

Portfolio Managers' Views


11 October 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (03-07 Oct 2022) & Our Managers' Views

- 1 Geopolitics:** Geopolitical tensions intensify and continue to weigh down markets. Last week, Putin made threats that it would use "all available means" to defend its Ukrainian territory and this included nuclear weapons. Elsewhere, North Korea, South Korea and the US had undergone missile launch tests to showcase its military capabilities. These uncertainties have weighed down markets. However, given that market valuations are at historical lows, we expect downward pressure to be milder.
- 2 Budget 2023:** The budget is expansionary but did not include reforms to tackle key issues. Gross development expenditure rose to RM95bil (+32% YoY), but this was largely used to continue its existing policies. However, the Budget did not include fiscal reforms to bring down government debt of ~RM1.04tril. Debt-to-GDP is forecasted to increase from 61% to 65%. The absence of reforms is a negative and this will continue to weigh on the Ringgit until these issues are addressed.
- 3 Economic Slowdown:** We expect the global economy to slowdown in 2023. The World Trade Organization (WTO) revised its 2023 trade growth forecast down from 3% to 1%. Similarly, Maersk's CEO expects demand to slowdown. Maersk is a global leader in integrated logistics and is often seen as a barometer to global trade. The bleak outlook is likely to continue as economies are weighed down by Russia's war, high European energy costs and US interest rate hikes.
- 4 Industrial Output:** We expect European supply of intermediaries to decline as industrial output weakens. The purchasing manager's index (PMI), which is used as a gauge for industrial activity, showed that European countries were in contraction levels. The contraction is likely due to high energy costs caused by the Russia-Ukraine war. We expect European output of commodities such as aluminium, fertiliser and petrochemicals to decrease and we remain invested within these sectors.
- 5 Oil:** We remain invested in oil-related companies as we expect oil supplies to remain tight. On Wednesday, OPEC+ cut its production quota by 2mbpd (7% of current quota). This is its largest cut since Mar-2020 (COVID). Furthermore, European sanctions on Russian oil will take effect on Dec-23. Given these two factors, we expect the supply of oil in the markets will continue to remain tight and oil prices to remain elevated.
- 6 Tech Demand Slowdown:** We reiterate our Underweight call on the Technology sector. 2 of the top 4 memory chip manufacturers, Micron and Kioxia are slashing production to cope with a steep plunge in demand. For instance, Kioxia expects to cut up to 30% of its output. Elsewhere, tech giant Samsung also guided that its Q3 profit is expected to drop by 30%. This reinforces our view that the sector is in its downcycle and this will likely persist for the months to come.

MALAYSIA & REGIONAL (cont')

- 7 Crude Palm Oil (CPO):** We remain invested in plantation due to their relatively decent yield as we expect CPO price to stay above RM3,500/ton, which is above the average production cost of RM2,500/ton. Future decreases in CPO prices should be protected by the lower production season in Q1 '23 and continued labour shortage issues. This is despite Indonesia's consideration in extending their palm oil export waiver from Oct '22 to Dec '22.
- 8 Valuation:** We maintain our view that the KLCI is attractively priced with a 2022 price-earnings ratio ("PER") of 13.72x (below its 5Y average of 16.06x and at a 10Y historical low), price-to-book ratio of 1.37x (below the 5Y average of 1.54x), and dividend yield of 4.33% (above its 5Y average of 3.65% and at a 10Y high).

MALAYSIA MARKET REVIEW

Markets rebounded due to undervalued and oversold

Exhibit 1: KLCI vs Shariah Index

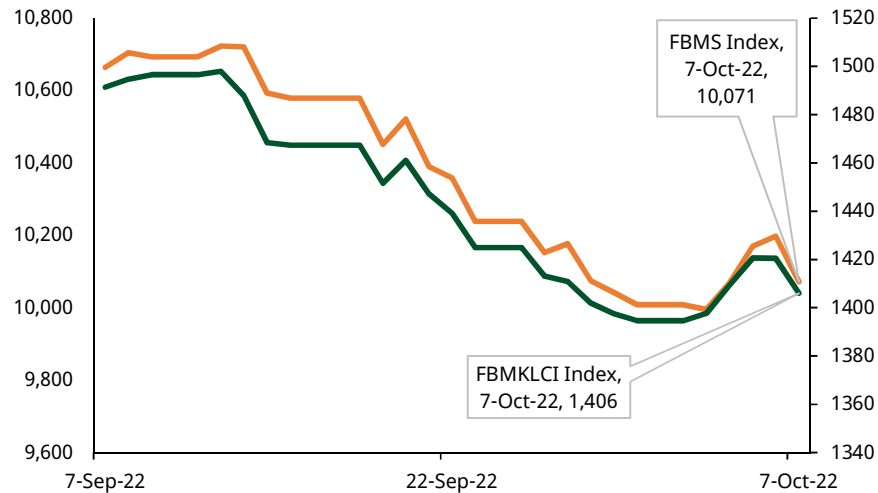


Exhibit 2: USDMYR

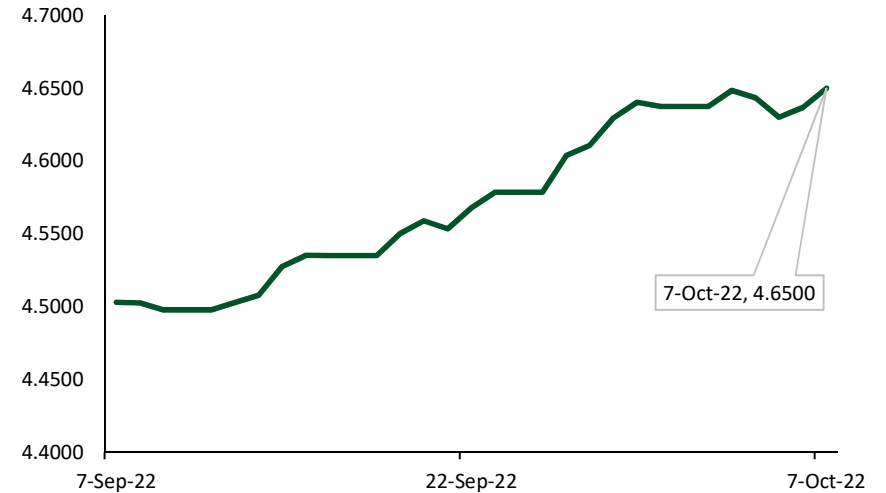


Exhibit 3: Sector Performances Week-to-Date (%)

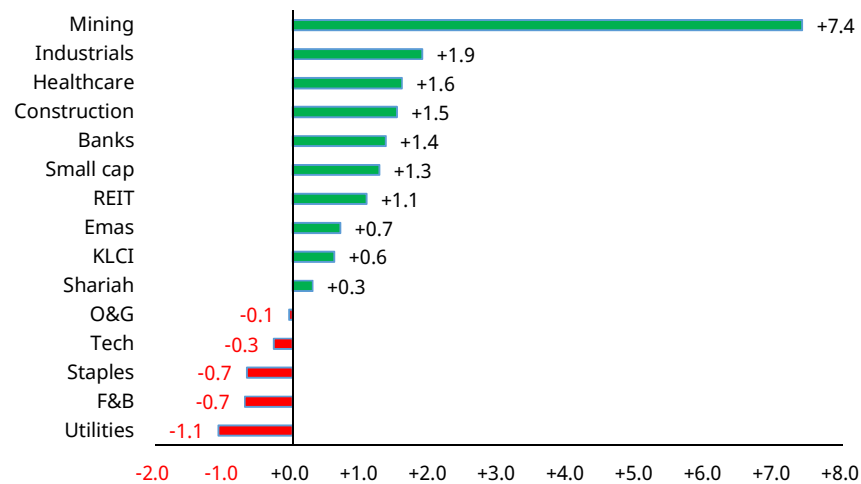
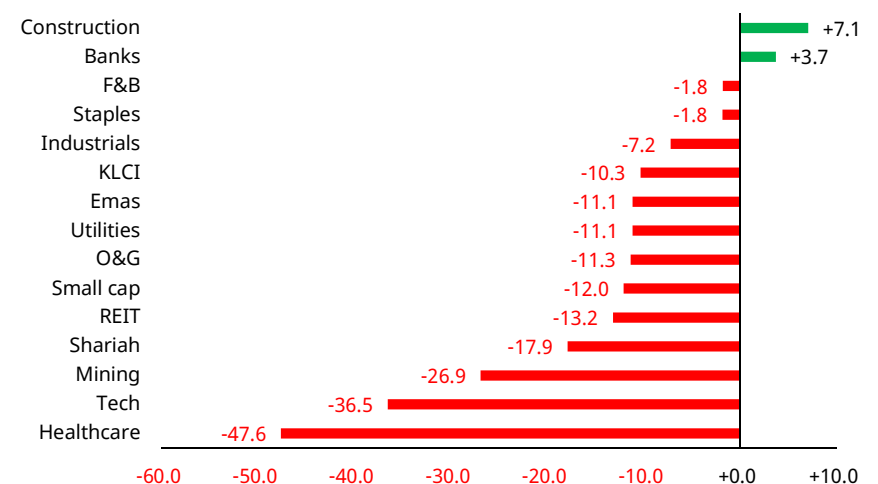


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

MALAYSIA VALUATIONS

Remains attractive historically and versus the region

Exhibit 5: MY's Premium/Discount (%) to ASEAN & Asia (on Current PER, %)

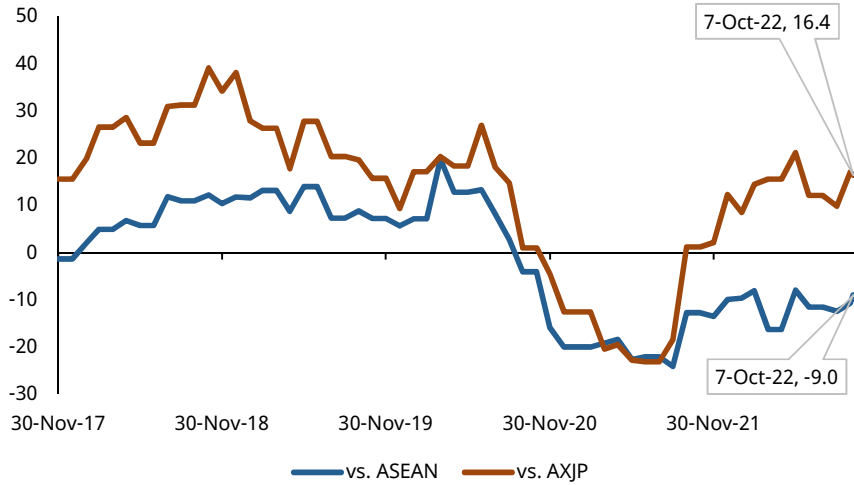


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

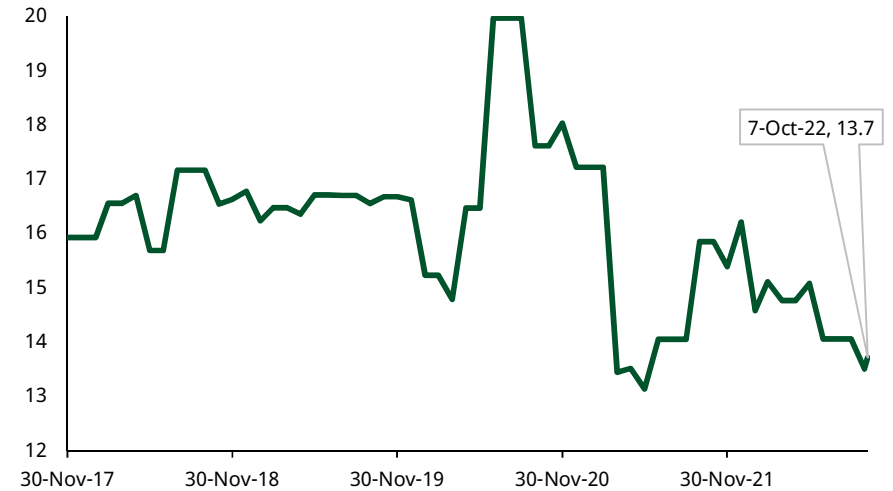


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

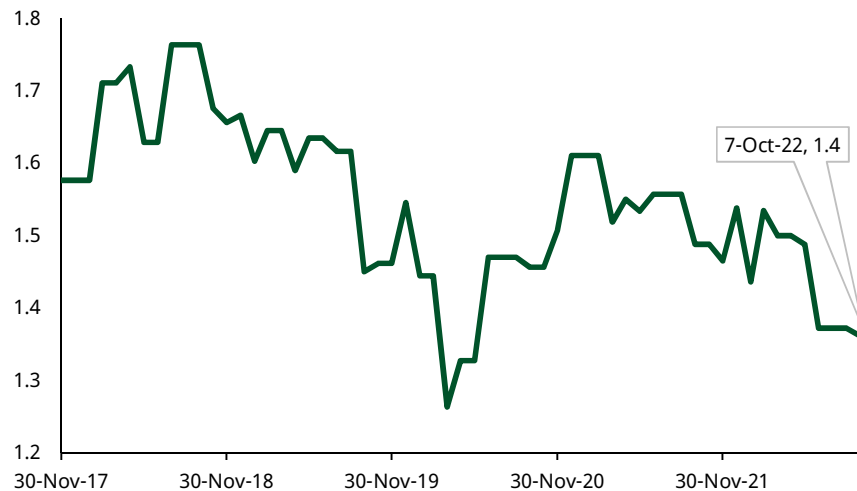
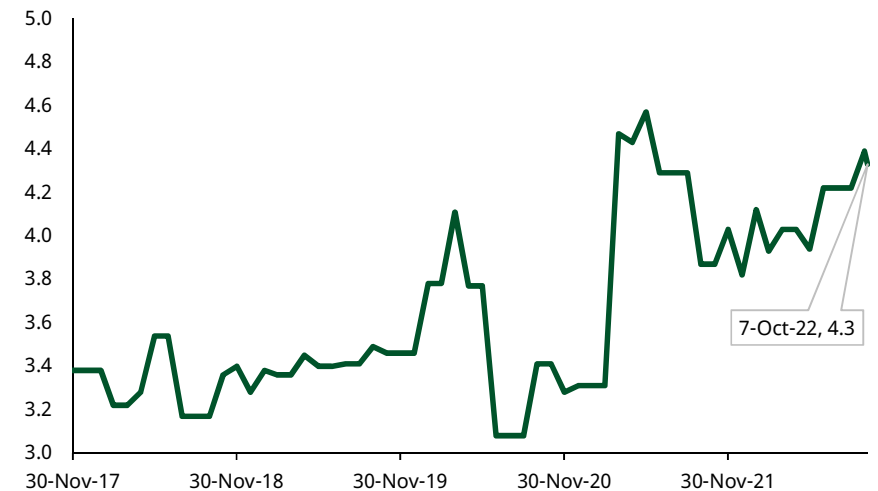


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Markets rebounded due to undervalued and oversold

Exhibit 1: Country Performances Week-to-Date (%)

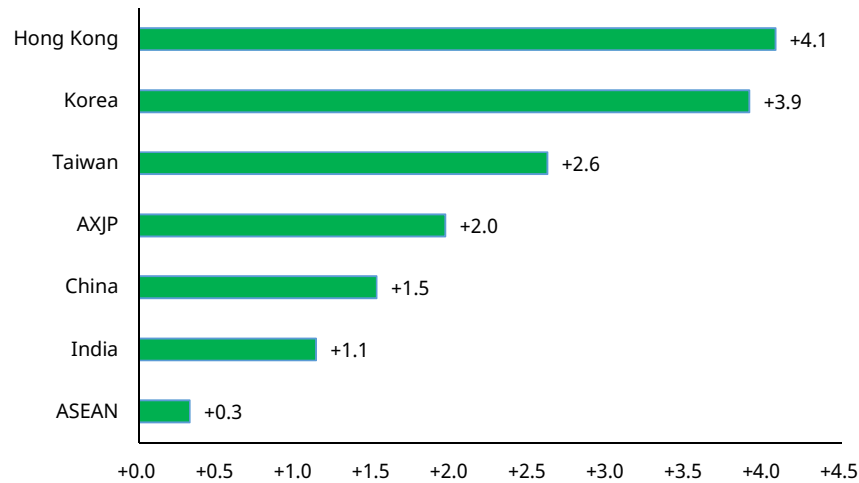


Exhibit 2: Country Performances Year-to-Date (%)

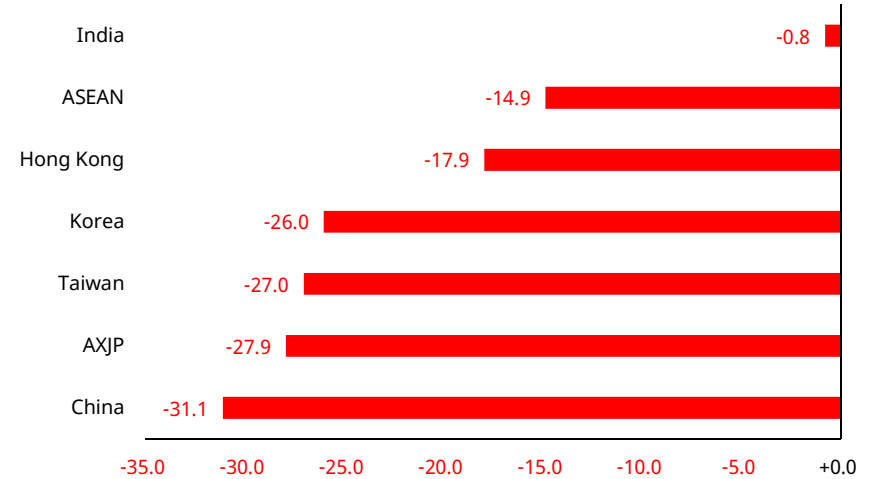


Exhibit 3: Sector Performances Week-to-Date (%)

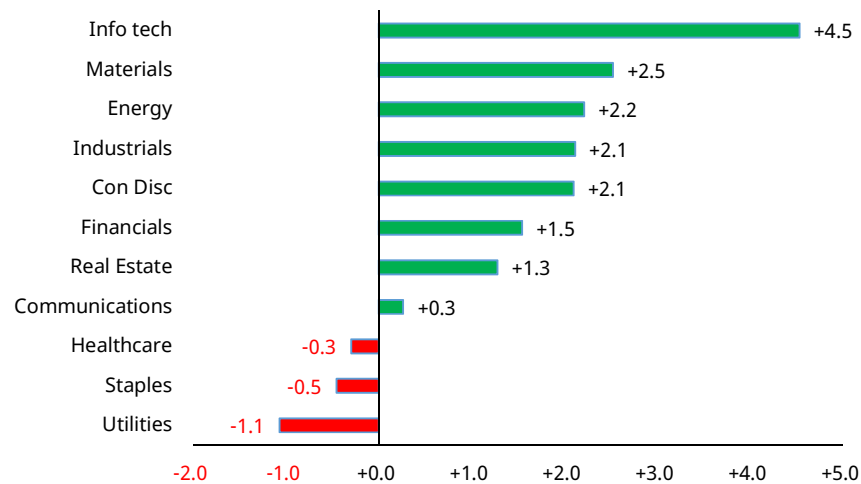
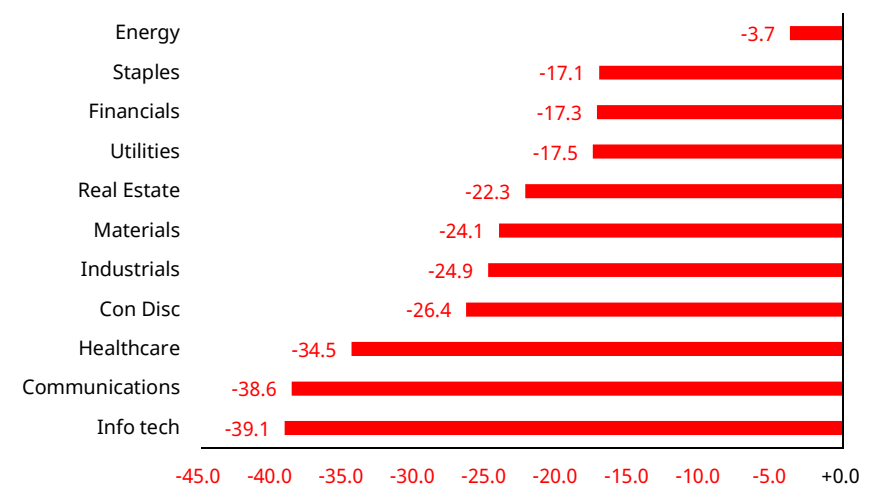


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

REGIONAL VALUATIONS

Markets rebounded due to undervalued and oversold

Exhibit 5: Regional Price-Earnings Ratio (x)

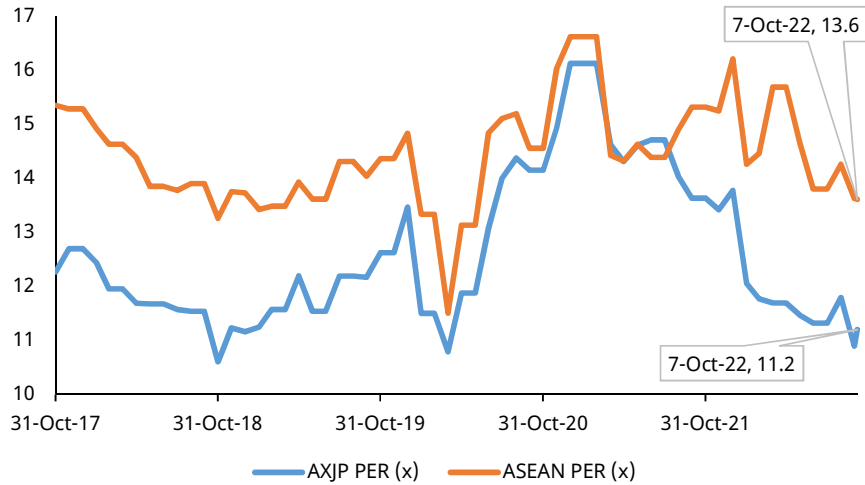


Exhibit 6: Regional Price-to-Book Ratio (x)

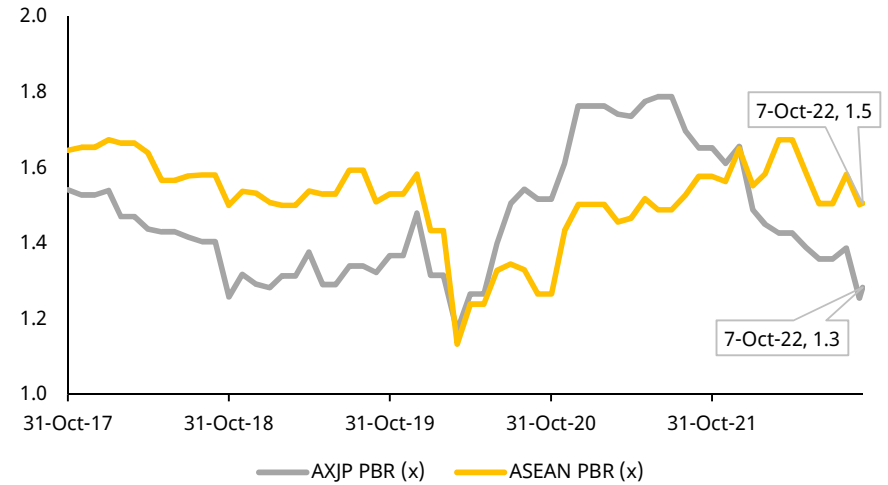


Exhibit 7: Regional Dividend Yield (%)

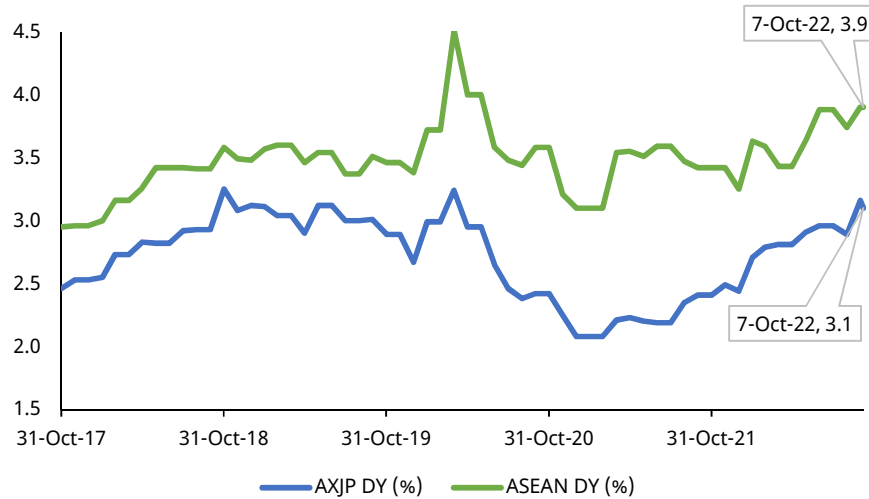
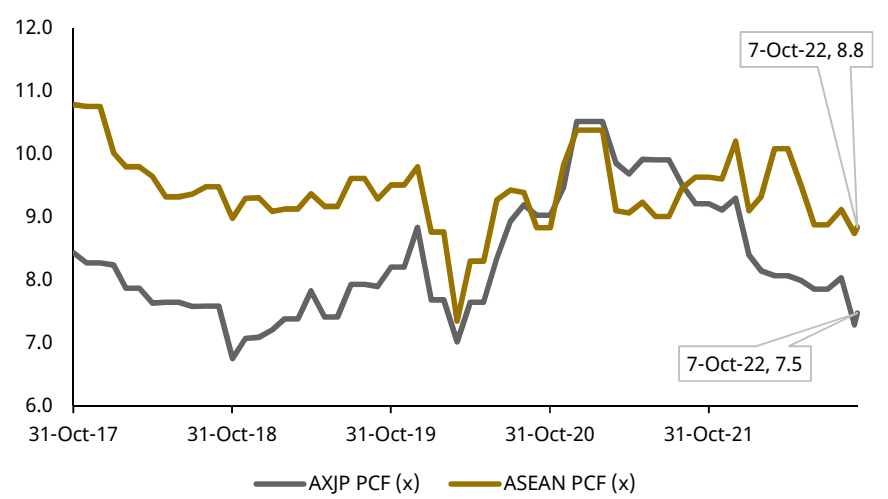
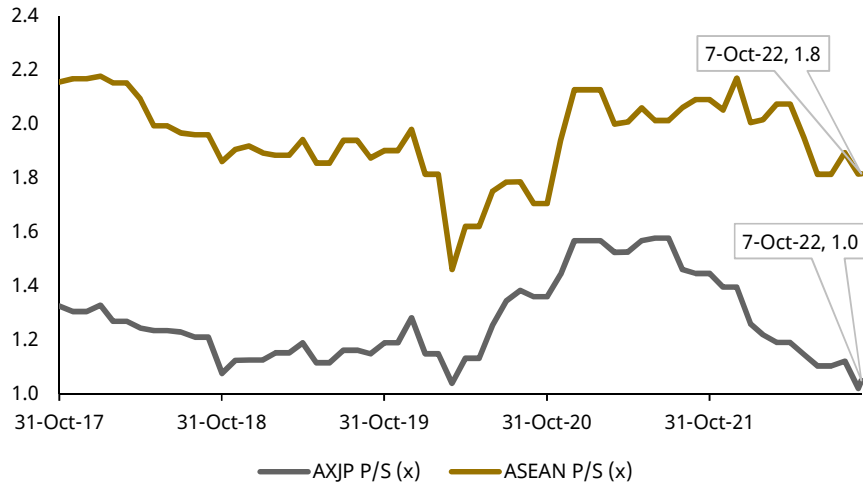


Exhibit 8: Regional Price-to-Cash Flow (x)

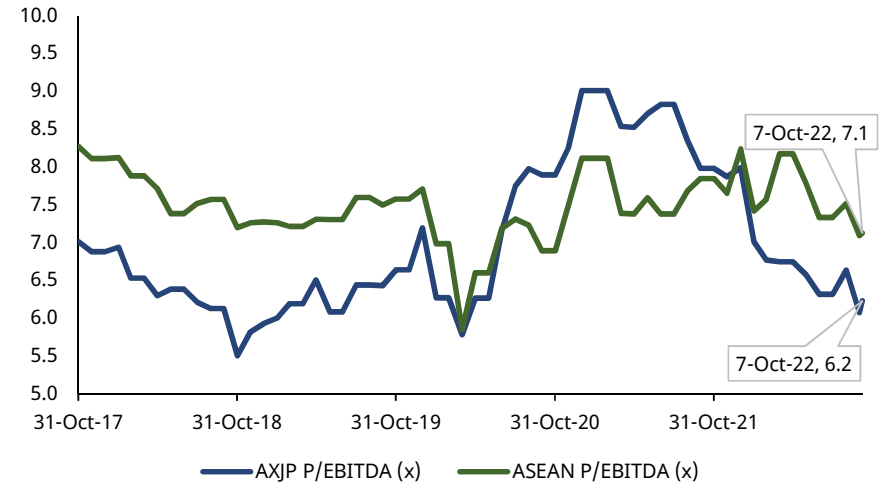


Asian Markets: Valuation (cont')

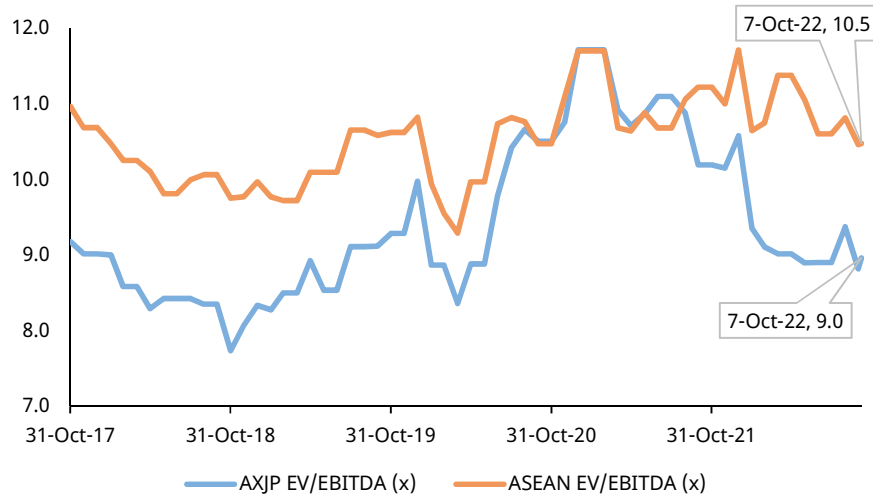
Regional Price-to-Sales Ratio (x)



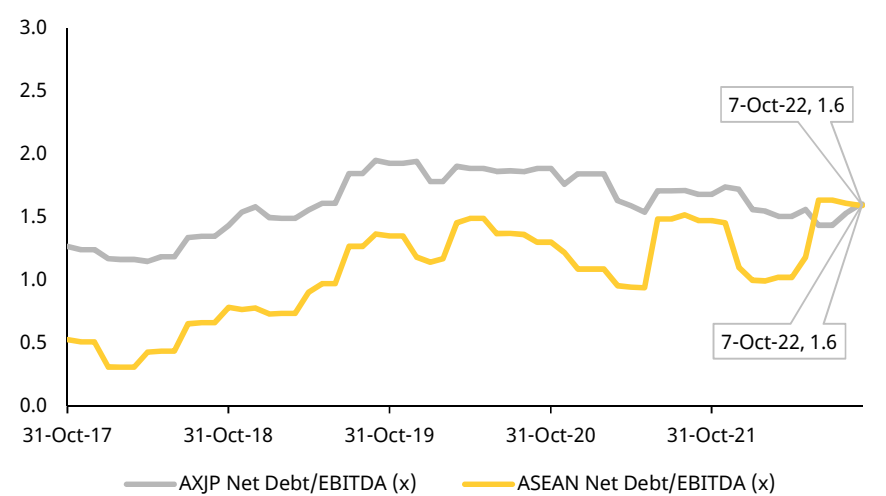
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



Source: Bloomberg

FOREIGN FUND FLOWS

Year-to-date, Malaysia is the third-highest recipient of net flows into ASEAN

Exhibit 9: Selected ASEAN Equity Markets (Net USD mil)

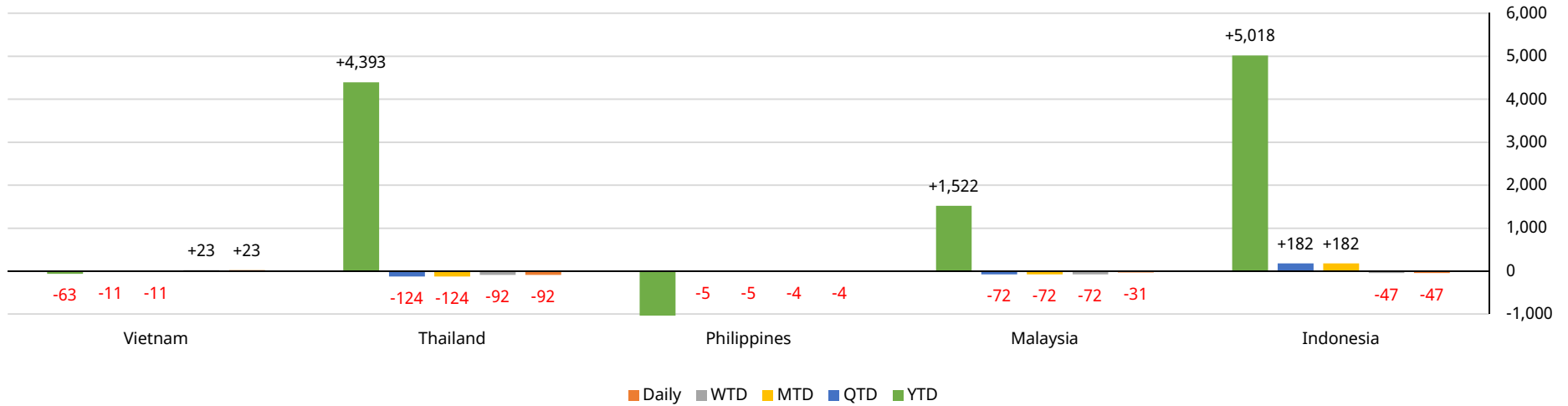
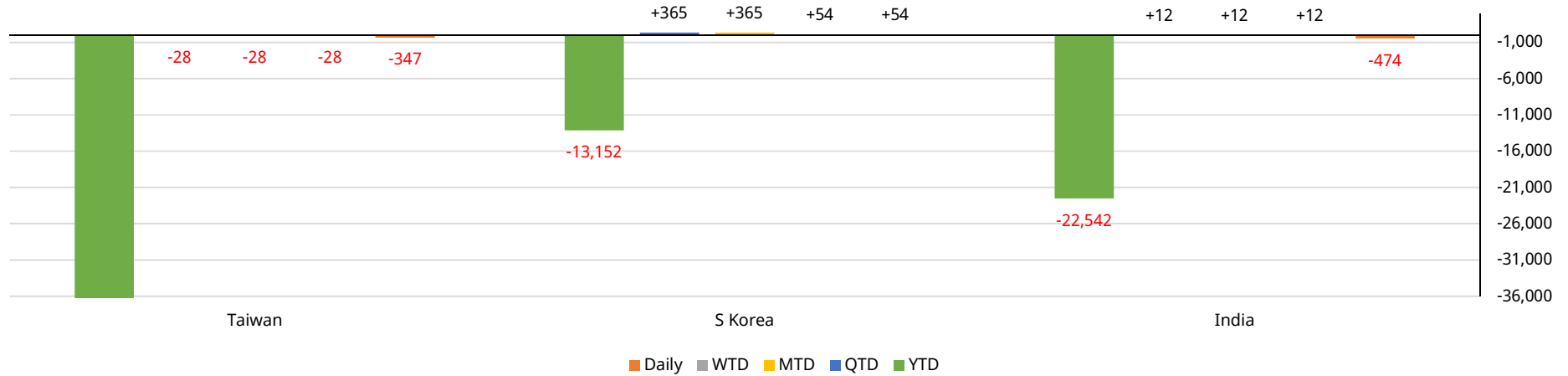


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



Source: Bloomberg

DISCLAIMER

This document is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Fundamental ratings include various financial data from the income statement, balance sheet, and cash flow statement items such as sales, profit, all important ratios, cash flows, working capital, cash conversion cycle and etc. over the past quarters and years. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not indicative of future performance. This document is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this document. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this document. The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Astute Fund Management Berhad ("AFMB") (formerly known as Apex Investment Services Berhad) and consequently no representation is made as to the accuracy or completeness of this document by AFMB and it should not be relied upon as such. Accordingly, AFMB and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this document. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice. This document may contain forward-looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. AFMB expressly disclaims any obligation to update or revise any such forward-looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. AFMB and its officers, directors and employees, including persons involved in the preparation or issuance of this document, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this document, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this document. One or more directors, officers and/or employees of AFMB may be a director of the issuers of the securities mentioned in this document to the extent permitted by law. This document is prepared for the use of AFMB clients, consultants or Representatives and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of AFMB. AFMB and its Representatives accepts no liability whatsoever for the actions of third parties in this respect. This document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this document.

This document has not been reviewed by the Securities Commission Malaysia ("SC"), Federation of Investment Managers Malaysia ("FIMM") and Employees Provident Fund ("EPF"). The SC, FIMM and EPF are not liable for this document and are not in any way associated with this document. The SC, FIMM and EPF are not responsible for the contents herein and do not make any representation on the accuracy or completeness of this document, either in whole or in part.

Data, charts and news sources are derived from Bloomberg. Portfolio Managers' Views are from Astute Fund Management Berhad.