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The Malaysian Reserve, Malaysia

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WHILE 2022 was a challenging year in terms of macroeconomics, corporate earnings, and politics, the new year promises a significant improvement in these key market drivers.

The country's GDP growth is expected to slow but remain robust at 4%, with the worst of the "higher inflation — higher interest rates" dynamic now behind us.

Earnings growth in the benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) is expected to accelerate to the mid-to-high teens as the market moves past 2022's twin drags of the one-time Cukai Makmur and gloves sector earnings collapse.

Further, the 15th General Election ultimately yielded a ruling coalition with a coalition government, led by Prime Minister Datuk Seri Anwar Ibrahim, a progressive politician, boding well for improved governance and expedited policymaking.

Crucially, strong GDP growth and rejuvenated national oil company Petroliam Nasional Bhd (Petronas) are providing the new government the fiscal breathing room required to build the consensus necessary to tackle disruptive issues such as subsidy rollbacks and higher taxes.

Due to the positive sentiment, Maybank Investment Bank Bhd reckons the FBM KLCI to expand 12% to hit 1,660 points in 2023.

"We retain a balanced positioning, via a mix of value and growth stocks, and continuing yield focus," it said in a note.

While fading reopening tailwinds and interest-rate hikes will weigh on growth in 2023, it believes that market earnings expansion (ex-gloves) is, nonetheless, forecast to strengthen to 17.3% as Cukai Makmur expires, bank sector profitability continuing to improve and on accelerating recovery at laggard sectors like casino-gaming and transport/aviation. It also noted that accelerated reopening by China will boost trade, tourism and commodities demand as well as prices.

It also believes that growth or earnings-negative policy changes relating to subsidies and taxes are now unlikely to surface in 2023 as the government focuses on cost-of-living issues, with interim fiscal gap to be bridged via curbing of fiscal leakages and Petronas.

In a recent strategy note, CGS-CIMB Securities Bhd offers five investment trading themes for 2023, namely beneficiaries of China's reopening; beneficiaries of rate hikes; Alpha picks; environmental, social and governance (ESG) picks; and high dividend yielders.

Following the passing of the confidence vote on new PM, the research house said the key events to watch out for in 2023 that could provide investors with greater assurance on the political stability includes tabling and approval of Budget 2023 next month, Umno party elections and state elections in six states.

Bloomberg

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Five trading themes for 2023

1) Beneficiaries of China's relaxation of its Zero-Covid policy

China announced wide-ranging relaxations of strict pandemic controls on Dec 8, 2022. This is the biggest sign yet that China is shifting its focus from battling Covid-19 to stabilising the economy. The country is expected to continue to relax its strict Covid-19 measures and will allow more international travellers in the "near future", according to its ambassador to the US on Dec 13, 2022.

However, there are some concerns that the lifting of restrictions could lead to a potential spike in Covid-19/flu cases, overwhelming its healthcare system. As such, CGS-CIMB is of the view that the benefits from the reopening may be more evident in the second half of 2023 (2H23).

It said that this trend is likely to benefit companies that have operations in China or have exposure to Chinese consumers.

Among the companies under its coverage, CGS-CIMB sees Inari Amertron Bhd, Unisem (M) Bhd, Malaysian Pacific Industries Bhd, Mi Technovation Bhd, Aemulus Holdings Bhd, Uchi Technologies Bhd, Sime Darby Bhd, QL Resources Bhd and Kawan Food Bhd as potential beneficiaries through higher productivity at its China operations and/or higher domestic demand in China.

In the medium term, it said the reopening of China's international borders is likely to benefit the tourism sector in Malaysia. Chinese tourists accounted for 12% of total tourist arrivals into Malaysia in 2019. However, they made up a larger 17.8% of tourism spending. On average, Chinese tourists spend more per visitor than any other major tourist group into Malaysia at close to RM5,000.

This could benefit Malaysia Airports Holdings Bhd, Genting Malaysia Bhd, Genting Bhd, Sunway REIT, IGB REIT, Carlsberg Brewery Malaysia Bhd, Heineken Malaysia Bhd, IHH Healthcare Bhd, KPJ Healthcare Bhd, QL Resources Bhd, 7-Eleven Malaysia Holdings Bhd and Bonia Corp Bhd, it said.

2) Beneficiaries of rate hike in 1H23

CGS-CIMB expects the Overnight Policy Rate (OPR) hikes to benefit banks as their floating-rate loans are larger than their fixed deposits.

"We have factored in a total hike of 75bp in 2022F in our earnings forecasts for banks. If we were to factor in further OPR hikes in 2023F, every additional 25 basis point (bp) hike would increase our net profit forecasts for banks by an estimated 2.1% (on a full-year basis).

"However, the positive impact from OPR hikes could be partly diluted by higher cost of funds from a pick-up in the deposit competition," it said.

Its analysis shows the OPR hike having the largest positive impact on Bank Islam (9% increase in FY23F net profit for every 25bp hike) as its floating-rate loan ratio of 91% in FY23F is the sector's highest.

Conversely, the impact would be smallest on Affin Bank Bhd's FY23F net profit (0.3% increase for every 25bp hike) as its FY23F floating-rate loan ratio of 74.1% is one of the lowest in the sector.

Its top three picks in the banking sector are RHB Bank Bhd, Hong Leong Bank Bhd and Public Bank Bhd.

Other potential beneficiaries of a rate hike would be companies that have a large net cash position as they will gain from higher interest income.

Among the top five companies under its coverage with Add calls that have large net cash positions are Syarikat Takaful Malaysia Keluarga Bhd, Inari Amertron Bhd, Gamuda Bhd, Hap Seng Plantations Holdings Bhd and Bermaz Auto Bhd.

Additionally, it said that a rate hike is negative for companies with high ringgit borrowings as it will result in higher interest expenses. The top five companies with the highest gearing levels under our coverage are Pharmaniaga Bhd, YTL Corp Bhd, YTL Power Bhd, Astro Malaysia Holdings Bhd and British American Tobacco (M) Bhd.

3) Alpha picks

CGS-CIMB Research defines its alpha picks as stocks with strong investment proposition or catalysts, relatively under-researched small caps that could do extremely well if its growth plans are well-executed.

The four stocks it picked under this thematic are: Genetec Technology Bhd, Infomina Bhd, Karex Bhd and Bonia.

"We like Karex for: its turnaround story from loss-making in FY22 to profit in FY23 (expecting a two-year core EPS CAGR of 66.4%), positioning as the biggest condom manufacturer globally (six billion annual capacity), making it a strong proxy to the recovering global condom market and lastly strong research and development capabilities with potential launch of new products in the next six months to a year. There is upside should the new product launches garner strong customer responses," it said.

Meanwhile, Infomina it said is a strong proxy to the rising use of mainframe technology in Asia Pacific (sole listed proxy in Bursa Malaysia with exposure to mainframe services).

"We think it can benefit from: i) the growing adoption of Broadcom mainframe technology, and ii) repeat business from users of Broadcom mainframe software whose contracts are up for renewal (those who signed with Broadcom prior to VAD appointment)," it said.

Potential key catalysts it noted are strong orderbook and robust earnings growth (three-year CAGR of 29.6%).

Genetec Technology Bhd, meanwhile, is well-positioned to benefit from the growing demand for electric vehicles (EVs) and energy storage solutions (ESs) via its major customers in these sectors.

The company is also working on developing its in-house battery energy storage system as part of its new growth strategy.

"We see higher-than-expected orderbook replenishment for its EVs and ESs segment, a rise in institutional funds' holdings, expansion into new customers or verticals, and potential interest in Genetec as an ESG play as potential re-rating catalysts for the stock.

CGCS-CIMB Research projects Bonia to deliver strong earnings growth of 29% year-on-year in FY23F, driven by its effective brand-building exercises through social media platforms targeting the younger consumers; its innovative product designs, for its Bonia and Braun Buffel brands and the more appealing interior design of its physical outlets in targeted locations with higher footfall.

"Bonia trades at 10.0x CY23F P/E, a 63.5% discount to our consumer discretionary average CY23F P/E of 27.4x, with attractive dividend yields of 8.8-9.6% in FY23-FY25F," it said.

4) ESG picks

In this space, CGS-CIMB Research screened for sectors that are not adversely impacted by ESG issues and overlay it with its analysts' top ESG picks among the stocks under its coverage. On top of this we added FTSE4good scores in its analysis.

Among the stocks under its coverage with 'Add' ratings which meet the above criteria, are Malayan Banking Bhd (Maybank), Fraser & Neave Holdings Bhd, IHH Healthcare, Astro, UEM Sunrise Bhd, Axis REIT and Inari.

5) High dividend yielders

In view of global economic uncertainties, the research house reckons investors could seek shelter in big-cap names with high dividend yields.

The top five dividend-yield stocks under its coverage in 2023 are: Magnum (9.8%), Gamuda (9.3%), Beshom (8.8%), Bonia (8.7%) and Astro (8.4%).

Among the FBM KLCI constituents, the highest dividend-yield stocks in 2023 among its coverage are Genting Malaysia (7.6%), RHB Bank (7.3%), Malayan Banking Bhd (5.6%), Tenaga Nasional Bhd (5.3%) and Genting (5.1%).

Its top five picks from this theme after accounting for liquidity and market cap size and 'Add' call are Maybank, Public Bank, TNB, RHB Bank and Genting Malaysia. — *TMR*

TOP PICKS

Stock	Rating	Price	Target
TNB	BUY	9.40	11.65
RHB	BUY	5.72	6.60
GENM	BUY	2.81	3.44
MAHB	BUY	7.15	7.75
SUNWAY	BUY	1.61	2.65
CARLSBERG	BUY	23.36	30.77
VS	BUY	0.91	1.14
ARMADA	BUY	0.505	0.88
OSK	BUY	0.99	1.42
DAYANG	BUY	1.45	1.71
ITMAX	BUY	1.57	1.70
FOCUSP	BUY	1.04	1.51

Consumer

NAME	ESTIMATED DIVIDEND YIELD %
LII HEN INDUSTRIES BHD	9.09
BRITISH AMERICAN TOBACCO BHD	8.05
SPORTS TOTO BHD	7.84
MBM RESOURCES BHD	7.57
AMWAY MALAYSIA HOLDINGS BHD	6.96
JAYCORP BHD	6.94
BERMAZ AUTO BHD	6.05
BESHOM HOLDINGS BHD	5.71
POWER ROOT BHD	5.46
POH HUAT RESOURCES HLDGS BHD	5.36
HEINEKEN MALAYSIA BHD	5.16
MAGNI-TECH INDUSTRIES BHD	5.11
SIME DARBY BHD	5.11
GENTING MALAYSIA BHD	4.66
CARLSBERG BREWERY MALAYSIA BHD	4.55
LEE SWEE KIAT GROUP BHD	4.25

REIT

NAME	ESTIMATED DIVIDEND YIELD %
HEKTAR REAL ESTATE INVESTMENT	9.38
YTL HOSPITALITY REIT	8.48
UOA REAL ESTATE INVESTMENT	7.86
CAPITALAND MALAYSIA TRUST	7.29
SENTRAL REIT	7.23
KIP REIT	6.89
AL-'AQAR HEALTHCARE REAL ESTATE	6.61
PAVILION REAL ESTATE INVESTMENT	6.29
AL-SALAM REAL ESTATE INVESTMENT	5.95
SUNWAY REAL ESTATE INVESTMENT	5.82
IGB REAL ESTATE INVESTMENT	5.50
AXIS REAL ESTATE INVESTMENT	5.22
KLCCP STAPLED GROUP	5.13