HLIB Research
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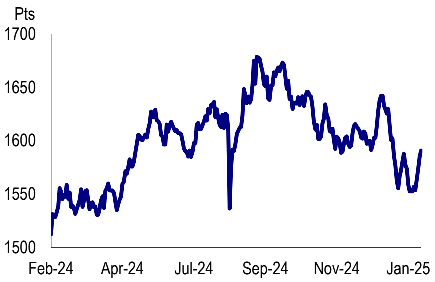
Economic snapshot – Malaysia

	2023	2024F	2025F
Real GDP (% YoY)	3.6	5.1	4.9
Current acc. (% GDP)	1.6	1.7	2.0
Fiscal bal. (% GDP)	-5.0	-4.3	-3.8
CPI (% YoY)	2.5	1.8	2.7
OPR (% year-end)	3.00	3.00	3.00
USD-MYR (average)	4.57	4.57	4.35

	2024	2025F	2026F
CPO (RM/mt)	4,230	4,000	3,800
Brent oil (USD/bbl)	80	75	70

FBMKLCI Target:	**1,740**
Current Level:	**1,591**

FBMKLCI



Top Picks

Stock	Rating	Price	Target
PBBANK	BUY	4.45	5.20
RHB	BUY	6.48	7.55
SUNWAY	BUY	4.51	5.75
GAMUDA	BUY	4.56	5.50
99SMART	BUY	2.30	2.98
IOIPG	BUY	2.12	4.05
HEIM	BUY	24.50	34.56
CAPITALA	BUY	0.91	1.68
ITMAX	BUY	3.75	4.71
AEON	BUY	1.51	1.82
SMRT	BUY	1.14	2.19
FOCUSP	BUY	0.84	1.14

Share price as of 7 Feb

Strategy

Home coming

President Trump's bullying tactics have fuelled inflation expectations, however, we believe investors have largely priced this in but not deliberated on downside surprises. Hence, this opens room for FFR cuts and MYR appreciation. As such, we refine our stock picks, leaning on: (i) local-centric businesses, (ii) defensive qualities, (iii) winners of stronger MYR, and (iv) EM rotational play. Key themes: (i) disposable income boosters, (ii) tourism strength, (iii) Johor's revitalization, and (iv) data centre boom. KLCI target remains at 1,740, based on 15x CY25 PE.

Trumponomics 2.0. Despite President Trump inheriting a very different US economy and outlook vs his first term (Figure 1), it does not seem that he is taking a measured approach to foster negotiations for better deals and trade terms. His tariff tantrums are fast evolving into bullying trade tactics, as first seen with Colombia, then spreading to Canada, Mexico, China, EU, UK and the rest of the world. Presently, the US economy is robust with low unemployment, but it is ushered by stubborn inflation undercurrent. Moreover, President Trump has to face larger federal deficits and higher government borrowing costs vs before. Yet, these did not limit his appetite to wager a global tariff war. As consequence, world leaders face two choices: (i) concede to his duress early on to avoid major setbacks over the next four years, or (ii) unite in opposition to resist his actions. In either scenario, we expect immediate heightened inflation expectations.

The inflation bandwagon. Even if short-term inflation smoulders, we are not overly worried. More importantly, we find that investors have already factored in higher long-run inflation environment as their baseline expectations; we estimate this to be at 3-4%, which is above the Fed's target of 2%, looking at the current 10-year US treasury yield of 4-5% (Figure 5). Similarly, the 5-year inflation expectation by the University of Michigan survey has increased to 3.3% in Feb-25, up 0.1ppt from Jan-25. That said, the market has not priced-in the potential of President Trump helping to end the long-drawn Russia-Ukraine conflict and his commitment to boost US oil production, where these are agents to lower worldwide inflation. Furthermore, the investment fraternity has not entirely considered AI-driven productivity that could also play a role in driving down inflation over the long haul as well.

Room for FFR cuts. Given the backdrop of high anticipated long-run US inflation, we calculated the market is looking at a terminal Fed Fund Rate (FFR) of 3-4%, which is higher compared to the Fed's dot plot neutral rate of 3% (Figure 5). Thus, this suggest the Fed has runway to still gradually cut FFR (current: 4.5%) but the timing of cut is uncertain for now, no thanks to President Trump's brash approach to trade. Based on CME FedWatch Tool and Bloomberg's compilation, investors expect one cut each for this and next year (total: -50bp), which will then bring the FFR to 4%. With this, the US Dollar Index (DXY) is seen to gradually taper due to lower FFR and hence, MYR may appreciate vs the USD; we noticed there is a strong 94% correlation between the DXY index and USD-MYR (Figure 9); our economists project an average of 4.35 for 2025.

Look closer to home… In our view, long-run US inflation has room to surprise on the downside, coupled with the expectation of stronger MYR, we think that there could be potential for funds rotating back to emerging markets (EM) and Malaysia is in a bright spot; this is reinforced also by: (i) our country's steady growth, (ii) ongoing economic reforms, (iii) robust investments, and (iv) a more stable political climate. In addition, a rebound in foreign shareholding levels is a tailwind for KLCI, given the 69% correlation between the two (Figure 9). Currently, foreign shareholding on Bursa stands at 19.4% (record low). While waiting for the EM rotation to play out, our market performance will be largely driven and supported by local liquidity from GLICs. As such, large cap and index-heavy weight stocks are expected to benefit either way. At present, the KLCI is trading at 13.7x P/E vs 13.2x/22.4x for MSCI Asean/S&P 500, respectively.

…the grass can be greener. Although President Trump's bellicose approach to trade and foreign policies will generate a lot of market noises, we believe investors will learn to adjust and shrug off these geopolitical risks over time. That said, to better weather volatility, we look inward and anchor our investment strategy on selecting stocks that are well-geared for local business growth and exhibit defensive qualities. In addition, we further refine our picks by focusing on winners of stronger MYR and potential EM rotational play. Moreover, these coalesce nicely with our broad main existing themes of: (i) disposable income boosters, (ii) tourism strength, (iii) Johor's reinvigoration, and (iv) data centre boom (this is still valid even after re-evaluating recent developments – see next two paragraphs). To note, this write-up also marks the passing of baton over to our new market strategist.

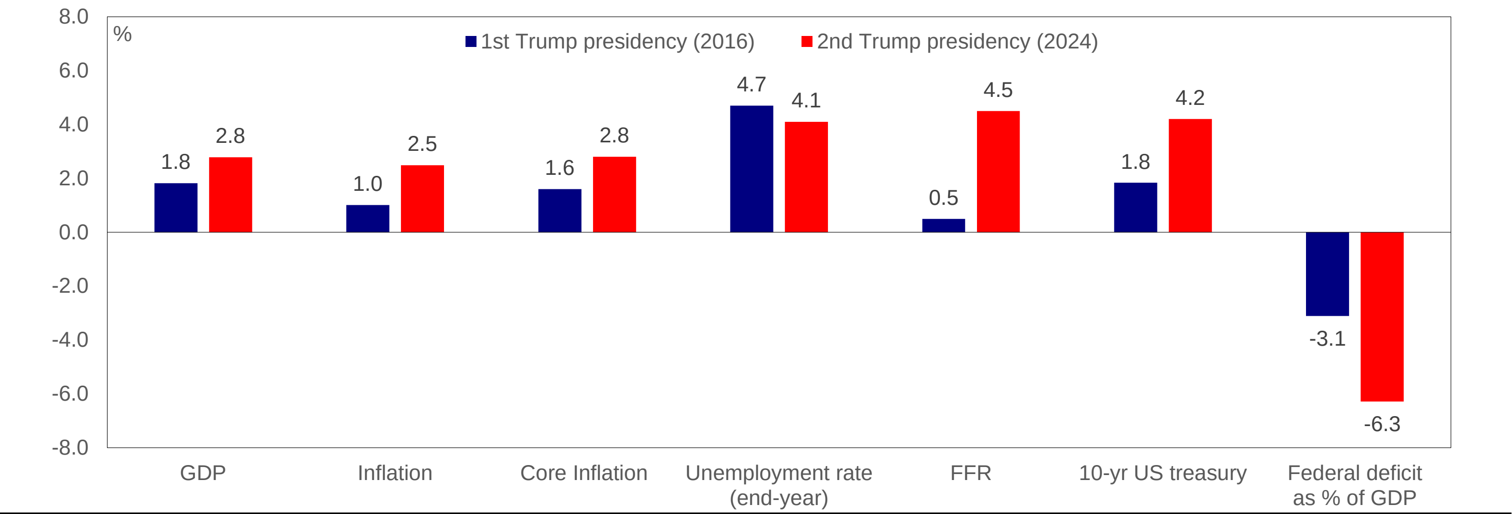
AI-DC theme intact with room for growth. Reportedly, DeepSeek has the ability to build high-performing AI models with fewer resources (using less powerful GPUs like H800 and A100) at <10% of US rivals' training costs. That said, it is an open source model and US AI firms can examine plus rollout similar optimization techniques in the future. With this, Jevons paradox could take effect, where cheaper and more efficient AI models will encourage widespread usage, leading to higher demand for computing power and thus, DC. Also, this will be underpinned by: (i) more use case through AI-powered applications, (ii) periodic re-training to update AIs with new datasets, and (iii) AI inference at scale. Besides, further AI developments using test-time scaling method is likely to increase computing power during inference. Moreover, any breakthrough in Artificial General Intelligence (AGI) will utilize greater amount of GPU power as well. Importantly, US tech giants are still ratcheting up AI-related capex in 2025 (Figure 10).

More AI chips floating for DC expansion. The 'Framework for Artificial Intelligence Diffusion', introduced by the previous Biden administration, aimed to control the export of high-end computing chips used in advanced AI applications. However, if AI-related firms can replicate DeepSeek's success by using less powerful GPUs to operate, this would help to bypass restrictions and reaccelerate overseas DC rollout plans. After all, Nvidia can offer a wide array of GPUs to cater to the different spectrum of customers. Meanwhile, China's efforts to develop high-end AI chips are gaining traction, driven by its semiconductor self-sufficiency push and inspired by the emergence of DeepSeek; Huawei's Ascend 910C, is touted to be able to compete with the banned Nvidia H100, exemplifying this progress. To capitalize on the AI-DC boom, local companies must remain neutral and continue to ride on our country's: (i) strategic location, (ii) reliable energy infrastructure, (iii) accommodative policies, and (iv) inexpensive resources.

Forecast. We project 2024/25 KLCI core earnings growth of +5.5%/+8.4%. We note that 2025's expansion is driven mainly from Banks, Plantation, Telco, and Utilities.

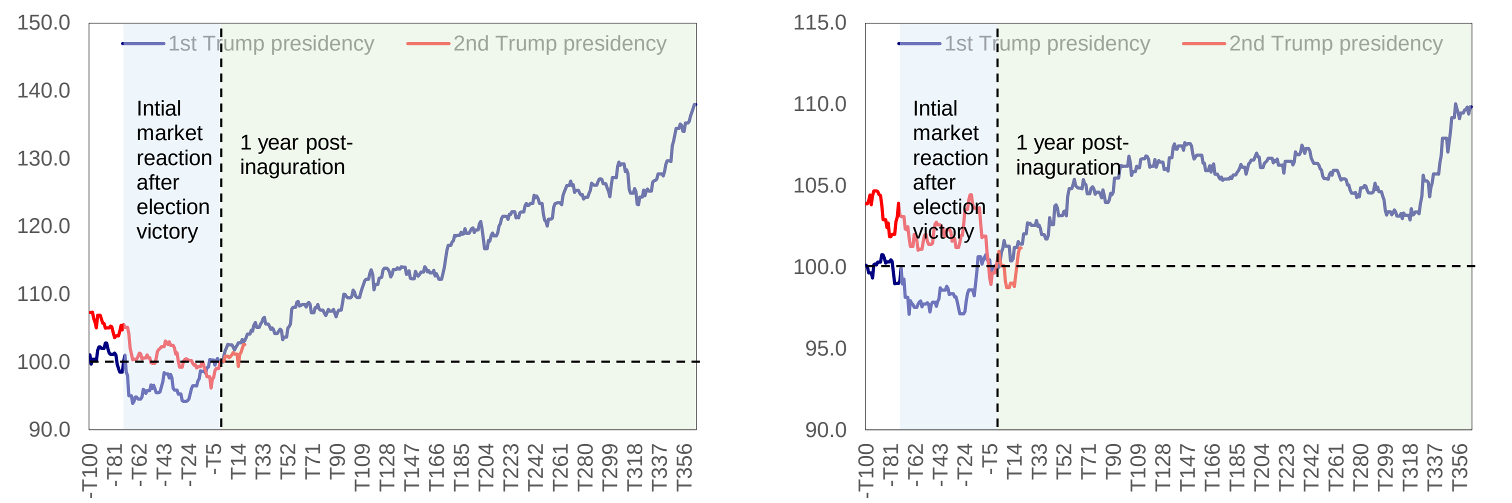
Maintain 2025 KLCI target of 1,740, based on a conservative 15x PE (at -0.6/-1.1SD beneath its 5-/10-year mean); this is also broadly in line to our bottom-up calculation of 1,810. Our OVERWEIGHT sectors are: Aviation, Banking, Construction, Consumer, Gaming, Healthcare, Property, Renewable Energy, and Utilities. Besides, we refresh our top picks to: Public Bank, RHB, Sunway, Gamuda, 99 Speedmart, IOI Properties, Heineken, CapitalA, Itmax, Aeon, SMRT, and Focus Point,

Figure #1 US macro environment before Trump's 1st & 2nd presidential victory



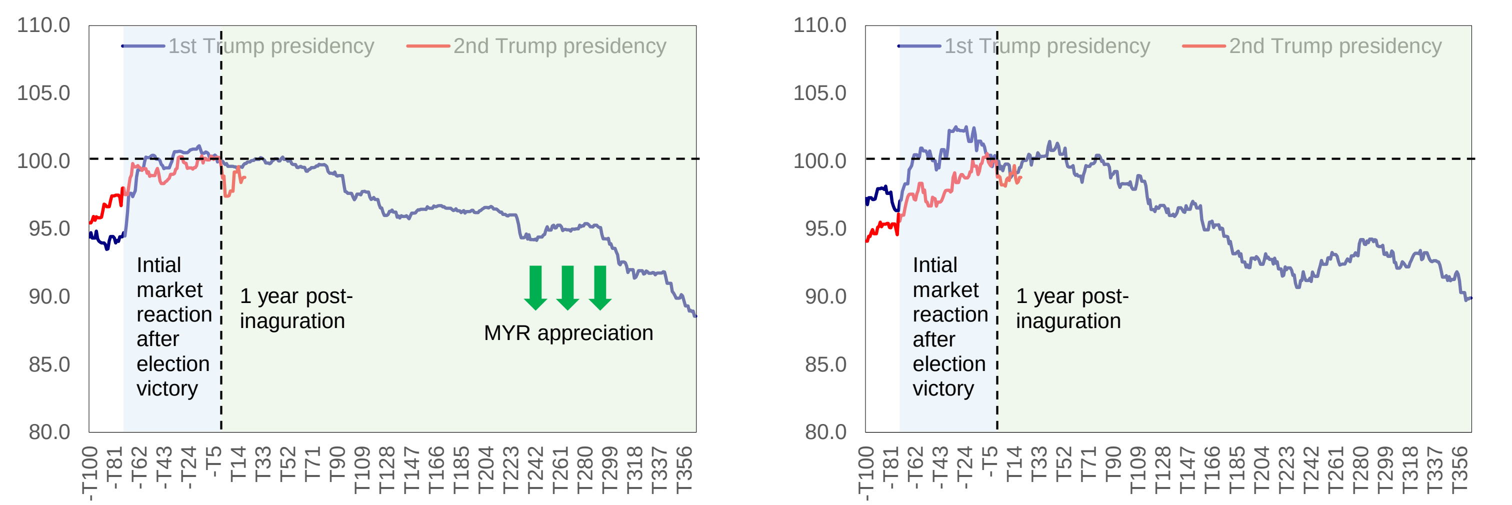
Comments: The robust US economy needs a different kind of supplement this time around given: (i) stubborn inflation, (ii) high interest rate, and (iii) large federal deficit.
Bloomberg, HLIB Research

Figure #2 Impact from Trump's presidential victory on MSCI EM (LHS) & KLCI (RHS) - rebased to 100 at inauguration day



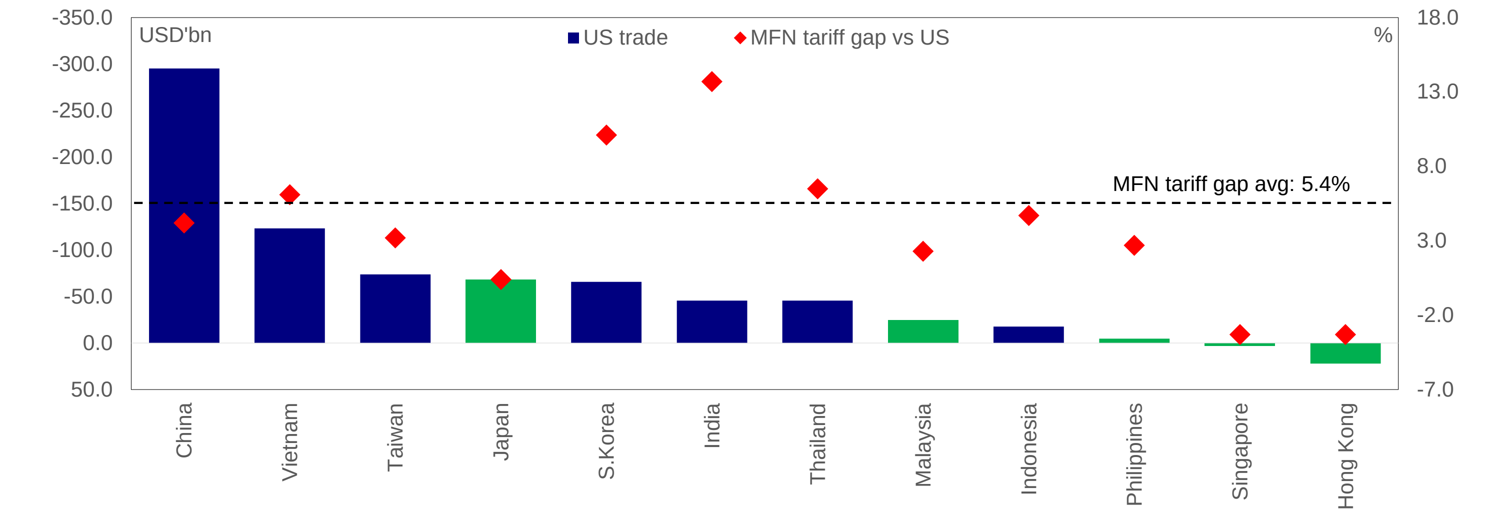
Comments: We think investors have decently priced in Trump-related risks. Also, EM rotation play could pan out and benefit KLCI, especially when US exceptionalism has become exceptionally expensive and well-owned.
Bloomberg, HLIB Research

Figure #3 Impact from Trump's presidential victory on USD-MYR (LHS) & DXY index (RHS) - rebased to 100 at inauguration day



Comments: With funds rotating out from the US, coupled with potential FFR cuts, MYR is poised to strengthen.
Bloomberg, HLIB Research

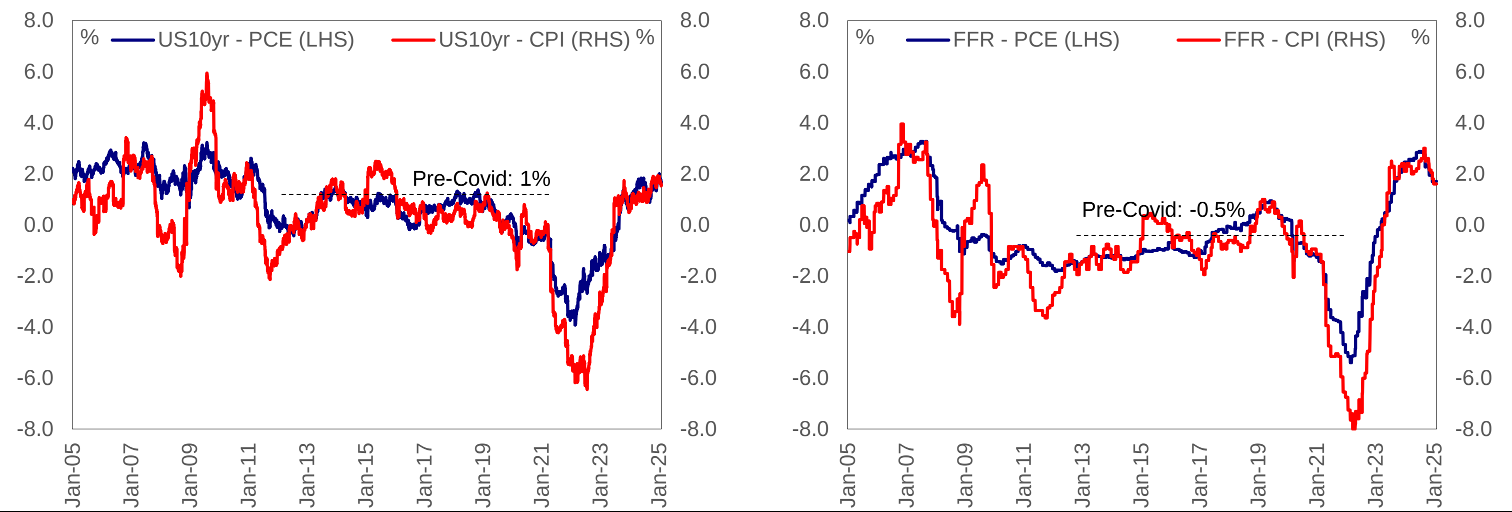
Figure #4 **US trade position with Asian countries in 2024 & Most Favoured Nation (MFN) tariff gap vs US**



Comments: While details are sketchy, President Trump's reciprocal tariffs are not expected to have a material impact on Malaysian exporters since the MFN tariff gap vs the US is only 2ppt. On a relative basis, we are also better off vs most Asian countries that have larger trade deficit position and a higher MFN tariff gap.

US Census Bureau, WTO, HLIB Research

Figure #5 **10-year US treasury yield vs PCE/CPI spread (LHS) & FFR vs PCE/CPI spread (RHS)**

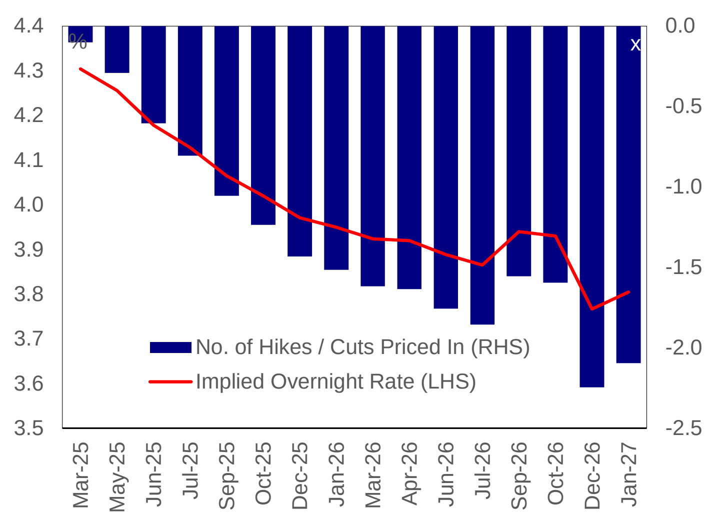


Comments: The average spread between the 10yr US treasury yield vs PCE/CPI is 1%. Whereas, to derive long-run expected inflation, we take the current 10yr treasury yield of 4.5% and deduct the 1% spread, which equates to 3.5%. As for FFR computation, we add the long-run expected inflation to the FFR vs PCE/CPI's conservative spread of 0% to arrive at 3.5%.

Bloomberg, HLIB Research

Figure #6 **CME FedWatch Tool's FFR probability table (LHS) & FOMC-Bloomberg FFR market expectations (RHS)**

Date	350-375	375-400	400-425	425-450
19/3/2025	0.00%	0.00%	8.00%	92.00%
7/5/2025	0.00%	0.00%	27.73%	72.27%
18/6/2025	0.00%	0.00%	63.40%	36.60%
30/7/2025	0.00%	0.00%	82.00%	18.00%
17/9/2025	0.00%	10.90%	89.10%	0.00%
29/10/2025	0.00%	28.00%	72.00%	0.00%
10/12/2025	0.00%	49.14%	50.86%	0.00%
28/1/2026	0.00%	58.00%	42.00%	0.00%
18/3/2026	0.00%	67.86%	32.14%	0.00%
29/4/2026	0.00%	72.00%	28.00%	0.00%
17/6/2026	0.00%	74.55%	25.45%	0.00%
29/7/2026	0.00%	66.00%	34.00%	0.00%
16/9/2026	0.00%	68.86%	31.14%	0.00%
28/10/2026	0.00%	60.00%	40.00%	0.00%
9/12/2026	47.36%	52.64%	0.00%	0.00%

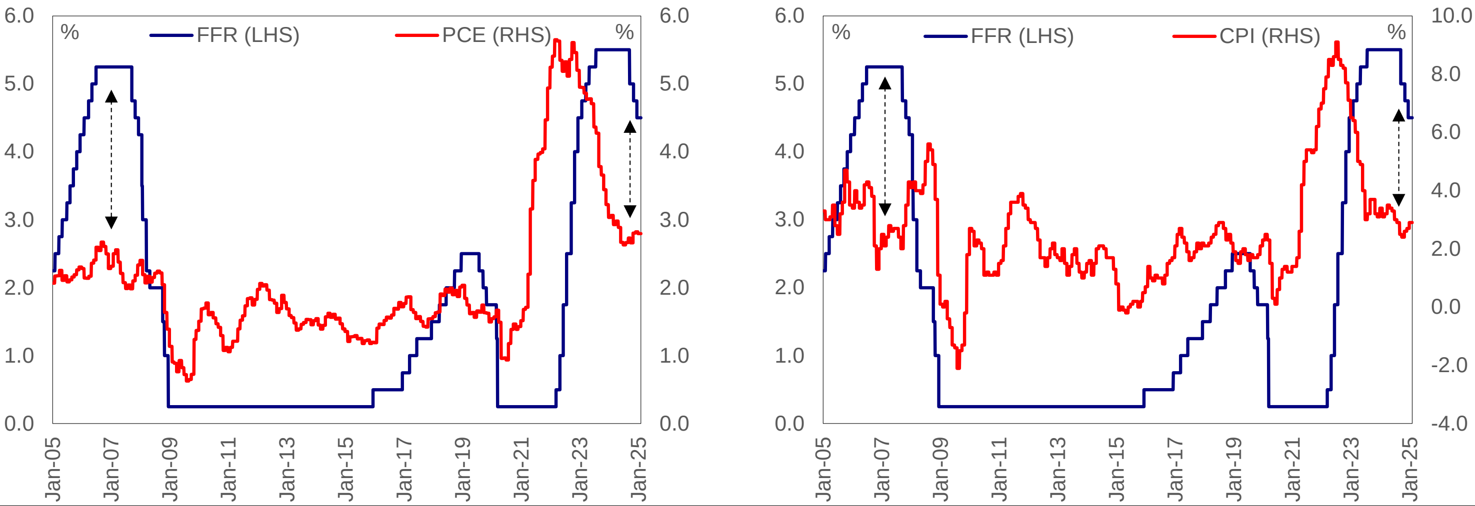


CME Group, Bloomberg, HLIB Research

Figure #7 **How military control of Ukraine has changed?**

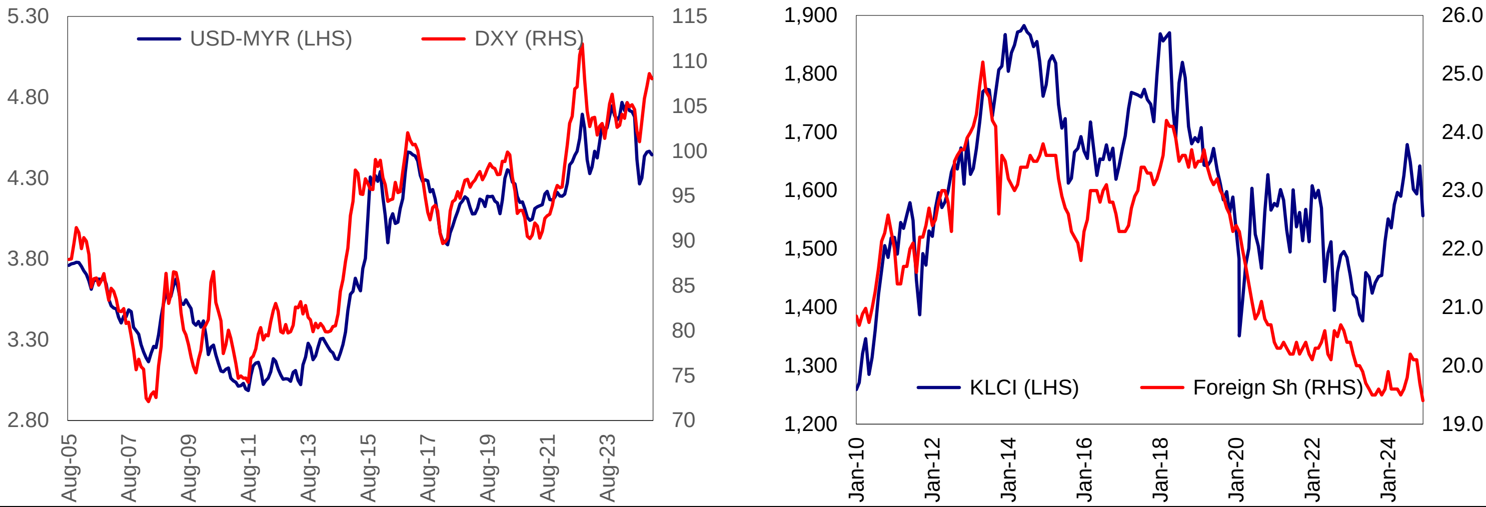
Comments: The Russia-Ukraine war has now entered its third year, far from the swift victory Russia initially envisioned. However, Russia has made territorial gains, but at a high cost: the war has claimed >150k Russian battlefield deaths, and reports suggest that North Korean troops have been deployed to address its manpower shortages. Meanwhile, the rising cost of the war is brewing a credit crisis. Despite these challenges, President Putin is expected to maintain an assertive stance, consistent with his strongman image. However, we believe he is motivated to bring an end to the war he initiated in light of the above-mentioned challenges.
BBC, HLIB Research

Figure #8 **FFR vs PCE (LHS) & CPI (RHS)**



Comments: FFR is still at elevated level, looking at the current large gap between FFR vs PCE/CPI. Thus, this suggests room for gradual cuts.
Bloomberg, HLIB Research

Figure #9 **DXY index vs USD-MYR (LHS) & KLCI vs foreign shareholding (RHS)**



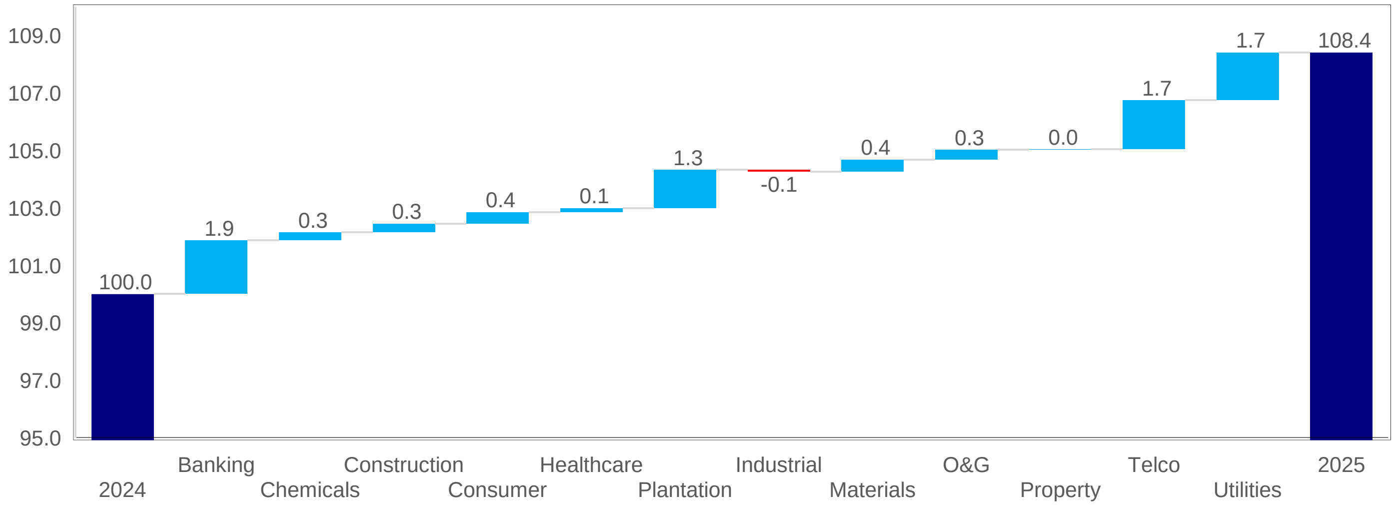
Comments: There is a strong 94% correlation between DXY and USD-MYR. Also, we note that KLCI tends to do better with higher foreign participation (69% correlation between the two).
Bloomberg, HLIB Research

Figure #10 Growing global DC capex pie

Big US tech firms	Key takeaways on capex guidance from recent earnings call
Microsoft	- Capex for 2QFY06/25 came in at record USD22.6bn, above consensus of USD20bn - To sustain quarterly run rate for remainder of FY25 to reach USD80bn (+43%) for the year - 50% for land and buildings, while remaining 50% for equipment (i.e. servers) - FY26 capex to grow but at a slower rate vs FY25 growth rate, consensus: $88-92bn
Meta	- Finished FY24 with total capex at USD39bn - Projected FY25 capex at USD60-65bn (focus on new DCs; AI and non-AI hardware); dynamic guidance subject to availability of GPUs - Early capex commitment as future AI models will require more compute power. Heavy AI infra investment seen as strategic advantage
Google	- Finished FY24 with capex of USD52.5bn - FY25 capex guidance of USD75bn, beat consensus' USD59bn; primarily technical infra and servers, followed by DCs and networking
Amazon	- 4Q24 capex came in at USD26.3bn, FY24 finished at USD77bn - 2025 capex guided at 4Q run-rate, translating to USD105bn p.a. (vast majority for AWS segment, AI related)

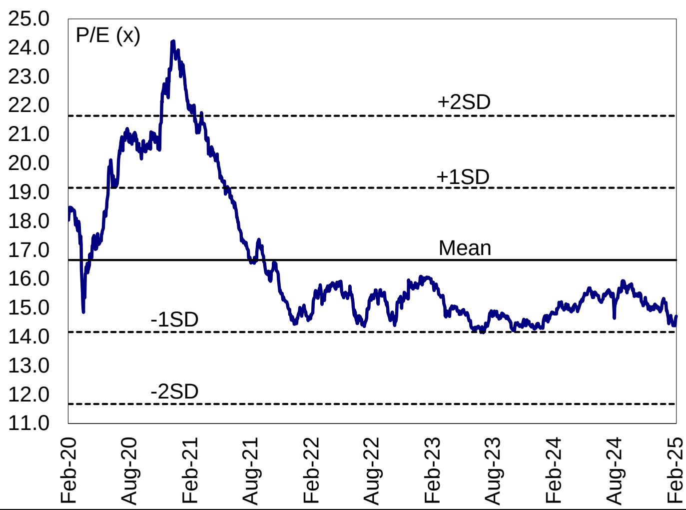
Comments: Microsoft, Google and Amazon cited capacity constraints and the trio are ramping up new build-outs. SemiAnalysis estimated the top 3 CSPs have >70% AI capacity in the US alone and this allows them more leeway to work with new restrictions. These jive with the BAU feedback gotten from Malaysian contractors.
HLIB Research, Companies

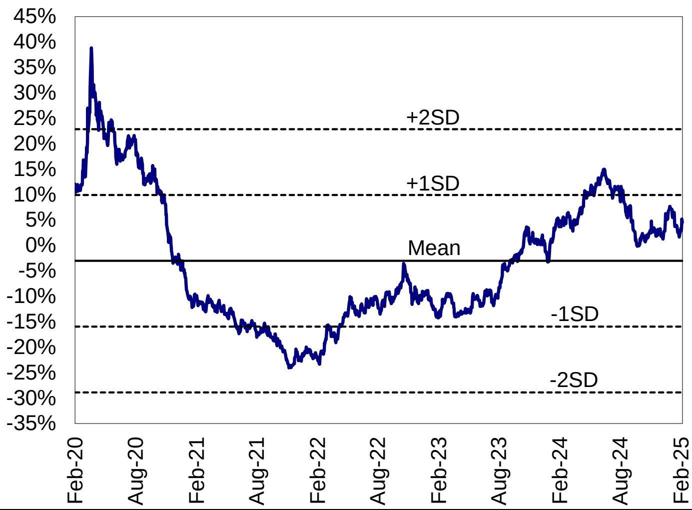
Figure #11 KLCI earnings growth contribution by sector (2024 rebased at 100)



Comments: Banks lifted by positive Jaws (from loans growth and discipline cost control), along with slightly lower NCC. As for Plantation, growth was supported by better volumes and lower fertilizer prices. While Telcos, the boost came from lower opex (from sharing of 5G network and Digi-Celcom merger), coupled with 5G and DC rollout at TM. Lastly, for Utilities, the main driver was Tenaga, thanks to higher Regulated Asset Base under RP4.
Bloomberg, HLIB Research

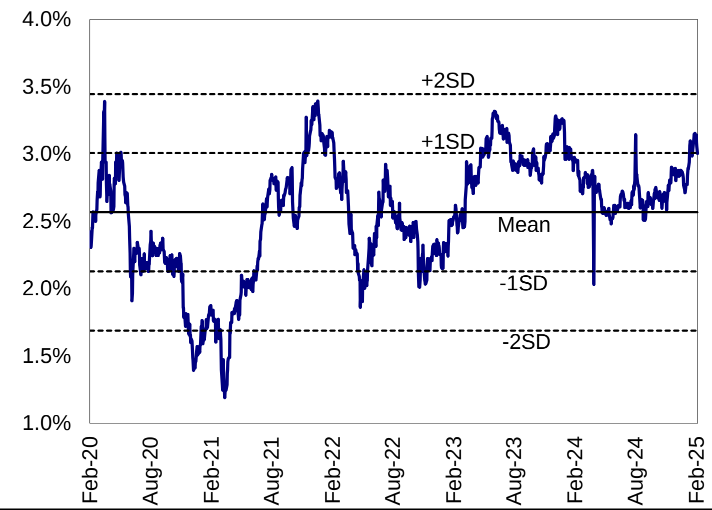
Figure #12 KLCI 5-year PE (LHS) & PE gap to ASEAN-5 (RHS) bands

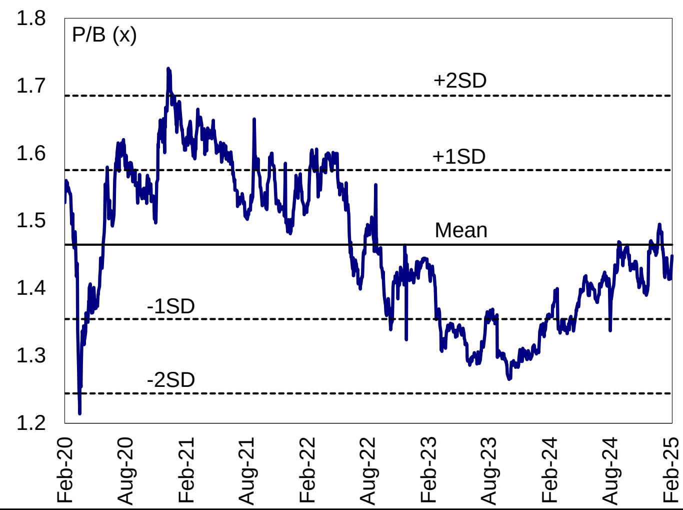




Bloomberg, HLIB Research

Figure #13 KLCI 5-year earnings vs MGS yield spread (LHS) & PB (RHS) bands





Bloomberg, HLIB Research

Figure #14 Sector PE valuation vs historical levels

	PE (x)		Historical PE levels (x)		
Sector	**2024F**	**2025F**	**+2SD**	**Mean**	**-2SD**
Automotive	11.4	8.3	13.8	9.8	5.7
Aviation	9.7	4.9	15.6	8.1	0.6
Banking	10.5	10.0	12.1	10.6	9.1
Construction	19.3	16.5	17.6	13.9	10.1
Consumer	22.0	20.0	37.1	26.4	15.7
Gaming	11.3	9.9	20.6	15.6	10.6
Gloves	70.2	30.1	41.4	27.4	13.4
Healthcare	35.7	33.1	48.6	35.8	23.0
Media	19.5	18.5	19.3	12.9	6.4
Oil & Gas	12.9	11.5	15.0	12.7	10.5
Plantation	20.7	17.8	24.7	16.9	9.2
Property	19.2	18.7	25.5	14.4	3.4
REIT	17.5	16.2	25.4	18.3	11.3
Renewable Energy	31.4	22.8	31.2	21.4	11.6
Technology	35.8	26.0	41.9	29.4	16.8
Telecommunication	21.9	18.7	30.0	23.6	17.2
Utilities	17.5	15.5	15.6	13.0	10.4

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Figure #15 A visual of sector PE valuations vs their respective +2SD and -2SD levels

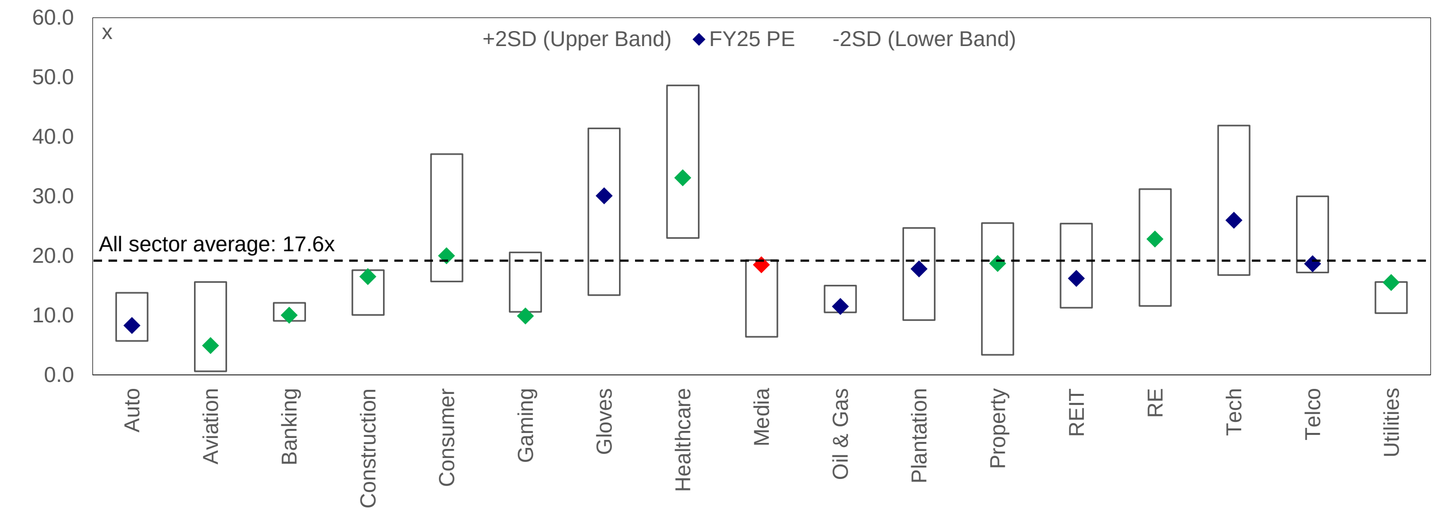

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Figure #16 HLIB sector ratings

Overweight	Neutral	Underweight
Aviation	Automotive	Media
Banking	Gloves	
Construction	Oil & Gas	
Consumer	Plantation	
Gaming	REIT	
Healthcare	Technology	
Property	Telecommunication	
Renewable Energy		
Utilities		

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Figure #17 Investment case for our top picks

Stock	TP (RM)	Investment case
Public Bank	5.20	We like Public for its: (i) strong defensive qualities, (ii) headroom for provision write-backs (sitting on management overlay allowances of RM1.5bn with elevated LLC of 154% vs pre-Covid of c.120%), and (iii) foreign shareholding is near multi-year low (current: c.27% vs Mar-11 low of 24% and Mar-18 high of 40%).
RHB	7.55	We continue to like RHB for its: (i) appealing dividend yield of >6%, (ii) being a relatively inexpensive KLCI banking component (<1x P/B), and (iii) elevated CET1 ratio (>16%) that creates scope for potential capital management or to grow the bank at a faster clip.
Sunway	5.75	We like Sunway for its strong growth prospects driven by: (i) healthcare expansion from new hospital expansion as well as SMCKL tapping into medical tourism; (ii) property development, as Sunway Iskandar Johor development accelerate; and (iii) property investment, with new contributions from Sunway South Quay and SunREIT enhancing recurring income.
Gamuda	5.50	We remain positive on the stock given: (i) orderbook upcycle from high-certainty pipeline (ii) differentiated DC strategy, and (iii) growing leverage into Australian RE space. Post-selldown, the stock trades at FY26/27 P/E multiple of 19.6x/16.1x which is undemanding, in our opinion, backed by its robust orderbook and earnings upcycle phase.
99 Speedmart	2.98	We favour 99Smart for its market leadership and aggressive expansion strategy. With c.40% market share and the largest outlet network, it still has room to grow in East Coast and East Malaysia. We expect strong FY23-26F revenue and net profit CAGR of 13.1% and 15.8%, driven by: (i) 250 new outlets annually; (ii) and stable 2% SSSG.
IOI Properties	4.05	We see multiple catalysts unfolding, including: (i) potential inclusion into Shariah-compliant list in May-25 review; (ii) potential REIT listing in 2026-2027; (iii) 3.9k acres of Kulai landbank gaining traction benefitting from JS-SEZ; and (iv) IOI Central Boulevard in Singapore benefitting from improving occupancy and declining interest rates.
Heineken	34.56	We believe its risk-reward is skewed to the upside, supported by: (i) stronger beer sales prospects, (ii) undemanding valuation at -1SD below its 5-year mean, and (iii) attractive dividend yield of >5.5%. The higher disposable income and stronger tourism outlook are set to benefit Heineken this year.
CapitalA	1.68	Despite short-term challenges, we believe CapA will turnaround, leveraging on the robust air travel demand in the region. Besides, we expect further upside to our TP if the PN17 regularisation plan is successfully executed. The stock is currently under-owned by institutional investors. While not out of the woods, this is an event-driven trade for higher-risk investors.
Itmax	4.71	We like ITMAX for its strong AI-driven smart city solutions and multi-year growth potential. With ongoing expansion in Johor, Kuala Lumpur, and Penang, its solid order book supports further scaling. Additional solutions like networked lighting and smart parking solutions could drive future upside.
Aeon	1.82	Aeon's prospects in the PMS segment remain strong, driven by recent renovations and store re-openings; we saw +20% YoY revenue boost for two of its earlier refurbished malls, while the upcoming Aeon KL Midtown is seen to drive long-term growth. Besides, it is well-positioned to benefit from the higher disposable income outlook.
SMRT	2.19	The higher approved capex in Tenaga's RP4 bodes well for SMRT, supporting a faster deployment pace. Also, the robust deployment outlook for the local water segment, PLN, and Papi will boost SMRT's growth trajectory as well. Besides, the proliferation of managed sites post-deployment is seen to expand its recurring income base.
Focus Point	1.14	We are optimistic on FocusP's growth, backed by its resilient optical business and a recovering F&B segment. Expansion into East Malaysia and strong sales momentum from its key corporate client bolster its outlook. We expect further business expansion in FY25.

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Figure #18 How our top picks fit into our investment themes?

Stock	Domestic-centric	Defensive	Strong MYR	Big-cap EM rotation play	Disposable income boosters	Tourism strength	Johor's revitalization	Data center boom
Public Bank	✓	✓		✓				
Sunway	✓	✓		✓	✓	✓	✓	✓
RHB	✓	✓		✓				
Gamuda				✓				✓
99 Speedmart	✓	✓		✓	✓			
IOI Properties						✓	✓	✓
Heineken	✓		✓		✓	✓		
CapitalA	✓		✓		✓	✓		
Itmax	✓						✓	✓
Aeon	✓	✓			✓			
SMRT		✓						✓
Focus Point	✓				✓	✓		

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Figure #19 Top picks

Stock	Mkt Cap (RM m)	F4GBM Index	ESG Rating	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
								FY24	FY25	FY24	FY25	FY24	FY25
PBBANK	86,378	YES	★★★★	4.45	5.20	BUY	Dec	12.4	12.0	1.5	1.4	4.5	4.7
RHB	28,249	YES	★★★★	6.48	7.55	BUY	Dec	9.1	8.8	0.9	0.8	6.3	6.5
SUNWAY	27,863	YES	★★★★	4.51	5.75	BUY	Dec	32.4	32.0	1.8	1.7	1.6	1.6
GAMUDA	26,009	YES	★★★	4.56	5.50	BUY	Jul	22.1	19.6	2.2	2.0	2.2	2.2
99SMART	19,320	NO	N.A.	2.30	2.98	BUY	Dec	34.8	31.6	18.0	14.0	1.4	1.6
IOIPG	11,673	YES	★★★★	2.12	4.05	BUY	Jun	18.2	11.3	0.5	0.5	3.3	4.2
HEIM	7,401	YES	★★★★	24.50	34.56	BUY	Dec	17.3	16.2	16.1	16.1	5.8	6.2
CAPITALA	3,943	NO	★★★	0.91	1.68	BUY	Dec	9.7	4.9	N.M.	N.M.	0.0	0.0
ITMAX	3,855	NO	★★	3.75	4.71	BUY	Dec	45.3	36.2	8.2	6.9	0.4	0.6
AEON	2,120	YES	★★★★	1.51	1.82	BUY	Dec	12.4	11.4	1.0	1.0	2.6	2.6
SMRT	519	NO	N.A.	1.14	2.19	BUY	Jun	19.5	16.9	7.6	5.2	0.0	0.0
FOCUSP	388	NO	★★★	0.84	1.14	BUY	Dec	9.4	8.8	2.3	2.0	3.6	3.6

Note: (i) Share price as of 7 Feb, (ii) ESG rating as assessed by FTSE Russell, (iii) for non-Dec FYE, refers to FY25-26.

Disclaimer

1. As of 13 February 2025, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 13 February 2025, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) -.

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.