

Portfolio Managers' Views


17 October 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (10-14 Oct 2022) & Our Managers' Views

- 1 US Core CPI announcement:** US core consumer price index (CPI) which excludes food and energy prices rose by 6.6% YoY, the highest increase since 1982. This beat consensus expectations and signals that the Fed failed to dampen inflation despite multiple rate hikes since Mar-22. The Fed is expected to continue its aggressive rate hikes to further dampen inflation. We expect the Ringgit to continue depreciating against the Dollar as interest rate spreads between Malaysia and the US widens.
- 2 US sanctions on Russian Aluminum:** We remain invested in Aluminum. The US is considering a ban on Russian aluminum. Previously, sanctions were avoided as the US depends heavily on the metal for key sectors such as electric vehicles, solar cells, and smartphones. US accounts for 9% of global consumption, while Russia accounts for 9% of global exports by value. We are invested in Malaysia's largest and carbon-friendly aluminum producer, which sources its power from hydroelectric energy.
- 3 US sanctions on China Tech Equipment Exports:** We remain Underweight on Technology. The US enforced new sanctions to prevent sales of advanced chipmaking equipment to China. The sanction is to prevent China from developing advanced technologies and military capabilities. This is negative for China and some local companies that are indirectly exposed to China's advanced tech sector. We are not invested in these companies and continue to remain Underweight on the sector.
- 4 Tech Slowdown:** The onslaught of negative news and commentaries reinforce our Underweight stance on the technology sector. Intel plans to cut 20% of jobs in efforts to reduce costs as PC demand slows down. Similarly, other tech giants such as Oracle, Arm and Meta had previously cut their manpower as well. Global chipmaking leader TSMC also guided that it will cut its capital spending by 10% next year.
- 5 5G:** We remain invested in the telecommunication sector. All 6 local Mobile Network Operators (MNOs) have agreed to access terms with Digital Nasional Berhad (DNB) to provide 5G services. Under the new model, all MNOs will lease DNB's 5G network infrastructure. This means that they will have similar network quality and have to compete through other means to win market share. We are invested in Telekom as we believe it is able to win over market share by offering attractive bundle packages.
- 6 Plantation:** We remain invested in plantations as CPO prices remain higher than the average production cost. According to Malaysia's Palm Oil Board (MPOB), Malaysia's palm oil inventory rose to 2,315k tons (11% MoM) due to higher production. The increase was within expectations given that it is the peak harvesting season. We maintain our view that CPO prices will remain between RM3500/t to RM4000/t as export pressures are offsetted by slow production growth moving forward.

MALAYSIA & REGIONAL (cont')

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Valuation: KLCI valuations declined further WoW, tracking a broader market decline. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio (“PER”) of 13.5x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields remain attractive at 1.35x (below the 5Y average of 1.55x) and 4.4% (above its 5Y average of 3.6%) respectively.

MALAYSIA MARKET REVIEW

Markets weakened on higher than expected US Core CPI reading

Exhibit 1: KLCI vs Shariah Index

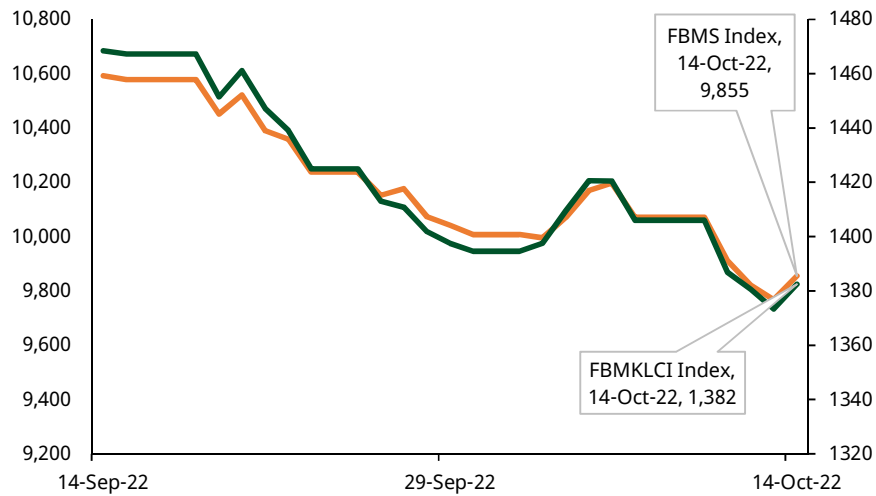


Exhibit 2: USDMYR

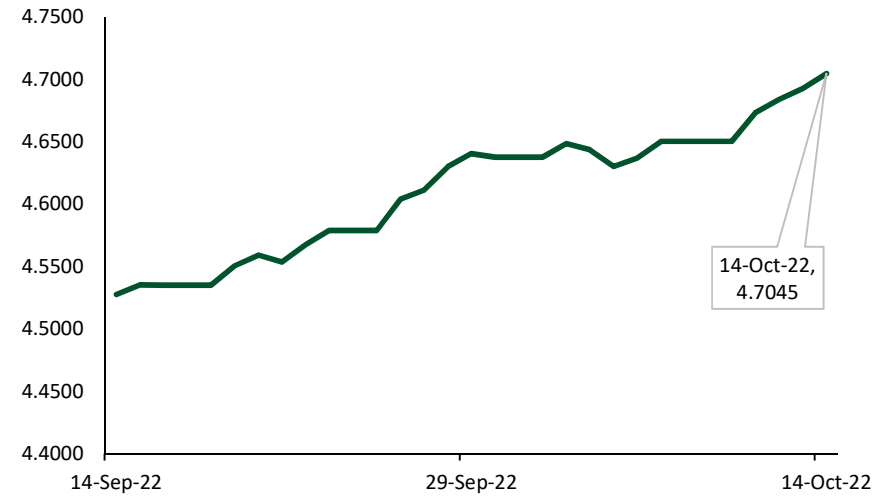


Exhibit 3: Sector Performances Week-to-Date (%)

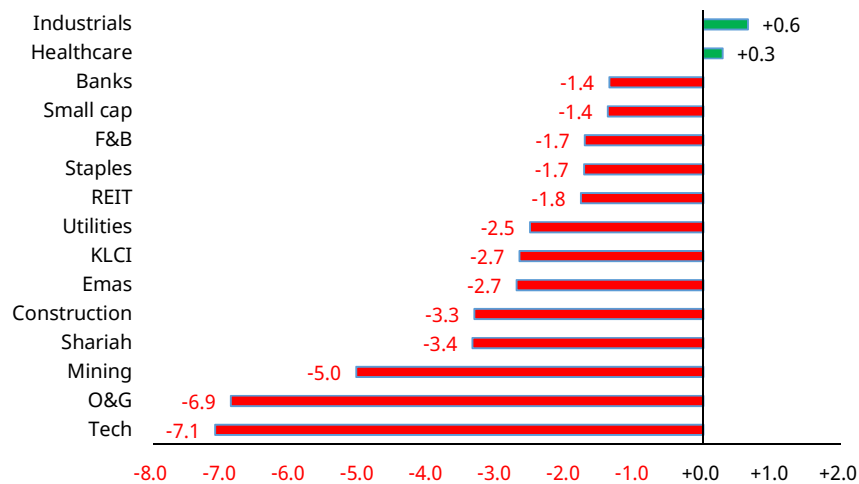
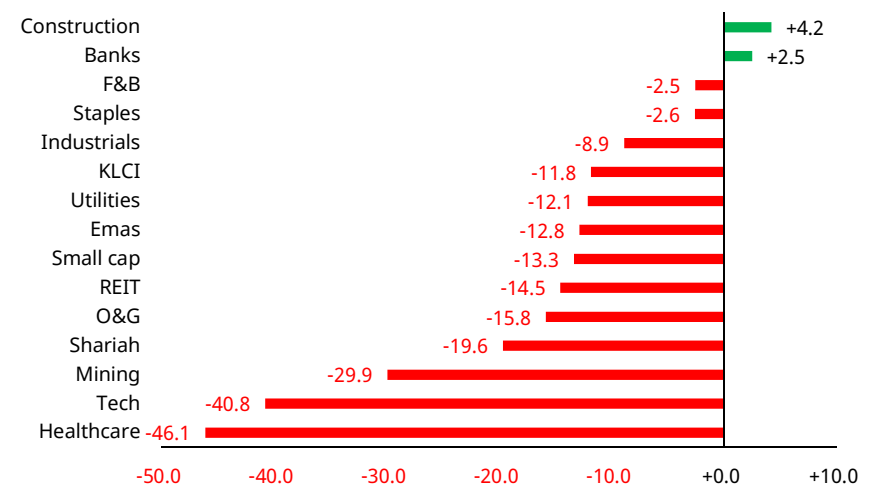


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

MALAYSIA VALUATIONS

Remains attractive historically and versus the region

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

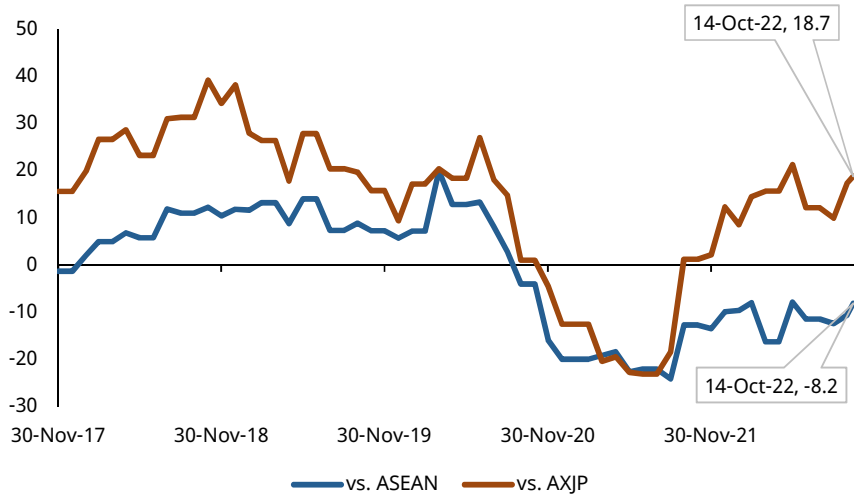


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

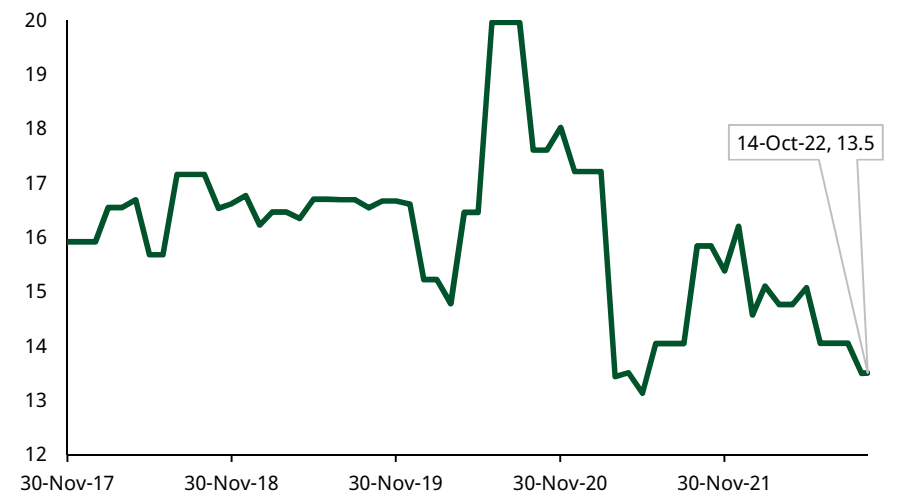


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

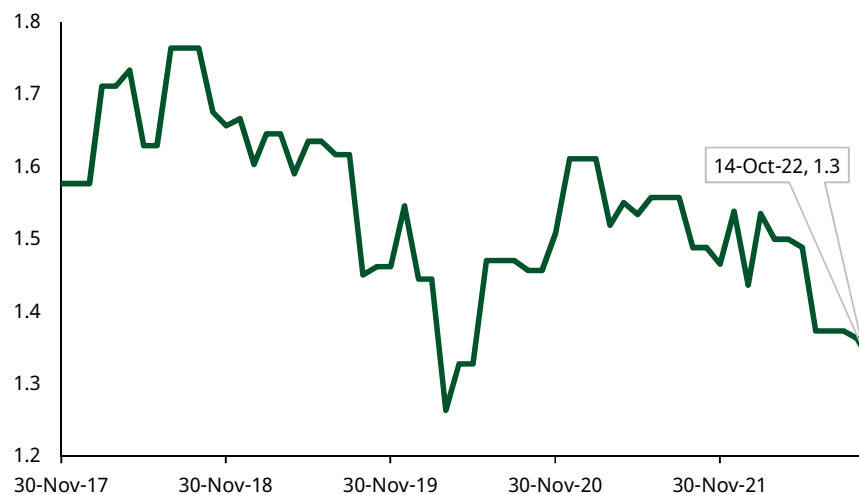
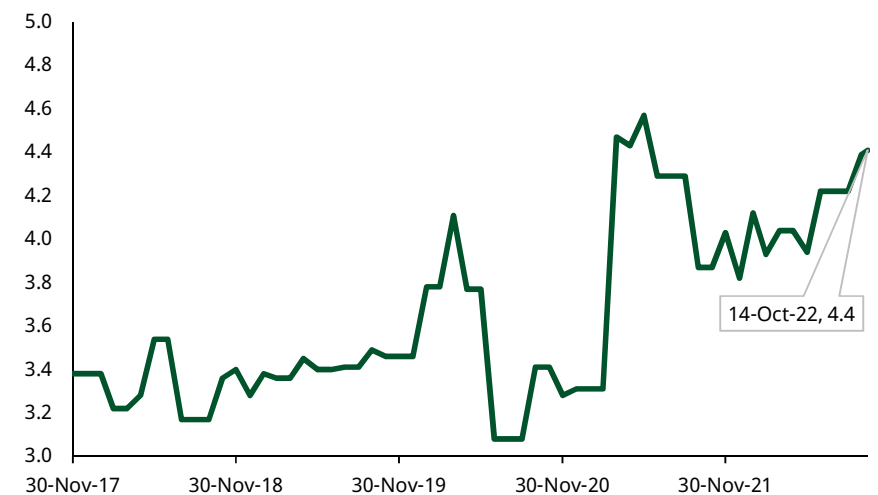


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Markets weakened on higher than expected US Core CPI reading

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

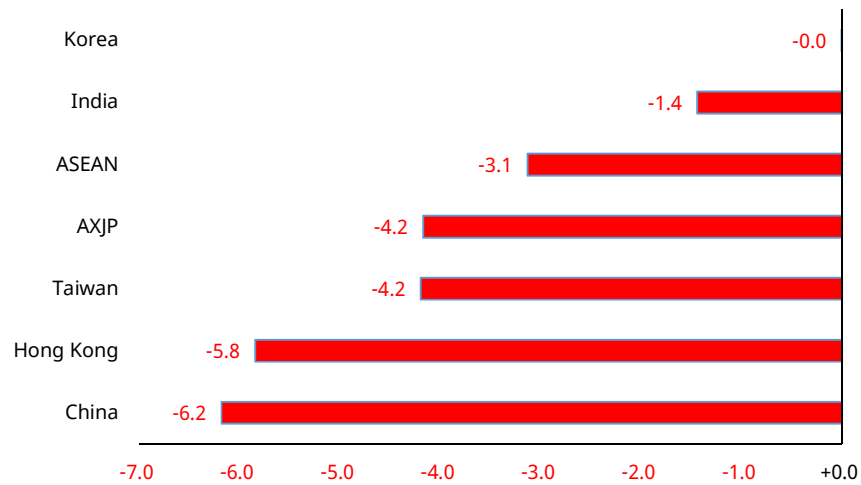


Exhibit 2: Country Performances Year-to-Date (%)

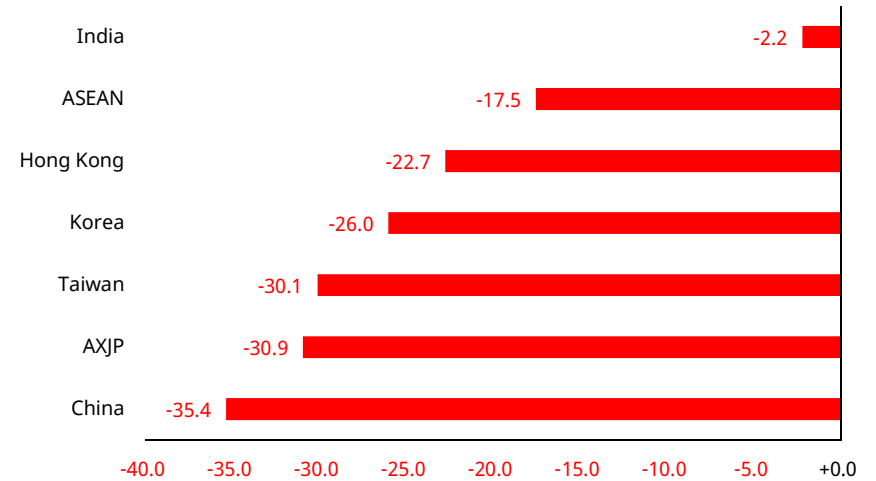


Exhibit 3: Sector Performances Week-to-Date (%)

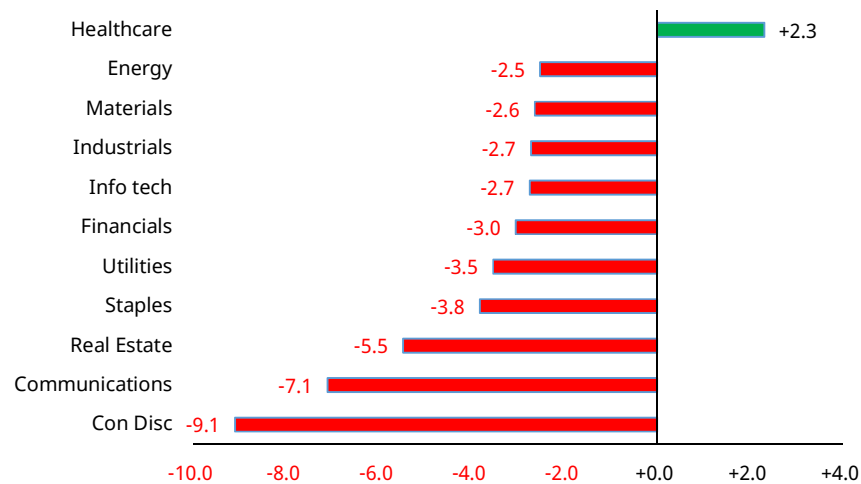
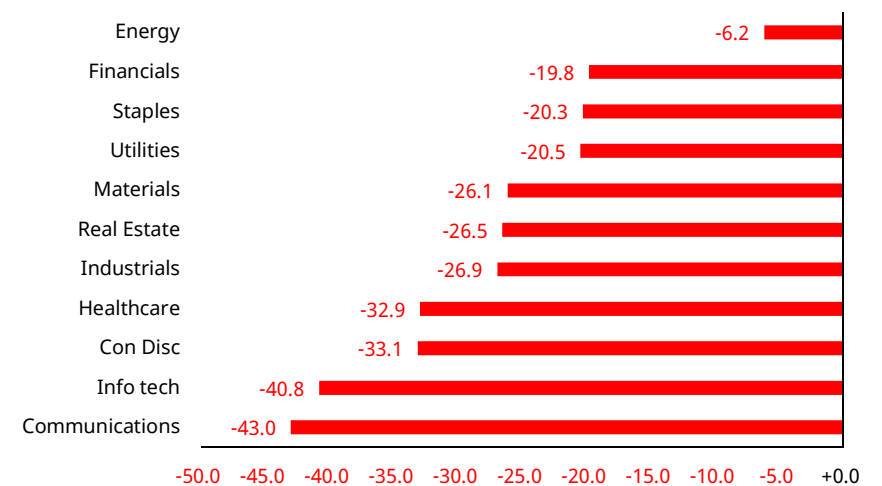


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

REGIONAL VALUATIONS

Markets weakened on higher than expected US Core CPI reading

Exhibit 5: Regional Price-Earnings Ratio (x)

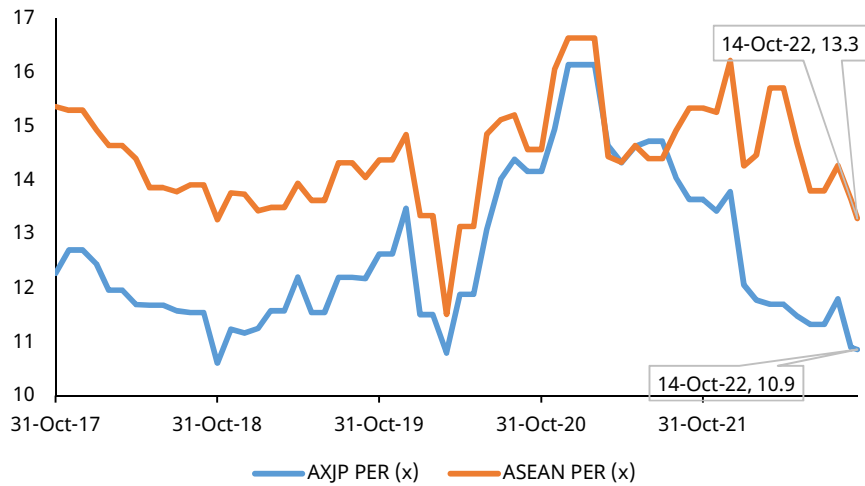


Exhibit 6: Regional Price-to-Book Ratio (x)

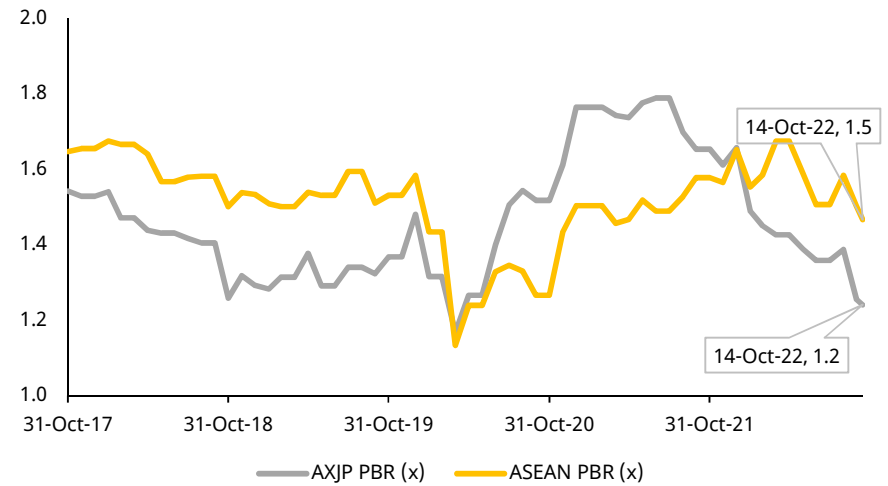


Exhibit 7: Regional Dividend Yield (%)

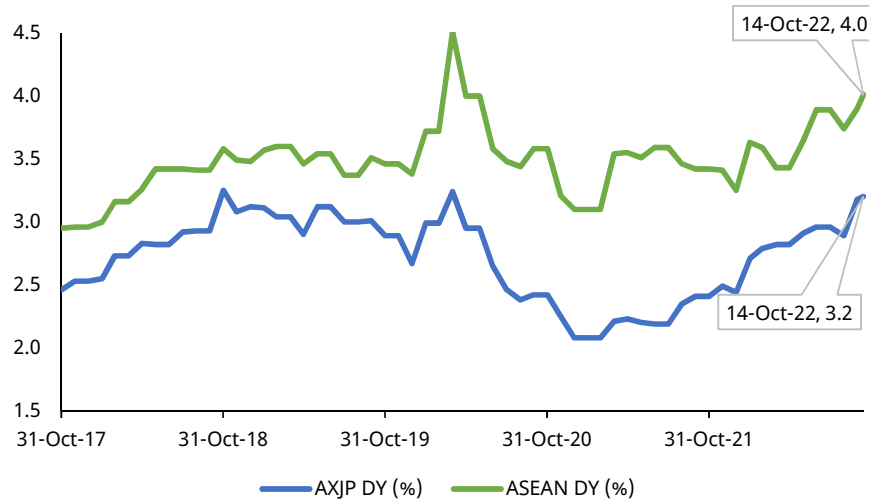
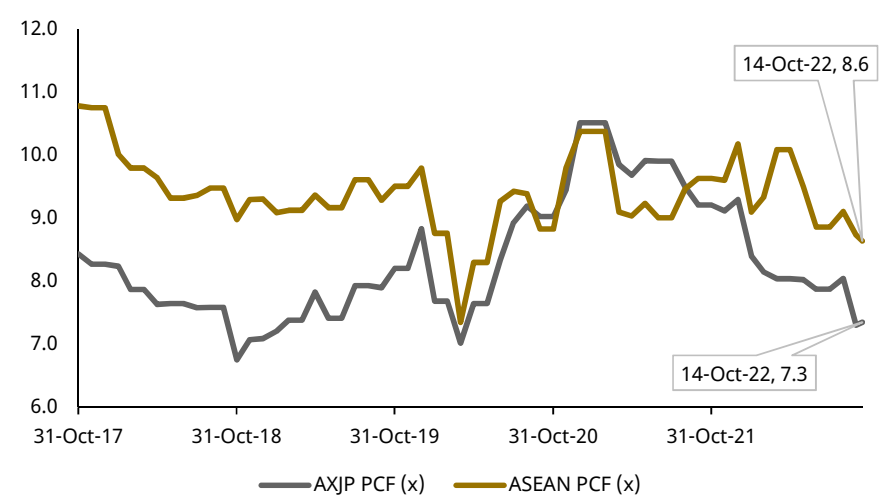


Exhibit 8: Regional Price-to-Cash Flow (x)



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)

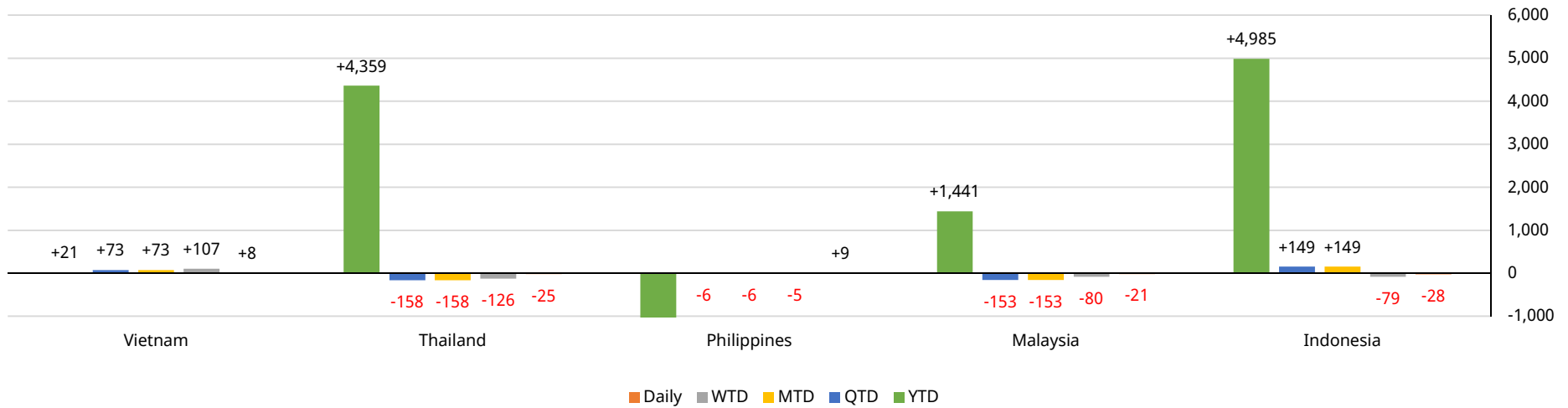
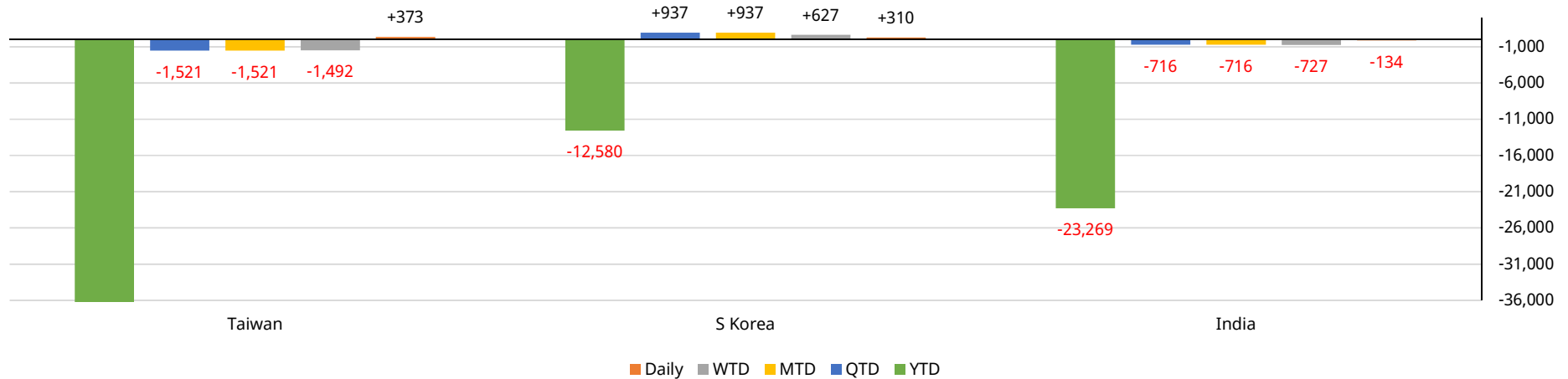


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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