21 April 2022

Market Strategy

ASEAN Safe-Haven Status…For Now

- **2Q22 ASEAN strategy:** The pace of economic normalisation in ASEAN is on track. Regional equities are enjoying safe-haven demand on the back of the Ukraine crisis. Further out, geopolitics, global inflation, tightening liquidity and supply chain challenges will offer a stern test to the sustainability of global growth. Indonesia is our top country pick in the region.
- **Indonesia.** We see further potential upside for the JCI, after it recorded a robust performance (+9.9% YTD), as the multiplier effect of high commodity prices should boost consumer spending in 2Q22F. We recommend a rotation on cyclical sectors, with banks > retail > automobile > real estate as our pecking order. We also like metal mining due to the expected robust demand for nickel. Bank loans growth accelerated in February – despite it being the peak of the third wave of COVID-19 infections – from increased economic activities and high commodity prices. Key risks: Inflation may accelerate, but should be manageable, in our view.
- **Malaysia.** The recovery continues apace, culminating in the relaxation of border restrictions on 1 Apr. We remain in the nascent stage of a new growth cycle, but geopolitical risks are clouding the outlook, adding to global inflationary pressures. A more aggressive-than-expected US Fed and the escalation of the Ukraine conflict are key risks, on top of fragile domestic public finances, policy and regulatory worries, and an evolving political backdrop. The investment strategy will centre on trading angles, a core defensive posture with opportunities in the small-mid cap space.
- **Singapore.** For 2Q22, Singapore's equity market outlook will continue to depend on how well stocks and sectors deal with: i) Uncertainty over the inflation outlook; ii) supply chain disruptions because of the Russia-Ukraine war and China's zero COVID-19 strategy; and iii) general caution ahead of the size of the rate hike at the May Federal Open Market Committee (FOMC) meeting. On the positive front, Singapore is now open for business and tourism, and its government has assured that it plans to keep the economy open even if there is a spike in COVID-19 cases. We recommend a barbell portfolio, with a mix of growth and defensive stocks.
- **Thailand.** Thailand's economy will fully resume normalcy from 1 Jul onwards, as its government aims to classify the COVID-19 status as endemic then. Meanwhile, extensive economic sanctions on Russia may create headwinds for certain sectors, and this may lead to spill-over effects on other industries, eg production costs overshooting projections – although this may take some time to assess. Based on our 4.5% YoY earnings growth projection for the SET this year, with a scenario analysis applied over it, our end-year SET target would be: i) 1,731pts, if current conflicts do not escalate over the next 3-6 months; or ii) 1,888pts, if these issues are resolved in 4Q22. For the full year, we continue to recommend investors to accumulate, and favour domestic plays, defensive stocks, and those offering sturdier dividend yields.

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Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-22F	P/B (x) Dec-22F	ROAE (%) Dec-22F	Yield (%) Dec-22F
ACE Hardware	Buy	IDR1,480	29.3	29.6	3.4	14.0	0.8
Airports of Thailand	Buy	THB77.00	13.2	2,873.9	7.9	0.3	0.3
Aneka Tambang	Buy	IDR3,450	24.1	26.0	2.9	13.3	0.6
Bangkok Dusit Medical Services	Buy	THB29.50	14.6	44.6	5.1	11.8	1.3
Ciputra Development	Buy	IDR1,500	55.4	11.2	1.0	9.2	1.0
ComfortDelGro	Buy	SGD1.77	17.2	16.5	1.2	7.2	3.0
Guan Chong	Buy	MYR4.00	48.1	11.0	1.8	17.2	2.1
Hong Leong Bank	Buy	MYR23.50	13.4	12.8	1.3	10.6	2.8
Press Metal	Buy	MYR8.25	25.0	23.2	10.3	50.5	1.9
Kasikornbank	Buy	THB175.00	10.8	8.9	0.7	8.6	2.6
Singtel	Buy	SGD3.37	29.1	17.2	1.5	8.8	3.8
United Overseas Bank	Buy	SGD38.10	23.9	11.6	1.1	10.1	4.3

Source: Company data, RHB

Indonesia: Riding The Wave Of Volatility

JCI still has room for growth

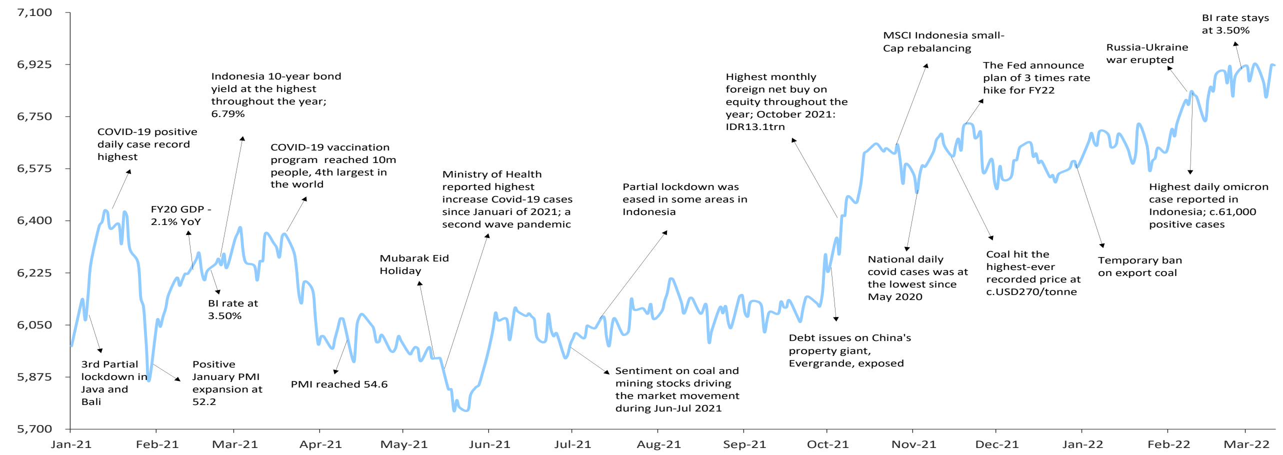
We maintain our JCI year-end 2022 target at 7,700pts. We expect even further potential upside on the JCI, after it showed an impressive performance (+9.9% YTD), despite the global geopolitical crisis, which created supply disruptions and a spike in commodity prices. The JCI is trading at -0.5SD from its 5-year mean P/E, which implies there is upside potential for an earnings recovery ahead. We expect FY22-23 earnings to grow 11% and 10% YoY – the index is quite attractive when compared to its growth rate (JCI's PEG ratio is at 1.3x, compared to the region's c.1.8x). We believe much of the bad news – related to the Ukraine conflict, stagflation and, to an extent, a very hawkish US Fed – has been priced in by global markets. The Google Mobility Index indicates that people's movement has gradually normalised, which is now relatively similar to pre-pandemic levels.

We retain our tactical strategy on the JCI in the face of volatility, with a rotation on cyclical sectors, with banks>retail>automobile>real estate as our pecking order. Additionally, we like metal mining due to the anticipated robust long-term demand for nickel (key beneficiaries: Aneka Tambang (ANTM), Vale Indonesia (INCO)). Strong commodity prices should have a multiplier effect on national consumer spending in 2Q22 – as such, we continue to favour cyclical and undervalued stocks (key beneficiaries: Bank Mandiri (BMRI), Bank Negara Indonesia (BBNI), Bank Jabar (BJBR), Astra International (ASII), Erajaya Swasembada(ERAA), Ace Hardware Indonesia (ACES), Ciputra Development (CTRA), Pakuwon Jati (PWON), and Blue Bird (BIRD). Increasing economic activity and a positive multiplier effect from high commodity prices boosted bank loans growth, according to a Bank Indonesia (BI) report in March. We expect the trend in people's mobility to normalise in the coming months, now that the epidemic risk has begun to fade. Despite a drop in mobility early this year, public activity remained high, approaching pre-pandemic levels. The key risk to our call is accelerated inflation caused by higher food prices, such as cooking oil.

However, the Government is making significant effort to manage the prices of basic necessities by managing the supply of subsidised bulk cooking oil starting April, which may reach 388,000 kilolitres per month, exceeding national consumption levels. The Government is also providing cash aid for 20.5m households and 2.5m street sellers to ease the burden of high cooking oil prices. Eligible recipients will get a total of IDR300,000, and this will be paid upfront in April to cover three months. We also see that, thanks to Pertamina's profitable cash position, there is still room for the Government to maintain prices of subsidised fuel – especially that of solar (diesel fuel).

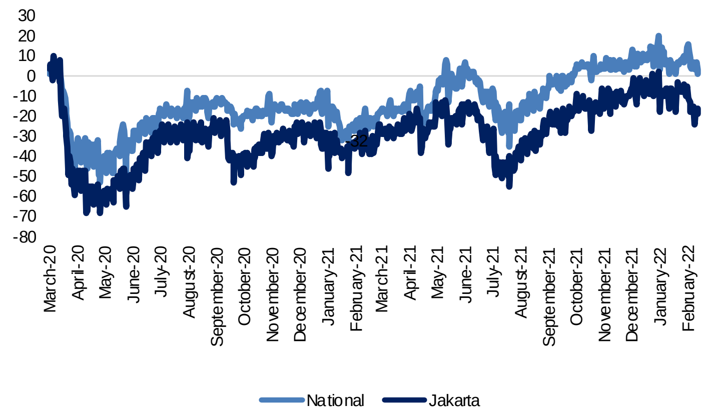
Meanwhile, the impact of price hikes of unsubsidised fuel like Pertamax (RON92) should be limited since it represents c.12% of non-diesel fuel consumption. Notably, a rise in oil and gas, coal, nickel, and CPO prices helped the commodities sector outperform the market in the first quarter of this year. A gas crisis in Europe pushed coal prices to above USD400.00 per tonne in early March. Although the Newcastle coal price declined to USD253.40 per tonne at end-March (with YTD average USD265.37 per tonne), it was still much higher than coal's 2021 ASP (USD136.68 per tonne), as well as our FY22 estimate of USD200.00 per tonne (at average). Also, the price of nickel reached a record high (over USD45,000 per tonne) in early March, and while it has fallen to USD31,767 per tonne at end March (with the YTD average at USD26,071 per tonne), it remains higher than last year's ASP level, which was USD18,466.63 per tonne. In the short term, we see CPO prices remaining high.

Figure 1: The JCI's movement (Jan 2021-Mar 2022)



Source: Bloomberg, RHB

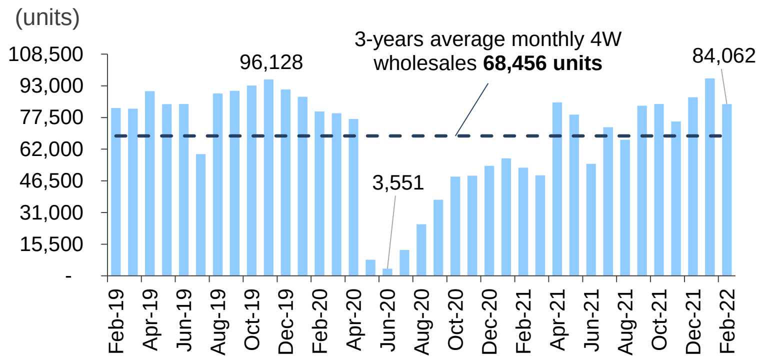
Figure 2: Google Mobility Index indicates better people movement



Source: Google

- The rebound in traffic began improving since 2H21 until the Omicron wave hit Indonesia early this year, partially dragging down the trend once again (displayed by the movement over Jan-Feb 2022)
- However, we expect the trend in mobility to normalise going forward since the epidemic risk has started easing in March. Despite the mobility declining early this year, public activity remained high, close to pre-pandemic levels

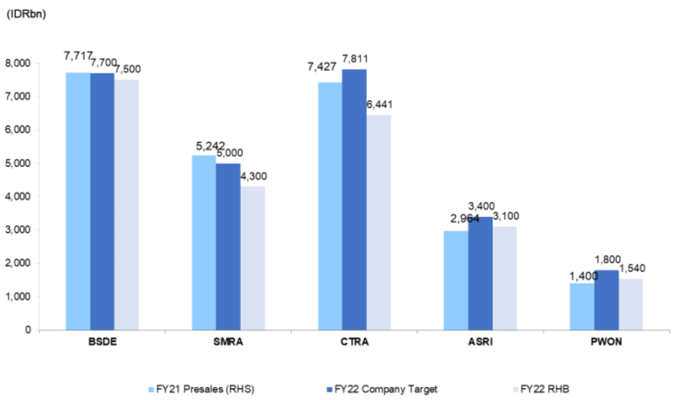
Figure 3: National 4W monthly wholesales



Source: GAIKINDO, RHB

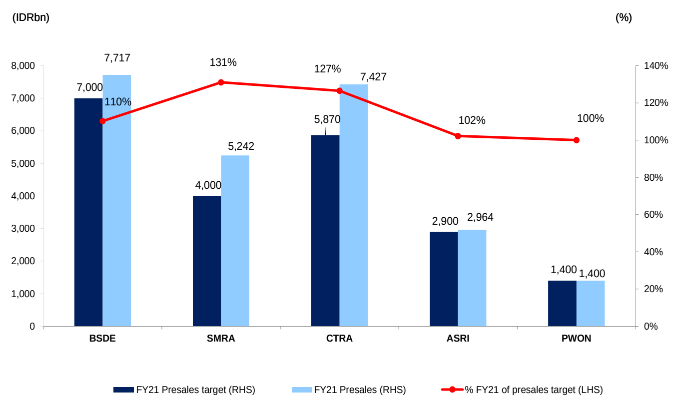
- 4-wheeler (4W) vehicle wholesales have started to move in line with a recovery in manufacturing activities post the easing of lockdown measures

Figure 4: Property – FY22 presales targets remain high



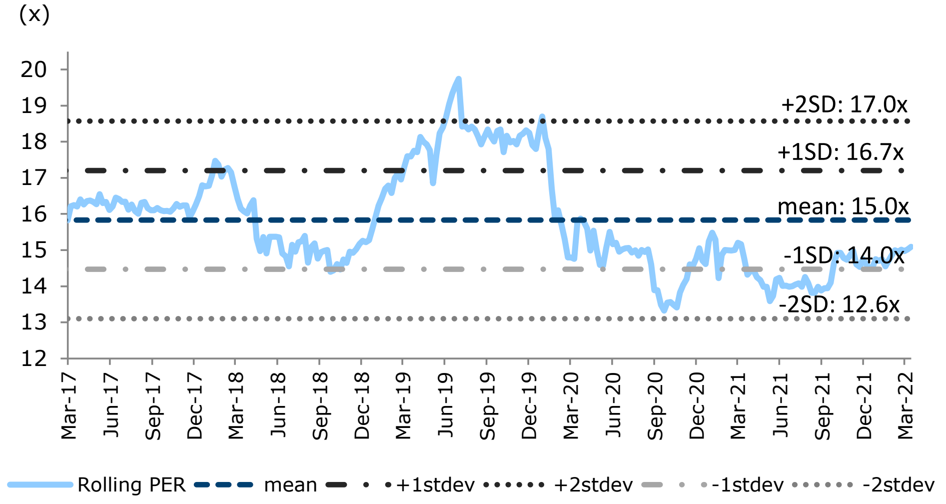
Source: Company data, RHB

Figure 5: Property – actual FY21 presales vs FY21 targets



Source: Company data, RHB

Figure 6: The JCI's 12-month forward-rolling P/E band



Source: Company data, RHB

- The JCI is trading at -0.5SD from its 5-year mean P/E, which implies upside potential for an earnings recovery ahead
- We expect the JCI's FY22-23 earnings to grow 11% and 10% YoY – the index is quite attractive when compared to its growth rate (JCI's PEG ratio is 1.3x, compared to regional at c.1.8x)

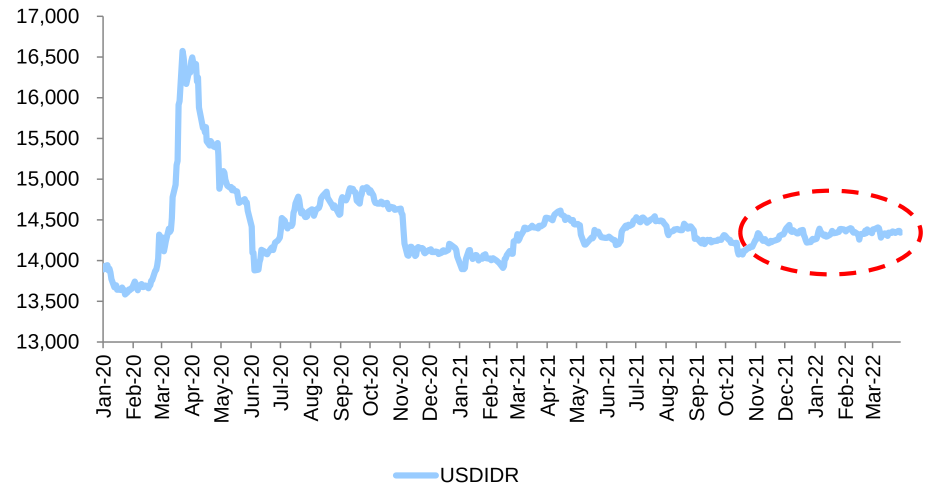
Figure 7: Sector summary earnings growth (2022F-2023F)

Sector	Rating			2022F				2023F			
				Net profit growth (YoY %)		P/E (x)		Net profit growth (YoY %)		P/E (x)	
	UW	N	OW	RHB	Cons.	RHB	Cons.	RHB	Cons.	RHB	Cons.
Banks			√	26.5	25.7	16.6	19.5	13.6	10.3	14.6	18.2
Automotive			√	7.8	8.3	11.8	11.8	5.0	3.6	11.3	11.4
Retail			√	12.1	15.3	24.8	26.5	39.8	50.6	23.9	18.3
Mining & Energy			√	10.6	14.2	30.3	30.7	-8.3	-12.4	23.1	24.1
Industrial Estate			√	17.8	29.1	17.1	15.1	15.6	18.6	16.0	10.3
Property			√	12.5	21.8	13.9	15.8	12.9	16.6	12.1	13.2
Transport & Logistics			√	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Media			√	7.6	11.4	11.2	10.2	7.0	11.9	10.4	9.0
Telco		√		-7.2	-10.8	19.6	23.9	14.5	13.3	16.7	16.9
Consumer staples		√		14.7	8.0	15.0	16.2	11.6	10.1	13.4	14.7
Poultry		√		8.8	17.3	17.7	17.6	11.8	13.6	16.3	15.5
Plantation		√		8.5	18.1	10.7	9.9	7.5	-5.9	10.0	10.5
Cement		√		-4.3	-7.3	21.6	22.7	13.6	13.3	18.5	20.0
Infra & Construction		√		159.9	162.5	10.5	10.6	22.8	65.8	-51.8	8.2
Healthcare		√		-5.3	-1.0	26.4	24.5	15.7	11.5	22.8	22.1
Tobacco	√			9.2	9.1	10.6	12.0	17.6	5.3	9.5	11.3
Total				**10.8**	**8.5**	**15.0**	**15.5**	**9.7**	**8.7**	**14.0**	**14.2**

Source: Company data, RHB

The rally in commodity prices was the main reason behind Indonesia's trade balance surplus increasing to USD3.8bn in February (up from USD930m in January). Foreign reserves were also maintained at a healthy level of USD141.4bn in February, allowing the IDR to remain stable at c.IDR14,343/USD (-0.62% YTD) at end-March. In the same period, Indonesia 10-year CDS declined to 139.59bps at end-March, from its YTD peak of 202.530bps on 7 Mar. Indonesia's 10-year government bond yield also softened to 6.747% at end-March, after it reached its YTD high of 6.82% on 8 Mar.

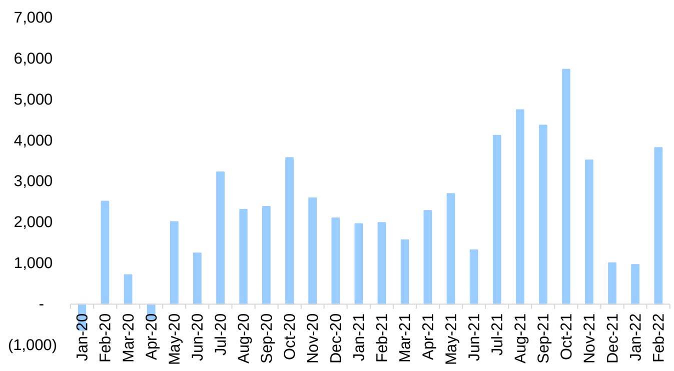
Figure 8: IDR/USD is stable despite the US Fed rate hike



- IDR/USD is stable – in the range of IDR14,300-14,450 – despite the US Fed rate hike
- Stable IDR is supported by robust foreign reserves and a strong trade balance surplus
- Indonesia's CDS and 10-year government bond yield also softened after reaching their YTD peaks in early March

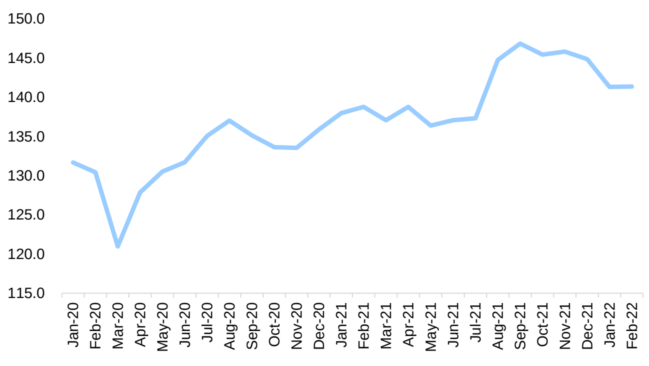
Source: Company data, RHB

Figure 9: In addition to strong manufactured products, export commodities prices – which has been rallying since 3Q21 – supported Indonesia's trade balance (USDm)



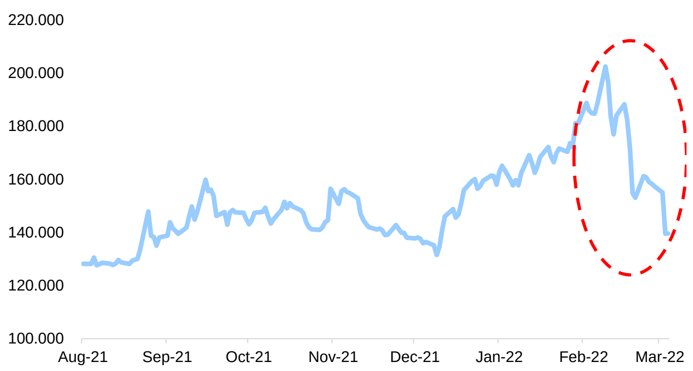
Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

Figure 10: Indonesia's foreign reserves have recovered from the Mar 2020 low (USDm)



Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

Figure 11: The decline in Indonesia's CDS indicates market optimism on IDR stability



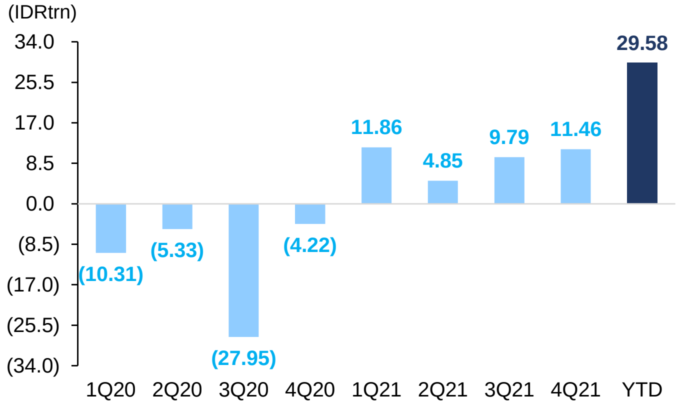
Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

Figure 12: Gradual increase in Indonesia's 10-year government bond yield is in line with US Treasury yields

Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

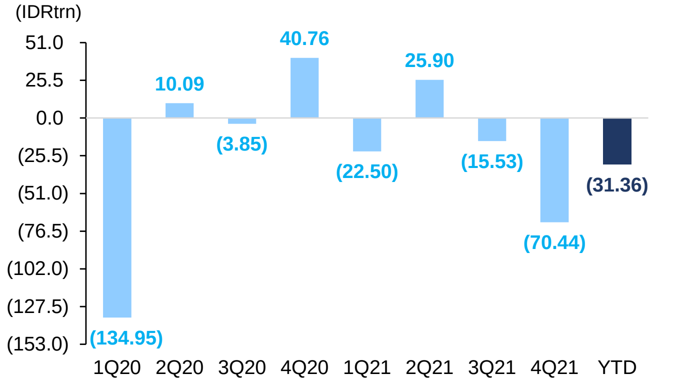
We believe China's event risks, such as slower economic growth (c.5.5% YoY vs 8.1% YoY in FY21), will remain prominent in 2022, as will markets that are closely linked to capital markets of the world's largest economies. Capital flows will then seek alternative investment destinations with size and liquidity comparable to China, such as South-East Asia. This, in our opinion, will benefit Indonesia's economy in general. The JCI has recorded the highest quarterly capital inflows seen in the last two years totaling IDR29.58trn (as per YTD), more than triple the average net foreign fund flows in the last four quarters.

Figure 13: Quarterly foreign flows on equities (2020-YTD)



Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

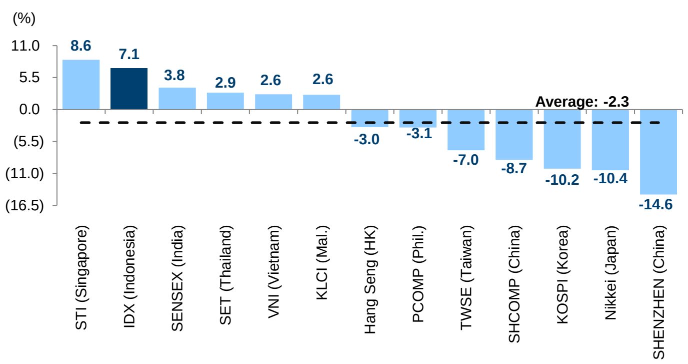
Figure 14: Quarterly foreign flow on bonds (2020-YTD)



Note: Data as at 25 Mar 2022
Source: Bloomberg, RHB

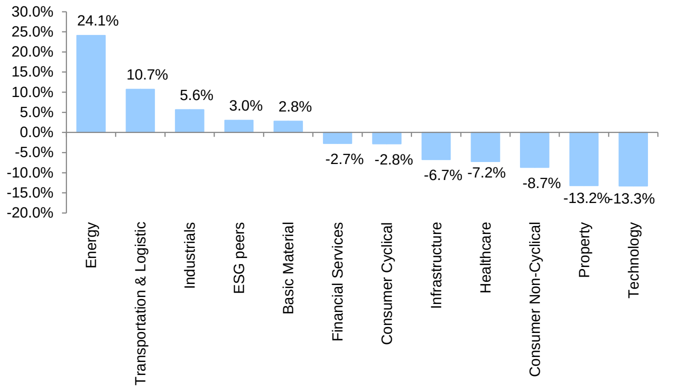
YTD, the JCI, which is up c.7% (in USD terms), has outperformed regional peers. The strong performance is due to rising commodity prices, and the country's resilience in the face of the COVID-19 pandemic. Besides energy, transportation and logistics, as well as industrials, the JCI's outperformance was also due to its ESG stock metrics (SRI KEHATI).

Figure 15: Comparison of YTD market performance in the region (USD)



Source: Bloomberg, RHB

Figure 16: YTD sector performance vs the JCI



Source: Bloomberg, RHB

Sector rotation to cyclicals

Cyclical sectors are expected to outperform in 2Q22, given the high commodity prices, which have a multiplier impact on economic growth, in addition to normalised economic activities. Banks>retail>automobile>real estate is our pecking order, and form our Top Picks for 2Q22. We also like metal mining because of the expected strong long-term demand for nickel. According to BI's March report, although the Omicron variant caused a significant increase in new COVID-19 cases, bank's loan growth accelerated in February as a result of increased economic activity and a positive multiplier effect from high commodity prices.

Figure 17: Sector highlights and outlook

Sector	Rating	Highlight/outlook	Top Picks
Banks	OVERWEIGHT	Top Picks: Bank Mandiri (BMRI), Bank Negara Indonesia (BBNI), and Bank BJB (BJBR). The Omicron variant would result in a soft patch in 1Q22 but the domestic reopening should see banks achieving their high single-digit loan growth targets. BI has indicated its intention to keep the policy rate at a record low of 3.50% before reviewing the need for monetary policy tightening in 3Q22. Our economist expects rates to rise by 50bps by end-2022. We believe the rate hikes will not dampen demand as lending rates would still be lower than pre-COVID. NIMs are expected to be stable to slightly higher as the cost of funds remains well managed. Credit costs should decline as asset quality stabilises and provision buffers have been significantly raised. ROEs are projected to recover to near pre-pandemic levels, making valuations compelling.	BMRI, BBNI, BJBR
Auto	OVERWEIGHT	Top Pick: Astra International (ASII). Cyclical correction of national 4W wholesales was seen in February (at 81,228 units; -3.4% MoM, +65.1% YoY), mostly caused by the fewer number of working days. The achievement remains above our c.79,000-unit target – 2M22 cumulative sales were recorded at 165,290 units (+61.9% YoY). Our positive view for better 4W wholesale numbers for this year remains in place, lifted by ongoing sentiment from commodity sectors supporting the national economy outlook, and the continuation of the luxury tax incentive. We believe that expected 50bps BI rate hike should have a limited impact on national vehicles sales.	ASII
Retail	OVERWEIGHT	Although there could be a series of COVID-19 waves ahead, much better health protocols and more vigilant government measures make for our baseline assumption of better retail traffic. Piling-up savings on mid-high-income customers and the tailwind impact of all-time-high commodity prices should support purchasing power for the premium retailers. Moreover, three paydays, five weekends, and one long weekend during the fasting period should support purchasing power and shopping appetite. Limited options for travelling activities could also increase impulse-buying behaviour. However, risks of rising fuel prices and higher inflation rates ahead could have a greater impact on mid-low retailers.	ERAA, ACES
Property	OVERWEIGHT	We think that the sector in FY22 will be supported by several catalysts. These include: Recent commodity upcycle that may boost presales; a still-low interest rate environment from its peak of 6% in 2018 and extension of the value-added tax (VAT) subsidy, which will also encourage presales, and the product mix leaning towards affordable housing. The improvement of property presales in FY21 may also translate to accounting sales for FY22.	CTRA, SMRA
Industrial Estates	OVERWEIGHT	We expect a gradual recovery for industrial estates to begin in 2022, as many of the industrial players still have enquiries to be booked and revenue to be recognised this year. Another potential industrial demand is from smelters, metals-related industries, and data centres. The growth of the data centre sector will also boost the industrial estates industry, in our view, as the Government requires such centres to have an established presence domestically. The infrastructure development that supports supply chain connectivity and the introduction of the Omnibus Law are expected to help support foreign investments going forward.	DMAS
Metal mining	OVERWEIGHT	We remain positive on the outlook for base metal prices going forward, which will lift share price sentiment as well. Persistent low inventory levels due to halted production during the pandemic (exacerbated by rising geopolitical tense) and weather challenges are mostly keeping metal prices afloat, especially that of nickel and copper.	ANTM, INCO, MDKA
Oil and Gas	OVERWEIGHT	We expect this sector to register a better performance in 2022. Our house estimates the Brent crude oil price at USD104.00-USD85.00 per bbl for 2022-2023, to reflect the heightened geopolitical tensions between Russia and Ukraine, and the continuous shortfall in meeting OPEC's production quota. Domestically, several factors also support better average prices. Better demand should stem from: i) The increase in economic activity following loosening restrictions; ii) the previously low oil and gas capex that may delay the availability of domestic oil and gas supply will lift prices upwards; iii) increased demand for natural gas that is viewed as a transition towards renewable energy and energy source for smelters.	AKRA
Telecommunications	NEUTRAL	The additional spectrum auction is being delayed with no clarity of the new timeline. The uncertainty of this may cause an overhang, especially the blue-sky scenario of the industry consolidation that will ease competition, has not happened yet. Indosat-Hutch is providing promotional discounts post-merger. Cellular ARPU seems to be struggling to increase, while going into the new normal may result in a lower subscriber base YoY. Operators have been focusing on other growth streams outside of the intensely competitive cellular segment. Fixed broadband, data centre, and IT managed services are much less penetrated with high growth potentials. Our Top Pick for the sector is Telekomunikasi Indonesia (TLKM).	TLKM
Cement	NEUTRAL	We think 2022 national cement sales volume will grow 4-5%, supported by the property, industrial estates, and data centre sectors (indicated by blended marketing sales reaching a 4-year high). Indocement (INTP) and Semen Indonesia raised ASPs in Nov 2021 (in response to coal prices soaring) at market share expense. This gradually recovered, indicating that smaller players also followed suit. The Government also included this sector to the coal domestic market obligation list, which may alleviate the coal price impact in 2022.	INTP
Consumer staples	NEUTRAL	Maintain NEUTRAL as commodity prices may have reached the peak, albeit, remaining elevated. Many FMCGs have started to raise ASPs, which should be reflected in 1Q22F performance. As inflation is kept at manageable levels, higher purchasing power in 2Q22F with more relaxed *Lebaran* festivities should see higher *Lebaran* impact and strong demand growth this year. Mayora Indah (MYOR) and Nippon Indosari (ROTI) are Top Picks, on above-sector YoY growth potentials.	MYOR, ROTI

Poultry	NEUTRAL	Leading to the *Lebaran* festivities this month, the sector should enjoy higher demand for poultry, as seen historically. As wheat and soybean prices have come off their peaks, there should be less margin pressure for feed millers in 2Q22F (vs 1Q22F). The Government has alleviated the feed price cap, allowing for higher ASPs. Given the weak share price performance, the expected weak feed margin performance in 1Q22F should have been priced in. Our Top Pick is Japfa Comfeed Indonesia (JPFA), on a much discounted multiple vs Charoen Pokphand Indonesia (CPIN) with similar cost and revenue structures.	JPFA
Coal	NEUTRAL	New turbulence in the commodities sector on heated geopolitical tensions have been scorching prices over the past month (Bloomberg Commodity Index: c.123pts; +24% YTD) as concerns rise on global commodities supply. These fears may linger more than initially anticipated. Coal may settle at a higher price this year (FY22 Newcastle average of USD200.00/tonne is our base case scenario vs FY21's c.USD136.00/tonne), but downside probabilities remain. These are: i) Seasonality normalising demand (usually occurring during 2Q-3Q); ii) a sudden recovery in supply (drier weather easing production from Indonesia and Australia); iii) easing tensions in ongoing conflicts (eg a permanent truce between two factions); iv) faster adoption of renewable energy fuel sources acting as long-term downsides from ESG factors; v) pressure from domestic policy to increase the royalty tax and higher obligation to fulfil coal domestic supplies (risk for lower selling price).	UNTR
Construction	NEUTRAL	A lower infrastructure budget, especially for the Public Works and Transportation Ministries, which totals IDR133.5trn (-22% YoY), is likely to limit the upside of the construction sector. This gap can be filled by the new capital city programme, but the budget allocated is a mere IDR510bn from a total required fund of IDR466trn. An upside risk still remains – if the second tax amnesty is successful, and the Government manages to collect BI Liquidity Support or BLBI funds. We see Waskita Karya's (WSKT) share price continuing to lag over 2021 performance concerns. However, after a rights issuance, its performance is likely to improve and share price should follow its peers.	WSKT
Plantation	NEUTRAL	Top Picks: Pure Malaysian planters Sarawak Oil Palms (SOP) and Ta Ann, and Indonesian planters with downstream exposure, ie Wilmar and Kuala Lumpur Kepong (KLK). Indonesia's move to revoke the Domestic Market Obligation (DMO) one week after raising the quantum, and raise the export levy has been confusing to the market. While CPO prices may rise as a result, the net impact for pure planters with Indonesian exposure would be slightly negative.	LSIP
Healthcare	NEUTRAL	We believe long-term sector fundamentals remain solid. However, we see limited growth catalysts for hospital operators and pharmaceutical companies in 2Q22 – given the improving COVID-19 situation, little clarity on Social Security or BPJS standardisation, and seasonal patterns. Hospital margins may still be crimped due to the anticipated drop in COVID-19 cases from a high base level in 2Q21. Higher heath awareness and seasonal factors may bolster revenue for pharmaceutical players, but their earnings growth could be capped due to their limited ability to pass on cost increases.	HEAL
Tobacco	UNDERWEIGHT	An estimated 2022 excise tax hike remains an overhang. The Government seems supportive of small tobacco manufacturers whilst aiming to lower cigarette consumption. This trend should continue to pressure listed tier-1 large tobacco manufacturers. Our baseline assumption is for the machine-rolled tier-1 excise to increase 12% YoY in 2022, while being flat for hand-rolled (SKT) cigarettes. This should support HMSP's share price, as it has the highest SKT sales contribution. The company has been re-focusing on SKT cigarettes over the past year to support overall profitability.	HMSP

Source: Company data, RHB

Cyclicals and undervalued companies likely to outperform

The multiplier effect of high commodity prices is expected to boost national consumer spending in 2Q22, so cyclical and undervalued companies should outperform. We also like metal mining thanks to the expected robust demand for nickel. On our Top 10 picks, we include Bank Mandiri, Bank Negara Indonesia, Bank BJB, Blue Bird to replace Bank Rakyat Indonesia, Bank Raya Indonesia, Bank Tabungan Negara, and Telkom Indonesia.

Figure 18: Our Top 10 picks

	Name	Ticker	Rating	Price (IDR)	TP (IDR)	Upside/ Downside (%)	Market cap (USDbn)	2022F EPS growth (%)	2022F P/E (x)	2022F P/BV (x)	2022F PEG (x)	2022F ROE (%)	2022F Yield (%)
1	Bank Mandiri	BMRI IJ	BUY	7,675	9,130	19.0	25.4	18.7	10.2	1.7	0.5	16.4	4.7
2	Astra International	ASII IJ	BUY	6,875	7,650	11.3	19.2	7.9	13.3	1.6	1.7	12.8	3.2
3	Bank Negara Indonesia	BBNI IJ	BUY	8,400	9,000	7.1	10.9	38.4	9.9	1.1	0.3	12.2	1.7
4	Aneka Tambang	ANTM IJ	BUY	2,780	3,450	24.1	4.4	51.2	26.8	3.0	0.5	13.3	0.6
5	Ciputra Development	CTRA IJ	BUY	965	1,500	55.4	1.4	10.7	11.3	1.0	1.1	9.2	1.0
6	Ace Hardware	ACES IJ	BUY	1,145	1,480	29.3	1.3	16.7	29.6	3.5	1.8	14.0	0.8
7	Bank BJB	BJBR IJ	BUY	1,435	1,900	32.4	1.1	9.9	6.2	1.0	0.6	16.3	8.2
8	Summarecon Agung	SMRA IJ	BUY	685	1,100	60.6	0.8	60.9	20.0	1.1	0.3	5.6	0.7
9	Erajaya Swasembada	ERAA IJ	BUY	540	1,100	103.7	0.7	1.5	6.5	1.1	4.2	20.9	3.1
10	Blue Bird	BIRD IJ	BUY	1,270	1,900	49.6	0.2	1304.6	17.4	0.6	0.0	4.4	0.0

Note: Based on closing prices of 14 Apr 2022
Source: Company data, RHB

Bank Mandiri (BMRI IJ, BUY, TP: IDR9,130): Bank Mandiri's relatively balanced loans portfolio will benefit from the country's cyclical economic recovery. The bank is targeting loan growth of above 8% (FY21: +8.9%) with continued focus on high-yield segments (SME, commercial, micro & consumer). This, coupled with the robust CASA growth over 2019-2021, we believe, would enable the bank to sustain NIM at above 5.0% in FY22F. Earnings are projected to grow 24%, lifting FY22F ROE above pre-COVID-19 levels. Our TP is based on a GGM-derived P/BV of 1.9x (historical mean: 1.8x).

Bank Negara Indonesia (BBNI IJ, BUY, TP: IDR9,000): BBNI's turnaround plan has led to a shift in focus to high-quality corporates for through-the-cycle growth and fee income, and an improved funding profile (CASA ratio: 69%; NIM +20bps in FY21). Projected FY22F earnings growth of 48% – strongest among large banks – would be underpinned by loan growth of 7-10%, stable NIM, and lower credit cost (2-2.3% vs 3.3% in FY21). The decision to shelve plans for the IDR8-11trn rights issue would lift the overhang on its share price, while the proposed acquisition of Bank Mayora could be an added catalyst for re-rating. ROE of 12%. Our IDR9,000 TP is based on an intrinsic value of IDR8,658 (GGM derived: 1.1x P/BV) and a 4% ESG premium.

Astra International (ASII IJ, BUY, TP: IDR7,650): Astra International is introducing a new sustainability framework, by focusing on green areas such as 4W and 2-wheeler (2W) full battery electric vehicles (BEVs), infrastructure, digital businesses, property and modern warehouses, as well as renewable energy. The group plans to introduce its first 4W BEV in the near term, and launch 2W and 4W BEVs to the mass market in 2024. It also expects robust consumer spending – driven by high commodity prices, especially of CPO and coal – to underpin vehicles sales this year.

Aneka Tambang (ANTM IJ, BUY, TP: IDR3,450): We have made further adjustments to Aneka Tambang's FY22-23F earnings by +8%, given the continued uptrend in commodity prices, which we believe will support an even-better ASP (considering a high-base scenario in FY21), and remain the upside catalyst for the year – it helped the company's bottomline to surge by 62% to IDR1.9trn last year, combined with stable operations for healthy sales volume. We should see a repeat performance this year.

Bank BJB (BJBR IJ, BUY, TP: IDR1,900): 4Q21 earnings came in above expectations on higher NII and lower provision expenses. Bank BJB targets loans to increase 9-11% YoY in 2022, (FY21: 7.1% YoY). Its rights issue – scheduled for completion in March – has a IDR1,355 exercise price, ie almost similar with the current share price. We believe any negative sentiment from this exercise to its share price will be minimal. BJBR is also planning an IPO for its Bank BJB Syariah subsidiary, which will be developed into its digital banking arm.

ACE Hardware Indonesia (ACES IJ, BUY, TP: IDR1,480): Despite the surge in COVID-19 cases limiting ACES' performance in 2M22, we deem the worst is over. We like this stock, owing to its sturdy earnings recovery from the increase in mobility, higher shopping appetite for home improvement products during *Lebaran*, and solid 2021 property marketing sales. Margins should also be solid in light of its resilient premium client focus, more prudent purchasing decisions, distinctive product offers, long inventory days and enhanced operational efficiency from the absence of a massive lockdown in 2022. The stock is also trading at an attractive -2SD from its 5-year P/E.

Blue Bird (BIRD IJ, BUY, TP: IDR1,900): We maintain our BUY call as the company should continue to enjoy the recovery momentum from the economic reopening and easing of mobility restrictions post-pandemic. We expect 48% revenue growth in FY22, from the higher ARPV and 50% YoY growth for its inter-province travel services, driven by additional routes and higher utilisation rates. BIRD's strong 4Q21 results, leading to profitability by the end of FY21 (IDR8bn earnings vs IDR161bn loss in FY20), have also partly proven that its recovery is on track. Initiatives on the logistics segment would also uncover more revenue generation opportunities for the company.

Ciputra Development (CTRA IJ, BUY, TP: IDR1,500): CTRA has a large diversified landbank spread across Sulawesi, Borneo and Sumatra, and greater exposure to commodity sources. It has also a stronger balance sheet with a relatively low debt to equity ratio of 0.4x in 9M21, which enables the company to grow inorganically. We expect 2022 presales continue to be supported by landed residential products, with a ticket size of the below IDR2bn and IDR 2-5bn products. Mortgage type payment made up 58% of the payment method – the highest since 2017.

Erajaya Swasembada (ERAA IJ, BUY, TP: IDR1,100): Strong cash distribution to the grassroots may boost sales of discretionary products like gadgets. The launch of the new iPhone SE, which is likely to coincide with the *Lebaran* festivities, should partly help to support sales and bolster margins. Higher retail business should bode well in terms of enhancing margins since its retail business has a higher margin profile than the distribution wing. Other retailers segment's contribution is minor at this moment, but we like this strategy over the long term. We believe ERAA will enjoy synergies from this ecosystem. Margins should improve given it's the nature of its business, ie higher margin profile and better rental rate negotiations. This should also lead to a valuation re-rating in the future.

Summarecon Agung (SMRA IJ, BUY, TP: IDR1,100): 4Q21 earnings came in stronger – above our estimates. We expect the company's outperformance to continue in FY22 following the healthy FY21 property presales. SMRA has a positive catalyst: Several of its townships contain affordable housing units for first-home buyers. SMRA has a similar strategy to CTRA – offerings in the c.IDR2-5bn real estate segment, with unit sizes ranging between 80sqm and 200sqm. We expect a relatively manageable 2022 COVID-19 situation, as vaccination rates pick up and booster shots become more available. This will help to support the economic reopening and also benefit SMRA, which has the second largest mall income to revenue.

Malaysia: To Endemicity And Beyond!

On the path to recovery

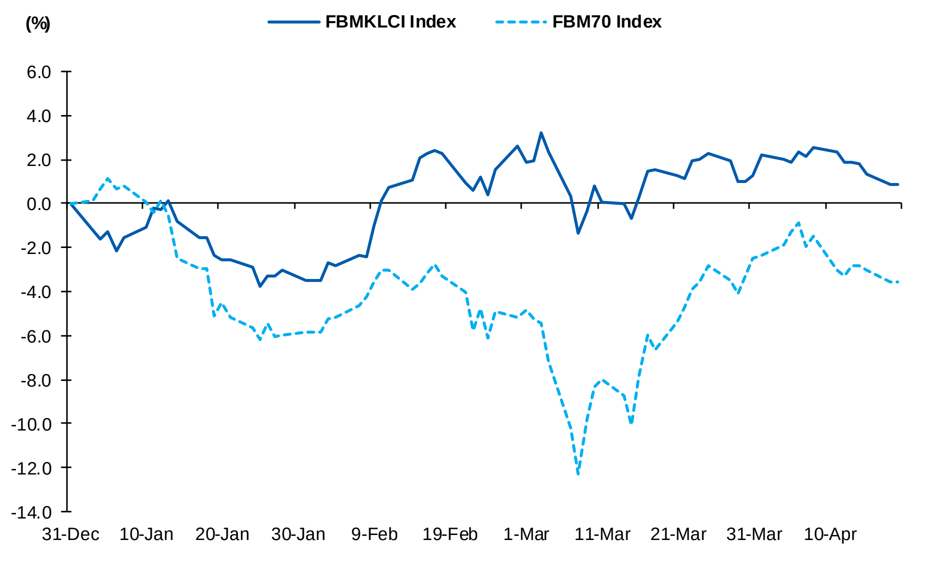
Government policy and the ongoing gradual process of normalisation has given investors greater confidence that we are firmly on the road to endemicity. Despite the spike in positive COVID-19 cases, the percentage of patients requiring hospital intervention remains low and, accordingly, the healthcare system has been able to comfortably manage. This has been possible, due to the high vaccination rate.

The base effect, absence of new lockdown restrictions, high levels of pent-up demand, steady pick-up in global growth and the near-term political status quo will help to support the expected rebound in economic growth in 2022. This will culminate in the full re-opening of international borders from 1 Apr that will help to lift market sentiment, and is a significant milestone in the normalisation process. The ability of the lower-income segment to cope with the transition will also be aided by the fourth Employees Provident Fund (EPF) withdrawal scheme that could benefit up to 6.3m contributors, in addition to the proposed hike in the minimum wage to MYR1,500 (from MYR1,200).

Malaysia a safe haven…for now

The sudden spike in geopolitical risks in Europe has helped to trigger the unexpected return of foreign portfolio funds into the region – net foreign inflows into Malaysia equities are at MYR6.5bn YTD – sheltering in the predominantly domestic-centric listed space, with strong representation by commodity-based names, and limited trade and business ties to Russia and Ukraine. The safe-haven appeal of ASEAN markets for foreign portfolio funds has resulted in the outperformance of large-cap names over the mid-cap ones.

Figure 19: FBM KLCI has outperformed the FBM 70 YTD



Source: Bloomberg, RHB

External and internal risks aplenty

Investors should not be lulled into a false sense of security, and we continue to reiterate the asymmetrically lengthening list of risk factors that could threaten global growth and the recovery scenario.

Ukraine crisis. While a protracted crisis looks likely, the core assumption is for the conflict to remain contained within Ukraine. In any armed conflict, however, there are many ways for the situation to deteriorate beyond our relatively benign scenario. The resulting spike in commodity prices will only exacerbate the inflation picture and drag on the global recovery that was just emerging from the pandemic. The OECD has already estimated that global economic growth will be 1.1ppts lower and inflation nearly 2.5ppts higher. Talk of stagflationary conditions are already emerging – although this is not the RHB house view.

What will China do? China's insistence on continuing a zero-COVID-19 approach is already having repercussions for its economy and the global supply chain. What is more worrying, however, is the risk that China could choose to strategically ally itself with Russia by offering economic and military support. Such a Russia-China axis raises the spectre of economic sanctions being extended to China, which would significantly raise geopolitical risks.

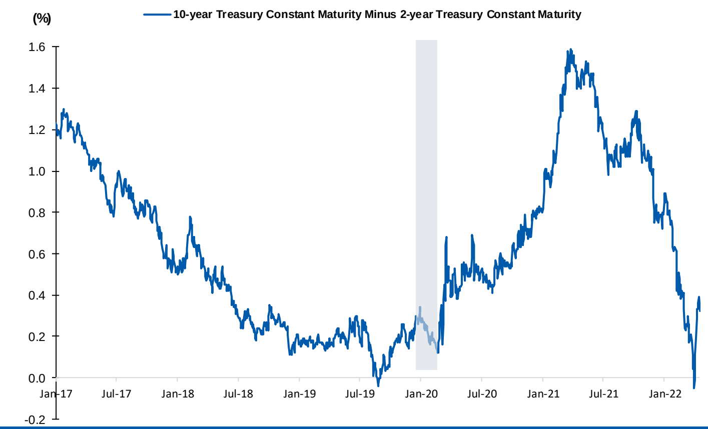
A hawkish US Fed... The recent FOMC meeting revealed a more hawkish US Fed than what RHB economists were expecting. It is clear that the US Fed is looking to prioritise the containment of inflationary pressures, after announcing a maiden 25bps increase in the Fed Funds Rate and signalling a further six 25bps rate increases in 2022, and four in 2023.

…and balance sheet deleveraging. Investors are now closely watching for signals on how the US Fed intends to deleverage its balance sheet. The RHB house view is for detailed guidance on balance sheet adjustment to be announced at the May FOMC meeting, and for the process to begin in 2Q22 vs the earlier assessment by 4Q22. With the US Fed well behind the curve on inflation, a more aggressive pace of quantitative tightening and a disorderly transition into a tighter liquidity environment could have negative implications for Emerging Market equities. While inflation is expected to peak in 1H22, it also very much depends on how the Ukraine crisis evolves, and the risk is for inflation to stay higher for longer – given the persistent labour shortages and supply chain constraints.

Nonetheless, we note that tightening global liquidity conditions will be offset by a more dovish European Central Bank (ECB) whose president has already acknowledged that the ECB and US Fed's monetary policy moves will remain out of sync for the foreseeable future, given their concern over the impact of the Ukraine crisis on Europe and its higher reliance on commodity (energy) imports.

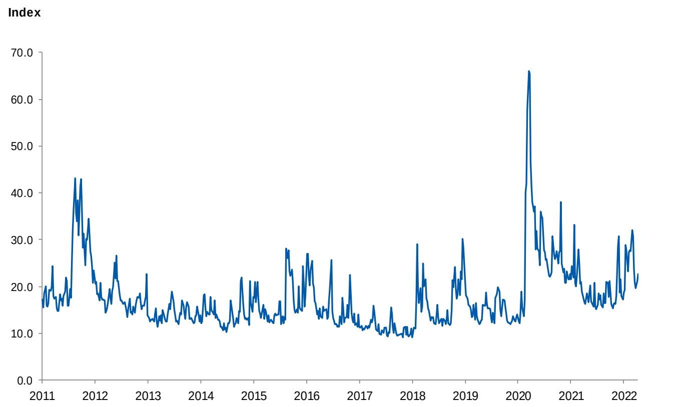
Rising recession risks. Despite US Fed Chairman Jerome Powell's optimistic view for the US Fed to be able to contain inflation without causing a recession, we cannot ignore the risks. Already, we are seeing the yield curve flattening, coupled with commodity price shocks. Historically, an inverted yield curve has been a reliable indicator of a potential recession. While not all rate hike cycles have resulted in recessions, rate hikes that result in an inversion of the yield curve have led to recessions.

Figure 20: US yield curve is flattening



Source: Federal Reserve Bank of St. Louis

Figure 21: Volatility is rising



Source: Bloomberg, RHB

Global supply chain disentanglement challenges. Shortages of materials, components and labour will likely persist, with congestion at key global ports exacerbated by the Ukraine crisis and continued COVID-19 restrictions in China. This will mean that freight rates will stay high, and shipping times extended for the foreseeable future. Food and energy costs have surged, as Russia and Ukraine are major wheat producers (20-30% of global production), in addition to corn, sunflower oil, barley and fertiliser. A global food crisis seems to be on the horizon.

Rising fuel subsidies point to an inefficient allocation of resources. With RON 95 petrol and diesel prices heavily subsidised and Brent crude trading in excess of USD100.00/bbl, Finance Minister Dato' Seri Tengku Zafrul Aziz said recently that the subsidy would reach MYR28bn in 2022 (2021: MYR11bn), given the USD67.00/bbl price assumption in Budget 2022. RHB economists believe that there is still enough cover from robust oil-related revenues via petroleum tax revenues, Petronas dividends and Petroleum royalties.

While the Government will have to depend on higher dividends from Petronas should oil prices remain high, this would be an inefficient allocation of scarce resources on top of ignoring Petronas' own capex and operational needs.

With fuel prices being a political hot potato that also carries severe implications for domestic inflation, it remains to be seen how the Government will adjust the fuel price mechanism to ensure that subsidies are more targeted towards the lower-income segment, in view of the impending general election.

Stress on public finances. With direct debt as at end-2021 standing at MYR979.8bn and equivalent to 63% of GDP, this balloons to MYR1.29trn (83.5% of GDP) after adding debt guarantees. Debt services charges are running at MYR43.1bn for 2022, equivalent to 18.4% of projected revenue. A rising interest rate environment and growing subsidy bill will only make the Government's 6% fiscal deficit target more difficult to achieve.

Regulatory and policy risks. The heightened risks are underpinned by the apparent lack of political will to achieve fiscal consolidation, raising the spectre of higher taxes going forward – given the propensity for continued populist measures in the run-up to GE15. In our opinion, regulatory and policy risks will remain high and will return to the mainstream of investor discourse the closer we get to the tabling of Budget 2023 in 4Q22.

GE15: Boon or bane for the stock market? With the current sitting of Parliament ending in mid-2023, and the recent landslide victories for Barisan Nasional (BN) in Melaka and Johor giving rise to calls from BN strategists for the prime minister to dissolve Parliament and kick off GE15, it seems a general election would be upon us sooner rather than later. While the Government's MOU with the opposition specifies that the Parliament should not be dissolved before 31 Jul, pressure is already being brought to bear on the prime minister.

Ultimately, regardless of which coalition succeeds in securing the seat of power in Putrajaya, the impact on the market will likely be neutral. Challenges remain, and neither side has yet to prove that its leadership offerings and ideas are superior to the other. Neither side has yet put through meaningful reforms to bring through the next generation of leaders that can resonate with the younger voters, let alone show the electorate ample reasons why they should shed the yoke of political fatigue, and get more engaged with the political process.

The continuity of key policies and ensuring that the rule of law applies, is the market's basic expectation, regardless of the victor in GE15 – assuming there even is a clear victor. A negative outcome would be a result that does not allow the winning coalition to emerge with a reasonably comfortable parliamentary majority. A "hung parliament" scenario would lead to more unsavoury horse-trading, party-hopping and side deals that are not in the country's democratic interests.

Ukraine crisis: What if there is a quick and peaceful resolution?

In the event of a quick and peaceful resolution to the crisis in Ukraine, investors need to be weary of a knee-jerk sell-off in ASEAN equities. Given that ASEAN has enjoyed safe-haven status post-invasion, with a near-term shield from higher commodity prices and foreign fund inflows (bad news is good news), the reverse would lead to market volatility as commodity prices pull back and foreign portfolio funds reconsider the need for a defensive cloak. A near-term sell-off in ASEAN markets is a plausible scenario (good news is bad news).

Valuations are not especially compelling

The influx of foreign portfolio funds into the large caps has resulted in the FBM KLCI's nominal FY22 P/E moving to 16.5x – a premium to the long-term mean of about 16x – despite the de-rating of the glove sector. Stripping out the glove stocks elevates the FY22F P/E to 17.1x. The implementation of the incremental corporate tax from *Cukai Makmur* (one-time prosperity tax levied) has been a key factor dragging on market earnings growth in 2022, and dilutes the ex-gloves EPS growth to just 10.9%. *Cukai Makmur* also incentivises the larger corporations to kitchen-sink costs into 2022 and defer new revenue streams to 2023 and beyond, which could further suppress current year growth metrics.

Arguments made for investors to look past the one-off *Cukai Makmur* to focus on FY23 seem a stretch, given that clarity on the prospects for that year will not be evident until at least 2H22. The elevated domestic policy and regulatory risks remain a drag on sentiment as the market cannot now assume that there will be no further versions of *Cukai Makmur*, loan moratoriums, and other such onerous regulatory hurdles in the future.

The risk that we could be under-estimating earnings growth for FY23 will depend on the strength of the recovery and the pace of normalisation. This could mean added upside for the equity market. An upward re-rating of valuation premiums look difficult to justify. Nonetheless, the risk-reward profile going forward remains tilted towards the downside.

We believe the main reason for the uptick in valuations recently was a function of safe haven demand by foreigners, who we believe retain an intrinsic underweight on Malaysia equities.

Change to sector weightings

The only change in weighting was in relation to the plantation sector, which we upgraded to NEUTRAL (from Underweight) following the invasion of Ukraine. The spike in geopolitical risks caused all commodity prices to rise sharply, as crude oil prices shot past USD100.00/bbl and the CPO futures price moved beyond MYR6,500/tonne. As oilseed crops from the Ukraine and Russia may not be able to be planted or exported out of the country, a loss of 6-7% of global oilseed crops is expected. Fertiliser from Russia and Belarus is also at risk, as exports may be banned, resulting in a loss of 13% of total global fertiliser output.

Figure 22: Earnings outlook and valuations

	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
COMPOSITE INDEX @ 1,595.7 14 Apr 22	**2020**	**2021**	**2022F**	**2023F**	**2020**	**2021**	**2022F**	**2023F**	**2020**	**2021**	**2022F**	**2023F**
Revenue Growth (%)	(10.4)	23.7	5.3	3.5	(8.8)	20.0	5.3	4.2	(5.9)	13.6	5.4	5.7
EBITDA Growth (%)	(5.2)	30.0	2.5	1.8	(5.8)	30.2	1.4	3.2	(7.7)	31.2	(1.4)	7.3
Normalised Earnings Growth (%)	(24.8)	69.7	(2.2)	8.3	(24.4)	68.5	(3.3)	9.5	(23.1)	65.8	(5.7)	12.6
Normalised EPS (sen)	21.6	36.4	35.5	38.4	14.8	24.7	23.8	25.9	8.2	13.4	12.5	14.0
Normalised EPS Growth (%)	**(25.0)**	**68.8**	**(2.4)**	**7.9**	**(24.9)**	**67.2**	**(3.8)**	**9.0**	**(24.0)**	**64.2**	**(6.4)**	**12.1**
Prospective P/E (x)	**27.2**	**16.1**	**16.5**	**15.3**	**25.8**	**15.4**	**16.0**	**14.7**	**22.9**	**13.9**	**14.8**	**13.3**
Normalised EPS (sen) ex-Rubber glove	21.6	32.3	35.8	40.4	14.3	20.7	23.5	26.7	7.5	9.9	12.3	14.2
Normalised EPS Growth (%) ex-Rubber glove	(28.7)	49.3	10.9	12.9	(29.6)	44.4	13.9	13.6	(31.2)	32.8	23.9	15.6
Prospective P/E (x) ex-Rubber glove	28.2	18.9	17.1	15.1	27.2	18.8	16.5	14.5	25.2	18.9	15.3	13.2
Price/BV (x)	1.9	1.8	1.7	1.7	1.6	1.6	1.5	1.4	1.1	1.1	1.0	1.0
Dividend Yield (%)	3.2	4.2	3.6	3.9	3.0	4.0	3.5	3.8	2.5	3.2	3.2	3.6
ROE (%)	6.9	11.3	10.5	10.8	6.3	10.2	9.4	9.8	4.9	7.7	6.8	7.6

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

Figure 23: RHB Basket sector weightings & valuations

Sectors	**Mkt Cap MYRbn**	**Weight %**	**EPS Growth (%) FY21**	**FY22F**	**FY23F**	**P/E (x) FY21**	**FY22F**	**FY23F**	**Recommendation**
Rubber Products	38.0	2.9	335.1	(72.5)	(64.8)	2.2	7.9	22.5	Neutral
Construction	23.9	1.8	0.8	20.2	19.3	20.1	16.6	13.9	Neutral
Auto	24.5	1.9	11.0	2.3	12.9	13.1	12.8	11.4	Neutral
Property-REITs	31.7	2.4	(0.7)	16.3	10.2	21.7	18.6	16.9	Neutral
Telecommunications	120.6	9.1	11.2	(7.7)	14.5	21.6	23.4	20.4	Neutral
Plantation	117.7	8.9	118.9	30.2	(16.8)	17.0	13.1	15.7	Neutral
Consumer	108.7	8.2	11.7	22.9	19.9	33.3	27.1	22.6	Neutral
Transport	28.1	2.1	83.2	541.2	236.8	n.m.	62.9	18.7	Neutral
Property	35.2	2.7	153.5	24.8	7.9	18.1	14.6	13.6	Neutral
Media	5.9	0.5	3.6	17.5	11.0	10.9	9.2	8.3	Neutral
Banking	321.3	24.3	39.9	3.2	19.3	13.1	12.7	10.7	Overweight
Gaming	39.9	3.0	(14.3)	251.1	52.3	n.m.	16.6	10.9	Overweight
Basic Materials	60.0	4.5	283.2	104.8	6.9	45.4	21.7	19.9	Overweight
Non-Bank Financials	19.8	1.5	(11.6)	(3.7)	8.2	13.5	13.9	12.7	Overweight
Oil & Gas	161.4	12.2	86.1	(9.9)	9.3	15.9	17.6	16.1	Overweight
Utilities	97.1	7.4	14.5	(0.4)	9.0	13.5	13.5	12.4	Overweight
Technology	27.0	2.0	54.9	24.0	13.8	30.1	24.3	21.3	Overweight
Healthcare	60.2	4.6	102.7	3.4	14.3	35.4	34.2	29.9	Overweight
RHB BASKET	**1320.9**	**100.0**	**67.2**	**(3.8)**	**9.0**	**15.4**	**16.0**	**14.7**	

Source: RHB

Investment themes

We continue to expect a gradual economic recovery, as the normalisation process gathers pace. The macroeconomic house view is for the domestic economy to expand 5.5% YoY in 2022. However, we acknowledge that external macroeconomic headwinds continue to gather, combined with internal domestic risks that include policy and regulatory concerns. The paucity of earnings growth in 2022 means that valuations are not especially compelling either.

As we get closer to mid-2022, we expect markets to gradually start pricing in expectations for 2023. The myriad of prevailing issues that could have volatile repercussions means that investors are not yet looking too far forward, while maintaining a relatively nimble stance.

A trading market still

2022 will be a traders' market that will require astute bottom-up stock-picking and a nimble touch to outperform. Investors will need to maintain a nimble investment posture, and remain somewhat liquid to be able to capitalise on trading opportunities.

Figure 24: Top BUYs

	FYE	Price (MYR/s) 14 Apr 22	TP (MYR)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY22F	EPS (sen) FY23F	EPS Growth (%) FY22F	EPS Growth (%) FY23F	3-Yr EPS CAGR (%)	P/E (x) FY22F	P/E (x) FY23F	P/BV (x) FY23F	P/CF (x) FY23F	DY (%) FY23F
Maybank	Dec	8.83	10.40	NO	104,887	68.5	81.9	0.5	19.5	12.4	12.9	10.8	1.2	n.a.	7.4
Pet Chem	Dec	10.26	10.86	YES	82,080	66.6	67.2	(27.0)	1.0	41.0	15.4	15.3	2.0	11.7	3.3
Press Metal	Dec	6.60	8.25	YES	54,381	28.4	31.3	123.1	9.9	75.7	23.2	21.1	8.1	18.2	2.1
Hong Leong Bank	Jun	20.72	23.50	NO	44,915	149.6	173.2	7.0	15.8	12.4	13.9	12.0	1.3	n.a.	2.9
KLK	Sep	27.06	31.45	YES	29,175	191.7	165.7	10.9	(13.6)	37.0	14.1	16.3	2.2	13.1	3.7
Mr DIY Group	Dec	3.43	4.59	YES	21,552	9.6	11.1	39.2	16.0	25.8	35.8	30.9	12.0	23.8	1.6
Genting Bhd	Dec	4.60	6.39	NO	17,713	28.2	45.9	234.0	62.9	(292.2)	16.3	10.0	0.5	2.1	4.3
AMMB^	Mar	3.64	4.00	NO	12,051	50.4	54.8	18.4	8.8	19.7	7.2	6.6	0.6	n.a.	5.6
Inari Amertron	Jun	2.91	3.59	YES	10,785	10.7	12.0	21.1	12.6	42.8	27.3	24.2	4.1	21.9	3.5
Heineken M'sia	Dec	23.90	25.80	NO	7,220	94.8	115.1	16.5	21.4	25.6	25.2	20.8	18.0	17.2	4.8
CTOS Digital	Dec	1.55	2.40	YES	3,581	3.5	4.4	75.8	24.4	32.2	44.0	35.4	5.6	36.3	1.7
Bumi Armada	Dec	0.45	0.65	NO	2,629	10.1	10.6	63.9	4.8	9.3	4.4	4.2	0.5	2.5	0.0
Matrix^	Mar	2.33	2.66	YES	1,944	29.2	30.8	5.0	5.3	(0.7)	8.0	7.6	0.9	6.8	5.8
Berjaya Food	Jun	3.75	4.20	YES	1,352	24.0	23.7	150.2	(1.3)	(261.1)	15.6	15.9	3.1	8.0	3.2
Tasco^	Mar	1.20	1.90	YES	960	9.8	10.5	8.5	6.6	26.5	12.2	11.5	1.5	6.4	2.6
MGB	Dec	0.71	0.99	YES	420	11.2	17.7	108.7	58.5	102.1	6.4	4.0	0.6	2.7	5.0

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Figure 25: Top SELLs

	FYE	Price (MYR/s) 14 Apr 22	TP (MYR/s)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY22F	EPS (sen) FY23F	EPS growth (%) FY22F	EPS growth (%) FY23F	3-Yr EPS CAGR (%	P/E (x) FY22F	P/E (x) FY23F	P/BV (x) FY23F	P/CF (x) FY23F	DY (%) FY23F
Supermax	Jun	1.18	0.92	YES	3,145	30.0	6.6	(79.6)	(78.1)	(31.1)	3.9	18.0	0.6	15.5	1.1
CLMT	Dec	0.58	0.50	NO	1,238	2.1	2.5	42.1	17.7	(8.7)	27.3	23.2	0.5	8.5	4.3
E&O^	Mar	0.54	0.48	YES	784	0.6	1.8	160.4	193.8	(182.0)	87.9	29.9	0.5	4.2	0.0
Sapura Energy^	Jan	0.04	0.02	YES	639	(3.5)	(1.9)	79.4	45.2	14.7	n.m.	n.m.	(1.0)	(56.6)	0.0

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Stay focused on the recovery

In our base case recovery scenario, equities will still remain the preferred asset class. Investors should focus on value and cyclical names that can leverage on the economic recovery and re-opening theme.

Figure 26: Recovery plays

	Price	TP	*Shariah*	Mkt Cap	EPS (sen)		EPS Growth (%)		3 yrs EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)	Rec
	(MYR/s) 14 Apr 22	(MYR/s)	Compliant	(MYRm)	FY22F	FY23F	FY22F	FY23F	FY20-FY23F	FY22F	FY23F	FY23F	FY23F	FY23F	
Maybank	8.83	10.40	NO	104,887	68.5	81.9	0.5	19.5	12.4	12.9	10.8	1.2	n.a.	7.4	Buy
Press Metal	6.60	8.25	YES	54,381	28.4	31.3	123.1	9.9	75.7	23.2	21.1	8.1	18.2	2.1	Buy
Hong Leong Bank	20.72	23.50	NO	44,915	149.6	173.2	7.0	15.8	12.4	13.9	12.0	1.3	n.a.	2.9	Buy
MISC	7.69	7.79	YES	34,326	34.7	44.6	21.7	28.6	3.7	22.2	17.2	1.0	6.6	4.3	Buy
Axiata Group	3.64	5.03	YES	33,404	14.0	16.5	(4.5)	17.6	19.8	26.0	22.1	1.8	3.0	3.8	Buy
Genting Bhd	4.60	6.39	NO	17,713	28.2	45.9	234.0	62.9	(292.2)	16.3	10.0	0.5	2.1	4.3	Buy
Dialog	2.56	3.40	YES	14,445	9.0	10.1	10.0	13.0	1.3	28.6	25.3	3.0	25.4	1.8	Buy
AMMB^	3.64	4.00	NO	12,051	50.4	54.8	18.4	8.8	19.7	7.2	6.6	0.6	n.a.	5.6	Buy
IGB REIT	1.56	1.92	NO	5,578	8.2	9.3	46.3	13.3	11.8	19.0	16.8	1.5	14.4	5.0	Buy
Astro M'sia^	1.01	1.37	NO	5,267	10.7	11.8	17.4	10.1	4.8	9.4	8.6	3.7	4.3	8.9	Buy
Sime Darby Prop	0.59	0.75	YES	4,012	2.6	2.9	30.4	9.2	(178.3)	22.5	20.6	0.4	12.5	2.2	Buy
CTOS Digital	1.55	2.40	YES	3,581	3.5	4.4	75.8	24.4	32.2	44.0	35.4	5.6	36.3	1.7	Buy
Guan Chong	2.70	4.00	YES	2,853	24.6	27.0	59.2	9.5	11.7	11.0	10.0	1.6	8.6	2.2	Buy
Berjaya Food	3.75	4.20	YES	1,352	24.0	23.7	150.2	(1.3)	(261.1)	15.6	15.9	3.1	8.0	3.2	Buy
Tasco Bhd^	1.20	1.90	YES	960	9.8	10.5	8.5	6.6	26.5	12.2	11.5	1.5	6.4	2.6	Buy
Media Prima	0.62	0.90	NO	682	7.8	9.1	18.4	16.8	(378.4)	7.9	6.7	0.8	3.5	3.3	Buy

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Buy on weakness

With domestic liquidity remaining ample and interest rates still at low levels, captive investment funds will still need to be deployed. A key investment theme will be to seek more attractive entry points to build positions for the longer term.

Figure 27: Best bombed-out stocks

	Price	TP	*Shariah*	Mkt Cap	EPS (sen)		EPS Growth (%)		3 yrs EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)	Rec
	(MYR/s) 14 Apr 22	(MYR/s)	Compliant	(MYRm)	FY22F	FY23F	FY22F	FY23F	FY20-FY23F	FY22F	FY23F	FY23F	FY23F	FY23F	
TNB	8.96	11.50	YES	51,306	79.1	89.2	3.3	12.7	12.4	11.3	10.0	0.8	3.0	5.8	Buy
IOI Properties	1.03	1.38	YES	5,671	12.7	13.0	2.1	1.9	8.2	8.1	7.9	0.3	4.4	3.4	Buy
Unisem	2.90	3.75	YES	4,678	14.7	17.0	17.5	15.1	22.2	19.7	17.1	1.9	10.0	2.8	Buy
VS Industry	0.99	1.26	YES	3,779	5.4	9.3	(16.4)	73.6	42.6	18.4	10.6	1.7	12.7	6.2	Buy
Malayan Cement	2.67	3.65	YES	3,498	10.7	11.9	1220.2	11.1	(173.0)	24.9	22.4	1.1	22.4	0.0	Buy
Syarikat Takaful	3.60	4.90	YES	3,008	36.6	41.9	(11.0)	14.5	(1.3)	9.8	8.6	1.5	n.a.	5.3	Buy
Magnum Bhd	1.86	2.51	NO	2,673	15.0	17.4	1556.9	15.8	33.5	12.4	10.7	1.1	8.9	8.6	Buy
Sports Toto	1.98	2.39	NO	2,654	10.0	18.0	(23.3)	80.8	24.4	19.8	11.0	3.0	7.2	7.1	Buy
SKP Resources^	1.41	2.40	YES	2,203	13.1	14.0	26.2	7.0	19.0	10.8	10.1	2.3	9.6	5.9	Buy
GHL Systems	1.58	1.65	YES	1,804	3.1	3.6	19.9	16.7	10.2	50.8	43.6	3.1	24.8	0.0	Buy
Kerjaya Prospek	1.19	1.56	YES	1,472	13.9	16.8	77.7	21.1	31.9	8.6	7.1	1.0	6.9	4.9	Buy
Duopharma	1.56	1.92	YES	1,469	8.2	9.1	17.1	10.6	12.3	18.9	17.1	2.1	14.2	3.1	Buy
Datasonic^	0.50	0.57	YES	1,418	0.5	2.3	103.6	317.9	100.3	21.6	22.8	3.7	20.2	3.1	Buy
Gabungan AQRS	0.46	0.60	YES	247	10.1	9.5	150.0	(6.0)	(198.0)	4.5	4.8	0.4	3.7	4.4	Buy

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Core defensive posture

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

Figure 28: Defensive stocks

	Rec	Price (MYR/s) 14 Apr 22	TP (MYR/s)	Mkt cap (MYRm)	EPS (sen) 22F	EPS (sen) 23F	EPS growth (%) 22F	EPS growth (%) 23F	3-yr EPS CAGR (%) FY20-FY23F	P/E (x) 22F	P/E (x) 23F	P/BV (x) 23F	P/CF (x) 23F	DY (%) 23F
IHH Healthcare	Buy	6.52	7.50	57,394	18.0	20.7	1.9	14.8	36.5	36.1	31.5	2.3	15.5	1.0
Tenaga Nasional	Buy	8.96	11.50	51,306	79.1	89.2	3.3	12.7	12.4	11.3	10.0	0.8	3.0	5.8
Nestle	Neutral	133.50	138.00	31,306	258.8	301.7	6.3	16.6	8.2	51.6	44.2	52.5	32.2	2.2
QL Resources^	Neutral	5.00	4.67	12,168	10.4	11.9	26.0	13.7	7.5	47.9	42.1	4.3	22.8	0.8
Time DotCom	Buy	4.41	5.00	8,051	23.3	28.4	12.3	21.9	13.9	18.9	15.5	2.2	12.0	3.2
Scientex	Buy	4.02	4.68	6,235	27.3	34.5	(6.2)	26.2	10.8	14.7	11.7	1.8	9.3	3.0
Magnum Bhd	Buy	1.86	2.51	2,673	15.0	17.4	1556.9	15.8	33.5	12.4	10.7	1.1	8.9	8.6

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Figure 29: High-dividend yield stocks

	Price (MYR/s) 14 Apr 22	DY (%) FY22F	DY (%) FY23F	EPS Growth (%) FY22F	EPS Growth (%) FY23F	P/E (x) FY22F	P/BV (x) FY22F	ROE (x) FY22F
Hartalega^	4.65	11.9	2.4	7.2	(80.3)	5.0	2.3	9.8
Astro^	1.01	8.1	8.9	17.4	10.1	9.4	4.2	47.2
Sentral REIT	0.97	7.9	8.1	2.8	1.7	12.5	0.8	6.3
BAT	12.82	7.5	8.2	(5.3)	9.6	13.1	9.4	72.3
Taliworks Corporation	0.92	7.2	7.2	15.0	8.4	22.8	2.2	9.2
MBM	3.31	7.1	7.7	16.9	8.5	6.6	0.6	10.0
Magnum	1.86	7.0	8.6	1556.9	15.8	12.4	1.1	9.1
Tambun Indah	0.84	6.9	7.1	(3.2)	0.9	6.2	0.5	8.2
Maybank	8.83	6.4	7.4	0.5	19.5	12.9	1.2	9.4
Affin	2.00	6.3	8.2	0.5	28.6	7.9	0.4	5.4
Ta Ann	5.96	5.9	4.2	37.3	(29.4)	6.7	1.4	22.7
Sunway REIT	1.40	5.7	6.2	16.8	7.7	17.4	0.9	5.2
Pintaras	2.64	5.7	7.6	0.6	5.6	7.4	1.1	15.1
Matrix Concepts^	2.33	5.6	5.8	5.0	5.3	8.0	1.0	12.4
SKP Resources^	1.41	5.6	5.9	26.2	7.0	10.8	2.6	25.0
UOA Development	1.84	5.4	5.4	(4.5)	15.8	20.1	0.8	3.8
KLCCP Stapled	6.68	5.3	5.7	1.9	8.2	18.5	0.9	6.0
Pavilion REIT	1.30	5.2	6.3	58.6	21.2	19.8	1.0	5.2

Note: ^FY20-21 valuations refer to those of FY21-22
Source: RHB

ESG screening

How a business manages financial and non-financial risks has become increasingly important in the decisions made by investors. An organisation's ESG practices provide a vital metric for where they should park their funds. The COVID-19 pandemic has taught investors that, no matter how foreseeable a risk may be, the impact an event has on society and businesses hinges on the ability to plan for significant disruptions and changes in the operating environment. ESG issues have, therefore, come even more to the forefront, as a signpost of a resilient business. Many institutional investors are now building ESG portfolios, and forming their own in-house ESG methodologies.

Accordingly, investors need to perform stringent screening to avoid companies that may present ESG risks. RHB's proprietary ESG scoring methodology, where we assess the ESG profiles of companies under coverage, will be relevant in this regard. We believe that an improving ESG score, corroborated with high ROEs and superior earnings, will result in robust long-term returns. In addition, we believe that a low ESG score that remains stagnant, may reflect negatively on a company's prospects and also its ROE and earnings resiliency.

Figure 30: High ESG scorers

		Price	TP	Mkt cap	EPS (sen)		EPS growth (%)		3-yr EPS CAGR (%)	P/E (x)		P/BV (x)	P/CF (x)	DY (%)	ESG Score
		(MYR/s)	(MYR/s)	(MYRm)	22F	23F	22F	23F	FY20-FY22F	22F	23F	23F	23F	23F	
	Rec	14 Apr 22													
Maybank	Buy	8.83	10.40	104,887	68.5	81.9	0.5	19.5	12.4	12.9	10.8	1.2	n.a.	7.4	3.2
Press Metal	Buy	6.60	8.25	54,381	28.4	31.3	123.1	9.9	75.7	23.2	21.1	8.1	18.2	2.1	3.3
Mr DIY Group	Buy	3.43	4.59	21,552	9.6	11.1	39.2	16.0	25.8	35.8	30.9	12.0	23.8	1.6	3.2
Heineken M'sia	Buy	23.90	25.80	7,220	94.8	115.1	16.5	21.4	25.6	25.2	20.8	18.0	17.2	4.8	3.3
Yinson^	Buy	2.51	3.25	5,350	14.4	20.8	0.7	44.7	7.9	17.5	12.1	0.9	2.3	1.2	3.2
Astro M'sia^	Buy	1.01	1.37	5,267	10.7	11.8	17.4	10.1	4.8	9.4	8.6	3.7	4.3	8.9	3.2
Axis REIT	Buy	1.87	2.32	3,057	9.6	10.1	7.2	5.8	5.1	19.5	18.5	1.2	7.0	5.4	3.2
Allianz Malaysia	Buy	12.68	17.90	2,257	143.5	164.0	(2.9)	14.3	3.3	8.8	7.7	0.9	n.a	3.0	3.2
GHL Systems	Buy	1.58	1.65	1,804	3.1	3.6	19.9	16.7	10.2	50.8	43.6	3.1	24.8	0.0	3.3
FM Global	Buy	0.68	1.20	377	7.1	7.4	34.6	3.5	48.0	9.5	9.1	1.0	6.8	5.2	3.3

Note: ^FY22-23 valuations refer to those of FY23-24
Source: RHB

Small-mid cap outlook

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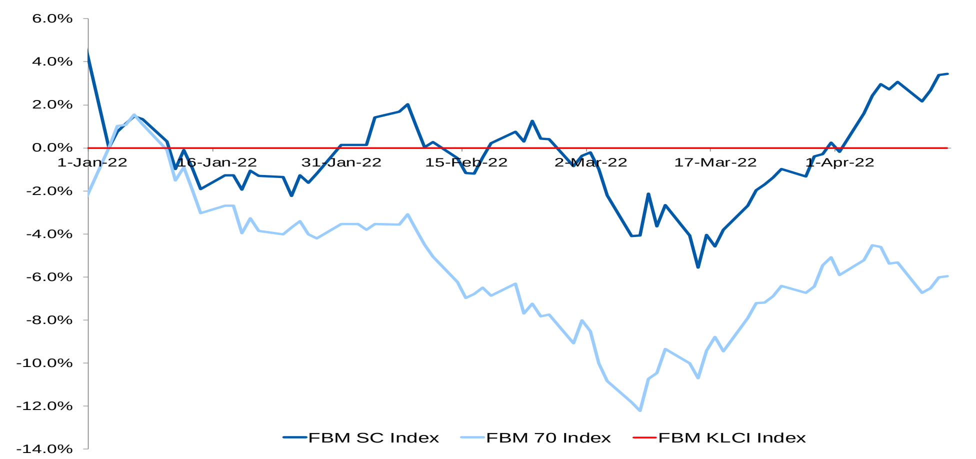
Still range-bound. The outperformance of the FBM SC (+3.4% YTD) continues in 2022 despite the overall range-bound market, in the absence of a major positive catalyst, while uncertainties from external events linger. The stronger performance of the FBM SC is helped by commodity-related stocks that benefited from the surge in various commodity prices. On the other hand, the FBM 70 (-2.5% YTD) has underperformed the FBM KLCI so far this year, as the sector heavyweight that consists of mainly technology sector-related stocks took a beating amid high inflation and rising interest rates. The return of foreign fund inflows has supported the FBM KLCI so far, helped by a strong performance from banks – thanks to the Malaysian market's defensive attributes – while the spike in commodity prices has been a boon. Notably, we have seen a drop in market liquidity, with a cautious tone from local institutions and the lack of participation from retailers. This has been exacerbated by the risk-averse sentiment casting a further pall on the market.

Figure 31: YTD performance of FBM SC and FBM 70 vs FBM KLCI



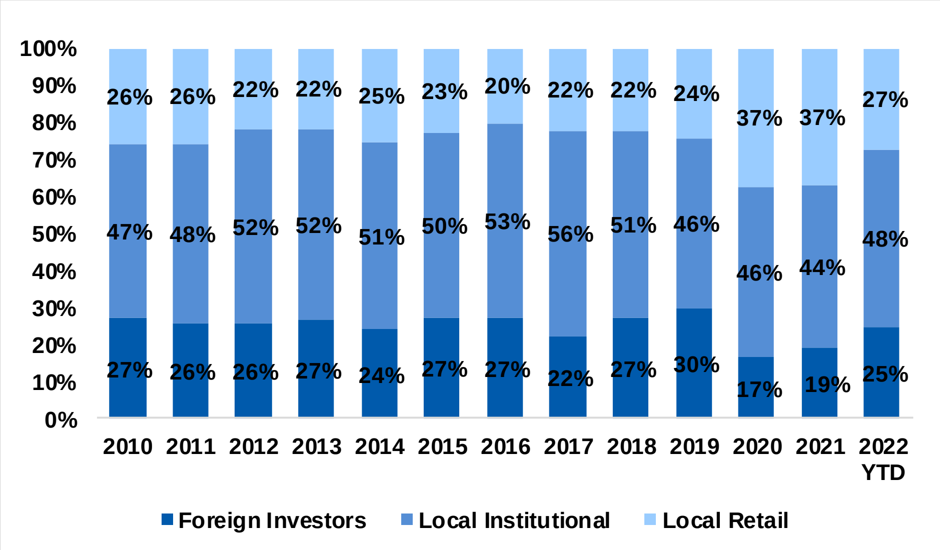
Source: Bloomberg, RHB

Figure 32: Yearly returns of major indices

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
FBM KLCI	19.3%	-0.2%	10.3%	10.5%	-5.7%	-3.9%	-3.0%	9.4%	-5.9%	-6.0%	2.4%	-3.7%	**+0.87%**
FBM70	31.8%	4.6%	6.6%	15.0%	-7.9%	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-6.2%	**-3.6%**
FBMSC	24.2%	-9.0%	-1.6%	36.7%	-4.2%	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	1.3%	**+6.4%**

Source: Bloomberg, RHB

Figure 33: Bursa Malaysia trading statistics



Source: Bloomberg, RHB.

Risk-averse sentiment and stamp duty hike dampened market activity. As highlighted in our previous strategy note, the drain in market liquidity will be a key talking point in 2022. This is given the stamp duty rate and new cap, as well as various detrimental external events such as high inflation, geopolitical risks and surging commodity prices. Trading activity has been muted since mid-2021, and continues to be lacklustre in the absence of robust retail participation – YTD traded value for FBM 70 and FBM SC has declined by 32% and 61%. Compounded by the resumption of intra-day short selling (IDSS), we have witnessed a rather volatile market in the 1Q22, especially for the small-mid cap space.

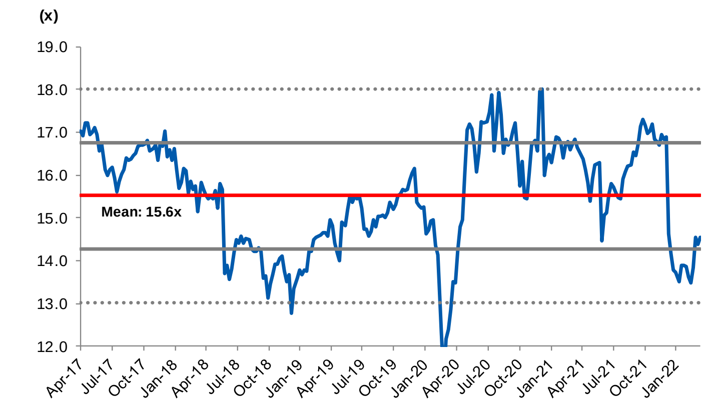
Valuations have fallen again below the 5-year mean. The short-term outlook continues to be clouded by the persistent high inflation rate, higher-than-expected rate hikes, the Russia-Ukraine crisis, supply chain disruptions and domestic political instability. On the other hand, the pace of economic recovery seems to be the major catalyst supporting the equity market, in tandem with the net inflow of foreign funds that are searching for a safer market in South-East Asia. This, in turn, is in view of the surging commodity prices – such as that of palm oil and crude oil. Notably, the foreign fund inflow so far has not benefited the small-mid cap stocks much. However, the trend could swiftly be reversed, as the local institutional investors could again redirect their attention towards counters offering alpha returns in this space again, should global geopolitical risks subside and the inflation rate comes under better control. If this happens, from a valuation standpoint, it is time to be nimble – given the better risk-reward ratio on current forward P/Es. Both the FBM 70 and FBM SC are trading below their 5-year means, at about 2x P/E discounts to that of the FBM KLCI – based on RHB's stock universe.

Trim the winners, be nimble with the laggards. Against the backdrop of a full-blown economic recovery in 2022, supported by our in-house GDP growth forecast of 5.5% YoY, certainly there are companies expected to perform well and record growth. Still, we expect market volatility to remain elevated for a large part of 2022, no thanks to the fluid situation and prevailing uncertainties. We believe the upside is capped, as the expectation of a broad-based economic recovery seems priced in while the downside continues to be supported by bottom-fishing activities. The strategy to be nimble on laggards and trim the winners should remain relevant, given the range-bound market against a volatile backdrop. The mainstay of an investor's strategy should be two-pronged: i) Rotational play on sectors; and ii) bottom-up stock-picking. Among the sectors to look out for in the small-mid cap space are consumer discretionary, technology, logistics, oil & gas, plantation and politically linked thematic plays.

Accommodative fiscal and monetary policies should continue to lend support to private consumption, supporting the consumer discretionary sector. The oil & gas sector upcycle could just be at an early stage – given the positive crude oil price trend, higher capex allocations, and oil demand recovery. This is likely to translate to a positive earnings cycle in the future. Following the YTD steep correction, there are value buys within the technology space. This sector is now trading at a reasonable valuation, while fundamentals remain solid, supported by the structural growth and advancements in various fields.

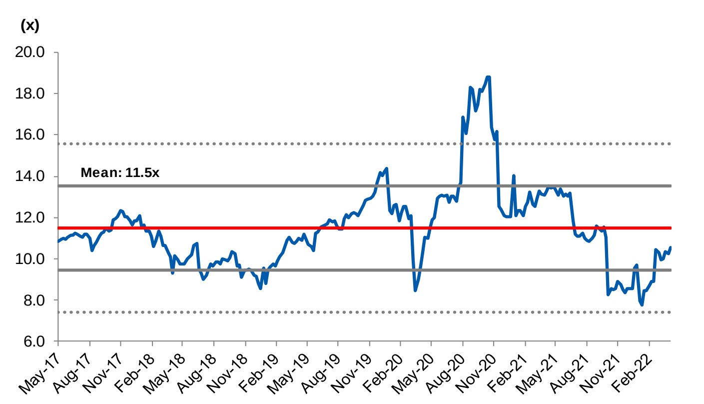
The logistics sector continues to benefit from the economic reopening and resumption or ramp-up of business activities. These come on top of the secular e-commerce play, elevated freight rates, growing demand for third-party logistics, and favourable measures and tax incentives from policymakers. Also, the interest on the plantation sector should come in tandem with the spike in CPO prices – which should point to sturdy, positive earnings growth in the quarters ahead.

Figure 34: FBM 70's P/E band



Source: Bloomberg, RHB

Figure 35: FBM SC's P/E band



Source: Bloomberg, RHB

Key risks

i. Persistently high inflation;

ii. Earnings disappointments that undermine the economic growth outlook;

iii. Worsening economic conditions, which will drive investors to seek refuge in the safer high-yield, big-cap space;

iv. Liquidity issues, which may compound fund outflow;

v. Higher ESG-related risks for smaller-cap companies.

Figure 36: Small mid-caps – Top Picks

	Price (MYR/s) 14 Apr 22	TP (MYR/s)	*Shariah* Compliant	Mkt cap (MYRm)	EPS (sen) FY22F	EPS (sen) FY23F	EPS Growth (%) FY22F	EPS Growth (%) FY23F	P/E (x) FY22F	P/E (x) FY23F	P/BV (x) FY23F	P/CF (x) FY23F	DY (%) FY23F	Rec
Heineken M'sia	23.90	25.80	NO	7,220	94.8	115.1	16.5	21.4	25.2	20.8	18.0	17.2	4.8	Buy
MPI	33.20	43.30	YES	6,603	149.3	177.5	21.1	18.9	22.2	18.7	3.1	11.4	1.0	Buy
Astro M'sia^	1.01	1.37	NO	5,267	10.7	11.8	17.4	10.1	9.4	8.6	3.7	4.3	8.9	Buy
Guan Chong	2.70	4.00	YES	2,853	24.6	27.0	59.2	9.5	11.0	10.0	1.6	8.6	2.2	Buy
Bumi Armada	0.45	0.65	NO	2,629	10.1	10.6	63.9	4.8	4.4	4.2	0.5	2.5	0.0	Buy
Ta Ann Hldgs	5.96	6.40	YES	2,625	89.1	62.9	37.3	(29.4)	6.7	9.5	1.3	5.7	4.2	Buy
SKP Resources^	1.41	2.40	YES	2,203	13.1	14.0	26.2	7.0	10.8	10.1	2.3	9.6	5.9	Buy
Datasonic^	0.50	0.57	YES	1,418	0.5	2.3	103.6	317.9	21.6	22.8	3.7	20.2	3.1	Buy
Tasco Bhd^	1.20	1.90	YES	960	9.8	10.5	8.5	6.6	12.2	11.5	1.5	6.4	2.6	Buy
FM Global	0.68	1.20	YES	377	7.1	7.4	34.6	3.5	9.5	9.1	1.0	6.8	5.2	Buy

Note: ^FY21-22 valuations refer to those of FY22-23
Source: RHB

Singapore: Build a Barbell Portfolio For 2Q22

Singapore is now open for business and tourism!

The Singapore Government eased the community Safe Management Measures (SMMs) in early April for the following key parameters:

i. Group sizes – the permissible group size for social gatherings will be increased from five persons to 10 persons for mask-off activities;

ii. Mask-Wearing – now optional in outdoor settings;

iii. Workplace requirements – up to 75% of employees who can work from home can now return to the workplace, an increase from the current limit of 50%;

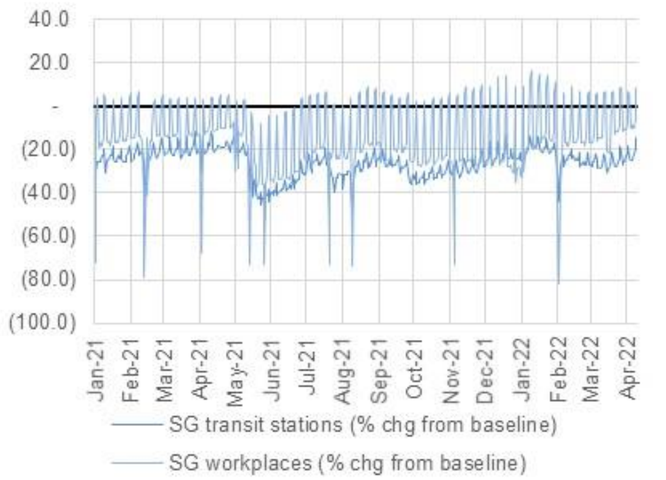
iv. Safe distancing is no longer required between individuals or groups in all mask-on settings;

v. Capacity limits – to 75% for large settings and event sizes of >1,000 pax, where there is no one metre safe distancing.

From 19 Apr, the Government has also permitted all nightlife businesses in Singapore to fully reopen, as part of Singapore's endeavour to live with COVID-19. These include bars, pubs, karaoke establishments, discotheques and nightclubs.

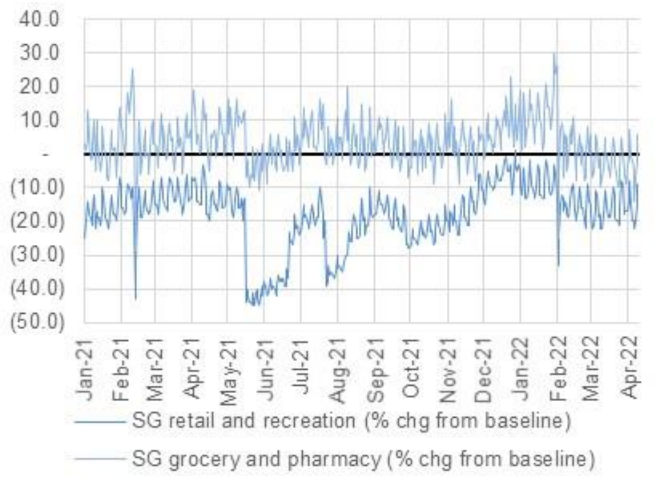
The impact of these easing measure is visible in mobility trends - as per data from Google. Mobility at workplaces as well as at retail and recreation places is returning to pre-pandemic levels (Figures 37 and 38).

Figure 37: Google data suggests that mobility at workplaces is returning to pre-pandemic levels



Source: Google, RHB

Figure 38: Google data suggests that mobility at retail and recreation has returned to pre-pandemic levels



Source: Google, RHB

Besides the relaxation of SMMs, the Government has also eased border restrictions. The Vaccinated Travel Lane (VTL) programme, which has been running for more than half a year, has now been ceased in favour of allowing fully-vaccinated travellers from any country to arrive quarantine-free subject to a negative pre-departure test.

The country won't need to tighten COVID-19 rules even if the number of infections start to rise again because the health care system will be able to cope, the Straits Times had reported, citing an interview with Finance Minister Lawrence Wong and Health Minister Ong Ye Kung.

Inflation to remain elevated

Singapore's core inflation is rising at the fastest pace in nearly a decade – given rising commodity prices, a tight labour market and a demand recovery from the reopening. High energy prices are increasing electricity tariffs (+18.5% in 2M22 vs +10% in 4Q21), thereby raising cost pressures for households and businesses. Global food prices climbed to a historical high in February. Wage costs and services inflation will likely persist given a tight labour market, expansion of the Progressive Wage Model to the retail sector, and introduction of the minimum local qualifying salary from Sep 2022.

Transport costs will remain high because of rising gasoline prices. Accommodation costs may continue rising with the recovery in foreign employment as borders reopen, amidst housing completion delays. With the Government scaling back safe-distancing measures as at 28 Mar, we expect the “reopening” to add to inflationary pressures. RHB’s Global Economics & Market Strategy team recently revised 2022 and 2023 CPI inflation forecasts to 3.4% and 2% YoY from 2% and 1.3% on higher-than-anticipated commodity prices.

On the premise that fresh shocks to global commodity prices and supply chains are adding to domestic cost pressures, Monetary Authority of Singapore (MAS) took a more aggressive approach to further tighten its monetary policy settings in April. As per the announced policy statement, MAS will "re-centre the mid-point" of the SGD nominal effective exchange rate (S$NEER) policy band at the prevailing rate, and "slightly raise" the rate of appreciation of the policy band. This move came after MAS had moved to raise the slope of the band twice amid rising inflation, including an off-cycle move in January that surprised the market.

Expect Singapore’s interest rates to mirror the US Federal Funds Rate (FFR)

RHB Global Economics & Market Strategy has maintained its end-2022F FFR at 1.75-2.0% and for end-2023 at 2.25-2.5%. The US Fed’s revised dot plot suggests an end-2022 FFR median forecast of 1.75-2% and an end-2023 median forecast of 2.75-3%. The team’s terminal FFR forecast is maintained at around 2.5%, which is similar to the previous peak of 2.5% observed in Dec 2018 as part of the 2015-2018 hiking cycle. The FED is forecasting a terminal rate of around 3% and a neutral rate of around 2.4%.

Singapore interest rates are highly correlated to movements in the US FFR up until 3.0-3.5%. Since end-Feb 2022, Singapore Swap Offer Rate (SOR) has risen 39bps, Singapore Interbank Offered Rate (SIBOR) +20bps. The FFR was raised by 25bps on 16 Mar. During the past rate upcycles, the 3M-SIBOR rose 75bps in 2004, 175bps in 2005, and 19bps in 2006.

Fallout from the Russia-Ukraine conflict and China’s zero COVID-19 policy

Russia-Ukraine conflict. Singapore companies have a limited presence in Ukraine, and the country does not import many essential supplies from Ukraine and the region. However, the longer-term and indirect impact of the Ukraine conflict on Singapore will be significant. One key area Singapore will be significantly impacted by is energy cost, as the country imports most of its energy needs (95% of the electricity is generated from natural gas). Some impact could also come from higher commodity prices and other supply shock issues. Sectors that would be negatively impacted are consumer, construction, property (due to higher construction costs), technology and transport (mostly aviation and related sectors). Commodity-related sectors like plantation should see near-term benefits from higher CPO prices. Sectors that would see the least impact are banks, telecommunications, land transport gaming, healthcare and REITs.

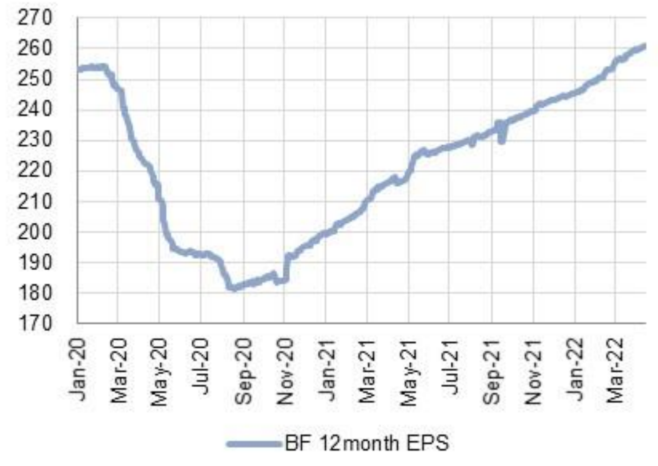
However, Singapore stocks – similar to other markets – could suffer if Europe enters a recession amid the economic disruptions from the Russian invasion of Ukraine. About 8% of Singapore's international trade is exposed to the EU. Under this scenario (recession in Europe), in addition to the above sectors, we could see a negative impact on banks, which have c.15% of their loan book is exposed to the EU. Some REITs, technology and land transport companies also have a significant revenue contributions from Europe.

China’s zero COVID-19 policy. China’s latest wave of cases stems from the highly transmissible Omicron variant and marks the worst COVID-19 outbreak on the mainland since the initial phase of the pandemic in early 2020. However, China’s adherence to its zero COVID-19 policy has led to lockdowns across the country. There are increased concerns about a slowdown in the country’s economic activity and further disruptions to global supply chains. As per advance estimates, Singapore’s GDP grew 3.4% YoY in 1Q22, moderating from the 6.1% expansion in 4Q21. This was, however, lower than the 3.8% YoY growth forecast by economists in a Bloomberg poll. We believe that the impact of China’s lockdowns and the Ukraine-Russia conflict may not have been captured in these advance estimates, as both events started only in late February and March. The final 1Q22 GDP numbers to be released in May could reveal the real impact of these external factors on Singapore’s economic growth. Most economist are expecting Singapore’s economic growth to slow QoQ again in 2Q22, as the risks to growth have shifted more to the downside amid heightened geopolitical uncertainties, rising inflation, and downside risks to China due to its continued zero-COVID-19 approach.

Earnings revisions continue to point to growth in 2022

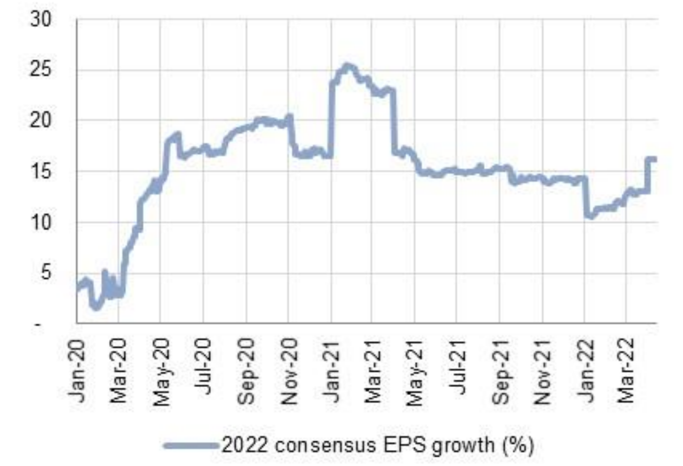
While the economic recovery remains uncertain, we see that the consensus remains optimistic of strong earnings growth in 2022. Street has upgraded the 12-month forward EPS estimate for the STI by c.40% since end-Sep 2020. The upgrade seems to have taken a pause during 2H22. However, since start of 2022, earnings reversion has seen a slight positive reversion. Much of the reversions have come from index heavyweights (e.g. banks), which are expected to see higher earnings on the back of higher NIM expansion and slightly higher non-interest income. Inflationary risks from higher commodity prices, input costs and supply chain disruptions as well as higher interest costs could weigh on corporate earnings in the near-term.

Figure 39: 12-month forward EPS for STI has only seen upgrades post 3Q20 results/business updates



Source: Bloomberg, RHB

Figure 40: The Street remains optimistic on earnings growth being sustained in 2022F



Source: Bloomberg, RHB

In line with slowing economic growth, we estimate the STI earnings to grow by c.15% in 2022 (vs the consensus estimate of 16%). With Singapore's 1Q22 GDP advance estimates coming in below consensus estimates, and elevated risk of further slowdown in economic growth from external factors, is a likelihood that STI's return for rest of 2022 could stagnate at mid-to-low single digits. We note that historically, the STI's returns have had a positive correlation with Singapore's GDP growth expectations.

Investment Themes

In Asia, the STI's 6.8% return is only bettered by Indonesia's JCI. For 2Q22, Singapore's equity market outlook will continue to depend on how well stocks and sectors deal with:

i. Uncertainty over the inflation outlook;

ii. Supply chain disruptions because of the Russia-Ukraine war and China's zero COVID-19 strategy;

iii. General caution ahead of the size of the rate hike at the May FOMC meeting.

On the positive front, Singapore is now open for business and tourism and the Government has reiterated that it plans to keep the domestic economy and international borders open, even if there is a spike in domestic cases of COVID-19.

Figure 41: YTD performance of the STI and its components by sector

Note: Data as at 14 Apr 2022
Source: Bloomberg, RHB

Riding the rising interest rate cycle

We expect Singapore financials to benefit from the current cycle of the rapid rise in interest rates, as the US Fed looks to combat record high inflation. This is mainly because Singapore's benchmark interest rates are closely correlated to movements in the FFR and have risen since the start of this year. While excitement over the prospects of rising US interest rates sustained the rally in Singapore bank stocks (SG Banks) into Jan-Feb 2022, the Russia-Ukraine war has brought valuations back to more decent levels. Since Jan 2009, SG Banks' P/BVs have risen twice above +1SD from the historical mean – in mid-2009 to end-2010 lifted mainly by robust GDP growth, and late-2017 to mid-2018 on the rise in interest rates. We believe SG Banks can grind higher in the months ahead, on the rise in the FFR and borders reopening having a positive impact on economic activities. We have pencilled in four rate hikes in our FY22F earnings, which are slightly ahead of the Street forecasts for DBS and OCBC.

Based on guidance provided by banks, every 25bps rise in interest rate would lift FY22F NIM by 7-8bps for DBS, 4-5bps for OCBC and 3-4bps for UOB. This would translate to earnings uplift of 5% for DBS, and 3% for both OCBC and UOB. We have an Overweight call on Singapore bank and have United Overseas Bank (UOB) and DBS as Top Picks.

We expect SGX to report higher treasury income amidst the rise in interest rates. While this and the SGX's long-term growth prospects from its latest acquisitions and potential pipeline of new listings look positive, we remain concerned about the lack of near-term re-rating catalysts. Its modest near-term earnings growth above the historical average P/E and unexciting dividend yield support our NEUTRAL call.

Figure 42: Singapore – riding the rising interest rates cycle

	M Cap		Target	Upside/	1FY	P/E (x)		P/BV (x)		Yield (%)		ROE (%)		EPS Growth (%)	
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
DBS Group	63,515	Buy	42.70	27.5	Dec-22	11.2	10.1	1.4	1.3	4.4	4.8	12.9	13.3	12.5	10.4
OCBC	39,832	Buy	14.40	19.7	Dec-22	9.5	8.2	1.0	0.9	4.4	5.0	10.5	11.6	16.3	16.6
Singapore Exchange	7,866	Neutral	10.00	0.1	Jun-22	23.9	22.6	7.1	6.5	3.2	3.2	31.0	30.2	0.4	5.7
UOB	37,914	Buy	38.10	23.9	Dec-22	11.6	9.6	1.1	1.1	4.3	5.2	10.1	11.6	9.0	21.1

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Continued exposure to economic reopening plays

Singapore has started living with treating COVID-19 as an endemic. The country has taken a significant step to reduce domestic and international COVID-19 related restrictions, which has coincided with the wider regional reopening of ASEAN. We see this as an opportunity to build optimism for sectors that have been the hardest hit by the pandemic (ie aviation and tourism-related services). Within our coverage, we see ST Engineering as an aviation play that could benefit from the reopening.

The border reopening should boost occupancy rates and activity for hospitality and tourism plays like CDL Hospitality as well as the gaming sector's Genting Singapore. Raffles Medical could see lower COVID-19 testing demand, but this is likely to be more than offset by a return of medical tourism and resumption of elective procedures. Similarly, the telcos should enjoy better ARPUs from roaming and prepaid subscriptions. Singtel is our preferred exposure to the sector.

The increase, to 75%, in the number of employees being allowed to work in office, boost to a maximum of 10 per group gathering, and resumption of nightlife activities will drive increased mobility and benefit stocks such as ComfortDelGro and Kimly. ComfortDelGro is a key conviction pick for within the reopening plays. Suntec REIT could also see increased MICE activity in Singapore following the increase in the capacity limit for large events to 75%. HRnetGroup should be able to ride on growth in hiring volumes and salaries.

Figure 43: Singapore – economic reopening/recovery plays

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
CDL Hospitality	1,180	Neutral	1.25	-3.8	Dec-22	19.7	19.6	1.0	1.0	4.6	5.5	4.9	4.9	18.1	0.5
ComfortDelGro	2,412	Buy	1.77	17.2	Dec-22	16.5	14.6	1.2	1.1	3.0	3.4	7.2	7.8	27.9	12.9
Genting Singapore	7,120	Buy	0.95	18.3	Dec-22	29.4	17.5	1.2	1.2	2.5	3.8	4.1	6.8	119.2	67.8
HRnet Group	607	Buy	1.01	23.2	Dec-22	11.3	10.8	2.0	1.9	5.3	5.5	18.8	18.1	10.6	4.4
Kimly Ltd	366	Buy	0.46	15.0	Sep-22	10.9	9.2	3.1	2.7	5.5	6.5	30.3	31.8	9.8	18.7
Raffles Medical	1,631	Buy	1.55	30.3	Dec-22	31.4	27.3	2.4	2.2	2.3	1.6	7.5	8.5	-0.8	15.1
SingTel	31,763	Buy	3.37	29.1	Mar-22	20.0	16.4	1.5	1.5	3.5	3.9	7.7	9.1	20.3	21.6
ST Engineering	9,355	Buy	4.80	17.9	Dec-22	20.7	19.1	5.0	4.7	3.7	3.8	24.6	25.1	7.4	8.3
Suntec REIT	3,784	Buy	1.77	-1.1	Dec-22	16.7	18.8	0.8	0.8	5.0	5.1	5.1	4.5	-37.9	-11.3
Thai Beverage	13,056	Buy	0.97	37.8	Sep-22	15.7	14.7	2.6	2.4	3.3	3.5	17.2	16.7	13.5	6.7

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Playing the inflation theme

Against the backdrop of rapidly rising inflation, we look at stocks under our coverage that fit following conditions:

i. Favourable sectors in the current inflationary environment, eg banks, upstream commodity producers;

ii. Companies riding on the recovery of the aviation and tourism sectors;

iii. Those less likely to be affected by supply chain disruptions;

iv. Companies' net cash position;

v. If their PEG is <1, as we avoid high-PE stocks lacking growth to provide support.

Our picks are UOB and DBS for banks, ComfortDelGro, ST Engineering and Genting Singapore for transport and tourism recovery, HRnetGroup for improving labour market, and finally, Bumitama and Wilmar for oil palm planters.

Figure 44: Singapore – playing the inflation theme

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
Bumitama Agri	1,042	Buy	0.90	9.9	Dec-22	6.5	7.1	1.3	1.2	6.1	5.4	20.9	17.2	36.9	-7.6
ComfortDelGro	2,412	Buy	1.77	17.2	Dec-22	16.5	14.6	1.2	1.1	3.0	3.4	7.2	7.8	27.9	12.9
DBS Group	63,515	Buy	42.70	27.5	Dec-22	11.2	10.1	1.4	1.3	4.4	4.8	12.9	13.3	12.5	10.4
Genting Singapore	7,120	Buy	0.95	18.3	Dec-22	29.4	17.5	1.2	1.2	2.5	3.8	4.1	6.8	119.2	67.8
HRnet Group	607	Buy	1.01	23.2	Dec-22	11.3	10.8	2.0	1.9	5.3	5.5	18.8	18.1	10.6	4.4
ST Engineering	9,355	Buy	4.80	17.9	Dec-22	20.7	19.1	5.0	4.7	3.7	3.8	24.6	25.1	7.4	8.3
UOB	37,914	Buy	38.10	23.9	Dec-22	11.6	9.6	1.1	1.1	4.3	5.2	10.1	11.6	9.0	21.1
Wilmar	21,275	Buy	5.30	15.7	Dec-22	10.5	9.9	1.0	0.9	2.2	2.2	9.9	9.7	10.2	5.8

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Resilient earnings growth with expected margin expansion

Given the risks related to elevated inflation and expectations of aggressive interest rate hikes, companies have been putting in effort to maximise operational efficiencies. This, along with demand improvement, should enable some non-financial companies to deliver profit growth along with margin expansion. Within our coverage universe, we have screened for stocks that are expected to delivery positive EPS and DPS growth in next two years, while witnessing an expansion in net margin and improvement in ROE. The stocks mentioned in Figure 45 are key proxies to this theme.

Figure 45: Singapore – earnings growth with margin expansion

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	Net margin (%) 1FY	Net margin (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
City Developments	5,589	Buy	9.75	16.7	Dec-22	19.3	16.5	0.9	0.9	2.1	2.4	12.1	12.8	302.3	17.2
ComfortDelGro	2,412	Buy	1.77	17.2	Dec-22	16.5	14.6	1.2	1.1	3.0	3.4	5.2	5.7	27.9	12.9
Genting Singapore	7,120	Buy	0.95	18.3	Dec-22	29.4	17.5	1.2	1.2	2.5	3.8	21.7	25.9	119.2	67.8
Kimly	366	Buy	0.46	15.0	Sep-22	10.9	9.2	3.1	2.7	5.5	6.5	17.2	17.2	9.8	18.7
SingTel	31,763	Buy	3.37	29.1	Mar-22	20.0	16.4	1.5	1.5	3.5	3.9	7.8	10.7	20.3	21.6

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Stay positive on REITs despite growing concerns on the rise in interest rates

We see 2022 as a year of opportunities and risks for REITs. Moving into 2022, S-REITs are well-positioned to weather interest rate hikes and should also reap operational benefits from the gradual easing of pandemic-related restrictions. We recommend that investors stay selective, and expect large-cap laggard plays and REITs with stock-specific catalysts to outperform.

Key sector catalysts. i) Earnings recovery from the easing of restrictions, with sector DPUs expected to grow by 5-15% in 2022; ii) S-REITs still offer one of the highest yields globally, and the rise in Singapore's status as an offshore wealth management hub is positive for the sector's long-term outlook; and iii) inorganic growth from acquisitions and mergers.

Key risk. Stagflation + interest rate hike. A key market concern has been the impact of impending interest rate hikes. Note: A rising rate environment, as such, is not necessarily bad for the sector's outlook if it is accompanied by economic growth – this is as earnings growth generally tend to outpace rate hikes. We also note that during the last US interest rate upcycle from Jan 2016 to Aug 2019, the FTSE Real Estate Investment Trust index delivered an absolute return of 31%, or an annualised 9% return.

However, a scenario in which S-REITs are likely to underperform is when central banks are forced to raise interest rates to tame surges in inflation while economic growth stagnates. With regards to COVID-19, we believe we are at the tail-end of its risks, as high vaccination rates, shifts in stances towards treating COVID-19 as endemic, and increased adaptability from landlords/tenants place the sector in a better position.

S-REITs are better prepared to ride an interest rate upcycle. From a balance sheet standpoint, S-REITs are well-poised to weather the rate hikes, with sector gearing at 37%, ie well below the regulatory limit of 50%. Nearly 77% of S-REITs debts are hedged, with a sector average interest cover of 5.2x and weighted average debt maturity of 2.8 years.

Industrial and office REITs still our preferred sectors. While office and retail REITs are likely to see short-term outperformances on tactical rotations from the optimism of an economic recovery, we continue to prefer industrial REITs for earnings resilience. While there are some green shoots for hospitality REITs, we still believe we are at least 6-12 months away from a meaningful increase in numbers. Current valuations are also not very cheap. Overall, we recommend that investors adopt a barbell strategy with industrial REITs for stable yields, as well as a mix of office and retail REITs to ride on near-term growth

Figure 46: Singapore –REIT picks

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
Ascendas REIT	8,913	Buy	3.60	25.1	Dec-22	16.2	20.8	1.2	1.2	5.6	5.7	7.5	5.9	-23.0	-22.3
ESR REIT	1,240	Buy	0.53	27.8	Dec-22	12.7	12.7	1.1	1.0	7.2	7.3	8.3	8.3	24.0	-0.1
Prime US REIT	874	Buy	1.02	36.9	Dec-22	12.6	9.3	0.9	0.9	9.4	9.6	7.1	9.6	-3.5	35.0
Suntec REIT	3,784	Buy	1.77	-1.1	Dec-22	16.7	18.8	0.8	0.8	5.0	5.1	5.1	4.5	-37.9	-11.3

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Sector Recommendations & Comps

Figure 47: Our sector recommendations

Overweight	Neutral
Consumer	Food Products (Plantations)
Financials	Healthcare
Industrials	Real estate
Mfg. & Tech.	Telecom & Media
REIT	
Transport	

Source: RHB

Figure 48: Preferred stocks across sectors

Sector	Most preferred
Consumer	GENS, THBEV
Financials	UOB, DBS
Food Products	BAL, WIL
Healthcare	RFMD
Industrials	HRNET, MPM, STE
Mfg. & Tech.	FRKN, VMS
Real estate	CIT
REIT	AREIT, EREIT, PRIME, SUN
Telecom & Media	ST
Transport	CAO, CD

Source: RHB

Figure 49: Sector valuation comparison

Sector name	Rating	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS growth (%) 1FY	EPS growth (%) 2FY
Consumer	OW	19.7	15.3	2.4	2.2	3.4	4.1	14.4	15.4	55.4	26.7
Financials	OW	11.5	10.1	1.5	1.4	4.3	4.9	12.5	13.3	12.0	14.5
Food Products	N	9.9	9.5	1.1	1.0	2.5	2.6	11.1	10.7	17.3	4.5
Healthcare	N	24.4	24.0	2.1	2.0	2.6	1.9	9.4	8.5	-33.4	-2.0
Industrials	OW	20.1	18.5	4.8	4.5	3.8	3.9	24.1	24.5	8.1	8.7
Mfg. & Tech.	OW	13.6	12.1	1.7	1.6	4.3	4.3	12.6	13.3	8.8	11.7
Real estate	N	17.4	15.5	0.9	0.9	2.8	3.0	5.7	5.7	259.9	10.4
REIT	OW	15.7	16.6	1.0	1.0	5.7	5.8	6.7	6.4	-5.2	-3.6
Telecom & Media	N	19.8	16.4	1.6	1.6	3.5	3.9	8.5	9.7	18.8	21.0
Transport	OW	15.7	13.6	1.1	1.0	2.7	3.1	6.8	7.5	25.5	16.4

Note: Prices are as at 14 Apr 2022. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Stock Picks

Figure 50: Singapore – large-cap picks

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
Ascendas REIT	8,913	Buy	3.60	25.1	Dec-22	16.2	20.8	1.2	1.2	5.6	5.7	7.5	5.9	-23.0	-22.3
City Developments	5,589	Buy	9.75	16.7	Dec-22	19.3	16.5	0.9	0.9	2.1	2.4	4.6	5.3	302.3	17.2
DBS Group	63,515	Buy	42.70	27.5	Dec-22	11.2	10.1	1.4	1.3	4.4	4.8	12.9	13.3	12.5	10.4
Genting Singapore	7,120	Buy	0.95	18.3	Dec-22	29.4	17.5	1.2	1.2	2.5	3.8	4.1	6.8	119.2	67.8
OCBC	39,832	Buy	14.40	19.7	Dec-22	9.5	8.2	1.0	0.9	4.4	5.0	10.5	11.6	16.3	16.6
SingTel	31,763	Buy	3.37	29.1	Mar-22	20.0	16.4	1.5	1.5	3.5	3.9	7.7	9.1	20.3	21.6
ST Engineering	9,355	Buy	4.80	17.9	Dec-22	20.7	19.1	5.0	4.7	3.7	3.8	24.6	25.1	7.4	8.3
Suntec REIT	3,784	Buy	1.77	-1.1	Dec-22	16.7	18.8	0.8	0.8	5.0	5.1	5.1	4.5	-37.9	-11.3
Thai Beverage	13,056	Buy	0.97	37.8	Sep-22	15.7	14.7	2.6	2.4	3.3	3.5	17.2	16.7	13.5	6.7
UOB	37,914	Buy	38.10	23.9	Dec-22	11.6	9.6	1.1	1.1	4.3	5.2	10.1	11.6	9.0	21.1
Wilmar	21,275	Buy	5.30	15.7	Dec-22	10.5	9.9	1.0	0.9	2.2	2.2	9.9	9.7	10.2	5.8

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

Figure 51: Singapore – mid to small-cap picks

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY	EPS Growth (%) 1FY	EPS Growth (%) 2FY
Bumitama Agri	1,042	Buy	0.90	9.9	Dec-22	6.5	7.1	1.3	1.2	6.1	5.4	20.9	17.2	36.9	-7.6
ComfortDelGro	2,412	Buy	1.77	17.2	Dec-22	16.5	14.6	1.2	1.1	3.0	3.4	7.2	7.8	27.9	12.9
ESR REIT	1,240	Buy	0.53	27.8	Dec-22	12.7	12.7	1.1	1.0	7.2	7.3	8.3	8.3	24.0	-0.1
HRnet Group	607	Buy	1.01	23.2	Dec-22	11.3	10.8	2.0	1.9	5.3	5.5	18.8	18.1	10.6	4.4
Kimly Ltd	366	Buy	0.46	15.0	Sep-22	10.9	9.2	3.1	2.7	5.5	6.5	30.3	31.8	9.8	18.7
Prime US REIT	874	Buy	1.02	36.9	Dec-22	12.6	9.3	0.9	0.9	9.4	9.6	7.1	9.6	-3.5	35.0
Raffles Medical	1,631	Buy	1.55	30.3	Dec-22	31.4	27.3	2.4	2.2	2.3	1.6	7.5	8.5	-0.8	15.1

Note: Prices are as at 14 Apr 2022
Source: Bloomberg, RHB

STI Target Of 3,460pts For End-2022

Remain constructive on STI delivering a positive performance in 2022

Our end-2022 STI target of 3,460pts offers a 3.7% upside from 14 Apr's close of 3,334pts. This is based on a 12.5x end-2022F P/E, which lies between the average forward P/E since Jan 2008 and its -1SD point. Our expectation is for the STI's EPS to grow 15% YoY in 2022. We believe our target P/E, below its historical average, seems justified as we approach normalcy for earnings growth over the next two years.

While we still remain constructive on the STI delivering positive returns in 2022, an upward move for the index – after delivering 6.8% returns YTD – will be a slow grind as investors assess the impact of:

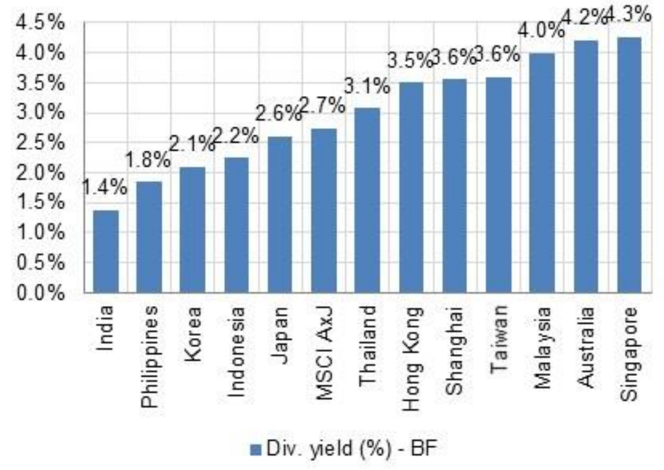
i. The uncertainty over the inflation outlook;

ii. Supply chain disruptions because of the Russia-Ukraine war and China's zero COVID-19 strategy;

iii. General caution ahead of the size of the rate hike at the May FOMC meeting.

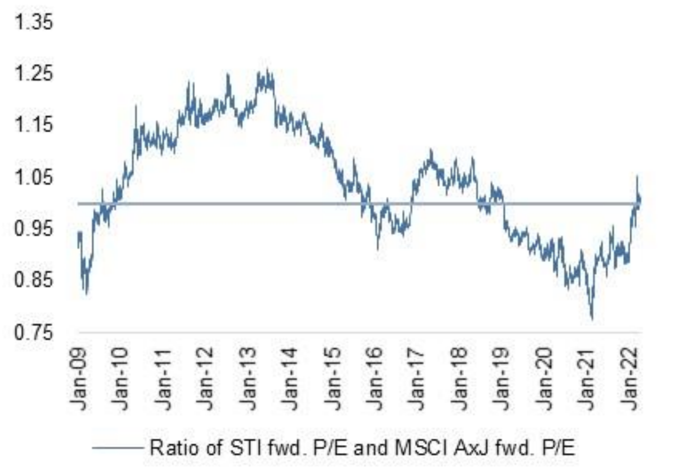
The reopening of Singapore and the regional (ASEAN) economies along with the safe haven status of Singapore as a country and its currency has led to the STI delivering a strong positive performance in 2022. While the STI's 12.8x forward P/E is a tad below its historical average (Figure 54) and the second lowest amongst the ASEAN equity indices, its P/E has finally caught up with that of the rest of Asia. STI's forward P/E is now trading at parity with the rest of Asia (Figure 53). STI's blended forward yield of 4.3% is still the highest in Asia (Figure 52).

Figure 52: STI offers the highest yield amongst Asian indices



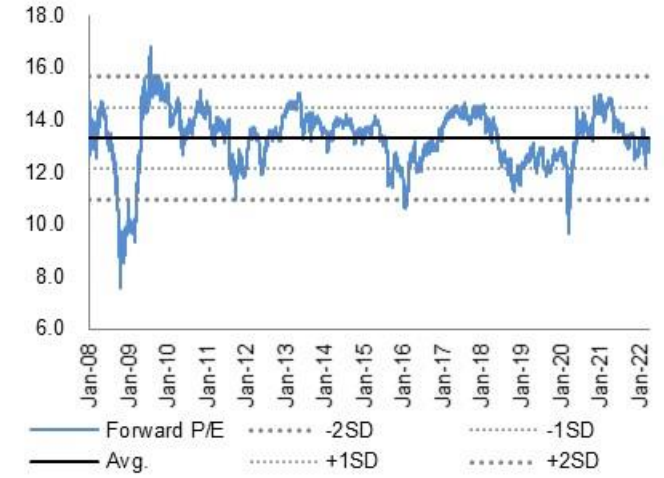
Note: As at 14 Apr 2022
Source: Bloomberg

Figure 53: After a strong performance in 2022, STI's P/E valuation is now at a premium to Asia ex-Japan



Note: As at 14 Apr 2022
Source: Bloomberg

Figure 54: STI's forward consensus P/E



Note: As at 14 Apr 2022
Source: Bloomberg

Figure 55: STI's forward consensus P/BV

Note: As at 14 Apr 2022
Source: Bloomberg

Thailand: 2Q22 – a Consolidation Period

The path to economic recovery remains intact. Thailand's economy will fully resume normalcy from 1 Jul onwards, as the Government aims to classify the country's COVID-19 status as endemic then. Meanwhile, extensive economic sanctions on Russia may create headwinds for certain sectors, and this may lead to spillover effects on other industries, eg production costs overshooting projections – although this may take some time to assess. Based on our 4.5% YoY earnings growth projection for the SET this year, with a scenario analysis applied over it, our end-year SET target would be:

i. 1,731pts if current conflicts do not escalate over the next 3-6 months; or

ii. 1,888pts, if these issues are resolved in 4Q22.

For the full year, we continue to recommend investors to accumulate, and favour domestic plays, defensive stocks, and those offering sturdier dividend yields.

Geopolitical conflict overshadows all other risks, with downsides. The current geopolitical issues may dampen Thailand's economic growth, if consumer confidence deteriorates and the cost of living spikes up in the months ahead. The Street and regulators have slashed their GDP forecasts by 0.2-1.2% this year, due to the ongoing Russia-Ukraine war. The Bank of Thailand (BoT) now expects GDP to grow by 3.2% YoY, vs the Street projection of 3.7%. BoT also expects inflation to peak in 2Q-3Q (2022F (annualised): 4.9%). Industries that will feel the pinch are: Animal feed, steel, auto parts, processed foods, fertilisers, cosmetics, jewellery, and tourism. That said, we also see new opportunities. Thai Airways (THAI TB, NR) and Airports of Thailand (AOT), as Thailand may serve as an aviation hub for connecting flights into Russia. The war may also spark opportunities to export more agriculture and food products. Meanwhile, steel stockists are set to enjoy a widening steel spread and rising demand, benefiting TMT Steel (TMT TB, NR) and Siam Steel Service Center (SSSC TB, NR).

Four stages towards an endemic. The authorities have announced four stages (Combating, Plateau, Decline, Post-Pandemic) with regards to the COVID-19 situation becoming endemic this July. The initial aim is to ensure easy and efficient public access to treatment, with a fatality rate under 0.1%. Over 60% of the population, especially high-risk groups, should have received booster shots. April to June is the period earmarked for the Plateau and Decline stages, with >50% and >55% of the population given booster jabs. That said, daily cases may surge to 50-100k after the Songkran holiday last week.

Earnings estimate revisions point to a mixed outlook. Our outlook on 2Q22 and 3Q22 earnings tends to be mixed, with an overall decrease from 1Q22 numbers. Oil & gas stocks accounted for >10% of the SET's total market cap, 21% of the market's earnings, and 77% of the overall energy sector's net profit last year. As oil prices are stable and high, at >USD100.00/bbl, SET earnings should improve in 2Q-3Q. Meanwhile, as oil prices surge and production costs rise, some companies may see their GPMs contract by 1-3% correspondingly over the next 6-12 months before their cost increases are passed on to consumers. Thereafter, their cost pressures should normalise. Our regional oil & gas analyst expects Brent crude oil prices to average USD104.00 and USD85.00 in 2022 and 2023.

Key Investment Highlights For 2Q22

Positives

i. Thailand should be well on the road back to normalcy from July onwards;

ii. From 2H22F onwards, most economic growth engines should begin to accelerate from consumption, public and private investment, as well as the export and tourism sectors. Further easing of travel restrictions in May allow more tourists into the country;

iii. Moody's Investors Service has recently affirmed Thailand's credit rating and maintained its outlook at stable. The affirmation of the Baa1 ratings (equivalent to BBB+) reflects Moody's expectation that Thailand will continue to display economic resiliency to future shocks, underpinned by its large and diverse economy and strong macroeconomic policy effectiveness;

iv. Thailand's balance sheet remains in good shape, with a low public debt-to-GDP ratio (59.9% in 2022), 1.7% foreign debt, and 14% of debts held in the short term. If an economic downturn happens in 2022, there would be room for fiscal stimulus measures to be implemented

v. Volatility of the THB remains relatively low compared to other currencies. Its weakening would have a net positive impact on GDP, as the export sector accounts for more than 45% of GDP;

vi. An easing monetary policy – maintaining Thailand's lowest interest rate in history, at 0.50%. The authorities, RHB economists and the Street have forecasted the policy rate to be maintained at 0.50% in 2022;

vii. In 1Q22, the Board of Investment (BoI) received applications for 378 investment projects worth a total of THB110.7bn, marking a contraction of 6% YoY. However, projects with a foreign direct investment that sought BoI privileges totalled THB77.2bn in 1Q22, pointing to a 29% increase YoY. Most of the investments are from Taiwan (THB37.1bn), followed by Japan (THB13.8bn) and China (THB13.3bn) in the key industries. These are: Automobiles and parts, agricultural products and processed foods, electric appliances, and electronic products.

Risks

i. Soft 2Q22 earnings outlook, and inflation rate to spike;

ii. The impact of the Russia-Ukraine on trade and development confirmed a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertiliser prices, heightened financial volatility, sustainable development divestment, complex global supply chain reconfigurations, and mounting trade costs;

iii. The Department of Disease Control predicts that daily COVID-19 infections could surge to 50,000 cases after the Songkran holiday (13-15 Apr). The number of fatalities will also rise above 100 per day in the period from 19 Apr to May. Widespread failure to obey these measures will bring a worst-case scenario of 100,000 daily infections, with up to 6,000 pneumonia patients – 1,700 needing respirators – and over 250 deaths per day. Currently, about 500 COVID-19 patients are on respirators, compared to about 1,400 after the Songkran festival in 2020;

iv. Rising household debt levels (90.1% in 2021) will hamper domestic consumption, possibly resulting in an increase in non-performing loans (3.14% in 2021), and a high unemployment rate;

v. In 2Q22, we may see an external factors triggering capital outflows in the Thai equity market, eg rising inflation rate and US 10-year bond yields surging strongly.

Roadmap towards reaching endemic status

The initial aim is to ensure:

i. Easy, efficient public access to treatment with a fatality rate lower than 0.1%;

ii. More than 60% of the population given booster shots;

iii. Building public awareness on handling and adapting COVID-19 from pandemic to endemic status safely.

Thailand's 4-phase strategy towards endemicity

i. Combatting (level 4): 12 Mar to early April;

ii. Plateau (level 3): April to May;

iii. Decline (level 2): End of May to June;

iv. Post-pandemic (level 1): 1 Jul onwards.

Figure 56: A 4-phase approach to achieve endemic status for managing COVID-19 in Thailand

LEARNING TO LIVE WITH COVID A four-stage public health measure plan has been drawn up before Thailand declares Covid-19 an endemic disease from July onwards

Measures	Phase one (March 12 to early April) Combatting	Phase two (April-May) Plateau	Phase three (the end of May-June) Declining	After June 30 Post pandemic
Surveillance measures on international arrivals	**Traveller tests positive D0 >3%**, tested with RT-PCR D0 + ATK D5, unvaccinated will be put in 10-day quarantine	**Traveller tests positive D0 1-3%**, tested with ATK D 0,5, unvaccinated will be put in 5-day quarantine	**Traveller tests positive D0 <1%**, unvaccinated will be tested with ATKs at airports	There will be no ATK and PCR tests
Domestic surveillance inspections	Case-based: infection cases, IPD, pneumonia the bed occupancy rate 2,3, Event-based: Death, Cluster, New variants, Vaccine-related: AFFI, VF		Case-based: IPD, pneumonia cases per week, Event-based: Death, Cluster, New variants, Vaccine-related: AFFI, VF	
Investigation of disease	Containment of severe clusters, reducing the number of deaths, disease control assessments		Detemining the factor that causes severe symptoms and deaths	
Vaccination	Booster ≥ 45% of population	Booster ≥ 50% of population	Booster ≥ 55% of population	Booster ≥ 60% of population
Disease prevention besides vaccination	Controlling large public gatherings, certain venues will be allowed to reopen by order of the committee		Implementing social distancing and wearing masks in risk-prone areas, as well as large public gatherings, most venues will be able to reopen	
Disease control measures	Patient quarantine (depends on vaccine profile), considering restrictions on inter-provincial travel for virus containment, avoiding commuting on public transport, closure of pubs and bars		Patient quarantine (depends on vaccine profile), considering restrictions on inter-provincial travel for virus containment, travelling by public transport under universal prevention measures, reopening pubs and bars	

Source: The Ministry of Public Health BANGKOK POST GRAPHICS

Source: Bangkok Chain Hospital

2Q22 Investment Themes

Hedge against inflation

We have classified sectors and companies that will be directly affected by an increase in the inflation rate – in terms of price, cost, and the ability to pass the rise in costs through to end-customers. We anticipate that sectors that are price-makers will perform better compared to sectors where companies are price-takers, in 2Q22.

Price-makers. This involves the ability to raise prices due to companies controlling a big share of the market and being ahead in terms of competitiveness.

i. Healthcare: Bangkok Dusit Medical Services (BDMS TB, BUY, TP: THB29.50) and Bangkok Chain Hospital (BCH TB, BUY, TP: THB26.50);

ii. High-end hotel operators: Minor International (MINT TB, Buy, TP: THB42.00);

iii. Mobile service providers filling a crucial need for telecommunications: Advance Info Service (ADVANC TB, NEUTRAL, TP: THB230.00 with a dividend yield of 3.4%);

iv. Banks with wide NIMs: Kasikornbank (KBANK TB, BUY, TP: THB175.0);

v. Industrial estates (prices of industrial land are expected to appreciate over the long term): WHA Corp (WHA TB, BUY, TP: THB4.35, with a dividend yield of 4.2%);

vi. Upstream oil & gas companies, which are a direct beneficiary of high oil & gas prices): PTT Exploration & Production (PTTEP TB, BUY, TP: THB145.00);

vii. Pure renewable energy (a substitution alternative for oil) players: Gunkul Engineering (GUNKUL TB, NR), SPCG (SPCG TB, NR), Sermsang Power Corporation (SSP TB, NR).

Sectors and companies able to pass through costs. This points to the ability to partially pass the increase in costs through to customers, to maintain margins. This would be mostly applicable to concessionaire-type operators and original equipment manufacturers (OEM) that have a certain degree of bargaining power over buyers and suppliers.

i. Consumer (competitiveness, high market share): Osotspa (OSP TB, BUY, TP: THB42.50);

ii. Retail (cost pass-throughs, higher opex, competition): Central Pattana (CPN TB, BUY, TP: THB66.25);

iii. Airport (concessionaires, dependence on government policies): Airports of Thailand (AOT TB, BUY, TP: THB77.00);

iv. Mid- to high-end housing developers (cost pass-throughs): Supali (SPALI TB, BUY, TP: THB24.90, dividend yield of 4.8%);

v. Rail transportation (concessionaire): Bangkok Expressway and Metro (BEM TB, TP: THB10.10);

vi. Food & beverages (costs partially passed through, high competition, high market share): Thai Union Group (TU TB, BUY, TP: THB26.00);

vii. Electronics, and auto parts (under OEM basis): Hana Microelectronics (HANA TB, BUY, TP: THB62.00), KCE Electronics (KCE TB, NR).

Price-takers. These typically comprise manufacturing, trading, and service provider companies. They have less capability to raise prices or prices are controlled by the Government. They also operate in an intensely competitive environment.

i. Financial services (lower NIMs): Muangthai Capital (MTC TB, BUY, TP: THB66.00), Srisawad Corporation (SAWAD TB, NR)

ii. Construction materials (margin squeeze): Siam Cement (SCC TB, BUY, TP: THB460.00, dividend yield of 4.3%)

iii. Contractors and lower-income housing developers (margin squeeze from suppliers and buyers): CH Karnchang (CK TB, BUY, TP: THB23.30) LPN Development (LPN TB, SELL, TP: THB3.10)

iv. Petrochemicals (margin pressure from high energy costs): PTT Global Chemical (PTTGC TB, BUY, TP: THB76.00)

v. Land and marine logistics (margin pressure from high energy costs): Kerry Express (Thailand) (KEX TB, NR).

The reopening of international borders

Surging tourist numbers. After the Government decided to stop requiring travellers to provide the results of a pre-travel polymerase chain reaction (RT-PCR) test, over 11,000 international tourists landed in Thailand through Suvarnabhumi International Airport each day, in March. The number of overseas arrivals has climbed by 65% YoY. In 1Q22, over 470,000 international tourists visited Thailand, exceeding the total number of 420,000 for all of 2021. The number of passengers transiting through the airport on both domestic and foreign flights has climbed by 27% since 1 Apr to 53,627 per day on average. Domestic passengers increased by 10%, or 29,691 per day on average, while overseas passengers increased by 56%, or 23,936 per day on average.

An opportunity amidst the conflict. Since 9 Apr, Russia has resumed international flights with 52 friendly countries that include Thailand. This brings about an opportunity for Thailand to be aviation hub in the region. Before COVID-19, Russians accounted for around 1.5m visitors, or 4% of total international arrivals in Thailand. However, once the Thai Government implemented the “Test & Go” measures for foreigners, Russians became the largest group of tourists, accounting for 41,622 people, or 15% of total 2M22 visitors. We believe Thailand will continue being a key travel hub for Russian tourists, which could support other major holiday destinations including Bangkok, Phuket, Koh Samui, Krabi and Pattaya. As the Thai tourism industry is bouncing back – due to the plan to declare the domestic COVID-19 situation as endemic by early July – we expect the number of monthly Russian arrivals to grow to at least c.50,000 by December, from 17,862 last February.

Our Top Picks: Beneficiaries to the matter could be Airports Of Thailand (AOT TB, BUY, TP: THB77.00), Central Plaza Hotel (CENTEL TB, NEUTRAL, TP: THB33.00), Minor International (MINT TB, BUY, TP: THB42.00), The Erawan Group (ERW TB, SELL, TP: THB2.60).

We are also upbeat in our outlook for these stocks that are not in our coverage: Asset World (AWC TB, NR), Thai Airways International (THAI TB, NR) and Bangkok Airways (BA TB, NR)

Figure 57: Tourist arrivals at Suvarnabhumi International Airport

Source: FB Bangkok Skylines (photos taken on 9 Apr)

Electric vehicles (EV) still a hot investment trend for 2Q22

Growing domestic demand by cutting EV prices. The Excise Department is offering subsidies ranging from THB70,000 to THB150,000, depending on the size of the battery used. The subsidies are already being applied to cars offered for sale by Chinese brands such as MG, Haval and Ora – both completely knocked down (CKD) and completely built-up (CBU) models. Under the subsidy deal, carmakers can import CKD and CBU units for sale for two years. In the third year, they must make one unit in Thailand for every unit they import. That ratio rises to 1.5:1 in the fourth year. The Excise Department sees signs of increased interest in EVs among Thai consumers, as > 3,000 EVs were reserved at the latest Thailand Motor Show on 3 Apr, representing 10% of all bookings made at the expo.

Increase investment incentives. In addition, the BoI recently eased terms for investment incentives in the EV charging business to help small operators or give start-ups better access. The BoI has offered a 5-year exemption from corporate tax to investors of EV charging stations, with at least 40 chargers and no less than 25% of them delivering quick-charge services.

Related stocks:

i. EV passenger car and boat producers like PTT (PTT TB, BUY, TP: THB51.00), Energy Absolute (EA TB, NR), Next Point (NEXT TB, NR), Chai Watana Tannery (CWT TB, NR);

ii. Companies involved in EV battery chargers like Global Power Synergy (GPSC TB, BUY, TP: THB84.00), Rojana Industrial Park (ROJNA TB, NR), EA, Banpu (BANPU TB, NR);

iii. Companies that run or develop charging stations (PTT Oil & Retail (OR TB, BUY, TP: THB35.00), Forth Corp (FORTH TB, NR) and Delta Electronics (DELTA TB, NR); as well as

iv. Companies that are involved in battery waste management, like Better World Green (BWG, NR), and high-tech electronics firms.

2022 SET index target ranges 1731-1,888pts

In 2021, amidst the COVID-19 pandemic, the SET recorded a remarkable – and surprising – net profit growth of 160% YoY. Total earnings hit a new high of THB1.04trn, while EPS surged 144% YoY – beating our forecast of 106% YoY.

This sterling performance was due to:

i. The upcycle of the energy (+203%YoY) and petrochemical (+856%YoY) sectors;

ii. The turnaround in transportation sectors from a net loss of THB155bn into a net profit of THB59bn, mainly derived from a return to the black for Thai Airways, as well as that of the media, and steel sectors;

iii. Most sectors should enjoy a recovery and growth in earnings, except: Food & beverage (-16% YoY), home & office (-71% YoY), insurance (-92% YoY), paper & printing (-9% YoY), and tourism which collectively booked net losses for two consecutive years;

iv. There were earnings contribution from 41 IPO stocks, which brought in a combined net profit of THB21.57bn. This accounted for 2.1% of total earnings contributions last year.

For 2022, we expect the combined net profit of the SET to continue improving, but at a slower pace to mark a growth of 4.1% YoY. This growth should mainly come from key commodity sector such as oil & gas, petrochemicals, and transportation sectors. Earnings growth will mainly recover across the board except for tourism, which may remain in the red. The consumer sector will likely outperform the SET's benchmark index next year and next year after the full reopening of the economy – followed by banking, food, construction, automotive and electronics.

Figure 58: The SET's earnings and valuation trend

Year	Net Profit (THB m)	+/-	EPS (THB)	+/-	BPS (THB)	ROE	P/BV (x)	P/E (x)	Div. Yield
2006	454,351	-9.0%	60.8	-12.8%	413.3	14.7%	1.65	11.18	4.9%
2007	484,464	6.6%	62.6	3.0%	430.9	14.5%	1.99	13.70	3.4%
2008	364,006	-24.9%	45.9	-26.7%	438.9	10.5%	1.03	9.80	7.5%
2009	457,863	25.8%	57.3	24.8%	472.0	12.1%	1.56	12.83	3.6%
2010	567,772	24.0%	70.4	22.9%	511.9	13.7%	2.02	14.68	3.1%
2011	594,419	4.7%	72.5	3.0%	541.8	13.4%	1.89	14.14	3.6%
2012	714,534	20.2%	84.1	16.0%	602.8	13.9%	2.31	16.56	3.2%
2013	755,587	5.7%	85.4	1.5%	638.4	13.5%	2.03	15.22	3.5%
2014	648,800	-14.1%	70.1	-17.8%	669.0	10.6%	2.24	21.36	2.5%
2015	622,277	-4.1%	65.3	-22.4%	707.3	9.2%	1.82	19.74	2.7%
2016	852,004	36.9%	87.2	33.6%	756.3	11.5%	2.04	17.70	3.0%
2017	944,064	10.8%	94.1	8.0%	800.3	11.7%	2.19	18.63	2.8%
2018	933,176	-1.2%	91.3	-3.0%	828.5	10.9%	1.89	17.12	2.9%
2019	865,415	-7.3%	81.6	-10.6%	848.3	9.6%	1.86	19.35	2.6%
2020	402,283	-53.5%	36.2	-55.7%	833.7	4.2%	1.74	40.04	1.0%
2021	1,044,549	159.7%	88.4	144.3%	911.1	9.7%	1.82	18.75	2.1%
2022E	1,086,874	4.1%	92.4	4.5%	960.8	9.6%	1.77	18.42	2.2%
2023E	1,228,605	13.0%	104.4	13.0%	1,013.0	10.3%	1.68	16.29	3.1%

Source: RHB

Figure 59: SET valuation matrix (below and above the mean)

P/E (x)	EPS (THB)			P/BV (x)	BV (THB)		
	2021	**2022E**	**2023E**		**2021**	**2022E**	**2023E**
	88.42	**92.36**	**104.41**		**911.1**	**960.8**	**1,013.0**
growth	144%	4%	13%	growth	9.3%	5.5%	5.4%
17.00	1,503	1,570	1,775	1.70	1,549	1,633	1,722
18.00	1,591	1,663	1,879	1.75	1,594	1,681	1,773
18.75	**1,657.6**	**1,731**	**1,957**	1.82	1,657	1,748	1,843
19.00	1,680	1,755	1,984	1.85	1,685	1,778	1,874
20.00	1,768	1,888	2,088	1.91	1,740	1,835	1,935
20.45	1,808	**1,889**	**2,135**	1.81	1,649	1,739	1,834
21.62	1,912	1,997	2,257	1.91	1,740	1,835	1,935
26.05	2,303	2,406	2,720	1.99	1,813	1,912	2,016
SET Target	**1,658**	**1,755**	**1,984**	**Historical mean**		**P/E**	**P/BV**
Market return	14.4%	5.9%	13.0%	3-year		26.05	1.81
Dividend Yield	2.1%	2.2%	3.1%	5-year		21.62	1.91
Total return	16.5%	8.0%	16.1%	7-year		21.62	1.91
ROE	9.4%	9.2%	9.8%	10-year		20.45	1.99

Source: RHB

Our end-2022 SET target – deviations and assumptions. Although we expect economic growth and corporate earnings growth to improve this year, the geopolitical conflict overshadows all other risks. We derive our SET target this year, with two different sets of assumptions:

i. 1,731pts – assuming that the current conflict does not worsen over the next 3-6 months. We derive this number from applying the end-2021 P/E of 18.75x. Note that this level is lower than the 3-, 5-, 7-, and 10-year historical means; or

ii. 1,888pts which points to an upside – assuming that headwinds are watered down in 4Q22. This target implies 20.45x P/E, which is also the SET's 10-year mean P/E.

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