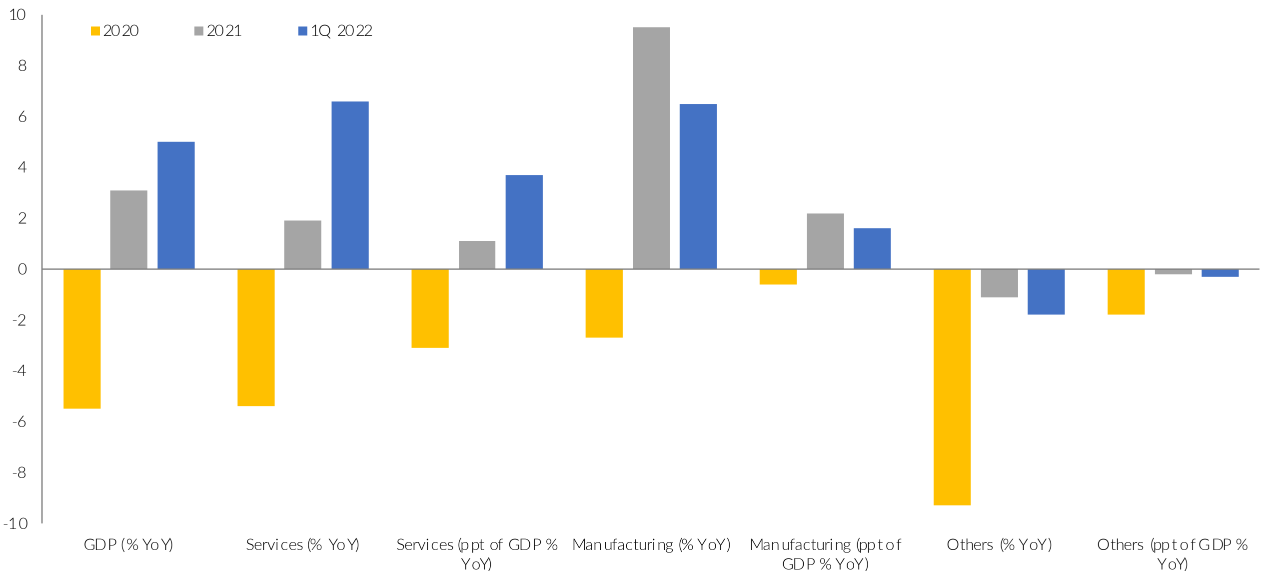
Malaysia

MACRO

Services-driven pick up in 1Q22 real GDP growth

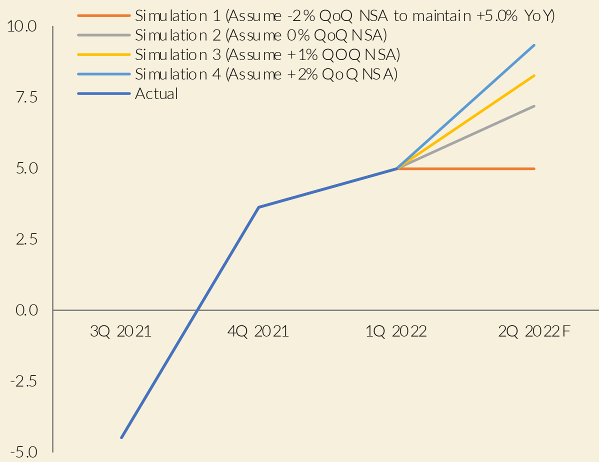


Note: "Others" refers to Mining, Agriculture and Construction
Source: Department of Statistics Malaysia, Maybank IBG Research

Economy expanded by a faster +5.0% YoY in 1Q22 (4Q21: +3.6% YoY; 2021: +3.1%). Services contributed to +3.7 percentage points of three-quarters of the +5.0% YoY growth. Growth surged in the previously hardest-hit services industries due to pandemic and lockdowns/ restrictions.

E.g. food & beverages (1Q22: +16.8% YoY; 4Q21: +0.1% YoY; 2021: -8.9%; 2020: -20.8%); accommodation (1Q22: +86.0% YoY ; 4Q21: +47.8% YoY; 2021: -24.3%; 2020: -50.7%); transport & storage (1Q22: +25.8% YoY ; 4Q21: +11.8% YoY; 2021: +1.3%; 2020: -25.8%).

Expect higher 2Q22 real GDP growth

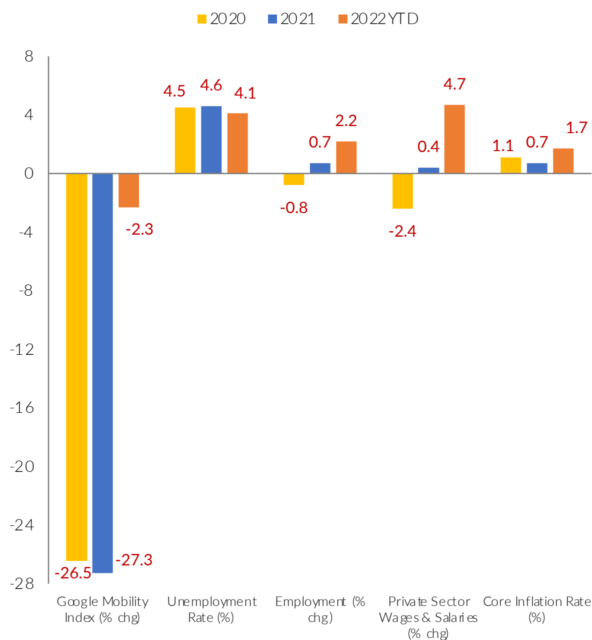


Source: Department of Statistics Malaysia, Maybank IBG Research

Economy shrank by a non-seasonally adjusted (NSA) -3.0% QoQ in 1Q22 (4Q21: +10.5% QoQ NSA). Historically in non-recession years, NSA QoQ real GDP always shrinks in 1Q (historical average: -3.6%) and always rebound in 2Q (historical average: +2.7%). Economy shrinks -2.0% QOQ NSA if % YoY 2Q22 real GDP growth is the same as 1Q22's +5.0% YoY. Every +1 percentage point (ppt) rise in % QOQ NSA growth lifts % YoY growth by +1 ppt.

Further opening of the economy with the lifting of international border restrictions on 1 April 2022, plus pent-up demand/spending during Ramadhan and Eid in April-May 2022 amid removals and relaxations of restrictions, and the boost from the special EPF withdrawal scheme of around MYR45b will further support the recovery of services sector (57% of GDP) as well as private consumption (59% of GDP).

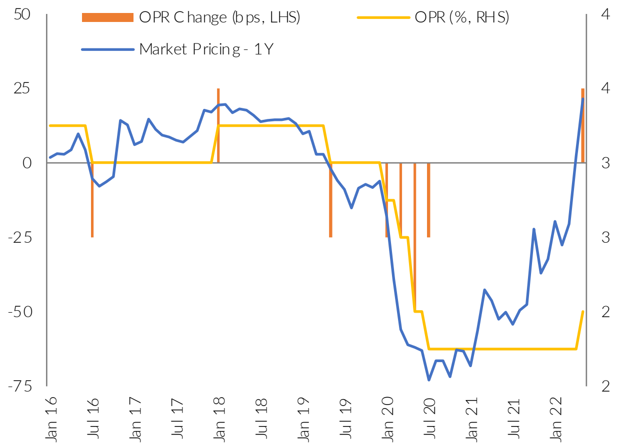
On tailwinds from economic re-opening



Source: Maybank IBG Research

Mobility is normalising and job market conditions are improving as per lower unemployment rate, faster employment growth and rising income with economic re-opening. The flipside of economic re-opening is rising core inflation rate, initially and mainly on cost-push factors, with the potential for demand-pull and wage-driven inflation setting in ahead.

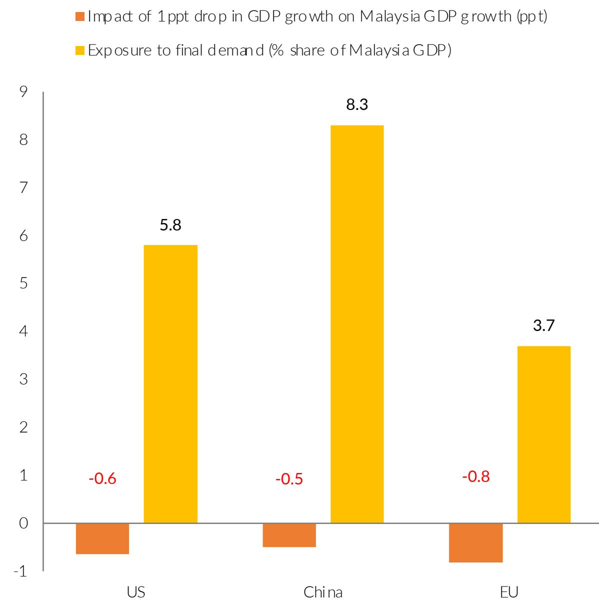
BNM's OPR normalisation begins



Source: Bank Negara Malaysia, Bloomberg

Given firmer domestic growth, improving job market conditions, rising core inflation, pressures on Ringgit, and build up in global monetary policy normalisation/tightening momentum, BNM's Monetary Policy Committee (MPC) meeting raised Overnight Policy Rate (OPR) by 25bps to 2.00% from the record-low 1.75% in place since July 2020. We expect another 25bps hike later this year, to be followed by 75bps increases in 2023. Remaining OPR hikes to be at 25bps quantum and spread over the next 1½ years or 9 MPC meetings, i.e. "measured and gradual" OPR normalisation. We estimated every 25bps OPR hike cut real GDP growth by 0.22 percentage point over one year with the biggest impact 3-4 quarters after the hike, ceteris paribus

Growth to moderate in 2H22 on global uncertainties, external headwinds

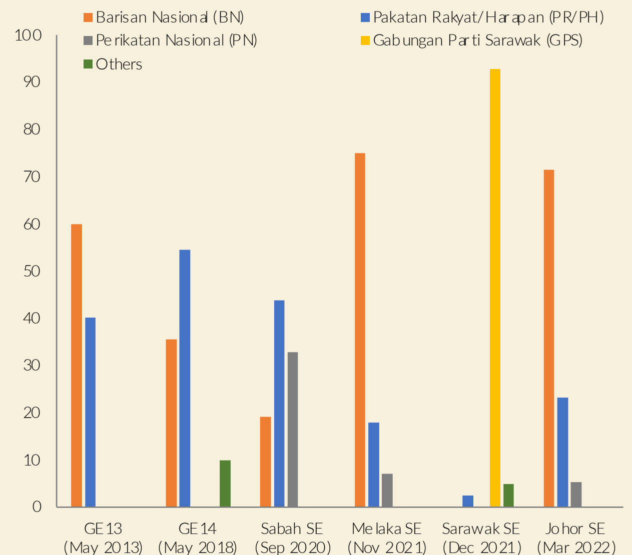


Source: Maybank IBG Research, OECD Trade in Value Added (TIVA) Database

2H22 growth is expected to moderate amid re-surgent global uncertainty due to external headwinds from the impact of the prolonged Russia-Ukraine war on Europe, rolling lockdowns in China and aggressive US Fed's monetary policy tightening on major economies and Malaysia's key trade partners, i.e. Europe, China and US.

We maintain our +6.0% real GDP growth expectation for 2022 but have trimmed the forecast for 2023 to +4.7% from +5.0% previously.

Wildcard: Domestic politics; Malaysia general & state elections



Source: Wikipedia

The 15th General Election may happen as soon as 2H 2022 vs. as late as within 60 days after the automatic Parliament dissolution on 16 July 2023.

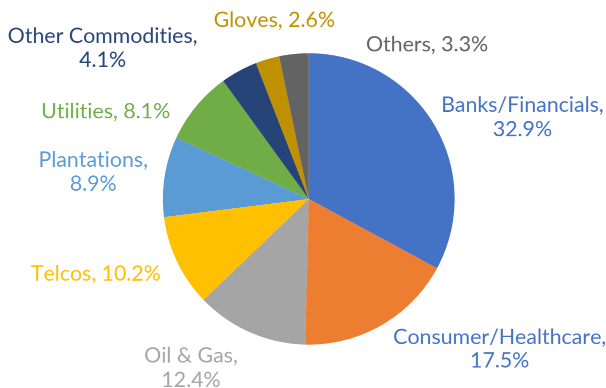
The outcome depends on a multitude of factors, e.g. whether political parties/coalitions can sustain/reverse the performances at recent state elections; whether there will be more one-on-one or multi-cornered contests; voter turnouts; the impact of youth voters; details of election manifestoes.

EQUITY

STRATEGY

What's behind the KLCI's YTD relative outperformance?

KLCI constituents' breakdown by sector



Source: Bursa Malaysia, Maybank IBG Research (chart)

The heavily value-centric "old economy" weightings within the KLCI (see pie chart above; banks, telcos, utilities, consumer), coupled with large commodities-related exposures (i.e. oil & gas, plantations and aluminium via smelter Press Metal) have underpinned the 30-stock benchmark's resilience, as globally tightening monetary policy has prompted investors to switch out of long-outperforming tech/digitalisation-related growth stocks, into value-plays and commodities exposures, the latter driven by rising product prices as well as attraction as an inflation hedge.

Looking ahead, a constructive case can be made for sustained KLCI resilience. The banks/financials sector, which has the biggest weighting in the KLCI, has emerged from the pandemic years relatively unscathed, with ample liquidity and capital, and now set to enjoy a positive inflection in long-suppressed net interest margin (NIM) as interest rates trend higher (note BNM's surprise +25bps OPR hike in May). Underlying commodities price supports such as supply shortages and logistical disruptions are unlikely to resolve over the short-medium term, keeping related share prices elevated. At the same time, consumer/healthcare plays are reporting healthy earnings rebounds in line with economic reopening.

It's not all sunshine for the market, however. The SMID caps space has had a rough ride YTD, especially previous market "darlings" such as glove stocks (Top Glove and Hartalega are on our SELL list as ASPs continue to deflate even as input costs rise) and technology, where the Bursa Malaysia Technology Index has plunged -33% YTD on the valuations-suppressing effect of tightening monetary policy and rising concerns on component shortages/supply bottlenecks related to sanctions and the disruptive lockdowns stemming from China's unrelenting zero-Covid strategy.

Foreign portfolio flows have turned in favour of equities

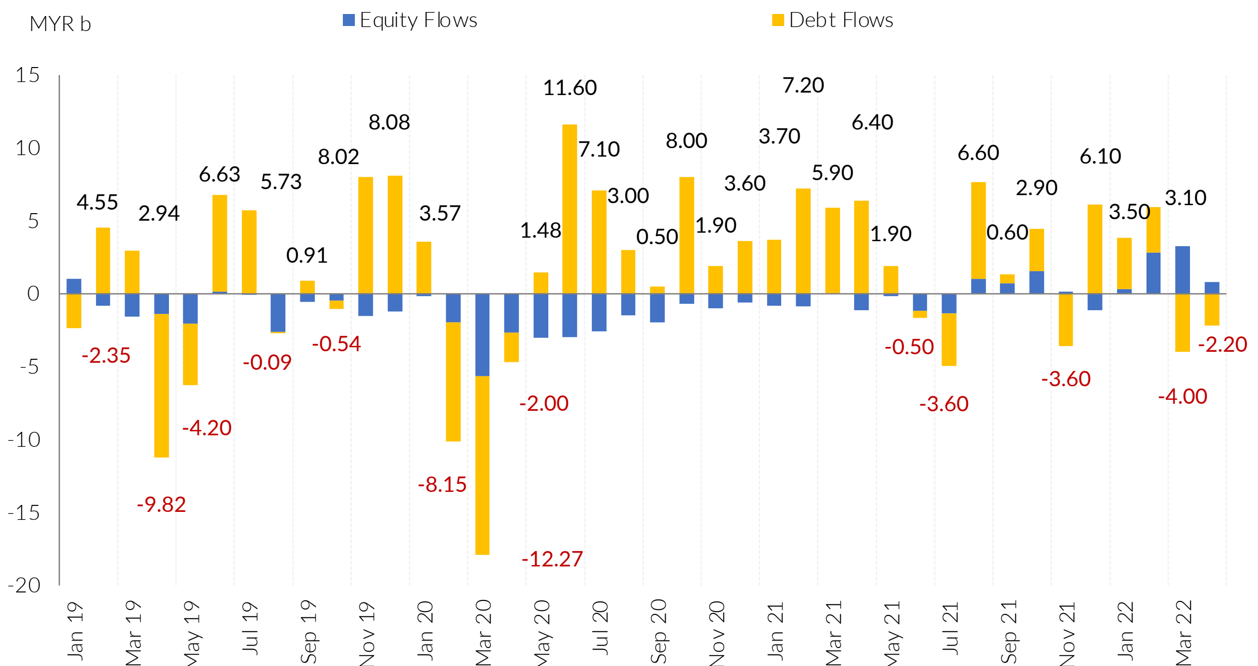
Supporting the KLCI's YTD resilience has been a long-awaited return of net foreign buying (other ASEAN countries that have enjoyed similar positive reversals are Indonesia and Thailand). April 2022 saw foreign inflows into MY equities for the 4th consecutive month - however, the MYR0.8b net buy was a sharp deceleration MoM (March: MYR3.3b net buy; 1Q22 total net buy: MYR6.5b). Cumulative foreign net sells since 2010 (post-GFC) is still a sizeable MYR28.8b, while the KLCI's foreign ownership remains depressed, inching up to 20.3% as of end-March 2022, from end-February's post-AFC low of 20.1%.

Ringgit debt, a consistent draw for foreign bond investors (per bar chart above) given a relatively strong A- sovereign rating and generous spread vs. Treasuries, is now experiencing heavy selling. Foreign funds net sold another –MYR2.2b of Ringgit bonds in April (March: -MYR4b), with total foreign holdings down to MYR256.9b at end-April, near end-2021 levels.

The exit from regional bond markets is being driven by expectations of aggressive Fed rate hikes and USD strength. Still-sizeable foreign holdings of Ringgit debt mean there remains plenty of "sell" potential, especially if fiscal dynamics worsen (rising debt burden, i.e. 10yr MGS now at 4.35% vs. 3.6% at end-2021) and/or there is negative ratings action.

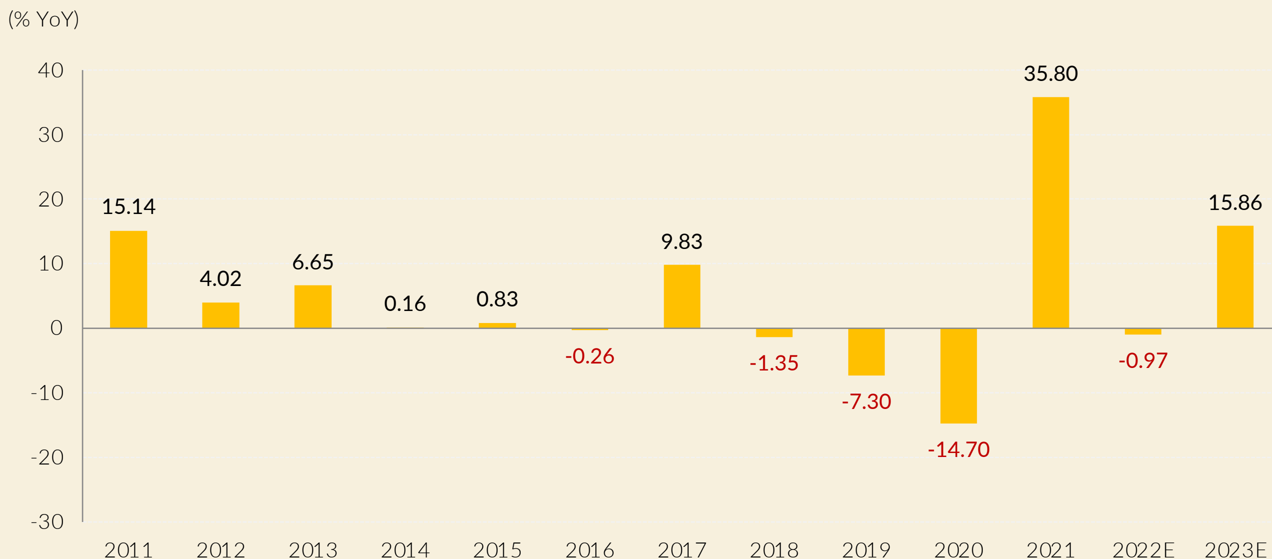
Will foreign buying continue? YTD net inflows appear tactical in nature, i.e. funds seeking comparative safe havens like ASEAN where value-centric markets are low-beta, and with tailwinds like economic reopening and commodities exposures as additional draws. Structurally, however, ASEAN's long-term attraction for foreign equity investors remains challenging given middle-income trap drags/lack of new economy drivers, debilitating politics and eroding index weightings. Hence, current buying interest is vulnerable to rapid reversal if global risk premiums re geopolitics and interest rates ease.

Foreign Portfolio flows – equities vs. bonds (MYR b)



Source: Bursa Malaysia, BNM, Maybank IBG Research (chart)

Maybank IBG Research universe core earnings growth



Source: Maybank IBG Research (compilation)

Malaysia's middle-income trap concerns are very real

While pre-pandemic average annual GDP growth was prima facie commendable at 4-5%, this was supported by uptrends in government indebtedness (public debt to GDP is now 63%, the highest in ASEAN) and household borrowing (household debt to GDP is now at a near-record 89%, second only to Thailand's 91%). At the same time, domestic direct investment (DDI) has been declining YoY since 2015, signalling a lack of confidence in the country's business (and increasingly volatile political) environment, USD per capita income has been stagnant over the past decade, and industries have long been subsidised by a depreciating currency and influx of cheap foreign labour, deterring investment in technology and R&D.

Corporate Malaysia's earnings track record, based on reported results of the 110 stocks under our coverage, has shown a clear disconnect with headline GDP performance, i.e., slowing revenue/demand growth coupled with intensifying margin pressure due to rising competition and sticky cost bases have resulted in weak overall market earnings delivery, per the bar chart above.

Sustained underperformance has been particularly evident for government-linked companies (GLCs), the latter making up c.35% of KLCI market capitalisation – in all relevant sectors (banks, telcos, plantations), GLCs trail their non-GLC counterparts on ROIC, and pose a drag on overall economic vitality by crowding out private investment.

Policy responses to incentivise investment and support the development of high value-added industries appear disjointed, while the Cukai Makmur tax levy in 2022E which was effectively a transfer from the private sector to the government adds a fiscal risk/stress dimension to this issue. There are no quick fixes – good places to start would be GLC Restructuring (if properly executed, this would represent the most tangible and internally-driven opportunity to reinvigorate Malaysia's broad economic dynamism, tax reforms (shift to indirect taxes) and wean businesses off subsidies (e.g. currency and labour).

OVERWEIGHT

- Automotive
- Aviation
- Gaming (Casinos + NFOs)
- Healthcare (Hospitals)
- Large-cap Oil & Gas
- Mid-cap Financials / Banks / Insurers
- Petrochemicals
- Renewables
- Technology (Semicon)
- Technology (Software)

NEUTRAL

- Construction
- Consumer
- Large-cap Banks
- Media
- Mid-cap Oil & Gas
- Plantations
- Ports & Shipping
- Property
- REITs
- Telcos
- Utilities

UNDERWEIGHT

- Healthcare (Gloves)

Balanced positioning is recommended, with yield & ESG overlays

Given heightened volatility/uncertainties on both the domestic (imminent general elections (GE15), pending fiscal changes re Medium-Term Revenue Strategy, potentially including subsidy rollbacks) and external (accelerated monetary tightening, China's lockdowns, Ukraine-Russia conflict) fronts, our recommended positioning is a mix of value and growth stocks, with overlaying yield and ESG considerations. Our end-2022 KLCI target is 1,710, (15x fwd. earnings, -0.5 SD vs. mean), underpinned by forecast double-digit market earnings rebound in 2023E and likely conclusion of GE15 by 4Q22.

Per the table above, our thematic sector positioning includes Banks/Financials (positively leveraged into rising interest rates; prefer mid-caps for better valuation-yield dynamics; top picks are RHB, HLBK, Allianz), Oil & Gas/Petrochems (a play on rising oil prices; picks include Yinson, Pchem, Hibiscus) and reopening plays in Consumer/Retail (Mr. DIY, Farm Fresh, Heineken, Bfood, AEON), Auto (Bermaz), Aviation (MAHB), Gaming (GENT(M)) and Healthcare (IHH). Re Plantations, while CPO prices are buoyant, the recent Indo export ban may mark a peak; sharp re-ratings leave only two BUYs (KLK and IOI).

As underscored by generally robust 1Q22 reporting, we view the Technology sector's ongoing de-rating on rising interest (discount) rates as an opportunity to accumulate what remains the best secular growth story in the market – top picks include Inari, ViTrox, Greatech, Frontken, CTOS and GHL. Ringgit depreciation is an additional earnings tailwind for this export sector, where revenues are in USD but costs are substantially Ringgit-denominated; while Gloves also see a similar uplift, this positive overwhelmed by sustained ASP downtrend and rising input costs – Hartalega and Top Glove are SELLs.

BANKS

Focusing on margins

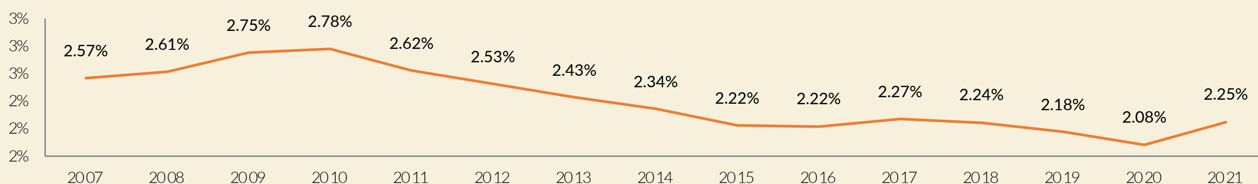
Banks' NIM have trended downwards over the years amid factors such as stiff deposit competition, regulatory compliance issues, modification losses due to the loan moratoriums. The prospect of rate hikes is nevertheless short-term positive to banks' earnings because variable lending rates tend to adjust automatically, while there is a time lag in repricing fixed deposits. Floating rate loans account for about 80% of total banking system loans, while fixed deposits generally account for about 60% of deposits.

Our Economics Team has pencilled in two 25bp rate hikes this year and 75bps in 2023.

Guidance from the banks points to a 2-3bps enhancement to margins for every 25bp rate hike. At the top end, key beneficiaries would be the likes of Alliance Bank, RHB, AMMB and Public Bank, which could see an uplift in earnings of about 2.6% for every 25bp rate hike.

Despite the expectations of rate hikes into 2023, we see no compulsion to raise banks' earnings just yet. An immediate concern would be the prospect of marked-to-market losses as a result of rising bond yields, The 10-year MGS now stands at about 4.5% vs. 3.6% in December 2021. As such, we maintain our forecasts for now, as any improvement in margins would serve to buffer against such MTM losses. POSITIVE on the mid-cap banks and continue to recommend a BUY on HLBK, RHB, AMMB, ABMB, HLFG and BIMB.

Average net interest margins for banks in our coverage



Source: Maybank IBG Research

CONSUMER

Passing on costs to consumers

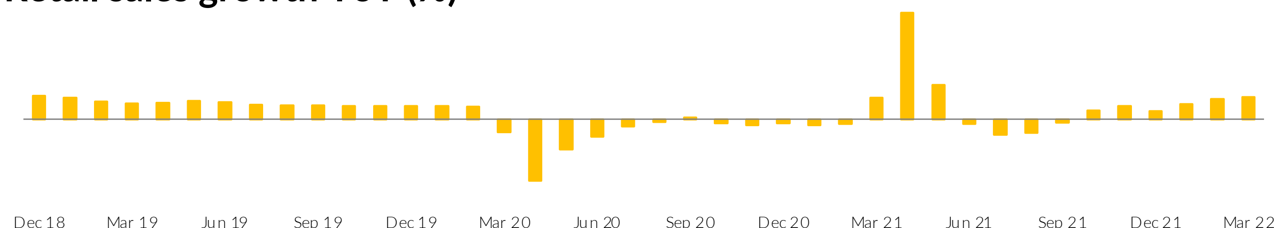
In tandem with lower Covid cases and gradual relaxation in movement restrictions, retail sales growth turned positive in October 2021 and has maintained its positive growth trajectory to March 2022. This comes on the back of pent-up demand in 4Q21 followed by celebratory spending in 1Q22 during the Chinese New Year.

Negatively, food producers and consumer retail are under immense pressure to maintain margins amidst rising input costs. Given operational challenges experienced since the pandemic began in 2020, the consumer industry no longer has the ability to continue absorbing additional costs of production at the expense of its margins.

Hence, we observe that the degree of average product price hikes has accelerated since 4Q21 to offset its potentially adverse impact on consumer demand before the full weight of cost inflation is felt by the average consumer.

Although consumer spending will likely remain heightened throughout 1H22, it is expected to soften into 2H22 with the absence of material drivers to spur sales momentum elevated household expenditure. NEUTRAL on the consumer sector with BUYs on FFB, MRDIY, HEIM, BFD and AEON, on the basis of potential benefits of consumer down-trading, or business operating environments within higher-income target markets.

Retail sales growth YoY (%)



Source: CEIC

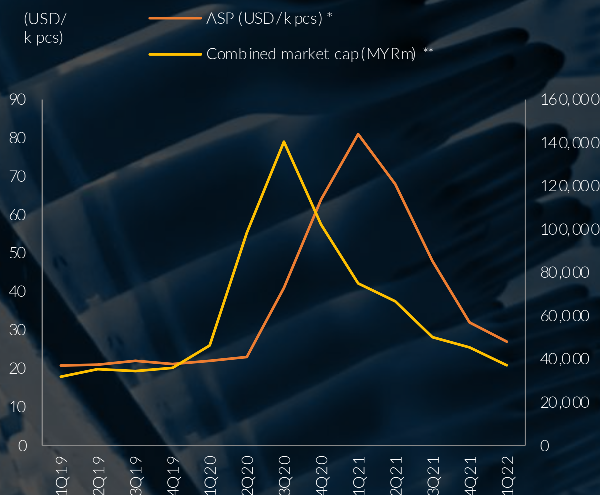
HEALTHCARE: GLOVES

Competition remains stiff. Despite the recent pick up in orders and stabilising ASP, we remain cautious about Malaysian glove makers' ability to fully pass on the higher costs (from manpower, electricity and raw materials) to its customers due to stiff competition. We expect a contraction in margins post-Covid due to rising global supply and production costs.

Expansions on hold/postponed. The Malaysian/ Chinese glove makers have put their capacity expansion on hold for now in view of the current oversupply situation. Positively though, the listed glove producers in Malaysia have strong balance sheets and this will sustain them through this competitive phase.

The sector is experiencing structural change. The oversupply situation could potentially extend longer than the typical down cycle of 6-9 months. We maintain our NEGATIVE stance on the glove sector. We have SELLs on Hartalega and Top Glove and a HOLD on Kossan.

ASP trend & combined market cap (for Hartalega, Top Glove & Kossan)



Source: Top Glove, Bloomberg

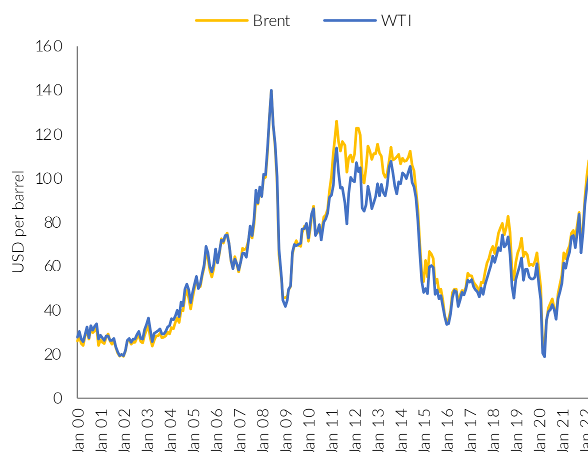
OIL & GAS

Crude oil price has surpassed USD100/bbl in 2022, last seen in 2014 and has averaged USD101/bbl to-date. The energy market is currently facing an energy 'tri-lemma': i) strong global oil demand post-pandemic, ii) supply disruptions due to structural underinvestment; and iii) rising geo-political tensions (the Russia-Ukraine crisis). A potential sanction on Russia will see the oil crisis take a turn for a worse, with heightened volatility over an extended period. We have an in-house crude oil price estimate of USD100/bbl (average) for 2022.

On the local front, PETRONAS' expected improved YoY financials in FY22 are not a surprise. It is building FCF fast in a USD100/bbl oil level, on the back of an expected P&L break-even oil price of sub-USD30/bbl. Capex-wise, it is targeting for a higher spend in FY22. While it has committed to a MYR25b dividend payout to the Government in 2022, we do not rule out a higher payout, in lieu of the strengthening oil market. It is also accelerating its energy transition strategy, allocating 20% of its 5-year capex (2022-26) for clean energy solutions, targeting renewables, hydrogen and green mobility markets.

POSITIVE on the sector. That said, we are selective on our picks. We continue to advocate PLCs with growth prospects, delivery track record, strong financials and focused management, in riding on the cyclical recovery play. Our key BUYs are Yinson, Dialog, Hibiscus and BArmada. Velesto, WSC, MMHE, Favelle and Icon.

Crude oil price



Source: Bloomberg, Maybank IBG Research

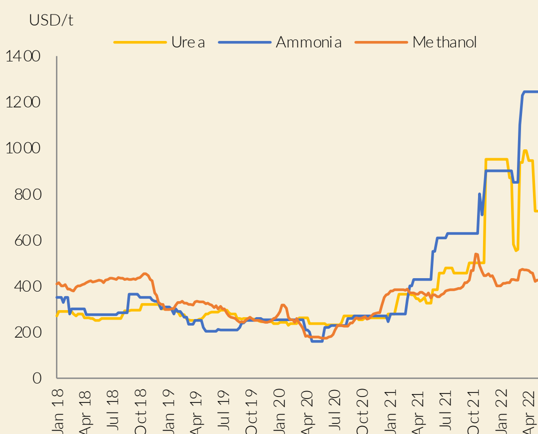
PETROCHEMICALS

A slew of geopolitical factors has driven key product ASPs to staggering heights in 1Q22. This is especially pronounced in PCHEM's fertiliser and methanol (F&M) segment, with prices of ammonia and urea breaching multi-year record highs (see chart). Olefin and derivatives (O&D) ASPs have also risen in tandem with the rising oil price amidst prolonged Russia-Ukraine tensions, capacity constraints due to structural underinvestment since 2015, and a post-pandemic surge in global demand as borders reopened.

The rally in F&M segment ASPs is attributed to structural supply-side factors that are unlikely to ease in the near-term. Include: i) shutdown of the Togliatti-Odessa ammonia pipeline; ii) soaring natural gas prices rendering production at key Euro plants unfeasible; and (iii) China's fertiliser export controls placing upward pressure on ASPs as China is the global marginal producer for urea and phosphates.

In a nutshell, PCHEM is the clear beneficiary from rising ASPs owing to its relatively linear input cost structure from favourable feedstock agreements with its parent company, Petronas Group. Coupled with its solid operational track record (>90% plant utilisation since 2016), strong balance sheet and attractive FY22-23 yields of c.4%, it remains our Top BUY in the Malaysian petrochemical space. Meanwhile, we maintain a SELL on TTNP as margin compression from higher feedstock costs (procured from the open market) and the erosion of its existing domestic premium (c.USD50-100) with PCHEM's entry into its key market segments (via Pengerang) is likely to mitigate any potential gains from elevated ASPs.

Fertiliser products' average selling prices (ASPs)



Source: Bloomberg, Maybank IBG Research (compilation)

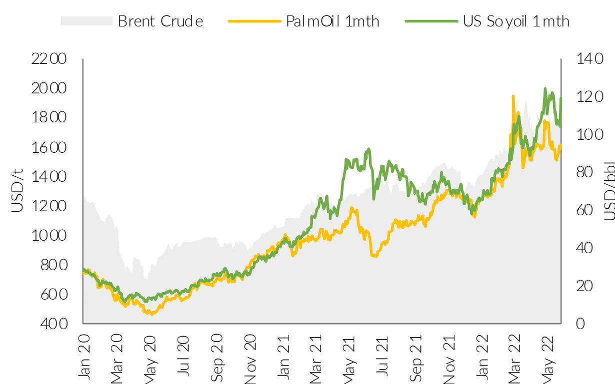
PLANTATIONS

A confluence of factors formed the perfect storm to lift 1M FCPO to a historic high of USD1,944/t on 1 Mar. These factors included: i) tight CPO supply as output fell short of market expectations in 4Q21 which extended into the low seasonal crop cycle in 1Q22; ii) deteriorated South American crop prospects due to La Nina; iii) spike in crude oil prices due to geopolitical tensions; iv) disrupted sunflower oil exports from the Black Sea region due to the Russia-Ukraine conflict; and v) Indonesia restricted palm oil exports to ensure sufficiency of cooking oil in the domestic market has disrupted exports since 27 January.

Looking ahead, we believe the storm will soon be over. La Nina, which has decimated oilseed crops in the last 2 years that led to tightening supplies, is forecasted to end as most international climate models surveyed by the Australia Bureau of Meteorology expect a return to neutral ENSO condition soon. While parts of the world suffered pockets of dryness, La Nina brought ample rainfall to Malaysia and Indonesia. This provided a conducive environment for palm oil crop recovery in 2022, especially in 2H22. Still, sufficient fertilizer will need to be administered in 1H22 to support optimal output recovery in 2022 and we believe palm oil supply will hit its seasonal peak in 2H22.

The cure for high prices is high prices themselves. This is mostly true for annual crops whereby high prices will attract a quicker response as oilseed plantings can yield harvest as soon as 4 months after planting. Hence, we stay NEUTRAL on the sector as we expect CPO ASP in 2H22 to be lower HoH on supply recovery. In a CPO price downtrend, pure growers (i.e. SMID Caps) will feel more of the earnings downside compared to integrated players. Our preferred BUYs are KLK and IOI.

1M FCPO has tripled from the recent pandemic low



Source: Bloomberg

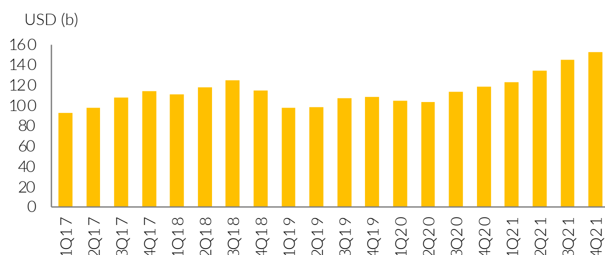
TECHNOLOGY: HARDWARE

Global semiconductor sales reached an all-time annual high of USD556b in 2021 following 6 consecutive quarters of growth between 3Q20 to 4Q21. Against the backdrop of supply-side disruptions brought about by pandemic-induced lockdowns, demand for semiconductor chips/components remained resilient as companies significantly ramped-up production. Demand is expected to remain robust in the near-to-medium term as chips become increasingly embedded in everyday objects. With global mega-foundries announcing record capacity expansion plans to keep up with the unprecedented structural shift in demand, the sector looks well-placed to profit from the supply-demand imbalance well through to 2023.

Local semiconductor companies have thus far been largely insulated from global chip/component shortages despite the presence of sporadic strains in the supply chain. Most companies have managed their inventories on a "just-in-time"/hand-to-mouth basis, whilst there are also a select few that were successful in adopting a proactive "just-in-case" strategy (in anticipation of tightening supply chains). Although the Russia-Ukraine conflict has had a limited impact on Malaysian players, the jury is still out if recent lockdowns in China would adversely impact the local semiconductor supply chain. Malaysian manufacturers are dependent on China for a significant portion of their E&E exports/imports.

Sector valuations remain depressed in anticipation of more aggressive monetary tightening by the US Federal Reserve. Nonetheless, we believe the recent sell-down provides an excellent opportunity for selected picks in the previously richly-valued sector. We remain BUYers of INRI, VITRO, GREATEC and FRCB on solid fundamentals and long-term growth prospects, but maintain a SELL on GTB for its subdued earnings growth. INRI is our top OSAT pick for its RF division's sustained resilience, whilst VITRO is our preferred ATE for its market-leading position in the machine vision technology space.

Global semiconductor billings (all product categories)



Source: WSTS, Maybank IBG Research (compilation)

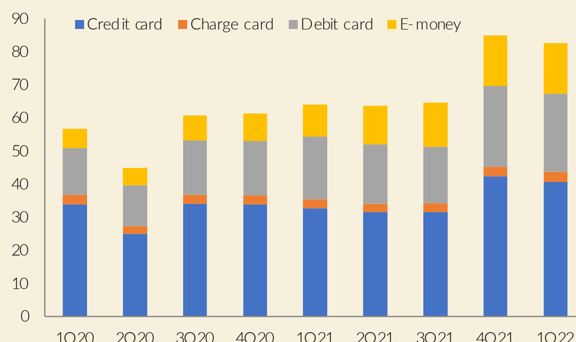
TECHNOLOGY: SOFTWARE

Total transaction value processed for electronic payments in Malaysia grew by 22% YoY in 1Q22, driven by the economic reopening and recovery in consumer spending. This momentum may likely continue into 2Q22 due to stepped-up demand from the festive season and support from the one-off EPF withdrawal, benefiting the payments companies i.e. GHL System and Revenue Group. Elsewhere, the economic reopening should also benefit CTOS' SME segment through higher new activations, and MyEG's immigration and transportation segments through better business volumes.

Despite the likely strong momentum in 1H22, we think there could be a potential softness in consumer spending towards 2H22 as the rising interest rate and inflations may erode consumer spending power, thus negatively impacting the TPV growth for the payments companies. Having said that, the general structural shift in preferences toward digital financial solutions should be supportive of the top-line growth of the companies under our coverage, hence achieving better economies of scale.

On a relative basis, we like Revenue over GHL System in the payments space. We see a stronger upside to its earnings ahead as its high-growing, high-margin ETP segment sales mix is relatively lower at 30% vs. GHL's 65%. We also prefer MyEG over CTOS due to having more growth wildcard from its blockchain initiative and JPJ e-testing services, despite declining revenues from its healthcare business due to recent policy changes. While we remain optimistic about CTOS' fundamental prospects, the uncertainty around its pioneer tax status extension may weigh on the share price in the near term.

Total electronic transaction value processed by payment type (MYRb)



Source: Bank Negara Malaysia

TELCOS

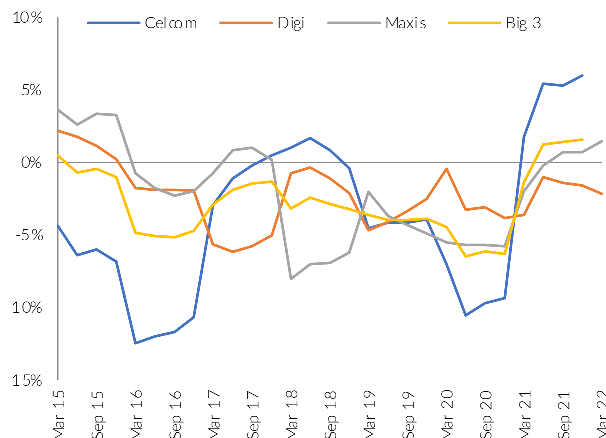
Mobile uncertainty

Sentiment on the telco sector has been weighed down by the uncertainty surrounding 5G deployment. This is despite positive mobile revenue trends in 2021, with Big 3 service revenue growing for the first time in 7 years. With borders reopening, we expect revenue trends to remain healthy in 2022. In the fixed space, fixed broadband trends continue to remain healthy with fibre broadband penetration climbing further to 39% in end-2021. This is due largely to the JENDELA-induced increase in premises passed.

5G uncertainty continues to linger as telcos remain in negotiations with DNB and the government over both 5G commercial terms and equity ownership of DNB. The Big 4 had previously issued statements in March 2022 welcoming the offer to take up equity stakes in DNB, but there have been no material developments since. In our view, the current model (telcos taking equity stakes in DNB which owns and operates Malaysia's only 5G network on a wholesale basis) is the only plausible outcome that appeases both the government and the Big 4 mobile telcos. The government had previously set a 30 June 2022 deadline for the conclusion of negotiations.

Neutral on the sector, with a preference for fixed over mobile. Our preferred pick is TM, which is poised to benefit from higher fibre demand from both increased broadband adoption and 5G deployment. Its ongoing cost optimisation efforts would help to further elevate earnings. We also like Axiata although near-term earnings could potentially come under pressure from Sri Lanka macro challenges and the initial dilution from the Philippines towers acquisition.

Mobile service revenue growth



Source: Companies

UTILITIES

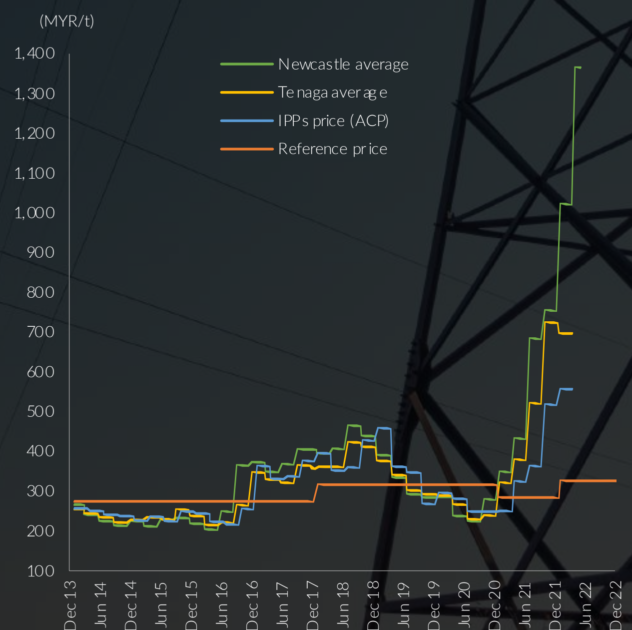
Concerns over fuel cost pass-through

Utilities worldwide are dealing with surging fuel input costs, and Malaysia is no different. Coal accounts for >60% of Peninsular Malaysia's electricity generation mix and is entirely imported. The tariff framework in Malaysia allows for fuel cost imbalances to be passed-through, with an Industry Fund in place to smoothen surcharges and rebates. However, soaring coal prices combined with a depletion of the Industry Fund have led to concerns over the integrity of the pass-through mechanism to emerge, resulting in a suppression of Tenaga's share price.

Gas utilities are similarly not spared from having to deal with rising input costs. Petronas Gas' transportation and regasification divisions face a lag in recovering cost imbalances for internal gas consumption, and its utilities division is unable to directly pass on rising gas costs for electricity sales. Gas Malaysia has thus far not experienced any demand destruction from rising gas prices, having also raised retail margin post price liberalisation in 2022.

Neutral on the sector, with preference for stocks with healthy cash balances (for new project deployment or div payment). Our BUY are YTL Power, Mega First, and Gas Malaysia.

Coal prices



Source: Bloomberg, Energy Commission, Tenaga