Portfolio Manager's View

19 January 2022

Fund Management Department

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Regional

1. Global equities ended the week flat, weighed down by declines in the US (S&P500 -0.4%, NASDAQ -0.9%) after the Q4 2021 earnings reporting season kicked off with JP Morgan beating estimates but fell after guiding markets on lower profitability going forward, and Citigroup announcing poorer results on restructuring costs. NASDAQ fell after tech stocks were repriced lower on the back of higher US 10Y Treasury yields (+27 bps year to date).

2. The regional Asia ex-Japan (AXJP) benchmark outperformed (+2.8%) along with emerging markets (+3%, led by oil exporter Brazil +2.7%) after crude oil prices rose 3% on Russia-Ukraine tensions. Key sector performers included KOSPI200 Finance Sector (+5.7%) after the South Korean central bank raised policy rates for the third time in six months, to 1.25%). Other gainers were Macau casino operators (reforms in the sector will see license tenure reduced, but there will be no government appointees in gaming companies to oversee casino operations).

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3. On 17 January 2022, China announced its Q4 2021 GDP print. It came in at +4%, slower than the +4.9% posted in the prior quarter. While this may have brought full year 2021 GDP growth to 8.1%, markets may accentuate the negatives, such as the slower quarterly growth, ongoing property developer woes (defaults; corporate/debt restructuring), further monthly sequential falls in new home prices (-0.3% in December 2021, as in November 2021) and further supervision in the internet sector (e.g. Alibaba's fund management unit must now set aside 40% of its management fee as risk reserves. The internet behemoth runs a sizeable money market fund in China).

4. While the global rate hike cycle may have rattled markets, banks are major beneficiaries of higher interest rates going forward. Further, banks are generally cheaper than the broader markets from the valuation perspective, and this supports the ongoing rotation from growth to value investing. From the geographical viewpoint, ASEAN is in focus, as COVID-19 vaccination rates rise and economies reopen further, lending support to rebound in corporate earnings for 2022.

Malaysia

1. The KLCI closed at 1,555 @ 14.01.2022, an increase of 5.0% MoM. Oil & Gas, Industrial Metals & Mining and Banks were the best performing sectors last week. Valuations for the Malaysia market remain reasonable though it appears less attractive than before. This is attributable to the earnings downgrades in recent months.

2. Based on KLCI at 1,555 @ 14.01.2022 and assuming consensus eps integer of 102 for 2022 (Exhibit 1), the market is trading at a PER of 15.2x for CY22 (Exhibit 5). This is slightly below the KLCI's 5Y average PER of 15.7x. Secondly, the PBR of the market of 1.4x is -1SD below its 5Y average PBR of 1.5x. Finally, market's DY of 3.9% is +1SD above its 5Y average of 3.50% (range 3.0% to 4.5%).

3. Using another approach, assuming a 10% decline in glove stocks in 2022 and applying a PER of 17.5x for the market ex-gloves (vs 5-year average of 19.4x), a potential fair value for the KLCI is 1,677 (Exhibit 9). At this level, it implies a 2022 PER of 16.4x which is slightly above its 5-year average of 15.5x.

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4. Last week, we saw a major sell-off in the Technology sector which came on the back of news that the US Federal Reserve will begin its tapering this year. This caused a sell-off in global tech stocks which trickled down to our local stock market. The Technology sector decreased by -11.9% last week. We have trimmed and will continue to trim our holdings in the technology sector. However, while we are cautious on historically high valuations, we remain selectively positive on some subsectors within the tech industry as fundamentals and long term growth prospects remain intact.

5. Brent Oil prices returned to its 5Y ATH of $86.40/bbl as fears on Omicron's expected negative impact to oil demand subsides. On the supply side, OPEC+ has guided for a tighter than expected oil market in 2022 as some of its allies are finding it difficult to reach its production targets due to varying reasons. Our outlook on the O&G sector remains positive and a higher oil price environment is likely to spur more economic activities in the sector. Furthermore, valuations remain to be undemanding for the sector as they were previously impacted by COVID-related disruptions and lower oil prices. Our funds are invested in the O&G sector.

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6. Bank Negara is expected to increase the Overnight Policy Rate (OPR) by 25 to 50 basis points this year following the US Federal Reserve's stance on tightening its monetary policy as Bank Negara looks to preserve the value of the Ringgit. Generally, higher interest rates attract foreign investments which increase demand for Ringgit Malaysia in turn increase value of Ringgit Malaysia, vice versa. Hence, we expect banks' net interest margins and net profit to improve following the increase of OPR as they are able to price their loans at a higher rate with a relatively stable cost of fund from saving/current accounts and fixed deposits. We are positive on the outlook of banks and we are invested in the financial sector.

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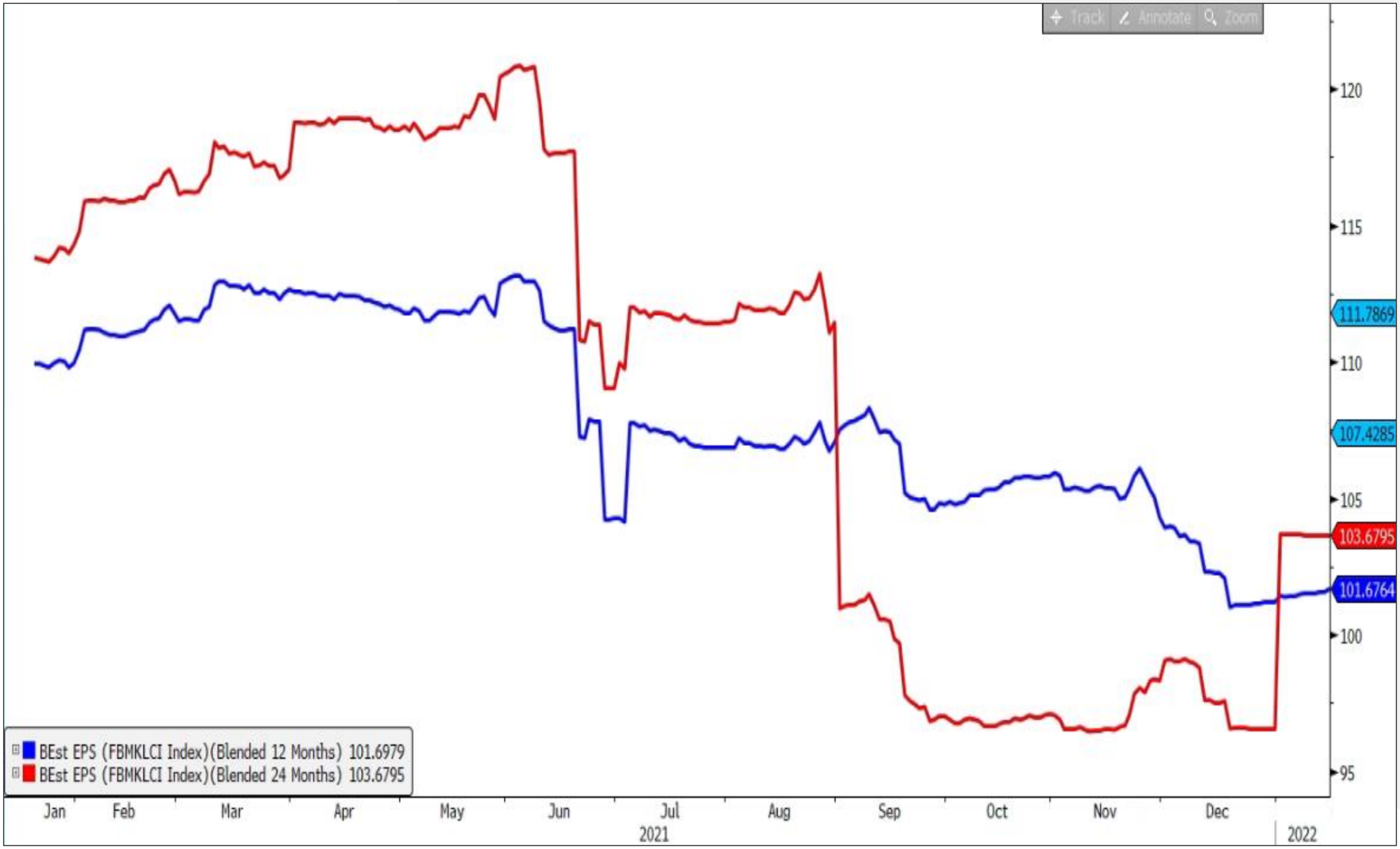
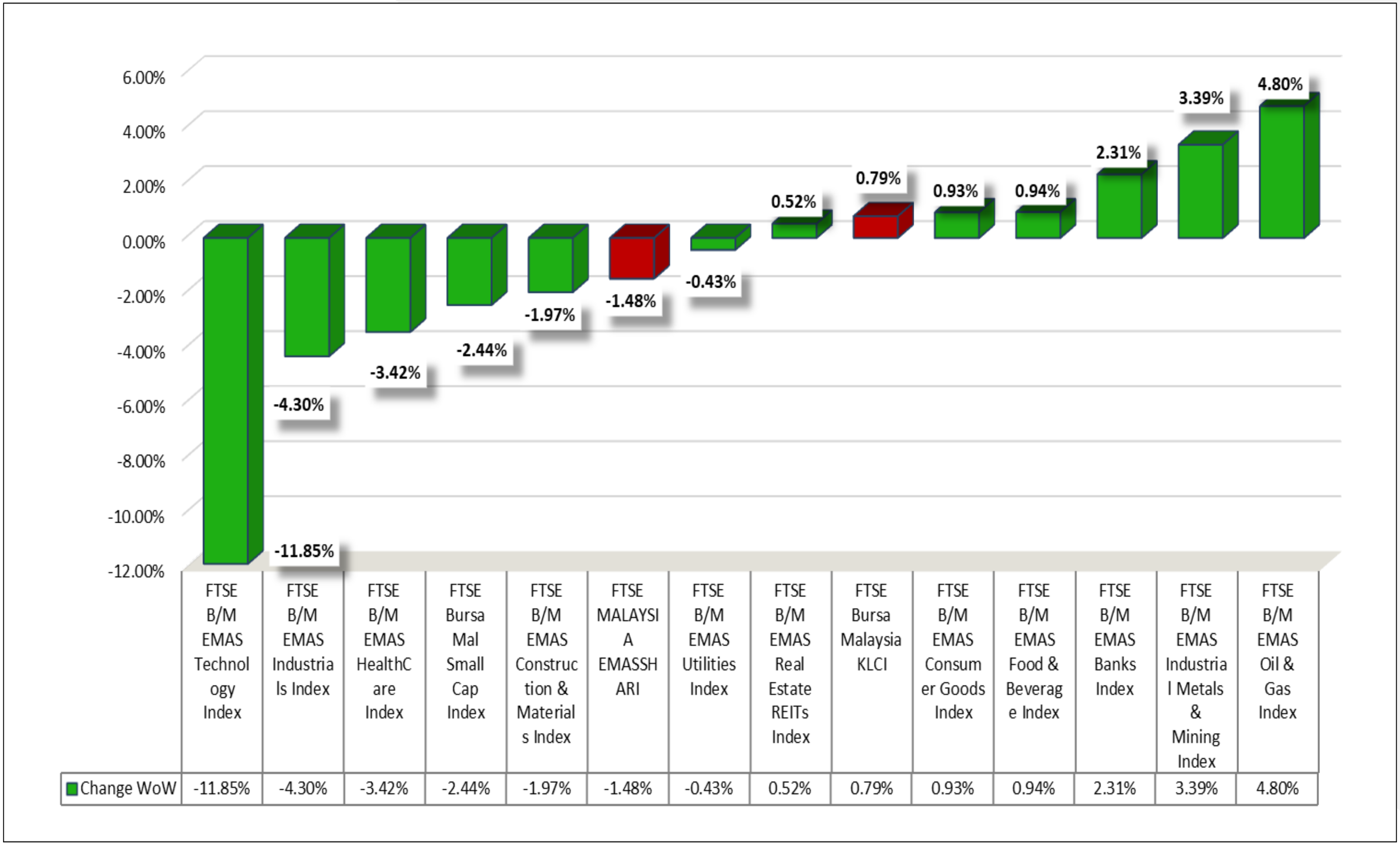
Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 14.01.22



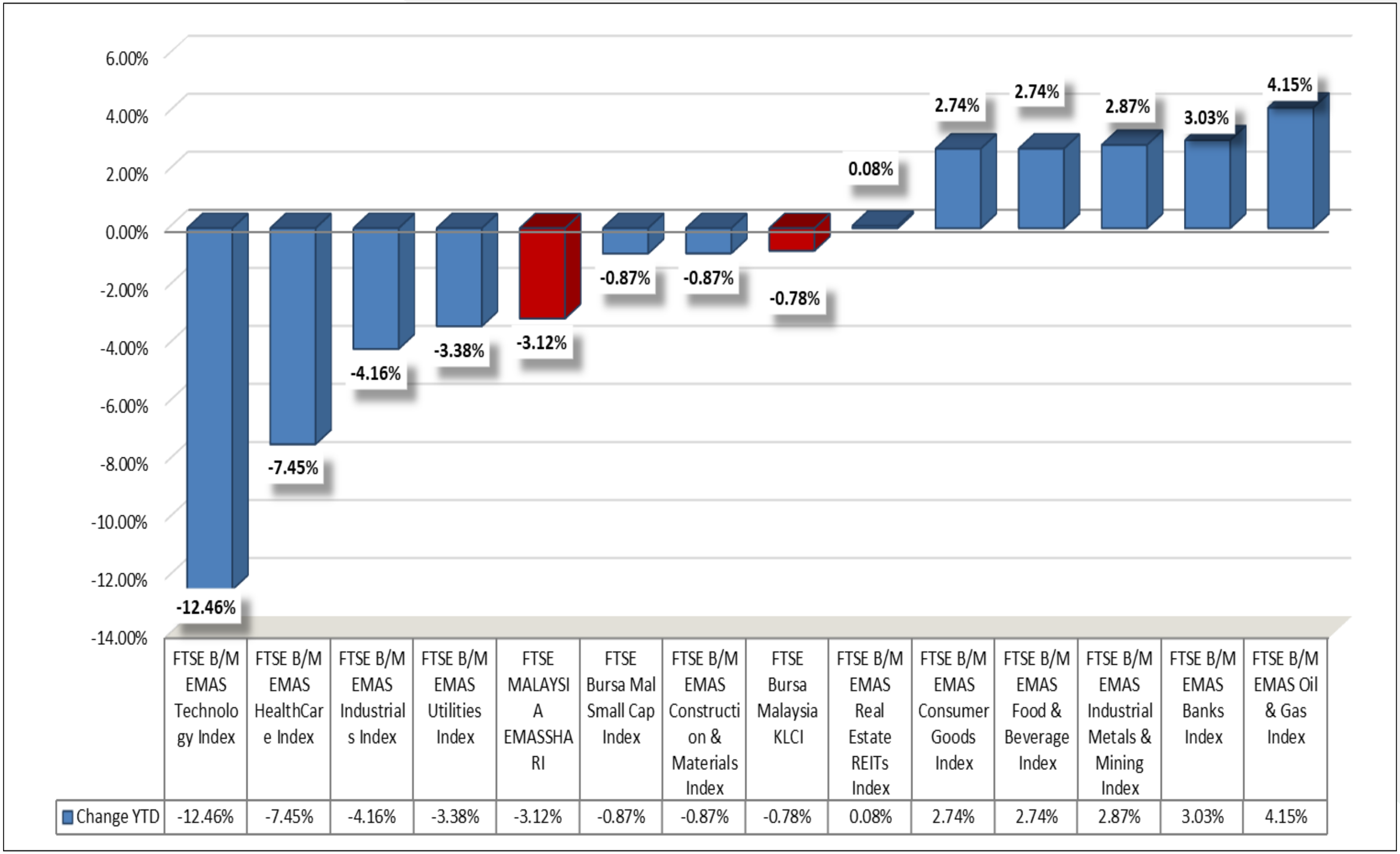
(Source: Bloomberg)

Exhibit 2 : Sector Performances (Week-on-Week) @ 14.01.22



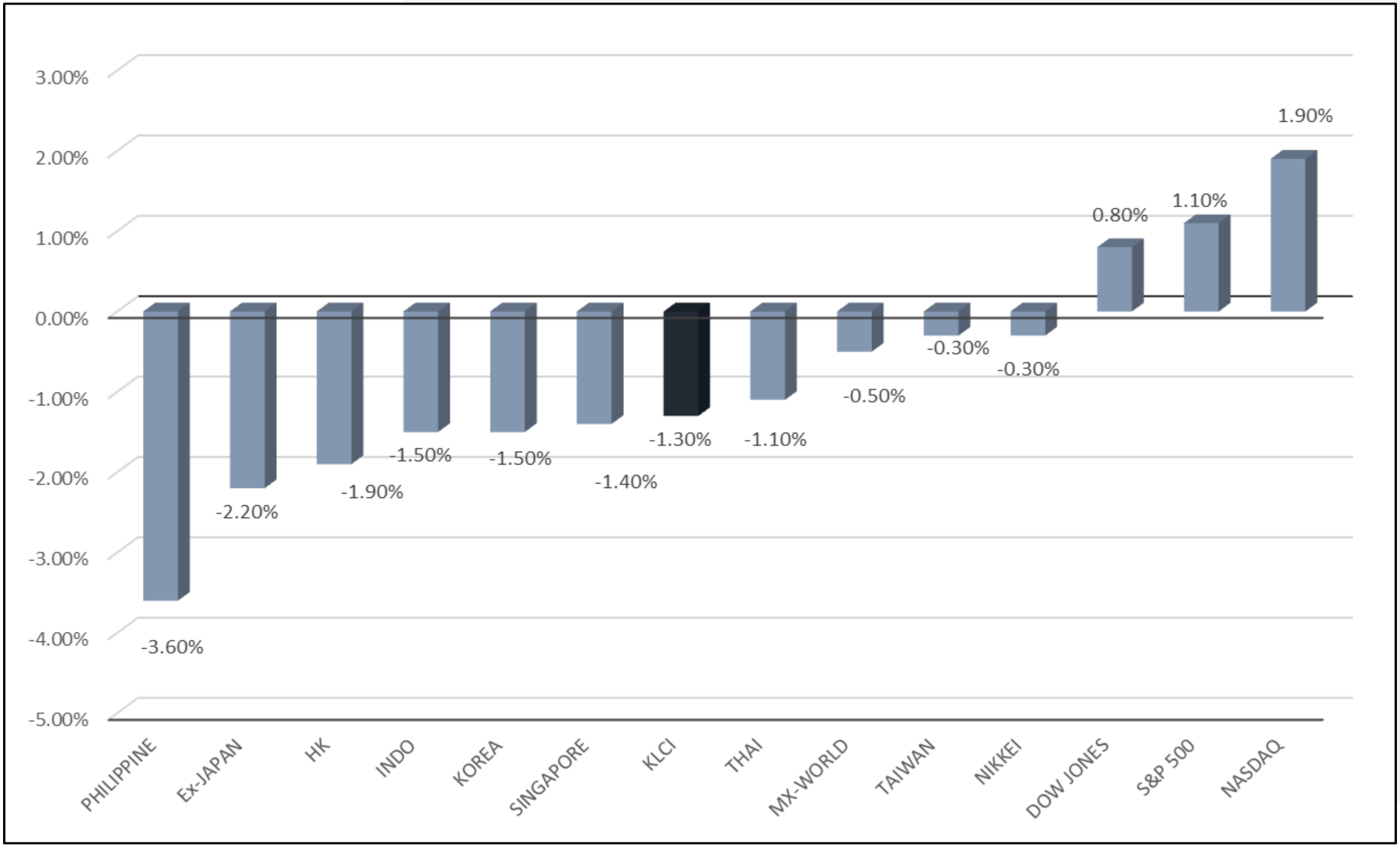
(Source: Bloomberg)

Exhibit 3 : Sector Performances (Year-to-Date) @ 14.01.22



(Source: Bloomberg)

Exhibit 4 : Performance Indices (Year-to-Date) @ 14.01.22



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE @ 14.01.22

(Source: Bloomberg)

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Exhibit 6 : KLCI 12M Forward PB @ 14.01.22

(Source: Bloomberg)

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Exhibit 7 : KLCI 12M Forward Dividend Yield @ 31.12.21

(Source: Bloomberg)

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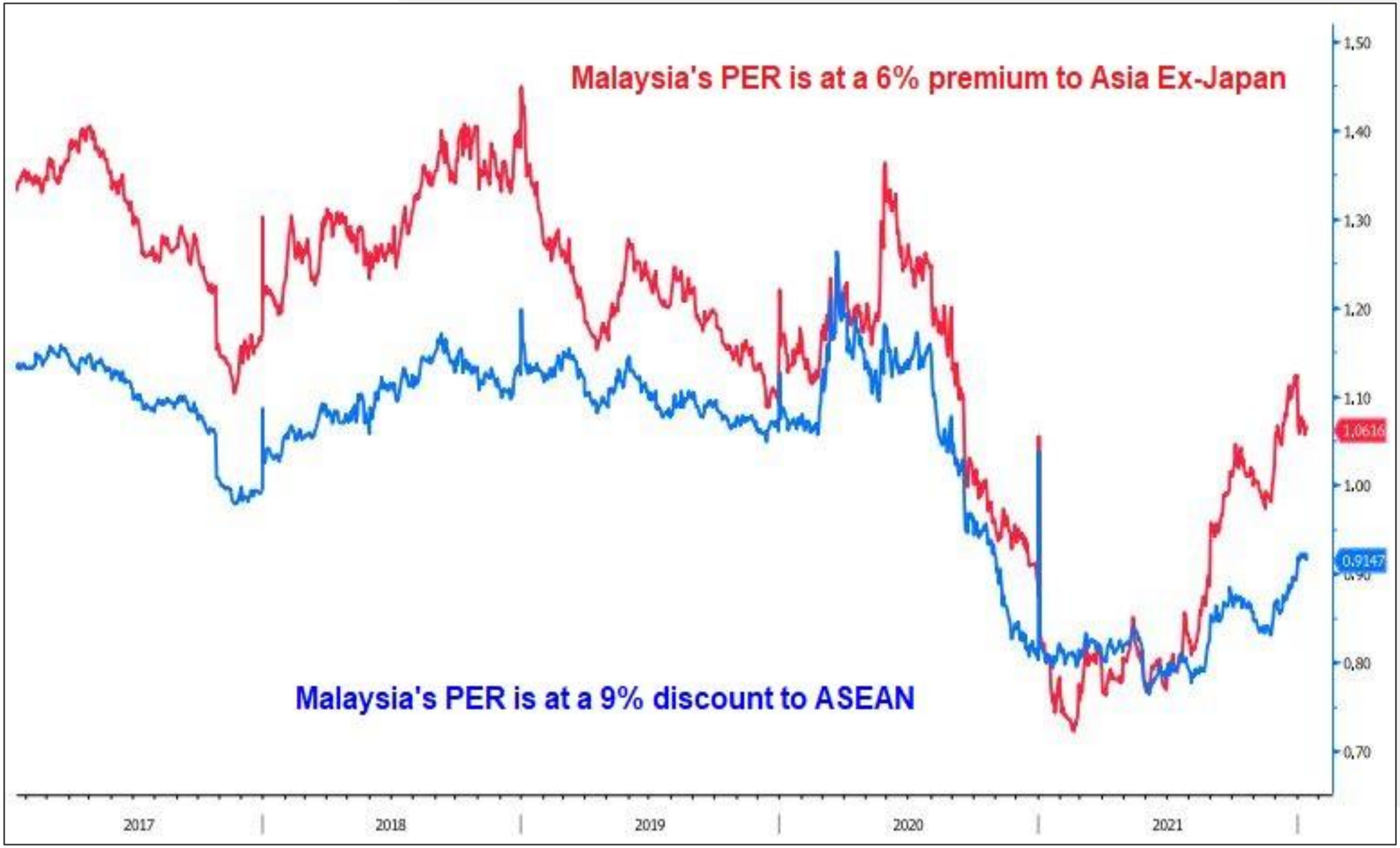
Exhibit 8 : Malaysia's Relative PE to the Region



(Source: Bloomberg)

Exhibit 9 : KLCI ex-gloves @ 14.01.22

			2019	2020	2021	2022
Total earnings (RM bil)			53.3	37.3	68.5	66.4
Gloves earnings (RM bil)			0.8	2.2	11.7	4.5
Total earnings ex gloves (RM bil)			52.5	35.1	56.9	61.9
MKT PER			19.6	28.0	15.3	15.8
Gloves only PER			46.3	17.2	3.3	8.5
MKT PER ex gloves			19.2	28.7	17.7	16.3
Net profit growth				-30%	84%	-3%
Net profit growth ex gloves				-33%	62%	9%
2022 Earnings - ex gloves (RM bil)						61.9
Target 2022 PER ex gloves						**17.5**
Market cap - ex gloves (RM bil)						1,083.4
Add: Market cap gloves (RM bil)	ASSUME			10% DECLINE		34.2
Total market cap (RM bil)						1,117.5
KLCI market cap - current						1,045.8
Upside						**6.9%**
KLCI current @ 14.01.2022						1,569.51
Target - KLCI						**1677**

(Source: AISB & Bloomberg)

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