

Portfolio Managers' Views



12 June 2023
FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL

The Week in Review (5 - 9 June 2023) & Our Managers' Views

- 1 We exited most of our positions in 3A due to higher tapioca prices:** 3A's Q1'23 net profit declined by 65.5% YoY due to higher tapioca costs. We expect tapioca and sugarcane prices to remain elevated due to hot weather conditions (EL-NINO), likely impacting tapioca production in Thailand and sugarcane production in India. Moreover, the consecutive decline in gross profit margins signals that the company may have failed to pass through the higher costs to its clients.
- 2 We invest in Padini for its stable business outlook and potential high dividends:** Padini's Q1'23 net profit rose by 33.0% YoY due to higher sales volume. Moving forward, we expect Padini, a mass market apparel chain, to benefit from consumer downtrading as its products' price points are relatively cheaper versus the competition. Moreover, Padini has RM627mil in cash and has no debt. With no plans to expand aggressively, we believe Padini will return excess capital in the form of dividends.
- 3 Saudi Arabia output cuts:** Saudi, the world's largest oil producer, announced plans to cut oil output by 1mbpd in July. At its peak (Sep-22), Saudi was producing 11mbpd while it currently produces 9.96mbpd (May-23). Noticeably, oil prices did not react to the news as markets may have already priced in a demand slowdown. We think this negative outlook is warranted but if economies start to improve, oil prices will likely rise as oil supply has tightened considerably over recent months.
- 4 Semiconductor sales data signal a potential bottom:** Global semiconductor sales for April came in at \$39.95bil (-21.5 YoY, +0.3% MoM). Although the YoY trend is still negative, MoM sales saw slight improvement and this is the second consecutive month of a positive MoM trend. Q1 tends to be the cyclical low, followed by improvement throughout the year. Therefore, we think that semi sales have bottomed out. We turn more positive on tech as we expect a better second half of the year 2023.
- 5 Weak coal prices are positive on industrials:** Year-to-date coal prices declined by 65% to trade at its 2Y low levels. This can be attributed to China's weak industrial demand and record high coal inventories (inventories are near its 5Y high levels). China is the world's largest consumer of coal and the third-largest importer. This bodes well for our holdings in the cement and steel sector as lower coal prices will translate to better margins for these companies.
- 6 China banks lower deposit rates; positive on earnings.** Last week, major banks lowered Yuan and US Dollar ("USD") deposit rates, lowering their borrowing costs and raising their earnings going forward. The above also mitigates the currency exchanges to some extent and stabilises the Yuan's recent decline against the USD. The above are positive for China banks, who are currently valued at attractive levels, with the Yuan's weakness offering an attractive entry level.

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Valuations: The FBMKLCI declined by 4% from its peak of 1,433 on 8th May 2023 to 1,376 on 9th June 2023. We think that markets are being weighed down by the uncertainties surrounding the upcoming state elections, the weakening ringgit and downgrades in consensus' earnings expectations following the March results release.

However, we think there is limited downside at this juncture as valuations are trading at very attractive levels. For instance, its 2023 price-earnings ratio ("PER") of 13.3x is the lowest levels its been in the last 13 years. Similarly, price-to-book ratios are also attractive at 1.2x, which are levels last seen only during the market bottom for Covid in Mar-20. Dividend yields are also trading at 4.5%, above the 10-year high of 4.3% last seen in Q1 of 2021. Hence, we remain optimistic for the prospects of the Malaysian markets.

2.0 MALAYSIA MARKET REVIEW

Bursa Energy Index declined by 2.5% WTD dragged by Bumi Armada

Exhibit 1: KLCI vs Shariah Index

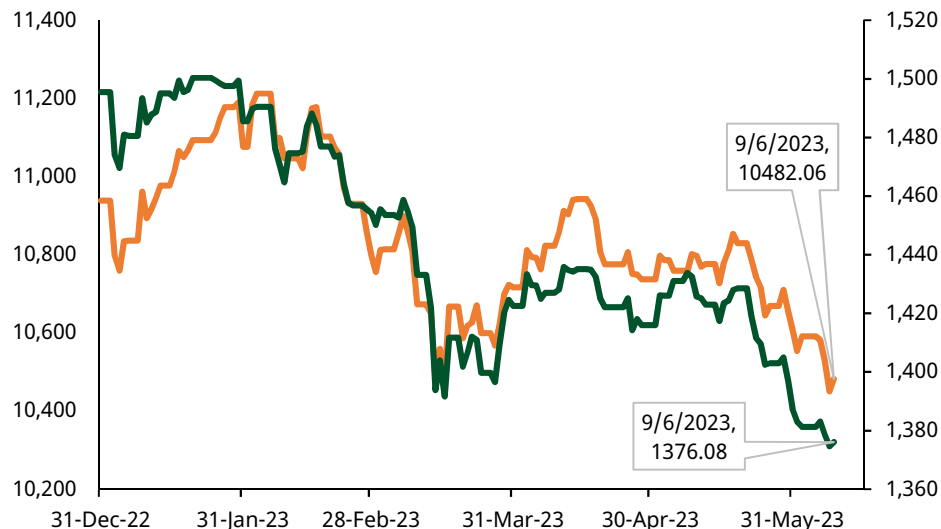


Exhibit 2: USDMYR

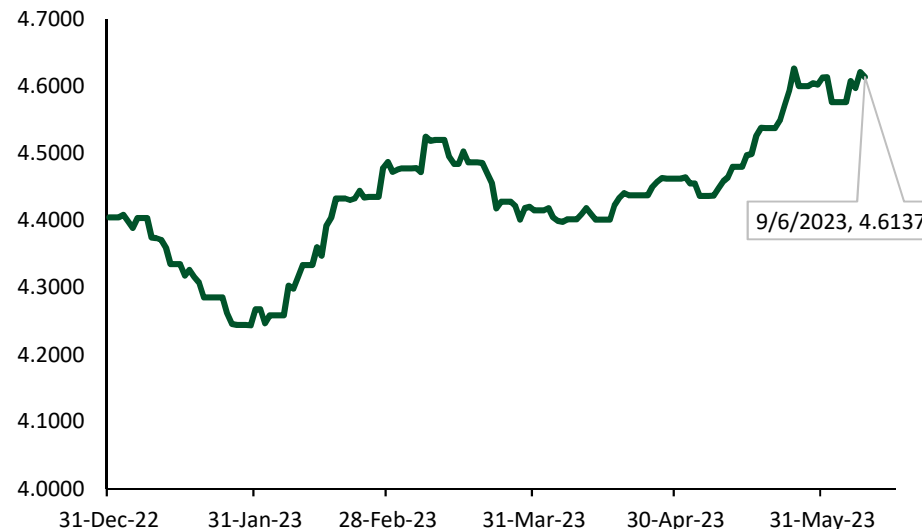


Exhibit 3: Sector Performances Week-to-Date (%)

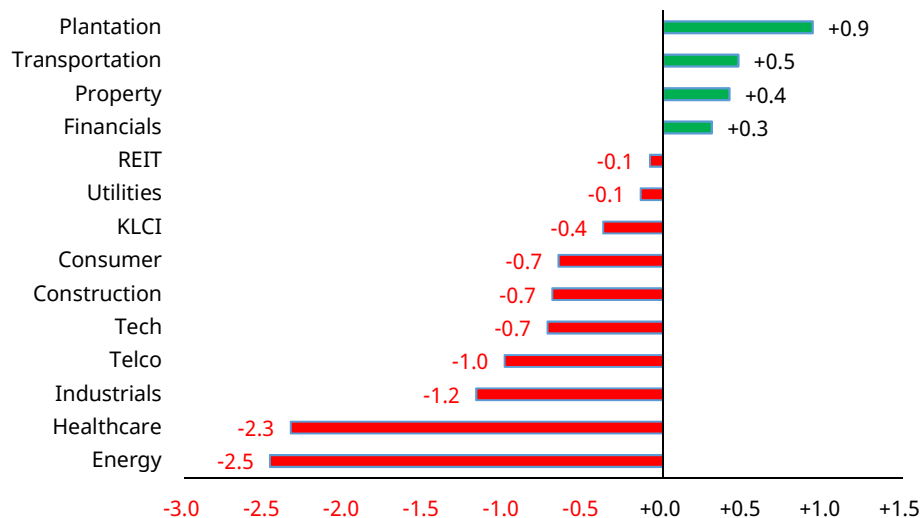
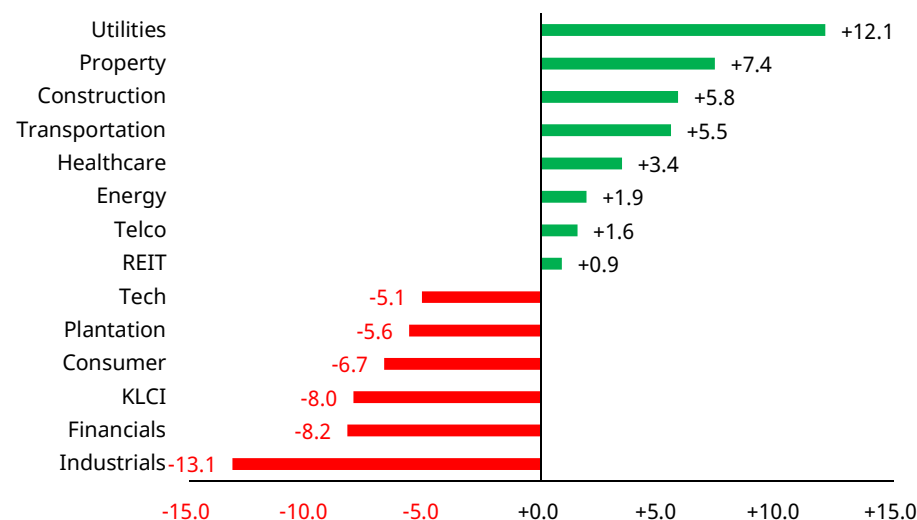


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

2.1 MALAYSIA VALUATIONS

Valuations Remain at Historical Bottoms - BUY Territory

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

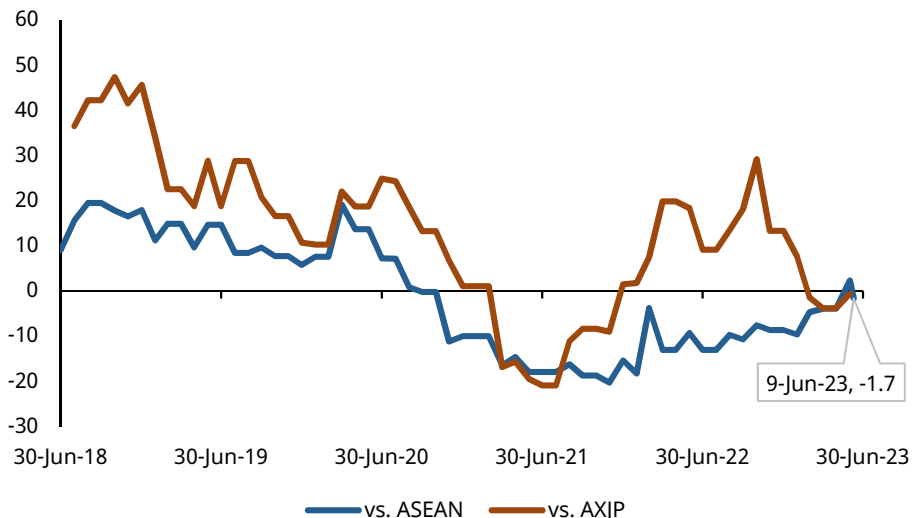


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

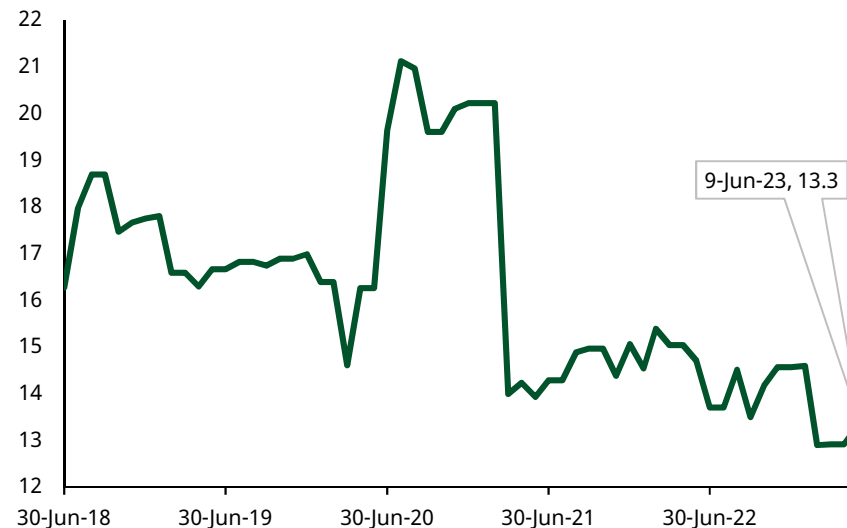


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

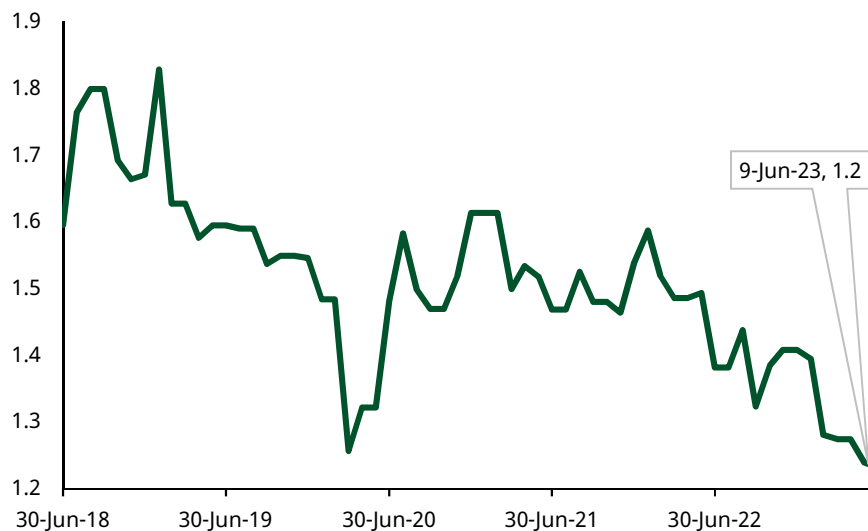
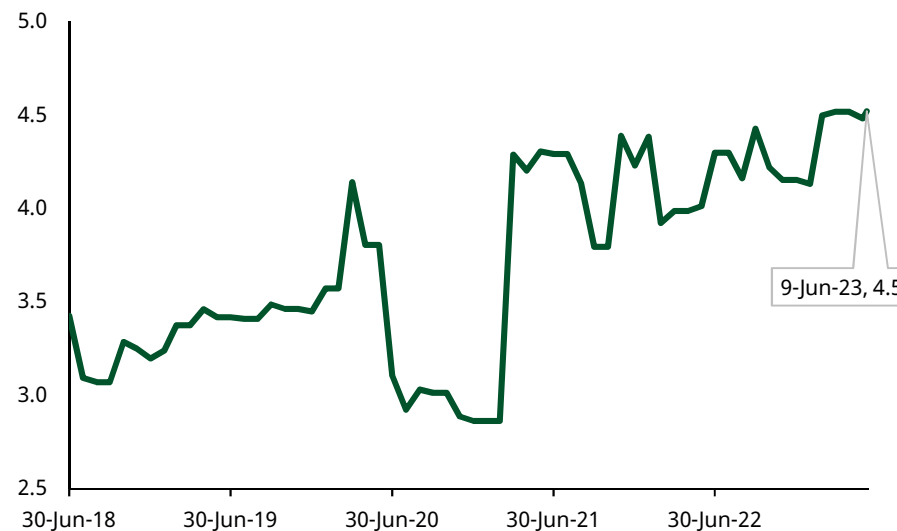


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

3.0 REGIONAL MARKETS REVIEW

HK & China Markets Rallied on Stimulus Measures Hopes

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

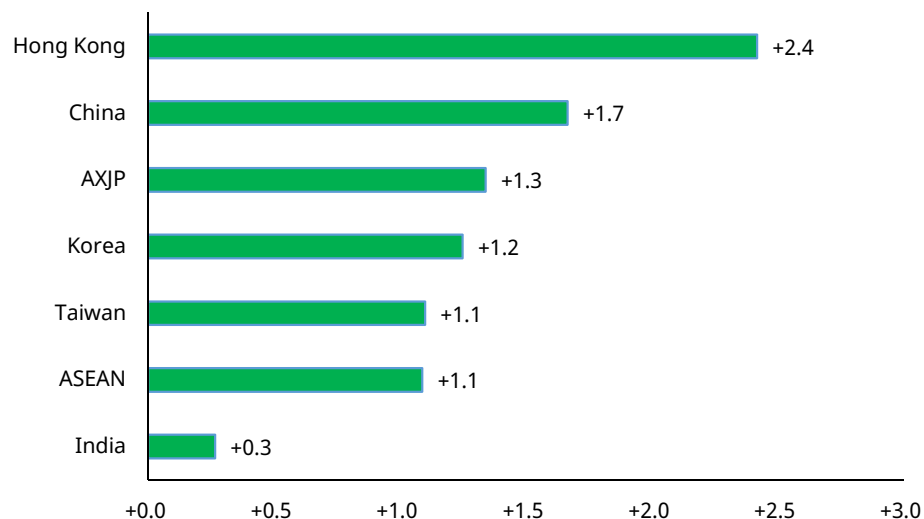


Exhibit 2: Country Performances Year-to-Date (%)

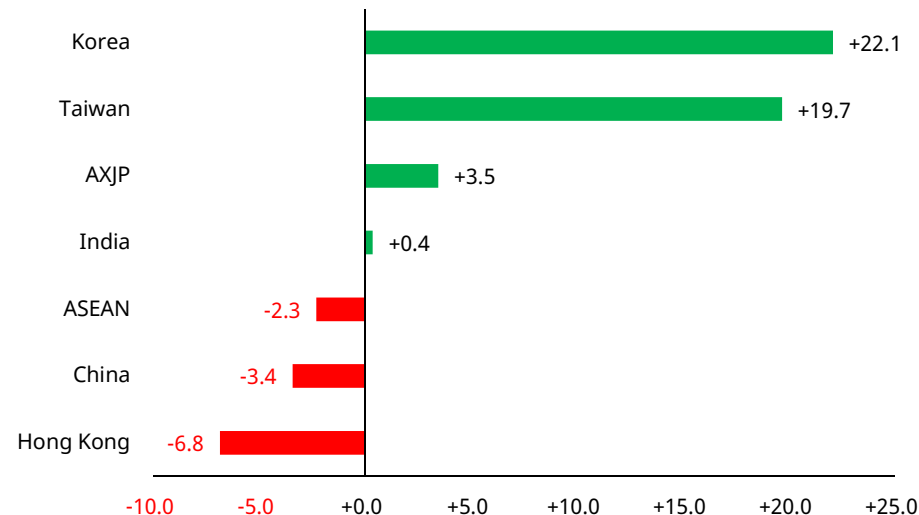
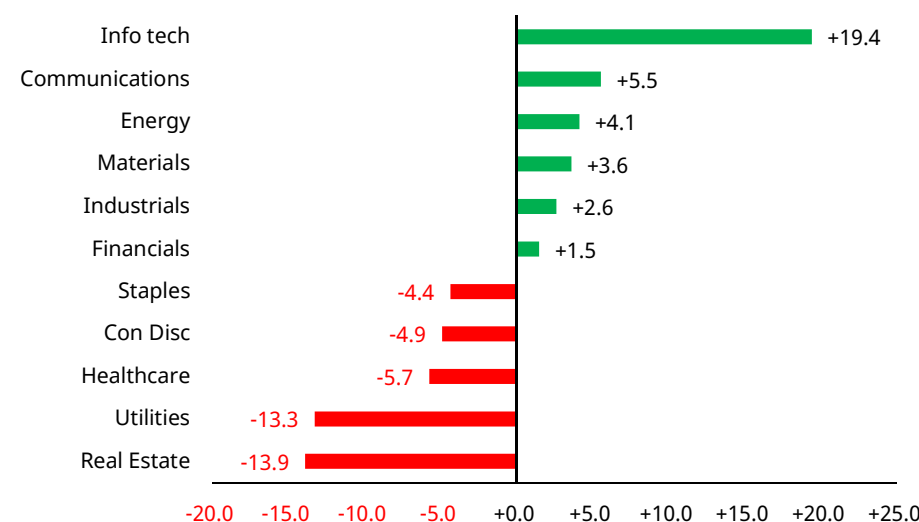


Exhibit 3: Sector Performances Week-to-Date (%)



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)

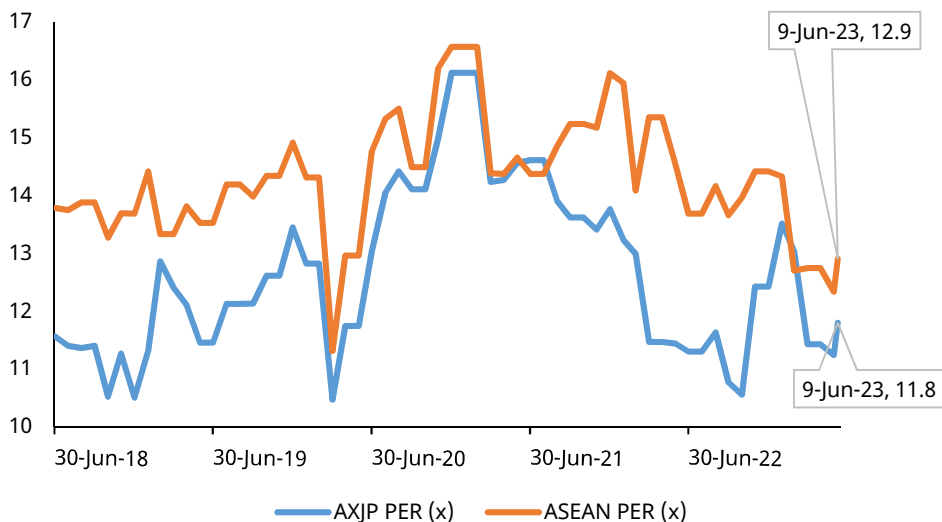


Exhibit 6: Regional Price-to-Book Ratio (x)

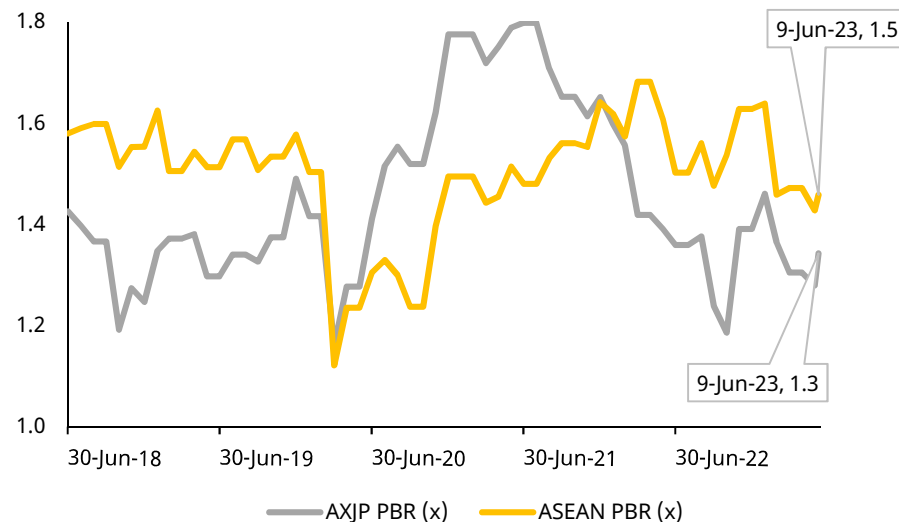


Exhibit 7: Regional Dividend Yield (%)

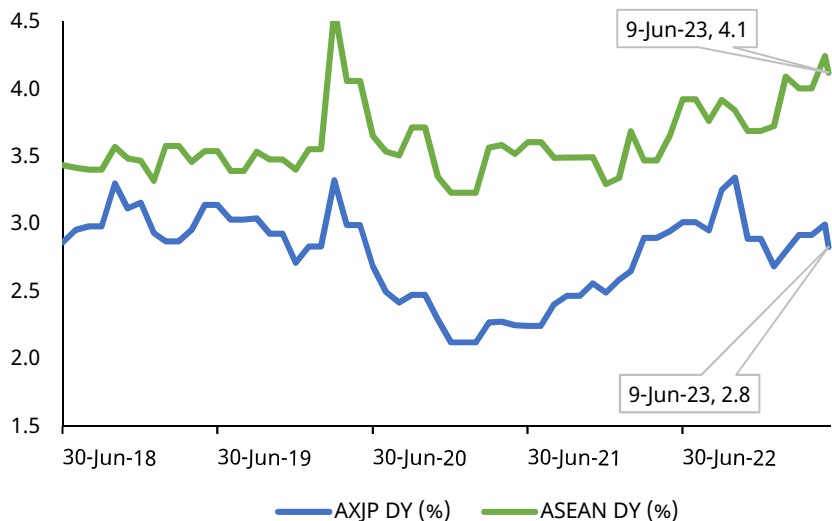
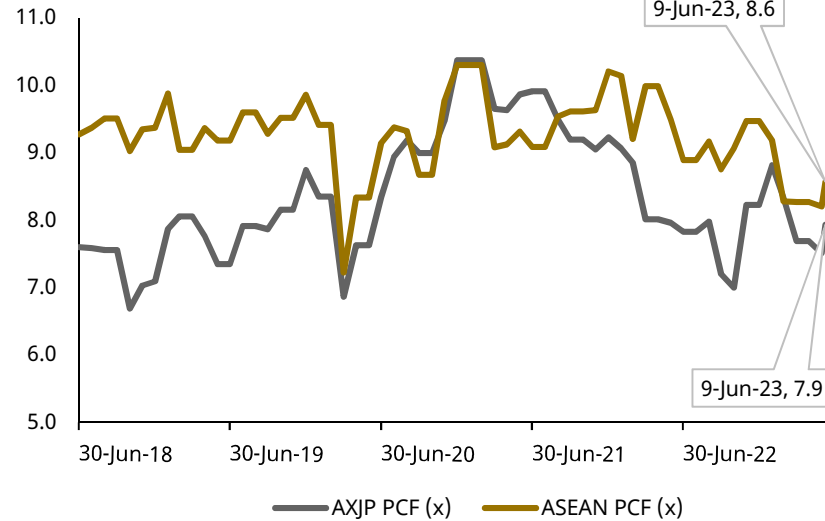


Exhibit 8: Regional Price-to-Cash Flow (x)



4.0 FOREIGN FUND FLOWS

Foreign Funds Were Net Buyers of Taiwan, India & South Korea since end-May

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

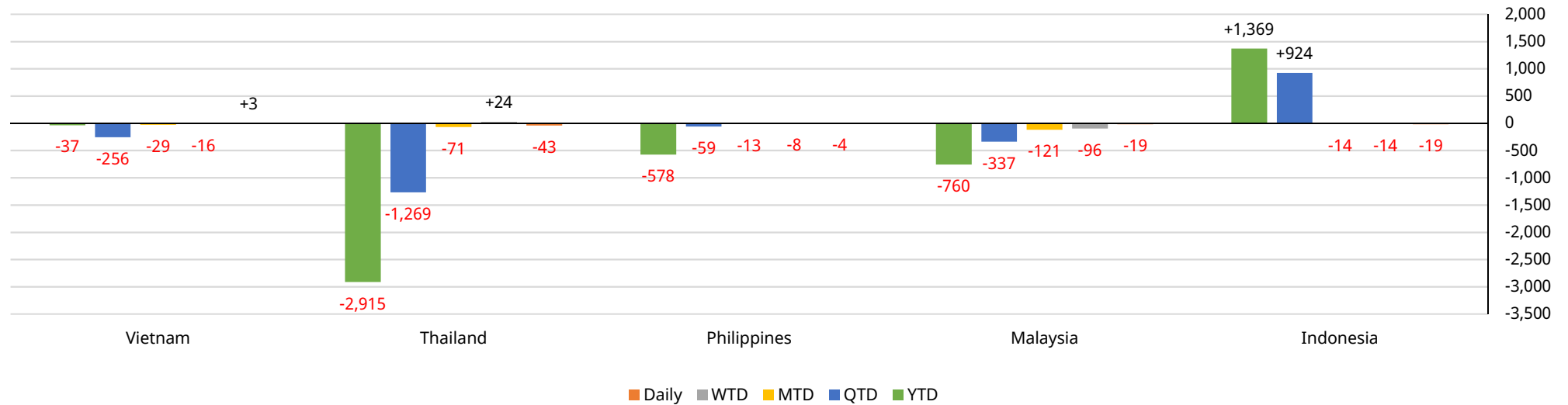
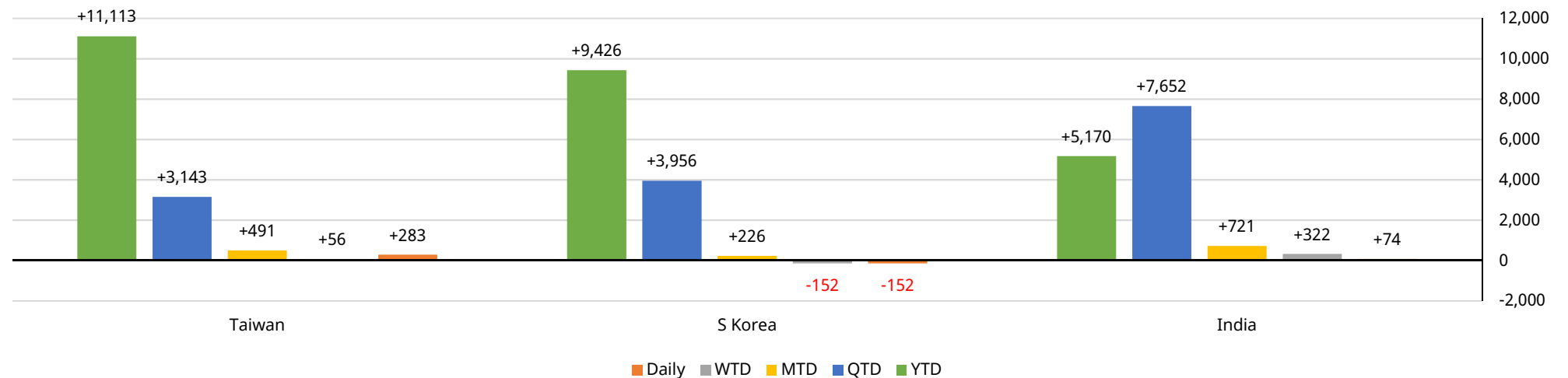


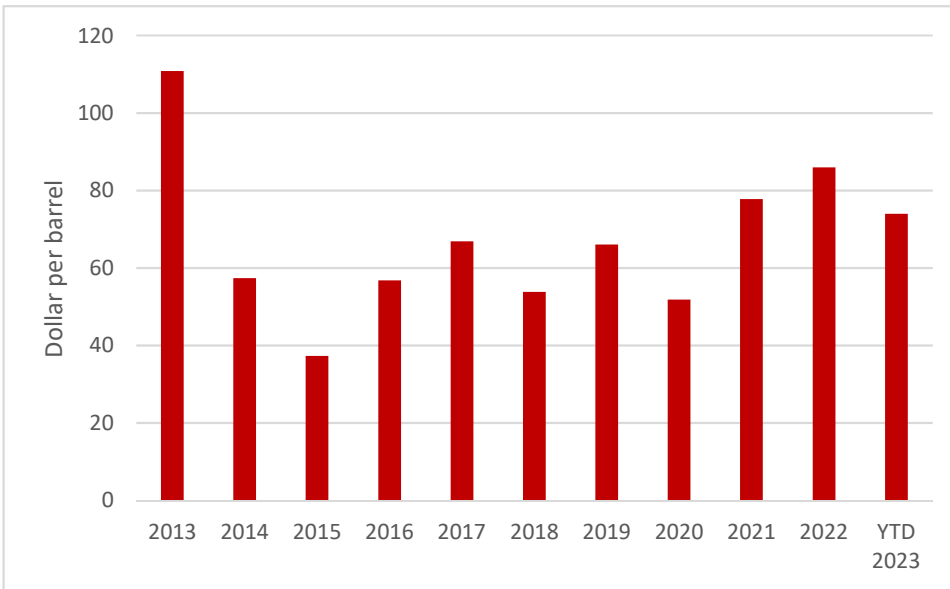
Exhibit 10: Selected North and West Asian Markets (Net USD mil)



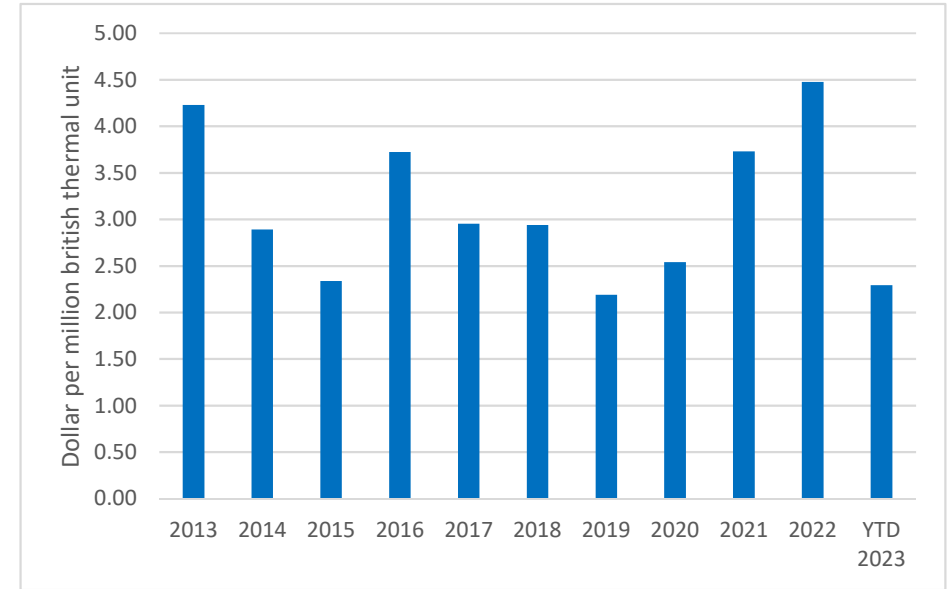
5.0 Energy Annual Prices

Energy Prices Weakened But Oil Remained Elevated Due To Tight Supply

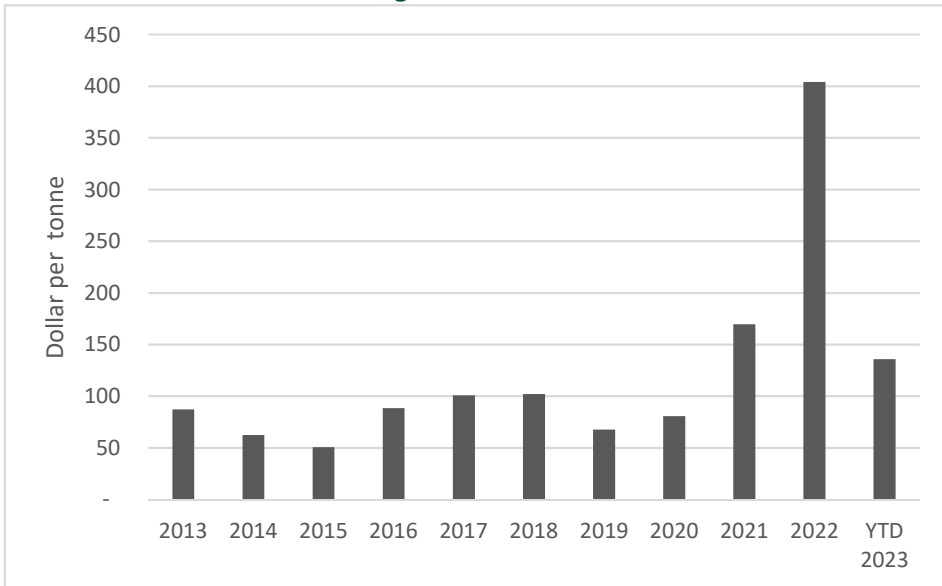
Average Annual Brent Oil Prices



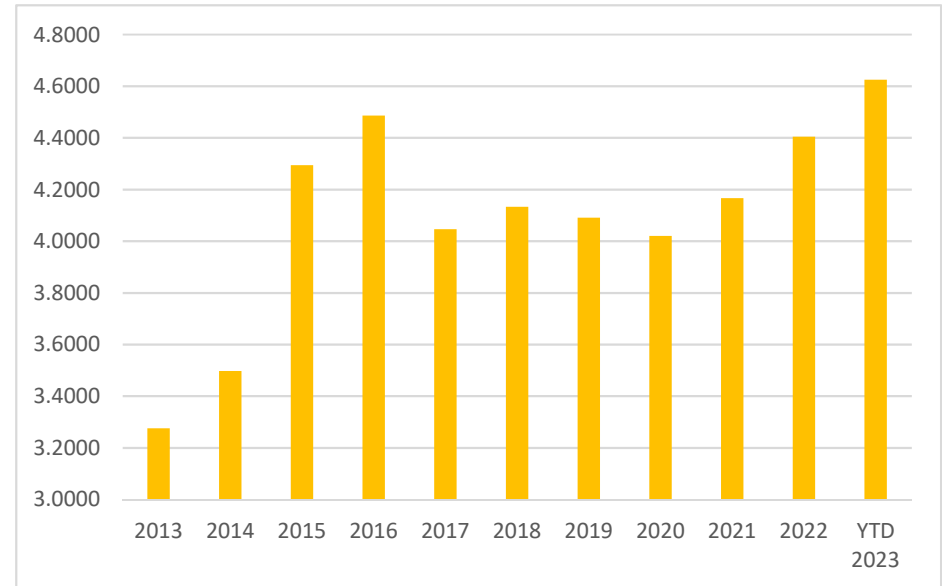
Average Annual Natural Gas Prices



Average Annual Coal Prices



1 USD to MYR

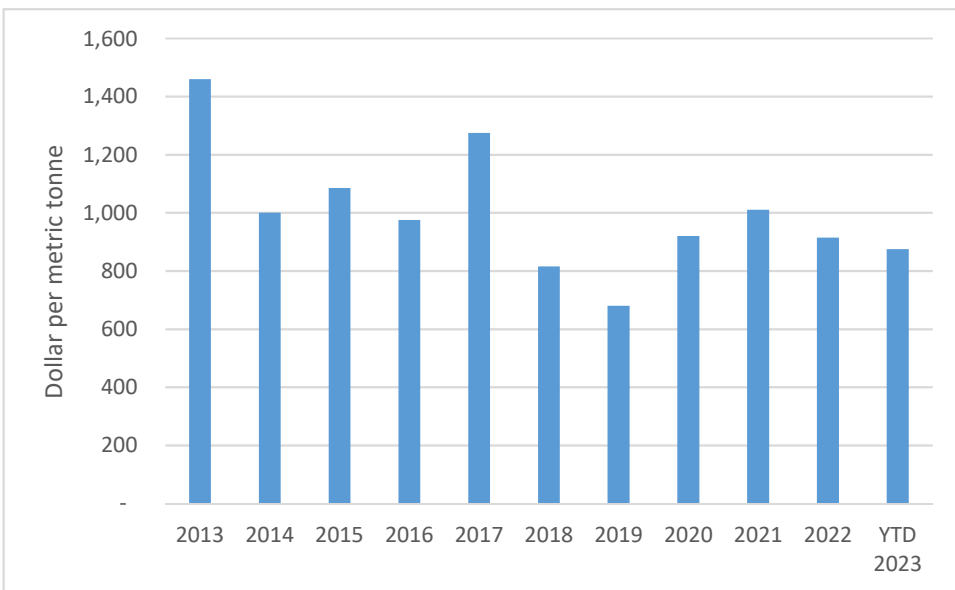


Source: Bloomberg

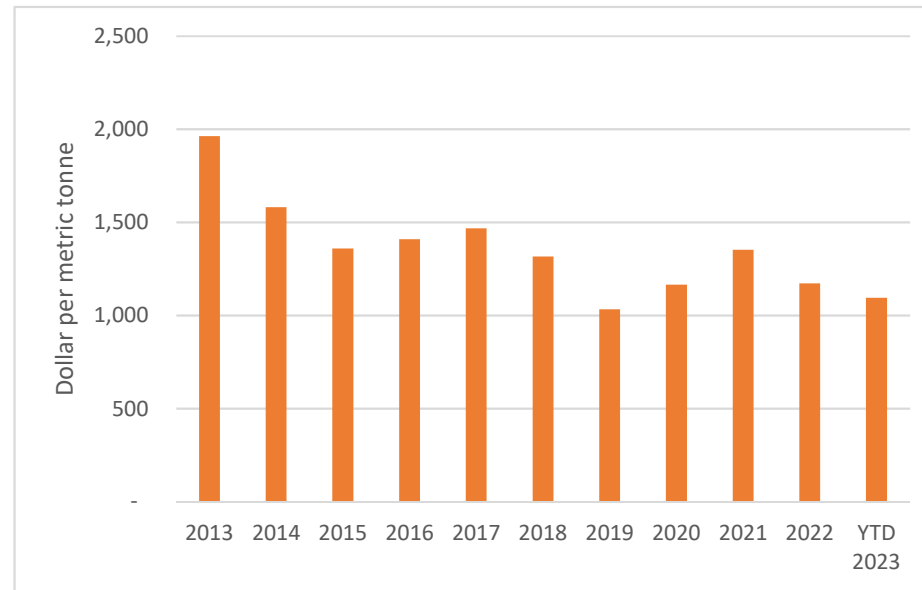
5.1 Petrochemical Annual Prices

Modest Price Increase On China's Reopening Demand

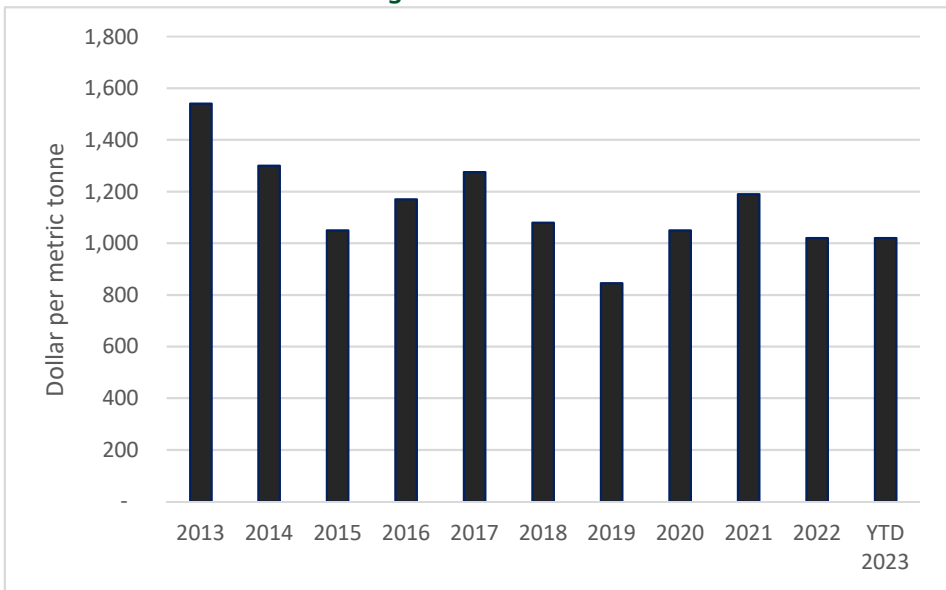
Average Annual Ethylene Prices



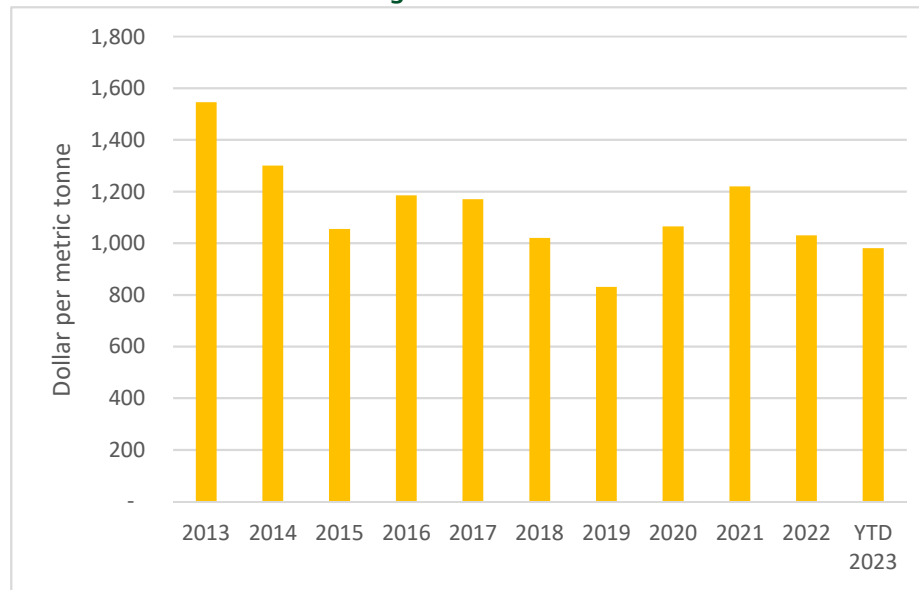
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

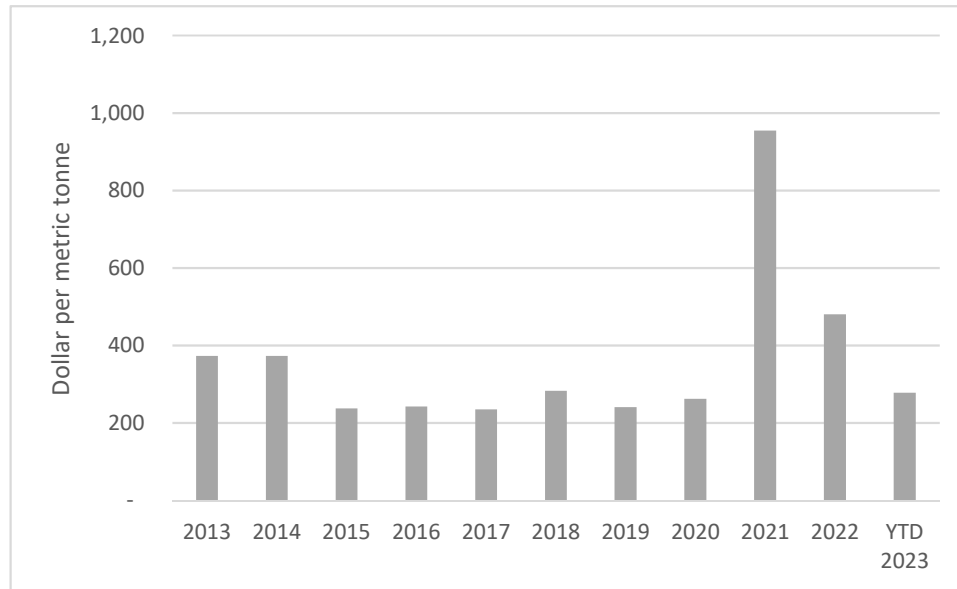


Source: Bloomberg

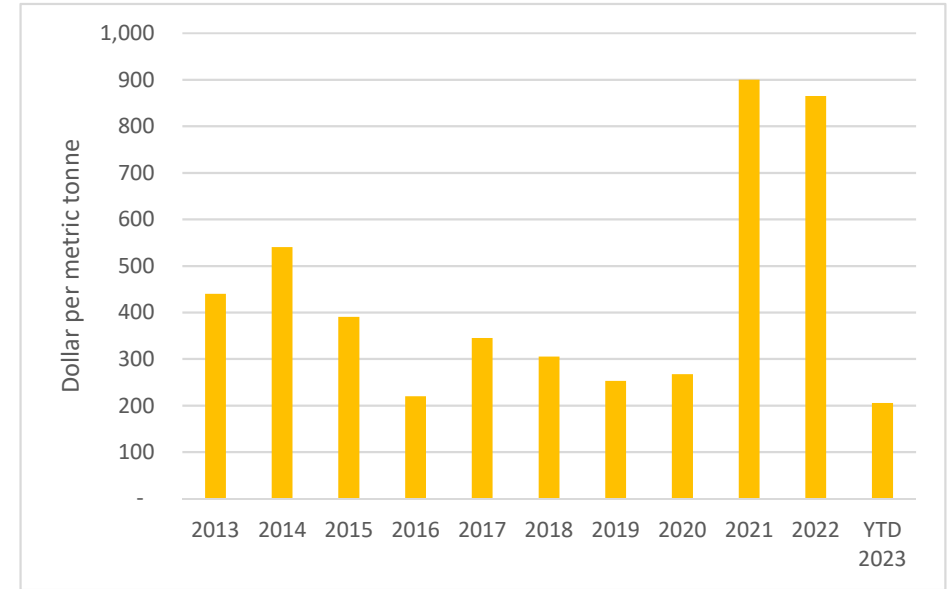
5.2 Fertiliser Annual Prices

Ammonia & Urea Prices Trend Lower, Tracking Natural Gas Prices

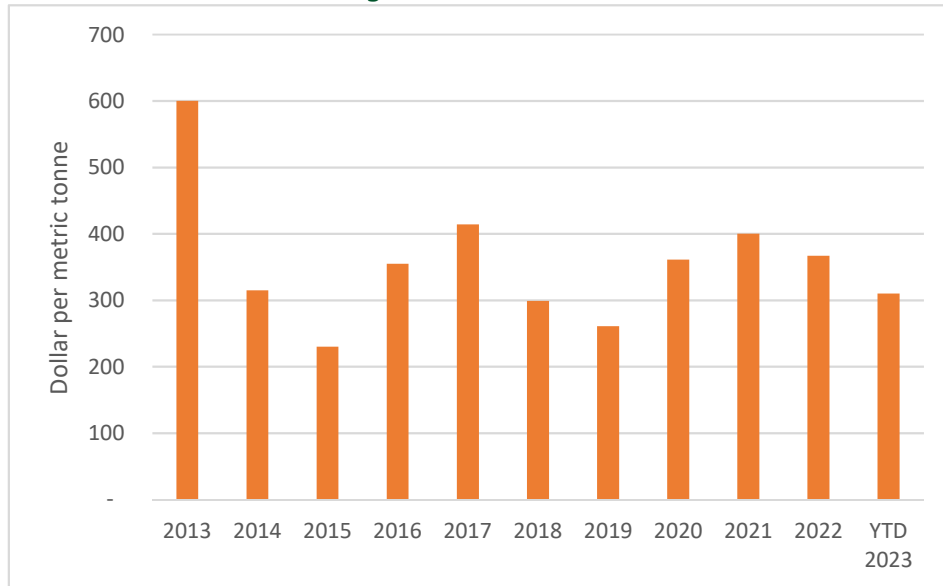
Average Annual Urea Prices



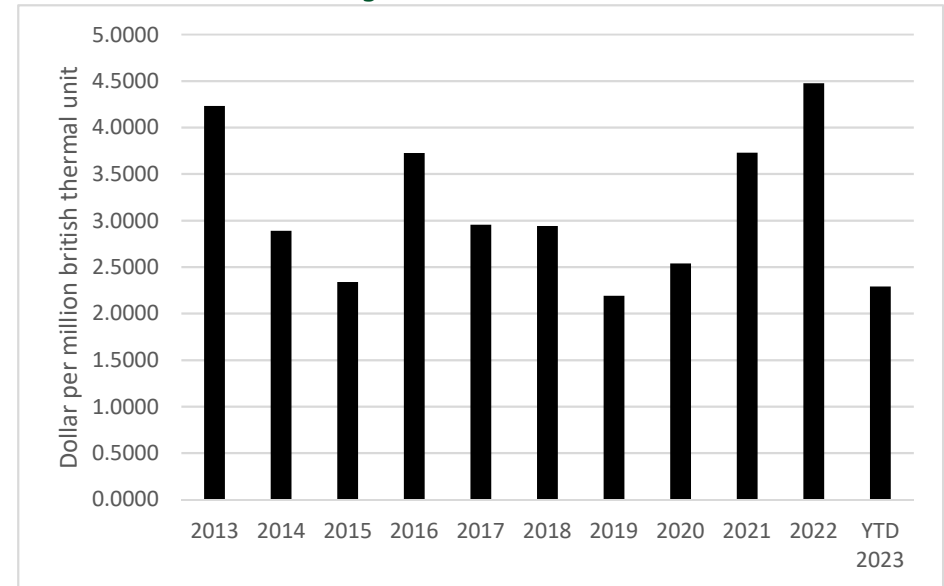
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

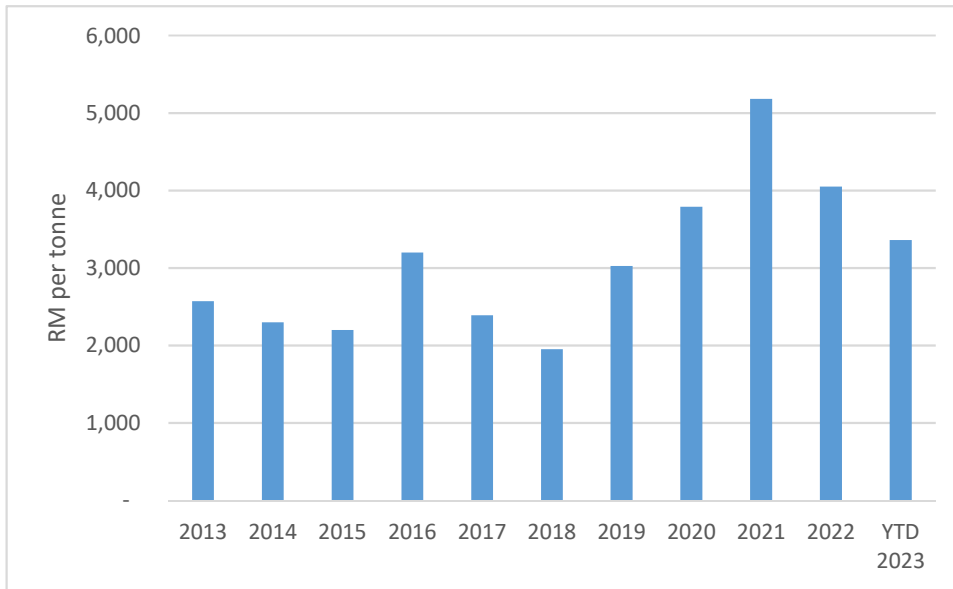


Source: Bloomberg

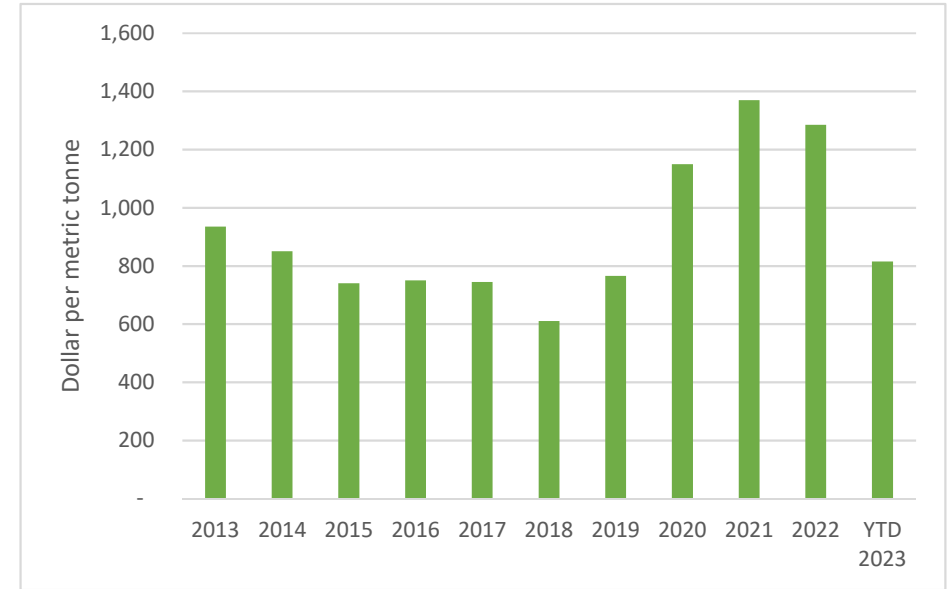
5.3 Agricultural Annual Prices

Palm Oil Prices Supported By Resilient Demand

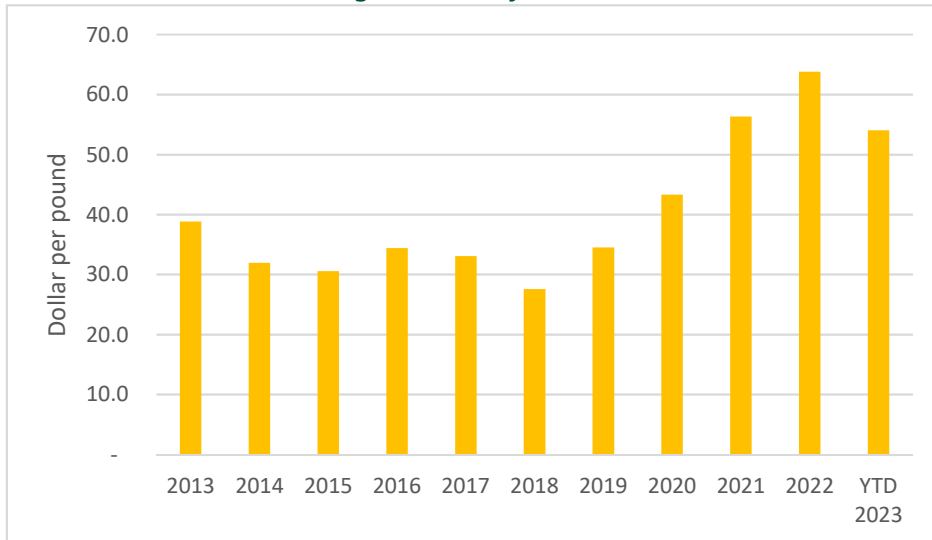
Average Annual Palm Oil Prices



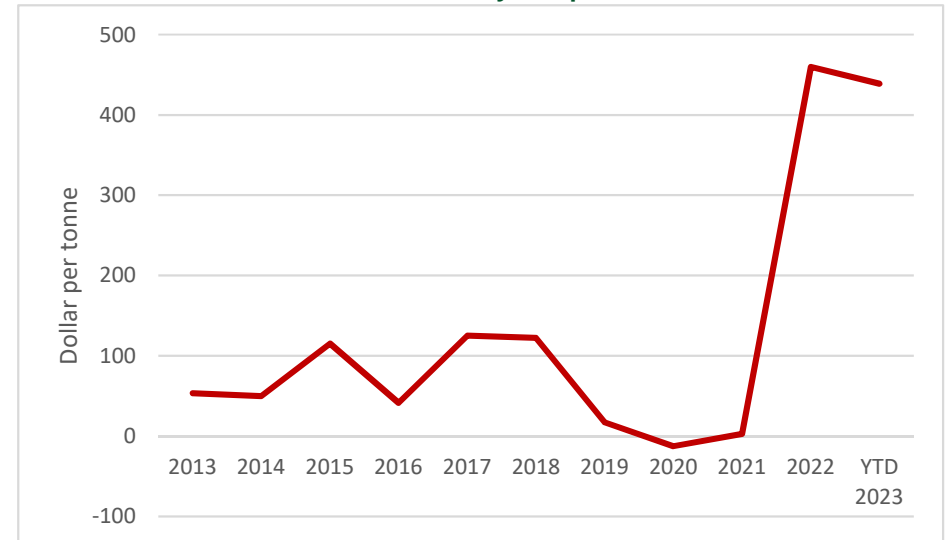
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



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