

PORTFOLIO MANAGERS' VIEWS



12 July 2022

MALAYSIA & REGIONAL

THE WEEK IN REVIEW (4-8 July 2022) & OUR MANAGERS' VIEWS

1. Tech: Global chipmakers such as Micron, AMD and TSMC guided for a lower-than-expected revenue outlook as demand from customers weaken. Based on the global semiconductor sales index, we noted sales have stagnated since Nov 2021 and YoY growth is starting to revert downwards. We reiterate our underweight call on the tech sector as it is expected to slowdown on the back of weaker demand from high inflation, higher interest rates and growing economic uncertainties.

2. Crude oil: Brent oil price has fallen from its peak of US\$128/bbl in June to US\$100/bbl due to recession fears and OPEC's target to return to normal production. Regional brokers forecast oil price to hit US\$65/bbl for 2022 based on a recession scenario, but we view that OPEC will fail to raise production significantly because of under-investments in infrastructure. Near-term support comes after Russia ordered a 30-day stoppage of the CPC Terminal which exports 30mil barrels/month of Kazakh crude due to violation of oil spill prevention plan. Thus, we expect oil prices to trade over US\$100/bbl as supply-side constraints remain.

3. Crude palm oil (CPO): A local broker highlighted that Indonesia's palm oil inventory may increase by 39% from April's 6.1mil tons to 8.5mil tons in June due to May's export ban. To reduce the excess inventory, Indonesia lifted bans on export and considered lowering the export levy. Although this development weighed on CPO prices recently, we remain positive on Malaysia upstream planters as we believe that Indonesia will clear the excess inventory by 2H22 and the average of CPO price for the second half of the year 2022 will stay elevated in the range of RM4,500-5,000/t (the 2H21 average was RM4,800/t), and deliver a calendar year 2022 average of RM5,000-5,500/t.

MALAYSIA & REGIONAL (cont'd)

4. Interest rates: Bank Negara Malaysia (BNM) raised Overnight Policy Rate (OPR) by 25bps to 2.25% on 6 July 2022. We expect further rate hikes by the end of 2022 as BNM manages the Ringgit's depreciation against the US Dollar, foreign fund outflows and imported inflation. We are positive on banks as the net interest margin expansion from OPR hikes are positive for topline from hereon.

5. Funds Flow: Up to 8 July, a local broker reported foreign investors were net sellers, but the weekly net sell value fell by 62%, from RM320mil to RM121mil. For five consecutive weeks when foreigners sold, local institutions were net buyers. We believe that local institutions were bottom-fishing whereas foreign outflows are drying up. On a sectoral basis, the industrial products and services, technology and transportation sectors saw the highest net outflows. Financial services, healthcare and plantation saw the highest net inflows. It appeared that funds moved into banks (beneficiaries of higher OPR hike) but were less sanguine on industrials (lower demand and higher costs pressures). We have exposure in, and remain positive on banks.

5. Valuations: KLCI's valuations are now very attractive and we have a positive market stance. Based on last week's closing levels, the market is trading at one-year forward price-earnings ratio (PER) of 13.7x for year 2022. This is minus 1.5 standard deviation below its 5 years average of 16.5x. The market's price-to-book ratio (PBR) ratio of 1.35x is now below its 5-year average of 1.55x) and prospective dividend yield of 4.8% (above the 5 years' average of 3.6%) are also supportive of the stock market. Malaysia's 8% premium against the MSCI Asia ex-Japan has also narrowed considerably after it peaked at the 40% premium (excluding the pandemic period in 2020 and 2021), making the local bourse more attractive than before.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

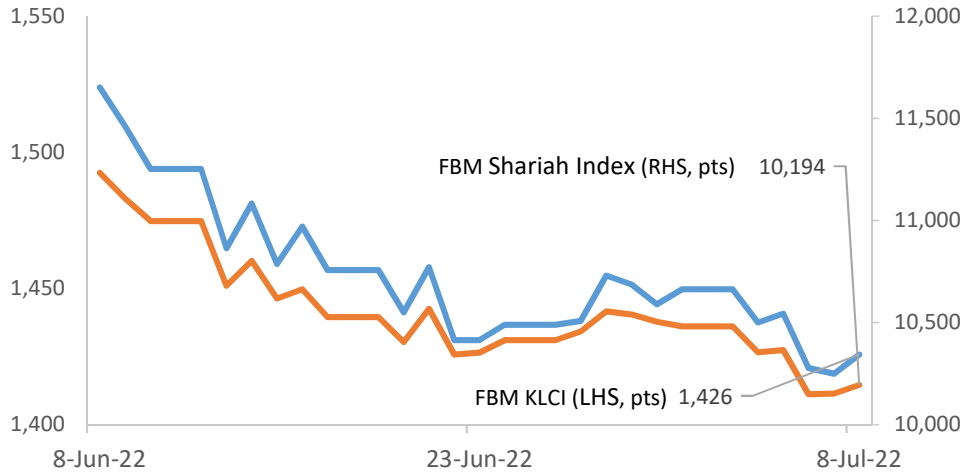


Exhibit 2: USDMYR FX

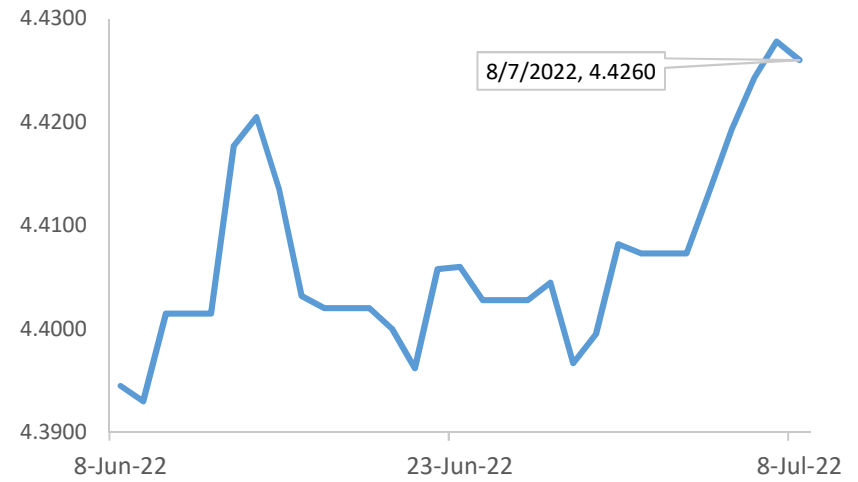


Exhibit 3: Sector Performance Indices (1 Week, %)

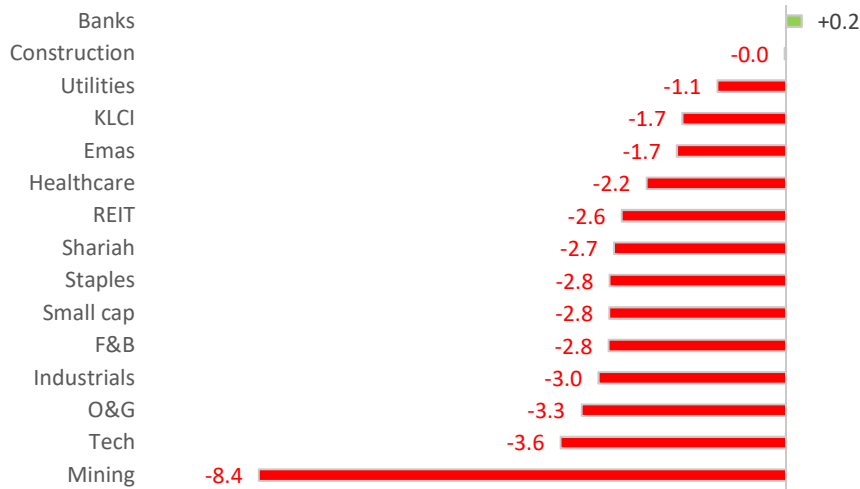
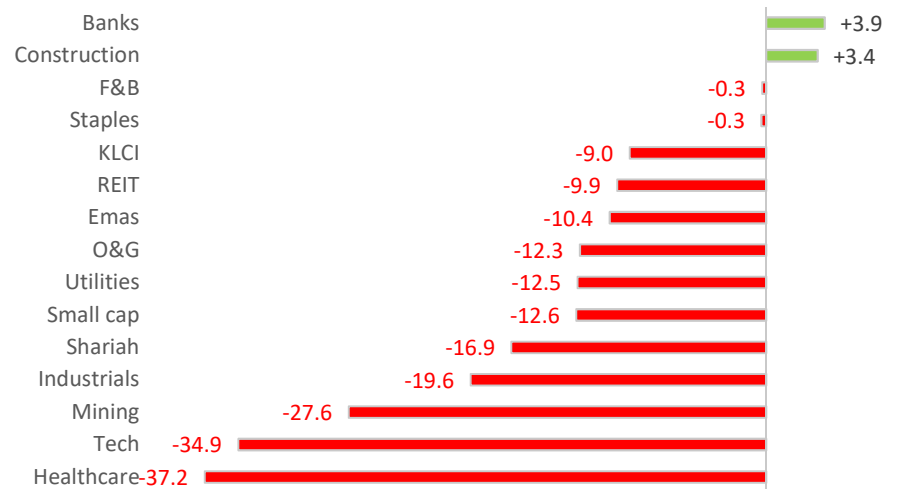


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

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

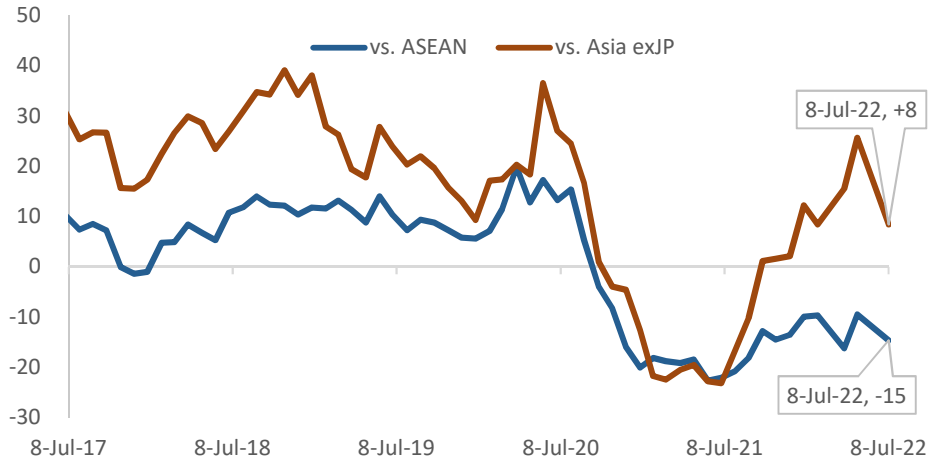


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

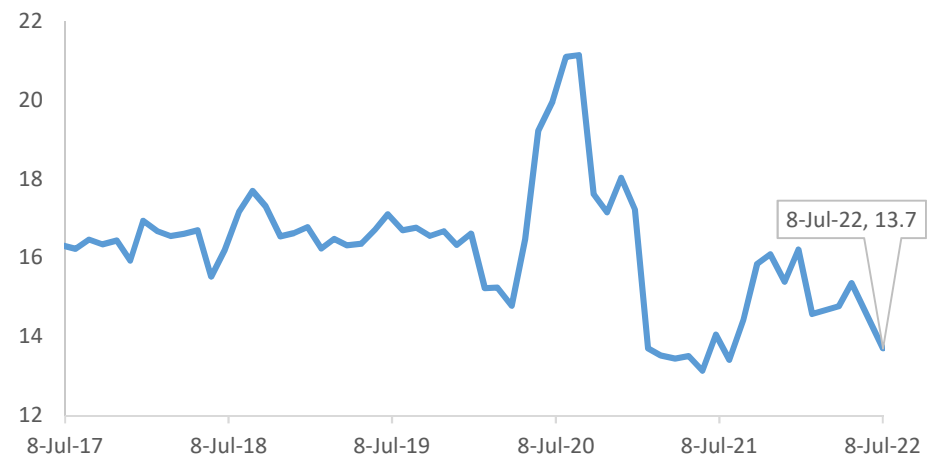


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

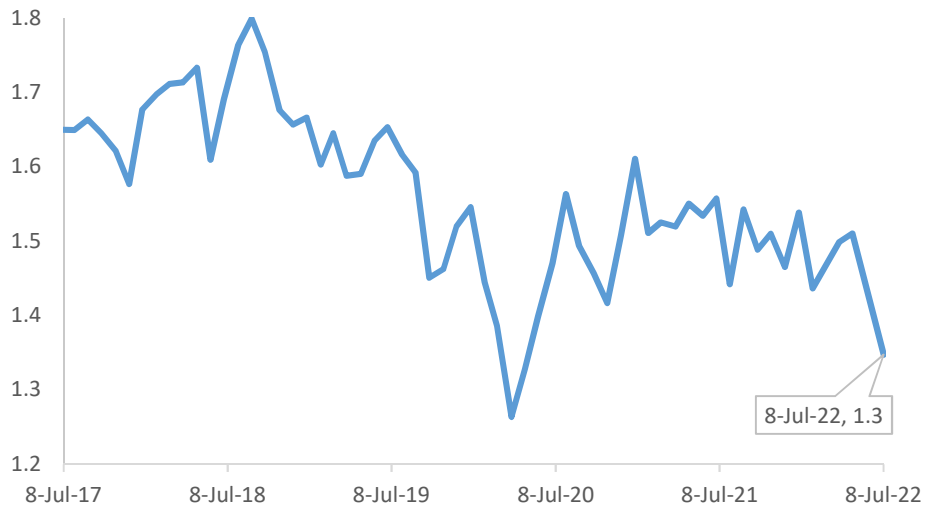


Exhibit 8: KLCI's Dividend Yield (DY, %)



REGIONAL

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

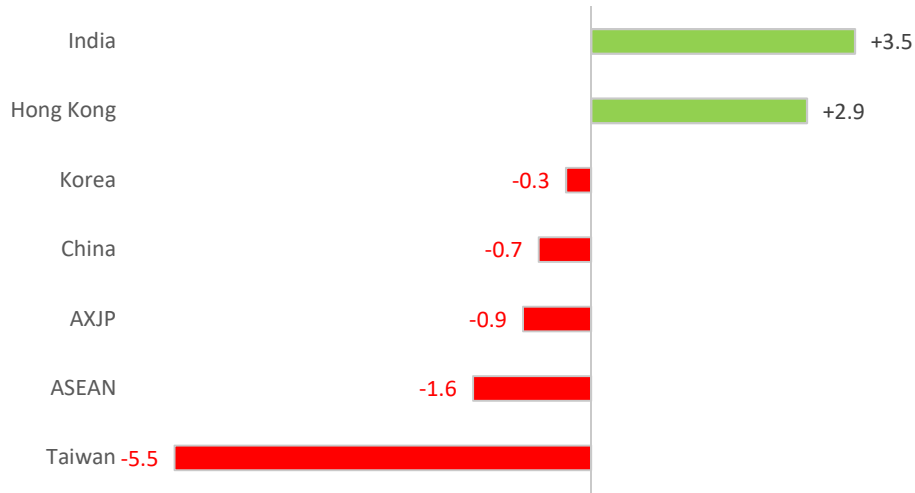


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

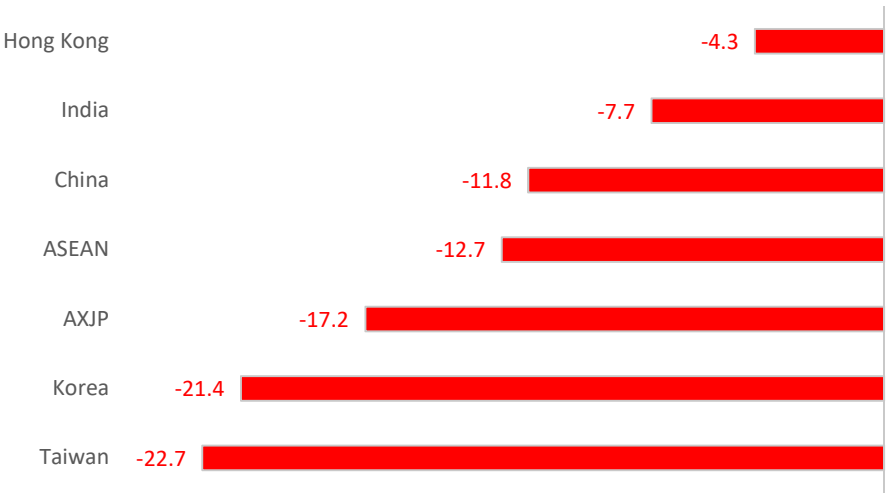
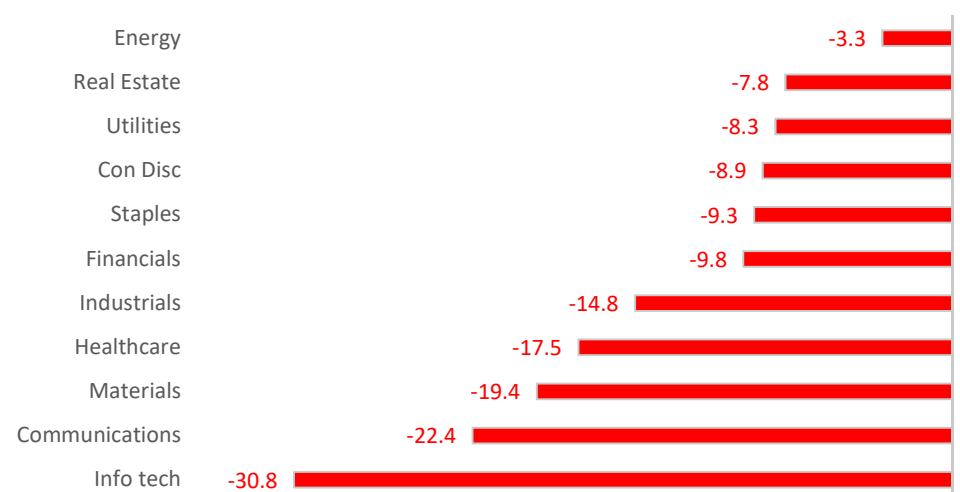


Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

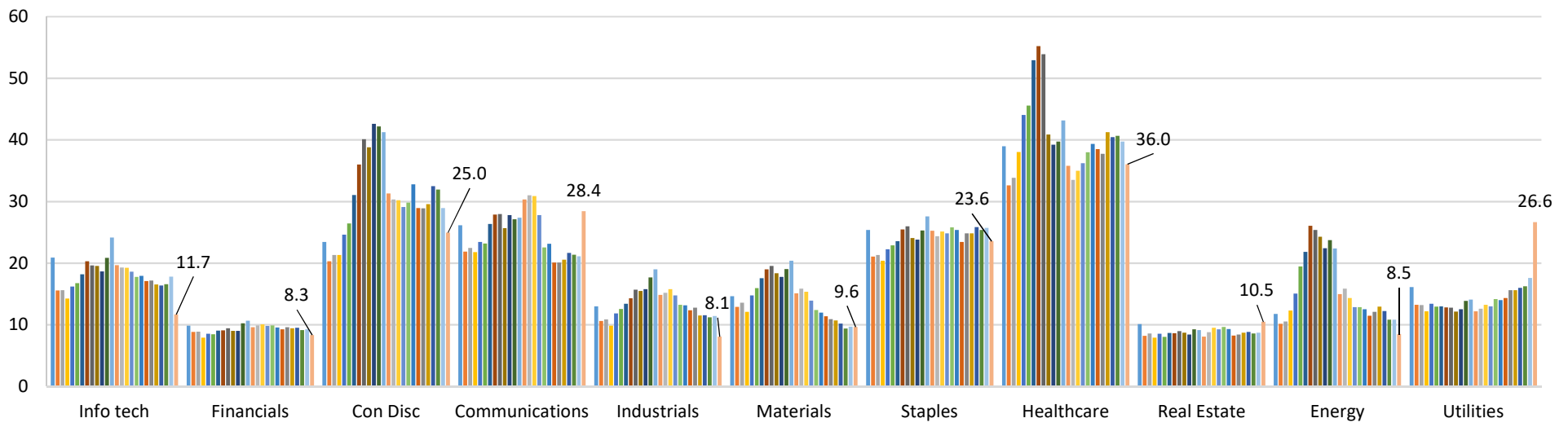
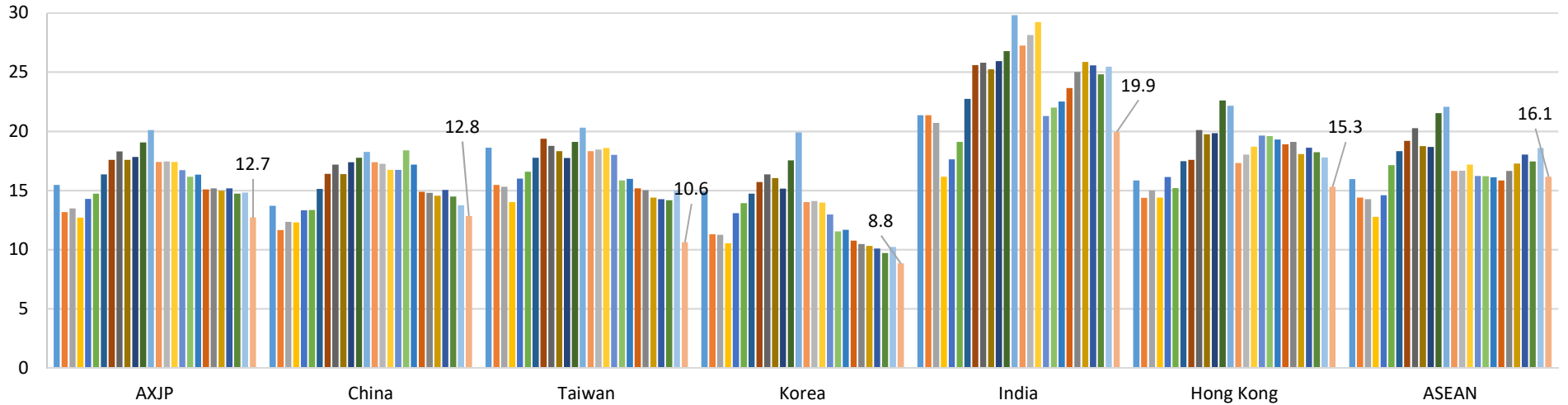


Exhibit 4: MSCI Sector Performance Indices (Year-to-Date, %)



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



FOREIGN NET FLOWS

Exhibit 6: Selected ASEAN Equity Markets (Net USD mil) as at 11 July 2022

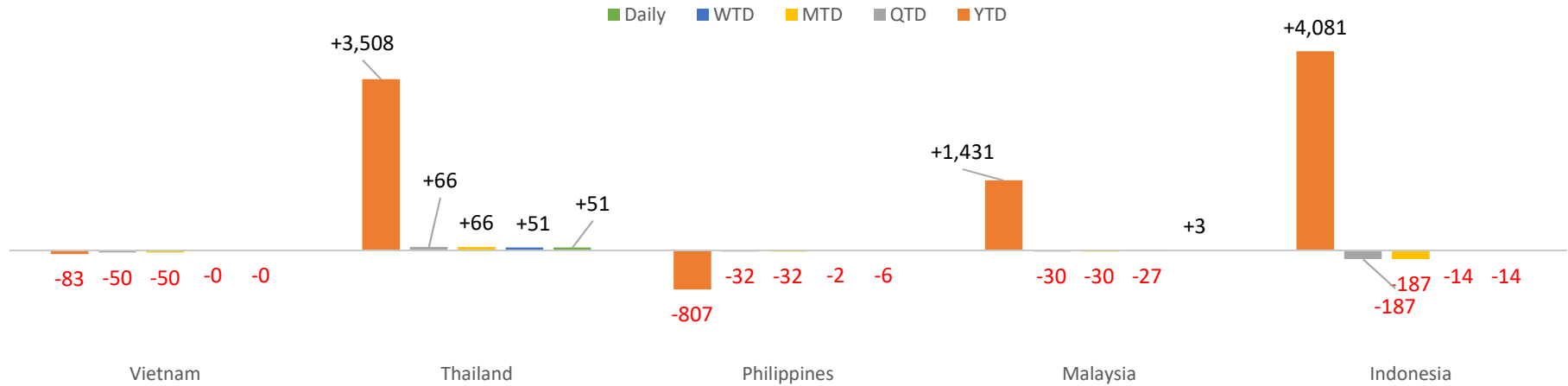
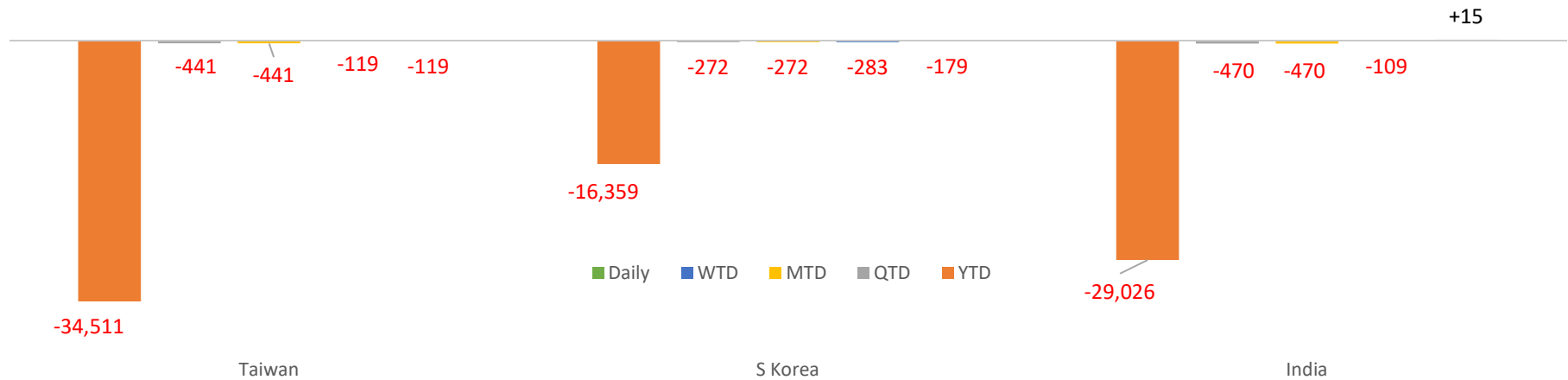


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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