

Portfolio Managers' Views

16 May 2023

FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL

The Week in Review (8 - 12 May 2023) & Our Managers' Views

- 1 Axis Reit's (AXRB) outlook remains intact:** AXRB terminated its lease agreement with Yongnam, a defaulted major tenant that contributed 5% of FY2022 rental revenue. However, we are confident that AXRB will be able to find a replacement tenant as Knight Frank reported that the demand for industrial properties in Johor remains resilient. Moreover, we expect AXRB to achieve a positive mid-single-digit rental revision to offset the loss of income from Yongnam.
- 2 Stable plantation outlook:** Malaysian Palm Oil Board reported the palm oil inventory in April decreased to a 2-year low of 1.5mt due to lower production. We expect CPO prices to trade lower at RM3,500/ton in 2H23 as Indonesia will raise exports after the Raya celebration, and oil palm will start the high production season in 2H. We are invested in United Plantation as they sell CPO on a forward basis. Thus, we believe its earnings and dividends are protected against the decline in CPO prices.
- 3 Lower coal price are positive for industrials:** Coal prices currently trades at \$165/t, which is 64% lower than its peak of \$458/t back in Sep-22. Coal prices typically have a lag effect with tariff rates and this caused margins at industrial companies to compress in 1Q23. Eventually, we expect the current low coal prices to lead to margin expansion in the sector. This, coupled with stable organic demand are supportive for our holdings in Malayan Cement and Ann Joo.
- 4 2H tech recovery imminent, but not as strong:** Technology majors such as SMIC, Foxconn and ASE Technologies expect sales numbers to bottom out in 1Q23 or 2Q23, with a recovery in 2H23. However, they indicated the recovery may not be strong as consumer demand is weighed by macroeconomic headwinds. Regardless, we remain our view to accumulate tech on weakness as we believe the secular drivers for the sector remains intact.
- 5 Yeahka's business data for 1Q23 underscores recovery in China's consumer spending:** The company's total gross payment volume and gross merchandise value of in-store e-commerce services for 1Q23 jumped 24% and 142% YoY respectively. The jumps are attributed to relaxed travel restrictions late last year, and mobility is key driver to higher consumer spending. As such, we are positive on e-commerce and payment platforms that ride on this recovery trend.
- 6 Valuations:** KLCI valuations are trading at very attractive levels. For instance, its 2023 price-earnings ratio ("PER") of 13.1x 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.

2.0 MALAYSIA MARKET REVIEW

Bursa Healthcare Index rose 3.5% WTD led by glove stocks.

Exhibit 1: KLCI vs Shariah Index

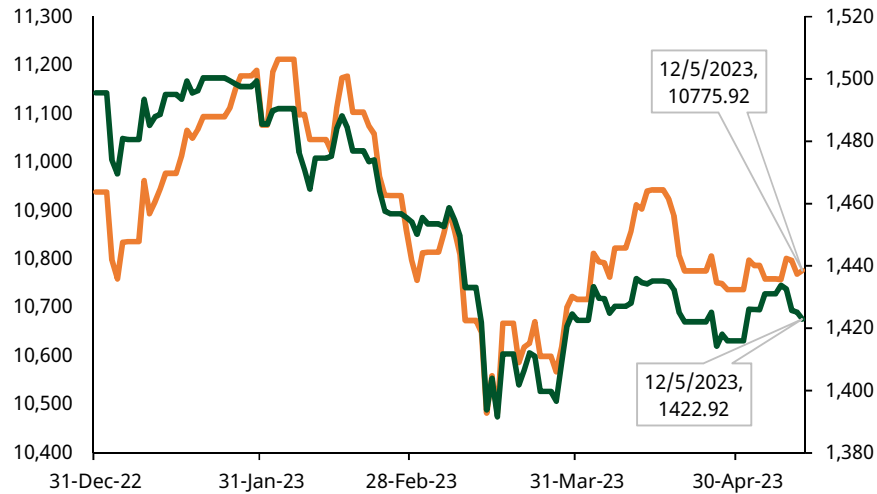


Exhibit 2: USDMYR

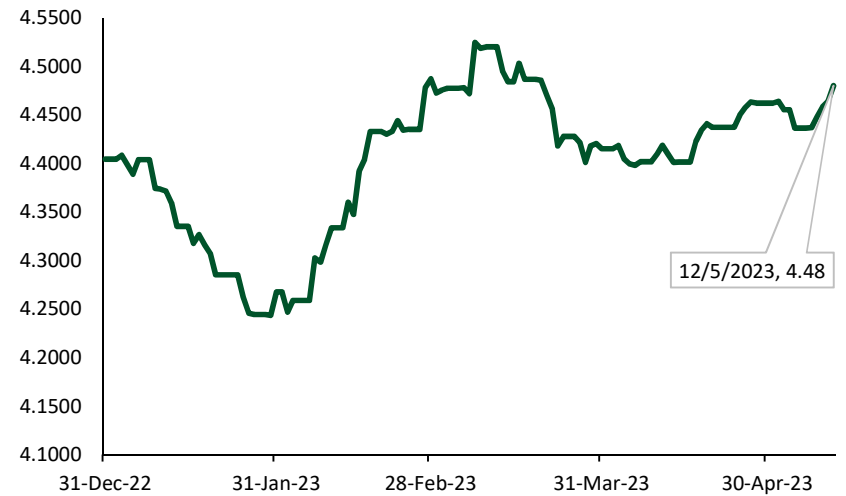


Exhibit 3: Sector Performances Week-to-Date (%)

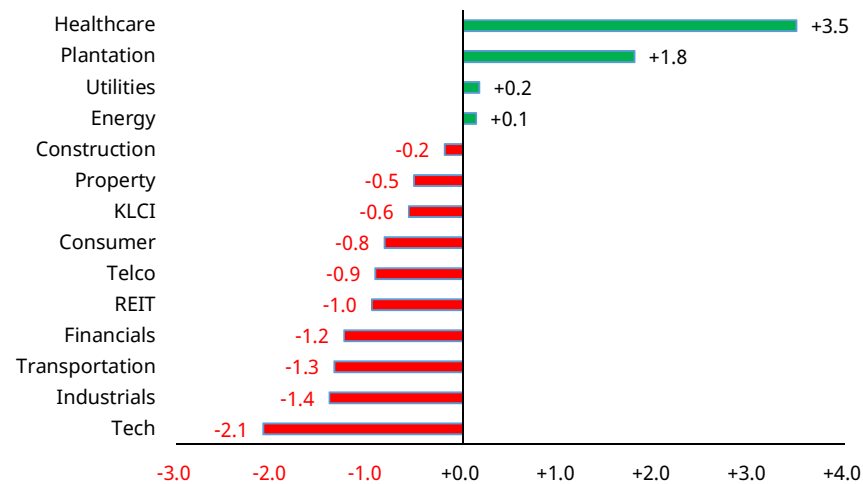
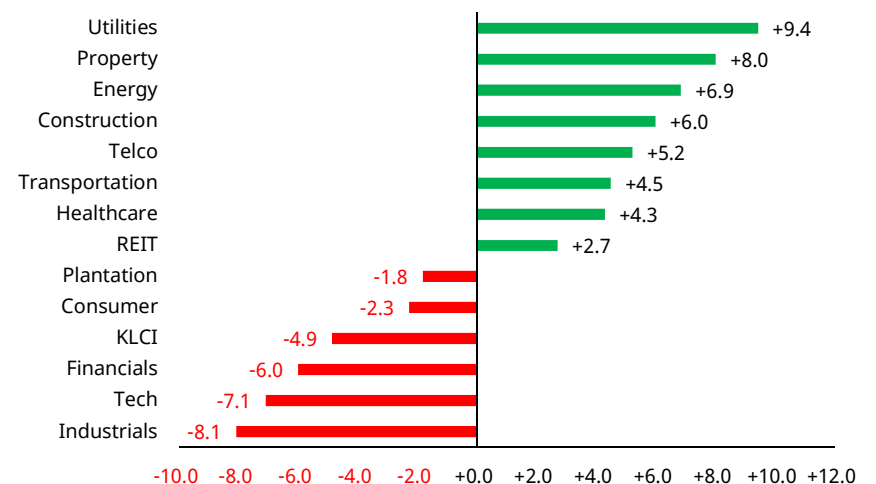


Exhibit 4: Sector Performances Year-to-Date (%)



2.1 MALAYSIA VALUATIONS

Valuations remain at Historical Bottoms - BUY Territory

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

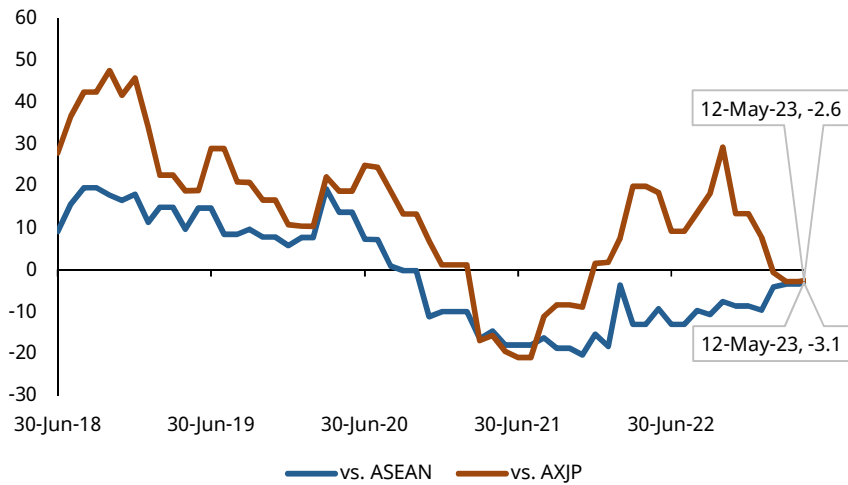


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

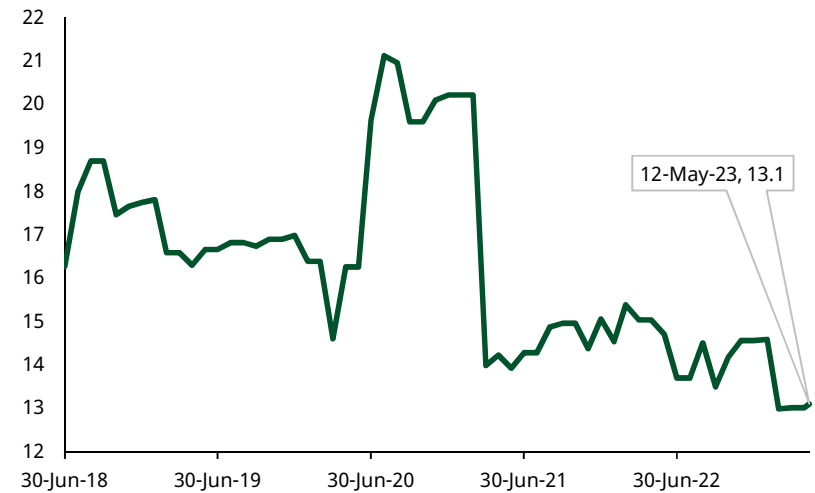


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

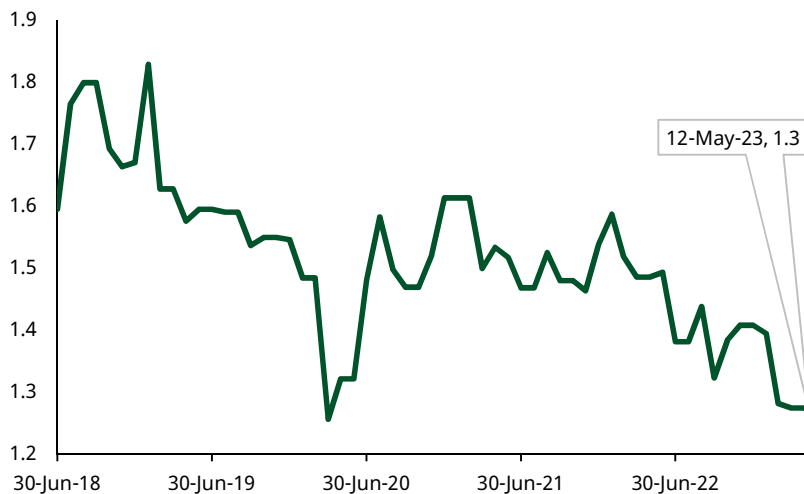
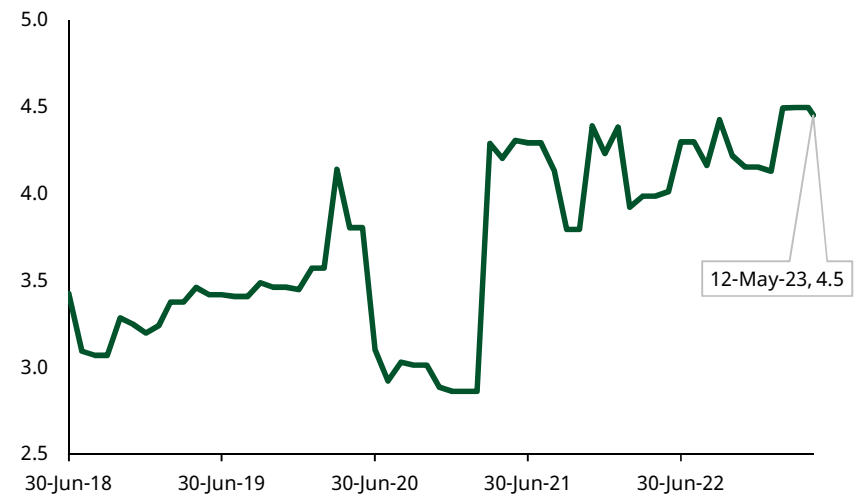


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

3.0 REGIONAL MARKETS REVIEW

US debt ceiling issue & fear of economy slowdown weigh on global equities

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

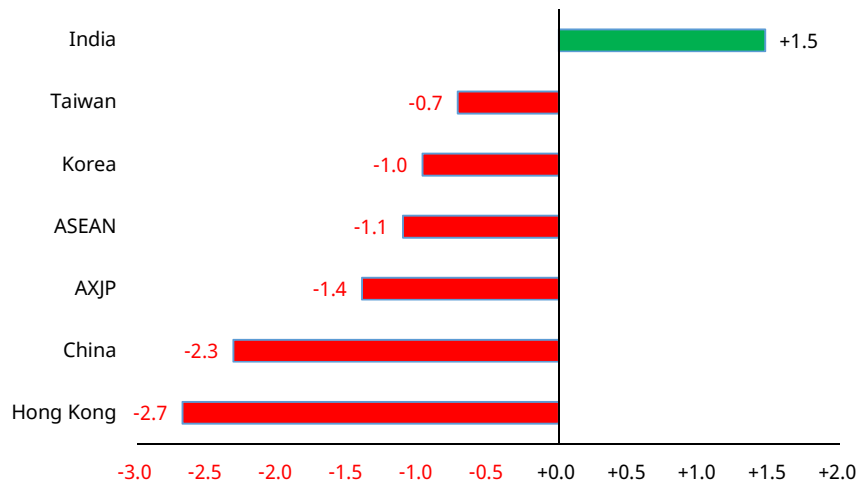


Exhibit 2: Country Performances Year-to-Date (%)

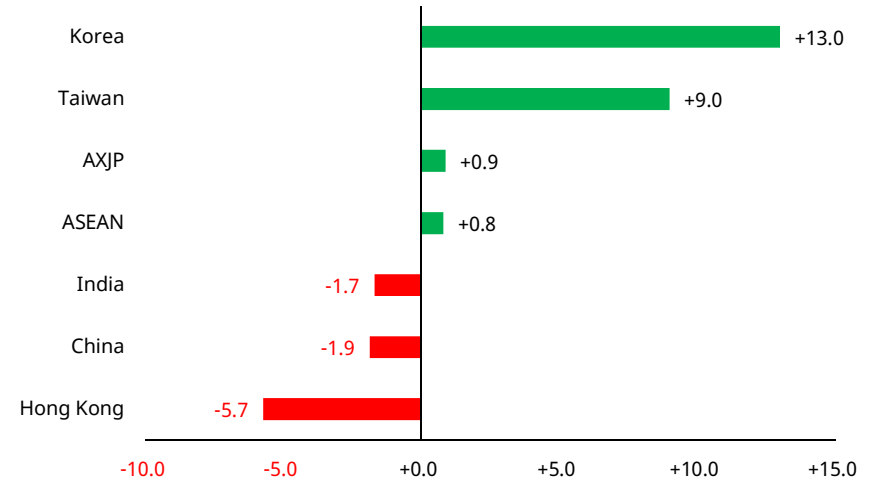
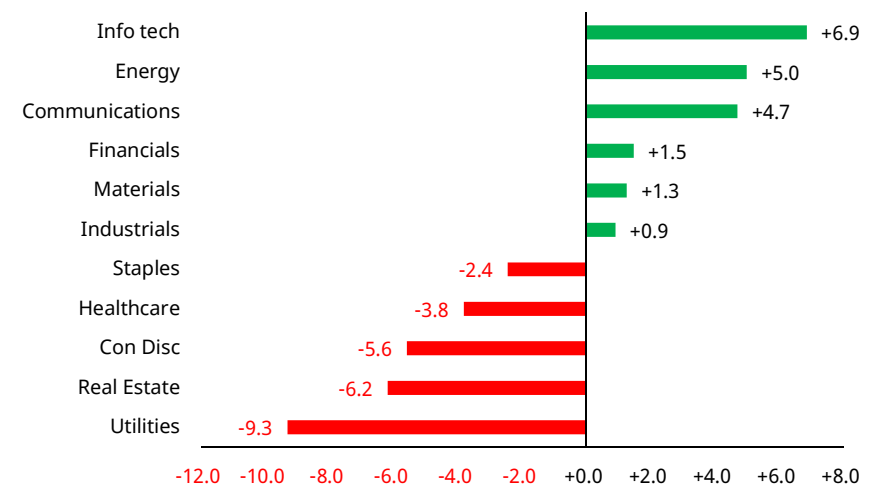


Exhibit 3: Sector Performances Week-to-Date (%)



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



3.1 REGIONAL VALUATIONS

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

Exhibit 5: Regional Price-Earnings Ratio (x)

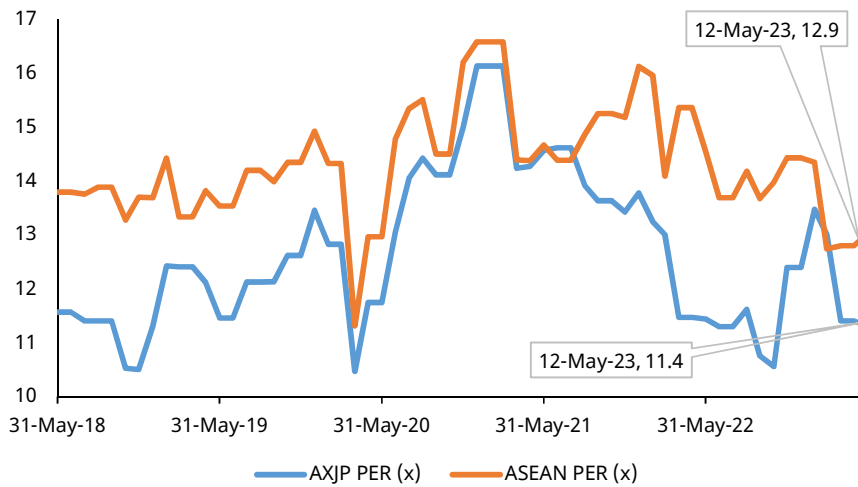


Exhibit 6: Regional Price-to-Book Ratio (x)

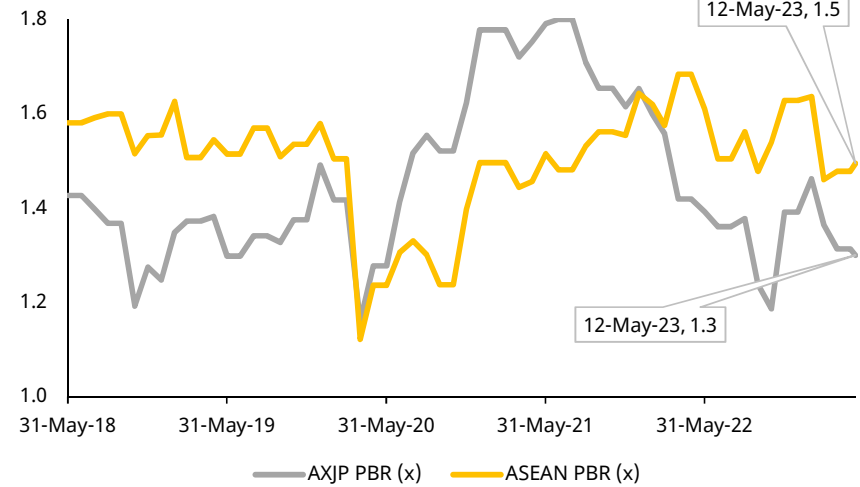


Exhibit 7: Regional Dividend Yield (%)

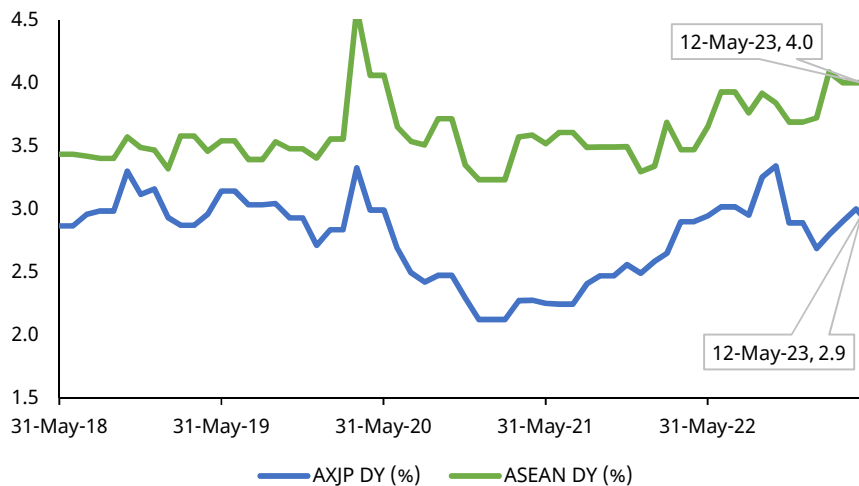
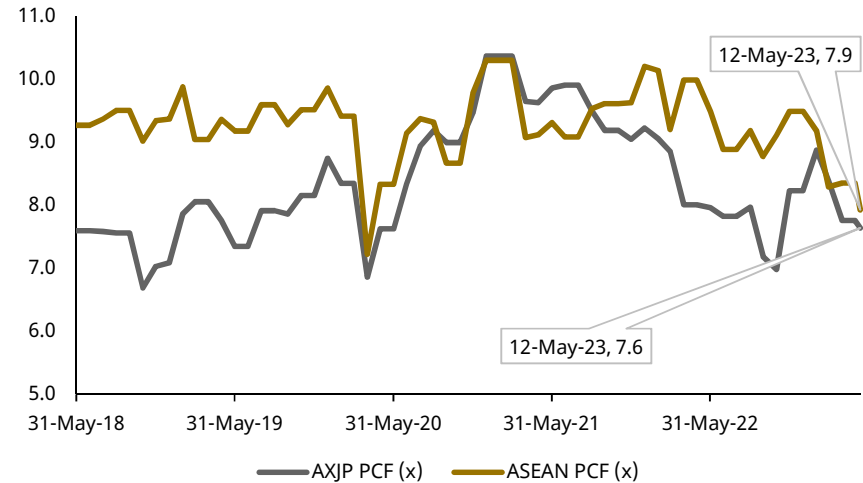


Exhibit 8: Regional Price-to-Cash Flow (x)



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)

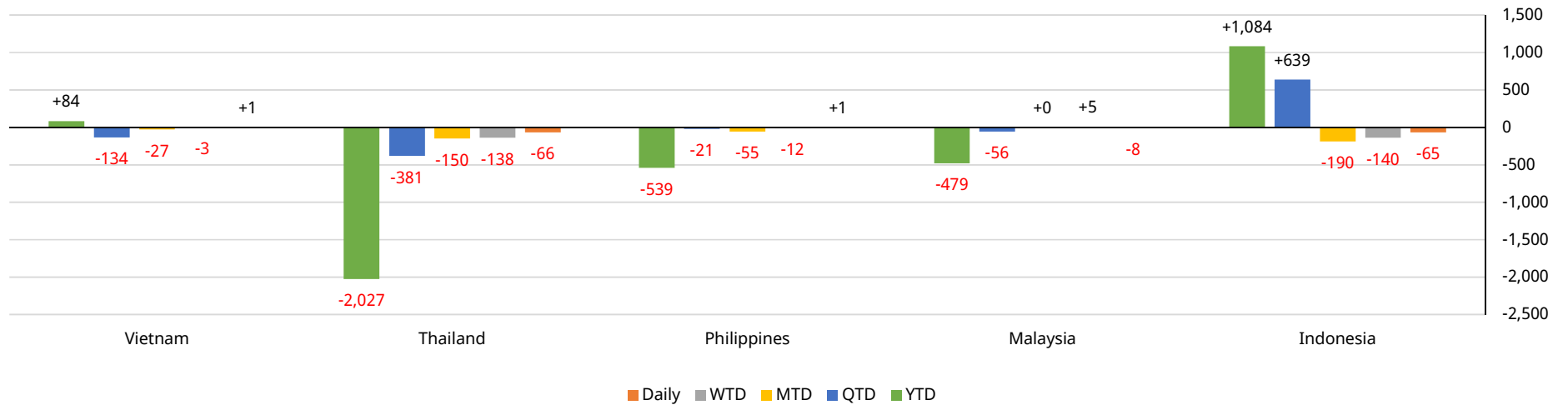
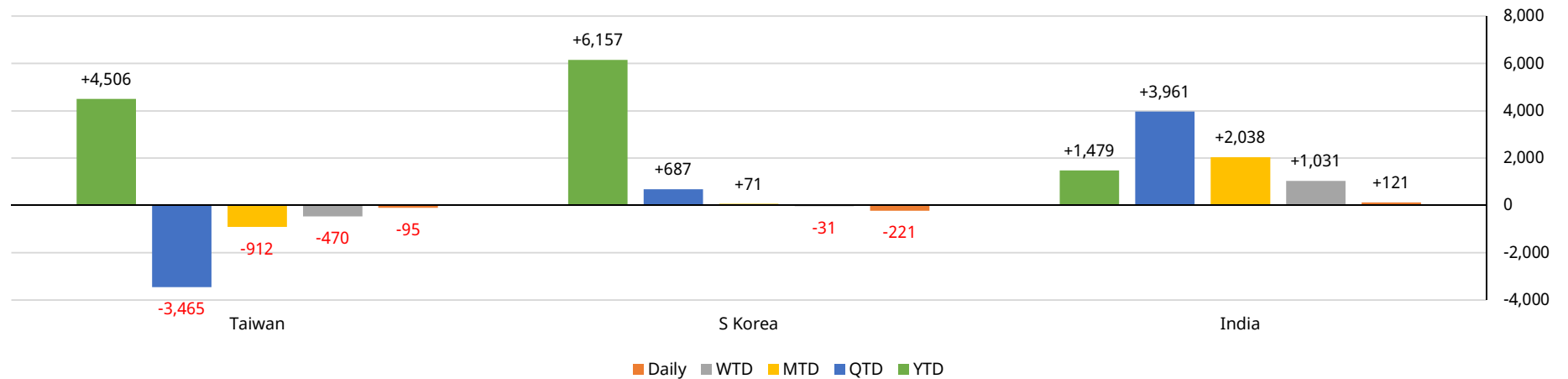


Exhibit 10: Selected North and West Asian Markets (Net USD mil)

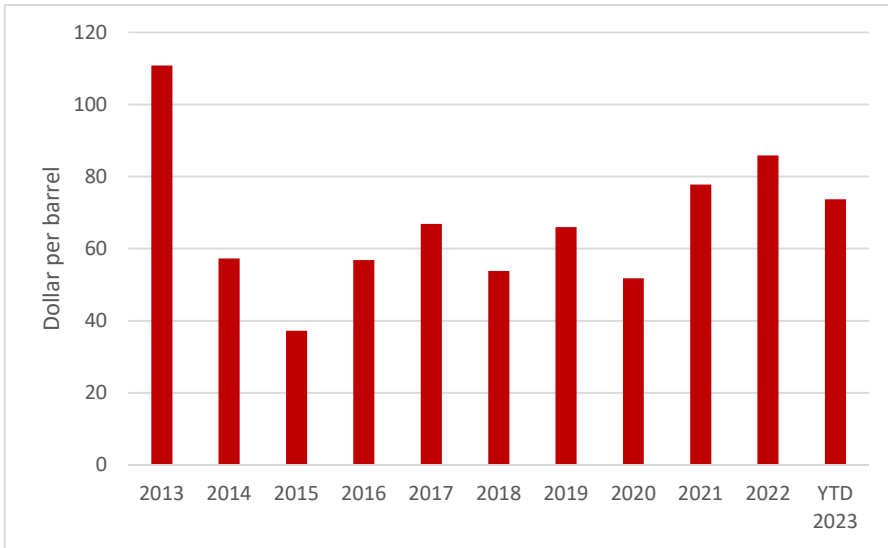


Source: Bloomberg

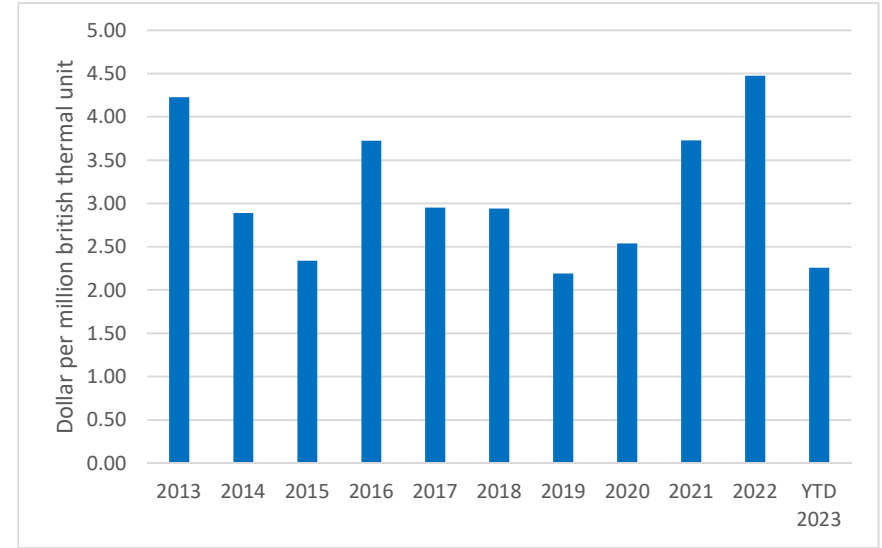
5.0 Energy Annual Prices

Energy Prices Weakened But Oil Remained Elevated Due To Tight Supply

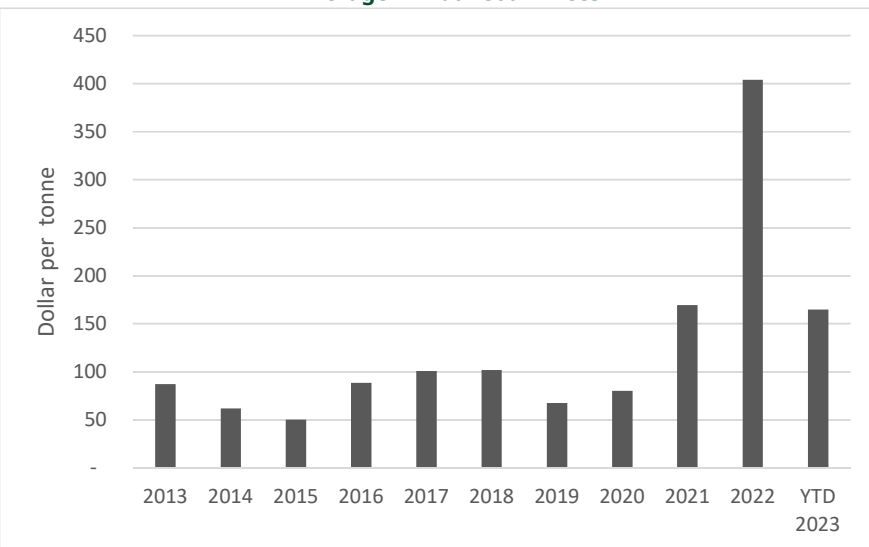
Average Annual Brent Oil Prices



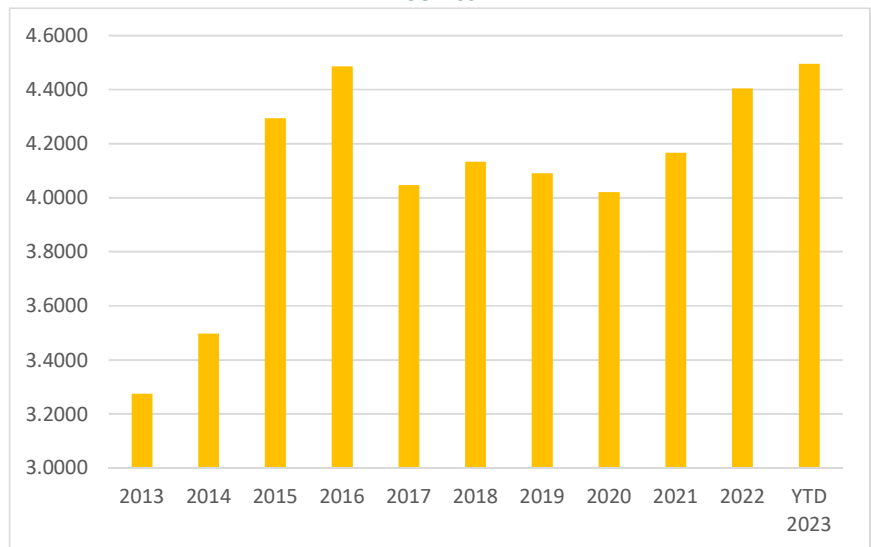
Average Annual Natural Gas Prices



Average Annual Coal Prices



1 USD to MYR

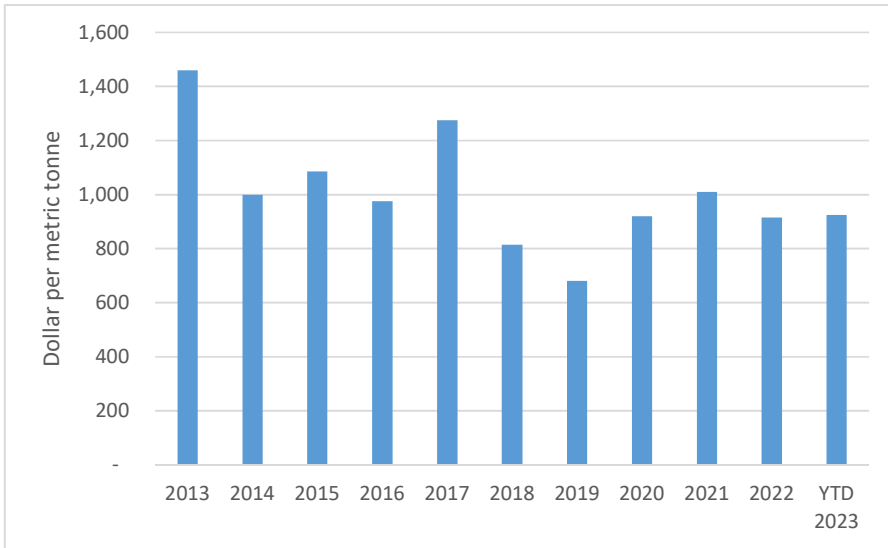


Source: Bloomberg

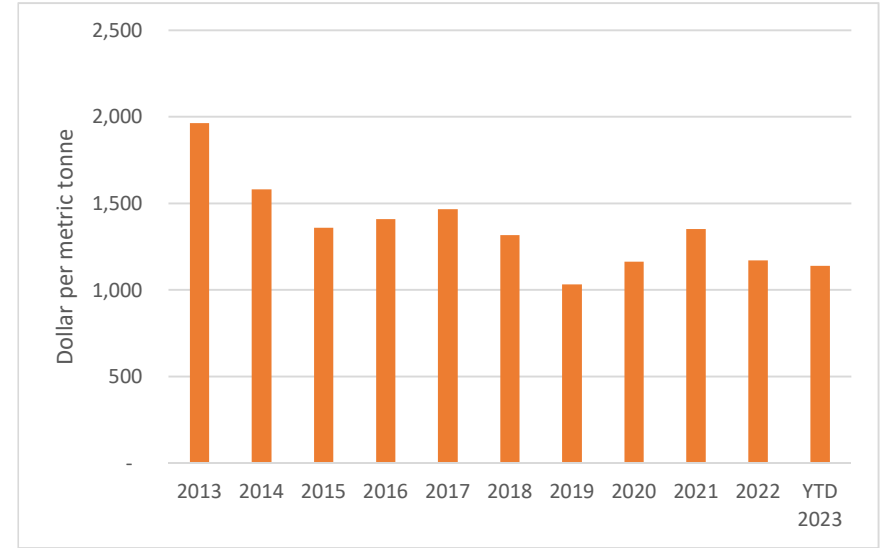
5.1 Petrochemical Annual Prices

Modest Price Increase On China's Reopening Demand

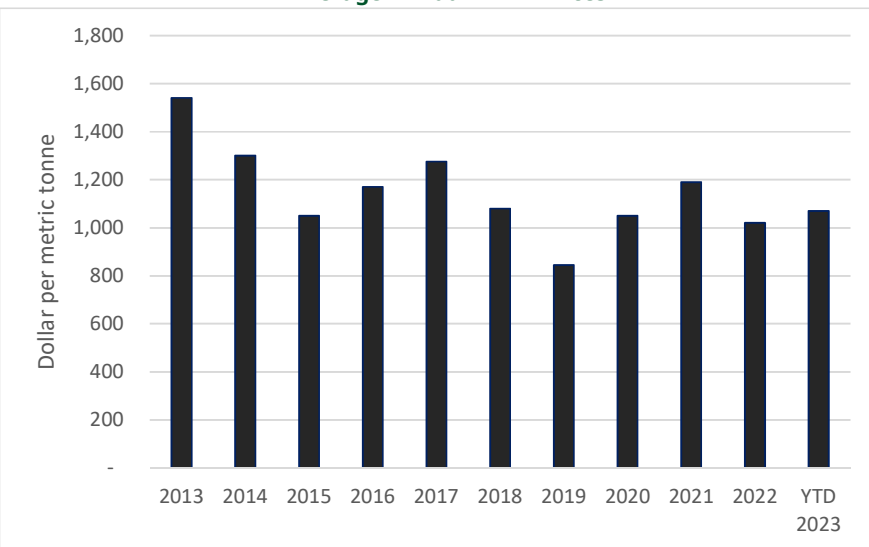
Average Annual Ethylene Prices



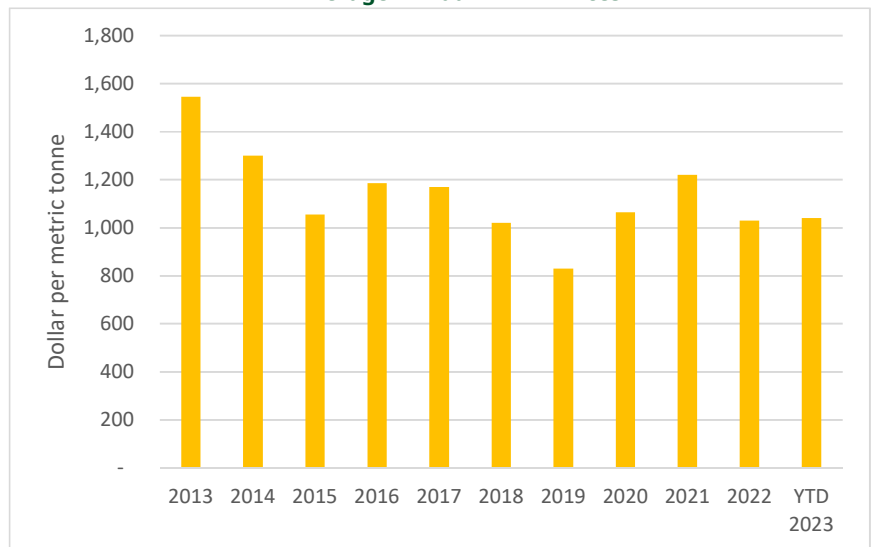
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

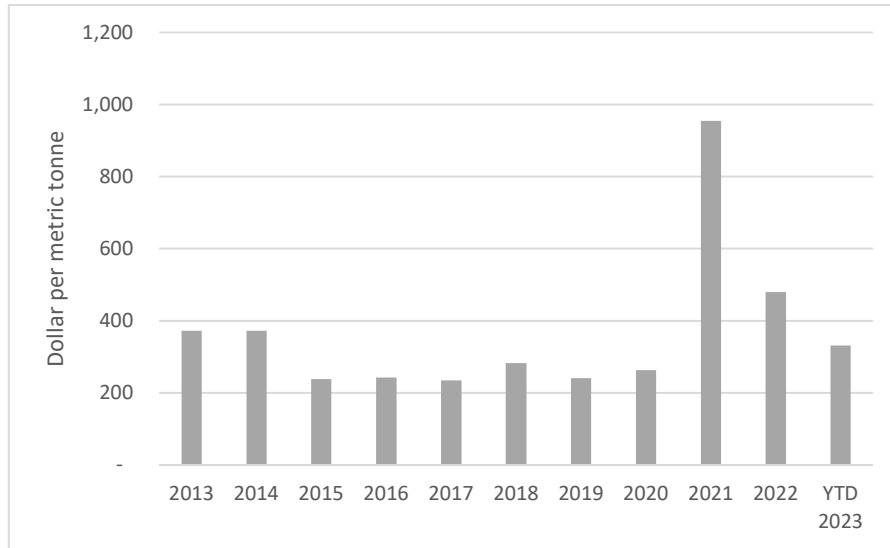


Source: Bloomberg

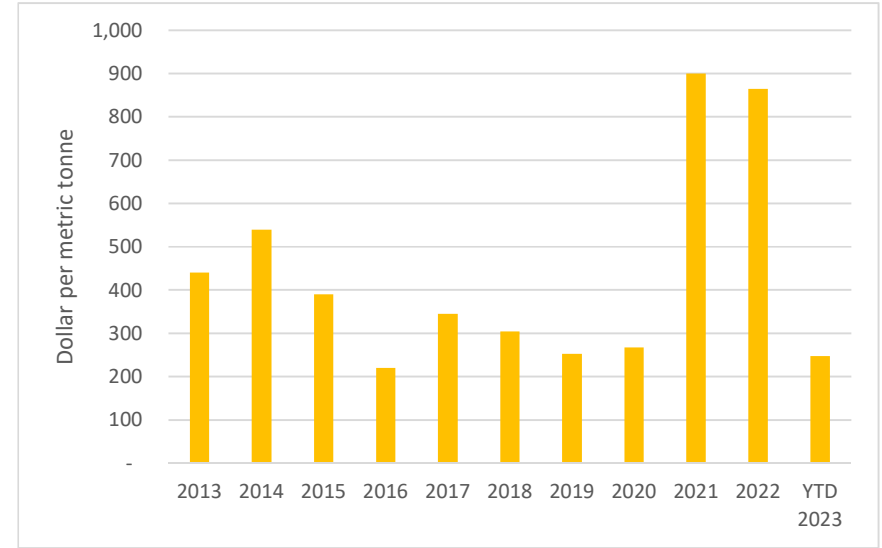
5.2 Fertiliser Annual Prices

Ammonia & Urea Prices Trend Lower, Tracking Natural Gas Prices

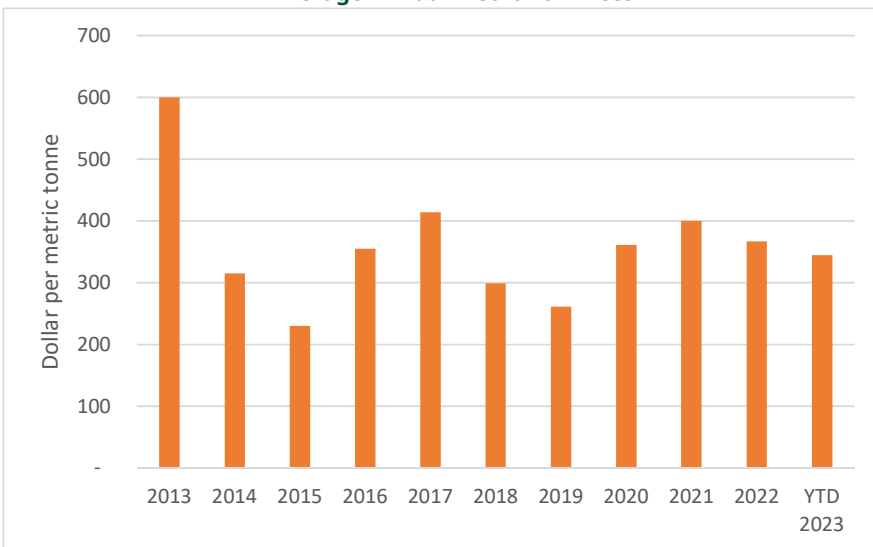
Average Annual Urea Prices



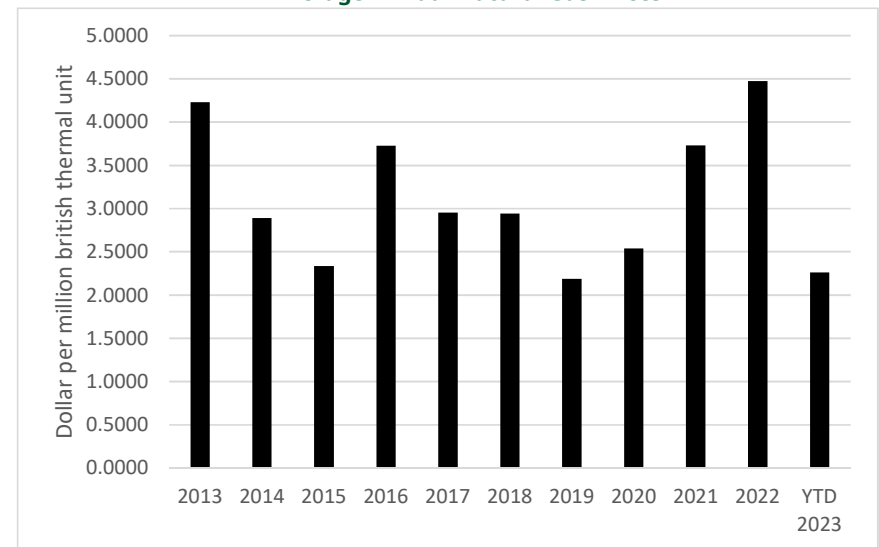
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

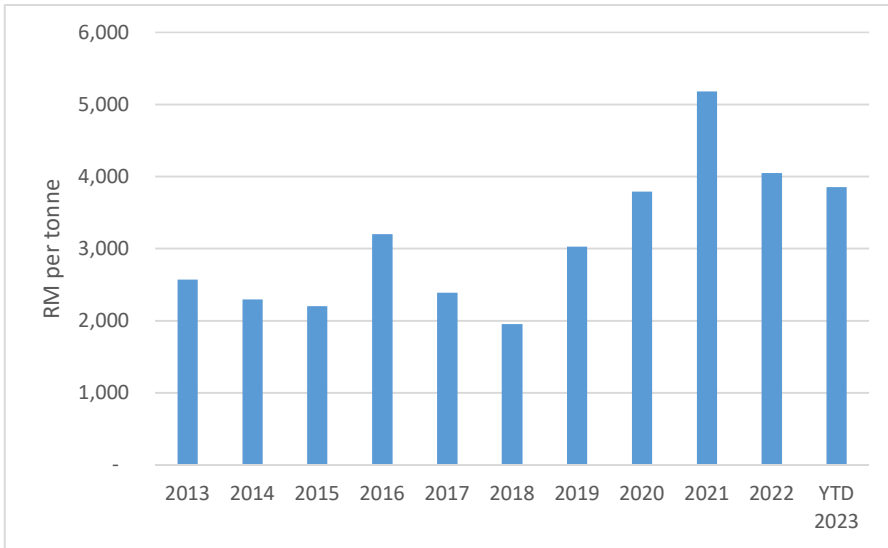


Source: Bloomberg

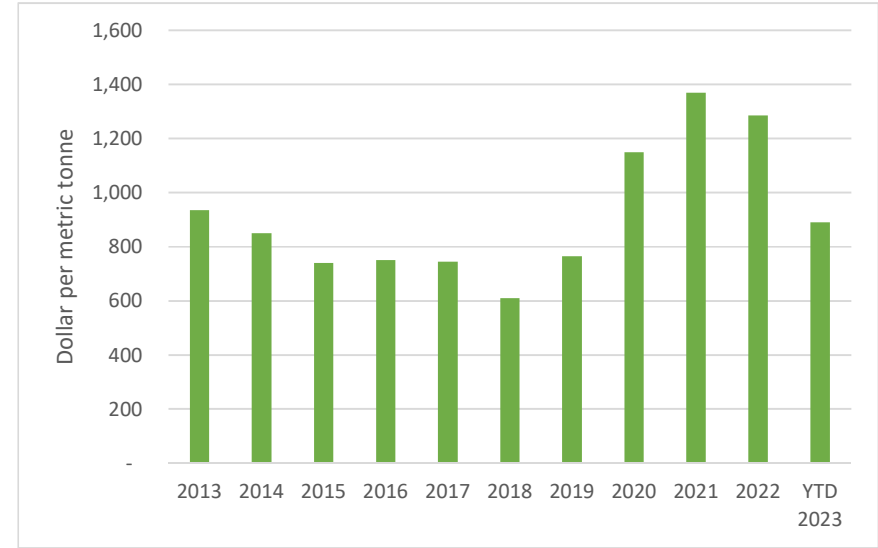
5.3 Agricultural Annual Prices

Palm Oil Prices Supported By Resilient Demand

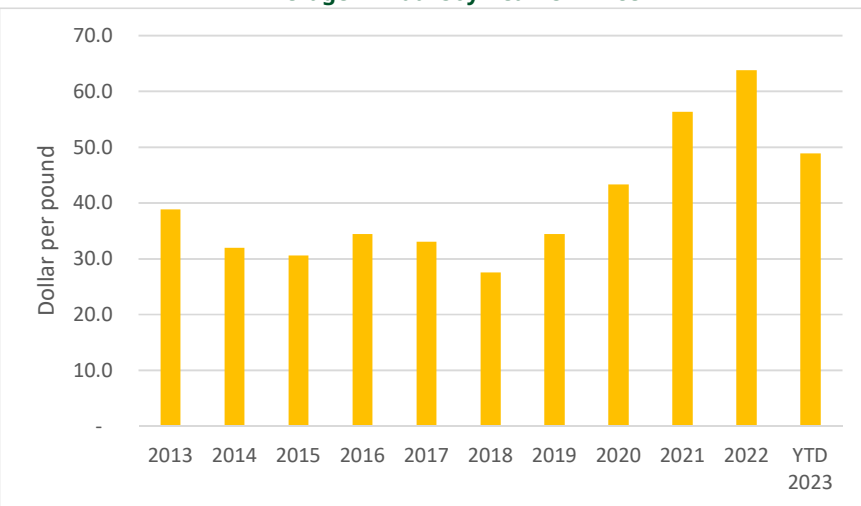
Average Annual Palm Oil Prices



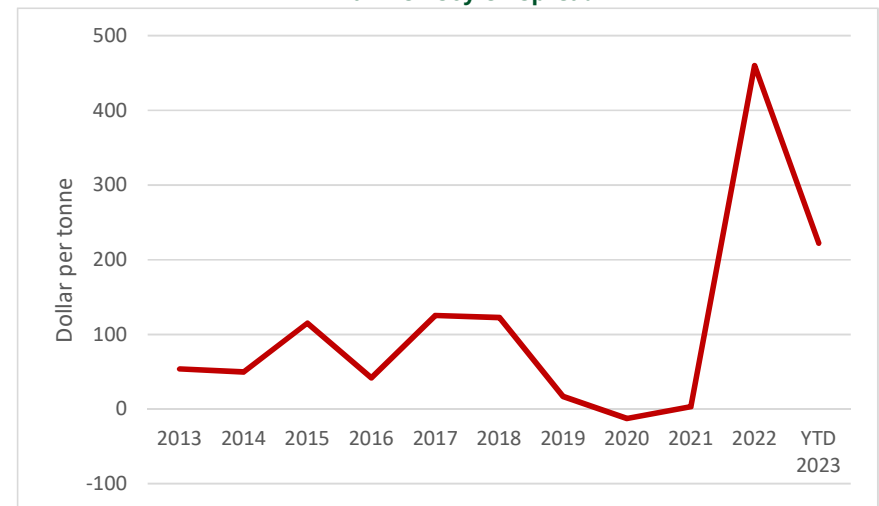
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



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