other parts of the region. Recall that during Trump 1.0 in 2018, US imported some USD39.34bn worth of goods and services from Malaysia as oppose to USD37.37bn in 2017. Meanwhile, 2019 trade activities further improved to USD40.51bn. We reckon that trade developments with US will remain tact, moving in 2025 as tariffs imposition from the US are expected to be mainly directed towards China.

Trade activities with US remains firm when trade war between US-China heightened in 2018

Historical Trade Balance (US & Malaysia) in USD

Year	Export	Import	Trade Balance
2016	11,774.2	36,607.4	-24,833.2
2017	12,871.8	37,369.2	-24,497.4
2018	12,953.5	39,342.1	-26,388.6
2019	13,193.7	40,511.0	-27,317.3
2020	12,296.2	44,098.2	-31,802.0
2021	15,094.7	56,053.6	-40,958.9
2022	18,224.1	54,077.7	-35,853.6
2023	19,358.3	46,191.0	-26,832.7
10M2024	23,449.5	42,881.4	-19,431.9

Source: US Census Bureau, Apex Securities

OPR rate holding steady. Given that economic growth remains on track and inflation is expected to be well contained, we expect BNM maintained the overnight policy rate (OPR) at **3.0%** throughout 2025. We are in view that the resilient domestic economy along with the manageable inflation and growth prospects will not warrant any changes in the OPR.

Key risks. Downside risks to our projection include weaker-than-expected external demand amid accelerated inflationary pressure, larger declines in commodity production and shift in key economic policies. Externally, further escalation in geopolitical tension, uncertainties surrounding tariffs and global trade as well as slowdown in global economic growth may dampen economic growth projections.

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Market Strategy

Volatility presents opportunity. We reckon markets may turn volatile, reacting to any new developments surrounding tariffs imposed by US. Expect Three Ts – "Trump, Trade and Tariff" to be the new market buzzwords for 2025, replacing "inflation, US election, geopolitical uncertainties". We reckon that should any correction(s) takes place, these movements will serve as opportunities for investors to bargain onto fundamentally solid beaten down stocks.

Focusing onto five key themes. In view of potential volatility arising from current scenario, we advocate a more selective investment strategy with five themes in focus.

Anchoring economic growth through multiple public and private-led projects. As development expenditure remains unchanged under Budget 2025 and a DC-concentrated of orderbook replenishment on the local front last year, we reckon the speedup of public infrastructure projects rollout to take place as we move into 2025 is a boon for the **construction** sector. Already, the Works Ministry (KKR) is projecting spending in construction sector to hit RM200.0bn, comprising RM86.0bn from the Budget 2025 allocated for development expenditure, RM34.0bn for projects implemented by GLCs and GLICs with the remainder RM80.0bn from the private sector. Also, we reckon earnings growth will remain on the cards, supported by execution of record high outstanding orderbook, particularly from construction giants.

Elevated prices a boon for planters. We are in view that the **plantation** sector may gain ground, riding onto the recent strong CPO price movement that was resulted from the supply constraints due to unfavourable weather on the local front, tighter export supply from Indonesia that continues to push for higher domestic consumption, rising demand from India's restocking activities. We also foresee that demand may spike ahead of major festivals such as Lunar New Year and Ramadan in early 2025 that are poised to keep prices on a higher note.

Riding onto a new wave since late-2023. Semiconductor sales recovery and growth is expected to remain on course, lifting the **technology** sector into another wave of upcycle. After delivering -11.7% yoy decline to USD530.0bn, World Semiconductor Trade Statistics (WSTS) organisation is projecting global sales to increase +19.0% yoy to USD626.9bn in 2024. Heading into 2025, global sales are projected to grow +11.2% yoy to USD697.2bn. Growth is expected to be supported by memory market and graphics processing units (GPUs). Also, with AI-related development accelerating, demand is expected to be concentrated towards high-performance AI server memory solution.

Towards a greener future. With emphasis continues to skew towards energy transition with the nation aims to achieve net-zero green-house gas (GHG) emissions by 2050, we also favour the **renewable energy** (RE) sector that is riding onto a slew of incentives outlined by policy makers in recent years. We believe Malaysia is strategically positioned for sustainable power generation, thanks to its abundant solar resources and land availability. The cost-effectiveness of development, and low maintenance requirements from solar PV plants make them highly scalable.

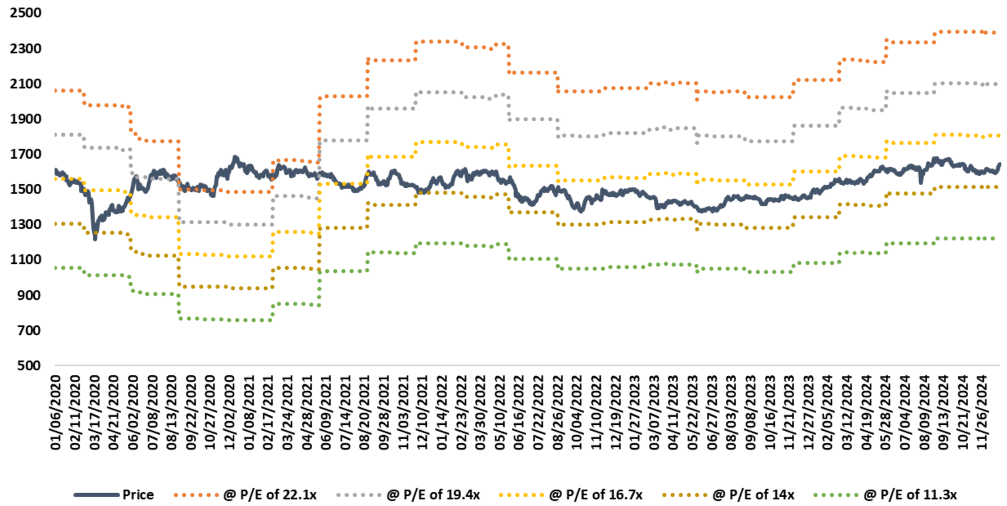
Data center-theme will remain strong. With various large-scale IT development multinationals announcement for the setup of data-center in Malaysia in 2024, we foresee the aforementioned trend to remain steadfast moving into 2025. We are sanguine onto **data-center** supply chain players such as **utilities** giants, mechanical engineering specialists, supply-chain players and among others to bite onto a slice of the multi-billion investment pouring into the country.

Valuations are still appealing. Following the mostly stale performance during the majority period of the final months in 2024, Malaysian stocks is regarded as still undervalued with FBM KLCI trading at PERs at 14.2x and 13.1x for 2025F and 2026F respectively. The PERs are still below historical five-year forward average of 16.7x, suggesting room for potential upside. At the same time, the FBM KLCI is trading at forward P/B of 1.43x and 1.37x for 2024F and 2025F respectively, which is below the five-year historical average of 1.50x.

In-house targets. We revised our 2025F year-end target for FBM KLCI slightly higher at **1,760** (from 1,750) following some housekeeping after the inclusion of 99 Speed Mart Retail Holdings Bhd as well as Gamuda Bhd which replaced two Genting-related companies and introduced 2026F year-end target at **1,810**, based on assigned 15.3x/14.5x PE multiples. The assigned P/E multiple aligns with -0.5 SD of the key index's 5-year historical average at 16.7x, which the key index has been trading at the aforementioned levels since post Covid-19. Potential upside will be driven by corporate earnings (projected growth in 2025F EPS at +10.4% yoy, mainly anchored by banking, utilities and plantations heavyweights) which 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: Apex Securities

Key Risks

Further strengthening in USD/MYR. 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. Impending removal of RON95 blanket subsidy may poses risk of higher goods and services, in general which may erode consumer purchasing power.

Elevated debt. Growing national debt which hits USD300.67bn as at end-Sep 2024 (from USD260.30bn as at end-Jun 2024) may impact progress or roll-out of government-led investment activities.

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

1H 2025 Recommendation

	Sector	Sector Top Picks	Investment Highlights / Rationales
OVERWEIGHT	Banking	PBBANK, HLBANK	Robust loan growth, while favourable conditions for M&A deals and renewed interest in the capital market financing to boost fee income outlook
	Construction	AME	Industrial properties market to thrive from global trade diversion with MNCs relocating out of China
	Industrial	SCGBHD, UUE, PEKAT	DC-theme play remain on the forefront with power distribution market to be boosted by robust pipeline of 3.0GW capacity projected to come online
	Logistics	TASCO, WPRTS	Capitalising onto global trade diversion and steady economic growth projections
	Property	LAGENDA	Supportive measures under Budget 2025, resilient demand skewing towards affordable homes and stable OPR rate to maintain affordability
	Renewable Energy	PEKAT, SLVEST	Supported by a clear and firm policies such as 800MW Corporate Green Power Programme (CGPP) and 2GW of Large-Scale Solar 5 (LSS5) to drive adoption of RE goals outlined in NETR
	Technology	INARI, FORNTKN QES	Semiconfuctor sales in new upcycle fuelled by booming AI demand, while export oriented players leveraging onto trade diversions
	Telecommunication	MAXIS, CDB	Riing onto deployment of dual 5G networks and potential project awards under Jendela Phase 2, along with undemanding valuations
	Utilities	MALAKOF	Primed for surging electricity demand from data centres, increasing adoption of electric vehicles, and the energy transition
NEUTRAL	Automotive	MBMR	Widely anticipated introduction of local EV model to boost EV market competitiveness
	Consumer	CCK, KAREX	Stability in retail sales growth will be supported by rising disposable income, stronger retail spending ahead of two key festive seasons
	Gloves	HARTA	Higher gloves tarriff imposed onto China evens the playing field between Chinese and Malaysian glovemakers, while ASP turns stable
	Oil & Gas	ARMADA	Tight FPSO supply to increase pricing power will benefit FPSO owners
	Plantation	KMLOONG, HSPLANT	CPO price correction could take effect in 2025 due to recovery in Indonesia palm oil production and widening of soybean oil discount to palm oil

Source: Apex Securities

1H 2025 Top Picks

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potental	ESG Rating
		as at 1Jan25	2024E	2025F	2024E	2025F	(%)	(RM)	Capital Gain	
Hong Leong Bank Bhd^	Jun	20.56	9.4	8.7	1.0	1.0	4.0	24.79	20.6%	★★★★
Southern Cable Group Bhd	Dec	1.23	21.5	16.2	3.9	3.2	1.2	1.63	32.5%	★★★
UUE Holdings Bhd^	Feb	0.87	21.6	15.7	4.3	3.5	0.6	1.10	27.5%	★★★
Lagenda Properties Bhd	Dec	1.31	5.8	4.9	0.9	0.8	5.7	1.64	25.2%	★★★
Solarvest Holdings Bhd^	Mar	1.69	58.3	33.9	6.8	5.6	0.0	1.98	17.2%	★★★
Pekat Group Bhd	Dec	0.99	43.3	26.1	6.7	5.5	1.0	1.17	18.2%	★★★
Inari Amertron Bhd^	Jun	3.06	32.9	27.6	3.6	3.6	2.7	3.76	22.9%	★★★
Fontken Corporation Bhd	Dec	4.46	49.6	37.8	9.8	8.4	1.0	5.38	20.6%	★★★
Malakoff Corporation Bhd	Dec	0.85	11.5	9.6	0.9	0.9	6.5	0.96	12.9%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Banking

(Overweight ↔)

Clear Drivers of Growth

Summary. Its looking good for the banking sector: a conducive economic environment, with clear drivers of growth. Consequently, we maintain **Overweight** call on the banking sector, premised on improving outlook and fundamentals. Our top picks are **Public Bank (BUY; FV: RM4.51)** for its potential upside to rising dividend payout as well as the possibility of larger writebacks in subsequent quarters, and **Hong Leong Bank (BUY; FV: 24.79)** for solid progress in its rising regional contributions (most notably, its fast-growing Singapore segment).

Review. The banking sector has reported a stellar year thus far from a valuation standpoint, after having been largely neglected since the pandemic. From a fundamental perspective, NOII was a clear standout, driven by a combination of renewed market activity interest (for fee income) and conducive non-fee income environment (positive movements in global interest rates, volatile forex). This year has also seen significant improvements in deposit rates, as the stable interest rate environments have prompted banks to go for cheaper forms of capital market funding instead – allowing for less intense deposit competition.

Nov-24 Banking stats figures

	yoy Growth rates (%)				YTD Ann. (%)	mom Growth rates (%)			
	Nov-24	Oct-24	Sep-24	Aug-24		Nov-24	Oct-24	Sep-24	Aug-24
Total loans	**5.8**	**6.0**	**5.6**	**6.0**	**5.1**	**0.6**	**0.7**	**0.4**	**0.3**
Retail loans	7.1	7.2	7.4	7.6	6.9	0.5	0.6	0.6	0.7
Business loans	4.4	4.6	3.6	4.1	3.1	0.7	0.8	0.2	-0.2
SME*	-	8.6	8.8	9.4	7.5	-	0.4	0.5	0.6
Deposits + repo	**3.6**	**3.1**	**3.3**	**3.8**	**2.5**	**0.9**	**0.3**	**0.7**	**-0.3**
Total deposits	**4.0**	**3.5**	**3.5**	**4.0**	**2.7**	**0.9**	**0.5**	**0.3**	**-0.3**
CASA	5.2	4.0	5.2	4.8	3.7	1.9	-0.2	1.0	0.2
FD	3.7	3.5	2.8	3.3	3.9	0.2	0.2	0.2	-0.1
Total provisions	-6.8	-5.3	-5.9	-6.0	-5.5	-0.3	-0.2	-1.4	-1.2
Total GIL	-5.1	-5.1	-5.0	-5.9	-4.4	-0.4	-0.6	-1.8	0.3
Leading indicators									
3MA applications	2	-1	4	6	0	-3	-0	2	2
Retail	2	1	6	6	-3	-3	-4	-1	-1
Business	2	-4	1	7	16	-2	4	6	5
3MA approvals	-1	-2	4	7	0	-2	1	2	3
Retail	-3	-3	2	4	-12	-4	-4	-3	-1
Business	0	-2	4	10	2	-1	5	6	6

	Nov-24	Oct-24	Sep-24	Aug-24	Nov-23
Interest spread	2.55	2.61	2.60	2.63	2.77
Loan approval rate	53	54	54	52	57
SME approval rate*	-	47	46	51	55
GIL ratio	1.51	1.53	1.54	1.58	1.69
SME GIL ratio*	-	2.99	3.01	3.07	3.12
LLC ratio	91	91	91	91	93
CASA ratio	31.3	31.0	31.2	31.0	31.0
Loan/Deposit ratio	92.1	92.3	92.2	92.1	90.5
Liquidity coverage ratio	148	147	147	146	150
CET 1	14.4	14.4	14.5	14.6	14.5
Tier 1 Capital	14.9	14.9	15.0	15.1	15.0
Total Capital	17.9	18.1	18.2	18.2	18.1

**SME data until Oct-24*

Source: BNM, Apex Securities

Outlook. Overall performance is skewed towards the upside. The main downward pressure comes from declining loan yields, which could also negatively affect the loan growth of banks that are unable to pivot away from lower-yielding segments quick enough.

Robust loan growth to continue. Loan growth prospects remain strong. We see no major threat to consumer loans (residential mortgages may see a dip due to narrow loan yields, but nothing drastic is expected). Ongoing large-scale construction projects and a full-up pipeline should buoy business loan outlook, offsetting any fears brought about by geographical tensions in the Middle East & Ukraine and declining US interest rates. We think SME loans will also remain a very crucial driver, supported by a favourable macroeconomic environment and growing export demand. From a geographical standpoint, Sarawak state is expected to take centre stage while other economic corridors such as Johor and Penang still have a lot of potential.

NIMs skewed towards the positive, though narrowing asset yields provide downside pressure. The COF situation continues to look bright: banks remain optimistic that debt market financing is now a very viable alternative to traditional deposits – implying that the deposit competition situation should either improve or at least remain stable. The main downside risk comes from narrowing asset yields, particularly from residential mortgages. The difficulty is that residential mortgages remain crucial for cross-selling purposes – hence banks' difficulty from fully on pivoting away from it. We think SME yields may start seeing some tightness as well, given banks' increasing focus on growing their commercial book. The Average Lending Rate (ALR) on system loans has been declining gradually – an indicator of the increasingly competitive lending environment.

Bright outlook for NOII. Strong economic activity, favourable conditions for M&A deals (particularly, stable interest rate conditions) and renewed interest in the capital market financing bode well for fee income outlook – especially for banks with established investment banking franchises such as CIMB, Maybank, RHB, AMMB and AFFIN. Macroeconomic conditions remain conducive in supporting non-fee income outlook: volatile forex rate, incoming US interest rate cuts.

While OPEX should continue with sharp growth, cost/income ratios should remain stable. We expect OPEX growth to remain in the upper-single digit level. Standard cost drivers such as wage inflation, higher insurance premiums and further tech costs persist. However, we expect this to be offset by improvements in topline (primarily in the NOII component) – allowing cost/income ratio to remain roughly stable.

Large recoveries to buoy asset quality outlook. Asset quality has for the most part stabilised several quarters ago, though the rundown from R&R loans continue to affect certain banks, notably AFFIN, AMMB and RHB. The loans in question pertain to either residential mortgages or SME loans. Several banks continue to guide for strong recoveries in CY25, most notably RHB (which, from an asset quality and LLC standpoint, has underperformed in the last year). Any further GIL ratio upticks will likely be isolated incidences.

Key Risk. The return of deposit competition, weak economic environment and sentiment, loan impairment spikes.

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Malayan Banking Bhd	Dec	10.24	12.7	11.8	1.3	1.2	6.8	11.28	10.2%	★★★★
CIMB Group Holdings Bhd	Dec	8.20	11.1	10.5	1.2	1.2	5.0	9.28	13.2%	★★★★
Public Bank Bhd	Dec	4.56	12.5	11.8	1.5	1.4	4.5	5.13	12.5%	★★★
RHB Bank Bhd	Dec	6.48	9.5	8.9	0.9	0.8	6.5	6.92	6.8%	★★★
Hong Leong Bank Bhd^	Jun	20.56	9.4	8.7	1.0	1.0	4.0	24.79	20.6%	★★★★
AMMB Holdings Bhd^	Mar	5.48	9.9	9.5	0.9	0.8	4.7	5.57	1.6%	★★★
Bank Islam Malaysia Bhd	Dec	2.47	10.6	9.2	0.7	0.7	5.9	2.76	11.7%	★★★
Affin Bank Bhd	Dec	2.91	13.6	11.6	0.6	0.6	2.5	2.71	-6.9%	★★★
Alliance Bank Malaysia Bhd^	Mar	4.84	10.2	9.6	1.0	0.9	2.7	5.00	3.3%	★★★
Simple Average			**11.1**	**10.2**	**1.0**	**1.0**	**5.0**			
Weighted Average			**11.6**	**10.8**	**1.2**	**1.2**	**5.4**			

^ Denotes FY25/FY26F values

Source: Apex Securities

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Construction

(Overweight ↔)

Extended Upcycle Supported Sustained Earnings Growth

Summary. After topping the sectorial peers, we expect the Construction sector's outperformance to sustain moving into 2025. Key players will be capitalising onto multiple mega-infrastructure contracts along with data-center job flows and building projects that are expected to trickle in 1H 2025. Consequently, we maintain our **Overweight** stance on the construction sector, backed by the resilient outlook and improving fundamentals.

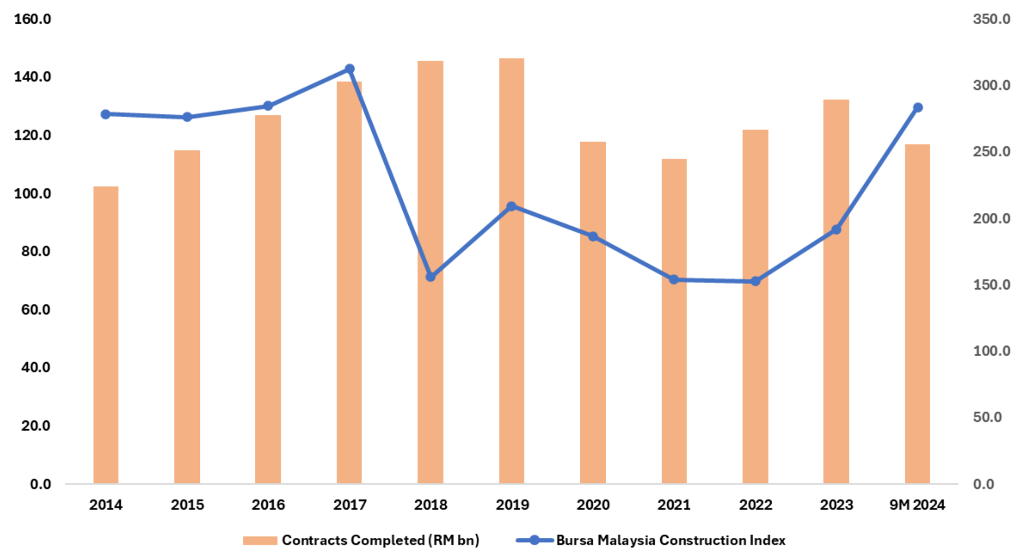
Presently, the construction sector is trading at forward P/E multiples of 22.7x and 18.2x for 2025F and 2026F which is above its five-year historical average of 17.0x. We believe the premium is justified by the improving fundamental prospects the earnings growth to play catch-up from the execution of orderbooks on hand along with the stronger industry prospects to keep future orderbook replenishment intact. Under our coverage universe, we favour **AME Elite Consortium Bhd (BUY; FV: RM1.92)** backed by the newly launch of new 176-ac industrial park at Penang that carries c.RM1.3bn GDV, while Malaysia's demand for industrial properties will leveraging onto global trade diversion with MNCs relocating out of China.

Review. The construction sector charted another remarkable growth (+22.9% yoy) in Q3 2024 with value completed totalling a single quarter record high of RM41.08bn, anchored by special trade activities (+42.6% yoy), followed residential buildings (+27.8 yoy), non-residential buildings (+27.7% yoy) and civil engineering (+12.0% yoy) sub-sectors. Meanwhile, the private sector makes up to 63.1% or RM26.1bn of the total market share, while the remainder (36.5% or RM15.0bn) contributed from the public sector.

With construction activities hitting record high in Q3 2024 and is well on track to surpassed RM146.37bn recorded in 2019, Bursa Malaysia's Construction Index emerged as the biggest winner in 2024 (+60.7% yoy) to close at 308.46 pts in 2024 – nearing the levels record in 2017. Supported by the uptick in construction activities and influx of data-center projects, outlook for the Bursa Malaysia Construction Index will be boosted by improve financial results prospects that will be underpinned by execution of solid outstanding orderbook on hand, acceleration of public mega infrastructure projects rollout from RM80.0bn allocated under development expenditure in Budget 2025 as well as steadfast private projects.

Construction activities in 2024 likely to surpass record high of RM146.37bn set in 2019

Contracts Activities Completed vs Construction Sector Index



Source: DOSM, Apex Securities

Outlook remains promising. After completing a total value of RM116.75bn construction works in 9M2024, we expect Malaysia contractors to remain busy with potentially c.RM150.0bn value of works in the pipeline to be completed in 2025. On-going developments such as several public mega infrastructure projects along with private projects that was supported by billings from data-center work orders, particularly towards 2H 2025 are expected to take off.

Public sector shifting to higher gear. Following a relatively quiet period in 2024, we reckon the public sector will shift into higher gear following Budget 2025's allocation of RM86.0bn for the development expenditure. Government push for infrastructure development via the rollout of public mega infrastructure projects such as Mass Rapid Transit 3 (MRT3), Penang Light Rapid Transit (LRT), Penang Airport expansion, Subang Airport redevelopment, Pan Borneo (Sabah), Iskandar Malaysia development and flood mitigation projects will be in focus to sustain the construction sector's growth.

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 continues to occupy the largest share. Malaysia will continue to capitalise onto data centers boom following the explosion of data generation from big data analytics, rising adoption of cloud computing, businesses digital transformation, e-commerce and video streaming growth. Full turnkey construction giants such as **Gamuda Bhd (NR)** and **Sunway Construction Group Bhd (NR)** that are backed by historic high outstanding orderbook will be kept relatively busy. Recovery in property sector on the back of higher number of planned properties launches, affordable housing developments, and increasing urbanisation will also in turn to support the construction players focusing on property-related works such as **Kerjaya Prospek Group Bhd (NR)**.

Key Area Focus	Types of Works/Projects
Transportation Infrastructure	Rail, Roads, Seaports, Airports
Property	Residential, Commercial, Industrial Parks
Green and Sustainable Construction	Residential, Townships
Smart Cities	Transformation of urban living using Big data, AI, IoT
Energy	RE infrastructures (solar farms, hydro powered dams)

Source: Apex Securities

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

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
AME Elite Consortium Bhd^	Mar	1.70	11.7	14.6	0.9	0.9	4.1	1.92	12.9%	★★★
Gamuda Bhd^*	Jul	4.74	21.0	17.4	2.2	1.9	2.0	5.67	19.6%	N/A
Sunway Construction Group Bhd*	Dec	4.63	35.3	22.5	6.6	5.8	2.1	4.76	2.8%	N/A
Kerjaya Prospek Group Bhd*	Dec	2.21	16.6	14.0	3.2	3.0	5.6	2.41	9.0%	N/A

^Denotes FY25/FY26F values

**Denotes Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

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Industrial

(Overweight ↔)

Riding the Wave of Ongoing Data Center Expansions

Summary. We are **Overweight** on the Industrial Sector, as we believe the sector's thematic play will remain centered towards data centre (DC) developments.

Valuation & Recommendation. Our Industrial sector top picks are

i. **SCGBHD (BUY, TP:RM1.63).** We favour SCGBHD for its: (i) status as one of the few approved vendors for TNB, consistently securing an average 20% market share, (ii) ownership of four Continuous Catenary Vulcanisation (CCV) lines, compared to the industry average of two, (iii) venture into the 132kV HV market, currently in trial runs and expected to commence operations by FY25, and (iv) position as one of the few vendors supplying U.S. distributors, benefiting from geopolitical tensions and trade diversions.

ii. We like **UUE (BUY, TP:RM1.10)** due to its: (i) niche specialisation in HDD solutions, offering high-margin opportunities, (ii) strong positioning to benefit from TNB's grid upgrade plans, leveraging its relationships with key main contractors, and (iii) venture into subsea developments, anticipated to drive margin expansion.

iii. We also like **PEKAT (BUY, TP:RM1.17)**, due to its (i) synergistic business model, with the ELP and Trading segments consistently contributing approximately RM30.0m each to the topline, (ii) attractive in-house solar financing business catering to residential and C&I solar adoption, (iii) lucrative margins from its EPE segment, which benefits from long-term grid upgrades and the growing data center (DC) market, and (iv) stable order book maintained at around RM200.0m, driven by its focus on fast-track projects.

Review. Favorable government policies and a renewed focus on building a robust digital ecosystem have driven Malaysia to record RM141.7bn in digital investments during 10MCY24, representing a threefold increase compared to 2023. This includes significant investments from tech giants such as Nvidia (USD4.3bn), Microsoft (USD2.2bn), Google (USD2.0bn), ByteDance (USD2.1bn), AWS (USD6.2bn), and Oracle (USD6.5bn). The influx of foreign direct investment (FDI) is also evident in **TENAGA (BUY: RM16.04)**'s latest filings, which highlight the requirement for an additional 3.0GW of electricity supply, on top of 1.7GW signed in 2023, reflecting the growing demand from Malaysia's rapidly expanding data center projects.

Outlook. We believe the DC theme will remain prominent heading into 2025, supported by a robust pipeline of 3.0GW capacity projected to come online and the fit-out of AI servers in Malaysia. With global AI energy consumption forecasted to rise tenfold from 7.3 TWh in 2023 to 73 TWh in 2026, this trend is set to boost demand across the value chain including civil contractors, developers, power cable manufacturers, switchboard suppliers, and system integrators. Key beneficiaries under our coverage include **SCGBHD (BUY, TP: RM1.63)** for cables and wires, **Pekat (BUY, TP: RM1.17)** for medium voltage (MV) switchgear, and **UUE (BUY, TP: RM1.10)** for underground utilities engineering.

Data Centers Drive Demand for Cable Systems. Channel checks reveal that constructing 1MW data center typically allocates 10–25% of the project cost to cable systems, highlighting the important role played by cables in these projects. As cable systems are integral to the early stages of data center construction, this trend is expected to benefit **MTEC (NR)** and **SCGBHD (BUY, TP: RM1.63)**, two prominent local cable manufacturers. To date, SCGBHD has secured over RM100m in PO for DC-related cables.

Rising Trends in HV Power Cables. In response to the growing electricity demand from DCs, **TENAGA (BUY: RM16.04)** is considering upgrading its cable specifications from 800 sq.mm^2 to 1,600 sq.mm^2 Milliken conductors to enhance power capacity. To capitalise on this initiative, **SCGBHD (BUY, TP: RM1.63)** is currently awaiting UL certification for its 1,600 sq.mm^2 HV Milliken cable, with approvals expected by 3QCY25. Considering four players in the market, including

SCGBHD, we estimate an addressable market of RM730m /pa over the next 25 years, positioning it to benefit significantly from this growing trend.

Growing Demand for Switchgear in Data Centers. Based on channel checks, cost of constructing a DC in Malaysia is broken down by c.45.0% to power systems, 30.0% to cooling systems, and the remaining portion to other components. Among power systems, UPS and generators account for about half of the expenditure, while c.25.0% is dedicated to switchgear. We believe the rising demand for DC infrastructure will drive growth in the power distribution market, benefiting **PEKAT (BUY, TP: RM1.17)** through its 60% stake in EPE Switchgear, Malaysia's largest MV switchgear manufacturer with a c.30% market share.

Increasing Demand for Underground Utility Solutions. Data center owners collaborate with M&E contractors to connect to TNB's public substations, involving contracts focused on laying underground cables to link PMU substations to internal substations and constructing the internal substations. Generally, c.10-15% of substation construction costs are attributed to HDD-related expenses but is still dependent onto (i) length and diameter of the underground conduits or pipes, and (ii) soil conditions and drilling challenges. The rising demand for data center connectivity is expected to benefit utility infrastructure engineering companies, including **MNHLDG (NR)**, **JTGROUP (NR)**, and **UUE (BUY, TP: RM1.10)**.

Risk. Heavy reliance on power industry. Intense market competition. Orderbook replenishment.

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potental	ESG Rating
		as at 1Jan25	2024E	2025F	2024E	2025F	(%)	(RM)	Capital Gain	
Southern Cable Group Bhd	Dec	1.23	21.5	16.2	3.9	3.2	1.2	1.63	32.5%	★★★
UUE Holdings Bhd^	Feb	0.87	21.6	15.7	4.3	3.5	0.6	1.10	27.5%	★★★
Pekat Group Bhd	Dec	0.99	43.3	26.1	6.7	5.5	1.0	1.17	18.2%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Logistics

(Overweight ↔)

Opportunities and Tailwinds to Outweigh Challenges

Summary. Despite several external headwinds (outlined in the risks section), we believe the opportunities and tailwinds in the logistics sector outweigh these challenges. The sector's valuations remain attractive, underpinned by resilience in navigating external uncertainties. Malaysia's logistics sector is well-positioned to capitalise on global trade diversion and steady economic growth projections, providing a buffer against external headwinds. Consequently, we maintain our **Overweight** recommendation for the sector, premised to its attractive valuations and long-term growth prospects.

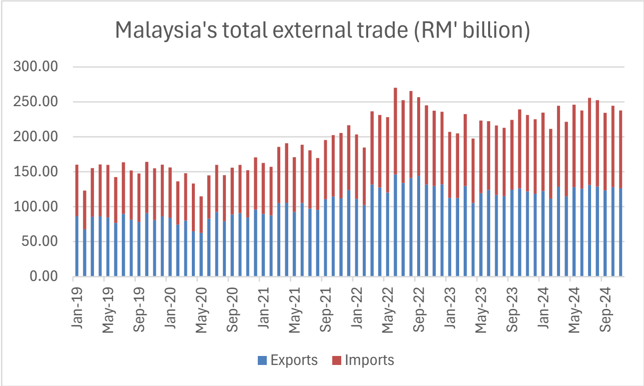
Valuation & Recommendation. The transportation and logistics sector is currently trading at 16.7x 1-year forward PER, below its 5-year mean of 22.0x, reflecting market concerns over external headwinds. However, we expect these challenges to be mitigated by key tailwinds, including a resurgence in global trade, trade relocations, and resilient domestic demand in 2025. Additionally, given the sector index's strong correlation with the FBM KLCI, we expect the logistics sector to align with the FBM KLCI's trajectory (in-house 2025 target: 1,760 points) as anticipating foreign investors return.

Our top pick for the sector is **TASCO Bhd (BUY; FV: RM 1.00)** for its positive earnings growth driven by the recovery of the IBS segment, supported by improved external trade performance. Additionally, the DBS segment is expected to benefit from firm warehouse and CSC demand, alongside new warehouse expansions. Meanwhile, we also favour on **Westports Holdings Bhd (BUY; FV: RM 5.08),** as proxy for Malaysia's resilient domestic economy and strong external trade growth. Long-term growth is supported by an anticipated tariff hike, although recent share price appreciation (+12% since initiation coverage back in 24 Jun 2024) offers limited near-term upside until the completion of Westports 2 expansions.

Review. The Bursa Transportation and Logistics Index posted a 14.7% gain in 2024, reflecting strong correlation with the FBM KLCI. This aligns with Malaysia's resilient GDP growth and external trade performance (+8.8% ytd), driven by trading partner economies and robust domestic demand. In 2024, while local logistics business volumes remained resilience, profitability faced challenges from forex fluctuations, volatile freight rates, and supply chain disruptions, including the Red Sea crisis and US port strikes.

Trade activities remain buoyant throughout 2024

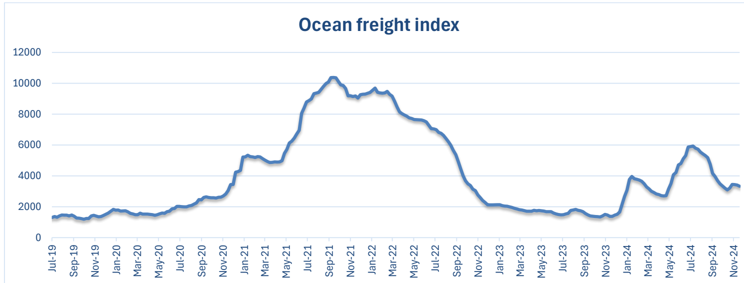
Malaysia's Total External Trade (RM' bn)



Source: MATRADE, Apex Securities

Ocean freight rates normalising as supply chain bottles demonstrating signs of easing

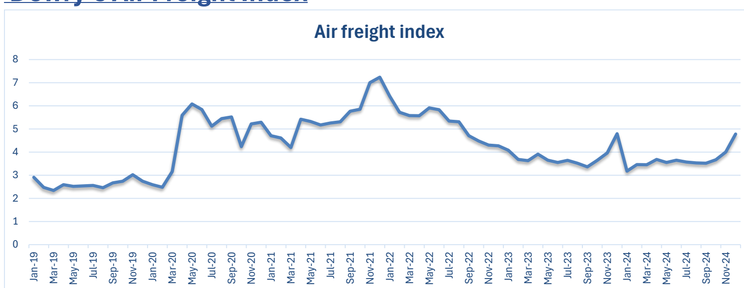
Dewry's Ocean Freight Index



Source: Bloomberg, Apex Securities

Air freight rates notching higher in winter peak season

Dewry's Air Freight Index



Source: Bloomberg, Apex Securities

Outlook. As the logistics industry being closely tied to global and Malaysian economies, is poised to benefit from several positive factors in 2025. Malaysia's GDP is forecasted continue to grow at 2025 (in-house forecast: +4.6% yoy), providing a strong domestic economic foundation for the sector. Globally, the anticipated recovery in economic activity, driven by central banks move to cut interest rates, is expected to support international trade. Meanwhile, China's impending economic revival, bolstered by government stimulus measures, is likely to reignite growth as being one of the most important Malaysia's key trading partners, further enhancing trade activity. Additionally, the resurgence of the global E&E sector is expected to benefit Malaysia's export-driven logistics, as the sector plays a vital role in supporting supply chains.

Malaysia's positioning as a preferred regional logistics hub is further solidified by warehouse capacity expansions, which cater to rising demand from FDI inflows and trade relocations prompted by Sino-US trade tensions. Supply chain bottlenecks, such as seaport congestion caused by the Red Sea crisis, are anticipated to ease in 2025, with potential geopolitical de-escalation offering additional upside potential, in our view. Moreover, active participation in trade agreements, including the Malaysia-GCC FTA, MY-UAE CEPA, and other bilateral initiatives, is expected to serve as a catalyst for the sector growth, ensuring its resilience and long-term prospects.

Key Risk. External headwinds include potentially trade protectionism under the new US Trump administration; persistent global inflation that could slow interest rate cuts; and stiff competition in the fragmented logistics market, which may pressure margins.

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
TASCO Bhd^	Mar	0.75	10.9	8.8	0.9	0.8	3.3	1.00	33.3%	★★★
Swift Haulage Bhd	Dec	0.45	11.8	10.5	0.6	0.5	3.3	0.58	28.9%	★★★
Wesports Holdings Bhd	Dec	4.60	18.6	17.9	4.2	3.6	4.0	5.08	10.4%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Property

(Overweight ↔)

Positive Outlook Outshining Stretchy Valuations

Summary. We maintain our **Overweight** stance on the property sector premised to (i) a sustained recovery moving into 2025, (ii) property developers adopt a more balanced approach with a mixture of affordable units in their portfolio tailored to market dynamics, (iii) resilient demand skewing towards affordable homes and (iv) stable OPR rate to maintain affordability for mortgages.

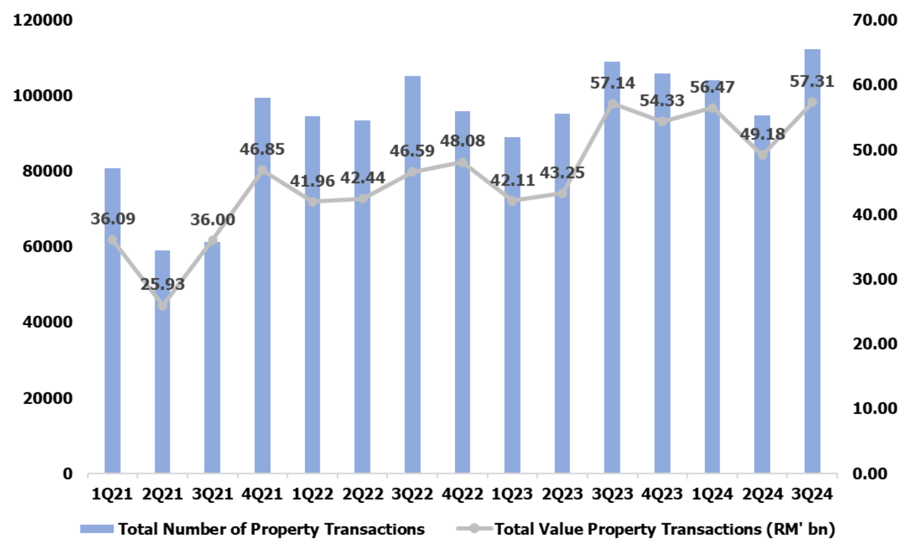
We continue to favour of property players operating in leaner balance sheet and is supported by good traction of township developments targeting lower-mid income level groups such as **MATRIX (HOLD; FV: RM2.20)** and **OSK (NR)**. With emphasis placed towards affordability under Budget 2025, we reckon players with strong exposure to affordable housing projects such as **LAGENDA (BUY; FV: RM1.64)** and **SKYWLD (HOLD; FV: RM0.55)** to gain further ground. Following the appreciation of share prices in majority of the property players, we gather that forward PB for the property sector is trading at 0.76x and 0.74x for 2025F and 2026F which is slightly ahead of the historical average of 0.65x. We reckon that the slight premium is justified, backed by the sustained positive outlook moving into 2025 with expectations that earnings growth to play catch up with the slightly stretched valuations.

Review. The property sector delivered another outstanding performance with total property transactions valued rose +0.3% yoy/+16.5% qoq to RM57.31bn in 3Q 2024, bringing total transactions value to RM162.96bn (+14.4% yoy). Meanwhile, total volume transacted also grew +3.1% yoy/+18.6% qoq to 112,305 units. Notably, the residential property recorded 70,520 transactions during the quarter – a the highest in 10 years. The improvement highlights that demand for properties remains strong, skewing towards affordable residential properties priced at RM500,000 and below.

During 3Q 2024, residential sub-sector transacted value accounted to 62.8% of total transactions, followed by agriculture (11.8%), commercial (10.9%), development of land (6.0%) and industrial (2.2%). During the quarter, new residential launches stood at 13,708 units, while sales of new launches stood at 3,017 units, representing 22.0% sales conversion. At the same time, average property price to transaction in 3Q 2024 also improved to RM510,311/unit vs. RM519,222/unit recorded in 2Q 2024.

Property transactions continues to remain upbeat throughout 9M2024

Historical Quarterly Property Transactions



Source: Bank Negara, Apex Securities

Stability in loan approval rate averaging above 40.0% in 10M24 remains fairly healthy, in line with long term average implies no major changes in demand-supply dynamics, which also ensures sustainability. On the overhang or unsold completed houses, we noticed improvement with 3.0% decline in terms of volume to 21,968 units as the more prudent and gradual launches approach adopted by property players ensures existing unsold units are gradually absorbed by the market.

In 2024, Bursa Malaysia's property index (+31.5%) emerged as the third biggest winner to close at 1,133.72 pts – nearing the levels recorded in back 2018. Recovery in property market was driven by a more balanced demand-supply dynamics, particularly within the residential market as new launches revolves a large share of affordable units tailored to the mass market demand.

Demand & Supply-Pull Drivers For 2025

Multiple drivers to steer growth prospects

Concentration of improved transportation and rapid development across selected states such.

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

Source: Apex Securities

Supportive measures outlined under Budget 2025;

(i) Tax relief on the purchase of residential properties that can be claimed for three consecutive assessment years for sale and purchase agreements completed between 1 Jan 2025 till 31 Dec 2027 based on properties priced up to RM500,000, a tax relief of up to RM7,000 is offered, while for properties priced between RM500,000 and RM750,000, a tax relief of up to RM5,000 is offered.
(ii) RM900m been allocated to implement 48 People's Residency Programs (PRR) and 14 Rumah Mesra Rakyat (RMR) projects.
(iii) RM300m allocated to KWAP and RM200m to UDA Holdings Bhd (UDA) to develop affordable housing on wakaf land
(iv) Public Sector Home Financing Board (LPPSA) will support civil servants purchasing homes on such land. Home financing will be available for a period of up to 40 years.

Source: Budget 2025, Apex Securities

Property Segment Outlook

Outlook across three segments remains promising

Residential (+)	Office (-)	Commercial (+)	Industrial (+)
(i) Sustained demand to gradually absorb incoming supply (ii) Focused onto launches priced below RM500,000 (iii) Developments of township remain sustainable	(i) Occupancy rates are competitive in view of prolonged oversupply (ii) Impending new office spaces may continue to pressure rental rates	(i) Improving footfall as domestic economy gain traction (ii) Rapid urbanisation supportive towards new retail developments	(i) Riding onto implementation of NIMP 2030 (ii) Rise in data center investment (iii) Expansion of warehouse & logistics facilities to capitalise onto trade diversion

Source: Apex Securities

With OPR expected to remain unchanged throughout 2025, we reckon planned purchases to progress accordingly. This will in turn maintain affordability for mortgages and development financing with household debt-to-GDP ratio remains elevated at 83.8% as of end-Jun 2024. While we are sanguine that property developer to be able to maintain sales momentum moving into 2025, margins expansion is expected to be kept in check with a more balanced approach being adopted from a mixture of affordable units in their portfolio. We are in view that property players skewed towards affordable housing developments as well as township developers are expected to remain resilient.

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

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potental	ESG Rating
		as at 1Jan25	2024E	2025F	2024E	2025F	(%)	(RM)	Capital Gain	
Lagenda Properties Bhd	Dec	1.31	5.8	4.9	0.9	0.8	5.7	1.64	25.2%	★★★
Matrix Concepts Holdings Bhd^	Mar	2.39	12.7	12.2	1.4	1.3	4.2	2.20	-7.9%	★★★
SkyWorld Development Bhd^	Mar	0.565	5.3	9.8	0.7	0.6	4.0	0.55	-2.7%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Renewable Energy

(Overweight ↔)

A busy year for RE players

Summary. We are **Overweight** on the renewable energy (RE) sector, underpinned by a clear and robust policy framework outlined in the National Energy Transition Roadmap (NETR). We expect earnings recognition in 2025 to be primarily driven by the 800MW Corporate Green Power Programme (CGPP) and 2GW of Large-Scale Solar 5 (LSS5). We foresee the rollout of Battery Energy Storage Systems (BESS) and the development of 2.5GW of Hybrid Hydro Floating Solar (HHFS) at Tasik Kenyir as other significant initiatives aligning well with the RE themes outlined in NETR.

Valuation & Recommendation. Our RE sector top picks are

i. **PEKAT (BUY, TP:RM1.17)**, due to its (i) synergistic business model, with the ELP and Trading segments consistently contributing approximately RM30.0m each to the topline, (ii) attractive in-house solar financing business catering to residential and C&I solar adoption, (iii) lucrative margins from its EPE segment, which benefits from long-term grid upgrades and the growing data center (DC) market, and (iv) stable order book maintained at around RM200.0m, driven by its focus on fast-track projects.

ii. We like **SLVEST (BUY, TP:RM1.98)**, for its (i) solid track record, having completed 1.2GW of projects—the highest among peers, (ii) strategic efforts in building a diversified solar empire, (iii) unique in-house solar financing program, Powervest, which promotes solar PV adoption in the C&I sectors, (iv) ability to consistently capture an average 20.0% market share of EPCC jobs from LSS1, LSS2, and LSS4, and (v) robust tender book of 7.2GW (Malaysia: 5.7GW; Overseas: 1.5GW).

Review. 2024 saw an influx of RE initiatives announced to accelerate the nation's ambitious RE market share to 70% by 2050. Key announcements included: (i) the launch of 2GW solar capacity under the LSS5 programme, (ii) an allocation of 400MW for non-solar renewable resources under the Low Carbon Energy Generation programme, (iii) the establishment of Energy Exchange Malaysia (ENEGEM) to facilitate cross-border electricity sales to neighbouring countries, (iv) CRESS, and (v) extensions for solar rooftop initiatives.

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 2.2GW/annum till 2050. Among this capacity mix, solar accounts for 58.0%, serving as the key component to ramp up RE ambitions. We expect the government to remain supportive of scalable projects like the LSS and CGPP 2.0 to stimulate RE adoption, which should serve as additional catalysts for replenishing massive order books for RE EPCC players.

A busy year for solar EPCC contractors. In 2025, we expect the RE sector to remain robust, with RE EPCC's earnings recognition primarily driven by two key themes: (i) the 800MW CGPP projects, and (ii) the 2GW LSS5 programme. For the CGPP, we believe the contract job allocations to RE EPCC have been finalised, with construction works anticipated to commence in 1QCY25 to meet the commercial operation date target by the end of 2025. Meanwhile, the LSS5 programme recently announced its shortlist for packages three and four, totalling a 1.5GW allocation. We anticipate construction flows for LSS5 to begin in 2Q–3QCY25, in line with industry practices. These initiatives are expected to generate up to RM7.2bn in EPCC jobs, providing significant opportunities for order book replenishment among RE pure-plays and offering strong earnings visibility over the 2025.

More RE initiatives are offered on the tables. To achieve a 59.0 GW installed capacity by 2050, the Government continues to launch several renewable initiatives to accelerate solar adoption across Malaysia:

i. **Extension of net energy metering (NEM).** Government has increased the rooftop solar quota under the NEM3.0, NEM Rakyat (600 MW), and NEM Nova (1,700 MW) programmes until June 2025.

ii. **Extension of Solar Incentive Scheme for the People (SolaRIS).** Government has extended the SolaRIS solar system installation rebate of up to RM4,000 for domestic users until April next year. This extension is subject to new participants joining the NEM Rakyat programme.

iii. **Maintained Green Electricity Tariff (GET) programme.** Government has maintained the GET at 10 sen/kWh for LV users and 20 sen/kWh for MV & HV users through 2025. New long-term subscription options are now available for up to three years, from 2025 to 2027, with premiums reduced to as low as eight sen/kWh for low-voltage and 18 sen/kWh for MV & HV users.

These developments are set to benefit RE EPCC companies under our coverage, including **PEKAT (BUY; TP: RM1.17)**, **SLVEST (BUY; TP: RM1.98) and SAMAIDEN (BUY; TP: RM1.71)**.

BESS is the Next Step in RE Evolution. We believe Battery Energy Storage Systems (BESS) are the next pivotal development in the RE sector, essential for achieving a 70% RE share by 2050 by addressing the intermittency of RE sources. Historically, BESS installations operated under an encouraged mode, a setup that's only recently been emphasised in the CRESS framework. To recap, under the framework, 25 sen/kWh SAC is charged for an RE plant with firm output, while 45 sen/kWh for an RE plant without firm output. That said, out of the 45 sen/kWh SACs, 20 sen/kWh are allocated to battery developers.

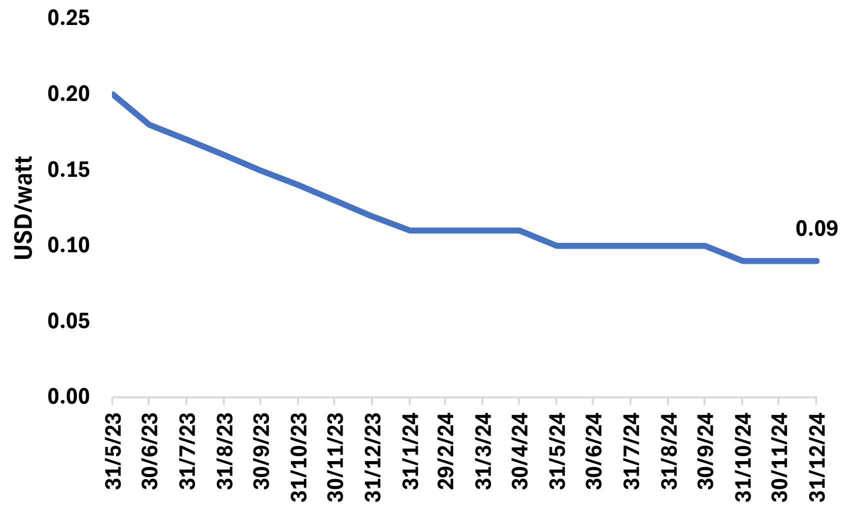
As highlighted in our RE Sector Update published on 23 Sept 2024, Path to Liberalisation, GET offers a better rate for commercial MV users at 62.8 sen/kWh compared to CRESS's 65.0 sen/kWh, which might discourage users from adopting the current scheme. Consequently, we anticipate that **TENAGA (BUY: RM16.04**) may step in to develop the necessary infrastructure, with a 400MWh BESS facility currently in the pilot phase. We also believe this move could benefit **GENETEC (NR)** and **CITAGLB (NR)**, which have formed a joint venture to manufacture and assemble BESS systems. Although the industry currently primarily sources battery components from China and faces high costs >USD 100/kWh, we expect that with increased support for local and national RE initiatives, more BESS initiatives will be rolled out soon.

Short-Term Benefits, Long-Term Adjustments. According to BloombergNEF, Chinese companies currently have a solar module manufacturing capacity >1,100 GW, nearly double the global installations projected by 2024 and far surpassing demand forecasts through 2035. This oversupply has driven solar prices to a historic low of approximately US$0.9/watt, reflecting an 18% decline in 2024.

The overcapacity has led the Chinese government to implement measures aimed at curbing excess production. These include revised Manufacturing Industry Standards and a reduction in solar export tax rebates from 13% to 9%. Additionally, the U.S. Trade Representative's office announced a doubling of tariffs on solar cells imported from China—from 25% to 50%—and imposed anti-dumping duties ranging from 21.3% to 271.2% on solar cells from Cambodia, Malaysia, Thailand, and Vietnam. While we believe these measures will help manage excess capacity over the medium term, the short-term impact on local RE EPCC players is expected to remain minimal unless further policy controls are introduced. In the absence of such measures, RE EPCC players are likely to benefit from continued access to cheaper modules, supporting solar adoption.

Solar Module Price Trend

Slumping solar module price accelerates adoption of RE (solar)



Source: EC, Apex Securities

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

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Pekat Group Bhd	Dec	0.99	43.3	26.1	6.7	5.5	1.0	1.17	18.2%	★★★
Solarvest Holdings Bhd^	Mar	1.69	58.3	33.9	6.8	5.6	0.0	1.98	17.2%	★★★
Samaiden Group Bhd^	Jun	1.29	36.2	24.5	4.7	4.0	1.7	1.71	32.6%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Technology

(Overweight ↑)

Prospects Turn Promising on an Uneven Road to Recovery

Summary. We are optimistic that Malaysia's technology sector will experience an exceptional year in 2025, driven by an anticipated convergence between Malaysia's and the US tech indices following the deviation recorded in 2024. We believe domestic tech companies will attract investor interest as Malaysia stands to be one of the key beneficiaries of global trade diversion. This positive outlook is further reinforced by the expected recovery in global consumer electronics, fuelled by the downcycle in interest rates, government initiatives such as the National Semiconductor Strategy (NSS) to attract FDI, and the stabilisation of the USD/MYR exchange rate. As a result, we are upgrading our stance on the technology sector to **Overweight**, from Neutral.

Valuation & Recommendation. The Malaysian technology sector is trading at 21x 1-year forward PER, which is below its 5-year forward P/E mean of 26x, presenting limited downside risk. We believe the sector is poised for an upcycle in 2025, supported by a recovery in global consumer electronics demand, robust FDI inflows, and trade relocations driven by Sino-US trade tensions.

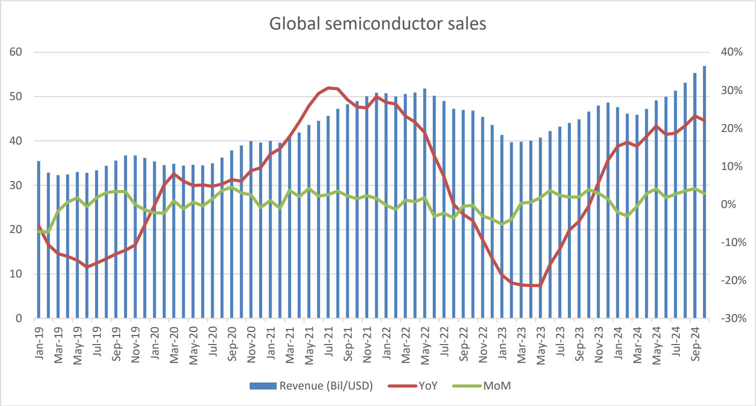
Our top pick is **Inari Amertron Bhd (BUY; FV: RM 3.76)** which is well positioned as the beta play being the largest market-cap and highest-liquidity tech stock in Malaysia, INARI stands out for its exposure to the AI market and rising investments in data centres from its value-chain initiatives, onboarding new customers and products, make it a compelling beta play. Meanwhile, **QES Group Bhd (BUY; FV: RM 0.77)** will benefit from increased contributions from the semiconductor segment, which we expect to drive growth in FY25F, supported by renewed customer CAPEX confidence.

Meanwhile, we also revised our TP for two of our coverage in the sector - **ATECH**: TP revised to **RM 4.16** with a higher PER multiple assigned from 23x to 25x (+2 stdv of 5-year forward PER mean). **FRONTKN**: TP was raised to **RM 5.38**, with PER multiple adjusted from 35x to 43x (+2 stdv of 5-year forward PER mean). Both upgrades reflect optimism on trade relocations and their strategic partnerships with global foundry TSMC amid strong AI chip demand respectively.

Review. The Malaysian technology sector delivered an underwhelming performance in overall 2024, aligning with our previous Neutral call. While the sector rallied between Apr and Jun 2024 due to AI enthusiasm sparked by Nvidia and the NSS launch, a subsequent correction took place, weighed by disappointing quarterly results, global macroeconomic concerns, and MYR/USD appreciation. Foreign funds flowed back into US tech stocks, benefiting from AI returns due to Malaysia's limited exposure to AI-driven players. On global front, Worldwide semiconductor sales trended upward throughout 2024, supported by AI investments and inventory restocking after prolonged reductions.

Semiconductor sales on the mend since mid-2023

Worldwide Semiconductor Sales



Source: Bloomberg, Apex Securities

Bursa Technology index and PHLX Semiconductor Stock index

Source: Tradingview

Outlook. Looking into 2025, WSTS projects global semiconductor sales to grow at a slower pace of +12.5% yoy following a higher base effect in 2024, fuelled by booming AI demand. Despite the slower growth, we expect Malaysia's semiconductor players particularly in OSAT, ATE, precision engineering, and EMS related players to outperform due to (i) Recovering consumer electronics demand spurred by global interest rate cuts and stimulus initiatives, (ii) Robust FDI inflows into Malaysia and trade diversions driven by Sino-US tensions and (iii) improved CAPEX spending confidence among global players post-US elections.

Other growth drivers include AI-driven demand, chip restocking, increased data center investments, and stable USD/MYR rates. Additionally, broader sentiment should improve with anticipated global interest rate cuts and FDI-attracting government initiatives.

We are also optimistic about non-semiconductor tech, particularly software technology, supported by continued domestic digital adoption and the government's cybersecurity bill.

Key Risk. Rising costs due to hikes in minimum wages and utility prices. Stronger MYR/USD exchange rates impacting profit margins. Slower-than-expected recovery in consumer electronics demand.

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Inari Amertron Bhd^	Jun	3.06	32.9	27.6	3.6	3.6	2.7	3.76	22.9%	★★★
QES Group Bhd	Dec	0.595	23.8	20.5	2.6	2.2	0.8	0.77	29.4%	★★★
Fontken Corporation Bhd	Dec	4.46	49.6	37.8	9.8	8.4	1.0	5.38	20.6%	★★★
Aurelius Technologies Bhd	Dec	3.50	26.9	21.2	2.9	2.7	2.7	4.16	18.9%	★★★
Infoline Tec Group Bhd	Dec	0.955	25.9	18.0	5.8	4.9	2.1	1.19	24.6%	★★★
Ramssol Group Bhd	Dec	0.725	15.1	12.9	2.7	2.4	0.0	0.86	18.6%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Telecommunication

(Overweight ↑)

Focus Shifts to Dual Network and Jendela P2

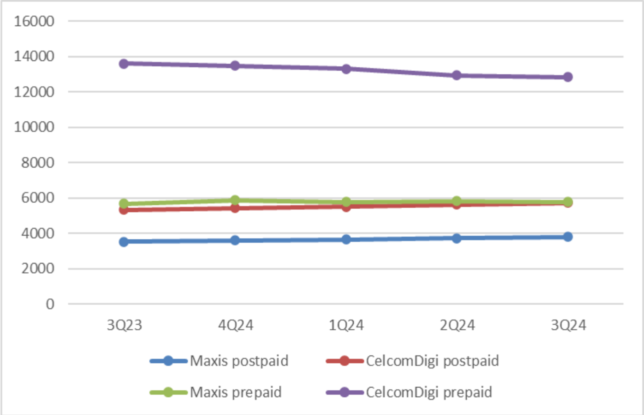
Summary. We are **Overweight** on the telecommunication sector as we anticipate that the deployment of dual 5G networks and potential project awards under Jendela Phase 2 will serve as key growth drivers for telco players from 2025 onwards.

Our top pick is **Maxis Bhd (BUY, FV: RM4.30)**, driven by its potential collaboration with Umobile to support the rollout of the second 5G network. Meanwhile, we remain positive on **CelcomDigi Bhd (BUY, FV: RM4.05)**, expecting significant synergy savings to commence in 2025 as merger integration costs peak in FY24. We maintain a cautious stance on **Axiata Group Bhd (HOLD, FV: RM2.60)** despite its potential participation in the upcoming Jendela P2 projects, as we believe the recent share price appreciation has already priced in its fundamental value. Similarly, while **Telekom Malaysia Bhd (HOLD, FV: RM7.20)** is not directly involved in the second 5G network rollout due to its inability to meet the SSA conditions with DNB, the Group remains a key player in the 5G rollout, as other MNOs will continue to depend on its extensive fiber infrastructure for connectivity.

Review. Bursa Malaysia Telecommunication Index (-4.4% yoy) turned out to the worst performer in 2024, hovering close to 540 pts after peaking at 625 pts Jun 24. Presently, the telco sector is trading at forward EV/EBITDA multiples of 6.6x and 6.3x for 2024E and 2025F, which is regarded as undervalued against the historical five-year mean average of 7.5x. The underperformance was affected by slower subscriber growth towards the year-end, combined with uncertainty surrounding the timing of project awards to telco players. In 3Q 2024, postpaid subscriber growth saw net additions, but at a significantly slower pace compared to previous quarters, while ARPU declined due to fiber-mobile bundles. On the other hand, prepaid subscriber and ARPU remain stable, as both MNOs have reached an optimised competitive price point.

Prepaid subscribers fell due to FMC strategy

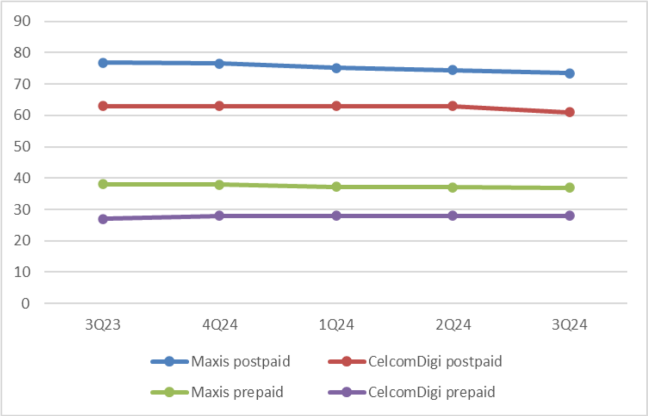
Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

Prepaid ARPU stabilised as both MNOs reached its optimised competitive price point

APRU (RM)



Source: Maxis, CelcomDigi

Jendela will be the next theme for 2025. The Jendela initiative is part of Malaysia's National Digital Infrastructure Plan (NDIP), designed to enhance the country's digital infrastructure. Launched in August 2020 by former Prime Minister Muhyiddin Yassin, Jendela tracks premises connected to fibre for fixed broadband and focuses on 3 key components of mobile broadband: upgrading base stations, building new mobile towers, and expanding satellite connectivity.

Since then, the project has encountered some setbacks due to unfinished towers, which were expected to be completed by Oct 2024. This delay is particularly noticeable, with 577 out of 1,385 completed towers yet to be operational, including 226 that have surpassed the 9-month target timeline for activation. The MCMC is currently monitoring towers facing delays and considering imposing liquidated damages on the parties involved.

Under Phase 2, the full deployment of 5G will follow upon the completion for 4G coverage is achieved, in line with the 12th Malaysia Plan thus boosting digital connectivity nationwide. Phase 2 will focus on providing Internet coverage for the remaining 3% of the populated area and expanding gigabit access for fixed line broadband to 9m premises nationwide. We note that the project scale for P2 will be much more massive compare to P1 as it revolves around the construction of 2,500-3,000 towers, doubling the scale under P1.

Outlook. Following Umobile's unexpected appointment to lead the second 5G network rollout, the Government has also announced that collaborations with MNOs will be permitted to support the implementation. In our view, a partnership with CDB could offer greater benefits to Umobile by providing access to CDB's extensive infrastructure of over c.18,000 sites (compared to Maxis's c. 11,000 sites), significantly reducing 5G deployment costs. On the other hand, a collaboration with Maxis might be more appealing to the Government as it would help to even the level of playing field. With a comparable number of sites and subscribers to Umobile, the combined assets of both parties would achieve a scale similar to that of CDB.

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

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Maxis Bhd	Dec	3.65	20.4	19.5	4.8	4.6	4.6	4.30	17.8%	★★★
CelcomDigi Bhd	Dec	3.62	24.7	20.5	2.6	2.5	3.6	4.05	11.9%	★★★
Telekom Malaysia Bhd	Dec	6.65	15.5	15.1	2.6	2.4	3.3	7.20	8.3%	★★★
Axiata Group Bhd	Dec	2.49	31.6	22.0	1.0	1.0	4.3	2.60	4.4%	★★★

Source: Apex Securities

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Utilities

(Overweight ↔)

More Contract Awards on the Horizon

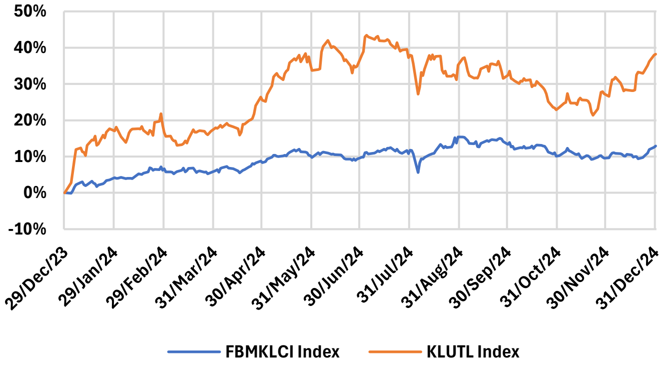
Summary. We maintain our **Overweight** stance on the utilities sector as we expect it to be primed for multi-year growth on the back of surging electricity demand from data centres, increasing adoption of electric vehicles, and the energy transition. Key drivers for the sector in 2025 include: (i) award of new PPA/SLA and extension of existing PPA/SLA, (ii) award of grid upgrade contracts, (iii) greater clarity on Regulatory Period (RP) 4 parameters, and (iv) potential drop in coal prices and higher natural gas prices.

Valuation & Recommendation. Our top pick for the utilities sector is **MALAKOF (BUY, TP: RM0.96)**. We favour **MALAKOF** due to (i) its position as the largest independent power producer in Malaysia, making it a frontrunner to secure new gas-fired plants, (ii) its expansion in waste management capabilities, with potential growth from tariff adjustments in its concession business, and (iii) growth opportunities from the finalisation of its waste-to-energy plant.

2024 Review. 2024 was a strong year for the utilities sector, with the KL Utilities (KLUTL) Index surging 38.3%, significantly outperforming the benchmark FBM KLCI's 12.9% gain (Figure 1). Most of the sector's gains were registered in the first half of 2024, driven by strong performance from utility giants **TENAGA** and **YTLPOWR (NR)**. Several key developments shaped the sector's growth in 2024. The stabilisation of coal prices helped mitigate the negative fuel margins that had previously burdened the coal plants. Additionally, water tariff adjustments for domestic users in Peninsular Malaysia and the Federal Territory of Labuan were implemented to reflect the actual cost of providing water supply services, hence improving the profitability of some of the water operators, including **PBA (NR)** and **RANHILL (NR)**. Another milestone was the establishment of the Energy Exchange Malaysia (ENEGEM), facilitating the trading of green electricity supply to Singapore. Finally, the year concluded with the announcement of key parameters for the highly anticipated RP4, which is expected to influence the sector's trajectory in the coming years.

KLUTL outperformed the broader market in 2024

Figure 1: KLUTL vs FBM KLCI in 2024



Source: Bloomberg, Apex Securities

Outlook. We expect the following factors to be the key drivers of the sector in 2025:
(i) award of new PPA/SLA and extension of existing PPA/SLA,
(ii) award of grid upgrade contracts,
(iii) greater clarity on RP4 parameters,
(iv) potential drop in coal prices and higher natural gas prices.

Award of New PPA/SLA and Extension of Existing PPA/SLA

Several power plants are expected to see their power purchase agreements (PPAs)/service level agreements (SLAs) expire by 2030. Given the long lead time of approximately three years from request-for-proposal stage to achieving commercial operation, we anticipate the awarding of new PPAs/SLAs for gas-fired plants by the end of 2025.

By 2028, excluding 1.3GW of hydro plants likely to receive SLA renewals through Life Extension Programmes, approximately 4GW gas-fired plants will have their PPAs/SLAs expire, necessitating urgent replacement with newer, more efficient gas-fired plants (Figure 2). We believe **TENAGA** and **MALAKOF** are the frontrunners to secure new PPAs for gas-fired plants, given their strong track records in Peninsular Malaysia.

In the interim, Putrajaya Gas-fired Plant (owned by **TENAGA**), Prai Power Plant (owned by **MALAKOF**) and Panglima Power Plant (owned by Edra Power Holdings Sdn Bhd) are expected to have their PPAs/SLAs extended as a measure to temporarily address the capacity shortfall.

4GW Gas-fired Plants Have Their PPAs/SLAs Expire by 2028

Figure 2: Upcoming PPA/SLA Expiry

PPA/SLA expiry	Power Plant	Fuel	Type	Capacity (MW)
2025 August	S.J Putrajaya	Gas	OCGT	249
2025 August	S.J Sultan Mahmud, Kenyir	Water	Hydro	400
2025 August	Prai Power Sdn Bhd	Gas	CCGT	350
2025 September	Panglima Power Sdn Bhd	Gas	CCGT	710
2026 February	Kuala Langat Power Plant Sdn Bhd	Gas	CCGT	675
2027 June	Segari Energy Ventures Sdn Bhd	Gas	CCGT	1,303
2027 August	S.J Cameron Highlands	Water	Hydro	250
2027 August	S.J Sungai Perak	Water	Hydro	649
2028 August	S.J Tuanku Jaafar, Port Dickson	Gas	CCGT PD1	703
2029 July	Kapar Energy Ventures Sdn Bhd	Gas	Conventional Thermal	578
2029 July	Kapar Energy Ventures Sdn Bhd	Coal	Thermal (U3-U6)	1,474
2030 January	S.J Tuanku Jaafar, Port Dickson	Gas	CCGT PD2	708
2030 August	TNB Janamanjung Sdn Bhd (M123)	Coal	Thermal	2,070

Source: Grid System Operator, TENAGA, Apex Securities

Award of Grid Upgrade Contracts

TENAGA has recently announced the parameters for RP4 (Figure 3), with a 29.2% increase in base Capex compared to RP3. While **TENAGA** is the primary beneficiary of this higher Capex allocation, other players involved in supporting **TENAGA**'s grid upgrade cycle also stand to benefit. Key beneficiaries include cables and wire suppliers such as **SCGBHD (BUY, TP: RM1.63)** and **MTEC (NR)**, as well as utilities engineering players like **UUE (BUY, TP: RM1.10)**, **MNHLDG (NR)**, and **JTGROUP (NR)**. The higher Capex is expected to drive higher contract awards in 2025, subsequently boosting order books for these suppliers and solution providers.

Several RP4 Parameters Remain Unclear

Figure 3: RP3 and RP4 Parameters

Parameter	RP3 (2022-2024)	RP4 (2025-2027)
Base Tariff (sen/kWh)	39.95	45.62
WACC	7.3%	7.3%
Allowed Capex (RM bn) *	20.6	26.6
Allowed Opex (RM bn)	18.0	20.8
Coal Price Forecast (USD/MT)	79.0	Pending Disclosure
USD/MYR Forecast	4.1	Pending Disclosure
Coal Price Forecast (RM/MT)	325.7	Pending Disclosure
Gas Price Forecast (RM/mmBTU)	26-33	Pending Disclosure

**Only base Capex is included*
Source: TENAGA, Apex Securities

Greater clarity on RP4 Parameters

Some details for RP4 remain unclear (Figure 3). First of all, the purpose and conditions for the utilisation of contingent Capex have not been disclosed. Clarifying these details will help investors assess the likelihood of its utilisation and the extent to which it may contribute to the allowed return in RP4. Additionally, this information will offer insight into potential beneficiaries of such investments. For example, if the contingent Capex involves battery energy storage system (BESS), companies like **CITAGLB (NR)** and **GENETEC (NR)**, which have formed a joint venture to manufacture BESS, could benefit.

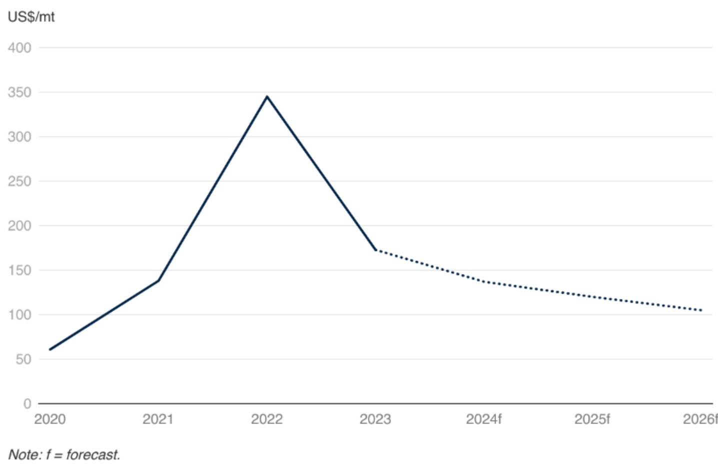
Another critical parameter yet to be revealed is the fuel price forecast. If the forecast is overly conservative, ICPT surcharge may be required to cover the generation costs. In cases where no surcharge is imposed on customers, the government would need to bear the difference, potentially leading to cash flow constraints to **TENAGA**, as ICPT receivables may take months to disburse. Additionally, while a surge in coal prices may generate non-recurring positive fuel margins for **TENAGA**'s power generation arm, it would also necessitate increased working capital for fuel purchase, further straining cash flow. This, in turn, could require higher borrowings, increasing finance costs and eroding **TENAGA**'s profitability.

Potential Drop in Coal Prices and Higher Natural Gas Prices

Despite record renewable energy installations, global coal demand has continued to grow, reaching new highs in both 2023 and 2024. However, as the world transitions towards net-zero emission, the World Bank expects overall coal demand to shrink in 2025, with global supply declining in tandem. Coal prices are projected to decrease by approximately 12% in 2025 and 2026, but remain above pre-pandemic levels (Figure 4). A sharp decline in coal prices in 2025 could lead to negative fuel margins for **TENAGA** and **MALAKOF**, as fuel costs typically lag fuel income.

Coal prices are projected to decrease in 2025 and 2026

Figure 4: World Bank's Coal Price Forecasts



Source: World Bank

In contrast, the demand for natural gas as a transitional fuel is expected to rise, intensifying the competition for LNG shipments. The World Bank forecasts a sharp recovery in natural gas prices starting in 2025. This could erode earnings of **PETGAS (HOLD, TP: RM17.80)** in 2025 due to higher internal gas consumption (IGC) costs. Fortunately, for the Gas Transportation and Regasification segments, the impact of higher gas prices in 2025 will be mitigated through annual tariff adjustments, which pass costs to customers with a two-year lag.

Key Risks. Unplanned plant shutdowns, policy uncertainties, and a rapid plunge in coal prices.

Peer Comparison

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) *	TP (RM)	Potental Upside	P/E (x)		P/B (x)		Div Yield (%)		ESG Rating
							CY25	CY26	CY25	CY26	CY25	CY26	
Tenaga Nasional Bhd	Dec	86,845	Buy	14.94	16.04	7%	20.6	20.2	1.4	1.4	3.1	3.2	★★★
Petronas Gas Bhd	Dec	34,984	Hold	17.68	17.80	1%	18.4	17.8	2.4	2.3	4.1	4.2	★★★
Mega First Corporation Bhd	Dec	4,326	Buy	4.59	5.15	12%	11.4	11.3	1.1	1.0	1.8	2.0	★★★★
Malakoff Corporation Bhd	Dec	4,129	Buy	0.85	0.96	14%	11.5	9.6	0.9	0.9	6.5	7.7	★★★

** As at 31 Dec 24*

Source: Apex Securities

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Automotive

(Neutral ↔)

Driving Stability and Resiliency

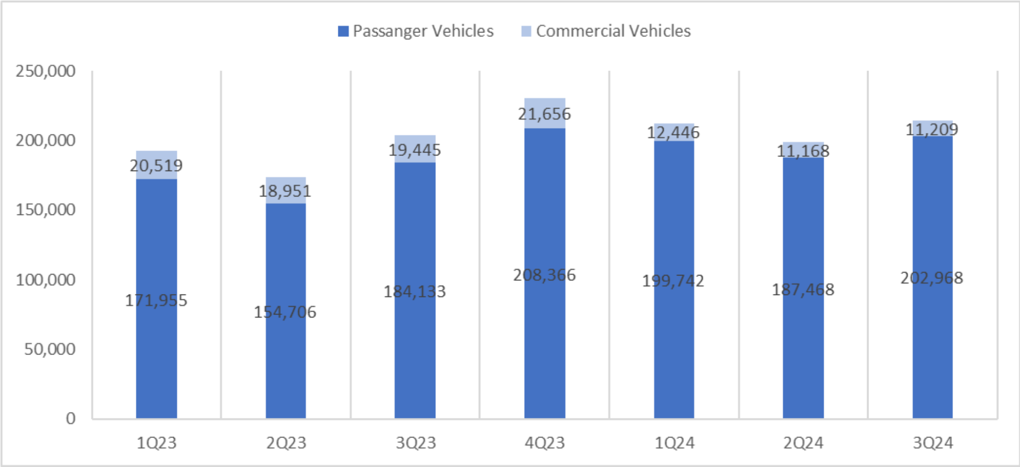
Summary. While we expect the outlook for the automotive sector to remain stable over the foreseeable future, we believe that growth prospects appear to be muted due to the high base effect and the absence of EV tax extensions, which may slow down demand. Potential upsides, if any, are likely to be driven by selective catalysts such as new model launches or regulatory incentives over the interim. Consequently, we maintain a **Neutral** stance on the automotive sector, reflecting our cautious view on the sector's growth potential amidst these headwinds.

We remain Neutral with the automotive sector for 2024. Under our coverage universe, we re-iterate our **HOLD** recommendation for **MBM Resources Berhad (FV: RM6.66)**. The Automotive sector is trading at forward PERs of 8-10x for 2025F/2026F and it is currently fair, well within the 3-year historical average of 9.0x.

Review. We gather that Total Industry Volume (TIV) in 3Q24 rose +7.8% qoq to 214,177 units primarily fuelled by robust sales in the passenger vehicles segment, which witnessed a growth of +8.3% qoq for the quarter. This improvement in passenger vehicle sales can be attributed to strong demand observed in July 2024 (+19% mom), anchored by a longer working month and several new model launches. Nonetheless, we noticed signs of slowdown in November 2024 (-3.9% mom), as consumers delayed purchases in anticipation of year-end promotions.

TIV held steady in 3Q 2024, bringing 9M 2024 to 625,001 units which is largely on track to meet the target of 800,000 units in 2024

Total Industry Volume



Source: MAA, Apex Securities

Outlook. We anticipate Malaysia's Total Industry Volume (TIV) to normalise to 770,000 units in 2025F, reflecting a -4% yoy decline due to the high base effect following three consecutive years of record-breaking sales volumes from 2022 to 2024E, with anticipation of more than 800,000 units produced in 2024. While 2024 is poised to be another robust year for Perodua (potentially capturing c.35% market share), a tapering order backlog suggests potential moderation in 2025. As such, we project Perodua to deliver 282,000 vehicles in 2025F, representing an -5% yoy decline from our 2024 forecast of 297,000 units.

The anticipated end of the CBU EV tax holiday post-2025 is likely to drive a surge in EV sales this year, as consumers capitalise on current incentives. While we view the Malaysia EV market remains on growth trajectory, contribution is expected to be minimal with just 2% to YTD TIV, due to limited CKD EV options coupled with inadequate charging infrastructure only 3,354 public bays nationwide vs. 10,000 target by 2025. 2025 could be an inflection point, with an accelerated rollout of charging stations and potential fuel subsidy reforms mid-year potentially driving demand towards EVs, benefitting automakers with strong EV portfolios.

The Malaysian automotive sector faces uncertainties with the potential High-Value Goods Tax (HVGT) and planned RON95 petrol subsidy removal for higher-income earners by mid-2025. The HVGT could impact middle-to high-income buyers of premium cars, with unclear implications for EVs, possibly contradicting policies promoting their adoption. Subsidy rationalisation may drive shifts toward hybrids and EVs, though limited affordable options remain a barrier.

Domestic automakers stand to benefit, with higher sales expected in 2025 from expanded cash handouts and the introduction of locally manufactured EVs under RM100k. Success depends on policy execution and balancing fiscal reform with industry growth.

Key Risk. Softer-than-expected consumer sentiment, unattractive model launches are risk to its motors division coupled with the abolishment of tax exemption.

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potental	ESG Rating
		as at 1Jan25	2024E	2025F	2024E	2025F	(%)	(RM)	Capital Gain	
MBM Resources Bhd	Dec	6.17	7.4	8.0	0.9	0.9	7.7	6.66	7.9%	★★★
Bermaz Auto Bhd^*	Mar	1.60	7.3	6.7	2.1	2.0	11.0	2.04	27.5%	N/A
Tan Chong Motor Holdings Bhd^*	Jun	2.36	10.1	9.8	0.8	0.7	6.0	2.88	22.0%	N/A

^Denotes FY25/FY26F values

**Denotes Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

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Consumer

(Neutral ↔)

Moderating Consumer Purchasing Power

Summary. The consumer product sector is expected to improve as we move into 2025. The expected increase in minimum wages bodes well for the overall consumer sector's outlook. Growth prospects for the retail and staple goods sectors will largely hinge towards the anticipation of recovery of tourist spending and the upcoming twin festivities in 1H 2025. While uncertainties remain on the cards, the combination of these festivities periods and higher disposable income is expected to moderately boost retail sales growth. In summary, we maintain a **Neutral** stance on the consumer sector, as a potentially higher spending environment may be tempered by inflationary pressures that could result in a more cautious spending behaviour.

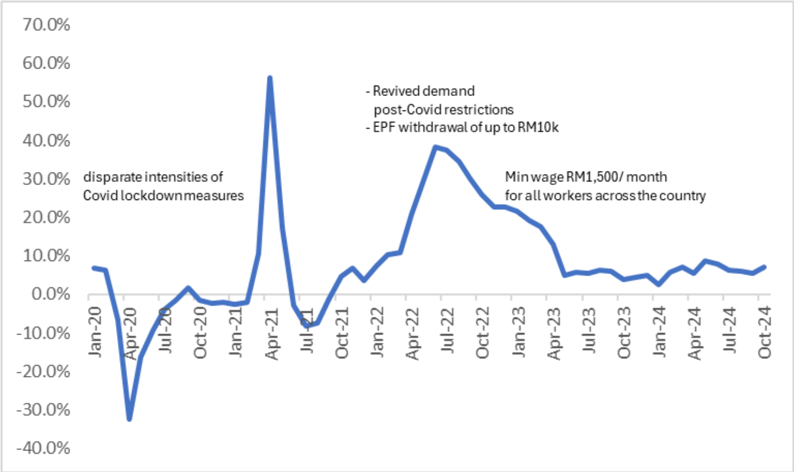
Valuation & Recommendation. With higher disposable income and upcoming festivities in 1H 2025, our top picks in the consumer sector are **CCK (BUY, FV: RM1.70)** and **KAREX (BUY, RM1.04)**. We favour CCK due to increased consumer spending during the festive shopping season. As a player in both poultry and retail, CCK is well-positioned to capitalise during the period. Meanwhile, Karex will benefit from the launch of its new synthetic condom, which is expected to contribute a gross profit margin of 50%-60%, as the raw material costs are relatively lower compared to peers. Sector-wise, the PE for the consumer sector is trading at 16.6x in 2024, while the average forward PE for 2025F is projected to be 14.8x, indicating valuations are turning more attractive on the back of expectations over economic improvement in the consumer sector next year.

Review. Retail sales has rebounded in 3Q 2024 with 3.8% yoy growth rate after a sluggish performance in 2Q 2024 with a deceleration of -0.6% yoy. The robust performance was due to the 5.5% yoy sustained growth in October. Hence, this highlights a positive signal towards Malaysia's economic continued resilience despite global uncertainties.

According to DOSM, service sector experienced a 5.9% yoy growth in 3Q 2024. Growth was driven by an increase in both international and domestic tourists, which has boosted consumer spending and intensified demand in key industries, underscoring the vital role of tourism in supporting the sector's performance.

Sustained retail sales growth recorded throughout 10M2024 on the back of stable employment data and strong domestic spending

Malaysia Historical Retail Sales Growth (YoY)



Source: Trading Economics, Apex Securities

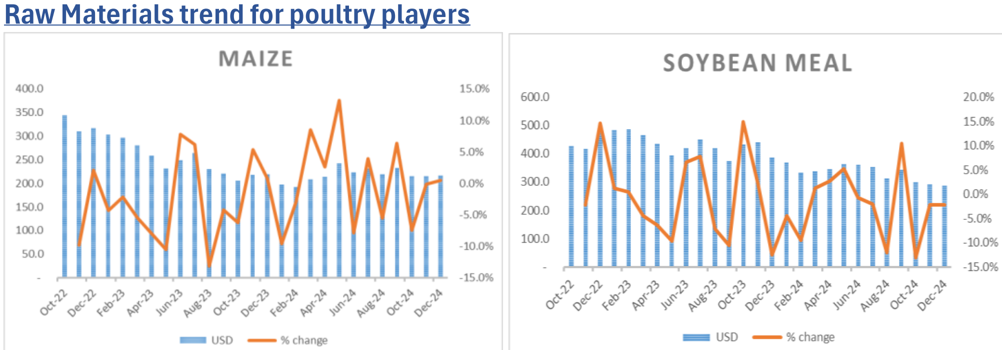
Outlook. Looking ahead, the Retail Group of Malaysia (RGM) projects a 4% growth rate in 2025 (which we reckon is an achievable growth figure), in line with the expected economic expansion of 4.5%-5.5%. Disposable income is set to rise, driven by wage increases in both the public and private sectors. Civil servants will receive salary increases of 4-8% starting in December 2024, while the monthly minimum wage across all industries will rise from MYR1,500 to MYR1,700

(+13%) in February 2025. Additionally, larger cash handouts in 2025 should help consumers cope with the high cost of living. The 30% yoy increase in tourist arrivals as of October 2024 is expected to benefit the sector, particularly consumer retail companies, while increase in minimum wage will likely boost consumer spending in rural areas. For consumer counters, a stable MYR and employment rate should help entities to protect their profit margins.

Our view. In 1H25, we anticipate improvements in both the consumer staples and discretionary sectors, fuelled by two major festivities (Chinese New Year and Hari Raya Aidilfitri) which are likely to boost consumer spending. With Malaysia's meat market dominated by poultry, we expect the poultry segment to be a key performer in the consumer staples industry. Retail supermarkets and wholesalers are also likely to see increased sales during these festive periods, as consumers engage in holiday shopping.

Challenges. RGM has highlighted challenges the industry may encounter moving into 2025, including the rising cost of living and the introduction of e-invoicing for small retail businesses. E-invoicing has been mandatory for larger corporations since August 2024. Looking ahead, small retail businesses with an annual turnover of at least RM150,000 must comply to similar rule by 1 Jul 2025. RGM also emphasises the difficulties this will pose for independent retailers and small businesses. Regulatory risks, particularly new policies from Budget 2025, such as higher wages, increased excise duties on sugary drinks, and expanded Sales and Service tax, are expected to have minimal impact on the industry in 2025. However, the potential inflationary impact of the targeted petrol subsidy rationalisation remains uncertain, pending more details on its implementation.

Raw Materials trend for poultry players



Maize and wheat prices are expected to rise but remain below 2021-2023 levels, while soybean prices will likely stay low in 2025, due to looser market conditions

Source: Bloomberg, Apex Securities
(Note: In 2025, the commodity markets are poised for significant shifts influenced by geopolitical developments, economic policies and global demand dynamics.)

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

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Padini Holdings Bhd^	Jun	2.20	16.5	16.8	2.0	1.8	3.0	3.13	42.3%	★★★
CCK Consolidated Bhd	Dec	1.63	11.1	11.6	2.0	1.8	2.6	1.70	4.3%	★★★
Karex Bhd^	Jun	0.93	30.0	33.1	2.1	1.9	0.5	1.04	11.8%	★★★
QL Resources Bhd^*	Jun	4.76	37.9	34.0	5.7	5.1	0.9	4.79	0.6%	N/A
Aeon Co. (M) Bhd*	Dec	1.57	37.9	36.2	1.2	1.1	0.9	1.72	9.6%	N/A
Leong Hup International Bhd*	Dec	0.61	16.1	16.8	0.9	0.8	2.6	0.86	41.0%	N/A

^2024E refers to actual data
**Denotes Bloomberg consensus estimates*
Source: Bloomberg, Apex Securities

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Gloves

(Neutral ↔)

Better Days on the Horizon

Summary. Despite the stronger demand prospects, we maintain our **Neutral** stance on the gloves sector. Recent appreciation in share prices, particularly among key glove players have reflected the improved fundamentals. However, we acknowledge the possibility of a positive re-rating, should the pace of recovery exceed our expectations.

Valuation & Recommendation. Improved demand from the US for local gloves is on the fore, due to high tariffs on Chinese glovemakers, the effect of which will be felt in 2025. We favour **Hartalega Holdings Bhd (HOLD, TP: RM3.72)** for its position as the largest local glove exporter to the US, commanding approximately 56% of the US's glove supply sourced from Malaysian players in 2024. With substantial replenishment activities expected in the US in 2025, HARTA could potentially ramp up the said proportion to 60%. However, the recent surge in share price has already factored in the positive catalysts, and hence, we maintain a **Neutral** stance on the sector.

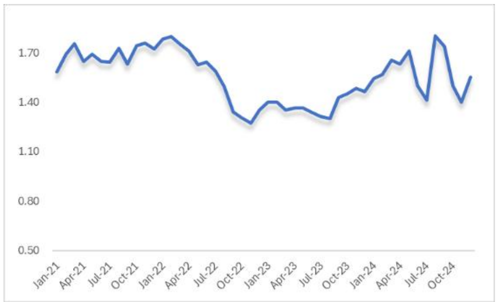
Review. In 2H24, most Malaysian glovemakers, particularly Hartalega and Kossan, reported a solid result, achieving RM83.2m core net profit in 1HFY25 and RM92.2m of core net profit in 9MFY24, respectively. This has also aligned with the MARGMA's expectations of glove exports climbing 16% yoy, to a new record high of RM13.6bn in 2024. In September 2024, the USTR finalised action on China's tariffs. The US tariffs on China glove makers from the current 7.5% to 50% in CY25 and 100% in CY26 will be implemented early Jan-25.

From late November to December 2024, Chinese manufacturers has shipped out all the US orders at their maximum capacity. Based on Bluesail and Intco 9MFY24's reported result, Bluesail has achieved a 33% yoy increase in surgical gloves and a 33% yoy increase in production volume, resulting in a 40% yoy increase in sales volume. At the same time, Intco has achieved a 40.8% yoy, 107.8% yoy increase in net profit, and 284.2% yoy increase in net profit attributable to shareholders after deducting non-recurring gains and losses.

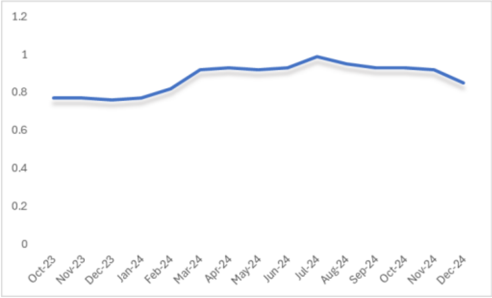
Current US tariffs on Chinese glovemakers evens the playing field between Chinese and Malaysian glovemakers. Chinese glovemakers have to set glove ASP closer to that of Malaysian players, instead of the discounted prices used previously.

Raw material prices picking up in view of improved demand on the back of replenishment activities

NR Concentrated Latex Price (USD/kg)



Nitrile Butadiene Price (USD/kg)



Source: Bloomberg, Apex Securities

Outlook. We anticipate rubber glove ASP to stabilise around USD20-23 per 1,000 pieces in 1H25 as the industry continues to grapple with tight price competition, fluctuating raw material costs, and foreign exchange volatility between the USD and MYR. Prices for latex and nitrile butadiene are expected to remain elevated in 2025 due to supply shortages, rising demand, and stable natural gas costs at $3.25/MMBtu.

With strong demand returning to Malaysian glovemakers, HARTA's current workforce is sufficient to maintain a monthly production run rate of 2.7 bn pieces. However, due to the ongoing foreign labour shortage, we are cautiously monitoring the capacity expansion plan revolving an annual adequate capacity of 37 bn pieces and the potential to increase to 42 bn pieces. In comparison, Top Glove's (TOPG) annual adequate capacity stands at 70 bn pieces. To mitigate geopolitical risks, TOPG is diversifying by launching additional natural rubber and nitrile glove production lines in Vietnam by late 1H25, starting with two lines and expanding gradually if demand rises, mainly targeting Latin America (Brazil) and other markets.

Oversupply challenges are expected to persist throughout 1H25, with a gradual shift toward demand-supply equilibrium projected by 2026, driven by increased global demand and heightened hygiene awareness, assuming no significant expansions in existing supply capacity.

In summary, the local glove industry in 2025 will navigate fluctuating raw material prices, cost-pass-through measures, and ongoing oversupply issues. However, local players may now command better pricing power as Chinese competitors exit the US market due to the high tariffs imposed by the government.

Key Risk. (i) Intense competition arising from both local and regional players. (ii) Variations in raw material costs could impact profit margins. (iii) Shifts in utilisation rates will hinge on supply and demand dynamics. (iii) Changes in healthcare regulations could alter the operational environment of the industry.

Peer Comparison

Company	FYE	Price (RM) as at 1Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Capital Gain	ESG Rating
Hartalega Holdings Bhd^	Mar	3.95	172.7	78.3	2.9	2.9	0.0	3.72	-5.8%	★★★
Top Glove Corporation Bhd^	Aug	1.34	366.7	172.1	2.2	2.1	0.0	1.25	-6.7%	★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

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Oil & Gas

(Neutral ↔)

Robust FPSO Market

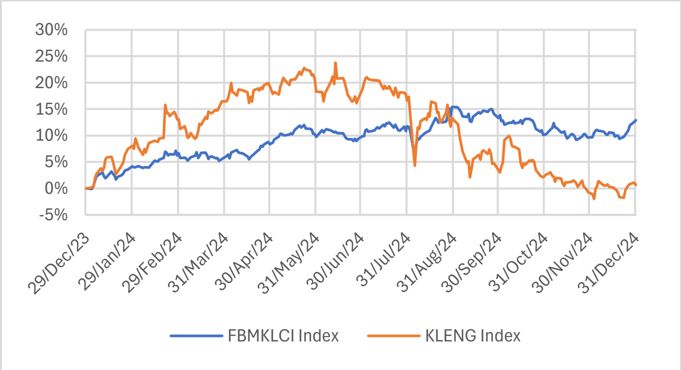
Summary. We maintained a **Neutral** stance on the oil and gas sector. While the upstream FPSO market remains robust, domestic OGSE companies involved in greenfield projects are expected to be negatively impacted by PETRONAS' anticipated Capex cuts. Meanwhile, downstream petrochemical players are likely to continue facing challenges due to a persistent supply glut and weak product spreads. We introduce our oil price assumption of **USD74/bbl** for 2025 (Bloomberg median: USD73.3/bbl), which is lower than the 2024 average of USD79.9/bbl.

Valuation & Recommendation. Our top pick for the sector is **ARMADA (BUY, TP: RM0.76)**. We favour **ARMADA** primarily due to its proposed share-based merger with **MISC Bhd**'s **(NR)** offshore business unit. The merger may provide **ARMADA** with improved access to financing for new FPSO projects by leveraging on **MISC**'s stronger balance sheet. Notably, the Group has not secured any new FPSO contracts in recent years, despite the tight supply in the FPSO market. This merger could mark a turning point for the Group's growth prospects.

2024 Review. 2024 proved to be a challenging year for the sector, with the KL Energy (KLENG) Index posting a marginal gain of just 0.6%, significantly underperforming the FBM KLCI 12.9% rise (Figure 1). The sector began the year positively, buoyed by Brent Crude oil prices remaining above USD80/bbl during the first half of 2024 (Figure 2). However, second half of the year saw a downturn as oil prices fell below USD80/bbl due to oversupply concerns and weaker China demand. The situation worsened with PETRONAS is transferring the sole gas aggregator role in Sarawak to Petros, a development that may result in lower PETRONAS domestic Capex and adversely impacting local OGSE companies. This was evident in **VELESTO (NR)**, whose NAGA 8 jackup drilling rig contract was suspended by Carigali Hess following the early completion of its drilling program.

KLENG underperformed the FBM KLCI in 2024

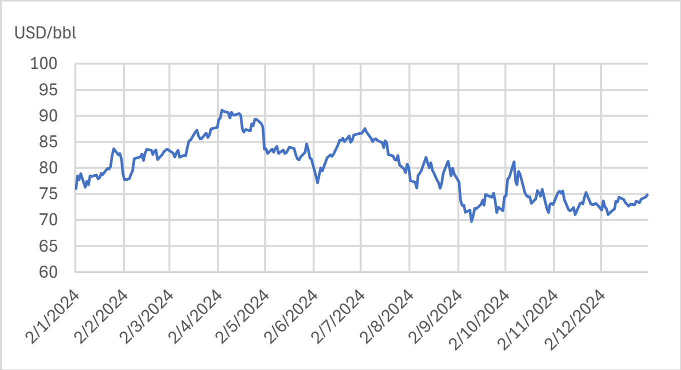
Figure 1: KLENG vs FBM KLCI in 2024



Source: Bloomberg, Apex Securities

Brent Crude Oil Prices fell below USD80/bbl in the second half of 2024

Figure 2: Brent Crude Oil Prices



Source: Bloomberg, Apex Securities

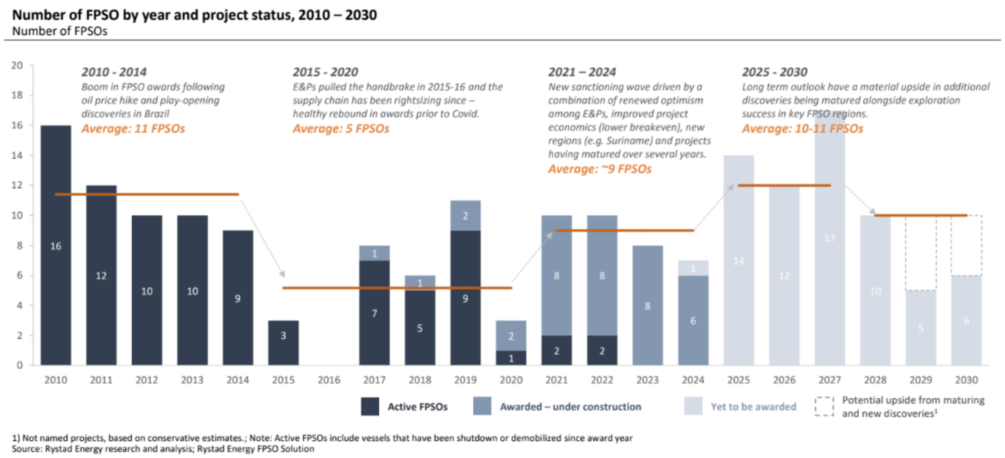
Outlook. We expect the following factors to be the key drivers of the sector in 2025:
(i) tight FPSO supply to increase pricing power of FPSO owners,
(ii) domestic Capex cut by PETRONAS,
(iii) supply glut expected to continue plaguing petrochemical sector.

Tight FPSO Supply to Increase Pricing Power of FPSO Owners

The consolidation of the FPSO market, along with backlog of projects following the COVID-19 pandemic and strained yard capacity limiting new supply of vessels have created market dynamics that support increased pricing power for FPSO asset owners. The pricing power is further bolstered by a surge in upstream exploration and production activities, which are expected to drive more FPSO awards in the future (Figure 3). These favourable conditions are benefiting FPSO owners such as **ARMADA**, **YINSON (NR)** and **MISC**, positioning them well to capitalise on the tight supply and growing demand in the FPSO market.

Future FPSO awards expected to increase back to historical levels of approximately 10 vessels annually

Figure 3: Number of FPSO Awards



Source: Rystad Energy

Domestic Capex Cut by PETRONAS

With PETRONAS transferring the sole gas aggregator role in Sarawak to Petros, sources indicate that PETRONAS is expected to experience a 30% revenue loss once the agreed formula for natural gas distribution in Sarawak is implemented. This development will result in a reduction in domestic Capex by the national oil company in the coming years, particularly affecting local OGSE companies involved in greenfield projects.

Supply Glut Expected to Continue Plaguing Petrochemical Sector

The petrochemical sector is expected to remain under pressure due to a persistent supply glut, which has been exacerbated by the addition of significant new capacities in global markets, particularly from China and the Middle East. This oversupply, combined with anticipated sluggish recovery in demand in key markets, is likely to strain the profitability of petrochemical players such as **PCHEM (NR)** and **LCTITAN (NR)**. With weak product spreads, the sector's earnings outlook remains challenging in the near term.

Key Risks. Drop in oil prices, prolonged downtime from unplanned shutdowns, regulatory risks.

Peer Comparison

Company	FYE	Market Cap	Rec.	Price	TP	Potental	P/E (x)		P/B (x)		Div Yield (%)		ESG
		(RM m)		(RM) *	(RM)	Upside	CY25	CY26	CY25	CY26	CY25	CY26	Rating
Bumi Armada Bhd	Dec	3,883	Buy	0.66	0.76	16%	3.9	3.5	0.5	0.4	0.0	0.0	★★★
Yinson Holdings Bhd ^	Jan	7,742	N/A	2.64	3.60	36%	13.5	8.8	1.1	1.0	1.5	1.7	N/A
SBM Offshore NV ^	Dec	13,853	N/A	16.96	23.75	40%	8.4	7.5	0.8	0.7	6.1	6.4	N/A

** As at 31 Dec 24*

^ Based on Bloomberg Consensus

Source: Apex Securities

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Plantation

(Neutral ↔)

Potential Production Recovery Could Hamper CPO Price

Summary. We are maintaining a more conservative view on the plantation sector as we believe a round of CPO price correction could take effect in 2025 due to i) recovery in Indonesia palm oil production will improve global supply, and ii) widening of soybean oil discount to palm oil. Hence, we maintain our **Neutral** stance on the plantation sector.

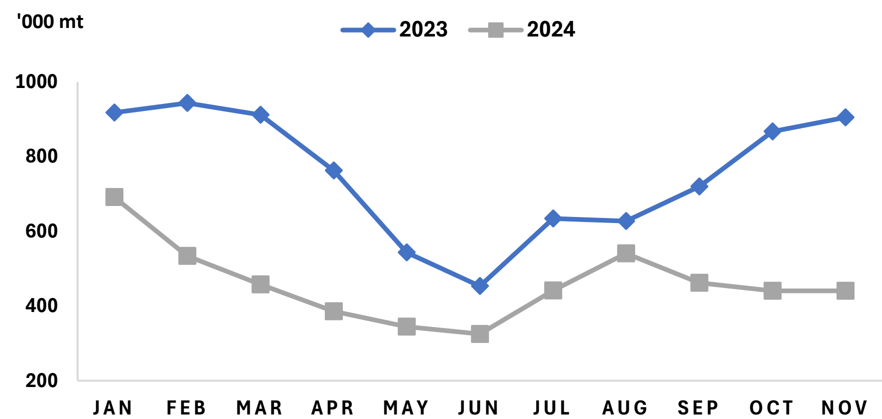
We remain **Neutral** with the plantation sector for 2025. Under our coverage universe, we re-iterate our **HOLD** recommendation for **Kuala Lumpur Kepong (FV: RM21.60), United Plantation Bhd (FV: RM28.40)** and **Sime Darby Guthrie (FV: RM4.50).** That said, we continue to favour pure planters like **Kim Loong Resources (FV: RM2.80)**, **Hap Seng Plantations (FV: RM2.20) Sarawak Plantations (FV: RM2.50)** as they are well-positioned to for a potential re-rating should there be any near-term spike in CPO prices.

Review. Palm oil production registered a jump to 5.6m mt (+15.2% qoq) in 3Q 2024 (vs 4.8m mt in 2Q24) as the oil palm tree enters the seasonal high production cycle. In 11M2024, palm oil production reached 17.9m mt, marking +5.0% yoy increase. Growth was supported by improvement in labour availability for the sector and better fertiliser application. While the palm oil production was affected over the past 3 months due to the monsoon season, we reckon CPO production is still on track to exceed 19.0m mt in 2024.

Exports in palm oil also rose sharply to 4.8m mt (+25.1% qoq) in 3Q 2024, with a cumulative growth of +14.2% yoy to 15.6m mt in 9M2024. We note that palm oil stockpiles in India and China fell to critically low levels in June, prompting both countries to replenish their inventories in the subsequent months This resulted in robust export figures in July, rising +40.3% mom to reach a 7-month high. 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.

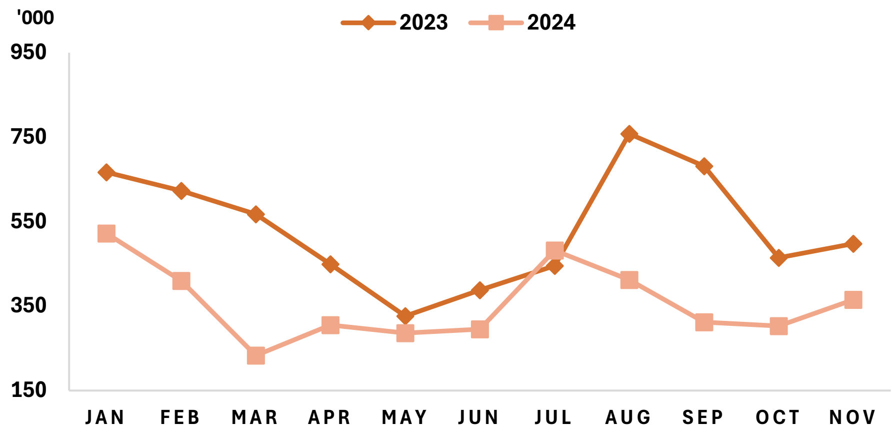
Critically low inventories in June prompted both countries (China and India) to replenish their stock levels.

Monthly China stock level



Source: MPOC

Monthly India stock level

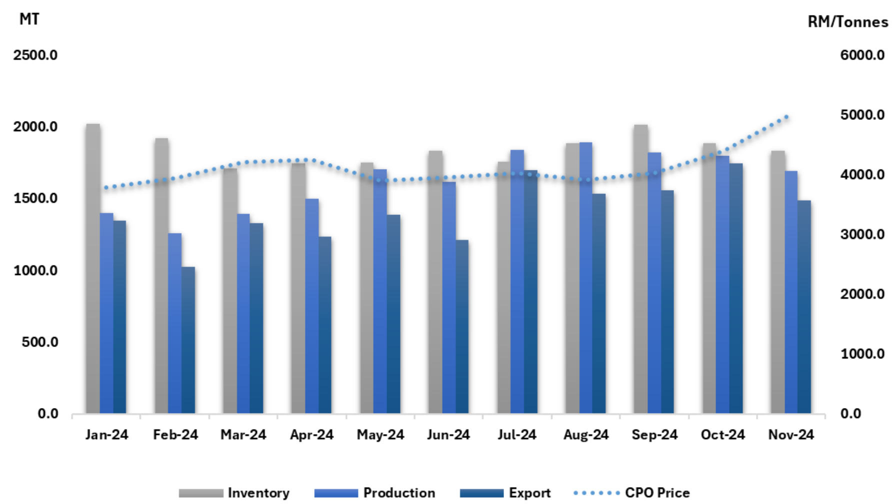


Source: MPOC

While palm oil inventory rose to 5.7m mt (+6.1% qoq) in 3Q 2024, it has declined -7.4% yoy to-date, reaching to 20.3m mt. Despite the recovery in palm oil production, stockpile dropped due to strong export demand mentioned above.

Monthly Inventory, Production, Export and CPO Price)

Palm oil price remained elevated towards the end-of the year due to dwindling supply.



Source: MPOB, Apex Securities

Outlook. CPO price experienced a bull run in November by surging to the highest level in more than one year. Average CPO price in November recorded at RM5,012/mt, jumped +14.2% mom against the average price of RM4,388/mt in October. The rally was boosted by concerns over monsoon season on eastern coast of Peninsular Malaysia would result in lower CPO supply, as the risk of flooding may disrupt harvesting. Moving forward, we expect CPO prices to remain elevated until 1Q 2025, supported by restocking activities for Chinese New Year coupled with seasonal low supply. That said, we believe the current optimism in CPO prices may be short-lived, as it is driven by supply constraints. As a result, we project CPO prices to average around RM4,300/mt in 2025, with the recovery in Indonesia's production expected to normalise prices.

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.

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potental	ESG Rating
		as at 1Jan25	2024E	2025F	2024E	2025F	(%)	(RM)	Capital Gain	
Kim Loong Resources Bhd^	Jan	2.51	15.2	15.2	2.7	2.6	5.7	2.80	11.6%	★★★
Hap Seng Plantations Holdings Bhd	Dec	1.99	12.7	12.7	0.9	0.8	3.7	2.20	10.6%	★★★
Sarawak Plantations Bhd	Dec	2.40	8.9	8.9	0.9	0.8	6.6	2.50	4.2%	★★★
Kuala Lumpur Kepong Bhd^	Sep	21.80	17.4	17.4	1.7	1.6	2.8	21.60	-0.9%	★★★
United Plantations Bhd	Dec	31.80	17.0	17.0	4.4	4.2	4.9	28.40	-10.7%	★★★
Sime Darby Guthrie Bhd	Dec	4.95	21.5	21.5	1.7	1.7	2.7	4.50	-9.1%	★★★★

^ Denotes FY25/FY26F values

Source: Apex Securities

Recommendation Framework:
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.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Thursday, 02 Jan, 2025**, the analyst(s) whose name(s) appears on any pages, whom prepared this report, has interest in the following securities covered in this report:
(a) nil.