Mid-2Q18 Investment Strategy

GE14: Wind of Change

FBMKLCI	1,846.51
Target	1,950.00 ↔

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Despite short-term concerns over the government's fiscal position should GST be abolished; we are hopeful that the victory of the people will enhance the prospects of Malaysia by strengthening key government institutions over the long-run. We maintain our FY18E/FY19E earnings growth estimates for FBMKLCI at +6.1%/+6.0%. We also maintain our end-2018 index target of 1,950. As such, despite a potential but limited downside after the Bursa was closed for three trading days, any weaknesses are considered good buying opportunities. The ideal "Buy On Weakness" (B.O.W.) zone ranges between 1,830 and 1,795. Sector-wise, with the exception of downgrading Construction sector to NEUTRAL, we maintain our OVERWEIGHT ratings on Gaming, MREIT and Power Utility. Besides, we are still comfortable with most of our 2Q18 Top Picks i.e. BIMB (OP, TP: RM5.20), CMMT (OP, TP: RM1.30), HAIO (OP, TP: RM6.00), HEIM (OP, TP: RM23.30), MBMR (OP, TP: RM2.85), PPB (OP, TP: RM22.60), SEM (OP, TP; RM1.70) and TENAGA (OP, TP: RM17.17).

GE14. Pakatan Harapan (PH) has won the majority vote with 122 seats (vs. 79 of Barisan Nasional (BN), 18 of PAS and 3 of Others) and crossed the 112 seats threshold needed to form a government. PH had snatched Johor, Melaka and Negeri Sembilan from BN for the first time. Besides recapturing Kedah, they also retained Penang and Selangor with overwhelming majority. Islamist party, PAS, not only defended Kelantan, but also regained Terengganu. BN managed to keep Pahang, Perak, Perlis and Sarawak while the situation in Sabah remains fluid.

Short-term pain? Despite the overwhelming optimism on ground, the local market could see some near-term uncertainties. This is because Ringgit Malaysia and foreign fund flows could experience some pressure owing to investor concerns over the fiscal position of the nation under the new government. Recall that there were a few key promises made by PH in its manifesto; namely, (i) abolishment of GST (ii) providing targeted petrol subsidies and (iii) to abolish highway tolls in stages. Should these materialise, the fiscal position of the nation could be under pressure in the short-term while efforts are implemented to bring down the government operating cost. To remove this concern, the new government needs to address the shortfall of RM42.0b from GST collections. We reckon the introduction of a new proposed sales and services tax could probably collect about RM20.0b-RM25.0b.

Mixed sector outlook, but Neutral in general. In the immediate term, due to the higher reliance of Petro-revenue in the absence of GST, market is also **concerned over the ability of Petronas to maintain its capex spending guidance** despite higher oil prices. According to the Petronas' Activity Outlook Report 2018-2020 published last year; (i) capex spending of oil majors is to grow by 16%, and (ii) the sector is also expecting 19-40% upward revision for 2018-19 activities led by jack-up rigs, OSVs and MCM/HUCs. Market participants could also stay cautious from construction players, as their share prices and earnings performances are highly correlated to contract awards, which will see more uncertainties due to budget constraint. In particular, several key large-scale Chinese investment projects, including the upgrading of some sea ports as well as the East Coast Rail Link (ECRL) are expected to be reviewed as well. Having said that, **the renegotiation of the key large-scale Chinese investment projects may benefit the sector in the long-run** as it is reasonable to expect lower import contents and bringing higher value-added to domestic economy. On the contrary, with such people-friend policy changes, this should benefit consumer stocks, especially retailers, the most. Beneficiary stocks include **AEON (OP, TP: RM2.00), HAIO, MYNEWS (UP, TP: RM1.25), PADINI (MP, TP: RM4.65), SEM and PARKSON (OP, TP: RM0.860)** to a certain extent. Furthermore, we also **do not rule out the emergence of Water Theme Play** as well. With PH's win in both Federal and Selangor State, we believe that Selangor state government would be able to resolve the water deadlock in the state by privatising the remaining water player in Selangor – SPLASH. The immediate beneficiaries from the potential resolution to the water saga would be **GAMUDA (OP, TP: RM5.65)** and **KPS (Not Rated)**. To recap, GAMUDA and KPS own 40% and 30% of SPLASH, respectively. All in, we reckon the victory of PH in GE14 could be neutral to positive. For the immediate term, the change in government could be a "business as usual" scenario for most of the sectors under coverage.

This time is different? For now, as the transition in power is considered smooth and with foreign perception also generally positive, we MAY NOT see a fierce sell-down despite the potential knee-jerk correction due to GST concern. Our ideal B.O.W. **ranges between 1,830 and 1,795, implying -1SD and -2SD levels.** In fact, if PH government is able to prove its ability to defend its fiscal position without GST, this could prompt us to take an outright bullish stance. For the immediate-term, we may also see a rerating in banking sector and local equity market if and when the 1MDB scandal is seen as being resolved swiftly.

Appendix

Figure 1: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Aviation	**Maintain**	• We believe it is business will be as usual for the airlines with minimal impact from any policy changes given that their businesses are driven by the global macro environment factors. While we believe that the election period would see a surge in domestic passenger volumes for AIRASIA, we are NEUTRAL as impact towards earnings is likely minimal given the short election period. • For the upcoming results season later this month, we foresee AIRASIA and AIRPORT's results coming in within expectations given that: (i) AirAsia carried 10.6m passengers in 1Q18 accounting for 25% of our FY18 passenger target for AirAsia on the back of a load factor of 87% (vs. ours of 85%), and (ii) AIRPORT's 1Q18 passenger traffic growth is at 7.0% in line with our FY18 passenger growth assumption of 8.5%. • Maintain our calls and TP within the aviation space.	**OP:** AIRASIA (TP: RM5.30) **MP:** AIRPORT (TP: RM8.45)
Gaming	**Maintain**	• **No impact.** The GE results have no impact on the sector. • **A seasonally better quarter ahead.** The upcoming 1QCY18 results should be a seasonally strong quarter for the players on CNY-effect which should enjoy better business volume. This is especially so for GENM which may see some upside given the new launch of SkyCasino last March and the VIP floor in end-3Q17 • **OVERWEIGHTing the sector.** An exciting year for casino operators on developments such as GITP expansion, recovery of GENS and new Japan market, while the depressing NFOs' share prices should have bottomed out. All gaming stocks look attractive with NFO offering above average yields.	**OP:** BJTOTO (TP: RM2.65) GENM (TP: RM5.80) GENTING (TP: RM10.65) MAGNUM (TP: RM2.20)
MREITs	**Maintain**	• We believe it will be business as usual for MREITs as the sector is defensive backed by decent yields of 5.4-7.3%. Recent results for MREITs have all been within expectations while upcoming results for the quarter (i.e. KLCC, MQREIT) are not expected to disappoint. We believe investors should hold onto yields and flights to safety. • We are comfortable with our valuations for now as we have priced in most risk by increasing spreads by 0.5-1.2ppt (+0.5SD above historical averages) in our recent 2Q18 Strategy *(dated 4th April 2018*). • To recap, our increased spreads are to help encapsulate investors' concerns of oversupply issues and OPR hikes, and may serve as a buffer should there be any volatility to valuations surrounding GE. Nonetheless, we may look to remove this once confidence returns to the sector and in line with our 2H view of a low probability of a second OPR hike. • Additionally, we do not believe Malaysia's sovereign rating and MGS yields will be impacted negatively, albeit some volatility in the near term. However, we expect positive sentiment to return once the dust settles in light of improved sentiment of governance. Notably, Fitch has re-affirmed Malaysia's A- rating post the Pakatan Harapan win. As such we maintain our 10-yr MGS target of 4.00%, while a sensitivity analysis suggests that increasing our 10-yr MGS target to a conservative 4.50% (historical high	**OP:** CMMT (TP: RM1.30) ***– Top Pick*** MQREIT (TP: RM1.15) PAVREIT (RM1.55) **MP:** AXREIT (TP: RM1.30) KLCC (TP: RM7.00) SUNREIT (TP: RM1.60) IGBREIT (TP: RM1.50)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		since 2009 is 4.41%) would only lower our MREITs TP's by 6-9%. • We maintain OVERWEIGHT for now as we believe investors can seek comfort in MREITs decent yields. However, we may look to downgrade to NEUTRAL; (i) should there be earnings weakness to REITs in coming quarters, confirming oversupply fears, and (ii) upon confirmation of increased OPR hikes. • **Top Pick is CMMT (OP; TP: RM1.30) as we have accounted for most downsides, but yields are still attractive at 7.0%** vs. large cap peers' average of 6.2% in light of overdone sell-downs (-19% share price decline YTD). Recent 1Q18 results have met expectations on the back of improving reversions.	
Power Utility	**Maintain**	• **A "real" tariff hike.** With limited funds available to offset rising fuel costs, the government should have less pressure to allow TENAGA to raise tariff rates/surcharge on consumer directly should ICPT under-recovery situation persists in the future but this is earnings neutral to TENAGA. • **Better earnings ahead.** TENAGA's earnings will be led by 2.1% electricity demand growth in 2018. YTLPOWR should see better earnings on the recommencement of Paka Power Plant but MALAKOF's upside is capped by capacity payment cut at SEV. PESTECH will see maiden recurring income starting in early 1QCY18. • **Maintain OW for the sector.** TENAGA is our TOP Pick with its undemanding valuation of 14x CY18E PER against FBMKLCI's 16x which is unwarranted given its index-linked heavyweight status and earnings quality profile while PESTECH is still an alternative small cap play.	**OP:** MALAKOF (TP: RM1.25) PESTECH (TP: RM2.15) TENAGA (TP: RM17.17) – ***Top Pick*** **MP:** YTLPOWR (TP: RM1.25)

Source: Kenanga Research

Figure 2: Underweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Healthcare	**Maintain**	• We believe the healthcare industry in Malaysia will continue to see stable growth supported by growing healthcare expenditure, rising medical insurance and aging population demographics. The healthcare services sector's earnings are considered defensive considering their high predictability and captive earnings streams. All in, healthcare stocks under our coverage are trading at rich PER valuations in contrast to their expected low-teens earnings growth. • **Maintain Outperform on KPJ Healthcare.** Following KPJ's stellar FY17 result on the back of lower-than-expected losses from newly opened hospitals, valuations are looking undemanding. The stock is currently trading at 20% and 44% discounts compared to its historical average of 25x and regional peers of 35x, respectively.	**OP:** KPJ (TP: RM1.05) **UP:** IHH (TP: RM4.90) PHARMA (TP: RM3.85)
Plastics and Packaging	**Maintain**	• We do not expect any significant changes to the sector and it should be mostly business as usual for plastic packagers under our coverage. • GST impact not overly significant. We believe it may help topline on slightly better local sales for plastic packagers under our coverage, but the impact will be muted cost-wise as GST will be replaced by the SST on certain cost	**OP:** TGUAN (TP: RM3.20) SLP (TP: RM1.30) **MP:** SCGM (TP: RM1.45)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		items, the impact of which is too soon to ascertain. • Additionally, we do not expect significant cost impact to earnings from the proposal to increase minimum wage to RM1,100 (from RM1,000), <5% for all plastic packagers as this may be implemented over the longer run. • **Resin cost volatile in the near term, but expected to trend downwards in the longer run** on ample supply of resin due to excess capacity from China and India, and US shale-based resin in CY18 which could be a re-rating catalyst for the sector. Resin prices are currently range bound between USD1,100-1,300/kg, but we believe it may trend downwards slightly in 2H18 on increased supply. As such we maintain our resin cost assumptions closer to current levels for now. • Maintain UNDERWEIGHT as resin cost may be volatile in the near term, while variations to product sales mix may affect margins. However, we may look to up our valuations and call to NEUTRAL should there be more consistent earnings deliveries in the upcoming results season, and favourable macro fundamentals for the sector.	**UP:** SCIENTX (TP: RM7.35) TOMYPAK (TP: RM0.555)
Rubber Gloves	**Maintain**	• Post the just concluded GE14, we expect headwinds from potential higher minimum wage which could derail earnings of glove players since labour accounts for 9% of production cost. For illustrative purposes, assuming if the present minimum wage is hiked by 50% to RM1,500/month, *ceteris paribus*, assuming 'a no cost pass-through' scenario, the minimum wage policy is expected to hit glove players' bottom-line by 3-12% on a full-year basis based on our back-of-the-envelope calculations. However, in the past, glove makers had managed to gradually pass cost through via higher ASPs. • Overall, anecdotal evidence suggests that the rubber gloves stocks' share price rally was led largely by massive PER expansion compared to pedestrian earnings growth over the past eight quarters and 12-month period. Our analysis suggests that strong surge in price movements of the glove stocks have been mainly due to changes in the PE multiple and not so much on earnings growth. On the flipside, key upside risk is the stronger-than-expected demand. **Hartalega and Top Glove are trading at above +2.0SD** which we believe all the good news are priced in.	**MP:** TOPGLOV (TP: RM9.40) **UP:** HARTA (TP: RM5.00) KOSSAN (TP: RM6.85) SUPERMX (TP: RM2.20)

Source: Kenanga Research

Figure 3: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	**Maintain**	• **We maintain our NEUTRAL rating on the AUTOMOTIVE sector and maintain our 2018 TIV estimate at 590,000 units (+2%)** • **The revised National Automotive Policy (NAP) 2018,** which is expected to be unveiled by mid-2018 after this general election, will be expanding its focus into mobility, next-generation vehicles, big data, lifestyle and connectivity, compared with NAP 2014 that focused on energy efficiency, safety and carbon emission reduction. • The new coalition government plan to **reduce the excise duties on imported cars below 1,600cc for the first-**	**OP:** BAUTO (TP: RM2.30) MBMR (TP: RM2.85) ***– Top Pick*** **MP:** DRBHCOM (TP: RM2.50) SIME (TP:RM2.70) TCHONG (TP: RM1.80) UMW (TP: RM6.25)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		time car buyers which we believe to be minimal impact given the small-targeted consumer group. • In a recent press release announcement, TCHONG unveiled its plan to set-up "Tan Chong Automotive and Commercial Vehicle Hub" in Bagan Datuk, Perak as it perpetuates its mission as a responsible corporate entity and noted the support extended by the pertinent government agencies. • We believe that with the formation of a new coalition government, both implementation of NAP 2018 and TCHONG Automotive and Commercial Vehicle Hub will be **slightly delayed from the original timeline** to give room for a revision by the new government agencies representative. • The revised NAP 2018 should be positive for all the auto players especially with their partnerships and affiliations with foreign car makers, which can be developed into further tie-ups and collaborations. We believe there is also room in NAP 2018 for regulation supporting Electric Vehicles (EV) nation-wide implementation. • **Our sector top pick is MBMR (OP, TP: RM2.85)** for its deep value stake in 22.58%-owned Perodua and expected strong turn-around for its alloy-wheel division with the all-new Perodua Myvi and expected launch of the all-new Perodua SUV (D38L) • **We also like BAUTO (OP, TP: RM2.30)** for its solid earnings recovery with the launching of its flagship model, the all-new Mazda CX-5 backed by superior margins, which is head and shoulders against industry peers (average profit margins of c.8% as compared to peers' average of c.2%)	
Banks and Non-Bank Financial Institutions	**Maintain**	• **Maintaining Neutral outlook**. Despite the incoming government will continue with business-friendly policies in light of the positive and stable economy, we still view that banks will be still be cautious and selective on asset quality to defend credit costs in the dawn of the MFRS9 with approval rate tight system loans growth is likely to moderate 5-5.5% with a downside bias. On a positive note, with excess liquidity improving coupled with credit demand, NIM compression looks likely to be neutral with an upside bias. • **Selective lending coupled with resilient household**. While economic outlook is positive ahead with credit charge expected to normalise after the highs in 2016-2017, we view that the banks will still be selective on asset growth, mindful of sudden volatile changes in the economic outlook. Part of the caution on assets is to curb higher credit charge under the MFRS9 era. Although guidance on credit charge is lower than expected, we do not discount volatility under the MFRS9 era if economic outlook shift downwards. At present, positive economic outlook coupled with low unemployment is backing resilient household spending, supporting loans growth. • We maintain our **MARKET PERFORM** call for most of the banking stocks in our universe with some **OUTPERFORM** call for certain stocks due to their sharp depreciations in recent days creating attractive propositions. Our **OUTPERFORM** calls are AFFIN, AMBANK, BIMB, CIMB, MBSB and RHBBAMK • **Our Top Pick for the sector is BIMB** where we expect	**OP:** AFFIN (TP: RM2.75) AMBANK (TP: RM4.90) BIMB (TP: RM5.20) ***– Top Pick*** CIMB (TP: RM7.40) MBSB (TP: RM1.35) RHBBANK (TP: RM5.70) TAKAFUL (TP: RM4.30) **MP:** ABMB (TP: RM4.25) AEONCR (TP: RM13.50) BURSA (TP: RM11.00) HLBANK (TP: RM18.40) LPI (TP: RM18.60) MAYBANK (RM10.60) PBBANK (TP: RM22.35)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		ROE of ~16% due to: (i) CY18 higher loans circa 10% (vs. CY17 of ~7%), (ii) CY18 credit charge of 26bps vs. industry's 36bps on the back of GIL of 0.9% vs. industry's 1.9%.	
Building Materials	**Maintain**	• Post elections, we expect business as usual for BMAT players under our universe. While ongoing infrastructure construction would spur demand for construction materials, overall demand growth is still likely muted/minimal from the subdued residential and commercial property market. Also, given that the opposition has clinched victory for the first time creating uncertainties, we are anticipating slower construction awards in the near term, which would dampen outlook for building materials prices moving forward. • For the upcoming earnings season, we do not foresee any earnings surprises within the BMAT space. • Maintaining our calls and TPs within the BMAT space for now but potentially adjusting our call and TP downwards for ANNJOO (currently OP; TP of RM3.45) in this coming May results season as outlook for steel prices is uninspiring.	**OP:** ANNJOO (TP: RM3.45) ULICORP (cum-TP/ex-TP: RM2.05/RM1.37) **MP:** PMETAL (TP: RM5.00) WTHORSE (TP: RM1.80) **UP:** LAFMSIA (TP: RM3.90)
Construction	**Downgrade to NEUTRAL**	• Post-GE, we believe that the construction sector could be weighed down with the results causing a further de-rating in the sector. Our concern on the sector lies in the potential review of projects by the newly formed government, which could cause further delays to projects i.e. Pan Borneo Sabah, MRT3, and ECRL. • Potential de-rating to -2SD level. As of 23-March-2018, our report cut-off, KLCON's 1-year Fwd. PER continued its downtrend coming down to 13.2x which is below its 5-year mean level of 13.7x, compared 4QCY17 which is at 14.4x. However, we do not rule out that valuation for the sector could further de-rate to -2SD levels of 10.6x implying another 23% downside from current levels. However, we believe that there is still silver lining in the sector as the newly formed government's negotiation with China related construction projects could potentially benefit more local boys in the longer term. Hence, we are looking to downgrade the sector to NEUTRAL and review our recommendation and TPs (negative biased) in the upcoming 1QCY18 reporting season. • Risks. Our major concerns for the sector remain the same i.e. labour issue, high staff turnover especially mid-management, escalating building material costs, as despite high influx of jobs in the market, as we believe that it could hurt contractors' profitability as the demand for human capital in the sector grows which would lead to higher overheads for contractors.	**OP:** GAMUDA (TP: RM5.65) IJM (TP: RM3.35) KIMLUN (TP: RM2.55) MITRA (TP: RM1.03) MUHIBAH (TP: RM3.55) SUNCON (TP: RM2.30) WCT (TP: RM1.90) **MP:** HSL (TP: RM1.40) **UP:** GKENT (TP: RM3.65) KERJAYA (TP: RM1.55) SENDAI (TP: RM0.740)
Consumer	**Maintain**	• **We reiterate our NEUTRAL rating on the consumer sector.** • Talks about an increase in minimum wage may come into play, affecting manufacturers and retailers with higher running costs. Meanwhile policies to reduce foreign worker dependency may stifle operations and expansion. • On the other hand, certainty of the existing coalition to maintain their commitments to increase handouts (i.e. BR1M) and writing-off Felda settlers' debts could play well to improve spending particularly from the lower income groups which could have dragged sentiment statistics. • The existing coalition also plans to amend the Price Control and Anti-Profiteering Act so that action can be taken against	**OP:** AEON (TP: 2.00) AMWAY (TP: RM8.30) BAT (TP : RM33.85) HAIO (TP: RM6.00) ***– Top Pick*** HEIM (TP: RM23.30) ***– Top Pick*** PARKSON (TP: RM0.860) PWROOT (TP: RM1.65) SEM (TP: RM1.70) ***– Top***

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		traders who make excessive profits as well as to ensure the price of daily necessities can be reduced. • On macro factors, we maintain our view that tailwinds from better foreign exchange rates may translate positively to the sector's prospects as consumers could enjoy higher discretionary spending power. • Stable commodity prices at low base is an added benefit to F&B players as this would bring average production cost levels to a more sustainable level. • **For sector top picks, we have SEM (OP, TP RM1.70)** for the expected turnaround in earnings backed by operations restructuring exercises with the closure of underperforming stores, overhauling stores operation and focusing store opening in high-foot falls location. • **We also like HAIO (OP, TP RM6.00)** for its double-digit earnings growth and margin backed by the sales of high-margin products especially from its newly launched shoes and leather goods. • **HEIM (OP, TP: RM23.30)** is expected to gain traction with the 2018 World Cup, adding to its market leader status.	***Pick*** **MP:** CARLSBG (TP: RM17.65) DLADY (TP: RM66.15) PADINI (TP: RM4.65) SPRITZER (TP: RM2.50) **UP:** F&N (TP: RM27.00) MYNEWS (TP: RM1.25) NESTLE (TP: RM114.30) QL (TP: RM4.05)
Media	**Maintain**	• **We reiterate our NEUTRAL rating on the media sector.** • The monopoly status of ASTRO in the satellite television industry is set to be under review as highlighted in Harapan's manifesto. • Harapan's commitment to press freedom and working towards the abolition of the Printing Presses and Publications Act 1984 (PPPA) may provide greater media freedom for check and balance. The move is expected to enhance the credibility, independence and professionalism of the sector incumbents. • **Despite the industry incumbents' valuations currently trading at near floor valuations**, persistent lack of key earnings catalyst coupled with the on-going evolution of the traditional media may keep investors at bay. • **Uninspiring adex outlook.** The prolonged weak consumer sentiment and rising cost of living are expected to curb the country's adex outlook for CY18. We expect gross adex (ex-Pay TV) to close with -10.5% YoY growth in CY17 but climb 4.5% YoY in CY18 as a result of the low base effect and major sport events-led adex push • **Still prefer ASTRO (OP, TP: RM2.30)** among others for now in view of its relatively resilient earnings and decent dividend yield (c.7%). We are keeping all our media companies' valuations and target prices unchanged, pending the upcoming 1QCY18 result review.	**OP:** ASTRO (TP: RM2.30); **MP:** STAR (TP: RM1.25) **UP:** MEDIAC (TP: RM0.350); MEDIA (TP: RM0.400)
Oil & Gas	**Maintain**	• **We believe the O&G sector landscape is largely unaffected given that Petronas has already stated its upstream spending guidance in Petronas' Activity Outlook Report 2018-2020 published last year.** • **Recovery signals spotted, slowly but surely.** After being in the doldrums for more than three years, we believe the oil & gas sector is now turning the corner with better oil prices outlook. The recovery of the sector is largely premised on the following observations; (i) stronger earnings and OCF generated by oil majors, (ii) 16% higher capex spending guidance in 2018 by oil majors, (iii) resumption of contract flow (16% growth in FY17 after falling >70% from its peak in	**OP:** ARMADA (TP: RM1.10) COASTAL (TP: RM1.45) DAYANG (TP: RM0.96) DIALOG (TP: RM2.95) GASMSIA (TP: RM3.20) PANTECH (TP: RM0.75) PETDAG (TP: RM27.85) PETGAS (TP: RM22.00)

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		2013), and (iv) 19-40% upward revision for 2018-19 activities in the latest Petronas' Activity Outlook led by jack-up rigs, OSVs and MCM/HUCs. • **Retain NEUTRAL with positive bias.** We still prefer counters with strong earnings delivery such as DIALOG and YINSON with opex-related names like UZMA and DAYANG potentially joining the list, riding on higher work orders. On the other hand, we see upside potential on SAPNRG for better contract flows and monetisation of E&P arm.	SAPNRG (TP: RM0.77) SERBADK (TP: RM3.95) UZMA (TP: RM1.65) WASEONG (TP: RM1.80) YINSON (TP: RM4.50) **MP:** MHB (TP: RM0.82) PCHEM (TP: RM8.40) **UP:** ALAM (TP: RM0.12)
Plantation	**Maintain**	• **NEUTRAL with flat 1Q18 outlook** • **Minor cost reduction** should new government reverse out GST measures, although we expect minimal impact given that bulk of CPO products produced for export are zero-rated. • **Overarching price downtrend** to continue due to continued production pickup up to peak in Sep/Oct 2018. • **Global policy action to drive demand** – expect more price volatility from international trade actions, given status of CPO as a globally traded commodity • **1Q18 to be flat YoY, weaker QoQ** as YoY production growth (+13%) is offset by weaker prices (-22%) while QoQ sees softer production (-22%) and prices (-5%). • **Maintain 2018 CPO price at RM2,400/MT** with bearish price outlook towards 3Q18 • **Top Pick: PPB (OP; TP: RM22.60)** as our valuations review shows strong Consumer exposure in combination with Wilmar. PPB trades at only 1.0x PBV vs. Wilmar's 1.3x PBV; unjustified given its strong net asset appreciation and position as the 2nd largest Consumer counter in KLCSU index after NESTLE. • **Reiterate NEUTRAL, stay selective.** Although short-term downside is protected by supportive crude oil prices, longer term weakness remains likely on continued production increase. Investors should stay nimble as protectionist measures introduce volatility in demand. Expect stability in large-cap integrated producers (SIMEPLT, KLK, IOCORP) and security buffer in indirectly related counters (PPB, CBIP) with lower CPO price correlation.	**OP:** CBIP (TP: RM1.80) FGV (TP: RM2.00) PPB (TP: RM22.60) ***– Top Pick*** SAB (TP: RM4.40) TAANN (TP: RM3.70) **MP:** SIMEPLT (TP: RM5.90) IOICORP (TP: RM5.15) KLK (TP: RM25.75) GENP (TP: RM10.75) HSPLANT (TP :RM2.30) TSH (TP: RM1.60) UMCCA (TP: RM6.20) **UP:** IJMPLNT (TP: RM2.00)
Property Developers	**Maintain**	• Developers have been holding back new launches prior GE due to buyer's weak sentiment on the back of uncertainty. We expect that more launches maybe held back as this would mark a historical change in the ruling government, which may result in the following: i) approval processes may face delays (e.g. APDL at federal levels, D.O. at state levels) for the most part of the year as the new government establishes itself, ii) potential changes in housing related policies during the upcoming budget, which could be either fiscal and/or monetary, although we believe monetary measures would have a more significant impact on the property market. • The potential removal of GST could mean result in some recovery in development margins, although we do not think	**OP:** ECOWLD (TP: RM1.15) MAHSING (TP: RM1.10) MRCB (TP: RM1.15) SPSETIA (TP: RM3.50) **MP:** AMVERTON (TP: RM1.15) CRESNDO (TP: RM1.30) HUAYANG (TP: RM0.500) IOIPG (TP: RM1.70) SUNSURIA (TP: RM1.30)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		it will be overly significant because i) most developers have 'priced-in' such costs, ii) removal of GST could improve house affordability but the issue here is a lack of supply that meets the affordability of current income median definition by BNM. • We note that the new government's proposals are targeted at promoting affordable housing which includes special housing loans for first home buyers, tax incentive for companies using technology (e.g. IBS) to build affordable housing, working with state governments for conversion of land for affordable housing, reform PR1MA program and setting up of a National Affordable Housing Council (including database of unsold homes), as some of the more major proposals. We think these proposals are in-line with the current trajectory of the sector where more developers must target the more mass market. However, we believe that the following proposals may hurt developers: i) the proposal to widen the rent-to-own scheme nationally for both primary and secondary properties will mean listed developers will have to compete harder to get market share, ii) preventing landbank hoarding activity through setting time limit for development, would structurally change the way developers do business which will affect their ability to plan for a more predictable launch pipeline. • Considering that most of our coverage have seen heavy sell-downs in the early part of the year, which results in our universe RNAV discounts trading at -1.0SD to historical high levels, we believe further downside risks is limited for now. However, upside potential and catalyst are lacking given rising inventory and oversupply of mismatched properties and affordability issues. We also believe while share price risk is limited for now, the real test is whether developers can achieve their targets in a new environment – failing which, we do expect property stocks to see further hiccups; we will ascertain this during the 1HCY18 mark. We will train our attention on the changes in national housing policy (likely to be address during Budget-2019 announcement). However, we feel that monetary policy changes to the sector will be the game-changer for demand if affordability issues are addressed. • While we maintain NEUTRAL on the sector, we advise that investors tread carefully with the sector for now until there is more clarity with regards to policies.	SUNWAY (TP: RM1.60) UEMS (TP: RM0.970) UOADEV (TP: RM2.40) **UP:** MAGNA (TP: RM0.955)
Shipping, Ports & Logistics	**Maintain**	• **Weaker earnings growth expected.** Overall, we see increased earnings growth risks within the logistics space for the short-to-medium-term, stemming from increased competitiveness, coupled with elevated costs from business expansions. Additionally, the increased likelihood of a wage hike post-GE14 could lead to further earnings deterioration, especially for courier players, given their high staff costs as a percentage of their total operating costs, although we are still unable to gauge the exact bottom-line impact at this juncture. • **Ports mostly unaffected.** We believe the results of GE14 should have a mostly neutral impact towards ports, as we feel their prospects are more related to the global trade outlook and import/export numbers, rather than the local political landscape. • **No sustained recovery in shipping rates.** Weakness in petroleum tanker charter rates is likely to prolong until	**OP:** CENTURY (TP: RM0.90) MMCCORP (TP: RM2.50) POS (TP: RM5.00) **MP:** BIPORT (TP: RM6.10) MISC (TP: RM7.20) TNLOGIS (TP: RM1.00) WPRTS (TP: RM3.50) **UP:** GDEX (TP: RM0.45)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		2H18 with the anticipation of lower new-build deliveries. Meanwhile, LNG charter rates are also still under pressure due to overcapacity. • **Maintain NEUTRAL.** We maintain our NEUTRAL stance on the sector given the lack of rerating catalyst, while also pending the upcoming results season.	
Technology / Semiconductor	Maintain	• **We believe the Technology/Semiconductor landscape will be largely unaffected** as the sales outlook is very much dependent on the global semiconductor sales and end-products demand. **However, any hike in the minimum wage could derail manufacturers' earnings** since labour accounts for 10-30% of the total cost. Assuming a minimum hike to RM1,500/month, ceteris paribus, the minimum wage policy is expected to hit their bottom-lines by 15-20% based on our back-of-the-envelope calculations. • **No changes to our NEUTRAL call** which is premised on: (i) industry's moderating growth, and (ii) soft USD/MYR which will keep most of the net exporters' profitability in check. Meanwhile, the US and China trade war does not augur well for the OSAT players if exacerbated, given their involvement in sub-assembly jobs and end-products delivery from both countries. • **Global semiconductor sales (GSS) extended its 21st YoY consecutive growth at +20.0% as of March 2018.** While 2018 GSS growth is still forecast to be positive at +9.5%, we noticed that the momentum is already moderating, which mimicked the movement of the last up-cycle which lasted for 26 months back then from May 2013 to Jun 2015. • Back home, though prospects of most local tech players are still decent in 2018 (to be driven by rising adoption of automotive semiconductor and higher automation from industrial segment), **we believe the positives have mostly been priced-in at this level**. Moreover, 1QCY18 results for most of the net exporters should see much softer performance owing to weaker USD/MYR and seasonality. • **We continue to prefer the BOTTOM-FISHING** approach which is especially apt for the sector; with our preference skewed towards undervalued laggards with good growth prospect and sound financial fundamentals. • **Our only preferred pick is SKPRES** (OP, TP: RM2.05 @ 15.0x FY19E P/E).	**OP:** PIE (TP: RM2.10) SKPRES (TP: RM2.05) **MP:** DOGT (TP: RM0.640) **UP:** KESM (TP: RM18.40) MPI (TP: RM8.10) NOTION (TP: RM0.440) UNISEM (TP: RM1.55)
Telecom-munications	Maintain	• **We reiterate our NEUTRAL rating on the Telco sector.** Although sector earnings is expected to remain muted, it will likely be supported by its index weighting and Shariah-compliance sector status and market excitement from potential listing of edotco and U Mobile as well as M&A activities. • **Harapan's manifesto** highlighted it will take the necessary steps to halve the price of broadband internet while doubling the speed. The news is expected to dampen the trading sentiment on TM although details have yet to be ironed out. Meanwhile, we also do not discount that the new ruling party may review the Nationwide Fiberization Plan and the 700MHz spectrum allocation in a more open manner. • **Service revenue growth likely to see a mild dip in CY18** due to the prolonged industry-wide SIM consolidation, new	**OP:** TM (TP: RM6.85) OCK (TP : RM0.950) DIGI (TP: RM4.90) **MP:** AXIATA (TP : RM5.35) MAXIS (TP: RM6.05)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		access pricing structure and competitive pressure in the IDD segment. • **What to expect in the year 2018 –** (i) EBITDA margin likely to remain relatively stable; (ii) capex set to remain elevated, (iii) competition remains with key battle likely to focus on the prepaid segment, product upselling and data monetisation, and (iv) MVNO players likely to continue gaining subscriber market share at the expense of the big-3 incumbents. • **Still prefer fixed-line players overall.** We still favour **TM** over other mobile names due to: (i) its long-term growth opportunities arising from its increasingly widening broadband and network coverage, (ii) less competition in its fixed-line broadband business, and (iii) its laggard performance YTD, which could provide room for the stock to play catch-up when trading sentiment improves. Meanwhile, we also like **OCK** for its: (i) healthy cash flow on the back of escalating recurring income trend, (ii) ability to ride with the passive infrastructure sharing trend, and (iii) expanding EBITDA margin trend.	

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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