5 January 2024

Market Strategy

Brightening Skies

- **A better 2024.** We see more reasons to be optimistic on 2024's outlook with much of the bad news already in the price. RHB's house view on US monetary policy has turned more dovish – this is coupled with a no landing scenario for the US. China's macroeconomic recovery could be the icing on the cake to attract fund flows back to emerging markets. Laggard Thailand is the preferred market followed by Indonesia. Key risks: Sticky inflation and higher-for-longer rates.
- **Indonesia.** We expect the 2024 election to go off without a hitch. Based on the JCI's movements during the previous four referendums, the index tends to rally and be positive in the years following an election. We keep our GDP growth forecast for 2024 at 5%, with private consumption expenditure as the primary driver. The expected Bank Indonesia (BI) rate cut should assist banks (particularly those with limited liquidity) in better managing their cost of funds (CoFs). We believe China's anticipated recovery will benefit Indonesia commodities, ie copper, nickel, and pulp & paper. Our end-2024 target for the JCI is 7,900pts, ie -1SD from the 5-year mean.
- **Malaysia.** The growth pick-up, China's recovery, easier monetary policy trends, expected pivot in the MYR/USD, and progress on fiscal reforms will be positive for investor sentiment and corporate earnings prospects in 2024. Investment themes include accumulating on weakness, focus on laggards, China recovery plays, beneficiaries of a stronger MYR, and small-mid-cap opportunities. Investor outperformance will invariably depend on astute stock picking. We are OVERWEIGHT on the property, rubber products, construction, healthcare, transport, oil & gas, utilities, basic materials and non-bank financial institutions sectors. We introduce our end-2024 FBM KLCI target of 1,600pts based on 15x target P/E on forward FY25 EPS.
- **Singapore.** In 2024, we expect Singapore to see a sharp improvement in GDP growth, aided by improvements on the external front, YoY moderation in inflation, and an interest rate decline. This will create ample opportunities for investors looking to invest in Singapore, Asia's highest-yielding equity market. Amid the expectation of moderate index EPS growth, a thematic approach and bottom-up stock picking will be more relevant for Singapore. The STI's forward P/E appears inexpensive vis-à-vis its own long-term average and against regional peers. Our end-2024 STI target of 3,380pts is based on an 11.25x P/E multiple applied to 2025F EPS.
- **Thailand.** In 2023, the SET declined 15% YoY, making it one of the worst performers among Asian markets. Delays in the formation of a new government post Mar 2023's election and disruptions in public spending and budget disbursements also caused the economy to lose six months of growth momentum. We believe the SET has hit bottom – and anticipate a turning point where investment sentiment will recover. As such, investors can resume accumulating stocks while we wait for the recovery in overall market fundamentals from 1Q24 onwards. Our end-2024 target for the SET is 1,552pts, ie a 15-year mean P/E of 18.46x.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Bangkok Bank	Buy	THB192.00	22.7	6.5	0.5	8.3	4.2
Bank Rakyat Indonesia	Buy	IDR6,450	12.7	12.1	2.3	19.6	5.9
Central Pattana	Buy	THB85.00	21.4	21.2	3.2	15.7	1.9
CIMB	Buy	MYR6.88	17.6	9.0	0.9	10.3	6.2
CP ALL	Buy	THB75.50	34.8	23.8	4.2	18.4	2.1
Indah Kiat Pulp & Paper	Buy	IDR22,975	176.0	4.0	0.4	12.3	0.6
Keppel REIT	Buy	SGD1.08	16.3	14.2	0.7	4.8	6.3
Malaysia Airports	Buy	MYR8.66	17.7	16.9	1.5	9.1	2.8
Semen Indonesia	Buy	IDR9,300	45.3	13.8	0.9	6.8	2.7
Singtel	Buy	SGD3.20	29.6	14.9	1.4	9.8	6.2
ST Engineering	Buy	SGD4.45	14.4	17.2	4.5	27.3	4.1
UEM Sunrise	Buy	MYR1.18	44.3	47.1	0.6	1.2	-

Source: Company data, RHB

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Indonesia Strategy

We expect the 2024 election to proceed without a hitch. Two presidential candidates, Prabowo Subianto and Ganjar Pranowo, have indicated that they intend to continue outgoing President Joko Widodo's programmes, albeit with some improvements and acceleration. Conversely, candidate Anies Baswedan stated that he will make changes to the current administration's programmes, particularly in the development of the new capital city or IKN project, ie Nusantara. Based on the results of eight surveys conducted in Oct and Nov 2023, Prabowo's electability increased to 44.2% in Nov 2023 – up from 38.8% in Oct 2023. Meanwhile, Ganjar and Anies' electability fell to 27.3% and 21.6% from 32.1% and 22.2% during the same period.

- Please refer to our *2024 Indonesia Strategy* report for more details

Based on the JCI's movements during the previous four general elections, the index is typically volatile one year before a referendum. Meanwhile, during the election period, the JCI tends to rally – it then moves positively in the years following the election. This is most likely driven by expectations of improved economic conditions under a new presidential administration. The exception was in 2020, when the JCI dropped significantly one year after the election due to the COVID-19 pandemic.

We maintain our GDP growth forecast at 5% for 2024, with private consumption expenditure being the primary driver. We recently revised our 2024 headline inflation forecast to 3.3% YoY, up from the previous estimate of 3%. Core inflation is projected to grow at 2.2% YoY. We expect BI to keep its policy rate (7-day reverse repo rate) at 6% in 1H24, followed by a 50bps rate cut in 2H24 to 5.50%, albeit the balance of risk is for the central bank to raise its policy rate by another 25bps to 6.25% in 1Q24.

In 2024, we anticipate a gradual strengthening of the IDR towards the lower range of our 2H24 forecast, specifically between 15,000 and 15,600. The primary catalyst for the potential appreciation of the currency lies in the expected anchoring of market expectations on the peak US Federal Funds Rate (FFR) in the first quarter, coupled with the anticipation of a rate cut in the second half of 2024. We foresee the IDR-USD yield differential widening towards the year's end, hence increasing the positive carry associated with the domestic currency. This development is expected to encourage more substantial capital inflows into the bond market, providing additional support for the currency's appreciation.

We upgraded our residential property rating to OVERWEIGHT from Underweight because we believe the VAT discount for properties worth up to IDR5bn – and fee assistance of up to IDR4m for properties in low-income communities – (effective until the end of 2024) will boost property sales. These incentives serve as a further impetus for property developers, particularly those with large inventory. It is also advantageous for developers with low inventory levels wishing to benefit from the 50% VAT discount between Jul and Dec 2024. Ciputra Development (CTRA IJ, BUY, TP: IDR1,330) has IDR1.8trn of inventory eligible for the incentive (21% of its FY24F presales target) while Summarecon Agung (SMRA IJ, NEUTRAL, TP: IDR560) currently has IDR800bn of inventory eligible for the incentive (16% of its FY24F presales target).

Automotive has been downgraded to NEUTRAL from Overweight. We anticipate vehicle sales to be flat in 2024, with monthly vehicle wholesales softening in 1Q24 but gradually increasing in 2Q24. Following the elections, sales are expected to increase. Furthermore, we believe BI will lower interest rates in 2H24. This may reduce financing costs and increase vehicle sales in the second half of the year, offsetting weak sales in the first quarter. It is worth noting that 4-wheeler (4W) and 2-wheeler (2W) monthly vehicle wholesales have returned to pre-pandemic levels, with 2023 expected to be a high base. 2W wholesales drove sales growth this year, while 4W wholesales remained flat. Despite expected flat 2024 automotive sales, we continue to like Astra International (ASII IJ, BUY, TP: IDR7,100) due to its attractive valuation. Additionally, ASII is expected to maintain its dominance in the domestic vehicle market.

The expected BI rate cut – by 50bps in 2H24 – should help banks, particularly those with limited liquidity, manage their CoFs more effectively. Finally, it should aid in the improvement of NIM. Among small-mid-cap banks, Bank Tabungan Negara (BBTN IJ, BUY, TP: IDR1,650) should benefit the most from lower central bank rates, while Bank Rakyat Indonesia (BBRI) will likely benefit among the Big-4 banks. Small-mid-cap banks' liquidity was tighter in Oct 2023, with an LDR of 94.7%, significantly higher than the Big-4 banks' LDR of 84.7%. This condition has forced small-mid-cap banks to raise deposits at higher rates to maintain liquidity, while repricing loan yields to match the pace of BI rate hikes takes time, in our view.

We see cement as an intriguing laggard. At least three catalysts exist in the sector: i) Property VAT reduction (which should boost property sales), ii) expected BI rate cut in 2H24 that should lower financing costs (particularly for mortgaged loans), and iii) accelerated IKN development that should increase cement demand. The government budget for Nusantara's development in 2023-2024 may increase cement demand by 1.1-1.2m tonnes or approximately 2% of annual national cement consumption. Due to security concerns and the confidentiality of government office designs, IKN projects may be assigned to a state-owned enterprise or SOE. Semen Indonesia (SMGR) is our sector Top Pick.

We believe the expected economic recovery of China will benefit industrial and base metals such as copper and nickel. Rising commodity prices will benefit metal mining companies like Aneka Tambang (ANTM IJ, BUY, TP: IDR2,660) and Vale Indonesia (INCO IJ, BUY, TP: IDR6,000) the most. The Chinese economy is expected to improve, resulting in increased demand for paper packaging. Pulp demand is expected to rise significantly in 2024F, benefiting pulp and paper manufacturers like Indah Kiat Pulp & Paper (INKP). Despite seeing early signs of China's economic recovery, we remain cautiously optimistic – this is given the East Asian nation's real estate headwinds and ongoing risk of corporate defaults. In Oct 2023, we raised China's GDP growth forecast to 5% from 4%, citing a stronger-than-expected 3Q23 growth print.

Toll road purchasing and selling activity will almost certainly be active in 2024, especially after the election. We believe that recycling toll road assets will assist toll road operators in improving cash flows and lowering debt exposures. Jasa Marga (JSMR IJ, BUY, TP: IDR5,400) and Waskita Karya (WSKT IJ, UNDER REVIEW; previously Buy, TP: IDR940) have announced plans to divest a number of their toll roads. Corporate action to sell such roads is one of many asset-recycling strategies.

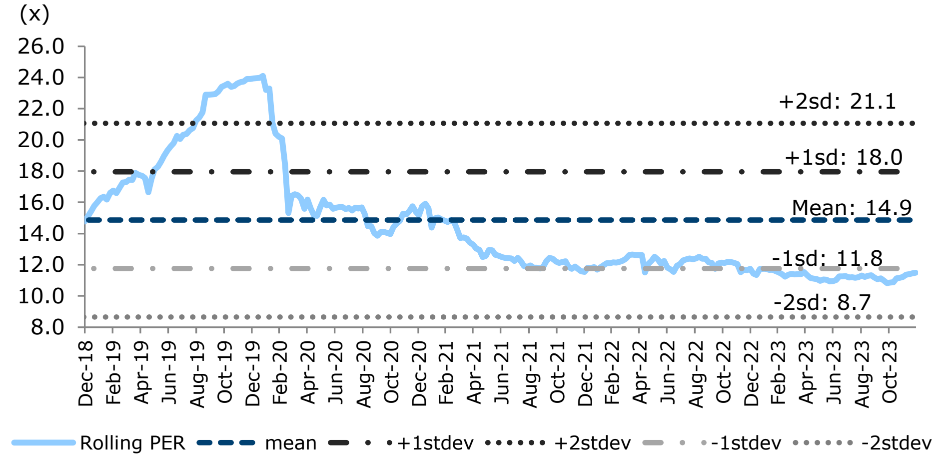
We believe the limited minimum wage increase – which is lower than historical minimum wage increases – will put additional pressure on people's purchasing power. This is on top of the high inflation levels, which are expected to continue in 1Q24. As a result, ongoing government stimulus programmes, such as cash assistance, may play a larger role in increasing the people's purchasing power, especially among the lower-income segments. We continue to favour mid- to upper-tier retailers with more resilient consumer segments. Furthermore, because salary expenses to revenue ratio accounted for approximately 13-14% of retailers' net revenue in 9M23, this may assist premium retailers in managing margins. This, combined with its consumer profile's increased purchasing power, should bode well for mid- to upper-tier retailers like MAP Aktif Adiperkasa (MAPA IJ, BUY, TP: IDR1,150), Sumber Alfaria Trijaya (AMRT IJ, BUY, TP: IDR3,500), and Mitra Adiperkasa (MAPI IJ, BUY, TP: IDR2,500).

By the end of 2024, the JCI is expected to rise 10% from current levels to 7,900pts, implying 12.5x and 11.3x FY24F-25F P/Es or at -1SD from the 5-year P/E mean. Meanwhile, we believe the IDX80 will grow 15%, outpacing the JCI in 2024, thanks to some appealing laggard good quality counters in the IDX80 universe, eg ASII, Bank Mandiri (BMRI IJ, BUY, TP: IDR6,970) INKP, INCO, and Medco Energi Internasional (MEDC IJ, BUY, TP: IDR1,770). Although the election is likely to go smoothly, we believe the risk of uncertainty in the political situation during the election year will cause the JCI and IDX80 to trade below their averages. The two indices' movements are likely to remain volatile in 1Q24 until mid-2Q24, when they will likely begin to rally as the election nears completion.

We see a promising long-term investment outlook for the JCI. According to the previous four general elections' index movements, the JCI is typically volatile one year before election year. It then tends to rally and move positively in the years following an election. Expectations of improved economic conditions under the new presidential administration are most likely driving this positivity. The exception was in 2020 when the COVID-19 pandemic caused a significant drop in the JCI one year after the election.

However, the index is likely to be volatile in the short term. The fact that the JCI has surpassed 7,350pts may prompt market profit-taking, particularly for stocks that have risen significantly in the face of low trading liquidity.

Figure 1: The JCI's 12-month forward-rolling P/E band



Source: Bloomberg, RHB

- In our calculations, the JCI is trading slightly below -1SD from the 12-month forward-rolling P/E

Figure 2: The JCI's key statistics

Market data	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	21.5	2.7	6.1	7.2
Operating profit growth (%)	42.0	1.1	6.7	9.1
Net profit growth (%)	45.1	3.0	8.4	10.4
Current P/E (x)	13.1	12.7	11.7	10.6
EPS (IDR)	567	584	633	698
PEG (x)	0.3	4.3	1.4	1.0
EV/EBITDA (x)	10.4	9.3	8.1	7.1
P/BV (x)	2.0	1.9	1.8	1.6
Dividend yield (%)	6.8	6.0	5.2	5.2
ROE (%)	15.7	14.9	15.1	15.4

Source: Company data, RHB

- The JCI is trading at 1.8-1.6x FY24F-25F P/BV with attractive 15.1-15.4% ROEs in FY24F and FY25F. FY24F-25F dividend yields are appealing at 5.2%
- Following a robust 45.1% YoY increase in FY22 earnings, we see JCI earnings still growing 3% in FY23F. It is expected to accelerate to 8.4% and 10.4% YoY in FY24 and FY25

Figure 3: Earnings growth summary of sectors in RHB's coverage universe (2024-2025F)

Sector	Mkt cap IDRtrn	Weight %	2024F Net profit growth (YoY %) RHB	2024F Net profit growth (YoY %) Cons.	2024F P/E (x) RHB	2024F P/E (x) Cons.	2025F Net profit growth (YoY %) RHB	2025F Net profit growth (YoY %) Cons.	2025F P/E (x) RHB	2025F P/E (x) Cons.
Financials services	2,899	53.6%	12.7	11.9	13.2	13.4	11.1	9.5	11.9	12.2
Consumer non-cyclical	758	14.0%	12.4	11.7	13.5	13.1	13.4	10.1	11.9	11.9
Infrastructure	547	10.1%	27.8	13.2	12.5	14.5	14.5	13.8	10.9	12.7
Industrials	318	5.9%	(7.6)	(4.7)	6.7	6.4	7.5	0.6	6.3	6.4
Basic materials	272	5.0%	13.0	13.3	10.0	11.1	16.3	16.1	8.6	9.6
Energy	229	4.2%	(16.1)	(14.9)	5.3	5.4	(6.9)	(10.4)	5.7	6.1
Healthcare	188	3.5%	16.9	16.0	23.1	23.1	14.2	13.4	20.3	20.4
Consumer cyclical	110	2.0%	19.1	17.1	10.2	9.7	17.7	18.9	8.6	8.1
Property	88	1.6%	17.5	9.7	9.3	9.0	13.8	10.4	8.1	8.2
Total	**5,409**	**100%**	**8.4**	**7.2**	**11.7**	**11.9**	**10.4**	**7.9**	**10.6**	**11.0**

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

Figure 4: Sector rotation – a summary

Sector	Top Picks (denoted by stock code)
OVERWEIGHT	
Banks	BBRI, BBNI
Cement	SMGR
Healthcare	HEAL
Metal mining	ANTM, INCO
Oil & gas	AKRA
Property – industrial estates	SSIA, DMAS
Property – residential developer	CTRA, SMRA
Pulp & paper	INKP
Retail	AMRT
Telco	EXCL
NEUTRAL	
Auto	ASII, AUTO
Consumer staples	MYOR
Coal	PTBA, ITMG, ADRO
Plantation	LSIP
Poultry	JPFA
Tobacco	HMSP

Source: RHB

Sector highlights and outlook

Figure 5: Sector highlights and outlook (i)

Sector	Rating	Highlight/outlook	Top Picks
Banks	OVERWEIGHT	The expected BI rate cut – by 50bps in 2H24 – should help banks, particularly those with limited liquidity, to manage their CoFs more effectively. Finally, it should aid in the improvement of their NIMs. IND Banks' – the banks under our coverage – 10M23 earnings (banks only) increased 17.8% YoY vs 14.3% YoY in 9M23, ie in line. 10M23 loans rose 11.1% YoY vs 9.6% YoY in 9M23. Third-party funds grew slower than loans, while CASA fell slightly. Despite the rising CoFs, 10M23 NIMs stayed at 5.5%. Save for three banks, all other IND Banks experienced a significant YoY decrease in cost of credit or CoC in 10M23. 10M23 LDR remains manageable, with an average of 86.2%.	BBRI, BBNI
Cement	OVERWEIGHT	Volume recovery continues. We expect 2% industry volume growth in FY24, partially supported by the IKN project, for which the Government allocated IDR40.6trn for 2024. Currently SMGR is the main cement player for Nusantara's development, supplying more than 80% of the IKN's cement consumption. Additionally, the Government gives a 100% property tax incentive for residential housing until Jun 2024 and 50% until Dec 2024, which may accelerate property development – driving up bag cement demand. Note: The sales mix is still dominated by bag cement, accountable for 75% of national sales volumes.	SMGR
Healthcare	OVERWEIGHT	We foresee a healthier outlook for 2024, driven by stronger government support, which is reflected by a higher healthcare budget. Additionally, a potential increase in endemic diseases from a post *El Nino* impact might benefit the sector (especially the hospital segment) as well. While lower commodity prices might benefit the pharmaceutical companies, we have concerns over topline growth from potentially soft purchasing power, which could rein in in margins expansions.	HEAL
Metal mining	OVERWEIGHT	We believe the expected Chinese economic recovery will benefit industrial and base metals such as copper and nickel in 2024. On the nickel segment, we will likely see prices hovering at the c.USD20k per tonne level again throughout FY24 vs 2H23's LME price of USD19 per tonne. Key risk: Present global macro factors are proving harder to tackle.	ANTM, INCO
Oil & gas	OVERWEIGHT	Our regional view estimates Brent crude oil prices to hover at USD85 per bbl for 2024 (USD80 per bbl for FY25-26). Such forecasts have include a scenario of stabilised demand next year from an improved global economy overall (eg China's economy to accelerate, rate normalisation, etc) – global oil demand is set to notch 104.4mbpd in 2024, with the theoretical deficit to average at 1.5mbpd.	AKRA, MEDC
Property – industrial estates	OVERWEIGHT	After a full reopening in 2023, inquiries increased and revenue recognition should improve next year. Industrial estates' long-term and strategic natures make them less susceptible to interest rate fluctuations, so demand should rise. Food, manufacturing, transportation, and automotive will drive demand. In addition to data centres and smelters, metals-related industries may affect demand. Due to strong e-commerce and logistic operations, logistics warehousing has increased, boosting industrial estate development. 2024 is an election year, but foreign direct investments have not been affected.	SSIA, DMAS

Source: Company data, RHB

Figure 6: Sector highlights and outlook (ii)

Sector	Rating	Highlight/outlook	Top Picks
Property – residential developers	OVERWEIGHT	We like the residential property sector, as we expect stellar performances to be recognised from FY24 onwards following robust presales in 1H20-FY23F. Another tax incentive is also expected to support FY24F pre-sales. We estimate that SMRA currently has c.IDR800bn of inventory eligible for this tax incentive (c.16% of FY24F presales target) while CTRA holds IDR1.8trn of eligible inventory (c.21% of FY24F presales target). Sector valuation at -1SD discount to RNAV, which is attractive.	CTRA SMRA
Pulp & paper	OVERWEIGHT	Depleting global producers' inventory days and growing demand should support pulp price recovery. The growing usage of bleached hardwood kraft (BHK) to substitute more expensive bleached softwood kraft (BSK) benefits Asian and Brazilian pulp producers, in our view. However, the main beneficiary would be integrated pulp and paper producers, as they are less affected by pulp price volatility.	INKP
Retail	OVERWEIGHT	Although the minimum wage increase in 2024 will be minimal, we note that in 2017, retailers that catered to the mid-to-upper income segments managed to book higher and double-digit growth, despite the minimum wage growth being much lower vs 2016 – this suggests more resilience for this segment of retailers. Benign wage growth in the Java-Bali areas of c.4% should also help manage opex. Note: The majority of these mid-to-upper income retailers' outlets are located in Java and salary costs make up c.14% of revenue. We also believe these retailers will continue with their expansion plans – which should bode well for the sector in the long term.	AMRT
Telecommunications	OVERWEIGHT	The Government's plan to tender the 700Mhz spectrum in early 2024 should enable telco operators to increase ARPU. Much larger bandwidth availability is crucial for operators, as data consumption is growing aggressively. Additionally, the Government plans to open another 300Mhz bandwidth for operators in 2-3 years in the 3.3-3.6Ghz frequency range for 5G.	EXCL

Source: Company data, RHB

Figure 7: Top 10 picks

	Name	Ticker	Rating	Price	TP	Upside/ downside	Market cap	2024F EPS growth	P/E	P/BV	PEG	ROAE	Yield
				(IDR)	(IDR)	(%)	(USDbn)	(%)	(x)	(x)	(x)	(%)	(%)
1	Bank Rakyat Indonesia	BBRI IJ	BUY	5,725	6,450	12.7	56.4	13.3	12.1	2.3	0.9	19.6	5.9
2	Astra International	ASII IJ	BUY	5,650	7,100	25.7	14.9	0.1	7.5	1.1	79.5	15.2	6.2
3	Sumber Alfaria Trijaya	AMRT IJ	BUY	2,930	3,500	19.5	7.9	21.2	30.3	7.0	1.4	25.1	1.2
4	Mayora Indah	MYOR IJ	BUY	2,490	3,000	20.5	3.6	5.2	21.3	3.6	4.1	17.8	2.5
5	Indah Kiat Pulp & Paper	INKP IJ	BUY	8,325	22,975	176.0	3.0	33.8	4.0	0.4	0.1	12.3	0.6
6	Semen Indonesia	SMGR IJ	BUY	6,400	9,300	45.3	2.8	10.4	13.8	0.9	1.3	6.8	2.7
7	Aneka Tambang	ANTM IJ	BUY	1,705	2,660	56.0	2.7	1.9	9.7	1.0	5.0	10.8	1.0
8	AKR Corporindo	AKRA IJ	BUY	1,475	1,880	27.5	1.9	14.1	9.8	2.1	0.7	22.7	4.4
9	XL Axiata	EXCL IJ	BUY	2,000	3,140	57.0	1.7	52.0	11.4	0.9	0.2	8.3	2.4
10	Ciputra Development	CTRA IJ	BUY	1,170	1,330	13.7	1.4	19.1	8.8	1.0	0.5	11.6	1.1

*Note: *As per closing prices on 29 Dec 2023*
Source: Company data, RHB

Malaysia Strategy

♦ Please refer to our *2024 Malaysia Strategy* report for more details

Key re-rating catalysts for equity markets in 2024

Equity markets in 2024 will continue to take its direction from a combination of external and domestic factors that ultimately have a bearing on the prospects for corporate earnings and investor sentiment as investors refocus on fundamentals.

External factors:

i. **How the global macroeconomic situation evolves.** The US economy has proven to be more resilient, confounding expectations. However, this is a double-edged sword, keeping inflationary pressures up and forcing the US Federal Reserve (US Fed) to adopt a hawkish tone. The RHB house view is for a "no-landing" scenario for the US economy, helped by a robust jobs market. RHB Economics expects global growth to accelerate in 2024. US GDP growth is forecast at 2.5% and 2.2% for 2023 and 2024;

ii. **China economic recovery.** Further positive China economic, FX, or corporate news flow will lift local investor sentiment on the back of the improved outlook for trade and tourism. RHB Economics is already seeing early signs of China's economic recovery, with the Government in discussion to introduce measures including bank support for eligible firms while contemplating extending unsecured loans to the embattled property sector. RHB Economics recently upgraded China's 2023 GDP growth to 5.0% (from 4.0%) underpinned by better-than-expected 3Q23 GDP growth data, relatively stronger China-centric high-frequency data in 2H23 and continued government stimulus measures. Our 5% GDP growth forecast for 2024 is also above consensus;

iii. **US inflation data readings**. RHB Economics believes that risks surrounding global inflation outlook remain skewed to the upside, while the US inflation may stay sticky into early next year. Three key reasons for the US inflation to see an upside bias include: a) Higher commodity prices and energy demand coupled with slowing export momentum, b) Higher wages are not fully digested, and c) China's economic recovery may lead to higher base metal demand and prices;

iv. **US monetary policy narrative.** In line with RHB Economics' expectations, the US Fed left the FFR unchanged at the Dec 2023 FOMC meeting, although our base case expectation is for a final 25bps hike in 1Q24 with the FFR to peak at 5.50-5.75%. US Fed Chair Jerome Powell's press statement and the subsequent Q&A suggest that the central bank remains hawkish. Our counter-consensus FFR view is underpinned by an upside bias for inflation pressures in the coming months. Sticky inflation data may result in an extended higher-for-longer phase. See the RHB Economic report for more details. Nonetheless, we note that the latest dot-plot chart now pencils three cuts in 2024, against the previous indication of only two cuts;

v. **USD/DXY trends.** We note that the FBM KLCI is positively correlated to MYR/USD. Should the peaking FFR narrative gain traction through 1H24, we may see markets start pricing in the potential for 2H24 rate cuts;

vi. **Geopolitics.** Some signs of easing of tensions (at the time of writing) in the Middle East are positive, but we note the fragility of the situation and there are still risks of the conflict escalating.

Domestic factors:

i. **Malaysia's growth momentum to gather pace into 2024.** Economic growth will be underpinned by the revival in the external sector, including manufacturing and exports. The rebound in the global technology cycle and improved regional economic landscapes are expected to support the export-oriented segments. Domestic demand would be bolstered by robust consumer and investment spending;

ii. **Corporate Malaysia's earnings.** Corporate earnings have historically displayed a higher degree of fragility. The lack of pricing power and susceptibility to FX risks, availability of labour and other material cost pressures betray corporate Malaysia's relatively lowly position on the value chain;

iii. **Domestic political stability.** The stability of the ruling unity government is essential to provide a solid framework within which effective policies can be implemented to facilitate long-term growth and competitiveness. Persistent efforts by the opposition to destabilise the Government will be negative for financial markets, and can impede economic growth if new investments are diverted elsewhere as a result;

iv. **The reform agenda.** Putting in place fiscal reforms to raise revenues and rationalise costs will have critical implications on the state of public finances. However, there is much scepticism on the quantum of political will available to take the hard (unpopular) decisions. The window of opportunity will likely be a narrow one before the spectre of GE16 re-emerges on the political horizon, as the reforms will also come at a price, with markets needing time to adapt. Initiatives to reduce subsidies will have implications for inflation and may crimp disposable income.

Earnings outlook: Corporate earnings still fragile

Figure 8: Earnings outlook and valuations

	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
COMPOSITE INDEX @ 1,454.66	**2022**	**2023F**	**2024F**	**2025F**	**2022**	**2023F**	**2024F**	**2025F**	**2022**	**2023F**	**2024F**	**2025F**
29 Dec 2023												
Revenue growth (%)	15.4	1.8	4.2	2.7	17.7	3.3	5.5	4.2	11.8	4.4	10.0	6.1
EBITDA growth (%)	9.2	(14.0)	18.2	1.1	9.3	(13.6)	18.2	1.4	(22.2)	(0.2)	17.3	9.1
Normalised earnings growth (%)	7.2	(1.1)	10.7	4.5	4.1	(1.2)	11.0	4.8	(32.1)	(2.4)	19.5	12.0
Total PATAMI (MYRm)	60,461	56,871	63,999	66,756	82,870	76,185	87,540	93,088	22,409	19,314	23,541	26,332
Normalised EPS (sen)	60.6	57.6	63.1	65.7	49.9	48.7	53.5	56.4	29.7	24.3	27.4	31.1
Normalised EPS growth (%)	**10.8**	**(2.2)**	**9.5**	**4.1**	**10.2**	**(2.5)**	**10.0**	**5.4**	**32.8**	**(4.0)**	**12.7**	**13.5**
Prospective P/E (x)	**14.9**	**16.3**	**14.5**	**13.9**	**15.8**	**16.6**	**14.5**	**13.6**	**13.1**	**17.7**	**14.6**	**13.0**
Normalised EPS (sen) ex-plantation	57.9	57.3	62.8	65.7	47.8	48.4	53.2	56.2	28.8	24.6	27.4	30.6
Normalised EPS growth (%) ex-plantation	8.9	2.2	9.6	4.7	10.9	1.2	9.9	5.7	33.7	(4.4)	11.5	11.7
Prospective P/E (x) ex-plantation	13.6	15.2	13.6	12.8	14.5	15.5	13.5	12.7	12.9	16.3	13.3	12.5
P/BV (x)	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.0	1.1	1.1	1.0
Dividend yield (%)	4.1	4.0	4.1	4.1	3.9	4.2	4.1	4.3	4.2	4.2	3.6	3.9
ROE (%)	15.5	13.5	14.4	14.3	14.8	13.6	14.6	14.8	16.9	13.8	15.1	16.0

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie HLFG, YTLC, RHB Bank, and PPB
Source: Bloomberg, RHB

Figure 9: FBM KLCI – weightings and valuations

	Market Cap	Weight	EPS Growth (%)			P/E (x)		
	MYRbn	(%)	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Sime Darby	16.0	1.72	(3.4)	13.7	12.6	13.9	12.2	10.8
Auto	**16.0**	**1.72**	**(3.4)**	**13.7**	**12.6**	**13.9**	**12.2**	**10.8**
CIMB	62.4	6.72	8.8	7.9	6.0	9.7	9.0	8.5
Hong Leong Bank	41.0	4.41	16.0	5.8	5.3	10.1	9.6	9.1
Malayan Banking	107.2	11.55	11.7	5.9	4.7	11.6	10.9	10.4
Public Bank	83.3	8.97	11.1	4.7	3.7	12.5	11.9	11.5
AMMB^	13.3	1.43	(6.4)	11.8	5.8	8.2	7.3	6.9
Banking	**307.1**	**33.07**	**10.5**	**6.8**	**5.2**	**11.0**	**10.3**	**9.8**
Press Metal	39.6	4.27	(6.6)	35.9	6.8	29.7	21.9	20.5
Basic Materials	**39.6**	**4.27**	**(6.6)**	**35.9**	**6.8**	**29.7**	**21.9**	**20.5**
Nestle	27.6	2.97	8.6	5.9	5.4	38.3	36.2	34.3
Mr DIY	13.7	1.47	18.2	14.8	11.2	23.6	20.6	18.5
QL Resources	13.9	1.50	18.1	0.9	5.6	33.9	33.6	31.8
Consumer	**55.2**	**5.94**	**9.2**	**5.8**	**5.5**	**32.3**	**30.0**	**27.9**
IHH Healthcare	53.1	5.72	2.5	10.1	6.8	36.9	33.5	31.3
Healthcare	**53.1**	**5.72**	**2.5**	**10.1**	**6.8**	**36.9**	**33.5**	**31.3**
MISC	32.5	3.50	(2.6)	14.1	4.5	16.0	14.0	13.4
Petronas Dagangan	21.7	2.34	31.5	2.4	2.9	21.8	21.3	20.7
Oil & Gas	**111.5**	**12.01**	**(16.0)**	**15.7**	**4.3**	**21.9**	**16.3**	**15.4**
IOI Corp	24.4	2.63	(24.2)	(14.1)	6.6	16.3	19.0	17.8
Kuala Lumpur Kepong	23.5	2.53	(39.8)	5.5	0.6	16.6	15.7	15.6
Sime Darby Plantations	30.8	3.32	(48.3)	46.5	(0.8)	27.9	19.0	19.2
Plantation	**78.8**	**8.48**	**(39.0)**	**6.6**	**1.1**	**19.6**	**17.9**	**17.5**
Axiata	21.8	2.35	(74.4)	68.7	79.4	53.1	31.5	17.5
CelcomDigi	47.9	5.15	26.9	10.5	14.2	31.4	28.4	24.9
Maxis	30.2	3.25	11.5	(8.3)	8.7	23.0	25.0	23.0
Telecommunication	**121.2**	**13.05**	**2.2**	**1.8**	**(0.5)**	**23.8**	**22.6**	**20.6**
Petronas Gas	34.4	3.71	5.0	0.5	0.6	19.0	18.9	18.8
Tenaga	58.1	6.26	(4.3)	16.9	0.7	15.2	13.0	12.9
YTL Power	20.6	2.22	440.3	18.3	(29.5)	10.1	8.5	12.1
Utilities	**113.1**	**12.18**	**13.6**	**8.9**	**(3.9)**	**14.7**	**13.0**	**14.1**
FBM KLCI	**928.6**	**100.00**	**(2.2)**	**9.5**	**4.1**	**16.3**	**14.5**	**13.9**

Source: Bloomberg, RHB

Figure 10: RHB Basket sector weightings & valuations

Sectors	Mkt Cap	Weight	EPS Growth (%)			P/E (x)			Recommendation
	MYRbn	%	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	
Oil & gas	137.6	10.7	(33.2)	25.5	5.7	21.4	15.7	14.6	Overweight
Utilities	120.4	9.4	4.6	10.9	(1.4)	16.5	13.1	14.0	Overweight
Healthcare	62.1	4.8	3.0	10.2	7.2	33.4	29.9	27.6	Overweight
Basic materials	47.7	3.7	(3.6)	37.2	9.3	28.5	21.0	19.0	Overweight
Property	44.5	3.5	17.2	3.0	6.7	14.1	13.6	12.7	Overweight
Construction	27.4	2.1	7.7	10.1	11.7	16.6	14.6	13.1	Overweight
Transport	27.1	2.1	51.9	35.9	15.8	21.0	16.4	14.5	Overweight
Rubber products	23.6	1.8	(78.9)	285.1	0.1	n.m.	50.9	28.8	Overweight
Non-bank financials	17.6	1.4	12.3	6.1	5.8	9.6	9.0	8.5	Overweight
Banking	322.3	25.1	11.7	6.2	5.1	10.8	10.2	9.7	Neutral
Telecommunications	131.6	10.2	5.8	3.5	3.4	23.5	22.2	20.2	Neutral
Consumer	97.3	7.6	6.9	6.3	5.7	21.0	19.2	17.3	Neutral
Plantation	94.6	7.4	(39.5)	8.2	0.7	18.4	16.6	16.5	Neutral
Gaming	36.6	2.9	233.0	48.7	14.8	18.4	12.2	10.6	Neutral
Property-REITs	35.0	2.7	5.5	2.7	3.4	16.1	15.4	14.8	Neutral
Technology	29.2	2.3	(66.1)	44.1	114.0	40.2	30.0	21.0	Neutral
Auto	26.9	2.1	9.7	(3.7)	2.5	12.0	11.8	11.2	Neutral
Media	2.6	0.2	(1.0)	(1.6)	(2.4)	8.4	8.6	8.8	Neutral
RHB BASKET	**1284.1**	**100.0**	**(2.5)**	**10.0**	**5.4**	**16.6**	**14.5**	**13.6**	

Source: RHB

We recently upgraded the transport sector to OVERWEIGHT (from Neutral) on the back of:

i. Nascent signs of economic recovery in China;

ii. Stronger momentum in trade activities;

iii. Expected pick-up in tourism.

End-2024 FBM KLCI target

We introduce our end-2024F FBM KLCI target of 1,600 pts, derived from ascribing a 15x P/E to 2024F earnings, a slight discount to forward P/E mean of 15.2x. With the rate hiking cycle already in the mature stage, coupled with a more constructive global growth outlook, there are reasons to be more optimistic on corporate earnings. Nonetheless, we note corporate Malaysia's weak earnings track record in recent years, and cannot rule out persistent downside risks to earnings estimates. Accordingly, a higher target P/E may not be appropriate at this juncture.

There are grounds for optimism should certain conditions fall into place, especially as much of the bad news is already in the price. Given the anticipated improvements in the macroeconomic outlook, expected peaking in the monetary tightening cycle, the nascent recovery in China, and gradual impact on FX, we think the key investment themes to focus on in 2024 will include:

i. Accumulate on weakness – focus on fundamentally robust stocks with reasonable valuations;

ii. Laggard plays – as investors hunt for value and opportunity, rotational plays will seek out laggard stocks for upside;

iii. China recovery plays;

iv. Beneficiaries of a stronger MYR;

v. Small-mid cap focus.

Buy on weakness

RHB's benign macroeconomic base case suggests the need to look for attractive entry points to build positions for the medium term. The current hesitant investor sentiment represents opportunities to accumulate stocks with robust fundamentals. If the market drifts lower, this should elicit a stronger bottom-fishing response from investors.

Figure 11: Top BUYs

	FYE	Price (MYR/s) 29 Dec 2023	TP (MYR/s)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY24F	EPS (sen) FY25F	EPS Growth (%) FY24F	EPS Growth (%) FY25F	3-Yr EPS CAGR (%	P/E (x) FY24F	P/E (x) FY25F	P/BV (x) FY25F	P/CF (x) FY25F	DY (%) FY25F
CIMB	Dec	5.85	6.88	NO	62,391	65.2	69.1	7.9	6.0	7.5	9.0	8.5	0.8	n.a.	6.5
YTL Power Int.	Jun	2.54	2.95	NO	20,579	29.7	21.0	18.3	(29.5)	65.2	8.5	12.1	1.0	7.3	2.5
Mr DIY Group	Dec	1.45	2.29	YES	13,692	7.0	7.8	14.8	11.2	14.7	20.6	18.5	5.6	11.5	2.7
AMMB^	Mar	4.01	4.70	NO	13,265	54.8	58.0	11.8	5.8	3.4	7.3	6.9	0.6	n.a.	5.9
Gamuda	Jul	4.59	5.66	YES	12,505	35.6	40.1	8.8	12.8	8.8	12.9	11.4	1.0	13.9	2.6
Malaysia Airports	Dec	7.36	8.66	NO	12,281	43.7	53.0	59.7	21.5	67.5	16.9	13.9	1.4	4.4	3.3
Inari Amertron	Jun	3.01	3.62	YES	11,279	10.0	12.9	16.2	29.6	7.6	30.2	23.3	4.1	21.6	3.7
Time DotCom	Dec	5.40	6.00	YES	9,973	28.1	31.0	11.8	10.1	9.9	19.2	17.4	2.5	14.6	4.6
IOI Properties	Jun	1.75	2.10	NO	9,636	13.9	15.2	(7.6)	9.2	15.6	12.6	11.5	0.4	8.9	3.7
KPJ Health	Dec	1.44	1.66	YES	6,285	6.3	7.1	21.0	12.2	23.0	22.8	20.3	2.4	8.5	2.5
Malayan Cement	Jun	4.23	4.87	YES	5,542	19.8	24.9	57.5	25.5	47.4	21.3	17.0	0.8	17.0	0.0
UEM Sunrise	Dec	0.82	1.18	YES	4,123	1.7	1.8	23.1	4.6	7.3	47.1	45.0	0.6	27.6	0.0
AEON Credit^	Feb	5.57	7.00	NO	2,844	75.4	83.3	(1.7)	10.5	1.4	7.4	6.7	0.9	n.a.	4.5
Sunway Construction	Dec	1.94	2.22	YES	2,501	12.3	14.0	17.8	13.3	7.8	15.7	13.9	2.7	14.4	4.3
Dayang Enterprise	Dec	1.60	2.47	YES	1,852	16.5	17.1	26.0	4.1	19.9	9.7	9.3	1.0	6.4	1.9

Note: ^FY24F-25F valuations refer to those of FY25F-26F
Source: RHB

Focus on laggards

As they say, every dog has its day. After screening through the RHB stock coverage, we have identified stocks on which we remain confident on, but have underperformed in 2023. We believe laggards would have the potential to offer superior returns, given the greater headroom to target prices on offer.

Figure 12: Laggard stocks

Company	Rec	Price (MYR/s)	TP (MYR/s)	Upside (%)	Fwd PE (x)	Net cash/ Gearing %	52 week high/low (MYR/s)	Comments
AEON Credit	Buy	5.63	7.00	24.3	3.5	320%	6.59/5.44	• It is our preferred pick among the non-bank lenders given its sizable presence and attractive valuation (1x P/BV against 15% ROE). • We believe a mixed asset quality performance, low yield, and concerns over its digital banking operations hindered AEON Credit's share price performance in CY23. • Lower-than-expected credit costs and start-up losses from digital banking operations (guided for c.MYR30m pa) could be potential re-rating catalysts.
Axiata	Buy	2.33	3.03	30.0	30.8	106%	3.22/2.16	• Stock offers deep value, trading at -2SD of its historical EV/EBITDA mean. • Concerns over high gearing and USD debt exposure, regulatory risks at frontier markets, and earnings disappointments. • Balance sheet deleveraging and asset monetisation are key re-rating catalysts alongside an earnings recovery.
Carlsberg	Buy	19.08	22.70	19.0	16.5	NC	25.00/18.8[illegible]	• We continue to like the brewery sector for its relatively inelastic demand and premiumisation strategy. • Notwithstanding the lacklustre YTD share price performance on the back of earnings normalisation from a high base and soft consumer sentiment. • Improving consumer sentiment and rising tourist arrivals will be potential catalysts for 2024.
Dialog	Buy	1.97	2.79	41.6	21.8	7.2%	2.73/1.95	• We still expect Dialog to deliver 4-11% YoY earnings growth in FY24-26, on margin improvements. • Dialog's share price performance has been dragged by weaker-than-expected margin-led earnings recovery coupled with recent dropout from the FBM KLCI. • The stock is trading at 23x FY24F P/E, which is around -1SD from its 5-year mean of 27x.
Duopharma	Buy	1.23	1.41	14.6	14.0	24.8%	1.68/1.11	• Extensive local distribution network and high barrier of entry, valuation undemanding at -1SD below mean despite superior margin profile (vs Pharmaniaga) • Weakening consumer healthcare (CHC) sales, delay in approved product purchase list (APPL) contract renewal • Finalisation of APPL contract, recovery in CHC sales, weakening USD.
Farm Fresh	Buy	1.35	1.51	11.9	23.9	62.6%	1.65/0.99	• The topline growth has continued to be encouraging driven by market share gain and penetration into new market segments. • Share price has adjusted to the sharp fall in earnings on the back of margin pressure. • Going forward, a sustainable margins recovery and solid execution of growth strategies would lift sentiment on the stock.
Guan Chong	Buy	1.87	3.00	60.4	9.4	118%	2.80/1.81	• Strong demand for cocoa and valuation is at a discount to its international peers and local consumer sector. • FY23 earnings are largely affected by the steep surge of cocoa bean price, which resulted in huge unrealised loss given the marked-to-market hedging mechanism, compounded by higher holding costs. • However, we believe its earnings profile and net gearing would improve significantly upon seeing stabilised cocoa bean prices, supported by various overseas expansions and strong clientele base.

Mr DIY	Buy	1.54	2.29	48.7	21.9	NC	2.09/1.37	• As a bellwether or proxy to consumer spending, the valuation may recover in 2024 should the sector outlook improve. • Subpar share price performance was likely due to the weakness in general consumer spending environment on the back of inflationary pressures and rising interest rates. • That said, we believe the company has continued to deliver solid growth despite the challenges thanks to robust store expansions and value-for-money product offerings. • We favour the stock due to its commendable dividend yields of 7-8%.
Taliworks	Buy	0.81	1.01	24.7	20.6	12.8%	0.91/0.79	• Share price underperformance is due to slow progress of the Sungai Rasau construction project, but expect substantially higher progress next year (c.50% by end FY24). • Re-rating catalysts include new construction job wins related to water infrastructure and new venture into renewable energy projects.
Tasco	Buy	0.78	1.35	74.2	6.6	19%	1.04/0.77	• Valuation is attractive for the largest local 3PL in Malaysia and its strong operation metrics and asset to ride on the recovery of trade activities amid a stable and growing economy into 2024, which will be further boosted by the completion of two new major warehouses and the recognition of tax incentives. • FY24 (Mar) contraction in earnings was caused by sluggish macro trade activities and lower freight rate. • The stock and logistic sector generally is under-owned by investors given the general perception of a slow growth industry.
Texchem	Buy	0.94	1.50	59.6	8.7	44.7%	2.34/0.80	• Expectations of contained inflation, stable interest rates, and a stable employment market could gradually boost consumer sentiment next year, benefitting the restaurant and food division. • FY23 saw weak demand in industrial and polymer engineering, while the restaurant and food divisions were affected by soft consumer sentiment. • The industrial wing's volume may have bottomed out due to depleted customer inventory and stabilised chemical prices. Improving market conditions, new contracts, and volume recovery in the E&E and semiconductor spaces should pave way for a better FY24 in polymer engineering division.

Source: RHB

China recovery plays

Considering China's importance to economies in ASEAN, the nascent signs of a bottoming out of economic conditions will be a boon to equity markets. The anticipated pick-up in China's economy will have positive implications for corporate Malaysia either directly or indirectly. While outbound tourists have yet to return in a meaningful way, we see beneficiaries in the transport, tourism, hospitality, gaming, consumer, healthcare, auto, and basic materials sectors.

Figure 13: China recovery plays

	Price	TP	*Shariah*	Market cap	EPS (sen)		EPS growth (%)		3-yr EPS	P/E (x)		P/BV (x)	P/CF (x)	DY (%)	Rec
	(MYR/s)	(MYR/s)	compliant	(MYRm)	FY24F	FY25F	FY24F	FY25F	CAGR (%)	FY24F	FY25F	FY25F	FY25F	FY25F	
	29 Dec 2023														
IHH Healthcare	6.03	6.90	YES	53,106	18.0	19.2	10.1	6.8	6.4	33.5	31.3	1.8	14.5	0.7	Buy
Hong Leong Bank	18.90	23.20	NO	40,970	197.2	207.7	5.8	5.3	8.9	9.6	9.1	1.0	n.a.	3.4	Buy
Press Metal	4.81	5.54	YES	39,633	22.0	23.5	35.9	6.8	10.7	21.9	20.5	3.8	13.6	1.5	Buy
KLK	21.82	27.50	YES	23,531	139.1	139.8	5.5	0.6	(13.9)	15.7	15.6	1.5	10.1	3.4	Buy
Westports Holdings	3.65	3.60	YES	12,447	23.1	24.3	6.7	5.2	5.8	15.8	15.0	3.3	10.9	5.0	Neutral
Malaysia Airports	7.36	8.66	NO	12,281	43.7	53.0	59.7	21.5	67.5	16.9	13.9	1.4	4.4	3.3	Buy
Inari Amertron	3.01	3.62	YES	11,279	10.0	12.9	16.2	29.6	7.6	30.2	23.3	4.1	21.6	3.7	Buy
Heineken Malaysia	24.14	30.00	NO	7,293	140.6	148.1	5.1	5.3	2.7	17.2	16.3	14.5	13.6	6.1	Buy
IJM Corporation	1.88	2.21	YES	6,592	10.9	11.4	5.4	4.5	13.4	17.3	16.5	0.6	8.7	3.6	Buy
MPI	28.20	28.80	YES	5,609	57.2	152.1	48.9	166.0	0.1	49.3	18.5	2.6	9.4	1.7	Neutral
Unisem	3.31	2.98	YES	5,339	11.3	16.7	121.4	47.9	2.8	29.4	19.9	2.1	11.2	2.4	Neutral
Pavilion REIT	1.21	1.29	NO	4,419	8.5	8.7	1.5	2.9	2.6	14.3	13.9	0.9	8.6	7.4	Neutral
Kelington Group	2.17	2.16	YES	1,399	11.8	13.1	11.2	11.2	23.3	18.4	16.6	4.5	14.9	2.4	Buy
SKP Resources^	0.79	0.68	YES	1,234	6.8	9.0	13.3	32.2	(1.3)	11.6	8.8	1.2	13.2	6.8	Neutral

Note: ^FY24-25 valuations refer to those of FY25-26
Source: RHB

Beneficiaries of a stronger MYR

As the US Fed approaches the tail end of its hiking cycle, markets will gradually price in the MYR's recovery to price in the expected narrowing of nominal interest rate differentials. Nominally, importers will benefit from the lower landed cost of imports as will companies with USD-denominated debt. Those disadvantaged by a stronger MYR include exporters and companies with significant overseas earnings.

Figure 14: Winners from stronger MYR

Stocks	Rec	Price (MYR/s) 29/12/2023	Target (MYR/s)	Mkt cap (MYRm)
Nestle	Neutral	117.60	134.00	27,577.2
Axiata Group	Buy	2.38	3.03	21,846.2
Mr DIY Group	Buy	1.45	2.29	13,691.9
Heineken Malaysia	Buy	24.14	30.00	7,292.6
UMW	Neutral	4.98	5.00	5,818.1
Padini	Buy	3.51	4.62	2,309.3
Leong Hup International	Neutral	0.57	0.74	2,062.3
Astro M'sia Holdings	Neutral	0.40	0.37	2,061.5

Source: RHB

Figure 15: Losers from a stronger MYR

Stocks	Rec	Price (MYR/s) 29/12/2023	Target (MYR/s)	Mkt cap (MYRm)
Press Metal	Buy	4.81	5.54	39,632.6
MISC	Buy	7.29	8.12	32,540.7
Gamuda	Buy	4.59	5.66	12,505.2
Inari Amertron	Buy	3.01	3.62	11,279.0
Hartalega	Buy	2,84	3.25	9,600
Yinson Holdings	Buy	2.50	3.06	7,267.2
MPI	Neutral	28.20	28.80	5,608.9
Unisem	Neutral	3.31	2.98	5,339.3
Kossan Rubber Industries	Buy	1.90	2.20	4,780
Guan Chong	Buy	1.83	3.00	2,149.4
Globetronics	Neutral	1.62	1.45	1,089.6
Power Root	Sell	1.74	1.63	804.2
JHM Consolidation	Buy	0.72	0.85	436.3
Pintaras Jaya	Buy	1.60	1.84	265.4
Coraza Integrated Technology	Neutral	0.44	0.50	214.7

Source: RHB

Small-mid cap strategy: Bottom fishing opportunities

What is in store for FY24F? Coming off from a better year, the FBM 70 and FBM SC are set for underperformance in 2024, if one were to consider the historical trend of an alternate year of outperformance for these two indices over the past 10 years – barring the anomaly years in 2020-2021. However, we are hopeful that the two indices can build from the positive momentum going into FY24, supported by better prospects for the economy and corporate earnings growth at reasonable valuation.

We advocate paying growth at reasonable valuation amid the higher-for-longer interest and cost of fund environment, where it makes less sense to pay high premium for growth. As investors continue to shop for growth, the tendency of moving to a more attractive-priced space in the small-mid caps as opposed to the expensive large caps will continue to transpire.

While small-mid cap space is often preferred for its higher growth prospects, a balanced pick, with a combination of both value and growth-focused stocks would be appropriate in the current environment. A focus on earnings quality, margin preservation, cash flow, and yield generation would be paramount given the backdrop of tense geopolitical conflicts, cost escalation, and demand uncertainty.

Figure 16 : Small-mid cap Top Picks

	Price (MYR/s) 29 Dec 2023	TP (MYR/s)	*Shariah* compliant	Mkt cap (MYRm)	EPS (sen) FY24F	EPS (sen) FY25F	EPS growth (%) FY24F	EPS growth (%) FY25F	P/E (x) FY24F	P/E (x) FY25F	P/BV (x) FY25F	P/CF (x) FY25F	DY (%) FY25F	Rec
Heineken Malaysia	24.14	30.00	NO	7,293	140.6	148.1	5.1	5.3	17.2	16.3	14.5	13.6	6.1	Buy
UEM Sunrise	0.82	1.18	YES	4,123	1.7	1.8	23.1	4.6	47.1	45.0	0.6	27.6	0.0	Buy
Allianz Malaysia	18.44	21.10	NO	3,282	403.7	425.3	5.7	5.3	4.6	4.3	0.5	n.a	6.0	Buy
Guan Chong	1.83	3.00	YES	2,149	20.0	27.2	74.4	36.5	9.2	6.7	1.0	8.0	3.7	Buy
Dayang Enterprise	1.60	2.47	YES	1,852	16.5	17.1	26.0	4.1	9.7	9.3	1.0	6.4	1.9	Buy
Kelington Group	2.17	2.16	YES	1,399	11.8	13.1	11.2	11.2	18.4	16.6	4.5	14.9	2.4	Buy
Datasonic^	0.43	0.57	YES	1,194	2.5	1.9	(9.6)	(26.4)	16.7	22.7	3.1	12.8	3.3	Buy
Solarvest^	1.30	1.53	YES	869	4.9	6.4	64.7	31.3	26.7	20.4	3.2	(39.0)	0.0	Buy
Kotra Industries	4.83	5.40	YES	716	41.7	43.5	(4.1)	4.2	11.6	11.1	2.1	9.4	4.5	Buy
TASCO Bhd^	0.77	1.35	YES	612	11.7	13.2	23.1	12.7	6.5	5.8	0.8	4.0	3.7	Buy
Teo Seng Capital	1.59	2.19*	NO	477	36.5	39.3	11.7	7.8	4.3	4.0	0.7	3.1	6.3	NR
MCE Holdings	3.04	3.49*	YES	187	29.1	36.6	17.4	25.6	6.9	5.5	0.7	4.8	2.5	NR

Note: ^FY24F-25F valuations refer to those of FY25F-26F
Source: RHB

Singapore Strategy

Key pointers on the market outlook

- Please refer to our *2024 Singapore Strategy* report for more details

Singapore's growth will be led primarily by the recovering externally-facing sectors, ie manufacturing and exports. The city-state has one of the highest total trades as a percentage of GDP across Asia, suggesting it stands to be one of the key beneficiaries of recovering global trade winds in 2024. The RHB Economics & Market Strategy (RHB EMS) team has kept Singapore's GDP growth at 3% in 2024, marking an acceleration from 1.2% in 2023. The team's optimism on Singapore's economy is reflected from the fact that its 2024 GDP growth forecast of 3% is at the top end of the official forecast range of 1-3%.

For Singapore, being highly trade-reliant is a double-edged sword, as import prices have recently accelerated due to higher commodity prices. RHB EMS expects to see evidence of sticky inflation persisting into 1H24, especially on the back of energy and food prices. The balance of risks is for headline and core inflation to trend above our base case forecasts given: i) Higher crude oil prices into 1Q24, ii) an uptick in food prices on the back of *El Nino* conditions, and iii) demand-pull drivers against our global growth assumptions for a rosier 2024 backdrop. The team is forecasting Consumer Price Index or CPI of 3.5% in 2024 against an estimate of 4.9% in 2023. Nevertheless, it expects core inflation to continue decelerating to c.2% by 2H24.

With a relatively tame inflation prognosis, RHB EMS expects the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in its January Monetary Policy Committee or MPC meeting. The consolidation against higher inflation pressures in 2024 can be gleaned from the strengthening of the SGD against ASEAN pairs. A relatively stronger SGD seen in 2023 is expected to cushion the impact of higher import prices. Note that Singapore policymakers have increased the frequency of the MAS meetings this year – up to four meetings from two.

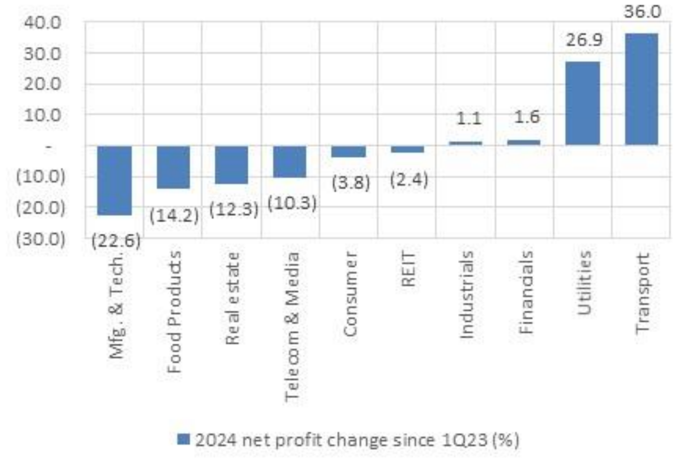
Singapore inbound tourism will benefit from China's economic return. RHB EMS thinks tourism prospects for ASEAN will improve with the return of Chinese tourists. Nov 2023 visitor arrivals in Singapore totalled 1.1m, according to Singapore Tourism Board (STB) data. This was 2.3% less than the 1,125,954 visitors posted in Oct 2023 – still 34.8% higher than the 816,340 visitors recorded in Nov 2022. The YTD data for the first 11 months of 2023 now stands at 12.37m, which is a YoY rise of 130.2% and at 71.1% of 2019's levels. The YTD visitor arrivals number is within the 12-14m arrivals anticipated by STB for the full year. Although Chinese citizens currently require a visa to enter Singapore, the two countries plan to implement a mutual 30-day visa-exemption scheme in early 2024, as revealed in a recent statement from the Prime Minister's Office in Singapore. This, we believe, should help boost Chinese visitor arrivals into the island republic in 2024. We view the gradual return of Chinese travellers could bode well for casinos, airlines, airport services, and other tourism-linked sectors.

Singapore's manufacturing momentum to strengthen in 4Q23-1Q24, led by improving global trade winds and a gradual recovery in China-centric numbers. Separately, Singapore's non-oil domestic exports or NODX to China surged 38.5% YoY in Oct 2023, up from 26.2% YoY in Sep 2023 – representing the fastest pace since Nov 2011 – hence highlighting that China's economic recovery will mean a strong boon to Singapore's externally-facing numbers. RHB EMS is seeing evidence of a bottoming of global semiconductor demand, which has empirically supported Singapore's industrial production activities.

With bank earnings moderating, investors query on growth in 2024. While we are expecting all sectors, with the exception of banks, to deliver positive EPS in 2024, the overall EPS growth for our coverage universe is expected to drop to c.8% vs c.14% in 2023 amidst a sharp deceleration in earnings growth for the banking sector, which has a large weight in the STI and our coverage universe.

Street had turned extremely cautious on the 2024 earnings outlook, with the overall YoY earnings growth expectation declining to 2% vs 15% growth expectations at the start of 2022. Much of this, we believe, is due to lower earnings for banks. Despite the downgrade in STI 2024 EPS growth estimates, Street has continued to upgrade 2024 earnings estimates for the following sectors: Transport, utilities, and industrials. Financials saw a slight upgrade to earnings after banks reported better-than-expected results in 3Q23. Upgrades to 2025 earnings estimates are largely in the transport, utilities, and REIT sectors.

Figure 17: 2024 consensus YTD net profit estimate change (%) by sector based on STI constituents (difference measured from 31 Mar 2023)



Note: Data as of 29 Dec 2023
Source: Bloomberg, RHB

Figure 18: 2025 consensus YTD net profit estimate change (%) by sector based on STI constituents (difference measured from 31 Mar 2023)

Note: Data as of 29 Dec 2023
Source: Bloomberg, RHB

Investment themes

Opportunistically start building positions in REITs. We upgraded the REITs sector to OVERWEIGHT from Neutral in late 2023. Our optimistic view was premised on the expectation that we are nearing the peak of the interest rate cycle, and that sector's valuation has become more attractive. It creates a good entry level for most REITs. We believe negatives are largely priced in, and sector news flow is expected to turn incrementally more positive in 2024. With the exception of the retail sub-sector, we are now OVERWEIGHT on all other REIT sub-sectors. Across all sub-sectors, CapitaLand Ascendas REIT, Keppel REIT, AIMS APAC REIT, and CDL Hospitality Trusts are our preferred picks.

Figure 19: Singapore – valuation comparison (I) for preferred 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
AIMS APAC REIT	816	Buy	1.47	12.8	Mar-24	10.6	9.8	0.9	1.0	7.5	7.5	6.8	6.6	9.3	10.0
CapitaLand Ascendas	9,850	Buy	3.20	5.5	Dec-23	21.6	25.8	1.2	1.3	5.2	5.2	6.7	7.2	5.8	4.9
CDL Hospitality	1,038	Buy	1.23	10.8	Dec-23	29.7	29.8	0.8	0.8	6.0	6.2	9.2	9.5	2.6	2.6
CICT	10,287	Buy	2.00	-2.7	Dec-23	19.1	17.4	1.0	1.0	5.2	5.2	9.2	8.2	5.0	5.6
Cromwell REIT	888	Buy	2.10	47.8	Dec-23	17.8	9.2	0.6	0.6	11.0	11.0	0.0	8.4	3.3	6.6
ESR-LOGOS REIT	1,893	Buy	0.38	17.9	Dec-23	61.6	11.5	0.9	1.0	8.0	7.8	9.4	10.1	2.1	8.8
Keppel Pacific Oak	386	Buy	0.48	29.2	Dec-23	na	13.0	0.6	0.6	12.9	12.8	22.7	20.8	-11.2	4.3
Keppel REIT	2,664	Buy	1.08	16.3	Dec-23	13.9	14.2	0.7	0.7	6.3	6.3	10.0	3.3	4.9	4.8
Starhill Global REIT	898	Buy	0.58	10.7	Jun-24	8.2	11.5	0.7	0.7	7.2	7.3	6.3	10.0	8.6	6.0

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Figure 20: Singapore – valuation comparison (II) and returns for preferred 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
AIMS APAC REIT	816	Buy	1.47	12.8	Mar-24	-22.6	8.0	-2.6	-0.5	55.9	61.6	0.6	0.6	2.4	5.0
CapitaLand Ascendas	9,850	Buy	3.20	5.5	Dec-23	-9.6	-16.0	-0.6	0.6	40.8	33.7	0.6	0.6	7.1	10.6
CDL Hospitality	1,038	Buy	1.23	10.8	Dec-23	-78.6	-0.4	19.3	2.4	17.9	17.0	0.7	0.7	8.8	-11.2
CICT	10,287	Buy	2.00	-2.7	Dec-23	6.6	9.9	1.3	0.1	48.0	51.8	0.7	0.7	11.4	1.0
Cromwell REIT	888	Buy	2.10	47.8	Dec-23	2.8	92.5	-9.1	-0.1	20.8	39.4	0.7	0.7	8.4	-5.3
ESR-LOGOS REIT	1,893	Buy	0.38	17.9	Dec-23	na	435.1	-14.4	-3.2	9.8	56.1	0.7	0.7	6.7	-13.3
Keppel Pacific Oak	386	Buy	0.48	29.2	Dec-23	-279.6	na	-16.5	-0.9	-60.0	20.3	0.7	0.7	41.5	-18.5
Keppel REIT	2,664	Buy	1.08	16.3	Dec-23	-44.7	-2.1	-0.8	0.8	110.1	107.6	0.5	0.5	7.5	2.2
Starhill Global REIT	898	Buy	0.58	10.7	Jun-24	326.1	-28.7	-0.3	1.7	75.2	53.1	0.6	0.6	6.1	-2.8

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Exposure to improving outlook for manufacturing and technology sectors. We are positive on both sectors ahead of the anticipated technology recovery in 2024. We are starting to see semiconductor inventories easing, and players in the supply chain are stocking up inventory and reducing their backlogs of programmes that were previously constrained by manpower and technological limitations. Growth will also be supplemented by an initial production ramp-up and new product introductions (NPIs). We, therefore, believe 2024 will be the start of the technology recovery cycle, where stocks within the sector could undergo a re-rating as a result of stronger orders.

Figure 21: Singapore – valuation comparison (I) for manufacturing and technology 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
Frencken Group	417	Buy	1.45	7.8	Dec-23	20.9	13.0	1.4	1.3	2.7	2.7	8.2	5.6	6.9	10.6
Venture Corp	3,031	Buy	14.70	8.0	Dec-23	14.2	12.9	1.4	1.3	5.5	5.5	13.4	5.1	9.7	10.4

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Figure 22: Singapore – valuation comparison (II) and returns for manufacturing and technology 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
Frencken Group	417	Buy	1.45	7.8	Dec-23	-46.9	61.2	-11.9	0.0	3.8	5.5	-0.2	-0.2	13.4	42.9
Venture Corp	3,031	Buy	14.70	8.0	Dec-23	-24.6	10.0	0.5	0.0	9.0	9.0	-0.4	-0.4	4.5	-20.2

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Non-REIT dividend yield exposure. While the STI is expected to see nominal growth in EPS, the index offers the highest yield in Asia. We believe this yield – which is somewhat driven by the banks – is sustainable. The REIT sector yield, based on stocks under our coverage, is over 6%. As such, we screened our coverage universe to look for high-yield opportunities beyond the REIT universe, based on the following criteria: i) The stock offers above-market dividend yields (at least 6%); and ii) RHB has preferably a BUY or, at worst, a NEUTRAL rating on the stock.

Figure 23: Singapore – valuation comparison (I) for non-REIT yield 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
Bumitama Agri	801	Buy	0.70	15.7	Dec-23	4.5	6.7	0.9	0.8	9.4	6.3	20.8	14.3	20.3	12.6
DBS Group	64,290	Neutral	34.70	3.9	Dec-23	8.3	8.7	1.4	1.3	5.7	6.4	na	na	17.9	16.1
Kimly Ltd	305	Buy	0.40	23.8	Sep-24	9.5	8.8	2.0	1.8	5.8	6.3	11.4	12.3	22.1	21.8
OCBC	43,606	Neutral	13.65	5.0	Dec-23	8.2	8.3	1.0	1.0	6.0	6.3	na	na	12.4	12.4
SingTel	30,374	Buy	3.20	29.6	Mar-24	16.9	14.4	1.5	1.4	6.2	6.2	11.2	12.5	8.8	10.0
UOB	35,797	Neutral	29.70	4.4	Dec-23	7.8	7.8	1.0	1.0	6.1	6.4	na	na	12.9	12.6

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Figure 24: Singapore – valuation comparison (II) and returns for non-REIT yield plays

	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	801	Buy	0.70	15.7	Dec-23	-16.1	-31.7	-19.9	-32.5	17.3	14.5	0.1	0.0	0.0	2.5
DBS Group	64,290	Neutral	34.70	3.9	Dec-23	26.8	-4.8	-5.0	12.6	na	na	na	na	4.7	-1.5
Kimly Ltd	305	Buy	0.40	23.8	Sep-24	13.1	8.7	13.2	8.7	11.6	12.0	0.1	-0.1	3.2	-8.6
OCBC	43,606	Neutral	13.65	5.0	Dec-23	23.3	-0.7	19.7	5.1	na	na	na	na	2.8	6.7
SingTel	30,374	Buy	3.20	29.6	Mar-24	13.4	17.4	0.7	0.0	15.1	17.2	0.4	0.4	7.4	-3.9
UOB	35,797	Neutral	29.70	4.4	Dec-23	26.0	0.1	27.2	5.3	na	na	na	na	4.2	-7.3

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Recovery in Chinese outbound travel and tourism amid better economic outlook in 2024. We maintain our positive view of the recovery in visitor arrivals to Singapore in 2024. While the recovery of Chinese tourist arrivals in Singapore is still low, we expect the recovery momentum to improve in 2024. Singapore plans to put in place a mutual 30-day visa-exemption scheme with China in early 2024.

The planned increase in flight capacity and a strong pipeline of events like the Singapore Airshow and multiple music concerts will significantly boost not only Chinese visitors but general visitor arrivals into Singapore in 2024. The numbers should further improve, not only for Singapore but for the rest of the region as well. This should also have a positive impact on other service categories such as retail, F&B, healthcare, land transportation, and telecommunications.

Figure 25: Singapore – valuation comparison (I) for travel and tourism-related plays

	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
CDL Hospitality	1,038	Buy	1.23	10.8	Dec-23	29.7	29.8	0.8	0.8	6.0	6.2	9.2	9.5	2.6	2.6
ComfortDelGro	2,313	Buy	1.50	7.1	Dec-23	17.7	14.3	1.1	1.1	3.9	4.9	7.8	7.9	6.6	7.9
DFI Retail Group	3,073	Buy	2.92	21.7	Dec-23	16.4	14.1	3.0	2.8	4.0	5.8	20.7	23.3	19.5	20.5
SingTel	30,374	Buy	3.20	29.6	Mar-24	16.9	14.4	1.5	1.4	6.2	6.2	11.2	12.5	8.8	10.0
ST Engineering	9,082	Buy	4.45	14.4	Dec-23	19.9	17.2	4.9	4.5	4.1	4.1	4.8	7.5	23.9	27.3
Starhill Global REIT	898	Buy	0.58	10.7	Jun-24	8.2	11.5	0.7	0.7	7.2	7.3	6.3	10.0	8.6	6.0
Thai Beverage	10,371	Buy	0.82	55.3	Sep-24	11.9	11.1	1.6	1.5	4.4	4.7	10.5	9.1	13.9	13.9

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Figure 26: Singapore – valuation comparison (II) and returns for travel and tourism-related plays

	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
CDL Hospitality	1,038	Buy	1.23	10.8	Dec-23	-78.6	-0.4	19.3	2.4	17.9	17.0	0.7	0.7	8.8	-11.2
ComfortDelGro	2,313	Buy	1.50	7.1	Dec-23	-1.2	23.8	19.9	23.8	4.5	5.4	-0.3	-0.3	8.5	13.8
DFI Retail Group	3,073	Buy	2.92	21.7	Dec-23	584.0	16.7	216.7	47.4	2.1	2.4	0.8	0.7	3.0	-18.1
SingTel	30,374	Buy	3.20	29.6	Mar-24	13.4	17.4	0.7	0.0	15.1	17.2	0.4	0.4	7.4	-3.9
ST Engineering	9,082	Buy	4.45	14.4	Dec-23	26.2	15.8	-27.8	0.0	6.2	6.7	2.5	2.2	4.3	16.1
Starhill Global REIT	898	Buy	0.58	10.7	Jun-24	326.1	-28.7	-0.3	1.7	75.2	53.1	0.6	0.6	6.1	-2.8
Thai Beverage	10,371	Buy	0.82	55.3	Sep-24	5.4	7.2	-0.2	7.2	9.8	10.0	0.6	0.5	5.0	-23.4

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Retain exposure to quality companies offering defensive earnings. While we are nearing peak interest rates and the market believes that the US Fed will be able to engineer a soft landing as it pivots from raising interest rates to gradually cutting interest rates in 2H24, history tells us that there remains a risk of sharp economic weakness every time the US central banking system pivots its interest rate policy. To better protect against such an uncertain macroeconomic environment related to the outlook for interest rates and economic growth, we think investors should continue to balance their portfolios by holding companies that offer relative resilience in earnings. We place a strong emphasis on investing in businesses with solid dividend or profit histories.

Figure 27: Singapore – valuation comparison (I) for resilient earnings

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
Delfi	523	Buy	1.55	38.6	Dec-23	11.1	9.7	2.0	1.8	3.4	3.9	2.9	4.4	18.3	19.2
Sheng Siong	1,799	Buy	1.99	24.3	Dec-23	18.0	16.8	4.9	4.5	4.0	4.2	6.2	6.6	28.3	27.7
ST Engineering	9,082	Buy	4.45	14.4	Dec-23	19.9	17.2	4.9	4.5	4.1	4.1	4.8	7.5	23.9	27.3

Note: Prices are as at 29 Dec 2023
Source: Bloomberg, RHB

Figure 28: Singapore – valuation comparison (II) and returns for resilient earnings

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
Delfi	523	Buy	1.55	38.6	Dec-23	6.5	14.7	-11.0	14.7	8.4	8.4	-0.1	-0.1	0.0	44.5
Sheng Siong	1,799	Buy	1.99	24.3	Dec-23	-0.1	6.9	3.7	3.9	9.7	10.2	-0.7	-0.7	1.9	-3.0
ST Engineering	9,082	Buy	4.45	14.4	Dec-23	26.2	15.8	-27.8	0.0	6.2	6.7	2.5	2.2	4.3	16.1

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Bottom up opportunities in the small cap space. Within our coverage universe, in the sub-USD1bn market cap range, we prefer exposure to Centurion Corp, Food Empire, and Marco Polo Marine. All three stocks have strong earnings tailwinds and have delivered strong YTD returns.

Figure 29: Singapore – valuation comparison (I) for preferred small and mid-cap exposure

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
Centurion Corp	258	Buy	0.62	53.1	Dec-23	5.1	4.9	0.5	0.4	3.7	4.9	20.1	24.9	10.0	9.0
Food Empire	450	Buy	1.53	35.3	Dec-23	8.1	7.8	1.4	1.3	3.6	3.7	12.0	12.3	19.0	17.5
Marco Polo Marine	142	Buy	0.07	31.1	Sep-24	9.1	8.3	1.0	0.9	2.0	2.0	1.7	14.0	11.9	11.8

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Figure 30: Singapore – valuation comparison (II) and returns for preferred small and mid-cap exposure

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
Centurion Corp	258	Buy	0.62	53.1	Dec-23	19.0	3.9	49.7	33.3	33.3	32.8	0.8	0.7	1.3	20.9
Food Empire	450	Buy	1.53	35.3	Dec-23	13.3	4.1	23.2	4.1	13.6	13.5	-0.4	-0.5	3.7	78.0
Marco Polo Marine	142	Buy	0.07	31.1	Sep-24	-2.4	9.6	0.0	0.0	15.5	16.1	-0.3	-0.4	6.3	24.4

Note: Prices are as at 29 Dec 2023.
Source: Bloomberg, RHB

Sector Outlook, Rating & Preferred Picks

Figure 31: Summary of our sector weightings

OVERWEIGHT	NEUTRAL
Consumer	Financials
Industrials	Food products (plantations)
Mfg. & Tech.	Healthcare
S-REITs (Hospitality)	Real estate
S-REITs (Industrials)	S-REITs (retail)
S-REITs (Office)	Telecommunications
S-REITs (Overseas)	
Transport	

Source: RHB

Figure 32: Summary of preferred stocks across sectors

Sector	Most preferred
Consumer	DELFI, SSG, THBEV
Financials	OCBC
Food products	GGR
Healthcare	-
Industrials	STE
Mfg. & Tech.	FRKN, VMS
Real estate	CIT
REIT	AAREIT, CDREIT, CLAR, KREIT
SMID Cap	CENT, FEH, MPM
Telecom	ST
Transport	CD

Source: RHB

Thailand Strategy

The dawn of opportunity

♦ Please refer to our *2024 Thailand Strategy* report for more details

Accumulate. The SET declined by 15% YoY in 2023, making Thailand one of the worst performers among the Asian markets. Foreign funds, which bought Thai-listed stocks amounting to THB200bn in 2022, have sold shares worth THB198bn last year. Delays in the formation of the new government post the Mar 2023 election, as well as disruptions in government spending and budget disbursements, also caused the economy to lose six months of growth momentum. Foreign investors now account for 51% of Thai stocks, indicating a substantial shift in the SET towards a more macroeconomic-centric market. We believe the SET has hit a bottom – and anticipate a turning point where investment sentiment should recover. As such, investors can resume accumulating stocks while we wait for the recovery in overall market fundamentals from 1Q24 onwards.

Pricing in major risks. Considering the risks associated with the market, inflation, bond yields, and local government policies, we had expected a deceleration in economic growth, amidst geopolitical uncertainties. Active economic measures such as e-payment receipts and government budget execution should drive GDP growth in 1H24. Thailand's political landscape has also stabilised, with a weaker opposition. We think that from 1Q24 onwards, against a backdrop of a brighter outlook for our trade partners (China and the US), geopolitical tensions should remain put – thereby providing greater upside for the market next year.

End-2024 SET target: 1,552 pts. If we excluded Thailand's digital wallet scheme, we believe GDP could expand by >3% over 2024-2025, from 2.5% in 2023. This would come from the further ramp-up in economic activities, and a likely turnaround in government spending and import figures. The SET index closed 2023 at 1,415.85pts (-15.1% YoY), which was 7.8% lower than our projection, which in turn was based on our expectation of market earnings dropping by 2.4% YoY, and applying a discounted 15-year mean of 18.46x. For 2024, our outlook is positive, and we expect the SET to close this year at 1,552pts, based on an unchanged 15-year P/E mean of 18.48x). For this year, our outlook is positive, and we expect the SET to close 2024 at 1,552pts, based on an unchanged 15-year P/E mean.

Investment themes:

i. **Plays on economic measures.** Among the seven upcoming economic stimulus measures, we believe the e-payment receipts theme would gain the most traction and be the most tangible factor in 1Q24.

ii. **China's economic recovery and what this implies for Thailand.** GDP growth should be underpinned by a further recovery in inbound tourist arrivals, rosier trade dynamics, and a pick-up in private investment and consumption, as well as higher demand for housing.

iii. **EV – the rising star.** Investments and automotive sales are growing, with strong support from the Government's EV3.5 subsidy.

iv. **Tourism – better numbers anticipated.** For 2024, we expect to welcome 35m foreign visitors (88% of 2019 levels) vs 27m in 2023F.

Company Name	Rating	Target (THB)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
Advanced Info Service	Buy	252.00	16.1	21.9	6.9	33.0	3.4
Airports of Thailand	Buy	84.00	40.6	62.4	7.2	12.1	0.9
Bangkok Bank	Buy	192.00	22.7	7.0	0.6	8.2	3.8
Bangkok Chain Hospital	Buy	24.00	7.1	38.6	4.5	11.6	1.4
Central Pattana	Buy	85.00	21.4	24.3	3.5	15.1	1.6
Central Plaza Hotel	Buy	50.00	14.3	41.3	5.4	14.7	1.0
Central Retail Corporation	Buy	54.00	31.7	31.4	2.8	9.3	1.3
CP ALL	Buy	75.50	34.8	29.2	4.6	17.2	1.7
PTT	Buy	44.00	23.1	9.4	0.9	10.2	5.1
Supalai	Buy	24.70	32.8	5.4	0.7	13.9	7.4

Source: Company data, RHB

Investment Themes

Theme 1: Plays on economic measures

Pros and cons on upcoming economic measures

1) **Salary increases of 20% for new civil servants over the next two years.** The baseline salaries of newly hired civil servants will gradually increase from THB15,000 to THB18,000 per month or they will receive THB16,500 in their first year, then THB18,000 in their second year. Following the annual budget release, the first salary increase will take effect in May 2024. The Government will initially need to spend THB6bn from a central budget allocated for emergency use. There are about 1.68m state workers – 427,000 teachers and educational staff, 421,000 civil servants, and 325,000 military personnel.

   Pro: Increase in purchasing power and consumption has positive effects.

   Con: An adverse effect, such as inflation and rising production costs, may lead to reduced hiring in the private SME sector.

2) **The e-payment receipt**, known as "E-Refund," will be in effect over 1 Jan-15 Feb 2024. Individuals can receive a tax deduction of up to THB50,000 for purchasing goods and services from business operators backed by the e-tax system. Purchases of alcoholic, tobacco, vehicles and fuels, utilities bill, non-life insurance will be excluded from the plan.

   Beneficiary: To boost spending and GDP by approximately 0.5%.

3) **New minimum wage.** There is a proposal to increase the minimum wage nationwide from THB330 to THB370 per day from 1 Jan 2024 onwards, depending on the province. Currently, the lowest minimum wage in Thailand is THB328, while the highest is THB354 – these levels vary from province to province. The proposed increase in the daily minimum wage will range from THB2 to THB16, averaging at a 2.4% hike.

   Pro: Increase in consumer purchasing power. It is unlikely that daily minimum wage increases will significantly impact the prices of goods and services in the domestic market. The effect of a minimum wage adjustment by the tripartite wage committee on inflation showed an average daily minimum wage increase of 2.37% to THB345 baht.

   Con: This increase would result in a slight rise in inflation, by approximately 0.13-0.25%. The top five products and services most affected by the adjustment are processed food, rice, communication services, fresh vegetables, and fresh fruit. These products have a relatively high weight in inflation calculations, and are associated with labour-intensive production sectors.

4) **A debt moratorium for SMEs**: To offer a debt moratorium to SMEs classified as Code 21 debtors (for companies with late payments of more than 90 days). It aims to provide a 1-year moratorium period to those who owe less than THB10m, while the Government will also subsidies 1% of their interest owed to commercial banks. The measure is expected to help SME operators, which make up 99.5% of total Code 21 debtors, pay back some THB60bn in debts. Government banks will be engaged in this debt restructuring.

   Beneficiary: Solving NPLs in the SME sector. Commercial banks are not engaging in the debt moratorium.

5) **Capping power bills and reform:** To help people in vulnerable groups afford their electric bills, which are set to rise to THB4.68 per unit in January. The measure will cap power bills for specific households at THB3.99 per unit if they use less than 300 monthly units. This is expected to cost THB2bn in subsidies. The private sector demands that the price of electricity be capped within THB2.70 and THB3.30 per unit. However, this measure still needs to be finalised.

   Beneficiary: Supports the cost of living for the public, and maintains a level of inflation for a specific period.

6) **Farmer subsidies.** The Government has announced a scheme to provide grants to rice farmers. Under this scheme, all farmers registered for the THB1,000 per-*rai* programme will be eligible for aid. Each registered farming household can receive assistance for a maximum of 20*rai* (3.2ha) or no more than THB20,000. The total budget allocated for this programme is THB54.33bn.

   Beneficiaries: Increasing farmer income, agricultural product spending, and consumer loan repayments.

7) **To transform Thailand into a duty-free paradise is a crucial step in positioning the country as a prime tourism and shopping hub.** Five measures include closing duty-free shops at points of arrival, to encourage tourists to shop more within the country. These are:
   i. Aims to encourage domestic spending among locals and international tourists by offering them more tax and financial benefits;
   ii. Restructure excise tax to make certain products more appealing, and helping to make the prices of these items cheaper than those sold in other countries;
   iii. To close duty-free shops at points of arrival to encourage international visitors to shop more within Thailand (and not at the airport). Duty-free shops at points of departure will remain;
   iv. To extend opening hours at night entertainment venues in major tourist districts to 4am;
   v. To study the possibility of extending the visa-free policy to cover visitors from more countries.

   Beneficiaries: Shopping mall and hotel operators, food & services players. These measures may have a minor effect on Airports of Thailand (AOT) in terms of retail space rental income – which may impact its bottomline by about 3%.

Source: Various sources, RHB

Top Picks for this theme: Amongst the seven upcoming economic stimulus measures (detailed in the page before this), we think that the e-payment receipts will gain the most traction and be the most tangible in the 1Q24. As this is most focused on the high-income segment, our Top Picks are:

i. Advance Info Services (ADVANC TB, BUY, TP: THB252);

ii. Central Retail Corporation (CRC TB, BUY, TP: THB54);

iii. CP ALL (CPALL TB, BUY, TP: THB75.50);

iv. Central Pattana (CPN TB, BUY, TP: THB85);

v. Home Product Center (HMPRO TB, BUY, TP: THB17.20).

Theme 2: China's economic recovery – implications for Thailand

Trade prospects to improve. Thailand's exports to China accounted for 12% of the kingdom's total exports in 2022, making China the second-largest export destination. Recovering the Chinese market is expected to reduce the bottlenecks in the supply chains and attract more foreign direct investments (FDIs) to Thailand.

Tourism and domestic consumption. Our projections indicate that the number of inbound tourists to Thailand will reach 27m by the end of 2023. It is expected that 3.5m tourists will be from China, accounting for approximately 13% of total tourist arrivals. In 2019, tourist spending on shopping accounted for about 23% (THB 870bn) of Thailand's total retail sales (THB3.8trn), equivalent to 22% of the country's GDP, according to the Thai Retailers Association.

FDI. FDIs into Thailand exceeded THB398bn (USD3.2 bn) in 9M23, marking a 74% YoY increase. China was the largest foreign investor, contributing THB97bn through 264 investment projects, representing 25% of total FDIs. Electronics accounted for 68% of the top five FDI projects, followed by auto and auto parts (8%), food processing (7%), petrochemicals (6%), and tourism (4%).

Industrial estates and housing. In 9M23, the Board of Investment issued promotion certificates to foreign investors in: i) The industrial estate in the general industrial zone, ii) in the Eastern Economic Corridor (EEC), and iii) areas outside where the local population belongs to the low-income segment. The number of these promotional certificates given surged by 61%, 67%, and 371%.

The residential real estate at Chonburi Province, located in the EEC, was the top choice for most foreigners who bought condominiums in 9M23 – note that Bangkok is the former top choice but was relegated to second place, according to data from Government Housing Bank's Real Estate Information Centre (REIC).

Ownership of 4,468 units (41.7% of the total) of condominiums were transferred to foreign nationals from Jan to Sep 2023 in the eastern resort city. In Bangkok, the number was 4,018 units (37.5%). Phuket was third, with 686 units (6.4%), followed by Chiang Mai with 677 units (6.3%), and Samut Prakan with 288 units (2.7%).

In 2022, Bangkok was the top location, with 5,260 units transferred, accounting for 45.5% of the total. Chonburi held the second place with 3,567 units, or 30.9% of the total.

In 9M23, foreigners purchased 10,703 condominiums with a combined value of THB52.25bn. The number of units sold increased by 37.6%, and their value increased by 31.6% YoY. China buyers were the most prominent foreign investors, accounting for 4,991 units or 46.6% of total units sold to foreigners in 9M23. Russian buyers were next, at 962 units (9%), then buyers from the US at 422 units (3.9%), Taiwan at 378 units (3.5%), and France at 372 units (3.5%).

Top Picks for this theme:

i. Bangkok Bank (BBL TB, BUY, TP: THB192);

ii. Central Plaza Hotel (CENTEL TB, BUY, TP: THB55);

iii. Bangkok Chain Hospital (BCH TB, BUY, TP: THB24);

iv. Supalai (SPALI TB, BUY, TP: THB24.70).

Theme 3: EV – the rising star

Just like the previous government's 30/30 policy (where it targeted to have zero-emissions vehicles make up 30% of total auto production by 2030), the new government is also emphasising on and accelerating the development of renewable energy (RE), the green economy, and the EV industry. This is to promote Thailand as an EV production base in the ASEAN region. The 30/30 policy is divided into three phases, and we are now in the second phase of producing EV cars as the regional export hub.

i. **Phase 1 (2021-2022)** – the Government will promote electric motorcycles and support EV infrastructure nationwide;

ii. **Phase 2 (2023-2025)** – the EV industry will be developed to produce 225,000 cars and pick-up trucks, 360,000 motorcycles and 18,000 buses and/or trucks by 2025, including the production of batteries. This first milestone is designed to deliver cost advantages via economies of scale;

iii. **Phase 3 (2026-2030)** will be driven by the 30/30 policy to produce 725,000 EV cars and pick-up trucks, plus 675,000 EV motorcycles. This will account for 30% of total auto production by 2030 and includes domestic battery manufacturing. The National Electric Vehicle Policy Committee also establishes financial and tax incentives for EV and battery manufacturers and safety standards.

EV sales (of cars) are growing. In Thailand, the registration of EVs has reached 70,000 units, with 58,000 being passenger cars. This figure accounted for 16% of all new vehicle registrations in Oct 2023. The EV sector is snowballing, and Thailand's supportive measures instil confidence in investors and consumers. The number of EVs registered to run on Thai streets reached 512,343 units as of 30 Nov, according to the Department of Land Transport (DLT).

The five most popular brands of passenger vehicles under seven seats that are currently registered for use in Thailand are: Toyota (3,951,393 units), Honda (2,369,676 units), Isuzu (1,228,241 units), Mitsubishi (867,088 units), and Nissan (798,093 units).

Although Japanese brands are still dominating the Thai market, Chinese automakers are fast catching up, offering a variety of affordable EVs. This can be seen from two weeks of the 40th Thailand International Motor Expo – which ended on 15 Dec 2023 – reported total bookings for 53,248 cars and 7,373 motorcycles. Of the cars, 61.6% were for internal combustion engine (ICE) vehicles, while 38.4% were for EVs.

The top three brands that reported the most bookings at the 40th Thailand International Motor Expo 2023 were Toyota (7,245 units), followed by Honda (6,149 units) and China EV maker BYD (5,455 units).

EV board extends EV vehicle subsidies for buyers for four more years. The EV3.5 package, which will be enforced from 2024 to 2027, includes:

i. A subsidy of THB50,000-100,000 for an EV vehicle with a retail price of not more than THB2m and that uses a battery of at least 50kWh in capacity;

ii. A subsidy of THB20,000-50,000 for an EV vehicle using a battery with capacity less than 50kWh;

iii. A subsidy of THB50,000-100,000 for an EV pick-up costing not more than THB2m and battery with at least 50kWh in capacity;

iv. A subsidy of THB5,000-10,000 for an EV motorcycle costing not more than THB150,000 with a battery capacity of at least 3kWh.

The EV3.5 package will also reduce the import tariff cap to 40% for imported completely built up or CBU EV vehicles during the first two years of the package’s enforcement, in 2024 and 2025. If the imported EVs have a price tag not exceeding THB2m, their excise tax rate will be reduced from 8% to 2%. However, the importers must invest in the country and manufacture EVs to compensate the imported ones at a ratio of two locally made EVs for each imported one, within 2026. The ratio will rise to three locally made vehicles per imported one in 2027.

Focus stocks are as follows:

i. **EV parts supply chain:** Somboon Advance Technology (SAT TB, NR) and Thai Stanley Electric (STANLY TB, NR);

ii. **EV passenger car and boat producers**: PTT (PTT TB, BUY, TP: THB44), Energy Absolute (EA TB, NR), Nex Point (NEX TB, NR), and Chai Watana Tannery Group (CWT TB, NR);

iii. **Battery chargers**: Global Power Synergy (GPSC TB, NR), Rojana Industrial Park (ROJNA TB, NA), Energy Absolute, and Banpu (BANPU TB, NR);

iv. **Charging stations:** Delta Electronics (Thailand) (DELTA TB, NR), PTT Oil & Retail Business (OR TB, BUY, TP: THB35), Energy Absolute (EA TB, NR), and Forth Corporation (FORTH TB, NR);

v. **Battery-waste management:** Better World Green (BWG TB, NR) and Banpu (BANPU TB, NR);

vi. **High-tech electronics:** Delta Electronics (DELTA TB, NR), KCE Electronics (KCE TB, NR), and Hana Microelectronics (HANA TB, NR).

Top Pick: PTT.

Theme 4: Tourism – visitor numbers set to spike

The Government expects China tourist arrivals to double in 2024. The Tourism Authority of Thailand (TAT) anticipates a resurgence of China tourists in 2024, and expects arrivals from China to hit 8.5m (our best-case scenario in Figure 15), more than double the estimated 3.5m China visitor arrivals for this year. Moreover, the TAT places importance on diversifying and growing markets, with a focus on four key areas: Malaysia, India, Russia and Taiwan. Efforts will also be directed towards promoting growth in emerging markets such as Saudi Arabia, countries in the Commonwealth of Independent States, on top of stimulating potential growth in markets like the US, Kazakhstan, and South-East Asian nations such as Vietnam and Laos.

Figure 33: Thailand's tourist arrivals and receipts

Thailand	2016	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
International tourists (m)	32.5	35.6	38.2	39.8	6.7	0.4	11.2	27.0	35.0	39.0
Domestic tourists (m trips)	145	153	166	166	90	53	189	240	245	250
Chinese tourists (m)	8.8	9.8	10.5	11.0	1.2	0.0	0.3	3.5	6.0	9.0
% Chinese tourist contribution	26.9%	27.6%	27.6%	27.6%	18.6%	3.0%	2.5%	13.0%	17.1%	23.1%
International tourism receipts (THBtrn)	1.6	1.8	1.9	1.9	0.3	0.0	0.9	1.2	1.9	2.0
Domestic tourism receipts (THBtrn)	0.9	1.0	1.1	1.1	0.5	0.2	0.6	0.8	1.1	1.2
Total tourism receipts (THBtrn)	2.5	2.8	2.9	3.0	0.8	0.2	1.5	2.0	3.0	3.2
% Tourism receipts to GDP	15.6%	16.7%	16.9%	17.0%	4.9%	1.4%	8.6%	11.2%	16.5%	16.9%

Source: Ministry of Tourism and Sports, World Bank, RHB

For 2024, we estimate that Thailand will record 35m foreign visitor arrivals (88% of 2019 levels), 245m trips from domestic travellers (2023: 240m trips). Total tourism receipts may ramp up to THB3trn, contributing 16% of Thailand's GDP (2023: THB2trn, 11% of GDP), including THB1.9trn from international tourists and THB1.1tn from Thai locals.

We forecast that China tourists may still ramp up to 6m, to account for 17% of total visitor arrivals (2023: 3.5m arrivals, at 13% of the mix). Amid challenges over the slower-than-expected China visitor arrivals to the kingdom, our scenario analysis also details the worst case of 3.5m China visitors (flat from 2023) – bringing total foreign visitor arrivals and receipts to 32.5m and THB1.8trn. The best case could be 8.5m Chinese visitors – boosting the total foreign arrivals and receipts to 37.5m and THB2.1trn.

We currently believe the volume of international visitor arrivals will return to 2019 levels in 2025, although the number of visitors from China may remain at 9m (2019: 11m).

Figure 34: Scenario analysis for China visitors

2024F	Worst Case	Base Case	Best Case
International tourists (m)	32.5	35.0	37.5
Chinese tourists (m)	3.5	6.0	8.5
International tourism receipts (THBtrn)	1.8	1.9	2.1
Total tourism receipts (THBtrn)	2.9	3.0	3.2

Source: RHB

Airports, as a first-tier proxy may secure more flights and passengers throughout the year, while hotels – a Tier-2 proxy for this theme – should see accelerating demand from both leisure and business customers.

Our Top Pick under this theme is Airports of Thailand (AOT TB, BUY, TP: THB84)

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