Portfolio Manager's View

10 February 2022

Fund Management Department

Regional

1. Regional markets rose in a holiday-shortened week (mainland China and Taiwan were closed the entire week), led by strong rebounds in Asian internets, financials, healthcare and real estate. The regional Asia ex-Japan (AXJP) barometer gained 2.9%, with China-H outperforming (+4.5%). For regional markets that were opened after the last two days of the week after the Chinese New Year holidays, there were no major macro, sector or corporate-related catalysts that led to the sharp (pent-up) gains other than taking the lead from developed markets that rebounded after weeks of sell-offs.

2. The rebound in Asian markets came on the back of lower volatility indices that fell, from US to Asian and emerging markets. Markets have started to appear more risk-seeking despite the ongoing geopolitical concerns (Russia-Ukraine border tensions that remain unresolved) and persistently high 10Y US Treasury yields that rose 8 bps in a week to 1.909%.

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3. This week, we expect headlines on geopolitics to remain conflicted, with some quarters expressing optimism on resolving the Russia-Ukraine tensions whereas others threaten sanctions on the invading country. As the headlines play out, we expect markets' focus to be increasingly on fourth-quarter 2021 corporate earnings and GDP prints (Malaysia is expected to announce 2021 GDP on 11 February). From the macro standpoint, the Asia-wide and specifically ASEAN regions remain home some of the fastest-growing economies in 2022, following a dismal 2021 that suffered from closed borders and reduced economic activities. Volatility, if any, may present good opportunities for further investments in the regions.

Malaysia

1. The KLCI closed at 1,523 @ 04.02.2022, a decrease of 1.2% MoM. Most sectors have slightly rebounded last week. Small Cap and Technology were the best performing sectors. Food & Beverage and Consumer Goods were the worst performing sectors. Valuations for the Malaysia market remains fair though it appears less attractive than before due to persistent earnings downgrades.

2. Based on statistics issued by Bank Negara Malaysia (BNM), total loans increased by 4.5% YoY to RM1,913.7bil at end-Dec 2021 which indicates a good sign of economic recovery as people start to shift from saving to spending. Total gross impaired loan (GIL) reduced by 3.7% YoY to RM27.6bil signaling that borrowers currently still have the means to repay their borrowings despite the economic slowdown. However, the industry's GIL will only be more apparent in 2Q' 2022 with the expiry of loan moratoriums. We remain optimistic on the sector and favor banks that have good asset quality and a higher composition of floating rate loans which will be benefit from an expected rise of the Overnight Policy Rates (OPR).

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3. CPO spot prices in Malaysia increased 9.6% MoM to RM5,750.5 on 4 Feb 2022 (Exhibit 10) after Indonesia announced new regulations for its palm oil exports. Indonesia exporters are required to set aside 20% of their palm oil exports for their local market and sell at a maximum price of Rp9,300/kg. We believe this new policy will benefit Malaysia-centric oil palm growers as they will not only benefit from the high CPO prices but also from lower export supplies from Indonesia which is the largest CPO exporting country.

4. Investors now expect the US Fed Funds Rate to "lift-off" when the FOMC next meets in March. This is expected to be followed by up to 4 rate hikes during the remainder of 2022. Another 2-3 rate hikes are expected in 2023. The market is effectively expecting interest rates to move up "faster and more" than before. Separately 10Y US bond yields have risen from approx. 1.0% at end Dec to 1.95% currently (albeit still below pre-Covid 19 levels in 2018 & 2019). This has negatively impacted growth companies with "longer-dated" earnings. The theory is as interest rate move higher, the discount rate used to discount their future earnings also increases. This negatively impacts the fair value of stocks where earnings are far into the future.

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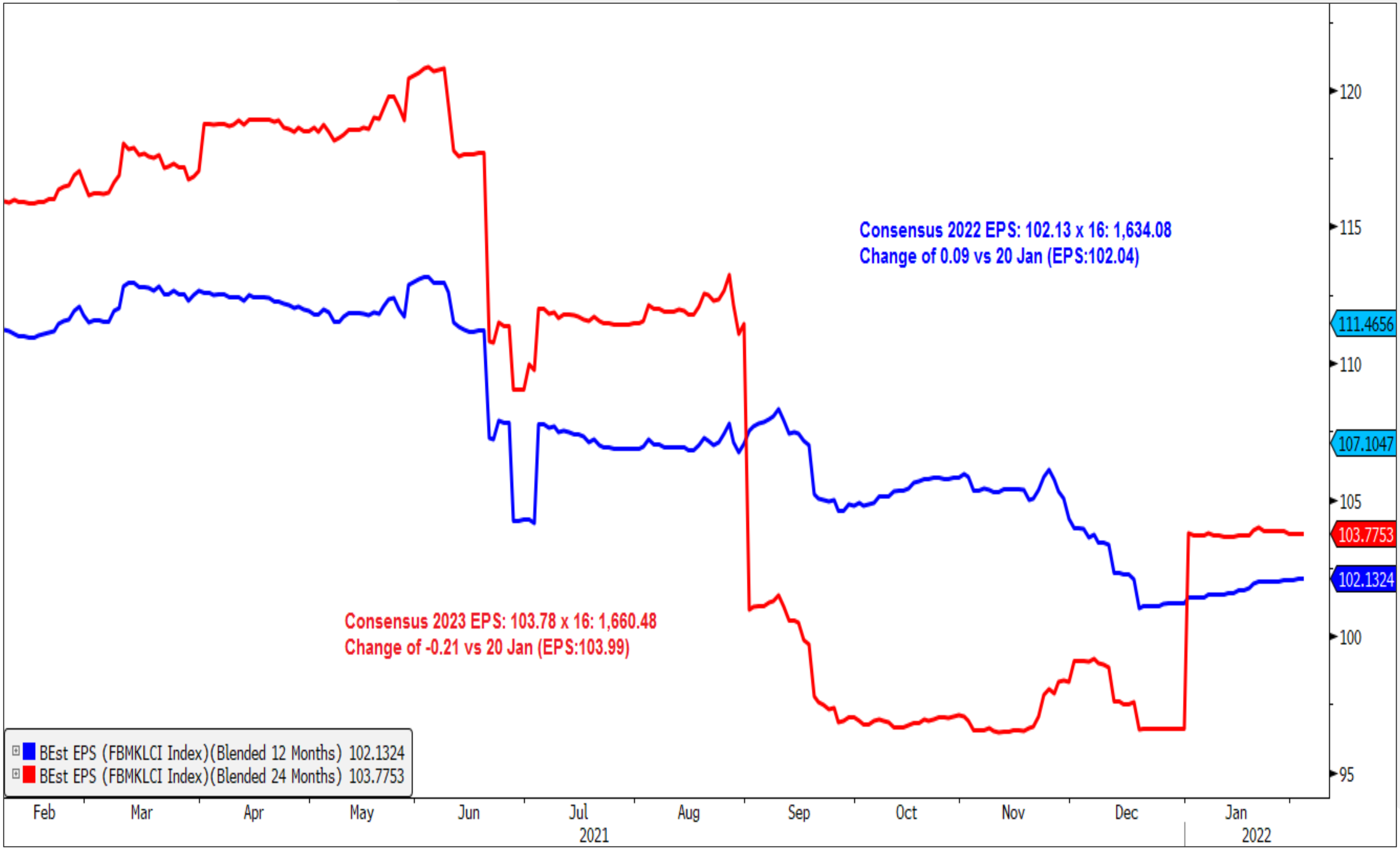
5. In recent weeks, we have significantly reduced our holdings in technology. We realized good profits from the disposals. While earnings for technology companies are likely to stay robust at least until the 2H of 2022, PERs will derate as they are trading at above mean valuations. In addition, ASP increases enjoyed by the industry will eventually come to an end as the inventory cycle is expected to normalize in the coming quarters. While we continue to own a number of semiconductor names, our weightings in these names are significantly lower than before. Finally, since last year, we held a positive view on the O&G sector due to the under-spending of capex in the industry. With the rise in Brent crude prices (to US$92.90/bbl currently), some of our holdings have benefitted.

6. Based on KLCI at 1,523 @ 04.02.2022 and assuming consensus eps integer of 102 for 2022 (Exhibit 1), the market is trading at a PER of 14.9x for CY22 (Exhibit 5). This is slightly below the KLCI's 5Y average PER of 15.7x. Secondly, the PBR of the market of 1.43x is -1SD below its 5Y average PBR of 1.5x. Finally, market's DY of 4.0% is attractive at +1SD above its 5Y average of 3.60% (range 3.0% to 4.5%).

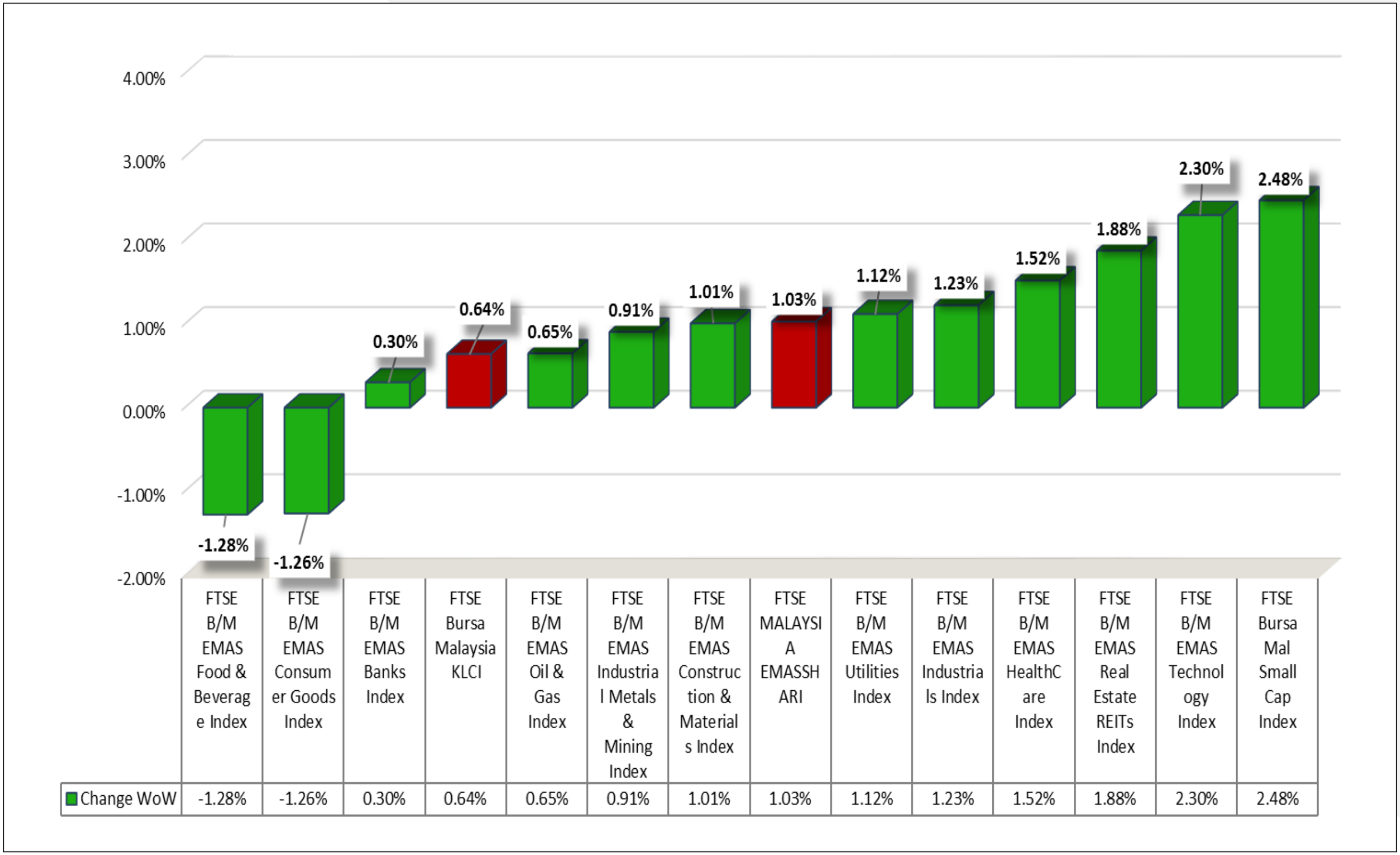
7. Using another approach, assuming a 10% decline in glove stocks in 2022 and applying a PER of 17.5x for the market ex-gloves (vs 5-year average of 19.4x), a potential fair value for the KLCI is 1,650 (Exhibit 9). At this level, it implies a 2022 PER of 16.4x which is slightly above its 5-year average of 15.5x.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 04.02.22



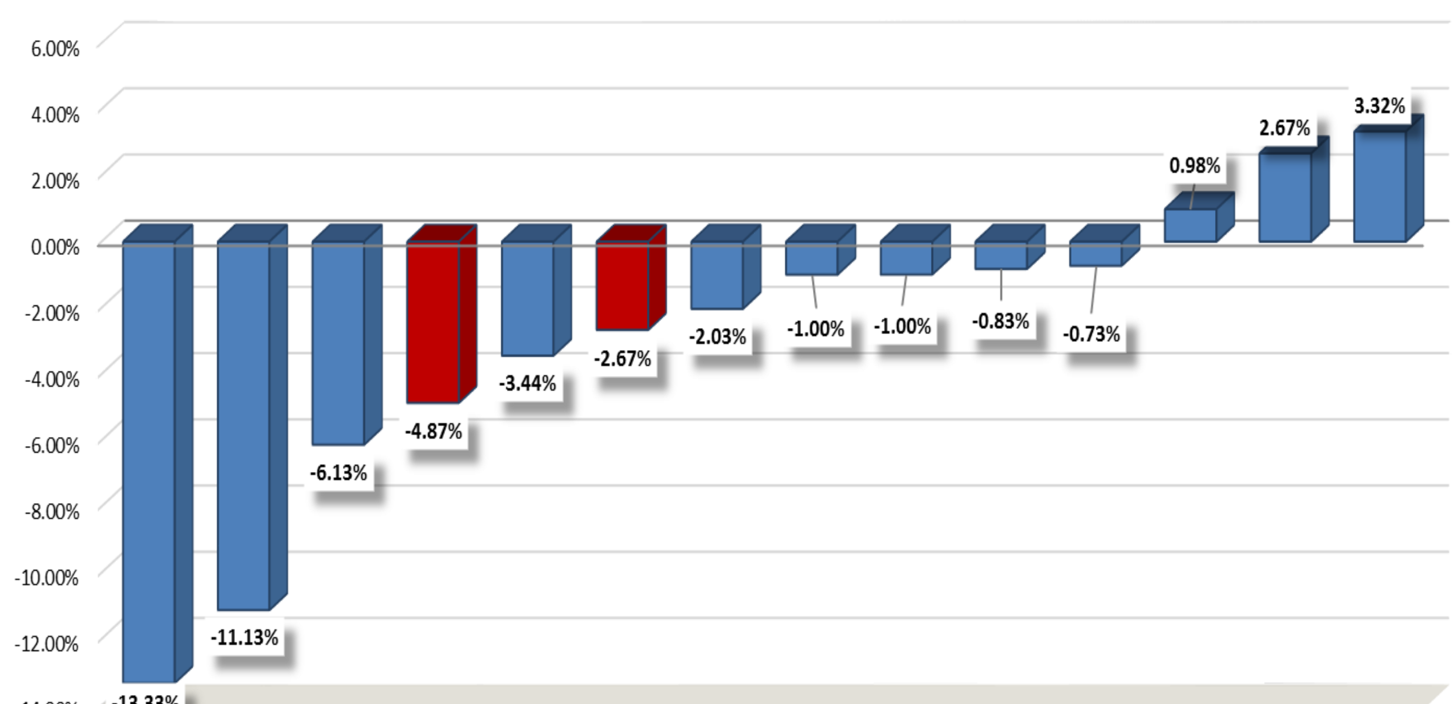
(Source: Bloomberg)

Exhibit 2 : Sector Performances (Week-on-Week) @ 04.02.22



(Source: Bloomberg)

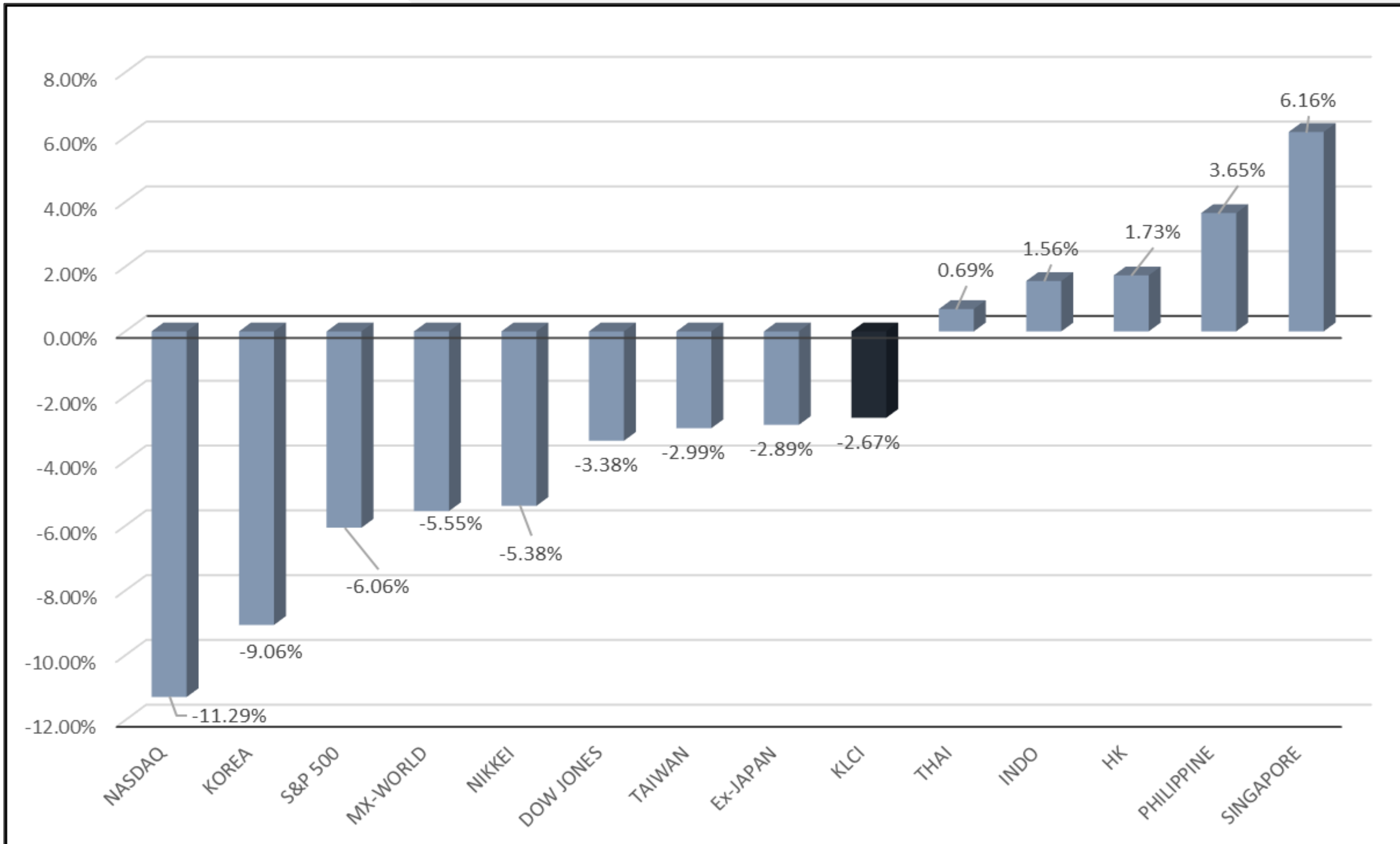
Exhibit 3 : Sector Performances (Year-to-Date) @ 04.02.22



	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Industrials Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change YTD	-13.33%	-11.13%	-6.13%	-4.87%	-3.44%	-2.67%	-2.03%	-1.00%	-1.00%	-0.83%	-0.73%	0.98%	2.67%	3.32%

(Source: Bloomberg)

Exhibit 4 : Performance Indices (Year-to-Date) @ 04.02.22



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE @ 04.02.22

(Source: Bloomberg)

Exhibit 6 : KLCI 12M Forward PB @ 04.02.22

(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 04.02.22

(Source: Bloomberg)

Exhibit 8 : Malaysia's Relative PE to the Region

(Source: Bloomberg)

Exhibit 9 : KLCI ex-gloves @ 04.02.22

			2019	2020	2021	2022
Total earnings (RM bil)			53.3	37.3	68.5	66.5
Gloves earnings (RM bil)			0.8	2.2	11.7	4.5
Total earnings ex gloves (RM bil)			52.5	35.1	56.8	62.0
MKT PER			19.4	27.7	15.1	15.5
Gloves only PER			44.5	16.5	3.1	8.2
MKT PER ex gloves			19.0	28.4	17.5	16.1
Net profit growth				-30%	84%	-3%
Net profit growth ex gloves				-33%	62%	9%
2022 Earnings - ex gloves (RM bil)						62.0
Target 2022 PER ex gloves						**17.5**
Market cap - ex gloves (RM bil)						1,085.8
Add: Market cap gloves (RM bil)	ASSUME			10% DECLINE		32.9
Total market cap (RM bil)						1,118.7
KLCI market cap - current						1,032.5
Upside						**8.4%**
KLCI current @ 04.02.2022						1,523
Target - KLCI						**1650**

(Source: AISB & Bloomberg)

Exhibit 10 : Malaysia CPO Spot Price @ 04.02.22

(Source: Bloomberg)

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