27 October 2022

Market Strategy

Macroeconomic Risks Still a Drag…

- **…but watch for turning points.** Macroeconomic risks continue to cloud market visibility on global growth prospects in 2023. The economic re-opening in ASEAN is gathering pace, but is already in the price. The risk of persistent inflationary pressure will encourage the US Federal Reserve (US Fed) to remain resolute on its hawkish pivot while evolving geopolitical flash points are keeping investors nervous. A potential re-rating catalyst would include the relaxation of the zero-COVID policy by authorities in China. While near term risks necessitate a defensive posture, we advocate building positions in value cyclicals on weakness. Indonesia is our top regional pick.
- **Indonesia.** The JCI will likely be volatile in the short term as the market has yet to fully price in all the negative news such as further depreciation of the IDR. However, we believe the Indonesian economic landscape remains bright in long run. Defensive sectors including banks, telecommunications, consumer staples, and companies with high dividend yield are our preference in 4Q22. With the USD likely to strengthen, we favour exporters, such as metal mining and O&G producers. Meanwhile, cement and construction are projected to gain from increased infrastructure spending.
- **Malaysia.** We remain cautious on the outlook for the Malaysian equity market in the coming quarters. Visibility on growth prospects for 2023 is clouded by macroeconomic worries and monetary policy messaging from the US Fed that seems determined to extend its hawkish pivot, on top of geopolitics and COVID-19 restrictions in China. The imminent general election may be a near-term source of volatility. Investors should hold on to a yield-centric defensive posture, prioritising capital preservation and remaining alert for medium-term opportunities.
- **Singapore.** Given rising global macroeconomic risks, equity markets are likely to continue being volatile. Investors should maintain a defensive stance in 4Q22 as we believe companies with resilient earnings, as well as the ability to pass on costs and maintain strong cash flow should outperform in the current environment. We also recommend investors to buy banks, build exposure to selective economic reopening plays, and rotate into selective industrial and office REITs. Our end-2022 STI target of 3,200pts (from 3,380pts) is based on a 11.75x 2022F P/E (from 12.5x 2022F P/E).
- **Thailand.** Excluding the ramp-up in geopolitical risks, we believe the market has mostly priced in the external and internal challenges, particularly the spiking inflation and pace of interest rate hikes. That said, domestic inflation will likely moderate and remain so next year. We expect the end-2022 SET to be at 1,556pts, any decrease from this level should bring about opportunities to accumulate – especially the shares of large-cap names in the banking, energy, telco, retailing, consumer, transportation and F&B sectors. In our bull case scenario, the end-2022 SET target would be 1,647pts.

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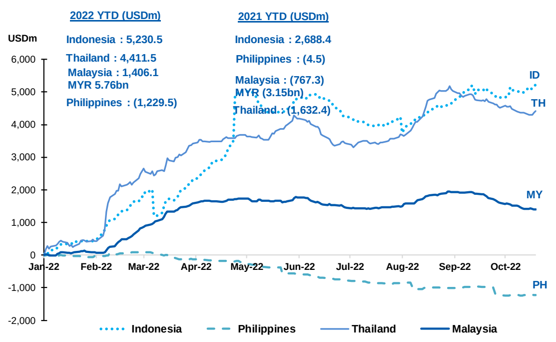
Regional foreign equity flows YTD



Source: Bloomberg, RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
Airports of Thailand	Buy	THB82.00	11.6	64.6	8.0	13.1	0.9
AMMB	Buy	MYR4.60	15.6	7.2	0.7	9.9	4.8
Bank Negara Indonesia	Buy	IDR11,600	28.9	8.3	1.1	13.9	3.9
Central Retail Corporation	Buy	THB46.50	15.5	31.3	2.8	9.3	1.3
DBS	Buy	SGD37.60	16.1	9.1	1.3	15.0	5.0
Guan Chong	Buy	MYR4.15	100.5	7.6	1.2	21.4	4.0
Jasa Marga	Buy	IDR5,400	55.6	12.1	1.0	8.2	1.5
Kasikornbank	Buy	THB175.00	19.9	8.0	0.6	8.3	3.1
Perusahaan Gas Negara	Buy	IDR2,200	17.6	6.2	1.0	16.1	9.1
Sheng Siong	Buy	SGD1.78	9.2	16.9	5.0	31.1	4.2
ST Engineering	Buy	SGD4.10	31.4	15.8	3.7	24.2	4.0
Telekom Malaysia	Buy	MYR7.40	37.5	13.8	2.0	15.1	3.3

Source: Company data, RHB

Indonesia: Challenges Offer Opportunities

The recent sell-off should provide opportunities

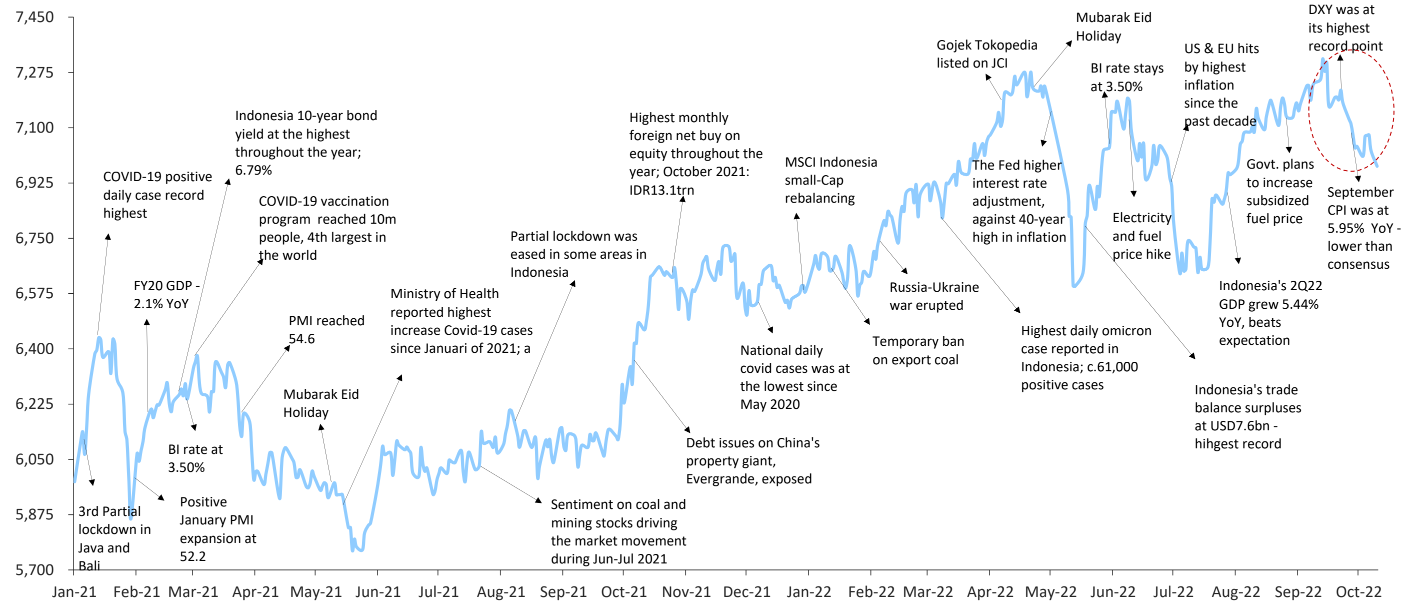
Despite a recent sell-off (13 Sep-11 Oct), the JCI remains a top performing market YTD, with a 5.4% gain (in IDR terms) led by the energy and industrial sectors. It is worth noting that the JCI's movement has been volatile since mid-September, after reaching its highest YTD level (at 7,318 points), with a 5% drop in the following three weeks (13 Sep-11 Oct) – we see this was likely driven by higher-than-expected inflation following fuel price hikes and the weaker IDR after aggressive US Fed rate hikes.

In September, inflation grew 5.95% YoY, somewhat slower than Bloomberg's projection of 6.0%. However, given the likelihood that firms will eventually raise retail prices, we expect headline and core inflation to increase into the end of the year. GDP growth is expected to still be robust, but grow slower at 4.9% YoY in 2H22, down from 5.2% YoY in 1H22. This viewpoint is strengthened by the prospects of additional rate hikes next year, and weakening of consumer purchasing power as a result of the current rising inflation environment.

Higher inflation, rate hikes in developed nations, and the weaker IDR will push Bank Indonesia (BI) to raise rates to 5.25% in 4Q22 and 5.75% in 2023 (from 4.75% currently). The balance of risk, on the other hand, is tilted toward higher policy rates above our base scenario, owing to the hawkish US Fed announcement in September and its decision to raise the Federal Funds Rate (FFR) by 75bps to 3.00% to 3.25%. Given Indonesia's inflationary bias in 2022 and 2023, tighter monetary policy is unsurprising.

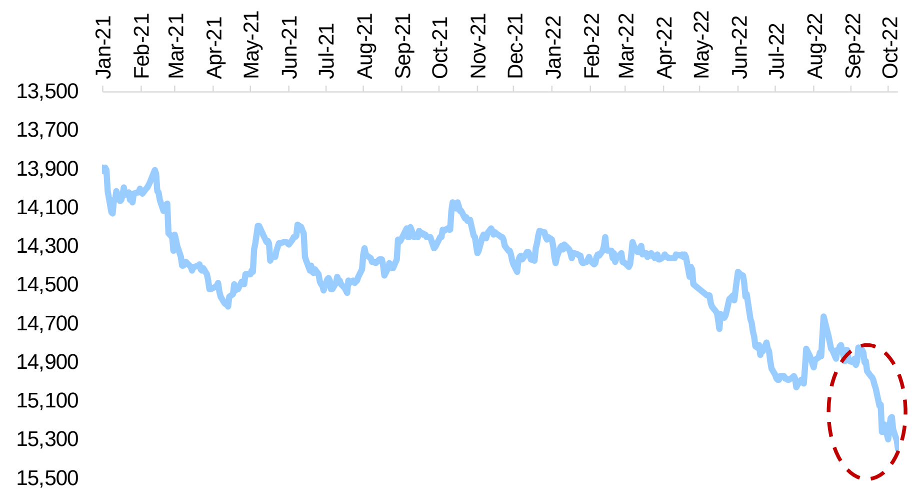
We expect the USD/IDR to fall to a range of IDR15,000-15,500/USD in 4Q22 and IDR15,500-16,000/USD in 1H23. The latest EPFR data shows a considerable fall in flows into the Indonesia bond market, reflecting two factors: The risk premium on USD/IDR given the weakening from outflows, and secondly, a hawkish US Fed's monetary policy trajectory. We expect outflows to continue, putting pressure on USD/IDR forward points and adding to the currency's risk premium.

Figure 1: The JCI's movement and event chart (Jan 2021-Oct 2022)



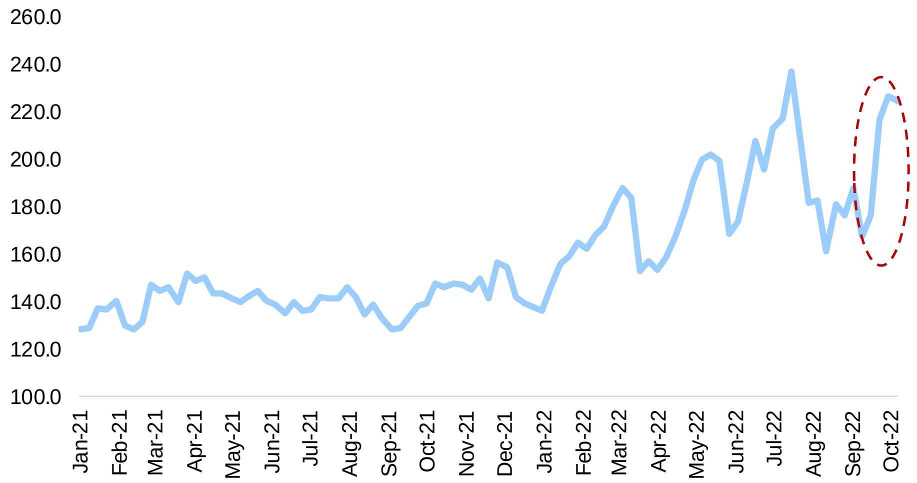
Source: Bloomberg, RHB

Figure 2: The IDR weakened 2.4% against the USD in the past three weeks



Source: Bloomberg, RHB

Figure 3: Indonesia 10-year CDS increased to 224.5 at early October (from 176.6 in mid-September

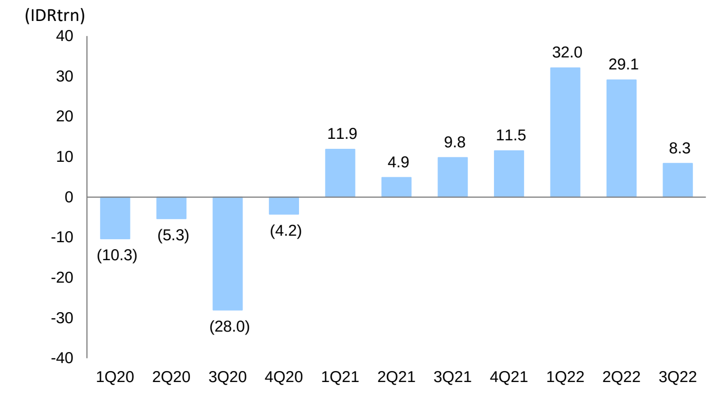


Source: Bloomberg, RHB

Foreign money flow to equity still positive in 3Q22, but has slowed

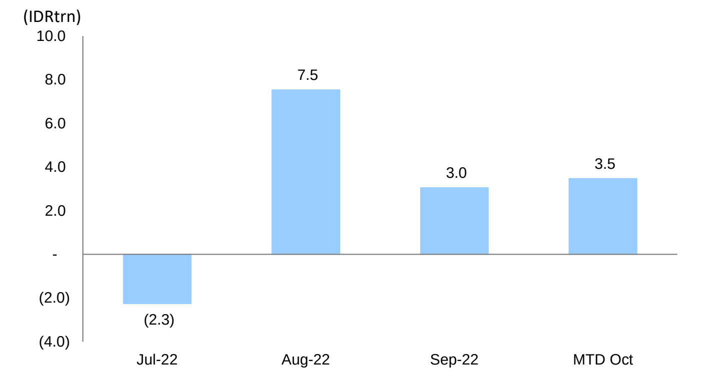
Net foreign fund flow to the equities market in 3Q22 was still positive (IDR8.3trn) despite being substantially lower than the previous two quarters (2Q22: IDR29.1trn, 1Q22: 32trn). On a monthly basis, net foreign outflows of IDR2.3trn in July reversed in August and September, totalling IDR7.5trn and IDR3trn. Observe that the expected weakening of the IDR vs the USD was the primary driver of slower net foreign inflows into equity.

Figure 4: Quarterly foreign fund flow into equities (IDRtrn)



Note: MTD-Oct: data up to 11 Oct 2022
Source: Bloomberg, RHB

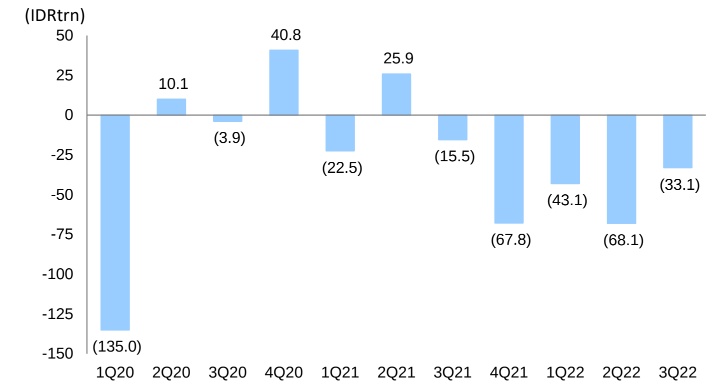
Figure 5: Monthly foreign fund flow into equities (IDRtrn)



Note: MTD-Oct: data up to 11 Oct 2022
Source: Bloomberg, RHB

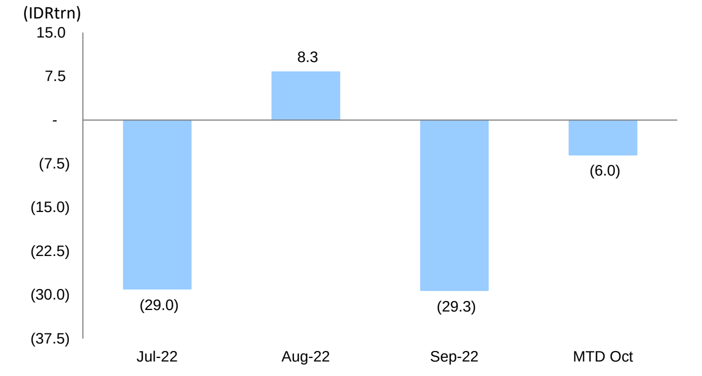
In the bond market, it is worth noting that net foreign outflows decreased to IDR33.1trn in 3Q22 (2Q22: IDR68.1trn, 1Q22: IDR43.1trn). Notably, net foreign outflows have been aggressively recorded in the last five quarters, totaling IDR227.6trn. According to Bloomberg data, foreign ownership of Indonesian Government bonds has decreased to IDR724.29trn from IDR891.3trn as at end-Dec 2021. In our calculation, foreign ownership in the Indonesian bond market declined to 14.3% at end-September, from 19% at end-Dec 2021.

Figure 6: Quarterly foreign fund flow into bonds (IDRtrn)



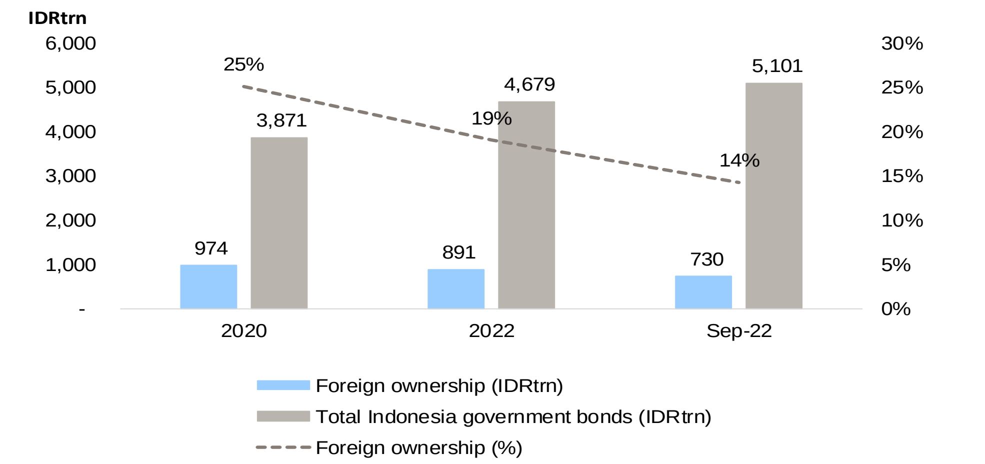
Note: MTD-Oct: data up to 11 Oct 2022
Source: Bloomberg, RHB

Figure 7: Monthly foreign fund flow into bonds (IDRtrn)



Note: MTD-Oct: data up to 11 Oct 2022
Source: Bloomberg, RHB

Figure 8: Foreign ownership in Indonesia Government bond market



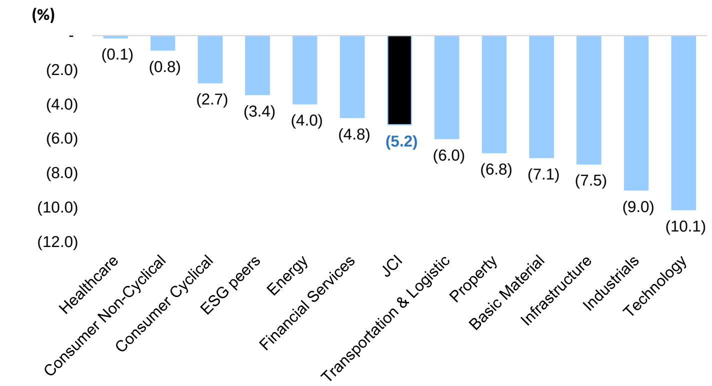
Source: Company data, RHB

The JCI is still top performing despite recent sell-off

YTD, the JCI is still a top performing market, with a 5.4% gain (in IDR terms) led by the energy sector, which rallied 74% (thanks to a 131% YTD increase in coal prices), followed by industrial (22%), ESG peers (14%), and transportation & logistics (13%). However, there was a sell-off in the JCI at the end of 3Q22, spurred by expected higher inflation and the weakening IDR. In 4Q22, we believe that market volatility will likely persist, which should create trading opportunities.

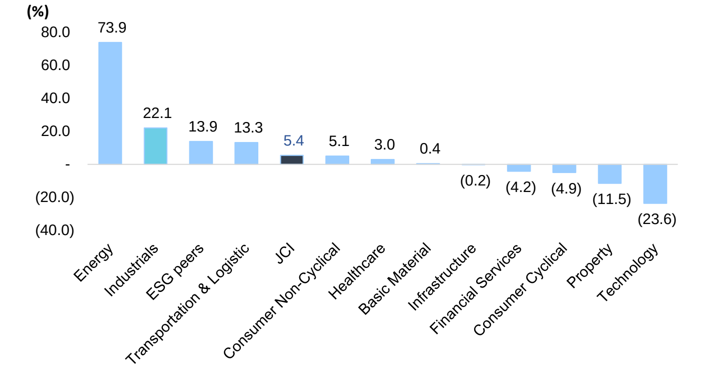
During the latest sell-off, the energy sector decreased 4.0% from 13 Sep to 11 Oct, primarily due to lower coal prices (Newcastle coal price plummeted 12% to USD386.5 per tonne during the same period). However, the energy sector still outperformed the JCI. We noticed that market expectations for high dividend yield from the energy sector were the primary reason for its relatively stronger performance, notwithstanding a drop in coal prices. In addition to coal, healthcare (-0.1%), consumer non-cyclical (-0.8%), consumer cyclical (-2.7%), ESG peers (-3.4%), and financial services (-4.8%) followed suit and outperformed the JCI.

Figure 9: The JCI's sector performance from its peak in mid-September



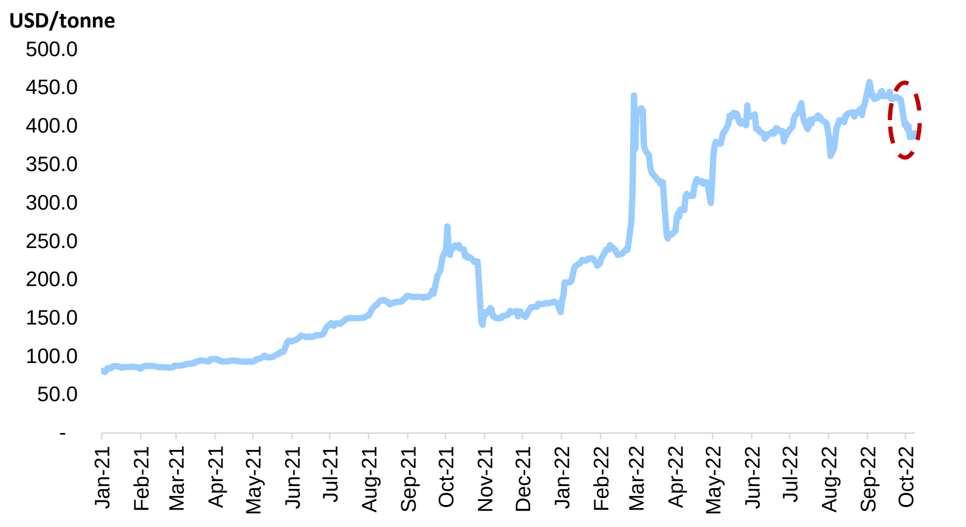
Note: Data as at 13 Sep to 11 Oct 2022
Source: Bloomberg, RHB

Figure 10: The JCI's sector performance YTD



Note: Data as at 31 Dec 2021 to 11 Oct 2022
Source: Bloomberg, RHB

Figure 11: Newcastle coal prices declined 12% in the recent sell off (USD/tonne)



Source: Bloomberg, RHB

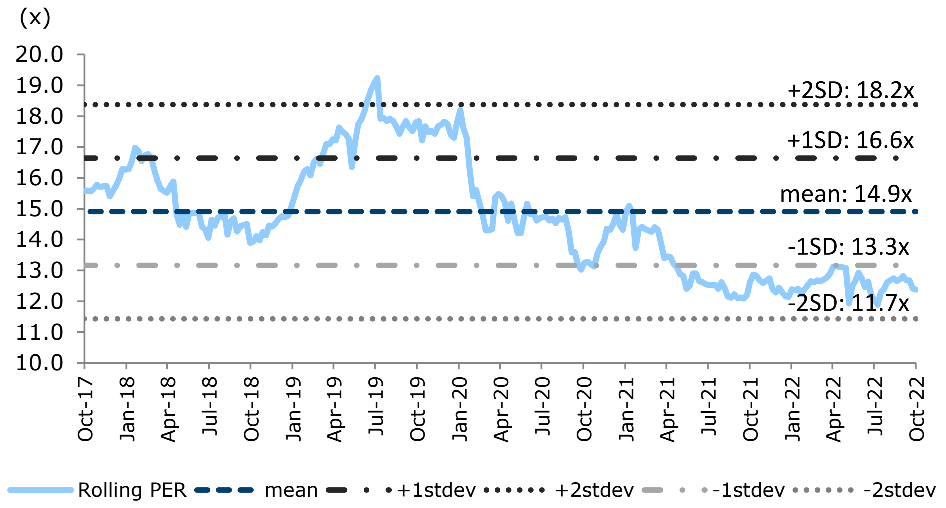
Market Strategy

JCI: End-2022 target of 7,350 pts

We keep our year-end target for the JCI at 7,350 points, based on c.13x FY23F P/E (vs 12.4x currently), or -1SD from its 5-year mean. We believe the JCI will be volatile in the short term, most likely in October-November as the market has yet to fully price in all the negative news, such as projected higher inflation in October and further depreciation of the IDR. However, we expect a potential rally in the JCI at the end of the year, prompted in part by window dressing, which is common during this period. Despite the recent impact on the economy, we expect Indonesian's economic outlook to remain bright in the long run.

- The JCI is trading at -1.5SD from its 5-year mean, which still implies upside potential for an earnings recovery ahead, despite with prevailing challenges from macroeconomic factors
- We expect FY22F-23F earnings to grow 30% and 7% YoY – the index is quite attractive when compared to its growth rate (FY22F JCI's PEG ratio is 0.5x, compared to the regional PEG of c.0.8x)

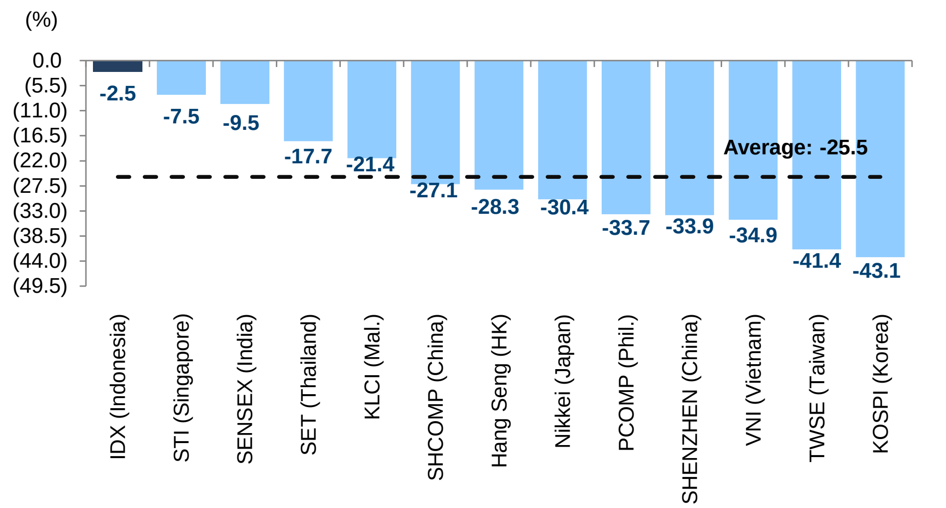
Figure 12: The JCI's 12-month forward-rolling P/E band



Source: Company data, RHB

- Although pressure from mounting inflation and uncertainty on geopolitics, the correction on the JCI was fairly muted compared to regional peers

Figure 13: YTD regional performance (in USD terms)



Source: Company data, RHB

Figure 14: The JCI's key statistics

Market data	FY21	FY22F	FY23F
Revenue growth (%)	17.9	15.9	5.9
Operating profit growth (%)	27.8	14.9	6.0
Net profit growth (%)	62.3	29.9	6.7
Current P/E (x)	17.9	13.8	12.9
EPS (IDR)	415	540	575
PEG (x)	0.3	0.5	1.9
EV/EBITDA (x)	11.9	10.1	8.4
P/BV (x)	2.2	1.9	1.8
Dividend yield (%)	3.8	5.0	5.9
ROE (%)	12.0	14.1	13.8

Source: Company data, RHB

- The JCI offers attractive dividend yields of 5-6% for FY22F-23F, driven by lucrative dividend payment in the coal, banking and tobacco sectors
- It also provides lucrative ROEs of c.14% during this same period

Figure 15: RHB's universe summary earnings growth (2022F-2023F)

Sector	Mkt Cap IDRtrn	Weight %	2022F Net profit growth (YoY %) RHB	2022F Net profit growth (YoY %) Cons.	2022F P/E (x) RHB	2022F P/E (x) Cons.	2023F Net profit growth (YoY %) RHB	2023F Net profit growth (YoY %) Cons.	2023F P/E (x) RHB	2023F P/E (x) Cons.
Financials services	2,366	50.3%	31.0	38.3	19.7	15.7	17.3	16.1	14.2	13.5
Industrials	1,017	21.6%	33.4	60.8	9.4	7.8	(4.1)	(4.5)	9.8	8.2
Consumer Non-cyclical	647	13.8%	(1.9)	(4.3)	16.0	16.5	14.7	15.3	14.0	14.3
Infrastructure	439	9.3%	(1.6)	(4.5)	16.5	17.4	11.0	12.1	14.9	15.6
Energy	157	3.3%	94.0	127.7	4.8	4.1	(22.5)	(24.1)	6.3	5.4
Healthcare	27	0.6%	(18.1)	(8.2)	32.4	28.9	20.1	14.0	27.0	25.3
Property	21	0.4%	25.1	24.6	11.5	11.6	18.0	13.7	9.8	10.2
Basic materials	16	0.3%	35.5	52.8	23.7	21.0	27.1	16.0	18.6	18.1
Consumer cyclical	14	0.3%	28.8	19.4	8.4	9.0	17.7	14.2	7.1	7.9
Total	**4,704**	**100%**	**29.9**	**40.0**	**13.8**	**12.8**	**6.7**	**4.4**	**12.9**	**12.3**

**Note: Sector classification based on JCI's official grouping index. Table above excluding the Tech & Transport indexes.*
Source: Company data, RHB

Prefer defensive, high dividend yield, laggard sectors

Given the prevailing headwinds, the JCI is anticipated to be volatile in 4Q22. We believe that the JCI's movement will be bearish in November. However, partly due to window dressing, the JCI's movement is expected to rally by the end of the year.

We prefer to invest in defensive sectors such as banks, telecommunications, consumer staples, and firms with high dividend yield. We also look to sectors that benefit from a stronger USD – such as metal mining and O&G, as well as sectors that benefit from a higher BI rate. Meanwhile, cement and construction ought to benefit from positive sentiment due to accelerated infrastructure projects, such IKN projects. The toll road sector – which has benefitted from increasing traffic after economic reopening, remains a share-price laggard – making it a good option during a volatile market. We believe the IDR will weaken further, reaching IDR16,000/USD in the first half of 2023. BI may need to increase its benchmark rate to close the gap with US Treasury yields.

Figure 16: Sector rotation summary

Sector	Top Picks (denoted by stock code)
OVERWEIGHT	
Financial services - Banks	BBRI, BBNI, BJBR
Non-cyclical - Consumer staples	MYOR
Infrastructure - Telco	EXCL
Industry - Auto	ASII
Basic materials - Cement	SMGR
Basic materials - Metal mining	INCO
Energy - O&G	PGAS
Property - Industrial estates	DMAS
Infrastructure - Construction	PTPP
NEUTRAL	
Energy - Coal	UNTR
Cyclical - Retail	MAPI
Property - Residential developer	CTRA
Non-cyclical - Plantation	LSIP
Healthcare	HEAL
Non-cyclical - Poultry	JPFA
UNDERWEIGHT	
Non-cyclical - Tobacco	HMSP

Source: Bloomberg, RHB

Figure 17: Top 20 – highest dividend stocks

		Recommendation	Last price	TP	EPS growth 2022	EPS growth 2023	Div. yield 2022	Div. yield 2023	P/E 2022	PBV 2022	ROE 2022
Bukit Asam	PTBA IJ	TRADING BUY	4,230	5,600	49.0	(28.4)	10.3	11.0	4.1	1.5	38.4
Bank Jabar	BJBR IJ	BUY	1,350	1,800	7.3	20.6	9.3	9.9	6.6	0.9	15.4
Indo Tambangraya	ITMG IJ	TRADING BUY	42,125	49,300	74.8	(27.5)	9.0	15.4	4.0	1.8	45.2
Bank CIMB Niaga	BNGA IJ	BUY	1,065	1,270	49.5	9.9	8.4	12.6	4.4	0.6	13.0
Perusahaan Gas Negara	PGAS IJ	BUY	1,800	2,200	53.0	8.9	8.3	8.6	6.6	1.0	15.8
Adaro Energy	ADRO IJ	TRADING BUY	3,950	4,800	104.8	(34.6)	7.7	15.5	4.6	1.5	33.1
Bank Jatim	BJTM IJ	BUY	695	1,000	27.5	22.5	7.6	9.7	5.4	0.9	16.1
Astra Agro Lestari	AALI IJ	SELL	7,925	7,240	(24.6)	8.4	7.6	6.1	10.3	0.7	6.8
Gudang Garam	GGRM IJ	NEUTRAL	22,300	36,000	(45.4)	28.6	7.4	5.2	13.6	0.7	4.6
HM Sampoerna	HMSP IJ	BUY	940	1,200	(6.8)	8.4	6.4	6.4	16.4	3.8	21.6
United Tractors	UNTR IJ	BUY	33,750	42,700	79.5	(20.1)	5.9	4.7	6.8	1.5	21.7
London Sumatera	LSIP IJ	NEUTRAL	1,045	1,250	19.9	(5.3)	5.6	6.7	6.0	0.7	11.0
Puradelta Lestari	DMAS IJ	BUY	166	250	57.1	6.8	5.5	8.7	7.1	1.3	18.0
Indocement	INTP IJ	BUY	9,050	12,200	(50.8)	72.7	5.5	2.7	37.9	1.7	4.6
Arwana Citramulia	ARNA IJ	BUY	900	1,350	26.3	6.8	5.3	6.7	11.1	3.8	33.7
Bank Mandiri	BMRI IJ	BUY	9,400	10,000	30.3	17.2	5.0	5.9	12.0	2.0	15.4
Ramayana Lestari	RALS IJ	NEUTRAL	565	610	30.6	60.7	4.9	2.9	18.0	1.0	6.1
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,395	2,750	(8.5)	23.5	4.9	5.0	8.8	1.2	13.1
Bukit Asam	PTBA IJ	TRADING BUY	4,230	5,600	49.0	(28.4)	10.3	11.0	4.1	1.5	38.4
Bank Jabar	BJBR IJ	BUY	1,350	1,800	7.3	20.6	9.3	9.9	6.6	0.9	15.4

Source: Bloomberg, RHB

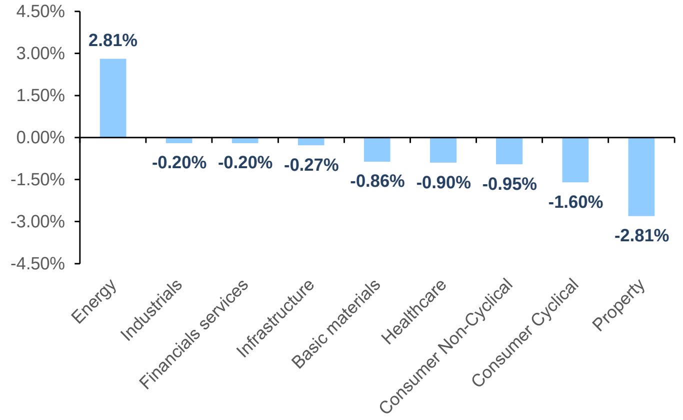
Figure 18: Sector highlights and outlook

Sector	Rating	Highlight/outlook	Top Picks
Financial services – Banks	OVERWEIGHT	Despite slightly slower growth, we expect 2H22F earnings to remain healthy. 8M22 earnings increased 53.2% YoY – still strong but slower than 7M22's +58.1% YoY. 8M22 PPOP growth slowed to 17.9% YoY (7M22: 19.4% YoY), possibly due to a softening in non-II or an uptick in opex. 8M22 NIM and cost of credit (CoC) are unchanged at 5.4% and 1.8%. The CASA ratio is still rising, with total third-party funds up 5.9% YoY.	BBRI, BBNI, BJBR
Non-cyclical – Consumer staples	OVERWEIGHT	Our sector rating is premised on the correction in commodity prices. Margin pressure should be abating. A series of ASP increases from the fast moving consumer goods (FMCG) players should also support margin. With a series of future challenges such as rising inflation, global growth slowdown and higher interest rates, we believe consumer staples should be more defensive in nature, and provide some insulation from these uncertainties.	MYOR
Infrastructure – Telecommunications	OVERWEIGHT	Inflation pressure could potentially shift purchasing behaviour towards low data packages with cheaper prices, which are typically more expensive than the high data packages, hence, we believe operators will have room to increase its ARPU going forward. Additionally, operators have been focusing on other growth streams outside of the intense competition in the cellular segment. Fixed broadband, data centre, and IT managed services are much less penetrated, with high growth potential.	EXCL
Industry – Auto	OVERWEIGHT	GAIKINDO reported robust September national 4-wheeler (4W) wholesales (+3.1% MoM, +18.9% YoY), driven by the low-cost green car (LCGC) segment. Despite intensified challenges, ASII's market share recovered as it regained the top spot, with its September market share increasing to 56% (August: 51%), We see strong national 4W wholesales momentum likely to sustain until end of this year, but precautions are needed to evaluate the outlook. On the long-term view however, concerns on semiconductor supply stability (no thanks to the recent US export curbs to China) still pose at a main downside to the sector.	ASII
Basic materials – Cement	OVERWEIGHT	SMGR and INTP are trading at attractive valuations, close to -1SD from the 3-year P/E and -2SD from the EV/ton. Their market shares are improving as smaller competitors are implementing price hikes as well. While INTP is seeing faster market share recovery, we prefer SMGR for its stronger margin from its purchases at domestic market obligation (DMO) prices this year. Cement distribution may be disrupted as the country enters the rainy season. However, demand should improve as construction projects accelerate.	SMGR
Basic materials – Metal mining	OVERWEIGHT	Macroeconomic risks halting the commodities trend trajectory remains the main medium-term risk for the mining sector. However, should the trajectory resume, demand for base metals (especially from faster EV adoption and heightened renewable energy development) will recover, pushing up prices once again – on the other hand, mining investment throughout the world is still limited; thereby keeping the supply on low for periods ahead.	INCO
Energy – Oil & gas	OVERWEIGHT	This sector should be resilient in the mid-term. Our house estimates Brent crude oil prices at USD102-90 per bbl for 2022F-2023F, on the back of heightened geopolitical tensions between Russia and Ukraine, and further oil production cuts by OPEC, coupled with the continuous shortfall in meeting OPEC's production quota. Domestically, several factors are also supporting high-level average prices. Better demand should stem from: i) The increase in economic activity following the relaxation of restrictions, ii) the previously low O&G capex that may delay the availability of domestic O&G supply will push prices upwards, and iii) higher demand for natural gas – viewed as a transition towards renewable energy and energy source for smelters.	PGAS
Property – Industrial Estates	OVERWEIGHT	We expect industrial estates to improve in 2022 as compared to performance in 2021, as many of the industrial players still have enquiries to be booked and revenue to be recognised this year. Another potential leg of demand would come from smelters, metals-related industries, and data centres. The growth of the data centre sector will also boost the industrial estates industry, in our view, as the Government requires such centres to have an established presence domestically. The infrastructure development that supports supply chain connectivity and the introduction of the Omnibus Law are expected to help support foreign investments going forward.	DMAS
Infrastructure – Construction	OVERWEIGHT	Budget spending by the Ministries of Public Works and Transportation will accelerate after the low realisation in 1H22. The Government has also started project tenders for the new capital city (IKN) with a total value of IDR7.2trn. Although there are many concerns regarding budget availability, we are optimistic that it should be secured. The Ministry of Finance has allocated IDR27-30trn for IKN for 2023.	PTPP
Energy – Coal	NEUTRAL	Strengthening coal prices remained the major support for sector overall profitability. Extreme weather globally is a factor – pushing more demand in terms of electricity usage. This will be a support for sustained high coal prices, in our view, at least, until the end of this year.	UNTR
Cyclical – Retail	NEUTRAL	Looming risks of higher inflation rates ahead play a greater role in presenting challenges for retailers. The impact could have a greater magnitude on retailers catering to the mid- to low-income segments. The fact that mid- to high-income customers have been accumulating savings, coupled with year-end festivities, may help to prop up the performance of the mid- to upper-segment retailers.	MAPI
Property – Residential developers	NEUTRAL	We think that the sector in 4Q22 will be facing headwinds due to several factors. These include: i) The hike in rates that may impact presales and mortgage instalments, ii) inflationary environment may affect purchasing power, and iii) the absence of VAT subsidy. However, we	CTRA, PWON

		believe that companies that have exposure in regions that are pockets of commodity producers and significant recurring income portion to revenue will be beneficiaries.	
Non-cyclical – Plantation	NEUTRAL	With Indonesia's levy-free policy being potentially extended to year-end, Malaysian stock levels may stay high, thereby pressurising CPO prices. This situation is worth monitoring, however, as Malaysia's peak season has already started to disappoint. We anticipate lower QoQ earnings in the 3Q22 reporting season, with most planters likely to book in-line results.	LSIP
Healthcare	NEUTRAL	We believe catalysts from the recovery in non-COVID-19 patient visits, potential increase of Insurance and Social Security (BPJS) reimbursements, class standardisation, and seasonal increase in demand for health products have been priced in. We see an overhang from higher BPJS reimbursements and continued IDR depreciation.	HEAL

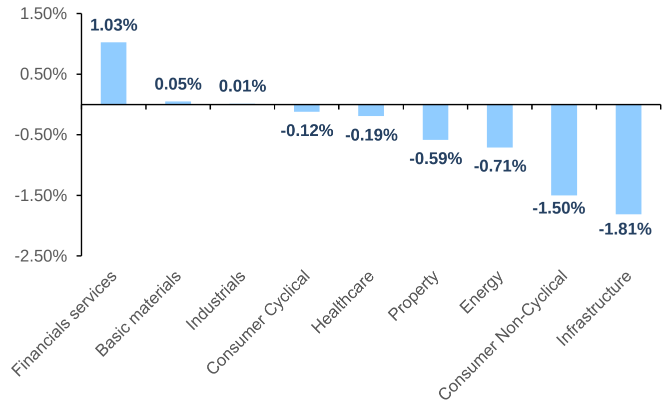
Source: Company data, RHB

Figure 19: Weakened IDR sensitivity analysis to earnings



Source: Bloomberg, RHB

Figure 20: Earnings sensitivity towards 25bps BI rate increase



Source: Bloomberg, RHB

Figure 21: Sectoral impact of a 1% stronger USD

Sector	Rating	Highlight/outlook
Coal	Positive	Strengthening of the USD partially benefits coal companies given the exposure on sales that is usually pegged towards the international benchmark – PTBA would benefit the most as it reports in the IDR, while the other two companies, ADRO and ITMG, report numbers in the USD.
Metal mining	Positive	Among the metal miners, ANTM should benefit the most from a weakening IDR because it reports in the IDR, while INCO and MDKA report in the USD.
Oil & Gas	Positive	Generally, O&G-related companies earn in the USD, or have income streams that are closely related to the USD. Companies such as PGAS have USD- and JPY-denominated loans, while income is in the USD – which provides a natural hedge. Companies such as PGAS and MEDC have also started to perform tender offers of debt amid possible future tightening of global liquidity in an effort to deleverage with internal cash given favourable energy prices.
Plantation	Positive	A lower IDR would benefit plantation companies. This is due to the fact that they are net CPO exporters, while the majority of their costs are in IDR terms.
Telecommunications	Neutral	Earnings of telco companies would be less impacted by the IDR depreciation. Additionally, the minimum effect on companies with a net asset position would be mitigated – TLKM and ISAT are among such companies.
Bank	Neutral	Income of Indonesian banks is primarily from their domestic operations, with revenue and expenses denominated in the IDR. Earnings should be unaffected by changes in the USD/IDR rate. Currency hedging should be used to mitigate any IDR weakness against regional currencies.
Industrial estates	Slightly negative	Some industrial estates book earnings that are more sensitive to changes in the USD/IDR. Implementing tariffs that are adjusted for USD appreciation may help buffer against exchange rate volatilities, and any increase in the FX rate could be passed on to customers. There are also bank loans provided in USD terms that might not be completely hedged.
Cement	Slightly negative	The contribution of clinker exports compared to domestic cement sales is small (SMGR: 10%, INTP: 2%) – it is only able to partially hedge against the currency fluctuation. However, it affects production cost from coal and paper packaging purchases. Cement players have been raising ASP due to soaring coal prices, so we see the probability to pass on currency cost is low.
Construction	Slightly negative	Majority of the construction projects are located in Indonesia, both revenue and cost are done in the IDR. However, several materials production (steel and cement) has exposure to the USD ie coal purchase and iron ore. Construction companies have an umbrella agreement with suppliers to mitigate the material price fluctuation.
Healthcare	Slightly negative	The impact might be greater for pharmaceutical companies such as KLBF since c.60% of raw materials are imported. Margin may also be at stake, since intense competition within this sector would limit a company's ability to increase prices to pass on costs. USD/IDR fluctuations should impact hospital players to a lesser degree, as their USD-denominated costs involve purchasing medical equipment – orders for these can be locked in earlier, and such items depreciate over the years.

Consumer staples	Mostly negative, except for MYOR	Most consumer staples firms have exposure to the USD, either directly or indirectly, mainly from its raw materials. Only MYOR would benefit from the USD appreciating, as a significant portion of its products are exported overseas (c.40% of its revenue). ICBP should feel the pinch the most if the IDR depreciates, as its USD-denominated debt is sizeable.
Auto	Negative	Earnings may be impacted by the weakening IDR, particularly for manufacturers and auto spare parts producers. However, we anticipate car manufacturers raising the prices of new models and facelift versions, in order to pass on higher costs from more expensive car parts and a strengthening USD.
Retail	Negative	Impact of IDR depreciation is broadly negative to earnings – and MAPI, ERAA and ACES would be largely affected, as they largely import products to sell. However, margin should be maintained since the three retailers are targeting premium customers – which gives them an advantage, as they would be able to pass on any cost increase easier.
Property	Negative	Earnings may be impacted by a weakening IDR, since some property companies also have USD-denominated loans which are not all hedged. In the meantime, its income is booked in IDR terms. Among the stocks we cover, the players with the least USD-denominated debt are SMRA and CTRA.

Source: Company data, RHB

Figure 22: Sectoral impact of a 25bps BI rate hike

Sector	Impact	Highlight/outlook
Bank	Slightly positive	On an annualised basis, each 25bps increase has a 1% impact on net profit. The major beneficiaries are BBNI and BMRI, which have a higher floating interest share on their loans. However, the impact is minimum on BBRI and BBCA, which have a significant part of fixed rate loans.
Cement	Positive for INTP, slightly negative for SMGR	As INTP is in a net cash position, an interest rate hike will increase its interest income. Meanwhile, on SMGR, the impact is slightly negative as the company's total debt was IDR17.5trn in 1H22, which it has been reducing since last year.
Metal mining	Neutral	Since the uptrend on commodities, some of metal mines have shed their exposure on debt thanks to support of higher cash – the stripped interest cost (mostly coming from bank borrowings) resulted to minimum impact to their margins, hence the change on bank rate to overall loans is not really an issue to profitability, in our view.
Oil & gas	Slightly negative	Most O&G companies under our coverage may experience a large impact from interest changes. However, MEDC should be more resilient compared to PGAS as the former's loan rates are largely fixed through its bond financing.
Plantation	Minimal impact	Plantation companies within our coverage have a strong cash position with minimum loans, thus the impact of fluctuating interest rates on financing costs is minimal.
Coal	Minimal impact	Strong operations have given companies a comfortable cash position relative to debt – we see minimal impact on the increase in interest rates to overall credit profile for coal companies in general.
Healthcare	Minimal impact	Most of the companies under our coverage have a net cash position – translating to strong liquidity profile.
Telecommunications	Minimal impact	Most of the companies under our coverage have relatively low debt to EBITDA ratio hence an interest rate hike would have less impact on company profitability .
Auto	Minimal impact	Our proxy on the auto sector, ASII, still has ample support from a large war chest which is likely sitting in short-term investments – any debt related outside the financial segment is also minimal, thus the risk of the increase in interest rates is minimal to ASII's overall businesses, in our view.
Retail	Minimal impact	Most of the companies under our coverage have a net cash position – translating to strong liquidity profile. However, we have concerns on ERAA. The company may be the most adversely impacted by interest rate hikes, given it is highly leveraged. Furthermore, the pressure on retailers is likely accentuated in a slowing purchasing power environment.
Property	Minimal impact	Property developers largely have fixed-rate debt and minimum impact to interest expense. However, CTRA has the highest floating-rate loan despite having one of the lowest gearing ratios in the sector.
Industrial Estates	Negative	Majority of industrial estate players under our coverage will be impacted by the change in interest rates. However, only DMAS, which is in a net cash position, will tend to have a more resilient position.
Construction	Negative	Construction is one of the sectors that will experience the heaviest impact on an interest rate hike, as the balance sheets are leverage from turnkey projects. To anticipate this, companies have been actively converting their respective debt into fix rates. However, we still expect their earnings to be dragged from higher financing cost.
Consumer staples	Negative	ICBP should be adversely impacted due to its sizeable loan. Meanwhile, UNVR is likely to have the upper hand given its high ROE profile, ample net cash position, and more defensive characteristic, ie deemed as staple products .

Source: Company data, RHB

Top Picks

Still prefer defensive and high dividend yield sectors

We prefer defensive sectors ie banking, telco, consumer staples, and high dividend counters in 4Q22. Despite the slower pace, banks – such as Bank Rakyat Indonesia (BBRI) and Bank Negara Indonesia (BBNI) – are likely to still record strong loan and earnings growth in the last quarter this year. The Big-4 banks already have ample loan loss coverage ratio, which enables them to be better in managing risks of rising NPL during a rising interest rate environment.

Telcos, such as XL Axiata (EXCL), should profit from resilient data demand, which is expected to stay strong despite growing inflation, as data is now regarded as a basic necessity. Consumer staples should gain from softer commodity prices – particularly sugar, chocolate, and cocoa – which should be able to offset the negative impact of a weaker IDR. Counters with strong dividend yield, such as Perusahaan Gas Negara (PGAS) and Bank BJB (BJBR), should be a good proxy to deal with the projected high market volatility in 4Q22.

Strong energy and nickel prices have benefitted United Tractors (UNTR) and Vale Indonesia (INCO). UNTR has benefitted from the current high demand for coal since coal mining companies are increasing production and purchasing heavy equipment, while the discount on mining contracting fees has declined significantly. INCO should benefit from the expected strong nickel demand in the long run, due to higher nickel demand for EV batteries.

Jasa Marga (JSMR) should benefit from the recovery in economic activities, which boosted toll road traffic and increased its EBITDA. Although the Trans Java toll road traffic is now higher than that of pre-pandemic levels, its share price remains a laggard.

Figure 23: Our Top 10 picks

	Name	Ticker	Rating	Price	TP	Upside/ Downside	Market cap	EPS growth	2023F P/E	P/BV	PEG	ROE	Yield
				(IDR)	(IDR)	(%)	(USDbn)	(%)	(x)	(x)	(x)	(%)	(%)
1	Bank Rakyat Indonesia	BBRI IJ	BUY	4,270	5,800	35.8	42.0	18.1	12.9	1.8	0.7	14.6	5.3
2	Bank Negara Indonesia	BBNI IJ	BUY	8,425	10,400	23.4	10.2	19.9	7.8	1.0	0.4	13.2	2.7
3	United Tractors	UNTR IJ	BUY	33,750	42,700	26.5	8.2	(20.1)	7.9	1.5	N/A	19.5	4.9
4	Vale Indonesia	INCO IJ	BUY	6,700	7,700	14.9	4.3	4.9	18.1	1.7	3.7	10.7	2.4
5	Mayora Indah	MYOR IJ	BUY	2,160	2,400	11.1	3.1	30.7	24.6	3.7	0.8	15.8	1.8
6	Perusahaan Gas	PGAS IJ	BUY	1,835	2,200	19.9	2.8	8.9	6.5	1.0	0.7	16.6	8.6
7	Semen Indonesia	SMGR IJ	BUY	7,500	9,100	21.3	2.8	29.0	22.9	1.2	0.8	5.2	1.8
8	XL Axiata	EXCL IJ	BUY	2,380	3,300	38.7	1.7	14.0	16.9	1.2	1.2	7.1	1.6
9	Jasa Marga	JSMR IJ	BUY	3,290	5,400	64.1	1.5	19.1	11.4	1.0	0.6	8.2	1.6
10	Bank BJB	BJBR IJ	BUY	1,350	1,800	33.3	0.9	20.6	5.0	0.9	0.2	17.9	9.9

Source: Company data, RHB

BBRI: We see its new digital apps boosting synergies and extending its ultra-micro segment market by allowing BRI Link, Pegadaian, and Permodalan Nasional Madani (PNM) agents to cross sell. It will focus on expanding high-yielding micro loans. While this may slow loan growth, NIM should improve and boost earnings. Management guided for low-yield subsidised (KUR) and high-yield micro loans to have the same NPL risk. 8M22 earnings of IDR33.6trn met 78% and 71% of our and Street full-year forecasts.

BBNI: 1H22 earnings beat expectations. Robust key trends in 2Q22 suggest that it is on track to achieve FY22F targets while sustained improvement in asset quality has led to lower credit cost guidance. With the pull-back in share price over the past three months, valuation is compelling at 1x FY22F P/BV against ROE of 13%. Our TP is based on an intrinsic value of IDR9,981 (GGM-derived 1.2x P/BV) and a 4% ESG premium.

UNTR: We are optimistic on the positive growth trajectory for UNTR's earnings this year, driven by higher fee projections on the mining contracting business, apart from positive expectations of strong demand for heavy equipment (HE). However, some normalisation may happen next year in terms of coal price and HE supply recovery trends – we have set a more conservative projection from 2023.

INCO: Strong profit achievement throughout the year – on solid ASP movement – increases our optimism for Vale Indonesia to meet our full-year bottomline forecast (+50% YoY). However, we think unprecedented risks from geopolitical tensions will pose challenges to commodity trends ahead. Our conservative 2022 nickel price target of c.USD22,000 per tonne (+19% YoY) remains feasible. Management is also confident of ramping up production for the remaining quarters of 2022.

MYOR: We are still positive on MYOR, especially post 1H22F, based on margin recovery following a series of price increases in 2022, and as the company has become a key beneficiary of domestic and overseas (such as China) border reopenings, and the IDR depreciation. Continuous new product innovation should sustain its growth ahead. MYOR, which has primarily been a manufacturer of sweets, coffee, biscuits, and drinks, is currently venturing to sell savoury products too.

PGAS: 8M22 operational data remained strong, and with it still on track with our expectations, commercial gas distribution and gas transmission volume remain in line with our estimates. PGAS' upstream revenue also continues to strengthen, and its contribution to total turnover has increased – upstream revenue formed 17% of total revenue. The further ramping up of oil production in Rokan, Riau Province is expected to expand revenue from oil transportation, which also has better margin. The counter is also expected to pay a substantial FY23F dividend yielding 8.6%.

SMGR: Amidst soaring energy cost, SMGR managed to record earnings growth of 4.4% YoY to IDR829bn. It has secured DMO coal purchase for FY22 consumption, and alleviated the margin contraction to merely 27.8% (1H21: 28.3%). Another strategic move taken is the early repayment on Solusi Bangun Indonesia's (SBI) acquisition debt, which reduced interest expense by 23.9% YoY. The impact of 7-day reverse repo rate (7DRRR) hike should be mitigated by its lighter balance sheet. Valuation of the company is also attractive, trading near -2SD from its 5-year EV/ton at USD80, and at -1SD from its 3-year P/E at 18.2x.

EXCL: The company's plan for a rights issue at the end of the year will significantly reduce its floating rate debt, which should make it more resilient toward potential rate hikes, aside from further expanding its net margin and reducing its gearing level.

JSMR: Toll road revenue in 1H22 rose 17.9% YoY to IDR6.7trn, thanks to Trans Jawa toll traffic that has reached 175% above normal conditions. After normalising, average weekly revenue was still 13% above pre-pandemic levels. Its main risk comes from interest rate hikes – management plans to convert 60% of its debt to fixed rate by next year (currently: 30%). However, weighted average cost of debt may rise to 7-8% (Jun 2022: 6.48%) as the floating rate debt is converted.

BJBR: Bank BJB has set aside IDR500bn to establish a local regional banking group. It intends to collaborate with four local regional banks with combined assets of IDR50trn (c.29% of BJBR's assets). It has signed a Letter of Intent (LOI) with Bank Sultra on business collaboration and transferred cash to Bank Bengkulu. 8M22 earnings grew 31.4% YoY – in line. Our new TP is on a higher risk-free rate to our GGM-based valuation, implies 1.2x FY22F P/BV. We apply a 0% discount/premium, as BJBR's 3.00 ESG score is at the country median. The counter is estimated to generously pay FY23F dividend yield at 9.9%.

Figure 24: Top 20 stocks with the highest ROEs

		Recommendation	Last price	TP	EPS growth		Div. yield		P/E	P/BV	ROE
					2022F	2023F	2022F	2023F	2022F	2022F	2022F
Indo Tambangraya Megah	ITMG IJ	TRADING BUY	42,125	49,300	74.8	(27.5)	9.0	15.4	4.0	1.8	45.2
Bukit Asam	PTBA IJ	TRADING BUY	4,230	5,600	49.0	(28.4)	10.3	11.0	4.1	1.5	38.4
Arwana Citramulia	ARNA IJ	BUY	900	1,350	26.3	6.8	5.3	6.7	11.1	3.8	33.7
Adaro Energy	ADRO IJ	TRADING BUY	3,950	4,800	104.8	(34.6)	7.7	15.5	4.6	1.5	33.1
Medco Energy	MEDC IJ	BUY	1,010	1,100	934.5	5.8	3.5	3.8	3.7	1.0	28.3
Indosat Ooredoo	ISAT IJ	BUY	6,275	8,200	(52.8)	(45.4)	1.3	0.7	15.9	4.5	23.9
BTPN Syariah	BTPS IJ	NEUTRAL	2,730	3,780	55.1	18.6	1.7	2.6	9.5	2.2	22.6
United Tractors	UNTR IJ	BUY	33,750	42,700	79.5	(20.1)	5.9	4.7	6.8	1.5	21.7
HM Sampoerna	HMSP IJ	BUY	940	1,200	(6.8)	8.4	6.4	6.4	16.4	3.8	21.6
Indofood CBP	ICBP IJ	BUY	8,700	12,000	16.5	16.4	3.1	3.7	13.6	2.7	19.5
Puradelta Lestari	DMAS IJ	BUY	166	250	57.1	6.8	5.5	8.7	7.1	1.3	18.0
Erajaya Swasembada	ERAA IJ	BUY	402	950	23.3	31.2	4.7	5.7	5.1	0.9	17.6
Mitra Adiperkasa	MAPI IJ	BUY	1,190	1,500	229.3	3.2	0.2	1.1	13.7	2.4	17.3
Telekomunikasi Indonesia	TLKM IJ	BUY	4,290	5,100	6.4	8.9	3.5	3.7	16.1	3.2	16.9
Bank Central Asia	BBCA IJ	BUY	8,250	9,000	19.1	13.7	1.9	2.3	27.2	4.6	16.8
Indofood Sukses Makmur	INDF IJ	BUY	6,050	9,700	4.9	12.0	9.2	9.7	6.6	1.1	16.8
Bank Jatim	BJTM IJ	BUY	695	1,000	27.5	22.5	7.6	9.7	5.4	0.9	16.1
Perusahaan Gas Negara	PGAS IJ	BUY	1,800	2,200	53.0	8.9	8.3	8.6	6.6	1.0	15.8
Mitra Keluarga Karyasehat	MIKA IJ	BUY	2,750	3,000	(18.9)	23.8	1.3	1.1	39.3	6.8	15.7
Bank Jabar	BJBR IJ	BUY	1,345	1,800	7.3	20.6	9.3	9.9	6.5	0.9	15.4

Source: Bloomberg, RHB

Figure 25: Top 20 stocks with the lowest P/Es

		Recommendation	Last price	TP	EPS growth		Div. yield		P/E	P/BV	ROE
					2022F	2023F	2022F	2023F	2022F	2022F	2022F
Medco Energy	MEDC IJ	BUY	1,010	1,100	934.5	5.8	3.5	3.8	3.7	1.0	28.3
Indo Tambangraya	ITMG IJ	TRADING BUY	42,125	49,300	74.8	(27.5)	9.0	15.4	4.0	1.8	45.2
Bukit Asam	PTBA IJ	TRADING BUY	4,230	5,600	49.0	(28.4)	10.3	11.0	4.1	1.5	38.4
Bank CIMB Niaga	BNGA IJ	BUY	1,065	1,270	49.5	9.9	8.4	12.6	4.4	0.6	13.0
Adaro Energy	ADRO IJ	TRADING BUY	3,950	4,800	104.8	(34.6)	7.7	15.5	4.6	1.5	33.1
Erajaya Swasembada	ERAA IJ	BUY	402	950	23.3	31.2	4.7	5.7	5.1	0.9	17.6
Bank Tabungan Negara	BBTN IJ	BUY	1,470	2,450	22.2	19.8	3.1	3.7	5.4	0.6	12.0
Bank Jatim	BJTM IJ	BUY	695	1,000	27.5	22.5	7.6	9.7	5.4	0.9	16.1
London Sumatera	LSIP IJ	NEUTRAL	1,045	1,250	19.9	(5.3)	5.6	6.7	6.0	0.7	11.0
Bank Jabar	BJBR IJ	BUY	1,350	1,800	7.3	20.6	9.3	9.9	6.6	0.9	15.4
Perusahaan Gas	PGAS IJ	BUY	1,800	2,200	53.0	8.9	8.3	8.6	6.6	1.0	15.8
Indofood Sukses	INDF IJ	BUY	6,050	9,700	4.9	12.0	9.2	9.7	6.6	1.1	16.8
United Tractors	UNTR IJ	BUY	33,750	42,700	79.5	(20.1)	5.9	4.7	6.8	1.5	21.7
Puradelta Lestari	DMAS IJ	BUY	166	250	57.1	6.8	5.5	8.7	7.1	1.3	18.0

Matahari Department	LPPF IJ	BUY	4,110	6,600	29.6	28.6	6.8	8.9	8.2	6.9	76.7
Bekasi Fajar Industrial	BEST IJ	NEUTRAL	156	170	(346.7)	18.3	0.0	0.0	8.6	0.3	3.9
Astra Otoparts	AUTO IJ	BUY	1,195	1,580	2.1	8.4	3.3	3.5	9.2	0.5	5.0
BTPN Syariah	BTPS IJ	NEUTRAL	2,730	3,780	55.1	18.6	1.7	2.6	9.5	2.2	22.6
Bank Negara Indonesia	BBNI IJ	BUY	8,425	10,400	49.5	19.9	1.7	2.6	9.6	1.1	11.0
Jasa Marga	JSMR IJ	BUY	3,290	5,400	50.9	19.1	0.9	2.4	9.8	0.9	8.7

Source: Bloomberg, RHB

Figure 26: Top 20 stocks with the lowest P/BVs

		Recommendation	Last price	TP	EPS growth		Div. yield		P/E	P/BV	ROE
					2022F	2023F	2022F	2023F	2022F	2022F	2022F
Bekasi Fajar	BEST IJ	NEUTRAL	156	170	(346.7)	18.3	0.0	0.0	8.6	0.3	3.9
Alam Sutera	ASRI IJ	NEUTRAL	170	219	102.7	30.5	0.0	0.0	11.3	0.4	3.0
PT PP	PTPP IJ	BUY	890	1,170	31.7	131.0	1.3	2.9	15.8	0.4	3.1
Surya Semesta	SSIA IJ	BUY	324	450	(188.3)	6.8	0.0	0.0	8.6	0.4	4.1
Adhi Karya	ADHI IJ	BUY	720	990	137.5	65.5	0.4	1.0	19.6	0.4	2.3
Astra Otoparts	AUTO IJ	BUY	1,195	1,580	2.1	8.4	3.3	3.5	9.2	0.5	5.0
Bank CIMB Niaga	BNGA IJ	BUY	1,065	1,270	49.5	9.9	8.4	12.6	4.4	0.6	13.0
Bumi Serpong	BSDE IJ	BUY	910	1,300	9.5	22.0	0.0	0.0	13.0	0.6	3.9
Wijaya Karya	WIKA IJ	BUY	935	1,100	98.5	116.0	0.3	0.6	35.9	0.6	1.8
Bank Tabungan	BBTN IJ	BUY	1,470	2,450	22.2	19.8	3.1	3.7	5.4	0.6	12.0
London Sumatera	LSIP IJ	NEUTRAL	1,045	1,250	19.9	(5.3)	5.6	6.7	6.0	0.7	11.0
Astra Agro Lestari	AALI IJ	SELL	7,925	7,240	(24.6)	8.4	7.6	6.1	10.3	0.7	6.8
Gudang Garam	GGRM IJ	NEUTRAL	22,300	36,000	(45.4)	28.6	7.4	5.2	13.6	0.7	4.6
Bank Jatim	BJTM IJ	BUY	695	1,000	27.5	22.5	7.6	9.7	5.4	0.9	16.1
Jasa Marga	JSMR IJ	BUY	3,290	5,400	50.9	19.1	0.9	2.4	9.8	0.9	8.7
Summarecon Agung	SMRA IJ	NEUTRAL	565	560	47.7	27.8	0.8	1.2	19.5	0.9	4.0
Erajaya	ERAA IJ	BUY	402	950	23.3	31.2	4.7	5.7	5.1	0.9	17.6
Bank Jabar	BJBR IJ	BUY	1,350	1,800	7.3	20.6	9.3	9.9	6.6	0.9	15.4
Ciputra Development	CTRA IJ	BUY	950	1,500	(6.0)	15.7	1.5	1.1	10.8	1.0	7.9
Erajaya	ERAA IJ	BUY	416	950	23.3	31.2	4.6	5.5	5.3	0.9	17.6

Source: Bloomberg, RHB

Malaysia: Turning Adversity Into Opportunity

Markets still on tenterhooks

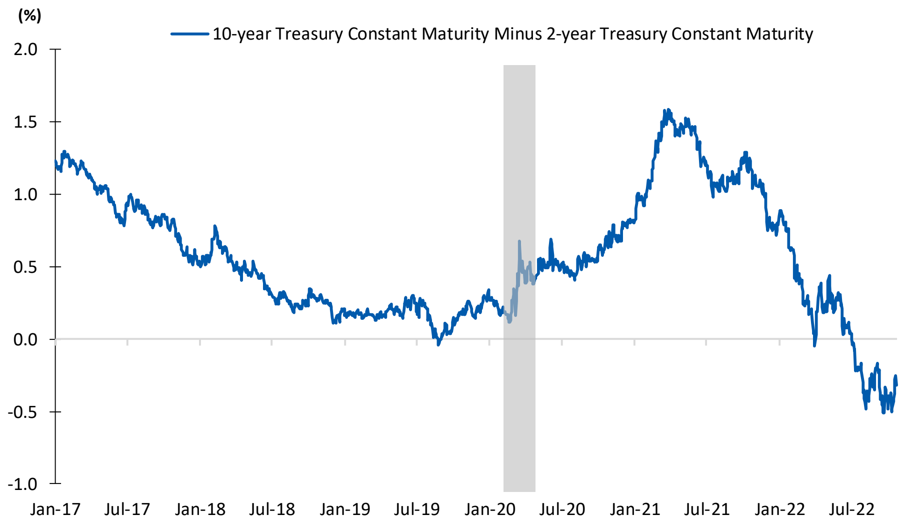
Our cautious view on the prospects for equity markets through the next several quarters remains unchanged. Investors looking to obtain a clearer perspective on the outlook for 2023 are none the wiser, given the many moving parts involving the US Fed, global inflation, geopolitics and COVID-19 restrictions in China. Investor concerns remain centred on macroeconomic worries and monetary policy messaging from the US Fed, which seems determined to extend its hawkish pivot. Markets have had to price in an ever-rising terminal FFR through 2022.

US rate hiking cycle to continue through mid-2023

With real rates still deeply in negative territory, a tight US labour market and rising wages will contribute to inflation (although offset by lower commodity prices) suggesting that the FFR may have more room to run. The RHB Economics house view – consistent with the latest Fed Funds futures – is for monetary tightening to continue through mid-2023 with the FFR reaching 4.50-4.75%. However, we are unable to rule out the possibility of the terminal FFR rising further should inflationary pressure prove to be stickier than anticipated. Such a scenario would come at the expense of risk assets.

The US Fed's determination to bring inflation down to 2% and the falling chance of a soft landing for the economy has brought about growing concerns that a recession may be the price to pay to contain inflation. A yield curve inversion has been a reliable indicator of a potential recession. While not all rate hike cycles have resulted in recessions, rate hikes that result in an inversion of the yield curve have led to recessions.

Figure 27: US yield curve inversion



Source: Federal Reserve Bank of St. Louis

Slowing growth environment to drag on corporate profitability and valuations

The slowing global macroeconomic environment going forward into 2023 will have negative implications for the performance of the domestic economy and corporate earnings. Accordingly, we continue to highlight downside risks to corporate profitability, adversely affecting investor sentiment and risk appetite. The US Fed's monetary tightening cycle has resulted in a stronger USD and higher local interest rates.

As we have indicated in previous quarterlies, forward valuations as they stand may not be as low as current forecasts suggest. Weaker corporate profitability in a context of a less favourable macroeconomic backdrop, coupled with a valuation de-rating for risk assets from rising interest rates, suggest a tepid equity market in the coming quarters.

Public finances still a worry

With direct debt as at end-2021 standing at MYR979.8bn and equivalent to 63% of GDP, this balloons to MYR1.29trn (83.5% of GDP) after adding debt guarantees. Debt servicing charges are running at MYR43.1bn for 2022, equivalent to 18.4% of projected revenue. A rising interest rate environment and growing subsidy bill will only make the Government's fiscal deficit targets more difficult to achieve.

Political risk from a snap 15th General Election (GE 15)

The dissolution of Parliament will require the Supply Bill 2023 (Budget) to be re-tabled, with the new government having to restart the whole process. A scenario in which the new government has to manage with a temporary emergency budget through 1Q23 cannot be ruled out, depending on whether the elections can produce a new government commanding a comfortable majority or otherwise.

Changes to sector weightings

The rubber products sector was downgraded to UNDERWEIGHT (from Neutral). This is a reflection of the persistent imbalance in the demand-supply dynamic that we expect will continue for the foreseeable future. Industry utilisation rates are already at sub-optimal levels, even as inventory levels remain high and as recent entrants into the glove sector erode ASP. We now have SELL calls on all four stocks covered in the sector.

The technology sector was also cut to NEUTRAL (from Overweight), after concerns that persistent global growth challenges would weaken semiconductor demand ramped up. The rising rate environment also continues to dampen investor sentiment on risk assets and high growth sectors.

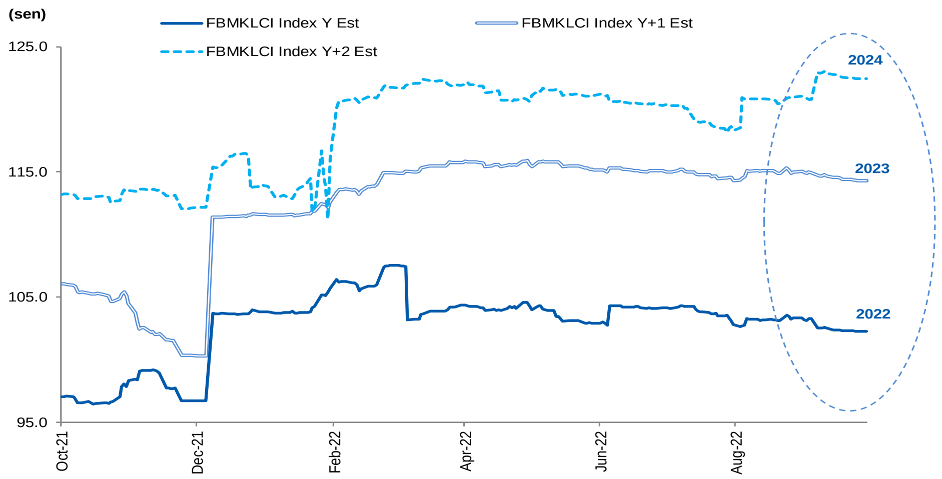
Earnings outlook: Downside risks to 2023 earnings estimates still

Figure 28: Earnings outlook and valuations

	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
COMPOSITE INDEX @ 1,446.42 21 Oct 22	**2021**	**2022F**	**2023F**	**2024F**	**2021**	**2022F**	**2023F**	**2024F**	**2021**	**2022F**	**2023F**	**2024F**
Revenue growth (%)	23.7	7.4	2.0	4.1	19.5	10.4	1.3	4.3	12.7	15.7	0.1	4.7
EBITDA growth (%)	29.8	3.2	1.4	4.0	30.0	2.7	1.2	4.9	30.9	1.2	0.7	7.2
Normalised earnings growth (%)	69.9	(1.5)	7.4	5.5	70.4	(2.5)	7.0	6.5	72.1	(4.8)	5.9	9.0
Normalised EPS (sen)	35.6	35.0	37.5	39.4	23.8	23.1	24.7	26.2	12.9	12.2	12.9	14.0
Normalised EPS growth (%)	**69.1**	**(1.7)**	**6.9**	**5.2**	**69.1**	**(3.0)**	**6.6**	**6.2**	**70.5**	**(5.5)**	**5.6**	**8.9**
Prospective P/E (x)	**14.6**	**14.8**	**13.9**	**13.2**	**13.8**	**14.2**	**13.4**	**12.6**	**12.2**	**12.9**	**12.2**	**11.2**
Normalised EPS (sen) ex-rubber glove	31.6	35.3	39.7	41.7	19.9	23.0	25.6	27.2	9.6	12.0	13.1	14.3
Normalised EPS Growth (%) ex-rubber glove	49.6	11.9	12.5	5.0	46.4	15.1	11.5	6.1	39.8	25.0	8.7	8.9
Prospective PER (x) ex-rubber glove	17.4	15.6	13.8	13.2	17.1	14.8	13.3	12.6	16.5	13.2	12.1	11.1
P/BV (x)	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.2	0.9	0.9	0.9	0.9
Dividend yield (%)	4.7	4.1	4.6	4.8	4.5	4.1	4.6	4.7	3.6	3.8	4.4	4.4
ROE (%)	11.3	10.6	10.8	10.8	10.2	9.4	9.6	9.8	7.7	6.9	7.3	7.8

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie Hong Leong Financial Group, RHB Bank, and PPB
Source: Bloomberg, RHB

Figure 29: Trend of revisions to consensus forecasts



Source: Bloomberg

Figure 30: FBM KLCI – weightings & valuations

	Market Cap MYRbn	Weight (%)	EPS Growth (%) FY21	FY22F	FY23F	FY24F	P/E (x) FY21	FY22F	FY23F	FY24F
Sime Darby	15.0	1.67	20.0	(4.2)	11.1	3.9	12.0	12.5	11.3	10.9
Auto	**15.0**	**1.67**	**20.0**	**(4.2)**	**11.1**	**3.9**	**12.0**	**12.5**	**11.3**	**10.9**
CIMB	58.6	6.53	286.7	1.5	26.1	6.7	11.9	11.7	9.3	8.7
HL Bank	45.9	5.11	14.6	14.9	13.7	6.0	15.2	13.3	11.7	11.0
Maybank	104.6	11.66	18.3	0.0	29.8	4.4	12.7	12.7	9.8	9.4
Public bank	86.4	9.63	16.7	4.0	18.1	3.8	15.8	15.2	12.8	12.4
Banking	**295.4**	**32.93**	**39.4**	**3.4**	**23.9**	**5.3**	**13.7**	**13.2**	**10.7**	**10.2**
Press Metal	36.3	4.04	115.0	82.6	7.0	2.3	35.5	19.4	18.2	17.8
Basic Material	**36.3**	**4.04**	**115.0**	**82.6**	**7.0**	**2.3**	**35.5**	**19.4**	**18.2**	**17.8**
Nestle	31.1	3.47	2.3	12.3	14.1	4.6	54.5	48.6	42.6	40.7
Mr DIY	18.7	2.08	23.4	23.7	23.7	12.8	42.8	34.6	28.0	24.8
Consumer	**49.8**	**5.55**	**10.4**	**17.2**	**18.5**	**8.5**	**49.5**	**42.2**	**35.6**	**32.9**
IHH Healthcare	52.8	5.89	117.1	(4.4)	7.5	8.2	33.9	35.5	33.0	30.5
Healthcare	**52.8**	**5.89**	**117.1**	**(4.4)**	**7.5**	**8.2**	**33.9**	**35.5**	**33.0**	**30.5**
Inari Amertron	8.9	0.99	113.6	19.8	5.7	6.6	27.4	22.8	21.6	20.3
Technology	**8.9**	**0.99**	**113.6**	**19.8**	**5.7**	**6.6**	**27.4**	**22.8**	**21.6**	**20.3**
Dialog	10.2	1.14	(16.2)	(0.2)	10.9	8.8	22.3	22.4	20.2	18.6
MISC	32.2	3.59	(28.8)	21.7	28.6	3.9	25.2	20.7	16.1	15.5
Petronas Chemicals	70.7	7.88	280.1	(6.8)	(10.7)	7.8	9.9	10.6	11.9	11.0
Petronas Dagangan	20.7	2.31	71.7	16.7	23.0	2.2	38.6	33.0	26.9	26.3
Oil & Gas	**133.9**	**14.93**	**107.9**	**(1.4)**	**(0.9)**	**6.5**	**14.2**	**14.4**	**14.5**	**13.6**
IOI Corp	24.3	2.71	39.1	73.7	(9.6)	(13.0)	22.4	12.9	14.3	16.4
Kuala Lumpur Kepong	23.2	2.58	168.3	25.5	(21.9)	(12.5)	12.4	9.9	12.7	14.5
Sime Darby Plantations	30.6	3.41	134.8	11.8	(23.3)	(5.8)	14.3	12.8	16.6	17.6
Plantation	**78.0**	**8.69**	**113.1**	**30.3**	**(18.9)**	**(10.4)**	**15.4**	**11.8**	**14.5**	**16.2**
Hartalega	6.3	0.70	7.8	(90.5)	14.1	0.5	2.1	2.0	20.5	18.0
Top Glove	5.7	0.64	302.9	(94.7)	(13.9)	23.0	0.8	14.6	17.0	13.8
Rubber Products	**12.0**	**1.34**	**347.0**	**(66.3)**	**(81.8)**	**18.9**	**1.1**	**3.4**	**18.6**	**15.7**
Axiata	25.1	2.80	53.2	(8.0)	13.6	10.6	17.7	19.3	17.0	15.4
DiGi.Com	28.1	3.14	(5.6)	(15.4)	16.0	0.7	22.8	27.0	23.3	23.1
Maxis	28.0	3.12	(9.8)	1.1	9.0	7.7	22.3	22.1	20.3	18.8
Telekom Malaysia	20.8	2.32	25.1	9.4	8.1	9.7	16.3	14.9	13.8	12.6
Telecommunication	**102.0**	**11.37**	**11.0**	**(3.3)**	**11.4**	**7.4**	**19.8**	**20.4**	**18.3**	**17.1**
Petronas Gas	33.6	3.74	4.3	(8.4)	(0.9)	0.6	16.4	17.9	18.1	18.0
Tenaga	47.5	5.29	22.0	3.3	12.7	4.8	10.9	10.5	9.3	8.9
Utilities	**81.0**	**9.03**	**15.6**	**(0.5)**	**8.7**	**3.6**	**12.7**	**12.7**	**11.7**	**11.3**
FBM KLCI	**897.1**	**100.00**	**69.1**	**(1.7)**	**6.9**	**5.2**	**14.6**	**14.8**	**13.9**	**13.2**

Source: Bloomberg, RHB

We remain cognisant of the potential downside risks to our 2023 earnings projections, in light of the risks to global growth and persistent USD strength. Nonetheless, given our relatively benign house economic projections and the follow-through from the economic re-opening beginning from 2Q22, our 2023 earnings estimates continue to indicate a relatively robust ex-gloves EPS growth of 12.9%. This would be contributed mainly by the banks, consumer, healthcare, basic materials and telecommunication sectors, but offset by earnings contraction from plantations from lower YoY CPO price. We note that glove sector earnings are likely to bottom out in 2023, while the next KLCI semi-annual review in December will likely see the removal of the two glove representatives from the benchmark index component list.

Risks to earnings growth will likely come from the knock-on effects stemming from slower global growth, persistent inflation and unfavourable FX rates leading to cost pressures. The rising rate environment will also be negative for growth, business conditions and sentiment. RHB Economics expects a US economic slowdown in 2023, with the balance of risks skewed toward a recession, with a corresponding spillover effect on global growth.

Figure 31: RHB basket – sector weightings and valuations

Sectors	Mkt Cap	Weight	EPS Growth (%)			P/E (x)			Recommendation
	MYRbn	%	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	
Banking	325.2	27.1	3.9	22.7	5.6	12.6	10.3	9.8	Overweight
Gaming	36.5	3.0	183.4	92.1	19.7	25.8	13.4	11.2	Overweight
Basic Materials	40.6	3.4	60.5	6.4	8.8	19.4	18.1	16.6	Overweight
Non-Bank Financials	15.2	1.3	(7.7)	11.1	8.2	9.8	8.8	8.2	Overweight
Oil & Gas	146.1	12.2	2.3	1.3	8.7	13.5	13.3	12.3	Overweight
Healthcare	58.6	4.9	1.8	10.4	8.5	33.2	30.1	27.7	Overweight
Construction	21.8	1.8	25.3	(2.2)	9.7	15.0	15.3	14.0	Neutral
Auto	23.0	1.9	12.4	0.6	5.4	11.3	11.2	10.7	Neutral
Property-REITs	31.4	2.6	25.0	5.0	3.4	16.9	16.1	15.6	Neutral
Telecommunications	110.9	9.2	(2.0)	12.2	7.4	20.3	18.1	16.8	Neutral
Utilities	92.6	7.7	(1.3)	8.9	4.4	13.1	12.0	11.5	Neutral
Plantation	94.3	7.9	34.9	(24.2)	(9.2)	10.0	13.1	14.5	Neutral
Consumer	107.2	8.9	24.6	17.6	11.1	24.9	21.2	19.1	Neutral
Transport	23.5	2.0	653.8	211.6	9.4	51.4	16.5	15.1	Neutral
Property	27.0	2.3	34.8	6.8	9.0	10.9	10.3	9.4	Neutral
Technology	24.6	2.1	27.3	8.4	9.8	20.6	19.0	17.3	Neutral
Media	3.9	0.3	(7.0)	16.4	4.4	7.8	6.7	6.4	Neutral
Rubber Products	17.2	1.4	(74.2)	(80.1)	14.8	3.8	19.3	16.8	Underweight
RHB BASKET	**1199.4**	**100.0**	**(3.0)**	**6.6**	**6.2**	**14.2**	**13.4**	**12.6**	

Source: RHB

End-2022 FBM KLCI target

We cut our end-2022 FBM KLCI target to 1,510 pts (from 1,580 pts) after ascribing a lower 14.5x P/E (from 15x) on 2023F earnings, at 1SD below the mean P/E of 15.5x. This reflects the expectation of decelerating global growth in 2023, and the risk of an extended rate hike cycle that will count against risk assets, albeit, with Malaysia's economy still forecasted to expand 4.5% YoY, supported by robust private consumption.

Investment themes

The persistent inflation data, the US Fed's stated plan to bring inflation down to a 2% target via aggressive monetary tightening that has yet to run its course, the resulting robust USD, various evolving geopolitical flashpoints, combined with internal domestic risks that include policy and regulatory concerns are all reasons to keep markets in risk-off mode when it comes to positioning for 2023.

While we continue to see the benefits of the ongoing economic re-opening and normalisation of the broader economy, much of this dynamic is already in the price, while the recovery process continues to be dogged by cost pressures and labour shortages that is taking a toll on toplines and margins.

The lack of clarity on the depth of the slower growth environment and lack of clear upside catalysts will keep investors guarded and reluctant to take big bets, especially as forward valuations are potentially unreliable. How sticky and persistent inflationary pressures evolve will determine the level at which the FFR tops out. With the risk of more volatility to come, the priority for investors in the near term should be focused on getting to the other side and also ensuring sufficient liquidity is maintained, to be able to take advantage of market weakness with medium-term investment goals in mind.

In this vein, this perspective suggests that investors should already have a stronger propensity to hold higher levels of cash and other liquid assets in the interim, while looking to nibble at quality names on weakness.

Key stock selection criterion should include companies with robust balance sheets, pricing power, captive customer bases, recurring demand, ability to pass through higher costs and a strong ESG profile.

Stayin' alive

The principle of remaining liquid and keeping your powder dry, will give investors the ability to live to fight another day. Cash is king in the near term.

Core defensive stance

Investors that have to remain invested locally need to maintain a core defensive portfolio for tactical reasons, given the prevailing uncertainties. These defensive names will demonstrate greater price stability and resilience in the face of volatility, while high-dividend yield stocks will remain on the radars of risk-averse investors.

Figure 32: Defensive stocks

	Rec	Price (MYR/s) 21 Oct 22	TP (MYR/s)	Mkt cap (MYRm)	EPS (sen) 23F	EPS (sen) 24F	EPS growth (%) 23F	EPS growth (%) 24F	3-yr EPS CAGR (%) FY21-FY24F	P/E (x) 23F	P/E (x) 24F	P/BV (x) 24F	P/CF (x) 24F	DY (%) 24F
IHH Healthcare	Buy	6.00	7.42	52,836	18.2	19.7	7.5	8.2	3.6	33.0	30.5	2.2	2.1	14.4
TM (Telekom)	Buy	5.38	7.40	20,786	39.0	42.8	8.1	9.7	9.1	13.8	12.6	2.0	1.8	4.8
Time DotCom	Buy	4.47	5.00	8,393	28.4	30.2	21.9	6.4	13.4	15.7	14.8	2.5	2.4	11.2
Heineken Malaysia	Buy	23.30	29.20	7,093	129.0	135.0	12.1	4.6	18.4	18.1	17.3	17.5	17.3	14.4
IGB REIT	Buy	1.58	1.85	5,661	9.4	9.8	1.7	4.3	20.5	16.8	16.1	1.5	1.5	13.6
Axis REIT	Buy	1.87	2.19	3,085	10.7	11.2	8.7	5.3	8.0	17.5	16.6	1.2	1.2	6.1
Farm Fresh^	Buy	1.63	1.85	3,066	6.2	7.7	31.5	24.1	20.3	26.4	21.3	4.0	3.5	17.8
Allianz Malaysia	Buy	13.10	16.60	2,367	297.5	318.5	16.3	7.1	3.2	4.4	4.1	0.5	0.5	n.a
QL Resources^	Neutral	5.20	5.31	12,485	13.0	13.9	4.8	7.1	15.9	40.0	37.4	4.4	4.1	20.8

Note: ^FY23-24 valuations refer to those of FY24-25
Source: RHB

Figure 33: High-dividend yield stocks

	Price (MYR/s) 21 Oct 22	DY (%) FY23F	DY (%) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	P/E (x) FY23F	P/BV (x) FY23F	ROE (x) FY23F
Gamuda	3.75	3.83	13.6	3.2	(31.3)	3.6	18.6	1.1
Astro^	0.67	0.99	11.4	11.7	15.6	2.9	6.7	2.6
Matrix Concepts^	1.42	2.75	10.2	10.6	10.2	0.5	5.0	0.6
British American Tobacco	10.10	11.50	10.2	10.2	12.9	(0.2)	9.6	7.3
Malayan Banking	8.66	10.60	8.6	9.1	29.8	4.4	9.8	1.1
Tambun Indah	0.71	0.90	8.5	9.2	0.9	8.6	5.2	0.4
Sentral REIT	0.89	0.97	8.2	8.5	3.3	4.2	12.1	0.7
Bermaz Auto^	1.89	2.35	7.9	8.5	8.6	13.2	10.1	3.6
FM Global Logistics	0.54	1.01	7.5	7.5	(4.8)	5.6	6.8	0.8
CLMT	0.51	0.61	7.3	7.6	5.9	4.1	13.6	0.5
Taliworks Corporation	0.91	1.10	7.3	7.3	21.3	10.2	23.3	2.3
Sports Toto^	1.75	2.10	7.1	7.4	34.8	4.5	10.9	2.5
Pavilion REIT	1.24	1.50	6.8	7.1	5.0	3.8	15.1	1.0
MBM	3.28	3.00	6.7	6.7	(12.3)	6.5	6.8	0.6
Affin	2.25	2.45	6.7	7.2	9.6	7.9	7.5	0.4
Ranhill Utilities	0.36	0.60	6.7	8.0	31.1	19.5	8.8	0.6
Texchem	3.16	5.00	6.6	7.6	17.4	12.5	7.2	1.2
Mah Sing	0.51	0.65	6.5	7.1	8.4	12.4	6.6	0.3
UEM Edgenta	1.11	1.70	6.5	7.6	21.8	9.2	10.0	0.6
IGB REIT	1.58	1.85	6.3	6.6	1.7	4.3	16.8	1.5

Note: ^FY22-23 valuations refer to those of FY24-25
Source: RHB

Nibble on weakness

Amidst a volatile and difficult market environment, a key investment theme should be to seek more attractive entry points to build positions for the longer term. Trying to identify market bottoms can be an exercise in futility. Maintaining investment discipline would entail recognising stocks that offer longer-term fundamental value

Figure 34: Top BUYs

	FYE	Price (MYR/s) 21 Oct 22	TP (MYR)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY23F	EPS (sen) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	3-Yr EPS CAGR (%	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F
CIMB	Dec	5.53	6.50	NO	58,551	59.4	63.3	26.1	6.7	10.9	9.3	8.7	0.8	n.a.	6.1
IHH Healthcare	Dec	6.00	7.42	YES	52,836	18.2	19.7	7.5	8.2	3.6	33.0	30.5	2.1	14.4	1.1
TM	Dec	5.38	7.40	YES	20,786	39.0	42.8	8.1	9.7	9.1	13.8	12.6	1.8	4.8	3.3
AMMB^	Mar	3.98	4.60	NO	13,744	57.7	60.8	16.3	5.5	10.1	6.9	6.5	0.6	n.a.	5.9
Time DotCom	Dec	4.47	5.00	YES	8,393	28.4	30.2	21.9	6.4	13.4	15.7	14.8	2.4	11.2	5.4
Heineken (M)	Dec	23.30	29.20	NO	7,093	129.0	135.0	12.1	4.6	18.4	18.1	17.3	17.3	14.4	5.7
Yinson^	Jan	2.20	2.91	NO	6,177	39.6	71.6	62.1	81.0	36.0	5.6	3.1	0.6	1.5	0.9
CTOS Digital	Dec	1.34	2.22	YES	3,188	4.4	4.7	30.5	8.0	35.0	30.8	28.5	5.2	28.7	2.1
Farm Fresh^	Mar	1.63	1.85	YES	3,066	6.2	7.7	31.5	24.1	20.3	26.4	21.3	3.5	17.8	1.2
Guan Chong	Dec	2.07	4.15	YES	2,297	27.1	29.7	29.4	9.4	24.6	7.6	7.0	1.1	6.9	4.4
Matrix^	Mar	1.42	2.75	YES	1,802	28.3	28.5	10.2	0.5	5.0	5.0	5.0	0.5	5.4	10.6
Kerjaya Prospek	Dec	1.16	1.42	YES	1,501	12.4	14.6	27.0	17.1	23.2	9.3	8.0	1.0	7.9	4.4
Coastal Contracts	Jun	1.90	2.40	NO	1,006	26.7	23.0	11.3	(14.0)	37.3	7.1	8.3	0.6	7.5	0.0
TASCO^	Mar	0.85	2.03	YES	676	12.4	13.6	6.2	9.4	12.0	6.8	6.2	0.9	3.8	4.4
Coraza	Dec	0.68	0.93	YES	293	4.8	6.0	30.8	24.9	33.8	14.2	11.3	2.0	13.1	2.4

Note: ^FY23-24 valuations refer to those of FY24-25
Source: RHB

USD: Stronger for longer

Figure 35: Sectoral impact of a stronger USD

Sector	Impact	Comment
Banking	Neutral	Malaysian banks' income is predominantly domestic-based, supplemented by contributions from regional operations. Hence, changes in the USD/MYR rate have no direct impact on earnings. CIMB and Maybank have the highest contributions from regional operations, namely from ASEAN. CIMB derived 42% of its 1HFY22 pre-tax profits from outside Malaysia, with Indonesia accounting for 24% of group pre-tax profits, followed by Singapore (10%) and Thailand (8%). Malayan Banking's regional operations contributed c.29% of 1HFY22 pre-tax profits, with Singapore accounting for 21% of group pre-tax profit while Indonesia provided 6.1%. Any weakness in MYR against regional currencies would impact the banks in two ways – it would lift income contributions and boost capital. That said, ASEAN currencies tend to move in tandem against the USD, which would limit the impact from changes in currencies.
Gaming	Neutral / slightly negative	There is no direct impact on the gaming stocks under our coverage. While a weaker MYR should attract more foreign tourists, as of 2Q22, Malaysia's casino operator had c.66% of its borrowings in USD, while its holding company had c.17% of its borrowings in USD.
Basic Materials	Positive	A stronger USD is positive for the bottomline of basic materials players that are pre-dominantly exporters with revenue denominated in the USD. For Press Metal, over 90% of its sales are exported and denominated in the USD, whereas its cost exposure to the USD is at c.45%. Overall, the impact of a strong USD is more apparent against the weaker LME aluminium price. Every 1% strengthening of the USD would mean a 2.3% upside to our 2023 earnings forecasts, while such an impact would require a 1.5% decline in the LME aluminium price.
Non-Bank Financials	Neutral	No direct material impact on NBFI stocks under our coverage.
Oil & Gas	Positive	In terms of revenue and costs, we generally see a positive impact on downstream and FPSO players, as they are net beneficiaries of a stronger USD. There should be a neutral impact on other sectors, as they are naturally hedged. Negative for balance sheet translation movements, as capex and debt are typically in the USD.
Technology	Positive	All semiconductor-related players will be boosted by a stronger USD, as this should translate into better margins and earnings. Globetronics has the least exposure to the strengthening of the USD against the local currency – only 60-70% of its sales are denominated in the USD vs the local peer average of c.90% of sales in USD terms. On the other hand, Unisem and Malaysian Pacific Industries, which have the highest exposure, are the biggest beneficiaries of an appreciating USD – since all their sales are denominated in USD terms. We do not see a significant direct impact on the non-semiconductor players under our coverage.

Healthcare	Slightly positive	A stronger USD is expected to be positive for IHH Healthcare (IHH), as its overseas business exposure, ie the Turkey segment, accepts non-TRY-denominated currency. However, IHH does has USD exposure in terms of borrowings and accounts payable, which would offset the strengthening USD it gains from its topline. On a net basis, IHH will still benefit from the stronger USD. KPJ Healthcare does not has exposure to the USD.
Construction	Mixed	A weaker MYR may exacerbate the upward pressure on the current elevated raw material prices faced by the construction industry, especially if the suppliers source the raw materials from overseas and decide to pass on the higher foreign translation costs to contractors. On the other hand, the impact on contractors which mostly have local supplies of raw materials such as Kerjaya Prospek, Gamuda and Gabungan AQRS should be neutral.
Auto	Slightly negative	UMW and Tan Chong Motor are disadvantaged by a stronger USD, as they tend to import CKD kits and CBU vehicles in the USD, while their sales are in MYR terms. Despite this, we understand that the companies are engaged in hedging against adverse FX movements to minimise their earnings impact. Furthermore, as the companies release new models or facelifts, they will likely raise the car prices in order to pass on the higher costs stemming from a strengthening USD.
REITs	Slightly negative	A stronger USD might also have a negative impact on retail REITs' performance, provided that the stronger USD is likely to weaken consumer sentiment and business conditions. Impact on office and industrial REITs should be minimal.
Telecommunications	Slight negative/Neutral	A weaker MYR would translate into higher international out-payments for mobile traffic. The impact is, however, mitigated by the reciprocal exchange of minutes between operators and data substitution.
Utilities	Slight Negative	Capex tends to be in the USD, as equipment is from global OEM manufacturers. A stronger USD would result in higher debt, interest borrowings, and decreased cash outflows for capex. Feedstock cost FX movements are passed through the imbalance cost pass-through mechanism.
Plantation	Slightly positive	Generally, a weaker MYR would be positive for plantation companies. This is because they are net CPO exporters while the bulk of costs are in MYR or IDR terms – depending on the location of their estates. However, the impact should be partially muted by higher interest costs, as most planters have taken USD debt to finance their expansions and acquisitions.
Consumer	Mixed	The weaker MYR would benefit exporters including Power Root, Kawan Food, Oriental Food Industries, Cocoaland, etc. However, the impact would be partially mitigated depending on the portion of the raw materials that are imported. On the flip side, Starbucks chain operator, Berjaya Food and MLM company, Amway would be negatively impacted, as a significant portion of their purchases are imported. Meanwhile, the stronger USD also affects retailers such as Mr DIY, Padini and AEON, as their purchases are indirectly imported.
Transport	Mixed	Logistics: A stronger USD would be neutral for most of the logistics operators, as the bulk of their receivables and costs are MYR-based. Port operators: The weaker MYR should be negative for Westports, as translated costs of imported cranes and machineries for port expansion/maintenance should be higher in the local currency. Malaysia Airports (MAHB): Mildly positive for MAHB, as it will translate into higher translation income from its Turkish operation.
Property	Slightly negative	Demand for property is very much domestically-driven. However, the weaker MYR will generally dampen property buyers' sentiment due to their decreased purchasing power. Although the imported content of building materials is minimal, the stronger USD or weaker MYR will also add to the construction costs, which have been rising quite significantly since last year. This should hamper developers' margins, when the incremental cost is passed on from contractors.
Media	Slightly negative/Neutral	A weaker MYR results in a higher cost of newsprint (denominated in USD) for print media companies. The impact is, however, mitigated by the structural shift in media consumption behaviour from print to digital/online.
Rubber Products	Neutral/Slightly negative	By virtue, the stronger USD is positive for rubber product makers, as most of their products are being exported. Every 1% appreciation in the USD would mean an average of a 0.6% upside to rubber product makers' earnings. However, negative factors looming over the glove sector – sub-optimal utilisation rates, demand supply imbalances and ASP erosion risk – have outweighed the impact of a stronger USD, in our view.

Source: RHB

Figure 36: Companies that stand to gain from a stronger USD

Stocks	Rec	Price (MYR/s) 21-10-22	Target (MYR/s)	Mkt cap (MYRm)	Comments
Press Metal	Buy	4.40	5.73	36,254.3	For Press Metal, over 90% of its sales are exported and denominated in the USD, while its cost exposure to the USD is at c.45%. Overall, the impact of a strong USD is more apparent against the weaker LME aluminium price.
Pintaras	Buy	2.15	2.95	356.6	Around 80% of Pintaras' orderbook comes from Singapore while the remaining 20% is from Malaysia. Henceforth, a stronger USD or a weaker MYR would lead to stronger translation gains.

Power Root	Buy	2.16	2.60	875.4	A weaker MYR translates into higher export revenue for the company. Exports account for about 40% of total sales
Malaysian Pacific Industries	Buy	25.34	36.20	4,956.5	Malaysian Pacific Industries (MPI) will benefit from a stronger USD, given all its sales are denominated in USD terms. The stronger USD would then translate into higher sales receipts and margins. In terms of financing costs and borrowings, we see a minimal impact as MPI is in a net cash position.
Unisem	Buy	2.36	3.39	3,903.7	Unisem will gain from a stronger USD environment, given that all its sales are denominated in the USD. A stronger USD would, therefore, translate into higher sales receipts and margins. In terms of financing costs and borrowings, we see a minimal impact, as Unisem is in a net cash position.
MISC	Buy	7.19	7.79	32,228.2	MISC should benefit from a stronger USD, as FPSO, tanker and LNG charter revenue are denominated in USD terms.
Yinson	Buy	2.20	2.91	6,176.7	Yinson benefits from a stronger USD, as FPSO charter revenue is denominated in the USD

Source: RHB

Figure 37: Companies that stand to lose from the USD appreciation

Stocks	Rec	Price (MYR/s) 21-Oct-22	Target (MYR/s)	Mkt cap (MYRm)	Comments
Astro Malaysia	Buy	0.67	0.99	3,389.4	Over 60% of Astro's content cost is denominated in the USD. The group has hedged its USD content requirements up to 12 months forward at MYR/USD of 4.20-4.25.
Berjaya Food	Buy	0.93	1.13	1,666.6	Much of Berjaya Food's procurement is on a global basis which mitigates the effect of any FX fluctuations, but we remain cognisant of any further strengthening of the USD as higher procurement costs could inevitably translate to higher prices and lower demand for its products.
UMW	Neutral	3.30	3.10	3,867.1	Based on UMW's latest FX sensitivity analysis (2021 Annual Report), *ceteris paribus*, a 10% strengthening in the USD/MYR rate would have reduced its 2021 net profit by MYR0.97m, or 0.37% of FY21 net profit. Although the USD/MYR rate has strengthened 12% YTD, the implied MYR1.16m earnings impact would only reduce our FY22F net profit by 0.28%, which is an insignificant amount. We note that UMW continues to hedge against a strengthening USD/MYR. This has proven effective so far, as a 10% increase in USD/MYR would have pared down its net profit by MYR5.8m in FY20.
Tan Chong Motor	Neutral	1.12	1.10	730.4	Based on Tan Chong Motor's (TCM) latest FX sensitivity analysis (2021 Annual Report), *ceteris paribus*, a 5% strengthening in USD/MYR would have further deepened its losses by MYR11.7m (FY21 core net loss: MYR18m). However, we note that despite the 5% strengthening in USD/MYR in 2Q22, TCM achieved a profit of MYR5m (vs 1Q22 core net loss of MYR3m). As such, we believe that the sensitivity analysis on 2021's net earnings no longer applies. Due to the lack of guidance, we are not able to ascertain the current FX impact on earnings, but understand that management is engaged in hedging activity and cost savings efforts to minimise the strengthening USD's impact on earnings.

Source: RHB

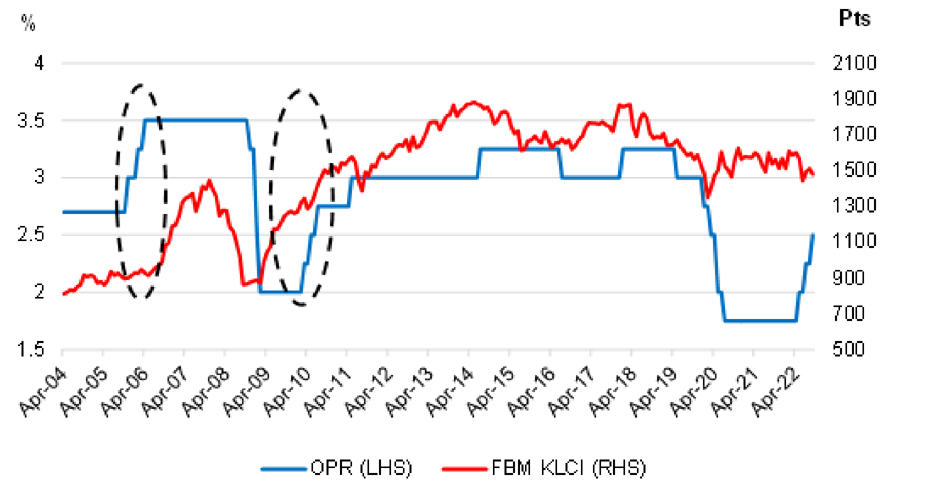
What does a rising rate environment mean for markets?

Higher interest rates mean borrowings become more expensive, leading to higher debt servicing costs that would pressure earnings. Companies will see the present value of future earnings, and consequently valuations, fall. The weighted average cost of capital (WACC) rises as the internal rate of return (IRR) or hurdle rate increases. FX movements can also occur as a result of interest rate differentials.

Overall, we view interest rate hikes as a negative for risk assets, especially if said hikes are not accompanied by economic growth.

The last two overnight policy rate (OPR) hike cycles in Malaysia, back in Nov 2005 and Mar 2010, saw the FBM KLCI trading at rather flattish levels in the months leading up to the first hike in those cycles. With economic growth and inflation remaining stable during those periods, the initial negative market sentiment on further hikes subsequently made way for a more bullish outlook. This led to the Malaysia benchmark index charting positive growth one month, three months, six months and 12 months following the date of the first rate hike, in both instances.

Figure 38: OPR and FBM KLCI historical trend including past two rate hike cycles



Note: Nov 2005- Apr 2006 and Mar 2010-May 2011 rate hike cycles are circled in black
Source: Bloomberg, RHB

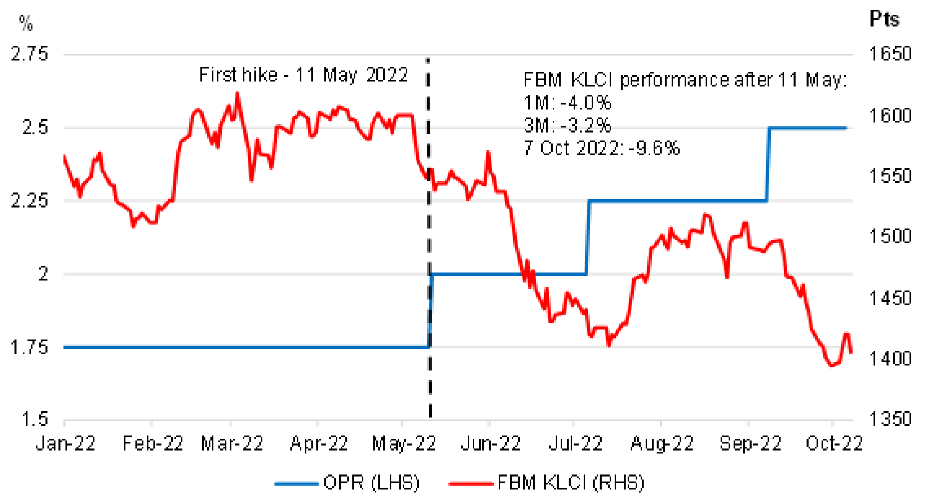
Figure 39: FBM KLCI's performance following the first rate hike in the respective cycles

Rate hike cycle (date of first hike in cycle)	1M	3M	6M	12M
Nov '05 – Apr '06 (30 Nov 2005)	+0.4%	+3.7%	+3.8%	+20.6%
Mar '10 – May '11 (4 Mar 2010)	+4.0%	+0.8%	+11.8%	+18.6%

Source: Bloomberg, RHB

More recently, local and international equity markets have pulled back YTD, as heightened global inflation, the US Fed's hawkish pivot and geopolitical tensions have caused investors to turn risk-off. With expectations for domestic GDP growth decelerating and inflationary pressures being still elevated, the outlook for risk assets will remain challenging for the next several quarters.

Figure 40: OPR and FBM KLCI (YTD trend)



Source: Bloomberg, RHB

The biggest winners from the current rate hike cycle would be companies that possess a high interest-earning asset base including exporters and USD earners. Conversely, companies with high gearing and large USD-denominated capex, along with importers and those with USD-denominated costs, would likely be the losers.

In summary:

Winners from a rising interest rate environment:

i. Banks with resilient asset quality;

ii. Exporters and USD earners.

Losers from a rising interest rate environment:

i. Oil & gas, power and telco players, representative of highly-geared companies with typically large and onerous capex budgets;

ii. High-growth and high valuation-stocks, eg technology sector players are susceptible to a de-rating in their valuations;

iii. Importers and companies with USD-denominated costs.

Small cap strategy: Uncertainties linger

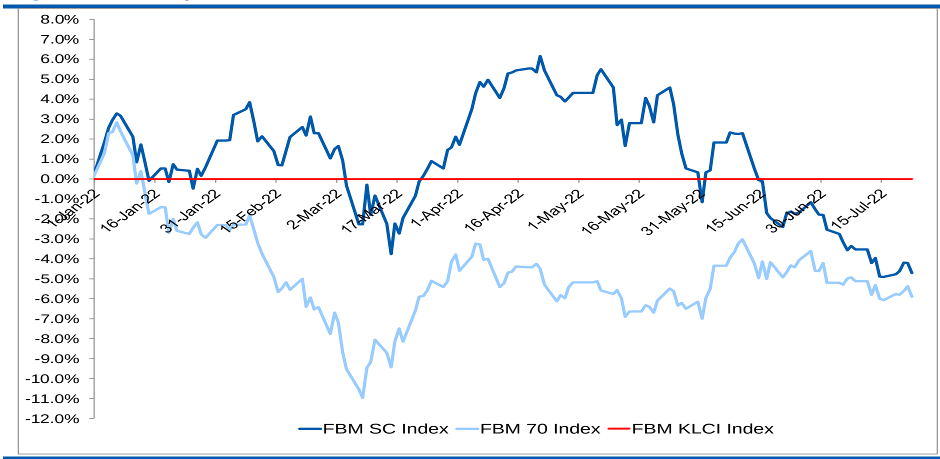
Figure 41: Small-mid cap Top Picks

	Price (MYR/s) 21 Oct 22	TP (MYR/s)	*Shariah* Compliant	Mkt Cap (MYRm)	EPS (sen) FY23F	EPS (sen) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F	Rec
Farm Fresh^	1.63	1.85	YES	3,066	6.2	7.7	31.5	24.1	20.3	26.4	21.3	3.5	17.8	Buy
Allianz (M)	13.10	16.60	NO	2,367	297.5	318.5	16.3	7.1	3.2	4.4	4.1	0.5	n.a	Buy
Guan Chong	2.07	4.15	YES	2,297	27.1	29.7	29.4	9.4	24.6	7.6	7.0	1.1	6.9	Buy
Duopharma	1.43	1.64	YES	1,333	9.2	9.9	12.1	7.3	11.9	15.5	14.5	1.8	11.4	Buy
Coastal Contracts	1.90	2.40	NO	1,006	26.7	23.0	11.3	(14.0)	37.3	7.1	8.3	0.6	7.5	Buy
Power Root^	2.16	2.60	YES	875	13.3	14.2	10.6	6.1	37.4	16.2	15.3	3.5	14.6	Buy
TASCO Bhd^	0.85	2.03	YES	676	12.4	13.6	6.2	9.4	12.0	6.8	6.2	0.9	3.8	Buy
Texchem	3.16	5.00	YES	388	43.7	49.2	17.4	12.5	34.0	7.2	6.4	1.1	4.6	Buy
Coraza	0.68	0.93	YES	293	4.8	6.0	30.8	24.9	33.8	14.2	11.3	2.0	13.1	Buy
Aurelius Tech^	1.64	2.26*	YES	587	0.08	0.13	44.8	61.0	34.2	18.3	11.3	2.1	9.7	NR

Note: ^FY23-24 valuations refer to those of FY24-25
Source: RHB

Both the FBM 70 (-13%) and FBM SC (-14.1%) have underperformed the FBM KLCI (-11%) amidst the overall weak market sentiment in the global equity market as the various macroeconomic risks of rampant inflation, aggressive rate hike trajectories, rising risks of slumping into a recession and/or stagflation, geopolitical tensions/conflicts, and slowing demand remain. The relative stronger performance in the Main Market is helped by foreign fund inflows and the outperformance of banking stocks in general, which have done relatively well and stand to benefit from the overall rising rate environment. The rally of the FBM SC from April to June was short-lived – helped by some small-cap plantation names – and has slumped in recent months, in line with the overall market, given the down-trending CPO prices and overall weakening demand.

Figure 42: YTD performance of FBM SC and FBM 70 vs the FBM KLCI



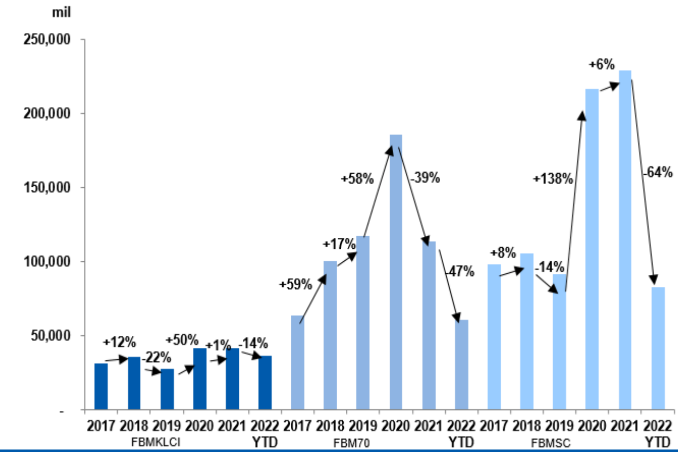
Source: Bloomberg, RHB

Figure 43: Yearly returns of major indices

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
FBM KLCI	19.3%	-0.2%	10.3%	10.5%	-5.7%	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	**-7.7%**
FBM 70	31.8%	4.6%	6.6%	15.0%	-7.9%	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-6.2%	**-15.4%**
FBM SC	24.2%	-9.0%	-1.6%	36.7%	-4.2%	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	1.3%	**-11.3%**

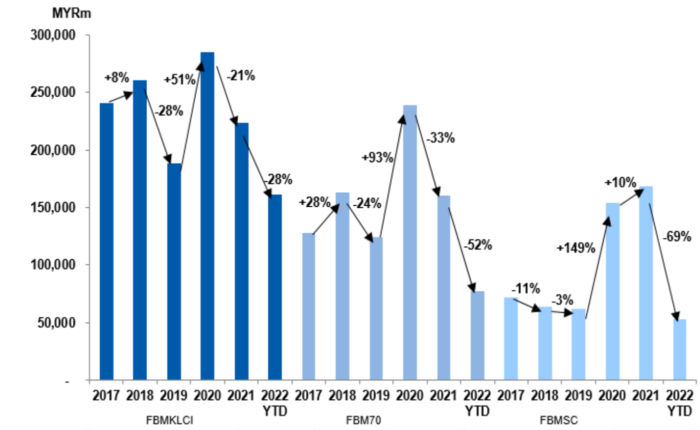
Source: Bloomberg, RHB

Figure 44: Trading volumes



Source: Bloomberg, RHB

Figure 45: Total turnover (MYRm)



Source: Bloomberg, RHB

No signs of a volume recovery yet. Market liquidity continued to be weighed down by weak market sentiment after two extraordinary years in 2020 and 2021, which were flush with high liquidity. The traded values of the FBM 70 and FBM SC have declined by 69% and 52% amidst a lack of participation from retailers and local institutions. Meanwhile, foreign inflows have only benefited from the FBM KLCI, which shows a smaller decline (-28%) in traded values when compared to the small-mid-caps space.

Compelling valuation but with uncertainties. Both the FBM 70 and FBM SC are trading near -2SD from their 5-year mean levels, which makes some of the investment cases very compelling given the valuation buffer on offer. This is despite the potential derailing of forward earnings projections due to the various uncertainties in the global macroeconomic scene. Nonetheless, most market participants remain on the side-lines, as they continue to adopt a wait-and-see approach in view of the prolonged hawkish interest rate outlook by the US Fed, which could potentially drag the world economy into a recession, as well as the domestic factor of an impending election.

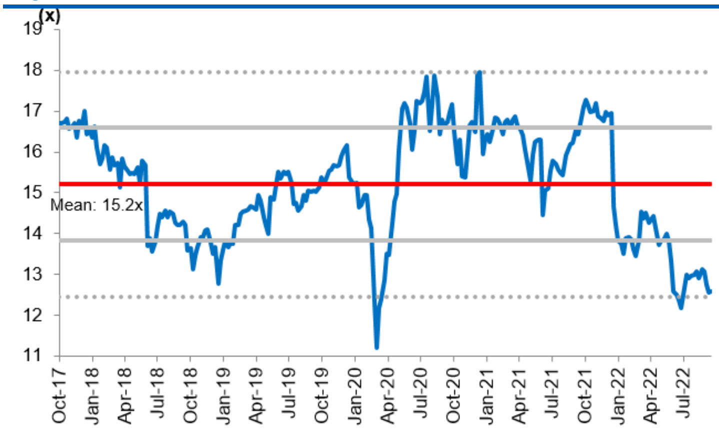
A year-end rally may be on the cards. We believe the market may undergo a short-term rally, based on historical trends of the usual year-end window-dressing activities, as well as those under-invested investors that may need to deploy their cash to position for FY23. Hence, the market is waiting for the inflection point on the inflation data and US Fed's direction on rate hike expectations before starting to take positions in a new normal environment. The heightened geopolitical risks and reopening of China post COVID-19 lockdowns are the other two swing factors to watch out for, as they will affect market sentiment significantly, in our view.

Buy the value stocks and selective exporters. We are believers of the evergreen strategy of constructing a portfolio of high-quality companies at current attractive valuations, as they are likely to yield strong risk-adjusted returns in the longer run. Hence, the search for above-market return activity via a bottom-up approach will continue to be relevant, in our view, even in the current volatile operating environment – especially at current compelling valuations. However, given the backdrop of a continuing aggressive interest hike cycle, we believe it will continue to cap the performance of high-growth and/or high-valuation stocks.

Hence, we advocate investors to focus on value stocks with healthy cash flow generation and dividends that offer a compelling valuation that will grow and prevail under the current challenging environment. Reasonable valuations vs market and historical averages would then serve as a buffer, should there be any miss in earnings forecasts due to the uncertain overall macroeconomic environment. Besides, with the continued strength of the USD/MYR (as forecasted by RHB Economics), exporters are expected to benefit greatly from the favourable FX movements, eg players in the technology, consumer, furniture, plastics, and upstream oil & gas industries.

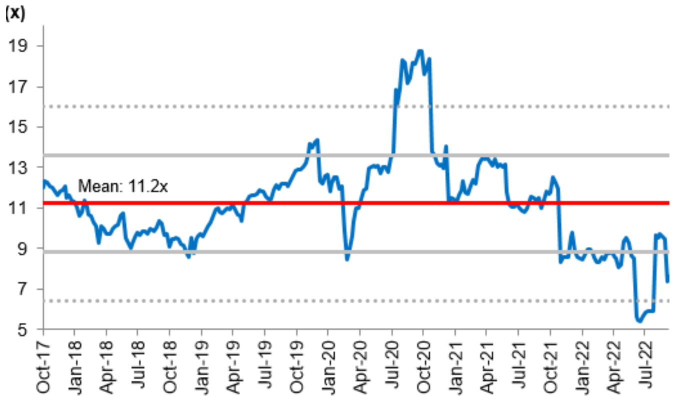
Our stock selection takes into consideration a potentially worsening macroeconomic environment, so we take into consideration value stocks, the domestic focus, inelastic demand, low prevailing valuations, dividend yields, and unique growth stories. Among the sectors we favour are consumer staples, consumer discretionary, healthcare, non-bank financials, technology, and oil & gas, as well as politically linked thematic plays.

Figure 46: FBM 70's P/E band



Source: Bloomberg, RHB

Figure 47: FBM SC's P/E band



Source: Bloomberg, RHB

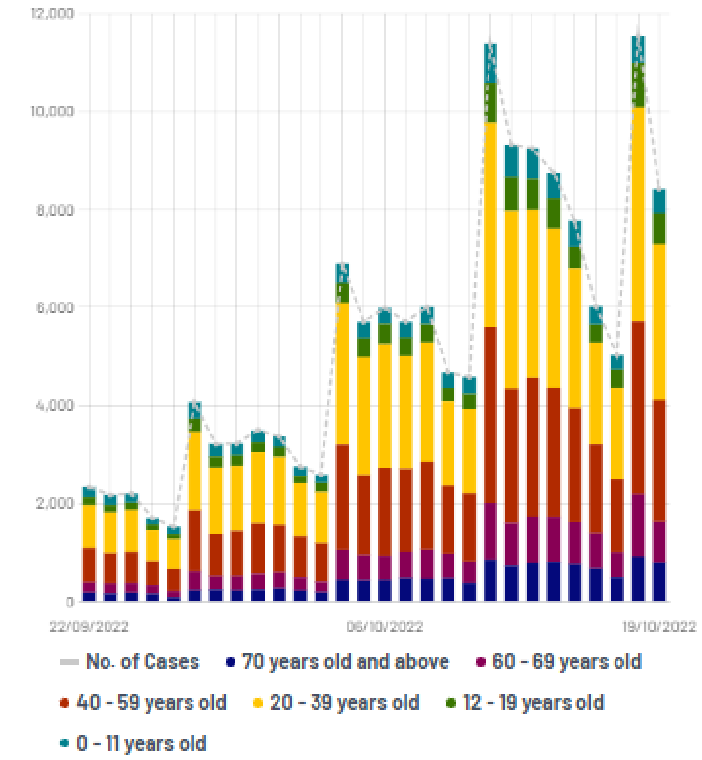
Singapore: Defensive With Selective Exposure To Banks And Economic Reopening Plays

Rise in COVID-19 cases should not disturb business, livelihoods and tourism

Singapore is currently witnessing a significant surge in COVID-19 cases and rapid rise in the number of hospitalised patients. The current wave of infections driven by the XBB variant, an Omicron sub variant. While the number of cases has gone up significantly, the number of ICU cases and deaths has not risen in tandem and remains similar to the numbers at the beginning of August when there were far fewer cases overall.

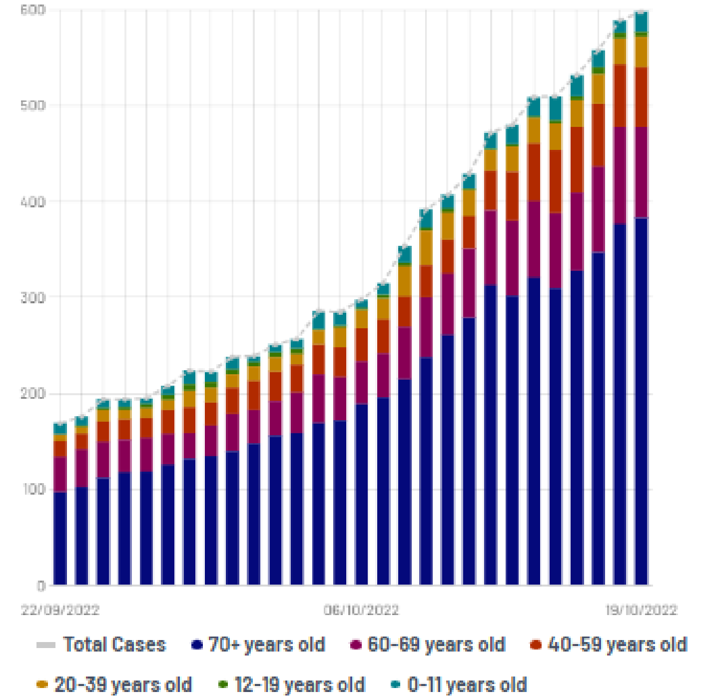
However, Singapore's high vaccination rate as well as the assessment that current wave of infections will not be as severe as the Omicron wave earlier this year should enable the Government to keep businesses open with no impact on livelihoods. It is also important to note that most of the population has likely already been infected – as not all positive cases are reported to Ministry of Health (MOH).

Figure 48: Singapore has seen higher number of COVID cases recently



Source: Ministry of Health

Figure 49: Correspondingly the number of patients in the hospital has also increased



Source: Ministry of Health

Nevertheless, MOH said that in response to the surge over the past two weeks, public hospitals have rapidly activated various measures to operate about 200 more beds for COVID-19 patients. These include deferring non-urgent admissions, discharging stable patients home or to nursing homes and transferring recovering patients to transitional care facilities and community hospitals.

As an advisory, MOH has also urged seniors and immuno-compromised people to continue wearing masks in crowded indoor settings. Members of the public should also not go to the hospital emergency departments, unless they have emergency conditions. To relieve the load on general practitioner clinics and polyclinics here, employers have been urged not to require medical certificates from employees who have self-tested positive for COVID-19 or have symptoms of acute respiratory infection.

Despite the rise in number of COVID-19 cases, activity levels at workplaces as well as at retail and recreation places have stayed close to pre-pandemic levels as per data from Google Mobility.

Slower but a positive economic growth expectation for 2023

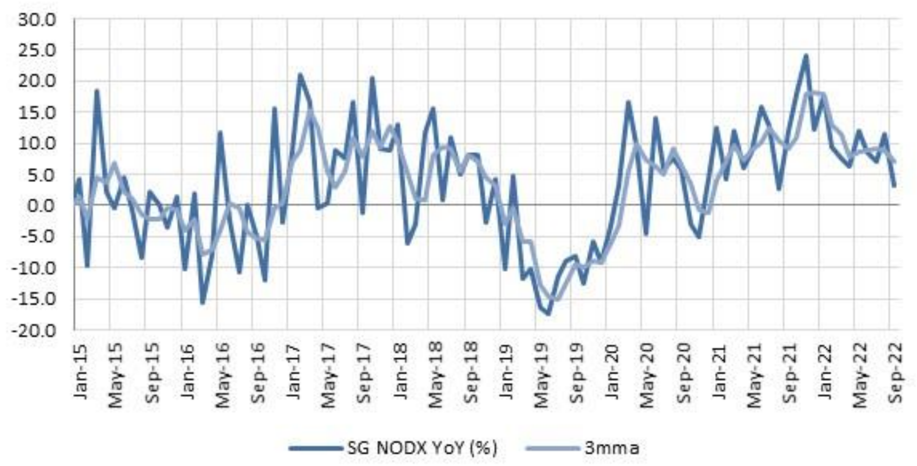
Globally, we are facing elevated inflation pressures. On the demand side, the releasing of pent-up demand following the reopening of economies has significantly increased overall inflationary pressures, as have the lag effects of the large fiscal and monetary stimulus in response to the epidemic. Global food, energy, and commodity prices have increased significantly, as a result of supply interruptions brought on by the pandemic's aftereffects and the war between Russia and Ukraine. The rise in inflation has forced central banks to tighten their monetary policies. Economic expansion must inevitably slow down, in order to restore the equilibrium between total supply and demand. This also creates the risk of the major advanced economies entering a recession in 2023. Our house view is that we expect a recovery in global growth, powered by a recovery in the US by the summer of 2023. The balance of risks, not our base case (which is a plain vanilla slowdown), remains unchanged of a shallow and short recession, followed by a recovery in the US. The economies of the Asia-Pacific region are less likely to undergo a recession, but the global slowdown will have an impact there as well.

For Singapore, we still expect the growth momentum to slow in 4Q22. Our 2022 GDP growth forecast stands at 3.7% YoY. For 2023, our outlook suggests 3.0% YoY GDP growth for Singapore, suggesting that the momentum may continue to decelerate into next year. Singapore's output gap has remained positive YTD, but the pace of growth may slow to below trend in 2023, thereby likely tipping the output gap into negative territory in 1H23. The drivers behind the growth slowdown are centred on the persistently high global inflation, coupled with a deceleration of global economic activity in 3Q22. Moreover, tighter financial conditions, especially in developed economies, would likely dampen private consumption and investment.

Non-domestic oil exports (NODX) and manufacturing growth to decelerate

We expect the NODX momentum (measured via MoM % (3MMA)) to slow in 4Q22. The chief reason for the slowdown will likely stem from softening export demand from East Asia. NODX to China and Hong Kong declined in September 2022, extending the fall seen in the previous month. Meanwhile, China skipped a scheduled release of its September trade data in a rather rare and inexplicable lapse, fuelling concerns that China's export growth had softened further in the latest reading.

Figure 50: Singapore's NODX growth



Source: Bloomberg, RHB

Given the soft September trade data in real terms, the advance estimate of 3Q22 GDP of 4.4% YoY could see downward revisions. In real terms, the trade balance contracted 35.0% YoY in 3Q22, extending the decline of 36.7% YoY in 2Q22. Due to Singapore's trade-dependent structure, the decrease in the NODX momentum may also drag the overall manufacturing outlook in 4Q22.

Easing of domestic and border restrictions has boosted the services sector

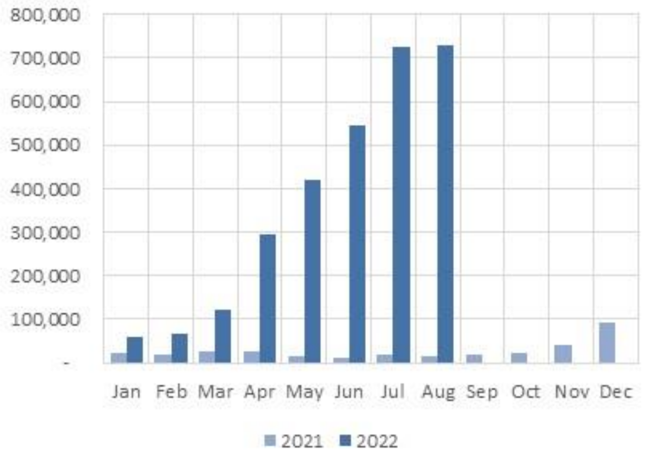
Despite signs of a slowdown in manufacturing, we believe GDP growth in 3Q22 may be cushioned by services exports over the same period, owing to the strong visitor arrivals (44 times more in Aug 2022 compared to a year ago) amid a record attendance of the Formula

One Grand Prix night race. The improvement in the services sector is coming on the back of the economic reopening and easing of COVID-19 measures. The sector, we believe, is expected to pick up some slack in manufacturing, despite rising external headwinds. We believe the services sector should continue to benefit from the re-opening of borders and easing of domestic restrictions that prompts a speedier recovery in the hospitality, F&B, aviation, and tourism related services industries (retail and hospitality REITs).

Figure 51: Singapore's tourist arrivals is rebounding from record lows

Source: Bloomberg, RHB

Figure 52: Tourist arrivals are already significantly higher from last year



Source: Bloomberg, RHB

RHB Economics & Market Strategy team has forecasted Singapore's retail sales growth at 10% YoY in 2022, from 2021's +11.1% YoY. Factors driving Singapore's retail climate include a relatively tighter labour market and the gradual reopening of Asia's borders. Singapore's unemployment rate was at 2.1% in Jun 2022, compared to Oct 2020's peak of 3.6%. Moreover, visitor arrivals continued to grow, while hotel occupancy rates rose to 79.1% in July 2022. Nonetheless, tourism-related indicators remain below pre-COVID-19 levels, with visitor arrivals and hotel occupancy rates averaging 1.6m persons and 86.9% on a monthly basis in 2019.

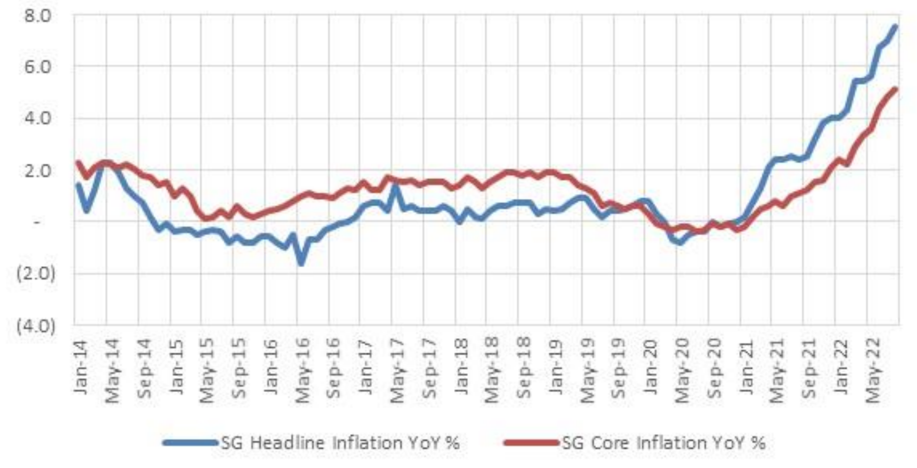
Inflation remains elevated, but should moderate in 2023

According to Monetary Authority of Singapore (MAS), inflation is expected to remain high in most of Singapore's key trading partners in the near term, while global growth moderates. The Singapore economy will grow at a slower pace in tandem with weakening global demand. However, core inflation will stay elevated over the next few quarters, as imported inflation remains significant and a tight labour market supports strong wage increases. Inflation is projected to ease more discernibly in 2H23, although there is considerable uncertainty around the outlook for both inflation and growth. For the rest of 2022, the confluence of demand and supply factors that drove the price increases in July-August is expected to persist. A tight domestic labour market will support robust wage increases, while imported inflation will remain significant across a range of intermediate and final goods.

For 2022 as a whole, MAS Core Inflation will average around 4% and CPI-All Items inflation around 6%. In 2023, taking into account all factors including the Goods and Services Tax (GST) increase, MAS Core Inflation should come in at 3.5-4.5% on average over the year, and CPI-All Items inflation at 5.5–6.5%. However, even excluding the one-off effects of the GST increase, core inflation would remain above trend at 2.5–3.5% and headline inflation at 4.5–5.5%.

Furthermore, there are upside risks to these forecasts, including from fresh shocks to global commodity prices and second-round effects associated with a prolonged period of high inflation.

Figure 53: Core CPI and headline CPI have continued to move higher but should taper off in 2023



Source: Bloomberg, RHB

RHB Economics & Market Strategy thinks that inflation will likely peak in 3Q22 at 7.5%, with headline and core CPI to average 5.8% and 3.8% in 2022. With commodity prices likely to further ease in 2023, the team has pencilled headline inflation at 3.0% in 2023. A word of caution, perhaps, is that while headline and core inflation momentum are expected to ease for the rest of 2022, YoY growth rates should stay elevated as compared to long-run levels. The team expects core inflation to fade to just below the 5.0% handle in 4Q22, way above the symbolic 2.0% handle. Similarly, headline CPI will likely trend lower to around 6.0% towards the year-end, against a 10-year average of just 1.1% (2012- 2021).

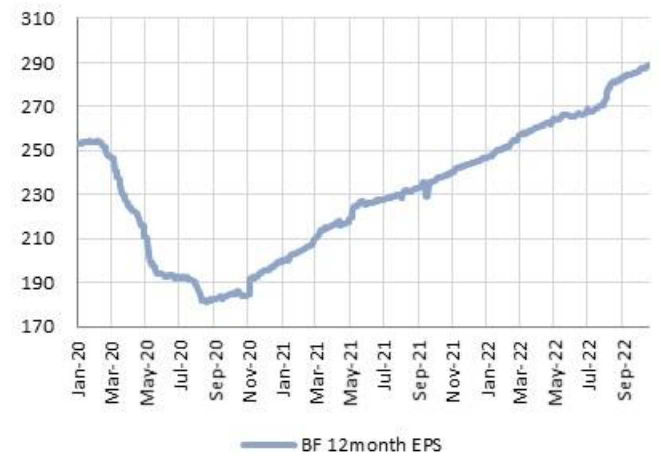
Stocks affected by China's zero-COVID strategy

In his most recent speech to the National Congress of the Chinese Communist Party, President Xi Jinping did not indicate any softening of China's non-COVID-19 strategy, prompting analysts to believe that its zero-COVID posture may persist for the foreseeable future. Any delay in China's zero-COVID policy's relaxation will also delay Singapore's tourist arrivals' return to their pre-pandemic levels. Chinese visitors constituted up 19% of all visitors in 2019. The ongoing absence of high-roller gamblers from China can have an impact on the casino players in Singapore. Additionally, the delay in the relaxation of China's zero-COVID policy might cause Raffles Medical's hospitals in China to take longer to ramp up operations.

Earnings growth in 2023 despite moderation in macroeconomic outlook

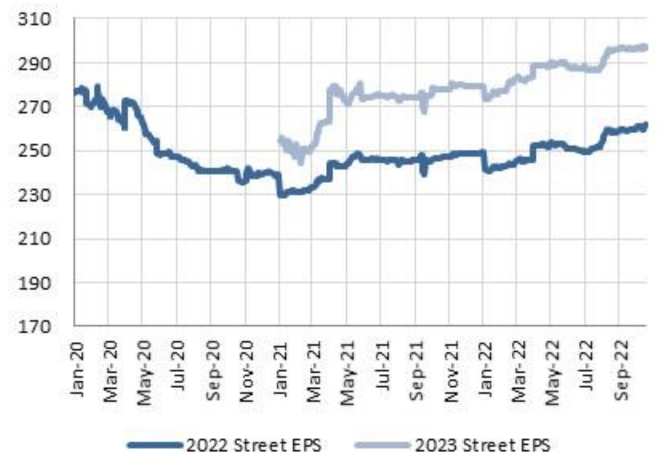
While there are increasing risks of a further slowdown in economic growth in 2023, we see the consensus remaining optimistic about strong corporate earnings growth. The 12- month forward EPS for the STI has only seen upgrades post 3Q20 results/business updates. Historically, the STI's forward EPS growth has had a positive correlation with Singapore's GDP growth expectations. Given the expectations of a moderation in economic growth, ie slower GDP growth in 4Q22, as well as slower economic growth in 2023 vs 2022, it will be safe to assume that earnings growth could moderate. Compared with the consensus EPS growth of 13% for the STI, we estimate the 2023 EPS growth for our coverage universe at 16%. However, we highlight that our aggregate estimates exclude the manufacturing sector, which is expected to record slower or, in some cases, negative earnings growth in 2023.

Figure 54: 12-month forward EPS for STI has only seen upgrades post 3Q20 results/business updates



Source: Bloomberg, RHB

Figure 55: Street remains optimistic on earnings growth being sustained in 2023F



Source: Bloomberg, RHB

We note that, historically, the STI returns have had a positive correlation with Singapore's GDP growth expectations. With expectations of a slowdown in GDP growth for 4Q22, the risk of downgrades to Singapore's 3Q22 GDP advance estimates, and the elevated risk of a further slowdown in economic growth in 2023 from external factors, it will be difficult to build a case for strong positive STI returns in 2022.

Singapore Equity Strategy

Resilient and defensive earnings

Both developing and emerging economies are at increased danger of undergoing a sharp slowdown in growth. Despite slower GDP growth of +3.7% YoY for 2022F and +3% for 2023F, Singapore's base case continues to indicate that there will not be a recession. Equity markets are likely to continue to be volatile. We believe investors should prioritise surviving through these uncertain times. Companies with strong financial sheets, pricing power, captive customer bases, recurrent demand, and the capacity to pass through increasing costs should be key considerations when choosing stocks. We support a fundamentally defensive stance that emphasises on investing in companies that have sturdy earnings or dividend profiles. We believe companies with resilient earnings, as well as the ability to pass on costs and maintain strong cash flow should outperform in the current environment. We have looked for businesses that can maintain profitability despite slowing growth and rising inflation. Our stock picks for this subject are ST Engineering (STE), City Developments, Kimly and Sheng Siong.

We expect STE to record a sustained recovery in earnings beyond 2022, driven by the gradual improvement in its Commercial Aerospace unit. STE's defensive business model should allow it to sustain YoY higher dividends amid resilient earnings and positive FCF generation. Meanwhile, Kimly and Sheng Siong are set to benefit from the recent rise in inflation. Kimly operates coffee shops, which we believe would be the preferred cheaper alternative for meals amidst higher food prices. Moreover, it has the ability to pass on the rise in costs by increasing rental rates. Sheng Siong's defensive business model gives it the ability to preserve margins by passing on the cost increases consumers. We expect growth to come from consumers seeking cheaper options amidst rising inflation. For City Developments, we expect earnings recovery in 2022 to come from a rebound in the hospitality segment and healthy locked-in sales of its residential projects.

Figure 56: Singapore – resilient earnings growth (1)

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
City Developments	4,644	Buy	9.75	33.2	Dec-22	16.9	14.5	0.8	0.8	2.5	2.7	na	11.6	4.6	5.3
Kimly	291	Buy	0.46	37.3	Sep-22	9.1	7.7	2.6	2.3	6.6	7.8	7.7	11.0	30.3	31.8
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	17.4	16.9	5.5	5.0	4.0	4.2	6.6	6.5	33.1	31.1
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	17.8	15.8	4.0	3.7	5.7	4.0	0.2	1.4	24.7	24.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 57: Singapore – resilient earnings growth (2)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1M	Net debt/Equity (x) 3M	Returns (%) 1M	Returns (%) YTD
City Developments	4,644	Buy	9.75	33.2	Dec-22	302.3	17.2	50.0	11.1	12.1	12.8	1.1	1.1	-10.4	10.3
Kimly	291	Buy	0.46	37.3	Sep-22	9.8	18.7	57.6	18.7	17.2	17.2	0.3	0.2	-5.6	-19.3
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	5.8	3.4	5.8	3.4	9.7	9.6	-0.5	-0.6	3.2	11.6
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	-4.5	13.1	19.1	-30.1	6.2	6.5	2.3	2.3	-15.4	-17.0

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Riding the rising interest rate cycle

In a context of rising interest rates and inflation, the banking sector offers intriguing options. The disparity between rates on loans and deposits allows banks to make money, and stronger nominal GDP growth may also result in an increase in credit card and transaction fees. The main area of optimism for Singaporean banks will be the NIM expansion as a result of the US Fed's aggressive rate hikes. Even while waning investor confidence is starting to reduce credit demand, this should offer some relief. In 2H22, non-II is anticipated to stay soft, as fees from loans and trade flows reflect the reduction in credit growth and the income from volatile capital markets affects wealth management.

Banks are actively repricing loans, and NIM is probably going to improve. This should provide some comfort even as declining investor confidence is starting to lower lending demand. According to banks' forecasts, every 25bps increase in interest rates would increase FY22F NIM for DBS by 7-8 bps, OCBC Bank (OCBC) by 4-5 bps, and United Overseas Bank by 3-4 bps (UOB). This would result in a 5% increase in DBS' earnings and a 3% increase for OCBC and UOB. DBS and OCBC are still trading at modest valuation levels, and are well supported by their respective FY22F dividend yields of 4.5% and 5.0%. DBS and OCBC are our Top Picks, while we rate SG Banks as OVERWEIGHT.

Figure 58: Singapore – riding the rising interest rate cycle (1)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Div Yield (%) 1FY	Div Yield (%) 2FY	FCF Yield (%) 1FY	FCF Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
DBS Group	58,314	Buy	37.60	16.1	Dec-22	10.1	9.1	1.4	1.3	4.5	5.0	na	na	14.2	15.0
OCBC Bank	36,246	Buy	13.90	20.6	Dec-22	9.3	7.9	0.9	0.9	5.0	5.5	na	na	10.3	11.4

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 59: Singapore – riding the rising interest rate cycle (2)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1M	Net debt/Equity (x) 3M	Returns (%) 1M	Returns (%) YTD
DBS Group	58,314	Buy	37.60	16.1	Dec-22	20.5	11.6	22.5	10.2	na	na	na	na	-3.4	-0.8
OCBC Bank	36,246	Buy	13.90	20.6	Dec-22	13.6	17.7	9.2	8.6	na	na	na	na	-6.6	1.1

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Continued selective exposure to reopening plays

Singapore has started living with treating COVID-19 as an endemic. The country has taken a significant step to reduce domestic and international COVID-19 related restrictions, which has coincided with the wider regional reopening of ASEAN. On the strength of a pick-up in travel, service sectors like hotel, food and beverage, aviation, healthcare, and tourism-related services industries have started to rebound robustly. By the end of 2024, International Air Transport Association (IATA) expects aviation travel to have reached pre-pandemic levels, once China and Japan have both opened their borders. As a result, there is still plenty of room for the recovery to continue.

Within our coverage, Centurion Corp, ComfortDelGro, HRnetgroup, Raffles Medical and SingTel should be the key beneficiaries of this theme.

Centurion Corp should benefit from increased demand for worker accommodations as construction activities have now resumed. HRnetgroup should be able to ride on growth in hiring volumes and salaries. Raffles Medical should benefit from the return of elective procedures and pent-up demand from medical tourism. ComfortDelGro should see sustained earnings recovery amid the normalisation of Singapore rail and taxi businesses operations, while the resumption of international travel should drive a recovery in roaming revenue and sale of starter packs for Singtel.

Figure 60: Singapore – economic reopening/recovery plays (1)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Div Yield (%) 1FY	Div Yield (%) 2FY	FCF Yield (%) 1FY	FCF Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Centurion Corp	209	Buy	0.51	43.7	Dec-22	5.3	5.0	0.4	0.4	5.6	5.6	11.1	15.7	10.2	8.8
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	14.3	12.8	1.0	1.0	4.0	3.9	16.7	9.5	7.1	7.6
HRnetgroup	500	Buy	1.01	41.3	Dec-22	9.9	9.5	1.8	1.6	6.1	6.3	10.0	11.3	18.8	18.1
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
SingTel	27,483	Buy	3.55	49.2	Mar-23	14.9	13.2	1.3	1.3	5.2	5.2	11.4	13.5	8.9	9.7

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 61: Singapore – economic reopening/recovery plays (2)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1M	Net debt/Equity (x) 3M	Returns (%) 1M	Returns (%) YTD
Centurion Corp	209	Buy	0.51	43.7	Dec-22	32.8	4.8	91.7	0.0	32.6	33.1	0.9	0.8	-9.0	7.6
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	24.6	11.0	20.9	-2.6	5.1	5.4	-0.3	-0.4	-9.9	-9.3
HRnetgroup	500	Buy	1.01	41.3	Dec-22	10.6	4.4	74.6	4.4	11.2	11.2	-0.9	-0.9	-8.3	-11.2
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
SingTel	27,483	Buy	3.55	49.2	Mar-23	32.6	12.9	29.0	0.0	15.8	17.3	0.4	0.3	-10.9	2.6

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Selectively positive on industrial and office REITs

Despite rising macroeconomic risks and inflationary pressures, we expect S-REITs to register positive DPU growth in 2022. Key catalysts:

i. We expect DPU growth (for stocks under coverage) at 4.9% and 3.0% for 2022-2023 on the back of positive economic growth;

ii. Valuations are looking attractive, with 13 out of the 14 REITs under our coverage trading below book value, while all REITs are now offering >6% yields;

iii. Singapore's growing status as an Asian financial hub, with a good number of sovereign and pension funds as well as family offices of high net worth individuals (HNI) setting up regional offices.

The key risk remains the economy tipping into a deep recession and persistent inflationary pressures (our base case assumption remains that there is no recession in 2022-2023 for Singapore).

Prefer industrial and office REITs. Industrial demand remains strong, mitigating supply concerns. We expect industrial rental rates to continue rising, while occupancy rates are expected to remain relatively flattish. Among the sub-sectors, we like logistics, hi-tech, and good-quality business parks, as these sectors continue to benefit from changing market dynamics brought about by COVID-19 and the Government's longer-term push to transform Singapore into a smart nation. We expect overall office rental rates to rise up to 5% in 2022 and occupancy levels to remain stable. Despite the positive rental outlook and external factors supporting Singapore's office market, office REITs have been trading at a discount to book value – which are a sharp contrast to transactions in the market. We believe this is mainly due to investor concerns on the impact arising from interest rates and uncertainty over the long-term office demand outlook due to prevailing work-from-home (WFH) trends. We remain relatively more bullish in our outlook for long-term office demand.

Our preferred exposure in the S-REITs sector are AIMS APAC REIT, CapitaLand Ascendas REIT, ESR-LOGOS REIT and Suntec REIT.

Figure 62: Singapore – REIT picks (1)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Div Yield (%) 1FY	Div Yield (%) 2FY	FCF Yield (%) 1FY	FCF Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	8.7	8.9	0.8	0.8	8.6	8.9	12.6	13.1	9.2	8.8
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	13.5	17.5	1.0	1.0	6.5	6.7	10.8	11.1	7.7	6.0
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	na	9.4	0.7	0.9	9.4	9.5	15.9	13.8	-14.1	9.3
Suntec REIT	2,794	Buy	1.70	22.5	Dec-22	13.4	15.8	0.7	0.7	6.4	6.2	6.0	6.4	4.9	4.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 63: Singapore – REIT picks (2)

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1M	Net debt/Equity (x) 3M	Returns (%) 1M	Returns (%) YTD
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	-10.8	-2.3	2.8	3.7	56.3	53.7	0.8	0.8	-15.7	-22.1
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	-20.9	-22.6	5.8	3.1	57.3	43.7	0.6	0.6	-11.8	-16.3
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	-308.9	na	0.6	2.0	-85.3	55.3	0.9	0.9	-20.0	-33.3
Suntec REIT	2,794	Buy	1.70	22.5	Dec-22	-39.8	-15.1	2.9	-2.4	74.6	59.5	0.8	0.7	-13.7	-7.9

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Sector Outlook, Rating & Preferred Picks

Figure 64: Sector outlook, rating and preferred picks

Sector	Rating	2H22 sector outlook	Preferred picks
Consumer	OW	Singapore's shift to living with COVID-19 should sustain the economy and consumer spending recovery notwithstanding the threat of new COVID-19 variants. Inflation remains a relevant concern and risk to consumer spending but MAS' proactive stance in managing inflation alongside the economic recovery should mitigate some of the impact. That said, consumers tend to reduce their discretionary spending under the inflation environment but the demand for consumer staples and necessities should be relatively stable.	Kimly, Sheng Siong
Financials	OW	NIM expansion on the back of aggressive rate hikes by the US Fed, will be the key bright spot for Singapore banks. This should provide some reprieve even as weakening investor sentiment is beginning to dampen loan demand. Non-II is expected to remain soft in 2H22, with fees from loans and trade flows reflecting the moderation in credit growth, while volatile capital markets would impact wealth management income. We expect asset quality to hold up as we believe most borrowers are having better balance sheets compared to two years ago.	DBS, OCBC Bank
Food Products (Plantations)	N	CPO prices have recovered somewhat from its lows, although it is still being held hostage by Indonesia's export policies in the short term. Nevertheless, we believe supply risks remain which could bolster prices in the medium term in the form of: i) Fertiliser availability from Russia and Belarus – which would affect the planting season in South America in November/December; ii) labour shortages in Malaysia; and iii) La Nina – which is expected to last until 1Q23. Demand is also returning given the significant discount CPO is trading at vs SBO and to gasoil. we prefer the integrated players which would be able to withstand a lower CPO price environment better than the purer planters.	Wilmar
Healthcare	N	We anticipate that Singapore's healthcare service providers will profit from the resurgence of elective treatments and pent-up demand from medical tourism. We think that because healthcare is a necessary service, it will be able to absorb most of the cost inflation. Given the modest gearing levels, we do not anticipate a significant impact from an increase in interest rates.	Raffles Medical
Real estate	N	Government's latest measures mainly targets high-end HDB resale market while ensuring prudence in property purchases by adjusting mortgage ratios. We see the policy changes as more light touch and targeted in nature slowing down transaction volumes (HDB resale in particular) with a marginal impact on property prices. New home sales for full year is likely to come-in at lower end of our expectations of 8,000 - 9,000 units. Overall resale transactions are expected to decline by 15%-20% with a sharp slowdown of HDB resale transactions in 4Q22. Our pricing forecast is unchanged at +4% to +6% for 2022 and -2% to +2% for 2023. Key factors underpinning resilient property market are: i) stable job market and wage growth, ii) limited inventory levels and supply, and iii) Singapore's stature as regional and global financial hub. Key risks include recessionary risks, continued sharp spike in interest rates, and further cooling measures.	City Developments, Centurion Corp

Source: Company data, RHB

Figure 65: Sector outlook, rating and preferred picks (continued)

Sector	Rating	2H22 sector outlook	Preferred picks
Hospitality REITs	N	Hospitality REITs have retreated since Sep amid increasing recession fears. While near-term outlook remains positive concerns are merging over the medium term from sharp economic slowdown and sustainability of pent-up demand. Valuations though are now at more reasonable levels the dimming macro outlook limits any upside. With increasing inflationary pressures and recessionary risk, we believe there is a possibility of some of the hospitality demand slowing down post the initial surge from the lockdown. As such, hospitality stocks are likely to trade more range bound in the near term, with risks tilted towards the downside.	CDL Hospitality Trusts
Industrial REITs	OW	Industrial demand remains strong mitigating supply concerns. We expect industrial rents to continue to rise while occupancy is expected to remain relatively flattish. Among sub-sectors, we like logistics, high tech, and good quality business parks, as these sectors continue to benefit from changing market dynamics brought about by COVID-19 and the Government's longer-term push to transform Singapore into a smart nation.	CapitaLand Ascendas REIT, ESR-LOGOS REIT
Office REITs	OW	We expect overall office rents to rise up to 5% in 2022 and occupancy levels to remain stable. Despite the positive rental outlook and external factors supporting Singapore's office market, office REITs have been trading at a discount to book value - a sharp contrast to transactions in the market. We believe this is mainly due to investor concerns on the impact arising from interest rates and uncertainty over long-term office demand outlook from work-from-home (WFH) trends. We remain relatively more bullish on long-term office demand outlook.	Suntec REIT, Keppel REIT
Overseas REITs	OW	The sharp correction in US office REITs in 1H22 has resulted in these REITs trading at attractive valuation of >30% discount to book value and forward dividend yields averaging 12%. This, in our view, has priced in most of the current market uncertainty. Our base case at this juncture is that the US economy is unlikely to tip into a severe recession and interest rate hikes are nearing the peak of the cycle. Based on the above view, we believe US office REITs are nearing the bottom of the current market cycle.	Prime US REIT, Keppel Pacific Oak US REIT
Retail REITs	N	For 2022, we expect landlords to remain focused on maintaining high occupancy in the malls, while remaining flexible on rental structures. Overall, we expect the island-wide vacancy to remain stable at 8-9% in 2022. In terms of retail rents, we expect overall rents to be relatively flattish at -2% to +2%. We continue to maintain our neutral view on the sector as recovery remains clouded by risks from rising inflation, manpower constrains, and e-commerce. We expect retail REITs' share price to see more of a sideways movement.	Frasers Centrepoint Trust, Starhill Global REIT
Telecom	N	We see the recovery in roaming and prepaid revenues fuelling a stronger rebound in industry mobile service revenue in 2H22. Higher adoption of 5G services with coverage on track to reach island-wide by year-end (3 years ahead the mandated requirement of the regulator) should also buffer the impact on ARPU from competition within the SIM-only market. Higher enterprise digitalisation projects from both the private and public sector will catalyse stronger enterprise revenue growth with the telcos capitalising on the string of M&As executed across the Asia-Pacific region over the past 12-18 months.	Singtel
Transport & Industrials	OW	With the re-opening in Singapore in full swing, we expect land transport operators like ComfortDelGro to benefit from higher demand for its taxi services and higher traffic for its rail business. This should offset some impact of higher energy costs for its rail business. Net cash position for transport players is also a positive in rising interest rate environment. ST Engineering's defensive growth should continue to attract investor interest. While its high gearing will be impacted by rising interest rates, we believe some of the impact should be mitigated by strong cash flow generation ability.	ComfortDelGro, ST Engineering

Source: Company data, RHB

Figure 66: Sector valuation comparison (1)

		P/E (x)		P/BV (x)		Dividend Yield (%)		FCF Yield (%)		ROE (%)	
Sector name	Rating	2022	2023	2022	2022	2023	2022	2023	2023	2022	2023
Consumer	OW	22.0	12.9	2.6	2.4	3.6	4.6	5.6	8.4	17.3	19.0
Financials	OW	10.4	9.1	1.4	1.3	4.7	5.2	3.3	5.4	12.7	13.7
Food Products	N	7.2	7.6	0.8	0.7	4.4	3.9	29.4	15.9	13.7	11.5
Healthcare	N	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
Industrials	OW	17.3	15.3	3.9	3.5	5.8	4.2	0.9	2.0	24.3	23.7
Real estate	N	16.2	13.9	0.8	0.7	2.8	3.0	12.5	11.9	5.1	5.6
REITs	OW	12.8	13.5	0.8	0.8	7.2	7.4	9.3	9.8	5.5	6.3
Telecom & Media	N	14.9	13.2	1.4	1.3	5.2	5.2	12.0	14.8	9.4	10.2
Transport	OW	13.3	11.8	0.9	0.9	3.7	3.7	18.5	9.5	6.7	7.4

Note: Prices are as at 21 Oct 2022. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 67: Sector valuation comparison (2) and returns

		EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Sector name	Rating	2022	2023	2022	2023	2022	2023	1M	3M	1M	YTD
Consumer	OW	5.8	64.8	3.4	62.2	8.4	8.9	0.7	0.5	-9.7	-13.8
Financials	OW	13.7	14.9	13.4	9.7	38.2	38.6	-0.6	-0.7	-5.4	-1.4
Food Products	N	23.3	-6.8	21.3	-6.6	5.9	5.3	0.9	0.8	-8.8	-10.1
Healthcare	N	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
Industrials	OW	-3.5	12.5	22.9	-27.8	6.5	6.8	2.1	2.1	-15.0	-16.6
Real estate	N	282.5	15.9	49.5	10.1	12.8	13.4	1.0	1.0	-10.5	9.2
REIT	OW	-27.0	-4.2	5.1	1.9	58.2	61.8	0.6	0.6	-15.2	-18.5
Telecom & Media	N	30.3	13.1	26.8	0.0	15.4	16.8	0.4	0.4	-11.0	1.4
Transport	OW	23.0	14.5	12.6	0.7	4.2	4.6	-0.4	-0.4	-11.4	-12.9

Note: Prices are as at 21 Oct 2022. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Stock Picks

Figure 68: Singapore – valuation comparison (1) for large-cap picks

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	13.5	17.5	1.0	1.0	6.5	6.7	10.8	11.1	7.7	6.0
City Developments	4,644	Buy	9.75	33.2	Dec-22	16.9	14.5	0.8	0.8	2.5	2.7	na	11.6	4.6	5.3
DBS Group	58,314	Buy	37.60	16.1	Dec-22	10.1	9.1	1.4	1.3	4.5	5.0	na	na	14.2	15.0
OCBC Bank	36,246	Buy	13.90	20.6	Dec-22	9.3	7.9	0.9	0.9	5.0	5.5	na	na	10.3	11.4
SingTel	27,483	Buy	3.55	49.2	Mar-23	14.9	13.2	1.3	1.3	5.2	5.2	11.4	13.5	8.9	9.7
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	17.8	15.8	4.0	3.7	5.7	4.0	0.2	1.4	24.7	24.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 69: Singapore – valuation comparison (2) and returns for large-cap picks

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1M	3M	1M	YTD
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	-20.9	-22.6	5.8	3.1	57.3	43.7	0.6	0.6	-11.8	-16.3
City Developments	4,644	Buy	9.75	33.2	Dec-22	302.3	17.2	50.0	11.1	12.1	12.8	1.1	1.1	-10.4	10.3
DBS Group	58,314	Buy	37.60	16.1	Dec-22	20.5	11.6	22.5	10.2	na	na	na	na	-3.4	-0.8
OCBC Bank	36,246	Buy	13.90	20.6	Dec-22	13.6	17.7	9.2	8.6	na	na	na	na	-6.6	1.1
SingTel	27,483	Buy	3.55	49.2	Mar-23	32.6	12.9	29.0	0.0	15.8	17.3	0.4	0.3	-10.9	2.6
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	-4.5	13.1	19.1	-30.1	6.2	6.5	2.3	2.3	-15.4	-17.0

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 70: Singapore – valuation comps (1) for mid- to small-cap picks

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	8.7	8.9	0.8	0.8	8.6	8.9	12.6	13.1	9.2	8.8
Centurion Corp	209	Buy	0.51	43.7	Dec-22	5.3	5.0	0.4	0.4	5.6	5.6	11.1	15.7	10.2	8.8
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	14.3	12.8	1.0	1.0	4.0	3.9	16.7	9.5	7.1	7.6
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	na	9.4	0.7	0.9	9.4	9.5	15.9	13.8	-14.1	9.3
HRnetgroup	500	Buy	1.01	41.3	Dec-22	9.9	9.5	1.8	1.6	6.1	6.3	10.0	11.3	18.8	18.1
Kimly	291	Buy	0.46	37.3	Sep-22	9.1	7.7	2.6	2.3	6.6	7.8	7.7	11.0	30.3	31.8
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	17.4	16.9	5.5	5.0	4.0	4.2	6.6	6.5	33.1	31.1
Suntec REIT	2,794	Buy	1.70	22.5	Dec-22	13.4	15.8	0.7	0.7	6.4	6.2	6.0	6.4	4.9	4.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 71: Singapore – valuation comps (2) and returns for mid- to small-cap picks

Company name	M Cap (USDm)	Rating	TP	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1M	Net debt/Equity (x) 3M	Returns (%) 1M	Returns (%) YTD
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	-10.8	-2.3	2.8	3.7	56.3	53.7	0.8	0.8	-15.7	-22.1
Centurion Corp	209	Buy	0.51	43.7	Dec-22	32.8	4.8	91.7	0.0	32.6	33.1	0.9	0.8	-9.0	7.6
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	24.6	11.0	20.9	-2.6	5.1	5.4	-0.3	-0.4	-9.9	-9.3
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	-308.9	na	0.6	2.0	-85.3	55.3	0.9	0.9	-20.0	-33.3
HRnetgroup	500	Buy	1.01	41.3	Dec-22	10.6	4.4	74.6	4.4	11.2	11.2	-0.9	-0.9	-8.3	-11.2
Kimly Ltd	291	Buy	0.46	37.3	Sep-22	9.8	18.7	57.6	18.7	17.2	17.2	0.3	0.2	-5.6	-19.3
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	5.8	3.4	5.8	3.4	9.7	9.6	-0.5	-0.6	3.2	11.6
Suntec REIT	2,794	Buy	1.70	22.5	Dec-22	-39.8	-15.1	2.9	-2.4	74.6	59.5	0.8	0.7	-13.7	-7.9

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 72: Investment thesis for our stock picks

Stock	Investment thesis
AIMS APAC REIT (AAREIT SP	• High-quality industrial portfolio, with a focus on logistic assets, which has been in demand amongst investors post COVID-19 • Earnings recovery will be driven by acquisitions, improved occupancy rates and rental increases • Untapped potential to enhance portfolio value from asset enhancements • Could be a medium-term M&A candidate
CapitaLand Ascendas REIT (CAREIT SP)	• Largest industrial REIT with diversified exposure to business parks, logistics and hi-tech industrial spaces • Organic growth from asset redevelopment, higher occupancy, and rental improvement • Backed by a strong and experienced sponsor
Centurion Corp (CENT SP)	• Resumption in construction activities should lead to increased demand for worker accommodations • Witnessing a rapid recovery in its workers and student accommodation businesses • Expect a potential rise in its rental prices to mitigate the rise in operational costs • Trading at a c.50% discount to NAV, and offering a 5% dividend yield
City Developments (CIT SP)	• Earnings recovery in 2022 from a rebound in the hospitality segment and healthy locked-in sales of its residential projects • Potential to recycle investment assets and unlock value through divestments, private funds or REITs • Trading at an attractive valuation of more than 50% discount to its RNAV
ComfortDelGro (CD SP)	• Sustained earnings recovery amid normalisation of Singapore rail and taxi businesses operations • Improvement in earnings contributions from the UK and Australian businesses • Valuation is compelling amid strong YoY earnings growth and strong improvement in ROE • Risk of slower-than-estimated earnings from the UK if Europe and/or the UK enters into a recession
DBS Group (DBS SP)	• DBS has the highest sensitivity to interest rate movements, with a 25bps hike boosting annual earnings by 5% • Some macroeconomic headwinds for topline growth, but lower provisions would provide uplift to bottomline • Its digital capabilities and new regional growth platforms support richer valuations n

Source: Company data, RHB

Figure 73: Investment thesis for our stock picks (continued)

Stock	Investment thesis
ESR-LOGOS Reit (EREIT SP)	• Good proxy to Singapore's industrial sector, with a diverse presence across the island • Balanced exposure to business parks/hi-tech/logistics segments, which continue to do well • Strong and capable sponsor backing (ESR) and attractive valuation
HRnetgroup (HRNET SP)	• Enjoyed continued rebound in hiring space due to continued economic recovery and growth • Attractive dividend yields of +5% • The stock is trading at valuations lower than the global peer average
Kimly (KMLY SP)	• Operates coffee shops - preferred cheaper alternative for meals amidst high inflation • Has the ability to pass on the rise in costs by increasing rental rates • Singapore's economic reopening should be positive for its recently acquired Tenderfresh business
OCBC (OCBC SP)	• CET-1 ratio of 15.2% is strongest among peers and above optimal levels of 12.5%-13.5%, providing headroom for better dividend payouts in the future • Resilient asset quality, with GIL ratio at 1.4% in Mar 2022 and coverage at a comfortable 91%. Credit cost a low 6bps, but management is sticking with the conservative credit cost of 20-25bps • Leadership in wealth management, a good source of recurring fee income
Raffles Medical (RFMD SP)	• Singapore hospital and healthcare operations gradually reverting to normal will help offset some decline in COVID-19 related revenue and eventually drive growth in 2023 and beyond • China, which accounts for c.7% of RFMD's revenue, should also see higher revenue beyond 2023 • A net cash position should enable Raffles Medical to look at inorganic growth opportunities • RFMD's 2023F P/E and EV/EBITDA are below its peer average

Sheng Siong (SSG SP)	• Defensive business model with the ability to preserve margins by passing on higher costs to consumers • Growth will come from consumers seeking cheaper options amidst rising inflation and from normalisation of revenge spending • Generates strong cash flow and has a net cash balance sheet
SingTel (ST SP)	• The resumption of international travel should drive a recovery in roaming revenue and sale of starter packs • ARPU uplift to come from stronger 5G adoption • Positive execution of strategic business reset (ie regionalisation of enterprise/B2B businesses & value unlocking of strategic infrastructure assets)
ST Engineering (STE SP)	• Sustained recovery in earnings over 2022, driven by gradual improvement in Commercial Aerospace • STE could sustain our forecasted profit CAGR of c.7% beyond 2023 if it delivers on its new 2026 targets • Defensive business model that will allow STE to sustain YoY higher dividends amid resilient earnings, robust balance sheet, and positive FCF generation
Suntec REIT (SUN SP)	• Sustained rebound in earnings from the relaxation of COVID-19 restrictions and acquisition contributions mitigates rising interest rates impact • Office portfolio valuation has remained resilient; Suntec City Mall should benefit from the crowds returning to the office. Strong demand for Suntec City Convention Centre • Attractive valuation at 15% discount to book value, and offering a 5% yield

Source: Company data, RHB

STI Target Of 3,200pts For End 2022

Remain constructive on STI outperforming most regional markets

The STI is now trading below 10.5x (-2SD) 12-month forward P/E as investors question the sustainability of positive earnings revisions and the EPS growth of 13% in 2023F, especially in an environment of rapidly decelerating economic growth. Our end-2022 STI target of 3,200pts (from 3,380pts) offers a c.8% upside from the 21 Oct close of 2,970 pts. This is based on 11.75x 2022F P/E (from 12.5x 2022F P/E), which lies between the -1SD and -2SD from its forward P/E mean since Jan 2008. We believe our target P/E, well below its historical average, now reflects the rising risks of a favourable operating environment ahead. While we still remain constructive on the STI outperforming most regional markets, any upward move for the index will be a slow grind as investors assess the impact of rising inflation, rising interest rates, and slowing economic growth.

The reopening of Singapore and the regional (ASEAN) economies, along with the safe haven status of Singapore as a country and its currency, has led to the STI becoming the most defensive developed economy benchmark in Asia this year. Among the emerging Asia economies, India and Indonesia have delivered positive returns in local currency terms and have outperformed the STI. The STI's 10x 2FY P/E is well below its historical P/E, and the lowest amongst the ASEAN equity indices. Its blended forward yield of 5.3% is still amongst the highest in Asia.

Figure 74: STI's forward consensus P/E

Note: As at 21 Oct 2022
Source: Bloomberg

Figure 75: STI's forward consensus P/BV

Note: As at 21 Oct 2022
Source: Bloomberg

Thailand: In 4Q22, Accumulate The Big-Cap Stocks

Lean towards the big caps. Excluding the ramp-up in geopolitical risks, we believe the market has mostly priced in the external and internal challenges, particularly the spiking inflation and pace of interest rate hikes. That said, domestic inflation will likely moderate and remain so next year. In our bear case scenario, we estimate the end-2022 SET to be at 1,556 pts (-0.4%, for market timing and our P/E band analysis). Any decrease from this level should bring about opportunities to accumulate – especially the shares of large-cap names in the banking, energy, telco, retailing, consumer, transportation and F&B sectors. In our bull case scenario, the end-2022 SET target would be 1,647pts (+5.4%).

A tentative election timeline. According to the Election Commission, the next general election will be held on 7 May 2023, assuming the House of Representatives completes its 4-year term by March. If the lower house is dissolved before then, an election date will be set at least 45 days and no later than 60 days after the dissolution. For example, if the full term ends on Mar 2023, the polls will be held within 45 days.

Investment themes;

i. **Fund inflows.** For the first time in five years, foreign funds registered a net buy on the SET – reaching THB149bn in 9M22, ie the highest amount since 2000. To be upbeat, capital inflows should remain intact through the rest of this year. Our stock picks are focused on large-cap stocks that represent each key sector. These include: i) Banks (Bangkok Bank, Kasikornbank); ii) transportation (Airports of Thailand, retail (Central Retail Corp, Central Pattana); iii) consumers (CP ALL, Home Product Center); iv) energy (PTT); v) F&B (Thai Union); and vi) telco (Advanced Info Service);

ii. **Pre-election event.** Assuming that polls are held on 7 May 2023, we may see trading activities ramp up. The historical trend indicates that this usually happens 3-6 months before voting day, before profit-taking activities kick in for two months after;

iii. **Dividend play.** For the mid- to long-term horizon, we like stocks that are trading at discounts to their valuation means, cash cow businesses, as well as those with high dividend yields and are defensive in nature such as Land & Houses, Tisco Financial Group and PTT;

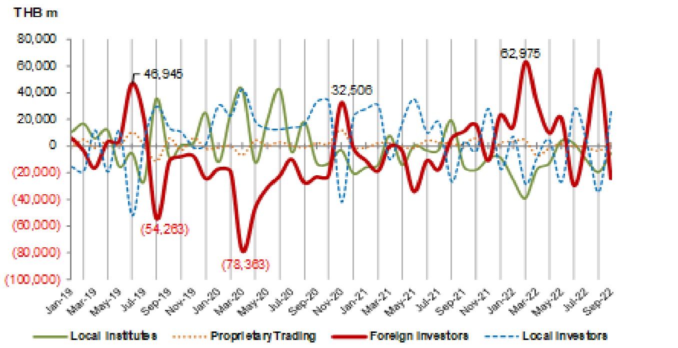
iv. **Strong recovery in tourism and international outpatient numbers.** Thailand recorded 6.01m visitor arrivals from 1 Jan to 1 Sep – slightly outpacing the Tourism Authority of Thailand's target of 6m. We maintain our 2022 foreign visitor arrival forecast at 11m (2021: 0.43m arrivals). For 2023F, we project a surge of 125% YoY to 25m arrivals, before tourist figures return to pre-pandemic levels in 2024F. We also remain positive on the rebound in local and international non-COVID-19 patient numbers seeking outpatient and inpatient treatment.

Figure 76: Our end-2022 SET target is at 1,647 pts (2023: 1,811pts)

Key Inputs	2019	2020	2021	2022E	2023E
Return on Equity	9.6%	4.2%	9.4%	9.6%	9.9%
EPS (THB)	81.64	36.20	88.42	91.52	100.58
EPS growth	-10.6%	-55.7%	144.3%	3.5%	9.9%
BV (THB)	848.3	833.7	911.1	934.4	984.7
Dividend yield	2.6%	1.0%	2.1%	2.3%	3.2%
P/E (x)	19.35	40.04	18.75	17.08	15.54
P/BV (x)	1.86	1.74	1.82	1.67	1.59
SET index closed (pts)	1,580	1,449	1,658	**1,647**	**1,811**
SET/Market return	1.0%	-8.3%	14.4%	-0.6%	9.2%
Dividend yield	2.6%	1.0%	2.1%	2.3%	3.2%
Total return	**3.6%**	**-7.3%**	**16.5%**	**1.7%**	**12.4%**

Source: RHB

Figure 77: Foreign net inflows totalled THB149bn (USD4bn) in 9M22



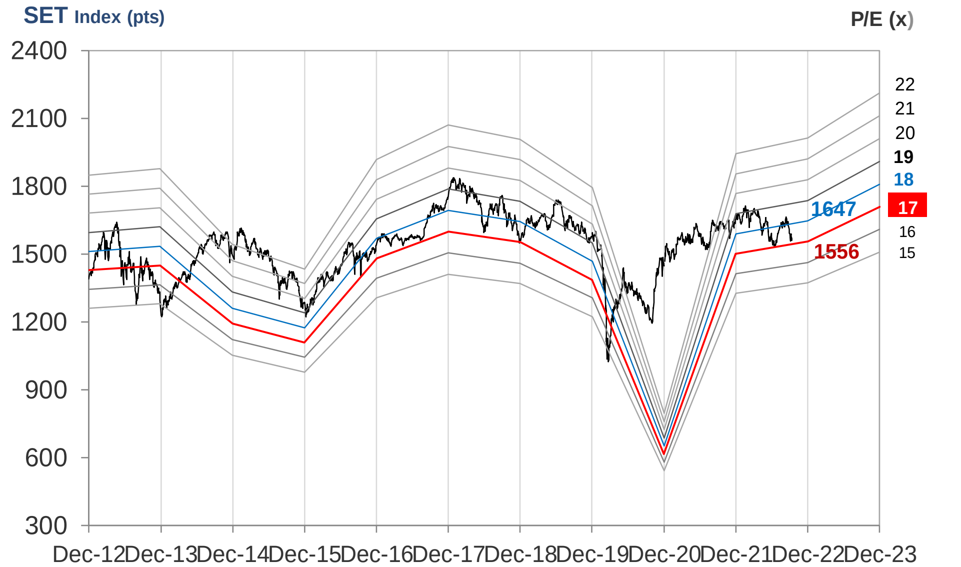
Source: RHB

Bull case: End-2022 SET target is 1,647 pts

The SET closed 2021 at 1,658pts, implying 18.75x P/E or 1.82x P/BV. For 2022, due to external hurdles, we have derived a lower market risk premium to the P/E of 18x. Our best-case year-end SET target is 1,647 pts, which points to discounted levels from the 3-year (26x P/E), 5-year (21.6x P/E), 7-year (21.6x P/E), and 10-year (20.5x P/E) P/E means..

At the time of writing, the SET index closed at 1,563 points, indicating a prospective P/E of 17.1x for end-2022F. Excluding the ramp-up in geopolitical risks, we believe that the market has mostly priced in the external and internal challenges – particular those related to the spike in inflation and interest rates. That said, domestic inflation will likely moderate and remain as such next year. As a result, our bear case end-2022F SET target is 1,556pts (-0.4%) post factoring in market timing and our P/E band analysis. If the index drops below this level, this could bring about opportunities to accumulate stocks – especially the large-cap names in the banking, energy, telco, retail, consumer (discretionary and stable), transportation and F&B sectors. Towards the upside, our bull case end-2022 SET target is 1,647pts (+5.4%).

Figure 78: The SET P/E band – the index is trading at around the strong support level of 17x P/E, ie 1,556pts



Source: RHB

Figure 79: SET earnings and valuation

Year	Net Profit (THB m)	+/-	EPS (THB)	+/-	BPS (THB)	ROE	P/BV (x)	P/E (x)	Div. Yield
2006	454,351	-9.0%	60.8	-12.8%	413.3	14.7%	1.65	11.18	4.9%
2007	484,464	6.6%	62.6	3.0%	430.9	14.5%	1.99	13.70	3.4%
2008	364,006	-24.9%	45.9	-26.7%	438.9	10.5%	1.03	9.80	7.5%
2009	457,863	25.8%	57.3	24.8%	472.0	12.1%	1.56	12.83	3.6%
2010	567,772	24.0%	70.4	22.9%	511.9	13.7%	2.02	14.68	3.1%
2011	594,419	4.7%	72.5	3.0%	541.8	13.4%	1.89	14.14	3.6%
2012	714,534	20.2%	84.1	16.0%	602.8	13.9%	2.31	16.56	3.2%
2013	755,587	5.7%	85.4	1.5%	638.4	13.5%	2.03	15.22	3.5%
2014	648,800	-14.1%	70.1	-17.8%	669.0	10.6%	2.24	21.36	2.5%
2015	622,277	-4.1%	65.3	-22.4%	707.3	9.2%	1.82	19.74	2.7%
2016	852,004	36.9%	87.2	33.6%	756.3	11.5%	2.04	17.70	3.0%
2017	944,064	10.8%	94.1	8.0%	800.3	11.7%	2.19	18.63	2.8%
2018	933,176	-1.2%	91.3	-3.0%	828.5	10.9%	1.89	17.12	2.9%
2019	865,415	-7.3%	81.6	-10.6%	848.3	9.6%	1.86	19.35	2.6%
2020	402,283	-53.5%	36.2	-55.7%	833.7	4.2%	1.74	40.04	1.0%
2021	1,044,549	159.7%	88.4	144.3%	911.1	9.7%	1.82	18.75	2.1%
2022E	1,108,458	6.1%	91.5	3.5%	934.4	9.8%	1.67	17.08	2.3%
2023E	1,218,261	9.9%	100.6	9.9%	984.7	10.2%	1.59	15.54	3.2%

Source: RHB

Figure 80: SET valuation matrix

P/E (x)	EPS (THB)			P/BV (x)	BV (THB)		
	2021	2022E	2023E		2021	2022E	2023E
	88.42	**91.52**	**100.58**		**911.1**	**934.4**	**984.7**
growth	144%	3.5%	10%	growth	9.3%	2.6%	5.4%
17.00	1,503	1,556	1,710	1.70	1,549	1,588	1,674
18.00	1,591	**1,647**	**1,811**	1.75	1,594	1,635	1,723
18.75	1,658	1,716	1,886	1.82	1,658	**1,701**	**1,792**
19.00	1,680	1,739	1,911	1.85	1,685	1,729	1,822
20.00	1,768	1,830	2,012	1.91	1,740	1,785	1,881
20.45	1,808	1,872	2,057	1.81	1,649	1,691	1,782
21.62	1,912	1,979	2,175	1.91	1,740	1,785	1,881
26.05	2,303	2,384	2,620	1.99	1,813	1,859	1,960
SET Target	**1,658**	**1,647**	**1,811**	**Historical mean**		**P/E**	**P/BV**
Market return	14.4%	-0.6%	9.2%	3-year		26.05	1.81
Dividend Yield	2.1%	2.3%	3.2%	5-year		21.62	1.91
Total return	16.5%	1.7%	12.4%	7-year		21.62	1.91
ROE	9.4%	9.6%	9.9%	10-year		20.45	1.99

Source: RHB

Trend reverses direction to fund inflows in 9M22

The SET saw net foreign fund outflows totalling THB954bn (c.USD26bn) over the past 14 years. This was largely due to the US subprime crisis, which first surfaced in 2008 and continued through to 2021. A quick breakdown of factors behind this outflow is provided below:

i. **At the start of the US subprime crisis in 2008, the SET Index bottomed out and recorded a fund outflow of THB162bn.** The index later underwent a sharp recovery in 2019, due to the first round of quantitative easing by the US Federal Reserve, ie QE1 – in this year, foreign fund inflows into Thailand amounted to THB32bn;

ii. **The slump in oil prices 2014-2015** caused the oil & gas sector to post huge declines in earnings. This, in turn, stemmed from net losses of refinery stocks in 2014 and net losses in oil & gas stocks in 2015. Today, the situation has reversed;

iii. **The US-China trade war**, which started in 2017-2018, and remains in effect;

iv. **The changing of the status related to COVID-19, from pandemic to endemic.** Thailand's exports of goods and services were severely impacted by a drop in external demand and appreciation of the THB against the USD (USD/THB rates were at 32 in 2018, 29.76 in 2019 and 29.99 in 2020). Over a broader period, SET earnings shrank for three consecutive years (2018-2020). That said, the THB has depreciated by 15% YTD against the USD (the FX rate is at 38 at present);

v. **2021 was a year of transition**, and the SET registered a V-shaped earnings turnaround (+160%) – although fund outflows still came up to THB51bn.

For the first time in five years, foreign investor recorded a net buy of THB149bn over 9M22 – the highest figure since 2000. Based on the positive expectation that capital inflows will remain put throughout the rest of the year, our stock picks will focus on the top tier of large-cap stocks that are representative of each key economic sector:

i. Banks – Bangkok Bank (BBL TB, BUY, TP: THB148), Kasikornbank;

ii. Energy – PTT;

iii. Transportation – Airports of Thailand;

iv. Retailing – Central Retail Corp, Central Pattana;

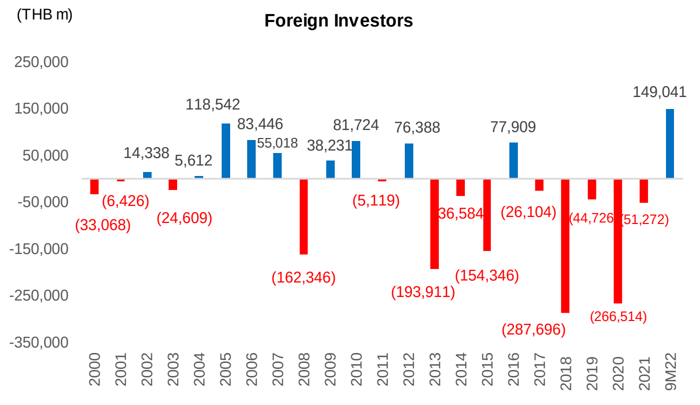
v. Consumer – CP ALL (CPALL TB, NEUTRAL, TP: THB69), Home Product Center, PTT Oil & Retail Business (OR TB, BUY, TP: THB35);

vi. F&B – Thai Union;

vii. Basic materials – Siam Cement (SCC TB, BUY, TP: THB380);

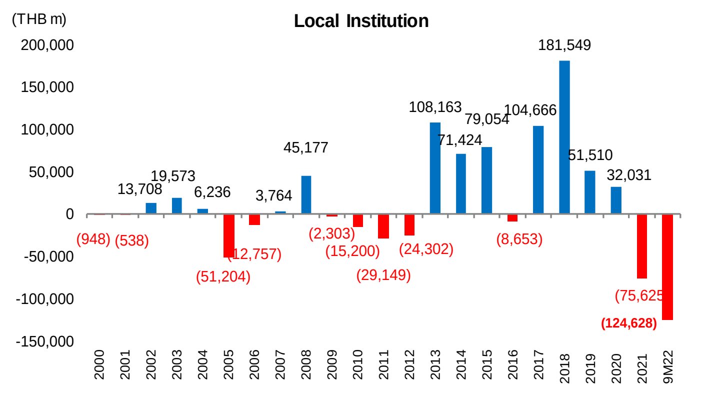
viii. Telco – Advanced Info Service.

Figure 81: Foreign net inflows in 9M22



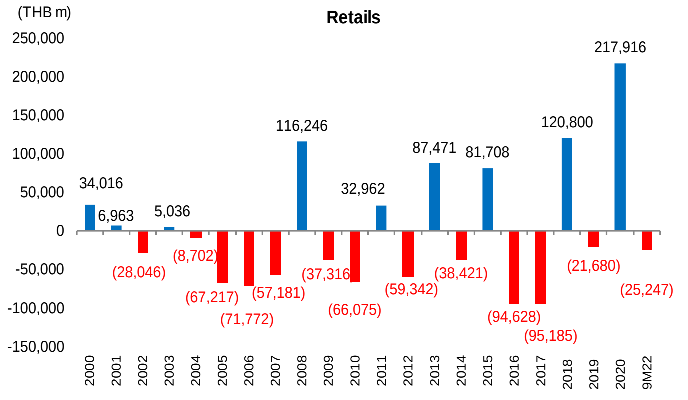
Source: SET Smart, RHB

Figure 82: Local institutions recorded net sells for two consecutive years



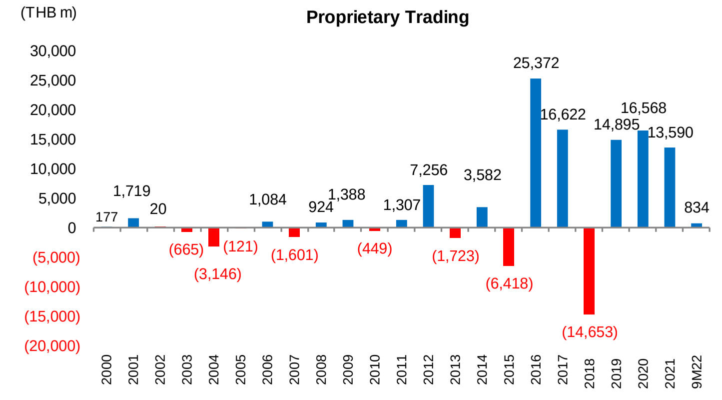
Source: SET Smart, RHB

Figure 83: Retail investors recorded net sells in 9M22



Source: SET Smart, RHB

Figure 84: Proprietary trading registered net buys in 9M22



Source: SET Smart, RHB

General election tentatively set for May 2023

Interpretation of the Constitutional Court. Prime Minister Prayuth Chan-Ocha can complete the maximum 8-year term, as stipulated by the Constitutional Court in Jun 2025, or remain in office for two more years after the next general election, if he is re-elected as the head of government. This should buoy overall market sentiment. We believe it is likely that the prime minister will serve his 4-year term until Mar 2023. However, for the upcoming general election, he could campaign for another 2-year term (ie to Jun 2025). This, undoubtedly, will change the political landscape for the next general election – as it may mean that he may or may not aim to be a candidate to head the next government.

A tentative election timeline. According to the Election Commission, the next general election will be held on 7 May 2023, if the House of Representatives completes its 4-year term by March. If the lower house is dissolved before then, an election date will be set at least 45 days after and no later than 60 days after Parliament is dissolved. For example, if the Parliament's full term ends on Mar 2023, an election will be held within 45 days.

Pre-election theme also offers some ideas, assuming that polls are held on 7 May 2023. Historical trends indicate that prior to national polls, the SET picks up pace for 3-6 months. After the election, this is normally followed by two months of profit-taking activities. We present some potential plays that investors may want to consider initiating trading positions on, for the near-to-medium term, as listed below.

i. **Conventional and renewable energy**: PTT (PTT), Global Power Synergy (GPSC TB, BUY, TP: THB84), Energy Absolute (EA TB, NR), Gulf Energy Development (GULF TB, NR), Gunkul Engineering (GUNKUL TB, NR) and B.Grimm Power (BGRIM TB, NR).

ii. **Consumer**: CP ALL, Berli Jucker (BJC TB, XX, TP: THBXX), Central Retail Corp and Central Pattana.

iii. **Property developers**: SC Asset Corp (SC TB, NR), Sansiri (SIRI TB, NR) and Prama 9 Hospital (PR9 TB, NR).

iv. **Media**: Plan B Media (PLANB TB, NR), VGI (VGI TB, NR), Master Ad (MACO TB, NR) and BEC World (BEC TB, NR).

v. **Technology**: Synnex (Thailand) (SYNEX TB, NR) and TKS Technologies (TKS TB, NR), Advance Info Services.

vi. **Infrastructure**: Sino-Thai Engineering & Construction (STEC TB, BUY, TP: THB14.30), CH Karnchang (CK TB, BUY, TP: THB23.30), Bangkok Expressway & Metro (BEM TB, BUY, TP: THB9.90), Italian-Thai Development (ITD TB, NR) and BTS Group Holdings (BTS TB, NR).

vii. **Private investment:** WHA Corp (WHA TB, BUY, TP: THB4.35), Amata Corp (AMATA TB, SELL, TP: THB13.20) and Pinthong Industrial Park (PIN TB, NR)

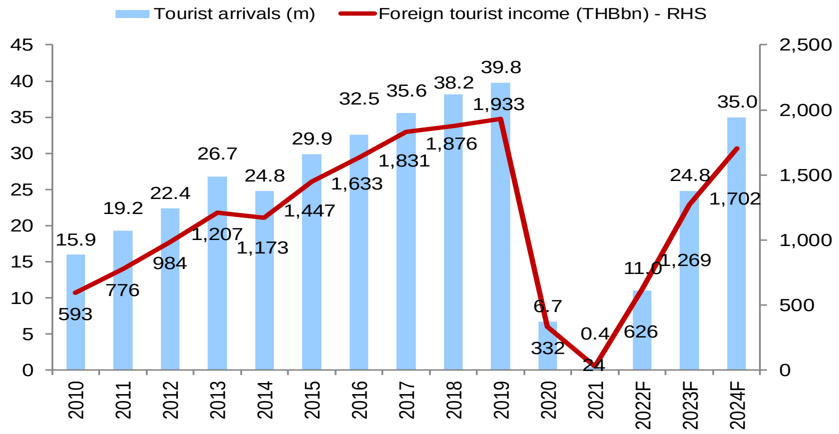
viii. **Cannabis-related**: Osotspa (OSP TB, BUY, TP: THB33), Sappe (SAPPE TB, NR), Mega Lifesciences (MEGA TB, BUY, TP: THB57), R&B Food Supply (RBF TB, NR) and Siam Wellness Group (SPA TB, NR).

Strong recovery in tourism

Healthcare services sector to resume growth. We are optimistic about the rebound in domestic and international non-COVID-19 patient numbers seeking outpatient and inpatient treatment in Thailand's hospitals. We also expect to see pent-up demand from inbound patients (mainly from the Middle East and Asian countries), in tandem with the easing of COVID-19 and border restrictions. These factors may bring the hospitals' revenue mix from international patients back to pre-COVID-19 levels in 2023. They may also attract more medical tourists, following the normalising diplomatic relations between Thailand and Saudi Arabia. Bumrungrad Hospital (BH TB, NR) and Bangkok Dusit Medical Services (BDMS TB, BUY, TP: THB35) should be major beneficiaries of this influx, if it is realised.

Note that the number of international visitors from the Middle East to Thailand totalled 0.26m in 8M22 (0.52k in 2022F), equivalent to 53% of 2019 levels ie pre-pandemic.

Figure 85: International tourist arrivals and receipts



Source: Ministry of Tourism and Sports, RHB

Stronger tourism outlook. Thailand recorded 6.01m visitor arrivals between 1 Jan and 1 Sep – slightly more than the Tourism Authority of Thailand's projection of 6m arrivals. Malaysians comprised the majority of visitors, followed by tourists from India, Laos, Singapore and Cambodia. As such, we think that Thailand is likely to meet its target of welcoming at least 10m visitors by the end of the year. We maintain our forecast of 11m international tourist arrivals this year, compared with a paltry 0.43m in 2021. Thereafter, we expect the numbers to surge by 125% YoY to 25m in 2023, before coming to be at par with levels recorded prior to the pandemic, in 2024. The higher numbers are due to the relaxation of social distancing and border restrictions in 4Q22, like:

i. People entering Thailand will no longer be required to produce a negative COVID-19 test result or proof of vaccination, from 1 Oct onwards. Foreign visitors will also be permitted to stay in the country for 15 days. For example, tourists who use the visa-on-arrival option can remain for 30 days instead of 15, while those who arrive under visa exemption rules will receive a 45-day stamp on their passports, instead of 30. This rule will be in effect until 31 Mar 2023;

ii. We also see further support for Thai tourism in the near term, including the THB depreciating by 10% YTD, to c.THB37.50/USD. Meanwhile, a possible energy crisis in Europe stemming from geopolitical tensions may bolster the number of Europeans flying to Thailand – a favourite destination for those seeing warmer climes – in the upcoming winter;

iii. We expect the utilisation rate of Thailand's airports to improve further, premised on a pick-up in flights. These would largely come from the national carrier, Thai Airways, to destinations in Europe and China, to name a few. There would also be more flights from other carriers, like direct intercontinental flights by Air Canada and Saudi Arabian Airlines.

Top Picks under this theme are Airports of Thailand, and PTT Oil and Retail Business.

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Corporate Governance Report Rating 2021 (CG Score) *as of 30 Dec 2021*

Companies with Excellent CG Scoring by alphabetical order

AAV	BGC	CSS	GRAMM	LH	NWR	PTTEP	SENA	TEAMG	TTA
ADVAN	BGRIM	DDD	GULF	LHFG	NYT	PTTGC	SHR	TFMAMA	TTB
AF	BIZ	DELTA	GUNKUL	LIT	OISHI	PYLON	SIRI	TGH	TTCL
AH	BKI	DEMCO	HANA	LPN	OR	Q-CON	SIS	THANA	TTW
AIRA	BOL	DRT	HARN	MACO	ORI	QH	SITHAI	THANI	TU
AKP	BPP	DTAC	HMPRO	MAJOR	OSP	QTC	SMK	THCOM	TVD
ALT	BRR	DUSIT	ICC	MAKRO	OTO	RATCH	SMPC	THG	TVI
AMA	BTS	EA	ICHI	MALEE	PAP	RS	SNC	THIP	TVO
AMATA	BTW	EASTW	III	MBK	PCSGH	S	SONIC	THRE	TWPC
AMATA	BWG	ECF	ILINK	MC	PDG	S & J	SPALI	THREL	U
ANAN	CENTEL	ECL	ILM	MCOT	PDJ	SAAM	SPI	TIPCO	UAC
AOT	CFRESH	EE	INTUCH	METCO	PG	SABINA	SPRC	TISCO	UBIS
AP	CHEWA	EGCO	IP	MFEC	PHOL	SAMART	SPVI	TK	UV
ARIP	CHO	EPG	IRPC	MINT	PLANB	SAMTEL	SSSC	TKT	VGI
ARROW	CIMBT	ETC	ITEL	MONO	PLANET	SAT	SST	TMT	VIH
ASP	CK	FPI	IVL	MOONG	PLAT	SC	STA	TNDT	WACOA
AUCT	CKP	FPT	JSP	MSC	PORT	SCB	STEC	TNITY	WAVE
AWC	CM	FSMART	JWD	MST	PPS	SCC	STI	TOA	WHA
AYUD	CNT	GBX	K	MTC	PR9	SCCC	SUN	TOP	WHAUP
BAFS	COM7	GC	KBANK	MVP	PREB	SCG	SUSCO	TPBI	WICE
BANPU	COMAN	GCAP	KCE	NCL	PRG	SCGP	SUTHA	TQM	WINNER
BAY	COTTO	GFPT	KKP	NEP	PRM	SCM	SVI	TRC	ZEN
BBL	CPALL	GGC	KSL	NER	PROUD	SDC	SYMC	TRU	TRUE
BCP	CPF	GLAND	KTB	NKI	PSH	SEAFCO	SYNTEC	TSC	
BCPG	CPI	GLOBAL	KTC	NOBLE	PSL	SEAOIL	TACC	TSR	
BDMS	CPN	GPI	LALIN	NSI	PTG	SE-ED	TASCO	TSTE	
BEM	CRC	GPSC	LANNA	NVD	PTT	SELIC	TCAP	TSTH	

Companies with Very Good CG Scoring by alphabetical order

2S	ATP30	CPW	GJS	KIAT	MTI	QLT	SKE	TCC	UMI
7UP	B	CRD	GYT	KISS	NBC	RBF	SKN	TCMC	UOBKH
ABICO	BA	CSC	HEMP	KOOL	NCAP	RCL	SKR	TEAM	UP
ABM	BAM	CSP	HPT	KTIS	NCH	RICHY	SKY	TFG	UPF
ACE	BC	CWT	HTC	KUMWEL	NETBA	RML	SLP	TFI	UPOIC
ACG	BCH	DCC	HYDRO	KUN	NEX	ROJNA	SMIT	TIGER	UTP
ADB	BEC	DCON	ICN	KWC	NINE	RPC	SMT	TITLE	VCOM
AEONTS	BEYOND	DHOUSE	IFS	KWM	NRF	RT	SNP	TKN	VL
AGE	BFIT	DOD	IMH	L&E	NTV	RWI	SO	TKS	VNT
AHC	BJC	DOHOME	IND	LDC	OCC	S11	SORKON	TM	VPO
AIT	BJCHI	DV8	INET	LEO	OGC	SA	SPA	TMC	VRANDA
ALL	BLA	EASON	INSET	LHK	PATO	SAK	SPC	TMD	WGE
ALLA	BR	EFORL	INSURE	LOXLEY	PB	SALEE	SPCG	TMI	WIIK
ALUCON	BROOK	ERW	IRC	LRH	PICO	SAMCO	SR	TMILL	WP
AMANA	CBG	ESSO	IRCP	LST	PIMO	SANKO	SRICHA	TNL	XO
AMARIN	CEN	ESTAR	IT	M	PJW	SAPPE	SSC	TNP	XPG
APCO	CGH	ETE	ITD	MATCH	PL	SAWAD	SSF	TOG	YUASA
APCS	CHARAN	FE	J	MBAX	PM	SCI	STANLY	TPA	
APURE	CHAYO	FLOYD	JAS	MEGA	PMTA	SCN	STGT	TPAC	
AQUA	CHG	FN	JCK	META	PPP	SCP	STOWER	TPCS	
ASAP	CHOTI	FNS	JCKH	MFC	PPPM	SE	STPI	TPS	
ASEFA	CHOW	FORTH	JMART	MGT	PRIME	SFLEX	SUC	TRITN	
ASIA	CI	FSS	JMT	MICRO	PRIN	SFP	SWC	TRT	
ASIAN	CIG	FTE	KBS	MILL	PRINC	SFT	SYNEX	TSE	
ASIMAR	CMC	FVC	KCAR	MITSIB	PSG	SGF	TAE	TVT	
ASK	COLOR	GEL	KEX	MK	PSTC	SIAM	TAKUNI	TWP	
ASN	CPL	GENCO	KGI	MODERN	PT	SINGER	TBSP	UEC	

CG Score 2021

Companies with Ver Good CG Scoring by alphabetical order

A	CMAN	KASET	PRAKIT	THMUI
AI	CMO	KCM	PRAPAT	TNH
AIE	CMR	KK	PRECHA	TNR
AJ	CPT	KKC	PTL	TOPP
ALPHAX	CRANE	KWI	RJH	TPCH
AMC	CSR	KYE	RP	TPIPL
APP	D	LEE	RPH	TPIPP
AQ	EKH	LPH	RSP	TPLAS
ARIN	EMC	MATI	SABUY	TPOLY
AS	EP	M-CHAI	SF	TQR
AU	F&D	MCS	SGP	TTI
B52	FMT	MDX	SICT	TYCN
BEAUTY	GIFT	MJD	SIMAT	UKEM
BGT	GLOCON	MORE	SISB	UMS
BH	GREEN	MUD	SK	UNIQ
BIG	GSC	NC	SMART	UPA
BLAND	GTB	NDR	SOLAR	UREKA
BM	HTECH	NFC	SPACK	VIBHA
BROCK	HUMAN	NNCL	SPG	W
BSBM	IHL	NOVA	SQ	WIN
BSM	IIG	NPK	SSP	WORK
BTNC	INGRS	NUSA	STARK	WPH
BYD	INOX	PAF	STC	YGG
CAZ	JAK	PF	SUPER	ZIGA
CCP	JR	PK	SVOA	
CGD	JTS	PLE	TC	
CITY	JUBILE	PPM	TCCC	

Source : http://www.thai-iod.com/th/projects-2.asp

IOD (IOD Disclaimer)

การเปิดเผลผลการสำรวจของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (IOD) ในเรื่องการกำกับดูแลกิจการ (Corporate Governance) นี้เป็นการดำเนินการตามนโยบายของสำนักงานคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ โดยการสำรวจของ IOD เป็นการสำรวจและประเมินจากข้อมูลของบรษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยและตลาดหลักทรัพย์เอ็มเอไอ ที่มีการเปิดเผยต่อสาธารณะและเป็นข้อมูลที่ผู้ลงทุนทั่วไปสามารถเข้าถึงได้ ดังนั้นผลสำรวจดังกล่าวจึงเป็นการนำเสนอในมุมมองของบุคคลภายนอกโดยไม่ได้เป็นการประเมินการปฏิบัติและมิได้มีการใช้ข้อมูลภายในในการประเมิน

อนึ่งผลการสำรวจดังกล่าวเป็นผลการสำรวจ ณ วันที่ปรากฏในรายงานการกำกับดูและกิจการบริษัทจดทะเบียนไทยเท่านั้น ดังนั้นผลการสำรวจจึงอาจเปลี่ยนแปลงได้ภายหลังวันดังกล่าวทั้งนี้ บริษัทหลักทรัพย์ อาร์เอชบี จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความถูกต้องของผลการสำรวจดังกล่าวแต่อย่างใด

Score Range	Number of Logo	Description
Less than 50	No logo given	-
50-59		Pass
60-69		Satisfactory
70-79		Good
80-89		Very Good
90-100		Excellent

Anti-Corruption Progress Indicator *(as of 30 Dec 2021)*

ได้รับการรับรอง CAC

2S	BAM	CGH	EA	GJS	JKN	MAKRO	NOBLE	PM	RATCH	SKR	SYNTEC	TMILL	TVO
ADVANC	BANPU	CHEWA	EASTW	GPI	K	MALEE	NOK	PPP	RML	SMIT	TAE	TMT	TWPC
AF	BAY	CHOTI	ECL	GPSC	KASET	MBAX	NSI	PPPM	RWI	SMK	TAKUNI	TNITY	U
AI	BBL	CHOW	EGCO	GSTEEL	KBANK	MBK	NWR	PPS	S & J	SMPC	TASCO	TNL	UBE
AIE	BCH	CIG	EP	GUNKUL	KBS	MC	OCC	PREB	SAAM	SNC	TBSP	TNP	UBIS
AIRA	BCP	CIMBT	EPG	HANA	KCAR	MCOT	OCEAN	PRG	SABINA	SNP	TCAP	TNR	UEC
AKP	BCPG	CM	ERW	HARN	KCE	META	OGC	PRINC	SAPPE	SORKON	TCMC	TOG	UKEM
AMA	BEYOND	CMC	ESTAR	HEMP	KGI	MFC	ORI	PRM	SAT	SPACK	TFG	TOP	UOBKH
AMANAH	BGC	COM7	ETE	HMPRO	KKP	MFEC	PAP	PROS	SC	SPALI	TFI	TOPP	UPF
AMATA	BGRIM	COTTO	FE	HTC	KSL	MINT	PATO	PSH	SCB	SPC	TFMAMA	TPA	UV
AMATAV	BJCHI	CPALL	FNS	ICC	KTB	MONO	PB	PSL	SCC	SPI	TGH	TPP	VGI
AP	BKI	CPF	FPI	ICHI	KTC	MOONG	PCSGH	PSTC	SCCC	SPRC	THANI	TRU	VIH
APCS	BLA	CPI	FPT	IFEC	KWC	MSC	PDG	PT	SCG	SRICHA	THCOM	TRUE	VNT
AQUA	BPP	CPN	FSMART	IFS	KWI	MST	PDJ	PTG	SCN	SSF	THIP	TSC	WACOAL
ARROW	BROOK	CSC	FSS	ILINK	L&E	MTC	PE	PTT	SEAOIL	SSP	THRE	TSTE	WHA
ASIAN	BRR	DCC	FTE	INET	LANNA	MTI	PG	PTTEP	SE-ED	SSSC	THREL	TSTH	WHAUP
ASK	BSBM	DELTA	GBX	INSURE	LH	NBC	PHOL	PTTGC	SELIC	SST	TIDLOR	TTA	WICE
ASP	BTS	DEMCO	GC	INTUCH	LHFG	NEP	PK	PYLON	SENA	STA	TIPCO	TTB	WIIK
AWC	BWG	DIMET	GCAP	IRC	LHK	NINE	PL	Q-CON	SGP	STOWER	TISCO	TTCL	XO
AYUD	CEN	DRT	GEL	IRPC	LPN	NKI	PLANB	QH	SINGER	SUSCO	TKS	TU	ZEN

ได้ประกาศเจตนารมณ์เข้าร่วม CAC

7UP	AS	CPR	DOHOME	GULF	JMT	MAJOR	NRF	SAK	STECH	VCOM
ABICO	BEC	CPW	ECF	III	JR	MATCH	NUSA	SCGP	STGT	VIBHA
AJ	BKD	CRC	EKH	INOX	KEX	MILL	PIMO	SCM	SUPER	WIN
ALT	CHG	DDD	ETC	J	KUMWEL	NCL	PR9	SIS	TQM	YUASA
APCO	CPL	DHOUSE	EVER	JMART	LDC	NOVA	RS	STAR	TSI	ZIGA

ข้อมูล Anti-Corruption Progress Indicator

การเปิดเผยการประเมินดัชนีชี้วัดความคืบหน้าการป้องกันการมีส่วนเกี่ยวข้องกับการทุจริตคอร์รัปชัน (Anti-corruption Progress Indicators) ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยที่จัดทำโดยสถาบันที่เกี่ยวข้องซึ่งมีการเปิดเผยโดยสำนักงาน คณะกรรมการกำกับหลักทรัพย์ และตลาดหลักทรัพย์นี้ เป็นการดำเนินการตามนโยบาย และตามแผนพัฒนาความยั่งยืนสำหรับบริษัทจด ทะเบียนโดยผลการประเมินดังกล่าว สถาบันที่เกี่ยวข้องอาศัยข้อมูลที่ได้รับจากบริษัทจดทะเบียนตามที่บริษัทจดทะเบียนได้ระบุในแบบแสดงข้อมูลเพื่อการประเมิน Anti-Corruption ซึ่งอ้างอิงข้อมูลมาจากแบบแสดงรายการข้อมูลประจำปี แบบ (56-1) รายงานประจำปี แบบ (56-2) หรือในเอกสารหรือรายงานอื่นที่เกี่ยวข้องของบริษัทจดทะเบียนนั้น แล้วแต่กรณี ดังนั้น ผลการประเมินดังกล่าวจึงเป็นการนำเสนอในมุมมอง ของสถาบันที่เกี่ยวข้องซึ่งเป็นบุคคลภายนอก โดยมิได้เป็นการประเมินการปฏิบัติของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย และมิได้ใช้ข้อมูลภายในเพื่อการประเมิน

เนื่องจากผลการประเมินดังกล่าวเป็นเพียงผลการประเมิน ณ วันที่ปรากฏในผลการประเมินเท่านั้น ดังนั้น ผลการประเมินจึงอาจเปลี่ยนแปลง

ได้ภายหลังวันดังกล่าว หรือรับรองความถูกต้องครบถ้วนของผลประเมินดังกล่าวแต่อย่างใด ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี จำกัด (มหาชน) มิได้

ยืนยันตรวจสอบหรือรับรองความถูกต้องของผลการสำรวจ