Market Focus

Malaysia Strategy

Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity — 5 Oct 2018

Downturn is not over yet

- Market to be dampened by external headwinds from US tightening, escalating trade war between US and China, and QE unwinding by ECB
- Domestic growth prospects remain modest amid public spending cuts by the new federal government
- Higher crude oil prices is a bright spot while low beta can be a boon for Malaysia's relative performance vs regional peers
- Maintain end-2018 target of 1,750 and end-2019 target of 1,910
- Top picks: PBK, HLBK, GENT, GAM, KPJ, SDH and HIBI

External risks are dampeners. Over the near term, external factors are the key risks to emerging markets, including Malaysia. The tightening cycle in the US, escalating trade war between China and the US, and impending unwinding of quantitative easing measures by the ECB in Dec remain reasons for capital flight from the emerging markets. However, Malaysia's low beta and rising crude oil mitigate downside risks for the KLCI and MYR.

Domestic growth likely to be modest too. Contrary to earlier expectations, Budget 2019 is unlikely to provide any boost to the economy and market. With recent revelation of worse-than-expected government finances, the austerity drive by the new federal government is now expected to be more severe in order to pare down debts and maintain its course to fiscal balance over the medium term.

Buy on dips. The valuation of the KLCI is expensive now, as it is currently trading at 2018 PE of 17.6x that is above +1 SD of historical mean. With modest earnings growth of 10% in 2019, we prefer to buy on dips. We maintain our end-2018 KLCI target of 1,750 and end-2019 target of 1,910 (based on 17x PE). Banking, gaming and healthcare are our preferred sectors to ride on the resilient domestic consumption. Our top picks of Public Bank (PBK), Hong Leong Bank (HLBK), Genting Bhd (GENT) and KPJ Healthcare (KPJ) remain unchanged. We also overweight the oil & gas sector with preference for exploration and production companies such as Hibiscus (HIBI), which are direct beneficiaries of higher oil prices. We also like oil & gas service providers but prefer companies with strong earnings visibility such as Serba Dinamik (SDH). Investors should also start accumulating selective bombed-out stocks post the 14th general election. We like Gamuda (GAM) as its recent correction has priced in most negatives while the impending announcement of MRT Line 2 cost reduction marks the end of negative newsflow for the construction behemoth.

KLCI : 1,790.11

Analyst

Bernard CHING
+603 2604 3918
bernard@alliancedbs.com

Malaysian Research Team
+603 2604 3333
general@alliancedbs.com

Market Key Data

(%)	EPS Gth	Div Yield
2017A	7.1	3.1
2018F	5.6	3.0
2019F	10.1	3.1

(x)	PER	PB
2017A	18.5	1.8
2018F	17.6	1.7
2019F	15.9	1.6

Source: Bloomberg Finance L.P.

STOCKS

	Price	Mkt Cap	12-mth Target	Performance (%)		Rating
	RM	US$m	RM	3 mth	12 mth	
Public Bank	25.0	23,426	28.2	9.2	21.4	BUY
Hong Leong	20.6	10,171	23.5	12.9	29.9	BUY
Genting Berhad	7.81	7,256	12.1	(7.5)	(17.8)	BUY
Gamuda	3.28	1,954	4.72	(5.5)	(38.0)	BUY
Serba Dinamik	4.15	1,471	5.20	24.3	82.0	BUY
KPJ Healthcare	1.09	1,105	1.30	4.8	3.8	BUY
Hibiscus	1.30	498	1.46	43.7	103.1	BUY

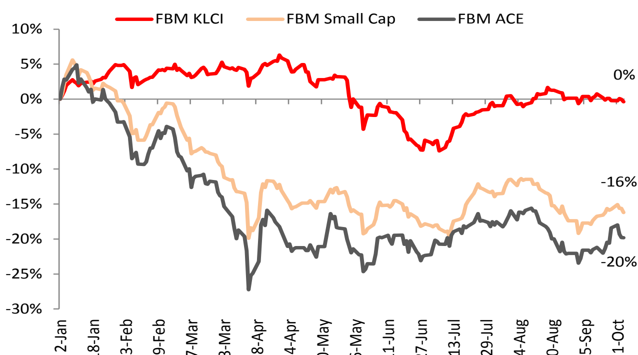
Source: DBS Bank, AllianceDBS, Bloomberg Finance L.P.
Closing price as of 4 Oct 2018

ALLIANCEDBS RESEARCH ALLIANCE INVESTMENT BANK

Market Review

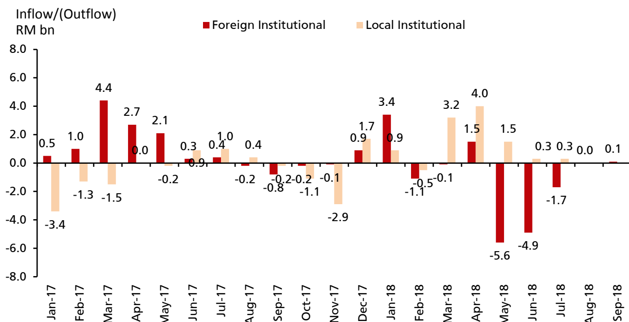
Following a disappointing 2Q18 earnings season in the preceding month, Malaysian equities were in a consolidation mode in Sep with the benchmark KLCI shedding 1.6% to close at 1,793. The continued downtrend in MYR mirrored the woes in the emerging market space amid the tightening cycle in the US. However, this was moderated by the rise in crude oil prices which benefited Malaysia, a net oil & gas exporter. Fund flow from foreign institutional investors was rather mixed with a modest net inflow of RM0.1bn in Sep.

YTD performance of FBM KLCI, Small Cap and ACE indices



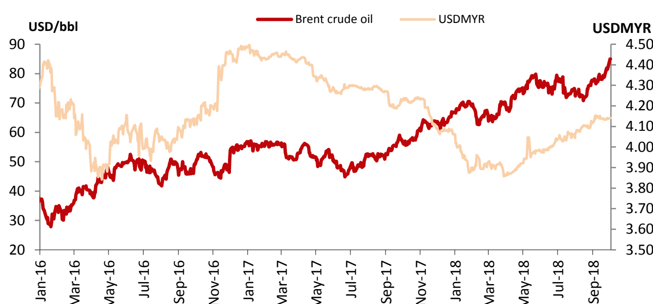
Source: AllianceDBS, Bloomberg

Net foreign flow



Source: Bursa Malaysia

Brent crude oil and USDMYR



Source: Bloomberg

Market Outlook

Over the near term, external factors are the key risks to emerging markets, including Malaysia. The tightening cycle in the US, escalating trade war between China and the US, and impending unwinding of quantitative easing measures by the ECB in Dec remain reasons for capital flight from the emerging markets and preference for the US market given the latter's strong economic and earnings growth. However, the saving grace for Malaysia is its low beta and the rising crude oil price which will moderate its currency depreciation against the greenback.

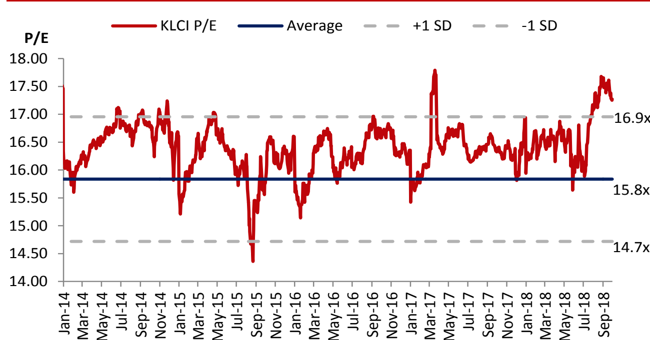
Domestically, economic and earnings growth prospect remain modest as the new federal government may need larger spending cuts to pare down debts and stay on course to achieve a balanced budget over the medium term. As such, we believe Budget 2019, which will be announced on 2 Nov, will lack the bite to excite the domestic equity market. We expect near term growth to moderate as the rebound in consumer spending is likely to be offset by lower public sector's spending.

KLCI is currently trading at a 2018 PE of 17.6x, which is above +1 SD of its historical mean. Given the expensive valuation with modest earnings growth of 10% in 2019, we prefer to buy on dips. We maintain our end-2018 KLCI target of 1,750 and end-2019 target of 1,910 (based on 17x PE). We continue to like banking, gaming and healthcare sectors which will benefit from resilient domestic consumption. As such, we reiterate Public Bank, Hong Leong Bank, Genting Bhd and KPJ Healthcare as our top picks.

We also overweight the oil & gas sector on rising crude oil prices that will spur global capex recovery. We like exploration and production companies such as Hibiscus, which are direct beneficiaries of higher oil prices. We also like oil & gas service providers but prefer companies with strong earnings visibility such as Serba Dinamik.

Investors should also start accumulating selective bombed-out stocks post the 14th general election. In this regard, we added Gamuda to our top picks as we believe the impending announcement of MRT Line 2 cost reduction marks the end of negative newsflow for the construction behemoth. Over the medium term, the resumption of government infrastructure spending, less competitive landscape with fewer foreign contractors and a more transparent tendering process are catalysts for Gamuda.

FBMKLCI PE trend



Source: Bloomberg Finance L.P, AllianceDBS

Summary of sector call

Sector call	Rationale
Overweight	
Banks	Retail-driven loan growth and pick up in corporate activities towards the latter half of the year.
Gaming	Progressive launches of the Genting Integrated Tourism Plan (GITP) continue to attract visitors. Earnings prospects of the number forecast operators (NFOs) could improve, should the new administration intensify its efforts in curbing illegal NFOs.
Healthcare	Cyclical recovery for private healthcare amid improved macro conditions.
Oil & gas	Improving global capex spending amid rebound in crude oil prices.
Neutral	
Automotive	Volume to go through some fluctuation from the removal of GST and implementation of SST, but should normalise thereafter. Given the favourable exchange rates, auto players should be able to register better margins.
Aviation	Air travel boost from improvement in consumption but offset by up-pricing as higher fuel prices are passed on.
Construction	Sector discount to persist until there is clarity on existing and new contract flows. The High Speed Rail (HSR) project has been deferred for two years.
Consumer	Rebound in consumer spending could drive growth of the sector. Cost issues remain a key risk to watch.
EMS	Proxy for electrical and electronics (E&E) exports growth at cheaper valuation than the technology sector.
Media	Uncertainties stemming from potential new entrants and the government's stance on media companies owned by political parties. On the bright side, adex might recover on improving consumer sentiment.
Plantation	CPO price outlook remains lukewarm, although it could see support if production growth wanes.
Property	Weak sentiment, low affordability and increasing supply will continue to dampen property sales.
REITs	Improving consumer sentiment could be positive for real estate investment trusts (REITs). However, we are still cautious on oversupply in the market. Organic growth to be flattish going forward; office REITs face greater risk.
Shipping	Charter rates remain mild until and unless there is major industry-wide scrapping of capacity.
Technology	Earnings growth remains supported by content wins amid positive forex tailwinds. Nonetheless, sentiment could be dampened if the US-China trade war escalates further.
Telco	Stable competition but muted growth outlook due to transition from legacy voice/SMS to data. Regulatory pressure could be an issue especially for fixed-line players.
Utilities	Subdued earnings growth prospects for utilities players in view of the lacklustre outlook for energy demand.
Underweight	
Building materials (cement)	Margin erosion due to overcapacity, sluggish demand and rising input costs.
Glove	Stretched valuations unjustified as glove players face headwinds from higher operation costs. Expect margin compression in the near term.

Source: AllianceDBS

Top Stock Picks

Public Bank (TP: RM28.20): Public Bank's (PBK) 2Q18 results were still resilient and sustainable despite NIM pressure from deposit competition and lower non-interest income. Its growth drivers remain on the retail front (mortgages and small medium enterprise (SME)), which have been key to industry loan growth thus far. Further, PBK's ability to maintain solid asset-quality indicators even after the adoption of Malaysian Financial Reporting Standard 9 (MFRS9) and its best-in-class cost-to-income ratio, coupled with efficient capital management, should keep valuations ahead of its peers. PBK had received its Additional Tier-1 (AT1) capital programme approved for up to RM10bn. PBK has approximately RM2bn of capital instruments maturing in 2019. The approved AT1 capital programme should save PBK at least 2ppts of interest cost. This, together with its active liability management, should ensure that its cost of funds remains low.

Hong Leong Bank (TP: RM23.50): Hong Leong Bank (HLB) recorded strong FY18 earnings on the back of improvements across the board, notably in its Islamic business and non-interest income. Recoveries were also a crucial contributor to its bottom line, which was also supported by income from its associate Bank of Chengdu Limited (15% of HLB's pre-tax profit). Loan growth is guided to track the industry's, while its cost-to-income ratio is targeted to come in below 43% as it expects to incur more IT-related expenses from its digitalisation initiative. Over the medium term, this is expected to fall below 40%.

Genting Bhd (TP: RM12.15): Genting Bhd (GENT) is expected to re-rate going forward, supported by the progressive launches of key developments in the Genting Integrated Tourism Plan (GITP) where the indoor and outdoor theme parks are slated to open by end-2018 and 1H2019 respectively. An earnings recovery is also expected at Genting Singapore (GENS). As the parent company of GENS and Genting Malaysia (GENM), we believe that GENT offers a cheaper exposure to both of these subsidiaries. Its valuation is more attractive compared to GENS and GENM.

Gamuda (TP RM4.72): We believe the possible cost restructuring of MRT 2 is the last overhang on the stock with the Splash saga now over and the issue on tolls no longer a medium-term concern. The next important milestone will be in 4QCY18 where Gamuda and its consortium partners for SRS Consortium will sign and finalise the PDP agreement for the Penang Transport Master Plan project. On top of this, the relevant Federal Government agencies are expected to provide approvals for the railway scheme for the LRT and Environmental Impact Studies for Pan Island Link 1 and reclamation works. Gamuda's share price is still trading at 2SD below mean. As the dust settles, we expect larger contractors with reputable track records and strong balance sheets (like Gamuda) to emerge as winners, when projects are eventually revived.

Serba Dinamik (TP: RM5.20): Serba Dinamik's focus is on its operations and maintenance (O&M) business that has proven to be resilient even during the low crude oil price environment. We forecast revenue/earnings to grow at a 3-year CAGR of 22%/23% in FY18-FY20. This will be supported by, 1) stronger market reputation and penetration, 2) higher demand for maintenance services, and 3) expansion of engineering, procurement, construction and commissioning (EPCC) work. The Middle East will still be one of Serba's key markets with revenue contribution of c.40% (historical 60%).We believe there is room for further upside to our earnings forecast, owing to potential contract wins with higher margins.

KPJ Healthcare (TP: RM1.30): KPJ's earnings prospects are turning positive due to improving patients' affordability following a gestation period for new hospitals after the implementation of GST in 2015. Its recent performance has shown nascent signs of inpatient volume recovery, in line with a recovery in consumer sentiment. We expect the recovery to gather momentum in 2HFY18 which will be boosted further by margin expansion following the abolishment of GST. Active share buy-backs by the company since end-2017 should also help improve investor confidence.

Hibiscus (TP: RM1.46) managed to undertake opportunistic acquisitions of the Anasuria Cluster in the North Sea and the North Sabah enhanced oil recovery (EOR) production sharing contract (PSC). The completion of the acquisition of the Anasuria Cluster in March 2016 led to a turnaround for the company from an FY16 core net loss of RM145m to an FY17 core net profit of RM29m. The completion of the acquisition of the North Sabah EOR PSC on 31 Mar 2018 is set to more than double its earnings in FY19. Recent enhancement works on the Anasuria Cluster and an ongoing oil price rebound would be further icing on the cake that underpins our FD core EPS CAGR forecast of 85% over FY18-21F.

Please refer to pages 5-7 for detailed key investment merits of these stock picks.

Top stock picks

					P/E		EPS Growth (YoY)		Dividend Yield		Price/ BVPS		ROAE	
	Recommendation	Target Price	Current Price	Market Cap (RM)	CY2018	CY2019	CY2018	CY2019	CY2018	CY2019	CY2018	CY2019	CY2018	CY2019
Public Bank	BUY	28.20	25.00	97,053.5	17.1x	15.7x	3%	9%	2.6%	2.8%	2.4x	2.2x	14%	14%
Hong Leong Bank	BUY	23.50	20.60	42,139.4	15.5x	14.6x	14%	6%	2.6%	2.9%	1.7x	1.6x	11%	12%
Genting	BUY	12.15	7.81	30,061.9	11.0x	10.0x	83%	9%	0.6%	0.6%	0.8x	0.7x	8%	8%
Gamuda	BUY	4.72	3.28	8,095.2	16.3x	14.3x	0%	13%	2.7%	2.7%	1.2x	1.1x	7%	8%
Serba Dinamik	BUY	5.20	4.15	6,094.3	15.9x	12.9x	24%	23%	2.1%	2.3%	2.7x	2.5x	22%	21%
KPJ Healthcare	BUY	1.30	1.09	4,578.8	25.3x	24.0x	14%	6%	1.6%	1.6%	2.5x	2.4x	11%	10%
Hibiscus Petroleum	BUY	1.46	1.30	2,064.7	9.7x	8.9x	34%	9%	0.0%	0.0%	2.0x	1.8x	24%	22%

Source: AllianceDBS *Price date: 4 Oct 2018*

Top Stock Picks

Stocks	Key Investment Merits
Public Bank	• A persistent outperformer. Public Bank (PBK) remains an overachiever when it comes to earnings delivery. According to Bloomberg data, PBK's positive earnings surprise in terms of trouncing consensus estimates happened in eight out of 10 of its previous financial periods. PBK remains a dominant market leader in its target segment – residential, commercial mortgages and hire purchase – given its above industry growth (2010 to date CAGR; PBK: +11.1% vs industry: +10.1%). PBK's non-performing loan (NPL) ratio has been maintained at <1.0% since 2011 (industry range: 0.9-3.2%). Given PBK's superior track record, its 10-year annualised return of c.15% far outperforms the return of peers in the Kuala Lumpur Finance Index at c.5%. Better-than-expected NIM management could provide an upside to our earnings forecasts. PBK should continue focusing on stronger fee income growth to ensure that its earnings growth does not deteriorate significantly. Contribution from its asset-management business will continue to set the bank apart from its peers. • Potential Catalyst. Sustained strong earnings delivery remains a catalyst for PBK in addition to its superior sustainable asset-quality metrics. PBK is well positioned to withstand industry headwinds and also benefit from a macro recovery given its superior operating efficiency (lowest cost-to-income ratio) and sustained profitability metrics (above industry ROE). • Valuation. BUY with TP of RM28.20, based on the Gordon Growth Model (assuming 15% ROE, 9% cost of equity, 4% long-term growth), equivalent to 2.4x FY19 BV.
Hong Leong Bank	• Conservative yet solid. Its financial year end is in June. With the adoption of MFRS9 on 1 Jul 2018, we are assuming credit costs to be a little higher at 13bps and recoveries to gradually taper off. NIM is expected to stay stable. Loan growth has been guided to track the industry's in FY19. The bank is targeting to lower its cost-to-income ratio to <40% over the medium term. More importantly, the bank remains solid in terms of capital and asset quality. • BOCD listed, finally. Bank of Chengdu (BOCD), HLB's associate, has finally listed its shares on the Shanghai Stock Exchange. As HLB did not participate in the initial public offering (IPO), its stake in BOCD was slightly diluted as the issuance size was relatively small. From its previous stake of 19.99%, its stake was diluted to 18%. As such, there should be minimal impact to HLB's earnings. HLB continues to equity account for this investment. BOCD's contribution to HLB's pre-tax profit remains at 15-16%. • Potential catalyst. Loosening its grip on liquidity. What remains a resistance is the bank's conservative stance on tight liquidity by keeping loan-to-deposit ratio one of the lowest in the industry. Should the bank decide to loosen this metric, we believe there will be a lot more upside it can achieve in terms of NIM, earnings and ROE. HLB's digital agenda could also add a twist to valuations. • Valuation. BUY with TP of RM23.50, based on the Gordon Growth Model (assuming 12% ROE, 4% growth and 8% cost of equity), equivalent to 1.9x CY19 BV.

Top Stock Picks (cont'd)

Stocks	Key Investment Merits
Genting	• **Let's enjoy the game!** We maintain our BUY recommendation on Genting Bhd (GENT). We believe that progressive launches of key developments in the Genting Integrated Tourism Plan (GITP) and expected earnings recovery in Genting Singapore (GENS) will improve the growth prospects for the group. • **Improving earnings prospects from GITP launches.** We are positive on GITP launches as we foresee improving earnings prospects for the group from: (1) additional gaming capacity arising from GITP's launch, and (2) weak ringgit to attract more foreign tourist visitations and encourage more local visitations, which could benefit Genting Malaysia (GENM). • **Ride on GENS' sustained earnings recovery.** Despite the recent rally, GENS still offers compelling value as it trades close to –1SD of its EV/EBIDTA mean of 9x. In addition, it trades at c.35% discount to its Macau peers on an EV/EBITDA basis. With continued earnings recovery and potentially winning the Japanese casino bid in the medium term, we believe GENS could re-rate closer to its average EV/EBITDA multiple of c.13x • **BUY, TP of RM12.15.** We keep our BUY recommendation for GENT with a target price of RM12.15, based on SOP valuation. We believe that GENT offers a lower entry point for exposure to both subsidiaries.
Gamuda	• **MRT Line 2 overhang.** We believe the possible cost restructuring of MRT 2 is the last overhang on the stock with the Splash saga now over and the issue on tolls no longer a medium-term concern. We understand the headline project cost reduction could be up to 25% or RM8bn but the impact on Gamuda will not be as magnified given some of the cost reduction may involve scaling down on train sets etc., which is not under the purview of the contractor. Also, a move to a fixed price contract from PDP will have minimal impact given the project is already in full swing. • **Penang Transport Master Plan (PTMP).** The next near-term catalyst for Gamuda is the formalisation and approval for the PTMP. We understand that the federal government has given approval for the LRT project in principle. The next important milestone will be in 4QCY18 where Gamuda and its consortium partners for SRS Consortium will sign and finalise the PDP agreement. It was announced recently that the validity of the PDP agreement has been extended to August 2019. On top of this, the relevant federal government agencies are expected to approve the railway scheme for the LRT and Environmental Impact Studies for Pan Island Link 1 and reclamation works. If this timeline is kept, we can expect some design works and tenders to be called in 1HCY19 and award of contracts in 2HCY19. • **Upside from less foreign competition.** Gamuda's share price is still trading at 2SD below mean. As the dust settles, we expect larger contractors with reputable track records and strong balance sheets (like Gamuda) to emerge as winners, when projects are eventually revived. In our view, given Gamuda's strong design and engineering capabilities, it will be using the downtime to explore and propose more relevant projects to the government. We have a BUY rating and SOP-derived TP of RM4.72.
Serba Dinamik	• **O&M segment to drive growth.** The O&M segment contributed c.86%/87% of revenue/operating profit in FY17. As oil prices recover and stabilise over the longer term, we expect operational activities to return which would lead to more demand for maintenance work. We forecast this segment to remain Serba's main revenue/operating profit contributor with a 5-year CAGR of 20%/18% in FY15-FY20. We expect Malaysia's revenue contribution to grow to c.50% in FY19/20 from the historical c.30% due to the execution of the large-scale Pengerang maintenance hub project. Having said that, we believe the Middle East will still be one of its key markets with revenue contribution c.40% (historical 60%). • **Sizeable orderbook wins.** Total contract wins announced YTD amount to RM1.6bn (O&M: RM600m, EPCC RM1bn). Our orderbook replenishment assumption is at RM2.5bn for FY18. EPCC wins will ultimately support Serba's O&M segment as the group tends to package its EPCC tenders, together with long-term maintenance contracts. Furthermore, more than RM1bn of expiring O&M contracts have been renewed YTD. • **Active tenders to support growth.** Total outstanding orderbook is estimated at RM6.9bn (O&M: RM4.6bn, EPCC RM2.3bn). This will provide good earnings visibility until 2021. The group's tenderbook stands at RM10bn. On tendering activities, we understand that the majority of contract bids are in Malaysia, Southeast Asia, Central Asia (Turkmenistan, Kazakhstan and Uzbekistan) and Africa (Senegal, Côte d'Ivoire and Guinea). • **BUY, TP of RM5.20.** Our SOP target price stands at RM5.20, based on 9% WACC for its utility assets, while its O&M and EPCC segments are pegged to an FY19F PE of 15x. Serba's premium valuation is justified by its strong EPS CAGR of 23% over FY18-20F, which remains at a discount to global O&M peers.

Top Stock Picks (cont'd)

Stocks	Key Investment Merits
KPJ Healthcare	• **Healthier prospects ahead.** We are positive on KPJ Healthcare Bhd's (KPJ) earnings prospects due to the: (1) waning effect of declining patients' affordability following the implementation of GST in 2015, and (2) hospitals opened since 2012 are all EBITDA positive. Furthermore, we do see value emerging as KPJ is currently trading at -1SD of its historical mean. • **Operational statistics have improved.** Recent performance numbers have indicated a rebound in patient volume growth to >4%, in line with the recovery in consumer sentiment. The strengthening private consumption and the new government's proposed healthcare scheme to provide RM500 per year for Bottom 40 (B40) families to visit private clinics could sustain the sector's recovery. • **Margins could expand.** Profit margins could have room to expand due to the abolishment of GST as KPJ has been absorbing the 6% GST input tax on drugs and medicine under the exempt supply. • **BUY, TP of RM1.30.** We maintain our BUY recommendation for KPJ with a target price of RM1.30, based on SOP valuation. The active share buy-back by the group since end-2017, should also help to improve investor confidence in the stock.
Hibiscus Petroleum	• **Enhancement works on Anasuria Cluster to increase daily production.** In FY18, Hibiscus's net production came in at an average of c.2,945 boe/day (oil: c.2,705 bbl/day and gas 240 boe/day). It targets to increase its net oil production to 3,500 bbl/day in FY19. Management is currently working on enhancement projects throughout 2018-2020 with a budgeted capex of USD109m to be funded by internally generated funds and proceeds from its recent private placement. The estimated net oil production after completion of the enhancement projects is 5,000 bbl/day. A 1% increase in total production for the Anasuria Cluster will improve earnings by 1.4% in FY19. • **Earnings accretion from North Sabah EOR PSC to double earnings from FY19.** The acquisition was completed as at end-March 2018. As such, the North Sabah EOR PSC started to contribute marginally in 4QFY18. We expect PAT contributions from North Sabah EOR PSC to grow at a 3-year CAGR of 66% from FY18-21. North Sabah EOR PSC's PAT contribution will grow from 36% in FY18 to c.51% in FY19. • **BUY, TP of RM1.46.** Our TP is based on the DCF of the Anasuria Cluster and North Sabah PSC. We do not ascribe any value to the Australian assets at this juncture. We forecast a FD core EPS CAGR of 85% over FY18-21F for Hibiscus, which is underpinned by its growing asset portfolio.

Revisions to recommendations

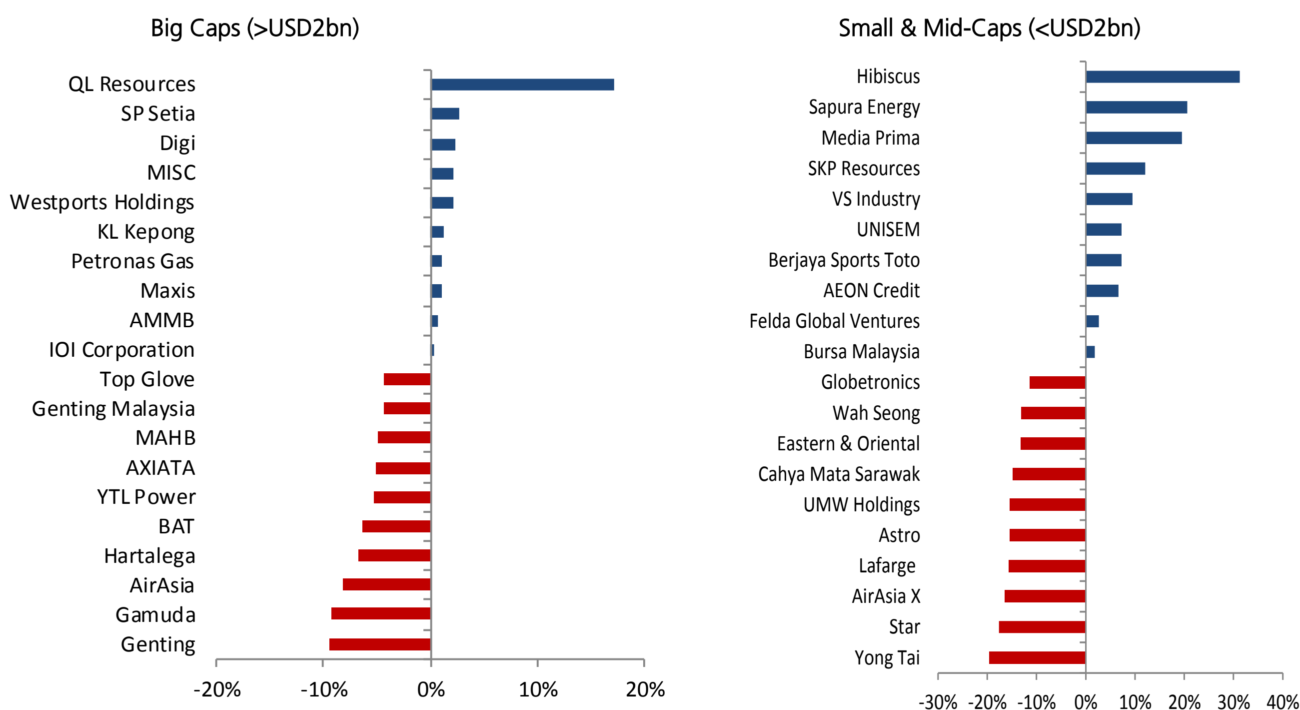
Company	Revision to Recommendation		Revision Date	Reason
	Current	Previous		
Upgrade				
Magnum	BUY	HOLD	21-Sep	Although we remain cautious on the group's earnings prospects, we are turning positive on the stock given that: (1) value has emerged following the recent price weakness, and (2) its RM148m settlement of tax liabilities with the Inland Revenue Board (IRB), without impacting its ability to pay out high dividends, should remove the major overhang on the stock. Dividend yield remains attractive at around 7%.
Downgrade				
Unisem	HOLD	BUY	13-Sep	Since our BUY call upgrade in early April, Unisem's share price has rebounded by 72% from its low, given the improving sentiment for the sector, recovery in its 2Q18 earnings and a reversal in the forex direction (i.e. strengthening USD). A more positive surprise is the conditional takeover offer from TSHT at RM3.30/share, implying valuations of 1.6x BV and 18.5x FY19 PE (+1 SD above 5-year mean) for Unisem. In conjunction with our sector report, we believe this represents a good opportunity for investors to take profit on the stock. We close our BUY call and downgrade our recommendation to HOLD with a TP of RM3.30.
Globetronics Technology	HOLD	BUY	13-Sep	GTB's share price has rebounded by 69% from its April low, which is likely to have priced in the recovery of light sensor volume in 2H18 after the production cut in March-May period. Despite expectation of stronger 2H18 earnings, we believe the near-term sentiment on the stock would be weighed by the potential escalation of the US-China trade war that might affect the end-demand of some of its sensor products. Coupled with the limited upside now, we downgrade our recommendation to HOLD with an unchanged TP of RM2.80.
VS Industry	HOLD	BUY	26-Sep	We believe that any material benefits to VSI will only be apparent beyond FY21. We downgrade our call to HOLD as its current valuation appears fair after accounting for more moderate near-term growth prospects of 10%. Hence, we downgrade VSI to HOLD.

Significant reports

Date	Report
Strategy report	
4-Sep	Bumpy road ahead
Sector report	
12-Sep	Malaysian Telco: Facing regulatory snags
13-Sep	Malaysia Technology: Stay on the sidelines
18-Sep	Malaysia Property: The low-down on high-rise
27-Sep	Malaysia Gaming: Regulatory policy remains a wild card

Source: AllianceDBS

Best- and worst-performing stocks in AllianceDBS' coverage in Sep



Source: AllianceDBS, Bloomberg Finance L.P

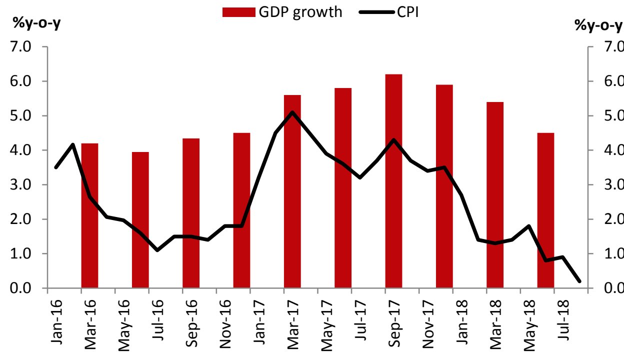
Macro Data

Key Data	Period	m-o-m / y-o-y chg	Prev. / Consensus (y-o-y)	
GDP	2Q18	0.3% / 4.5%	+5.2%	In 2Q18, growth was driven mainly by improvement in Manufacturing (+4.9%), Services (+6.5%) and Construction (+4.7%). On the other hand, the demand side was supported by private consumption (+8.0%), private investment (+6.1%) and public consumption (+3.1%). Private consumption remains the main driver of growth (55.2% of total GDP); expanding faster at 8.0% y-o-y, benefiting from the one-month tax-free period. Additionally, net exports of goods and services expanded significantly lower by 1.7% in 2Q18, from a 62.4% y-o-y growth in 1Q18. Nonetheless, we expect private consumption to remain expansionary, given that the current fiscal reforms by the government such as GST removal and the standardisation of minimum wage would provide favourable domestic demand conditions to support Malaysia's private consumption growth towards the end of the year, contributing positively towards 3Q18 GDP growth.
CPI	Aug 18	+0.2% / +0.2%	+0.9% / +0.4%	During the month, prices remained steady across most segments, coming into the third and final month of the tax holiday. August inflation was attributed to higher Food and Non-alcoholic Beverages (+0.4%); Housing and Utilities (+2.0%); and Transport (+2.1%) segments. However, this is offset by the fall in Clothing and Footwear, Communication, Miscellaneous Goods and Services segments, which contracted 2.9%, 4.0% and 3.0% respectively.
OPR	Sept 18	3.25%	3.25% / 3.25%	Bank Negara Malaysia (BNM) kept rates unchanged in its September meeting. The decision was in line with Bloomberg consensus and our in-house expectations. Overall, we believe that BNM will likely maintain the current OPR until end-2018.
Exports	July 18	+9.6% / +9.4%	+7.6% / +4.7%	During the month, exports growth was mainly supported by stronger exports of E&E products, crude petroleum, refined petroleum products, palm oil and palm oil-based products. The sequential growth was also due to a low base effect in June as a result of the Eid festive holidays. The ongoing trade war between the US and its major trading partners likely to have an adverse impact to Malaysia due to spillover effect from disruption to global trade flows. However, there is a silver lining for Malaysia's export-oriented manufacturing sector over the medium term as multinational corporations may diversify their supply chain away from countries directly implicated in trade war to relatively neutral countries such as Malaysia.
PMI	Sep 18	51.5^	51.2/ -	Nikkei reported Malaysia's manufacturing conditions performed strongest growth in 10 months, attributed to the highest employment rate within the sector since 2012. The growth rates for new orders and output during the month remain solid despite the implementation of the new SST during the month.
IPI	July 18	2.6% / +2.6%	+1.1% / +1.4%	Industrial production index (IPI) growth was mainly driven by the strong Manufacturing sector and Electricity in July. The manufacturing sector was supported by robust E&E production (m-o-m: +0.4%), Transport Equipment and Other Manufacturers (m-o-m: +5.2%), Mineral and Metal products (m-o-m: +2.6%). In July, IPI grew in tandem with external trade growth, indicating a recovery in production activities after festive holidays during June.
CPO Output	Aug 18	+7.9% / -10.4%	-17.7% / n.a.	Production picked up with a second consecutive m-o-m rise but remained steadily lower y-o-y, as FFB yields kept low on the normalisation of the post-El Nino recovery surge. Yield recovery is expected to be gradual, only reaching parity towards year-end.
CPO Inventory	Aug 18	+12.4% / +28.2%	+43.2% / n.a.	Stockpiles rebounded back above Feb 18 levels, at 2.49m MT at end-Aug 18. Despite softer output, Aug 18 exports fell y-o-y as volumes to the EU posted its lowest monthly CPO exports since Mar 11. While we expect the EU event to be a one-off from trade frictions, full-year exports will likely remain softer. Ramp-up of in biodiesel blending, especially from Indonesia, will help shore up demand to help keep inventories in check.

Source: AllianceDBS, Bloomberg Finance L.P
** q-o-q*
^ latest reading

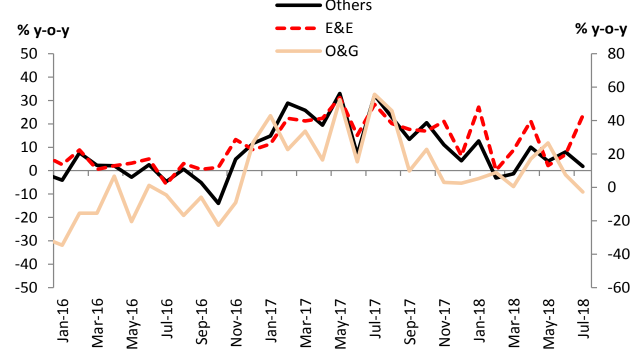
Macro Graphs

Malaysia GDP and Consumer Price Index growth



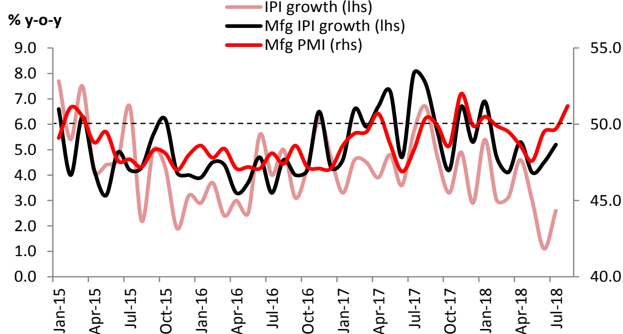
Source: Department of Statistics

Malaysia exports growth



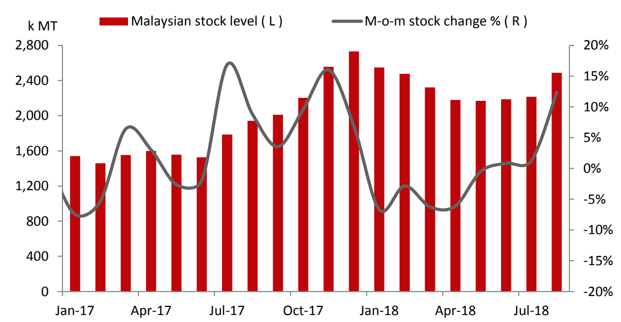
Source: Department of Statistics

Malaysia industrial production and PMI index



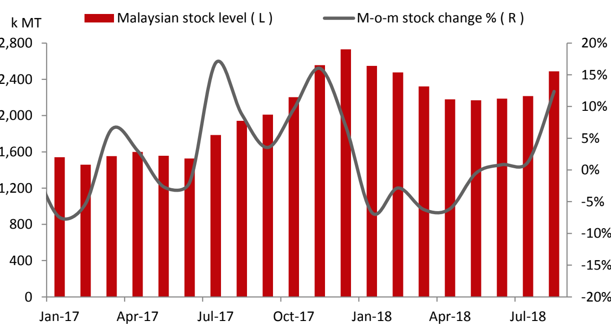
Source: Department of Statistics, Markit

Malaysia palm oil output



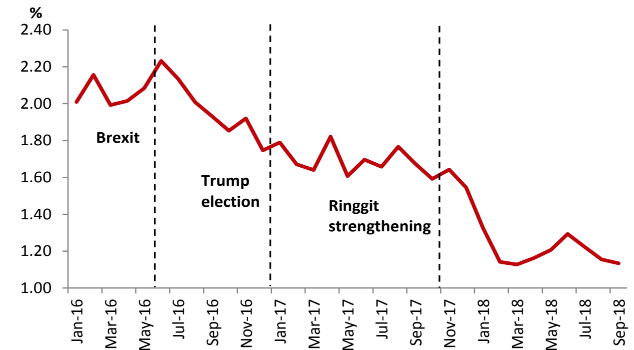
Source: Department of Statistics

Malaysia palm oil inventory



Source: Malaysian Palm Oil Board

MGS 10-year and US Treasury 10-year yield spread



Source: Bloomberg Finance L.P

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation

EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax

PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

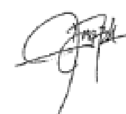
This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com