



BY KANG SIEW LI

Aviation, gaming and brewery stocks are finding favour with investors again. After two years of lacklustre performance, they gained ground recently as investors, eager to gain exposure to an economic recovery, are upbeat on stocks benefiting from Malaysia's border reopening from Friday (April 1).

It is too early to say whether this is a sustainable recovery or a temporary bounce. However, analysts expect the return of overseas visitors to spur economic activity and boost the tourism industry.

According to Etiqa Insurance and Takaful chief strategy officer Chris Eng Poh Yoon, companies in the aviation, gaming, real estate investment trust (REIT), brewery and oil and gas (O&G) sectors are expected to benefit from the border reopening.

"REITs that invest in retail and hotel segments such as Pavilion REIT, IGB REIT, Sunway REIT and KLCCP Stapled Group will get a lift from higher foreign tourist arrivals," he tells *The Edge*.

Eng believes O&G companies involved in exploration and production such as Dialog Group Bhd also stand to benefit from the reopening as the pandemic has disrupted maintenance at their overseas projects and refineries. "The travel restrictions have prevented maintenance workers from doing their job, as well as prospective investors from entering the country to view and invest in O&G projects."

Early this month, Prime Minister Datuk Seri Ismail Sabri Yaakob announced that the country's borders would be reopened to international travellers from April 1, after

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Stocks seen to benefit from border reopening

SOURCE: BURSA MALAYSIA/BLOOMBERG

Selected sectors/companies that will gain from the reopening

SECTORS/COMPANIES	SHARE PRICE ON MARCH 23 (RM)	CONSENSUS TARGET PRICE ON MARCH 23 (RM)	UPSIDE POTENTIAL (%)	MARKET CAP (RM MIL)	1-YEAR PRICE CHANGE (%)	TRAILING 12-MONTH PER (TIMES)	FORWARD 12-MONTH PER (TIMES)	NET PROFIT/ (LOSS) FOR YEAR ENDED DEC 31, 2021 (RM MIL)	Y-O-Y GROWTH (%)	DIVIDEND YIELD (%)
AVIATION/AIRPORT										
Malaysia Airports Holdings Bhd	6.46	6.67	3.3	10,718.4	2.38	NA	NA	(766.4)	-31.3	NA
Capital A Bhd	0.63	0.78	23.8	2,621.9	-43.24	NA	NA	(3,118.6)	-39.0	NA
GAMING										
Genting Malaysia Bhd	2.87	3.55	23.7	16,259.1	-7.12	NA	20.35	(946.8)	-58.2	NA
Genting Bhd	4.55	6.09	33.9	17,520.1	-12.33	NA	15.53	(1,369.6)	33.7	2.42
Magnum Bhd	1.72	2.34	36.1	2,471.9	-22.17	172.00	12.29	0.2	-99.1	0.87
BREWERY										
Carlsberg Brewery Malaysia Bhd	21.46	23.69	10.4	6,561.4	-9.68	32.64	25.46	201.0	23.9	4.47
TECHNOLOGY										
Revenue Group Bhd*	1.59	2.09	31.5	741.3	-14.97	54.83	53.00	8.0	30.5	NA
GHL Systems Bhd	1.52	1.89	24.3	1,735.1	-12.14	61.54	40.00	28.2	107.8	NA
MyEG Services Bhd	0.97	1.34	38.1	7,164.0	-2.02	22.56	19.40	316.0	17.8	1.32
CONSUMER										
Bonia Corp Bhd*	1.84	2.30	25.0	368.8	106.74	21.57	18.22	14.6	24.1	2.17
Berjaya Food Bhd*	3.42	3.80	11.1	1,233.0	113.75	16.09	15.69	50.5	135.0	1.18
QL Resources Bhd**	4.90	5.12	4.5	11,924.9	-19.41	45.50	55.06	147.9	-25.0	0.71
INSURANCE										
Tune Protect Group Bhd	0.36	0.50	38.9	270.6	-21.74	NA	10.91	(15.0)	NA	NA
REIT										
IGB REIT	1.44	1.76	22.2	5,148.6	-16.28	25.67	18.46	200.1	-15.5	6.03
Sunway REIT***	1.35	1.50	11.1	4,623.5	-10.00	43.97	18.00	195.5	NA	2.07
KLCCP Stapled Group	6.69	6.98	4.3	12,077.7	0.60	95.51	18.03	495.9	14.7	5.02
Pavilion REIT	1.21	1.38	14.1	3,693.9	-12.32	29.44	18.62	125.2	170.2	4.26

*Net profit for six months ended Dec 31, 2021

**Net profit for nine months ended Dec 31, 2021

***Net profit for 18 months ended Dec 31, 2021

Potential new Covid-19 variants a downside risk

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a two-year closure from March 2020. Prior to the pandemic, tourism was one of the country's largest industries, contributing almost 6% of gross domestic product (GDP) and employing close to a quarter of the Malaysian workforce.

"The decision to no longer limit operation hours for businesses will also help generate higher sales. Sectors that will benefit from higher foreign tourist arrivals are hotels and retail (via the REIT sector), consumer, gaming, transport, brewery and healthcare," CGS-CIMB Research says in a March 8 report.

Its recommendations include Malaysia Airports Holdings Bhd (MAHB), Genting Malaysia Bhd, Genting Bhd, Carlsberg Brewery Malaysia Bhd, Heineken Malaysia Bhd, Bonia Corp Bhd, IGB REIT and IHH Healthcare Bhd.

In a March 9 economic update, PublicInvest Research says the border reopening will revive the tourism sector — which has borne the brunt of the Covid-19 pandemic — though the recovery will be gradual, given that the Asean population is expected to be fully vaccinated only by 2023.

"The strict requirement for returning Malaysians and visitors such as RT-polymerase chain reaction (PCR) test and rapid test kit (RTK) test could also be a deterrent, given prohibitive costs for these tests, not to mention the still elevated level of daily cases. Nonetheless, border reopening will address major issues such as labour shortage for key sectors like manufacturing and agriculture, which have been a major impediment for their full recovery," the research firm notes. Currently, a PCR test within two days of departure and an RTK test within 24 hours of arrival are required.

"The transition to an endemic stage is also a cue for the government to consolidate its fiscal condition. This will also be a driver to push the unemployment rate lower, currently targeted at 4% in 2022. We are cautious on the near-term outlook, however, given disruptions from the current Russia-Ukraine conflict. Our 2022 GDP forecast of 6.1% (2021 GDP: 3.1%) remains unchanged," says PublicInvest Research.

Influx of tourists to lift brewery stocks

In the brewery sector, CGS-CIMB Research believes the removal of limited operating hours for businesses, reopening of the country's borders to foreign tourists and removal of capacity limitations are a boon to brewers as it will result in higher footfall at key on-trade sales locations.

"While we believe the government will not allow the reopening of night entertainment outlets such as nightclubs and dance clubs yet, operations of these businesses are likely to reopen once Covid-19 case numbers in the country stabilise. Thus, we expect malt liquor market (MLM) volumes to trend higher from the second quarter of 2022, driven mainly by higher on-trade sales," it notes.

The local research firm cites data from Euromonitor that indicated that Malaysia's total beer MLM volumes declined 17% year on year in 2020. "This trend is likely to have continued in 2021, given the various lockdowns throughout the year," it says, adding that 2021 data from Euromonitor is not yet available.

CGS-CIMB Research has "add" calls on Carlsberg and Heineken, but the research firm prefers Carlsberg over the latter.

"We expect Carlsberg to be the greater beneficiary, given its bigger exposure to on-trade sales channels than Heineken. This is premised on Malaysia going into the endemic phase, which will see the on-trade channels benefiting more from higher retail footfall and longer operating hours. We also like Carlsberg for its cheaper valuation



RWG's revenue is boosted by the pent-up demand from local patronage and the recently launched Genting SkyWorlds

[6.3% discount to Heineken's one-year forward price-earnings ratio (PER)] and higher dividend yields.

"At this juncture, Carlsberg and Heineken are trading at 20.9 times and 22.3 times one-year forward PER, which are at 27.6% and 17.0% discounts to their five-year historical means of 28.8 times and 26.9 times respectively," it says.

CGS-CIMB Research also says the special withdrawal of up to RM10,000 by Employees Provident Fund members from their accounts will help boost consumer spending power ahead of the upcoming Hari Raya festivities on May 2 and 3, even as product prices rise amid higher commodity, labour and freight costs.

"Potential beneficiaries are the consumer, travel and healthcare sectors as they will benefit from higher domestic consumer spending ahead of the festive season and the reopening of Malaysia's borders on April 1. In the consumer space, our top picks are Berjaya Food Bhd, Bonia Corp Bhd and QL Resources Bhd.

"For QL, we expect an increase in contribution from its marine product manufacturing and FamilyMart business from the lifting of lockdown measures to aid in mitigating the impact of high commodity prices on its margins. Also, the decline in QL's share price in the past six months (of 16.7%) would have priced in the cost pressure concerns. We stay 'overweight' on the consumer staples sector," it adds.

However, current headwinds such as the ongoing Russia-Ukraine war, rising inflation, labour shortage concerns and political uncertainty could put a lid on recovery, says CGS-CIMB Research. It is maintaining its end-2022 FBM KLCI target of 1,622 points for now. The benchmark KLCI has risen 3.2% since the start of 2022 to close at 1,597.88 points last Wednesday.

MAHB the biggest winner in aviation sector

CGS-CIMB Research, which has an "add" rating for MAHB and a target price (TP) of RM7.05, expects the airport operator to benefit from the higher volume of international travellers, the planned start-up of new airline MYAirline in August and a new operating agreement with the government in the second half of this year, which may help it become more profitable in the years ahead. Last Wednesday, the stock closed at RM6.46 a share. CGS-CIMB Research's TP of RM7.05 implies a 9% upside potential for the airport operator.

Maybank Investment Bank (Maybank IB) aviation analyst Samuel Yin Shao Yang sees MAHB as a big beneficiary of the border reopening as international passenger service charges (PSCs) are 5 to 7 times higher than domestic PSCs.

"In 2019, international passengers accounted for 51% of MAHB's Malaysian operations. Not only are international PSCs 5 to 7 times that of domestic PSC, but international passengers are allowed to buy duty-free items. Given how high-yielding international passengers are, they will be instrumental in returning MAHB to profitability," Yin says in a March 9 report.

Capital A Bhd is also seen as a key beneficiary as more international flights will defray aircraft lease expenses and help return the low-cost carrier to profitability, says Yin. Both MAHB and Capital A are currently not profitable.

Maybank IB has rated both MAHB and Capital A a "buy", with a TP of RM7 and RM1.29 respectively. Capital A's stock price has taken a 22.2% tumble year to date (YTD), after the carrier was classified as a Practice Note 17 (PN17) company. It settled at 63 sen last Wednesday.

In a March 9 report, UOB Kay Hian Securities head of research Vincent Khoo says its top border reopening picks continue to be Genting Malaysia, MyEG Services Bhd, GHL Systems Bhd, Heineken, Pavilion REIT and MAHB.

"Companies that are more dependent on China's patronage and visitorship will be experiencing a slower recovery, however, given the uncertain timing of China's border reopening, and these include Globetronics Technology Bhd and Pentamaster Corp Bhd," he notes.

In the gaming sector, UOB Kay Hian expects the casino sub-sector to deliver robust capital gains and significantly outperform the FBM KLCI throughout 2022. Its top picks are Genting Malaysia and Magnum Bhd.

"Genting Malaysia turned profitable and displayed enhanced Ebitda (earnings before interest, taxes, depreciation and amortisation) margins in the fourth quarter ended Dec 31, 2021, driven by Resorts World Genting's (RWG) business normalisation and resilient performance from its UK and US operations. We foresee a continued revenue uptrend, led by the country's imminent border reopening, and predict a surge in patronage to Genting Malaysia's outdoor theme park SkyWorlds.

"With the reopening of international borders, we estimate that RWG's gross gaming revenue (GGR) will return to 70% to 75% of 2019's level, led by mass GGR (including premium mass) soaring to 75% to 80% of 2019's level. RWG's revenue is boosted by the pent-up demand from local patronage (historically accounting for more than 70% of RWG's visitorship) and the recently launched Genting SkyWorlds. However, we expect a more subdued VIP segment. Coupled with an excellent recovery in its overseas operations, particularly in the US casinos, where gaming revenue has surpassed pre-pandemic levels, both Genting Malaysia and Genting

are well positioned to deliver solid earnings recoveries," says UOB Kay Hian.

It adds that while sales pickup was initially slow when operations resumed in mid-September 2021, the number forecast operator (NFO) sub-sector's ticket sales have since recovered to 80% to 85% of pre-pandemic levels.

Meanwhile, the entry of migrant workers, following Malaysia's opening of its borders, is also expected to further revitalise the NFOs' earnings recovery to more than 90% of pre-pandemic levels by as early as 2Q2022, which will allow Magnum and Berjaya Sports Toto Bhd to restore their past dividends to yield 4.4% to 6.2% in 2022, UOB Kay Hian says.

Tech, insurance stocks to also ride reopening wave

In a recent research note on Revenue Group Bhd (RGB), UOB Kay Hian believes the payment service provider will be a direct beneficiary of the border reopening, owing to higher transaction volume from foreigners/tourists.

"It is worth noting that the total gross merchandise value (GMV) for the first-half period ended Dec 31, 2021 (1HFY2022) was at RM1.42 billion, which was way above pre-Covid-19 levels, where FY2020 full-year GMV stood at RM1.56 billion with the absence of tourists.

"Thus, we reckon that the return of foreigners will further boost RGB's electronic transaction payment (ETP) segment with higher non-cash transactions, along with more usage of cross-border QR payments. Pre-Covid-19, foreigners contributed about 10% of RGB's total gross profit and 20% of the ETP segment's gross profit," says UOB Kay Hian, maintaining a "buy" call on the stock, with a TP of RM1.90. Shares in RGB had risen 6.7% YTD to close at RM1.59 last Wednesday.

In a March 22 note, Kenanga Research believes GHL Systems Bhd, a leading Asean payment solutions provider, is a proxy to the regional economy reopening theme, offering multiple payment services (physical, e-commerce and QR pay) to capture a revival of consumer spending via its footprint of more than 380,000 payment touch points across Malaysia, the Philippines, Thailand, Indonesia, Singapore and Australia. After reaching a one-year low of RM1.36 on March 16, its share price had risen 11.8% to close at RM1.52 last Wednesday. However, it is still down 13.6% YTD.

Meanwhile, Hong Leong Investment Bank Retail Research analyst Sam Jun Kit believes Tune Protect Group Bhd, the market leader in travel insurance in Thailand, with a strong presence in Malaysia, Vietnam and the Middle East, will continue to capitalise on the recovery of domestic and international travel — in view of the reopening of international borders and in anticipation of the pent-up demand for travel insurance — by covering Covid-19 travel-related risks.

"As such, we reckon Tune Protect is well positioned to ride the growing demand for travel insurance, owing to its strong presence in Asean and the Middle East, coupled with the right insurance product segmentations (Covid Plus and Covid Lite plans). This huge market potential is [likely to see] further growth, with some countries mandating travel insurance for visiting foreigners," he says in a March 17 report.

Still, analysts say downside risks include potential new Covid-19 variants, which may cause borders to close again.

"A sudden surge in Covid-19 cases or an oil shock may affect the airline industry. But looking at the conditions now, they will have time to hedge their fuel (against rising oil prices) before travel really kicks off," says Etiqa's Eng. The International Air Transport Association anticipates a full recovery of air passenger numbers to 2019 levels in 2024.