

Portfolio Managers' Views


5 September 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (29 Aug-2 Sept 2022) & Our Managers' Views

- 1 Inflation:** Malaysia's July headline inflation rose by 4.4% YoY, after posting 3.4% in June. The higher inflation was mainly driven by food and non-alcoholic beverages. As at the end of August, consensus have raised the full year 2022 inflation to 3.1% (+30 bps vs. expectations in July) and expect Bank Negara Malaysia to announce another 25bps hike in Overnight Policy Rate (OPR) on September to tame inflation. We are positioned in commodities and banks to benefit from higher inflation and OPR hikes.
- 2 Banking:** Bank Negara Malaysia's latest July 2022 Banking Statistics indicated system loans grew 5.9% YoY although OPR rose by 50 bps this year. Sell-side analysts believe it may slow to 5% in 2H'22 with more OPR hikes ahead. Moreover, gross impaired loan ratio (GILR) is elevated at 1.85% and we expect GILR to rise further due to high inflation. However, we are not concerned as banks have created sufficient provision for it. Thus, we favour banks with good asset quality and high dividend payout.
- 3 Plantation:** World Meteorological Organisation (WMO) predicted that the La Nina weather will last until the end of 2022. The prolong hot and dry weather will negatively impact the supply and quality of soybean crop planted in South America and sunflowerseed crop in European Union. With the current global edible oil shortage, a fall in supply will worsen the shortage and provide a positive upside for crude palm oil price. We remain positive on Malaysia upstream CPO planters.
- 4 Oil:** After the US Fed signaled monetary tightening after last week's Jackson Hole symposium, Brent oil price fell almost 6% on concerns of future demand. This was compounded by China's zero Covid policy that saw Chengdu, one of China's megacities, locked down. US and China are the top 2 consumers of oil. We view these as temporary as oil supply in global markets remains tight. As such, we remain invested in the upstream oil producers in Malaysia and regionally.
- 5 Semiconductor:** Powerchip Semiconductor Manufacturing Corporation and Vanguard International Semiconductor Corporation, the mature node wafer fabricators have decided to delay their expansion plans as their customers have scaled down and even cancelled orders. Wafers are a key raw material in the production of all chips. This news signals an impending weakness in end demand that will eventually flow downstream in the tech supply chain. We are underweight on the sector.
- 6 Fertiliser:** The fertiliser production shortage has exacerbated since last week. Reports suggest that 2/3 of Europe's fertiliser production has been curtailed by soaring gas prices. Natural gas is used as a feedstock and as an energy source in the production of fertilisers. This is negative for agricultural production. However, our funds are positioned to benefit from higher fertiliser prices and lower agricultural production.

MALAYSIA & REGIONAL (cont')

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- 7 Gas & Coal:** Russia's energy giant, Gazprom has halted the supply of gas into Europe indefinitely. This is believed to be in response to the imposition of a price cap on Russia's oil exports by the G7 countries. Gazprom supplies c.40% of Europe's gas needs to heat up households and power up factories. Regional coal producers will benefit from higher coal prices this as Europe seeks alternative energy sources. Regional funds are currently invested in upstream coal producers.
- 8 Tech:** Following the US Jackson Hole symposium, US Treasury yields rose by 15 bps WoW after Fed officials guided for more aggressive rate hikes to combat inflation. Further, it has gained 62 bps since the intra-quarter low of 2.5732, tail-spinning the tech sector's returns. Last week, tech was the worst performing sector, falling 3.5% in Malaysia and 5.7% in the region. Our funds remain underweight in this sector.
- 9 Flow & Valuation:** KLCI remains cheap at a 2022 price-earnings ratio ("PER") of 14.4x (-1.0 standard deviation, below its 5Y average of 16.1x). Its price-to-book ratio of 1.50x (below the 5Y average of 1.55x), dividend yield of 4.1% (above its 5Y average of 3.6%) and 16.9% premium against the Asia ex-Japan PER (at the low end of its 5Y average) are also supportive for the Malaysian market, as evidenced by the net foreign flows of US\$43m last week, the second highest in ASEAN.

MALAYSIA MARKET REVIEW

Regional volatility weighed on Bursa, after the US Jackson Hole symposium

Exhibit 1: KLCI vs Shariah Index

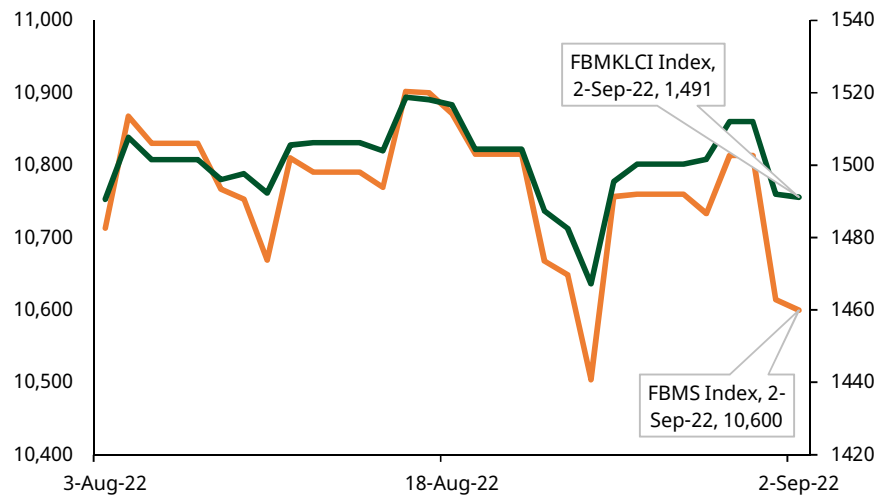


Exhibit 2: USDMYR

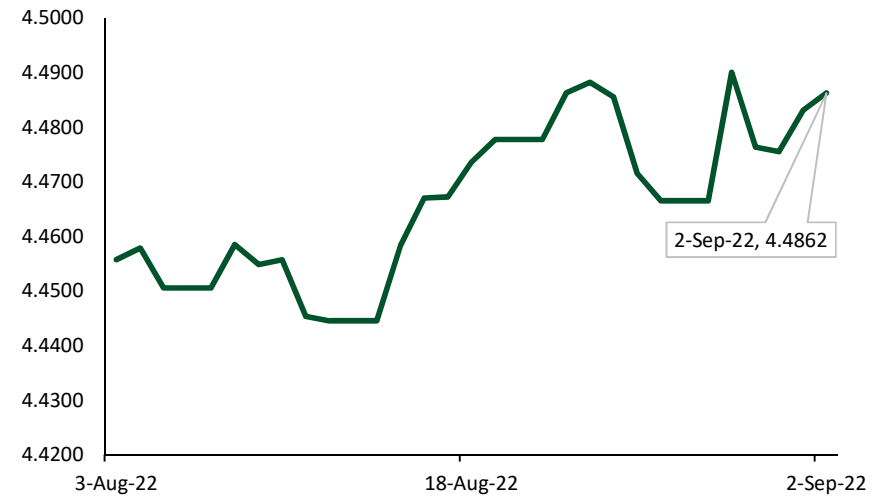


Exhibit 3: Sector Performances Week-to-Date (%)

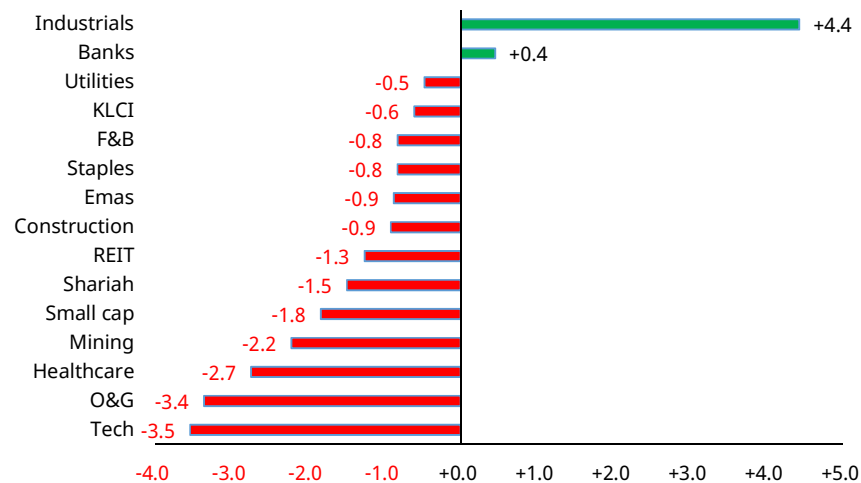
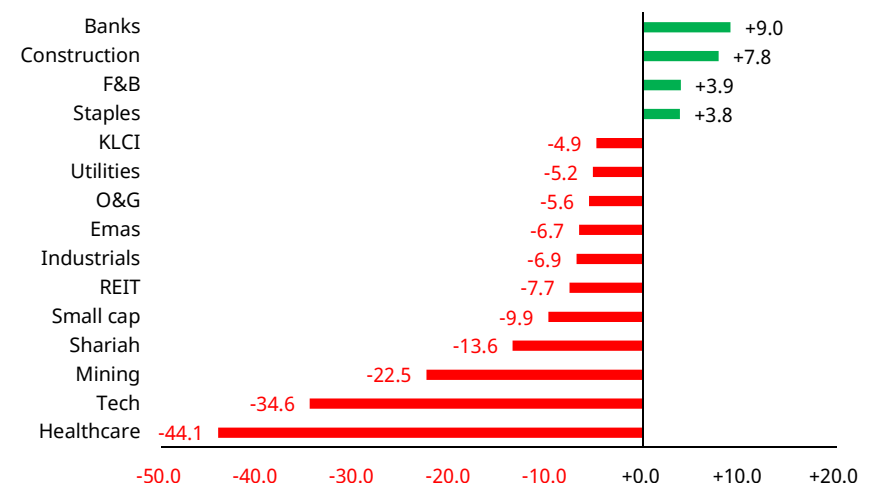


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Remains attractive historically and versus the region

Exhibit 5: MY's Premium/Discount (%) to ASEAN & Asia (on Current PER, %)

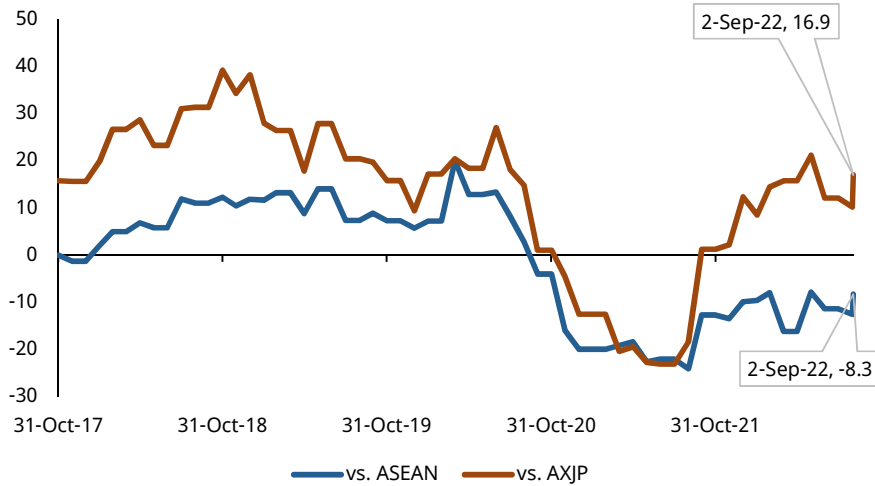


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

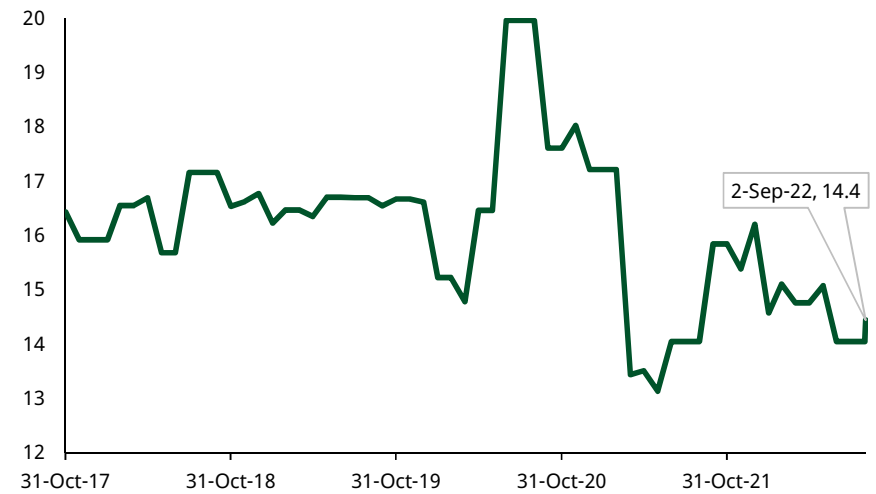


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

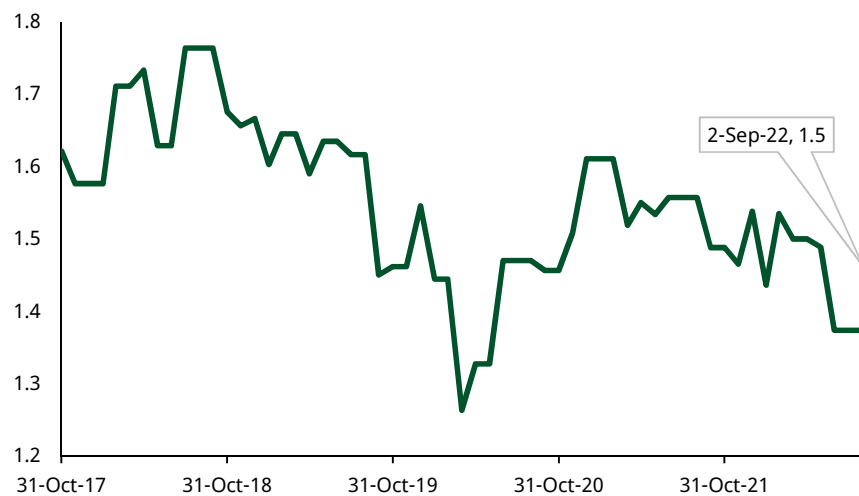
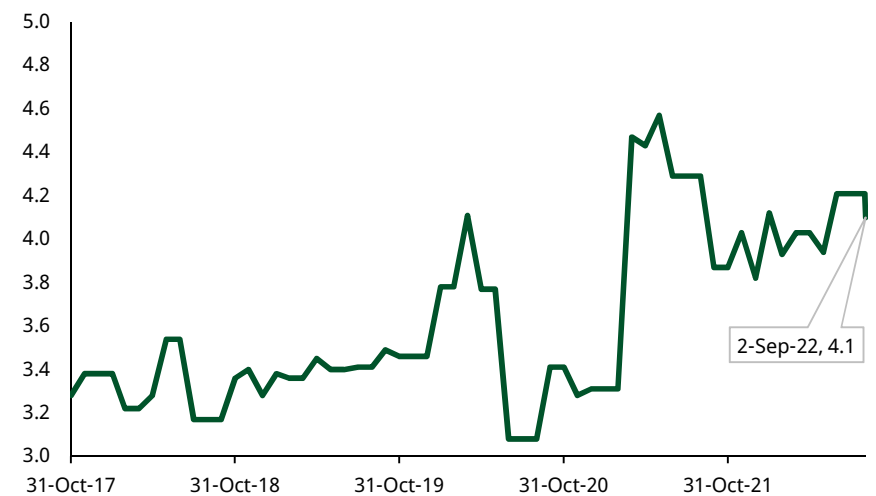


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Lower after US Jackson Hole that signalled more aggressive rate hikes ahead

Exhibit 1: Country Performances Week-to-Date (%)

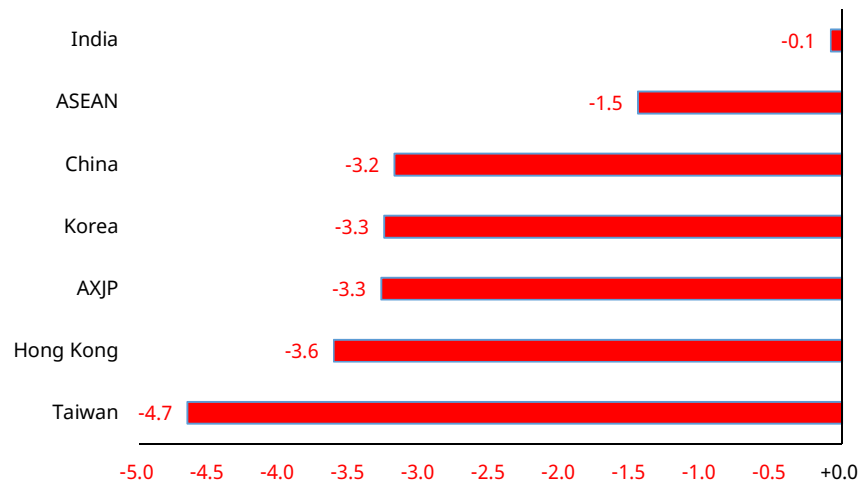


Exhibit 2: Country Performances Year-to-Date (%)

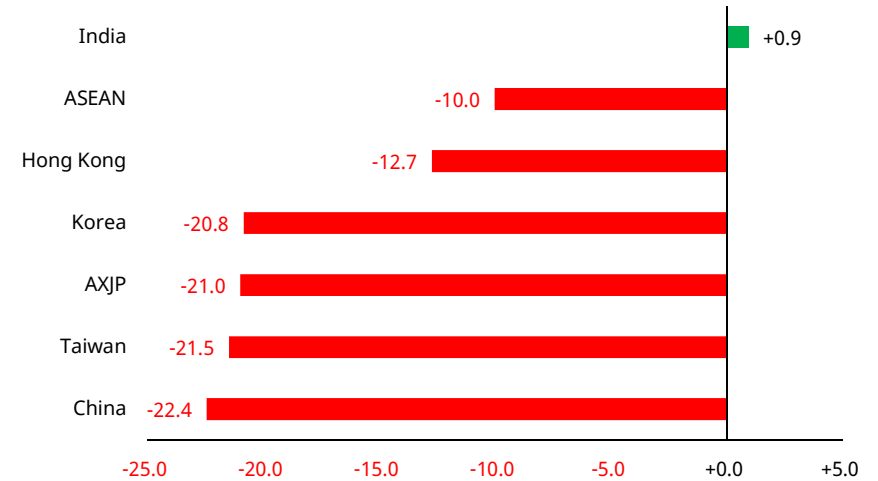


Exhibit 3: Sector Performances Week-to-Date (%)

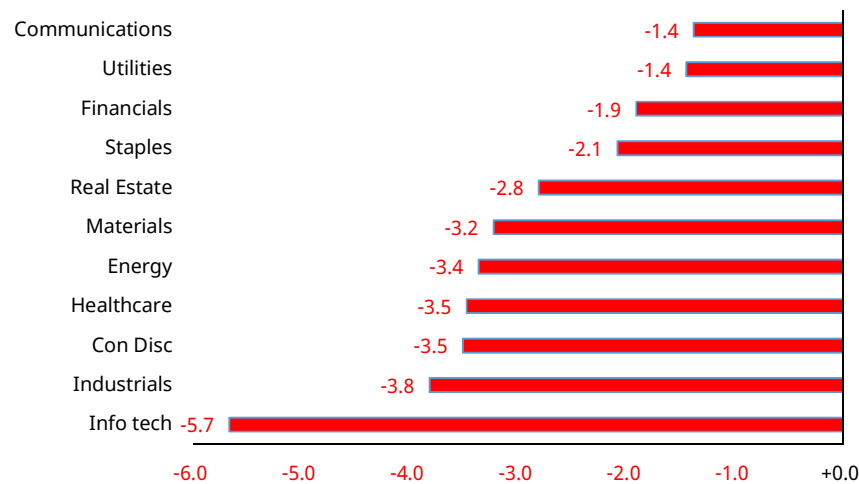
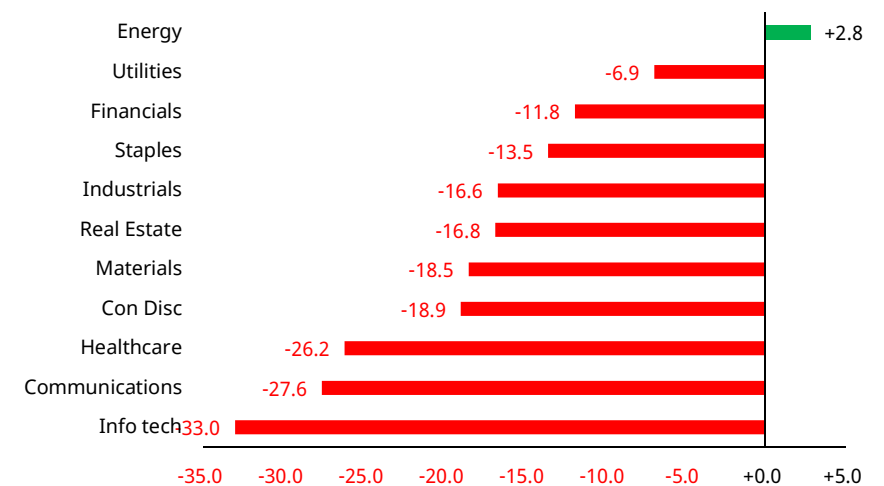


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

The Asian region is trading near historical lows. ASEAN offers attractive yields

Exhibit 5: Regional Price-Earnings Ratio (x)

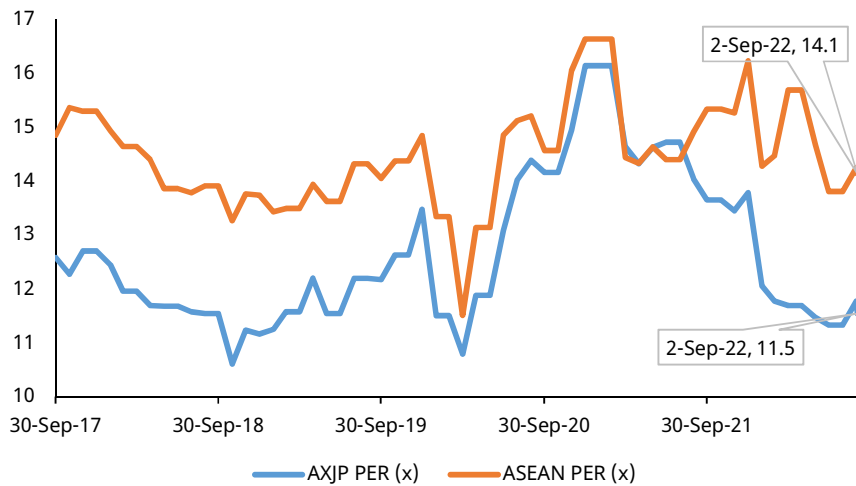


Exhibit 6: Regional Price-to-Book Ratio (x)

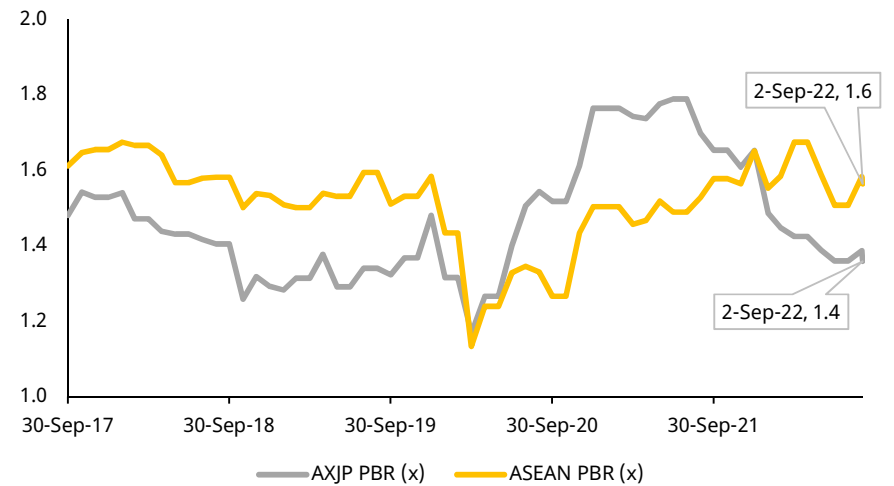


Exhibit 7: Regional Dividend Yield (%)

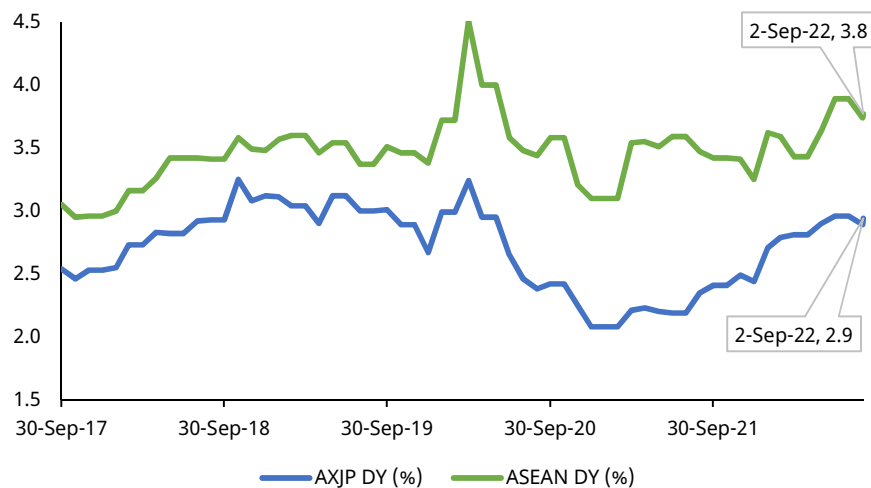
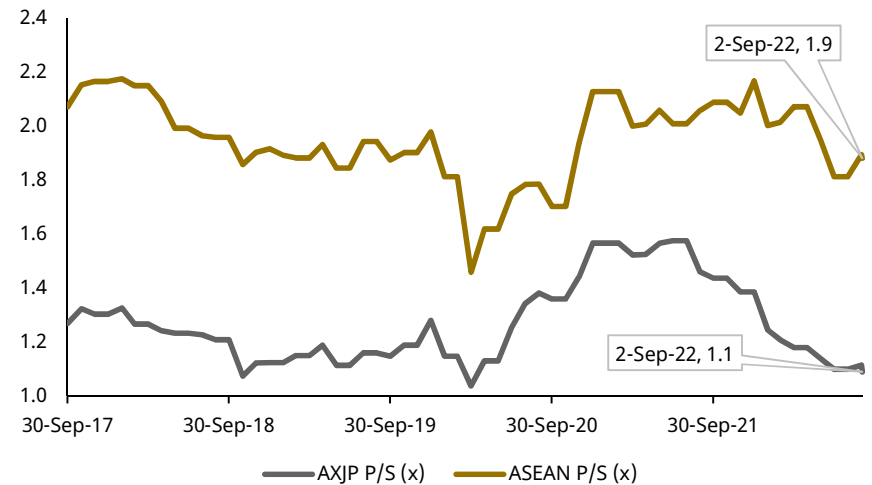


Exhibit 8: Regional Price-to-Sales (x)



FOREIGN FUND FLOWS

For the week, Malaysia was a 2nd highest recipient of flows into ASEAN

Exhibit 9: Selected ASEAN Equity Markets (Net USD mil)

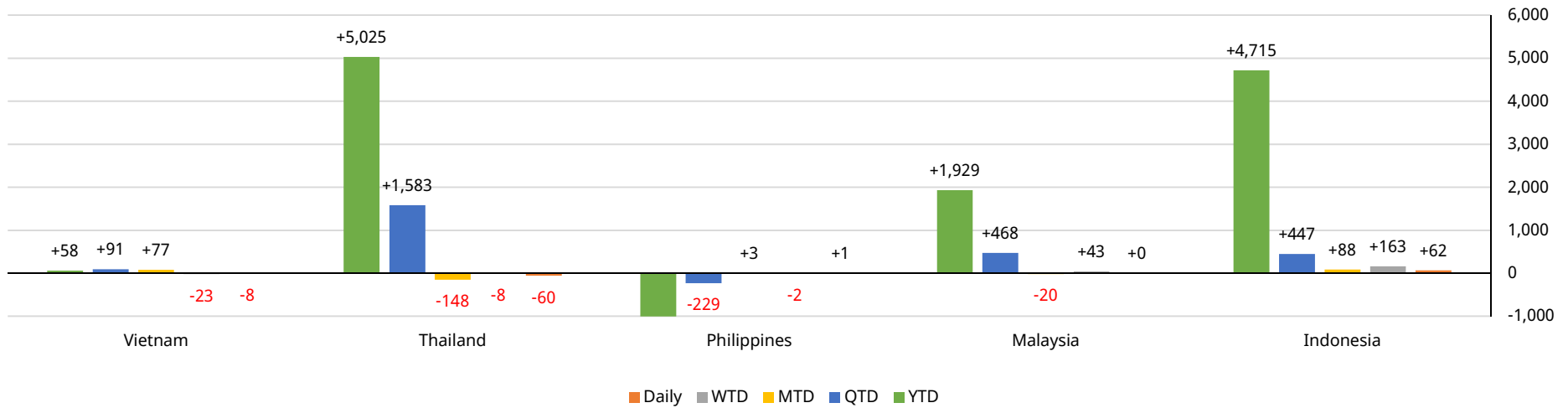
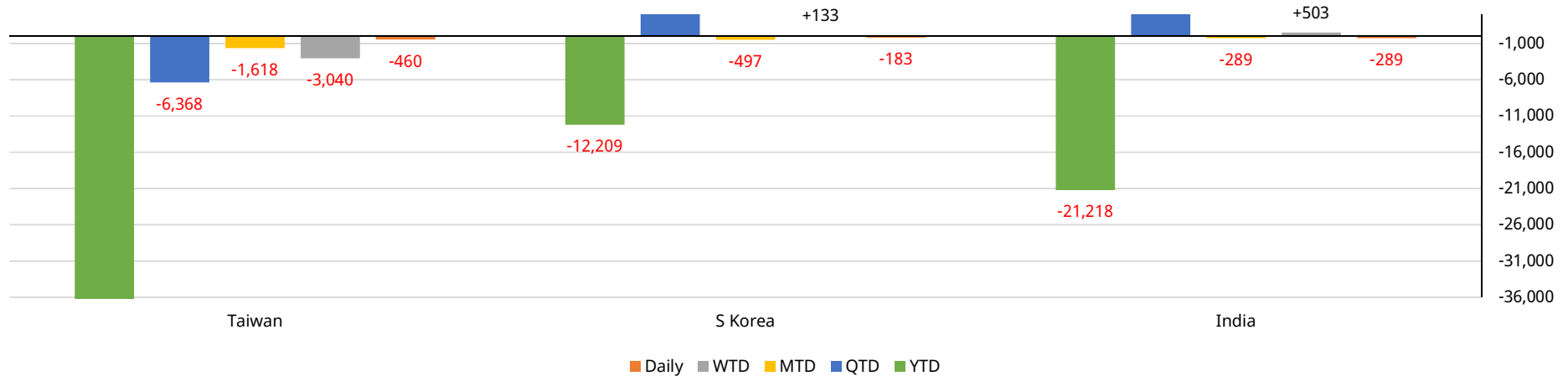


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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