

Portfolio Manager's Views

Investment Team



13 May 2025

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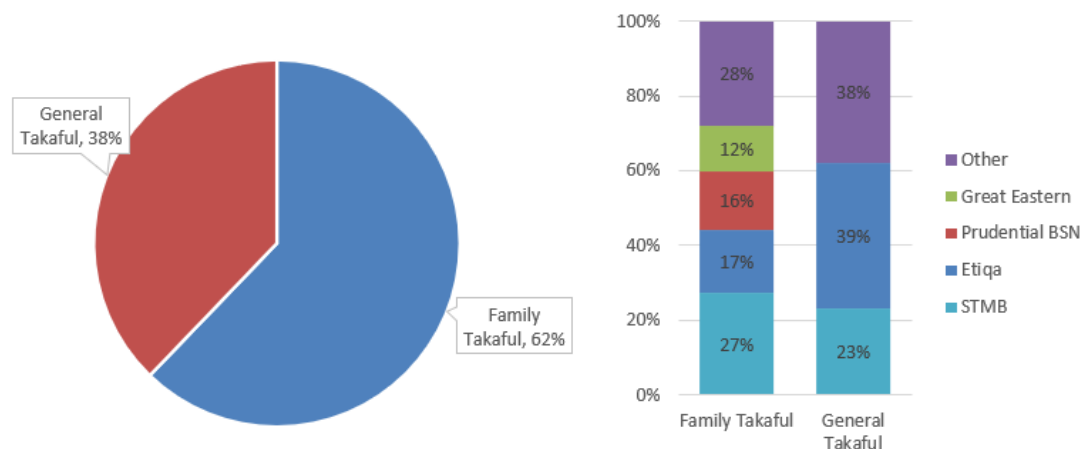
1. Executive Summary

- 1 **Special Feature: Why do we own Syarikat Takaful?**
- 2 **The global markets sell-off in April bottomed-out** after the US delayed the implementation of Reciprocal Tariffs for 90 days from 9th April 2025.
- 3 **The FED left interest rates unchanged on 7th May 2025.** U.S. core PCE rose 2.8% in March and payrolls gained 177K in April signals strong inflation and a strong job market despite tariffs. We expect the FED to cut rates on 18th Sep 2025 with a reduction of 25 bps while expecting BNM to cut the OPR by 25bps in July or September.
- 4 **The USD index (DXY) weakened by 7%** since the beginning of 2025 has effectively ended the US exceptionalism story while the MYR appreciated by 2.8% against the USD since Apr-25. Foreigners on Bursa also turned to net buyers in 9 out of 11 trading days since 23rd April 2025.
- 5 **KLCI's valuations are undemanding** ie. 12-month forward PER of 13.5x (10Y range 12.2x to 19.3x), PBR of 1.3x (10Y range 1.1x to 1.9x) and forecast DY of 4.6% (10Y range 3.1% to 4.9%) [source: Bloomberg]. Our strategy is biased towards domestic plays which are insulated from the external uncertainty. We are keeping a higher level of cash and are looking for lower levels to buy.

2. Feature: Syarikat Takaful (“STMB”)

We continue to own STMB in our Shariah Fund. The reasons for holding the stock are outlined here:

Exhibit 1: Takaful industry market shares (2024)

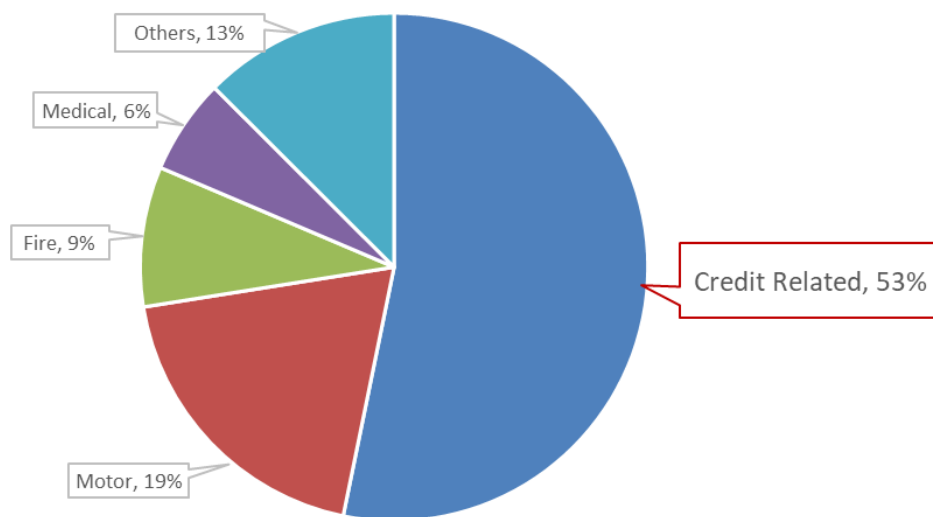


1 STMB is the market leader in the Takaful Industry.

STMB is the only listed Takaful operator in Bursa and the market leader in the Takaful industry (see Exhibit 1). The market share is derived based on the total revenue measured by insurance premiums in 2024.

Source: 2024 Financial Statements; BNM Statistics (*Prudential BSN is based on annualized 1H24 contributions)

Exhibit 2: STMB’s 2024 revenue breakdown (based on insurance premium)



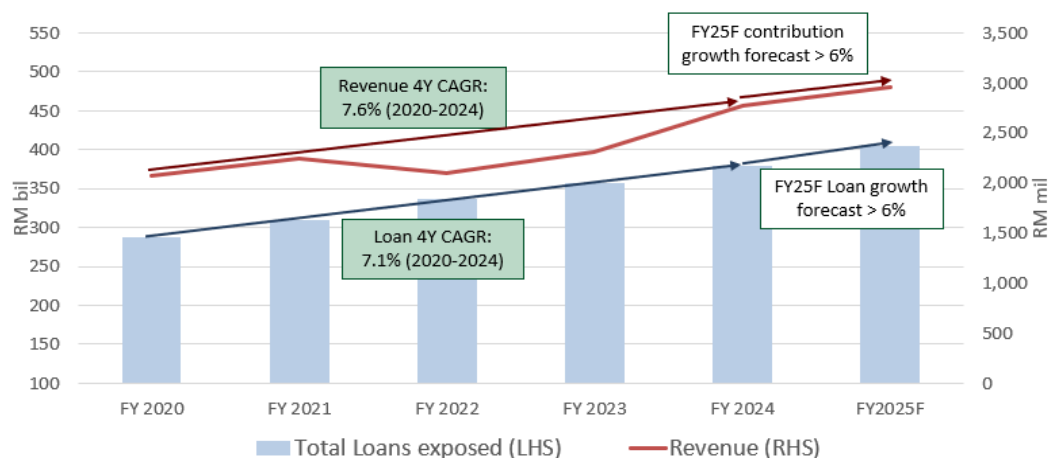
2 STMB has a strong recurring income business model.

STMB derives 53% of its 2024 total revenue from credit-related takaful, a compulsory product when borrowing. For example, when a borrower takes financing from a bank, they must also purchase STMB’s product to protect the bank against unforeseen borrower risks.

Source: STMB’s 4Q24 Earnings Briefing Slides

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Exhibit 3: STMB's total revenue vs total loans exposed*



*Total loans exposed consist of total loans within STMB's key banca partners (RHB, Affin, and BIMB).

Source: STMB's Annual Reports, Astute Fund Management Berhad

3 We expect > 6% revenue growth in 2025 supported by > 6% loan growth.

STMB is a play on credit-related Shariah loans without being exposed to the asset quality risk.

Exhibit 4: STMB's banca partners renewal schedule

Selected Banca Partners	Renewal schedule	Partnership Duration
RHB Islamic	Jul-25	>5 years
Agrobank	Dec-27	<i>Not Disclosed</i>
Affin Islamic	Jan-28	>7 years
Bank Muamalat	Feb-28	<i>Not Disclosed</i>
Bank Rakyat	Jul-28	>6 years

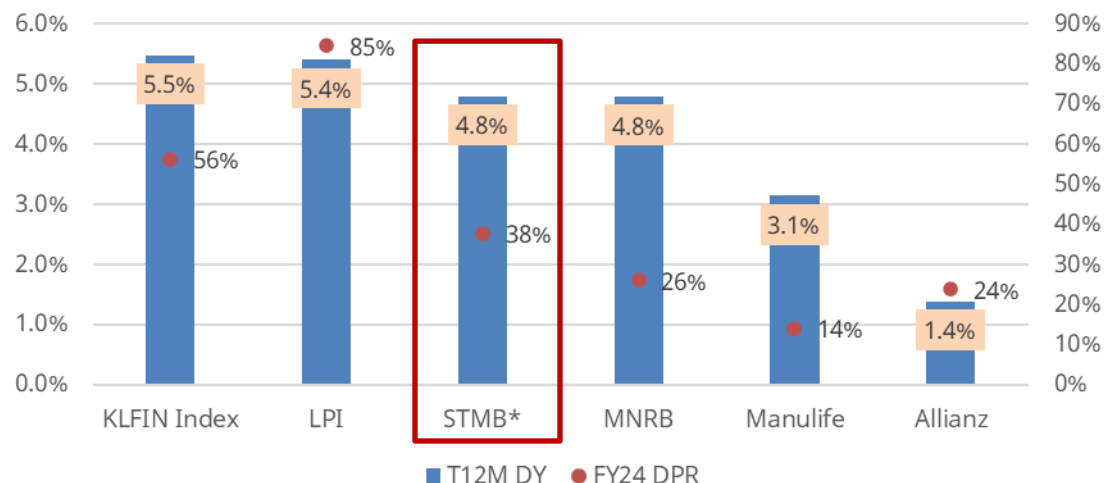
4 The upcoming banca partner renewal cycle poses operational risks, but it is manageable.

STMB's banca partners are on a renewal basis (see Exhibit 4). Upon renewals, STMB will need to pay its partners a higher upfront fee and impact its profitability. As such, STMB has been retaining cash from paying out as dividends (see Exhibit 5).

Source: STMB, HLIB Research

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Exhibit 5: STMB's Trailing 12-month dividend yield (T12M DY) & FY24 DPR vs peers

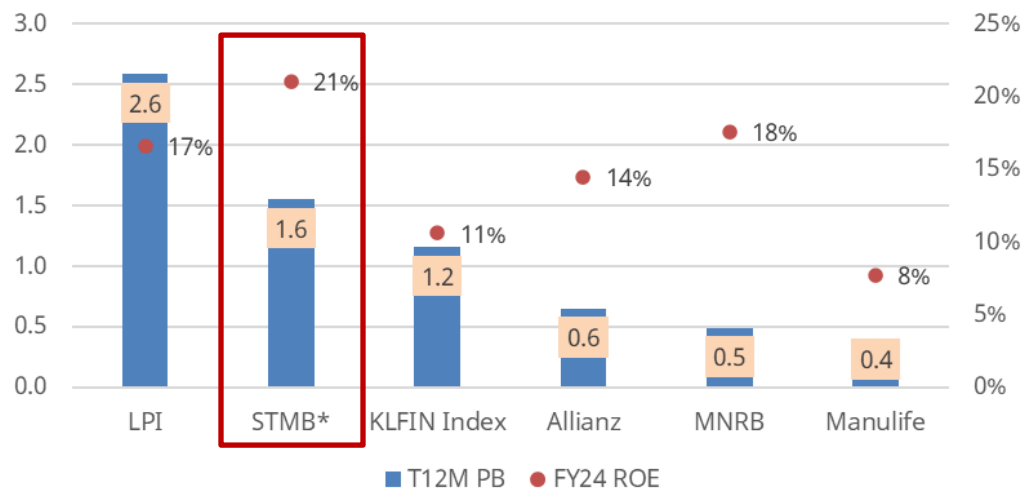


5 STMB pays only 38% of net profit for dividend.

The company has been retaining cash from paying out dividends since 2020 to prepare for the upcoming Banca renewal cycle. The stock is already paying a 4.8% dividend yield at current payout ratio (38%). We see more upside catalysts after the banca renewal cycle.

Source: Bloomberg

Exhibit 6: STMB's Trailing 12-month Price-to-Book (T12M PB) & FY24 ROE vs peers



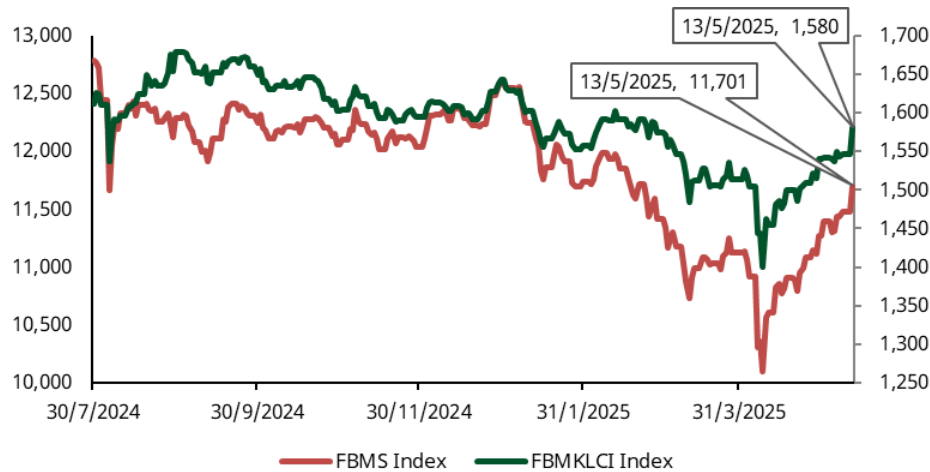
6 STMB generates the highest ROE among peers but trading at lower T12M PB compared to LPI.

STMB generates 21% of ROE in FY24, higher than all of its peers and the KLFIN Index (11%). We think STMB trading at 1.6x T12M PBR is still undemanding in our view.

Source: Bloomberg

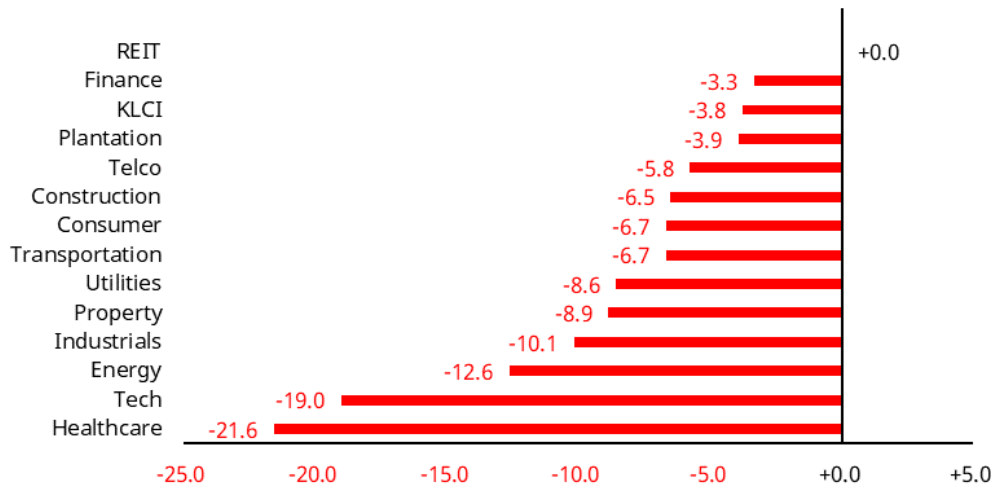
Appendices

Exhibit 7: KLCI & Shariah Index



Source: Bloomberg

Exhibit 8: Sector Performances Year-to-Date (2/1/25 – 13/5/25, %)



Source: Bloomberg

1 The KLCI has rebounded amid broad base buying.

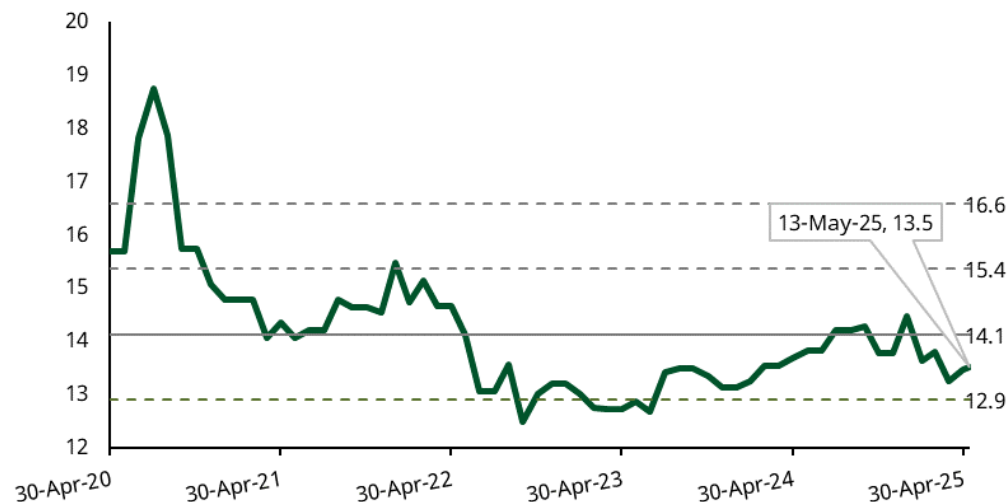
The KLCI recovered +13% from the trough during Trump’s liberation day tariffs sparked a global selloff. Trump paused reciprocal tariffs for 90 days while keeping a 10% baseline tariff on 9th April, 2025.

2 KLCI kept in the red due to external pressures.

The healthcare and technology sectors were the top losers. Trump signaled future tariffs on semiconductors despite initial exemptions. Rising costs could reduce Malaysian tech exports’ competitiveness in the U.S., negatively impacting the outlook for local technology firms.

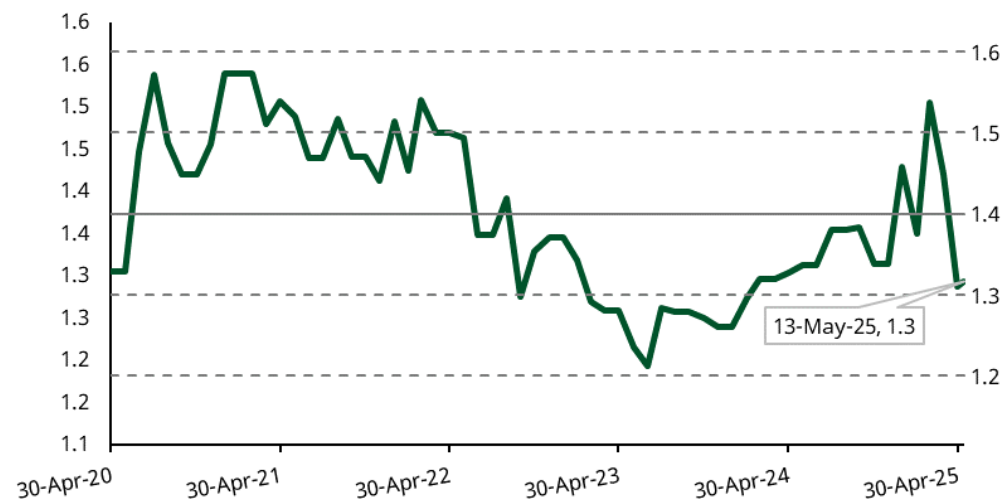
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Exhibit 9: KLCI's 12M Forward PER (x)



Source: Bloomberg

Exhibit 10: KLCI's 12M Forward PBR (x)



Source: Bloomberg

3 The KLCI's valuation is undervalued below the 5Y mean.

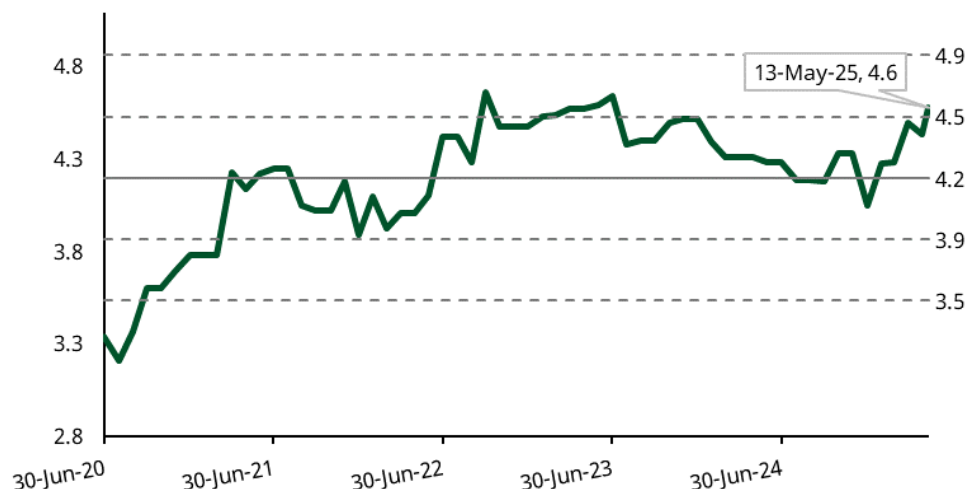
The KLCI trades at a 12-month forward PER of 13.5x (5Y range 12.5x to 18.7x, 5Y mean of 14.1x).

4 This is the same for KLCI's PBR.

The KLCI trades at a 12-month forward PBR of 1.3x (5Y range 1.2x to 1.5x, 5Y mean 1.4x).

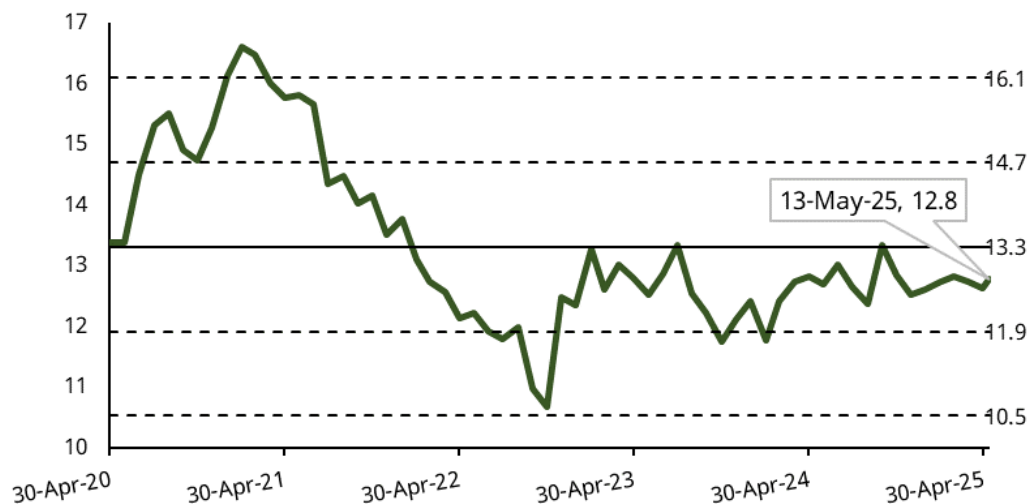
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Exhibit 11: KLCI's 12M Forward DY (%)



Source: Bloomberg

Exhibit 12: MSCI AxJ Index's 12M Forward PER (x)



Source: Bloomberg

5 The KLCI dividend yield is still attractive.

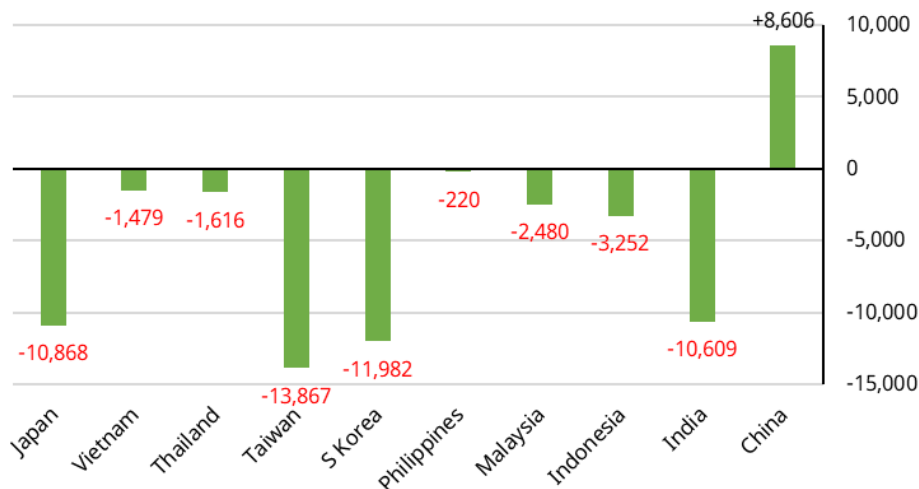
The KLCI trades at a 12-month forward forecast DY of 4.6%, above its 5Y mean of 4.2%. The appealing dividend yield is likely to help limit potential losses.

6 Asia ex Japan is still trading below historical averages.

The MSCI AC Asia ex Japan index trades at a 12-month forward PER of 12.8x (5Y range 10.7x to 16.6x, mean of 13.3x). Asia ex Japan is also seeing recoveries as Trump's tariff paused and US-China tariff war de-escalate.

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Exhibit 13: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg, data as of 12 May 2025, China's data is as of 31 Dec 2024.

7 Outflows were the highest in East Asia and India. Southeast Asia sees outflows as well.

Overseas investors turned net sellers of Asian equities except China. Investors are still concerned on Trump's trade policies might hit the Asian economies.

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