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Market Outlook 2024

Navigating Cautiously Amidst Shifting Tides

FBM KLCI: 1,447.12
FBM KLCI 2024 Target: 1,550.00
Return: 7.1%
Market: Neutral
Overweight: Banks, Consumer & Technology

Table 1: World Indices

Indices (12/12/23)	YTD Return (%)	PER (X)	PER (X)	Dividend Yield (%)	Dividend Yield (%)
		2023E	2024F	2023E	2024F
Dow Jones	7.7	21.5	17.8	2.0	2.1
Nasdaq	30.0	37.1	30.5	0.8	0.8
S&P 500	16.2	22.3	19.0	1.5	1.6
Nikkei	0.7	11.1	10.7	4.1	4.3
FTSE	16.9	27.1	18.7	1.9	1.9
STI	(5.3)	11.1	10	5.2	5.7
Hang Seng	(17.5)	9.0	7.6	4.2	4.7
FBMKLCI	**(2.4)**	**15.0**	**13.2**	**4.3**	**4.5**

Source: Bloomberg, Mercury Securities

In the intricate tapestry of the 2024 market landscape, the FBM KLCI stands at a poised juncture, currently charting with a PER23 of 15.0x against historical of 16x to 17x.This calculated stance is influenced by historical underperformance within the banking sector, which, grappling with a projected earnings growth of 5% - 6% in CY2024, down from the robust 12% in CY2023, encounters challenges posed by heightened credit costs and a stagnant ROE of 10%. The envisaged PER expansion, typically catalyzed by the banking sector, appears elusive, painting a narrative of a subdued and muted market scenario for the upcoming year.

Peering into the crystal ball toward the conclusion of 2024, our baseline scenario unfolds a cautiously positive trajectory. Foreseeing year-end target of FBM KLCI at 1,550 points, indicating a YoY growth of less than 7.1%, this optimism is rooted in sustained macroeconomic growth, diminishing price pressures, and a stable interest rate environment.

On the global stage, factors tethered to equity valuations include the specter of a US recession, seemingly unfounded as indicated by the US Leading Economic Index (LEI) and the US treasury yield spread, aligning with consensus growth expectations. Additionally, geopolitical events in Ukraine and Palestine, contained as regional conflicts, are perceived to have limited potential to significantly impact the market.

Setting navigational coordinates for the culmination of 2024, the FBM KLCI target rests conservatively at 1,550 points, emblematic of a PER24 of 14.1x. This prudent target considers historical trading patterns and the constraining elements discussed earlier, encompassing the unlikely prospect of a US recession, geopolitical uncertainties, and prevailing market sentiment.

In the backdrop of restrained earnings growth, our strategic vision accentuates the retention of stable dividend yields, notably within the banking sectors and selected REITs. Simultaneously, aligning with the momentum of the Electric Vehicle (EV) initiative, we spotlight three stocks deeply entrenched in this sector, chosen for their robust earnings growth exceeding 26%. As we look ahead to 2024, investors are urged to exercise caution and persist in extracting returns from dividends, while also steering towards the promising EV sector, characterized by its favorable earnings potential relative to the broader market.

Against this backdrop, trading activities on the ACE market are poised to maintain dominance in the retail landscape, fueled by fervent activities in the IPO market. This dynamic environment provides an opportune moment to unearth niche stocks, particularly within the technology space, making situational stocks a focal point for retail investors seeking strategic entry points. In essence, this Market Outlook for 2024 advocates a balanced approach, navigating the intricate terrain of the Malaysian equity market with a cautious yet strategic perspective, as we anticipate and adapt to the shifting tides of the coming year.

Global Economic Outlook in 2024: A Delicate Balance of Caution and Optimism

Table 2: GDP Growth for selected countries 2022 to 2024F (%)

GDP Growth (%)	2022	2023E	2024F
World	3.5	3.0	3.0
USA	1.9	2.1	1.6
China	3.0	5.0	5.0
Japan	1.0	2.0	1.5
Singapore	3.7	1.0	2.1
UK	4.1	0.5	0.6
Malaysia	**8.7**	**4.2**	**4.3**

Source: Bloomberg, Mercury Securities

Table 3: Consumer Price Index & Jobless Rate for selected countries, (%)

Country	CPI (%)			Jobless Rate (%)		
	2021	**2022**	**9M23**	**2021**	**2022**	**9M23**
USA	4.7	8.0	4.4	5.4	3.7	3.7
China	(1.5)	1.0	(1.5)	5.1	5.6	5.3
Japan	(0.2)	2.5	3.4	2.8	2.6	2.6
Singapore	2.3	6.1	5.1	2.8	2.1	1.9
Malaysia	**2.5**	**3.4**	**2.8**	**4.6**	**3.8**	**3.4**

Source: Bloomberg, Mercury Securities

Table 4: World Central Bank Policy Rate, (%), 2021 to November 2023

Country	2021	2022	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
USA	0.00-0.25	4.25-4.50	5.00-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50
China	3.80	3.65	3.65	3.55	3.55	3.45	3.45	3.45
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Euro Area	0.00	2.50	4.00	4.25	4.25	4.50	4.50	4.50
UK	0.25	3.50	5.00	5.00	5.25	5.25	5.25	5.25
Malaysia	**1.75**	**2.75**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**

Source: Bloomberg, Mercury Securities

The economic outlook for 2024 is characterized by a careful balance of caution and optimism on the global stage. Forecasts suggest sustained growth with a potential moderation in interest rates by second half of 2024, driven by deliberate interventions from central banks worldwide particularly, FOMC. The U.S. and China remain committed to GDP expansion, while Malaysia foresees a measured ascent. In the U.S., pragmatic economic expansion offsets challenges from prior deglobalization efforts, and China strategically responds to economic headwinds. Malaysia navigates global challenges judiciously, anticipating a recovery in external trade. This exploration delves into the nuanced strategies employed by nations to address economic intricacies and position themselves for a poised trajectory in the coming year.

As we delve into the economic projections for 2024, a nuanced perspective emerges, characterized by a prudent balance of caution and optimism amidst the intricate dynamics of the global economy. Forecasts suggest a continuation of global growth, with the potential for a gradual reduction in interest rates in second half of 2024. The prevailing narrative underscores the deliberate measures taken by central banks worldwide to control inflation rate and Government to foster economic recovery, particularly in China.

Projections indicate that both the US and China are poised to uphold their GDP growth, with estimations of 1.6% and 5.0%, respectively in 2024. Against this backdrop of resilience, Malaysia is expected to navigate the economic landscape with a muted ascent to 4.3% in 2024 from the commendable 4.2% recorded in 2023.

US: A Pragmatic Approach to Expansion

The US sustained economic expansion in 2024, driven by the expansionary policies of the Biden administration. The aftermath of deglobalization initiated by preceding administrations has led to increased investments returning to the nation, concurrently tightening the labor market. However, with better job prospects, strong consumer spending on post covid-era and strong US dollar, private consumption remains robust and will continue to put US out of recession. Challenges persist, notably the Federal Reserve's ambitious target of a 2% inflation rate, prompting a pragmatic consideration of a more attainable range between 3% to 4%. Consequently, any deliberation on interest rate normalization is poised for postponement until the 2nd half of 2024.

China: Strategic Responses amidst Economic Headwinds

China grapples with the repercussions of a decelerating export market due to deglobalization, coupled with a persistently high saving rate affecting private consumption growth. Despite these challenges, strategic interventions, including heightened government spending, stimulus packages, and judicious reductions in interest rates, aim to restore vitality to the economy.

The recently established economic team in 2023 endeavors to instill confidence in private consumption, maintaining liquidity amidst an inflation rate lingering below 1% in 2023.

Malaysia: Navigating Global Challenges with Prudence

Malaysia approaches 2024 with a cautious optimism, recognizing the intricacies of the global economic landscape. The anticipated recovery in external trade, driven by the resurgence of the technology cycle, especially in China, is expected to benefit industries such as manufacturing and export-oriented activities, albeit with careful consideration.

Private consumption is likely to exhibit prudence, given the constraints of a tight labor market, while the reduction of government subsidies on essential items signals a deliberate fiscal approach.

Against this backdrop, robust investment spending, exemplified by projects like the Singapore-Malaysia high-speed rail, is expected to underpin economic expansion.

A judicious projection of a 2.8% inflation rate and a modest 4.3% GDP growth in 2024 reflects the composed and deliberate nature of Malaysia's economic trajectory.

Sectorial Outlook

Table 5: Sectorial Recommendation

Sector	YTD Return (%)	Current P/E (x)	Forward P/E (x)	Recommendation
Banking	(0.8)	9.9	9.8	Overweight
Construction	21.0	15.0	11.3	Neutral
Oil & Gas	2.5	9.1	9.2	Neutral
Property	30.8	10.6	-	Neutral
REIT	0.4	13.0	15.4	Neutral
Consumer	(6.0)	14.7	14.8	Overweight
Glove / Healthcare	1.2	23.5	31.3	Underweight
Plantation	(1.9)	14.4	16.9	Neutral
Technology	(1.6)	31.4	24.0	Overweight
FBM KLCI	**(3.2)**	**14.1**	**13.2**	**Neutral**

Source: Bloomberg, Mercury Securities

Banking sector

The allure of the banking sector lies in its robust dividend yield ranging from 3.5% to 7.5% and potentially even higher. The 2024 outlook for this sector is decidedly optimistic, driven by anticipated positive earnings attributed to improved Net Interest Margin (NIM), controlled operating expenses (OPEX) growth, and reduced Non-Credit Charges (NCC). While Normalised Net Operating Income (NOII) may experience a modest slowdown compared to the exceptional performance witnessed in CY23, banks are confident in the potential for improved fee income. The expectation is that operating expenses will normalize, despite the likelihood of continued heightened tech spending. Anticipated improvements in asset quality and provisioning, including potential writebacks, are particularly noteworthy for banks exhibiting robust asset quality. A robust business loan pipeline is on the horizon, fueled by post-election disbursements and significant infrastructure projects. Deposits are poised for stronger growth, buoyed by heightened demand following liquidity tightening. With these promising indicators, dividend prospects for the sector remain positive, with several banks expressing clear intentions to increase payouts.

Notable top picks include Maybank, RHB Bank, CIMB, and AMMB. Maybank and RHB Bank stand out with solid dividends of 6.7% and 7.3% in FY24, respectively, while CIMB offers potential for Return on Equity (ROE) optimization. AMMB, on the other hand, is favored for effective OPEX control and a secure capital structure, implying the potential for improved future ROEs and dividend payout.

Construction sector

The construction sector is cautiously navigating a stabilized political landscape and outlined medium-term plans in the Mid-Term Review of the 12th Malaysia Plan, with a significant RM90 billion development expenditure under Budget 2024. Despite a robust project pipeline and growing demand for industrial structures, caution is advised, emphasizing the crucial need for successful project execution. Economic projections anticipate a 5.5% growth in the construction sector for 2024, slightly lower than the 7.0% estimate in 2023. Ongoing mega projects like the Pan Borneo Highway, ECRL, LRT3, and RTS Link contribute to this growth. The value of construction work has steadily risen, reaching RM98.0 billion in the cumulative 9MFY23, with a positive outlook for job flows in 2024. However, 12,373 contracts awarded as of Nov-23 indicate a -13.1% year-on-year decline, signaling challenges.

Mega projects, notably the MRT3, have faced delays, with expectations of further postponements, though an award is projected in 2024. Allocations under Budget 2024, including RM10 billion for the Penang LRT and initiatives like flood mitigation projects, aim to benefit smaller contractors. Development projects in East Malaysia, with allocations of RM6.60 billion and RM5.80 billion for Sabah and Sarawak, respectively, are poised for growth. While the national Budget may not prominently feature infrastructure projects, off-Budget initiatives like the MRT3 and potential revival of the KL-Singapore HSR play significant roles. The sector maintains a neutral stance, recognizing a positive outlook but placing emphasis on caution due to challenges such as escalating material costs and a high PER relative to earnings growth.

Oil & Gas sector

Navigating geopolitical tensions and supply uncertainties, the oil and gas sector finds itself delicately poised. The intensification of the Russia-Ukraine conflict and ongoing strife in the Middle East, coupled with voluntary supply curbs by Saudi Arabia and Russia, casts shadows on Brent crude oil prices. Despite a projected supply surplus relative to demand in CY24 and a gradual convergence in CY25, external variables such as geopolitical intricacies, decisions by OPEC+, and dynamics within the U.S. inventory will wield influence over the oil market. The envisaged expansion in demand across Central and East Asia and South America could mitigate supply apprehensions.

A forecasted average of USD84-86pb for Brent in CY24 reflects caution. Local Oil, Gas, and Service Equipment entities may find merit in concentrating on contractual projects and brownfields amidst rising Brent prices. Although Malaysia's demand for petroleum products, especially fuel oil and Jet A1, is anticipated to remain robust in CY24, the petrochemical sector confronts uncertainties. Equipment entities may find merit in concentrating on contractual projects and brownfields amidst rising Brent prices. Although Malaysia's demand for petroleum products, especially fuel oil and Jet A1, is anticipated to remain robust in CY24, the petrochemical sector confronts uncertainties.

Exploration and Production (E&P) projects are expected to demonstrate resilience in CY24, albeit with a marginal increase in rig count and persistent challenges such as labor shortages.

In the midstream segment, there is a robust demand for LNG carriers, yet the sector contends with inflationary pressures and supply chain disruptions.

Downstream activities witness sustained demand for diesel, Jet A1, and fuel oil, despite calls for energy transition. Petrochemicals may witness improved utilization, but challenges persist. Overall, maintaining a cautiously optimistic stance, we acknowledge external drivers like geopolitical complexities, inflation, and the potential for global crises. Our only selection in this sector is Gas Malaysia which has highest dividend yield of 7.2% FY24 and low PER of 11.2X in FY24.

Property sector

Alleviating apprehensions surrounding the residential property market, the latest data from the National Property Information Centre (NAPIC) reveals a sustained reduction in residential overhang, marking a seventh consecutive quarter decline and reaching 25,311 units in 3QCY23. Noteworthy is the prominent improvement in Johor, witnessing a decrease in overhang to 4,500 units, a positive trend mirrored in Perak and Selangor. Similarly, the serviced apartment segment exhibits an encouraging drop to 22,152 units in 3QCY23, down from 22,497 units in the previous quarter, with Johor contributing significantly to this positive shift. Underpinning this optimistic scenario is the robust performance of loan applications for property purchases, as indicated by Bank Negara Malaysia's data, showcasing a substantial +23% year-on-year surge, totaling RM54 billion in October 2023. This follows a commendable growth of +15.7% year-on-year in September 2023. The cumulative figures for the first ten months of 2023 reveal a higher loan application amounting to RM512 billion, reflecting a resilient and escalating buying interest in the property market.

However, four consecutive OPR hikes in 2022, which brought the OPR to 3% currently, have adversely impacted buying interest due to increased monthly installments. The expected slowdown in GDP towards the end of 2023 will also dampen buying sentiment. Hence, we exercise caution and recommend an underweight stance, considering potential risks and uncertainties inherent in the property market despite the reduced overhang.

REITs sector

The retail sector is grappling with challenges stemming from the imminent opening of new retail malls, including Tun Razak Exchange and PNB118, scheduled for 2023/2024. Apprehensions arise as tourist preferences shift towards destinations like Japan, Korea, and Taiwan, leaving Malaysia without a distinctive appeal. Furthermore, the economic slowdown in China has redirected Chinese tourists to inland tours, exacerbating the impact on Malaysia's tourism industry.

Retail REITs anticipating a resurgence in organic growth in CY24 may encounter obstacles due to these factors. Despite recorded growth in CY23 for retail REITs such as IGB REIT, Sunway REIT, KLCCP Stapled Group, and Pavilion REIT, uncertainties persist regarding shopper footfall. While prime locations may experience positive rental reversion, concerns about an oversaturation of retail malls cast a shadow over the sector's overall outlook. The noteworthy recovery of the hotel industry in CY23, particularly for KLCCP Stapled Group's Mandarin Oriental, hinges on sustained growth in 2024 through higher tourist arrivals. Malaysia's visa-free entry initiative for citizens from China, India, and the Middle East, starting December 2023, is expected to bolster the hotel industry, though uncertainties linger.

A cautious stance is recommended due to uncertainties surrounding retail and hotel REITs. Despite optimism regarding the return to organic growth for retail REITs and the recovery of the hotel industry, the sector faces headwinds. While industrial and healthcare REITs provide defensive options, overall uncertainties warrant a neutral recommendation. Sunway REIT is picked as our top choice for a 6.9% yield in FY24.

Consumer sector

Anticipating a positive trajectory for the retail sector in 2024, recent data from the Department of Statistics Malaysia (DOSM) reveals a robust outlook for non-specialized and F&B stores. Over the first nine months of CY23, retail trade soared by +10.7% YoY, reaching RM536.4 billion, with notable double-digit growth in F&B, tobacco, and non-specialized stores. This resurgence indicates Malaysians' preference for physical shopping post-border reopening and economic recovery.

Foreseeing sustained growth, we attribute this optimism to a stable job market, inelastic demand for essential items, cash assistance from Budget 2024, and an expected increase in tourist arrivals. Despite price sensitivity and prudent spending on discretionary items due to multiple challenges like rising inflation and potential fuel price rationalization, we project a positive outlook for sectors like F&B and tobacco.

While acknowledging the challenges, particularly for discretionary items, we maintain a positive stance, highlighting opportunities within specific segments. Notably, convenience food under QL Resources and competitively priced products by Padini are poised for continued success. Family Mart, under QL Resources, is set to benefit from the upward trend in tourism for convenience food.

In the global commodities landscape, we observe a mixed trend for F&B producers' raw materials. While certain commodities have eased, persistent challenges such as unfavorable weather and port congestion create volatility. We caution on potential elevated raw material costs but remain optimistic about F&B manufacturers adapting to market dynamics. In poultry, the outlook is positive. Key raw materials like soybean meal and corn are trending below historical peaks, providing an advantage for players like QL Resources and Leong Hup International. With the Malaysian government lifting price controls for chicken, we anticipate poultry players to adjust prices based on market dynamics.

In conclusion, we maintain an overweight recommendation for the sector, anchored in the positive retail sales outlook, favorable trends in specific segments, and potential easing of raw material costs for poultry players. Our top picks include Farm Fresh, both displaying strong fundamentals in consumer staples after experiencing a sharp drop this year.

Glove sector

The glove industry currently grapples with formidable challenges, warranting an underweight recommendation. Persistent elevated costs of raw materials, including NR Latex Concentrate, Butadiene, and Acrylonitrile, present ongoing concerns throughout 2023. The anticipated surge in crude oil prices may further escalate production expenses, while volatility in fuel costs – a substantial component in production – introduces uncertainty, with potential increases looming in 2024, thereby impacting profit margins.

Although there is a projected increase in global glove demand for 2024, the industry contends with Average Selling Price (ASP) compression due to intense competition from Chinese manufacturers. Despite a noteworthy +126% quarter-over-quarter increase in Malaysia's glove export volume in the third quarter of CY23, the cost advantages enjoyed by Chinese competitors contribute to declining ASPs and profit margins.

The short-term depreciation of the USD against the MYR provides temporary revenue benefits. However, the industry faces challenges such as overcapacity and competitive pricing from Thai and Chinese manufacturers, continuing to exert pressure on prices. Maintaining an underweight stance is deemed prudent, given the potential for heightened competition and a slower-than-expected earnings turnaround. Despite the sector's low valuation, a cautious approach is advisable.

Plantation sector

The oil palm industry has demonstrated resilience, showing a modest increase in local production and robust estate activity. Favorable weather conditions and increased estate activities contributed to a rise in the nation's average Fresh Fruit Bunch (FFB) yield. Despite concerns about potential adverse weather events, such as EL-Nino, the industry anticipates steady local production growth in 2024, supported by ongoing recovery efforts and mild El-Nino expectations.

Indonesia's oil palm production faces challenges due to deficit rainfall, impacting crop seasonality. However, estimates suggest a growth in production for the current year. The continuation of the domestic market obligation (DMO) in 2024 aims to stabilize cooking oil prices, though uncertainties surround the implementation of a B40 biodiesel blend rate.

On the demand side, palm oil exports to major importing countries have been subdued, reflecting weaker demand from key nations. Increased end stocks in major importing countries, elevated global interest rates, competition from other oils, and a strong Ringgit contribute to subdued demand. The outlook for CPO prices indicates a potential surplus and downward pressure. While a delayed onset of El-Nino could temporarily boost CPO prices, factors like increased supply and global economic challenges may limit long-term price growth. The sector maintains as neutral with no stock recommendation due to low dividend yield.

Technology sector

We are maintaining an overweight stance on the technology sector, particularly favoring EV-related stocks, despite conflicting signals. The World Semiconductor Trade Statistics (WSTS) predicts a robust +13.1% growth in the semiconductor industry for 2024, serving as compensation for the anticipated contraction in 2023. However, when compared with 2022, this growth represents a modest uptick of +2.5%. Concerns arise from the International Monetary Fund's (IMF) lukewarm GDP forecast for 2024, signaling potential challenges in the overall economic climate.

Despite the uncertainties, the smartphone and automotive semiconductor markets are expected to rebound in 2024, with variations in recovery pace noted among different subsectors and firms. Positive trends are anticipated in the second half of the year, aligning with an improvement in demand. Ongoing geopolitical tensions between the US and China present opportunities for Outsourced Semiconductor Assembly and Test (OSAT) companies, especially those with a presence in both Malaysia and China.

WSTS provides a more optimistic outlook, narrowing its 2023 contraction forecast to -9.4% and predicting a robust +13.1% growth in semiconductor sales for 2024. The memory sector is expected to lead this growth, with significant contributions from the Americas and Asia Pacific regions. However, concerns persist regarding the lukewarm expansion of the global economy and geopolitical issues affecting demand.

The strained US-China relationship has spurred the adoption of the "China Plus One" strategy, leading manufacturers to seek alternative production bases in Asia, including Malaysia. OSAT companies with a dual presence in Malaysia and China are strategically positioned to benefit. Concurrently, Chinese semiconductor equipment suppliers are gaining traction domestically, posing challenges to overseas competitors.

The smartphone market is poised for recovery in 2024, marked by improvements in consumer sentiment, the resurgence of Huawei, and the entry of other competitive brands. The rollout of 5G smartphones and increased focus on foldable phones are expected to drive market excitement, thereby benefiting Malaysian-based OSAT companies.

China continues to play a pivotal role in the Electric Vehicle (EV) market, supported by government policies promoting EV purchases and investment in the EV supply chain. Samsung Electronics' strides in the automotive semiconductor market reflect optimism about its growth potential.

Maintaining an overweight position for this sector, we recommend three EV-related stocks in our stock market outlook for 2024. This recommendation is based on improved utilization, favorable profit margins, and positive momentum aligning with increased demand from Asia and European markets. The recommended stocks are Genetech, Greatech, and D&O Green Technology.

Strategic Stock Selection for 2024: Navigating Themes with Precision

Table 6: Stocks Recommendation

Stock	Rec	Price (RM)	Target (RM)	Net Profit (RM m)		EPS (sen)		PER (x)		DPS (sen)		Yield (%)		BV/share (RM)	P/BV (x)	Return (%)
12/12/23				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY22	FY22	2024
D&O	BUY	3.57	4.20	53.1	111.6	4.3	8.5	83.4	42.0	1.0	1.6	0.3	0.4	0.48	4.72	18.1
Farm Fresh**	BUY	1.32	1.60	67.0	106.6	3.6	5.7	36.8	23.2	1.0	1.0	0.8	0.8	0.33	3.56	22.0
Greatech	BUY	4.63	5.80	163.7	214.4	13.1	17.1	35.4	27.1	0.6	0.7	0.1	0.2	0.47	7.69	25.4
Genetec	BUY	2.36	3,20	76.8	96.8	9.9	12.5	23.8	18.9	2.0	2.0	0.8	0.8	0.22	3.60	36.4
Gas Malaysia	BUY	3.09	3.27	357.0	353.3	27.9	27.6	11.1	11.2	22.3	22.3	7.2	7.2	1.00	1.00	13.0
Sunway REIT	BUY	1.55	1.68	347.0	365.9	10.1	10.7	15.3	14.5	9.8	10.7	6.3	6.9	1.61	1.02	15.3
Maybank	BUY	9.07	9.50	9,258	9,400	76.8	77.9	11.8	11.6	60.0	61.0	6.6	6.7	7.43	1.22	11.5
RHB Bank	BUY	5.50	5.90	2,899	2,951	67.6	68.8	8.1	8.0	38.9	40.4	7.1	7.3	7.24	0.76	14.6
AMMB	BUY	4.01	4.40	1,733	1,700	52.4	51.4	7.7	7.8	18.3	18.9	4.6	4.7	5.07	0.69	14.4
CIMB	BUY	5.79	6.30	6,687	6,910	62.7	64.8	9.2	8.9	34.9	37.2	6.0	6.4	5.98	0.90	15.2

*Source: Bloomberg, Mercury Securities. **as at FY31/3/24 and FY31/3/25*

In the imminent year, our meticulously crafted stock selection approach for 2024 is anchored in discerning themes, aligning with the prevailing tone of caution. Against the backdrop of a global inflation projection within the range of 3% to 4% in 2024 indicative of a resilient upward consumption pattern, a constrained labor market, and stable commodity prices, we anticipate Malaysia's OPR to stay at 3.0% in 2024. This coincides with a nuanced projection of the Ringgit strengthening marginally to approximately RM4.50/USD in year-end 2024, a refined stance from the current rate of RM4.71/USD. Our strategic focus is underscored by three pivotal sectors: (i) high dividend-paying stocks, (ii) electric vehicle (EV) related stocks, and (iii) selectively chosen consumer stocks exhibiting robust growth prospects.

To execute this strategy, we have meticulously curated a portfolio of 10 stocks positioned to potentially outperform the market in 2024, with the potential to generate a total return exceeding 10%. Our optimism towards the EV-related sector and the broader Environmental, Social, and Governance (ESG) initiatives propelling global green transformation underscores our selection of Malaysian companies contributing significantly to this transformative wave. Notably, companies such as D&O Green, Greatech, and Genetech have demonstrated robust earnings growth, exceeding 26% in CY2024, in tandem with the ongoing mobility transformation. Despite elevated PER, our strong endorsement of these three stocks is grounded in the anticipation of sustained growth amid this transformative landscape. Delving into specifics, D&O Green has exhibited an impressive earnings growth of 58% in FY2024, while Greatech and Genetech have notched up growth rates of 21% and 26%, respectively. These figures substantiate the compelling narrative of these stocks within the burgeoning EV sector.

In the domain of high dividend-paying stocks, our recommendations encompass six meticulously chosen entities. Four prominent banking stocks—Maybank, RHB Bank, CIMB, and AMMB—feature in this selection. AMMB, despite a relatively lower dividend yield of 4.7% in FY24, is earmarked for potential upside due to anticipated improvements in credit quality and operating efficiencies in coming years. Sunway REIT, boasting a dividend yield of 6.9% in FY24 emerges as a prudent choice, as it navigates through a landscape not beset by extensive oversupply within the retail mall segment.

Gas Malaysia captures our attention with a stable dividend yield of 7.2% in FY24, projecting a consistent performance amid anticipated reductions in fuel subsidiaries in 2024. The last recommendation, the recently weathered stock Farm Fresh, warrants inclusion despite facing elevated raw feed costs. Notably, Farm Fresh has adeptly navigated the situation, continually expanding its market share within the ASEAN region. Positioned as a value buy, Farm Fresh anticipates a more robust earnings trajectory in towards the end of 2024.

In conclusion, our strategic stock selection for 2024 reflects a meticulous examination of prevailing economic themes, supported by quantitative indicators, and an astute awareness of potential growth trajectories. Investors are strategically positioned to navigate the market landscape with foresight and precision, armed with a comprehensive understanding of the numerical underpinnings shaping each stock's potential.

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