

PORTFOLIO MANAGERS' VIEWS



17 May 2022

MALAYSIA & REGIONAL

1. THE WEEK IN REVIEW (6-13 May 2022): Bank Negara Malaysia (BNM) unexpectedly raised the overnight policy rate (OPR) by 25 bps to 2.00%. The rate hike surprised, as consensus were anticipating a hike only in the second half of 2022. As at the end of April, the Bloomberg Implied Policy Rate pointed to the first rate hike sometime only in the third quarter, at the earliest. Nonetheless, BNM's confidence in raising the OPR arose from the view that "domestic growth (is) on a firmer footing, driven by strengthening domestic demand amid sustained export growth.. (and) the (BNM) Monetary Policy Committee decided to begin reducing the degree of monetary accommodation. This will be done in a measured and gradual manner". Disappointingly, the rate hike and BNM's pronouncement of "domestic growth on a firmer footing" failed to lift banks and the KLCI. Typically, the beneficiaries of higher interest rates and the proxy for domestic growth are banking stocks. The FTSE Bursa Malaysia Emas Banks index and the KLCI lost 1.0% and 1.3% WoW respectively after succumbing to regional volatility. Last week, the MSCI Asia ex-Japan (MXASJ) fell 2.4%, with ASEAN (-4.5%) as one of the least performers as global growth concerns modulated local GDP optimism.

2. STRATEGY & OUTLOOK: We think the sell-down in Malaysian equities is unjustifiable as the economy's "transition to endemicity on 1 April 2022 would strengthen economic activity", as attested in the MPC statement that accompanied the rate hike. Malaysia's transition to COVID-19 endemic phase has seen consensus GDP forecast for 2022 rise from 5.7% at the start of the year to 6.1% as at last Friday (source: Bloomberg). Last week, Malaysia reported its Q1 2022 GDP print of 5% which exceeded consensus estimates that ranged from 3.3 to 4.8%, and validates the upgraded GDP outlook for the year. The Malaysian government bond yield curve bear-steepened to reflect this optimism, with the 10-year yield rising 80 bps YTD. Bloomberg's market-implied policy rates (MIPR) for Malaysia currently indicates another 50 bps rise in OPR over the rest of 2022.

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If MIPR expectations materialize, the total rate hike for 2022 may be up to 75 bps – similar to the YTD rise in 10-year government bond yield – and banks with the higher proportion of loans to variable lending rates stand to benefit. Our Malaysia and regional funds are invested in Malaysian banks, where the best beneficiary has up to 92% of its books in floating-rate loans.

Malaysia is attractive following last week's decline, and the 25 bps rate hike that potentially raises KLCI's 2022 earnings by 1%, as estimated by a research house. The KLCI's 2022 PER of 14.8x is below its 5Y average of 16.3x, (2) price-to-book ratio of 1.5x is below its 5-year average of 1.6x, and (3) the dividend yield of 4.0% is +1 standard deviation above its 5-year average of 3.5% (historically 3-4%). Moreover, Malaysia is able to withstand higher borrowing costs going forward given that the net gearing levels of the broader FTSE Bursa Malaysia Emas Index has dropped to 84% in 2021 from 88% in the pre-pandemic and pandemic years of 2019 and 2020. With the rise in corporate profitability on the back of economic recovery, the index's net debt-to-EBITDA dropped from 2.4x in 2019 and 2.9x in 2020 to 2.1x in 2021. Bloomberg consensus expects further declines to 1.9x in 2022 and 1.8x in 2023. Regionally, the MSCI Financials index (-3.9% WoW) underperformed the broader MXASJ index (-2.4%) to reflect global growth concerns. Like Malaysia, other ASEAN countries have also moved to COVID-19 endemic stage and the country with similar domestic (e.g. easing of travel restrictions, higher domestic consumption) and external (e.g. commodity exports) drivers is Indonesia. As the Indonesia central bank adopts an inflation-targeting framework of 2-4% for 2022 and the April 2022 CPI has jumped to 3.5% from 2.6% in March, there is now speculation that Bank Indonesia will raise rates at its 24 May meeting. When Indonesia kept it unchanged at 3.5% in April, the Rupiah depreciated by almost 2% in a month to 14,613 last Friday. In Indonesia, policy rate is also used as a tool to ensure currency stability. As in Malaysia, a rate hike will benefit Indonesian banks, where regional portfolios have exposure.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

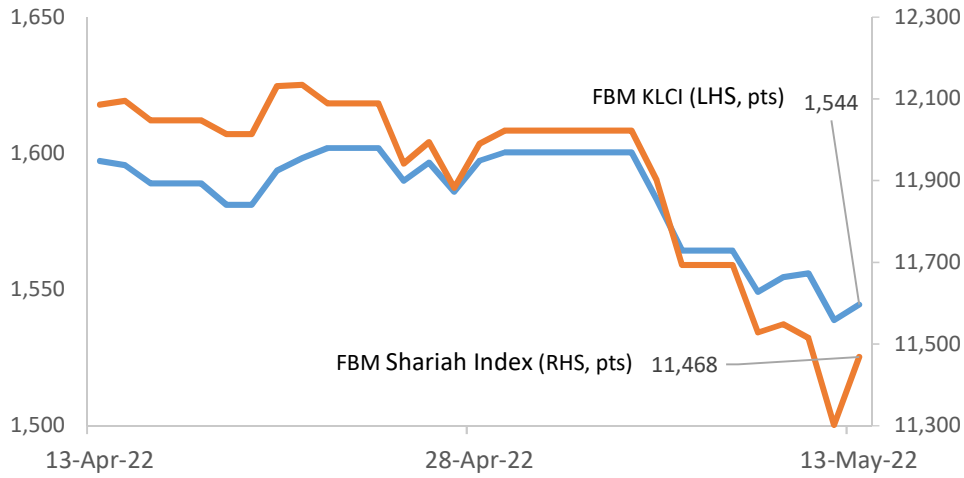


Exhibit 2: USDMYR FX

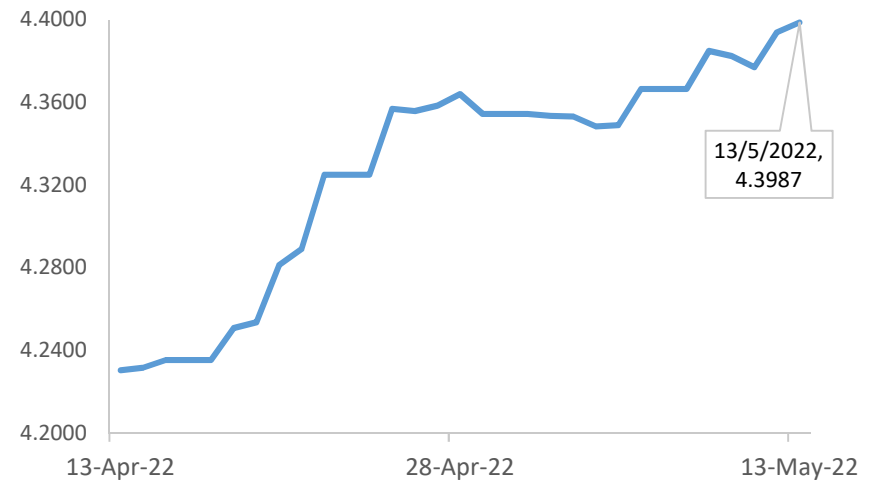


Exhibit 3: Sector Performance Indices (1 Week, %)

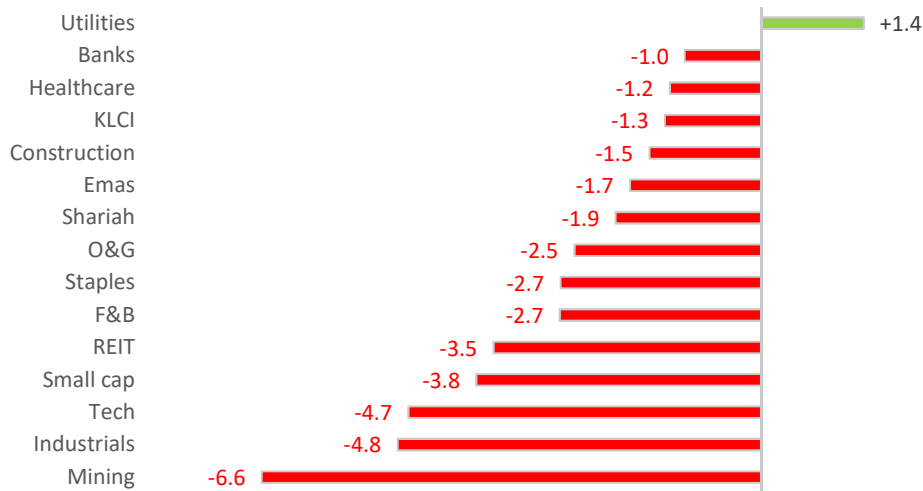
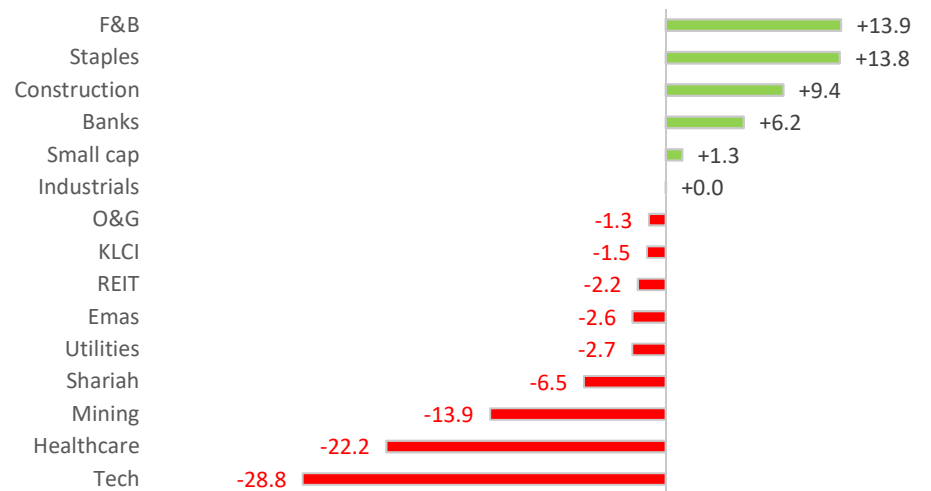


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



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

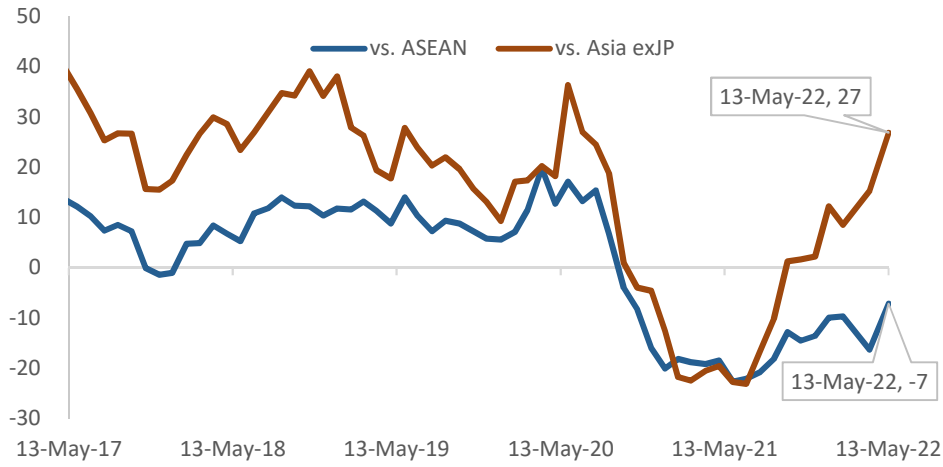


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

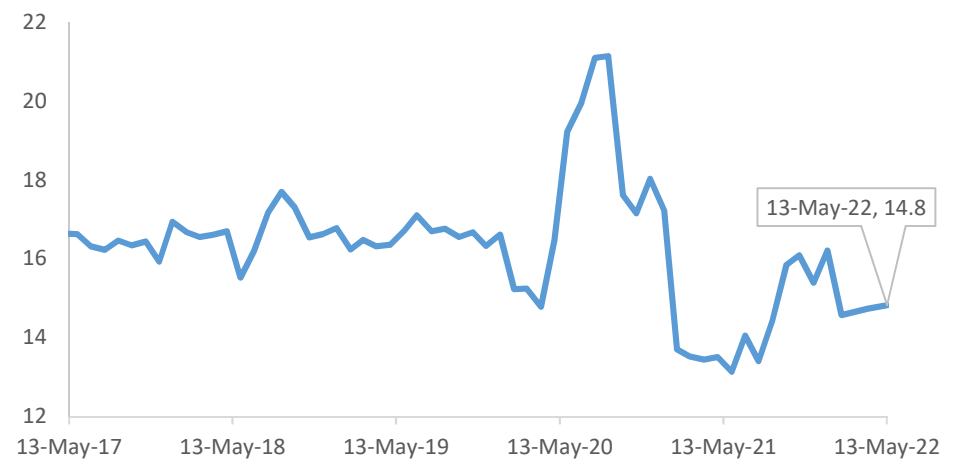


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

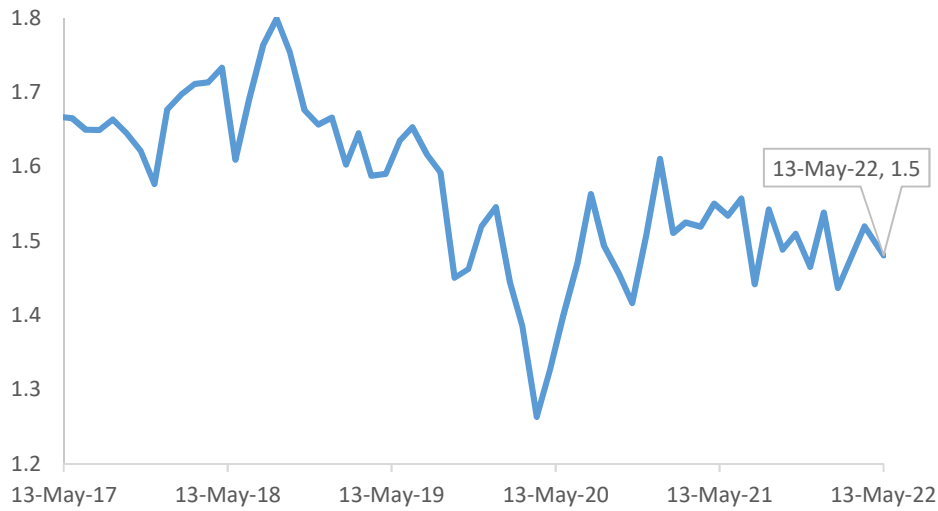
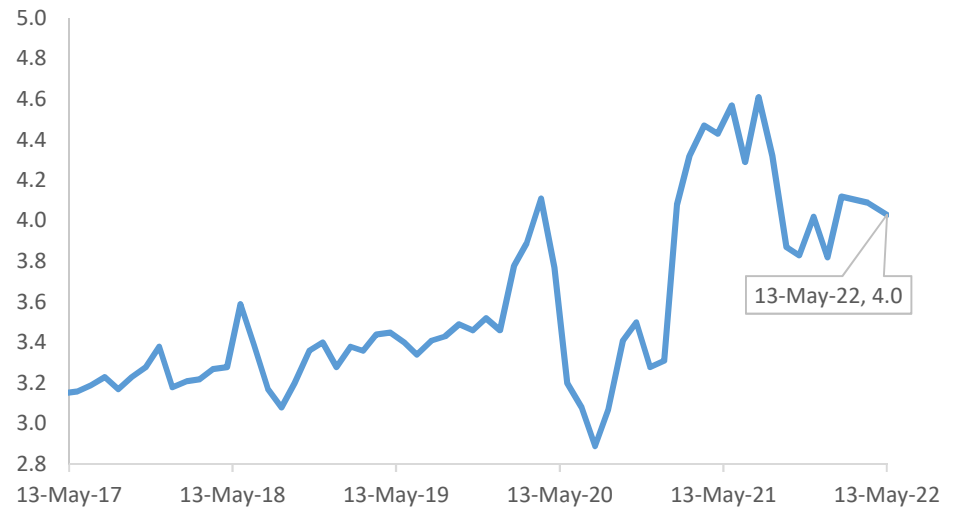


Exhibit 8: KLCI's Dividend Yield (DY, %)



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

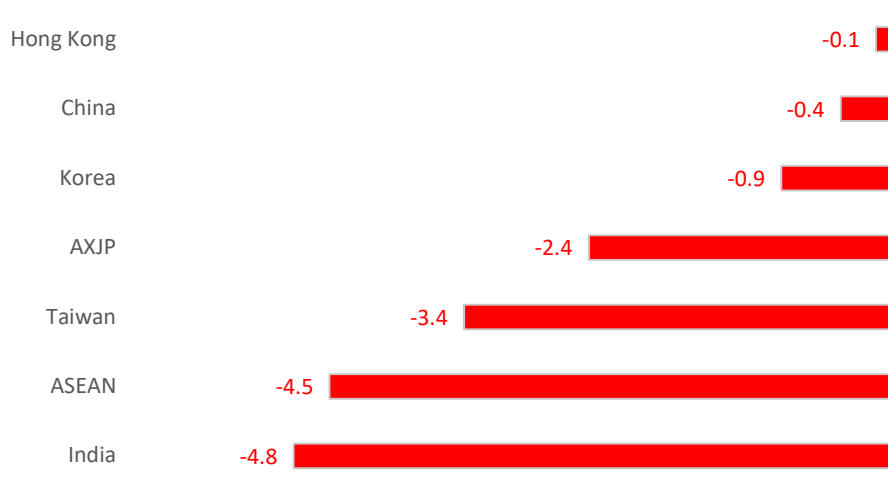


Exhibit 2: Country Performance Indices (Year-to-Date, %)

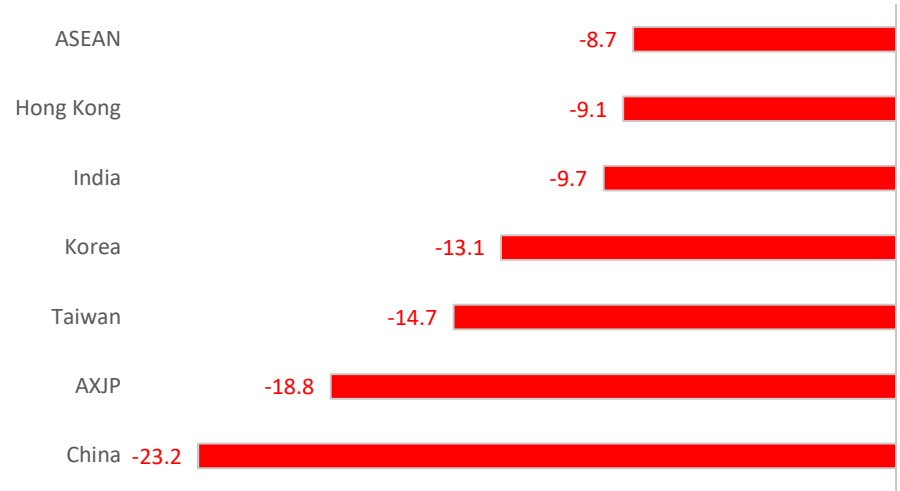


Exhibit 3: Sector Performance Indices (1 Week, %)

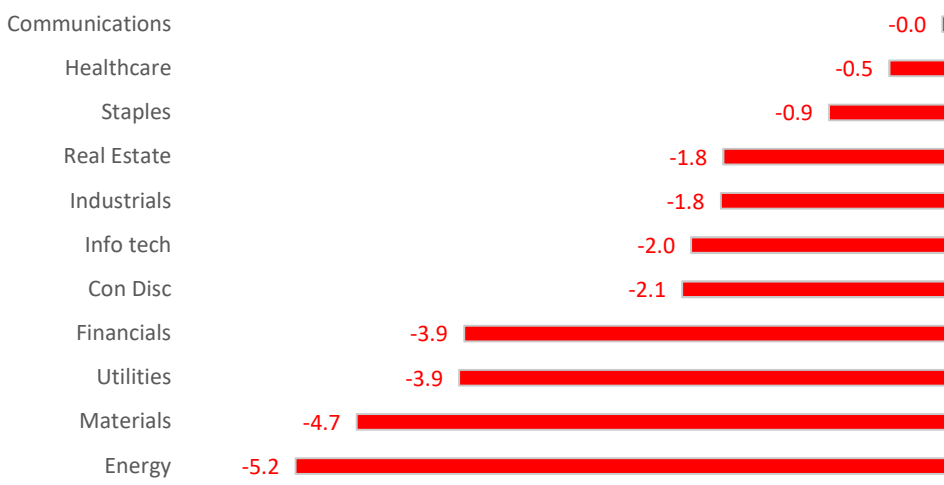
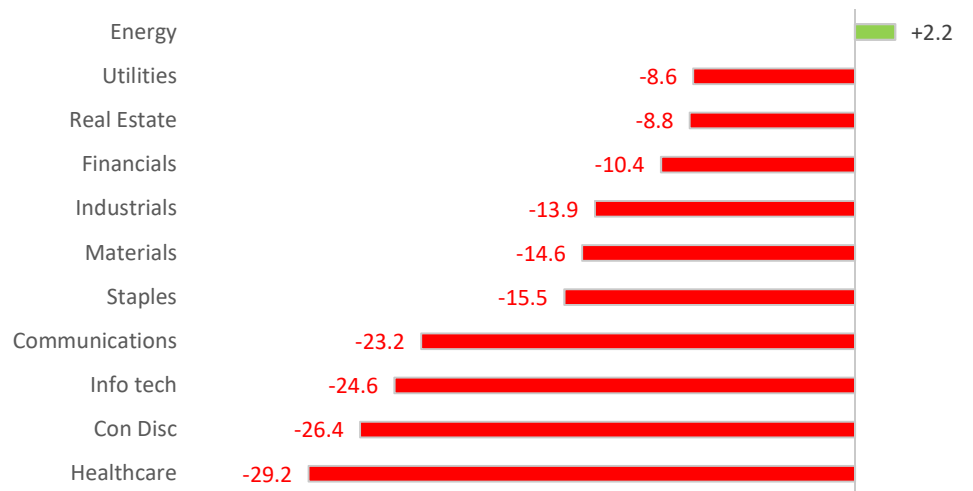
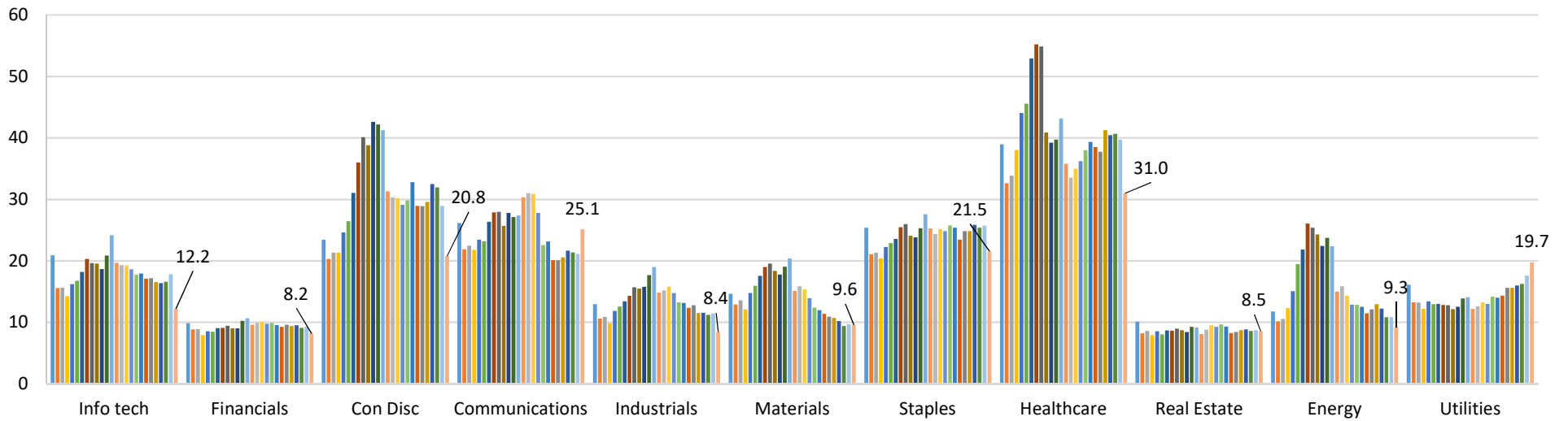
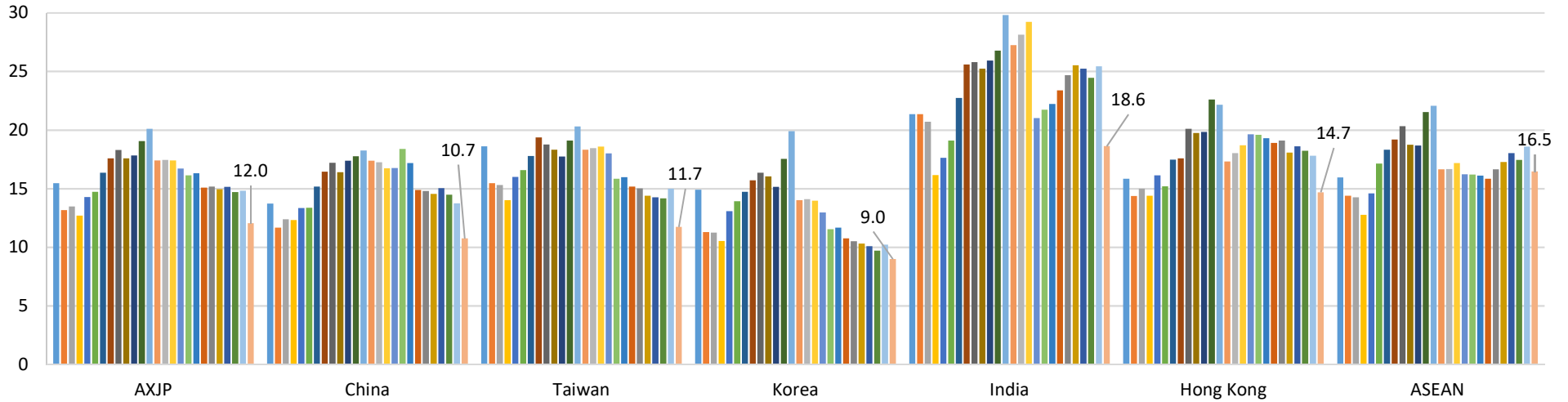


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



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



FOREIGN NET FLOWS

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

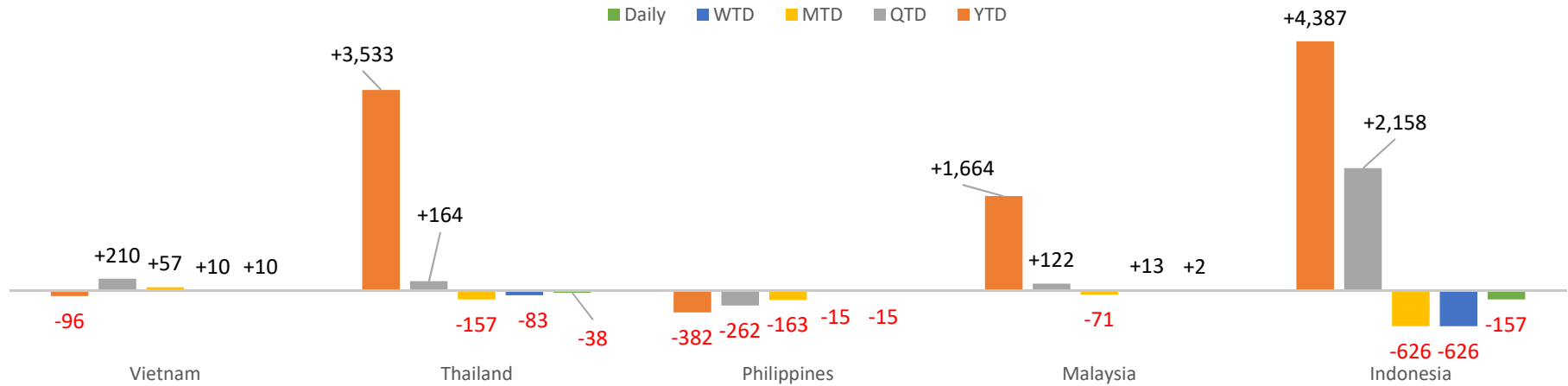
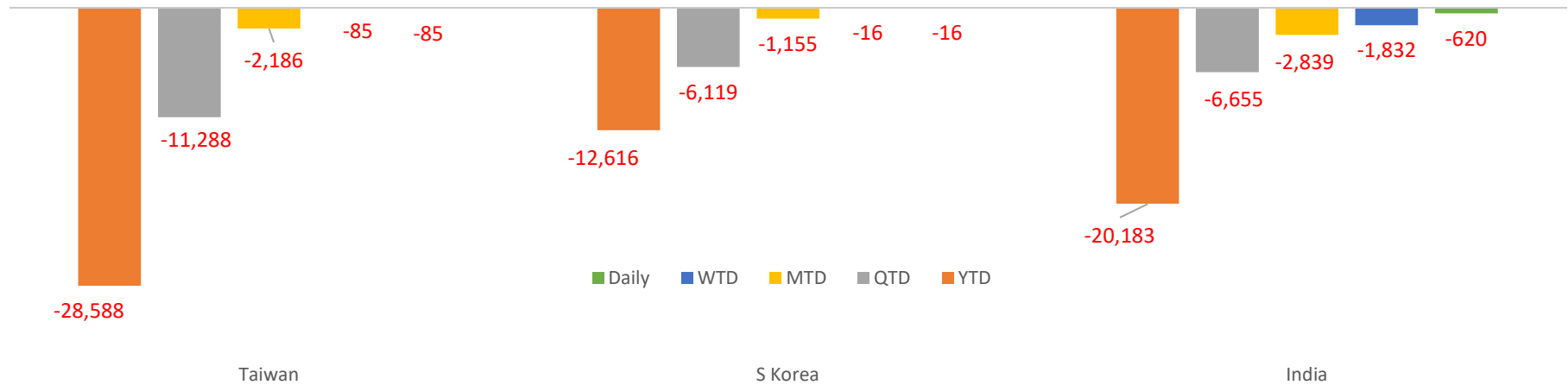


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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