

Portfolio Managers' Views



27 December 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (19 Dec - 23 Dec 2022) & Our Managers' Views

- 1 Political stability regained:** On Monday, PM Anwar Ibrahim won the vote of confidence in the Parliament. This solidifies the support towards the first-ever unity government in Malaysia's history. With this milestone, the government is now able to focus on reforms and the economy. We believe this brings hope for a better Malaysia to not only the people, but also to local and foreign investors as political stability and good governance is the foundation to a vibrant stock market.
- 2 Underweight on Construction:** The new transport ministry will review 5 projects (total contract value of RM650mil). These projects were procured by direct negotiations but did not have a letter of acceptance yet. This shows the administration's commitment towards good governance. However, this is negative in the short term for construction companies as similar reviews may arise for other projects. We remain Underweight on the sector.
- 3 Strong car sales to continue:** The Malaysian Automotive Association reported that monthly car sales increased by 5.6% MoM to 64.4k vehicles. Given the high backlog in car sales, we expect monthly car sales to stay at the 60k level until March 2023. Therefore, we remain invested in net cash automotive companies that offer high dividend yields as we expect monthly car sale numbers to remain high.
- 4 Rising foreign tourist movement:** Malaysia Airports Holdings Berhad reported that monthly foreign tourist movement increased by 6.1% MoM to 2.2mil tourists. We expect this to increase further in 2023 as this only accounts for 51% of foreign tourist movements in Nov-2019. Additionally, a potential reopening of China's international borders would further support the positive momentum of foreign tourist movements. We remain invested in the tourism sector.
- 5 Industry experts forecast CPO price floor at RM3,500/ton in 2023:** Datuk Ahmad Parveez and Dorab Mistry expects 2023 crude palm oil prices to be at least RM3,500/ton due to labour shortages and a low production season. Given the ease of China's Covid restrictions, a potential increase in demand will also support CPO prices. Therefore, we remain invested in the sector as they offer decent dividend yields and maintain our 2023 CPO price target at RM4,000/ton.
- 6 China reopening:** China moved closer to full border reopening by dropping COVID-19 quarantine for inbound arrivals from 8 Jan-23. Also, the disease has been downgraded to Category B, which requires only "necessary measures to curb the spread". We believe China warrants a re-rating as the moves benefit the economy across many sectors. Ahead of the above, we added a China large-cap focused leveraged exchange traded fund to gain exposure to the reopening.

MALAYSIA & REGIONAL (cont')

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Worst computer chip demand in 13 years: US' leading memory chipmaker, Micron Technology reported a supply glut as demand for smartphones and computers decline amid rising inflation and an uncertain economy. Micron is expected to cut its workforce by 10%, reduce output and slow down expansions to mitigate this slump. This reiterates our current Underweight stance on the Technology sector as we believe earnings are likely to be weaker in 1H23.

8

Valuation: KLCI valuations increased WoW, as glove counters rose from higher covid cases in China. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 14.4x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields are also attractive at 1.5x (below the 5Y average of 1.55x) and 4.3% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Glove makers led the KLCI's rally as Covid cases surge in China

Exhibit 1: KLCI vs Shariah Index

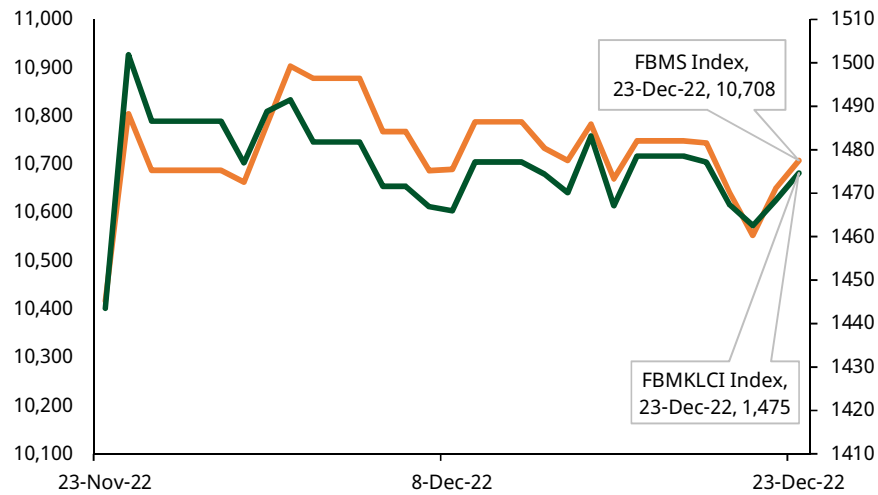


Exhibit 2: USDMYR

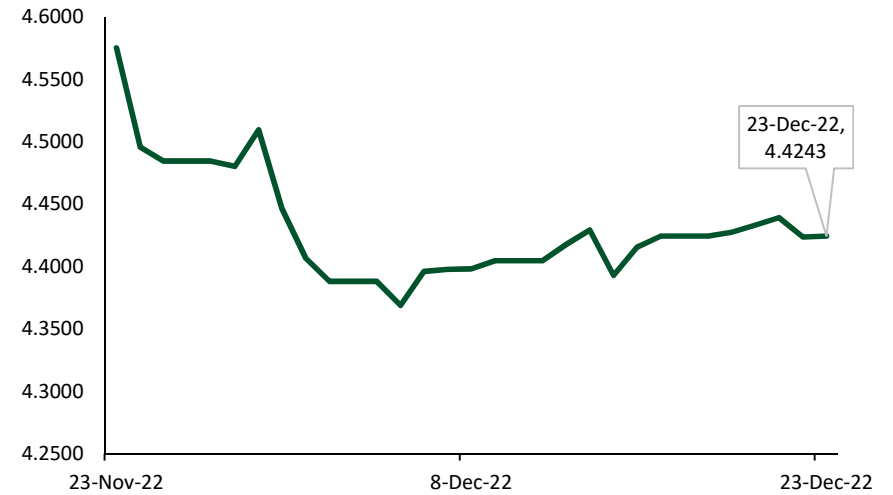


Exhibit 3: Sector Performances Week-to-Date (%)

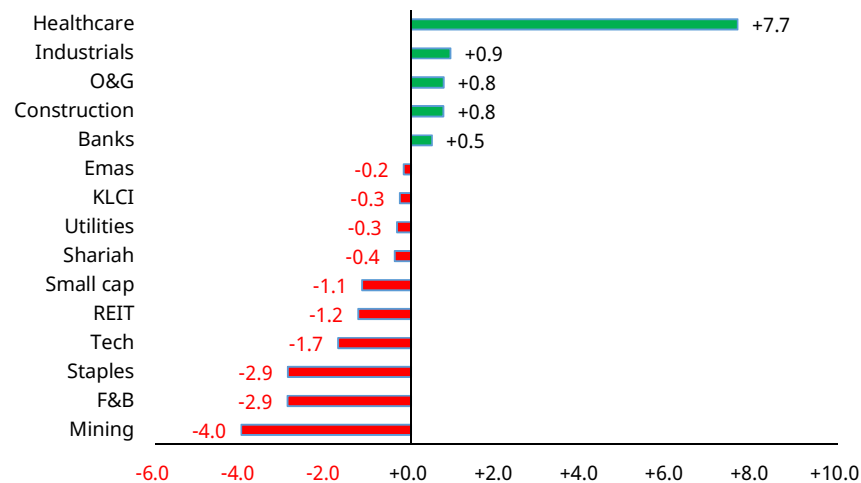
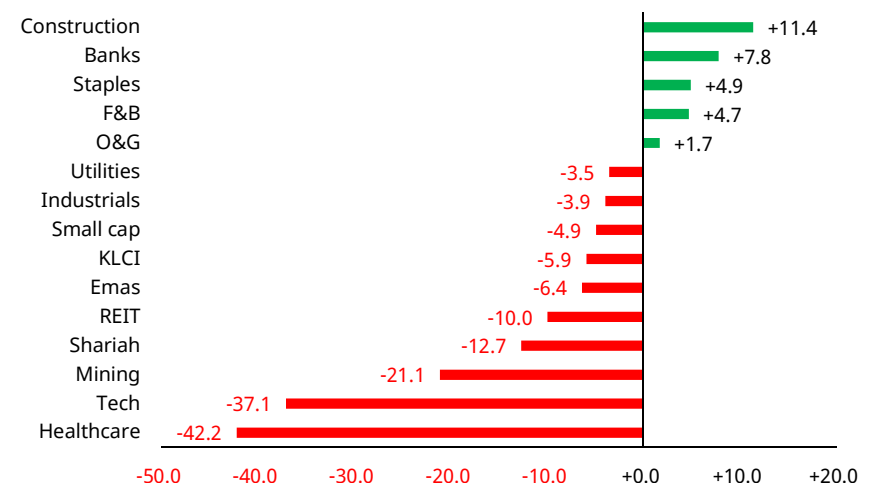


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

MALAYSIA VALUATIONS

Malaysia remains in BUY territory

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

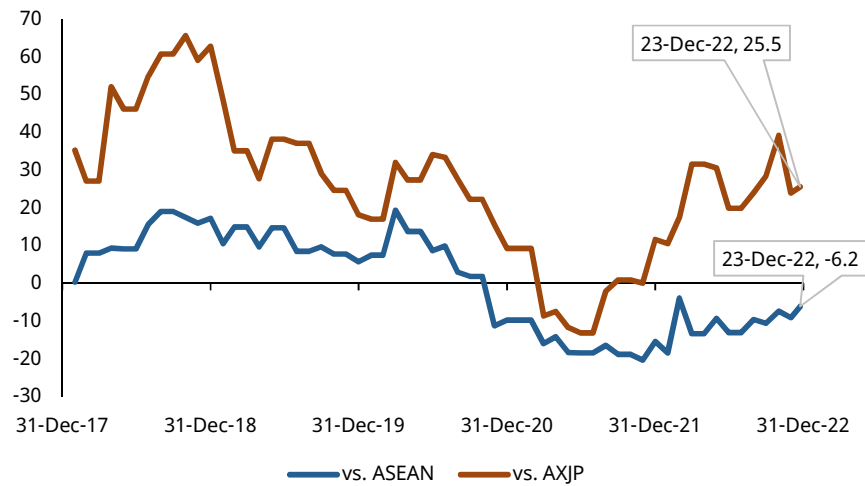


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

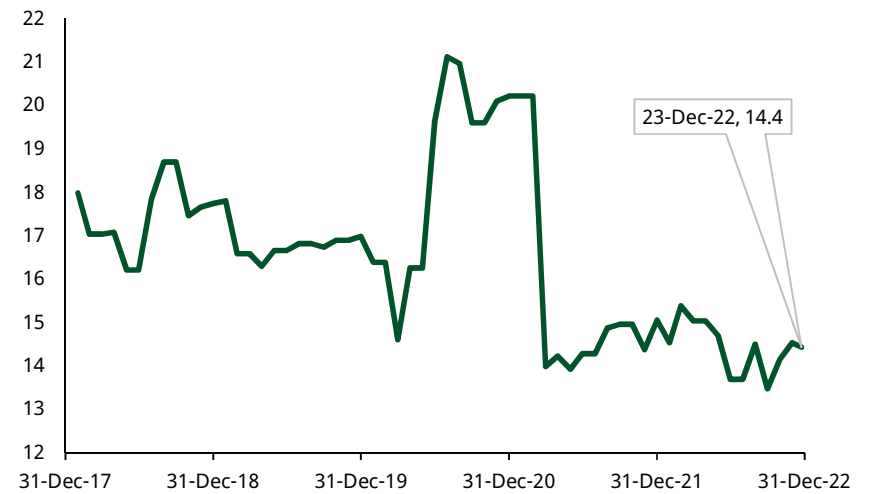


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

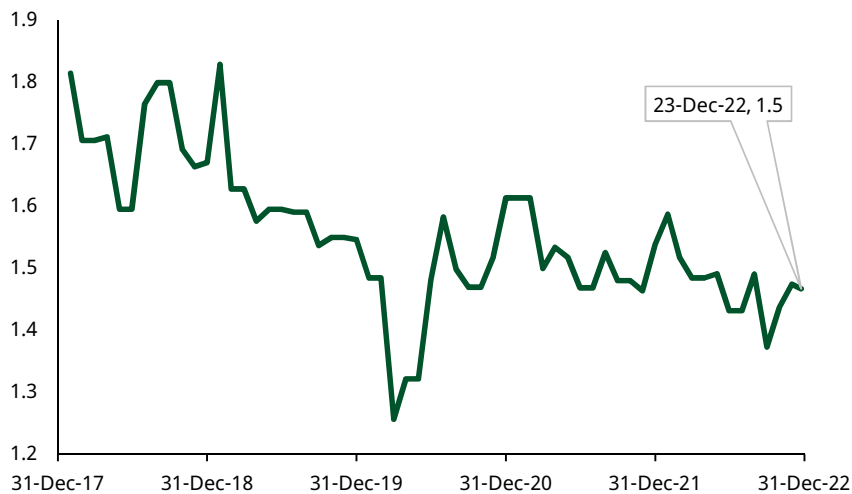
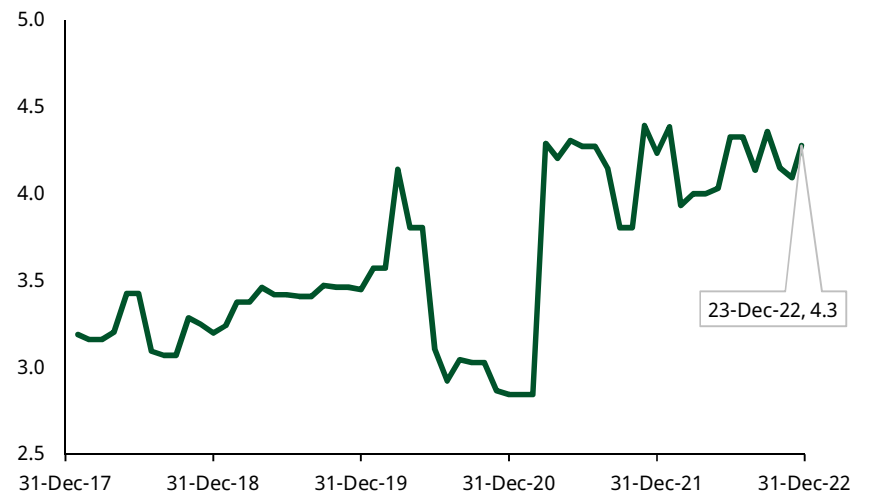


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

North Asian tech and markets fell on Micron news

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

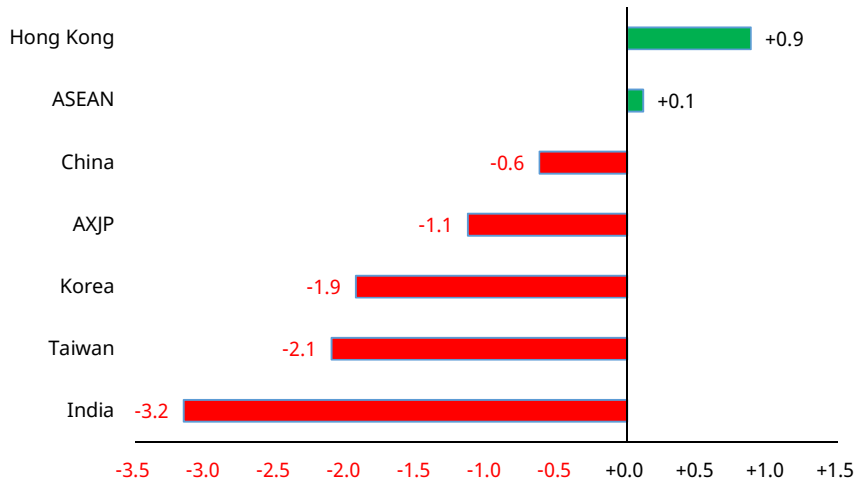


Exhibit 2: Country Performances Year-to-Date (%)

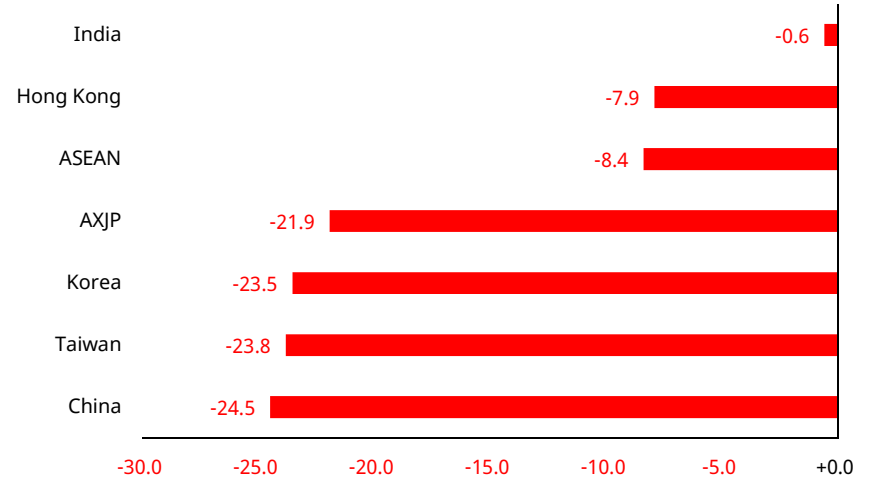


Exhibit 3: Sector Performances Week-to-Date (%)

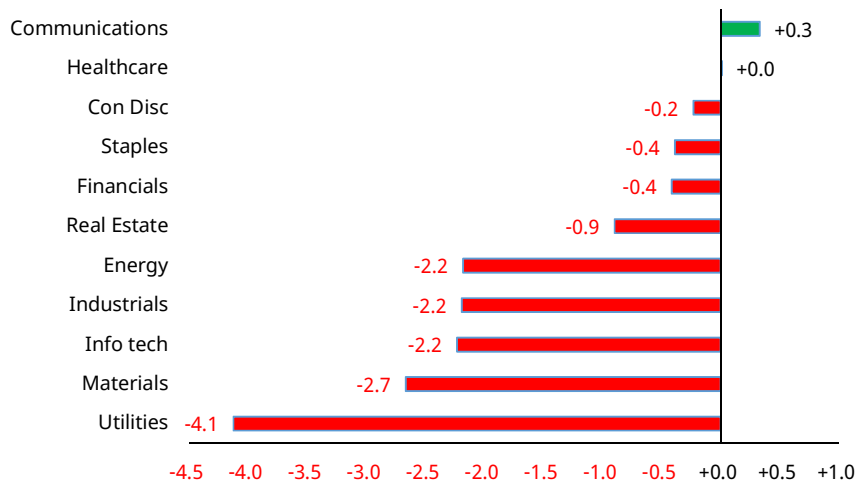
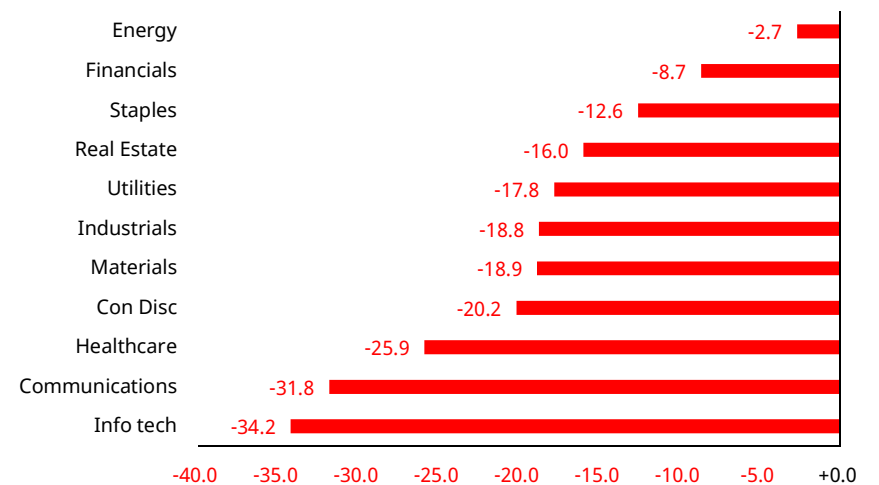


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Asian valuations remain attractive

Exhibit 5: Regional Price-Earnings Ratio (x)

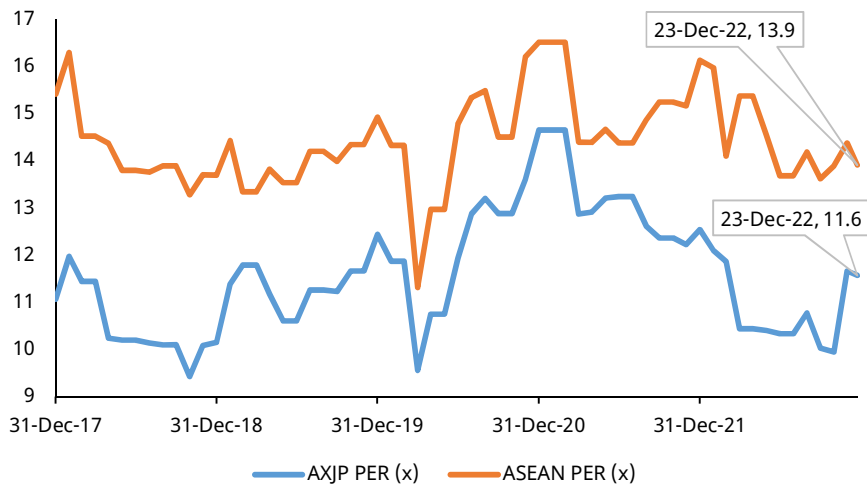


Exhibit 6: Regional Price-to-Book Ratio (x)

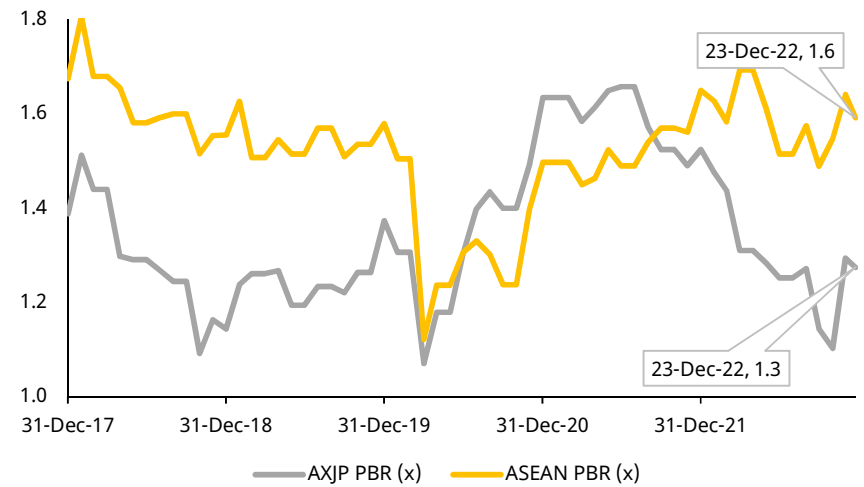


Exhibit 7: Regional Dividend Yield (%)

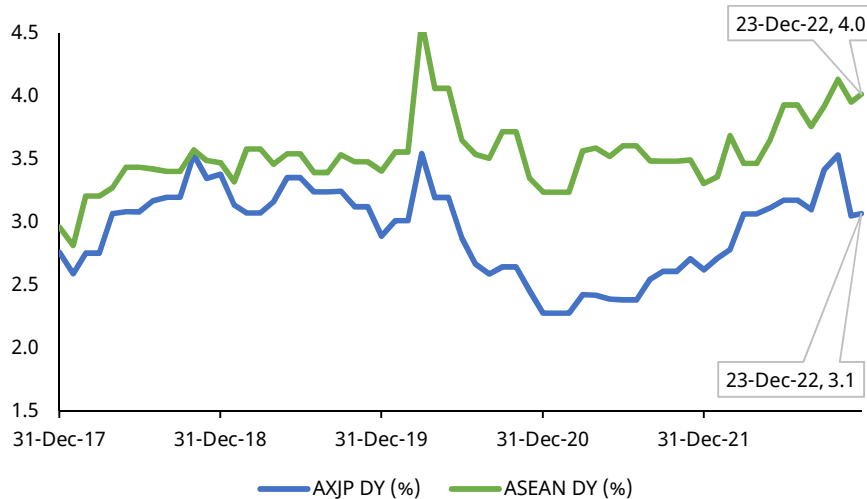
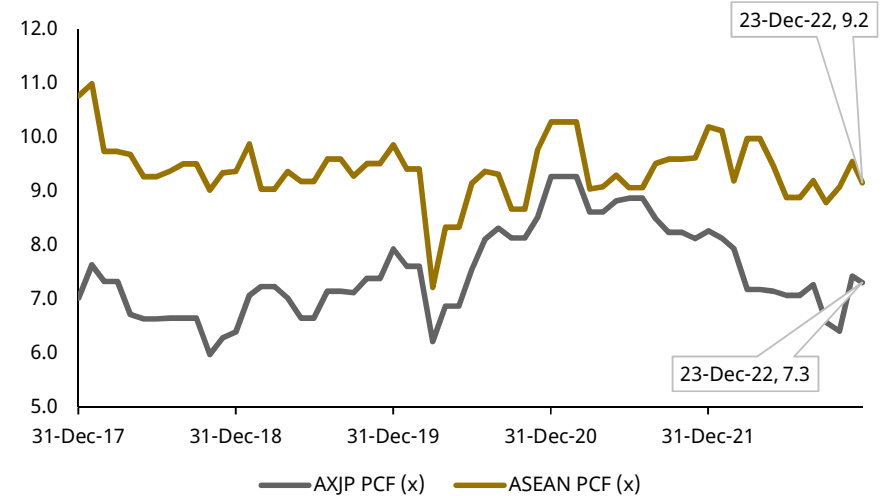


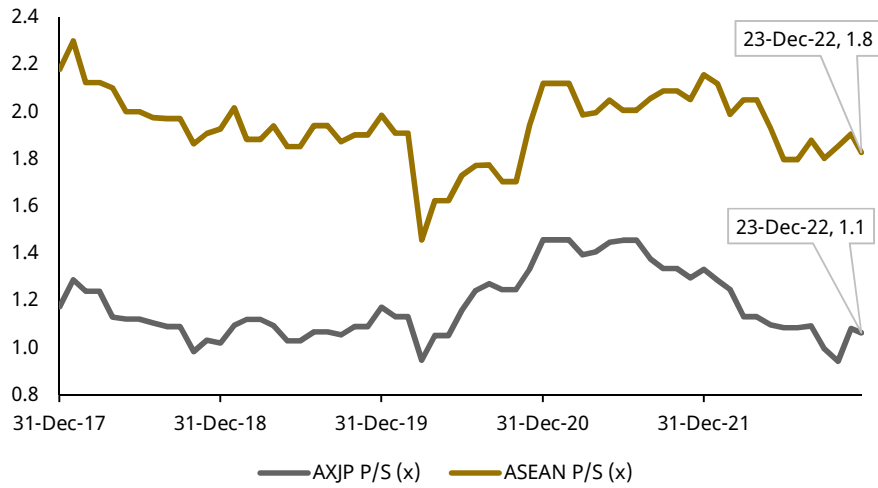
Exhibit 8: Regional Price-to-Cash Flow (x)



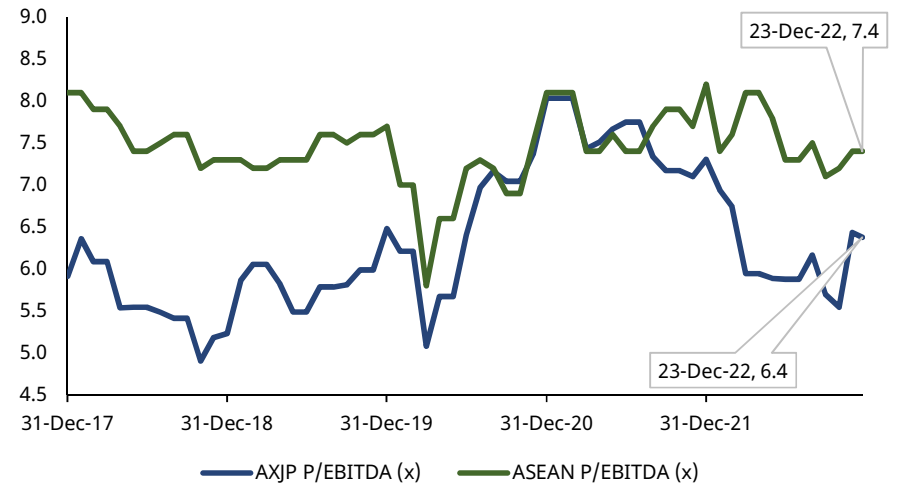
REGIONAL VALUATIONS

Asian valuations remain attractive

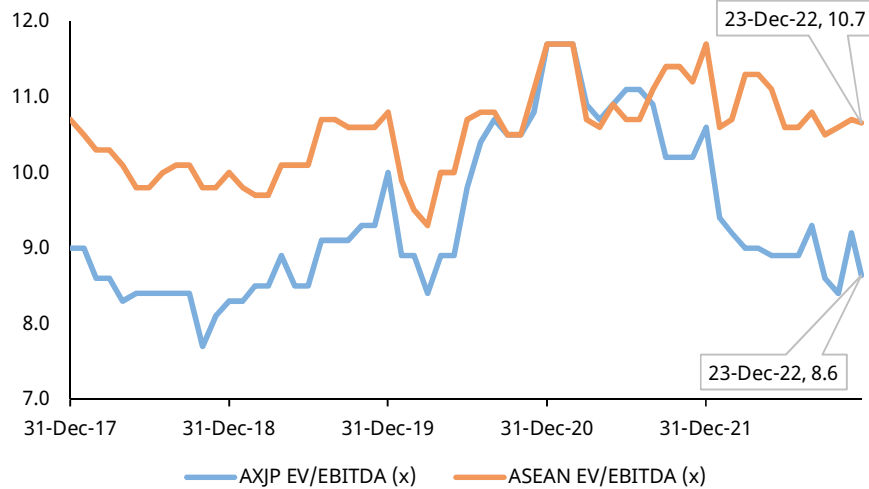
Regional Price-to-Sales Ratio (x)



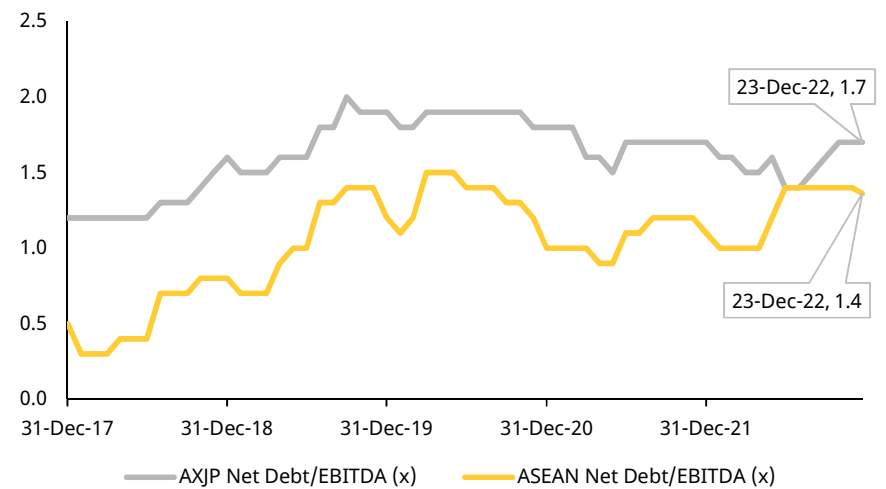
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



Source: Bloomberg

FOREIGN FUND FLOWS

We see rotation from ASEAN to the North Asian markets

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

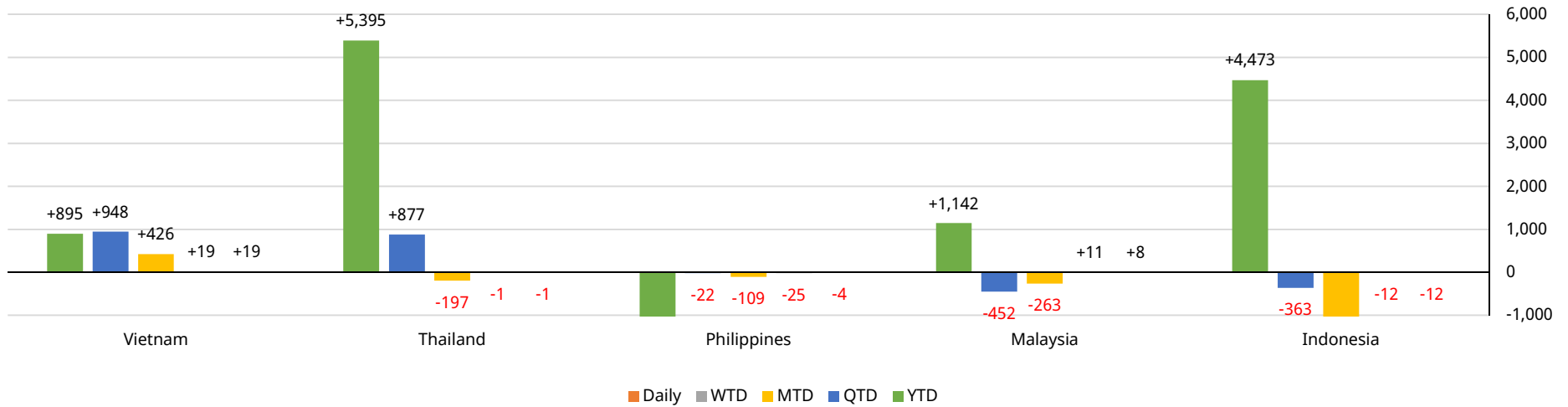
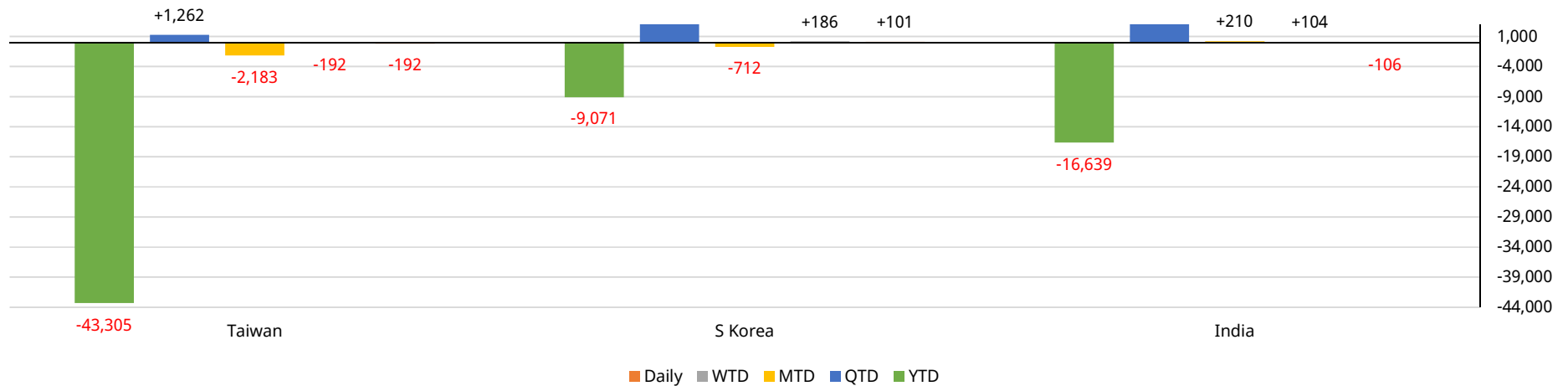


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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