

# Portfolio Managers' Views

  
**7 February 2023**  
FUND MANAGEMENT DEPARTMENT

# MALAYSIA & REGIONAL

## The Week in Review (27 Jan - 3 Feb 2023) & Our Managers' Views

- 1 Buy Steel on cheaper coal and China reopening:** Although China resumed coal imports from Australia, coal prices fell from \$358/t to \$247/t after China, the world's largest coal importer, reported record-high stockpiles. We believe this news benefits steel producers because coal is the primary cost component. In addition, higher steel prices (riding on China's reopening) will expand profit margins of steel producers. We are currently invested in local steel producers.
- 2 Reiterate to Buy Tech on Weakness:** At a technology event, a foreign research house highlighted the relocation of outsourced semiconductor assembly and testing (OSAT) businesses from China and into South East Asian ("SEA") countries, including Malaysia for diversification purposes. We see this as a positive structural driver for Malaysia's tech sector and reiterate our view to re-enter the sector once upcoming poor earnings are announced (see "Idea of the Week").
- 3 Stay invested in high dividend yield banks:** According to Bank Negara Malaysia, the gross impaired loan ratio for Dec 2022 decreased for the fifth consecutive month to 1.72%. As such, we believe banks will write back their lumpy loan loss provisions to support their earnings. In addition, the removal of prosperity tax, lower valuation losses from bond holdings, and further expansion in net interest margin will support banks' earnings in 2023. We favour banks with higher dividend payout ratios.
- 4 Positive on China reopening and consumer discretionary:** China's manufacturing Purchasing Managers Index (PMI) hit 50.1 in Jan-23, the first expansionary mode in four months. Given that the Services PMI was higher at 54.4, versus 41.6 in Dec-22, our preferred focus in China is in consumer discretionary, after China said it will promote consumption as a key driver of an economy facing headwinds from slumping export demand.
- 5 US raised rates by 25 bps:** Although last week's rate hike was smaller (it was 50 bps in Dec-22 and 75 bps in Nov-22), the US 10-year Treasury yield rose 41 bps to 3.525% after unexpectedly strong US data on hiring and wages. As peak US inflation is already behind us, we believe US rates will top the 5.000% level in six months' time as implied by the futures market. We see this coinciding with our positive view on the tech sector (item 2 above) which benefits from peak/lower interest rates.
- 6 Valuation:** KLCI valuation remains flat WoW. We maintain our view that the KLCI continues to remain cheap at a 2023 price-earnings ratio ("PER") of 14.6x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields are also attractive at 1.4x (below the 5Y average of 1.55x) and 4.1% (above its 5Y average of 3.6%).

# IDEA OF THE WEEK

## Tech: Accumulate on Weakness as Semiconductor Downturn Bottoms

### 1 Semiconductor Sales Cycle is Nearing Bottom

Based on our studies of the last six semiconductor downturns (declining YoY rate of change), the current downturn began in July-21.

We are currently in the 18th month of the downturn as at Jan-23. Downturns range between 9-28 months, or 19 months on average.

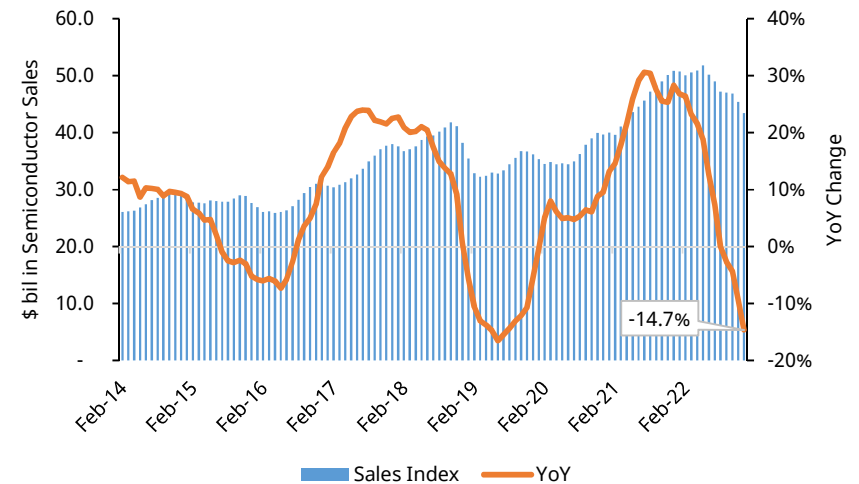
Assuming that we are in an average downturn phase, we believe the industry is nearing the bottom of the current downturn.

### 2 Buy on Weak Reported Earnings

Based on our 10-year study, we found that tech share prices bottom when they announce weak earnings, but show signs of improvement in the following quarters. For illustration, we have included a study on a sample Malaysian tech stock price and its quarterly earnings ("Company X").

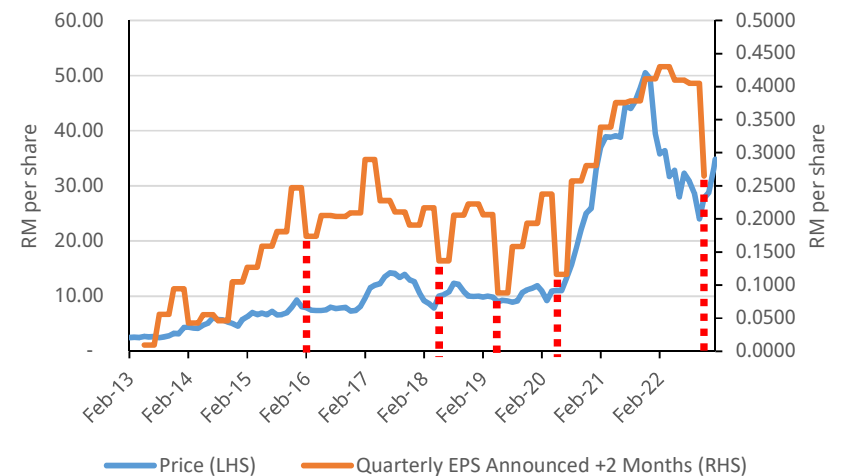
We expect tech earnings to remain weak for 4Q22 and perhaps 1Q23. However, we will look to accumulate if share prices weaken as we expect that the sector will resume growth in 2024.

Semiconductor Sales Index & YoY Trend - Reaching the Bottom of the Cycle



Source: Bloomberg, Astute FM Analysis

Co. X Share Price and Quarterly EPS - Trends Lower Upon Poor Earnings Release



Source: Bloomberg, Astute FM Analysis

# MALAYSIA MARKET REVIEW

Tech & REIT outperformed as Malaysian government bond yields fell

Exhibit 1: KLCI vs Shariah Index

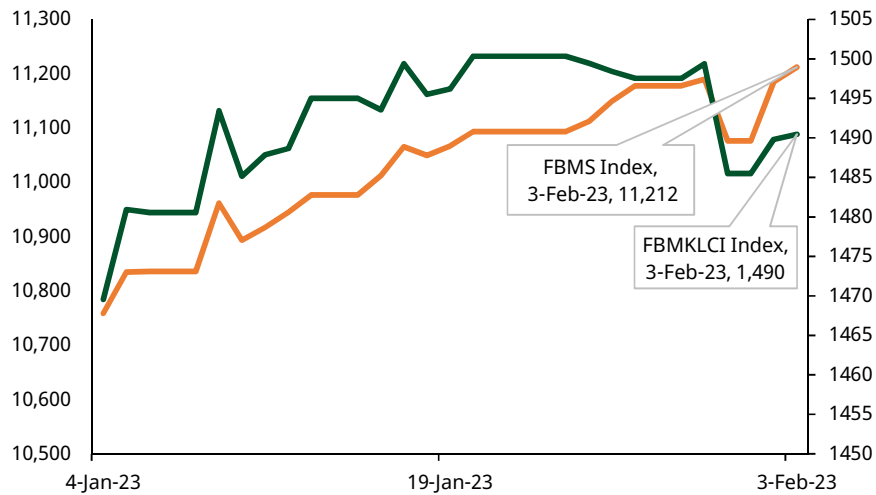


Exhibit 2: USDMYR

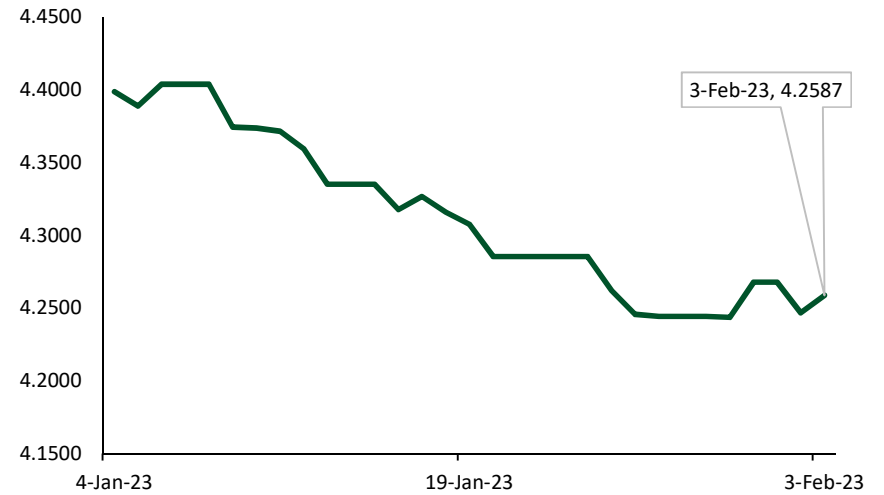


Exhibit 3: Sector Performances Week-to-Date (%)

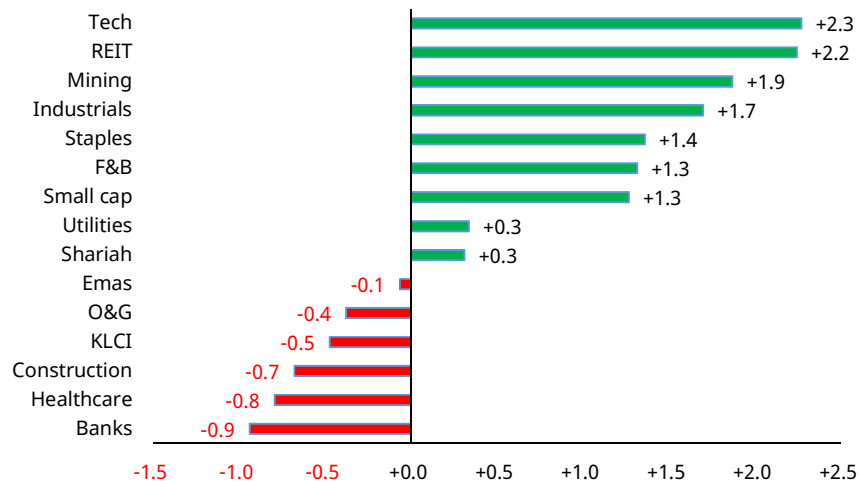
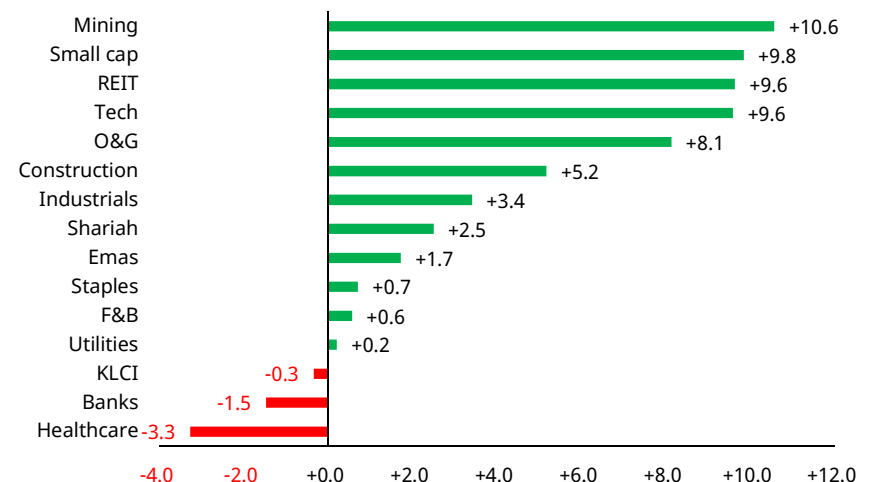


Exhibit 4: Sector Performances Year-to-Date (%)



# MALAYSIA VALUATIONS

## Malaysia remains in BUY territory

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

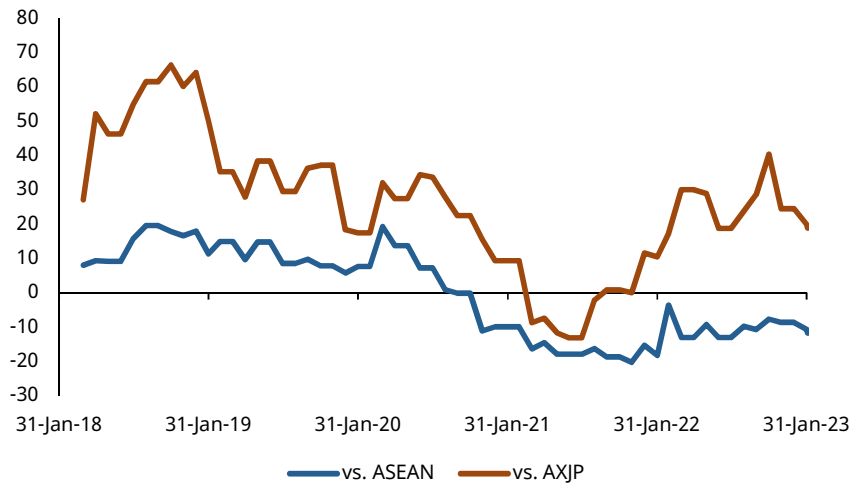


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

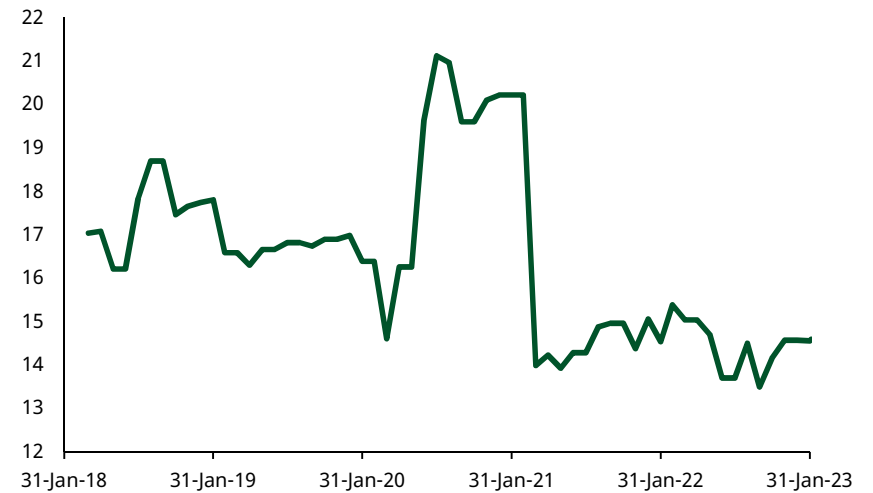


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

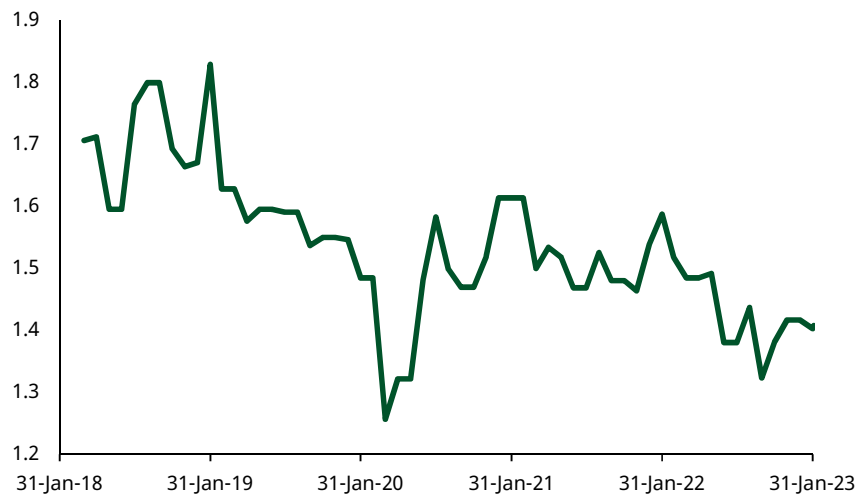
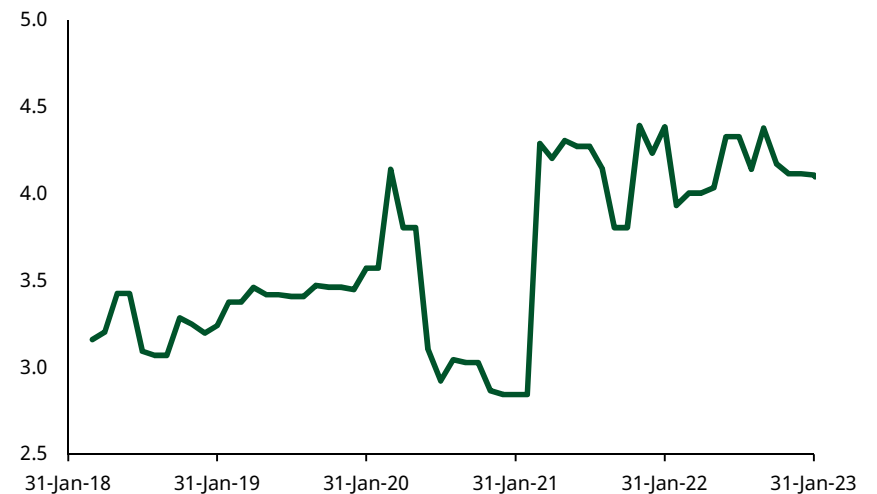


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

# REGIONAL MARKETS REVIEW

Taiwan benefited from the slower pace of US rate hike

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

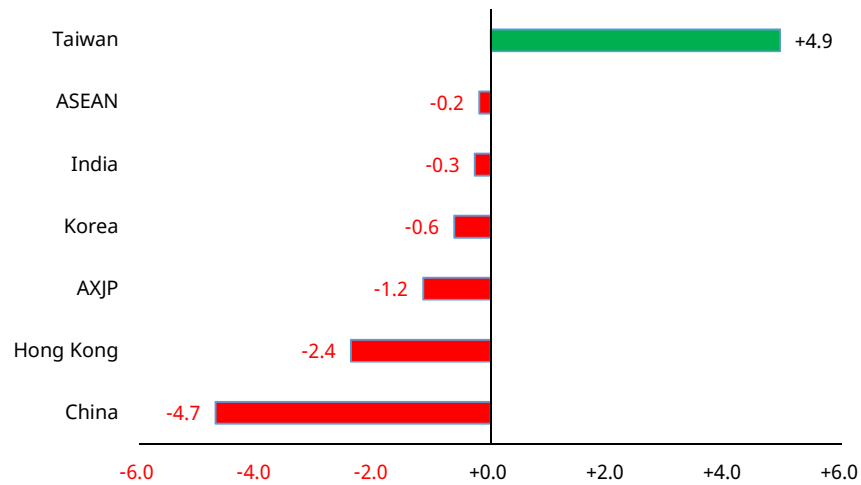


Exhibit 2: Country Performances Year-to-Date (%)

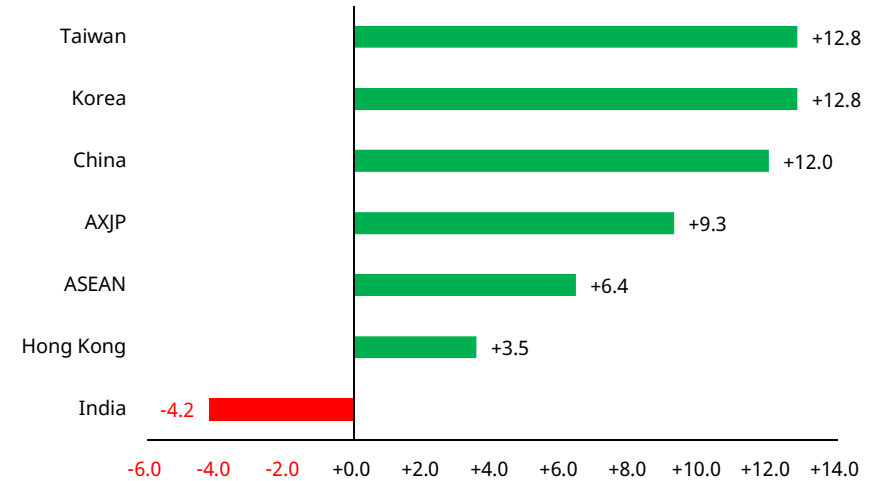


Exhibit 3: Sector Performances Week-to-Date (%)

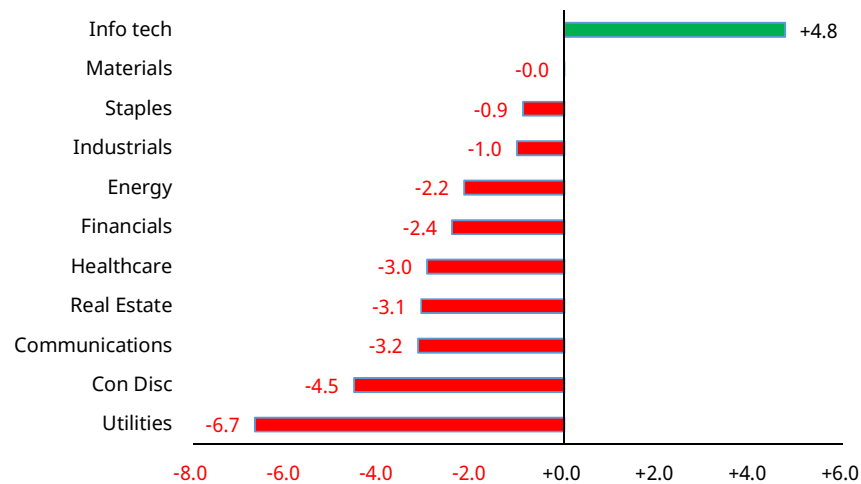
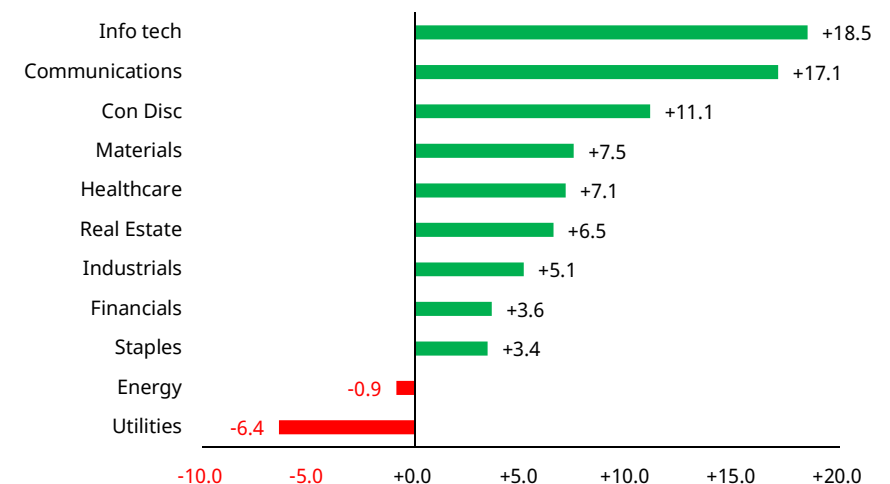


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

# REGIONAL VALUATIONS

Asian valuations remain attractive despite the recent rally

Exhibit 5: Regional Price-Earnings Ratio (x)

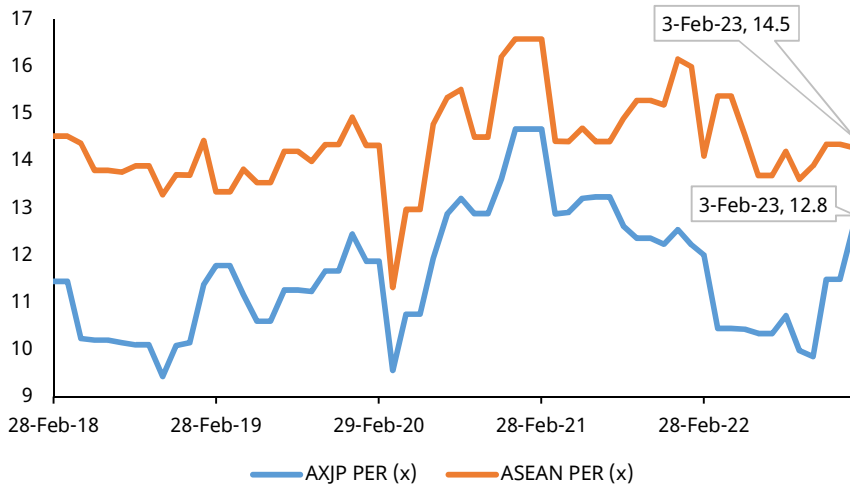


Exhibit 6: Regional Price-to-Book Ratio (x)

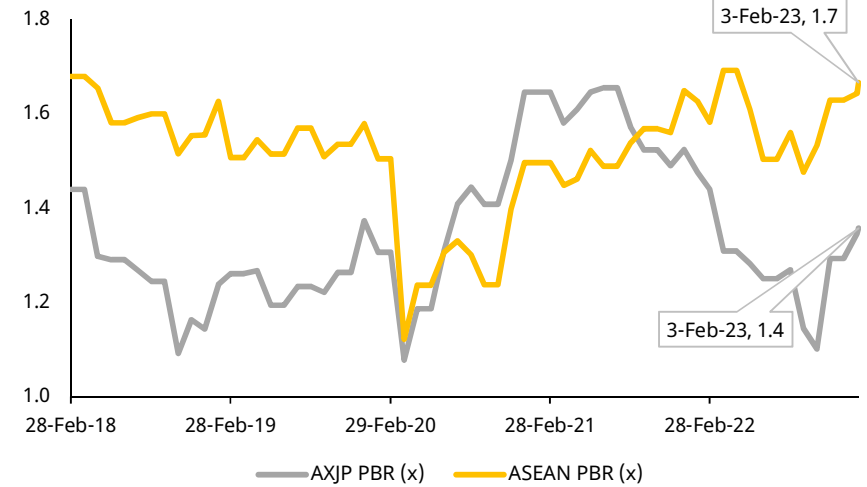


Exhibit 7: Regional Dividend Yield (%)

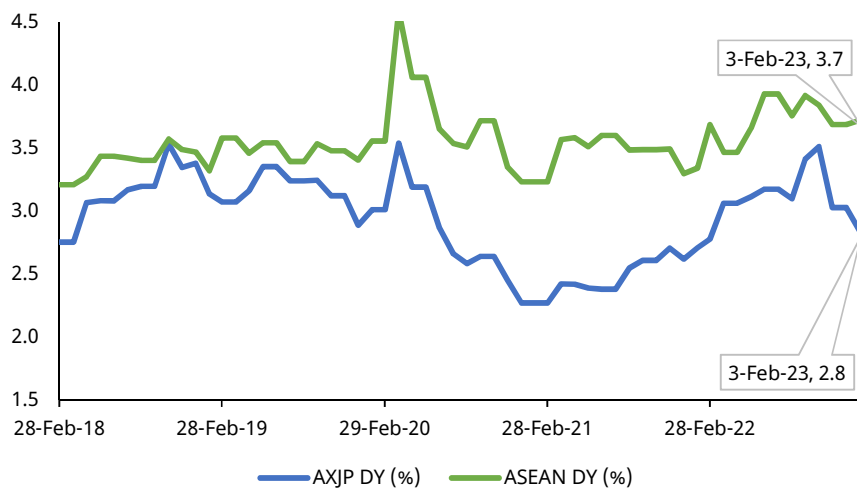
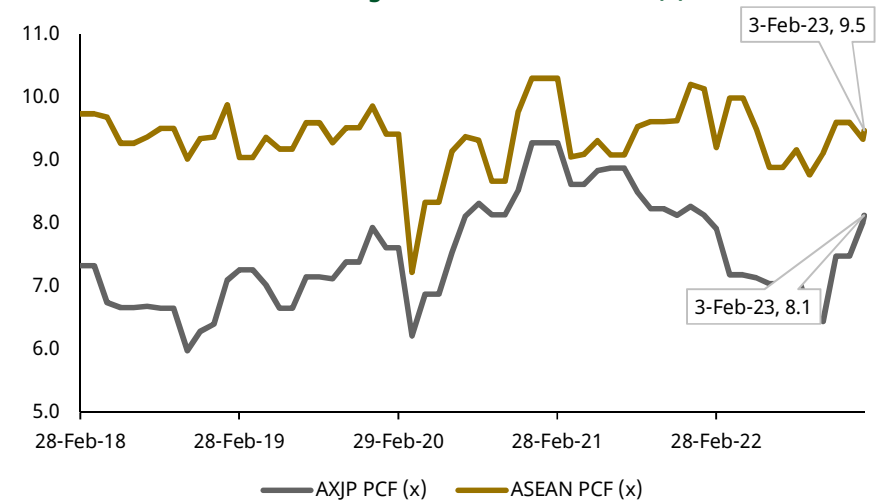


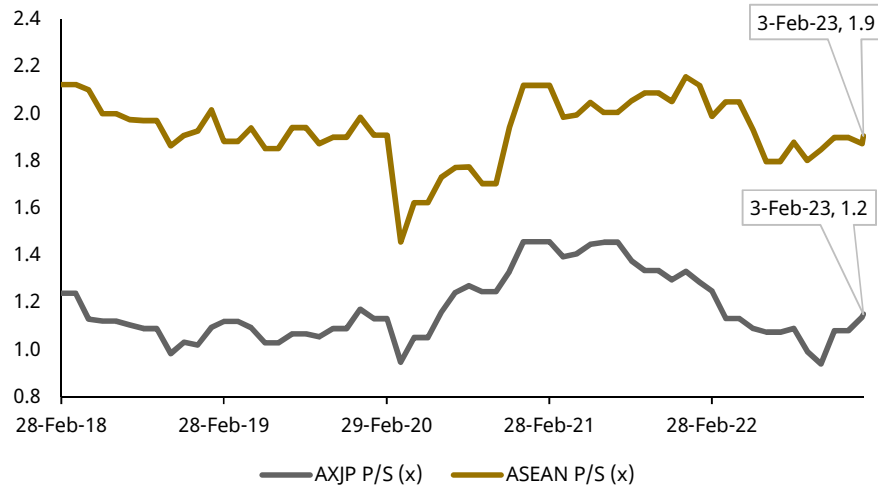
Exhibit 8: Regional Price-to-Cash Flow (x)



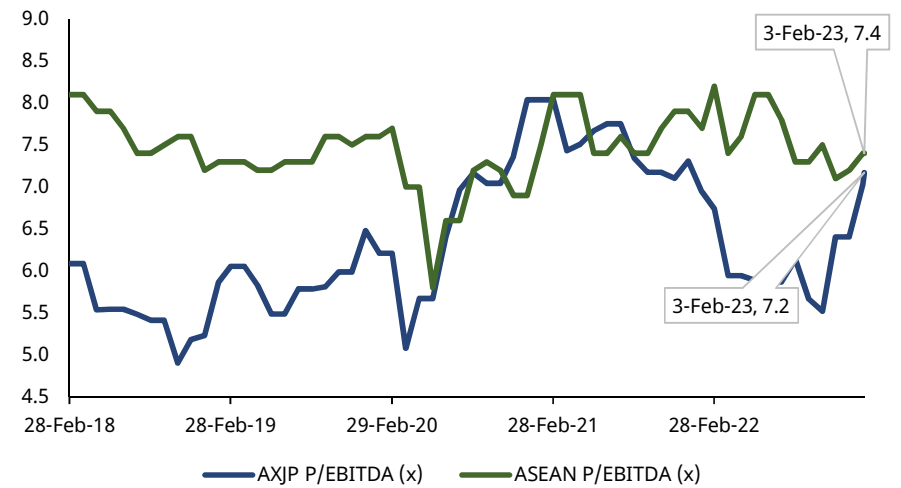
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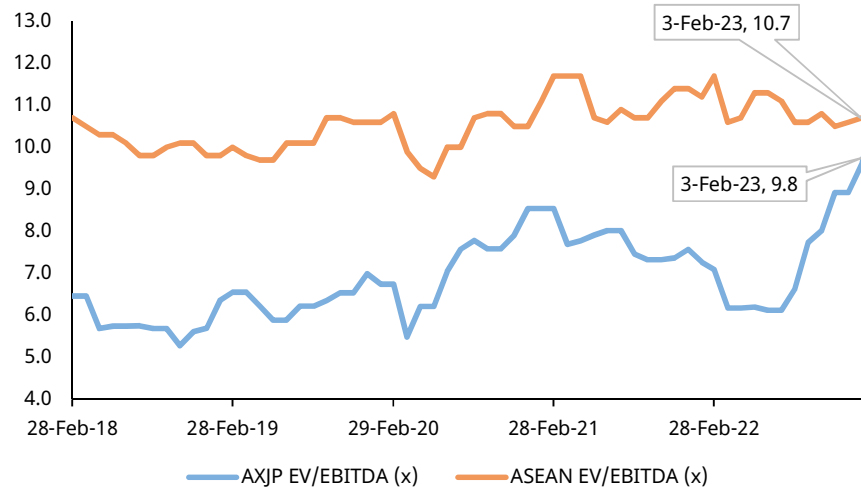
Regional Price-to-Sales Ratio (x)



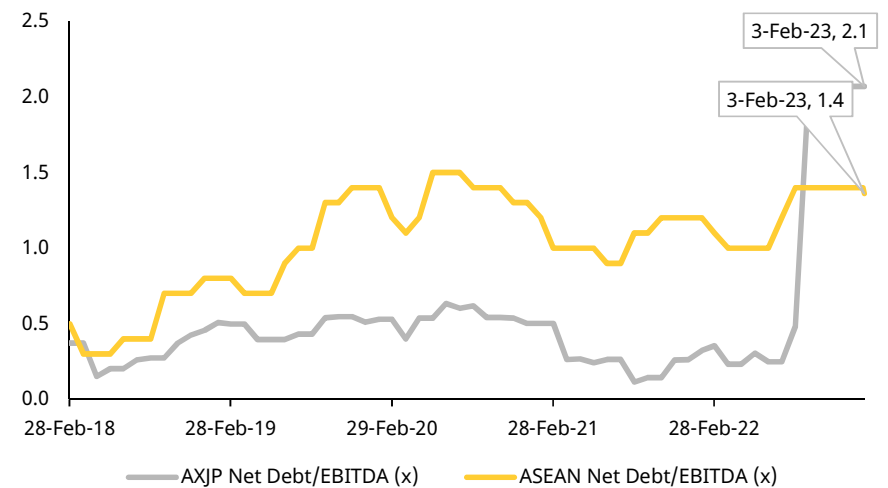
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)





# FOREIGN FUND FLOWS

Foreign funds have turned net buys of tech-heavy markets in North Asia

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

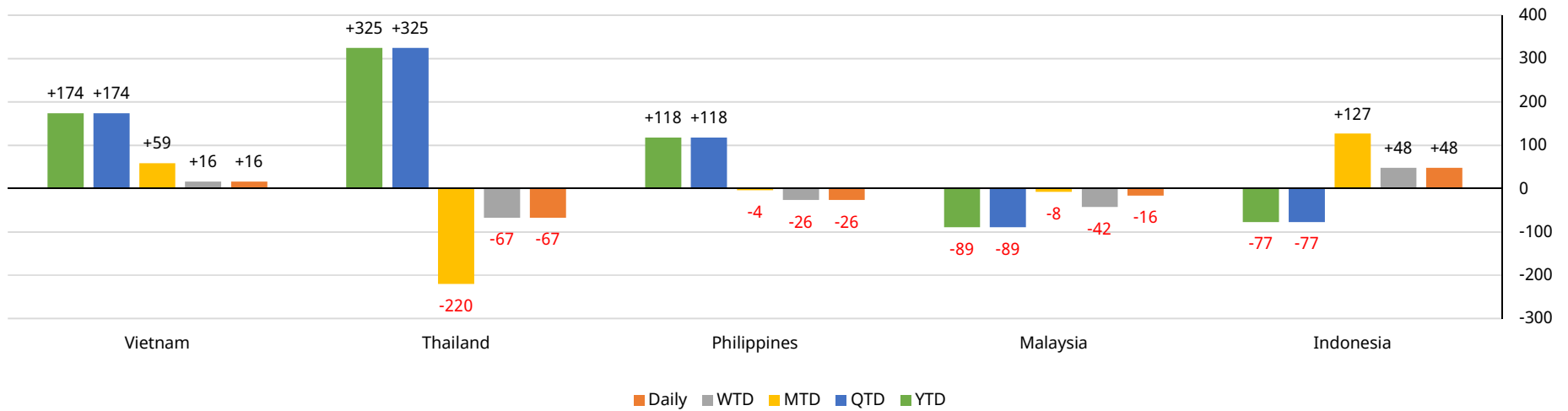
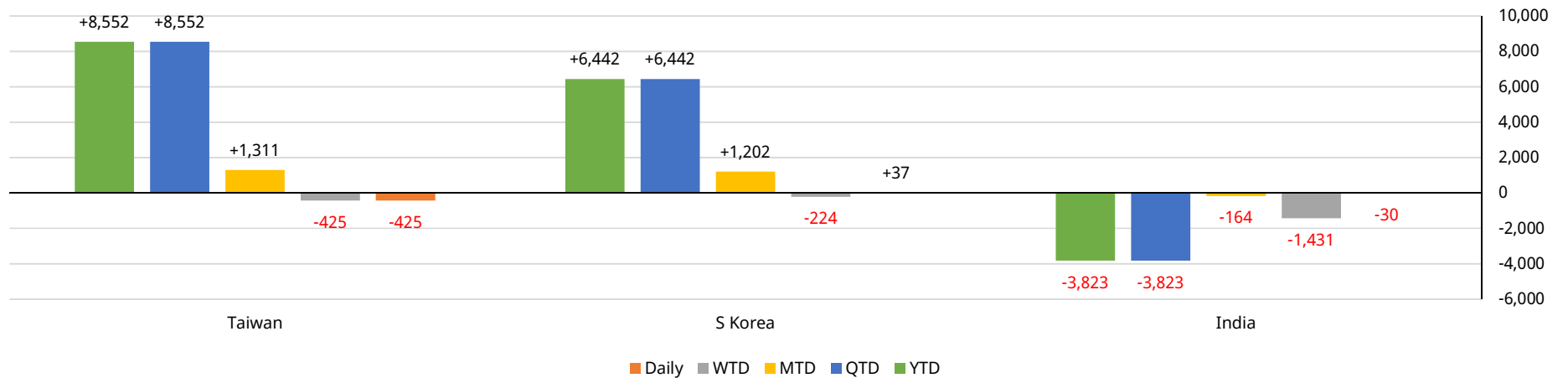


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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