

Portfolio Managers' Views


12 December 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (5 Dec - 9 Dec 2022) & Our Managers' Views

- 1 Oil markets fear a recession:** Oil price declined 10.5% WTD to trade at \$76/bbl. Key developments were the implementation of a \$60 price cap on Russian oil and OPEC maintaining its output quota. In spite of this, oil prices were weighed down by fears that the US may hike rates higher as economic data remained strong. We view that a recession is unlikely for now and maintain invested in oil as we expect long term prices to average \$90/bbl in 2023, supported by underinvestments.
- 2 We remain negative on Mobile Network Operators (MNOs):** As of Nov-22, major telcos in Malaysia rolled out their 5G offerings, except for Maxis. The new model effectively creates a "level playing field" as 5G network service quality is shared among participants. We believe this heightens the risk of losing market share for the incumbent leaders. However, we remain invested in Telekom as this shared model will help it gain market share in the mobile space.
- 3 Tight palm oil supply:** Malaysian Palm Oil Association and Malaysian Estate Owners' Association stated that the unresolved labour shortage issues continue to impact palm oil production. Approved foreign workers only met 19% of the sector's requirement. For context, the labour-to-land ratio is at 1:17 which far exceeds the optimum level of 1:8. We remain invested in the plantation sector tight supplies will help CPO prices to maintain above RM4,000/ton.
- 4 Global markets decline:** The S&P500 decreased by 2.7% WTD to 3,963.51 due to fear of recession. This is mainly driven by renewed expectations that the US Fed fund rate hikes will create a recession. This was supported by bearish comments from top executives at some multinational financial institutions. This in turn caused the KLCI to trend lower. Still, we remain invested as valuations are still attractive as they trade at historically low levels.
- 5 New Cabinet:** During the week, the Malaysian government announced its cabinet line-up. The key positions were Finance Minister (Anwar Ibrahim), Minister of Economic Affairs (Rafizi Ramli) and Minister of International Trade and Industry (Tengku Zafrul). The impact towards the market was lacklustre, possibly outweighed by global fears (see item 4). KLCI remained flat at around 1,470 following the announcement.
- 6 China reopening:** Our regional funds benefited from China's relaxation of COVID-19 restrictions. As cities drop testings and ease travel requirements, consumer discretionary stocks will benefit. Last week, we top-sliced a travel-related technology stock that rallied and aim to reinvest in other undervalued consumer discretionary stocks. However, despite further easing in Macau, we are not invested in casinos as they are loss-making, will turn profitable only in 2023/24 and valuations are steep.

MALAYSIA & REGIONAL (cont')

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China property: The recent policy measures are aimed to stabilise the sector and ensure the completion of property projects. While this is positive in alleviating default risks, the property development side of the sector is still undergoing a downcycle. We believe the property management segment is more attractive as it is non-cyclical, generates recurring cash flows and selectively offers dividends. Having exited in Q1, we aim to re-enter this sector as part of our increased allocation to China.

8

Valuation: We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 14.3x (-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 4.1% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Malaysia fell along with global markets as recession fears re-emerged

Exhibit 1: KLCI vs Shariah Index

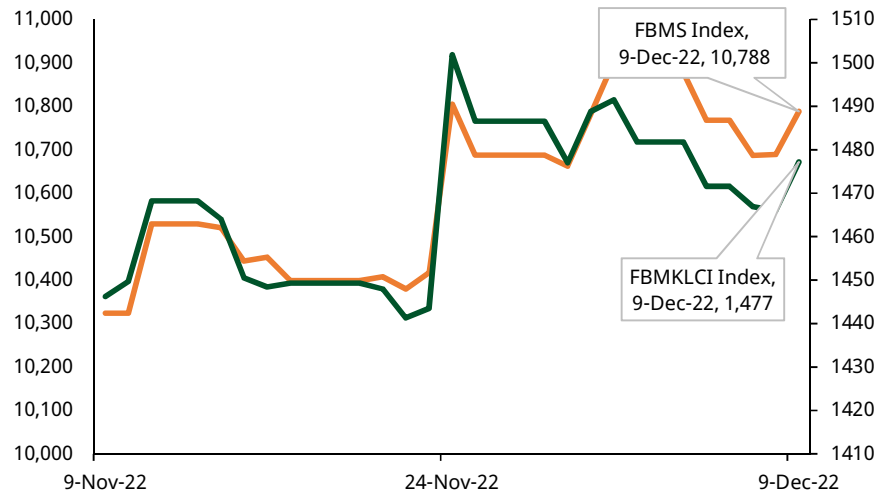


Exhibit 2: USDMYR

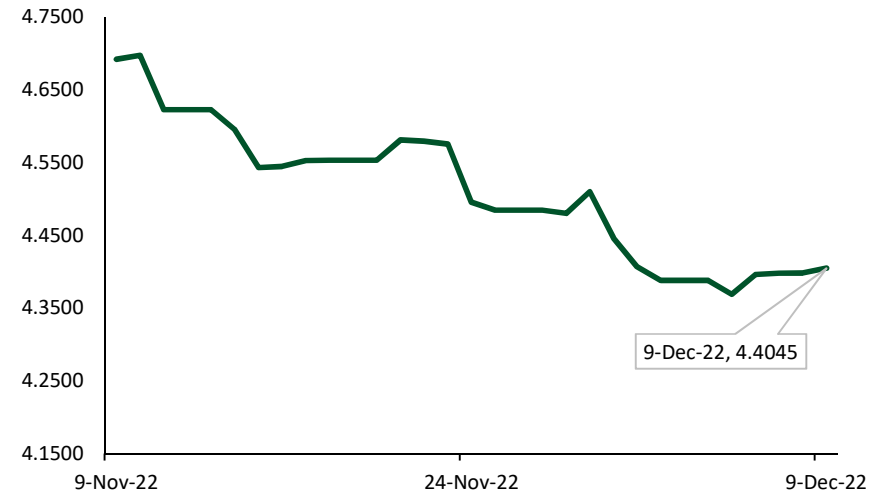


Exhibit 3: Sector Performances Week-to-Date (%)

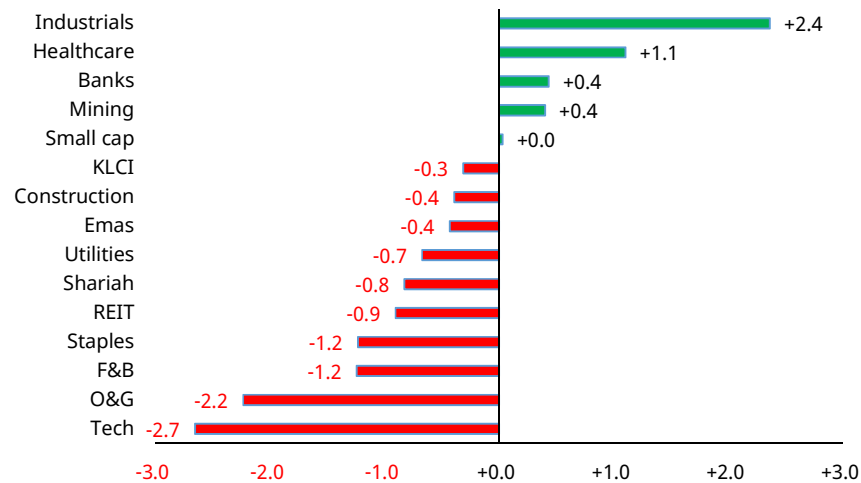
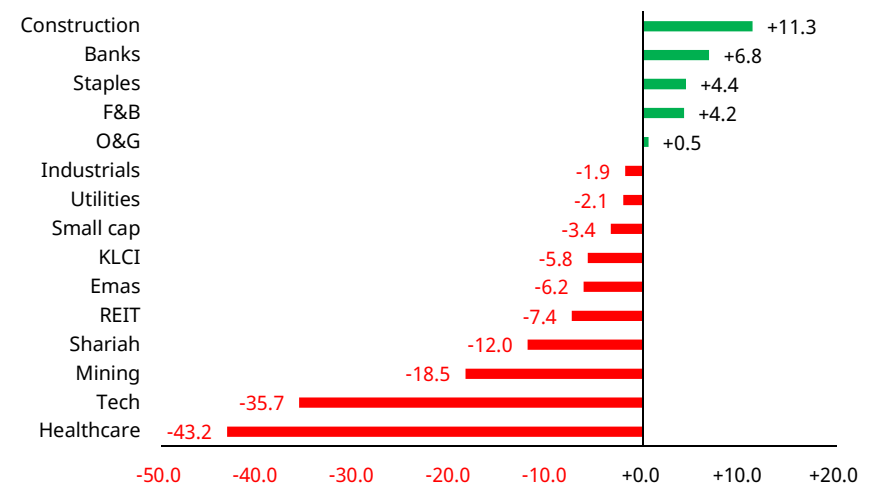


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Malaysia remains in BUY territory

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

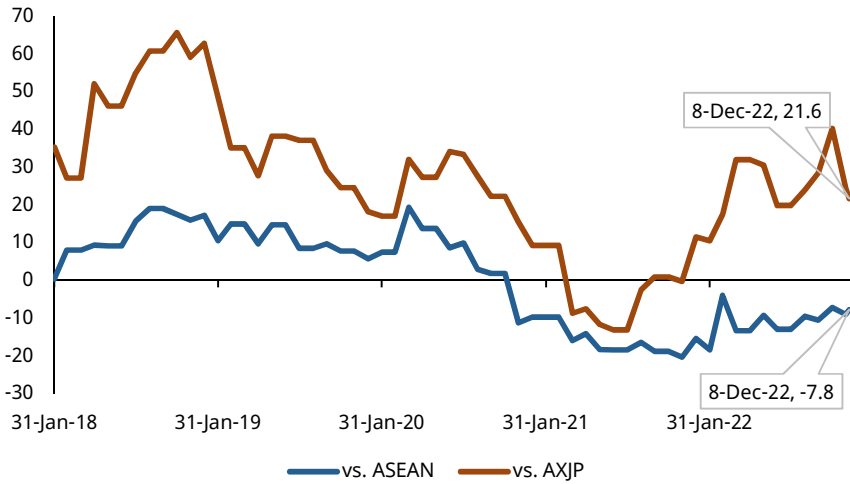


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

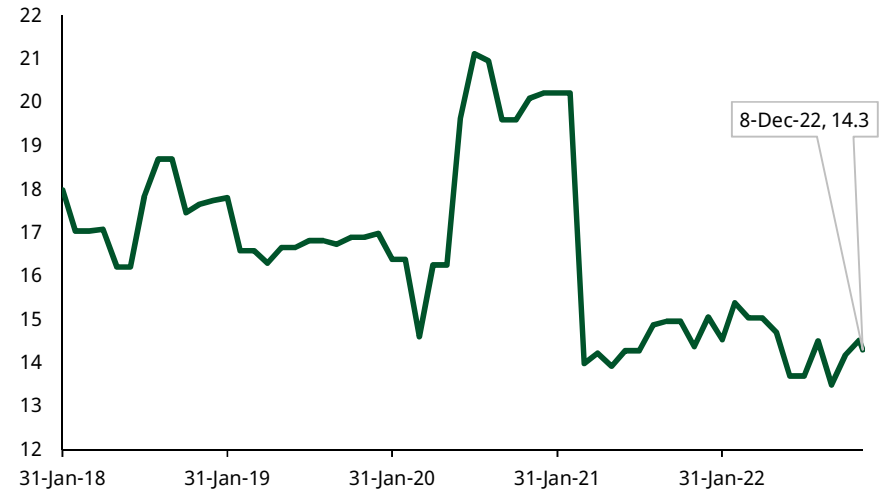


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

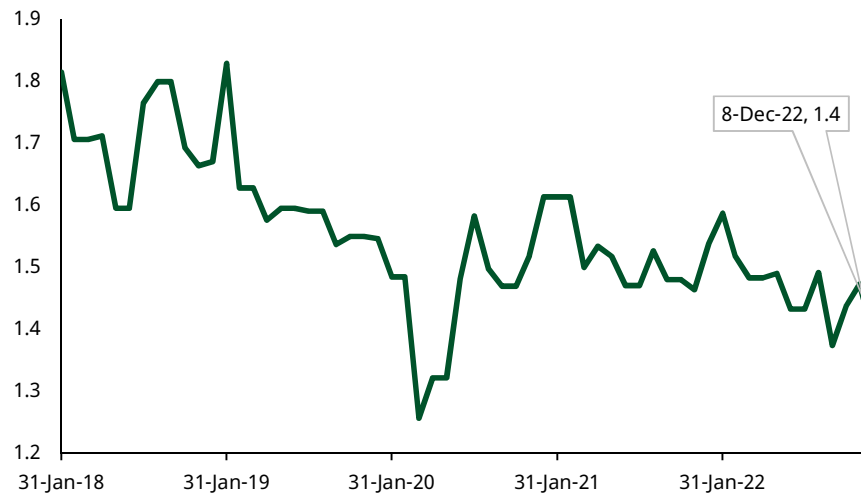
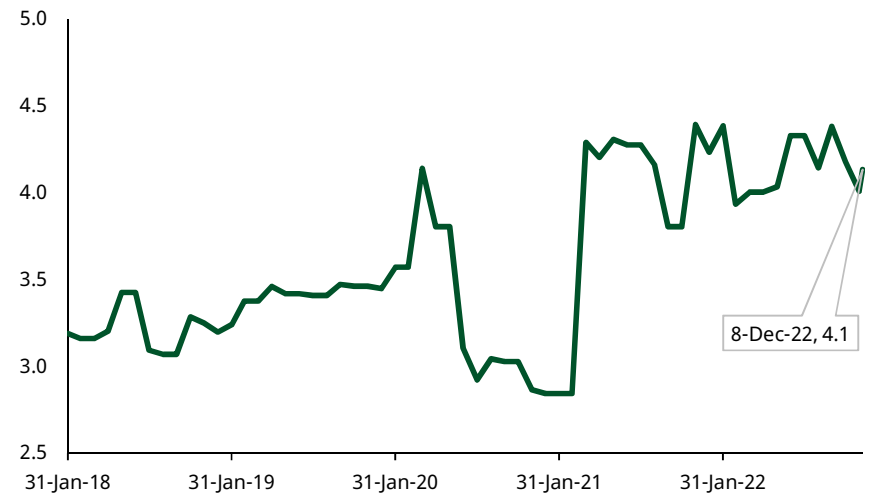


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

China gained after relaxing COVID restrictions & supported the property sector

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

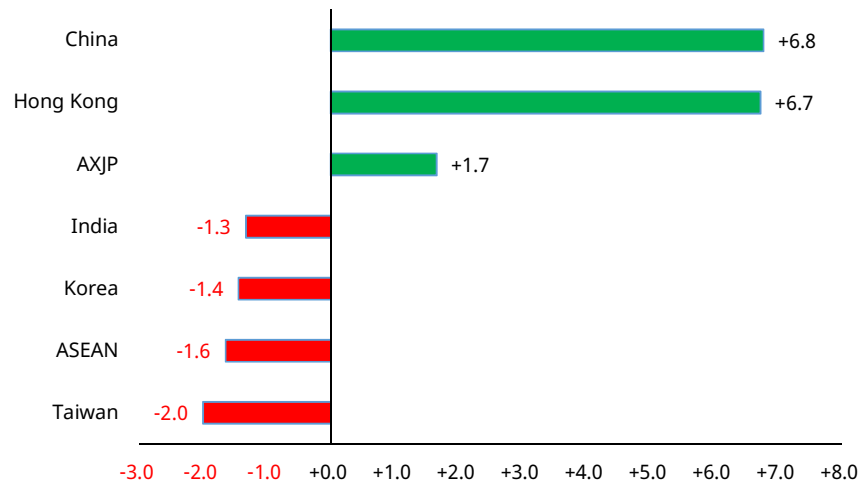


Exhibit 2: Country Performances Year-to-Date (%)

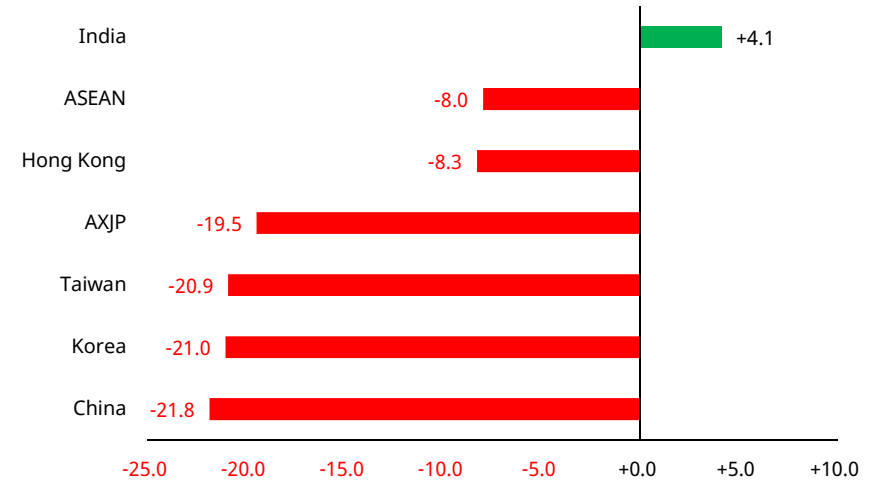


Exhibit 3: Sector Performances Week-to-Date (%)

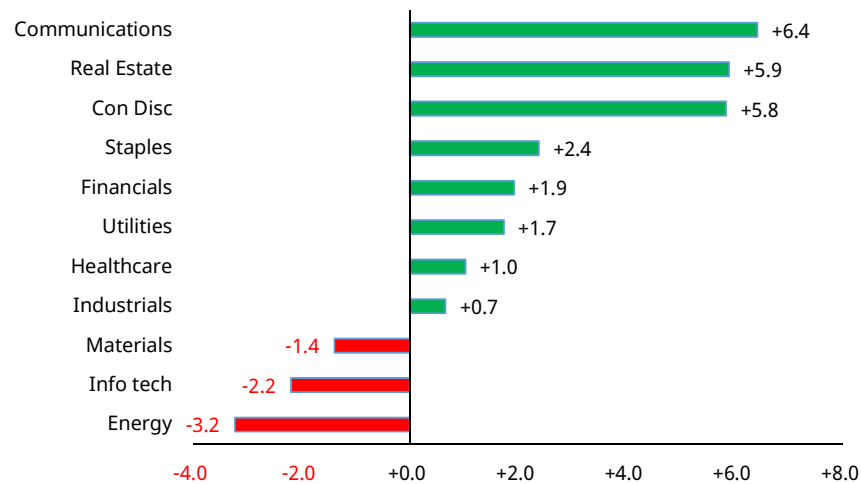
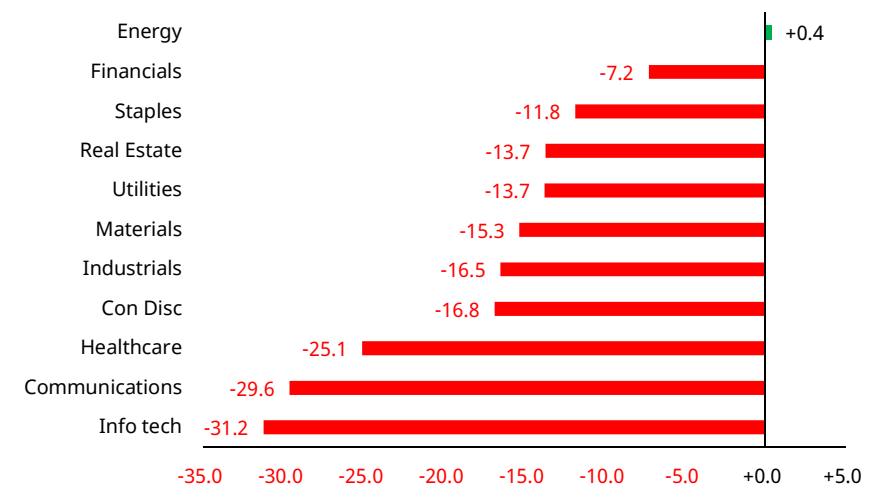


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Asian valuations remain attractive despite China's rally last week

Exhibit 5: Regional Price-Earnings Ratio (x)

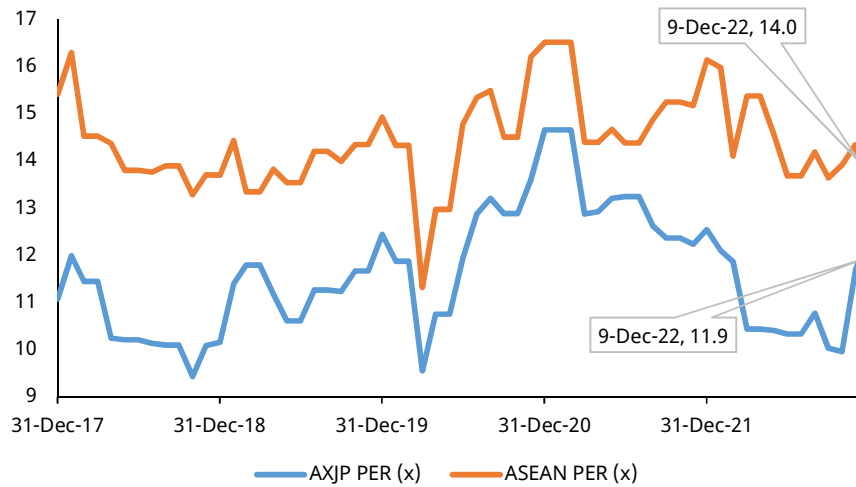


Exhibit 6: Regional Price-to-Book Ratio (x)

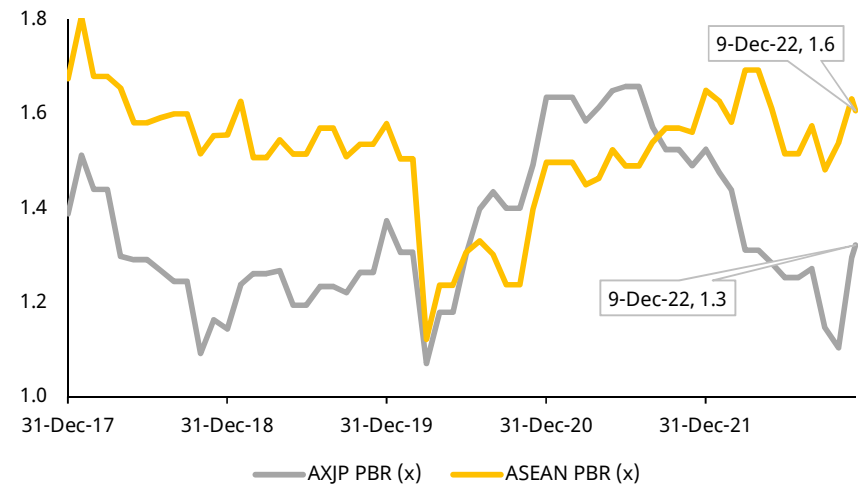


Exhibit 7: Regional Dividend Yield (%)

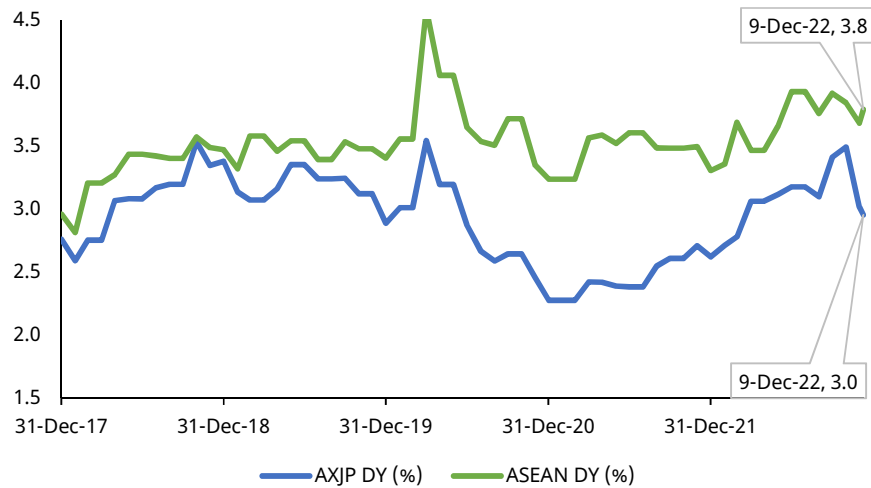
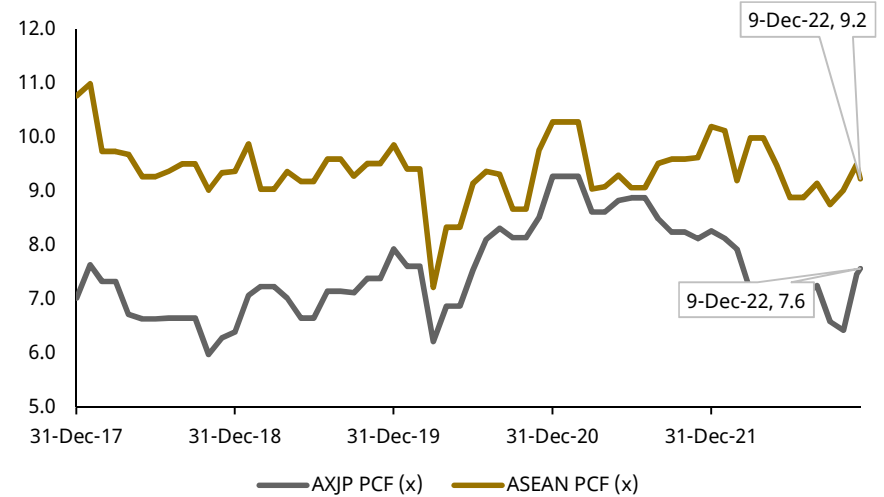


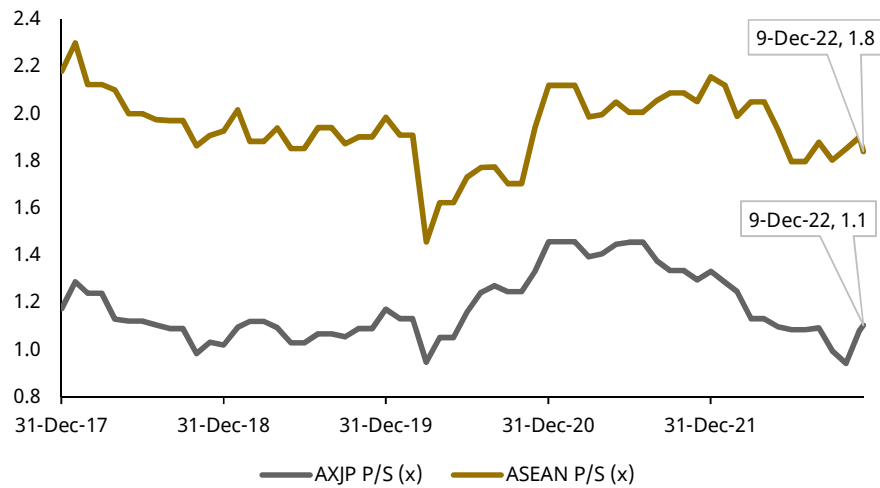
Exhibit 8: Regional Price-to-Cash Flow (x)



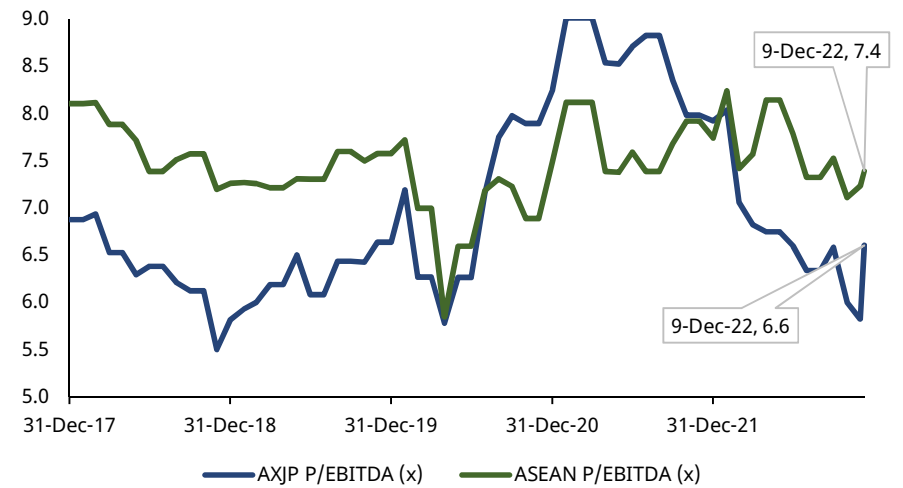
REGIONAL VALUATIONS

Asian valuations remain attractive despite China's rally last week

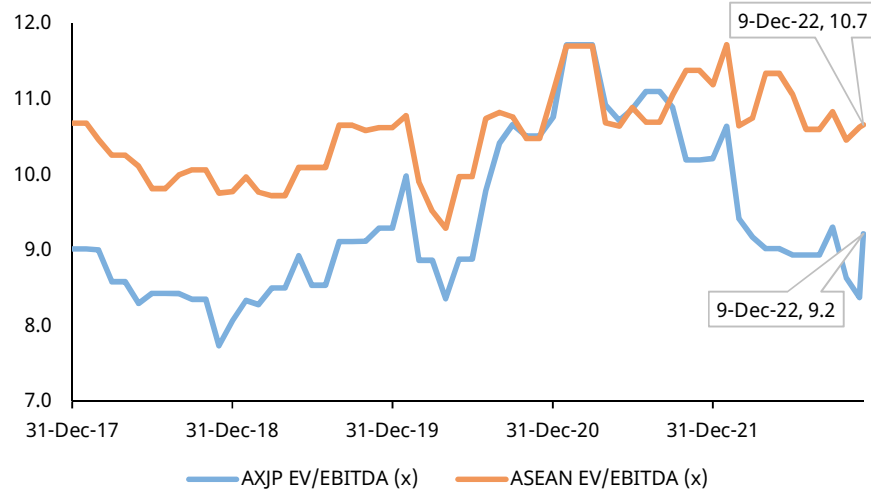
Regional Price-to-Sales Ratio (x)



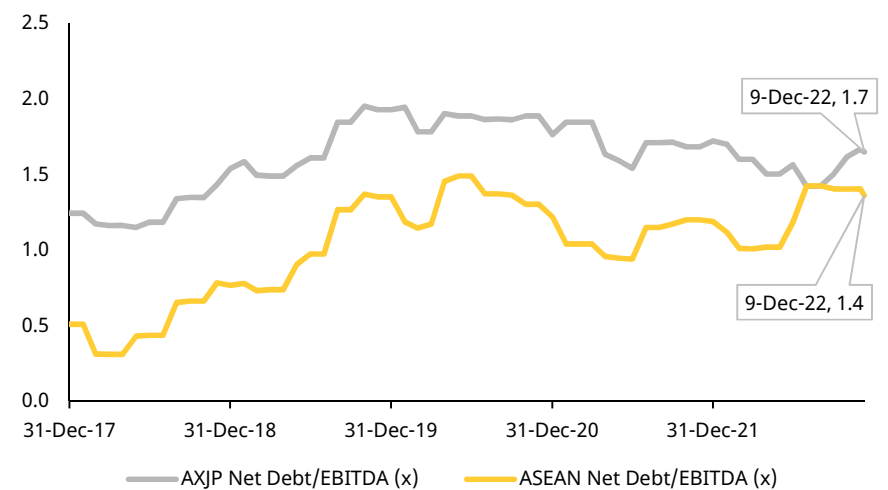
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



FOREIGN FUND FLOWS

We see rotation from ASEAN to the North Asian markets and tech sectors

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

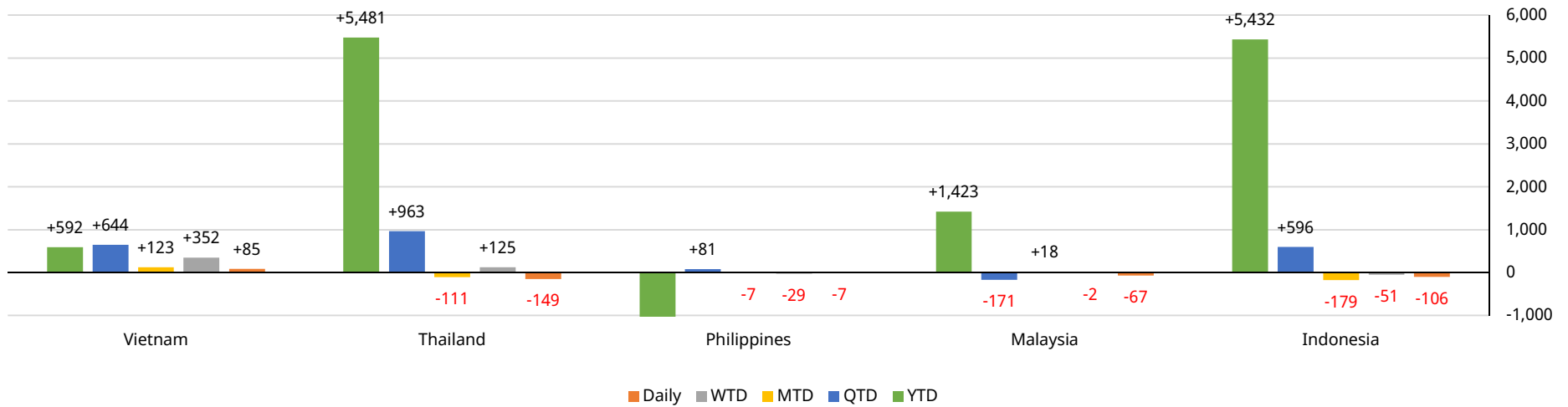
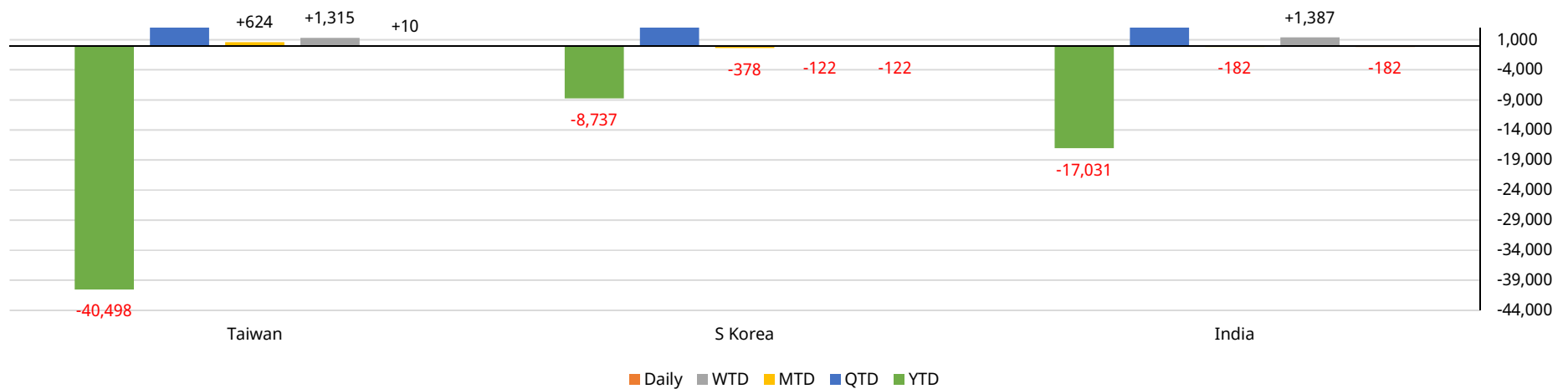


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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