

Portfolio Managers' Views



19 September 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (12-15 Sep 2022) & Our Managers' Views

- 1 Oil:** The G7 Countries reaffirmed that it plans on imposing an oil price cap on Russian oil exports from December onwards. This is to prevent excessive profits to Russia while ensuring adequate supply of oil in global markets. However, we view that Russia will circumvent the price caps by rerouting its exports from the West to China and India. We believe this measure will not be effective in resolving high energy prices and we remain invested in this theme.
- 2 Petrochemicals:** We are invested in a company that benefits from higher petrochemical and fertiliser prices. Prices of Ethylene, Polyethylene, Urea and Ammonia are on an uptrend since mid-August. The timing coincides with Gazprom's decision to reduce gas flows into Europe. Subsequently, flows were shutdown indefinitely on 2nd Sept 2022. This has sparked fears of lower supply from Europe as gas is a key raw material in the production of petrochemicals and this will push prices higher.
- 3 Malaysia's Outlook:** On Wednesday we attended an InvestMalaysia event organised by Bursa Malaysia and JP Morgan. The overarching theme was the growing trend of regionalisation and national security as geopolitical tensions intensify. This presents an opportunity for Malaysia as it accounts for 7% of the global Electric & Electronics (E&E) industry. Given Malaysia's neutrality in the conflict and their track record in the E&E space, the long term outlook is positive for the local tech sector.
- 4 Palm Oil:** Malaysia's August crude palm oil (CPO) inventory rose 18.9% MoM to 2.09mil ton. This is higher than estimates due to higher imports. Despite this, we remain firm on our CPO target price of RM4,000 - RM4,500/ton for 2H'22 as soybean production is impacted by hot weather and Malaysia's CPO production is affected by labour shortage. We believe the huge soybean oil pricing premium will draw demand back to palm oil which will further support CPO price going forward.
- 5 Hawkish Fed:** We believe the market's key driver for the week was the revised expectations of the market for more aggressive interest rate hikes in the US. US Consumer Price Index (CPI) rose 8.3% YoY (vs. expectations of 8.1%), while US Core CPI rose by 6.3% despite the Fed's aggressive rate hikes. Higher rates has increased the attractiveness of safer fixed income securities compared to equities. While global markets market sold-off on this, the strong US Dollar is beneficial to exporters (see item 6).
- 6 Stronger USD:** We are invested in export-oriented companies that are benefiting from the weak USDMYR exchange rate. Due to higher US interest rates, the US Dollar (USD) has risen substantially. YTD the USD Index which measures the value of the dollar against a basket of currencies, rose by 14.5%, and hence the USD's YTD rise of 8% against MYR to trade at a historical-time of 4.5352. We expect the Fed to continue hiking rates until inflation is contained, and see USDMYR rising further.

MALAYSIA & REGIONAL (cont')

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Valuation: The Malaysian market fell WoW, tracking a broader market sell off caused by the high US CPI numbers and expectations that the US Fed will hike rates more aggressively. We noted that KLCI's prospective earnings remain resilient, hence the KLCI remains cheap at a 2022 price-earnings ratio ("PER") of 14.2x (-1.0 standard deviation, below its 5Y average of 16.1x). Its price-to-book ratio of 1.40x (below the 5Y average of 1.55x), dividend yield of 4.2% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Markets weighed down by higher than expected US CPI data

Exhibit 1: KLCI vs Shariah Index

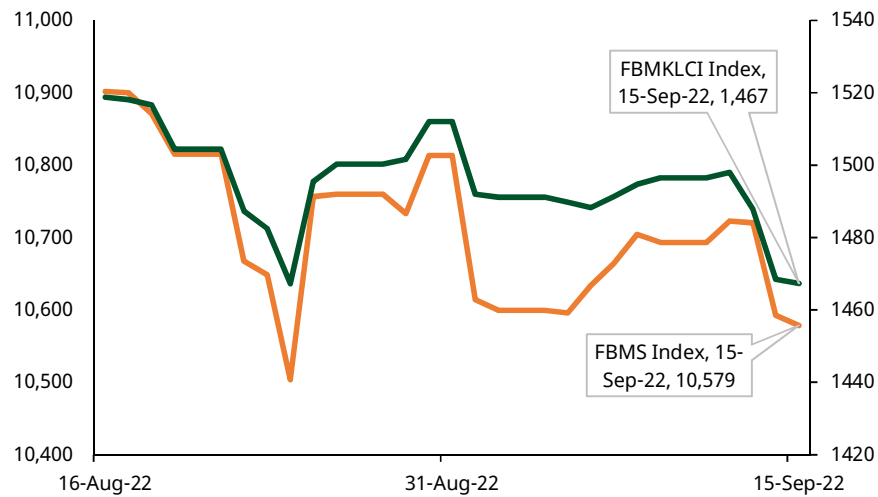


Exhibit 2: USDMYR

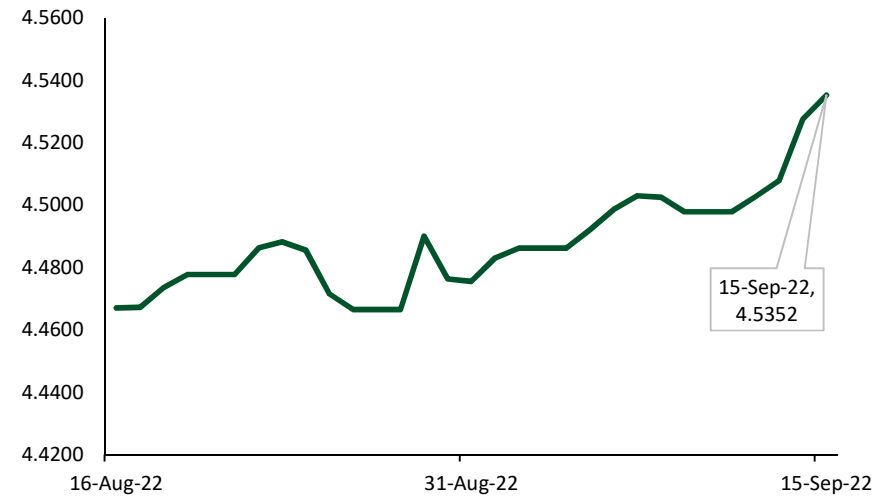
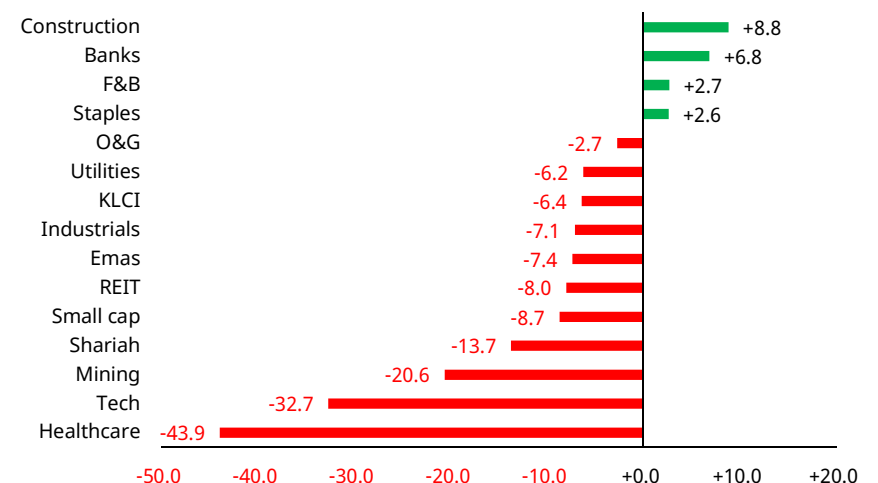


Exhibit 3: Sector Performances Week-to-Date (%)



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, %)

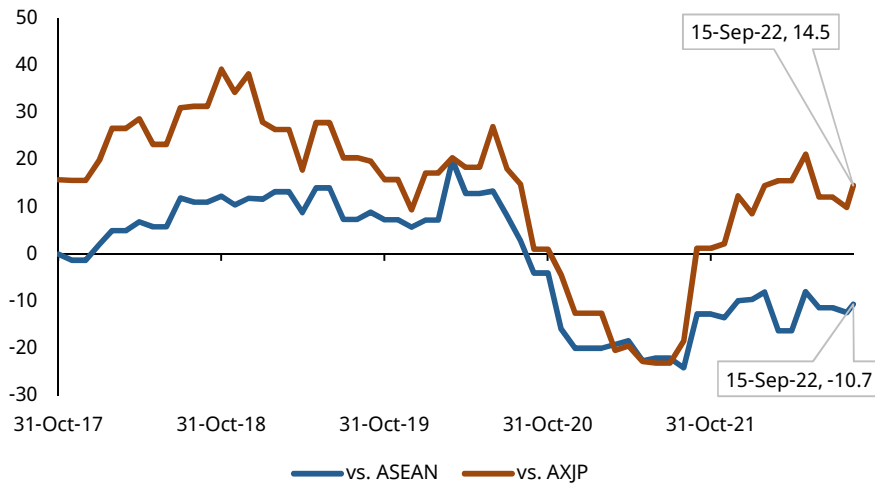


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

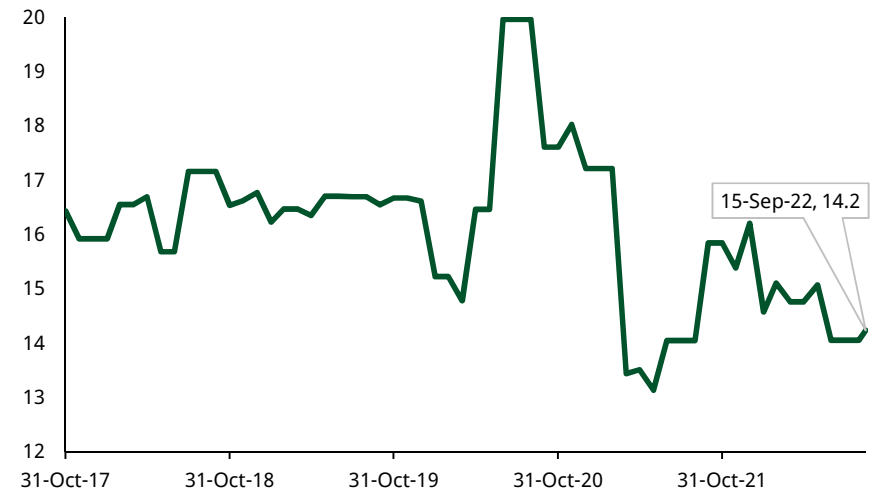


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

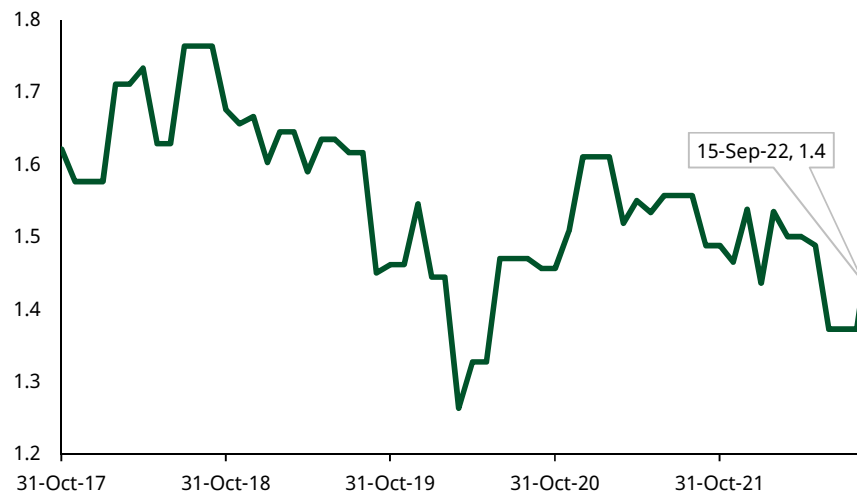
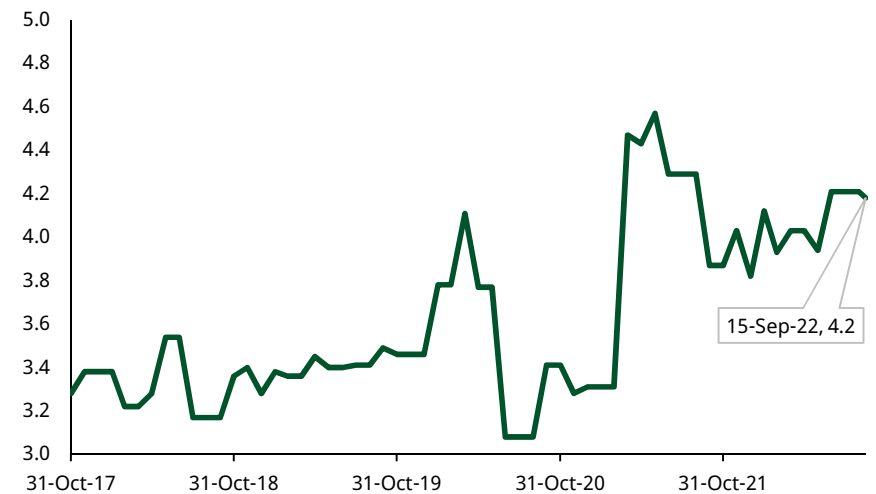


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Markets weighed down by higher than expected US CPI data

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

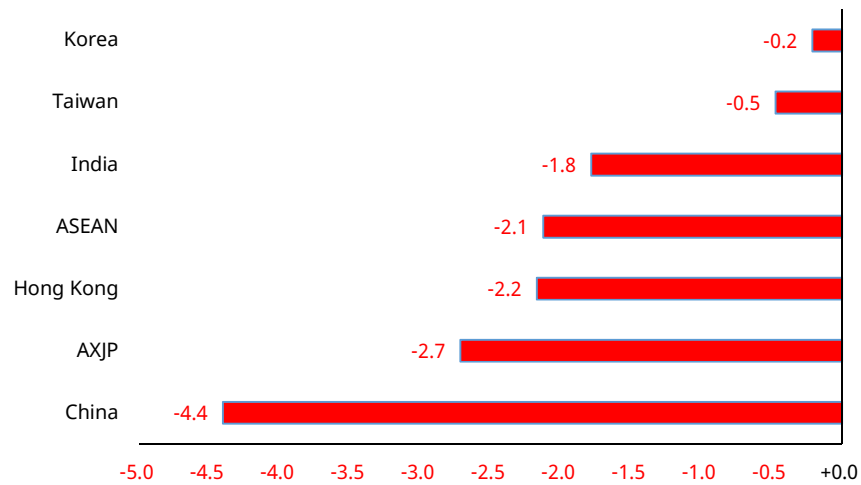


Exhibit 2: Country Performances Year-to-Date (%)

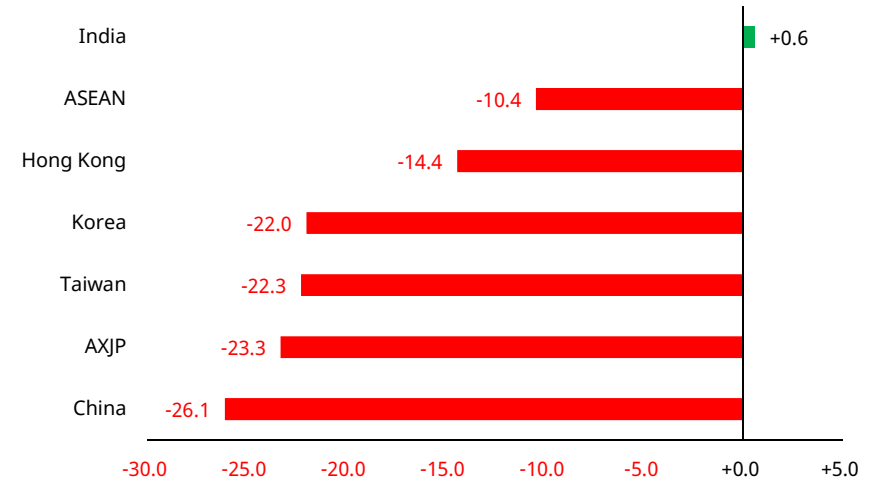


Exhibit 3: Sector Performances Week-to-Date (%)

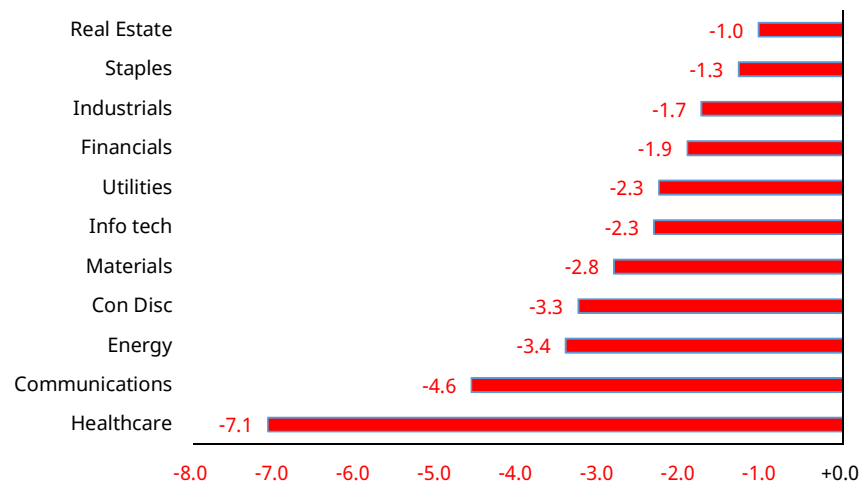
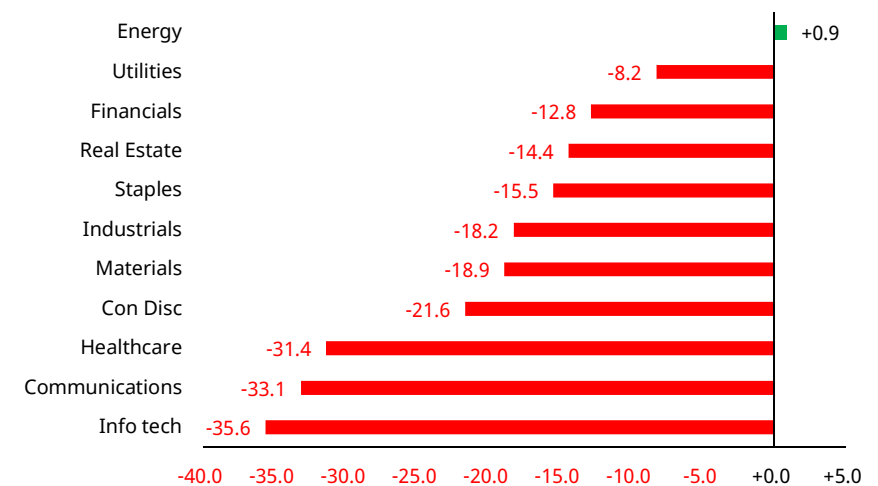


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Markets weighed down by higher than expected US CPI data

Exhibit 5: Regional Price-Earnings Ratio (x)

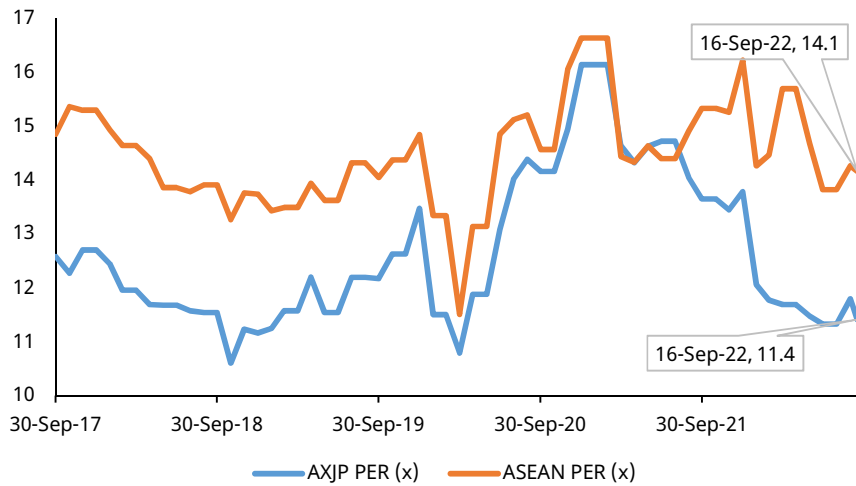


Exhibit 6: Regional Price-to-Book Ratio (x)

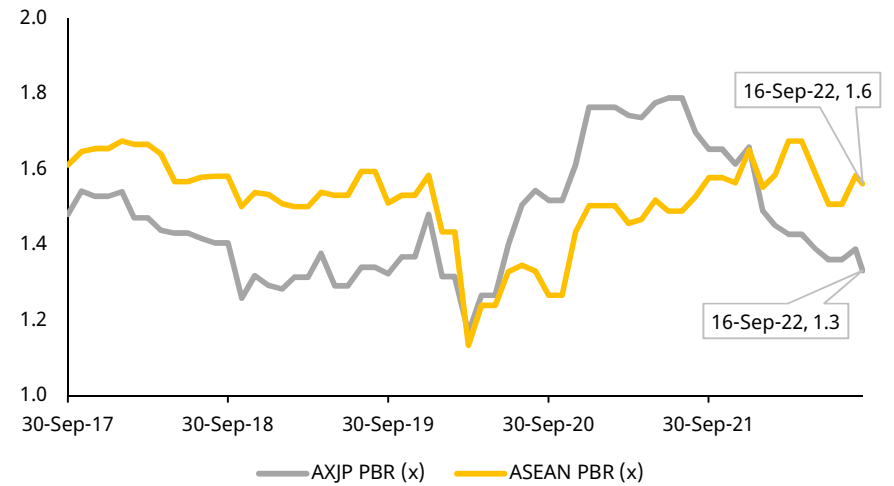


Exhibit 7: Regional Dividend Yield (%)

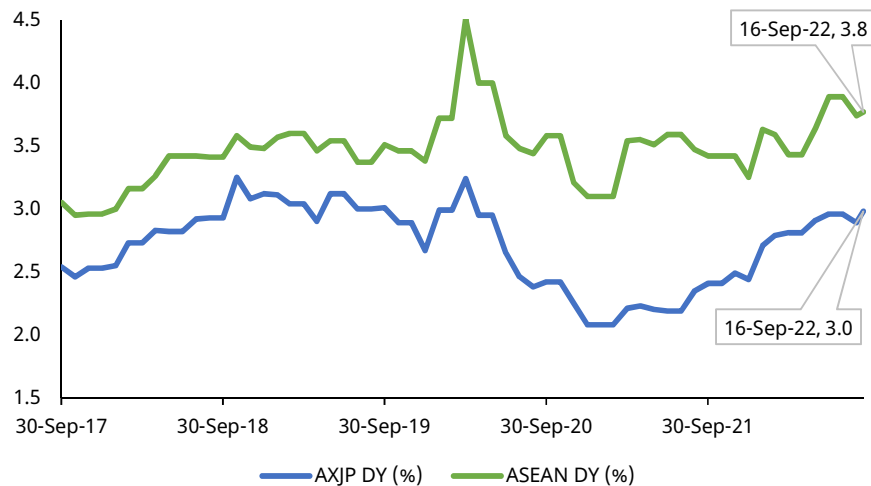
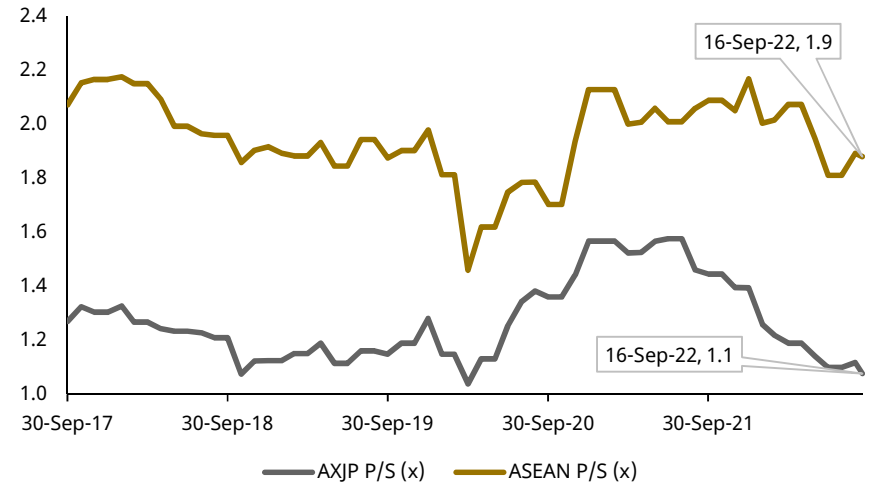


Exhibit 8: Regional Price-to-Sales (x)



FOREIGN FUND FLOWS

Year-to-date, Malaysia is the third-highest recipient of net flows into ASEAN

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

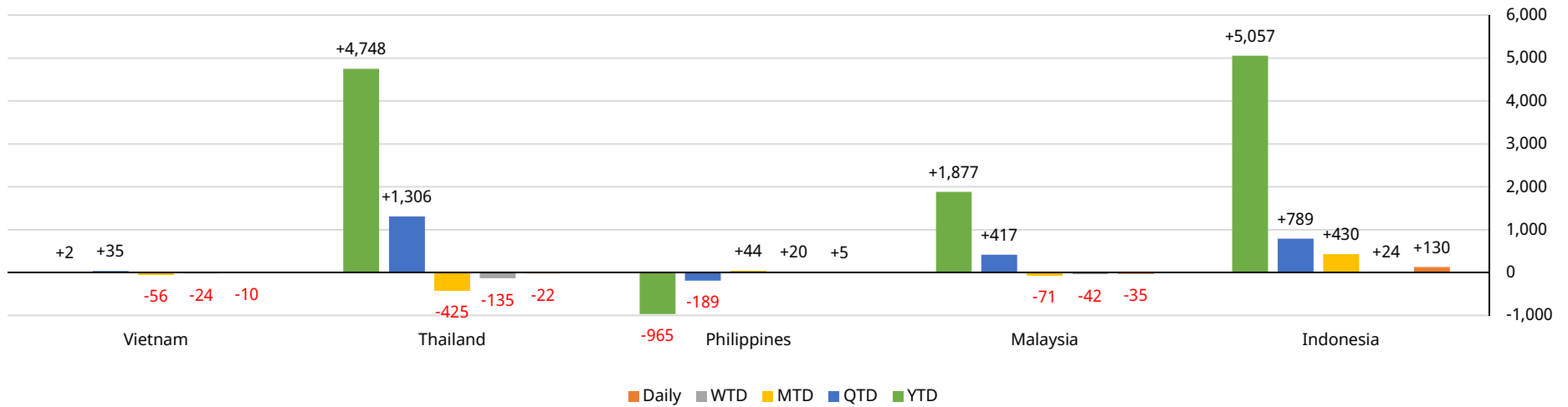
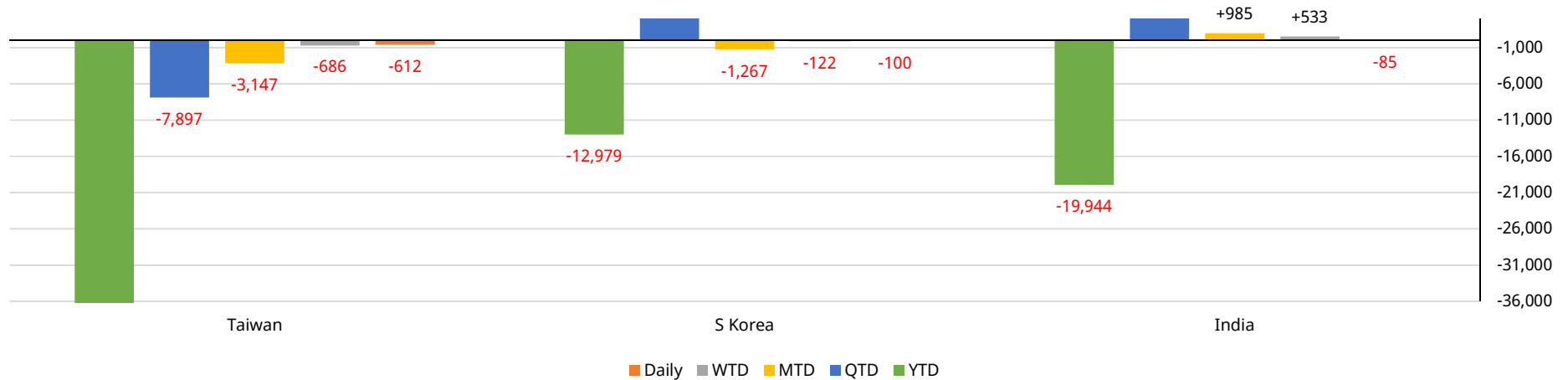


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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