3 May 2023

Market Strategy

Markets Still Seeking Clarity

- **Weak investor sentiment offers opportunities.** The near-peak US Federal Funds Rate (FFR), moderating US inflation, and absence of a severe US recession are key RHB macroeconomic assumptions. We expect investor sentiment on the outlook for equity markets to remain tentative in the near term, which will offer extended opportunities to build positions at lower levels – even as the severity of the expected global economic slowdown continues to evolve. Our preferred regional markets are Thailand (on pent-up demand for tourism and travel from China) and Indonesia (on the strength of its long-term domestic fundamentals).
- **Indonesia.** Despite improving macroeconomic conditions, we continue to like defensive sectors in 2Q23, eg large-cap banks, consumer staples, telecommunications (telco), and healthcare. Negative external news flow will contribute to market volatility. As the negativity subsides in 2H23, we endorse cyclicals such as auto, retail, cement, and metal mining. Our end-2023 JCI target is 7,450pts or -1.5SD from its 5-year mean P/E.
- **Malaysia.** While RHB's macroeconomic house remains decidedly positive, underlying domestic risks remain elevated, coupled with corporate earnings growth concerns. Imminent elections in six states could be a political watershed. A near-term core defensive strategy is still appropriate, but seek opportunities to deploy unallocated cash further out. We prefer large-cap, domestic-centric value stocks and remain selective on small-mid caps. We are OVERWEIGHT bank, oil & gas (O&G), basic materials, non-bank financial institutions (NBFIs), healthcare, auto and property sectors. Our end-2023 FBM KLCI target is 1,575 pts based on 15x (-0.5SD to mean) target P/E to FY24F EPS.
- **Singapore.** We believe the Singapore equity market will struggle to find direction in the near term amidst uncertainty of the upcoming US Federal Reserve's (US Fed) policy action and narrative around global and Singapore's economic growth outlook. While expectations of returning Chinese tourism arrivals bodes well for tourism-linked sectors in 2H23, investors should favour defensive and quality plays in 2Q23. We reiterate our preferred exposure to consumer staples, healthcare, and industrial REIT sectors. Our STI target stays at 3,440pts, which is based on 11.5x target P/E applied to 2024F EPS.
- **Thailand.** The general election is scheduled for 14 May, with the formation of the new government by early August. We believe that >3 political parties will be required to form a new government. Uncertainty may arise during the "vacuum period" in May and June between the formation of a new government and selection of a new prime minister. Political uncertainty will contribute to the SET's volatility during this period, which could lead to a risk vs reward scenario with an estimated index movement of 1x P/E or 84pts of the SET's EPS. Our end-2023 SET Index target of 1,764pts is derived from a baseline of 21x P/E (10-year mean P/E of 20.89x).

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
AKR Corporindo	Buy	IDR1,840	13.9	14.2	2.7	19.9	3.0
Bank Rakyat Indonesia	Buy	IDR5,800	17.2	13.3	2.1	17.1	5.5
CapLand Ascendas REIT	Buy	SGD3.25	15.4	19.3	1.2	6.2	5.8
CIMB	Buy	MYR6.40	24.0	8.5	0.8	9.9	6.0
CP ALL	Buy	THB79.00	23.9	29.1	5.1	18.6	1.7
CTOS Digital	Buy	MYR1.92	38.5	31.0	5.8	19.5	1.9
Mayora Indah	Buy	IDR3,200	23.1	22.3	4.1	19.9	1.8
PTT	Buy	THB46.00	48.4	8.2	0.8	10.2	5.9
Raffles Medical	Buy	SGD1.70	16.4	22.8	2.6	11.6	2.5
Siam Cement	Buy	THB400.00	32.0	9.5	0.9	10.1	5.0
ST Engineering	Buy	SGD4.10	13.9	19.9	4.6	23.2	4.4
Telekom Malaysia	Buy	MYR6.20	25.5	13.0	1.9	15.9	3.6

Source: Company data, RHB

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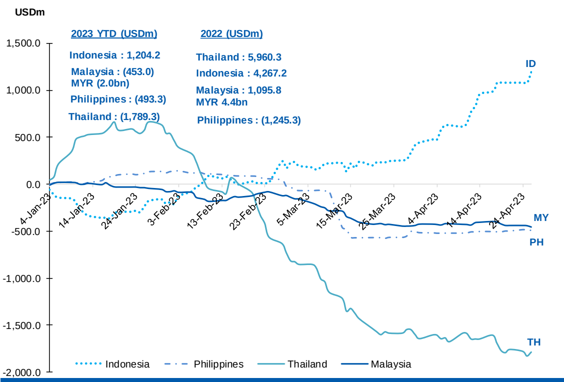
Regional foreign fund flows for 2023 YTD



Source: Company data, RHB

Indonesia Strategy

Stronger IDR and boosted by foreign funds flows

We retain our 7,450-pt end-2023 JCI target, -1.5SD from its 5-year P/E. Despite improving macroeconomic conditions – ie the IDR strengthens, gradually rising domestic demand, and net foreign inflows returning – we continue to like defensive sectors in 2Q23, eg large-cap banks, consumer staples, telco, and healthcare. Negative external news flows – eg US interest rate movements and collapsing banks – continue to make the market volatile. When the negativity subsides in 2H23, we endorse cyclicals such as auto, retail, cement, and metal mining. Bank Central Asia (BBCA), AKR Corporindo (AKRA), and Indofood CBP (ICBP) replace Bank Negara Indonesia (BBNI), Perusahaan Gas Negara (PGAS), and Nippon Indosari (ROTI) in our Top 10 picks.

Strengthened by improving macroeconomic data. The IDR has strengthened significantly in April, falling below 15,000/USD by end March from mid-March's IDR15,400/USD. We estimate the IDR to further strengthen to the IDR14,000-14,500/USD range by end 2023. External drivers – particularly Indonesia's recent decision to require domestic exporters keep FX earnings in the local banking industry for three months – are likely to be behind the unexpected IDR rally. Separately, the country's macroeconomic backdrop since the start of 2023 has been better than expected – in February, our economists raised Indonesia's 2023 GDP growth forecast to 4.9%, up from their initial 4.1%.

In 1Q23, net foreign inflows to the JCI returned to positive territory. Post 4Q22's massive net foreign outflows of IDR8.9trn, IDR6.6trn in inflows returned in 1Q23. Note: When GoTo Gojek Tokopedia's (GOTO IJ, NR) locked-up share price opened in Dec 2022, there was a massive net foreign outflow of IDR20.9trn. Net foreign flows were still negative in January (-IDR3.2trn), but began to turn positive in February and March to IDR5.7trn and IDR4.1trn on improved macroeconomic data and a stronger IDR.

We continue to favour defensive sectors in the short term while cyclical sectors are set to outperform in 2H23. Defensive sectors – eg banks (particularly large-cap), consumer staples, telco, and healthcare – should outperform in the short term while the market remains volatile. We prefer cyclical sectors – ie auto, retail, cement, and metal mining – for the long term. Automakers and retailers should benefit from increased consumer spending, which we think will pick up post the national minimum wage hike and reduced inflationary impacts. Consumer spending typically rises in the run-up to a general election year too. Despite volatile nickel prices, we remain bullish on nickel businesses, as sales should improve following China's re-opening and the growing demand for EV batteries. The auto industry should also benefit from the Government's EV incentives.

BBCA, AKRA, and ICBP replaces BBNI, PGAS, and ROTI in our Top 10. Given the expected market volatility, we prefer more defensive names like BBCA (banks), AKRA (O&G, chemicals, and industrial estates), and ICBP (consumer staples). We see them performing admirably in 2Q23, given the strong positions in their respective segments.

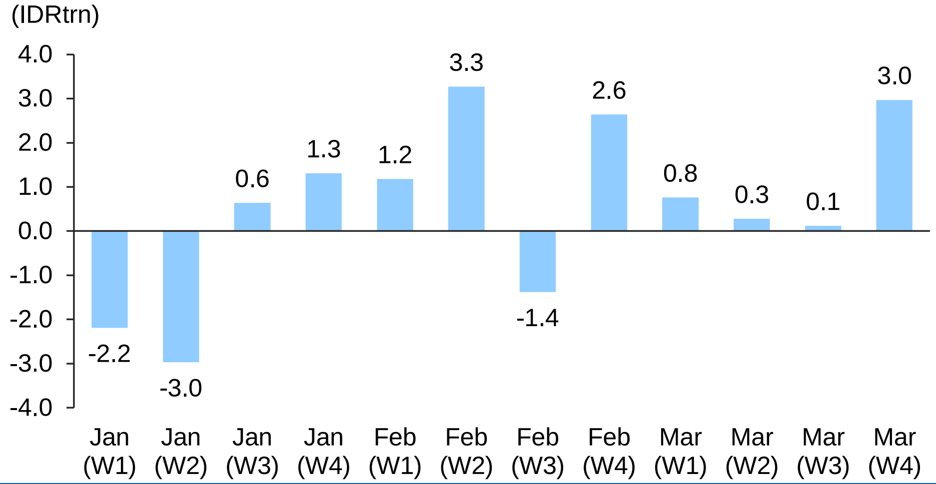
1Q23: Volatile JCI Despite Robust Fund Flows

Net foreign fund flows back to positive territory

Net foreign flows to the JCI returned to positive territory in 1Q23. Following a massive net foreign outflow of IDR8.9trn in 4Q22, 1Q23 saw a net foreign inflow of IDR6.6trn. It should be noted that when the GOTO's locked up share price was opened in Dec 2022, there was a massive net foreign outflow of IDR20.9trn during that period. Because of improved macroeconomic data and a stronger IDR, net foreign flows were still negative in January (-IDR3.2trn), but it began to turn positive in February and March at IDR5.7trn and IDR4.1trn.

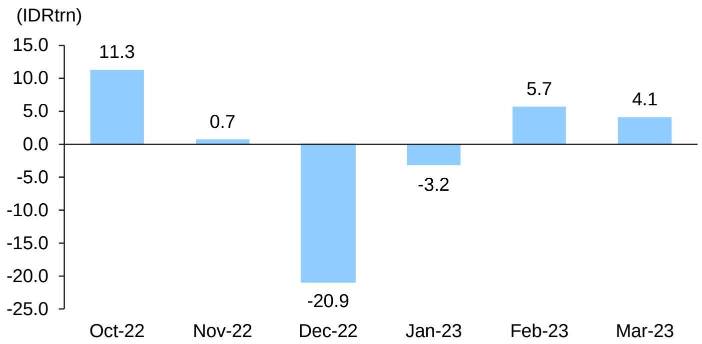
We believe this was caused by the unexpected strengthening of the IDR in late January led by the implementation of a new regulation requiring proceeds from exports to be held in Indonesia for a longer period of time. We expect net foreign fund flows to remain positive in 2Q23, but there is still a net outflow risk, which will be determined by whether the US Fed becomes more hawkish and raises interest rates later this quarter.

Figure 1: Net foreign fund flows to equities turned positive in the third week of January



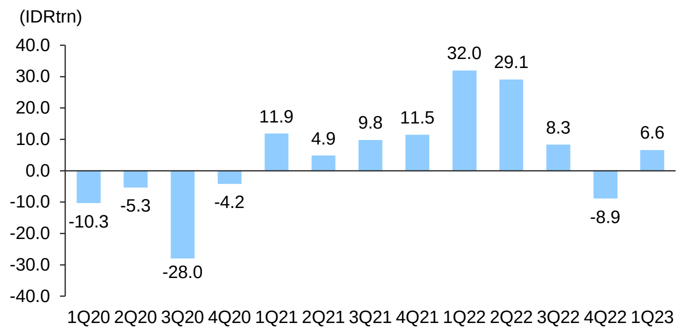
Source: Company data, RHB

Figure 2: Monthly foreign fund flows into equities



Source: Bloomberg, RHB

Figure 3: Quarterly foreign fund flows into equities



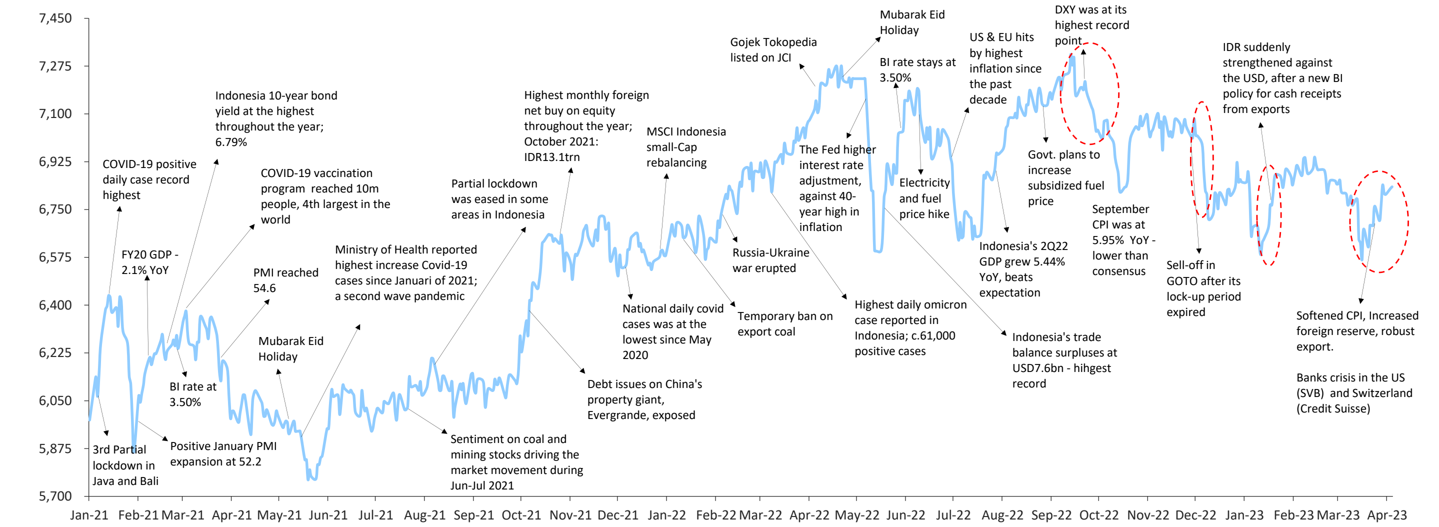
Source: Bloomberg, RHB

The JCI fell to its lowest YTD level in mid-March, but recovered quickly

Despite strong foreign inflows, the JCI is still down 0.5% YTD on cyclical sectors such as infrastructure, energy, basic materials, and consumer cyclical. The index fell to its lowest YTD level of 6,565 pts in mid-March but recovered 4.3% by the end of the month to 6,805 pts. In the first two weeks of March, the JCI declined due to dips in large-cap names in various sectors, including BBCA (-5.1%), Merdeka Copper Gold (MDKA, -15.2%), Barito Pacific (BRPT, -18.7%), Astra International (ASII, -4.1%), Adaro Energy (ADRO, -11.7%), Charoen Pokphand Indonesia (CPIN, -10.7%), and Semen Indonesia (SMGR, -17%).

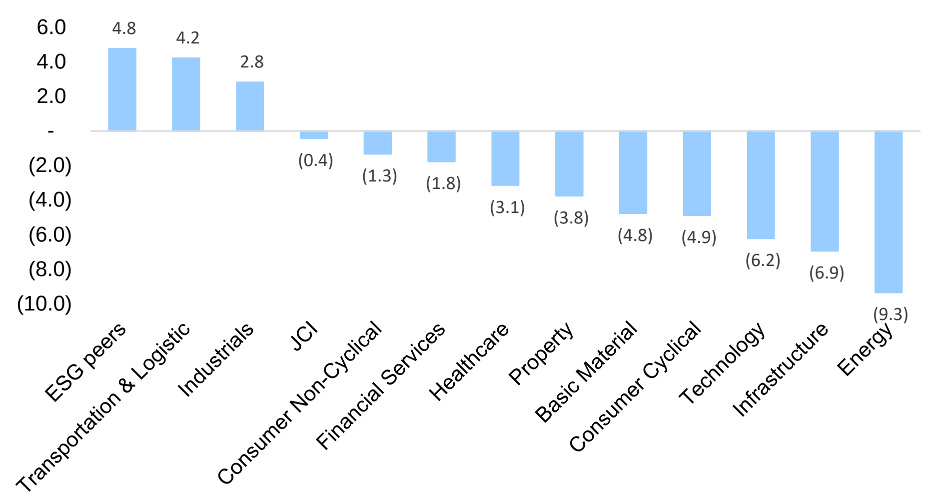
The JCI's daily trading value fell in 1Q23 as investors adopted a wait-and-see stance. To keep inflation under control, the US Fed may need to raise rates more than previously anticipated – we believe this policy contributed to the decline in the JCI's trading liquidity, as the market is likely to wait for the US central banking system's stance before making large investment decisions. Hence, we believe this was the primary reason why the index's YTD trading liquidity fell to IDR10trn, underperforming 2022's IDR14.7trn average.

Figure 4: The JCI and events in Jan 2021-Apr 2023



Source: Bloomberg, RHB

Figure 5: The JCI's performance YTD according to sectors



Source: Bloomberg, RHB

Robust 1Q23 earnings, driven by banks, coal, and telco

Companies under our coverage's FY22 earnings grew 39% YoY to IDR378.9trn, which were above our and consensus expectations at 105% and 106% of full-year estimates despite lower QoQ earnings in 4Q22. Strong performances in the banking, coal, and telco sectors drove these robust earnings, with these three industries accounting for 74% of the bottomline of the companies under our coverage. Banks' FY22 earnings increased 46.7% YoY to IDR165trn or 104% and 106% of our and Street full-year projections. The earnings of the coal companies last year increased by 138.4% YoY to IDR96trn, ie 112% and 109% of our and consensus full-year estimates. Similarly, telcos' FY22 earnings increased 12.3% YoY to IDR33trn, which was 105% and 109% of our and Street full-year projections.

Despite a sequentially weaker 4Q22, banks' earnings for FY22 were higher than expected. The aggregate net profit of Indonesia's Big-4 banks fell 4% YoY in 4Q22, owing primarily to flattish NII and seasonally higher opex. Bank Rakyat Indonesia's (BBRI) recognition of modification losses – resulting from the restructuring of loans to several primary borrowers – dampened NII growth, cancelling out the NIM expansion recorded by peer banks. Negative jaws from 25.5% QoQ cost growth resulted in an 8% QoQ decline in PPOP. Net profit fell by 4% YoY, as credit costs fell to 1.09% from 1.57% in 3Q22.

The strong cycle of coal prices has lifted the profitability of companies in this sector, causing them to soar to their highest growth rates on record for both topline and bottomline. This is despite the operational volumes challenge, which was hampered by the unusually long rainy season last year. The high selling price can still cover the risk of rising fuel prices, in our view. Coal companies continued to stay focused on pre-stripping activities during the prolonged rainy season, as evidenced by the increase in cash costs (apart from the impact of higher fuel prices). And, as a result of the increased ASPs, margins remain high.

Telcos under our coverage delivered satisfactory results in 4Q22, driven by Telkom Indonesia's (TLKM) core earnings. 4Q22 core net profit increased by 14.2% QoQ (+173.4% YoY) on operating cost efficiencies and significantly lower non-controlling interest – this took the FY22 figure to IDR27trn (+27.4% YoY), ie slightly higher than our and Street's full-year estimates of 103.6% and 110.6%.

Figure 6: FY22 results highlights – by sector

(IDRbn)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YoY	FY22 RHB	% RHB	FY22 Street	% Street
Bank	35,026	44,231	42,234	-4.50%	20.60%	112,701	165,278	46.70%	158,839	104.10%	156,071	105.90%
Coal	16,667	28,617	23,229	-18.80%	39.40%	40,163	95,753	138.40%	85,591	111.90%	87,729	109.10%
Telco	3,985	7,407	8,717	17.70%	118.70%	29,221	32,828	12.30%	31,303	104.90%	30,015	109.40%
Auto	5,387	5,555	6,109	10.00%	13.40%	20,807	30,271	45.50%	30,550	99.10%	30,752	98.40%
Consumer	5,344	4,863	4,771	-1.90%	-10.70%	21,290	18,686	-12.20%	23,099	80.90%	20,655	90.50%
O&G	189	2,621	3,048	16.30%	1514.40%	2,036	10,672	424.30%	10,140	105.20%	9,262	115.20%
Metal mining	763	1,369	1,692	23.60%	121.90%	4,715	6,763	43.40%	6,865	98.50%	7,084	95.50%
Property development	1,953	1,468	2,517	71.50%	28.90%	4,790	6,461	34.90%	5,770	112.00%	5,255	123.00%
Retail	1,702	895	1,641	83.30%	-3.60%	3,202	5,522	72.40%	4,971	111.10%	5,074	108.80%
Healthcare	2,151	1,383	1,461	5.60%	-32.10%	6,627	5,385	-18.70%	4,986	108.00%	5,417	99.40%
Cement and building materials	1,363	1,629	1,728	6.10%	26.80%	4,306	4,783	11.10%	4,104	116.60%	4,481	106.70%
Poultry	1,460	1,085	-266	NM	NM	5,644	4,348	-23.00%	5,398	80.60%	5,851	74.30%
Plantation	1,192	631	944	49.60%	-20.80%	3,881	2,942	-24.20%	2,708	108.60%	2,539	115.90%
Industrial estates	164	63	494	681.00%	200.60%	443	1,427	221.90%	1,467	97.30%	1,332	107.10%
Shipping	156	240	192	-20.10%	23.30%	449	771	71.90%	657	117.40%	655	117.70%
Construction	187	50	159	217.10%	-15.00%	439	293	-33.20%	715	41.00%	770	38.10%
Renewable energy	69	11	66	479.80%	-5.00%	114	214	87.70%	174	123.10%	184	116.40%
Others	10,820	3,839	-2,533	NM	NM	24,892	4,626	-81.40%	1,580	292.80%	1,672	276.60%
Total	**88,579**	**105,959**	**96,204**	**-9.2%**	**8.6%**	**285,720**	**397,024**	**39.0%**	**378,918**	**104.8%**	**374,799**	**105.9%**

Source: Company data, RHB

2Q23: Still Prefer Defensive Sectors

Be defensive now, focus on cyclical sectors in 2H

We continue to favour defensive sectors in the short term, while cyclical sectors are expected to outperform in 2H23. Defensive sectors such as banks (large-cap), consumer staples, telco, and healthcare should outperform in the short term while the market remains volatile. We prefer cyclical sectors such as auto, retail, cement, and metal mining for the long term. Automakers and retailers should also benefit from increased consumer spending, which will pick up – in our view – following the national minimum wage increase and reduced inflationary impacts. Consumer spending typically rises in the run-up to a general election year as well. Despite volatile nickel prices, we remain bullish on nickel businesses, as sales should improve following China's re-opening and the growing demand for EV batteries. The auto industry should also benefit from the Government's EV incentives.

Large-cap banks continue to be our preferred sector pick, thanks to such banks' expected robust earnings growth despite last year's high-base numbers. Indonesian banks are almost certainly the most defensive in the region. As of Dec 2022, the country's Big-4 banks had plenty of liquidity, as evidenced by liquidity coverage ratios (LCRs) ranging between 191% and 402%, which are significantly higher than peers in Malaysia (154%), Singapore (135-150%), and Thailand (216% on average). The Big-4 banks also have the highest capital buffers – with an average CET-1 ratio of 20.7% – vs Singaporean and Thai banks' 13-15% and 15-18%. The very liquid balance sheets and capital strengths of IND Banks (the banks under our coverage) make them more defensive, particularly in the face of global economic and financial uncertainties, eg the US and European banking crises. BBCA has the best balance sheet, with LCR and CET-1 ratios of 401.8% and 25.9%, ie significantly higher than its regional peers.

We maintain our preference for consumer staples companies due to the defensive nature of this sector and expected widening of their GPMs. Sales may have been softer due to seasonality, particularly for Mayora Indah (MYOR) and ROTI. However, we anticipate earnings to be strong, particularly on a YoY basis. Because of 2022's massive price increases and declining commodity prices, consumer staples companies should see solid margins expansions. We understand that challenges for Unilever Indonesia (UNVR) may persist in 1Q23, as the company continues to reduce its trade-in-stock to distributors. Furthermore, we believe that rising competition and slow product innovations will limit its performance.

In 2023, telcos are expected to deliver revenue growth in the mid- to high-single digits. The fixed-mobile convergence (FMC) initiative should be a better strategy for retaining customers and increasing ARPU. Acquiring more subscribers appears to be difficult and costly in a saturated market. We expect XL Axiata's (EXCL) revenue to increase 8.5% YoY due to ASP increases, increased data consumption, and its aggressive convergence strategy. Concurrently, TLKM should grow in the mid-single digits, with IndiHome targeting c.600k net subscriber additions this year. We believe Indosat Ooredoo Hutchison (ISAT) will be able to book revenue growth of 12.3% YoY – which is higher than the industry average – due to its broad spectrum bandwidth and competitive data prices that are more appealing to new subscribers, particularly prepaid ones.

We are of the view that healthcare, particularly hospital players, will be able to enjoy strong YoY growth due to improved traffic (due to the absence of COVID-19 variants) and the implementation of Social Insurance Administration Organisation's (BPJS) reimbursements in 1Q23. We believe Medikaloka Hermina (HEAL) will be a key beneficiary due to its sizable revenue portion from BPJS of approximately 50% – the highest among peers Mitra Keluarga Karyasehat (MIKA) and Siloam International Hospitals (SILO) (c.17% in total) in FY22. Earnings should also begin to normalise after last year's low base. Hospitals have also increased their prices in early 2023. Margins should improve too as a result of the establishment of centres of excellence (COEs) and growing digitalisation trend. Seasonality may also contribute to QoQ improvements.

Figure 7: Sector rotation summary

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

Source: Bloomberg, RHB

Figure 8: Top 20 – highest dividend stocks

		Recommendation	Last price	TP	EPS growth		Div. yield		P/E 2023	PBV 2023	ROAE 2023
					2022	2023	2022	2023			
Indo Tambangraya	ITMG IJ	NEUTRAL	33,700	38,500	74.8	-27.5	26.0	19.3	4.4	1.3	30.3
United Tractors	UNTR IJ	BUY	31,075	32,600	104.3	-24.2	23.8	5.4	7.3	1.6	20.9
Bukit Asam	PTBA IJ	NEUTRAL	4,040	4,280	49.0	-28.4	18.0	11.5	5.5	1.3	24.7
Adaro Energy	ADRO IJ	NEUTRAL	3,000	3,050	104.8	-34.6	14.3	20.4	5.4	1.2	21.4
Bank Jabar	BJBR IJ	BUY	1,265	1,800	7.6	10.1	12.0	11.3	5.5	0.8	15.7
Astra International	ASII IJ	BUY	6,425	7,750	43.3	-5.4	9.9	5.0	9.5	1.3	11.8
Deltamas	DMAS IJ	BUY	167	236	57.1	6.8	8.7	9.3	6.7	1.2	17.8
Perusahaan Gas	PGAS IJ	BUY	1,420	2,200	53.0	8.9	7.9	11.9	4.8	0.7	15.5
Bank Jatim	BJTM IJ	BUY	715	1,000	27.5	22.5	7.4	9.4	4.5	0.8	17.7
Bank Mandiri	BMRI IJ	BUY	5,175	6,200	46.9	12.0	7.0	10.2	10.5	1.0	17.0
Bank CIMB Niaga	BNGA IJ	BUY	1,330	1,450	23.0	-2.4	6.7	8.3	6.8	0.7	9.8
Gudang Garam	GGRM IJ	NEUTRAL	24,700	36,000	-45.4	28.6	6.7	4.7	11.7	0.8	5.5
Japfa Comfeed	JPFA IJ	BUY	1,065	1,600	-8.5	23.5	6.4	6.6	5.5	0.8	15.9
HM Sampoerna	HMSP IJ	UNDER REVIEW	1,010	1,200	-6.8	8.4	5.9	6.0	16.3	4.1	23.2
Astra Agro Lestari	AALI IJ	SELL	7,875	6,200	-12.4	-12.9	5.6	4.9	10.1	0.7	6.5
Matahari Department	LPPF IJ	NEUTRAL	4,030	5,300	51.5	13.0	5.4	12.3	6.1	5.2	77.7
London Sumatera	LSIP IJ	NEUTRAL	995	1,010	4.5	-11.9	5.1	5.4	7.5	0.6	7.8
Indocement	INTP IJ	BUY	10,350	14,300	-26.4	40.7	4.8	2.3	19.1	1.7	8.8
Arwana Citramulia	ARNA IJ	BUY	945	1,370	20.1	8.9	4.7	5.8	11.3	3.6	31.0
Ramayana Lestari	RALS IJ	NEUTRAL	615	630	89.0	10.8	4.5	2.7	12.2	0.9	7.8

Source: Bloomberg, RHB

Figure 9: Sector highlights and outlook

Sector	Rating	Highlight/outlook	Top Picks
Financial services – banks	OVERWEIGHT	Indonesian banks are almost certainly the most defensive in the region. As of Dec 2022, the Big-4 banks have plenty of liquidity, as evidenced by LCRs ranging between 191% and 402%, which are significantly higher (on average) than peers in Malaysia (154%), Singapore (135-150%), and Thailand (216%). The Big-4 banks also have the highest capital buffers, with an average CET-1 ratio of 20.7% vs Singapore and Thailand banks' 13-15% and 15-18%. The very liquid balance sheets and capital strengths of IND Banks make them more defensive, particularly in the face of global economic and financial uncertainties, eg the US and European banking crises. BBCA has the best balance sheet, with LCR and CET-1 ratios of 401.8% and 25.9%, which are significantly higher than its regional peers. .	BBRI, BBCA
Non-cyclical – consumer staples	OVERWEIGHT	We maintain our preference for consumer staples companies due to the defensive nature of the sector and expected widening of their GPMs. Sales may have been softer due to seasonality, particularly for MYOR and ROTI. However, we anticipate earnings to be strong, particularly on a YoY basis. Because of the massive price increases in 2022 and declining commodity prices, consumer staples companies should see solid margins expansions ahead.	MYOR, ICBP
Infrastructure – telecommunications	OVERWEIGHT	In 2023, telcos are expected to deliver revenue growth in the mid- to high-single digits. The FMC initiative should be a better strategy for retaining customers and increasing ARPU. Acquiring more subscribers appears to be difficult and costly in a saturated market. We expect EXCL's revenue to increase by 8.5% YoY due to ASP increases, increased data consumption, and its aggressive convergence strategy. Concurrently, TLKM should grow in the mid-single digits, with IndiHome targeting c.600k net subscriber additions this year. We anticipate ISAT being able to book revenue growth of 12.3% YoY – higher than the industry average – due to its broad spectrum bandwidth and competitive data prices, which are more appealing to new subscribers, particularly prepaid ones.	EXCL
Industry – auto	OVERWEIGHT	Wholesale demand for 4-wheeler (4W) and 2-wheeler (2W) vehicles is expected to remain strong in 2023. Increased manufacturing activities and export vehicles should benefit the auto spare parts manufacturers as well. The industry is also likely to benefit from the Government's new EV incentive regulations. National 4W wholesales figures in January should provide positive sentiment for the sector this year, as the number of units sold (94,087; +12% YoY) was fairly higher than the pre-pandemic monthly average. We think this achievement is sustainable, given the stability in the local economy so far. A similar positive trend was seen in the 2W segment as well. Meanwhile, ASII's market share rose to 53.9% (Dec 2022: 52.3%), with Toyota sales offsetting a temporary correction in its other marques.	ASII, AUTO
Basic materials – cement	OVERWEIGHT	Although we are expecting soft domestic volumes in 1H23 due to extended rainy season and *Aidil Fitri* holiday, cement makers are likely to book stellar earnings growth – driven by lower production costs thanks to the fall in coal prices. INTP is likely to book stronger earnings from a low base last year. Management stated it has secured coal at domestic market obligation (DMO) prices for 1Q23 or 25% of FY23F's consumption. Coal prices have also corrected 52% YTD. Note: INTP was unable to get DMO prices in 1H22. The main risk lies in the oversupply condition that may trigger a price war. However, based on our channel checks, both SMGR and INTP are trying to gain market share from Tier-2 players. We note that Tier-2 brands contribute to less than 20% of domestic volume.	INTP
Basic materials – metal mining	OVERWEIGHT	Apart from fluctuations in the short term, the demand trajectory for base metals remains feasible, given global mandates towards engaging in greener businesses, which require massive of amounts of numerous industrial metals, eg copper, nickel, cobalt, lithium, aluminium, etc. Metal companies that focus on the nickel segment have rolled out their investment plans and placed the focus on the EV supply chain – through high-pressure acid leach or HPAL smelters – apart from their current main businesses within the stainless steel industry, which require iron-nickel or Fe-Ni and nickel pig iron or NPI from rotary kiln-electric furnace or RKEF smelters. Hence, we believe we will see more value being unlocked in future.	INCO
Energy – O&G	OVERWEIGHT	As we have projected oil prices to average at USD83 per bbl this year, we do not expect oil companies to scale back their capex and opex spending plans substantially. As such, we believe the recent retracement will be seen as an opportunity to accumulate on weakness. Furthermore, the economic re-opening is enhancing the demand for gasoline and diesel for transportation purposes. Overall, oil demand should remain healthy this year, registering a positive growth of 2.3mbpd. We believe there is little change in the fundamentals of the oil market for now and, more importantly, price-support measures are expected from the US (via replenishing the Strategic Petroleum Reserve) and OPEC (via production cuts) if global oil demand declines.	AKRA
Transportation – shipping	OVERWEIGHT	The sector is seeing strong balance sheets (running with net cash) with high profitable margins and productive ROEs, as well as some stocks offering stable dividends. Shipping companies have strategised their contracts to captive current high rates for longest time possible through shifts between freight and time charter proportions. Thanks to robust operational cash flows, most of shipping companies are running on net cash, allowing for expansions to be funded with internal funds. Risks on fluctuations in variable costs (including fuel prices) are at a minimum, since they have been adjusted to agreeable rates during the terms of the contracts. However, the sector still has limited stock liquidity. Other downsides include faster normalisation of shipping units available in Indonesia and charter rates, as well as a sudden drop in shipping volumes.	PSSI
Property – industrial estates	OVERWEIGHT	We see there are two key drivers in the industrial estate sector: i) Spillover from stricter requirements for data centres in Singapore and ii) the growing EV ecosystem domestically. Puradelta Lestari (DMAS) has the benefit of location within Bekasi, which is closer to Jakarta. It also has a more developed digital infrastructure (fibre optics and internet) that ensures stable connections for data centres. This year, DMAS targets 80ha of presales, of which 50% should come from data centres. Note: The latter segment has a higher ASP of IDR3m per sq m. Meanwhile, we	DMAS

		think Surya Semesta Internusa (SSIA) will benefit from the ban on bauxite and nickel ore exports, which forces the domestic refining and processing of such raw materials that are needed to accelerate the EV industry domestically.	
Healthcare	OVERWEIGHT	We believe the healthcare sector, particularly hospital players, will be able to enjoy strong YoY growth due to improved traffic given the absence of COVID-19 variants and implementation of BPJS reimbursements in 1Q23. We believe HEAL will be a key beneficiary due to its sizable revenue portion from BPJS of approximately 50%, ie the highest among peers MIKA and SILO (c.17% in total) in FY22. Earnings should also begin to normalise after a low base in 2022. Hospitals have also increased their prices in early 2023. Margins should improve as a result of the establishment of COEs and the ongoing digitalisation trend. Seasonality may also contribute to QoQ improvements.	HEAL
Infrastructure – construction	NEUTRAL	We are NEUTRAL on the construction sector given we see uncertainties in the Capital City of Nusantara (IKN) project. The Government plans to allocate total of IDR43.7trn for the IKN's development between 2020 and 2024, which is merely 9.4% of the required budget (IDR466trn). Currently, the only completed project at IKN is the workers' housing quarters and, as we enter an open seat election, the progress of the new capital city's development after 2024 is hazy, in our view. Moreover, private sector investments – historically – also tend to stop until there is more clarity on who the next head of government will be.	PTPP
Energy – coal	NEUTRAL	The positives: Attractive valuations (P/Es are fairly cheap at current prices), resiliency against the impact of rising interest rates and inflation, and robust cash support, provides good dividend returns for investors. The downsides: A sharp drop in coal prices and unexpected estimated net profit growth from the high sensitivity in normalised coal prices.	UNTR
Cyclical – retail	NEUTRAL	We remain cautious on retailers for 1Q23 due to seasonality and minimal spending catalysts, which might drag their QoQ results. However, we may see positive YoY performances due to improving traffic from the absence of high COVID-19 infection numbers. Note: Cases of the Omicron variant last occurred in 1Q22. Retail sales growth dropped by 4.4% MoM and 0.6% YoY in Jan 2023. This is the first time that YoY retail growth has remained negative since Sep 2021. The biggest drop came from the other household equipment segment, which has remained negative for 35 consecutive months. It was also the biggest MoM drop vs Jan 2021 and Jan 2022. We believe this might indicate that purchasing power remains under pressure – especially for the mid- to low-income segments. That said, we keep Mitra Adiperkasa (MAPI) as our Top Pick. We like the resilient mid- to upper-income segments it targets (less sensitivity to seasonality patterns), diversified business arms, and solid presence (especially in the active products segment). There is ample growth headroom for MAPI, given its continuous overseas expansion.	MAPI
Property – residential developers	NEUTRAL	While we are NEUTRAL on residential developers, we prefer Ciputra Development (CTRA), given its more diversified landbank and stronger balance sheet. The company also provides affordable housing for first-home buyers, which is in line with the Government's One Million Houses or PSR programme. Since 2022, the 7-day Reverse Repo Rate (7DRRR) has risen by 225bps to 5.75% to minimise the gap with the US Fed rate hike – our economists forecast one more rate hike by 25bps this year. Moreover, the VAT incentive also ended in 3Q22, which may impact residential housing marketing sales. While the 0% down payment scheme is still available, we still see overall purchasing power and mortgage rates to soften residential property presales.	CTRA
Non-cyclical – plantation	NEUTRAL	CPO prices should stay relatively range-bound in 2023 – this is as supply improvements will be relatively balanced with the rise in demand. We maintain 2023F-2024F CPO prices at MYR3,900 and MYR3,500 per tonne. We expect supply to improve further in 2024 while pent-up demand in 2023 may moderate, which could lead to lower prices. The main risks to our call would be weather extremes and policy changes in Indonesia.	LSIP

Source: Company data, RHB

Top 10 picks

BBCA, AKRA, and ICBP replace BBNI, PGAS, and ROTI in our Top 10. Given the expected market volatility, we prefer more defensive names like BBCA in large-cap banks and AKRA in O&G, chemical, and industrial estates. We also like ICBP for consumer staples. We anticipate these companies to perform admirably in 2Q23, given the strong positions in their respective segments.

Figure 10: Our 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 Central Asia	BBCA IJ	BUY	9,125	10,700	17.3	75.8	20.1	23.6	4.4	1.2	19.7	2.3
2	Bank Rakyat Indonesia	BBRI IJ	BUY	4,950	5,800	17.2	50.5	9.3	13.0	2.0	1.4	17.1	5.6
3	Vale Indonesia	INCO IJ	BUY	6,600	8,300	25.8	4.4	42.6	17.5	1.7	0.4	11.1	0.0
4	Mayora Indah	MYOR IJ	BUY	2,600	3,200	23.1	3.9	38.2	24.3	4.3	0.6	18.6	1.7
5	Indocement	INTP IJ	BUY	10,350	14,300	38.2	2.6	40.7	19.9	1.6	0.5	9.4	2.5
6	AKR Corporindo	AKRA IJ	BUY	1,615	1,840	13.9	2.2	(0.3)	13.7	2.6	(50.5)	19.9	3.1
7	XL Axiata	EXCL IJ	BUY	1,795	3,140	74.9	1.6	36.2	17.5	1.0	0.5	5.8	1.8
8	Astra Otoparts	AUTO IJ	BUY	1,900	2,200	15.8	0.6	0.8	5.9	0.6	7.8	10.7	4.0
9	Nippon Indosari	ROTI IJ	BUY	1,420	1,900	33.8	0.6	17.1	19.6	3.0	1.1	17.3	4.6
10	Arwana Citramulia	ARNA IJ	BUY	945	1,370	45.0	0.5	8.9	11.9	3.9	1.3	33.4	5.5

*Note: *As per 25 Apr 2023's closing price*
Source: Company data, RHB

Bank Rakyat Indonesia (BBRI). 1Q23 earnings exceeded expectations, increasing 26.9% YoY (+28.1% QoQ) on higher NIM, lower operational expenses, and CoC. Despite the expectations for a challenging year, BBRI believes micro loans will continue to see double-digit growth. The higher ROE – now approaching pre-pandemic levels – should lead to a valuation re-rating. BBRI's social risk management has outperformed peers due to its efforts to promote financial inclusion and alleviate poverty. The dividend payout has also been lucrative, as management remains committed to paying out c.70% of earnings over the next 3-4 years.

Bank Central Asia (BBCA). 1Q23 results are within expectations, with robust NII growth and lower provisions being key earnings drivers. The bank is poised for healthy business growth, underpinned by its superior transaction franchise and solid balance sheet. Management was guarded on its guidance for FY23, citing uncertainties in the economic outlook and industry competition. Still, NIM tailwinds and healthy loan growth should sustain PPOP growth at 14% in FY23 while BBCA's solid balance sheet supports an above-trend P/BV multiple.

Indofood CBP (ICBP) We remain positive on ICBP, as 1Q23 domestic demand might be positive given seasonality. We should see margins improvements from stable CPO prices, as well as from declining wheat prices – the Bogasari Flour Mills wing started to adjust its wheat prices in March. There is also a potential IDR appreciation, which should benefit ICBP.

Vale Indonesia (INCO). We should see an improvement from normalised nickel matte production (FY23F 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 projections and stable margins stemming from lower fuel costs. We think the company can still maintain selling prices, given the expected global economic recovery boosting demand in 2H23 and long-term support from the clean energy transition globally, as demand for EV batteries continues to grow. This is despite recent challenges arising from mixed macroeconomic signals. Considering the risks, we hold a conservative ASP estimate for INCO (FY23: c.USD18,100 per tonne; -8% YoY). However, this base scenario provides a healthy assumption for the company's operational margins going forward, ie a FY23F cash cost of c.USD10,700 per tonne (-4% YoY). Note: Fuel expenses constitute a c.20% portion.

Mayora Indah (MYOR). We remain positive on MYOR owing to its continuous products innovation, formidable market dominance, beneficiary of re-opening activities (both domestic and overseas), and massive price increases. The company should be able to enjoy low coffee prices this year, but we have concerns over increasing sugar prices. There might also be some positive surprises ahead, as MYOR has stated that 1Q23 margins so far have been stronger than expected.

AKR Corporindo (AKRA). The company will likely benefit from its chemical distributor business, in our view, due to the rapid development of new smelters, which are causing higher demand for the required chemicals. AKRA's recurring revenue from the industrial business should also see growth from emerging green industries. FY22 earnings exceeded our and Street's full-year estimates by 140% and 134%.

Indocement (INTP). Management aims to secure 60-70% of its coal at domestic market obligation or DMO prices vs FY22's 28%. INTP also expects EBITDA margin to expand to 21.3%. The operation of Maros plant enabled INTP to penetrate into the eastern Indonesia market. We are not concerned about a price war, as the company's "fighting brand" contributed less than 20% of its total sales volumes. We believe INTP will eventually apply the same pricing strategies and production efficiencies at the Maros plant.

XL Axiata (EXCL). EXCL will double down on its convergence strategy by adding more features and scaling up the XL Home offering, which has already recorded 450k homes passed and 150k converted subscribers. Through this strategy, the company targets revenue to grow by mid-to-high single digits – we estimate it reaching 8.5% YoY. Additionally, EXCL plans to spend capex of IDR7-8trn pa from 2023 until 2025 – excluding additional capex for a potential spectrum auction. The more moderate capex budget should keep its debt levels in check – hence, net margin should also be maintained.

Astra Otoparts (AUTO). FY22 earnings exceeded expectations, surging 117% YoY to IDR1.3trn, owing to higher-than-expected sales and wider GPMs. The healthy net profit trend should continue in 1Q23 from expected strong vehicle sales. Despite national EV sales remaining low vs total national sales, AUTO is prepared to use its technological capabilities to develop EV spare parts. It is also beginning to expand its trading business by opening new stores.

Arwana Citramulia (ARNA). ARNA's new plant commenced operations in March, producing high-end porcelain ceramic tiles and increasing capacity by 7%. Demand for the company's high-end ceramic tiles remains robust. ARNA expects FY23 sales volumes of 70m sq m (+5% YoY) with an upside risk if demand improves following *Lebaran*, as it has 6.4m sq m of inventory ready for sale.

Malaysia Strategy

Looking for market-turning points

We continue to see further easing of headwinds that were a drag on markets in 2022. These include:

i. Monetary policy tightening cycle at an advanced stage;

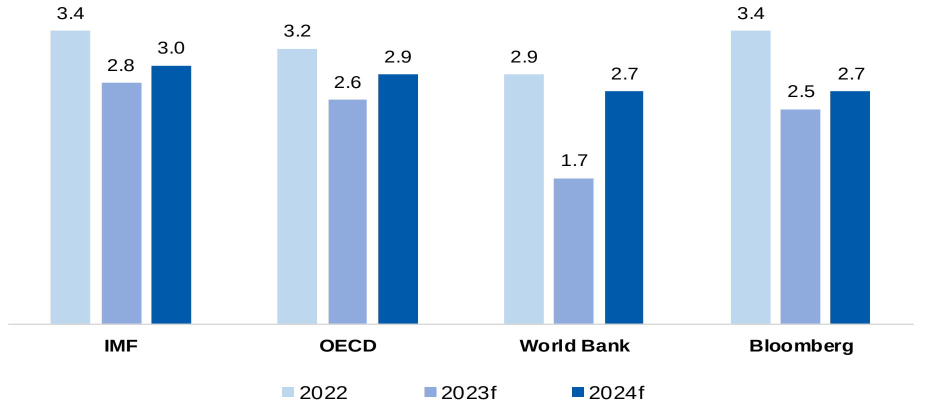
ii. Some evidence that US inflation is beginning to crest;

iii. China's re-opening will boost the pace of economic recovery and support the global economy, in addition to easing supply chain constraints;

iv. Political and regulatory risks have eased as the Unity Government successfully navigated through challenges including a confidence vote in Parliament, the re-tabling of Budget 2023, and the UMNO party election.

However, equity investor sentiment has remained resolutely tentative, as market opinions on the severity of the expected global economic slowdown continue to evolve. A slowing global macroeconomic environment will have negative implications for the performance of the domestic economy and corporate earnings, as will any shift by the US Fed towards a more aggressive monetary policy stance in an attempt to clamp down on inflation. While we cannot rule out downside risks to corporate profitability, softer earnings in the more vulnerable non-domestic-centric sectors are already somewhat in the price.

Figure 11: How much of a slowdown will we see?



Source: International Monetary Fund (IMF), OECD, World Bank, Bloomberg

Figure 12: Range-bound FBM KLCI

Source: Bloomberg

What banking crisis?

We believe that fears of a global banking crisis triggered by the failure of Silicon Valley Bank (SVB) *et al* are likely overdone. The US and regulators in other jurisdictions have taken swift steps to restore market confidence, and there are few reasons at this juncture to suggest that this event will presage a major systemic risk to the US banking system and global markets. The big US banks remain well-capitalised when compared to the 2008-2009 era, given the strong regulatory oversight. Local banks are not believed to have material exposure to Credit Suisse-related debt instruments. The lingering concern remains on whether there are likely to be any further stresses on the global financial system that would lead to further high-profile banking or corporate failures down the road.

Good news is bad news

In the months ahead as the macroeconomic outlook takes shape, positive economic news will be viewed negatively by markets as this implies that the US Fed would be more inclined to raise rates further. Conversely, negative economic news is already priced in and would suggest a quicker end to the tightening of the monetary policy. However, too much bad news too soon would be ultimately negative, implying greater recessionary risks.

Earnings outlook: Below mean valuations reflect investor worries

Figure 13: Earnings outlook and valuations

	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
Composite index @ 1,425.19 25 Apr 2023	**2021**	**2022**	**2023F**	**2024F**	**2021**	**2022**	**2023F**	**2024F**	**2021**	**2022**	**2023F**	**2024F**
Revenue growth (%)	23.7	18.6	3.2	2.9	17.8	16.9	1.3	3.5	12.2	20.1	(0.6)	4.2
EBITDA growth (%)	29.9	11.8	2.6	3.8	27.8	2.9	1.8	4.7	30.4	2.2	0.3	6.4
Normalised earnings growth (%)	70.1	12.6	8.4	5.8	65.3	(1.5)	6.8	6.8	69.3	1.9	3.9	7.6
Normalised EPS (sen)	35.7	35.4	37.4	39.5	22.6	22.1	23.2	24.7	12.5	12.6	13.0	13.9
Normalised EPS growth (%)	**69.4**	**12.1**	**5.7**	**5.8**	**63.9**	**(2.2)**	**5.1**	**6.4**	**67.2**	**0.9**	**3.0**	**7.0**
Prospective P/E (x)	**15.0**	**15.2**	**14.3**	**13.5**	**14.5**	**14.9**	**14.2**	**13.3**	**13.4**	**13.3**	**12.9**	**12.0**
Normalised EPS (sen) ex-plantation	31.2	34.4	37.3	40.2	22.0	20.8	22.6	24.5	12.0	11.6	12.6	13.6
Normalised EPS growth (%) ex-plantation	44.7	10.5	8.2	7.8	60.0	(5.4)	8.6	8.5	62.6	(2.9)	8.0	8.6
Prospective P/E (x) ex-plantation	17.8	15.6	14.3	13.3	14.6	15.5	14.3	13.1	13.8	14.2	13.1	12.1
P/BV (x)	1.7	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.0	1.0	1.0	1.0
Dividend yield (%)	4.6	4.1	4.1	4.3	4.2	4.0	4.1	4.3	3.3	4.0	4.3	4.2
ROE (%)	11.3	9.7	10.0	10.1	9.9	9.0	9.1	9.3	7.8	7.4	7.6	8.0

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie HLFG, RHB Bank, and PPB
Note2: The FY22-24F forecasts are based on the latest FBM KLCI component stock list
Source: Bloomberg, RHB

Figure 14: FBM KLCI – weightings & valuations

	Market Cap	Weight	EPS growth (%)				P/E (x)			
	MYRbn	(%)	FY21	FY22	FY23F	FY24F	FY21	FY22	FY23F	FY24F
Sime Darby	14.7	1.61	20.0	(4.2)	(18.8)	11.8	11.8	12.3	15.2	13.6
Auto	**14.7**	**1.61**	**20.0**	**(4.2)**	**(18.8)**	**11.8**	**11.8**	**12.3**	**15.2**	**13.6**
CIMB	53.9	5.88	286.7	19.7	9.5	9.2	10.9	9.1	8.3	7.6
Hong Leong Bank	43.5	4.75	14.6	14.9	16.9	6.0	14.4	12.5	10.7	10.1
Malayan Banking	103.8	11.33	20.8	(1.2)	13.9	8.0	12.4	12.5	11.0	10.2
Public Bank	75.5	8.24	16.7	8.5	13.8	5.5	13.6	12.6	11.0	10.5
AMMB^	12.0	1.31	42.4	15.7	7.2	10.3	8.0	6.9	6.4	5.8
Banking	**288.6**	**31.51**	**40.3**	**8.9**	**12.9**	**7.6**	**12.3**	**11.3**	**10.0**	**9.3**
Press Metal	41.5	4.53	115.0	41.1	27.4	10.6	40.7	28.8	22.6	20.5
Basic Material	**41.5**	**4.53**	**115.0**	**41.1**	**27.4**	**10.6**	**40.7**	**28.8**	**22.6**	**20.5**
Nestle	31.9	3.48	2.3	16.1	8.6	5.9	55.8	48.1	44.3	41.8
Mr DIY	14.6	1.60	23.4	11.1	23.5	16.6	33.2	29.9	24.2	20.7
QL Resources	13.8	1.51	(6.7)	57.6	1.1	6.8	63.7	40.4	40.0	37.4
Consumer	**60.4**	**6.59**	**6.9**	**21.7**	**11.7**	**9.9**	**49.2**	**40.5**	**36.2**	**32.9**
IHH Healthcare	50.7	5.54	113.7	(8.3)	15.9	11.8	33.1	36.1	31.1	27.9
Healthcare	**50.7**	**5.54**	**113.7**	**(8.3)**	**15.9**	**11.8**	**33.1**	**36.1**	**31.1**	**27.9**

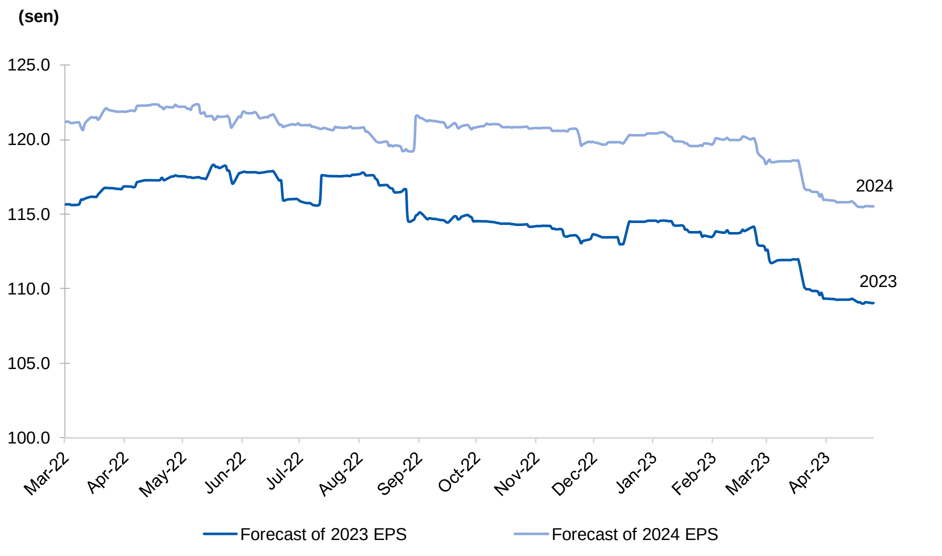
Inari Amertron	8.5	0.93	113.6	19.8	(2.6)	9.2	26.2	21.9	22.5	20.6
Technology	**8.5**	**0.93**	**113.6**	**19.8**	**(2.6)**	**9.2**	**26.2**	**21.9**	**22.5**	**20.6**
Dialog	13.0	1.42	(16.2)	(0.2)	12.2	8.9	28.2	28.3	25.2	23.2
MISC	32.4	3.53	(28.8)	64.0	1.3	10.1	25.4	15.5	15.3	13.9
Petronas Chemicals	57.2	6.24	280.1	(11.1)	(25.6)	8.9	7.8	8.8	11.8	10.9
Petronas Dagangan	22.3	2.43	71.7	37.8	11.4	8.8	40.5	29.4	26.4	24.3
O&G	**124.8**	**13.62**	**108.0**	**2.2**	**(15.1)**	**9.2**	**13.1**	**12.8**	**15.1**	**13.8**
IOI Corp	23.6	2.57	39.1	81.3	(8.8)	(15.2)	21.6	11.9	13.1	15.4
Kuala Lumpur Kepong	23.5	2.57	168.3	26.7	(18.6)	(25.0)	12.6	10.0	12.2	16.3
Sime Darby Plantations	30.6	3.34	134.8	(0.2)	(16.0)	(7.1)	14.3	14.3	17.0	18.4
Plantation	**77.8**	**8.49**	**113.1**	**27.3**	**(14.8)**	**(16.0)**	**15.3**	**12.0**	**14.1**	**16.8**
Axiata	27.4	2.99	53.2	(79.5)	345.4	25.7	20.3	99.3	22.3	17.7
CelcomDigi	51.6	5.64	(11.9)	6.1	(28.1)	(3.6)	30.2	28.4	39.6	41.0
Maxis	33.7	3.68	(5.5)	(9.7)	12.3	9.4	25.8	28.6	25.4	23.3
Telekom Malaysia	19.0	2.07	25.1	15.0	0.1	(0.2)	15.1	13.1	13.1	13.1
Telecommunication	**131.6**	**14.37**	**10.6**	**(19.2)**	**14.3**	**7.3**	**22.7**	**28.1**	**24.9**	**23.2**
Petronas Gas	33.4	3.65	1.9	(14.7)	5.0	0.5	16.5	19.4	18.4	18.3
Tenaga	50.7	5.54	22.0	(9.8)	23.2	4.6	11.5	12.8	10.4	9.9
Utilities	**84.2**	**9.19**	**14.8**	**(11.4)**	**17.6**	**3.5**	**13.1**	**14.8**	**12.6**	**12.2**
FBM KLCI	**915.9**	**100.00**	**69.4**	**12.1**	**5.7**	**5.8**	**17.0**	**15.2**	**14.3**	**13.5**

Source: Bloomberg, RHB

Compared to the preceding quarter, earnings growth metrics have moved lower following the Dec 2022 quarter results that triggered FY23 earnings cuts at the bank, O&G, basic materials, utilities, telecommunications, and auto sectors. Earnings growth for FY23 in the mid-single digit range is sluggish – considering the low base in FY22 on account of Cukai Makmur – and reflects the persistent cost pressures that continue to drag on margins.

Further downgrades cannot be ruled out, and the tepid corporate earnings growth may well limit the headroom for the market despite P/Es being at discounts to the mean levels.

Figure 15: Trend of revisions to consensus forecasts



Source: Bloomberg

Changes in sector weightings

Rubber products sector upgraded to NEUTRAL. The upgrade is underpinned by:

i. The implementation of the cost-pass-through initiative (collectively by Malaysian and Chinese peers);

ii. The expected easing of gas tariff rates by 2H23, in view of the normalisation of natural gas commodity prices.

The sector is currently trading at -1.4SD against the pre-pandemic historical mean of 3.7x P/BV – which we think does not factor in the potential demand pick-up by 2H23. Potential upside from the re-rating of sector valuations to -1SD could mean above 50% upside from current levels. That said, we think the key re-rating catalyst for the rubber glove sector will be anchored by order sustainability and stabilised ASPs.

Auto sector upgraded to OVERWEIGHT. We upgraded the sector on the back of stronger-than-expected orders that will provide greater visibility for earnings and dividends. The lack of excise duty reforms in 2023 also removes a key uncertainty for the sector.

Number forecast operator (NFO) sub-sector cut to NEUTRAL. We are cautious on the NFOs ahead of six state elections. Three of these – Selangor, Negeri Sembilan and Penang – house about one-third of total NFO outlets. We think that unfavourable poll outcomes may weigh on the NFOs' share prices, given Kedah's recent ban on NFO outlets.

Figure 16: RHB basket – sector weightings and valuations

Sectors	Mkt cap	Weight	EPS growth (%)			P/E (x)			Recommendation
	MYRbn	%	FY22	FY23F	FY24F	FY22	FY23F	FY24F	
Banking	302.9	24.6	9.1	12.6	7.6	11.1	9.9	9.2	Overweight
Basic Materials	46.9	3.8	31.8	28.5	11.2	27.4	21.1	19.0	Overweight
Auto	24.1	2.0	18.1	(4.3)	2.2	11.5	12.0	11.7	Overweight
NBFIs	15.3	1.2	(9.1)	7.9	5.9	9.6	8.9	8.4	Overweight
O&G	140.6	11.4	7.6	(10.5)	9.8	12.6	14.1	12.8	Overweight
Property	30.1	2.4	41.4	17.4	0.9	11.8	10.1	10.0	Overweight
Healthcare	58.7	4.8	1.6	19.6	12.0	32.9	27.5	24.5	Overweight
Rubber Products	20.4	1.7	(95.2)	(168.9)	135.7	29.6	(43.0)	120.3	Neutral
Gaming	36.5	3.0	231.2	58.4	9.3	17.5	11.1	10.1	Neutral
Construction	23.2	1.9	27.2	5.6	14.1	15.4	14.6	12.8	Neutral
Property-REITs	34.5	2.8	33.6	(1.3)	0.3	16.9	16.5	16.1	Neutral
Telecommunications	142.2	11.5	(16.7)	14.6	7.5	27.5	24.3	22.6	Neutral
Utilities	100.1	8.1	(6.8)	16.9	3.8	14.7	12.5	12.1	Neutral
Plantation	94.3	7.6	33.2	(21.8)	(16.0)	10.0	12.8	15.3	Neutral
Consumer	106.6	8.6	24.4	12.0	11.4	24.7	22.0	19.8	Neutral
Transport	26.4	2.1	1028.2	50.8	13.6	29.3	19.4	17.1	Neutral
Technology	26.0	2.1	28.8	(6.6)	19.0	21.6	23.1	19.4	Neutral
Media	4.1	0.3	(37.6)	37.2	4.4	11.9	8.7	8.3	Neutral
RHB BASKET	**1233.0**	**100.0**	**(2.2)**	**5.1**	**6.4**	**14.9**	**14.2**	**13.3**	

Source: RHB

Investment themes

Despite the improved clarity from the more stable political environment, investor sentiment remains subdued on macroeconomic concerns that centre on fears of a US recession, inflationary conditions, and the extent to which the US Fed is prepared to raise policy rates. The SVB debacle has worsened sentiment and deepened fears of a deep recession on the horizon.

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

i. The slowdown in US GDP growth in 1H23 to slightly below trend before re-accelerating in 2H23;

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

iii. 2023 US GDP growth forecast of 2.0% YoY vs the Bloomberg consensus estimate of 0.9% YoY (which has been revised up from 0.4% in Dec 2022) while that for 2024 is unchanged at 2.2% YoY;

iv. Peak FFR of 5.25-5.50% and no rate cuts in 2023. No change to 2024 FFR forecast of 3.50-3.75%;

v. Core US Personal Consumption Expenditure (PCE) inflationary pressures to remain sticky in the next few months on back of a re-emergence of supply chain congestions in the US and is compounded by those in the EU and China along with resilient demand side pressures. These two factors are likely to keep the critical services ex-housing sub-component of core PCE elevated in terms of momentum for the next few months before showing some improvement in 2H23, with the 2.0% YoY target to be attained by Dec 2023;

vi. Global banking sector risks limited;

vii. No change in the directional view on the USD, down from 2Q23 to 4Q23 against Asian currencies. The interest rate differential support for the US currency will be limited and, since we are bullish on risky assets, there will be little support for the USD in 2Q23 against Asian currencies.

As greater clarity on the global macroeconomic prospects gradually materialises, we expect equity markets to remain jittery in the interim as investors react to emerging, weaker macroeconomic and corporate data points in line with slowing growth. We are unable to rule out further cuts in corporate earnings estimates.

Key stock selection criterion should include 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 for longer

We made the argument for staying defensive at the start of 2023, given our assessment that risks still remained for an unexpected turn of events that would contribute to market volatility. We expect investor sentiment to remain subdued and risk appetite suppressed, especially after the recent financial sector worries. Accordingly, these prevailing risks necessitate a continued defensive posture as we look for signs of turning points for the market.

We note that institutional investors have been net sellers in the past 15 months and anecdotal evidence suggests they 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 limited – depending on the mandate.

We advocate low-beta defensive names with domestic-centric focus, in addition to companies that can offer resilient dividend yields.

Figure 17: Defensive stocks with domestic-centric characteristics

	Rec	Price (MYR/s) 25 Apr 23	TP (MYR/s)	Mkt cap (MYRm)	EPS (sen) 23F	EPS (sen) 24F	EPS Growth (%) 23F	EPS Growth (%) 24F	3-yr EPS CAGR (%) FY21-24F	P/E (x) 23F	P/E (x) 24F	P/BV (x) 24F	P/CF (x) 24F	DY (%) 24F
Telekom Malaysia (TM)	Buy	4.94	6.20	18,995	38.0	37.9	0.1	(0.2)	4.7	13.0	13.0	1.7	4.7	3.6
KPJ Healthcare	Buy	1.17	1.50	4,888	6.0	7.0	58.4	15.3	64.6	19.4	16.8	2.0	6.9	3.0
Taliworks	Buy	0.84	1.06	1,703	3.6	4.2	36.5	14.3	2.2	23.1	20.2	2.3	12.0	7.9
CTOS Digital	Buy	1.39	1.92	3,165	4.5	5.2	41.2	16.4	38.6	31.0	26.6	5.4	35.0	2.3
Axis REIT	Buy	1.90	2.14	3,308	10.2	10.4	5.6	2.1	5.4	18.7	18.3	1.3	12.6	5.4
Tenaga Nasional	Neutral	8.93	10.20	51,317	85.1	89.0	23.2	4.6	5.1	10.5	10.0	0.8	3.4	5.8
Nestle	Neutral	136.50	141.00	31,728	306.9	325.1	8.6	5.9	10.1	44.5	42.0	50.0	30.2	2.4
QL Resources^	Neutral	5.75	5.81	13,750	14.2	15.2	1.1	6.8	19.4	40.4	37.8	4.4	21.9	0.9
Time dotCom	Neutral	5.55	5.60	10,149	27.8	30.4	19.3	9.3	13.8	20.0	18.3	3.3	13.7	4.4
Sports Toto	Neutral	1.39	1.42	1,874	14.2	14.4	19.1	1.3	3.8	9.8	9.6	1.9	6.3	7.6

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

Figure 18: High dividend yield stocks

	Price (MYR/s) 25 Apr 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
Gamuda	4.15	4.35	12.2	2.9	(8.6)	13.4	12.9	14.1	1.0	7.5
MBM	3.67	5.00	9.8	8.2	8.1	(21.7)	5.3	4.9	0.7	13.6
BAT	10.66	12.00	9.5	9.5	12.6	(0.1)	11.6	10.3	7.9	77.8
Texchem	1.64	3.60	9.2	10.7	22.3	16.2	6.4	5.2	0.9	18.7
Astro Malaysia^	0.69	0.84	8.6	8.9	51.5	4.0	13.2	8.7	1.7	25.4
Bermaz Auto^	2.30	3.45	8.3	9.1	8.8	11.3	9.8	9.0	4.4	48.9
Malakoff	0.69	0.86	8.0	8.2	(48.3)	2.7	5.2	10.0	0.6	6.2
Taliworks Corp	0.84	1.06	7.9	7.9	36.5	14.3	31.6	23.1	2.3	9.7
Ta Ann	3.21	3.40	7.8	7.2	(29.4)	(15.9)	4.3	6.0	0.8	12.9
Sentral REIT	0.87	0.92	7.6	7.9	(6.7)	3.4	12.0	12.8	0.7	5.6
Affin	2.01	2.50	7.5	8.2	12.3	9.3	8.4	7.5	0.4	5.6
Malayan Banking (Maybank)	8.65	9.65	7.2	7.6	13.9	8.0	12.6	11.0	1.2	10.8
Sports Toto^	1.39	1.42	7.2	7.6	19.1	1.3	11.6	9.8	2.0	20.8
Matrix Concepts^	1.43	1.75	7.0	7.7	11.5	4.3	8.3	7.4	0.8	11.8
Tambun Indah	0.90	0.90	6.9	7.4	3.2	7.2	6.0	5.9	0.5	8.8

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

BUY on weakness

RHB's house view is for US-led growth to resume in 2H23, which suggests the need to look for attractive entry points to build positions in the medium term. The current downdraft in investor sentiment represents opportunities to accumulate stocks with robust fundamentals. At this level, we prefer large-cap value stocks.

Figure 19: Top BUYs

	FYE	Price	TP	*Shariah*	Market Cap	EPS (sen)		EPS growth (%)		3-yr EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)
		(MYR/s) 25 Apr 23	(MYR)	compliant	(MYRm)	FY23F	FY24F	FY23F	FY24F	FY21-FY24	FY23F	FY24F	FY24F	FY24F	FY24F
CIMB	Dec	5.16	6.10	NO	54,072	60.9	66.4	9.5	9.2	12.7	8.5	7.8	0.7	n/a	6.5
Maybank	Dec	8.65	9.65	NO	104,148	78.4	84.6	13.9	8.0	6.7	11.0	10.2	1.1	n/a	7.6
Mr DIY	Dec	1.59	2.48	YES	14,810	6.4	7.5	23.5	16.6	17.0	24.8	21.3	7.1	14.4	2.4
Guan Chong	Dec	2.68	3.63	YES	3,148	22.9	24.5	55.3	6.9	16.9	11.7	10.9	1.5	14.8	2.3
TM	Dec	4.94	6.20	YES	18,995	38.0	37.9	0.1	(0.2)	4.7	13.0	13.0	1.7	4.7	3.6
Kerjaya Prospek	Dec	1.13	1.48	YES	1,450	11.9	13.7	30.1	14.9	20.5	9.5	8.2	1.0	7.0	4.8
Yinson^	Jan	2.60	3.12	NO	7,383	14.2	25.0	29.0	75.9	35.0	18.3	10.4	1.5	5.1	0.8
CTOS Digital	Dec	1.39	1.92	YES	3,165	4.5	5.2	41.2	16.4	38.6	31.0	26.6	5.4	35.0	2.3
Kuala Lumpur Kepong (KLK)	Sep	21.88	28.65	YES	23,531	178.2	133.8	(18.6)	(25.0)	(8.2)	12.3	16.4	1.5	8.5	3.2
IOI Properties	Jun	1.18	1.40	NO	6,497	15.8	14.0	60.6	(11.6)	3.9	7.5	8.4	0.3	5.0	5.1
Sunway Construction	Dec	1.70	2.07	YES	2,192	12.9	13.6	15.7	6.0	6.9	13.2	12.5	2.5	9.8	4.8
KPJ Healthcare	Dec	1.17	1.50	YES	4,888	6.0	7.0	58.4	15.3	64.6	19.4	16.8	2.0	6.9	3.0
UMW	Dec	3.97	5.00	YES	4,440	38.5	34.7	12.7	(10.0)	21.4	10.3	11.4	0.9	9.0	3.4

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

Figure 20: Top SELLs

	FYE	Price	TP	*Shariah*	Market cap	EPS (sen)		EPS growth (%)		3-yr EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)
		(MYR/s) 25 Apr 23	(MYR/s)	Compliant	(MYRm)	FY23F	FY24F	FY23F	FY24F		FY23F	FY24F	FY24F	FY24F	FY24F
GDEX	Dec	0.20	0.14	YES	1,109	(0.4)	(0.4)	(31.4)	3.5	(194.4)	n.m.	n.m	2.9	18.7	1.0
Econpile	Jun	0.20	0.16	YES	276	0.2	1.2	105.7	596.9	11.5	+>100	16.9	0.7	(10.8)	1.3
Sapura Energy^	Jan	0.04	0.02	YES	639	(1.4)	(1.8)	(38.3)	(21.3)	(53.8)	n.m	n.m	(0.2)	(135.8)	0.0
CB Industrial Product	Dec	1.01	0.85	YES	483	13.4	12.7	80.2	(5.6)	(13.9)	7.5	8.0	0.6	4.3	4.4
Boilermech^	Mar	0.72	0.60	YES	361	4.1	5.2	36.9	27.5	13.3	17.4	13.7	0.0	13.5	2.8

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

China re-opening

The re-opening of China's economy after an extended COVID-19 induced lockdown helped to lift economic activity in 2023, driven by consumption and investment in infrastructure despite persistent weakness in the property sector and soft global demand. Economic growth in China should continue to improve on the back of the consumption rebound and supportive government policies.

In its April report, the World Bank expects East Asian and Pacific economies to grow more than it previously estimated, from a rebound in activities in China, noting the minimal impact from global banking stresses. The bank raised its growth forecasts for 2023 to 5.1% from 4.5%.

The pick-up in China's economy will have positive implications for corporate Malaysia, either directly or indirectly. 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 to some extent.

Figure 21: China re-opening plays

	Price (MYR/s)	TP (MYR/s) 25 Apr 23	*Shariah* compliant	Market cap (MYRm)	EPS (sen) FY23F	FY24F	EPS Growth (%) FY23F	FY24F	3-yr EPS CAGR (%)	P/E (x) FY23F	FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F	Rec
Press Metal	5.06	6.00	YES	41,857	22.3	24.6	27.4	10.6	25.7	22.7	20.5	4.4	14.4	1.5	Buy
Pavilion REIT	1.33	1.57	NO	4,099	8.9	9.1	10.2	2.1	29.8	15.0	14.7	1.0	9.8	7.0	Buy
Hong Leong Bank	20.28	23.10	NO	43,614	187.8	199.1	16.9	6.0	12.5	10.8	10.2	1.1	n.a.	3.5	Buy
KLK	21.88	28.65	YES	23,531	178.2	133.8	(18.6)	(25.0)	(8.2)	12.3	16.4	1.5	8.5	3.2	Buy
MGB	0.72	0.89	YES	426	5.0	8.4	99.0	67.6	22.7	14.4	8.6	0.7	6.5	2.3	Buy
Malaysia Airports	7.10	8.28	NO	11,830	30.5	35.5	170.2	16.5	(191.6)	23.3	20.0	1.4	4.8	2.4	Buy
IHH Healthcare	5.76	6.90	YES	50,552	18.5	20.7	15.9	11.8	5.9	31.1	27.9	1.8	13.8	1.1	Buy
Berjaya Food	0.89	1.29	YES	1,544	7.0	7.3	0.7	5.1	40.8	12.7	12.1	2.7	8.3	4.8	Buy
Heineken	27.54	33.80	NO	8,338	151.5	159.1	10.9	5.1	25.1	18.2	17.3	16.7	14.7	5.7	Buy
SKP Resources^	1.30	1.43	YES	2,015	10.5	11.8	6.5	11.6	3.3	12.3	11.1	2.0	9.5	5.5	Neutral
Kelington	1.46	1.59	YES	939	7.3	7.6	12.9	3.9	30.8	20.0	19.2	4.2	17.4	2.1	Neutral
Westports	3.54	3.78	YES	11,969	23.0	23.5	12.1	2.1	2.9	15.4	15.1	3.4	11.0	5.0	Neutral
MPI	28.86	30.50	YES	5,649	94.5	142.4	(37.6)	50.6	4.9	30.5	20.3	2.6	9.5	1.5	Neutral

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

A weaker USD expected

RHB FX strategists expect a fall in nominal interest rate differentials in 2H23 as the US Fed guides towards FFR cuts in 2024. The USD/MYR rate is forecasted to retrace back to 4.20-4.30 by end-2023. Nominally, importers will benefit from the lower landed cost of imports while those disadvantaged include exporters and companies with significant overseas earnings.

Figure 22: Winners from weaker USD

Stocks	Rec	Price (MYR/s) 25/4/2023	Target (MYR/s)	Mkt cap (MYRm)
Astro Malaysia	Buy	0.69	0.84	3,571.9
UMW	Buy	3.97	5.00	4,439.5
Berjaya Food	Buy	0.89	1.29	1,543.8
Leong Hup International	Buy	0.55	0.63	1,952.8
Heineken Malaysia	Buy	27.54	33.80	8,337.9
Nestle	Neutral	136.50	141.00	31,727.9

Source: RHB

Figure 23: Losers from a weaker USD

Stocks	Rec	Price (MYR/s) 25/4/2023	Target (MYR/s)	Mkt cap (MYRm)
MISC	Buy	7.33	8.43	32,406.8
Press Metal	Buy	5.06	6.00	41,857.3
Yinson Holdings	Buy	2.60	3.12	7,382.6
Power Root	Buy	2.09	2.60	896.1
JHM Consolidation	Buy	0.77	1.04	478.7
Unisem	Neutral	2.99	2.86	4,516.6
MPI	Neutral	28.86	30.50	5,648.7
Inari Amertron	Neutral	2.30	2.60	8,436.4
Kossan Rubber	Neutral	1.28	1.40	3,215.0
Top Glove	Neutral	1.00	1.00	7,767.5
Hartalega	Neutral	2.00	2.11	6,595.7
Supermax Corporation	Neutral	0.83	0.88	2,184.0
Globetronics	Neutral	1.08	1.05	729.7
Coraza	Neutral	0.84	0.87	354.1

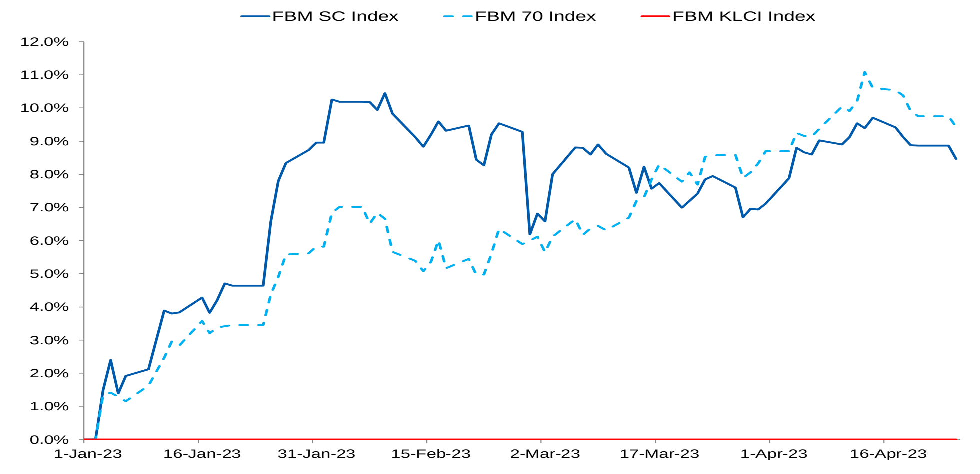
Source: RHB

Small-cap strategy: Stay selective

A range-bound market. Just as market sentiment was beginning to recover with data showing easing inflation and the global transition to endemicity, risks have now spiked following the banking crisis in the US and Europe. In 2Q23, more market volatility can be expected, with potential signs of peaking inflation and the interest rate hike cycle, while the uncertainties in the rate of deterioration of macroeconomic conditions continue to bite. Locally, apart from the historically weak "sell in May, go away" season and festive season, we may see some colour from the local political scene from the impending elections in six states towards end-2Q23. Also, the uncertainty in foreign fund flows and the lack of strong near-term convictions from Street suggest another volatile quarter.

Outperforming so far. Following a dismal 2022, both the FBM 70 (+1.6%) and FBM SC (+0.8%) have outperformed the FBM KLCI (-6.1%), thanks to the outperformance of O&G, EMS, technology and gloves related counters. Meanwhile, the FBM KLCI was dragged by commodities-related stocks and the sell-down from the bank counters, tracking the weak global sentiment on financial stocks given the collapse of SVB and Signature Bank in the US, and the Credit Suisse issue in Europe. Besides, the net foreign outflow YTD also contributed to the relative underperformance of the FBM KLCI.

Figure 24: YTD performance of the FBM SC and FBM 70 vs the FBM KLCI



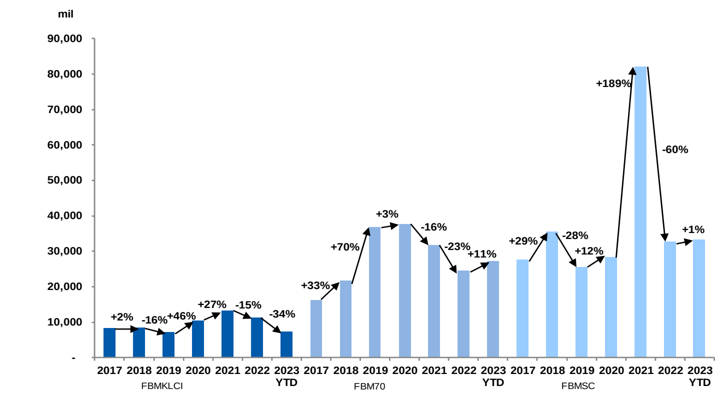
Source: Bloomberg, RHB

Figure 25: 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%	**-4.7%**
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%	**+4.72%**
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%	**+3.76%**

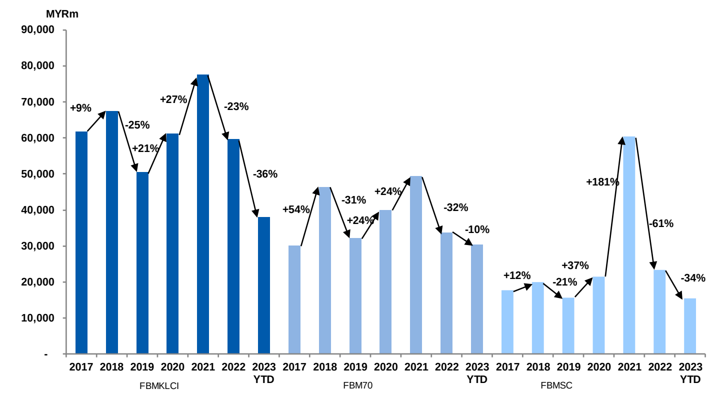
Source: Bloomberg, RHB

Figure 26: Trading volumes



Source: Bloomberg, RHB

Figure 27: Total turnover (MYRm)



Source: Bloomberg, RHB

Pick-up in trading activities. A slight improvement in the YTD market liquidity for the FBM 70 and FBM SC was boosted by a more risk-on sentiment after the low base from a lacklustre 2022 – this was on potential signs that inflation had peaked and the interest rate cycle was turning positive, coupled with the progressive reopening of China and better domestic political stability. Both local institutional and retail investors' YTD total turnovers (traded value) contracted by 10% and 34% for the FBM 70 and FBM SC, due to: i) The lower share prices and ii) their focuses on more micro names – which led to a marginally higher retail participation YTD of 28%, compared with 27.4% in 2022.

BUY on dips, and top slicing. Against an uncertain outlook, we believe value stocks would be preferred in a quantitative tightening cycle, while profit-taking on counters commanding excessive valuations may be prevalent. Earnings risks may escalate along with expanding input costs, Sector rotation should be the focus going into 2Q23, with a strategy centred on buying on dips and top slicing. We advocate investors to focus on value stocks with an eye for growth, healthy cash flow generation, and dividends that will prevail through the current challenging environment. Our ideas are focused on domestic-centric businesses, unique turnarounds and growth catalysts, event-driven, and inelastic demand at reasonable valuations.

The sectors we favour include consumer staples, consumer discretionary, healthcare, solar related names, technology, logistics and O&G. Accommodative fiscal and monetary policies should continue to lend support to private consumption, supporting the consumer discretionary sector. The O&G sector upcycle may continue, with the higher capex allocation and FPSO demand that should translate to a positive earnings cycle. Selective value buys within the technology space should do well in a relatively less demand-susceptible sub-segment, as well.

Figure 28: Small-mid-cap Top Picks

	Price	TP	*Shariah*	Mkt cap	EPS (sen)		EPS growth (%)		P/E (x)		P/BV (x)	P/CF (x)	DY (%)	Rec
	(MYR/s) 25 Apr 23	(MYR/s)	compliant	(MYRm)	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY24F	FY24F	FY24F	
Yinson Holdings	2.60	3.12	NO	7,383	14.2	25.0	29.0	75.9	18.3	10.4	1.5	5.1	0.8	Buy
KPJ Healthcare	1.17	1.50	YES	4,888	6.0	7.0	58.4	15.3	19.4	16.8	2.0	6.9	3.0	Buy
Guan Chong	2.68	3.63	YES	3,148	22.9	24.5	55.3	6.9	11.7	10.9	1.5	14.8	2.3	Buy
Farm Fresh	1.50	1.75	YES	2,844	5.6	7.0	50.2	25.5	26.9	21.5	3.3	17.6	1.2	Buy
Bermaz Auto	2.30	3.45	YES	2,708	25.4	28.3	8.8	11.3	9.0	8.1	4.4	7.4	9.1	Buy
Dayang Enterprise	1.36	1.73	YES	1,540	12.6	13.9	27.0	10.2	10.8	9.8	0.9	6.3	2.2	Buy
Power Root^	2.09	2.60	YES	896	13.5	14.3	18.0	6.1	15.5	14.6	3.6	14.0	6.2	Buy
TASCO^	0.90	1.86	YES	716	12.4	13.6	6.2	9.4	7.2	6.6	1.0	4.1	4.2	Buy
Solarvest	0.87	1.34	YES	584	2.9	4.9	177.2	71.2	30.2	17.6	2.6	185.2	0.0	Buy
JHM Consolidation	0.77	1.04	YES	479	5.5	7.6	21.3	38.0	13.9	10.1	1.2	37.7	1.9	Buy
Texchem Resources	1.64	3.60	YES	191	31.4	36.5	22.3	16.2	5.2	4.5	0.8	2.8	10.7	Buy

Note: ^FY23-24 valuations refer to those of FY24-25
*Note 2: *Based on Fair Value*
Source: RHB

Singapore Strategy

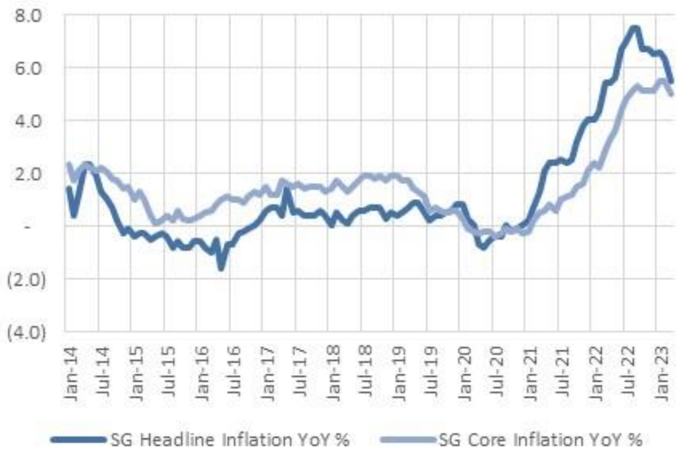
Inflation managed but what about growth?

In its Apr 2023 policy statement, the Monetary Authority of Singapore (MAS) surprised our economists by maintaining the prevailing rate of appreciation of the SGD nominal effective exchange rate (S$NEER) policy band as well as announcing no changes to its width and the level at which it is centred. This was largely because MAS expects its five successive monetary policy tightening moves since Oct 2021 to continue dampening inflation as we get through the rest of 2023.

The authority expects core inflation to stay elevated in the next few months, as accumulated business costs continue to feed through to consumer prices. However, it is expected to slow more discernibly in the second half of this year. Barring fresh shocks to global supply, Singapore's imported inflation, which is already negative, should fall further alongside lower commodity prices and the stronger S$NEER. Domestic wage growth should also ease as labour demand moderates, especially in sectors more exposed to international trade and finance.

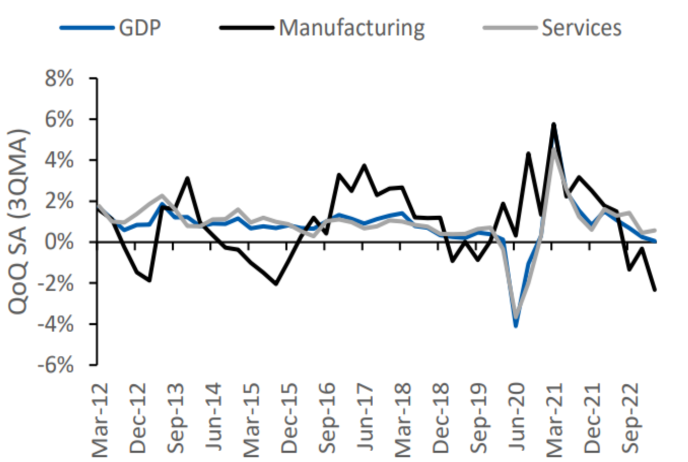
For 2023, MAS reiterated its forecast of core inflation to average 3.5-4.5%. CPI-All Items inflation is forecasted to come in higher at 5.5-6.5%, reflecting the tight supply of COEs and firm accommodation costs. Excluding the effects of the GST increase, core inflation is projected to average 2.5-3.5%, and headline inflation 4.5-5.5%. MAS' Core Inflation is projected to reach around 2.5% YoY by the end of 2023.

Figure 29: We are in sync with MAS and expect inflation to continue moderating for rest of the year



Source: Bloomberg

Figure 30: GDP momentum has declined markedly in 1Q23, dragged by externally-facing industries



Source: CEIC, RHB Economics & Market Strategy

MAS noted that while global economic activity was somewhat more resilient than expected in 1Q23, the global electronics industry, which has significant production and trade linkages across the region, is in a sharp downturn. This translated into a sharp slowdown in Singapore's economic growth in 1Q23, with the economy contracting by 0.7% QoQ on a seasonally adjusted basis, following the marginal 0.1% expansion in 4Q22. For Singapore's higher externally oriented economy, the trade-related cluster and the modern services sectors contracted.

We maintain our view for GDP growth momentum to improve in 2H23 for two key reasons. First, we view the majority of global central banks are nearing the end of their hike cycles, with markets likely pricing in some rate cuts by the US Fed in 2024. Second, more clarity may be seen in 2H23 on the pace and intensity of China's reopening efforts. This could mean a persistent increase in tourism levels in Singapore – which is essential, given that the East Asian nation was the most significant contributor to the island republic's tourism industry before the pandemic – and a better export prognosis on the back of China's economic recovery.

However, the commentary from MAS seems to paint a less optimistic outlook for Singapore's economic growth outlook. It expects the drag on global investments and manufacturing from tighter financial conditions to intensify in the quarters ahead. The boost to demand in most of the regional economies from their reopenings last year will also fade over 2023. China's rebound will largely be consumption-driven and oriented towards domestic services. Overall, growth in Singapore's major trading partners will be slower in 2023, below the pace recorded in the previous two years. Amidst this backdrop, MAS believes that prospects for Singapore's GDP growth this year have therefore dimmed. As per the official forecast, the country's GDP growth is projected to step down to 0.5-2.5% in 2023 from 3.6% last year. While consensus growth estimates range between 0.7% and 2.6% for 2023, we currently estimate Singapore 2023 GDP growth at 2%, with a balance of risk towards a technical recession in 2Q23.

All eyes on the upcoming US Fed's Federal Open Market Committee's meeting – buy banks or REITs?

We believe the Singapore equity market will struggle to find direction amidst uncertainty of the upcoming US Fed policy action and narrative around the inflation and growth outlook. The US central banking system's report on economic conditions out on 19 Apr showed that lending volumes and loan demand generally declined in recent weeks in the US, although overall economic activity was little changed. Nevertheless, Street does not expect this to interfere too much with the likelihood of a 25bps rate hike on 3 May. US Fed officials have raised interest rates over the past year in an effort to tame inflation, which is running well above the central banking system's 2% target. Policymakers lifted borrowing costs by a quarter point last month, bringing the target on their benchmark rate to a range of 4.75-5%. Some US Fed officials have said they would like to pause at that point, though markets are pricing in peak FFR of around 5.10% and are expecting rate cuts by the end of the year. We maintain our view of a peak FFR of 5.25-5.50%, with the balance of risks of a print of 5.25% and no rate cuts in 2023. In 2024, our FFR forecast of 3.50-3.75% remains unchanged. In our view, US inflation risks supersede financial stability risks.

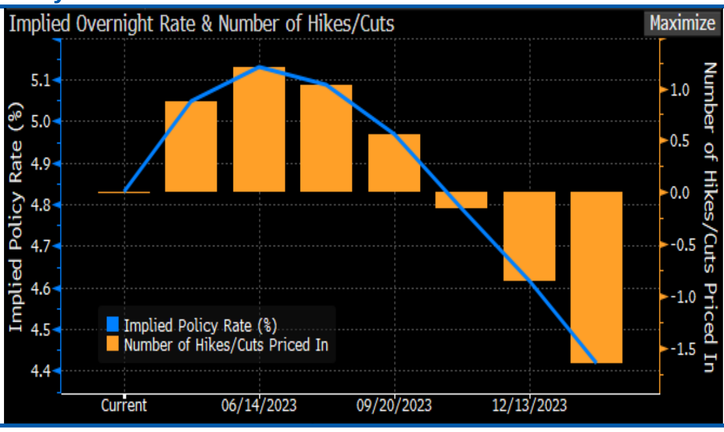
Under our base case assumption, we expect Singapore banks to witness strong earnings growth in 2023. However, if global growth decelerates sharply leading the US Fed to aggressively cut rates, this could be negative for Singapore's bank sector earnings. The sector has a 40% weight in Singapore's STI. On the flipside, peaking and stabilising of interest rates usually marks the buying point for Singapore REITs. We expect the latter to outperform Singapore banks if the rate pause materialises.

Figure 31: RHB's policy interest rate and forecasts

% YoY	2021	2022	2023F	2024F
US	0.25	4.50	5.25-5.50	3.50-3.75
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	1.75	1.75
Vietnam	4.00	6.00	6.00	6.00

Source: Bloomberg, RHB Economics & Market Strategy

Figure 32: Street is expecting FFR to peak at 5.1%, followed by flurry of rate cuts in 2H23

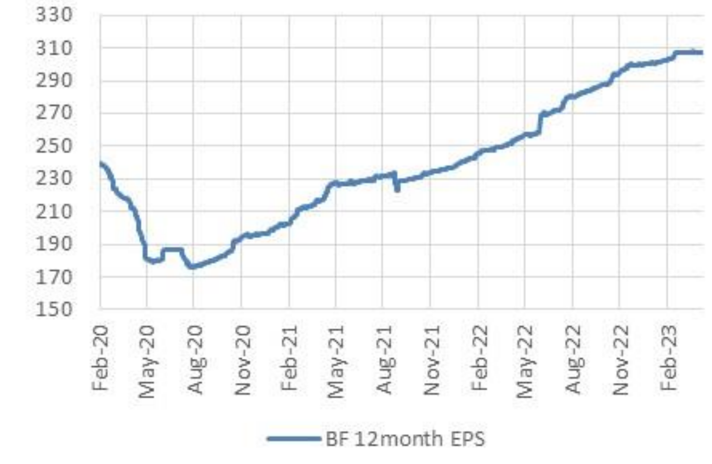


Note: As on 20 Apr 2023.
Source: Bloomberg

2023 earnings growth remains healthy for now; bank earnings have downside risks

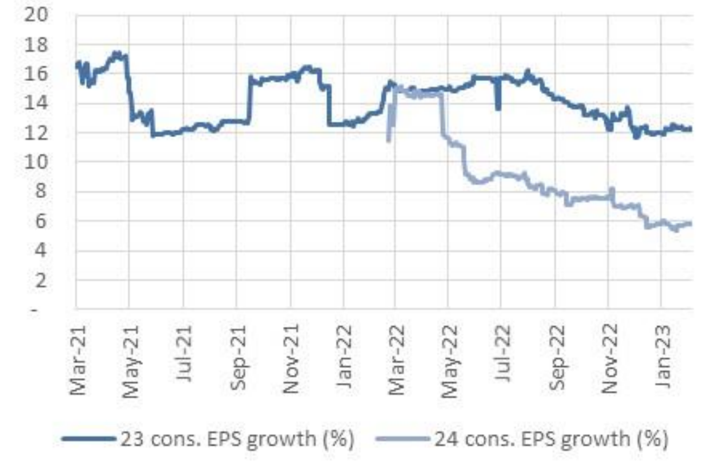
The forward EPS for the STI has only seen upgrades post 3Q20 results/business updates (Figure 33). Historically, the index's forward EPS growth has had a positive correlation with Singapore's GDP growth expectations. Given the expectations of a moderation in economic growth in 2023, it will be safe to assume that earnings growth could moderate.

Figure 33: 12-month forward EPS for the STI (which has only seen upgrades post 3Q20 results/business updates) – it seems to have taken a pause



Source: Bloomberg, RHB

Figure 34: While Street remains optimistic on 2023 earnings growth, it has been downgrading 2024 growth expectations



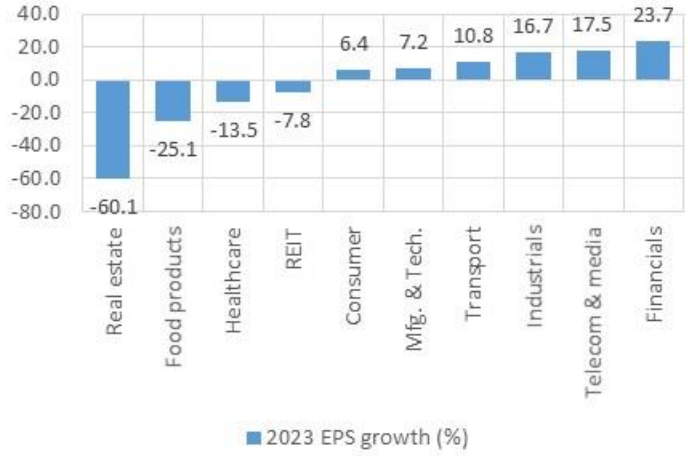
Source: Bloomberg, RHB

The STI has a heavier composition of banks. Earnings growth for Singapore banks has seen upward earnings revisions in 2022 due to their positive leverage to rising market interest rates. Banks make up a hefty c.40% of the index weight for the STI as measured by market cap (Figure 36). While the expectation of strong growth in banks' earnings are what kept investors interested in the Singapore market, we believe investors are now assessing the risk of slower earnings growth from the banks, especially in a growing uncertain macroeconomic environment.

While we have maintained our 2023F bank sector net profit growth of 21%, which will be underpinned by higher NII on NIM tailwinds and a healthy 8% rise in non-II. The downside risk to earnings, we believe, will come from a possible setback in expectations for a healthy rebound in fee income should the banking upheaval continue to weigh on investor confidence and financial markets see continued vagaries.

In addition, while it is not our base case, a sharp deceleration in global growth and aggressive rate cuts by the US Fed in 2H23 could be negative for Singapore banks' earnings. Moreover, we believe the likely regulatory impacts around capital due to the recent technology outage – although may not be significant – could remain an overhang on DBS' earnings and share price outlook.

Figure 35: 2023 sector EPS growth for RHB's coverage



Note: Excludes the exception EPS growth expectation for Dairy Farm. Source: RHB

Figure 36: Sector weights on the STI based on sectors

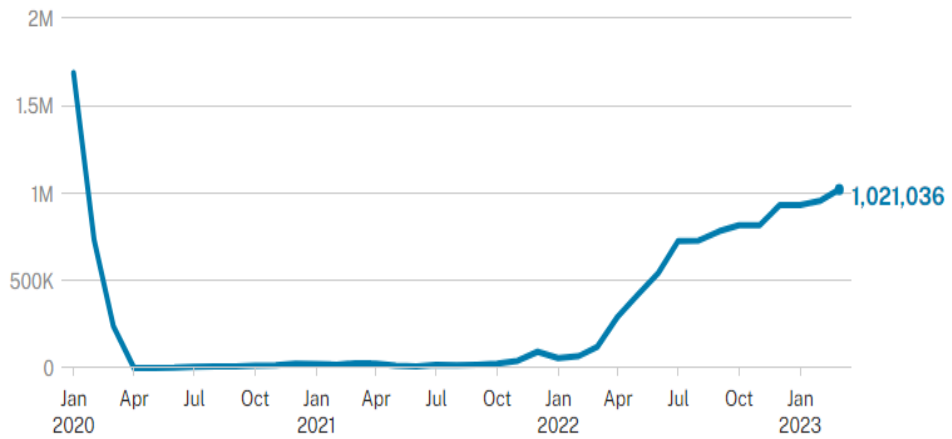
Source: Bloomberg, RHB

Return of Chinese tourists to Singapore in 2H23 remains a wild card

Singapore's international visitor arrivals surpassed 1m in March for the first time since the pandemic began in 2020, as per the latest figures from the Singapore Tourism Board. Tourism arrivals rose to 1,021,036 visitors in March – up from 957,839 visitors recorded in the previous month. While March's arrival numbers set a new post-pandemic record, it is still below the 1.7m visitors recorded in Jan 2020, ir before the pandemic.

The return of Chinese travellers had added c.30k tourists to Singapore's monthly arrivals in January-February. However, the country saw a significant jump in tourist arrivals from the East Asian nation in March. China crept up five places to come in fifth during this period with 60,888 visitors – up from 35,312 visitors in the prior month. This growth was boosted by the resumption of outbound group tours from 6 Feb. Once Singapore's largest inbound market before the pandemic, the return of Chinese travellers could be the next boost for travel-related sectors in 2023. International visitor arrivals to the island republic are expected to hit 12-14m in 2023, with full tourism recovery expected by 2024. We believe the return of Chinese tourists will bode well for casinos, airlines, airport services, and other tourism-linked sectors.

Figure 37: Number of visitors to Singapore is still on a recovery



Source: Singapore Tourism Board, Business Times

Risks are aplenty

Global recession could drag corporate earnings growth lower. Our base case assumption is a slowdown in global growth. For the US, we expect a modest deceleration in growth in 1H23, followed by a recovery in 2H23. We expect Europe (the EU) to avoid a recession in 2023, and believe GDP growth will slow to trend in 1H23, for South-East Asian economies, followed by a recovery in 2H23. However, a global recession could be triggered if the US Fed's monetary policy tightening overshoots and/or economic shocks in China and Europe worsen. Singapore's externally dependent economy is unlikely to be spared in a global recession, and the resulting impact on market confidence may result in negative equity returns alongside global markets. Loan defaults could exceed market expectations, causing downward earnings revisions for banks, which account for roughly 40% of the STI.

Negative surprises on inflation and the interest rate outlook. Companies have had to deal with high material, energy, and labour costs, as well as rising rental rates in an inflationary environment. While the base case assumption is for inflation to moderate in 2H23, there remains a risk of global inflation remaining sticky and unlikely to "fall like a rock" in 2023. A persistently high rate of inflation will persuade the US Fed to keep its aggressive approach on monetary policy. If consumer prices continue to rise instead of peaking soon, and MAS' efforts to combat inflation fall short, the growth outlook for Singapore's economy and corporate earnings may suffer.

Difficult US-China relations. A worsening of the US-China relationship beyond trade and technology issues could have far-reaching implications on global trade and geopolitical stability. Taiwan, Hong Kong, Xinjiang, Tibet, the South China Sea, trade, and technology are all sources of contention between the two sides. The US-China relationship is changing, and investor sentiment may become more cautious. Should ties worsen, businesses may decide to postpone their investment plans.

Singapore: Investment Themes For 2Q23

Stick with quality companies offering earnings and dividend visibility

In the near term, we expect greater global macroeconomic uncertainty to create volatility and remain a drag on general equity market performance. We believe the market, sector and company performances will diverge as returns are driven by the relative resilience of profits amidst an uncertain outlook. We reiterate that investors should prioritise surviving through these uncertain times.

Companies with strong financial sheets, pricing power, captive customer bases, recurrent demand, and the capacity to pass through increasing costs should be key considerations when choosing stocks. We support a fundamentally defensive stance that emphasises investing in companies that have sturdy earnings or dividend profiles. We believe the relative outperformance of defensive styles (quality and momentum) and sectors (staples, healthcare and utilities) will persist in 2Q23. Our stock picks for this subject are Sheng Siong and ST Engineering.

Figure 38: Singapore stocks with resilient earnings and dividends (I)

	Mkt cap			Upside/ downside	1FY	P/E (x)		P/BV (x)		Div yield (%)		FCF yield (%)		ROE (%)	
Company	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Sheng Siong	1,988	Buy	2.00	12.5	Dec-23	18.6	17.9	5.4	4.9	3.8	3.9	6.0	6.2	30.3	28.6
ST Engineering	8,385	Buy	4.10	13.9	Dec-23	19.9	16.7	4.6	4.3	4.4	4.4	2.4	10.6	23.2	26.3

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Figure 39: Singapore stocks with resilient earnings and dividends (II)

	Mkt cap			Upside/ downside	1FY	EPS growth (%)		DPS growth (%)		Net margin (%)		Net debt/equity (x)		Returns (%)	
Company	(USDm)	Rating	TP	(%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1FY	2FY	1M	YTD
Sheng Siong	1,988	Buy	2.00	12.5	Dec-23	7.6	3.9	7.7	4.5	10.3	10.3	-0.7	-0.7	7.9	7.9
ST Engineering	8,385	Buy	4.10	13.9	Dec-23	17.3	19.0	-27.8	0.0	5.9	6.6	2.6	2.2	2.0	7.5

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Hold on to Industrial REITs until there is clarity on interest rate outlook

We believe that we are coming to the end of the interest rate upcycle. Our expectations of positive GDP growth and a strong rebound in economic activity in 2H23 compel us to think that investors should revisit the S-REITs sector, which delivered a dismal performance in 2022. The clarity of our view on economic growth in 2023 will be determined by how economic events unfold over the course of the next few months.

For REITs under our coverage, we estimate and aggregate DPS growth at 0.2% YoY in 2023. However, we note that this growth will be uneven throughout the year, and also uneven across the sectors. This should be reflected in the performance of the stocks. Defensive REITs – ie those that offer resilient DPS growth and have strong balance sheets – will continue to deliver an outperformance in 2Q23. In the meantime, S-REITs that will benefit from potential economic growth recovery and the return of Chinese tourist arrivals to Singapore could chalk outperformances in 2H23.

Industrial demand remains strong, mitigating supply concerns. We expect industrial rental rates to continue to rise, while occupancy is expected to remain relatively flat. 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.

Our preferred exposure in the S-REITs sector is AIMS APAC REIT and CapitaLand Ascendas REIT. If our macroeconomic forecast pans out as expected, we believe there could be opportunities to rotate into hospitality and retail REITs in 2H23.

Figure 40: S-REIT picks (I)

Company	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
AIMS APAC REIT	732	Buy	1.50	10.9	Mar-23	10.5	10.9	0.9	0.9	7.1	7.1	10.7	11.0	9.1	8.6
CapitaLand Ascendas	8,825	Buy	3.25	15.4	Dec-23	19.3	22.3	1.2	1.2	5.8	5.8	7.0	7.9	6.2	5.4

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Figure 41: S-REIT picks (II)

Company	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
AIMS APAC REIT	732	Buy	1.50	10.9	Mar-23	-12.2	-3.4	1.8	0.2	54.8	51.6	0.8	0.8	4.7	8.9
CapitaLand Ascendas	8,825	Buy	3.25	15.4	Dec-23	-5.6	-13.3	3.6	0.7	43.2	36.4	0.6	0.6	1.8	2.9

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Seek opportunities to benefit from revival in Chinese international travel

Despite China's 1Q23 economic growth surprising Street positively, the impact from return of international travel into and out of the East Asian nation has been still quite slow. We believe there will be a strong surge in China's international travel, which could create opportunities to buy into stocks that would benefit from the return of Chinese tourists to countries within the region.

The potential beneficiaries of China's reopening are those of China's domestic reopening and/or companies that will gain from the return of business once the Chinese Government relaxes border restrictions. Within our coverage universe, we see Dairy Farm as a key beneficiary of China's domestic reopening, while ComfortDelGro, Raffles Medical, Singtel, and Thai Beverage should benefit from the return of Chinese tourists.

Figure 42: Singapore – China/regional economic reopening/recovery plays (I)

Company	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
ComfortDelGro	1,942	Buy	1.40	17.6	Dec-23	13.4	12.1	1.0	0.9	4.8	5.4	9.1	7.5	7.3	7.9
Dairy Farm	4,074	Neutral	3.09	1.9	Dec-23	19.8	16.2	3.8	3.5	4.0	5.0	16.6	25.3	20.5	22.7
Raffles Medical	2,001	Buy	1.70	16.4	Dec-23	22.8	22.8	2.6	2.5	2.5	2.2	5.0	5.0	11.6	11.3
Singtel	31,194	Buy	3.30	34.1	Mar-23	17.2	14.4	1.4	1.3	5.0	5.0	10.3	12.7	8.0	9.3
Thai Beverage	12,106	Buy	0.91	39.3	Sep-23	13.1	12.4	1.9	1.8	4.0	4.2	7.6	8.3	14.9	14.7

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Figure 43: Singapore – China/regional economic reopening/recovery plays (II)

Company	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
ComfortDelGro	1,942	Buy	1.40	17.6	Dec-23	10.8	10.8	24.8	10.8	5.0	5.4	-0.3	-0.3	0.0	-3.3
Dairy Farm	4,074	Neutral	3.09	1.9	Dec-23	618.5	22.4	300.0	25.0	2.2	2.6	1.1	0.9	5.6	3.4
Raffles Medical	2,001	Buy	1.70	16.4	Dec-23	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	2.1	4.3
SingTel	31,194	Buy	3.30	34.1	Mar-23	18.6	19.2	29.0	0.0	14.2	16.4	0.4	0.4	3.4	-4.3
Thai Beverage	12,106	Buy	0.91	39.3	Sep-23	6.1	6.2	6.1	6.2	10.6	10.9	0.6	0.5	2.4	-5.1

Note: Prices are as at 25 Apr 2023
Source: Bloomberg, RHB

Singapore Sector Outlook & Preferred Picks

Figure 44: Sector outlook, rating and preferred picks (1)

Sector	Rating	2023 sector outlook	Preferred picks
Consumer	O/W	We are positive on the consumer sector on the back of post-COVID-19 reopening and normalisation. Domestic retail spending has, as expected, normalised and surpassed pre-COVID-19 levels, especially in the downstream food services segment. This is expected to sustain and benefit F&B operators. The anticipated return of tourists following China's post-COVID-19 re-opening is expected to boost tourists' share of domestic consumption in the latter half of the year as well.	Thai Beverage, Sheng Siong, Food Empire
Financial Services	O/W	The collapse of US regional banks – Silicon Valley Bank or SVB and Signature Bank – followed by the state-backed rescue of Credit Suisse, have fuelled concerns about the health of the global banking sector. MAS clarified that Singapore's financial system has insignificant exposure to the failed US banks and Credit Suisse Group. The authority added that the domestic banking system remains sound and resilient as banks in Singapore are well capitalised and conduct regular stress tests against credit and other risks. Their liquidity positions are healthy, underpinned by a stable and diversified funding base. SG Banks' CET-1 ratio stood at a solid 13-15% in Dec 2022 while their liquidity coverage ratio (LCR) was comfortable at 135-152% against the minimum requirement of 100%. The assurances provided by MAS have helped calm nerves. We make no changes to our FY23F earnings for now – a 21% YoY growth in net profit underpinned by higher NII on NIM tailwinds and a healthy 8% rise in non-II. The downside risk to earnings, we believe, would come from a possible setback in expectations for a healthy rebound in fee income should the banking upheaval continue to weigh on investor confidence and financial markets see continued vagaries.	DBS, OCBC Bank
Food Products (Plantations)	N	We expect CPO prices to be range-bound in 2023 - within the MYR3,500-4,500 per tonne range. While upside risks for CPO prices have moderated, there are still supportive factors for the commodity, which should keep prices relatively stable. These include weather uncertainties, especially with the potential of *El Nino* returning in 3Q23, availability of fertiliser from Russia, which could impact oilseed crop supply, growing demand due to discounted CPO prices compared to those of soybean oil, and potential increases in Indonesia's biodiesel mandate. We prefer the integrated players, which would be able to withstand a lower CPO price environment better than the purer planters.	Wilmar International, Golden Agri
Healthcare	OW	We anticipate that Singapore's healthcare service providers will profit from the resurgence of elective treatments and pent-up demand from medical tourism. We think that because healthcare is a necessary service, it will be able to absorb most of the cost inflation. Given the modest gearing levels, we do not anticipate a significant impact from an increase in interest rates. Healthcare service providers like Raffles Medical that have a presence in South-East Asia and China will benefit from the economic reopening of China.	Raffles Medical
Real estate	N	The recently announced steep hike in the Additional Buyer's Stamp Duty (ABSD) by the Singapore Government, which targets foreigners and investors, is likely to mark the turning point in the cycle for residential prices here, with buying sentiment likely to cool significantly. Although targeted, the measures are potent when coupled with sharp interest rate hikes and a weakening economy. Key impacts from the Government's measure will be a sharp volume slowdown, a price correction in the high-end segment and resale market, and new launch prices likely to flatten. We maintain our pricing forecast of a -2% to +2% range for 2023, with risks now tilted more to the downside. We lower our full-year resale volume assumptions, which is now expected to decline 10-30% YoY vs 5-20% previously. New sale volumes are also expected to be lower at between 7,500 and 8,500 units from 8,000 to 9,000 units previously.	City Developments (TP and rating under review)
Hospitality REITs	N	The hospitality REITs' near-term outlook remains positive, but concerns are mounting over the medium term due to a sharp economic slowdown and sustainability of pent-up demand. However, valuations, in our view, have priced in most of the positives (trading close to book value), and with a dim macroeconomic outlook, we see limited upside. With increasing inflationary pressures and recessionary risk, we believe there is a possibility of some of the hospitality demand slowing down after the initial surge from the lockdown. As such, hospitality stocks are likely to be more range-bound in the near term, with risks tilted towards the downside.	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. 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.	AIMS APAC REIT, CapitaLand Ascendas REIT

Source: Company data, RHB

Figure 45: Sector outlook, rating and preferred picks (2)

Sector	Rating	2023 sector outlook	Preferred picks
Manufacturing & tech	N	We believe the outlook for the consumption of technology-related devices and products is unlikely to be buoyant with weak economic growth. Global personal computer shipments were already down by 29% YoY in 1Q23, according to IDC. A weaker end demand for technology-related equipment is leading to a chain effect for lower technology manufacturing activities, especially within the upstream supply chain. According to Gartner, the semiconductor sector faces elevated chip inventory in its supply chain at least until the end of 2023. This has also resulted in major foundries including TSMC cutting capex, affecting the prospects of supporting companies such as vendors and outsourced partners that indirectly support chip production. While chip oversupply is positive for contract manufacturers in their component costs, economic uncertainties may cause customer programmes and product development, production, and roll-out to slow or defer into future years, dampening growth expectations.	Venture Corp
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 is mainly due to investor concerns about the impact arising from interest rates and uncertainty over the long-term office demand outlook from work-from-home (WFH) trends. We remain relatively positive on the long-term outlook for office demand.	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 30% below book value, with forward dividend yields averaging 14%. 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 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. Prefer diverse market with exposure to industrial (logistics in particular) and high-quality office buildings for earnings resilience.	Keppel Pacific Oak US REIT, Cromwell European REIT
Retail REITs	N	For 2023, we expect landlords to remain focused on maintaining high occupancy rates in the 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
Telecom	N	We see industry mobile revenue normalising to pre-pandemic levels with China having fully reopened its borders to travellers. Telcos are seeing good ARPU uplifts from 5G adoption, which should mitigate the pressure from SIM-only plans. Both Singtel and StarHub will continue to aggressively expand their enterprise segment with mid-term pressure on margins as they scale up their enterprise capabilities. We do not rule out more asset monetisation exercises to unlock value.	Singtel
Transport & Industrials	O/W	We expect land transport operators like ComfortDelGro (CD) to benefit from the higher demand for its taxi services and the higher traffic for its rail business as life gradually reverts back to pre-pandemic levels of normalcy. This should offset some of the impact of higher energy costs on its rail business. 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 its high gearing will be impacted by rising interest rates, we believe some of the impact should be mitigated by its strong cash flow generation ability. 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

Source: Company data, RHB

Figure 46: Summary of our sector weightings

Overweight	Neutral
Consumer	Food products (plantations)
Financials	Mfg. & Tech.
Healthcare	Real estate
Industrials	S-REITs (Other sub sectors)
S-REITs (Industrials)	Telecom & Media
Transport	

Source: RHB

Figure 47: Summary of preferred stocks across sectors

Sector	Most preferred
Consumer	FEH, SSG, THBEV
Financials	DBS, OCBC
Food products	WIL, GGR
Healthcare	RFMD
Industrials	STE
Mfg. & Tech.	VMS
Real estate	CIT
REIT	AAREIT, CLAR
Telecom & media	ST
Transport	CD

Source: RHB

Figure 48: Sector valuation comparison (I)

Sector	Rating	P/E (x) 2023	P/E (x) 2024	P/BV (x) 2023	P/BV (x) 2024	Dividend yield (%) 2023	Dividend yield (%) 2024	FCF yield (%) 2023	FCF yield (%) 2024	ROE (%) 2023	ROE (%) 2024
Consumer	OW	14.9	13.5	2.6	2.5	4.0	5.8	9.6	11.9	17.9	18.1
Financials	OW	9.0	8.4	1.4	1.3	5.4	5.9	3.8	4.9	15.7	15.7
Food products	N	9.2	9.0	0.9	0.8	3.3	3.2	9.1	8.5	11.6	11.0
Healthcare	OW	22.8	22.8	2.6	2.5	2.5	2.2	5.0	5.0	11.6	11.3
Industrials	OW	19.1	16.2	4.4	4.1	4.5	4.5	3.1	10.6	22.8	25.6
Manufacturing & tech	N	12.3	11.4	1.6	1.5	4.3	4.3	7.1	7.1	13.5	13.7
Real estate	N	14.2	12.6	0.7	0.7	4.1	4.1	1.3	7.6	5.3	5.7
REIT	OW	18.1	17.8	0.9	0.9	6.2	6.3	8.5	7.9	5.3	5.4
Telecom & media	N	15.0	13.5	1.4	1.4	5.0	5.0	13.3	14.6	9.5	10.2

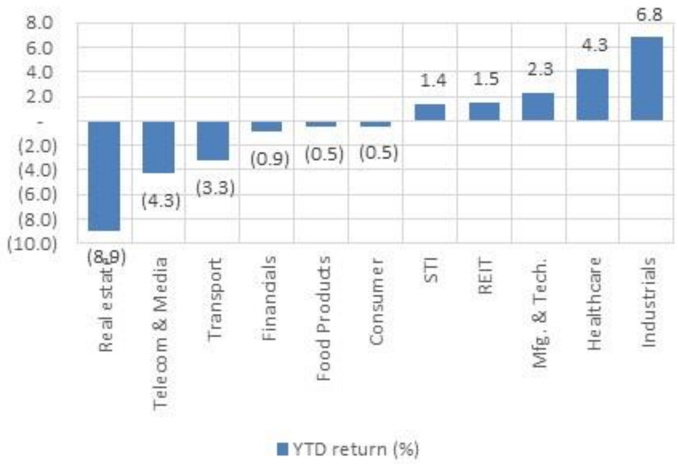
Note: Prices are as at 25 April 2023. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 49: Sector valuation comparison (II) and returns

Sector	Rating	EPS growth (%) 2023	EPS growth (%) 2024	DPS growth (%) 2023	DPS growth (%) 2024	Net margin (%) 2023	Net margin (%) 2024	Net debt/equity (x) 2023	Net debt/equity (x) 2024	Returns (%) 1M	Returns (%) YTD
Consumer	OW	138.1	9.5	69.4	44.3	8.9	9.1	0.5	0.4	3.8	-0.5
Financials	OW	23.7	7.2	3.4	8.8	38.7	39.5	-0.7	-0.7	0.4	-0.9
Food products	N	-25.1	1.8	-6.3	-1.6	4.8	4.8	0.9	0.8	-2.4	-0.5
Healthcare	OW	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	2.1	4.3
Industrials	OW	16.7	18.1	-28.3	0.4	6.3	7.0	2.3	1.9	1.6	6.8
Manufacturing & tech	N	7.2	7.9	-0.6	0.0	9.6	9.7	-0.3	-0.3	-0.7	2.3
Real estate	N	-60.1	12.4	6.0	0.0	12.0	12.4	0.9	0.9	3.2	-8.9
REIT	OW	-7.8	4.6	0.3	0.4	50.6	51.8	0.6	0.6	3.4	1.5
Telecom & media	N	17.5	11.2	5.4	0.4	15.4	16.5	0.4	0.4	3.1	-4.3

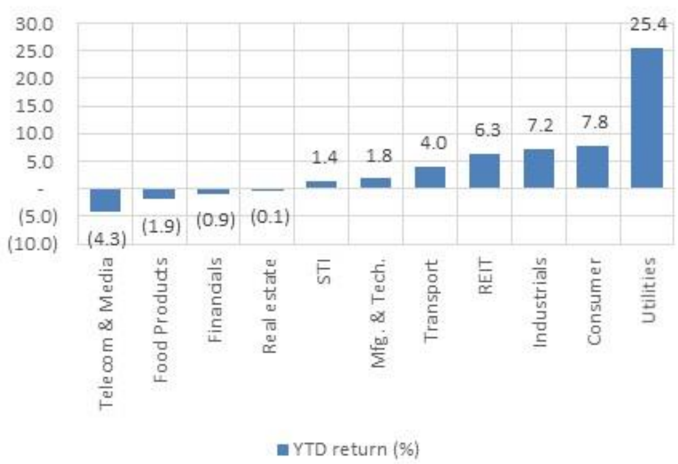
Note: Prices are as at 25 April 2023. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 50: YTD sector performance – stocks under our coverage



Note: As at 25 Apr 2023
Source: Bloomberg, RHB

Figure 51: YTD sector performance – stocks that are part of the STI



Note: As at 25 Apr 2023
Source: Bloomberg, RHB

Singapore: Stock Picks For 2Q23

Figure 52: Singapore – valuation comparison (I) for large-cap picks

Company	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	8,825	Buy	3.25	15.4	Dec-23	19.3	22.3	1.2	1.2	5.8	5.8	7.0	7.9	6.2	5.4
Singtel	31,194	Buy	3.30	34.1	Mar-23	17.2	14.4	1.4	1.3	5.0	5.0	10.3	12.7	8.0	9.3
ST Engineering	8,385	Buy	4.10	13.9	Dec-23	19.9	16.7	4.6	4.3	4.4	4.4	2.4	10.6	23.2	26.3
Thai Beverage	12,106	Buy	0.91	39.3	Sep-23	13.1	12.4	1.9	1.8	4.0	4.2	7.6	8.3	14.9	14.7

Note: Prices are as at 25 Apr 2023.
Source: Bloomberg, RHB

Figure 53: Singapore – valuation comparison (II) and returns for large-cap picks

Company	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	8,825	Buy	3.25	15.4	Dec-23	-5.6	-13.3	3.6	0.7	43.2	36.4	0.6	0.6	1.8	2.9
Singtel	31,194	Buy	3.30	34.1	Mar-23	18.6	19.2	29.0	0.0	14.2	16.4	0.4	0.4	3.4	-4.3
ST Engineering	8,385	Buy	4.10	13.9	Dec-23	17.3	19.0	-27.8	0.0	5.9	6.6	2.6	2.2	2.0	7.5
Thai Beverage	12,106	Buy	0.91	39.3	Sep-23	6.1	6.2	6.1	6.2	10.6	10.9	0.6	0.5	2.4	-5.1

Note: Prices are as at 25 Apr 2023.
Source: Bloomberg, RHB

Figure 54: Singapore – valuation comparison (I) for mid- to small-cap picks

Company	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
AIMS APAC REIT	732	Buy	1.50	10.9	Mar-23	10.5	10.9	0.9	0.9	7.1	7.1	10.7	11.0	9.1	8.6
ComfortDelGro	1,942	Buy	1.40	17.6	Dec-23	13.4	12.1	1.0	0.9	4.8	5.4	9.1	7.5	7.3	7.9
Raffles Medical	2,001	Buy	1.70	16.4	Dec-23	22.8	22.8	2.6	2.5	2.5	2.2	5.0	5.0	11.6	11.3
Sheng Siong	1,988	Buy	2.00	12.5	Dec-23	18.6	17.9	5.4	4.9	3.8	3.9	6.0	6.2	30.3	28.6

Note: Prices are as at 25 Apr 2023.
Source: Bloomberg, RHB

Figure 55: Singapore – valuation comparison (II) and returns for mid- to small-cap picks

Company	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
AIMS APAC REIT	732	Buy	1.50	10.9	Mar-23	-12.2	-3.4	1.8	0.2	54.8	51.6	0.8	0.8	4.7	8.9
ComfortDelGro	1,942	Buy	1.40	17.6	Dec-23	10.8	10.8	24.8	10.8	5.0	5.4	-0.3	-0.3	0.0	-3.3
Raffles Medical	2,001	Buy	1.70	16.4	Dec-23	-13.5	-0.1	29.9	-13.0	15.4	14.8	-0.2	-0.3	2.1	4.3
Sheng Siong	1,988	Buy	2.00	12.5	Dec-23	7.6	3.9	7.7	4.5	10.3	10.3	-0.7	-0.7	7.9	7.9

Note: Prices are as at 25 Apr 2023.
Source: Bloomberg, RHB

Figure 56: Investment theses for our stock picks

Stock	Investment thesis
AIMS APAC REIT (AAREIT SP)	• High-quality industrial portfolio, focusing on logistics assets, which has been in demand amongst investors post COVID-19 • Earnings recovery will be driven by acquisitions, improved occupancy rates and rental increases • Untapped potential to enhance portfolio value from asset enhancements • Potential medium-term M&A candidate
CapitaLand Ascendas (CLAR SP)	• 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
ComfortDelGro (CD SP)	• Sustained earnings recovery amid normalisation of Singapore rail and taxi businesses' operations • Return of Chinese tourists could further boost Singapore's taxi and public transport ridership • Valuation is compelling amid ongoing YoY earnings growth and strong improvements in ROE
Raffles Medical (RFMD SP)	• Singapore hospital and healthcare operations reverting to normal will help offset the decline in COVID-19-related revenue • China, which accounts for c.7% of RFMD's revenue, should also see higher topline contributions 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 its peer average
Sheng Siong (SSG SP)	• Growth supported by government support measures for Singaporean consumers to aid 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)	• Higher roaming revenue and prepaid sales with China's borders fully reopened coupled with market price repair in Australia • ARPU uplift from stronger 5G adoption • Continued robust growth at Airtel will drive stronger share of associates • Positive execution of strategic business reset (ie regionalisation of enterprise/B2B businesses & value unlocking of strategic infrastructure assets)
ST Engineering (STE SP)	• Sustained recovery in earnings driven by gradual improvement in the commercial aerospace • c.SGD23bn of orderbook provides over two years of revenue visibility • Recent acquisition of TransCore, although worsened its debt profile, has expanded the earnings profile • Defensive business model that will allow it to sustain DPS of at least 16 SG cents
Thai Beverage (THBEV SP)	• Proxy to capture the robust consumption in Thailand and Vietnam • Potential reopening of China and the ensuing resurgence in tourism should catalyse earnings prospects • Margins recovery on price adjustments amidst cost pressures

Source: Company data, RHB

Thailand Strategy

Navigating towards the 2023 national poll

The new administration will take office in early August. Thailand's upcoming general election has been set for 14 May, and the kingdom's 30th prime minister and his Cabinet will take office in early August. We believe that more than three political parties will be needed to form the new government at this time. Uncertainty may emerge during the "vacuum period" between the formation of a new coalition government and election of a new prime minister in May and June. That said, the national polls may result in a strong (stable) or weak (unstable) government. We anticipate the SET to be volatile over the next two months. This may result in a risk or reward scenario, with an estimated index movement of ±1x P/E or ±84pts of the SET's EPS.

SET's year-end target at 1,764pts. We anticipate a 5.8% YoY growth in SET earnings this year (Figure 66), largely due to a full year of Thailand's reopening and improvements in the microeconomic environment – albeit with more built-in macroeconomic challenges. Our year-end SET Index target of 1,764pts is derived from a baseline of 21x subjective P/E (10-year mean P/E of 20.89x) – similar to the index's end-2022 close. According to our P/E band analysis (Figure 67), 2023's year-end SET Index will close at a P/E that falls within 19-21x, ie 1,596-1,764pts.

Investment themes:

i. **Countdown to polling day on 14 May.** Based on past elections, there will be more outflows and sell-on-news for stocks related to political parties, following the election results in June-July. Beyond this, we prioritise healthcare, banks, utilities, ICT, and commodities-related stocks. We avoid infrastructure under this theme, as there is a possibility of a 2-3 month delay in the FY23 budget disbursement, the lack of new infrastructure project bids and execution during the new government's transition, and policy risks due to the change in government;

ii. **Earnings recovery and margin expansion from 3Q23 onwards.** Inflation is likely to return to its target range by mid-2023 and fall to 2.9% and 2.4% in 2023 and 2024. However, the cost-push with a marginal squeeze will continue, albeit slower, in industries with higher price elasticity in demand – eg F&B, consumer, contractor, construction materials, low-end housing, and condominiums – until 2Q23. Corporate earnings could hit a bottom in 2Q23 (weak QoQ, strong YoY). Overall QoQ growth may be lower than projected, but this should also still point to an improvement due a full year of Thailand's reopening;

iii. **China's reopening (6- to 12-month investment horizon).** This will be positive for Thailand's trade and tourism while boosting domestic consumption, international trade, direct investments, and housing sales. In 2022, net foreign direct investments or FDI in Thailand exceeded THB434bn (USD12.65bn) – an increase of 36% YoY – with China being the largest foreign investor, injecting THB77bn.

Figure 57: Election timeline

- **7 May:** Early voting, also open to the elderly and disabled
- **14 May: General Election Day**
- **Early July:** Election Commission will officially announce polling results (yellow/red cards could be applied to parties and their candidates within 46 days after the election date)
- **Mid-July:** King Maha Vajiralongkorn opens the Parliament and a new parliament president is appointed
- **Late July:** New prime minister is elected by the Parliament
- **Early August:** New Cabinet takes office and will announce its policies to the Parliament

Source: Election Commission, Deputy Prime Minister Wissanu Kreangam

Figure 58: The end-2023 SET Index target is 1,764pts

Key Inputs	2019	2020	2021	2022	2023E	2024E
Return on Equity	9.6%	4.2%	9.4%	8.4%	8.4%	8.7%
EPS (THB)	81.64	36.20	88.41	79.45	83.99	91.15
EPS growth	-10.6%	-55.7%	144.2%	-10.1%	5.7%	8.5%
BV (THB)	848.3	833.7	911.1	937.6	978.5	1,024.1
Dividend yield	2.6%	1.0%	2.1%	1.9%	2.6%	2.9%
P/E (x)	19.35	40.04	18.75	21.00	18.96	17.47
P/BV (x)	1.86	1.74	1.82	1.78	1.63	1.56
SET index closed (pts)	1,580	1,449	1,658	1,669	**1,764**	**1,914**
SET/Market return	1.0%	-8.3%	14.4%	0.7%	6.4%	14.7%
Dividend yield	2.6%	1.0%	2.1%	1.9%	2.6%	2.9%
Total return	**3.6%**	**-7.3%**	**16.5%**	**2.6%**	**9.0%**	**17.6%**

Source: RHB

Key Investment Highlights

The positives

In 2Q23, general election spending is estimated to contribute 0.12% of GDP. The Cabinet has approved a THB5.94bn budget for the Election Commission (EC) to hold the upcoming polls. Conversely, the EC has stated that politicians may not spend more than THB1.5m per head, and this applies to approximately 10,000 registered candidates. We have calculated the initial spending of THB21bn that can be circulated into the economy, contributing c.0.12% of GDP in 2Q23. The printing and out-of-home media, fast-moving consumer goods or FMCG, and F&B industries will be the first to benefit from this election spending, in our view.

Tourism is gaining traction. The Tourism Authority of Thailand or TAT anticipates that tourism revenues (domestic and foreign) will generate up to THB2.4trn (USD70bn) this year, accounting for approximately 14% of GDP or c.80% of income in 2019, ie the pre-pandemic level. THB880bn (37%) should come from domestic tourists, while the remaining THB1.5trn (63%) will be from foreigners. Thailand welcomed 2.1m foreign visitors in January, and another 2m in February and March – taking the total to 6.5m visitors in 1Q23. During the long *Songkran* holiday in April, over 3.8m Thais and approximately 305,000 foreign tourists are expected to visit the country. From 1 Jan to 2 Feb, 99,429 China tourists visited the kingdom, and the 1Q23 number is expected to hit 300,000. As a result, the TAT revised its previous estimate of 5m inbound Chinese tourists this year to 7-8m.

Foreseeable risks. Two policymakers we hosted recently addressed the recent banking stresses in the US and Europe, which have had no direct impact on Thailand's financial system. This is given the kingdom's low-investment exposure of c.THB100-200m (USD3-6m) from commercial banks with investments in distressed foreign assets in the US and Europe.

The risks

i. Geopolitical tensions remain uncertain or escalate. Our attention is now shifting to the conflict between the US and China over Taiwan – economic downturns in the former two countries may greatly dampen Thailand's export growth. Last year, 16.6% of the country's exports went to the US market vs 12% to China and 1.6% to Taiwan;

ii. A global recession, banking stresses in some advanced economies, rising energy prices, and a food crisis could all contribute to increased inflation;

iii. Inflation could remain high for longer than expected. The situation may shift from cost-push to demand-pull inflation as the economic recovery gains traction. If prices rise faster than GDP (3-4%), this would lead to a decline in real wages and higher borrowing costs as interest rates rise;

iv. External factors causing capital to exit the Thai equity market;

v. Changes in government and policies, and its stability. The upcoming general election, which could result in a change in government and prime minister, may cause political insecurity and inconsistency with regards to long-term economic policies.

Investment Themes

Theme 1: Countdown to the general election on 14 May

The bulk of voters are from the Generations X (Gen X) and Y (Gen Y) groups (ie 27-58 years old). More than 52m Thais are eligible to vote. They will receive two ballots – one for a district representative and another to select their party of choice. There are 400 district seats (constituency members of Parliament or MPs), and the remaining 100 seats will be apportioned according to the party ballot results (party-list MPs).

During the last election, the ratio was 350 constituency MPs and 150 party-list MPs. By early July, the EC will declare the winners. The Parliament, comprising the 500 just-elected Lower House members and 250 appointed senators, will convene in mid-to-late July to select a prime minister. Voters can be classified by age, with Gen X comprising the most significant number of voters, followed by Gen Y. These two segments represent voters aged 27-58, and total 31.235m – similar to the previous general election held in 2019.

Figure 59: Breakdown of voters at the upcoming 2023 general election

Generation	Birth year range	Age range	Number
Gen Z	1997 - 2012	11 - 26	7,670,354 Of them, 4,012,803 will be first-time voters
Gen Y	1981 - 1996	27 - 42	15,144,468
Gen X	1965 - 1980	43 - 58	16,091,150
Baby Boomers	1946 - 1964	59 - 77	11,153,133
Silent Generation	1925 - 1945	78 - 98	2,227,540
Older	before 1925	older than 98	36,179

Source: Bangkok Post

750 parliamentarians will choose the new prime minister. According to the Constitution, this is the final session in which the 250 senators can join the 500 members of the House of Representatives to select the next prime minister from lists submitted by parties with at least 5% of the Lower House seats. In other words, a political party with fewer than 25 MP seats cannot nominate a candidate for the position. This could imply that General Prayuth Chan-O-Cha, the leader and prime minister candidate of the United Thai Nation Party, must be eligible to win at least 25 MP (in terms of his party) seats in the May election.

Later, the prospective premier must receive at least 376 votes from both the Houses of Representatives and Senate, out of 750 seats. We believe senators will not be required to participate in the selection of the prime minister – something which was not done previously.

Figure 60: Prime ministerial candidates and key campaign promises according to political party

Source: Bangkok Post

Figure 62: Top candidates for prime minister according to NIDA

Source: NIDA poll

Figure 61: The standpoints of the leader and core members of each political party

WHAT'S IT ALL ABOUT

Parties' stances on key issues	Agree	Disagree	Not clear
1 Rewriting the entire constitution	Pheu Thai Party Move Forward Party Palang Pracharath Party Bhumjaithai Party Democrat Party	United Thai Nation Party	
2 Amending Section 112 or lese majeste law	Move Forward Party	United Thai Nation Party Palang Pracharath Party Bhumjaithai Party Democrat Party	Pheu Thai Party
3 Granting an amnesty for cases of alleged corruption during the coup-maker National Council for Peace and Order's rule		United Thai Nation Party Palang Pracharath Party Bhumjaithai Party Democrat Party	Pheu Thai Party Move Forward Party
to offenders in the colour-coded conflict	Pheu Thai Party Move Forward Party Bhumjaithai Party Democrat Party		United Thai Nation Party Palang Pracharath Party
4 Ending military conscription	Pheu Thai Party Move Forward Party	United Thai Nation Party Palang Pracharath Party Bhumjaithai Party Democrat Party	

Source: Bangkok Post – complied from standpoints of leaders and core members of various parties, expressed through media interviews and in public

Political vacuum during May-June. At this stage, we maintain our view that the new government will be formed by more than three political parties, with the frontrunner being the Pheu Thai Party. However, there is no guarantee that it will become the leader of the new government. In addition, the results of this election may not bring about an outright winner among the individual parties. This could lead to uncertainties during the "vacuum period" in May-June before a new coalition government emerges and voting for a new prime minister commences. Such a government will either be "strong" (stable) or "weak" (instable).

The selection of the prime minister. This election will be the last term that the Constitution allows for 250 senators to join 500 MPs in selecting the new prime minister. To avoid disputes and conflict while the country weathers the transition period, we do not think the premier will be selected in quite the same situation as seen during 2019.

To perform and under-perform. According to past statistics, investors are typically upbeat prior to general elections, and there is a pick-up in foreign fund inflows. Examples taken from past general elections point to a dual impact: i) Trading sentiment and liquidity should improve further – potentially attracting more investors back to the market (according to historical data, the sectors to feel the first round of the ripple effect of polls are energy, banks, property, and consumer), ii) companies with government ties may see short-term investor speculation – like those in infrastructure and industrial estates.

Players involved in new media also see a pickup in interest, over those in traditional media. Meanwhile, the technology (ICT) sector would be a laggard. We also note that in the period of the two months after the previous election (in 2019), ie June and July, profit-taking on construction stocks were at historical highs. This was due to changes in government and national policies. Healthcare, ICT, and utilities sector are the safest havens.

Safe-haven stocks. Based on past elections, there will be more outflows and sell-on-news in stocks related to political parties following election results. Looking beyond that event, we would prioritise healthcare, banks, utilities, ICT, and commodities-related stocks. We would avoid infrastructure counters under this theme because there is a possibility of a 2-3 month delay in the 2023 budget disbursement, no new infrastructure project bids and executions being done during the new government's transition, and risk of changing policies.

However, if the new government comes from the same coalition of parties like the previous one, we would likely see policies remaining consistent – so we advocate investors to add infrastructure stocks to their portfolios, ie Sino-Thai Engineering & Construction (STEC TB, BUY, TP: THB16.20) and Bangkok Motorway & Metro (BEM TB, BUY, TP: THB11).

Top Picks:

i. PTT (PTT TB, BUY, TP: THB46; dividend yield of 5.4%);

ii. PTT Exploration & Production (PTTEP TB, BUY, TP: THB183);

iii. PTT Oil & Retail Business (OR TB, BUY, TP: THB29);

iv. CP All (CPALL TB, BUY, TP: THB79) vs Airports of Thailand (AOT TB, BUY, TP: THB82);

v. Bangkok Dusit Medical Services (BDMS TB, BUY, TP; THB36.50);

vi. Advance Info Services (ADVANC TB, BUY, TP: THB233);

vii. Siam Commercial Bank (SCB TB, BUY, TP: THB150);

viii. Kasikornbank (KBANK TB, NEUTRAL, TP: THB155).

Theme 2: Earnings and margin recovery from 3Q23 onwards

Inflation to normalise from 2Q23. Bank of Thailand (BoT) pared down its 2023-2024 GDP forecasts to 3.6% and 3.8% from 3.7% and 3.9%. However, the central bank's policy committee increased its policy rate to 1.75% from 1.50%, and believes the economic recovery is on track, with upside inflation risks from the demand side. BoT forecasts tourism (28m arrivals) and private consumption to drive GDP growth while the export of goods will gain momentum in 2H23. The central bank is of the view that inflation is likely to return to its target range by mid-2023, and fall to 2.9% and 2.4% for 2023 and 2024. Note: RHB economists believe BoT bank may have little impetus to raise rates beyond 1.75% in 2023. Meanwhile, the Fiscal Policy Office (FPO) revised its 2023-2024 headline and core inflation forecasts downwards to 2.8% and 2.4% from 2.9% and 2.3%.

The FPO forecasts 2023 GDP to grow by 3.8% YoY this year vs BoT and RHB’s 3.6% and 3% YoY estimates. The economic growth engines are tourism, domestic consumption, and private investments. Meanwhile, due to the transition period to the new government in 3Q23, public spending and consumption will be flat-to-contracting. Fundamentally, 1H23 is set to be weaker than 2H23 due to external issues, ie high commodity prices, inflation and interest rate surges, weakness in the export sectors, and FX volatility. We expect the cost-push with marginal squeeze tensions to continue, albeit slower, in industries with higher price elasticity of demand – ie F&B, consumer, contractor, construction materials, low-end housing, and condominiums – until 2Q23.

Corporate earnings could hit a bottom in 2Q23 (weak QoQ, strong YoY). Overall QoQ growth may be lower than projected, but YoY growth should be higher due to the full year of the country’s reopening. Sectors that may cushion and outperform estimates are: O&G, refineries, road & rail and airport transportation, F&B, tourism, retail, consumer staples, and healthcare. That said, manufacturers will suffer the most and likely book lower sales and margins before cost pressures gradually normalise in 2H23.

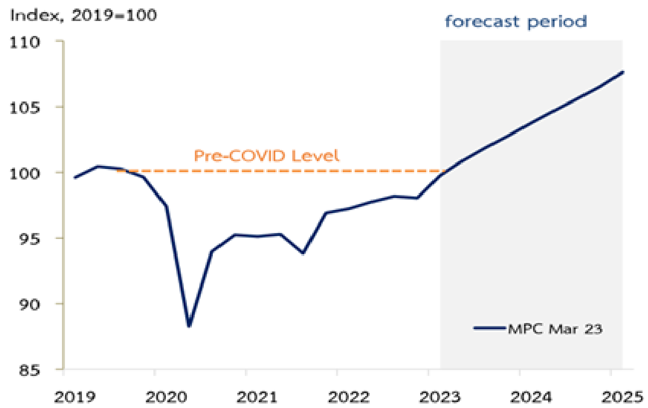
Top Picks: As 2Q23 earnings are expected to hit rock bottom and recover in 3Q23, we think it would be a good time to re-enter on weakness for key manufacturers like.

i. Siam Cement (SCC TB, BUY, TP: THB400; dividend yield 4.8%);

ii. Sino-Thai Engineering & Construction (STEC TB, BUY, TP: THB16.20);

iii. The Erawan Group (ERW TB, BUY, TP: THB5.30).

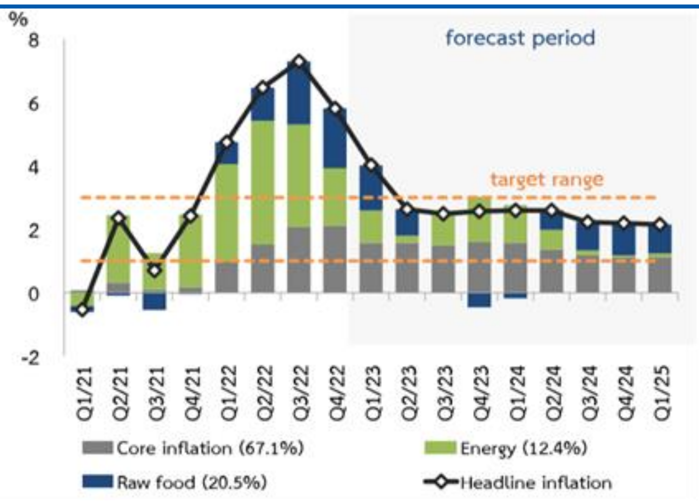
Figure 63: 2023 GDP resumes to pre-pandemic levels



%YoY	2022	2023	2024
Mar23 (Nov22)	2.6	3.6 (3.7)	3.8 (3.9)

Source: Bank of Thailand (BOT)

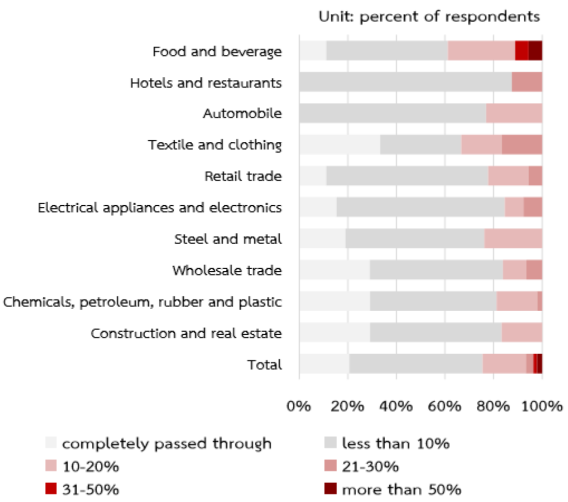
Figure 64: Inflation to normalise from 2Q23; upside risks to monitor



Source: BoT

Figure 65: Most underlying inflation indicators remain elevated

Producers could pass on higher costs absorbed in the past



ɔurce: Business Liaison Program special surveys conducted in Mar 23 with 340 responses

Underlying inflation indicators

	2022												2023	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Core CPI	0.5	1.8	2.0	2.0	2.3	2.5	3.0	3.2	3.1	3.2	3.2	3.2	3.0	1.9
Core CPI (ex rent & subsidies)	0.7	2.2	2.4	2.6	2.8	3.0	3.6	3.7	3.8	3.9	4.0	4.0	3.8	2.3
Symmetric trimmed mean CPI	1.2	2.1	2.4	2.4	3.2	3.7	4.0	4.2	4.2	4.2	4.1	4.2	3.7	2.9
Sticky price CPI	0.5	2.4	2.8	2.7	3.2	3.5	4.2	4.7	4.6	4.7	4.9	4.9	4.6	3.1
Common CPI	0.9	1.7	1.8	2.2	2.5	2.8	3.2	3.6	3.7	3.8	4.1	4.3	4.3	3.8
MUCSVO Trend	2.9			3.4			3.8			3.2				

Percent deviation from target midpoint of 2%
- Less than 0.5%
- Less than 0.25% - 0.5%
- Close to target midpoint (+/- less than 0.25%)
- More than 0.25% - 0.5%
- More than 0.5%

Note: %YoY is calculated on a monthly basis except MUCSVO which is calculated on a quarterly basis from goods and services prices in 10 categories

Source: Ministry of Commerce, calculations by BOT

Source: BoT

Theme 3: China's reopening (6- to 12-month investment horizon)

Tourism. Chinese tourists accounted for 28% of all visitor arrivals in Thailand in 2019, accounting for 11m out of the 40m total – the spending from these visitors alone contributed around 0.3% of GDP that year. We believe China tourist arrivals in 2023 could reach 4.5m (18% of total tourist arrivals of 24.8m) and estimate that they will contribute 1.5% of GDP, ie THB59,000 per head per trip x 4.5m or c.GDP = THB17.5trn.

International trade. Thailand exported 12% of its total output to China, the kingdom's second-largest export market in 2022. As such, the East Asian nation's reopening should alleviate supply chain bottlenecks and increase FDIs into Thailand.

FDI. In 2022, net FDI in Thailand exceeded THB434bn (USD12.65bn), marking a 36% YoY increase. China was the largest foreign investor, injecting THB77bn. The majority of these FDIs were for projects in electronics, automotive (primarily EV), and food processing. Furthermore, Chinese investors play an important role in Thailand's EV car industry, and five Chinese EV car manufacturers – including one that is partnering PTT Group – recently announced plans to invest in Thailand:

i. MG: THB2.5bn investment budget, sales target of 10,000 cars in 2023;

ii. GWM: THB12bn investment budget, sales target of 18,000 cars in 2023;

iii. BYD: THB36bn investment budget, sales target of 24,000 cars in 2023;

iv. NETA Auto: THB3bn investment budget, sales target of 15,000 cars in 2023;

v. The latest – Chinese carmaker Changan Automobile announced a THB9.8bn investment to develop a range of models here. The Chongqing-based firm plans to make EVs in three categories: Battery EVs, plug-in hybrid EVs, and range-extended EVs (also known as REEVs) — as well as batteries for domestic sale and export.

NETA Auto is also collaborating with PTT subsidiary Arun Plus to develop an EV ecosystem while assembling Neta vehicles to establish an ASEAN production hub here. Following that, BYD made a splash by purchasing land in Thailand's Eastern Economic Corridor or EEC with WHA Corp (WHA) – Thailand's largest industrial estate developer – to build its first EV manufacturing plant in South-East Asia. BYD's investment is WHA's most significant deal in 20 years, emphasising the importance placed on EV production.

Previously announced in May 2022 was a USD1bn deal between Foxconn and Arun Plus, through their new venture Horizon Plus to develop and manufacture EVs in Thailand, with a factory completion date set for 2024.

Residential and industrial estates. Total high-rise condominiums transferred in 2022 amounted to THB18bn, of which 30% are Chinese buyers. These also included the purchase of industrial land.

Top Picks:

i. Central Retail Corporation (CRC TB, BUY, TP: THB53);

ii. Airports of Thailand (AOT TB, BUY, TP: THB82);

iii. Bangkok Dusit Medical Services (BDMS TB, BUY, TP: THB35);

iv. Minor International (MINT TB, BUY, TP: THB41.50);

v. The Erawan Group (ERW TB, BUY, TP: THB5);

vi. WHA Corp (WHA TB, BUY, TP: THB4.60);

vii. Supalai (SPALI TB, BUY, TP: THB26.40; dividend yield: 6.6%);

viii. PTT (PTT TB, BUY, TP: THB46; dividend yield: 5.4%);

ix. PTT Oil & Retail Business (OR TB, BUY, TP: THB29).

2023 SET Index target of 1,764pts

We pare down our end-2023 SET Index target to 1,764pts from 1,819pts as 2022's total earnings missed our estimate by 12.3% – primarily due to 4Q22 numbers. These, in turn, were due to lower-than-estimated earnings from the banking sector (Kasikornbank), as well as: i) Net losses in the petrochemicals, steel, and construction sectors, and ii) specifically, hefty losses in ICT stocks, eg Jasmine International (JAS TB, NR), Jasmine Technology Solution (JTS TB, NR), Samart Corp (SAMART TB, NR), Samart Digital Public (SDC TB, NR), True Corp (TRUEE TB, NR), and Thaicom (THCOM TB, NR).

In 2022, the combined SET earnings showed that revenue had surged by 34% YoY, but earnings fell by 6.6% YoY – implying cost overruns and margins pressure. The corporate net margin narrowed to 5.3% from 7.6% in 2021. As a result, the SET's ROE fell from to 9% from 10.5% in the corresponding periods.

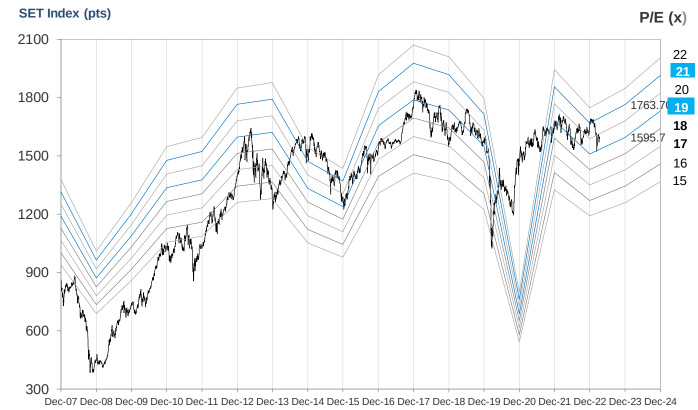
Nevertheless, the SET's financial health has remained strong, with its total debt-to-equity (ex-financial D/E) ratio remaining stable at 1.61x for over three years. Due to 20 new stocks being listed in 2022, the SET's EPS was diluted by 3.3%.

Figure 66: SET earnings and 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	1,030,041	5.8%	84.2	6.0%	981.2	8.6%	1.63	18.96	2.6%
2024E	1,117,908	8.5%	91.4	8.5%	1,027.0	8.9%	1.56	17.47	2.9%

We anticipate a 5.8% growth in SET earnings this year (Figure 66), due primarily to the full year of the country's reopening and improved microeconomic environment – albeit with more macroeconomic challenges. Our year-end SET Index target of 1,764pts is derived from a baseline of 21x subjective P/E (10-year mean P/E of 20.89x) as at the previous year-end SET Index's close. According to our P/E band analysis (Figure 67), the SET will trade within 19-21x P/Es or between 1,596pts and 1,764pts.

Figure 67: SET's P/E band in the range of 19-21x



Source: RHB

Figure 68: SET valuation matrix (P/E 5 & 7 year mean = 21.8x)

P/E (x)	EPS (THB)			P/BV (x)	BV (THB)		
	2022	2023E	2024E		2022	2023E	2024E
	79.45	83.99	91.15		937.6	978.5	1,024.1
growth	-10%	5.7%	8.5%	growth	9.3%	2.9%	4.4%
19.00	1,510	1,596	1,732	1.70	1,594	1,663	1,741
19.50	1,549	1,638	1,777	1.78	1,669	1,742	1,823
20.00	1,589	1,680	1,823	1.80	1,688	1,761	1,843
20.50	1,629	1,722	1,869	1.85	1,735	1,810	1,895
21.00	1,669	1,764	1,914	1.90	1,782	1,859	1,946
20.89	1,660	1,755	1,904	1.80	1,688	1,761	1,843
21.80	1,732	1,831	1,987	1.90	1,782	1,859	1,946
26.60	2,113	2,234	2,424	1.90	1,782	1,859	1,946
SET Target	1,669	1,764	1,914	Historical mean		P/E	P/BV
Market return	0.7%	5.7%	14.7%	3-year		26.60	1.80
Dividend Yield	1.9%	2.6%	2.9%	5-year		21.80	1.90
Total return	2.6%	8.3%	17.6%	7-year		21.80	1.90
ROE	8.4%	8.4%	8.7%	10-year		20.89	1.90

Source: RHB

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