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Sectors to keep an eye out for in 2024 as post-pandemic boom subsides

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(Jan 4): As the economy continued to recover last year after the pandemic lockdowns, sectors such as tourism, aviation and consumer recorded strong rebounds, with healthcare — except for glove makers — continuing to post earnings growth. Now, as the post-pandemic boom subsides, attention is turning to sectors with long-awaited project roll-outs, such as oil and gas, construction and power.

Here is a brief look at the key sectors to watch out for:

O&G: Price outlook mixed but sustained activities to support sentiment

Upstream oil and gas (O&G) companies in Bursa Malaysia are anticipated to continue benefiting from elevated activity levels, which underpinned their solid earnings comeback in 2023 despite pressure on oil prices to go below US$80 per barrel, compared with over US$100 in 2022.

The Petronas Activity Outlook 2024-2026 report, which lays out the national oil company's expected activity levels in the next three years, suggests sustained or higher capex spending as it targets a production of two million barrels per day by 2025, up from 1.7 million currently, according to analysts' reports.

Industry top picks include Dialog Group Bhd on signs of the storage and tank terminal service market bottoming out; and floating production storage offloading vessel (FPSO) players Bumi Armada Bhd and Yinson Holdings Bhd due to their tight segment, according to the number of buy calls among analysts compiled through *Bloomberg*.

HLIB Research, in a note dated Dec 18, stayed overweight on the sector, as it pointed to new contract awards this year, including the three-year, RM4-5 billion Petronas Asset Integrity Backlog Clearance (ABC), and the multi-year Pan Malaysia maintenance, construction and modification (MCM) and hook-up and commissioning (HUC) packages (five-year firm, three-plus-two option period).

Other sub sectors with potential upsides are vessel operators in light of supply shortages, while those involved in decommissioning activities could also benefit from the Petronas Activity Outlook report's projections, said RHB Research, which is also overweight on the sector.

Assets from local players are "expected to be fully utilised", with Petronas unlikely to roll back its capex as long as oil prices remain supported above US$60 per barrel, said PublicInvest Research, who is neutral on the sector, but overweight on brownfield maintenance players that benefit from MCM and HUC activities.

As to whether oil prices can stay around the sweet spot of US$80 per barrel, much depends on whether Opec+ members will undertake voluntary cuts, as was done in 2023, in anticipation of some demand slowdown — which has emerged in the downstream segment.

Power: Anticipating new quota, project roll-outs

Power sector players such as local utility companies, solar asset owners and contractors, saw strong share price gains in 2023 due to a boost in sentiment following the government's adoption of policies to accelerate RE adoption through bigger RE projects and exports of low-carbon electricity to neighbouring Singapore.

With the change of minister overseeing the power sector after the Cabinet reshuffle last month, all eyes will be on the roll-out of new projects and quota, including the Net Energy Metering (NEM) quota required for rooftop solar installations, as well as upcoming large-scale solar (LSS) projects to cope with the very high demand anticipated in Malaysia and its neighbouring countries.

Industry top picks include Tenaga Nasional Bhd, which is seen as the ultimate beneficiary from any electrification trends, as well as YTL Power International Bhd on its strong earnings recovery in Singapore, which is expected to continue this year.

Among sector players with smaller market capitalisation, Solarvest Holdings Bhd and Samaiden Group Bhd are top picks, due to their solid order books and track record in solar job deliveries, while Solarvest is also a solar asset owner.

Ahead of the rollout of new LSS projects, implementation of the corporate green power programme (CCGP) would see an estimated RM2.7 billion to RM3 billion of contracts to come "even after factoring deflationary solar module prices", HLIB Research said in a note.

"Commercial operation dates (COD) of these capacities in 2025 would help build a recurring income base for stocks under our coverage, soothing earnings volatility inherent in EPCC businesses.

"We like the sector riding on strong structural themes as well as a positive earnings growth cycle," it said in a note dated Dec 22.

"Nevertheless, going into 2024 the market will look forward to implementation of initiatives outlined [in the National Energy

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Transition Roadmap]," the research house added.

Healthcare: Opportunities aplenty for healthcare providers and pharma suppliers, while glove makers still face Chinese competition

Even as the Covid-19 pandemic reaches manageable levels globally, the fear of new virus variants and the disease's lingering effects still looms, especially among the elderly, which provides opportunities to healthcare players.

"The growing ageing population in Malaysia is expected to increase non-communicable diseases (NCDs) cases, giving more opportunities for healthcare providers — hospitals, clinics, hospices and specialised care institutions — to leverage on in 2024," said MIDF Research in a note.

The research firm, which remains "positive" on the healthcare sector, highlights IHH Healthcare Bhd and KPJ Healthcare Bhd as top picks.

Concurrently, the recent spike in Covid-19 cases has rekindled investors' interest in rubber glove stocks that recorded a spectacular outperformance in 2020-2021.

This is backed by higher sales — Top Glove Corp Bhd, for one, saw sales rise 9% quarter-on-quarter in its September-November quarter.

MIDF observes that the increase in Top Glove's sales volume is not just reflective of Covid-19 trends, but also due to the post-pandemic rise in health awareness in developing countries. Nonetheless, the research house is "neutral" on the glove sector as it remains cautious of the intense competition from Chinese players.

Meanwhile, Kenanga Research, which is overweight on the overall healthcare sector, sees "robust sales of pharmaceuticals and over-the-counter (OTC) drugs backed by increased health awareness".

"Over the longer term, the prospects of private healthcare will continue to be underpinned by rising affluence and an ageing population," said the research house, which has an 'outperform' call on both IHH Healthcare Bhd and KPJ Healthcare Bhd, as well as pharmaceutical groups Kotra Industries Bhd and Nova Wellness Group Bhd.

Construction: Removal of political uncertainty shines hope on project flows

Sentiment is bullish in the construction sector for 2024, backed by a strong pipeline of infrastructure projects, and rising demand for industrial buildings such as warehouses, data centres and semiconductor plants.

Mega projects that the market is anticipating include the RM45 billion MRT3 Circle Line, for which the MRT Corp recently sought a three-month extension till March to finalise tenders for the project; and the RM9.5 billion Bayan Lepas LRT in Penang that will receive financial backing from the federal government.

On top of that, there will be the rollout of six flood mitigation projects reportedly to be worth RM13 billion including in Johor, Selangor and Kelantan.

"We believe there will be enough jobs to go around for all players," said Kenanga Research in a note.

The sector is also poised for margin recovery as newly-secured contracts have reflected cost inflation, said Kenanga Research, which is overweight on the sector.

It has become increasingly common for contracts post-pandemic to carry price escalation clauses to safeguard the margins of contactors, it said.

Another factor contributing to the bullish outlook is how political uncertainties have pretty much been alleviated, said MIDF Research, who is also positive on the sector. Medium-term plans are in-place, such as through the Mid-Term Review of the 12th Malaysia Plan, and what is crucial "is the commitment in rolling out the projects", it said.

The sector is also further catalysed by prolific overseas jobs, as seen with Gamuda Bhd, said AmInvestment Bank Research. "To date, Gamuda is the only Malaysian contractor to secure major tenders in Australia and Taiwan," the research firm said.

Besides Gamuda, other top picks by analysts for the construction sector include IJM Corp Bhd, Sunway Construction Group Bhd and Malayan Cement Bhd.

Property: Rate pause, infra boom to rejuvenate demand

Catalysts for the property sector in 2024 include signals from Bank Negara Malaysia to continue pausing rate hikes, potential rate cuts by the US Federal Reserve, the slew of major infrastructure projects and favourable government policies.

Major projects present opportunities for developers to launch high-value transit oriented developments, including the Bayan Lepas Light Rail Transit (LRT), the Johor Bahru-Singapore Rapid Transit System or RTS Link, and a potential revival of the Kuala Lumpur-Singapore High Speed Rail project, according to RHB Research and AmInvestment Bank

Demand for industrial land and data centre sites has also been high, the research house noted, citing the entry of Nvidia into YTL Power International Bhd's data centre park in Johor as a high-profile example.

Government measures that are a boon for the sector include the formation of a Johor-Singapore Special Economic Zone (JS-SEZ) down south that is intended to support Singapore's industrial sector with an emphasis on renewable energy, which has spurred interest in real estate within Iskandar Puteri.

In addition, the revamped multi-tier Malaysia My Second Home (MM2H) programme could boost demand for more premium homes in Kuala Lumpur, Penang and Johor, AmInvestment said.

However, AmInvestment remains cautious on the speed of recovery in foreign property buying due to a potential slowdown in global economic growth, in particular in China, whose citizens are a major applicant of the MM2H programme.

While inflation remains a concern, analysts believe it is manageable as the market adapts to the new environment.

On risks to the sector, AmInvestment points to stagflation risks and geopolitical tensions disrupting global trade and supply chains, which could impact economic recovery and building material costs.

Tourism: Higher tourist arrivals to support retail, consumer sectors

Malaysia's tourism industry is expected to continue its recovery and surpass pre-pandemic levels in 2024, analysts said.

The recent relaxation of visa entry for tourists from China, India and Middle East countries and better flight connectivity will also drive the resurgence in Malaysian tourism.

MIDF Research remains positive on the real estate investment trust (REIT) sector, particularly retail REITs, underpinned by positive rental reversion and strong shopper footfalls at the mall, following the expected higher tourist arrivals.

Among the beneficiaries are IGB REIT, Sunway REIT, KLCCP Stapled Group and Pavilion REIT, which will be supported by their retail segments and hotel divisions.

Meanwhile, casino and resort operator Genting Malaysia Bhd (GenM) is also poised for further tourism revival with its Resorts World Genting (RWG) expected to regain its pre-pandemic earnings momentum following the progressive return of international tourists, according to UOB Kay Hian Research.

Apart from the REIT and hotel sector, several stocks in the consumer sector are expected to benefit from the influx of tourist arrivals, including bottled water producer Spritzer Bhd, which saw record-high net profit in its third quarter ended Sept 30, 2023 (3QFY2023) — partly driven by tourism activities.

The same is expected for food and beverage players Fraser & Neave Holdings Bhd and QL Resources Bhd, which operates the convenience shop chain Family Mart here. Another stock that will likely gain from the increased tourist activity is optical retail chain store operator Focus Point Bhd,

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according to TA Securities, as Focus Point has 20 Johor outlets that can capture Singaporean travellers, aside from outlets in KLCC, Genting Premium Outlet, and Design Village in Penang, all of which are tourism hot spots.

Aviation: Encouraging signs but financial concerns still need to be addressed

With the continued revival of the tourism sector, the aviation industry has continued to rebound, with airline operator Capital A Bhd so optimistic on its prospects that it intends to start releasing profit projections soon.

In addition to Capital A's earnings recovery, focus will be on how it restructures its negative equity funds to resolve its financial condition.

Similarly, observers will be watching AirAsia X Bhd's sustainability measures and its ability to maintain profitability after its upliftment from the Practice Note 17 status last year.

For airport operators, Malaysia Airport Holdings Bhd (MAHB) already saw higher-than-expected passenger traffic of 9.62 million in the first 11 months of 2023, and aims to host 83 airlines within two years, exceeding its 2019's record by over 20%.

MIDF Research predicts a surge in Malaysia's airline traffic, lifted by visa-free deals with China, India and the Middle East.

The research house is also encouraged by local airlines' sustained load factor of above 80% for two consecutive months, even as capacity remains at 66% of pre-pandemic levels.

The weakening of the US dollar and falling jet fuel prices are anticipated to boost the sector's profitability, according to HLIB Research.

Also to be watched is how quickly airlines can adjust to changing market trends, such as digitalisation and environmental considerations, while also focusing on cost management and operational efficiency.

Plantation: El Niño seen slashing production, lifting prices

The El Niño is expected to reduce crude palm oil (CPO) production, which could lead to a subsequent increase in CPO prices by 2024.

This typically creates favorable conditions for plantation companies but analysts remain neutral on the sector, saying the wider impact of the weather phenomenon has to be closely monitored.

Palm oil supply is also likely to tighten in 1H2024 due to seasonally lower palm oil production and increased demand for edible oils ahead of the Chinese New Year and Hari Raya Aidilfitri festivals, said CIMB Research in a note.

The research firm forecasts that average CPO prices will increase by 5% to RM4,000 per tonne in 2024 from RM3,800 per tonne in 2023.

However, some analysts noted that the dry weather's influence has been relatively minimal so far, and upheld their projections for growth in fresh fruit bunches (FFB) production.

Further, the easing of labour shortages will increase FFB yields which will lead to higher crop production, they said.

Top picks in the sector include Ta Ann Holdings Bhd, Kuala Lumpur Kepong Bhd and TSH Resources Bhd.

Analysts believe that any uptrend in CPO prices would provide trading opportunities in Ta Ann, while Kuala Lumpur Kepong is favoured due to its strong track record and flexibility to expand upstream regionally while being ready to expand selectively downstream. TSH Resources is liked as it plans to expand oil palm acreage in the coming years.

Technology: After a dismal 2023, observers eye upcycle

After a year that saw the local technology sector struggle through a cyclical downturn that saw earnings drop by over 60% for some, demand is expected to have bottomed out in 2023, and analysts are now eyeing an upcycle — though it may not come as soon as some expect.

Citing World Semiconductor Trade Statistics (WSTS), MIDF Research said semiconductor sales are forecast to grow by 13.1% y-o-y in 2024, in line with economic growth in advanced and developing economies.

"Nonetheless, we view that the pace of [the global economy's] growth lacked enthusiasm. This could suggest the pace of recovery for demand might still be lukewarm at this juncture, which would indirectly dictate the well-being of the semiconductor market," MIDF said in a market strategy report on Dec 7.

Outlook "may remain tepid in 1H2024 before picking up in 2H", while some suggest "the great rebound could only be seen in 2025," it added, saying the pace of recovery for different semiconductor subsectors and firms may vary.

Areca Capital Sdn Bhd CEO Danny Wong, for one, is hopeful of a semiconductor upcycle in 2024, though he noted it may not equal the bull run levels seen in 2021-2022.

Touching on geopolitical factors, TA Securities said ongoing US-China trade tensions and the consequent "China Plus One" strategy will have a positive spillover effect on local electrical and electronics (E&E) players.

"We also expect Malaysian semiconductor players with a presence in China, including Inari, MPI and Unisem, to benefit from China's 'Made in China 2025' strategy, which aims to vastly increase domestic semiconductor production," it added.

Regardless, near-term visibility is still clouded by uneven end-segment recovery. Thus, both MIDF and TA Securities remain 'neutral' on the sector.

Stock-wise, MIDF's sole 'buy' call is D&O (target price (TP): RM4.03), while TA Securities has 'buy' on outsourced semiconductor assembly and testing providers Inari Amertron Bhd (TP: RM3.55) and Malaysian Pacific Industries Bhd (TP: RM32.35).

Automotive: Uncertainty emerges after two-year bonanza

After two years of strong sales, the automotive industry is facing uncertainty in 2024 with analysts foreseeing challenges as the country overhauls its fuel subsidies, potentially impacting the sector's growth.

RHB Research, in a Dec 21 note, predicts a return to more typical vehicle sales growth in 2024, citing a lack of momentum drivers and a "hazy" outlook. The firm identifies Bermaz Auto Bhd as its top pick with a TP of RM3.60, due to its resilient sales and 10% dividend yield.

Kenanga Research, which has downgraded the sector to 'neutral', said the Malaysian government's plan to rationalise fuel subsidies may alter consumer behaviour as fuel costs increase for them.

"However, we remain optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group, will be spared the impact of subsidy rationalisation, [they] also could potentially benefit from the introduction of the progressive wage model," said the research house in a Dec 15 note.

Kenanga favours MBM Resources Bhd in the sector, with a TP of RM5.50, for its exposure to the economical Perodua brand and the stock's 11% dividend yield.

Hong Leong Investment Bank, meanwhile, noted the growing presence of foreign electric vehicle (EV) manufacturers as a potential threat to non-national internal combustion engine car sellers.

Hence, despite a record year of vehicle sales or total industry volume in 2023, Hong Leong is 'neutral' on the sector, with top picks being MBM Resources and DRB-Hicom Bhd due to their exposure to national car makers (Perodua and Proton respectively) with potential growth from export markets.

The two carmakers also have one foot in the electrified segment, with Perodua having adopted the hybrid EV subscription model, while Proton launched its full EV Smart #1 in November. Following 2023 stellar performance, the resilience and adaptability of Malaysia's automotive sector will be tested in 2024.

Read also: AmInvestment keeps end-2024 KLCI target at 1,545 pts, flags rising risk of global recession