PORTFOLIO MANAGERS' VIEWS

28 March 2022

MALAYSIA

1. THE WEEK IN REVIEW (21-25 March 2022): Malaysia had positive drivers from both external and domestic fronts. The tech index (+6.8%) outperformed after taking the cue from SEMI's latest quarterly World Fab Forecast report for 2022. Last week's report cited "global fab equipment spending for front-end facilities is expected to jump 18% year-over-year (YOY) to an all-time high of US$107 bil in 2022, marking a third consecutive year of growth following a 42% surge in 2021." On the domestic front, the construction index rose 3.7% after strong reported earnings lifted the stock price of a large-cap constituent by 5.8%. Conversely, the banking index lagged (-0.3% WoW) after outperforming (+4.0%) in the previous week. Local banks did not track its overseas peers' rallies (e.g. MSCI US Financial +1.5%) that benefitted from the US Federal Open Market Committee's (FOMC) rate lift-off on 16 March and additional calls from certain US FOMC members for steeper rate hikes than already guided. This is because Malaysian banks can only benefit from the re-pricing of variable-rate loans when Bank Negara Malaysia (BNM) lift rates, which is widely expected only later this year.

That said, the high inflation in developed economies that led to hawkish overtures and rate hikes in developed economies and inflation-targeting central banks is catching up in Malaysia. On Friday, Malaysia announced the February consumer price index (CPI) rose 2.2% YoY on the back of sharper increases from the food and non-alcoholic beverages (+3.7%) and transport (+3.9%) segments. Bloomberg's consensus forecast CPI for the year 2022 is now 2.4% from 2.3% est a week ago. Year to date, CPI forecast has risen 0.4%-pt since Dec 2021. The effects of the Russia-Ukraine war that constrained commodity output and raised petrochemical, edible oil and related costs are expected to seep through local non price-controlled and imported items.

MALAYSIA ('cont)

2. STRATEGY & OUTLOOK: The playbook on the higher inflation outlook is in the upstream commodity sector, where Bursa Malaysia has sizable petrochemical and crude palm oil sectors. On policy lift-off to tackle inflation, Bank Negara Malaysia (BNM) does not have a numeric-CPI target although its monetary policy stance is to “maintain price stability while remaining supportive of growth”. As evidenced by Bloomberg’s Market Implied Policy Rate (MIPR) readings, the first lift-off is expected in 6 months’ time as raising rates too soon after Malaysia printed just 3.1% GDP growth in 2021 would not be “supportive" in achieving the official guidance of 5.5-6.5% for 2022. Hence, we are not concerned with the banks’ relative under-performance in the short term, as MIPR currently indicates a total of 3 hikes in one year’s time. Banks with rate-sensitive loan books will be the main beneficiaries of the expected rate hikes over this period.

As for the construction sector, we are wary of rising material costs that will likely be borne by builders and contractors, leading to compressions in profit margins. Larger construction groups and main contractors will be able to absorb costs better than smaller sub-contractors. On technology, we think it is still too early to increase weightage despite the resurgence in interest. In addition to cost inflation pressures, supply chain disruptions are reverberating. A regional publisher has just reported that Apple plans to lower production of its 5G budget phone by about 2 mil units, among other cuts. Further, the Bursa Malaysia Tech Index valuation is not yet compelling at forward multiples of 24x, versus its pre-COVID 19 valuation of 20x at the end of 2019.

All in, our Malaysian funds are invested in upstream commodity, large-cap construction and banking stocks. On valuations, Malaysia remains fair. As at last Friday's close, the KLCI's (1) CY22 PER of 14.9x is below its 5Y average PER of 16.3x (2) CY22 PBR of 1.50x is below its 5Y average level of 1.57x and (3) the market’s DY of 4.0% is +1SD above its 5Y average of 3.5% (historically 3.0% to 4.5%).

REGIONAL

1. THE WEEK IN REVIEW (21-25 March 2022): In the previous week, China's Vice Premier Liu made key announcements that helped lift the beleaguered China internet and e-commerce stocks. However, the rally failed to sustain on the pronouncements alone after a games and social messaging giant reported its slowest-ever earnings results growth. To illustrate, this company's domestic gaming revenue grew just 1% after a series of regulatory supervisions (e.g. ban on new internet games and restrictions on children's game time) took its toll. This reality partly dissolved Vice Premier Liu's call for "stable and healthy development of (internet) platforms…through standardized, transparent, and well expected regulations" which led to large China internet gains in the previous week. As a result, a China internet stock barometer fell 5.6% WoW after gaining 28.8% in the previous week. As at February 2022, four of the largest China internet / e-commerce stocks represented 10% of the MSCI Asia ex-Japan index. Three of these formed 21% of the MSCI AC Asia Pacific Consumer Discretionary index.

2. STRATEGY & OUTLOOK: While China's internet-related consumer discretionary sector faces headwinds, we see nascent recovery in ASEAN consumer discretionary spending. By the start of April, the COVID-19 pandemic will seem distant as more countries in the region ease travel restrictions. Last week, Hong Kong jumped on to Malaysia and Philippines' scheduled April reopening by allowing passengers from nine countries to enter its island. Once intolerant to COVID-19, Hong Kong is now joining the global pragmatism by easing travel and business restrictions, stating that the ban is "no longer timely or appropriate". Likewise, Indonesia will resume domestic travel at the start of the Ramadan after a two-year ban whereas Singapore announced "drastically-streamlined testing and quarantine requirements for travelers". Here, our regional portfolios are positioned in beneficiaries of reopening such as the leisure and food and beverage sectors. Fund flows are optimistic in the region, as evidenced by the net US$ 598 mil that entered ASEAN-5 markets in last week alone.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

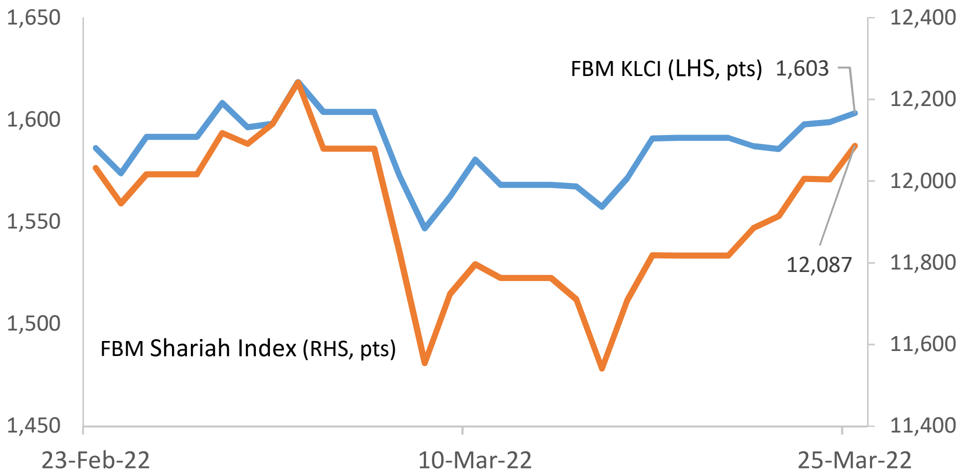


Exhibit 2: USDMYR FX

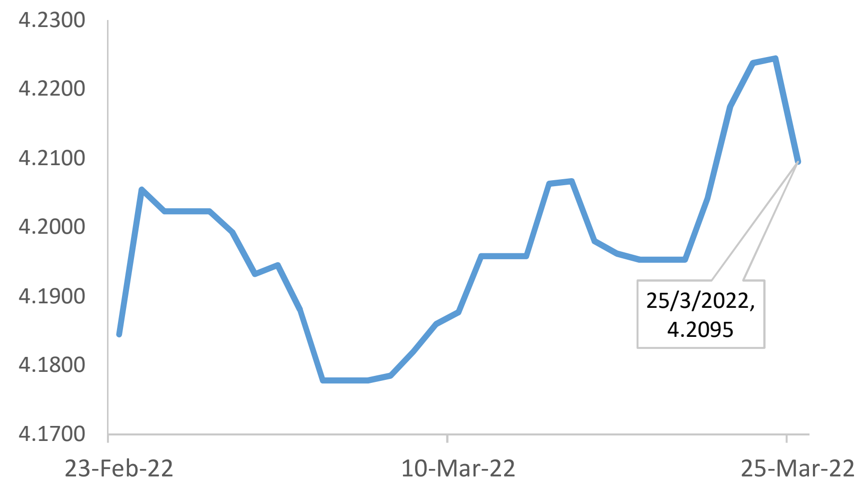


Exhibit 3: Sector Performance Indices (1 Week, %)

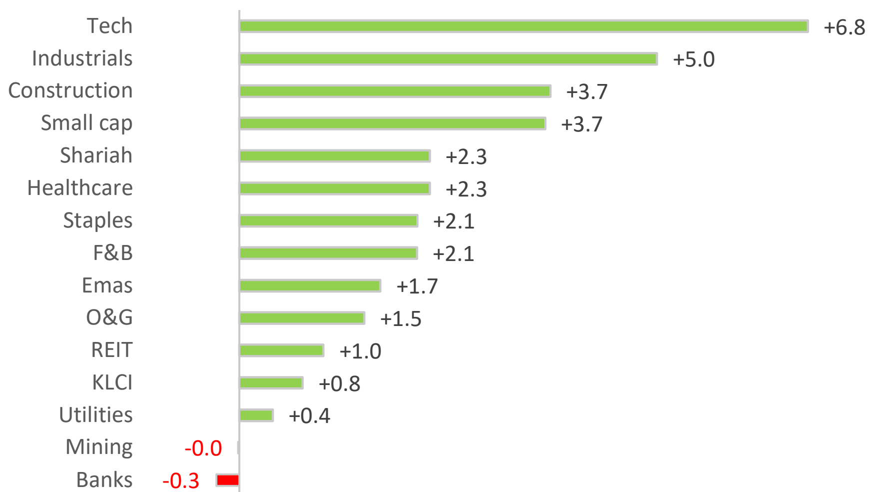
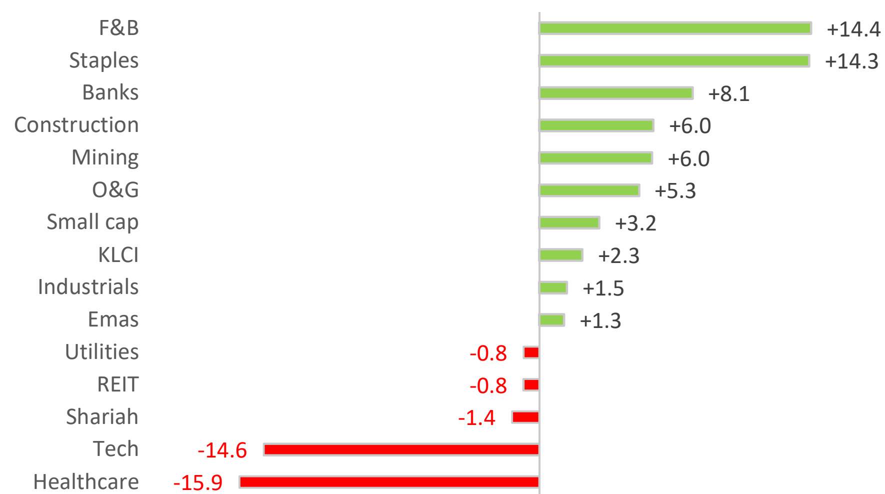


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

Exhibit 5: Malaysia's Premium/Discount to Asia ex-Japan based on Current PER (%)

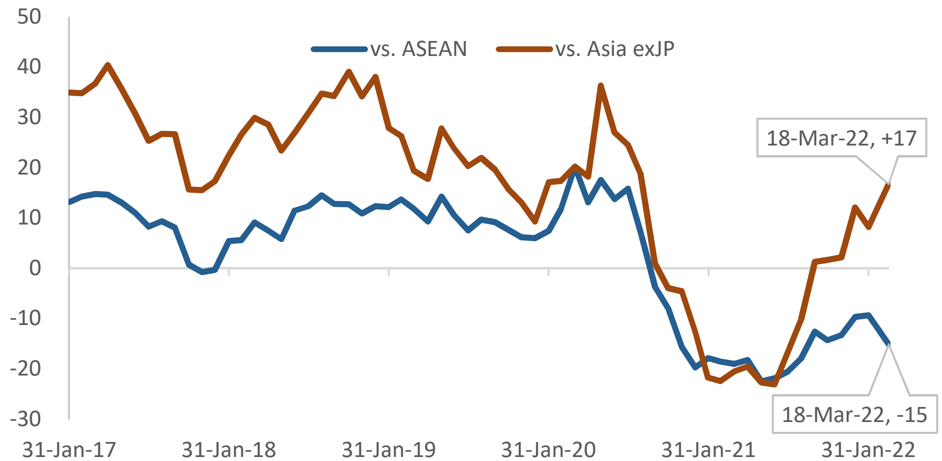


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

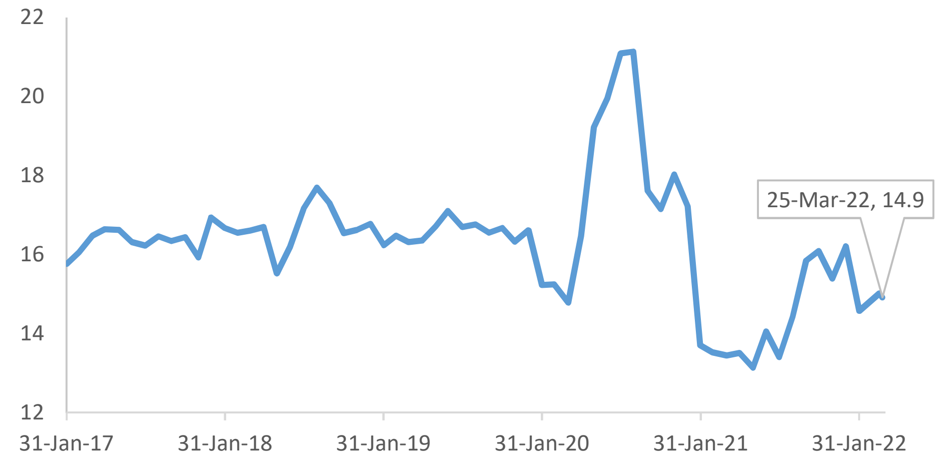


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

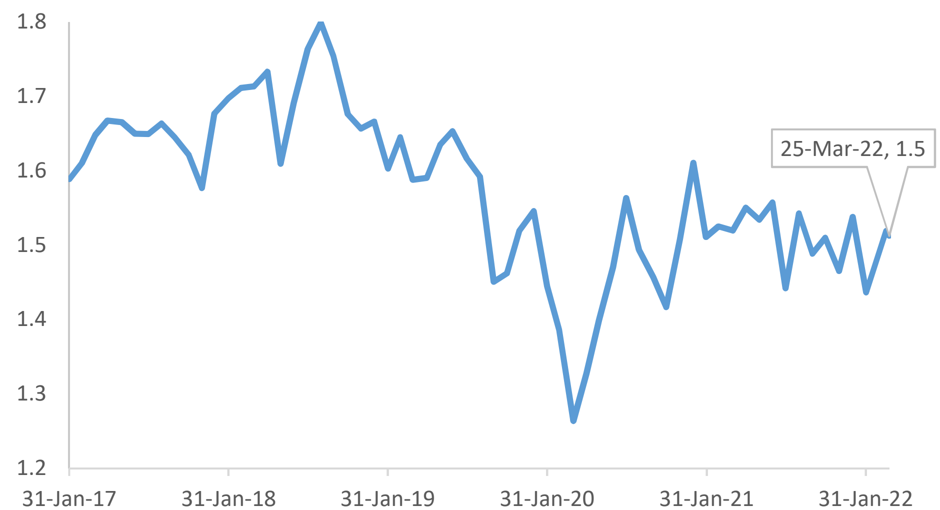
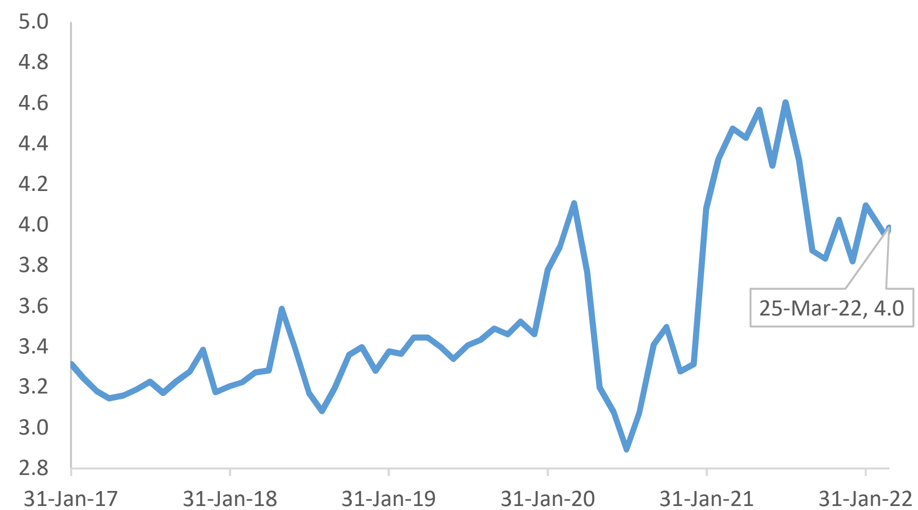


Exhibit 8: KLCI's Dividend Yield (DY, %)



REGIONAL

Exhibit 1: Country Performance Indices (1 Week, %)

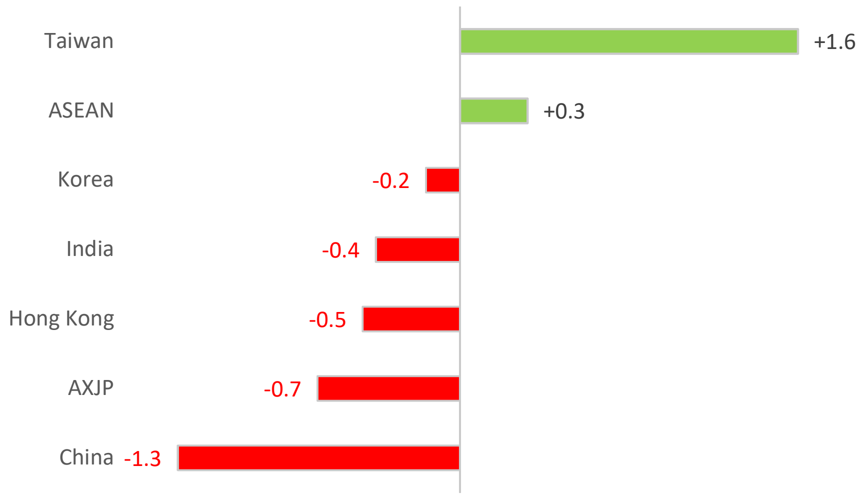


Exhibit 2: Country Performance Indices (Year-to-Date, %)

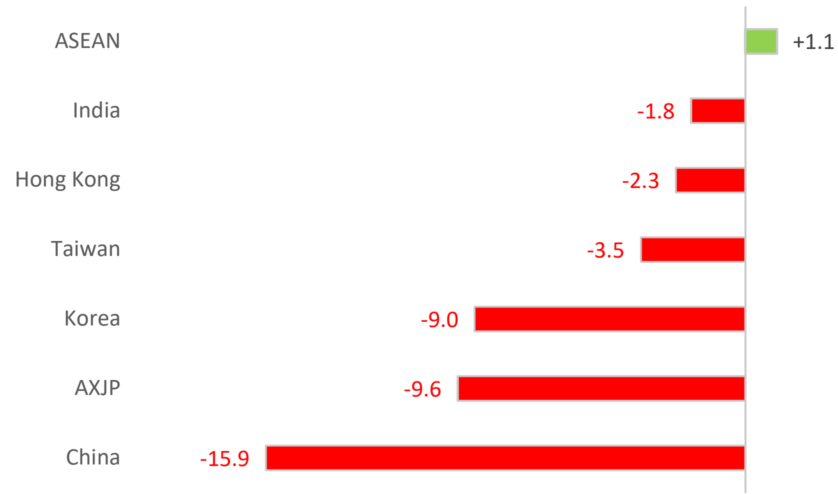


Exhibit 3: Sector Performance Indices (1 Week, %)

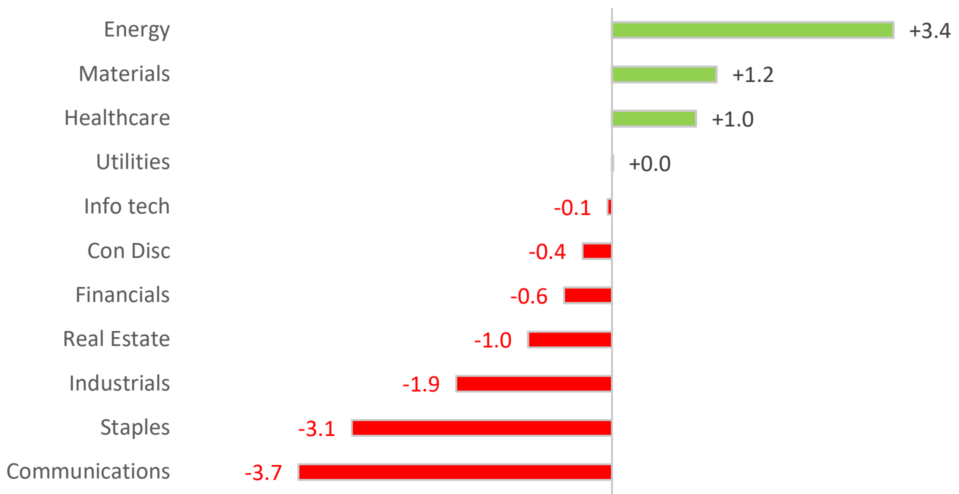
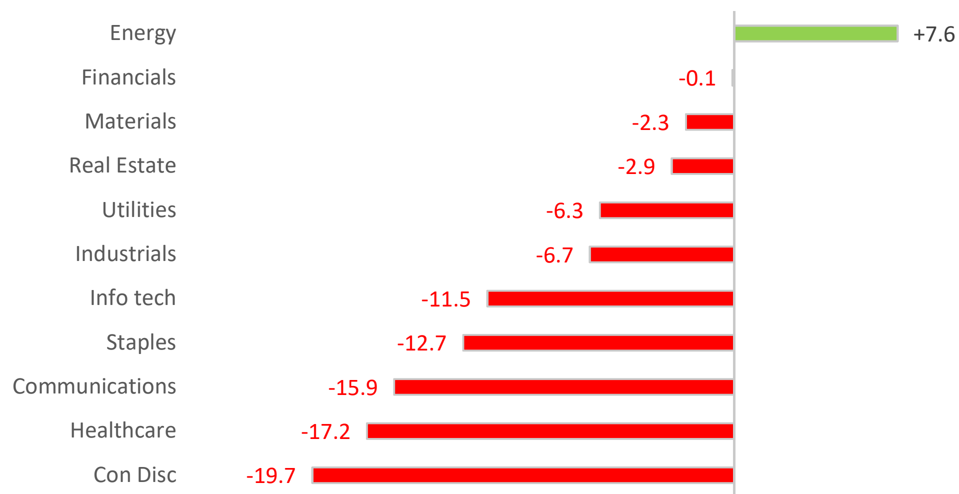
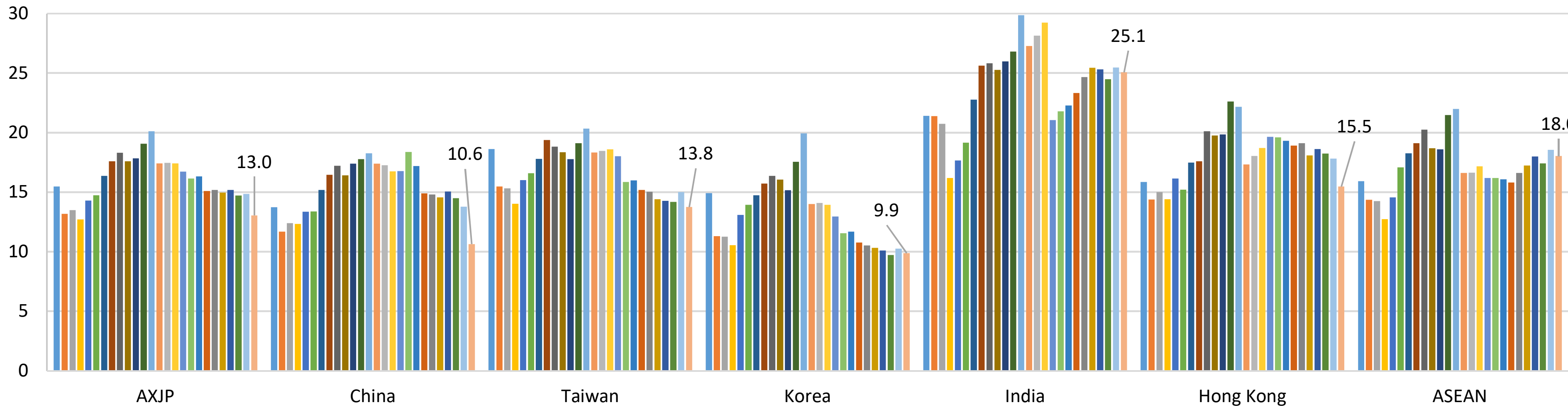


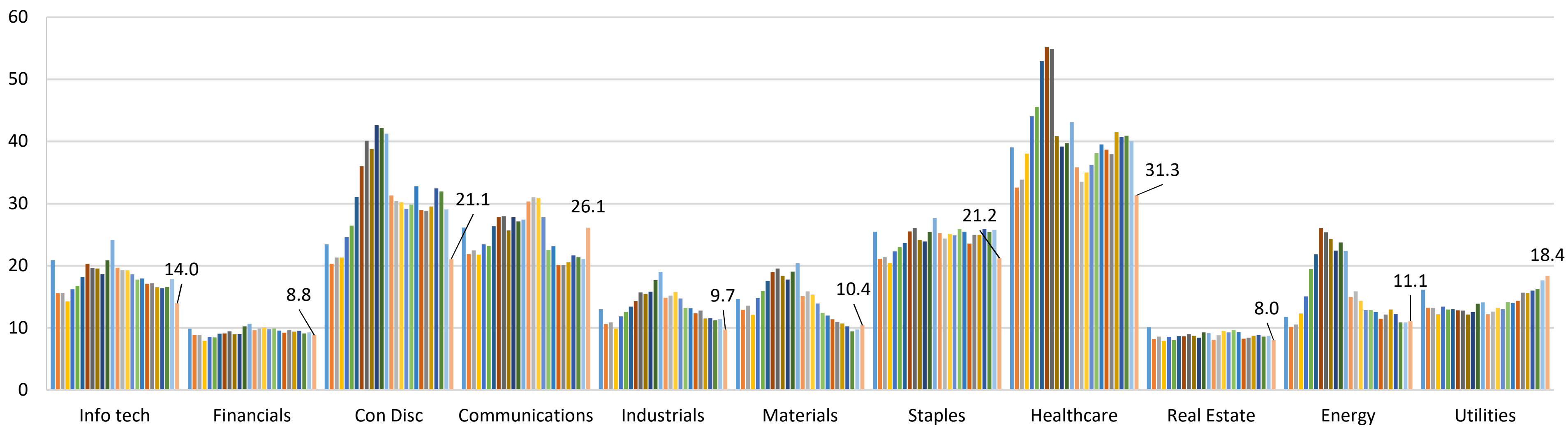
Exhibit 4: Sector Performance Indices (Year-to-Date, %)



REGIONAL

Exhibit 5: Year 2022 Price-Earnings Ratio (Dec 2019-Current)





FOREIGN NET FLOWS

Exhibit 6: Selected ASEAN Equity Markets (Net USD mil)

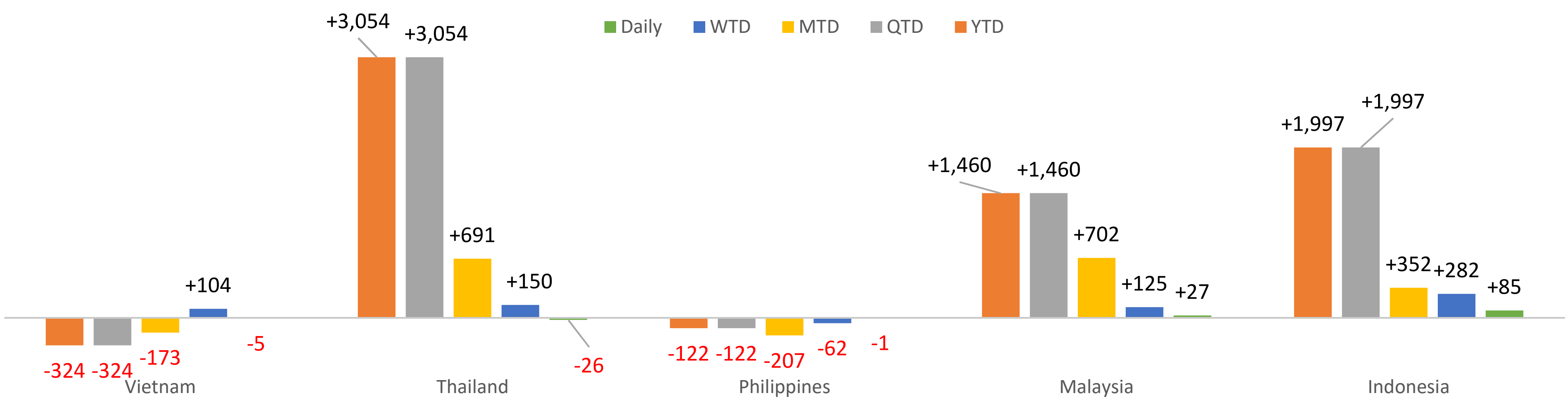
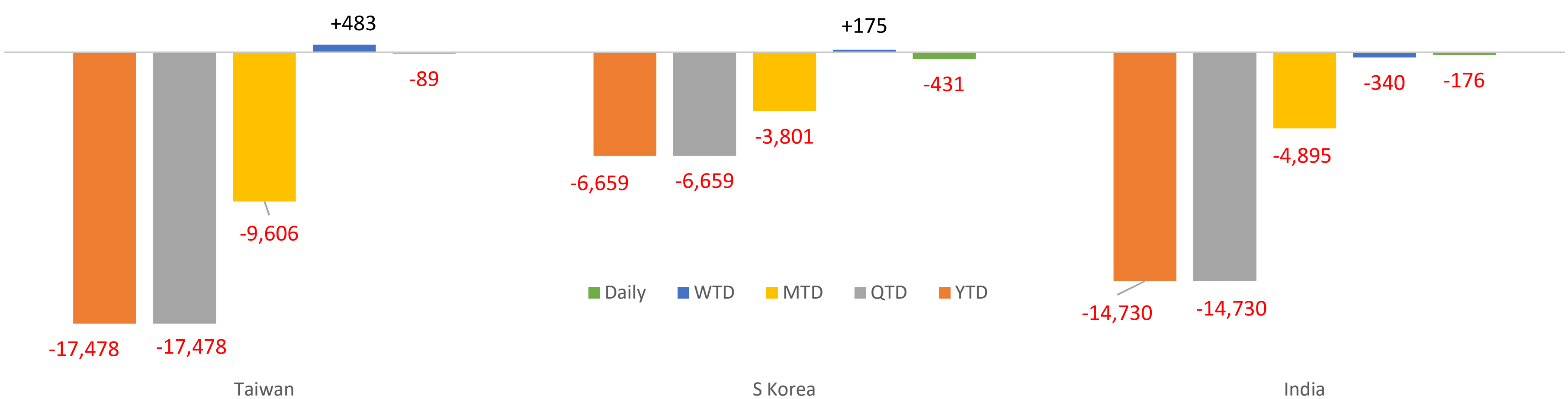


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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