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# STRATEGY NOTE – 1Q2024

## MALAYSIAN EQUITIES REGAINING TRACTION

Although the recession risk continues to recede, the prognosis is still for the global economy to be on a slow path for much of 2024, with the effects of the high interest rates to continue permeating into the real economy on the lagging effects of the tighter monetary and fiscal tightening. The effects could be most pronounced in 1H2024 where economic conditions are likely to dither and potentially leading to a slower global GDP growth forecast of 2.6% Y-o-Y for the full year, from the estimated 2.9% Y-o-Y growth in 2023.

Malaysia's economic performance is expected to remain steady in 2024, despite lingering softness in 1H2024 due to the weak external sector that could suppress growth prospects. However, economic growth is likely to tip-up slightly to 4.5% Y-o-Y in 2024, from the estimated sub 4.0% Y-o-Y growth in 2023. For a large part of the year, the country's economy will still be backed by the prognosis of a steady domestic demand and a healthy jobs market that will lend continual support to the economy.

Meanwhile, 2023 has been a stellar year for equities with the MSCI World Index posting a 20% Y-o-Y gain, its most in four years, thanks to the sustained decline in global inflation that could see central banks cut interest rates in 2024 and a stunningly strong U.S. labour market. Global market also moved on from the Israel-Hamas war conflict with the thematic play on technology and A.I., the leading push factor that sent equities higher for much of 2023.

The FBM KLCI fell 2.7% in 2023 and emerged as one of the main underperformers among regional indices on the unsettled political environment and decreasing exports orders that affected corporate earnings.

While global equities are still on a purple patch, its longevity remains uncertain as many equities are already toppish. As such, the near-to-medium global equity market outlook is likely to stay choppy, underwhelmed by the lingering growth concerns and toppish market conditions. However, the broad global equity market outlook remains largely positive due to the reduced recession risk that should be conducive for further gains over the medium term. More importantly, interest rate cuts are still on the offing, albeit delayed, and this could keep market conditions resilient for longer.

Global corporate earnings growth for 2023 is estimated at just a mere 1.0% Y-o-Y, before potentially rising 9.0% Y-o-Y in 2024, largely due to the easing inflation and interest rates as well as the prognosis of improving economic activities. However, global equities remain toppish – above its historical forward averages of 14x-16x. The 2025 valuation, while remaining within the historical range, is also near the top end of the forward range. Once again, it is U.S. equities that are tipping the forward averages higher.

The tide seems to be pivoting on Malaysia equities as confidence is gradually returning that will help to encourage fresh buying into the country's equities after a long hiatus. Sentiments are also on the mend with thematic plays like the improving outlook for semiconductors and the revival in tourism activities to also help to shore up prospects. The FBM KLCI is set for a firmer earnings growth of 9.1% Y-o-Y in 2024 as both business and economic activities pick up pace. Valuations also appear undemanding as the FBM KLCI's PERS for 2024 and 2025 are still below its historical forward range of 14x-16x that could see encourage further market upsides over the near-to-medium term.

**Analysts: Research Team**

## GLOBAL ECONOMIC REVIEW

4Q2023 GDP performances showed an increasingly stark divergence between several key economies. While the U.S. economy maintained its growth momentum towards end of the year on firm employment and sustained domestic demand, China and EU countries grappled with the continuing effect of the global slowdown with China dipped into a deflation while EU's high inflation weakened its domestic sentiments further.

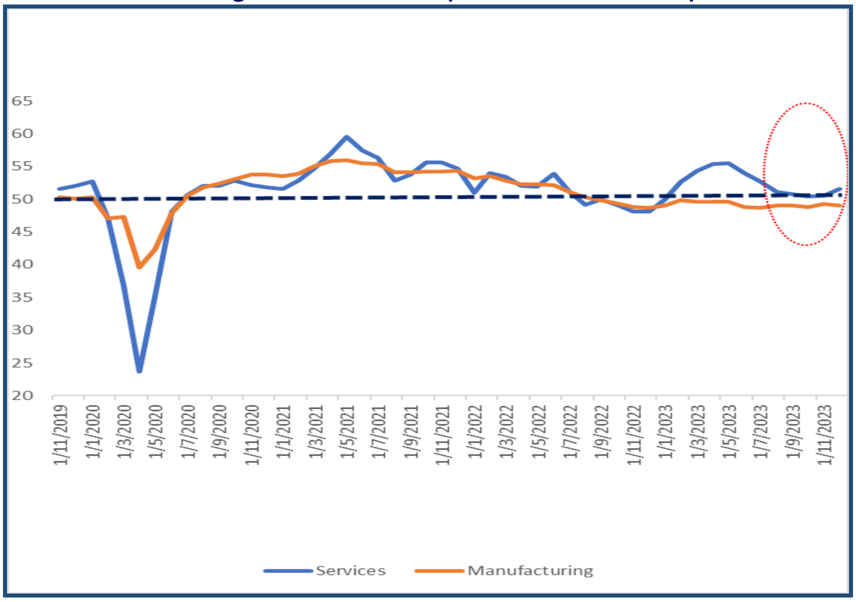
**Global Quarterly and Yearly GDP**

| | 1Q2023 | 2Q2023 | 3Q2023 | | 2021 | 2022 |
|---|---|---|---|---|---|---|
| | Y-o-Y | Y-o-Y | Y-o-Y | Q-o-Q | Y-o-Y | Y-o-Y |
| USA | 1.8 | 2.5 | **3.1*** | **3.3*** | 5.9 | 2.1 |
| EU | 1.2 | 0.4 | **0.1** | **0.1** | 5.8 | 3.5 |
| Eurozone | 1.1 | 0.5 | **-0.1*** | **0.0*** | 5.3 | 3.3 |
| Germany | -0.3 | 0.1 | **0.4** | **-0.1** | 3.2 | 1.8 |
| France | 0.8 | 1.1 | **0.7** | **0.1** | 6.4 | 2.5 |
| UK | 0.5 | 0.6 | **0.6** | **0.0** | 8.5 | 4.3 |
| China | 4.5 | 6.3 | **5.2*** | **1.0*** | 8.4 | 3.0 |
| Japan | 2.0 | 1.7 | **1.2** | **-2.1** | 2.4 | 1.1 |
| **WORLD** | | | | | **6.3** | **3.5** |

*Source: Bloomberg* *actual

Global services and manufacturing showed no apparent signs of reversing in 4Q2023. Manufacturing activities ended the year on a soft note as it remained below the contraction line, while the services activities showed a slight upturn in December. Overall performances remain subdued on faltering global demand resulting in weaker import requirements from China and E.U.

**Global Manufacturing and Services PMI (Nov 2019 – Nov 2023)**

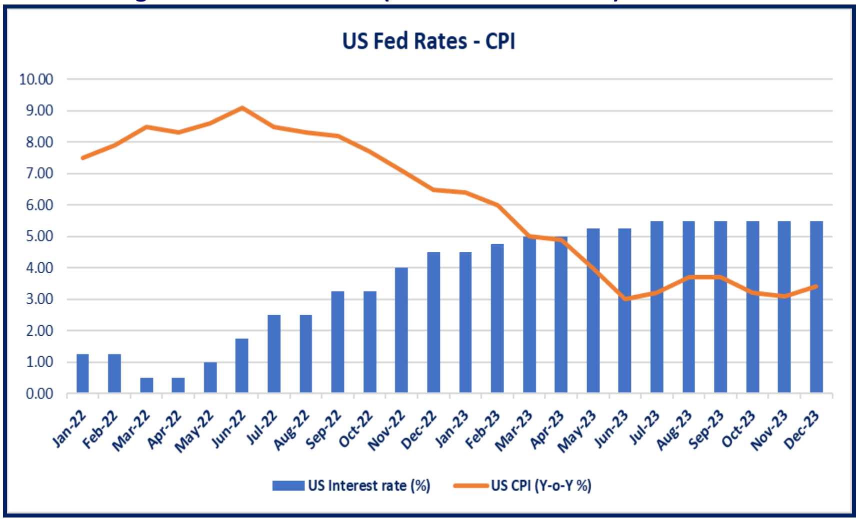



*Source: Bloomberg*

U.S. 4Q2023 GDP exceeded expectations and surged by 3.3% Q-o-Q with the underlying strengths largely intact as the year ended, supported by robust personal consumption despite a slowdown in private inventory investment, government spending, residential fixed investment, and consumer spending. The revised reading on its 3Q2023 GDP also reaffirmed its faster pace of post-pandemic recovery compared to its European and Asian counterparts, with its revised reading standing at 4.9% Q-o-Q. In 2023, the U.S. performance had bested most expectations and outperformed China and handful of advanced economies, attributed mostly to its less significant impact from the energy crisis, generous government support and accumulated savings during the pandemic which rendered its domestic demand to remain mostly resilient.

While the unemployment rate (December 2023: 3.7%) have been supportive for its growth trajectory to remain on a sure footing, the recent uptick in its CPI to 3.4% Y-o-Y in December has resulted in the Fed taking an increasingly cautious approach in attaining its targeted policy rates. That said, the Fed's emphasis remains firmly directed towards striking a balance between employment goal and inflation targets, rather than rushing to cut its benchmark interest rate before it is certain that the low inflation could be sustained.

**U.S. Fed Target Rate and Inflation (Jan 2022 – Dec 2023)**

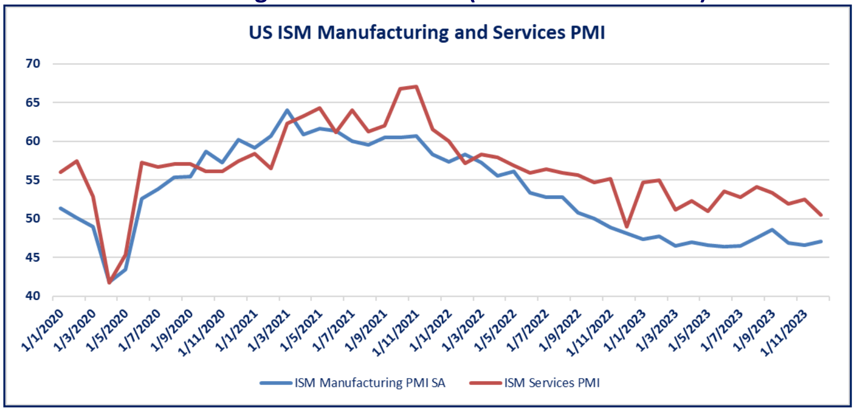



*Source: Bloomberg*

Sectorial activities were mostly mixed, dragged down by manufacturing activities (December PMI: 47.4) as weaknesses in the industrial production extended into 4Q2023 which provided little boost to the economy's growth in recent terms, mainly as the higher borrowing costs and softening export demand continued to weigh down the sector's prospects. In December, manufacturing output eked out only a 0.1% gain M-o-M, partly supported by the motor vehicle sector which rebounded following the end of the industrial strike.

Motor vehicle and parts output increased 1.6% in December after advancing 7.4% in November. The improvement in the motor vehicle sector was, however, partially blunted by declines in machinery as well as electrical equipment, appliances and components. Latest trends suggest that the firms have started throttling back on production and inventory accumulation in anticipation of slower demand in the year ahead, with the capacity utilisation on a decline to 78.6% in December (September: 79.5%).

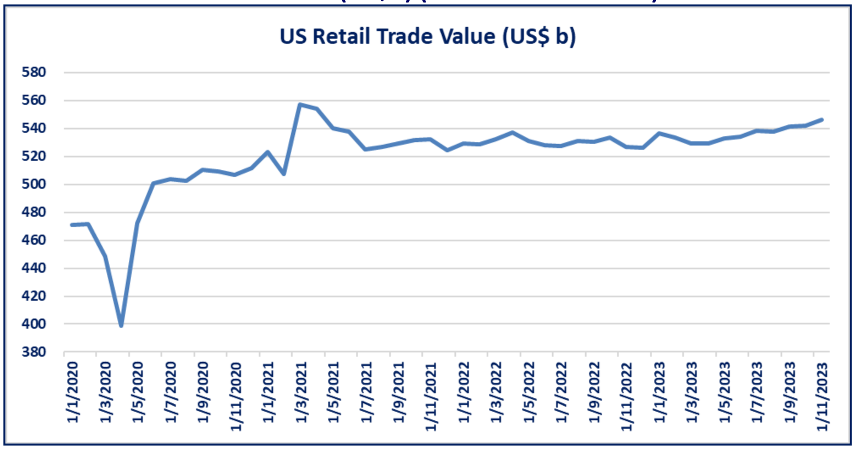
**U.S. ISM Manufacturing and Services PMI (Jan 2020 – Dec 2023)**




*Source: Bloomberg*

In the same vein, the U.S. services sector posted a softer trend as it moved closer to the contraction zone in December 2023, as indicated by the ISM non-manufacturing PMI which only posted a slight expansion to 50.6 points, down from 52.7 in November. Trend wise, the sectors have seen a demand shift from services to goods, with the pace of new orders reflecting a slowdown as the new orders index slid to 52.8 in December (November: 55.5). While the services sector inflation remains elevated, the input prices had slipped slightly to 57.4, from 58.3 in December, in line with the public's expectation that this could provide further headroom for the Fed to loosen its monetary policy in a swifter manner.

**Real Value of U.S. Retail Sales (US$b) (Jan 2020 – Dec 2023)**



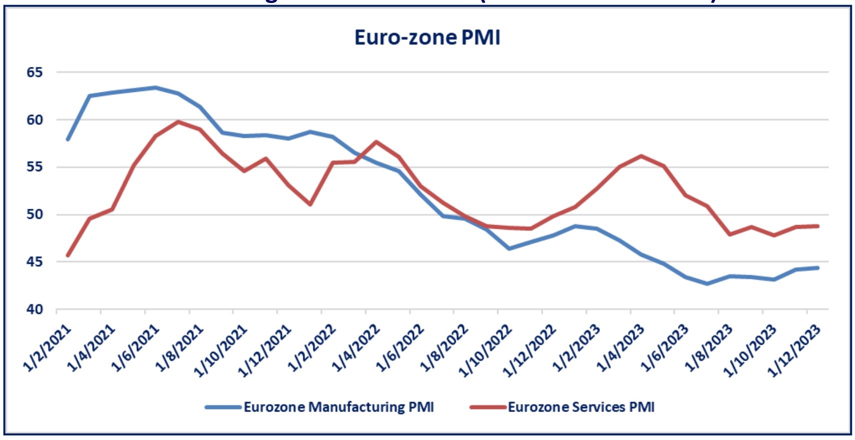

*Source: Bloomberg*

That said, U.S. retail sales (December 2023: +0.6% M-o-M, +5.6% Y-o-Y) continues to uphold its growth trajectory into early 2024 on stronger employment data and wage gains, leading to a diminishing recession bet buoyed by still firm retail prospects. The firmer employment statistics should provide some offsetting effect to tilt the domestic demand growth towards the positive, despite a trend of depletion in household excess savings and increased debt level which could reduce its effect momentum.

European countries' performance continued to struggle and showed a trend of growing divergence with the U.S. towards the end of 2023, with its whole year's growth mostly led by southern European countries, while the biggest contributors posted mostly lower performances. In 2023, the Eurozone's growth stuck within the tight band around the unchanged zone, bounded by 0.1% to -0.1% Q-o-Q but still managed to avoid falling into a recession this quarter. That said, the main dragging factor continued to be the prolonged weakness in Germany's manufacturing sector. During the quarter, the

Eurozone's GDP held steady compared to the preceding quarter, while Y-o-Y improvement were at 0.1%. Meanwhile, individual countries' GDP statistics showed that France's GDP were steady, while Germany's GDP contracted by 0.3% Q-o-Q in 4Q2023.

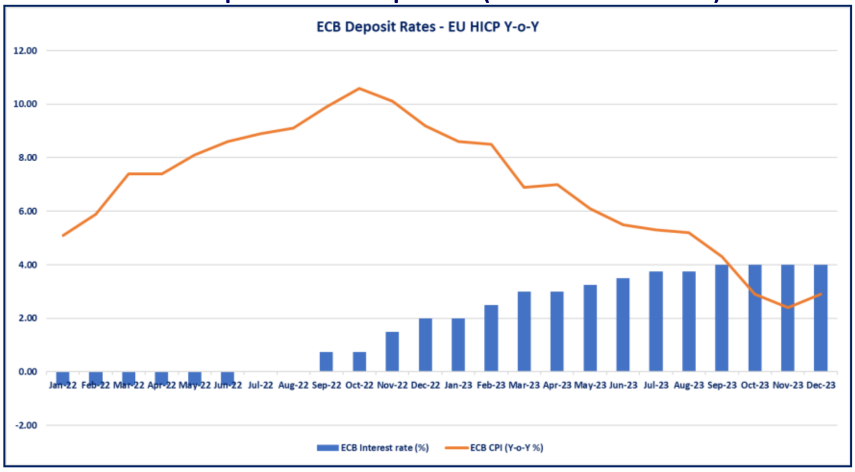
**Eurozone Manufacturing and Services PMI (Jan 2021 – Dec 2023)**




*Source: Bloomberg*

The overall trend pointed to a still pessimistic outlook as the slowdown in manufacturing activities persisted further to record lowest manufacturing PMI in almost a decade (excluding pandemic effect), painting a bleak picture for its 4Q2023 performance which does not preclude the possibility of a recession in 1H2024. Despite its manufacturing PMI tipping up slightly in December, the sector remains in contraction that was led by Germany's shrinking manufacturing activity. Industrial production continued to contract M-o-M, in line with the manufacturing PMI figures that is still in contraction at 46.6 points in January (September 2023: 43.1) on increased destocking activities and softer new orders. Meanwhile, the services PMI was still subdued and held steady at year end at 48.8 points (September 2023: 48.7).

**EU HICP and ECB Deposit Rate Comparison (Jan 2022 – Dec 2023)**




*Source: Bloomberg*

The Eurozone's HICP continued its downward trend to rangebound around 2.4%-2.9% Y-o-Y during 4Q2023, but core prices were still elevated despite the near-term easing of inflationary pressure. Notably, food, alcohol and tobacco prices increased at an annual rate of 6.1% as year ended, setting expectations of fewer rates cut from the ECB in 2024 due to a potential short-term upward pressure on inflation. Retail sales data remain weak, declining by 2.7% M-o-M in December (Y-o-Y: -2.7%), while the consumer confidence indicator remain well below the EU's long-term average at -16.1.

On the Asian side, China's performance continued to be clouded with deflationary risks, protracted property crisis and external demand slowdown, defying expectations of a rapid post-pandemic recovery compared to its developed counterparts. While the latest figures have slightly outperformed their 2023 official target by posting a GDP growth of 5.2% Y-o-Y in 4Q2023 (3Q2023: 4.9% Y-o-Y), a slack in the momentum turned apparent towards the year end. Q-o-Q wise, the growth decelerated to 1.0%, down from a +1.5% Q-o-Q in 3Q2023.

**China Exports and Imports Statistics (Jan 2020 – Dec 2023)**

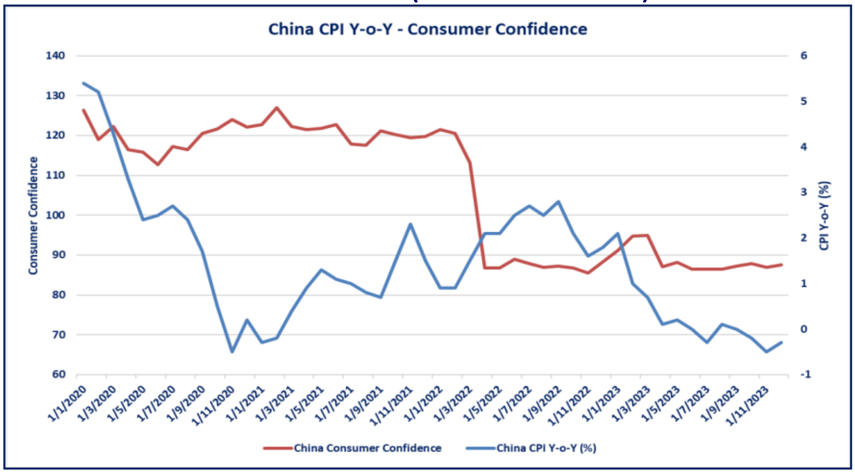

*Source: Bloomberg*

Overall, the Chinese economy remains mired with a feeble recovery, with current indicators showing a grim picture which suggest that such pattern is likely to extend into early 2024. This is partly due to the lack of a robust stimulus injections as the scope of monetary easing continues to be restricted by mounting pressures to keep the Chinese Yuan afloat. That said, the PBOC retained its benchmark lending rates at 3.45% and 4.20% for its one-year and five-year LPR while the central bank kept its medium-term policy rate steady at 2.5%. Arguably, the lower-than-expected stimulus plan marked a potential departure from the supposedly "precise and forceful" adjustments in its monetary policy to accelerate recovery as propagated by its central bank earlier on. The USD-CNY were bounded by CNY/USD 7.10 to 7.30 in 4Q2023.

Exports picked up slightly in December by posting a marginal 0.5% Q-o-Q increase after marking growth for its first time in November since April as global trade showed subtle signs of a recovery in the demand momentum, attributed to an upturn in the electronics industry and hopeful bets on interest rates cut for global economies to lift up their demand requirements. In 2023, however, annual exports fell 4.6% Y-o-Y, while imports similarly dropped 5.5% Y-o-Y. Out of its exporting countries, U.S. remained as the biggest contributor, while its export trade to Russia jumped by 47.0% which showed signs of export divergence. Total foreign trade reached RMB41.76t, with exports expanding 0.6% to RMB23.77t, but import decreased 0.3% to RMB18t in 2023. In 4Q2023, trade with EU and the U.S. improved and accounted for 13.2% and 11.2% of its total exports respectively, while their sector domination remains in the mechanical and electrical products and EVs.

Domestic wise, retail sales demand was on a recovery trend since mid-2023 to reach RMB4.36b in December (2023 growth: +7.4% Y-o-Y), but the country risks tipping into a deflation on insufficient stimulus support to accelerate the recovery process to counteract the sluggish external demand, while the prolonged slump in the property sector and conservative stimulus also provided limited headroom for further growth.

**China CPI and Consumer Confidence (Jan 2020 – Dec 2023)**




*Source: Bloomberg*

Consumer confidence was mostly weak as deflation pushed up the real borrowing cost which disincentivised private consumptions and investments. The CPI were mostly dragged down by oversupply issues, coupled with other goods category which similarly experienced either slower-to-stagnant CPI growth or deflation in 2023, including food, tobacco and alcohol (+0.3% Y-o-Y), clothing (+1.0% Y-o-Y), housing (0.0% Y-o-Y) transportations and communication prices (-2.3% Y-o-Y).

Overall, the demand condition remains sluggish due to the lagging effect of the global slowdown which continued to drag its post-pandemic recovery. Employment wise, the newly revamped youth unemployment statistics (previously students aged 16-24 included) now paints a better employment picture at 14.9%, albeit the outlook remain negative as the rate remain much higher than 5.1% unemployment reported for the cities.

## MALAYSIA ECONOMIC REVIEW

Malaysia posted a 3Q2023 GDP growth of 3.3% Y-o-Y and 2.6% Q-o-Q (2Q2023: +2.9% Y-o-Y and +1.5% Q-o-Q), on the back of continuing expansion in household spending, further recovery in inbound tourism and improved growth in construction activities. Overall trend seems to have followed the preceding quarter's theme, albeit sectorial performances have now tilted to show signs of better improvements.

**Malaysia Real GDP, 2020 – 3Q2023**

| % Y-o-Y chg | Yearly | | | Quarterly | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 4Q2022 | 1Q2023 | 2Q2023 | 3Q2023 |
| **Real GDP (Q-o-Q)** | - | - | - | **(1.7)** | **0.9** | **1.5** | **2.6** |
| **Real GDP** | **(5.6)** | **3.1** | **8.7** | **7.1** | **5.6** | **2.9** | **3.3** |
| Agriculture | (2.4) | (0.2) | 0.1 | 1.1 | 1.0 | (1.0) | 0.8 |
| Mining | (9.7) | 0.3 | 2.6 | 6.3 | 2.4 | (2.3) | (0.1) |
| Manufacturing | (2.7) | 9.5 | 8.1 | 3.9 | 3.2 | 0.1 | (0.1) |
| Construction | (19.3) | (5.2) | 5.0 | 10.1 | 7.4 | 6.2 | 7.2 |
| Services | (5.4) | 1.9 | 10.9 | 9.1 | 7.3 | 4.7 | 5.0 |
| **Domestic Demand** | **(5.5)** | **1.7** | **9.2** | **6.8** | **4.6** | **4.5** | **4.8** |
| Private Consumption | (4.2) | 1.9 | 11.2 | 7.3 | 5.9 | 4.3 | 4.6 |
| Public Consumption | 5.0 | 5.3 | 4.5 | 3.0 | (2.2) | 3.8 | 5.8 |
| **Gross Fixed Capital Formation** | **(14.4)** | **(0.9)** | **6.8** | **8.8** | **4.9** | **5.5** | **5.1** |
| Public Investment | (21.2) | (11.3) | 5.3 | 6.0 | 5.7 | 7.9 | 7.5 |
| Private Investment | (11.9) | 2.6 | 7.2 | 10.3 | 4.7 | 5.1 | 4.5 |
| Exports of Goods & Services | (8.6) | 15.4 | 14.5 | 8.6 | (3.3) | (9.4) | (12.0) |
| Imports of Goods & Services | (7.9) | 17.7 | 15.9 | 7.2 | (6.5) | (9.7) | (11.1) |

*Source: Bloomberg*

On the supply front, most sectors, except for the manufacturing sector, recorded a quarterly improvement Y-o-Y. The mining and manufacturing sectors have both recorded a contraction this quarter, but the agriculture sector rebounded to post an expansion. Domestic demand continues to be supported by resilient private and public consumption, amid a slight pullback for the public and private investment.

The services sector (contributing share: 59.1% of GDP) expanded 5.0% Y-o-Y in 3Q2023 (2Q2023: +4.7% Y-o-Y), showing a slight uptick with leading support continued to root from the wholesale and retail trade subsector, which constitutes about one-third of this sector's contribution, on the back of an improvement in both consumer and business-related services. With its growth now sitting more comfortably at 5.4% Y-o-Y (2Q2023: +4.7% Y-o-Y), it underscores the still sound fundamental which is supported by the healthy job market and easing inflation, cushioning the challenging global headwinds of the weakening Ringgit and slower net export.

Other notable subsector contributions were from the transportation and storage subsector which grew by 12.8% Y-o-Y (2Q2023: +13.5% Y-o-Y) and the business services subsector which bucked its contraction trend to record an 8.6% Y-o-Y growth (2Q2023: -1.9% Y-o-Y). While the Y-o-Y changes have shown only a relatively minor improvement, the end of its downtrend brings mild confidence that the services sector has recovered, albeit at a slow pace.

The manufacturing sector (contributing share: 23.2% of GDP), meanwhile, contracted slightly by 0.1% Y-o-Y (2Q2023: +0.1% Y-o-Y), dragged down mostly by the electrical, electronic & optical product as well as the petroleum, chemical, rubber & plastic products sector which declined by 2.5% and 2.4% respectively. The effect is, however, cushioned by an expansion in the Transport equipment, other manufacturing & repair and non-metallic mineral product, basic metal & fabricated metal products at 4.5% and 5.5% Y-o-Y respectively. Overall, the trend of further weaknesses in the E&E sector and lower production of refined petroleum products extended further in the quarter under review.

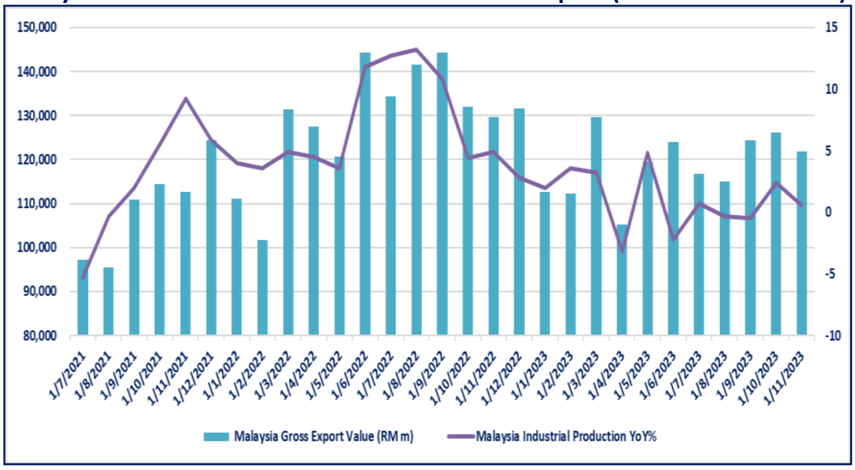
The agriculture sector growth rebounded back into the positive to post a 0.8% Y-o-Y growth, mostly supported by the oil palm subsector on higher production of fresh fruit bunches as weather conditions improved, further helped by easing labour shortages. Other subsectors which recorded an improvement were the livestock and other agriculture subsector, which grew by 1.1% and 2.8% Y-o-Y respectively (2Q2023: +0.5% and +6.6% Y-o-Y). The overall trend for the subsector was still in line with the preceding quarter, but a drastic decline was seen in the rubber subsector which contracted by 16.2% Y-o-Y (2Q2023: +3.7% Y-o-Y). Meanwhile, the forestry and logging subsector is still mired in deep contraction during the quarter as it contracted by 10.4% Y-o-Y (2Q2023: -10.8% Y-o-Y).

The mining and quarrying sector declined 0.1% Y-o-Y (2Q2023: -2.3% Y-o-Y), on subdued natural gas production as a result of halted production on some natural gas plants in the country. However, other subsectors recorded improvements, which include the crude oil and condensate and other mining & quarrying and supporting the services subsector which showed broad-based improvements of 2.1% and 3.5% Y-o-Y respectively (2Q2023: -1.5% and +3.8% Y-o-Y).

The construction sector recorded a continual expansion of 7.2% Y-o-Y on promising progress contributed by large infrastructure projects, but the subsector's result was largely mixed with non-residential buildings posting a contraction of 4.7% Y-o-Y (2Q2023: +2.3% Y-o-Y). Other subsectors, meanwhile, provided support to the improvements with a notable jump seen in the civil engineering and specialised construction activities subsector which grew 14.6% Y-o-Y and 10.4% Y-o-Y respectively (2Q2023: +10.0% and +6.4% Y-o-Y).

In 4Q2023, economic performances were largely mixed as the growth momentum softened further towards end of the year, consistent with DOSM's advance estimates which showed 4Q2023 GDP missing its growth target as it moderated to 3.4% Y-o-Y, dragging down the 2023 GDP to 3.8% Y-o-Y, which is below the BNM's full year growth estimates. Pending the official GDP figures, the estimates signalled that the year-end performance was buoyed by domestic spending, while external demand remained sluggish on headwinds resulting from the China's slowdown, while the EU's elevated inflation eroding its purchasing power. Meanwhile, the lower global commodity prices and geopolitical uncertainties also continued to weigh on Malaysia's export outlook, while underlying domestic factors such as the elevated inflation and prolonged monetary tightening, coupled by the weaker Ringgit posing persistent challenges.

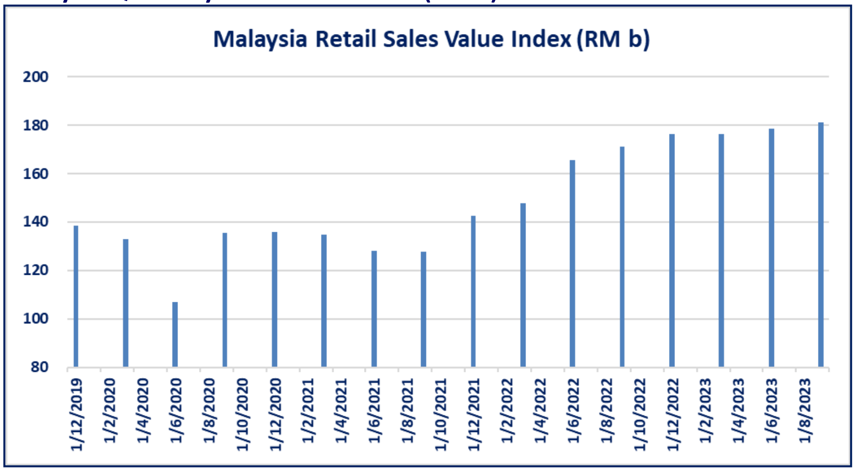
**Malaysia Industrial Production Index and Gross Export (Jul 2021 – Nov 2023)**




*Source: Bloomberg*

While the depreciating Ringgit could have provided some cushioning to the faltering export demand, the elevated CPI had, however, potentially indicated an increased cost-push pressure fuelled by imported inflation and may subsequently result in a negative offset to the currently resilient domestic consumption. That said, the RM-USD rates continued to rangebound RM/USD4.60-4.80 during 4Q2023.

**Malaysia Quarterly Retail Sales Value (RM b) – Jan 2020 – Dec 2023**




*Source: Bloomberg*

## GLOBAL ECONOMIC OUTLOOK

Although the recession risk continues to recede, the prognosis is still for the global economy to be on a slow path for much of 2024, with the effects of the high interest rates to continue permeating into the real economy on the lagging effects of the tighter monetary and fiscal tightening. The effects could be most pronounced in the first half of 2024 where economic conditions are likely to dither and potentially leading to a slower global GDP growth forecast of 2.6% Y-o-Y for the full year, from the estimated 2.9% Y-o-Y growth in 2023. As it is, the prognosis is for the weak global trade to continue, with business and consumer confidence to also wane due to the tighter monetary conditions. Already, some countries are reporting further slowdown or relatively insipid readings in their leading economic indicators that is likely to linger into early 2024.

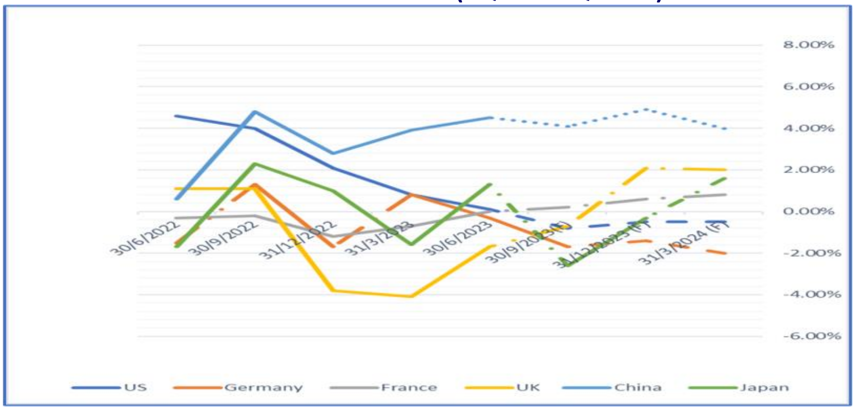
Nevertheless, further interest rates hikes are unlikely given that the inflationary pressures are easing and is likely to ease further in the months to come. The easing inflation could allow for interest rates to be trimmed with the Federal Reserve hinting at the possibility later in the year, albeit the interest rates could stay elevated in 1H2024.

Consequently, the economic environment in the next few months could still be challenging, hampered by the low growth prospects in many economies that have yet to display signs of a recovery as yet. In fact, conditions could deteriorate slightly in continuation of the ongoing headwinds that were affecting growth over the past few months. There also remains a possibility that interest rates cuts may not be as deep as expected until the inflation targets are met, which could still be sometime away as it could stay stubbornly high at above the targeted rate of 2.0%. Other fiscal and monetary policies could also remain restrictive and collectively they could also slow the growth prospects. Under the prevailing environment, the odds of a recession is still elevated at around 50% in 1H2024, even as the recession could be mild.

On the flipside, consumer spending should stay relatively steady in 2024, riding on the continuing employment gains that has provided much of the support and helped the global economy to avert the recession in 2023. In addition, labour market conditions should hold steady this year despite the potential economic challenges in 1H2024 and should help to preserve much of the consumer spending. Nevertheless, household consumption growth ease slightly due in part to the depleting household savings and the potentially decelerating disposal income growth (-0.5% Y-o-Y vs. +0.9% Y-o-Y in 2023). the job market expansion may be slower due to tighter employment market and weaker economic prognosis. Meanwhile, layoffs have seemingly increased, and new hires have slowed in the past few months that is flashing warning signs that the unemployment gains since the end of the pandemic may have ended.

At the same time, global industrial activities are likely to remain on a slow trajectory with many key industrialised countries to report low growth in their activities. As it is, their manufacturing PMIs continue to linger in the contraction zone or just at the 50 level over the few quarters, indicating little to no-growth due to the still weak global demand that could continue to be affected by the reduced fiscal and monetary support as well as the prolonged high interest rate environment. Despite the prognosis of insipid growth, however, the World Trade Organisation is estimating global growth to grow 3.3% Y-o-Y in 2024, coming from a lower base in 2023 where global trade is estimated to have grown by just 0.8% Y-o-Y.

**Selected Countries Industrial Production (3Q2022-1Q2024F)**




*Source: Bloomberg*

Among developed countries, the U.S. economy remains the most steadfast after it avoided a recession in 2023 despite its elevated interest rate environment. The resilient employment conditions, coupled with the sustained demand, have helped to the U.S. economy to stay afloat while the higher interest rates also helped to tackle its runaway inflation to a more subdued level, providing the much-needed leeway for its economy to make a soft landing. Going into 2024, however, economic conditions may still falter, largely due to the delayed effects of 2023's interest rate hikes that could subdue consumer spending.

In addition, interest rates are expected to stay elevated, at least in 1H2024, even as further rate hikes are unlikely. While interest rates may be trimmed in 2H2024 due to the further easing of inflationary pressures, the Fed Fund's rate is still likely to hover above 4.0% for the foreseeable future, well above the pre pandemic levels that could still affect interest rate sensitive industries. The continuing quantitative tightening programme is also tipped to drain some US$1.0tr worth of liquidity from the U.S. economy in 2024 and coupled with further reduction in the consumer savings, consumer spending growth is set to ease.

As a result, the U.S. GDP growth could slow to 2.2% Y-o-Y in 1Q2024, before slowing further in the subsequent quarters, leading to possible growth of just 1.3% Y-o-Y for the full year, down from the 2.5% Y-o-Y growth in 2023. Its consumer spending growth is likely to taper to 1.5% Y-o-Y, down from 2.2% Y-o-Y in 2023, but private investments could gain 1.0% Y-o-Y (from -1.0% Y-o-Y in 2023). Its manufacturing sector will still be on a slow growth of about 0.3% Y-o-Y for the year, little changed from the estimated 0.2% Y-o-Y growth in 2023.

After a relatively mixed year, the European economy is expected to grow modestly in 2024, but still at an anaemic pace with the general condition still affected by the weak consumer and investment sentiments as well as the prolonged conflict between Russia and Ukraine. However, the headwinds are easing, particularly with headline inflation on the downtrend trend while real wages are gaining again. This should support the region's consumer spending growth, albeit the growth rate could still be benign due to the high interest rate environment. Consumer and business sentiments could also feel the delayed impact of the higher interest rates that may still be a drag to their economies, leading to the EU and the narrower Eurozone economies barely growing in 1H2024 and could also point to an uneven growth performance for the rest of the year. This may still keep employment prospects subdued and leave the region's unemployment rate elevated for longer and possibly into 2025. Inflation, although easing, could also still remain above its target levels in 2024 due to higher living cost which could in turn leave interest rates elevated for longer.

For now, Germany, could still emerge as one of the most affected economies in Europe with its economy likely to show little-to-no growth in 1H2024 due to the combination of its still weak domestic and external environment that is likely to keep its manufacturing activities in contraction. However, the French economy is likely to undergo a slow rebound, but at a gradual pace in the quarters ahead, with improvements seen in most of its key economic sectors to sustain the growth amid the subsiding economic headwinds.

Meanwhile, the U.K economy is also likely to stay moribund in 2024 like the rest of Europe, bogged down by slower consumption and investment activities resulting from the still high interest rates and reduced economic activities. Inflation, although easing, will remain higher-than-expected and for longer that could weigh on growth prospects. In addition, its tight labour market is likely to keep wage growth higher that could force the Bank of England to prolong its high interest rate environment.

**Selected Countries GDP Forecast (4Q2023-2024)**

| *(Y-o-Y in %)* | 4Q2023 | 1Q2024 | 2Q2024 | 2023 | 2024 |
|---|---|---|---|---|---|
| World | - | - | - | **2.6** | **3.0** |
| Asia (Ex-Japan) | 5.0 | 4.3 | 4.7 | **4.6** | **4.6** |
| European Union | 0.4 | 0.5 | 0.7 | **0.5** | **0.9** |
| Eurozone | -0.4 | 0.1 | 0.2 | **0.5** | **0.5** |
| G-8 | 1.0 | 0.6 | 0.5 | **1.8** | **1.0** |
| China | 5.2* | 4.2 | 4.7 | **5.2*** | **4.5** |
| Germany | -0.2 | 0.1 | 0.2 | **-0.3** | **0.3** |
| France | 0.6 | 0.7 | 0.4 | **0.8** | **0.7** |
| Japan | 1.7 | 0.6 | 0.0 | **2.0** | **0.8** |
| United Kingdom | 0.0 | 0.0 | 0.2 | **0.5** | **0.4** |
| United States | 2.6 | 2.2 | 1.7 | **2.4** | **1.3** |

*Source: Bloomberg*

Although the rest of Asia is poised to see steady improvements, China's economy could still be on a moderate pace as it continues to grapple with its sagging property market, overcapacity and reduced consumer spending, that are also due in part to its slower external sector. Consumer spending growth is set to moderate further with retail sales growth likely to slow to 6.0% Y-o-Y, down from the estimated 7.6% Y-o-Y growth in 2023 that was helped by its full economic re-opening from the pandemic lockdowns. Its manufacturing sector growth, however, could stagnate at 4.5% Y-o-Y, compared to the pre pandemic average growth of 6.0%-6.5% p.a. The external headwinds could also limit its export growth to just 2.0% Y-o-Y, which is a slow recovery from the forecast 4.6% Y-o-Y contraction in 2023.

The Japanese economy could revert to its slower growth in 2024, after a relative outperformance in 2023 where its economic is estimated to have grown 2.0% Y-o-Y. In 2023, growth largely emanated from the weaker Yen that supported its exports and to offset the weaker domestic consumption. Much of the same trend is likely to prevail this year, but consumer spending (+0.6% Y-o-Y vs. +0.9% Y-o-Y in 2023) and private investments (+1.2% Y-o-Y vs. +1.6% Y-o-Y in 2023) could slow with its Central Bank likely to be on a normalising path that could see its currency strengthen ahead. Providing support to its economy, however, would be the planned tax reductions and firmer wage growth that could stabilise household spending activities.

## MALAYSIA ECONOMIC OUTLOOK

The country's economic performance is expected to remain steady in 2024, albeit there could still be lingering softness in 1H2024 due to the weak external sector that could continue to suppress growth prospects. For now, Malaysia's economic growth is likely to tip-up slightly to 4.5% Y-o-Y in 2024 – the midway point of the government's forecast growth of 4.0%-5.0%, but higher that the estimated 4.0% Y-o-Y growth in 2023. Although the forecast GDP growth rate shows few improvements in 2024, it is still deemed commendable as it allows the country to avoid the recessionary conditions that are engulfing many countries.

**Malaysia Consensus Economic Forecasts**

| *in %* | 4Q2023 (F) | 1Q2024(F) | 2Q2024 (F) | *2023F* | *2024F* |
|---|---|---|---|---|---|
| **Real GDP (Y-o-Y)** | 4.1 | 4.5 | 4.6 | ***4.0*** | ***4.5*** |
| **Real GDP (Q-o-Q)** | 0.8 | 0.9 | 1.0 | - | - |
| **CPI (Y-o-Y)** | 2.0 | 2.2 | 2.5 | ***2.6*** | ***2.5*** |
| **Overnight Policy Rate** | 3.00 | 3.00 | 3.00 | ***3.00*** | ***2.95*** |
| **Unemployment** | | | | ***3.4*** | ***3.3*** |
| **Budget Deficit (% of GDP)** | | | | ***-5.0*** | ***-4.3*** |

*Source: Bloomberg*

For a large part of the year, the country's economy will still be backed by the prognosis of a steady domestic demand and a healthy jobs market that is expected to lend continual support to the economy in achieving the growth estimates. In particular, the easing inflationary pressure, coupled with the firm employment prospects, will be the main catalysts in supporting the country's growth outlook in 2024.

Domestic demand will continue ride on its current resilience, with its growth potentially improving by some 5.3% Y-o-Y in 2023, ahead of the estimated 5.0% Y-o-Y growth in 2023. The main drivers to the demand growth will be private consumption (2024F: +5.7% Y-o-Y vs. 2023E: +5.6% Y-o-Y) owing to firmer labour market conditions and the domestic economic environment that will be supportive of consumer spending. Domestic demand will be supported by a forecast 5.4% Y-o-Y (2023E: +4.3% Y-o-Y) growth in private investments, on approved investments in E&E, transport and communication sectors. On the public side, government spending will be on transport related infrastructures, flood mitigation and upgrading of schools that could see an increase of 8.3% Y-o-Y in spending.

Sector wise, the services sector is still projected to post a stronger expansion of 5.6% Y-o-Y (2023E: + 5.5% Y-o-Y) and should continue lead the sectoral growth among the country's key economic sectors. In addition, the moderating inflationary pressure is also helping to shore up consumption, albeit core inflation remains elevated and could tip up further in view of the easing of price controls of poultry products and the lifting of the service tax to 8.0% in 2024. Therefore, the wholesale and retail trade segment could see a small moderation in its growth (2024F: +5.6% Y-o-Y vs. 2023E: +5.8% Y-o-Y), but growth will be supported by the higher banking and insurance activities as well as from information and communication sub-sectors.

The construction sector, meanwhile, will benefit from the progress of several key infrastructure projects such as the East Coast Rail Link (ECRL) and the Large-Scale Solar 4 (LSS4) undertakings. Government initiatives such as the i-MILIKI and Housing Credit Guarantee Scheme are expected to set a positive scene in this sector on an anticipated increase in home ownership, which could further benefit building contractors and housing developers. The sector is anticipated to register a full year growth projection of 6.3% Y-o-Y in 2023 before improving another 6.8% Y-o-Y in 2024.

The manufacturing sector is also expected to perform better in 2024, with growth to come in at 4.2% Y-o-Y, surpassing 2023's estimated growth of 1.4% Y-o-Y. The improvements are likely to emanate from the demand recovery for E&E productions and domestic oriented products as well as from the low base in 2023. However, the improvements could only emanate towards the middle of the year as the external environment are still displaying weakness signs and is only likely to improve later in year. This will be left to the domestic oriented industries like transportation, construction and consumer related production to cushion the prevailing weakness in external demand.

Meanwhile, the anticipated recovery in exports could lead to 5.1% Y-o-Y growth (2023E: -7.8% Y-o-Y) with the exports of manufactured goods to rebound by 5.5% Y-o-Y with exports of E&E set for a 5.0% Y-o-Y improvement. Meanwhile, non-E&E exports could increase 6.1% Y-o-Y in 2024, particularly for petroleum, chemicals and metal products. However, the external environment remains fluid due to a weak China and the tighter global financial and credit conditions that could still weigh on global trade performance, especially in 1H2024. Still, there is a projected trade surplus of RM237.3b (2023 trade surplus of RM224.4b), riding on the improved external trade as well as higher tourist arrivals.

The agriculture and mining sectors are likely to remain insipid due to the weak commodity prices and output constraints in 2023, before rebounding in 2024. The El Nino weather phenomenon is unlikely to have a severe impact on the output of palm oil production with CPO prices to also stay at a healthy range of between RM4,000 to RM4,500 per tonne due to the higher demand and lower output of other edible oils. Meanwhile, oil & gas output should be higher with the expected opening of a new gas field and higher production of crude oil.

Inflation, meanwhile, is likely to moderate further with the whole year's CPI to range between 2.1% and 3.6%. Although 2023 inflation was tamer at 2.5%, it could tip up slightly in the months ahead due to the implementation of targeted subsidies and the lifting of the service tax that could result in inflation staying elevated for the year ahead. The unfavourable forex rates could also keep inflation higher, as with the higher production cost with the PPI to average 2.0% in 2023.

Labour market conditions are projected to stay healthy in 2024, underpinned by the labour demand from the sustained recovery of the Malaysian economy with total employment to rise 2.0% Y-o-Y, potentially bringing the unemployment rate back to the pre-pandemic levels of round 3.4%. At the same time, the average monthly wage growth is forecast to rise about 4.7% Y-o-Y due to the firmer labour demand.

The country's monetary policies in 2024 will continue to be skewed towards normalisation, as with its global peers, with interest rates to remain at 3.0% for longer. The rate is seen as accommodative for now and unlikely to be adjusted downward at least until 3Q2024 when a slight reduction is possible in tandem with the anticipated decline in global interest rates.

**MoF Sector Growth 2022-2024F**

| Sectors | 2022 | 2023e | 2024f |
|---|---|---|---|
| *Services* | 10.9 | 5.5 | 5.6 |
| *Manufacturing* | 8.1 | 1.4 | 4.2 |
| *Agriculture* | 0.1 | 0.6 | 1.2 |
| *Mining* | 2.6 | -0.8 | 2.7 |
| *Construction* | 5 | 6.3 | 6.8 |
| *CPI* | 3.3 | 2.5-3.0 | 2.1-3.6 |
| *GDP* | 8.7 | 4.0 | 4.0-5.0 |

*Source: Ministry of Finance*

## GLOBAL EQUITY MARKET REVIEW

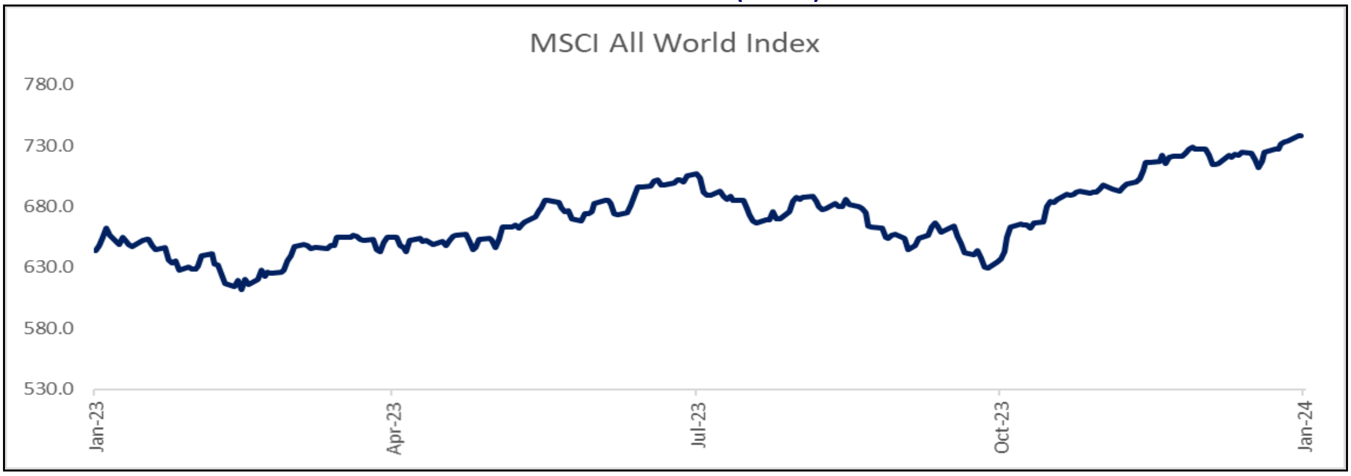
2023 has been a stellar year for equities with the MSCI World Index posting a 20% Y-o-Y gain, its most in four years. The index gained 10.7% Q-o-Q, thanks to the sustained decline in inflation around the world that has driven expectations that central banks will cut interest rates early next year, and a stunningly strong U.S. labour market. Global market also moved on from the Israel-Hamas war conflict as well as the Ukraine-Russia war with inflation and the direction of interest rates the main focus. The thematic play on technology and particularly on A.I., were also the main push factor that sent equities higher for much of 2023.

**Performance of Key Global Indices**

| Indices | 29 Dec 2023 Closing | 29 Sept 2023 Closing | QoQ change (%) | 30 Dec 2022 Closing | YoY change (%) |
|---|---|---|---|---|---|
| **FTSE Bursa Malaysia KLCI** | **1,454.66** | **1,424.17** | ***2.14*** | **1,495.49** | ***-2.73*** |
| MSCI ACWI | 727.00 | 656.82 | *10.68* | 605.38 | *20.09* |
| DOW JONES INDUS. AVG | 37,689.54 | 33,507.50 | *12.48* | 33,147.25 | *13.70* |
| S&P 500 INDEX | 4,769.83 | 4,288.05 | *11.24* | 3,839.50 | *24.23* |
| NASDAQ COMPOSITE | 15,011.35 | 13,219.32 | *13.56* | 10,466.48 | *43.42* |
| FTSE 100 INDEX | 7,733.24 | 7,608.08 | *1.65* | 7,451.74 | *3.78* |
| CAC 40 INDEX | 7,543.18 | 7,135.06 | *5.72* | 6,473.76 | *16.52* |
| DAX INDEX | 16,751.64 | 15,386.58 | *8.87* | 13,923.59 | *20.31* |
| NIKKEI 225 | 33,464.17 | 31,857.62 | *5.04* | 26,094.50 | *28.24* |
| HANG SENG INDEX | 17,047.39 | 17,809.66 | *-4.28* | 19,781.41 | *-13.82* |
| SHANGHAI SE COMPOSITE | 2,974.94 | 3,110.48 | *-4.36* | 3,089.26 | *-3.70* |

*Source: Bloomberg*

**MSCI All World Index (1 Year)**




*Source: Bloomberg*

After a slow start, global equities were on a purple patch for most of 4Q2023 with many developed market stock indices chalking healthy Y-o-Y gains. Much of the upsides were due to the raising expectations that the Federal Reserve will end its cycle of interest rate hikes as U.S. interest rates showed more signs of easing. In addition, the better-than-expected U.S. GDP reading also helped to bolster market sentiments as well as cutting the odds of a recession.

As a result, the S&P, Dow Jones and Nasdaq rose by 11.2%, 12.5% and 13.6% Q-o-Q. The fourth quarter started out with low expectations as rising long-term interest rates extended the late summer. For 2023, the S&P, Dow Jones and Nasdaq, rose a handsome 24.2%, 13.7%, and 43.4%. Inflation remains elevated but the broader US economy was still very robust that helped the market to cast aside the prevailing headwinds, including the fresh conflict in the Middle East.

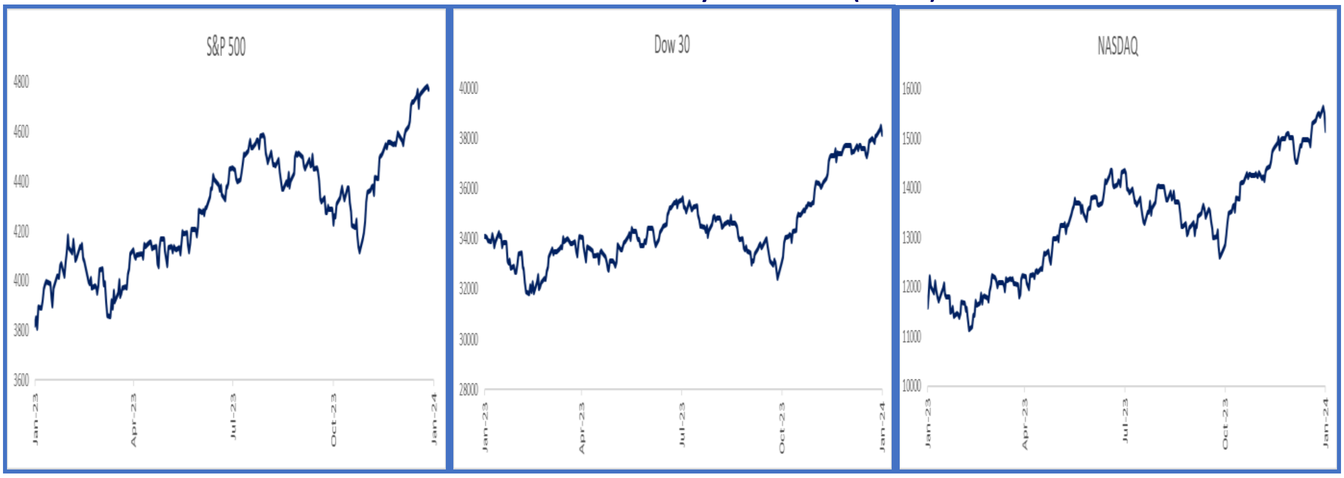
Subsequently, U.S. equity indices closed the year on a high, thanks to the Fed's hint to interest rate cuts as inflation continues to decline towards the 2.0% goal with both the headline and core inflation trending lower, leading markets to price in the start of the cutting cycle as early as March. Fed chair Jerome Powell indicated that the central bank was aware of the risk of keeping rates at restrictive levels for too long. Minutes from the Federal Open Market Committee's latest policy meeting also showed policymakers expect rates to end 2024 at 4.5%-4.75%, down from the current 5.25%-5.5% range.

Meanwhile, energy prices are coming off their six-month lows, driven more so by the supply side rather than a slowdown in demand. The disinflation trend continued throughout the year, with the core PCE Price Index going from 4.9% in December 2022 to its most recent reading of 3.1% in November 2023.

Notably, growth stocks, especially within the technology sector, propelled by NVIDIA's earnings expectation after Global Semiconductor Sales are expected to rebound with a 13% growth in 2024. The value of "Magnificent 7" stocks is worth more than the stock markets of Japan, Canada, and the UK.

On sector performance, rate sensitive sector REITS, TECHNOLOGY, and FINANCIALS outperformed. While the ENERGY index was the only underperformer. The number of stocks closing above the 200-day moving average have risen to 69.3% in 4Q2023 vs. 40.9% in 3Q2023.

**Performance of Key U.S. Indices (1 Year)**



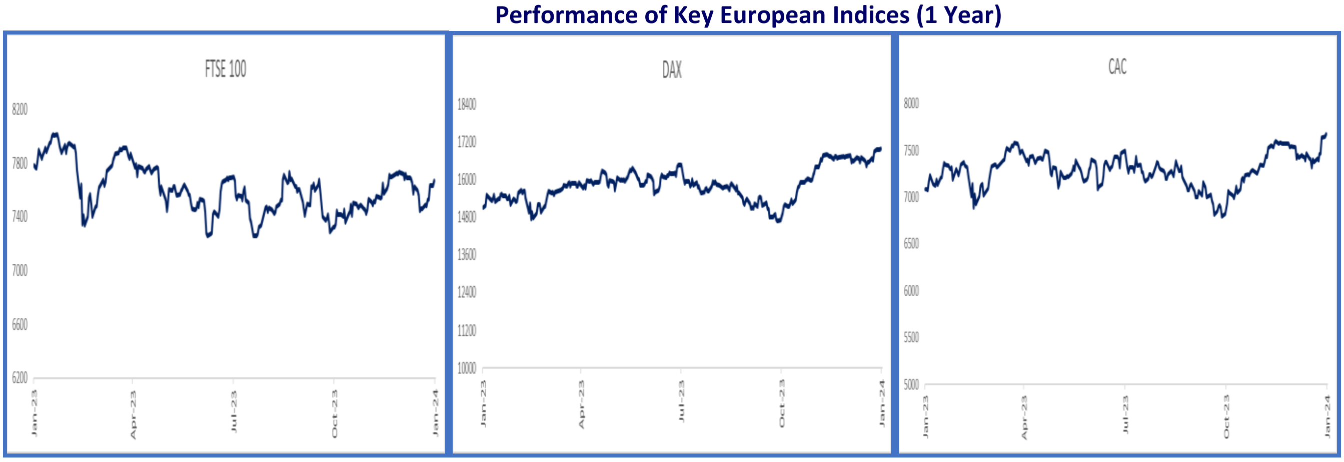

*Source: Bloomberg*

European benchmark indices rose in tandem with their U.S. counterparts. The DAX, CAC and FTSE rose 8.9%, 5.7%, 1.7% Q-o-Q respectively and 20.3%, 16.5%, 3.8% for the year despite the gloomy economic picture where the recession risk remained heightened. The inflation rate in the Euro Area rose to 2.9% Y-o-Y in December 2023, much lower than in January 2023's level of 8.6% Y-o-Y. Inflation is expected to be controlled, helped by the contraction in euro zone's business activities.

The European Central Bank maintained the key interest rate at 4.0% during its meeting in October, and the market's hopes for a cut in interest rates is near. With the higher interest rates weighing on the eurozone economy, the eurozone GDP fell by 0.1% Q-o-Q in 3Q2023 while the HCOB flash eurozone purchasing managers' index fell to 47.0 in December. Meanwhile, outperforming sectors included real estate, information technology and industrials. The energy sector also underperformed, as did less economically sensitive sectors such as healthcare.

Parallel to the eurozone, UK equities mirrored the regional strength on hopes that interest rates have peaked. The FTSE improved 1.6% Q-o-Q with the positive momentum continuing after the extension of 100% of the capital expenditure allowance and easing mortgage rates. UK small and mid-cap indices outperformed the broader market as with domestically focused stocks that performed strongly.

**Performance of Key European Indices (1 Year)**



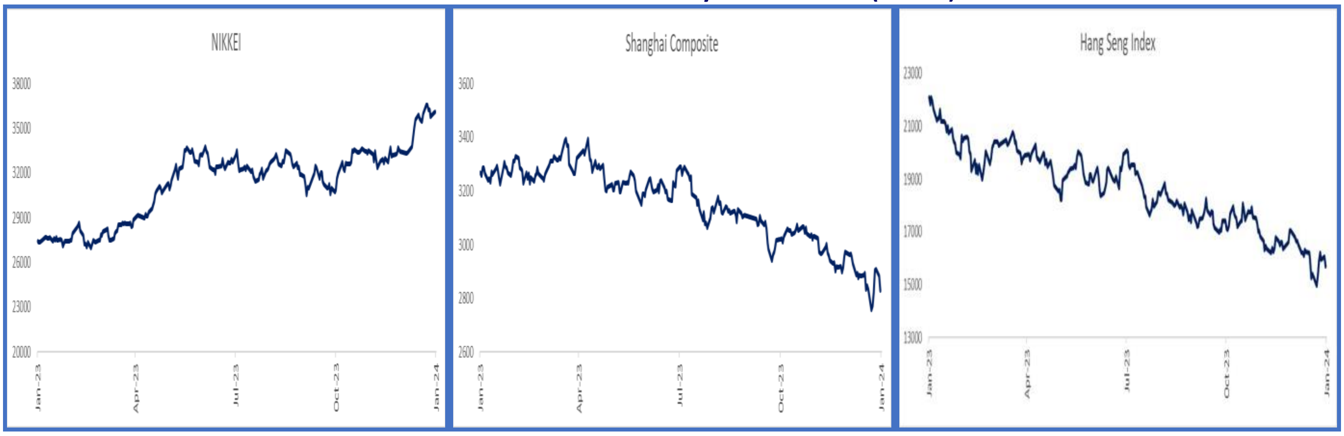

*Source: Bloomberg*

Asian and developing countries' equities were laggards due to the weakened sentiments and pressures from insipid economic conditions, particularly on China equities, albeit the Nikkei was a big outperformer. The Nikkei rose 5.0% Q-o-Q as the BOJ made gradual steps to normalise its monetary easing policy in October and continued to hint that they are likely to take further actions early 2024. Overall macroeconomic conditions in Japan also continues to improve. Japanese businesses that are in the manufacturing and non-manufacturing sectors highlighted capital expenditure plans to meet strong demand in machinery and IT service companies. While the Yen weakness certainly played a role, the unwinding of cross-shareholdings strengthened corporate governance and investor confidence. In addition, more companies improve their disclosure on management plans to address lower valuations, earnings forecasts, and long-term business plans bolstering market confidence.

China continues to underperform, falling 4.4% Q-o-Q. Various catalysts related to China, including plans to address local government debts and property easing policies, failed to maintain the upward momentum in equities. China's macro data was better than expected, with October's retail sales showing a 7.6% Y-o-Y increase. However, the housing market continues to pose a significant impediment to growth, as new home sales declined compared to the previous year. In terms of trade, China's exports grew for the first time in seven months in November. The noteworthy positive deviation in September's exports seems to be driven by the technology sector, particularly for high-tech exports.

Hong Kong's benchmark stock index ended 4.3% Q-o-Q lower and has declined for four consecutive years as geopolitical and China's economic slowdown rattled the market. The government also cut stamp duty on stock transactions in a bid to boost trading volumes, but to little avail. Utilities and Conglomerates were the sector outperformers, but properties & construction, consumer staples and healthcare underperformed the most.

**Performance of Key Asian Indices (1 Year)**




*Source: Bloomberg*

**MALAYSIAN EQUITY MARKET REVIEW**

The FBM KLCI fell 2.7% in 2023, concluding the year at 1,454.66, and emerged as one of the main underperformers among regional indices. A foreign net outflow was also recorded in 2023, mainly attributed to negative sentiments due to: 1) shrinking Y-o-Y GDP accompanied by decreasing export orders, and 2) weakening consumer sentiment.

However, the FBM KLCI saw a 2.1% Q-o-Q rise in 4Q2023, positioning it as the third-best performer among its regional indices. The increase was mainly driven by several positive catalysts: 1) the confirmation of the Johor Sultan's appointment as the Malaysia's 17th King, providing optimism for Johor-based property developers, data centers, and the Kuala Lumpur-Singapore high-speed rail, and 2) improved Q-o-Q inflation data.

Dialog Group Bhd (-15.5% Y-o-Y) and Westports Holdings Bhd (-4.0% Y-o-Y) were excluded from the FBM KLCI 30 constituents at the end of 2023 as their market capitalisation fell below the companies on the reserve list. Consequently, both companies were replaced by YTL Corporation and YTL Power International, primarily due to their undervalued status and the expectation of a rise in local demand for cement (YTL Corp) and benefitting from the renewable energy themed and A.I. plays (YTL Power), attracting fund money inflows to both parent and subsidiary companies.

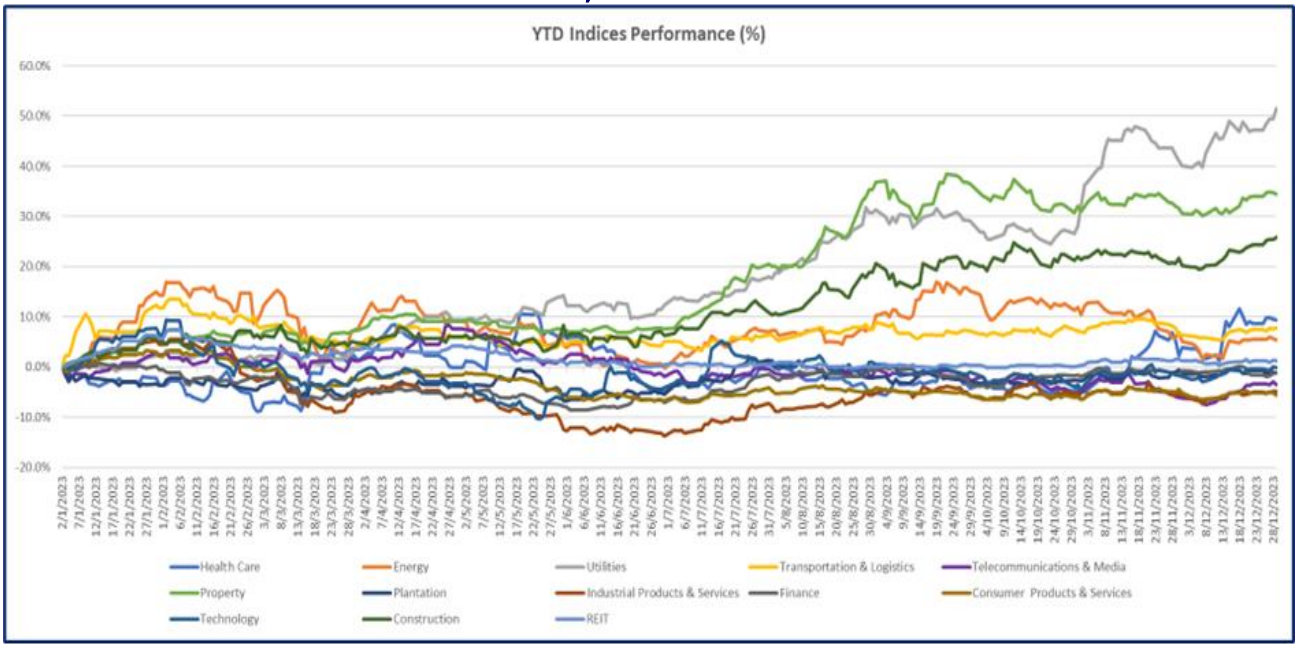
In 2023, YTL Power International (+267.9% Y-o-Y), YTL Corporation (+234.6 Y-o-Y), and Malayan Banking (9.3% Y-o-Y) were the main outperformers among the FBM KLCI constituents, whereas MR D.I.Y Group (M) (-26.2% Y-o-Y), Axiata Group (-20.1% Y-o-Y), and PPB Group (-14.9 Y-o-Y) were the main underperformers among the FBM KLCI constituents.

**FBM KLCI, FBM Small Cap & FBM ACE One-Year Performance**


*Source: Bloomberg*

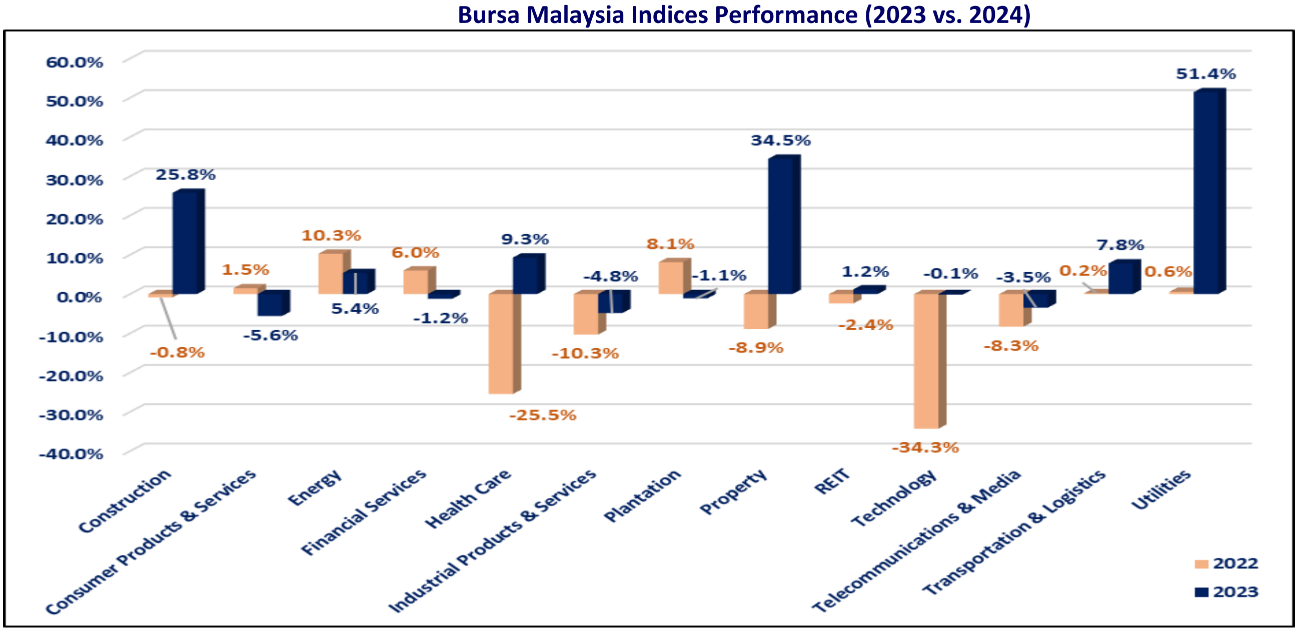
Seven out of 13 sectors are on a positive note during 2023, with UTILITIES (+51.4% Y-o-Y), PROPERTY (+34.5% Y-o-Y) and CONSTRUCTION (+25.8% Y-o-Y) the top 3 outperforming sectors throughout the year. The positive performance was buoyed by the positive market sentiment towards the development in Johor state. On the contrary, CONSUMER PRODUCTS & SERVICES (-5.6% Y-o-Y) was the main laggard throughout the year due to rising cost of raw materials, resulting in weaker-than-expected quarterly results.

**Bursa Malaysia Sector YTD Performances**




*Source: Bloomberg*

**Bursa Malaysia Indices Performance (2023 vs. 2024)**



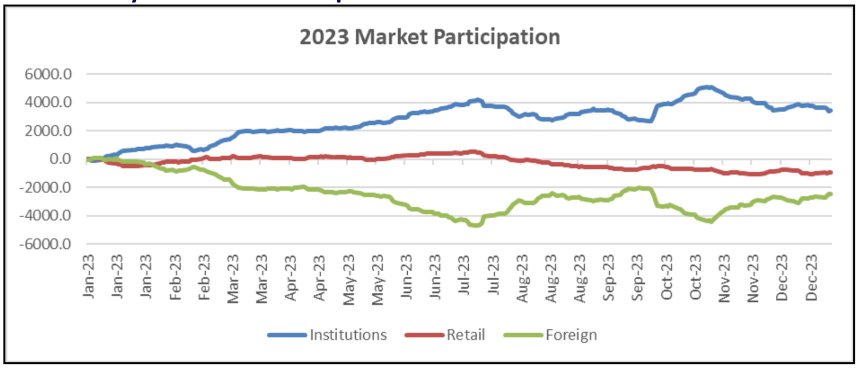

*Source: Bloomberg*

**Malaysia Equity Market's Trading Activity**

In 4Q2023, institutions reversed their net sell position on Malaysian shares, becoming net buyers with a value of RM0.72b, a turnaround from their net sell position of RM1.14b in 3Q2023. Conversely, retail investors continued their trend as net sellers for the second consecutive quarter, reducing their position with a lower value of RM0.35b in Malaysian shares in 4Q2023. Foreign investors offloaded RM0.38b worth of Malaysian shares during the same quarter.

In 2023, local equities were supported by local institutions with a net buy of RM3.46b and a net sell of RM0.97b from retail investors. Foreign investors offloaded RM2.49b worth of Malaysian shares.

**Bursa Malaysia Market Participants**




*Source: Bloomberg*

Trade-wise, the number of transactions increased in 4Q2023, with an average daily traded volume of 3.35b, marking a 0.5% Q-o-Q uptick and a 21.5% Y-o-Y increase. In a full-year comparison, the trading volume in 2023 grew by 15.4% Y-o-Y to 3.26b, from 2.82b a year ago. The average traded value recorded was RM2.16b in 4Q2023, showing a 1.6% Q-o-Q increase and a 14.7% Y-o-Y rise. In a full-year comparison, the trading value in 2023 showed a 0.2% Y-o-Y downtick to 2.056b, from 2.061b a year ago.

**Average Daily Trading Volume and Trading Value of Malaysian Equity Market**

**Volume (m)**

| 4QCY23 | 4QCY22 | Y-o-Y chg (%) | 3QCY23 | Q-o-Q chg (%) | CY23 | CY22 | Y-o-Y chg (%) |
|---|---|---|---|---|---|---|---|
| 3,348.8 | 2,755.6 | 21.5 | 3,331.1 | 0.5 | 3,256.7 | 2,823.2 | 15.4 |

**Value (RM m)**

| 4QCY23 | 4QCY22 | Y-o-Y chg (%) | 3QCY23 | Q-o-Q chg (%) | CY23 | CY22 | Y-o-Y chg (%) |
|---|---|---|---|---|---|---|---|
| 2,160.7 | 1,883.2 | 14.7 | 2,126.4 | 1.6 | 2,056.2 | 2,060.8 | -0.2 |

*Source: Bloomberg, Inter-Pacific Research*

## GLOBAL EQUITY MARKET OUTLOOK

After a strong outperformance in 4Q2023 and for the whole of 2023, global equities lost steam at the start of the year, weigh down by fresh inflationary and interest rate concerns and potentially slower economic prospects in 2024 that prompted profit taking activities. At the same time, much of the gains were seen as overdone as the 2024 global economic outlook may even whittle as the impact of the slower global economic growth filters in, particularly in 1H2024.

Notwithstanding the above concerns, global markets have rebounded in late January to gain headway for the year, riding on renewed optimism that equities will weather the potentially slower global economic growth successfully and a soft landing is still possible despite the headwinds like high interest rates and prospects of the rates staying elevated for longer still on investors' minds. At the same time, central banks' efforts in taming inflation had the desired effect and the price stability is also likely to help shore up equities over the near-to-medium term.

While global equities are still on a purple patch, its longevity remains uncertain as many equities are already toppish and approaching overbought that could prompt an overdue consolidation. As such, the near-to-medium global equity market outlook is likely to stay choppy, underwhelmed by the lingering growth concerns and toppish market conditions. A pullback will be beneficial for global equities as it would allow the hefty gains in 2023 to be digested. The retreat would also allow the overheated market conditions to find some solace, in our view.

Despite the near-term market hesitation and toppish valuations, the broad global equity market outlook remains largely positive for the foreseeable future amid the reduced recession risk that should be conducive for further gains over the medium term. More importantly, interest rate cuts are still on the offing, albeit it could be delayed, and the prospects of the interest rate cuts could keep conditions resilient over the medium term.

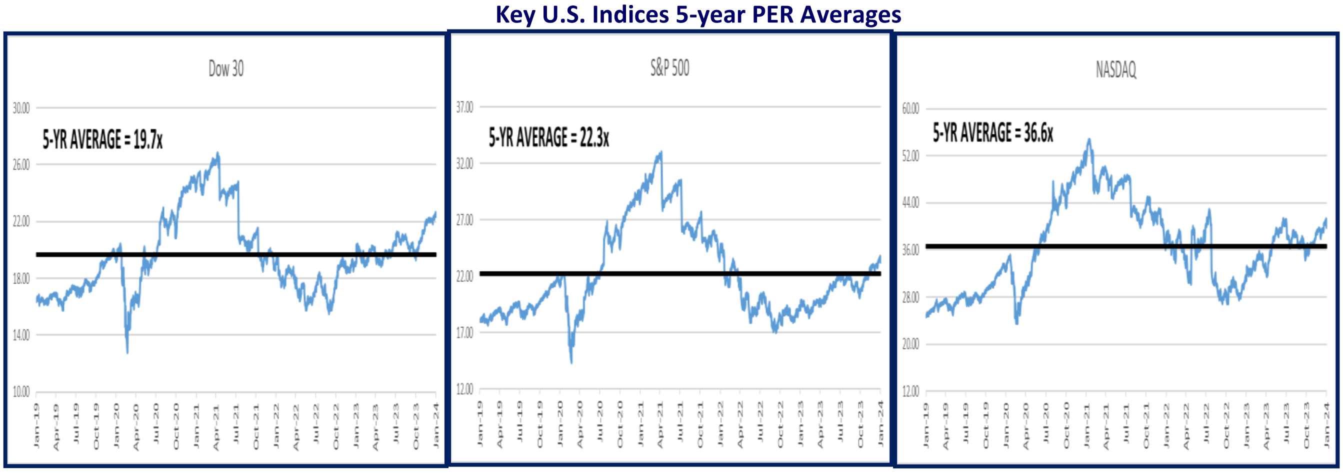
For now, however, U.S. interest rates could still be kept elevated amid the still strong performance of its economy that may still prompt the Federal Reserve to maintain the high interest rate environment, possibly until 2H2024. The ECB may also prolong its high interest rate environment despite the prospects of European economies turning weaker for the year.

Consequently, U.S. equities look to be the most vulnerable to a pullback after their hefty gains last year with the numerous interest rate cuts now looking less likely or delayed. For much of the final quarter of 2023, U.S. equities were buoyed by the prospects of the potential interest rate cuts in 2024 amid the combination of easing inflation, steady corporate earnings growth, progress in the development of A.I. and above expectation economic data that all contributed to the bullish sentiments that also led to its valuations persistently on the expensive side.

Looking ahead, there could be a switch to defensive sectors like healthcare, consumer staples, utilities and REITS after the strong inflows into selected bellwethers last year that have also led to these stocks becoming expensive vis-à-vis their earnings growth potential. The concentration on these large capitalised stocks have left these stocks vulnerable to a steeper than expected pullback if the headwinds persist or if their earnings growth disappoints in the upcoming quarters. At the same time, there is also a gradual shift to fixed income securities due to the prolonged high interest rate environment as a means to diversify from the toppish equity prices among its heavyweights on Wall Street.

Notwithstanding the prevailing headwinds, U.S. equities are displaying relatively benign volatility of late with the CBOT's Volatility Index at low levels. The volatility has moderated following the tamer inflation reading in 4Q2023, providing hope that interest rates will be trimmed. There has been a pick-up in recent volatility, but it remains largely at low levels, pointing to a relatively calm market outlook over the near term.

**Key U.S. Indices 5-year PER Averages**




*Source: Bloomberg*

Although European equities' valuations are more attractive, their upsides could be milder due to the lack of clarity over the direction of their economies and interest rates. European equities could still remain unsettled by concerns over a recession that continues to threaten its corporate earnings performance in 2024. At the same time, many European countries are still reporting mixed economic data, and this is leaving its equities with a cautious undertone that may also keep a lid on its growth prospects for the year. There are also concerns that asset values could deteriorate due to the ongoing headwinds even as the peak of the cyclical policy rates have been reached.

Despite the near-term market conditions dithering, the European stockmarket's prospect may improve leading into the medium term as conditions may start to improve as the high interest rate and inflation runs in course. Already, Europe's inflation has slipped considerably, and this may prompt the return of market players into interest rate sensitive stocks. The revival will also be due in part to its low valuations of many of its bellwethers that could attract increased bargain hunting activities.

**Selected European Indices 5-year PER Average**


*Source: Bloomberg*

The mixed condition among Asian equities is also likely to prevail for longer amid the lingering challenges to China's economy that could see its stockmarket and the broader Asian equities on a slow path in 1Q2024. As it is, the region's sluggish manufacturing sector outlook could also keep many Asian equities subdued for longer. Differing performances will continue and is dependent on their external trade performance, as with the inflation outlook that could broadly look to ease further. China and Hong Kong equities may still find it difficult to make headway on the continuing economic headwinds besetting their economies. Nevertheless, the worse should be over and most equities are likely to find solace after the challenging 2023 performance, premised on the easing inflationary outlook and potentially firmer economy recovery when global interest rates are trimmed later in the year.

Even as China's corporate earnings performance is likely to recover strongly, sentiments on its stocks have yet to improve and may remain in the doldrums for longer. Concerns over its property market remains lingers, as with the impact on its banking sector. Its domestic activities are also slowing in tandem with its weaker economic outlook and has yet to regain much traction. These factors could continue to contain sentiments on its equity market and belies its attractive valuations that are at lowest since mid-2020. Under the prevailing environment, there will be continuing uncertainties to its stockmarket performance until there are signs of let up to the headwinds afflicting its economy.

**Selected Asian Index 5-year PER Averages**


*Source: Bloomberg*

Globally, the Bloomberg consensus corporate earnings growth for 2023 is estimated at just a mere 1.0% Y-o-Y, before possibly gaining 9.0% Y-o-Y in 2024. The slow growth in 2023 was due to the higher interest rate environment that ate into margins and reduced business activities in many countries, mirroring their weaker economic activities. The higher earnings forecast for 2024, meanwhile, will largely be due to the easing inflationary environment and the possibility of interest rate cuts as well as the prognosis of increasing economic activities that will collectively lead to the improved corporate earnings outlook.

Although the S&P 500 could have likely posted no earnings growth in 2023, growth could come in at 8.9% Y-o-Y in 2024. Again, the tighter monetary conditions in 2023 was seen as the main reason for the U.S.' insipid corporate earnings performance in 2023. Sequential earnings performance was particularly weak in 2Q2023 before a firmer recovery in 4Q2023 on firmer consumer spending but were still largely below expectations. In 2024, much of the improved performance will be linked to the improved revenue performance with the expected improvement in economic activities.

European corporates, meanwhile, are forecast to post a 4.5% Y-o-Y earnings contraction in 2024 due to the recession concerns that is likely to keep corporate earnings in check. This comes on the back of an estimated 6.7% Y-o-Y earnings growth for 2023. Earnings of energy, commodities and chemical companies will continue to lag in 2024 due to their weaker prospects, but technology and banking entities could outperform to provide the much-needed support.

Asian equities earnings may have contracted by some 10.6% Y-o-Y in 2023, which is larger than the earlier forecast of a contraction of 6.5% Y-o-Y. Much of the weakness is due to the prevailing slow external demand that continues to affect Asian manufacturers' performance, despite the support from domestic activities. However, Asia corporate earnings could grow by nearly 27% Y-o-Y in 2024 with the impending recovery of the manufacturing sector, particularly for the E&E sector, helping to reverse the downtrend in earnings growth. The reduced odds of a deep recession, coupled with the easing inflationary and interest rates could also help to shore up the earnings growth prospects among Asian corporates.

China stocks are expected to post a strong earnings recovery of 35.4% Y-o-Y in 2024 after sliding 6.2% Y-o-Y in 2023 due to its weaker domestic and external segments. The earnings improvements will emanate from the expected recovery in external demand as well as the government's measures to promote domestic demand. There are early signs of a pickup in external demand, but further pickup is likely to be slow as conditions are still unsettled as yet. Japanese stocks are also expected to see firmer earnings growth of 41.4% Y-o-Y in 2024, riding of the tailwinds of its improving economic undertone with rising business investments and firm consumer demand. South Korean equities could rebound by some 63.0% Y-o-Y in 2024, emerging as the main outperformer with the recovery of tech related stocks as exports of these items rebound after bottoming in 2023.

Following the global equity market runup in late 2023, valuations have tipped up further with 2024's forward valuation at toppish levels – above its historical forward average of 14x-16x. The 2025 valuation, while remaining within the above historical range, is also near the top end of the forward range. Once again, it is U.S. equities that are tipping the forward averages higher with their recent strong gains, but Europe's and Asian equities valuations remain below their historical forward averages due to their weaker earnings growth prospects.

The S&P 500's valuations are still the most expensive at 21.8x and 19.4x for 2024 and 2025 respectively, with both years' forward PERs above its 5-year and 10-year averages of 18.9x and 17.6x respectively. The strong push on the "Magnificent 7" stocks and selective big tech names have largely contributed to the expensive valuations. This also means that the valuation matrix remains skewed to the top end, while most lower liners continue to remain within their averages.

Meanwhile, European and Asian equities' forward PERs are staying below their historical averages as these corporates continue to be buffeted by the slow recovery in their earnings, albeit there are signs of improvements in 2024, particularly as greenshoots are likely to appear towards the middle of the year when interest rates are set to be trimmed that could allow for an improvement in business activities.

**Selected Key Global Indices Comparative PER**

| (in times) | 2022 | 2023 | 2024(F) | 2025(F) |
|---|---|---|---|---|
| **Dow Jones** | 18.7 | 23.1 | 19.8 | 17.6 |
| **S&P 500** | 19.0 | 23.4 | 21.8 | 19.4 |
| **NASDAQ** | 21.1 | 30.2 | 26.1 | 22.9 |
| **FTSE** | 11.4 | 10.7 | 11.5 | 11.0 |
| **DAX** | 12.5 | 12.6 | 12.7 | 11.2 |
| **CAC** | 12.0 | 13.9 | 13.4 | 12.4 |
| **MSCI Europe Index** | **11.9** | **12.8** | **14.1** | **12.9** |
| **Nikkei 225** | 13.9 | 20.4 | 20.9 | 18.6 |
| **Shanghai Composite** | 10.9 | 11.3 | 9.4 | 8.3 |
| **Hang Seng Index** | 10.5 | 9.2 | 7.6 | 7.1 |
| **KOSPI** | 7.7 | 11.4 | 10.4 | 8.4 |
| **MSCI Asia Index** | **12.7** | **14.8** | **13.9** | **12.3** |
| **MSCI All World Index** | **15.5** | **18.7** | **17.9** | **16.0** |

*Source: Bloomberg*

## MALAYSIA EQUITY MARKET OUTLOOK

The start of 2024 has brought with it renewed vigor in Malaysian equities and despite the occasional wobbly conditions, the market have remained relatively steadfast as the key index climbed past the 1,500 level. In the process, the FBM KLCI have gained some 4.0% since the start of the year and the market outlook should remain relatively sanguine over the coming months, underpinned by a more stable political and economic environment in 2024 that is also helping to strengthen investor sentiments for equities. The new-found confidence is also welcomed to end the uncertainties that had dominated market sentiments over the past two years.

The return of foreign institutions over the past few months has been instrumental in adding calmness to market conditions, albeit their participation remains fluid due to vagaries of the global equity market outlook. Nevertheless, after an extended period of under-weighing and under-owning Malaysian equities, the tide seems to be pivoting as confidence is gradually returning that will help to encourage the inflow of foreign funds back into the country's equities after what has been a long hiatus. As it is, current foreign ownership of Malaysian stocks are just in the low 20% which is significaintly lower than its historical averages.

The economic impetus for Malaysian equities should emanate from the turnaround in the country's economic prognosis with the promise of more investments in infrastructure, particularly transport projects, that will bouy the construction sector. In addition, more energy related projects will also be implemented and collectively, there will be significant spillover effects to the broader economy. Under the prevailing environment, domestic activities will continue to anchor much of the country's growth in 2024 that will also translate to firmer corporate earnings growth. Although many of these projects are still at their planning stages and their funding still uncertain, there should be more details on these projects later in the year that could mark a new cycle in infrastructure spending, some of which has been in the works for a while now like the High Speed Rail. New growth areas in Data Centres and sustainable energy ventures could spearhead the next wave of investments and will bring the economy forward.

On the external sector, the end of the interest rate upcycle should also lead to increased demand, albeit the effects could still be muted in 1H2024 as interest rates could still be elevated. This improvement would aid the recovery in the country's manufacturing entities and export related companies in particular. By extension, the reduced interest rates should also be supportive of the FBM KLCI's firmer performance as it looks to play catch up to the improved performances of many regional indices last year where Malaysian equities were a laggard due to the unstable political and economic outlook. The potential easing of global interest rates could also see an easier U.S. Dollar that may promote a switch to stocks that were laggards among emerging market equities, including Malaysian ones.

Overall sentiments are also on the mend with thematic plays like the improving outlook for semiconductors and the revival in tourism activities to also help to firm up market sentiments over the near-to-medium term. Meanwhile, corporate earnings are also tipped to improve in 2024, supported by firmer domestic activities and the recovery in E&E exports. The improving corporate earnings outlook is vital to ensure that the buying interest is sustainable as it could also mark a reversal in the country's export trend.

Despite the promising outlook and the Malaysian stockmarket's undertone is much improved from 2023, market conditions could still be affected by the slower-than-expected easing of prevailing headwinds. In particular, the U.S.-China trade dispute that could slow the demand for Malaysian exports as well as China's slower domestic markets that could also trim the demand for Malaysian exports. In the similar vein, a slower-than-expected recovery in the global economy and geopolitical issues could delay the country's earnings recovery, particularly if global interest rates remain elevated due the slow easing of inflation pressures that could leave demand wanting again.

Domestically, the promise of new investments, both from foreign and domestic sources, have been slow to materialise which may temper sentiments as some of the recent market's recovery was on optimism on the potential new investments that were announced. These new investments are seen as vital to provide resilience to the Malaysian economy over the longer term after the country's foreign direct investments lagged its regional peers over the past few years. Furthermore, there are also concerns that the government reforms on the economy may become inflationary and lead to reduced spending. In particular, the ongoing subsidy rationalisation, hike in the services tax and the introduction of the high-value goods tax may hinder domestic consumption growth, at least over the first few months during their introduction.

After the strong start to the year, however, market volatility could emerge as some of the recent gains are absorbed. As it is, much of the recent upsides were sentiment driven, and from a impending re-weighting of Malaysian equities by foreign institutions. We think this theme may have run its course for the near-term and the buying may slow until there is more clarity on the direction of the country's economy, which is tipped to perform stronger from 2H2024 onwards.

Despite the potential wait-and-see stance, however, there remains little selling pressure for the time being amid the gradual improvements to Bursa Malaysia's fundamentals that would provide the much needed support. This means that the key index should be able to hold above the 1,480 level over the near term, backed by the FBM KLCI's continuing below average valuations and improved earnings growth propsects in 2024. This should also allow the key index to stay above the psychological 1,500 level over the near term as it also look to build up and fortify a base around the level. With a firmer base, the key index could then target the subsequent hurdles at the 1,525, 1,538 and 1,550 levels over the medium term.

The FBM KLCI is estimated to have posted a relatively minute earnings growth of 3.6% Y-o-Y in 2023 with a firmer forecast earnings growth of 9.1% Y-o-Y in 2024 as both business and economic activities pick up pace. On the broader FBM EMAS index, earnings could grow 16.2% Y-o-Y in 2024, a rebound from the estimated 6.0% Y-o-Y contraction in 2023.

In 2024, there should be significant earnings improvements from technology stocks as a new upcycle in demand emerges, as with demand from other export centric companies on the prognosis of easing economic headwinds, particularly from 2H2024 onwards. On the domestic front, construction and building materials should also see improved earnings in 2024, riding on the increased infrastructure activities.

In tandem with the improved domestic and external segments, the transport sector's earnings growth would also persist, with consumer stocks to also post decent growth on the sustained consumer spending growth, albeit their improvements could be tempered somewhat by the introduction of new taxes. Banks and financial stocks' earnings, however, could lag on lower demand for financial services, but car-parts manufacturers may emerge with the slowest growth due to the possible slowdown in car sales in 2024 after a strong outperformance in 2023.

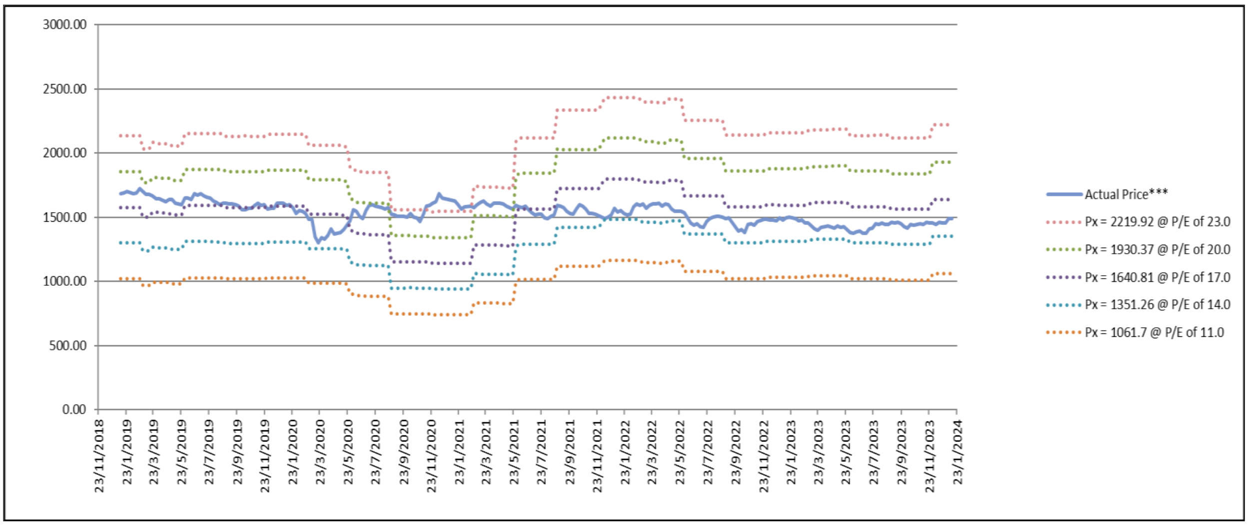
Meanwhile, the FBM KLCI's PERs for 2024 and 2025 appears attractive as they are below its historical average range of 14x-16x. Similarly, the FBM EMAS' forward valuations are below its historical averages, but the valuations are still slightly above its ASEAN peers. Nevertheless, the still compelling valautions of the FBM KLCI and FBM EMAS could provide more upside potential, backed by the prospects of improved corporate earnings performance for the next two years.

**Comparative PERs – Malaysia vs. ASEAN**

| *(in times)* | **2022** | **2023** | **2024(F)** | **2025(F)** |
|---|---|---|---|---|
| **FTSE Bursa Malaysia KLCI** | **15.2** | **14.2** | **13.6** | **12.8** |
| **FTSE Bursa Malaysia Emas** | **13.4** | **14.4** | **13.8** | **12.8** |
| ***FTSE Straits Times Index*** | *10.9* | *10.3* | *10.1* | *9.8* |
| ***Jakarta Composite Index*** | *10.7* | *12.6* | *12.7* | *12.4* |
| ***Stock Exchange of Thailand*** | *14.8* | *14.3* | *13.5* | *12.5* |
| ***Philipines PS Index*** | *12.5* | *10.5* | *11.1* | *10.1* |
| ***ASEAN average*** | ***12.2*** | ***11.9*** | ***11.8*** | ***11.2*** |

*Source: Bloomberg*

**FBM KLCI PER Band – 5 Years**




*Source: Bloomberg*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# COMPANY UPDATES

**All prices as of 2nd February 2024**

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# ABLE GLOBAL

## BUY

| | |
|---|---|
| **Current Price** | **RM 1.44** |
| **Target Price** | **RM 1.85** |
| **Consensus Price** | **RM 1.73** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | ABLE MK |
| Masa Ticker / Stock Code | ABLEGLOB/7167 |
| Shares Issued (m) | 310.5 |
| Market Capitalisation (RM'm) | 447.1 |
| 52 Week Hi/Lo Price (RM) | 1.62/1.24 |
| Avg Trading Volume (3-mth) | 758,052 |
| Est Free Float (%) | 49.9 |
| YTD Returns (%) | -4.0 |
| Beta (x) | 0.65 |

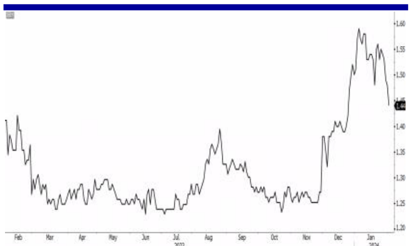
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -8.28 | -10.23 |
| 3 mth | 12.50 | 7.90 |
| 12 mth | -2.04 | -3.79 |

**Major Shareholders (%)**

| | |
|---|---|
| Ng Keng Hoe | 12.5 |
| Goh Swee Wang | 11.7 |
| Goh Mia Kwong | 11.6 |

**1-Year Share Price Performance**



**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

Able Global is primarily involved in two business segments: 1) food & beverage (F&B) – manufacturing and sale of milk and dairy-related products, and 2) tin can manufacturing.

### Investment Merits

- **Joint venture in Mexico.** The joint venture was recently granted an export license to export filled milk. The Mexico's operation has achieved breakeven in 1QCY23 and started contributing positively to the group's earnings.
- **Ramping up UHT milk production in Malaysia.** The group has diversified its product offerings with UHT milk to meet rising market demand and cross sell to existing clienteles.

### Key Updates

- Revenue expanded by 27.0% Y-o-Y to RM176.8m in 3QCY23, from RM139.1m in the same quarter last year, mainly attributable to a 26.4% Y-o-Y increase in the sales of the F&B segment, combined with the recovery in sales of the tin manufacturing segment which showed 29.6% Y-o-Y growth this quarter. Its gross profit margin also improved to 18.5%, from 17.8%, which we attribute to the better production efficiency as a result of higher economies of scale. Tracking the top line growth, its PATAMI surged 94.9% Y-o-Y to RM16.2m, from RM8.3m, which was also partly contributed by lower share of loss from its joint venture as well as lower net loss on foreign exchange.
- The group declared a third interim dividend of 2.0 sen per share, bringing 9MCY23's dividend to a sum of 4.5 sen (9MCY22: 3.0 sen).

### Downside Risks

- Higher input costs such as milk and sugar affecting margins
- Forex exchange risks

### Valuation

We keep our **BUY** recommendation on Able Global with the same **TP** of **RM1.85**, derived from pegging target PERs of 15.0x and 8.0x to the CY24F earnings of its F&B and tin manufacturing segments respectively.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 502.3 | 499.9 | 549.8 | 636.3 | 649.7 |
| EBITDA | 66.1 | 63.6 | 56.7 | 75.1 | 75.8 |
| EBITDA margin (%) | 13.2 | 12.7 | 10.3 | 11.8 | 11.7 |
| PBT | 53.2 | 51.4 | 42.8 | 55.9 | 58.5 |
| PAT | 39.8 | 37.4 | 33.6 | 42.5 | 45.2 |
| PATAMI | 39.5 | 36.9 | 33.4 | 42.1 | 44.5 |
| PATAMI margin (%) | 7.9 | 7.4 | 6.1 | 6.6 | 6.9 |
| EPS (sen) | 12.7 | 11.9 | 10.8 | 13.5 | 14.3 |
| Earnings growth (%) | (16.8) | (6.5) | (9.6) | 26.0 | 5.9 |
| PER (x) | 11.3 | 12.1 | 13.4 | 10.6 | 10.0 |
| DPS (sen) | 5.4 | 5.0 | 4.0 | 6.0 | 6.5 |
| Dividend yield (%) | 3.8 | 3.5 | 2.8 | 4.1 | 4.5 |
| ROE (%) | 11.1 | 9.8 | 8.3 | 9.9 | 9.9 |
| Net gearing ratio | Net Cash | 0.0 | 0.5 | 0.4 | 0.3 |
| P/B (x) | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# AWC

## NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 0.55** |
| **Target Price** | **RM 0.59** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | AWCF MK |
| Masa Ticker / Stock Code | AWC/7579 |
| Shares Issued (m) | 328.3 |
| Market Capitalisation (RM'm) | 180.6 |
| 52 Week Hi/Lo Price (RM) | 0.69/0.450 |
| Avg Trading Volume (3-mth) | 1,395,496 |
| Est Free Float (%) | 42.7 |
| YTD Returns (%) | -14.1 |
| Beta (x) | 0.52 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -14.06 | -16.01 |
| 3 mth | -7.56 | -12.16 |
| 12 mth | 7.84 | 6.09 |

**Major Shareholders (%)**

| | |
|---|---|
| K-Capital Sdn Bhd | 25.7 |
| Bin Mohamed Nagoor Ahmad Kabeer | 7.9 |
| Mastrack SDN | 4.4 |

**1-Year Share Price Performance**


**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**


### Company Profile

AWC is an engineering services company that operates in the facility management, waste management, plumbing and systems solution in plumbing and heating, ventilation & air conditioning industries. Prominent projects include the Customs Immigration & Quarantine Complex (facility management), Changi Airport (waste management), and Merdeka 118 & Tun Razak Exchange (plumbing solutions).

### Investment Merits

- Proxy to Malaysia's rail and water investments that could result in increased orderbook.
- Long term earnings visibility from concession contracts.

### Key Updates

- AWC's 1QFY24 PATAMI of RM0.5m came in below expectations, accounting for 3.0% of our previous FY24 forecast. The miss is largely due to higher operating expenditure in the facility's division, where unfulfilled deliverables resulted in lower revenue and increasing cases of unscheduled work fee for one of its client's operating assets continue to weigh on its earnings.
- Going forward, we expect 2QFY24's earnings to mount a firmer recovery, thanks to narrowing losses in the FM division. In 2HFY24, net earnings should recover back to mid-to-high single digits, after fully recognising earnings from STREAM in the environmental division earnings where the minority interest accounted for 50% and 58% of FY21 and FY23 earnings respectively. The management also guided that the environmental, engineering and rail divisions will underpin the group's financial performance in FY24.

### Downside Factors

- Project delays
- Collection risk

### Valuation

We maintain our **NEUTRAL** recommendation with an unchanged **TP** of **RM0.59,** based on a SoTP valuation parameter pegged to our FY24F earnings forecast.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE June (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 343.9 | 355.2 | 379.0 | 365.0 | 412.0 |
| EBITDA | 51.8 | 47.3 | 14.5 | 32.8 | 43.4 |
| EBITDA margin (%) | 15.1 | 13.3 | 3.8 | 9.0 | 10.5 |
| PATAMI | 25.9 | 21.8 | 2.1 | 15.3 | 29.4 |
| PATAMI margin (%) | 7.5 | 6.1 | 0.6 | 4.2 | 7.1 |
| Earnings growth (%) | 237.6 | (15.8) | (90.2) | 616.7 | 92.6 |
| EPS (sen) | 7.8 | 6.5 | 0.6 | 4.6 | 8.9 |
| PER (x) | 7.1 | 8.4 | 85.8 | 12.0 | 6.2 |
| DPS (sen) | 1.5 | 2.0 | 0.5 | 1.0 | 1.0 |
| Dividend yield (%) | 2.7 | 3.6 | 0.9 | 1.8 | 1.8 |
| ROE (%) | 12.5 | 9.7 | 1.0 | 6.5 | 11.2 |
| Net gearing ratio (%) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| Price/Book ratio (x) | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# DATASONIC GROUP

## BUY

| | |
|---|---|
| **Current Price** | **RM 0.44** |
| **Target Price** | **RM 0.64** |
| **Consensus Price** | **RM 0.57** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | DSON MK |
| Masa Ticker / Stock Code | DSONIC/5216 |
| Shares Issued (m) | 2,805.2 |
| Market Capitalisation (RM'm) | 1,234.3 |
| 52 Week Hi/Lo Price (RM) | 0.51/0.41 |
| Avg Trading Volume (3-mth) | 2,982,034 |
| Est Free Float (%) | 42.5 |
| YTD Returns (%) | 3.5 |
| Beta (x) | 0.79 |

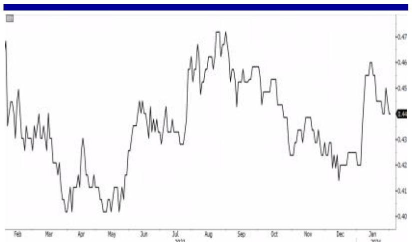
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 1.15 | -0.80 |
| 3 mth | 1.15 | -3.45 |
| 12 mth | -11.11 | -12.86 |

**Major Shareholders (%)**

| | |
|---|---|
| Urusharta Jamaah Sdn Bhd | 8.8 |
| Bin Noordin Abu Hanifah | 8.0 |
| Kuantum Juang Sdn Bhd | 6.1 |

**1-Year Share Price Performance**



**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

### Company Profile

Datasonic Group provides security and surveillance technology services, typically in customised smart card solutions. Its clients are mainly government agencies and financial institutions.

### Investment Merits

- **Solid track record.** Datasonic has been providing ICAO compliant passports for the government since 2016, putting it as one of the big contenders for future passport and MyKad-related projects.
- **Self-made passport polycarbonate data page.** The production for Datasonic's first self-made passport polycarbonate data page has been ramped up since February 2023. The group is expected to benefit from increased cost savings, on top of the price revision made to passports following the latest contract extensions.

### Key Updates

- 2QFY24's revenue dropped 6.8% to RM87.2m, from RM93.6m, due to a lower demand for the supply of smart cards, passports, and personalisation services. Its PATAMI declined 27.1% to RM18.1m, from RM24.9m last year, due to a high base effect following a surge of demand for passports and myKads from the reopening of international borders and end of the pandemic restrictions .
- Datasonic has been awarded a new contract with a contract value of RM28.7m for the supply of MyKad, MyTentera, MyPOCA raw cards and consumables. In addition, the group also received another 4 contract extensions for the supply of passport chips and related maintenance services (RM60.2m), passports documents (RM25.3m) and the polycarbonate data pages (RM49.4m) to Jabatan Imigresen Negara (JIM), and for the comprehensive maintenance services of card personalisation centres at JPN worth RM11.4m.

### Downside Risks

- Weaker-than-expected orderbook replenishment.
- Contracts not being renewed.

### Valuation

We maintain our **BUY** rating for Datasonic with a **TP** of **RM0.64**, by ascribing to an unchanged target 21x PER to our FY25F EPS.

### HISTORICAL EARNINGS AND FORECASTS

| FYE Mar (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 138.4 | 136.4 | 344.7 | 356.1 | 368.2 |
| EBIT | 14.2 | 14.2 | 109.8 | 113.4 | 121.1 |
| EBIT margin (%) | 10.2 | 10.4 | 31.9 | 31.8 | 32.9 |
| PBT | 11.1 | 12.7 | 108.2 | 111.3 | 118.8 |
| PBT margin (%) | 8.0 | 9.3 | 31.4 | 31.3 | 32.3 |
| PATAMI | 7.3 | 10.2 | 76.4 | 80.2 | 85.6 |
| PATAMI margin (%) | 5.3 | 7.5 | 22.2 | 22.5 | 23.2 |
| EPS (sen) | 0.3 | 0.4 | 2.7 | 2.9 | 3.0 |
| PER (x) | 171.3 | 122.1 | 16.4 | 15.6 | 14.6 |
| DPS (sen) | 1.05 | 0.6 | 2.0 | 2.0 | 2.0 |
| Dividend yield (%) | 2.4 | 1.3 | 4.5 | 4.5 | 4.5 |
| ROE (%) | 3.0 | 3.6 | 21.7 | 21.5 | 20.1 |
| Net gearing (x) | 0.1 | Net Cash | Net Cash | Net Cash | Net Cash |

*Source: Inter-Pacific Research*

# D&O GREEN TECHNOLOGIES

## NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 3.36** |
| **Target Price** | **RM 3.60** |
| **Consensus Price** | **RM 3.62** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | DOGT MK |
| Masa Ticker / Stock Code | D&O/7204 |
| Shares Issued (m) | 1,238.3 |
| Market Capitalisation (RM'm) | 4,160.7 |
| 52 Week Hi/Lo Price (RM) | 4.93/3.03 |
| Avg Trading Volume (3-mth) | 1,542,594 |
| Est Free Float (%) | 65.6 |
| YTD Returns (%) | -7.2 |
| Beta (x) | 1.01 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -3.17 | -5.12 |
| 3 mth | 4.02 | -0.57 |
| 12 mth | -31.57 | -33.32 |

**Major Shareholders (%)**

| | |
|---|---|
| Prt Capital Pte Ltd | 13.1 |
| Keen Capital Investments | 12.4 |
| Omega Riang Sdn Bhd | 9.1 |

**1-Year Share Price Performance**

**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

D&O, via its principal operating subsidiary, Dominant Opto Technologies Sdn Bhd, is one of the world's leading automotive LED manufacturers. The group has a comprehensive portfolio consisting of low-to-high-intensity LEDs with a wide range of color spectrum for both interior and exterior applications.

### Investment Merits

- **Robust factory expansion plans.** With the operations commencing soon for plant 2, the group is well-positioned to capitalise on the growing demand for new smart LED orders with its expanded capacity.
- **Riding on the tailwinds of the smart LEDs.** With the increasing demand for EVs, the management guided that the sales of smart LEDs will contribute at least 20% to the group's revenue by 2026, while the profit margin could be lifted up as well due to higher ASPs.

### Key Updates

- D&O posted a strong rebound by achieving a record quarterly revenue in 3QCY23, with its PATAMI also resuming growth after barely achieving breakeven in 1HCY23. Revenue increased 7.8% Y-o-Y to RM272.0m in 3QCY23, from RM252.2m in the previous corresponding period due to the gradual improvement in car sales. Its PATAMI also improved 15.8% Y-o-Y to RM18.2m, from RM15.8m, on the back of increasing customer orders and lower net other expense, mainly attributable to an 81.7% Y-o-Y drop in foreign exchange and derivatives loss through its currency rebalancing strategy, combined with lower ESOS expenses which partly cushioned the higher inventory impairment and customer compensation.

### Downside Risks

- Lower demand for global automotive vehicles.
- Depreciation of the Ringgit Malaysia against the Greenback.

### Valuation

We maintain our **NEUTRAL** recommendation on D&O with the same **TP** of **RM3.60**, by pegging an unchanged 32.0x target PER to our CY24F EPS.

### HISTORICAL EARNINGS AND FORECASTS

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 575.8 | 846.5 | 983.0 | 1,006.5 | 1,267.2 |
| EBITDA | 110.2 | 189.8 | 162.3 | 144.7 | 266.5 |
| EBITDA margin (%) | 19.1 | 22.4 | 16.5 | 14.4 | 21.0 |
| PBT | 66.3 | 138.1 | 90.5 | 43.7 | 159.7 |
| PAT | 55.4 | 123.8 | 83.4 | 41.6 | 143.7 |
| PATAMI | 49.7 | 110.5 | 75.1 | 43.6 | 139.4 |
| PATAMI margin (%) | 8.6 | 13.1 | 7.6 | 4.3 | 11.0 |
| EPS (sen) | 4.0 | 8.9 | 6.1 | 3.5 | 11.3 |
| Earnings growth (%) | 42.4 | 122.6 | (32.0) | (41.9) | 219.4 |
| PER (x) | 83.8 | 37.6 | 55.4 | 95.3 | 29.8 |
| DPS (sen) | 0.7 | 1.5 | 1.3 | 0.5 | 1.3 |
| Dividend yield (%) | 0.2 | 0.4 | 0.4 | 0.1 | 0.4 |
| ROE (%) | 12.9 | 18.7 | 9.5 | 5.1 | 14.8 |
| Net gearing ratio | 0.1 | Net cash | 0.2 | 0.2 | 0.2 |
| P/B (x) | 10.0 | 5.4 | 5.1 | 4.8 | 4.1 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# GUAN CHONG

# NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 1.68** |
| **Target Price** | **RM 2.25** |
| **Consensus Price** | **RM 2.51** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | GUAN MK |
| Masa Ticker / Stock Code | GCB/5102 |
| Shares Issued (m) | 1,174.5 |
| Market Capitalisation (RM'm) | 1,973.2 |
| 52 Week Hi/Lo Price (RM) | 2.75/1.63 |
| Avg Trading Volume (3-mth) | 1,875,168 |
| Est Free Float (%) | 16.7 |
| YTD Returns (%) | -8.2 |
| Beta (x) | 0.92 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -5.08 | -7.03 |
| 3 mth | -21.50 | -26.09 |
| 12 mth | -38.46 | -40.21 |

**Major Shareholders (%)**

| | |
|---|---|
| Guan Chong Resources Sdn Bhd | 49.8 |
| EPF | 6.2 |

**1-Year Share Price Performance**

**Analyst: Jessie Chai Jia Yue**
**Email: chaijy@interpac.com.my**

## Company Profile

Guan Chong (GCB) is principally involved in cocoa processing business and manufacturing of cocoa-derived food ingredients such as cocoa butter, cocoa powder, cocoa cake, cocoa mass and industrial chocolate products.

## Investment Merits

- **Ivory Coast expansion plan.** The newly constructed plant in Ivory Coast is strategically located which enables GCB to benefit from its "close to source" and "close to market" expansion policies. The plant has commenced production in 4QCY22 with an annual capacity of 60k tonnes.
- **Integration into industrial chocolate production.** GCB can form a complete internal supply chain and benefit from cost efficiencies by utilising its internally produced cocoa-derived food ingredients to produce industrial chocolates. Its SCHOKINAG's plant in Germany increased its annual production capacity to 100k MT p.a., from 95k MT p.a. while its U.K. facility is undergoing trial operations and pending food audit certificates in 3QCY23.

## Key Updates

- Revenue increased by 16.8% Y-o-Y to RM1,285.9m in 3QCY23, from RM1,100.5m, attributed by higher selling price of cocoa butter, cocoa solids, and industrial chocolate, particularly on the German and Malaysian segments that increased by 30.0% Y-o-Y and 21.7% Y-o-Y respectively. PAT increased 10.1% Y-o-Y to RM33.9m, from RM30.8m, which contributed to its improved EBIT margin.
- The group declared its first single-tier dividend of 2.0 sen in 3QCY23.

## Downside Risks

- Higher-than-estimated input and energy costs
- Lower-than-projected production volume
- Tight supply of cocoa beans due to unfavourable weather conditions

## Valuation

We maintain our **NEUTRAL** recommendation on GCB with the same **TP** of **RM2.25**, by ascribing the same target PER of 15.0x to our CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 3,685.0 | 3,923.3 | 4,419.8 | 4,827.1 | 5,124.3 |
| EBITDA | 349.3 | 292.6 | 309.0 | 399.0 | 428.8 |
| EBITDA margin (%) | 9.5 | 7.5 | 7.0 | 8.3 | 8.4 |
| PBT | 267.3 | 196.8 | 188.1 | 199.1 | 220.4 |
| PBT margin (%) | 7.3 | 5.0 | 4.3 | 4.1 | 4.3 |
| PAT | 222.8 | 154.9 | 147.5 | 159.3 | 176.3 |
| PAT margin (%) | 6.0 | 3.9 | 3.3 | 3.3 | 3.4 |
| EPS (sen) | 19.0 | 13.2 | 12.6 | 13.6 | 15.0 |
| Earnings growth (%) | 2.9 | (30.5) | (4.8) | 8.0 | 10.7 |
| PER (x) | 8.9 | 12.7 | 13.4 | 12.4 | 11.2 |
| DPS (sen) | 3.5 | 3.0 | 3.5 | 2.0 | 3.0 |
| Dividend yield (%) | 2.1 | 1.8 | 2.1 | 1.2 | 1.8 |
| ROE (%) | 9.1 | 4.9 | 4.1 | 3.9 | 3.8 |
| Net gearing ratio | 0.7 | 0.9 | 1.0 | 0.7 | 0.9 |
| P/B (x) | 1.7 | 1.5 | 1.2 | 1.1 | 1.0 |

*Source: Inter-Pacific Research*

# HAP SENG PLANTATIONS

# BUY

| | |
|---|---|
| **Current Price** | **RM 1.82** |
| **Target Price** | **RM 2.24** |
| **Consensus Price** | **RM 1.95** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | HAPL MK |
| Masa Ticker / Stock Code | HSPLANT/5138 |
| Shares Issued (m) | 799.7 |
| Market Capitalisation (RM'm) | 1,455.4 |
| 52 Week Hi/Lo Price (RM) | 2.16/1.68 |
| Avg Trading Volume (3-mth) | 268,623 |
| Est Free Float (%) | 25.7 |
| YTD Returns (%) | 5.8 |
| Beta (x) | 1.01 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 1.11 | -0.84 |
| 3 mth | 1.11 | -3.49 |
| 12 mth | -7.14 | -8.89 |

**Major Shareholders (%)**

| | |
|---|---|
| Hap Seng Consolifated Bhd | 69.5 |

**1-Year Share Price Performance**

**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

### Company Profile

Hap Seng Plantation operates 40,279 ha. of palm oil estates and it is one the largest producers of sustainable palm oil in Sabah. The group also own and operates palm oil mills and biogas plants. The average palm tree age is 15.8 years, which is considered relatively matured.

### Investment Merits

- Asset play: - Sabah's average transacted price of RM75k/ha translates to RM3.30/share for Hap Seng's planted landbank, excluding palm oil mills and bio-gas plant.
- Beneficiary of RSPO premium.

### Key Updates

- Hap Seng's 9MCY23 headline earnings of RM70.6m came in 63.3% lower Y-o-Y respectively, but accounts for 76% of our previous earnings estimate, in line with our expectations. Earnings were softer Y-o-Y largely due to lower average CPO prices, despite higher CPO and PK output.
- In the short term, CPO prices are likely to hover above RM4,000 per tonne, where we see the seasonal upswing in CPO prices to be limited due to strong sunflower harvest in Ukraine and high global edible oil inventory. FY24-25F margins are likely to improve compared to FY23 on lower input costs such as fertiliser and fuel.

### Downside Risks

- Further hike on direct and indirect taxes
- Value trapped

### Valuation

We reiterate Hap Seng Plantation's **BUY** recommendation with an unchanged **TP** of **RM2.24**, which is derived from a target P/B of 0.9x to its CY24F's NTA.

### HISTORICAL EARNINGS AND FORECASTS

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 467.6 | 670.9 | 814.6 | 681.1 | 738.4 |
| EBITDA | 194.3 | 377.1 | 343.4 | 155.8 | 212.7 |
| EBITDA margin (%) | 41.5 | 56.2 | 42.2 | 22.9 | 28.8 |
| PAT | 90.3 | 224.0 | 210.3 | 86.7 | 122.4 |
| Net Profit margin (%) | 19.3 | 33.4 | 25.8 | 12.7 | 16.6 |
| Earnings Growth (%) | 187.1 | 148.1 | (6.1) | (58.8) | 41.1 |
| EPS (sen) | 11.3 | 28.0 | 26.3 | 10.8 | 15.3 |
| PER (x) | 16.1 | 6.5 | 6.9 | 16.8 | 11.9 |
| DPS (sen) | 7.0 | 17.0 | 12.0 | 9.0 | 10.0 |
| Dividend Yield (%) | 3.8 | 9.3 | 6.6 | 4.9 | 5.5 |
| ROE (%) | 5.3 | 11.9 | 10.9 | 4.5 | 6.2 |
| Net Gearing Ratio (%) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| BV/Share | 2.1 | 2.4 | 2.4 | 2.4 | 2.5 |
| Price/Book Ratio (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| **Key Assumption** | | | | | |
| FFB production (mt) | 633,660 | 593,278 | 578,000 | 650,000 | 700,000 |
| CPO ASP (RM/mt) | 2,749 | 4,506 | 5,530 | 4,000 | 4,100 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# HARTALEGA

## SELL

| | |
|---|---|
| **Current Price** | **RM 2.76** |
| **Target Price** | **RM 2.07** |
| **Consensus Price** | **RM 2.42** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | HART MK |
| Masa Ticker / Stock Code | HARTA/5168 |
| Shares Issued (m) | 3,427.6 |
| Market Capitalisation (RM'm) | 9,460.2 |
| 52 Week Hi/Lo Price (RM) | 3.05/1.41 |
| Avg Trading Volume (3-mth) | 10,730,090 |
| Est Free Float (%) | 40.8 |
| YTD Returns (%) | 2.2 |
| Beta (x) | 1.01 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -6.44 | -8.39 |
| 3 mth | 33.33 | 28.74 |
| 12 mth | 70.37 | 68.62 |

**Major Shareholders (%)**

| | |
|---|---|
| Hartalega Industries Sdn Bhd | 34.4 |
| Budi Tenggara Sdn Bhd | 8.6 |

**1-Year Share Price Performance**


**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**


### Company Profile

Hartalega is one of the world's biggest nitrile glove manufacture and supplier. The group's NGC and NGC 1 production facilities have a total capacity of 49.8b pcs. The upcoming NGC 1.5, which is expected to boost capacity by 19b pcs, will commence in due time and production will roll out gradually in accordance to market demand and supply.

### Investment Merits

- Land availability and expansion plans and stretching beyond 2030.
- ESG complaint with strong balance sheet.
- Vigorous drive for cost efficiencies via automation and energy conservation.

### Key Updates

- Revenue decreased by 10.0% to RM415.6m in 3QFY24, from RM461.8m in the previous corresponding period due to lower sales volume resulting from the Red Sea issue and lower ASPs. However, its PATAMI returned to profit at RM22.8m (3QFY23: -RM31.1m). The improvements were mostly due to other operating income of RM38.8m related to reversal of provisions and interest income.
- We expect the sales demand to normalise further to around the pre-pandemic levels, but ASP will continue to be dampened by increasing market capacity and persistent oversupply issue.

### Downside Risks

- Slower than expected ASP normalization.
- Higher cost structure compared to the regional players in China and Thailand.

### Valuation

We downgraded our Neutral recommendation to **SELL** with an unchanged **TP** of **RM2.07**, derived from the same target PER of 34x to our FY25F EPS due to the recent surge of its share price.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE Mar (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 6,703.5 | 7,888.3 | 2,409.7 | 1,813.5 | 2,392.3 |
| EBITDA | 3,937.1 | 4,751.1 | (91.5) | 40.5 | 343.2 |
| EBITDA margin (%) | 58.7 | 60.2 | (3.8) | 2.2 | 14.3 |
| PATAMI | 2,886.1 | 3,234.8 | (235.8) | (35.6) | 208.3 |
| PATAMI margin (%) | 43.1 | 41.0 | (9.8) | (2.0) | 8.7 |
| Earnings growth (%) | 563.8 | 12.1 | (107.3) | 84.9 | (685.2) |
| EPS (sen) | 84.6 | 94.8 | (6.9) | (1.0) | 6.1 |
| PER (x) | 3.3 | 2.9 | (39.9) | (264.7) | 45.2 |
| DPS (sen) | 51.0 | 53.5 | 3.5 | 2.5 | 2.5 |
| Dividend yield (%) | 18.5 | 19.4 | 1.3 | 0.9 | 0.9 |
| ROE (%) | 58.0 | 63.2 | (5.1) | (0.8) | 4.4 |
| Net gearing ratio (%) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| Price/book ratio (x) | 1.9 | 1.8 | 2.0 | 2.1 | 2.0 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.

199701033506 (449005-X)

# INNATURE

# NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 0.33** |
| **Target Price** | **RM 0.36** |
| **Consensus Price** | **RM 0.36** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | INNATURE MK |
| Masa Ticker / Stock Code | INNATURE/5295 |
| Shares Issued (m) | 705.9 |
| Market Capitalisation (RM'm) | 232.9 |
| 52 Week Hi/Lo Price (RM) | 0.67/0.31 |
| Avg Trading Volume (3-mth) | 1,017,876 |
| Est Free Float (%) | 22.4 |
| YTD Returns (%) | -9.6 |
| Beta (x) | 0.81 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -4.35 | -6.30 |
| 3 mth | -18.52 | -23.12 |
| 12 mth | -50.75 | -52.50 |

**Major Shareholders (%)**

| | |
|---|---|
| Etheco Sdn Bhd | 51.0 |
| Blueplanet Sdn Bhd | 13.6 |

**1-Year Share Price Performance**


**Analyst: Jessie Chai Jia Yue**

**Email: chaijy@interpac.com.my**


## Company Profile

InNature is a leading regional mono-brand retailer of cosmetics and personal care products, carrying The Body Shop brand in Malaysia, Vietnam and Cambodia with omnichannel sales strategy such as its own TBS websites, Love Your Body mobile apps and 3rd-party e-commerce platforms.

## Investment Merits

- **Increasing shop traffic.** TBS retail store sales in Malaysia, Vietnam and Cambodia are expected to rebound, underpinned by the increasing shopping traffic.
- **Expansion plans.** As of September 2023, the group had a total of 122 retail stores and pop-up stores in Malaysia, Vietnam and Cambodia. The group planned for an additional new store in the Malaysian segment by the end of 2023 which could further contribute to its top line.

## Key Updates

- Revenue saw a decline of 9.2% Y-o-Y to RM32.0m in 3QCY23, from RM35.3m, as sales performance in the Malaysian and Vietnamese segments dropped by 5.4% Y-o-Y and 25.2% Y-o-Y respectively. Additionally, a LAT was recorded for its Vietnamese segment resulted from lower operating efficiency and the write-off of fixed assets for closed stores amounting to RM0.1m. Despite an improved GP margin and lower tax expense, PAT still dropped by 76.6% Y-o-Y to RM1.1m, from RM4.6m, due to higher operating expenses which included employee expenses, advertising and promotion expenses, depreciation and amortisation expenses, and other operating expenses.

## Downside Risks

- Slower-than-anticipated recovery in the sales/store
- Longer gestation period for new stores
- Delays of expansion plans

## Valuation

We maintain our **NEUTRAL** recommendation on InNature with an unchanged **TP** of **RM0.36**, by ascribing the same 20.0x target PER to our CY24F EPS, due to its slower projected earnings growth.

## HISTORICAL EARNINGS AND FORECASTS

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 155.4 | 131.9 | 149.4 | 129.9 | 140.2 |
| EBITDA | 50.8 | 41.4 | 45.4 | 33.3 | 34.5 |
| EBITDA margin (%) | 32.7 | 31.4 | 30.4 | 25.6 | 24.6 |
| PBT | 27.6 | 20.5 | 28.6 | 16.5 | 16.7 |
| PBT margin (%) | 17.8 | 15.6 | 19.2 | 12.7 | 11.9 |
| PAT | 20.2 | 15.1 | 21.3 | 12.0 | 12.7 |
| PAT margin (%) | 13.0 | 11.4 | 14.3 | 9.3 | 9.1 |
| EPS (sen) | 2.9 | 2.1 | 3.0 | 1.7 | 1.8 |
| Earnings growth (%) | (33.1) | (25.4) | 41.8 | (43.6) | 5.8 |
| PER (x) | 11.5 | 15.5 | 10.9 | 19.4 | 18.3 |
| DPS (sen) | 1.0 | 2.0 | 3.0 | 1.0 | 2.0 |
| Dividend yield (%) | 3.0 | 6.1 | 9.1 | 3.0 | 6.1 |
| ROE (%) | 17.9 | 10.6 | 14.6 | 8.0 | 8.2 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# KAWAN FOOD

# NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 1.82** |
| **Target Price** | **RM 2.01** |
| **Consensus Price** | **RM 2.19** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | KFB MK |
| Masa Ticker / Stock Code | KAWAN/7216 |
| Shares Issued (m) | 349.8 |
| Market Capitalisation (RM'm) | 636.6 |
| 52 Week Hi/Lo Price (RM) | 2.28/1.68 |
| Avg Trading Volume (3-mth) | 171,360 |
| Est Free Float (%) | 20.1 |
| YTD Returns (%) | 1.1 |
| Beta (x) | 0.71 |

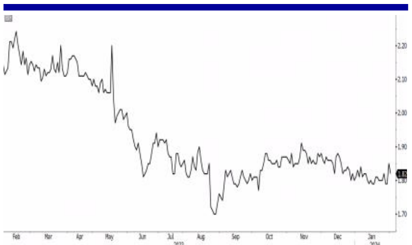
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -1.09 | -3.03 |
| 3 mth | -3.19 | -7.79 |
| 12 mth | -15.35 | -17.10 |

**Major Shareholders (%)**

| | |
|---|---|
| GFG (L) Foundation | 36.1 |
| VG Trustee Ltd | 17.7 |
| Gan Thiam Hock | 6.4 |

**1-Year Share Price Performance**



**Analyst: Jessie Chai Jia Yue**
**Email: chaijy@interpac.com.my**

## Company Profile

Kawan Food is a leading export-oriented frozen food manufacturer in Malaysia with main products including paratha, spring roll, pastry and others, selling under five brands like Kawan, KG Pastry, Passion Bake, Veat and Aman. The group owns 2 manufacturing plants in Selangor, Malaysia and Nantong, China.

## Investment Merits

- **Growing international presence.** Export sales to US, Europe, China and Africa region are growing, thanks to the RSPO certification which paved the way for Kawan to successfully penetrate into foreign markets such as the U.S. and Europe.
- **New product launches.** We believe that new product launches planned from 4QCY22 onwards, such as sweet potato fingers, cheese sticks and corn cheese cutlets, will help Kawan capture higher market share.

## Key Updates

- Revenue increased 10.3% Y-o-Y to RM79.2m in 3QCY23, from RM71.8m as the sales contribution from the North American and China markets showed increases of 41.2% Y-o-Y to RM18.5m and 70.0% to RM3.3m respectively. However, PBT dropped 10.5% Y-o-Y to RM8.6m, mainly due to a 28.3% Y-o-Y jump in selling and distribution expenses compared to a year ago. PAT also declined by 25.9% Y-o-Y to RM7.7m as the group no longer benefitted from tax incentives during the quarter.

## Downside Risks

- Unfavorable currency movement
- Further orders cut from foreign clients
- Higher-than-estimated input costs

## Valuation

We keep our **NEUTRAL** recommendation on Kawan with the same **TP** of **RM2.01**, by ascribing an unchanged 20.0x target PER to our CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 254.7 | 251.8 | 293.2 | 301.0 | 330.6 |
| EBIT | 32.3 | 36.3 | 39.9 | 37.1 | 40.7 |
| EBIT margin (%) | 12.7 | 14.4 | 13.6 | 12.3 | 12.3 |
| PBT | 32.0 | 36.7 | 40.1 | 37.2 | 40.7 |
| PBT margin (%) | 12.6 | 14.6 | 13.7 | 12.4 | 12.3 |
| PAT | 27.7 | 31.8 | 38.5 | 32.4 | 35.4 |
| PAT margin (%) | 10.9 | 12.6 | 13.1 | 10.8 | 10.7 |
| EPS (sen) | 7.8 | 8.8 | 10.7 | 9.2 | 10.0 |
| Earnings growth (%) | 129.8 | 13.4 | 21.1 | (15.9) | 9.3 |
| PER (x) | 23.4 | 20.6 | 17.0 | 19.8 | 18.1 |
| DPS (sen) | 2.5 | 3.0 | 3.0 | 3.6 | 3.6 |
| Dividend yield (%) | 1.4 | 1.6 | 1.6 | 2.0 | 2.0 |
| ROE (%) | 8.0 | 8.6 | 9.7 | 7.8 | 8.0 |
| Net gearing ratio (x) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# KELINGTON GROUP

## BUY

| | |
|---|---|
| **Current Price** | **RM 2.17** |
| **Target Price** | **RM 2.67** |
| **Consensus Price** | **RM 2.75** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | KGRB MK |
| Masa Ticker / Stock Code | KGB/0151 |
| Shares Issued (m) | 648.6 |
| Market Capitalisation (RM'm) | 1,407.4 |
| 52 Week Hi/Lo Price (RM) | 2.37/1.31 |
| Avg Trading Volume (3-mth) | 2,951,779 |
| Est Free Float (%) | 50.1 |
| YTD Returns (%) | 0.0 |
| Beta (x) | 0.95 |

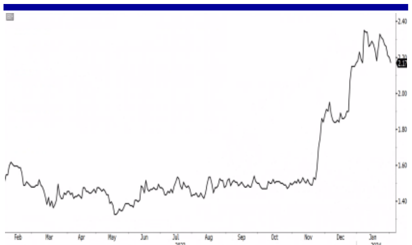
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 0.00 | -1.95 |
| 3 mth | 44.67 | 40.07 |
| 12 mth | 37.34 | 35.59 |

**Major Shareholders (%)**

| | |
|---|---|
| Palace Star | 20.9 |
| SUN Lead International Ltd | 6.2 |
| Amanahraya Trustee Bhd | 5.5 |

**1-Year Share Price Performance**



**Analyst: Jessie Chai Jia Yue**
**Email: chaijy@interpac.com.my**

**Company Profile**

Kelington Group (KGB) provides: 1) engineering services for ultra-high purity (UHP) gas and chemical delivery systems solutions, 2) pro engineering for mechanical and electrical systems, general contracting and construction services, and 3) supplier of a range of industrial and specialty gasses used by the electronics, semiconductor, food processing, and oil and gas industries.

**Investment Merits**

- Firm earnings growth potential, supported by increased job orders from the semiconductor industry.
- Stable new income stream from LCO2 operations which could also help to shore up dividend prospects.
- Diversification into gas trading and manufacturing.

**Key Updates**

- Revenue increased 9.7% Y-o-Y to RM401.8m in 3QCY23, from RM366.4m, mainly attributed to a 114.2% Y-o-Y jump in the process engineering segment and an increase of 15.7% Y-o-Y in the UHP segment's project recognition in Malaysia and China. The industrial gas manufacturing and trading segment's revenue increased by 46.8% Y-o-Y to RM30.1m, from RM20.5m. The general contracting segment's revenue, however, decreased 16.1% Y-o-Y to RM121.6m, from RM102.0m, as one of its Malaysian projects reached its completion stage. With improved margins, PATAMI increased 101.6% Y-o-Y to RM31.7m.
- At the end of 9MCY23, the group had successfully secured new orders totaling RM858.0m, and the current order book stands at RM1.5b. The group is also exploring a new operational site in Germany to participate in contract tendering.

**Downside Risks**

- Slower-than-expected contract wins
- Delay in customer expansion plans

**Valuation**

We keep our **BUY** recommendation on Kellington Group with the same **TP** of **RM2.67** by ascribing an unchanged 15.0x target PER to our CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY21 | CY22 | CY23(F) | CY24(F) | CY25(F) |
|---|---|---|---|---|---|
| Revenue | 514.6 | 1,278.8 | 1,520.0 | 1,830.0 | 1,950.0 |
| EBITDA | 43.6 | 86.2 | 143.7 | 189.1 | 213.3 |
| EBITDA margin (%) | 8.5 | 6.7 | 9.5 | 10.3 | 10.9 |
| PBT | 35.7 | 74.4 | 115.5 | 153.0 | 169.0 |
| PBT margin (%) | 6.9 | 5.8 | 7.6 | 8.4 | 8.7 |
| PATAMI | 29.0 | 55.8 | 86.5 | 114.6 | 126.6 |
| PATAMI margin (%) | 5.6 | 4.4 | 5.7 | 6.3 | 6.5 |
| EPS (sen) | 4.5 | 8.6 | 13.4 | 17.8 | 19.6 |
| Earnings growth (%) | 65.4 | 92.5 | 55.1 | 32.5 | 10.4 |
| PER (x) | 48.3 | 25.1 | 16.2 | 12.2 | 11.1 |
| DPS (sen) | 1.5 | 2.5 | 2.0 | 2.0 | 2.2 |
| Dividend yield (%) | 0.7 | 1.2 | 0.9 | 0.9 | 1.0 |
| ROE (%) | 15.0 | 22.9 | 27.5 | 28.0 | 24.7 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 7.3 | 5.8 | 4.6 | 3.5 | 2.8 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# MI TECHNOVATION

## BUY

| | |
|---|---|
| **Current Price** | **RM 1.92** |
| **Target Price** | **RM 2.35** |
| **Consensus Price** | **RM 2.35** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | MI MK |
| Masa Ticker / Stock Code | MI/5286 |
| Shares Issued (m) | 900.0 |
| Market Capitalisation (RM'm) | 1,728.0 |
| 52 Week Hi/Lo Price (RM) | 2.11/1.29 |
| Avg Trading Volume (3-mth) | 1,460,860 |
| Est Free Float (%) | 33.9 |
| YTD Returns (%) | 3.8 |
| Beta (x) | 1.17 |

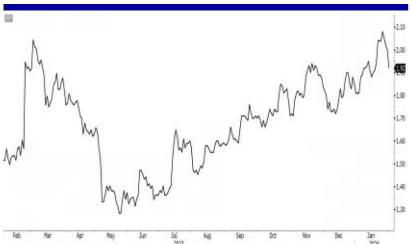
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 2.13 | 0.18 |
| 3 mth | 7.87 | 3.27 |
| 12 mth | 23.87 | 22.12 |

**Major Shareholders (%)**

| | |
|---|---|
| Oh Kuang Eng | 44.9 |
| Yong Shiao Voon | 11.3 |
| Citigroup Inc. | 3.6 |

**1-Year Share Price Performance**



**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

MI Technovation is a back-end equipment manufacturer in the semiconductor industry. Its customer base comprises global Tier-1 OSATs and IDMs. Moreover, the group has expanded its product offering to back-end equipment solutions and diversifying into semiconductor material manufacturing of solder spheres.

### Investment Merits

- Benefitting from the growing adoption of advance wafer level packaging technology in electronic devices.
- Ample capacity to ramp up utilisation for its Mi series and SMBU units.
- Earnings accretion from its semiconductor material business.

### Key Updates

- Revenue increased by 9.8% Y-o-Y to RM98.4m in 3QCY23, from RM89.7m in 3QCY22, mainly driven by its SEBU business which jumped 46.5% Y-o-Y to RM51.2m, from RM34.9m, making up 52.0% of the group's revenue. The improvement was due to the higher number of machines delivered to the China market, especially for the EMI process equipment. However, it recorded a 13.6% Y-o-Y fall in revenue for its SMBU business due to an ongoing inventory adjustment, mainly in the Taiwanese market for the Mobility & Wearables segment. Its PATAMI dropped 30.1% Y-o-Y to RM14.2m, from RM20.3m, on a RM3.6m withholding tax paid in relation to the dividend received from its Taiwan subsidiary and a lower foreign exchange gain of RM0.1m vs. RM6.8m last year. Excluding the above, its core PAT improved 40.9% Y-o-Y to RM17.1m.

### Downside Risks

- Bloated inventories in the semiconductor industry impedes new back-end machinery expansion, resulting a slowdown in the demand for these machineries
- Intensified competition

### Valuation

We maintain our **BUY** recommendation on Mi Technovation with an unchanged **TP** of **RM2.35**, derived from pegging an unchanged target PER of 28x to our CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 229.0 | 375.5 | 389.5 | 383.0 | 422.7 |
| EBITDA | 59.2 | 79.7 | 95.2 | 90.2 | 112.8 |
| EBITDA margin (%) | 25.8 | 21.2 | 24.4 | 23.6 | 26.7 |
| PBT | 55.7 | 63.5 | 75.4 | 66.9 | 85.8 |
| PAT | 53.7 | 60.1 | 66.3 | 60.5 | 75.6 |
| PATAMI | 54.0 | 61.8 | 68.9 | 62.0 | 73.6 |
| PATAMI margin (%) | 23.6 | 16.5 | 17.7 | 16.2 | 17.4 |
| EPS (sen) | 6.0 | 6.7 | 7.4 | 6.7 | 8.4 |
| Earnings growth (%) | (8.7) | 14.5 | 11.3 | (10.0) | 18.7 |
| PER (x) | 32.2 | 28.7 | 26.1 | 28.6 | 22.9 |
| DPS (sen) | 3.0 | 5.0 | 4.0 | 5.0 | 5.5 |
| Dividend yield (%) | 1.6 | 2.6 | 2.1 | 2.6 | 2.9 |
| ROE (%) | 13.8 | 5.8 | 6.3 | 5.4 | 6.4 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 4.4 | 1.7 | 1.6 | 1.6 | 1.5 |

*Source: Inter-Pacific Research*

# OCK GROUP

## BUY

| | |
|---|---|
| **Current Price** | **RM 0.52** |
| **Target Price** | **RM 0.61** |
| **Consensus Price** | **RM 0.67** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | OCK MK |
| Masa Ticker / Stock Code | OCK/0172 |
| Shares Issued (m) | 1,054.7 |
| Market Capitalisation (RM'm) | 548.4 |
| 52 Week Hi/Lo Price (RM) | 0.535/0.375 |
| Avg Trading Volume (3-mth) | 3,372,866 |
| Est Free Float (%) | 42.2 |
| YTD Returns (%) | 19.5 |
| Beta (x) | 0.54 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 13.04 | 11.10 |
| 3 mth | 33.33 | 28.74 |
| 12 mth | 30.00 | 28.25 |

**Major Shareholders (%)**

| | |
|---|---|
| Aliran Armada Sdn Bhd | 35.0 |
| LTAT | 9.7 |
| Phillip Capital Management | 5.0 |

**1-Year Share Price Performance**

**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

**Company Profile**

OCK Group is a telecommunication infrastructure and services provider with presence in Malaysia, Myanmar, Vietnam and Indonesia. It has four major business divisions namely: 1) telecommunication network services (TNS), 2) green energy and power solutions, 3) trading of telco and network products, and 4) M&E engineering services.

**Investment Merits**

- **Further expansion of its regional footprint in the TNS segment.** As of 3QCY23, the group owns more than 5,300 telecommunication sites across the region. It is expanding its presence in Laos with a mid-term focus on build-to-suit sites.
- **Increasing revenue contribution from solar segment.** The group has diversified its source of income by establishing solar energy as a core business and it is expanding the number of solar assets through acquisitions as well as actively bidding on local large-scale solar projects.

**Key Updates**

- Revenue saw a Y-o-Y growth of 21.1% to RM196.3m in 3QCY23, from RM162.1m in the previous corresponding period, driven by higher revenue contributions from all segments (TNS, Green Energy and Power Solution, Trading and M&E Engineering Services segments), with its core TNS segment's revenue expanding by 14.1% Y-o-Y. In line with the top line growth, its PATAMI also increased by 25.3% Y-o-Y to RM10.3m, from RM8.2m. However, the profitability was partly impacted by the 46.6% Y-o-Y surge in its finance costs due to higher total borrowings for the working capital on its ongoing projects.
- As of 3QCY23, the group has an orderbook of over RM277.8m, of which RM126m is contributed by the JENDELA programme for the rollout of the 5G network.

**Downside Risks**

- Forex exchange risks: MMK, VND and Ringgit against the strengthening USD
- Regulatory risks

**Valuation**

We maintain our **BUY** recommendation on OCK with the same **TP** of **RM0.61**, derived from ascribing an unchanged target EV/EBITDA multiple of 6x to our CY24F EBITDA.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 473.5 | 488.2 | 617.1 | 743.8 | 825.1 |
| EBITDA | 154.9 | 155.9 | 187.2 | 202.4 | 220.6 |
| EBITDA margin (%) | 32.7 | 31.9 | 30.3 | 27.2 | 26.7 |
| PBT | 36.2 | 38.0 | 48.4 | 61.6 | 72.2 |
| PAT | 31.6 | 32.6 | 38.5 | 47.5 | 56.4 |
| PATAMI | 27.0 | 25.4 | 32.8 | 40.5 | 48.1 |
| PATAMI margin (%) | 5.7 | 5.2 | 5.3 | 5.4 | 5.8 |
| EPS (sen) | (5.2) | (6.0) | 29.1 | 23.5 | 18.8 |
| Earnings growth (%) | 2.6 | 2.4 | 3.1 | 3.8 | 4.6 |
| PER (x) | 20.3 | 21.6 | 16.7 | 13.5 | 11.4 |
| DPS (sen) | - | 0.5 | - | - | 0.5 |
| Dividend yield (%) | - | 1.0 | - | - | 1.0 |
| ROE (%) | 5.1 | 4.5 | 5.3 | 6.2 | 7.0 |
| Net gearing (x) | 0.8 | 0.7 | 1.0 | 0.9 | 0.8 |

*Source: Inter-Pacific Research*

# PENTAMASTER CORP

## BUY

| | |
|---|---|
| **Current Price** | **RM 4.09** |
| **Target Price** | **RM 6.06** |
| **Consensus Price** | **RM 5.79** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | PENT MK |
| Masa Ticker / Stock Code | PENTA/7160 |
| Shares Issued (m) | 711.3 |
| Market Capitalisation (RM'm) | 2,909.3 |
| 52 Week Hi/Lo Price (RM) | 5.56/3.95 |
| Avg Trading Volume (3-mth) | 1,875,891 |
| Est Free Float (%) | 48.6 |
| YTD Returns (%) | -11.1 |
| Beta (x) | 0.90 |

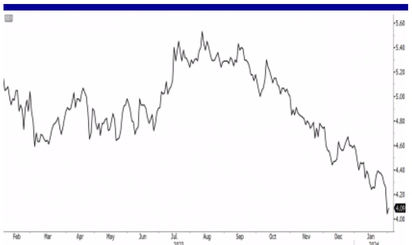
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -8.30 | -10.24 |
| 3 mth | -15.67 | -20.27 |
| 12 mth | -19.33 | -21.08 |

**Major Shareholders (%)**

| | |
|---|---|
| Chuah Choon Bin | 19.8 |
| EPF | 8.5 |
| Hong Leong Co Malaysia Bhd | 6.9 |

**1-Year Share Price Performance**



**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

Pentamaster is involved in the non-memory Automated Test Equipment (ATE) and test handlers for optoelectronics, 3D sensors and high voltage application, factory automated solutions (FAS) and manufacturing of single-use medical devices.

### Investment Merits

- Foray into the medical device market will add resilience to its growth potential.
- Tapping into the growing demand for high-power electronics in the EV segment.
- Resilient demand for sensor equipment and automation projects.

### Key Updates

- Revenue improved 16.2% Y-o-Y to RM180.7m, from RM155.6m in the previous corresponding period, thanks to the strong sales performance from its FAS segment which rebounded in 3QCY23 with a significant Y-o-Y growth of 53.0%, mainly driven by the increased demand for its i-ARMS solutions from the medical devices industry segment. The higher revenue from the FAS segment compensated for the weaker revenue contribution from its ATE segment due to the lower revenue recognition of certain projects during the quarter which has a longer project lead time. Tracking the top line growth, its bottom line expanded 17.1% Y-o-Y to RM23.5m, from RM20.1m in 3QCY22.
- Orderbook currently stands at RM550m with a book-to-bill ratio of 0.65x against our CY24F revenue, with the majority coming from medical devices and automotive customers, jointly contributing about 70% to its orderbook.

### Downside Risks

- Technology obsolescence
- Rising raw material cost

### Valuation

We maintain our **BUY** recommendation on Pentamaster with the same **TP** of **RM6.06** by pegging to an unchanged target PER of 35x (+1 SD to its 5-year average forward PER of 27x) to our CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 418.8 | 508.4 | 600.6 | 730.4 | 848.5 |
| EBITDA | 122.5 | 116.8 | 129.5 | 171.4 | 207.6 |
| EBITDA margin (%) | 29.3 | 23.0 | 21.6 | 23.5 | 24.5 |
| PBT | 113.1 | 119.5 | 132.1 | 165.8 | 198.5 |
| PAT | 112.3 | 115.6 | 130.5 | 160.8 | 192.6 |
| PATAMI | 70.9 | 72.9 | 82.4 | 102.9 | 123.3 |
| PATAMI margin (%) | 16.9 | 14.3 | 13.7 | 14.1 | 14.5 |
| EPS (sen) | 10.0 | 10.3 | 11.6 | 14.5 | 17.3 |
| Earnings growth (%) | (14.6) | 2.9 | 13.0 | 24.9 | 19.8 |
| PER (x) | 41.0 | 39.9 | 35.3 | 28.3 | 23.6 |
| DPS (sen) | 1.5 | 2.0 | 2.0 | 2.0 | 2.5 |
| Dividend yield (%) | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 |
| ROE (%) | 10.1 | 9.2 | 9.2 | 9.9 | 10.0 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 5.7 | 5.1 | 4.6 | 4.1 | 3.5 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# SASBADI HOLDINGS

## BUY

| | |
|---|---|
| **Current Price** | **RM 0.16** |
| **Target Price** | **RM 0.24** |
| **Consensus Price** | **RM 0.24** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | SASB MK |
| Masa Ticker / Stock Code | SASBADI/5252 |
| Shares Issued (m) | 434.1 |
| Market Capitalisation (RM'm) | 69.5 |
| 52 Week Hi/Lo Price (RM) | 0.23/0.13 |
| Avg Trading Volume (3-mth) | 1,464,121 |
| Est Free Float (%) | 42.9 |
| YTD Returns (%) | -3.0 |
| Beta (x) | 0.44 |

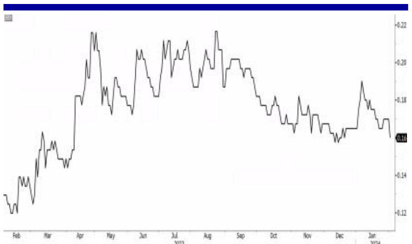
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -15.79 | -17.74 |
| 3 mth | -5.88 | -10.48 |
| 12 mth | 18.52 | 16.77 |

**Major Shareholders (%)**

| | |
|---|---|
| Law King Hui | 18.0 |
| Karya Kencana Sdn Bhd | 17.6 |
| Lee Swee Hang | 8.3 |

**1-Year Share Price Performance**



**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

### Company Profile

Sasbadi is principally an education solutions provider, with its offerings divided into 3 main segments: 1) print publishing, 2) digital solutions and network marketing, and 3) Applied Learning Products (ALP) and STEM Education services.

### Investment Merits

- Consolidated market position within the academic publishing industry.
- Leveraging on broad marketing and distribution channels.
- Proven capabilities in winning government tenders.

### Key Updates

- 1QFY24's revenue dropped 17.5% Y-o-Y to RM15.3m, from RM18.5m, mainly due to the lack of government contract contribution (Textbooks supply and CEFR digital solutions) in 1QFY23. Its earnings also declined to record a loss of RM1.0m as the supply of CEFR digital solutions yielded significantly higher margin which buoyed its preceding year performance, coupled by a higher fixed cost dampening its gross margin. Stripping away the government contract revenue contribution in 1QFY23, the print publishing segment grew by 13.9% to RM12.7m, indicating a still robust demand for its academic books despite the challenging quarter.
- We project 2QFY24 academic books demand to fall to around the similar range at last year's level. We also learnt that the elevated inventory level was not an indication of a slower sales trend but was mainly due to bulk paper purchase worth around RM8.0m at RM750/MT (current spot price: RM800/MT), in which the purchase will cover about 75% of the group's total FY24 paper requirements.

### Downside Risks

- Large scale shift to online learning.
- Fluctuations in the paper and printing cost.

### Valuation

We maintain our **BUY** rating for Sasbadi with an unchanged **TP** of **RM0.24** by ascribing an unchanged target PER of 10.0x to our FY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE Aug (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 62.9 | 69.0 | 96.1 | 95.6 | 97.6 |
| EBITDA | (4.9) | 6.4 | 17.6 | 17.3 | 17.4 |
| EBITDA margin (%) | (7.7) | 9.2 | 18.3 | 18.1 | 17.8 |
| PBT | (10.5) | 2.0 | 13.2 | 13.5 | 13.7 |
| PAT | (9.3) | 0.8 | 10.2 | 10.3 | 10.4 |
| PAT margin (%) | (14.7) | 1.2 | 10.6 | 10.7 | 10.7 |
| EPS (sen) | (2.1) | 0.2 | 2.3 | 2.4 | 2.4 |
| Earnings growth (%) | 3.3 | (109.1) | 1,109.0 | 0.9 | 1.5 |
| PER (x) | nm | 79.9 | 6.6 | 6.6 | 6.5 |
| DPS (sen) | NA | NA | 0.8 | 1.2 | 1.2 |
| Dividend yield (%) | NA | NA | 4.8 | 7.6 | 7.7 |
| ROE (%) | (6.7) | 0.6 | 6.6 | 6.5 | 6.3 |
| Net gearing ratio | 0.1 | 0.0 | Net Cash | Net Cash | Net Cash |
| Price/book (x) | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.

199701033506 (449005-X)

# SOLARVEST

## NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 1.44** |
| **Target Price** | **RM 1.45** |
| **Consensus Price** | **RM 1.48** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | NO |
| Bloomberg Ticker | SOLAR MK |
| Masa Ticker / Stock Code | SLVEST/0125 |
| Shares Issued (m) | 668.9 |
| Market Capitalisation (RM'm) | 963.2 |
| 52 Week Hi/Lo Price (RM) | 1.48/0.84 |
| Avg Trading Volume (3-mth) | 1,468,480 |
| Est Free Float (%) | 45.5 |
| YTD Returns (%) | 10.8 |
| Beta (x) | 0.85 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 4.35 | 2.40 |
| 3 mth | 12.50 | 7.90 |
| 12 mth | 32.11 | 30.36 |

**Major Shareholders (%)**

| | |
|---|---|
| Atlantic Blue Holdings Sdn Bhd | 22.8 |
| Divine Inventions | 9.0 |
| Lim Chin Siu | 8.3 |

**1-Year Share Price Performance**

**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

**Company Profile**

Solarvest is a clean energy specialist with a full-fledged EPCC solution capability, specialising in solar photovoltaic (PV) systems for residential, commercial and industrial properties and large-scale solar PV plants.

**Investment Merits**

- Beneficiary of Malaysia's energy liberalisation and growing demand of green energy.
- Steady recurring income from solar assets and CGPP.
- Solidifying and building new customer base though its one stop solutions services.

**Key Updates**

- 1HFY24 earnings came in within expectations as its PATAMI of RM13.9m accounts for about 45.8% of our earnings forecast. Meanwhile, 1HFY24's PATAMI margin was lower at 4.9% (1HFY23: 6.2%), due to the higher revenue percentage contribution from its LSS4 construction project which yielded lower margin compared to the rooftop C&I projects.
- 2QFY24's revenue posted a 42.5% Y-o-Y jump to RM139.9m, from RM98.2m in the previous year's corresponding quarter, due to better LSS4 construction progress from its EPCC segment. The PATAMI jumped in tandem with its top line, by recording a 43.2% Y-o-Y increase to RM7.2m, from RM5.0m last year.
- One of its LSS4 asset with an installed capacity of 29.6 MWp has started its contribution, while the remaining two LSS4 solar assets were expected to be commissioned by end of 2023.

**Downside Risks**

- Volatile solar panel cost
- Unexpected delays & setbacks in project deployment
- Rising competition from multiple EPCC operators

**Valuation**

We downgrade our recommendation on Solarvest to **NEUTRAL** (from Buy) as the share price is trading near our TP. We keep our **TP** unchanged at **RM1.45**, derived from our sum-of-parts valuation.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE Mar (RM m) | FY22 | FY23 | FY24(F) | FY25(F) | FY26(F) |
|---|---|---|---|---|---|
| Revenue | 175.8 | 365.5 | 550.2 | 563.0 | 645.0 |
| EBITDA | 11.6 | 19.8 | 37.6 | 40.7 | 44.7 |
| EBITDA Margin (%) | 6.6 | 5.4 | 6.8 | 7.2 | 6.9 |
| PBT | 11.0 | 27.7 | 46.7 | 51.4 | 57.0 |
| PAT Margin (%) | 6.3 | 7.6 | 8.5 | 9.1 | 8.8 |
| PATAMI | 6.9 | 19.7 | 30.4 | 32.6 | 36.2 |
| PATAMI Margin (%) | 3.9 | 5.4 | 5.5 | 5.8 | 5.6 |
| EPS (sen) | 1.0 | 2.9 | 4.5 | 4.9 | 5.4 |
| Earnings Growth (%) | (57.2) | 184.7 | 54.5 | 7.4 | 10.9 |
| PER (x) | 138.2 | 48.6 | 31.4 | 29.3 | 26.4 |
| DPS (sen) | NA | NA | 0.5 | 0.5 | 0.5 |
| Dividend Yield (%) | NA | NA | 0.3 | 0.3 | 0.3 |
| ROE (%) | 3.9 | 10.0 | 13.5 | 12.8 | 12.2 |
| Net Gearing Ratio | Net Cash | 0.2 | 0.2 | 0.2 | 0.2 |
| Price/Book (x) | 5.4 | 4.8 | 4.2 | 3.8 | 3.2 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# SUPERCOMNET TECHNOLOGIES

## BUY

| | |
|---|---|
| **Current Price** | **RM 1.31** |
| **Target Price** | **RM 1.69** |
| **Consensus Price** | **RM 1.58** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | SCT MK |
| Masa Ticker / Stock Code | SCOMNET/0001 |
| Shares Issued (m) | 798.2 |
| Market Capitalisation (RM'm) | 1,045.7 |
| 52 Week Hi/Lo Price (RM) | 1.58/1.19 |
| Avg Trading Volume (3-mth) | 828,232 |
| Est Free Float (%) | 29.1 |
| YTD Returns (%) | 7.4 |
| Beta (x) | 0.85 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 3.97 | 2.02 |
| 3 mth | 0.00 | -4.60 |
| 12 mth | -17.09 | -18.84 |

**Major Shareholders (%)**

| | |
|---|---|
| Shiue Jong Zhe | 14.8 |
| Shuie Jyh Jeh | 9.0 |
| Chih Yu Hsueh | 13.2 |

**1-Year Share Price Performance**

**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

**Company Profile**

Supercomnet Technologies (Scomnet) is principally involved in manufacturing and assembling of wires and cables for medical devices, automotive, electrical appliances and consumer electronics. Its operations are divided into three segments: namely, medical, automotive and industrial.

**Investment Merits**

- **Capitalising on the rapidly growing medical devices and automotive markets.** The global medical devices market size is projected to grow at a CAGR of 5.9% from 2023 to 2030, while the automotive wire and cable market is estimated to increase at a CAGR of 5.3% from 2021 to 2031.
- **Diversified customer base and new products.** The group has gradually broadened its customer base to minimise its dependency on its key medical clients by expanding its automotive business.

**Key Updates**

- Revenue dropped 27.9% Y-o-Y to RM32.5m in 3QCY23, from RM45.1m in 3QCY22 due to decreased orders for its industrial segment and a temporary dip in demand from its automotive customer which paused orders since 2QCY23. The medical, automotive and industrial segments contributed 77%/2%/21% to the group's revenue respectively. Net profit also fell 26.7% Y-o-Y to RM7.4m, from RM10.1m, on lower revenue generated in the quarter, combined with higher electricity tariff, the recognition of RM0.8m in fair value expense related to share options granted under ESOS and a lower foreign exchange gain by RM1.1m.

**Downside Risks**

- Disruptions of supply chain
- Delays in obtaining FDA approval for new medical devices
- Depreciation of the USD against the Ringgit

**Valuation**

We maintain our **BUY** recommendation on Scomnet with the same **TP** of **RM1.69**, by pegging an unchanged 33.0x target PER to our diluted CY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 128.4 | 143.6 | 158.3 | 158.7 | 213.7 |
| EBITDA | 36.3 | 38.5 | 49.2 | 52.6 | 69.2 |
| EBITDA margin (%) | 28.3 | 26.8 | 31.1 | 33.1 | 32.4 |
| PBT | 30.5 | 32.4 | 42.8 | 42.5 | 57.8 |
| PAT | 23.5 | 25.2 | 32.9 | 33.0 | 43.9 |
| PAT margin (%) | 18.3 | 17.6 | 20.8 | 20.8 | 20.6 |
| EPS (sen) | 2.9 | 3.2 | 4.1 | 4.1 | 5.5 |
| Diluted EPS (sen)* | 2.7 | 2.9 | 3.8 | 3.8 | 5.1 |
| Earnings growth (%) | 21.3 | 7.3 | 30.5 | 0.2 | 33.3 |
| PER (x) | 44.5 | 41.5 | 31.8 | 31.7 | 23.8 |
| Diluted PER (x)* | 47.8 | 44.5 | 34.1 | 34.1 | 25.6 |
| DPS (sen) | 1.5 | 1.5 | 2.0 | 2.0 | 2.0 |
| Dividend yield (%) | 1.1 | 1.1 | 1.5 | 1.5 | 1.5 |
| ROE (%) | 10.5 | 9.1 | 10.3 | 9.8 | 12.2 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 4.3 | 3.4 | 3.2 | 3.0 | 2.8 |

*Source: Inter-Pacific Research*
**Based on enlarged share capital of 857.3m outstanding shares (after conversion of warrants).*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# TASCO

## BUY

| | |
|---|---|
| **Current Price** | **RM 0.81** |
| **Target Price** | **RM 1.38** |
| **Consensus Price** | **RM 1.29** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | TASCO MK |
| Masa Ticker / Stock Code | TASCO/5140 |
| Shares Issued (m) | 800.0 |
| Market Capitalisation (RM'm) | 648.0 |
| 52 Week Hi/Lo Price (RM) | 1.04/0.76 |
| Avg Trading Volume (3-mth) | 526,136 |
| Est Free Float (%) | 30.5 |
| YTD Returns (%) | 5.9 |
| Beta (x) | 1.04 |

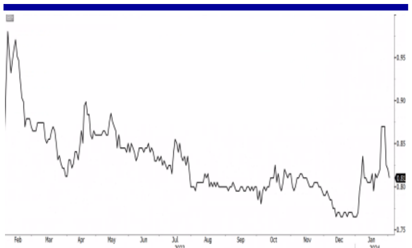
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 0.00 | -1.95 |
| 3 mth | 1.25 | -3.35 |
| 12 mth | -15.63 | -17.38 |

**Major Shareholders (%)**

| | |
|---|---|
| Real Fortune Portfolio Sdn Bhd | 9.9 |
| Nippon Yusen KK | 9.6 |

**1-Year Share Price Performance**



**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

Tasco provides full transportation services including air and ocean freight forwarding services, supply chain solutions, cold supply chain, contract logistics and trucking services. It is related to the world-renowned Nippon Yusen Kabushiki Kaisha (NYK) group, one of the largest shipping operators in the world with a fleet of about 818 vessels in operation.

### Investment Merits

- **Extensive network.** Tapping into Yusen's global network, Tasco is capable of offering international services as compared to its local peers.
- **Agility and adaptation.** Tasco's strategy to adapt to the current market trend by diversifying its revenue base into the supply chain solutions division. This underpins the group's strategic direction in its commitment to venture into digitalisation and automation.

### Key Updates

- Revenue dropped 29.3% Y-o-Y to RM277.4m in 3QFY24, from RM392.7m, as revenue of both the international business solutions (IBS) and the domestic business solutions (DBS) segments fell 40.6% and 19.3% Y-o-Y respectively. Revenue from the IBS segment continued to be impacted by the normalisation of international freight rates, combined with a slowdown in global trade resulting in reduced shipment volumes, while the DBS segment's weakness was primarily due to the lower revenue in the Contract Logistics division, but the decline was cushioned by the stronger revenue from the Trucking and Cold Supply Chain divisions. As a result, PATAMI fell 32.4% Y-o-Y to RM13.8m, from RM20.4m, that was also affected by higher finance costs.

### Downside Risks

- Continuous downward trend in market freight rates
- Slower global economic activities dampening demand
- Delay in its expansion plans

### Valuation

We reiterate our **BUY** recommendation on Tasco with the same **TP** of **RM1.38**, derived from pegging an unchanged 14.0x target PER to our FY25F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE Mar (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 946.6 | 1481.4 | 1606.8 | 1109.6 | 1197.1 |
| EBITDA | 114.3 | 145.4 | 180.1 | 136.3 | 160.4 |
| EBITDA margin (%) | 12.1 | 9.8 | 11.2 | 12.3 | 13.4 |
| PBT | 60.7 | 88.1 | 120.6 | 77.9 | 98.8 |
| PAT | 43.7 | 67.7 | 92.3 | 62.3 | 81.0 |
| PATAMI | 41.3 | 65.2 | 90.8 | 59.2 | 78.6 |
| PATAMI margin (%) | 4.4 | 4.4 | 5.7 | 5.3 | 6.6 |
| EPS (sen) | 5.2 | 8.2 | 11.3 | 7.4 | 9.8 |
| Earnings growth (%) | 364.2 | 58.1 | 39.2 | (34.8) | 32.8 |
| PER (x) | 15.7 | 9.9 | 7.1 | 10.9 | 8.2 |
| DPS (sen) | 3.3 | 2.5 | 3.5 | 2.0 | 3.0 |
| Dividend yield (%) | 4.0 | 3.1 | 4.3 | 2.5 | 3.7 |
| ROE (%) | 7.7 | 11.2 | 13.7 | 8.3 | 10.2 |
| Current ratio (x) | 2.0 | 1.2 | 1.3 | 1.6 | 1.7 |

*Source: Inter-Pacific Research*

# TSH RESOURCES

## BUY

| | |
|---|---|
| **Current Price** | **RM 1.02** |
| **Target Price** | **RM 1.23** |
| **Consensus Price** | **RM 1.11** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | TSH MK |
| Masa Ticker / Stock Code | TSH/9059 |
| Shares Issued (m) | 1,381.8 |
| Market Capitalisation (RM'm) | 1,409.4 |
| 52 Week Hi/Lo Price (RM) | 1.15/0.92 |
| Avg Trading Volume (3-mth) | 1,371,716 |
| Est Free Float (%) | 45.2 |
| YTD Returns (%) | 4.6 |
| Beta (x) | 1.49 |

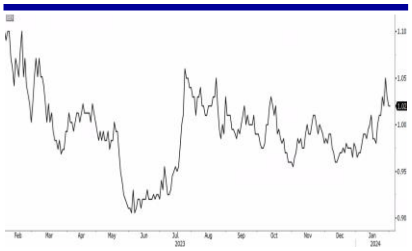
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 4.08 | 2.13 |
| 3 mth | 5.15 | 0.56 |
| 12 mth | -8.93 | -10.68 |

**Major Shareholders (%)**

| | |
|---|---|
| Tan Aik Pen | 24.8 |
| Tan Aik Yong | 5.2 |
| Tan Aik Kiong | 4.2 |

**1-Year Share Price Performance**



**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

**Company Profile**

TSH is in the cultivation, processing and refining of oil palm where its operations are located in Sabah, Kalimantan and Sumatera, of which 39,071 ha. have been planted with an average palm age profile of 11.7 years, considered relatively young. The group also runs biomass and biogas power plants in Sabah. Other business segments under its ambit are the manufacturing and marketing of engineered hardwood, cocoa processing and forest rehabilitation.

**Investment Merits**

- Unlocking asset values that could lower its net gearing and strengthen its balance sheet.

**Key Updates**

- TSH's 9MCY23 core PATAMI of RM69.1m, after stripping out gain on disposal of asset (RM27.6m) and expenses in relation to secondary listing (RM5.8m), accounts for 86% of our earnings forecast. Results exceeded our expectations, thanks to higher-than-expected FFB production where 9MCFY23 output of 679k tonnes accounted for 80% our FFB production estimate of 846k tonnes, leading to higher sales of CPO.
- Following the disposal of the North Kalimantan agriculture land and healthy balance sheet, the group is now focus to cultivate oil palm in their remaining 20k land bank. The secondary listing in SGX would allow the group to have greater access to the carbon trading market and corporate funding.

**Downside Factors**

- Lower-than-expected global demand for palm and palm kernel oil
- An increase in Indonesia's minimum wage
- Increase in direct and indirect taxes/duties

**Valuation**

We maintain TSH's **BUY** recommendation with an unchanged **TP** of **RM1.23**, based on a lower target valuation of 0.8x to its FY24 P/B.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 781.7 | 1,188.9 | 1,306.0 | 929.1 | 970.6 |
| EBITDA | 267.7 | 284.9 | 687.3 | 226.1 | 265.8 |
| EBITDA margin (%) | 34.2 | 24.0 | 52.6 | 24.3 | 27.4 |
| PAT | 90.3 | 202.0 | 550.0 | 80.1 | 109.2 |
| PATAMI | 79.5 | 169.0 | 411.3 | 60.1 | 81.9 |
| PATAMI margin (%) | 10.2 | 14.2 | 31.5 | 6.5 | 8.4 |
| EPS (sen) | 5.8 | 12.2 | 29.8 | 4.4 | 5.9 |
| Earnings growth (%) | 79.5 | 112.6 | 143.4 | (85.4) | 36.3 |
| PER (x) | 16.7 | 7.8 | 3.2 | 22.1 | 16.2 |
| DPS (sen) | 1.5 | 3.0 | 8.0 | 2.0 | 2.0 |
| Dividend yield (%) | 1.6 | 3.1 | 8.3 | 2.1 | 2.1 |
| ROE (%) | 5.5 | 10.3 | 21.6 | 2.9 | 3.8 |
| Net gearing ratio (%) | 76.5 | 47.4 | 9.7 | Net Cash | Net Cash |
| Book value (RM) | 1.0 | 1.2 | 1.4 | 1.5 | 1.5 |
| Price/Book (x) | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 |
| **Key Assumption** | | | | | |
| FFB production (mt) | 906,175 | 918,886 | 949,000 | 846,600 | 864,100 |
| CPO ASP (RM/mt) | 2,453 | 3,570 | 3,794 | 3,600 | 3,700 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# UCHI TECHNOLOGIES

## NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 3.83** |
| **Target Price** | **RM 3.84** |
| **Consensus Price** | **RM 3.80** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | UCHI MK |
| Masa Ticker / Stock Code | UCHITEC/7100 |
| Shares Issued (m) | 459.9 |
| Market Capitalisation (RM'm) | 1,761.3 |
| 52 Week Hi/Lo Price (RM) | 3.94/3.11 |
| Avg Trading Volume (3-mth) | 453,074 |
| Est Free Float (%) | 58.7 |
| YTD Returns (%) | 3.2 |
| Beta (x) | 0.49 |

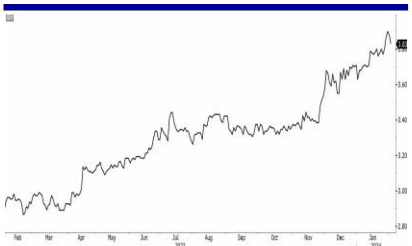
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 3.51 | 1.57 |
| 3 mth | 10.69 | 6.10 |
| 12 mth | 19.65 | 17.90 |

**Major Shareholders (%)**

| | |
|---|---|
| Eastbow International Ltd | 18.1 |
| Ironbridge Worldwide Ltd | 7.7 |
| Public Mutual Bhd | 6.0 |

**1-Year Share Price Performance**



**Analyst: Wong Choo Hong**
**Email: wongch@interpac.com.my**

### Company Profile

UCHI Technologies is principally involved in Original Design Manufacturing, specialising in the design of electronic control systems. It designs and develops electronic control modules in-house and manufactures and assembles components into semi-finished parts and control modules which its customers will insert into their finished products.

### Investment Merits

- **Appealing dividend yield.** The dividend payout ratio has been consistently above 90% over the past few years, which is higher than its industry peers.
- **Riding on the tailwinds of the global coffee machine makers.** According to GlobeNewswire, the coffee machine industry is expected to record a CAGR of 6.4% between 2021-2027 to reach US$5.2b in 2027, thanks to increasing popularity of coffee among millennials, growing disposable income among the population and the customised functions of coffee machines.

### Key Updates

- Uchitec's core PAT for 9MCY23 were above our expectation, accounting for about 85.3% of our previous CY23 estimates.
- Revenue in 3QCY23 increased by 15.0% Y-o-Y to RM62.9m. PAT, however, increased only slightly by 2.8% to RM33.4m, from RM32.5m, following an increase in the tax expenses on its non-pioneer status products.
- A second interim dividend of 13.0 sen was declared during the quarter, bringing the total dividend declared for 9MCY23 to 17.0 sen.

### Downside Risks

- Termination of contract by its key client
- Supply chain disruptions
- Non-renewal of its pioneer status

### Valuation

We maintain our **NEUTRAL** recommendation on Uchitec with a **TP** of **RM3.84**, based on our DDM-derived valuation with an unchanged required rate of return of 9.4% and a dividend growth rate of 3.0%.

**HISTORICAL EARNINGS AND FORECASTS**

| CYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|---|---|---|---|---|---|
| Revenue | 155.3 | 168.5 | 214.3 | 235.0 | 239.1 |
| EBITDA | 91.0 | 97.9 | 133.2 | 135.1 | 136.3 |
| EBITDA margin (%) | 58.6 | 58.1 | 62.1 | 57.5 | 57.0 |
| PBT | 84.6 | 92.2 | 127.9 | 130.3 | 131.4 |
| PBT margin (%) | 54.5 | 54.7 | 59.7 | 55.5 | 55.0 |
| PAT | 83.8 | 91.4 | 124.9 | 103.7 | 104.6 |
| PATAMI | 83.8 | 91.4 | 124.9 | 103.6 | 104.5 |
| PAT margin (%) | 54.0 | 54.3 | 58.3 | 44.2 | 43.8 |
| EPS (sen) | 18.4 | 20.0 | 27.3 | 22.7 | 22.9 |
| Earnings growth (%) | 10.4 | 9.1 | 36.6 | (16.9) | 0.8 |
| PER (x) | 20.8 | 19.1 | 14.0 | 16.8 | 16.7 |
| DPS (sen) | 17.0 | 20.0 | 30.0 | 22.3 | 22.5 |
| Dividend yield (%) | 4.5 | 5.2 | 7.9 | 5.8 | 5.9 |
| ROE (%) | 49.1 | 49.3 | 60.9 | 47.3 | 47.3 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 9.7 | 9.1 | 8.0 | 7.9 | 7.8 |

*Source: Inter-Pacific Research*

INTER-PACIFIC RESEARCH SDN. BHD.
199701033506 (449005-X)

# V.S. INDUSTRY

## NEUTRAL

| | |
|---|---|
| **Current Price** | **RM 0.73** |
| **Target Price** | **RM 0.77** |
| **Consensus Price** | **RM 0.81** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | VSI MK |
| Masa Ticker / Stock Code | VS/6963 |
| Shares Issued (m) | 3,827.7 |
| Market Capitalisation (RM'm) | 2,794.2 |
| 52 Week Hi/Lo Price (RM) | 1.05/0.71 |
| Avg Trading Volume (3-mth) | 5,106,601 |
| Est Free Float (%) | 50.9 |
| YTD Returns (%) | -10.4 |
| Beta (x) | 0.65 |

**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | -10.98 | -12.92 |
| 3 mth | -18.89 | -23.49 |
| 12 mth | -28.43 | -30.18 |

**Major Shareholders (%)**

| | |
|---|---|
| KWAP | 9.3 |
| Beh Kim Ling | 7.7 |
| EPF Board | 7.5 |

**1-Year Share Price Performance**

**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

V.S. Industry is a leading integrated electronics manufacturing services provider in the ASEAN region. Its key clients are mainly involved in the manufacturing of consumer electronic products from U.K., U.S. and European regions.

### Investment Merits

- **New model launches from key customers.** The sales order momentum is expected to remain healthy in FY24, supported by continuous orders on new models by certain customers.
- **Initiatives to enhance value chain.** The group plans to manufacture some components internally to lessen dependence on third party suppliers. We believe the supply chain enhancement can lift group's profitability moving forward.

### Key Updates

- Revenue decreased 10.9% Y-o-Y to RM1.15b in 1QFY24, from RM1.29b in 1QFY23, mainly attributed to the decline in orders from its key customers in most geographical segments. Therefore, the overall utilisation rate dropped, causing the GP margin to deteriorate to 8.4% against 10.4% last year. Similarly, its PATAMI also shrank by 19.3% Y-o-Y to RM49.0m, from RM60.7m, but it was partly cushioned by a forex gain of RM8.9m, compared to a loss of RM5.5m in 1QFY23.
- The group declared a first interim dividend of 0.3 sen per share, which is lower than the 0.5 sen declared in 1QFY23.
- The group has completed the acquisition of an additional 11% stake in HT Press Work Sdn Bhd (HTPW) in October, after having acquired a 40% stake earlier in May, making HTPW a 51%-owned subsidiary of the group. Recently, HTPW has secured a contract worth RM100m from a US-based company which is expected to contribute double-digit GP margin to the group from 3QFY24 onwards.

### Downside Risks

- Higher-than-anticipated order cuts from the key clients
- Recessionary fears

### Valuation

We maintain our **NEUTRAL** recommendation on VS with the same **TP** of **RM0.77** by pegging to an unchanged target PER valuation of 16.0x to our FY24F EPS.

**HISTORICAL EARNINGS AND FORECASTS**

| FYE July (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 4,002.3 | 3,914.1 | 4,604.2 | 4,272.3 | 4,435.7 |
| EBITDA | 438.6 | 336.1 | 393.5 | 384.5 | 421.4 |
| EBITDA margin (%) | 11.0 | 8.6 | 8.5 | 9.0 | 9.5 |
| PBT | 329.1 | 205.8 | 245.3 | 245.0 | 268.1 |
| PAT | 241.6 | 151.3 | 169.3 | 176.9 | 191.7 |
| PATAMI | 245.4 | 170.8 | 178.8 | 185.7 | 201.3 |
| PATAMI margin (%) | 6.1 | 4.4 | 3.9 | 4.3 | 4.5 |
| EPS (sen) | 6.4 | 4.5 | 4.7 | 4.9 | 5.3 |
| Earnings growth (%) | 110.6 | (30.4) | 4.7 | 3.9 | 8.4 |
| PER (x) | 11.4 | 16.4 | 15.6 | 15.0 | 13.9 |
| DPS (sen) | 4.2 | 2.0 | 2.2 | 2.2 | 2.2 |
| Dividend yield (%) | 5.8 | 2.7 | 3.0 | 3.0 | 3.0 |
| ROE (%) | 13.1 | 8.3 | 8.5 | 8.4 | 8.6 |
| Net gearing ratio | 0.0 | 0.1 | 0.1 | 0.2 | 0.1 |
| P/B (x) | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 |

*Source: Inter-Pacific Research*

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# WELLCALL

## BUY

| | |
|---|---|
| **Current Price** | **RM 1.73** |
| **Target Price** | **RM 1.82** |
| **Consensus Price** | **RM 1.88** |

**Key Statistics**

| | |
|---|---|
| Shariah Compliant | YES |
| Bloomberg Ticker | WELL MK |
| Masa Ticker / Stock Code | WELLCAL/7231 |
| Shares Issued (m) | 497.5 |
| Market Capitalisation (RM'm) | 860.7 |
| 52 Week Hi/Lo Price (RM) | 1.77/1.10 |
| Avg Trading Volume (3-mth) | 815,844 |
| Est Free Float (%) | 73.3 |
| YTD Returns (%) | 3.6 |
| Beta (x) | 0.65 |

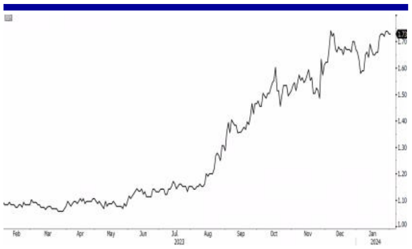
**Share Price Performance (%)**

| Price change | Absolute | Relative |
|---|---|---|
| 1 mth | 8.81 | 6.86 |
| 3 mth | 13.00 | 8.40 |
| 12 mth | 51.36 | 49.60 |

**Major Shareholders (%)**

| | |
|---|---|
| Maximum Perspective Sdn Bhd | 11.3 |
| OCBC (Nominee Accounts) | 10.0 |
| UOB Kay Hian Hong Kong Ltd | 8.0 |

**1-Year Share Price Performance**



**Analyst: Chloe Mak**
**Email: makmw@interpac.com.my**

### Company Profile

Wellcall Holdings is the largest industrial rubber hose manufacturer in Malaysia, specialising in both light and medium pressure rubber hoses. It has an extensive product range catering various industries including air, water, automotive, oil & gas, F&B and chemical. The customers are primarily distributors of rubber hoses. It exports to more than 70 countries in the world, where above 90% of the sales are from export markets.

### Investment Merits

- **A net beneficiary of the strong USD.** It can help to expand its profit margin as 90% of the group's sales are quoted in USD.
- **Sustainable growth in the hose replacement market.** The bulk of the demand comes from the replacement market, accounting for about 90-95% of the group's sales.
- **Attractive dividend yields and reliable dividend payout policy.** We foresee the dividend payments to continue growing in line with its higher earnings, with the dividend payout to reach at least 70-80% in FY24F/25F.

### Key Updates

- Revenue increased 24.1% Y-o-Y to RM58.3m in 4QFY23, from RM46.9m in 4QFY22, primarily due to the group's continuous effort to strengthen the global sales growth of its industrial rubber hoses. The export and local markets contributed about 91.0% and 9.0% to the group's revenue respectively. Meanwhile, its PAT more-than-doubled to RM17.9m, from RM7.6m, lifted by a significant improvement in its gross profit margin to 48.3%, from 35.5% last year.
- The group declared a fourth interim dividend of 1.8 sen per share and a special dividend of 1.0 sen per share, bringing the total dividend for FY23 to 8.2 sen (FY22: 7.0 sen), representing a dividend payout ratio of 72.3%.

### Downside Risks

- Raw materials or exchange rate volatility
- Slower-than-expected economic recovery hampering sales

### Valuation

We maintain our **BUY** recommendation on Wellcall with the same **TP** of **RM1.82**, based on an unchanged target PER of 16.0x pegged to our FY24F EPS.

### HISTORICAL EARNINGS AND FORECASTS

| FYE Sept (RM m) | FY21 | FY22 | FY23 | FY24(F) | FY25(F) |
|---|---|---|---|---|---|
| Revenue | 157.0 | 176.7 | 217.2 | 238.9 | 250.8 |
| EBITDA | 51.3 | 49.7 | 67.8 | 68.1 | 71.9 |
| EBITDA margin (%) | 32.7 | 28.1 | 31.2 | 28.5 | 28.7 |
| PBT | 46.1 | 44.8 | 74.4 | 74.7 | 78.5 |
| PAT | 34.2 | 33.3 | 56.5 | 56.8 | 59.6 |
| PAT margin (%) | 21.8 | 18.8 | 26.0 | 23.8 | 23.8 |
| EPS (sen) | 6.9 | 6.7 | 11.3 | 11.4 | 12.0 |
| Earnings growth (%) | 16.3 | (2.5) | 69.7 | 0.5 | 5.1 |
| PER (x) | 25.2 | 25.9 | 15.2 | 15.2 | 14.4 |
| DPS (sen) | 7.0 | 7.0 | 8.2 | 8.5 | 9.0 |
| Dividend yield (%) | 4.0 | 4.0 | 4.7 | 4.9 | 5.2 |
| ROE (%) | 26.9 | 26.7 | 40.0 | 36.1 | 34.2 |
| ROA (%) | 21.9 | 20.9 | 33.7 | 30.7 | 29.4 |
| Net gearing ratio | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| P/B (x) | 6.8 | 6.9 | 6.1 | 5.5 | 4.9 |

*Source: Inter-Pacific Research*

**Declaration of Independence of Opinions and of Interest in Securities**

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(i) As of February 6, 2024, Inter-Pacific Research Sdn Bhd has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies mentioned or recommended in this report: (a) Able Global Bhd, (b) AWC Bhd, (c) Datasonic Group Bhd, (d) D & O Green Technologies Bhd, (e) Guan Chong Bhd, (f) Hap Seng Plantations Holdings Bhd, (g) Hartalega Holdings Bhd, (h) InNature Bhd, (i) Kawan Food Bhd, (j) Kelington Group Bhd, (k) Mi Technovation Bhd, (l) OCK Group Bhd, (m) Pentamaster Corporation Bhd, (n) Sasbadi Holdings Bhd, (o) Solarvest Holdings Bhd, (p) Supercomnet Technologies Bhd, (q) Tasco Bhd, (r) TSH Resources Bhd, (s) Uchi Technologies Bhd, (t) V.S. Industries Bhd, and (u) Wellcall Holdings Bhd.

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Signed

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Inter-Pacific Research Sdn Bhd