

PORTFOLIO MANAGERS' VIEWS



7 June 2022

MALAYSIA & REGIONAL

1. THE WEEK IN REVIEW (30 May-3 June 2022): The first quarter (Q1) 2022 earnings reporting season concluded at the end of May, last week. As the Q1 report card coincided with the start of the Russia-Ukraine war which led to spikes in commodity prices and inflation, focus was on corporate profit margins and the winners and losers in the current high inflation climate. On a broad market basis, both the KLCI and the FBM Shariah Index margins showed a 1%-pt decline in Q1 2022 against Q4 2021. However, the KL Plantation Index saw a 3.4%-pt margin expansion to its highest level in 5 quarters, aided by the high commodity prices that benefited the upstream planters. Margin expansion (+2.7% pt QoQ) was also seen in the Consumer Staples index that saw the pass-through of higher commodity costs via higher selling prices. An apparel manufacturer that we track (in the consumer discretionary sector) even saw a 2%-pt expansion in margins.

On the downside, companies that operate in industries with government-imposed price caps were impacted by the high inflationary condition. One such company saw a 2%-pt contraction in margins over the two sequential quarters.

2. STRATEGY & OUTLOOK: The above highlights the following:

a) Plantation companies in the upstream sector will continue to benefit from the elevated commodity prices, especially in the edible oil segment. This is despite higher costs (e.g. fertilizer) associated with planting, as selling prices in the spot market outpace costs.

b) Consumer staple producers are able to pass on higher commodity input costs, as demand for staple products were relatively inelastic to higher end-product prices.

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c) Consumer discretionary companies that already offer products at attractive price points in the mass market segment were able to raise prices without impacting demand.

d) In April, Singapore's CPI rose 5.4% YoY, whereas in May, Thailand registered 7.1% YoY, Philippines 5.4% and Indonesia 3.6%. Malaysia's ability to subdue inflation arose from policy actions and subsidies that are made possible from the country's natural resources. The North Asian industrialised countries of South Korea (14-year high of 5.4% in May) and Taiwan (10-year high of 3.4% in April) also succumbed to inflationary conditions. Comparatively, Malaysia's latest Consumer Price Index (CPI) reading of 2.3% for April 2022 is relatively more contained compared with ASEAN and North Asian peers.

As of last Friday, Malaysia's valuations remains fair. The KLCI's 2022 PER of 14.8x is below its 5Y average of 16.3x, (2) price-to-book ratio of 1.5x is below its 5-year average of 1.6x, and (3) the dividend yield of 4.0% is +1 standard deviation above its 5-year average of 3.5% (historically 3-4%). The broader market's decline in May (the KLCI returned negative 1.7% and FBM Shariah Index fell by 4.1%) offers stock-picking opportunities especially in companies with the above-mentioned margin-resilient attributes. Our Malaysian and regional funds are invested in a range of commodity producers and consumer staples that have seen resilience in profit margins, and in some cases, higher.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

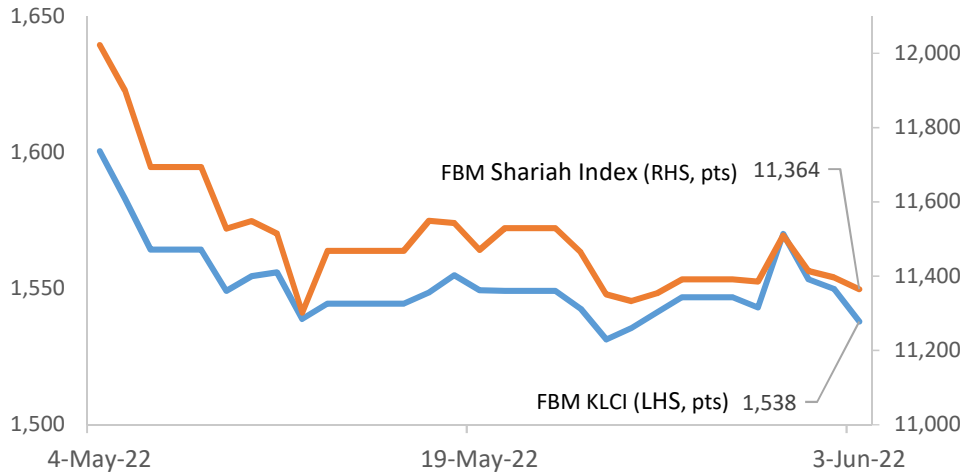


Exhibit 2: USDMYR FX

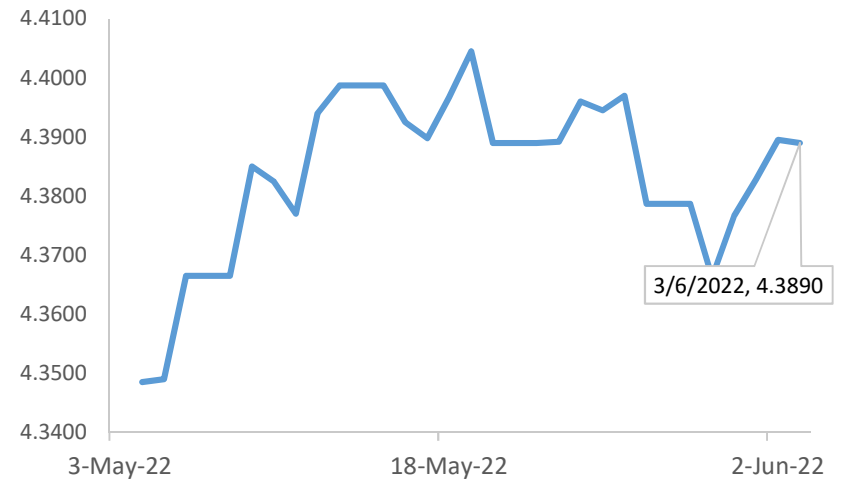


Exhibit 3: Sector Performance Indices (1 Week, %)

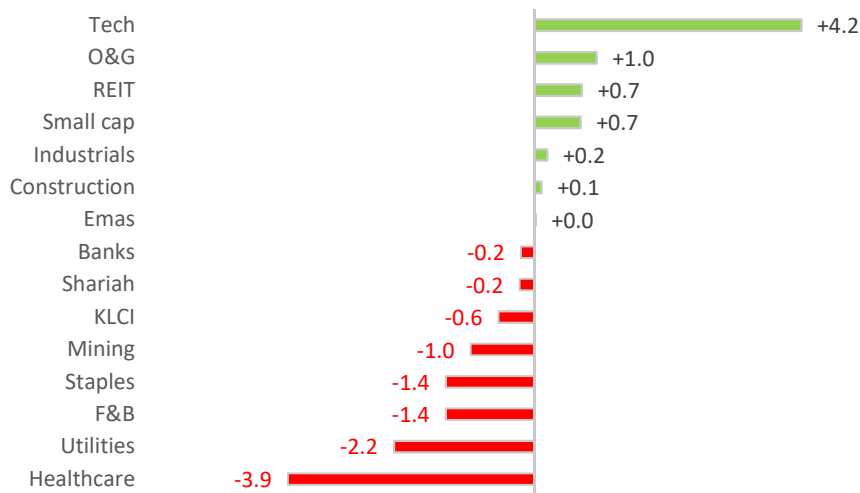
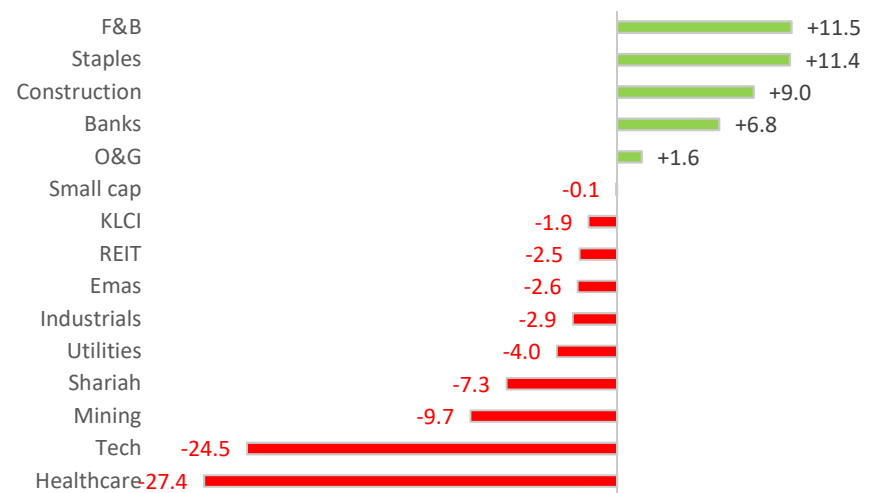


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

Exhibit 5: Malaysia's Premium/Discount (%) to Asia ex-Japan based on Current PER (%)

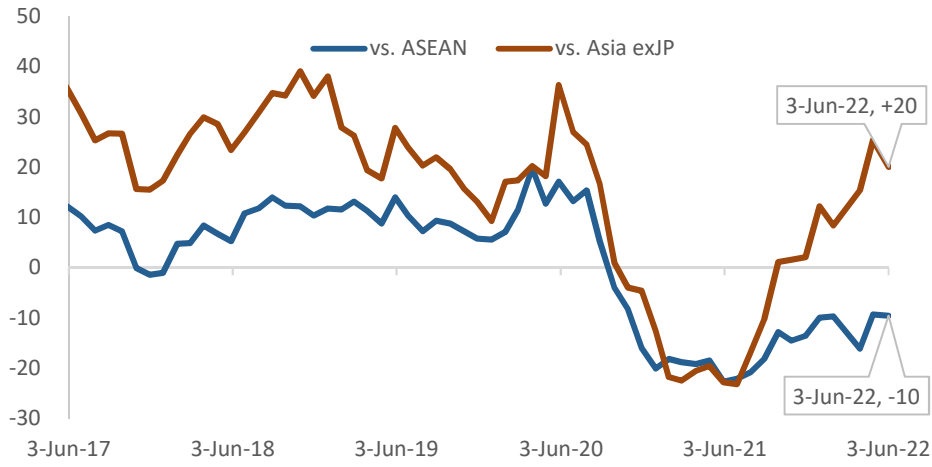


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

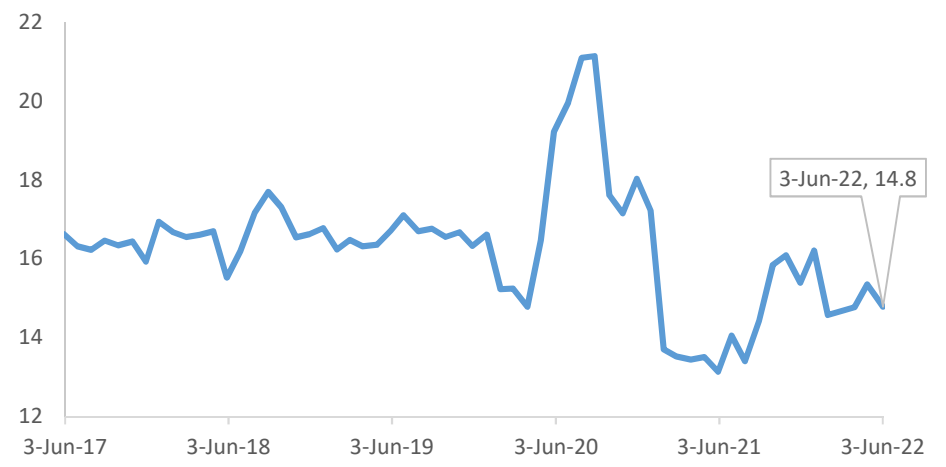


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

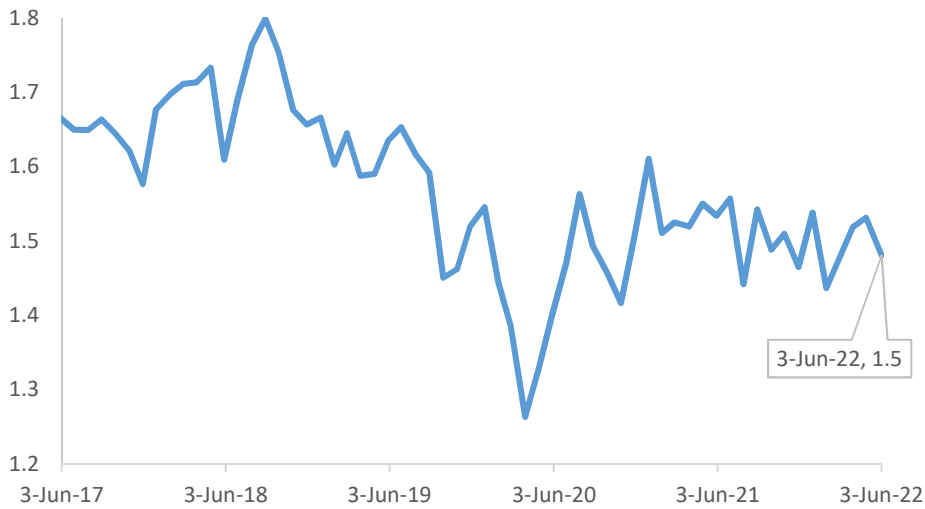
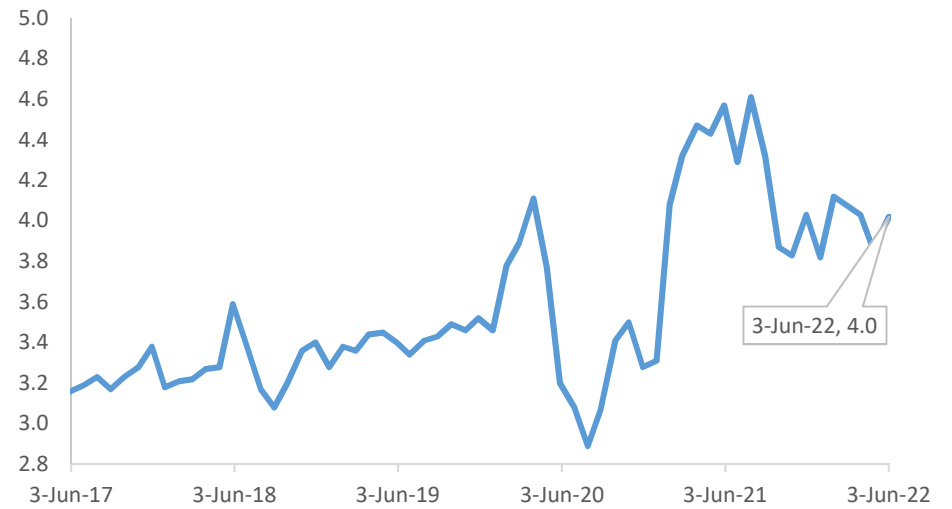


Exhibit 8: KLCI's Dividend Yield (DY, %)



REGIONAL

Exhibit 1: MSCI Country Performance Indices (1 Week, %)

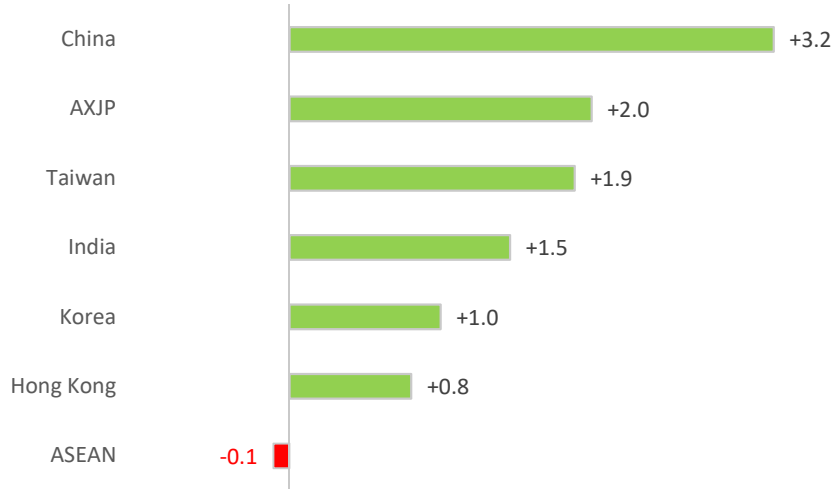


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

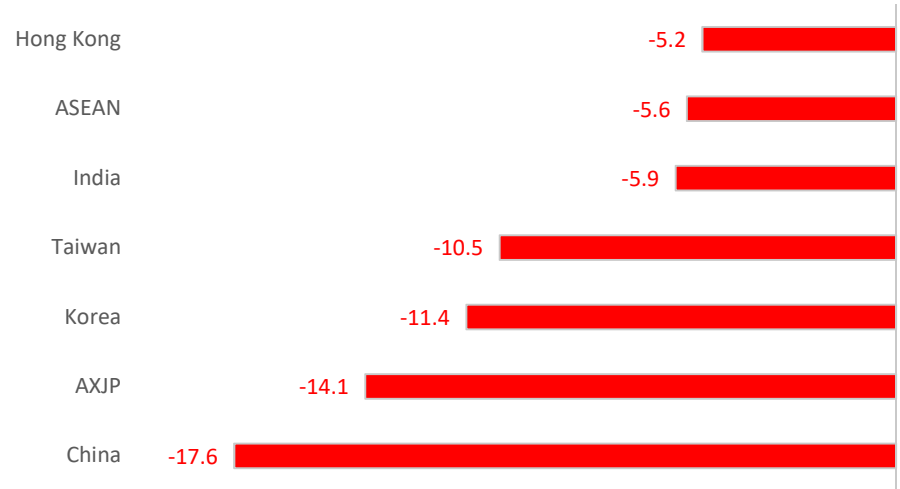


Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

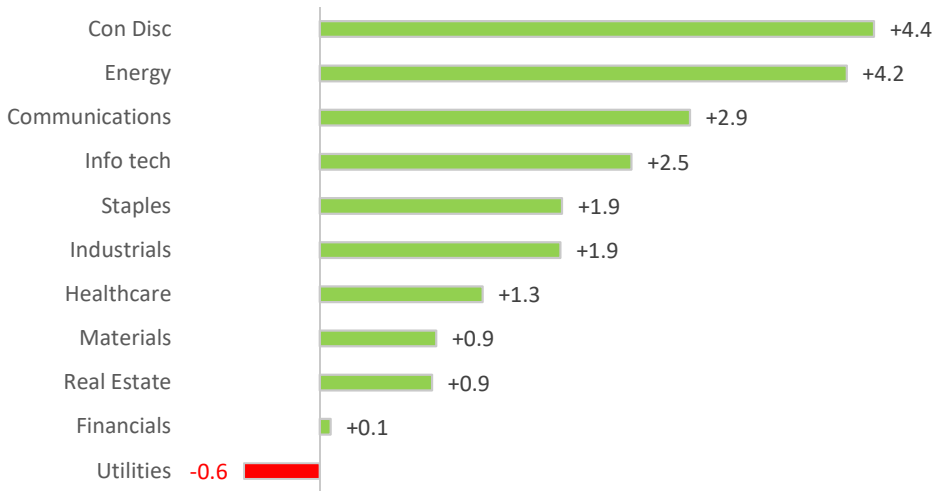
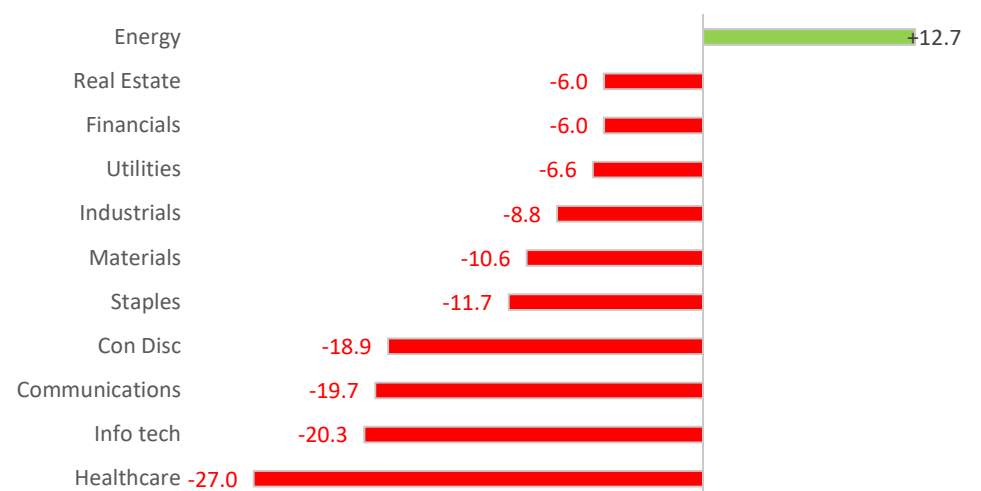
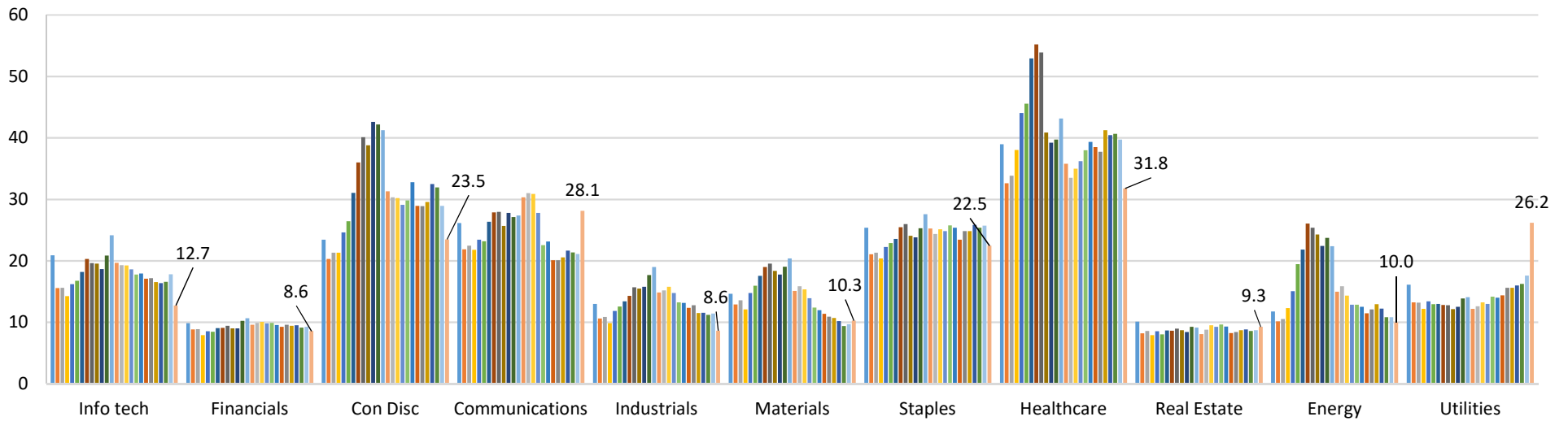
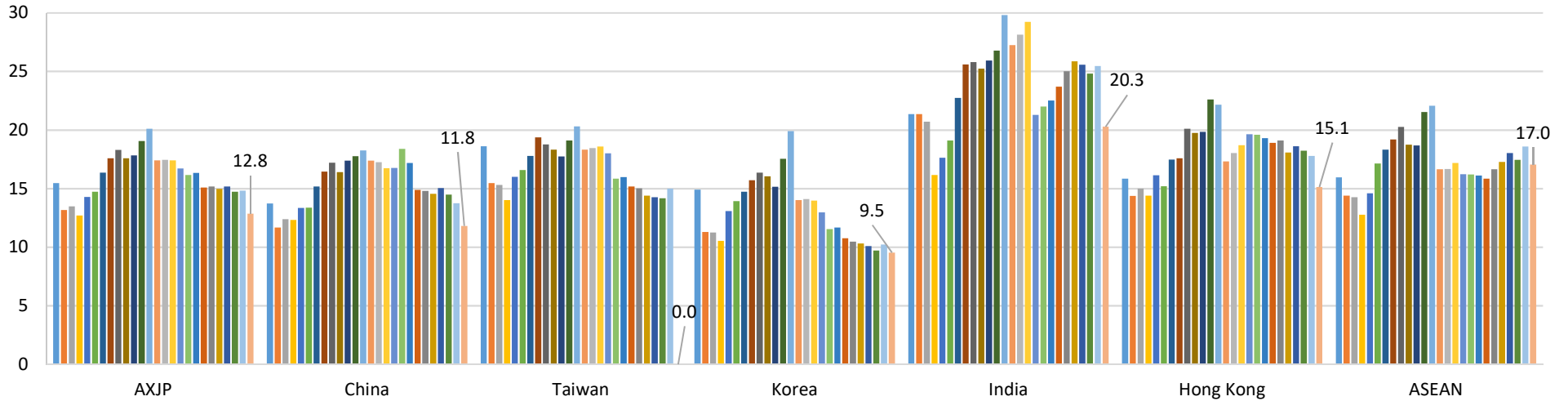


Exhibit 4: MSCI Sector Performance Indices (Year-to-Date, %)



REGIONAL

Exhibit 5: Year 2022 Price-Earnings Ratio (Dec 2019-Current)



FOREIGN NET FLOWS

Exhibit 6: Selected ASEAN Equity Markets (Net USD mil)

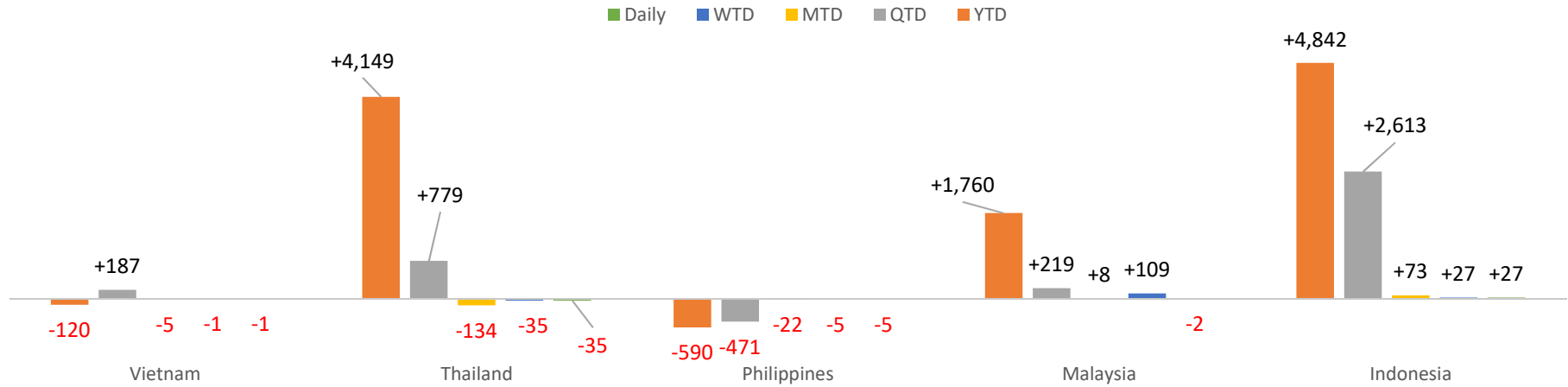
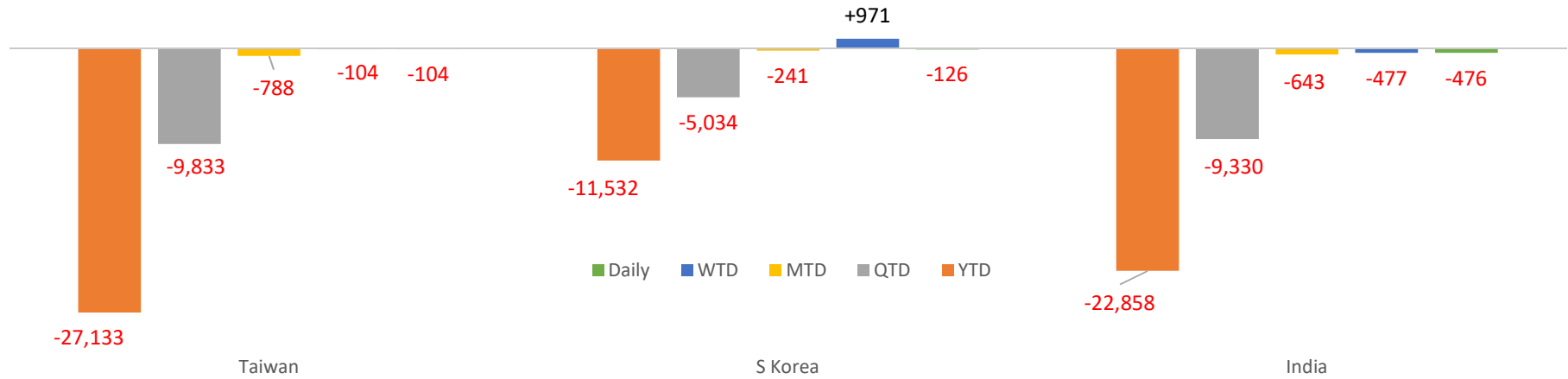


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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