26 July 2023

Market Outlook | Market Strategy

Regional Market Strategy

ASEAN On the Mend

- **ASEAN equities laggard play.** The near-peak Federal Funds Rate (FFR), moderating US inflation and imminent US economic recovery are key RHB macroeconomic assumptions. Investor sentiment on the outlook for ASEAN equity markets will gather momentum as the macro picture improves. The recent easing of the DXY is a positive but offset by concerns over China's economic health. We like Indonesia on the strength of its long-term domestic fundamentals. Much of the political risk in Thailand is in the price, but the ongoing uncertainty will keep investors on edge. Singapore has defensive qualities and highlight Malaysia as a regional laggard.
- **Indonesia.** We advise investors to accumulate, with cyclical stocks to outperform (large cap banks, automotive, cement, metal mining). Telco, consumer staples, and tobacco companies should benefit from the expected higher household spending in 2H23 due to larger government initiatives to multiply domestic demand. The healthcare sector ought to benefit from the new policy. Macroeconomic conditions are strong – 1Q23 GDP at +5.03% YoY, slightly above predictions. Street expects a possibility of Bank Indonesia (BI) rate cut in 2H23, earlier than our house forecast. Maintain our end-2023 JCI 7,450-pt target – slightly above -1SD from its 5-year P/E, at 14/13x FY23F/24F P/E.
- **Malaysia.** Equity markets are likely to remain volatile in the run up to the state elections. Greater political and macroeconomic clarity – in line with RHB's view – will be tailwinds for equity markets. At 13.9x FY24F P/E, valuation is not especially demanding, but fragile corporate earnings and MYR/USD weakness are key risks. Bouts of market weakness should be seen as opportunities to gradually add to equity positions. We are OVERWEIGHT on the bank, oil & gas (O&G), utilities, basic materials, non-bank financial institutions (NBFIs), healthcare, construction and property sectors. Our end-2023 FBM KLCI target of 1,500 pts derived from ascribing an unchanged 15x (-0.5SD to mean) target P/E to FY24F EPS.
- **Singapore.** Despite the subdued YTD market performance, the Singapore market is still defensive, and could see a re-rating closer to the end of the year, supported by the services sector's resilience, a likely pause in interest rate hikes, a manufacturing and exports sector revival, and outperformance of the SGD in the region. While the gradual rise in Chinese tourist arrivals will bode well for tourism-linked sectors, investors should stay anchored to higher-quality companies or REITs that offer secular earnings growth and/or defensive dividends. Our end-2023 Straits Times Index (STI) target is 3,340 pts which is based on 11.5x target P/E applied to 2024F EPS.
- **Thailand.** We lower our end-2023 SET Index target to 1,666 pts (based on a baseline 10-year mean P/E of 20x) from 1,764 pts due to weaker growth prospects in the construction materials, agriculture, telco (a turnaround from net losses), and financial services sectors. 2023 SET EPS growth estimate has been reduced to 4.8% from 5.8%, primarily from the country's year-long economic reopening and more micro-political headwinds.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Airports of Thailand	Buy	THB82.00	14.3	31.2	6.7	23.2	1.9
AKR Corporindo	Buy	IDR1,940	41.1	9.4	2.0	22.1	4.9
Central Pattana	Buy	THB85.00	30.3	19.8	3.0	15.8	2.0
CIMB	Buy	MYR6.00	13.2	8.3	0.8	9.5	6.0
ComfortDelGro	Buy	SGD1.35	8.0	14.0	1.0	7.2	4.6
Indocement	Buy	IDR14,300	38.2	14.6	1.6	11.9	4.2
Indofood CBP	Buy	IDR14,300	24.3	14.2	2.8	21.9	3.3
KPJ Healthcare	Buy	MYR1.46	31.6	17.2	1.9	11.6	2.9
Malaysia Airports	Buy	MYR8.31	21.4	18.7	1.4	7.6	2.6
Sino-Thai Engineering & Construction	Buy	THB16.20	54.3	12.6	1.1	9.2	3.7
ST Engineering	Buy	SGD4.05	9.8	17.4	4.4	26.1	4.3
United Overseas Bank	Buy	SGD32.30	12.9	7.6	0.9	12.9	6.2

Source: Company data, RHB

Analysts

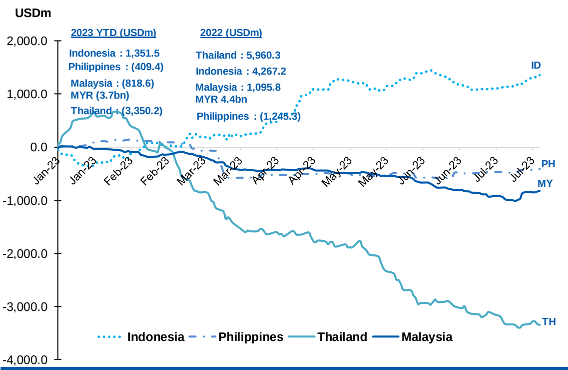
Alexander Chia
+603 9280 8889
alexander.chia@rhbgroup.com

Andrey Wijaya
+6221 5093 9846
andrey.wijaya@rhbgroup.com

Shekhar Jaiswal
+65 6320 0806
shekhar.jaiswal@rhbgroup.com

Kasamapon Hamnilrat
+66 2088 9739
kasamapon.ha@rhbgroup.com

Regional foreign fund flows for 2023 YTD



Source: Company data, RHB

Indonesia: Growth Engines Likely Boosted In 2H23

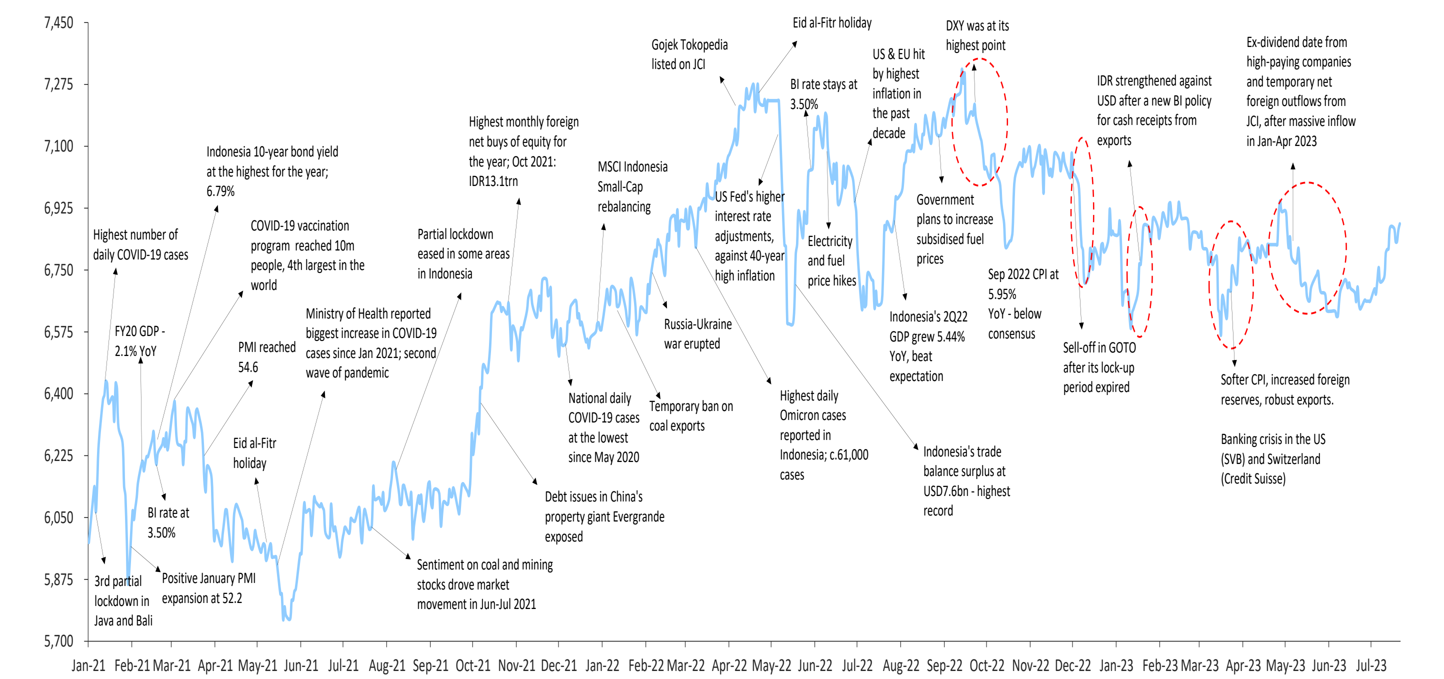
Buy on dips – JCI to remain sideways in early 3Q23, but downside likely limited

Since we anticipate a positive movement on the JCI at the end of 3Q23, this is probably the best time to accumulate stocks in the market, particularly with cyclical stocks (large cap banks, automotive, cement, and metal mining) outperforming. Driven by cyclically softened earnings in 2Q23, the results season will be in late July or early August, with the political situation heightening due to the formal registration of the presidential and vice-presidential candidates, the JCI is expected to move sideways in early 3Q23, but we believe the downside is limited. The JCI fell 2.1% QoQ in 2Q23, closing at 6,661.88 pts at the end of June (from 6,805.28 pts at the end of March), led by the energy, basic materials, technology, and healthcare sectors. In terms of macroeconomic data, 1Q23 GDP increased 5.03% YoY (-0.92% QoQ), slightly higher than Bloomberg's forecast (+4.97% YoY, -1.0% QoQ). The JCI recorded a net foreign inflow of IDR9.6trn in 2Q23 (1Q23: +IDR6.6trn, 4Q22: -IDR8.9trn). Companies' quarterly earnings at the end of May reported strong numbers and higher-than-expected 1Q23 earnings. Earnings in the banking, consumer staples, automotive, and metal mining sectors all outperformed expectations.

Indonesia achieved solid budget realisation, in our view, with the fiscal surplus narrowing to 1% of GDP in 5M23 but remaining large enough to allow the Government to balance stability and growth. Despite lower commodity prices, we expect commodities to remain a revenue generator due to downstream export policies that increased the added value of mineral ore (such as nickel and bauxite) export. Government spending growth accelerated in 5M23, and we expect the Government to further increase spending in 2H23, in part to compensate for the slowest investment growth due to the upcoming election year's seasonal uncertainties. Increased government subsidies/social protection may be an option for pre-election spending in order to increase domestic spending.

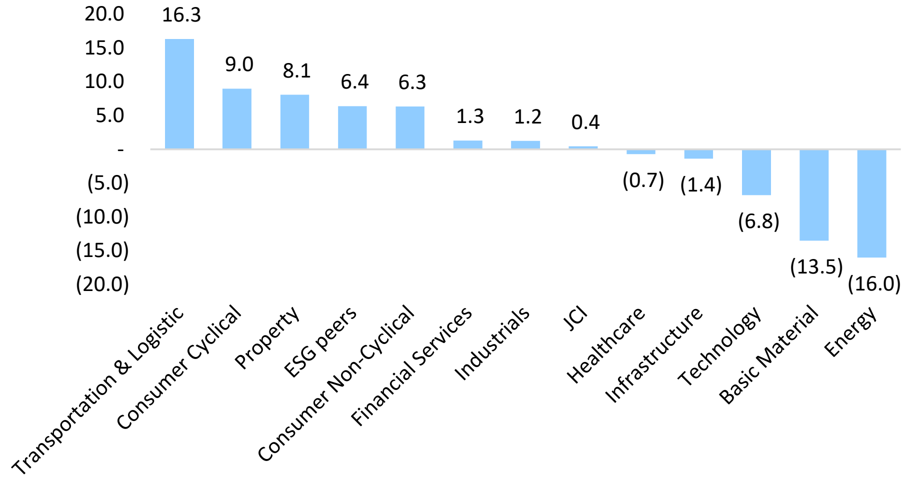
Street believes there is room for a BI rate cut in 2H23, which is earlier than what had been predicted by our economist. This should benefit interest-sensitive industries such as auto, cement, and real estate, as well as companies with large debts such as construction firms. It is worth noting that Indonesia's Consumer Price Index (CPI) rose 3.52% YoY in June, the slowest rate since April 2022 and less than economists' forecasts (3.62%). Annual inflation was driven by the costs of transportation, food, beverages, and tobacco, as well as housing, water, electricity, and household fuel. Meanwhile, core inflation was driven by house rent, college tuition fees, gold jewellery, and household assistant wages.

Figure 1: JCI movements and events between Jan 2021-Jul 2023



Source: Bloomberg, RHB

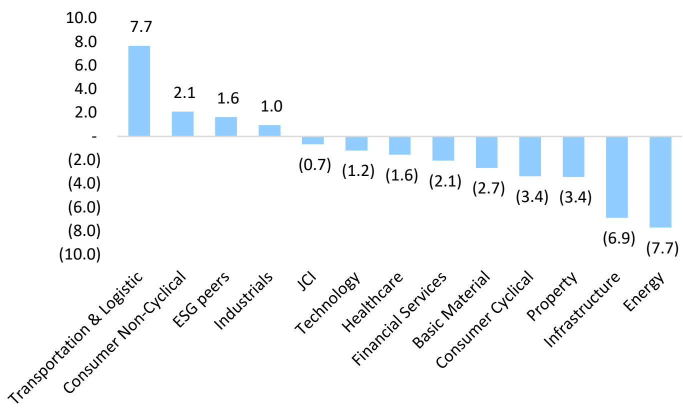
Figure 2: The JCI's performance YTD – JCI declined 0.7% YTD, driven by energy, basic material, and technology sectors



Source: Bloomberg, RHB

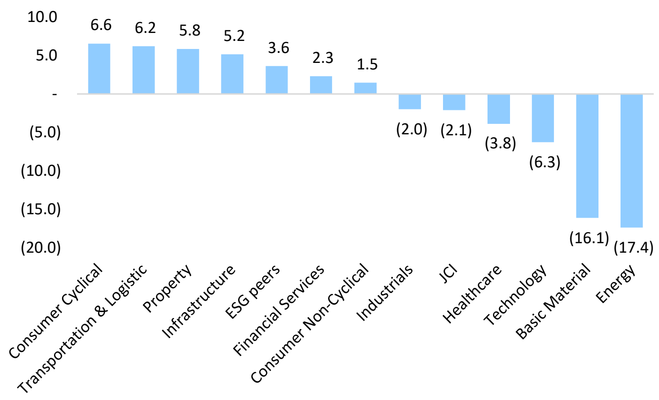
Despite the fact that the JCI fell 2.1% QoQ in 2Q23, the consumer cyclical, property, infrastructure, and financial sectors have all recovered. Market expectations that BI will lower its benchmark rate in the second half of the year are most likely the main driver of outperformance in these sectors. Furthermore, automotive and real estate marketing sales were robust, owing to increased spending in the medium to premium segment, which is expected to continue throughout the year.

Figure 3: The JCI's performance 1Q23 – by sectors



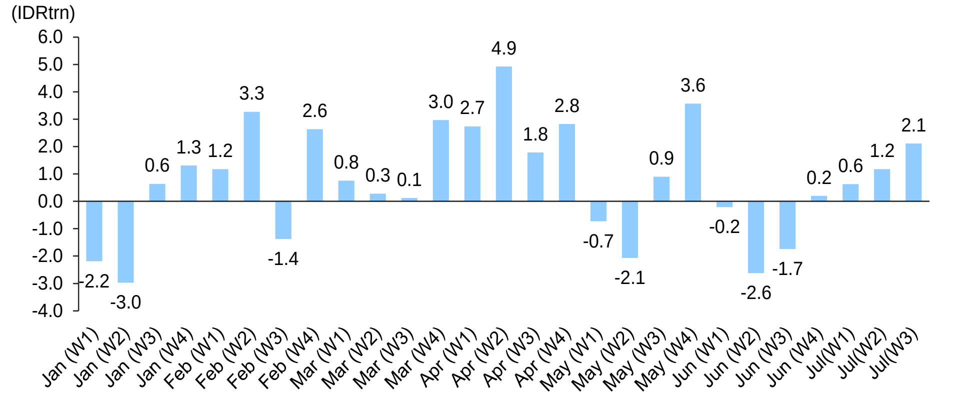
Source: Bloomberg, RHB

Figure 4: The JCI's performance 2Q23 – consumer cyclical, property, infrastructure, and financial sectors rebounded in 2Q23



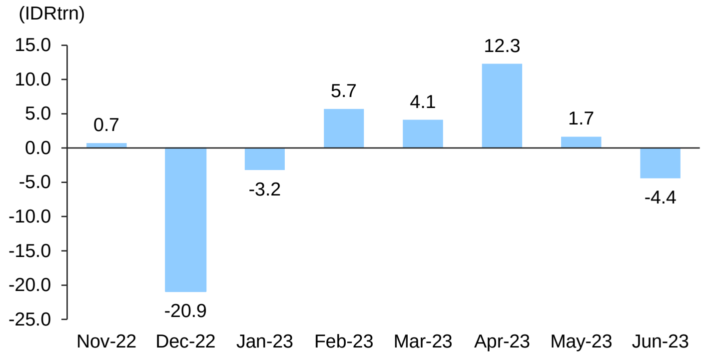
Source: Bloomberg, RHB

Figure 5: In 2Q23, net foreign fund flows to equities were positive IDR9.6trn. It is robust in early 2Q23, but it turns negative in mid-June before rebounding to positive at the end of the quarter



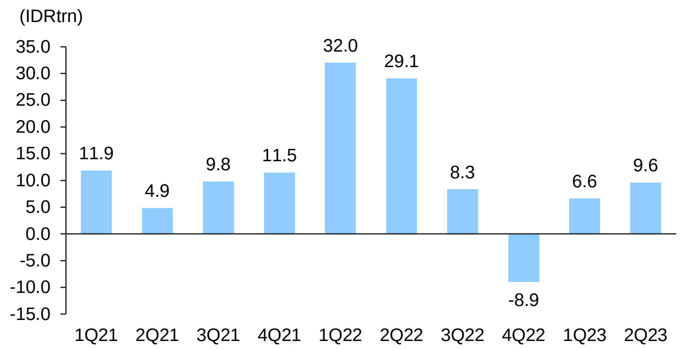
Source: Bloomberg, RHB

Figure 6: April saw a significant net foreign inflow to the JCI of IDR12.3trn, owing to the month's strengthening of the IDR



Source: Bloomberg, RHB

Figure 7: Although net foreign inflow to the JCI was negative in June, 2Q23 net foreign inflow was still higher than in the previous quarter



Source: Bloomberg, RHB

JCI recorded net foreign outflow of IDR4.4trn in June (May: +IDR1.7trn, April: +IDR12.3trn), owing to the expected seasonal softening of quarterly earnings in the second half of the year due to the long *Aidil Fitri* holiday. It is worth noting that the 2Q23 results of companies will be released at the end of July or early August. However, the JCI increased slightly during the month of June to 6,661.88 pts (+0.4% MoM). Almost all sectors rose, with transportation and logistics (+4.1% MoM), financial services (+3.6%), infrastructure (+3.3%), and industrials (+3.1%) leading the way, while technology (-6.4% MoM) was the only one to decline.

Growth engines likely boosted in 2H23 – government spending likely to accelerate

In May, the fiscal surplus was IDR204trn, far exceeding the IDR132trn recorded in the same period last year. Although the fiscal surplus narrowed to 1% in May 2023 (Apr 2023: 1.1%), it is still significantly higher than the fiscal surplus of 0.7% in the same month of the previous year. According to the 2023 State Budget, the Government is permitted to run a fiscal deficit of IDR598trn, or approximately -2.8% of its GDP. As a result, the Government has enough cash to accelerate spending in order to stimulate economic growth in the second half of the year. It also has enough cash to keep the economy stable and build up foreign reserves.

It is worth noting that the realised state revenue in May was 49.1% of total budget, exceeding the target. This was driven by non-tax revenue which increased 16.2% YoY, reaching 59% of the full-year target, partly driven by downstream mineral export policies that allow for the export of processed mineral ores with higher value add. On the other hand, government spending was quite slow in 5M23, reaching only 32.8% of state revenue. As a result, we anticipate that spending will increase in 2H23 to support growth (GDP grew 5% YoY in 1Q23, at the lower end of the budget assumption range of 5-5.3%). Overall spending increased to 7% YoY in 5M23, up from 2% YoY in 4M23, which is encouraging given the large budget surplus.

Figure 8: The budget deficit is back at below 3% and for the first time, the tax target is above IDR2,000trn

	2022			2023			
Account (IDRtrn)	**Real as at 31 May**	**% of Revised 2022 Budget**	**Growth (%)**	**Budget**	**Real as of 31 May**	**% of Budget**	**Growth (%)**
State Revenue	**1,070.1**	**47.2**	**47.3**	**2,463.6**	**1,209.3**	**49.1**	**13.0**
Tax Revenue	1,069.9	47.4	51.3	2,021.2	948.7	46.9	12.2
Non Tax Revenue	224.2	46.5	33.7	441.4	260.5	59.0	16.2
State Expenditure	**938.2**	**30.2**	**(0.8)**	**3,061.2**	**1,005.0**	**32.8**	**7.1**
Central Government Expenditure	653.9	28.4	1.0	2,246.6	714.7	31.8	9.3
Regional Transfer & Village Funds	284.3	35.3	(4.6)	814.7	290.3	35.6	2.1
Primary Balance	**298.6**	**(68.8)**	**542.8**	**(156.8)**	**390.5**	**(249.1)**	**30.8**
Surplus (Deficit)	**132.0**	**(15.7)**	**160.2**	**(598.2)**	**204.3**	**(34.2)**	**54.8**
% to GDP	0.67			(2.84)	0.97		
Financing	**83.6**	**10.0**	**(73.1)**	**598.2**	**118.4**	**19.8**	**41.6**

Source: Company data, RHB

Potential salary increase for civil servants should have a multiplier effect

The Government has confirmed that it is drafting regulations to raise civil servants' salaries in 2024. The announcement is scheduled to take place during the submission of the financial note and the Draft Law on the State Revenue and Expenditure Budget (RUU APBN). The estimated salary increase for civil servants, including military and police personnel, is around 5-7%. President Joko Widodo (Jokowi) will make an announcement on this matter on 16 Aug. According to Minister of Finance Sri Mulyani, President Jokowi will decide on the amount of salary increase during his speech on the submission of the 2024 State Budget Bill. Note that the Government last increased civil servants' pay in 2019.

We believe that the salary increase for civil servants, military, and police will have a multiplier effect on domestic spending. The key beneficiaries are consumer staples, telco, tobacco, poultry, and retail sectors. The special incremental for civil servants' salary should serve as a model for salary increases in other institutions, including the private sector. According to the State Civil Service Agency (BKN), there were 4.25m state civil servants (ASN) in Indonesia as of 31 Dec 2022. According to the International Institute for Strategic Studies (IISS), the number of active Indonesian soldiers, police, and paramilitary forces is estimated to be 1.1m.

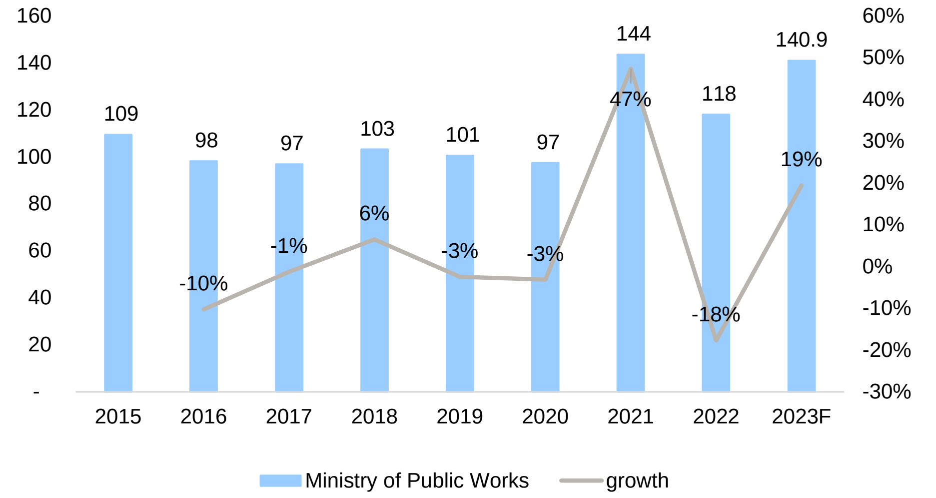
Accelerating infrastructure, especially public works

The Public Work and Housing (PUPR) Ministry received an additional budget ceiling of IDR15.7trn in 2023, bringing the total budget to IDR140.92trn, a 12.5% increase over the original budget. For the record, the PUPR Ministry was initially given a ceiling of IDR125.22trn for the fiscal year 2023. In comparison, the allocation for infrastructure development spending in 2023 is much higher than that of in 2022, which was IDR116.37trn. The additional budget includes up to IDR5.61trn for new capital city (IKN) infrastructure development (in comparison, IKN infrastructure spending in the previous two years was IDR8.2trn). Furthermore, beginning from end-1H23, the Government has accelerated road repairs in Sumatra, particularly in Lampung.

With a budget allocation of IDR14.34trn to absorb a workforce of 701k people spread across several labour-intensive activities, including water resources, roads and bridges, settlement infrastructure, and housing, the PUPR Ministry is focusing on budget allocation to boost economic growth through labour-intensive programmes. This step is expected to generate a large number of jobs and contribute to the preservation of people's purchasing power.

The PUPR Ministry will construct infrastructure in four major areas by 2023: Water resources, roads and bridges, settlements, and housing. One of the most important aspects of water resources is the construction of dams to support agricultural needs and food security.

Figure 9: Public work spending on the State Budget (IDRtrn)



Source: Bloomberg, RHB

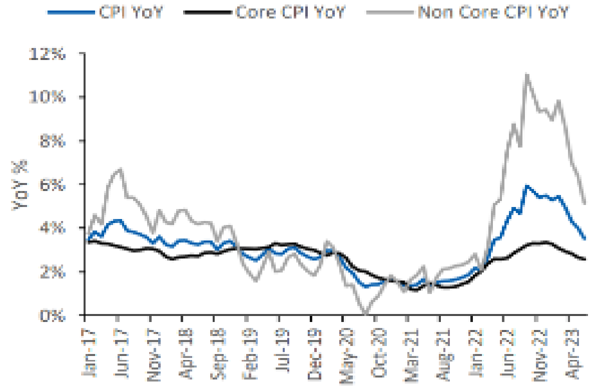
Possible BI rate cut an upside risk, boosting interest-sensitive consumption

While our economist continues to expect another BI rate hike in 2H23, consensus sees the possibility that BI will lower its benchmark rate in 2H23. The BI rate has reached its peak, according to Street, which believes that the economic machine is still not overheating, so there is no necessity to maintain a high interest rate policy. Furthermore, due to low inflation and stable IDR, BI has enough room to lower its 7-day reverse repo rate (7DRRR). There is upside risk in our call if the BI rate falls in 2H23, cyclical sectors such as auto, cement, and real estate will benefit.

It is worth noting that headline inflation in June slowed to 3.52% YoY, lower than our forecast (+3.89% YoY) and Bloomberg consensus of 3.62% YoY. We attribute it to recent drops in retail energy prices. There were moves in the last 10 months to reduce retail prices of LPG, RON 92, and Pertamina Dex, after increased retail prices of subsidised petroleum (specifically Pertalite, Pertamax, and Solar) in Sep 2022. We anticipate that inflation momentum will gradually fade over the rest of the year, though inflation may remain sticky in 3Q23 due to weather conditions and higher commodity price momentum. We recently reduced Indonesia's headline and core inflation forecasts for 2023 to 3.8% YoY (previous: 4.5%) and 2.9% YoY (previous: 3.5%).

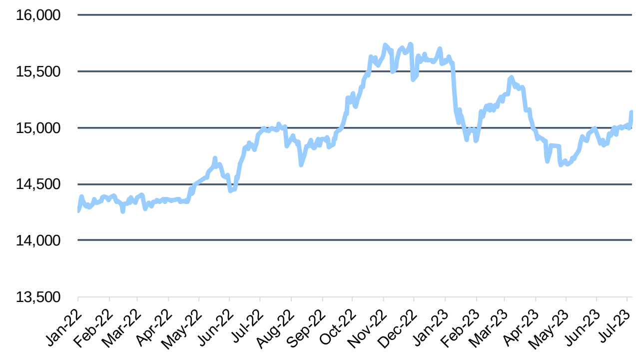
IDR/USD has appreciated 3.5% YTD and is now stable at around 15,000. In 3Q23, we expect the IDR to trade in the range of 14,800-15,300/USD. We believe policy manoeuvres have also persuaded us of the potential IDR strength in 4Q23. First, we noticed attempts at intervention to keep the IDR below 15,000/USD in May; Indonesian reserves fell nearly USD5.0bn in May 2023, most likely as the central bank moved to support the IDR, which was under pressure from foreign outflow. Separately, as firms continue to keep their foreign earnings onshore, a continued recovery in Indonesia's economy in 2H23 would support the IDR in 4Q23.

Figure 10: Inflation pressure has slowed further in June, led by both core and non-core prices



Source: CEIC, RHB Economics & Market Strategy

Figure 11: IDR against the USD has stabilised at 15,000, but we expect it to strengthen in 4Q23



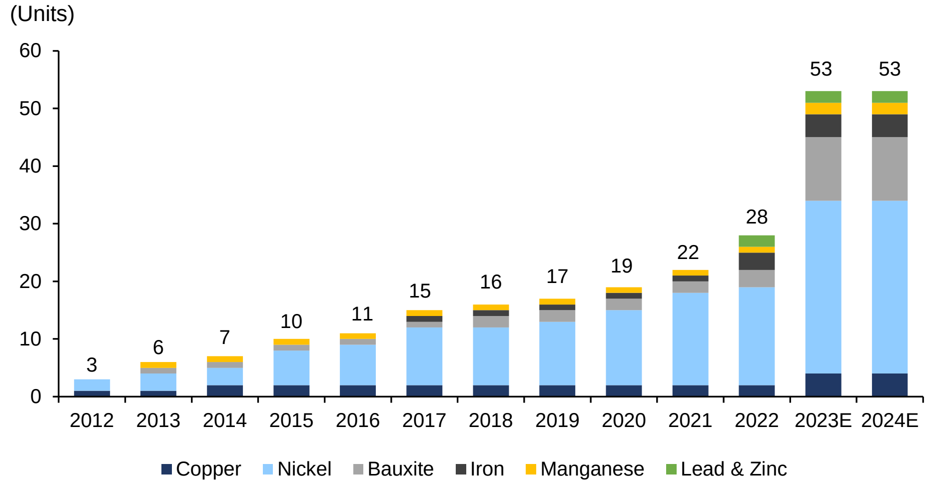
Source: Bloomberg, RHB

More smelters to come, boosting downstream mineral exports

The immediate completion of copper, bauxite, and tin smelters in the various regions of Indonesia will increase the country's added value. The Indonesian economy will continue to improve as the value of exports rises and the labour market expands. Aside from a number of nickel smelters in Sulawesi and Maluku, two large copper smelters under construction by Freeport Indonesia in East Java and Amman Mineral Nusa Tenggara in Nusa Tenggara are expected to be completed in 1H24. The development of these smelters will encourage the development of integrated factories, such as the Hailiang Nova Material Indonesia copper foil plant in Gresik, East Java.

The Ministry of Investment has emphasised that implementing downstream policies and prohibiting the export of raw minerals remain a priority for the country, even though it reaps pros and cons internationally. The downstreaming and prohibition of raw mineral exports – thought to be an attempt to accelerate economic growth as well as a form of state sovereignty – has numerous advantages. In the case of nickel, for example, the export value of nickel products has increased significantly from USD3.3bn in 2017 to USD29bn in 2022. This increase in export value will help the trade balance and speed up economic growth. The main beneficiaries of the new smelter and integrated factory's operation are industrial estate companies and chemical suppliers.

Figure 12: Rising numbers of smelters in Indonesia



Source: Company data, RHB

Political instability near election low, but market overhang key JCI risk

The race to promote the presidential and vice-presidential candidates for the 2024 election has reached a tipping point. Political communication is becoming more intense. However, each political force faces its own quandary. Political communication is increasingly being used to unite disparate interests. The gradual and ongoing process begins with cross-force assessments, drawing public attention to the predicted figure, building a coalition agreement to go beyond the nomination threshold, declaring the coalition, and formalising the stretcher package.

The current time period will be the busiest in terms of political communication and negotiations until the final moments of the presidential and vice-president registration in Oct-Nov 2023. It is also possible to introduce surprises, demonstrating that the political process is not linear. Various perception surveys confirmed strong names like Prabowo Subianto, Ganjar Pranowo, and Anies Rasyid Baswedan as the top in the public's mind.

We see that the risk of political instability ahead of the presidential election is quite low because the two most popular presidential candidates, according to a number of poll results, are Prabowo Subianto and Ganjar Pranowo, both of whom are perceived as close to Jokowi and are likely to continue the development programmes and strategies established during Jokowi's administration. According to the most recent poll, Prabowo Subianto has the highest electability rate with an average of 34.7%, followed by Ganjar Pranowo with 32.7% and Anies Baswedan with 20.8%. Prabowo Subianto is the current Defence Minister, and Ganjar Pranowo is the governor of Central Java.

Figure 13: Indonesia 2024 election survey – Presidential electability

	LSJ	Poligov	PWS	ARC	Populil	Indopol	IPO	LSN	Kompas	IPI	SMRC	Average
Prabowo Subianto	40.3%	33.0%	40.5%	30.8%	33.4%	31.2%	37.2%	38.5%	25.8%	38.0%	33.5%	**34.7%**
Ganjar Pranowo	32.6%	32.4%	33.4%	34.0%	35.8%	30.5%	31.5%	32.8%	24.7%	34.2%	37.9%	**32.7%**
Anies Baswedan	20.7%	16.6%	20.8%	22.1%	23.2%	26.5%	26.8%	21.9%	12.3%	18.9%	19.2%	**20.8%**
Still don't know / Not answered / Others	6.4%	18.0%	5.3%	13.1%	7.6%	11.8%	4.5%	6.8%	37.2%	8.9%	9.4%	**11.7%**

Notes:

- *LSJ: Lembaga Survey Jakarta, survey on 20-29 Jun 2023*
- *Poligov, survey in June 2023*
- *PWS: Political Weather Station, survey on 10-18 Jun 2023*
- *ARC: Algoritma Research and Consulting, survey on 29 May-10 Jun*
- *Populi, survey at end May*
- *Indopol, survey 5-11 Jun*
- *IPO: Indonesia Political Opinion, survey on 5-13 Jun*
- *LSN: Lembaga Survey Nasional, survey on 24 May-3 Jun*
- *Kompas, survey on 29 Apr-10 May*
- *IPI: Indikator Politik Indonesia, 26-30 May*
- *IPI: Indikator Politik Indonesia, 26-30 May*

Source: CNBC, RHB

CPO prices likely lagging despite impending *El Nino*, but other soft commodities may rise

The *El Nino* phenomenon, which is expected to peak in August-September, could jeopardise Indonesia's food security. The Indonesia Statistic Bureau reported that *El Nino* had reduced rice production in Indonesia by 1-5m tonnes between 1990 and 2020. A number of studies have found similar results, including a drop in rice production in Banten from 2002 to 2015 as a result of *El Nino*. As a comparison, the national rice production was around 2.8m tonnes and 5m tonnes in Feb and Mar 2023.

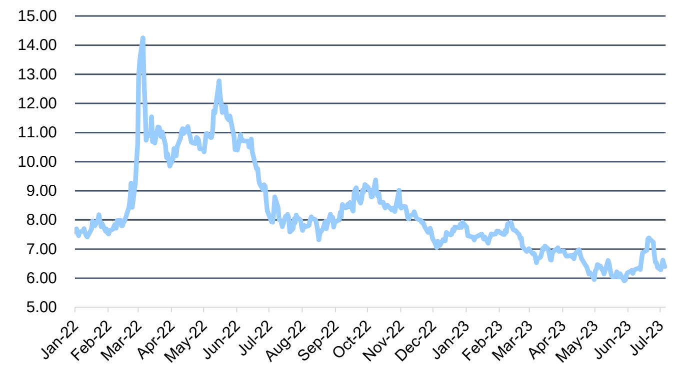
Meanwhile, we believe that impact of the *El Nino* to CPO prices are lagging. Based on our checks, planters are not seeing any tree stress currently, citing good rainfall thus far, despite temperatures being higher during the current heat wave. Expectations are still high for 2H23's output based on black bunch counts and improved labour force. However, depending on the severity of the *El Nino* (assuming it comes) there could be an impact on 2024 output.

Figure 14: CPO price (MYR/tonne)

Source: Bloomberg, RHB

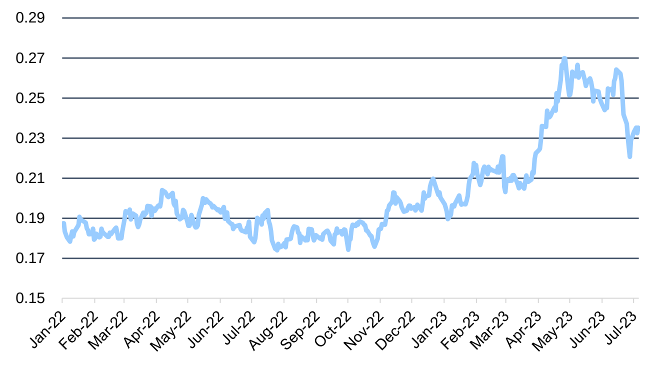
El Nino's price impact on sugar and wheat will most likely be felt sooner than CPO. Wheat prices, on the other hand, are currently stable at USD6.50 per bu, lower than last year's average wheat price of USD9 per bu. Meanwhile, the price of sugar rose to USD0.27 per lb in May, but fell back to USD 0.24 per lb by the end of June. As a comparison, average sugar prices were USD0.19 per lb in 2022.

Figure 15: Wheat price (USD/bu)



Source: Bloomberg, RHB

Figure 16: Sugar price (USD/lb)



Source: Bloomberg, RHB

Market Strategy

The JCI: End-2023 target of 7,450 pts

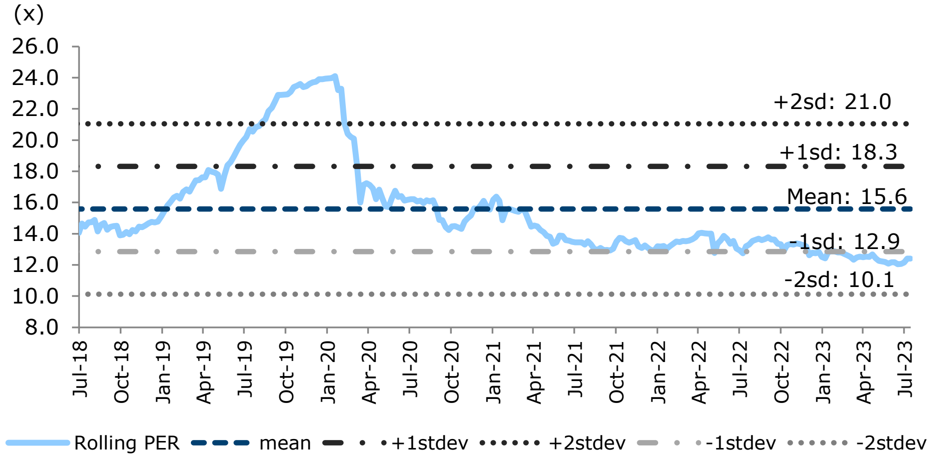
The JCI is expected to rise 9% from current levels to 7,450 pts by the end of 2023. At our targeted year-end index, JCI is trading at 14/13x FY23F/24F P/E. The JCI is currently trading at slightly below -1SD from 5-year mean. Despite strong 1Q23 earnings and economic growth, the JCI fell 2.1% QoQ in 2Q23, and we expect it to remain sideways in early 3Q23, owing to uncertainties and market fears of an impending global economic recession. In addition, the risk of short-term political instability near the election year is forcing the market to postpone major investment decisions until the formal registration of Indonesia's presidential and vice-president candidates scheduled for 19 Oct to 25 Nov. We believe this exercise will help to clarify the upcoming political situation. Furthermore, expected cyclical softening of 2Q23 earnings, partly due to the long *Lebaran* holiday, caused the market to move sideways in the downtrend at the start of 3Q23.

We recommend a buy-on-dips strategy. The JCI's technical picture suggests a near-term rebound to 6,900-6,950 pts. In the short term, as global markets digest the US Federal Reserve's (US Fed) future path, USD/CNH upward pressure picks up and other China market risks gather steam, as well as emerging markets (EM) face downward pressure, the technical picture suggests that USD/IDR could track to around 15,300, which we believe will not cause a sustained and long decline in the JCI.

The following key catalysts support our year-end positive outlook view on JCI: i) Local currency government bonds have already reached fair value, whereas stocks are undervalued; ii) portfolio positioning is supportive of a rebalancing to equities from fixed income; and ii) foreign investor flows to the equity market are likely to pick up significantly in 2H23, as our top-down metrics indicate a positive turn. We anticipate a rebound in commodity prices in 2H23, a strengthening of the IDR to 14,500-15,000/USD by end-2023 (from around IDR15,000/USD currently), and a rebound in GDP growth in 2H23. On average, markets have yet to price in these top-down metrics.

We prefer cyclical sectors such as large cap banks, automotive, cement, and metal mining, and a BI rate cut in 2H23 is an upside risk to our call because our economist still expects another BI rate hike. Telco, consumer staples, and tobacco companies should benefit from the better-than-expected household spending thanks to higher government spending in 2H23, which should have a multiplier effect on domestic demand. We have changed our call on tobacco to NEUTRAL from Underweight.

Figure 17: The JCI's 12-month forward-rolling P/E band



Source: Company data, RHB

- In our calculation, JCI is attractively trading slightly below -1SD from 12-month forward-rolling P/E.

Figure 18: The JCI's key statistics

Market data	FY22	FY23F	FY24F
Revenue growth (%)	18.7	5.8	5.8
Operating profit growth (%)	37.8	5.5	6.2
Net profit growth (%)	32.6	5.3	7.0
Current P/E (x)	13.3	12.7	11.8
EPS (IDR)	507	533	571
PEG (x)	0.4	2.4	1.7
EV/EBITDA (x)	10.6	8.5	7.5
P/BV (x)	2.0	1.9	1.8
Dividend yield (%)	6.3	6.4	5.3
ROE (%)	15.3	14.9	14.9

Source: Company data, RHB

- JCI is currently trading at 1.9x/1.8x FY23F/24F P/BV, with an attractive 14.9% ROEs in FY23F and FY24F. Dividend yields is appealing at 6.4% and 5.3% in FY23F and FY24F.
- Following a robust 32.6% YoY increase in FY22 earnings, we see JCI earning to still grow 5.3% and 7% YoY in FY23F and FY24F.

Figure 19: RHB's universe summary earnings growth (2023F-2024F)

Sector	Mkt cap IDRtrn	Weight %	2023F				2024F			
			Net profit growth (YoY %)		P/E (x)		Net profit growth (YoY %)		P/E (x)	
			RHB	Cons.	RHB	Cons.	RHB	Cons.	RHB	Cons.
Financials services	2,782	52.6%	15.2	13.3	14.5	14.5	12.9	10.6	12.8	13.1
Consumer Non-Cyclical	718	13.6%	35.9	39.3	14.8	14.8	10.6	11.1	13.4	13.3
Infrastructure	534	10.1%	21.8	18.3	14.6	16.1	23.6	14.2	11.8	14.1
Industrials	359	6.8%	(13.2)	(4.4)	8.2	7.4	(0.9)	(2.7)	8.3	7.6
Basic materials	279	5.3%	24.7	17.2	18.8	20.1	9.1	14.6	17.2	17.5
Energy	236	4.5%	(23.4)	(34.8)	3.8	4.3	(23.6)	(20.2)	5.0	5.4
Healthcare	188	3.5%	18.8	15.5	27.4	28.2	18.6	17.0	23.2	24.1
Property	99	1.9%	13.9	6.2	11.3	12.1	18.0	17.7	9.6	10.3
Consumer Cyclical	96	1.8%	9.8	5.6	12.1	10.3	18.2	3.7	10.2	10.0
Total	**5,291**	**100%**	**5.3**	**2.8**	**12.7**	**12.9**	**7.0**	**5.8**	**11.8**	**12.2**

*Note: *Sector classification based on the JCI's official grouping index – the table above excludes the tech and transport indices*
Source: Company data, RHB

Prefer cyclical sectors

We favour cyclical sectors such as large cap banks, automotive, cement, and metal mining, and a BI rate cut in 2H23 is an upside risk to our call since our economist still anticipates another BI rate hike. The expected increase in household spending should benefit telecommunications, consumer staples, and tobacco companies. Meanwhile, the healthcare sector should benefit from the new policy which simplifies the process for foreign doctors and specialists to obtain a license and/or permit.

Increased economic activity and consumer demand will boost loan growth in 2H23. Despite strong loan demand, BBNI, BBRI, BBTN, and BJBR reported loan disbursements below management targets in 1Q23, and we expect loan growth to accelerate in the remaining of the year. Commercial SME and consumer loans will drive loan growth in 2H23. The Big-4 Banks' strategy of increasing market share while maintaining low loan yields will make it difficult for small-mid banks to raise loan yields in 2H23. A lower COF should increase NIM since banks offered high special rate for CASA due to cash supply needs during *Ramadan* and *Lebaran*. Our picks on banks are BBRI and BBNI.

Auto sales outlook remains upbeat. In June, 4-wheeler (4W) wholesales were in line, bringing 4W wholesales for 1H23 to 506,000 units (+6.5% YoY). In 2Q23, 4W wholesales fell cyclically QoQ, totalling 223,600 units (-20.8% QoQ, +5.8% YoY). Apart from stellar domestic sales, export activities have also seen a similar uptrend as well. In 2Q23, ASII increased its market share to 57.2% (53.1% in 2Q23, 55.3% in 2Q22). 2W wholesales continue to be strong and stable, with 1H23 wholesales up 42.5% YoY to 3.2m units. Moreover, national vehicle loan growth is accelerating. We noticed the amount of loans disbursed and the NPL rate have steadily improved since the end of 2021. Our sector Top Picks are ASII and AUTO.

June's cement consumption continued to recover after *Lebaran*, standing at 5.3m tonnes (+8.5% MoM, -1.1% YoY) brings the 1H23 number to 27.4m tonnes (-4.9% YoY). Bag sales also recorded monthly recovery rose 5.6% MoM (-4.5% YoY), while bulk sales grew 16.8% MoM (+8.7% YoY). Both INTP's and SMGR's 1H23 sales volume outperformed the industry's (+5.5% YoY, -4.3% YoY), gaining market share of 27.4% and 51.9% in 1H23 (vs 24.7% and 51.5% in 1H22). In our view, this was impacted by Tier-2 players' raising prices thereby reducing the price gap between the main and competitive brands, which resulted in a return of demand to Tier-1 players. INTP's bag sales was +3.5% YoY, while ASP on the ground remains stable YTD. INTP, our cement sector Top Pick, is the main beneficiary of lower coal prices and higher DMO contribution to drive margin expansion and robust EPS growth.

Apart from fluctuations in the short term, the demand trajectory for base metals remains feasible – for nickel, stable demand is still from the steel industry along with expectation of a better economic situation going forward. More development on greener businesses will push other numerous industrial metals as well, eg copper, cobalt, lithium, aluminium, etc. We may see the uptrend realised in the near-end of 2023. On operational terms, most metal companies in Indonesia could still see momentum on their topline (margins will remain fair), given higher output and lower production costs from lenient fuel prices. This will mitigate the adverse impact on lower sale prices due to a high-base effect from last year. INCO is our sector Top Pick on the back of its feasible valuation in respect to positive operational achievement which should help the company's net profit growth this year.

Both EXCL and ISAT have gradually raised data package prices since March, according to our ground checks. We expect TLKM to begin increasing prices from 2H23. EXCL and ISAT should see mid-to-high single-digit QoQ revenue growth in 2Q23 from their price increases and higher data traffic during *Ramadan*. TLKM's price increase in 2H23 should boost ARPU growth, but we remain concerned on the churn rate and legacy revenue in the coming quarters. Our sector Top Pick is EXCL which has clarified Link Net's (LINK IJ, NR) synergies. This should unlock the value of EXCL's investment in LINK.

We think people will prioritise their spending on staples while remain vigilant on discretionary items. We think there might be a windfall on the election campaign, but it may be more tangible in 4Q23. The continued decline on commodity prices could improve margins – prefer ICBP over MYOR given the former's more limited exposure to soaring sugar prices and defensive quality. Also, ICBP should also perform better given stronger Pinehill performance, seasonality wise. Still, there is a risk of higher commodity prices on potential heavy drought from the *El Nino*. We will continue to monitor the impact. We remain cautious on consumer companies' 2Q23 results. Softer purchasing power has resulted in less encouraging *Lebaran* sales. We think there will be continued minimal catalyst for spending in 3Q23.

We are positive on new policy to simplify the process for foreign doctors and specialists to obtain a license and/or permit. Our sector Top Pick, HEAL, should be the key beneficiary since it has been targeting Tier-2 and Tier-3 cities to open new hospitals. The new policy should lead to a greater supply of specialists to support its expansion initiative. However, the execution risk remains given the opposition from several parties including the Indonesia Medical Council (IDI).

Tobacco was upgraded to NEUTRAL from Underweight. Sector growth may be hampered by increasing ASP to offset excise increase and improve margin. Thus, industry volume should remain flat in 2023F-2024F. Although less sensitive to excise tax, hand-rolled *kretek* cigarettes (SKT) growth is insufficient to support industry growth. Tobacco companies should expect low single-digit volume growth despite lower excise tax increment in 2023 vs 2022. Full excise tax increment ought to reduce margin in 2Q23 but recover in 2H23. Our preferred pick on Tobacco is GGRM, in which 2Q23 ASP increase of 5-12% should boost its margin.

Figure 20: Sector rotation summary

Sector	Top Picks (denoted by stock code)
OVERWEIGHT	
Financial services - banks	BBRI, BBNI
Non-cyclical - consumer staples	ICBP, MYOR
Infrastructure - telco	EXCL
Industry - auto	ASII, AUTO
Basic materials - cement	INTP
Basic materials - metal mining	INCO
Energy - O&G	PGAS
Transportation - shipping	PSSI
Property - industrial estates	SSIA
Healthcare	HEAL
NEUTRAL	
Energy - coal	UNTR
Cyclical - retail	MAPI
Property - residential developer	CTRA
Infrastructure - construction	PTPP
Non-cyclical - plantation	LSIP
Non-cyclical - tobacco	GGRM
Non-cyclical - poultry	JPFA

Source: RHB

Our Top 10 Picks

Figure 21: Top 10 Picks

	Name	Ticker	Rating	Price (IDR)	TP (IDR)	Upside/ downside (%)	Market cap (USDbn)	2023F EPS growth (%)	P/E (x)	P/BV (x)	PEG (x)	ROAE (%)	Yield (%)
1	Bank Rakyat Indonesia	BBRI IJ	BUY	5,625	6,450	14.7	56.7	22.9	13.5	2.3	0.6	19.1	4.9
2	Astra International	ASII IJ	BUY	6,450	7,750	20.2	17.4	(5.4)	9.8	1.3	(1.8)	14.0	5.0
3	Indofood CBP	ICBP IJ	BUY	11,500	14,300	24.3	8.9	95.0	15.0	3.1	0.2	22.5	1.7
4	Vale Indonesia	INCO IJ	BUY	6,600	8,300	25.8	4.4	42.3	17.2	1.7	0.4	11.1	0.0
5	Mayora Indah	MYOR IJ	BUY	2,500	3,200	28.0	3.7	37.5	20.9	3.9	0.6	19.9	1.9
6	Indocement	INTP IJ	BUY	10,350	14,300	38.2	2.5	23.8	17.3	1.6	0.7	11.3	3.4
7	AKR Corporindo	AKRA IJ	BUY	1,375	1,940	41.1	1.8	12.1	10.1	2.2	0.8	23.4	4.4
8	XL Axiata	EXCL IJ	BUY	2,060	3,140	52.4	1.8	36.2	18.2	1.0	0.5	5.8	1.7
9	Ciputra Development	CTRA IJ	BUY	1,120	1,330	18.8	1.4	(3.8)	10.5	1.0	(2.8)	10.2	1.1
10	Astra Otoparts	AUTO IJ	BUY	2,780	3,160	13.7	0.9	19.0	8.7	1.0	0.5	12.6	2.7

*Note: *As per 21 Jul 2023's closing price*
Source: Company data, RHB

Bank Rakyat Indonesia (BBRI). As economic activity increases, BBRI expects loan growth to accelerate with a better portfolio mix. Loan recovery rate and asset quality are expected to improve, while CoF is expected to fall. CIR should improve thanks to better synergies on BBRI micro, PNM and Pegadaian. Key risk to our call: Weakening IDR, which could result in net foreign outflows from the JCI and a sell-off in large cap stocks such as BBRI.

Astra International (ASII). We expect that 4W and 2W vehicles to sell well throughout the year. Recent new Toyota Yaris Cross hybrid, as well as other new model launches in 2H23 should boost 4W sales. Higher sales volume should lower fixed cost per unit, boosting ASII earnings. Automotive, financial services, heavy equipment (HE), mining, and construction contributed to 1Q23 core earnings which is above expectations.

Indofood CBP (ICBP). We believe earnings will be supported by solid domestic growth, a limited impact from *Ramadan* and *Lebaran* (revenue usually dips only c.1-2% during the *Lebaran* quarter) and IDR appreciation. Margins should also expand, mainly from the noodle division, which makes up 80-90% of EBIT. Noodle products' margins should expand with its affiliate company Bogasari Flour Mills adjusting flour prices down 4-5% YTD and stable CPO prices. Challenges may come from its dairy products segment (15-20% of revenue), due to decreasing volumes and rising sugar prices. Valuation remains undemanding as the counter is still trading at c.15x 2023F P/E, or around +1SD from its 5-year mean.

Vale Indonesia (INCO). We should see improvements from normalised nickel matte production (FY23 growth target: c.15% YoY), supported by the resumption of strong commodity prices in 2H23. We believe INCO's improved performance can be sustained with better output and stable margins stemming from lower fuel costs. We think the company can maintain its selling prices, given the expected global economic recovery boosting demand in 2H23, and long-term support from the global clean energy transition, as demand for electric vehicle (EV) batteries grows. This is despite the recent challenges arising from mixed macroeconomic signals. Considering the risks, we keep a conservative ASP estimate for INCO (FY23F: c.USD18,100 per tonne; -8% YoY). However, this base scenario provides a healthy assumption for the company's operational margins going forward – an FY23F cash cost of c.USD10,700 per tonne (-4% YoY). Note: Fuel expenses account for c.20% of total costs.

Mayora Indah (MYOR). We remain positive on MYOR, based on its continuous product innovations, market dominance, as a beneficiary of re-opening activities (both domestic and overseas), strong operating efficiencies, and significant price hikes. Although sales slowed down slightly in 2Q23 – during the *Lebaran* season – we believe the impact will be softer compared to the previous years as the company launched festival-related products to capitalise on the *Lebaran* momentum. However, we remain concerned on soaring sugar prices, which may impact 2H23 earnings.

AKR Corporindo (AKRA). AKRA will benefit from its chemical distribution business due to the rapid development of new smelters, which is increasing demand for certain chemicals. The commercial operation of the Freeport smelter should benefit AKRA, attracting other manufacturers to build production facilities in the Java Integrated Industrial and Port Estate (JIIPE), AKRA's industrial park. AKRA's recurring revenue from the industrial business should increase as new green industries emerge.

Indocement (INTP). From our ground checks, bag ASP remains stable YTD and the price war still has not happened. Higher bulk contribution drove down 1Q23 INTP's blended ASP. After leasing with Bosowa Corp, its market share rose to 27.6% in 5M23 (+300bps), with sales volume outperforming industry, rising 5.7% (vs -5.8%). Besides strengthening its presence in Sulawesi and East Indonesia, INTP moved its floating terminal from Konawe to Kuala Tanjung, and has been able to increase Sumatra's market share to 14.4% (5M23: 11.3%) – boost bulk supply from North Sumatra while penetrating bag market from the South. We also expect margin expansion to be driven by higher domestic market obligation (DMO) contribution to 60% (FY22: 30%), and lower spot price from last year.

XL Axiata (EXCL). Compared to its peers, EXCL's subscribers are seen to be stickier with the lowest churn rate. Going forward, to optimise its synergies with LINK, EXCL will implement a structural transformation. LINK will be converted to a fixed broadband infrastructure firm or FibreCo by focusing on accelerating homes passed to 8m over the next five years, with EXCL as a converged mobile, fixed, and content service provider or ServeCo. We believe the transaction will be in the form of a transfer of assets without cash, and is slated for completion by the end of 2023.

Ciputra Development (CTRA). 1H23 marketing sales increased 30% YoY to IDR5.1trn, thanks to the new project launch in 1Q23 (CitraGarden Serpong) – achieving 57% of company FY23 target. CTRA will launch two more projects in 2H23. Landed property in the mid-low and mid-high segments will contribute to the majority of 2023's presales target (80%). With marketing sales already above pre-pandemic levels in 2021 and 2022, CTRA should deliver a strong FY23 performance, driven by pre-pandemic marketing sales.

Astra Otoparts (AUTO). Given the strong recovery in monthly numbers after the low seasonal period, the auto industry's higher targets of c.93,800 4W per month and c.414,000 2W per month are feasible for the rest of the year. AUTO's robust cash position – net cash at c.IDR2trn and its target capex allocation (IDR500bn pa) still focused on organic expansion via new store openings (about 10 outlets per year) and new OEM lines – should mitigate unexpected risks.

Malaysia: Clarity Is Coming

Is there hope for a market rebound in 2H23?

Bursa Malaysia's dismal performance so far in 2023 has been a function of external and domestic factors contriving to drag on investor sentiment. While the macro and external worries are a common denominator for risk assets, the Malaysia-specific negatives have centred on the political overhang pending the imminent disposal of elections in six states. This outcome will likely have implications for the stability of the Federal Government and its ability to remain united through the remainder of its five-year term, in addition to influencing the ability of the Anwar Administration to implement the much needed fiscal and political reforms. Also, the tepid corporate earnings have been a millstone for equities.

Our base case expectation is for the political status quo to be maintained following the state elections that will be conducted on 12 Aug. We expect that the collective results of the six state polls will enable a sufficiently robust foundation for the Anwar Administration to start implementing its reform agenda. Accordingly, the next uncertainty will be the reform agenda execution risk. Given the long gestation period for these reforms to take effect, it would be logical for the Government to consider front loading the new improved policy measures with a view toward reaping the benefits by the 16th General Election (GE16) that needs to be called by 4Q27 at the latest. In our opinion, the delayed implementation of the reform package would be counter-productive and continue to drain the remaining political goodwill still left within the unity government. The Government will need to employ an effective communication strategy to convey its reform plans to investors with a narrowing window of opportunity.

In summary, the RHB house view continues to retain a relatively positive bias for global growth:

i. No US/global recession in 2023. Global growth to recover in 3Q23. Early indicators already show a bottoming out of economic activity as of Mar 2023. 2023 US GDP growth forecast of 2.0% YoY (Bloomberg consensus estimate of 1.3%).

ii. US consumer spending to remain resilient, helped by robust labour market conditions and strong consumer and corporate balance sheets;

iii. Peak FFR of 5.50-5.75%. We expect no FFR cuts well into 1H24. 2024 FFR forecast is 4.25-4.50% (from 3.50-3.75%);

iv. US domestic demand is likely to remain resilient in 2H23 and keep core PCE inflation elevated with further pressures from the supply side emanating from rising commodity prices in 2H23;

v. We remain cautious on the MYR and expect continued underperformance against the USD and most South-East Asian currencies. For end-2023, we revise up our USD/MYR forecast to 4.70-4.80 while our end-2024 forecast is revised to 4.50-4.70.

What are the 2H23 market catalysts?

Overall, positive drivers for risk assets in 2H23 will stem from the passing of the political overhang, the crystallisation of the more positive global macro picture coupled with a more benign monetary policy momentum. However, this would be offset by RHB Economics' caution on the potential 2H23 underperformance of the MYR (See report: ***Malaysia: Risks Building USDMYR Could Trade in 4.70-4.90 Range in 2H23)*** . A persistently weak MYR would continue to pressure corporate margins and be an impediment for new inflows of foreign portfolio funds.

As we navigate through 2H23, we expect markets will gradually roll forward to price in prospects for 2024. Greater clarity on the (positive) global macroeconomic trends will gradually become evident, although much will also depend on the implementation timeline of the Anwar Administration's reform agenda.

Figure 22: Earnings outlook and valuations

	FBM KLCI			RHB BASKET			RHB BASKET (EX-FBM KLCI)		
COMPOSITE INDEX @ 1,413.52 21 Jul 23	**2022**	**2023F**	**2024F**	**2022**	**2023F**	**2024F**	**2022**	**2023F**	**2024F**
Revenue Growth (%)	15.4	2.6	4.2	17.9	4.1	5.6	11.8	(1.1)	5.4
EBITDA Growth (%)	9.2	(1.9)	5.0	7.7	(1.8)	5.3	(22.2)	1.4	11.0
Normalised Earnings Growth (%)	7.2	3.4	8.0	5.1	3.4	8.3	(32.1)	1.9	15.8
Total PATAMI (MYRm)	60,460.6	60,698.7	65,644.9	82,869.7	82,368.5	90,646.7	22,409.1	21,669.8	25,001.8
Normalised EPS (sen)	60.6	61.4	65.2	345.2	351.8	382.5	29.7	169.4	187.0
Normalised EPS Growth (%)	**10.8**	**1.5**	**6.2**	**18.3**	**1.9**	**8.7**	**32.8**	**0.5**	**10.4**
Prospective PER (x)	**14.9**	**15.0**	**13.9**	**14.5**	**14.9**	**13.5**	**13.1**	**13.6**	**12.2**
Normalised EPS (sen) ex-Plantation	57.9	61.6	65.8	50.1	52.4	56.1	28.8	26.3	28.2
Normalised EPS Growth (%) ex-Plantation	8.9	6.5	7.0	12.0	4.6	7.0	33.7	(6.3)	7.4
Prospective PER (x) ex-Plantation	13.6	13.7	12.6	13.6	13.7	12.5	12.9	13.9	12.1
Price/BV (x)	1.4	1.4	1.4	1.3	1.3	1.2	1.0	1.0	1.0
Dividend Yield (%)	4.1	4.1	4.3	4.2	4.3	4.4	4.2	4.3	3.9
ROE (%)	15.5	14.9	15.2	15.9	15.1	15.6	16.9	15.8	16.8

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

Figure 23: FBM KLCI weightings and valuations

	Market Cap	Weight	EPS Growth (%)			P/E (x)		
	MYRbn	(%)	**FY22**	**FY23F**	**FY24F**	**FY22**	**FY23F**	**FY24F**
Sime Darby	14.6	1.60	(4.2)	(22.4)	9.9	12.2	15.7	14.3
Auto	**14.6**	**1.60**	**(4.2)**	**(22.4)**	**9.9**	**12.2**	**15.7**	**14.3**
CIMB	56.5	6.21	19.7	5.6	9.2	9.5	9.0	8.3
HL Bank	41.1	4.51	14.9	16.9	6.0	11.8	10.1	9.5
Maybank	105.8	11.63	(1.2)	13.9	8.0	12.8	11.2	10.4
Public bank	77.3	8.49	8.5	11.1	4.7	12.9	11.6	11.1
AMMB^	12.2	1.34	15.1	7.9	9.7	7.1	6.5	6.0
Banking	**292.9**	**32.18**	**11.7**	**12.9**	**7.2**	**11.5**	**10.3**	**9.6**
Press Metal	39.6	4.34	39.9	14.8	13.0	27.7	24.1	21.3
Basic Material	**39.6**	**4.34**	**39.9**	**14.8**	**13.0**	**27.7**	**24.1**	**21.3**
Nestle	31.1	3.41	16.1	8.6	5.9	46.9	43.2	40.8
Mr DIY	13.4	1.47	11.1	23.5	16.6	27.4	22.2	19.0
QL Resources	13.0	1.42	59.6	(1.0)	3.2	37.4	37.8	36.6
Consumer	**57.4**	**6.31**	**17.5**	**8.4**	**6.0**	**38.4**	**34.5**	**31.6**
IHH Healthcare	51.7	5.68	(8.3)	3.5	14.2	36.8	35.5	31.1
Healthcare	**51.7**	**5.68**	**(8.3)**	**3.5**	**14.2**	**36.8**	**35.5**	**31.1**
Westports	12.3	1.35	(4.8)	5.4	6.7	17.5	16.6	15.6
Transport	**12.3**	**1.35**	**(4.8)**	**5.4**	**6.7**	**17.5**	**16.6**	**15.6**
Dialog	12.5	1.37	(0.2)	4.3	7.5	27.2	26.1	24.2
MISC	31.9	3.50	64.0	1.3	10.1	15.3	15.1	13.7
Petronas Chemicals	52.0	5.71	(11.1)	(42.7)	14.1	8.0	14.0	12.2
Petronas Dagangan	22.0	2.41	37.8	21.5	8.1	29.0	23.9	22.1
Oil & Gas	**118.3**	**13.00**	**15.8**	**(8.2)**	**10.0**	**12.1**	**16.4**	**14.7**
IOI Corp	25.2	2.77	81.3	(24.4)	(1.6)	12.8	16.9	17.2
Kuala Lumpur Kepong	24.6	2.70	26.7	(30.9)	(7.4)	10.4	15.1	16.3
Sime Darby Plantations	31.3	3.44	(0.2)	(45.5)	39.4	14.6	26.9	19.3
Plantation	**81.1**	**8.91**	**27.2**	**(31.8)**	**(2.5)**	**12.5**	**18.9**	**17.6**
Axiata	23.5	2.58	19.7	(43.6)	45.9	14.6	25.9	17.8
CelcomDigi	51.4	5.64	6.1	(27.0)	10.7	28.3	38.8	35.0
Maxis	31.7	3.48	(9.7)	10.9	(9.0)	26.9	24.3	26.7

Telekom Malaysia	18.8	2.07	15.0	0.1	(0.2)	13.0	13.0	13.0
Telecommunication	**125.4**	**13.78**	**9.0**	**(11.8)**	**5.5**	**19.9**	**25.2**	**23.2**
Petronas Gas	33.6	3.70	(14.7)	5.0	0.5	19.5	18.5	18.5
Tenaga	52.7	5.79	(9.8)	23.1	4.6	13.2	10.7	10.2
Utilities	**86.4**	**9.49**	**(12.6)**	**13.0**	**2.5**	**15.1**	**12.9**	**12.4**
FBM KLCI	**910.3**	**100.00**	**10.8**	**1.5**	**6.2**	**14.9**	**15.0**	**13.9**

Source: Bloomberg, RHB

Figure 24: RHB Basket sector weightings & valuations

Sectors	**Mkt Cap**	**Weight**	**EPS Growth (%)**			**P/E (x)**			**Recommendation**
	MYRbn	**%**	**FY22**	**FY23F**	**FY24F**	**FY22**	**FY23F**	**FY24F**	
Banking	307.4	25.0	11.9	10.6	7.5	11.3	10.2	9.5	Overweight
Oil & Gas	133.2	10.8	16.2	8.3	24.6	12.2	15.6	13.9	Overweight
Utilities	103.6	8.4	(9.0)	13.5	7.1	15.2	12.6	11.8	Overweight
Healthcare	59.4	4.8	58.9	9.5	6.7	33.0	30.8	27.1	Overweight
Basic Materials	45.6	3.7	19.2	39.8	6.9	26.7	22.0	19.8	Overweight
Property	33.5	2.7	5.1	20.3	3.0	13.5	11.2	11.1	Overweight
Construction	24.2	2.0	(17.3)	10.1	12.7	16.5	14.8	13.4	Overweight
Non-Bank Financials	15.9	1.3	5.2	6.5	5.6	10.0	9.3	8.8	Overweight
Telecommunications	135.6	11.0	10.4	(7.1)	6.5	20.1	24.8	22.8	Neutral
Consumer	101.7	8.3	38.3	3.4	9.6	23.3	21.9	19.3	Neutral
Plantation	97.4	7.9	24.1	(37.3)	5.4	10.4	17.7	16.1	Neutral
Gaming	34.2	2.8	346.3	48.9	9.2	16.4	10.4	9.5	Neutral
Property-REITs	34.0	2.8	40.2	0.9	2.2	16.2	15.5	15.1	Neutral
Technology	30.3	2.5	17.9	(9.7)	26.8	25.3	34.0	25.0	Neutral
Transport	26.2	2.1	207.5	65.1	32.2	29.1	20.6	17.1	Neutral
Auto	23.7	1.9	55.3	7.7	(11.5)	11.1	12.0	12.0	Neutral
Rubber Products	19.2	1.6	(52.3)	(90.1)	(425.3)	13.6	(56.5)	38.7	Neutral
Media	3.2	0.3	(33.5)	6.2	8.6	10.0	6.9	6.6	Neutral
RHB BASKET	**1228.3**	**100.0**	**18.3**	**1.9**	**8.7**	**14.5**	**14.9**	**13.5**	

Source: RHB

Investment themes

In this environment, we note that markets continue to be exposed to near-term (political) uncertainties coupled with a benign (RHB view) medium-term macro outlook. We also believe that Bursa Malaysia's underperformance this year suggests that much of the negative news is already in the price.

A key consideration will be to focus on companies with a strong domestic-centric business, robust balance sheets, pricing power, captive customer bases, recurring demand, the ability to pass through higher costs, and a strong ESG profile.

Staying defensive

Prevailing near-term risks necessitate a continued core defensive posture as we look for signs of turning points for the market. We advocate low-beta defensive names with domestic-centric focus, in addition to companies that can offer resilient dividend yields.

Figure 25: Defensive stocks with domestic-centric characteristics

	Rec	Price (MYR/s) 21 Jul 23	TP (MYR/s)	Mkt cap (MYRm)	EPS (sen) 23F	EPS (sen) 24F	EPS Growth (%) 23F	EPS Growth (%) 24F	3 yrs EPS CAGR (%) FY21-24F	P/E (x) 23F	P/E (x) 24F	P/BV (x) 24F	P/CF (x) 24F	DY (%) 24F
TNB	Buy	9.11	10.40	52,723	85.0	88.9	23.1	4.6	5.1	10.7	10.2	0.8	2.6	5.7
TM	Buy	4.93	6.20	18,842	38.0	37.9	0.1	(0.2)	4.7	13.0	13.0	1.7	4.7	3.7
KPJ Health	Buy	1.11	1.46	4,844	5.5	6.5	45.6	16.5	60.5	20.0	17.2	1.9	6.8	2.9
Taliworks Corp	Buy	0.82	1.01	1,643	3.2	3.8	18.5	20.7	(0.7)	25.8	21.4	2.2	11.9	8.1
CTOS Digital	Buy	1.36	1.92	3,142	4.5	5.2	41.2	16.4	38.6	30.3	26.0	5.2	34.3	2.3
Axis Reit	Buy	1.81	2.14	3,151	10.2	10.4	5.6	2.1	5.4	17.8	17.4	1.2	12.0	5.7
Nestle	Neutral	132.50	141.00	31,071	306.9	325.1	8.6	5.9	10.1	43.2	40.8	48.5	29.3	2.4
QL Resources^	Neutral	5.33	5.64	12,971	14.1	14.6	(1.0)	3.2	17.7	37.8	36.6	4.2	20.6	1.0
Time DotCom	Neutral	5.29	5.80	9,726	25.1	27.3	7.7	8.6	9.8	21.0	19.4	2.3	15.2	4.1
Sports Toto	Neutral	1.55	1.42	2,067	14.2	14.4	19.1	1.3	3.8	10.9	10.7	2.1	7.0	6.8

Note: ^FY23F-24F valuations refer to those of FY24F-25F
Source: RHB

Figure 26: High-dividend yield stocks

	Price (MYR/s) 21 Jul 23	Target (MYR/s)	DY (%) FY23F	DY (%) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	P/E (x) FY22	P/E (x) FY23F	P/BV (x) FY23F	ROE (x) FY23F
Time dotCom	5.29	5.80	13.0	4.1	7.7	8.6	22.7	21.0	2.4	12.7
Astro^	0.52	0.84	11.5	12.0	51.5	4.0	9.9	6.5	1.2	25.4
Gamuda	4.49	5.27	11.0	2.7	(2.0)	9.1	14.0	14.3	1.1	8.2
MBM	3.45	3.30	10.4	8.7	8.1	(21.7)	5.0	4.6	0.6	13.6
Bermaz Auto^	2.05	3.25	9.8	10.2	4.5	3.9	7.8	7.5	3.9	46.3
Taliworks Corporation	0.82	1.01	8.1	8.1	18.5	20.7	30.6	25.8	2.3	8.4
Sentral REIT	0.84	0.92	7.9	8.2	(1.7)	3.4	12.2	12.4	0.7	5.6
Affin	1.93	2.30	7.8	8.9	1.2	14.8	8.1	8.0	0.4	5.0
CLMT	0.51	0.56	7.6	7.7	0.6	1.0	12.8	12.7	0.5	4.1
Pavilion REIT	1.23	1.57	7.4	7.6	10.2	2.1	15.3	13.8	0.9	6.8
Maybank	8.78	9.45	7.1	7.5	13.9	8.0	12.8	11.2	1.2	10.8
Ta Ann	3.57	4.20	7.0	6.2	(36.6)	18.5	4.8	7.6	0.8	11.4
Tambun Indah	0.90	0.90	6.9	7.2	(0.3)	2.9	6.4	6.5	0.5	8.1
Matrix Concepts^	1.39	1.75	6.5	6.7	9.0	2.6	8.3	7.7	0.8	11.1
Sports Toto^	1.55	1.42	6.5	6.8	19.1	1.3	13.0	10.9	2.2	20.8

Note: ^FY23F-24F valuations refer to those of FY24F-25F
Source: RHB

Buy on weakness – beware the FOMO effect

RHB's benign macro outlook suggests the need to look for attractive entry points to build positions for medium term. The current downdraft in investor sentiment represents opportunities to accumulate stocks with robust fundamentals.

Anecdotal evidence suggests many institutional investors that have been net sellers in the past year, collectively continue to hold higher-than-average levels of cash that will need to be effectively deployed. Holding cash can only be a short-term strategy or may be restrictive, depending on the mandate. Given the market's recent underperformance, in the event the market bounces from a series of positive developments, we could easily see a FOMO effect kick in, if cash rich, underweight investors attempt to rebalance their portfolios. Should the market continue to drift lower, this should elicit a stronger bottom fishing response from investors.

Figure 27: Top BUYs

	FYE	Price	TP	*Shariah*	Market Cap	EPS (sen)		EPS Growth (%)		3-Yr EPS	P/E (x)		P/BV (x)	P/CF (x)	DY (%)
		(MYR/s) 21 Jul 23	(MYR)	compliant	(MYRm)	FY23F	FY24F	FY23F	FY24F	CAGR (%	FY23F	FY24F	FY24F	FY24F	FY24F
Maybank	Dec	8.78	9.45	NO	105,835	78.4	84.6	13.9	8.0	6.7	11.2	10.4	1.1	n.a.	7.5
CIMB	Dec	5.30	6.00	NO	56,525	58.7	64.0	5.6	9.2	11.3	9.0	8.3	0.8	n.a.	6.0
TM	Dec	4.93	6.20	YES	18,842	38.0	37.9	0.1	(0.2)	4.7	13.0	13.0	1.7	4.7	3.7
Mr DIY Group	Dec	1.42	2.48	YES	13,396	6.4	7.5	23.5	16.6	17.0	22.2	19.0	6.3	12.8	2.6
YTL Power	Jun	1.31	1.55	NO	10,614	15.2	16.5	246.3	8.2	51.6	8.6	7.9	0.7	4.7	5.0
Yinson^	Jan	2.55	3.06	NO	7,412	14.2	25.0	29.0	75.9	35.0	17.9	10.2	1.5	5.0	0.8
IOI Properties	Jun	1.22	1.46	NO	6,717	15.8	14.0	60.6	(11.6)	3.9	7.7	8.7	0.3	5.2	4.9
KPJ Health	Dec	1.11	1.46	YES	4,844	5.5	6.5	45.6	16.5	60.5	20.0	17.2	1.9	6.8	2.9
CTOS Digital	Dec	1.36	1.92	YES	3,142	4.5	5.2	41.2	16.4	38.6	30.3	26.0	5.2	34.3	2.3
Guan Chong	Dec	2.13	3.30	YES	2,502	20.9	23.0	41.4	10.3	14.5	10.2	9.2	1.2	11.6	2.7
UEM Sunrise	Dec	0.49	0.70	YES	2,453	1.6	1.7	11.0	4.9	(173.8)	29.8	28.5	0.4	14.6	0.0
Sunway Con	Dec	1.69	2.05	YES	2,179	11.8	12.7	6.5	7.1	4.3	14.3	13.3	2.5	10.3	4.5
Power Root	Mar	1.99	2.46	YES	915	13.4	14.4	8.4	7.2	38.1	14.9	13.9	3.2	13.6	6.5
MMHE	Dec	0.54	0.80	YES	864	2.4	3.1	291.0	30.5	(157.6)	22.5	17.2	0.5	3.9	2.1
OCK Group	Dec	0.40	0.60	YES	422	3.4	3.8	14.9	14.0	20.2	11.9	10.4	0.9	1.9	2.3

Note: ^FY23F-24F valuations refer to those of FY24F-25F
Source: RHB

Figure 28: Top SELLs

	FYE	Price	TP	*Shariah*	Market Cap	EPS (sen)		EPS Growth (%)		3 yrs EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)
		(MYR/s) 21 Jul 23	(MYR/s)	Compliant	(MYRm)	FY23F	FY24F	FY23F	FY24F		FY23F	FY24F	FY24F	FY24F	FY24F
Petronas Chem	Dec	6.50	6.00	YES	52,000	46.5	53.1	(42.7)	14.1	(16.5)	14.0	12.2	1.2	7.9	4.1
GD Express	Dec	0.19	0.14	YES	1,053	(0.4)	(0.4)	(31.4)	3.5	(194.4)	n.m.	n.m.	2.7	17.7	1.0
Kotra Industries	Jun	5.11	4.90	YES	757	45.3	46.3	12.8	2.1	41.9	11.3	11.0	2.4	9.1	4.5
Tan Chong	Dec	1.10	0.80	YES	717	(1.8)	(1.7)	67.7	5.7	(19.8)	n.m.	n.m.	0.2	6.9	1.4
Sapura Energy^	Jan	0.04	0.02	YES	559	(1.4)	(1.8)	(54.9)	(21.3)	(53.8)	n.m.	n.m.	(0.2)	9.9	0.0
Econpile	Jun	0.22	0.14	YES	305	0.1	1.0	105.0	596.3	6.4	+>100	21.5	0.7	(11.4)	1.2
Advancecon	Dec	0.35	0.26	YES	201	0.4	0.8	108.7	77.1	14.0	82.5	46.6	0.8	(8.0)	0.4

Note: ^FY23F-24F valuations refer to those of FY24F-25F
Source: RHB

China re-opening

Despite a decent 4.5% YoY rebound in 1Q23 GDP growth, China's economic recovery has since been uneven leading to a tempering of growth estimates by Street. GDP growth estimates now range between 4.4% and 6.2% dragged by weak consumer confidence and persistent weakness in the property sector. A slew of weak economic datapoints and rising youth unemployment suggest that more government stimulus measures can be expected on the back of recent cuts in policy rates by the People's Bank of China or PBOC.

The eventual pick-up in China's economy will have positive implications for corporate Malaysia, either directly or indirectly and should also help to support the CNY that has been positively correlated to the MYR. While outbound tourists have yet to manifest in a meaningful way, we believe this will eventually happen with the transport, tourism, hospitality, gaming, consumer and healthcare sectors benefitting as we see evidence of airlines restoring their flight capacities mothballed during the pandemic.

Figure 29: China re-opening plays

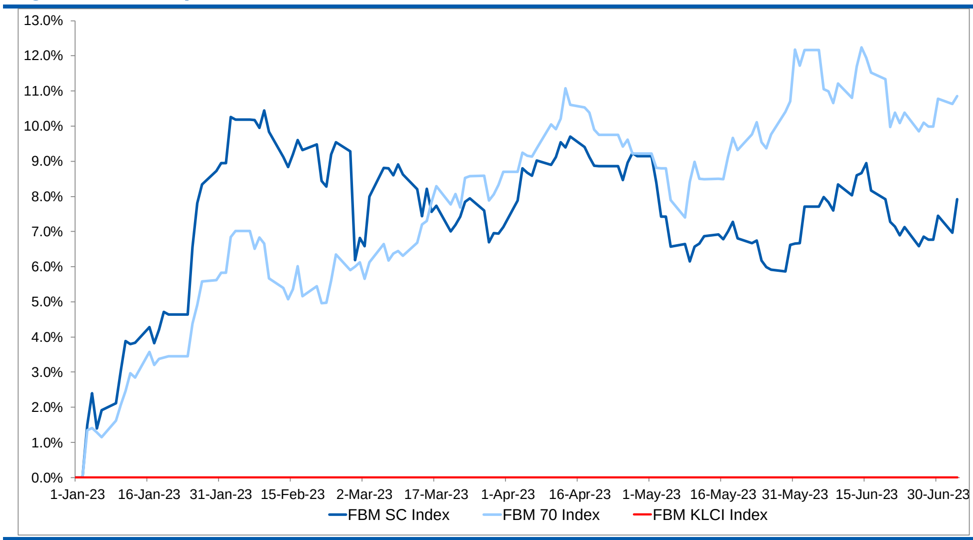
	Price (MYR/s) 21 Jul 23	TP (MYR/s)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY23F	EPS (sen) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	3-Yr EPS CAGR (%	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F	Rec
Press Metal	4.80	5.38	YES	39,550	19.9	22.5	14.8	13.0	22.0	24.1	21.3	4.3	14.5	1.4	Buy
Pavilion REIT	1.23	1.57	NO	4,488	8.9	9.1	10.2	2.1	29.8	13.8	13.6	0.9	9.1	7.6	Buy
Hong Leong Bank	18.94	22.60	NO	41,057	187.8	199.1	16.9	6.0	12.5	10.1	9.5	1.1	n.a.	3.7	Buy
KLK	22.78	27.00	YES	24,567	151.3	140.2	(30.9)	(7.4)	(6.8)	15.1	16.3	1.5	9.1	3.1	Buy
MGB	0.69	0.93	YES	405	5.7	8.7	127.3	51.4	24.0	12.0	7.9	0.7	5.8	2.5	Buy
MAHB	6.85	8.31	NO	11,430	28.4	36.7	152.0	29.0	(192.6)	24.1	18.7	1.4	4.7	2.6	Buy
IHH Healthcare	5.87	6.80	YES	51,697	16.5	18.9	3.5	14.2	2.7	35.5	31.1	1.9	14.7	1.1	Buy
Heineken	26.20	33.80	NO	7,915	151.5	159.1	10.9	5.1	25.1	17.3	16.5	15.9	14.0	6.0	Buy
SKP Resources^	0.92	0.95	YES	1,437	7.6	10.4	(18.2)	35.6	(0.9)	12.0	8.9	1.4	8.4	5.7	Neutral
Kelington Group	1.48	1.44	YES	954	7.8	8.0	20.0	2.3	33.1	18.9	18.5	4.2	16.8	2.2	Neutral
Westports Holding	3.60	3.65	YES	12,276	21.6	23.1	5.4	6.7	2.3	16.6	15.6	3.5	11.3	4.8	Neutral
MPI	30.00	25.70	YES	5,967	49.4	119.9	(67.4)	142.5	(0.9)	60.7	25.0	2.9	11.3	1.4	Neutral
Berjaya Food	0.72	0.77	YES	1,254	5.7	5.0	(17.8)	(12.6)	23.7	12.5	14.3	2.3	8.9	4.0	Neutral

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

Small-mid cap strategy: Still a trading market

Clouded by both external and domestic factors. Both the FBM 70 (+4%) and FBM SC (+1%) outperformed the FBM KLCI (-6.9%), buoyed by several indices mover stocks in the conglomerate, energy, construction, telecommunication (telco), and non-bank financial institution or NBFI spaces. Meanwhile, the FBM KLCI's performance was dragged by the commodities-related players and sell-downs in banking sector and weak broad-based sentiment – dragged by the impending state elections. Besides, the sliding USD/MYR and intensifying net foreign outflows YTD have also contributed to the FBM KLCI's relative underperformance. Intermittent buying from local institutions and subdued retail participation are the other contributing factors.

Figure 30: YTD performances of the FBM SC and FBM 70 vs FBM KLCI



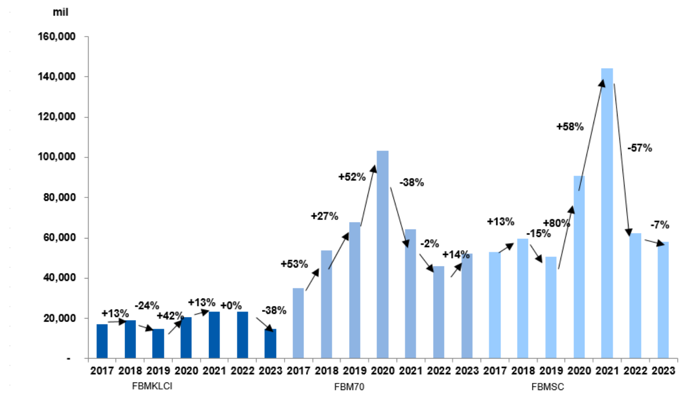
Source: Bloomberg, RHB

Figure 31: Yearly returns of major indices

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
FBM KLCI	-0.2%	10.3%	10.5%	-5.7%	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	-4.6%	**-6.9%**
FBM 70	4.6%	6.6%	15.0%	-7.9%	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-6.2%	-8.4%	**4.0%**
FBM SC	-9.0%	-1.6%	36.7%	-4.2%	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	1.3%	-5.3%	**1.0%**

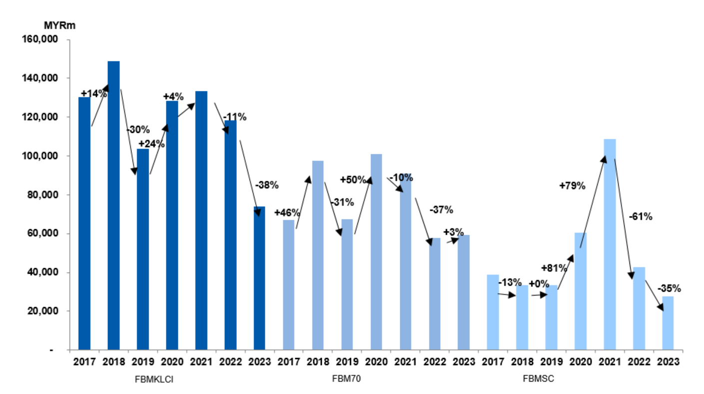
Source: Bloomberg, RHB

Figure 32: YTD trading volumes



Source: Bloomberg, RHB

Figure 33: YTD total turnover (MYRm)



Source: Bloomberg, RHB

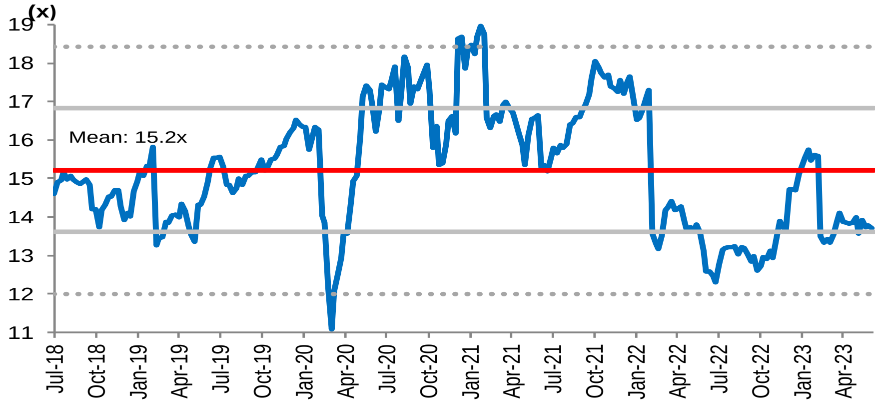
Encouraging signs for the FBM 70. Whilst market liquidity generally turned lower YTD-2023 – both traded values and volumes for the FBM 70 bucked the trends, registering growth of 14% and 3%. Various stock-specific catalysts in conglomerate, telco, and reopening plays were among the major reasons for the outperformance. These, coupled with the revival of interest in certain technology stocks – betting on the peaking of inflationary levels, as well as the run-up in the NASDAQ and construction stocks – have contributed to the rise. Despite higher retail participation YTD-2023, there was a 7% drop in volume for the FBMSC although the total value traded was much lower YoY (-35%) due to the focus in more micro-cap stocks. Meanwhile, the FBM KLCI continues to be lacklustre, affected by overall weak market sentiment, lack of foreign participation, and frail MYR.

At mean valuation. Both the forward P/Es for the FBM 70 and FBM SC are trading below their 5-year mean considering the single digit growth forecasts for FY23 (based on Bloomberg data), partially dragged by technology, healthcare and consumer counters. We believe valuations remain undemanding, given that the forward valuation gap of small-mid caps to the big ones – based on RHB's stock coverage universe – is now at 1.7x vis-à-vis FY24F growth prospect of 9.6% vs 5% growth for the FBM KLCI. Given the lacklustre performance of the benchmark index and slower growth on offer. The MSCI Malaysia Small Cap Index now trades at 14.8x vs the 14x of the MSCI benchmark index. A similarly elevated valuation trend was observed for the MSCI small cap indices in other markets like Japan, China, and Singapore. However, we do believe there are still various bottom-up opportunities in these spaces for alpha generation.

Position for a market rebound. With market sentiment at a low ebb, there could be more reason to be optimistic on our local bourse should a mean-reversion scenario pan out. The overhang from the impending state elections should be lifted by August, barring an unexpected political outcome. Secondly, a clearer picture on the global macroeconomic outlook and the US Fed's fund rate hike cycle should emerge. Thirdly, being one of the worse-performing markets in the region, it suggests that investors are already pricing in a worse case election outcome, while expectations of weak corporate earnings are already in the price – a shift in sentiment towards a more bullish stance may potentially trigger a run-up as the domestic market looks to catch up with global and regional equity markets. This may force underweight investors to deploy their cash and play catch-up. Besides, we believe the measures to boost the capital market – eg reduction in stamp duties for shares traded on Bursa Malaysia to be lowered from 0.15% to 0.10% (with a maximum cap set at MYR1k) – could help boost the liquidity for small- and micro-caps stocks and encourage more retail participation.

We favour ideas for the small-mid-cap space within the following industries: i) Consumer staples, ii) consumer, iii) healthcare, iv) solar-related names, v) technology, vi) oil & gas, and vii) construction. Accommodative fiscal initiatives and strength in the domestic economy should continue to lend support to private consumption – which in turn will support the consumer sector. The oil & gas sector upcycle may continue with more activities and FPSO demand, which should translate into a positive earnings profile. Selective value buys within the technology space – eg the non-semiconductor space with players in the IT infrastructure and selected names – should continue do well. Earnings are bottoming amidst the easing of building materials costs, coupled with sustained job flows, may see interest in the sector being reignited – especially if the revival of various mega infrastructure projects take place.

Figure 34: FBM 70 P/E band chart



Source: Bloomberg, RHB

Key risks:

i. Persistently high inflation;
ii. Slump in consumer demand;
iii. Worsening economic conditions that drive investors to seek refuge in the safer, high-yield, big-cap space;
iv. Liquidity issues, which may compound fund outflows;
v. Higher ESG-related risks for smaller-cap companies.

Analyst
Lee Meng Horng
+603 9280 8866
lee.meng.horng@rhbgroup.com

Figure 35: Small-mid cap Top Picks

	Price (MYR/s) 21 Jul 23	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
Yinson Holdings^	2.55	3.06	NO	7,412	14.2	25.0	29.0	75.9	17.9	10.2	1.5	5.0	0.8	Buy
KPJ Health	1.11	1.46	YES	4,844	5.5	6.5	45.6	16.5	20.0	17.2	1.9	6.8	2.9	Buy
CTOS Digital	1.36	1.92	YES	3,142	4.5	5.2	41.2	16.4	30.3	26.0	5.2	34.3	2.3	Buy
Allianz Malaysia	14.22	16.70	NO	2,531	293.3	317.4	2.6	8.2	4.8	4.5	0.5	n.a	5.0	Buy
Sunway Construction	1.69	2.05	YES	2,179	11.8	12.7	6.5	7.1	14.3	13.3	2.5	10.3	4.5	Buy
Datasonic^	0.44	0.57	YES	1,244	2.8	2.5	8.9	(9.6)	15.7	17.3	3.3	12.3	4.5	Buy
Power Root^	1.99	2.46	YES	915	13.4	14.4	8.4	7.2	14.9	13.9	3.2	13.6	6.5	Buy
Solarvest^	1.29	1.28	YES	861	3.0	4.9	184.2	64.7	43.7	26.5	3.8	16.9	0.0	Buy
TASCO Bhd^	0.84	1.70	YES	668	11.4	11.8	0.3	3.5	7.3	7.1	0.9	4.0	4.1	Buy
Cloudpoint Technology	0.52	0.79*	YES	274	4.2	5.4	34.3	28.6	12.5	9.7	2.8	10.9	4.1	NR
Lee Swee Kiat Group	0.82	1.25*	YES	137	11.4	14.4	34.2	26.0	7.1	5.6	1.3	4.5	8.0	NR
MCE Holdings	1.81	3.49*	YES	112	32.0	40.2	9.7	25.6	6.1	4.8	0.7	4.7	2.8	NR

Note: ^FY23F-24F valuations refer to those of FY24F-25F
*Note 2: *Based on Fair Value*
Source: RHB

Singapore: Market Outlook

Near-term growth to be supported by the service industries…

The RHB EMS team has maintained the Singapore GDP growth forecast at 2.0% for 2023, amidst expectations of a recovery momentum likely to be observed in 2H23. The team sees three key catalysts for Singapore's growth momentum to improve in 2H23. These are:

i. Risk appetite may continue to recover on the back of near-peak rates seen in developed markets, with markets likely pricing in some rate cuts into 2024;

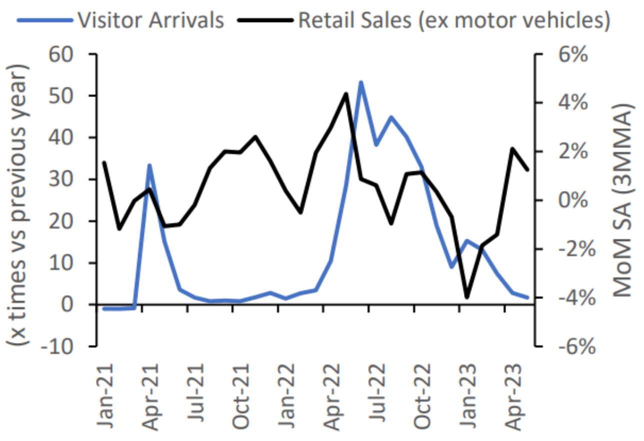
ii. Higher tourism levels and the resilience of the overall services sector should continue to support Singapore's growth, as we have witnessed an uptick in inbound arrivals and recovering hospitality related sectors such as F&B, retail, hospitality, and transport; and

iii. Recent high-frequency data, such as trade and industrial production, have seen a recovery in momentum. Sequential growth in non-oil domestic exports (NODX) and industrial production appears to have stabilised and will likely trend higher in the coming months.

The expected improvement in Singapore's GDP momentum in 2H23 should support overall private consumption and retail sales in the same period. This will be supported by Singapore's improving inbound tourism, which grew 108% YoY in Jun 2023, and is currently at 71% of pre-pandemic levels (2019). YTD tourist arrivals into Singapore are three times higher vs the same period last year. We also note that several seasonal factors such as the F1 race (September), Black Friday, and Single's Day (November), and festivals (typically in December) will lead retail sales higher, given the improving tourism arrivals already seen so far this year.

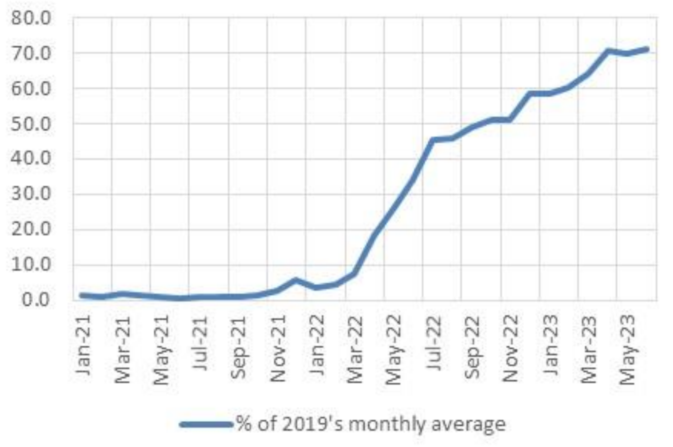
Notwithstanding the tourism demand support, we also believe that low-base effects may benefit retail growth in 2H23. Retail sales momentum slowed for the most of 2H22, as the pent-up demand from the gradual reopening of post-pandemic conditions waned over the same period. However, some pick-up in retail sales towards 4Q22 was seen, as consumers likely front-loaded purchases before the increase in the Goods & Services Tax (GST) of 1.0% to 8.0% effective 1 Jan 2023. We continue to expect a similar phenomenon in 4Q23 – GST rates are scheduled to increase to 9.0% from 1 Jan 2024, and some front-loading of purchases could be seen again in 4Q23.

Figure 36: Visitor arrival momentum is tracking retail sales (ex-motor vehicles)



Source: CEIC, RHB Economics & Market Strategy

Figure 37: Tourism arrivals, despite the recovery, have only hit 71% of pre-COVID-19 monthly average levels



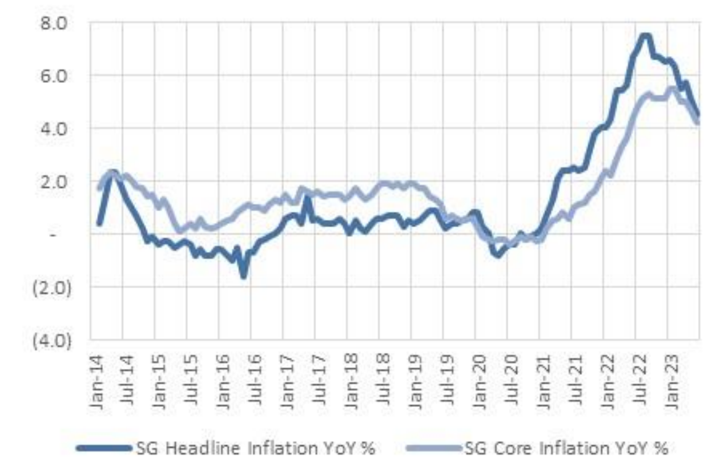
Source: Singapore Tourism Board, RHB

The RHB EMS team expects private consumption to stay resilient in 2H23 and believes that discretionary consumer spending will outperform essentials spending in 2H23 – an improvement in consumption expenditure in 2H23 will uplift sales in discretionary products, typically in motor vehicles, durables, and luxury goods. Overall, the team expects consumer demand to improve in 2H23 and is forecasting 2H23 consumption growth at 3.8% YoY, against a flatline (0%) in 2Q23.

…and inflation will continue to moderate…

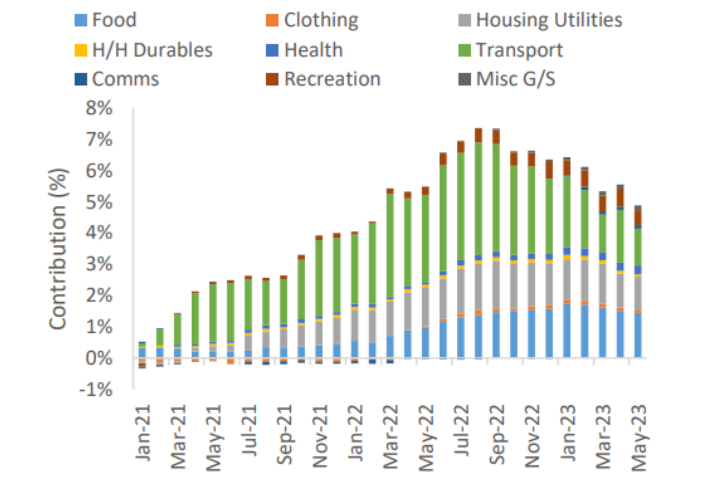
In its April Monetary Policy Statement, the Monetary Authority of Singapore (MAS) had said that core inflation would end the year at around 2.5% YoY. However, in his recent remarks at the MAS Annual Report and Sustainability Report 2022/2023 media conference, Ravi Menon, MD of MAS, said that the central bank has now applied a small range above the previously announced core inflation guidance, to reflect the potential impact of stronger-than-expected outturns in some travel-related CPI components, such as airfares and holiday expenses. Core inflation is now expected to end the year significantly lower at 2.5-3.0% YoY. Excluding the impact of the GST hike, the year-end core inflation is now expected to be closer to 2%. For the year as a whole, core inflation is forecast at 3.5-4.5%, but this reflects mostly higher inflation in the first half of this year. MAS has also lowered the forecast range for the CPI-All Items inflation to 4.5-5.5% for 2023, down from 5.5-6.5%. The downgrade reflects the sharper-than-expected decline in inflation in car prices and accommodation costs in the first five months of the year. The announced increases in the supply of rental units and Certificates of Entitlement (COEs) should help secure a moderating inflation profile in these components in the year ahead. However, Ravi highlighted that the relatively benign inflation outlook is premised on no new shocks to global supply and no reversal in the domestic wage momentum.

Figure 38: Inflation momentum continues its descent



Source: CEIC, RHB Economics & Market Strategy

Figure 39: Higher prices of food, transport, and housing utilities led overall headline inflation



Source: CEIC, RHB Economics & Market Strategy

The RHB EMS team expects inflation momentum to ease further into 2023. The team has maintained its Singapore headline and core inflation forecasts at 4.0% YoY in 2023. The team believes that core inflation momentum will decline to 0.1-0.2% MoM in 4Q23, in line with long-term averages (2010-2019).

This slowing inflation pressures reinforces our RHB EMS team's forecast for the MAS to keep its policy parameters unchanged in its upcoming October meeting. The MAS had kept its policy parameters unchanged in the earlier Apr 2023 meeting, where the RHB EMS team had estimated the Nominal Effective Exchange Rate (S$NEER) at a 1.5% appreciation gradient with a +/-2.0% band. The team believes that Singapore's hiking cycle is over, after five consecutive tightening moves since Oct 2021.

…but risks to growth and inflation persist.

Singapore avoided a technical recession as 2Q23 GDP expanded 0.7% YoY (+0.3% QoQ SA), against Bloomberg's forecast of +0.5% YoY (-0.2% QoQ SA). This was also against RHB EMS team's expectations for 2Q23 GDP at a contraction of 1.4% YoY (-1.9% QoQ SA). The RHB EMS team was primarily surprised at the relatively strong services growth of 3.0% in 2Q23. Moreover, it noted that other components may have lifted Singapore's GDP growth in 2Q23. As the 2Q23 GDP advance estimates were mainly computed from data in the first two months of the quarter, the RHB EMS team has pencilled the balance of risks for GDP to be revised lower when the final print is out in Aug 2023.

The Singapore economy had narrowly escaped a technical recession with sequential growth in 4Q22 at 0.1% and -0.4% in 1Q23. However, Singapore's GDP has effectively slowed to below trend in 1Q23, given the headwinds seen in manufacturing and trade. Moreover, key pillars of the Singapore economy – trade and manufacturing activities – have declined on a YoY basis. Specifically, Singapore has clocked nine consecutive months of NODX contraction till Jun 2023. The RHB EMS team has recently downgraded the NODX forecast to -8% in 2023, which compares with the official forecast of -8% to -10%. With this change in the NODX forecast, the team's model now seems to clearly suggest a sustained GDP contraction for Singapore in 2Q23.

The team also believes that the improvement in Singapore's growth momentum in 2H23 could face downside risks, especially if the global external environment remains weak into 2H23, amid relatively sticky inflation likely to be seen in the immediate months. Other global-related uncertainties, which may dampen risk appetite, include the ongoing geopolitical uncertainties and slower-than-expected economic recovery of China, despite the country's reopening efforts.

On the inflation outlook, we remain mindful of potential sticky inflation pressures in the near term, led by potentially higher agricultural prices, on the back of *El Nino* weather conditions in 3Q23. Separately, OPEC's recent decision to cut collective oil output into 2024 by 1.4m bbl per day may inject upside risks to current oil prices against our RHB EMS team's year-end Brent forecast of USD90 per bbl.

Investors waiting for clarity on the interest rate outlook

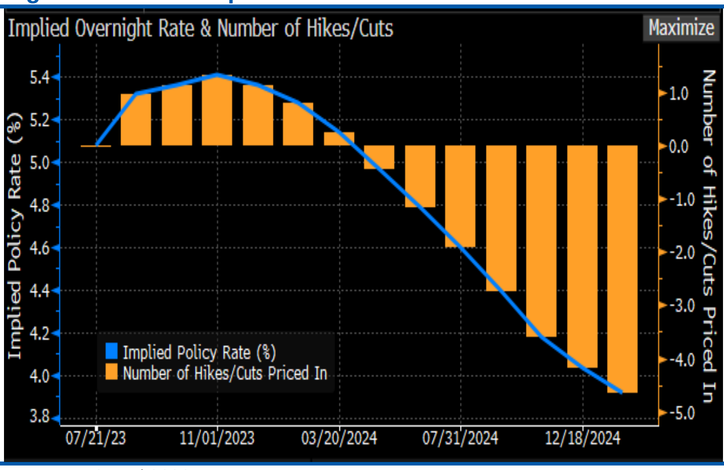
The RHB EMS team expects that the US Fed's FFR will rise to 5.50-5.75% with the balance of risks skewed towards a print of 5.75-6.00% in 2023 vs the current 5.25-5.50%. The team expects no FFR cuts well into 1H24. Markets are priced for peak FFR of around 5.50% in 2023, followed by around 50bps of cuts in 1H24. Hence, our FFR forecasts are not priced in by markets. The team has recently revised up the 2024 FFR forecast to 4.25-4.50% from 3.50-3.75%.

Figure 40: RHB's policy interest rate and forecasts

% YoY	2021	2022	2023F	2024F
US	0.25	4.50	5.50-5.75	4.25-4.50
Western Europe	0.02	2.60	4.00	2.80
Japan	0.00	0.00	0.00	0.00
China	3.80	3.65	4.30	4.30
ASEAN				
Indonesia	3.50	5.50	6.00	5.25
Malaysia	1.75	2.75	3.25	3.25
Thailand	0.50	1.25	2.00	2.00
Vietnam	4.00	6.00	4.00	5.00

Source: Bloomberg, RHB Economics & Market Strategy

Figure 41: Street expectations on the FFR rate outlook



Note: As on 21 Jul 2023.
Source: Bloomberg

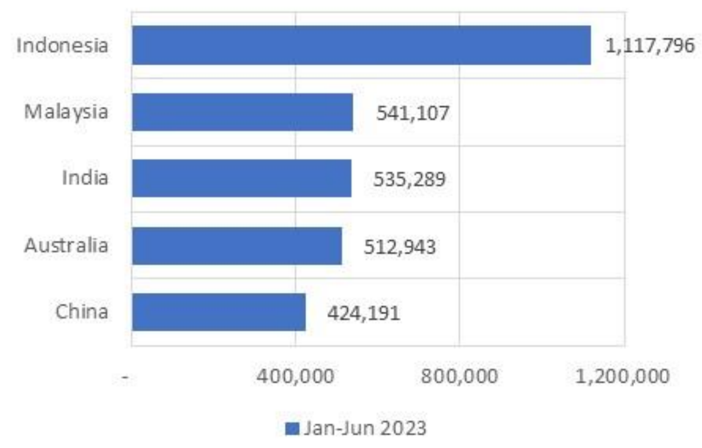
Under our base case assumption, we expect Singapore banks to witness strong earnings growth in 2023. However, this growth could decelerate sharply into 2024 with expectations of a pause in rate hikes and eventually lower rates in 2024. This is probably being reflected in the banks' share price performance. On the flipside, the peaking and stabilising of interest rates usually marks the buying point for Singapore REITs. We expect Singapore REITs to outperform if the rate pause eventually materialises after US Fed policymakers' expectations of the need to raise interest rates at least twice more by year end.

The return of Chinese tourists into Singapore will be slow but positive

Chinese visitors to Singapore – the bulk of pre-pandemic visitors, or one-fifth of the total – have seen a slow recovery (7% of the total in 1H23), with June marking the first month since Jan 2020 to cross the 100k threshold. Although the Singapore Tourism Board (STB) expects international visitor arrivals to Singapore to hit 12m-14m in 2023, with full tourism recovery expected by 2024, the return of Chinese tourists to Singapore has been underwhelming so far.

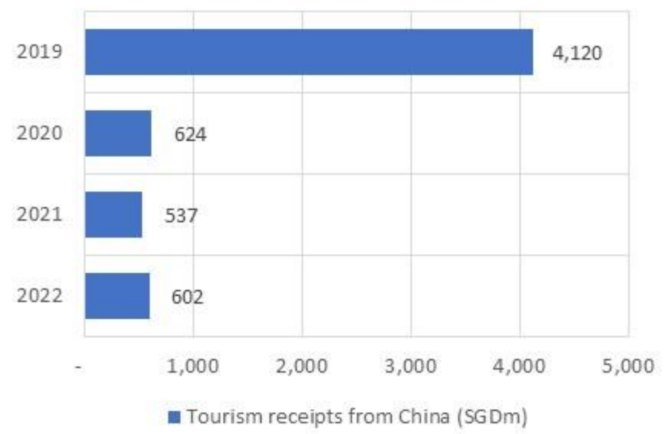
One of the primary reasons for this, has been the sluggish return of international flights from China. In June, the number of weekly direct flights from China to Singapore was around half that of 2019. Other factors contributing to the slow recovery in Chinese outbound tourism include higher airline fares on foreign routes due to restricted seats and more cautious spending among Chinese travellers in the face of the country's weakening economic growth. The high costs in Singapore may be one of the reasons why Chinese visitors preferred to visit Indonesia and Thailand over Singapore during the May Day holiday. We expect Chinese visitor recovery to remain patchy and to see a return to pre-pandemic levels only by 2025. Nevertheless, according to a news article in The Straits Times, data from CTrip, China's largest online travel agency, showed that Singapore remains one of Chinese tourists' favourite overseas destinations, behind Thailand, Japan, and South Korea.

Figure 42: International arrivals to Singapore



Source: Singapore Tourism Board (STB), RHB

Figure 43: Tourism receipts from Chinese visitors



Source: STB, RHB

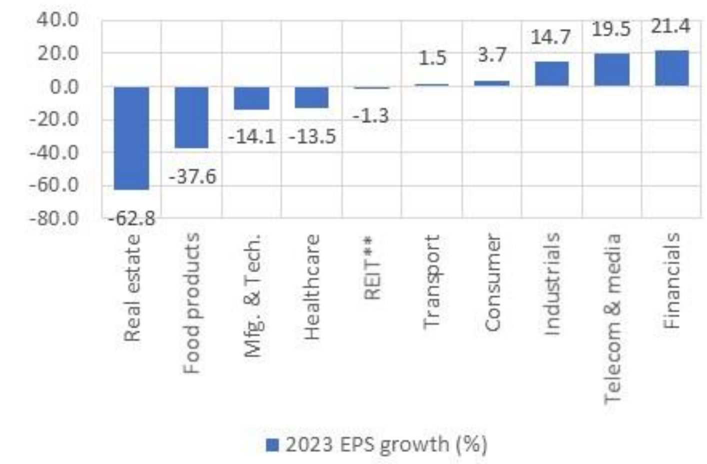
With the downsized numbers, Chinese visitors are also no longer the top contributors to Singapore's tourism receipts. In 2019, they spent over SGD4bn in Singapore, but this figure fell about 85% to SGD602.3m in 2022 at the height of China's COVID-19 outbreaks. Tourism contributes c.4% to Singapore's annual GDP, according to STB. In 2019, Singapore saw a record 19.1m visitors and SGD27.7bn (USD21bn) in revenue. We believe that the gradual return of Chinese travellers could bode well for casinos, airlines, airport services, and other tourism-linked sectors.

Resilient earnings growth in 2023; downgrades have been slow

We forecast 18% market cap-weighted YoY EPS growth in 2023 for stocks under our coverage. The key sectors that will contribute to positive earnings growth are banks, telecom, industrials, consumer goods, and land transport. If we exclude the exceptionally high 2023 EPS growth for Dairy Farm (DFI SP, NEUTRAL, TP: USD3.09), which was from a low 2022 base, the market cap-weighted EPS growth in 2023 for stocks under our coverage would drop to 9.3% YoY.

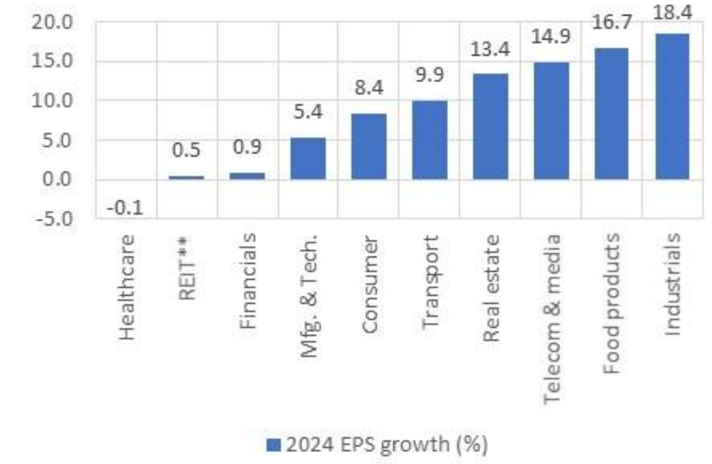
We expect healthcare earnings to moderate coming off a COVID-19 high base. Earnings for plantation sectors will moderate amidst the impact of lower CPO prices. The real estate sector's EPS decline is due to City Development's (CIT SP, BUY, TP: SGD8.80) one-off gains recognised in 2022. While we are expecting more sectors to deliver positive EPS (positive DPS growth for the REIT sector) in 2024, the overall EPS growth for our coverage universe is expected to drop to c.5.5% amidst a sharp deceleration in earnings growth for the banking sector, which has a large weight in the STI and in our coverage universe.

Figure 44: 2023 market cap-weighted sector EPS growth for RHB's coverage



*Note: The 2023 consumer sector EPS growth excludes exceptionally higher EPS growth for Dairy Farm, which was from a low 2022 base. **The data for REITs sector represents DPS growth.*
Source: RHB

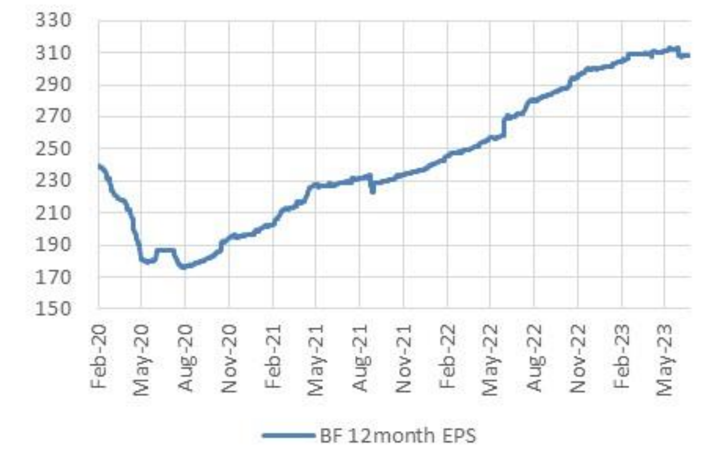
Figure 45: 2024 market cap-weighted sector EPS growth for RHB's coverage



*Note: **The data for REITs sector represents DPS growth.*
Source: RHB

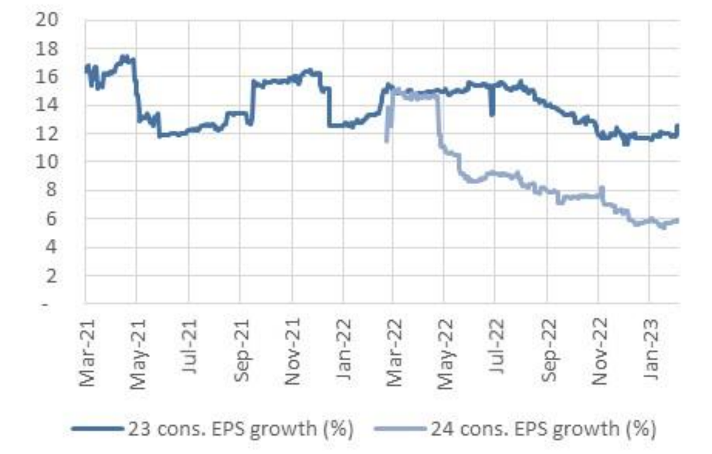
The forward EPS for the STI has only seen upgrades after 3Q20 results and business updates. Historically, the STI's forward EPS growth has had a positive correlation with Singapore's GDP growth expectations. Despite the sharp deceleration in economic growth during 4Q22 and 1Q23, earnings growth for 2023 has remained fairly resilient. This is largely due to the little moderation in earnings growth expectations for Singapore banks, which are only expected to see benefits from elevated NIM by the end of 2023. Nevertheless, Street has turned extremely cautious on the 2024 earnings outlook, with the overall YoY earnings growth expectation declining to 4% vs 15% growth expectations at the start of last year (2022). Despite the downgrade in STI EPS growth estimates, Street has continued to upgrade net profit estimates for the following sectors, both in 2023 and 2024: Transport, utilities, and consumer.

Figure 46: 12-month forward EPS for the STI has seen some downgrades in recent months



Source: Bloomberg, RHB

Figure 47: While Street remains optimistic on 2023 earnings growth, it has been downgrading 2024 growth expectations



Source: Bloomberg, RHB

Figure 48: 2023 consensus YTD net profit estimate change (%) by sector based on STI constituents

Note: Data as of 21 Jul 2023
Source: Bloomberg, RHB

Figure 49: 2024 consensus YTD net profit estimate change (%) by sector based on STI constituents

Note: Data as of 21 Jul 2023
Source: Bloomberg, RHB

Singapore: Investment Themes For 2H23

Rotation into REITs will be time sensitive, industrial REITs still preferred

While we maintain that REITs as a sector could outperform amid expectation of the US interest rate cycle potentially peaking in the latter part of 2023, the clarity on the interest rate outlook will be determined by how economic events unfold over the course of the next few months. For REITs under our coverage, we estimate a market cap-weighted DPS growth of -1.4% YoY in 2023 and a 0.5% YoY growth in 2024. While the aggregate return for REITs under our coverage has been dismal, based on YTD performance, we are seeing renewed investor interest in industrial and office REITs – the two sub-sectors that we have a positive view on.

We expect the industrial REIT demand to remain strong, mitigating supply concerns. Industrial rental rates should to continue to rise, while occupancy is expected to remain relatively flat. The sector remains a defensive safe haven, and one that offers earnings stability and stable asset values amidst ongoing interest rate hikes. Among the sub-sectors, we like logistics, hi-tech, and good-quality business parks, as these sectors continue to benefit from the 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 continue to rise – albeit at a much slower pace of up to 2% in 2023 – with some volatility expected in market occupancy amid ongoing technology sector layoffs. Limited supply in the office sector remains supportive despite mounting recession concerns. Despite a relatively favourable outlook and external factors supporting Singapore's office market, office S-REIT stocks 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 about the impact arising from interest rates and uncertainty over the long-term outlook for office demand, owing to work-from-home (WFH) trends. We remain relatively positive on the long-term outlook for Singapore office demand, as the country remains one of the highest globally in terms of employee return-to-work.

Figure 50: Singapore – valuation comparison (I) for preferred industrial and office REITs

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	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
CapitaLand Ascendas	9,238	Buy	3.25	15.7	Dec-23	19.9	23.4	1.2	1.2	5.6	5.7	7.2	7.8	5.9	5.0
ESR-LOGOS REIT	1,960	Buy	0.40	17.0	Dec-23	12.5	11.3	0.9	1.0	7.7	7.8	12.0	10.8	7.8	8.9
Keppel REIT	2,598	Buy	1.10	21.1	Dec-23	13.2	13.5	0.7	0.7	6.6	6.7	10.2	3.5	5.0	4.9

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Figure 51: Singapore – valuation comparison (II) and returns for preferred industrial and office REITs

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1FY	Net debt/Equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
CapitaLand Ascendas	9,238	Buy	3.25	15.7	Dec-23	-8.8	-14.9	0.2	1.4	41.1	34.5	0.6	0.6	2.2	2.6
ESR-LOGOS REIT	1,960	Buy	0.40	17.0	Dec-23	na	10.5	-13.3	1.6	48.8	55.2	0.7	0.7	1.5	-7.9
Keppel REIT	2,598	Buy	1.10	21.1	Dec-23	-43.1	-1.9	2.3	0.9	113.1	110.7	0.5	0.5	2.2	0.0

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Rise in tourism activity and gradual return of Chinese tourists in the region

Despite a minor decrease in trade-related deterioration, one silver lining is the resilience of the services sector. Travel-related services continue to be a bright area. Tourist arrivals have slowly improved YTD, and this trend should continue as Chinese tourists gradually return, with flight connections gradually restored in 2H23. This should have a positive impact on other domestic-oriented service categories such as retail, F&B, healthcare, land transportation, and telecommunications.

The potential beneficiaries of China's reopening are those that will benefit from China's domestic reopening and/or companies that will gain from the return of business once China relaxes border restrictions. Within our coverage universe, we continue to believe that ComfortDelGro, Singtel, and Thai Beverage should benefit from the return of Chinese tourists in the ASEAN region. Raffles Medical could benefit from a higher influx of medical tourists in Singapore, and its China hospital operations could benefit from the gradual return of expats back to China. ST Engineering, which is the world's largest airframe MRO service provider with a strong presence in China, could also see benefits from the revival in Chinese aviation traffic.

Figure 52: Singapore – valuation comparison (I) for travel and tourism-related plays

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	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
ComfortDelGro	2,051	Buy	1.35	8.0	Dec-23	15.4	14.0	1.0	1.0	4.2	4.6	8.1	6.3	6.7	7.2
Raffles Medical	1,845	Buy	1.75	32.6	Dec-23	20.6	20.6	2.4	2.3	2.8	2.4	5.6	5.5	11.6	11.3
SingTel	32,632	Buy	3.40	30.8	Mar-24	16.1	14.4	1.5	1.5	3.9	3.9	11.5	12.3	9.8	10.5
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	20.8	17.4	4.7	4.4	4.3	4.3	2.4	10.4	22.8	26.1
Thai Beverage	11,234	Buy	0.87	46.6	Sep-23	12.7	12.0	1.7	1.6	3.9	4.2	7.5	7.7	14.3	14.0

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Figure 53: Singapore – valuation comparison (II) and returns for travel and tourism-related plays

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS growth (%) 1FY	EPS growth (%) 2FY	DPS growth (%) 1FY	DPS growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1FY	Net debt/Equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
ComfortDelGro	2,051	Buy	1.35	8.0	Dec-23	1.5	9.9	14.3	9.9	4.6	4.9	-0.3	-0.3	6.8	1.6
Raffles Medical	1,845	Buy	1.75	32.6	Dec-23	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	0.0	-5.7
SingTel	32,632	Buy	3.40	30.8	Mar-24	25.7	11.6	1.0	0.0	16.3	17.6	0.4	0.4	4.4	1.2
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	15.1	19.4	-27.8	0.0	5.8	6.5	2.6	2.2	0.8	10.1
Thai Beverage	11,234	Buy	0.87	46.6	Sep-23	1.5	5.1	1.4	5.1	10.6	10.6	0.7	0.6	4.4	-13.1

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Retain exposure to quality companies offering defensive earnings

We anticipate that the performance of the equities market will be volatile over the short term due to uncertainty around inflation, interest rates, and the economic growth outlook, even though our base case assumption is for moderation in inflation, a pause in the rising interest rate cycle, and an economic growth recovery in 2H23. As returns are influenced by the relative resilience of earnings in the face of an uncertain future, we think that the performances of the market, sectors, and companies will diverge. Investors should prioritise making it through these tumultuous times. The ability to pass through rising expenses, captive client bases, recurrent demand, and companies with excellent financials should all be taken into account when selecting stocks.

We place a strong emphasis on investing in businesses with solid dividend or profit histories. We predict that defensive sectors (staples, healthcare, and utilities) and styles (quality and momentum) will continue to outperform in the second half of 2023. Positive revisions to net profit projections for both 2023 and 2024 have been seen for firms in the consumer and utility sectors that make up the STI. Sheng Siong and ST Engineering are our recommendations for stocks in this area.

Figure 54: Singapore – valuation comparison (I) for resilient earnings and dividends plays

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	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
Sheng Siong	1,808	Buy	2.04	26.8	Dec-23	16.8	16.2	4.8	4.4	4.2	4.3	6.7	6.9	30.3	28.6
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	20.8	17.4	4.7	4.4	4.3	4.3	2.4	10.4	22.8	26.1

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Figure 55: Singapore – valuation comparison (II) and returns for resilient earnings and dividends plays

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1FY	Net debt/Equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
Sheng Siong	1,808	Buy	2.04	26.8	Dec-23	7.6	3.9	7.7	4.5	10.3	10.3	-0.7	-0.7	-3.6	-2.4
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	15.1	19.4	-27.8	0.0	5.8	6.5	2.6	2.2	0.8	10.1

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Our thoughts on *El Nino* and the CPO sector

We see more upside risk for the sector now, with the looming *El Nino* and potentially escalating geopolitical risks relating to the Russia-Ukraine war and grains corridor. However, notwithstanding a strong *El Nino* and an inability to export any crops from the Black Sea, the fundamental outlook remains relatively unexciting. Supply is expected to come in strongly in 2024, while demand remains somewhat lacklustre. Stock/usage ratios are still comfortably above historical averages in 2024F.

While there is a high chance *El Nino* will be confirmed soon, we expect the impact on palm oil (PO) output to only be seen in 2024. As such, we make no changes to our 2023 CPO price assumption of MYR3,900 per tonne. For 2024, if the *El Nino* is a moderate one, there would be an impact on supply – although not very significant – while prices could continue to be held back by lacklustre demand. We believe prices could be higher in 2H24 vs 1H24, as the impact of *El Nino* would only be seen from May/June. We are therefore raising our 2024 and 2025 price assumptions to MYR3,900/tonne and MYR3,800/tonne respectively. If the El Nino turns out to be a strong one, we will review our price assumptions.

We maintain our NEUTRAL sector weighting, with a tactically positive trading strategy. We believe higher CPO prices in 2024 would mean purer players would be looked upon more positively than integrated players. Still, integrated players would provide a more stable earnings base and consistent dividend returns. Also, not all pure players would benefit equally, given the Indonesian tax structure and deteriorated exchange rate. Pure Indonesian planters would not benefit as much as pure Malaysian planters.

Figure 56: Singapore – valuation comparison (I) for plantation sector stocks

Company name	M Cap (USDm)	Rating	TP	Upside/ downside (%)	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
Bumitama Agri	756	Neutral	0.61	5.8	Dec-23	6.2	7.0	0.8	0.8	6.6	6.2	12.6	12.9	14.0	11.5
First Resources	1,801	Neutral	1.40	-5.6	Dec-23	10.9	8.8	1.3	1.2	3.4	4.3	13.0	13.5	11.9	13.8
Golden Agri	2,335	Buy	0.29	20.3	Dec-23	6.0	5.4	0.4	0.4	2.5	2.8	41.2	21.8	21.8	21.0
Wilmar	17,499	Buy	4.65	24.0	Dec-23	10.8	9.2	0.9	0.8	3.3	3.3	8.0	3.2	7.9	8.9

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Figure 57: Singapore – valuation comparison (II) and returns for plantation sector stocks

	M Cap			Upside/ downside	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
Bumitama Agri	756	Neutral	0.61	5.8	Dec-23	-43.2	-11.2	-47.6	-7.2	12.5	12.5	0.1	0.1	4.5	-1.7
First Resources	1,801	Neutral	1.40	-5.6	Dec-23	-50.1	23.5	-50.1	23.5	18.0	21.0	-0.2	-0.3	-2.6	0.0
Golden Agri	2,335	Buy	0.29	20.3	Dec-23	-62.0	11.0	-52.2	11.0	4.1	4.4	0.1	0.0	-7.7	-4.0
Wilmar	17,499	Buy	4.65	24.0	Dec-23	-32.8	18.0	1.1	0.0	2.3	2.7	1.2	1.1	-5.5	-10.1

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Opportunities in the small & mid space

Within our coverage universe, in the sub-USD1bn market cap range, we prefer exposure to Centurion Corp (CENT SP, BUY, TP: SGD0.51), Food Empire (FEH SP, BUY, TP: SGD1.39), and Marco Polo Marine (MPM SP, BUY, TP: SGD0.06). All three stocks have strong earnings tailwinds and have delivered strong YTD returns (see Figure 59).

For Centurion Corp, which is a global owner and manager of worker and student accommodations, we see positives from the resumption of foreign labour-reliant industries in Singapore and Malaysia, which is driving increased demand for worker accommodation. Singapore's demand for foreign workers outstrips the supply of dormitories, while in Malaysia, increasing numbers of foreign workers are required to be housed in purpose-built dormitories. Purpose-built student accommodation (PBSA) markets in the UK and Australia will benefit from the return of local and foreign students. Despite normalisation, there is room for the PBSA segment's occupancies to improve in Singapore and Malaysia. Although the share price has seen a strong run-up, it trades at -1.5SD from its 7-year historical mean.

For Food Empire, we do not see a significant decline in demand for its food products in Russia despite the recent political developments. We believe its food products will continue to be well distributed and sold in its key markets, with growth led by more marketing and brand investments into Russia and Ukraine, Kazakhstan, the Commonwealth of Independent States or CIS countries, and Vietnam. The stock currently trades below its historical 9x P/E mean.

We see Marco Polo in a sweet spot to deploy and operate its first commissioning service operation vessel (CSOV) by Dec 2023 or 1Q24 in an environment where such vessels (used to build offshore windfarms) are in short supply. We forecast its earnings will grow at an 18% CAGR, led by the new vessel's deployment at attractive charter rates. The higher charter rates will be driven by: i) Elevated demand for offshore vessels in both oil & gas (O&G) – due to increased regional O&G exploration – and offshore windfarm sectors (as nations meet environmental targets), and ii) tight vessel supply as bank financing for new vessels remains tight at a time when older vessels are being scrapped. The stock remains attractive at <1x PEG on a FY23F PE, considering a strong earnings CAGR forecast.

Figure 58: Singapore – valuation comparison (I) for preferred SMID-cap exposure

	M Cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Centurion Corp	284	Buy	0.51	15.9	Dec-23	6.2	5.9	0.5	0.5	2.3	2.3	16.8	17.5	8.4	8.2
Food Empire	435	Buy	1.39	23.9	Dec-23	8.6	8.2	1.4	1.3	3.3	3.5	10.8	11.1	17.8	16.6
Marco Polo Marine	152	BUY	0.06	19.6	Sep-23	11.1	10.4	1.2	1.1	na	na	na	na	11.7	11.1

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Figure 59: Singapore – valuation comparison (II) and returns for preferred SMID-cap exposure

	M Cap			Upside/ downside	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
Centurion Corp	284	Buy	0.51	15.9	Dec-23	6.1	4.7	-0.2	0.0	32.0	32.4	0.8	0.7	20.5	31.3
Food Empire	435	Buy	1.39	23.9	Dec-23	5.3	4.2	14.4	4.2	12.6	12.6	-0.4	-0.4	5.7	76.4
Marco Polo Marine	152	BUY	0.06	19.6	Sep-23	38.5	6.4	na	na	15.0	14.6	-0.3	-0.3	-3.6	31.7

Note: Prices are as at 21 Jul 2023.
Source: Bloomberg, RHB

Singapore: Sector Outlook, Rating & Picks

Figure 60: Sector outlook, rating, and preferred picks (I)

Sector	Rating	2023 sector outlook	Preferred picks
Consumer	O/W	We remain positive on the consumer sector on the back of the post-COVID-19 re-opening and normalisation. Domestic retail spending on food has normalised and surpassed pre-pandemic levels. Hence, local food retail players are expected to benefit from a better consumption environment – where consumption will alternate between F&B food service and supermarkets due to more common work-from-home arrangements. The anticipated return of tourists following China's post-COVID-19 re-opening is also expected to boost tourists' share of domestic consumption in the latter half of this year.	Food Empire, Sheng Siong, Thai Beverage
Financial Services	N	SG Banks' (the banks under our coverage) share price recovery from the sell-off in early March – triggered by the collapse of US regional banks – was short-lived, as poor macroeconomic data saw investors turning cautious once again. We believe the share prices of SG Banks will be range-bound in 2H23 on lingering concerns over a slowing loan growth outlook. Tailwinds from NIM expansion are also waning, with the US policy rate hike cycle at its tail-end. We recently revised our sector rating to NEUTRAL from Overweight following our recent downgrade of OCBC Bank's rating to NEUTRAL from Buy. The slump in global factory activity is weighing on business confidence and consumer sentiment. Loan growth, which has been soft for much of 1H23, will likely remain subdued in 2H23, in our view. NIMs – while likely to be stable in 2Q23 – are set to narrow slightly over the next two quarters. Although deposit competition has eased, ongoing repricing of deposits, the shift in mix from CASA to fixed deposits, and increased liquidity from strong net new money inflows are factors that would impact NIM. Aside from the muted loan growth, fee income growth would also be capped by cautious investor sentiment. Transaction activities have yet to return despite the strong asset under management or AUM inflows. On a positive note, asset quality is holding up well and should see credit costs staying within banks' guidance, while healthy capital ratios would support dividend payouts. Upside risks to our investment view: A turn in investor sentiment that would lead to stronger wealth management fees and a stronger-than-expected NIM.	United Overseas Bank
Food Products (Plantations)	N	We expect CPO prices to remain rangebound in 2023, within the MYR3,500-4,500 per tonne range, as supply improvements will be relatively balanced with increases in demand. Our CPO price assumption of MYR3,900 per tonne for 2023 remains unchanged. We are, however, in the midst of revising our 2024 price assumption of MYR3,500 per tonne – depending on the severity of *El Nino*. The Australian Bureau of Meteorology now has the climate outlook at *El Nino* Alert. When an alert criteria was met in the past, an *El Nino* event developed around 70% of the time. We continue to believe the *El Nino* phenomenon needs to be a strong one before CPO prices can move by more than 20%, which would have a more significant impact on planters' earnings. According to climate models, this *El Nino* – if confirmed – is likely to be a moderate one. Based on historical events over the last 40 years, there has never been an instance of two strong *El Ninos* in a row. As the last one we had in 2015-2016 was a strong one, this next one will likely be moderate. We prefer the integrated players, as they will be able to withstand lower CPO prices better than the purer planters.	Golden Agri, Wilmar International
Healthcare	OW	We expect Singapore's healthcare service providers to profit from the resurgence of elective treatments and pent-up demand from medical tourism. We note that there are concerns about cost inflation and a decline in COVID-19-related revenue. However, we think some costs can be passed on to patients while the majority may still be very well absorbed by the service providers. Given the modest gearing levels, we do not anticipate a significant impact from a rise in interest rates. Healthcare service providers like Raffles Medical that have a presence in South-East Asia and China will benefit from the economic reopening of the latter.	Raffles Medical
Real Estate	N	The real estate sector is starting to show cooling-off signs, with the latest Urban Redevelopment Authority's or URA private residential index showing a slight decline – the first since 1Q20. This is in line with our expectations, as the triple headwinds of government cooling measures, higher interest rates, and a slowing economy have overshadowed the domestic residential sector's allure as a safe haven and inflation hedge. We expect a slightly more severe price correction of up to -4% in 2H as higher supply from new launches adds to the headwinds while further interest rate hikes are anticipated. Overall, we expect residential sector prices to be in the -2% to +2% range for 2023. From a real estate sector stock perspective, these headwinds are well priced in, with counters in general trading at a more than 50% discount to RNAV. Developers are also generally sitting on healthy presales revenues, offering earnings visibility for the next 2-3 years.	City Developments, Centurion Corp
Hospitality REITs	N	Singapore's hospitality sector continues to see a healthy recovery, with 5.2m visitor arrivals this year till May, which represents about two-thirds of pre-pandemic (2019) visitor arrivals during the same period. The pipeline of events is also quite strong for later this year and the next. However, concerns are mounting over the medium term, and we see room for disappointments from the slow return of Chinese visitors, who – pre-COVID-19 – accounted for the majority or one-fifth of the total. The economic slowdown and sustainability of pent-up demand also remain threats. In our view, valuations have generally priced in most of the positives (trading close to book value), and we see hospitality REITs mostly moving sideways with occasional bursts on strong positive news flows.	CDL Hospitality Trusts
Industrial REITs	O/W	Industrial demand remains strong, mitigating supply concerns. We expect industrial rental rates to continue to rise, while occupancy is expected to remain relatively flat. The sector remains a defensive safe haven and one that offers earnings stability and stable asset values amidst ongoing interest rate hikes. Among the sub-sectors, we like logistics, high tech, and good-quality business parks, as these sectors continue to benefit from the 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 and ESR LOGOS REIT

Source: Company data, RHB

Figure 61: Sector outlook, rating and preferred picks (II)

Sector	Rating	2023 sector outlook	Preferred picks
Manufacturing & Technology	N	We see two factors currently in play for the tech sector: i) A chip oversupply situation (at least till the end of 2023) and ii) weak consumer demand due to a lacklustre economic growth outlook. The weak end of consumer demand, in particular, has resulted in cutbacks in both manufacturing and technological development demand from contract manufacturers' customers. For companies exposed to chip manufacturing, this oversupply situation has led to lower utilisation, production, and sales for now. Hence, we remain NEUTRAL on the tech sector as we await the chip oversupply in the market to normalise and economic growth to pick up.	NIL
Office REITs	O/W	We expect overall office rental rates to continue to rise, albeit at a much slower pace of up to 2% in 2023, with some volatility expected in market occupancy amid ongoing technology sector layoffs. Limited supply in the office sector remains supportive despite mounting recession concerns. Despite a relatively favourable outlook and external factors supporting Singapore's office market, office S-REIT stocks have been trading at a discount to book value – a sharp contrast to transactions in the market. We believe this was mainly due to investor concerns about the impact arising from interest rates and uncertainty over the long-term outlook for office demand from WFH trends. We remain relatively positive on the long-term outlook for Singapore office demand, as the country remains one of the highest globally in terms of employees returning to work.	Keppel REIT
Overseas REITs	O/W	Following a sharp correction in US office REIT share prices, these REITs now trade at attractive valuations of more than 50% below book value, with forward dividend yields averaging more than 15%. This, in our view, has priced in most of the current market uncertainty. More employees are also expected to return to their offices amid looming layoff concerns and easing COVID-19 fears. Our base case at this juncture is that the US economy is unlikely to tip into a severe recession and that interest rate hikes are nearing the peak of the cycle. Based on the above view, we believe US REITs listed on the SGX are nearing the bottom of the current market cycle. For European-focused REITs, the overall economic outlook has so far come in slightly better than anticipated, but persistently high inflation levels risk more interest rate hike pressures. We prefer a diverse market with exposure to industrial (logistics in particular) and high-quality office buildings for earnings resilience.	Keppel Pacific Oak US REIT and Cromwell European REIT
Retail REITs	N	For 2023, we expect landlords to remain focused on maintaining high occupancy rates in shopping malls while remaining flexible on rental structures. The sector continues to be weighed down by rising inflation pressures, manpower constraints, and higher GST charges, which will kick in starting next year. However, the return of tourists and limited supply are expected to mitigate some of these demand pressures. Overall, we expect the island-wide vacancy rate to slightly widen by 1ppt to c.10% in 2023. In terms of retail rental, we expect overall rates to be relatively flat at -3% to +1%. We maintain our NEUTRAL view and expect retail REITs to be largely range-bound.	Frasers Centrepoint Trust
Tele-communications	N	The recovery in industry mobile revenues should pick-up steam with roaming traffic reverting to pre-pandemic levels alongside stronger prepaid sales (improved migrant flows). While competition remains tight in the SIM-only and mobile virtual network operator or MVNO segments, mobile network operators or MNOs continue to see good re-contracting activities on 5G plans, with Singapore already boasting the best 5G standalone network coverage. The focus of the telecommunication firms should continue to be on driving stronger enterprise growth, capitalising on a string of domestic and offshore M&A in the recent past. This would, however, likely come at the expense of margins with upfront investments to shore up capabilities. We keep our NEUTRAL sector view with decent sector dividend yields providing a defensive posture.	Singtel
Transport & Industrials	O/W	We expect land transport operators like ComfortDelGro (CD) to benefit from the higher demand for its taxi services and elevated traffic for its rail business given the gradual return of tourists to Singapore. CD should also see higher public transport earnings from overseas operations, as the cost adjustments for increased inflation are finally reflected in its earnings. The net cash position for transport players is also positive in the rising interest rate environment. ST Engineering's (STE) defensive growth should continue to attract investor interest. While there are concerns about its high gearing levels, we believe the net gearing should see a gradual decline amidst strong cash flow generation over the next few years. We expect both players to benefit from the reopening of China's borders. A higher number of Chinese tourist arrivals into Singapore should be positive for CD, while a revival of Chinese aviation traffic should be positive for STE.	ComfortDelGro, ST Engineering, Marco Polo Marine

Source: Company data, RHB

Figure 62: Summary of our sector weightings

Overweight	Neutral
Consumer	Financials
Healthcare	Food products (plantations)
Industrials	Manufacturing & tech
S-REITs (Industrials)	Real estate
S-REITs (Office)	S-REITs (Hospitality)
S-REITs (Overseas)	S-REITs (Retail)
Transport	Telecommunications & media

Source: RHB

Figure 63: Summary of preferred stocks across sectors

Sector	Most preferred
Consumer	FEH, SSG, THBEV
Financials	UOB
Food products	GGR, WIL
Healthcare	RFMD
Industrials	STE, MPM
Mfg. & Tech.	-
Real estate	CIT, CENT
REIT	CLAR, EREIT, KREIT
Telecom & media	ST
Transport	CD

Source: RHB

Figure 64: Sector valuation comparison (I)

		P/E (x)		P/BV (x)		Dividend yield (%)		FCF yield (%)		ROE (%)	
Sector name	**Rating**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Consumer	OW	14.0	12.8	2.4	2.2	3.9	4.5	9.8	10.5	17.4	17.3
Financials	N	9.0	8.9	1.5	1.4	5.5	6.1	3.9	4.8	15.6	14.7
Food products	N	10.2	8.7	0.9	0.8	3.4	3.5	12.0	6.3	9.9	10.6
Healthcare	OW	20.6	20.6	2.4	2.3	2.8	2.4	5.6	5.5	11.6	11.3
Industrials	OW	20.0	16.8	4.5	4.2	4.4	4.4	3.1	10.4	22.4	25.3
Mfg. & Tech.	N	13.0	12.3	1.4	1.3	5.1	5.1	10.1	6.7	11.0	11.1
Real estate	N	14.8	13.0	0.7	0.7	4.2	4.2	14.0	7.3	4.9	5.3
REIT	OW	18.1	17.7	0.9	0.9	6.4	6.4	8.9	8.1	5.0	5.4
Telecom & media	N	16.8	14.7	1.6	1.5	4.0	4.0	12.0	13.4	9.7	10.8

Note: Prices are as at 21 Jul 2023. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 65: Sector valuation comparison (II) and returns

		EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Sector name	**Rating**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**1M**	**YTD**
Consumer	OW	131.8	8.4	47.5	16.5	8.9	9.0	0.5	0.4	2.6	-8.2
Financials	N	21.4	0.9	3.8	10.4	39.3	40.7	-0.3	-0.3	2.9	-1.6
Food products	N	-37.6	16.7	-10.2	2.8	4.1	4.7	0.9	0.9	-5.2	-8.3
Healthcare	OW	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	0.0	-5.7
Industrials	OW	14.7	18.4	-28.3	0.4	6.3	6.9	2.3	2.0	0.2	9.4
Mfg. & Tech.	N	-14.1	5.4	-0.6	0.0	8.6	8.7	-0.3	-0.3	-3.9	-13.8
Real estate	N	-62.8	13.4	5.4	0.3	11.3	11.7	0.9	0.9	3.1	-11.8
REIT	OW	-10.1	7.5	-1.3	0.5	48.7	51.4	0.6	0.6	0.3	-1.9
Telecom & media	N	19.5	14.9	2.0	0.6	15.4	16.8	0.4	0.4	4.3	1.0

Note: Prices are as at 21 Jul 2023. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Preferred Companies & Investment Thesis

Figure 66: Singapore – valuation comparison (I) for preferred large-cap picks

Company name	Mkt cap (USDm)	Rating	TP	Upside/ downside (%)	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
CapitaLand Ascendas	9,238	Buy	3.25	15.7	Dec-23	19.9	23.4	1.2	1.2	5.6	5.7	7.2	7.8	5.9	5.0
SingTel	32,632	Buy	3.40	30.8	Mar-24	16.1	14.4	1.5	1.5	3.9	3.9	11.5	12.3	9.8	10.5
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	20.8	17.4	4.7	4.4	4.3	4.3	2.4	10.4	22.8	26.1
Thai Beverage	11,234	Buy	0.87	46.6	Sep-23	12.7	12.0	1.7	1.6	3.9	4.2	7.5	7.7	14.3	14.0
UOB	35,706	Buy	32.30	12.9	Dec-23	8.2	7.6	1.0	0.9	5.5	6.2	na	na	13.6	12.9

Note: Prices are as at 21 Jul 2023
Source: Bloomberg, RHB

Figure 67: Singapore – valuation comparison (II) and returns for preferred large-cap picks

Company name	Mkt cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS growth (%) 1FY	EPS growth (%) 2FY	DPS growth (%) 1FY	DPS growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/equity (x) 1FY	Net debt/equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
CapitaLand Ascendas	9,238	Buy	3.25	15.7	Dec-23	-8.8	-14.9	0.2	1.4	41.1	34.5	0.6	0.6	2.2	2.6
SingTel	32,632	Buy	3.40	30.8	Mar-24	25.7	11.6	1.0	0.0	16.3	17.6	0.4	0.4	4.4	1.2
ST Engineering	8,597	Buy	4.05	9.8	Dec-23	15.1	19.4	-27.8	0.0	5.8	6.5	2.6	2.2	0.8	10.1
Thai Beverage	11,234	Buy	0.87	46.6	Sep-23	1.5	5.1	1.4	5.1	10.6	10.6	0.7	0.6	4.4	-13.1
UOB	35,706	Buy	32.30	12.9	Dec-23	26.1	8.0	15.3	12.9	na	na	na	na	2.3	-6.8

Note: Prices are as at 21 Jul 2023
Source: Bloomberg, RHB

Figure 68: Singapore – valuation comparison (I) for preferred mid- to small-cap picks

Company name	Mkt cap (USDm)	Rating	TP	Upside/ downside (%)	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	284	Buy	0.51	15.9	Dec-23	6.2	5.9	0.5	0.5	2.3	2.3	16.8	17.5	8.4	8.2
ComfortDelGro	2,051	Buy	1.35	8.0	Dec-23	15.4	14.0	1.0	1.0	4.2	4.6	8.1	6.3	6.7	7.2
ESR-LOGOS REIT	1,960	Buy	0.40	17.0	Dec-23	12.5	11.3	0.9	1.0	7.7	7.8	12.0	10.8	7.8	8.9
Food Empire	435	Buy	1.39	23.9	Dec-23	8.6	8.2	1.4	1.3	3.3	3.5	10.8	11.1	17.8	16.6
Marco Polo Marine	152	BUY	0.06	19.6	Sep-23	11.1	10.4	1.2	1.1	na	na	na	na	11.7	11.1
Raffles Medical	1,845	Buy	1.75	32.6	Dec-23	20.6	20.6	2.4	2.3	2.8	2.4	5.6	5.5	11.6	11.3
Sheng Siong	1,808	Buy	2.04	26.8	Dec-23	16.8	16.2	4.8	4.4	4.2	4.3	6.7	6.9	30.3	28.6

Note: Prices are as at 21 Jul 2023
Source: Bloomberg, RHB

Figure 69: Singapore – valuation comparison (II) and returns for preferred mid- to small-cap picks

Company name	Mkt cap (USDm)	Rating	TP	Upside/ downside (%)	1FY year	EPS growth (%) 1FY	EPS growth (%) 2FY	DPS growth (%) 1FY	DPS growth (%) 1FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/equity (x) 1FY	Net debt/equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
Centurion Corp	284	Buy	0.51	15.9	Dec-23	6.1	4.7	-0.2	0.0	32.0	32.4	0.8	0.7	20.5	31.3
ComfortDelGro	2,051	Buy	1.35	8.0	Dec-23	1.5	9.9	14.3	9.9	4.6	4.9	-0.3	-0.3	6.8	1.6
ESR-LOGOS REIT	1,960	Buy	0.40	17.0	Dec-23	na	10.5	-13.3	1.6	48.8	55.2	0.7	0.7	1.5	-7.9
Food Empire	435	Buy	1.39	23.9	Dec-23	5.3	4.2	14.4	4.2	12.6	12.6	-0.4	-0.4	5.7	76.4
Marco Polo Marine	152	BUY	0.06	19.6	Sep-23	38.5	6.4	na	na	15.0	14.6	-0.3	-0.3	-3.6	31.7
Raffles Medical	1,845	Buy	1.75	32.6	Dec-23	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	0.0	-5.7
Sheng Siong	1,808	Buy	2.04	26.8	Dec-23	7.6	3.9	7.7	4.5	10.3	10.3	-0.7	-0.7	-3.6	-2.4

Note: Prices are as at 21 Jul 2023
Source: Bloomberg, RHB

Figure 70: Investment theses for our sector Top Picks (I)

Stock	Investment thesis
ComfortDelGro (CD SP)	• Improvement in public transport earnings in overseas operations during 2H23 • Positive impact from the reduction in taxi rent rebates and introduction of a new platform fee for taxi and private-hire bookings • The return of Chinese tourists could further boost Singapore's taxi and public transport ridership numbers • The valuation is compelling amid ongoing YoY earnings growth and strong improvements in ROE
CDL Hospitality Trusts (CDREIT SP)	• Good-quality mid-to high-tier hotel assets, of which 60% are in Singapore • Upside from the continuous recovery of the hospitality sector • Risks remain on low-debt hedges and the dissipation of pent-up demand • Current valuations have priced in most of the positives
Centurion Corp (CENT SP)	• Resumption of foreign labour-reliant industries in Singapore and Malaysia is driving increased demand for worker accommodation • Singapore's demand for foreign workers outstrips supply for dormitories while, in Malaysia, increasing numbers of foreign workers are required to be housed in purpose-built dormitories • Purpose-built student accommodation (PBSA) markets in the UK and Australia will benefit from the return of local and foreign students. Despite normalisation, there is room for the PBSA segment's occupancies to improve in Singapore and Malaysia • Growth to be driven by: i) Increased bed supply in Malaysia in Westlite Cemerlang Johor and ii) better occupancies in the UK and Australia PBSA segments as borders reopen and on-site lessons resume • The stock trades at -1.5SD from its 7-year historical mean
Cromwell European REIT (CERT SP)	• A pan-European REIT with a good mix of logistics and office assets • Under-rented portfolio with proven leasing capabilities • Value-added strategies include asset redevelopments and recycling assets to produce higher yields • An attractive valuation with double-digit yields that has priced in most of the Eurozone risks
City Developments (CIT SP)	• The largest residential developer in Singapore with a strong track record and brand premium • The hospitality segment, which accounts for c.30% of its portfolio, is poised for a strong recovery • High-quality commercial assets in Singapore and the UK and growth from the fund management segment • Trading at an attractive >50% discount to RNAV with a 3% yield
CapitaLand Ascendas REIT (CLAR SP)	• The largest industrial REIT with diversified exposure to business parks, logistics, and hi-tech industrial spaces • Organic growth from asset redevelopments, higher occupancy rates, and rental improvement • Backed by a strong and experienced sponsor
ESR LOGOS REIT (EREIT SP)	• A fast-rising mid-cap industrial REIT with a majority logistics portfolio in Singapore and Australia • Divestments and fund-raising have lowered gearing, with proceeds to be used for asset revamps and modern spec acquisitions • Strong Sponsor support with a visible SGD2bn pipeline of assets • Trading at a slight discount to the book and offering 8% yields
Frasers Centrepoint Trust (FCT SP)	• A stable and defensive, 100% Singapore-focused suburban retail player • Low-debt hedge and high near-term debt expiry • Aided by retail sector recovery. However, rising inflation, cost pressures, and GST hikes pose challenges
Food Empire (FEH SP)	• Do not see a significant decline in demand for FEH's food products in Russia despite its recent political developments • Believe food products will continue to be well distributed and sold in key markets • Growth will be led by more marketing and brand investments in Russia, Ukraine, Kazakhstan, CIS countries, and Vietnam • Currently trades below its historical 9x P/E mean
Golden Agri (GGR SP)	• Earnings should improve in 2H23 on higher productivity and lower fertiliser costs • Its integrated model should bode well in a lower YoY CPO price environment • The stock is trading at an attractive 2023F P/E vs its peer range of 6-9x • The dividend yield is decent at c.4% for 2023F
Keppel Pacific Oak US REIT (KORE SP)	• Diverse US office portfolio and good assets in attractive sub-markets • Well-spread lease expiries and minimal tenant concentration risks • Attractive valuation at >50% discount to book and double digit yields • Risks: a) Structural demand impact from work from home trends • Risks: b) The impact on overall office market demand from the failure of the co-working sector
Keppel REIT (KREIT SP)	• High-quality Grade A office assets in Singapore, Australia, and South Korea • Positive rental reversion is set to continue with low expiring rents and high occupancy levels to be maintained • Trading at 30% below book value with c.7% yield
Marco Polo Marine (MPM SP)	• In a sweet spot to deploy and operate its first commissioning service operation vessel or CSOV by Dec 2023 or 1Q24 in an environment where such vessels (used to build offshore windfarms) are in short supply • FY22-24F (Sep) earnings growth at 18% CAGR, led by the new vessel's deployment at attractive charter rates • Higher charter rates will be driven by a) elevated demand for offshore vessels in both oil & gas (O&G) (increased regional O&G exploration) and offshore windfarm sectors (as nations meet environmental targets), and b) tight vessel supply as bank financing for new vessel remains tight at a time when older vessels are being scrapped • The stock remains attractive at <1x PEG on a FY23F P/E considering an earnings CAGR of 18%
Raffles Medical (RFMD SP)	• Singapore hospital and healthcare operations are reverting to normal with a higher patient load and the return of medical tourism • China, which accounts for c.7% of RFMD's revenue, should also see higher revenue beyond 2023 • A net cash position should enable RFMD to look at inorganic growth opportunities • RFMD's 2023F P/E and EV/EBITDA are below peer average

Source: Company data, RHB

Figure 71: Investment theses for our sector Top Picks (II)

Stock	Investment thesis
Sheng Siong (SSG SP)	• Growth to be supported by government support measures for Singaporean consumers to counter inflationary pressures • Positive store expansion outlook ahead with more Housing & Development Board supply available for bidding in the pipeline • Generates strong cash flow and has a net cash balance sheet with a dividend yield of c.4%
Singtel (ST SP)	• Stronger recovery in mobile revenue momentum and 5G monetisation across Singapore and Australia • Good regional enterprise growth opportunities following multiple synergistic acquisitions and the carve-out of the regional data centre business • Positive execution of strategic business reset (ie regionalisation of enterprise/business-to-business businesses and value unlocking of strategic infrastructure assets)
ST Engineering (STE SP)	• Sustained recovery in earnings driven by gradual improvement in commercial aerospace • c.SGD25.4bn of orderbook provides over two years of revenue visibility • The recent acquisition of TransCore, although it has worsened its debt profile, has expanded the earnings profile • A defensive business model that will allow it to sustain a DPS of at least 16 SG cents
Thai Beverage (THBEV SP)	• Strong market leadership in Thailand and Vietnam • A beneficiary of Thailand's economic recovery and the return of tourists post COVID-19 in Vietnam • Earnings growth is driven by better sales volume as consumption recovers • Valuation is undemanding, at -1.5SD from its historical forward mean P/E
United Overseas Bank (UOB SP)	• Uses an omni-channel strategy plus a stand-alone digital bank, TMRW, to tap the rising consumer affluence • Its wholesale banking unit leverages ASEAN connectivity and sector specialisation to capture cross-border business opportunities • This should drive loan growth and fee income from trade and wealth management • Integration of Citibank's retail assets in Malaysia and Thailand is progressing well, supporting management's expectations that the Citibank acquisitions would enhance net profit by SGD250-300m from FY24F • Its exposure to Greater China – 15% of total loans and 10% of group pre-tax profit – is the lowest among SG Banks • Undemanding valuation supported by a ROE of 13% and dividend yield of c.6%
Wilmar International (WIL SP)	• Diversified earnings benefit from the China re-opening story, while an experienced commodities & trading arm should perform well in a volatile price environment • The stock remains undervalued, trading at 10-11x 2023F P/E vs its China-listed peers' 20-40x • Wilmar's combined stake in Yihai Kerry and Adani Wilmar is almost double that of its own market capitalisation

Source: Company data, RHB

Thailand: Pheu Thai – a Game Changer

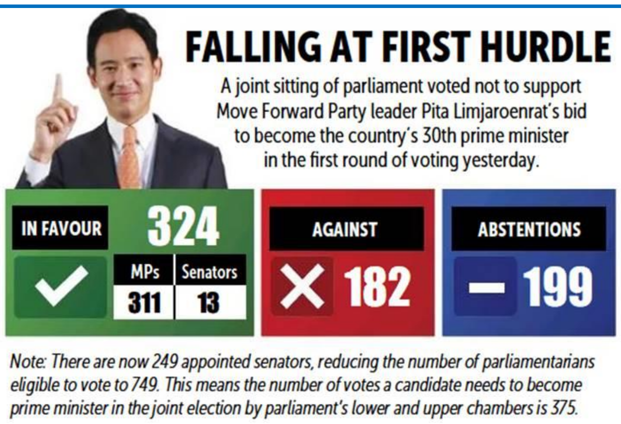
- **Pheu Thai (PT) – game changer.** At the time of writing, Thailand is still selecting its 30th Premier, as the new administration's entering office delays from August to September. We anticipate PT, the runner-up of 14 May's election, will jump in to form the coalition government with the new allies *sans* the Move Forward Party (MFP). Still, we believe PT's economic campaign policies needs to be more constructive towards the capital market to boost the investment and economic atmosphere. In 2H23, SET should present a more predictable downside, making it ideal for selective buying.
- **Soft fundamentals in 2H23.** There are expected economic uncertainties in 3Q23 (from May to August) caused by inconsistent economic measures, lower-than-expected existing budget disbursement, and the likelihood of a delay of several months of the fiscal budget approval and execution. These disruptions could result in a downward revision of the economic and earnings outlook for 2023. Moreover, 2H tends to have lower economic activity and corporate earnings vs 1H.
- **Lower the year-end SET Index target to 1,666 pts from 1,764 pts** due to lowered growth prospects in the construction materials, agriculture, telco (a turnaround from net losses), and financial services sectors. 2023 SET EPS growth estimate has been reduced to 4.8% from 5.8% (Figures 75, 76 and 77), primarily from the country's year-long economic reopening and more micro-political headwinds. Our year-end SET target of 1,666 pts is based on a baseline of 20x P/E (10-year mean P/E of 20.89x).
- **Investment themes for 2H23:**
    - **Under the PT and new allies administration scenario.** With current share prices reflecting cheap valuations, stocks of contractors, infrastructure, rail-transportation, utilities, and property development are attractive and should regain momentum. Public spending and infrastructure project bidding should also resume from 4Q23.
    - **Low degree of political participation.** Although the economic direction has yet to be determined, let alone the new administration, we believe sectors with solid fundamentals could mitigate against current political headwinds. They include: i) Banks (due to an interest rate uptrend), ii) healthcare and hospitality (due to increased foreign outpatients and a growing number of visitors), iii) O&G (due to oil prices rebounding), iv) tollway, expressway, airport, and concessionaire – power (recurring income), and v) retail (a solid base of recurring income).
    - **FDI is increasing in tandem with the weakening THB.** The new administration's practical policies should restore public and private investment sentiment and confidence. We are of the view the THB weakness will positively affect Thailand's trade, tourism, and domestic consumption – supported by tourist arrivals, the speeding up of foreign direct investments (FDIs) and housing sales. On the other hand, the export of goods may face challenges due to macroeconomic uncertainty.

Investment Themes

Theme 1: Game Changer – a PT-led government

- **The leader of the MFP has failed to get support as the next prime minister.** During the joint sitting of parliament, Pita Limjaroenrat, the sole leader of the MFP, failed to gather enough support for his nomination. He insisted that the party would push ahead with its plan to amend Section 112 of the Criminal Code, also known as the Lese Majeste law, which was cited as the main reason why several senators refused to back his nomination.
- **The Constitutional Court will be ruling on the MFP cases.** The Election Commission (EC) has submitted a petition to the Constitutional Court seeking the disqualification of PM hopeful Pita over alleged media shareholding. The EC also urged the court to temporarily suspend Pita from serving as an MP until the court issues its ruling. Following the EC's petition on media's shareholding, there were another two petitions submitted to the Constitution Court lodged by lawyer Theerayut Suwankesorn, who claims that the MFP's policy breaches Section 49 of the Constitution that prohibits people from using their rights and freedoms to overthrow the constitutional monarchy and owning the book publishing company. If the court rules against Pita, he could be banned for 20 years in the political field, face 1-10 years in prison, and disqualification from his MP status; this could also result in the dissolution of the MFP.

Figure 72: Received 324 out of a minimum requirement of 376 votes from the House



Source: Bangkok Post

- **PT-led.** The most likely scenario is that PT (Figure 73), the second-place winner, will become the coalition leader and continue to hold hands with its eight existing alliances. Pita's insistence on amending Section 112 means he has even less of a chance to get the votes of the upper house and its allies. The second and third rounds of voting for Pita as the prime ministerial candidate on 19-20 Jul have resulted in the same outcome. Therefore, the most likely scenario is that PT will switch allies from the MFP and join hands with the caretaker government parties such as Bhumjai Thai (BT), Palang Pracharat (PPR), Democrat (DM), and even United Thai, as PM Prayuth Chan-O-Cha has recently resigned as the party's leader and decided to end his political career.
- **Who will be the next prime?** There are four possible prime minister candidates under the PT-led scenario. PT has short-listed two prime minister candidates, namely Paethongtharn Shinawatra – the major shareholder of SC Asset Corporation (SC TB) and Srettha Thavisin - the former CEO of Sansiri (SIRI TB). Additionally, there are two prospective candidates from Bhumjai Thai - Anutin Charnvirakul and General Prawit Wongsuwon, the Palang Pracharat (PPR) leader.

Figure 73: The most likely scenario of the coalition government

Alliance	Constituency	Party List	Total
Phue Thai (PT)	**112**	**29**	**141**
Palang Pracharat (PPR)	39	1	40
Prachachard (PCC)	7	2	9
Bhumjai Thai (BT)	**68**	**3**	**71**
United Thai Nation (UTN)	23	13	36
Chard Thai Pattana (CTP)	9	1	10
Chard Pattana Kla (CPK)	1	1	2
Other (13-15, and 18)	0	4	4
Total lower house MPs	**259**	**54**	**313**

Voting of the prime minister;	Total	Votes	Chance
Lower house >50% (251)	500	313	63%
Upper house >50% (126) , requires >81 votes	250	127	51%
Parliamentarians	**750**	**440**	**59%**

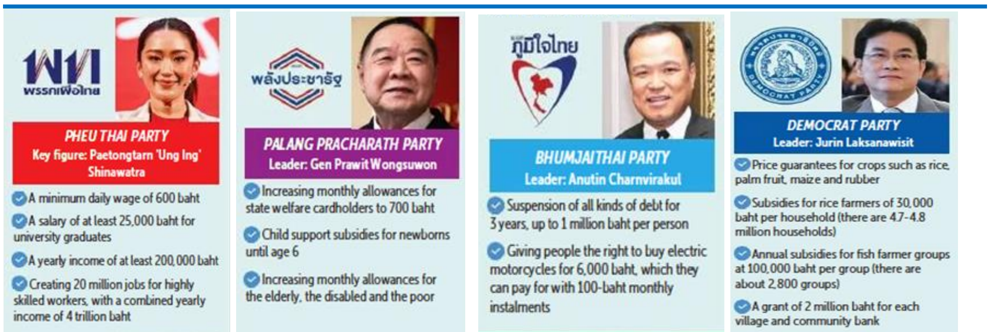
The opposition party

Alliance	Constituency	Party List	Total
Move Forward (MFP)	112	39	151
Thai Sang Thai (TST)	5	1	6
Democrat (DM)	22	3	25
Fair	0	1	1
Palung Sungkom Mai	0	1	1
Total lower house MPs	**139**	**45**	**184**

Source: RHB

- **The outlook of the government sounds "stable"**. We believe the ability to pass laws and policies effectively is crucial for a coalition government to remain in power for the next four years. A coalition government with 300 out of 500 (ex-United Thai Party) in the total lower house is considered "stable". We expect these allies to receive more than 81 out of 250 votes from the upper house, even backing up the government, as none will invoke Section 112.
- **Under a scenario of PT and new allies administration**. With current share prices reflecting cheap valuations, stocks of contractors, infrastructure, rail-transportation, utilities, and property development are attractive and should regain momentum. Public spending and infrastructure project bidding should also resume from 4Q23.

Figure 74: Key populist campaigns of the four prospectively coalition parties



Source: Bangkok Post

Top Picks:

- Sino-Thai Engineering & Construction (STEC TB, BUY, TP: THB16.20)
- CK Karnchang (CK TB, BUY, TP: THB26.10)
- Bangkok Expressway & Metro (BEM TB, BUY, TP: THB11.00)
- Advanced Info Services (ADVANC TB, BUY, TP: THB252)
- Gulf Energy Development (GULF TB, NR)
- Global Power Synergy (GPSC TB, NR)
- SC Asset Corporation (SC TB, NR)

Theme 2: Low degree of political participation

Although the economic direction has yet to be determined, let alone the new administration, we believe sectors with solid fundamentals could mitigate against current political headwinds. They include:

- Banks (due to interest rate uptrend)
- Healthcare and hospitality (due to increased foreign outpatients and a growing number of visitors)
- O&G (due to price rebounding)
- Tollway, expressway, airport, concessionaire - power (recurring income)
- Consumers and retail (providing a solid base of recurring income from rental, leasable property, and increasing consumption from tourists)

Top Picks:

- Siam Commercial Bank (SCB TB, NR)
- Bangkok Bank (BBL TB, NR)
- PTT Exploration & Production (PTTEP TB, BUY, TP: THB179)
- PTT Oil & Retail Business (OR TB, BUY, TP: THB28)
- CP All (CPALL TB, BUY, TP: THB76)
- Central Pattana (CPN TB, BUY, TP: THB85)
- Central Retail Corporation (CRC TB, BUY, TP: THB54)
- Airports of Thailand (AOT TB, BUY, TP: THB82)
- Don Muang Tollway (DMT TB, NR)
- Bangkok Dusit Medical (BDMS TB, BUY, TP: THB35.25)
- Minor International (MINT TB, BUY, TP: THB41.50)

Theme 3: FDI is increasing in tandem with the weakening THB

The new administration's practical policies, when it takes place in August-September, should restore public and private investment sentiment and confidence. We are of the view that the THB weakness will positively affect Thailand's trade, tourism, and domestic consumption – supported by tourist arrivals, the speeding up of FDIs and housing sales. On the other hand, the export of goods may face challenges due to macroeconomic uncertainty.

- **Growing of FDI – industrial estates.** The value of investment projects seeking the Board of Investment (BOI) privileges in Thailand surged 70% to an impressive THB365bn (USD11bn) in 1H23. Foreign manufacturers are flocking to Thailand to avoid the adverse effects of the confrontation between the superpowers aside from lowering their expenses, notably in the electrical and electronic industries.
- **Growing of foreign company operations – international headquarters, office rental.** The number of foreign companies operating in Thailand in 5M23 grew 16% YoY. The top three countries with the highest investments were Japan (63 projects worth THB15.87bn), followed by the US (48 projects, THB2.45bn) and Singapore (46 projects, THB6.35bn). The influx of foreign firms has boosted knowledge and technology transfer, especially in government mega projects and infrastructure fields, such as oil well control, electrical system design for trains, and wind energy.
- **Tourists in traction – hospitality, consumption, housing.** According to the Tourism Authority of Thailand (TAT), 12.87m foreigners visited Thailand in 6M23, putting the country on track to achieve its goal of up to 30m arrivals by 2023. Most visitors were from Malaysia, China, Russia, South Korea, and India. Despite the pandemic, the tourism industry is expected to reach 80% of 2019 levels, with an estimated maximum revenue of THB2.38trn (USD70bn, c.13%/GDP), based on 25-30m foreign arrivals generating approximately THB1.5trn in revenue.

Top Picks:

- Central Retail Corporation (CRC TB, BUY, TP: THB53)
- Central Pattana (CPN TB, BUY, TP: THB85)
- Airports of Thailand (AOT TB, BUY, TP: THB82)
- WHA Corp (WHA TB, BUY, TP: THB4.89)
- Amata Corporation (AMATA TB, NR)
- Land & Houses (LH TB, BUY, TP: THB10.85)

Year-end 2023 SET Index target at 1,666 pts

Figure 75: SET earnings and valuations

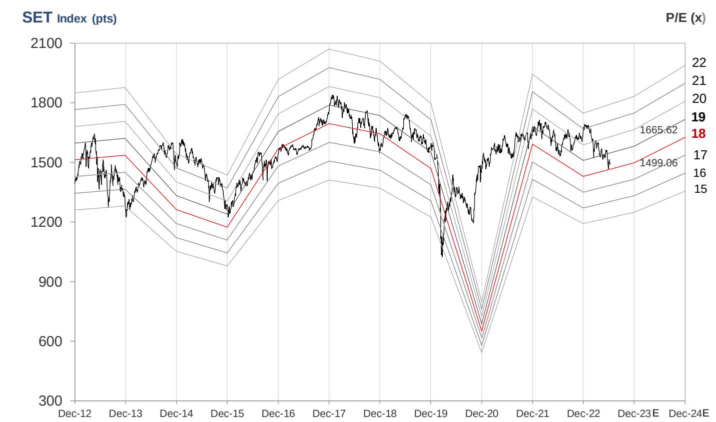
SET Earnings Performance & Valuations

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	1,044,446	159.6%	88.4	144.2%	911.1	9.7%	1.82	18.75	2.1%
2022	973,288	-6.8%	79.5	-10.1%	937.6	8.5%	1.78	21.00	1.9%
2023E	1,021,431	4.9%	83.3	4.8%	978.1	8.5%	1.53	17.94	2.8%
2024E	1,108,550	8.5%	90.4	8.5%	1,023.3	8.8%	1.46	16.53	3.0%

Source: RHB

We have lower the year-end SET target from 1,764 pts to 1,666 pts due to lowered growth prospects in construction materials, agriculture, telco (a turnaround from net losses), and financial services. This year's SET EPS growth estimate has been reduced from 5.8% to 4.8% (Figures 75-77), primarily from the country's year-long economic reopening and more micro-political headwinds. Our year-end SET target of 1,666 pts is based on a baseline of 20x P/E (10-year mean P/E of 20.89x).

Figure 76: SET's P/E band in the range of 19-21x



Source: RHB

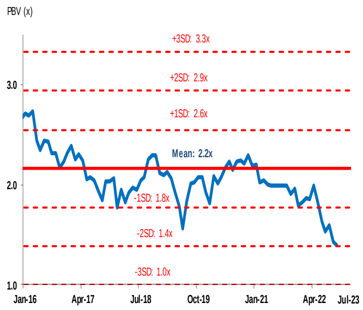
Figure 77: SET's valuation matrix (P/E 5- & 7-year mean of 21.8x)

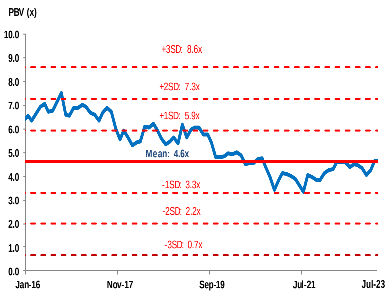
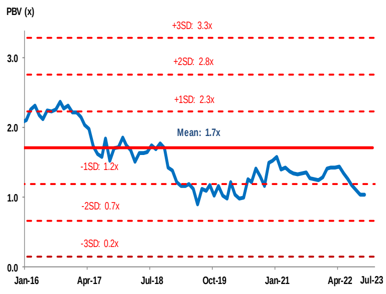
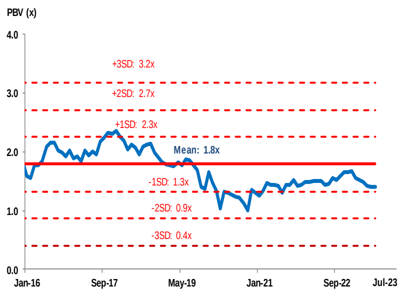
P/E (x)	EPS (THB) 2022	EPS (THB) 2023E	EPS (THB) 2024E	P/BV (x)	BV (THB) 2022	BV (THB) 2023E	BV (THB) 2024E
	79.45	**83.28**	**90.38**		**937.6**	**978.1**	**1,023.3**
growth	-10%	4.8%	8.5%	growth	9.3%	2.9%	4.3%
17.00	1,351	1,416	1,537	1.70	1,594	1,663	1,740
18.00	1,430	1,499	1,627	1.78	1,669	1,741	1,822
19.00	1,510	1,582	1,717	1.80	1,688	1,761	1,842
20.00	1,589	**1,666**	**1,808**	1.85	1,735	1,810	1,893
21.00	**1,669**	1,749	1,898	1.90	1,782	1,858	1,944
20.89	1,660	1,740	1,888	1.80	1,688	1,761	1,842
21.80	1,732	1,815	1,970	1.90	1,782	1,858	1,944
26.60	2,113	2,215	2,404	1.90	1,782	1,858	1,944

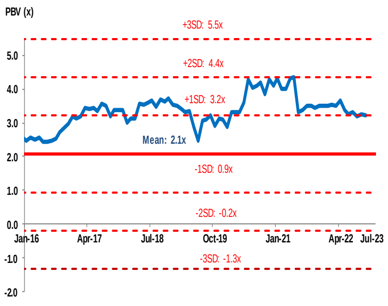
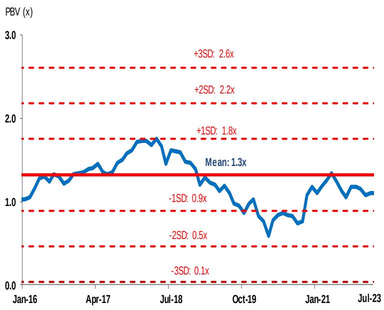
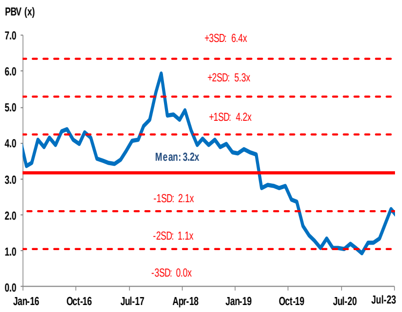
SET Target	**1,669**	**1,666**	**1,808**	**Historical mean**	**P/E**	**P/BV**
Market return	0.7%	-0.2%	8.3%	3-year	26.60	1.80
Dividend Yield	1.9%	2.8%	3.0%	5-year	21.80	1.90
Total return	2.6%	2.6%	11.4%	7-year	21.80	1.90
ROE	8.4%	8.4%	8.6%	10-year	20.89	1.90

Source: RHB

Sector Outlook For 2023

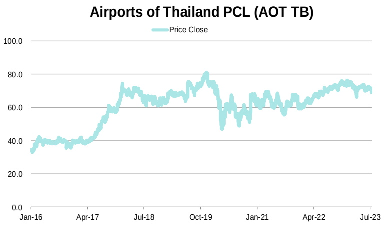
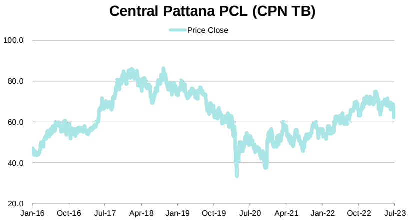
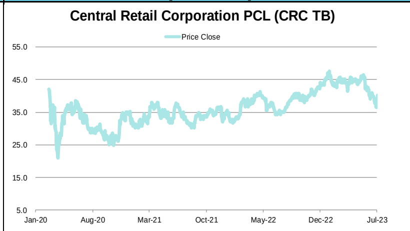
	Construction Materials	Commerce	F&B
SD chart			
Market cap (USDm)	18,119.59	54,719.62	27,772.35
Current index (pts)	8,471.93	34,945.00	11,060.80
Rating	**NEUTRAL**	**OVERWEIGHT**	**OVERWEIGHT**
Investment highlights	• 2Q23 demand within the cement industry should decline from 1Q23's high quarter on seasonal patterns. • Within Thailand, demand from public infrastructure projects (2Q23: +1% YoY) maintained its vital role in driving the domestic cement market. Demand from the private sector (residential and commercial projects) declined 1% YoY. • Compared to Thailand, all regional countries performed poorly in terms of cement demand. • The pressure of production cost especially from fuel and raw materials has eased on a YTD basis.	• Possible formation of the new government in 3Q23F may bolster the local consumption and consequently benefit retailers, as stimulus measures could be carried out afterwards. • Staple and discretionary retailers (BJC, CPALL, and CRC) may be supported by i) the ongoing Chinese tourism recovery, ii) easing costs, ie electricity and interest expenses, iii) on-track openings of new stores. • Despite a low season for home improvement retailers in 3Q23F, they would benefit from: i) A narrower steel price gap vs 2H22, ii) their strategy to enhance the high-margin private label product mix, iii) expectations of lower freight costs and THB appreciation (which benefits their own product sourcing imports), and iv) acceleration in the opening of new stores vs 1H23. • Improving rental rate discounts given to tenants at foreign tourist demand-oriented malls.	• In 3Q23, demand of chicken, swine and tuna are expected to reach their peaks due to seasonal factors. The weather in the US, EU and other countries in the northern hemisphere is appropriate ie neither too cold, nor too hot. This is suitable on dining out activities. Manufacturers also placed more order in 3Q23 to build up product supply to serve festivities in 4Q23. • Swine prices may drop from peak levels. There is also some illegal pork sold in the market which the Government is attempting to control. However, swine prices remain at a higher-than-normal level due to demand from the economic recovery. Chicken prices are also still high due to the tight supply and lack of grandparent stock to produce chicken. • Players are developing more high-value products in order to meet the various demands, especially plant-based food and heathy products.
Risks	• Slow recovery of demand and the oversupply situation within housing industries in other ASEAN countries especially in Cambodia, Laos, Myanmar and Vietnam where Thai listed companies have major exposure. • The current high energy prices, especially natural gas, diesel, and coal. • The termination of the loan-to-value (LTV) measures may lower demand for construction materials from the housing sector.	• A slower-than-expected recovery in the overall Thai economy, and international tourist arrivals. • Inflationary effects – product selling prices and opex hikes. • Resurgence of outbreaks. • Intense competition among retailers may undermine profit margin.	• Raw material price volatility. Agricultural raw material prices are still elevated due to the tight supply and dry weather. • Slower-than-expected demand recovery. • Government intervention on price controls and regulation.

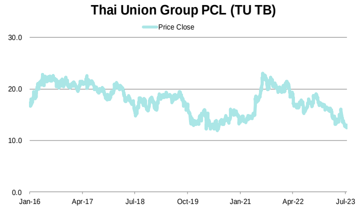
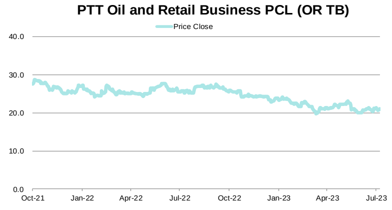
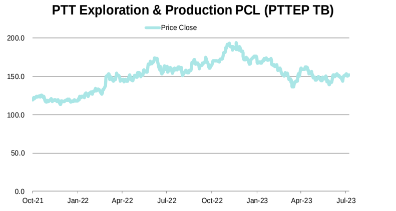
	Healthcare	Construction	Property Development & Industrial Estates
SD chart			
Market cap (USDm)	27,779.74	3,197.07	31,661.26
Current index (pts)	6,910.27	55.37	243.60
Rating	**NEUTRAL**	**NEUTRAL**	**NEUTRAL**
Investment highlights	• Upbeat 3Q23F outlook, in which the earnings may grow YoY and QoQ from the high season for medical treatments – driven by the ramping up of local and international patient numbers, rising utilisation of existing and new hospitals, and a lower base of COVID-19 revenue mix last year. • Price intensity from a returning to normal foreign patient revenue mix and a higher demand for tertiary care services amongst locals, as well as gradual price adjustments to reflect cost hikes may also help drive 2H23F topline and GPMs. • A full-quarter beneficiary of the Social Security (SS) scheme's higher fixed capitation payment to its affiliated hospitals by 10.2% to THB1,808 per registered member pa, from 1 May 2023 – positive to BCH (29% revenue mix from SS patients) as the biggest listed private hospital network under the SS programme, but minimal upside to BDMS (3% revenue contribution). • Prefer BDMS, as the sector's Top Pick	• No new bidding should occur under the acting cabinet administration. • We think the new government can work immediately on the bidding process of new road networks including i) Phuket expressway project and ii) two motorway extensions (Rangsit-Bang Pa In and Bang Khun Thien – Bang Bua Thong). • Also, the Red Line SRT extensions can be launched immediately after new government takes office. Meanwhile, bids for the double-track railway projects may also be launched. • Large construction companies have already recovered their earnings since FY22 in terms of revenue growth and GPM.	**Housing** • The majority of residential property developers have begun to launch new projects more aggressively since mid-May, immediately after the general elections. The success in boosting 2Q23 presales numbers relied on their take-up rates of newly launched projects. • As new project launches for F23 will be heavily loaded in 2H23 – especially 4Q23, we expect the overall industry's presales to follow suit in tandem with these new launches. There should be a likely trend of presales hitting FY23's highest quarter in 4Q23. • Condominium presales will be the vital factor to consider each developer's FY23 presales performance. • In term of earnings prospects, we expect 1Q23 to be the year's lowest quarter for several leading developers as they had a conservative stance on launching new projects. **Industrial Estates** • AMATA's and WHA's industrial land sales are set to see new highs based on their respective targets. On a YTD basis, their industrial land sales were much better than the first half in the previous years during the pandemic. Therefore, this implies a recovery. • AMATA is attempting to boost its industrial land sales to hit its full-year target of 2,250 rai, which is a historical high. Also, WHA is underway to record another high in industrial land sales via selling to the EV & parts sector based on its full-year target of 1,750 rai. • FDI inflows from China maintained its top position in Thailand. Meanwhile, the EV & supplies, electronics, and consumer products have been the leading sectors invested in the EEC area.
Risks	• Earnings correction due to a lower mix of COVID-19 treatments, mainly mid- to small-scale hospitals. • Changes in the revenue mix, with lower GPM transactions. • Lower-than-expected fly-in foreign patients post-pandemic or patient load dropping due to a resurgence of the pandemic. • Stronger-than-expected competition among hospitals.	• Intensive pricing competition within the bidding process, especially for infrastructure projects related to transportation. • Delay in launching new public project bids from the Government	• A possible hiccup in the housing industry during early FY23 due to the end of the relaxation of the LTV measures. • Post-election political climate may be the key factor to watch for FY23. An unfavourable climate will be negative for FDI inflow into Thailand.

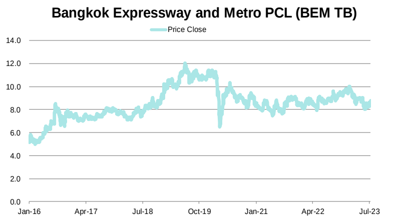
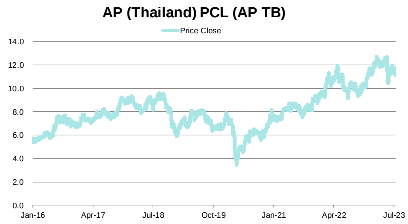
	Transportation	Petrochemicals	Tourism
SD chart			
Market cap (USDm)	43,973.53	12,632.29	9,212.91
Current index (pts)	345.50	849.84	618.63
Rating	**NEUTRAL**	**NEUTRAL**	**OVERWEIGHT**
Investment highlights	**Air Transportation** • We believe the seasonality effect led to lower air traffic, and expect the numbers to bottom out in June, before rebounding throughout Jul-Sep 2023. • The momentum of flights operating between Thailand and China may rise throughout AOT's 4QFY23F (Sep) following the resumption of air carriers' services between the two nations and stronger passenger demand. • Stronger operations may improve profit margins YoY further, while rising electricity and staff costs should have a minimal impact on earnings. **Rail Transportation** • Blue Line MRT ridership in June rose at a stronger growth rate of 34.5% YoY and 10% MoM to 381k trips/day and improved from April-May's low period. Weekday ridership also reached the highest level of 480k trips/day while the bulk of weekday numbers stayed above 400k trips/day. Within 1H23, the ridership average also surged 75% YoY to 366k trips/day. Note that ridership numbers from January to June were higher than FY19 numbers – every single month. • There should be further solid improvement in ridership numbers ahead when two monorail networks (Yellow and Pink Lines) commence operations within 2H23. Note: Management is anticipating 50k passengers/day from the Yellow Line monorail to be fed into the Blue Line MRT network.	• Consumption is expected to gradually recover from economic recovery, mainly from China and India in 3Q-4Q23 as manufacturers may require time for recovery. • More supply from Asia-Pacific to come in. The PE market has been undergoing a capacity expansion cycle. Peak additional supply is in 2023 will result in the contraction of operating rate to bottom out in 2023. • Possible M&As in the petrochemical industry are still under study, supported by huge companies as part of their integration efforts to increase synergy and profitability.	• 3Q23F international visitors to Thailand may improve to 6.8m (2Q23: 6.4m) – the expected increase in Chinese tourists to 1.25m (2Q23: 0.93m) may shore up the total arrivals. • Improving momentum of Chinese tourist numbers in 2H23, given rising demand, some seasonality, and more flights to come. A gradual increase in Chinese group tours – from <10% currently (pre-COVID-19: c.30%) – is also possible. • Excluding China and Japan, other regions have also seen more progress in terms of tourist arrival recoveries to Thailand. Some of the top source markets have even exceeded pre-pandemic levels – these include Malaysia, Vietnam, and Russia – while those from South Korea, India, and the UK are approaching 2019's numbers • Upgrade the assumption of total 2023 international visitors to Thailand to 27m from 24.8m, but maintain total foreign receipts of THB1.48bn (+142% YoY), and keep our forecasts on 2023 Chinese visitors to Thailand at 4.5m, ie 17% of total foreign arrivals for the year and a 41% average of 2019's numbers. • Our covered Thai hoteliers may deliver 3Q23F earnings turnaround YoY, and turn to improve QoQ, with revenue per available room staying above 2019 levels. MINT may still benefit from Europe's high travel season in the quarter.
Risks	**Air Transportation** • Fragile financials and operational readiness among air carriers, which may become a bottleneck for travel logistics. • Resurgence of outbreaks. **Rail Transportation** • Any changing behaviour of MRT passengers after the pandemic may decelerate the pace of ridership recovery. • Possible delays in the launching of new bids due to the slow processes undertaken by the Government	• Sluggish or slower-than-expected recovery in consumption, tourism and transportation activities. • Additional petrochemical supply to come in, especially from China and other parts of Asia.	• Delays or slower-than-expected arrivals of visitors from key source markets. • A labour shortage when the tourism industry is rebounding. • Rising competition. • Volatile quarterly earnings during low travel periods in Thailand ie in 2Q-3Q. • Hoteliers' high financial leverage limits room for business expansion.

	Energy & Utilities
SD chart	
Market cap (USDm)	110,016.67
Current index (pts)	21,801.01
Rating	**OVERWEIGHT**
Investment highlights	**O&G: OVERWEIGHT** • OPEC+ is ready for more severe production cuts – evidenced by the recent announcement of the extension of voluntary cuts by Saudi Arabia and Russia through August to manage the oil market. • Oil and gas demand is expected to recover, based on China's economic recovery as concerns over COVID-19 has reduced. This should support more demand from manufacturing processes and transportation in China. • Entering the driving season in 3Q23, tourism is likely to recover, leading to more oil demand recovery such as gasoline, diesel, and aviation oil due to an increase in transportation activities. **Utilities: NEUTRAL** • Utilities demand should recovery after economic recovery. • Energy costs return to be still high due to OPEC+'s oil production cut. • Positive longer term outlook, in view of the green transition providing growth opportunities. • Growth stocks with specific catalysts are positive eg battery production, digital infrastructure and EV-related businesses.
Risks	**O&G** • Slower-than-expected recovery in tourism, economic growth and production. • Possible encounter with request from the Government to help support people's cost of living. • International and political risks that may impact the flow of investments. **Utilities** • Unplanned maintenance procedures and high energy raw material costs. • Lower-than-expected electricity demand and economic recovery. • Undesirable effect of any change in FX movement.

Stock Picks For 2023

	Airports of Thailand (AOT TB)	Central Pattana (CPN TB)	Central Retail Corporation (CRC TB)
Share price performance			
Market cap (USDm)	29,513.33	8,586.52	7,108.72
Current price	THB71.00	THB66.00	THB40.50
Rating/TP	BUY, THB82.00	BUY, THB83.50	BUY, THB53.00
Sector	**Transport**	**Retail**	**Retail**
Company description	AOT manages airports in Thailand, with the core tasks being airport management and the development of country's six international airports – Suvarnabhumi (BKK), Don Mueang (DMK), Chiang Mai, Mae Fah Luang-Chiang Rai, Phuket, and Hat Yai. All six serve both domestic and international flights, with BKK designated as Thailand's main airport.	Central Pattana is involved in retail property for rental. Its properties comprise large shopping complexes, and are branded under Central, on top of other supportive businesses – as retail-led mixed-use projects Its portfolio mainly consists of shopping centres, offices, hotels, and residential-for-sale businesses. CPN also invests in retail and office property funds, and acts as a property manager for such funds.	Central Retail Corporation is Thailand's leading multi-format retail platform, with retail banners and omni-channel offerings across multiple retail categories. These include fashion, hardline, food, and leasable property which accounted for 25%, 33%, 39%, and 3% of 2022 core revenue. Its key operating destinations are Thailand, Vietnam, and Italy, which represented 69%, 24, and 7% of 2022 sales. Its store portfolio had a total 1,842 stores and 71 shopping malls as of end-2022.
Business strengths	• A natural monopoly business. • Solid stream of recurring income from services. • Favourable concession agreements. • Thailand as one of major air transport and tourism hubs in South-East Asia.	• Market leader in the retail development segment. • Supportive major shareholder – Central Group – helps Central Pattana to secure dynamic tenants. • Strong demand for retail space led by new entrants from international brands. • High potential to develop mixed-use property projects in Thailand and overseas.	• The retail arm of Central Group, a Thai retail conglomerate with over 70 years of industry experience. • Solid business ecosystem with diversified store platforms and locations, as well as an omni-channel first mover. • Strong brand recognition, and good relationship with its customers and suppliers (from luxury brands to everyday labels). • Successful overseas business expansion with M&A opportunities.
Investment highlights	• Flights between Thailand and China slated to ramp up to 430/week (one-third of 2019 levels) from June (from 100 weekly flights in May) has unlocked the travel bottleneck. • BKK's new Satellite Terminal opening in Sep 2023 may drive AOT's earnings from FY24. • Long-term catalysts: i) Plans to boost non-aeronautical revenue to 50% from c.45% currently, ii) the idea of PSC collections for air transit/transfer passengers, iii) expansions of BKK and DMK and the planned transfers of three airports to AOT. • Earnings turnaround to THB11.5bn in FY23F, with aircraft and passenger numbers at 74% and 67% of 2019's levels vs FY22's 44% and 33%.	• Benefits from the normalising rental rate discounts given to mall tenants, and the rising customer traffic to CPN malls in tourism destinations. • Secured new project openings this year, including two retail malls, seven hotels, and seven residential sites. • The opening of the Central WestVille mall (32,000 sqm) in 4Q23 and scheduled transfers of c.THB2.5bn residential units (mainly high-rise projects) in 2H23 to strengthen 2H23F earnings. • Positive to a clarity on the renewal of lease terms and contracts of two shopping malls with CPNREIT. 2023F core profit to grow strongly by 18% YoY – beating pre-COVID-19 levels, while 3Q23F earnings may expand both YoY and QoQ.	• Performance of fashion and leasable property segments to bring revenue back to pre-pandemic levels, and improve the profit margin expansions. • Sales from international tourists are at >10%, beating 2019's c.5%, and this momentum may improve throughout the rest of 2023, to be driven by increasing Chinese arrivals. • A better outlook for the hardline unit in 2H23F on the aggressive opening of 10 Thai Watsadu stores, healthier sales momentum of Ngyuen Kim appliance stores in Vietnam post its business restructuring, and utility costs optimisation. • Expect 19% core profit growth in 2023, while 3Q23F earnings may expand YoY.
Valuations	DCF	DCF	DCF
Risks	• Slower-than-expected air travel recovery. • Delays in project investment plans. • Uncertainties, ie changes in government policies, political gatherings, natural disasters including disease outbreaks.	• Delays in the opening of new projects. • Popularity of online trading channels. • Uncertainties like natural disasters, riots, and terrorism.	• A slow recovery in consumption. • Delayed opening of new stores. • Rising competition. • Higher-than-expected opex.

	Thai Union Group (TU TB)	PTT Oil and Retail Business (OR TB)	PTT Exploration & Production (PTTEP TB)
Share price performance			
Market cap (USDm)	1,723.13	7,441.48	17,920.31
Current price	THB12.90	THB21.30	THB155.00
Rating/TP	BUY, THB20.00	BUY, THB28.00	BUY, THB183.00
Sector	**Food**	**Energy**	**Energy & Petrochemical**
Company description	Thai Union is one of the world's largest seafood players. The group owns a leading brands portfolio in key markets and global sourcing, production, and distributing networks. TU's key products are canned tuna and frozen shrimp, which it also produces for external customers through its private label business.	OR operates an integrated oil and non-oil retailing platform in Thailand and abroad. These include the sale and distribution of petroleum products and other products in retail and commercial marketing, eg coffee shops, other F&B outlets, and convenience stores.	PTTEP is the government's oil & gas exploration flagship. Major assets are predominantly in Thailand, with exposure to Myanmar, Malaysia, Indonesia, the United Arab Emirates, and Oman.
Business strengths	• Top 4 leading companies offering a quality tuna market. • Fully business integration with scale throughout the supply chain.	• Under integration chain and with support from PTT Group, the largest and integrated energy player in Thailand with nationwide branches in Thailand and neighbouring countries. PTT Group holds strong market position in terms of oil & gas production as well as oil retail business. • Moving toward potential long term business trend such as healthy food, health and wellness, and EV-related business.	• Under integration chain and with support from PTT Group, the largest and integrated energy player in Thailand with nationwide branches in Thailand and neighbouring countries. PTT Group holds strong market position in terms of oil & gas production as well as oil retail business. • Long term experience in oil & gas exploration with several diversified sites throughout the world.
Investment highlights	• TU will likely enter its high season during 3Q23, given increased orders and favorable weather for outdoor dining in the northern hemisphere. Management guided for 2H23 to be better due to the demand recovery for the group's products. • The company should see tuna cost decline in 3Q23. The company expects tuna prices to start declining from Aug 2023, after passing a fish aggregating devices (FAD) ban period. This would benefit TU's costs from late 3Q23. • Cheap valuation. The stock's valuation is inexpensive – trading at 9.6x P/E, ie below its 5-year average of about 14x. TU also provides an attractive FY23F dividend yield of 5%.	• Tourism sector is recovering, which should spur demand for transportation. Gasoline, diesel and aviation oil consumption are likely to recover. We are still positive on the improving trend of Chinese tourist numbers in 2H23, given the rising demand, seasonal factors, and increasing flights. The Civil Aviation Authority of Thailand also recently approved the increase in the number of operated flights between Thailand and China to 430/week or c.61/day (one-third of pre-COVID-19 levels), beginning from 1 Jun, compared with 100 flights/week in May. • Lifestyle business should be better in 2H23, boosted by international business that is likely to expand, while retail and oil mobility businesses ought to also grow through Café Amazon and oil stations.	• It is positive on OPEC+'s lower crude output post Saudi Arabia and Russia's voluntary supply cuts of 1mbpd (July-August) and 0.5mbpd (August). It is expected that OPEC+ is ready for more production cuts ahead to manage the oil market. • More progress on Erawan • , which previously had site access issues – it now sees more development. PTTEP has equipped more production rigs there with more production in 2023. Erawan field has increased gas production to 400mmcfd from 28 Jun, up from 200mmcfd at the start of the year. Management is confident that December will see an additional 600mmcfd being produced. • It is expected that 3Q23 and 4Q23 oil prices projections of USD80 and USD85/bbl are largely premised on stronger fundamentals as a result of higher demand. Global oil demand is set to grow by 2mbpd this year, which will drive the market to a theoretical deficit of 0.5-0.6mbpd in 2H23 – in our view. We still expect a balanced market, with an average theoretical deficit of 0.1mbpd in 2023. • PTTEP is expected to pay an attractive dividend yield in 2023.of approximately 5%.
Valuations	P/E, DCF	P/E, DCF	DCF and prospective P/BV
Risks	• Volatility in raw material costs. • Possible disease outbreaks that could adversely affect demand and supply. • Slower-than-expected consumption recovery. .	• Slower-than-expected economic recovery. • Government and retail regulations may negatively affect the sector. • Regulations changing for international businesses across countries.	• Slower-than-anticipated economic recovery. • More oil supply coming in the market.

	Bangkok Expressway and Metro (BEM TB)	AP (Thailand) (AP TB)
Share price performance		
Market cap (USDm)	3,928.67	1,072.14
Current price	THB8.75	THB11.60
Rating/TP	BUY, THB11.22	BUY, THB14.40
Sector	**Transportation**	**Property**
Company description	BEM constructs and operates expressways, handles operations management of MRT systems, and other related businesses.	AP (Thailand) conducts a property developing business ie, townhouse, single-detached house, and condominium in the residential area or CBD with easy access transportation and design to match consumer needs of each group and area.
Business strengths	• 1H23 expressway traffic and Blue Line MRT ridership numbers have proved that BEM's organic growth mechanism is working to support its growth as the company strives to hit pre-pandemic levels. • This organic growth mechanism will strengthen throughout this year as the commuting activities should be busier before the festive season in 4Q23.	• Market leader in the condominium and low-rise project segments. • Its condominium projects, especially in some specific locations, are widely known among Chinese investors. • AP's presales momentum on a YTD basis has begun to strengthen earlier and faster than its competitors.
Investment highlights	• For FY23, traffic and ridership numbers should strengthen in 2H23 based on 2Q's normally low seasonal patterns. Expressway traffic should continue to crawl up to pre-pandemic levels (>1.2m trips/day) while Blue Line MRT ridership ought to hit a new record high (likely in 4Q23). Therefore, FY23F earnings should grow 43%YoY to THB3.47bn. • Upside potential in 2H23 will come from additional passenger numbers fed in from the Yellow Line monorail that recently started operations. • Dividend income from two related companies have consistently supported BEM's performance in second and third quarter.	• After conservatively launching new projects in 1Q23 over concerns of the impact from the expiration of the LTV relaxation, AP began more aggressive launches in May after April's long holiday period. This allowed the company to achieve 2Q23 overall presales of THB12.6bn (flat YoY, +14% QoQ and 1H23 overall presales of THB23.6bn (-7% YoY). • The condominium segment began to deliver a strong presales growth of 43% YoY in 2Q23 while AP's 1H23 overall presales represented 40% of full-year target despite a 7% YoY decline in 1H23 presales. • We also expect FY23's quarterly earnings to ramp up in tandem from the lowest point in 1Q23 to its highest mark in 4Q23F. Should the low-rise project presales momentum strengthen throughout the year, there will likely be an upside to our current FY23F earnings (-9% YoY).
Valuation	SOP	P/E
Risks	• Weaker-than-expected future traffic and ridership growth. • Lack of new bids for infrastructure project under public-private partnership schemes	• High household debt. • Intensive competition within the industry.

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470