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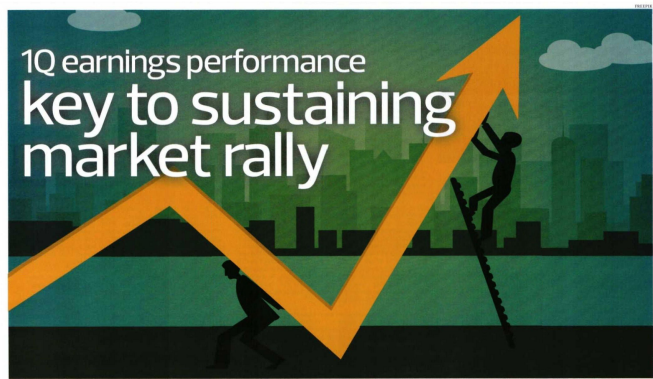
HEADLINE : 1Q EARNINGS PERFORMANCE KEY TO SUSTAINING MARKET RALLY

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BY LEE WENG KHUEN

Fueled by investor optimism, Bursa Malaysia's benchmark index the FBM KLCI is up more than 10% year to date YTD, outperforming most of its regional peers.

Of the top 100 companies by market capitalisation (exceeding RM1.3 billion), a third are trading above Bloomberg's consensus target price.

Have investors become too bullish or are analysts too conservative in their corporate earnings forecasts?

Alexander Chia, head of regional research at RHB Investment Bank, thinks it is a combination of both.

"Things are starting to look up and I think analysts are erasing on the side of caution because we haven't been in this kind of positive scenario for quite a while. The momentum will be good as long as the news flow remains positive," he tells *The Edge*.

Fortress Capital Asset Management Sdn Bhd CEO Thomas Yong concurs, as he believes that investors have been too bullish on certain stocks while analysts have lagged in earning upgrades.

YTL Power International Bhd (KL:YTLPOWER) and its parent YTL Corp Bhd (KL:YTL) have continued on an upward trend this year, posting 101.4% and 94.1% YTD to close at RM5.14 and RM3.63 last Wednesday, well

Of the top 100 Bursa-listed companies by market cap, these firms have recorded the highest YTD gains

COMPANY	SHARE PRICE ON MAY 17, 2024	YTD CHANGE (%)	CONSENSUS TARGET PRICE	UPSIDE DOWNSIDE POTENTIAL (%)	TRADING RANGE (12 MONTHS)	FORWARD P/E (12 MONTHS)	DIVIDEND YIELD (%)	MARKET CAP (RM BIL)
YTL Power International Bhd	5.14	102.4	4.81	-6.4	12.3	13.3	12	42.1
YTL Corp Bhd	3.63	94.1	2.87	-20.9	18.7	20.8	17	40.1
SP Setia Bhd	1.51	88.8	1.26	-16.6	25.2	20.0	0.9	7.2
Chen Hiap Group Bhd	3.05	72.3	NA	NA	72.9	NA	NA	10.8
Guarant Chong Bhd	3.10	69.4	2.94	-5.2	36.2	15.2	0.7	3.6
Sureway Bhd	3.40	65.0	3.39	-0.3	30.5	26.2	16	9.3
Sureway Construction Group Bhd	3.32	60.8	3.04	-2.6	27.7	22.6	2.0	4.0
Sime Darby Property Bhd	1.01	60.3	0.98	-3.0	17.1	16.0	2.5	6.9
Kossan Rubber Industries Bhd	2.24	48.1	1.94	-29.2	45.7	42.8	0.8	7.0
Sun Engineering Bhd	3.83	46.1	3.05	-11.4	31.5	48.4	0.4	4.0
United Nations Bhd	29.62	43.9	25.83	-0.8	14.6	14.3	4.3	30.7
UEM Sunrise Bhd	1.17	42.7	0.91	-22.2	79.3	66.1	0.7	5.9
Hartalega Holdings Bhd	3.82	41.5	2.69	-29.6	NA	280.8	NA	13.1
Malaysia Airports Holdings Bhd*	10.40	41.3	9.61	-7.6	35.8	23.3	10	17.4
Top Glove Corp Bhd	1.26	40.0	0.78	-38.1	NA	NA	NA	10.3
IOI Properties Bhd	2.44	39.4	2.66	9.0	21.3	18.3	2.0	13.4
Eco World Development Bhd	1.66	39.0	1.62	-11.0	21.6	15.6	4.0	4.3
KPI Healthcare Bhd	2.00	38.9	1.88	-6.0	31.8	29.3	1.8	9.1
Frontier Corp Bhd	4.27	31.8	4.55	6.6	56.8	38.6	0.5	6.8
OSK Holdings Bhd	1.63	31.5	2.36	32.5	7.1	6.7	4.4	3.4

Note: *Apollonisation after all RM1.25 share was converted Wednesday

above analysts' consensus target prices of RM4.81 and RM2.87 respectively.

Macquarie Equity Research recently initiated coverage on YTL Power with a target price of RM7.20 – the highest among the 13 analysts covering the stock – based on the fact that the market has yet to price in the full earnings potential of its new intelligence (AI) business.

Construction and property firms accounted for nearly half of the top 20 best performing stocks list.

SP Setia Bhd (KL:SPSETIA) led in this space with an 88.8% gain to close at RM1.51 last Wednesday against the consensus target price of RM1.26.

Glove stocks also came under the spotlight last week after chalking up gains in response to higher US tariffs on Chinese imports including gloves. However, analysts have urged caution. QGS International, in a May 15 note, says it is keeping its "underweight" call on the glove sector as it believes that P2020's return on equity of below 10% is under pre-pandemic levels. As such, it says the recent strong sector price-to-book value re-rating is not justified.

Analysts believe that the market direction until the end of May will depend heavily on first quarter (1Q) corporate earnings.

Chia says "1Q earnings are broadly in line with expectations, hence we can expect the positive market sentiment to be sustained. We are forecasting 9% EPS (earnings per share) growth for the FBM KLCI stocks for 2024."

The head of a bank-backed research house, who declines to be named, thinks there is a good chance the stock market rally will carry on as long as earnings deliver and do not disappoint. He adds that analysts are looking for management guidance before making any revisions to earnings forecasts.

"Malaysia's stock market is running on thematic plays, especially on infrastructure development, FDI (foreign direct investment), labor property and the labor-Singapore Special Economic Zone," he observes.

The FBM KLCI is currently trading at a price-earnings ratio of about 13.2 times, which is still below its historical average of 17 times. Last Thursday's close of 1411.11 points suggests a potential upside of 4.9%, based on the Bloomberg consensus 12-month target of 1,484.07 points.

Average daily trading volume of on-market transactions for the first four months of 2024 expanded 42% to RM2.16 trillion, compared with the same period last year.

According to Bursa's equity market highlights, there has been increasing interest by foreigners to open a Central Depository System (CDS) account to trade.

"Account openings by foreigners have doubled in the most recent months (March-April 2024), compared with January-February 2024. Account openings by foreigners increased close to 100% in 1Q2024 compared with the corresponding quarter in 1Q2023."

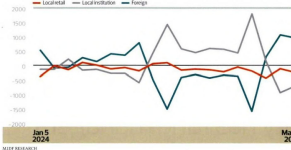
On May 7, 2024, the market value of Bursa-listed stocks hit the RM2 trillion mark for the first time. Bursa attributed the milestone to several positive factors, including optimism over better corporate earnings; Microsoft Corp's announcement that it is planning to invest US\$2.2 billion (RM30.3 billion) in cloud and AI infrastructure in Malaysia; and the appointment of VITECS Bhd (KL:VITECS) as the first Amazon Web Services distributor in Malaysia, which would further strengthen Malaysia's position in the cloud and data centre segments.

In addition, there are revived expectations of rate cuts by the US Federal Reserve as early as September, a measure that could

IPO performance in 2024

COMPANY	MARKET	LISTING DATE	IP/PRICE (RM)	SHARE PRICE ON MAY 17, 2024	GAINS/LOSSES (%)
Master Tec Group Bhd	ACE	Jan 29	0.39	1.28	228.2
KITS Group Bhd	ACE	Jan 26	0.27	0.72	166.7
Keyfield International Bhd	Man	April 22	0.90	1.97	118.9
Zeneca Holdings Bhd	ACE	March 27	0.28	0.48	92.0
HE Group Bhd	ACE	Jan 30	0.28	0.535	91.1
Toprim Bhd	ACE	April 23	0.31	0.605	95.2
Farm Price Holdings Bhd	ACE	May 14	0.24	0.40	66.7
TSA Group Bhd	ACE	Feb 2	0.18	0.295	62.7
Weent Engineering Holdings Bhd	ACE	Feb 6	0.26	0.325	25.0
Sim-Kung Logistics Bhd	ACE	May 15	0.13	0.14	7.7
SBR Marine Holdings Bhd	ACE	April 18	0.22	0.235	2.3
Proton Insurance Business Trust	Man	March 25	0.86	0.97	2.1
Alpha NF Group Bhd	ACE	March 22	0.32	0.32	No change
Mohd Ol Palm (East Kalimantan) Bhd	Man	April 10	0.62	0.62	No change
AGC Group Bhd	ACE	Feb 7	0.35	0.315	-10.0

Weekly market participation on Bursa Malaysia (RM mil)



drive foreign funds to rotate to other markets and asset classes.

Foreign funds returned as net buyers of Malaysian equities in the recent three weeks, after eight weeks of net selling. For the week ended May 3, foreigners' net buying amounted to RM1.16 billion – the strongest weekly net buying in two years. This was followed by a net inflow of RM66.1 million for the week ended May 10, according to MIDF Research.

The inflow prompted local institutions to take some profit in the past two weeks, with net selling of RM36.1 million and RM24.9 million for the weeks ended May 3 and May 10 respectively.

At the same time, retail investors continued to dispose of Malaysian equities for the ninth consecutive week to the tune of RM286.1 million for the week ended May 10.

RHB's Chia is encouraged by the net buying of Malaysian equities by foreigners in the first two weeks of May.

Foreign flows have turned positive, helping to drive the liquidity play. Since 2017, foreigners have net sold around RM50 billion worth of Malaysian equities, so the foreign ownership levels have fallen to below 20%.

Most foreign funds have been "underweight" Malaysia.

He says interest in the stock market will be supported by political stability, progress on economic and fiscal reforms and new FDI flows. In addition, Malaysia will benefit from higher US tariffs on Chinese imports, which will accelerate the China Plus One shift.

Chia sees opportunities in the small-cap space, many of which are under-researched.

RHB recently released its Top 20 Malaysia Small Cap Jewels 2024 edition report. Its recommendations in the tech industry include Cloudprint Technology Bhd (KL:CLOUDPT), Opstar Bhd (KL:OPSTAR), QES Group Bhd (KL:QES) and TT Vision Holdings Bhd (KL:TVH).

Favourite picks in the industrial products and services industry are AWC Bhd (KL:AWC), Engcon Group Bhd (KL:ENGCON), ACE Holdings Bhd (KL:ACEHOLD), Superconnet Technologies Bhd (KL:SCONNET) and YBS International Bhd (KL:YBS).

Other picks include New Hong Fat Holdings Bhd (KL:NHFAT), PA Resources Bhd (KL:PA), Ima Bina Group Bhd (KL:INTA), Kimlin Corp Bhd (KL:KIMLIN), Malubuh Engineering (M) Bhd (KL:MUHIBAH), Able Global Bhd (KL:ABLEGP), Kears Bhd (KL:KEARS), Shangri-La Hotels Malaysia Bhd (KL:SHANG), Umecol Group Bhd (KL:UMEC), Delectum (KL:DELECTUM) and Avaland Bhd (KL:AVALAND).

Inter-Pacific Securities head of research Victor Wan prefers to err on the side of caution as he believes local equities are overbought. "We may see consolidation first, but it won't be a severe pullback at this stage."

"We need to make sure that the earnings growth can catch up with the kind of rally that we have right now," he says, adding he will be observing how much firmer corporate earnings will be as "we need a further impetus".

As institutional funds have started to

take profit, Wan says it would be sensible for retail investors to lock in some profit while waiting for confirmation that the stock market's upward trend is sustainable.

At current valuations, Fortress' Yong is of the view that the Malaysian market remains attractive compared with its historical valuation, with expectations of positive news flow.

"Apart from the index, many small mid-cap stocks have also performed well. Investor optimism was fuelled by compelling valuations, favourable government policies, as well as the return of foreign investors."

"Although the timing of US interest rate cuts has become somewhat uncertain, emerging markets will eventually benefit from positive fund flows when that happens. On balance, market sentiment is likely to stay resilient in the near term."

Having said that, he stresses that corporate earnings are crucial for the sustainability of the market rally.

"As we enter the corporate earnings reporting season, institutional investors will rebalance their portfolios according to their revised expectations for each stock. As such, there will be volatility in certain affected stocks. Retail investors should similarly reassess the fundamentals of their stock holdings."

With increased foreign institutional participation, Yong is positive on blue-chip stocks that continue to deliver improving fundamentals.

"The banking sector and utilities sector remain attractive with decent valuations and dividend yield. They are benefiting from an improving economy."

He still sees opportunities for thematic plays in sectors such as property, construction and renewables, while advocating selective picks in the technology sector as the semiconductor cycle is expected to bottom out.

It is worth noting that the initial public offering (IPO) market has been decent thus far this year, with the majority closing above their offer price. Three new listings – Master Tec Group Bhd (KL:MTTC), KITS Group Bhd (KL:KITS) and Keyfields International Bhd (KL:KEYFIELD) – are now trading at double their IPO price.

Given the strong IPO pipeline, Bursa is optimistic that it can achieve its target of 41 IPOs this year with a collective market cap of RM43 billion. As at mid-May, a total of 15 companies had been started to