

# PORTFOLIO MANAGERS' VIEWS



4 July 2022

# MALAYSIA & REGIONAL

## THE WEEK IN REVIEW (27 June-1 July 2022) & OUR MANAGERS' VIEWS

**1. Inflation:** The government announced the new ceiling price for broiler chicken of RM9.40/kg will take effect from 1 July 2022 until 31 August 2022. We believe this will incentivize breeders that have been reluctant to breed due to high feed cost to reintroduce supply and ease the poultry shortage. We see this as positive for the poultry industry and our poultry-related holdings as both sales volume and average selling price will increase, which translates to higher earnings and margins.

**2. Interest rates:** In relation to inflation, the subject of rate hikes arose when a local private economist was quoted in a local daily as supportive of a rate hike in the upcoming Monetary Policy Meeting on 6 July. Two reasons were cited: 1) real interest rates have turned negative with the recent high inflation (May's inflation was 2.8% against the current overnight policy rate (OPR) of 2%), and 2) higher OPR is needed to support the Ringgit (MYR). The possibility of higher interest rates is not new as we have guided for additional two rate hikes by the end of 2022. The most recent reading in the Bloomberg Market-Implied Rate Probability supports this view, and we add that 1) higher rates are possible with Malaysia's 2022 GDP growth of 6.2% (one of the highest in Asia), 2) Malaysia's projected budget deficit-to-GDP ratio of 6% for 2022 does not afford the country with much subsidy options to combat inflation, and 3) strengthening (or limiting further downside of) the MYR is a strategy to combat imported inflation. Even if Bank Negara does not raise rates on 6 July, we maintain our view of another two hikes by the end of the year as it is no longer a question of "if".

## MALAYSIA & REGIONAL (cont'd)

**3. Commodities:** Crude palm oil (CPO) prices fell by 24% in June from RM6,670/t to RM5,080/t due to fear of recession and increase in Indonesian exports. Malaysian millers had become reluctant to operate due to margin compression. We expect 2H22 CPO prices to range at RM4,500/t to RM5,000/t as more foreign labors enter Malaysia and Indonesia CPO export volume remains high. Despite the lower CPO price recently, we remain positive on Malaysia upstream planters as current CPO price is still trading above their breakeven points of RM2,500/t to RM3,000/t. Also, CPO price may re-rate as the soybean oil future is (a) USD336.83/t higher than palm oil future, and (b) 193% higher than the 5-year average of USD115.07/t.

**4. Telecommunications:** Local large Mobile Network Operators (MNOs) namely Celcom, Digi, Maxis and U-mobile have signed a non-binding agreement to acquire an equal 12% stake each worth RM200mil of Digital Nasional Berhad (DNB). DNB is set up by the MoF to accelerate 5G adoption in Malaysia. The acquisition signals that the previous concerns on transparency and pricing have been resolved and that the roll-out of 5G services by 2H2022 can continue as planned. Our funds are positioned to benefit from this development.

**5. Valuations:** YTD the KLCI has fallen 6.3% as the market grappled with rising interest rates, high inflation, the Russia-Ukraine war, recession fears and recently, foreign fund outflows. However, we view that Malaysia is uniquely positioned to withstand these uncertainties. Firstly, the Malaysian market is a commodity-centric market which benefits from high inflation. Secondly, unlike developed markets, Malaysia is still benefitting from the reopening theme post-COVID which saw many companies' earnings recovering to pre-COVID levels. Finally, the market's Forward PER and PBR valuations are trading at one of the lowest levels in 10 years. Hence, despite these uncertainties we remain buyers and investors in Malaysian stocks and our strategy is to look for bottom-up opportunities by focusing on company-specific catalysts to drive returns on our funds.

# MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

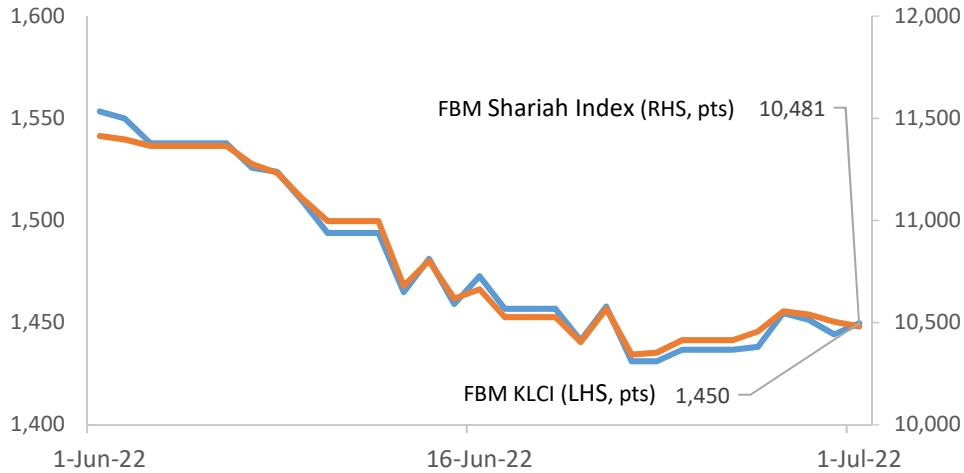


Exhibit 2: USDMYR FX

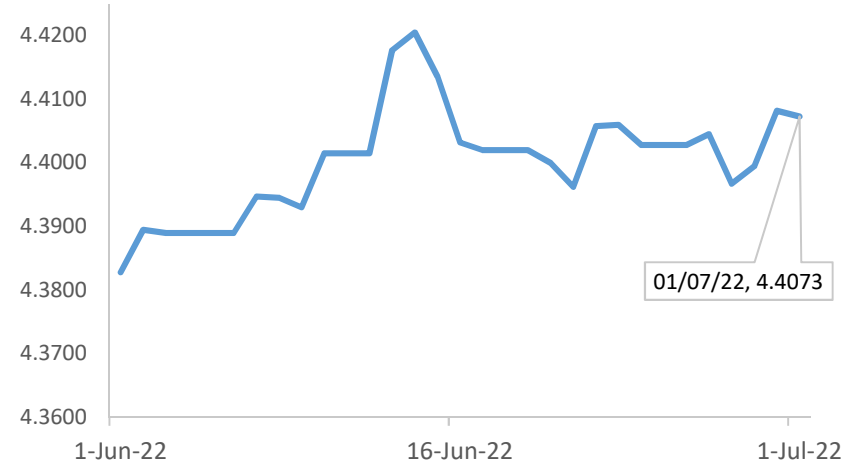


Exhibit 3: Sector Performance Indices (1 Week, %)

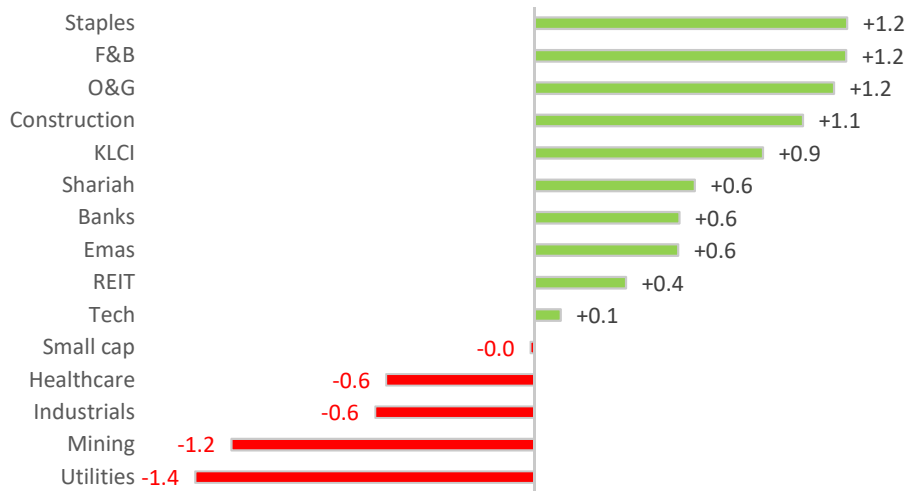
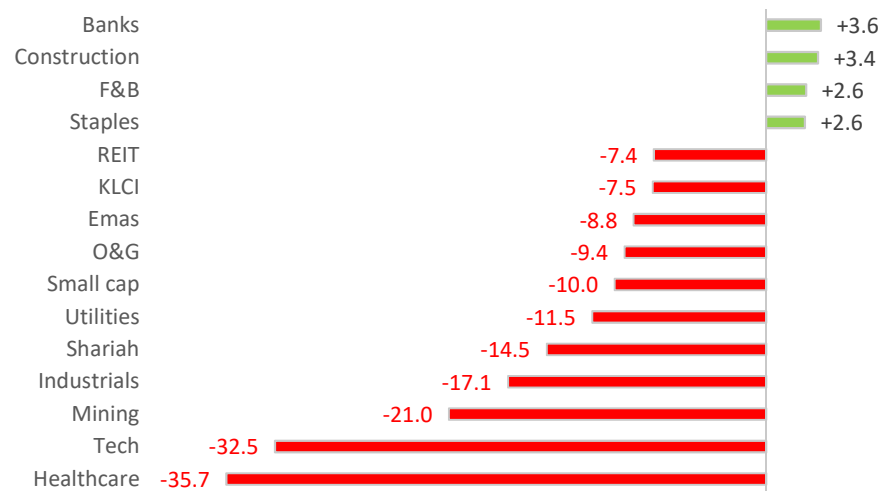


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



# MALAYSIA

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

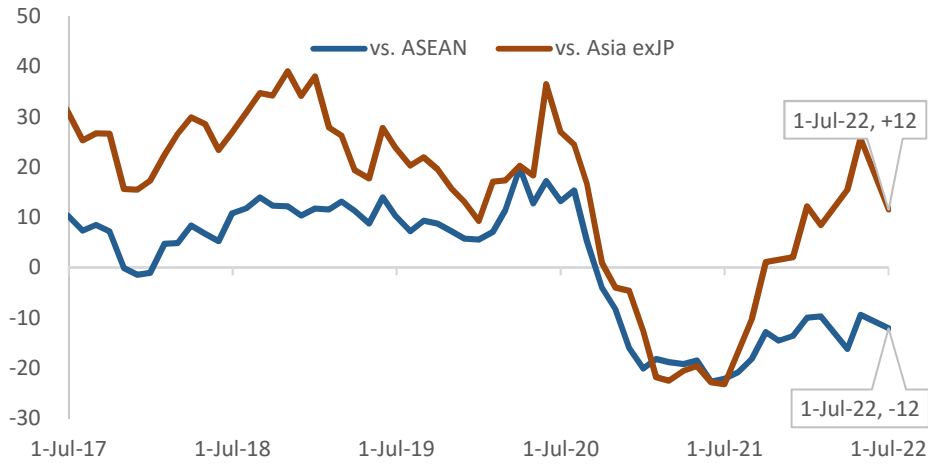


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

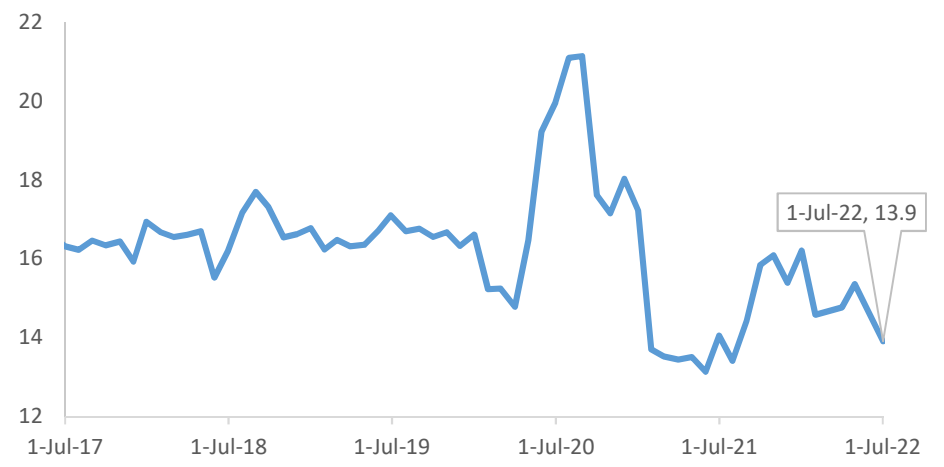


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

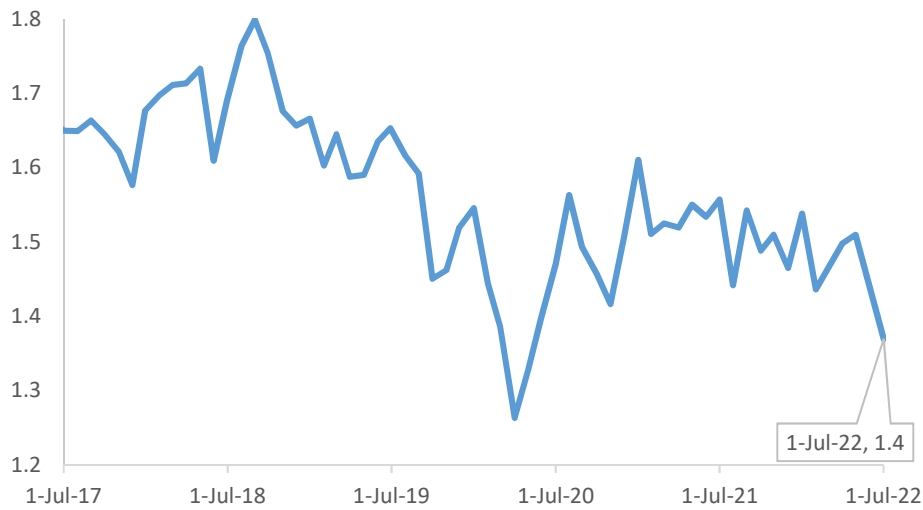


Exhibit 8: KLCI's Dividend Yield (DY, %)



# REGIONAL

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

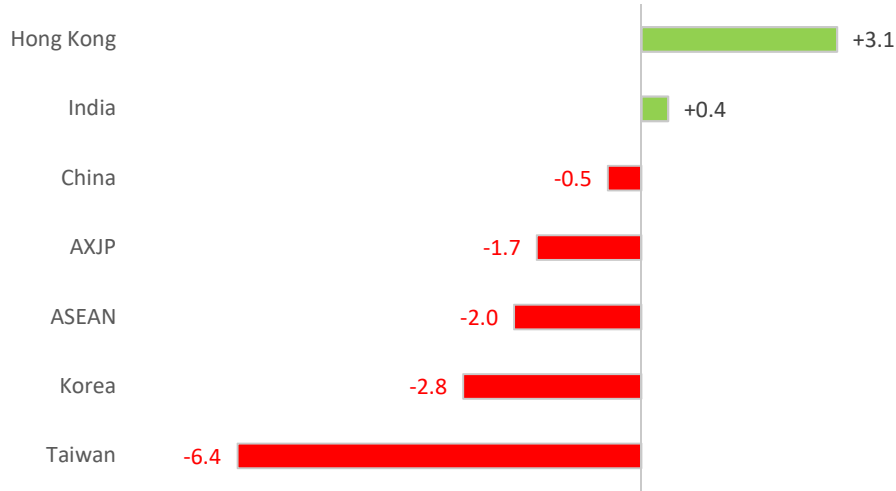


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

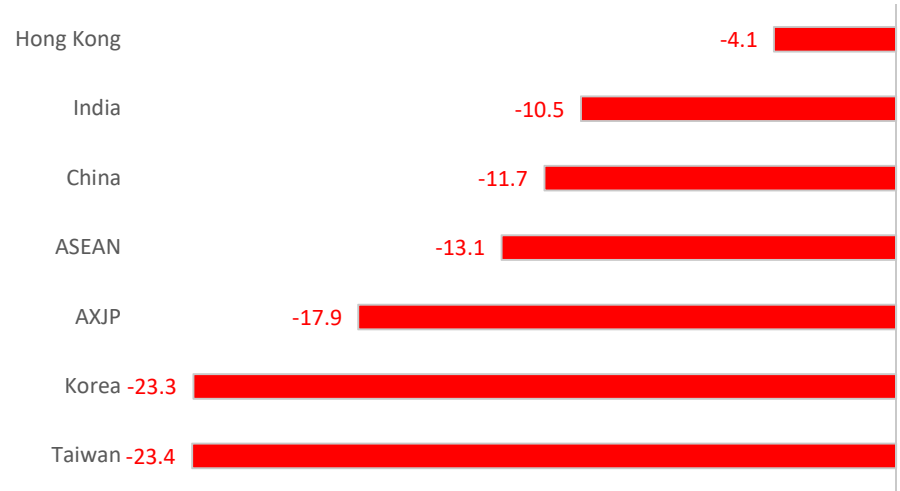


Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

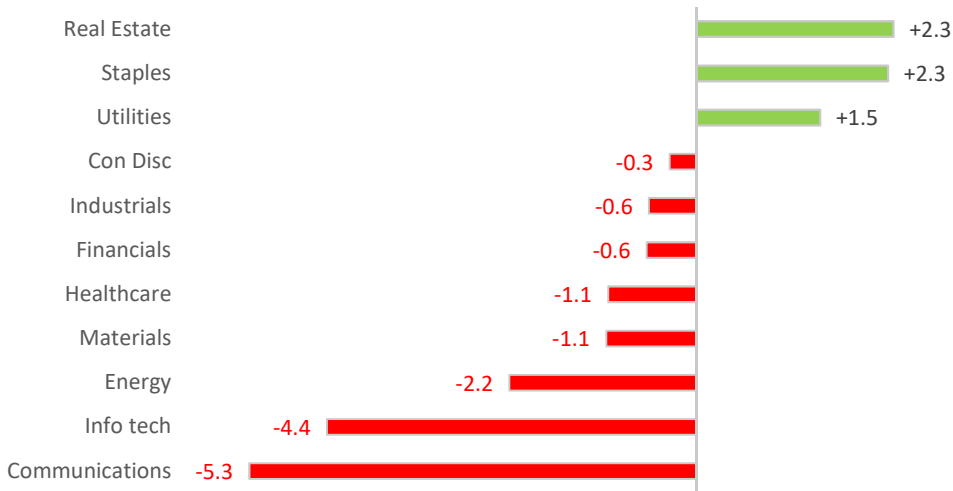
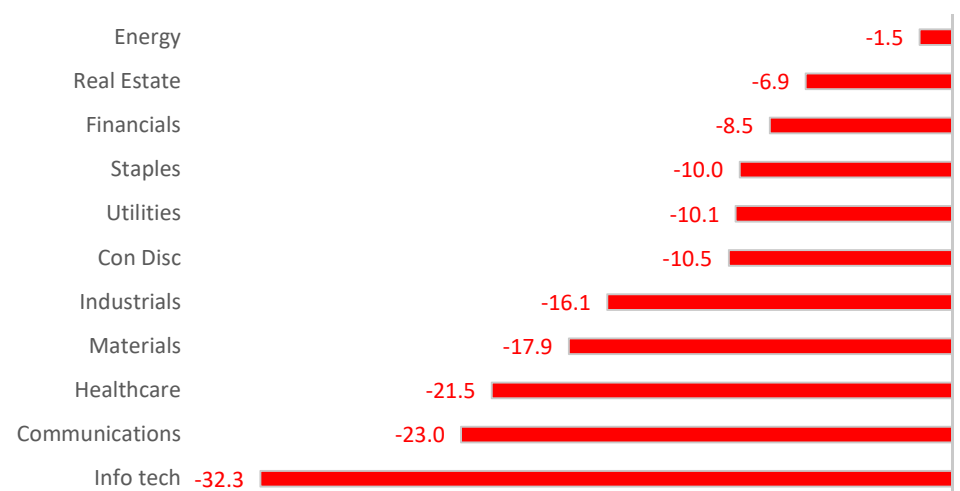
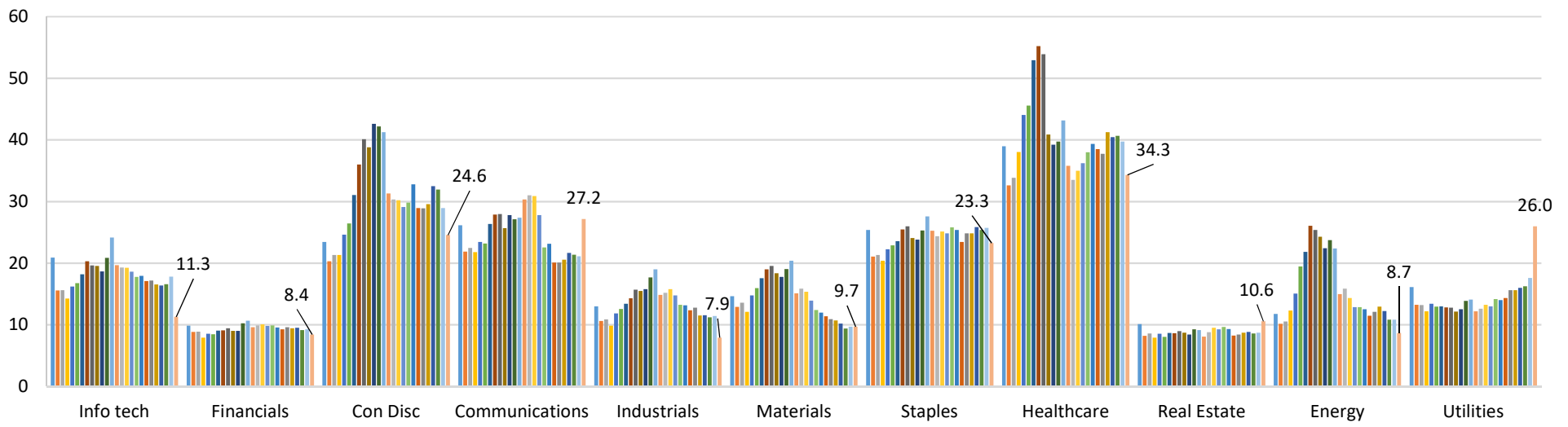
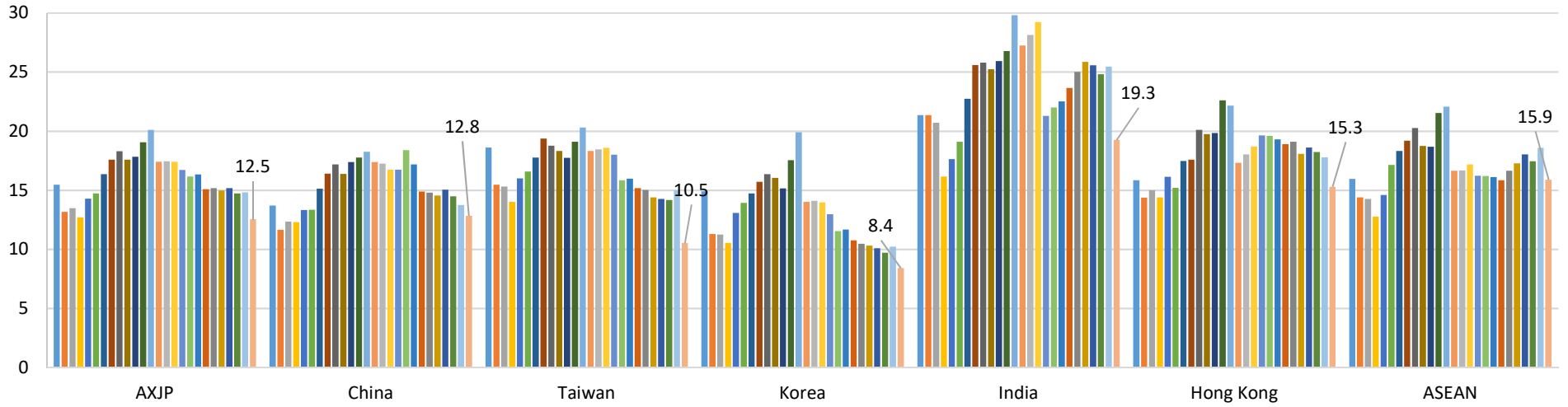


Exhibit 4: MSCI Sector Performance Indices (Year-to-Date, %)



# REGIONAL

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



# FOREIGN NET FLOWS

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

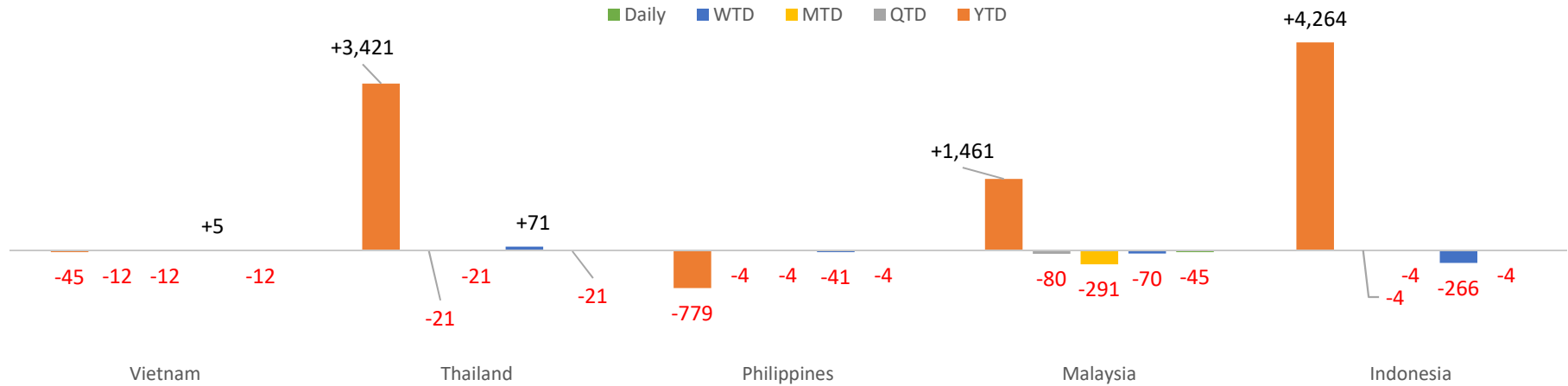
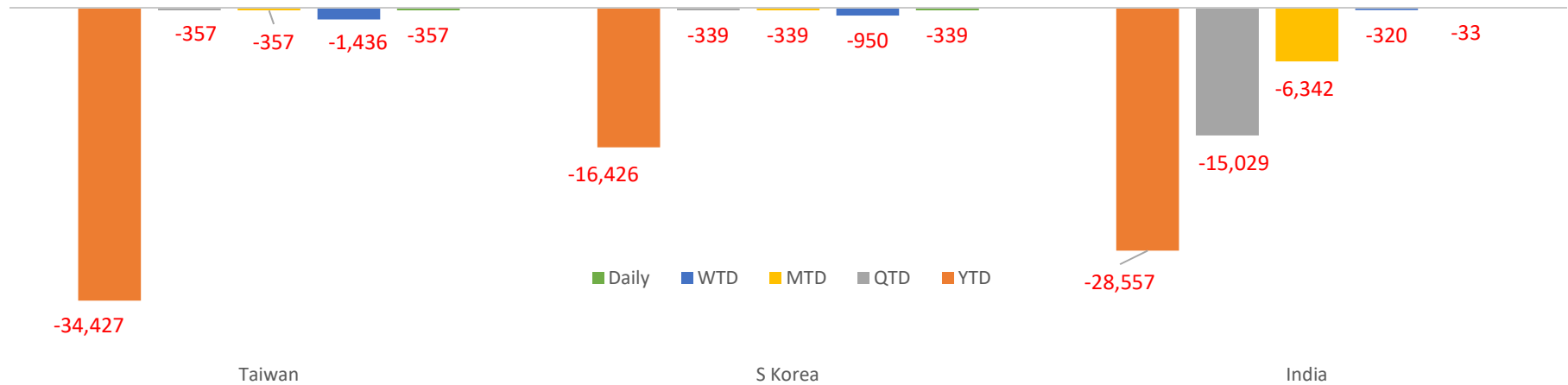


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)





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