Top 10 stocks for 1H20

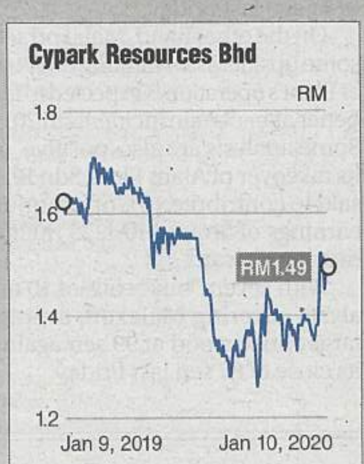
Top 10 stock picks for 1H20

SECTOR	COMPANY	MARKET CAP (RM BIL)	LAST PRICE (RM)	ONE-YEAR CHANGE* (%)	ONE-YEAR TOTAL RETURN (%)	TTM PER (TIMES)	INDICATED DIVIDEND YIELD (%)	CALLS BUY	CALLS HOLD	CALLS SELL
Finance	Malayan Banking Bhd	97.24	8.65	-8.47	-2.48	11.90	6.59	10	10	1
Technology	Pentamaster Corp Bhd	2.23	4.69	151.25	151.25	28.06	N/A	1	1	1
Construction	Sunway Construction Group Bhd	2.39	1.85	23.33	27.95	17.79	3.78	7	4	3
REIT	Sunway REIT	5.42	1.84	6.98	12.61	14.42	5.43	8	6	1
Renewable energy	Cypark Resources Bhd	0.70	1.49	-9.15	-6.88	7.25	2.62	-	3	-
Logistics	Pos Malaysia Bhd	1.14	1.46	-21.08	-19.17	N/A	2.74	-	1	5
Healthcare	Duopharma Biotech Bhd	1.10	1.61	61.00	66.97	18.66	3.11	5	-	-
Healthcare	KPJ Healthcare Bhd	4.06	0.95	-5.94	-4.00	22.05	2.11	13	4	1
O&G	Velesto Energy Bhd	3.25	0.395	83.72	83.72	84.04	N/A	8	1	-
Plantation	Sarawak Plantation Bhd	0.53	1.91	17.18	20.62	39.70	2.62	1	1	-

*Based on unadjusted price Data compiled as at Jan 10, 2020 Source: Bloomberg

The start of 2020 was not an encouraging one for the local stock market. Though it closed above the psychological 1,600 level on the first day of trading at 1,602.5, it saw a sharp dip last Wednesday amid growing US-Iran tensions, and ended last Friday at 1,591.46. The general sentiment is definitely cautious, what more after the Malaysian stock exchange ended the previous year being one of the worst-performing bourses in Asia. That, too, was after a near 11% contraction in the local stock market in 2018. Still, there are opportunities to be found — whether they be battered-down stocks that are now at attractive valuations, steady dividend stocks, or potentially strong growth stocks. Here, *The Edge Financial Daily* has picked 10 stocks — categorised by theme based on one's investment appetite — that it believes could provide good returns for the first half of the year (1H20). — ***Stories by Tan Xue Ying & Wong Ee Lin***

UNDERVALUED COUNTERS



Cypark Resources Bhd

Renewable energy (RE) player Cypark Resources Bhd is among our top picks, given the industry's bright prospects, led by Putrajaya's target of having RE make up 25% of the country's energy mix by 2025, from 2% currently.

Valuation-wise, Cypark has a price-earnings ratio (PER) of 7.2 times. In contrast, newly-listed Solarvest Holdings Bhd's PER stands at 20.2 times. "We are not happy about this (valuation) because if you have a better track record in terms of earnings growth... that should be reflected," Cypark group chief executive officer Datuk Daud Ahmad said last December, adding that the valuation "does not do justice" to the group's earnings record.

Cypark's share price performance has also not reflected the annual double-digit net profit growth it has recorded since the financial year ended Oct 31, 2012 (FY12) — except for FY15 — with steady revenue growth. The stock, which saw some uptrend in February last year to as high as RM1.71, declined about 12.87% to RM1.49 last Friday.

Phillip Capital Management Sdn Bhd chief investment officer Ang Kok Heng said Cypark's share price has been affected by the delay in completing its Ladang Tanah Merah waste-to-energy plant, as well as its high gearing. As at end-October 2019, the group's total borrowings stood at RM1.17 billion, of which RM184.87 million were short-term borrowings. Cash and bank balances were at RM523.65 million.

Daud, meanwhile, indicated that Cypark intends to restructure its loans in the next 12 months. It is also looking to potentially spin off its solar unit to unlock value and fund the group's future growth.

Prospects-wise, besides the third phase of the Large Scale Solar (LSS) scheme, Ang said Cypark may get the job to install solar panels on government buildings in Negeri Sembilan and Kedah. Cypark, together with its consortium partner Impian Bumiria Sdn Bhd, announced in December that it had won a competitive bid to develop a 100MW LSS photovoltaic plant of alternating current in Marang, Terengganu.

Sarawak Plantation Bhd

It can be difficult to pick the next big oil palm stock with a sector-wide recovery expected this year. But Sarawak Plantation Bhd, a pure upstream plantation firm trading mainly in spot prices, stands out as a potential big winner that will benefit from the current crude palm oil (CPO) price uptrend, amid a timely production growth.

The group, with a total harvestable area of 17,240ha, is set to enjoy a bumper harvest in the coming months, according to PublicInvest Research analyst Chong Hoe Leong. Chong said the Sarawak-based company's stronger fresh fruit bunch growth will mainly come from the central region, which saw a 39% growth last year while the northern region posted a smaller growth of 11%.

"Sarawak Plantation mainly trades in spot price. As such, it will benefit from the capture on spot prices as they will manage to enjoy the stronger CPO prices at current levels compared to those companies which are locked in at forward sales based on the lower CPO prices previously.

"Based on the sensitivity analysis, for every RM100/ tonne increase in CPO price, the company's bottom line is expected to expand by about RM7 million or a massive growth of 40%, given the low-base effect," Chong said when contacted.

Chong has an "outperform" call on the stock with a target price of RM2.80 based on a 20 times financial year ending Dec 31, 2020 price-earnings ratio. The stock, which has gained 41.5% from its 10-year low of RM1.35 last July to now trades at RM1.91, currently fetching a forward PER of 39.7 times.

Besides a strong projected earnings growth, Chong said Sarawak Plantation has a solid balance sheet and an experienced management team under the leadership of Ta Ann Holdings Bhd, its largest shareholder since January 2018.

Malayan Banking Bhd

Malayan Banking Bhd (Maybank), the only FBM KLCI component stock in our top picks, is Malaysia's largest bank in terms of market capitalisation. Notwithstanding this, its price-to-book value (P/BV) is at 1.23 times, significantly lower compared with Public Bank Bhd's 1.78 times and Hong Leong Bank Bhd's 1.38 times. The bank's P/BV is also cheaper now compared against its five-year average P/BV of 1.4 times.

Over the past one year, Maybank's stock has declined 2.48% to close at RM8.65 last Friday. Most banks' share prices have been on a declining trend amid the lacklustre earnings growth following a cut in the overnight policy rate (OPR) in May 2019. At its current share price, the bank has a market capitalisation of RM97.24 billion. The once RM100 billion market cap counter was hovering below RM9 throughout 2019.

Notably, some 74.59% of its shares are held by institutional funds, while its 6.59% dividend yield is the highest among its peers. Of the 21 research houses covering Maybank, it has 10 "buy" calls, 10 "hold", and one "sell", with a consensus target price of RM9.27. This indicates a potential 7.17% headroom for the stock.

MIDF Research, in a recent thematic report, kept its positive stance on the banking sector despite expecting another OPR cut in the first quarter of 2020. It sees the key rate cut having a muted impact on the banks' overall earnings this year, due to a possible demand-boost to loan growth.

"Based on the ability of banks in general to navigate the headwinds they faced last year, we opine that banking stocks are undeservedly undervalued currently... our top picks for this sector will be banks with scale and size or the potential to maintain its earnings momentum," said MIDF, naming Maybank as one of its top picks.

MIDF also expects the net interest margin compression to be manageable in 2020, as it believes banks will fight less aggressively for deposits as their net stable funding ratio requirement has been met.

GROWTH STOCKS

Pentamaster Corp Bhd

Pentamaster Corp Bhd, one of the best performing technology counters last year in terms of share price performance and earnings, continues to be our top pick for the first half of 2020, as its prospects remain optimistic.

Besides 5G network deployment being a key catalyst for its industry this year, the automated test equipment manufacturer is expected to see more business from China's semiconductor players due to trade diversion amid the protracted China-US trade war.

Although Pentamaster did not pay any dividend, its share price has jumped 151% in the past 12 months to close at RM4.69 last Friday. Notably, the company is one of CGS-CIMB Research's top three picks, according to the research house's latest strategy note titled "Navigating Malaysia".

CGS-CIMB Research expects Pentamaster to deliver a 27% earnings per share compound annual growth rate for the financial year ended Dec 31, 2018 (FY18) to FY21, driven by expansion in the automotive and medical device segments as well as potential new customer wins in North Asia.

Higher sales contributions from the automotive and medical segments will provide better earnings stability due to long-term demand visibility and higher margin portfolio, said its analyst Mohd Shanaz Noor Azam. "Rising penetration of 3D sensing in smartphones, new customer wins in China, potential re-inclusion in the Securities Commission Malaysia's (SC) syariah-compliant list and a weaker ringgit versus the US dollar are potential rerating catalysts for the stock," Mohd Shanaz said. He also noted that the recent pullback in Pentamaster's share price due to its exclusion from the SC's syariah-complaint list provides as a good opportunity for investors to accumulate the stock, as the exclusion does not alter the company's fundamentals and growth prospects.

"The long-term uptrend for Pentamaster is likely to continue in 2020 as its higher high and higher low sequence since the 2013 low is intact," said Mohd Shanaz, adding that the stock is likely to work its way to new highs in the months to come. "As long as prices stay above the RM3.50 (uptrend channel support), look for a test of the RM6.00-6.20 levels next," he noted.

KPJ Healthcare Bhd

This year is not just Visit Malaysia Year, but also Malaysia's Year of Healthcare Travel. More than RM2 billion worth of receipts could be generated from Malaysian hospitals this year — up 33% from 2018's RM1.5 billion — as the country promotes itself as a regional healthcare destination, according to the Malaysia Healthcare Travel Council.

Malaysia's ageing population and rising household income have also led to increased domestic demand for healthcare, which will make it more difficult for the country's public healthcare system to cope, noted Cheah King Yoong of AllianceDBS Research. This, he said, will continue to drive more affluent patients to private hospitals. KPJ Healthcare Bhd, which operates 26 specialist hospitals, has seen uninterrupted growth in its annual inpatient admissions in Malaysia. MIDF Research estimates the number to hit 320.5 million in 2020, from 299.8 million in 2018.

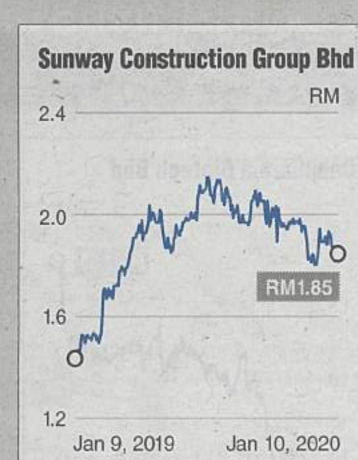
Together with a prudent cost management, the private hospital operator, whose market capitalisation stood at RM4.06 billion, is expected to continue to deliver healthy earnings and improved margins this year.

CGS-CIMB Research said the private healthcare player's cumulative nine-month earnings — its net profit for the period ended Sept 30, 2019 stood at RM127.37 million, with a revenue of RM2.62 billion — benefitted from strong patient visitations and higher revenue intensity for its Malaysian operations.

"We expect KPJ Healthcare to continue to benefit from stronger patient traffic on the back of the ramp-up of its hospitals, which are currently in the growth phase (less than 10 years old), as well as from an improvement in healthcare demand.

"KPJ Healthcare is also exploring capex (capital expenditure)-light opportunities, including shifting its focus to brownfield expansion, after the existing greenfield developments are rolled out. We believe this shift in strategy is positive as it will reduce the need to fund heavy development expenditure, which should help KPJ manage its borrowings," it added.

CGS-CIMB is among 13 research houses which rated KPJ Healthcare a "buy", with a consensus target price of RM1.13, *Bloomberg* data shows. Based on the stock's last closing price of 95 sen on Jan 10, this means a potential 19% upside.



Sunway Construction Group Bhd

Sunway Construction Group Bhd (SunCon) is among our top picks given the anticipated pickup in construction activities this year, driven by the continuation of mega infrastructure projects.

The stock, which has a relatively attractive dividend yield of 3.78%, climbed 27.95% over the past 12 months to close at RM1.85 last Friday, bringing its market capitalisation to RM2.39 billion. Of the 13 research houses covering the stock, four have it on "buy", four "hold", and three "sell".

SunCon is also among Hong Leong Investment Bank (HLIB) Research's top picks for 2020, as the research house continues to like the stock due to its ample balance sheet capacity, positive earnings trajectory and strong support from parent company.

"We expect contract awards to pick up going forward due to recovery in development expenditure as the government rolls out major infrastructure projects," said HLIB.

Into 2020, HLIB said the first of the year should be dominated by tender news flow on the East Coast Rail Link project (RM44 billion), Pan Borneo Highway Sabah project (RM12.3 billion) as well as packages three and five of the Central Spine Road.

Notably, development expenditure for 2020 is expected to increase 4.3% year-on-year to RM56 billion versus 2019's 4.3% decline, as the government rolls out previously-delayed infrastructure projects, HLIB added.

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