Maybank IB Research

STRATEGY

Malaysia

2018 Outlook & Lookouts

Keep Growing & Carry On…

We expect global growth momentum to be sustained in 2018, expanding at +3.6%, the same pace as 2017, on the back of synchronized expansions of G3 economies, which will fuel world trade growth. This, in turn, is positive for ASEAN economies as we see spillover to domestic demand from export recovery.

A key macroeconomic theme is the outlook of "benign normalization and unsynchronized unwinding" in major central banks' monetary policies. Key risks are inflation and financial stability. Inflation surprise will alter major central banks' policy outlook and can trigger "re-pricing" in global financial markets, which in 2017 has been characterized by buoyant equity market amid the prolonged decline and depressed risk-free yields. China's "de-leveraging and de-risking" also warrants close monitoring as our baseline case is growth soft-landing instead of hard landing.

Malaysia's macro backdrop remains positive in 2018 as we forecast another year of above-5% real GDP growth, at +5.3%, continuing the momentum from 2017. For the currency, we expect the MYR's recovery momentum to continue with end-2018 USDMYR forecast of 3.95, reflecting the positive underlying fundamentals for the currency.

GE14 will be a major driver of investors' sentiment in early 2018, in our view. Post GE14, we expect the focus to return to basic fundamentals which are well supported. For equities, we estimate core earnings to grow +9.7% in 2018 for our research universe, and +5.0% for the KLCI. Our end-2018 KLCI target is 1,840. In this writeup, we highlight five investment themes, and refresh our top BUY picks for 2018.

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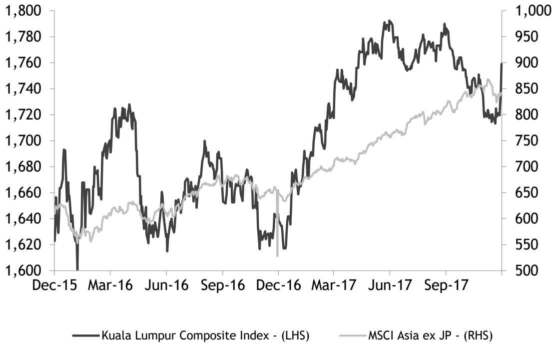

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ECONOMICS: Keep Growing & Carry On…

Sustained global growth momentum. We expect global growth momentum to be sustained in 2018, expanding at +3.6%, the same pace as 2017, on the back of synchronized expansions of G3 economies i.e. "slow and shallow" Fed rate hikes, with the prospect of fiscal stimulus via tax cuts and reforms, is supportive of current US growth cycle which is the third longest on record, coupled with broad-based growth across Eurozone and reflation in Japan. The G3-led global economic growth fuels world trade growth which is positive for ASEAN economies as we see spillover to domestic demand from export recovery.

Amid benign normalization and unsynchronized unwinding in major central banks' monetary policies. A key macroeconomic theme in 2018 is the outlook of benign normalization and unsynchronized unwinding in major central banks' monetary policies, taking cue from Fed's gradual interest rate hikes and balance sheet reduction; ECB's "glacial" QE Taper; and BoJ that is showing no inclination of join the "normalization & unwinding" bandwagon.

2018 lookouts – inflation and financial stability. "Benign normalization and unsynchronized unwinding" by the major central banks is based on there being no risk of inflation surge amid the US unemployment-wage-inflation conundrum; the prevalence of negative output gaps in other major economies; and price/cost impact of structural factors like demography and technology. However, surprises like better-than-expected global growth due to US fiscal stimulus from tax cuts and reforms, and surge in commodity prices could spark faster inflation and alter major central banks' monetary policy outlook.

The above could also trigger "re-pricing" in global financial markets, which in 2017 has been characterized by buoyant equity market amid the prolonged decline and depressed risk-free yields, as well as "gaps" such as the divergence between Fed's guidance and market expectations on US interest rate hikes, and the inconsistency between elevated macroeconomic risks and subdued financial market volatility. China's on-going "de-leveraging and de-risking" process also warrants close monitoring as our baseline case of growth soft-landing could instead turn into hard landing as data show sharp slowdowns in credit growth, shadow banking activities and property prices, as well as crackdowns on stock market speculations and local government debts.

Continued 5%-plus real GDP growth for Malaysia (2018E: +5.3%; 2017E: +5.8%), driven by continued growth in private consumption (2018E: +6.5%; 2017E: +7.0%), public consumption (2018E: +5.8%; 2017E: +5.1%) and gross fixed capital formation (2018E: +6.6%; 2017E: +7.5%) on expansions in both private investment (2018E: +9.0%; 2017E: +9.5%) and public investment (2018E: +1.5%; 2017E: +3.5%). These reflect Budget 2018's consumer spending stimulus measures and increased Government spending, as well as progress and rollout of major infrastructure and investment projects as the country heads for the 14th General Election which we see taking place between Feb 2018 and Apr 2018. Exports (2018E: +4.9%; 2017E: +8.8%) and imports (2018E: +5.7%; 2017E: +11.0%) of goods and services will expand further in 2018 on the back of the sustained global and domestic growth momentum, but the paces are expected to moderate after the high base in 2017.

MYR's reversal of fortune. In 2017, MYR gained +10% vs USD to 4.08 (as at 12 Dec 2017) and we expect the momentum to continue with end-2018E forecast of 3.95, reflecting the currency's oversold (2013-2016: -31.8%) and undervalued (fair value: 3.80) situations in view of favourable fundamentals and flows such as the rebound in crude oil prices, sustained current account surplus, progress in fiscal consolidation, rebuilding of external reserves, receding foreign holding risk in the bond market, and resumption in export earnings repatriation. These are on top of the expected +25bps hike in BNM's Overnight Policy Rate post election.

GLOBAL ECONOMY

Keep Growing & Carry On

Sustained momentum in global growth. We estimated global economy grew by +3.6% in Jan-Sep 2017 as trend in quarterly economic growth point to entrenched growth recovery after the slowdown in 2015-2016. We expect global growth momentum to be maintained in 2018, expanding at +3.6%, the same pace as 2017 (Fig 1).

Figure 1: Global Real GDP

% chg	% Share of World GDP	2016	1Q 2017	2Q 2017	3Q 2017	2017 YTD	2017E	2018E
World		**3.2**	**3.5**	**3.6**	**3.8**	**3.6**	**3.6**	**3.6**
Major Advanced Economies	***60.5%***	**1.7**	**2.0**	**2.1**	**2.3**	**2.2**	**2.1**	**2.0**
US	*24.4%*	1.5	2.0	2.2	2.3	2.2	2.2	2.4
Eurozone	*15.8%*	1.8	2.1	2.4	2.6	2.4	2.2	1.9
Japan	*6.2%*	1.0	1.5	1.6	2.1	1.7	1.5	1.2
UK	*3.2%*	1.8	1.8	1.5	1.5	1.6	1.6	1.4
BRIC	***22.6%***	**5.0**	**5.5**	**5.6**	**5.7**	**5.6**	**5.6**	**5.7**
Brazil	*2.6%*	(3.6)	0.0	0.4	1.4	0.6	0.7	1.9
Russia	*1.9%*	(0.2)	0.5	2.5	1.8	1.6	1.9	1.9
India	*3.1%*	7.1	6.1	5.7	6.3	6.0	6.5	7.3
China	*15.1%*	6.7	6.9	6.9	6.8	6.9	6.8	6.5
Asian NIEs	***3.5%***	**2.4**	**3.0**	**2.8**	**3.8**	**3.2**	**2.9**	**2.7**
South Korea	*1.9%*	2.8	2.9	2.7	3.8	3.1	3.0	2.9
Taiwan	*0.7%*	1.5	2.6	2.3	3.1	2.7	2.2	2.2
Hong Kong	*0.4%*	2.0	4.3	3.9	3.6	3.9	3.5	2.7
Singapore	*0.4%*	2.0	2.5	2.9	5.2	3.5	3.4	2.8
ASEAN-6 (incl. Singapore)	**3.3%**	**4.6**	**4.7**	**5.0**	**5.5**	**5.1**	**5.1**	**5.1**
ASEAN-5	***2.9%***	**4.9**	**5.0**	**5.2**	**5.6**	**5.3**	**5.4**	**5.4**
Indonesia	*1.3%*	5.0	5.0	5.0	5.1	5.0	5.1	5.3
Thailand	*0.6%*	3.2	3.3	3.8	4.3	3.8	3.9	4.1
Malaysia	*0.4%*	4.2	5.6	5.8	6.2	5.9	5.8	5.3
Philippines	*0.4%*	6.9	6.4	6.7	6.9	6.7	6.8	7.0
Vietnam	*0.3%*	6.2	5.2	6.3	7.5	6.4	6.7	6.4

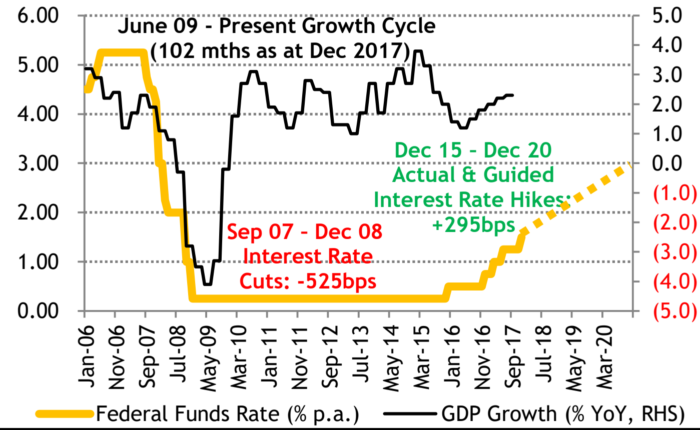
Sources: IMF, OECD, Consensus, Maybank KE

On synchronized expansion in G3 economies. Global growth pick up in 2017 is driven by the G3 economies of US, Eurozone, Japan - a trend we see continuing in 2018.

US is currently on its third longest growth cycle i.e. 102 months as at Dec 2017. The longest was 120 months in Mar 1991 – Mar 2001. While the risk is that of "maturing" or "nearing-the-end" growth cycle, current growth cycle's similarity to the record growth cycle is the "slow & shallow" Fed's interest rate hikes following the preceding "rapid & sharp" fed funds rate cuts in response to domestic financial crises i.e. "sub-prime" a decade ago; "savings & loans" in the late-80s/early-90s.

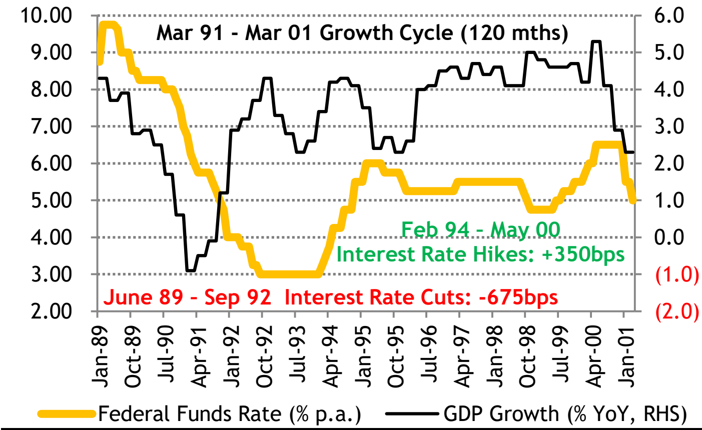
Fed's "slow & shallow" rate hikes are favourable for the duration or longevity of US growth. With +125bps hikes from Dec 2015 to Dec 2017, and applying Fed's current interest rate guidance (released at the 12-13 Dec 2017 FOMC meeting) that the fed funds rate will peak at around 3.00% at end-2020, the on-going interest rate hikes will retrace only 56% of the -525bps cuts in Sep 2007 – Dec 2008 in the wake of the 2007-2008 sub-prime/global financial crisis (Fig 2). This is similar to the Feb 1994 – Mar 2000 rate hikes of +350bps which retraced only 52% of the -675bps cuts in June 1989 – Sep 1992 (Fig 3). US growth outlook is also bolstered by the prospect of fiscal stimulus via tax cuts and reforms.

Fig 2: US Real GDP & Fed Funds Rate, 2006-2020E



Source: Bloomberg, US Federal Reserve

Fig 3: US Real GDP & Fed Funds Rate, 1989-2001

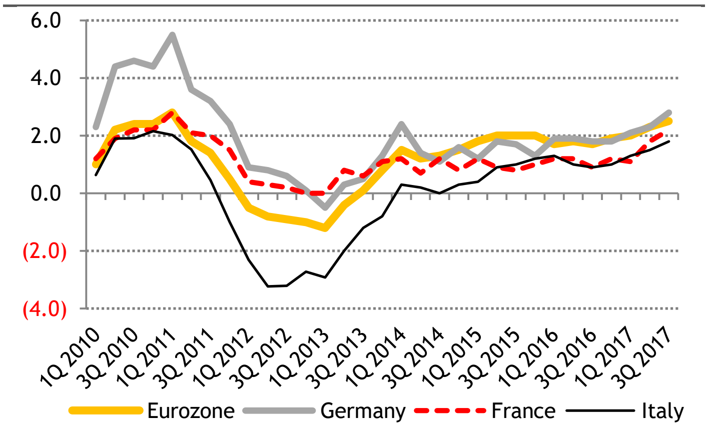


Source: Bloomberg, US Federal Reserve

In Eurozone, growth is broadening across the region i.e. expansion in Germany is accompanied by other large economies – France, Italy and Spain, while Portugal and Greece that were bailed out following the European sovereign debt crisis have nursed their way back to recovery (Fig 4-5).

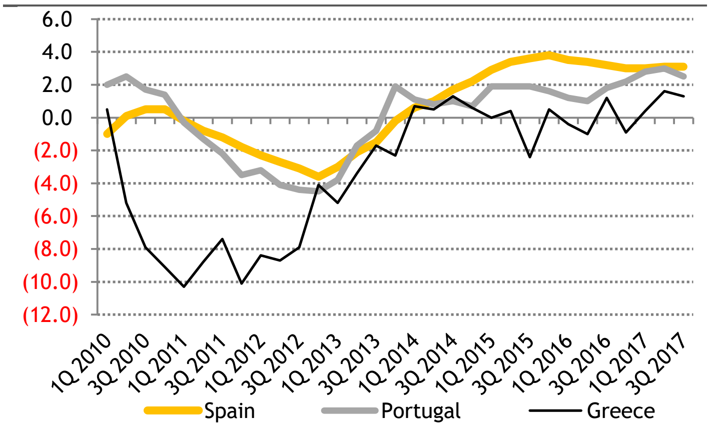
Eurozone's synchronized expansion takes place despite the less than favourable political environment e.g. Brexit; Spain-Catalan crisis; fragile governments in Italy & Greece; periods of "no Government" in post-elections Spain, Netherlands & Germany. This indicates the healthy state of the global economy is outweighing the political noises, uncertainties and risks to drive spending, investment and trade. Even UK economy which is facing Brexit uncertainty is still growing albeit slowing, rather than plunging into recession.

Fig 4: Quarterly Real GDP Growth (% YoY) – Eurozone, Germany, France, Italy



Source: Bloomberg

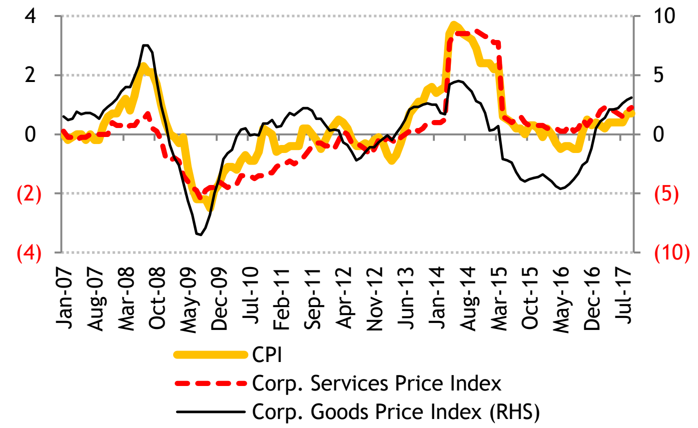
Fig 5: Quarterly Real GDP Growth (% YoY) – Spain, Portugal, Greece



Source: Bloomberg

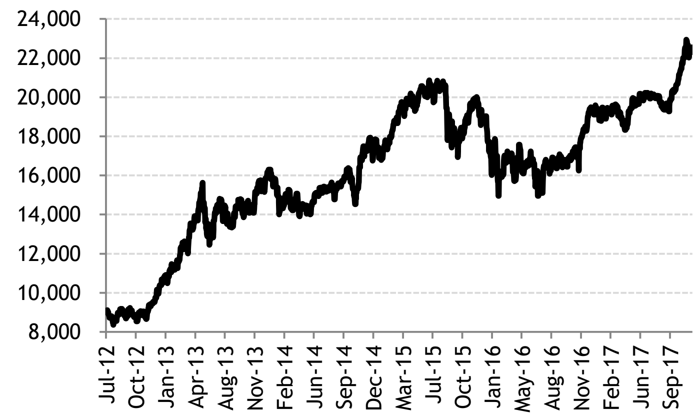
A key positive for Japan's economic outlook is that "Abenomics" appeared to have slain the demon of deflation given the broad-based return of inflation i.e. increases in the prices of goods, services, assets and labour (Fig 6-9). The return of inflation or reflation helps to drive and sustain current stretch of annual real GDP growth that completes its sixth successive year in 2017.

Fig 6: Japan - Prices of Goods & Services (% YoY)



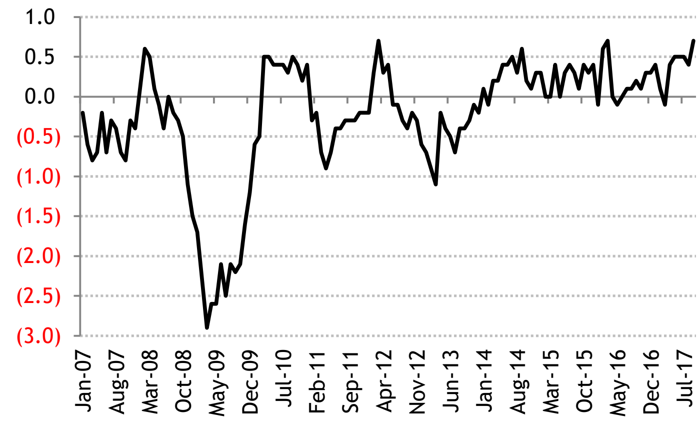
Source: Bloomberg

Fig 7: Japan - Equity Price (Nikkei 225 Index)



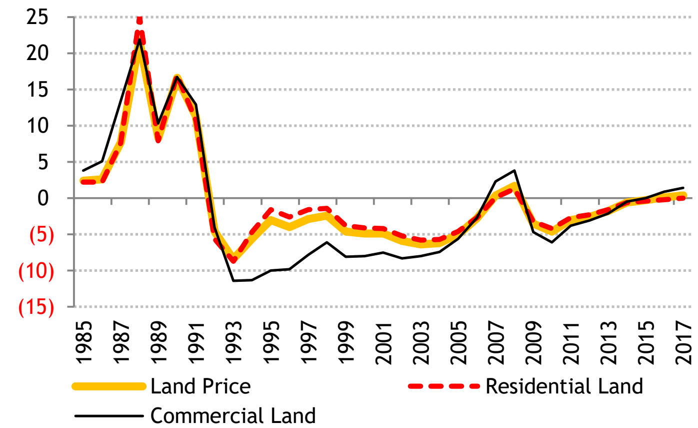
Source: Bloomberg

Fig 8: Japan - Average Monthly Contractual Cash Earnings (Basic Wages + Overtime + Bonus, % YoY)



Source: Bloomberg

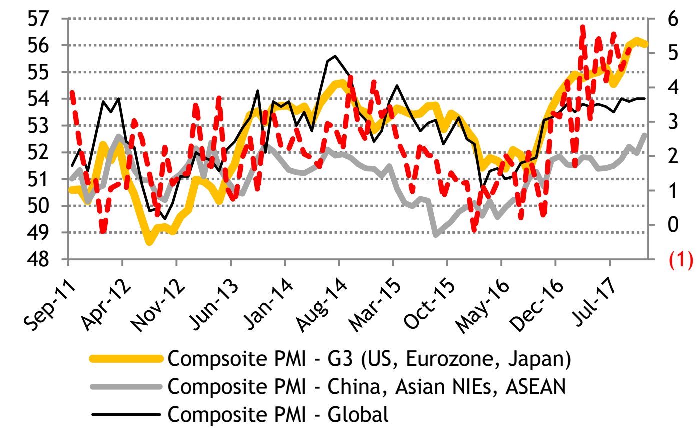
Fig 9: Japan - Land Prices (% YoY)



Source: Bloomberg

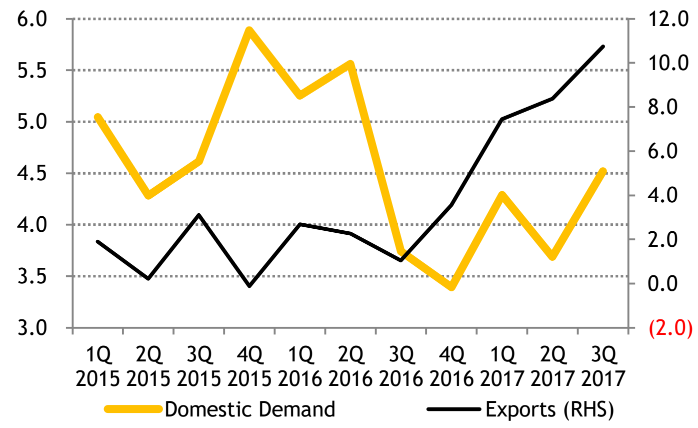
Positive for ASEAN - not just exports, but domestic demand and currencies too. The G3-led global economic growth fuels world trade growth that is positive for East Asian ex-Japan (Fig 10). ASEAN economies are benefitting from the spillover effects to domestic demand following the robust growth in exports (Fig 11), plus the buildup in infrastructure investment momentum that include the implementation of projects under China's Belt and Road Initiatives. This underpins our view of sustained real GDP growth momentum for ASEAN in 2018 *(refer to Appendix Tables for ASEAN-5 Key Macroeconomic Forecasts)*. Another notable impact to ASEAN from the pick up in global economic and world trade growth that feed into East Asia ex-Japan's export growth is the effect on currencies vs USD as indicated by the positive correlation between the two in Fig 12 *(refer to Appendix Tables for Maybank FX Research Major and Regional Currency Forecasts vs USD)*.

Fig 10: Global Economy, G3, East Asia ex-Japan Composite PMIs vs World Trade Volume



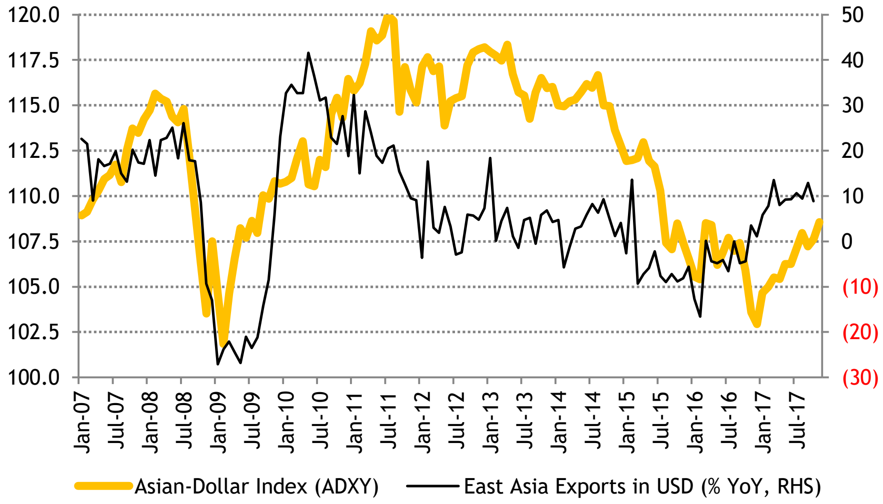
Source: Bloomberg, CEIC, MKE Economics Research

Fig 11: ASEAN-5: Real GDP by Demand - Domestic Demand vs Exports (% YoY)



Source: CEIC, MKE Economics Research

Fig 12: Asian-Dollar Index vs East Asia ex-Japan Exports Growth



Source: Bloomberg, CEIC

Politics still matter

Like 2017, politics remains something to watch in 2018. There are several key political events involving the major economies in 2018, namely China's National People's Congress in early-Mar 2018; conclusion of UK-EU Brexit talk with a deal targeted in Oct 2018 before the official separation in Mar 2019; US mid-term election in early-Nov 2018; as well as the risk of fresh poll in Germany if current impasse facing Chancellor Angela Merkel in forming a coalition government after the Sep 2017's election is not resolved.

In ASEAN, several key countries will have elections. Heading into general elections in 2018 are Malaysia (latest by 24 Aug 2018, although we are eyeing the Feb-Apr 2018 "window") and Thailand (Nov 2018), while election fever builds up in Indonesia, starting with the local elections (provinces, districts and cities) on 27 June 2018 culminating into the general elections (president, parliament, governors, state legislatures and local governments) on 17 Apr 2019.

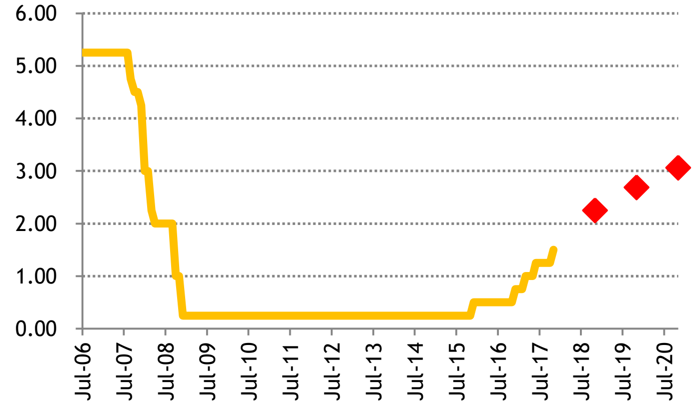
On top of domestic political events, broader geopolitical risk remains a concern, centering on tensions between US and North Korea and Iran; the overlapping territorial claims in the East and South China seas; potential escalation and broadening of Middle East's multiple conflicts; and Russia-West relation. Admittedly, the economic and financial market impact of these geopolitical risks thus far has been muted and short-lived, but they remain an "overhang".

Major central banks dominates on policy front

On policy, the main theme of 2018 is major central banks' monetary policy, where we are looking at an environment of "benign normalization and unsynchronized unwinding" which supports our outlook of sustained global growth momentum. There are ample evidence of "benign normalization and unsynchronized unwinding" in the major central banks' monetary policies.

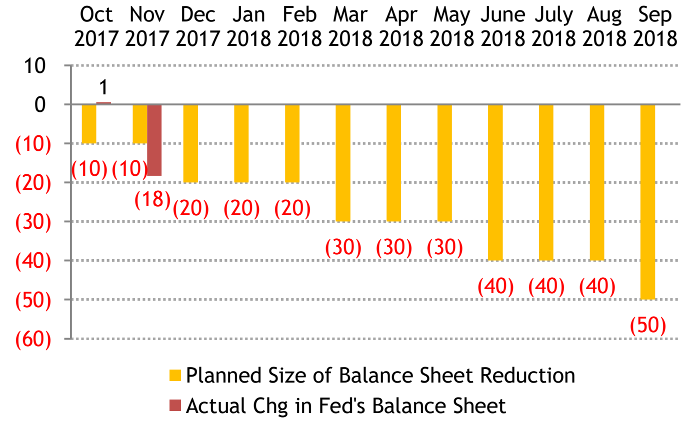
Fed sticks to the gradual path of monetary policy normalization. Fed guides for a steady pace of interest rate hikes (2018E: +75bps; 2017: +75bps) that will peak at around 3.00% by end-2020, below the previous pre-GFC high of 5.25% (Fig 13), and adds balance sheet reduction to the process of unwinding its monetary policy stimulus. Fed's balance sheet reduction began in Oct 2017 with the planned reduction rate of USD10b per month (via USD6b cut per month in US Treasury securities holdings and USD4b cut per month in agency debt and mortgage-backed securities holdings). The monthly balance sheet reduction amount will be raised by USD10b per month every 3 month until it reaches USD50b per month on the 12th month (i.e. Sep 2018) which Fed envisages as the maximum amount of monthly balance sheet reduction thereafter. Actual data showed in Oct-Nov 2017, Fed's balance sheet size dropped by -USD17.7b to USD4,484.5b at end-Nov 2017 from USD4,502.2 at end-Sep 2017 - within the targeted USD10b per month or USD20b for the first two months of the balance sheet reduction (Fig 14), further underscoring the benign normalization of US monetary policy.

Fig 13: Fed funds rate (% p.a.) - Actual and Fed's guidance i.e. to peak below pre-GFC high



Source: US Federal Reserve, Bloomberg

Fig 14: US Fed's balance sheet - actual reduction vs planned reduction (USDb)

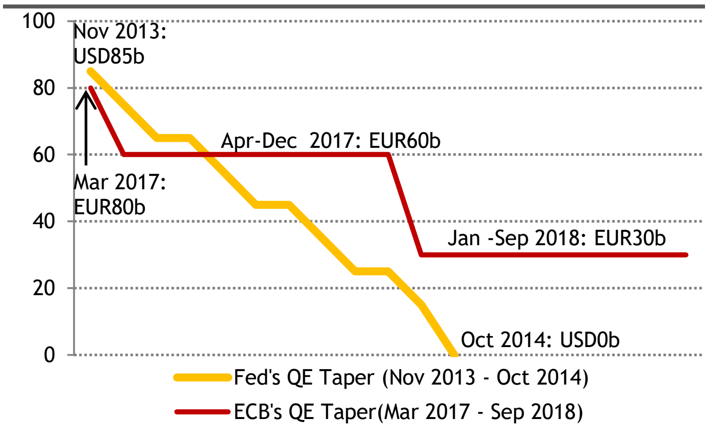


Source: US Federal Reserve, Bloomberg

Notwithstanding the change of guard at Fed. President Trump announced on 2 Nov 2017 the nomination of Jerome Powell – currently a member of Fed's Board of Governors - as the next Fed's Chair to replace Janet Yellen. As Fed expands its monetary policy normalization from interest rate hikes to now include balance sheet reduction that involves reducing Fed's holdings of US Treasury securities, and as financial de-regulation is one of President Trump's key policy agenda, having a Fed Chair with experience in these areas is a plus. Powell served as an Assistant Secretary and as Undersecretary of the Treasury under President George H.W. Bush in the areas of financial institutions policy and Treasury debt market. In addition, having an insider to replace the incumbent gives a sense of "policy continuity" and reduces the risk of "policy surprises" at Fed, especially with Powell seen as a supporter – rather than a dissenter – of Fed's monetary policy moves thus far.

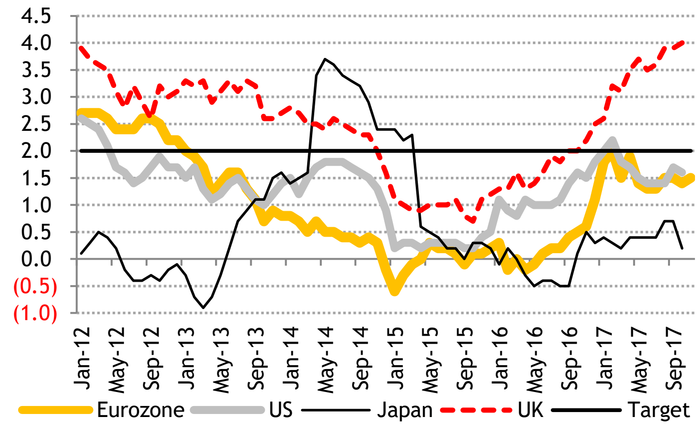
European Central Bank (ECB) proceeds with its "glacial" QE Taper by reducing its asset purchase programme (APP) to EUR30b per month for the period Jan-Sep 2018 from EUR60b per month in Apr-Dec 2017, which was lowered from EUR80b per month previously. This is markedly different than Fed's more aggressive QE Taper during Dec 2013 - Oct 2014 that saw its APP cut by USD10b-USD15b every 1-2 months from USD85b per month until the APP was "zerorised" (Fig 15). ECB President Mario Draghi added that its APP is not going to end abruptly after Sep 2018, indicating potential extension of the EUR30b monthly APP beyond Sep 2018 if necessary, or further lowering the monthly APP, which market currently speculates will be another round of "halving" the amount to EUR15b per month. Furthermore, while the APP is reduced, ECB will reinvest the principal payments from maturing securities, indicating no rush for balance sheet reduction to follow its QE Taper.

Fig 15: Fed's QE Taper (USDb/mth) vs ECB QE Taper (EURb/mth)



Source: Bloomberg

Fig 16: Inflation Rates in Major Economies (Monthly, % YoY)



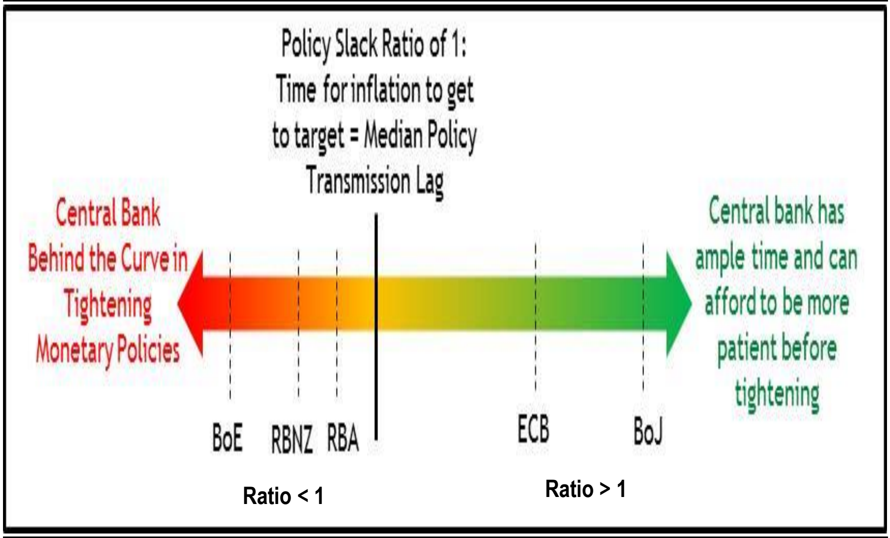
Source: Bloomberg

Bank of England (BoE) "dovish" rate hike. BoE raised interest rate by +25bps to 0.50% at Monetary Policy Committee (MPC) meeting on 2 Nov 2017 as its hands were forced by the sustained above-2% inflation rate target that was largely due to the impact of weaker GBP post-Brexit, unlike the other major central banks that are still grappling with below-2% target inflation rate (Fig 16). However, the move was accompanied by a "dovish" Monetary Policy Statement (MPS) as BoE dropped the line *"markets' underpricing of future rate hikes"*, implying the Nov 2017's hike is not the beginning of a series of hikes. Furthermore, BoE has to consider the risk of "Hard and Disruptive Brexit" given that its macroeconomic forecasts are based on "Soft and Smooth Brexit" scenario. This is in view of the uncertainties whether UK-EU Brexit talks can be concluded by Oct 2018 with a deal, as well as the state of UK's domestic politics amid a divided Party and fractious Cabinet that raised questions on the position of PM Theresa May after the poor result of the general election in June 2017 for the Conservative Party.

Bank of Japan (BoJ) showing no inclination to normalize and unwind its monetary policy which is underpinned by the negative interest rate policy and the JPY90b per month APP until inflation rate exceeds its 2% target in a stable manner. Currently, Japan has the lowest inflation rate among the major economies, and BoJ expects inflation rate to reach the 2% target in the fiscal year 2019 (1 Apr 2019 – 31 Mar 2020), which will be partly "aided" by the one-off impact of the planned consumption tax rate hike to 10% from 8% on 1 Oct 2019.

Central banks' policy slack ratio further underpins "benign normalization, unsynchronized unwinding". Our FX Research team calculates the central banks' policy slack ratio to gauge whether policymakers are behind the curve in relation to monthly inflation rate forecasts reaching their inflation rate targets given the time lag of monetary policy effect. Excluding Fed who is already well into the monetary policy normalization and stimulus unwinding process, BOE is well behind the curve, hence the rate hike in Nov 2017. The likes of Reserve Bank of New Zealand and Reserve Bank of Australia (RNBZ; RBA) should be next in 2018. ECB and BoJ still have the room to maintain their current interest rate policy.

Fig 17: Central Banks' Monetary Policy Slack Ratio



Policy Slack Ratio is defined as "number of quarters for inflation rate forecast to get to the inflation rate target, divided by the estimated numbers of quarters of time lag in monetary policy effect on inflation"

Source: Maybank FX Research

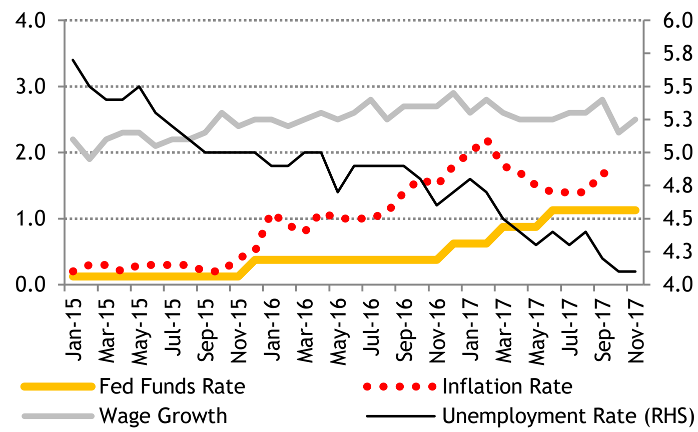
Keeping an eye on inflation

US unemployment-wage-inflation conundrum as Fed keeps faith in "cyclical" conventional wisdom. Fed's interest rate hikes since Dec 2015 and the guidance of further hikes in 2018 is grounded on the view that inflation will rise towards Fed's preferred 2% level as the tightening job market condition following the fall in unemployment rate will accelerates wage growth that feed into inflation rate (Fig 18). Fed expects inflation - based on its preferred measure of private consumption expenditure (PCE) deflator – to pick up to 1.9% in 2018 from 1.6% in 2017, and average 2.0% in 2019-2020.

But "structural" factors could keep US inflation sub-2% for longer. These include demography and Industry 4.0 e.g. retiring full-time, higher-cost "baby boomers" being replaced by part-time, lower-cost "millennials" and technology, including artificial intelligence (AI) and robots; and the benefit of lower prices/costs to consumers from the internet-over-things (IoT), digital economy and e-commerce e.g. cheaper online shopping at the expense of traditional retail.

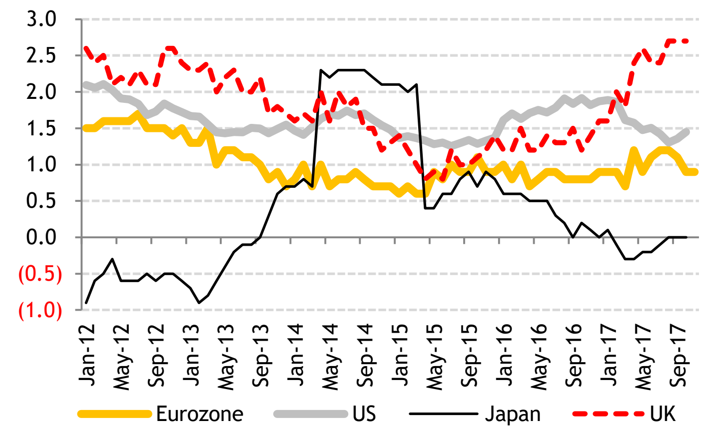
US fiscal policy could be a trigger to inflation. A potential catalyst for inflation to accelerate is via faster than expected economic growth given the prospect of fiscal policy stimulus amid improving outlook for the tax cuts and reforms championed by President Trump, following the passage of the House of Representative and the Senate versions of the "Tax Cuts and Jobs Acts 2018" on 16 Nov 2017 and 2 Dec 2017 respectively. At the time of writing, the two Bills have to be consolidated by the bicameral tax conference committee that will iron out the differences with the aim to complete the job so that a consolidated bill can be presented to President Trump to be signed into law by end-2017.

Fig 18: US – Fed funds rate (% p.a.), Inflation Rate (PCE Deflator, % YoY), Unemployment Rate (%) and Wage Growth (Average Hourly Earnings, % YoY)



Source: Bloomberg

Fig 19: Core Inflation Rates in Major Economies (Monthly, % YoY)



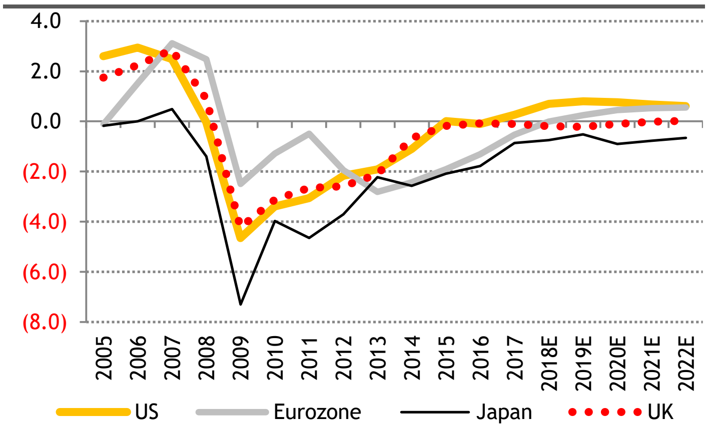
Source: Bloomberg

Negative output gaps aplenty. Output gap is an important consideration in central banks' inflation and monetary policy outlook. Negative output gaps could contain the risk of demand-pull inflation as well as core inflation rates (Fig 19).

Except for US, other major economies are still on negative output gap (Fig 20). Based on data from IMF's World Economic Outlook issued in Oct 2017, US output gap turned positive – albeit small - since 2005 and the positive output gap is projected to remain sub-1% over the medium term (2018-2022), hence Fed's gradual interest rate hikes since Dec 2015. Eurozone's negative output gap will remain in 2018 before turning positive from 2019. Output gaps in UK and Japan are projected to remain negative until 2021 and 2022 respectively. The major economies' output gaps are also not expected to return to the pre-GFC levels, potentially curbing big upside risk to inflation. This further justifies our view of benign normalisation and unsynchronized unwinding of monetary policy stimulus by the major central banks.

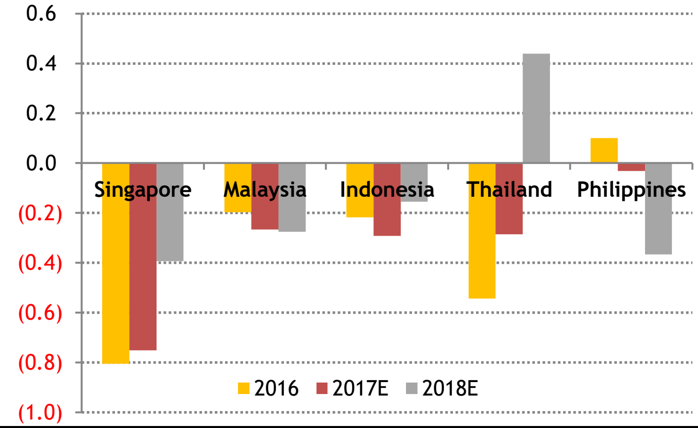
The same goes for ASEAN. Our internal estimates of output gap show that Singapore, Malaysia, Indonesia and Philippines will continue to have negative output gaps in 2018 with Thailand being the exception (Fig 21).

Fig 20: Output Gap (% of Potential Output) - US, Eurozone, Japan, UK



Source: IMF

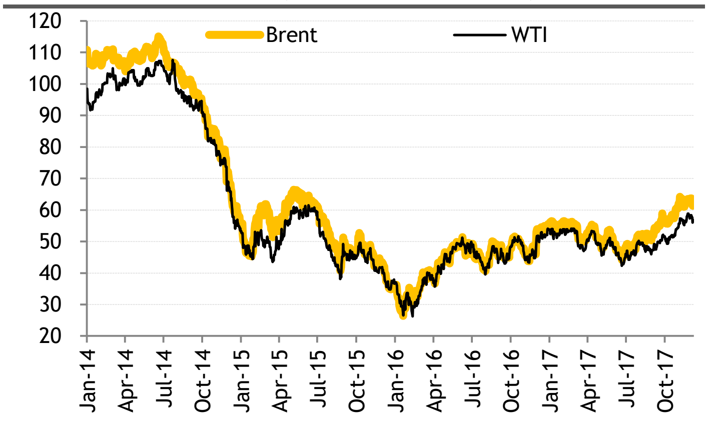
Fig 21: Output Gap (% of Potential Output) - ASEAN-5



Source: MKE Economics Research

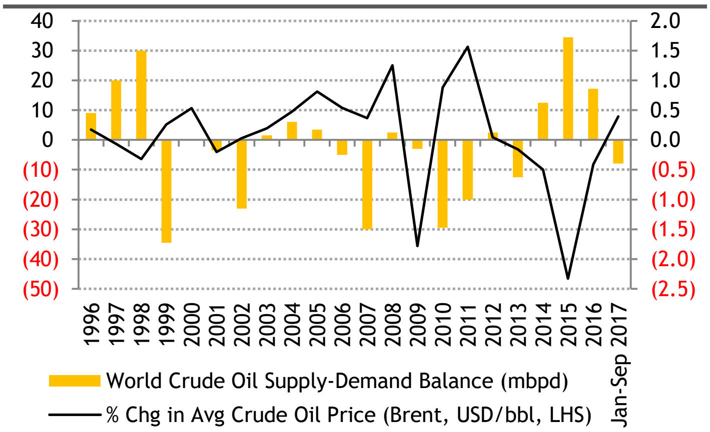
Rise in crude oil prices. Brent crude rose from 2017's low of USD44.21/bbl on 21 June, broke USD60/bbl mark on 27 Oct and hit the high of USD64.13/bbl on 6 Nov, the highest since USD66.37/bbl on 5 May 2015, and trades over USD60/bbl towards end-2017 (Fig 22). Several factors account for this, including the perception of elevated Middle East geopolitical risk amid tensions between Iran and US-Saudi Arabia; disruptions to US crude oil production in Sep-Oct 2017 due to the hurricane seasons; global crude oil market re-balancing from the excess supply situation (Fig 23) following output cut by OPEC members and several non-OPEC crude oil producers since Jan 2017 until end-2018, coupled with global economic growth lifting crude oil demand. We expect crude oil price to average USD60/bbl in 2018 vs USD54/bbl in 2017.

Fig 22: Crude Oil Prices (Brent & WTI, USD/bbl)



Source: Bloomberg

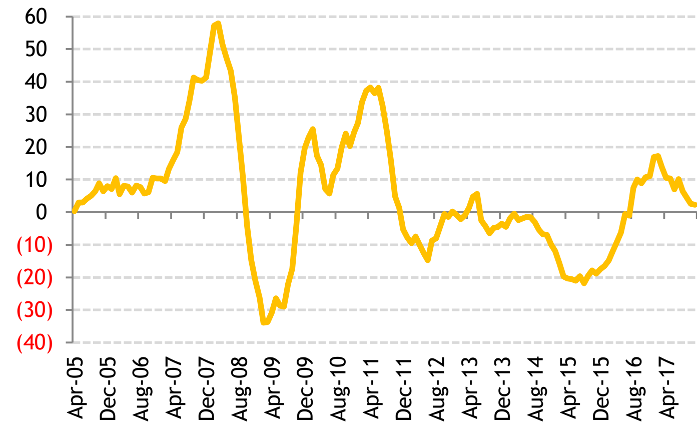
Fig 23: Crude Oil - Supply-Demand Balance vs Price



Source: IEA, Bloomberg

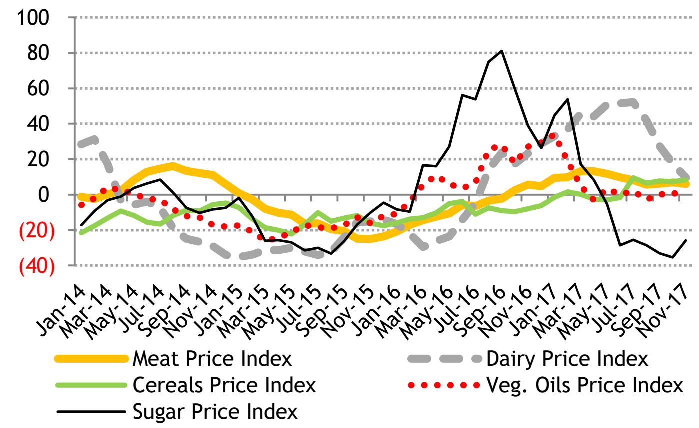
But disinflation and deflation in food commodity prices. While the rise in crude oil price raise the risk to inflation, we also noted that food prices - another key commodity-related component of consumer price index (CPI) worldwide – are slumping as per the Food & Agriculture Organisation of the United Nations (FAO) Food Price Index, dragged mainly by declines in sugar and dairy products (Fig 24-25). At the same time, prices of vegetable oils are lackluster as Oil World forecasts global supplies of 17 oils & fats to improve by +3.5% to 7.5m MT in the marketing year 2017/2018 to push up the stock-usage-ratio (SUR) to 13.1% (2016/2017: 12.5%), led by palm oil's SUR (2017/2018: 19.0%; 2016/2017: 17.0%). There is an inverse relationship between 17 Oils & Fats Stock Usage Ratio (SUR) and FAO's Vegetable Oils Price Index (Fig 26).

Fig 24: Food & Agriculture Organisation of the United Nations (FAO) Food Price Index (% YoY)



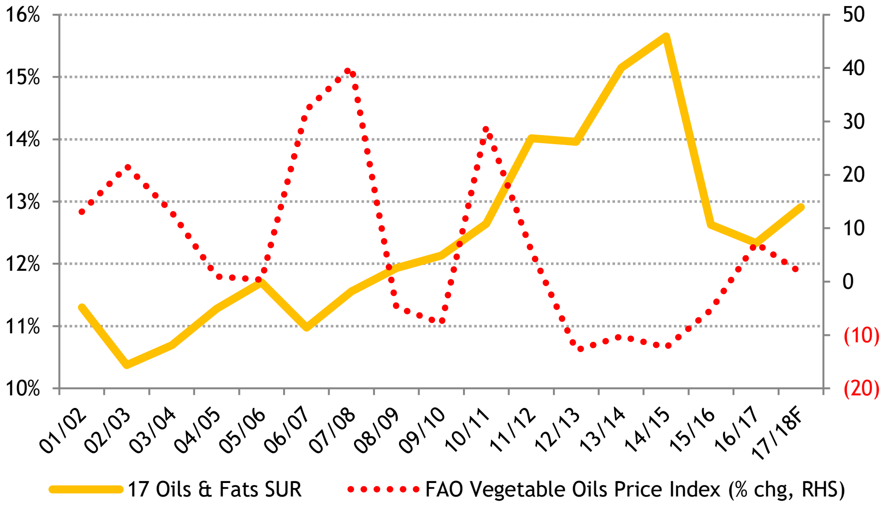
Source: CEIC

Fig 25: Food & Agriculture Organisation of the United Nations (FAO) Food Price Index - Components (% YoY)



Source: CEIC

Fig 26: 17 Oils & Fats Stock Usage Ratio (SUR) vs Food & Agriculture Organisation of the UN (FAO) Vegetable Oils Price Index



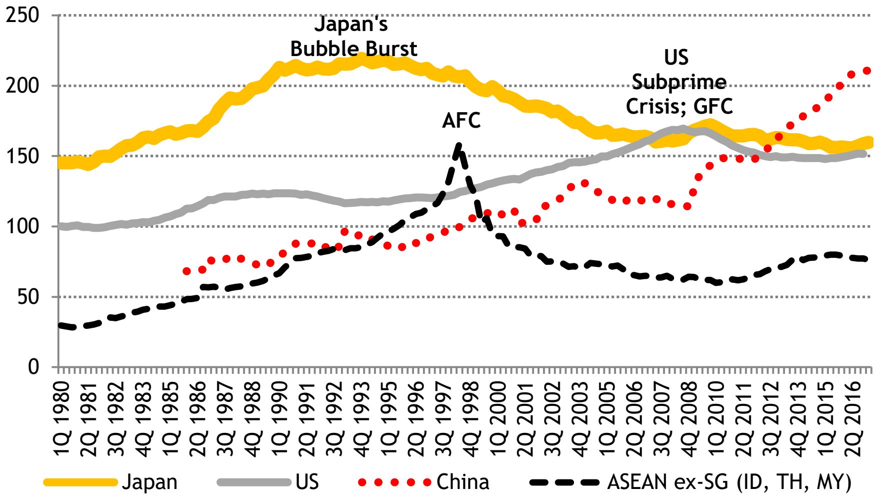
Source: Oil World, CEIC

Financial imbalances and instability a key risk factor

Wary of the "10 year cycle". Over the past two decades, the year ending with "7" or "8" have been associated with debt-triggered financial crises i.e. the Asian financial crisis 1997-1998 and the global financial crisis of 2007-2008, establishing the psychological wariness of the 10-year cycle of financial crisis.

As China's private sector leveraging trend is similar to pre-crisis Japan and ASEAN (Fig 27) i.e. rapid buildup in debt relative to GDP - as well as the surge in asset markets - preceded the outbreak of financial crises. Steps were taken to curb debt growth and cool the asset market e.g. crackdown on shadow banking/finance; raising market interest rates; tighter prudential measures and interventions in the property sector and local government debt market; verbal and regulatory interventions to curb stock market speculation.

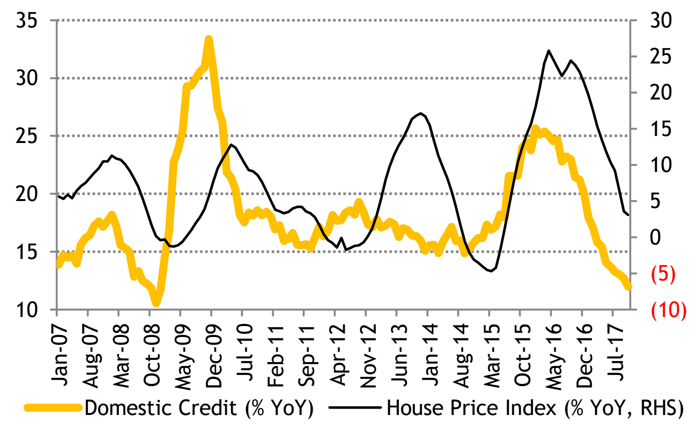
Fig 27: Private Sector (Household & Corporate) Debt to GDP Ratio (%)



Source: BIS

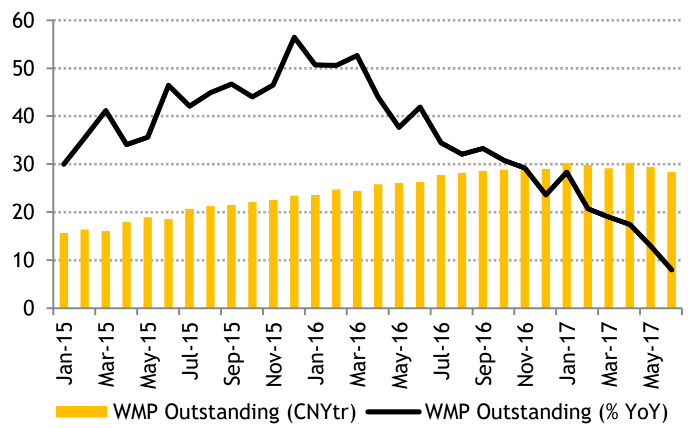
Risk of unintended consequences from China's de-leveraging and de-risking. The impact of policies and measures to address the financial stability risk are being seen, among others, in the sharp slowdowns in domestic credit growth, property price increase and growth of wealth management products amount outstanding (Fig 28-29) as well as the drop in the equity market since late-Nov 2017 (Fig 30). Given the risk of unintentionally causing economic "hard landing" that in turn triggers financial crisis, the de-leveraging and de-risking process is being managed e.g. capital controls; People's Bank of China (PBOC) actively managing market liquidity to prevent market stress and liquidity squeeze (Fig 31-32), as well as conditionally and selectively cutting banks' reserve requirement ratio (RRR) by between -50bps to -100bps in 2018 to spur lending to targeted sectors like SMEs and rural/agriculture. At the same time, the accelerating growth in corporate profits (Fig 33) could mitigate a particular downside of de-leveraging process i.e. rising debt servicing costs as a direct result of higher market interest rates.

Fig 28: China – Domestic Credit & Property Prices (% YoY)



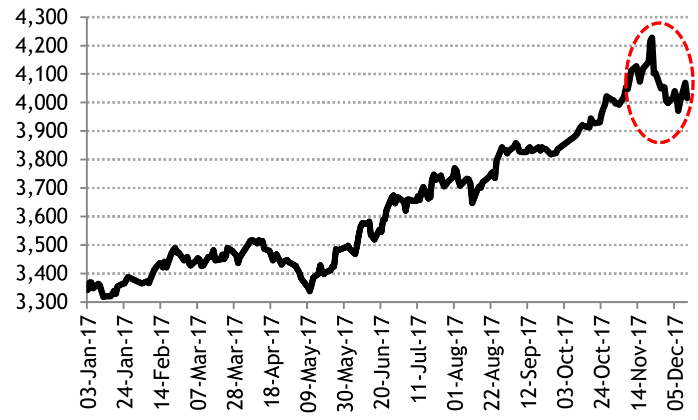
Source: Bloomberg, CEIC

Fig 29: Outstanding Amount of Wealth Management Products (WMP)



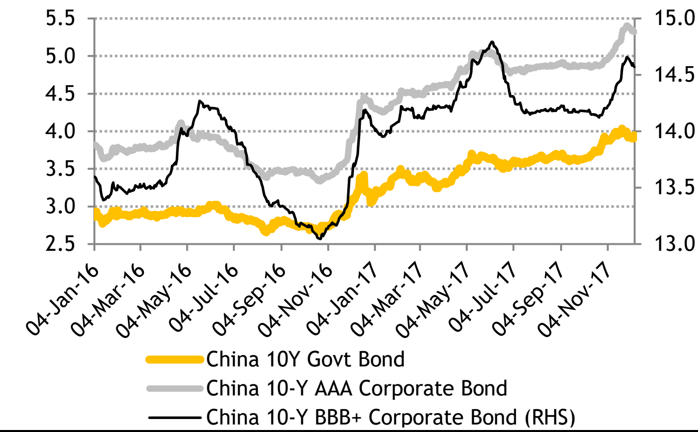
Source: Bloomberg

Fig 30: Shanghai-Shenzen CSI 300 Index



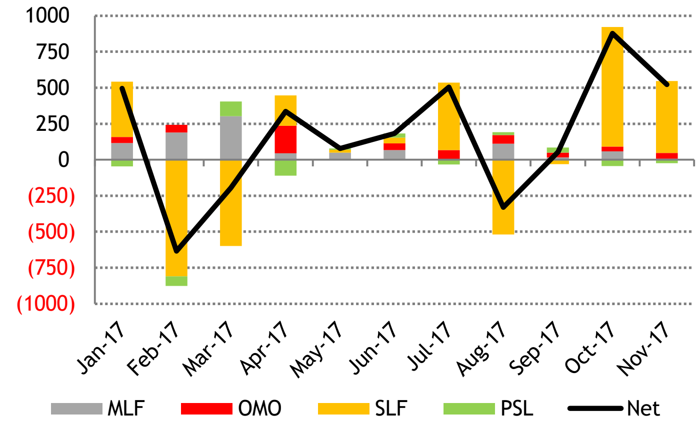
Source: Bloomberg

Fig 31: Bond Market Yields (% p.a.)



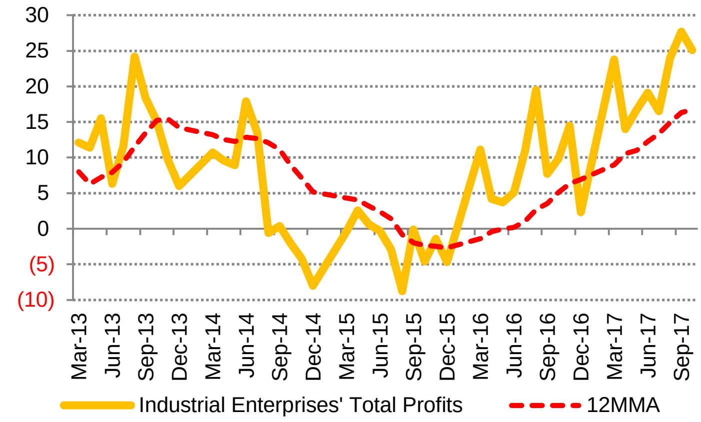
Source: Bloomberg

Fig 32: PBOC's Liquidity Operations via Open Market Operations (OMO) and Lending Facilities



Source: Bloomberg

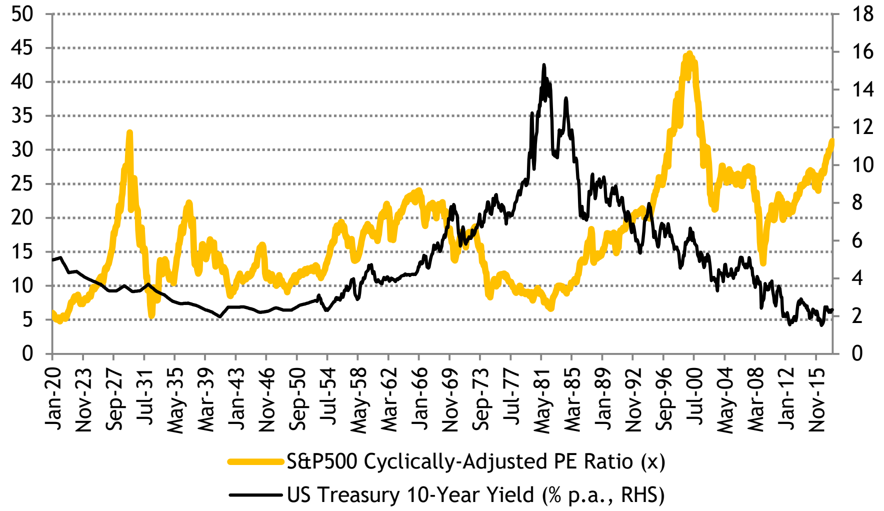
Fig 33: Industrial Enterprises' Total Profits (% YoY)



Source: Bloomberg

Stock and bond market bubbles…? Global stock market has been buoyant in 2017 amid continued search for returns in an environment of falling and prolonged low risk-free yield, on top of the "goldilocks economy" of growth recovery and subdued inflation that fuels earnings growth. This is encapsulated by the US stock market (S&P500) valuation and depressed US 10 Year Treasury yield (Fig 34). Historically, US stock market is vulnerable to major corrections when the S&P500's cyclically-adjusted PE ratio is around or exceeds 25x. It is 31.3x as at Nov 2017, the third highest on record after 44.2x in Dec 1999 and 31.5x in Aug 1929.

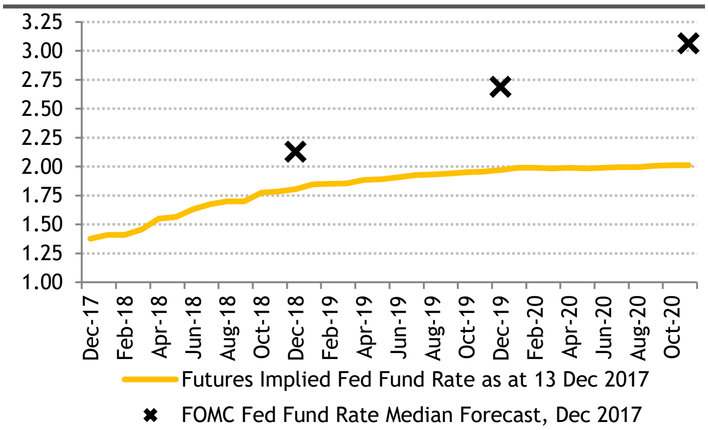
Fig 34: US Stock Market Valuation & Government Bond Yield



Source: Online Data Robert Shiller (http://www.econ.yale.edu/~shiller/data.htm)

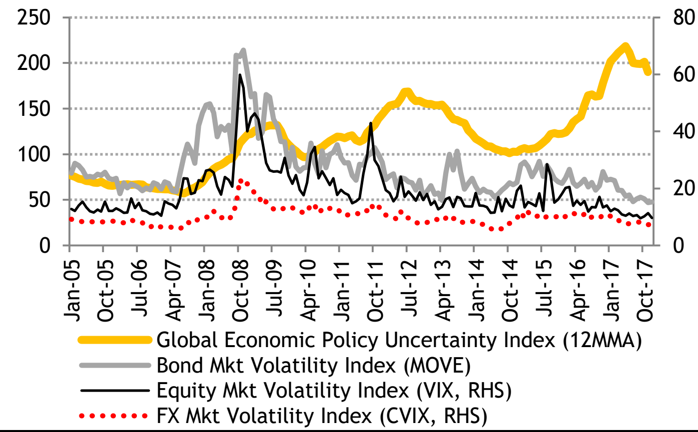
Mind the "gaps". Another concern on financial stability is the divergences between Fed's guidance and market expectations on the fed funds rate path, as well as between risks and volatility. Markets are currently factoring in a more "dovish" or less interest rate hikes in 2018-2020 than what Fed is guiding (Fig 35), mainly reflecting differing views between Fed and markets on long-term inflation outlook/expectation. Meanwhile, the gap between risks (represented by Global Economic Policy Uncertainty Index) and market volatility (equity, bond and currency markets' volatility indices) have not only widened but persisted, whereas historically – and logically – risks and volatilities move in tandem and any divergence was unsustainable (Fig 36). These gaps pose "re-pricing" risk in the global financial markets, and could be triggered by factors such as faster than expected inflation; more hawkish-sounding major central banks – including comments on the financial markets; and domestic/global political risks.

Fig 35: US Fed Funds Rate (% p.a.) – Fed's Guidance vs Market Expectation



Source: FOMC, Bloomberg

Fig 36: Risks vs Volatility



Source: Bloomberg

MALAYSIAN ECONOMY

Continued 5%-Plus Growth

"Growth recovery" in 2017 after "growth slowdown" in 2015-2016. The Malaysian economy benefited from the global economic pick up that fueled world trade growth, lifted commodity prices and buoyed external demand which revived exports (Jan-Sep 2017: +10.4%; 2016: +1.1%) and private investment (Jan-Sep 2017: +9.3%; 2016: +4.3%). Notwithstanding the prolonged weakness in consumer sentiment (sub-100 MIER Consumer Sentiment Index since 3Q 2014) and the acceleration in inflation (Jan-Oct 2017: +4.0%; 2015-2016: +2.1%), consumer spending surprised on the upside (Jan-Sep 2017: +7.0%; 2016: +6.0%), thanks to monetary, fiscal and administrative measures to address cost of living issue which boosted disposable income. Public consumption (Jan-Sep 2017: +4.9%; 2016: +0.9%) and public investment (Jan-Sep 2017: +0.8%; 2016: -0.5%) recovered as the growth recovery and rebound in crude oil price resuscitate Government revenues and Petronas profits. With 1Q-3Q 2017 real GDP growth at +5.9% (1Q-3Q 2016: +4.1%), we penciled in a +5.8% expansion for full-year 2017 (2016: +4.2%).

5%-plus growth momentum to continue in 2018. We expect the 5%-plus growth momentum to be sustained in 2018, albeit at a slower pace of +5.3%. Domestic demand (2018E: +6.4%; 2017E: +6.8%) remains the growth driver on the back of continued growth in consumer spending (2018E: +6.5%; 2017E: +7.0%), public consumption (2018E: +5.8%; 2017E: +5.1%) and gross fixed capital formation (2018E: +6.6%; 2017E: +7.5%) on expansions in both private investment (2018E: +9.0%; 2017E: +9.5%) and public investment (2018E: +1.5%; 2017E: +3.5%). Exports (2018E: +4.9%; 2017E: +8.8%) and imports (2018E: +5.7%; 2017E: +11.0%) of goods and services will expand further in 2018 on the back of the sustained global and domestic growth momentum, but the paces are expected to moderate after the high base in 2017.

Figure 37: Malaysia: Real GDP

% chg	ACTUAL			MAYBANK KE		OFFICIAL	
	% Share of GDP *	2016	Jan-Sep 2017	2017E	2018E	2017E	2018E
Real GDP	**100.0**	**4.2**	**5.9**	**5.8**	**5.3**	**5.2-5.7**	**5.0-5.5**
Manufacturing	23.4	4.4	6.2	6.1	5.8	5.5	5.3
Services	55.1	5.6	6.2	6.1	5.9	5.9	5.8
Agriculture	8.2	(5.1)	6.0	7.1	3.8	5.6	2.4
Mining	8.6	2.2	1.6	1.3	1.5	0.5	0.9
Construction	4.7	7.5	6.9	7.0	7.0	7.6	7.5
Domestic Demand	92.4	4.3	6.7	6.8	6.4	6.4	5.5
Private Consumption	54.2	6.0	7.0	7.0	6.5	6.9	6.8
Public Consumption	12.1	0.9	4.9	5.1	5.8	2.7	1.3
Gross Fixed Capital Formation	26.1	2.7	6.8	7.5	6.6	7.4	5.0
Private Investment	18.9	4.3	9.3	9.5	9.0	9.3	8.9
Public Investment	7.1	(0.5)	0.8	3.5	1.5	3.7	(3.1)
Net External Demand	7.6	1.5	(3.5)	(7.2)	(2.2)	(6.3)	1.0
Exports of Goods & Services	73.0	1.1	10.4	8.8	4.9	8.0	2.3
Imports of Goods & Services	65.5	1.1	12.3	11.0	5.7	9.9	2.5

** Based on actual GDP data for Jan-Sep 2017*

Sources: Dept. of Statistics, MoF (Economic Report 2017/2018, Oct 2017), MKE Economics Research

Figure 38: Other Key Economic Indicators

	ACTUAL		MAYBANK KE		OFFICIAL	
	2016	**2017 YTD ***	**2017E**	**2018E**	**2017E**	**2018E**
Gross Exports (% chg)	1.1	21.1 (Jan-Oct)	19.6	5.9	16.6	3.4
Gross Imports (% chg)	1.9	21.9 (Jan-Oct)	20.6	5.8	17.8	2.5
Trade Balance (MYRb)	87.3	80.2 (Jan-Oct)	97.3	103.7	94.6	97.0
Current Account Balance (MYRb)	29.0	27.4 (Jan-Sep)	38.4	40.9	32.3	32.9
Current Account Balance (% of GDP)	2.4	2.8 (Jan-Sep)	2.8	2.9	2.4	2.3
Fiscal Balance (% of GDP)	(3.1)	(3.3) (Jan-Sep)	(3.0)	(2.8)	(3.0)	(2.8)
Inflation Rate (CPI, %)	2.1	4.0 (Jan-Oct)	4.0	2.5.3.0	3.0-4.0	2.5-3.5
Overnight Policy Rate (% p.a., end-period)	3.00	3.00	3.00	3.25	-	-
Exchange Rate (MYR/USD, end-period)	4.49	4.08	4.10	3.95	-	-
Exchange Rate (MYR/USD, average)	4.14	4.31	4.30	4.05	4.35	4.35
Unemployment Rate (%)	3.5	3.4 (Jan-Sep)	3.4	3.3	3.4	3.3
Crude Oil (USD/bbl, Brent average)	44.1	53.8	54.0	60.0	50.0	52.0
Crude Palm Oil (MYR/tonne, average)	2,652	2,814	2,800	2,600	2,700	2,750

** As at 12 Dec 2017 unless stated otherwise*

Sources: Bloomberg, Dept. of Statistics, MoF (Economic Report 2017/2018, Oct 2017), MKE Economics Research, Maybank FX Research

Consumer spending in 2018 – a year of two halves…?

Consumer spending growth picked up 2017. Real private consumption expenditure growth upward momentum was sustained for the third quarter in a row in 3Q 2017 at +7.2% YoY (2Q 2017: +7.1% YoY; 1Q 2017: +6.6). Besides the steady rise in employment (3Q 2017: +2.1% YoY to 14.54m; 2Q 2017: +2.1% YoY to 14.52m; 1Q 2017: +1.6% YoY 14.42m) and private sector wages and salaries (3Q 2017: +7.4% YoY; 2Q 2017: +7.3% YoY; 1Q 2017: +4.5% YoY), consumer spending growth in 3Q 2017 was also supported by other factors like final disbursement of 2017's BR1M (Aug 2017), cash handouts of MYR5,000 each to 94,956 eligible FELDA settlers totaling MYR475m (Sep-Oct 2017), as well as spending by domestic consumers and foreign tourists during the South East Asian (SEA) Games (19-30 Aug 2017) and Para-ASEAN Games (17-23 Sep 2017). In view of the +7.0% growth in consumer spending in 1Q-3Q 2017, we estimated the same growth for full-year 2017 (2016: +6.0%).

We expect consumer spending growth to remain around +7% in 1H 2018 on continuation of - and additional - measures to boost disposable incomes in Budget 2018 which essentially maintains the momentum in consumer spending stimulus of the previous budgets (Fig 39). In particular, the bulk BR1M handouts (two-thirds of the MYR6.8b) and all of the "bonus" for civil servants and pensioners as well as other direct cash aid and one-off payments to target groups (e.g. farmers, fishermen, rural folks) will be disbursed in 1H 2018. These are on top of the 2ppt personal income tax rate cuts that will boost consumer disposable income by MYR1.5b.

Figure 39: Budget and non-budget measures to boost disposable income, 2016-2018

Key Measures	2016	2017	2018
BR1M	MYR5.4b (+1.5%)	MYR6.8b (+25.9%)	MYR6.8b (0%)
Civil service salary & pension adjustments	MYR1.4b	-	-
"Bonus" for civil servants & pensioners	MYR1.0b (MYR500 for Civil Servants, MYR250 for Pensioners)	MYR1.0b (MYR500 for Civil Servants, MYR250 for Pensioners)	MYR3.0b (MYR1,500 for Civil Servants, MYR750 for Pensioners)
Other direct cash aids & one-off payments to target groups e.g. farmers, fishermen, rural folks	MYR0.7b	MYR1.3b	MYR1.0b
Personal Income Tax	Increase tax reliefs for spouse, children, education fees. Introduce tax relief for parental care	Introduce tax reliefs for childcare centre / kindergarten fees & "lifestyle"	2ppts cut in tax rates equal to MYR1.5b. Extend tax relief for education savings (SSP1N) until 2020
Employees' Monthly EPF Contribution	Option for 8% rate instead of 11% rate (Mar 2016 – Dec 2017)		Back to 11% rate
BNM Overnight Policy Rate (OPR)	-25bps cut to 3.00% in July	Maintain at 3.00%	Expect +25bps to 3.25%
Minimum Wage	11%-15% increase w.e.f. 1 July	"Full-year effect" of 2016's hike	Under review

Source: Budget 2016-2018, MKE Economics Research

However, some of the consumer spending stimulus in 2016-2017 will expire and reverse in 2018 i.e. normalisation of workers' contribution to EPF; expected BNM interest rate hike.

Workers' monthly contribution rate to Employees Provident Fund (EPF) will return to 11% in 2018 after the option for lower contribution of 8% between Mar 2016 and Dec 2017. Reportedly half of employees opted for this, which is estimated to have directly boosted disposable income by a total of MYR4b during the period.

BNM's Monetary Policy Statement (MPS) issued after the final Monetary Policy Committee (MPC) meeting for 2017 on 8-9 Nov turned "hawkish" by saying that the MPC may consider reviewing the current degree of monetary accommodation. This signals upside bias in Overnight Policy Rate (OPR) in 2018 after it was cut by -25bps to 3.00% in July 2016 and was unchanged in 2017. This is in line with our expectations of a +25bps hike in OPR in 2018. Given our view of a post-election OPR hike by BNM, and our expectation that the 14th General Election will be held within the Feb-Apr 2018 "window", our eyes are on the 9-10 May 2018 MPC meeting as the earliest timing for OPR hike. The single OPR hike also takes into account of the expected moderation in inflation rate to 2.5%-3.0% in 2018 (2017E: +4.0%).

Consequently, we expect consumer spending growth to moderate in 2H 2018, pulling down full-year 2018 growth. We expect consumer spending growth to ease to around +6.0% in 2H 2018, "normalizing" back to the average growth in 2015-2016. This in turn will pull down full-year 2018 growth to +6.5% (2017: +7.0%).

Higher Government spending in the election year

Government consumption expenditure grows on rebound in operating expenditure thanks to the fiscal space afforded by the impact of firmer growth and crude oil prices on revenues (Fig 40). We expect Government consumption growth of +5.8% in 2018 (2017E: +5.1%). The forecasts mainly reflect the impact of back-to-back growth in Government operating expenditure of +6.5% to MYR234.3b under Budget 2018 after the +4.6% increase to MYR219.9b in 2017, reversing the back-to-back declines in 2015-2016. The increase in 2017-2018 operating spending is afforded by the "fiscal space" generated by economic growth recovery and firmer crude oil prices as reflected by the upward revision in the official crude oil forecast for 2017 to USD50/bbl (original Budget 2017: USD45/bbl) and a firmer USD52/bbl in 2018, hence the recovery in 2017-2018 revenues after the declines in 2015-2016.

Figure 40: Federal Government Revenues & Expenditures

	2015	2016	1Q-3Q 2017	2017E	Budget 2018
Crude Oil Price (USD/bbl)	52	44	52	50	52
Total Revenue, MYRb	219.1	212.4	155.8	225.3	239.9
% chg	*(0.7)*	*(3.0)*	*2.1*	*6.1*	*6.4*
Total Expenditure, MYRb	256.3	250.8	189.0	265.2	279.7
% chg	*(0.5)*	*(2.1)*	*1.0*	*5.7*	*5.4*
Operating Expenditure, MYRb	217.0	210.2	159.3	219.9	234.3
% chg	*(1.2)*	*(3.1)*	*(0.5)*	*4.6*	*6.5*
Development Expenditure (Net), MYRb	39.3	40.6	29.6	45.3	45.4
% chg	*2.2*	*3.5*	*9.8*	*11.5*	*0.2*

Source: Ministry of Finance, Bloomberg

Potential upside surprise in Government spending? The official crude oil forecasts look conservative. We expect crude oil price to average USD60/bbl in 2018 (2017E: USD54/bbl), and estimated that every USD10/bbl increase in annual average crude oil price boost Government's oil & gas revenues excluding Petronas dividend by MYR4b, and can be as much as MYR7b-MYR8b including Petronas dividend. Given that 2018 is an election year, the potential upsides Government revenue provides room for increase in targeted spending.

For example, the flipside to the revenue-enhancing crude oil price increase is the upward pressures on inflation and cost of living via higher retail fuel prices for petrol and diesel. The Government has indicated that it may consider measures to ease the impact of higher global crude oil prices on inflation and cost of living if RON95 and diesel prices were to increase and remain above MYR2.50/litre for three consecutive months. The extra revenues can be used to enhance existing targeted cash handouts and financial assistance, namely BR1M which can be raised to accommodate the impact to lower income groups. The Government can also allocate additional fuel subsidies for the existing allocations provided to public and rural transportation (e.g. diesel subsides for stage, express and school buses; rural air transport in Sabah-Sarawak) and maybe even subsidising special fares for LRT/MRT during the periods of above-MYR2.50/litre fuel prices, to further encourage usage of public transport and support the country's target to reduce carbon emissions.

Investment underpinned by infrastructure delivery & earnings recovery

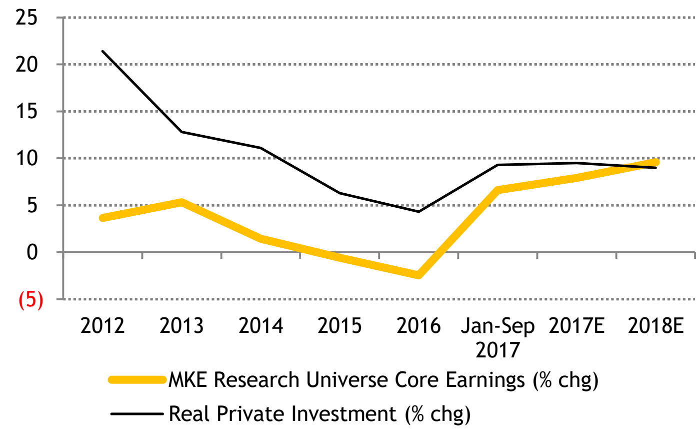
2018 investment growth underpinned by progress and rollout of major infrastructure and investment projects. We expect gross fixed capital formation growth of +6.6% in 2018 (2017E: +7.5%), driven by expansions in both private investment (2018E: +9.0%; 2017E: +9.5%) and public investment (2018E: +1.5%; 2017E: +3.5%).

Investment activities are predominantly underpinned by ~MYR278b worth of multi-year major infrastructure projects that are on-going and in the pipeline, including the Klang Valley's Mass Rapid Transit 2 and 3 and Light Rail Transit 3 (KVMRT2, KVMRT3 & KVLRT3); East Coast Rail Line (ECRL); Kuala Lumpur - Singapore High Speed Rail (KL-SG HSR); Gemas – Johor Bahru Electrified Double Track Rail (EDTR); and Pan Borneo Highway *(for more details, refer to our Construction Sector write-up in pp 75-79)*, as well as progress in major catalytic and high-impact investments such as the Refinery and Petroleum Industry Development (RAPID) in Pengerang, Johor that is set for completion and operation in early-2019; Kuantan Port Expansion and Malaysia-China Kuantan Industrial Park (MCKIP); as well as investments in oil & gas and metals industries in Sabah and Sarawak.

Earnings recovery is also positive for private investment growth. Maybank KE's research universe core earnings growth estimate of +7.9% for 2017 and forecast of +9.7% for 2018 after the "no growth" years of 2014-2016 is positive for real private investment growth given the correlation between the two (Fig 41).

The forecast of moderation in real private and public investment growth in 2018 takes note of several factors i.e. slowdown in MIDA's investment approvals seen in 1H 2017 (Fig 42) after the elevated trends in 2013-2016, caused by the dips in approved investments in manufacturing (largely due to the drop in Petroleum Products after the surge in 2014-2016 related to RAPID project), services and real estate despite the rebound in the oil & gas-dominated primary sector; the unchanged allocation for Government gross development expenditure (GDE) of MYR46b (2017: +9.4% to MYR46b); as well as news of slight delay in the start of KVLRT3.

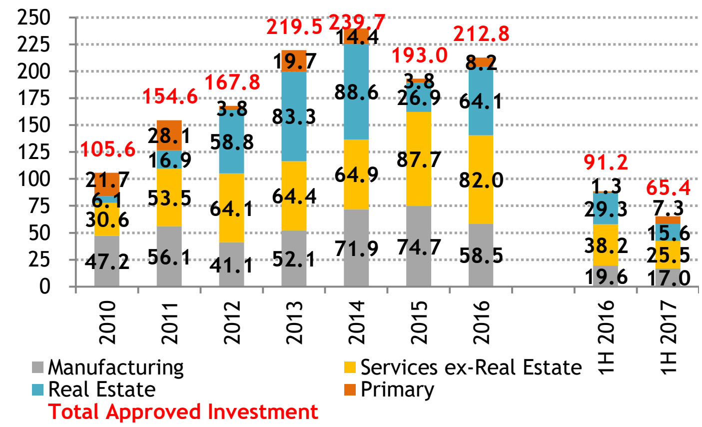
Fig 41: Corporate Earnings vs Real Private Investment



Jan-Sep 2017 MKE Research Universe Core Earnings refers only to the companies that reported on their Aug/ Sep 2017 quarters

Source: MKE Equity Research, Dept of Statistics

Fig 42: Approved Investment (MYRb)



Source: Malaysian Investment Development Authority (MIDA)

Moderate external trade growth in 2018 after 2017 surge

External trade growth surge in 2017. Global economic growth recovery in 2017 uplifted world GDP growth (2017E: +3.6%; 2016: +3.2%), reflate world trade activities and commodity prices, in turn boosting gross exports to +19.6% (Jan-Oct 2017: +21.1%; 2016: +1.2%) and gross imports to +20.6% (Jan-Oct 2017: +21.9%; 2016: +1.9%) respectively, translating into firmer growth in real exports and imports of goods and services of +8.8% (Jan-Sep 2017: +10.4%; 2016: +1.1%) and 11.0+% (Jan-Sep 2017: +12.3%; 2016: +1.1%) respectively.

External trade growth to moderate in 2018 after the high base in 2017, with gross exports and gross imports easing to +5.9% and +5.8% respectively, feeding into slower real exports and imports of goods and services growth of +4.9% and +5.7% respectively. 2018 external trade growth forecasts also reflect the assumption of steady - rather than stronger - global economic growth (2018E: +3.6%; 2017E: +3.6%); slower increase in average crude oil price (2018E: +11% to USD60/bbl; 2017E: +22% to USD54/bbl); lower average CPO price (2018E: MYR2,600/tonne; 2017: MYR2,800/tonne); firmer MYR vs USD (2018E: year-end of 3.95 & year average of 4.05; 2017E: year-end of 4.10 & year average of 4.30); and World Semiconductor Trade Statistics' (WSTS) guidance of slower global chip sales growth of +7.0% in 2018 after the +20.6% rise in 2017 (2016: +1.1%).

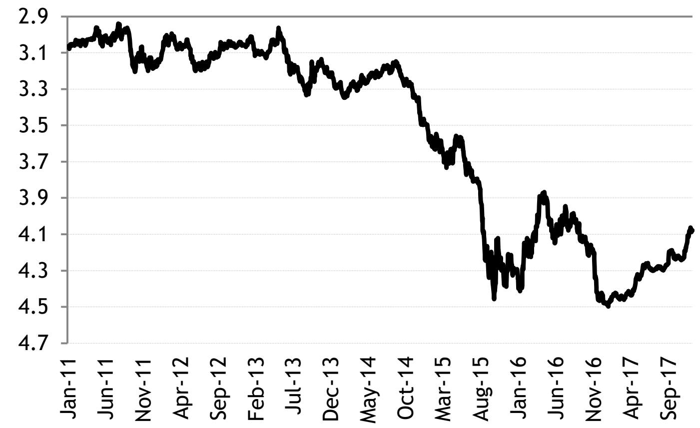
Continued export growth to sustain trade and current account surpluses. Following the above forecasts of sustained exports and imports growth, trade surplus in 2017 is estimated at +MYR97.3b (Jan-Oct 2017: +MYR80.2b; 2016: +MYR88.1b), followed by +MYR103.7b forecast for 2018. Consequently, current account surplus is also sustained at +MYR38.4b or +2.8% of GDP (Jan-Sep 2017: +MYR27.4b or +2.8% of GDP; 2016: +MYR29.0b or +2.4% of GDP) and +MYR40.9b or +2.9% of GDP in 2018.

MYR's reversal of fortune

Expect trend of firmer MYR vs USD in 2017 to continue in 2018. In 2017, MYR gained 10% against USD to 4.08 up to 12 Dec (Fig 43) after enduring four straight years of losses against the greenback totaling -31.8% in 2013-2016. Maybank FX Research expects the momentum in USDMYR to continue in 2018 with the year-end target of 3.95 to average 4.05 (2017E average USDMYR: 4.30), although there will be some volatility in the interim as we expect some selling pressure to emerge potentially in 2Q 2018 after BNM's expected OPR hike and the general election. On the end of quarter basis, USDMYR is expected to be at 4.05 at end-1Q 2018E, 4.12 at end-2Q 2018E, 4.05 at end-2Q 2018E, and 3.95 at end-4Q 2018E.

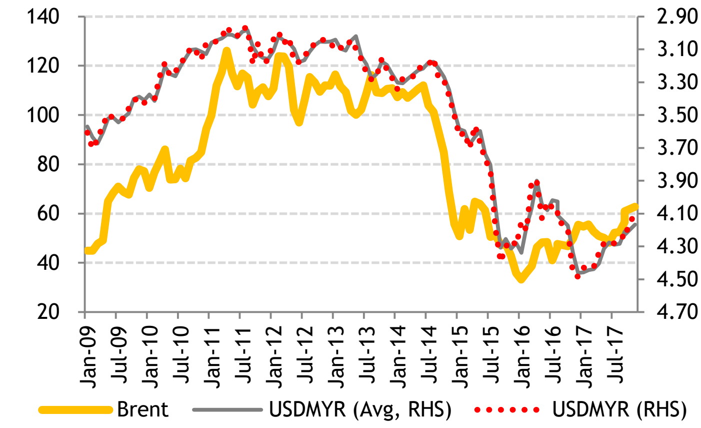
Oversold and undervalued amid supportive fundamentals and flows. MYR is oversold given the prolonged losses in 2013-2016, and undervalued in view of the supportive fundamentals and flows as per the firmer crude oil prices, external reserves rebuilding, sustained trade and current account surpluses, progress in fiscal consolidation, receding foreign holdings risk in the bond market, as well as resumption in the repatriation of export earnings (Fig 44-48). Maybank FX Research's fair value estimate for USDMYR is around 3.80.

Fig 43: USDMYR



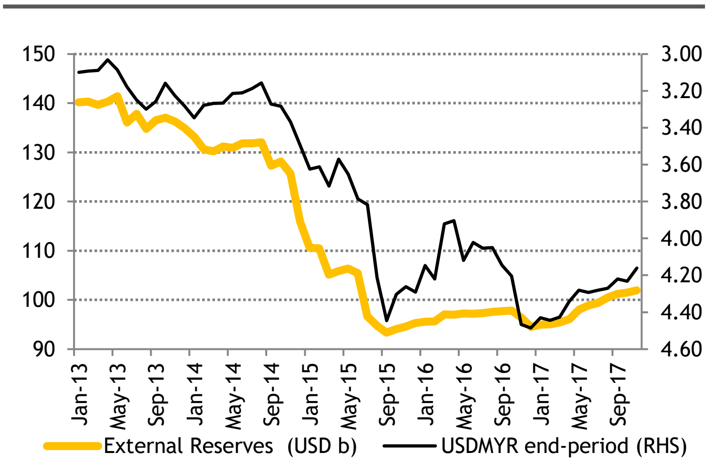
Source: Bloomberg

Fig 44: USDMYR & Crude Oil Prices



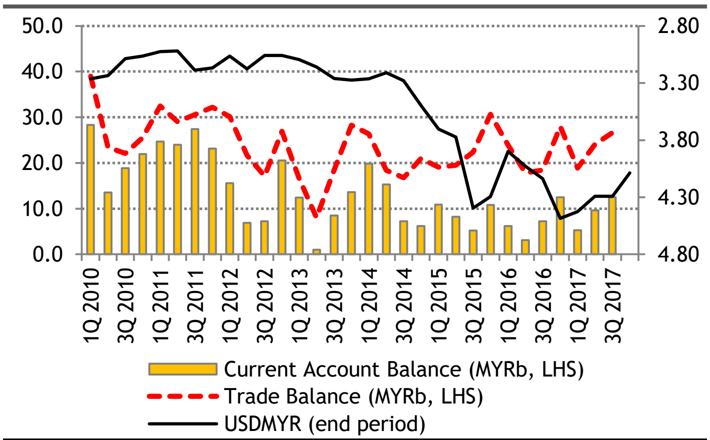
Source: Bloomberg

Fig 45: USDMYR & External Reserves



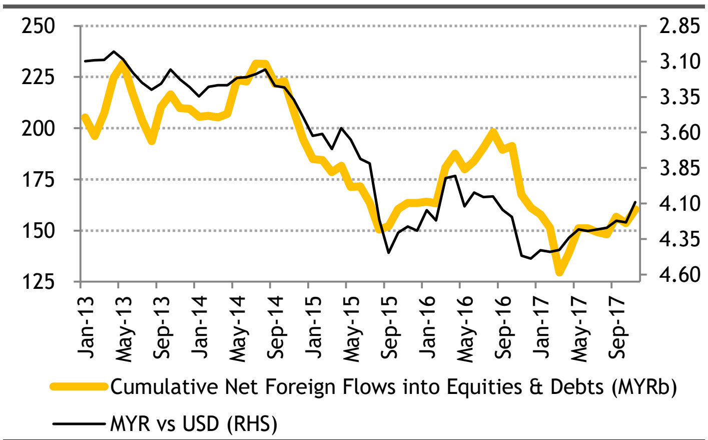
Source: Bloomberg, CEIC

Figure 46: USDMYR, Trade Balance & Current Account Balance



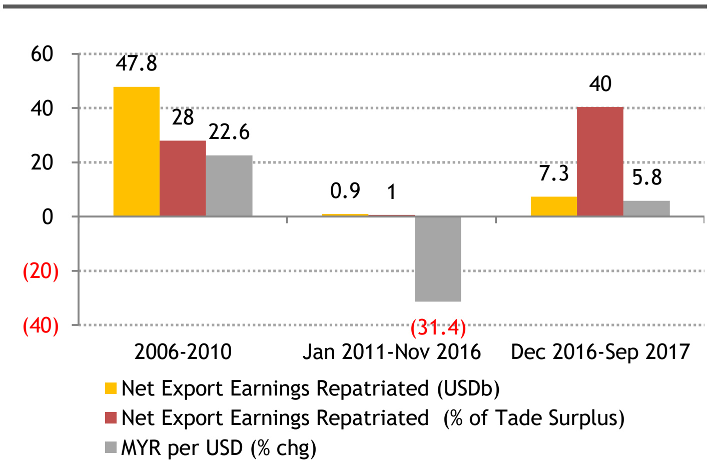
Source: Bloomberg, CEIC

Fig 47: Figure 47: USDMYR & Cumulative net Foreign Flows in Equity & Bond Markets



Source: Bloomberg, CEIC

Figure 48: USDMYR & Net Repatriation of Exports Earnings



Source: Bloomberg, BNM

APPENDIX TABLES

1. ASEAN-5 Key Macroeconomic Forecast Tables

Table 1: Malaysia - Key Macroeconomic Indicators

	2014	2015	2016	2017E	2018E	2019E
Real GDP (%)	6.0	5.0	4.2	5.8	5.3	5.1
Private Consumption (%)	7.0	6.0	6.0	7.0	6.5	6.0
Government Consumption (%)	4.3	4.4	0.9	5.1	5.8	5.6
Gross Fixed Capital Formation (%)	4.8	3.7	2.7	7.5	6.6	6.4
Exports of Goods & Services (%)	5.1	0.7	1.1	8.8	4.9	4.0
Imports of Goods & Services (%)	4.2	1.3	1.1	11.0	5.7	5.2
Current Account Balance (% of GDP)	4.3	3.0	2.4	2.8	2.9	2.4
Fiscal Balance (% of GDP)	(3.4)	(3.2)	(3.1)	(3.0)	(2.8)	(2.6)
Inflation Rate (%, average)	3.1	2.1	2.1	4.0	2.8 *	2.8
Unemployment Rate (%)	2.9	3.2	3.5	3.4	3.3	3.3
Exchange Rate (per USD, end-period)	3.50	4.29	4.49	4.10	3.95	3.85
Benchmark Interest Rate (% p.a., end-period)	3.25	3.25	3.00	3.00	3.25	3.50

** Forecast for 2018 is the midpoint for the range of 2.5% to 3.0%.*

Source: CEIC, MKE Economics Research

Table 2: Singapore - Key Macroeconomic Indicators

	2014	2015	2016	2017E	2018E	2019E
Real GDP (%)	3.6	1.9	2.0	3.4	2.8	2.5
Manufacturing (%)	2.7	(5.1)	3.6	10.5	3.0	2.1
Construction (%)	6.6	3.9	0.2	(7.6)	1.6	2.5
Services (%)	3.9	3.2	1.0	2.5	2.8	2.6
Wholesale & Retail Trade (%)	1.9	3.7	0.6	1.8	2.3	2.4
Finance & Insurance (%)	9.1	5.7	0.7	4.0	4.6	4.2
Business Services (%)	1.8	3.9	(0.9)	1.3	2.6	2.0
Current Account Balance (% of GDP)	19.7	18.1	19.1	19.0	19.2	19.5
Fiscal Balance (% of GDP)	0.1	(1.0)	1.2	0.4	0.6	0.7
Inflation Rate (%, average)	1.0	(0.5)	(0.5)	0.7	1.2	1.8
Unemployment Rate (%)	1.9	1.9	2.2	2.2	2.1	2.0
Exchange Rate (per USD, end-period)	1.33	1.42	1.45	1.35	1.33	1.32
3M SIBOR (% p.a., end-period)	0.46	1.19	0.97	1.20	1.55	1.75

Source: CEIC, MKE Economics Research

Table 3: Indonesia - Key Macroeconomic Indicators

	2014	2015	2016	2017E	2018E	2019E
Real GDP (%)	5.0	4.9	5.0	5.1	5.3	5.5
Private Consumption (%)	5.1	5.0	5.0	5.0	5.1	5.2
Government Consumption (%)	1.2	5.3	(0.1)	1.1	7.0	1.5
Gross Fixed Capital Formation (%)	4.4	5.0	4.5	5.8	5.4	5.2
Exports of Goods & Services (%)	1.1	(2.1)	(1.7)	10.2	7.2	4.1
Imports of Goods & Services (%)	2.1	(6.4)	(2.3)	7.1	6.4	5.3
Current Account Balance (% of GDP)	(3.1)	(2.0)	(1.8)	(1.5)	(2.2)	(2.3)
Fiscal Balance (% of GDP)	(2.2)	(2.8)	(2.5)	(2.7)	(2.5)	(2.5)
Inflation Rate (%, average)	6.4	6.4	3.5	3.8	3.8	3.6
Unemployment Rate (%)	5.9	6.2	5.6	5.4	5.2	5.0
Exchange Rate (per USD, end-period)	12,388	13,788	13,473	13,600	13,500	12,900
Benchmark Interest Rate (% p.a., end-period)	5.86	6.25	4.75	4.25	4.50	5.00

Source: CEIC, MKE Economics Research

Table 4: Thailand - Key Macroeconomic Indicators

	2014	2015	2016	2017E	2018E	2019E
Real GDP (%)	0.9	2.9	3.2	3.9	4.1	3.5
Private Consumption (%)	0.9	2.2	3.1	3.3	3.6	3.6
Government Consumption (%)	2.8	3.0	1.7	2.2	2.6	3.0
Gross Fixed Capital Formation (%)	(2.2)	4.4	2.8	1.5	3.8	3.4
Exports of Goods & Services (%)	0.2	0.7	2.1	6.0	4.4	3.0
Imports of Goods & Services (%)	(5.3)	0.0	(1.4)	6.1	3.7	2.8
Current Account Balance (% of GDP)	3.8	8.1	11.9	11.1	11.0	10.5
Fiscal Balance (% of GDP)	(2.9)	(2.9)	(2.8)	(3.6)	(3.0)	(2.8)
Inflation Rate (%)	1.9	(0.9)	0.2	0.7	1.3	1.9
Unemployment Rate (%)	0.8	0.9	1.0	1.2	1.0	0.9
Exchange Rate (per USD, end-period)	32.91	36.03	35.84	32.80	34.00	34.50
Benchmark Interest Rate (% p.a., end-period)	2.00	1.50	1.50	1.50	1.75	2.00

Source: CEIC, Maybank Kim Eng

Table 5: Philippines - Key Macroeconomic Indicators

	2014	2015	2016	2017E	2018E	2019E
Real GDP (%)	6.2	5.9	6.8	6.8	7.0	6.8
Private Consumption (%)	5.5	6.3	6.9	5.5	5.4	5.5
Government Consumption (%)	3.3	7.8	8.3	5.6	5.7	5.4
Gross Fixed Capital Formation (%)	6.2	15.2	23.5	9.9	10.4	10.4
Exports of Goods & Services (%)	11.7	9.0	9.1	17.4	11.3	9.7
Imports of Goods & Services (%)	9.3	14.0	17.5	15.5	11.2	9.8
Current Account Balance (% of GDP)	3.8	2.5	0.2	(0.3)	(0.5)	(0.5)
Fiscal Balance (% of GDP)	(0.6)	(0.9)	(2.4)	(2.8)	(3.0)	(3.0)
Inflation Rate (%, average)	4.1	1.4	1.8	3.2	3.6	3.4
Unemployment Rate (%)	6.8	6.3	5.5	5.0	5.0	5.0
Exchange Rate (per USD, end-period)	44.7	46.9	49.6	50.5	50.0	50.0
Benchmark Interest Rate (% p.a., end-period)	4.00	4.00	3.00 *	3.00	3.50	3.75

** BSP started used new policy interest rate in Jun 2016.*

Source: CEIC, MKE Economics Research

2. Global Benchmark Interest Rates

Global: Benchmark Interest Rates (% p.a.)

Country	Benchmark Interest Rate	end 4Q17	end 1Q18E	end 2Q18E	end 3Q18E	end 4Q18E	Chg in 2017	Chg in 2018E
Major								
US	Fed Funds Target Rate	1.25-1.50	1.50-1.75	1.75-2.00	1.75-2.00	2.00-2.25	0.75	0.75
Eurozone	ECB Main Refinancing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eurozone	ECB Deposit Facility Rate	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	0.00	0.00
Japan	BOJ Policy Rate Balance	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	0.00	0.00
UK	BOE Bank Rate	0.50	0.50	0.50	0.50	0.75	0.25	0.25
Asia Pacific								
Australia	Cash Rate Target	1.50	1.50	1.50	1.50	1.75	0.00	0.25
China	1-Year Lending Rate	4.35	4.35	4.35	4.35	4.35	0.00	0.00
India	Repo Rate	5.75	5.75	5.75	5.75	5.75	0.00	0.00
S. Korea	Target Overnight Rate	1.50	1.50	1.75	1.75	1.75	0.25	0.25
HK	3-Mth HIBOR	1.18	1.44	1.68	1.81	1.98	0.28	0.80
Taiwan	Discount Rate	1.375	1.375	1.375	1.375	1.500	0.00	0.125
Singapore	3-Mth SIBOR	1.20	1.20	1.40	1.50	1.55	0.20	0.35
Indonesia	7-Day Reverse Repo	4.25	4.25	4.25	4.25	4.50	(0.50)	0.25
Malaysia	Overnight Policy Rate	3.00	3.00	3.25	3.25	3.25	0.00	0.25
Thailand	Repurchase Rate	1.50	1.50	1.50	1.50	1.75	0.00	0.25
Philippines	Overnight Rate	3.00	3.00	3.25	3.25	3.50	0.00	0.50
Vietnam	Refinancing Rate	6.25	6.25	6.25	6.25	6.25	(0.25)	0.00

Sources: Bloomberg, Consensus Survey, Maybank KE (ASEAN)

3. Major and Regional Currency Forecasts vs USD

Currencies vs USD

	12-Dec-17	End-4Q 2017E	End-1Q 2018E	End-2Q 2018E	End-3Q 2018E	End-4Q 2018E	Average 2017E	Average 2018E
US Dollar Index	94	95	95	94	93	92	96	94
Japanese Yen	114	115	117	115	116	116	113	116
Euro	1.17	1.17	1.17	1.18	1.20	1.21	1.14	1.19
Pounds Sterling	1.33	1.32	1.32	1.34	1.36	1.38	1.31	1.34
Australian Dollar	0.76	0.77	0.79	0.81	0.83	0.85	0.76	0.81
Renminbi	6.62	6.60	6.65	6.60	6.60	6.55	6.73	6.60
Indian Rupee	64.40	65.00	66.00	64.50	65.00	65.00	65.21	65.10
HK Dollar	7.81	7.80	7.80	7.80	7.80	7.80	7.79	7.80
Taiwan Dollar	30.02	30.20	30.40	30.30	30.10	30.00	30.52	30.20
Korean Won	1,092	1,098	1,118	1,100	1,090	1,110	1,127	1,103
Singapore Dollar	1.352	1.350	1.360	1.340	1.335	1.325	1.38	1.34
Malaysian Ringgit	4.08	4.10	4.050	4.12	4.05	3.95	4.30	4.05
Indonesian Rupiah	13,574	13,600	13,700	13,600	13,600	13,500	13,474	13,600
Thai Baht	32.61	32.80	33.00	33.00	33.50	34.00	33.64	33.26
Philippines Peso	50.46	50.50	51.00	50.50	50.50	50.00	50.35	50.50
Vietnamese Dong	22,706	22,760	22,730	22,780	22,700	22,500	22,737	22,694

Sources: Bloomberg, Maybank FX Research

EQUITY

EQUITY: Cautiously Constructive

Current KLCI: 1,729.6 (12 Dec)

YE KLCI target: 1,840 (unchanged)

Positive alignments. With global growth recovery remaining entrenched into 2018, central banks' policies and politics will remain the key influences to economic and financial markets outlook in 2018. For Malaysia, the macro backdrop remains positive as we forecast another year of above-5% real GDP growth in 2018, continuing the momentum from 2017. In addition, we expect market core earnings growth to resume for the second year, while the prospects of a higher OPR would continue to lend support to the MYR.

GE14 to be a major driver. GE14, in our view, will be a major driver of investors' sentiment in early 2018. We expect volatility in both equities and MYR to be higher in the run-up to, and post polling day. On expectation that the Parliament dissolves after Chinese New Year, then January onwards could see higher activities in equities. This period, running up to GE14, may offer some trading opportunities. During GE13, the KLCI moved up +3.0% in the one month leading to Parliament dissolution, and +4.7% in the one month post polling day.

Back to basic (fundamentals) thenafter. As the euphoria of GE14 tapers post the event (our base case is a status quo outcome), we expect investors' focus to return to basic fundamentals which are well supported. For equities, we estimate core earnings to grow +9.7% in 2018 (2017E: +7.9%) for our research universe and +5.0% (2017E: +7.4%) for the KLCI. For the currency, we forecast USDMYR to end 2018 at 3.95, with our expectation of a firmer MYR ultimately reflecting the positive underlying fundamentals for the currency.

Cautiously constructive. We remain constructive on Malaysia equities into 2018. Our end-2018 KLCI target of 1,840 is based on 15.6x 12M forward earnings, its mean valuation. Bottom-up, we derive 1,860. That said, we remain cautious too into 2018, as we are mindful that amid positive global macros and momentum, there are still pockets of risks - financial imbalances & instability, and geopolitics are the two key risk factors, in our view. Our equity strategy for Malaysia in 2018 is still a defensive portfolio as core holdings.

Investment themes, sector weights. We highlight three thematic considerations for 2018 (two of which are for 1H) and two other thematics for the longer-term: (1) Fiscal stimulus pre-GE14; (2) BNM's OPR hike; (3) Multi-year orderbook replenishment in infrastructure construction; (4) Tourism; (5) *Look East, Malaysia*. Potential beneficiaries of these investment themes are those in the Consumer-based (theme #1), Banks (theme #2) and Construction (theme #3, #5) sectors, for now. Besides Construction, sectors that we OVERWEIGHT for 2018 are Automotive, Gaming, Oil & Gas, Petrochemical and Utility.

Top BUYs. We refresh our equity top BUY picks for 2018. The list comprises a mix of Value with Growth, and considers our thematics and sector weights for 2018. Our top BUYs for 2018 are PCHEM, GENT, IOI Corp, HLFG, Gamuda, Yinson, CMS, BAuto and YTL REIT.

M'sia equities growth & valuation

		2016A	2017E	2018E
KLCI @ 1,729.6	**PE (x)**	**16.7**	**15.9**	**15.6**
Earnings Growth	(%)	(2.1%)	7.4%	5.0%
Research Universe	**PE (x)**	**19.4**	**18.0**	**16.4**
Earnings Growth	(%)	(2.4%)	7.9%	9.7%

Top BUY picks

Stock Name	BB Ticker	Shr Px @ 12 Dec	TP
Petronas Chem	PCHEM	7.42	8.50
Genting	GENT	8.71	12.25
IOI Corp	IOI	4.47	5.03
HLFG	HLFG	17.18	18.40
Gamuda	GAM	4.90	5.60
Yinson	YNS	3.81	4.45
CMS	CMS	3.77	4.50
Bermaz Auto	BAUTO	2.19	2.48
YTL REIT	YTLREIT	1.20	1.40

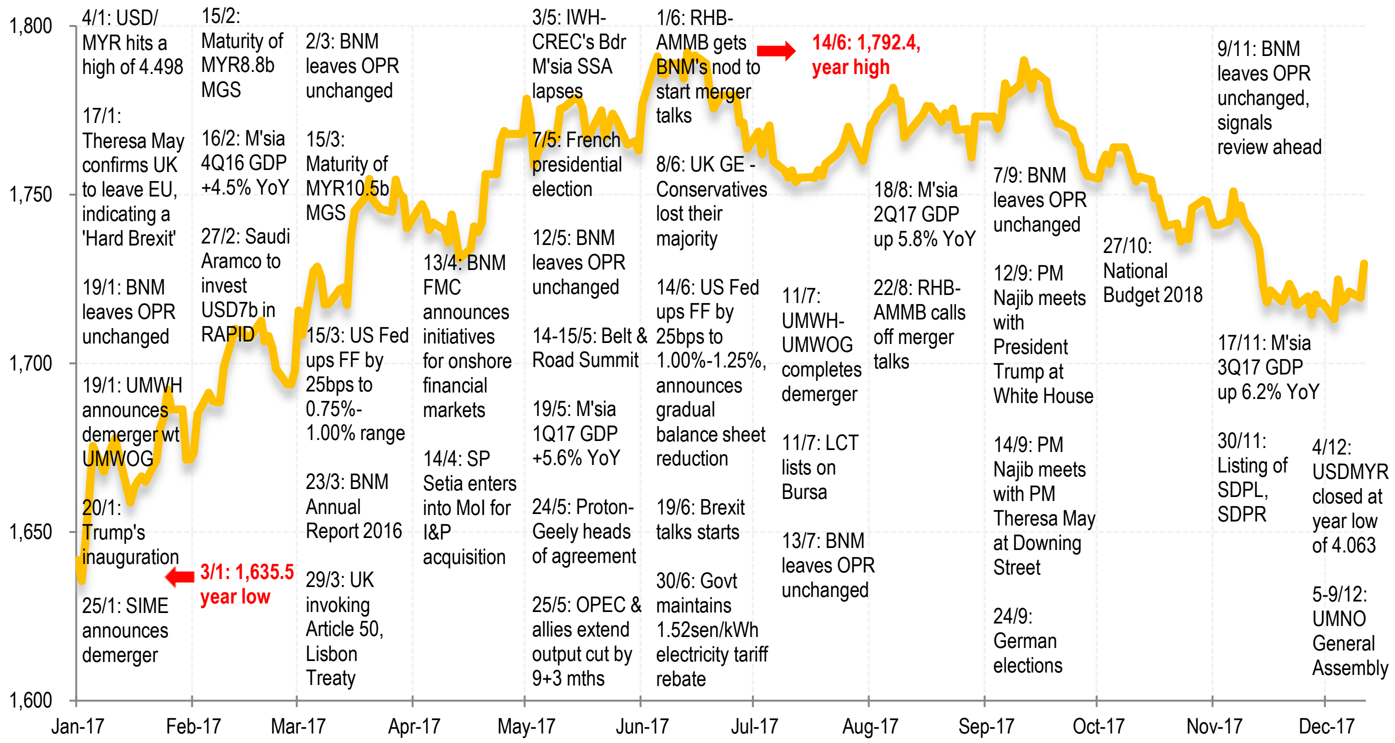
Source: Maybank KE

2017 REVIEW

Positive returns for the year

After three years of losses, the KLCI is looking to close 2017 in the black. YTD (as at 12 Dec), the KLCI has gained +5.4% (+16.0% in USD terms) with much of the gains recorded in 1Q17 (+6.0%), continuing into 2Q17 (+1.4%). From a year-low of 1,635 on 3 Jan, the KLCI reached a year-high of 1,792 on 14 Jun (+9.6%). Foreign participation supported the KLCI's climb in 1H17. 3Q17 saw range-bound trading, while 4Q17 has been flat. Compared to the big caps, the mid-small caps outperformed, with YTD gains of 17.0% for the FBM70 and 13.3% for the FBMSC. Broad sentiment was supported by above-expectations Malaysia's 1Q-3Q17 GDP growth on the back of entrenched global growth recovery. Meanwhile, the MYR's strength led to higher gains in USD terms. YTD, the MYR has gained 10.1% to the USD, after hitting a year-low of 4.498 on 4 Jan; it closed at 4.079 on 12 Dec.

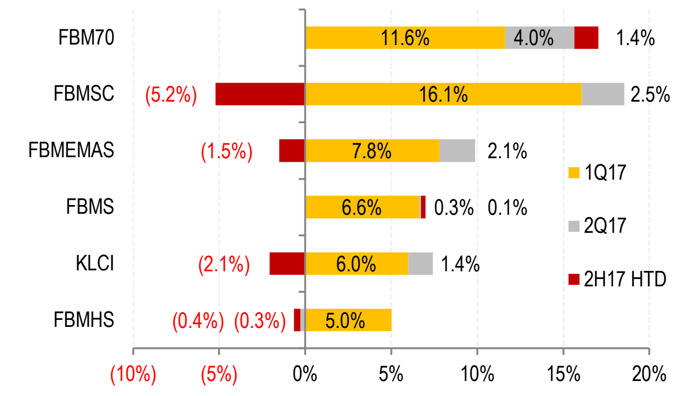
KLCI's 2017 journey, major events



Note: KLCI at 1,729 (12 Dec 2017) vs. 1,642 (30 Dec 2016); KLCI's record high close was 1,893 on 8 Jul 2014
Source: Maybank KE (compilation)

(Note: The cut-off date for share prices, valuations in this report is 12 Dec 2017)

FBM performances, 2017 YTD (12 Dec), % gains/(losses)



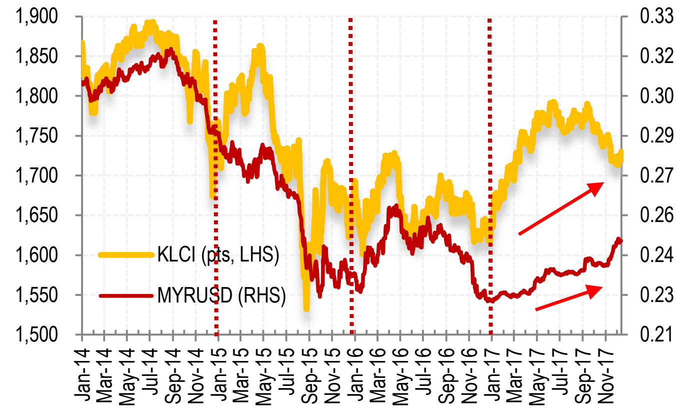
Source: Bloomberg, Maybank KE (chart)

FBM performances, 2008-2017 YTD (12 Dec), % gains/(loss)

	KLCI	FBM70	FBMSC	FBMEMAS	FBMHS	FBMS
2008	(39.3%)	(45.3%)	(46.6%)	(41.6%)	(43.1%)	(43.5%)
2009	45.2%	52.0%	55.1%	48.6%	40.2%	43.0%
2010	19.3%	31.8%	24.2%	21.9%	12.3%	18.2%
2011	0.8%	6.2%	(7.6%)	1.1%	5.4%	2.4%
2012	10.3%	6.6%	(1.6%)	9.0%	15.0%	11.8%
2013	10.5%	15.0%	36.7%	12.4%	13.0%	13.3%
2014	(5.7%)	(7.9%)	(4.2%)	(6.1%)	1.0%	(4.2%)
2015	(3.9%)	0.5%	6.0%	(2.3%)	(0.9%)	2.3%
2016	(3.0%)	(0.8%)	(7.7%)	(2.8%)	(6.3%)	(6.1%)
2017 YTD	**5.4%**	**17.0%**	**13.3%**	**8.4%**	**4.4%**	**7.0%**

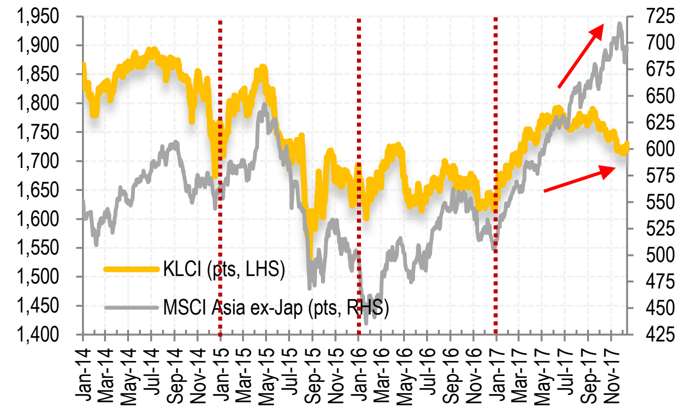
Source: Bloomberg, Maybank KE (chart)

KLCI vs. MYRUSD, 2014-2017 YTD (12 Dec)



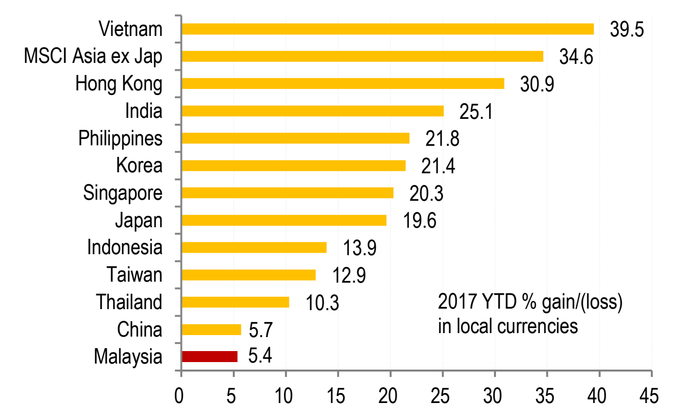
Source: Bloomberg, Maybank KE (chart)

KLCI vs. MSCI, 2014-2017 YTD (12 Dec)



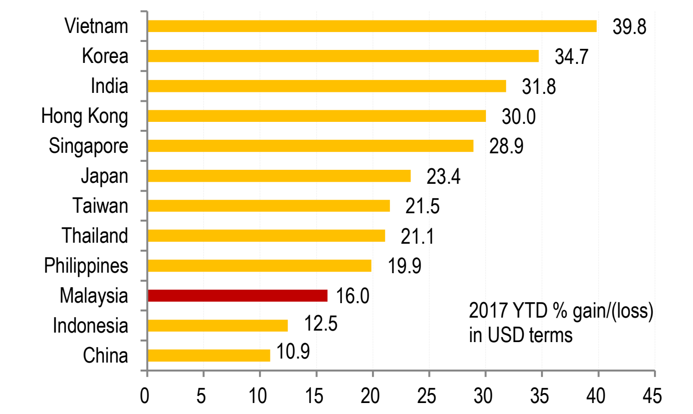
Source: Bloomberg, Maybank KE (chart)

KLCI vs. region, 2017 YTD (12 Dec) in local currencies



Source: Bloomberg, Maybank KE (chart)

KLCI vs. region, 2017 YTD (12 Dec) in USD terms

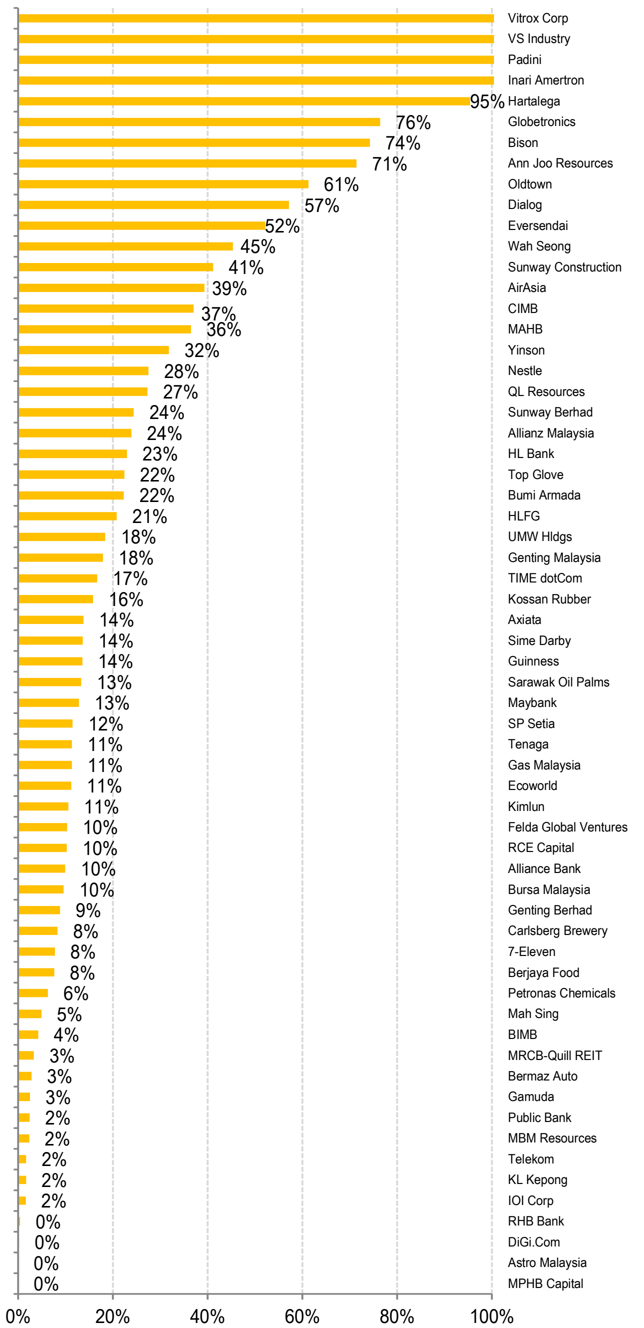


Source: Bloomberg, Maybank KE (chart)

Gainers trounced losers

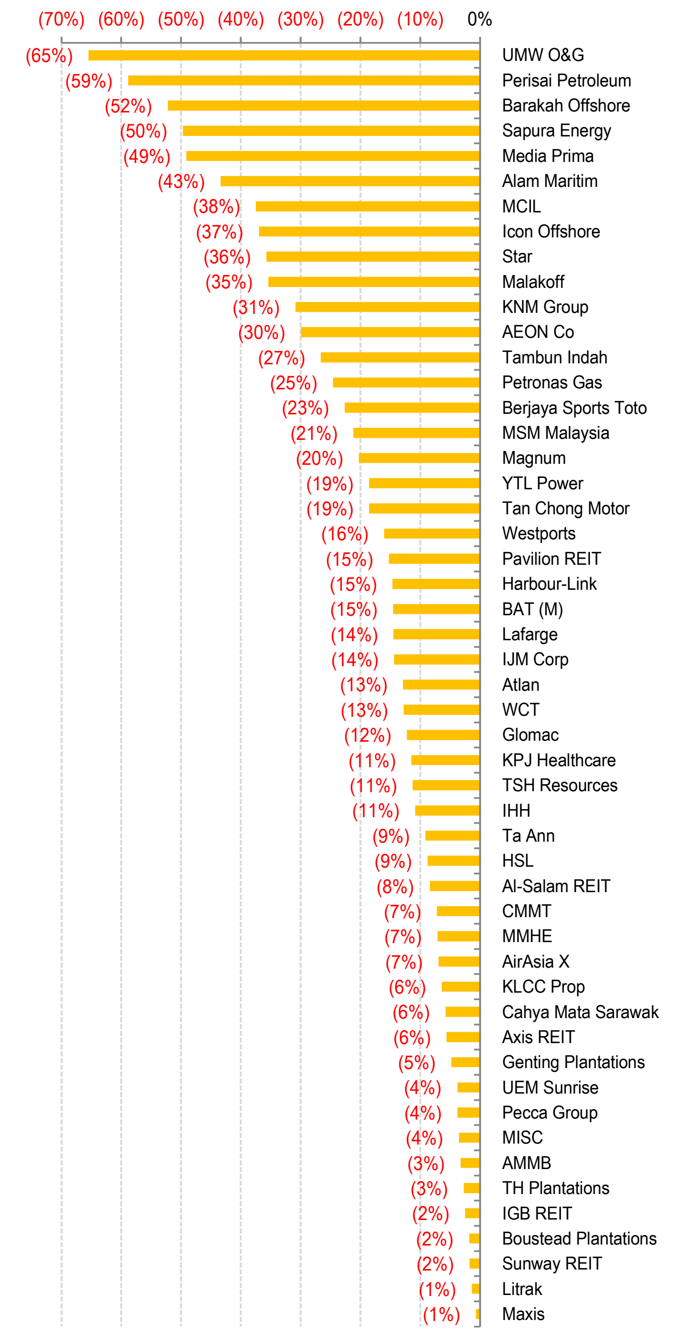
Within our research coverage, the number of stock gainers trounced losers in the ratio of 1.2-to-1. Gainers in 2017 YTD are the broad-based technology (VITRO, VSI, INRI, GTB), specific consumer (PAD, BISON, OTB), glove (HART, TOPG, KRI), tourism (AIRA, MAHB, GENM), specific oil & gas (DLG, WSC, YNS, BAB), specific banks (CIMB, HLBK), and specific corporate development play (UMWH). Technology and glove validated their share price gains with strong earnings delivery - 9M17 core profits up +46% and +27% YoY respectively (for stocks under our coverage with Aug/Sep 2017 reporting quarter). Losers YTD are specific oil & gas (UMWOG, PPT, BARAKAH, SAPE, AMRB, ICON, KNM), media (MPR, MCIL, STAR) and number forecast operators or NFOs (BST, MAG). Media and NFOs have been affected by the continued weakness in consumer sentiment, and a structural migration in adex (for media), especially from print to digital.

Stock gains, 2017 YTD (12 Dec)



Note: VITRO +193%, VSI +115%, PAD +112%, INARI +101%

Stock losses, 2017 YTD (12 Dec)

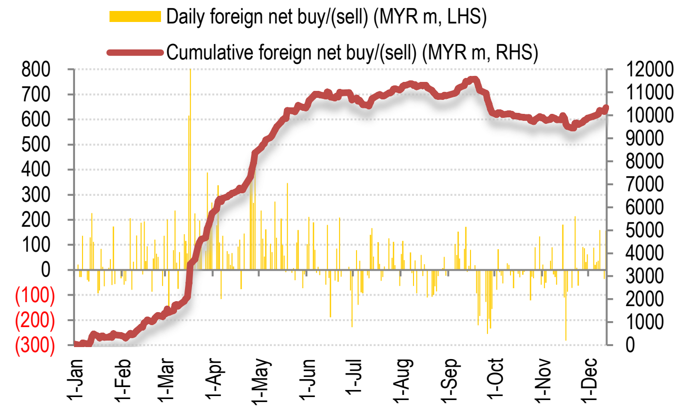


Source: Maybank KE

Foreign net buy overall

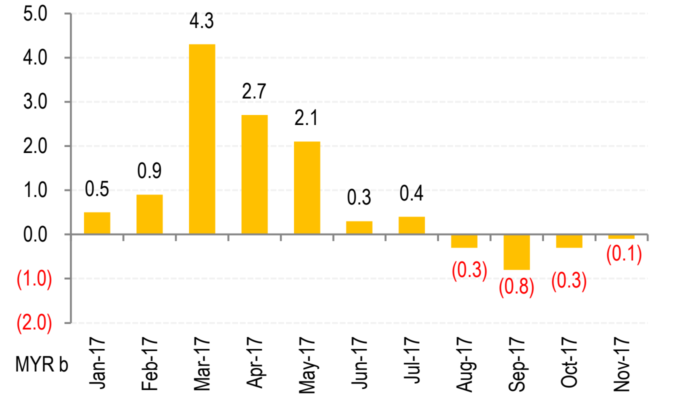
Foreign investors were net buyers of Malaysia equities in 31 out of the first 48 weeks of 2017, with the bulk of net buys occuring in Mar-May, and small net sells in Aug-Nov (net buy again in Dec MTD). Foreign net buy totaled MYR9.7b in Jan-Nov 2017 versus a cumulative net sell of MYR29.7b in 2014-16. Foreign investors' net sell of Malaysia equities in Aug-Sep 2017 was consistent with their net sells in Emerging Asia, while in Oct-Nov 2017, they were also net selling in Indonesia and Thailand. At MYR9.7b net buy for 11M17, this is the highest in Emerging ASEAN, lifting foreign holdings in Malaysia equities to 23.1% end-Nov 2017, a 0.8ppt rise from 22.3% end-2016. The height of foreign holdings was 25.2% end-May 2013, the month when Malaysia held its 13th general election (on 5 May), and just before the US QE taper tantrum. That said, due to higher overall trades on the Malaysian bourse in 11M17 (MYR2.5b equity ADV vs. MYR2b in 11M16), foreign participation (of total trade values) was lower at e.22% in 11M17 vs. 27% in 2016.

Malaysia equities: Daily and cumulative foreign net buy/(sell) in 2017 YTD (12 Dec, MYR m)



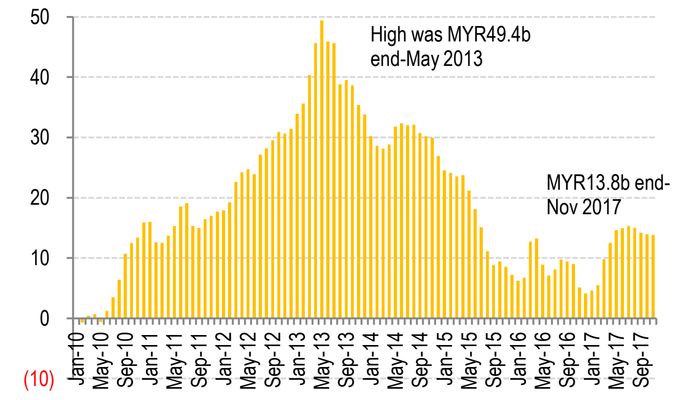
Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Monthly foreign net buy/(sell) in 2017 YTD (Jan-Nov, MYR b)



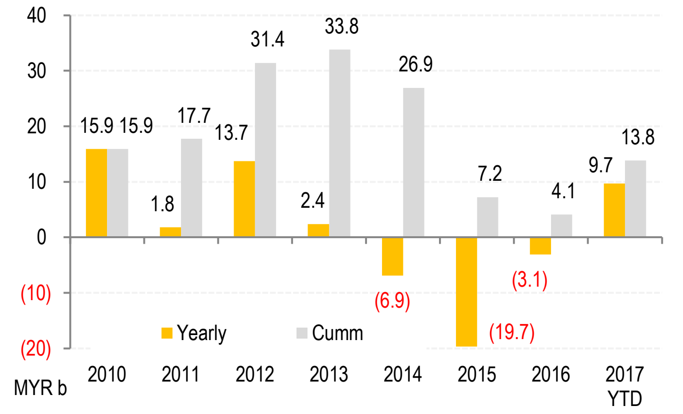
Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Cumulative monthly foreign net buy/(sell) since 2010 till Nov 2017 (MYR b)



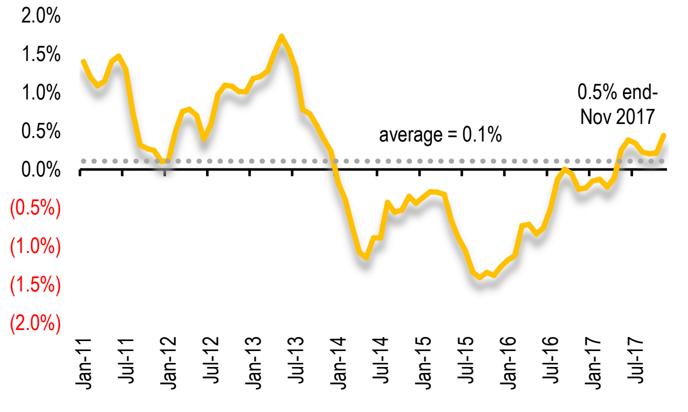
Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Yearly and cumulative foreign net buy/(sell) since 2010 till Nov 2017 (MYR b)



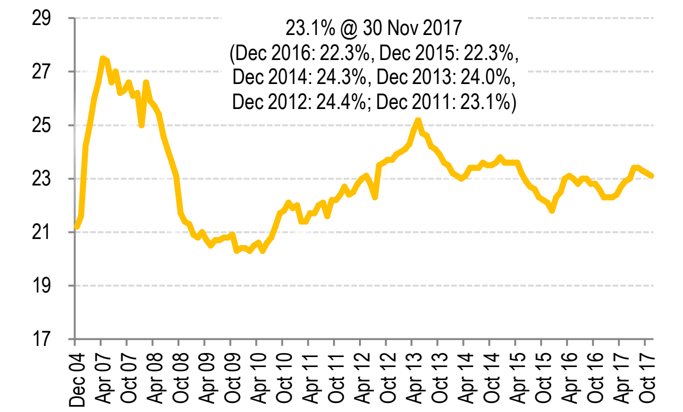
Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Foreign net buy/(sell) as % of market capitalisation (rolling 12M)



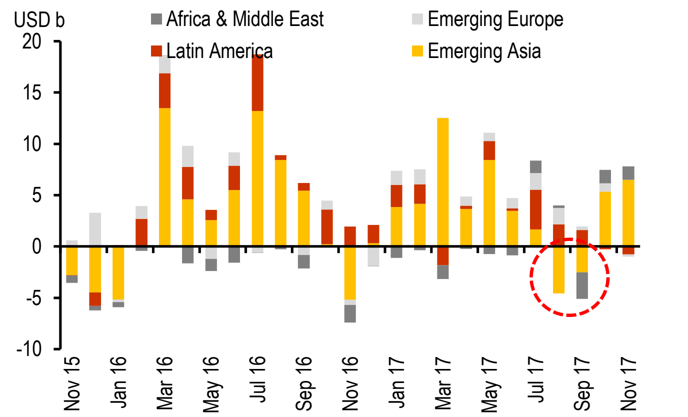
Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Market foreign shareholding



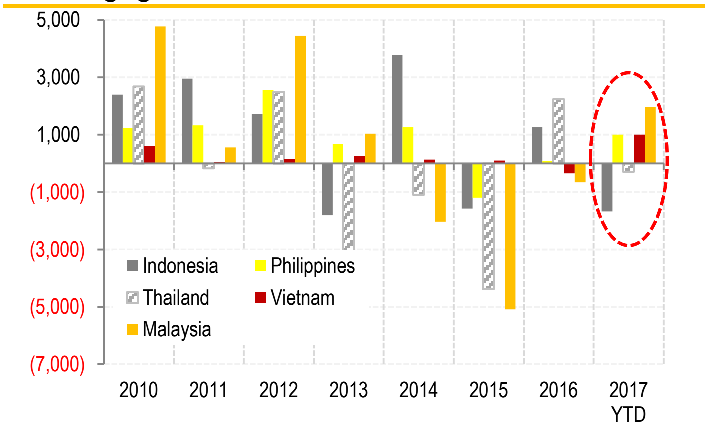
Source: Bursa Malaysia, Maybank KE (chart)

Portfolio flows into/(out of) equities: Foreign investors' net sell in Malaysia equities in Aug-Sep 2017 was consistent with their net sells in Emerging Asia equities



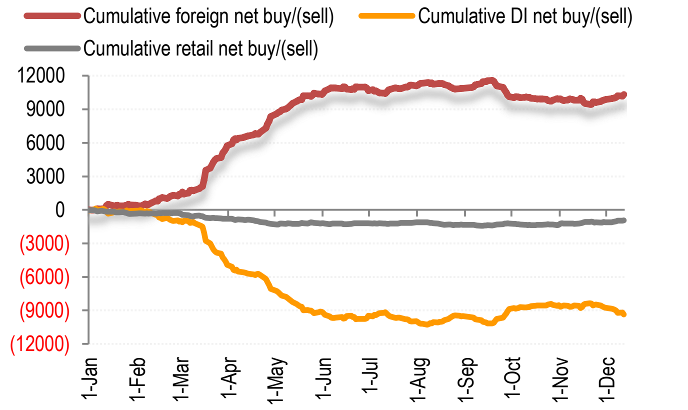
Source: IIF, Bursa Malaysia, Maybank KE (chart)

Portfolio flows into/(out of) equities: The value of foreign net buy in Malaysia equities for Jan-Nov 2017 is the highest in Emerging ASEAN



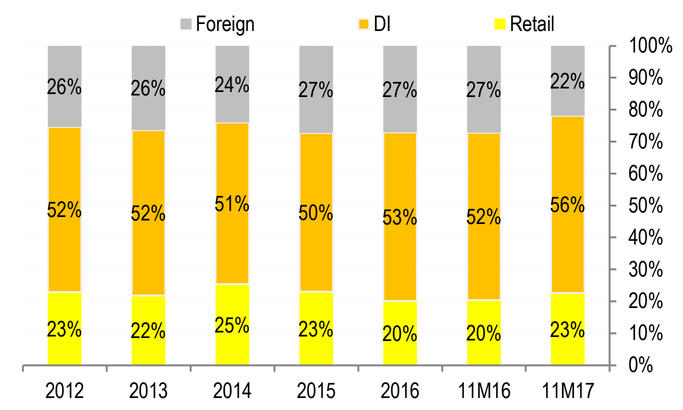
Source: Bursa Malaysia, Bloomberg, Maybank KE (chart)

Malaysia equities: Cumulative domestic institutions & retail, foreign net buy/(sell) in 2017 YTD (12 Dec, MYR m)



Source: Bursa Malaysia, Maybank KE (chart)

Malaysia equities: Foreign vs. domestic institutions vs. retail participation

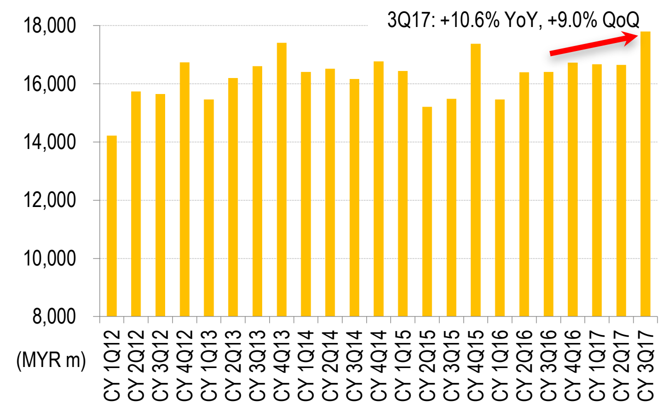


Source: Bursa Malaysia, Maybank KE (chart)

Market core earnings growth resumes

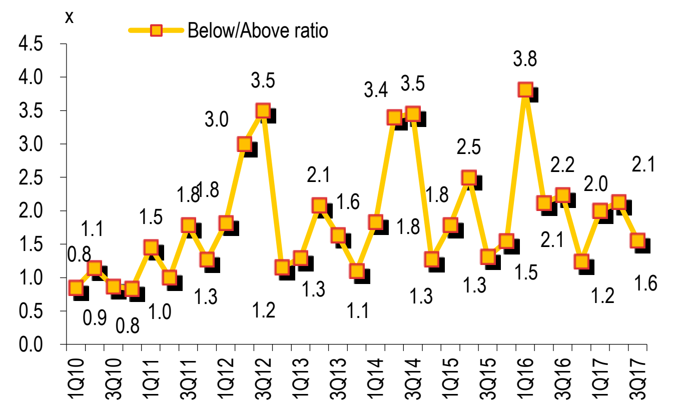
Market core earnings bounces back, with 9M17 core net profit of our research universe up +6.6% YoY (this figure is only on those that reported on their Aug/Sep 2017 quarters; we cover 73% of Malaysia market cap). Throughout 2017, we have revised 2017E/2018E research universe core earnings by –1.1%/+0.1%. Positively, petrochemical (PCHEM), technology and glove sectors saw strong 9M17 core earnings growth of +48%, +46% and +27% YoY respectively. Banks' 9M17 core earnings expanded +14% YoY, helped by NIM expansion and stable credit cost, while plantation's core earnings rose +20% YoY on FFB output recovery (+16% YoY for Malaysia FFB) post 2015-16's El-Nino. Utility and telcos' 9M17 core earnings retraced -10% and -6% YoY respectively. We now expect 14 sectors to record growth in 2017, and 8 sectors to see weaker earnings. Our research universe core earnings, we estimate, will grow +7.9% in 2017, after retracing -2.4% in 2016.

Quarterly recurring net profit of research universe (those with most recent quarters ended Aug/Sep 2017)



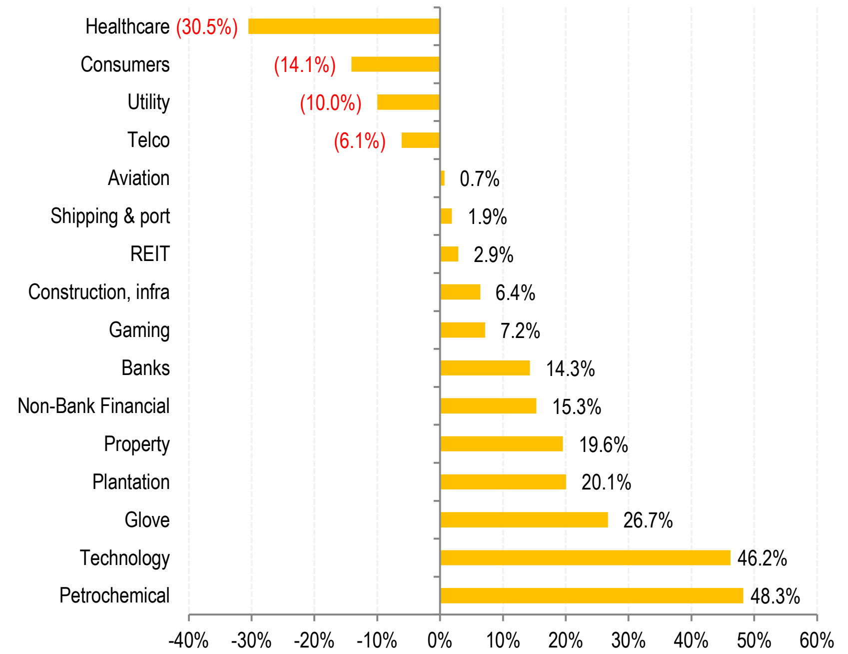
Source: Maybank KE

Below-to-above expectation ratio



Source: Maybank KE

Core net profit growth of research universe (those with most recent quarters ended Aug/Sep 2017) (%)



Note: Building materials, auto and media were in core losses in 9M17; Oil & gas core profit in 9M17 was up >100% YoY; Source: Maybank KE

Maybank KE Research's forecast revisions

YoY growth (%)	Early-2017 forecast			Current forecast		
	2016E	2017E	2018E	2016A	2017E	2018E
Corporate earnings:						
KLCI	(1.3)	7.3	7.0	(2.1)	7.4	5.0
Research universe	(0.8)	8.1	8.3	(2.4)	7.9	9.7
Malaysia real GDP	4.2	4.4	4.5	4.2	5.8	5.3
Global real GDP	2.8	3.0	3.3	3.2	3.6	3.6

Source: Maybank KE

Maybank KE Research's Universe earnings growth revision

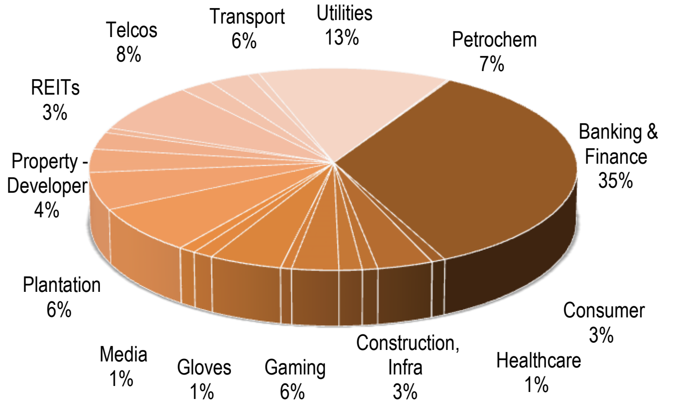
	Estimates in early-2017			Current estimates, post-3Q17 results season		
Sector	**CY16E**	**CY17E**	**CY18E**	**CY16A**	**CY17E**	**CY18E**
Banking & Finance	1.3	5.2	5.6	(2.1)	14.0	6.1
Non-banking Finance	(0.8)	5.6	4.9	3.2	4.4	6.6
Building material	130.7	34.3	27.4	115.5	(94.7)	NM
Consumer	(10.2)	6.5	7.3	(12.9)	2.1	10.2
Healthcare	(4.4)	17.2	26.2	(5.0)	(29.1)	42.2
Automotive	NM	NM	65.5	(82.4)	152.8	15.3
Construction, Infra	2.6	17.4	10.2	(7.2)	14.7	15.5
Gaming - NFO	(5.2)	9.5	3.5	(15.3)	8.5	6.9
Gaming - Casino	27.7	32.4	22.7	25.3	8.7	33.5
Gloves	5.8	7.4	10.4	5.7	16.5	17.1
Media	(10.3)	17.3	7.2	(17.2)	(9.5)	(4.6)
Oil & Gas	(79.7)	114.6	158.3	(95.6)	(86.8)	NM
Petrochemical	9.5	12.7	(7.8)	34.2	17.8	6.8
Plantation	11.4	14.5	13.1	18.4	28.2	8.4
Property - Developer	(17.0)	22.1	(10.0)	10.2	9.3	10.1
Property - REIT	4.0	6.7	4.3	4.0	3.5	5.9
Technology	(2.4)	30.4	21.9	2.5	37.2	32.3
Telcos	(8.5)	2.5	6.9	(8.9)	(2.7)	3.0
Transport - Aviation	NM	(26.6)	12.2	NM	(4.4)	0.4
Transport - Shipping	(27.0)	2.2	8.6	(31.0)	7.3	2.6
Transport - Ports	24.0	3.7	(0.3)	22.1	(2.7)	(5.2)
Utilities	1.9	(1.1)	3.5	0.2	(5.8)	10.0
Diversified				36.8	(9.1)	12.2
Stocks under cvrg	**(0.8)**	**8.1**	**8.3**	**(2.4)**	**7.9**	**9.7**

Source: Maybank KE

During 2017, we have initiated coverage on Lotte Chemical Titan, Tambun Indah, V.S. Industry, Atlan, EcoWorld International, CSC Steel, Tomypak, AsiaFile.

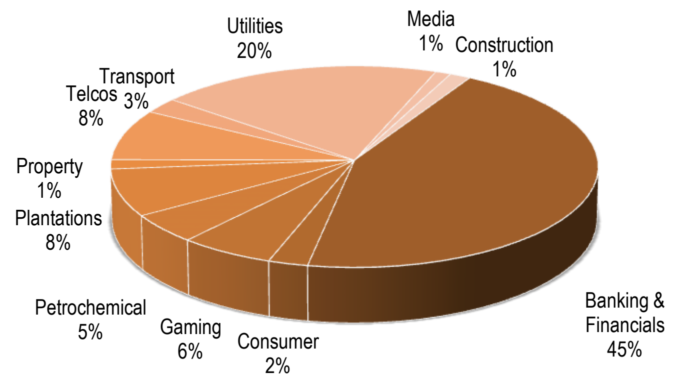
Also, following the demerger of Sime Darby Berhad, we have categorised Sime Darby Berhad to 'Automotive' sector, and Sime Darby Property to 'Property-Developer'; previously, their earnings were consolidated under 'Plantation'.

Research Universe: Earnings breakdown by sector - CY17



Source: Maybank KE

KLCI: Earnings breakdown by sector - CY17



Source: Maybank KE

2018 OUTLOOK & LOOKOUTS

Global growth to sustain; policies & politics to remain the key influences

Global economic growth recovery has been entrenched in 2017 (MKE: e.+3.6%; 9M17: +3.6%) and our Economics Team expects the growth to sustain into 2018 (MKE: e.+3.6%) underpinned by synchronized expansion of the G3 economies which would fuel world trade growth. This, in turn, will be positive for ASEAN economies with spillover effects to consumer spending and investments from the expansion in external demand, in addition to the build-up in infrastructure investment momentum including projects under China's Belt & Road initiative.

Policies and politics will remain the key influences to global economic and financial markets outlook in 2018, we believe. The key policies in 2018 are: (i) US FFR normalisation (our house view is three hikes of +25bps each vs. Fed's guidance of +75bps in 2018), (ii) US Fed's balance sheet reduction (which started in Oct 2017), (iii) ECB's lower EUR30b p.m. asset purchase programme (Jan 2018 till Sep 2018), (iv) UK-EU's Brexit talks (to conclude by Oct 2018), and (v) rising interest rates in the region. Key political events include: (i) China's National People's Congress (Mar 2018), (ii) US mid-term election (Nov 2018).

Key domestic lookouts

For Malaysia, our Economics Team forecasts sustained above-5% real GDP growth ie. +5.3% in 2018, continuing the momentum from 2017's e.+5.8% which picked up from 2016's +4.2% and 2015's +5.0%. From the supply side, the growth drivers will be manufacturing, services and construction, while from the demand side, the drivers will be private consumption (2018E: +6.5%), public consumption (2018E: +5.8%) and private investments (2018E: +9.0%) which contributed 54%, 12% and 20% to GDP in 9M17. That said, we believe 2018 could be a year of two-halves with consumption to be slower in 2H as National Budget 2018 measures to boost disposal income are largely front-loaded in 1H.

Besides macro datapoints, the other key influences to Malaysia's financial market outlook in 2018 are: (i) crude oil price direction, (ii) MYR's direction, (iii) BNM's overnight policy rate (OPR), (iv) consumer sentiment. In addition, 2018 will be an 'action packed' year with the: (v) 14th general election (GE14) (by Aug), (vi) mid-term review of the 11th Malaysia Plan (mid-2018), (vii) UMNO party election (end-2018). ***GE14 will be a major driver of investors' sentiment in early 2018***.

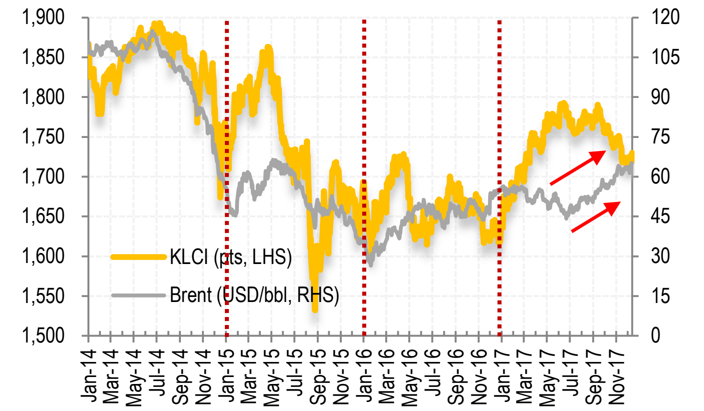
(i) Crude oil price direction

Dated Brent price has rebounded +16.9% in 2017 YTD to USD64.78/bbl on 12 Dec, averaging USD54/bbl (+22% YoY) for 2017 YTD, and our Economics Team forecasts a higher ASP of USD60/bbl in 2018. On 30 Nov 2017, OPEC and its allies extended their agreement to cut oil production until end-2018, while signaling a possible early exit from the deal if the market overheats. Their next review is in Jun 2018. The original agreement was to cut 1.8m bpd (OPEC: 1.2m bpd, non-OPEC: 0.6m bpd) over six months starting Jan 2017, and this was subsequently extended by 9 months until Mar 2018 with the option to extend by another 3 months.

A key positive for Malaysia's macro is that the government's fiscal deficit target of -2.8% of GDP for 2018 is based on a conservative USD52/bbl Brent ASP. Based on our sensitivity analysis, every USD10/bbl higher annual average crude oil price will impact: (i) the government's oil & gas related revenue (excluding dividend from PETRONAS) by +MYR4.1b, while (ii) fiscal/current account balance will improve by +0.3%/+0.4% of GDP.

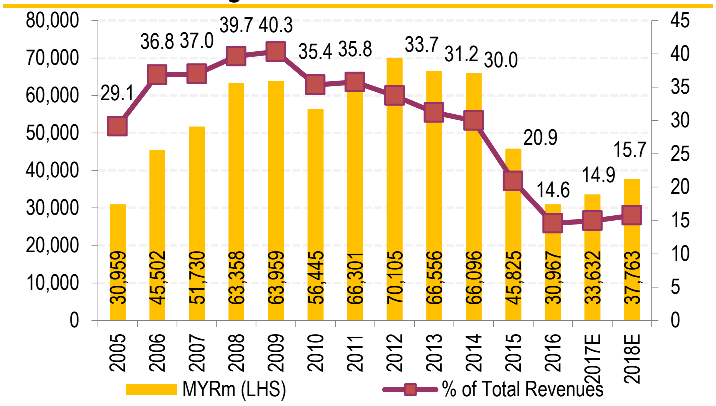
As for the impact on equities, 2017 saw lower correlation between the KLCI's movement with crude oil price direction, unlike 2014-16 when both were highly correlated. This could be due to the fact that oil related revenue is an increasingly smaller contributor to the government's revenue – e.14.9% in 2017, from 31.2% in 2013 and a high of 40.3% in 2009. That said, we believe that crude oil price direction will still be a key influence to equities due to its macro impact, which in turn, provides the support to broad investment sentiment. Our expectation of higher crude oil price in 2018 should be positive for equities.

KLCI vs Brent: Lower correlation in 2017



Source: Bloomberg, Maybank KE (chart)

Malaysia: Oil related revenue is an increasingly smaller contributor to the government's revenue



Source: Ministry of Finance, Maybank KE

(ii) MYR's direction

The USDMYR had started 2017 on a weak footing before rebounding from a low of 4.498 on 4 Jan, to 4.079 on 12 Dec. Throughout 2017, the MYR has strengthened 10.1% against the USD and our FX Research Team forecasts USDMYR to end 1Q18 at 4.05, 2Q18 at 4.12, 3Q18 at 4.05 and 4Q18 at 3.95, offering an upside of 3.2%. On an average basis, we forecast USDMYR 4.04 in 2018 vs. 4.31 in 2017 YTD.

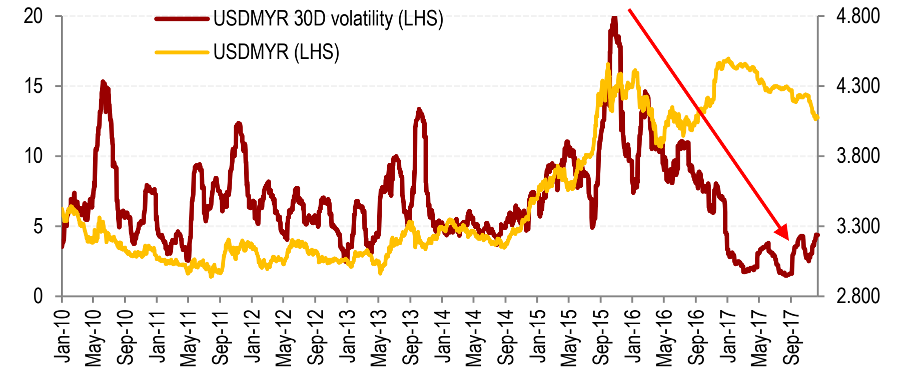
BNM Financial Market Committee's announcement on 2 Dec 2016 to ban offshore MYR non-delivery forward trades and re-impose the rule on repatriation of export earnings has helped to stabilise the MYR while its initiatives on 13 Apr 2017, allowing investors to actively hedge 100% of their invested assets vs. 25% in the 2 Dec 2016 announcement, has helped to bring back foreign participation in the capital market. The MYR received another shot-in-the-arm after BNM signaled OPR upward bias on 9 Nov 2017. Throughout 2017, the USDMYR 30-day implied volatility has averaged a lower 2.8% (2016: 9.3%, 2015: 10.5%, 2014: 5.2%). For 2018, our base case considers a pick-up in MYR volatility in 1H18 amid an expected BNM's OPR hike and GE14, but our forecast of a firmer MYR at end-2018 ultimately reflect the positive underlying fundamentals for the currency.

MYR: Expected path

Forecast	1Q18E	2Q18E	3Q18E	4Q18E
USDMYR	4.05	4.12	4.05	3.95
EURMYR	4.74	4.86	4.86	4.78
JPYMYR	3.46	3.58	3.49	3.41
MYRCNY	1.64	1.60	1.63	1.66
GBPMYR	5.35	5.52	5.51	5.45
SGDMYR	2.98	3.07	3.03	2.98

Source: Maybank FX Research

USDMYR vs. USDMYR 30D implied volatility



Source: Bloomberg (data), Maybank KE (compilation)

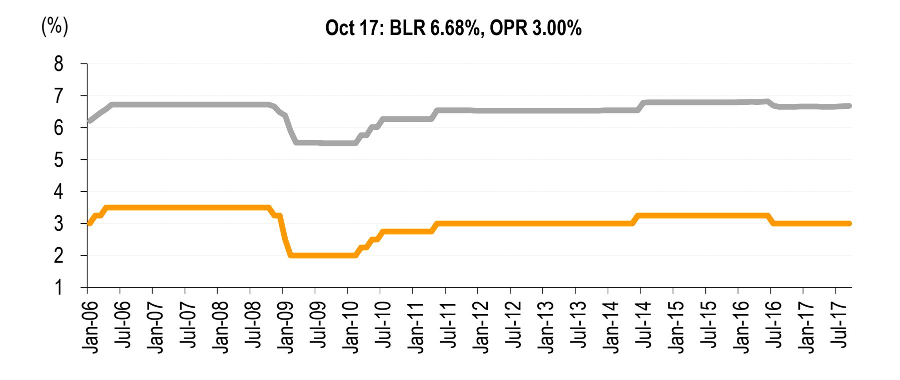
(iii) BNM's overnight policy rate

In the last Monetary Policy Statement (MPS) for 2017 (dated 9 Nov), BNM kept the OPR at 3.00% but signaled upward bias in 2018. This is in line with our Economics Team's view of a post-GE14 +25bps hike in 2018, with a likelihood of the hike happening at the May 2018 Monetary Policy Committee (MPC) meeting. BNM's MPC will meet on 24-25 Jan, 6-7 Mar, 9-10 May, 10-11 Jul, 4-5 Sep, 7-8 Nov.

The Dec 2017 MPS highlighted a shift in monetary policy stance, stating that "the MPC may consider reviewing the current degree of monetary accommodation" in view of BNM's assessment that global economic growth has become more entrenched and synchronized, and will be sustained in 2018, in turn generating positive spillovers to the domestic economy to remain strong in 2018 in terms of consumption and investment. At the same time, BNM sees inflation rate moderating to the +2.5% to +3.5% range in 2018 (2017E: +3.0% to +4.0% range) on smaller effect from global cost factors.

In our view, the impact of a 25bps OPR rise on overall corporate earnings is small. The positive impact on banks' earnings is also marginal with NIMs expected to normalise 3-6 months post rate hike, based on observations on 2016's -25bps reduction in the OPR.

Banking system BLR and OPR



Source: BNM, Maybank KE (compilation)

Impact of a 25 bps hike in interest rates on banks' earnings

	Alliance	AMMB	BIMB	CIMB	HLBK	MAY	PBK	RHBC
CASA	37.3%	20.7%	34.2%	36.1%	25.9%	35.0%	25.5%	27.1%
Floating rate loans/total loans	90.3%	71.0%	87.0%	83.5%	76.5%	70.8%	76.9%	82.5%
Loan/deposit ratio	91.1%	99.3%	89.4%	94.0%	81.8%	94.0%	93.4%	93.8%
Impact of 25 bps hike in int rates on earnings	5.1%	1.6%	3.9%	2.1%	0.8%	2.7%	2.0%	3.1%

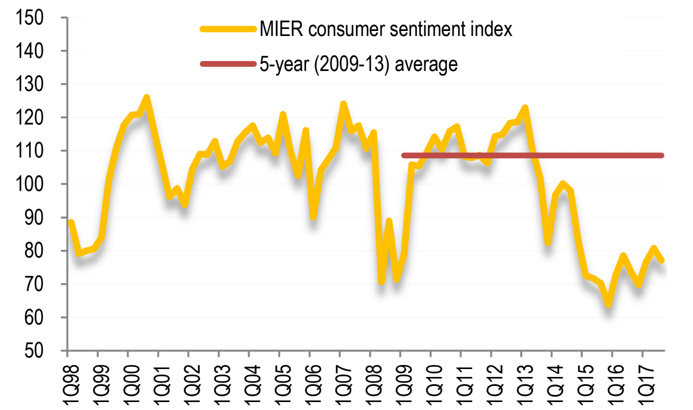
Source: Banks, Maybank KE

(iv) Consumer sentiment

That said, we are cautious on the impact of higher OPR on the households, on the back of high household debts at 85% of GDP end-3Q17 and still weak consumer sentiment. MIER's 3Q17 consumer sentiment index (CSI) has remained below the threshold level of confidence for the 13th quarter (since 3Q14) at 77.1, which also seems a disconnect between what the man-on-the-street feels and what the hard numbers show. The Department of Statistics' retail trade index continued to expand +10.4% YoY in 3Q17 (2Q17: +11.5% YoY, 1Q17: +7.8% YoY), which could be helped by the government's measures to boost disposal income and the recovery in tourism (as reflected in the +19.9% YoY growth in spending by foreign credit card holders in 10M17). Tourism remains a major driver to GDP (14.8% in 2016).

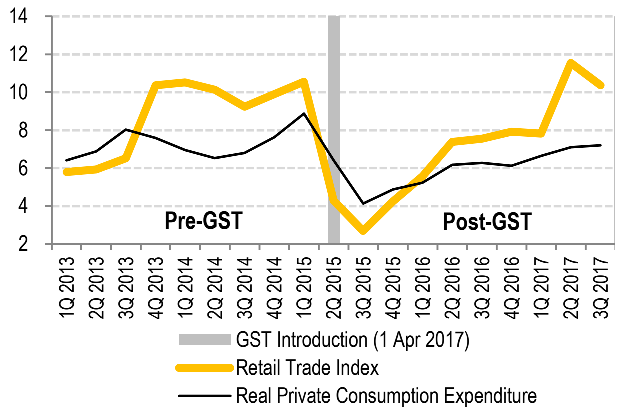
Into 2018, consumer spending for smaller ticket items should remain supported by Budget 2018 measures (i.e. sustained BR1M handouts, lower personal income taxes, higher bonuses to civil servants and pensioners) to help offset the impact from (i) the restatement of workers' contribution to the EPF to a higher rate (it was reduced to 8% of gross salary from 11%, from Mar 2016 till Dec 2017), and (ii) a possible rise in the OPR (assuming just +25bps). That said, the recovery in consumer sentiment is still important for big ticket item purchases (like cars, houses). On that basis, we forecast just a small +3% YoY auto TIV (total industry volume) recovery in 2018 (10M17: +1% YoY, 2016: -13% YoY).

Consumer Sentiment Index



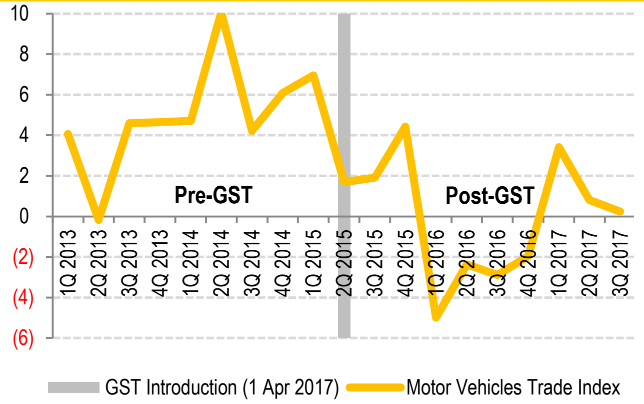
Source: MIER, Maybank KE (chart)

Retail Trade Index & real private consumption expenditure (% YoY)



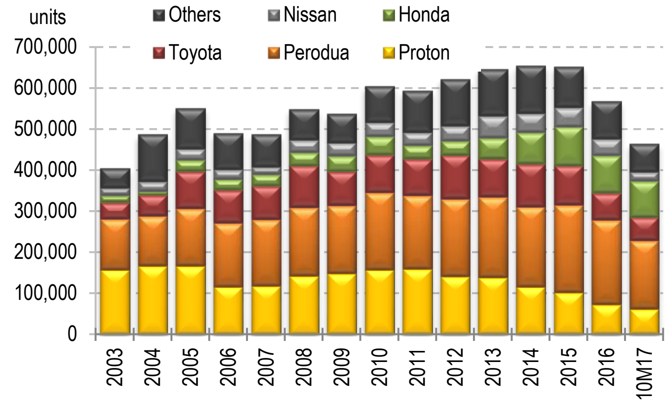
Source: Department of Statistics, Maybank KE (chart)

Motor Vehicles Trade Index (% YoY)



Source: Department of Statistics, Maybank KE (chart)

Auto TIV: 10M17 +1% YoY to 472,755 units



Source: Malaysian Automotive Association, Maybank KE (chart)

(v) 14th general election

By now, everyone would be correct (by default) in 'predicting' that GE14 will be held in 2018. After all, Malaysia's current electoral term will automatically dissolve on 24 Jun 2018 and a general election must be held within 60 days. Compared to GE13 when 11.26m people voted, out of a total 13.27m registered voters (vs. 17.88m voting age population), there are now 7.8% more registered voters (ie. 14.31m end-1Q17, out of total 18.16m voting age population), with the additions being predominantly young voters who have attained the voting age of 21. The key battleground, as widely reported, would be in the rural constituencies post the creation of splinter parties from PAS and UMNO, ie. PAN and Pribumi. An old press article by *The Star* implies 56% of the Parliament seats comprise rural seats, and 44% are urban and semi-urban seats.

A possible window for GE14 in 2018, as we can see, is post-Chinese New Year (CNY; 16-17 Feb) and before Ramadhan (15 May). If the Parliament dissolves within the 15 days of CNY celebration (there is already a precedent in GE12 when Parliament was dissolved on the 7th day), then polling could be held during the first term school holidays (17-25 Mar). Our base case is a status-quo outcome.

Malaysia's 2018 calendar of events

Events	Dates
1st payment of Budget 2018 'goodies'	January
Chinese New Year	16 - 17 Feb
School holidays (Term 1)	17 - 24 Mar
2nd / Remaining payments of Budget 2018 'goodies'	Before Eid
Ramadhan & Eid	15 May - 15 Jun
School holdings (Mid year)	8 - 23 Jun
BN Government 5-year term in office ends	**24 Jun**
School holidays (Term 2)	17 - 25 Aug
Last date for GE14	**24 Aug**

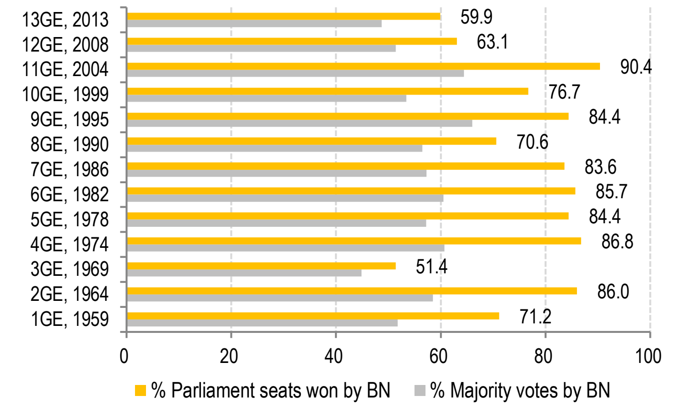
Source: Various, Maybank KE (compilation)

Malaysia's GEs: 5 of 8 were held in 1H of the year

GE Year	Dissolution date	Polling date	Sitting Prime Minister
2013	3 Apr	5 May	Najib
2008	13 Feb	8 Mar	Badawi
2004	4 Mar	21 Mar	Badawi
1999	11 Nov	29 Nov	Mahathir
1995	6 Apr	25 Apr	Mahathir
1990	5 Oct	21 Oct	Mahathir
1986	19 Jul	3 Aug	Mahathir
1982	29 Mar	22 Apr	Mahathir

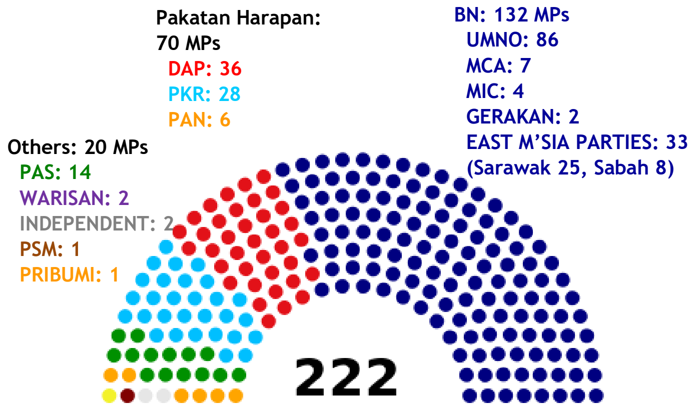
Source: Election Commission, Maybank KE (compilation)

Past GE results



Source: Election Commission, Maybank KE (compilation)

Current Lower House of Parliament seats composition



Source: Election Commission, Maybank KE (compilation)

(vi) Mid-term review of the 11MP

2018 is the mid-point of the 11th Malaysia Plan (11MP, 2016-2020) where the focus is on developing the people's economy in addition to the capital economy. The destination is a high-income economy by 2020. Some of the 11MP's targets (based on the blueprint unveiled in May 2015) are a balanced government budget by 2020 and a lower government debt to GDP ratio by 2020. That said, the targets were based on average crude oil price at USD70/bbl while 2016-2017's average has been USD49/bbl; therefore, a reset of the targets are necessary.

One item in our wish list, to be addressed either in the 11MP mid-term review or the other forums, is a road-map on the transition to a digital economy; the latter is a catalyst for continued sustainable and inclusive macro growth. In addition, we hope for more details on the National Transformation 2050 (TN50) initiative. Since it was introduced in Budget 2017, the only details that we are aware of is its aspiration - to elevate Malaysia as among the top 20 nations globally, ranked by economic development, social enhancement and innovation.

11th Malaysia Plan's (2016-2020) major macro targets

	Targets	Achievements
GDP growth	5-6% p.a.	2017-1H17: 4.7% p.a.
GNI per capita	MYR54,100 by 2020 (2015: MYR36,093)	2016: MYR37,760 1H17: MYR39,758
Average monthly household income	MYR10,540 by 2020 (2014: MYR6,141)	2016: MYR6,958
Median monthly salaries & wages	MYR2,500 by 2020 (2015: MYR1,600)	2016: MYR1,703
Salaries as a % of GDP	At least 40% by 2020 (2014: 34.9%)	2016: 35.3%
Malaysian Wellbeing Index (MWI)	+1.7% p.a. (10MP: +1.2% p.a.)	NA
Current account as a % of GNI	2.6% by 2020 (2015: 3.1%)	2016: 2.4% 1H17: 2.3%
Ratio of federal government debt to GDP	<45% by 2020	End-2016: 52.7% Jun 2017: 52.3%
Government fiscal position	Balanced budget, by 2020 *	End-2016: -3.1% of GDP End-2017E: -3.0% of GDP

** Government revenue is targeted to expand by 7.9% p.a. and its dependence on oil-related revenue is targeted to decline to 15.5% by 2020 (2015: 21.5%); Based on average crude oil price at USD70/bbl (2016-17 YTD USD49/bbl)*
Source: 11MP blueprint

Market earnings growth

2017 quarterly earnings reportings have provided positive relief after a long streak of disappointments. With core net profit of our research universe expanding +6.6% YoY in 9M17 (this figure refers only to stocks that reported on their Aug/Sep 2017 quarters), we are confident of market earnings growth resuming in 2017. We now forecast 2017 core earnings of our research universe to grow +7.9% YoY, sustaining into 2018 at +9.7% YoY. For the KLCI, we forecast core earnings to grow +7.4% in 2017, and +5.0% in 2018. In 2018, we expect all sectors to grow (except media, ports). Our major assumptions are outlined in the following page.

Malaysia market core earnings growth

	2016A	2017E	2018E
KLCI			
- post KLCI constituent change	(2.1%)	7.4%	5.0%
- before KLCI constituent change	(2.1%)	7.5%	7.4%
Maybank KE's Research Universe	(2.4%)	7.9%	9.7%

Source: Maybank KE

KLCI constituents change and the impact on 2018 KLCI core earnings growth

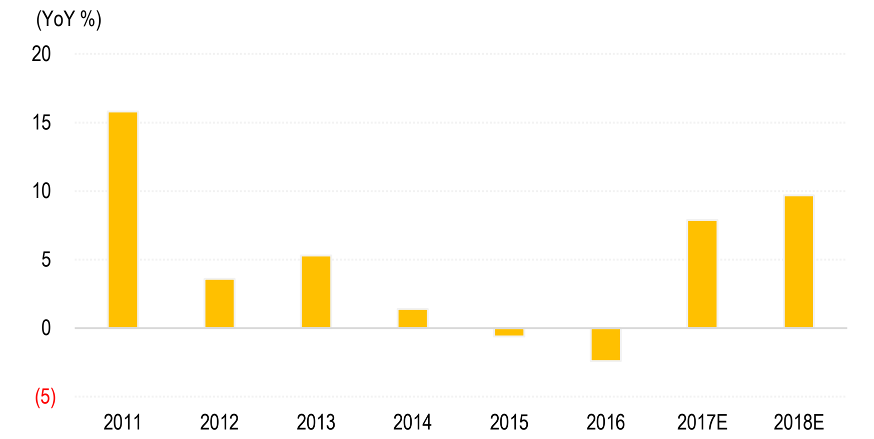
The KLCI constituents change, fully effective from 18 Dec 2017, are: (i) Sime Darby Plantation (SDPL MK) featuring as a constituent, post its demerger from Sime Darby Berhad (SIME MK) and listing on 30 Nov 2017; (ii) Westports (WPRTS MK) deleted, to make way for Sime Darby Plantation, (iii) Nestle (NESZ MK) and Press Metal Aluminium (PMAH MK) featuring, following the routine semi-annual review of the KLCI constituents on 30 Nov 2017, (iv) British American Tobacco (ROTH MK) and IJM Corp (IJM MK) OUT.

For the KLCI core earnings estimates, we have put through the constituents change into our 2018 estimates to derive +5.0% core earnings growth for 2018. This compares 2018 KLCI core earnings (after the constituents change) against 2017 core earnings (before).

The deceleration in 2018 KLCI core earnings growth (2018E: +5.0% vs. 2017E: +7.5%) reflects: (i) the base effect from a higher core earnings base for 2017, and (ii) a slightly reduced core earnings for 2018 post the demerger of Sime Darby Berhad, with the property operations under newly listed Sime Darby Property (SDPR MK) no longer in the calculation, as well as lower free-floated earnings from the other new constituents.

Source: Maybank KE

Maybank KE Research Universe core earnings growth



Source: Maybank KE

Maybank KE Research Universe core earnings growth, PERs, P/B, ROE (12 Dec 2017)

	Earnings Growth (%)			PE (x)			P/B (x)		ROE (%)	
Sector	CY16A	CY17E	CY18E	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E
Banking & Finance	(2.1)	14.0	6.1	14.9	13.1	12.3	1.4	1.3	11.0	10.9
Non-banking Finance	3.2	4.4	6.6	14.6	14.0	13.1	1.5	1.5	10.8	11.8
Building material	115.5	(94.7)	NM	28.4	536.6	22.9	1.7	1.7	0.3	7.6
Consumer	(12.9)	2.1	10.2	26.5	26.0	23.6	7.0	6.8	26.9	28.7
Healthcare	(5.0)	(29.1)	42.2	51.0	71.9	50.5	2.1	2.1	3.0	4.2
Automotive	(82.4)	152.8	15.3	59.4	23.5	20.4	0.6	0.7	2.4	3.5
Construction, Infra	(7.2)	14.7	15.5	19.6	17.1	14.8	1.5	1.4	8.6	9.4
Gaming - NFO	(15.3)	8.5	6.9	12.0	11.0	10.3	1.7	1.7	15.8	16.3
Gaming - Casino	25.3	8.7	33.5	20.8	19.1	14.3	1.2	1.1	6.1	7.9
Gloves	5.7	16.5	17.1	35.9	30.8	26.3	6.2	5.6	20.2	21.3
Media	(17.2)	(9.5)	(4.6)	18.4	20.4	21.4	3.9	4.2	19.2	19.8
Oil & Gas	(95.6)	(86.8)	NM	358.9	NM	86.0	1.0	0.9	0.0	1.1
Petrochemical	34.5	17.8	6.8	15.2	12.9	12.1	2.0	1.8	15.5	14.5
Plantation	18.4	28.2	8.4	33.8	26.4	24.3	2.4	2.2	9.2	9.1
Property - Developer	10.2	9.3	10.1	17.4	15.9	14.5	1.3	1.3	8.4	8.9
Property - REIT	4.0	3.5	5.9	19.4	18.8	17.7	1.2	1.1	6.2	6.3
Technology	2.5	37.2	32.3	35.6	26.0	19.6	6.6	5.7	25.5	29.1
Telcos	(8.9)	(2.7)	3.0	26.5	27.2	26.4	4.2	3.9	15.3	14.6
Transport - Aviation	N.M.	(4.4)	0.4	14.6	15.3	15.3	1.6	1.6	10.3	10.4
Transport - Shipping	(31.0)	7.3	2.6	16.3	15.2	14.8	0.8	0.8	5.5	5.5
Transport - Ports	22.1	(2.7)	(5.2)	20.0	20.5	21.6	6.0	5.5	29.0	25.6
Utilities	0.2	(5.8)	10.0	13.0	13.8	12.6	1.6	1.5	11.5	12.1
Diversified	36.8	(9.1)	12.2	9.5	10.4	9.3	1.6	0.9	16.4	8.7
Stocks under cvrg	**(2.4)**	**7.9**	**9.7**	**19.4**	**18.0**	**16.4**	**1.7**	**1.6**	**9.5**	**9.5**

Source: Maybank KE

2018E core earnings growth (key sectors)

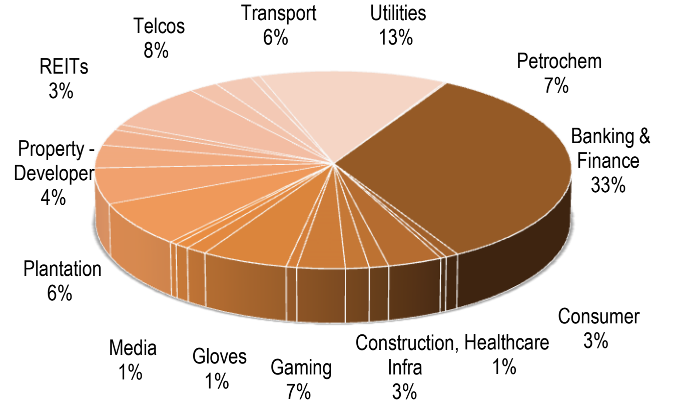
	Growth (%)	Main assumptions
Banks	6.1	(i) 4.5% sector loans growth in 2018E (2017E: +4.1%); (ii) average NIMs to remain stable at 2.27% (2017E: +5bps); (iii) average credit costs unchanged at 34bps (2017E: -7bps to 34bps).
Building material	NM	For LMC: (i) 2018E industry cement demand growth of 5% (2017E: -8%); (ii) 15% improvement in blended ASPs. For AJR: (i) 6% increase in billet sales volume; (ii) full utilisation of its bar/rods capacity; (iii) flattish margin as rising domestic supply would cap margin expansion.
Consumer	10.2	(i) Normalisation of AEON and SEM's earnings; (ii) resilient earnings for NESZ from its diverse product offerings and sizeable market share; (iii) sustained growth momentum for PAD, BISON and OTB. **Downside risks:** (i) Slowdown in consumption demand; (ii) a spike in raw material prices; (iii) regulatory risks for the tobacco and brewery sectors.
Automotive	15.3	Our earnings recovery expectation in 2018E (from another double-digit decline in 2017E) is premised on (i) MYR's strength against USD and JPY (currently USD1/MYR4.08 and JPY100/MYR3.59 vs 2017 YTD average of USD1/MYR4.31 and JPY100/MYR3.85) and (ii) stronger volume sales for players exposed to Mazda and Perodua (i.e. Bermaz, MBM, Pecca), benefiting from new car launches. **Upside risks:** Further strength in MYR against USD and JPY from our base case of USD/MYR 4.20 and JPY100/MYR 3.70 average, with 10%-60% of costs of goods sold being USD-denominated.
Construction, Infra	15.5	Strong orderbook replenishment in 2016/2017 has yet to translate meaningfully into earnings. We expect companies with exposure to KVMRT 2, KVLRT 3 and Pan Borneo Sarawak Highway to report stronger earnings in 2018 as work accelerates.
Gaming - NFO	6.9	(i) 2018E gross NFO sales growth of 2% YoY (2017E: +0% YoY); (ii) theoretical prize payout ratio of 63% for MAG (2017E: 63%) and 59% for BST (2017E: 59%; BST has more jackpot sales which have a lower theoretical prize payout ratio of 55%).
Gaming - Casino	33.5	For GENM: (i) 2018E visitor arrivals growth of 8% YoY (2017E: +9% YoY); (ii) 2018E gaming spend/ visitor growth of 8% YoY (2017E: -2% YoY). For GENT: (i) Banten independent power plant will yield ~15% IRR; (ii) GENS' VIP volume growth of 4% YoY.
Glove	17.1	(i) 7-32% YoY volume growth (2017E: +9-24%) for stocks under our coverage (+12% in 2018E, +15% in 2017E on a combined basis); (ii) USDMYR avg. of 4.15; (iii) latex and nitrile cost of MYR5.70/kg and USD1.10/kg respectively (2017E: MYR6.00/kg and USD1.05/kg).

2018E core earnings growth (key sectors)

	Growth (%)	Main assumptions
Media	(4.6)	(i) 2018E FTA TV and print adex growth of +5% YoY (2017E FTA TV: -5% YoY, 2017E print adex: -20% YoY); (ii) average newsprint price of USD500/tonne (9M17: USD524/tonne); (iii) USDMYR average of MYR4.20.
Oil & Gas	NM	(i) DCRs of USD70k-80k for JUs (unchanged YoY) and USD0.90-1.10/bhp for OSVs (vs. USD1.00-1.20/ bhp a year ago) - these are historical lows; (ii) 35%-90% asset utilization (vs. 25%-50% a year ago).
Petrochemical	6.8	(i) Flat ASP in MYR term for PCHEM, -2% for LCT; (ii) +1.1% YoY growth in product volumes for PCHEM (2017E: +9.5% YoY), +30.7% for LCT (2017E: -15.8% YoY); (iii) factory utilisation of 90.0% for PCHEM (2017E: 89.0%), 90.5% for LCT (2017E: 73.8%).
Plantation	8.4	(i) MYR2,600/t CPO ASP in 2018E (2017 YTD: MYR2,816/t); (ii) +7.2% FFB output growth for stocks under our coverage (2017E: +8.0% YoY). **Upside risk:** Strong crude oil price rebound which will help stimulate demand for discretionary palm biodiesel. **Downside risk:** Changes in government policies.
Property - Developer	10.1	+10% YoY higher property sales for the stocks under our coverage (2017E: +6% YoY). **Risks:** Policy easing and margins shortfall on aggressive sales incentives, higher contributions from affordable housing segment.
Property - REIT	5.9	(i) 0% to +15% rental reversions for retail assets; (ii) 0% to +5% in the office segment which are mostly on long-term leases; (iii) 98-99% occupancy rates at prime malls (FY18-19E).
Technology	32.3	(i) Further capacity expansion by companies within our coverage for specific clients (i.e. Broadcom for Inari, ams AG for Globetronics, premium vaccuum cleaner brand for VSI), partially offset by (ii) MYR's strength against USD. **Downside risks:** MYR's further strength against USD from our base case of USDMYR 4.15 avg. which could see net exporters recording lower revenues from translation and forex losses on their USD cash holdings.
Telco	3.0	(i) +2.2% growth in Malaysia mobile revenue in 2018E (2017E: -0.4% YoY); (ii) no margin compression in Malaysia; (iii) further earnings recovery at Axiata's Indonesia (XL) and Bangladesh (Robi) entities.
Transport - Aviation	0.4	(i) Passenger traffic growth of 6-8% in 2018E at the Malaysia airports (11M17: +9.2% YoY); (ii) an average jet fuel price of USD72/bbl (2017E: USD61/bbl); (iii) average yield for the two airliness (AirAsia, AirAsia X) to recede by 2.7% (2017E: +3.5% YoY).
Transport - Shipping	2.6	MISC: (i) flattish LNG pretax profit with contribution from 2 other new Seri C class vessels offsetting lower income from Puteri Intan Satu; (ii) 5% improvement in petroleum tanker rate.
Transport - Ports	(5.2)	Westports: (i) 4% container throughput growth (9M17: -8%); (ii) zero container tariff hike.
Utilities	10.0	(i) We assume no adverse outcome to the ongoing regulatory reviews for Tenaga (from RP1 to RP2) and Petronas Gas (upon initial transition to an IBR model from TPA implementation); (ii) maiden contribution from Petronas Gas' Pengerang regas plant and YTL Power's PPA extension offsetting further earnings step-down at Malakoff from the full-year impact of the less lucrative Segari PPA extension.

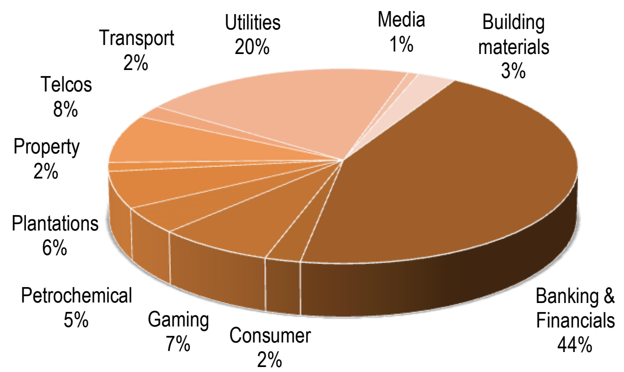
Source: Maybank KE

Research Universe: Earnings breakdown by sector - CY18



Source: Maybank KE

KLCI: Earnings breakdown by sector - CY18

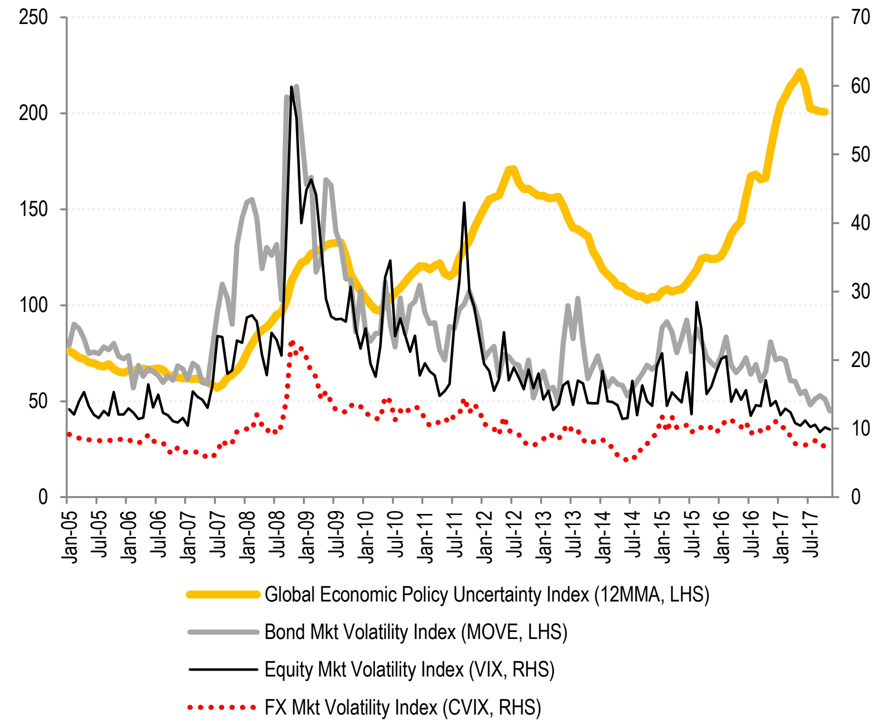


Source: Maybank KE

Key risks

External volatility, as measured by major indices like MOVE, VIX and CVIX, has retreated in 2017 with bond and equity volatility at their multi-year lows. At the same time, global equity markets, led by the US, have hit fresh highs. ASEAN equities have also either set new records or are at their multi-year highs. These are ‘achieved’ on still elevated global economic policy uncertainties. Meanwhile, equity valuations have expanded more than their earnings growth. These observations lead us to believe that risk adversion has taken a back-seat for the most of 2017. If investors are indeed overly sanguine on risks, then any risk trigger events could swing sentiment quite abruptly. Our Economics Team highlights on financial imbalances and instability as a global key risk factor for 2018; this includes China’s financial deleveraging. Another key risk factor, in our view, is geopolitical turns/flares.

Uncertainty & volatility indices



Source: Bloomberg, Maybank KE (chart)

MARKET VALUATIONS

Back to mean on PER, -0.7SD on P/B

With the KLCI's gains in 2017 being relatively slower than projected earnings growth, the KLCI's forward valuations have also retreated, albeit just slightly. Based on our latest market core earnings estimates and market close as of 12 Dec 2017, the KLCI's valuations are at:

- 15.6x 12M forward PER, which is at about its long-term mean (since 2001) of 15.5x (1SD is 1.6x).
- 1.59x trailing P/B, which is 0.7SD below its long-term mean (since 2001) of 1.81x (1SD is 0.32x).

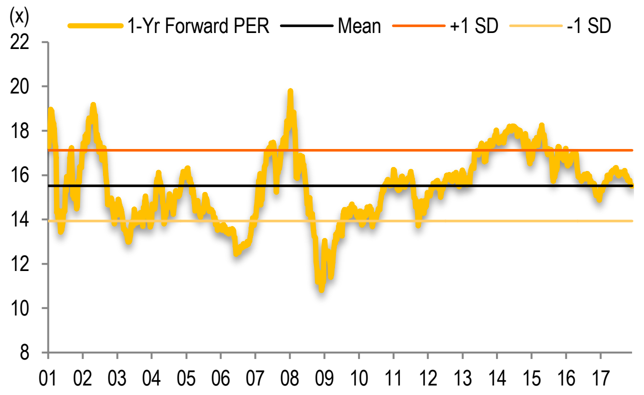
Equity risk premium/yield gap, as measured by the inverse of KLCI's 12M forward PER over the 10-year MGS yield is at 242bps, similar to 238bps end-2016.

Malaysia market earnings growth & valuations as at 12 Dec 2017

		2016A	2017E	2018E
KLCI @ 1,729.6	**PE (x)**	**16.7**	**15.9**	**15.6**
Earnings Growth (%)		(2.1%)	7.4%	5.0%
Maybank KE's Research Universe	**PE (x)**	**19.4**	**18.0**	**16.4**
Earnings Growth (%)		(2.4%)	7.9%	9.7%

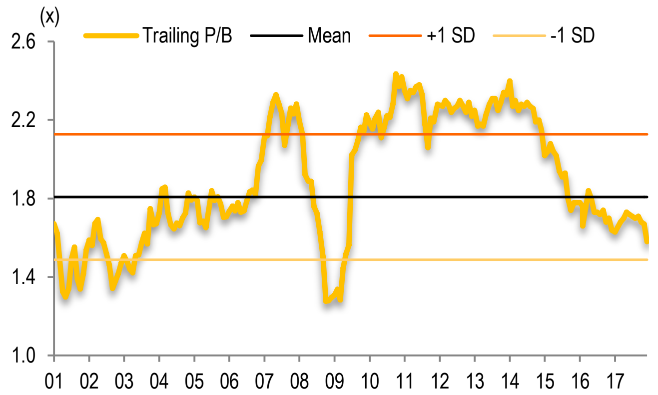
Source: Maybank KE

KLCI's 12M forward PER: 15.6x (12 Dec)



Source: Maybank KE, Bloomberg

KLCI's trailing P/B: 1.59x (12 Dec)

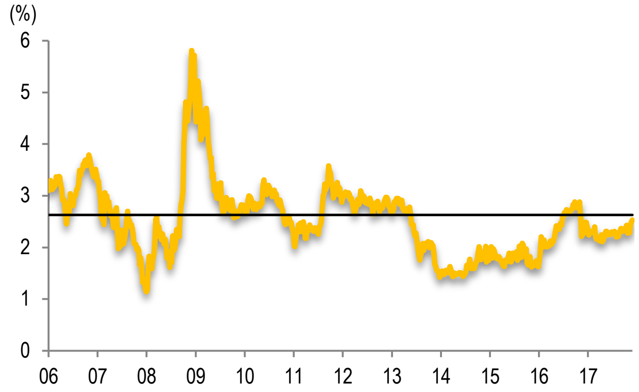


Source: Maybank KE, Bloomberg

KLCI's dividend yield: 3.22% (12 Dec)

Source: Maybank KE, Bloomberg

Equity risk premium: 242bps (12 Dec)

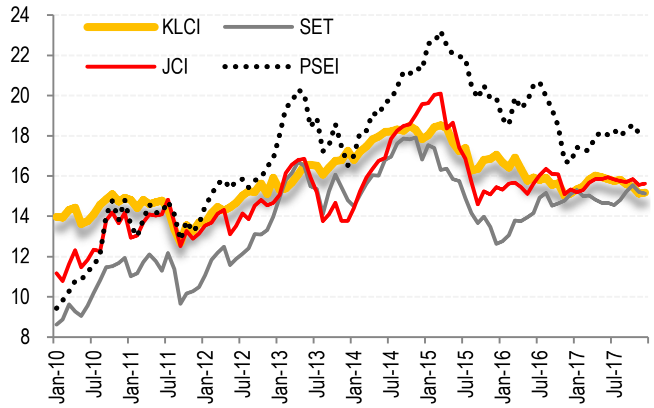


Source: Maybank KE, Bloomberg

Almost at par with regional peers

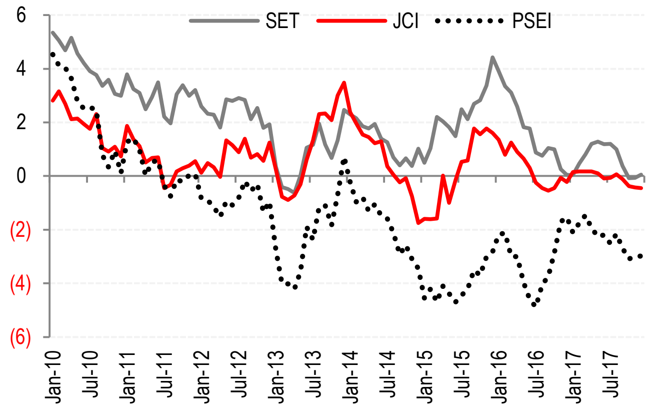
Relative to regional peers, the KLCI's 12M forward PER is presently almost at par with the SET and JCI (due to the KLCI's relative underperformance). Previously, the KLCI had traded on higher multiples than its peers. Based on Bloomberg's earnings estimates for these other markets, our calculated 12M forward PER for the SET is 15.1x and JCI is 15.6x vs. KLCI's 15.6x. PSEi's 18.2x is 2.5x above the KLCI.

KLCI's 12M forward PER vs. regional EM peers (12 Dec)



Source: Bloomberg, Maybank KE (chart)

KLCI's 12M forward PER valuation gap over regional EM peers (12 Dec) (= KLCI's PER minus peers' PER)

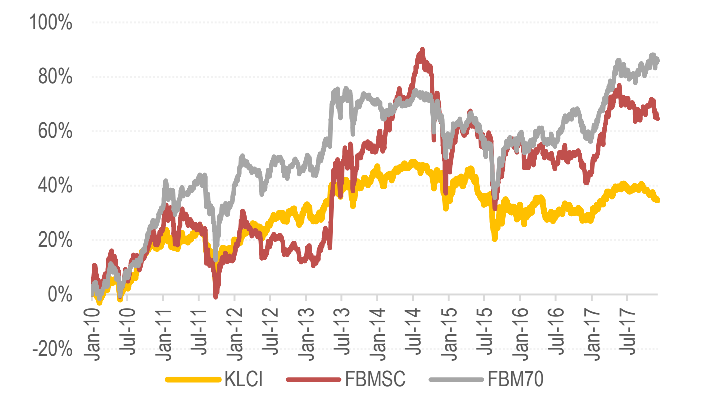


Source: Maybank KE, Bloomberg

Mid-cap valuations are higher, small-caps still low

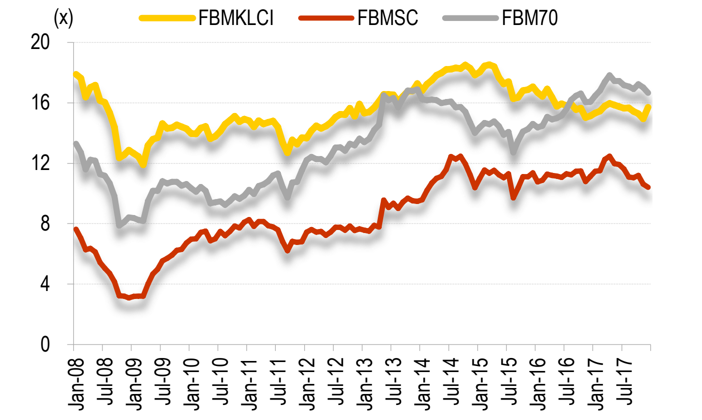
Relative to the KLCI, the FBM70 and FBMSC's PER valuations have moved up higher in 2017 due to their outperformance. As at 12 Dec 2017, FBM70's 12M forward PER is +1.0x above KLCI's, FBMSC is -5.2x below. Based on Bloomberg's earnings estimates for the FBM70 and FBMSC, we derive 12M forward PERs of 16.6x for FBM70 and 10.4x for FBMSC vs. 15.6x for KLCI.

Performance since 2010



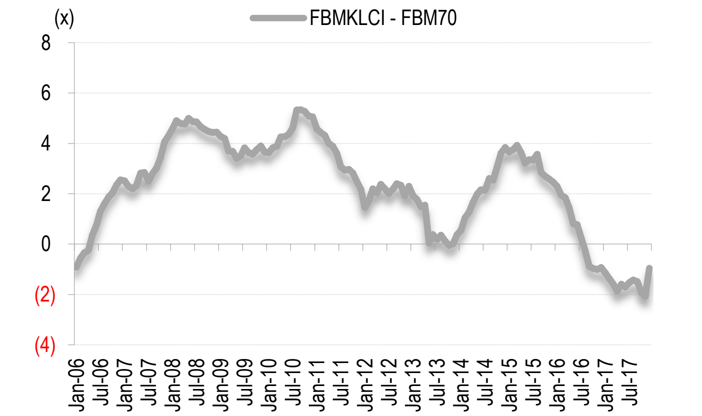
Source: Bloomberg, Maybank KE (chart)

12M forward PER



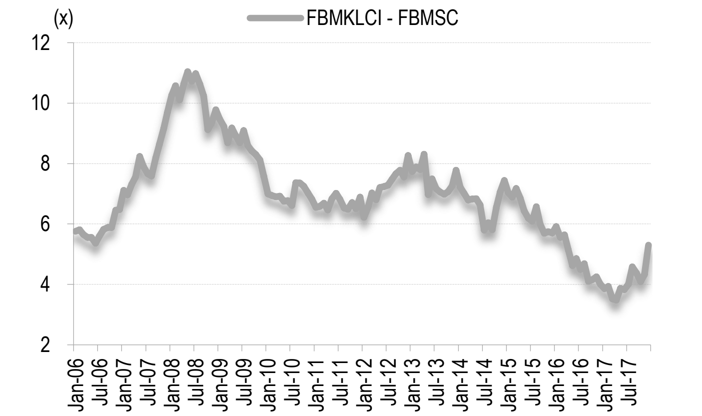
Source: Bloomberg, Maybank KE (chart)

KLCI-FBM70 valuation gap (=KLCI's 12M fwd PER minus FBM70's 12M fwd PER)



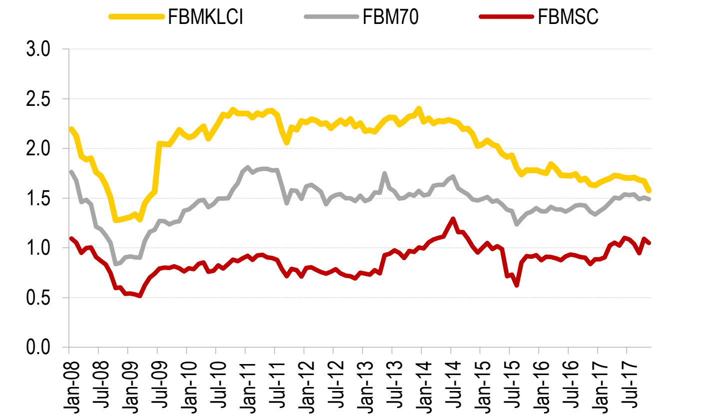
Source: Bloomberg, Maybank KE (chart)

KLCI-FBMSC valuation gap (=KLCI's 12M fwd PER minus FBMSC's 12M fwd PER)



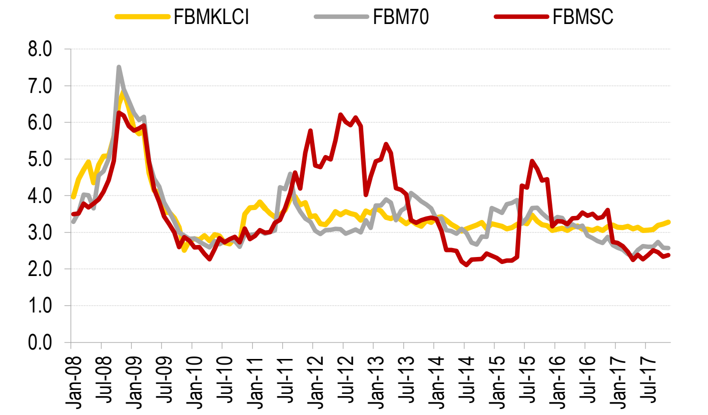
Source: Bloomberg, Maybank KE (chart)

Trailing P/B



Source: Bloomberg, Maybank KE (chart)

Dividend yields



Source: Bloomberg, Maybank KE (chart)

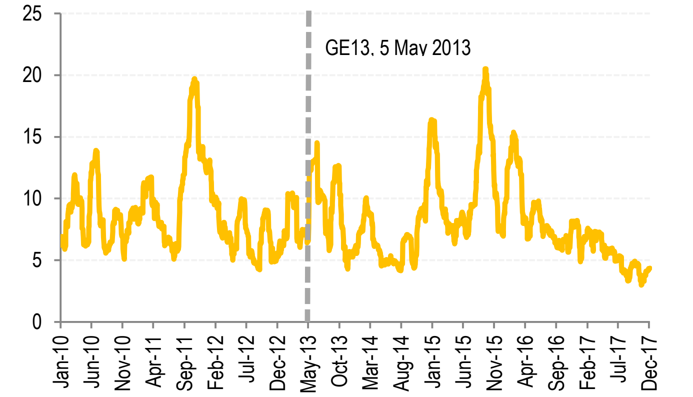
STRATEGY

Higher volatility pre and post GE14

GE14, in our view, will be the major driver of investors' sentiment in early 2018, with pressure points on domestic macro receding and market earnings growth resuming. During GE13, the KLCI and USDMYR volatility were largely unchanged after the dissolution of Parliament but they spiked up +57% and +50% respectively on the first trading day post polling day (after the incumbent coalition retained its simple majority win in Parliament). KLCI's volatility continued to climb thenafter; it only started to recede after six weeks.

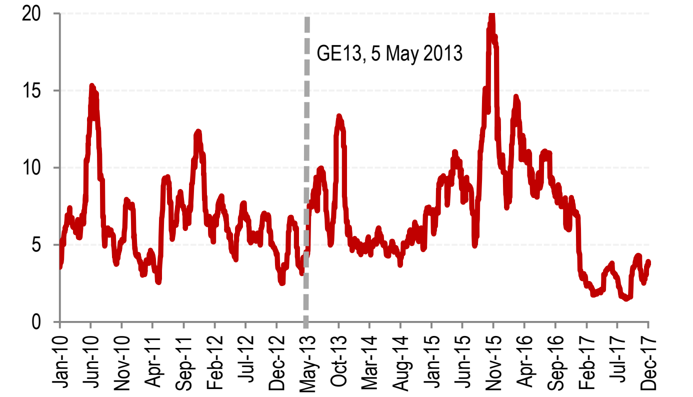
For GE14, we expect volatility in both equities and MYR to be higher in the run-up to, and post polling day, in anticipation of sizeable amount of newsflows on the 'political balance of power', which would impact broad and investors' sentiment. On expectation that the Parliament dissolves after CNY, then January onwards could see higher activities in equities. This period, running up to GE14, may offer investors some trading opportunities. During GE13, the KLCI moved up +3.0% in the one month leading to Parliament dissolution, +0.6% from dissolution to polling day, and +4.7% in the one month post polling day.

KLCI 30-day volatility



Source: Bloomberg, Maybank KE (chart)

USDMYR 30-day volatility



Source: Bloomberg, Maybank KE (chart)

KLCI's performance during general elections

GE Year	Dissolution date	Polling Date	Dissolution - 3Months	Dissolution - 1Month	Dissolution - 1Day	Dissolution + 1Day	Dissolution to Polling Day	Polling + 1Month	Polling + 3Months	Dissolution to Polling + 1Month	Dissolution to Polling + 3Months
2013	3-Apr	5-May	(0.4%)	3.0%	0.0%	0.2%	0.6%	4.7%	5.3%	5.3%	5.9%
2008	13-Feb	8-Mar	2.8%	(5.6%)	0.4%	0.9%	(8.9%)	(5.4%)	(3.7%)	(13.9%)	(12.3%)
2004	4-Mar	21-Mar	12.1%	9.3%	0.6%	0.4%	2.5%	(4.5%)	(8.7%)	(2.1%)	(6.4%)
1999	11-Nov	29-Nov	(0.6%)	(2.8%)	(0.5%)	(0.5%)	2.9%	7.9%	31.7%	11.0%	35.5%
1995	6-Apr	25-Apr	2.4%	3. 3%	(2.0%)	(1.2%)	(0.4%)	6.6%	7.6%	6.2%	7.2%
1990	5-Oct	21-Oct	(20.8%)	(14.1%)	0.6%	0.0%	1.4%	(0.2%)	0.7%	1.2%	2.2%
1986	19-Jul	3-Aug	17.7%	(4.0%)	0.0%	0.0%	(0.8%)	15.9%	29.8%	15.0%	28.8%
1982	29-Mar	22-Apr	(20.2%)	(5.3%)	(0.8%)	0.9%	5.1%	1.0%	(16.0%)	6.1%	(11.8%)

Source: Bloomberg (data), Maybank KE (compilation)

Back to basics (fundamentals) thenafter

As the euphoria of GE14 tapers post the event (our base case is a status quo outcome), we expect investors' focus to return to basic fundamentals. For Malaysia, the key considerations are above-5% real GDP growth in 2018, and market core earnings growth resuming for the second year. Also, the prospects of a higher OPR would continue to lend support to the MYR which has gained 3.1% since BNM signaled for an upward bias on 9 Nov 2017.

Externally, we believe the backdrop – sustained global growth recovery, which is supportive of higher commodity prices – are the added pluses for Malaysia's macro and equities. Meanwhile, an orderly and benign pace of monetary policy normalisation in the US should not be distruptive to capital flows in this region, with our Economics Team expecting interest rates in this region to rise too. For ASEAN equities, our Regional Strategist remains constructive, recommending a rotation from China to ASEAN.

Cautiously constructive; 1,840 YE target

On the above-mentioned reasons, we remain 'constructive' on Malaysia equities into 2018. Our end-2018 KLCI target of 1,840 is based on 15.6x 12M forward earnings, its mean valuation. Bottom-up, we derive 1,860. That said, we are 'cautious' too into 2018, as we are mindful that amid positive global macros and momentum, there are still pockets of risks, with financial imbalances and instability being a key risk factor, and geopolitics being another. Our equity strategy for Malaysia in 2018 is still a defensive portfolio as core holdings.

Investment themes

We highlight three thematic considerations for 2018 (two of which are for 1H) and two other thematics for the longer-term (2018 and beyond):

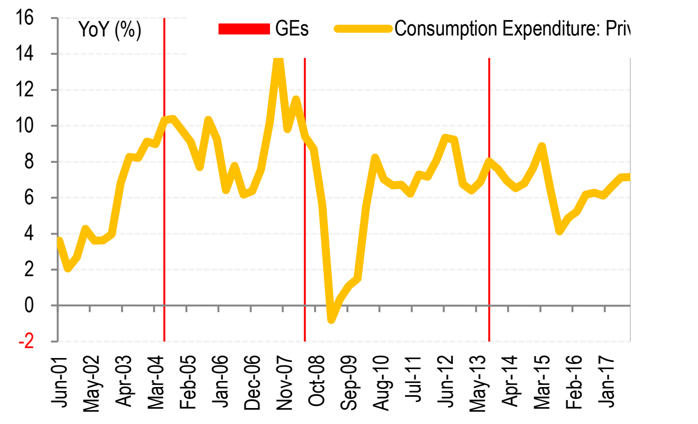
- Fiscal stimulus pre-GE14 (for 1H18).
- BNM's OPR hike (for 1H18).
- Multi-year orderbook replenishment in infrastructure construction (for 2018).
- Tourism (for 2018 and beyond).
- *Look East, Malaysia* (for 2018 and beyond).

#1: Fiscal stimulus pre-GE14. National Budget 2018, passed in Parliament on 28 Nov 2017, provided for the continuation of fiscal stimulus to boost disposal income in 2018. The disbursements of these cash handouts will be largely front-loaded in 1H18 (before, and at about the timing of GE14), in particular, BR1M handouts (one-third of the MYR6.8b in early-2018, another one-third before Eid), bonus for civil servants and pensioners (entire MYR3b in early-2018), and other direct cash aids and one-off payments to target groups like farmers, fishermen, rural folks (totalling MYR1b). This will boost consumption in early-2018, in addition to the seasonal festive spending ahead of the CNY celebration.

Arising from this, we expect the well-known consumer 'brands' to benefit from higher volume sales – stocks under our coverage in this category are Nestle (staples), Berjaya Food (Starbucks), OldTown (F&B and FMCG), Padini (fashion), AEON Co. (broad-based retail) and those in the sin sectors like BAT, Carlsberg and Heineken. In addition, election campaigning, which normally comes with food catering (as Malaysians do love to eat!) will benefit brands under Nestle like Nescafe, Milo, Maggi (including seasonings) and its other ready-to-drink products.

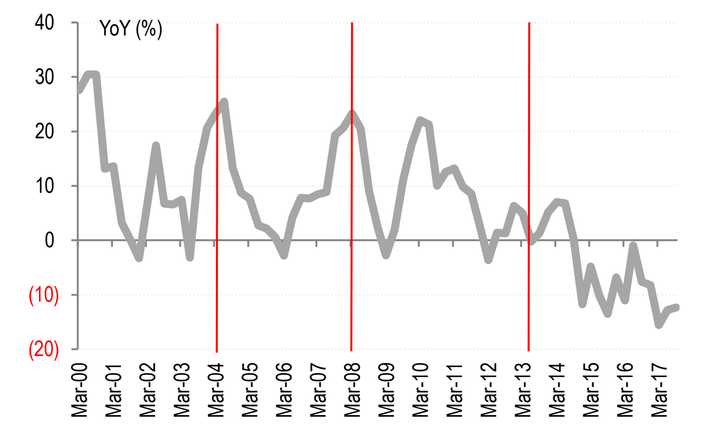
The higher consumers' spending power could also prompt the private sector to raise ad spend to benefit from this. In addition, political parties and public sector ad spend could also rise. Media groups like MPR, STAR and MCIL are potential beneficiaries.

Consumption expenditure growth during previous GEs



Source: Department of Statistics, Maybank KE (chart)

Adex growth during previous GEs



Source: Nielsen Media Research, Maybank KE (chart)

#2: BNM's OPR hike. As we have highlighted in the earlier part of this writeup, the positive impact of a +25bps rise in the OPR on banks' earnings is marginal (+2.7% increase in aggregate net profit) with NIMs expected to normalise within 3-6 months post rate hike, as deposit rates adjust and competition, particularly for deposits, persists. During the Jul 2016 -25bps cut, banks have generally performed admirably in protecting their NIMs. Back then, the average NIM in 3Q16 held steady QoQ at about 2.18% and expanded further in 4Q16 to 2.26%, predominantly on more active deposit mix management. Within our coverage, Alliance Bank would benefit the most while Hong Long Bank would benefit the least in the upcoming OPR hike, based on their latest loan:funding structure.

With higher interest rates being generally negative on the REITs (with unit prices expected to adjust down amid higher fixed income yields), we would position to accumulate the quality REITs on weaknesses in their unit prices. Our picks are those which will continue to see positive rental reversions due to their strategic asset locations and active asset management, coupled with clear asset pipeline to provide the growth. M-REITs in this category are IGBREIT, Sunway REIT, KLCCP and Pavilion REIT.

Impact of a 25 bps hike in interest rates on banks' earnings

	Alliance	AMMB	BIMB	CIMB	HLBK	MAY	PBK	RHBC
CASA	37.3%	20.7%	34.2%	36.1%	25.9%	35.0%	25.5%	27.1%
Floating rate loans/total loans	90.3%	71.0%	87.0%	83.5%	76.5%	70.8%	76.9%	82.5%
Loan/deposit ratio	91.1%	99.3%	89.4%	94.0%	81.8%	94.0%	93.4%	93.8%
Impact of 25 bps hike in int rates on earnings	5.1%	1.6%	3.9%	2.1%	0.8%	2.7%	2.0%	3.1%

Source: Banks, Maybank KE

#3: Multi-year orderbook replenishment in infrastructure construction. Our thesis for this thematic and our continued OVERWEIGHT call on the construction sector are built on our convictions that Malaysian contractor(s) will remain prominently involved in the mega infrastructure projects, in particular, taking on the Project Delivery Partner (PDP) role for the KL-SG HSR civil infrastructure (for the Malaysia alignment) and at least 30% of the KVMRT 3 civil works.

In early-Nov 2017, investors were shocked that the KVMRT 3 project will be undertaken via a 'turnkey' structure which requires the turnkey contractor to provide project financing over a minimum of 30 years. This is a departure from the KVMRT 1 & 2's PDP structure. Investors' perception is that the financing requirement will almost preclude the participation of Malaysian contractors in the turnkey role as this means carrying a mega project debt on their balance sheets, thus limiting their ability to expand on opportunities. The concern is that a foreign-led turnkey contractor would limit Malaysian contractors' participation in the civil works, unlike the KVMRT 1 & 2's PDP structure where the entire civil works went to Malaysians. Tender for the turnkey role closes on 29 Dec 2017.

While what was to follow has lifted the odds for Malaysian contractors' lead participation in the KL-SG HSR construction, investors' confidence has remained affected by the KVMRT 3 announcement. In mid-Nov 2017, MyHSR Corporation Sdn Bhd issued a tender notice for the PDP role for the KL-SG HSR's civil infrastructure (Malaysia alignment); this tender limits the participation to those that have undertaken railway projects in Malaysia. Tender for the PDP role will close on 30 Jan 2018.

On this matter, our conviction is for Malaysian contractors to lead in the PDP for the KL-SG HSR civil infrastructure, thus restoring investors' confidence. For the KVMRT 3 project, we expect Malaysian contractors to take on at least 30% of the civil works if the turnkey contractor is foreign-led. Besides KVMRT 3 and KL-SG HSR, sub-contracting works for the ECRL will also be the focus in 2018.

We continue to favour proven contractors who have delivered over the years, in winning in the upcoming mega works. We continue to like Gamuda, IJM Corp and Sunway Construction. Kimlun's precast division also stands to benefit from the KL-SG HSR, supported by their track record in supplying to KVMRT projects and the MRT expansion in Singapore. CMS, besides a beneficiary of the Pan Borneo Sarawak Highway construction (being the largest construction materials supplier in Sarawak), it will also benefit from the turnaround of its 25%-owned, OMS.

(Please refer to our Construction Sector writeup in pages 76-77 for more details on the mega projects.)

#4: Tourism – inbound and domestic. We introduced the broad tourism thematic in second half 2016 and reiterated this in our *2017 Outlook & Lookouts* report. Big-cap beneficiaries which we had highlighted – GENM, MAHB, AirAsia - have performed well in stock prices since. In 2017, we have added on coverage of mid-small cap stocks related to this thematic – Atlan and YTL Hospitality REIT – both still offer decent upside to our TPs.

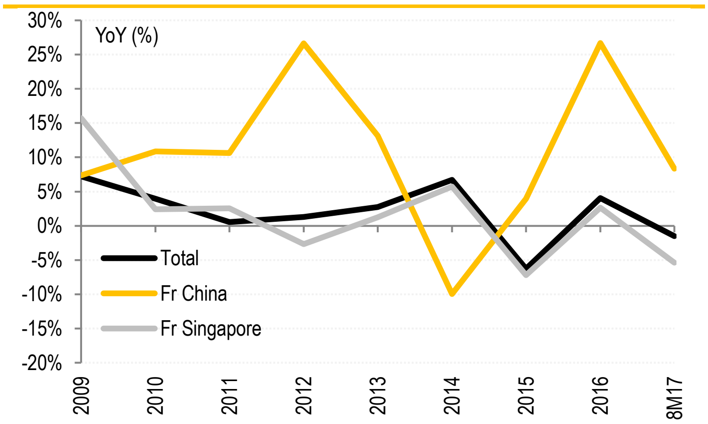
The investment thesis for Atlan is also its huge asset value, in particular, its 772 acres of land in Bukit Kayu Hitam (in Kedah, bordering Thailand) which has been earmarked for a major development, and is awaiting catalyst(s) to kick-start the development. A potential catalyst, in our view, is the Malaysian government's recent proposal to the Thai government for better land connectivity between Songkhla Port in southern Thailand and Penang Port (which passes Atlan's Bukit Kayu Hitam land), to speed up economic activities in that region.

As for YTL Hospitality REIT, it has ten hotels in Malaysia, one in Japan (Hokkaido) and three in Australia. The REIT offers a pure hospitality play in the M-REIT sector. The trust also offer a net yield of 6.3%, highest in our M-REIT coverage.

Inbound tourist arrivals in 8M17, as reported by Tourism Malaysia, was down -1.5% YoY (total arrivals) but up +2.3% YoY (total arrivals, excluding from Singapore). Arrivals from China rose +8.3% YoY, continuing the uptrend from 2016's +26.7% YoY. Despite total arrival numbers being marginally down YoY in Jan-Aug 2017, spending by foreign credit card holders jumped +20.7% YoY in 8M17 (+19.9% YoY in 10M17), implying higher-quality / higher-spend tourists.

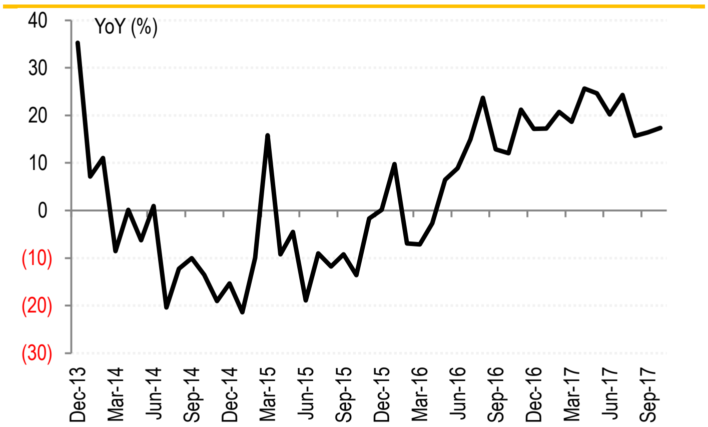
In 2018, the government targets to welcome 28m tourists (2016: 26.8m) and it has declared 2020 as *Visit Malaysia Year 2020*. The last two Visit Malaysia Years were 2007 and 2014. In 2007, tourist arrivals surged +19% YoY while tourism receipts surged +27% YoY. In 2014, tourist arrivals grew +7% YoY while tourism receipts grew +10% YoY. In fact, tourist arrivals and tourism receipts hit record highs in both years. *Visit Malaysia Year 2020* ought to be similarly productive.

Tourist arrivals



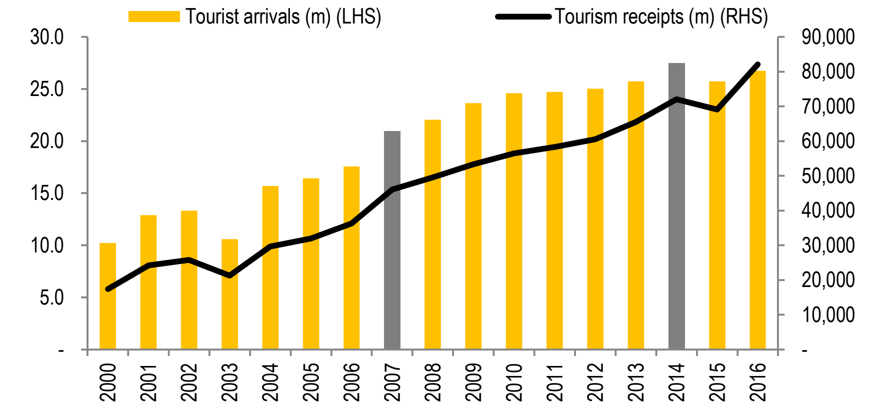
Note: Singaporeans accounted for 48% of 8M17 arrivals, Chinese 9%
Source: Tourism Malaysia, Maybank KE (chart)

Credit card purchases by foreign cardholders



Source: BNM, Maybank KE (chart)

Annual tourist arrivals and tourism receipts (MYR m)



** grey denotes Visit Malaysia Year*
Source: Tourism Malaysia

#5: *Look East, Malaysia*. We think there is latent potential in the East – East Malaysia and East Coast Peninsular Malaysia – which forms our thematic consideration for 2018 and the longer term. The investment thesis is supported by major back-bone infrastructure currently under construction which will lift economic activities: (i) Pan Borneo Sarawak Highway (e.786km), (ii) Pan Borneo Sabah Highway (e.706km), (iii) East Coast Rail Link (e.707km). For Sarawak, the Development Bank of Sarawak and PETROS (Petroleum Sarawak Bhd) and for Sabah, the Sabah International Petroleum Sdn Bhd (in 2014) are also catalysts.

Long-term potential beneficiaries of this thematic, in our view, are:

- East Malaysia:

  (i) Multi-year infrastructure construction - Cahya Mata Sarawak (largest building material supplier in Sarawak, holds 51% of Samalaju Industrial Park); Hock Seng Lee and KKB Engineering (KKB MK; Not Rated) where both are home-grown Sarawakian contractors.

  (ii) Rising trade and industrial activities – Bintulu Port (BPH MK; Not Rated) and Suria Capital (SURIA MK; Not Rated) where both are port operators and/or port holding companies.

- East Coast Peninsular Malaysia: IJM Corporation, for its 60% stake in Kuantan Port and 20.4% effective stake in the Malaysia-China Kuantan Industrial Park.

Investments in Samalaju Industrial Park, Sarawak

Investor	Product	Investment (USD)
Tokuyama	Polycrystalline silicon	2.5 bil
Press Metal	Aluminium	2.0 bil
AML (Pertama Ferroalloy)	Manganese ferroalloy	325 mil
Asia Advanced Materials	Metallic silicon	203 mil
Sakura Ferroalloys	Ferro manganese & silicon manganese	328 mil
Cosmos Chemicals	High quality solar and electronics grade polysilicon	1.6 bil
OM Materials (Sarawak)	Ferrosilicon alloys & manganese alloys	458 mil
MPA (Sarawak)	Phosphate products & coke	545 mil

Source: Cahya Mata Sarawak

Investments in M'sia-China Kuantan Industrial Park, Pahang

Investor	Project	Investment (MYR)
Alliance Steel (M)	Modern integrated steel mill	5.6 bil
Prinx Chengshan (Shandong) Tire	Tyre manufacturer	2.6 bil
Guangxi Zhongli Enterprise Group	Clay porcelain manufacturing	2.0 bil
Guangxi Investment Group	Aluminium components processing	0.6 bil
Sichuan Migao Chemical Fertilizer Industry	Potash fertilizer manufacturer	0.3 bil
Maxtrex Tyre Limited	Production of passenger car radial (PCR) tyres	1.6 bil
New Ocean Energy Holdings *	Oil refinery & bunkering services	5.0 bil

** New investment in Kuantan Port; Source: IJM Corporation*

Sector weights

Besides Construction, sectors that we OVERWEIGHT for 2018 are Automotive, Gaming, Oil & Gas, Petrochemical and Utility.

Sectors	Investment thesis
Automotive (Overweight)	▪ Sector to finally see a strong earnings rebound in 2018 (after two years of double-digit contraction), boosted by MYR's sustained strength against USD and JPY in the last three months. ▪ Margins could be further enhanced from YoY volume growth expectation, backed by full-year contribution of popular new model launches in 2017 – Perodua new Myvi, Mazda CX-5 models – where both are premium range models (higher ASPs).. ▪ Our Top BUY for 2018 is BAuto.
Gaming (Overweight)	▪ 2018 to see normalising VIP win rates and new amenities at Resorts World Genting (RWG) and continued recovery at Resorts World Sentosa (RWS). ▪ NFOs to benefit from recovering consumer sentiment and enforcement action against illegal NFOs. Legislation may also be passed that will enable the NFOs to cement recent market share gains from the illegal NFOs. ▪ Our Top BUY for 2018 is GENT.

Sectors	Investment thesis
Oil & Gas (Overweight)	▪ The sector is on a cyclical recovery, with activities set to pick up. 2018 will be the year of contract replenishment (i.e. fabrication, drilling, OSV, underwater services) as oil companies firm up on their long-term plans. ▪ 2018, in our view, will also be a year of M&As. ▪ Our key BUYs are Yinson, Dialog, Wah Seong and SAPE.
Petrochemical (Overweight)	▪ The sector should fare well in 2018 on sustained global GDP growth and benign inflation. Global new capacity output is manageable and demand-supply is forecasted to be balanced, thus providing a stable outlook on ASPs. ▪ We believe factory utilization rate will be the main consideration for investment picks. ▪ PCHEM is our top BUY as it is a beneficiary of higher crude oil prices with its feedstock cost relatively fixed, thus ensuring margin expansion.
Utility (Overweight)	▪ 2018 should see regulatory clarity for both Tenaga and Petronas Gas. ▪ We expect Tenaga to at least maintain its current level of profitability in RP2, as any hypothetical reduction in regulatory WACC should be offset by the still rising asset base. ▪ Tenaga remains our long term BUY pick, while risk-reward for Petronas Gas and Malakoff look increasingly favourable.

(Please see individual Sector Outlook writeups in the ensuing pages for more details on our respective sector outlook views and our sector weights)

Top BUYs

We refresh our top BUY picks for 2018, as listed below. The list comprises a mix of Value with Growth, and considers our thematics and sector weights for 2018.

Stocks	Investment thesis
Petronas Chemicals (PCHEM MK)	▪ A play on strong global demand growth for petrochemicals, PCHEM has a diverse product portfolio that encompasses the entire petrochemical chain. ▪ The rising crude oil price is very positive, as petrochemical prices track crude oil price but PCHEM's input cost are largely fixed and independent of any rise in crude oil prices, thus lifting margins. ▪ Exposure to a well-managed organization with strong growth pipeline, robust cashflow and net cash balance sheet. ▪ Our MYR8.50 TP is based on 9.1x 2018 EV/EBITDA.
Genting Berhad (GENT MK)	▪ We continue to see value in GENT, with the stock trading at a 43% discount to SOP/sh or -2SD to its post-1997 mean discount to SOP/sh of 21%. PER is also unreasonably cheap <15x FY18 (GENS: >20x FY18, GENM: >15x FY18). ▪ 45% of earnings anchored by GENS which is riding a VIP market recovery. GENS' mass market has also ceased contracting YoY as Singaporean consumer sentiment recovers. ▪ 9M17 earnings weighed down by unlucky Resorts World Genting (RWG). Expect RWG VIP win rate to normalize in FY18. RWG also contributes 6% of its revenue and 10% of EBITDA to GENT as highly profitable licensing fees. ▪ Our MYR12.25 TP is based on 21% discount to end-FY18E SOP/sh valuation. GENS may bid for a Japanese casino license in 2018. In our view, GENT is a cheaper proxy for GENS and GENM as well.

Stocks	Investment thesis
IOI Corp (IOI MK)	▪ Given its prime age tree profile of 13 years average and well managed estates, IOI is one of the most cost efficient planter in the region with 4.6t/ha of oil yield (FY6/17) and operating cost of just MYR1,122 per CPO tonne. ▪ It is a large cap liquid stock that is a good proxy trade to our anticipated seasonal CPO price recovery towards end-1Q18. ▪ Completion (sometime mid-2018) of the proposed disposal of its specialty fats business to Bunge for MYR3.9b cash will help unlock the value of this low yielding asset for higher upstream returns, significantly revitalise its balance sheet. Also, shareholders stand to receive a 12.5sen/shr special dividend. ▪ Our MYR5.03 TP is based on 29x FY18 PER (+0.5SD to 5Y mean).
Hong Leong Financial Group (HLFG MK)	▪ There is deep value in HLFG; its market cap (MYR20.2b) does not even reflect the value of its 64% stake in HL Bank (MYR21.9b) and investors are getting the insurance businesses for free. ▪ Exposure to a well-run retail bank with one of the highest asset qualities in the industry and a very liquid balance sheet (LDR of just 82%), as well as a 20% stake in China-based Bank of Chengdu. ▪ Exposure to the fourth largest life insurer and one of the top 3 general insurance companies in the country. ▪ Our MYR18.40 TP is SOP-based.
Gamuda (GAM MK)	▪ A sector bellwether, Gamuda is vying for the KL-SG High Speed Rail PDP role. It is also a potential beneficiary for works related to the ECRL, KVMRT 3 and the Pan Borneo Sabah Highway. ▪ Earnings growth in FY18 will be driven by KVMRT 2 and Pan Borneo Sarawak Highway construction progress as well as stronger property earnings in tandem with its higher sales target of MYR3.5b. ▪ Share price weakness following the news on the change of the PDP structure to a turnkey contractor role for KVMRT 3 presents a buying opportunity. ▪ Our TP of MYR5.60 is SOP-based.
Yinson (YNS MK)	▪ A growth stock, with steady earnings, cashflow stength and undemanding valuations. ▪ Primary beneficiary of the strong tender pipeline for FPSOs worldwide. Notwithstanding FPSO Layang, Yinson is engaged on 2-3 firm biddings. ▪ Our MYR4.45 SOP-based TP has upside bias, for it has yet to include potential earnings/NPV positives from FPSO Lam Son and Layang.
Cahya Mata Sarawak (CMS MK)	▪ Proxy to the construction momentum in Sarawak, as the sole cement and major building materials supplier; it will benefit from the acceleration in Pan Borneo Sarawak Highway works. ▪ Growth in FY18 to be supported by contribution from its 25%-owned OMS on the back of (i) full commissioning of its 16 blast furnaces and (ii) steady ferrosilicon prices. ▪ Earnings wildcard from Sacofa, if it secures any telco infrastructure contracts. ▪ Our SOP-based TP is MYR4.50.
Bermaz Auto (BAUTO MK)	▪ Expect strong earnings rebound in FY4/19 (+71% YoY), on (i) a full year contribution of the new CX-5 model (Mazda's bestseller in Malaysia), (ii) much stronger associates income from the export of new models to neighboring countries and (iii) sustained strength in MYR against Yen. ▪ Evidence for strong growth ahead is Mazda's +190% MoM growth in Nov 2017 production numbers, to cater to both domestic and export demand of the new CX-5. ▪ Additionally, JPY100/MYR was seen at 3.60 levels recently vs. a 2017 YTD average of 3.85. This will greatly benefit BAuto as a net importer of JPY, especially in FY19. ▪ BAuto is our first choice for a cyclical recovery in the sector for its nimble asset-light business model. Our MYR2.48 TP is based on 14.5x CY18 PER (mean).
YTL Hospitality REIT (YTLREIT MK)	▪ The only pure hospitality play with a well-balanced portfolio consisting of Malaysian and Japanese assets under master leases which provide stable, recurring income, and Australian hotels which provide earnings growth potential. ▪ Strong pipeline of assets from its sponsor (YTL Corp) which has a rich portfolio of hospitality assets globally. Future acquisition(s) are also backed by its decent gross gearing of 0.35x. ▪ Currently offers the highest CY18 net DPU yield of 6.3% (vs. REITs within our coverage); our DDM-TP of MYR1.40 implies a net DPU yield of 5.3% (CY18).

Source: Maybank KE

Top BUYs for 2017

	Price	TP	Rec.	EPS (sen)		PE (x)		EPS Growth (%)		Net yld (%)	ROE (%)	P/B (x)	Px chg (%)
	12 Dec	MYR		CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E	CY18E	CY18E	YTD
Petronas Chem	7.42	8.50	BUY	52.5	52.6	14.1	14.1	31.9	0.2	3.6	14.2	2.0	6.3
Genting	8.71	12.25	BUY	48.6	60.9	17.9	14.3	19.1	25.3	2.1	6.8	0.9	8.9
IOI Corp	4.47	5.03	BUY	16.8	18.4	26.6	24.4	8.4	9.2	2.1	13.9	3.4	1.6
HLFG	17.18	18.40	BUY	146.5	156.7	11.7	11.0	6.3	6.9	2.6	10.5	1.2	20.8
Gamuda	4.90	5.60	BUY	29.9	32.4	16.4	15.1	10.0	8.6	2.4	9.7	1.5	2.5
Yinson	3.81	4.45	BUY	34.0	32.2	11.2	11.8	68.0	(5.3)	2.6	10.4	1.2	31.8
CMS	3.77	4.50	BUY	20.6	24.1	18.3	15.6	4.0	17.0	2.5	10.4	1.6	(5.8)
Bermaz Auto	2.19	2.48	BUY	11.1	17.1	19.7	12.8	(11.4)	53.9	4.7	35.7	4.8	2.8
YTL REIT	1.20	1.40	BUY	7.3	8.2	16.6	14.6	(2.0)	13.1	6.3	5.6	0.8	10.1

Source: Maybank KE

Dividend stocks (Maybank KE's coverage: Stocks with more than 4% net yield)

Stocks	Rec	Shr px at 12-Dec-17	Market Cap (MYR m)	TP (RM)	2017 Net Yld (%)	2018 Net Yld (%)	Upside to TP (%)	Potential total returns (%)
Star Media	Hold	1.44	1,062.5	1.47	10.4	10.4	2.1	12.5
Berjaya Sports Toto	Buy	2.29	3,084.6	3.05	7.3	8.0	33.2	41.2
YTL REIT	Buy	1.20	2,045.3	1.40	5.9	6.3	16.7	22.9
CSC Steel	Buy	1.54	568.7	2.02	5.4	6.2	31.2	37.4
MCIL	Hold	0.38	632.7	0.39	6.3	6.2	4.0	10.2
Maybank	NR	9.25	99,576.8	NR	6.1	6.2	NR	NR
MRCB-Quill REIT	Buy	1.24	1,324.3	1.35	6.0	6.1	8.9	15.0
Magnum	Buy	1.73	2,461.7	2.00	5.8	6.1	15.6	21.7
Al-Salam REIT	Buy	0.98	568.4	1.10	5.6	5.7	12.2	18.0
BAT (M)	Hold	38.12	10,884.4	45.60	5.1	5.7	19.6	25.3
Malakoff Corporation	Buy	0.89	4,424.5	1.25	5.6	5.6	41.2	46.9
IGB REIT	Buy	1.57	5,516.1	1.85	5.5	5.6	17.8	23.4
CMMT	Hold	1.42	2,893.6	1.50	5.4	5.6	5.6	11.2
Sunway REIT	Buy	1.69	4,977.2	1.90	5.1	5.4	12.4	17.9
Heineken Malaysia	Hold	18.60	5,619.0	18.30	5.1	5.4	(1.6)	3.8
Carlsberg	Hold	15.08	4,638.9	15.60	5.0	5.3	3.4	8.8
Axis REIT	Hold	1.52	1,869.9	1.70	4.9	5.2	11.8	17.0
Lotte Chemical Titan	Buy	4.59	10,433.0	7.85	3.8	4.9	71.0	75.9
Pavilion REIT	Hold	1.61	4,878.5	1.70	4.5	4.8	5.6	10.4
Gas Malaysia	Hold	2.75	3,531.0	3.00	4.5	4.8	9.1	13.9
Bermaz Auto	Buy	2.19	2,527.9	2.48	3.9	4.7	13.2	17.9
AMMB Holdings	Hold	4.17	12,569.2	4.50	4.4	4.6	7.9	12.5
Asia File Corporation	Hold	3.00	581.1	3.19	4.8	4.6	6.3	10.9
CIMB	Buy	6.18	57,013.9	6.95	4.2	4.5	12.5	17.0
RCE Capital	Buy	1.50	512.4	1.95	3.5	4.5	30.0	34.5
Ann Joo Resources	Hold	3.72	1,911.3	3.85	4.3	4.4	3.5	7.9
MSM Malaysia Holdings	Hold	3.98	2,797.9	4.70	3.5	4.4	18.1	22.5
KLCC Prop	Hold	7.77	14,027.4	7.95	4.3	4.4	2.3	6.7
Tenaga	Buy	15.48	87,709.5	16.20	4.0	4.4	4.7	9.0
MISC	Hold	7.09	31,648.3	7.60	4.3	4.4	7.2	11.6
Litrak	Hold	5.80	3,060.7	6.10	4.3	4.3	5.2	9.5
Petronas Gas	Buy	16.06	31,778.4	23.00	3.7	4.3	43.2	47.5
YTL Power	Hold	1.19	9,433.3	1.34	4.2	4.2	12.6	16.8
Bursa Malaysia	Hold	9.70	5,213.8	10.30	5.5	4.2	6.2	10.4
DiGi.Com	Hold	4.84	37,631.0	4.80	4.0	4.1	(0.8)	3.3
Astro Malaysia Holdings	Hold	2.60	13,556.1	2.55	4.8	4.1	(1.9)	2.2
Alliance Bank Malaysia	Hold	4.09	6,331.8	4.00	3.9	4.0	(2.2)	1.8

Source: Maybank KE

Foreign shareholding of selected stocks under coverage (%)

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sept-17	YTD chg
Malayan Banking	13.5	19.6	21.4	22.5	17.4	15.7	19.7	20.8	20.7#	5.3
CIMB Group	38.1	40.4	33.8	32.7	27.0	25.8	29.0	31.0#	24.0	(1.8)
Public Bank	26.1	31.2	30.7	31.0	31.3	35.9	36.0	37.2	37.6	1.7
Axiata Group	28.0	28.0	23.0	21.0	15.2	10.3	10.3	10.4	10.4	0.1
Sime Darby	17.3	19.5	17.4	13.9	13.7	12.6	14.8	15.3	15.1	2.5
Petronas Chemicals	9.0	9.0	12.0	8.5	9.0	8.0	10.0	10.0	10.0	2.0
Maxis *	7.3	7.5	7.5	6.7	6.2	5.7	6.1	7.6	6.4	0.7
Tenaga Nasional	10.8	15.0	27.8	25.8	23.1	27.7	25.3	24.8	24.3	(3.4)
Petronas Gas	3.0	3.0	3.0	7.5	8.5	8.8	8.2	8.5#	8.5#	(0.3)
Genting Berhad	42.0	45.0	45.0	46.0	39.0	44.0	45.0#	45.0	46.0	2.0
Digi.com	12.9	12.6	12.5	15.6	10.1	9.9	10.0	9.6	9.3	(0.6)
IOI Corporation	17.0	17.6	18.0	17.4	16.0	15.0	15.0	16.0	14.0	(1.0)
Hong Leong Bank	7.7	8.1	8.1	9.5	8.1	9.1	9.4	11.2	11.9	2.8
SapuraKencana	NA	22.0	32.0	28.0	25.0	22.0	22.0	22.0	19.0	(3.0)
KL Kepong	18.5	15.0	12.7	12.4	11.5	13.5	13.9	15.0	15.5	2.0
Genting Malaysia	37.0	38.0	39.0	39.0	39.0	40.0	40.0#	40.0	40.0	0.0
RHB Bank	11.6	8.9	8.3	9.5	9.8	9.9	9.8	9.9#	9.8#	(0.1)
AMMB Holdings *	26.2	29.0	32.0	32.0	26.0	25.0	26.0	27.0	25.0	0.0
MISC Bhd	3.9	5.5	5.9	7.8	10.8	8.0	8.3	8.6	8.7	0.7
Telekom Malaysia	19.9	16.2	13.0	16.7	11.7	12.8	12.3	12.2	11.9	(0.9)
British American Tobacco	26.8	28.4	28.0	33.2	33.6	36.3	35.9	36.9#	37.5	1.2
YTL Corporation	23.0	27.0	28.0	29.0	28.0	28.0	27.0	27.0	25.0	(3.0)
UMW Holdings	13.5	25.8	16.9	18.8	12.6	10.9	11.2	11.1	11.3#	0.4
UEM Sunrise	14.6	17.3	14.9	13.1	9.1	8.4	8.7	9.0	9.0	0.6
Bumi Armada	NA	18.0	12.3	13.2	12.7	11.0	11.6	10.9	11.4	0.4
Gamuda	33.0	37.0	40.0	29.0	22.0	22.0	28.0	31.0	33.0#	11.0
YTL Power Int'l	9.0	8.0	9.0	12.0	12.0	12.0	11.0	11.0	11.0	(1.0)
S P Setia	17.6	1.7	8.8	8.1	7.6	4.9	4.9	4.9	5.5	0.6
AirAsia	51.0	48.3	50.2	60.8	47.6	43.4	42.8#	43.9	44.5	1.1
IJM Corp	41.3	36.6	40.5	40.4	29.7	28.2	28.7	28.6	28.0	(0.2)
MAHB	9.5	11.3	15.0	18.9	19.0	19.0	22.1	33.0	34.7	15.7
Dialog Group	NA	16.0	16.0	16.0	15.0	16.0	20.0	20.0	20.0	4.0
Genting Plant	9.8	9.0	8.0	7.2	7.0	8.0	8.4	8.0	8.0	0.0
Sunway Berhad	21.8	20.5	14.2	8.1	7.6	7.8	8.3	9.1	10.3	2.5
MMHE	5.4	4.6	2.0	1.9	2.2	2.4	2.5	2.5	2.8	0.4
Mah Sing	20.9	24.8	23.7	19.2	14.8	15.7	15.8	16.6	16.6	0.9
WCT	14.0	10.0	13.0	10.7	12.8	12.2	11.0	10.2#	8.8#	(3.4)
Glomac	NA	NA	8.4	6.3	5.2	5.2	5.1#	5.5	6.8	1.6
Oldtown *	NA	NA	35.7	35.4	28.0	26.8	27.8	25.3#	24.1#	(2.7)
Market	**23.1**	**24.4**	**24.0**	**24.3**	**22.3**	**22.3**	**22.4**	**23.0**	**23.3**	**1.0**

* *Maxis: Excludes Saudi Telecom's 16.2% effective stake*
* *AMMB: Excludes ANZ's 23.8%*
* *OldTown: 4% at Feb 2012, 37% at Feb 2013*
 # AirAsia, Glomac, PetChem: As at 30 Apr 2017
 # GENM, GENT: As at 25 May 2017
 # PetGas: As at 31 May 2017
 # OldTown: As at 13 Jul 2017, 1 Nov 2017
 # CIMB, RHB, BAT, WCT: As at 31 Jul 2017
 # RHB, UMWH, GAM, WCT: As at 31 Oct 2017
 # MAY: 20.7% as at 8 Dec 2017

Note: Highlighted/shaded are stocks which have foreign shareholding close to, or above 20% (based on latest data available)
Sources: Companies, compiled by Maybank KE

RESEARCH UNIVERSE

Maybank KE Equity Research Stock Universe

Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY16A	CY17E	CY18E	EPS CY16A	CY17E	CY18E	CAGR 16-18 (%)	PER CY16A	PER CY17E	PER CY18E	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	*Px chg YTD (%)*
								|---------- MYR m ----------|			|--------- MYR sen --------|			|------------- (x) ------------|						
Autos																					
BAUTO MK	Bermaz Auto	*	4	2.19	2,528	2.48	Buy	146	130	200	12.6	11.1	17.1	16.8	17.4	19.7	12.8	35.7	4.7	4.8	*2.8*
MBM MK	MBM Resources	*	12	2.19	856	2.75	Buy	103	82	107	26.2	21.0	27.5	2.5	8.4	10.4	8.0	6.1	2.7	0.5	*2.3*
TCM MK	Tan Chong	*	12	1.45	946	2.15	Buy	(48)	(77)	(24)	(7.4)	(11.8)	(3.6)	n.a.	n.a.	n.a.	n.a.	(0.9)	0.7	0.3	*(18.5)*
PECCA MK	Pecca Group	*	6	1.53	283	1.60	Buy	16	17	21	8.4	9.4	11.2	15.6	18.3	16.4	13.7	11.7	3.9	1.6	*(3.8)*
SIME MK	Sime Darby	*	6	2.10	14,282	2.10	Hold	870	825	757	13.3	12.1	11.1	(8.5)	15.8	17.4	18.9	5.7	3.4	1.1	*13.5*
Banking																					
MAY MK	Maybank		12	9.25	99,577	NR	NR	6,118	7,188	7,579	60.0	69.0	69.7	7.8	15.4	13.4	13.3	9.8	6.2	1.3	*12.8*
AMM MK	AMMB Holdings		3	4.17	12,569	4.50	Hold	1,251	1,344	1,453	41.7	44.6	48.3	7.6	10.0	9.3	8.6	8.1	4.6	0.7	*(3.2)*
BIMB MK	BIMB Holdings	*	12	4.40	7,206	5.10	Buy	559	577	597	36.2	36.3	37.6	1.9	12.2	12.1	11.7	16.1	3.4	2.1	*4.3*
ABMB MK	Alliance Bank		3	4.09	6,332	4.00	Hold	515	515	531	33.7	33.7	34.7	1.5	12.1	12.1	11.8	9.5	4.0	1.1	*9.9*
CIMB MK	CIMB		12	6.18	57,014	6.95	Buy	3,414	4,458	4,850	39.3	50.3	54.7	18.0	15.7	12.3	11.3	9.7	4.5	1.1	*37.0*
HLBK MK	Hong Leong Bk		6	16.60	33,957	15.90	Hold	2,110	2,300	2,518	106.9	111.3	120.7	6.3	15.5	14.9	13.8	10.5	3.1	1.5	*23.0*
HLFG MK	HL Financial		6	17.18	19,675	18.40	Buy	1,549	1,676	1,792	137.8	146.5	156.7	6.6	12.5	11.7	11.0	10.5	2.6	1.2	*20.8*
PBK MK	Public Bank		12	20.20	78,002	20.00	Hold	5,146	5,370	5,488	133.0	139.0	142.0	3.3	15.2	14.5	14.2	13.5	3.2	1.9	*2.4*
RHBBANK MK	RHB Bank		12	4.73	18,968	5.40	Hold	1,682	2,046	2,214	43.6	53.1	56.5	13.8	10.8	8.9	8.4	8.7	3.6	0.7	*0.4*
Cement/Steel																					
AJR MK	Ann Joo	*	12	3.72	1,911	3.85	Hold	167	211	215	31.9	37.6	38.4	9.7	11.7	9.9	9.7	15.7	4.4	1.4	*71.4*
LMC MK	Lafarge	*	12	6.15	5,226	6.90	Hold	85	(197)	97	10.0	(23.2)	11.4	6.8	61.5	n.a.	53.9	3.4	1.7	1.8	*(14.5)*
Construction / Infra																					
EVSD MK	Eversendai		12	0.88	683	1.14	Hold	(81)	66	74	(10.4)	8.5	9.5	n.a.	n.a.	10.3	9.2	7.2	0.9	0.7	*52.2*
GAM MK	Gamuda	*	7	4.90	12,031	5.60	Buy	657	726	787	27.2	29.9	32.4	9.3	18.0	16.4	15.1	9.7	2.4	1.5	*2.5*
HSL MK	HSL	*	12	1.46	802	1.61	Hold	57	44	74	10.3	8.0	13.4	14.1	14.2	18.3	10.9	9.3	1.6	1.0	*(8.8)*
IJM MK	IJM Corp	*	3	2.74	9,942	3.40	Buy	506	520	602	14.1	14.4	16.7	8.8	19.5	19.1	16.4	5.9	2.6	1.0	*(14.4)*
LTK MK	Litrak	*	3	5.80	3,061	6.10	Hold	209	225	238	39.9	42.9	45.3	6.5	14.5	13.5	12.8	26.6	4.3	3.4	*(1.4)*
CMS MK	CMS	*	12	3.77	4,050	4.50	Buy	212	221	259	19.8	20.6	24.1	10.3	19.0	18.3	15.6	10.4	2.5	1.6	*(5.8)*
SCGB MK	Sunway Con	*	12	2.40	3,101	2.63	Buy	124	146	213	9.6	11.3	16.4	30.7	25.0	21.2	14.6	29.3	2.4	4.3	*41.2*
KICB MK	Kimlun Corp	*	12	2.30	737	2.61	Buy	81	67	80	26.4	22.0	26.1	(0.6)	8.7	10.5	8.8	12.4	3.1	1.1	*10.6*
Consumer																					
AEON MK	AEON Co	*	12	1.80	2,527	2.20	Buy	80	93	110	5.7	6.6	7.9	17.7	31.6	27.3	22.8	5.6	2.2	1.3	*(30.0)*
ROTH MK	BAT (M)		12	38.12	10,884	45.60	Hold	675	565	631	236.4	197.8	220.8	(3.4)	16.1	19.3	17.3	98.9	5.7	17.1	*(14.5)*
CAB MK	Carlsberg		12	15.08	4,639	15.60	Hold	205	230	246	67.0	75.4	80.3	9.5	22.5	20.0	18.8	70.5	5.3	13.2	*8.3*
HEIM MK	Heineken Msia		12	18.60	5,619	18.30	Hold	285	287	302	94.3	95.0	99.8	2.9	19.7	19.6	18.6	71.4	5.4	13.3	*13.6*
PAD MK	Padini Holdings	*	6	5.40	3,553	4.75	Hold	147	167	183	22.4	25.4	27.8	11.5	24.2	21.3	19.4	25.1	1.9	4.9	*111.8*
NESZ MK	Nestle	*	12	99.72	23,384	86.70	Hold	598	639	674	255.2	272.3	287.2	6.1	39.1	36.6	34.7	102.8	2.9	35.7	*27.5*
QLG MK	QL Resources	*	3	4.27	6,928	3.60	Hold	187	203	228	11.6	12.5	14.1	10.3	36.9	34.2	30.3	11.7	1.3	3.5	*27.3*
OTB MK	OldTown	*	3	3.08	1,427	3.18	Buy	63	69	74	13.6	14.9	16.1	8.6	22.6	20.7	19.2	17.4	2.9	3.3	*61.3*
SEM MK	7 - Eleven		12	1.53	1,699	1.24	Sell	54	46	58	4.4	3.8	4.8	4.4	34.8	40.3	31.9	66.5	1.6	21.9	*7.7*
BISON MK	Bison		10	2.91	993	2.45	Hold	20	25	30	6.5	8.2	9.7	22.1	44.9	35.7	30.1	15.1	0.7	4.5	*74.3*
ALN MK	Atlan Holdings		2	4.26	1,081	6.00	Buy	40	39	41	15.9	15.5	16.0	0.3	26.8	27.5	26.6	12.5	3.8	3.3	*(12.9)*
BFD MK	Berjaya Food		4	1.69	635	1.95	Buy	20	23	28	5.2	6.0	7.4	18.6	32.3	28.3	22.9	6.9	2.3	1.6	*7.6*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 24 Nov 2017; Source: Maybank KE*

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Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY16A	CY17E	CY18E	EPS CY16A	CY17E	CY18E	CAGR 16-18 (%)	PER CY16A	PER CY17E	PER CY18E	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	*Px chg YTD (%)*
								|---------- MYR m ----------|			|--------- MYR sen --------|				|------------- (x) ------------|					
Gaming																					
BST MK	BToto		4	2.29	3,085	3.05	Buy	274	292	317	20.3	21.7	23.5	7.7	11.3	10.6	9.7	35.8	8.0	3.3	*(22.6)*
MAG MK	Magnum		12	1.73	2,462	2.00	Buy	189	210	220	13.3	14.8	15.4	7.6	13.0	11.7	11.2	8.6	6.1	1.0	*(20.3)*
GENT MK	Genting Bhd		12	8.71	33,320	12.25	Buy	1,525	2,020	2,569	40.8	48.6	60.9	22.2	21.3	17.9	14.3	6.8	2.1	0.9	*8.9*
GENM MK	Genting Msia		12	5.40	30,610	5.25	Hold	1,547	1,321	1,894	27.3	23.2	33.3	10.4	19.8	23.3	16.2	8.7	2.1	1.4	*17.9*
Glove																					
HART MK	Hartalega Hldgs	*	3	9.44	15,596	7.60	Hold	277	387	466	16.7	23.2	27.9	29.3	56.5	40.7	33.8	22.5	1.5	7.5	*95.4*
KRI MK	Kossan Rubber	*	12	7.63	4,879	9.10	Buy	171	198	243	26.7	31.0	37.9	19.1	28.6	24.6	20.1	18.0	2.0	3.6	*15.8*
TOPG MK	Top Glove	*	8	6.55	8,219	6.20	Hold	352	345	382	28.3	27.8	30.8	4.3	23.1	23.5	21.3	16.9	2.3	3.6	*22.4*
Healthcare																					
IHH MK	IHH	*	12	5.66	46,633	6.30	Buy	866	563	850	10.5	6.8	10.3	(1.0)	53.9	83.2	55.0	3.7	0.5	2.0	*(10.9)*
KPJ MK	KPJ Healthcare	*	12	0.93	3,902	1.05	Hold	125	140	150	2.9	3.3	3.5	9.9	31.9	28.0	26.4	8.6	1.9	2.3	*(11.5)*
Media																					
ASTRO MK	Astro Malaysia		1	2.60	13,556	2.55	Hold	663	768	666	12.7	14.7	12.7	-	20.5	17.7	20.5	78.6	4.1	13.2	*0.0*
MCIL MK	MCIL	*	3	0.38	633	0.39	Hold	90	59	56	5.3	3.6	3.3	(21.0)	7.0	10.6	11.3	7.0	6.2	0.8	*(37.5)*
MPR MK	Media Prima		12	0.59	649	0.59	Sell	39	(80)	(26)	3.5	(7.2)	(2.3)	n.a.	16.7	n.a.	n.a.	(2.2)	0.0	0.6	*(49.1)*
STAR MK	Star	*	12	1.44	1,063	1.47	Hold	70	33	48	9.5	4.5	6.5	(17.3)	15.2	32.0	22.2	5.0	10.4	1.1	*(35.7)*
Oil & Gas																					
AMRB MK	Alam Maritim	*	12	0.15	139	0.08	Sell	(133)	(31)	(8)	(14.4)	(3.4)	(0.8)	n.a.	n.a.	n.a.	n.a.	(1.1)	0.0	0.2	*(43.4)*
DLG MK	Dialog	*	6	2.42	13,645	2.63	Buy	295	341	399	5.6	6.4	7.5	15.9	43.6	38.1	32.5	11.5	1.3	3.8	*57.1*
WSC MK	Wah Seong	*	12	1.17	904	1.80	Buy	(23)	84	113	(3.0)	10.9	14.7	n.a.	n.a.	10.7	8.0	10.6	0.0	0.8	*45.3*
MMHE MK	MMHE	*	12	0.85	1,360	0.75	Hold	(1)	(25)	(25)	(0.1)	(1.5)	(1.6)	n.a.	n.a.	n.a.	n.a.	(1.1)	0.0	0.6	*(7.1)*
BAB MK	Bumi Armada		12	0.74	4,341	0.68	Hold	(83)	231	616	(1.4)	3.9	10.5	n.a.	n.a.	19.0	7.0	9.5	0.0	0.7	*22.3*
YNS MK	Yinson	*	1	3.81	4,146	4.45	Buy	216	362	343	20.2	34.0	32.2	26.1	18.8	11.2	11.8	10.4	2.6	1.2	*31.8*
BARAKAH MK	Barakah	*	12	0.32	264	0.13	Sell	10	(172)	(90)	1.2	(19.9)	(10.5)	n.a.	26.7	n.a.	n.a.	(55.9)	0.0	1.5	*(52.2)*
KNMG MK	KNMG	*	12	0.24	551	0.25	Hold	(262)	7	46	(12.3)	0.3	2.1	n.a.	n.a.	78.3	11.2	1.9	0.0	0.2	*(30.9)*
PPT MK	Perisai	*	12	0.04	44	0.24	Hold	1	(16)	4	0.1	(1.4)	0.3	73.2	35.0	n.a.	11.7	0.5	0.0	0.1	*(58.8)*
SAPE MK	Sapura Energy	*	1	0.82	4,884	1.20	Buy	494	(330)	(377)	8.3	(5.5)	(6.3)	n.a.	9.8	n.a.	n.a.	(3.1)	3.5	0.4	*(49.7)*
Plantation																					
GENP MK	Genting Plant	*	12	10.28	8,257	11.16	Hold	295	341	397	37.2	42.9	50.0	15.9	27.6	24.0	20.6	8.2	1.0	1.7	*(4.8)*
IOI MK	IOI Corp	*	6	4.47	28,089	5.03	Buy	987	1,057	1,156	15.5	16.8	18.4	8.8	28.8	26.6	24.4	13.9	2.1	3.4	*1.6*
KLK MK	KL Kepong	*	9	24.40	25,985	26.20	Hold	884	1,067	1,106	82.9	100.2	103.9	12.0	29.4	24.4	23.5	9.1	2.6	2.1	*1.7*
SDPL MK	Sime Plantation	*	6	5.38	36,589	5.63	Buy	951	1,202	1,287	14.0	17.7	19.0	16.3	38.4	30.4	28.4	8.8	1.8	2.5	*(3.8)*
BPLANT MK	Boustead Plant	*	12	1.63	2,608	1.78	Hold	82	117	101	5.1	7.3	6.3	11.1	32.0	22.3	25.9	4.0	3.8	1.0	*(1.8)*
SOP MK	SOP	*	12	4.17	2,380	5.85	Buy	130	222	235	29.5	39.0	41.2	18.2	14.1	10.7	10.1	10.5	2.0	1.1	*13.3*
TSH MK	TSH Resources	*	12	1.65	2,278	1.65	Hold	73	118	141	5.4	8.7	10.2	37.4	30.6	19.0	16.2	8.3	1.9	1.3	*(11.3)*
THP MK	TH Plantations	*	12	1.07	946	1.22	Hold	46	51	50	5.2	5.7	5.7	4.7	20.6	18.8	18.8	3.4	1.6	0.6	*(2.7)*
TAH MK	Ta Ann	*	12	3.59	1,596	3.86	Hold	126	114	117	28.2	25.7	26.4	(3.2)	12.7	14.0	13.6	8.2	3.3	1.1	*(9.1)*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 24 Nov 2017; Source: Maybank KE*

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Ticker	Company		FYE	Price 12 Dec	Market Cap	TP	Rec	Core Net Profit CY16A	CY17E	CY18E	EPS CY16A	CY17E	CY18E	CAGR 16-18	PER CY16A	PER CY17E	PER CY18E	ROE CY18E	Div Yld CY18E	PBV CY18E	*Px chg YTD*
				MYR	MYR m	MYR		MYR m			MYR sen			(%)	(x)			(%)	(%)	(x)	*(%)*
Non-Banking Finance																					
BURSA MK	Bursa Malaysia		12	9.70	5,214	10.30	Hold	194	221	229	36.2	41.3	42.6	8.5	26.8	23.5	22.8	28.1	4.2	6.4	*9.6*
MPHB MK	MPHB Capital		12	1.25	894	1.34	Hold	41	38	43	5.8	5.3	5.9	0.9	21.6	23.6	21.2	2.5	0.0	0.5	*0.0*
ALLZ MK	Allianz Malaysia		12	12.64	2,207	16.30	Buy	306	292	315	90.8	84.7	91.3	0.3	13.9	14.9	13.8	8.8	0.9	1.2	*23.9*
RCE MK	RCE Capital		3	1.50	512	1.95	Buy	65	82	88	21.0	22.6	23.7	6.2	7.1	6.7	6.3	15.5	4.5	1.0	*10.3*
Technology																					
INARI MK	Inari Amertron	*	6	3.34	6,822	3.38	Buy	181	244	311	8.9	11.7	14.9	29.8	37.7	28.5	22.4	30.7	3.3	6.9	*101.2*
VITRO MK	ViTrox Corp	*	12	5.43	2,553	4.68	Sell	61	82	98	13.0	17.4	20.8	26.6	41.8	31.2	26.1	24.7	1.0	6.5	*192.7*
GTB MK	Globetronics	*	12	6.14	1,752	5.50	Sell	26	46	86	9.0	16.0	30.1	82.9	68.2	38.4	20.4	29.0	3.6	5.8	*76.4*
VSI MK	V.S. Industries	*	7	3.03	3,835	3.55	Buy	152	204	267	9.6	12.9	16.9	32.2	31.4	23.5	18.0	21.5	2.8	3.8	*114.9*
Petrochemical																					
PCHEM MK	Petronas Chem	*	12	7.42	59,360	8.50	Buy	3,183	4,202	4,205	39.8	52.5	52.6	15.0	18.6	14.1	14.1	14.2	3.6	2.0	*6.3*
TTNP MK	Lotte Chemical	*	12	4.59	10,433	7.85	Buy	1,397	1,194	1,556	80.8	52.5	68.5	(7.9)	5.7	8.7	6.7	11.4	4.9	0.8	*(29.4)*
Property Dev																					
MSGB MK	Mah Sing	*	12	1.50	3,639	1.44	Hold	320	291	334	13.3	12.1	13.8	1.9	11.3	12.4	10.9	9.1	3.7	1.0	*4.9*
UEMS MK	UEM Sunrise	*	12	1.01	4,583	1.32	Buy	147	271	155	2.9	5.2	3.0	1.7	34.8	19.4	33.7	2.1	0.0	0.6	*(3.8)*
SWB MK	Sunway Berhad	*	12	1.60	7,837	1.84	Buy	547	544	662	12.6	11.2	13.6	3.9	12.7	14.3	11.8	8.1	3.8	0.9	*24.4*
ECW MK	Ecoworld	*	10	1.49	4,387	1.88	Buy	141	209	280	5.9	8.7	11.5	40.0	25.3	17.2	12.9	6.4	0.2	0.8	*11.2*
ECWI MK	Ecoworld Intl	*	10	1.00	2,400	1.12	Hold	(204)	(70)	242	(75.3)	(2.9)	10.1	n.a.	n.a.	n.a.	9.9	8.7	0.7	0.9	*(16.7)*
GLMC MK	Glomac	*	4	0.61	441	0.68	Hold	43	30	41	6.0	4.2	5.7	(2.5)	10.2	14.4	10.7	3.6	1.9	0.4	*(12.2)*
TILB MK	Tambun Indah	*	12	1.02	442	1.08	Hold	107	90	41	25.1	20.8	9.6	(38.2)	4.1	4.9	10.6	6.7	3.7	0.7	*(26.6)*
REITS																					
AXRB MK	Axis REIT	*	12	1.52	1,870	1.70	Hold	90	92	98	8.2	8.3	8.8	3.6	18.5	18.3	17.3	7.0	5.2	1.2	*(5.6)*
SALAM MK	Al-Salam REIT	*	12	0.98	568	1.10	Buy	36	37	38	6.2	6.4	6.6	3.2	15.8	15.3	14.8	6.2	5.7	0.9	*(8.4)*
KLCCSS MK	KLCC Prop	*	12	7.77	14,027	7.95	Hold	719	721	741	39.8	39.9	41.0	1.5	19.5	19.5	19.0	5.3	4.4	1.0	*(6.4)*
MQREIT MK	MRCB-Quill REIT		12	1.24	1,324	1.35	Buy	59	90	95	9.0	8.4	8.8	(1.1)	13.8	14.8	14.1	6.9	6.1	1.0	*3.3*
CMMT MK	CMMT		12	1.42	2,894	1.50	Hold	164	162	168	8.1	7.9	8.2	0.6	17.5	18.0	17.3	6.3	5.6	1.1	*(7.2)*
SREIT MK	Sunway REIT		6	1.69	4,977	1.90	Buy	267	284	302	9.1	9.7	10.2	6.2	18.7	17.5	16.6	7.2	5.4	1.2	*(1.7)*
IGBREIT MK	IGB REIT		12	1.57	5,516	1.85	Buy	278	291	304	8.0	8.6	8.7	4.3	19.6	18.3	18.0	8.1	5.6	1.5	*(2.5)*
PREIT MK	Pavilion REIT		12	1.61	4,878	1.70	Hold	235	227	263	7.8	7.5	8.1	1.9	20.6	21.5	19.9	5.6	4.8	1.1	*(15.3)*
YTLREIT MK	YTL REIT		6	1.20	2,045	1.40	Buy	111	124	139	7.4	7.3	8.2	5.3	16.2	16.6	14.6	5.6	6.3	0.8	*10.1*
Telecommunications																					
DIGI MK	DiGi.Com		12	4.84	37,631	4.80	Hold	1,633	1,513	1,559	21.0	19.5	20.0	(2.4)	23.0	24.8	24.2	300.1	4.1	69.1	*0.2*
T MK	Telekom	*	12	6.05	22,736	6.00	Hold	848	869	856	22.6	23.1	22.8	0.4	26.8	26.2	26.5	10.9	3.4	2.9	*1.7*
AXIATA MK	Axiata	*	12	5.37	48,587	5.50	Hold	1,418	1,301	1,462	16.0	14.5	16.3	0.9	33.6	37.0	32.9	6.0	2.6	2.0	*13.8*
MAXIS MK	Maxis	*	12	5.94	46,395	6.20	Hold	1,928	2,061	2,006	25.7	26.4	25.7	-	23.1	22.5	23.1	27.1	3.4	6.3	*(0.7)*
TDC MK	Time dotCom	*	12	9.10	5,291	8.40	Hold	247	163	201	42.8	28.1	34.7	(10.0)	21.3	32.4	26.2	8.6	1.0	2.3	*16.7*

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Ticker	Company		FYE	Price 12 Dec MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY16A	CY17E	CY18E	EPS CY16A	CY17E	CY18E	CAGR 16-18 (%)	PER CY16A (x)	PER CY17E (x)	PER CY18E (x)	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	*Px chg YTD (%)*
								|---------- MYR m ----------|			|--------- MYR sen --------|			|------------- (x) ------------|					
Transport																					
AIRA MK	AirAsia		12	3.19	10,661	3.90	Buy	1,518	1,521	1,303	54.5	45.5	39.0	(15.4)	5.9	7.0	8.2	18.1	2.5	1.5	*39.3*
AAX MK	AirAsia X	*	12	0.34	1,390	0.39	Hold	206	177	200	5.0	4.3	4.8	(2.0)	6.7	7.8	7.0	14.3	0.0	1.0	*(6.9)*
MAHB MK	MAHB		12	8.27	13,722	7.93	Hold	36	235	436	2.2	14.1	26.3	245.8	375.9	58.7	31.4	4.9	1.1	1.5	*36.5*
WPRTS MK	Westports	*	12	3.61	12,310	3.80	Hold	617	600	569	18.1	17.6	16.7	(3.9)	19.9	20.5	21.6	24.1	3.5	5.2	*(16.0)*
HALG MK	Harbour-Link	*	6	0.70	280	0.76	Hold	43	30	34	10.7	7.4	8.6	(10.3)	6.5	9.5	8.1	8.9	2.7	0.7	*(14.6)*
MISC MK	MISC	*	12	7.09	31,648	7.60	Hold	1,914	2,071	2,120	42.9	46.4	47.5	5.2	16.5	15.3	14.9	5.4	4.4	0.8	*(3.5)*
Utilities																					
TNB MK	Tenaga	*	12	15.48	87,709	16.20	Buy	7,449	6,990	7,648	134.1	123.5	135.1	0.4	11.5	12.5	11.5	12.3	4.4	1.4	*11.4*
PTG MK	Petronas Gas	*	12	16.06	31,778	23.00	Buy	1,747	1,682	1,951	88.3	85.0	98.6	5.7	18.2	18.9	16.3	14.9	4.3	2.4	*(24.6)*
GMB MK	Gas Msia	*	12	2.75	3,531	3.00	Hold	165	161	170	12.9	12.5	13.2	1.2	21.3	22.0	20.8	16.7	4.8	3.5	*11.3*
MLK MK	Malakoff Corp	*	12	0.89	4,425	1.25	Buy	356	334	303	7.1	6.7	6.1	(7.3)	12.5	13.2	14.5	5.0	5.6	0.7	*(35.4)*
YTLP MK	YTL Power		6	1.19	9,433	1.34	Hold	774	718	801	10.0	9.2	10.3	1.5	12.0	12.9	11.6	5.8	4.2	0.7	*(18.5)*
Diversified																					
CSCS MK	CSC Steel	*	12	1.54	569	2.02	Buy	69	61	71	18.6	16.6	19.2	1.6	8.3	9.3	8.0	8.1	6.2	0.6	*(28.4)*
TOMY MK	Tomypak Hldgs	*	12	0.98	411	1.05	Buy	20	19	26	5.7	4.5	6.4	6.0	17.2	21.8	15.3	12.0	2.6	1.8	*49.4*
AF MK	Asia File Corp	*	3	3.00	581	3.19	Hold	59	54	53	30.5	28.0	27.6	(5.0)	9.8	10.7	10.9	8.8	4.6	1.0	*(14.5)*

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SECTOR OUTLOOK

AUTOMOTIVE: If not this sector, which?

POSITIVE (unchanged)

Maintain POSITIVE. We are thrilled on the possibility that the overall sector would finally see a strong earnings rebound in 2018 (after two years of double-digit contraction), boosted by MYR's sustained strength against USD and JPY in the last three months; we project a 99% YoY jump in cumulative earnings for net USD/JPY importers within our auto universe (excluding SDB and UMWH) for 2018. Furthermore, for our preferred auto stocks (i.e. BAuto, MBM, Pecca), margins could be further enhanced from YoY volume growth expectation backed by popular new model launches; both Perodua *Myvi* and Mazda *CX-5* models are premium range models (higher ASPs) which are also the respective marque's bestsellers. Our Top BUY for 2018 is BAuto.

2017: Bottomed out. Uninspiring TIV recovery of just 1.4% YoY in 10M17 amid a low base (2016 TIV: -13% YoY) and further weakness in MYR (USDMYR: 2017 YTD avg. of 4.31 vs. 2016 avg. of 4.14), resulted in another 29% fall in 2017E cumulative earnings (-45% YoY in 2016) for auto players within our coverage (excluding SDB). Within the pie, the national marques, led by Perodua, have been gaining market share for the third consecutive year (10M17: +0.3ppts YoY), from popular demand for its recent launches and further down-trading by consumers in light of higher cost of living. At the non-national segment, Honda remains undisputed with six consecutive years of market share gain (10M17: +3.2ppts YoY), at the expense of Nissan (10M17: -2.2ppts YoY) and Mazda (10M17: -0.7ppts YoY) in 2017.

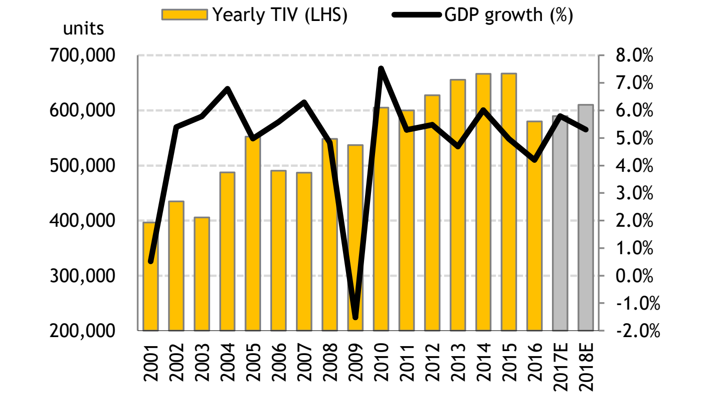
2018: If not now, when? While we are not overly upbeat on TIV growth, projecting just a +3% YoY to 610k units in 2018, we are bullish on auto earnings recovery, premised on MYR's sustained strength against USD and JPY (currently USD1/MYR4.08 and JPY100/MYR3.63). From the peak in 1Q17, averaging USD1/MYR4.45 and JPY100/MYR3.91, the MYR has been able to hold its strength in the last three months of 2017, gaining 6% and 5% against USD and JPY respectively. This will translate to much better margins for the net USD and JPY importers in the next three to six months, depending on the extent of each player's forward purchasing policy. Should MYR sustain its strength further or gain further against USD and JPY (below our estimates of USD1/MYR4.20 and JPY100/MYR3.70 avg.), there is further upside bias in our auto earnings forecasts.

Stock picks. We take the view that the sector has bottomed, in both TIV and earnings, and is en route to a cyclical recovery. With improving fundamentals for the sector, our BUY picks, sequenced in order of earnings recovery, are BAuto (growth), MBM & Pecca (Perodua exposure) and TCM (trough PBV valuations). BAuto is our Top BUY for its stronger growth potential, premised on (i) volume growth from the new *CX-5* model and (ii) margin recovery from a stronger MYR against JPY.

We are also positive on Perodua as it continues to refresh its model line-up (for the third time in 3 years) in end-2017 with the introduction of the all-new Myvi. In terms of exposure to Perodua, we believe that MBM is the largest with: (i) Perodua being a 22.6%-owned associate which accounts for ~90% of MBM's bottomline, we estimate, (ii) ~10-11% of Perodua cars sold in Malaysia are via MBM's DMM Sales (DMMS), (iii) auto parts supplies (i.e. seatbelts, airbags and wheels) via Hirotako and OMI, both under MBM. Meanwhile, Pecca benefits as the sole supplier of leather car seat covers to Perodua.

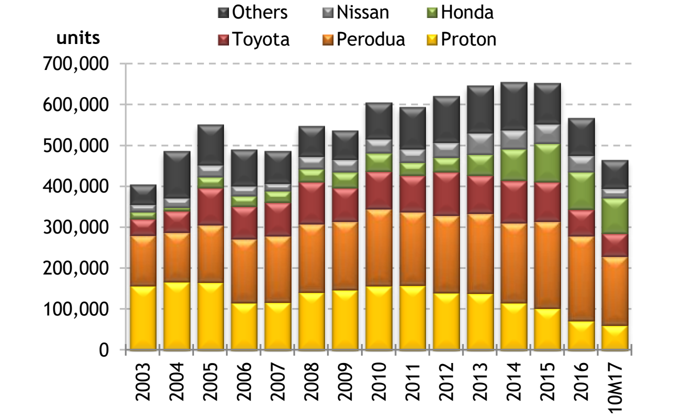
Risks. A weaker MYR was the culprit in 2017's severe margin pressure on the auto players. For 2018, factors that could blight the outlook for autos are: (i) margin pressure from the reversal of MYR's strength, and (ii) weaker demand from any tightening of hire-purchase financing guidelines to address bank's non-performing loans issues.

Total industry volume (TIV) vs GDP Growth



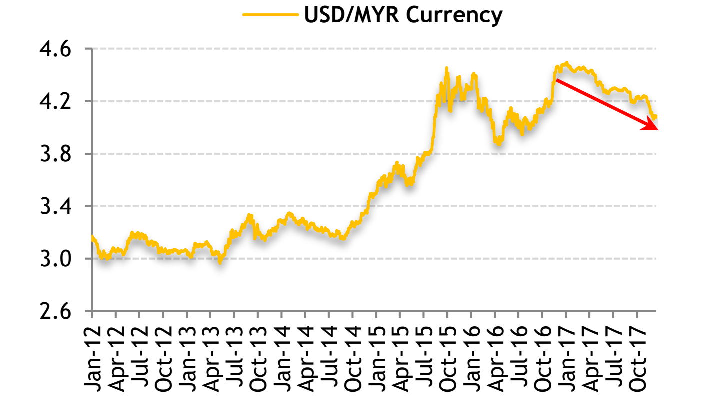
Source: MAA, Maybank Kim Eng

Market share breakdown by major brands



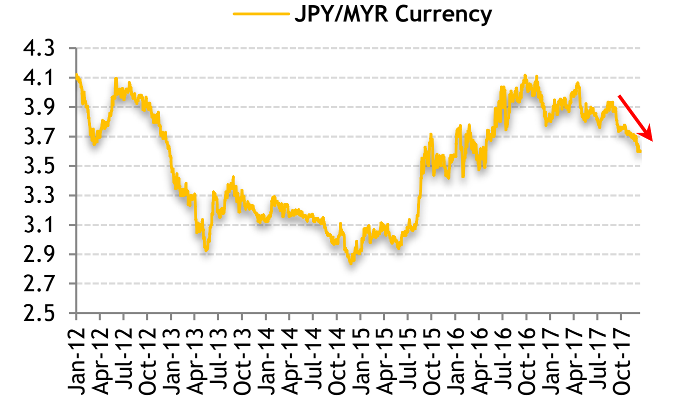
Source: MAA, Maybank Kim Eng

USD-MYR daily movement



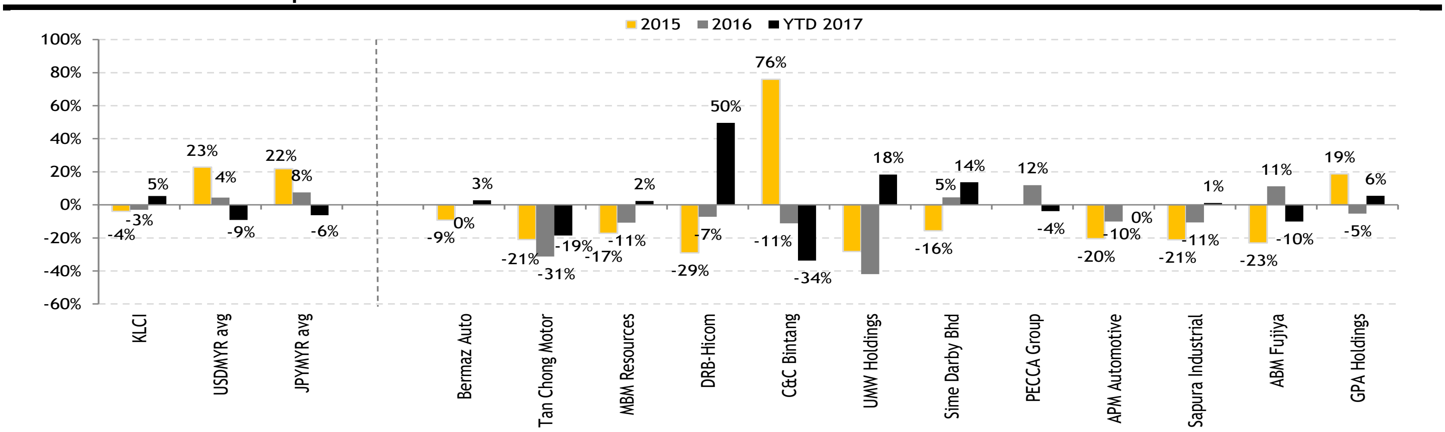
Source: Bloomberg, Maybank Kim Eng

JPY-MYR daily movement



Source: Bloomberg, Maybank Kim Eng

Automotive PLCs' share price movement vs KLCI Index



Source: Bloomberg, Maybank Kim Eng

Automotive sector - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Bermaz Auto	Buy	2.19	2,528	2.48	17.4	19.7	12.8	5.5	4.8	27.1	35.7	4.7
MBM Resources	Buy	2.19	856	2.75	8.4	10.4	8.0	0.5	0.5	4.9	6.1	2.7
Tan Chong Motor	Buy	1.45	946	2.15	n.a.	n.a.	n.a.	0.3	0.3	(2.8)	(0.9)	0.7
Sime Darby Bhd	Hold	2.10	14,282	2.10	15.8	17.4	18.9	0.6	1.1	3.3	5.7	3.4
Pecca Group	Buy	1.53	283	1.60	18.3	16.4	13.7	1.7	1.6	10.4	11.7	3.9
Simple average					**12.0**	**12.8**	**10.7**	**1.7**	**1.7**	**8.6**	**11.7**	**3.1**

Source: Bloomberg, Maybank Kim Eng

AVIATION: Had a good run

NEUTRAL (unchanged)

Maintain NEUTRAL. We believe we are at the tail-end of the recovery cycle and onwards to the normal growth phase. Higher unit revenues and lower costs will be the key drivers to earnings growth and we see some pressure on both fronts. Cost of compliance will become more stringent as MAVCOM implements a service level standard for all the aviation players. AirAsia is our sole BUY for its still low valuation at 8.2x 2018 PER (below the mid-point valuation of the typical airline cycle of 6-15x), and special dividend prospect. MAHB and AirAsia X are HOLDs.

2017: Outperformed KLCI. Both MAHB and AirAsia's strong share price gains lifted the sector performance whereas AirAsia X underperformed. MAHB and AirAsia's outperformances were driven by solid cashflow (MAHB) and earnings (AirAsia) on the back of robust traffic growth (+8.7% YoY 9M17 passengers volume for MAHB, +9.5% YoY 9M17 passengers carried for AirAsia). On the flipside, AirAsia X's performance lagged due to weak financial performances and rising cost, despite strong growth in passengers carried (+33.6% YoY 9M17).

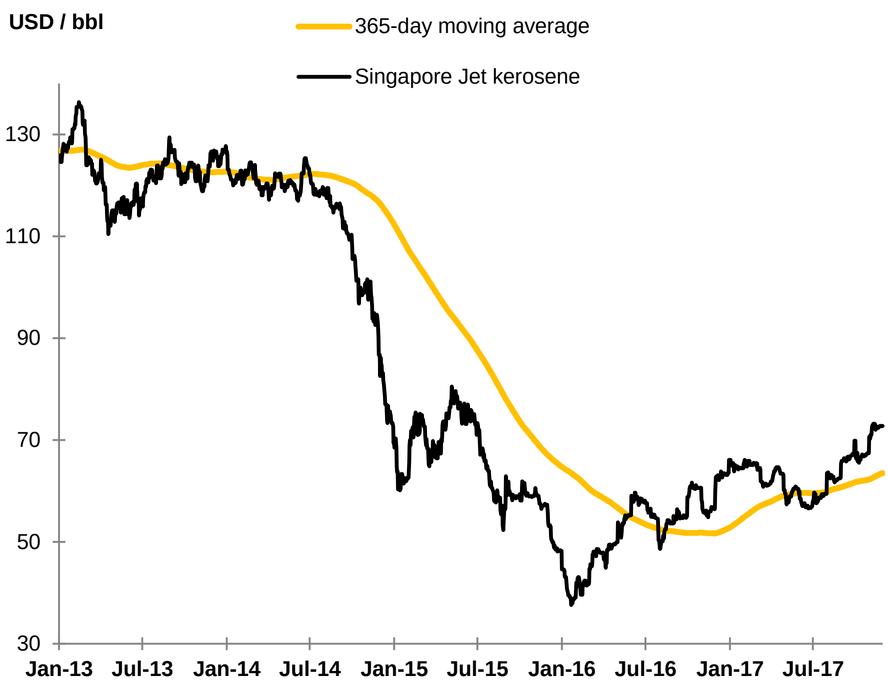
Traffic should resume to normal levels in 2018. Passenger traffic growth YoY in 11M17 was at 9.2% at the Malaysia airports, which was way above historical CAGR of 6.3%. However we believe this is part of the normal Malaysian growth cycle whereby growth rate accelerates for 2-3 years and decelerates in the following year. We think traffic growth in 2018 will decelerate to 6-8% premised on the historical trend and the actual committed aircraft deployment by local carriers. Only AirAsia is deploying substantial number of new aircraft in 2018 with a planned 9. Malaysia Airlines is deploying aircraft purely on a replacement basis while AirAsia X and Malindo Air's deployment will remain rather flattish.

The MAVCOM poser. MAVCOM is becoming more stringent and is on path to adopt a service level standard for the industry, namely to airports and soon to follow airlines. Failure to comply will result in a financial penalty, whereby a portion of revenue will be forfeited. The enforcement to airports will commence in Jan 2018, and the financial penalty will likely be applied at the end of 2018 post the initial trial period. We believe the industry will struggle to comply and needs to spend, to bring up their service level.

Stock picks. AirAsia is our sole BUY with TP of MYR3.90 (based on 10x 2018 PER) despite expectation of 14% EPS contraction. The potential of special dividends remains as AirAsia has been monetizing its ancillary assets. We are neutral on MAHB as all the positives have been priced in whilst the implications of MAVCOM service level standard has not been quantified. There is a risk that this will bring on negative sentiment on MAHB as some of its airports are overfull. AirAsia X, we expect, will continue to struggle with regional competition and not make positive traction on new route openings. We rate it at a HOLD as the share price has de-rated and we think it has aptly priced in all the negatives.

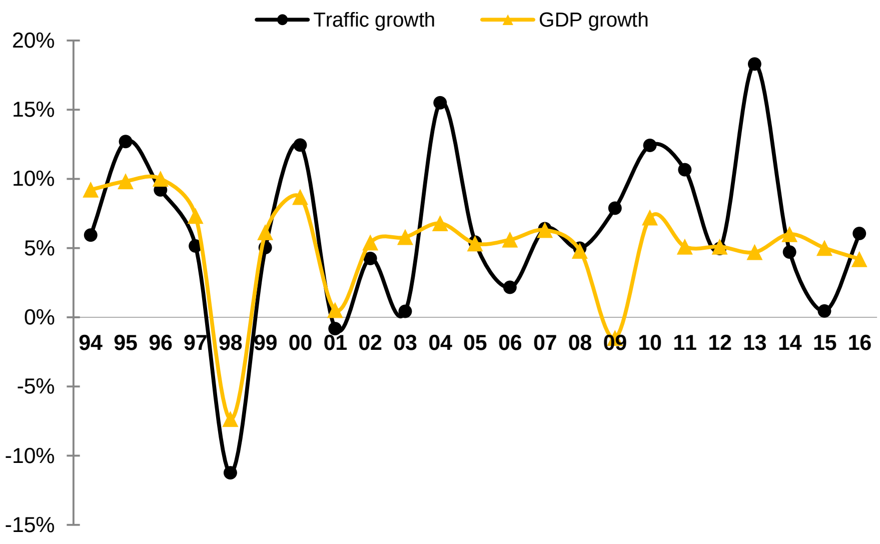
Risks to our call. (i) Fuel price could suddenly spike and change the industry outlook as AirAsia and AirAsia X are both lightly hedged at ~15% in 2018; (ii) MYR weakness against USD would raise operating costs and taper consumer demand. Our base case imputes USDMYR avg. of 4.04 and jet fuel price avg. of USD71/bbl; (iii) furthermore, should any airline decide to change its fleet deployment plans and take in more aircraft, this could break our higher load and yield thesis.

Singapore Jet Kerosene



Source: Bloomberg, Maybank Kim Eng

Malaysia air travel and GDP growth



Source: MAHB, Bank Negara Malaysia, MMC, Maybank KE

Aviation sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
AirAsia	Buy	3.19	10,660.6	3.90	5.9	7.0	8.2	1.7	1.5	24.3	18.1	2.5
AirAsia X	Hold	0.34	1,389.6	0.39	6.7	7.8	7.0	1.2	1.0	14.8	14.3	0.0
MAHB	Hold	8.27	13,721.5	7.93	375.9	58.7	31.4	1.6	1.5	2.7	4.9	1.1
Simple average					**129.5**	**24.5**	**15.5**	**1.5**	**1.3**	**13.9**	**12.4**	**1.2**

Source: Maybank KE

BANKS: Watching credit cost trends

NEUTRAL (unchanged)

Maintain NEUTRAL. 9M17 core net profit growth has been respectable and we project aggregate 2017 earnings growth of 13.7% for the banks in our coverage, aided in large part by the expansion in NIMs. This growth is projected to taper off to 5.8% in 2018 amid flat NIMs and stable credit costs. Upside risks to earnings would be if NIMs or credit costs surprise positively. Amid stable ROEs of about 10%, we maintain our Neutral call on the sector, with BUYs on CIMB, HLFG and BIMB.

2017: A decent year todate. Having seen flat earnings over the past three years, 2017 has provided much relief to the banks. 3Q17 saw the results of most banks coming in within expectations, with cumulative core net profit up 13% YoY in 3Q17 and 15% YoY in 9M17. 3Q17 operating profit rose 11% YoY (9M17: +6.7% YoY) as net interest margin (NIM) was 8bps higher YoY (9M17: +10bps) while gross loans expanded 5% YoY. Meanwhile operating expenses were well under control while credit costs were just a marginal 3% higher YoY in 3Q17 (9M17: -3%).

2018: Loan growth of 4.5%. Annualized industry loan growth was just 3.2% end-Oct 2017, with an expansion of 4.5% for household (HH) loans, which offset marginal growth of just 1.5% for non-HH loans. Amid ongoing sluggishness in corporate lending, we are projecting 2017 industry loan growth at 4.1% but expect 2018 domestic loan growth to expand at a faster rate of 4.5% emanating from higher consumer loan growth, which has been ticking up over the past few months.

2018: NIMs to remain stable. NIMs have undoubtedly held up better than expected and are up 10bps YoY in 9M17 amid strong CASA growth and active deposit composition management. Deposit competition has picked up in recent months but our forecasts assume that NIMs still come in higher YoY for most banks with an average 5bps expansion for 2017, and to remain stable into 2018. Providing support to NIMs is our in-house expectation of a 25bps hike in the OPR around May 2018.

2018: Projecting an uptick in GIL ratios. The industry's absolute gross impaired loans (GIL) rose just 4.8% YoY in Oct 2017 and the overall GIL ratio was marginally lower at 1.65% in October versus 1.67% in September. Absolute NPL formation has been slowing across all major consumer segments, which is positive. We have nevertheless factored in an uptick in GIL ratios over the next two years, amid prevailing uncertainties on the global economic front. Household asset quality is likely to see some mild deterioration amid high living costs, and we continue to keep a watchful eye still on the O&G and non-residential property loan books.

5.8% core net profit growth in 2018. We project an aggregate 2017 operating profit growth of 6.7% and core net profit growth of 13.7%. For 2018, we expect operating profit growth to moderate to 5.4% primarily on flat NIMs and credit costs, while core net profit growth is estimated to be 5.8%.

ROEs to remain stable. We expect ROEs to remain stable, averaging 10.3% in 2017 and 2018. The two banks for which we expect to see an expansion in ROEs into 2018 would be CIMB and HL Bank. In the case of CIMB, we are expecting its ROE to expand from 9.6% in 2017 to 10% in 2018, while for HL Bank, we project a higher ROE of 10.6% in FY18 versus 9.8% in FY17.

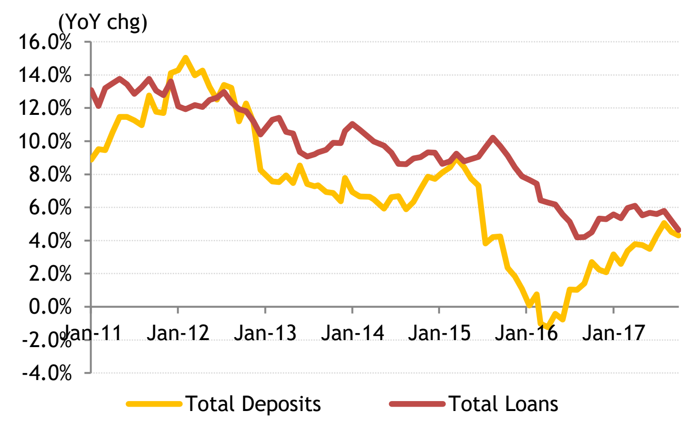
MFRS9 impact could be manageable. Banks that have disclosed the possible Day 1 MFRS9 impact to their capital ratios, point to a 20-90bp impact on their CET1 ratios, which is manageable and we do not anticipate any capital raising exercises in the near term. What is not clear is the impact to credit costs moving forward, but two banks have indicated little change to their forward guidance of stable credit costs into 2018, which is of some comfort.

Impact of a 25bps rise in the OPR. We estimate the positive impact of a +25bps rise in the OPR on banks' earnings to be marginal (+2.7% increase in aggregate net profit) with NIMs expected to normalize within 3-6 months post rate hike, as deposit rates adjust and competition, particularly for deposits, persists. Within our coverage, Alliance Bank would benefit the most (+5.1% increase in net profit) while Hong Long Bank would benefit the least (+0.8%) in the upcoming OPR hike, taking into account the structural composition of their loans (fixed versus floating rate) and deposits (CASA versus fixed deposits).

Stock picks. We have a BUY call on CIMB, HLFG and BIMB. Valuations are attractive amid ROE expansion for CIMB, while dividend yields are decent. HLFG, meanwhile, is a cheaper entry into HL Bank and at current prices, investors are getting its insurance divisions for free. BIMB, meanwhile continues to provide exposure to a well-managed standalone Islamic bank and takaful company.

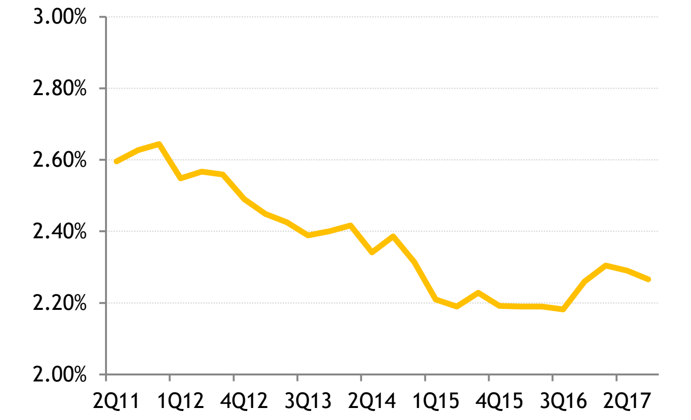
Risks to our call include: (i) slower-than-expected economic growth, (ii) further tightening of liquidity in the banking system from increased capital outflows, and (iii) commodity price weaknesses which would raise the prospect of asset quality issues in the related sectors such as O&G.

Loan growth vs deposit growth (Jan 2011 - Oct 2017)



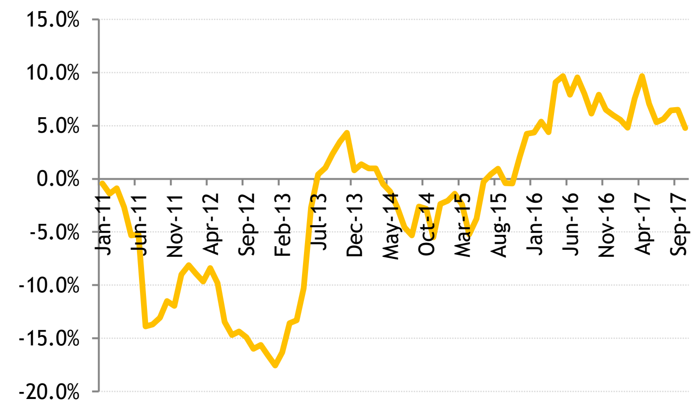
Source: Bank Negara Malaysia

Quarterly NIM trends (2Q11 - 3Q17)



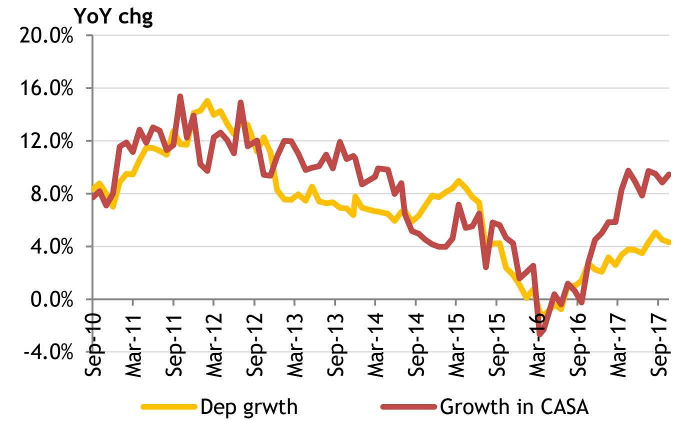
Source: Companies, Maybank KE

% YoY chg in absolute industry NPLs (Jan 2011 - Oct 2017)



Source: Bank Negara Malaysia

Industry deposit and CASA growth (Sep 2010 - Oct 2017)



Source: Bank Negara Malaysia

Banking sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Maybank	NR	9.25	99,577	NR	15.4	13.4	13.3	1.3	1.3	9.8	9.8	6.2
CIMB	Buy	6.18	57,014	6.95	15.7	12.3	11.3	1.2	1.1	9.4	9.7	4.5
Public Bank	Hold	20.20	78,002	20.00	15.2	14.5	14.2	2.1	1.9	14.3	13.5	3.2
HL Bank	Hold	16.60	33,957	15.90	15.5	14.9	13.8	1.6	1.5	9.9	10.5	3.1
AMMB	Hold	4.17	12,569	4.50	10.0	9.3	8.6	0.7	0.7	7.9	8.1	4.6
RHB Bank	Hold	4.73	18,968	5.40	10.8	8.9	8.4	0.8	0.7	8.6	8.7	3.6
Alliance Bank	Hold	4.09	6,332	4.00	12.1	12.1	11.8	1.2	1.1	9.7	9.5	4.0
HLFG	Buy	17.18	19,675	18.40	12.5	11.7	11.0	1.2	1.2	10.1	10.5	2.6
BIMB	Buy	4.40	7,206	5.10	12.2	12.1	11.7	2.3	2.1	17.1	16.1	3.4
Simple average					**13.3**	**12.2**	**11.6**	**1.4**	**1.3**	**10.8**	**10.7**	**3.9**

Source: Maybank KE, Bloomberg consesus for Maybank

BUILDING MATERIAL: Positive demand outlook

NEUTRAL (unchanged)

Fairly valued. Though the domestic demand outlook is positive for the building material sector, we see supply pressure for the long steel sector, which would curb any potential margin expansion. As for the cement sector, we think the gradual recovery in demand volume and ASPs in 2018 would offset the higher coal cost and lead to better earnings in 2018. We have HOLD calls on both AJR and LMC as they are already trading at our fair values.

2017: Outperformed KLCI. In 2017, both steel and cement stocks outperformed the KLCI substantially. Demand for building materials remained subdued due to the slow construction start of mega infrastructure projects and a weaker property market. However, earnings of steel stocks rebounded on ASP rallies, a result of capacity cut in China. Additionally, Malaysia has also implemented the definitive safeguard duties of 11-14% (on a declining rate for Apr 2017-2020) for the import of steel bars and wire rods. Meanwhile, the earnings of cement players remained depressed despite several net ASP hike attempts by most cement players.

2018: Positive demand outlook. We believe demand for building materials could pick up as the construction of mega infrastructure projects accelerate (i.e. KVMRT 2, KVLRT 3, KL 118, ECRL). Additionally, the strong demand for affordable housing may also offset the weak demand for the high-end property projects.

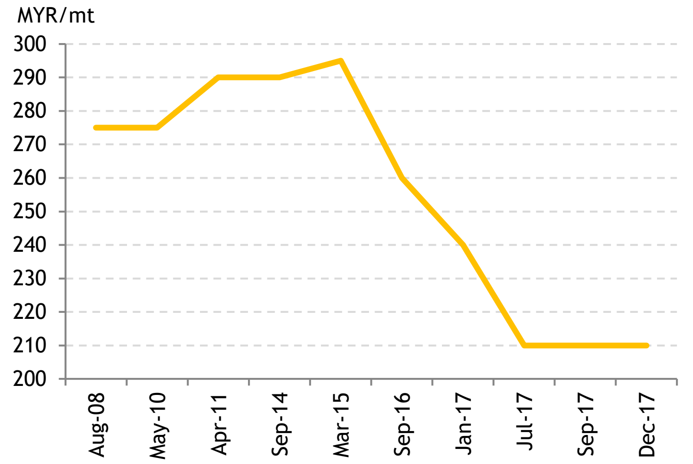
Steel: Domestic supply risk. While demand outlook is positive in 2018, we note that new local supply may limit margin expansion of the steel players: (i) Lion Industries (LIB MK; Not rated) is slowly ramping up its plant in Johor (0.75mmt bars/rods capacity) since Aug 2017 (utilization around 30% now) and is also looking to restart its plant at Banting (0.5mmt bars/rods capacity); (ii) China-based Alliance Steel plant at Kuantan (1.5mmt bars/rods capacity) targets to start production in 1Q18 and may supply 5% of its capacity to the domestic market (95% for export). Hence, the additional supply from Lion Industries and Alliance Steel (5% of capacity) could amount to around 1.1mmt of bars/rods (or c.18% of 2017E demand of 6mmt).

Cement: Expect volume and ASP recovery. The intense cement ASP competition could ease in 2018 on our expectation of a better domestic demand (2017E: -8%) and zero capacity growth. Additionally, given the protracted depressed earnings in 2016-17 and rising coal cost, we think cement players will continue to attempt net ASP hikes in 2018. We estimate that the net ASP has fallen by c.30% from its peak in 1Q15, hence, there is ample room to raise the net ASP.

Stock picks. We have a HOLD call on AJR with a TP of MYR3.85 (10x PER on 30% diluted 2018 EPS; mean) as we project an anemic EPS growth of 2% in FY18 with its plant running at close to full utilization level presently. As for LMC, we have a HOLD call with a TP of MYR6.90 (based on 1.9x FY18 P/B; -1SD to mean). Though we expect LMC to turn profitable in FY18, its FY18 PER of 54x (mean: 26x) is steep and would limit the share price upside.

Risks to our call. (i) Slower-than-expected progress of infrastructure jobs; (ii) weaker-than-expected property market; and (ii) sharp run-up in raw material and fuel costs.

Cement: Net bulk cement ASP in Peninsular Malaysia

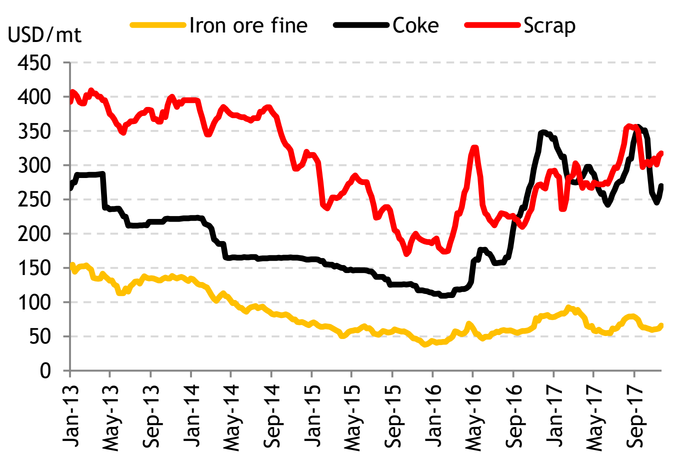


Source: Various, Maybank KE

Cement: Coal price on an uptrend

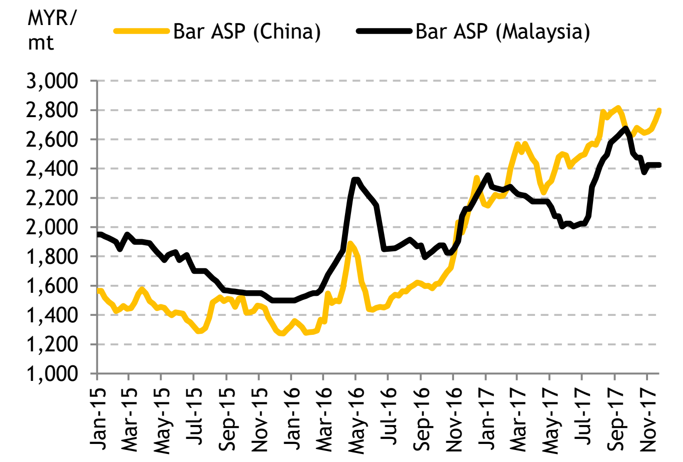
Source: Bloomberg, Maybank KE

Steel: Input prices on an upward trend



Source: Bloomberg, Maybank KE

Steel: Malaysia's steel bar ASP at 13% discount to China



Source: Bloomberg, MITI

Building Materials sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Ann Joo	Hold	3.72	1,911.3	3.85	11.7	9.9	9.7	1.6	1.4	17.0	15.7	4.4
Lafarge	Hold	6.15	5,225.6	6.90	61.5	n.a.	53.9	1.8	1.8	(6.9)	3.4	1.7
Simple average					**36.6**	**9.9**	**31.8**	**1.7**	**1.6**	**5.0**	**9.5**	**3.0**

Source: Maybank KE

CONSTRUCTION: Keeping it 'rail'

POSITIVE (unchanged)

Maintain POSITIVE. Rail infrastructure work awards will be the key feature in 2018, from mega projects such as the ECRL, KL-SG HSR and KVMRT 3. Others like the Pan Borneo Sabah Highway (PBSaH), WCE and KVLRT 3 could also see awards of their remaining work packages, adding to the prospects for sizeable construction orderbook replenishment. With orderbooks already at record levels, earnings delivery would be another key focus in 2018. Stronger-than-expected earnings could be a rerating catalyst for the sector. Our top BUYs are GAM and CMS.

2017: Value of contract awards normalized. After a phenomenal year of total job awards in 2016 (MYR229b; *source Construction Industry Development Board* (CIDB)), supported by the record high infrastructure awards of MYR137b (+371% YoY), the value of job awards is expected to taper in 2017. Based on the latest statistics by CIDB, total job awards in 1H17 was MYR40b, of which infrastructure contributed ~MYR10b. We expect infrastructure job awards in 2017 to normalize at the MYR25-30b range, supported by awards (in 2H17) from KVLRT 3 (c.MYR9b), PBSaH (c.MYR13b), Baleh Dam (c.MYR9b) and the remaining station packages for KVMRT 2.

2018: The rail connection. Into 2018, major rail infrastructure development would continue to be in the limelight, supported by potential job awards from the i) KL-SG High Speed Rail (e.MYR60b), ii) KVMRT 3 (e.MYR40b), iii) subcontract works from the ECRL (e.MYR55b) and Gemas-JB double track rail (e.MYR9b) and iv) remaining portions of the KVLRT 3. The Johor-SG RTS Link could also begin contract awards in 2H18. Other contract awards could come from i) remaining packages of the PBSaH and WCE, ii) transit-oriented development (TOD) contracts, iii) works from RAPID and iv) building jobs from TRX. *(See overleaf for list of projects and updates)*

2018: Showtime for earnings. Rollouts of major infrastructure projects have provided the euphoria of continuous orderbook replenishment. Construction stocks within our coverage have outstanding orderbook cover ratios of 1.2x–6.2x, providing the platform for earnings growth. That said, execution remains key as orderbook wins in 2016/2017 have yet to translate meaningfully into earnings. We expect companies with exposure to KVMRT 2, KLVRT 3 and the Pan Borneo Sarawak Highway to report relatively stronger earnings in 2018 as work accelerates.

2018: The China factor. Chinese contractors would continue to feature in major infrastructure projects in Malaysia, either directly or via joint ventures (JVs) with Malaysian contractors. With the ability to provide attractive financing packages, we could potentially see Chinese contractors being involved in major rail developments such as the KVMRT 3 and KL-SG HSR. Nonetheless, we still expect local content requirement for the major infrastructure projects to be preserved (e.30% rule of thumb), which would benefit the Malaysian contractors.

Stock picks. Our sector top BUY pick for 2018 is Gamuda as we do expect them to be able to leverage on their experience in rail development to clinch additional jobs from the mega rail projects such as the ECRL, KL-SG HSR and KVMRT 3. Other BUYs are IJM and Sunway Construction. Kimlun's precast division also stands to benefit from the KL-SG HSR, supported by their track record in supplying to KVMRT projects and the MRT expansion in Singapore. For exposure to Sarawak, we like CMS for their status as the sole cement and major building materials supplier within the state which is a beneficiary of the Pan Borneo Sarawak.

Risks. (i) Rising raw material and wages which would cut into the margins for jobs already secured; (ii) Availability of funding for the key infrastructure projects; (iii) Delay in job awards and job starts.

Potential construction job awards

	Total (MYR b)	Awarded (MYR b)	Remaining (MYR b)	
Public transportation				
KVMRT 2	32.0	31.0	1.0	• Majority of the packages (MYR31b) consisting of viaducts, system works and station packages have been awarded out. • Works have started; cumulative progress at 13% as of end-Oct 2017 with first tunnel drive for underground works expected in Feb 2018.
KVLRT 3	9.0	8.5	0.5	• Contractors' pre-qualification completed in May 2016. • A total of MYR8.5b of jobs have been awarded, which includes 6 main viaduct packages, 2 depot works packages and the rolling stocks. • Construction scheduled to complete in Feb 2021. • Total project value could exceed the initial budget of MYR9b.
KVMRT 3	40.0	-	40.0	• The line is expected to stretch 40km over 26 stations. Majority of the alignment would be underground (32km). • Tender briefing for the turnkey contractor role was held on 15 Nov 2017, with the deadline for submission on 29 Dec 2017. The turnkey contractor is expected to provide financing for the project. • Project details are being finalized with Cabinet approval expected by mid-2018. • Construction roll-out by end-2018/early-2019 with expected completion by 2025.
Electrified double track rail (Gemas-JB)	8.9	-	8.9	• Consortium of CRCC-CREC-CCCC appointed main contractor in October 2016. • Unverified newsflow that a major conglomerate has been awarded a substantial sub-work package by CRCC-CREC-CCCC. • Job awards for the other sub-contractors are expected to be awarded soon.
707 km East Coast Rail Line	55.0	-	55.0	• EPCC contract awarded to China Communications Construction Company Ltd in Nov 2016, while financing is a soft loan from Export-Import (EXIM) Bank of China. • Ground-breaking held in Aug 2017, with ~30% of contract value expected to be apportioned to local contractors. • Physical works (earthworks) are expected to start in January 2018 with commercial operations slated to start in July 2024.
KL-Spore High Speed Rail (350km)	60.0	-	60.0	• Joint development partner contract was awarded to the consortium of WSP Engineering Malaysia, Mott Macdonald Malaysia, Ernst & Young Advisory Service. • MyHSR Corp and the LTA of Singapore held an industry briefing on 5 July 2017 on tenders for the AssetsCo, where tenders are expected to be called by end-2017. • The Malaysian portion of civil works will be undertaken through a PDP model. The tenders are on-going and will close on 30 Jan 2018 • Construction to start in 2019 and complete by 2026.
Penang Transport Master Plan (includes LRT and highways)	27.0	-	27.0	• PDP awarded in Aug 2015. • The railway scheme for Penang LRT has been submitted to SPAD in Mar 2016. • The environmental and social impact assessment for reclamation works report has been submitted to the DoE, with public displays on-going.
BRT Kota Kinabalu	-	-	-	• Under study.
Johor-SG RTS Link	-	-	-	• Prasarana-SMRT MoU signed on 25 Sep 2017. Tenders to be out by end-2017. • Contract award expected by 2H18, construction in 2019, completion in 2024.
Highways				
West Coast Expressway (WCE) (remaining)	5.0	2.8	2.2	• Construction works have started. Overall progress is at 35% as of July 2017. • Tenders for the remaining packages are ongoing.
Pan-Borneo Sarawak Highway	16.1	12.1	4.0	• PDP awarded in 2015. • 11 main civil work packages have been awarded. • Tenders for remaining civil works packages are ongoing.
Pan-Borneo Sabah Highway	12.8	3.2	9.6	• PDP awarded in Apr 2016. • 7 out of 35 packages in Phase 1 have been awarded to local Sabah contractors with an estimated value of MYR3.2b. 5 of the packages are under construction. • 10 packages have been submitted to the MoF for approval while the remaining 18 packages will be offered for tender in stages from Jan to Mar 2018.
Central Spine Road	4.0	-	4.0	• A sum of MYR230m was allocated in the National Budget 2018 for construction works, among others, the stretch from Raub to Bentong (both in Pahang), and Gua Musang (Kelantan) to Kampung Relong (Pahang).

Continued

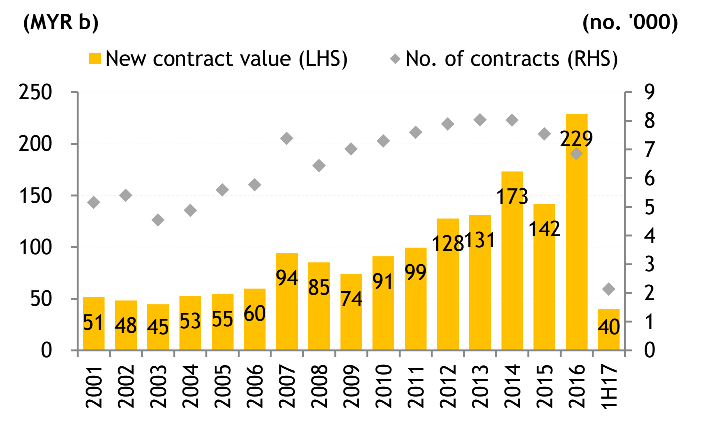
Others				
Baleh Hydroelectric Project	8.0	3.0	5.0	• Civil works contract worth MYR3b awarded to JV of China Gezhouba Group Company Ltd and Untang Jaya Sdn Bhd in July 2017. • Works expected to start in 2018 with a targeted completion in 2025.
Total	**277.8**	**60.6**	**217.2**	

Upcoming major property developments

Property development	**GDV (MYR b)**	
KL118 Tower (Warisan Merdeka)	5.0	• Samsung-UEM won the MYR2.1b superstructure works and have started construction works. • First phase of development, which consists of piling and foundation works, have been completed. • Expected completion in 2020. PNB will occupy 60% of the office space upon completion.
Bukit Bintang City Centre	8.7	• EPF, Uda Land and Eco World to jointly develop the land under BBCC Development. • BBCC Development has entered into a MoU to joint develop and operate a retail mall with Mitsui Fudosan Asia. • Construction has started in 2H17 with expected completion in 2025.
Tun Razak Exchange (TRX)	27.0	• Signed agreement with Lend Lease to develop mixed commercial development, Indonesia's Mulia Group to develop the Signature Tower, LTH and WCT for a residential plot, Veolia Water Technologies to provide water recycling and treatment plant and Affin Bank for commercial development. • HSBC has signed an agreement with TRX City Sdn Bhd to build its MYR1.1b headquarters. • IJM is constructing a 27-storey tower which will be 84% tenanted by Prudential Assurance (locked-in).
Kwasa Damansara Township	50.0	• PDP for Kwasa Damansara Township infrastructure works worth MYR2.2b awarded to MRCB (PDP fees is 5% of MYR2.2b) in May 2016. • Land tenders have been progressing.
Bandar Malaysia	150	• IWH-CREC signed a SSA to acquire a 60% stake in Dec 2015. • CREC committed a USD2b investment to build its regional centre in Bandar Malaysia in Mar 2016. • In Jun 2016, a 40% stake was transferred to MoF from 1MDB, financing was secured from a panel of China-MY banks and a JV was formed with MRCB to develop the integrated transportation terminal. • In May 2017, the MoF terminated the deal with IWH-CREC. • A RFP has been issued on 5 Jul 2017 to identify a new master developer.
Cyber City Center, Cyberjaya	11.0	• MRCB and Cyberview signed a 60:40 JV to develop the first phase with GDV of MYR5.35b, featuring a convention center, hotel, offices and retail in Dec 2015.
KLIA Aeropolis	7.0	• MAHB launched the airport city in May 2016 and signed 5 partnerships and agreements relating to air cargo, logistics, aerospace and aviation including DRB Hicom's KL Airport Services, AirAsia, Raya Airways, Dutch airport logistics provider Vanderlande Industries and Swiss support company RUAG Aviation. • In March 2017, MAHB signed a partnership agreement with TCR Solutions, a Belgian-based service provider to provide its facilities at KLIA and set KLIA as TCR Asia Pacific headquarters. • As part of the development of the Digital Free Trade Zone (DFTZ) in Malaysia, MAHB and Cainiao Network has signed an MoU for the development of a regional eCommerce and Logistics hub in the KLIA Aeropolis.
Malaysian Vision Valley	420.0	• Key projects identified include Seremban Central, Seremban Resort City, 1Msia People's Housing projects, PD Waterfront and PD Splash Park. • In May 2016, Sime Darby Property, Kumpulan Wang Persaraan (Diperbadankan) and Brunsfield Development have signed a MoU to be master planners. • First phase of the project will cover 11k ha of land (out of a total area of 153k ha). Road upgrades worth MYR550m would be implemented initially.
Malacca Gateway	43.0	• The developer, KAJ Development, has obtained its deep sea port's operating license and tax incentives. • It is now finalizing strategic partnerships for its key developments including its cruise terminal, multipurpose deep sea port and maritime industrial park. Construction of phase 1 would start soon.

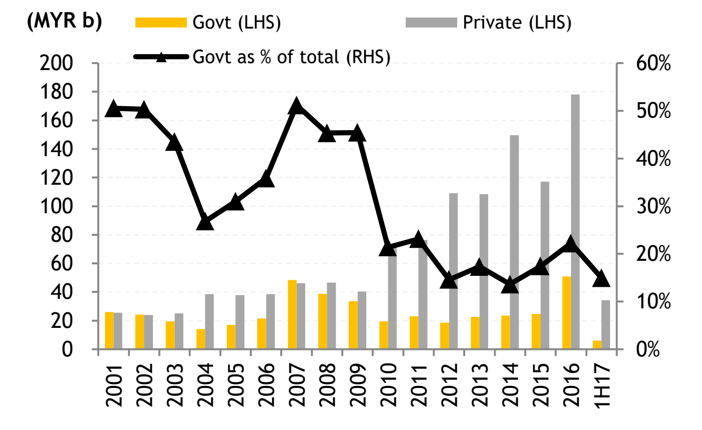
Source: Various, compiled by Maybank Kim Eng

New contracts reported to CIDB, MYR40.4b in 1H17



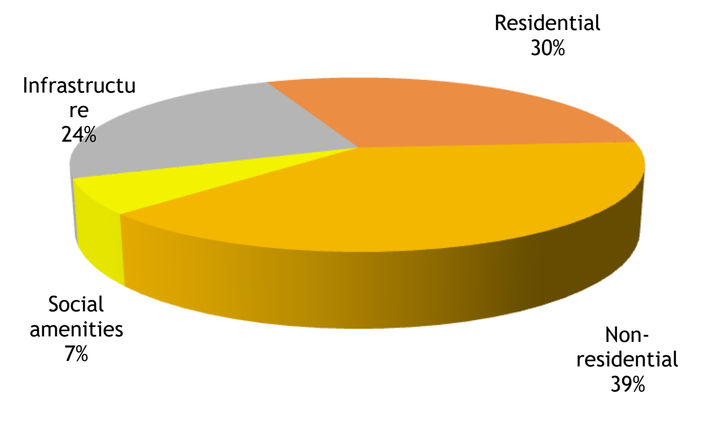
Source: CIDB

Government versus private sector jobs award



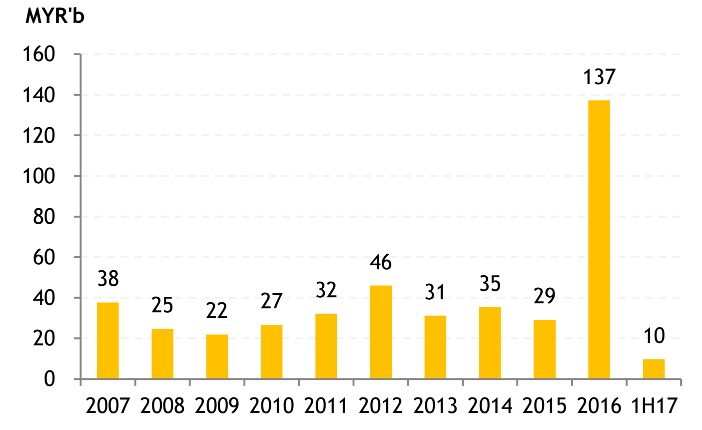
Source: CIDB

Category of new contracts 1H17



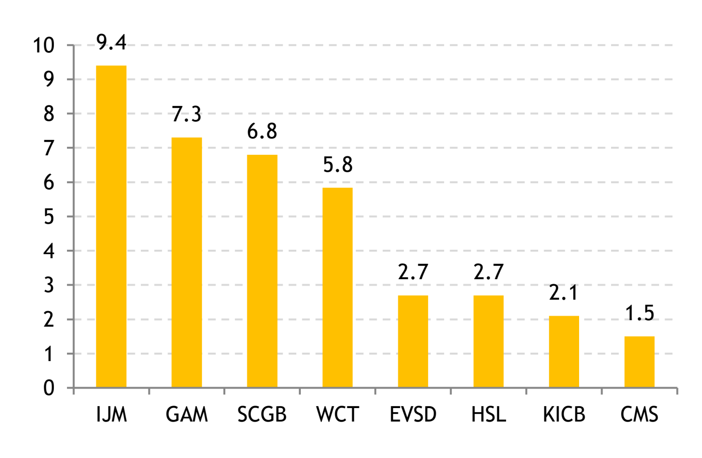
Source: CIDB

Infrastructure job awards at MYR10b in 1H17



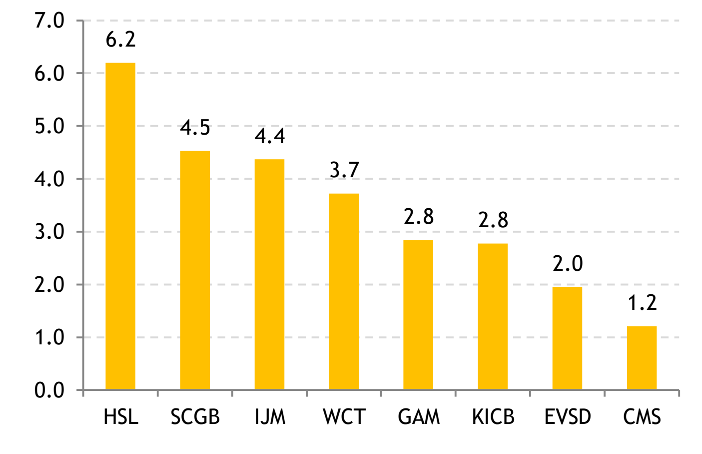
Source: CIDB

Outstanding orderbook (As of Sept 2017)



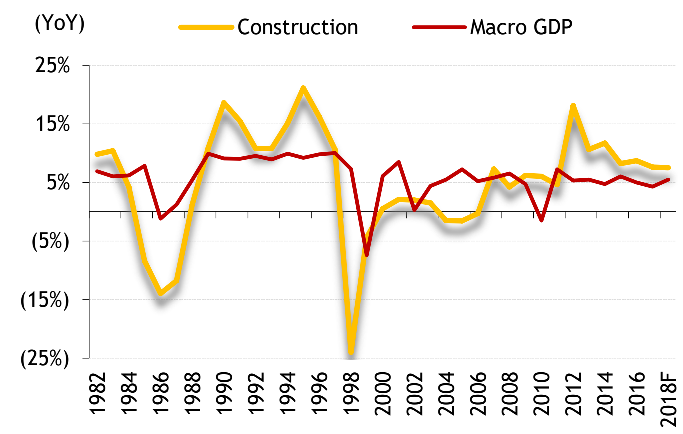
Source: Companies, Maybank KE
**Gamuda based end-Oct 2017 orderbook value*

Outstanding orderbook to construction revenue ratio



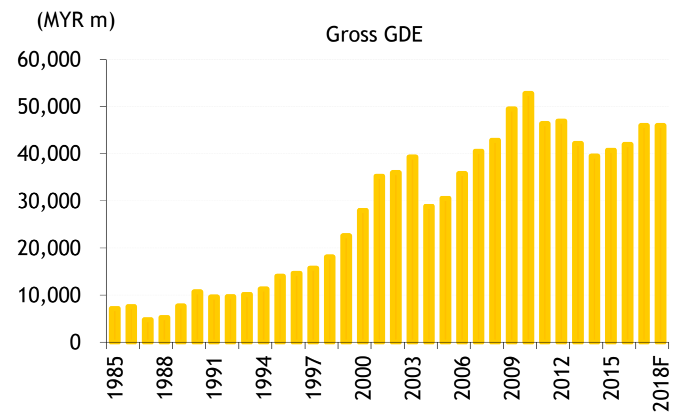
Source: Companies, Maybank KE
**Based on end-Sept 2017 outstanding orderbook against trailing FY construction revenue.*

Construction sector real output



Source: Economic Reports (Treasury), Maybank KE (chart)

Gross Government Development Expenditure



Source: Economic Reports (Treasury), Maybank KE (chart)

Construction sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
CMS	Buy	3.77	4,050.4	4.50	19.0	18.3	15.6	1.7	1.6	9.4	10.4	2.5
Eversendai	Hold	0.88	683.4	1.14	n.a.	10.3	9.2	0.7	0.7	6.9	7.2	0.9
Gamuda	Buy	4.90	12,030.9	5.60	18.0	16.4	15.1	1.6	1.5	9.5	9.7	2.4
Hock Seng Lee	Hold	1.46	802.3	1.61	14.2	18.3	10.9	1.1	1.0	6.0	9.3	1.6
IJM Corp	Buy	2.74	9,942.0	3.40	19.5	19.1	16.4	1.0	1.0	5.3	5.9	2.6
Kimlun Corp	Buy	2.30	737.0	2.61	8.7	10.5	8.8	1.2	1.1	11.4	12.4	3.1
Litrak	Hold	5.80	3,060.7	6.10	14.5	13.5	12.8	3.9	3.4	28.6	26.6	4.3
Sunway Con	Buy	2.40	3,101.4	2.63	25.0	21.2	14.6	5.3	4.3	24.9	29.3	2.4
Simple average					**17.0**	**15.9**	**12.9**	**2.1**	**1.8**	**12.8**	**13.8**	**2.5**

Source: Maybank KE

CONSUMER: Chugging along

NEUTRAL (unchanged)

Maintain NEUTRAL. Into 2018, while we may not see a sharp broad-based recovery given that pricing power will likely remain weak amid still soft consumer sentiment, we do expect some companies to see continued growth or growth resuming. AEON's and SEM's earnings could normalize higher on low base effects, cost efficiencies and new stores growth. PAD, Bison and OTB should continue to see positive revenue momentum, having already been outperformers in their sub-sectors. For tobacco and brewery, while we cannot rule out a possible excise tax hike into 2018, we believe that regulatory risks are mild for now. We are overall NEUTRAL on the consumer sector. Our selective BUYs are on AEON, ATLAN, BFOOD and OTB.

2017: Largely volume driven. Ex-BAT, 9M17's cumulative revenue grew 1.6% YoY, mainly driven by volumes and A&P efforts. Most consumer companies have made minimal price adjustments amid competitive pressures and still weak consumer sentiment. Soft sentiment aside, we believe that the volume growth is a reflection of firmer agriculture commodity prices and the government's efforts to boost disposable income (eg. +25.9% YoY higher BR1M cash handouts for 2017, 3-ppt cut in worker's contribution to EPF from Mar 2016 to Dec 2017, Jul 2016's minimum wage hike and personal income tax reliefs).

2017: A mixed bag on margins. AEON and SEM saw a downtrend in rolling 12M EBIT margin trends since late CY14 on weaker topline growth and higher OPEX. Positively, SEM's downtrend seems to have been arrested as EBIT margins have expanded by 50bps/100bps QoQ in 2Q17/3Q17, mainly supported by better cost management and growth in other income (eg. marketing income). Meanwhile, MNCs such as HEIM, CAB and BAT saw steady, if not an expansion in margins, on better cost efficiencies (eg. product process efficiencies, lower fixed overheads).

2018: Gradual recovery in sentiment? With the apparent inverse relationship between MIER's Consumer Sentiment Index (CSI) and USDMYR, the effect of a stronger MYR against USD could point towards a pickup in recovery of the CSI. While the rolling 12-month CSI average is still way below the neutral region of 100 at 76 end-Sep 2017, of comfort is that the CSI has been steadily recovering since end-2015.

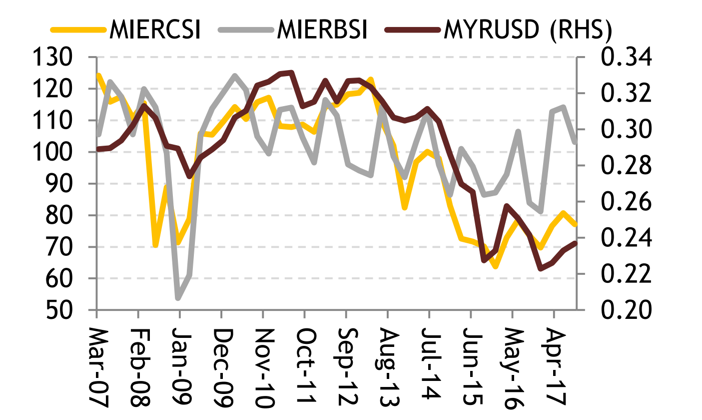
2018: Normalizing lower. Our Economics Team expects consumer spending growth to remain around the +7% YoY level in 4Q17 and 1H18 on both the continuation of and additional measures to boost disposable income in Budget 2018. These include direct cash aid and one-off payments to target groups (eg. farmers, fisherman, rural folks) to be disbursed largely in 1H18 and a 2-ppt personal income tax rate cut for selected income tax bands. In 2H18 however, our Economics Team expects consumer spending growth to ease to +6% YoY, about the average growth in 2015-2016 (full year 2017E/2018E: +7.0%/+6.5%).

2018: Just keep swimming. Into 2018, we project aggregate core earnings growth (ex-BAT) of 8.3% on the back of e.7.3% revenue growth. We expect net profit margins to stay flattish (FY17/18E: 8.1%/8.2%). PAD (driven mainly by year-round promotions, ie. bundled offers) and OTB (growing FMCG exports to China) should continue to see positive revenue momentum. As for the retailers, our higher projection is largely on expectations that AEON and SEM's earning will normalize on better cost controls, and pick-up in topline growth. For NESZ, its diverse product offerings and sizeable market share provide earnings resilience.

Stock picks. We remain NEUTRAL on the consumer sector. We have BUY calls on (i) AEON, with expectations of retail earnings to recover in the near term, (ii) Atlan, for its resilient duty free business and assets which are deep in value, (iii) BFOOD, with earnings growth upsides coming from Berjaya Starbucks and post the disposal of loss-making Kenny Rogers Roasters in Indonesia, and (iv) OTB, for its FMCG growth story, especially to China with overall FMCG in 1HFY3/18 accounting for a sizeable 77% of group's pretax profit. Our SELL call is on SEM largely due to pricey valuations relative to its peers.

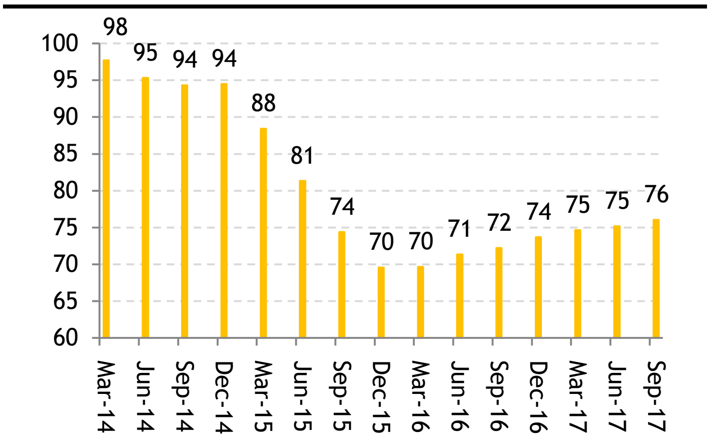
Risks to our call: (i) Slowdown in consumption demand; (ii) a spike in raw material prices; (iii) regulatory risks for the tobacco and brewery sectors.

Consumer Sentiment & Business Condition Index, MYRUSD



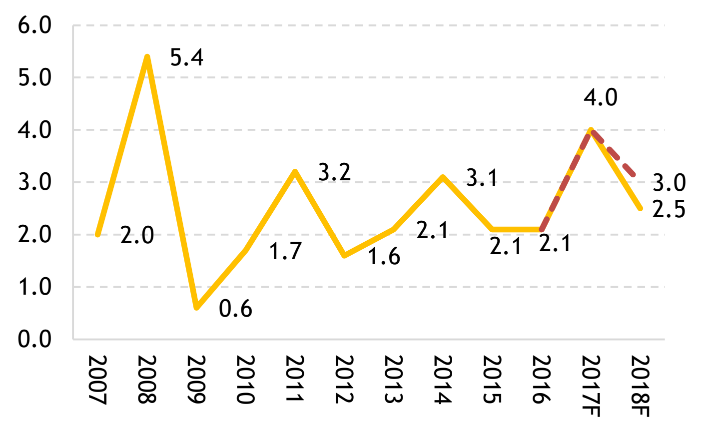
Source: MIER, Bloomberg

Rolling 12-month MIER CSI average



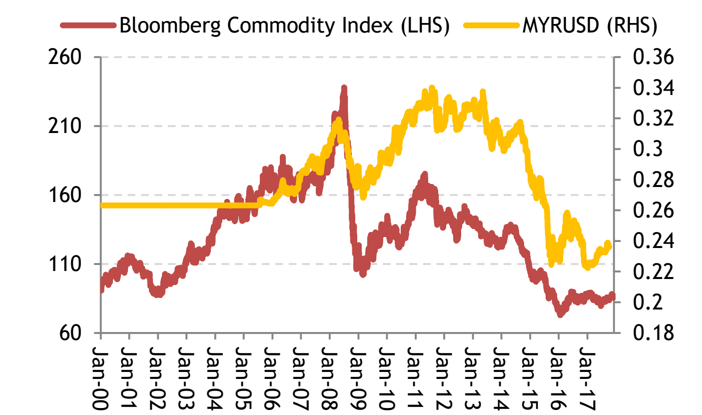
Source: Department of Statistics, Bloomberg, Maybank KE

CPI growth



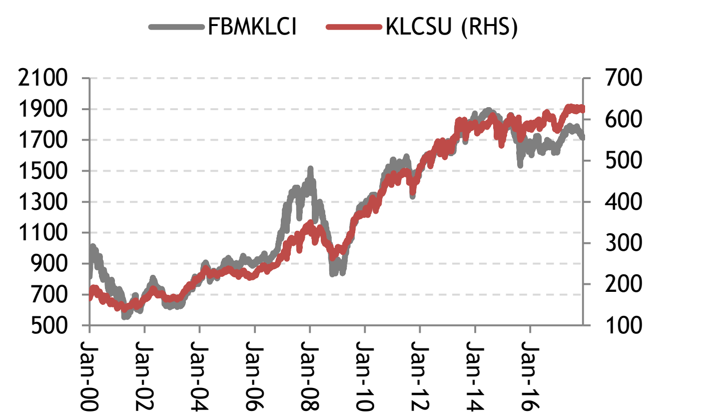
Source: Department of Statistics, Bloomberg, Maybank KE

Bloomberg's Commodity Index & MYRUSD



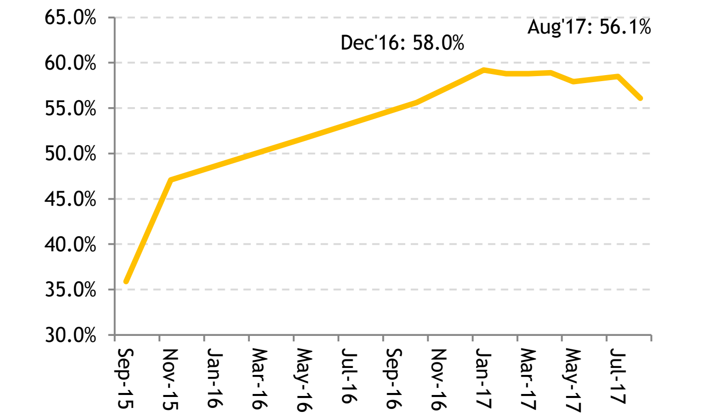
Source: Bloomberg

FBMKLCI Index & KLCSU Index (RHS)



Source: Bloomberg

Illegal Cigarette Market Share (Month)



Source: TRACK R3M, Company

Consumer sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
AEON Co	Buy	1.80	2,527.2	2.20	31.6	27.3	22.8	1.3	1.3	4.9	5.6	2.2
BAT (M)	Hold	38.12	10,884.4	45.60	16.1	19.3	17.3	17.4	17.1	90.4	98.9	5.7
Berjaya Food	Buy	1.69	635.3	1.80	32.3	28.3	22.9	1.6	1.6	5.7	6.9	2.3
Carlsberg	Hold	15.08	4,638.9	15.60	22.5	20.0	18.8	13.8	13.2	69.4	70.5	5.3
Heineken Malaysia	Hold	18.60	5,619.0	18.30	19.7	19.6	18.6	13.8	13.3	70.4	71.4	5.4
Nestle	Hold	99.72	23,384.3	86.70	39.1	36.6	34.7	35.9	35.7	98.0	102.8	2.9
Oldtown	Buy	3.08	1,426.8	3.18	22.6	20.7	19.2	3.6	3.3	17.4	17.4	2.9
Padini Holdings	Hold	5.40	3,552.7	4.75	24.2	21.3	19.4	5.8	4.9	27.4	25.1	1.9
QL Resources	Hold	4.27	6,927.8	3.60	36.9	34.2	30.3	3.8	3.5	11.2	11.7	1.3
Bison	Hold	2.91	992.5	2.45	44.9	35.7	30.1	5.2	4.5	14.5	15.1	0.7
7 - Eleven	Sell	1.53	1,698.9	1.24	34.8	40.3	31.9	30.6	21.9	79.5	66.5	1.6
Atlan Holdings	Buy	4.26	1,080.6	6.00	26.8	27.5	26.6	3.1	3.3	11.2	12.5	3.8
Simple average					**29.3**	**27.6**	**24.4**	**11.3**	**10.3**	**41.7**	**42.0**	**2.8**

Source: Maybank KE

GAMING: May the odds be ever in your favour

POSITIVE Casinos, POSITIVE NFOs

GENT and NFOs on top. After a mixed year (2017) for casinos, we expect 2018 to be better due to normalising VIP win rates and new amenities at Resorts World Genting (RWG) and continued recovery at Resorts World Sentosa (RWS). While we are bullish on RWG revenue, we are wary of margins dealt by higher staff costs – HOLD GENM. As we have less concerns for RWS and as it prepares to bid for a Japanese integrated resort license in 2018 – BUY GENS and GENT (owns 53% of GENS). Thanks to enforcement action against illegal NFOs – BUY MAG and BST. Both offer net dividend yields of >5.5%. Legislation may also be passed that will enable them to cement recent market share gains from illegal NFOs.

2017: Mixed bag for casinos. For GENM, RWG's 9M17 VIP volume and mass market gross gaming revenue (GGR) grew YoY by double digits in percentage terms thanks to the opening of Sky Plaza Phase 1 (30 Mar 2017) and Phase 2 (31 Aug 2017). That said, RWG's 9M17 EBITDA fell 15% YoY due to VIP win rate being lower than theoretical levels of 2.7-3.0% (9M16: above theoretical levels) and higher staff cost YoY. For GENS, RWS' 9M17 VIP volume eased ~10% YoY. That said, RWS' 9M17 EBITDA surged 61% YoY as 9M17 VIP win rate of 3.0% was ~35bps higher YoY and 9M17 provision for doubtful debts of SGD43.6m was down 78% YoY as credits extension to VIPs was tightened. As RWS more than compensated for RWG, GENT's 9M17 EBITDA also surged 31% YoY (9M17 core net profit: +42% YoY).

2017: NFOs finally stabilising? 9M17 MAG's gross NFO revenue per draw eased a narrower 2% YoY (9M16: -5% YoY) while 7M16 BST's gross NFO revenue per draw was flattish YoY. We gather that this was due to a slight uptick in consumer sentiment coupled with less intense competition from illegal NFOs due to enforcement actions. Our conversations with Pan Malaysian Pools (Not Listed) also reveal that its gross NFO revenue per draw has stabilized YoY. Operations aside, MAG announced on 15 May 2017 that it was served by the Director General of Inland Revenue with notices of assessment for tax penalties amounting to MYR476.5m or MYR0.33/shr. As at press time, MAG has obtained a stay of proceedings that will not compel it to pay the tax penalties immediately.

2018: Growing pains at GENM. We expect RWG's gaming volumes to continue growing YoY thanks to full year of operations at Sky Plaza Phase 1 and 2. We forecast RWG 2018 VIP volume and mass market GGR to both grow 15% YoY. Assuming normal RWG 2018 VIP win rate of 2.9%, we forecast RWG 2018 total GGR to grow 18% YoY. That said, we expect RWG EBITDA margins to remain suppressed at 32-33% as RWG will hire up to another 2,000 staff (+15%) ahead of the opening of 20th Century Fox World (20CFW) in 4Q18. We gather that RWG may not revisit EBITDA margins of 35% until 2H19/2020 when 20CFW operations stabilise. By then, we are also hopeful that consumer sentiment in Malaysia will have recovered and drive high margin mass market GGR growth as well.

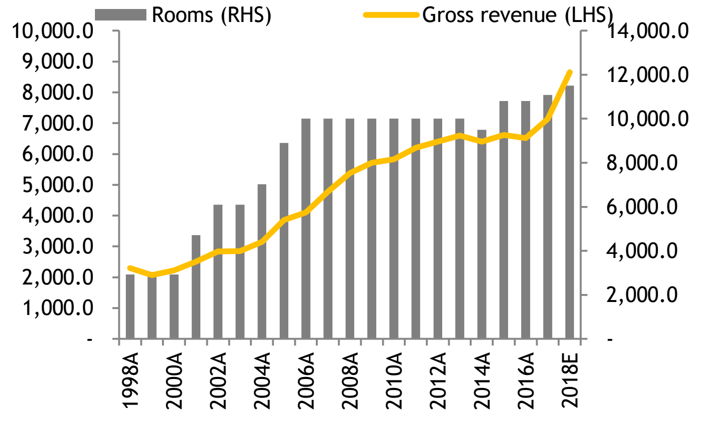
2018: Ought to be good for GENS and GENT. We expect RWS' VIP volumes to continue recovering YoY (3Q17: +23% YoY) as the VIP market recovery in Macau 'spills over' to Singapore and RWS extends more credit to regain market share from Marina Bay Sands. More importantly, we expect RWS' high margin mass market GGR to continue recovering YoY (3Q17: +5% YoY) as consumer sentiment in Singapore recovers and the MYR recovery against the SGD translates into more Malaysian mass market gamblers visits. That said, the Singaporean GST rate may be hiked from the current 7% in 2018. Notwithstanding, we estimate that every 1ppt hike in the Singaporean GST rate will trim our GENS earnings estimates by only 2%. As GENT owns 53% of GENS, we are constructive about the former.

2018: Hopeful for NFOs. We expect gross NFO revenue per draw for MAG and BST to recover 2% YoY as consumer sentiment in Malaysia recovers and competition from illegal NFOs abate due to enforcement action. We hope that strict enforcement against illegal NFOs will continue and that the Cyber Security Act and amendments to the Common Gaming Houses Act 1953 will be passed next year to officially criminalise on-line gambling and cement the recent market share gains by legal NFOs like MAG and BST. In our opinion, the latter Act is equally as important as the former as we observe that illegal NFOs are increasingly migrating their operations on-line to circumvent enforcement action.

Bet on GENT, MAG and BST. At 43% discount to SOP/shr or -2 SD to its 20-year mean, GENT is our top pick in the Malaysian gaming sector. Historically, GENT trades at an average discount of 21% to its SOP/shr valuation. We are also bullish on MAG and BST as they both offer net dividend yields of >5.5% (BST: >7.0%). MAG remains a tactical BUY with current valuation having largely priced in the tax penalty. If the final tax penalty is nil or markedly less, eventual upside ought to be closer to our estimated 16%. Note that our MAG net dividend yield forecast of >5.5% is based on 65% DPR. If it reverts to >80% DPR, MAG will offer even higher net dividend yields of >6.8%. At 16x FY18 PER (20-year mean 12M forward PER: 14x), we are HOLDers of GENM.

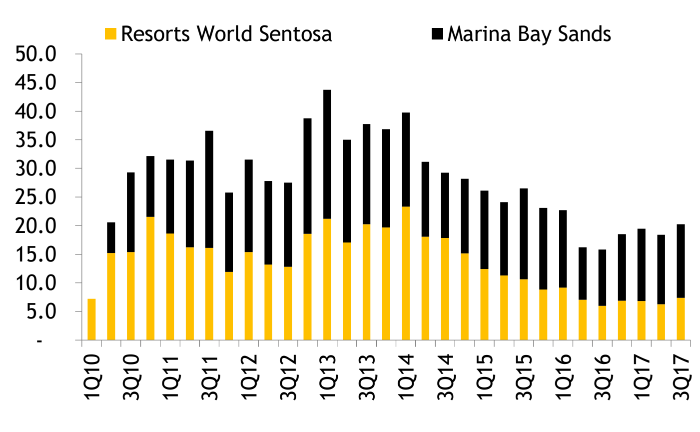
Risks to our call. (i) Rapid slowdown in the Chinese and Singapore economy and/ or more capital controls in China causing GENS and therefore, GENT's earnings outlook to remain suppressed; (ii) construction delays and cost overruns for GITP projects (e.g. opening date for 20CFW theme park has again been delayed to 4Q18 from 2Q18); (iii) prolonged slowdown in Malaysian consumer sentiment causing GENM's visitor arrivals growth and NFO revenue growth to remain suppressed; (iv) lower than theoretical VIP win rates at RWS and RWG; and (v) higher gaming taxes in Malaysia and Singapore, although we view this as unlikely for the former given the GST that has been implemented there since 1 Apr 2015.

Fig 1: RWG's number of rooms vs gross revenue (MYRm)



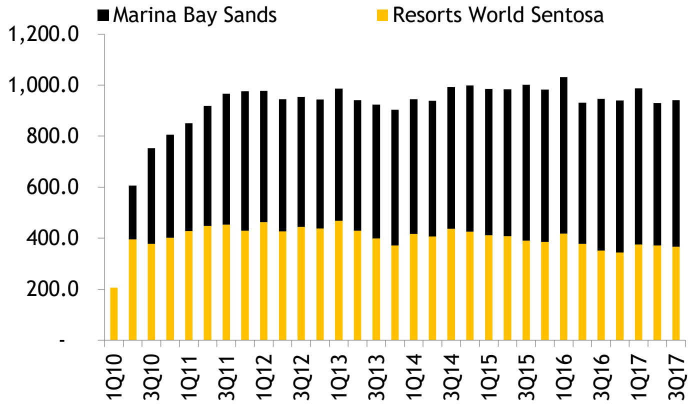
Source: GENM

Fig 2: Estimated Singapore VIP volume (SGDb)



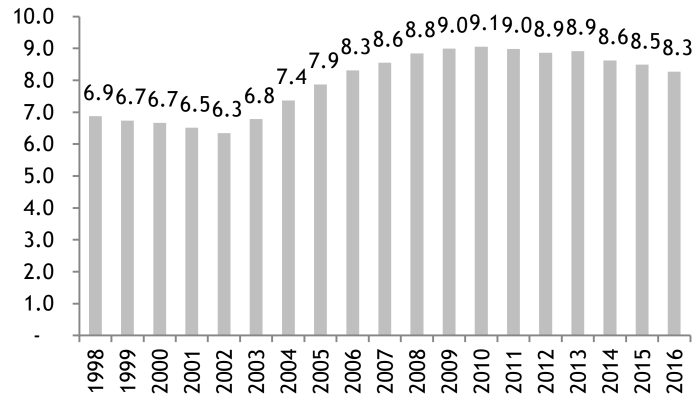
Source: GENS, Las Vegas Sands, Maybank KE

Fig 3: Estimated Singapore mass market GGR (SGDm)



Source: GENS, Las Vegas Sands, Maybank KE

Fig 4: Industry gross NFO revenue (MYRb)



Source: BST, Magnum, Da Ma Cai

Gaming sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Genting	Buy	8.71	33,319.8	12.25	21.3	17.9	14.3	0.9	0.9	5.7	6.8	2.1
Genting Malaysia	Hold	5.40	30,609.6	5.25	19.8	23.3	16.2	1.5	1.4	6.4	8.7	2.1
Berjaya Sports Toto	Buy	2.29	3,084.6	3.05	11.3	10.6	9.7	3.5	3.3	35.7	35.8	8.0
Magnum	Buy	1.73	2,461.7	2.00	13.0	11.7	11.2	1.0	1.0	8.5	8.6	6.1
Simple average					**16.4**	**15.9**	**12.9**	**1.7**	**1.6**	**14.1**	**15.0**	**4.6**

Source: Maybank KE

GLOVE PRODUCERS: Positive only for 1H18

NEUTRAL (unchanged)

Year of two-halves? We think glove players will be able to pass on the higher costs (raw materials and gas) in 1H18 due to the tight supply situation. However, the tight supply may ease in 2H18 as massive capacities kick in and some of the plants in China may resume production, potentially leading to margin compression in 2H18. Our BUY is Kossan for its 3-year forward EPS CAGR of 17% and relatively undemanding FY18 PER of 20x. Both Hartalega and Top Glove are HOLDs.

2017: Outperformed KLCI. Share prices of glove players in our universe rose 14-87% in 2017 given their strong earnings growth on higher sales volume and margin expansion. Global rubber gloves supply was tight as a result of the strong global demand and the vinyl glove capacity cut in China (started in early-2017 due to environmental issues). Additionally, the one-year rolling forward PERs of glove stocks have re-rated from 19-21x in end-2016 to 20-33x presently.

2018: Tight supply to ease in 2H. We estimate that the new capacity from key players (Top 4 + Riverstone) in 2018 could reach a record high of 17.3b pcs p.a. (+3.3x YoY; *see chart overleaf*). The big step-up is partially due to Supermax rebuilding its old plants (total 7b pcs p.a. capacity; decommissioned in 3Q17) and restarting production (on higher 7.5b pcs p.a. capacity) gradually from 3Q18. Meanwhile, we believe some of the vinyl glove capacity in China may resume production in 2H18 after changing their fuel source to gas (from coal). Comparing the new capacity against new global demand of 12b pcs in 2018 (assuming normal 6% growth rate), it is possible that supply may outstrip demand from 2H18.

2018: Higher cost outlook. We think that latex cost (key cost component) could be on an uptrend in 1H18 as the International Rubber Tripartite Council (ITRC) implements its fifth Agreed Export Tonnage Scheme (AETS) for Dec 2017-Aug 2018 with the objective of addressing the current depressed rubber prices. As for NBR price, it may also be higher in 2018, tracking the latex price. Additionally, gas tariff for glove players will be raised by 23% for 1H18 and the Government has also indicated that it will announce new minimum wage in 2018.

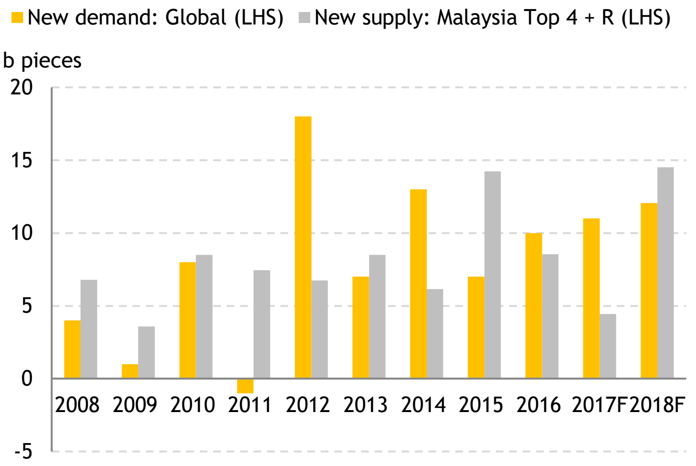
2018: Slower cost pass through in 2H. As we expect the tight supply situation to persist into 1H18, we believe that the glove producers can pass on the higher costs in 2-3 months. However, come 2H18, any cost increase could take longer to pass through, when massive capacity kicks in at the same time, hence, margins may erode.

2018: USD/MYR. Our FX Research Team forecasts USD/MYR to average 4.04 in 2018 (YTD 2017: 4.31). In our earnings forecasts for the glove producers, we have maintained a conservative average USD/MYR of 4.15 for 2018-19.

Stock picks. We have a BUY on Kossan (TP: MYR9.10; 24x 2018 PER; +1SD), as we expect its recent capacity growth (+14%) to lift earnings in 4Q17-1H18 and also given its relatively undemanding 2018 PER of 20x. We have HOLDs on Hartalega (TP: MYR7.60; 27x 2018 PER; +1SD) and Top Glove (TP: MYR6.20; 20x 2018 PER: +1SD), which trade at 2018 PER of 34x and 21x respectively.

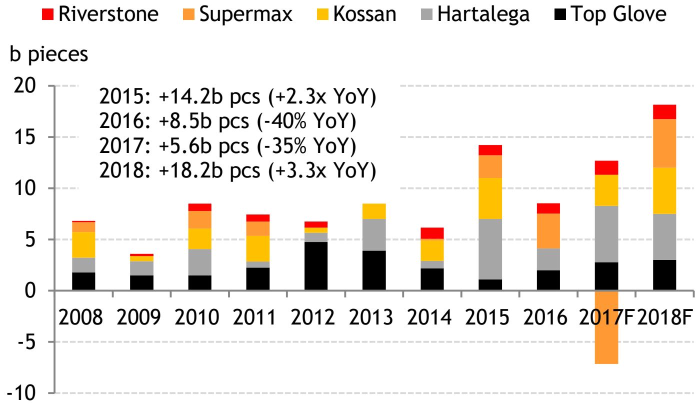
Risks to our call. (i) A sharp appreciation of the USD/MYR, (ii) substantially lower raw material prices; and (iii) irrational ASP competition in the nitrile space.

New supply vs. new demand (billion pieces)



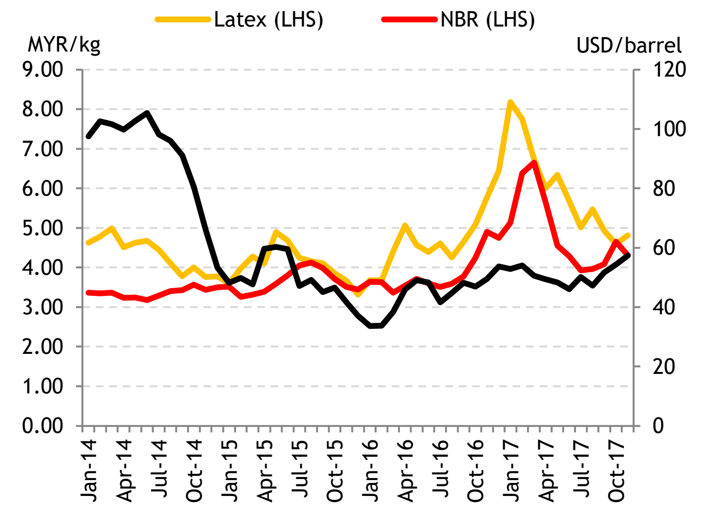
Note: New supply in 2017-18F is based on 80% utilisation rate
Source: Companies, Maybank KE

Planned capacity expansion by respective glove players



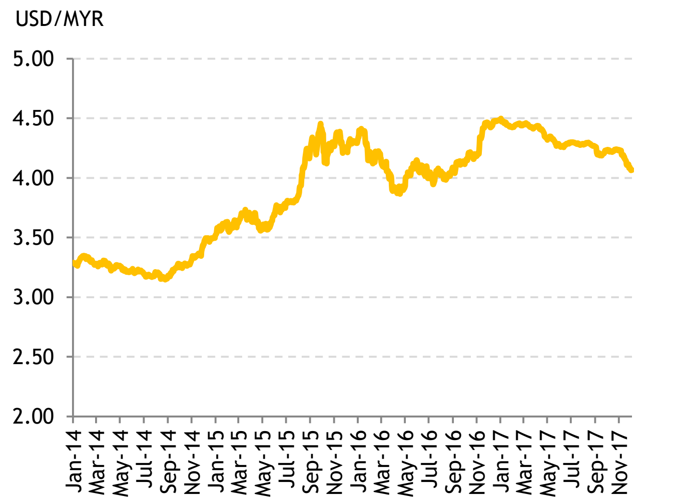
Source: Companies, Maybank KE

Latex, NBR and crude oil price trends



Source: Companies, Bloomberg

USD/MYR daily movement



Source: Bloomberg

Rubber gloves sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Hartalega Hldgs	Hold	9.44	15,596.1	7.60	56.5	40.7	33.8	8.5	7.5	21.0	22.5	1.5
Kossan Rubber	Buy	7.63	4,879.1	9.10	28.6	24.6	20.1	4.1	3.6	16.5	18.0	2.0
Top Glove	Hold	6.55	8,219.0	6.20	23.1	23.5	21.3	3.9	3.6	16.7	16.9	2.3
Simple average					**36.1**	**29.6**	**25.1**	**5.5**	**4.9**	**18.1**	**19.1**	**1.9**

Source: Maybank KE

MEDIA: A gradual recovery?

NEUTRAL (unchanged)

Maintain NEUTRAL. We are hopeful for an industry-wide gradual recovery in 2018. We forecast total gross adex to grow 5% YoY in 2018 on ~1x real GDP growth, largely driven by pre-14th general election (GE14) ad spend and a subtle recovery in consumer sentiment. Newsprint spot prices have been rising recently which could lift overall operating costs of print-based media companies. This higher cost could however be partially mitigated by a recovering MYR. It is thus crucial for the media companies to rationalize cost further to preserve profitability. We rate all the media companies under our coverage at HOLDs with the exception of a SELL on MPR. Among them, we prefer ASTRO due to its top-line resilience from a stable subscriber base.

2017: Fourth consecutive 'annus horribilis'. 1Q17 total gross adex declined 15% YoY as many smaller advertisers significantly cut ad spend in response to challenging operating environments while 2Q17 total gross adex eased by a lesser 13% YoY boosted by higher ad spend during the Ramadhan and Hari Raya Aidilfitri festivities. 3Q17 total gross adex trend was similar to 2Q17, where it declined 12% YoY despite heavy ad spend seen for Malaysia's 60th Merdeka celebration and South East Asian Games in August. For 4Q17, even though total gross adex is expected to be seasonally stronger, the quantum of QoQ adex growth is not expected to be substantial given that both consumer and business sentiment have yet to show any signs of material improvement.

2018: Moderate adex recovery. We forecast that 2018 total gross adex will grow 5% YoY emerging from a low base in 2017 and led by pre-GE14 ad spend. GE14 must be held by Aug 2018. During past GEs, political parties incurred higher ad spend while the government employed looser fiscal policies (e.g. public servant bonuses) in the months leading up to the Election date to increase disposable incomes. Consequently, this also prompted the private sector to raise private sector ad spend to benefit from consumers' higher spending power. Recovering oil prices to >USD50/bbl will also enable government institutions to raise public sector ad spend. That said, we do not expect 2018 total gross adex to grow >5% due to still subdued consumer and business confidence.

2018: Higher newsprint prices vs. recovering MYR. Newsprint prices have risen to ~USD600/tonne in the recent months, posing earnings risk to print-based companies, MPR, STAR and MCIL. However, with the recovering MYR, the higher newsprint cost could be partially mitigated. In MYR terms, newsprint prices rose from ~MYR2,000/tonne in early-2017 to ~MYR2,400/tonne now. That said, print-based media companies have been prudently reducing newsprint consumption in light of decreasing circulation. We estimate that every USD10/tonne increase in newsprint price will trim our earnings estimates by ~MYR2m for MCIL and ~ MYR1m for both STAR and MPR assuming unchanged USDMYR. For ASTRO, its set top boxes, satellite transponders and some two-thirds of its content are denominated in USD. We estimate that every 1ppt appreciation in the MYR against USD will lift our ASTRO earnings est. by ~0.2ppt.

2018: ASO target by Jun 2018. The digital terrestrial TV broadcasting (DTTB) free service, *myFreeview*, was officially launched on 6 Jun 2017. Malaysia is on track for analogue switch-off (ASO) date by Jun 2018. Since the launch, nine free-to-air (FTA) TV channels and four radio stations have been made available on the DTTB service. 98% of the population will be covered by the DTTB platform by end-2017. MYTV (Not Listed) currently has the capacity to launch 30 FTA TV channels and it also has plans to introduce online shopping and video-on-demand services in future which will undoubtedly compete with MPR and ASTRO, albeit only in the long run, we believe. Positively, we understand that MYTV intends to reduce the transmission fees that it will charge MPR from MRY12m per SD channel and MYR25m per HD channel.

HOLD: ASTRO, STAR and MCIL; SELL: MPR. ASTRO is the most resilient in top-line as only ~10% of its revenue is derived from adex while ~85% is from its stable subscriber base. In fact, its 9MFY1/17 TV adex and radio adex were impressively stable as the former grew 2% YoY while the latter eased only 1% YoY. The adex-based companies (i.e. MPR, STAR and MCIL) however are still going through hard times with their 3QCY17 adex falling YoY (except the radio segment at MPR and STAR). For them, further cost rationalization is vital in 2018 to preserve earnings and dividends. For example, we estimate that MPR and STAR will each save ~MYR20m p.a. in staff cost after undertaking their respective early-retirement and mutual separation schemes in 2017. Note that we do not expect MPR to pay dividends in the near-term while net dividend yields of >5% from STAR (ex-special DPS) and MCIL could be at risk if earnings continue to fall substantially.

Risks to our call. (i) Fuel price and/or electricity tariff hikes (next electricity tariff revision in Jan 2018) could cause advertisers to cut advertising and promotional budgets; (ii) reversal in rising crude oil prices will cause government institutions to further cut back on their ad spend; (iii) national disasters will cause advertisers to pull back on advertising again ala MH370 and MH17; (iii) reversal in the MYR strength against the USD will cause newsprint and other input costs to rise in MYR terms; (iv) further increase in newsprint spot price will increase overall operating costs for print-based media companies; (v) rollout of digital terrestrial television broadcast services will cause new TV and radio channel licenses to be awarded to new operators (slated for 2017-2018), intensifying competition among media companies.

Earnings sensitivity for every 10% weakness in USDMYR from MYR4.00 (our base case)

Company	Earnings sensitivity
Astro Malaysia Holdings	-2.1% or ~MYR18m p.a.
Media Prima	-25.8% or MYR6m p.a.
Media Chinese International	-20.7% or ~MYR11m p.a.
Star Media Group	-10.5% or ~MYR5m p.a.

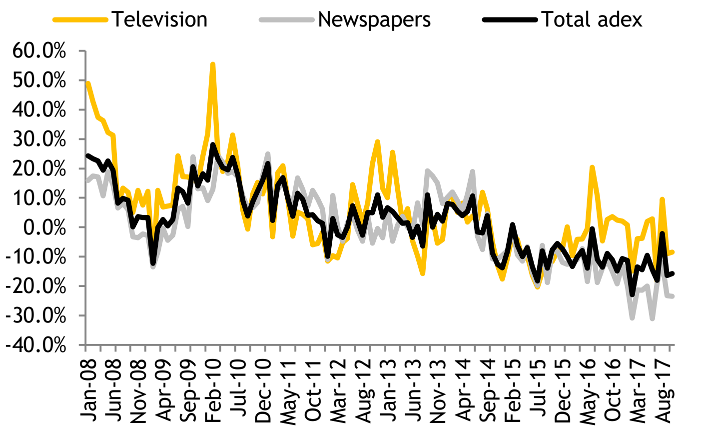
Source: Maybank Kim Eng

10M17 total gross adex (MYRm)

	10M17	10M16	*% YoY*
FTA TV	2,295.8	2,395.9	*(4.2)*
Newspapers	2,374.0	3,039.5	*(21.9)*
Magazines	63.7	84.9	*(25.0)*
Radio	142.7	151.8	*(6.0)*
Cinema	85.7	63.3	*35.4*
In-Store Media	124.5	142.9	*(12.9)*
Total	**5,086.3**	**5,878.3**	***(13.5)***

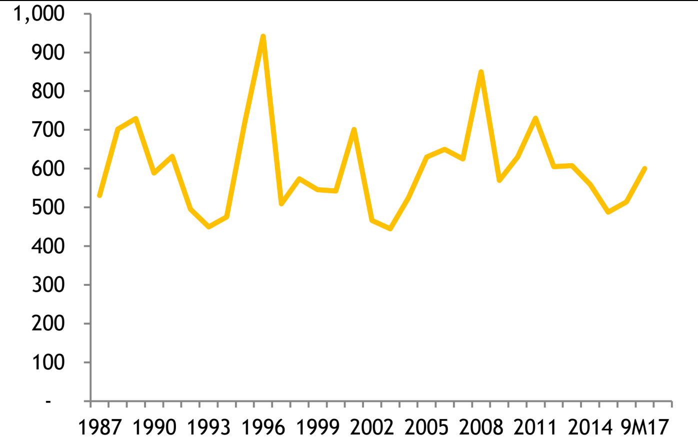
Source: Nielsen Media Research

Total gross adex change YoY (monthly)



Source: Nielsen Media Research

Spot newsprint prices (USD/tonne)



Source: The New Straits Times Press (Malaysia)

Media sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Astro Malaysia	Hold	2.60	13,556.1	2.55	20.5	17.7	20.5	16.5	13.2	103.9	78.6	4.1
MCIL	Hold	0.38	632.7	0.39	7.0	10.6	11.3	0.8	0.8	7.4	7.0	6.2
Media Prima	Sell	0.59	648.9	0.59	16.7	n.a.	n.a.	0.5	0.6	(6.8)	(2.2)	0.0
Star	Hold	1.44	1,062.5	1.47	15.2	32.0	22.2	1.0	1.1	3.2	5.0	10.4
Simple average					**14.8**	**20.1**	**18.0**	**4.7**	**3.9**	**26.9**	**22.1**	**5.2**

Source: Maybank KE

OIL & GAS: More upbeat, less downcast

POSITIVE (unchanged)

Reiterate POSITIVE. The sector is on a cyclical recovery path. Activities are set to pick up, for 2018 will be the year of contract replenishment (i.e. fabrication, drilling, OSV, underwater services) as oil companies firm up on their long-term plans. 2018, in our view will also be a year of M&As. That said, cost management and cashflow competency would continue as companies adjust to operating at more realistic oil price levels. OPEC's compliance and shale's development will also be closely monitored. Our in-house oil price estimate for 2018 avg. is USD60/bbl (dated Brent). Our key BUYs are Yinson, Dialog, Wah Seong and SAPE.

2017: Inflection point. From a low of USD28/bbl (dated Brent) in Feb 2016 and averaging USD45/bbl in 2016, crude oil price rallied to a high of USD64/bbl to average USD54/bbl in 2017. OPEC and its non-OPEC alliance members' (led by Russia) collective agreement to cut output by 1.8m bpd from Jan 2017 (it achieved high compliance rate) and extending the cut until end-2018 has led to the oil price cyclical recovery, further reinforcing its position as a swing producer. Earnings of oil companies are also trending towards a YoY recovery. Cautiousness, however, continues to prevail and the overall capex trend is still flat/lower YoY (except for PETRONAS). Cost management and cashflow competency still rank high on the agenda. That said, the sector, in our view, has sensibly adjusted to operating at around the USD50/bbl level, a positive. For Malaysia, Saudi Aramco's decision to acquire a 50% stake at PETRONAS' refinery & cracker facilities for USD7b is a significant milestone.

2018: Confidence on the rise. Our house view for crude oil price is an average USD60/bbl in 2018. From a big picture perspective, we expect the confidence momentum to pick up come 2018, with a recovery in global capex. Job awards too are set to rise following the recent expansion in the tender pipeline. 2018 will be a year of contract replenishment as oil majors are firming up on their long-term plans. We posit 2018 to also be a year of M&As. Companies with deep pockets and long-term plans in mind will likely take advantage of this cyclical rough to pick up distressed assets at attractive prices. We headline three key events to watch out for: (i) Saudi Aramco's potential listing in 3Q18. (ii) OPEC and its key alliance non-OPEC members' compliance rate/discipline on the production cut move and (iii) shale's short-cycle, unconventional development.

2018: Developments closer to home. Activities are set to pick up from last year. Among others, the multi-billion Ringgit Pegaga CPP award, contested between MMHE and SAPE, will most probably be rolled out by 1H18. The drilling segment will continue to see utilization growth, with 15 jack-up tenders (both short- & long-term charters) being lined up. The award of PETRONAS' Integrated Logistics Control Tower contracts for OSVs (which replaces the base fleet program) is likely to be announced by 1Q18. This MYR5b mega tender requires over 110 units of OSVs (e.g. AHT, AHTS, SSV, PSV, AWB, etc) and comes with long-term charters. Notwithstanding that, the: (i) MYR1b Pan Malaysia Maintenance, Construction & Modification (Pan-MCM) contracts, split into 4 packages with 5+1 year contracts and (ii) Pan-underwater contracts are also being lined up for tender. That said, while OSVs utilization is picking up, rates would likely be unchanged (i.e. low) as oil majors lock-up their long terms plans.

Stock picks. We continue to like O&G players with a resilient earnings profile and niche expertise. Our four key BUYs are:

(i) **Yinson**: Undemanding valuations with strong earnings growth prospects, cashflow strength and proven execution capabilities. It is among the few that are still very active in new tenders. The JX-Nippon Layang FPSO charter is its maiden job win in Malaysia.

(ii) **Dialog:** A direct proxy to PETRONAS' RAPID and Pengerang play. Another steady, long-term growth story with much upside potential and cashflows/dividends to boot. A consistent dividend paymaster, owing to its strong balance sheet, atypical in the industry.

(iii) **Wah Seong:** Strong earnings visibility over the next 3 years, backed by the EUR600m NS2 job. Inexpensive valuations vis-à-vis growth. Has room to further de-gear and improve its financials via divestment/sales & leaseback schemes.

(iv) **Sapura Energy:** A direct proxy, beta play for the O&G sector. Monetising its gas assets are a catalyst not fully priced in yet.

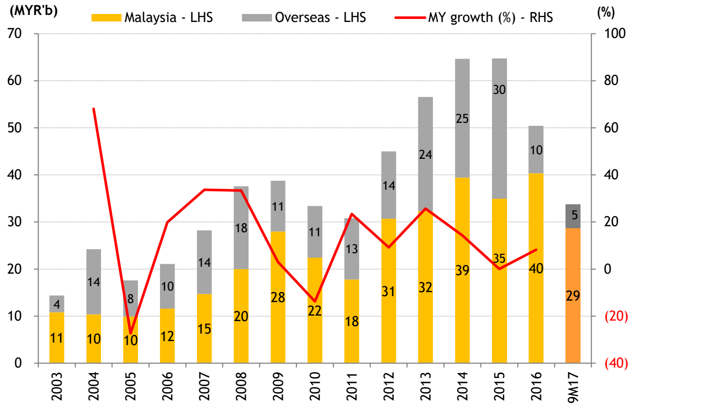
Our 2 Key SELLs are:

(i) **Barakah:** The operating outlook over the next 12 months remains a challenge. High operating expenses, eroding order replenishment and cash balances remain key concerns. Valuations are demanding vis-à-vis peers.

(ii) **Alam Maritim:** Alam needs to address its debt repayment issue and come out with an amicable restructuring solution. This, in our view outweighs the potential positives emerging from OSV tenders in 1Q18. Until these issues are addressed, there is no re-rating prospect. Valuations are expensive vis-à-vis its peers.

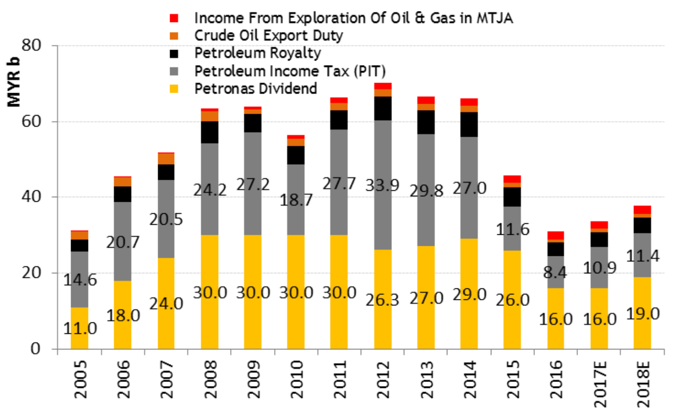
Risks. (i) Non-delivery of the global supply cut commitment to accelerate the rebalancing of the global oil market, which would result in persistent volatility in oil prices and affect the recovery in tenders/projects pipeline. Discipline and compliance (by OPEC and non-OPEC members) are key; (ii) cost overruns and delays from poor execution.

PETRONAS: Capex (yearly)



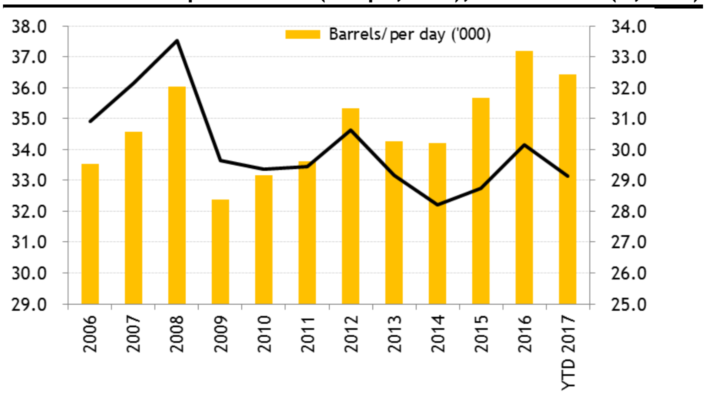
Source: PETRONAS, Maybank KE

PETRONAS: Dividends & oil related income to the Govt



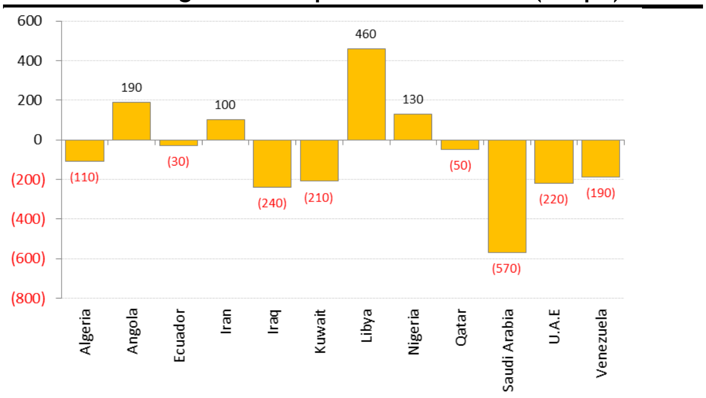
Source: PETRONAS, Maybank KE

OPEC: Crude oil production (m bpd; LHS), market shr (%; RHS)



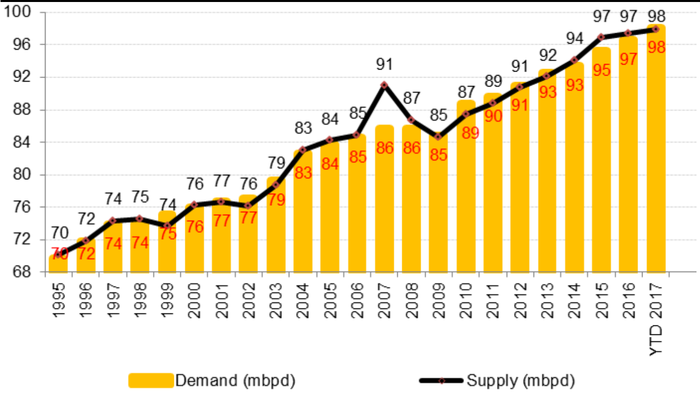
Source: Bloomberg, Maybank KE

OPEC: YoY changes in Oct's production volume (m bpd)



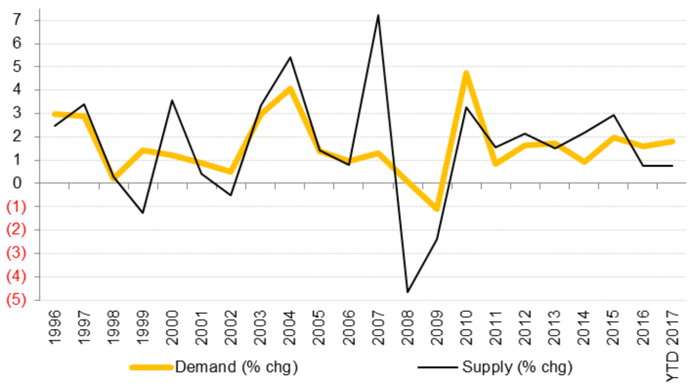
Source: Bloomberg, Maybank KE

Global crude oil: Demand and supply



Source: Bloomberg, Maybank KE

Global crude oil yearly growth: Demand and supply



Source: Bloomberg, Maybank KE

Oil and gas sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Alam Maritim	Sell	0.15	138.7	0.08	n.a.	n.a.	n.a.	0.2	0.2	(4.3)	(1.1)	0.0
Barakah Offshore	Sell	0.32	264.4	0.13	26.7	n.a.	n.a.	1.0	1.5	(68.2)	(55.9)	0.0
Bumi Armada	Hold	0.74	4341.0	0.68	n.a.	19.0	7.0	0.7	0.7	3.9	9.5	0.0
Dialog	Buy	2.42	13644.7	2.63	43.6	38.1	32.5	4.0	3.8	10.6	11.5	1.3
KNM Group	Hold	0.24	551.3	0.25	n.a.	78.3	11.2	0.2	0.2	0.3	1.9	0.0
MMHE	Hold	0.85	1360.0	0.75	n.a.	n.a.	n.a.	0.6	0.6	(1.0)	(1.1)	0.0
Sapura Energy	Buy	0.82	4883.6	1.20	9.8	n.a.	n.a.	0.4	0.4	(2.6)	(3.1)	3.5
Wah Seong	Buy	1.17	904.2	1.80	n.a.	10.7	8.0	0.9	0.8	8.8	10.6	0.0
Yinson	Buy	3.81	4146.0	4.45	18.8	11.2	11.8	1.3	1.2	12.0	10.4	2.6
Simple average					**24.7**	**31.5**	**14.1**	**1.0**	**1.0**	**(4.5)**	**(1.9)**	**0.8**

Source: Maybank KE

PETROCHEMICAL: 2018 will be better than 2017

POSITIVE (unchanged)

The cycle is not over yet. The sector should fare well in 2018 on sustained global GDP growth and benign inflation. New capacity output is manageable and demand-supply is forecasted to be balanced, thus providing a stable outlook on ASPs. We believe factory utilization rate will be the main consideration for investment picks. PCHEM is our top BUY for the sector as it is a beneficiary of rising crude oil prices with its feedstock cost relatively fixed, thus ensuring margin expansion. Production ramp-up will drive LCT's earnings growth but it is susceptible to naphtha price volatility which is on an uptrend.

2017: Mixed performance. In 2017, PCHEM outperformed the KLCI (it also outperformed regional peers) but LCT underperformed. In PCHEM's case, it produced strong core earnings growth of +48% YoY in 9M17. As for LCT, its quarterly earnings disappointed and the stock received a de-rating accordingly.

2018: Positive demand outlook. Global demand for petrochemicals is forecasted to grow by 4.4% in 2018, which is above the historical growth rate of 4.0%. The drivers are global GDP growth (MKE: e.+3.6%) and benign core inflation of 3.3% (IMF). Global PMI numbers have firmly been on expansion territory and this gives a positive indication for petrochemical demand.

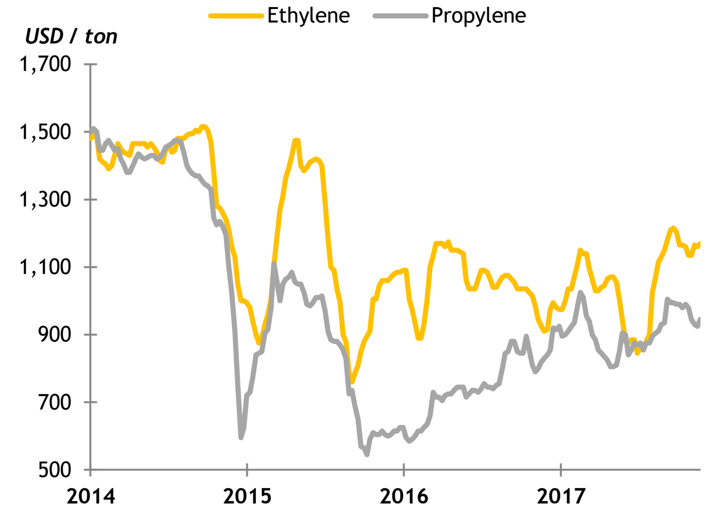
2018: No material concern on oversupply. The total new global supply is expected to be ~20% lower than 2017's levels based on forecast by ICIS Consulting — a reputable industry observer. Bulk of the new capacity is from the U.S. and China. We are confident that these new capacity will be absorbed by the market and operating rates for all major petrochemical products should track higher with the exception of polyethylene. This is due to many big scale ethane crackers coming on stream in the U.S. which will cause some pricing pressure initially but we think it will eventually stabilize.

2018: USD/MYR and crude oil. Maybank FX team forecasts USD/MYR to average 4.04 in 2018 (YTD 2017: 4.32). Our house view for crude oil is to average at USD60/bbl (dated Brent) in 2018 (YTD 2017: USD54/bbl) and by extension, naphtha (product of crude oil) of USD525/tonne (YTD 2017: USD473/tonne).

Stock picks. We have a BUY call on PCHEM with a TP of MYR8.50 (9.1x EV/EBITDA on 10% premium to peer average for its superior balance sheet and cash flow) despite projecting a flat EPS growth in 2018 as there are major turnarounds that will reduce factory utilization rate. As for LCT, we have a BUY call with a TP of MYR7.85. LCT had its major factory turnaround in 2017 and utilization rate is expected to pick-up in 2018 and boost product volumes.

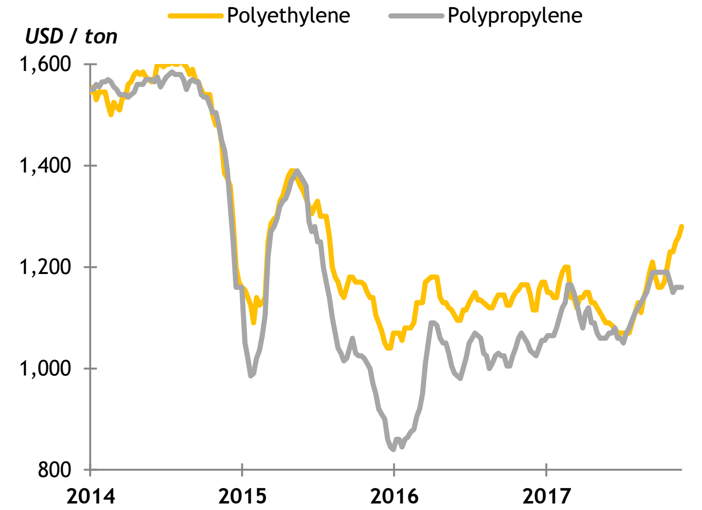
Risks to our call. (i) Sharp movement in naphtha cost which could undermine LCT as it holds three weeks' worth of inventories; (ii) weaker-than-expected global economic growth; and (ii) China's increasingly unclear petrochemical import pattern that distorts pricing.

Olefins price trend



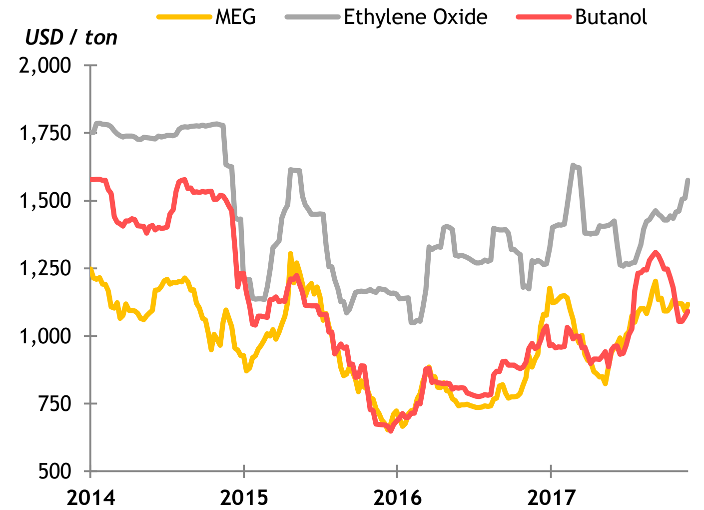
Source: Bloomberg

Polyolefin price trend



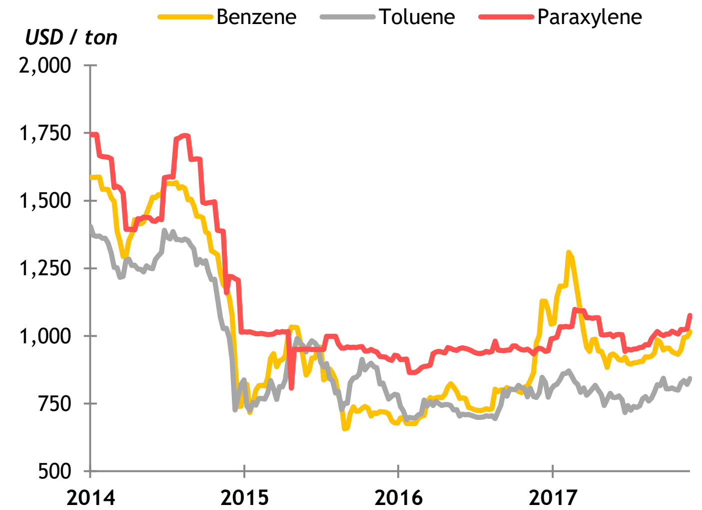
Source: Bloomberg

Derivatives price trend



Source: Bloomberg

Aromatics price trend



Source: Bloomberg

Petrochemicals sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Petronas Chemicals	Buy	7.42	59,360.0	8.50	18.6	14.1	14.1	2.2	2.0	15.4	14.2	3.6
Lotte Chemical Titan	Buy	4.59	10,433.0	7.85	5.7	8.7	6.7	0.8	0.8	9.6	11.4	4.9
Simple average					**12.2**	**11.4**	**10.4**	**1.5**	**1.4**	**12.5**	**12.8**	**4.3**

Source: Maybank KE

PLANTATION: 2018 – Muted outlook

NEUTRAL (unchanged)

Maintain NEUTRAL but trading opportunity in 1Q18. 2018's CPO ASP will likely average lower than 2017 at e.MYR2,600/t, but compensated by higher output as we anticipate a full recovery in output post 2015-16 El Nino. CPO price will start the year (ie. 1Q18) rebounding seasonally from the lows of 4Q17, providing trading opportunity for investors. As plantation sector valuation remains lofty at 24.6x 12M forward PER, we are Neutral on the sector and selective in stock picks. Our preferred BUYs are SDPL (backed by its high RNAV of MYR9.45/sh), IOI (special dividend post disposal of specialty fats) and SOP (at <10x 2018 PER).

2017: Post El Nino full recovery delayed till 4Q17. As we highlighted in our sector outlook over the past two years, El Nino offered a situational and not structural play. While we had earlier anticipated normalization of FFB yield (per hectare) in 2Q-3Q17, it has been delayed till 4Q17. Some corporate captains attributed it to Malaysia's relatively older average oil palm trees profile which resulted in slower recovery. Others say it could be less effective application of fertilizer due to recent heavy rainfall while some blame it on the labour shortage situation in Malaysia owing to government's clamp down on the illegal workers.

2017: Higher CPO price compensated for the delay in full output recovery. Whatever the reason for the recovery delay, it had a positive impact on CPO price in Jan-Oct 2017 (10M17 CPO ASP: MYR2,843/t, +11% YoY) while planters also enjoyed some recovery in CPO output (11M17 Malaysia: +14% YoY). In 4Q17, CPO price corrected somewhat as September's stockpile started to breach the 2.0m MT psychological level.

2018: Maintaining our CPO ASP forecast at MYR2,600/t. The region has enjoyed beneficial rainfall since early 2016. In the absence of any unfavourable weather, this should set the stage for a full output recovery in 2018 post El Nino. Hence, we are maintaining our CPO ASP forecast of MYR2,600/t for 2018 (2017-YTD spot: MYR2,816/t). We expect CPO price to perform relatively better in 1H18 (vs. 2H18) as output is seasonally the lowest in Jan-Apr. CPO price will likely climb in Feb-Mar 2018 (from recent Dec 2017 lows), to reach a peak in price sometime in Mar-May 2018, and correct thereafter before it bottoms sometime in 3Q18 when production hits its seasonal peak.

2018: Global supply of oils and fats to be moderately tight in 2017/18F. In the absence of any supply shock, namely in the oilseeds market, the incremental global 17 oils & fats (O&F) supply (+7.5m MT) in Oct/Sept 2017/18F marketing year is expected to exceed the demand growth (+6.1m MT) by 1.4m MT, leading to a build-up in inventory for the second consecutive year. According to *Oil World* revised estimates in Dec 2017, the 17 O&F stock-to-usage ratio (SUR) is expected to climb by 0.6-ppts to 13.1% in the 2017/18F marketing year, which is still way below the peak of 15.7% recorded in 2014/15. We consider the SUR to be moderately tight. Palm oil will lead the supply growth (+3.4m MT), partly due to the anticipated full recovery of output post El Nino.

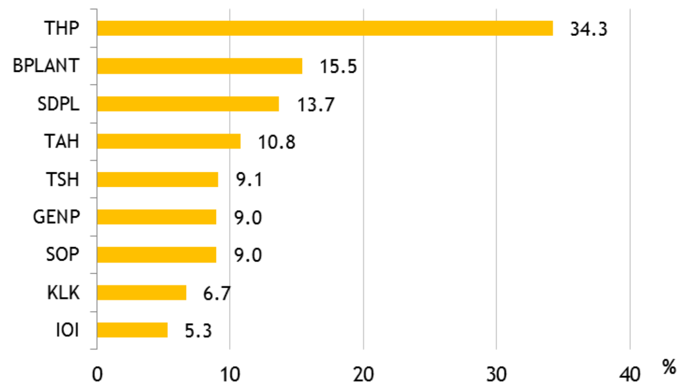
… but supply of global 10 oilseeds is still ample. *Oil World* forecasts the global 10 oilseeds SUR to remain ample in 2017/18F marketing year at 20.5%, marginally higher than 2016/17F's 20.4%. This is in contrast to the moderately tight global supply of 17 oils and fats. Soybean currently leads the 10 oilseeds production with 61% share of supply (which is up from 56% a decade ago), followed by rapeseed (12%), sunflower (9%) and cottonseed (8%).

Valuation and stock picks. Malaysia's plantation stocks now trade at (market cap weighted) 24.6x 12M forward PER, which is close to -0.5SD of its 5-year mean of 26.6x. The high PER attached to Malaysian planters relative to regional peers are justified given (i) some planters (like SDPL, KLK, IOI, GENP, BPLANT) carry large tracts of freehold land in their books with property development potential, and (ii) their shariah-compliant attractiveness, given the growing pool of shariah funds domestically. Our BUYs are SDPL, IOI (trading), and SOP.

Upside risks: (i) Crude oil prices unexpectedly rebound to above USD80/barrel (closing the gap with palm oil prices) which will help stimulate demand for discretionary palm biodiesel; (ii) La Nina or unfavourable weather causing significant crop damage for competing oils and oilseeds; (iii) anticipated recovery in FFB yield in 2018 not materialising; and (iv) MYR weakens against USD. **Downside risks:** (i) Changes in government policies, be it at producing or importing nations (including recent proposal by the EU Parliament to exclude palm oil for biodiesel use in the EU by 2020); (ii) MYR strengthens further against USD; and (iii) Indonesia fails to strictly implement its biodiesel mandate.

Earnings sensitivity: We have included an earnings sensitivity chart as a guide for every MYR100/t change in our base case CPO ASP. Most sensitive are companies with relatively higher cost of production per tonne like THP and BPlant.

Earnings sensitivity for every MYR100/t change in CPO price



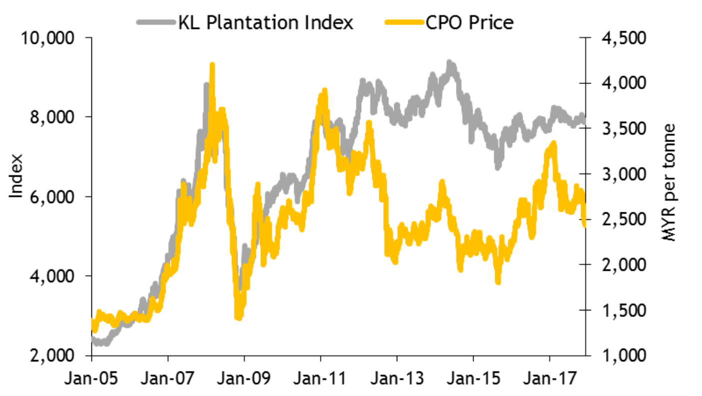
Source: Maybank-KE

Plantation sector - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Boustead Plantations	Hold	1.63	2,608.0	1.78	32.0	22.3	25.9	1.0	1.0	4.6	4.0	3.8
Genting Plantations	Hold	10.28	8,257.3	11.16	27.6	24.0	20.6	1.8	1.7	7.6	8.2	1.0
IOI Corp	Buy	4.47	28,088.9	5.03	28.8	26.6	24.4	3.6	3.4	13.7	13.9	2.1
KL Kepong	Hold	24.40	25,985.2	26.20	29.4	24.4	23.5	2.2	2.1	9.1	9.1	2.6
Sarawak Oil Palms	Buy	4.17	2,380.3	5.85	14.1	10.7	10.1	1.2	1.1	10.8	10.5	2.0
Sime Darby Plantations	Buy	5.38	36,588.5	5.63	38.4	30.4	28.4	2.7	2.5	9.0	8.8	1.8
Ta Ann	Hold	3.59	1,596.3	3.86	12.7	14.0	13.6	1.2	1.1	8.5	8.2	3.3
TH Plantations	Hold	1.07	945.7	1.22	20.6	18.8	18.8	0.7	0.6	3.5	3.4	1.6
TSH Resources	Hold	1.65	2,278.2	1.65	30.6	19.0	16.2	1.4	1.3	7.4	8.3	1.9
Weighted average					**31.6**	**26.3**	**24.6**					

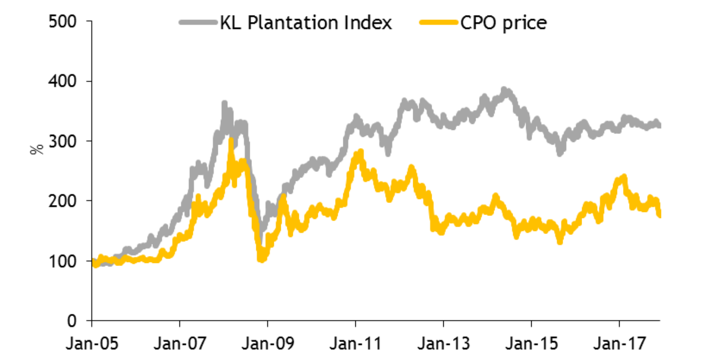
Source: Maybank KE

KL Plantation Index vs CPO price (MYR/t)



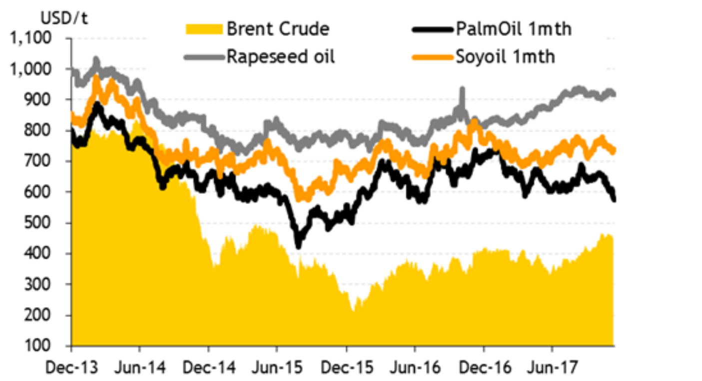
Source: Bloomberg, Maybank-KE

KL Plantation Index vs CPO price index



Source: Bloomberg, Maybank-KE

Major vegetable oils vs crude price

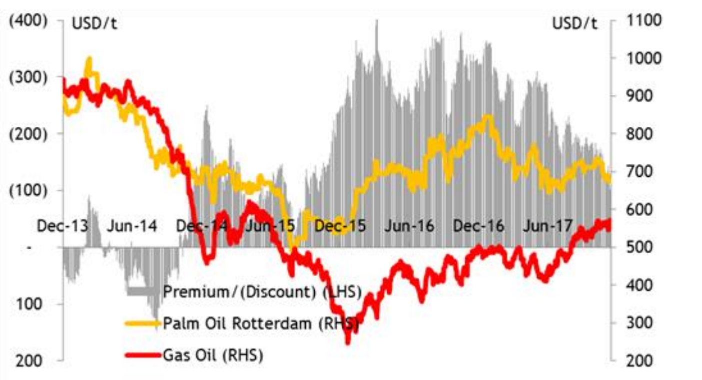


Source: Bloomberg, Maybank-KE

Malaysian Plantations: 1-year forward rolling PER

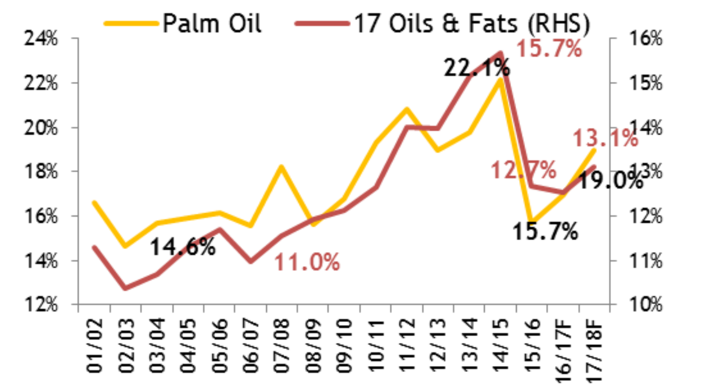
Sample comprises IOI, KLK, GENP, THP, SOP and TSH
Source: Bloomberg, Maybank-KE

Palm oil-gas oil (POGO) spread at ~USD103/t (11 Dec 2017)



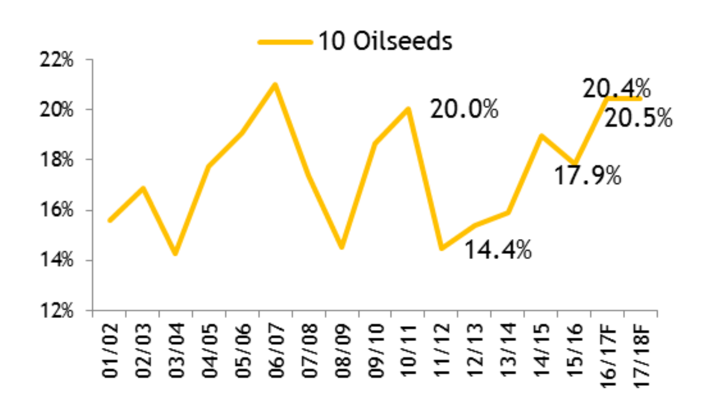
Source: Bloomberg, Maybank-KE

Stock-to-usage ratio of 17 global oils & fats



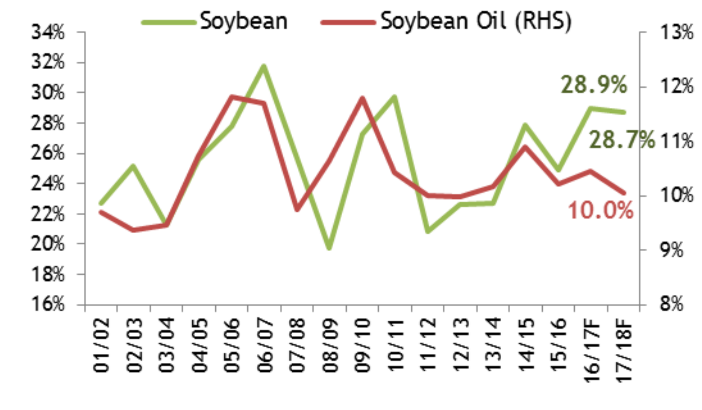
Source: Oil World, Maybank-KE

Stock-to-usage ratio of 10 oilseeds



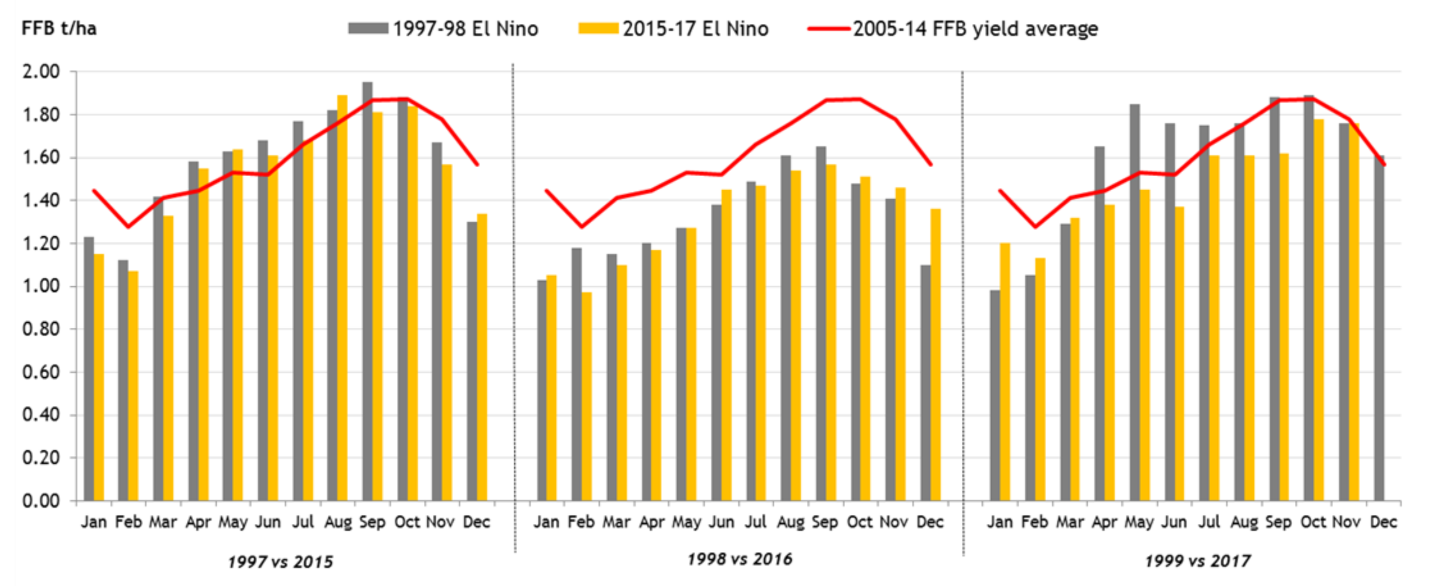
Source: Oil World, Maybank-KE

Stock-to-usage ratio of soybean & soybean oil



Source: Oil World, Maybank-KE

Comparison of Malaysia's FFB yield trend following the last two major El Ninos of 1997-98 & 2015-17



Source: MPOB, Maybank-KE

PROPERTY DEVELOPERS: Awaiting catalysts

NEUTRAL (maintained)

Entering a L-shaped recovery. The property sector outlook will remain just as challenging into 2018. While there are improvements in property demand, and mortgage loan applications and approvals, BNM's potential OPR hike and rising unsold stocks could dampen buying sentiment. In our view, there still remains a passage of time for supply-demand to rebalance. That said, stock valuations are beaten down, now at 0.3-0.6x P/RNAV (GFC level); hence, we maintain our NEUTRAL stance. The sector lacks re-rating catalysts. We prefer developers with diversified earnings base which serves as a buffer during times of uncertainty. Sunway (upgrade to BUY from HOLD) is our top pick for the sector.

2017: Inches back to reality after a short run in share prices. The KL Property Index had a good run and outperformed the KLCI by +8% in 1H 2017 on better property sales and improvements in mortgage approval and application rates. The outperformance was however, rather short-lived and the sector was beaten down again as sector fundamentals remain weak with rising unsold stocks. Elsewhere, 2017 was an eventful year in corporate action with two listings (Sime Darby Property [SDPR MK] and Eco World International [ECWI MK]) and a mega merger between SP Setia and I&P Group. The Bandar Malaysia project award, initially to Iskandar Waterfront Holdings (IWH) – China Railway Engineering Corporation (CREC) JV was cancelled. As for property sales, Glomac failed to meet its FY4/17 target while Tambun Indah may not be able to achieve its 2017 target. Most developers are focusing on the affordable housing segment.

2018: Not out of the woods yet. Property sales are likely to stay challenging and an absolute recovery is still a distance away, in our view. While some projects have received relatively stronger take-ups, there are still no clear signs of a broad-based pick-up. Moreover, cautiousness among lenders may continue to weigh on mortgage loan disbursements especially after BNM has red-flagged the surge in unsold stocks in the residential segment (+24% YoY and -2% QoQ in 2Q17, *source: NAPIC*). We expect more developers to offer discounts/freebies to clear unsold stocks/entice buyers (*e.g. UEMS' EASY Plan*). This, we believe, would lead to further blended margin erosion as competition continues to rise.

Intensifying competition in affordable housing segment. While the underlying demand for affordable homes remains relatively strong as compared to the other property products, supported by a young population, we have turned cautious on this property segment too, in view of the high volume of new properties launched under this segment in recent years as developers have been switching their focus to this segment. In addition to the private sector developers, the various state and federal governments also have their respective affordable housing schemes which add onto the stockpile. Due to higher involvements in affordable housing, margins are likely to stay subdued or even weaker in the coming periods.

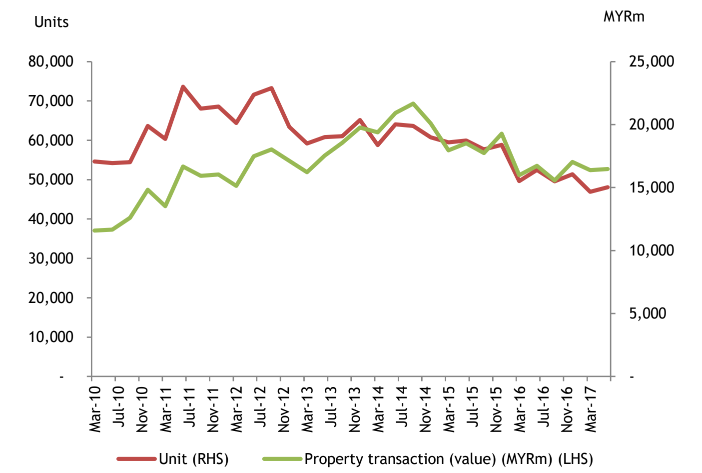
Fund raising to strengthen balance sheet. As the sector slowdown could be more protracted (it started in 2014), a strong balance sheet is paramount to weather the storm. Most developers under our coverage have preserved their cashflows or strengthened their balance sheets via equity cash calls (SP Setia), perpetual securities (Mah Sing) and land/asset sales (UEMS, Sunway). At their last quarterly balance sheet dates, most developers under our coverage still have manageable net gearing levels of <50% and sizeable unbilled sales (0.4x-2.4x of FY18F revenue) which provide near-term earnings and cash flow visibility.

Prefer diversified income base developer; Sunway is our top pick. The broad property sector outlook remains challenging in view of the current oversupply issue especially at the high-rise property segment. Rising unsold stocks and property auctions (another form of competition) will be negative to developers' pricing power and take-up rates in the primary market, in our view. We expect a L-shaped recovery and believe that property sales may only recover in a more significant way post-2018.

We upgrade Sunway to BUY (from HOLD) with an unchanged MYR1.84 TP (on unchanged 0.7x P/RNAV) after the 4% decline in share price post-bonus issue and new warrants in Oct 2017. Sunway is our now top BUY pick for the property sector. Unlike the other big cap developers, Sunway has a more diversified earnings base from 54%-owned Sunway Construction Group (SCGB MK), 37.3%-owned Sunway REIT (SREIT MK) and healthcare.

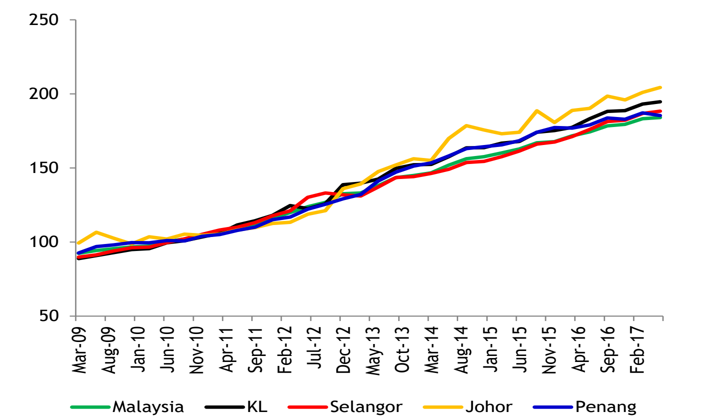
Risks to our call and forecasts: (i) Policy easing; (ii) stronger-than-expected economic growth; (iii) less stringent mortgage lending standards; and (iv) a rise in Mainland Chinese buyers in the other cities apart from Iskandar Malaysia.

Malaysia: Property sales (in value) continued to trend down -1.5% YoY but +0.5% QoQ in 2Q17



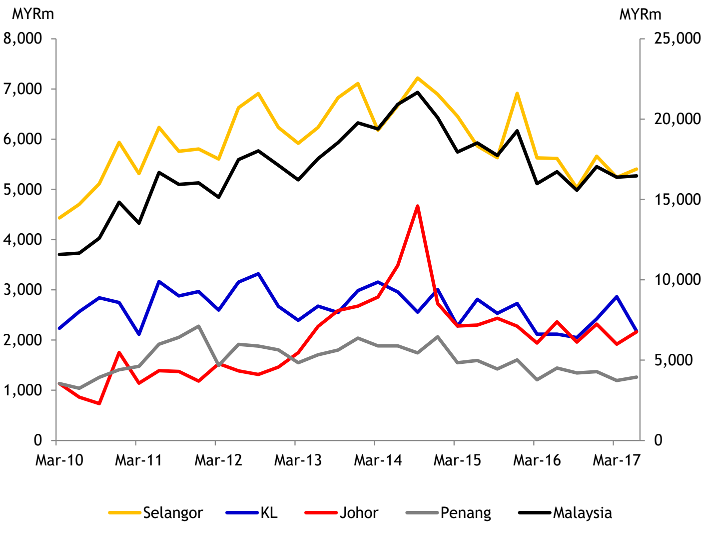
Source: NAPIC, CEIC

Malaysia: House price index was flat +0.4% QoQ but +5.6% YoY in 2Q17



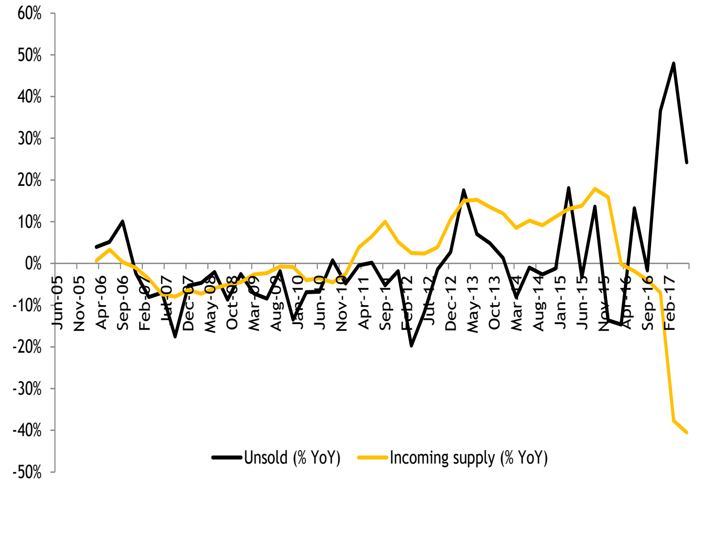
Source: NAPIC, CEIC

Major cities' property sales (except KL) were trending down YoY in 2Q17



Source: NAPIC, CEIC

Malaysia: Incoming supply and unsold stocks -41% YoY and +24% YoY, respectively, in 2Q17



Source: NAPIC, CEIC

Developers: YTD sales and sales target for FY17

	Sales (MYRm)				
	2017 YTD achieved	2017 target	% of sales target achieved	2016A	YoY growth (2017 target vs. 2016 actual)
ECW*	2,393	4,000	60%	3,402	17.6%
UEMS	671	1,200	56%	1,369	(12.3%)
SPSB	2,818	4,000	70%	3,823	4.6%
GLMC^	58	450-500	12%	304	56.3%
Sunway	533	900	59%	923	(2.5%)
Tambun	116	180	64%	229	(21.4%)
Mah Sing	1,255	1,800	70%	1,781	1.1%

^ FY4/18 sales target
* ECW's sales up to Aug 2017
Source: Companies

Property sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
EcoWorld	Buy	1.49	4,387.1	1.88	25.3	17.2	12.9	0.9	0.8	5.1	6.4	0.2
Ecoworld International	Hold	1.00	2,400.0	1.12	n.a.	n.a.	9.9	0.8	0.9	(2.7)	8.7	0.7
Glomac	Hold	0.61	440.9	0.68	10.2	14.4	10.7	0.4	0.4	2.8	3.6	1.9
Mah Sing	Hold	1.50	3,639.0	1.44	11.3	12.4	10.9	1.0	1.0	8.4	9.1	3.7
Sunway Berhad	Buy	1.60	7,837.0	1.84	12.7	14.3	11.8	1.0	0.9	7.0	8.1	3.8
UEM Sunrise	Buy	1.01	4,582.8	1.32	34.8	19.4	33.7	0.6	0.6	3.8	2.1	0.0
Tambun Indah Land	Hold	1.02	442.0	1.08	4.1	4.9	10.6	0.7	0.7	15.2	6.7	3.7
Simple average					**16.4**	**13.8**	**14.4**	**0.8**	**0.8**	**5.6**	**6.4**	**2.0**

Source: Maybank KE

REITs: Be selective

NEUTRAL (unchanged)

Maintain NEUTRAL. We are selectively positive on M-REITs with prime malls and office assets with long-term tenants; their earnings growth will remain driven by positive rental reversions amid sustained occupancy rates. However, we expect the outlook to remain challenging for M-REITS with neighbourhood malls in the Klang Valley and multi-tenanted office buildings; they could face occupancy risk due to oversupply. 2018 is likely to see BNM OPR hike; this offers opportunity to accumulate the quality REITs on weakness. M-REITs within our coverage offer an average net DPU yield of 5.5% (2018E). Our BUYs are IGB REIT, Sunway REIT, MRCB-Quill REIT, Al-Sālam REIT and YTL Hospitality REIT.

2017: Narrowing of yield spreads. In Jan-Apr 2017, the 10-year MGS yield ranged higher at 4.0-4.3%, which we believe was due to less favourable macroeconomic factors such as weakening of the MYR and suppressed crude oil prices. In May-12 Dec 2017, the 10-year MGS yield ranged lower at 3.8%-4.1%. 2017 YTD, the 10-year MGS yield has increased to an average of 4.00% (2016: 3.84%). Conversely, M-REITs' net DPU yield (1-year forward) inched down to 5.30% average for 2017 YTD (2016: 5.31%). This led to yield spreads of M-REITs over the 10-year MGS being lower at 130bps, vs. 147bps for 2016.

2017: Some slowdown in unit price performances. M-REITs underperformed in 2017 YTD – the sector average is down -4% vs. KLCI's +5%. Within our coverage, unit prices for the respective REITs were mixed; they ranged between –15% to +10%. Top gainers are YTL Hospitality REIT (+10%) and MRCB-Quill REIT (+3%), and the top loser is Pavilion REIT (-15%). We believe M-REITs' moderation in unit prices is partly attributed to their 2016 outperformance (+13%) for their resilient earnings and on cautious corporate earnings outlook across selected sectors. In 2017, broad property oversupply has impacted investors' sentiment on the REITs too.

2018: Positive only on selected prime assets. For our coverage, we forecast a higher aggregate core EPU growth of +5.1% YoY in 2018 (2017E: +0.6% YoY) on sustained occupancy rates, rental step-ups, positive rental reversions, and asset injections. We remain positive only on M-REITs with prime shopping malls (i.e. Suria KLCC, Pavilion Mall KL, Mid Valley Megamall, Sunway Pyramid, Gurney Plaza) which will continue to enjoy high demand for their retail space due to their strategic locations. Also, we are positive only on office assets with tenants on long-term or triple net leases which entail lower occupancy risks. We remain cautious on M-REITs with neighbourhood malls and multi-tenanted office buildings in view of the ongoing oversupply situation, leading to occupancy risks.

Only a handful of acquisitions…for now. Into 2018, we expect and have factored in just two sizeable asset injection/redevelopment, which are Pavilion Elite (into Pavilion REIT) by early-2018 and redevelopment of Axis PDI Centre (under Axis REIT) by mid-2018. We have also imputed the acquisitions of: (i) manufacturing facilities in Johor and Negeri Sembilan by Axis REIT, (ii) Sunway Clio Property by Sunway REIT, and (iii) Mydin Gong Badak Hypermarket and additional QSR properties by Al-Salam REIT. We believe Axis REIT will maintain its active asset acquisition strategy and be on a lookout to buy more yield-accretive properties, particularly industrial assets (e.g. warehouses, logistic facilities, factories).

New guidelines to be finalised? While there is no official effective date for the revised REIT Guidelines by the Securities Commission (SC), we are generally positive on several amendments which could enhance unitholders' value (as observed from the SC's public consultation paper in 2H16). Potential major positives from the revised guidelines are allowing redevelopment activities, a fixed gearing limit and extension of the non-Shariah compliant tenants' tenure.

Higher interest rates in 2018? Our Economics Team expects a +25bps OPR hike to 3.25% (May 2018 as the earliest possible timing) which is reflective of BNM's confidence in the strength of both global and domestic economic growth in 2017 sustaining into 2018. BNM has also signaled for higher OPR bias in its Monetary Policy Statement dated 9 Nov 2017. With higher interest rates being generally negative on the REITs (with unit prices expected to adjust down amid higher fixed income yields), we would position to accumulate the quality REITs on weaknesses in their unit prices.

Selective in picks. We continue to like IGB REIT for its primely located Mid Valley Megamall and The Gardens Mall, which will drive strong demand for its retail space, thus sustaining (i) favourable occupancy and rental rates, and (ii) positive rental reversions. We also like: (i) Sunway REIT for its strong asset pipeline; (ii) MRCB-Quill REIT for its stable rental income from long-term office tenants, (iii) Al-Sālam REIT as a well-balanced, diversified Islamic REIT with growth potential from its retail mall, and (iv) YTL Hospitality REIT for its favourable capital returns and DPU yield, backed by stable income from its master lease assets in Malaysia and Japan.

Risks to our rating. Oversupply of shopping malls and office towers remain as major earnings risks whereby (i) shopper traffic and shoppers' spending per mall could dilute, thus suppressing positive rental reversions and increasing occupancy risks, and (ii) office rental rates would be more competitive, leading to lower rates. Elsewhere, (i) interest rate hikes will result in higher borrowing costs for future asset acquisitions, and (ii) stronger MGS yields will dampen the appeal for investing in M-REITs.

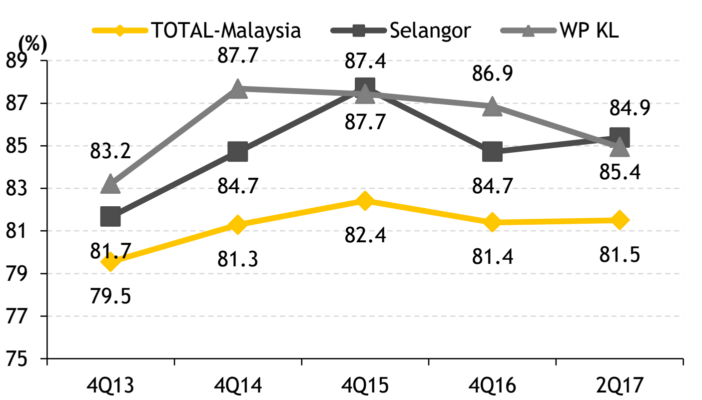
M-REITs: Lease expiry schedule (% of total NLA)

	2017	2018	2019	Notes
Sunway REIT	22%	12%	18%	Based on FY18-FY20's portfolio lease expiry schedule
Pavilion REIT	23%	14%	64%	Pavilion Mall only
CapitaLand M'sia	51%	34%	25%	
Axis REIT	18%	15%	17%	
MRCB-Quill	13%	26%	13%	

Note: Information based on availability

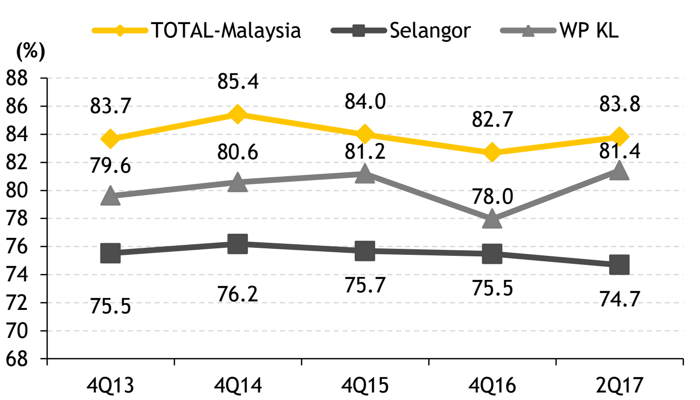
Source: Latest annual report/presentation slides of respective trusts

Existing shopping complexes: Occupancy rates



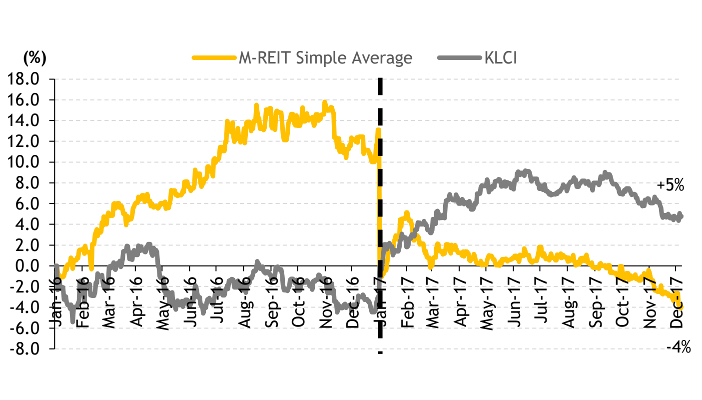
Source: National Property Information Centre (NAPIC)

Existing purpose built offices: Occupancy rates



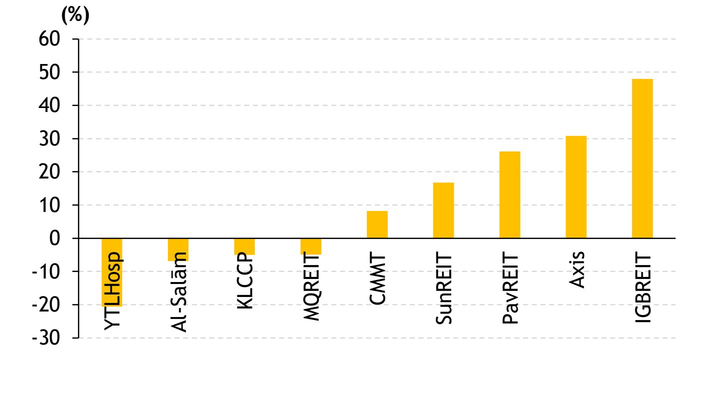
Source: National Property Information Centre (NAPIC)

Average M-REITs and KLCI 2016/2017 YTD performances



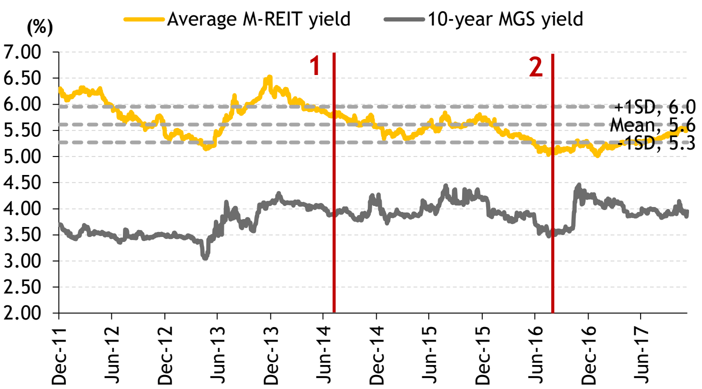
Source: Bloomberg

Premium/discount of unit price to NAV



Source: Bloomberg

Average M-REIT net yield (1-year forward) and 10-year MGS yield



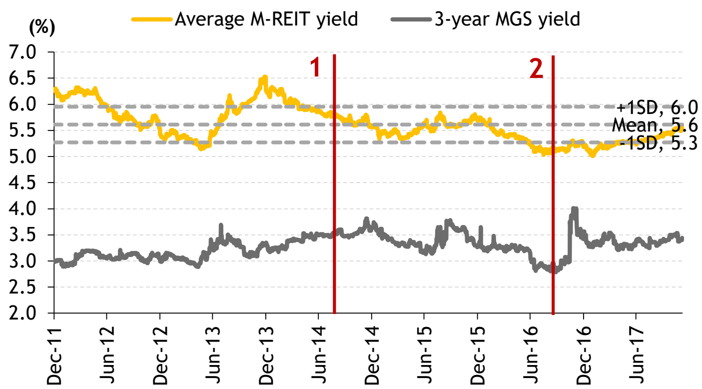
1: OPR hike of +25bps on 10 Jul 2014

2: OPR cut of -25bps on 13 Jul 2016

Note: Average M-REIT net yield (1-year forward) derived from M-REITs within MKE coverage; Mean, +1SD and -1SD bands are pegged to average M-REIT net yield

Source: Bloomberg, Maybank Kim Eng

Yield spread between average M-REIT net yield (1-year forward) and 3-year MGS yield



1: OPR hike of +25bps on 10 Jul 2014

2: OPR cut of -25bps on 13 Jul 2016

Note: Average M-REIT net yield (1-year forward) derived from M-REITs within MKE coverage; Mean, +1SD and -1SD bands are pegged to average M-REIT net yield

Source: Bloomberg, Maybank Kim Eng

M-REITS sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Axis REIT	Hold	1.52	1,869.9	1.70	18.5	18.3	17.3	1.2	1.2	6.6	7.0	5.2
Al-Salam REIT	Buy	0.98	568.4	1.10	15.8	15.3	14.8	0.9	0.9	6.0	6.2	5.7
CMMT	Hold	1.42	2,893.6	1.50	17.5	18.0	17.3	1.1	1.1	6.0	6.3	5.6
IGB REIT	Buy	1.57	5,516.1	1.85	19.6	18.3	18.0	1.5	1.5	7.8	8.1	5.6
KLCCP	Hold	7.77	14,027.4	7.95	19.5	19.5	19.0	1.1	1.0	5.4	5.3	4.4
MRCB-Quill REIT	Buy	1.24	1,324.3	1.35	13.8	14.8	14.1	1.0	1.0	6.6	6.9	6.1
Pavilion REIT	Hold	1.61	4,878.5	1.70	20.6	21.5	19.9	1.2	1.1	5.6	5.6	4.8
Sunway REIT	Buy	1.69	4,977.2	1.90	18.7	17.5	16.6	1.2	1.2	6.8	7.2	5.4
YTL REIT	Buy	1.20	2,045.3	1.40	16.2	16.6	14.8	0.8	0.8	4.9	5.6	6.3
Simple average					**18.0**	**17.9**	**17.1**	**1.1**	**1.1**	**6.4**	**6.6**	**5.4**

Source: Maybank KE

SHIPPING AND PORTS: In need of catalysts

NEUTRAL (unchanged)

Maintain NEUTRAL. Interest on the shipping and port sector may stay lukewarm in 2018 given the limited excitement. Additionally, valuations are also at about fair. In our view, MISC's earnings growth could be just pedestrian in FY18 in the absence of a buoyant petroleum tanker market. As for Westports, the upside hinges on the materialization of its proposed CT10-19 (detailed studies to only conclude in 1H19). We have HOLD calls on both MISC and Westports.

2017: Underperformed KLCI. MISC's share price has underperformed the KLCI owing to the plunge in petroleum tanker rates, despite higher YoY group earnings in 9M17, underpinned by strong LNG earnings with the delivery of its three new Seri C Class vessels and resumption of charter hire for its two Yemen LNG vessels. Westports' share price also underperformed as its two key customers (CMA CGM and UASC) have shifted substantial volume (c.20% of total volume) to PSA (Port of Singapore Authority). However, Westports' 9M17 net profit was down just 5% YoY as earnings were cushioned by a lower effective tax rate (FY17F: 7%).

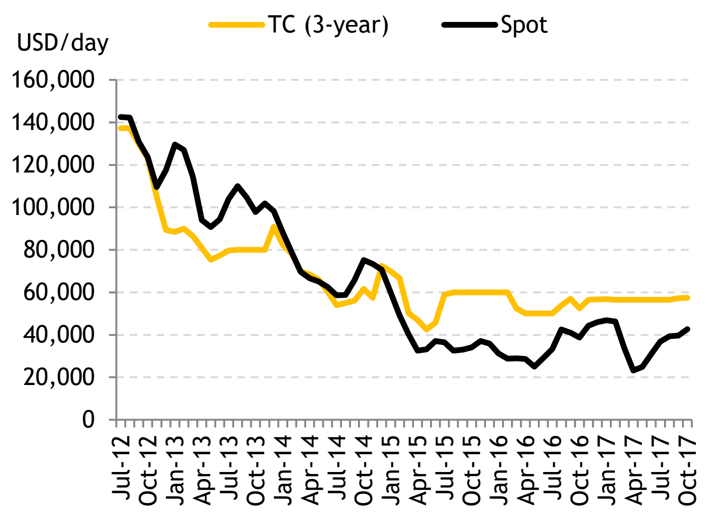
2018: Pedestrian growth for MISC. We project a pedestrian 2% EPS growth for MISC in FY18 as we expect: (i) flattish LNG earnings as the two other new Seri C class vessels (to be delivered in 1H18) may mitigate lower earnings from Puteri Intan Satu (an old charter contract which ended in Sep 2017). Also, LNG charter rates may remain soft in 2018 in view of the strong newbuild supply, which could be compounded by older vessels coming off charter; (ii) better Petroleum earnings as we expect a slight improvement in tanker rates on declining global tanker orderbook. Additionally, favourable scrapping prices, poor charter market and environmental regulations have pushed old tankers demolition to new highs.

2018: Mild volume recovery but higher tax rate. We think Westports' container throughput has already bottomed in 3Q17 (9M17: -8% YoY; the movements of its 2 key customers were fully reflected in 3Q17) and would see organic growth from its existing customers in 2018, especially for the intra-Asia trade lane. We have projected for container volume growth of 4% in FY18. However, we expect its FY18 bottomline to be weaker by 5% YoY due to our assumption of a higher effective tax rate of 15% (2017F: 7%).

Stock picks. We have a HOLD on MISC (SOP-TP: MYR7.60). Current valuations have fairly priced in its assets and strong financials (highest in the industry), which enables the Group to bid for projects competitively. As for Westports, we also maintain a HOLD call (DCF-TP: MYR3.80; WACC: 7.5%; 2025-54 growth rate: 2%) as we think its current valuation (21x 2018 PER; above regional peers' average PERs) has reflected its superior financial metrics (margins, ROEs).

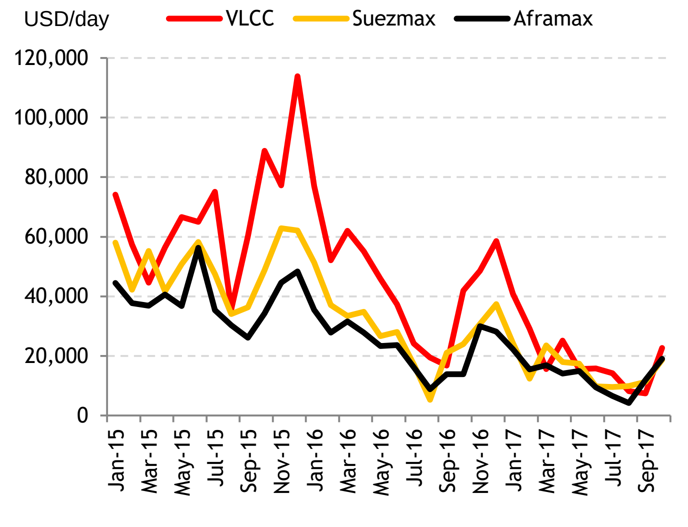
Risks to our call. For MISC: (i) a sudden surge/drop in oil price could cause storage demand using petroleum tankers to fall/increase; and (ii) a substantial weakening of USD will lead to weaker MYR-translated earnings. Key risks for Westports include: (i) substantial slowdown in the global economy which could see its throughput fall correspondingly; and (ii) positive outcome of its detailed studies on its proposed CT10-19 may provide further upside to our fair value.

MISC: LNG vessel charter rates



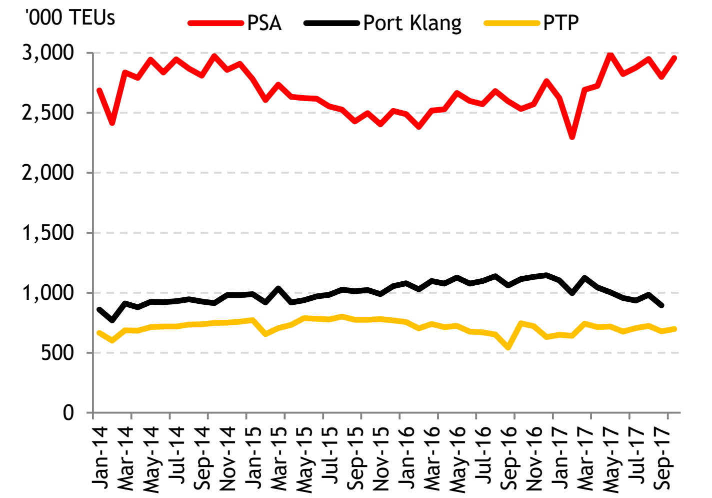
Source: MISC

MISC: Petroleum tanker spot rates



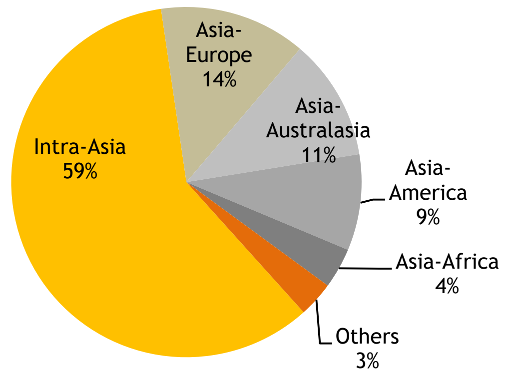
Source: MISC

Ports: Monthly container throughput of key ports



Source: CEIC, MMC

Westports: Container volume by trade lanes (3Q17)



Source: Westports

Shipping & ports sector - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
MISC	Hold	7.09	31,648.3	7.60	16.5	15.3	14.9	0.8	0.8	5.3	5.4	4.4
Westports	Hold	3.61	12,310.1	3.80	19.9	20.5	21.6	5.6	5.2	27.0	24.1	3.5
Harbour-Link	Hold	0.70	280.3	0.76	6.5	9.5	8.1	0.8	0.7	8.3	8.9	2.7
Simple average					**14.3**	**15.1**	**14.9**	**2.4**	**2.3**	**13.5**	**12.8**	**3.5**

Source: Maybank KE

TECHNOLOGY: Selective optimism

NEUTRAL (unchanged)

Maintain NEUTRAL. Following a super-normal 21% YoY growth in 10M17 global semiconductor sales (GSS) and equipment billings (10M17: +42% YoY), the 2017 high growth would be hard to match in 2018 (WSTS projects +7% YoY growth in GSS for 2018). Looking back at Malaysia, we are NEUTRAL on the sector but cautiously optimistic on semiconductor/EMS players which have clearer visibility in their respective segments (i.e. Inari, VSI), notwithstanding a stronger MYR against USD. Valuations are fair at market weighted 20x 2018 PER for expected earnings growth of 32%. Inari is our Top BUY in the sector.

2017: Super-normal growth led by memory market. Two-third of 2017's boom in GSS (10M17: +21% YoY) came from the oligopoly memory market whereby a supply imbalance situation was seen due to unforeseen scaling limitations. Elsewhere, overall demand was also boosted by the key smartphone players (i.e. Samsung, Huawei) which beefed up their respective smartphone offerings prior to Apple's launch of the latest iPhones in order to preserve their market shares. Against this backdrop, almost all Malaysian semiconductor and automation equipment players saw double-digits expansion in revenues and earnings.

2018: Mega mergers and its implications. The passing of a smartphone super cycle in 2017 should see interest in this segment taper in early-2018. In addition, demand shortfall of recently launched smartphones, which are highly anticipated, could result in a possible rationalization in forward components production at the semiconductor space. Alongside a strong MYR against USD, we are cautious on the sector in 1H18.

That said, in what could be the largest takeover in technology history, we are excited on Broadcom's USD103b takeover offer of Qualcomm (initial offer which was rejected by Qualcomm). Should Broadcom succeed, this complicated deal (in view that Qualcomm is in the midst of acquiring NXP Semiconductors for USD47b while facing legal issues with Apple) would elevate the merged entity to be the third largest technology player globally with a combined revenue of USD51b annually (one-eighth of annual GSS), whilst adding NXP's automotive exposure into the portfolio and untangling the legal mess between Qualcomm and Apple.

Relating to Malaysia, this deal could be positive for the supply chain in Penang which has recently seen the establishment of Broadcom's global distribution hub in Aug 2017. We believe that Inari could be a key beneficiary for its long-standing partnership with Broadcom; Inari's planned expansion into Batu Kawan (Penang) which will see its floor space expanding by 60% to 1.6m sq ft is timely to capture further outsourcing works from Broadcom as well as OSRAM which has kickstarted Phase 1 of is EUR1b wafer fabrication plant in Kulim (Kedah) recently.

Stock picks. We remain positive on tech players with high demand visibility to absorb their capacity expansions. Besides Inari, other tech stocks within our coverage with strong expansion plans include VSI and ViTrox; we prefer the former for its (i) superior earnings visibility backed by its key client's ambition to double its unit shipment in the coming years, (ii) lower USD exposure, and (iii) relatively cheaper valuations. We peg GTB/ViTrox at 18.0x/22.5x CY18 EPS respectively, in line with peers. At 20.4x/26.1x CY18 PER currently, we believe that valuations are stretched. As such, we are SELLers of GTB and ViTrox.

Risks to our calls. (i) A sharp fall in the overall smart devices market; (ii) another larger-than-expected channel inventory rationalisation; and (iii) a stronger MYR are key risks to profitability.

Impact from a stronger MYR

As net USD exporters, technology players lose out from a stronger domestic currency (*refer to sensitivity analysis below*). We estimate that a 1% variation in the USDMYR from our base case on a full-year basis would affect the net earnings of ViTrox, Inari, GTB and VSI by 1.5%, 1.2%, 0.8% and 0.4% respectively, ceteris paribus.

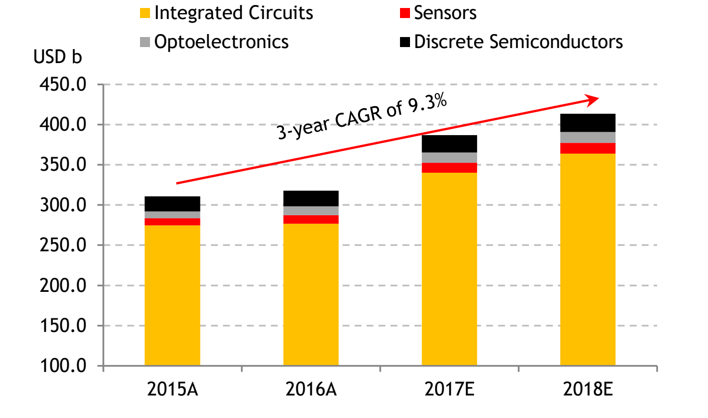
- **ViTrox Corporation (SELL: TP: MYR4.68).** Our sensitivity analysis suggests 3% lower yearly net profit estimates if the USDMYR sustain at the current USD1/MYR4.08, vs. our base case of USD1/MYR4.15, ceteris paribus.
- **Inari Amertron (BUY: TP: MYR3.38).** Our sensitivity analysis suggests 4% lower yearly net profit estimates if the USDMYR sustain at the current USD1/MYR4.08, vs. our base case of USD1/MYR4.20, ceteris paribus.
- **Globetronics Technologies (SELL; TP: MYR5.50).** Our sensitivity analysis suggests 5% lower yearly net profit estimates if the USDMYR sustain at the current USD1/MYR4.08, vs. our base case of USD1/MYR4.30, ceteris paribus.
- **V.S. Industry (BUY: TP: MYR3.55).** Our sensitivity analysis suggests 1% lower yearly net profit estimates if the USDMYR sustain at the current USD1/MYR4.08, vs. our base case of USD1/MYR4.15, ceteris paribus.

Sensitivity analysis

Company	Revenue in USD (%)	COGS in USD (%)	Base assumption for FY18 (USD/MYR)	Impact to NP from ±1% change in USD/MYR (%)
ViTrox Corp	85	30	4.15	1.5
Inari Amertron	90	70	4.20	1.2
Globetronics	65	70	4.30	0.8
V.S. Industry	30	50	4.15	0.4

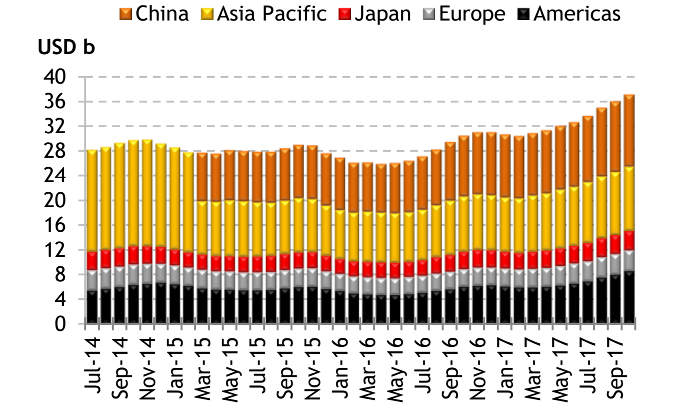
Source: Company, Maybank Kim Eng

Global: Yearly semiconductor revenue breakdown



Source: WSTS

Global: Monthly semiconductor sales by region



Source: CEIC

Technology sector - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Inari Amertron	Buy	3.34	6,822.0	3.38	37.7	28.5	22.4	7.6	6.9	26.6	30.7	3.3
Globetronics	Sell	6.14	1,751.5	5.50	68.2	38.4	20.4	6.3	5.8	16.8	29.0	3.6
Vitrox Corp	Sell	5.43	2,553.0	4.68	41.8	31.2	26.1	8.0	6.5	25.4	24.7	1.0
V.S. Industry	Buy	3.03	3,834.7	3.55	31.4	23.5	18.0	4.3	3.8	18.4	21.5	2.8
Simple average					**49.3**	**32.7**	**23.0**	**7.3**	**6.4**	**22.9**	**28.2**	**2.6**

Source: Maybank KE

TELECOM: Stability finally?

NEUTRAL (unchanged)

Possible growth. We are NEUTRAL on the sector. Share prices of the big-cap telcos were largely stable in 2017 with the exception of Axiata, whose share price is up over 10% in tandem with its EBITDA recovery. We expect mobile revenue (Big 3) to revert back to a slight growth in 2018 after four consecutive years of decline, although this is more from a base effect rather than structural improvements. Risk-reward for the big-cap telcos remains largely balanced for now, with no major mispricing apparent, in our view.

2017: Mobile stabilising. While mobile revenue is poised to decline for the fourth consecutive year in 2017, the quarterly trends point to a sequentially improving operating environment. The revenue weakness largely stemmed from Digi (9M17 service revenue was down 5.8% YoY) following a strategy shift in 1Q17 to deprioritize SIM sales and IDD voice. Encouragingly, quarterly revenue trends for both Digi and the Big 3 have been on a sequential uptrend since. In addition, Big 3 cumulative EBITDA is also poised for growth in 2017, a consequence of cost optimization initiatives by all telcos. Fixed-line operations saw a slightly weaker year, with marginal softness across enterprise and wholesale segments being supported by ongoing retail growth. TM continues to endure substantial losses from its mobile arm Webe.

2018: A base effect in mobile finally? Given the sequentially improving mobile revenue trends in 2017, we expect industry revenue to revert back to a small growth in 2017 from a low base. We expect the overall degree of competition to remain relatively rational, with each of the Big 3 seeking to preserve ARPUs as much as possible. It appears UMobile has reached a floor with regards to price points, and it also has to contend with its network rollout following its receipt of the 900/1800MHz spectrum. Unlike 2017 when a significant proportion of the street was bearish, the expectation of a relatively stable 2018 mobile market appears largely consensus.

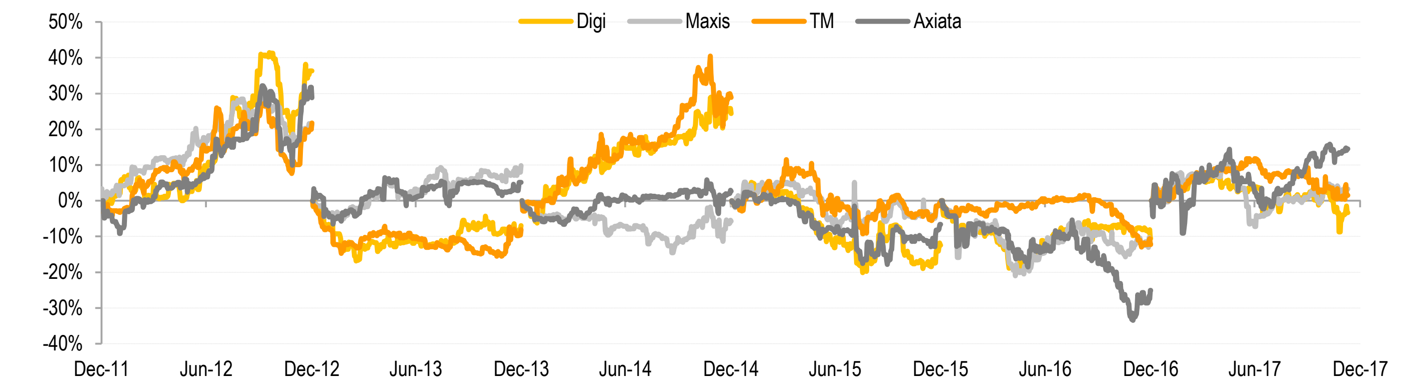
2018: Spectrum fees to remain manageable. Recall Malaysia's inaugural spectrum fees for the 900/1800MHz band were not particularly prohibitive, with the Big 3 each electing to pay the upfront portion (MYR2.74b) in a lump sum. The tender for the 700MHz band has since been announced, with results due to be released in mid-2018. Importantly, the pricing was very reasonable, with the total cost for a 5Mhz pair in the 700Mhz band at MYR494m, slightly lower than the MYR500m for the 900Mhz band. Given the reasonable pricing (all incumbents are likely to bid, in our view), we believe a non-uniform distribution of the spectrum among the Big 3 would likely have an impact on share prices. Meanwhile, we understand both the soon-to-expire 2600MHz and 2100MHz bands would be extended for two years with no upfront fee. All of these are positive for the balance sheet of mobile operators, who in our view, are unlikely to require further equity raising.

2018: Retail to continue driving fixed-line growth. Both TM and TDC have alluded to incrementally more challenging operating conditions in the enterprise and wholesale segments. In the wholesale space, the OTT majors are increasingly looking to own capacity instead of leasing from telcos, and this has had a detrimental impact on rates. In the local enterprise space, TM's attempt to push its Unifi service (lower-priced compared to traditional enterprise solutions) to SMEs has put downwards pressure on rates. Both operators continue to look to the retail fixed broadband segment to drive growth. TM's fibre broadband product (presently offered with an IPTV add-on) has enjoyed healthy subscriber momentum over the years, and we expect this to continue in 2018. TDC meanwhile, has found its niche in urban high-rise with its high-speed, no frills product, and is coming from a low base.

Stock picks. This is again a relative call given our lack of BUY calls. With Digi having largely recovered from its share price decline (from its loss of Shariah status), our preferred stock among the big-caps is now Axiata, which has demonstrated healthy EBITDA recovery throughout 2017. Its dividend payout should normalize in 2018 (DPR was reduced in 2016 and 2017 to conserve cash), and we believe edotco's value has not yet been fully reflected in Axiata's share price. We continue to be slightly concerned by TDC, whose lofty valuations are now being exacerbated by a less positive outlook for the wholesale and enterprise segments.

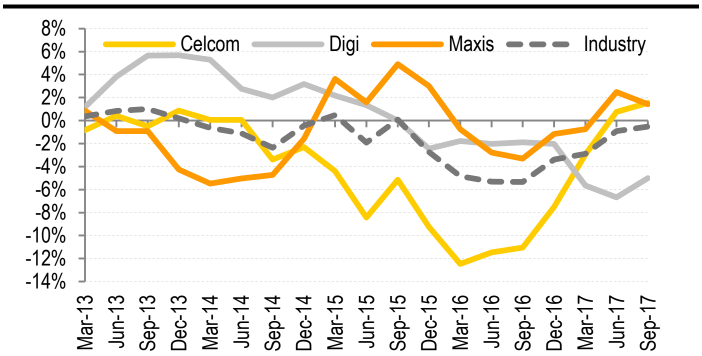
Risks to our call. The main downside risk for wireless telcos continues to revolve around the emergence of a serious price war, particularly if one of the Big 3 starts to drop price points significantly. Similarly in the fixed-line space, with retail being the main growth driver for both TM and TDC, the main downside risk revolves around a lowering of price points in the home broadband segment, either competition-induced or regulatory-enforced.

Share price performance (annual reset)



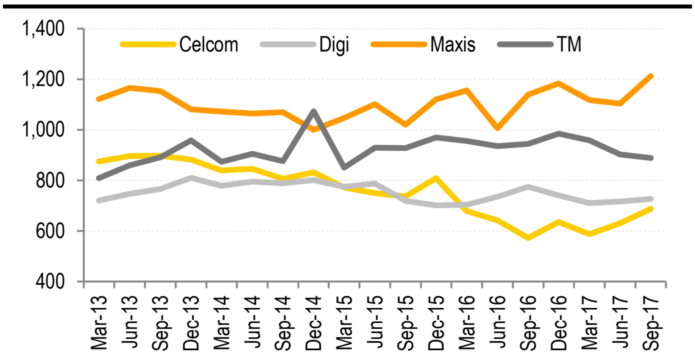
Source: Maybank KE

Quarterly service revenue YoY growth



Source: Companies

Quarterly EBITDA (normalised)



Source: Companies

Telecom sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	EV/EBITDA (x)	EV/EBITDA (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Axiata	Hold	5.37	48,587.4	5.50	33.6	37.0	32.9	6.6	6.1	5.4	6.0	2.6
DiGi.Com	Hold	4.84	37,631.0	4.80	23.0	24.8	24.2	13.8	13.3	291.3	300.1	4.1
Maxis	Hold	5.94	46,394.8	6.20	23.1	22.5	23.1	11.7	11.5	29.7	27.1	3.4
Telekom	Hold	6.05	22,735.5	6.00	26.8	26.2	26.5	7.3	6.9	11.2	10.9	3.4
TIME dotCom	Hold	9.10	5,291.2	8.40	21.3	32.4	26.2	18.1	14.8	7.4	8.6	1.0
Simple average					**25.6**	**28.6**	**26.6**	**11.5**	**10.5**	**69.0**	**70.5**	**2.9**

Source: Maybank KE

UTILITY: Regulatory uncertainty over?

POSITIVE (unchanged)

Overall risk-reward still favourable. 2017 was again a mixed year for utilities. While Tenaga and Gas Malaysia outperformed peers as predicted, the degree of share price correction for Petronas Gas, Malakoff and YTL Power surprised us. Heading into 2018, regulatory clarity should have emerged (at least for Tenaga) and operational issues would likely retake centre stage. Tenaga remains our long term BUY pick, while risk-reward for Petronas Gas and Malakoff look increasingly favourable.

2017: Mirroring dividend expectations. The year saw regulatory uncertainty come to the forefront for both Tenaga and Petronas Gas, with the outcome of their respective reviews still unknown at the time of writing. Share price trajectories for utility stocks in 2017 generally mirrored directional shifts in dividend expectations. These in turn were not entirely earnings-driven as there were notable changes in payout practices during the year. Tenaga for example, pleasantly surprised the market by both declaring a payout at the top-end (50% DPR) and further raising the ceiling, of its dividend policy (now 60% DPR). YTL Power meanwhile halved its DPS to 5sen to conserve cash for upcoming capex commitment.

2018: Regulatory uncertainty to clear for Tenaga? For Tenaga, the first regulatory period (RP1) of the IBR tariff framework ends in Dec 2017. Thus, we expect clarity pertaining to its regulatory inputs for the second regulatory period (RP2) to emerge by late Dec 2017. We expect Tenaga to at least maintain its current level of profitability in RP2, as any hypothetical reduction in regulatory WACC should be offset by the still rising asset base. In addition, given increasingly elevated coal prices, the quantum of RP2's base tariff would also be an area of focus, with a substantial hike effectively signaling a functional fuel-cost pass-through mechanism. For 2018, we see Tenaga's investment thesis revolving around the likely multiple expansion from the gradual dissipation of skepticism over the pass-through mechanism.

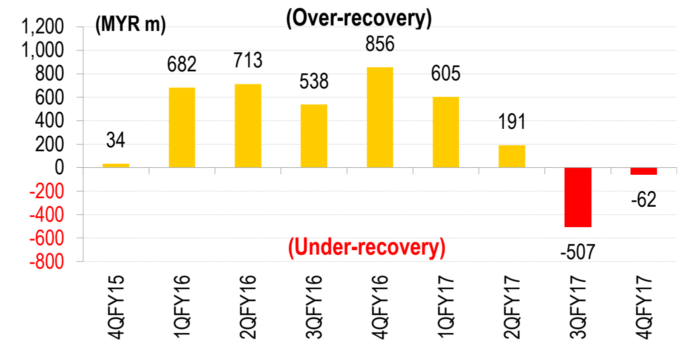
2018: Worst case scenario being priced in for Petronas Gas? As a result of TPA (Third Party Access) implementation, Petronas Gas will see its transportation and regasification segments (cumulatively accounting for c.60% of EBIT) eventually migrating to a 'NOPAT = WACC x asset base' tariff model (from direct agreements with parent PETRONAS currently). We estimate the current implied return (NOPAT / fixed asset) of these two segments at c.15-16%, substantially higher than the 7.5% currently applicable to Tenaga and Gas Malaysia. Thus, the worst case scenario effectively implies a c.30% reduction in both earnings (and value) from the possible halving of transportation and regasification EBIT (share price is down over 30% in 2017, suggesting the worst has already been priced-in). Petronas Gas has been lobbying to value its asset base at replacement cost (the regulator typically uses historical cost). The regulator's generally non-punitive stance towards Tenaga and Gas Malaysia in the past makes us believe that Petronas Gas would not be substantially worse-off. We expect regulatory clarity to emerge by 1H18.

2018: Attention on operational issues. Malakoff's last round of unscheduled outage (at Tanjung Bin Energy) in 1H17 had a detrimental impact on stock perception, and management would likely be hoping for a year of overall plant stability in 2018. 2018 will also see earnings step down further from the full-year impact (of capacity payment decline) from the Segari PPA extension (partly offset by a decrease in concession amortisation). YTL Power meanwhile should register earnings growth in FY6/19 as the Malaysia PPA extension takes effect. Nevertheless, investors' attention would likely shift towards the progress of the two substantially-accretive new projects (targeted commencement beyond 2020). Construction of 45%-owned Attarat Power in Jordan has already begun, while the group is still working towards securing financial close for 80%-owned Tanjung Jati A in Indonesia.

Stock picks. We have BUY ratings on Tenaga, Petronas Gas and Malakoff. We see further room for Tenaga to re-rate as doubts over the pass-through mechanism eventually dissipates. Meanwhile, risk-reward for Petronas Gas and Malakoff look increasingly favourable given their sharp share price declines in 2017. We have HOLD ratings on Gas Malaysia and YTL Power. We see Gas Malaysia's increasingly stable earnings profile as being priced-in, while YTL Power's transition into a growth stock requires a substantial gestation period.

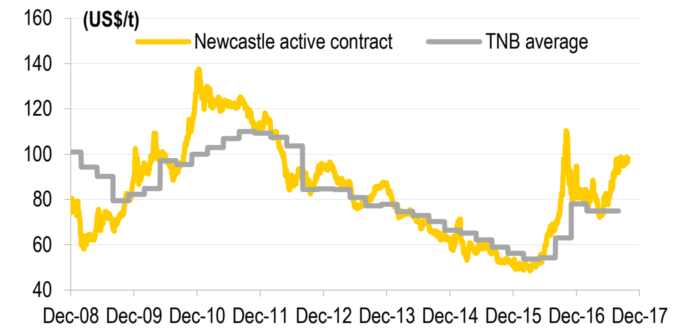
Risks to our call. The key risk with Tenaga centres on the pass-through mechanism hypothetically not functioning, particularly in an environment of rising fuel prices. For Petronas Gas, a non-favourable regulatory outcome would limit upside for the stock. For Malakoff, any major plant outages could result in lower profitability.

Tenaga's quarterly generation cost imbalance



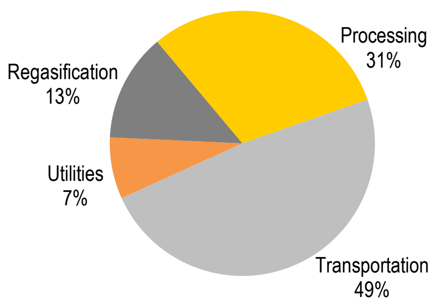
Source: Company

Coal prices



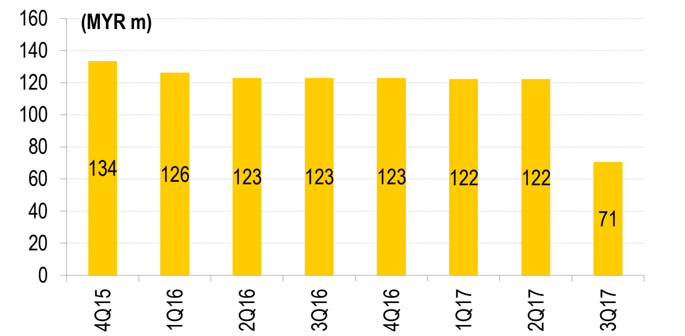
Source: Bloomberg, Company

Petronas Gas' 2017E EBIT split



Source: Company, Maybank KE

Malakoff's quarterly amortisation of concessions



Source: Company, Maybank KE

Utilities sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY16A	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	CY18E
Gas Malaysia	Hold	2.75	3,531.0	3.00	21.3	22.0	20.8	3.5	3.5	15.8	16.7	4.8
Malakoff Corp	Buy	0.89	4,424.5	1.25	12.5	13.2	14.5	0.7	0.7	5.6	5.0	5.6
Petronas Gas	Buy	16.06	31,778.4	23.00	18.2	18.9	16.3	2.5	2.4	13.5	14.9	4.3
Tenaga	Buy	15.48	87,709.5	16.20	11.5	12.5	11.5	1.5	1.4	12.2	12.3	4.4
YTL Power	Hold	1.19	9,433.3	1.34	12.0	12.9	11.6	0.7	0.7	5.3	5.8	4.2
Simple average					**15.1**	**15.9**	**14.9**	**1.8**	**1.7**	**10.5**	**10.9**	**4.7**

Source: Maybank KE

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