

# PORTFOLIO MANAGERS' VIEWS



25 July 2022

# MALAYSIA & REGIONAL

## THE WEEK IN REVIEW (18-22 July 2022) & OUR MANAGERS' VIEWS

**1. Government Finance:** Malaysia's Finance Minister said that Malaysia's ability to borrow is limited as its ratio of debt service payments to revenue may exceed 18% in year 2022. Hence, this may impact the government's ability to assist the people. Separately, it was reported that an alternative is in oil subsidy targeting as the government's 2022 subsidy bill is expected to hit RM78bn, the highest in the country's history. As such, we opine that policy rates will have to rise further to manage the weak Ringgit and reduce imported inflation.

**2. Politics:** According to a poll conducted by the Merdeka Center for Opinion Research and presented at an investor conference last week, Perikatan Nasional's approval rating has deteriorated since May 2020 on the back of economic concerns (42%) and political instability (23%). This is expected to influence the timing of the next general election. However, given the current low approval ratings, we believe that the elections will likely to take place between February-March 2023 or June-July 2023.

**3. Oil and Gas:** Last week, crude oil prices rallied by 5% from \$99/bbl to \$105/bbl as news that Saudi Arabia (the largest oil producer in the world) was unable to immediately increase its oil production. This comes after Biden's visit to the country last Friday to negotiate an increase in oil supplies. This reinforces our view that the oil supply remains structurally tight and we expect oil prices to remain high.

**4. Technology:** According to Bloomberg, Apple may slow hiring for some teams in 2023. Similarly, SK Hynix has halted the expansion of its memory chip plant and tech giants such as Meta, Tesla and Micron are also cutting

## MALAYSIA & REGIONAL (cont'd)

**5. Tourism:** Based on Malaysia Airport's Passenger Traffic Snapshot for June 2022, international passenger movements rose by 25% MoM to 1.3mil. This translates to 29% of June 2019 international passenger movements. We expect the international passenger movements to improve further as many countries reopen their international borders and ease their COVID policy. Thus, we remain positive on tourism-related industries such as hotels, gaming and aviation as their earnings will recover to pre-COVID level.

**6. Palm Oil (CPO):** To boost exports and reduce excess stock in the country, Indonesia will have zero levy during a 6-week period from 15 July to 31 August. Also, it may consider removing its Domestic Market Obligation that requires companies to sell palm oil domestically. While this is negative on CPO prices in the short term, we believe prices will normalize up once the excess stock clears. At an investor conference recently, a major Malaysian CPO producer shared that the price has fallen to oversold levels and expects a range of RM4,300 to RM4,500/ton. This is within our expected range of RM4,000-RM4,500/ton for 2H2022.

**7. Flows:** Last week, foreign investors were net buyers with a total net inflow of RM191mil after six consecutive weeks of net outflows. However, local institutions and retail turned were net sellers. On a sectoral basis, the industrial products and services, and transportation sectors saw the highest net foreign outflows and financial services, technology and utilities have the highest net foreign inflows. We believe the net inflows reinforces our view that Malaysia offers attractive valuations (see below) after the recent market sell-off.

## **MALAYSIA & REGIONAL (cont'd)**

**8. Valuation:** In our view, despite recent gains in the KLCI performance, the market's valuations remain relatively cheap. Based on KLCI level of 1,465.8 and using consensus market EPS integer of 104.1 for 2022, the market is trading at a 2022 PER of 14.1. This is minus-1.3 standard deviation below its 5 years average of 16.1x. The market's price-to-book ratio (PBR) of 1.39 (below the 5-year average of 1.55x) and dividend yield (DY) of 4.7% (above the 5-year average of 3.6%) are also supportive of the stock market. Finally, Malaysia is now trading at an 11% premium against the Asia ex-Japan's PER, which is at the low end of its 5-year average of zero to 40% premium (excluding the pandemic period in years 2020 and 2021).

# MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

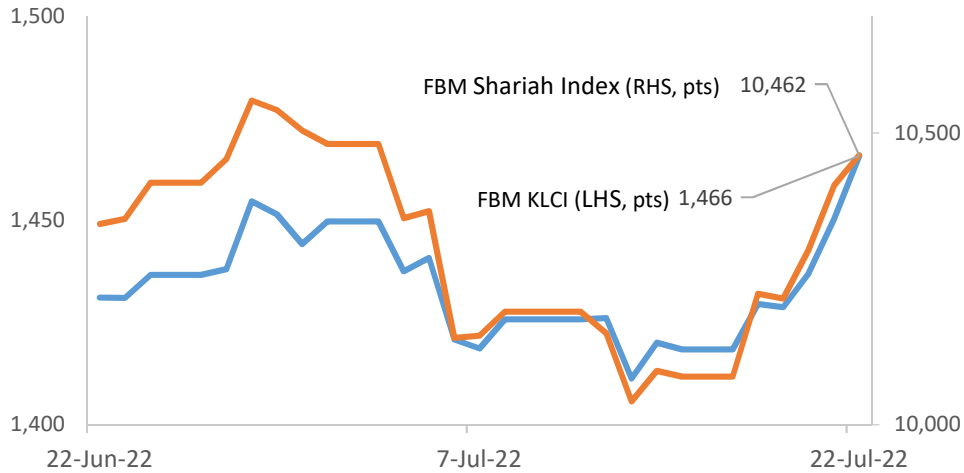


Exhibit 2: USDMYR FX

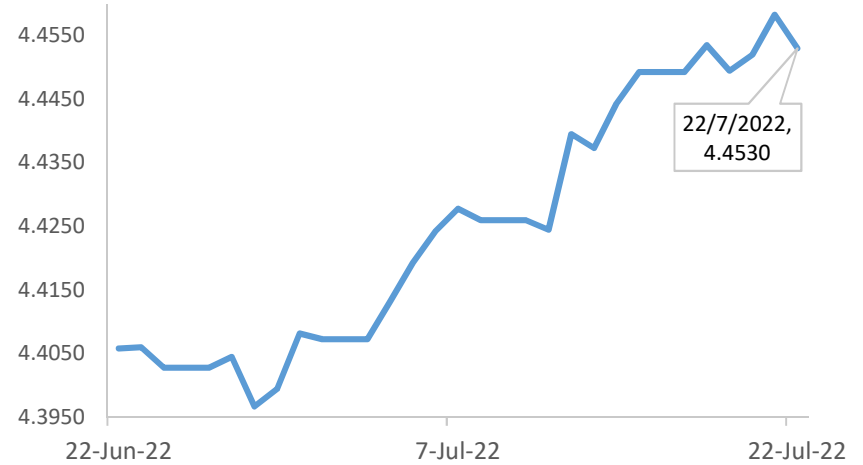


Exhibit 3: Sector Performance Indices (1 Week, %)

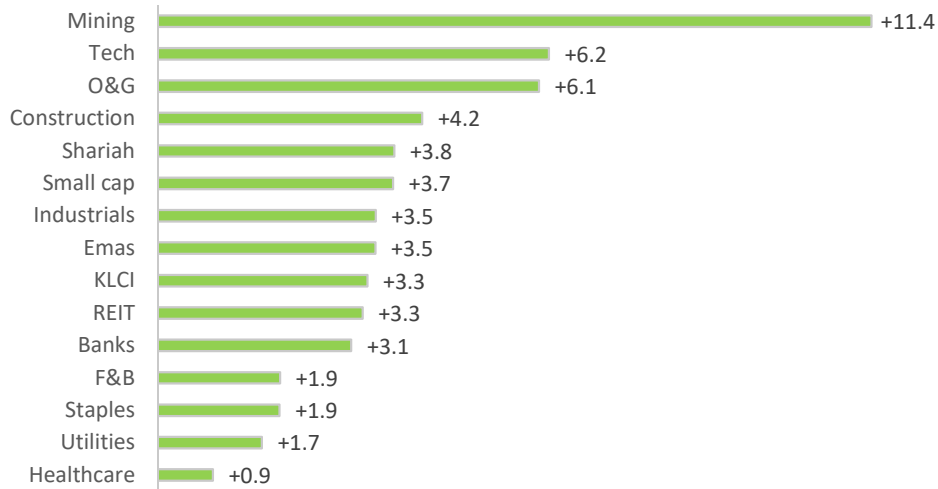
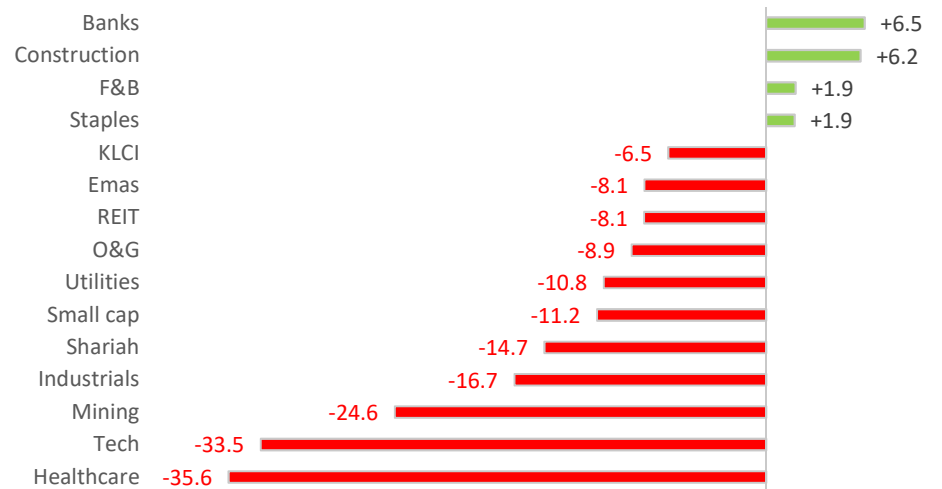


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



# MALAYSIA

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

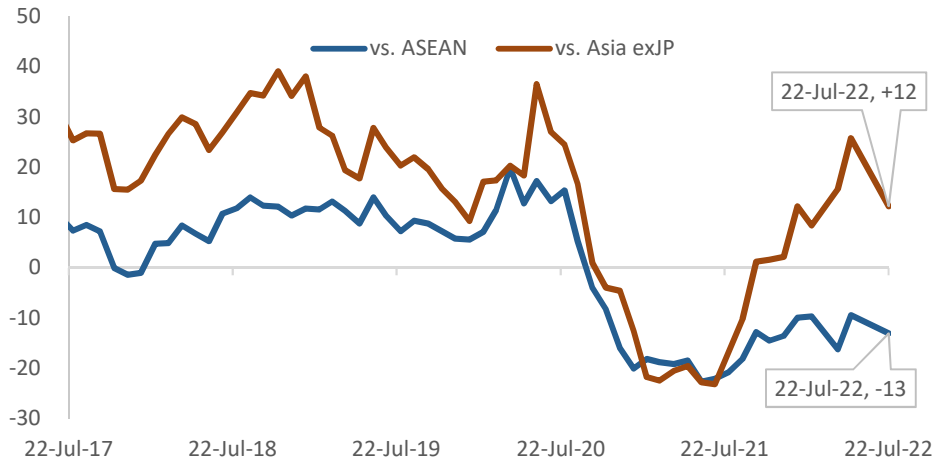


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

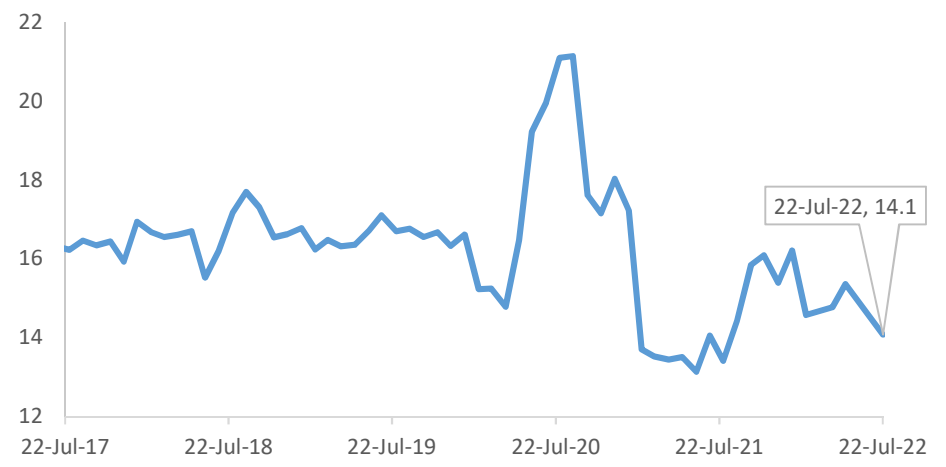
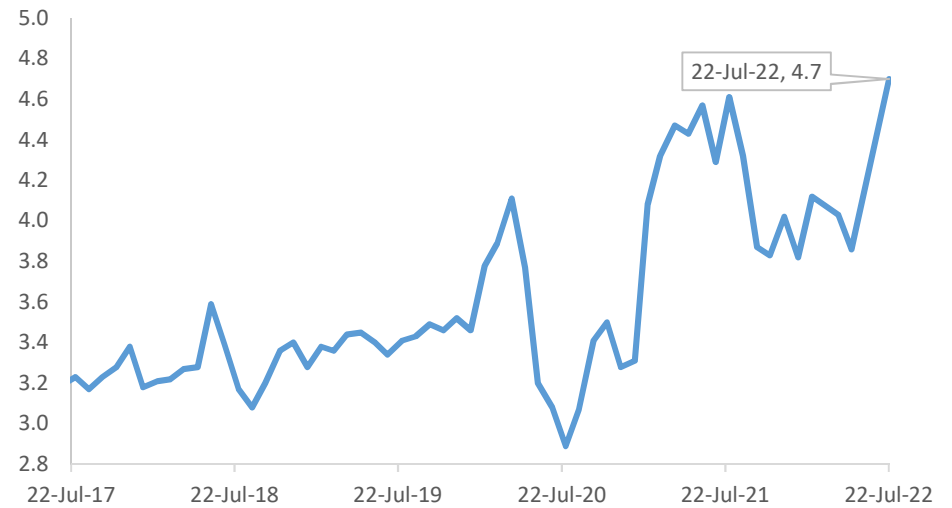


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)



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



# REGIONAL

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

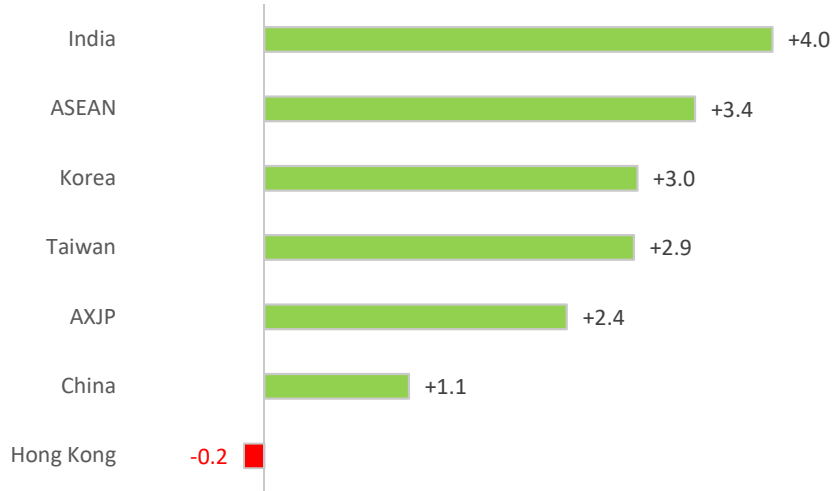


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

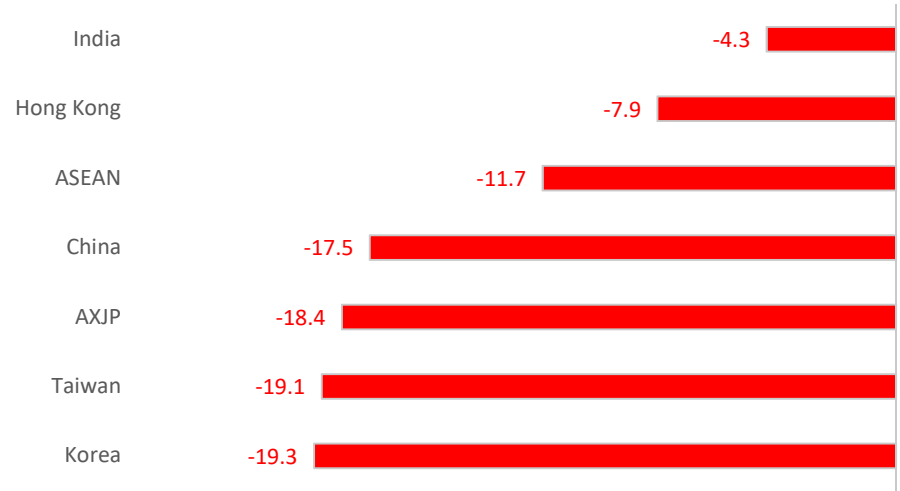


Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

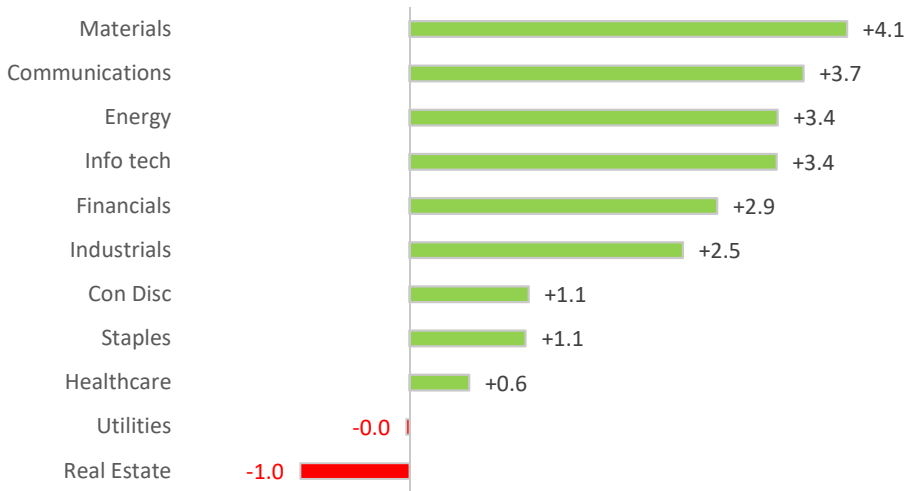
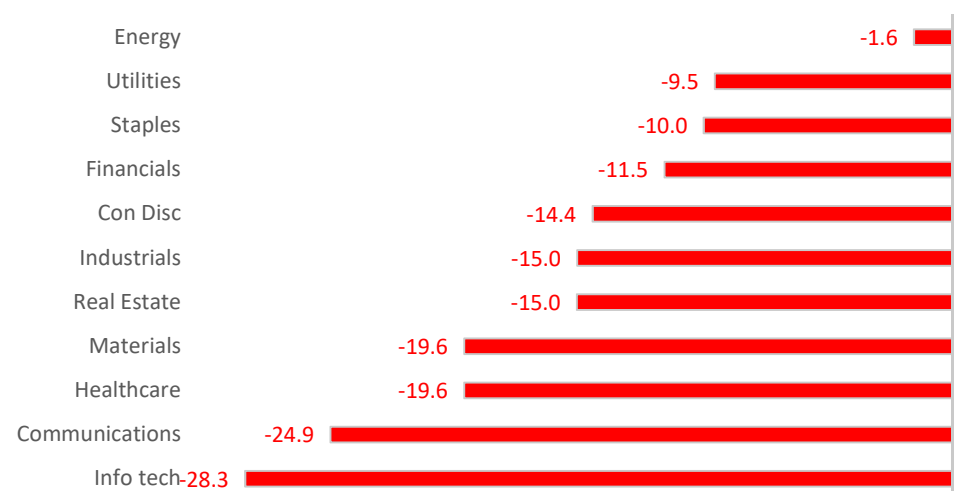
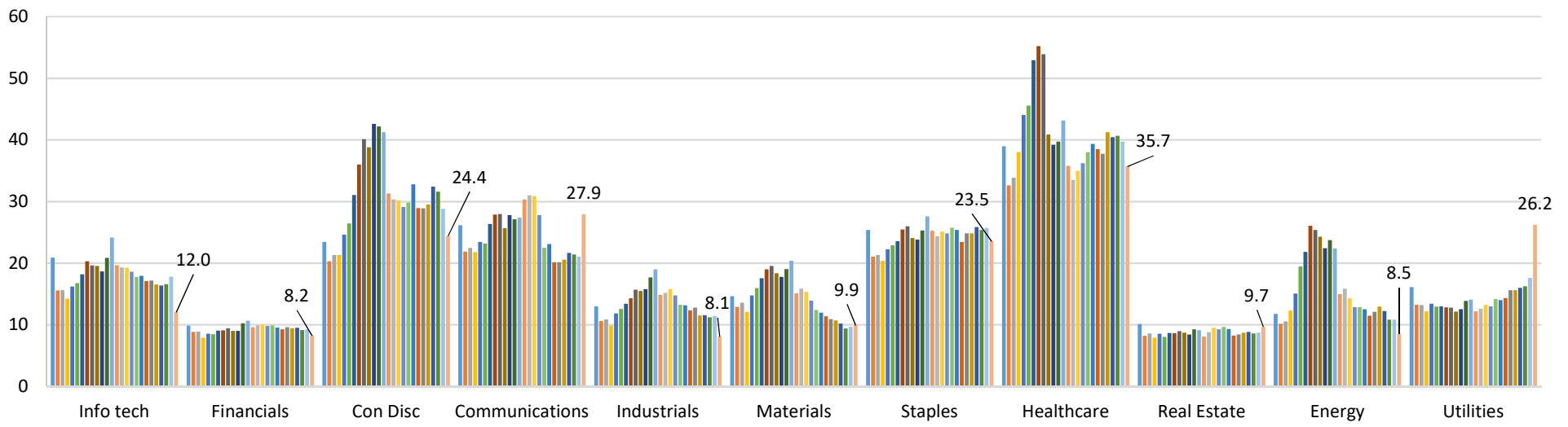
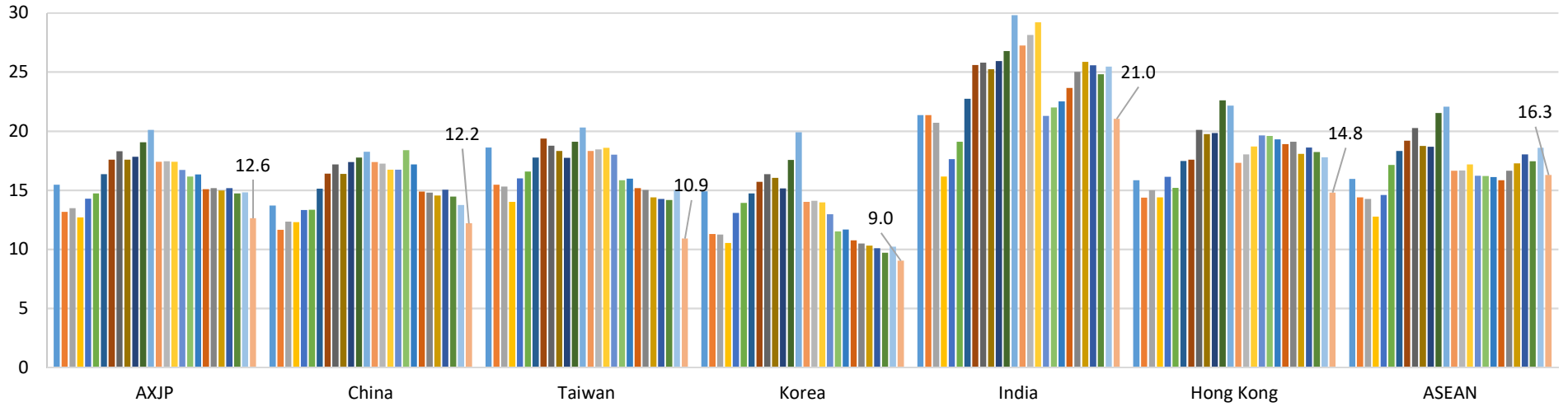


Exhibit 4: MSCI Sector Performance Indices (Year-to-Date, %)



# REGIONAL

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





# FOREIGN NET FLOWS

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

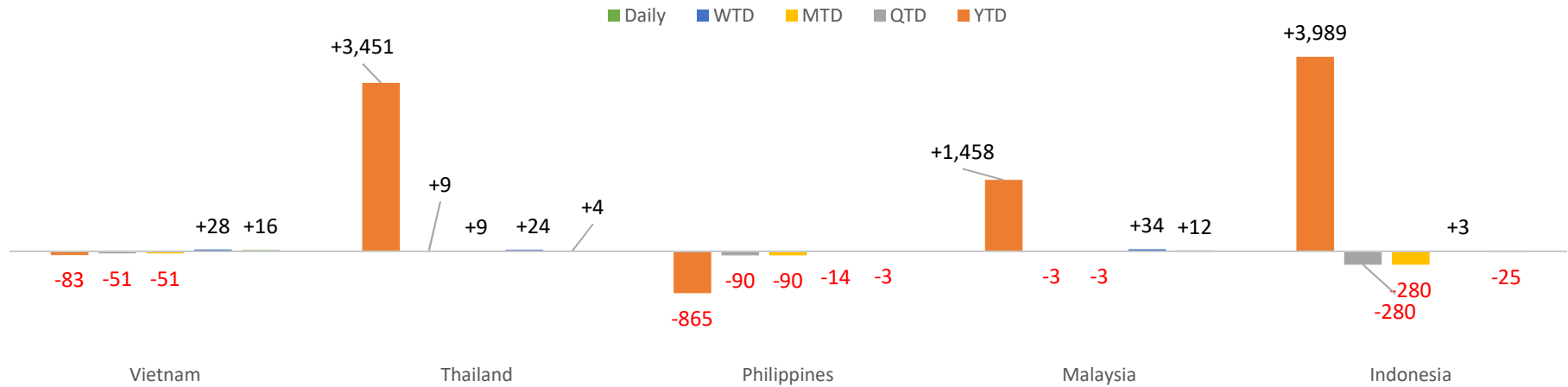
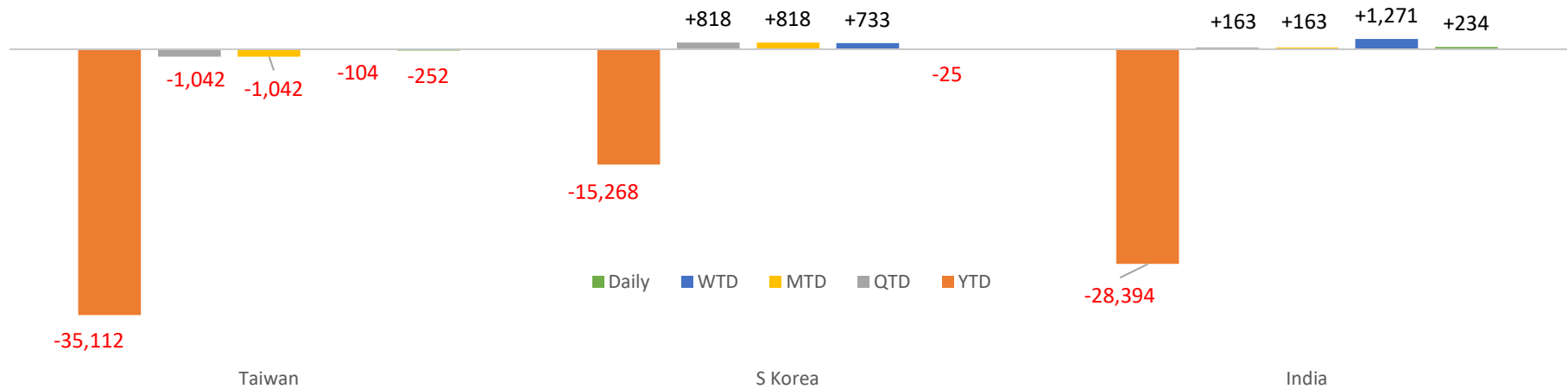


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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