

Portfolio Managers' Views


7 November 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (31 Oct - 4 Nov 2022) & Our Managers' Views

- 1 Rolling out 5G:** Mobile network operators such as Telekom, uMobile, Celcom, Digi and YTL Communications have executed their respective access agreements with Digital Nasional Berhad (DNB) to provide 5G. This removes the overhang within the telco sector. We are invested in Telekom Malaysia which we believe will benefit the most from 5G as it is also able to generate additional revenue from the leasing of its nationwide fibre cable network to DNB for its 5G infrastructure rollout.
- 2 Tight oil markets:** We expect Brent Oil price to rise to \$100/bbl as supply remains tight. The American Petroleum Institute reported that US Oil inventories declined unexpectedly by 6.5mil bbls compared to estimates of a 267k bbls increase in the final week of October. This is despite the release of 1.9mil bbls from US' Strategic Petroleum Reserve. This reinforces our view on the oil supply tightness as the US struggles to stabilise the decline of its oil inventory.
- 3 Tech slowdown:** We continue to see earnings slowdown and pessimistic forward guidance from tech companies. TSMC reported that its top-10 clients are seeing major order cuts and Qualcomm gave a bleak forward guidance, indicating that Q4 earnings could drop up to 28%. Also, the Semiconductor Sales Index YoY trend in September has also turned negative, which signals a semiconductor downcycle. We remain underweight on Tech.
- 4 Bank:** We remain invested in banks. Bank Negara Malaysia (BNM) increased the Overnight Policy Rate (OPR) by 25bps to 2.75%. Consensus expects BNM to increase OPR by another 50bps to 3.25% by March 2023. This will improve net interest margins and profits of banks as lending rates continue to increase. The banking industry remains stable and supportive of further growth as BNM's data showed gross impaired loans ratio for September was lower than consensus estimates.
- 5 China re-opening:** We reiterate our underweight positioning on China relative to regional benchmarks after China authorities maintained its zero-Covid policy over an announcement last Saturday. Last week, speculation on China reopening fueled Asian equities. For now, our preference for economic and travel re-opening themes remain centered in ASEAN where economies are benefiting from a consumption and commodity-led recovery while offering attractive dividend yields.
- 6 Valuation:** KLCI rose WoW, tracking a broader market rebound following the rally on China markets after speculations that it will exit its zero-Covid strategy and fully reopen its economy. 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 are also attractive at 1.40x (below the 5Y average of 1.55x) and 4.2% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Markets rallied on speculation that China will exit its Covid restrictions

Exhibit 1: KLCI vs Shariah Index

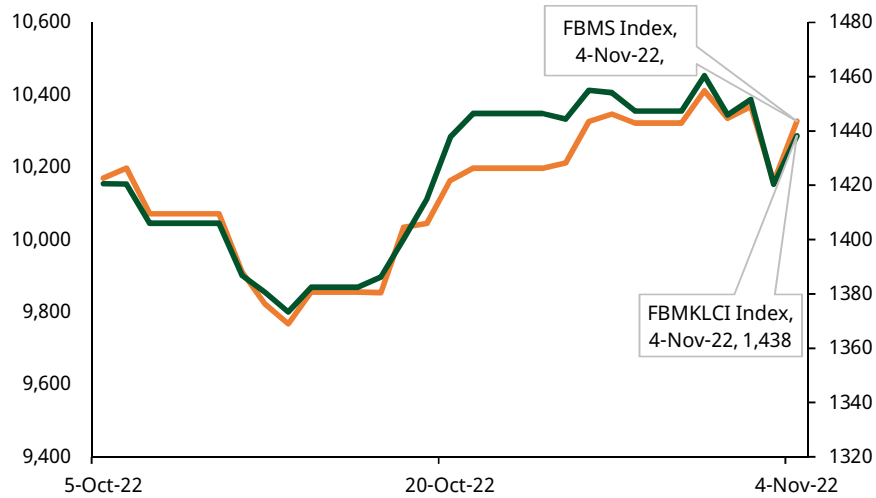


Exhibit 2: USDMYR

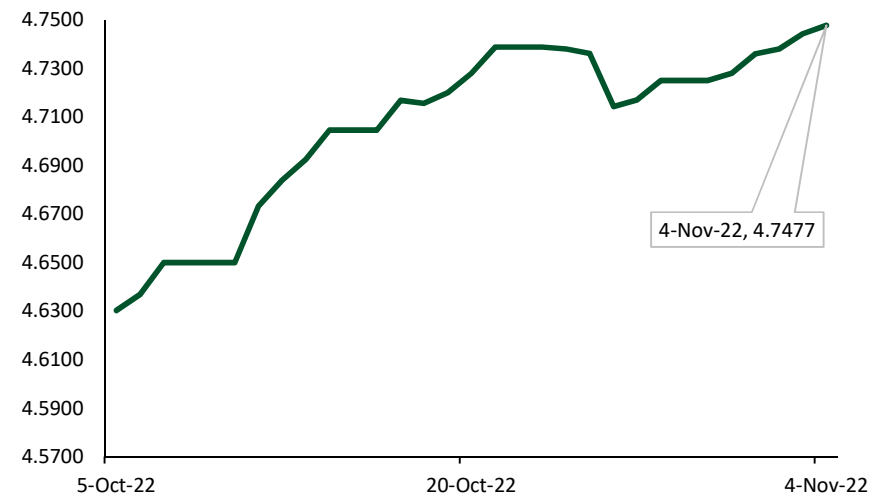


Exhibit 3: Sector Performances Week-to-Date (%)

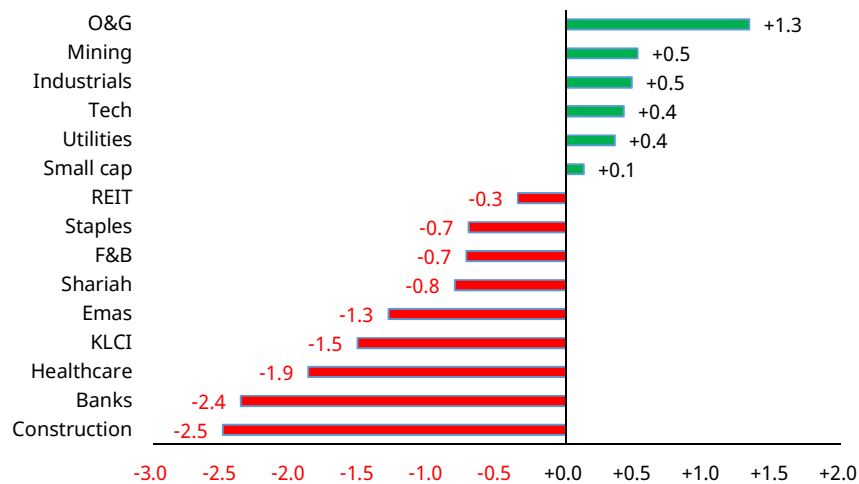
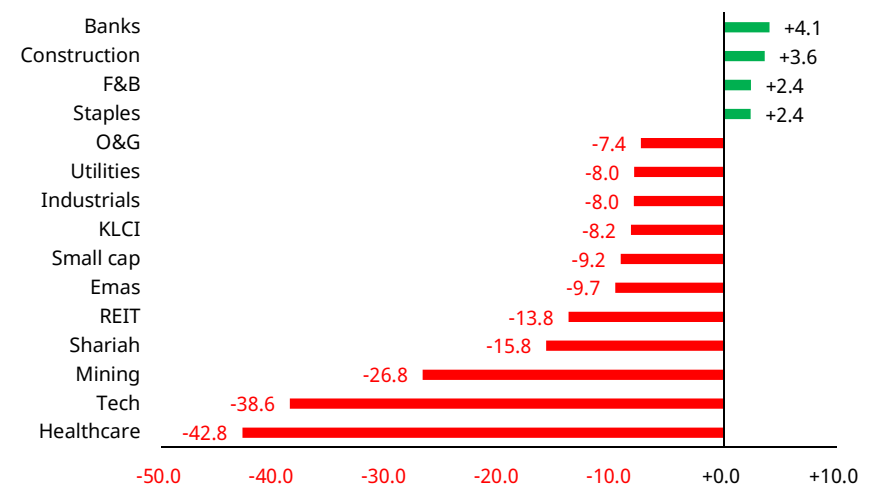


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Remains attractive historically and versus the region

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

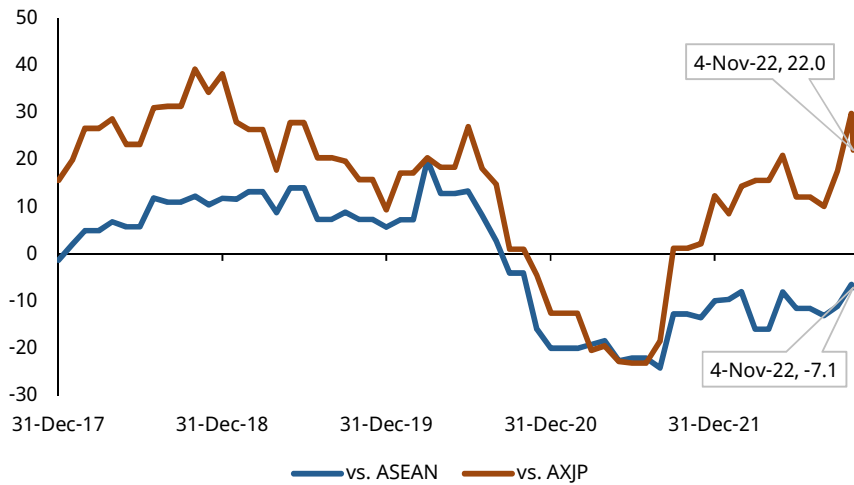


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

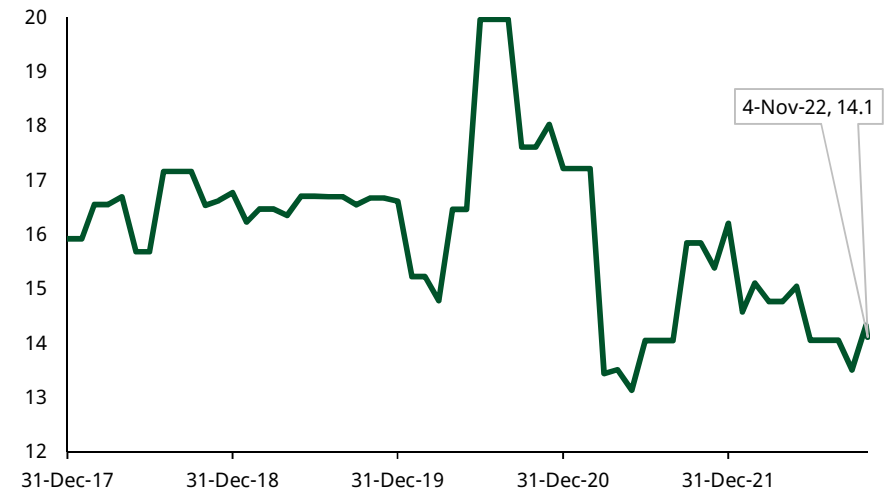


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

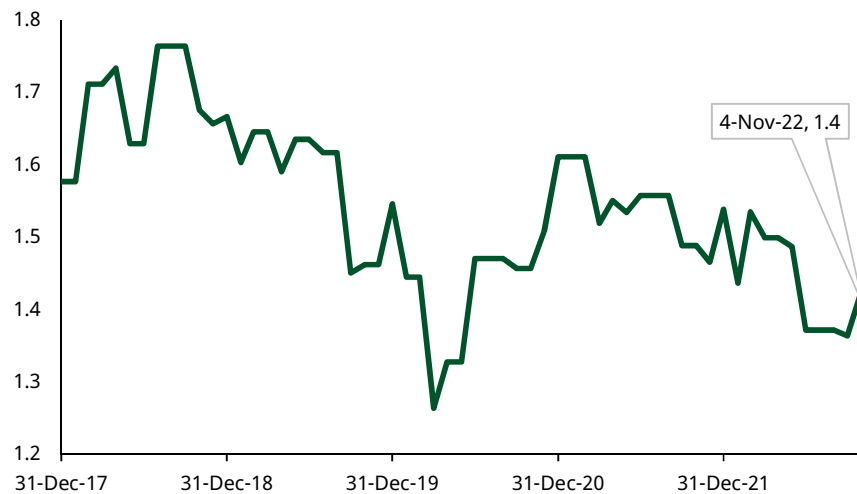
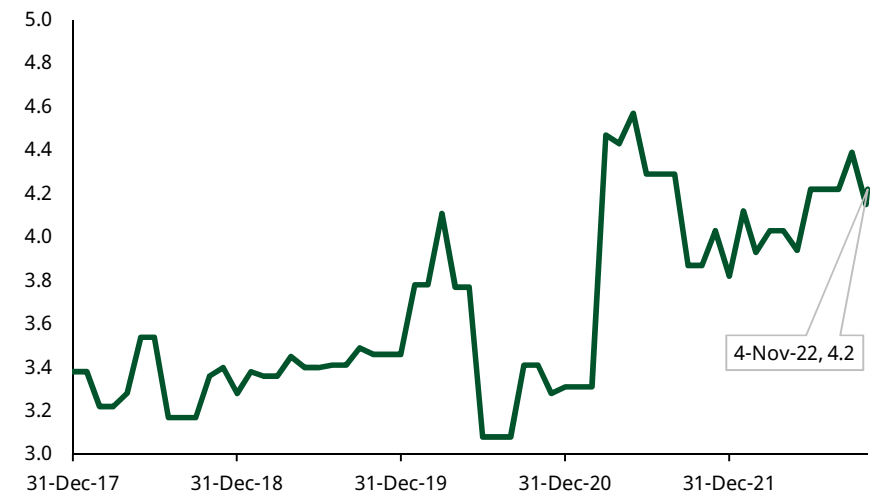


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Markets rallied on speculation that China will exit its Covid restrictions

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

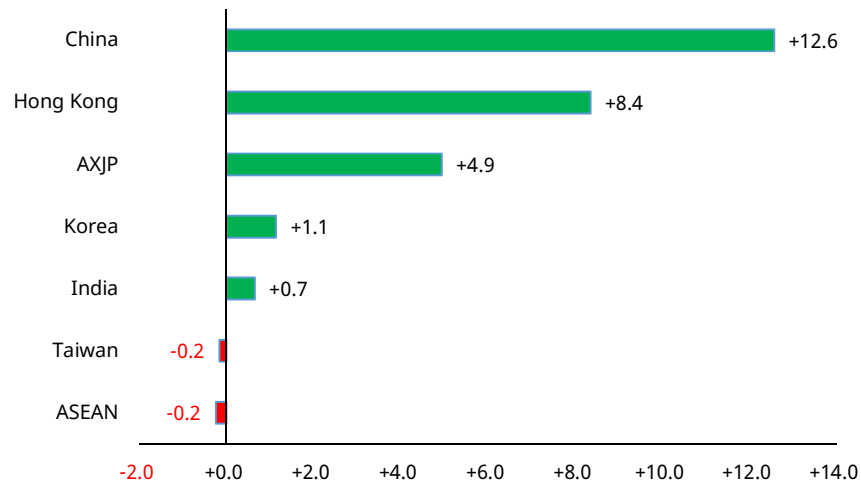


Exhibit 2: Country Performances Year-to-Date (%)

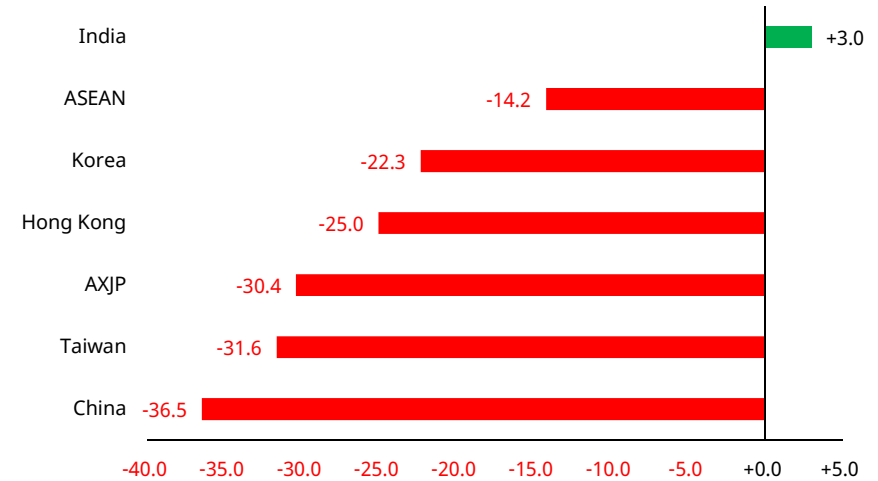
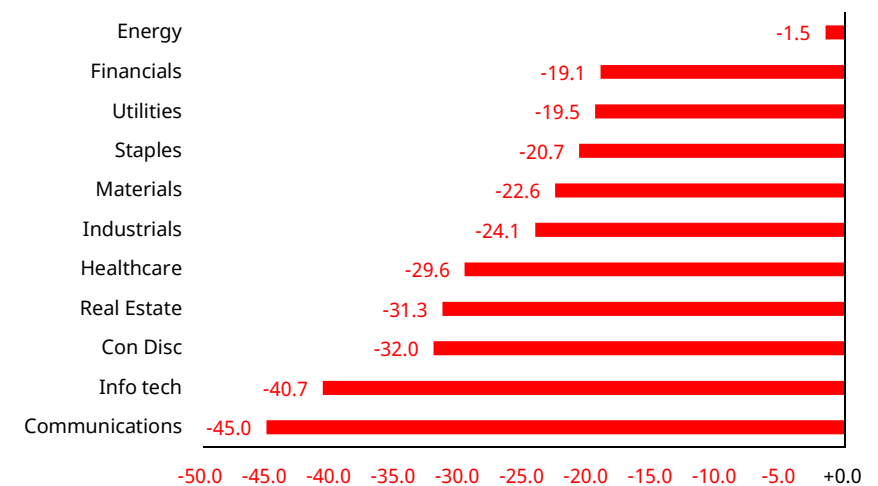


Exhibit 3: Sector Performances Week-to-Date (%)



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)

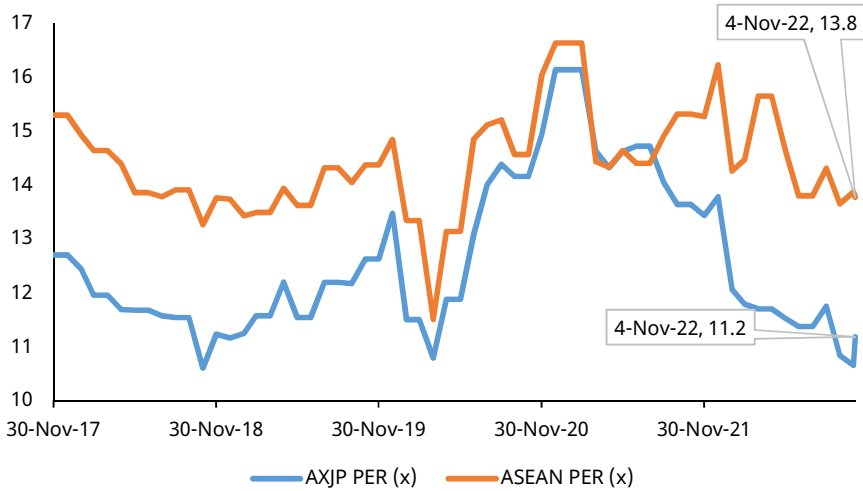


Exhibit 6: Regional Price-to-Book Ratio (x)

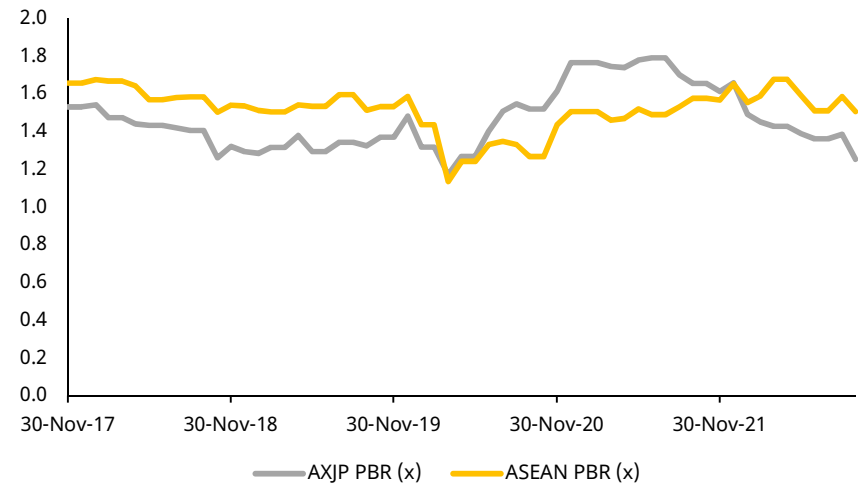


Exhibit 7: Regional Dividend Yield (%)

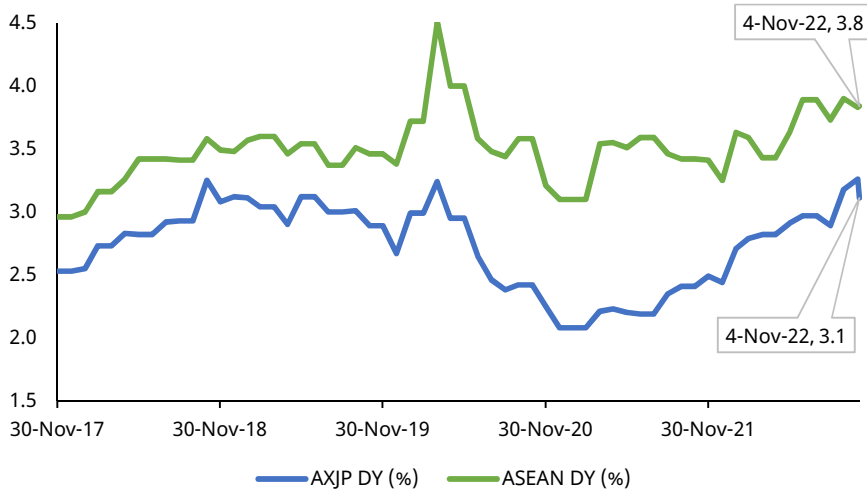
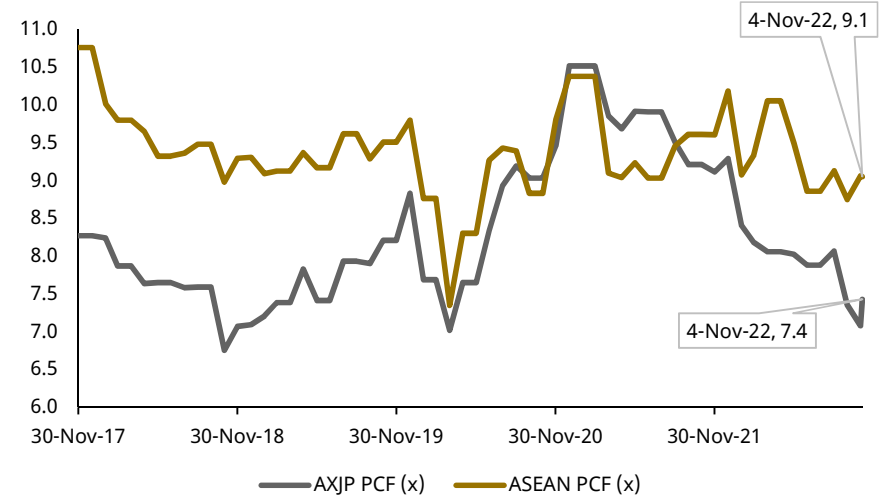


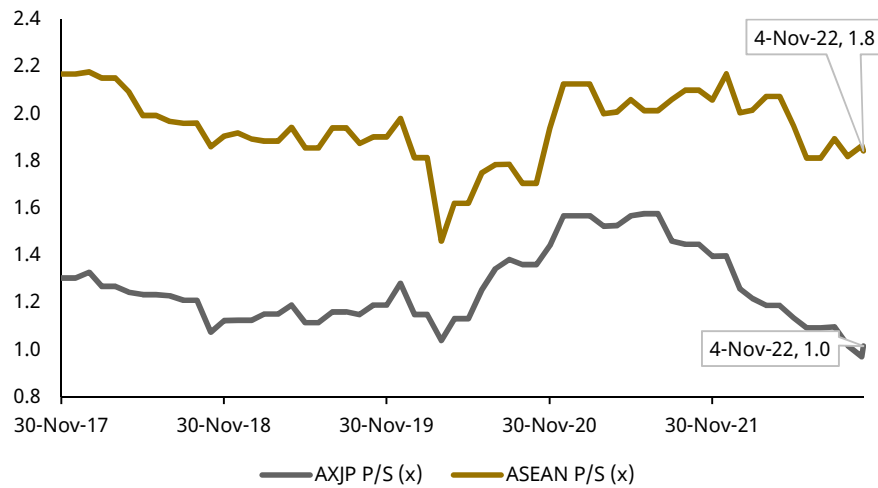
Exhibit 8: Regional Price-to-Cash Flow (x)



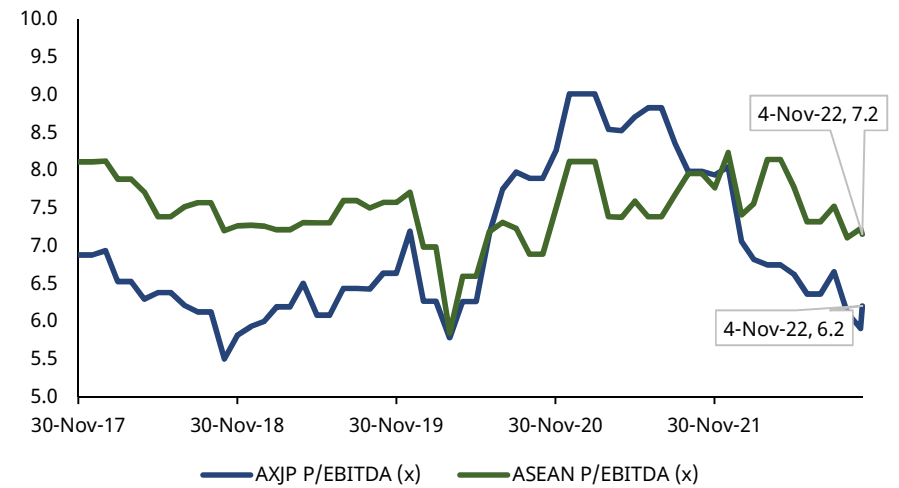
REGIONAL VALUATIONS

Regional markets continue to face headwinds but valuations are attractive

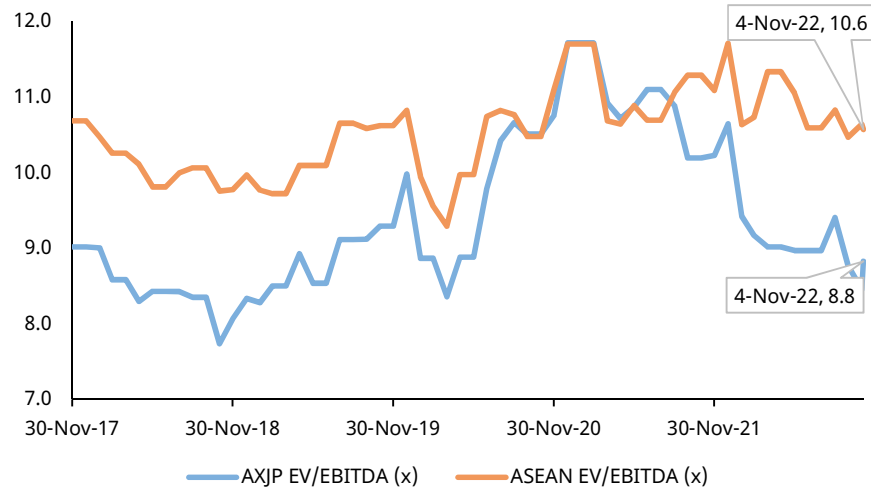
Regional Price-to-Sales Ratio (x)



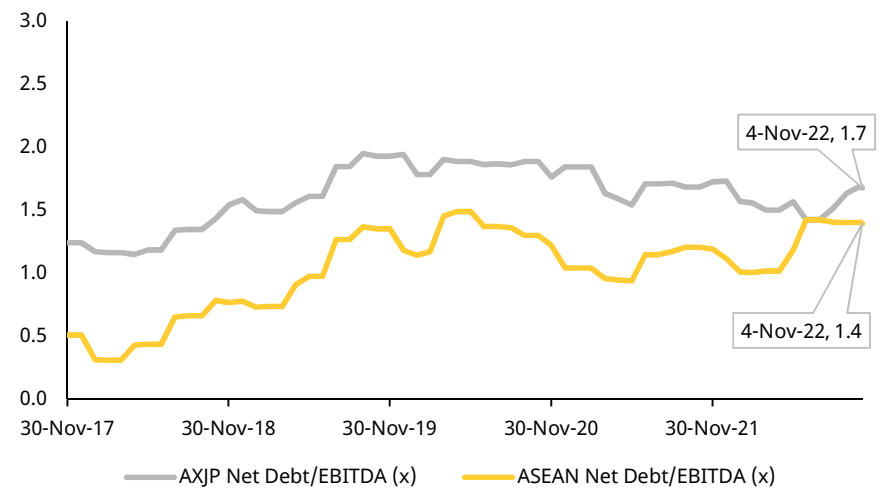
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (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)

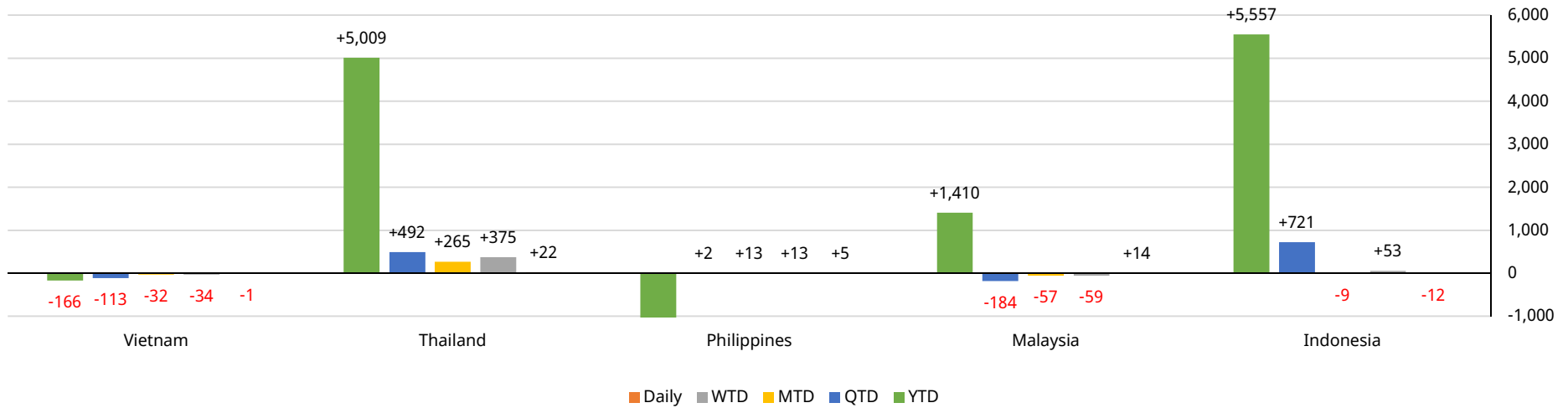
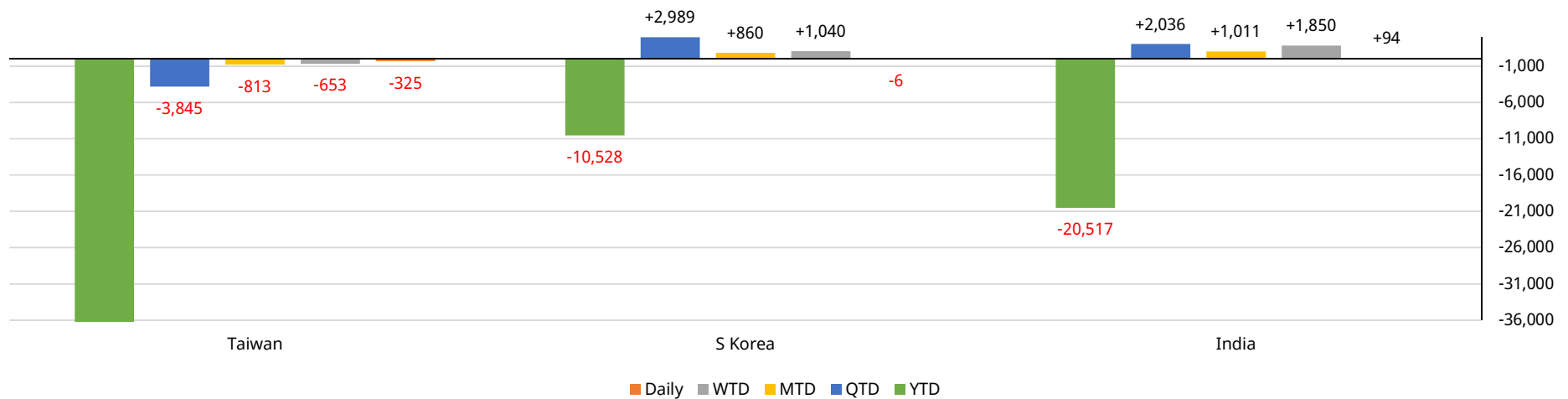


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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