Astute
Fund Management

Portfolio Managers' Views

08 May 2023
FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL
The Week in Review (1 - 5 May 2023) & Our Managers' Views

1. **Rates surprised, Remain Invested in Banks:** Bank Negara Malaysia (BNM) surprised markets by raising the Overnight Policy Rate (OPR) by 25bps to 3%. This is positive for banks as they are able to charge higher interests on oustanding loans. March's gross impaired loans also remained stable, which means that the probability of loan defaults did not rise. These are positives for banks, and we remain invested in those that offer high dividend yields.

2. **Strong China Travel Data, Buy Travel Proxies:** According to Trip.com, bookings for domestic travel increased by 7x YoY during China's five-day Labour Day holiday. Similarly, ForwardKeys reported overseas travel bookings rose to 50% of pre-Covid level. We expect travel demand to rise further into the year, especially during China's National Day holiday in October. Thus, we are invested in airport, ticketing system, resorts and online travel agency that benefits from tourism pickup.

3. **Weak Q1 Tech Earnings Expected, Buy on Weakness:** Most tech companies are reporting lower earnings QoQ and YoY due to seasonal factors and the industry downcycle respectively. Generally, companies suffered from inventory destocking, lower sales demand, a shorter working month (Feb) and/or higher utility costs. They expect the 1H to remain weak and we think this will similarly impact other tech companies that have yet to release their results.

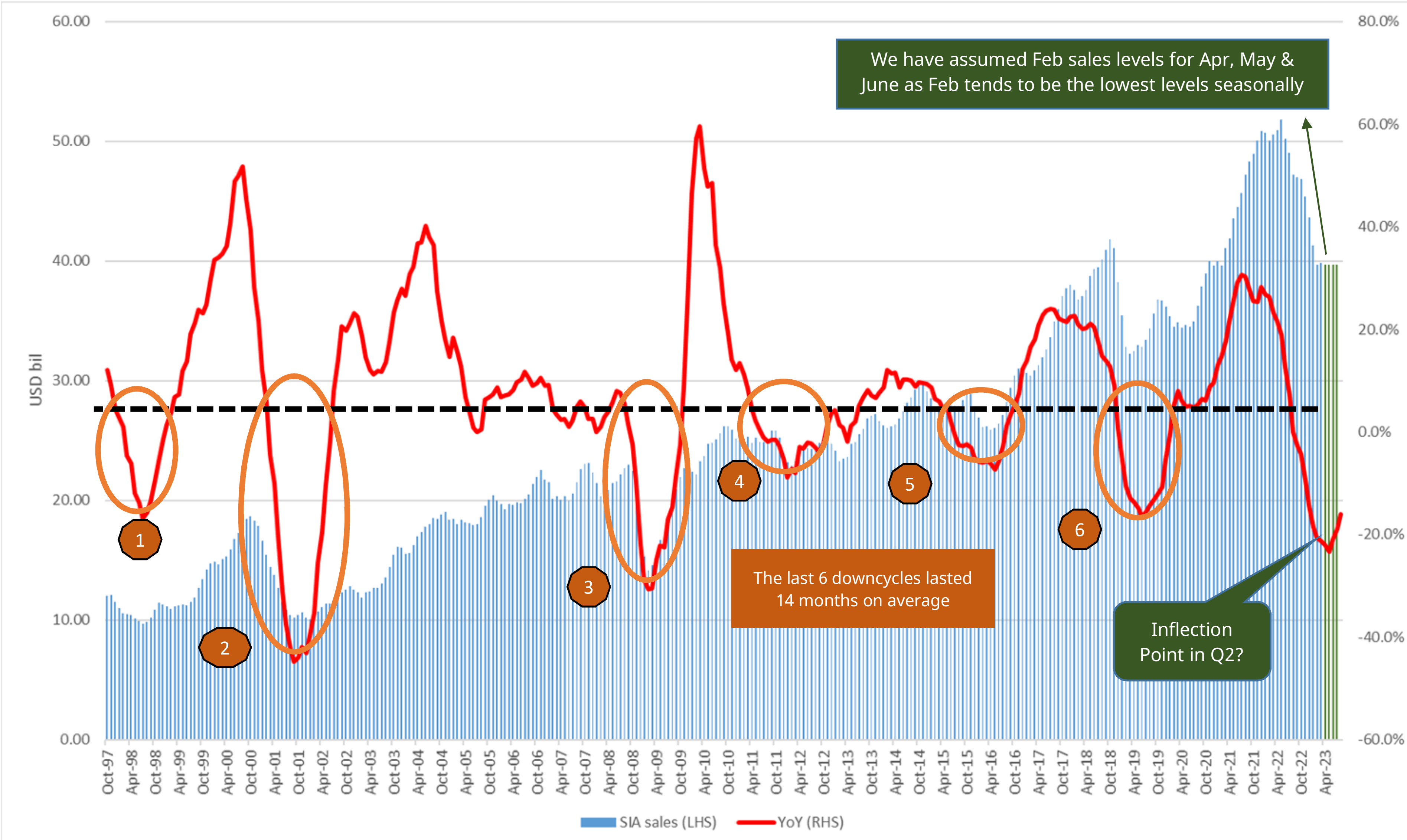
4. **Potential Tech Recovery in 2Q / 2H:** Despite the weak tech earnings, we gathered green shoots and believe earnings will improve sequentially as the year progresses (see Thought of the Week). Anecdotally, this was supported by the management of some companies such as Frontken and Unisem that see sequential improvements in 2Q, based on the monthly trend of sales/volumes. Therefore, we reiterate our view that we look to buy tech on weakness as valuations start to turn attractive.

5. **Strong Indicators in Singapore Hospitality Sector is Positive for Regional Resorts Play**. Singapore's CDL Hospitality and Far East Hospitality real estate investment trust (REIT) both reported strong 1Q23 revenue growth, driven by rising occupancy and room rates as travel resumed after COVID restrictions were relaxed. This bodes well for other ASEAN players that we are invested in, such as YTL Hospitality, Genting Singapore and Genting Malaysia.

6. **Valuations:** KLCI valuations are trading at very attractive levels. For instance, its 2023 price-earnings ratio ("PER") of 13.2x is well below the bottom of its 12-year range of approximately 15x PER. Similarly, its dividend yields are trading at 4.5%, above its 10-year high of 4.3% seen in 1Q of 2021. Price-to-book ratios are also attractive at 1.3x, which are levels last seen only during the market bottom for Covid in Mar-20. Hence, we are optimistic for the prospects of the Malaysian markets moving forward.

1.1 THOUGHT OF THE WEEK

Tech Recovery In Sight? We are in the 8th Month of the Downcycle (Average: 14 months)



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1.1 THOUGHT OF THE WEEK

We Think Q2 Will Be the Downcycle's Bottom & We Look to Buy on Weakness

Averages from the last 6 downcycles point towards a bottoming in Q2

Declining YoY rate of Change (Slowdown)

	Peak	Trough	Months
	31/8/1997	31/8/1998	12
	30/6/2000	31/10/2001	16
	30/6/2008	31/3/2009	9
	31/3/2010	29/2/2012	23
	28/2/2014	30/6/2016	28
	31/7/2017	31/7/2019	24
		Average	**19**
Latest Data	31/7/2021	31/3/2023	20
Forecasted end	31/7/2021	**28/2/2023**	**19**

We have exceeded the normal average duration of a declining YoY sales trend - Overdue for a <u>reversal</u>?

Absolute Monthly Sales (Peak to Trough)

Peak	Trough	Months	% chg
30/11/1997	31/7/1998	8	-20.1%
31/10/2000	28/2/2002	16	-46.2%
30/9/2008	28/2/2009	5	-39.0%
31/10/2010	29/2/2012	16	-12.5%
30/11/2014	30/5/2016	18	-12.5%
31/10/2018	31/5/2019	7	-21.5%
	Average	**12**	**-25.3%**
31/5/2022	31/3/2023	10	-23.1%
31/5/2022	**31/5/2023**	**12**	NA

Absolute sales numbers typically <u>bottom</u> <u>on Feb / May</u>

Months in the Downcycle (-ve YoY)

Start	End	Months
28/2/1998	31/12/1998	10
28/2/2001	30/6/2002	16
30/9/2008	31/10/2009	13
30/6/2011	31/10/2012	16
30/6/2015	31/7/2016	13
31/12/2018	31/1/2020	13
	Average	**14**
31/7/2022	31/3/2023	8
31/7/2022	**30/9/2023**	**14**

Downcycle expected to end in Sep-23 but the <u>inflection point</u> may come earlier

Months Between YoY sales Bottom & KL Tech Index Bottom

Downcycle	YoY	KLTEC	Months
1	Jul-98	NA	
2	Oct-01	Oct-01	0
3	Mar-09	Apr-09	1
5	Apr-16	May-16	1
6*	Jun-19	Dec-18	-6
Current	*May-23?***	*May-23?***	0

* *Earlier turnaround may have been from bottom-fishing as valuations declined during the US-China trade war tensions*

** *Assuming Feb sales data was the lowest and used as expected sales numbers for Apr, May & June*

Key Takeaways

1. We are overdue for a reversal in YoY sales trend (based on historical average durations).

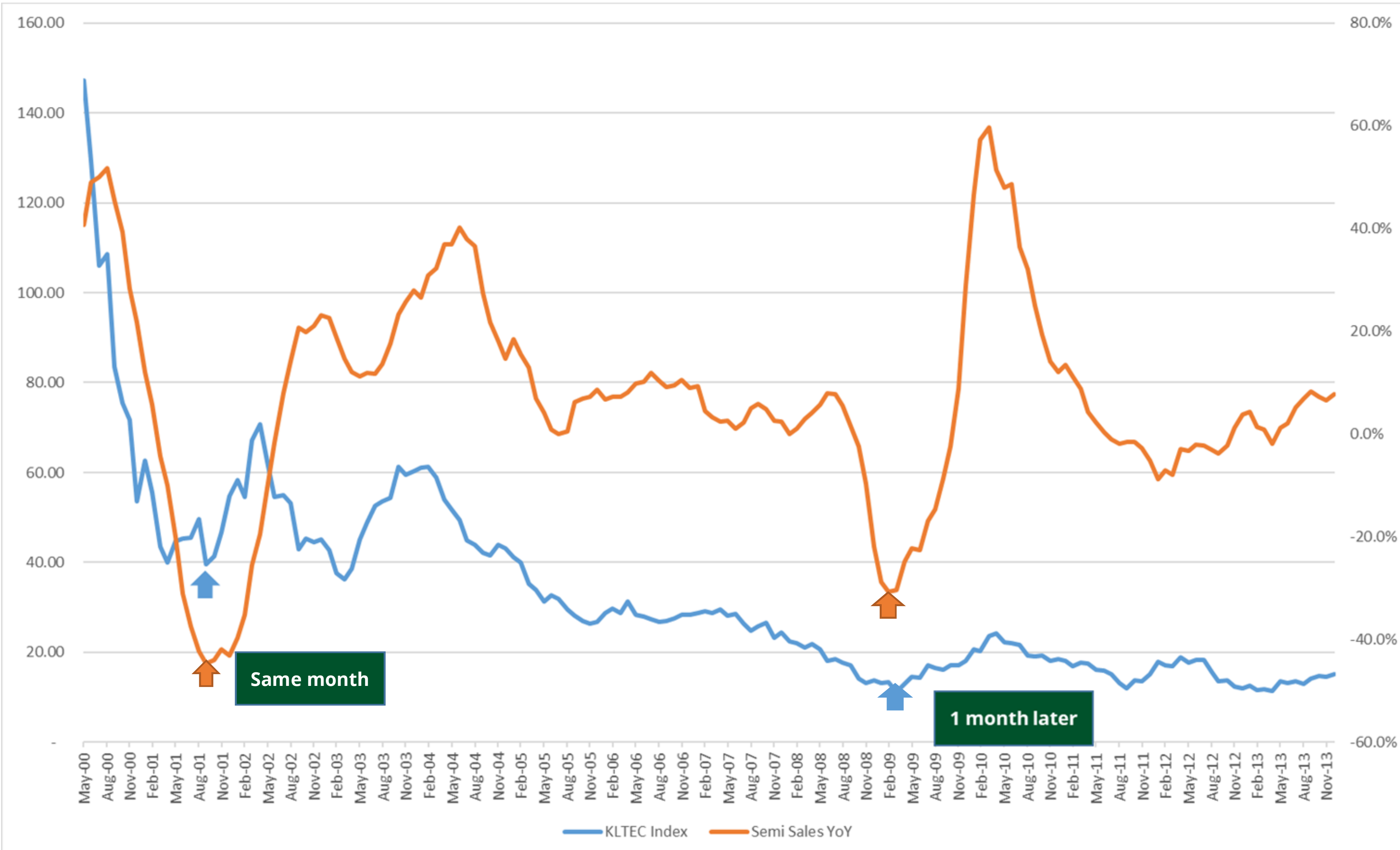
2. The bottom for absolute sales typically occur in either Feb or May. We think absolute sales had bottomed in Feb-23 and this is supported by anecdotes from some companies we cover.

3. Based on our study, we think that the downcycle will end in Sept-23 but we believe the inflection point of YoY sales is a better marker to look at (see charts on Page 4 and 5)

4. Based on our conservative forecast for Apr - June sales numbers (see chart on Page 2), we think the reversal may come in May and this forms our positive view on the sector.

1.1 THOUGHT OF THE WEEK

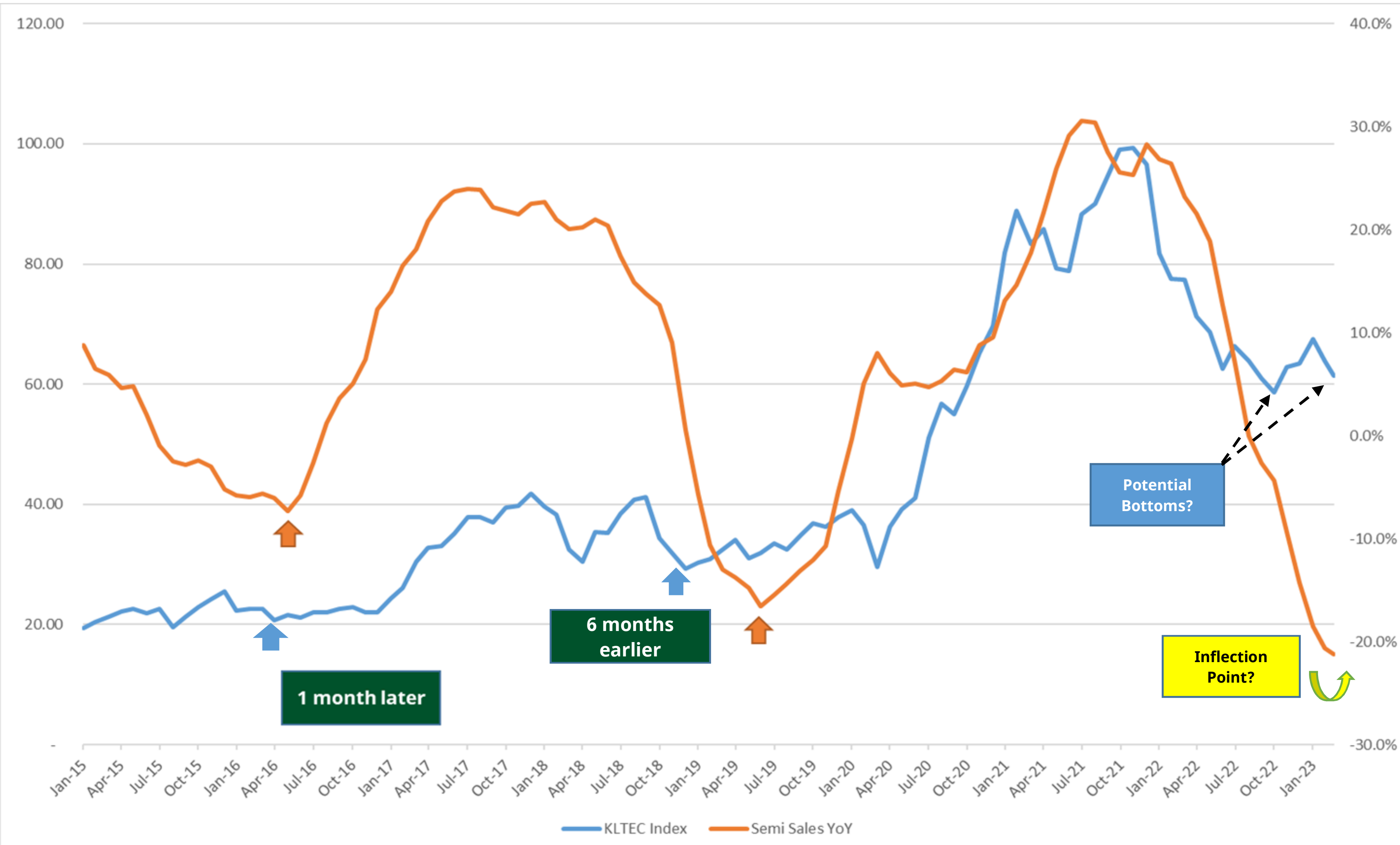
The reversal of YoY sales trend typically marks the bottom of the tech index



Source: Semiconductor Industry Association (SIA) & Bloomberg

1.1 THOUGHT OF THE WEEK

Assuming inflection point in May-23, tech sector should also bottom in May-23



Source: Semiconductor Industry Association (SIA) & Bloomberg

2.0 MALAYSIA MARKET REVIEW

Bursa Energy Index fell 2.3% WTD dragged by Dialog,Yinson and Bumi Armada.

Exhibit 1: KLCI vs Shariah Index

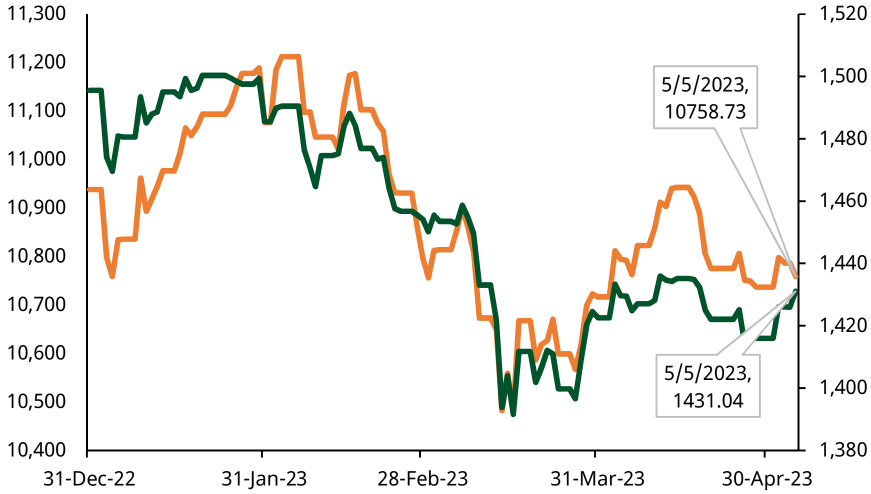


Exhibit 2: USDMYR

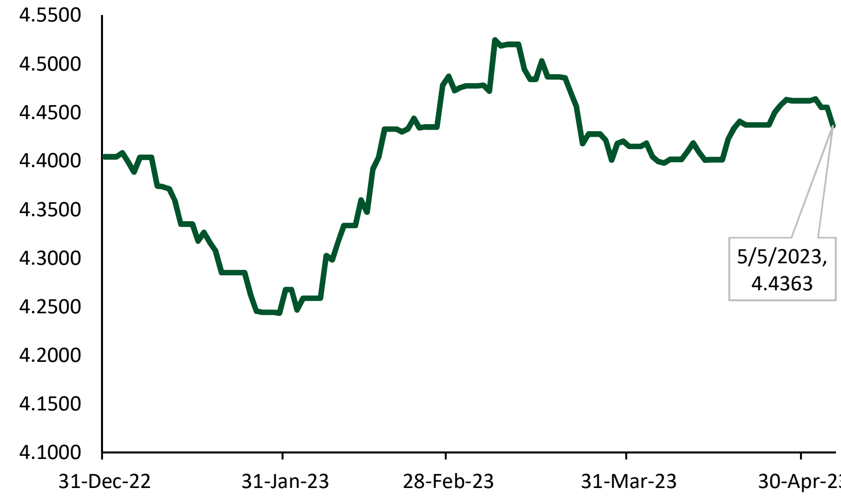


Exhibit 3: Sector Performances Week-to-Date (%)

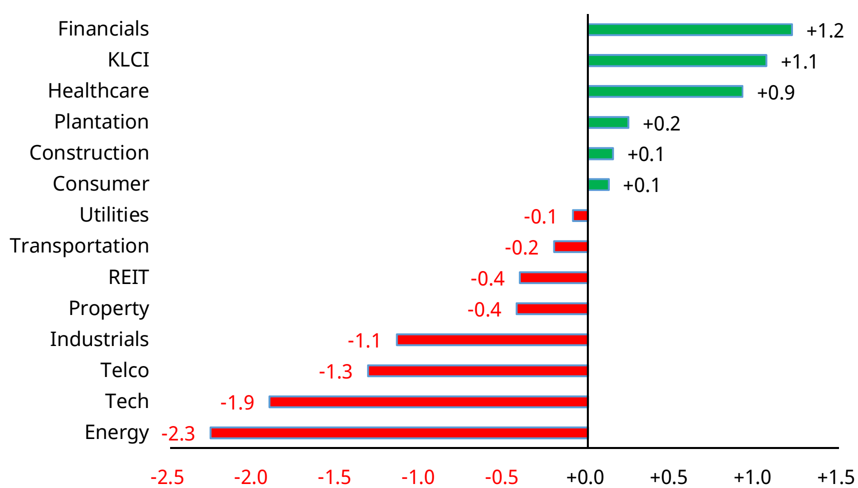
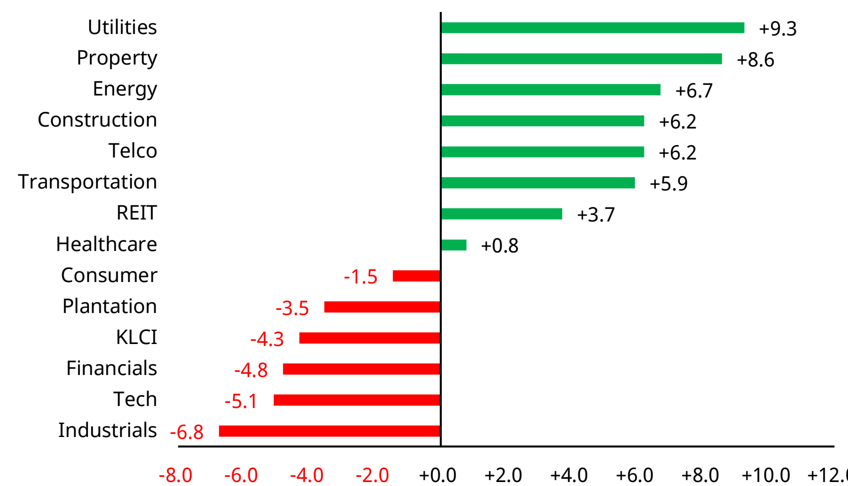


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

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2.1 MALAYSIA VALUATIONS

Valuations remain at Historical Bottoms - BUY Territory

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

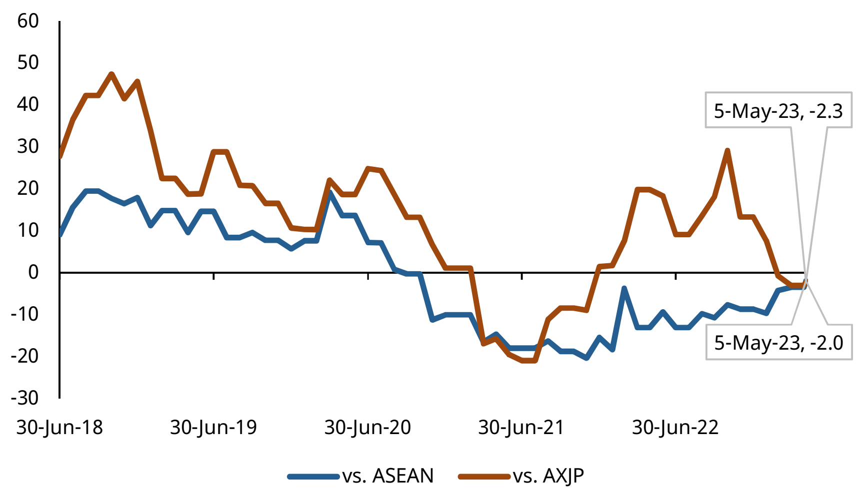


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

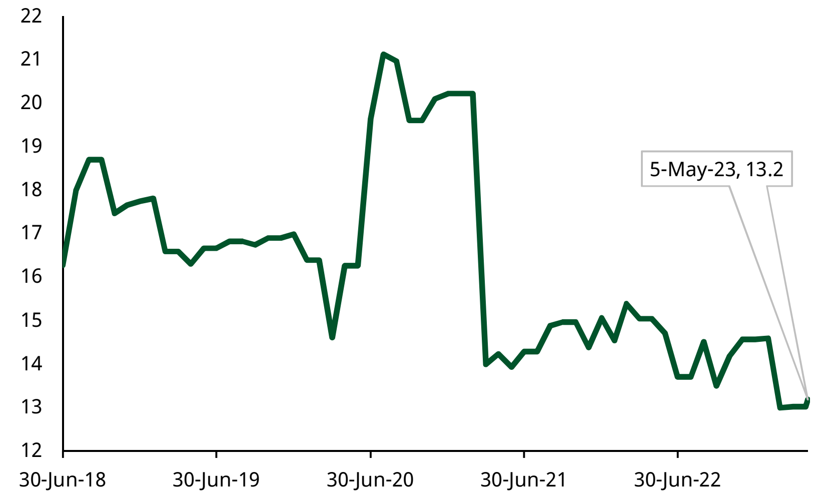


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

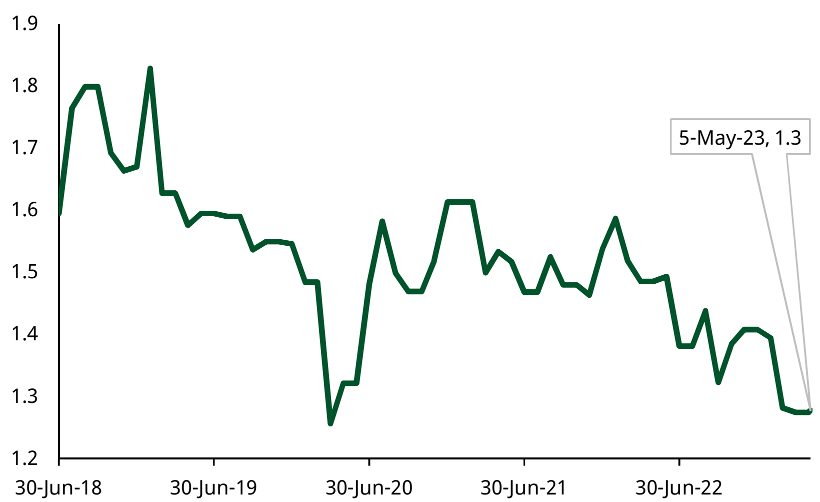
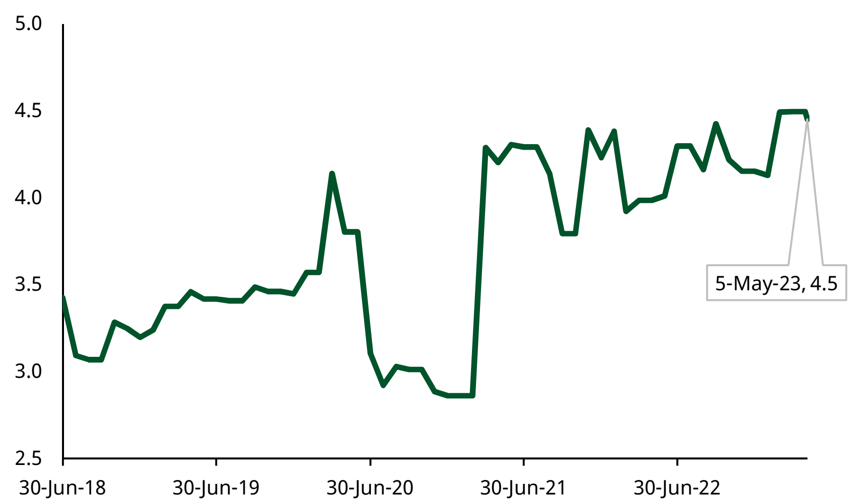


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

3.0 REGIONAL MARKETS REVIEW

Hong Kong market fell 1.3% WTD dragged by PetroChina and AIA Group.

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

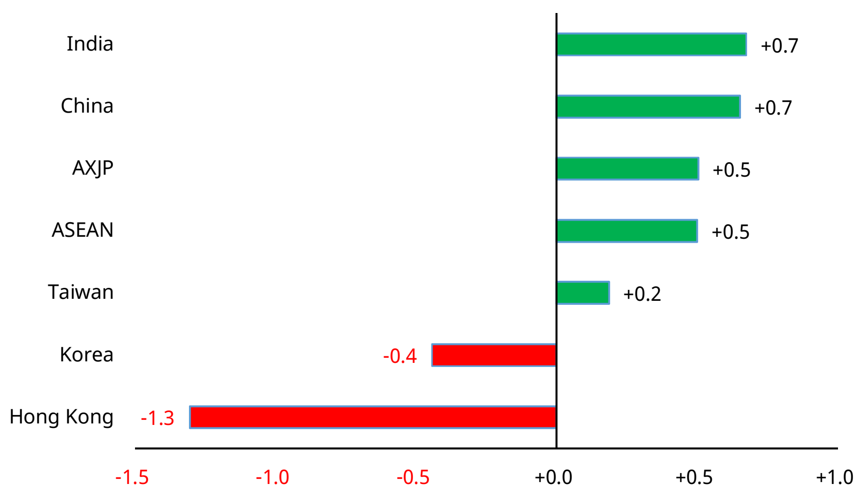


Exhibit 2: Country Performances Year-to-Date (%)

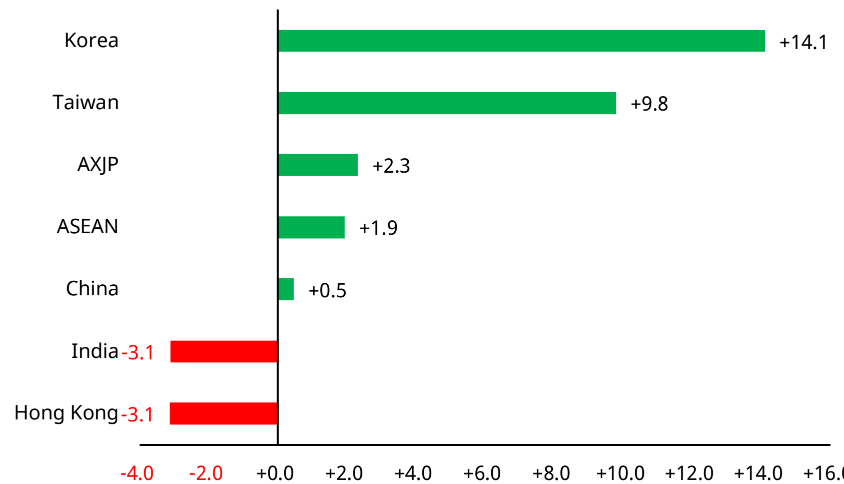


Exhibit 3: Sector Performances Week-to-Date (%)

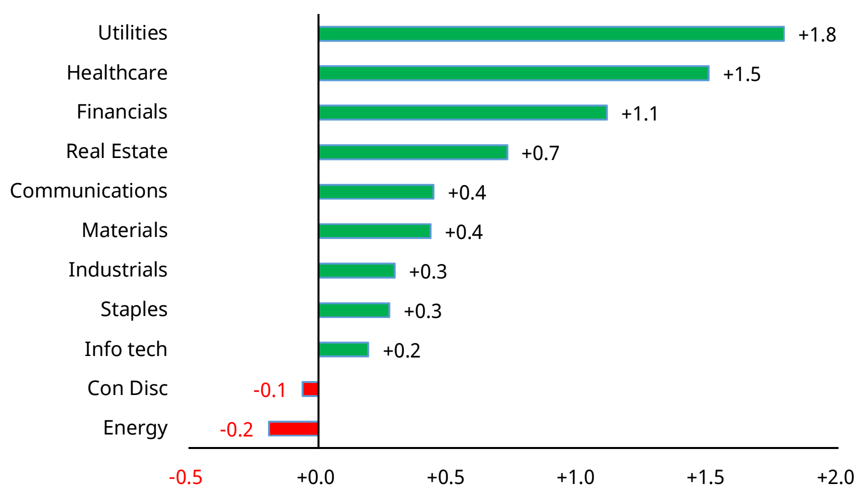
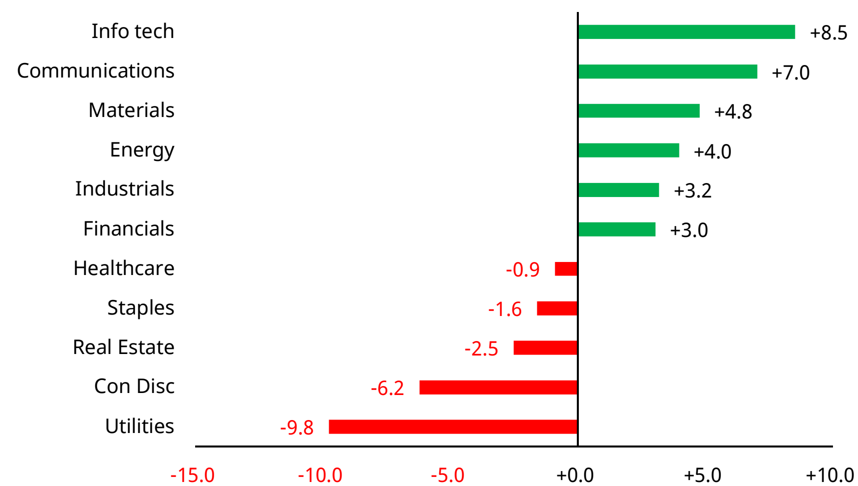


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

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3.1 REGIONAL VALUATIONS

We see the market's retracement as an opportunity to buy

Exhibit 5: Regional Price-Earnings Ratio (x)

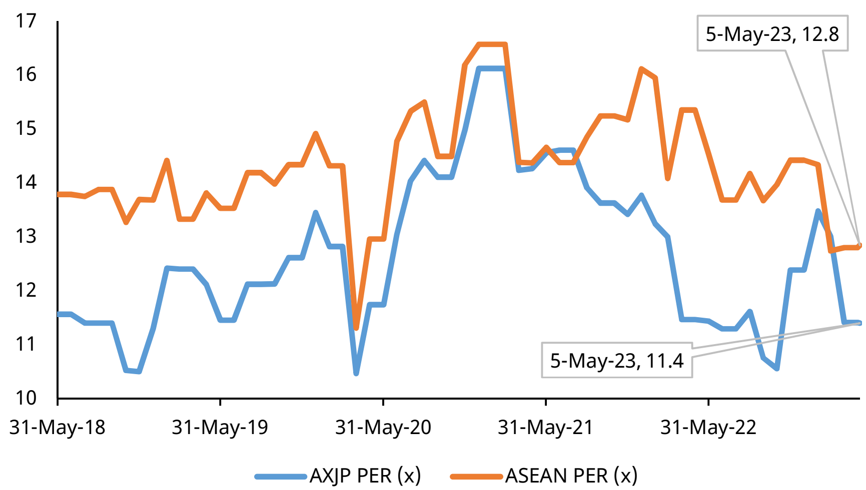


Exhibit 6: Regional Price-to-Book Ratio (x)

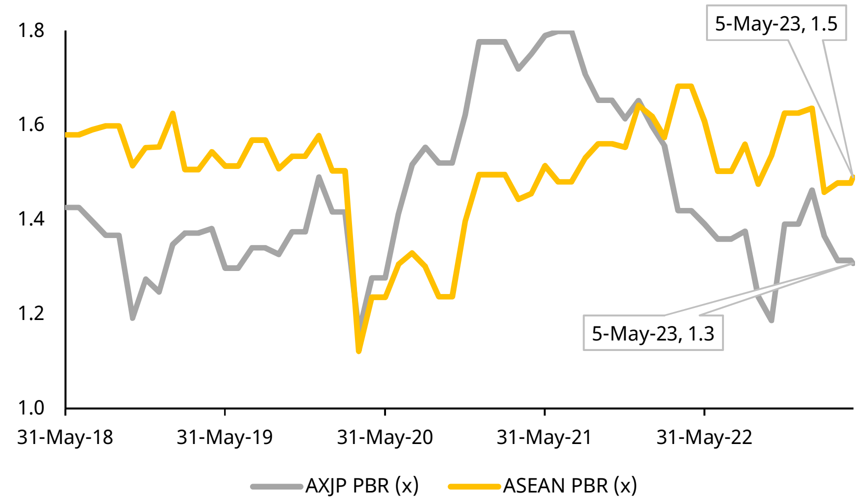


Exhibit 7: Regional Dividend Yield (%)

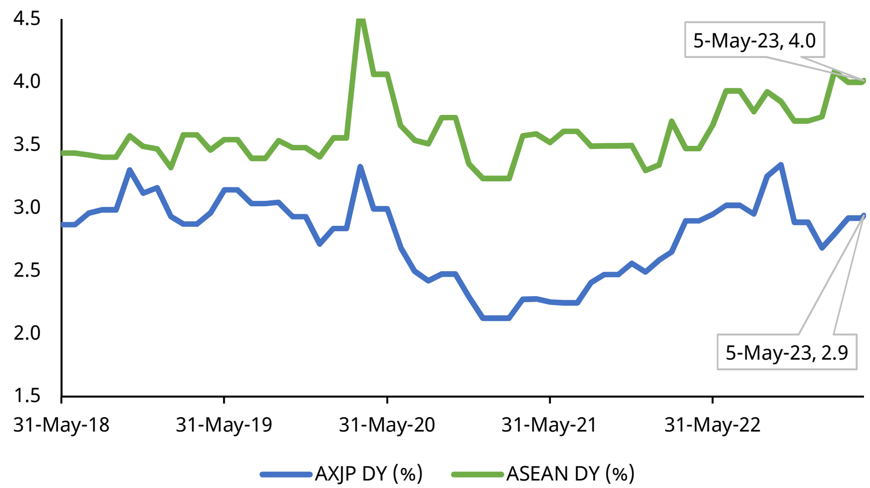
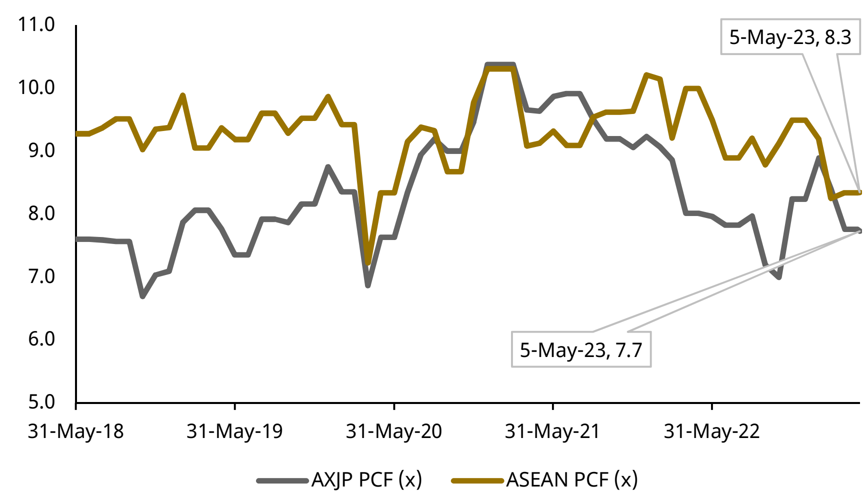


Exhibit 8: Regional Price-to-Cash Flow (x)



Source: Bloomberg

4.0 FOREIGN FUND FLOWS

Foreign funds net buy Indonesia, India and South Korea since end of Mar-23

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

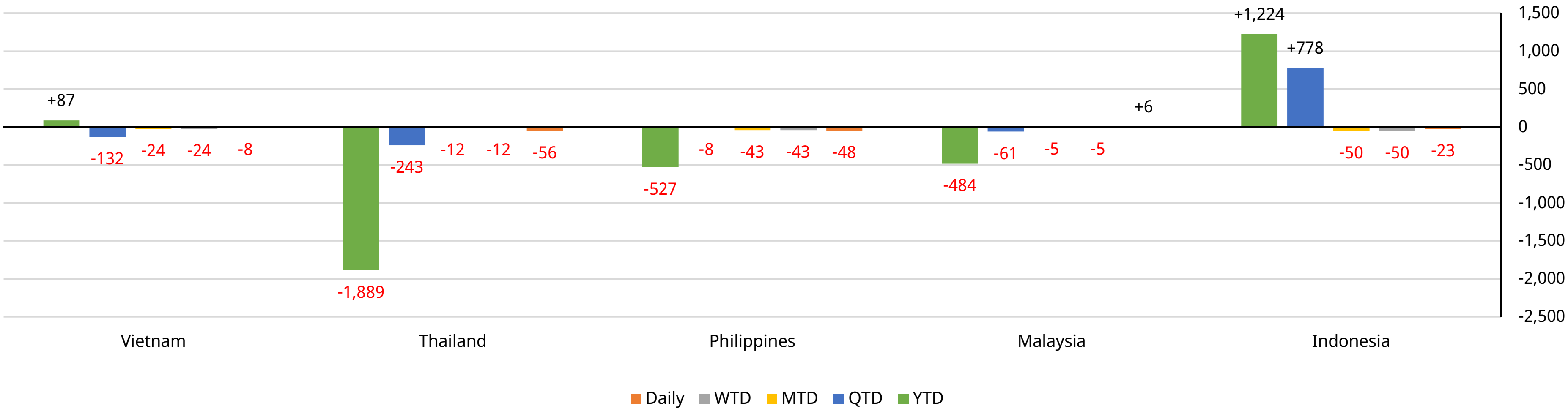
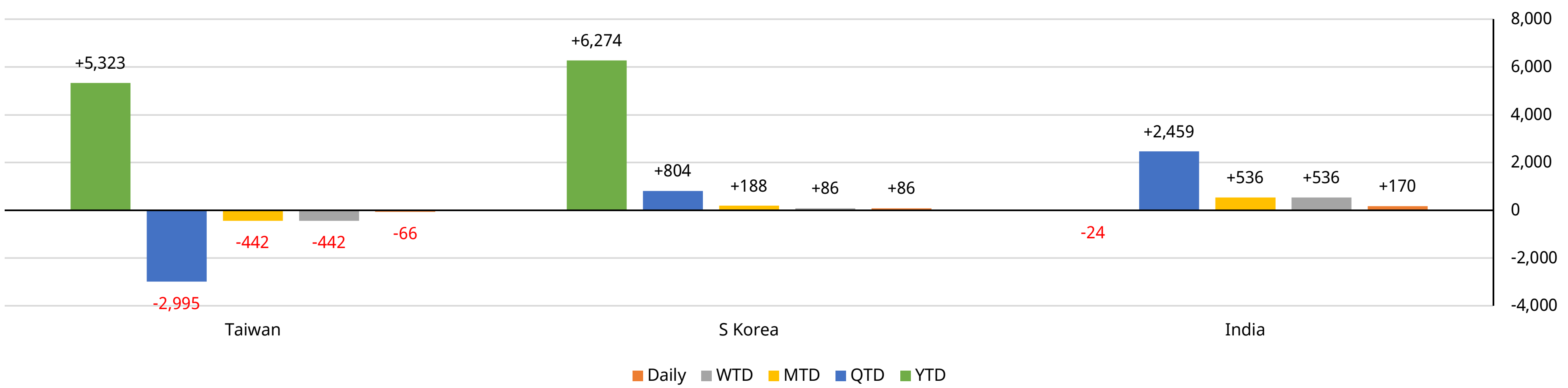


Exhibit 10: Selected North and West Asian Markets (Net USD mil)

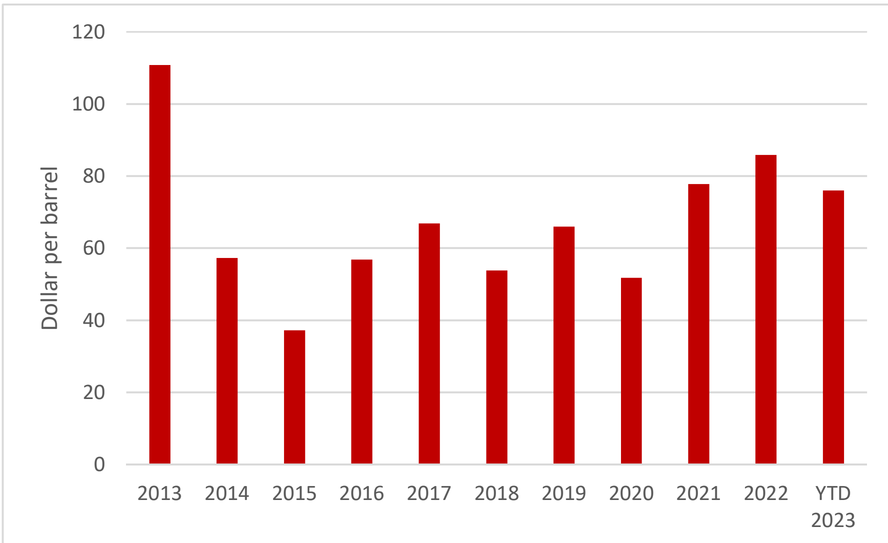


Source: Bloomberg

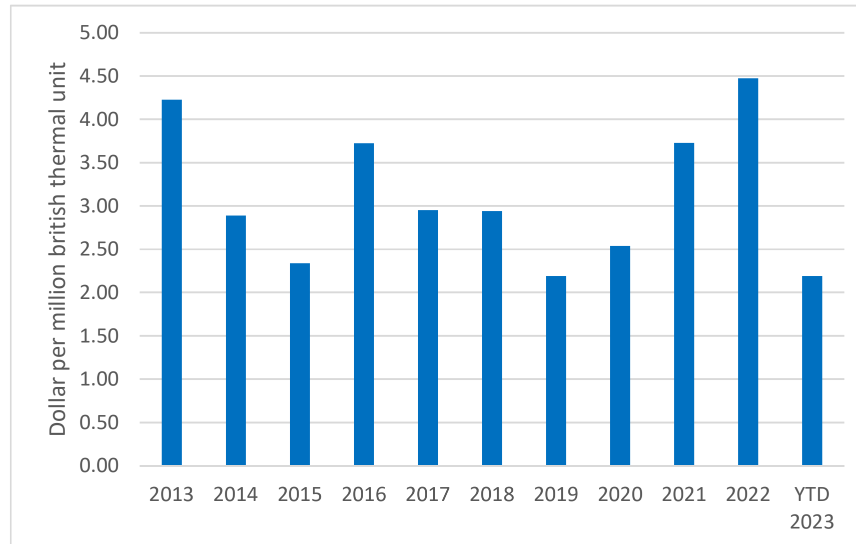
4.0 Energy Annual Prices

Energy Prices Weakened But Oil Remained Elevated Due To Tight Supply

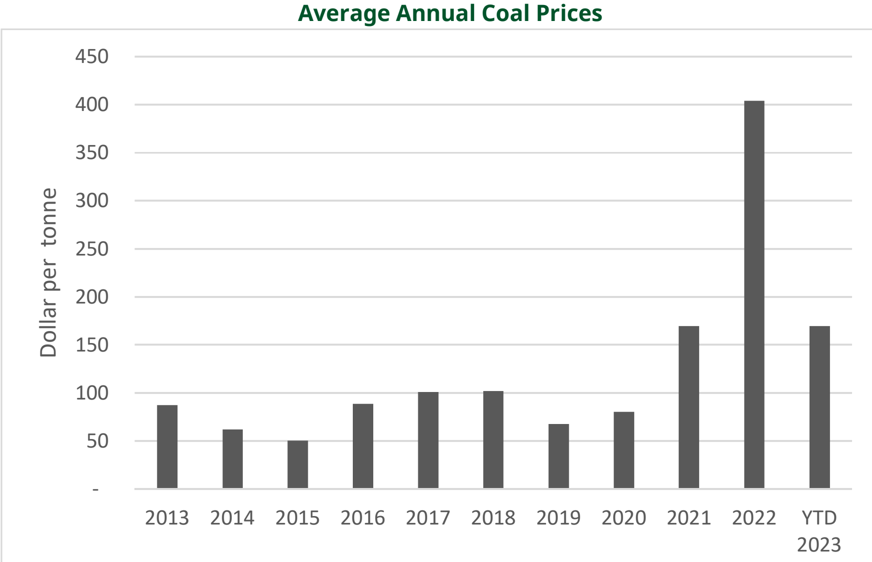
Average Annual Brent Oil Prices



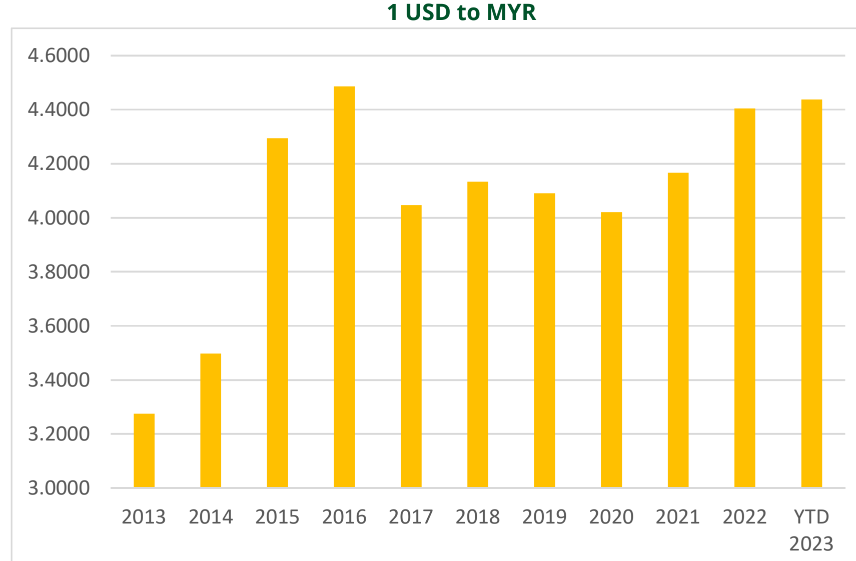
Average Annual Natural Gas Prices



Average Annual Coal Prices



1 USD to MYR

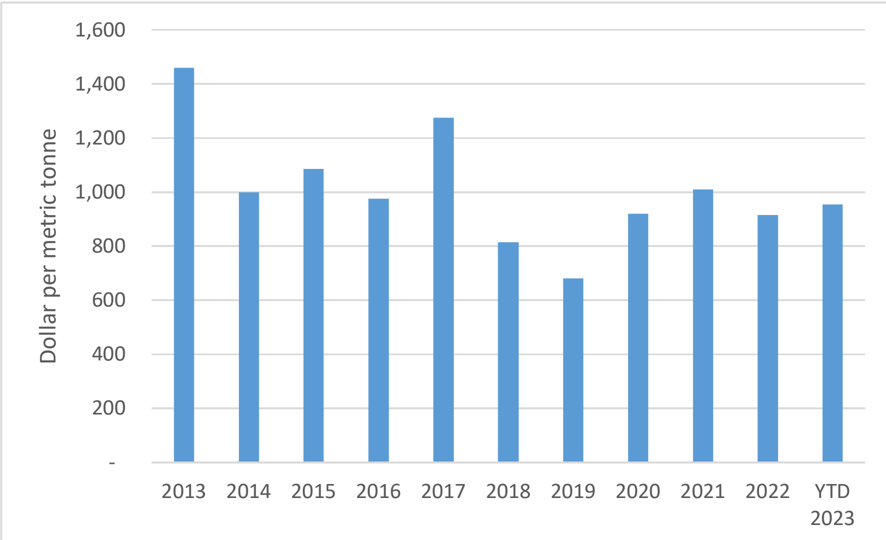


Source: Bloomberg

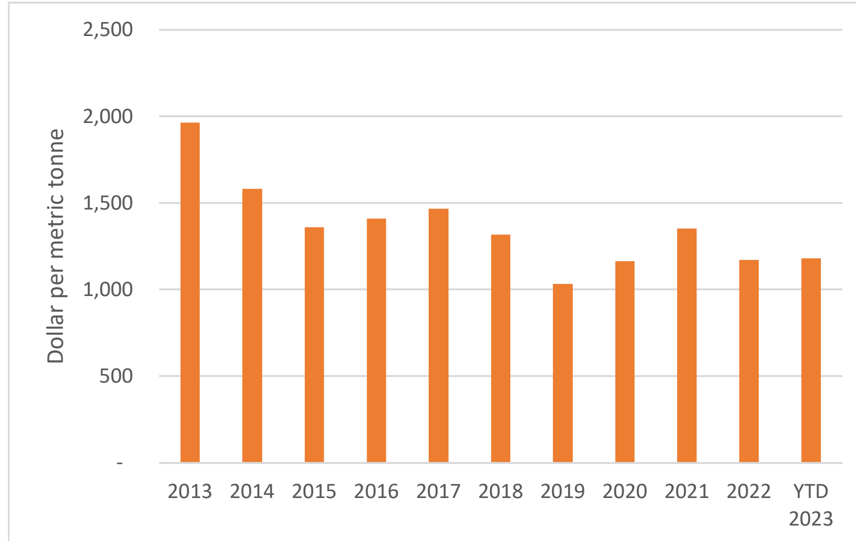
4.1 Petrochemical Annual Prices

Modest Price Increase On China's Reopening Demand

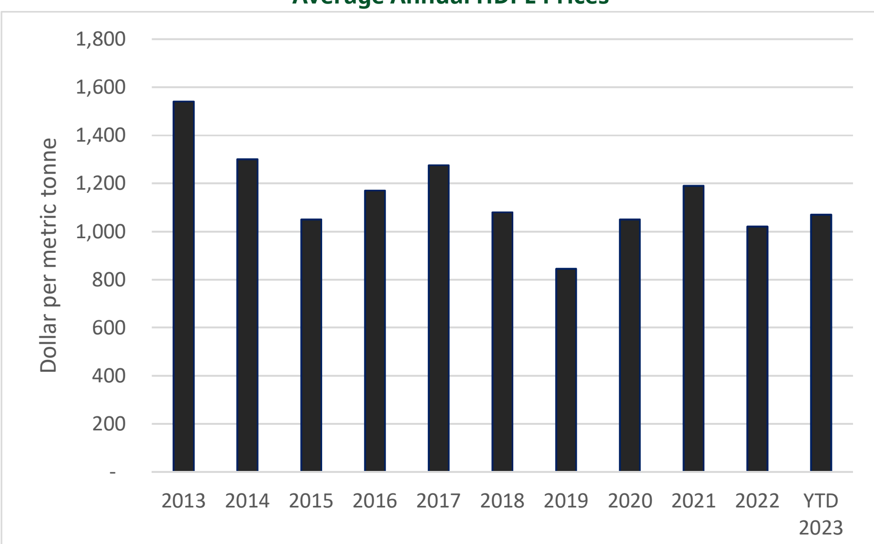
Average Annual Ethylene Prices



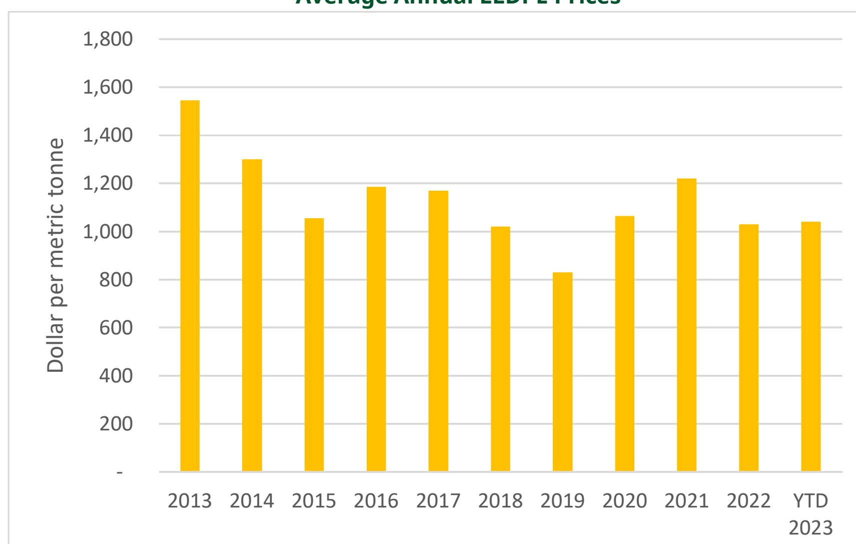
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

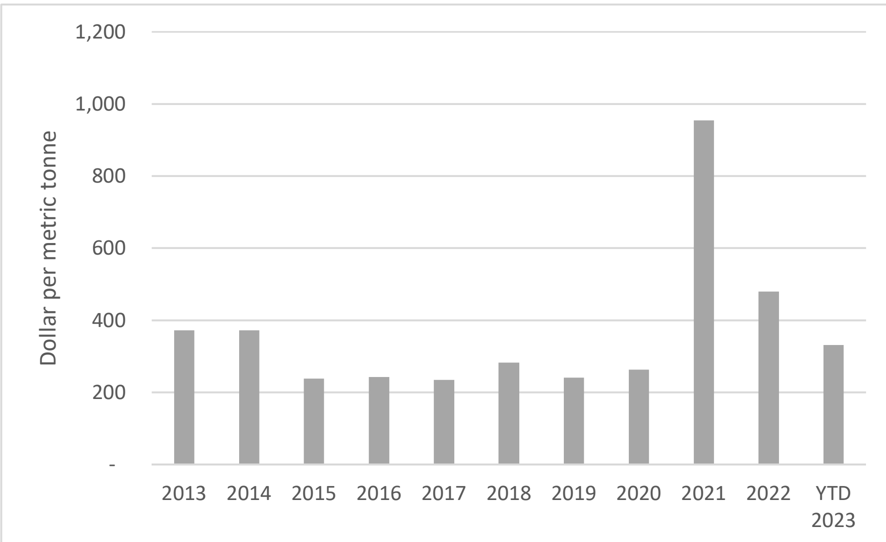


Source: Bloomberg

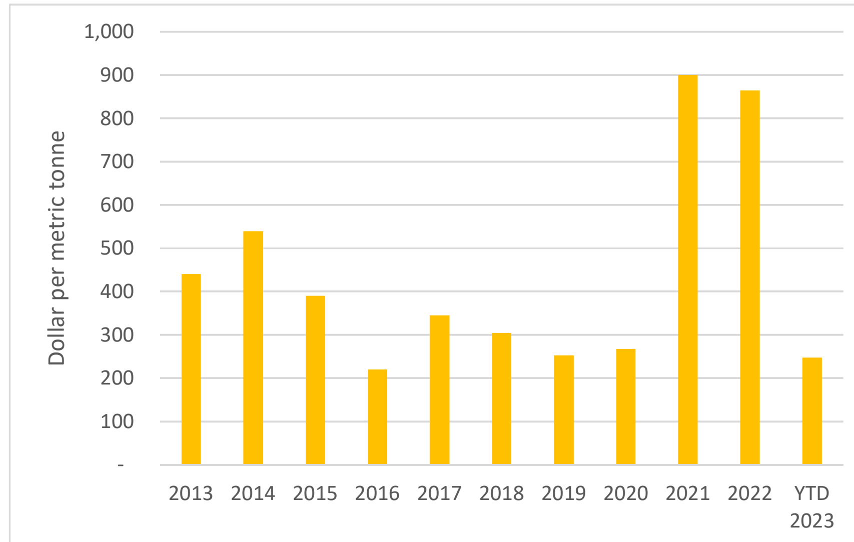
4.2 Fertiliser Annual Prices

Ammonia & Urea Prices Trend Lower, Tracking Natural Gas Prices

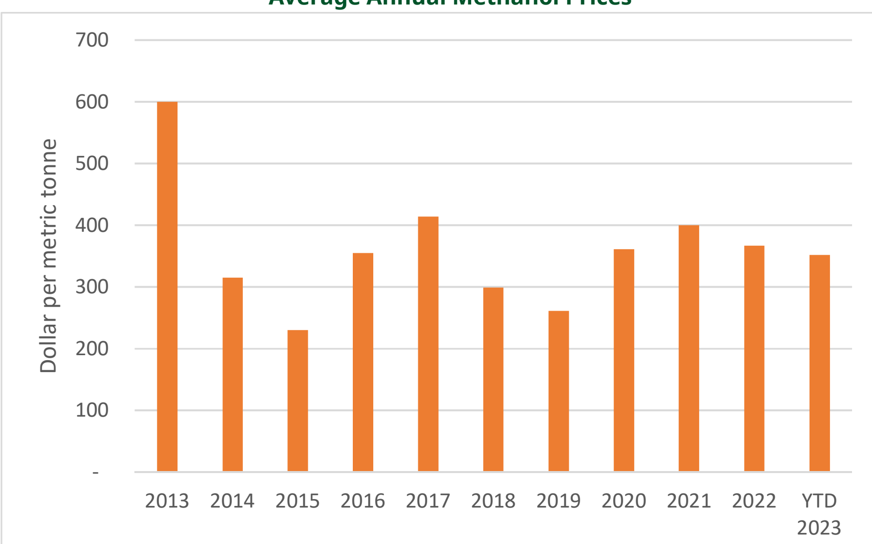
Average Annual Urea Prices



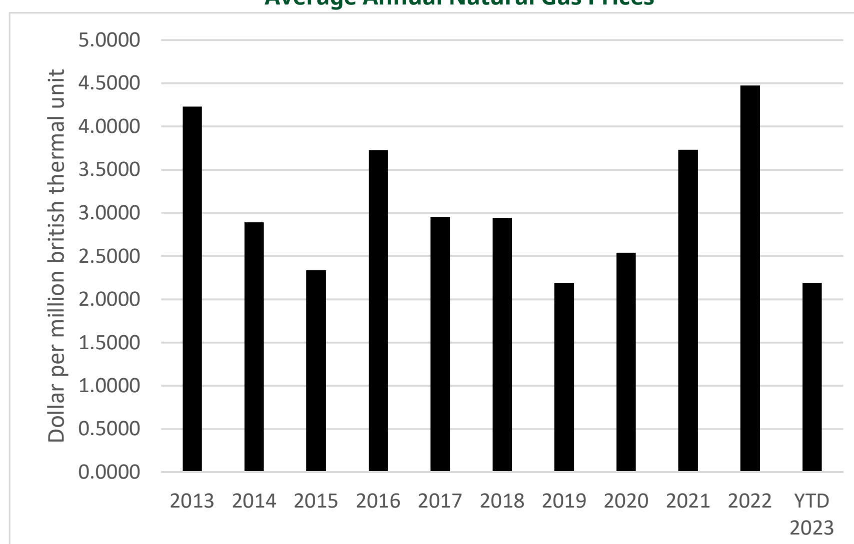
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

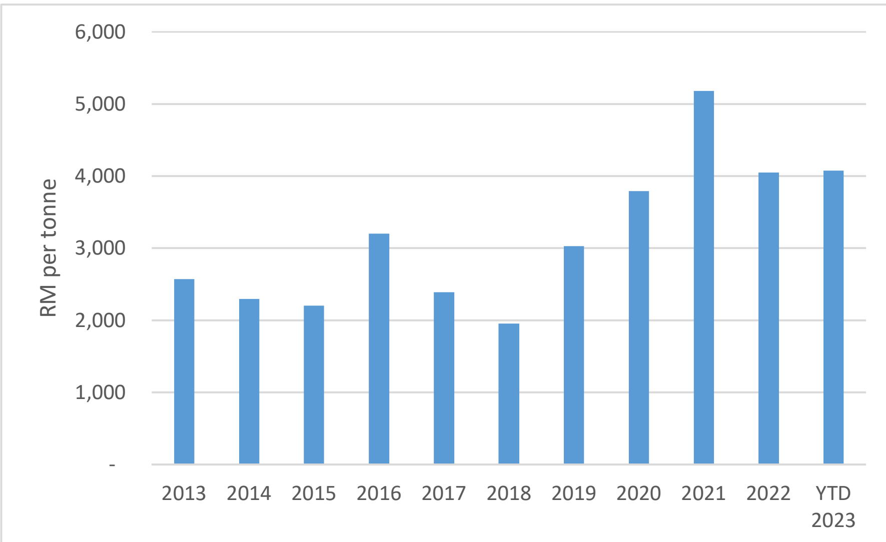


Source: Bloomberg

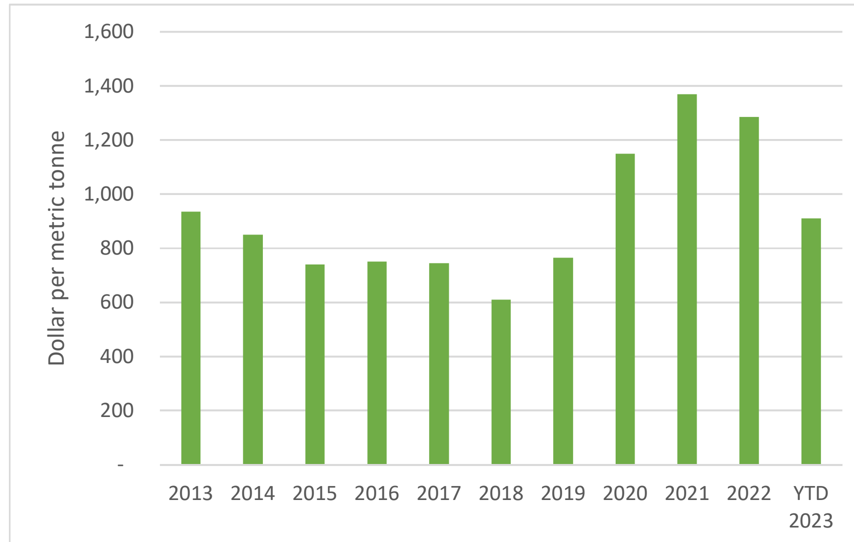
4.3 Agricultural Annual Prices

Palm Oil Prices Supported By Resilient Demand

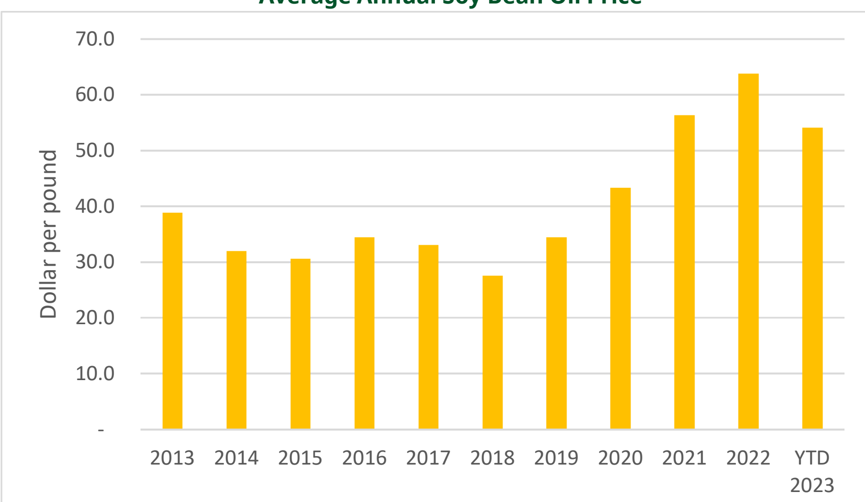
Average Annual Palm Oil Prices



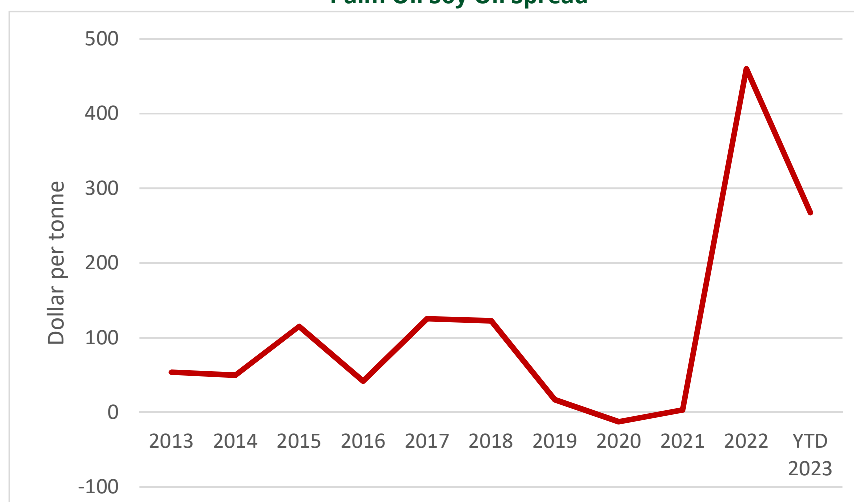
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



Source: Bloomberg

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