

Portfolio Managers' Views


25 October 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (17-21 Oct 2022) & Our Managers' Views

- 1 Elections:** On Thursday, the Election Commission announced that Malaysia's general election will be held on 19 Nov-22. This election comes with greater uncertainties as there are no clear cut winners as parties reshuffle candidates, constituencies and coalitions. Given these uncertainties, we expect the Ringgit to continue weakening against the USD and the KLCI to trade range bound until the elections are concluded. Year-to-date USDMYR rose by 13.5% and is now at 4.7280.
- 2 Strong US Economy:** US 10-Year Treasury Yields remain high at 4.2% despite the Fed's aggressive rate hikes. We expect the Fed to continue raising interest rates as the high bond yields typically indicate an expanding economy. Therefore, this trend is likely to continue as the Fed attempts to cool the overheating US economy with another 75bps hike in early Nov-22.
- 3 Telecommunications:** We remain invested in Telekom. We attended a briefing with Telekom's management regarding the proposed prices under the Mandatory Standard Access Pricing (MSAP). The MSAP is intended to regulate internet prices. Our key takeaways were that final prices will be much higher than proposed prices and that the impact on earnings can be mitigated as Telekom has negotiating power to raise its prices elsewhere. Final prices will be announced on Feb-23.
- 4 Technology:** We remain our Underweight stance on Technology. During the week, Apple sent a report to one of its suppliers to halt the production for the new iPhone14 Plus components. This comes 2 weeks after the product's release. This signals that the anticipated strong demand failed to materialise. This reinforces our view since the start of the year to Underweight the tech sector. The KL Technology Index has declined 41% year-to-date.
- 5 India halts Russian oil imports:** We expect oil prices to remain elevated. India halted purchases of Russian oil as Western sanctions are set to begin in Dec-22. Previously, only China and India were buying Russian oil as others shunned Russian oil because of the war. This will displace Russian oil which accounts for 10% of world exports. We view that supply of oil will remain tight but we turn more cautious as demand expectations are declining in line with the global economic slowdown.
- 6 US extends its oil reserve release:** The US will release an additional 15mil barrels from its Strategic Petroleum Reserve in Dec-22. This is an extension of its supply release program which started earlier this year whereby a total of 173mil barrels have been released as of Sept-22. Currently, US reserves are at 348mil barrels (lowest since July 1983). The low oil inventories will likely keep oil prices supported at these high levels. Year-to-date Brent Oil rose 19% and now trades at \$92.41/bbl.

MALAYSIA & REGIONAL (cont')

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Fertiliser supply tightness: Norwegian fertiliser giant, Yara cut its production output by 24% in Q3 due to high gas prices. Gas is used for electricity generation and feedstock in fertiliser production. Gas prices have risen 44% year-to-date. We are invested in PCHEM which benefits from this fertiliser shortage as it supplies Urea and Methanol to producers elsewhere that are experiencing record profits as selling prices are high.

8

Valuation: The KLCI rose during the week, tracking a US market rally ahead of Q3 earnings announcement. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 14.1x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields remain attractive at 1.40x (below the 5Y average of 1.55x) and 4.2% (above its 5Y average of 3.6%) respectively.

MALAYSIA MARKET REVIEW

Markets tracked US market rally ahead of potentially better Q3 results

Exhibit 1: KLCI vs Shariah Index

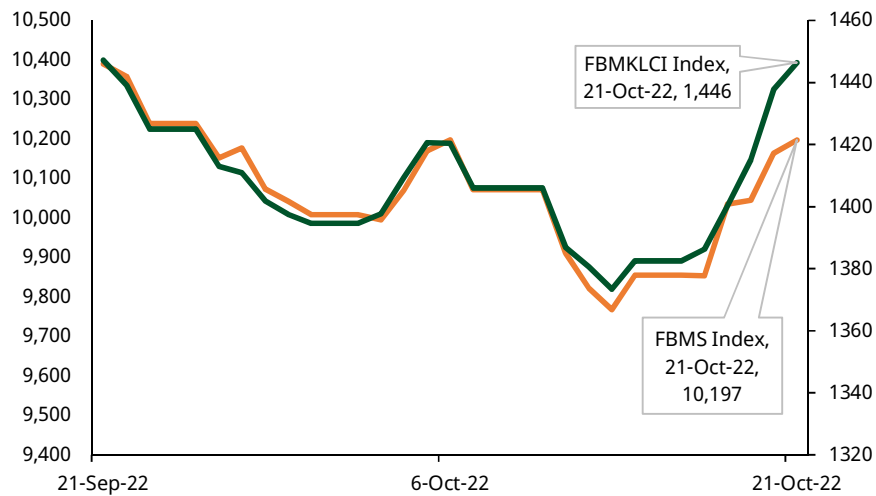


Exhibit 2: USDMYR

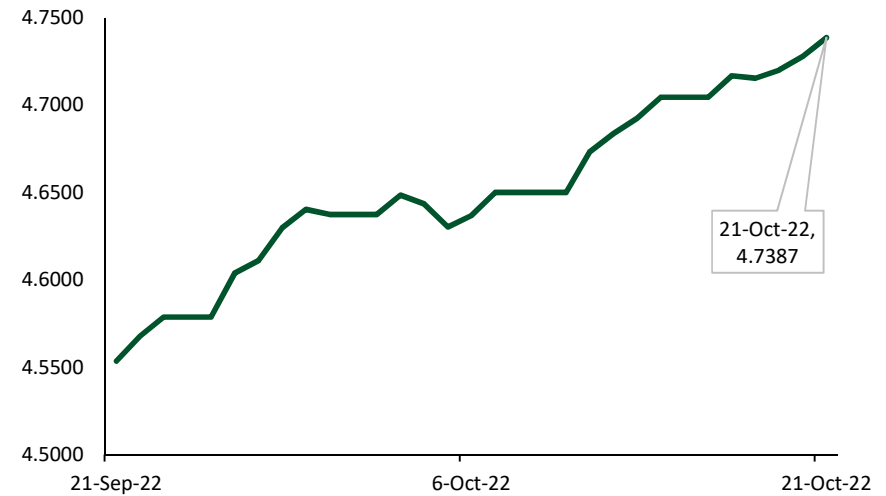
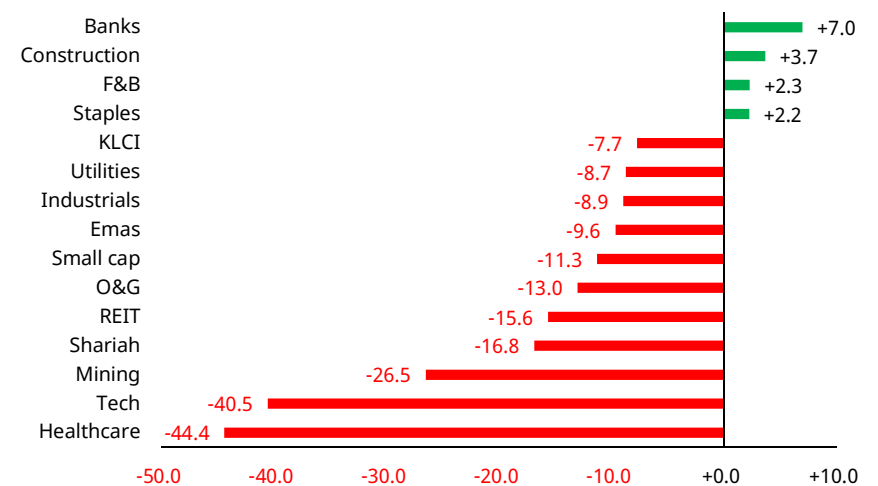


Exhibit 3: Sector Performances Week-to-Date (%)



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



MALAYSIA VALUATIONS

Remains attractive historically and versus the region

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

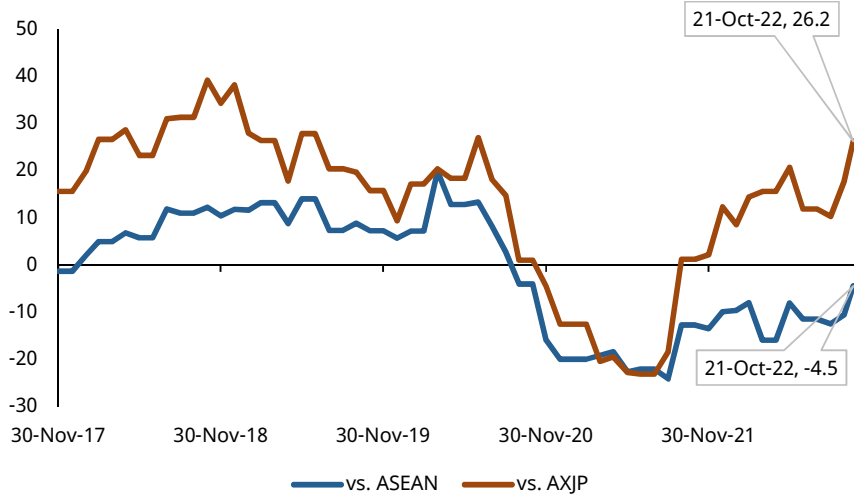


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

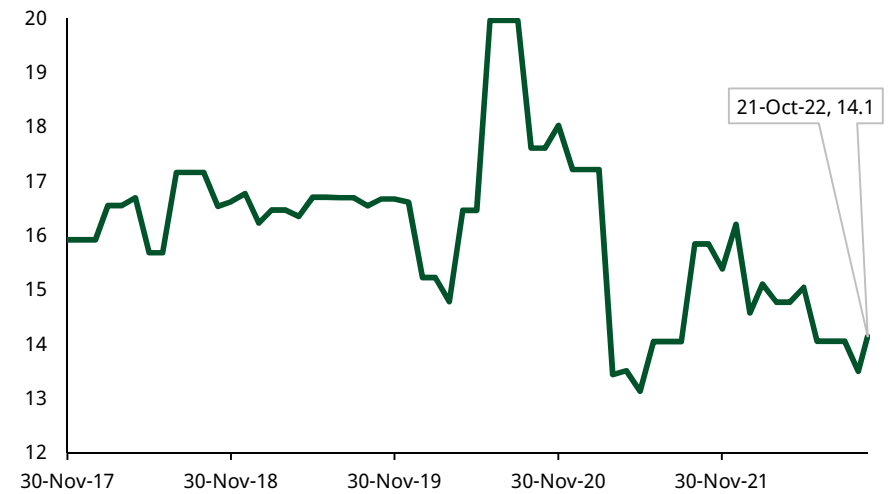


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

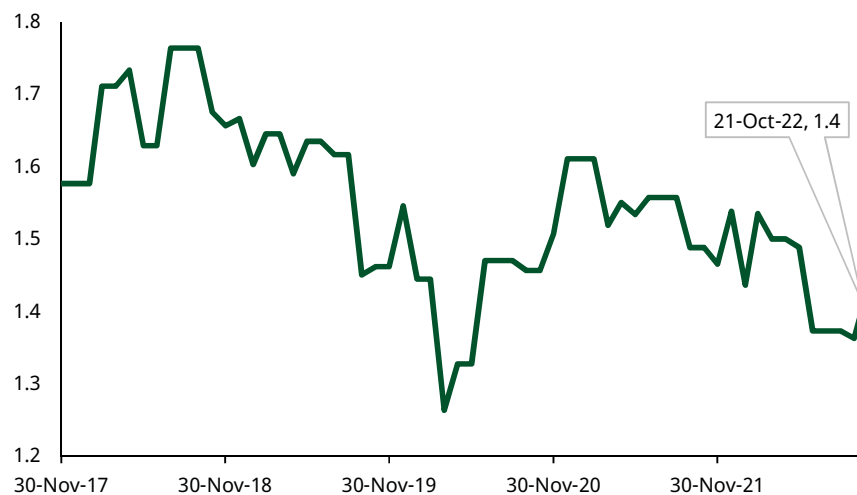
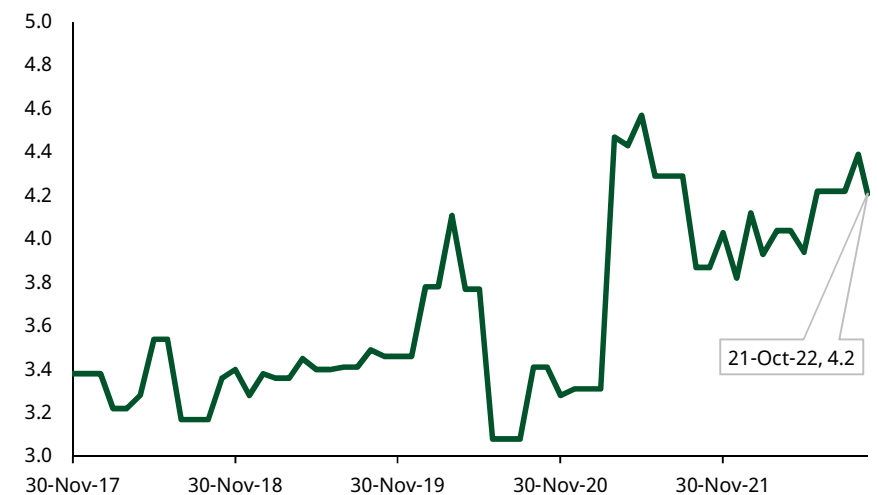


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

North Asia lower due to tech and China's lack of economic policy direction

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

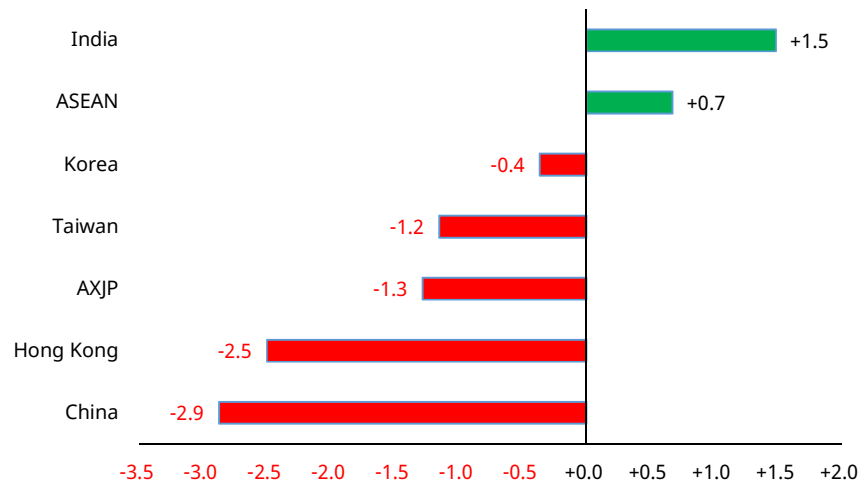


Exhibit 2: Country Performances Year-to-Date (%)

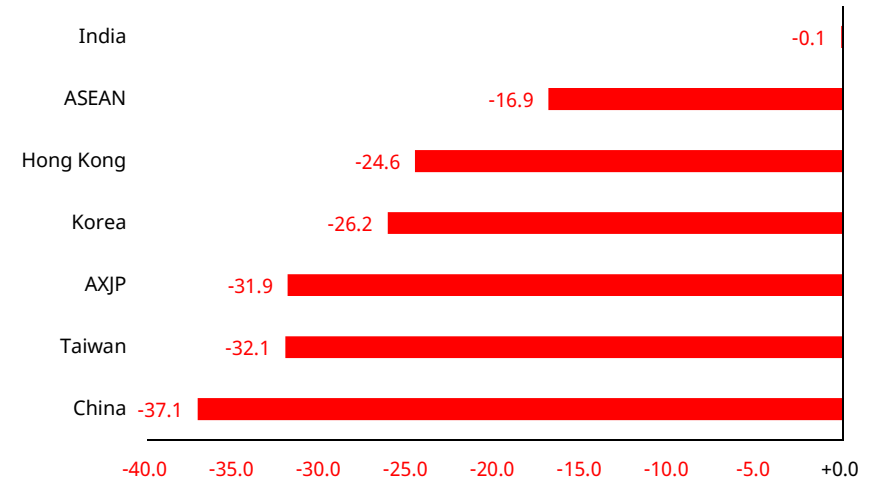


Exhibit 3: Sector Performances Week-to-Date (%)

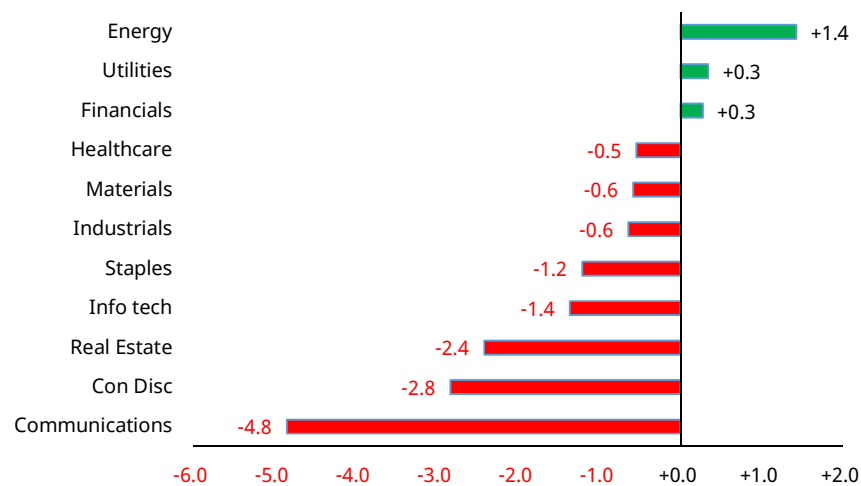
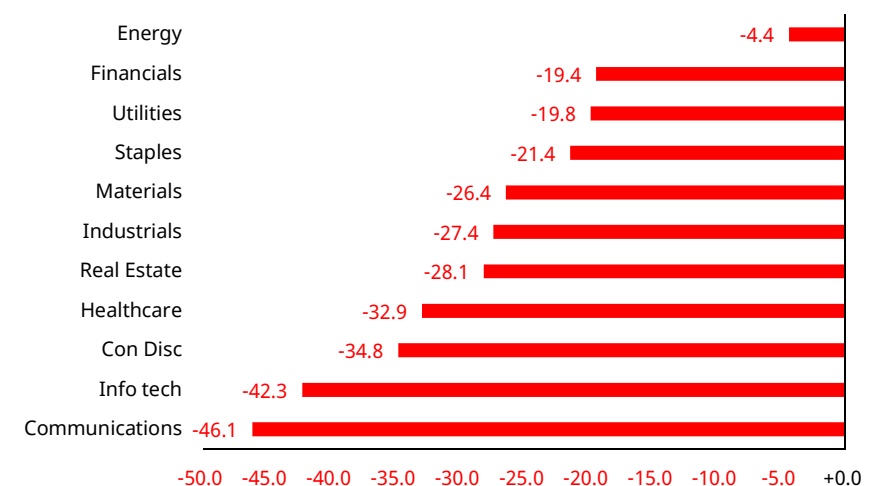


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

REGIONAL VALUATIONS

Regional markets continue to face headwinds but valuations are attractive

Exhibit 5: Regional Price-Earnings Ratio (x)

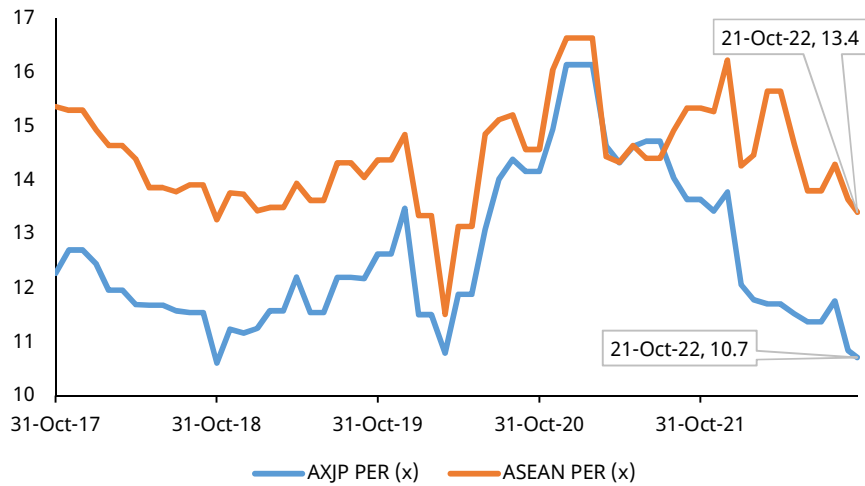


Exhibit 6: Regional Price-to-Book Ratio (x)

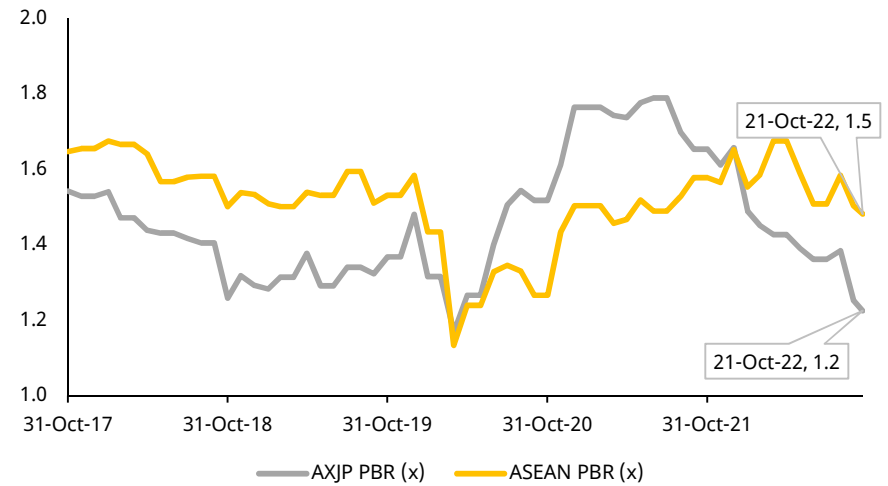


Exhibit 7: Regional Dividend Yield (%)

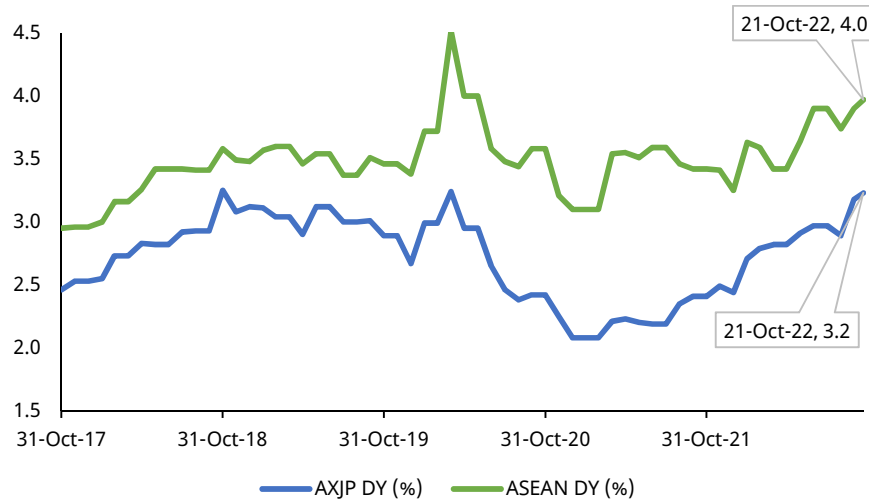
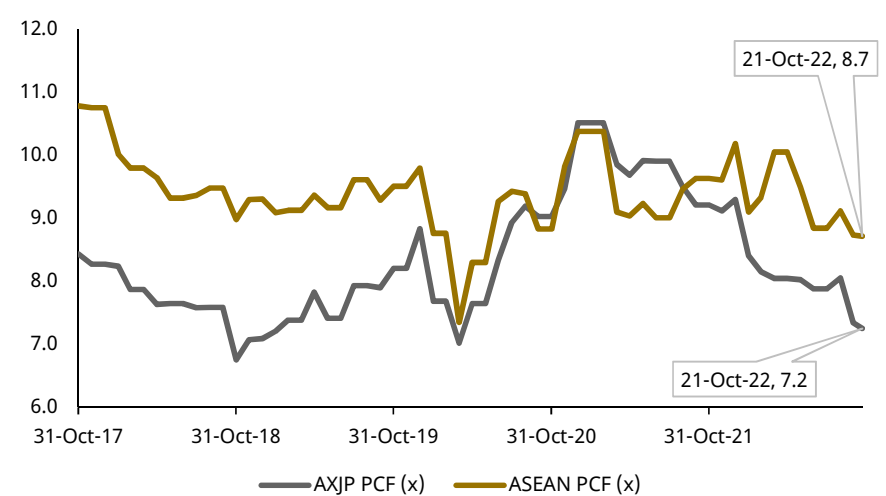


Exhibit 8: Regional Price-to-Cash Flow (x)



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)

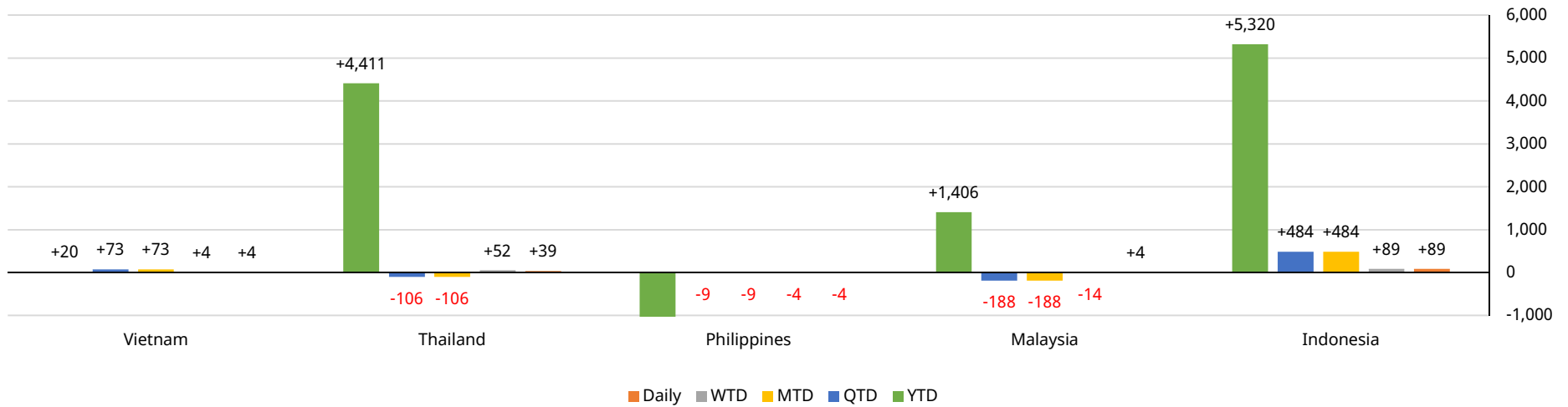
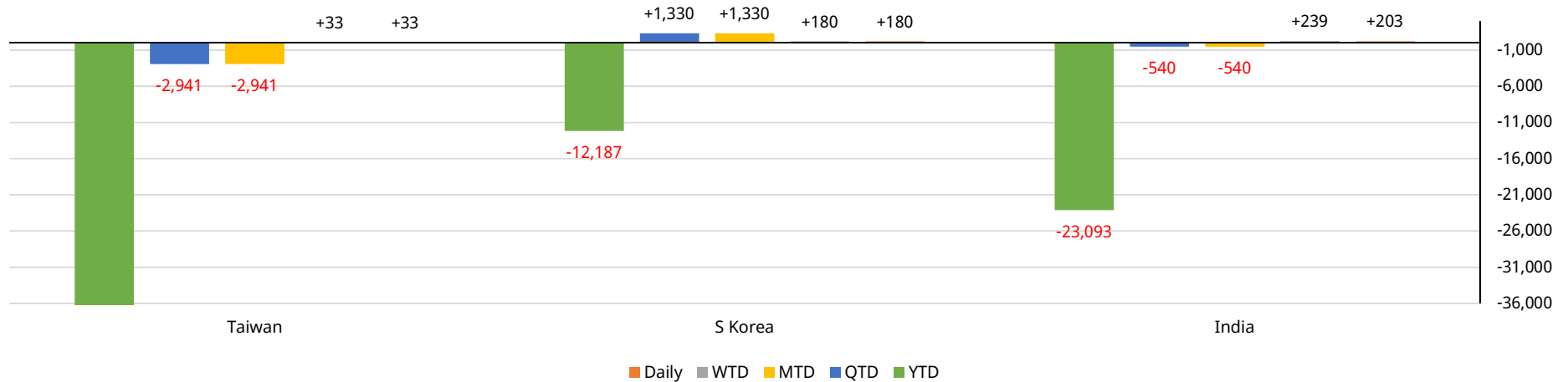


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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