



Portfolio Manager's View

02 December 2021

Fund Management Department

Regional

1. It has been a while since we commented on the Covid-19 virus itself. Just as we thought that we can look forward to the normalisation of our economies and daily activities, we received the jolt of a new Omicron variant that has replaced the Delta variant as the dominant variant in South Africa in double quick time, i.e. highly transmissible. Despite encouraging anecdotes that many have only experienced mild illness from Omicron, it's still premature to make any conclusive statements on severity. It will be at least another few weeks, to find out if Omicron will burden healthcare systems and if current vaccines will still be effective against it.

However, we have learned much in almost two years to prescribe a rational response to the threat. Many countries are now quicker to react, to impose targeted (not nationwide) travel restrictions to try to buy time. Failing to prepare for a worst-case scenario would be a potentially disastrous mistake. These are necessary noises that will still affect equity market sentiment. As Singapore's Prime Minister Lee Hsien Loong said, "we may be forced to take a few steps back before we can take more steps forward".

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2. At US Fed Chair Jerome Powell's testimony to the Senate Covid Panel, Powell delivered a surprisingly hawkish message. "Transitory" has now been removed from his narrative although the timeline for inflationary pressures to subside remains sometime in the second half of 2022. The uncertainty over persistently high inflation near-term has increased, the possibility of even more supply chain disruptions due to Omicron. December's FOMC Meeting will focus on discussion if it is now appropriate to speed up asset purchase taper by a few months. Non-farm payrolls this Friday and CPI before this next FOMC will create much volatility. Strong numbers are likely to open the door to a nearer timeline for rate hikes.
3. Last week, we reported that China's October economic data-points surprised positively. The latest November Manufacturing Purchasing Managers' Index at 50.1 and Production Index at 52.0 indicated a return into expansionary territory. Fourth quarter GDP may surprise on the upside. It is likely that momentum can continue with buyers likely to anticipate Omicron disruptions and the risk of an extended Chinese New Year factory shutdown and stock up more. We remain constructive on China for the coming year.

Malaysia

1. The KLCI closed at 1,517 @ 25.11.2021, a decline of -4.4% MoM. Last week, Metals & Mining (+1.1%) and Technology (+1.1%) were the best performing sectors. In contrast, Oil & Gas (-4.4%), Construction & Material (-2.4%) and Healthcare (-2.0%) were the worst performing sectors. Year-to-date @ 25.11.2021, the KLCI has retreated by -6.7%.
2. The emergence of the Omicron variant has delayed Malaysia's transition into the endemic phase. In response to the variant, Malaysia has banned travelers from countries with reported cases of Omicron. The list may be expanded to more countries if others start to report similar cases.

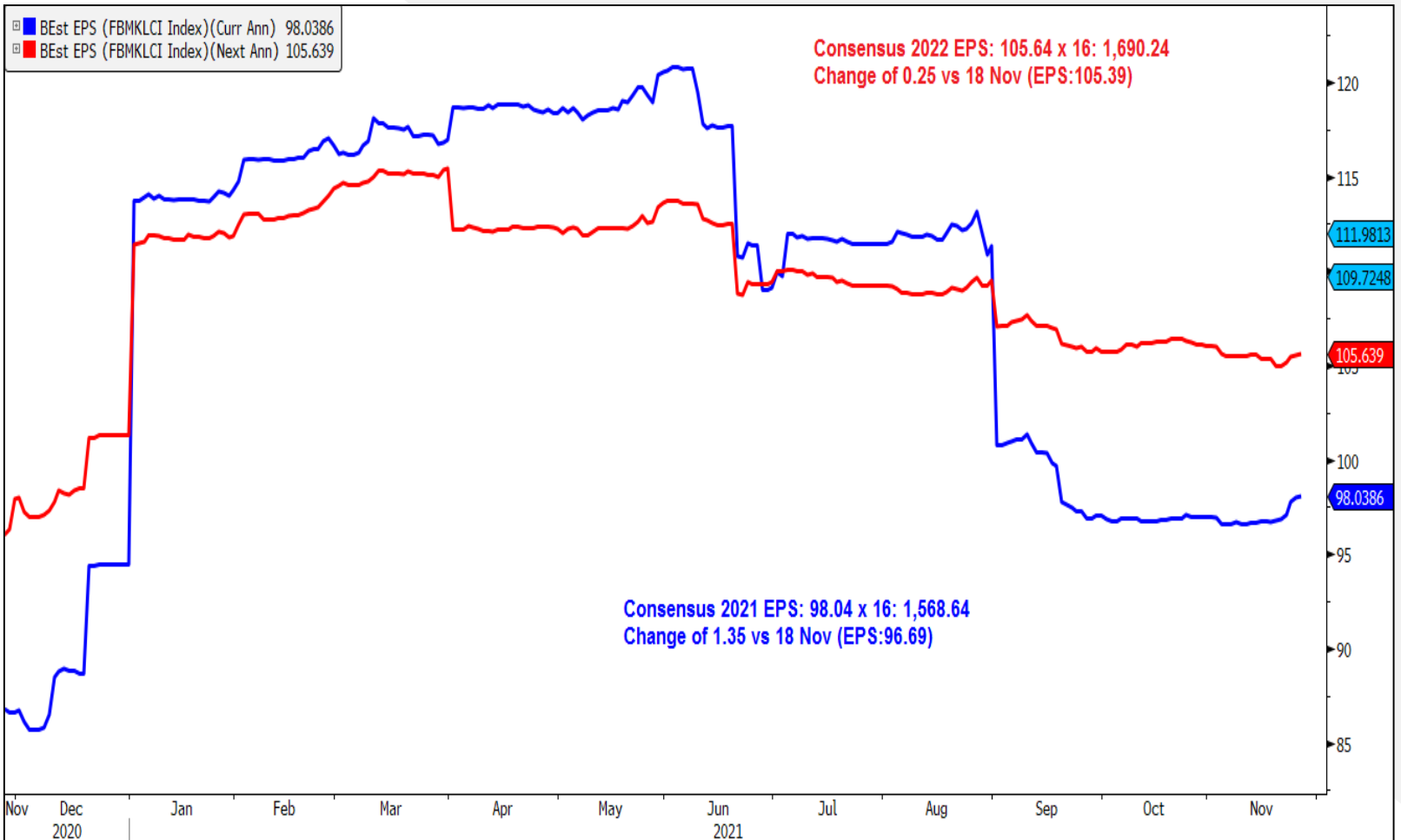
On a positive note, Malaysia's vaccination levels status remains one of the highest in the region with 97% of the adult population and 86% of the total population being fully vaccinated. Average ICU utilization rates remains manageable at 62%.

3. The Sep-quarter (3Q) reporting season has recently ended. In 3Q, more companies have beaten expectations with fewer companies disappointing compared to 2Q. However, consensus earnings for 2022 have edged lower since the beginning of 2021. This weak earnings trend is likely to continue in the short-term and will result in downward revision in index targets for 2022.

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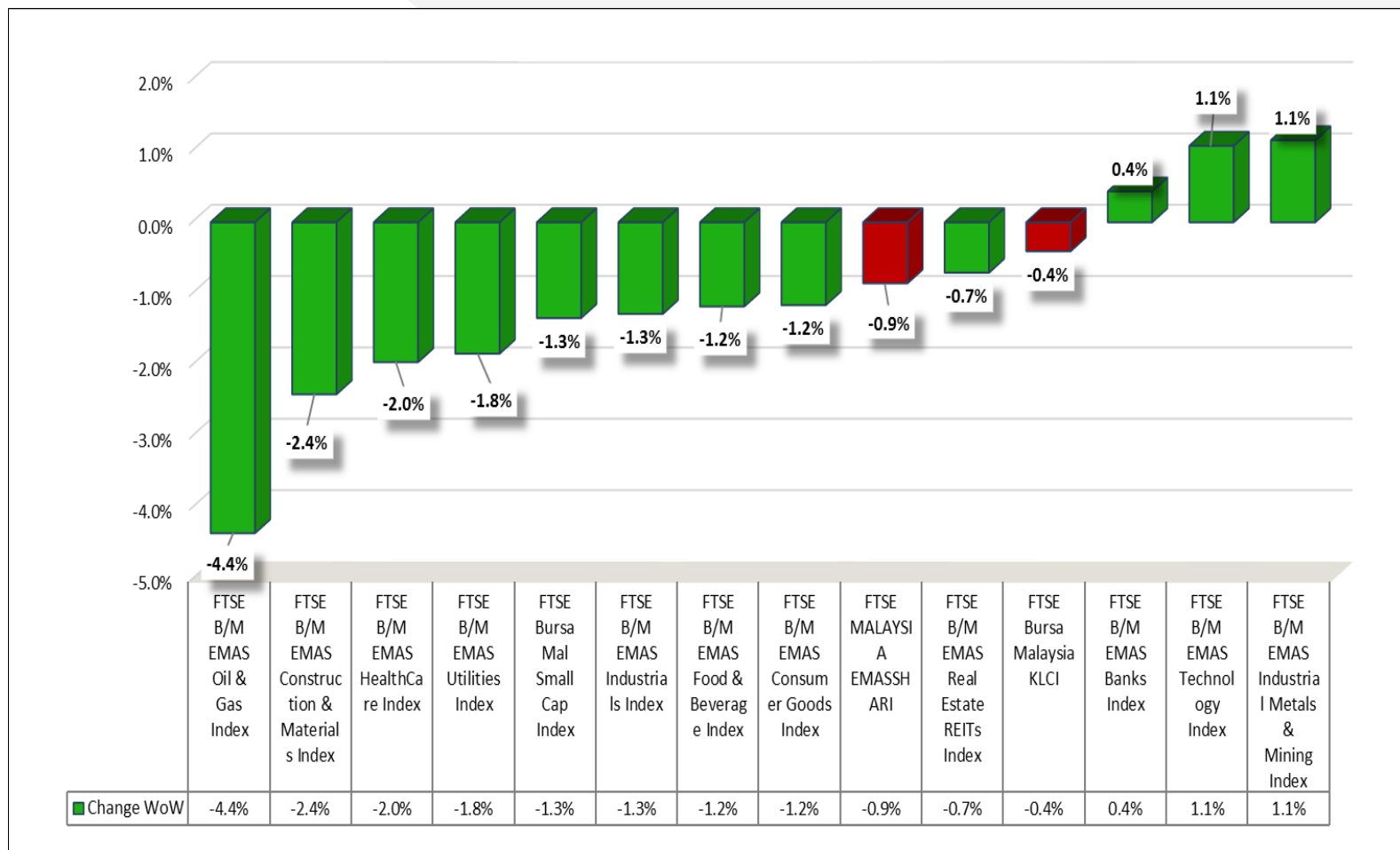
4. Oil prices has dropped from \$83/bbl to \$70/bbl in the past 7 days. In addition to the release of strategic oil reserves from US and its allies, the emergence of Omicron has sparked worries of another wave of COVID cases and possibility of movement restrictions. We oil prices will recover and move higher in 2022 due to chronic underinvestment in new capacity, OPEC+ shortage of spare oil capacity and restocking of strategic reserves.
5. In our view, the KLCI's valuations remain undemanding. Based on KLCI level of 1,517 @ 25.11.2021 and using consensus market EPS integer of 106 for 2022, the market is trading at a PER of 14.3x (see Exhibit 5). This is -1 standard deviation below its long-term average of approximately 15.2x. The market PBR of 1.5x (below 5-year average) and DY of 4.0% (above 5-year average) are also supportive of the stockmarket (see Exhibit 6 & 7). Finally, Malaysia is trading at a 2% discount against Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium (excluding the pandemic period in 2020 - see Exhibit 8).

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 25.11.21



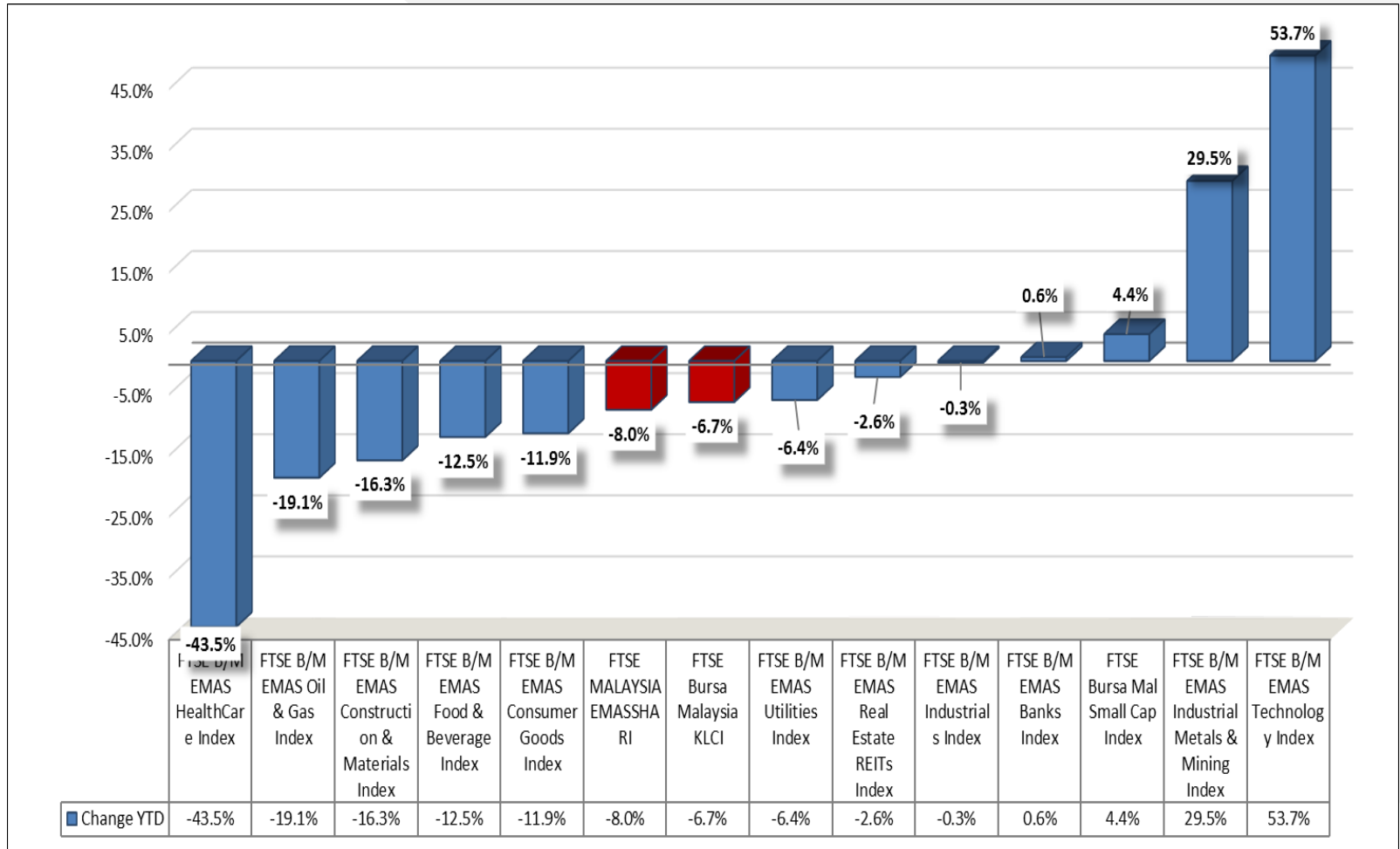
(Source: Bloomberg)

Exhibit 2 : Sector Performances (Week-on-Week) @ 25.11.21



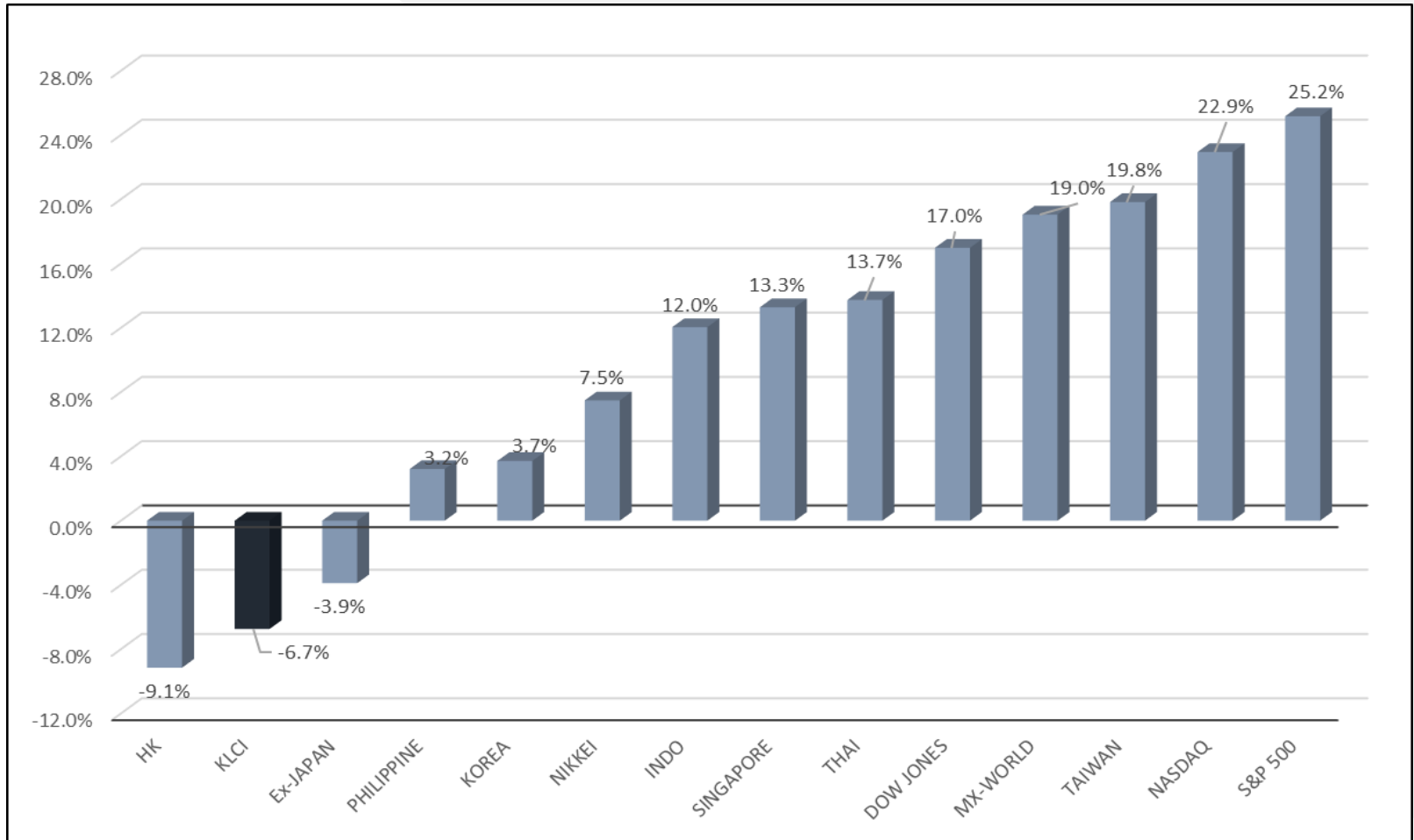
(Source: Bloomberg)

Exhibit 3 : Sector Performances (Year-to-Date) @ 25.11.21



(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 25.11.21



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE @ 25.11.21



(Source: Bloomberg)

Exhibit 6 : KLCI 12M Forward PB @ 25.11.21



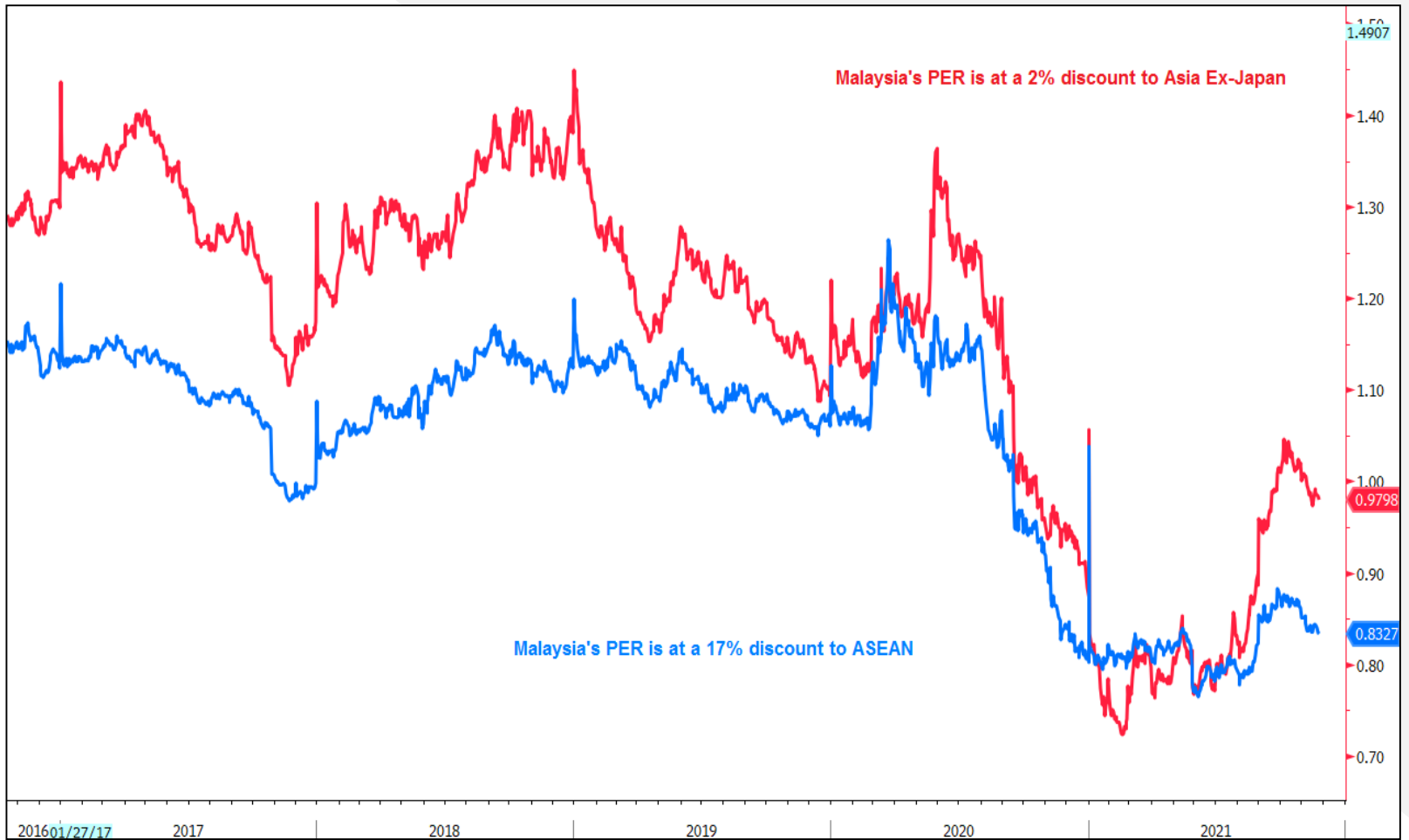
(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 25.11.2021



(Source: Bloomberg)

Exhibit 8 : Malaysia's Relative PE to the Region



(Source: Bloomberg)

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