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Market Strategy

Capitalising On The Downturn

Executive Summary

- **Escalating trade tension between US and major part of the world have resulted in sharp market pullback as of late with the FBM KLCI not spared from the global market rout as the key index briefly sank below 1,500 pts.**
- **While full blown recession is still off the cards, we reckon potential global economic slowdown stemmed by uncertainties surrounding the ongoing and potential escalation of trade war may keep volatility on the cards.**
- **Downgrade end-2025 FBM KLCI target to 1,680 (from 1,760) based on PER of 14.5x, which represents -0.5 SD of long-term forward average in view of external economic uncertainties, risk of further foreign funds outflow, volatility remains on the forefront and the absence of fresh domestic catalyst.**
- **Turning more defensive with focus skewing towards selected sectors such as REIT, Utilities, Healthcare (ex-gloves) and Logistics to safeguard exposure towards external shocks, offers clearer earnings predictability and they are touted to be defensive in nature. Top picks are SUNREIT (NR), TENAGA (BUY; TP: RM16.04), MALAKOF (BUY; TP: RM0.94), WPRTS (BUY; TP: RM5.08) and KPJ (NR).**

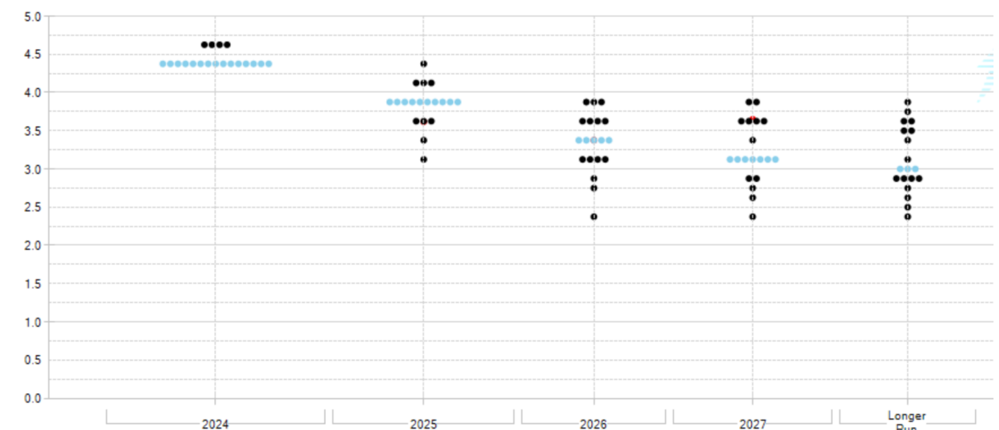
Key Developments

Escalating trade war. Risk of a global trade war escalating remains high, with the US imposing 20-25% tariffs on China, Mexico, and Canada goods, potentially affecting over USD1.36tn in trade. Retaliation is already underway, with China targeting US agricultural products and Canada and Mexico preparing countermeasures. Further escalation is largely on the cards should US extends tariffs to the EU or if China retaliates more aggressively, particularly in sectors like semiconductors and energy. While some negotiations and tariff delays have been introduced, overall policy uncertainties remain elevated, potentially may result in escalation over the near term.

US economic impact. We believe the on-going trade dispute may invariably transpire into slowdown in economic activities. Personal consumption expenditures (PCE) in US fell by -0.2% mom in Jan 2025 – marking the first decline in consumer spending since March 2023, underscores an unsettling outlook of the world's largest economy. Given that interest rate hike is now off the table, there is increasing probability, with two or three rate cuts likely to take place in 2025, in bid to support the slowing economy and curb inflationary pressure. While a recession is not the base case yet, we gathered that risks are on the rise, should consumers' confidence deteriorate further.

Increasing probability of rate cut in 2025

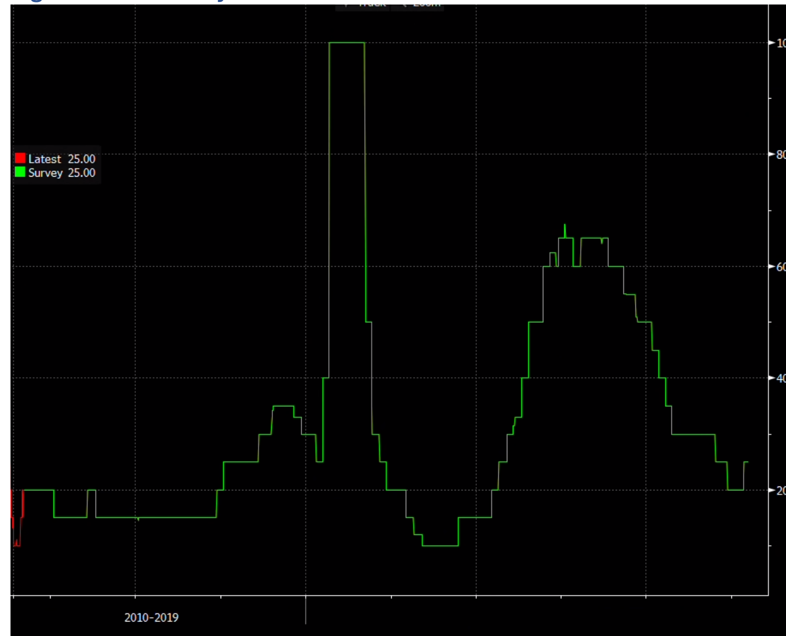
Fig 1: Fed Dot Plot



Source: CME FedWatch

Risk of recession inched higher for the first time since 2021 to 25%

Fig 2: US Probability of Recession

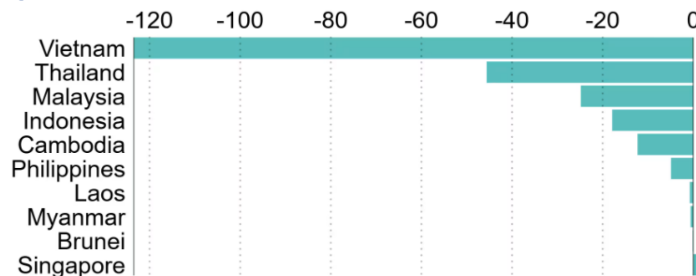


Source: Bloomberg

Malaysia economy. Malaysia is expected to face headwinds from both global trade tensions and domestic policy changes. The US-China trade war could potentially derail Malaysia's GDP growth prospects in the event global trade activities weakens further. Export-oriented sectors such as electronics & electrical, chemicals and rubber are vulnerable. Domestically, the rationalisation of fuel and electricity subsidies will likely raise business and household costs, eroding disposable income and putting pressure on consumer spending. Higher electricity tariffs could also increase operating costs for manufacturers, potentially leading to price hikes in consumer goods. While BNM expects inflation to rise moderately, external shocks such as tariffs and supply chain disruptions could amplify the impact. However, Malaysia's strong domestic demand and potential policy support, such as implementation of Progressive Wage Policy (PWP), existing cash aids under Budget 2025 as well as introduction of Akaun Fleksibel (EPF Account 3) may help cushion the negative effects. For now, we are keeping our in-house view on Malaysia's 2025 GDP growth at **4.6%** and inflation to come in at **2.6%**.

Malaysia-US trade relatonship. According to MATRADE, US remains third largest Malaysia trading partner since 2015 recorded total exports value of USD43.56bn (+23.5% yoy) in 2024, driven by E&E products, machinery, equipment and parts as well as rubber products. With US adopting a more trade protectionism stance, the call for a more pronounced intra-ASEAN trade could be on the move. At present, Malaysia has been classified as a Tier 2 country by the US on trade restrictions, which permitted to import only 50,000 graphics processing units (GPUs) over two years, with data centre operators restricted to deploying a maximum of 7% of their computing capacity.

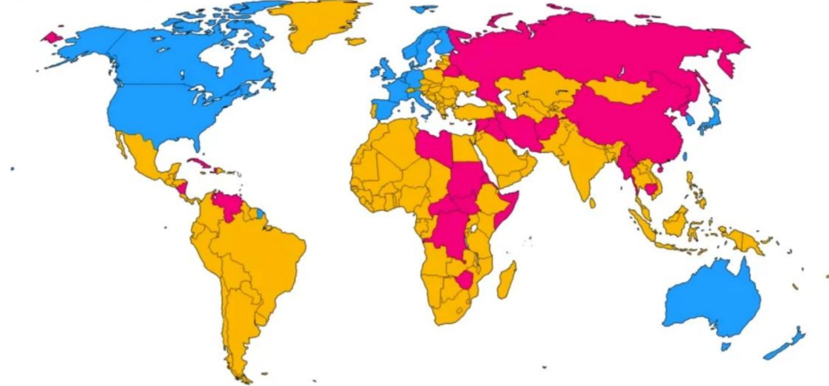
Fig 3: US Trade Balance with ASEAN Countries, 2024 (USD bn)



Source: Office of the United States Trade Representative

New export restrictions on artificial intelligence (AI) chips under a three-tiered system placed Malaysia as Tier 2

Fig 4: Restrictions to Global Chip Shipments



Source: Bloomberg

Market Overview

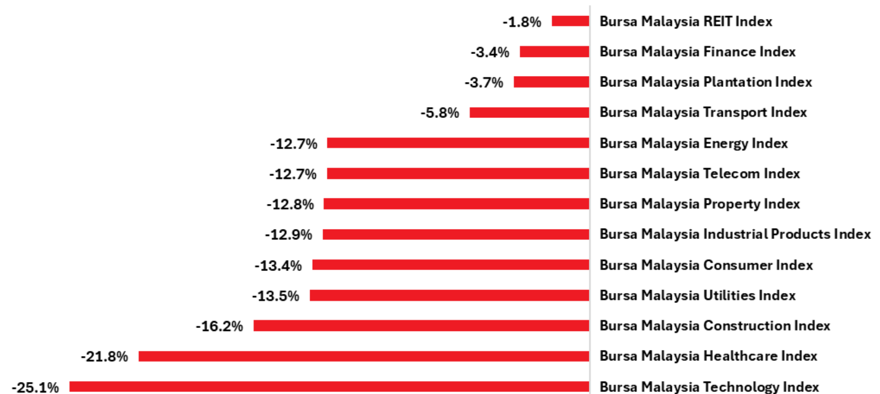
Market Performance. In light of uncertainties surrounding US trade and tariff policies as well as growing concerns over potential recession, global markets took a dip since the start of the year. Back home, the FBM KLCI which delivered a stellar performance in 2024 (+12.9% yoy) was not spared from the global markets rout with the key index took a brief dip below the 1,500 psychological level lately before mild bargain hunting activities took charge in recent days. (FBM KLCI: -7.9% year-to-date).

Foreign Funds Movement. Part of the weakness was attributable to the unabated foreign fund net outflow which hit RM7.56bn ytd (net outflow at RM4.14bn in 2024). Foreign funds have been trimming their exposure to emerging markets including Malaysia with foreign ownership in Malaysia stocks dipping to 19.6% as of end-Feb 2025. As a result, the sustained selling pressure has also weakened overall trading liquidity with average trading volume and average trading value stood at 3.08bn shares and RM2.64bn vis-à-vis 4.00bn shares and RM3.15bn in 2024.

A sea of red. YTD, all 13 major sectors on Bursa Malaysia is in red. Top losers include technology sector that was impacted by AI diffusion framework as part of escalating US-China chip war. Meanwhile, healthcare sector took a hit in view of the subdue gloves players recent earnings report cards, particularly HARTA's outlook remains challenging in view of sluggish sales (customers have front-load purchases to replenish inventories from Chinese players earlier ahead of the tariff imposition to Chinese glovemakers, prolonged competitive ASP). The construction and property sectors also retraced sharply amid concern over the multi-billion investment of data-centre infrastructures may experience a hiccup while investors also taking off some profits off the table.

Bloodbath in sectorial performances ytd with defensive sectors weathering volatility

Fig 5: Sector Performances (as of 14 Mar 2025)

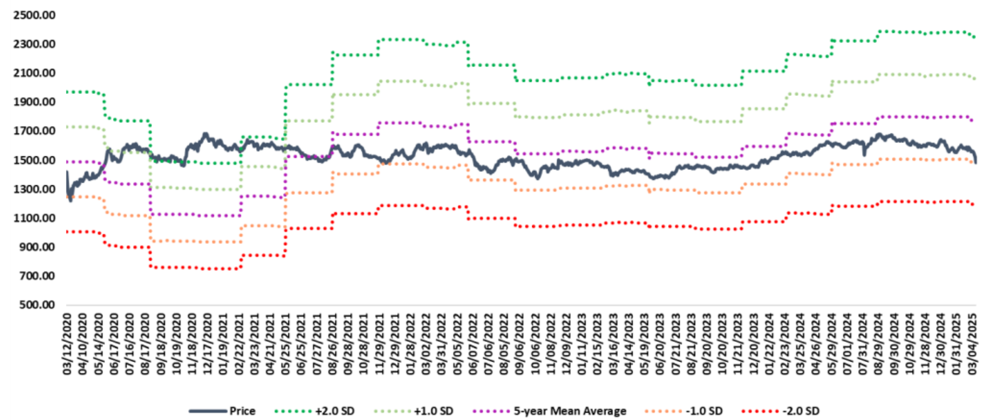


Source: Apex Securities

FBM KLCI drifting further from long-term forward average

FBM KLCI valuations turn more appealing, but upsides may be capped. Following the recent corrective stance, we reckon valuations have turned more attractive in recent times with the FBM KLCI trading at current and prospective CY25/CY26 price-to-earnings ratio (PER) of 14.3x and 13.3x/12.6x respectively against five-year historical forward average of 15.5x. Still, with potential further volatility on the cards and we reckon investors may adopt the wait-and-see approach and nibble onto beaten down stocks modestly. In view of on-going external economic uncertainties, risk of further foreign funds outflow, we believe volatility remains on the forefront and along with the absence of fresh domestic catalyst, we cut your end-2025 FBM KLCI target to **1,680** (previously 1,760) based on PER of 14.5x, which represents -0.5 SD of long-term forward average.

Fig 6: FBM KLCI PE Band



Source: Apex Securities

FBM Small Cap took on a larger blow. With banking stocks (>40% of weightage in the local bourse) were fairly resilient and has turned mostly supportive towards the FBM KLCI, the lower liners suffered a more serious beating, slumping -14.7% ytd to hit the lowest level since Jun 2023. Given that temptation to bargain hunt could take place, we warrant a cautiousness and selective picking over the interim as external shocks may continue to weigh onto sentiment.

Market Strategy

More defensive and selective. Under the prevailing scenario, we reckon the recent setback may offer an attractive entry point for longer-term investment horizon perspective. However, we expect sentiment to remain rocky and may put a dent towards any potential strong recovery over the interim. With global uncertainties remains largely on the table, market participants have turned into defensive mode and adopt the wait-and-see approach. Hence, we advocate investors to buy onto dip in selected fundamentally sound beaten down stocks.

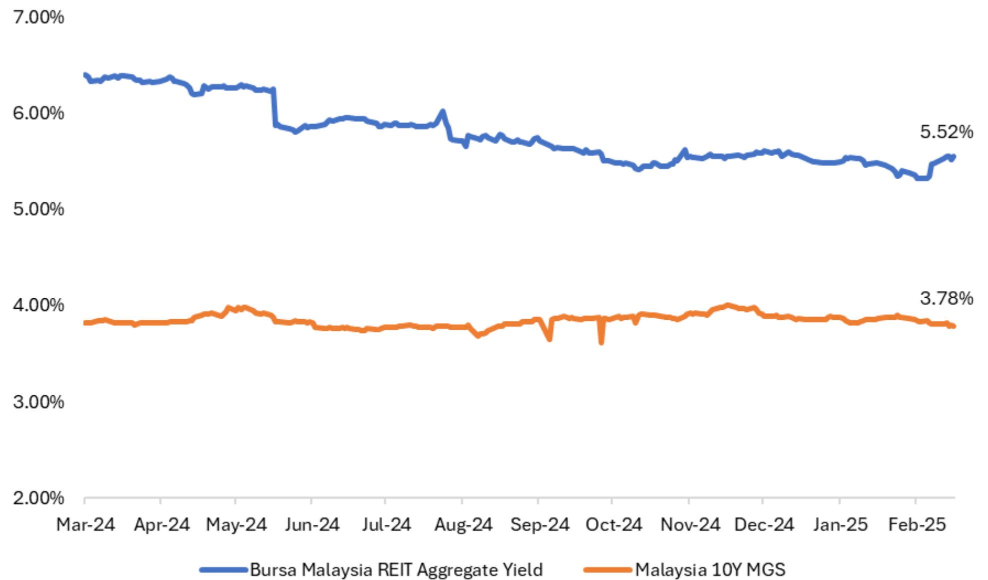
Sector focus. With volatility may continue to take grapple, we advocate investors to focus onto selected sectors such as **REIT**, **Utilities**, **Healthcare (ex-gloves)** and **Logistics** to safeguard exposure towards external shocks, clearer earnings predictability and is touted to be defensive in nature.

<u>**REIT sector**</u>
REIT sector offers resiliency. Bursa Malaysia REIT sector remains resilient, declining only -1.8% ytd. We reckon the REIT sector could continue to project steady growth and sustained dividends from (i) better traffic footfalls that is supported by sustained domestic spending amid the stable labour market as well as higher number of tourist arrivals ahead of Visit Malaysia Year 2026 and (ii) secured occupancy rates in certain established malls thanks to their strategic location in densely populated areas and diverse tenant mix. Meanwhile, we gathered that yield spread between the Bursa Malaysia REIT sector and 10-year Malaysian Government Securities (MGS) remains fairly decent for investment proposition (see below). Our top picks are **SUNREIT (NR)** and

PAVREIT (NR) for their strong occupancy rates and established household names in the shopping mall space.

Decent yield spread still offers attractive investment destination in Bursa Malaysia REIT sector

Fig 6: Yield Spread Between Bursa Malaysia Aggregate Yield



Source: Bloomberg, Apex Securities

Utilities sector

Domestic oriented focus. In light of global trade tensions and market volatility, we also favour the Utilities sector as a defensive play, given its earnings resilience. The sector is largely domestic-oriented and is less exposed to global trade disruptions. Beyond its stable earnings and attractive dividend yields, the sector is also poised for growth, driven by the increasing need for grid upgrades due to energy transition and rising electricity demand from data centre expansion.

While US restrictions on advanced computing chips have raised concerns about Malaysia's aspirations to become a data centre (DC) hub, we believe these concerns are overstated. The majority of data centres in Malaysia are not designed for AI-driven workloads and, therefore, do not require the most advanced chips.

We view the recent market correction as a buying opportunity for investors. Our top picks are **TENAGA (BUY; TP: RM16.04)** and **MALAKOF (BUY; TP: RM0.94)** for their resilient earnings outlook. TENAGA's profits are supported by the IBR framework, with additional upside potential from contingent capex. We expect 64% of the RM16.3bn contingent capex earmarked for energy transition to be fully utilised in upgrading the grid to manage the intermittency of renewable energy, hence expanding the regulated asset base. Meanwhile, MALAKOF's earnings are backed by long-term PPAs for its power plants and a concession agreement for its waste management segment. Further upside could come from the potential award of new PPAs, which we expect by year-end.

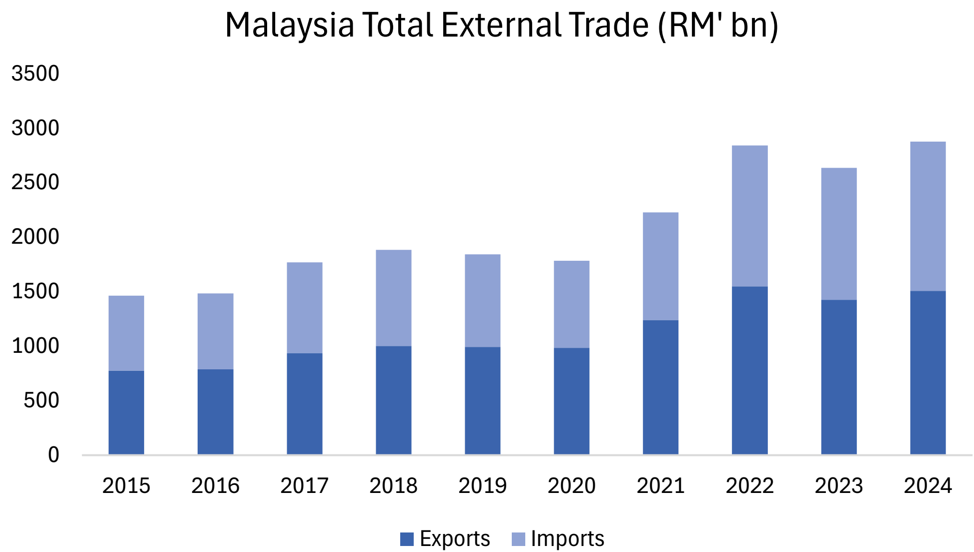
Logistics sector

Capitalising onto trade relocations. During the 2018 US-China trade war (Trump 1.0), trade relocations benefited Malaysia by increase in external trade activities as businesses sought alternative supply chain routes. While Trump 2.0 introduces broader tariff threats across more regions, we see this largely as a negotiation technique. Reshoring entire supply chain to the US remains challenging, and China is likely to remain the primary target of trade tariffs. This should accelerate the China+1 strategy, driving foreign direct investment into alternative hubs like Malaysia, which is expected to be among the nations that are less affected by Trump's protectionist policies to a certain extend. Also, the easing of the Red Sea crisis, with simmering tensions in the Middle East, is another positive development to alleviate global freight disruptions

and stabilise shipping costs. Additionally, Malaysia's active participation in trade agreements such as the Malaysia-GCC FTA and MY-UAE CEPA is expected to further support trade flows and sector growth.

Our top picks for the sector amid current uncertainties are **WPRTS (BUY, TP: RM5.08)** that is riding onto Malaysia's resilient trade flows, supported by the upcoming Westports 2 expansion and potential government-mandated port tariff hikes, which should drive earnings growth; and **BIPORT (NR)** with its positioned to benefit from East Malaysia's rising development activities and resilient LNG cargo throughput. The Sarawak government's takeover of BIPORT could further accelerate tariff adjustments, providing additional earnings upside.

Fig 7: Malaysia Total` External Trade increased since Trump 1.0 from trade diversification



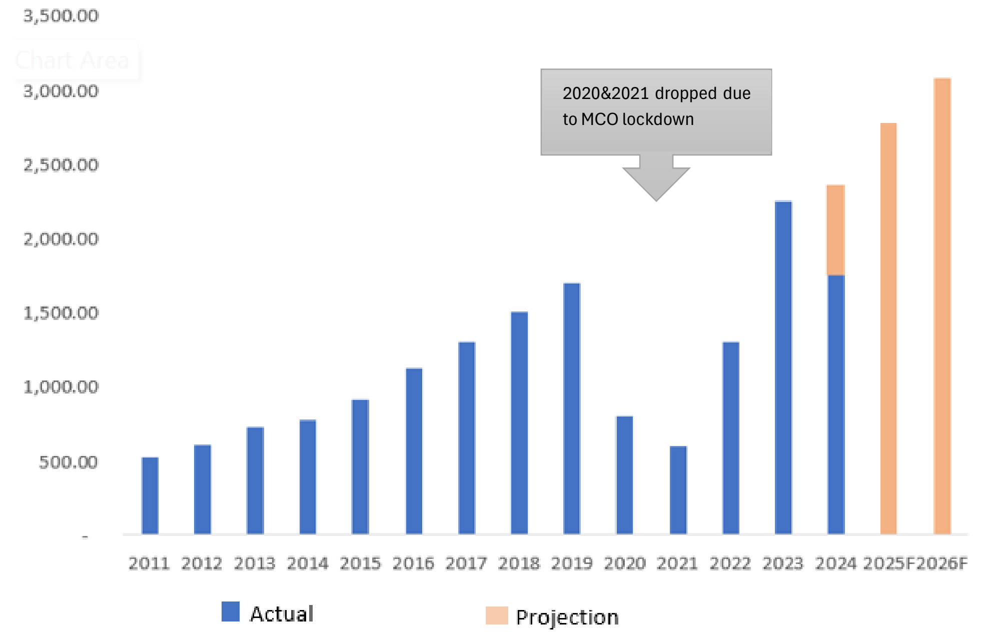
Source: MATRADE, Apex Securities

Healthcare sector

Taking cover from the storm. Healthcare sector (excluding glove stocks) remains a fundamentally stable during times of uncertainties. Excluding glove players and focusing onto healthcare service providers such as IHH and KPJ, we view both have demonstrated relatively stable share price movements, positioning them as defensive stocks during these challenging times. KPJ, being a grassroots-focused Malaysian healthcare provider, is less susceptible to external trade conflicts. Similarly, IHH Healthcare, with its diversified international presence and strong hospital reputation, is also unlikely to be significantly affected.

In addition, Malaysia is regarded as a leading medical tourism destination, offering high-quality healthcare, advanced technology, and affordable costs. The country's strategic location, warm climate, and government support through the Malaysian Healthcare Travel Council (MHTC) enhance its appeal. The integration of traditional and modern medicine further strengthens its position as a preferred choice for medical tourists. According to MHTC, Malaysia's health tourism is expected to grow by 11.0% yoy in 2025 due to these factors. Healthcare service providers are generally considered defensive due to steady cash flows, and reduced vulnerability to economic downturns. Our top picks are **KPJ (NR)** and **IHH (NR)**.

Fig 8: Malaysia's Health Tourism Revenue in (RM' m)



**Note: For 2024, actual data is shown from Jan-Sep*

Source: MHTC, 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

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

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(a) nil.