# GOOD THINGS OFTEN EMERGE FROM DIFFICULT TIMES

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***Every bull market is punctuated by pullbacks, corrections, and sometimes crashes." - Peter Schiff***

The pullback in global equities since the end of January/early February has intensified recently due to pockets of stress in the banking sector in a couple of Western countries. Learning from the 2008/09 crisis, financial regulators, policymakers and banking institutions in the affected markets are taking swift, coordinated, and pre-emptive measures to contain the stresses from turning into contagion.

Are these actions enough to reassure investors? For hints, market observers are monitoring financial indicators, including the KBW Nasdaq Regional Banking Index (which tracks US regional banks, the epicentre of the current stress) and the KBW Nasdaq Bank Index (which tracks the performance of the banking sector in the US). Although both indices have not shown signs of reversing towards the upside, they are approaching critical support levels on an oversold daily and weekly RSI, making them interesting for market observers looking for signs of price stability/rebound.

For market contrarians with a stock-picking investment style, this type of situation can be seen as an opportunity. In a weak market, stocks that show the ability to withstand the broad-market's decline can typically be seen as having unique fundamental qualities. These stocks tend to be among the first to resume their uptrend once investors are convinced that stresses are fading away.

In this note, we will look at the technical picture of the FTSE Bursa Malaysia Small Cap Index (FBMSC), followed by selected small-cap stocks that are showing technical resiliency in the recent period and the target prices ascribed by sell-side analysts.

While performing relatively well compared to the broad market, the gold-themed stocks are not included in this note, as these stocks are not covered by sell-side analysts. However, readers may refer to our previous note: GOLD: READY TO SHINE AGAIN? PART II.

### The FBMSC – pulling back after hitting the multi-year resistance zone

After rebounding sharply by around 21% from its October 2022 low, the FBMSC rose to 16,437 points, testing its multi-year resistance area in early February. Since then, the index has been pulling back, indicating price rejection. Recent developments in overseas financial markets have extended this pullback. Although the index's immediate-term technical picture suggests a reserved market sentiment, it's worth noting that the short-term key support zone of 14,800-14,600 points is still holding up.

As the index approaches this support zone, investors are likely to pay close attention to price movements around it to gain insight into the next directional bias of the index and the broader market.

### Figure 1: FBMSC – approaching short-term key support zone

**Selected FBMSC members that are rated as buy by consensus and showing technical resiliency in recent period. Please note that the investment recommendation provided by the analysts in the snippets below may differ from the consensus recommendation.**

**Figure 2: PIE Industrial - Consensus rating / target price / upside (%): Buy / MYR4.01 / 17%**


Snippet from recent report by Kenanga Investment Bank's analyst: PIE Industrial, an EMS provider anticipates another robust performance in FY2023 owing to higher orders from existing customers in the ASIC-based equipment and consumer device space. Leveraging its competitive advantages as a unit of Foxconn, the Group are also optimistic about acquiring new customers looking to relocate their manufacturing outsourcing to Malaysia, with several showing interest and potential for future orders that will keep their Plant 6 busy in FY2024.

**Figure 3: Power Root - Consensus rating / target price / upside (%): Buy / MYR2.60 / 28%**


Snippet from recent reports by AmInvestment Bank and Kenanga Investment Bank's analysts: Power Root, a beverage manufacturing and distribution company, experienced resilient domestic demand despite three price hikes within slightly over a year. Its 9MFY23 domestic sales have reverted to pre-pandemic levels, while its main competitor plans to hike prices again. PWROOT plans to maintain its competitive pricing to grow its market share. The company could raise prices in GCC countries, where its products are 20%-25% cheaper than the market leader. PWROOT plans to diversify its product line, with ready-to-drink (RTD) products being a key growth area for FY2024, offering better margins. The company's new RTD products plant is expected to be completed by 2024/2025, with eight stock-keeping units for Malaysia and five for the GCC countries in the pipeline.

**Figure 4: Malaysia Smelting Corp - Consensus rating / target price / upside (%): Buy / MYR2.39 / 22%**

Snippet from recent report by Malacca Securities' analyst: MSC plans to gradually increase daily mining output, but caution remains due to rising natural gas prices, which could impact bottomline margins. Net margins are expected to remain in the mid-single digit range in the foreseeable future. Tin prices have normalized and stabilized since early-November 2022, and are expected to hover around USD25,000/MT. The potential softening of demand from the consumer electronics sector may be offset by increasing demand for green technologies such as solar panels and electric vehicle components.

**Figure 5: Malayan Flour Mills - Consensus rating / target price / upside (%): Buy / MYR1.20 / 56%**

Snippet from recent report by AmInvestment Bank's analyst: Maintain buy rating on MFM with a fair value of RM1.20/share (previously RM1.00/share). FY23F net profit forecast has been increased by 18% due to a lower effective tax rate of 15% (down from 28%) and improved poultry EBIT margins from higher selling prices. FY22 performance exceeded expectations, with a 20% earnings beat driven by strong poultry earnings and a lower effective tax rate.

**Figure 6: Kawan Food - Consensus rating / target price / upside (%): Buy / MYR2.63 / 24%**


Snippet from recent reports by BIMB Securities, Malacca Securities and Public Investment Bank's analysts: Kawan Food (KFB), one of the largest frozen food manufacturer and exporter in Malaysia, is poised for growth in FY23, driven by new clients and a recovering export market, as well as the reopening of the Chinese economy. KFB anticipates orders from new export customers starting in 2QFY23, while new product launches, including plant-based offerings, are expected to boost sales in the Hotel, Restaurant, and Café (HORECA) segment and cater to evolving consumer preferences. Although commodity prices like wheat, CPO, and sugar have moderated since their peak in 2Q22, KFB's economies of scale should help mitigate rising operating costs (such as labour and utilities) and maintain its profit margins in the short term.

**Figure 7: Pantech Group - Consensus rating / target price / upside (%): Buy / MYR1.01 / 36%**


Snippet from recent report by Rakuten Trade's analyst: Management expects higher oil prices to boost capital activities, such as maintenance and upgrades in the oil and gas industry, leading to increased demand for Pantech's products in domestic and international markets. The company plans to focus on existing revenue-generating businesses and grow locally and overseas by enhancing competitiveness as a pipes, valves, and fittings solutions provider to the oil and gas industries.

**Figure 8: Sarawak Plantation - Consensus rating / target price / upside (%): Buy / MYR2.41 / 12%**


Snippet from recent reports by BIMB Securities, CGS-CIMB and MIDF Investment Bank's analysts: Sarawak Plantation (SPLB), one of the pioneer players in the oil palm industry in Sarawakwould achieve sustainable earnings given that crops profile has improved and hence, could generate better yield and production growth. This would also be supported by centralised mills which helps improve the efficiency of FFB logistical delivery, reduce seedling cost since SPLB owns seedling innovation hub and prudent fertilizer application based on the availability of window as well as cost rationalization by the new management. Downside risks to earnings may however come from lower-than-expected average selling price (ASP) realised of palm products amid the moderation in palm oil prices and lower FFB purchase from external parties.

**Figure 9: Wellcall Holdings - Consensus rating / target price / upside (%): Buy / MYR1.38 / 21%**


Snippet from recent reports by Apex Securities and BIMB Securities' analysts: Wellcall Holdings, the largest industrial rubber hose manufacturer in Malaysia, is optimistic about its outlook despite headwinds in the global economy and cost pressures. The company plans to sustain its market share and positioning by continuing to manage operating costs and responding to fluctuations in the supply and demand chain. Although there have been two rounds of price hikes in 2Q-3QFY22, the company is confident in its ability to maintain average selling prices (ASPs) while remaining price competitive and preserving market share through its hedging policy. Additionally, the easing of raw material and freight costs due to improving port congestion will improve margins. The company's orderbook visibility is healthy, with rising order volume following the recovery in global demand for industrial hoses, which will be a boon to overall performance.

**Figure 10: CJ Century Logistics - Consensus rating / target price / upside (%): Buy / MYR0.93 / 88%**


Snippet from recent report by MIDF Investment Bank's analyst: CJ Century continues to record healthy level of profits following: (i) the accretion of its CJ Korea Express Malaysia Sdn Bhd acquisition in 2QFY20 and (ii) the divestment of its loss-making courier business in 2QFY21. This has allowed the Group to resume paying dividends in FY22 after 3 years. Downside risks include: (i) sharp drop in handling volume due to a global economic slowdown and (ii) delay in its warehouse expansion plans.