HOME

Hope rises for KLCI to reverse its long-term downtrend

BY IZZUL IKRAM
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KUALA LUMPUR (Feb 16): After a lacklustre 2023, the FBM KLCI rallied in the first six weeks of 2024, jumping over 5% to break past the 1,500 psychological resistance level, making it the second-best performer in the region year to date.

The local bourse's bellwether hit 1,531.37 on Tuesday, its highest since June 2022, largely due to the gains made by YTL Power International Bhd, Tenaga Nasional Bhd, Malayan Banking Bhd and CIMB Group Holdings Bhd, as the local stock market saw a surge in trading activities, with daily trading volume jumping past five billion shares on several occasions in the past few weeks alone. The threshold was only breached six times over the past two years.

The index has stayed firmly above the 1,500 points for over four weeks now — it closed at 1,528.38 points on Thursday — and market watchers have attributed the jump in trading volume to foreign investors entering the market.

In contrast, the FBM KLCI only briefly closed above the 1,500 level once, in mid-January 2023. The benchmark index averaged less than 1,440 for the year amid a more-hawkish-than-expected US Fed to China's disappointing post-pandemic recovery. It ended 2023 at 1,455 points after dropping 2.73%, putting the local bourse's performance behind Indonesia's Jakarta Composite (6.16%), Singapore's STI (-0.34%) and Philippines' PSE (-1.77%), only beating Thailand's SET (-15.15%).

The KLCI has now posted annual declines for eight out of the last 10 years — with 2017 and 2020 being the exceptions — with the drop in 2023 marking its third consecutive year of decline.

Is the trend set to reverse in 2024?

'Much of the bad news already priced in'

Market watchers are largely positive it would be a better year for the local bourse, with RHB Research summing it up as one where there are "more reasons to be optimistic on the outlook for 2024, with much of the bad news already priced in".

Forecasts range from as bullish as a 20.6% gain to 1,755 points, to as modest as a 3.8% increase to 1,510.

Their optimism stems from the US Federal Reserve's anticipated dovish pivot, China's expected economic comeback and a stronger domestic economy. The latter is expected to be boosted by higher tourist arrivals, a further revival of exports, and diminishing political uncertainty.

While disappointing in terms of the local bourse's performance, 2023 closed on a more positive note as the Fed signalled that there could be three rate cuts totalling 75 basis points (bps) in 2024.

That, coupled with the anticipation that Bank Negara Malaysia would keep the overnight policy rate (OPR) unchanged at 3%, could make Malaysia more attractive than it has been over the past year to foreign investors, according to Areca Capital Sdn Bhd CEO Danny Wong.

With the KLCI's undemanding valuation — based on consensus price-to-earnings of 14.6 times for 2024 and 12.5 times for 2025, versus the five-year average of 17.5 times — and the US dollar's strength expected to subside a little, Wong said foreign inflows may increase.

As such, there is expectation that the local bourse's foreign shareholding, which has been sliding over the past decade, has likely bottomed out last year at 19.6% of the market's total value as at end-November.

An expected improvement in corporate earnings will also entice more foreign capital bakck to the local market, according to Rakuten Trade equity research vice-president Thong Pak Leng.

Consensus forecasts are projecting the KLCI's earnings to grow 12.3% year-on-year (y-o-y), said MIDF Research, which is expectating the stocks under its coverage to see an average 13.2% climb increase in earnings.

The projected earnings growth is premised on headwinds ebbing due to declining price pressure, the expected interest rate downcycle and improvement in external trades, said MIDF Research.

Eye on geopolitical tensions, China recovery

Investors tend to dump emerging market equities at the beginning of Fed rate upcycles and turn buyers when rates peak.

But geopolitical tension and domestic political stability could hinder inflows to EMs, said Kenanga Research.

For 2024, it sees "a strong case for investors to return to EMs assuming China's economy and the conflict in the Middle East (Israel-Hamas war) would gradually stabilise."

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KLCI ends 2023 largely in line with regional peers

Index	Last price	YTD change (%)	52-week low	52-week high	12M trailing PER	12M forward PER
Japan Nikkei 225	33,464.17	28.24	25,661.89	33,853.46	27.55	24.43
S&P 500	4,769.83	24.23	3,780.78	4,785.39	22.94	22.06
South Korea KOSPI	2,655.28	18.73	2,180.67	2,668.21	18.49	16.09
Dow Jones Industrial Average	37,689.54	13.70	31,429.82	37,683.70	22.16	22.11
Indonesia Jakarta Composite	7,272.80	6.16	6,542.79	7,308.21	17.56	15.27
Singapore STI	3,240.27	-0.34	3,041.67	3,408.19	11.59	10.35
Phillippines PSE	6,450.04	-1.77	5,920.47	7,137.62	12.47	12.07
Malaysia FBMKLCI	1,454.66	-2.73	1,369.41	1,503.33	15.07	14.57
China Shanghai Composite	2,974.94	-3.70	2,882.02	3,418.95	13.69	11.23
Hong Kong HSI	17,047.39	-13.82	15,972.31	22,700.85	9.49	8.75
Thailand SET	1,415.85	-15.15	1,354.73	1,695.99	18.78	16.63

*As at Dec 29, 2023
Source: Bloomberg

Forecast gains for the KLCI vary from 3.8% to 20.6%

KLCI*	Research/ Fund house	End-2024 target
1,454.66	CGS-CIMB	1,755
	MIDF	1,665
	TA Securities	1,620
	Maybank IB	1,610
	Kenanga	1,605
	RHB	1,600
	Affin Hwang	1,600
	HLIB	1,550
	HSBC	1,510

*As at Dec 29, 2023

These are the stocks analysts favour for 2024

BY ADAM AZIZ, CHESTER TAY, IZZUL IKRAM AND ANIS HAZIM
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KUALA LUMPUR (Feb 16): Malaysian equities got off to a mixed start in 2024. Big- and mid-cap companies traded higher, led by a 5% gain in the KLCI to date, while the ACE Index fell 8%, dragged by poor sentiment following a recent margin call shock among penny stocks.

From a macro perspective, analysts pointed to opportunities coming out of currency and interest rate headwinds, which until recently diverted investor interest towards the US at the expense of regional markets.

Taking a look at the top stock picks of 2024 by analysts, *The Edge* compiled a list of companies with the most 'buy' calls relative to total analyst coverage, as well as the potential upside relative to the consensus target price on *Bloomberg*.

Fund managers and heads of research were also asked for their stock picks for the year.

Top analyst picks (market cap of RM10 bil and above)

Company	No of buy calls	Total calls	Average TP (RM)	Last price (RM)	Upside (%)	52-week change (%)	Market cap (RM bil)
Gamuda	20	21	5.58	5.15	8.3	29.7	14.10
Telekom Malaysia	19	22	6.42	5.86	9.6	11.8	22.49
IHH Healthcare	18	22	7.03	6.18	13.7	6.0	54.43
Tenaga Nasional	17	21	11.71	11.10	5.5	11.6	64.24
Malaysia Airports	15	18	8.39	8.03	4.5	16.0	13.40
CIMB	15	19	6.60	6.36	3.8	17.1	67.83
Genting	14	15	5.87	4.88	20.2	-3.9	18.79
Hong Leong Bank	14	16	22.69	19.38	17.1	-5.0	42.01
MR DIY	13	15	2.07	1.45	42.4	-22.0	13.70
Inari Amertron	13	19	3.44	3.23	6.6	26.2	12.11

Legend:
< 0% 30% and above Average target price (TP) rounded to two decimal points
As at market close on Feb 15, 2024 Source: Bloomberg

Gamuda, TM, YTLP, Genting top big-cap picks

Among companies with a market capitalization above RM10 billion, conglomerate Gamuda Bhd tops the list with an overwhelming 20 'buy' calls out of 21 analysts. Analysts cite Gamuda's healthy overseas expansion progress, and their consensus TP of RM5.58 represents 8.3% upside against the stock's Feb 15 close of RM5.15. The counter has risen over 29.7% in the last year.

Gamuda is followed by Telekom Malaysia Bhd, which has 19 'buy' calls out of 22. It has a potential upside of 9.6% based on Friday's RM5.86 close.

TM turned in a strong performance recently on better cost management, coupled with long-term prospects as a fibre infrastructure and cloud services provider. However, the telco's upcoming fourth quarter results, expected on Feb 28, will show the full extent of the impact of the latest regulatory pricing adjustments on its services.

Among those with the highest percentage of 'buy' calls, YTL Power International Bhd tops the list given the screaming 'buy' by all 11 analysts covering the stock,

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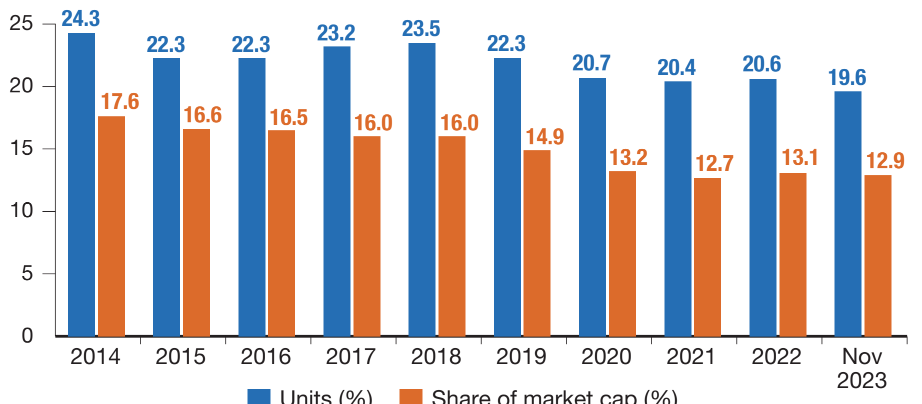
China's economic recovery remains focal as it will introduce tailwinds to commodities like industrial and base metals, according to RHB, as well as benefit emerging markets from the stronger trade and tourism prognosis.

RHB expects China's accelerated growth momentum that was seen in 3Q2023 to persist in the next six to 12 months, as it observes a broad recovery in several sectors, including investment, industrial production and retail sales.

But despite the early signs of China's economic recovery, analysts are calling for optimism to be tempered with caution amid the country's persistent real estate woes and continued risks of corporate defaults.

HLIB, on the other hand, expects China's economic growth to continue to ease, dragged by risks from its property slump.

Foreign shareholding decline bottoms out?



Source: RHB Research

Malaysia 'doesn't stand out' relative to its peers

While market watchers agree that foreign investors are set to return to EMs on the back of the US Fed halting its historic rate upcycle, HSBC Global Research head of equity strategy Herald van der Linde expects that to only translate into a modest upside for Malaysia's stock market — with the KLCI forecast to grow only 4% to 1,510 points by end-2024 — as the country "doesn't stand out" relative to its regional peers.

The brightest spot in the local bourse, according to HSBC, lies with companies with exposure to the semiconductor sector, due to the persistent trade tensions between US and China.

The bank also holds a conservative view on the Fed's dovish pivot. Compared with the wider market's expectations for the Fed to cut the federal funds rate (FFR) five to six times at 25 bps each from as early as March, HSBC is forecasting only three cuts for the year, starting from June.

Based on HSBC's forecast, the FFR-OPR differential would fall to 1.5% — as opposed to consensus expectations of 0.75%-1% — from 2.25% currently, which it views as still insufficient to tame the US dollar's strength.

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on sustained earnings expected from its Singapore operations, as well as data centre exposure and outlook for the wider renewable energy space.

The power player's share price has rallied by more than 434% in the last 12 months — 54% since the start of the year — to push past the consensus TP by over 2.6%. It traded at RM3.93 at press time. However, expect marginal upward TP revisions, analysts contacted by *The Edge* said.

Another notable mention is Genting Bhd. After a flat 2023, analysts have raised the annual earnings forecast for the group for 2023 to 2025, with more upside projected in tourism recovery in markets it operates in, such as Singapore and the US. Consensus TP suggests an upside of 20.2%, compared to its last close of RM4.88, which is down 4% from a year ago.

Other notable picks are Dialog Group Bhd (48% upside) — the stable dividend payer was deemed oversold following its removal from the KLCI last year — as well as Mr DIY Group M Bhd (42% upside) on optimism towards East Malaysia expansion and strong results of its private label strategy.

Mid-to-small cap: Property, O&G top list

The mid-cap space enjoyed a good run in 2023, with Bursa Malaysia's Mid 70 Index up 12.3%, followed by the Small Cap Index — made up of companies in the Main Market excluding the top 100 by market capitalisation — which rose 9.6%.

For 2024, top picks among the companies with market cap between RM1 billion and RM10 billion based on 'buy' calls are Mah Sing Group Bhd due to healthy land banking and speedy turnover to sales; Sime Darby Property Bhd on better-than-expected earnings; and automotive group Bermaz Auto Bhd on strong financials and decent dividend yield forecasts of over 7% for the financial year ending April 2025 (FY2025) despite risks of a peaking automotive market after a strong 2023.

Across sectors, top picks include floating production storage offloading vessel (FPSO) operators Yinson Holdings Bhd and Bumi Armada Bhd; semiconductor player Pentamaster Corp Bhd and ViTrox Corp Bhd; as well as select retail REITs (Sunway REIT, Pavilion REIT, IGB REIT) and brewers on recovery play.

CTOS Digital Bhd also stood out owing to steady earnings following past regional acquisitions, tax exemption extension and position as proxy of rising credit ratings utilization.

Among small cap companies, notable top picks include terminal payment operator GHL Systems Bhd amid growing efforts in e-commerce payment, buy now-pay later scheme (BPNL), and international ventures; and Samaiden Group Bhd for its continuous wins in the solar space as well as its maiden mini hydro EPCC project announced last month.

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Top analyst picks (RM1 bil to RM10 bil market cap)

Company	No of buy calls	Total calls	Average TP (RM)	Last price (RM)	Upside (%)	52-week change (%)	Market cap (RM bil)
Mah Sing	13	13	1.10	0.925	19.3	51.6	2.25
IJM Corp	13	18	2.26	2.20	2.5	41.1	7.71
Sime Darby Property	12	13	0.83	0.79	4.5	69.9	5.37
Bermaz Auto	11	15	2.97	2.46	20.7	19.6	2.87
Yinson	10	10	3.62	2.53	43.2	-4.9	7.35
KPJ Healthcare	10	14	1.68	1.65	2.0	54.5	7.20
Alliance Bank	10	14	3.94	3.51	12.1	0.0	5.43
Bumi Armada	10	14	0.65	0.54	20.9	-8.5	3.20
Sunway Construction	10	15	2.35	2.55	-8.0	53.6	3.29
Sunway REIT	10	15	1.70	1.59	7.0	-0.6	5.45

Legend:
< 0% 30% and above Average target price (TP) rounded to two decimal points
As at market close on Feb 15, 2024 Source: Bloomberg

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Top analyst picks (RM500 mil to RM1 bil market cap)

Company	No of buy calls	Total calls	Average TP (RM)	Last price (RM)	Upside (%)	52-week change (%)	Market cap (RM mil)
GHL Systems	6	7	0.93	0.66	40.7	-29.0	753.4
Samaiden	5	5	1.53	1.26	21.1	45.7	520.0
Tasco	4	4	1.25	0.815	53.1	-17.7	652.0
WCT Holdings	4	9	0.60	0.56	6.7	19.1	793.7
Perak Transit	3	3	1.48	1.23	20.1	12.8	900.0
Pantech Group	3	3	1.26	0.965	31.1	16.3	802.0
OCK Group	3	3	0.67	0.54	23.5	36.7	567.6
Wellcall	3	3	1.88	1.78	5.6	57.1	885.5
Spritzer	3	4	2.13	2.20	-3.4	49.3	702.5
Muhibbah Engineering	3	4	0.86	0.79	8.6	11.3	575.2

Legend:
< 0% 30% and above Average target price (TP) rounded to two decimal points
As at market close on Feb 15, 2024 Source: Bloomberg

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Top analyst picks (market cap RM500 mil and below)

Company	No of buy calls	Total calls	Average TP (RM)	Last price (RM)	Upside (%)	52-week change (%)	Market cap (RM mil)
Uzma	5	5	1.23	1.19	2.9	87.4	460.8
Gabungan AQRS	4	4	0.45	0.37	22.5	15.6	200.8
UMediC	4	4	0.96	0.66	45.8	-19.0	246.8
Optimax	3	3	0.82	0.605	35.5	-19.3	328.7
Lee Swee Kiat	3	3	1.12	1.12	-0.4	40.0	180.7
T7 Global	3	3	0.57	0.47	21.3	16.0	348.6
Deleum	3	3	1.19	1.07	11.5	8.6	429.7
Focus Point	3	3	1.05	0.745	41.4	-19.8	344.2
Pintaras Jaya	3	3	1.74	1.68	3.6	-19.2	278.7
Glomac	3	3	0.44	0.36	21.3	12.5	276.3

Legend:
< 0% 30% and above Average target price (TP) rounded to two decimal points
As at market close on Feb 15, 2024 Source: Bloomberg

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Notable stock picks by fund managers and heads of research contacted by *The Edge*:

ITMAX System Bhd — successive contract wins

Public space networked systems and related artificial intelligence provider ITMAX System Bhd (3 'buy' calls, consensus TP: RM2.65 against last close of RM2.11, 25.8% upside) hit a record-high unbilled order book of RM903.5 million following its recent contract win with Pasir Gudang City Council.

The company "looks set to penetrate the remaining 13 Johor city councils and replicate its success in other states, including Penang, Sabah and Selangor", said Rakuten Trade Sdn Bhd vice-president of equity research Thong Pak Leng.

Apart from government contracts, ITMAX also secured a RM3.9 million contract from Malaysia Airports Holdings Bhd (MAHB) in 3Q2023 to supply and install aeronautical ground lighting control systems for six airports in Malaysia, said Malacca Securities head of research Loui Low Ley Yee, who "strongly believes" the company might win more jobs in the near future.

T7 Global Bhd — non-O&G venture making good progress

Aside from its successful mobile offshore production unit (MOPU) venture in the upstream O&G sector, Rakuten Trade's Thong also likes T7 Global Bhd (3 'buy' calls, consensus TP: 57 sen against last close of 47 sen, 21% upside) for its positive performance in its baggage handling system (BHS) contract win, and exposure in the aerospace segment.

"The T7 Elise MOPU achieved 95% uptime in 3QFY2023, while the Nong Yao MOPU is expected to boost FY2024 bottomline by 16%.

"The non-energy division saw 550% year-on-year revenue growth and is anticipated for higher revenue from the KLIA BHS project in FY2024," Thong noted, adding that there is also potential for an operations and maintenance (O&M) contract post-construction.

AMMB Holdings Bhd — tax credit and undemanding valuation

The prospects of AMMB Holdings Bhd (12 'buy' calls of 15 analysts, consensus TP: RM4.45 against last close of RM4.33, 2.7% upside) are brightened by its imminent tax credit in the coming quarters, said a local fund manager overseeing RM3 billion in assets under management.

"[This] is expected to improve the company's common equity tier 1 (CET 1) ratio and pave the way for a potential higher dividend payout in the future," he said.

AMMB has undemanding valuations, where its price-earnings ratio (PER) currently stands at 8.3 times versus its 10-year mean of 9.36 times, while its price-to-book value (PBV) currently stands at 0.77 times, the fund manager said, compared to industry average of 0.9 times.

AME Elite Consortium Bhd — benefits if industrial building development booms

Exposure to industrial building development is projected to see AME Elite (5 'buy' calls, consensus TP: RM1.99 against last close of RM1.79, 11% upside) leveraging on rising FDIs, said Apex Securities head of research Kenneth Leong.

"[The stock is] supported by unbilled sales of RM203.9 million and outstanding construction and engineering order book of RM259.0 million. New industrial park measuring 176-acre located at Penang that carries [an] estimated GDV of RM1.5 billion will spark new avenue for revenue growth driver, said Leong, who has a target price of RM1.80.

Lagenda Properties Bhd — affordable housing proxy

Apex Securities' Leong also likes Lagenda Properties Bhd (2 'buy' calls, TP: RM1.61 against last close of RM1.47, 9.3% upside) due to its strong exposure in the affordable housing segment which is strongly aligned with the mass market demand.

"Demand for affordable housing, particularly units priced below RM500,000, is projected to remain resilient and is supported by various government initiatives," he said, adding that Lagenda is supported by unbilled sales of RM855 million, providing earnings visibility over the next 12 months.

KSL Holdings Bhd — Johor property proxy

Malacca Securities' Low also likes Johor property player KSL Holdings Bhd. A proxy to the hype enlivening Malaysia's southern state of Johor — spurred by the various mega infrastructure projects slated and mulled by the government — it may emerge as a theme for 2024.

KSL, which has three decades of experience in the southern state, saw normalised 9MFY2023 earnings of RM285 million which was stronger than the full-year performance in FY2017-FY2019 period, Low said.

KSL shares have gained 74% in the last one year, and 33% in the first trading week of 2024 alone. The counter last traded at RM1.48, with a trailing price-to-earnings ratio of 4.5 times and price-to-book value of 0.4 times — giving it a market capitalisation of RM1.5 billion.